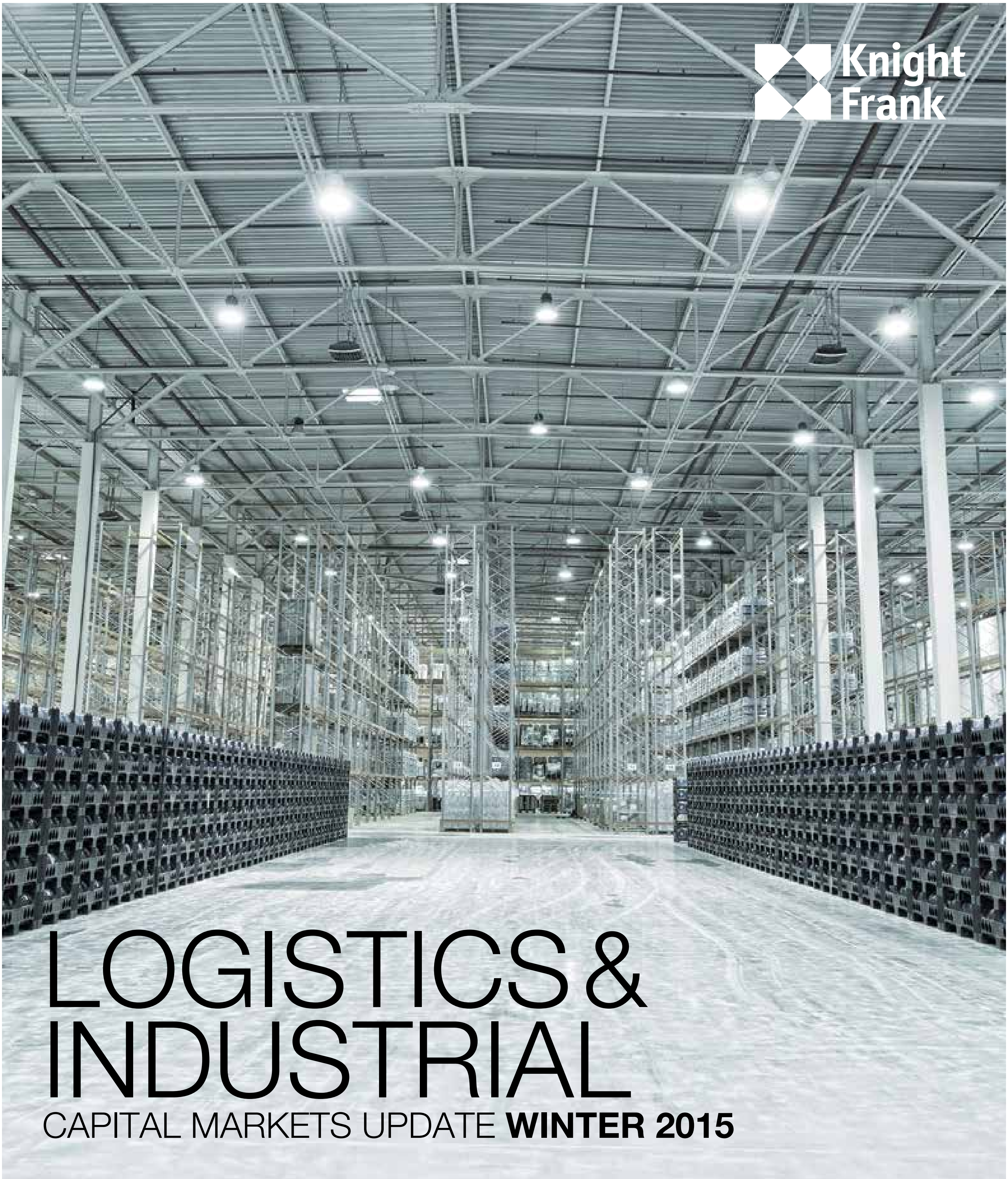

LOGISTICS & INDUSTRIAL

CAPITAL MARKETS UPDATE **WINTER 2015**

HIGHLIGHTS

Distribution is one of the UK's strongest performing economic sub-sectors, recording year-on-year growth of 3.8% in Q3 2014 against 3.0% for the economy as a whole.

Confidence is improving in the occupier markets, with UK wide take-up in H1 2014 up 17% on H2 2013 and 22% above the bi-annual average.

Reflecting the strength of demand for industrial assets, investment activity in the sector reached over £6bn in 2014, eclipsing the previous high of 2006.

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INDUSTRIAL PROPERTY INVESTMENT

Investor sentiment towards the UK industrial sector is remarkably positive, underpinned by the structural shift towards E-commerce and the tight supply of good quality space in the occupier market. Knight Frank has played its part, advising on a large number of industrial investment transactions across the UK.

Knight Frank's Industrial Capital Markets team offers a dedicated and fully integrated approach combining professionals from both agency and research. Our recent clients include private and institutional investors, including TIAA Henderson Real Estate, Aviva Investors, Aberdeen, Threadneedle, L&G, M&G Real Estate & CBRE GI, among many others. With a positive momentum expected to continue in 2015, the team is looking forward to working with both existing and new clients as the market continues to build.

Our clients benefit from Knight Frank's established international network, which boasts particular exposure to private investors in the UK and overseas. For all support in acquiring or disposing of assets, please do not hesitate to contact a member of the Industrial Capital Markets team.

In 2014 Knight Frank's occupier team leased 10m sq ft of industrial & warehouse space nationwide.

In 2014 Knight Frank transacted £1.72bn of industrial & logistics assets of which £890m were disposals and £830m were acquisitions.

MARKET OVERVIEW

Knight Frank expects the positive momentum around the industrial sector to continue into 2015, with investor demand for all types of logistics and industrial assets continuing to outstrip supply.

IPF's latest consensus forecast places Industrial as the lead performing sector over the medium-term.

Reflecting the strength of demand for industrial assets, investment activity in the sector reached over £6bn in 2014, eclipsing the previous high of 2006. This compares with £5.1bn of investment turnover in 2013.

UK Institutions and Quoted Property Companies were the most active investors during 2014, while Overseas Investors have capitalised on an improving market and realised their profit (Figure 2).

According to IPD, industrial is the strongest performing UK property sector if Central London Offices are discounted. Over the 12 months to November, industrial total returns reached 24.6%, underpinned by capital growth of 16.7%. Total returns are only slightly below the 20-year peak of 25.3% recorded in October.

The outlook is also positive for the sector moving forward. While the pace of capital growth is expected to ease down, IPF's latest consensus forecast places Industrial as the lead performing sector over the medium-term, with annual total returns of 10.5% p.a. up to 2018, vs 9.2% p.a. for All Property.

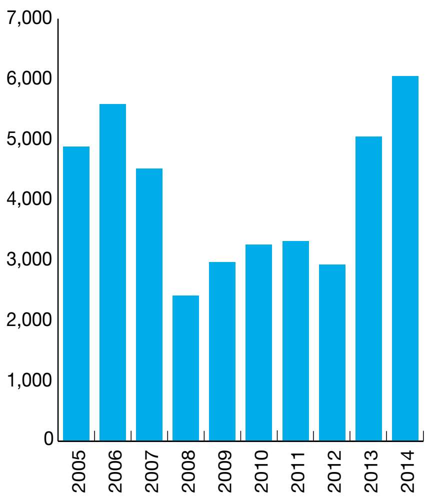
Tight supply is also putting upward pressure on rents, particularly in and around London. While UK Industrial rental growth stands at a relatively modest 2.8% over the year to November, this is the fastest rate of growth in the sector since December 2001. Rental growth is expected to strengthen and ripple out to the main regional markets in 2015.

Prime properties in core locations remain keenly sought after, with a depth to UK institutional and overseas appetite.

Covenant strength remains key to pricing, with prime assets benefitting from inflation-linked leases. Shorter income prime logistics assets have also attracted significant interest since H2 2013, resulting in substantial yield compression.

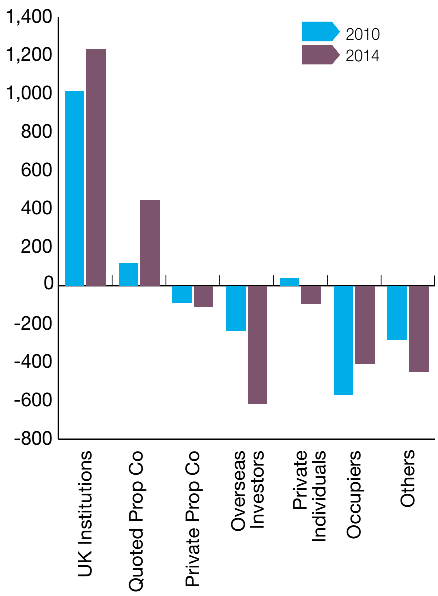
More recently, the market has witnessed a notable improvement in demand for secondary assets, with increased institutional appetite for risk. This shift in sentiment is linked to the improvement in occupational demand coupled with a shortage of available stock. That said, demand for secondary and tertiary logistics assets remains mixed according to quality, location and lot size.

FIGURE 1
Industrial and logistics investment transactions
(£ million / year)



Source: Knight Frank Research

FIGURE 2
Net investment comparison (£m)
2014 vs 2010



Source: Knight Frank Research

DISTRIBUTION INVESTMENT

The discount between prime and secondary distribution assets reduced during 2014 following significant yield compression in well-positioned secondary markets. We believe this trend will continue in the short term, as oversupplied secondary markets transform into undersupplied markets offering robust occupier fundamentals.

Arla Foods, Hatfield Business Park, Hatfield

In October 2014, Knight Frank advised UBS on the acquisition of Arla Foods at Hatfield Business Park from Goodman. The unit was let to PCL 24/7 Limited (Guarantee from Arla Foods) with an unexpired lease term of 13.7 years. Pricing remains confidential.

Sainsbury's, Waltham Cross, Hertfordshire

In August 2014, Prologis acquired Sainsbury's Distribution Facility in Waltham Cross from DEKA. The property had an unexpired term of circa 15.75 years. The price was £111.56m, reflecting a NIY of 4.60%.

Morrison's, Sittingbourne, Kent

In June 2014, Tritax acquired Morrison's regional distribution facility in Sittingbourne, Kent, in a sale and leaseback transaction for a term of 25 years. The price was £98m, reflecting a NIY of 5.19%.

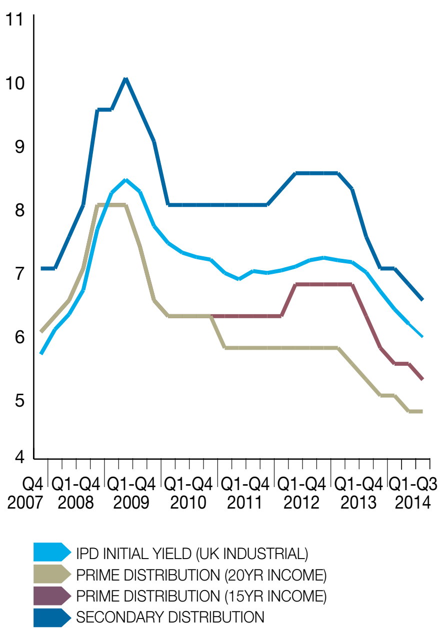
Waitrose, Magna Park, Milton Keynes

In June 2014, Legal & General forward funded the development of a major distribution warehouse let to Waitrose from the developer Gazeley. The property was let to Waitrose Limited on a 30 year lease from practical completion. The price was £114m reflecting a NIY of 4.64%.

Kuehne + Nagel Distribution Facility, Derby Commercial Park, Derby

In April 2014, Knight Frank advised TIAA Henderson Real Estate on the acquisition of Kuehne + Nagel's Distribution Facility at Derby Commercial Park from Goodman. The property is let to Kuehne + Nagel Drinkflow Logistics with 10 years to expiry. The price was circa £55m.

FIGURE 3
Distribution yields (%)



Source: Knight Frank Research

Distribution warehouses – prime yields

	NIY	Trend
Prime 25 year fixed uplifts	4.50% - 4.75%	◀▶
Prime 15 year income (OM RRs)	5.00% - 5.25%	▼
Prime 10 year income (OM RRs)	5.25% - 5.75%	◀▶
Prime sub 10 year income	5.75% - 6.25%	▼

MULTI-LET INDUSTRIAL INVESTMENT

Demand in the multi-let sector is focused on prime and good secondary assets located in the wider South East, with a particular focus on Greater London. However, there are very few buying opportunities for this type of stock. Consequently, in search of higher yield, poorer quality secondary and tertiary estates continue to attract interest from opportunity buyers.

Bilton Way Industrial Estate, Luton

In July 2014, Knight Frank advised TIAA Henderson Real Estate on the acquisition of Bilton Way Industrial Estate, Luton, from Harbert / Canmoor. The property had a WAULT of approximately 5 years. The price was £31.9m, reflecting a NIY of 6.97%.

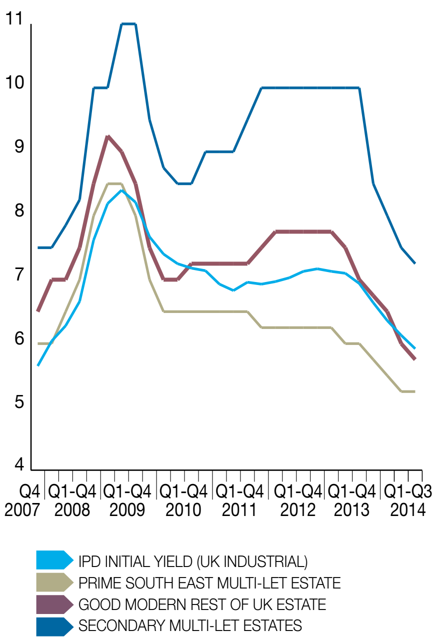
The Orbital Portfolio

In December 2014, Knight Frank advised Orchard Street Investment Management on the acquisition of The Orbital Portfolio from SEGRO. The portfolio comprised six multi-let industrial estates located around the M25 motorway and has a WAULT of c.7.5 years to lease break options. The price was £113.84m, reflecting a NIY of 6.15%.

The Industrial Collection, London

In September 2014, Capital Industrial One acquired a portfolio of 10 multi-let industrial properties located throughout Greater London. The portfolio comprised 170 units let to 136 tenants including Howdens, GE Money and TNT Post. The price was £44.3m, reflecting a NIY of 5.30%.

FIGURE 4
Multi-let industrial yields (%)



Source: Knight Frank Research

West Ham Industrial Estate, Basingstoke

In November 2014, CBRE Global Investors acquired West Ham Industrial Estate, Basingstoke from LaSalle Investment Management. The estate had a WAULT of 6.8 years to lease expiries and 6.0 years to breaks. The price was £39.956m, reflecting a NIY of 6.31%.

Clifton Moor Industrial Estate, Clifton Moor Gate, York

In May 2014, Legal & General purchased Clifton Moor Industrial Estate, York, from Cornerstone. The property had a WAULT of 11.14 years to lease expiries and 8.53 years to breaks. The price was £41.365m, reflecting a NIY of 5.91%.

Multi-let industrial yields – prime yields

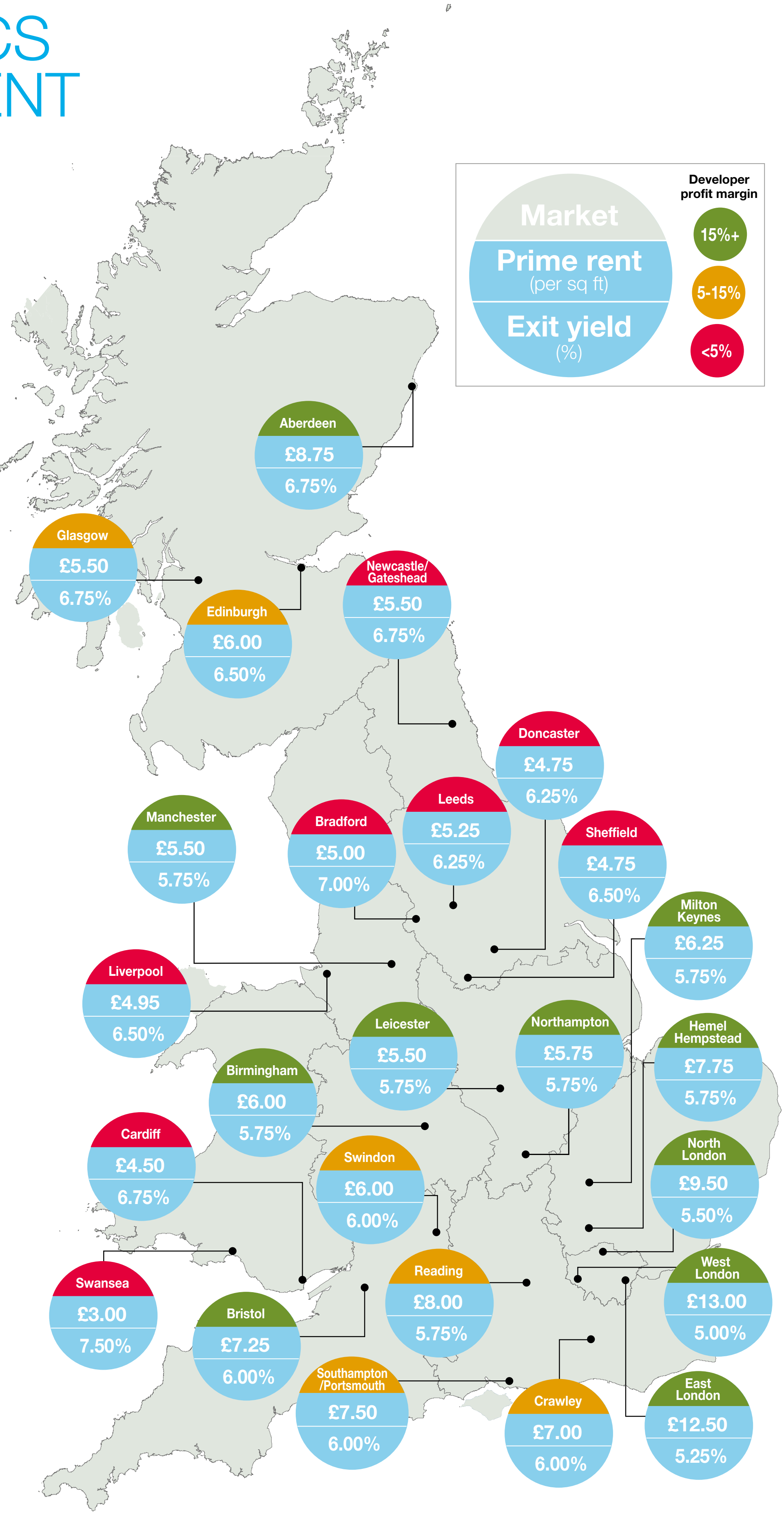
	NIY	Trend
Prime Greater London estate	4.75% - 5.00%	◀▶
Prime South East estate	5.00% - 5.50%	◀▶
Prime regional estate	5.50% - 5.75%	◀▶
Secondary / tertiary estate	7.25%-8.00+%	◀▶

UK LOGISTICS DEVELOPMENT PROSPECTS

With supply tight, we expect speculative development to increase, as occupiers look to source appropriate accommodation and investors seek to move up the risk curve.

Rents in the industrial sector are moving into an upward trajectory and this, supported by significant inward yield shift, is helping to support the return of speculative development. So far, prime headline rental growth has largely been focused in the wider South East region, but this is expected to ripple throughout the rest of the UK over the coming two years. Strengthening demand is reflected in rising land values, which have already increased in a number of locations over the past 12 months, particularly in the key markets of the South East and the Midlands regions.

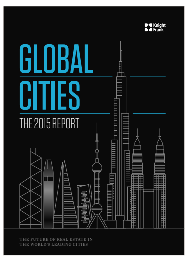
The adjacent map depicts prevailing rents and pricing across the main markets and assesses where is viable for speculative development. The locations deemed viable for speculative development are highlighted in green, reflecting a calculated profit margin in excess of 15% on cost. Those locations shown in red are considered unviable, where predicted profits run below 5%.



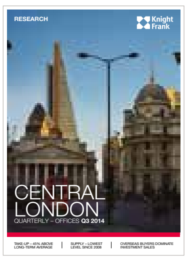
Methodology – current prospects for speculative development are based on a hypothetical 50,000 sq ft unit which will be let for a ten year term following completion and after any subsequent void period. The viability assessment draws on Knight Frank's occupational and investment knowledge across our regional office network, taking into account headline rents and net exit yields (post completion), prevailing land values, typical void periods, typical build costs, typical rent free incentives, fees and marketing costs.

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



Prime Global Cities The 2015 Report



Central London Quarterly Q3 2014

European Quarterly Report Q3 2014

Shopping Centre Investment Q3 2014

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