# LONDON, SOUTH & EAST

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## H1 2014 Review

- Take-up across the London and the South East region was 3.87m sq ft in H1 2014, down 13% on H2 2013 but 11% above the five year bi-annual average. The reduction in activity was more apparent with regard to the number of transactions, with 26 deals in H1 2014 following 48 in the previous half year.
- With the UK's economic recovery gaining traction, the diversity of demand has broadened beyond the retailers to include other sectors, such as Third Party Logistics (3PLs) providers and manufacturing. However, retailers continue to drive the larger end of the market, with Waitrose's pre-let of 936,000 sq ft at Magna Park, Milton Keynes being by far H1's largest deal.
- Availability of units above 50,000 sq ft reduced by a further 10% in H1 to stand at 14.3m sq ft. The supply of specifically good quality space is now critically low and is arguably constraining levels of activity. Available new-build space in the 50,000 sq ft plus market is now confined to just a single unit - Cargo South, Heathrow - and this is reportedly under offer.
- An increasing share of the available space can be considered borderline obsolete. While this may be ripe for redevelopment, much of this is challenging from a practical perspective, often due to the fragmented ownership that has taken hold over time.
- The weight of money chasing limited investment stock continues to put yields under pressure. With a lack of Grade A stock in the occupier market, investors are increasingly moving up the risk curve, with funds becoming more willing to consider speculative development. Strong competition for good quality sites is now being reflected in rising land values.
- The wider South East region is the UK's most active region for speculative development, with 718,362 sq ft now under construction across five schemes in the 50,000 sq ft plus segment.
- New developments such as Central Park, Park Royal and View 406, Edmonton are pushing rents onto new highs. This is likely to have the knock-on effect of driving rents higher across the market, something that has been missing in the logistics sector for years.

**Q2 2014 Prime headline rents (£ per sq ft)**
▼ / ▲ - movement expected to Q2 2015

| Market | under 20,000 sq ft | 20,000 to 50,000 sq ft | 50,000 + sq ft |
|---|---|---|---|
| West London | £12.00 ▲ | £12.00 ▲ | £12.50 ▲ |
| East London | £12.00 ▲ | £11.00 ▲ | £10.00 ▲ |
| North London | £9.00 ▲ | £8.75 ▲ | £8.50 ▲ |
| South London | £8.25 ▲ | £8.25 ▲ | £7.50 ▲ |
| Crawley | £7.50 ◄ ► | £7.00 ◄ ► | £7.00 ◄ ► |
| Southampton / Portsmouth | £7.75 ▲ | £7.50 ▲ | £7.50 ▲ |
| Maidstone | £7.50 ◄ ► | £7.25 ◄ ► | £6.50 ◄ ► |
| Milton Keynes | £ 6.25 ◄ ► | £6.25 ▲ | £5.75 ◄ ► |
| Hemel H'stead | £8.50 ▲ | £7.50 ▲ | £7.50 ▲ |
| Reading | £8.50 ◄ ► | £8.00 ◄ ► | £7.50 ◄ ► |

**Knight Frank is presently marketing a rare opportunity to purchase a 47,246 sq ft unit on a freehold basis in Feltham, near Heathrow.**

**Selected London, South and East transactions in H1 2014**

| Address | Occupier | Size (sq ft) | Rent / Price (per sq ft) | Date |
|---|---|---|---|---|
| Magna Park, Milton Keynes (pre-let) | Waitrose | 936,000 | £5.75 | Mar 14 |
| Goresbrook Park, Dagenham, London | Eddie Stobart | 410,000 | £7.31 | May 14 |
| One Park Royal, West London | Entoria Wine Cellars | 106,910 | £11.75 | June 14 |
| Aylesford, Kent | Stapleton Tyres | 72,427 | £6.10 | Feb 14 |

## Regional outlook

- We are essentially moving into a new stage in the cycle, with the recent revival of speculative development taking place. For optimal results, developers will need to carefully consider site form and unit sizing to ensure that there is local differentiation in the market.
- We anticipate rental growth to take hold and spread during the next 18 months, or longer, where there is a severe lack of good quality product. However, as the expected new tranche of speculative development is delivered, rental growth will slow as supply increases and landlords compete for occupiers.