INTRODUCTION

Glenny LLP is the leading property consultancy and chartered surveying practice specialising in the region accessed by the North East and South East sections of the M25 motorway, which we service through a network of strategically located offices in Essex (Basildon), East London (Stratford), North London and Hertfordshire (Enfield & Harlow) and South East London and Kent (Bexley).

The statistics in this report relate to Glenny’s analysis of the property market as at 31st March 2018, based on property data obtained through our respective offices servicing the area delineated on the above map.

MARKET COMMENTARY

Industrial take up in the Glenny region fell below the long run trend level of activity in 2017 for the second time in three years, with just over 7.0m sq ft of space acquired. The only industrial sub market to buck this trend was North London & Herts, where activity was 27% ahead of the long run average.

Whilst office sector activity was also below trend, this was largely due to the weak Docklands market, with the rest of East London continuing to attract larger occupiers.

Occupier demand in both sectors has eased after a strong bounce back in the second half of 2017 but previous years have also seen a similar pattern of slowing around Q1 so it will be interesting to see if this period of relative inactivity is seasonal, or an early sign of a more significant market wide slowdown. Notwithstanding this, demand remains ahead of supply in the industrial market, standing at 10.5m sq ft and 8.1m sq ft respectively.

Across all markets, occupiers are continuing to favour grade A stock but with supply close to an all-time low, landlords are holding out for improved terms and the strongest covenant available.

Generally prime rents have continued to move forward, with industrial values rising by 8.9% in the 12 months to the end of Q1 2018, whilst office rents have advanced by 10.3%.

In the round we are therefore of the opinion that despite the wider UK economic challenges, the outlook for commercial property across the Glenny region for the coming year remains very positive.

John Bell
Head of Business Space Agency and Investment

GLOSSARY

Market Availability – Relates to the amount of built stock on the market at the period end. The availability figure does not include pre let opportunities or new developments where construction is still ongoing.

Prime Investment Yield – The yield paid for an investment property let to an institutionally acceptable covenant for a lease term of 10-15 years at the current market rent.

Prime Rent – The rent achievable for the letting of a newly built property; typically for an industrial unit this would apply to a 20,000-25,000 sq ft building and for an office letting, circa 5,000-10,000 sq ft.

Secondary Rent – The rent typically achievable on good quality second hand office (circa 5,000-10,000 sq ft) or industrial space (circa 20,000-25,000 sq ft) in a given location.

Prime Capital Values – The best freehold ‘owner occupier’ capital value achievable on the sale of a circa 10,000 sq ft industrial unit, or a circa 5,000 sq ft office building.
INDUSTRIAL SECTOR AT A GLANCE

**INDUSTRIAL MARKET TAKE UP**

Strong activity in the final three months of the year pushed take up in 2017 close to trend levels of activity, with a total of 7.0m sq ft of industrial floor space acquired, 3% below the 10 year average of 7.25m sq ft. The most significant transaction in Q4 2017 was the £468,100 sq ft letting of the former Tesco Regional Distribution facility at Welham Green to Marks & Spencer. Take up slowed in the first quarter of 2018, partially as a result of the strong end to the previous year.

**INDUSTRIAL MARKET RENTS**

Prime rents have continued to rise over the past 12 months, with all regions registering new record levels. South East London & Kent has seen the most significant growth in prime rents over the past year, with rents increasing by 25%, whilst North London & Herts and East London have also seen double digit growth of 15.4% and 12.1% respectively. Supply continues to be a major restriction to activity, with the availability rate across the Eastern M25 as a whole standing at 2.6% (8.1m sq ft), with only 1.5m sq ft of ready to occupy grade A space available.

**INDUSTRIAL INVESTMENT MARKET TRANSACTIONS**

The industrial sector continues to provide a major attraction to investors and activity in the Eastern M25 market surpassed £0.5bn for the third successive year. Transactions totalled £518m in 2017, with almost 40% market surpassed £0.5bn for the third successive year. The largest transaction in Q4 2017 was the £204m of purchases completing in the final quarter of the year. The year’s figure was boosted by two large purchases of Docklands, where values have remained static at £47.50 per sq ft since mid 2016. Secondary rents have followed this trend, rising by 16.5% on average.

**INDUSTRIAL PRIME INVESTMENT YIELDS**

Prime industrial yields have continued to harden in light of continued demand and strong rental growth being experienced in the industrial sector. Investment yields have fallen by 88 basis points since the start of 2017, to currently stand at an average 4.31% at the end of Q1 2018. The most significant reductions in prime yields over the past 15 months have been seen in Essex, where yields have reduced by 1.25% to 4.50%. Yields in both North London & Herts and East London are below this level, standing at 4.00%.

OFFICE SECTOR AT A GLANCE

**OFFICE MARKET TAKE UP**

Take up in the Eastern M25 office market fell below trend levels in 2017 for the first time since 2013, with total activity for the year standing at 2.1m sq ft. The main slowing in activity was in the Docklands market, where take up fell below trend levels by 67%. The weak performance in Docklands was partially offset by the continued strong performance of the East London office market, where WeWork made their first venture into East London by taking 143,000 sq ft at Shoreditch Exchange, E2, in addition to the Cancer Research and British Council pre lets at The International Quarter in Stratford earlier in the year.

**OFFICE MARKET RENTS**

Prime office rents have stabilised in the six months to the end of Q1 2018 but this follows a strong period of growth in the earlier part of last year. Over the past 12 months, prime rental values have risen by 15.7% on average across the Eastern M25, with the East London (excluding Docklands) seeing the strongest growth (20.0%). All sub markets have registered increases in prime rental values, with the exception of Docklands, where values have remained static at £47.50 per sq ft since mid 2016. Secondary rents have followed this trend, rising by 16.5% on average.

**OFFICE INVESTMENT MARKET TRANSACTIONS**

Office sector investment recorded its highest annual total in three years in 2017, with total activity of £1.3bn. The year’s figure was boosted by two large purchases in Docklands in the final quarter of the year, the £400m acquisition of KPMG’s London headquarters building at 15 Canada Square £14 by Hong Kong conglomerate Kingboard Chemical Holdings and the £269m purchase of 75,000 sq ft of Grade A office space at 1 International Quarter in Stratford, E3, by billionaire Chen Hongtian’s Cheung Kei Group.

**OFFICE PRIME INVESTMENT YIELDS**

Prime office yields have hardened over the past 12 months, reducing by 36 basis points to 5.75% on average across the Eastern M25 region. The majority of the improvement was seen in the early part of 2017, with yields in the majority of locations stabilising in the latter part of 2017 and early 2018. Investor sentiment has remained cautious towards the office sector, although assets let to strong covenants, with more than 10 years unexpired on the lease, are still in good demand.

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**Graphs and charts are not included in the natural text representation.**
**MARKET COMMENT**

- Take up fell marginally below trend levels of activity in 2017 for the first time since 2014, with activity totalling 1.7m sq ft. The second half of the year was the more active period, with almost 1m sq ft of floor space transacting. The largest deal in the second half of the year was the 309,000 sq ft letting to Dixons Carphone at London Gateway, Stanford le Hope.

- Activity slowed in the first quarter 2018, with only 259,000 sq ft of transactions recorded. Two pre lets at London Gateway have dominated activity in Q1 2018, the 108,555 sq ft letting to SH Pratt and the 107,000 sq ft agreement to lease to CMA CGM Group. Both facilities are to be specialist multi temperature logistics units.

- Total availability has remained broadly stable at 2.2-2.4m sq ft since 2015 but grade A supply has reduced significantly over the past 12 months as occupiers have targeted better quality accommodation. Grade A supply at the end of Q1 2018 was 677,500 sq ft, 34% down from the levels recorded in Q1 2017.

- Demand eased back slightly in the six months to the end of March 2018, with requirements of 7.2m sq ft, some 11% down on demand in the latter half of 2017. The downturn in demand was due to a fall in the number of larger requirements (>50,000 sq ft) with all of the other sectors of the market seeing an increase.

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**INDUSTRIAL MARKET AVAILABILITY** (as at March 2018)

**RENTS & CAPITAL VALUES INDUSTRIAL**

<table>
<thead>
<tr>
<th>Location</th>
<th>EPSF</th>
<th>RENT</th>
<th>CAPITAL</th>
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**INDUSTRIAL MARKET REQUIREMENTS** (as at March 2018)

**INDUSTRIAL MARKET TAKE UP**

**INDUSTRIAL MARKET AVAILABILITY**

**INDUSTRIAL MARKET DEMAND**

**RENTS & CAPITAL VALUES INDUSTRIAL**

- **RENT**
  - 2.6% 5.9%

- **CAPITAL**
  - 2.6%
MARKET COMMENT

- Take up in the Essex office market has remained below trend levels over the past two years, with activity in 2017 totalling 264,000 sq ft. The largest letting in the year was the 21,180 sq ft letting to Anglia Ruskin University at Glebe Road Chelmsford.

- The Essex office market received a boost in Q1 2018, with Sky CP announcing their leasing of 40,000 sq ft at Boultbee Brooks Stone Cross Building in Brentwood. The building is to be comprehensively refurbished, with Sky expected to take occupation later in the year.

- Supply has remained tight, with the availability rate falling to 3.4%, the lowest amongst the office markets in the Glenny region. Total availability stands at 604,000 sq ft, with 113,000 sq ft of available stock in grade A space. Chelmsford is the primary source of grade A stock, accounting for 83% of supply.

- Prime rents have risen across all locations in 2017 and Q1 2018, growing by 14.7% on average. Chelmsford and Brentwood have seen the strongest growth over the past 12 months, with rents rising by 20.0% and 15.4% respectively. Prime rents in both markets now stand at £30.00 per sq ft, a new record for each market.

OFFICE MARKET REQUIREMENTS (as at March 2018)

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<thead>
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<th>Location</th>
<th>PRIME</th>
<th>SECONDARY</th>
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<td>CHELMSFORD</td>
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MARKET COMMENT

- Take up in the East London industrial market has remained below the long run trend level since 2015, with total transactions for 2017 standing at 824,200 sq ft, 28% below the 10 year average. Activity slowed in the second half of the year with a lack of larger transactions resulting in a total of 288,300 sq ft of lettings.

- The first three months has seen a turnaround in fortunes, with take up of 266,700 sq ft, due primarily to the letting of 22 acres plus 172,200 sq ft of warehouse space at Baytree Dagenham to US TV film and TV production company Pacifica Studios.

- Supply has doubled over the past 12 months, rising to 1.3m sq ft as at the end of Q1 2018. The increase in grade A supply accounts for 43% (297,800 sq ft) of the increase in stock with a number of new buildings having recently been launched. The most significant of these is SEGRO’s scheme at SEGRO Park Rainham, where four units remain available. Despite the upturn in supply, the availability rate remains low at 2.1%.

- Following a period of stability, prime rents moved ahead once again, rising to £18.50 per sq ft, representing growth of 12.1% over the past 12 months. Prime industrial rents in East London are now 76.2% higher than they were at the end of 2013. Secondary rents have followed a similar trend, growing by 5.5% over the past 12 months and 57.4% since the end of 2013.

SUPPLY

**INDUSTRIAL MARKET AVAILABILITY**

(as at March 2018)

- **Supply:** 40% 0–5,000
  - 21% 5,001–10,000
  - 23% > 50,000
  - 15% 10,001–25,000

- **Demand:** 29% 0–5,000
  - 18% 5,001–10,000
  - 26% 10,001–25,000
  - 7% 25,001–50,000

- **Total Availability:** 1.4M sq ft

DEMAND

**INDUSTRIAL MARKET REQUIREMENTS**

(as at March 2018)

- **Trend:** 28% 0–5,000
  - 10% 5,001–10,000
  - 15% 10,001–25,000
  - 23% 25,001–50,000
  - 40% > 50,000

- **Percentage of sq ft demanded:** 9%
  - 0–5,000
  - 21%
  - 5,001–10,000
  - 15%
  - 10,001–25,000
  - 23%
  - 25,001–50,000
  - 40%
  - > 50,000

RENTS & CAPITAL VALUES

**PRIME RENTS & CAPITAL VALUES**

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<tr>
<td>£18.50</td>
<td>£15.50</td>
<td>£300</td>
</tr>
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**INDUSTRIAL MARKET REQUIREMENTS**

(as at March 2018)

- **BARKING / DAGENHAM:**
  - £13.00
  - £12.00
  - £225

- **BECKTON:**
  - £15.00
  - £13.50
  - £245

- **ROMFORD:**
  - £11.00
  - £9.00
  - £200

- **CANNING TOWN:**
  - £18.50
  - £15.50
  - £300

**INDUSTRIAL MARKET AVAILABILITY**

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<td>13%</td>
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<tr>
<td>&gt; 50,000</td>
<td>30%</td>
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**INDUSTRIAL MARKET DEMAND**

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<th>000 SQ FT</th>
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<tr>
<td>5,001–10,000</td>
<td>10%</td>
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<td>10,001–25,000</td>
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<td>25,001–50,000</td>
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<tr>
<td>&gt; 50,000</td>
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**INDUSTRIAL MARKET REQUIREMENTS**

(as at March 2018)

- **BARKING / DAGENHAM:**
  - £13.00
  - £12.00
  - £225

- **BECKTON:**
  - £15.00
  - £13.50
  - £245

- **ROMFORD:**
  - £11.00
  - £9.00
  - £200

- **CANNING TOWN:**
  - £18.50
  - £15.50
  - £300

**INDUSTRIAL **

- **RENTAL VALUES EAST LONDON:**
  - 12.1% RENT
  - 9.1% CAPITAL

**INDUSTRIAL MARKET REQUIREMENTS**

(as at March 2018)

- **BARKING / DAGENHAM:**
  - £13.00
  - £12.00
  - £225

- **BECKTON:**
  - £15.00
  - £13.50
  - £245

- **ROMFORD:**
  - £11.00
  - £9.00
  - £200

- **CANNING TOWN:**
  - £18.50
  - £15.50
  - £300
MARKET COMMENT

- Trends in take up in the East London and Docklands markets diverged in 2017, with activity in the East London region exceeding the long run trend level of activity, whilst Docklands saw transaction levels fall significantly below trend. Take up for the year in East London was 667,000 sq ft, with Docklands activity totalling 390,540 sq ft.

- Activity in the East London market was boosted by the Cancer Research and British Council transactions at The International Quarter, Stratford, whilst WeWork made a significant move into the East London market by taking 143,000 sq ft at Shoreditch Exchange, E2.

- Supply levels have risen sharply over the past two years, rising from 1.6m sq ft in early 2016 to 3.3m sq ft as at the end of Q1 2018. The majority of the increase in available floor space is due to an increase in stock in the Docklands market, where more than 1.3m sq ft has come to the market over the comparable period.

- Prime office rents have remained stable over the past six months following the sharp growth seen in the earlier part of the year. Values have increased by 12.8% on average over the past 12 months, whilst secondary rents have risen by 5.6% over the same period.

OFFICE MARKET AVAILABILITY

OFFICE MARKET REQUIREMENTS

RENTS & CAPITAL VALUES

<table>
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OFFICE MARKET TAKE UP

OFFICE MARKET AVAILABILITY

OFFICE MARKET DEMAND

RENTS & CAPITAL VALUES OFFICE
MARKET COMMENT

- Take up in the North London & Herts industrial market recorded its highest annual total in a decade, with activity of 2.2m sq ft for the whole of 2017. The final quarter of the year saw the year’s largest transaction, when Marks & Spencer took the 466,100 sq ft former Tesco regional distribution centre, DC1 & 2, at Welham Green.

- Unsurprisingly, 2018 has experienced a slow start to the year, with less than 50,000 sq ft of lettings but the coming months should see an increase in activity.

- Supply is now down to its lowest level on record, with only 1.3m sq ft of ready to occupy floor space available. Grade A supply represents 11% of current availability, with the majority of space in two units at Enfield Distribution Park (Unit 4 – 84,805 sq ft and Unit 5 – 24,298 sq ft).

- Demand has fallen back after the strong year’s activity in 2017 but still stands significantly ahead of current levels of supply. Total requirements now stand at 6.3m sq ft, down by 36% from the latter half of 2017, with the most significant slowdown in larger (>50,000 sq ft) requirements.

INDUSTRIAL MARKET AVAILABILITY (as at March 2018)

- Total Availability: 1.3M sq ft
- Percentage of sq ft Demanded:
  - 0–5,000: 7%
  - 5,001–10,000: 12%
  - 10,001–25,000: 17%
  - 25,001–50,000: 10%
  - > 50,000: 36%
- Percentage of Sq Ft Demanded:
  - 0–5,000: 36%
  - 5,001–10,000: 19%
  - 10,001–25,000: 7%
  - 25,001–50,000: 12%
  - > 50,000: 3%

INDUSTRIAL MARKET DEMAND (as at March 2018)

- Total Demand: 6.3m sq ft
- Percentage of sq ft Demanded:
  - 0–5,000: 0%
  - 5,001–10,000: 0%
  - 10,001–25,000: 0%
  - 25,001–50,000: 0%
  - > 50,000: 7%
MARKET COMMENT
- Take up in the North London & Herts office market fell below trend levels in 2017, following two years of above trend level activity. Total take up was 276,600 sq ft, with lettings of smaller suites dominating the market. The largest letting in the year was the 21,900 sq ft letting to The Environment Agency at Alchemy Welwyn Garden City in Q1 2017.
- The current year has started in a similar vein to the previous 12 months, with take up of 55,500 sq ft, the largest transaction being the 11,130 sq ft letting to Morrisons Utility Services at Abel Smith House Stevenage. Ebsco Information Services also took 10,000 sq ft at the recently refurbished Civic Centre Enfield.
- Supply moved above 1m sq ft for the first time in two years, standing at 1.1m sq ft at the end of Q1 2018. The main impetus behind the increase in availability was the release of space at North London Business Park, Barnet, where 243,000 sq ft of grade A space is available.
- Prime office rents risen by 5.6% on average over the past 12 months, with the most significant increases seen in Enfield and Harlow, where values were up by 10.0% and 5.7% respectively. Secondary rents have followed the same pattern, with values rising by 4.9% on average as occupiers have targeted better quality second hand space.

SUPPLY
OFFICE MARKET AVAILABILITY
(as at March 2018)

DEMAND
OFFICE MARKET REQUIREMENTS
(as at March 2018)

RENTS & CAPITAL VALUES

OFFICE MARKET AVAILABILITY

OFFICE MARKET REQUIREMENTS

OFFICE MARKET TAKE UP

OFFICE MARKET AVAILABILITY

OFFICE MARKET DEMAND

RENTS & CAPITAL VALUES OFFICE

NORTH LONDON & HERTS
SOUTH EAST LONDON & KENT

MARKET COMMENT
- Take up remained below trend levels for the second successive year in 2017, totalling 2.3m sq ft. Activity slowed in the final quarter of the year, with 473,000 sq ft of transactions, the largest being the 92,000 sq ft pre let to Berensden at Exton Estates Capacity Dartford.
- The slowing in take up continued into Q1 2018, with 191,100 sq ft of lettings completing. A lack of larger transactions held back activity, with only two deals above 25,000 sq ft completing, the 34,850 sq ft letting to Priory Business Group and the 27,200 sq ft letting to Euro Car Parts, both at New Hythe Lane, Aylesford.
- Availability continued to edge up, rising to 3m sq ft, due to a 17% increase in second hand supply. Second hand space now accounts for 90% of total stock in the South East London & Kent region, whilst the supply of ready to occupy grade A space has reduced to 329,400 sq ft. The largest grade A building on the market is the 86,660 sq ft unit at First Panattoni’s Belvedere Wharf.
- Rents continued to rise, with the prime rent in Charlton/Woolwich standing at £15.00 per sq ft at the end of Q1 2018, an increase of 25.0% over the past 12 months. The most significant increase in prime rents was in Maidstone, where values were up by 26.7% to £9.50 per sq ft.

SUPPLY
INDUSTRIAL MARKET AVAILABILITY (as at March 2018)

 Demands
28% > 50,000
12% 5,001–10,000
11% 0–5,000
9% SUPPLY
19% 25,001–50,000
30% 10,001–25,000

DEMAND
INDUSTRIAL MARKET REQUIREMENTS (as at March 2018)

 Demands
57% > 10,000
21% 25,001–50,000
16% 10,001–25,000
4% 5,001–10,000
2% 0–5,000
17% Demands

RENTS & CAPITAL VALUES

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<tr>
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INDUSTRIAL MARKET TAKE UP

000 SQ FT

000 SQ FT

INDUSTRIAL MARKET AVAILABILITY

000 SQ FT

INDUSTRIAL MARKET DEMAND

000 SQ FT

RENTS & CAPITAL VALUES INDUSTRIAL

£ SQ FT

£ SQ FT

10 yr average

10% TREND

10% TREND

11.1%

13.6%
Activity in the South East London & Kent office market has continued to disappoint, with transactions totalling 481,500 sq ft in 2017. Take up was dominated by smaller lettings, with only one letting above 10,000 sq ft during the year, the 16,150 sq ft letting at Union Street, Maidstone in the first quarter.

The first three months of 2018 have continued in a similar vein to the past few years, with activity of 114,000 sq ft recorded and smaller lettings being the principal driver of the market.

Supply has remained relatively stable over the past 12-18 months, standing at 1.1m sq ft at the end of Q1 2018. Grade A supply has tightened further over the past six months, reducing by 47% to 98,700 sq ft. The largest grade A space available is the 16,150 sq ft at Northside House Bromley.

Prime office rents have continued to rise over the past 12 months, with all of the featured locations recording improvements. The most significant increase was seen in Maidstone, where values have increased by 12.5% to £22.50 per sq ft. Secondary rents have fared better over the comparable period, rising by 20.0% on average.
RENTS AND VALUES

MARKET COMMENT
The industrial rental cycle has entered its seventh year of growth, with prime industrial rents recording increases of 8.9% in the 12 months to the end of Q1 2018. In total, prime rents across the Eastern M25 industrial market have increased by 8.0% over the past five years. Secondary rents have followed a similar pattern but despite a marginally shorter cycle, the pace of growth has been more extreme, with values rising by 61.4% (9.7% per annum). The office rental cycle in the Eastern M25 has been slower, than the industrial sector, commencing in early 2014, but with a marginally shorter cycle, the pace of growth has been faster, with rents rising by 46.5% (6.0% per annum) from their trough in 2011.

The weighted average unexpired lease term is 8.0 years for the office market and 11.2 years for industrial. The unexpired lease term is the average remaining term of unexpired leases of the properties. The unexpired lease term has been calculated to the nearest whole year. The weighted average unexpired lease term is the average unexpired lease term weighted for each property according to its income.

OFFICE

<table>
<thead>
<tr>
<th>RENT</th>
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<tbody>
<tr>
<td>STRATFORD</td>
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<tr>
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</tr>
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</tr>
<tr>
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</tr>
<tr>
<td>ENFIELD</td>
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</tr>
<tr>
<td>WELwyn Garden City</td>
<td>£20.00</td>
</tr>
<tr>
<td>Hoddesdon / Cheshunt</td>
<td>£10.00</td>
</tr>
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<td>HARLOW</td>
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<tr>
<td>ERITH / BROMLEY</td>
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<tr>
<td>BARKING / Dagenham</td>
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</tr>
<tr>
<td>CHERMSFORD</td>
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</tr>
<tr>
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</tr>
<tr>
<td>HADLEIGH</td>
<td>£10.00</td>
</tr>
<tr>
<td>ASHWOOD</td>
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</table>

INDUSTRIAL

<table>
<thead>
<tr>
<th>RENT</th>
<th>CAPITAL VALUES</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAMMING TOWN</td>
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</tr>
<tr>
<td>BIRKENHEAD</td>
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</tr>
<tr>
<td>ROMFORD</td>
<td>£10.00</td>
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<tr>
<td>ENFIELD</td>
<td>£10.00</td>
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<tr>
<td>WELwyn Garden City</td>
<td>£10.00</td>
</tr>
<tr>
<td>Hoddesdon / Cheshunt</td>
<td>£5.00</td>
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<tr>
<td>HARLOW</td>
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<tr>
<td>BRAINTREE</td>
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<tr>
<td>CHERMSFORD</td>
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<tr>
<td>BASSING</td>
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<tr>
<td>HADLEIGH</td>
<td>£5.00</td>
</tr>
<tr>
<td>ASHWOOD</td>
<td>£5.00</td>
</tr>
</tbody>
</table>

PRIME YIELDS

NORTH LONDON & RENTS

KEY DEAL
Manchester Industrial Estates, Colindale – £160m
The landlord purchased the 297,000 sq ft Manchester Industrial Estate from P&G Pension Fund for £160m. The estate is multi-let, at an average yield of 6.0% per annum.

PRIME OFFICE YIELDS

<table>
<thead>
<tr>
<th>YEAR</th>
<th>FIVE YEAR</th>
<th>TEN YEAR</th>
</tr>
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<tbody>
<tr>
<td>2018</td>
<td>5.0%</td>
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<tr>
<td>2015</td>
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</tr>
<tr>
<td>2014</td>
<td>4.50%</td>
<td>3.50%</td>
</tr>
</tbody>
</table>

NORTH LONDON & INDUSTRIAL YIELDS

KEY DEAL
Aberdeen Standard Investment purchased the 223,000 sq ft multi-let headquarters building at 15 Canada Square with a weighted average unexpired lease term of 8.7 years occupied by Barclays. The purchase price represents a net initial yield of 4.50%.

PRIME INDUSTRIAL YIELDS

<table>
<thead>
<tr>
<th>YEAR</th>
<th>FIVE YEAR</th>
<th>TEN YEAR</th>
</tr>
</thead>
<tbody>
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<tr>
<td>2015</td>
<td>4.00%</td>
<td>3.00%</td>
</tr>
<tr>
<td>2014</td>
<td>4.00%</td>
<td>3.00%</td>
</tr>
</tbody>
</table>

EAST LONDON

KEY DEAL
North London E2 – £190m
The purchase price represents a net initial yield of 5.00%.

SE LONDON AND KENT

KEY DEAL
CCP Pensions – £120m
The purchase price represents a net initial yield of 5.50%.

LONDON & KENT

KEY DEAL
Pensions – £150m
The purchase price represents a net initial yield of 5.50%.

KENT

SUMMARY

- Prime office yields have shown a stronger growth pattern, rising by 8.9% in the 12 months to the end of Q1 2018. In total, prime rents across the Eastern M25 industrial market have increased by 8.0% over the past five years. Secondary rents have followed a similar pattern but despite a marginally shorter cycle, the pace of growth has been more extreme, with values rising by 61.4% (9.7% per annum).
- Office rental cycle in the Eastern M25 has been slower, than the industrial sector, commencing in early 2014, but with a marginally shorter cycle, the pace of growth has been faster, with rents rising by 46.5% (6.0% per annum) from their trough in 2011.
- The weighted average unexpired lease term is 8.0 years for the office market and 11.2 years for industrial. The unexpired lease term is the average remaining term of unexpired leases of the properties. The unexpired lease term has been calculated to the nearest whole year. The weighted average unexpired lease term is the average unexpired lease term weighted for each property according to its income.
- Office market yields have shown a stronger growth pattern, rising by 5.0% in the 12 months to the end of Q1 2018. In total, prime yields across the Eastern M25 industrial market have increased by 8.0% over the past five years. Secondary yields have followed a similar pattern but despite a marginally shorter cycle, the pace of growth has been more extreme, with yields rising by 61.4% (9.7% per annum).
- Office rental cycle in the Eastern M25 has been slower, than the industrial sector, commencing in early 2014, but with a marginally shorter cycle, the pace of growth has been faster, with yields rising by 46.5% (6.0% per annum) from their trough in 2011.
- The weighted average unexpired lease term is 8.0 years for the office market and 11.2 years for industrial. The unexpired lease term is the average remaining term of unexpired leases of the properties. The unexpired lease term has been calculated to the nearest whole year. The weighted average unexpired lease term is the average unexpired lease term weighted for each property according to its income.
Our analysis of leasing data stretches beyond the headlines of rent, take up, availability and demand. Within the following statistics we add a further layer of understanding of the market and share our insight into the current trends around the prevailing lengths of leases being taken across the Glenny region, also examining the increasingly pertinent break events.

The Lease Advisory Division use the detail sitting behind this data, alongside rental evidence, to supplement the advice given to clients during rent reviews, lease renewals and lease restructuring.

The complexities of the property market create a fluid and ever evolving market place in terms of why lease lengths are increasing or decreasing in a specific sector and location.

The key drivers that influence landlords and tenants decisions are constantly changing breaking the traditionally conceived wisdom of why a lease is granted for a given duration. Identifying the trends across the Industrial and Office sectors, and importantly the reasons why they have formed, offers us the ability to add more depth to the decision making processes of both the owner and occupier markets.

Paul Aylott
Head of Valuation and Lease Advisory
MARKET COMMENTARY

INDUSTRIAL HIGHLIGHTS

- The industrial market for units up to 50,000 sq ft inside the M25 has seen average lease lengths shorten, partly due to Landlords seeking to retain control to maximise development opportunities in densely populated urban locations.

- Conversely the industrial market outside the M25 has seen average lease lengths increase, reflective of the lack of supply of stock and Landlords looking to maximise security of rental income and enhance investment value, with less focus on redevelopment in the outer lying areas.

OFFICE HIGHLIGHTS

- The office market inside the M25 is demonstrating average lease lengths increasing, fuelled particularly by the strength of the East London market, highlighting the emergence of Stratford as a favoured office location.

- Despite the loss of poor quality second hand office space in the outer M25 areas by virtue of residential conversion, the lack of strong demand has resulted in average lease lengths shortening. As a consequence tenants have been able to secure flexible lease terms.

DATA SOURCE

INDUSTRIAL SECTOR

- Our analysis of the industrial market looked at the details of 488 leases agreed in the calendar year 2017, representing 4.7m sq ft of lettings.

OFFICE SECTOR

- Our analysis of the office market looked at the details of 336 leases agreed in the calendar year 2017, representing 0.8m sq ft of lettings.

GENERAL

Our data relates to new and second hand stock.
As a long run average, the industrial market across the Glenny region has seen lease lengths increase over the past 5-6 years as supply conditions have tightened and landlords have generally negotiated longer terms with occupiers.

The only exception to this general trend has been in the Inner M25 market in 2017, when the average lease length negotiated over the year reduced to 7.3 years from 7.9 years in 2016.

The reduction in lease length is, in this instance, primarily due to the desire by landlords to see shorter lease terms in order to allow for active asset management opportunities in a market where rental values are moving ahead rapidly and redevelopment prospects are more prevalent.

Average lease terms in the Outer M25 market have seen a sharp increase in 2017, rising by more than 12 months from 5.7 years to 6.9 years. This has resulted in the differential between Inner and Outer M25 average lease lengths falling to their lowest level over the six years of our analysis.

Break clauses have been a feature of the M25 industrial market over the past 5-10 years and whilst they remained a feature in 2017, the number of leases with break clauses has been reducing.

Around 50% of the leases examined in this research included a break clause, with 3-5 year breaks being the most common period.

Leases with break clauses of 3-5 years accounted for 75% of the sample in our analysis.
The graphs illustrate how average lease lengths in the Inner and Outer M25 markets have changed over the past two years. On lettings of 10,000 sq ft and below in the Inner M25 market, lease lengths have remained broadly comparable at 5.3 years for units of less than 5,000 sq ft and 9.3 years for lettings between 5,001-10,000 sq ft.

Larger lettings in the Inner M25 market have seen average lease terms reduce significantly, with the sharpest downturn being in lettings of above 50,000 sq ft, where average lease lengths have fallen to 8.8 years in 2017 from 15 years in the previous year. It should be noted that there is a limited sample size in this sector.

The Outer M25 industrial market has seen a different trend compared with the Inner M25 market, with lease lengths across most sizes of lettings increasing. The only exception to this was in lettings of 50,000 sq ft and above, where lease terms have shortened slightly over the past 12 months, falling from 10.7 years on average to 10 years.

In general, lease terms in the Outer M25 market are shorter than the Inner M25 market on lettings of 10,000 sq ft and below.

Following the adjustments over the past 12 months, lettings above 10,000 sq ft in the Outer M25 market achieve longer terms than the Inner M25 market.

“THE SUPPLY AND DEMAND DYNAMICS OF THE INDUSTRIAL MARKET HAVE CREATED A POSITION OF STRENGTH FOR THE LANDLORD IN NEGOTIATIONS, EITHER ALLOWING THEM TO INSIST ON LONGER LEASE TERMS ENHANCING RENTAL SECURITY, OR IN AREAS WHERE REDEVELOPMENT IS A POSSIBILITY, SHORTER LEASES TO ALLOW FOR ASSET MANAGEMENT ENHANCEMENT OPPORTUNITIES.”
Our analysis of the office market across the Glenny region has been disaggregated into three sub markets, the Inner M25, Docklands and the Outer M25 market.

At the start of our analysis period, the average lease length across all three sub markets was broadly comparable, lying between 5.0-5.5 years. Over the past six years, the trends in lease lengths across the three sub markets have diverged considerably.

Whilst the Inner M25 market has seen lease lengths increase, the Outer M25 market has seen a general reduction in lease lengths, due primarily to weaker demand in this market.

Average lease lengths in the Inner M25 market have been boosted by the growing demand for office floor space in the East London market, where Stratford has become an accepted alternative to other Central London locations.

Lease lengths in the Inner M25 market have gradually been increasing, rising to 6.3 years in 2017. Docklands, on the other hand, has seen average lease lengths reduce over the past 12 months, falling back to 5.6 years from 6.7 years in the previous year.

Average lease terms in the office sector are generally shorter than in the industrial market and as such break clauses tend to be focused on shorter terms.

Of the leases analysed, only 29% had one or more break clauses, with the most common break clause agreed at 3-4 years.

Longer lease terms in the Glenny region tend to be agreed without break clauses. This is primarily due to the fact that most larger lettings over the past 12 months have been pre lets.
Average lease lengths in the Inner M25 office market have increased across most sectors over the past 12 months as occupational demand has increased. The only exception to this has been in lettings of 5,001-20,000 sq ft, where lease terms have reduced from 10.8 years to 8.0 years in 2017. This may be a consequence of Landlords seeking to retain control for asset enhancement opportunities.

Average lease lengths on lettings above 20,000 sq ft in the Inner M25 market increased to 15.4 years from 12.0 years, showing the strength of demand for floor space in the market, particularly in East London.

Contrary to the Inner M25 market, lettings in the Outer M25 have reduced across most sizes of lettings as occupational demand has remained weaker.

Lease lengths on lettings above 20,000 sq ft in the Outer M25 market have shortened over the past 12 months, coming in from 15.0 years to 10.0 years, although this was based upon very small sample size, reflective of the limited number of lettings.

Average lease lengths in the Outer M25 market are generally shorter than the Inner M25 market.

“The Second Hand Office Market has seen a structural change over the past couple of years, partly driven by permitted development rights for residential conversion. Shorter leases in the sub 20,000 sq ft markets have not only been driven by occupiers need for flexibility but also by Landlords seeking to retain redevelopment opportunities.”
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