RESEARCH

LOGISTICS & INDUSTRIAL

OCCUPIER & INVESTMENT MARKET COMMENTARY H1 2018

Economic overview

The UK economy grew by 0.4% in Q2 2018, representing a 0.2% acceleration from the first quarter of the year, and a 1.3% increase from the same quarter last year. Growth was principally driven by services and construction, which was partly offset by a decline in manufacturing and energy supply.

Services sector output increased at a rate of 0.5% in Q2 2018, faster than the previous quarter (0.3%) and an improvement from this time last year (0.3%). This is the largest quarterly services growth since Q4 2016. Manufacturing output however fell by -0.8% in Q2. Even so, considered over a 12 month period, manufacturing output shows an increase of 1.4%.

Importantly, employment levels in the UK remain high. The UK unemployment rate stood at 4.0% in Q2 2018, 0.2 percent points lower than in the first quarter this year. This is the lowest since the winter of 1975.

Occupier market

In the first six months of 2018, a total of 17m sq ft of logistic and industrial space was acquired by occupiers. Notably, this represents the strongest start to a year since 2014. At a market level, the Midlands continued to dominate occupier activity, with the region accounting for 43% of take-up across the UK.

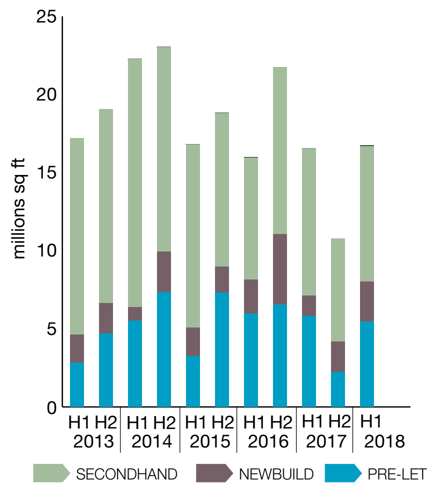
The proliferation of distribution channels related to online retailing remained a major feature of the UK market. On-line accounted for 17% of retail sales in June 2018 as the structural shift in consumer spending preferences continued at pace. (Figure 3). Customer experience is fundamental to a retailer's success in capturing market share in this changing environment. This need continues to support demand for both large scale fulfilment centres and urban logistics centres that are able to accommodate 'quick time' delivery.

On the supply side, new development, both underway and recently completed, has meant that availability has begun to edge upward. In the big shed market, new build supply of units above 100,000 sq ft stood at 10.6m sq ft at the end of June 2018 (Figure 4). Although this total represents a 20% increase when compared to the same point in 2017, the H1 2018 total remained 7% below the 10-year average. Significantly, industrial developers continue to see strong competition from the residential sector. Industrial land in London in particular is under significant strain given the high demand for housing and the higher land values that residential development commands. This means that the pace of new industrial supply coming to market will continue to be restrained, thus adding upward pressure to rents.

The outlook for the second half of 2018 is largely positive. Demand for good quality industrial and distribution remains strong, principally underpinned by the ubiquitous growth of online retailing. Brexit, of course, remains a disruptive influence albeit, business confidence at the mid-year juncture remained above that recorded before the EU referendum in June 2016. Furthermore, the weakened exchange rate of Sterling, a product of the ongoing EU stalemate, continues to aid UK exports.

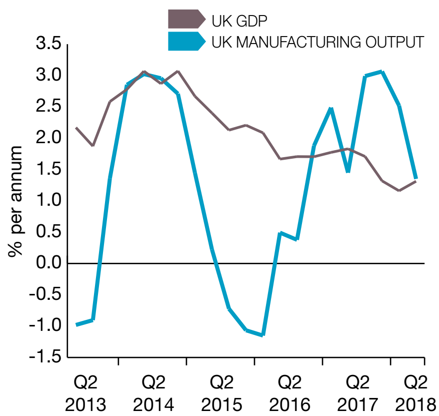
For more detailed commentary on the occupier markets, please refer to our regional LOGIC reports.

FIGURE 2
UK Logistics take-up
(50,000 sq ft plus)



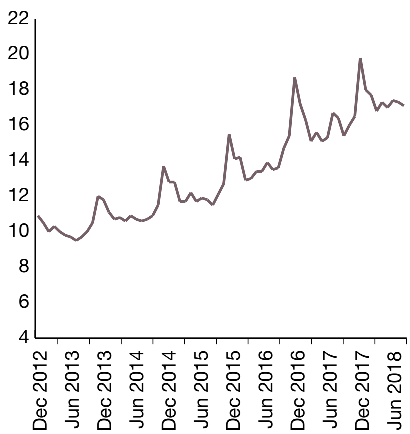
Source: Knight Frank Research

FIGURE 1
UK GDP and manufacturing output
[c.o.p. 1 year]



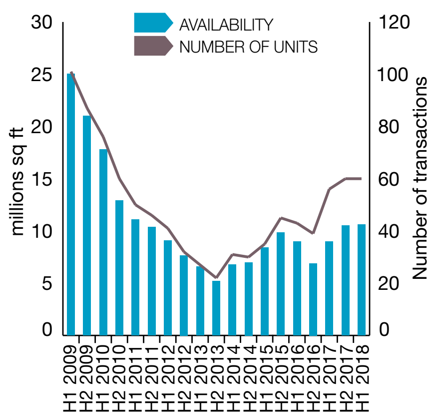
Source: ONS

FIGURE 3
Internet sales as a percentage of total retail sales (%)



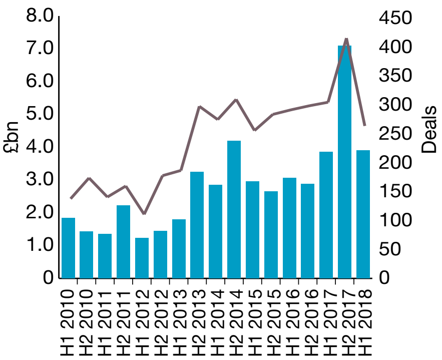
Source: ONS

FIGURE 4
New sheds available
(100,000 sq ft plus)



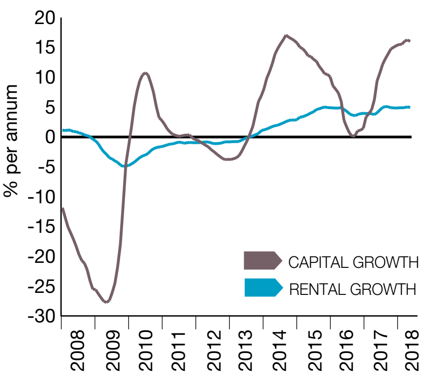
Source: Knight Frank Research

FIGURE 5
Industrial investment transactions



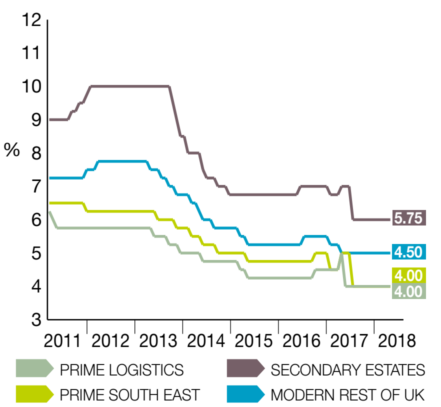
Source: Property Data / Knight Frank

FIGURE 6
Industrial sector performance



Source: IPD/Knight Frank

FIGURE 7
Single-let and multi-let warehouse yields



Source: Knight Frank

Investment market

Industrial property continues to carry favour with investors. Industrial property accounted for 17% of all commercial property transactions in 2017, with this investor demand carried through into H1 2018 where the sector accounted for 14% of deals. Investment volumes during the period reached £3.7bn, 33% above the 10-year average (Figure 5).

Blackstone and M7 Real Estate's purchase of the Powerhouse portfolio for £320m was the largest transaction to complete in H1. The portfolio comprises 4.5m sq ft of light industrial space across 40 properties located mostly in the North West and the Midlands along the M6 corridor. Other key investment deals exceeding £100m include Legal & General Property's purchase of Woodside Industrial Estate for £182m (NIY 5.02%) and Tritax Big Box REIT's agreement to forward fund the development of a logistics fulfilment centre at Link 66 in Darlington for £120.7m (NIY 5%).

Despite the largest transaction of the year being to a US fund, domestic money accounted for the majority of capital spent in H1. UK investors accounted for 69% of investment volumes in the first half of 2018. Significantly, UK buyers were responsible for four of seven transactions over £100m. Overseas buyers remain active however, spending £900m across 25 deals in H1.

Over H1 2018, capital value growth reached 6.8%, up some way from the 5.4% recorded at the mid-point of 2017. Rental value growth has remained relatively consistent registering a 2.5% uplift in the first six months of 2018.

Sustained demand for investment opportunities has continued to put downward pressure on yields. The IPD All Industrial Equivalent Yield fell to 5.5% in June, a dip of 30bps since January. Over the same period, 10-year gilts moved in to 1.42%, meaning a yield gap of 400+ bps has been maintained.

Yields on the best long-let prime stock remained at a record low in H1 with single-let, distribution yields at 4.00%. Yields on modern regional estates moved in to 4.5% during 2018 reflecting a shift of 50bps since the turn of the year. (Figure 7).

Selected warehouse / logistics transactions in H1 2018

Property	Purchaser	Vendor	Price	NIY
Powerhouse Portfolio	Blackstone Real Estate	InfraRed Capital Partners	£320.0m	6.3%
Woodside Industrial Est	Legal & General UK PF	Harbert European RE Fund	£182.0m	5.0%
Sterling Industrial	Westbrook Partners	Mansford LLP	£162.0m	6.8%
Magnus Portfolio	M7 Real Estate/	Helical Plc	£150.0m	6.4%
Link 66, Darlington	Tritax Big Box REIT Plc	DB Symmetry	£121.0m	5.0%

Source: Knight Frank Research

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LONDON & SOUTH EAST

Logistics and Industrial Commentary

H1 2018 Review

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- In the first six months of 2018, take-up of industrial units above 50,000 sq ft across London and the South East reached 2.9m sq ft. This total is 15% higher than was recorded in H1 2017 and 45% up on H2 2017.
- A shortage of stock remained a market feature in H1 2018 serving to hinder transaction volumes and further encourage pre-letting. A good example of the latter was the 97,500 sq ft pre-let to Zeus Packaging at Gazeley's G-Park, Biggleswade. Gazeley will also speculatively develop a further unit of 105,000 sq ft on the adjacent plot.
- Other significant pre-let deals agreed during the H1 period include Hermes Parcelnet taking an 85,000 sq ft low site density facility from Prologis in Hemel Hempstead and Do & Co agreeing terms with SEGRO for 172,000 sq ft at SEGRO Park, Heathrow. In East London, DHL also agreed a pre-let at SEGRO Park, Newham on 51,500 sq ft at a record rent for the area.
- The supply of land suitable for industrial development remained a limiting factor to growth in H1, with residential use continuing to gain favour. Nonetheless, the case for speculative development for industrial use remains a strong one, principally underpinned by e-commerce and population growth. Major schemes on the horizon include Valor Real Estate Partners and Canmoor's Valor Park, Heathrow, a 135,000 sq ft single logistics facility in close proximity to Junction 14 M25, which is currently under construction with completion expected November 2018. SEGRO have also obtained planning consent which will enable them to start speculative development of SEGRO Park, Hayes. The logistics park will comprise four units totalling 240,000 sq ft. Prologis are building out 310,000 sq ft in a number of units in Hemel Hempstead. Goya are on site in Salford's, north of Gatwick, building out a multi-unit scheme totalling 180,000 sq ft and Graftongate and London Metric are on site in Bedford building out 187,000 sq ft across three buildings.
- The investment market continues to be supported by an ongoing occupational market imbalance of strong demand and limited supply. In the first half of 2018, £1.1bn had been spent of industrial assets in London and the South East. Although this is marginally less when compared to 2017, this total is 37% ahead on the 10-year average for the period. Notably, competitive pressure to gain a foothold in the market has meant that prime yields have continued to fall. At the mid-point juncture of 2018, yields on prime South East multi-let industrial estates currently stood at 4.00% NIY. This represents an inward movement of 50bps when compared to H1 2017.

H1 2018 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to Q4 2018

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
West London			
- *Park Royal*	£16.50 ▲	£15.00 ▲	£14.25 ▲
- *Heathrow*	£15.00 ▲	£14.50 ▲	£14.00 ▲
East London	£14.50 ▲	£13.00 ▲	£12.00 ▲
North London	£14.50 ▲	£13.25 ▲	£11.25 ▲
South London	£15.25 ▲	£14.75 ▲	£14.00 ▲
Crawley	£14.00 ▲	£13.75 ▲	£13.00 ▲
Southampton / Portsmouth	£10.00 ◄ ►	£9.75 ◄ ►	£9.50 ◄ ►
Maidstone/Aylesford	£8.75 ◄ ►	£8.00 ◄ ►	£7.50 ◄ ►
Milton Keynes	£9.00 ◄ ►	£8.50 ◄ ►	£8.00 ◄ ►
Hemel H'stead	£12.00 ▲	£10.75 ▲	£9.25 ▲
Reading	£12.25 ▲	£11.75 ▲	£11.00 ▲
Dartford	£10.50 ▲	£10.00 ▲	£9.50 ▲
Thurrock	£10.00 ▲	£9.50 ▲	£9.00 ▲
Dagenham	£10.00 ▲	£9.50 ▲	£9.25 ▲

Regional outlook

- The acute imbalance between availability of secondary and new properties continues to be compounded by strong demand across the size spectrum. Further growth in e-commerce supported by population growth in the region can only sustain demand levels for industrial space in London and the South East moving forward.
- Further pressure on supply will be felt across the region by the impact of infrastructure projects. HS2 in NW London, which is now underway and Heathrow's Third Runway, which will see approximately 2m sq ft of industrial stock and its occupiers being displaced. Further stress will be felt as Crossrail2 picks up momentum.

Selected London, South & East leasing transactions, H1 2018

Address	Occupier	Size (sq ft)	Rent / Price (per sq ft)	Date
4/5 Ventura Park, Radlett	Client of Knight Frank	159,588	£8.50	Jun- 18
Segro Park Heathrow, Great South West Road, Heathrow	Do & Co	172,000	£15.75	Mar- 18
41 Hailey Road	APP Wholesale Services	66,331	£8.29	Jan- 18
Plot 1 G Park, London Road, Biggleswade	Zeus Packaging	105,000	£6.25	Jan- 18
SEGRO Park, Newham	DHL	51,474	£13.00	Mar- 18
Punchbowl 130, Cherry Tree Lane, Hemel Hempstead	Victoria Plumb	129,233	£9.25	Jan- 18

MIDLANDS

Logistics and Industrial Commentary

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H1 2018 Review

- Take-up of units above 50,000 sq ft across the Midlands region reached 7.2m sq ft in the first half of 2018. The 2018 total represents the strongest start to a year for more than 10 years.

- Occupiers whose primary business in storage and distribution (B8) accounted for 90% of take-up in the first six months of the year. Key acquiring occupiers include Amazon taking 1.2m sq ft, Nestle/XPO taking 650,000 sq ft and Kuehne and Nagel taking 200,000 sq ft. All of these deals were completed at East Midlands Gateway. One of the largest manufacturing transactions in recent years also completed in Q1, with Meggitt taking 490,000 sq ft at Prospero Ansty, Coventry.

- On the supply side, a total of 9.7m sq ft of industrial space was available at the end of H1 2018, up 6% when compared to H2 2017.

- At the end of H1 2018, there was 3.1m sq ft of speculative development underway across the region. First Panattoni are responsible for 1.5m sq ft of this total, with key schemes at Wolverhampton (490,000 sq ft), Nottingham (550,000 sq ft) and Derby (370,000 sq ft).

- With land supply diminishing, there is strong competition for sites brought to the market, including those in non-prime locations. Birmingham City Council announced in March 18 that IM Properties would be their preferred partner for their flagship work on the Peddimore scheme.

- A total of £510.67m of industrial investment transactions took place across the Midlands region during H1 2018 compared with £600.31m for the same period in 2017. This reduction was due to the scarcity of available stock rather than any decreased investor appetite. Key investment deals included the Secretary of State's purchase of Saltley Business Park in Birmingham for £36.96m to make way for the new HS2 high-speed rail line, and Tritax Big Box REIT's purchase of Howdens new two-unit distribution facility at Warth Park, Northamptonshire for £103.7m (5.0% NIY).

H1 2018 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to H1 2019

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
Birmingham	£7.25 ▲	£6.95 ▲	£6.95 ◄ ►
Black Country	£6.25 ▲	£6.25 ▲	£6.00 ◄ ►
Leicester	£6.75 ▲	£6.50 ◄ ►	£6.25 ◄ ►
Northampton	£7.00 ▲	£6.50 ▲	£6.50 ▲
Stafford	£5.50 ▲	£5.50 ▲	£5.25 ▲
Stoke	£5.75 ◄ ►	£5.75 ◄ ►	£5.50 ◄ ►
Rugby / Daventry	£7.00 ◄ ►	£6.50 ◄ ►	£6.50 ◄ ►

BG87, Burton Gateway 87,716 sq ft let to Hellmann Worldwide Logistics. Knight Frank acted for the landlord, St Modwen.

Selected Midlands leasing transactions, H1 2018

Address	Occupier	Size (sq ft)	Rent (per sq ft)	Date
East Midlands Gateway,	Amazon	1,200,000	Undisclosed	Mar-18
The Hub	Kitchencraftt	240,540	£6.60	Feb-18
Prospero Ansty	Meggitt	490,000	Confidential	Jun-18
Carbon 207	Zooplus	207,340	£6.30	Apr-18
DC115 Prologis Park DIRFT	Kinaxia	115,824	£6.50	May-18

Regional outlook

- We anticipate that headline rents on good quality multi-let property will remain subject to upward pressure, supported by a continued supply and demand imbalance in the marketplace.

- Competitive pressure will continue to limit opportunities for development, particularly for smaller plot sizes, with developers struggling to compete with owner occupiers.

NORTH EAST

Logistics and Industrial Commentary

H1 2018 Review

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- Take-up of units over 50,000 sq ft across the North East region reached 1.2m sq ft in H1 2018, 31% above the 10-year average for an H1 period. Significantly, take-up was bolstered by the sale of the 529,879 sq ft former AEI Cable factory in Birtley which dates back to the 1950s and is due for redevelopment.
- Two significant pre-lets are worthy of mention. At Follingsby Park in Gateshead LGIM Real Assets (Legal & General) secured the pre-letting of a 135,000 sq ft production facility to paint manufacturer TOR Coatings. At Symmetry Park to the east of Darlington Town Centre, DB Symmetry has commenced construction of a 1.5m sq ft logistics fulfilment centre for Amazon, which has been forward funded by Tritax Big Box REIT. The footprint extends to approximately 542,000 sq ft* with two structural mezzanine floors tripling the floorspace.
- Other deals to complete in H1 include the letting of the 72,000 sq ft Unit 3 New York Industrial Park in North Tyneside. Demonstrating the lack of modern stock in the area, the 1980s unit has set a new rental tone for second hand larger stock securing a headline rent of £5 per sq ft. This comes quickly after the letting of UK Land Estate's new build 57,000 sq ft unit on Tyne Tunnel Trading Estate, also in North Tyneside, which was let during construction securing a headline rent of £6.00 per sq ft.
- On the supply side, Hellens completed their scheme of 3 units at Monkton business Park in H1. Supported by the North East LEP's Local Growth Fund, the development comprises 3 units ranging from 9,129 sq ft to 27,850 sq ft. At Baltic Park in Gateshead, Langley Holdings are on site constructing 10 trade park units ranging from 2,375 sq ft to 8,000 sq ft alongside a 48,500 sq ft warehouse with completion due in September. There are no other schemes on site and modern good quality stock remains in short supply.
- In terms of land supply, Newton Aycliffe Richardson Barberry has been selected as the development partner to bring forward the 130 acre Forrest Park on Aycliffe Business Park adjacent to the Hitachi site. The site has attracted £13 million of LEP funding towards infrastructure works including new highways access and 24MW primary substation.
- Highgrove has gained planning consent for a new 62 acre site in Gateshead adjacent to the existing L & G owned Follingsby Park and named Follingsby Max. The site has outline consent for 225,000m² and is targeted at B8 uses but the permission allows 27,000m² of B2 space.

*Not included in H1 take-up

H1 2018 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to H1 2019

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000+ sq ft
Newcastle / Gateshead	£8.10 ◄ ►	£7.45 ◄ ►	£6.50 ▲
Sunderland / Washington	£6.50 ▲	£6.00 ▲	£5.00 ▲
Durham	£5.50 ◄ ►	£5.25 ◄ ►	£5.25 ◄ ►
Middlesbrough / Stockton	£5.00 ◄ ►	£4.50 ◄ ►	£4.00 ◄ ►

Unit 3 New York Industrial Park. Shiremoor, North Tyneside.

Selected North East leasing transactions in H1 2018

Address	Occupier	Size (sq ft)	Rent / Price (per sq ft)	Date
Unit 3 New York Industrial Park, Shiremoor, North Tyneside	Crown	72,388	£5.04	Jun-18
Unit 3 Foxcover Distribution Park, Seaham, County Durham	Lightweight Containers BV	61,710	£4.00	Mar-18
Unit C11, The Avenues, Team Valley, Gateshead	Smith Brothers	22,017	£5.50	Feb-18
Former AEI Cables, Durham Road, Birtley	O'Briens Group	529,879	Confidential (Freehold Transaction)	Mar-18

Regional outlook

The announcement of Nissan contracts remains hotly anticipated but at the time of writing the situation is much as it was at the beginning of the 2018. Unless the model launch is delayed, time has effectively run out for new builds and therefore owners of readily available larger factories are well positioned to benefit. That said, if existing suppliers with regional production facilities are the big winners net take up will be less than hoped.

The transactions that have taken place illustrate a level of resilience within the market as we head into H2 2018. While continuing uncertainty around Brexit may deter some organisations from making investment decisions there remain companies in our region looking to expand or upgrade their property and with such limited good quality stock available opportunities for rental growth remain.

LOGIC - RESEARCH

NORTH WEST

Logistics and Industrial Commentary

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H1 2018 Review

- In H1 2018, take-up of units over 50,000 sq ft across the North West region reached 1.32m sq ft, 17% higher than recorded in H2 2017. With several requirements at an advanced stage however, we anticipate a strong second half of the year meaning take-up for 2018 should show a healthy increase when compared to 2017.
- Deals have been agreed on two brand new units over 350,000 sq ft in the North-West, both of which are under construction for Movianto and Royal Mail. There are also a number of Grade A and refurbished units currently available in the region over 300,000 sq ft, in strong logistics locations such as Warrington and Middlewich, which should satisfy some of the larger requirements from the 3PL's over the coming months.
- Speculative development of units over 100,000 sq ft is continuing in the region indicating confidence in the sustainability of demand. Both Academy Business Park in Knowsley and Evolution at Agecroft in Salford have now completed. With schemes in Crewe, Warrington, Bolton and Blackburn all under construction and further development proposed in other areas of the North-West, Grade A stock levels will begin to increase.
- There has also been a return of speculative development in the mid-box size ranges, with take-up healthy in the sub 100,000 sq ft range. Upward pressure on rents remains a feature of the market and whilst there may be some levelling off of these over the next 6 to 12 months, the tones now being set exceed expectations from 12 to 24 months ago
- Industrial property opportunities continued to prove attractive to investors in H1 2018. Investment volumes reached £199m at the mid-point of the year, 10% above the long-term average for the period. Notable industrial investment transactions include Tritax Big Box REIT's acquisition of a National Distribution Centre at Weston Road, Crewe for £36.1m. The property is let to Expert Logistics Ltd ("Expert Logistics"), a wholly owned subsidiary of AO World Plc ("ao.com").

H1 2018 Prime headline rents (£ per sq ft)
▼/ ▲ - movement expected to H1 2019

Market	Under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
Manchester	£7.50 ▲	£7.25 ◄ ►	£6.50◄ ►
Warrington	£7.50 ◄ ►	£7.00 ◄ ►	£6.50 ◄ ►
Liverpool	£6.25 ◄ ►	£6.00 ▲	£5.50 ◄ ►

Knight Frank let Zodiac in Warrington to Countryside Properties in June 2018

Selected North West transactions in H1 2018

Address	Occupier	Size (sq ft)	Rent /Price (per sq ft)	Date
Zodiac, Gemini Business Park, Warrington	Countryside Properties	128,944	£5.95	Jun-18
T2 Trafford Point, Trafford Park	Globus	98,627	£6.50	Jun-18
Stakehill 104, Stakehill industrial Estate	Parcel Force	104,438	£4.85	Jun-18
K55, Plot K, Kingsway Business Park	Nobilia GB Ltd	55,000	£6.50	Apr-18
Units 5 & 6 ALPHA, Airport City	Thomas Cook Airlines Limited	52,087	£7.00	Mar-18

Regional outlook

- We expect the take-up for the second half of 2018 to show an increase with the overall figure for the year looking set to return somewhere towards the first half of 2017 and H1 / H2 2016. Further rental growth remains a possibility, albeit at a slower pace than in previous periods.
- Occupiers continue to prioritise labour supply as a factor when considering their relocation strategies, with analysis of a workforce in a given location now crucial to securing an occupier. Power supply is also becoming an increasingly important factor.

SCOTLAND

Logistics and Industrial Commentary

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H1 2018 Review

- Take-up of units above 50,000 sq ft across the three Scottish centres (Aberdeen, Glasgow and Edinburgh) reached 294,610 sq ft in H1 2018, twice the level registered in H2 2017. Nonetheless, this total is well below the long term average for the period, with activity at the smaller end of the market (units) below 50,000 sq ft continuing to be the mainstay of the market.
- In the West Scotland market, demand for the largest units has increased in 2018. Requirements tend to be to service a distribution need, with recent examples including Brewdog's purchase of Vertex (129,183 Sq. Ft) and Wincanton's acquisition of Colossus 1, Eurocentral (95,513 Sq. Ft).
- The majority of lease transactions across Scotland are for units of less than 20,000 sq ft and in particular sub 5,000 sq ft however. For example, the largest transaction of the period in Aberdeen was the 34,250 sq ft letting to subsea engineering and construction firm Technip UK Ltd at the Westhill Industrial Park.
- Supply of units above 50,000 sq ft remained tight in the first half of 2018, with circa 2m sq ft in Aberdeen and 6.2m sq ft in the west of Scotland being marketed. Much of this stock however, is of secondary quality. Similarly, limited supply was highlighted as a limiting factor at the smaller end of the market. Demand levels continued to be highest at the sub 10,000 sq ft end of the market meaning vacancy at multi-let parks is particularly tight.
- Industrial investment volumes in Scotland in H1 reached £127m, 28% above the 10-year average for the period. Notably, this was also the highest total registered for an H1 period since 2014. Canmoor's acquisition of West Way Park for £37m was the largest transaction to complete. The 135 acre site is home to engineering giant Doosan Babcock.

Selected leasing transactions in Scotland, H1 2018

Address	Occupier	Size (sq. ft)	Rent / Price (per sq ft)	Date
Eurocentral	Vertex	129,168	TBC	Q2 2018
Eurocentral	Colossus	95,476	TBC	Q2 2018
Eurocentral	DPD	69,966	TBC	Q1 2018
Grayshill Road, Cumbernauld	Pusterla 1880 UK Ltd	46,327	£3.75	Q1 2018
Axis Park, Westfield Industrial Estate, Cumbernauld	ID Systems Ltd	40,379	£5.00	Q1 2018
Phase 1 & 2 Enterprise Drive, Westhill	Technip	34,233	£7.75	Q2 2018

*Freehold transaction

H1 2018 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to H1 2019

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
Aberdeen	£9.00 ◄►	£8.50 ◄►	£7.00 ◄►
Edinburgh	£8.50 ▲	£6.50 ◄►	£4.50 ◄►
Glasgow	£7.00 ▲	£6.00 ◄►	£5.25 ◄►

With limited new build supply in the West of Scotland, established locations, including Hillington, continue to see good levels of demand

Regional outlook

- The industrial market continues to be Aberdeen's most resilient sector with continued demand from occupiers, which has created "cautious optimism" moving forward. Demand is still at a historically high level, however, a lot of the supply would be deemed no longer fit for purpose by the market.
- In Glasgow, further erosion of the existing supply is anticipated, particularly at the smaller end of the market (less than 10,000 Sq. Ft) as the last remaining best options are taken. Moreover, with limited new built supply coming through the development pipeline, we would expect headline rents to continue to rise beyond their current level for existing stock. In addition, we would anticipate secondary locations to continue to benefit from the overspill of demand.

SOUTH WEST

Logistics and Industrial Commentary

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H1 2018 Review

- The South West started to the see the change in the supply dynamic of the market for the first time since the recession. Big Box and Mid Box developments were completed throughout the region, bringing supply to constrained major locations along motorway corridors. DB Symmetry completed 211,000sq ft at Swindon, and iSec/St Francis completed 115,000sq ft at Bristol with quoting rents that will set new tones in each market. CurtisHall/Richardsons started construction of 105,000sq ft at Severnside with completion due October 2018.

- In the mid-box sector St Modwen let/sold both of their second phase of 35,000sq ft units, and immediately commenced two phases of 5,000-15,000sq ft units all at Access 18, Avonmouth. Additionally, Barberry/Richardsons commenced construction of 160,000sq ft of 13,500-55,000sq ft unit at Central Park for delivery in Q1 2019.

- Land acquisitions were completed by Mountpark, Trebor and Barwood in Severnside totalling c.105 acres. Barwood are planning construction of c.137,000sq ft with delivery in Q1 2019; Trebor are planning two schemes at Western Approach and Avonmouth totalling over 350,000sq ft in 9 units, and await planning consents. Mountpark have named their scheme XL and are underway with their ecology clearance ahead of offering pre-let opportunities.

- Chancerygate continue to be acquisitive with land purchases at Emersons Green and Warmley, Bristol where they are planning over 200,000sq ft in c.20 units.

- Prime rents have growth throughout Bristol to £8.50psf for new in both Avonmouth and Filton. These deals have started to free up some secondhand stock where rental growth continues for well specified refurbished stock – although at a slower rate than sat 2 years ago.

- With planned delivery of new speculative product in all sizes and locations, together with pre-let completions such as Amazon's 200,000sq ft in Exeter we estimate that the region is due to receive over 1.75m sq ft of new units during Q1 2019. H2 2018 will see an unrivalled amount of construction work in this sector.

H1 2018 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to H1 2019

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
Bristol	£9.50 ◄ ►	£8.00 ▲	£7.00 ▲
Swindon	£8.25 ◄ ►	£7.25 ◄ ►	£6.75 ◄ ►
Exeter	£7.25 ◄ ►	£6.75 ◄ ►	£6.25 ◄ ►
Plymouth	£5.75 ◄ ►	£5.50 ◄ ►	£5.00 ◄ ►

Central Park, Bristol; Barberry & Richardsons plan 550,000sqft of mid-box units

Selected South West leasing transactions H1 2018

Address	Occupier	Size (sq ft)	Rent (per sq ft)	Date
Former Lathams Timber, Badminton Rd, Yate	Revlan	54,000	£1.725m	Mar-18
5020 Western Approach, Bristol	Gregory Distribution Ltd	53,000	£6.50psf	Apr-18
Victoria Park, Roche	DPD	60,002	£490,000pa	Jun-18
Bristol Rd, Bridgwater	Butcombe Brewery	54,000	n/a	Jan-18

Regional outlook

- H2 2018 will see an unprecedented amount of construction activity throughout the region with speculative starts in all major centres. Rents will move upwards as the new stock starts to be delivered, and deals are concluded. H1 2019 will see the majority of scheme completions, and therefore we are likely to see a dip in take up prior to the re-balance of the supply side of the market dynamic.

- Pre-let opportunities remain for the Big Box market, although the large supplies of land for purchase have now disappeared from the market.

SOUTH YORKSHIRE

Logistics and Industrial Commentary

H1 2018 Review

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- In the first six months of 2018, take-up of industrial units above 50,000 sq ft across South Yorkshire reached just over 2.0m sq ft. Notably, the H1 2018 total is not only higher than recorded across the full year of 2017, but also represents the highest level of take-up recorded within a single six month period on record.
- The expansion of on-line retailers continued to have a significant impact on market activity. In April, Clipper Logistics signed a 10-year lease on 615,000 sq ft at Sheffield 615 in Tinsley and will run operations for PrettyLittleThing, part of online fashion firm Boohoo. Similarly, Asos took a 10-year lease on 190,000 sq ft at West Moor Park in Doncaster.
- There remains an imbalance in demand and supply across the South Yorkshire region, particularly in respect of modern accommodation. In H1 2018, availability of units of over 50,000 sq ft dipped below the 1m sq ft market to reach 0.7m sq ft. This is the lowest level in our records.
- Strong demand and the reduction of standing stock in the past 18 months has encouraged a developer response. In terms of development completions, 2017 proved to be a record year albeit much of this was pre-committed space. The development pipeline at the mid-year juncture of 2018 indicated that a further 385,000 sq ft across three schemes was under construction.
- The supply and demand imbalance continued to fuel upward pressure on rents in H1 2018. Headline rents moved to £5.75 at the start of the year with a further rise expected as new stock comes to market.
- The Advanced Manufacturing Park, Rotherham continues to thrive with headline rents currently at £7.50 per sq ft. A further phase of speculative development is under way with practical completion due in September 2018.

H1 2018 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to H1 2019

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
Sheffield	£5.75 ▲	£5.50 ▲	£5.50 ▲
Doncaster	£5.50 ▲	£5.50 ▲	£5.50 ▲
Rotherham	£5.50 ▲	£5.50 ▲	£5.50 ▲
Barnsley	£5.50 ▲	£5.50 ▲	£5.50 ▲

West Moor Park in Doncaster

Selected South Yorkshire leasing transactions, H2 2017

Address	Occupier	Size (sq ft)	Rent / Price (per sq ft)	Date
Redhouse Interchange, J37 A1(M)	Mawdsleys	150,000 sq ft on 7 acres	P&C	Apr- 18
Sheffield 615, J34 M1	Pretty Little Thing	615,000	£5 psf	Apr- 18
West Moor Park, Doncaster	Asos	190,000	£4.50 psf	Apr- 18
Doncaster South	Daher	320,000	£4.65 psf	Mar- 18
Helix, Barnsley, J36 M1	Motor Depot	75,000	£5.25 psf	Feb- 18

*Freehold transaction

Regional outlook

- On-line retail continues to have a major influence on the scale of market activity. As delivery and supply operations are further refined to improve customer experience, new space requirements will continue to develop.
- The dip in availability and sustained level of demand is encouraging development activity across the region. Importantly, speculative schemes are commencing. This introduction of new high quality space to the market should attract significant occupier interest, thus fueling the prospect of rental growth.

LOGIC - RESEARCH

WALES

Logistics and Industrial Commentary

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H1 2018 Review

- Occupier demand for industrial units above 50,000 sq ft remained strong in the first half of 2018, although a lack of good quality stock continued to hinder take-up.
- Approximately 664,000 sq ft was transacted during the H1 2018 period. This total is 40% below the level of take-up recorded in H2 2017.
- Nonetheless, the conclusion of several significant requirements in H1 provides evidence of sustained occupier interest. The letting of 180,000 sq ft to TVR in Rassau Industrial Estate, Ebbw Vale was the headline deal of H1 2018.
- The TVR transaction was closely followed in H1 2018 by purchases involving both Smurfitt Kappa (131,500 sq ft) and BCB International (51,000 sq ft) in Abercarn and Cardiff respectively. In fact, of the transactions exceeding 50,000 sq ft completed in H1, all but one was a purchase which continues to highlight the recent trend of occupiers wanting to own their property.
- Demand for units of 20,000 sq ft to 50,000 sq ft also remains strong, with all good quality stock quickly being acquired. Notably, in many circumstances record capital value and rental levels are being paid with incentives on new leases not as hard as they were in recent times.
- On the supply side, approximately 3.15 million sq ft was available across Wales at the end of H1 2018. Notably, this figure is only 150,000 sq ft less than the figure reported at the end of 2017. There had also been less stock released to the market via closures than in recent years.
- As a response to strong demand for good quality space, St Modwen are pressing ahead with the speculative development of two units at Celtic Business Park, Llanwern where there will be 30,000 sq ft and 100,000 sq ft available from the Summer of 2019. The Welsh Government have also reacted to demand close to the Heads of the Valleys, and the impact of TVR locating to Rassau Industrial Estate, by advancing plans and commitment to develop 50,000 sq ft at their site in Rhyd y Blew in Ebbw Vale.

H1 2018 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to H1 2019

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
Cardiff	£6.00 ◄ ►	£5.50 ◄ ►	£5.00 ◄ ►
Swansea	£4.50 ◄ ►	£4.00 ◄ ►	£3.50 ◄ ►
Heads of Valleys	£3.50 ◄ ►	£3.00 ◄ ►	£2.50 ◄ ►

Celtic Business Park, Newport- Knight Frank are retained to market the two new speculative units- due to complete summer 2019

Selected leasing transactions in Wales, H2 2017

Address	Occupier	Size (sq ft)	Tenure	Date
Cowbridge Road Pontyclun	Concrete Canvas	89,000	Freehold	May-18
Millbrook Drive Swansea	Western Power Distribution	50,000	Freehold	Apr-18
Avondale Business Park Cwmbran	Zeffa Online	50,000	Freehold	Jan-18
Princes Industrial Estate Abercarn	Smurfitt Kappa	135,000	Freehold	Jan-18
Lamby Way Industrial Estate Cardiff	BCB International	51,000	Freehold	Jan-18

Regional outlook

- We are aware of many developers eager to capitalise on the interest shown in Wales, the strong workforce and relatively cheap land. However development in many areas is still not viable and whilst assistance from the Welsh Government will be required in some form there is a growing realisation amongst both developers and occupiers that rental and purchase prices need to increase to enable new development to be undertaken.
- A number of units over 50,000 sq ft were under offer at the mid-year point of 2018. Should these all complete in the second half of the year, take-up figures for that period are likely to exceed 1 million sq ft.
- Demand for logistics space along the M4 corridor continues to grow but at present is not being satisfied by available supply. In many cases, bespoke centres are being constructed to satisfy occupier requirements. The clustering effect of this should encourage speculative development moving forward.

WEST YORKSHIRE

Logistics and Industrial Commentary

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H1 2018 Review

Occupational Market

- Approximately 850,000 sq ft of industrial/warehouse space was transacted across the West Yorkshire region in the first half of the year involving units over 50,000 sq ft. This represents a 20% rise compared to H2 2017. (Please see below transactions schedule).
- Occupier demand has derived primarily from the storage and distribution sector as well as some activity from prop-co's , for example Scarborough based property investor Broadland Properties acquired the 176,000 sq ft former TK Maxx warehouse at Wakefield Europort in June.
- Although stock levels continue to dwindle in the region, availability has increased slightly overall due to a number of large second hand properties entering the marketplace since the turn of the year.
- As with other regions, high quality existing and new build industrial stock in the mid-size range (30-75,000 sq ft) remains in short supply with the exception of Trilogy @ Logic in Leeds, which consists of a 3 unit speculative warehouse development totalling over 100,000 sq ft. Quoting rents for new build units in prime areas in the mid-size bracket are now ranging from £5.95-£6.25 per sq ft.
- There also remains a dearth of grade A 'Big Sheds' in West Yorkshire above 200,000 sq ft, with the exception of the 215,000 sq ft former Poundworld unit at Normanton (under offer). Notably Tungsten Developments and Barwood Capital are set to commence construction of a speculative 259,000 sq ft warehouse at Glasshoughton off Junction 32 of the M62 later in the year.
- There are a small handful of modern second hand warehouses above 175,000 sq ft including the 193,000 sq ft former Astracast unit on the Euroway Trading Estate in Bradford (Euroway 26), The Copperworks on Haigh Park Road in Leeds, which extends to over 300,000 sq ft, and Wakefield 31 (176,000 sq ft) located at Wakefield Europort.
- In terms of land sales, 2018 has already seen two highly sought after development sites come to the market in Leeds. Keyland have sold their 16 acre site fronting Pontefract Lane in the Leeds City Region Enterprise Zone and One Sub Sea brought their 20 acre site in Stourton to the market, which is now under offer.

Industrial Investment

- Demand remains robust, however transaction volumes remain restricted by a lack of available opportunities. Yields continue to strengthen although there remains an attractive discount to other markets, in particular the South East.
- Aberdeen Standard's forward funding of the 361,000 sq ft unit let to Premier Farnell at Muse Developments Logic Leeds represents the largest investment so far this year. On the multi-let estate side, Kirkstall Park was acquired by Stenprop for £8.15m reflecting 6.75%.

Selected West Yorkshire transactions in H1 2018

Address	Occupier / Purchaser	Size (sq ft)	Rent / Price (per sq ft)	Date
Mount Park, Wakefield	Confidential Company	133,000	Confidential Lease	March 18
Logic Leeds	Premier Farnell	361,000	Confidential Lease	March 18
Wakefield 31	Broadland Properties	176,000	Confidential Purchase	June 18

H1 2018 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to H1 2019

Market	<20,000	20,000 to 50,000	>50,000
Leeds	£6.50	£6.25	£5.95
Bradford	£6.00	£5.75	£5.50
Wakefield	£6.50	£6.25	£6.00

Trilogy@Logic Leeds

Regional Outlook

- After a year of limited development in the region of any scale, we are seeing a handful of developers looking to break new ground during the second half of the year including Super G at Glasshoughton, (259,000 sq ft). Gregory Properties are looking commencing construction of a 4 unit industrial scheme in Pontefract branded Park 32 and Towngate PLC are creating a brand new business park on the Cross Green Industrial Estate in Leeds branded Towngate Link.

Wakefield 31, Castleford