Knight Frank

LONDON & SOUTH EAST

Logistics and Industrial Commentary

H1 2018 Review

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- In the first six months of 2018, take-up of industrial units above 50,000 sq ft across London and the South East reached 2.9m sq ft. This total is 15% higher than was recorded in H1 2017 and 45% up on H2 2017.
- A shortage of stock remained a market feature in H1 2018 serving to hinder transaction volumes and further encourage pre-letting. A good example of the latter was the 97,500 sq ft pre-let to Zeus Packaging at Gazeley's G-Park, Biggleswade. Gazeley will also speculatively develop a further unit of 105,000 sq ft on the adjacent plot.
- Other significant pre-let deals agreed during the H1 period include Hermes Parcelnet taking an 85,000 sq ft low site density facility from Prologis in Hemel Hempstead and Do & Co agreeing terms with SEGRO for 172,000 sq ft at SEGRO Park, Heathrow. In East London, DHL also agreed a pre-let at SEGRO Park, Beckton on 51,500 sq ft at a record rent for the area.
- The supply of land suitable for industrial development remained a limiting factor to growth in H1, with residential use continuing to gain favour. Nonetheless, the case for speculative development for industrial use remains a strong one, principally underpinned by e-commerce and population growth. Major schemes on the horizon include Valor Real Estate Partners and Canmoor's Valor Park, Heathrow, a 135,000 sq ft single logistics facility in close proximity to Junction 14 M25, which is currently under construction with completion expected November 2018. SEGRO have also obtained planning consent which will enable them to start speculative development of SEGRO Park, Hayes. The logistics park will comprise four units totalling 240,000 sq ft. Prologis are building out 310,000 sq ft in a number of units in Hemel Hempstead. Goya are on site in Salford's, north of Gatwick, building out a multi-unit scheme totalling 180,000 sq ft and Graftongate and London Metric are on site in Bedford building out 187,000 sq ft across three buildings.
- The investment market continues to be supported by an ongoing occupational market imbalance of strong demand and limited supply. In the first half of 2018, £1.1bn had been spent of industrial assets in London and the South East. Although this is marginally less when compared to 2017, this total is 37% ahead on the 10-year average for the period. Notably, competitive pressure to gain a foothold in the market has meant that prime yields have continued to fall. At the mid-point juncture of 2018, yields on prime South East multi-let industrial estates currently stood at 4.00% NIY. This represents an inward movement of 50bps when compared to H1 2017.

Selected London, South & East leasing transactions, H1 2018

Address	Occupier	Size (sq ft)	Rent / Price (per sq ft)	Date
4/5 Ventura Park, Radlett	Client of Knight Frank	159,588	£8.50	Jun- 18
Segro Park Heathrow, Great South West Road, Heathrow	Do & Co	172,000	£15.75	Mar- 18
41 Hailey Road	APP Wholesale Services	66,331	£8.29	Jan- 18
Plot 1 G Park, London Road, Biggleswade	Zeus Packaging	105,000	£6.25	Jan- 18
SEGRO Park, Beckton	DHL	51,474	£13.00	Mar- 18
Punchbowl 130, Cherry Tree Lane, Hemel Hempstead	Victoria Plumb	129,233	£9.25	Jan- 18

H1 2018 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	£14.50 ▲	£13.00 ▲	£12.00 ▲
North London	£14.50 ▲	£13.25 ▲	£11.25 ▲
South London	£15.25 ▲	£14.75 ▲	£14.00 ▲
Crawley	£14.00 ▲	£13.75 ▲	£13.00 ▲
Southampton / Portsmouth	£10.00 ◄ ►	£9.75 ◄ ►	£9.50 ◄ ►
Maidstone/Aylesford	£8.75 ◄ ►	£8.00 ◄ ►	£7.50 ◄ ►
Milton Keynes	£9.00 ◄ ►	£8.50 ◄ ►	£8.00 ◄ ►
Hemel H'stead	£12.00 ▲	£10.75 ▲	£9.25 ▲
Reading	£12.25 ▲	£11.75 ▲	£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 acute imbalance between availability of secondary and new properties continues to be compounded by strong demand across the size spectrum. Further growth in e-commerce supported by population growth in the region can only sustain demand levels for industrial space in London and the South East moving forward.
- Further pressure on supply will be felt across the region by the impact of infrastructure projects. HS2 in NW London, which is now underway and Heathrow's Third Runway, which will see approximately 2m sq ft of industrial stock and its occupiers being displaced. Further stress will be felt as Crossrail2 picks up momentum.