

# MULTI-LET INSIGHT SERIES

The definitive guide to the  
UK's multi-let industrial property market

INTRODUCTION AND SAMPLE STRUCTURE

Summer 2020





# WELCOME TO MULTI-LET 2020

I'm really pleased to be able to share with you our latest findings on the UK multi-let industrial market.

Much has been said about the expected growth of urban logistics in the wake of the coronavirus impacts on shopping and working. However, little detail has been reported on actual sub-segment structure and performance, and the real underlying drivers behind this expected growth.

This is where this research comes in.

We've teamed-up with the leading UK multi-let industrial landlords to produce a series of focused videos and reports for 2020. This industry reference series covers assets worth a combined £18 billion and looks at multiple topics, ranging from the impact of the coronavirus on different occupier sectors through to an analysis of potential risks to cashflow and the investment outlook. We're grateful to our preeminent contributors who continue to support this project and we're really pleased to welcome some new entrants to the team this year.

As face-to-face meetings are going to be more challenging this year, I hope you like our new interactive online multi-let platform. The research is broken down into smaller bite-sized topics and includes the experiences and opinions of our in-house experts from across the business. This more modern and sustainable approach should also be more accessible for you, and ultimately be of more practical use. We would certainly welcome your feedback.

The kind of market volatility we're currently experiencing often brings forth potential opportunities along with its many challenges. There are mega trends emerging that have the potential to benefit this asset class for the long term. We have continued to strengthen our multi-disciplinary industrial and logistics platform to capture these trends, expanding our strategic land and corporate finance teams this year. We hope that this research helps you shape your 'post-covid' strategy and we look forward to continuing working with you to ensure you're best positioned to capture these benefits.

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# DEFINITIONS & MARKET STRUCTURE

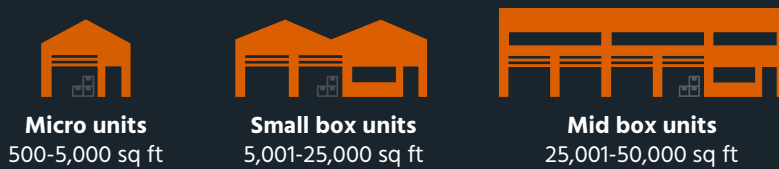
## DEFINITIONS

Multi-let is Gerald Eve's unique and market-leading syndicated study that provides detailed industry-reference insight into this rapidly changing commercial property segment.

The results are built from the bottom up, using individual tenancy information from the 22 leading multi-let industrial institutional property investors. The information spans 11 years, covering over 30,000 individual assets with a sample size in 2019 of 131 million sq ft, valued at £18bn.

This report covers industrial units of over 500 sq ft with a maximum lease length of 30 years.

Units between 500 sq ft and 50,000 sq ft in size are collectively referred to as the multi-let dataset and comprise of:



Units larger than 50,000 sq ft are also included in this edition for the first time as a point of comparison to the multi-let.

## THE 2019 DATASET

1,336

Estates



14,205

Units



131million sq ft

Total size



£18bn

Total capital value



£986m

Market rent



22

Contributors

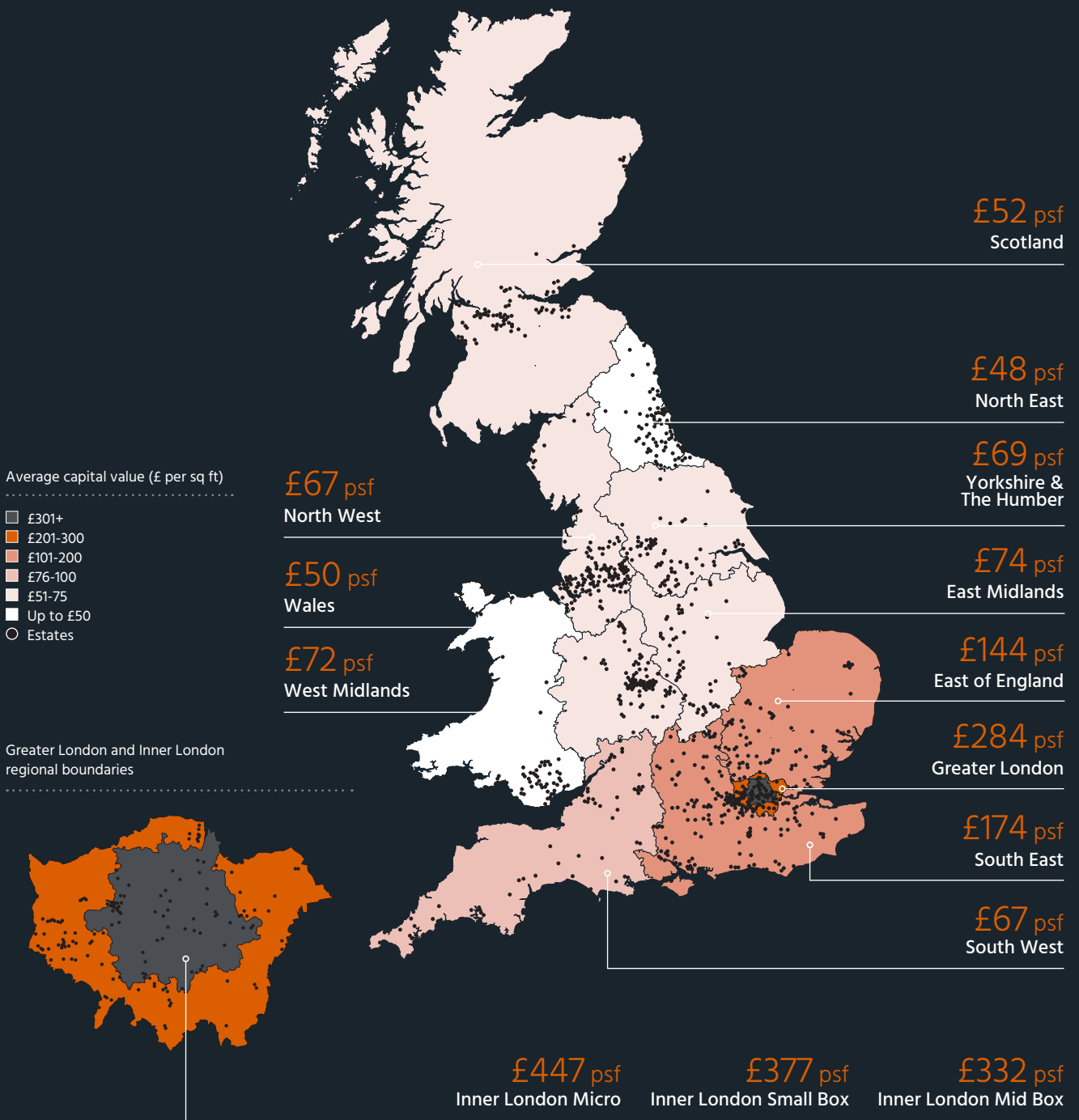


# CONTRIBUTORS



# LOCATION AND VALUE OF ESTATES

See the UK map below for the location of the various estates and the average regional capital value.



## THE SAMPLE: REGIONAL FOOTPRINT

The UK Government-defined regions are indicated and shaded to represent the average capital per sq ft. The most expensive Inner London area is split into the different unit sizes on the previous page map, with the smallest micro units the highest valued in the UK at £447 per sq ft.

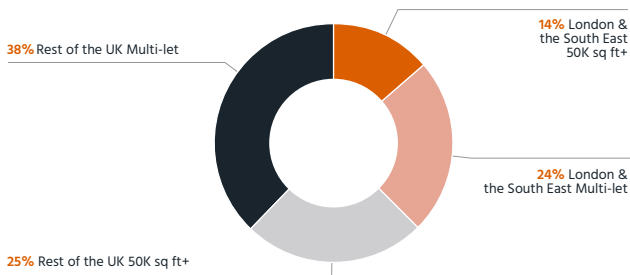
The pie charts show the sample breakdown by unit size and major region by floorspace, ERV and capital value.

The multi-let data (below 50,000 sq ft) is approximately two thirds of the overall dataset. Within this, the most frequently observed size of unit is the small box. However, the micro units are also quite prevalent in the regions outside of the South East.

London & the South East accounts for around a third of the total sample floorspace. In rental valuations terms this increases to over half of the sample value due to the higher ERVs. In capital value terms this increases again to almost two thirds of the sample value due also to the lower-yielding assets in London & the South East.

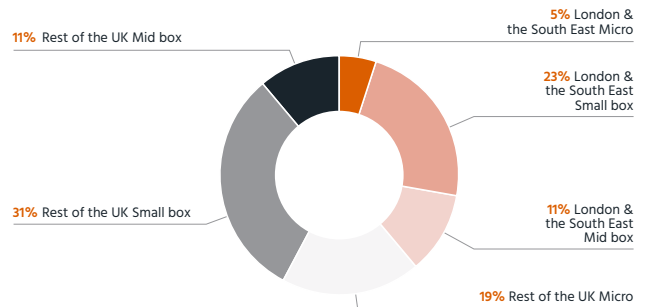
### Proportion of total floorspace by region

Source: Gerald Eve



### Proportion of multi-let floorspace by region

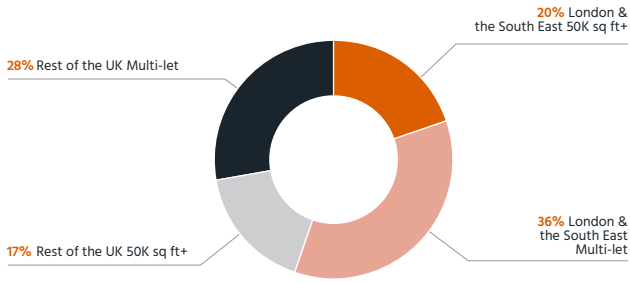
Source: Gerald Eve



## THE SAMPLE: REGIONAL FOOTPRINT

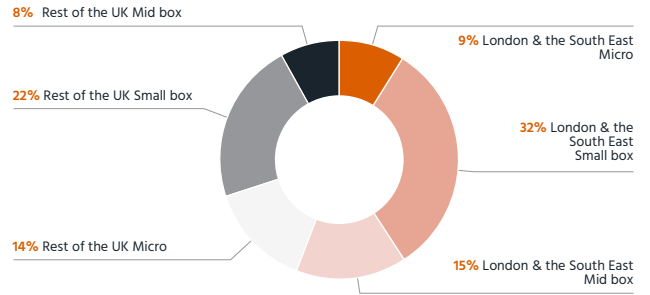
### Proportion of total ERV by region

Source: Gerald Eve



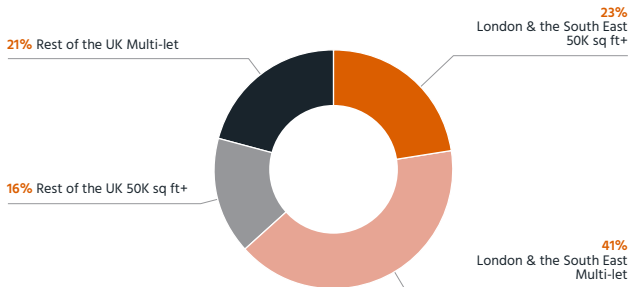
### Proportion of multi-let ERV by region

Source: Gerald Eve



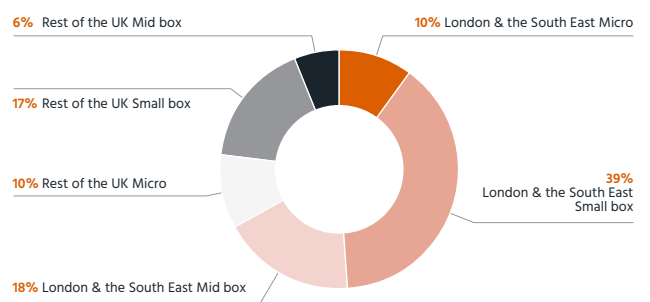
### Proportion of total capital value by region

Source: Gerald Eve



### Proportion of multi-let capital value by region

Source: Gerald Eve





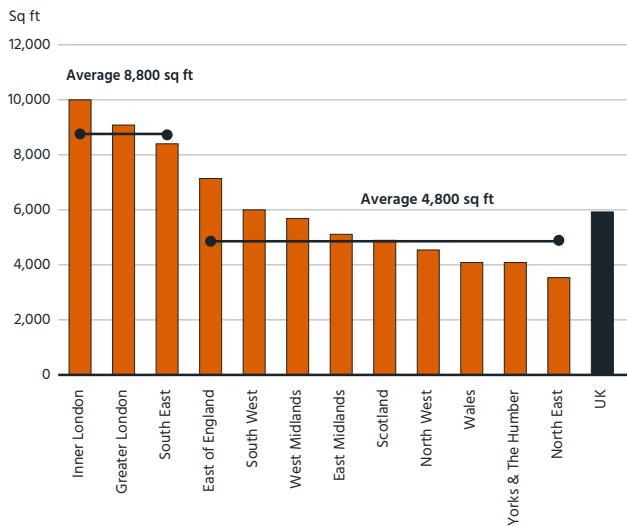
## THE SAMPLE: UNIT AND ESTATE SIZES

The average multi-let unit size in London & the South East is 8,800 sq ft, which is considerably higher than the 4,800 sq ft in the UK regions. However, the regional average is larger for the 50,000 sq ft+ units at 160,000 sq ft, compared with an average of around 100,000 sq ft in London & the South East.

The most commonly observed multi-let estate size in both geographies is 100,000-250,000 sq ft. In the regions outside of the South East the most frequently observed number of units per estate is in the 11-20 range, whereas in London & the South East where the average unit size is larger this is in the 6-10 range.

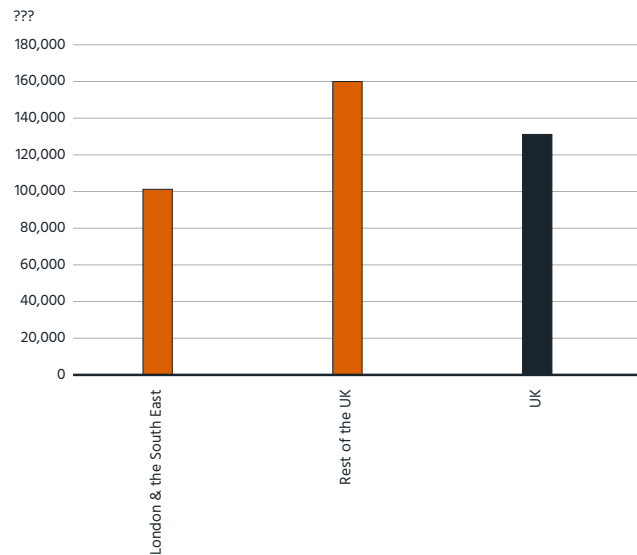
### Average multi-let unit sizes by region

Source: Gerald Eve



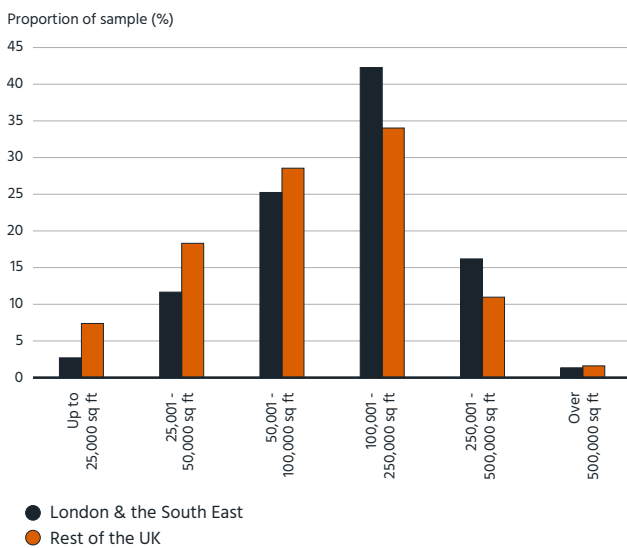
### Average 50k sq ft+ unit sizes by region

Source: Gerald Eve



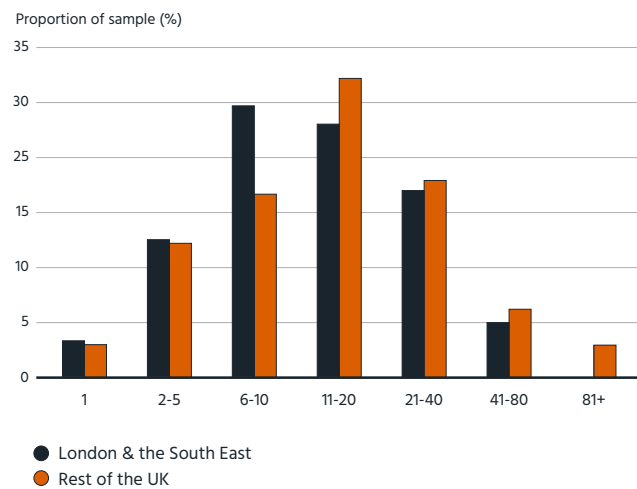
### Multi-let estate sizes

Source: Gerald Eve



### Multi-let units per estate

Source: Gerald Eve



# GLOSSARY

## STUDY DEFINITIONS

### Multi-let industrial

For the purposes of this report, multi-let industrial covers industrial units between 500 and 50,000 sq ft in size on a lease up to 30 years in length located in the UK.

### Multi-let industrial estate

An industrial estate usually under single ownership and comprised of different sized units let to multiple occupiers.

### Multi-let industrial unit

An individual industrial unit situated in an industrial estate, usually let to one tenant.

### Contributor

For the purposes of this report, reference to 'contributor' refers to the landlords or companies who have provided tenancy and valuation information which forms the basis of this study.

### Regions

The location of each unit in the multi-let sample is assessed by individual postcode. This report aggregates up these individual postcodes into standard UK Government Office Regions, including Scotland and Wales. "Inner London" includes only the inner London postcodes (E, EC, N, NE, NW, SE, SW, W, WC).

## OCCUPIERS

	Description	Examples
Trade counters/ wholesalers	Goods are stored and there is also some kind of on-site sales/retail function for visiting trade and/or the public.	Sellers of windows, doors, carpets, tiles, garden, tools, building supplies.
Retail & in-house logistics	Goods or equipment are stored but solely for the purpose of onward business (such as a retail store, sold remotely to an off-site location or for carrying out business operations). Non-public facing.	Internet retailers, department stores, utilities companies.
Logistics	Dedicated storage and distribution for a third party. Non-public facing.	Parcel and post/3PL
Food manufacturing	Production or processing of foodstuffs for humans or animals occurs on-site. Non-public facing.	Abattoirs, bakeries, breweries, cheese making, coffee roasting, dairies,
General manufacturing	Production of relatively basic physical components or products occurs on-site. Non-public facing.	Fabricators, moulders. Includes waste/recycling.
High-tech engineering	Complex construction/testing. Research and development. Non-public facing.	Incl. electronic, biomedical, nuclear, aerospace industries.
On-site servicing	Third party items are brought on-site by trade or the public for testing/repairing.	M.O.T./servicing, valeting, tyres and other vehicle/machine/goods repair.
Off-site services	Services to business or residential offered off-site. Potentially a public facing element/small office on-site.	Shopfitters, joiners, builders, plumbers, electricians, scaffolders, machine/car hire.
Leisure	On-site offer of leisure goods and services to the public - typically fitness or play.	Gyms, sports training/rehabilitation, soft play, trampoline warehouses.
Quasi office/ archiving	Ranges from storage of documents/data to full office or training centre functions.	Public sector bodies, data centres, designers, finance, solicitors, estate agents, employment
Individuals	Lease in the name of an individual and a company cannot be traced.	Potentially any of the above.

## KEY TERMS

### **AWULT**

Average Weighted Unexpired Lease Term. The product of currently contracted rental income between now (or, in this study case, the end of 2019) and the time the leases expire for any given tenant, summed across tenants, and then divided by the total annual income of the property or portfolio.

### **Capital value**

The market value of an asset that could be reasonably expected to be paid in an open market.

### **Capital growth**

The annual percentage increase in value of an asset.

### **Churn rate**

Proportion of units where there is a change in occupancy between one year and the next (such as a unit let following vacancy, becoming vacant following a let, or a change of tenant). Measured as a % of OMRV.

### **Contracted rent**

The annual rent stipulated in the lease contract. This might be above or below the OMRV if it is over or underrented.

### **Default rate**

Leases in default are calculated by assessing whether a tenant under a contractual lease obligation is no longer in occupation. Expressed as a % of the OMRV total.

### **Econometrics**

Mathematical and statistical analysis aimed to give empirical content to economic relationships. Seeks to exclude all other factors other than the issue at hand to try to isolate and quantify relationships.

### **ERV**

Estimated rental value. A valuation estimate of what could be charged if the unit were let in the open market on the valuation date. This data has been provided by the contributing investors and funds for all units within the sample.

### **Incentives**

This refers to the level of passing rent discount offered to occupiers as part of the lease agreement. Incentives in this report are measured as the differences between the contracted rent agreed and the actual passing rent received.

### **Income return**

The annual compounded rate of net income receivable per year expressed as a percentage of the capital employed over the year.

### **MSCI**

MSCI produce research-based indexes and analytics on the UK property market and are an independent benchmark of property investment market performance. MSCI data used in this report is the 2019 Annual Digest and reference to Standard Industrial refers to all industrials excluding distribution warehouse centres.

### **Overrented**

A term used to describe when the contracted rent is above the open market rental value, which implies a negative reversion.

### **Passing rent**

The annual rent actually paid, which may be more or less than the OMRV and equal to or less than the contracted rent.

### **Rack rented**

Where the contracted rent (and potentially the passing rent) is equal to the OMRV. In a practical sense here, it is within 95%-105% of OMRV to rule out conversion and rounding errors, etc.

### **Rental growth**

The annual percentage change in either the open market rental value, passing or contracted rent, as expressly defined.

### **Reversionary yield**

A valuations-based yield estimate assuming a fully-let property with a rent equal to the ERV and capital value at the market rate at that point in time.

### **Time to first break**

The time duration in months between the start date of a lease contract and the contract expiry or a break that a tenant can exercise, whichever is sooner.

### **Total return**

The annual compounded rate of monthly capital appreciation, net of capital expenditure, plus monthly net income received expressed as a percentage of monthly capital employed.

### **Transacted yield**

Average yields (weighted by capital value) recorded to have actually taken place in a transaction. This is in contrast to the valuations-based reversionary yield.

### **Underrented**

A term used to describe when the contracted rent is below the open market rental value, which implies a positive reversion.

### **Void rate**

The proportion of vacant floorspace, expressed as a percentage of the total.

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