H2 2011
LOGISTICS & INDUSTRIAL
Occupier & investment market commentary
Knight Frank

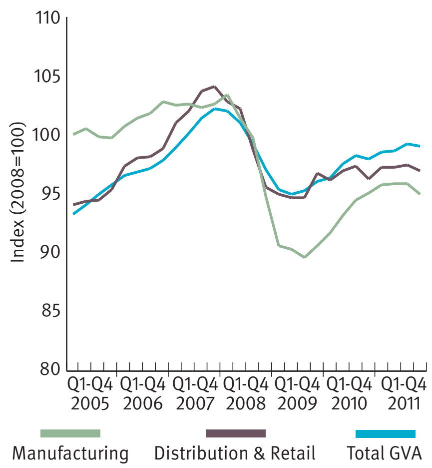
Economic overview

Latest official estimates reveal that UK GDP contracted by 0.2% in Q4 2011. The result was largely expected and has been widely attributed to a slowdown in the Eurozone caused by the sovereign debt crisis.

Manufacturing bore the brunt of the contraction, with output declining by 0.9% in Q4 following zero growth in Q3, while Distribution & Retail saw output drop by 0.5% in Q4. Indeed, these sectors have significantly underperformed the wider UK economy since the downturn first took hold in 2008 (Figure 1).

While the squeeze on consumer finances is weighing heavily on retailer performance, the structural transformation in the retail sector is continuing to drive demand for logistics space. According to National Statistics, the internet now accounts for around 10% of total retail sales in the UK (Figure 2), while 'non-store' retail sales have grown by almost 15% over the past 12 months, set against 2.6% growth in overall retail sales volumes.

Figure 1
UK economic output



Source: ONS

Occupier market

Following a subdued first half of 2011, take-up improved in the second half of the year, driven by a flurry of big-shed deals focused in the South East, West Midlands and North West. For units exceeding 50,000 sq ft, total UK take-up was 20.3m sq ft in H2 2011, up 41% on H1 2011. However, take-up in 2011 as a whole was 14% below the 2010 total, a year which saw a raft of opportunity-driven deals among retailers.

Retailer demand is softer now than it was in 2010 but nonetheless remains a key driver of activity in the big-shed market. New requirements continue to emerge, with the supermarkets, multi-channel retailers and discount brands seeking to realign supply chains or expand e-fulfilment business. 3PL providers also made an emphatic return to the market in H2 2011, while the West Midlands and the North East saw heightened activity in the automotive manufacturing sector.

The availability of new-build big-sheds is now virtually non-existent in certain regions, such as the South West, and the wider London and South East area. With the exception of particular areas which remain well-supplied with this type of product, such as South Yorkshire, Fund-financed design and build activity is set to return as the primary means through which occupiers will secure new-build sheds.

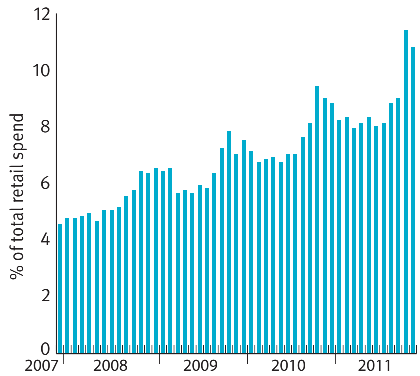
To prepare for this anticipated growth in the pre-let market, a number of notable land deals took place in H2 2011, most notably in the South East. We expect pre-letting activity to be particularly evident in the mid-sized market (20,000 sq ft – 80,000 sq ft units), as this segment received relatively limited interest during the last speculative building boom.

However, given that pre-lets typically require occupiers to commit to long leases, this route does not afford the level of flexibility that many occupiers are seeking, particularly 3PL providers who require short-term leases to match their contracts. Consequently, demand for good quality second-hand space is buoyant, and landlords may benefit from undertaking refurbishment to a level of fit-out which tempts occupiers seeking more flexible accommodation solutions.

A limited amount of speculative development is occurring, but it is tightly confined to particular market hotspots which offer potential for rental growth, such as East and West London and Aberdeen. We expect additional speculative activity in 2012, but it will remain very restrained compared with the historic average and focused almost exclusively on small, multi-unit schemes.

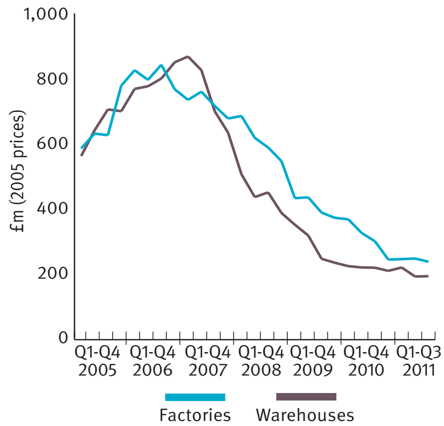
For more detailed commentary on the occupier markets, please refer to our regional LOGIC reports.

Figure 2
UK internet sales



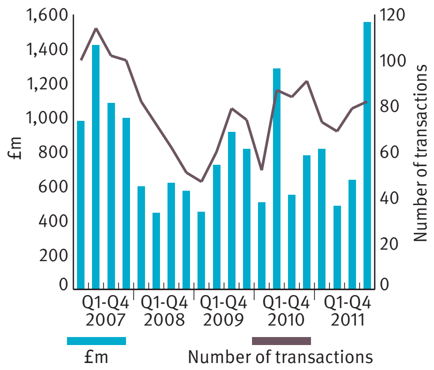
Source: ONS

Figure 3
Industrial construction orders



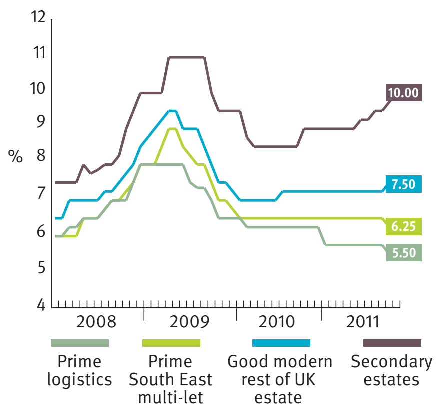
Source: ONS

Figure 4
Industrial investment transactions



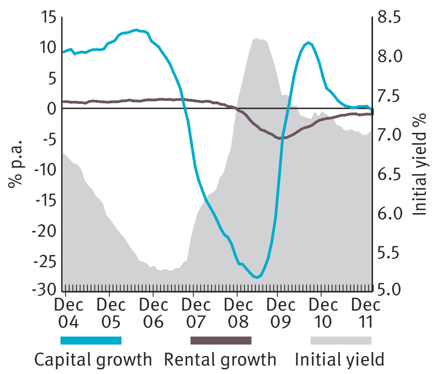
Source: Propertydata.com

Figure 5
Warehouse and industrial yields



Source: Knight Frank

Figure 6
Industrial sector performance



Source: IPD

Investment market

A stream of gloomy news regarding the outlook for the UK economy impacted on investor sentiment in the second half of 2011, dampening transaction activity in the warehousing and logistics sector. However the final weeks of 2011 saw three landmark portfolio deals which significantly boosted transaction turnover in final quarter of 2011 to £1.55bn, a level akin to the peak of the market in 2007 (Figure 4).

These portfolio deals, referenced in Table 1, reflect the continuing strength of demand among equity-backed investors for long-income logistics assets, occupied by high quality covenants. With limited prospects for capital growth in the short term, buyers are attracted to the defensive quality of property which offers a sizeable yield premium over other asset classes. Equally, vendors have seized on the opportunity to rebalance their portfolios and pursue alternative strategies.

For the same reasons, demand is also strong for prime single-let distribution units. Yields now stand at 5.50% for assets with 20 year income and fixed rental uplifts (Figure 5). Overseas investors from the Asia Pacific and Middle East have emerged as significant players in this market, a trend which is likely to continue throughout 2012.The emerging lack of supply of prime logistics, compared with retail and offices, is an added draw to this sector for investors, with lower void risk and potential for medium term rental growth.

Demand for multi-let industrial stock emanates almost exclusively from UK institutional investors, with their focus remaining strongly weighted towards London and the South East. While the nature of the sector carries higher tenant risk, active asset management strategies can result in significantly higher returns. Over the next 12 months, investor interest is likely to remain focused on the established locations in the South East and Greater London, although we believe that multi-let assets in other regions of the UK will also prove attractive, albeit for the very best product.

The market for secondary stock remains challenging, with a growing polarisation being seen in demand between prime and secondary assets. Indeed, while yields for prime assets have remained stable or even hardened in some cases in H2 2011, secondary yields have been under outward pressure. Poorer quality assets in locations where occupational markets are weak will continue to see yields move out in 2012. This is the case for both single and multi-let properties.

Table 1
Selected warehouse / logistics transactions in H2 2011

Property	Vendor/Purchaser	Price	NIY	Date
UK Logistics Fund	L&G / SEGRO Plc	£314.7m	6.40%	Dec-11
The Triangle Portfolio*	London & Stamford / Blackstone	£265.0m	6.90%	Dec-11
The Teal Portfolio*	ProLogis / Blackstone	£214.0m	7.70%	Dec-11
Palmer & Harvey, Hemel Hempstead	Gazeley / Aberdeen	£16.55m	5.70%	Dec-11
Ascent Park, Edinburgh Way, Harlow (multi-let)	AXA / Standard Life	£10.0m	6.16%	Dec-11
Gateway 24, West Thurrock (multi-let)	BNP Paribas REIM / AVIVA	£6.30m	7.61%	Dec-11

Source: Knight Frank
*Exchanged, not completed

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LONDON, SOUTH & EAST

Logistics and Industrial Commentary H2 2011

Knight Frank

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H2 2011 market commentary

- Activity in the wider South East region remained relatively subdued in the second half of 2011. For units exceeding 50,000 sq ft, H2 2011 take-up was 3.84m sq ft, 9% up on the H1 figure but some way down on the long term average.
- Two major deals accounted for over a third of H2 2011 take-up - Amazon leased 466,377 sq ft at the recently refurbished Mammoth in Hemel Hempstead, while Tesco secured a major 900,000 sq ft design & build unit at the former Scottish & Newcastle brewery site in Wooton Grange, Reading.
- Although demand has softened from 12 months ago, there are a number of significant retail-led requirements which remain unsatisfied, most notably in London and the M25. For example, Ocado and M&S both have requirements in South East London, while discount retailer Poundland and Sony are both seeking c.300,000 sq ft in the M25 area.
- However, at the larger end of the market, the supply of good quality space in the M25 is now negligible. Isis Reach in Belvedere (320,825 sq ft) is the only unit exceeding 200,000 sq ft currently available in the area.
- With bank finance extremely limited, design & build pre-lets are emerging as the primary means by which occupiers can secure Grade A space. Indeed, we have seen several notable land deals recently as developers seek to tap into an anticipated raft of pre-lets. For example, Canmoor purchased a 15 acre site in Southampton in a joint venture with Cordea Savills for £8m, while Exton and LaSalle IM purchased 30acres at Manor Royal, Crawley (former GSK site), for £9m.
- Speculative development is taking place but is confined to market 'hotspots'. For example, Goya Developments, in conjunction with Scottish Widows, is planning to develop a 160,000 sq ft multi-unit scheme at Park Royal, West London. Goya are also expected to begin construction of a 110,000 sq ft small unit scheme in East London following the Olympics, with funding from Jack Walker's Family Trust.

Q4 2011 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to Q4 2012

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	£9.50 ▲	£9.50 ▲	£8.25 ◄►
North London	£8.25 ◄►	£8.25 ◄►	£8.00 ◄►
South London	£8.25 ◄►	£8.25 ◄►	£7.50 ◄►
Crawley	£7.50 ◄►	£7.00 ◄►	£7.00 ◄►
Southampton / Portsmouth	£7.75 ◄►	£7.25 ◄►	£7.50 ◄►
Maidstone	£7.50 ◄►	£7.25 ◄►	£6.50 ◄►
Milton Keynes	£ 6.25 ◄►	£6.00 ◄►	£5.50 ◄►
Hemel H'stead	£8.25 ◄►	£7.50 ◄►	£7.50 ◄►
Reading	£8.50 ◄►	£8.00 ◄►	£7.50 ◄►
Northampton	£6.25 ◄►	£5.50 ◄►	£5.25 ◄►

In August 2011, Kelvin Hughes acquired 80,000 sq ft at Canmoor's Voltage building, Enfield, at an agreed headline rent of £8.50 per sq ft.

Selected London, South and East transactions in H2 2011

Address	Tenant	Size (sq ft)	Rent / Price (per sq ft)	Date
Mistral 170, Maxted Rd, Hemel Hempstead	Palmer & Havey	167,730	£5.95	Aug 11
Wooton Grange, Whiteley, South Reading	Tesco	900,000	undisclosed	Sept 11
Unit B, Triton Centre, Waterglade Park, Grays	Ford Retail	52,661	£5.50 (stepped rent)	Sept 11
Mammoth, Boundary Way, Hemel Hempstead	Amazon	466,377	£6.50	Oct 11
Thurrock Commercial Park, West Thurrock	A&N Media	130,000	£110.00*	Dec 11
Voltage, Enfield	Kelvin Hughes	80,000	£8.50	Dec 11

* Freehold transaction

Regional outlook

- Given the acute shortage of supply, take-up over the coming year is likely to be dominated by pre-letting activity. Developments will be predominantly Fund financed, while the banks will remain averse to lending.
- Generally speaking, headline rents and incentives will remain broadly stable over the coming 12 months as supply shortages are counterbalanced by softer demand and on-going uncertainty in the outlook for the UK economy.
- That said, we anticipate a degree of rental growth could occur in the London area, particularly for small to medium sized stock in the East London area.

MIDLANDS

Logistics and Industrial Commentary H2 2011

Knight Frank

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H2 2011 market commentary

- The latter half of 2011 saw significant take-up across the East and West Midlands. For units in excess of 50,000 sq ft, take-up totalled 5.18m sq ft in H2 2011 - more than double the amount of space transacted in H1 2011, which itself rated as a relatively active period in the market. H2 take-up was boosted by a flurry of major transactions, including Amazon's lease of Gazeley's Flair Building in Rugeley totalling 707,000 sq ft and the Co-op's 477,000 sq ft pre-let at Castlewood, Nottinghamshire.
- A notable recent development has been the return of third party distribution companies to the market; Kuehne & Nagle leased 237,000 sq ft in Birmingham, Expert Logistics took 359,000 sq ft in Crewe, Stobart purchased 275,000 sq ft in Lutterworth, while, in Corby, Wincanton sub-let 277,000 sq ft and Advanced leased 210,000 sq ft, also in Corby.
- As a result, 2011 was characterised by a steady erosion of available stock across the Midlands. Indeed, Gazeley and Prologis each now have just a single substantial building available across the central region.
- The current strength of the automotive sector is also driving activity. Rolls Royce / Goodrich purchased 24 acres at Birmingham Business Park for a new R&D facility, while Jaguar Land Rover's land acquisition at i54 (to support a new £60m engine plant) recently received planning consent. Suppliers continue to secure contracts for new work at Jaguar Land Rover with, for example, Plastic Omnium's lease of 120,000 sq ft at Hams Hall and TT Automotive Supplies' lease of 115,000 sq ft from Segro at Meteor Park, Birmingham.
- Levels of design and build (D&B) activity did not increase dramatically over 2011, as demand remained focused on existing stock given the relative cost effectiveness of acquiring existing accommodation. However, with supply dwindling, D&B activity is sure feature more prominently in 2012, especially given that finance for speculative construction remains virtually non-existent.

Selected Midlands transactions H2 2011

Address	Tenant	Size (sq ft)	Rent / Price (psf)	Date
Flair, Rugeley	Amazon	707,000	£3.95	July 11
Faraday Point, Hams Hall, Coleshill	Avarto	90,693	£3.75	Nov 11
Eismann Way, Corby	Advanced Supply Chain	210,095	£3.00	Nov 11
Solar, Magna Park, Lutterworth	Eddie Stobart	275,000	c.£53.00*	Nov 11
Chase Point, Coventry	Confidential**	80,602	£5.10	Dec 11

* Freehold purchase **Knight Frank acted for the occupier confidentially

Q4 2011 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to Q4 2012

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
Birmingham	£6.00 ◄►	£5.50 ▲	£5.00 ▲
Black Country	£5.25 ◄►	£4.75 ◄►	£4.75 ◄►
Leicester	£5.50 ◄►	£5.25 ◄►	£5.00 ▲
Stafford	£4.95 ◄►	£4.50 ◄►	£4.25 ◄►
Stoke	£4.95 ◄►	£4.50 ◄►	£4.25 ◄►
Rugby / Daventry	£5.75 ◄►	£5.25 ◄►	£5.10 ▲

In December 2011, acting on behalf of Segro Plc, Knight Frank leased Unit 4 Meteor Park comprising 115,067 sq ft to TT Automotive Supplies.

Regional outlook

- We will continue to see automotive supply chain activity, with new occupiers moving into the area to supply the new Jaguar Land Rover engine plant in north Wolverhampton, as well as the existing assembly plants.
- The supermarkets will continue to rationalise their supply chains, with the next in line likely to be Sainsbury's. The ongoing expansion of internet retail will generate further requirements to the market, but we suspect this will focus on existing accommodation.
- 2012 is likely to see a lower level of take-up compared with last year. This stems in part from the uncertain economic outlook, but mostly relates to the lack of available good quality accommodation in the strongest locations. Consequently, D&B activity will become more widespread.

NORTH EAST

Logistics and Industrial Commentary H2 2011

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H2 2011 market commentary

- December 2011 saw the largest pre-let in the North East for a decade. Clipper Logistics signed up to a new 343,000 sq ft facility at Wynward Park, Stockton, to distribute clothes for Asda's George brand. The development is a joint venture between British Airways Pension Trustees Ltd and Sladen Estates Limited, with completion scheduled for September.
- While the above deal inflated H2 take-up to 645,000 sq ft, a 35% increase on the H1 2011 level, activity in the wider market across all size-bands was actually very quiet over the summer / early autumn period. November brought a discernible pick-up in enquires, most evidently in the 10,000 to 20,000 sq ft size range, although the market for starter units below 2,000 sq ft is moribund, reflecting the lack of confidence amongst small and fledgling businesses.
- Prime rents are broadly stable, although incentives arguably increased slightly in H2 2011, as landlords have become increasingly desperate to lease units and avoid paying rates on empty property. Lease lengths are also shortening as tenants become more risk averse.
- Demand remains predominantly driven by manufacturers, particularly from North Sea oil-related industries and the sub-sea sector on the River Tyne, with two of the market leaders being based locally, namely Wellstream and Soil Machine Dynamics. Nissan suppliers also continue to look at the region and there are currently three active enquiries from international businesses of between 50,000 sq ft and 100,000 sq ft around the Washington area.
- Prospects for new supply have improved. UK Land Estates recently secured a £75m cash injection from Highcross, some of which is earmarked for major schemes including a 250,000sq ft speculative development on the Team Valley, Gateshead, a major building programme on Teesside and a refurbishment programme on the Tyne Tunnel industrial estate, North Tyneside, which was originally constructed in the 1970s.

Q4 2011 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to Q4 2012

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
Newcastle / Gateshead	£6.00 ◄►	£5.00 ◄►	£4.50 ◄►
Sunderland / Washington	£5.00 ◄►	£4.50 ◄►	£4.00 ◄►
Durham	£4.75 ◄►	£4.25 ◄►	£3.50 ◄►
Middlesbrough / Stockton	£4.75 ◄►	£4.00 ◄►	£4.00 ◄►

An artists impression of Clipper Logistics' new 343,000 sq ft facility in Wynward Business Park, Stockton. Completion is scheduled for September 2011.

Selected North East transactions in H2 2011

Address	Tenant	Size (sq ft)	Rent / Price (per sq ft)	Date
Wynyard Business Park, Stockton (pre-let)	Clipper Logistics	343,000	Undisclosed	Dec 11
Riverside Park, Middlesbrough	Balfour Beatty Group	31,848	£2.50	Nov 11
Benfield Business Park, Newcastle	Heritage Services UK Ltd	14,919	£1.84	Sept 11
Unit 2 Ashwood Bus. Pk, Ashington	LS2 Helmets	10,091	£44.20*	Oct 11

* Freehold transaction

Regional outlook

- There is no question that those industries in the offshore and sub-sea sectors will continue to prosper particularly while oil prices remain high. However those manufacturers reliant upon the European markets for exports may well be reducing their forecasts for 2012 pending some lasting resolution to the Eurozone crisis.
- The restricted supply of new and modern units should maintain rental and capital values at their current levels. The North East's strong manufacturing base is well-placed and there is hope that the region can build upon what has been a difficult 3 years for the UK economy. There were already some signs of improvement in 2011, and a continued willingness to invest in the region will hope fully maintain take-up levels in 2012 and beyond.

NORTH WEST

Logistics and Industrial Commentary H2 2011

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H2 2011 market commentary

- The North West saw robust occupational activity in the second half of 2011. For units in excess of 50,000 sq ft, take-up was 4.1m sq ft, 76% above H1 2011's relatively subdued total and 5% above the total seen in H2 2010.
- A number of the region's largest remaining big-shed units were leased in H2. Expert Logistics acquired 360,000 sq ft from Prologis in Crewe, DHL leased 360,000 sq ft at G-Park, Liverpool, while Regatta leased the balance of accommodation at Pioneer Point in Ellesmere Port, totalling 400,000 sq ft.
- Just three new-build units in excess of 100,000 sq ft remain available in the region, meaning the focus of big-shed take-up will inevitably turn towards build-to-suit opportunities or good quality, second-hand accommodation in 2012.
- Rental levels were broadly stable over the course of 2011. However, in some areas where supply is low but demand is strong, landlords have been increasingly willing to hold out for much harder incentive packages. That said, tenant friendly incentives are still readily available in areas where high levels of availability persist, such as Merseyside or South Manchester.
- Aldi recently re-circulated their requirement for 35 to 40 acres in the North West region. Having previously struggled to find a suitable location, a number of development sites have recently been brought to the market which may fulfil this requirement.
- At the time of writing, just two schemes were being speculatively developed in the region. Given that the supply of Grade A stock in popular locations is unlikely to increase in the short term, prospective occupiers may need to look further afield when choosing their accommodation.
- Demand for units at the smaller end of the market (up to 20,000 sq ft) has remained relatively robust, as occupiers continue to consider the opportunity to down-size or consolidate amid challenging economic conditions.

Selected North West transactions in H2 2011

Address	Tenant	Size (sq ft)	Rent / Price (per sq ft)	Date
G-Park, Liverpool	DHL	360,000	£4.00	July 11
Crewe 213, Crewe	Warehouse One	213,000	P&C	Aug 11
Prologis, Crewe	Expert Logistics	360,000	P&C	Sept 11
Pioneer Point, Ellesmere Port	Regatta	400,000	P&C	Sept 11
G3 Gorrells Way, Rochdale	TBA Textiles	85,468	P&C	Dec 11

Q4 2011 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to Q4 2012

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
Manchester	£5.50 ◄►	£4.75 ◄►	£3.75 ◄►
Warrington	£4.00 ◄►	£3.50 ◄►	£2.75 ◄►
Liverpool	£4.75 ◄►	£4.25 ◄►	£3.75 ◄►

In December 2011, TBA Textiles leased 85,468 sq ft at G3 Gorrells Way, in Rochdale. Knight Frank acted on behalf of the landlord, PRUPIM.

Regional outlook

- With new-build supply rapidly diminishing and debt finance difficult to obtain, design and build is rapidly becoming the primary means through which occupiers secure new-build space in the region.
- The uncertain short-term economic outlook has dampened demand for big shed space, particularly among the major retailers. However, we are confident that retailers will commit more readily to design and build deals in 12 to 18 months, by which time conditions in the economy should have improved.
- The North West also has significant land supply to accommodate current and future requirements. For example, 200 acres at Cutacre, Bolton have recently been released, site availability exists at Omega, Warrington, while opportunities are also available at Mersey Multi-Modal in Widnes.

SCOTLAND

Logistics and Industrial Commentary H2 2011

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H2 2011 market commentary

- Market activity across Scotland was relatively subdued in the second half of 2011. For units exceeding 50,000 sq ft, total take-up in H2 2011 was a modest 557,049 sq ft, and comprised six transactions for second-hand space. Of these, the largest was Vion Food's lease of 123,996 sq ft at 5 Royston Road, Livingston.
- While the majority of demand continued to focus on smaller units of below 5,000 sq ft, there were some signs of improvement in the mid-size market in H2, with transactions returning to Central Belt towns such as Livingston and Cumbernauld.
- In H2 2011, many enquiries relating to lease expiries and break options simply resulted in renegotiated terms at the occupier's existing space, as landlords have opted to offer generous concessions in order to retain their tenants.
- However, having been quiet for almost two years, H2 2011 saw an encouraging pick-up in genuine enquiries for units in excess of 50,000 sq ft. We expect a number of these to transact in the coming months, boosting H1 2012 take-up.
- There is limited availability of modern stock in selected locations such as Aberdeen and prime locations in the Central Belt. This is beginning to prompt speculative development activity, with a notable example being Clyde Gateway East, a new joint venture involving Clyde Gateway URC, MEPC and SCOT Sheridan. The first phase of the development recently commenced construction, comprising three units of 16,100 sq ft, 19,200 sq ft, and 22,200 sq ft.
- In Glasgow, the opening of the M74 extension has improved the flow of traffic around the city and reduced traditional bottlenecks on the M8 motorway and Kingston Bridge. Previously, lengthy rush hour drive times to travel from one side of the city to the other had resulted in an east/west locational split, but there are already early signs that occupiers are willing to be a little more footloose, changing the traditional market dynamics in the area.

Q4 2011 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to Q4 2012

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
Aberdeen	£8.50 ◄►	£8.50 ◄►	£8.00 ◄►
Edinburgh	£7.00 ◄►	£7.00 ◄►	£5.50 ◄►
Glasgow	£6.25 ◄►	£5.50 ◄►	£5.25 ◄►

In August 2011, Schuh leased 27,378 sq ft at 3 Kingsthorne Park, Houstoun Industrial Estate, Livingston. Knight Frank acted for the landlord, Tiger Developments.

Selected Scotland transactions in H2 2011

Address	Tenant	Size (sq ft)	Rent/Price (per sq ft)	Date
Unit 3, Kingsthorne Park, Livingston	Schuh	27,378	£4.00	July 11
Unit 2B, Forrest Gate, Tannochside Park	G4S	33,310	£4.50	July 11
Mugiemoss Works, Mugiemoss Rd, Aberdeen	Peterson SBS	71,430	£4.90	Sept 11
2 Little Drum Road, Orchardton Woods, Cumbernauld	Cake Décor	39,460	£20.90*	Oct 11
Unit 3, Edinburgh Distribution Park, Newbridge	M&H Logistics	23,070	£5.50	Dec 11

* Freehold transaction

Regional outlook

- The Aberdeen industrial market remains bouyant, particularly around the airport, and improving demand here is expected to translate into further speculative development. A number of pre-lets are also currently in discussion and we expect these to be finalised in in the coming months.
- Take-up of larger facilities (50,000 sq ft+) is anticipated to improve in 2012 as those enquiries received in the second half of 2011 begin to convert into take-up.
- However, the anticipated increase in take-up is unlikely to be sufficient to dent overall levels of availability, which will remain elevated. Consequently, rents on secondary and tertiary buildings are not expected to show any improvement for at least 12 to 18 months.

SOUTH WEST

Logistics and Industrial Commentary H2 2011

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H2 2011 market commentary

- For the 50,000 sq ft plus market, the South West saw take-up of 1.84m sq ft in H2 2011, a considerable improvement on H1's 350,000 sq ft. That said, the total was relatively subdued by historic standards, and above all it reflects the paucity of good quality supply at the larger end of the market.
- The wider Bristol area saw take-up across all size-bands of 2.4m sq ft in H2 2011, 15% below the half yearly average over the last decade. However, the figure exceeds the level typically generated by indigenous demand alone, with evidence that inward investment is still active in the Bristol area.
- The only deal for new space took the form of a design and build, where Chep acquired 48,525 sq ft over 8 acres at Central Park. The deal shows that there is appetite for bespoke solutions in the region among national occupiers.
- The failure to deliver new stock speculatively in the last five years has left the South West market starved of quality supply. Indeed, supply across all grades is dwindling, as those occupiers who are seeking relocations are unable to source the quality of product they require, thus preventing the release of secondary stock.
- At the time of writing just three schemes are currently under construction in the region, offering a combined total of circa 75,000 sq ft. However, if market conditions improve sufficiently, we may witness more developers entering the speculative market, as has been seen in the South East. Until this stock becomes available, we predict little in the way of rental growth through lack of evidence and opportunities.
- In the bespoke pre-let market, the South West still boasts in excess of 2m sq ft of latent demand from a mix of manufacturers, retailers and distribution operators. While there is significant land supply around the key Bristol/Severnside markets, it remains tight in other locations such as Swindon and Exeter, with little more planned in recent Local Development Framework documents.

Selected South West transactions H2 2011

Address	Tenant	Size (sq ft)	Rent / Price (per sq ft)	Date
West Wiltshire Trading Estate, Westbury	Welton Bibby & Baron	295,855	c.£16.50*	Aug 11
Central Park, Bristol	Chep	48,525	£635,000 p.a.	Sept 11
MFI Building, Western Approach	Steinhoff	66,700	c. £60.00*	Dec 11
Estuary Park, Avonmouth	Boomeco	78,000	£3.00	Dec 11
1700 Aztec West, Bristol	Shiner	76,000	c. £60.00*	Dec 11

*Freehold transaction

Q4 2011 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to Q4 2012

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
Bristol	£8.00 ◄►	£6.75 ◄►	£6.00 ◄►
Swindon	£6.25 ◄►	£6.00 ◄►	£5.25 ◄►
Exeter	£6.25 ◄►	£5.25 ◄►	£4.75 ◄►
Plymouth	£5.25 ▼	£4.50 ▼	£3.00 ◄►

In H2 2011, pallet manufacturer Chep acquired a bespoke 48,525 sq ft unit at Central Park, Bristol. Work is underway with practical completions expected in March 2012.

Regional outlook

- Over the next 12 months, design and build will provide the primary mechanism through which occupiers can source high quality accommodation in the region.
- The rental tones in the larger sector will be driven by construction costs, as the proliferation of available sites in the region is leading to a very competitive land market. If we see an increase in construction costs during 2012, there will be a direct correlation with rental growth.
- Looking to the longer term, it is crucial that developers are actively servicing their sites and securing planning throughout this stagnated market period. Once an improvement in market conditions becomes evident, those who have prepared their sites and shortened delivery periods will benefit.

SOUTH YORKSHIRE

Logistics and Industrial Commentary H2 2011

Knight Frank

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H2 2011 market commentary

- The South Yorkshire region saw another period of subdued transactional activity in H2 2011. The market saw 370,000 sq ft of take-up on units in excess of 50,000 sq ft, down considerably on the 1.7m sq ft seen in H2 2010.
- However, we anticipate healthier activity over the coming months. Retailer Next is under offer at Hurricane Doncaster (263,000 sq ft), as they seek to complement their existing facilities at South Elmsall, Rotherham and Doncaster. Manufacturers and metals recycling companies are also active in the market, with two deals of 70k plus likely to go through in H1 2012.
- Prospective occupiers are favouring modern second-hand space due to quality of existing fit-out. Consequently, landlords of new stock are having to compete by offering generous fit-out packages. 3PLs are also back in the market but typically they can only commit to five years.
- The region remains oversupplied with new and modern big sheds. In September, DHL will vacate Nimbus in Thorne which will see a further a 750,000 sq ft added to the market, although the unit is unique for its size and does not compete with other existing buildings.
- In contrast, the supply of good quality small to medium-sized units is diminishing in the absence of new development. Buildings already fitted out with offices and lighting are proving most attractive.
- Large-scale speculative development is not expected to emerge in the short term given the lack of funding and the continued supply of existing new-build stock. However, a handful of local developers may undertake small unit schemes this year following recent land acquisitions, namely at Shortwood Business Park, Barnsley and First Point, Doncaster.
- There are a number of design and build requirements in the market, although the rental levels needed to make a scheme financially viable are far in excess of what can be secured on an existing unit. Consequently, D&Bs are only materialising for bespoke requirements, or in locations where no Grade A stock is available.

Selected South Yorkshire transactions H2 2011

Address	Tenant	Size (sq ft)	Rent / Price (per sq ft)	Date
Dearne Mills, Darton	Kingspan	65,000	£2.30	Aug 11
Adwick Park, Rotherham	ABS	83,700	£33.00*	Sept 11
Balby Car Bank, Doncaster	DHL	160,000	£3.50 (flexible lease)	Nov 11
Canklow Meadows	Cooper & Turner	64,000	£30.00*	Dec 11

*Freehold purchase

Q4 2011 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to Q4 2012

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
Sheffield	£5.00 ◄►	£4.75 ◄►	£4.50 ◄►
Doncaster	£4.75 ◄►	£4.75 ◄►	£4.50 ◄►
Rotherham	£4.75 ◄►	£4.75 ◄►	£4.50 ◄►
Barnsley	£4.75 ◄►	£4.75 ◄►	£4.50 ◄►

In December, ABS acquired the freehold interest of 83,700 sq ft at Adwick Park, Rotherham, reflecting a capital value of £33.00 per sq ft.

Regional outlook

- The larger end of the market will continue to generate very competitive terms while supply remains elevated. However, incentives are expected to harden for good quality small to medium-sized units in the prime locations along the M1, as supply of this sort of product is tighter.
- While speculative development looks unlikely, developers may opt to speculatively develop a single unit alongside a pre-let, as and when a bespoke design and build development moves forward.
- The designation of the Sheffield Region as an Enterprise Zone last summer is likely to have a positive impact on the market. We expect the news will stimulate enquiries for the region from inward investors during the coming year.

WEST YORKSHIRE

Logistics and Industrial Commentary H2 2011

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H2 2011 market commentary

- Take-up in West Yorkshire was broadly consistent through 2011. In the 50,000 sq ft plus market, take-up in H2 2011 was 827,365 sq ft, almost exactly in line with H1's 834,779 sq ft. Notably, with no new product available and an absence of design and build agreements, H2 take-up consisted entirely of secondhand space.
- Given the plentiful choice of second-hand space on the market, tenants have been able to lease space on very generous terms as landlords seek to mitigate the impact of empty rates liabilities. Indeed, prospective occupiers will regularly compromise on their ideal location and building specification in order to take advantage of cheap rents and flexible leases on offer.
- However, with no prime product available in West Yorkshire, and no sign of a return of speculative development as yet, demand for the very best quality secondhand space is relatively strong. Indeed, when such space has become available, headline rental levels have exceeded £5.00 per sq ft.
- We have noted an increased preference for freehold owner-occupier deals in the market. For those occupiers with sufficient cash reserves available, freehold acquisition is a sensible strategy to follow given that capital values are depressed amid a prevailing environment of low interest rates.
- Occupier demand in West Yorkshire remains at the smaller end of the market, focused on warehouse units ranging from 10,000 sq ft to 20,000 sq ft. While we have seen an encouraging increase in enquiries since we last reported, this is largely driven by lease events and the opportunity to extract a better deal.
- The Government's announcement in July that a site within Aire Valley Leeds has been approved as an Enterprise Zone is an exciting development for the market. Occupiers and businesses will be offered various incentives for location and investment in the zone, with tax breaks in the order of £100m. It is estimated that it could bring a £550m economic boost and over 9,500 new jobs to the area by 2025.

Selected West Yorkshire transactions in H2 2011

Address	Occupier	Size (sq ft)	Rent / Price (per sq ft)	Date
Sprint 70, Old Run Road, Leeds	Morgan Sindall	70,200	£4.75	July 11
Unit 1 Towngate Link, Leeds	Allied Glass	106,527	£2.90	July 11
Topcliffe Lane, Capitol Park, Leeds	Arnold Laver	66,821	£40.00*	Nov 11
Unit 1 South Leeds Trade Centre, Leeds	Sytner Group	14,500	£4.40	Dec 11

* Freehold transaction

Q4 2011 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to Q4 2012

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
Leeds	£5.25 ◄►	£5.00 ◄►	£5.00 ◄►
Bradford	£5.25 ◄►	£5.00 ◄►	£5.00 ◄►
Wakefield	£5.25 ◄►	£5.00 ◄►	£5.00 ◄►

In December 2011, Sytner Group Ltd leased Unit 1, South Leeds Trade Centre, on a new 10 year lease. The investment was subsequently sold to a private investor reflecting an NIY of c.7.5%. Knight Frank acted in both transactions.

Regional outlook

- We expect 2012 to show a slight improvement in take-up over 2011, as occupiers continue to strike competitive deals on exiting secondhand space.
- A number of outstanding enquiries from the manufacturing / production sector should also bear fruit and this is likely to manifest itself in a return of the bespoke design and build market.
- Looking further ahead, it is clear that the new Enterprise Zone is likely to provide a key focus of activity in the coming years. Occupiers can expect a £275,000 business rate discount over a five year period which is likely to be very attractive. However, the key to its success is the level of inward investment the new area can generate.

LOGIC - RESEARCH

WALES

Logistics and Industrial Commentary H2 2011

Knight Frank

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H2 2011 market commentary

- Occupational activity improved again in the second half of 2011, building on the recovery seen in H1 2011. For units in excess of 50,000 sq ft, take-up in Wales was 2.94 million sq ft in H2, up 16% on the H1 2011 level and considerably above the long-term half-yearly average.
- Positive as this seems, several of the key warehouse deals in H2 comprised short term lettings agreed at a concessionary rent, as landlords have fought to mitigate the effects of empty rates liabilities. For example, Knauf Insulation occupied over 200,000 sq ft across Gwent in the six months up to Christmas, while Gist leased 300,000 sq ft at Chepstow for just four months.
- The two tier market in South Wales has arguably become more entrenched in the last 6 months. The M4 corridor continues to be the focus for activity, although there is now an acute shortage of Grade A space available. In stark contrast, older buildings in secondary locations with poor access to the M4 or A465 have suffered, with a marked decrease in rental and capital values.
- In addition to indigenous demand, Wales has seen a steady increase of enquiries from national occupiers of late. For example, Speedyhire recently agreed terms on a 130,000 sq ft facility in Newport, which will serve as their new MSC (Multi Skills centre) for Wales and the South West, while DHL also has an active requirement for 50,000 sq ft in the city.
- Similarly, in Wentloog, UPS acquired the freehold of the former Maskreys building totalling 44,785 sq ft, while B&Q leased 25,000 sq ft at Capital Business Park. Notably, all these buildings were modern, having been built in the last decade, and offer excellent links to the M4 motorway.
- Speculative development is extremely limited at present, with only the public sector engaging in a small number of projects. There have been increased calls on the Welsh Government to encourage new speculative developments by extending business rates exemption for new build schemes.

Selected Wales transactions in H2 2011

Address	Tenant	Size (sq ft)	Rent / Price (per sq ft)	Date
Newhouse Farm, Chepstow	Osborne Unipol Plc	70,000	Undisclosed	Sept 11
Building 1, TRW, Pontypool	Knauf Plc	82.000	£1.90	July 2011
Former Thermomax Premises, Hawtin Park, Blackwood	Moulded Foams Ltd	66,000	c. £18.20*	Dec 2011
Former Maskreys Unit, Wentloog, Cardiff	UPS	44,785	c.39.00*	Sept 11

*Freehold purchase

Q4 2011 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to Q4 2012

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
Cardiff	£6.50 ▲	£4.00 ▲	£3.00 ▲
Swansea	£3.50 ▲	£2.75 ▲	£2.00 ▲
Heads of Valleys	£3.00 ◄►	£2.50 ◄►	£1.75 ◄►

In December 2011, Moulded Foams Ltd acquired 66,000 sq ft at Thermomax Premises, Hawtin Park, Blackwood. KF acted on behalf of the vendors, Kingspan Renewables Ltd.

Regional outlook

- The clear shortage of good quality warehouse space is putting pressure on rental levels in prime locations along the M4. In the absence of new supply, we can see headline rents increasing further over the next 12 months.
- As prospective occupiers continue to focus their interest on good quality accommodation, the two tier market in evidence between prime and secondary stock is likely to become even more stark over the next 12 months
- We believe the present shortage of prime stock will ultimately entice landlords and developers to undertake refurbishment projects. In the absence of new build supply, 12 months from now we can see refurbishments being a key means of meeting latent occupier demand for quality space.