

SOUTH WEST

Logistics and Industrial Commentary

H2 2016 Review

- After a record breaking H1 2016, the market has returned to more normal trading levels. H2 saw take-up for units above 50,000 sq ft total 840,000 sq ft, compared with 571,000 sq ft at the same time last year. This brings the total for the whole of 2016 to 3.2 million sq ft, up 70% on 2015.
- Despite the continuing shortage of big sheds, few developers committed to speculative building in many of the key markets across the South West during the second half of the year.
- Small and mid-range markets have held up well, with rental growth remaining strongest in secondary stock - although there is some evidence of the rate of growth slowing.
- Aside from some pent up demand from discount retailers, demand from retail occupiers slowed somewhat during the second half of the year. Even so, the biggest story is still Amazon and their medium term requirements across the region. They have been responsible for significant take-up in key towns and cities across the South West, and the region is now in line for a new large format retail distribution centre.
- There has been a reduction in overall supply in some cities to sub 5% of total stock - a level not seen before. This has fuelled rental growth, but more importantly has allowed landlords to maintain very high levels of tenant retention.
- St Modwen Developments have been the first movers in Gloucester and Bristol and have been successful in setting new levels on both Leasehold and Freehold markets. Their model of mid-range sized units continues to trade very well. They have recently secured planning consent for a new smaller unit; multi-let traditional industrial estate in Avonmouth, which when completed later in 2017 will be the first of its kind in ten years.
- St Francis and Marcol remain on track to deliver 250,000 sq ft of speculative B8 units during 2017 at Filton in 4 units.
- Many of the region's cities have found themselves short of employment land as the market has recovered. Swindon and Exeter remain particularly challenged in the long term. Bridgwater is now a point of focus with the commencement of construction of the new Nuclear Power Station at Hinkley Point.



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| Q4 2016 Prime headline rents (£ per sq ft) ▼ / ▲ - movement expected to Q4 2017 | | | |
|--|--------------------|------------------------|----------------|
| Market | under 20,000 sq ft | 20,000 to 50,000 sq ft | 50,000 + sq ft |
| Bristol | £9.00 ▲ | £8.00 ◀ ▶ | £7.00 ◀ ▶ |
| Swindon | £7.50 ◀ ▶ | £6.50 ◀ ▶ | £6.25 ▲ |
| Exeter | £7.00 ◀ ▶ | £6.50 ◀ ▶ | £6.00 ▲ |
| Plymouth | £5.50 ◀ ▶ | £5.25 ◀ ▶ | £5.00 ◀ ▶ |



Units 10&12, Access 18, Avonmouth - St Modwen Developments Ltd

Regional outlook

- Where we have seen annual rental growth of 12-15% over the last two years, there is evidence that this is now slowing. This is due to a combination of affordability, and lower deal volumes - making it difficult to identify clear trends. Speculative development in any of the key markets will provide space for occupiers to move, with secondary growth set to follow.
- The market has tightened further since H1, with supply now approaching critical levels. Whilst those landlords investing in cap-ex for refurbishments are being well rewarded, there remains scope for speculatively built, traditional units in many locations - but it would appear that the development funding market is not yet strong enough to support this demand.

Selected South West transactions H2 2016

| Address | Occupier | Size (sq ft) | Rent (per sq ft) | Date |
|--------------------------------|---------------|--------------|------------------|--------|
| Bristol Gateway, Sharpness | Downton | 169,000 | £4.00 | Nov-16 |
| Polestar, Marsh Barton, Exeter | Wheatons Ltd | 113,000 | £4.30 | Oct-16 |
| Block 21, Cater Rd, Bristol | Confidential | 55,567 | £2.95 | Oct-16 |
| Former Triumph, Swindon | Howard Tenens | 110,000 | est £4m | Sep-16 |