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UK Logistics Real Estate

Wednesday 14th June 2017 – Warehouse Technology Group



Why is our sector now so news worthy?

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Source: Savills Research

36.2m
sq ft

Best year ever

26.3m
sq ft

Record low level of supply

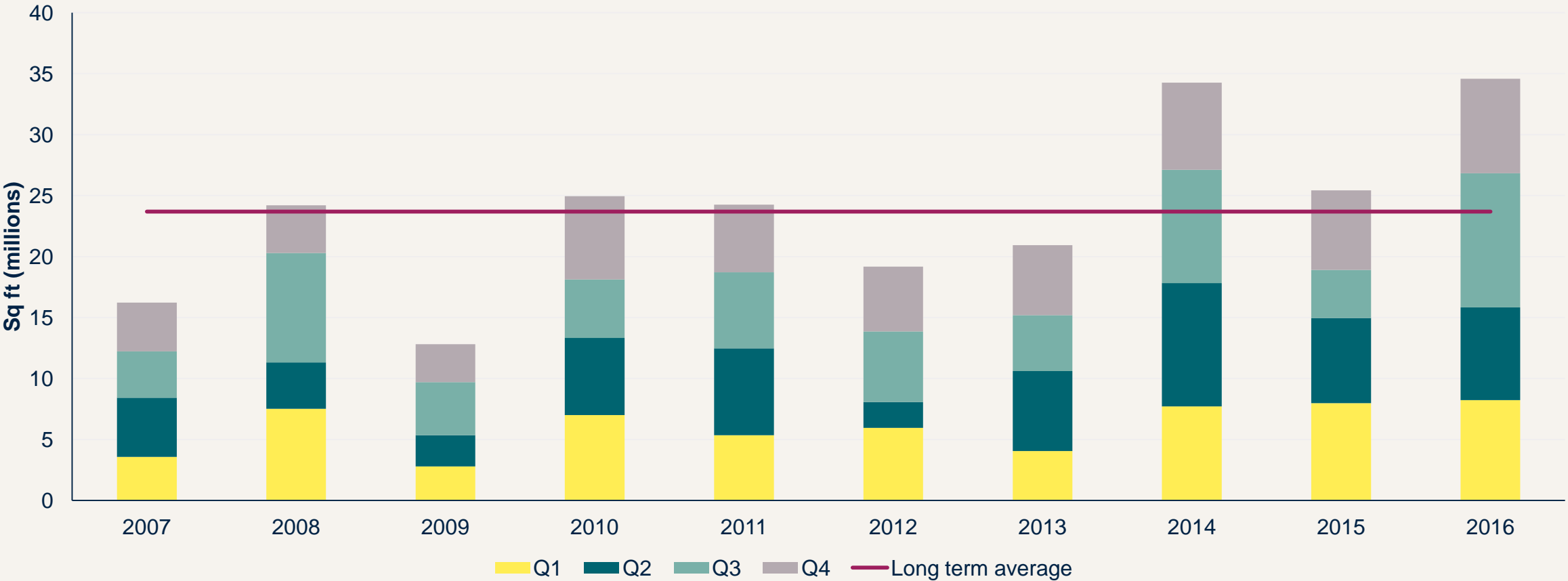
23.2%

Amazon share of market

UK Warehouse take-up best ever....



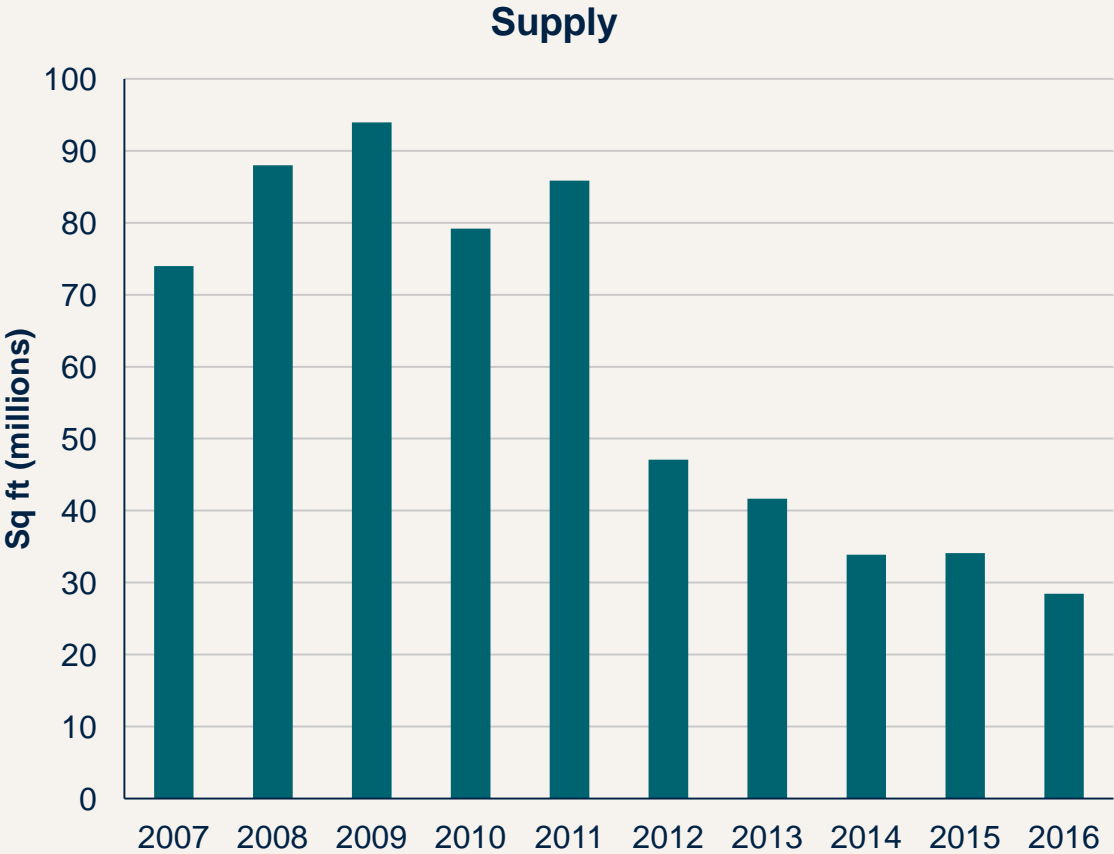
Source: Savills



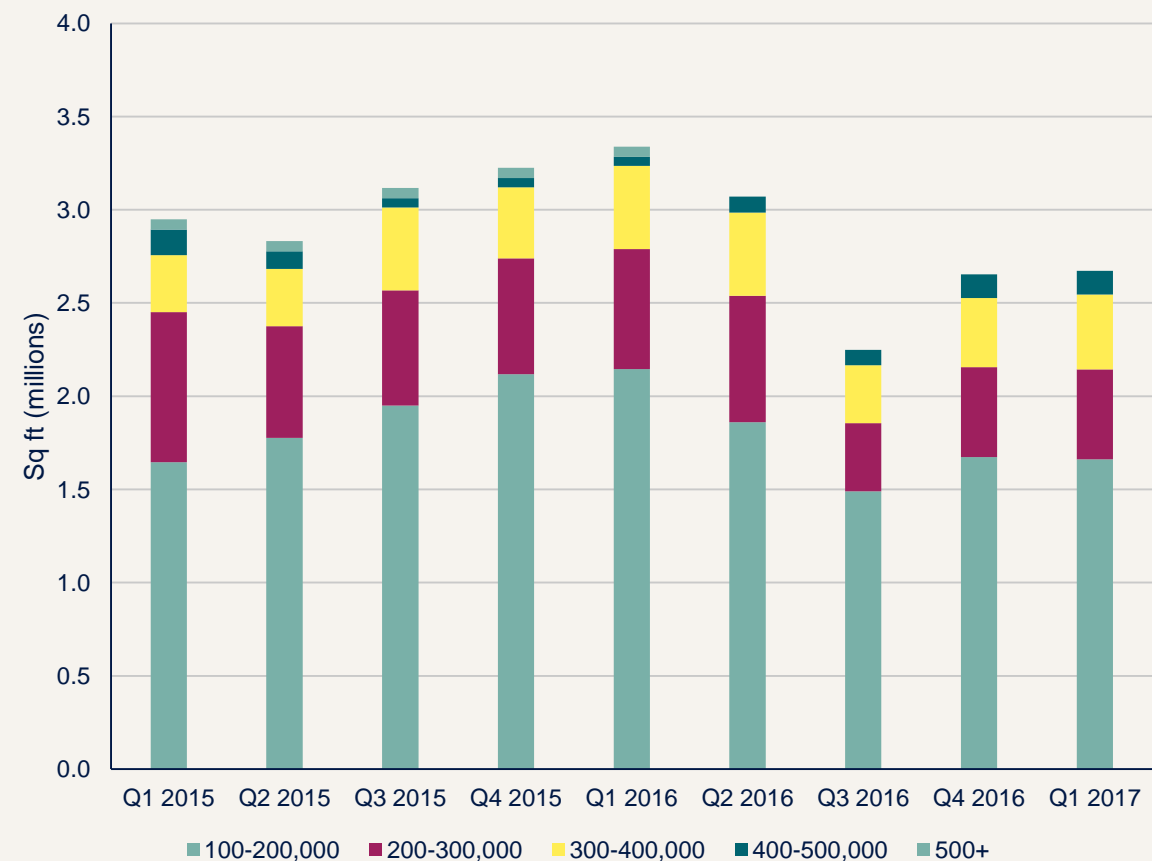
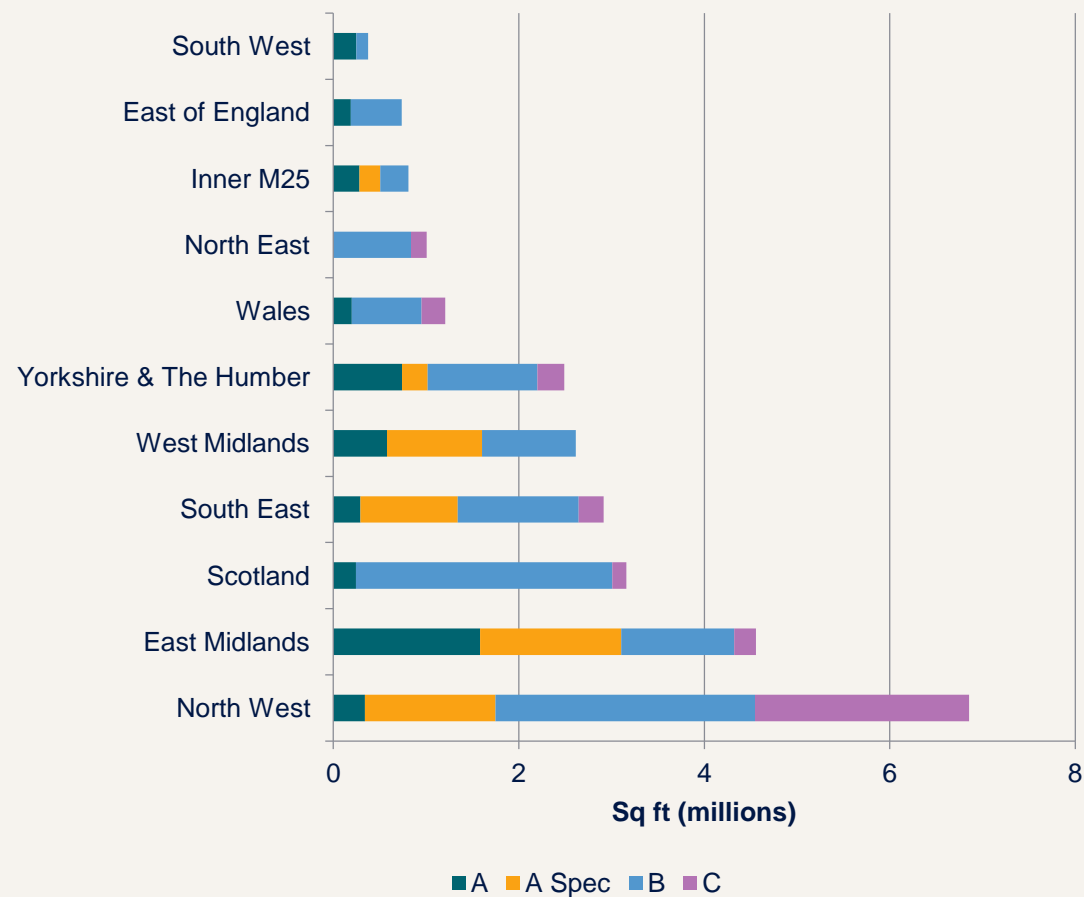
Total supply continues to fall and development is limited



Source: Savills

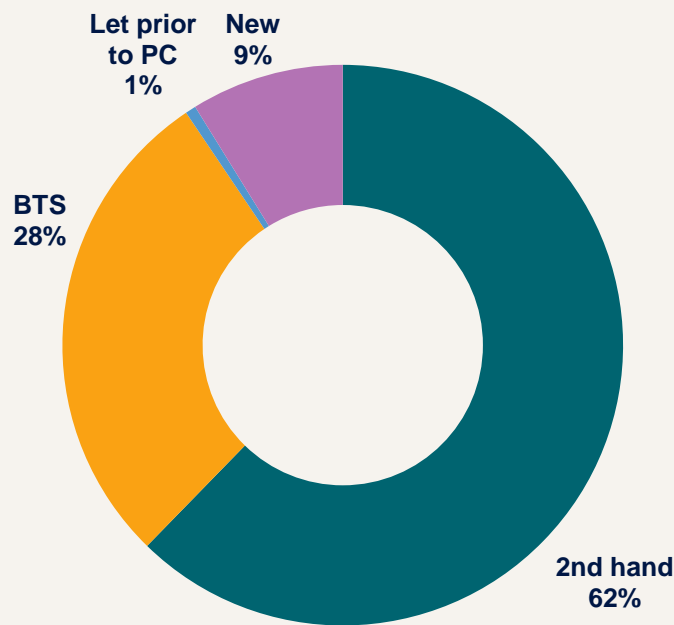


But supply varies drastically by region and is generally for smaller units

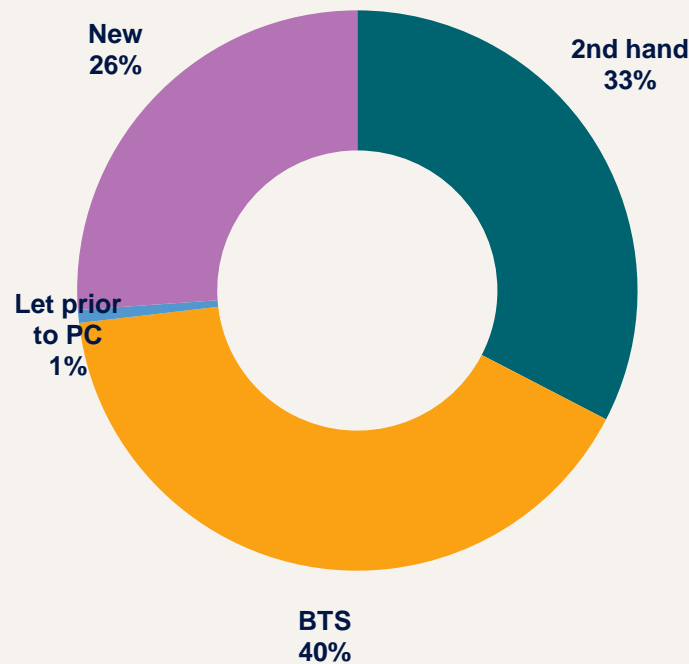


A two tier market is developing

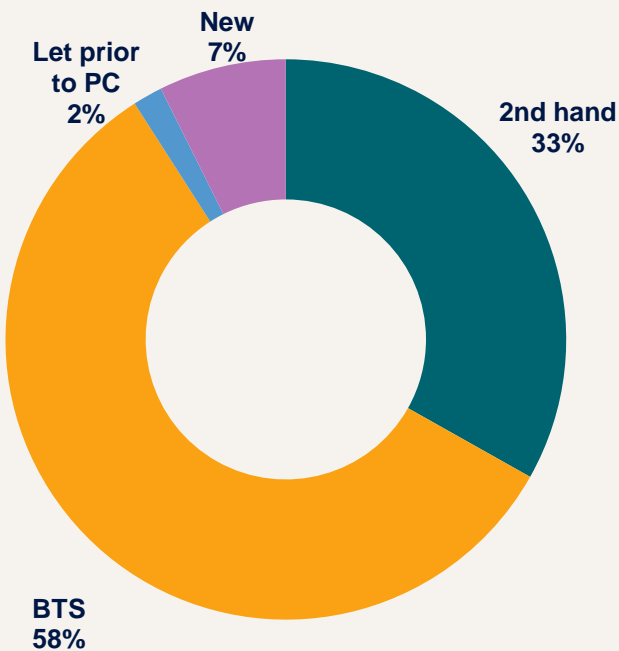
3PL



Online retail



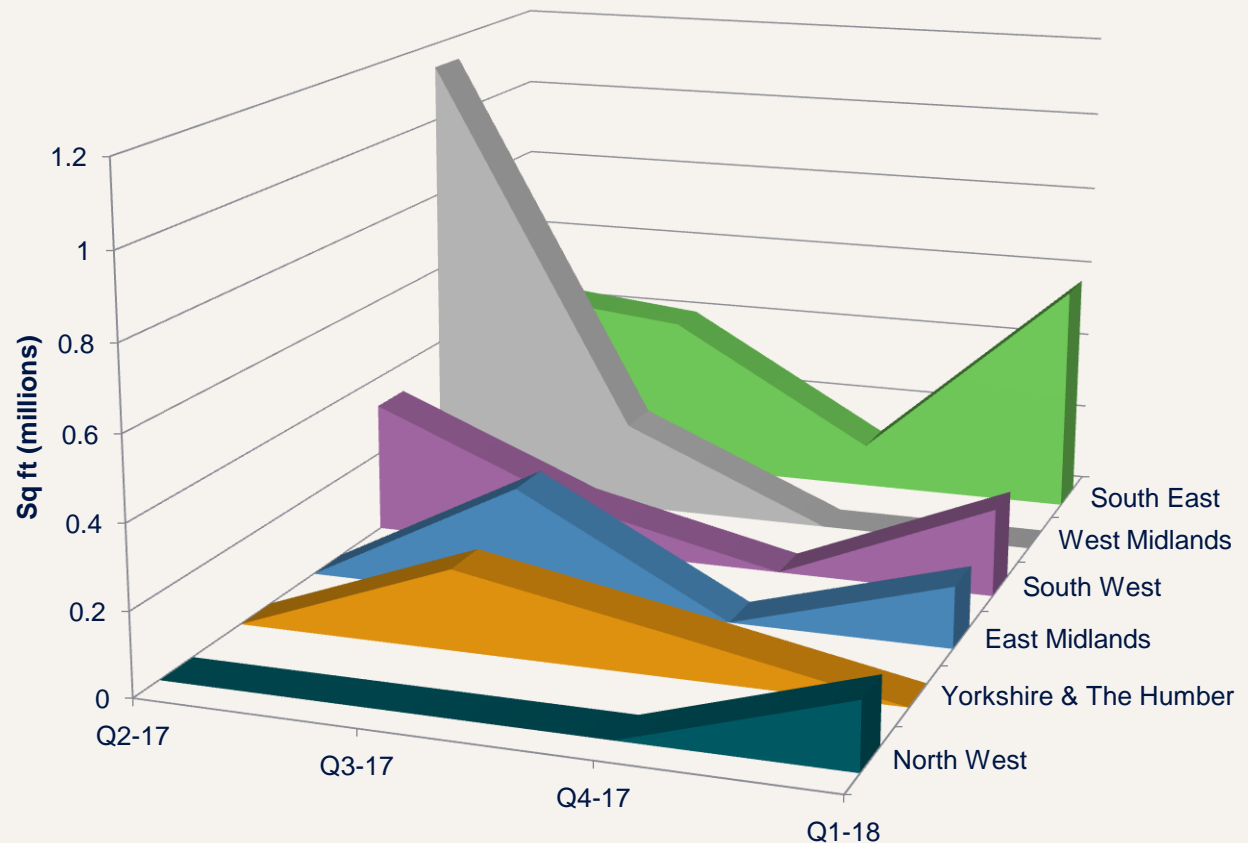
Other retail



There is very little development

Source: Savills Research

- Savills are tracking 4.4m sq ft across 24 schemes which is due for delivery in 2017/2018
- 79% of units are between 100,000 and 200,000 sq ft and the majority of stock is in the South East and West Midlands.
- However these regions also have the largest units including M6DC in Cannock (372,000 sq ft) and Altitude in Milton Keynes (574,000 sq ft), which is the single unit delivered in the SE in Q1 2018.



Supply and Demand by size and location

Green = less than a 1 year supply
Yellow = between 1 & 2 years supply
Red = 2+ years



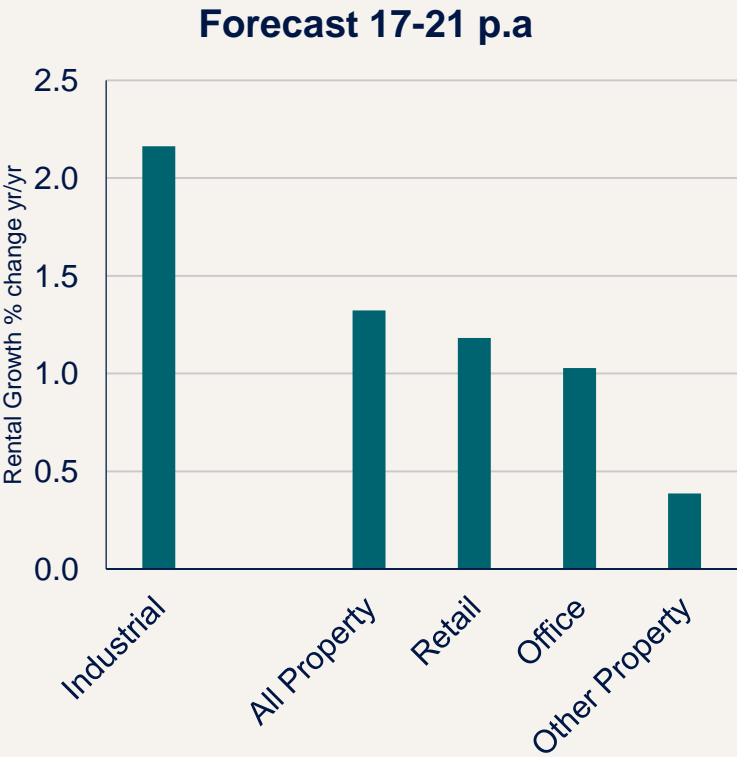
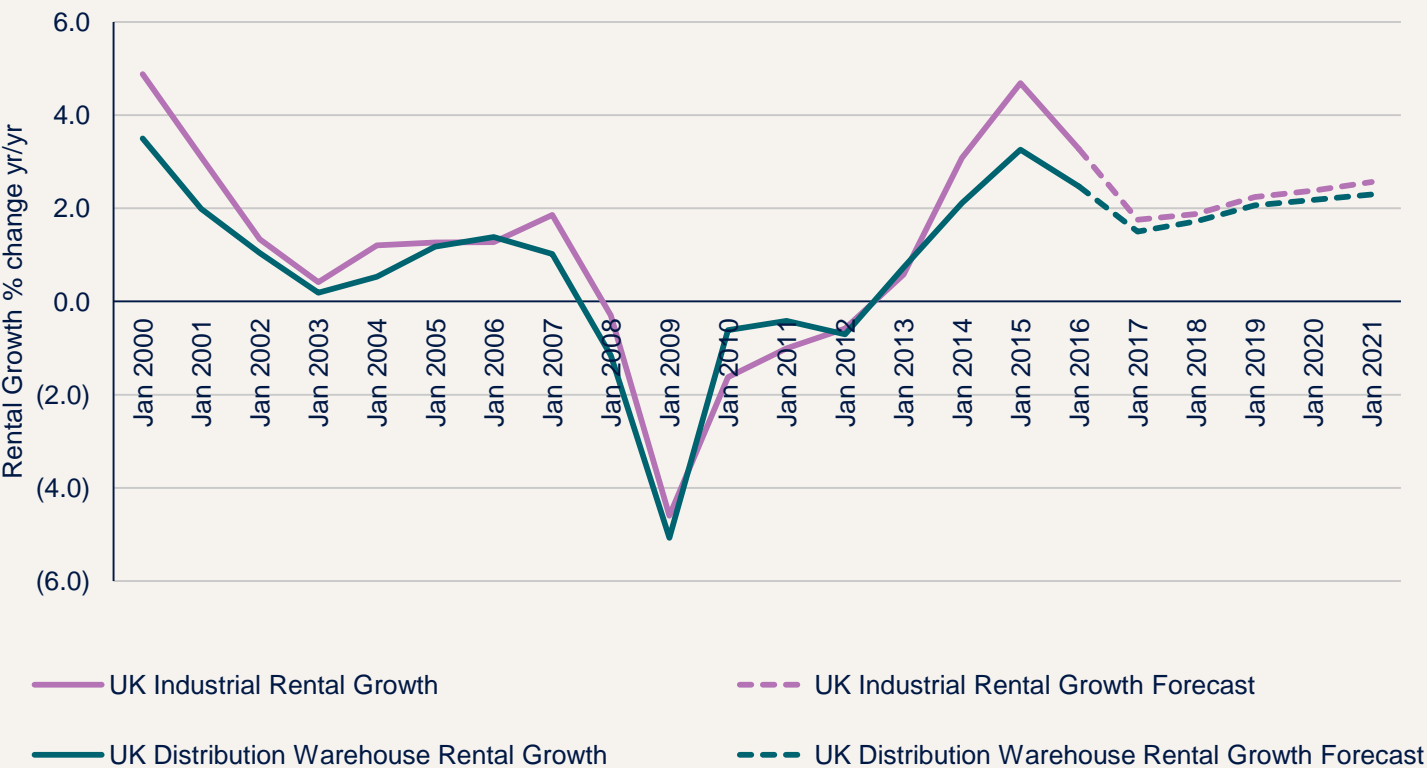
Source: Savills Research

	East Midlands			West Midlands			London & SE			Yorkshire			North West			South West		
	Average Deal Volume	Supply	Pipeline	Average Deal Volume	Supply	Pipeline	Average Deal Volume	Supply	Pipeline	Average Deal Volume	Supply	Pipeline	Average Deal Volume	Supply	Pipeline	Average Deal Volume	Supply	Pipeline
100 – 200,000 sq ft	14	16	3	14	17	8	13	19	2	10	13	2	16	24	2	3	1	1
200 – 300,000 sq ft	4	5	0	8	1	1	5	1	1	3	1	0	4	3	0	3	1	1
300 – 400,000 sq ft	2	3	0	2	0	2	3	3	1	1	1	0	2	5	0	1	0	0
400 – 500,000 sq ft	1	1	0	1	0	0	1	0	0	1	0	0	1	1	0	0	0	0
500,000 sq ft +	3	0	0	1	0	0	2	0	0	2	0	0	1	0	0	2	0	0

Rents are increasing.....



Source: MSCI & RealFor



So are build costs



Savills World Research
UK Commercial

S.P.E.C.S
Savills Programme and Cost
Sentiment Survey

October 2016

Brexit Impact varies by sector

■ The second quarterly edition of S.P.E.C.S comes at an opportune time as many developers, landlords, occupiers and contractors come to terms with what the actual impact of the UK's decision to leave the EU will be on their real estate investment decisions.

■ Currency market volatility has directly impacted overall build costs with Gardner & Theobald reporting that a 10% decrease in the value of the pound has resulted in a 2 to 3% increase in build costs, where 60% of materials are EU imports.

Q4'16 S.P.E.C.S Score

■ As table one demonstrates the sentiment recorded by Savills specialist project managers shows that no sector or geography is seeing costs fall in the aftermath of Brexit. The retail sector, adapting to new format stores, incorporating click and collect points and better quality fit out, has seen costs increase. Meanwhile the warehouse sector has seen a pause in speculative development and the price of its key component, steel, stabilise.

■ Combined this gives a quarterly S.P.E.C.S score of 17 out of a maximum of 24, meaning that costs and timescales are increasing.

GRAPH 1
S.P.E.C.S Q4 2016

"The second edition of S.P.E.C.S has highlighted how project delivery, in different sectors and geographies, is being impacted by challenges Brexit will bring. Our index demonstrates that for the first time this year both costs and timescales are increasing. Looking forward, we expect further volatility to this index once Article 50 is triggered " Simon Collett, Head of Division

TABLE 1
Q4 2016

S.P.E.C.S Indicators		New Build & Refurbishment Costs	New Build & Refurbishment Timescales*	Occupier Fit-out Costs	Occupier Fit-out Timescales*
Offices - Central London		↑	↔	↑	↔
Offices - Regional		↔	↔	↔	↔
Warehousing <100,000 sq ft		↔	↔	↔	↔
Warehousing 100,000 - 500,000 sq ft		↔	↔	↔	↔
Warehousing >500,000 sq ft		↔	↔	↔	↔
Central London Prime Residential		↔	↔	↑	↔
Regional mid market Residential		↑	↑	↑	↑
Foodstores		↑	↔	↑	↔
High St Retail		↑	↔	↑	↓
Out of Town Retail		↑	↓	↑	↔
Shopping Centre		↑	↔	↑	↔

*Timescale definition: The time taken from project sign-off to project commencement including the procurement and delivery of building components

Table source: Savills Building and Project Consultancy

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Warehouse space 100,000 sq ft – 500,000 sq ft	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
New Build & Heavy Refurbishment costs	↑	↑	↑	↔	↔
New Build & Heavy Refurbishment Time	↓	↓	↑	↔	↔
Occupier Fit-out costs	↑	↑	↑	↔	↔
Occupier Fit-out time	↔	↔	↑	↔	↔

Size Range	Height Range	Cost Range
100,000 – 200,000 sq. ft	12.5m	£42 - £48 sq. ft
200,000 – 300,000 sq. ft	12.5m – 15m	£38 - £42 sq. ft
300,000 – 400,000 sq. ft	12.5m – 15m	£34 - £38 sq. ft
400,000 – 600,000 sq. ft	15m	£33 - £36 sq. ft (Can be cross dock)
600,000 – 700,000 sq. ft	15m	£31 - £33 sq. ft
800,000 – 1,000,000 sq. ft	15m – 18m	£28 - £31 sq. ft

We should not be running out of land

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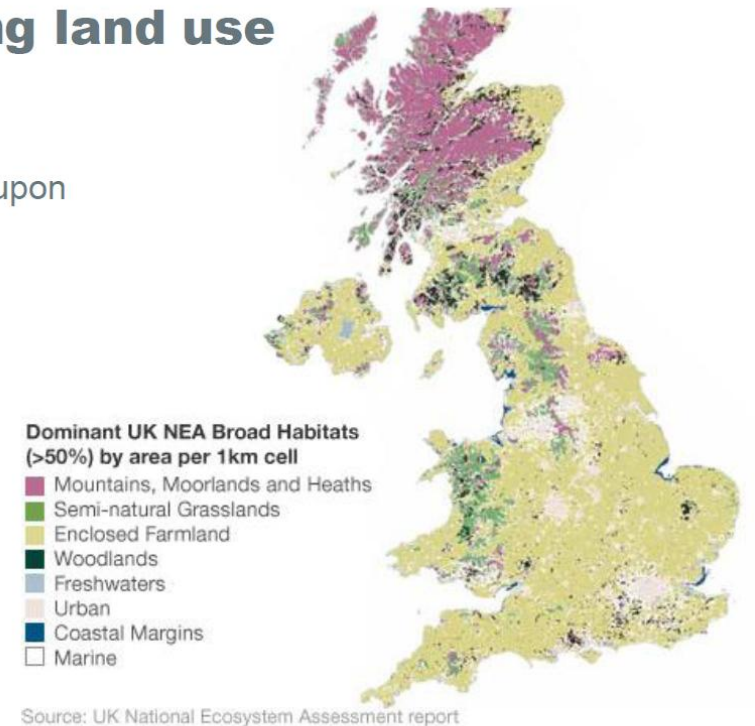
Have we run out of land?



Turley

Understanding land use

- Only 2.3% land built upon

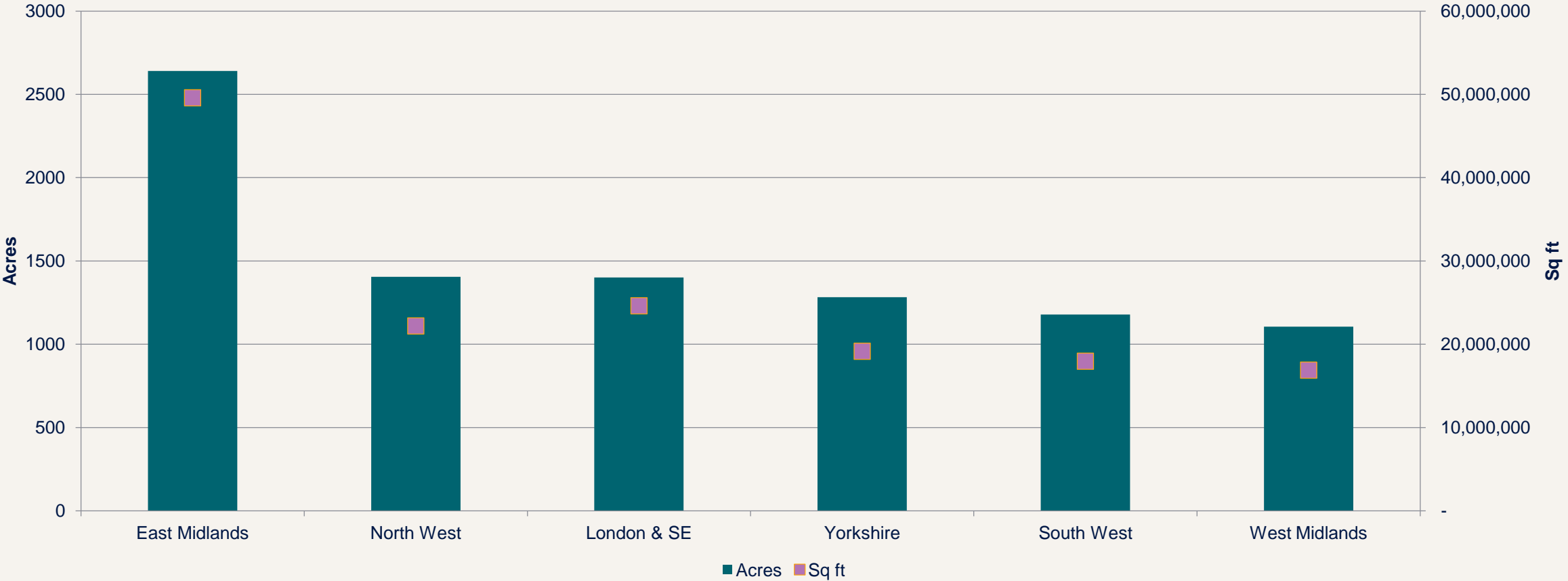


Turley

On the face of it there is enough land



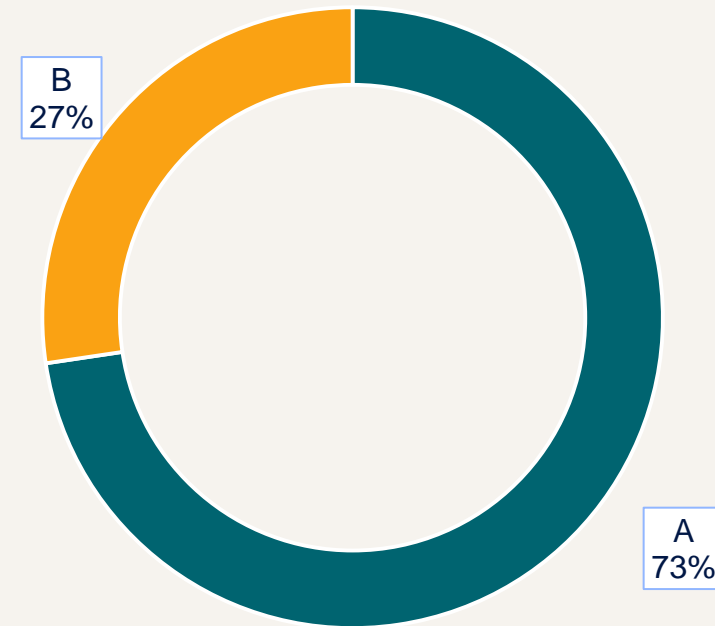
Source: Savills Research



However regions are big and quality varies



South East logistics land quality

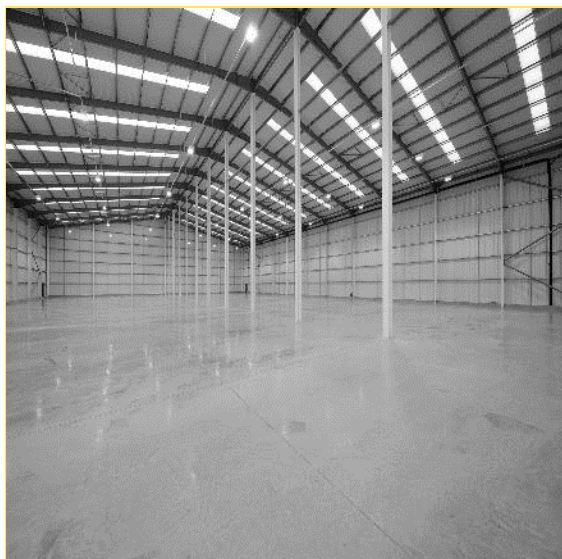




Mega trends and the property impact



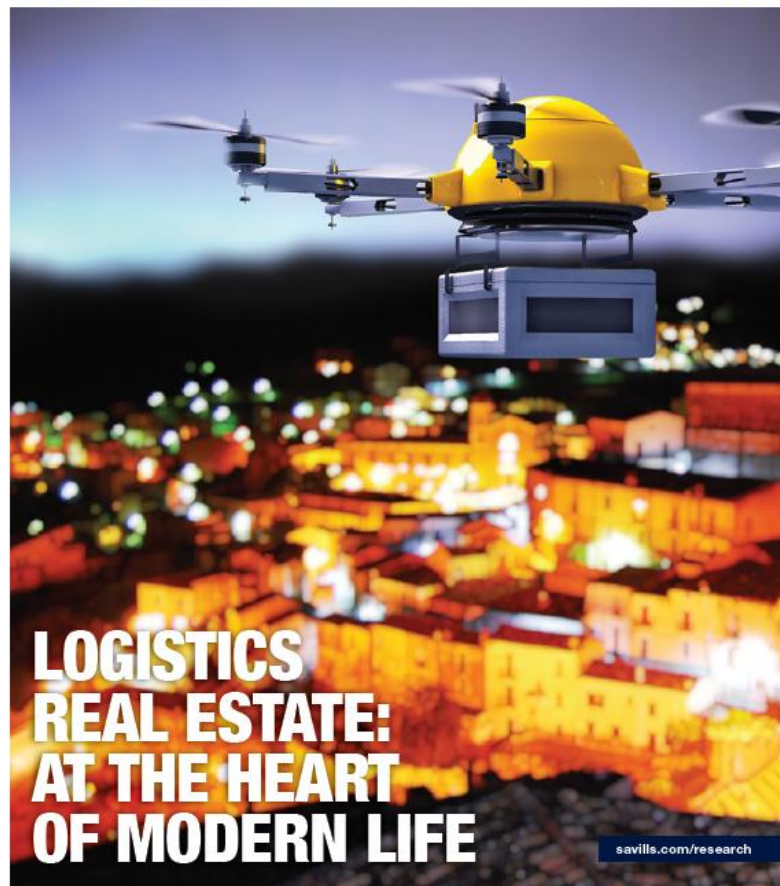
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MEGATRENDS

LOGISTICS

ISSUE 4 2017



**LOGISTICS
REAL ESTATE:
AT THE HEART
OF MODERN LIFE**

savills.com/research

SUMMARY

MEGATRENDS

in logistics

How will structural changes in retail and technology impact warehouse property requirements and investor decisions?

The impact of technology combined with changing consumer habits means that increasing amounts of warehouse space is required across the continent. However, different retail business models, legacy supply chains, differing approaches to technology and penetration of online retail by country means that there is no "one size fits all" model that can be applied to warehouse design or location.

The three pillars of modern retail; choice, availability and speed of delivery will mean that more storage space will be required close to population centres. In the medium term, this will mean more warehouse space in the way that we currently understand the asset class. However, in urban environments a balance will have to be struck by developers, local authorities and residents. Increased political will to build more residential units will have to be tempered by the realisation that increased populations need a supply chain, which

in turn will require increased logistics real estate. We expect to see more and more examples of logistics led mixed-use in urban environments.

Technology, however, will impact in a number of ways. Increased stock visibility will mean that orders could be serviced from an existing retail footprint, but the rents associated with retail real estate will mean that huge stock levels must still be sorted in a warehouse.

Countries where e-commerce is set to rise dramatically, combined with an urbanised population, will see the greatest potential for change. However, countries in Eastern Europe such as Poland, Hungary and the Czech Republic, where labour is cheaper and land is in greater supply could be the net beneficiaries should the supply chain centre of gravity shift east, driven in the most part by the increase in autonomous vehicles and truck platooning. ■

Autonomous truck convoy – could this technology see European supply chain hotspots shift east?



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Design, flexibility & amenity

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☐ Design considerations

- ☐ GRESB
- ☐ Multi-level
- ☐ Docks
- ☐ Yards

☐ Warehouse Amenity

- ☐ Natural light
- ☐ Showers
- ☐ Gym
- ☐ Canteens
- ☐ Breakout area

☐ Well being

- ☐ WBI - BRE linked certification for industrial
- ☐ Commercial considerations

Shedding light on logistics real estate.

Savills project manage your investment platform:

- Strategic site advice
- Build-to-suit specialists
- Speculative developments
- Occupier fit-outs
- Technical due diligence
- Development monitoring



For further information please contact:

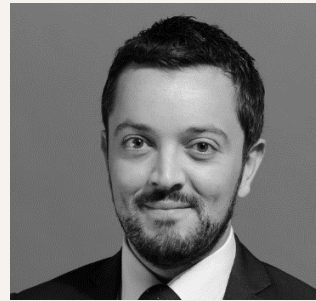
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Key considerations

- Floor loading
- Power supply
- Lease lengths increasing
- Rents increasing
- Cubic rents?
- Design and build will take longer
- There is a lot of completion for sites



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