RESEARCH

LOGISTICS & INDUSTRIAL

OCCUPIER & INVESTMENT MARKET COMMENTARY H2 2017

Economic overview

The UK economy grew by 0.5% in Q4, marking the strongest quarterly growth in 2017. This brought annual growth to 1.8% in 2017, which was marginally lower than the 1.9% GDP growth seen in 2016. (Figure 1).

The boost to the economy at the end of the year was driven by the dominant service sector and increased production output – particularly from strong growth in manufacturing. Consumer focused services, however, showed slower growth, as did construction.

The manufacturing sector has benefited from strong global growth and a weaker pound since the Brexit vote in 2016, which has helped boost exports and UK manufacturing. However, despite stronger than expected growth in the final quarter of 2017, there remains uncertainty in the wider economy and the underlying picture is one of slower and uneven economic growth in 2018.

Occupier market

During the second half of 2017, a total of 10.8m sq ft of logistic and industrial units above 50,000 sq ft was acquired for occupation. This brings annual take-up for 2017 to 27.3m, which is 28% below the level of take-up seen in 2016 (Figure 2).

The occupational market continues to benefit from the structural shift towards e-commerce and on-line retailing, which now accounts for 18% of all retail sales in the UK (Figure 3).

However, the more recent acceleration in manufacturing output growth is supporting traditional occupiers and this is reflected in the changing mix of occupiers taking space. In West Yorkshire, for example, occupier demand has derived mainly from the traditional manufacturing and distribution sectors, with little activity in the second half of 2017 from the online retail sector.

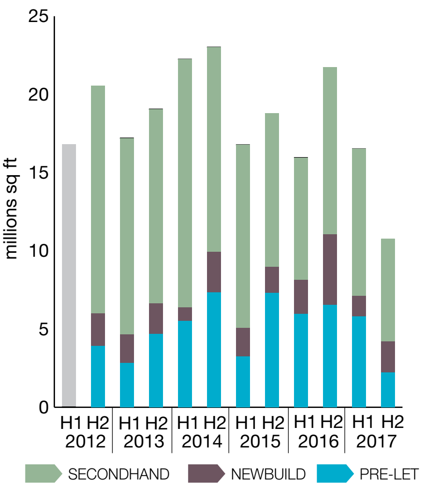
At regional level, the Midlands continues to dominate the market, with 42% of total take-up coming from this area, followed by London and the South East, which accounted for a further 19% of total take-up during H2 2017.

Lack of supply is limiting take-up. In the Big Shed market new build supply of units above 100,000 sq ft stood at 10.5m sq ft at the end of December 2017 compared with a peak of 28m in Q1 2008. (Figure 4). Developers are responding to the shortfall with a new wave of speculative development. However, there is a shortage in the sub 100,000 sq ft band in the Midlands and in London conurbations the pressure on land suitable for industrial development continues to increase as the need to build more homes grows.

The outlook for 2018 in the context of slower uneven economic growth is mitigated by supply shortages. Longer term occupier requirements will be driven by the increasing shift to automation with artificial intelligence and the need for sites / buildings that can accommodate higher power requirements and autonomous vehicles.

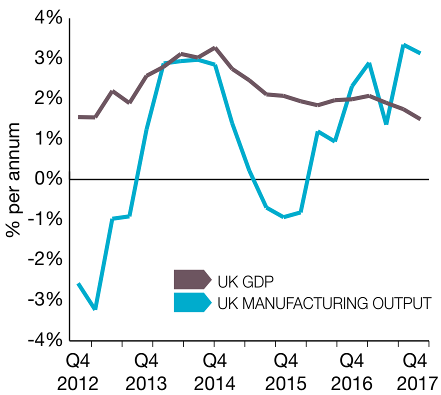
For more detailed commentary on the occupier markets, please refer to our regional LOGIC reports.

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



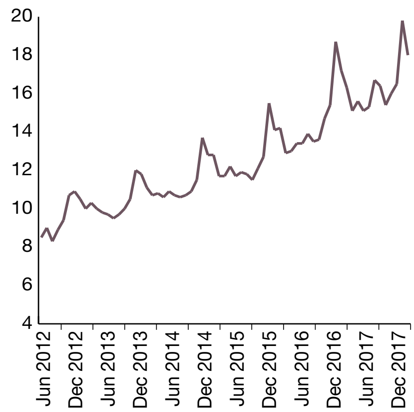
Source: Knight Frank Research

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



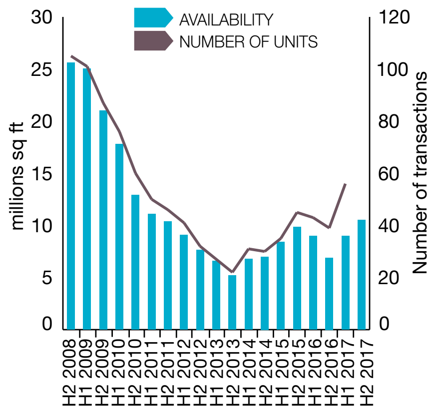
Source: ONS

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



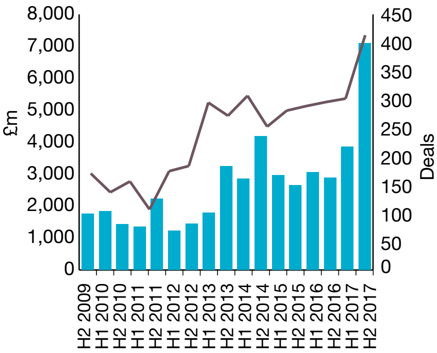
Source: ONS

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



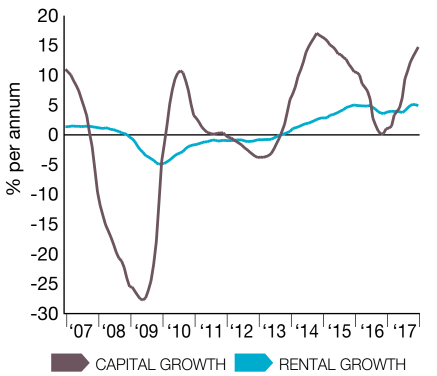
Source: Knight Frank Research

FIGURE 5
Industrial investment transactions



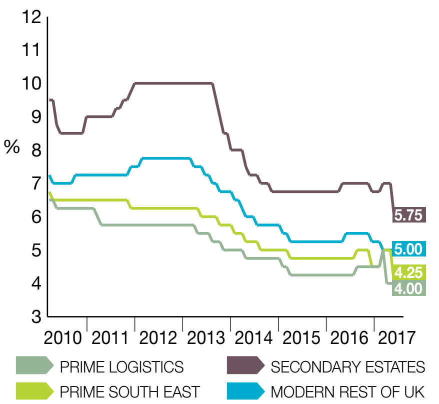
Source: Property Data / Knight Frank

FIGURE 6
Industrial sector performance



Source: IPD/Knight Frank

FIGURE 7
Single-let and multi-let warehouse yields



Source: Knight Frank

Investment market

Investment in UK industrial property continued to trend higher during 2017. The volume of investment transactions exceeded £7bn in the second half of the year, bringing the annual total for 2017 to almost £11bn, an increase of 80% on 2016 levels. (Figure 5). The industrial sector's share of total commercial property transactions also rose and now accounts for 17% of all commercial property transactions.

Key investment deals during the second half of the year include Royal London Pension Fund's acquisition of the Birches for £65.0m (NIY 4.66%), Legal & General Property's purchase of Kingsland Business Park for £70.0m (NIY 5.90%) and Tritax Big Box REIT's acquisition of Prologis Park Sideway for £78.5m (NIY 5.13%).

Overseas investors have continued to increase their holding of UK industrial property. Their share of industrial purchases increased to 44% in 2017, and they were also the largest net buyers during H2 2017, partly as a result of a single large portfolio acquired by China Investment Corp for £2.4bn. UK institutions were the second largest group of investors accounting for 21% of the total in 2017.

Industrial capital values are now rising at an annual rate of 15% and the sector's annual rental value growth is 4.9% (Figure 6). In terms of the wider market, industrials continue to outperform the other two core sectors, achieving an annual total return of 21% in December 2017 , with London and the South East leading the way.

Competition for stock has continued to put downward pressure on yields. The IPD All Industrial Equivalent Yield stood at 5.8% at the end of December 2017, 63 bps down since the start of the year. With 10-year gilts also now down to 1.19%, the gilt yield gap for the industrial sector is 461 basis points.

While yields on the best long-let prime stock have reached very low levels, with single-let distribution yields at 4.00%, it is the higher-yielding secondary estates and distribution facilities that have seen the greatest yield compression in recent months, in part reflecting the lack of prime stock available to purchase. (Figure 7).

Selected warehouse / logistics transactions in H2 2017

Property	Vendor/Purchaser	Price	NIY	Date
The Birches, East Grinstead	BP Pension Fund/Royal London Pension Fund	£65.0m	4.66%	Dec-17
Kingsland Business Park, Basingstoke	SEGRO Plc/Legal & General Property	£70.0m	5.90%	Nov-17
Prologis Park Sideway, Stoke-on-Trent	Prologis UK Ltd/Tritax Big Box REIT Plc	£78.5m	5.13%	Oct-17
DIRFT Logistics Park, Daventry	London Metric Property Plc/ Tritax Big Box REIT Plc	£48.8m	5.00%	Oct-17
Wilstead Industrial Park, Bedford	Private Investor/Canmoor Asset Management Welland PUT	£29.2m	6.75%	Aug-17
City Park Watchmead, Welwyn Garden Centre	Aviva Investors/Lega & General Property	£27.0m	5.42%	Jul-17

Source: Knight Frank Research

Knight Frank
Newmark Knight Frank

COMMERCIAL RESEARCH
Louisa Rickard, Associate
+44 20 7861 1592
louisa.rickard@knightfrank.com

AGENCY
Charles Binks, Partner, Head of Logistics
+44 20 7861 1146
charles.binks@knightfrank.com

VALUATIONS
Giles Coward, Partner
+44 20 7861 1679
giles.coward@knightfrank.com

CAPITAL MARKETS
Johnny Hawkins, Partner
+44 20 7861 1519
johnny.hawkins@knightfrank.com

www.KnightFrank.com

Knight Frank

LONDON & SOUTH EAST

Logistics and Industrial Commentary

H2 2017 Review

Gus Haslam, South East Industrial Agency
+44(0)20 7861 5299
gus.haslam@knightfrank.com

- Take-up of industrial units above 50,000 sq ft across London and the South East in H2 2017 totalled 2.0m sq ft. This is 19% down on the previous half year.

- Demand has remained extremely resilient, hampered only by a lack of stock. This imbalance in supply and demand is more pronounced in areas such as West, North West and South London, and key regional towns such as Crawley, High Wycombe, Bracknell, Brighton, Southampton, Reading and the Oxford – Cambridge corridor. As a result, some of these areas have seen rent increases of over 7% in 2017. This upward trend is expected to continue through to 2022.

- The pressure on land suitable for industrial development continues to increase as the need to build more homes becomes ever more prevalent. This means that developers will have to be far more innovative, particularly within the London conurbation, in order to maximise use and density and to enhance their ability to compete. "Sheds & Beds" side by side, multi storey and underground will be the future with growing evidence of such innovation being executed in the market.

- Key influences for the larger occupier and therefore the developer /property owner, include the increasing shift to automation with artificial intelligence /robotics, the need for substantially greater power and the effect that autonomous vehicles may have on operational layouts.

- An important consideration for those landlords that own older non-exempt industrial buildings with EPC ratings of less than an E, is the change in Energy Efficiency Regulations. This will mean that they have to carry out works to improve the energy performance of a building to a rating of E or above, before re-letting.

- On the investment side, yields on prime South East multi-let industrial estates currently stand at 4.25% NIY. Stronger performance in secondary markets is evidenced 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.

Selected London, South & East leasing transactions, H2 2017

Address	Occupier	Size (sq ft)	Rent / Price (per sq ft)
Bob Dunn Way , Dartford	Berensden	92,000	£9.50
Mountpark, Southampton	Coopervision	100,660	£9.00
Premier Park, Park Royal	Japan Centre	53,775	£14.00
Unit D Logistics City Thurrock	Harrow Green Removals	46,000	£9.20
Unit 2 Island Road, Reading	Universal Electric Corporation	55,972	£11.65

Q4 2017 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	£13.00 ▲	£12.50 ▲	£11.00 ▲
North London	£14.00 ▲	£13.00 ▲	£11.00 ▲
South London	£14.50 ▲	£13.50 ▲	£12.50 ▲
Crawley	£13.75 ▲	£13.25 ▲	£12.75 ▲
Southampton / Portsmouth	£10.00 ▲	£9.75 ▲	£9.50 ▲
Maidstone/Aylesford	£7.50 ▲	£7.50 ▲	£7.50 ▲
Milton Keynes	£8.50 ▲	£8.00 ▲	£7.50 ▲
Hemel H'stead	£11.00 ▲	£9.75 ▲	£9.25 ▲
Reading	£12.00 ▲	£11.50 ▲	£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 continued shortage of new and secondary industrial accommodation, coupled with strong demand will continue to put pressure on rents and incentives.

- Greater London industrial estates will see a further shift in the makeup of occupier type, with the more traditional industrial occupier losing ground to e-retailing, trade counter and urban logistics. Some areas within the region will perform better than others. Indeed evidence suggests that some locations may have peaked, with resistance from occupiers to pay higher rents preferring to be more footloose in their occupational and operational approach.

- Infrastructure projects will continue to disrupt. HS2 have started to serve notice around the Park Royal and North Acton areas affecting approximately 350 businesses.

MIDLANDS

Logistics and Industrial Commentary

H2 2017 Review

James Clements, Midlands Industrial Agency
+44(0)121 233 6460
James.clements@knightfrank.com

- Take-up of units above 50,000 sq ft across the Midlands region reached 4.7m sq ft in the second half of 2017. This brings the annual total to 10.2m sq ft, which is 24% below the five-year average. The decline in take-up can be attributed to the start of the year where wider economic influences delayed occupier decision-making.

- B8 occupiers accounted for 75% of take-up in the second half of the year. Key acquiring occupiers include Eddie Stobart (314,000 sq ft at Mountpark Bardon, 158,000 sq ft at J1 Rugby and 143,000 sq ft at Fradley Park, Lichfield), Decathlon (349,000 sq ft at Brackmills Point, Northampton) and Mattel (205,000 sq ft at Optimus Point, Leicester).

- On the supply side, a total of 9.2m sq ft of industrial space stood available at the end of 2017, down 3% on H1. There is a shortage of supply in the sub 100,000 sq ft size band.

- 2.1m sq ft of speculative development was underway across the region as at end 2017. This includes Alpha Conneqt, Cannock (150,000 sq ft – Opus Land / Bridges); Nickel 28, South Normanton (261,000 sq ft - Richardson Capital / Thorngrove) and C172K, Brackmills Point, Northampton (172,000 sq ft – Roxhill / Cabot).

- With land supply diminishing, there is strong competition for sites brought to the market, including those in non-prime locations. New schemes launched in H2 include ProLogis at Hams Hall (887,000 sq ft); Manse Opus LLP at Prospero Ansty (2.3m sq ft); DB Symmetry at Magna Park, Lutterworth (2.8m sq ft) and Mountpark Bardon II (1.3m sq ft). Birmingham City Council are also expected to announce a development partner on the 175-acre Peddimore scheme in 2018.

- A total of £785m of industrial investment transactions took place across the Midlands region during H2. Key investment deals include Tritax Big Box REIT's purchase of Prologis Park Sideway, Stoke on Trent for £78.5m (NIY 5.43%), and SEGRO's acquisition at Dockham Way, Crick for £41.3m (NIY 5.00%)

Q4 2017 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
Birmingham	£7.00 ▲	£6.95 ◄ ►	£6.75 ◄ ►
Black Country	£6.25 ▲	£6.25 ▲	£5.75 ▲
Leicester	£6.50 ◄ ►	£6.25 ◄ ►	£6.25 ◄ ►
Northampton	£6.50 ◄ ►	£6.25 ◄ ►	£6.25 ▲
Stafford	£5.50 ▲	£5.50 ▲	£5.25 ▲
Stoke	£5.75 ▲	£5.50 ▲	£5.35 ▲
Rugby / Daventry	£6.50 ◄ ►	£6.25 ▲	£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, H2 2017

Address	Occupier	Size (sq ft)	Rent (per sq ft)	Date
Optimus Point, Leicester	Mattel	204,902	£6.00	Dec-17
Unit 2 Mountpark, Bardon	Eddie Stobart	314,500	£5.85	Nov-17
Apollo, Advanced Manufacturing Hub, Birmingham	Salts Healthcare	95,013	£6.50	Sep-17
Hub 69, The Hub, Birmingham	Argos	69,000	£6.75	Jul-17
BG87, Burton Gateway, Burton Upon Trent	Hellmann Worldwide Logistics	87,716	£5.75	Jul-17

Regional outlook

- We anticipate growing demand in areas with strong labour dynamics as occupiers continue to look for ways to reduce their operational costs.

- With increasing automation in industry, we expect to see increased occupier demand for sites / buildings that can accommodate higher power requirements.

- We expect to see increased speculative development below 100,000 sq ft as supply in this size bracket is limited.

NORTH EAST

Logistics and Industrial Commentary

H2 2017 Review

Simon Haggie, North East Industrial Agency
+44(0)191 5945009
simon.haggie@knightfrank.com

- Take up of units over 50,000 sq ft across the North East region totalled 295,122 sq ft in H2 2017. While this is less than half the volume of take-up in the first half of the year, it brings the annual volume to 1.1m sq ft, which is in line with 2016.

- The stand out transaction during H2 was the sale of the former Visage Clothing warehouse in Washington totalling 175,000 sq ft. However, the letting of UK Land's new build 57,000 sq ft unit on Tyne Tunnel Trading Estate is arguably more of a landmark. This unit was let during construction in September at a rent of £6.00 per sq. It was the speed at which the unit went under offer in the first month after construction commenced which should give encouragement to other developers sitting on planning permission for larger units.

- The North East continues to suffer from a lack of good quality stock. The statistics show that there is around 4.2m sq ft currently available, however only 485,000 sq ft of that space could be considered modern. Significantly, there is no new stock above 20,000 sq ft available although Hellens are on site with a development of two units of 16,000 sq ft and 26,500 sq ft on the Monkton Business Park, Hebburn, which completes within the next few months.

- Demand is good for larger units between 50,000 sq ft and 150,000 sq ft and is partly being fuelled by Nissan's launch of a new model in 2020. A number of part suppliers are currently tendering for contracts from Nissan and if successful will need to be in premises by Q2 2019 in order to trial initial production runs. Interestingly in anticipation of Brexit, Nissan is pulling most, if not all, of its suppliers into the region to avoid potential duties on its parts post Brexit.

- In terms of land supply, the International Advanced Manufacturing Park (IAMP) proposed for land north of Nissan (150 ha/370 acres) has cleared most of the planning hurdles to release it from the greenbelt and Henry Boot has been chosen as the preferred developer by Sunderland and South Tyneside Councils. There remain some questions on the land ownership and in particular, a key part of the site is in the hands of a rival developer intent on bringing forward their own proposals. This will not necessarily conflict with the Council's ambitions but it may divert control away from them.

Selected North East leasing transactions in H2 2017

Address	Occupier	Size (sq ft)	Rent / Price (per sq ft)	Date
Unit 11 Follingsby Park, Gateshead	Ikea	62,778	Undisclosed	Dec-17
Unit 5 St. Andrew's Trade Park, Durham	Floors 4 U	3,193	£8.50	Dec-17
Unit L5, Intersect 19, Tyne Tunnel Trading Estate, North Shields	Pryme Group	57,404	£6.00	Sep-17
Former Visage Premises, Parsons Road, Washington	Ashworth & Parker	174,940	£28.00*	Aug-17
Units A3 - A5 Benfield Business Park, Newcastle	Card Tricks Ltd	69,162	£1.81	Aug-17

* Freehold transaction

Q4 2017 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
Newcastle / Gateshead	£8.10 ◄ ►	£7.45 ◄ ►	£6.50 ▲
Sunderland / Washington	£6.50 ▲	£6.00 ▲	£5.00 ▲
Durham	£5.25 ◄ ►	£5.25 ◄ ►	£5.25 ◄ ►
Middlesbrough / Stockton	£5.00 ◄ ►	£4.50 ◄ ►	£4.00 ◄ ►

UK Land Estates letting to Pryme Group at Tyne Tunnel Trading Estate, North Shields was a significant H2 highlight

Regional outlook

- Nissan's current tendering for suppliers has given some hope to developers and owners of large factories that 2018 could be a good year, although we have yet to see how many of these companies will ultimately secure contracts and take space.

- Timescales may pose a problem. The IAMP development model for 2020 will just not come forward in time for those suppliers requiring purpose built premises, although there will be others going forward.

- The market is otherwise proving to be resilient. We expect to see continued enquiries in the sub 10,000 sq ft range, but less activity in the mid-range size between 15,000 sq ft to 35,000 sq ft. We believe that there will continue to be steady demand for larger units in the 50,000 sq ft to 150,000 sq ft size range but fewer enquires for buildings in excess of 150,000 sq ft.

NORTH WEST

Logistics and Industrial Commentary

H2 2017 Review

Rob Taylor, North West
Industrial Agency
+44(0)161 833 7714
rob.taylor@knightfrank.com

- Take-up across the North West region over both H2 and the whole of 2017 is down on 2016 volumes. A total of 1.1m sq ft of units above 50,000 sq ft was transacted during H2, bringing the annual total for 2017 to 3.6m sq ft, compared with 4.2m sq ft in 2016.

- Whilst take-up in the second half of 2017 was down on previous periods, it is worth noting that this is partly due to a lack of stock, which has fuelled a new wave of speculative development in the region. There are also a number of live requirements in the market at present that will lead to the take-up volume bouncing back.in 2018.

- As mentioned above, a further wave of speculative development is underway and proposed for the region in 2018. This includes the construction of units in Crewe, Warrington, Bolton, Speke and Knowsley with further speculative development also rumoured in other locations over the next 6 to 12 months.

- Currently, the supply of new industrial units in the 40,000 sq ft to 100,000 sq ft size range is scarce in relation to demand. This shortage of supply will provide further scope for development of industrial units in the mid-range size band in the region.

- The industrial investment market across the North West region has been more active than the occupational market. During the second half of the year, the volume of investment transactions rose to £367m, bringing the total for 2017 to £627m. Notable industrial investment transactions include Aviva Staff Pension Trust's acquisition of Logistics North Bolton for £44.22m at a yield of 4.33% in November 2017.

Q4 2017 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
Manchester	£7.00 ▲	£7.00 ▲	£6.25 ◄ ►
Warrington	£7.00 ▲	£6.75 ▲	£6.25 ◄ ►
Liverpool	£6.00 ▲	£5.75 ◄ ►	£5.50 ◄ ►

Talke 16, Knight Frank let this 180,000 sq ft refurbished warehouse /distribution/manufacturing at Newcastle-under-Lyme.

Selected North West transactions in H2 2017

Address	Occupier	Size (sq ft)	Rent /Price (per sq ft)	Date
Talke 16, Newcastle-under-Lyme	Confidential	180,100	£4.75	Nov-17
1 Lyncastle Road, Warrington	RJ Edwards	105,100	£5.50	Oct-17
North Point, Trafford Park	Expeditors	62,254	£6.00	Sep-17
Barton Dock Road, Trafford Park	Green Transport	133,636	£5.35	Aug-17
Q92, Weston Road, Crewe	Warehouse One	92,893	£4.95	Jul-17

Regional outlook

- We expect the industrial occupational market in the North West to be strong throughout 2018 and rental growth will continue in core markets across brand new and good quality second hand stock.

- Occupiers are increasingly looking at labour supply as a priority and this will have a positive impact on demand in areas such as Haydock, Bolton, Merseyside and South Cheshire towns where there is a good supply.

- Investment demand for industrial stock remains encouraging in the early part of 2018 and we expect demand for this sector to continue. The lack of available stock should have a positive impact on pricing.

SOUTH WEST

Logistics and Industrial Commentary

Russell Crofts, South West Industrial Agency
+44(0)117 917 4535
russell.crofts@knightfrank.com

H2 2017 Review

- Take-up of units above 50,000 sq ft in the South West slowed to 245,595 sq ft during the second half of the year. This brings the total for 2017 to 1.9m sq ft, which represents a decline of 40% over the previous year.
- The slowdown in occupier activity was mainly due to a number of big box requirements being satisfied in H2 2016 and H1 2017, culminating in Amazon's 1.25m sq ft unit at Central Park, Bristol.
- Looking beyond the headlines reveals a lack of supply in key areas of the market, which is limiting take-up across the region. There were no significant deals in excess of 50,000 sq ft in H2 2017.
- Developers are responding to the shortfall in supply of units in the 100,000-250,000 sq ft size range. These include DB Symmetry's 217,000 sq ft unit at Swindon; St Francis & iSec's 115,000 sq ft unit at Filton, Bristol; Richardson's 105,000 sq ft unit at Severnside, Bristol; and St Modwen's 150,000 sq ft development at Avonmouth. All are either completed or due for practical completion in 2018.
- Together with the increase in development activity, Logicor are bringing two refurbished units of 248,000 sq ft and 312,000 sq ft, respectively, to the Bristol market in H1 2018.
- Land acquisition and development in the mid-box (50,000 sq ft to 100,000 sq ft) category have been a feature of H2 2017. The most notable development has been the joint venture between Barberry and Richardsons, who acquired c.35 acres at Central Park, Bristol for a total development of c.550,000 sq ft units ranging between 30,000 sq ft and 100,000 sq ft. Construction is due to start in H1 2018.
- Rents have continued to rise across the size ranges in both the prime and secondary market, although growth has been at a slower rate than witnessed over the previous two years. Rental growth has been most pronounced in the new small and mid-box categories where very low levels of supply have allowed developers to secure higher rents in the range of £7.25 to £8.50 per sq ft.
- Land values have again risen, although the supply element of the market is starting to be a concern. Strategic development sites have been identified in a number of major B8 locations, including Swindon, Gloucester and Bristol.

Selected South West leasing transactions H2 2017

Address	Occupier	Size (sq ft)	Rent (per sq ft)	Date
Hennock Road, Exeter	Travis Perkins	113,418	n/a	Dec-17
Chippenham79, Chippenham	Wincanton	79,177	£5.50	Oct-17
Former Thales, Weston Super Mare	Somerset Wood Recycling	53,000	£4.00	Aug-17

Q4 2017 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
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

Regional outlook

- The reduction, and ultimate loss, of the tolls from the Severn Crossings will impact on the market in 2018.
- The region relies heavily on labour supply from South Wales, and there will be opportunities for occupiers to exploit this by locating in South Wales.

SOUTH YORKSHIRE

Logistics and Industrial Commentary

H2 2017 Review

Rebecca Schofield, South Yorkshire Industrial Agency
+44(0)114 272 9750
Rebecca.schofield@knightfrank.com

- Take-up of 650,000 sq ft in H2 looks low when compared with the 1.1m sq ft achieved in the first half of the year. However, it has been constrained by the shortage of supply. We expect to see a significant improvement in H1 2018, with a number of potential transactions.
- Whilst we have seen some occupiers 'take-stock' in light of Brexit, this has been in isolated pockets, and is typically linked to large capex projects.
- There remains an imbalance in demand and supply across the South Yorkshire region, particularly in respect of modern accommodation.
- We have started to see developers respond to the lack of supply. DB Symmetry are currently on site with 150,000 sq ft at Symmetry Park Doncaster, and Verdion, who recently reached practical completion on 190,000 sq ft, are considering two further units of 120,000 sq ft and 60,000 sq ft. Other schemes which could see further speculative developments include Capitol Park, Peel Logistics Park Sheffield and Doncaster Distribution Park.
- The small to medium sized sector continues to perform well, but suffers from a severe lack of stock. As a result, headline rents for second-hand accommodation are improving, particularly for estates where the landlords have invested to improve the accommodation, such as at Parkwood Industrial and Tinsley industrial Estate, Sheffield.
- Headline rents across all sectors are improving and we expect this to continue over the next twelve months, with new headline rents set by forthcoming speculative development, closing the gap between neighboring regions. Incentive levels are continuing to harden.
- 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.
- There remains strong investor appetite for industrial stock across South Yorkshire. This is supported by improving occupational market dynamics, with stable demand converging with a shortage of vacant units, an absence of sufficient development in the region and the perceived rental growth.

Selected South Yorkshire leasing transactions, H2 2017

Address	Occupier	Size (sq ft)	Rent / Price (per sq ft)	Date
Capitol Park, Barnsley	P&C	76,000	P&C	Q4 2017
Markham Vale North	Gist	90,000	P&C	Q4 2017
Advanced Manufacturing Park	Bodycote	11,000	£7.25 psf	Q4 2017
Doncaster South, Harworth	Eddie Stobart	305,000	£4.25	Q3 2017

Q4 2017 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
Sheffield	£5.50 ▲	£5.50 ▲	£5.50 ▲
Doncaster	£5.50 ▲	£5.50 ▲	£5.50 ▲
Rotherham	£5.50 ▲	£5.50 ▲	£5.25 ▲
Barnsley	£5.50 ▲	£5.50 ▲	£5.25 ▲

Helix, Barnsley J36 M1 – 75,000 sq ft. Under offer

Regional outlook

- We expect to see a significant improvement in H1 2018, and new headline rents achieved.
- South Yorkshire already has a number of large development sites available across the M1 / M18, which together with a labour supply that compares well with other traditional logistics hubs makes the region an attractive prospect.
- On-line retail will continue to influence the market and we expect retailers, parcel carries and packaging companies to be active occupiers.

WEST YORKSHIRE

Logistics and Industrial Commentary

H2 2017 Review

Iain McPhail, Partner, West Yorkshire Industrial Agency
+44(0)113 297 1843
iain.mcphail@knightfrank.com

- 715,500 sq ft of industrial/warehouse space was transacted across West Yorkshire during H2. When combined with take-up in the first half of the year, this brings the total for 2017 to 1.4m sq ft, which is on par with 2016.

- Occupier demand has derived mainly from the traditional manufacturing and distribution sectors. Notably, there was little activity in H2 from the online retail sector.

- Availability has remained stable, as several buildings have become vacant to offset the effects of the strong take-up seen earlier in 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. There has been very limited speculative development during 2017.

- 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 Poundworld unit in Normanton. There are a few second-hand large warehouses now available above 175,000 sq ft, including the 193,000 sq ft former Astracast unit on the Euroway Trading Estate in Bradford, The Copperworks on Haigh Park Road in Leeds, which is currently under refurbishment and extends to over 300,000 sq ft, and the 175,000 sq ft former TK Maxx warehouse at Wakefield Europort.

- This lack of stock has contributed to an increase in design and build enquiries. The development sites within the Aire Valley Leeds City Region Enterprise Zone such as Muse Developments 100 acre Logic Leeds scheme and the eight-acre G3 site at Glasshoughton are well placed to accommodate this occupier demand.

- There remains a lack of investment stock in the local market and strong demand. Notable investment transactions during the last six months include Unit F Trident Park; Normanton (52,500 sq ft) sold for £6.3m, reflecting a net initial yield of 4.7% on a 15-year lease to Kelling Group. Albion Park Industrial Estate in Leeds, which is a multi-let business park (let with 1.28 years WAULT), sold for £4.9m (NIY 6.5%) and College Trade Park, a multi-let new trade counter development in North Leeds, sold for £10.5m (NIY 5.00%).

Selected West Yorkshire leasing transactions, H2 2017

Address	Occupier	Size (sq ft)	Rent / Price (per sq ft)	Date
Unit F Trident Park, Normanton	Kelling Group	52,500	£6.00	Nov-17
Units F1, F2 & F4 Leeds West	Various Purchasers	140,000 Combined	Private Sales	Nov-17
Unit 2 Stadium Way, South Elmsall	Ultima Furniture	43,000	£45.00	Sep-17
Units 1&2 Kinetic 45 Leeds	EHRLE UK	23,000	£100 (reported)	July - 17

Q4 2017 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
Leeds	£6.50 ◄►	£6.00 ▲	£5.60 ▲
Bradford	£5.75 ◄►	£5.75 ◄►	£5.25 ▲
Wakefield	£6.50 ▲	£6.00 ◄►	£5.35 ▲

Unit F Trident Park, Normanton. Knight Frank advised Travis Perkins Properties on the initial letting of this new build warehouse unit to Kelling Group at a new prime industrial market rent of £6.00 per sq ft and subsequently sold the investment.

Regional outlook

- The market rallied during the last three months of the year as a result of which we expect to see improved take-up figures in Q1 2018.

- Prime rents for mid-sized distribution warehouse units have now broken the £6.00 per sq ft mark with the recent letting of Unit F Trident Park to the Kelling Group. We anticipate an increase in prime rents in the near future, with quoting rents at the new units at Trilogy @Logic and design and build options now being marketed at £6.25 plus per sq ft.

WALES

Logistics and Industrial Commentary

H2 2017 Review

- The occupational market for industrial units above 50,000 sq ft remained strong in the second half of 2017, with approximately 1.1m sq ft transacted across nine deals in Wales. This is similar to the level of take-up in the first half of the year, bringing the annual total for 2017 to 2.3m sq ft.

- The letting of 280,000 sq ft at Newhouse Farm, Chepstow to CJ Dowton and the sale of 250,000 sq ft in Llantrisant to FEI Foods has boosted the take-up figure for the second half of the year.

- Although the overall level of take up for 2017 is 700,000 sq ft lower than 2016, this is a reflection of the lack of quality stock available in the market as opposed to reduced requirements and activity.

- As in previous years, there is a continued trend for regional occupiers to purchase property as demonstrated by Bridgend Willis Asset Management's acquisition of 135,000 sq ft at Aviation House, Waterton, and Heathpak's purchase of 69,000 sq ft in Oakdale, Caerphilly.

- On the supply side, there is approximately 3.3m sq ft of units above 50,000 sq ft available across the whole of Wales. This is 1m sq ft less than in H1 2017 and highlights the continuing erosion of available stock in the 'big shed' market.

- Despite the success of the St Modwen development at Celtic Business Park, Llanwern, new larger units are almost non-existent and there is a lack of confidence in speculative development. This should change in 2018, however, with the Welsh Government committed to developing 50,000 sq ft at their site in Rhyd y Blew and St Modwen speculatively developing up to a further 100,000 sq ft at Celtic Business Park, Llanwern later in the year.

- Speculative investors still have an appetite to purchase second-hand industrial units that provide subdivision and refurbishment opportunities. Rombourne, for example, has continued to grow its industrial offering within the region by adding the former Avana Bakery to its portfolio. This 150,000 sq ft facility will provide some much-needed refurbished space for incoming tenants in the market.

Selected leasing transactions in Wales, H2 2017

Address	Occupier	Size (sq ft)	Tenure	Date
Llantrisant Business Park, Llantrisant	FEI Foods	250,000	Freehold	Nov-17
Pen-y-Fan Industrial Estate, Crumlin	Heathpak	69,000	Freehold	Nov-17
Waterton Industrial Estate, Bridgend	W.A.M.L.	123,500	Freehold	Oct-17
Imperial Park Newport	Cardiff Capital Region	124,000	Freehold	Oct-17
Newhouse Farm Chepstow	C J Dowton	280,000	Leasehold	Sep-17

Neil Francis, Wales Industrial Agency
+44(0)29 2044 0147
neil.francis@knightfrank.com

Q4 2017 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
Cardiff	£6.00 ▲	£5.50 ▲	£5.00 ▲
Swansea	£4.50 ◄►	£3.50 ◄►	£3.00 ◄►
Heads of Valleys	£3.50 ◄►	£3.00 ◄►	£2.50 ◄►

Acting for Bridgend Willis Asset Management Limited Knight Frank acquired this detached Head Quarters facility in Waterton Industrial Estate, Bridgend that measured 123,500 sq ft on a secure site of 9 acres.

Regional outlook

- Despite a large number of unsatisfied requirements in Wales, the lack of good quality stock is likely to impact on take-up in 2018 and we do not expect to see the same level of transactions as witnessed over recent years.

- The need for new development is now even more important as the removal of the Severn Bridge Tolls and announcement of the M4 Relief Road will generate further interest and potentially move occupiers from Avonmouth where rents and land are more expensive.

- Assistance from the Welsh Government is needed to ensure similar take-up figures in the coming years - whether this is via Government development grants, rates relief or even occupiers developing themselves.

SCOTLAND

Logistics and Industrial Commentary

Simon Capaldi, Scotland Industrial Agency
+44(0)131 222 9621
simon.capaldi@knightfrank.com

H2 2017 Review

- Following a strong first half, take-up of units above 50,000 sq ft across the three Scottish centres monitored slowed to 141,000 sq ft in H2. Nonetheless, this brings the total for 2017 to 882,300 sq ft, which is 30% up on 2016.
- Demand dynamics are not consistent across all locations and size brackets, but there has been more activity at the smaller end of the market for units below 50,000 sq ft.
- In Edinburgh, although there was no activity in the market for units above 50,000 sq ft, rents for industrial units below 20,000 sq ft have risen. Similarly in Glasgow, where availability of new stock is at a record low and new development is constrained by high building costs, there is evidence of strong rental growth for secondary stock below 20,000 sq ft in size.
- At the larger end of the market (units in excess of 50,000 sq ft) a combination of limited availability and weak occupier demand means there are a number of high profile buildings still available in Glasgow. Recent activity has been limited to land sales at Eurocentral to Lidl and to facilitate a new development for DPD. Lack of prime stock is benefiting secondary locations. For example, East Kilbride, which has an ageing stock, is now performing better than the wider market as it has unsatisfied demand.
- Aberdeen is now seeing some demand from occupiers unrelated to oil and gas looking to move into the area and take advantage of reduced rents and increased incentives. However, the majority of those occupiers in the market actively seeking space continue to be oil and gas service companies. The market is oversupplied and incentives are beginning to increase.
- Overall industrial investment volumes in Scotland in H2 reached £222m, bringing the annual total to £346m. This is significantly higher than 2016 when £128m of industrial property was transacted in Scotland. Key investment deals during H2 include Fraser Centrpoint's acquisition of Hillington Park Glasgow for £137m and Pie and Mouse's purchase of Eurocentral in Motherwell for £12.2m (NIY of 6.95%).

Selected leasing transactions in Scotland, H2 2017

Address	Occupier	Size (sq. ft)	Rent / Price (per sq ft)	Date
2 Jubilee Court, Hillington, Glasgow	Stearn Electric	31,000	£6.32	Oct-17
37 West Bowling Green Street, Edinburgh	Stunt Scotland	27,846	£6.38	Oct-17
Unit K1, Starlaw Business Park, Livingston	Hylatech	36,703	P&C	Sep-17
Block 15, Unit 9, South Gyle Crescent, Edinburgh	Auto Glass	3,940	£8.60	Aug-17

*Freehold transaction

Q4 2017 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
Aberdeen	£8.00 ▼	£7.50 ▼	£6.75 ▼
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

- With the threat of a second independence referendum subsiding, there is evidence that the central Scotland economy is returning to growth.
- In Aberdeen, we hope to see more activity in 2018 as the price of oil has now stabilized. However, the supply level there will remain an issue.
- Within Edinburgh, there is little or no new speculative development of industrial units due the higher land values achieved for alternative uses including residential, leisure, retail and hotels. Ultimately, this will put pressure on rents for smaller industrial units as there is a shortage of modern, good quality units of 5,000 sq. ft. or less
- In Glasgow, the current supply is not adequate to support a market of this size and this could constrain demand.