



Ben Ainslie Racing HQ, Portsmouth

South Coast industrial market briefing 2016

Inside this report:

- Overview of occupier, investment and development markets
- Key transactions of 2015
- Comprehensive floor space statistics
- Key development schemes for 2016
- Forecast for 2016

**Lambert
Smith
Hampton**

www.lsh.co.uk

Executive summary

- Occupier and investor demand is strong and consistent
- Critical lack of supply is severely restricting activity
- Rents are rising and incentives reducing
- First speculative development schemes are reaching completion

General market overview

Despite impressive and sustained demand, a critical lack of supply continues to hamper activity in the South Coast industrial market and is now impacting all size ranges.

UK economic growth and a resulting increase in GDP has led to strong business confidence in the area and e-tailers, particularly in the non-food sectors, have been a major demand driver. This, combined with a lack of development, has seen availability reach an all-time low.

The issue has been exacerbated by speculative developments in key strategic locations being delayed by complicated planning processes and a focus on the residential market. We are all concerned about the housing crisis but it is important to remember that logistics adds £100 billion a year to the economy and employs 2.2 million people, according to the British Property Federation.

Forward thinking local authorities have, however, kick-started major development projects, such as Portsmouth City Council's Dunsbury Hill and Southampton City Council's recently approved detailed consent for Evander Properties' South Central scheme, funded by Rockspring, to be built at Nursling in 2016.

Occupier and investment market

This imbalance between supply and demand meant that those transactions that did occur in the market in 2015 were notable. For example, a fully refurbished 30,000 sq ft 1970s warehouse with a secure yard went to 'best bids' with three prospective occupiers agreeing to pay a record headline rent of £8.50 per sq ft. In addition, the only 60,000 sq ft grade A warehouse on the M27 was let at £7.95 per sq ft, prior to the former tenant vacating the property.

Headline rents have increased by 10% to 15% in the last 12 months and landlords have held out for longer lease terms and reduced rent free periods to between six to nine months on a ten year term.

Demonstrating occupier demand driven by e-commerce and non-food retailers in Southampton, Amazon has secured 68,000 sq ft in Hedge End, DFS Trading Ltd a 30,000 sq ft unit in Nursling, GeoPost UK Ltd a 42,650 sq ft unit in Ferndown and 56,000 sq ft was let to Harvest Fine Foods in Totton.

In Portsmouth, SEGRO/Roxhill secured a pre-let to Formaplex for 120,000 sq ft and at Dunsbury Hill Farm, just off the A3(M) at Havant, Portsmouth City Council has agreed terms with FatFace for 80,000 sq ft plus an extension option.

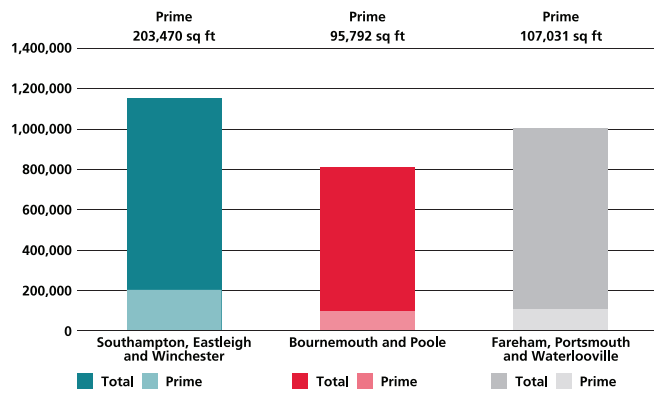
Elsewhere, Bournemouth Airport has agreed a 160,000 sq ft pre-let to Curtiss-Wright Controls (UK) Ltd on a new 20 year term.

Significant transactions of 2015

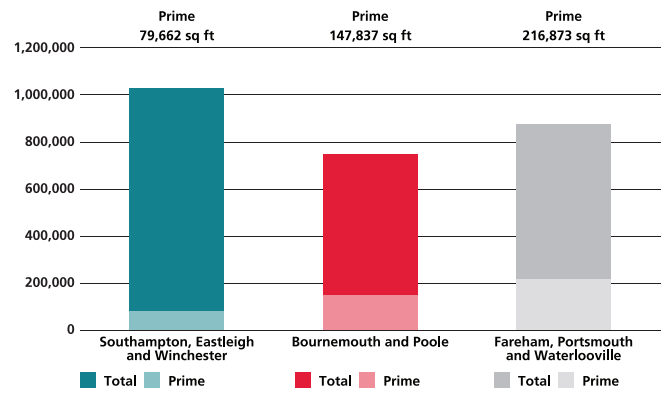
Address	Occupier	Landlord	Size (sq ft)	Tenure	Rent (per sq ft)
Site A1 Aviation Park West, Bournemouth Airport, Christchurch	Curtiss-Wright Controls (UK) Ltd	MAG Developments/Stoford	160,000	Leasehold	£7.60
Voyager Park South, Portsmouth	Formaplex Ltd	SEGRO/Roxhill	120,000	Leasehold	£7.50
Unit 1 Strategic Park, Hedge End, Southampton	Amazon.co.uk	BMO Real Estate Partners	68,348	Leasehold	£7.50 (quoting rent)
Cobham Gate, Ferndown Industrial Estate, Wimborne	GeoPost UK Limited	Glenleigh Developments Ltd	42,650	Leasehold	£13.20 (£8.25 base rate)
Unit 2 Kites Croft, Segensworth	Exsel Dyteca	Aviva Investors	35,058	Leasehold	£8.00
Units 17-18 Oriana Way, Nursling, Southampton	DFS Trading Limited	CBRE Global Investors	30,678	Leasehold	£8.50
Unit 4 Harbourgate, Portsmouth	Flip Out Ltd	Fidelity International	18,850	Leasehold	£9.00

South Coast industrial and logistics market floor space statistics

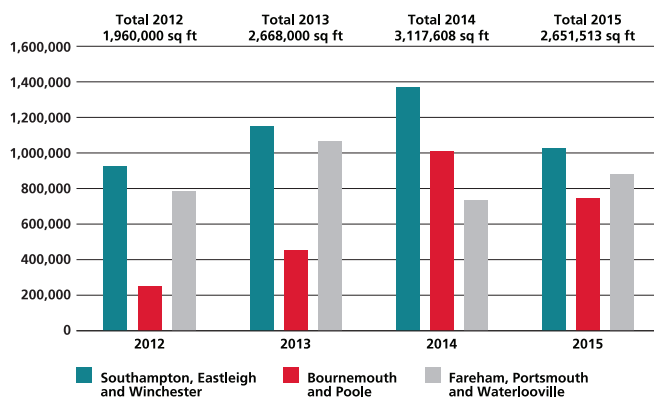
2015 availability by region



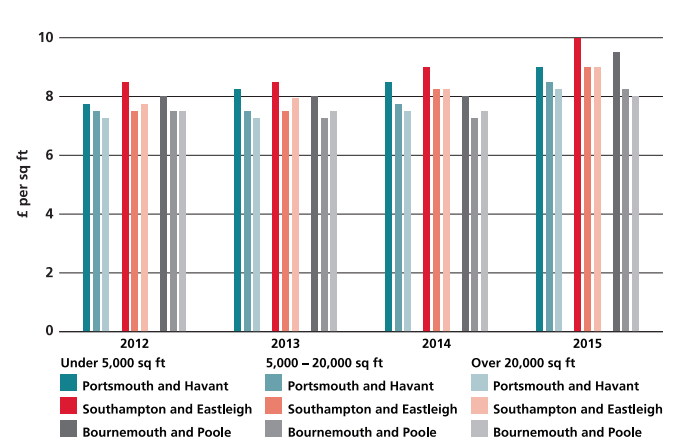
2015 take-up by region



2012 – 2015 take-up



2012 – 2015 prime headline rents



Headline rents and capital values

Under 5,000 sq ft	Prime capital value per sq ft	Prime headline rent per sq ft	Secondary capital value per sq ft	Secondary headline rent per sq ft
Portsmouth and Havant	£125.00 – £130.00	£9.00	£75.00 – £90.00	£7.50
Southampton and Eastleigh	£120.00 – £140.00	£10.00	£85.00 – £95.00	£7.50
Bournemouth and Poole	£130.00 – £150.00	£9.50	£85.00 – £95.00	£7.50

5,000 – 20,000 sq ft	Prime capital value per sq ft	Prime headline rent per sq ft	Secondary capital value per sq ft	Secondary headline rent per sq ft
Portsmouth and Havant	£100.00 – £115.00	£8.50	£60.00 – £70.00	£7.25
Southampton and Eastleigh	£115.00 – £140.00	£9.00	£75.00 – £95.00	£7.75
Bournemouth and Poole	£115.00 – £120.00	£8.25	£80.00 – £90.00	£7.25

Over 20,000 sq ft	Prime capital value per sq ft	Prime headline rent per sq ft	Secondary capital value per sq ft	Secondary headline rent per sq ft
Portsmouth and Havant	£100.00 – £110.00	£8.25	£55.00 – £65.00	£7.00
Southampton and Eastleigh	£115.00 – £140.00	£9.00	£70.00 – £85.00	£7.50
Bournemouth and Poole	£110.00 – £120.00	£8.00	£65.00 – £75.00	£7.00

Key schemes in development

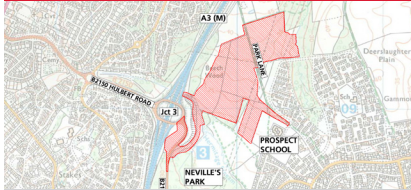
South Central, Nursling



Developer: Evander Properties

Three state-of-the-art logistics units of 40,000 sq ft, 50,000 sq ft and 116,000 sq ft. Construction to commence in Q1 2016.

Dunsbury Hill, Havant



Developer: Portsmouth City Council

50 acre employment site with potential to provide 650,000 sq ft B1, B2 and B8 units, plus hotel, conference and innovation centre.

Merlin Park, Portsmouth



Developer: Canmoor Developments/ BA Pension Fund

A, B1, B2 and B8 scheme capable of accommodating circa 140,000 sq ft.

Lidl, Nursling



Developer: Lidl

Construction of new 460,000 sq ft regional distribution centre for Lidl set for completion in Q3 2016.

Evolution 50, Andover



Developer: Kier Property Ltd and Test Valley Borough Council

A speculative high-bay warehouse of 51,634 sq ft on a 2.74 acre site. Construction to complete in Q3 2016.

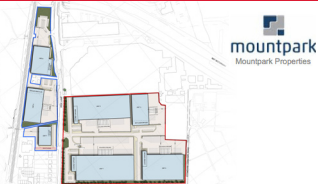
Pioneer Park, Portsmouth



Developer: Chancerygate

Three acre site providing eight B1, B2 and B8 units, speculatively constructed. Due for completion in Q3 2016.

Former Ford Site, Eastleigh



Developer: Mountpark Properties Ltd

The 25 acre site has been sold to Mountpark Properties for a scheme of 500,000 sq ft. Planning will be submitted in 2016 and construction is set to commence in Q1 2017.

Glenmore Business Park, Chichester



Developer: Glenmore Developments

A scheme of 35 B1(c), B2 and B8 units ranging from 1,027 to 14,526 sq ft. Due for completion in March 2016.

Alpha Park, Chandlers Ford



Developer: Bericote Properties Ltd

A B1, B2 and B8 scheme of three units totalling 150,000 sq ft to commence in Q2 2016 (subject to planning consent). Pre-let agreed on 44,600 sq ft.

Trade counters – an industrial demand driver

Trade counter occupier demand robust

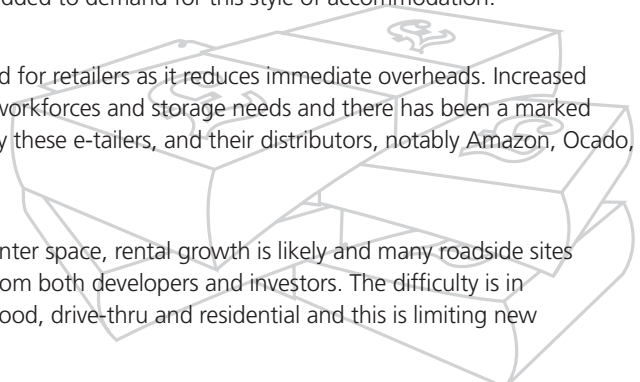
Occupiers such as Screwfix, Benchmarx, CPS, HSS, Topps Tiles and Toolstation have been particularly active recently, with rental values along the South Coast rising to the low to mid-teens for roadside, prominent or purpose built trade park units. In addition, motor orientated users, such as Formula 1 and Halfords Autocentres, have added to demand for this style of accommodation.

E-tailer success leads to increased demand for space

Delivering goods direct from suppliers to consumers is a popular trend for retailers as it reduces immediate overheads. Increased demand for goods via internet shopping has led to both expanding workforces and storage needs and there has been a marked increase in the amount of warehouse and industrial space required by these e-tailers, and their distributors, notably Amazon, Ocado, Hermes and John Lewis.

Developers and investors hungry for roadside opportunities

Tenants with strong covenants are actively looking for new trade counter space, rental growth is likely and many roadside sites have good long term potential. As a result, there is strong demand from both developers and investors. The difficulty is in procuring these sites against other high value uses such as discount food, drive-thru and residential and this is limiting new opportunities in the market.



Predictions for 2016

- **The first speculative development schemes for almost a decade will reach practical completion**
- **Despite this, occupier demand will continue to outstrip supply**
- **As a result, rents will continue to rise and tenant's incentives will further reduce**

Market overview

A lack of supply has been evident in the medium and large scale industrial and logistics market for the last couple of years and this is not set to improve in the near future. Additionally, smaller businesses will now also struggle to find suitable premises as the shortage of supply is impacting all size ranges, with most estates experiencing a very low void rate.

As predicted in recent years, we have seen the first shoots of speculative development along the South Coast during 2015 and this is likely to increase over the year ahead.

In 2016, we expect there to be heightened activity for occupiers in terms of pre-lets, particularly at the eastern end of the M27 corridor, where few speculative opportunities are likely in the Portsmouth area.

We predict that as well as seeing activity in the construction of new larger units, developers will also consider the speculative construction of new multi-let industrial estates.

The question is, will stock coming on the market from development be enough to meet demand? We certainly don't think so in the short to medium term and expect the occupational market to remain competitive for the foreseeable future.

Rents and capital values

The rental value of modern and new building stock has risen to £8.50 per sq ft on units over 20,000 sq ft. This has also had a positive impact on some of the secondary quality older units too, with these experiencing rental growth to circa £7.00 per sq ft. Additional pressure on currently low stock levels may well come from take-up by alternative occupiers such as leisure companies.

For smaller to medium sized units, rents are now in the region of £9.00 and £10.50 per sq ft, which is close to the values expected for trade counter use.

We predict that rental growth will continue across the board in 2016.

The investment market is likely to maintain the record levels of transactions seen in 2015. Current prime investment yields are circa 5.5% and will continue to bolster capital values and support development.

2016

About us

We are a commercial property consultancy working with investors, developers and occupiers in both the public and private sectors across the UK and Ireland.

Amazon to Zurich: we have partnerships with the complete A to Z of the best organisations in Britain and Ireland.

Transport to telecoms: we have experience of an extremely wide range of sectors.

Capital markets to construction consultancy: we serve an incredibly diverse range of commercial property disciplines.

We value lateral thinking and celebrate enterprise, with a focus on delivering more for our clients. By looking beyond the obvious, we consistently generate impressive results.

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Due to space constraints within the report, it has not been possible to include both imperial and metric measurements.

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