RESEARCH

INDUSTRIAL SNAPSHOT

GREATER LONDON AND WESTERN HOME COUNTIES

H2 2017

Introduction

As the UK economy continues to grow so too does the expansion of e-commerce and the demand for logistics space. However, there has been a rapid loss of industrial land across London to mainly residential uses. SEGRO's study highlighted this issue with findings that showed the loss of industrial land has happened three times as fast as had been predicted five years ago.

While the new Draft London Plan issued in December 2017 makes provisions for (Policy E4) land for industry, logistics and services to support London's economy in strategic industrial locations the repercussions of this on the London boroughs are as yet unknown.

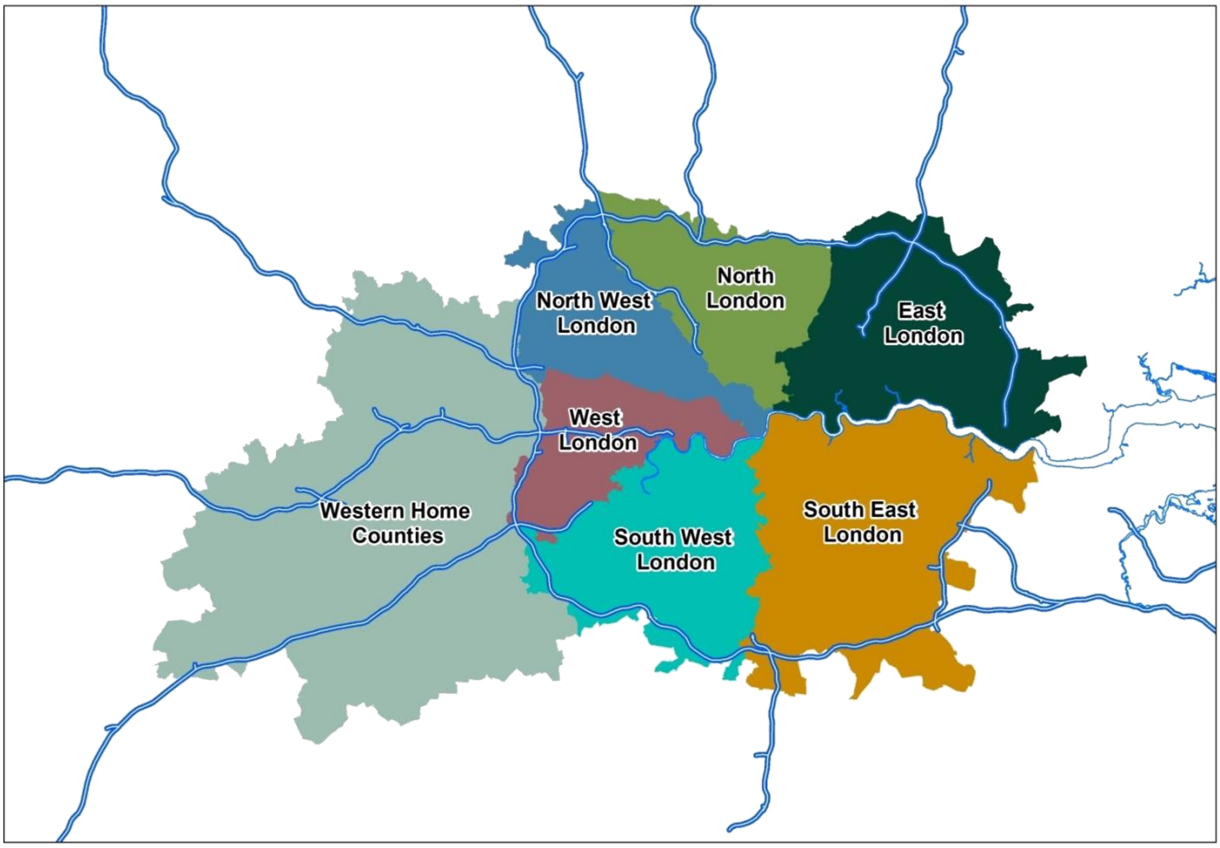
Our report provides an insight into the basic trends in the industrial and logistics market across Greater London and the Western Home Counties during H2 2017 .

Key takeaways

- During the second half of 2017 take-up across three out of the five areas under review increased.
- In terms of active requirements, the majority of requirements in H2 2017 have been for smaller units below 50,000 sq ft, with an average of just 14% of requirements for units above 50,000 sq ft.
- On the supply side, availability across most of the areas under review has continued to trend down.
- Vacancy rates have trended down over the past five years, and now range between 2.3% in East London and 5.1% in West London.
- West and North West London achieved the highest prime rent with Heathrow and Park Royal at £15.00 per sq ft and £16.00 per sq ft, respectively. This compared with prime rents of £9.50 per sq ft in Thurrock.

Kind regards
Gus Haslam

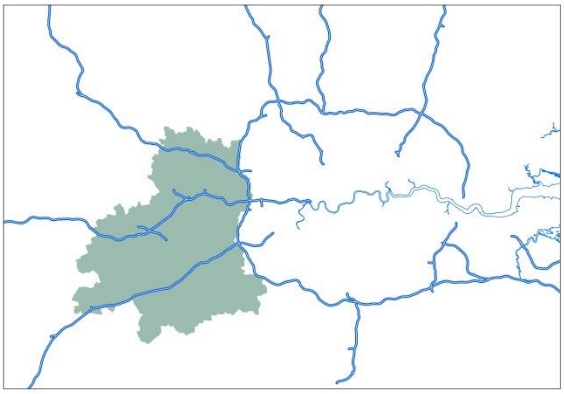
GREATER LONDON AND WESTERN HOME COUNTIES MAP



WESTERN HOME COUNTIES

Summary

- Leasing activity throughout the Western Home Counties slowed during the second half of the year, down by 8% on the previous six months to 993,686 sq ft in H2 2017.
- In terms of deal size, there were fewer large deals and a notable absence of lettings over 100,000 sq ft.
- A total of 4.15 million sq ft of industrial space stood available at the end of 2017. This represented a decline of 2% on the level of availability six months ago.
- A further 329,475 sq ft of speculative industrial space was under construction.
- The vacancy rate is falling, down from 4.1% in the previous half year to 3.8% in H2 2017. Whilst this is higher than most of the other areas under review in this report, it is less than half the vacancy rate seen five years ago.
- Active requirements in H2 2017 were concentrated in the mid size categories.
- Prime industrial rents increased in some key locations across the area, most notably in Reading, Bracknell and Slough.



AT A GLANCE H2 2017

TAKE UP (sq ft)
993,686
-8% ON H1 2017

AVAILABILITY (sq ft)
4.15m
-2% ON H1 2017

VACANCY RATE
3.8%
4.1% H1 2017

SPECULATIVE SPACE UNDER CONSTRUCTION
329,475 sq ft

RENTS (£ sq ft)

	Prime	Secondary
Basingstoke	◄► £10.50	◄► £9.25
Farnborough	▲ £11.50	◄► £9.25
High Wycombe	▲ £12.00	▲ £10.50
Reading	▲ £12.50	▲ £10.50
Slough	◄► £13.75	◄► £12.00
Woking	◄► £12.50	◄► £11.50

Source: Knight Frank

MARKET REQUIREMENTS (sq ft)

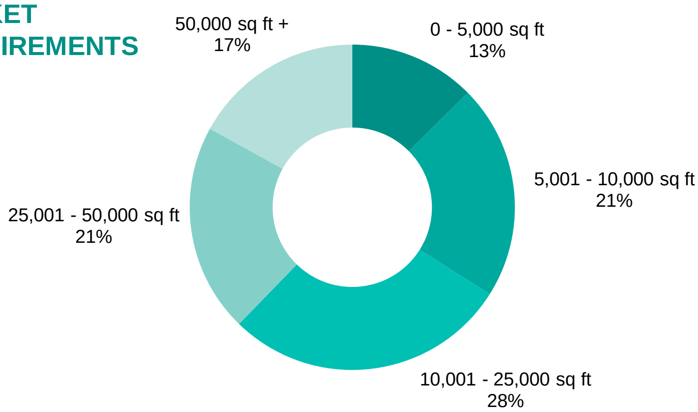
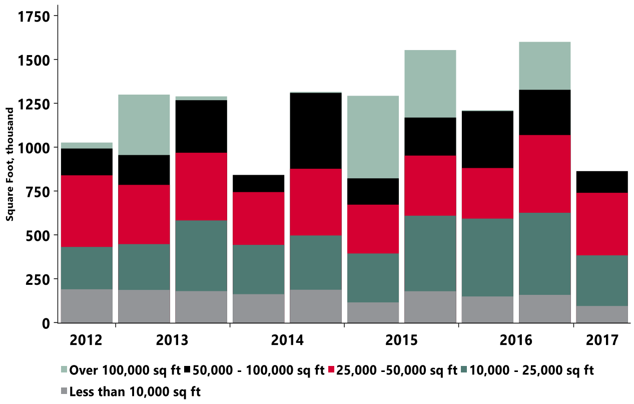
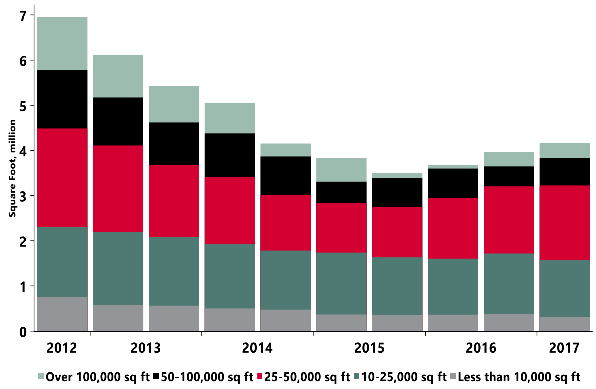


FIGURE 1
TAKE-UP OVER LAST 5 YEARS (HALF YEARLY)



Source: Knight Frank Research/ Macrobond

FIGURE 2
AVAILABILITY OVER 5 YEARS (END HALF YEAR)

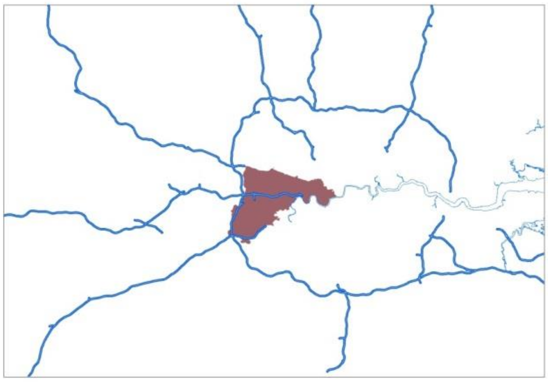


Source: Knight Frank Research/ Macrobond

WEST LONDON

Summary

- West London saw a sharp increase in take-up during the second half of 2017, up by 47% on the first half of the year to 847,459 sq ft. A large proportion of this take-up was in the 50,000 sq ft to 100,000 sq ft size band.
- Following the rise in take-up, the supply of industrial space available across West London fell by 2% during the second half of the year to 3.48 million sq ft at the end of 2017.
- An additional 69,341 sq ft of speculative space was under construction.
- The majority of occupier requirements are for smaller units sized below 10,000 sq ft.
- The average vacancy rate was 5.1% at the end of 2017. This is the highest vacancy rate across all seven markets under review in this report. However it is lower than five years ago when the vacancy rate was 8.5%.
- Prime rents in Heathrow have stabilised at £15.00 per sq ft. While this is the highest across West London, Hayes and Uxbridge are catching up with prime rents of £13.50 per sq ft and £12.75 per sq ft, respectively.



AT A GLANCE H2 2017

TAKE UP (sq ft)
847,459
+47% ON H1 2017

AVAILABILITY (sq ft)
3.48m
-2% ON H1 2017

VACANCY RATE
5.1%
5.6% in H1 2017

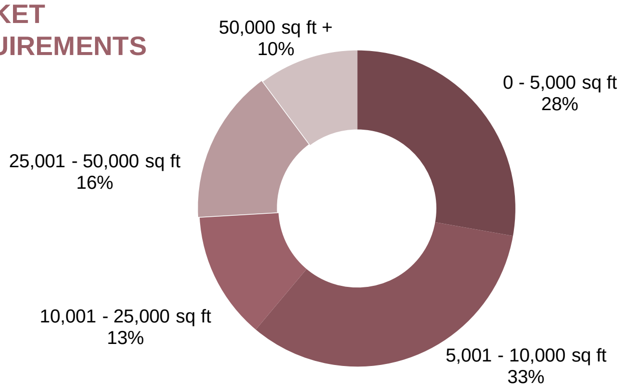
SPECULATIVE SPACE UNDER CONSTRUCTION
69,341 sq ft

RENTS (£ sq ft)

	Prime	Secondary
Hayes	▲ £13.50	◀▶ £11.50
Heathrow	◀▶ £15.00	◀▶ £12.50
Uxbridge	▲ £12.75	▲ £11.50

Source: Knight Frank

MARKET REQUIREMENTS (sq ft)



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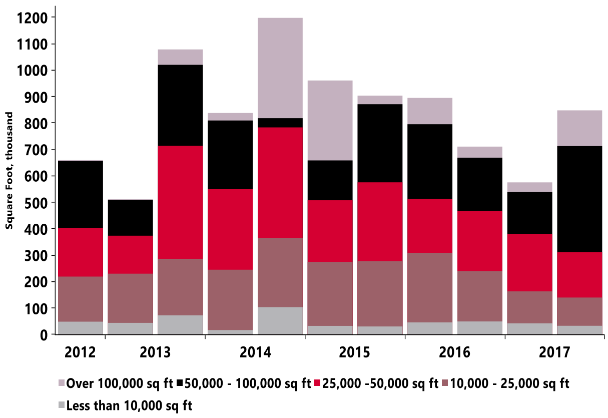
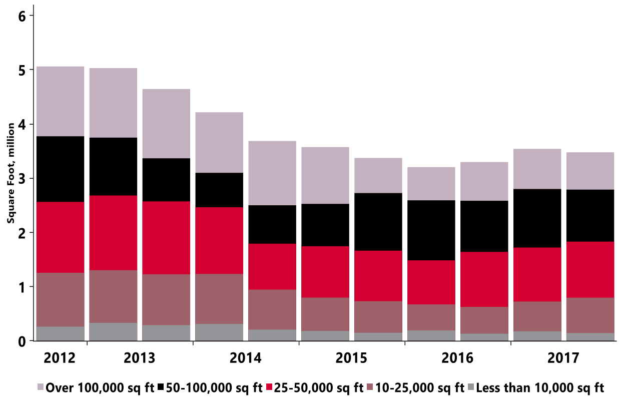


Source: Knight Frank Research/ CoStar/ Macrobond

FIGURE 2
AVAILABILITY LAST 5 YEARS (END HALF YEAR)

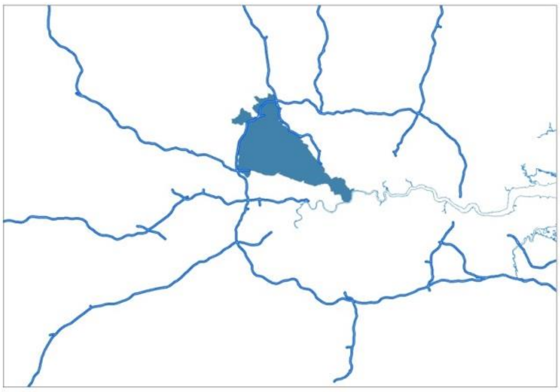


Source: Knight Frank Research/ Macrobond

NORTH WEST LONDON

Summary

- North West London has seen strong occupier demand. During the second half of 2017 total take-up reached 620,245 sq ft, up by 55% on the previous six months and 13% up on the five yearly average.
- Supply has continued to trend down with availability down 12% to just under 2 million sq ft at the end of 2017.
- A further 121,449 sq ft of industrial space is under construction.
- The vacancy rate has edged down to 3.0%. This is relatively low compared with the other areas under review and five years ago when it stood at 6.7%.
- In terms of active demand, three-fifths of all requirements are for smaller units sized bellow 10,000 sq ft..
- Prime rents across North West London have reached new peak levels. Park Royal prime rents increased to £16.00 per sq ft in H2 2017, while Watford saw strong rental value growth for both prime and secondary industrial units during the second half of 2017.



AT A GLANCE H2 2017

TAKE UP (sq ft)
620,245
+55% ON H1 2017

AVAILABILITY (sq ft)
1.99m
-12% ON H1 2017

VACANCY RATE
3.0%
3.1% in H1 2017

SPECULATIVE SPACE UNDER CONSTRUCTION
121,449 sq ft

RENTS (£ sq ft)

	Prime	Secondary
Greenford	▲ £13.75	▲ £12.25
Park Royal	▲ £16.00	◀▶ £13.50
Watford	▲ £13.50	▲ £12.25

Source: Knight Frank

MARKET REQUIREMENTS (sq ft)

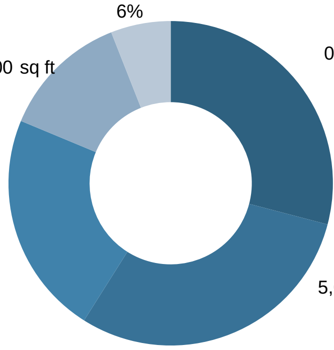


FIGURE 1
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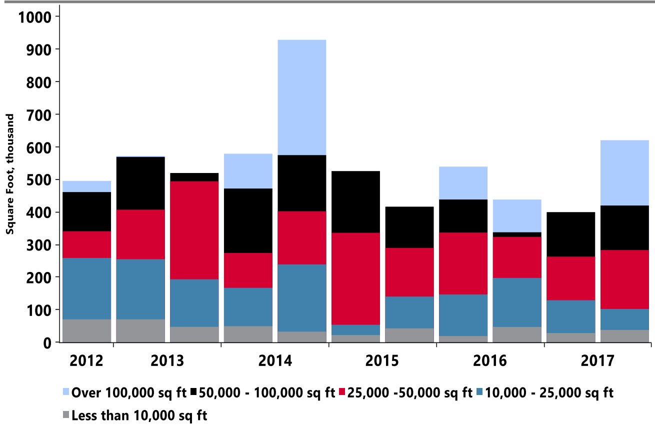
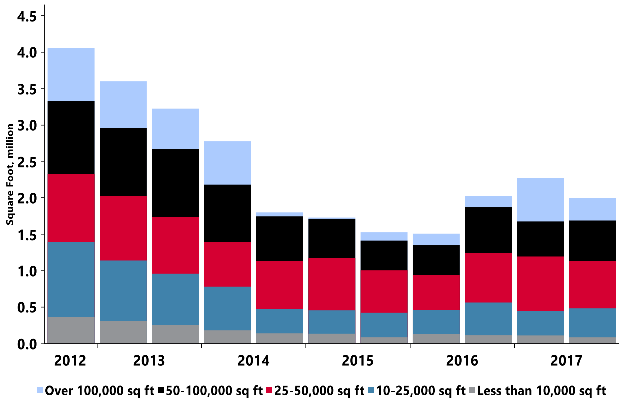


Source: Knight Frank Research/ CoStar/ Macrobond

FIGURE 2
AVAILABILITY LAST 5 YEARS (END HALF YEAR)

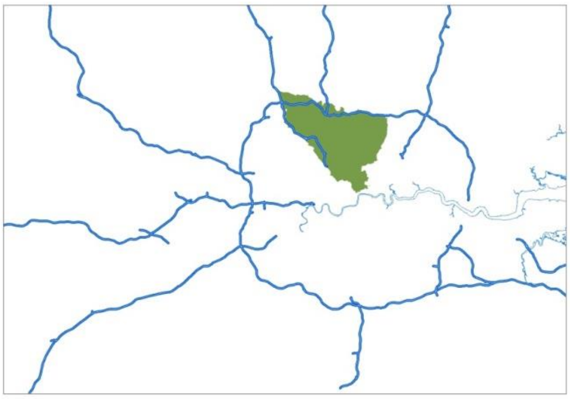


Source: Knight Frank Research/ Macrobond

NORTH LONDON

Summary

- Total take-up across North London reached 311,469 sq ft during the second half of 2017, down 29% on the previous six months, although broadly in line with the half yearly average over the past five years.
- While supply has trended down in recent years, availability rose by 10% during the second half of the year to 1.42 million sq ft at the end of 2017. A further 337,903 sq ft of space is under construction.
- The vacancy rate is considerably lower than other parts of Greater London and compared with five years ago when it stood at 4.7%.
- Active requirements are fairly evenly spread across all size ranges.
- The North London area has seen strong industrial rental growth, particularly in Enfield, which is catching up with other parts. Prime rents range between £13.50 per sq ft and £14.00 per sq ft . Secondary rents average £12.50 per sq ft .



AT A GLANCE H2 2017

TAKE UP (sq ft)
311,469
-29% ON H1 2017

AVAILABILITY (sq ft)
1.42m
+10% ON H1 2017

VACANCY RATE
2.7%
2.0% in H1 2017

SPECULATIVE SPACE UNDER CONSTRUCTION
337,903 sq ft

RENTS (£ sq ft)

	Prime	Secondary
Enfield	▲ £13.50	▲ £12.50
Tottenham	▲ £14.00	▲ £12.50
Edmonton	▲ £13.50	▲ £12.50

Source: Knight Frank

MARKET REQUIREMENTS (sq ft)

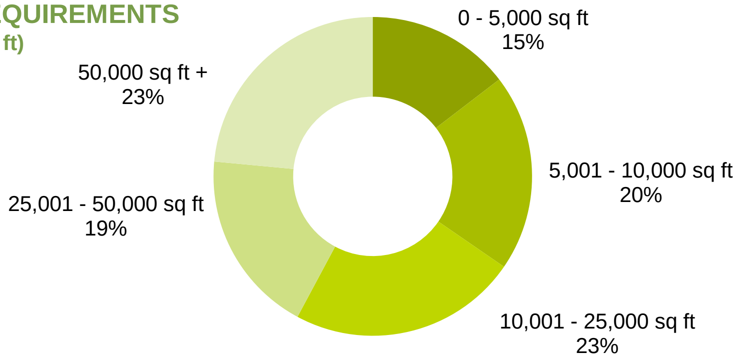
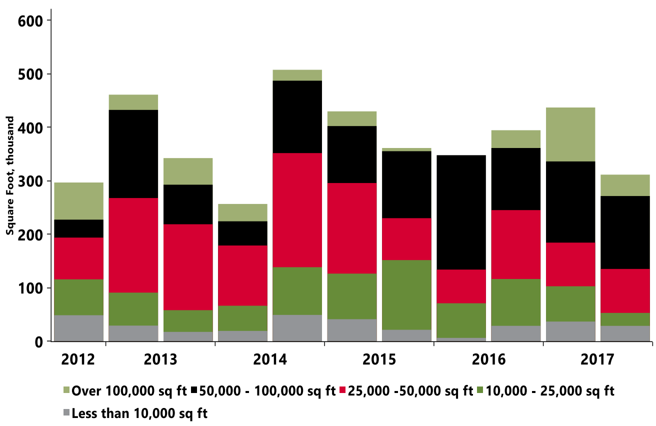
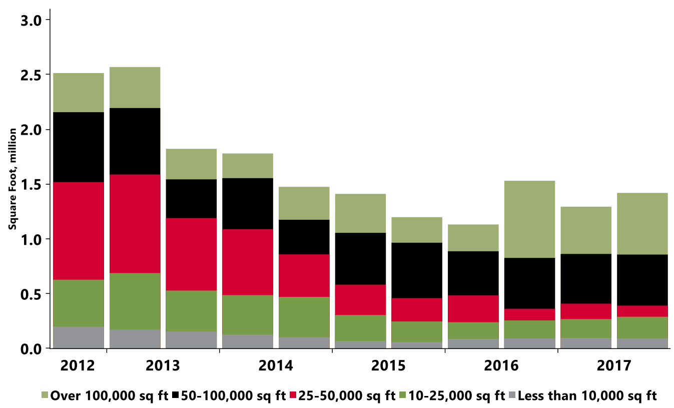


FIGURE 1
TAKE-UP OVER LAST 5 YEARS (HALF YEARLY)



Source: Knight Frank Research/ Macrobond

FIGURE 2
AVAILABILITY LAST 5 YEARS (END HALF YEAR)

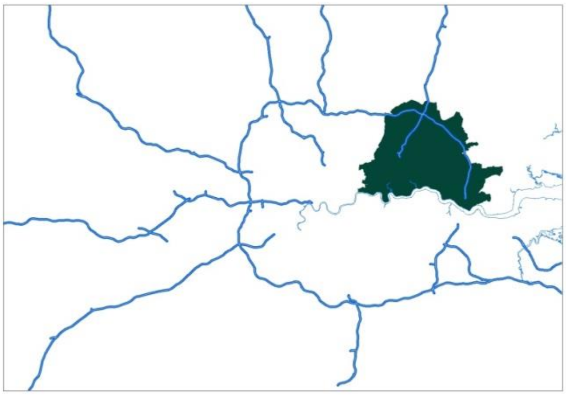


Source: Knight Frank Research/ Macrobond

EAST LONDON

Summary

- Take-up in the second half of 2017 totalled 523,008 sq ft. This was almost double the level of take-up seen in the first half of 2017, and brings the total for the whole of 2017 to just under 800,000 sq ft
- Supply has continued to decline, with availability down to 0.8 million sq ft at the end of 2017 and a further 206,652 sq ft under construction. With take-up at c.523,000 this means there is less than two years' of supply, on average, taking account of all unit sizes. There are size bands where it is less than one year/six months.
- The majority of market requirements are for smaller lots sizes. 12% of current market requirements are for units over 50,000 sq ft.
- The vacancy rate is trending down and at 2.3% is less than half the rate five years ago. It is also the lowest of all the areas under review in this report.
- Prime rents have increased marginally in certain areas like Dagenham. They currently range from £9.50 per sq ft in Thurrock to £13.00 per sq ft in Beckton.



AT A GLANCE H2 2017

TAKE UP (sq ft)
523,008
+91% ON H1 2017

AVAILABILITY (sq ft)
0.78m
-23% ON H1 2017

VACANCY RATE
2.3%
2.4% in H2 2016

SPECULATIVE SPACE UNDER CONSTRUCTION
206,652 sq ft

RENTS (£ sq ft)

	Prime	Secondary
Beckton	£13.00	£12.00
Dagenham	▲ £10.50	£9.00
Thurrock	£9.50	£8.50

Source: Knight Frank

MARKET REQUIREMENTS (sq ft)

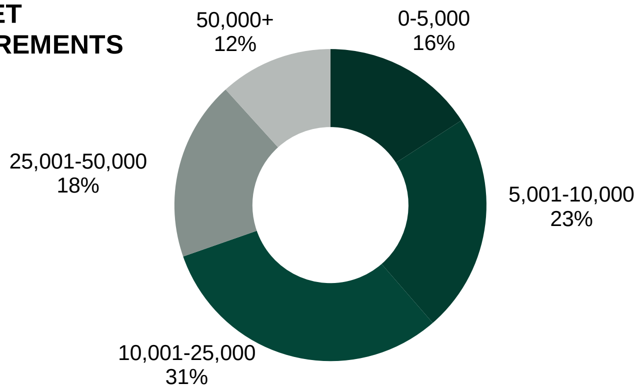
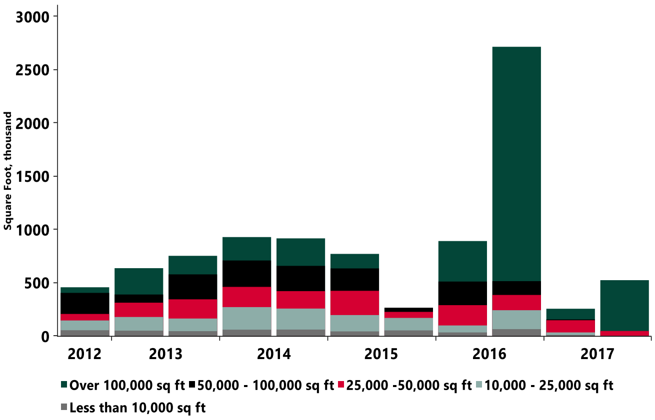
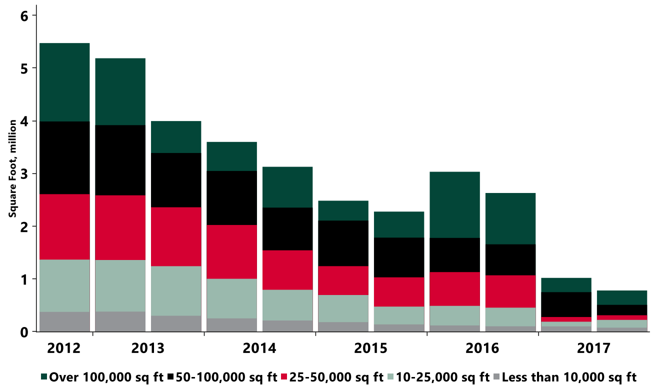


FIGURE 1
TAKE-UP OVER LAST 5 YEARS (HALF YEARLY)



Source: Knight Frank Research/ Macrobond

FIGURE 2
AVAILABILITY LAST 5 YEARS (END HALF YEAR)

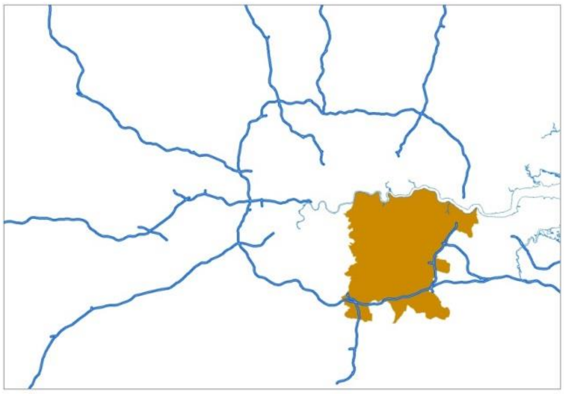


Source: Knight Frank Research/ Macrobond

SOUTH EAST LONDON

Summary

- Industrial take-up across the South East London area during the second half of 2017 increased to 856,312 sq ft. This is 78% higher than the level of take-up seen over the previous six months and brings the total for 2017 to 1.3 million sq ft.
- While supply has trended down over the past five years, in the six months to December 2017, availability rose by 30% to 2.8 million sq ft. This is less than half the level of supply seen five years ago when availability stood at 6.3 million sq ft. An additional 313,484 sq ft of industrial space was under construction at the end of 2017.
- The vacancy rate has risen slightly to 3.1%. This is relatively low however compared with five years ago when it was 5.9%.
- Over a third of industrial occupier requirements are for units in the 10,000 to 25,000 sq ft size category.
- Prime rents increased in most of the key selected locations, with the exception of Belvedere – where rents have remained stable. Croydon has seen the largest increase with prime rents rising by 23% to £13.50 per sq ft and secondary rental values up by 26%.



AT A GLANCE H2 2017

TAKE UP (sq ft)
856,312
+78% ON H1 2017

AVAILABILITY (sq ft)
2.83m
+30% ON H1 2017

VACANCY RATE
3.1%
2.5% H1 2017

SPECULATIVE SPACE UNDER CONSTRUCTION
313,484 sq ft

RENTS (£ sq ft)

	Prime	Secondary
Belvedere	◀▶ £10.00	◀▶ £9.00
Croydon	▲ £13.50	▲ £12.00
Dartford	▲ £10.50	▲ £9.50
Woolwich	▲ £12.50	▲ £10.50

Source: Knight Frank

MARKET REQUIREMENTS (sq ft)

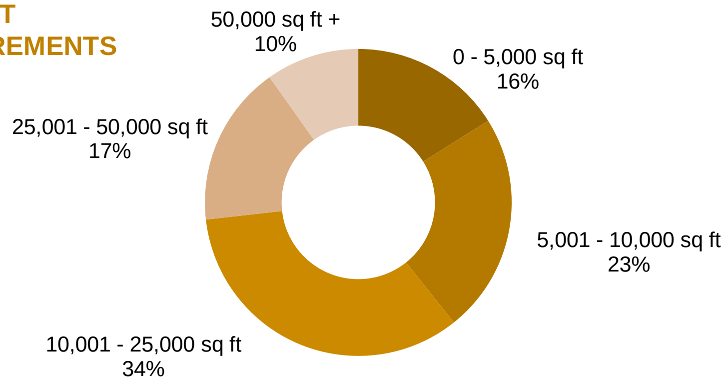
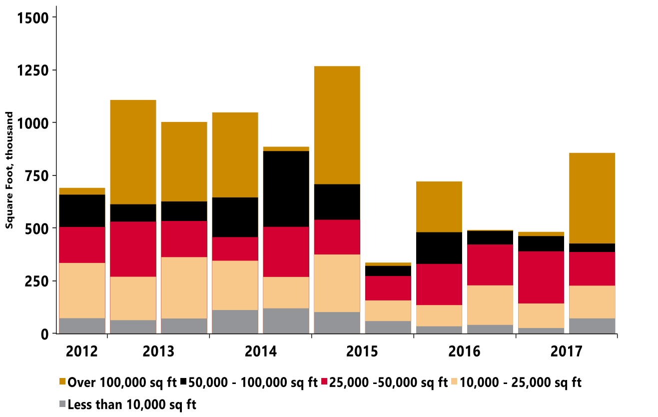
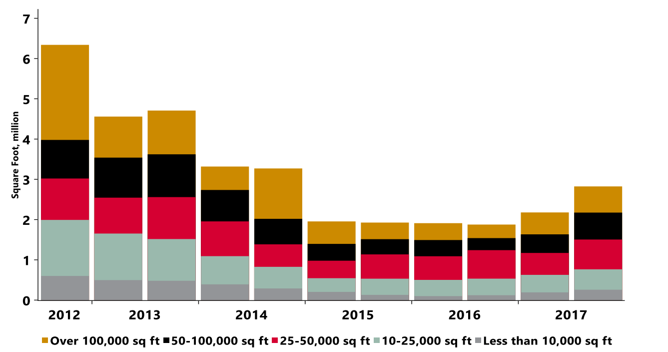


FIGURE 1
TAKE-UP OVER LAST 5 YEARS (HALF YEARLY)



Source: Knight Frank Research/ Macrobond

FIGURE 2
AVAILABILITY LAST 5 YEARS (END HALF YEAR)

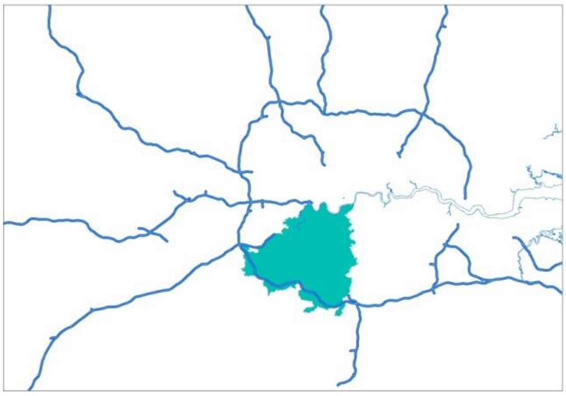


Source: Knight Frank Research/ Macrobond

SOUTH WEST LONDON

Summary

- Total take-up across South West London increased to 290,389 sq ft in H2 2017, up 22% on the previous six months.
- Although supply has been trending down, total availability rose by 4% to 1.16m sq ft during the second half of 2017. Total industrial supply across South West London is now less than half the level of supply seen five years ago.
- The majority of requirements were for units below 25,000 sq ft.
- The vacancy rate increased from 2.1% in H1 to 2.5% in H2 2017. Nonetheless this is considerably lower than the 6.6% seen five years ago.
- There were no speculative developments under construction at the end of 2017.
- Prime and secondary industrial rents have increased across key selected areas in this report, with Chessington leading the way at £14.50 per sq ft for prime units.



AT A GLANCE H2 2017

TAKE UP (sq ft)
290,389
+22% ON H1 2017

AVAILABILITY (sq ft)
1.16m
+4% ON H1 2017

VACANCY RATE
2.5%
2.2% in H1 2017

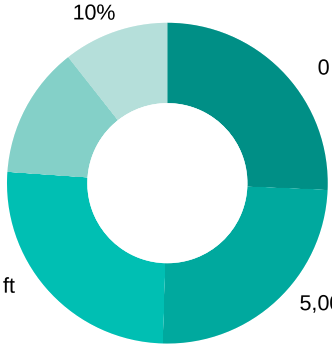
SPECULATIVE SPACE UNDER CONSTRUCTION
0 sq ft

RENTS (£ sq ft)

	Prime	Secondary
Chessington	▲ £14.50	▲ £12.00
Weybridge	▲ £13.00	▲ £11.00
Sutton	▲ £13.00	▲ £12.00

Source: Knight Frank

MARKET REQUIREMENTS (sq ft)



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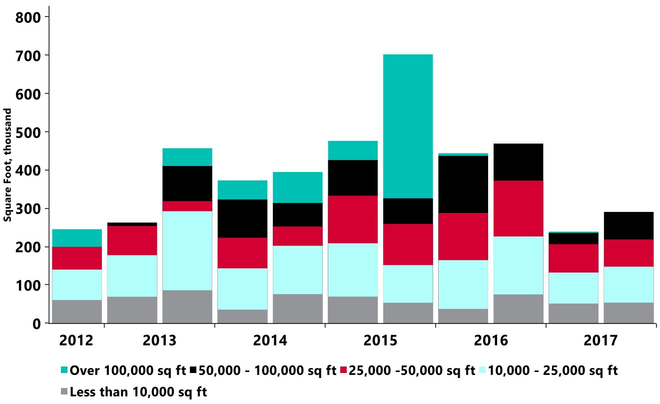
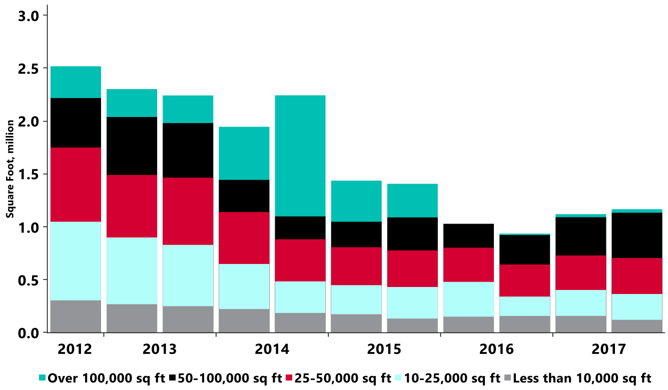


Source: Knight Frank Research/ Macrobond

FIGURE 2
AVAILABILITY LAST 5 YEARS (END HALF YEAR)



Source: Knight Frank Research/ Macrobond

INVESTMENT MARKET OVERVIEW

Industrial and logistics property outperformed other sectors in 2017, achieving an annual total return of 20%, compared with 7% for retail and 8% for offices. South East industrials boosted the sector's overall performance with a total return of 22% in 2017, driven by annual capital value growth of 17%.

Investor appetite for industrial stock remains strong, with investors attracted by the sector's strong performance, which in turn is being driven by the imbalance between demand and supply which has been the defining characteristic of this sector in recent years. Industrial investment transactions exceeded £7bn in the second half of the year, up 84% on H1 2017 levels. The increase was even higher across the South East, which saw £829 million of industrial property change hands during the last six months of 2017.

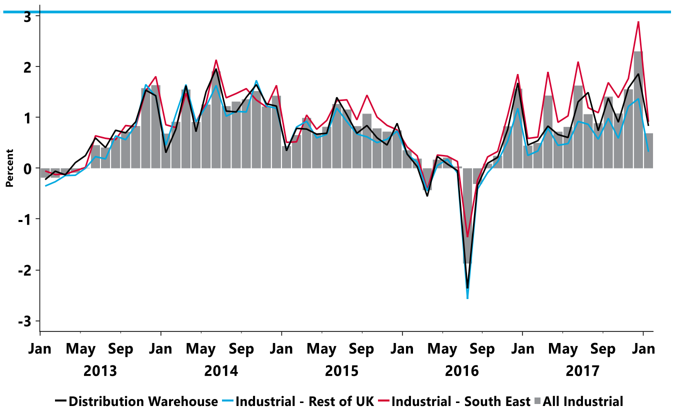
Apart from the structural changes in consumption patterns, the more recent combination of global growth and sterling weakness has boosted exports and is supporting traditional occupier demand as well.

On the supply side, there remain supply constraints, particularly across the South East and within the London conurbation, where there is competing pressure on land suitable for industrial use from the residential sector.

Competition for stock has continued to put downward pressure on yields. While yields on the best long-let prime stock have reached very low levels, it is the higher-yielding secondary estates and distribution facilities that have seen the greatest yield compression in part reflecting a lack of prime stock available to purchase. Yields on prime South East multi-let industrial estates currently stand at 4.25% NIY. Stronger performance in secondary markets is shown by the convergence of the yield spread between prime South East multi-let industrial and secondary multi-let industrial, which in January 2017 was 2.25%, closing to 1.50% NIY in December 2017.

FIGURE 1

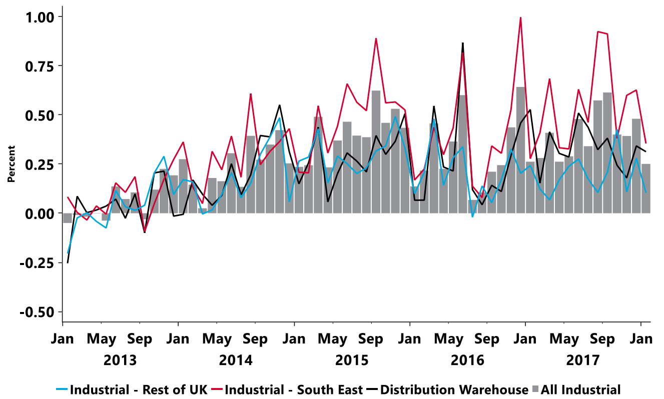
IPD UK MONTHLY INDEX: CAPITAL VALUE GROWTH



Source: Knight Frank Research/ Macrobond

FIGURE 2

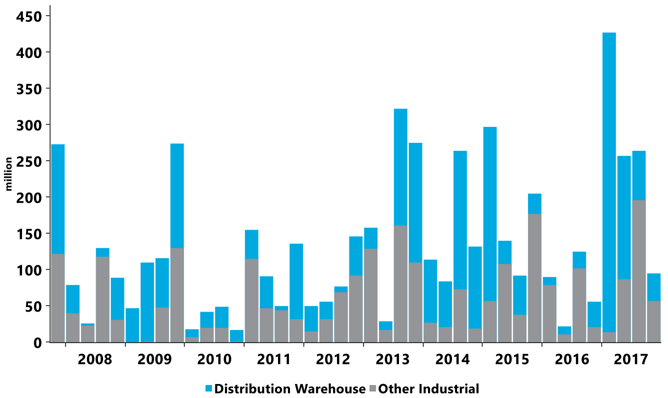
IPD UK MONTHLY INDEX: RENTAL VALUE GROWTH



Source: Knight Frank Research/ Macrobond

FIGURE 3

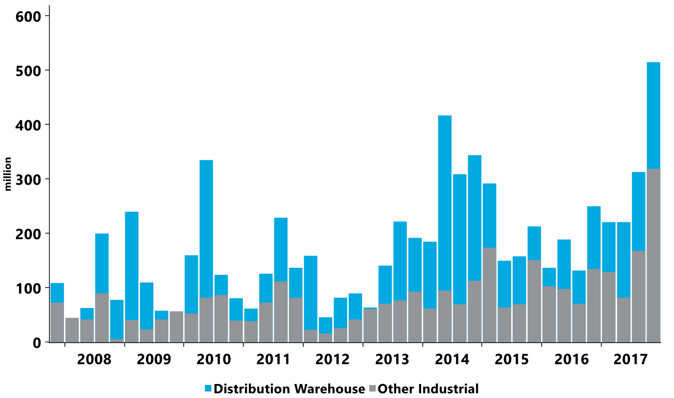
VOLUME TRANSACTED: INDUSTRIAL ASSETS IN LONDON



Source: Knight Frank Research/ Macrobond

FIGURE 4

VOLUME TRANSACTED: INDUSTRIAL ASSETS IN SOUTH EAST



Source: Knight Frank Research/ Macrobond

Glossary

Take-up / Leasing Activity

The square footage that is committed and signed under a lease obligation in a given time period. This includes direct leases, subleases and renewals of existing leases. It also includes any pre-leasing activity in under construction, planned buildings or under renovation.

Availability

Space that is currently being marketed as available for lease in a given time period. This includes any space that is available regardless of whether the space is vacant, occupied, available for sublease, or available at a future date. It excludes space available in proposed buildings.

Vacancy Rate

The percentage of vacant space divided by the total amount of existing inventory. Vacant space is space that is not currently occupied by a tenant, regardless of any lease obligation that may be on the space.

Rents

Prime rent assumes new build, in a prime location and approximately 20-30,000 sq ft.

Secondary assumes second-hand, good location and approximately 20-30,000 sq ft.

COMMERCIAL RESEARCH

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