



WALES

Logistics and Industrial Commentary H1 2012

Knight Frank



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H1 2012 market commentary

- Following strong levels of take-up throughout 2011, occupier activity was comparatively subdued in the first half of this year. For units in excess of 50,000 sq ft, take-up was just over 1m sq ft in H1 2012, less than half the H2 2011 total.
- Within South Wales, the focus of demand for good quality space is along the M4 corridor. While this area continues to witness the strongest market activity, much of the newer stock has long since been acquired and is yet to be replaced with similar quality product.
- At the heart of the problem remains banks' reluctance to lend on speculative development, leading to a shortage of new supply arriving onto the market. As a result, an abundance of Grade B and poorer quality stock is now the only remaining option in many areas.
- Empty Rates liability continues to be a heavy burden for owners throughout South Wales. Indeed, as illustrated by the recent deal at the Former Zetec Unit below, some landlords are willing to let space at very low rents or even on a rates only deal in order to mitigate their on-going holding costs.
- The impact of empty rates has prompted a change in attitudes among owners of larger buildings. The cost burden posed by empty rates is such that a number of landlords have decided to upgrade their buildings in order to attract a tenant, thereby mitigating empty rates costs. The approach seems to be successful, as those landlords who have spent money improving their buildings have provided a cheaper alternative to occupiers, who until recently would have only taken new-build space.
- A number of landlords within South Wales have struggled with their debt finance, and as a result, a number of portfolios have been sold to companies who are better placed to asset manage the opportunities.

Q2 2012 Prime headline rents (£ per sq ft)

▼ / ▲ - movement expected to Q2 2013

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
Cardiff	£5.25 ▲	£4.00 ◀▶	£3.50 ◀▶
Swansea	£3.50 ◀▶	£3.00 ◀▶	£2.50 ◀▶
Heads of Valleys	£3.50 ◀▶	£2.50 ◀▶	£2.00 ◀▶



Knight Frank provided advice on the sale of New Venture Buildings in Newport. The 230,000 sq ft unit provides 115,000 sq ft of vacant space with the remainder let to two companies. It was purchased in May by a private investor

Regional outlook

- Take-up in the second half of 2012 is likely to remain relatively subdued compared with 2011, evidenced by a limited number of larger enquiries currently active in the market.
- The lack of good quality stock available in the market is expected to put a degree of upward pressure on prime headline rents. However, these are likely to be secured with significant rent free or stepped rent.
- There is a growing need for the delivery of new, high quality schemes, particularly along the M4 corridor. However, without government assistance it is unlikely that speculative development will return. More likely is that older stock will be identified by housing developers as they become more active once again.

Selected Wales transactions in H1 2012

Address	Occupier	Size (sq ft)	Rent / Price (per sq ft)	Date
Unit 3 Tregwilym Road Estate, Rogerstone	DHL	43,000	£3.50	Jan-12
Former Zetec Unit, Fabian Way, Swansea	Confidential	265,000	£0.76	Mar-12
Units A7 & 8 Treforest Industrial Estate	Hutchings Vauxhall	85,000	£17.64*	Mar-12
Unit 11 Dominions Way, Newport Road, Cardiff	Formacion	30,000	£22.00*	May-12
New Venture Buildings, Reevesland Estate, Newport	Private	230,000	£11.96*	May-12

*Freehold purchase