

INDUSTRIAL & LOGISTICS MARKET 2016

Lambert
Smith
Hampton

A collection of dark gray, three-dimensional geometric shapes, including cubes and rectangular prisms, some of which are tilted or stacked. These shapes are scattered across the middle section of the cover, creating a sense of depth and movement.

TRACKING DEVELOPMENTS

Welcome



Steve Williams
Head of Industrial & Logistics
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2015 was a fascinating year for the industrial and logistics sector. Speculative development came back in a big way, rental growth continued its onward march across the country and, while take-up was down on 2014's high, it was ahead of its annual average.

On reflection, the weakening sentiment around the global economy and fears of a possible 'Brexit' have rather clouded what is expected to be another strong year for the UK industrial & logistics sector. In my 25 years of working the sector, the fundamentals around the occupier market remain as positive as they've ever been.

Rental growth is now relatively widespread across the country, and this momentum should be maintained during 2016 given the acute shortage of quality supply that characterises our market. True, the development response has been emphatic, although frankly it has been a long time coming and is weighted towards the larger end of the market.

Robust levels of occupier demand also paint a positive picture as to potential market activity in 2016, provided of course that the space is available to satisfy it. Retail demand remains especially buoyant, reflecting both structural changes in the industry from ecommerce and the importance of consumers in driving UK economic growth.

It's not all plain sailing. Land values in the UK core logistics markets have increased markedly in some locations, prohibiting new entrants to the development market. The upside is that development is likely to ripple out into relatively untapped locations, which offer value to both developers and prospective tenants seeking more economic rents.

If anything, the performance of the investment market has the most important bearing on activity in the occupier market. As the strong bout of capital growth seen in our sector loses steam through yield stabilisation, investors will need to be convinced of growth before committing further funds to deliver much-needed new supply.

The good news is that there remains considerable opportunity for growth in the occupier markets. But it is arguably more important than ever to have a forensic knowledge of market dynamics at the regional and even local level.

These are undoubtedly exciting times for the industrial and logistics sector, and I hope this research will be of help as you traverse the market during 2016.

EXECUTIVE SUMMARY

A RESPECTABLE, BUT MIXED YEAR FOR OCCUPIER ACTIVITY

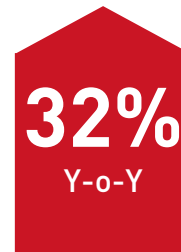
Considered overall, 2015 was a sound year for the industrial and logistics occupier market, albeit fortunes were mixed across sectors and regions. UK-wide take up fell 7% short of 2014's record annual total, but was nevertheless 2% ahead of the five-year annual average.

Reflecting the geographical breadth of occupier confidence, the majority of regions saw 2015 take-up either in line with or ahead of their annual averages. However, activity in Greater London and the West Midlands was down notably on 2014, and was largely accountable for the UK's overall fall.

Sector-wise, mid box was 2015's clear standout performer with record annual take-up and activity rising markedly on 2014's level. Meanwhile, activity in both the smaller sectors and logistics was closely in line with the annual average, although the latter saw take-up fall 18% from 2014's record.

TAKE-UP 2015

96.4M	19.1M
SQ FT	SQ FT
TOTAL	GRADE A



A WAVE OF DEVELOPMENT BOOSTS GRADE A SUPPLY

A wave of speculative development prompted the first annual increase in UK-wide grade A availability since 2009. Despite the turnaround, grade A supply was only restored to its 2013 level, and is less than half its peak in 2009. It also did little to address the overall pressure on supply, with total UK availability falling 18% during 2015 to a new record low.

The boost in grade A supply has been unevenly distributed. Sectorally, development has been predominantly focused at the larger end of the market, with logistics and mid box now accounting for nearly two thirds of the UK's entire supply of grade A space. Meanwhile, grade A supply continued to ebb away for smaller unit sizes.

This unevenness was also clear at the regional level. Reflecting recent development patterns, grade A supply doubled in London, the East Midlands and the West Midlands during 2015, but contracted further in Scotland, Wales and Yorkshire and the Humber.

SUPPLY Y-O-Y CHANGE



RENTAL GROWTH CYCLE IN FULL SWING

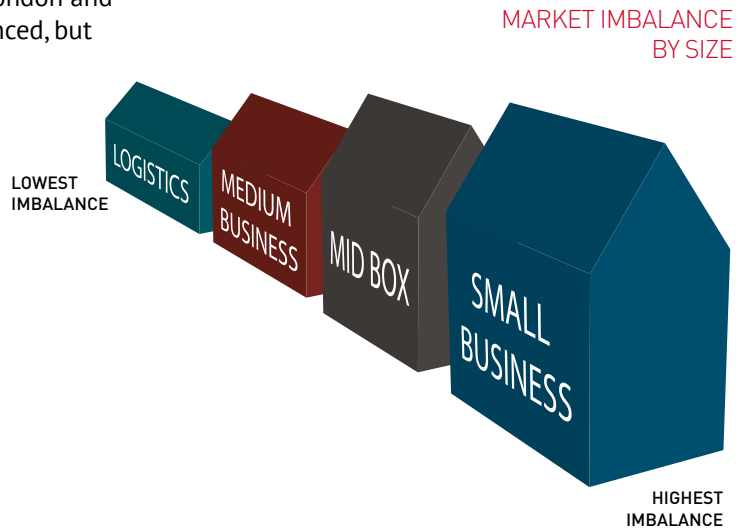
Rental growth continued its strong run throughout 2015, and was familiar to many parts of the UK. Across 60 UK markets, prime headline rents increased 3.9% in 2015, moderating slightly from 2014's level. Regionally, the East saw the strongest average increase, rising 6.2%, although Liverpool saw the largest increase of any single location, with prime rents rising 16.7%.

Notably, secondary rental growth during 2015 outpaced prime for a third consecutive year, with the discount to prime reducing from a peak of 25% in 2012 to only 17% at the end of 2015. As this growth has rippled out across the country, London underperformed the UK average, while the North West markets saw average growth soar to 13%, having hitherto seen limited movement.

MARKET IMBALANCE MOST PROMINENT FOR SMALL UNITS

While grade A supply remains under pressure across all sectors of the market, analysis of active demand reveals that the small unit sector has replaced mid box as the most imbalanced segment of the market. However, this was largely driven by a strong rise in small unit demand in London and the Midlands, with mid box seeing a less pronounced, but more geographically spread, rise in demand.

In relative terms, logistics is the 'most balanced' of the sectors at the UK level. This stems from significant speculative development in a number of regions, particularly the Midlands, while Greater London and the South East continue to show a severe imbalance of grade A supply.



INVESTORS LURED TO DEVELOPMENT FUNDING

2015 ranked as one of the strongest ever years for investment into industrial and logistics assets. Although volume was 15% short of 2014's record annual total, the number of transactions actually increased marginally year-on-year, reflecting ongoing depth of demand. The shortfall is also explained by a diversion of institutional capital into the funding of speculative development.

While demand continues to outstrip supply, stability is now returning to the market following a frenetic 18 months of yield compression. Across the key asset types, prime yields were broadly stable during the second half of 2015, having fallen sharply over the previous 18 months.

To download the full report, please contact Bernadette Walsh on bwalsh@lsh.co.uk

SECTOR DEFINITIONS

SMALL UNITS	< 10,000 SQ FT
MEDIUM UNITS	10,001 - 49,999 SQ FT
MID BOX	50,000 - 99,999 SQ FT
LOGISTICS	> 100,000 SQ FT

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