

M40 Industrial & Logistics Market 2015

- The M40 is a key area of growth in the UK industrial & logistics market
- Road infrastructure improvements and additional land supply are transforming the route
- The corridor offers a value option for investors and occupiers

**Lambert
Smith
Hampton**

The M40 is an emerging corridor of growth for industrial and logistics property. With its improving accessibility, increased land supply and competitive pricing, the M40 Corridor is an untapped area of opportunity for national occupiers, investors and developers.

Why the M40?

Despite its strategic position, the M40 has until recently been in the shadows of the M4 and M1 routes as a logistics location. However, this perception is changing. Unlike the competing corridors, the pre-let and build to suit market has fared well, with recent deals to The Entertainer, Aston Martin and Prodrive. Three key factors are coming together which have the potential to transform the route to a prime location for industrial and logistics for occupiers and investors.

1. Improving accessibility

The M40 is a vital route between the UK's two largest conurbations, with over half of the population within 100 miles of its central point. Recent, current and planned road improvements are enhancing accessibility. The A34 – an important link with the M40 – has seen a number of key improvements, such as A34/M40 Junction 9 interchange near Bicester in 2011 and 2015. Improvements to Junction 12 of the M40 at Gaydon are also currently underway, helping to alleviate congestion at peak times.

2. Increased land supply

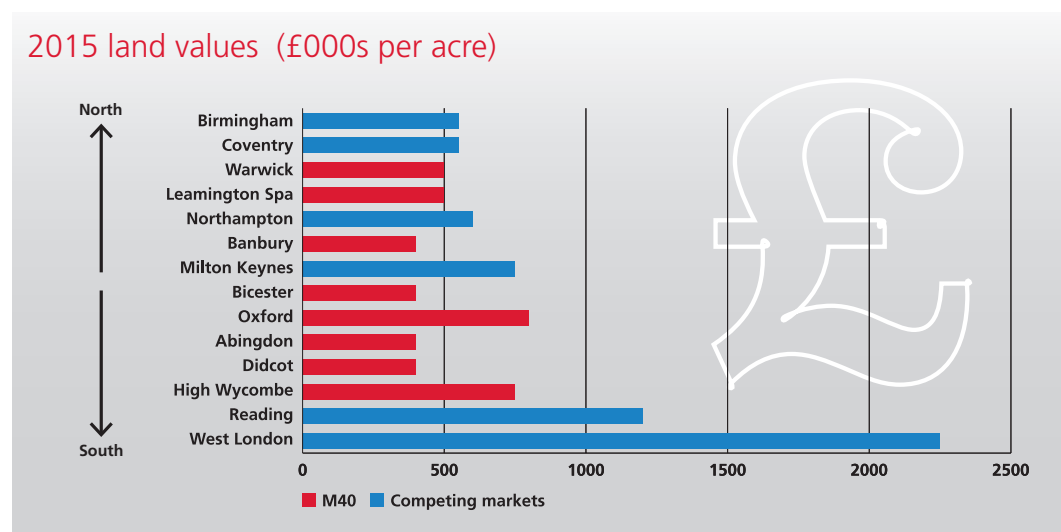
In comparison with the more intensively developed M1 and M4 routes, the M40 corridor has seen relatively limited industrial

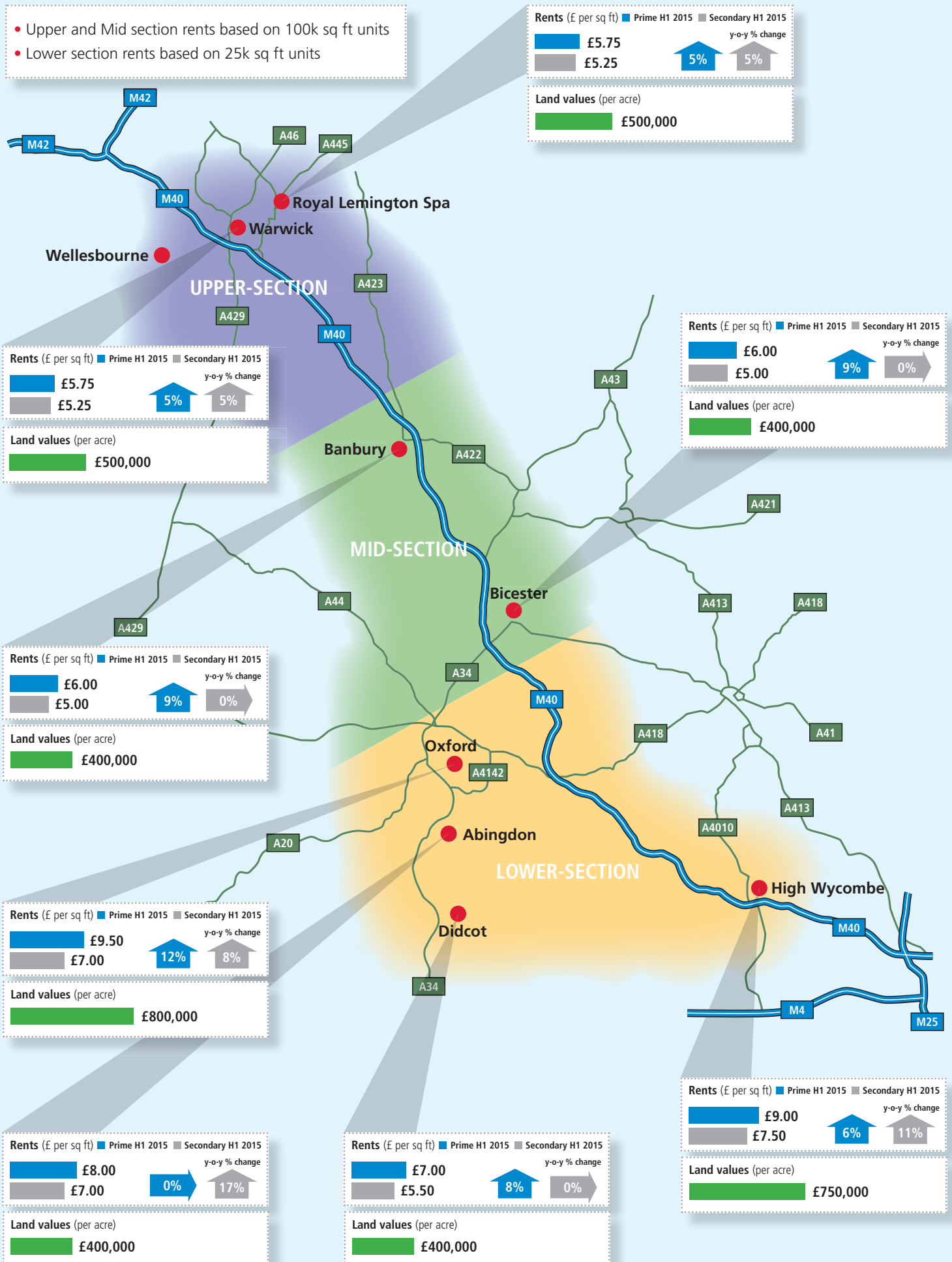
and logistics development. However, a recent relaxation in planning restrictions coupled with the growing scarcity of development land elsewhere represents a clear opportunity for developers. This is especially true of the Cherwell area of Oxfordshire, where a significant tranche of potential land supply has emerged following the local authority's decision to relax its policy on employment land.

3. Discount to established markets

Rental levels along the M40 corridor are competitive compared with more established markets. For example, Park Royal, London, which is situated just 12 miles from the M40, has seen prime rents increase by 30% since 2009, to £15.50 per sq ft. In contrast, prime rents in the lower section of the M40 are essentially half the cost of London. Similarly, towards the north of the M40, prime rents are at a discount to Birmingham, albeit to a lesser extent.

More significantly, however, industrial land values in the M40 continue to stand at a notable discount to those of the more established markets. This presents a clear strategic opportunity for investors and developers to consider speculative development.





Market characteristics

The M40 extends 89 miles, stretching from its junction with the M42 south of Birmingham to High Wycombe in the south, before joining the M25. Our analysis divides the route into three distinct sections, each with their own existing market characteristics.

UPPER-SECTION

Located to the south east of Birmingham, the upper section of the M40 corridor encompasses Warwick, Leamington Spa and Wellesbourne. On average it accounts for 23% of take-up along the M40, with annual take-up averaging around 270,000 sq ft over the past five years.

Opportunities: This area has long been successful at attracting major car manufacturers as well as many part suppliers. Given the recent boom in production within the automotive industry we expect this to continue.

Key occupiers: Jaguar Land Rover, Aston Martin Lagonda, Wolseley, Volvo, Rexel UK Ltd, Premier Ink, Longlife and Amethyst.

Key estates: Wellesbourne Distribution Park, Titan Business Centre, Tachbrook Park, Budbrook Road Industrial Estate, Sydenham Industrial Estate, Heathcote Industrial Estate.

MID-SECTION

The mid section of the M40 corridor covers the stretch between Banbury and Bicester. Recent pre-lets along the M40 encouraged developers to bring forward speculative development in Banbury with three major occupiers taking space. The mid section now has the greatest supply of big-box space under construction along the M40. In contrast, supply in Bicester is extremely limited with no speculative development presently in the pipeline. On average the mid section accounts for just over a quarter of take-up along the M40, with annual take-up averaging 360,000 sq ft.

Opportunities: Land could be made available in and around Banbury and Bicester with limited existing supply of small to mid-box space in each location. Bicester is a growth town and has been marked as one of the new Garden Towns of the UK, while land around Banbury has recently been allocated by the local authority as employment land.

Key occupiers: DHL, The Entertainer, Siemens, Ecolab, Bidvest, Cooper Callas, Prodrive, Magna, Paragon, Restore, BMW, Karcher.

Key estates: Heyford Park, Central M40, Banbury Point, Bicester Distribution Park, Banbury Cross, Tramway/Riverside, Beaumont Road.

M40 take-up by size-band, past five years (%)



Source: Lambert Smith Hampton

LOWER-SECTION

The lower section of the M40 encompasses Oxford to High Wycombe. The stock within the area generally comprises smaller units. One exception is Didcot, which is home to a number of large warehouses, albeit situated away from the M40 off the A34. Annual take-up over the last five years averages 540,000 sq ft, accounting for almost 50% of take-up along the M40 corridor.

Opportunities: With generally smaller units due to the lack and cost of available land and close to large populations, the section is key for urban logistics.

Key occupiers: DHL, Asda, Tesco, Schenck Automotive, Agilent Ltd.

Key estates: Crendon Industrial Park, Oxford Industrial Park, Oxonian Park, Thame 40, Thame Business Park, Milton Park, Abingdon Business Park, Southmead Industrial Park, Cressex Business Park.

Demand

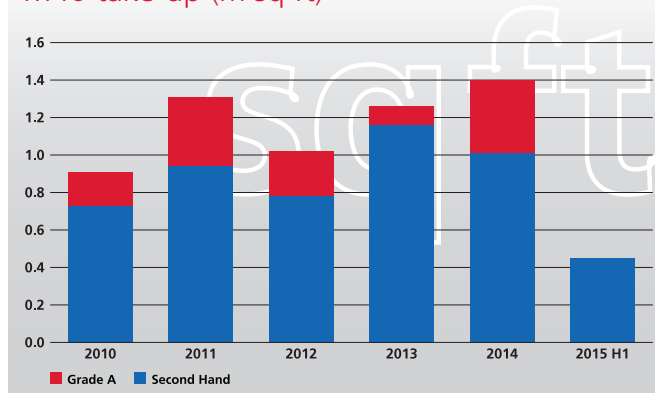
Over the past five years, the M40 corridor has seen annual average take-up of 1.2 million sq ft, and, in keeping with the wider UK trend, 2014 was the strongest year of activity for the M40. However, take-up in the first half of 2015 appears relatively subdued, reaching only 454,000 sq ft, or 25% below the half-yearly average.

This is arguably explained by the diminishing supply of good quality space in the area. While Karcher recently completed a design and build of 85,000 sq ft at Junction 11 of the M40, H1 2015 saw zero take-up of grade A space across the entire length of the M40 corridor. In contrast, grade A space accounted for almost 30% of activity in 2014, underpinned by several large pre-lets including The Entertainer's lease of 235,000 sq ft at Banbury Cross and Prodrive Motorsport's pre-let of 115,000 sq ft at Central M40.

Similarly, there has been no take-up within big box units (100,000 sq ft plus) in the first half of 2015, again partly due of a lack of supply within this size-band. The mid section of the M40, stretching from Banbury to Bicester, has accounted for half of total big-box take-up in the total M40 activity in the over the past five years, a function of both existing supply and the occupier demand profile.

Meanwhile, at the other end of the market, small and medium business units (sub 50,000 sq ft) together accounted for almost 90% of take-up in H1 2015, well above the UK average of 60%.

M40 take-up (m sq ft)



Source: Lambert Smith Hampton

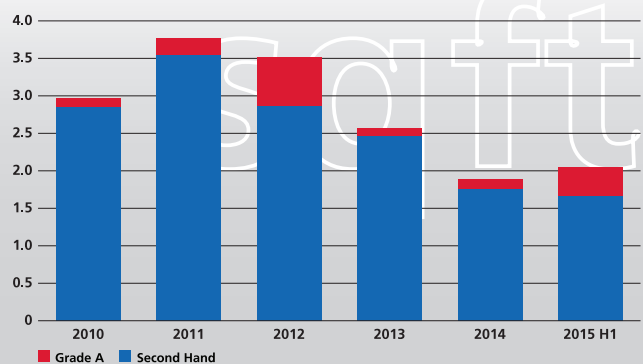
Analysis of requirements in the market suggests that there is a strong pipeline of demand within the M40 area. There is approximately 3 million sq ft of active demand across its length, equivalent to almost three years of average take-up, albeit much of this is relatively footloose.

In absolute terms, the most numerous requirements are for medium-sized units, accounting for 50% of the total in the M40, many of which are in its lower section. However, in relative terms, the greatest imbalance between active demand and supply is in the mid-box and big-box sectors where the volume of space required exceeds the current level of availability across all grades.

Key occupier deals over last 12 months

| Estate | Town | Size (sq ft) | Date | Occupier | Rent (per sq ft) |
|--------------------------------|--------------|--------------|--------|---------------------|------------------|
| Banbury Cross | Banbury | 235,020 | Jun-14 | The Entertainer | £5.20 |
| Wellesbourne Distribution Park | Wellesbourne | 228,529 | Aug-14 | Aston Martin | £5.20 |
| Prologis Didcot | Didcot | 166,583 | Aug-14 | Better Bathrooms | £6.50 |
| Central M40 | Banbury | 115,000 | Jul-14 | Prodrive Motorsport | £5.50 |
| Junction 11, M40 | Banbury | 85,000 | Jul-15 | Karcher | n/a |

M40 availability (m sq ft)



Source: Lambert Smith Hampton



Building 1 of Db Symmetry's Central M40, Banbury, completed in Q3 2015, and comprises 235,000 sq ft

Supply

In keeping with the national trend, availability along the M40 corridor has ebbed away in recent years as the recovery in market has absorbed much of the existing supply of good quality space. Based on the average rate of take-up over the past five years, grade A availability now equates to less than four months of supply. All sectors of the market are experiencing notable shortages; particularly the mid-box sector, where there is zero grade A supply.

At 1.3 million sq ft, the lower section has the highest amount of availability along the M40 corridor, although only 4% of this is grade A. The upper section of the M40, encompassing Warwick and Leamington Spa, has the lowest level of availability, at only 152,000 sq ft, having declined by 45% since the beginning of the year.

While current grade A availability in the M40 is confined to only 17 units, it has increased from 2014's level reflecting the recent completion of 235,000 sq ft at Central M40, Banbury. The scheme, speculatively developed by DB Symmetry, is currently the only big-box unit available within the M40. While not let at the time of writing, we are confident that it will be taken within the next six months, and at a record rent for the big-box sector in Banbury.

Developers are responding to the clear lack of good quality supply in the M40. Elsewhere in Banbury, Clearbell is speculatively developing two large units of 170,000 sq ft and 111,000 sq ft at Banbury Cross, adjacent to The Entertainer's building. Also, land around Banbury has recently been allocated by the local authority as employment land, to be released from the Greenbelt, opening opportunities for additional newbuild supply.

In the upper section, it is understood that Griffen UK is likely to commence construction on a 130,000 sq ft speculative development at Wellesbourne Distribution Park. Smaller developments are underway in the lower section, namely Century Court at Westcott Venture Park, a small unit scheme totalling 25,000 sq ft, and Trade City, Oxford, another small unit scheme totalling 40,000 sq ft.

Grade A months of supply in the M40

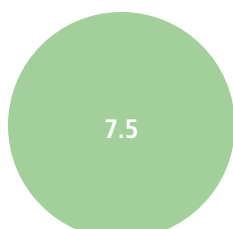
BY SIZE



BY SECTION



UPPER



MID



LOWER

Investment

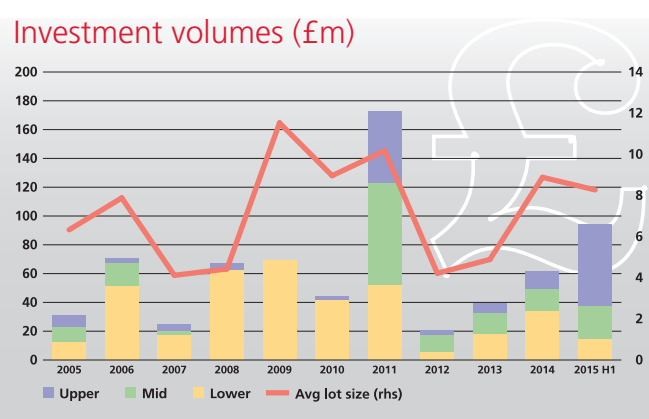
Investor perceptions of the M40 corridor as a key industrial and logistics location have been transformed, as road infrastructure improvements and more relaxed planning have begun to unleash its long-term potential.

With the investment market focusing heavily on traditional core locations, investors are now seeking value – we believe that this corridor offers a competitively priced alternative with positive growth prospects.

The volume of investment activity in UK industrial and logistics property has been at near record levels over the past 12 months, reflecting the weight of money in the market and positive attributes around the sector relating to supply and structural change. The first half of 2015 was also very active for the M40 corridor with volume of £94.3m, up 90% on the same period in 2014 and surpassing the annual total for each of the previous three years.

H1 2015 volume was boosted by one of the largest deals seen on the M40 on record, namely Griffen UK Logistics's £43.6m purchase of Wellesbourne Distribution Park, Warwick from Barwood Capital and JP Morgan. Tenants on the 585,095 sq ft distribution park include Aston Martin Lagonda, Amethyst Group and CEVA Logistics.

It is notable that the purchaser of Wellesbourne Distribution Park was a South African investor, demonstrating the appeal of the M40 to a broad range of investors, including overseas buyers. Over the past five years, UK institutions have typically been the largest buyers by volume along the M40 corridor, accounting for 34% of activity, followed by overseas buyers, with 25% of activity.



Source: Lambert Smith Hampton

Evidence on pricing for prime stock also suggests that the institutions are increasingly regarding the M40 as a sound location for logistics investment. Aviva's £18.48m purchase of the 235,000 sq ft unit at Banbury Cross (let to The Entertainer) reflected 6.25% NIY, the lowest yield seen along the M40 on record.

Despite indications of increasingly keen prices being paid within the M40, the market still represents relative value compared with more established locations. As at Q3 2015, yields for prime distribution assets in the UK regional markets stood at circa 5.00%, with the above deal suggesting there is more value at present within the M40.

Key investment deals in 2015 to date

| Property | Lease | Price | NIY | Date | Purchaser | Vendor |
|---|------------|---------|-------|--------|---------------------------|----------------------------|
| Wellesbourne Distbn Park, Wellesbourne | Multi-let | £43.6m | 7.01% | Feb-15 | Griffen UK Logistics Fund | Barwood Capital, JP Morgan |
| The Entertainer, Banbury Cross, Banbury | Single let | £18.48m | 6.25% | Feb-15 | Aviva Investors | Standard Life |
| Sands Ten Ind Estate, High Wycombe | Multi-let | £12.25m | 6.69% | Apr-15 | Henderson UK Prop OEIC | Northumberland Estates |
| Amethyst Group, Wellesbourne | Single let | £10.50m | 7.13% | May-15 | IM Properties Plc | MCL Property Investments |
| Charbridge Way, Bicester | Single let | £4.98m | 7.58% | Feb-15 | Cabot Properties Inc | M&G Real Estate |

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From capital markets and construction consultancy, to management of the most complex property portfolios.

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Due to space constraints within the report, it has not been possible to include both imperial and metric measurements.

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