

Industrial Investment

Q4 2015 update

Lambert
Smith
Hampton

Investors turning to development

Q4 saw £1.2bn of industrial assets change hands, marginally below Q3's level. Q4 volume took the annual total for 2015 to £5.6bn, down on 2014's high of £6.6bn, but nevertheless one of the strongest years on record for the sector.

Portfolios dominated Q4 volume with a flurry of multi-let portfolios transacting which include MStar (IOAM), Lion (Cordatus) and Wellington (DTZIM / CBREGI / Cornerstone). Q4 saw several single-let distribution portfolios introduced to the market, with Saturn (£100m) and Phoenix (£200m) likely to complete in Q1 2016.

Q4's standout distribution deal was TH Real Estate's £87m purchase of the Click Portfolio from Prologis. Other notable deals included Standard Life's £18.2m purchase of The Big Blue in Birmingham, let to WH Smith for 18.5 years, and London Metric's £29.26m acquisition of the DHL Unit on Gillette Way, Reading.

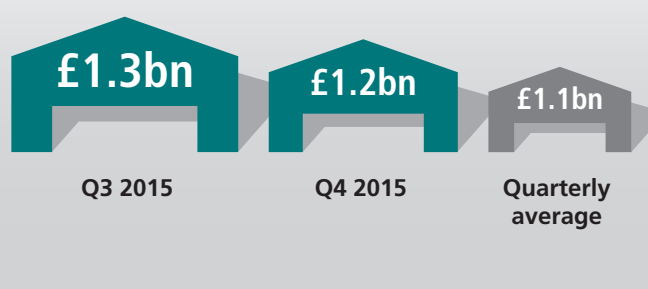
Q4 also provided evidence of greater caution. While the majority of quoting prices were either achieved or exceeded, there were a handful of investments which failed to entice serious interest due to unrealistic pricing aspirations.

For example, Levi Straus's distribution warehouse in Northampton failed to secure a purchaser at the quoting price of 6.25% NIY in 2015. This four year sale & leaseback (two year TBO) has subsequently returned to the market at 6.95% NIY.

The market is returning to core fundamentals, with rates of yield compression easing down steadily from a year ago. Prime yields are expected to remain broadly stable during 2016, with rental growth helping to drive income and supporting asset management angles. While secondary assets will continue to attract strong demand in core locations, investors will be more cautious towards pricing in weaker locations.

Positive occupier dynamics in the sector have seen increasing capital being deployed to speculative development. There is now over 9m sq ft of space under construction across the UK, with scope for more to come forward in 2016.

Investment volume



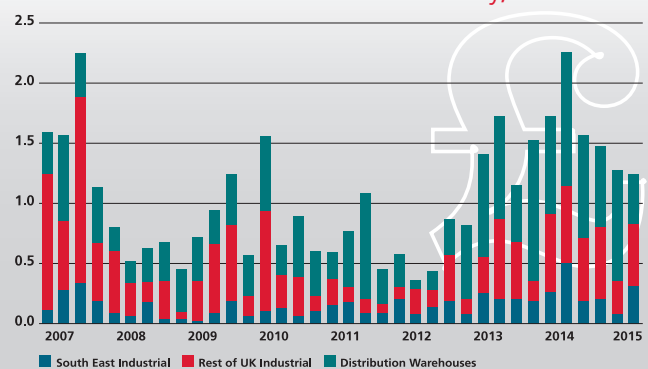
Source: Lambert Smith Hampton

Pricing

Prime yields	End Q4 2015	3 month change (b.p.)	12 month change (b.p.)
South East Estates	4.75%	▲▲	▼50
Rest of UK Estates	6.00%	▲▲	▼75
Distribution Warehouses	4.25%	▲▲	▼50
Transaction yields	Q4 deals	3 month change (b.p.)	12 month change (b.p.)
South East Estates	5.92%	▼4	▼75
Rest of UK Estates	6.80%	▼66	▼17
Distribution Warehouses	6.52%	▲43	▼8

Source: Lambert Smith Hampton

Industrial investment market activity, £bn



Source: Lambert Smith Hampton

Key Q4 Distribution deals

Property	Term Certain (years)	Tenant	Price (£m)	NIY	Date	Vendor	Purchaser
Knowlsey Business Park, Liverpool	6	Matalan	£42.38m	6.27%	Dec-15	Matalan Pension Fund	Tritax Big Box REIT
Big Blue, Birmingham	19	WH Smith	£42.38m	5.20%	Dec-15	London Metric	Standard Life
Eddie Stobart, Warrington	10	Eddie Stobart	£21.40m	8.24%	Dec-15	DTZ Investors	Griffen
Bawtry 270, Tickhill	15	DHL Supply Chain Ltd	£17.14m	6.05%	Dec-15	DHL	Texton
Gillette Way, Reading	9.75	DHL Supply Chain Ltd	£28.80m	5.80%	Nov-15	Varde	London Metric*

*LSH acted

Key Q4 Multi-let deals

Property	AWULT (years)	Rent (£ psf)	Price (£m)	NIY	Date	Vendor	Purchaser
M Star Portfolio	3.75	£3.87	£73.00m	7.00%	Dec-15	M Seven	IOAM
Wellington Portfolio	2.50	£6.58	£82.50m	6.40%	Dec-15	Columbia Threadneedle	DTZ Investors
Polar Park, Heathrow	2.50	£8.67	£47.00m	5.50%	Dec-15	SEGRO	Hermes REIM
IO Centre, Sutton	11.40	£10.00	£35.00m	4.75%	Nov-15	Schroders	Standard Life
Fareham Reach Industrial Estate, Fareham	8.75	£6.22	£48.20m	6.48%	Oct-15	First Alliance*	Hermes REIM

*LSH acted

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