



South Coast industrial market briefing 2015

Inside this report:

- Overview of occupier, investment and developer markets
- Key deals of 2014
- Forecast for 2015

**Lambert
Smith
Hampton**

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Executive summary

- **2014 was an outstanding year for investors as supply failed to catch up with occupier demand**
- **Take-up hit a record high of over 3,000,000 sq ft**
- **Market inertia led to rental growth and shrinking incentives**

Market commentary

General market overview

The industrial and logistics market on the South Coast continued to build on the growth seen in 2013, with an increase in lettings and investment activity across the region.

The UK's economic growth and increasing GDP, a noticeable upturn in the local market and a greater degree of business confidence are all leading to more planned development.

Two stand out achievements of the year were securing Sir Ben Ainslie's America's Cup team base at The Camber in Old Portsmouth, which is under construction, and the region's success in winning a substantial share of the £10bn Local Growth Fund for highway and infrastructure improvements. These have kick-started major development projects in Portsmouth and Southampton.

Occupier market

An increase in occupier demand, coupled with a lack of supply, was highlighted by the fact that by the end

of the year, only one modern unit above 30,000 sq ft remained available along the M27 corridor. The region also experienced an acute shortage of open storage sites close to the motorway and docks.

As a consequence, rents of modern secondhand units saw an increase from an average of £6.50 per sq ft to a new high of £7.50 per sq ft.

Coupled with this, tenants saw incentives decreasing from typical rent free periods of twelve months on a five year term, to between three and six months.

Demonstrating occupiers' strong desire to secure industrial space in this region, Rolls-Royce signed the largest pre-let agreement on the South Coast for over 15 years at Oldlands Farm, Bognor Regis. This development of a new 400,000 sq ft logistics facility will take place in two phases on a site of 18.95 acres with completion due in 2016.

Development market

Institutions are becoming increasingly confident in the South Coast market and are taking the first steps towards speculative development, with several planning applications being submitted and more scheduled for 2015.

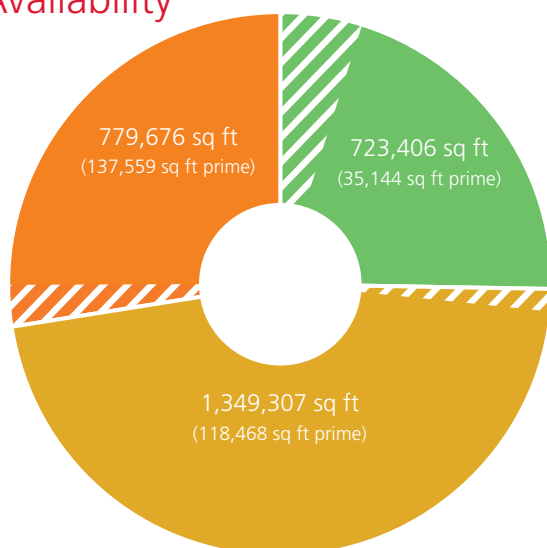
Following the success of letting Unit 6 Kites Croft in 2013 at £7.50 per sq ft, Aviva Investors and Marick Developments have obtained planning consent to speculatively construct two units on the last remaining plots, one of 30,000 sq ft and the other 9,500 sq ft. It is anticipated that rents will be in excess of £8.25 per sq ft.

Rents/capital values

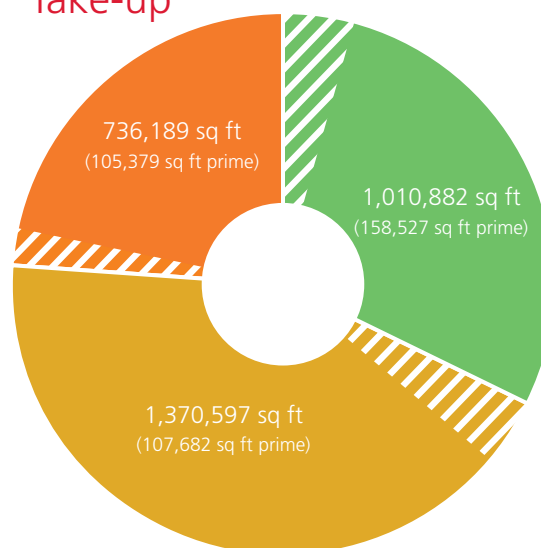
Location	Prime		Secondary	
Under 5,000 sq ft	Capital value	Rent	Capital value	Rent
Portsmouth & Havant	£105.00 – £120.00	£8.50	£70.00 – £80.00	£7.25
Southampton & Eastleigh	£105.00 – £120.00	£9.00	£75.00 – £85.00	£7.25
Bournemouth & Poole	£100.00 – £130.00	£8.00	£85.00	£7.00
5,000 – 20,000 sq ft	Capital value	Rent	Capital value	Rent
Portsmouth & Havant	£95.00 – £105.00	£7.75	£60.00 – £70.00	£6.75
Southampton & Eastleigh	£90.00 – £100.00	£8.25	£60.00 – £75.00	£7.00
Bournemouth & Poole	£90.00 – £110.00	£7.25	£60.00 – £80.00	£6.50
Over 20,000 sq ft	Capital value	Rent	Capital value	Rent
Portsmouth & Havant	£90.00 – £100.00	£7.50	£55.00 – £65.00	£6.50
Southampton & Eastleigh	£90.00 – £110.00	£8.25	£55.00 – £65.00	£7.00
Bournemouth & Poole	£90.00 – £100.00	£7.50	£55.00 – £60.00	£6.50

Industrial and logistics floorspace statistics

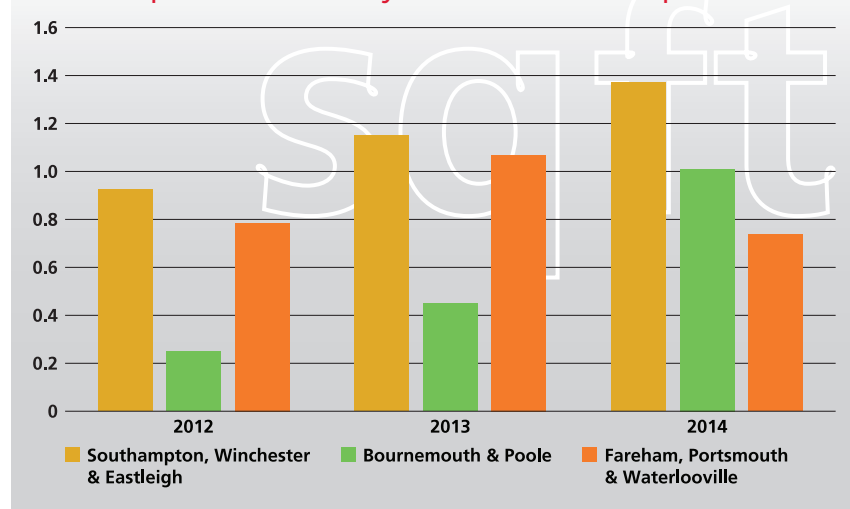
Availability



Take-up



Take-up over three years (million sq ft)



Significant transactions of 2014

Date	Address	Occupier	Sq Ft	Tenure	Rent per sq ft
Oct 14	Unit 1 Endeavour Park, Southampton	Selco Trade Centres Limited	39,286	15 years	£7.75 (£1.25 additional rent)
Sept 14	Oldlands Farm, Bognor Regis, West Sussex	Rolls-Royce Motor Cars	400,000 (2 phases)	10 years	£7.25
June 14	Unit 2 Airways Distribution Park, Eastleigh	UTI Worldwide (UK) Ltd	30,557	10 years	£7.00
Feb 14	Unit C (East), Hamilton Business Park, Hedge End	Truvox International Limited	18,600	15 years	£7.65
Sept 14	Site 1 Aviation Business Park, Bournemouth Airport	AIM Aviation Ltd	158,527	25 years	£6.05

Predictions for 2015

- **Following almost a decade of little speculative development, several schemes are now in the pipeline**
- **We envisage occupier demand will continue to outstrip supply going forward**
- **Expectations are that occupiers will see an increase in rents on both secondary and prime units**

General market overview

As we have been forecasting for a couple of years, owing to the shortage in supply of good quality detached industrial/warehouse units, now is the time that the South Coast will experience substantial speculative development.

The churn in the market is showing signs of slowing down as occupiers are struggling to identify suitable premises to move to and this will restrict business expansion, particularly in terms of small, freehold unit schemes in good strategic locations. The expected take-up of pre-let opportunities by larger companies should release a stock of smaller buildings into the market which will help to soak up this latent demand.

Rents and capital values

Prime industrial rents are expected to increase as supply tightens further on the South Coast, with units over 20,000 sq ft likely to achieve up to £8.50 per sq ft. Occupiers will increasingly be willing to sign up to leases in excess of ten years to secure space. This is giving developers and institutions the confidence to consider acquisitions on the South Coast seriously. It is worth noting that build costs are increasing which is also likely to have an impact on rental values.

As well as rental increases on new buildings, we expect good quality secondhand units to experience rental growth further to that that we have already seen over the last twelve to eighteen months.

There is also a similar scenario for smaller spaces, with a number of multi-let industrial estates seeing higher occupancy rates. It is anticipated that the knock-on effect of this will be that the region will see an increase in speculative development of multi-let estates throughout the course of 2015 and into 2016.

With yield compression impacting on capital values, we envisage that owner occupiers will now be expected to pay between £120 – £140 per sq ft for Grade A industrial/warehouse space in excess of 10,000 sq ft, and perhaps as much as £150 per sq ft on smaller units.

Key industrial/warehouse projects

- Evander Properties and Rockspring's 230,000 sq ft scheme at Test Lane, Nursling
- Bericote's development at Alpha Park, Chandlers Ford of 155,000 sq ft
- Aviva Investors and Marick Developments' plans at Kites Croft, Segensworth to build 40,000 sq ft
- Proposed disposal of the 40 acre Ford site at Eastleigh
- Development for Lidl at J3 of the M27 (Nursling, Southampton) of a new 460,000 sq ft regional distribution centre
- Kier's Evolution 50 development at Andover of 50,500 sq ft
- Delivery of new 50 acre gateway employment site alongside A3(M) at Dunsbury Hill, Havant, with potential to provide 650,000 sq ft B1/B2/B8, hotel, conference and innovation centre
- Goodman and Anglesea Capital's intentions to speculatively construct 300,000 sq ft at Andover

We've got the South Coast covered

Oldlands Farm, Bognor Regis



Rolls-Royce

Pre-Let

Client: Bericote Properties Ltd

Acquisition of 18.95 acre site and advice on the 400,000 sq ft pre-let to Rolls-Royce Motor Cars

Murrills Industrial Estate, Portchester



Let

Client: CBRE Global Investors

Occupier and investment acquisition advice, estate rebranding, letting 30,000 sq ft and ongoing asset management

2 Airways Distribution Park, Eastleigh



Let

Client: F&C REIT Asset Management

Managing letting of 30,557 sq ft warehouse to UTI Worldwide on a 10 year lease

11 Brunel Way, Segensworth



Let

Client: Captec Ltd

Letting 19,700 sq ft hi-tech unit let to Linet UK

Unit A Testwood Park, Southampton



Acquired

Client: Southampton Cargo Handling

Managed acquisition of 45,000 sq ft industrial unit

Endeavour Park, Southampton



Pre-Let

Client: Cordea Savills/Canmoor Developments

Pre-letting of 39,286 sq ft to Selco Builders Merchants

Nuffield Industrial Estate, Poole



Let

Client: Legal & General (IPIF)

Letting of three units to Lush Manufacturing Ltd and ongoing marketing advice on a refurbished estate

Fareham Reach, Fareham



Let

Client: First Alliance

Letting of 70,000 sq ft to Wiggle and continuing asset management advice

Solent Road Trade Park, Havant



Let

Client: Hargreaves Developments

Lettings agreed on a new development to Halfords, Screwfix and Toolstation

Elettra Park, Hambledon Road, Waterloo



Acquired

Client: Hargreaves Developments

Acquisition of a 12.5 acre strategic mixed use redevelopment site

Admiral Park, Portsmouth



Let

Client: Legal & General (IPIF)

Letting of 22,100 sq ft unit and secure yard to Kite Packaging Ltd

Former Bendicks Factory, Winchester



Sold

Client: Broadshade Investments

Disposal of 67,264 sq ft to an owner occupier for £2.15m

About us

At Lambert Smith Hampton, our clients mean a lot to us. Our success and reputation depends on how we contribute to their success and reputation. So why do our clients choose us? There are many reasons, but chief amongst them is that we're unashamedly and single-mindedly focused on the UK and Ireland. This means that we're on the ground, in the thick of it, at the heart of things. We're not here, there and everywhere. We're just here.

We want to understand all our clients' issues, from the huge right down to the tiny. This is – and always will be – the Lambert Smith Hampton approach. No stone is left unturned. No angle goes unconsidered. Every job is important.

It sounds like hard work. It is. But that's how success happens.

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