South Coast industrial market briefing

Confidence returns to the market in 2013

- Take-up hits six year high at over 2,600,000 sq ft
- Prime and secondary investment yields are strengthening
- Rents firming up and reduction in tenants’ incentives

Occupier demand hindered by dearth of quality stock

Quarterly growth in GDP accelerated through 2013 and there are encouraging signs that the economy has reached the point where self-sustaining growth is likely.

The predictions we identified a year ago have generally been borne out – the lack of bigger, quality stock is forcing expanding companies to investigate pre-let opportunities, frustrated at the limited supply of existing prime or good secondary space. The pressure on land supply will only increase and those sites with extant planning permissions, which are capable of quick delivery will take centre stage.

We have observed two emerging trends – firstly, the upswing and serious intent of business start-up enquiries funded from private resources, banks and grant distributors, such as the Solent LEP. Secondly, Local Authorities are adopting a more proactive and entrepreneurial approach to asset management, enabling vacant or older buildings to have a new lease of life. However, on a cautionary note, Local Authorities taking an excessively commercial role will stifle the transfer of property and so inhibit job creation.

In 2012, the total floor space let or sold in the market was 1,960,000 sq ft; in 2013 we saw a significant increase of over 30%. While one or two larger transactions can distort the picture, the general pattern is one of stronger demand and occupier activity gaining momentum. The longer voids associated with older, poorer quality stock are the reason why the total floor space availability has swollen. Notable deals in 2013 include:

- On Hounsdown Business Park, Southampton, Biffa signed a sub-lease on a 125,000 sq ft unit.
- DHL took 54,000 sq ft at Stoke Park in Eastleigh on a 10 year lease at £7.00 per sq ft.
- At Avalon in Eastleigh the largest warehouse letting took place of 110,000 sq ft to Harris Transport.

The supply of prime stock decreased to only 14% of total availability, leading to incentives falling from 20/24 months’ rent free down to 12/15 months for a 10 year lease and to less than 12 months for prime or quality secondary space. Incentives for a tenant requiring a five year break have also decreased to between three and nine months’ rent free.

Improving market conditions will promote the viability of speculative development. As a result of being frustrated at the shortage of alternative buildings to move onto, many occupiers are considering extensions to their existing premises or simply ‘treading water’. This is holding back economic output and business ambitions.

- PG Motors leased over 100 000 sq ft at Anchorage Park, Portsmouth for a car supermarket.
- Meggitt Avionics took a new lease on 35,000 sq ft at Titchfield Park, Segensworth, whilst Captec Ltd purchased Meggitt’s 42,000 sq ft HQ building at Whittle Avenue, Segensworth.
Industrial & Logistics floor space statistics 2013

Availability

Take-up

Headline rents/capital values

<table>
<thead>
<tr>
<th>Location</th>
<th>Capital value Prime</th>
<th>Rent</th>
<th>Capital value Secondary</th>
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The LSH South Coast Industrial and Logistics team handled over 1,300,000 sq ft of B1, B2 and B8 dispos- als during 2013, winning the Estate Gazette’s award for Most Active Agent in Hampshire and Dorset for the 7th consecutive year. The number of transactions totalled 76, where 63 were lettings and 13 were capital sales. Below is a selection of deals secured by the LSH South Coast Industrial and Logistics team in 2013.

“There is a strong team of people at LSH that I trust. They take time to understand what the Hampshire Police needs and are very responsive to this.”
David Elliott, Hampshire Police

**Avalon, Eastleigh**

The letting of Avalon, Eastleigh to Harris Transport Ltd on behalf of Oceanic Estates, was one of the largest warehouse transactions within 30 miles of Southampton since July 2009. The 109,588 sq ft unit, which sits on a site area of approximately 4 acres, was let on a new 15 year lease.

**Stoke Park, Eastleigh**

Acting on behalf of F&C REIT Asset Management, we negotiated a new 10 year lease on 53,940 sq ft of distribution space to DHL. 27,940 sq ft remains available at Stoke Park, which we are marketing on behalf of F&C along with two further properties in the Southampton area (Unit 2 Airways Distribution Park, Eastleigh and Unit 1 Strategic Park, Hedge End).

**Merlin Park, Portsmouth**

Acting on behalf of Canmoor Developments/BA Pension Fund, we acquired 6.7 acres of B1, B2 and B8 development land along with income from existing tenants, Wellman Defence, Snows BMW and the NHS.

**Unit 5 Titchfield Park, Segensworth**

We advised Highcross Developments, on the marketing of this Estate. One of the existing tenants, Meggitt Properties, re-geared their leases on the Estate and acquired an additional 35,000 sq ft. LSH subsequently advised Threadneedle Property Investments on the £9.3m purchase of the Estate.

**Units 2, 3 & 4 Anchorage Park, Portsmouth**

We acted on behalf of Commercial Estates Group in the letting of the three units at Anchorage Park, totalling 112,607 sq ft, to PG Motors Ltd on a new 10 year lease for use as a car supermarket and head office where over 100 jobs will be created.
The Industrial & Logistics division of LSH has been our lead agent on the South Coast providing valuable disposal and marketing advice on our prime to tertiary assets in our Industrial portfolio. We have always been given a first class service and have enjoyed a successful client/agent relationship. The team is always on top of enquiries and comes up with innovative ideas to add value to our portfolio.

Lewis Mantle, F&C Reit Asset Management
South Coast industrial market briefing

Predictions for 2014

For the first time in over five years, we anticipate the return of speculative development in 2014. With a decreasing supply of good quality units above 20,000 sq ft in the region, and with investment yields being compressed, institutions will be identifying the risk and reward in speculative development.

Speculative development

Fuelled by confidence in the commercial property market and with the scarcity of quality industrial/warehouse units along the South Coast, developers and UK institutions are now seriously considering speculative development in key locations along the M27 and M3 corridors.

Following the immediate re-letting of Unit 6 at Kites Croft, Titchfield to Estee Lauder, Aviva and Marick Developments are pressing ahead with a detailed planning consent on the last remaining plot on the estate, to construct a unit of 26,000 sq ft with an eaves height of 9m.

Glenmore Developments has submitted a planning application for its 10 acre site at Portfield, Chichester, where it intends to speculatively develop 20,000 sq ft of small units ranging from 1,000 - 2,500 sq ft for sale or to let.

Following the success at Endeavour Park, Canmoor Developments and Cordea Savills are also considering speculatively developing a 40,000 sq ft warehouse on the last remaining two acres.

What will happen to rents and capital values?

With the limited supply of quality units in the market, there will be a slight increase in rents, with headline figures of circa £7.75 per sq ft and in some cases, over £8 per sq ft on Design & Builds. We have seen an increased level of freehold enquiries, both on the small starter units up to larger requirements from occupiers, particularly local companies which would rather own premises than rent. There has been isolated evidence to support an increase in values, but we do anticipate seeing smaller freehold units up to 2,000 sq ft selling for approximately £120 per sq ft with larger units achieving between £100 and £110 per sq ft, depending on the location and specification.

What we have experienced over the last 12 months is a shortening of rent free periods with tenants now signing up to 12 months’ rent free with a straight 10 year lease. This was the case with DHL at Stoke Park and Estee Lauder at Kites Croft; both occupiers have taken 10 years and 12 years respectively.

The focus for 2014

2014 is going to be another eventful year for the industrial/warehouse market on the South Coast as occupier demand responds to the economic climate. We are also expecting what we believe to be the first speculative development for a good number of years taking place on a couple of sites.

A developer is expected to be selected on Test Lane South, Southampton, a 16 acre site controlled by the City Council. Alpha Park, a 8.5 acre site in Chandlers Ford, is being sold by Hampshire Police and is currently under offer and in Winchester, just off the M3 motorway at Winnall Industrial Estate, L&G have secured planning permission to develop 25,000 sq ft. Also in Southampton all eyes will be on the Ford site, with part of the site expected to be available in the market during the first half of 2014. All these sites would be ideal for speculative development. Further along the M27 corridor in Portsmouth, where there are no modern detached units over 20,000 sq ft available, Canmoor and BA Pension Fund have an outline planning consent on Merlin Park, following their acquisition of the 6.7 acre site, while SEGRO and Roxhill are able to develop up to 250,000 sq ft on Voyager Park.
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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Due to space constraints within the report, it has not been possible to include both imperial and metric measurements.

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