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.