

UK

Industrial take-up rebounded to 8.1m sq ft in Q2 2012

DTZ has released the findings of its Property Times UK Industrial Q2 2012 report which covers the market for properties over 50,000 sq ft. The report revealed that take-up of industrial space rebounded in Q2 to 8.1m sq ft compared with 5.8m sq ft in Q1, the highest level for two years and over 5% ahead of the same period in 2011.

A total of 64 deals were transacted in Q2, an increase of 33%. The average deal size however remained relatively low at 126,000 sq ft as demand was constrained by lack of availability of good quality stock at this end of the market. Total availability fell during the quarter to 143m sq ft, down 6% from Q1.

Grade A take-up fell for the fourth successive quarter as the lack of availability restricted demand and occupiers switched their attention to the more abundant good quality grade B stock. The relative scarcity of grade A space means that despite the fall in take-up, availability fell 10% to 18m sq ft.

The automotive sector was the driving force behind two of the larger lettings in Q2, with Vantec Europe taking 420,000 sq ft in the North East to service a Nissan logistics contract and Jaguar Land Rover (operated by DHL) taking 405,000 sq ft in the North West to facilitate an expansion of its Halewood plant.

The report also revealed that the profile of occupiers has changed in the last 12 months, with take-up by logistics companies increasing to 16%, largely due to space being taken by Royal Mail and Parcelforce.

Simon Lloyd, Head of Industrial & Logistics at DTZ, commented: "The substantial increase in take-up of space in the second quarter is particularly encouraging, and although the average size of transactions has not changed materially, this is largely due to the lack of availability of good quality larger buildings. Despite the recently reported economic statistics, manufacturing businesses accounted for a third of all deals, similar to the percentage recorded to the previous quarter, and off a 40% increase in floor area transacted."

Investment activity rose considerably in the quarter to £1.4bn, dwarfing the £600m transacted in Q1. The £716m sale of the Sentrum portfolio to Digital Realty Trust, was the largest industrial transaction on record, and together with the £204.5m sale of the Segro portfolio to Harbert Management Corporation, accounted for 65% of the Q2 total.

Ben Burston, Head of UK Research said: "The current level of take-up is encouraging given the challenging economic environment. While occupiers are naturally wary of the problems in key UK export markets and the attendant downside risks, given the lack of supply we could see incentives hardening and upward pressure on rents in coming guarters."

Regional Outlook

Q2 take-up in the North West rose for the second successive quarter to 2.2m sq ft across 11

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deals. The most high profile deal was to Jaguar Land Rover (operated by DHL) taking 405,000 sq ft at Phoenix, Ellesmere Port to facilitate expansion of its Halewood Plant. The pressure on existing grade A availability increased, with only three speculatively built units, totaling 425,000 sq ft left available. In London, South East and & East, Q2 take-up was strong at 1.7m sq ft across 14 deals, nearly double the Q1 level. The largest deals included a 224,000 sq ft pre-let to Arla Foods in Hatfield. Limited grade A availability inside the M25, particularly at Park Royal, has led to the continuation of small to medium sized speculative development.

Only one letting over 50,000 sq ft completed in Scotland in Q2. Steel Engineering expanded into 70,000 sq ft of grade B space at Westway, Renfrew. This leaves Q2 lettings at its lowest level since 2009 and as a result availability remains largely unchanged. The region has however been boosted by news that Global Energy Group plan to develop a 238 acre site at the Nigg Yard in Easter Ross.

Take-up in the West Midlands in Q2 fell marginally to 680,000 sq ft, 30% below the average. The largest letting was NT International taking 130,000 sq ft premises in West Bromwich for Cash & Carry use. Grade A availability stands at 3.1m sq ft across 19 buildings. The outlook for take-up in Q3 is strong with a number of parties interested in the The Hub and other Birmingham buildings of 100,000 sq ft and above.

In the North East take-up reached 1m sq ft, its highest level since 2009 and over three times the average. The largest letting was a 420,000 sq ft pre-let at Turbine Business Park to Vantec Europe to service their Nissan logistics contract, one of a number of lettings driven by the automotive industry. The region now boasts the lowest amount of available grade A space at 580,000 sq ft.

Q2 take-up was strong in the East Midlands, reaching 1.7m sq ft, 50% higher than the average and double the Q1 level. The two most significant deals were to Steinhoff which took 425,000 sq ft at Magna Park and Assured Logistics Solutions which took 215,000 sq ft at Max Park, Corby. As a result grade A availability fell further and now stands at 1.7m sq ft across eight buildings and many occupiers are now looking at built-to-suit schemes.

Take-up in the South West fell to 400,000 sq ft in Q2 across three grade B and C deals. Grade A availability remains unchanged at 940,000 sq ft across three buildings. The outlook for Q3 is mixed; Home Bargains has identified a preferred option for their 400,000 sq ft requirement however Supergroup has put their 450,000 sq ft requirement on hold. There are however a number of active requirements in the market.

In Yorkshire & Humberside, Q2 take-up was disappointing reaching 320,000 sq ft across four deals. The largest letting involved DFS taking 135,000 sq ft at Latitude 135, Castleford. Grade A availability stands at 3.6m sq ft, the second highest level in the UK although a large proportion is located in South Yorkshire. The outlook for take-up in Q3 is promising with DHL returning 750,000 sq ft back to the market at Nimbus Park, which is reportedly under offer to The Range.

In Wales there were no lettings above 50,000 sq ft in Q2. While interest in smaller units is robust, demand for larger units is restricted by a lack of suitable availability which currently stands at 750,000 sq ft for prime space. Recent news suggests that space could be returned to the market

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soon as Alberto Culver has announced it is to close its South Wales production plant resulting in 300,000 sq ft of production and warehouse space being returned to the market.

Datum: 31.07.2012

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