

Autumn 2017

OUR VIEW ON INDUSTRIAL



Introduction

“We will continue to see a convergence of the digital and physical world. Those who conquer that trend will be market leaders.”

John Phillips
Supply Chain & Logistics, Pepsico Inc

Boost in demand highlights shortages of stock across the Bidwells region

The past six months has seen a significant upturn in demand for industrial floor space across the Bidwells region.

Total requirements at the end of h1 2017 were at their highest level since 2010/11, with aggregate demand across our locations approaching 12m sq ft.

At the centre of our region lies the M1 south market, which accounts for almost two thirds of total requirements, but more recently both Cambridge (1.9m sq ft) and Oxford (2.1m sq ft) have also seen a strong surge in requirements as the growth in the 'knowledge' economy spills over into demand for flexible industrial space.

The graph below illustrates the path of demand since 2007 and whilst the supply of standing stock has been sufficient to meet demand in the early part of the analysis, the shortages of stock have become acute over the past few years.

Industrial rents respond to market imbalance

Following a period of stability between 2010/13 industrial rents have responded to the widening imbalance between supply and demand over the past few years.

The growth in prime rents peaked at 9.9% in 2016 and the past six months has seen a further increase of 4.8% suggesting that the momentum in rents will continue this year.

Secondary values have also reflected the shortages in supply, rising by 17.9% over the past 18 months.

Whilst there has been some response in new development, there is only 2m sq ft of space under construction at the end of h1 2017, with the majority of this space already committed.

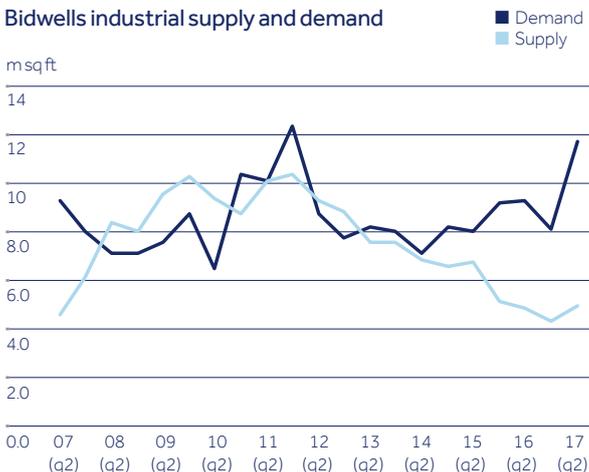
Industrial property remains at the forefront of investors requirements

Over the first six months of the year investors have continued to commit funds to the industrial and distribution market, with a total of £3.7bn of property purchased, only 10% below the peak level of investment in the sector in h2 2014.

Several larger portfolio transactions were at the forefront of activity, with SEGRO paying £365m for the remaining 50% of its Airport Property Partnership JV with Aviva Investors whilst CBRE Global Investment Partners invested £310m into their UK logistics venture with Prologis by acquiring an 85% stake in 16 ProLogis parks.

Industrial property retains a broad interest amongst investors, with both UK institutions and property companies vying with overseas investors for stock.

Bidwells industrial supply and demand



Source: Bidwells Research

Industrial market overview

Prime headline rents

Prime industrial rents have increased by 25% since 2013, stronger than any of the main use sectors

Location	Prime headline rent (£psf 06/2017)
Cambridge	12.00 ▲
Oxford	10.75 ▲
Milton Keynes	7.75 ▲
Northampton	6.75 ▲
Norwich	6.50 ▶◀

Take up

Take up continues to be impacted by lack of availability, although several large pre lets in M1 South maintained activity

Location	Take up (000's sq ft h1 2017)
Cambridge	120.7 ▼
Oxford	221.0 ▲
Milton Keynes	655.2 ▼
Northampton	899.3 ▲
Norwich	88.9 ▼

Demand

Demand for industrial and logistics floor space has increased significantly in most locations in h1 2017

Location	Demand (000's sq ft 06/2017)
Cambridge	1,894.0 ▲
Oxford	2,061.5 ▲
Milton Keynes	7,221.0 ▲
Northampton	N/A
Norwich	486.0 ▶◀

Availability

Supply edged up slightly in h1 2017 with the availability rate averaging 5.0% across the Bidwells locations. Grade A supply accounts for 15% of supply

Location	Availability (% total sq ft 06/2017)
Cambridge	5.4 ▲
Oxford	4.5 ▼
Milton Keynes	5.0 ▶◀
Northampton	5.1 ▲
Norwich	4.9 ▲

Prime yields

Investor appetite for industrial property remains strong, pushing yields down to their lowest levels on record

Location	Prime yield (% 06/2017)
Cambridge	5.25 ▼
Oxford	5.50 ▼
Milton Keynes	5.25 ▼
Northampton	5.25 ▼
Norwich	6.25 ▼

Demand for industrial floor space across the Bidwells locations

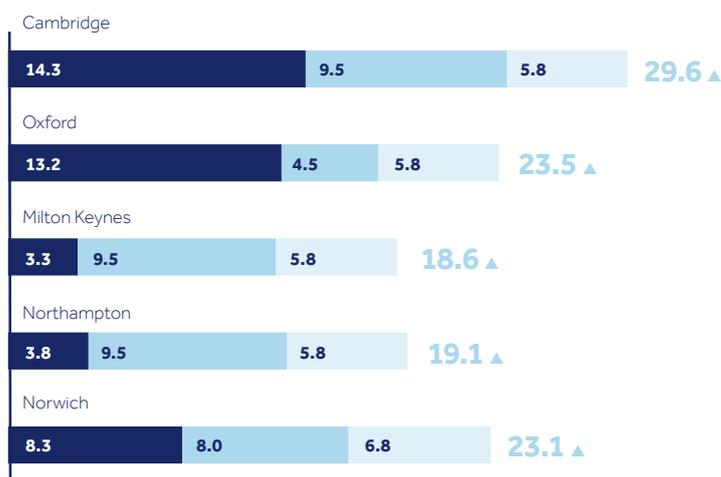
11.7m

Total returns (% 06/2017)

Strong rental growth and tightening yields have seen returns on the industrial sector continue to improve.

Three of the Bidwells locations have produced returns in excess of 20%, with Cambridge providing returns approaching 30%.

■ Rental growth %
■ Yield movement
■ Income return %



Highlights from our markets

Cambridgeshire Industrial

Largest commitment to speculative development in more than a decade

Two new speculative schemes have been brought to the market in the first half of 2017, the most significant in Cambridge in a decade.

M&G Real Estate have funded the the largest scheme at Buckingham Business Park, Swavesey for £22m, where, four units totalling 155,000 sq ft are under construction.

The second scheme is Rockspring/XLB's Enterprise 5000 at Cambridge Research Park, which will provide 75,900 sq ft across nine units.

THE FACTS

Increase in prime industrial rents since 2013

33.3 %

Oxfordshire Industrial

BMW pledges to build new e-Mini at Cowley

The decision to build the new fully electric version of the Mini at Cowley has been made despite the UK's vote to leave the EU.

The BMW plant in Cowley employs 4,500 workers and is one of the largest employers in the Oxford area.

Production of the e-Mini will commence in 2019, securing the future of production at the plant, which produces the majority of the 360,000 Mini's produced each year.

THE FACTS

Reduction in supply since 2014

72.9 %

M1 South Industrial

Silverstone Park receives outline planning for 2m sq ft of new development

Silverstone Park secured outline planning permission for 2m sq ft of commercial development in h1 2017.

The new consent follows the speculative development of 125,000 sq ft of industrial/hi tech space by park managers MEPC.

Companies at the park have increased by 40% since 2013 when MEPC began managing the facility. New companies operate in advanced engineering, software development and electronics.

THE FACTS

Take up of in Milton Keynes and Northampton since end of 2014

7.3 m sqft

Norfolk/Suffolk Industrial

Speculative development expected to return for first time in a decade

A shortage in the supply of logistics and industrial units in the Norwich area has seen the prospect of speculative development return.

Wrenbridge, owner of the scheme at the Browick Interchange on the A11, are planning to speculatively build five new units totalling 60,000 sq ft in order to overcome the lack of supply.

Two of the units are to be in the 20,000-25,000 sq ft size range, an area where particular shortages exist.

THE FACTS

Increase in secondary rents since end 2014

31.3 %

More detailed location sheets can be viewed at bidwells.co.uk/research

Industrial market overview

UK Economy slows in h1 2017 after strong performance in 2016

Activity slowed in h1 2017, with the first two quarters showing growth of 0.2% and 0.3% (provisional) respectively.

The slowing in output followed a stronger than expected result for 2016, despite the decision to leave the EU. Overall activity for 2016 was 1.8% in 2016, stronger than anticipated by most economic forecasters at the mid year point, when the consensus view was growth of 1.6%.

Manufacturing slows but distribution factors fare well

Attempts to rebalance the economy have been at the forefront of economic policy over the past few years, reducing the reliance on the service sector but these attempts have faltered in the first half of the year.

Manufacturing output fell by 0.5% in the second quarter, reversing growth of 0.3% in q1 and this was accompanied by a 0.9% qoq fall in construction activity. However, retail activity, including internet sales, has continued to hold up, with growth in volume of 2.8% in the year to end June 2017.

Consensus forecasts through to the end of 2017 and into 2018, anticipate a weaker outlook than last year, with growth of 1.6% and 1.4% respectively.

Conditions for manufacturing are expected to remain challenging, despite the weakening of £sterling. Household consumption is expected to continue to be the main support to economic activity.

New industrial strategy focuses on 'knowledge' based industries

The government's new industrial strategy has set out the path for developing a high skilled competitive

economy to enhance growth prospects in the future.

The main focus of the strategy is investment into 'knowledge' based fast growth sectors including science, technology and engineering, where high level skills are required.

With these industries expected to deliver the faster growth for the UK economy to remain competitive into the future.

Integral to the new strategy is the upgrading of infrastructure, with digital, energy and transport improvements at the centre of the drive for the more efficient movement of products.

Industrial rental growth remains strong as other sectors slow

Industrial rental growth on the MSCI Monthly Index moved ahead of both the office and retail sectors as occupational demand remained strong.

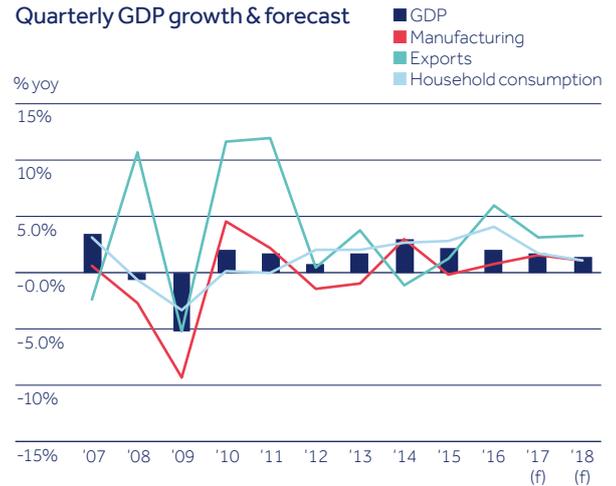
Industrial rental growth in the year to the end of h1 2017 was 3.8%, compared to 0.9% on the office market and 0.5% on retail property.

The graph above compares the growth in the Bidwells prime rental value series, which has continued to show good levels of growth over the past 12 months.

Rents across the Bidwells markets averaged 9.4%, with Cambridge (14.3%) and Oxford (13.2%) leading the way.

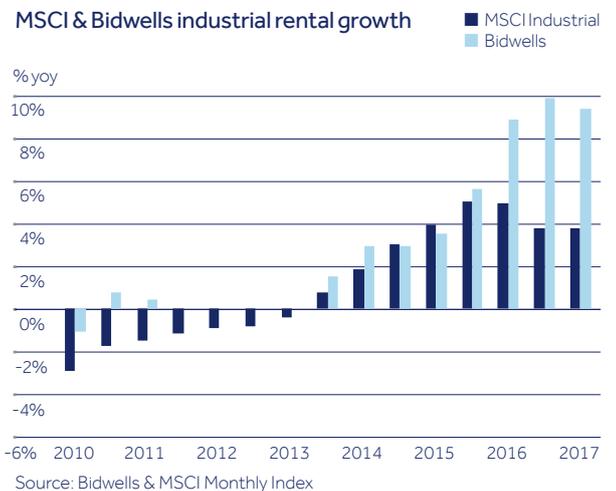
The five year forecast for industrial rental growth across Bidwells locations anticipates a slowing in 2018 before a stronger 2019. Average growth over the five year period is forecast to be 2.7% per annum.

Quarterly GDP growth & forecast



Source: ONS & Consensus Forecasts

MSCI & Bidwells industrial rental growth



Source: Bidwells & MSCI Monthly Index

Consensus forecast GDP growth for UK economy in 2017

1.6%

Average growth in industrial rents across the Bidwells region 12 months to June 2017

9.4%

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