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Sector overview | Real estate

20 December 2019

Industrial property market

The gift that keeps on giving

The industrial and logistics sector has been on a tremendous run over the past five years or so. It is hard to think now, given the current dynamics in the property industry, that retail and offices were the sectors of choice for investors for many years with industrial cast aside by most.

All that changed, primarily off the back of a fundamental shift in consumer buying habits. Amazon has become a behemoth and online-only retailers have popped up and taken significant market share from their high street rivals – operating from a network of warehouses across the country. The trend towards ecommerce, and its effect on both the industrial and retail sectors, is well-known. Consumer spending online has been growing dramatically to the point now where just under 20% of all retail transactions in the UK are made on the internet.

This has meant that traditional retailers, as well as their online-only peers, have been scrambling to get their distribution networks functioning efficiently. Long gone are the days of one huge warehouse in the middle of the country that served a retailer's shops. It now needs several distribution centres that serve not only the shops but smaller logistics hubs close to major towns and cities, which in turn serve home deliveries. The invention of same-day – and even one-hour – deliveries has intensified the need for an efficient network and ultimately more industrial and logistics space.

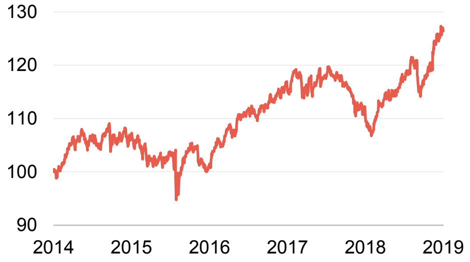
The run of success in the sector, which has been on a continuous upward trajectory for more than five years, raises the question: how long can it last? How much further can rental growth go? Are investment yields, which are sub-4% for prime stock, sustainable? Is there too much speculative development in the market?

Here we explore the undercurrents that continue to drive the sector, further opportunities that exist and the threats that could curtail growth.

Companies covered in this report:	
Aberdeen Standard European Logistics Income	ASLI LN
LondonMetric Property	LMP LN
SEGRO	SGRO LN
Stenprop	STP LN
St Modwen Properties	SMP LN
Tritax Big Box REIT	BBOX LN
Tritax Eurobox	EBOX LN
Urban Logistics REIT	SHED LN
Warehouse REIT	WHR LN

Industrial property performance[1]

Time period 30/11/2014 to 30/11/2019



Source: Morningstar, Marten & Co. Note 1) Average share price performance of the nine companies named above.

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The different sub-sectors

The industrial property sector has several different sub-sectors that each have their own dynamics and nuances. It is important to understand each sub-sector, the fundamentals behind them, their role in the supply-chain and the companies that operate in each.

‘Big box’

At one end of the spectrum you have the so-called ‘big boxes’. As the name suggests, these are large warehouses used as distribution centres, ranging in size from 350,000 sq ft plus and more often close to and over 1m sq ft. They are strategically located close to major motorways and other transport hubs, such as rail freight, airports and shipping ports, and are usually let to a single tenant. They serve as the national or regional distribution centre for the tenant, most often an ecommerce business (which accounted for 53% of lettings in 2018) and are where goods or products start their journey to the customer’s doorstep or the shop floor. ‘Big boxes’ are highly automated, with tenants spending hundreds of millions of pounds (in most instances, far more than the building is worth) on technology to efficiently store and pick goods.

Of course, it’s not all about ecommerce. Tenants from an array of industries are active occupiers in the sub-sector, especially automotive businesses, which have historically been a big contributor to take-up. Listed companies operating in the sub-sector are SEGRO and Tritax Big Box REIT.

Figure 1: Comparison of ‘box big’ companies

	Market cap (£m)	Premium/ (discount) (%)	Yield (%)	NAV total return 1 year (%)*	Price total return 1 year (%)*
SEGRO	9,681.2	31.2	2.2	14.9	51.8
Tritax Big Box REIT	2,485.4	(3.0)	4.7	2.7	16.4

Source: Morningstar, Marten & Co. Note* one year to 30 November 2019

Logistics

The next sub-sector is logistics facilities. These are effectively parcel hubs located on the outskirts of towns and cities that predominantly service ecommerce deliveries to people’s homes and offices. They come in a wide range of sizes, with the big logistics facilities being between 200,000 sq ft and 350,000 sq ft.

Urban logistics is a fast-growing part of the sub-sector and, as the name suggests, are logistics facilities located very close to town and city centres and are in the 20,000 sq ft to 200,000 sq ft size bracket. With the growth of ecommerce, they have become more and more popular with retail companies and third-party logistics operators, which service retailer contracts, as they try to streamline their supply chains. The high level of demand from occupiers – coupled with a severe lack of supply given land constraints around most major cities – has pushed rents up and seen capital values increase.

Companies in this sub-sector include Aberdeen Standard European Logistics Income, LondonMetric, SEGRO, St Modwen Properties, Tritax EuroBox and Urban Logistics REIT.

Figure 2: Comparison of logistics companies

	Market cap (£m)	Premium/ (discount) (%)	Yield (%)	NAV total return 1 year (%)*	Price total return 1 year (%)*
LondonMetric	1,928.0	31.0	3.7	6.4	31.9
St Modwen Properties	1,044.1	(4.7)	1.6	5.4	25.0
Tritax EuroBox	388.1	(6.1)	3.2	7.8	(1.3)
Aberdeen Standard European Logistics Income	213.4	(4.2)	5.3	2.6	(4.6)
Urban Logistics REIT	127.7	0.2	4.8	18.4	29.2

Source: Morningstar, Marten & Co. Note* one year to 30 November 2019

Industrial

The industrial sub-sector is made up of multi-let industrial estates with individual units sub-10,000 sq ft in size. Tenants of industrial estates are often small and medium sized companies, the life blood of the economy, and operate in a diverse number of industries. The supply of industrial estates has been diminishing over time, as schemes get bought up for residential redevelopment while new build stock is scarce. Leases tend to be a lot shorter in this sub-sector, owing to the nature of the tenants, and the assets are require more asset-management activity. Rental growth, as a result, is high. Companies in this sub-sector include SEGRO, Stenprop and Warehouse REIT.

Figure 3: Comparison of logistics companies

	Market cap (£m)	Premium/ (discount) (%)	Yield (%)	NAV total return 1 year (%)*	Price total return 1 year (%)*
Stenprop	359.3	(11.8)	5.3	6.2	18.0
Warehouse REIT	263.1	4.1	5.5	5.2	20.2

Source: Morningstar, Marten & Co. Note* one year to 30 November 2019

Current state of play in the market

The sustained and prolonged nature of growth in the industrial and logistics sector has led some to declare that the sector is somewhere near the top of the market.

Strong occupational demand is still evident, however. Lettings transactions in the first half of 2019 were 28% up on the long-term average for the first half of the year, coming in at just over 16m sq ft, according to commercial real estate consultant Savills. The second quarter stats in isolation show that 9.55m sq ft was transacted, making it the second-highest level of second quarter take-up on record, only beaten by 2014. MSCI data shows that over the last five years, rents have increased for ‘big box’ distribution warehouses by 3.9% each year, on average.

The structural shift in consumer spending patterns has not just revolutionised the retail market, but is starting to spread into other areas. Demand for dark kitchens (warehouses that are kitted out with several kitchens for the purpose of home deliveries), for example, has surged as more and more people order food through apps such as Deliveroo, Just Eat and Uber Eats. Another example is reverse logistics. The growth in ecommerce, generous return policies and new consumer expectations have caused a real headache for retailers with regards to how they handle and efficiently deal with returned merchandise. Whilst returns have historically been a necessary cost of business, the growth in volume has presented a huge increase in demand for space specifically designed for processing returned items.

Technological enhancements, such as driverless vehicles, automation, artificial intelligence and predictive analytics, have and will continue to have a huge role to play in the future of the sector. Factor in the historically-low unemployment levels in the UK, and the issues that occupiers will continue to have with accessing sufficient labour pools, and the reliance on technology enhancements and innovations will only heighten. This will have a huge bearing on both future location hotspots for distribution centres and the design specifications of new facilities.

Developers have responded to the prolonged levels of strong demand. Nationwide, supply has risen in 2019 and now stands at more than 34m sq ft, according to Savills. However, vacancy rates are still low at 6.62% (against a 10-year average of around 12.5%). The rise in supply has predominantly come from speculative development and there are currently 34 units totalling 7.15m sq ft being built speculatively.

Most commentators state that the level of speculative development is sustainable given the high levels of demand that continue to exist for industrial and logistics facilities. However, the impact of speculative development – which has seen the proportion of supply that is classified as Grade A (the highest quality rating) rise to 56%, with the proportion forecast to grow further still – is likely to be some pressure on rental growth. Market forecast house Realfor has suggested that rental growth in 'big box' warehouses could be more subdued going forward, estimating a level of 1.8% rental growth a year until 2023.

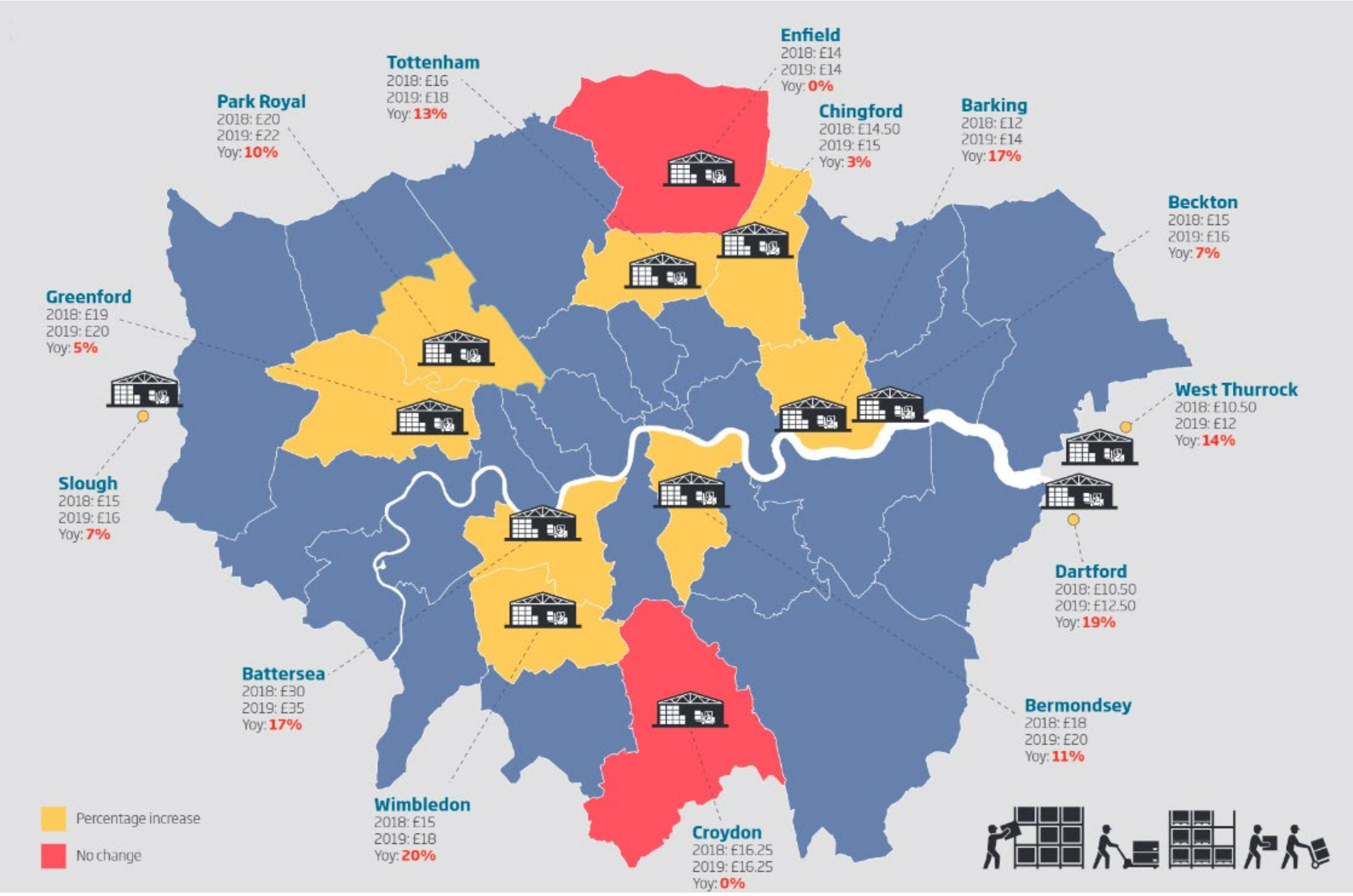
Where will future growth come from?

Despite a prolonged period of growth and the sector exhibiting late-cycle tendencies, many opportunities for significant further rental growth exist in certain sub-sectors.

London

Many regions in the UK are severely supply-starved, due in part to chronically slow planning systems and a gradual loss of industrial land to other uses, such as residential. Unsurprisingly, the London market is the prime example of this. London's population is expected to grow from 8.9 million today to 10 million by 2031, according to the Office for National Statistics (ONS). In a bid to satisfy this demand for housing, London's industrial land has been sacrificed by London boroughs. Over the past decade, the capital has lost around 100 hectares of industrial land annually. At the same time demand for industrial and logistics space in and around the capital has skyrocketed due to increased consumer demand for online shopping and deliveries to homes or workplaces. This has put a huge strain on the logistics supply chain and created the perfect storm for rental growth. Demand has outstripped supply to such an extent that rents for industrial units in some areas of London have increased by as much as 20% in the last year alone. Figure 4 shows year-on-year rental growth in 14 locations around London.

Figure 4: Prime industrial rent rises in and around London (10,000 sq ft +)


Enfield
2018: £14
2019: £14
Yoy: 0%
Tottenham
2018: £16
2019: £18
Yoy: 13%
Park Royal
2018: £20
2019: £22
Yoy: 10%
Chingford
2018: £14.50
2019: £15
Yoy: 3%
Barking
2018: £12
2019: £14
Yoy: 17%
Beckton
2018: £15
2019: £16
Yoy: 7%
Greenford
2018: £19
2019: £20
Yoy: 5%
West Thurrock
2018: £10.50
2019: £12
Yoy: 14%
Slough
2018: £15
2019: £16
Yoy: 7%
Dartford
2018: £10.50
2019: £12.50
Yoy: 19%
Battersea
2018: £30
2019: £35
Yoy: 17%
Bermondsey
2018: £18
2019: £20
Yoy: 11%
Wimbledon
2018: £15
2019: £18
Yoy: 20%
Croydon
2018: £16.25
2019: £16.25
Yoy: 0%
🟨 Percentage increase
🟥 No change

Source: JLL, Property Week

Industrial and logistics developers are having to get creative to try to meet the demand. One such initiative that will become commonplace in the London industrial market is multi-storey development. If you can't build out, build up. There is only one multi-storey industrial unit in the country, located close to Heathrow airport and owned by SEGRO (which inherited the asset as part of its acquisition of rival developer Brixton in 2009). It was built in a different era and although it is now fully-let, this is mainly due to the lack of supply rather than the characteristics of the building. SEGRO is leading the way on multi-storey development, however. It is yet to press the development button in London, but has proof of concept in Paris and Munich and it is only a matter of time before it implements the blueprint in the UK.

SEGRO's Paris asset, Air2 Logistique, is let to Ikea and French DIY chain Leroy Merlin, and opened in March this year. SEGRO bought the site, five miles from central Paris, in 2013 and took the decision to speculatively build the 678,000 sq ft two-storey building. The gamble has paid off handsomely, with the company fully letting the building 11 months before practical completion. Its success is all down to the huge supply-demand imbalance and the design features, which include a 10m-wide ramp that allows vehicles to pass in both directions and a significant loading yard on the first floor so that the occupier gets as much operational effectiveness and efficiency as it does on the ground floor.

SEGRO has said it believes London shares similar characteristics to Paris, in terms of supply and demand, and is now looking at several sites in and around the capital to accommodate such a scheme. Obviously, the rental model for such an asset is appealing to developers, especially when land prices are at all-time highs. In all likelihood, rent on the upper floor is going to be slightly lower than the ground floor, but maximising rent from a confined plot of land will be a huge positive for the sector.

Another innovative solution to building the much-needed industrial and logistics space in London is the so-called ‘sheds and beds’ concept, whereby logistics facilities sit side-by-side with residential schemes. The concept is a simple solution to two of London’s biggest challenges: the desperate need to build more homes and the need to create more employment space, with London boroughs under huge pressure to provide both.

You may think people would balk at the idea of living next door to a warehouse, but it is something that has proven a success and mixed-use schemes like these are becoming the norm. In a city like London, where land is scarce, but population is growing, it is the only way. Although, perhaps it could only work in London, where living in close proximity to noisy establishments (be that a train station or bars and restaurants) is part and parcel of urban living.

Figure 5: SEGRO performance – half year results 30 June 2019

	Portfolio valuation (£m)	Six-month growth (%)	Net rental income HY (£m)	Rental growth (%)	Vacancy rate (%)
SEGRO	9,920.4	3.5	136.5	12.6	4.8

Source: SEGRO

SEGRO is currently on site with a ‘sheds and beds’ scheme at the former Nestlé factory site in Hayes, west London. The company sold two-thirds of the 30-acre site to residential developer Barratt London, which will deliver 1,386 flats, with SEGRO building 250,000 sq ft of industrial and logistics space across four units. Barratt London will use special noise-restricting glass on units closest to the warehouse to reduce any potential noise pollution and a row of trees will separate the two buildings.

Industrial mixed-use development is a concept that is only going to become more prevalent, and may even evolve. Builder’s merchant Travis Perkins has already worked in partnership with student accommodation providers, including Unite Group, to build units above some of its central London sites and is looking to roll out the concept across more of its estate. Commercial property consultant JLL said it was aware of at least 30 industrial schemes, which include multi-storey or mixed-use elements, that are in various stages of pre-planning, planning or development.

Severe supply shortage will continue to drive urban logistics

It is not just the London market that is experiencing severe supply shortages. Many regions across the UK have supply rates below 5%, and it is even more scarce in certain sub-sectors. One such sub-sector is urban logistics. The urban logistics sector has been one of the best-performing sub-sectors of the logistics market in terms of rental growth in recent years, and is expected to continue to outperform the wider market. Nationwide, rents are expected to grow on average 3% a year through to 2022, according to Savills.

Very few new urban logistics facilities are being built, especially outside of London and the South East, due to several factors including the high price of land and small scale of the buildings making construction non-viable for most developers. It has meant that the huge demand for the facilities from retailers is being met by an increasingly diminishing number of buildings. Some 8.5m sq ft of space was let in the UK in 2018 in the under-200,000 sq ft category. That, however, compares with new-build development running at 2.5m sq ft a year. This chronic shortage of new stock is likely to sustain buoyant rental growth for good-quality urban logistics assets for some time.

This is why LondonMetric has been steering its portfolio towards the sub-sector and was the driver behind its £415m acquisition of A&J Mucklow earlier this year. LondonMetric's shift away from retail into the industrial sector, over the last few years has rightly been lauded as a masterstroke. It is now in the process of further refining its portfolio to be majority urban logistics. The Mucklow deal boosted the group's urban logistics holdings to £826m, reflecting 35% of its total portfolio, and increased the value of its wider logistics platform to £1.65bn.

Figure 6: LondonMetric performance – half year results 30 September 2019

	Portfolio valuation (£m)	Six-month growth (%)	Net rental income HY (£m)	Rental growth (%)	Vacancy rate (%)
LondonMetric	2,396.2	29.8	54.9	16.6	1.8

Source: LondonMetric

While LondonMetric is moving into the sub-sector, Urban Logistics REIT has been fully focused on the urban 'last mile' sub-sector from the outset. Launched in 2016, the company has amassed a portfolio worth £195m with a business model focused around growing rents through intensive asset management and improving the terms of shorter leases as they mature. In comparison, LondonMetric, which focuses on long-term income. Urban Logistics REIT operates in the 20,000 sq ft to 200,000 sq ft size bracket, with an average asset size of 60,000 sq ft, and the majority located in the South East and Midlands, where demand is strongest. In half-year results to the end of September 2019, Urban Logistics REIT reported income growth on a like-for-like basis of 3.1%, supporting a property value increase of 3.8% in the same period.

Figure 7: Urban Logistics performance – half year results 30 September 2019

	Portfolio valuation (£m)	Six-month growth (%)	Net rental income HY (£m)	Rental growth (%)	Vacancy rate (%)
Urban Logistics REIT	195.0	3.8	5.8	31.3	0.0

Source: Urban Logistics REIT

Against long-held convention in the property sector, it is actually better for logistics-focused companies to be buying property with short-term lease agreements in place in this current market, so that they can carry out asset management initiatives and re-let them at rates well above the previous level.

This model has proved successful for Warehouse REIT. In the six months to the end of September 2019, the company completed lettings on 43 vacant units across its portfolio at an average of 8% ahead of estimated rental values (ERV). The statistics on lease renewals are even more impressive. It conducted 57 renewals in the period at an average of 23.4% ahead of previous rents. The best example of this was a Boots-let warehouse in Basingstoke that had less than 1.5 years left on the lease when Warehouse REIT purchased it. In conventional property markets, this would be deemed a risky acquisition, but given the supply-demand dynamics and consequent upward pressure on rents, plus the group's due diligence that identified the property as a key part of Boots' supply chain, it proved a winner. In August 2019, Boots signed a 10-year lease renewal, with no breaks, at a rent that was 42% ahead of the previous level.

Figure 8: Warehouse REIT performance – half year results 30 September 2019

	Portfolio valuation (£m)	Six-month growth (%)	Net rental income HY (£m)	Rental growth (%)	Vacancy rate (%)
Warehouse REIT	438.7	42.7	12.4	25.3	3.2

Source: Warehouse REIT

The serviced industrial model

Stenprop, which listed in London in June 2018 and is building up a multi-let industrial portfolio, is providing a serviced industrial model to its tenants – much like the one that exists in the office market. It has proved to be very successful in the office sector, but arguably the model is probably best placed in the industrial sub-sector where a large majority of tenants are small and medium sized businesses. The concept is not new. Prior to the financial crash, several industrial-focused property companies had developed serviced operating platforms. However, the companies didn't survive the recession and most of these models fell by the wayside. Stenprop has picked up the baton and run with it.

The company's serviced industrial model works in the same way as serviced office space, fundamentally. Tenants pay a certain rate for the space that will cover utilities, IT and security, in addition to racking and machinery such as forklift trucks. Stenprop's rationale is that by offering far more than the space it can significantly boost its revenue. Other real estate sectors, like student accommodation, have been successful in this and have seen 20% of operator revenues come from providing additional services.

Stenprop is also offering greater flexibility to tenants and is moving away from the traditional leasing model to allow customers to sign up for as little as six weeks on its Smart Lease online platform. Another benefit to the new flexible leasing structure is that it is three pages long, taking the friction out of moving in. The simpler format will cut the time it takes for a tenant to move in by 75%, thus reducing void periods.

Industrial property is also benefitting from the structural supply-demand imbalance of the wider sector. There is very limited supply because the cost of building an industrial estate is so high. Outside Greater London, where developers can get it to work because rents are higher, there is little-to-no new supply coming through. On the flip side, smaller businesses are driving demand. The number of small businesses in the UK has grown by 69% since 2000, according to the ONS, and they are attracted to industrial properties because of their location and versatility. They are also the cheapest form of real estate.

The industrial property market has benefited from the structural shift to ecommerce. There are many examples of independent shops, that once sold to the town, migrating their business online and moving to industrial estates in order to sell to the whole country.

Figure 9: Stenprop performance – half year results to 30 September 2019

	Portfolio valuation (£m)	Six-month growth (%)	Net rental income HY (£m)	Rental growth (%)	Vacancy rate (%)
Stenprop*	291.6	11.4	8.2	60.8	6.1

Source: Stenprop. Note*: MLI portfolio only

The intensive asset management approach to growing income has been very successful, and only this month, Hansteen – the master of asset management in the industrial sector – announced it had agreed a deal to sell the company to Blackstone for around £500m.

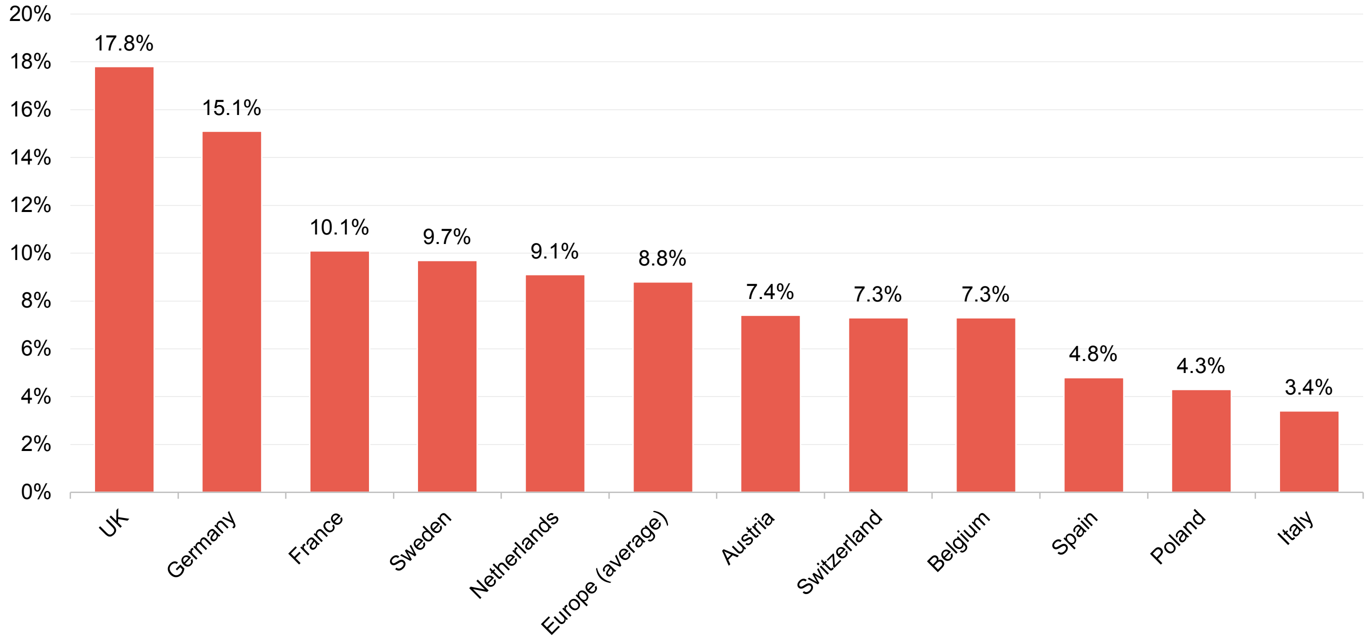
Europe

The UK is ahead of most western countries in terms of online sales as a percentage of total retail sales, where it is now pushing 20%. Sustained rental and capital growth over the past five years has seen yields in the UK market tighten to historically-low levels of around 4%. Although behind the UK, the European market is on a similar growth trajectory to that witnessed in the UK over the past five years.

In the UK, Savills identified a tipping point of 10.7% of total retail sales being online, which created rapid growth in occupational demand for warehouse space. Several countries, including France, Sweden and the Netherlands, have online penetration rates approaching 10.7% and it is expected that these countries will follow a similar trajectory in take-up volumes to that of the UK.

With less than 5% of total retail sales currently made online in Spain and Italy, these two markets are forecast to see the strongest online retail sales growth of all Western European markets over the next five years, according to Savills, at 17% a year and 21% a year respectively. Likewise, Central and Eastern Europe are predicted to witness an average growth of 17.5% a year.

Figure 10: Online retail sales penetration across Europe



Source: Centre for Retail Research, Marten & Co

Both Aberdeen Standard European Logistics Income (ASLI) and Tritax EuroBox expect to benefit from significant rental and capital growth going forward as penetration of online sales starts to kick in in Europe. Vacancy rates across Europe's main markets are at historic lows, and in 2018 dropped to just 5.5%. These supply/demand dynamics should create significant rental growth, especially in more land-constrained urban locations.

Investment prices are comparatively better value than the UK – with average yields at circa 5% across Europe. Factoring in the significantly better financing costs in Europe, where financing costs are around 100 basis points (1%) lower than the UK, the yield spread (the gap between the rental yield and the cost of debt) is very favourable for European assets.

Development

Tritax Big Box REIT is in the process of transforming its business from the highly successful forward-funding model – whereby it would fund the development of a 'big box' facility that was already pre-let – to becoming the developer. In February this year, it bought an 87% stake in UK developer db symmetry, and its 2,800-acre land bank, for £373m.

The deal will allow the company, which has a portfolio of 'big box' warehouses totalling £3.8bn, to control the way in which it builds its portfolio, and bring forward development at a 7%-8% yield on cost. Yields in the 'big box' sub-sector have compressed to sub-4%, so moving into development was a logical next step for the company.

It has said that it aims to build 2.8m sq ft of distribution facilities per year, and has announced its first development since the acquisition: a 661,000 sq ft unit in Biggleswade, Bedfordshire, pre-let to The Co-operative on a 20-year inflation-linked lease.

The symmetry deal also allows the group to adapt to market conditions and deliver at an attractive price point. The majority of the land is on options, meaning that the developer has already struck a deal with landowners, giving it the option to buy the land at a later date at a discount to its future value. The company has said that typically they have been agreed at a discount of around 75% to 85% - a huge competitive advantage.

Figure 11: Tritax Big Box REIT performance – half year results 30 June 2019

	Portfolio valuation (£m)	Six-month growth (%)	Net rental income H1 2019 (£m)	Rental growth LFL (%)	Vacancy (%)
Tritax Big Box REIT	3,847.4	12.6	69.2	4.7	1.4

Source: Tritax Big Box REIT

St Modwen Properties, long focused on housebuilding and retail, is growing its exposure to industrial and logistics through development. In its half-year results to the end of May 2019, industrial and logistics made up 39% of its portfolio by value and the company has stated that it could make up as much as 80% or 90% in the next few years.

The majority of development, on land that the company has amassed over a number of decades, is through speculative development (the majority of which is in the sub-150,000 sq ft size band). The total development cost of its committed pipeline of 1.6m sq ft was £142m in May 2019, with an estimated rental value of £10.4m, delivering a yield on cost of 7.7% when fully let.

Its long-term pipeline has the potential to deliver over 15m sq ft (10m sq ft of which already has planning permission) with an estimated rental value of £60m and a yield on cost of 8%.

There is no doubt that owning a land bank in locations that are supply starved and demand rich puts you at an advantage, especially when prices in the sector continue to rise.

Potential threats

Could an online sales tax throw a spanner in the works?

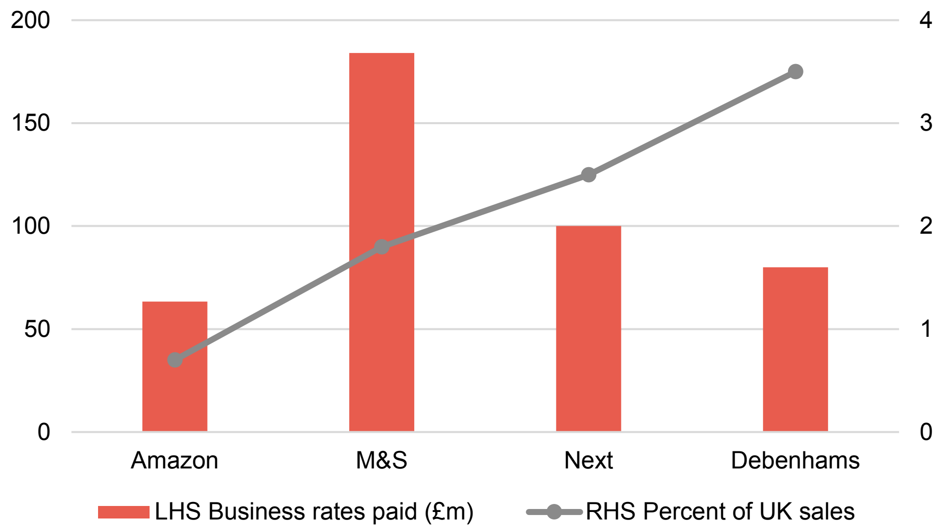
The prospect of an online sales tax is gaining traction. Retailers and the property industry have been campaigning for years about the unfair and archaic nature of business rates, and have lobbied government for an overhaul. This includes cutting business rates on bricks-and-mortar shops by 20% and making up the shortfall with a 2% levy on all online retail sales.

A campaign by a group of high-profile retailers, led by Tesco, called on the government to introduce an online sale tax in February 2019. A parliamentary inquiry issued a proposal for an online sales tax to help “level the playing field” and provide “meaningful relief” for bricks-and-mortar retailers that have been hit with higher taxes due to business rates.

Business rates are based on ‘rateable values’, calculated every five years by reference to property rental values and a multiplier that rises annually in line with inflation. The subject of business rates was addressed by all the major parties in the run-up to the general election, and it would appear that change is on the way. Whether that change will include an online sales tax remains to be seen. It was certainly mooted by former chancellor of the exchequer Philip Hammond.

Figure 12 is a comparison of Amazon’s business rates bill last year, which amounted to £63.4m on sales of £8.8bn in the UK – around 0.7%, compared to traditional high-street retailers.

Figure 12: Comparison of business rates paid by Amazon vs UK retailers in 2018



Source: Marten & Co, company accounts

The effect of a 2% levy on pure-play online retailers would be huge. Amazon’s UK business would have to pay an additional £160m a year, according to UBS. Whilst this would still be less than 1% of Amazon's group profit, other online-only retailers could be significantly impacted. ASOS, for example, would see pro-forma group profit before tax decline by 36%, according to UBS. It would probably have to increase its prices in a bid to offset the declines – making it less competitive and potentially impacting its future expansion plans.

Other firms with industrial exposure

Many of the listed property companies have diverse portfolios with differing weightings to industrial. Here we round up those companies that have an exposure to industrial properties of more than 30% and compare their performance and strategies.

Figure 13: Companies with diverse portfolios and exposure to industrial

Company	Market cap (£m)	Property portfolio value (£m)	Industrial weighting (%)
UK Commercial Property REIT	1,140.9	1,418.5	49.7
Picton Property	532.8	693.4	46.8
Custodian REIT	468.1	547.2	41.4
Standard Life Investments Property Income Trust	368.9	498.8	51.4
Schroder REIT	290.4	462.7	33.1
BMO Real Estate Investments	196.9	340.1	40.1
AEW UK REIT	147.3	196.1	47.9

Source: Most recently published company reports/updates

All seven companies mentioned above have significant exposure to the industrial sector. This has meant that their overall performance, has been better than their peers, with diverse portfolios more weighted towards other sectors such as retail and offices. The industrial sector has consistently outperformed the other core sectors in terms of capital growth and total returns for a sustained period of time. Figure 14 below shows the performance of the companies in the last year.

Figure 14: Performance comparison of companies with exposure to industrial

	Market cap (£m)	Premium/ (discount) (%)	Yield (%)	NAV total return 1 year (%)*	Price total return 1 year (%)*
UK Commercial Property REIT	1,140.9	(3.0)	4.2	(0.1)	11.1
Picton Property	532.8	3.5	3.6	3.8	20.4
Custodian REIT	468.1	8.9	5.8	4.7	3.4
Standard Life Investments Property Income Trust	368.9	0.7	5.2	4.0	13.4
Schroder REIT	290.4	(18.0)	4.6	2.8	8.5
BMO Real Estate Investments	196.9	(21.3)	6.1	1.6	1.6
AEW UK REIT	147.3	(0.2)	8.2	5.0	16.0

Source: Morningstar, Marten & Co. Note* one year to 30 November 2019

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Company profile | Real estate

20 December 2019

Aberdeen Standard European Logistics Income

On the crest of a wave

Aberdeen Standard European Logistics Income (ASLI) has assembled a portfolio that is designed to cash in on the fundamental shift in consumer spending to online retail. The European logistics market looks like it is set to follow in the footsteps of the UK market, which has witnessed a surge in demand from occupiers wrestling for more efficient supply chains as online sales grow.

Supply is already at historic lows across Europe and, coupled with strong demand, there is the potential for significant rental growth to come through. ASLI has focused its attention on established logistics locations and quality real estate assets to provide durability of income.

After a capital raising in July 2019, ASLI is seeking to further expand its portfolio, both in the countries it currently operates in and others that share similar supply/demand dynamics. It is also looking at the 'last mile' urban logistics sub-sector, which has been predicted to boom. The company is also considering further fundraising to support the expansion.

Big box and last mile urban warehouses in Europe

ASLI invests in a diversified portfolio of 'big box' logistics and 'last mile' urban warehouses in Europe with the aim of providing its shareholders with a regular and attractive level of income return. It is targeting a 5% yield in 2019 together with the potential for long-term income and capital growth (target total return of 7.5% a year in euros).

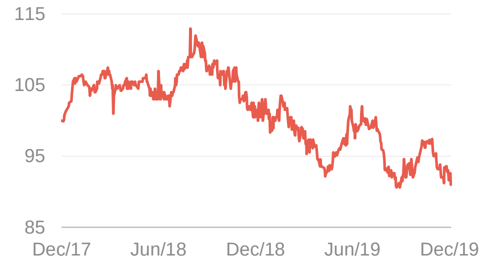
Year ended	Share price total return (%)	NAV total return (%)	EPRA earnings per share (€c)	Dividend per share (pence)
31/12/18*	0.9	0.1	0.18	2.1

Source: Morningstar, Marten & Co. *Note ASLI was launched on 15 December 2017

Ticker	ASLI LN
Base currency	GBP
Price	91.0p
NAV	94.95p/€1.07
Premium/(discount)	(4.2%)
Yield	5.3%

Share price since launch

Time period 15/12/2017 to 17/12/2019



Source: Bloomberg, Marten & Co

Domicile	England & Wales
Inception date	15 December 2017
Market cap	213.4m
Shares outstanding	234.5m
Daily vol. (1-yr. avg.)	317.2k shares

Property portfolio by country (%)

Netherlands	44.1
France	23.4
Germany	18.5
Poland	8.3
Spain	5.7

* as at 31 July 19

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Company profile | Real estate

20 December 2019

LondonMetric Property

Reaping rewards of retail pivot

LondonMetric Property, which was formed in 2013 through the merger of London & Stamford and Metric Property, owns a £2.4bn property portfolio mainly focused on the industrial and logistics sector. It started pivoting away from the retail sector following the merger, recognising the fundamental shift in consumer spend from traditional retail to online retail, and has now become a leading player in the logistics sector. Having significantly increased its exposure to big distribution centres, it is now focusing on the urban logistics sub-sector, where almost 35% of its portfolio is targeted. In June 2019, the company acquired A&J Mucklow adding £455m to its portfolio and materially increasing its urban logistics platform.

Seeking rental growth from urban logistics

The urban logistics sub-sector has experienced particularly strong rental growth due to the relatively finite supply. The acquisition of A&J Mucklow has seen its urban logistics portfolio swell to £826m, making it one of the largest landlords in the sub-sector in the UK. Shareholders seem to be on board with the strategy, with LondonMetric's share price rising 30% in the year to date. It is also trading at a 30% premium to its net asset value.

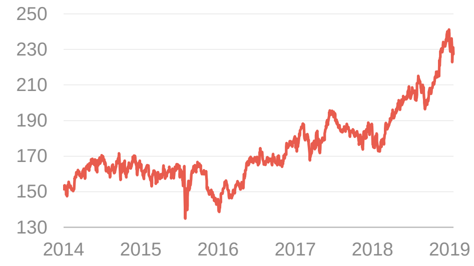
Year ended	Share price total return (%)	NAV total return (%)	EPRA earnings per share (pence)	Dividend per share (pence)
31/03/16	2.5	10.2	7.8	7.25
31/03/17	5.5	6.5	8.2	7.5
31/03/18	16.5	15.6	8.5	7.9
31/03/19	16.7	10.8	8.8	8.2

Source: Morningstar, Marten & Co

Ticker	LMP LN
Base currency	GBP
Price	229.2p
NAV	174.9p
Premium/(discount)	31.0%
Yield	3.7%

Share price

Time period 30/11/2014 to 17/12/2019



Source: Bloomberg, Marten & Co

Domicile	England & Wales
Inception date	1 October 2010
Market cap	1,928.0m
Shares outstanding	841.2m
Daily vol. (1-yr. avg.)	1,547.4k shares

Top 10 occupiers by income (%)

Primark	7.9
Dixons Carphone	6.3
DFS	5.4
Marks & Spencer	3.8
Argos	3.4
Eddie Stobart	3.3
DHL	2.5
Odeon	2.5
Amazon	2.1
Clipper Logistics	1.9

* as at 30 September 2019

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Company profile | Real estate

20 December 2019

SEGRO

Leading from the front

There is no company that sums up the outperformance of the industrial and logistics sector quite like SEGRO. The FTSE 100-listed company has overtaken the historic property big boys of British Land and Land Securities to become the largest property company by market capitalisation in recent years. The group, which has a portfolio across the UK and Europe worth £9.7bn, is an expert developer in all of the industrial sub-sectors. Its historic home, Slough Trading Estate, is still going from strength to strength and it is continuing to expand its Greater London holdings. On the 'big box' front, it has had huge success at its East Midlands Gateway development scheme, where it has pre-let more than 2m sq ft of space to the likes of Amazon and Shop Direct.

Pioneering new concepts to meet growing demand

SEGRO is leading the way in multi-storey and mixed-use development in London as it has had to get creative in delivering new space in an extremely land constrained market. It is onsite at a scheme in Hayes, west London, that will deliver both logistics and residential development on the one site and is also close to pressing to button on the development of a multi-storey facility in the capital.

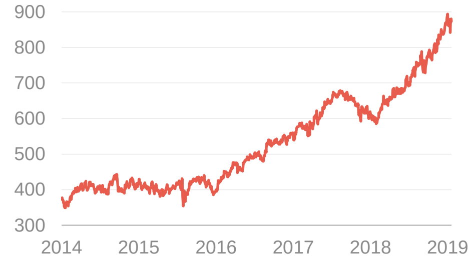
Year ended	Share price total return (%)	NAV total return (%)	EPRA earnings per share (pence)	Dividend per share (pence)
31/12/15	20.4	24.6	17.8	15.6
31/12/16	10.7	11.5	19.7	16.4
31/12/17	37.8	19.8	19.9	16.6
31/12/18	3.5	20.3	18.3	18.8

Source: Morningstar, Marten & Co

Ticker	SGRO LN
Base currency	GBP
Price	882.8p
NAV	673.0p
Premium/(discount)	31.2%
Yield	2.2%

Share price

Time period 30/11/2014 to 17/12/2019



Source: Bloomberg, Marten & Co

Domicile	England & Wales
Inception date	1 December 1949
Market cap	9,681.2m
Shares outstanding	1,098.0m
Daily vol. (1-yr. avg.)	2,261.5k shares

Tenant type by income (%)

Transport and logistics	23
Retail (physical and online)	19
Food and general manufacturing	18
Post and parcel delivery	11
Technology, media and telecoms	8
Wholesale and retail distribution	7
Services and utilities	7
Other	7

* as at 31 December 2018

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Company profile | Real estate

20 December 2019

Stenprop

Focused on industrial

Stenprop, which listed on the London Stock Exchange in June 2018, has been working to transform its portfolio into 100% multi-let industrial (MLI). It has been selling its legacy assets across London and Europe, the latest being the €160m sale of its largest asset in Hamburg, and ploughing the proceeds into buying UK industrial estates and reducing its debt to below 40% loan-to-vale (currently 41.3%). Following the German sale, which is expected to close in Q1 2020, its MLI portfolio will make up 56% of the portfolio. The attraction of the MLI sub-sector is the ability to realise rental growth quicker than other sub-sectors as leases are generally shorter and there is an acute lack of supply.

Developing a serviced industrial platform

The company is providing a serviced industrial model to its tenants – much like the one that exists in the office market. It has proved to be very successful in the office sector, but arguably the model is probably best placed in the industrial sub-sector where a large majority of tenants are SMEs. Tenants will pay a certain rate for the space that will include utilities, IT and security, in addition to racking and machinery such as forklift trucks. Stenprop has also developed a Smart Lease online platform that will cut the time it takes for a tenant to move in by 75%, thus reducing void periods. It hopes the serviced industrial platform will significantly boost its revenue.

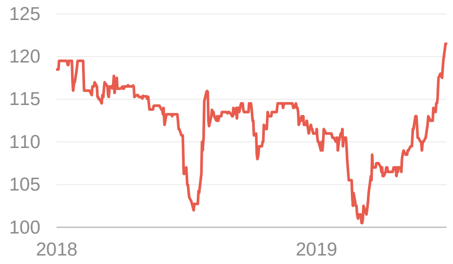
Year ended	Share price total return (%)	NAV total return (%)	EPRA earnings per share (pence)	Dividend per share (pence)
31/03/19*	-	-	8.84	6.75

Source: Morningstar, Marten & Co. Note* Stenprop was launched on 15 June 2018

Ticker	STP LN
Base currency	GBP
Price	127.0p
NAV	144.0p
Premium/(discount)	(11.8%)
Yield	5.3%

Share price since launch

Time period 15/06/2018 to 17/12/2019



Source: Bloomberg, Marten & Co

Domicile	England & Wales
Inception date	15 June 2018
Market cap	359.3m
Shares outstanding	282.8m
Daily vol. (1-yr. avg.)	386.0k shares

Tenant type by income (%) – industrial

Manufacturing	29.5
Wholesale and retail trade	25.5
Administrative and support services	13.4
Construction	7.9
Professional	5.1
Arts, entertainment and recreation	4.6
Extraterritorial bodies	1.8
Information and communication	1.7
Other	10.5

* as at 31 March 2019

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Company profile | Real estate

20 December 2019

St Modwen Properties

Ambitions to be major player

St Modwen has traditionally focused on housebuilding and retail, but in the past few years has switched its attention to becoming a logistics developer. Industrial and logistics currently makes up 39% of its portfolio and it has plans to increase this share to between 80% and 90%. Using its vast land bank, that it has built up over a number of decades, the company is speculatively developing units at a rate of around 1.5m sq ft a year. It believes it can achieve a yield on cost of around 8% through development; a good return in the current low yield market.

Short-term disruption on the way

The company's chief executive, Mark Allen, who has been instrumental in the strategic redirection of the group, announced in November 2019 that he would be standing down after three years at the helm to take the top job at Land Securities in June 2020. St Modwen also revealed in December 2019 that it expects to recognise a provision for a potential claim against the company for a legacy project the group developed and sold 15 years ago. This will be an exceptional item in its 2019 results, which is expected to reduce its NAV for 2019 by around 8p per share.

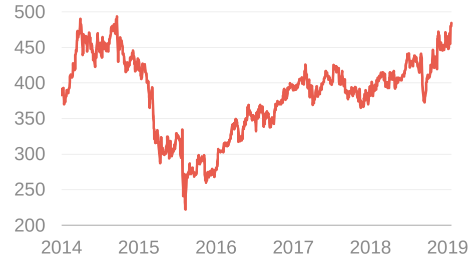
Year ended	Share price total return (%)	NAV total return (%)	EPRA earnings per share (pence)	Dividend per share (pence)
30/11/15	14.4	32.1	-	5.75
30/11/16	(33.9)	4.5	9.7	6.0
30/11/17	41.8	3.7	13.3	6.28
30/11/18	(0.4)	4.2	14.3	7.1

Source: Morningstar, Marten & Co

Ticker	SMP LN
Base currency	GBP
Price	469.5p
NAV	492.5p
Premium/(discount)	(4.7%)
Yield	1.6%

Share price

Time period 30/11/2014 to 17/12/2019



Source: Bloomberg, Marten & Co

Domicile	England & Wales
Inception date	28 April 1986
Market cap	1,044.1m
Shares outstanding	222.0m
Daily vol. (1-yr. avg.)	188.5k shares

Property portfolio by sector (%)

Residential	42
Industrial and logistics	39
Retail regeneration	5
Non-core retail	5
Non-core other	5
Other regeneration	4

* as at 30 May 2019

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Company profile | Real estate

20 December 2019

Tritax Big Box REIT

A new dawn for Big Box

In February this year, Tritax Big Box REIT splashed out £373m to take a controlling stake in UK developer db symmetry, which had an expansive 2,800-acre land bank, and in the process changed its focus completely. The group had enjoyed huge success since its launch in 2013, forward funding pre-let big box distribution warehouses. But as prices gradually got more and more expensive, the REIT changed tack. The rationale for the move is that it can now have full control of the way it builds its portfolio and can develop new assets at a yield on cost of between 7% and 8% - far better than the near 4% yields being quoted in the 'big box' sector.

Tenant relationship a cornerstone of success

The group, which has a portfolio worth £3.85bn let to financially strong tenants, prides itself on the strength of its tenant relationships. It will hope to use these strong relationships, such as the one with its largest tenant Amazon (which accounts for 13.2% of its rent roll), in its new development venture. It has already struck a deal with The Co-operative Group to pre-let a development in Biggleswade on a 20-year inflation-linked lease. The company has grown its dividend and its earnings per share every year since it launched, but is currently trading at a slight discount as the market takes stock of its new strategy.

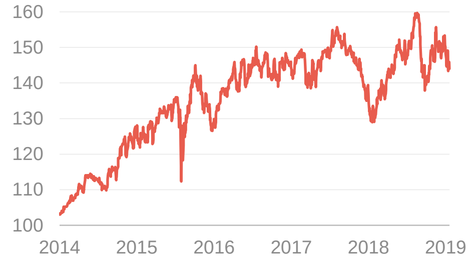
Year ended	Share price total return (%)	NAV total return (%)	EPRA earnings per share (pence)	Dividend per share (pence)
31/12/15	25.8	21.5	4.7	6.0
31/12/16	13.7	8.4	5.9	6.2
31/12/17	11.8	15.2	6.2	6.4
31/12/18	(7.3)	12.2	6.37	6.7

Source: Morningstar, Marten & Co

Ticker	BBOX LN
Base currency	GBP
Price	145.6p
NAV	150.08p
Premium/(discount)	(3.0%)
Yield	4.7%

Share price

Time period 30/11/2014 to 17/12/2019



Source: Bloomberg, Marten & Co

Domicile	England & Wales
Inception date	9 December 2013
Market cap	2,485.4m
Shares outstanding	1,706.9m
Daily vol. (1-yr. avg.)	4,598.5k shares

Tenant type by income (%)

Online retail	20.5
Food retail	17.6
Homeware & DIY retail	9.8
Other retail	8.0
3PL/Distribution	7.4
Fashion retail	7.3
Other manufacturing	6.8
Wholesale	5.2
Consumer goods manufacturing	4.6
Electrical manufacturing	4.3
Automotive manufacturing	3.6
Post and parcel delivery	2.8
Food production	2.0

* as at 30 June 2019

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Company profile | Real estate

20 December 2019

Tritax EuroBox

Capital raise on the way?

Since launching in mid-2018, with a £300m initial public offering (IPO), Tritax EuroBox has built a 10-asset warehouse and logistics portfolio across Europe valued at €691.7m. The trust raised a further £119.1m in May 2019 and expects to add two more assets to the stable over the coming months, fully deploying the capital raised in the process and lifting the prospects of a further capital raise in the near future. Tritax EuroBox expects to benefit from significant rental and capital growth as penetration of online sales in European markets start to catch up with the UK. Vacancy rates across Europe's main markets are at historic lows, and these supply/demand dynamics could create significant rental growth, especially in more land constrained urban locations.

Portfolio growth a key target

Tritax EuroBox's biggest asset by far is its circa 2m sq ft warehouse in Barcelona that is let to fashion retailer Mango. In November 2019, the company announced that it had agreed a deal with Mango to extend the facility by a further 940,000 sq ft. The extension of the distribution centre, which supplies Mango's worldwide store network, is expected to cost €30.5m and will be incorporated into Mango's 30-year inflation-linked lease that expires in 2046. Tritax EuroBox will want to grow its portfolio to shrink its exposure to the one tenant to below 20%. Its exposure to Mango currently stands at 22%, before the extension is factored in (scheduled to complete in 2023).

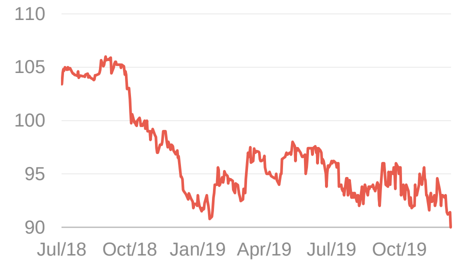
Year ended	Share price total return (%)	NAV total return (%)	EPRA earnings per share (€c)	Dividend per share (€c)
30/09/19*	(2.8)	-	2.96	3.4

Source: Morningstar, Marten & Co. Note* From launch on 9 July 2018 to 30 September 2019

Ticker	EBOX LN
Base currency	GBP
Price	108€c
NAV	115€c
Premium/(discount)	(6.1%)
Yield	3.2%

Share price since launch

Time period 09/07/2018 to 17/12/2019



Source: Bloomberg, Marten & Co

Domicile	England & Wales
Inception date	9 July 2018
Market cap	388.1m
Shares outstanding	422.7m
Daily vol. (1-yr. avg.)	481.6k shares

Tenants by income (%)

Mango	22
Amazon	18
Action	12
Cummins	9
Castorama	9
ID Logistics	7
HAVI	4
Other	19

* as at 30 September 2019

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Company profile | Real estate

20 December 2019

Urban Logistics REIT

Focused on last mile delivery

Urban Logistics REIT has steadily grown its portfolio since its launch in April 2016, with more substantial growth on the horizon. As the name suggests, it invests in logistics assets located in urban areas, which is considered the highest growth sector with average rents rising 50% since 2012 and forecast to grow 3% a year to 2022. Its portfolio was last valued at £195m, as at 30 September 2019, giving like-for-like growth of 3.8%. It operates in the 20,000 sq ft to 200,000 sq ft size bracket, with an average asset size of 60,000 sq ft, and the majority located in the South East and Midlands where demand is strongest.

Intensive asset management to grow rents

The group's business model is focused around growing rents through intensive asset management and improving the terms of its shorter leases as they mature. Its recent performance is evidence of this. It secured four rent reviews in the six months to the end of September 2019 that yielded an average income growth of 38%. This is largely due to a severe lack of supply of these smaller units, and an increase in demand from ecommerce retailers. Supply of warehouse space has fallen by 30% since 2012, while development of new stock is minimal, as the cost to develop is too high.

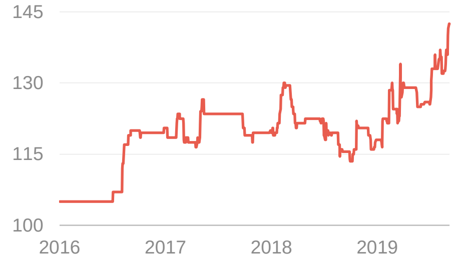
Year ended	Share price total return (%)	NAV total return (%)	EPRA earnings per share (pence)	Dividend per share (pence)
31/03/17*	19.7	22.3	7.82	6.23
31/03/18	5.3	10.9	4.91	6.32
31/03/19	2.9	18.3	7.01	7.0

Source: Morningstar, Marten & Co. Note* From launch on 13 April 2016 to 31 March 2017

Ticker	SHED LN
Base currency	GBP
Price	145.5p
NAV	145.2p
Premium/(discount)	0.2%
Yield	4.8%

Share price since launch

Time period 13/04/2016 to 17/12/2019



Source: Bloomberg, Marten & Co

Domicile	England & Wales
Inception date	13 April 2016
Market cap	127.7m
Shares outstanding	87.7m
Daily vol. (1-yr. avg.)	99.5k shares

Top 10 tenants by income (%)

XPO	11
Unipart Group	10
DHL	9
Your Farmer Produce	9
Culina Logistics	8
Tuffnells Parcels Express	7
Hillary's Blinds	5
OTC Direct	4
Manitowoc Crane Group	4
Strata Products	4

* as at 30 September 2019

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Company profile | Real estate

20 December 2019

Warehouse REIT

Set fair for further growth

Since launching on London's AIM market in late 2017, with a £150m initial public offering (IPO), Warehouse REIT has built a near £440m portfolio of small- to medium-sized warehouses predominantly in the urban logistics and industrial sub-sector. It has overseen huge rises in the value of its portfolio and significant rental growth. Its intensive asset management strategy is paying dividends, with new lettings in the six months to September 2019 8% ahead of estimated rental values (ERV) while lease renewals were 23.4% up on the previous rent. The most striking deal was with Walgreen Boots Alliance where the company secured a lease renewal at a 42% uplift to the previous rent paid.

Beaten its 10% total return target

During its first full year as a quoted company, Warehouse REIT made a total return of 13.3%, comfortably ahead of its 10% target at its floatation, thanks to a 7.4% rise in net asset value and a 6p dividend. Demand for the type of buildings it owns looks set to remain high for a long period of time and, coupled with severe shortage of supply, there is the potential for rental and capital value growth for the next few years.

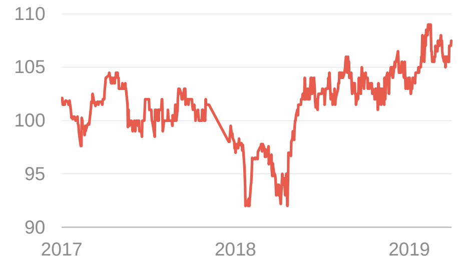
Year ended	Share price total return (%)	NAV total return (%)	EPRA earnings per share (pence)	Dividend per share (pence)
31/03/18*	0.5	4.6	1.9	2.5
31/03/19	9.0	13.3	5.1	6.0

Source: Morningstar, Marten & Co. Note* From launch on 20 September 2017 to 31 March 2018

Ticker	WHR LN
Base currency	GBP
Price	109.5p
NAV	105.2p
Premium/(discount)	4.1%
Yield	5.6%

Share price since launch

Time period 20/09/2017 to 17/12/2019



Source: Bloomberg, Marten & Co

Domicile	England & Wales
Inception date	20 September 2017
Market cap	263.1m
Shares outstanding	240.3m
Daily vol. (1-yr. avg.)	419.9k shares

Property portfolio by value (%)

Warehouse storage and distribution	79.4
Light manufacturing	10.3
Warehouse – trade use	2.8
Warehouse – retail use	2.5
Workspace and office	4.9

* as at 30 September 2019

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