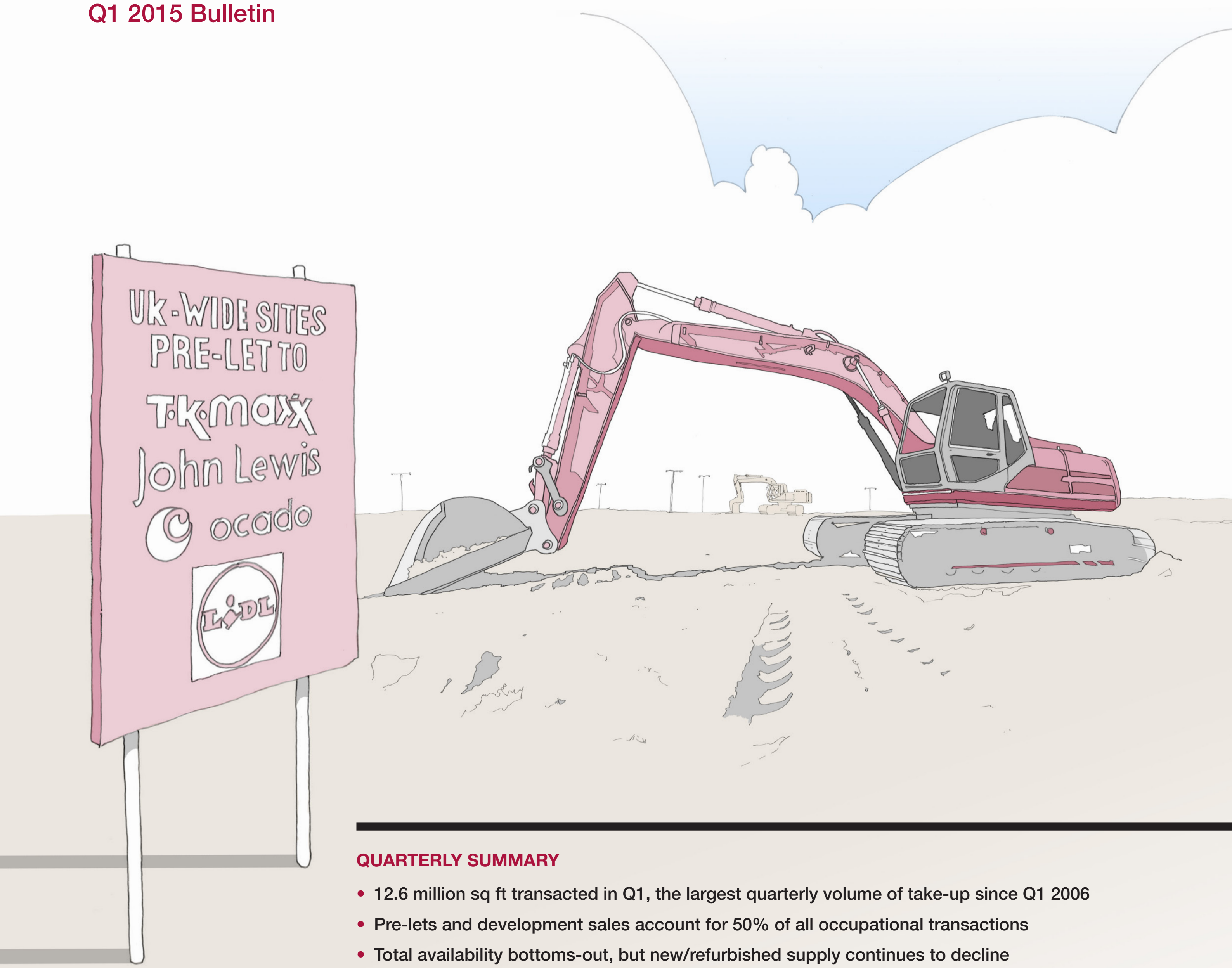
PRIME LOGISTICS

The definitive guide to the UK's distribution property market

Q1 2015 Bulletin



QUARTERLY SUMMARY

- 12.6 million sq ft transacted in Q1, the largest quarterly volume of take-up since Q1 2006
- Pre-lets and development sales account for 50% of all occupational transactions
- Total availability bottoms-out, but new/refurbished supply continues to decline
- 22 developments start construction, 10 of which speculatively
- Prime headline rents grow in 30 out of 51 locations
- Lack of product forces investors to widen their requirements

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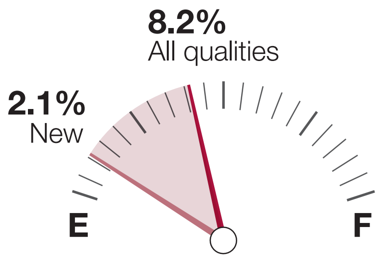
Q1 2015 OCCUPATIONAL TAKE–UP
12.6 MILLION SQ FT
LARGEST SINCE Q1 2006

Availability rates by quality



Speculative schemes starting Q1 2015

Q1 2015 – A QUARTERLY REVIEW

TAKE–UP SURGES

12.6 million sq ft of occupational space transacted during Q1. This marks a 16% increase on Q4 and the largest volume of space transacted in a three month period since the start of 2006.

Six deals over 500,000 sq ft completed during Q1, all of which were either pre-lets or development sales. These include **TK Maxx** pre-letting 650,000 sq ft in Wakefield, **Ocado** pre-letting 600,000 sq ft at the Crossdox scheme in Erith, **John Lewis** taking an additional 638,000 sq ft at Magna Park, Milton Keynes and **Dunelm Group** pre-letting 526,426 sq ft in Stoke-on-Trent.

For the second consecutive quarter, the North West has shown the strongest growth in take-up volumes. Together Merseyside & Cheshire and Greater Manchester accounted for 24% of all take-up in the UK. Deals including the likes of **Nice-Pak International, DHL, Missguided** and **B&M Bargains** helped drive up deal volumes but encouragingly it was a general increase in activity across all sizebands which drove this increase rather than a few very large deals.

AVAILABILITY REACHES NADIR

The shortage of available space, particularly good quality space, continues to be the defining feature of the market. However, for the first time in over a year, our availability rate increased, rising marginally to 8.2% from 8.1% in Q4.

Whilst this was a minor increase and very much driven by the return of secondhand space (for example through the return of former City Link buildings back to the market), it is still demonstrative of how overall availability levels have bottomed-out. However, the availability rate of new/refurbished stock (including speculative space due to complete within 6 months) fell further to 2.1%, the lowest rate recorded since Q4 2006.

This has continued to force occupiers to opt for design-and-build premises and pre-lets and pre-sales accounted for 50% of all take-up in Q1. Developers have also increased their efforts to fill the supply gap, and a number of speculative schemes got underway in Q1. We still expect the shortfall of supply of the best quality space to continue through 2015 however.

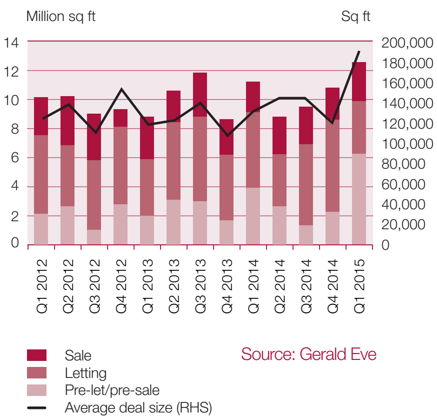
SPECULATIVE DEVELOPMENT INCREASES 140%

Ten speculative buildings commenced construction during Q1, totalling 1.4 million sq ft and marking a 140% quarterly increase. Several developers, including **Roxhill, Prologis, IDI Gazeley** and **Goodman** all began speculative schemes during Q1 and the average size of building was 140,000 sq ft.

This is a positive for the market as there is now a more broad based confidence amongst developers and large schemes are getting the go-ahead. However, developers remain judicious in the schemes they chose. Geographically, half of the speculative buildings are located in prime locations in the Southern West Midlands and some are marketed as capable of subdivision into smaller units, therefore appealing to as broad an occupier base as possible.

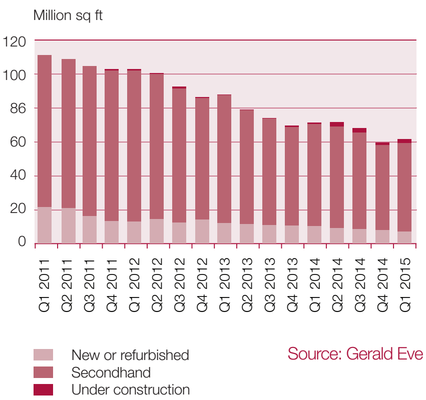
These are sensible tactics to adopt in the current market, especially given the extra financial pressure put on developers through rising labour and build costs. According to the BCIS, build costs are forecast to increase by an average 2.7% per quarter in 2016 and 3.5% per quarter in 2017.

Quarterly take-up by event type



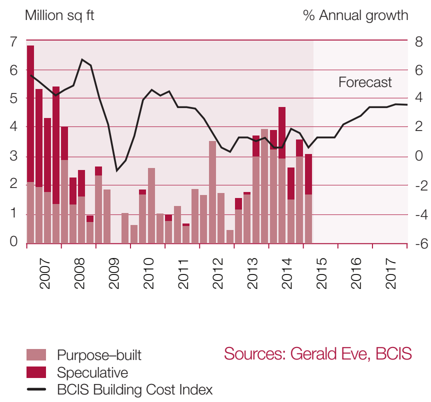
Source: Gerald Eve

Quarterly availability by quality



Source: Gerald Eve

Quarterly development starts and build costs



Sources: Gerald Eve, BCIS

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Locations posted prime rental growth during Q1

Key logistics investment transactions Q1 2015

Property	Purchaser	Vendor	Price (£m)	Size (sq ft)	Yield (%)	Tenant
CrossDox, Ocado, Erith	Tritax Big Box REIT	Bericote Properties	98.9	559,982	5.25	Ocado
Birch Coppice, Tamworth	M&G Property Portfolio	IM Properties	81.0	777,908	5.14	Euro Car Parts
Goresbrook Park, Dagenham	LondonMetric Property	Landid Property	56.5	409,987	5.10	Eddie Stobart
Argos, Miles Grey Road, Basildon	Epic	IM Properties	47.3	381,505	5.49	Argos
Tesco, Factory Lane, Croydon	London Metric	CBREGI	21.1	172,680	5.50	Tesco
Geopost, Hinckley Commercial Park	Aberdeen	Goodman	19.0	165,000	4.75	Geopost
The Entertainer, Banbury Cross	Aviva	Standard Life	18.5	235,020	6.35	The Entertainer
Asda, Magna Park, Lutterworth	Merseyside Pension Fund	Commercial Management	11.4	122,231	5.05	Asda

Sources: Gerald Eve, Property Data

WIDESPREAD PRIME RENTAL GROWTH

Prime headline rents rose in 30 out of our 51 locations in Q1, with the sharpest increases posted in London and the West Midlands. The lack of availability has given occupiers less negotiating power and they are now being forced to agree to rents closer to landlords' expectations. UK prime headline rents are now back to the average levels recorded in 2007.

This is an important milestone; however, current market conditions are very different to historical periods of rental growth. Now, availability is low and demand robust, but the development market is only just starting to fill the gap. Occupiers are likely to be faced with a shortage of available supply in the short term and, in turn, we expect rents to rise further as the market recalibrates and developers look to pass on their increasing cost base to occupiers.

Incentives remained flat in Q1 at a UK average of 8-12 months rent free period (assuming a ten year term), and, have on average halved over the course of the last two years.

INVESTMENT VOLUMES FALL 65%

It was always going to be hard to follow Q4, which turned out to be the busiest quarter on record for investment into the industrial sector. And in volume terms, with £540 million of distribution warehouse space transacted, volumes fell by 65%.

Investor attitudes to the sector have not changed however and investors are still very drawn to the attractive income component, yield profile and supply/demand imbalance. The quarterly reduction in volumes is more to do with the severe dearth of deliverable opportunuties.

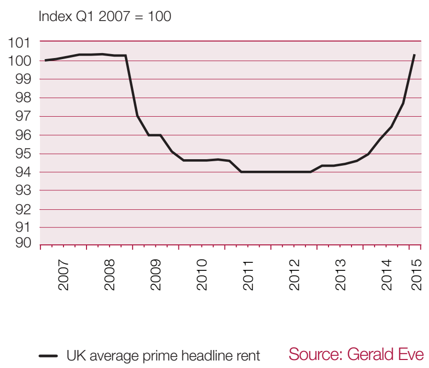
This lack of supply is in turn forcing investors to widen their requirements and increasing numbers of funds are now looking towards shorter pre-let or even speculative funding opportunites due to the lack of up-and-built product which can be bought. Given the lack of transaction volumes however, prime yields have by and large remained flat in Q1.

OUTLOOK

As the investment market paused for breath in Q1, the occupier and developer markets intensified. Take-up from discount retailers and the internet retail market was strong in Q1 (together accounting for 18% of all take-up) and aggressive expansion plans of companies in these sectors look likely to boost demand further throughout 2015. We expect occupational demand to be stronger in 2015 than 2014 and for prime headline rents to rise further.

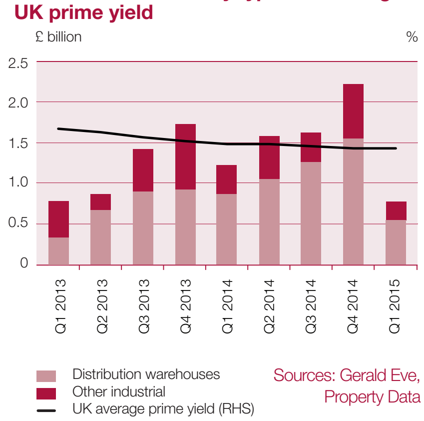
Our positive outlook for 2015 is bolstered by the expected continuation of the economic recovery, with GDP growth for the year expected to be 2.6%. In the short term however, there are risks to this recovery. The May General Election and the uncertainty surrounding the composition and stability of the next government is a key short term risk. Whilst it is currently an open race and the result could have serious longer term policy implications (both domestic and in terms of our relationship with Europe) we do not expect it to materially dent industrial property market confidence in 2015.

Indexed quarterly prime headline rents



Source: Gerald Eve

Investment volumes by type and average UK prime yield



Sources: Gerald Eve, Property Data

PRIME LOGISTICS FULL UPDATE 2015

The Prime Logistics full update is published next month and includes:

- In-depth coverage of 26 key UK logistics markets
- A complete review of recent market activity
- Rental growth forecasts for each market
- A comparison of the distribution prospects for all markets

To be added to the distribution list, please email **research@geraldeve.com**

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GERALD EVE IN THE MARKET

Gerald Eve is well-established in the logistics property market and covers the full range of property services, from national occupational and investment agency through to lease consultancy and valuation. Our specialists have been involved in several high profile transactions during the quarter. Please contact them directly for more information.

George Underwood
Advised Aviva on the acquisition funding of The Entertainer's new 235,020 sq ft logistics unit at Banbury Cross.

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Mark Trowell
Advised Palmer & Harvey on the acquisition of a 32,666 sq ft temperature-controlled facility in Avonmouth.

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Thomas Blakely
Advised M&G on the rent review of their 105,332 sq ft warehouse on Wood Lane in Birmingham let in its entirety to Stapleton's Tyres.

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Prime Logistics is the definitive guide to the UK's distribution property market. Dealing with logistics units of 50,000 sq ft and above, this research report gives detailed analysis and statistics for 26 key distribution areas – from take-up, stock and development statistics to drivers of occupier demand, growth forecasts and regional outlooks. All previous editions can be downloaded from our website.

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