Knight Frank

LONDON, SOUTH & EAST

Logistics and Industrial Commentary

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H2 2015 Review

- Total take-up of units over 50,000 sq ft reached 3.5m sq ft in H2 2015, down 7% on H1. This brings total annual take-up for London and the South East to 7.2m sq ft in 2015, which is virtually identical to the level of take-up in 2014. There were 38 deals transacted during the second half of the year, just ahead of H1.
- Typically around London we are seeing demand come from multiple sectors. Like many areas around the country, the occupier grabbing the headlines is Amazon, who are building their own delivery network, while parcel operators are in the last throws of realigning their networks and building in future capacity - as seen by Yodel taking a 90,000 sq ft unit at G-Park Enfield.
- In terms of supply, while overall availability in the 50,000 sq ft plus market across London and the South East reduced by 14% in H2 to stand at 10.0m sq ft across 95 buildings, this reflected declining availability of second-hand space. The level of existing new-build space available almost doubled to 1.4m sq ft across six units in H2 2015.
- We are starting to see more speculative development come through with 1.4m sq ft under construction across nine buildings at the end of December 2015. These buildings are attracting strong interest with some going under offer prior to practical completion.
- At Enfield DP, they have managed to pre-let two 50,000 sq ft buildings with strong interest in the remaining 35,000 sq ft unit, while Navigation Park, Enfield have also managed to pre-let an additional 50,000 sq ft. With Imperial Enfield rumoured to be under offer, virtually all of the new space has been absorbed.
- At present in East London there are a number of new schemes that are in the pipeline. With Segro's acquisition of the GLA land, Ford Dagenham, the former Sonofi site and Kier Properties, there could soon be significant competition for occupiers if the size of the speculative units constructed is similar.
- West London continues to see a strong landlord's market. Demand remains healthy, supply remains tight, rents continue to rise and incentives remain low. The pressure on new stock will ease as a number of new speculative schemes reach completion and further projects start on site. Secondary industrial stock continues to diminish and whilst demand for freeholds remains good it is severely undermined by lack of stock.

Selected London, South and East transactions in H2 2015

Address	Occupier	Size (sq ft)	Rent / Price (per sq ft)	Date
North Feltham Trading Estate	Segro	2.1 acres	£5.1m	Dec-15
G-Park Enfield	Yodel	98,000	£9.25	Nov-15
Gateway Basoldon	Amazon	107,400	£6.90	Nov-15
Mead Park, Harlow	Hatch Interiors	51,000	£6.25	Oct-15
Edisons Park Crossways, Dartford	Furniture Village	60,428	£7.50	Oct-15

Q4 2015 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to Q4 2016

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
West London	£15.00 ▲	£14.50 ▲	£13.75 ▲
East London	£13.00 ▲	£12.50 ▲	£10.00 ▲
North London	£9.75 ▲	£9.50 ▲	£9.50 ▲
South London	£10.50 ▲	£10.25 ▲	£10.00 ▲
Crawley	£11.25 ▲	£10.50 ▲	£9.75 ▲
Southampton / Portsmouth	£8.25 ▲	£8.25 ▲	£8.00 ▲
Maidstone	£7.50 ▲	£7.25 ▲	£6.75 ▲
Milton Keynes	£6.50 ▲	£6.50 ▲	£6.50 ▲
Hemel H'stead	£9.25 ▲	£9.00 ▲	£8.75 ▲
Reading	£10.50 ▲	£10.00 ▲	£9.75 ▲

Knight Frank is currently marketing 125,000 sq ft, at Hounsdown Business Park in Southampton, on behalf of L&G.

Regional outlook

- The land supply for logistics and industrial development in West London is far more scarce in comparison to East London. We therefore expect that rental rises will continue for the foreseeable future in the West, however, there might be more stagnating rental growth in the East.
- We expect to see more speculative development come through the development pipeline, especially in the mid-size unit market.
- During H2 there has been subdued mega shed activity in the South East and East of England. We anticipate that this will pick up again in the coming months with Ikea having a one million sq ft requirement, amongst others.