LONDON, SOUTH EAST

Logistics and Industrial Commentary

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H2 2014 Review

- Take-up across the London and South East region in units of 50,000 sq ft or over was 3.39m sq ft in H2 2014, down 12% on H1 2014 whilst the number of transactions remained relatively unchanged. The average size of take-up decreased from 149,000 sq ft to 130,000 sq ft. Meanwhile, H2 2014 was also down 23% compared with the same time in 2013.
- The largest deal in H2 was John Lewis Partnership taking a 4th building at Magna Park in Milton Keynes which totals 650,000 sq ft.
- At the smaller end of the market we have seen renewed interest from many of the trade counter operators, who are looking at increasing or repositioning a number of their existing outlets, especially within the M25 area.
- Availability in units over 50,000 sq ft reached 13.5 million sq ft at the end of 2014, down 5% on H1. Compared with the end of 2013, availability was 15% lower. There are only two units currently under construction speculatively, both at London Gateway.
- Developers, who have speculatively developed, especially within the M25, have had good success. An example of this is Origin, Park Royal, where Segro have let two of the speculatively developed units and pre-let a third property.
- In some areas which are ready for development, site assembly is an increasing problem. With fragmented ownerships and high site density it is difficult to obtain the buy-in of multiple owner occupiers.
- We are witnessing increases in the transaction prices of land as we see developers factoring in increased rental levels along with low yields. This is however, being off-set by the rising construction costs as capacity was taken out of the market through the last downturn.
- Driven by decreasing supply, prime headline rents increased significantly in a number of local prime markets. The strongest increases year-on-year were recorded in London while rents also rose in Maidstone and Hemel Hempstead.

Selected London, South and East transactions in H2 2014

Address	Occupier	Size (sq ft)	Rent / Price (per sq ft)	Date
Hemel Portal	Robert Dyas	130,000	Confidential	Aug 14
Tower Thurrock	Elliott Baxter	50,000	£8.75	Nov 14
London Distribution Park	Travis Perkins	110,000	Confidential*	Nov 14
Unit 1, Origin	Ocado	68,690	£13.50	Nov 14

*Freehold purchase

Q4 2014 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to Q4 2015

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
West London	£13.75 ▲	£13.50 ▲	£13.25 ▲
East London	£13.00 ▲	£12.50 ▲	£10.00 ▲
North London	£9.75 ▲	£9.50 ▲	£9.25 ▲
South London	£8.75 ▲	£8.50 ▲	£8.25 ▲
Crawley	£7.50 ▲	£7.00 ▲	£7.00 ▲
Southampton / Portsmouth	£7.75 ▲	£7.50 ▲	£7.50 ▲
Maidstone	£7.50 ▲	£7.25 ▲	£6.75 ▲
Milton Keynes	£ 6.25 ▲	£6.25 ▲	£5.75 ▲
Hemel H'stead	£8.50 ▲	£7.75 ▲	£7.75 ▲
Reading	£8.50 ▲	£8.00 ▲	£7.50 ▲

Robert Dyas leased 130,000 sq ft at Hemel Portal.

Regional outlook

- Speculative funding is making a comeback as funds experience record low void rates. We foresee more speculative development coming to the market, particularly in the Greater London areas, tempered only by a lack of development opportunities. Developers should be cautious by design and avoid competing for the same occupiers.
- Rental growth is expected to continue and spread to remaining markets during the next 18 months, or longer, particularly in locations with a severe lack of good quality product. However, with an expected new tranche of speculative development delivered, rental growth will eventually slow as supply increases.