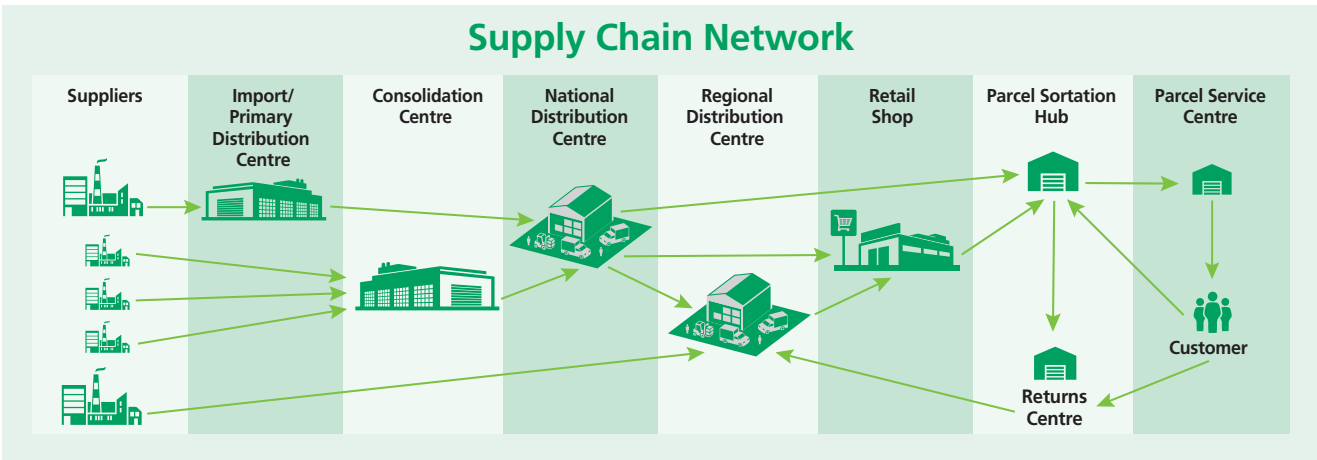


OCCUPATIONAL DRIVERS OF INVESTMENT PERFORMANCE IN THE LOGISTICS SECTOR

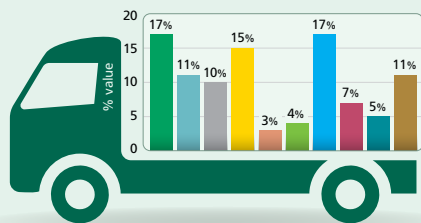
This research analyses the forces acting on the retail logistics sector, detailing the characteristics of each and the likely implications for investors, owners and occupiers for the next decade. The report comprises a description of supply chain types, a market overview by sector and geography, and recent changes to distribution centres (DCs). The top transformational themes are considered together with their consequences on the location, design and operation of logistics space and implications for investment strategies.

Supply Chain Network



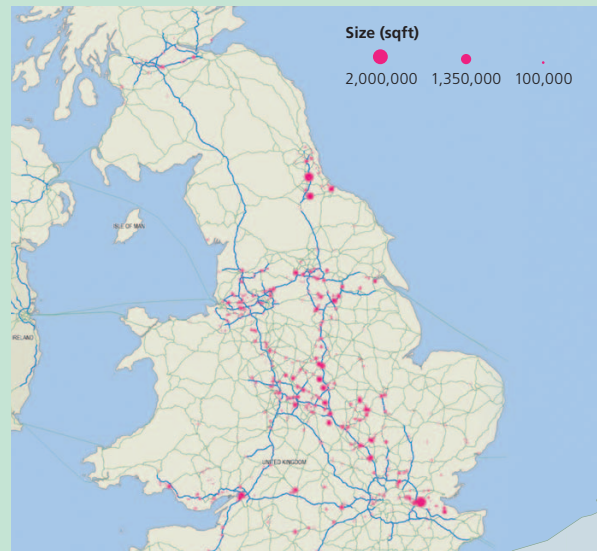
Sectoral Breakdown of Stock

(DCs in excess of 100,000 sqft)



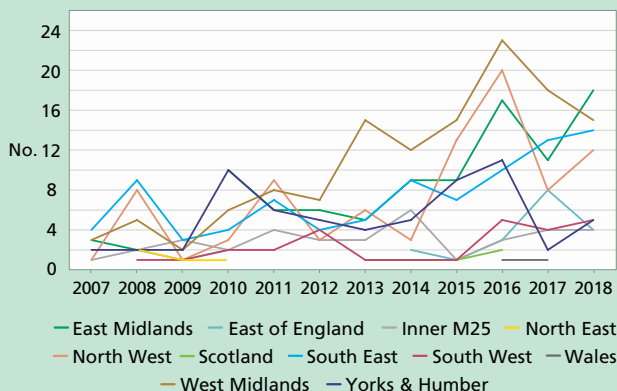
- High St Retail
- Manufacturing
- Online Retail
- Other
- Parcel
- Wholesale
- 3PL
- Automotive
- Defence
- Food Production, Grocery Retail

Amazon UK Network, 2019

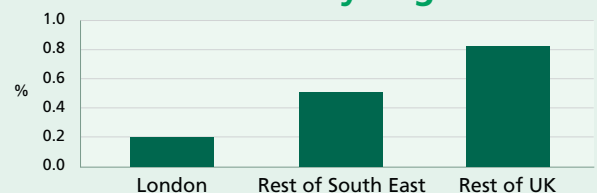


Annual DC Construction by Region

2007 to 2018



Fair Value* by Region



*Gap between expected and required return.

Key Points

Implications for occupational usage include:

- Rapid growth in construction of Distribution Centres (DCs) has been driven by e-commerce retailers and discount grocers, who favour new, large units.
- As existing units tend to be too small to meet the needs of new e-commerce retailers and too large for high street retailers downsizing, flexibility in design, to allow occupiers to add space and/or sub-divide units, should improve tenant retention.
- Demand for next/same-day delivery has increased the importance of proximity to parcel sortation hubs, favouring the Midlands' 'Golden Triangle' and along the M62 corridor – either for smaller businesses or as independent sites for larger operations.
- Increasing adoption of automation and robotics is leading to larger units, with increased eaves heights (c. 15m) being the norm, increased floor loading capacities and power supply.
- Labour shortages impact significantly on operating productivity and capacity, especially in DCs clusters where competition for workers. Operators are being deterred from locations with very low unemployment; (24-hour) public transport services, parking spaces and an attractive working environment are becoming increasingly significant factors in attracting and retaining staff.
- Ultra-Low Emission Zones and congestion charging are placing a premium on well-located sites on the periphery of large urban areas; where planning allows, facilities with multi-level vehicle access will be used to maximise the potential from such sites.

From the investment perspective:

- Demand for new, large units provide significant opportunities for developers, as well as being a source of long income streams for investors.
- Short construction periods and a high proportion of pre-let development contribute to low rental volatility.
- These assets are attractively priced relative to long-dated bonds to deliver strong risk-adjusted returns to investors.
- There is little regional differential in expected performance, as stronger rental value growth in London is already priced into this market.
- Given the relatively large size and single-let nature of units, a portfolio approach is necessary to diversify specific risk.

The full report may be downloaded from the IPF website: www.ipf.org.uk.

This research was funded by the 2015-2018 Research Programme, sponsored by:

