Spring 2018

BIDWELLS

OUR VIEW ON INDUSTRIAL

Introduction

“The supply chain stuff is really, really tricky”

Elon Musk
Entrepreneur and Inventor

Property returns driven by the industrial sector

The surprise rebound in property market total returns in the second half of 2017 saw the All Property figure reach 11.2% at the end of the year, after bottoming out at 2.6% at the end of 2016.

The main impetus behind the strong recovery has been the industrial sector, where total returns ended the year at 21.1%, compared to 8.5% for the office sector and 7.7% for retail.

The strong performance in the industrial market over 2017 was driven by both the increase in rental values (4.9%) and the continued hardening of yields, which resulted in capital value growth of 14.7% for the year.

The latest IPF Consensus forecast anticipates All Property returns falling to 4.0% in 2018, with industrial property continuing as the lead sector (7.8%).

Investment activity remains buoyant

Investment market activity has remained resilient over 2017, with CoStar indicating total transactions of £62.1bn, 27% higher than the previous year.

UK investors have continued to be attracted to the industrial sector and some of the larger transactions along the ‘knowledge corridor’ have involved domestic investors.

The largest industrial transactions by a UK investor in Bidwells’ region was the £48.8m purchase of the 272,000 sq ft Royal Mail unit DIRFT Logistics Park, Daventry by Tritax REIT, whilst M&G Real Estate speculatively funded a new development at Buckingway Business Park, Cambridge for £23m.

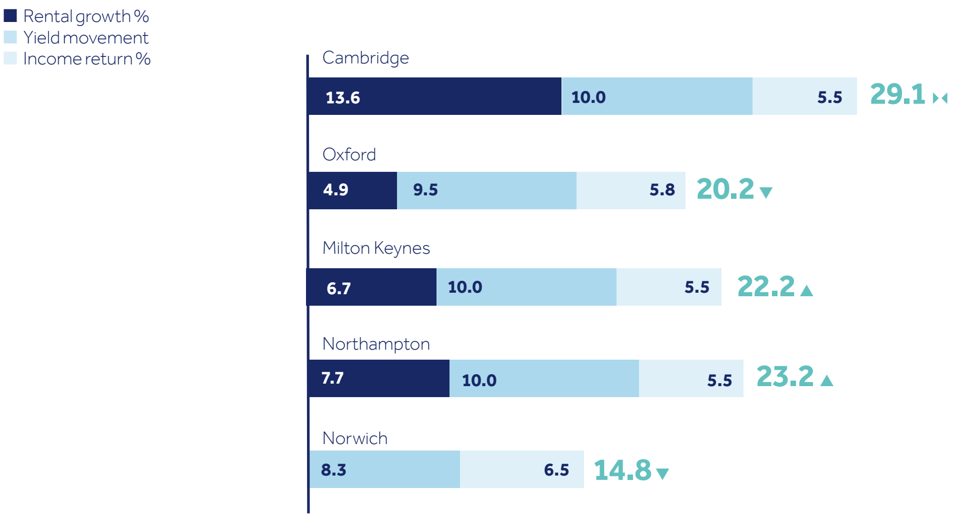
Overseas investors have also featured as purchasers of distribution investments in Bidwells’ region, with the largest transaction being the £86.4m purchase of the 737,000 sq ft Debenhams distribution facility at Kingston Park, Peterborough by the Gulf Co-operation Council.

Industrial take up in 2017 hits a nine year high

Take up in Bidwells main industrial markets along the ‘knowledge corridor’ was 4.4m sq ft in 2017, the highest level of activity recorded since 2008.

Activity was boosted by several larger transactions in the second half of the year, the largest being the 750,000 sq ft pre let to retailer H&M at Altitude on Gazeley’s Magna Park, Milton Keynes. Other major retailers on the park include John Lewis, Waitrose and River Island.

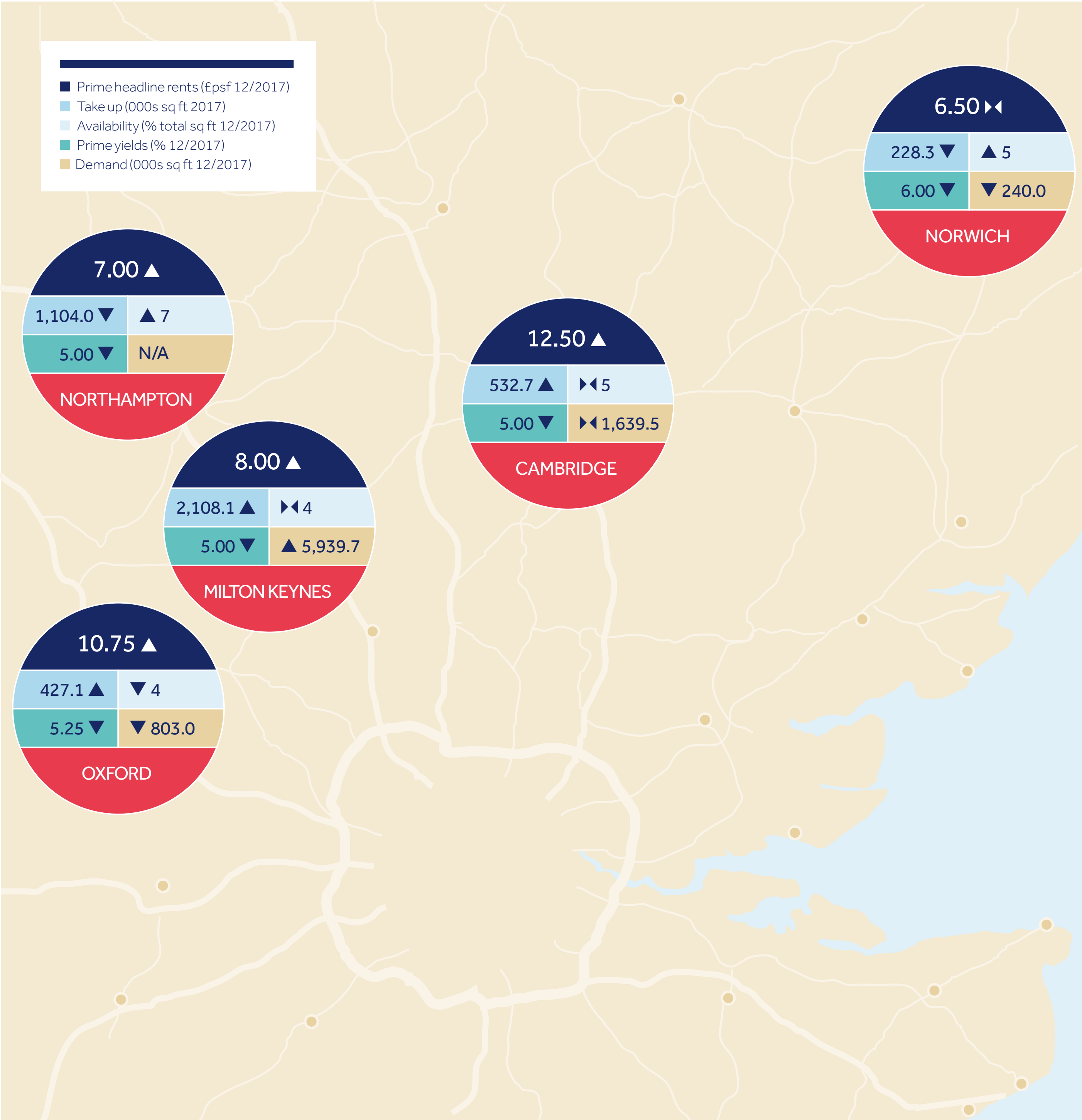
Industrial market overview



Total returns (% 12/2017)

With yields hardening and rental values edging higher, total returns in most of Bidwells markets are above 20%. The only exception to this is Norwich, where rental values have stabilised.

Industrial market overview



Prime headline rents

Rents have continued to edge up in most markets, with the strongest growth recorded in Cambridge, where prime values were up by 13.6% over the past 12 months.

Take up

Aggregate take up in Bidwells' locations has remained above trend levels in each of the past five years.

Demand

Demand eased back from the five year peak recorded in mid 2017. Total demand across Bidwells' main markets is 8.6m sq ft compared to supply of 5.3m sq ft.

Availability

Supply has increased over the past 12 months but still represents only 5.4% of total stock on average across Bidwells' main locations.

Prime yields

Prime industrial yields have continued to move in as investor appetite for the sector remains strong. Yields in the sector are now at historic lows.

Rent Forecast 2022

Cambridge	£15.50	(4.4% p.a.)
Oxford	£12.50	(3.1% p.a.)
Milton Keynes	£8.75	(1.8% p.a.)
Northampton	£7.75	(2.1% p.a.)
Norwich	£7.50	(2.9% p.a.)

Cambridgeshire Industrial

Lack of industrial allocation in emerging Local Plan

With the pressure on housing provision, Cambridge City Council and South Cambridgeshire District Council have allocated a number of industrial estates including Clifton Road Industrial Estate CB1, The Paddocks Business Centre CB1 and Dales Manor Business Park, Sawston for residential development.

There is currently no new allocation for the 400,000 sq ft of industrial space that will be lost when these sites are redeveloped.

THE FACTS
Reduction in supply since peak in 2013

50.4%

Oxfordshire Industrial

New Freight Consolidation Centres planned to increase capacity

The latest Oxfordshire Infrastructure Strategy produced by Aecom on behalf of the Oxfordshire Growth Board, has highlighted the need for Freight Consolidation Centres along the A34, which is the main freight route into Oxford.

The need to consolidate the number of deliveries into the city centre is clear and the Infrastructure Report continues to highlight the provision of several centres.

THE FACTS
Reduction in supply since 2014

74.4%

M1 South Industrial

Speculative schemes set to deliver 750,000 sq ft

Several new schemes have been launched over the past 12 months.

The largest is Gazeley's Altitude at Magna Park, Milton Keynes (574,254 sq ft) along with Buccleuch Properties/ Secklow AM's 31,500 sq ft BLU, Wolverton Mill.

Three small unit schemes are set to deliver a further 141,325 sq ft ; Chancergate's Bletchley scheme (46,325 sq ft), Deltic Trade Park (23,000 sq ft) and Business Parc Knowlhill (72,000 sq ft).

THE FACTS
Growth in prime rents in Milton Keynes since 2013

28.0%

Norfolk/Suffolk Industrial

Britvic to cease production at Carrow Works, Norwich

Drinks manufacturer Britvic announced that it is to close its factory to the south of Norwich city centre at Carrow Works.

Following the decision by Britvic in December 2017, Unilever subsequently announced the closure of its Coleman's factory adjacent to the Britvic production unit.

The Carrow Works site is jointly owned by Britvic and Unilever and will see a total of 290 jobs lost.

THE FACTS
Increase in rents on poorer quality stock since 2014

70.0%

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

Stronger than expected economy leads to first interest rate rise since 2007

Latest estimates indicate that the UK economy grew at 0.4% in Q4 2017 as a result of the continued resilience of the service sector.

The latest figures have come as a further sign that the UK economy is remaining robust despite the uncertainty surrounding the UK's negotiations to exit the European Union.

Manufacturing continued to thrive under the current environment, growing by 1.3% for the second quarter in succession. UK manufacturing has benefitted from the weakness of £sterling and the booming global economy, which grew by an estimated 3.7% in 2017.

Growth in consumer expenditure eases in 2017 as inflation bites

The strong second half of 2017 saw the economy register growth of 1.7%.

Increases in inflation and the first rise in bank base rates since 2007 have impacted hard on the consumer economy, with household consumption expected to fall to 1.6% in 2017.

This is the first time that the growth in household consumption has slowed in five years and it is expected to grow at a slower rate than the UK economy as a whole over the next two years as inflation remains a concern to policy makers.

Internet sales approach 20% of all retail sales for first time

Online retailing has continued to grow in importance, not only to retailing but also to the distribution sector. In the run up to the Christmas period, internet retailing reached a peak level of 19.8% of all retail sales, the highest share of retail sales on record.

Internet retailing has continued to capture an increasing proportion of consumer expenditure and a total of £56bn is estimated to have been spent online in 2017, up from £47bn the previous year.

Industrial rents continue to rise amidst strong demand

The evolving nature of demand for industrial and warehousing floor space has resulted in the strongest surge in rental values since the late 1990s.

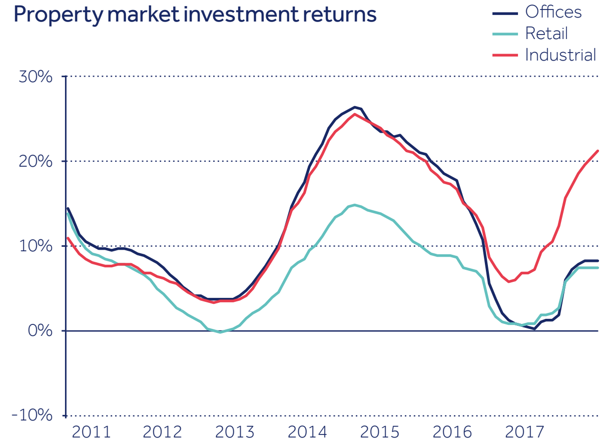
Industrial rents, as measured by the MSCI Monthly Index, have risen by 18.6% since mid 2013. Over the same time frame, prime industrial rents along the 'knowledge corridor' have risen by 29.7%.

The past 12 months saw prime industrial rents rise by 7.2% on average across Bidwells' main markets, with Cambridge recording the strongest growth of 13.6%.

As with the office and laboratories market a shortage of grade A space has helped to boost secondary rental values, which have risen by 8.6% over 2017.

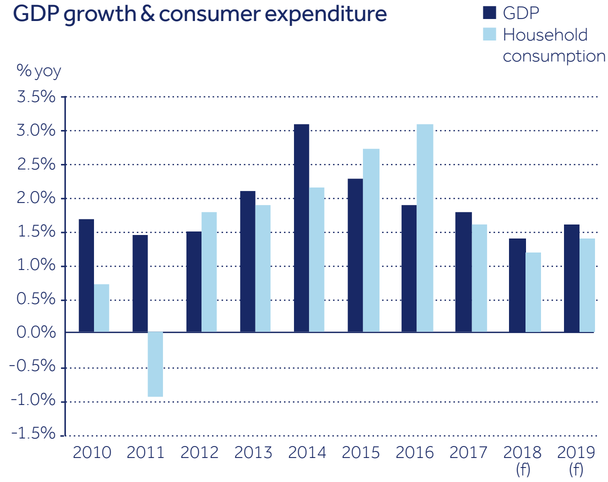
Despite take up along the 'knowledge corridor' reaching 4.4m sq ft in 2017, demand for floor space remains strong, with 8.6m sq ft of requirements recorded.

Property market investment returns



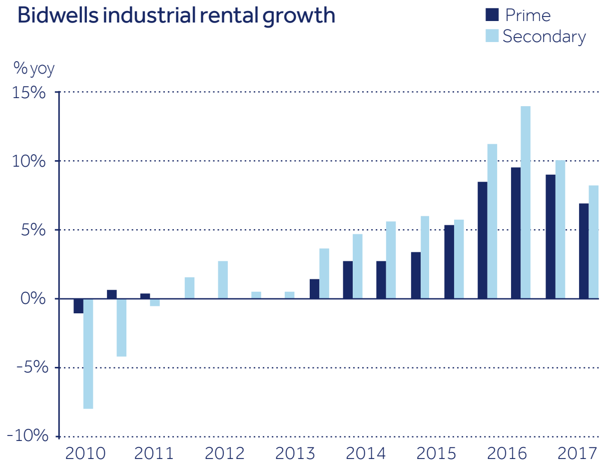
Source: MSCI Monthly Index

GDP growth & consumer expenditure



Source: ONS & Consensus Forecasts

Bidwells industrial rental growth



Source: Bidwells Research

Industrial take up along the 'knowledge corridor' in 2017

4.4m sqft

Growth in prime industrial rents over past five years

5.3% p.a.

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Cover image: Felixstowe Logistics Park