# LONDON & SOUTH EAST

## Logistics and Industrial Commentary

### H2 2016 Review

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- Take up for larger units above 50,000 sq ft across the region increased from 2.5 million sq ft in H1 2016 to 4.8 million sq ft in H2 2016. The figures were however skewed by the 2.2 million sq ft letting to Amazon at St Andrew's Road, Tilbury. This brings the total for the whole of 2016 to 7.3 million sq ft, which is a 1.4% increase on the 2015 volume.

- The key sectors driving industrial occupier demand across London and the South East during H2 were: on-line retailers, builders' merchants, trade counter, parcel delivery, clothing, food and leisure (trampoline and gym operators).

- There remains a supply/demand imbalance within the region with a shortage of both new build and good quality secondary industrial stock currently available. The imbalance is most pronounced in the North West, West and South London areas and notably in the "hot spots" of Park Royal and Heathrow. As a result, demand has spread out through the London conurbations and into the Home Counties, especially Sussex, Berkshire and Surrey. Both North and East London are experiencing strong trading conditions with rents rising, long leases being signed, incentives remaining low and continued good demand.

- Due to the supply/demand imbalance, developers have continued with speculative development where they are able to find sites upon which to do so. Recent speculative schemes have continued the repositioning of rents well ahead of historic prime levels. Schemes to note are Heathrow Logistics Park, four units totalling 317,246 sq ft quoting £14.50 per sq ft; Prologis Park, West London, two units totalling 192,115 sq ft quoting £14.50 per sq ft; Hayes 180, Hayes, 3 units totalling 175,692 sq ft nearing practical completion and quoting £13.25 per sq ft and Island Road, Reading, three units totalling 250,640 sq ft nearing practical completion quoting £11.50 per sq ft.

- Headline rents increased both within and outside the M25 during H2 2016. The increases have been more pronounced in areas where speculative development has been delivered due to continued strong demand and an under supply of good second hand stock. Heathrow, Park Royal, Enfield, Dagenham, Belvedere and Home County towns such as Bracknell, Crawley, Reading and Farnborough have performed particularly well in this regard.

**Q4 2016 Prime headline rents (£ per sq ft)**
**▼ / ▲ - movement expected to Q4 2017**

| Market | under 20,000 sq ft | 20,000 to 50,000 sq ft | 50,000 + sq ft |
|---|---|---|---|
| West London | £15.00 ▲ | £14.25 ▲ | £14.00 ▲ |
| East London | £13.00 ▲ | £12.50 ▲ | £11.00 ▲ |
| North London | £11.00 ▲ | £10.50 ▲ | £10.00 ▲ |
| South London | £11.50 ▲ | £11.00 ▲ | £10.50 ▲ |
| Crawley | £12.50 ▲ | £12.25 ▲ | £11.50 ▲ |
| Southampton / Portsmouth | £8.75 ▲ | £8.50 ▲ | £8.25 ▲ |
| Maidstone | £7.50 ▲ | £7.25 ▲ | £6.75 ▲ |
| Milton Keynes | £8.00 ▲ | £6.75 ▲ | £6.50 ▲ |
| Hemel H'stead | £10.00 ▲ | £9.75 ▲ | £9.50 ▲ |
| Reading | £11.50 ▲ | £10.75 ▲ | £10.50 ▲ |

- In the investment market, strong appetite for core, liquid product has compressed yields further as investors adopt defensive strategies.

- Yields for prime Greater London distribution warehouses with a 20 year income and fixed uplifts currently stand at c.4.25% - 4.50% NIY. While yields on a 10 year income stand at c. 5.00% NIY. Secondary assets are obtaining yields closer to 6.00% - 7.00% NIY.

**Selected London, South and East transactions in H2 2016**

| Address | Occupier | Size (sq ft) | Rent / Price (per sq ft) | Date |
|---|---|---|---|---|
| Lovelace Park, Bracknell | Daler Rowney | 77,000 | £10.50 | Dec-16 |
| Unit 3 Navigation Park, Enfield | Caesarstone | 47,630 | £10.50 | Nov-16 |
| Graviton, Belvedere | Amazon | 107,804 | £9.25 | Oct- 16 |
| Sovereign Park, Kimpton Industrial Estate | Royal Mail | 81,000 | £12.50 | Sep-16 |
| St Andrew's Road, Tilbury | Amazon | 2,200,000 | NA | Aug-16 |
| Unit 1 Skyline, Heathrow | Bollore | 80,000 | £13.95 | Aug-16 |

## Regional outlook

- We expect demand to remain strong - though the Brexit and Trump effect will be more significant in 2017. Demand for modern, well specified, small and mid-range units will continue, as will pre-letting due to the supply shortage.

- Built stock and land will remain in short supply across the region, with competition strongly contested between owner occupiers and developers / funds.

- We anticipate rental growth in some parts of the South East, but occupier resistance to the continued upward trajectory of rents could dampen how far they rise.