

Big Shed Briefing

April 2015



Fraser Place, Trafford Park, where Bidvest have taken 208,000 sq ft on a seven year lease

SUMMARY

■ The first quarter of the year has started brightly with 6.5m sq ft of space transacted across 26 deals. This is 28% above the long term average for first quarters.

■ 51% of all deals in the first quarter were in the Build to Suit sector (BTS).

■ For the first time since 2013, The North West was the dominant market accounting for 23% of all space transacted.

■ The last two quarters have seen a surge in the amount of speculative development with 19 schemes announced totaling 3.85m sq ft.

■ Supply continues to decline with a fall of 1.5m sq ft recorded in the first quarter, even taking into account speculative schemes, which have completed and are now on the market.

■ The average size of a speculative unit nationwide is 196,000 sq ft, however this does vary across regions from 137,500 sq ft in Yorkshire to 243,000 sq ft in the East Midlands.

■ In the investment market, we have recorded a slight decrease in transaction volumes. In total £602m was invested into the sector in Q1 2015. However, Savills are currently tracking over £250m of stock and therefore we expect volumes to increase in 2015.

.....
 “Build to Suit has dominated first quarter take-up, should this continue we will have another strong year in the occupational market, with the investment market following suit” Kevin Mofid, Head of Industrial & Logistics Research

➔ **Take-up**

■ At a national level 2015, has started brightly with 6.5m sq ft of units over 100,000 sq ft transacted across 26 separate deals.

■ This bodes well for the rest of 2015 as most first quarters in recent times have involved take-up dropping from the fourth quarter of the year before. Indeed the sq ft transacted rose by 6% quarter on quarter and is 28% above a average first quarter as graph 1 illustrates.

■ Of the 6.5m sq ft transacted in the first quarter 51% was in the build to suit (BTS) sector of the market.

■ Interestingly, the BTS deals ranged in size from John Lewis taking 638,000 sq ft at Magna Park Milton Keynes and Parker Knoll taking 100,000 sq ft at Castlewood Business Park in Derby. This means that the average BTS deal in Q1 was 381,159 sq ft, compared to an average Q1 deal size of 254,049 sq ft.

■ At a regional level, the North West was the dominant sector in the first quarter accounting for 23% market share of all sq ft transacted, equating to 1.4m sq ft, as demonstrated in graph 2. The first time the North West has been the dominant market since Q2 2013.

■ Making this level of take up all the more impressive was the fact that the North West market wasn't dominated by BTS deals with 65% of transactions taking place for second hand units.

The largest of which being B&M who took the 343,000 sq ft Onyx building.

■ Whilst we split the East and West Midlands in terms of our market analysis it is worth mentioning that combined Midlands market did account for 35% of all transactions, once again demonstrating the importance of "Golden Triangle" locations to retailer and manufacturer supply chains.

■ The retail sector dominated the market with large deals completing for John Lewis at Milton Keynes (638,000 sq ft), Ocado in Erith (600,000 sq ft) and Dunelm Group at Prologis Park Sideway (525,000 sq ft).

Availability

■ Once again supply has decreased quarter on quarter and now stands at just 20.4m sq ft(England only), having fallen 1.5m sq ft this quarter.

■ At a regional level The East Midlands, traditionally the largest market, contains the most supply totaling 22.8% of the market. However, this equates to just 4.5m sq ft across 29 units of which we would only classify 9 as grade A. By way of comparison, supply in the East Midlands stood at 11.5m sq ft in 2009, the market therefore having seen a fall in supply of 61% in just over five years.

■ Whilst we have added some speculative developments which have reached practical completion, such as Tower Thurrock to our database

of supply the total amount of grade A stock on the market continues to fall. Indeed, it currently stands 8.4m sq ft and we expect that figure to fall sharply as deals on units recently placed under offer complete in the coming months.

■ In total there are currently 24 schemes announced or under construction, that will complete throughout 2015/6. In total these will add 4.8m sq ft of stock to the market.

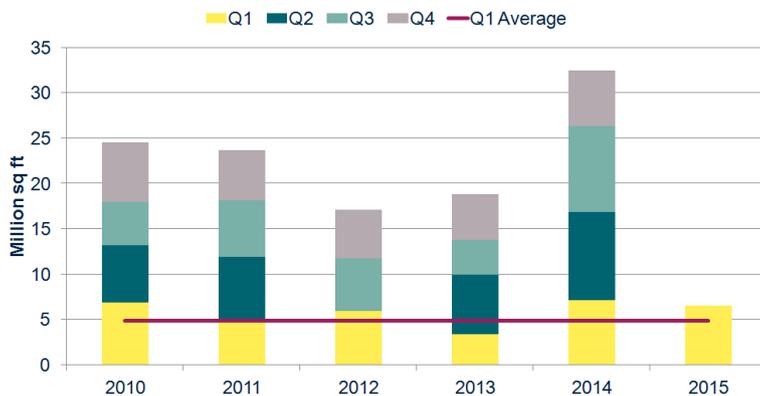
■ Breaking down the analysis for the last two quarters, we have seen a surge in the amount of speculative development announcements as graph 3 highlights. For units over 100,000 sq ft, 19 schemes have been announced totaling 3.85m sq ft.

■ Whilst some of the announced schemes still have to go through the planning process for detailed consent we do expect that the end of the year will see a number of large units enter our supply statistics and therefore boost total grade A supply.

■ Of all speculative units announced the largest has been Prologis at Grange Park, Northampton at 341,000 sq ft. However, whilst the average size of speculative unit nationwide is 196,000 sq ft this does vary across regions as graph 4 shows.

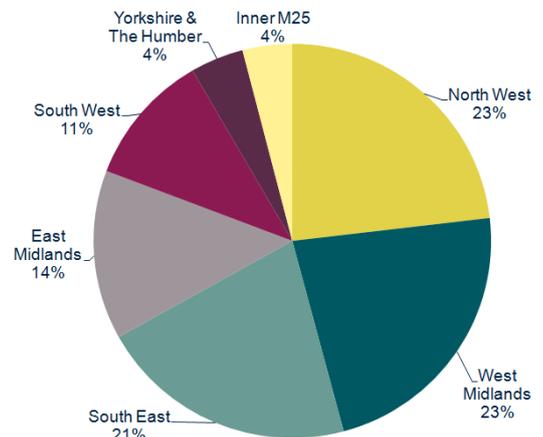
■ Interestingly, in all regions the average size speculative unit constructed is slightly less than the average deal that region. However, when BTS deals are excluded most regions are showing parity with the market.

GRAPH 1 **Q1 2015 Take-up above long term average**



Graph source: Savills

GRAPH 2 **Q1 2015 take-up by key regions**



Graph source: Savills

→ Investment

■ Following record transaction volumes in 2014, it perhaps comes as no surprise that the first quarter of 2015 feels a little subdued. Savills have recorded logistics transaction volumes of £602m for Q1 2015 a 27% decrease on the same period last year as demonstrated in graph 5.

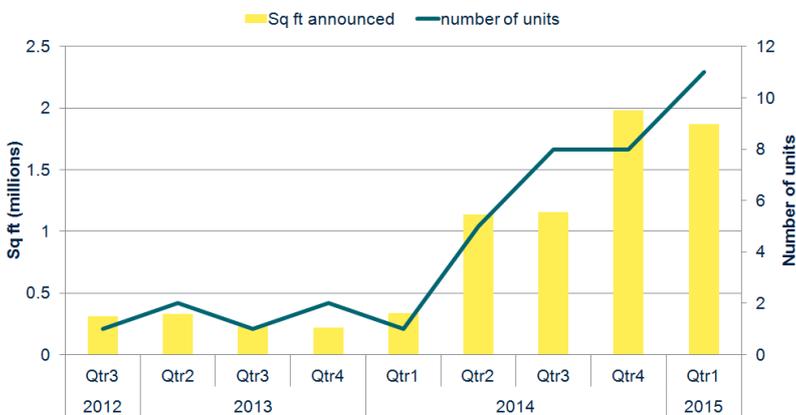
■ Volumes across the wider investment market have remained consistent through the first quarter of this year perhaps suggesting that investors have struggled to deploy capital into logistics due to a scarcity of suitable opportunities during Q1 2015.

■ Demand for logistics investments remains strong with UK funds and logistics specialists continuing as the most active investors. Tritax in particular continue to raise and invest significant capital on behalf of their Big Box REIT.

■ Savills estimate over £250m of logistics stock currently on the investment market along with a number of transactions taking place "off market" so we expect the market will gather pace throughout the remainder of the year.

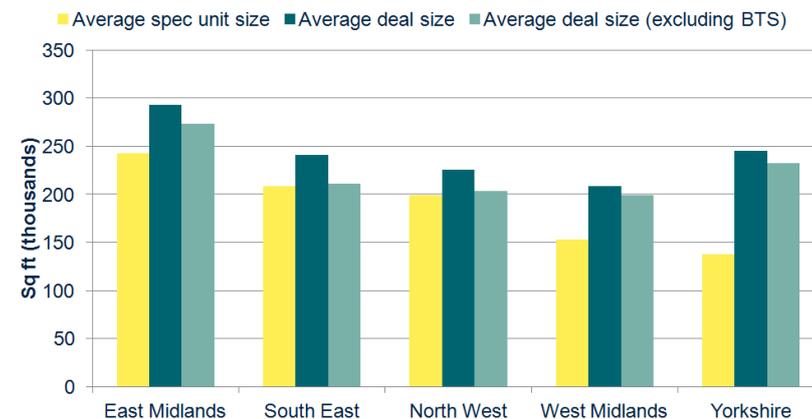
■ The availability of opportunities in the logistics sector will continue to be driven by leasing events such as pre-lets, renewals and regears.

GRAPH 3 **Logistics speculative development rising**



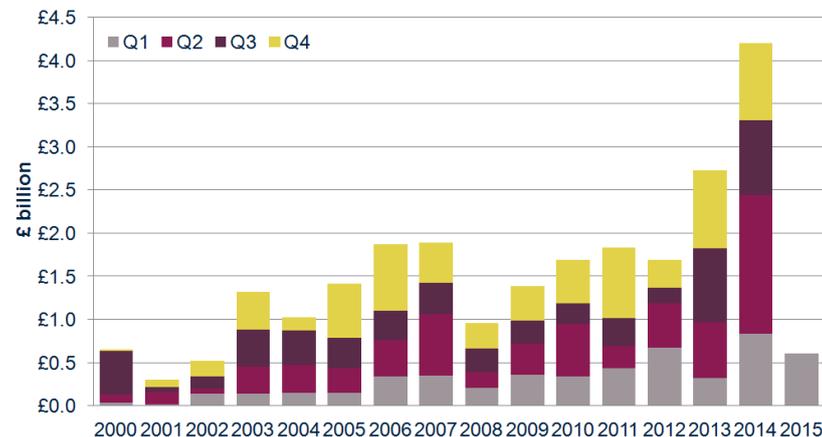
Graph source: Savills

GRAPH 4 **Average speculative unit size varies across regions**



Graph source: Savills

GRAPH 5 **Total big shed investment volumes**



Graph source: Savills/ Property Data

OUTLOOK

The year has started well, but build to suit must continue to account for a large part of the market if take-up is to remain robust....

■ The strong first quarter in the occupier market has put the foundations in place for another strong year of take-up in 2015.

■ The main risk to take-up continuing in this fashion, in our opinion, is the availability of sites able to deliver 500,000 sq ft units on a pre-let basis in the short term. As units of this size make up a sizeable portion of the space transacted within the market.

■ The supply and demand dynamics are having an impact on market rents. The West Midlands and Greater London are currently seeing particularly strong growth with 3.25% growth forecast for industrial properties in the West Midlands and 3.5% in for South East for 2015.

■ With over £250m of logistics stock currently being tracked through the investment market we believe that total investment volumes have the potential to increase in the coming quarters as more BTS deals complete and any market hesitation the General Election has triggered dissipates.

Key Occupier Data

Current Grade A / new supply (over 100,000 sq ft):

8.4m sq ft, down 18.4% year/year

Average quarterly take-up:

4.9m sq ft

2015 speculative development announcements:

1.87m sq ft

Key current requirements:

North West;

Domino's - 120,000 sq ft

Aramex - 140,000 sq ft

Midlands;

Zara - 300,000 sq ft

HSS - 200,000 - 350,000 sq ft

South;

UPS - 35 Acres

Lidl - 300,000 - 400,000 sq ft

Yorkshire;

TK Maxx - 600,000 sq ft

Poundland - 400,000 sq ft

Key Investment Data

Big Shed Prime Yields

Long term income: 4.75%

Medium term income: 5.25%

Short term income: 6.00%

Recent Key Deals

Eddie Stobart, Gorsebrook Park - Acting on behalf of the vendor Savills have sold the 28 acre site consisting of 5 units to London Metric for £56.5m reflecting a net initial yield of 5.1%

DB Schenker, Barking Rail Freight Terminal - Legal & General have acquired the 32.6 acre site for £53.7m reflecting a net initial yield of 4.58%

John Lewis, Magna Park Milton Keynes - The forward funding of the 638,000 sq ft unit recently pre-let on a 25 year term is under offer to a UK institution ahead of the quoting terms of £75.72m

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