Valuation Advisory

Bristol City Council

Land at Bristol Port Nr Bristol

October 2014

Executive Summary

Property Address

Land at Bristol Port, Nr Bristol

Transaction Summary

Bristol City Council has been offered £10million for the purchase of their freehold interest in the above property from First Corporate Shipping Ltd, who hold the long leasehold interest.

Location

Avonmouth is the largest industrial location in the Bristol area centred around the port. It is located north west of the city centre on the eastern bank of the River Severn and west of the M5 motorway.

Description

The Port of Bristol and land has a gross area of 896.18 sq m (2,214.47 acres) and a net area excluding tidal land and actual dock of 746.44 hectares (1,844.48 acres).

Tenure

We understand Bristol City Council owns the freehold.

Tenancies

The freehold is subject to three long leasehold agreements to First Corporate Shipping Ltd. These leases have approximately 127 years unexpired at peppercorn rents.

Total Rent Reserved

The freehold is subject to peppercorn rents.

You have informed us that the total income generated from the Port Estate, received by the long leaseholder, is £15,805,609 per annum and this includes £1,819,062 per annum from Chittening Trading Estate.

Key Issues

We would highlight the following key attributes in respect of the subject premises.

- The property includes the Port of Bristol and a significant proportion of the surrounding industrial land.
- Overall it is the principal industrial manufacturing and distribution location for the wider Bristol area and benefits from first class road, rail and sea links.
- Bristol City Council's freehold is subject to long leases at peppercorn rents and therefore does not produce any rental income.
- There is a second charge over the property which allows the Council to capture half share of any uplift in value where any long term interest is sold for an alternative use.
- So far there have been approximately 10-20 of such interests created, You have informed us that no sums have been receivable by the freeholder despite careful consideration by your professional advisors and legal

team and that this is due to either these interests being within the existing use description or that they have not actually generated higher values.

- There is the potential for future interests to be created, albeit that we are of the opinion this potential is limited in at least in the short to medium term.
- Given the nature of the area, current planning policy and surrounding land uses we are of the opinion that any subsequent interest granted for higher value uses will be limited in number and this will particularly be the case for the areas north of the River Avon and the "Red" Land south of the river.
- For the remaining south west parts of the site this is still designated as employment use land and we would expect planning consent for an alternative use to be contentious.
- Cost issues surrounding planning, contamination, stability for development, and future flood risk may also reduce the potential to achieve significant sums through the current second charge.
- We have also considered the risk that once the freehold has been gained the Port of Bristol could be closed completely and a wholesale redevelopment of the area could be considered. Although this type of scenario is difficult to predict we note that the Port of Bristol appears to be run profitably and that there has been significant investment by the current owners over recent years with more planned.
- Considering the investment in the Port so far and that proposed which we understand is required to ensure the Port competes with other facilities throughout the UK, we are of the opinion there is a greater chance of the Port failing and therefore requiring a wholesale redevelopment should this subsequent investment not be made.
- This valuation has been undertaken on a Marriage Value basis and therefore has required us to assess the current long leasehold value held by The Port of Bristol and also a merged freehold value. You have been only able to provide us with very basic information regarding the underlettings. We would highlight that without detailed information our approach to this part of the valuation contains a degree of subjectivity and this should be taken into consideration.

Valuation as at 31 October 2014

£6,250,000

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31 October 2014

Dear Sir

Terms of Reference

Addressee:	Bristol City Council 100 Temple Street Bristol BS1 6AG For the attention of Robert Orrett
Property Address:	Land at Bristol Port, Nr Bristol
Tenure:	Freehold.
Valuation Date:	31 October 2014
Instruction Date:	24 March 2014
Instruction and Purpose of Valuation	In accordance with your emailed instructions dated 24 March 2014 (attached to Appendix 1) we are instructed to provide you with a report and valuation for loan security purposes.
Purchase Price:	We understand that Bristol City Council has been offered £10,000,000 for the purchase of their freehold interest from the long leaseholder, First Corporate Shipping Limited.
Basis of Valuation:	Our valuation has been prepared in accordance with the RICS Valuation – Professional Standards, January 2014 published by the Royal Institution of Chartered Surveyors on the basis of Market Value as defined in Appendix 2. The report is subject to, and should be read in conjunction with, the attached General Terms and Conditions of Business and our General Principles Adopted in the Preparation of Valuations and Reports which are attached in Appendix 2.

No allowance has been made for any expenses of realisation, or for taxation (including VAT) which might arise in the event of a disposal and the property has been considered free and clear of all mortgages or other charges which may be secured thereon.

Inspection: The external boundaries of the site were inspected on 27 March 2014 by Daniel Bishop.

Personnel: The valuation has been prepared by Daniel Bishop MRICS and checked by Andrew Bowyer MRICS, Director.

We confirm that the personnel responsible for this valuation are qualified for the purpose of the valuation in accordance with the RICS Valuation – Professional Standards and are RICS Registered Valuers.

Status: In preparing this valuation we have acted as External Valuers, subject to any disclosures made to you.

Assumptions: We have not made any specific special assumptions but have the general assumption that the information provided is correct.

Sources of Information: You have provided us with the following information, which we have relied upon:

- Plan detailing the extent of the site boundaries
- Site areas
- General tenancy information
- Confirmation of tenure held by Bristol City Council

Valuation: £6,250,000

(SIX MILLION TWO HUNDRED AND FIFTY THOUSAND POUNDS)

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Appendices

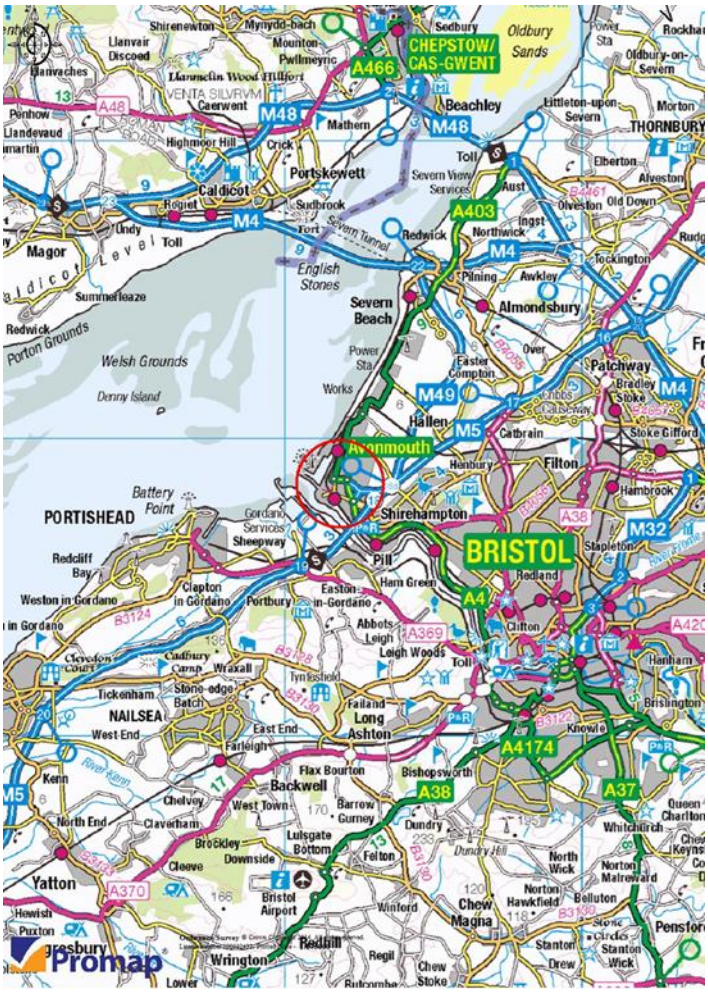
1 Location

1.1 Overview

Bristol is located approximately 87 miles south west of Birmingham and 119 miles west of London. Avonmouth is located approximately 5 miles to the north west of Bristol city centre.

Avonmouth is an established industrial area, developed over the last century around the historic port on the north bank of the River Avon, as it enters the Severn Estuary. The industrial area was developed extensively after the Second World War and became particularly popular following the construction of the M5 Motorway and completion of the Avonmouth M5 Motorway Bridge in 1975.

Avonmouth provides the city with its largest concentration of industrial and distribution floor space and is of regional significance.



1.2 Situation and Communications

The property forms a significant part of the wider Avonmouth industrial area. It is well positioned relative to the UK's motorway network with J18 of the M5 motorway just 1 mile to the south of the subject property which in turn connects with the M4 two junctions to the north via the M5 or via the M49 which can also be accessed within 1 mile of the property. At both regional and national level north / south and east / west road accessibility is excellent.

Avonmouth Railway Station is approximately 0.70 miles from the property providing links to Bristol Temple Meads and the wider National Rail Network.

Bristol Airport lies approximately 9 miles to the south, providing both domestic and international flights.

2 Description

2.1.1 General

The property forms a significant part of the wider Avonmouth industrial area and has a gross area of 896.18 hectares (2214.48 acres). A large proportion of this gross area is either tidal land or actual dock, deducting these areas results in a total net area of 768.44 hectares (1844.29 acres). The freehold is subject to three long leasehold agreements known as the Red, Blue and Yellow Land.

The Bristol Port Company was formed in 1991 when entrepreneurs Terence Mordaunt and David Ord purchased the port of Bristol from Bristol City Council. According to the website, since privatisation the company has invested over £450 million.

You have informed us the areas for the individual parcels of land are as follows:

Description	Hectares	Acres
Red Land (Gross)	415.15	1,025.84
Red Land (Net)	265.41	655.85
Blue Land	438.09	1,082.53
Yellow Land	42.94	106.10
Total Gross Area	**896.18**	**2,214.47**
Total Net Area	**746.44**	**1,844.48**

Over a significant period of time the buildings on site have been developed and vary greatly in terms of age, quality and size. Included on site are various buildings associated with the Port, industrial estates, open storage areas primarily used for importation and exportation of motor vehicles and a power station.

You have not provided us with a detailed description of buildings on site or schedules of floor areas.

2.1.2 Site Plan

You have provided us with a site plan which we have included within Appendix 3 to this Report.

2.1.3 Deleterious Materials

We consider it likely that there may be deleterious materials within the fabric of some properties.

2.2 Environmental Considerations

We have been instructed not to make any investigations, in relation to the presence or potential presence of contamination in land or buildings. We have not carried out any investigation into past uses, either of the properties or any adjacent land, to establish whether there is any potential for contamination from such uses or

sites, and have therefore assumed that none exists. In practice, purchasers in the property market do require knowledge about contamination. A prudent purchaser of this property would be likely to require appropriate investigations to be made to assess any risk before completing a transaction.

Given the historic and current uses on site we would anticipate there is a good chance of significant contamination issues on at least part of the site and we would highlight it is difficult to ascertain the extent of any contamination and consequent remediation that may be required for redevelopment without specialist testing and for a site of this size this is unfeasible at present. Given the current lease structure the responsibility regarding contamination risk probably lies with the long leaseholder (Associated British Ports) and in some cases their sub-lessees.

Given its proximity adjacent to the River Severn there is also the risk of flooding and we note that some of the property is currently within a flood plain and therefore of limited value. Whilst there is no history of significant flooding in this area we are of the opinion that the perception of problems associated with flooding will increase over time given forecast for the effects of global warming.

2.2.1 Ground Conditions

We have made the assumption that ground conditions are suitable for the current buildings and structures or any re-development for a similar use. It is likely that further ground investigations would be required for any alternative uses.`

Since our normal enquiries and inspections did not suggest that there are likely to be archaeological remains present in or on the property, we have assumed that no abnormal constraints or costs would be imposed on any future development at the property by the need to investigate or preserve historic features.

3 Legal

3.1 Tenure

You have informed us that the property is held freehold by Bristol City Council.

We have assumed that there are no encumbrances or unduly onerous or unusual easements, restrictions, outgoings or conditions, likely to have an adverse effect upon the value of the property, and we have assumed that a good and marketable title is held.

We would recommend that the information regarding tenure is verified by your legal advisors and, furthermore, we would stress that the above assumptions regarding tenure should not be relied upon until they have been confirmed as being accurate by your legal advisors.

3.2 Tenancies

The freehold is subject to three long leasehold agreements to First Corporate Shipping Ltd. These leases have approximately 127 years unexpired at peppercorn rents.

The lease in respect of the Red Land has a clause restricting use to a commercial port together with associated infrastructure. The tenant also has a right of pre-emption to acquire the land if the Council puts it up for sale.

The lease relating to the Blue Land has a B1(C), B2 and B8 use and has been varied to allow subletting of part to Seabank Power Station.

The lease relating to the Yellow Land has a use restriction to commercial port together with associated infrastructure and B1(c), B2 and B8 uses. This lease also has a right of pre-emption similar to the red land.

You have informed us that Bristol City Council has a second charge over the interest that entitles the Council to half share of any uplift in value if a capital long term interest is created with an additional user when that interest is subsequently sold.

3.2.1 Underleases

In accordance with your instructions we have valued to property utilising the limited information you have provided us with relating to First Corporate Shipping's long leasehold interests.

We understand that you do not have detailed tenancy information regarding the long leasehold interest although you have informed us that the total income from the Port Estate is £15,805,609 per annum and that this includes £1,819,063 per annum from Chittening Trading Estate.

3.3 Planning

3.3.1 General

The property is within the jurisdiction of Bristol City Council whose planning policies are contained within the Bristol Local Plan adopted 1997 and the newly implemented Bristol Core Strategy 2026 Document adopted June 2011.

The property is within an area zoned as a principal industrial and warehouse estate, however it is not categorised as an employment zone.

The Core Strategy focuses on supporting the economic role of Avonmouth, which is the City's largest industrial location. To do this the Core Strategy aims to promote the continual redevelopment and renewal of established industrial areas.

The Port has permitted development rights which allow the port (and lessees) to carry out development without the requirement of planning permission. The specific regulations are Part 17, Class B of the Town and Country Planning (General Permitted Development) Order 1995. The specific wording of the rights states the following:

Development on operational land by statutory undertakers or their lessees in respect of dock, pier, harbour, water transport, or canal or inland navigation undertakings, required—

(a) for the purposes of shipping, or;

(b)in connection with the embarking, disembarking, loading, discharging or transport of passengers, livestock or goods at a dock, pier or harbour, or with the movement of traffic by canal or inland navigation or by any railway forming part of the undertaking.

3.3.2 History

On 25 March 2010, the Department for Transport gave consent for the construction of Bristol's Deep Sea Container Terminal. Bristol is developing its role as a gateway container port for the UK and a trans-shipment point for the Atlantic seaboard and Europe. The aim is to service not only today's largest container vessels but also future generations of ultra large container ships (ULCS) when they enter service.

The reasons for obtaining this consent are summarised on the company website as follows

The port has excellent rail and road links, it is close to a large part of the UK's container market and there is a deep water channel in the Severn Estuary already used by the port.

The rapidly increasing size of container ships means there are insufficient berths in the UK capable of handling the largest vessels; with container volumes in the UK forecast to rise to about 20 million TEU by 2030, existing and planned container capacity cannot meet demand beyond 2020

There is an imbalance between the established location of UK ports and the distribution of inland container destinations; higher fuel and congestion costs mean the distance travelled to final destination is increasingly significant for cargo owners and the UK economy as a whole

An urgent need to improve energy consumption, reduce freight carbon emission levels and increase the use of sustainable modes of transport

Bristol's new Deep Sea Container Terminal will open up options for new transhipment trade from Europe's Atlantic seaboard and future changes in the routing of world container movements.

Studies show that Bristol Port is closer to a higher proportion of the UK's container market than other ports in the South and East and has a strong competitive position in a national and international market increasingly sensitive to location, cost and carbon emission factors. The Port is well placed in relation to regional and national road and rail networks.

3.3.3 Conclusion

A principal consideration surrounding this valuation is the ability of the current long leaseholder to gain consent for higher value uses in the future and that currently the freeholder would be entitled to 50% of the uplift if this is achieved. If the freehold is sold to the long leaseholder this right will fall away.

We have considered the current situation regarding the port where it would appear they are running a profitable business and that additional investment in the Deep Sea Container Terminal is likely.

This combined with the fact that there have been 10-20 other interest created so far and that no “additional” payments have been achieved by the freeholder, the current heavy industrial use/nature of the area, current local authority planning policy and reasonable/good demand for industrial uses in this area would lead us to believe that there is only a below average chance of achieving a change of use for a significant part of this property for higher value uses at present.

This point is discussed again in section 5.1, Valuation Considerations.

4 Market Analysis

An Economic and property market overview is attached in Appendix 5.

The property includes the Bristol Port and a significant part of the surrounding industrial area, we have therefore included market commentary for both.

4.1 General Port Commentary

There are about 120 commercial ports in the UK. These include major all-purpose ports, such as London and Liverpool; ferry ports such as Dover; specialised container ports, such as Felixstowe, and ports catering for specialised bulk traffic, such as coal or oil. There are also smaller ports essentially catering for local traffic, and there are other ports specialising in particular sectors, such as fishing or leisure use, e.g., marinas.

The UK ports industry is the largest in Europe, in terms of total tonnage handled. Total tonnage is about 560 million tonnes a year and annual international passenger throughput is about 30 million. Despite the large number of ports, much of the tonnage is concentrated among a comparatively small number of ports – the top 16 ports account for 80% of the total.

There are three main types of port in the UK. Most of the largest ports are in private-sector ownership. This group includes ports such as Liverpool, Felixstowe, Tees & Hartlepool and Forth Ports. This group also includes the 21 ports owned by Associated British Ports (ABP). ABP was formerly a nationalised industry - the British Transport Docks Board - but was privatised in 1982. A number of other private ports were formerly trust ports, which were privatised in the early 1990s. The Government has no ownership interest in any of the ports in this sector, and all their investment has to be privately financed on a commercial basis. This sector accounts for some two-thirds of the total tonnage handled in the UK.

Many of the smaller ports (and a few of the larger) are trust ports. Trust ports are independent statutory corporations but without shareholders. They operate on a quasi-commercial basis, but they do not pay dividends as they have no shareholders, and any profits they make are retained in the undertaking. Most trust ports are now entirely independent of Government, although in a few cases, such as the Port of London Authority, the Secretary of State appoints Board members. The trust ports sector accounts for about 25% of total tonnage.

A few ports belong to local authorities, notably Portsmouth and the oil terminals in Orkney and Shetland. This sector accounts for about 10% of total tonnage, but this figure is inflated by the large tonnage handled by the Scottish oil terminals.

It is estimated that some 130,000 people are directly employed in the UK ports industry. In addition to being important modal hubs in the country's transport system, many ports represent centres of local economic activity. Much industry is located in or near ports, such as oil refineries, power stations, etc. Ports themselves are increasingly diversifying their activity into logistics and other value-added services, including aspects of landward distribution.

95% of the country's international trade is handled through seaports. Although ports do not often feature prominently in the national media, they are significant drivers of, and key component in, the national economy. Over the last 10 years, total UK traffic has been roughly static, though some traffic, such as containers and roll-on/roll-off, has been growing at about 2% per annum. Changes in the pattern of shipping, particularly the increasing use of larger vessels, is creating a demand for new and up-to-date facilities and several major port development schemes are planned or underway.

4.2 Competing Port Operators and Ports

The largest UK operator is Associated British Ports (ABP) who owns and operates 21 ports in England, Scotland, and Wales, and handles approximately a quarter of the country's seaborne trade.

ABP's 21 ports, together with the other transport-related businesses that constitute the ABP group, form a UK-wide network. The group's other activities include rail terminal operations (Hams Hall), ship's agency, dredging (UK Dredging Ltd), and marine consultancy (ABPmer). Each port also offers a well-established community of port service providers.

ABP's investment portfolio extends to over 12,000 acres of land and water, with rental revenues in excess of £70 million.

Associated British Ports (ABP), an associated company of ABP Finance Plc, has issued a trading update to its employees and shareholder which confirms that trading in the 1st quarter to 31 March 2014 was in line with expectations of its board. ABP is controlled by Associated British Ports Holdings Limited which is in turn a wholly owned subsidiary of ABPA Holdings Limited, the parent company of ABP Finance Plc.

With this region Associated British Ports' operate five South Wales Ports. Together the five ports - Swansea, Port Talbot, Cardiff, Barry and Newport - contribute £1.4 billion to the UK economy annually and support 21,000 UK jobs. Of this total almost £1 billion contributes directly into the Welsh economy and supports 15,000 jobs in the region. They handle more than 12 million tonnes of cargo every year. It's a diverse business, with Newport the UK's second largest steel handling port, while in Port Talbot around 2.5 million tonnes of coal and 5.5 million tonnes of iron ore cross the quayside every year.

In Newport ABP has invested around £10m in the past 18 months on projects ranging from a wind turbine to a crane and new covered storage. Elsewhere, ABP has invested £1.7m in Barry in a new intermodal terminal and 3m in Cardiff.

4.3 Industrial Market Review

We have included the JLL Big Box Market indicators and UK Industrial Property Trends Today are included within Appendix 6.

4.4 Local Industrial Market Review

The Avonmouth area is one of the most established industrial areas serving Bristol and the South West, having developed historically on its Port function, proximity to the City and access to the national motorway network. The nature of the locality is strongly weighted towards industrial and distribution uses with limited office accommodation, based on support functions.

St Andrews Road, the A403, links into Avonmouth Way and Third Way to form part of the established industrial core with a mix of traditional industrial stock, much of which has been refurbished in recent years. Notable estates within the locality include Haselmere Industrial Estate, St Andrews Trading Estate, Third Way Industrial Estate and Severnside with more recent developments including Cabot Park to the north of the subject property.

The area is well located for distribution functions due to its position along the M49, which links the M5 to the M4 at the Second Severn Crossing. To the north of the site, Western Approach Business Park located along Govier

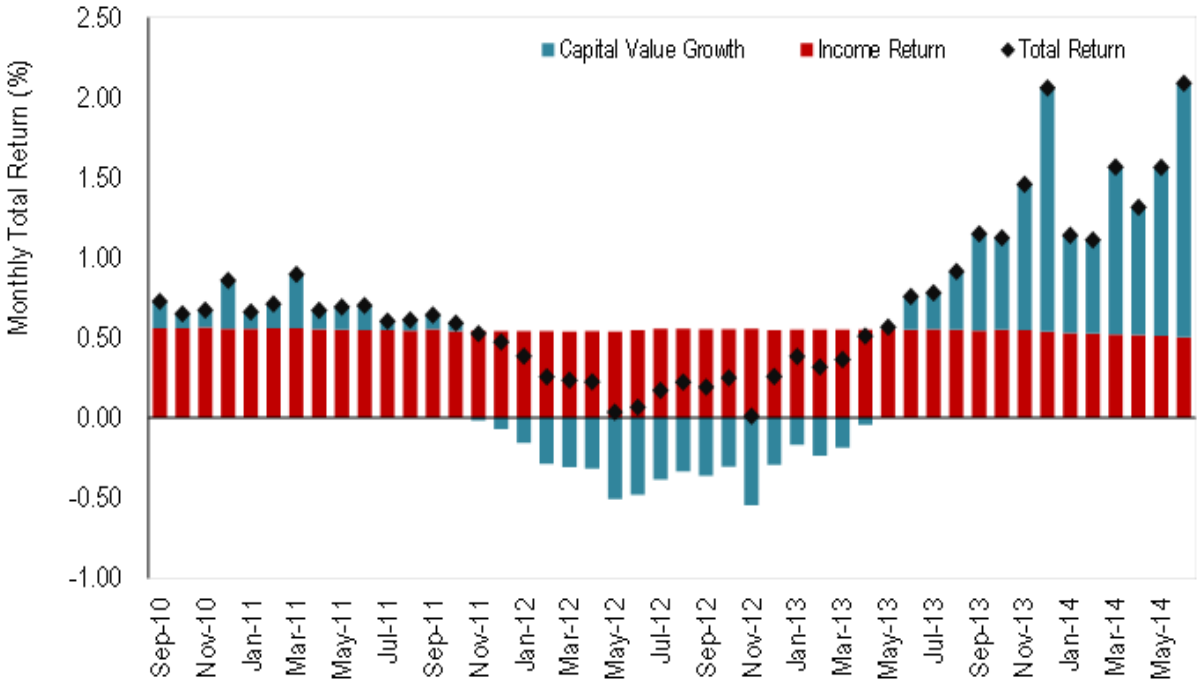
Way, has over the years attracted large speculative developments with occupiers such as Tesco's and Co-op Food. Additionally, there has been considerable development by waste management companies such as Sita UK Ltd and New Earth Solutions. Cullina Logistics also relocated to Avonmouth in Q3 2013 moving 200 staff to the new premises at CrossFlow 550.

Annual industrial take-up figures for 2013 totalled 2,182,292 sq ft, a slight decrease from the 2012 figure of 2,322,698 sq ft, but broadly in line with the 5 year average of 2,280,330 sq ft. Avonmouth continues to be a focus for retailer's new "big box" distribution centres in excess of 46,500 sq m (500,000 sq ft) serving the south west. Bristol has generally suffered a lack of new stock, resulting in landlords refurbishing existing stock to satisfy occupier demand as speculative development ceased through the recession. Demand has improved over the past 12 months and rents remain stable but Landlords are beginning to take a more robust stance in respect of incentives being granted. General demand is still focussed on Class B8 Use on a leasehold basis but freehold demand has improved significantly recently.

All property total returns increased from 1.6% to 2.1% in June, which is the joint highest total return recorded since 2009. Income returns remained constant at 0.5% this month, with the increase in total returns on the back of increased capital value growth. Indeed, rental value growth increased to a post-recession high of 0.5%, highlighting the stronger occupier demand feeding through.

All three sectors saw significant gains in total returns this month, with the offices sector rising from 1.7% to 2.5%, retail rising from 1.4% to 1.6% and industrial rising from 1.8% to 2.5%.

FIGURE: Capital value growth strong in June



Source: IPD Monthly Digest

The industrial sector recorded its highest monthly total returns since 2009, increasing from 1.8% to 2.5%. This was driven by an uptick in rental value growth, and a significantly larger yield impact. Indeed, the yield impact increased from 1.2% to 1.8%. Within the sub sectors, the South East total returns picked up from 1.8% to 2.7%, and the Rest of UK total returns increased from 1.8% to 2.2%.

TABLE: Current Economic Indicators

Retail Sales (Y-o-Y):	3.60%	▼	Consumer Confidence:	-2	▼	Unemployment:	6.60%	◀▶
Inflation (CPI):	1.90%	▲	FTSE All Share:	3619	▲	FTSE EPRA/NAREIT UK:	1643	▲

4.4.1 Investment Comparables

We have included a broad range of recent multi let investment comparable sales in Appendix 4.

We would draw particular attention to the following long leasehold investments that have sold recently that are included within the property or the immediate vicinity as follows;

West Dock Plot 2, Royal Portbury Road, Portbury, Sold in November 2013 for £9,120,000 reflecting a net initial yield of 9.17%. It is held freehold and is let to Paragon Vehicle Services Ltd for a term of 10 years from 21st January 2013 subject to a tenants break option in the fifth year. The passing rent is £885,000 per annum subject to upward only rent reviews to Market Rent at the fifth anniversary. The property comprises 10.3 hectares (25.4acres) with 3,569 sq m (38,419 sq ft) of modern office buildings giving a low site coverage of 3.5%.

4.4.2 Analysis of Investment Comparables

The evidence within the schedule shows net initial yields of between 6.36 and 11.0% and reflect the broad range of locations, age and size of the properties, lease terms and tenant covenant strength. Perhaps the principal difference between these comparables and the property (assuming a merged freehold) is the much larger than average size of the property, the historic heavy industrial uses on this site, issues surrounding contamination and the specialist nature of the port and associated uses.

Although the Chittening Industrial Estate did not complete, the above represents a good indication of investment value for a sub-long leasehold investment that actually forms part of the property. We would expect the long leasehold interest to achieve a lower yield as it is more secure than the above “sub lease” interest.

West Dock Plot 2 is a freehold “island” site enclosed by the Port Land. As such, it is a good indication of freehold investment values in this area. Long leasehold values will reflect higher initial yields and a larger lot size would also achieve higher net initial yields if sold.

5 Valuation Commentary

5.1 Valuation Considerations

Overall we would assess the current possibility of the freeholder receiving significant sums through the second charge as minimal (say less than10%) and this is likely to remain the case in the next 20-30 years. It is particularly unlikely in the short term considering the currency occupancy/lease structures. Beyond this time there is a greater possibility of consent for alternative uses being granted particularly on the south western edge of the site although the exact timing is difficult to predict. As a cross check we have undertaken both a short term and medium term "stress test" scenario.

We have also considered the possibility of additional receipts which may be achievable by the freeholder during the existing term of the lease. We understand there is a second charge over the property which allows the Council to capture half share of any uplift in value where a capital long term interest with an additional user is formed and that interest is subsequently sold.

We understand that so far approximately 10-20 such interests have been created, however to date no sums have been receivable by the freeholder. We understand that this is due to the interests being created for similar or quasi industrial uses and that these have not produced any uplift in value over and above the existing use. You have informed us that these matters have been considered carefully by Bristol City Council, along with their professional advisors and legal team.

There is the prospect of future interests being created and that some may produce an uplift in value. However, given the current designation to the area in the Local Plan, its location and most likely uses, we would expect any such interests to be limited in number and most probably to the south west part of the site.

That said, the entire parcel of land is designated as employment use at the moment and we would expect planning consent for an alternative higher value use to be contentious. The timing of such developments, issues surrounding planning, potential contamination also reduces the potential to achieve significant sums through the current second charge.

We have had regard to potential uplift in value from alternative uses. The main potential is for residential and higher value commercial uses. In practice the potential north of the River Avon is very limited. South of the River Avon there may be some prospect of alternative uses, particularly on the south western edge. We have reflected the potential to gain receipts from such change of uses in the discount rate applied in our current freehold valuation calculations.

The sale of the freehold also gives up a degree of control and this raises the issue that the port could close and the owners pursue alternative uses. Having considered this it would appear that a significant proportion of the income received comes from port related industries or those that are based here due to the location next to the port. Therefore the scenario where the port closes and the assets are sold off or treated as a property company seem unlikely as the income would drop off considerably in the short/medium term and any profits generated from the port business would be lost. This scenario also appears out of kilter with the Ports owner's aspirations to increase investment and develop the deep sea container terminal, however it is theoretically possible.

Short Term Scenario

We have assumed that consent was obtained for a quasi industrial use that would show an enhanced land value of say 25% over an area of 100 acres. Assuming an industrial land value of £250,000 an acre, this would show a net uplift in value of say £6,250,000. However as this scenario is unlikely to happen in the short term we have

discounted this value over a ten year period at rate of 6%. 50% of this amount shows a notional current gain/value of £1,700,000.

We would emphasise that we consider the amount of land above that could achieve such an uplift is optimistic and that this "stress test" should be taken into consideration along with that fact that no additional sums have been gained from the 10-20 interest created so far, planning issues and current occupancy leases.

Medium /Long Term Scenario

We have assumed that an area of 250 acres was allocated for residential development along with associated amenities including schools, retail and open spaces. Assuming an industrial land value of £250,000 an acre, and a net residential land value of £400,000 per care this would show a net uplift in value of say £37,500,000. However as this scenario is unlikely to happen in the short/medium term we have discounted this value over a 25 year period at rate of 6%. 50% of this amount shows a notional current gain/value of £5,800,000.

Again we would emphasise that we consider the amount of land above that could achieve such an uplift is optimistic and that this "stress test" should be taken into consideration along with that fact that there is likely to be contamination issues and the amount of land that could be developable would be uncertain due to the potential of future global warming/flooding issues for this low lying area adjacent to the River Severn.

Considering the above, we are of the opinion that given the amounts shown, the probability of this happening, and the optimistic view on the amounts of land included in these stress tests that the proposed purchase price adequately reflects the potential for such sums to be received.

5.2 Valuation Methodology

You have instructed us to value your freehold interest in the land following the negotiation of a proposed purchase at £10million. We note that the intended purchaser is the owner of the long leasehold and as such, we are of the opinion that the appropriate method of valuation is the Investment Method having considered the Marriage Value between the freehold and long leasehold interests.

We have calculated the current Market Value of the freehold and long leasehold interests and then considered the Market Value of the merged interest and consequently how this 'increased' value should be apportioned between the two interests.

5.2.1 Merged Freehold Value

Our first calculation has been to calculate the assumed merged value as this valuation will also be required in order to assess the current freehold interest, and the current long leasehold interest. We would stress that, as there is limited information on the current occupancy, this methodology will contain a degree of subjectivity.

We have had regard to the current investment property market, the recent investment sales summarized in this report including recent long leasehold sales "within" the property, the lot size of the asset. We have applied a Net Initial Yield of 10% to the majority of the income and a lower yield of 9% to the income attributable to Chittening Industrial Estate as the majority of this income is "long leasehold" in nature. This equates to a value of £149,000,000.

5.2.2 Current Freehold Value

Having established the value on the Special Assumption of a merged freehold interest, we have then considered the current freehold interest. As this is subject to a 127 year lease at a peppercorn rent, we have deferred the merged freehold value by 127 years at a discounted rate of 4.5%.

This equates to a value of £550,000.

5.2.3 Current Long Leasehold Value

In arriving at our opinion of Market Value of the current long leasehold interest, we consider that the user covenants within the long leasehold and the second charge present will have a detrimental impact on the value. We would also reiterate our point regarding the limited information on the occupational leases and income generated from this long leasehold interest and how this may affect the accuracy of the valuation.

Considering the user covenants in the existing leases and to a lesser degree, the second charge present, we have adjusted the yields applied to this by 100 basis points and this reflects a current long leasehold value of £137million.

5.2.4 Marriage Value

The above methodology produces a Marriage Value in the region of £11.4million.

We have then considered an appropriate apportionment of the Marriage Value between the freehold and long leasehold interests. We would highlight that the apportionment alters from case to case and that there is no specific methodology for obtaining the correct apportionment.

Firstly, apportioning the marriage value as a mathematical ratio between the existing freehold value and existing long leasehold value awards a very small proportion of the Marriage Value to the freeholder, which we would view as unfeasible. This is because it represents only a small uplift in terms of a capital value to such an extent that it would not prove attractive to the freeholder, resulting in the transaction not progressing.

We are of the opinion that the appropriate apportionment of the Marriage Value would be on a 50:50 basis and that applying such a proportion to the freehold would give a value in the region of £6,250,000.

We note that the proposed purchase price for the freehold is £10million and this would represent approximately 83% of the marriage value being apportioned to the freeholder. This would appear to represent the varying negotiating strengths of the two parties in a situation where the long leaseholder would appear to be significantly more motivated to purchase than the freeholder is to sell.

Alternatively the proposed purchase price would appear adequate given the potential (discussed in 5.1 above) to receive additional sums under the second charge that the freeholder currently holds.

Having considered all of the above and taken the view of a number of experienced surveyors in this office, we are of the opinion that the purchase price of £10million for the freehold would appear a favourable price for Bristol City Council.

Another theory is that the long leaseholder is considered a Special Purchaser which falls outside the realms of a Market Value.

The definition of a Special Purchaser is “a particular buyer for whom a particular asset has a special value because of advantages arising from its ownership that would not be available to others”.

The definition of Market Value is included within Appendix 2.

6 Valuation

6.1 Market Value

Having regard to the foregoing, we are of the opinion that the Market Value (as defined in Appendix 2) of the freehold interest in the property, subject to the existing tenancies as at the date of valuation is:-

£6,250,000

(SIX MILLION TWO HUNDERD AND FIFTY THOUSAND POUNDS)

6.2 Confidentiality and Publication

Finally, and in accordance with our normal practice we confirm that the Report is confidential to the party to whom it is addressed for the specific purpose to which it refers. No responsibility whatsoever is accepted to any third party and neither the whole of the Report, nor any part, nor references thereto, may be published in any document, statement or circular, nor in any communication with third parties without our prior written approval of the form and context in which it will appear.

Yours faithfully

Daniel Bishop MRICS
Director
For and on behalf of
Jones Lang LaSalle Limited

Yours faithfully

Andrew Bowyer MRICS
Director
For and on behalf of
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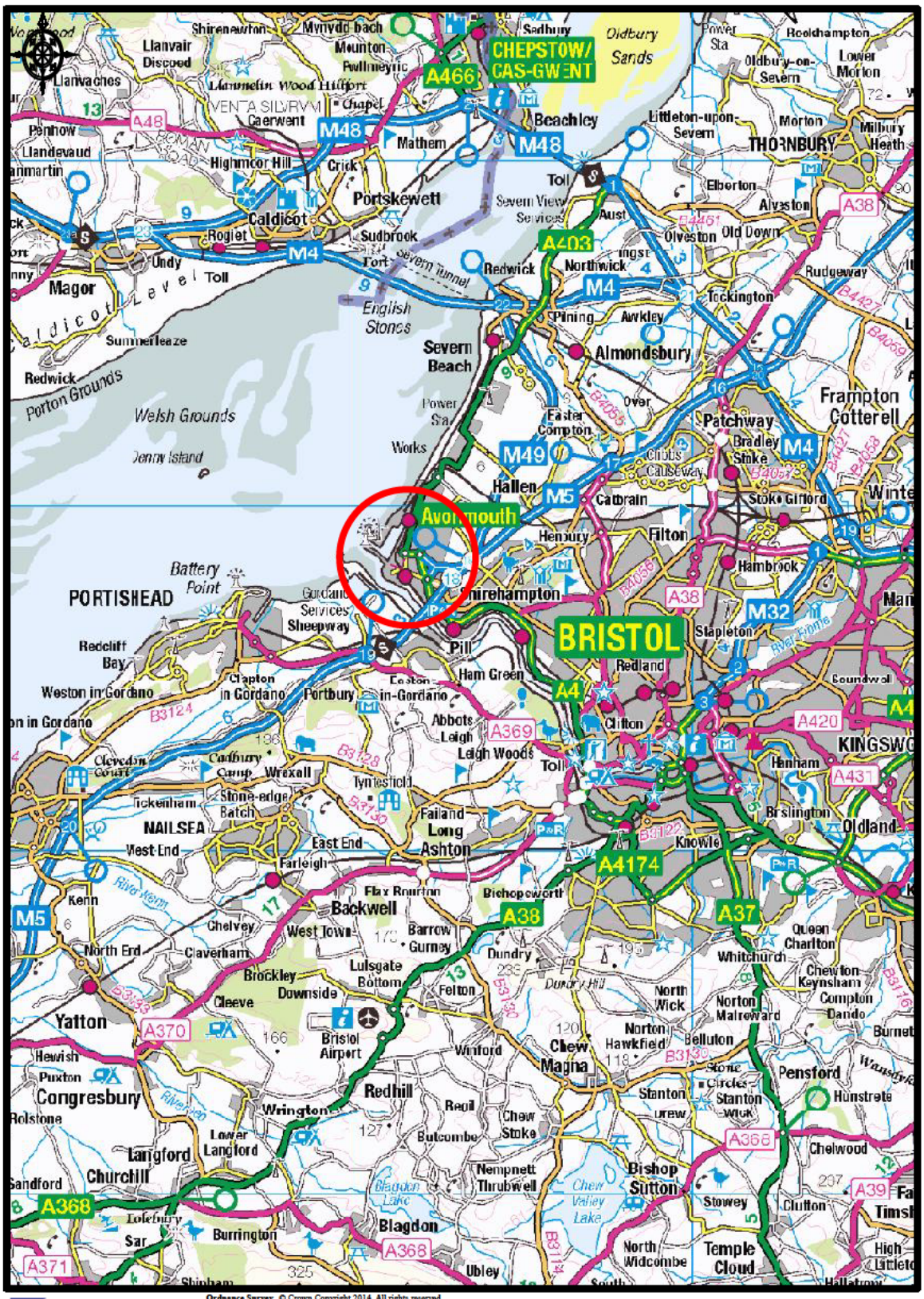
Appendix 3

Location Maps and Plans

Land at Bristol Port
Nr Bristol



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Appendix 4

Industrial Investment Comparable Schedules

Property Address	Town	Sold Date	Sold Price	Sold NIY	Quoting Date	Tenants	WAULT	Area/sq ft	Passing Rents
Bilton Way Industrial Estate	Luton	01/08/2014	£32,500,000	6.70%	01/04/2014	Multi-let to 35 tenants	3.40	408,267	£2,304,632 pa (£5.88 psf)
Unit 1, Sovereign Park	Park Royal	01/08/2014	£7,000,000	4.05%	01/06/2014	Bonhams 1793 Ltd	15.5	38,698	£300,000 pa (£7.60 psf)
Hildane Portfolio	Portfolio	01/08/2014	£49,500,000	6.30%	01/07/2014	Various	TBC	572,000	£3,200,000 pa
Belkin, Shipton Way, Express Park	Rushden	17/07/2014	£20,000,000	7.70%	31/03/2014	Belkin Ltd	6.00	312,850	£1,630,000 pa (£5.21 psf)
Cargo Fleet Lane	Middlesborough	08/07/2014	£7,500,000	8.00%	08/07/2014	Jennings Motor Group	11.1	49,623	£562,309pa. (£11.33psf)
Walton Summit Industrial Estate	Preston	21/06/2014	£7,300,000	7.65%	28/03/2014	ThyssenKrupp Aerospace UK Ltd	5.5 years	146,941	£590,000 pa (£4.01 psf)
Blocks 1-3, Chittening Industrial Estate, Avonmouth	Bristol	Under Offer		circa 11%	19/06/2014	10 units	4.50	199,858	£687,511 pa (£3.44 psf)
CEVA Distribution Warehouse	Corby	19/06/2014	£7,024,000	7.57%	01/06/2014	CEVA	7.8 years	196,013	£562,754 pa (£2.90 psf)
Londis Distribution Centre, South Elmsall	Wakefield	18/06/2014	£11,120,000	6.47%	30/03/2014	Musgrave Retail Partners GB Ltd	11.1 years	158,335	£761,750 pa (£4.40 psf)
143 – 148 Brierley Road Walton Summit Industrial Estate,	Preston	11/06/2014	£7,800,000	7.30%	01/03/2014	Fully let to 3 tenants on 6 leases	4.70	143,697	£607,187 pa (£4.22 psf)
Indesit	Raunds	03/06/2014	£32,500,000	6.36%	01/05/2014	Indesit Company UK	7.5 years	467,323	TBC
Royal Mail North West Regional Distribution Centre, Mill Lane	Warrington	01/06/2014	£7,680,000	7.75%	31/03/2014	Royal Mail Group Ltd	4.5 years	184,954	£630,000 pa (£3.41 psf)
Deeside Industrial Park East	Deeside	19/05/2014	£33,850,000	8.01%	15/01/2014	Multi-let to 33 tenants	5.00	827,501	£2,767,555 pa (£3.18 psf)
Willowbridge Way Industrial Estate	Castleford	19/05/2014	£1,600,000	7.40%	01/01/2014	Bunzl PLC	9.5 years	25,220	£125,000 pa (£4.95 psf)

Appendix 5

Economic and Property Market Overview

Real Estate *Fundamentals* - UK Monthly Economic and Property Market Commentary

In this note, we publish our current view on the UK economy and property market and links to recent research publications. The key messages can be briefly summarised as follows:

Economy:

- Inflation falls for second consecutive month
- Unemployment continues its downward trajectory
- Retail sales rise as store prices fall
- UK outlook remains positive in the wake of a Scottish No vote

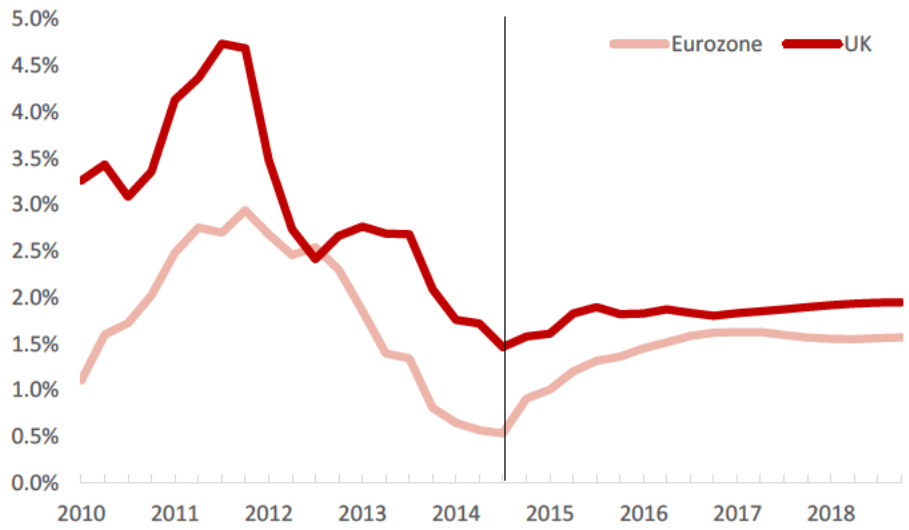
Property:

- All-Property annual total returns hit highest level since October 2010
- Offices: Rest of the UK sees largest rise in August
- Retail: Yield Impact driving total returns
- Industrial sector records highest annual total returns since 1994

+ Inflation falls for the second consecutive month

CPI inflation fell for the second month in a row to reach 1.5% in the year to August, down from 1.6% in July. The largest contribution to this downward momentum was from falling petrol and food & drink prices, although this was partially offset by rising prices in clothing, transport services and alcohol. Inflation remains safely below its 2% target rate and is backed by a healthy domestic demand, so the UK is not teetering on the brink of deflation, as is the case in parts of the Eurozone.

FIGURE: UK Inflation to remain above that of the Eurozone for the foreseeable future

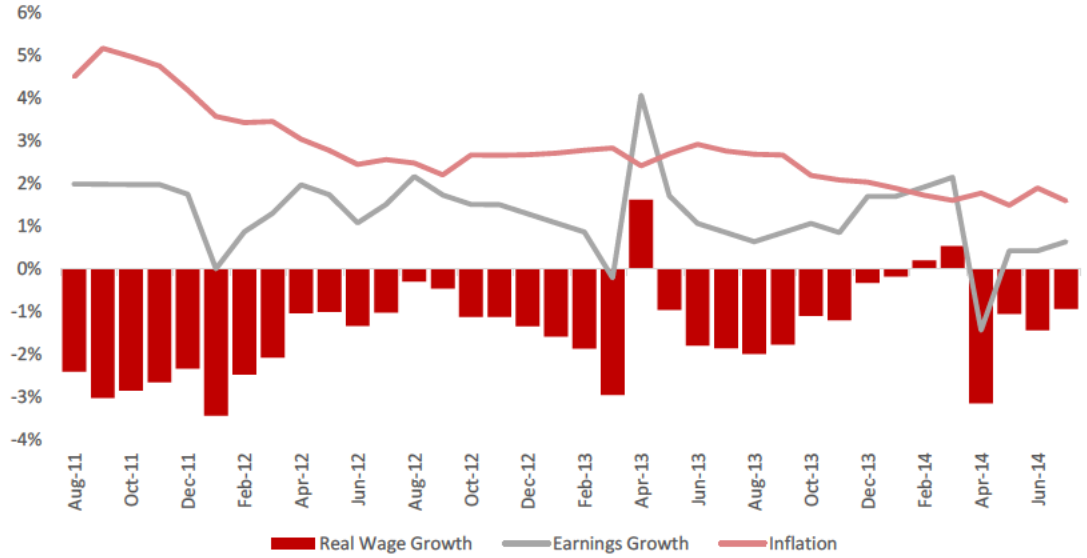


Source: Oxford economics

+ Unemployment continues its downward trajectory

Unemployment fell again in three months to July with the rate at 6.2%, down from 6.6% in the three months to April. This continues the momentum of recent months, with the number of unemployed falling by almost 500,000 over the past year. Despite the recovery, the economy has yet to see the wage growth normally associated with a strengthening labour market. Although inflation is not currently high, it still outstrips the growth in earnings, meaning wages in real terms continue to fall. There remain concerns that an economic recovery underpinned by consumer demand cannot be sustained as long as real wages stagnate.

FIGURE: Real wages in decline as earnings growth remains subdued



Source: Oxford economics

+ Retail sales rise as store prices fall

Retail sales volumes continued to rise in August, up 0.4% from July and up 3.9% on the same period last year. The largest contribution came from household goods stores where the sales increased by 12.7% over the year. By contrast, the value of retail sales rose by just 2.7% over the year to August, slower than volumes. This reflects a fall in prices, with average levels down by 1.2% over the year. The main reason for this decrease was cheaper petrol, with prices down by 5.0% year-on-year. Prices in food stores also dipped by 0.1% in the last 12 months, the first time this sector has seen falling prices since 2004.

+ UK outlook remains positive in the wake of a Scottish No vote

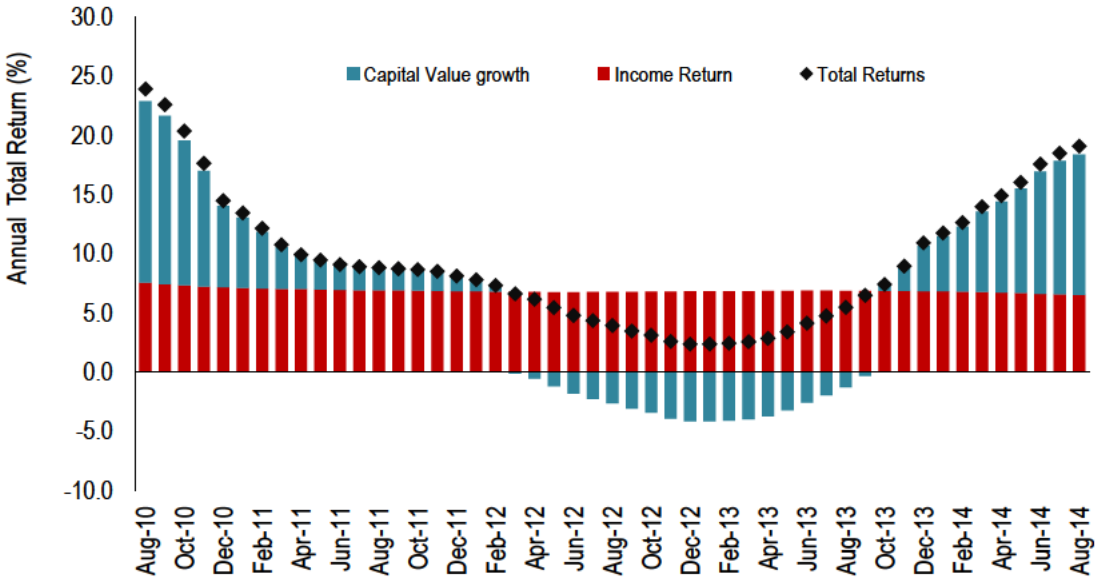
While the Scottish referendum may have been a cause of uncertainty over the past few months, it appears not to have derailed the UK's growth prospects. Following a strong Q2 where GDP growth reached 3.2% year-on-year, this momentum is set to continue until the end of the year. In an environment of continued low inflation, the Bank of England once again voted to keep interest rates at a historic low of 0.5% in September. With the economy in good health and the recovery well underway, it is only a matter of time before rates rise, but at present this is unlikely to be before early 2015.

+ All-Property annual total returns hit highest level since October 2010

All property total returns continued to rise in August (+1.4%), with the 12 month total returns now standing at 19.1% (up from 18.5% last month). This was primarily driven by robust capital value growth, as rental growth ticks up and yields continue to move in. Indeed, capital values have grown 11.9% in the past 12 months, as rising investment volumes in the UK compress yields and the improving occupier side pushes up rental value growth.

All three sectors recorded rising total returns in August, with the retail sector rising from 13.4% to 13.9%, the office sector from 24.2% to 24.8% and finally the industrial sector from 23.2% to 23.9%.

FIGURE: Annual Total returns continue to rise



Source: IPD Monthly Digest

+ Offices: Rest of the UK sees largest rise in August

UK office total returns were 1.7% this month, slightly less than the 1.8% in July. This brought the yearly returns to 24.8% in August. This has been driven by strong capital growth, with capital values now rising at 18% year on year, up from 17.3% last month. Income return remained broadly unchanged this month, at 5.9% on the year.

Within the office sub markets, the South East recorded the highest total returns, at 27.7% annual growth this month. This is on the back of heightened rental value growth, which has risen 2% since the start of the year to currently stand at 4.8% and a larger yield impact of 16.8%. The Rest of the UK also saw total returns rising in August, to bring the annual growth rate to 27.7%.

Within London, both the City and Mid-Town & West End recorded slightly higher total returns this month, edging up from 24.2% and 23.4% to 24.8% and 24.2% respectively. Unlike the South East where yield compression is a driving factor to rising total returns, within both London sub-sectors, it's primarily rental value growth driving returns, with the City recording its highest yearly rental growth since 2007, at 11.7%.

FIGURE: Office – The South East recording the highest annual total returns

Source: IPD Monthly Digest

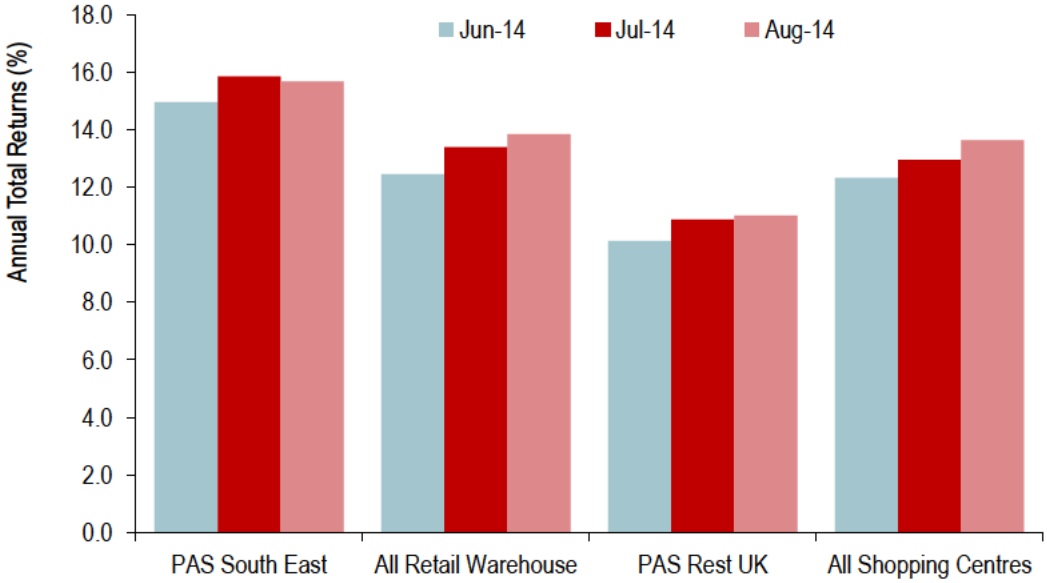
+ Retail: Yield Impact driving total returns

In the retail sector, total returns in August were 1.1%, slightly below last month's figure of 1.4%, bringing the annual total returns to 13.9% (its highest level since 2010). With annual income return broadly unchanged at 6.5%, and rental income remaining negative (-0.4%), it's primarily the yield impact driving total returns, which was 8.4% in August.

Within the retail sub-sectors, the South East continues to record the highest total returns, with annual returns now at 15.7%, slightly down from the previous month's figure of 15.9%. The South East is the only retail sub sector recording positive rental value growth.

Retail Warehouses saw the largest rise in August, with annual total returns rising from 13.7% to 14.4%.

FIGURE: Retail – South East total returns dip slightly in August



Source: IPD Monthly Digest

+ Industrial sector records highest annual total returns since 1994

The industrial sector's total returns have risen sharply since the start of the year, from 15.2% in January to 23.9% this month, the highest level recorded in 20 years. This is being driven by moderate rental value growth and a large yield impact of 15%. Within the sub-sectors, the South East annual total returns were 24.6%, whilst the Rest of the UK was slightly lower at 23.3%.

TABLE: Current Economic Indicators

Retail Sales (Y-o-Y):	3.90%	▲	Consumer Confidence:	3.5	▲	Unemployment:	6.20%	▼
Inflation (CPI):	1.50%	▼	FTSE All Share:	3499	▼	FTSE EPRA/NAREIT UK:	1616	▼

*Source: BRC, ONS, GfK NOP, Thomson Datastream. Note: Arrows indicate movement on last month. FTSE indices are as at close of 02/09/2014. *Retail sales on total basis August 2014 are BRC, Consumer confidence August 2014, Inflation August 2014; Unemployment rate is the ILO figure from August 2014*

TABLE: Forecasts for the UK Economy

	2013	2014	2015	Comment
GDP	1.7	3.1	2.6	Inflation expected to remain below Bank of England's target rate till 2015
Household Consumption	2.2	2.6	2.5	
Inflation (CPI)	2.6	1.7	2.0	
Short term interest rate*	0.5	0.7	1.3	
10 year Gilt Yield*	2.8	2.9	3.3	

*Source: Consensus Forecasts (August 2014), *3 month interbank rate and 10Y gilt rate – end-October 2014 and end-August 2014*

LINKS TO OTHER RESEARCH PUBLICATIONS

UK Research: All the latest UK research on the office, retail, industrial and residential sector. Includes quarterly and topical reports on the latest trends in UK real estate.

EMEA Office Interface: This tool brings together our office market data and knowledge in an accessible format and consistent one page market summaries for markets across Europe.

EMEA Industrial Interface: This recently launched product provides headline warehousing market statistics for 11 countries and 39 major logistics hubs across Europe, Middle East and Africa, as well as highlighting the latest trends and developments.

Visit *From the Roof*, Jones Lang LaSalle's property opinion blog, addressing the key issues facing property today.

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Appendix 6

Big Box Market Indicators and UK Industrial Property Trends Today

UK Logistics – Big Box Key Indicators

(January to June 2014)

THE ECONOMY

GDP
↑0.8%
Q1 2014

GDP forecast
↑3.0%
2014

TAKE-UP FOR OCCUPATION

6.4 million sq ft
Grade A space

Including
3.6 million sq ft
of new space

Grade A take-up in H1 2014

Retailers	Logistics companies	Manufacturers	Other
50%	**21%**	**13%**	**16%**

SUPPLY

15.6 million sq ft
of Grade A
floorspace available

7%
national
vacancy rate

SPECULATIVE DEVELOPMENT

1.2 million sq ft
Under Construction

YIELDS

5.25%
South East

4.75%
London

5.75%
Regional

Trend

Prime distribution yields
at July 2014

OnPoint

UK Industrial Property Trends Today
Issue 5 | March 2014

UK Industrial Property Trends Today

- Total industrial floorspace take-up rose 28% in 2013 compared with 2012. This year we expect demand to match or exceed the 2013 level as the UK economy gathers momentum.
- Available supply continued to fall. At the end of 2013 total industrial availability was 17% lower compared with 12 months earlier.
- As at February 2014 there was around 2.1 million sq ft of industrial floorspace speculatively under construction nationally. We expect speculative development to pick-up this year, although still to remain relatively subdued when compared with the pre-recession peak.
- There is a shortage of prime investment stock available in the market, so this year we expect secondary stock to become more favourable to investors and, as a result, the arbitrage between prime and secondary yields to narrow.

Introduction and overview

Welcome to Issue 5 of UK Industrial Property Trends Today

This report provides a comprehensive snapshot of the UK industrial property market, covering all mainland regions and all sizes of property from 1,000 sq ft upwards. In particular, it reports on occupier demand over 2013 and available supply at the end of the year, plus investment activity and pricing.

While we give a complete picture of the market, the main focus of the report is on units below 100,000 sq ft, typically found on multi-occupied industrial estates. By concentrating on this segment, this study complements our other regular UK industrial research publication on the big box market, which focuses on large logistics units of 100,000 sq ft and over.

The report provides separate overviews for each region, but in terms of the overall national picture the **key take-aways** are:

- Industrial take-up totalled 95.4 million sq ft in 2013, 28% up on 2012. Take-up in units from 1,000 to 99,999 sq ft totalled 65.7 million sq ft, 21% up on 2012.
- At the end of December 2013, the total available supply of industrial floorspace stood at 272.6 million sq ft, 17% lower than 12 months previous. Availability in units from 1,000 to 99,999 sq ft (199.0 million sq ft) fell by 17%, whereas the availability in units of 100,000 sq ft upwards fell by 15%.
- At the end of December 2013, only 7% of available space in units from 1,000 to 99,999 sq ft was in new or refurbished units.
- Headline prime rental values remained largely unchanged over the course of 2013. With a shortage of prime stock and improving market conditions, incentives moved in last year.
- Speculative development under construction at February 2014 stood at around 2.1 million sq ft across GB.
- Some £4.4 billion was invested in the UK industrial investment market in 2013. At the start of March prime yields for multi-let estates were around 5.75% in the South East and 6.25-6.50% in the major regional markets.

The regions in this report are the Government Office Regions apart from the South East and East of England, which we break down between the South East and East Anglia. The take-up and supply data were sourced initially from CoStar but subsequently adapted to fit our regions and adjusted by our in-house market intelligence.

Occupier demand - the national picture

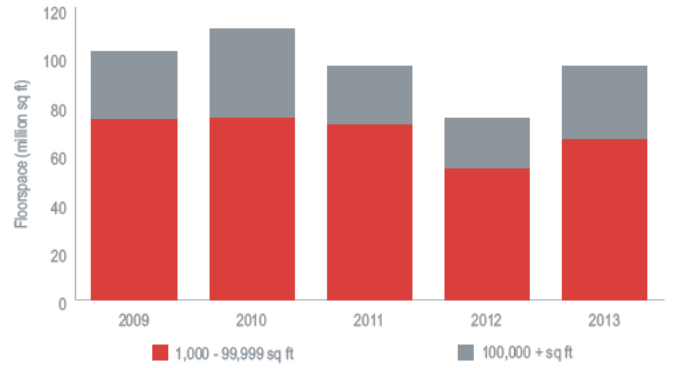
The UK economy gathered momentum throughout the course of 2013 growing by 1.9%, its strongest rate since 2007. However economic output is still 1.3% below its pre-recession peak (Q1 2008). The economy is expected to gather pace throughout the course of this year. The HM Treasury's latest average of new forecasts (February 2014) shows UK GDP growth of 2.7% over 2014, which is higher than the long-term trend.

Improving market sentiment and a pick-up in economic activity last year saw total demand for industrial floorspace improve. Total industrial take-up in units from 1,000 sq ft upwards totalled 95.4 million sq ft in 2013, 28% up on 2012. The percentage increase in take-up in 2013 was greatest for big box units of 100,000 sq ft and over, which increased by 46%, whereas the take-up of small and medium-sized units between 1,000 sq ft to 99,999 sq ft, increased by 21%.

Every region in GB registered an increase in take-up in 2013 compared with 2012 apart from the North East, which posted a 16% decrease. Wales recorded the largest increase in take-up last year, registering an increase of 82% in 2013 compared with 2012.

Take-up increased across all size bands in 2013 compared with 2012, with the largest increase seen in units of 100,000 sq ft and over. With economic fundamentals expected to improve this year and market sentiment strong we expect occupier demand to match or exceed the level posted last year.

Take-up of industrial floorspace 2009 to 2013



Source: JLL / CoStar

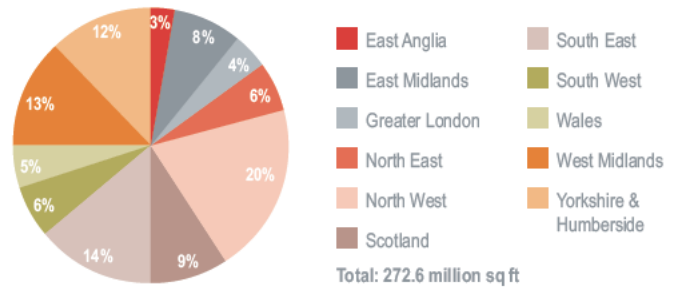
Availability

At the end of December 2013, the total supply of immediately available industrial floorspace across GB stood at 272.6 million sq ft, of which close to three-quarters (73%) was in units below 100,000 sq ft. Total availability at the end of December 2013 was 17% lower than 12 months previous.

At the end of December 2013, availability involving units from 1,000 to 99,999 sq ft was 17% lower than at the end of December 2012, whereas availability involving units of 100,000 sq ft and over was 15% lower.

Compared with recent levels of take-up (five-year annual average 2009 - 2013) total availability at the end of December 2013 equated to less than three years of demand. Availability in units from 1,000 to 99,999 sq ft also represented less than three years of demand.

Supply of industrial floorspace* by region, December 2013

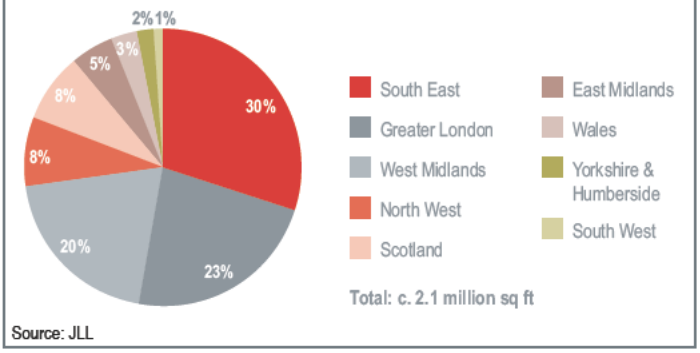


Source: JLL / CoStar
* All available space in units of 1,000 sq ft and over.

Regionally, the largest fall in availability in 2013 was in Greater London, where total availability fell by 38%. Every region in GB recorded a fall in availability at the end of December 2013 compared to the end of December 2012. The smallest fall in availability was recorded in the North West where total availability fell by 7% over the same period.

We expect that a large proportion of the available floorspace nationally consists of poorer quality buildings which many occupiers would consider functionally obsolete. Nationally, at the end of December 2013, only 7% of total availability in units from 1,000 to 99,999 sq ft comprised new or refurbished stock.

Speculative development under construction, February 2014



Source: JLL

Speculative development

As at February 2014, there was around 2.1 million sq ft of industrial floorspace under construction speculatively in 28 schemes nationally. This is higher than recorded at February 2013 (743,000 sq ft) but down on the peak recorded in mid-2007 (15.5 million sq ft).

With two exceptions no new speculative space involving units of 100,000 sq ft and over has started nationally since the end of 2008. This changed in 2013, during which five new units started speculatively on site totalling 920,000 sq ft.

Outlook

- We expect improving economic conditions to translate into continuing industrial property demand with take-up in 2014 likely to match or exceed the level posted in 2013.
- We expect supply to continue on a downward trend. Our agents are reporting a good level of enquiries, and speculative development, while picking up, remains modest overall.
- We expect speculative development to pick up over the course of 2014, with a number of new 'big box' units and smaller multi-let schemes already underway.
- JLL's latest forecasts indicate a relatively modest increase in rents over the next four years (2014 – 2017) although we expect growth to be stronger in and around London.
- With a shortage of prime investment stock in the market we expect investors to look more favourably at secondary assets. As a result, we expect the arbitrage between prime and secondary yields to narrow this year.

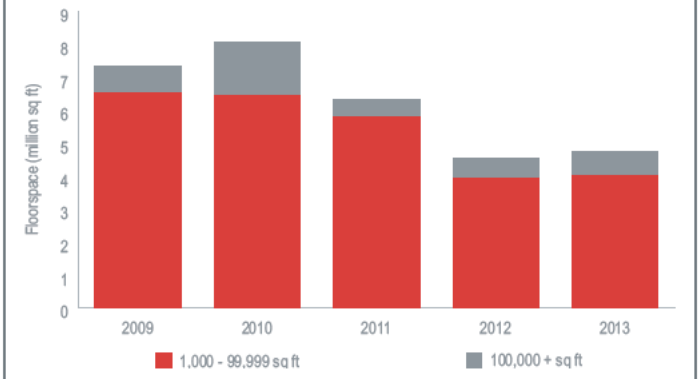
Greater London

Occupier demand

Industrial take-up in Greater London totalled 4.7 million sq ft in 2013, 4% up on 2012. Take-up involving units from 1,000 sq ft to 99,999 sq ft totalled 4.0 million sq ft, 2% up on 2012. Take-up involving units of 100,000 sq ft and over increased by 14% last year.

Units between 20,000 and 49,999 sq ft saw the largest increase in take-up, with floorspace transacted in this size band 33% higher in 2013 compared with 2012.

Take-up of industrial floorspace 2009 to 2013



Source: JLL / CoStar

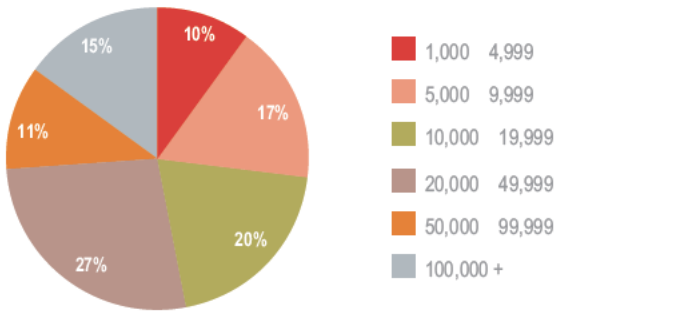
Availability

At the end of December 2013, there was some 10.8 million sq ft of industrial floorspace available across Greater London, 38% lower than at the end of December 2012. Availability in Greater London accounted for 4% of the GB total.

The available supply in units below 100,000 sq ft, which totalled 9.2 million sq ft, was 38% lower than at the end of December 2012. Around 11% of the available floorspace in this size band comprised new or refurbished floorspace, compared with a GB average of 7%.

At the end of December 2013, availability in units of 1,000 to 99,999 sq ft represented less than two years of supply compared with the annual average take-up rate over the past five years (2009 – 2013).

Supply (≥1,000 sq ft) at end of December 2013



Source: JLL / CoStar

Speculative development

At February 2014 there was around 472,000 sq ft of industrial floorspace speculatively under construction in Greater London. All units under construction are smaller than 100,000 sq ft.

Prime industrial rents (£ per sq ft)

Prime headline rents increased in Park Royal, Stratford and Bromley-by Bow over the 12-month period to December 2013 and edged up in Heathrow for off airside stock. Elsewhere rents remained stable but there is increasing pressure on rents and incentives as available supply continues to diminish.

Location	December 2012	December 2013
Heathrow (Airside)	25.00	25.00
Heathrow (Off Airside)	14.00-15.00	15.00
Wider Heathrow Area	12.50-13.00	12.50-13.00
Park Royal	13.00	13.50-13.75
Stratford	9.50	10.00
Bromley-by-Bow	9.50	10.00
Croydon	8.00	8.00

Assumes minimum of 10,000 sq ft.

Greater London agency comment

"The Greater London industrial market continues to strengthen as evidenced in 2013, by strong demand, translating into greater take-up across the size spectrum, compared with 2012. Availability has also dramatically fallen, putting pressure on supply. As a result, rents are starting to harden and incentives are reducing particularly in the 'hot spots' of Park Royal, Heathrow, Chessington, Croydon and Canning Town. Rightly so, confidence continues to grow amongst the developers, funds and property companies. Whilst some early speculative developments have found the going tough after reaching completion these schemes have now, in general, found traction. The market barometer indicates that there is more planned speculative development to come over the coming months."

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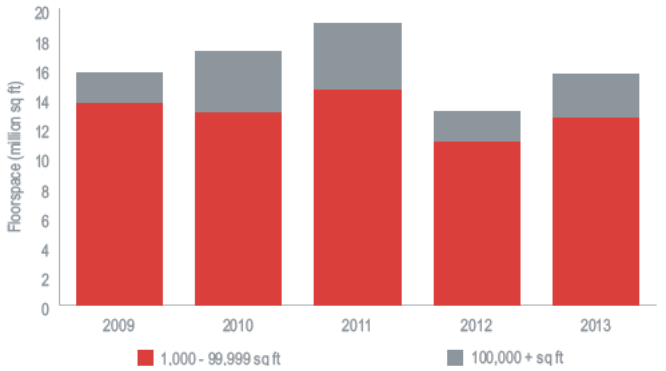
South East

Occupier demand

Industrial take-up in the South East totalled around 15.6 million sq ft in 2013, 19% up on 2012. Take-up involving units from 1,000 sq ft to 99,999 sq ft totalled 12.6 million sq ft, 15% up on 2012, while take-up involving units of 100,000 sq ft and over totalled 2.9 million sq ft, 45% up on 2012.

The largest increase recorded in take-up involving units from 1,000 sq ft to 99,999 sq ft was in the 20,000 to 49,999 sq ft size band. Floorspace transacted in this category increased by 39% compared with 2012.

Take-up of industrial floorspace 2009 to 2013



Source: JLL / CoStar

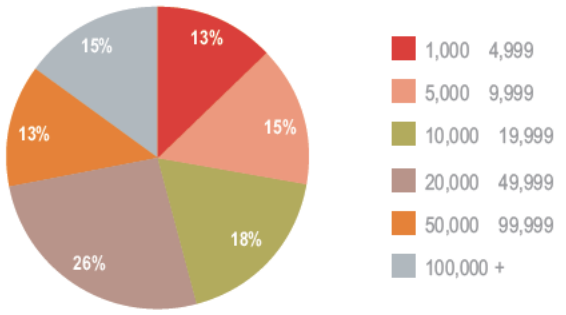
Availability

At the end of December 2013, there was some 39.1 million sq ft of industrial floorspace available across the South East market, 19% lower than at the end of December 2012. Availability in the South East accounted for 14% of the GB total.

The available supply in units below 100,000 sq ft, which totalled 33.2 million sq ft, was 19% lower than at the end of December 2012. Around 9% of the available floorspace in this size band comprised new or refurbished floorspace, compared with a GB average of 7%.

At the end of December 2013, availability in units of 1,000 to 99,999 sq ft represented around two and a half years of supply compared with the annual average take-up rate over the past five years (2009 – 2013).

Supply (≥1,000 sq ft) at end of December 2013



Source: JLL / CoStar

Speculative development

As at February 2014 there were five schemes speculatively under construction totalling around 630,000 sq ft in the South East. This includes two units speculatively under construction which each total over 100,000 sq ft.

Prime industrial rents (£ per sq ft)

Prime headline rents fell slightly in Guildford, but remained stable elsewhere.

Location	December 2012	December 2013
Slough	12.00	12.00
Basildon	6.50	6.50
West Thurrock	7.50	7.50
Dartford	7.50	7.50
High Wycombe	8.50	8.50
Guildford	10.00	9.75

Assumes minimum of 10,000 sq ft.

South East agency comment

"Take-up throughout the size ranges has increased, but of continued concern is the lack of replacement stock being brought forward through the development process. Of great encouragement is the current starts on sites with an increasing number of speculative schemes planned from mid-year onwards which will address, in part, the decreasing level of Grade A stock in the region."

Andy Harding, Director (London)
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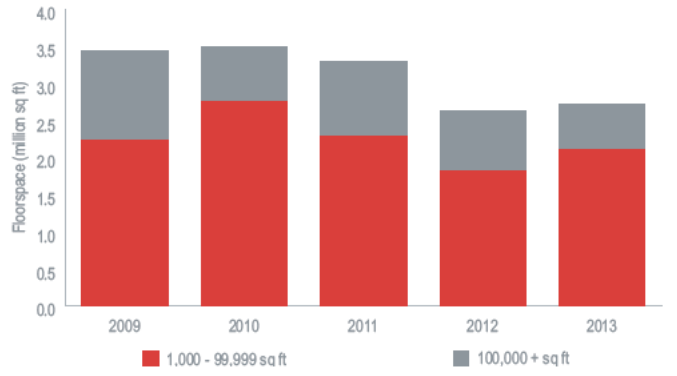
East Anglia

Occupier demand

Around 2.7 million sq ft of industrial floorspace was taken up in East Anglia in 2013, 3% up on 2012. Take-up involving units from 1,000 sq ft to 99,999 sq ft totalled 2.1 million sq ft, 16% up on 2012, whereas take-up involving units of 100,000 sq ft and over was 26% down on 2012.

The largest increase in take-up involving units from 1,000 sq ft to 99,999 sq ft was in units from 10,000 to 19,999 sq ft, where floorspace transacted in 2013 was 90% up on 2012.

Take-up of industrial floorspace 2009 to 2013



Source: JLL / CoStar

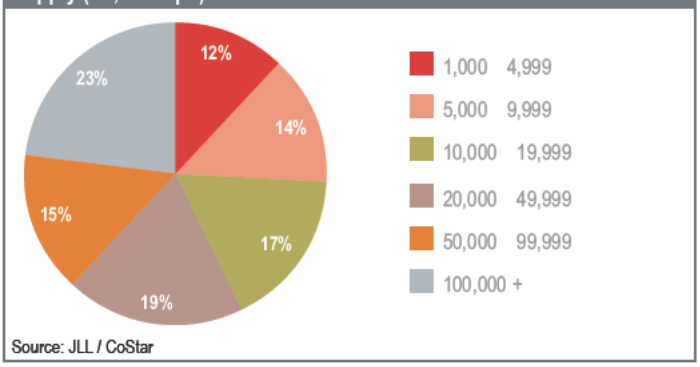
Availability

At the end of December 2013, there was some 7.2 million sq ft of industrial floorspace available across the East Anglia market, 18% down on the end of December 2012. Availability in East Anglia accounted for 2.6% of the GB total.

The available supply in units below 100,000 sq ft, which totalled 5.5 million sq ft, was 19% lower than at the end of December 2012. Around 9% of the available floorspace in this size band comprised new or refurbished floorspace, compared with a GB average of 7%.

At the end of December 2013, availability in units of 1,000 to 99,999 sq ft represented around two and a half years of supply compared with the annual average take-up rate over the past five years (2009 – 2013).

Supply (≥1,000 sq ft) at end of December 2013



Source: JLL / CoStar

Speculative development

There was no floorspace speculatively under construction in East Anglia at February 2014.

Prime industrial rents (£ per sq ft)

Prime headline rents remained stable in East Anglia over the 12-month period to December 2013.

Location	December 2012	December 2013
Peterborough	4.25	4.25
Huntingdon	4.50	4.50
Norwich	4.00	4.00
Ipswich	4.75	4.75

Assumes minimum of 10,000 sq ft.

East Anglia agency comment

"Supply remains very tight across the region with a distinct lack of Grade A stock. There are signs that some speculative development is likely to start to take place, but this is on a very limited scale. Rents still remain static across the board, but with the continuing lack of supply, this may change during 2014.

Landlords are still focused on income as opposed to holding out for full rents, which again may change during the course of 2014. Appetite for secondhand space remains very price driven, and creates a two-tier market."

James Swallow, Director (London)
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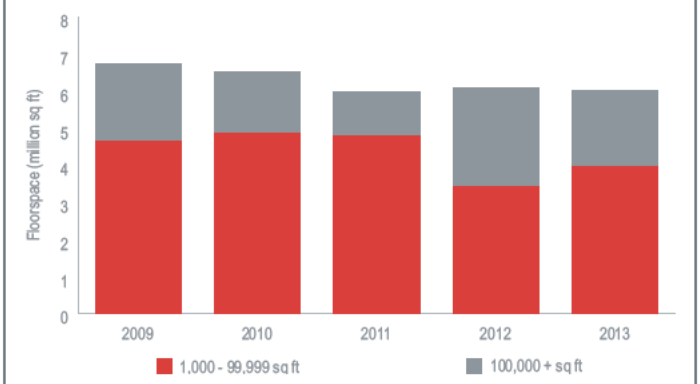
South West

Occupier demand

With 6.0 million sq ft of industrial floorspace taken up in the South West in 2013, overall take-up across the region was 8% higher than in 2012. Take-up involving units from 1,000 sq ft to 99,999 sq ft totalled 3.9 million sq ft, 15% up on 2012. However, take-up involving units of 100,000 sq ft and over was 3% down on 2012.

The take-up of small units from 5,000 to 9,999 sq ft increased by 29% on 2012, the sharpest rise for all size bands between 1,000 sq ft and 99,999 sq ft.

Take-up of industrial floorspace 2009 to 2013



Source: JLL / CoStar

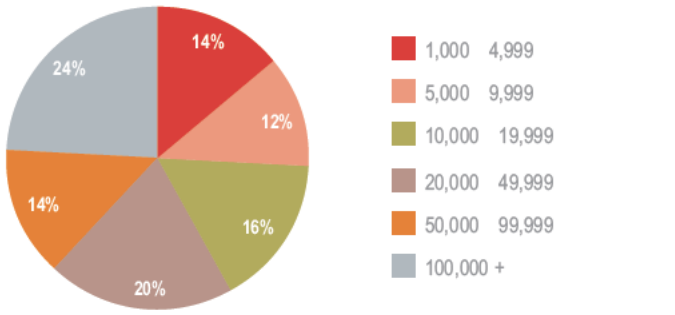
Availability

At the end of December 2013, there was some 17.0 million sq ft of industrial floorspace available across the South West region, 17% lower than at the end of December 2013. Availability in the South West accounted for 6.3% of the GB total.

The available supply in units below 100,000 sq ft, which amounted 12.9 million sq ft, was 17% down on the end of December 2012. Around 10% of the available floorspace in this size band comprised new or refurbished floorspace, compared with a GB average of 7%.

At the end of December 2013, availability in units of 1,000 to 99,999 sq ft represented around three years of supply compared with the annual average take-up rate over the past five years (2009 – 2013).

Supply (≥1,000 sq ft) at end of December 2013



Source: JLL / CoStar

Speculative development

At February 2014 there was one scheme speculatively under construction in the South West totalling around 15,000 sq ft.

Prime industrial rents (£ per sq ft)

Prime headline rents remained unchanged over the 12-month period to December 2013 in the South West.

Location	December 2012	December 2013
Bristol	7.25	7.25
Exeter	6.50	6.50
Plymouth	5.25	5.25
Swindon	5.50	5.50

Assumes minimum of 10,000 sq ft.

South West agency comment

"With improving business confidence, the lack of speculative development and declining stock of good quality secondhand buildings have seen rents and incentive packages hardening with competition for the good quality stock.

As we are unlikely to see any large scale speculative development over the next 12 months occupiers are starting to turn to the design and build market to provide a bespoke solution in the absence of standing buildings to satisfy their requirement."

Paul Baker, Director (Bristol)
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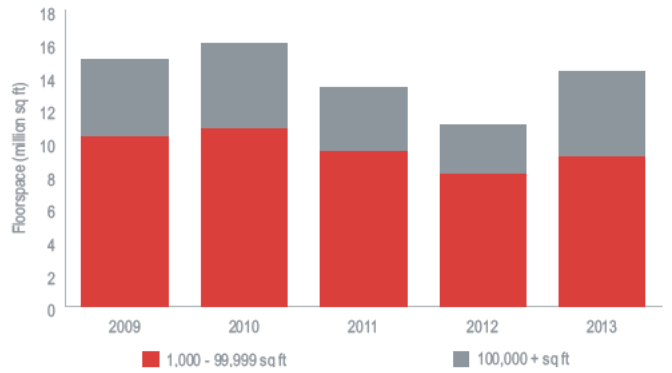
West Midlands

Occupier demand

Industrial take-up in the West Midlands totalled around 14.2 million sq ft in 2013, 29% up on 2012. Take-up involving units from 1,000 sq ft to 99,999 sq ft totalled 9.1 million sq ft, 13% up on 2012. Take-up involving units of 100,000 sq ft and over totalled 5.2 million sq ft in 2013, 72% up on 2012.

The largest increase involving units from 1,000 sq ft to 99,999 sq ft was in units from 20,000 to 49,999 sq ft, where floorspace transacted in 2013 was 38% up on 2012.

Take-up of industrial floorspace 2009 to 2013



Source: JLL / CoStar

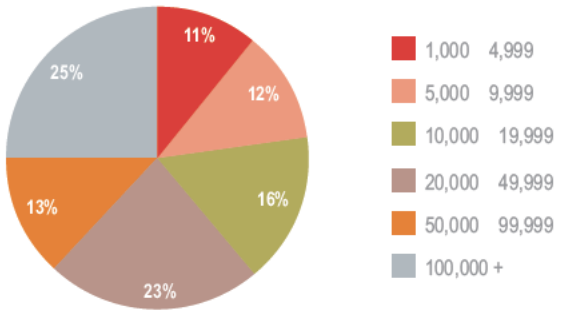
Availability

At the end of December 2013, there was some 35.0 million sq ft of industrial floorspace available across the West Midlands market, 17% lower than at the end of December 2012. Availability in the West Midlands accounted for 13% of the GB total.

The available supply in units below 100,000 sq ft, which totalled 26.3 million sq ft, was 13% lower than at the end of December 2012. Around 5% of the available floorspace in this size band comprised new or refurbished floorspace, compared with a GB average of 7%.

At the end of December 2013, availability in units of 1,000 to 99,999 sq ft represented less than three years of supply compared with the annual average take-up rate over the past five years (2009 – 2013).

Supply (≥1,000 sq ft) at end of December 2013



Source: JLL / CoStar

Speculative development

At February 2014 there was around 415,000 sq ft of industrial floorspace speculatively under construction in the West Midlands in three schemes.

Prime industrial rents (£ per sq ft)

Over the 12-month period to December 2013 prime headline rents started to edge up in Birmingham, Black Country and Solihull.

Location	December 2012	December 2013
Birmingham	5.75	5.75-6.00
Black Country	5.00 – 5.25	5.00-5.50
Solihull	6.25	6.50-6.75
Coventry	5.75	5.75-5.95
Stoke-upon-Trent	5.00	5.00

Assumes minimum of 10,000 sq ft.

West Midlands agency comment

"With the supply of new/modern available units continuing to fall and demand remaining robust, there is now more pressure on occupiers to consider a build to suit solution.

At present, occupiers are often unaware of the lack of existing good quality stock and are ill-prepared to go down the new build route. As a result, the sites which can offer the most rapid new build solutions are attracting most of the interest. In addition, where speculative development has started there is evidence that some of these buildings are being let quickly."

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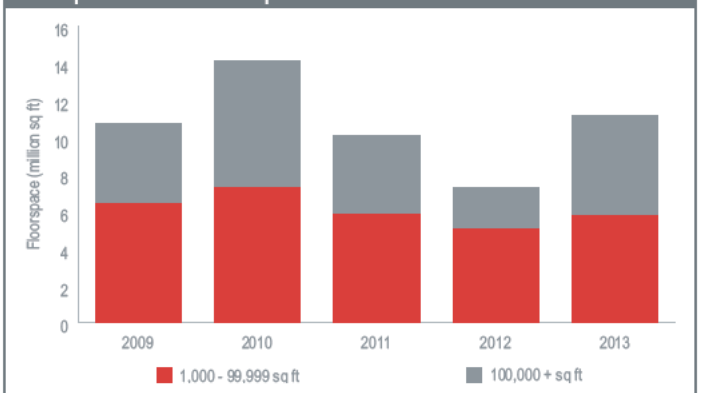
East Midlands

Occupier demand

Industrial take-up in the East Midlands totalled around 11.1 million sq ft in 2013, 52% higher than recorded in 2012. Take-up involving units from 1,000 sq ft to 99,999 sq ft totalled 5.8 million sq ft, 14% up on 2012, while take-up involving units of 100,000 sq ft and over totalled 5.4 million sq ft in 2013, over double the level recorded in 2012.

The largest increase in take-up involving units from 1,000 sq ft to 99,999 sq ft was in units from 10,000 to 19,999 sq ft, where floorspace transacted in 2013 was 24% up on 2012.

Take-up of industrial floorspace 2009 to 2013



Source: JLL / CoStar

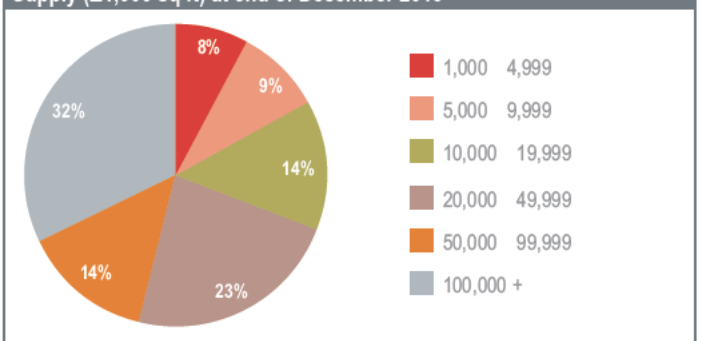
Availability

At the end of December 2013, there was some 22.9 million sq ft of industrial floorspace available across the East Midlands market, 16% lower than at the end of December 2012. Availability in the East Midlands accounted for 8.4% of the GB total.

The available supply in units below 100,000 sq ft totalled 15.5 million sq ft, 16% lower than at the end of December 2012. Around 6% of the available floorspace in this size band comprised new or refurbished floorspace, compared with a GB average of 7%.

At the end of December 2013, availability in units between 1,000 and 99,999 sq ft represented around two and a half years of supply compared with the annual average take-up rate over the past five years (2009 – 2013).

Supply (≥1,000 sq ft) at end of December 2013



Source: JLL / CoStar

Speculative development

There was one unit speculatively under construction in the East Midlands at February 2014 which totalled 110,000 sq ft.

Prime industrial rents (£ per sq ft)

Prime headline rents remained stable over the 12-month period to December 2013.

Location	December 2012	December 2013
Northampton	5.50	5.50
Leicester	5.25	5.25
Derby	5.25	5.25
Nottingham	5.50	5.50

Assumes minimum of 10,000 sq ft.

East Midlands agency comment

"Despite a decline in take-up in 2012, the latest report highlights a significant turnaround and a continued period of strong activity in the East Midlands market with 11.1m sq ft of space transacted in 2013. The 'Golden Triangle' continues to be the focus of demand and active requirements, however where supply exists outside of this core area, there is also reasonable activity, particularly for Grade A space. Stock levels have continued to reduce and with very little speculative development, this is expected to continue with a considerable shortage of Grade A space over 100,000 sq ft. 2013 experienced another good year of activity in the design and build market and, in particular, Markham Vale at J.29a, M1, where further new builds are on-site and will be delivered during 2014. With a good land supply throughout the region and an improving level of good quality requirements, further pre-let design and builds will be delivered in 2014."

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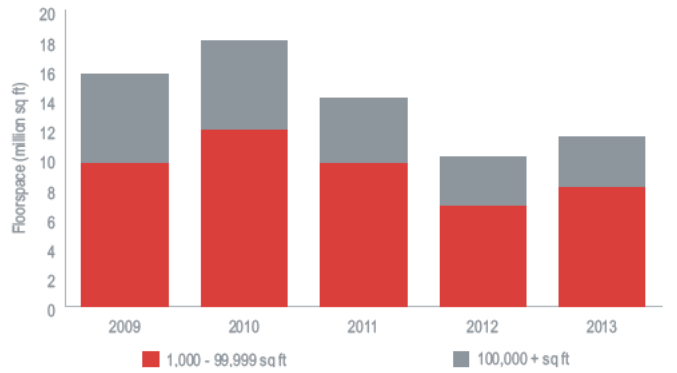
North West

Occupier Demand

Industrial take-up in the North West totalled around 11.5 million sq ft in 2013, 13% up on 2012. Take-up involving units from 1,000 sq ft to 99,999 sq ft totalled 8.0 million sq ft, 17% up on 2012. Take-up involving units of 100,000 sq ft and over totalled 3.5 million sq ft in 2013, 4% up on 2012.

The largest increase recorded in take-up involving units from 1,000 sq ft to 99,999 sq ft was in units from 10,000 to 19,999 sq ft, where floorspace taken up in 2013 rose by 47% compared with 2012.

Take-up of industrial floorspace 2009 to 2013



Source: JLL / CoStar

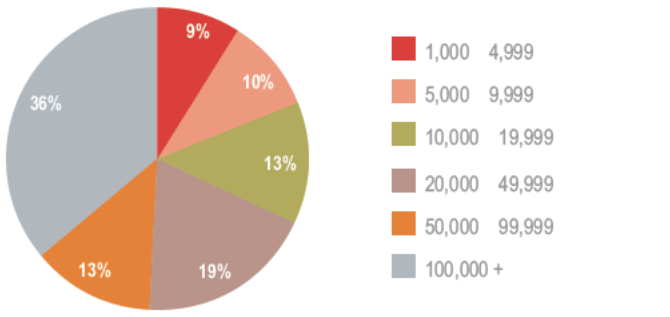
Availability

At the end of December 2013, there was some 54.0 million sq ft of industrial floorspace available across the North West market, 6.7% lower than at the end of December 2012. Availability in the North West accounted for 19.8% of the GB total.

The available supply in units below 100,000 sq ft totalled 34.7 million sq ft, 14% lower than at the end of December 2012. Around 7% of the available floorspace in this size band comprised new or refurbished floorspace, matching the GB average.

At the end of December 2013, availability in units of 1,000 to 99,999 sq ft represented less than four years of supply compared with the annual average take-up rate over the past five years (2009 – 2013).

Supply (≥1,000 sq ft) at end of December 2013



Source: JLL / CoStar

Speculative development

At February 2014 there was approximately 177,000 sq ft of industrial floorspace speculatively under construction in the North West in three schemes. All units under construction were smaller than 100,000 sq ft in size.

Prime industrial rents (£ per sq ft)

Prime headline rents increased in Warrington over the 12-month period to December 2013 but elsewhere remained unchanged.

Location	December 2012	December 2013
South Manchester	5.75	5.75
Trafford Park	6.00	6.00
Warrington	5.75	6.25
Liverpool	4.50	4.50

Assumes minimum of 10,000 sq ft.

North West agency comment

"The North West picture is similar to that across the rest of the country, with a dearth of good quality existing buildings in prime locations across all size parameters. As a consequence, occupiers are having to make compromises to identify a building that works for them or satisfy their requirements by Design and Build solutions, with the resultant time delays.

With renewed interest from certain funds, we do anticipate some limited speculative development in the region during the year. This is not just limited to large 'big boxes' – at the smaller end of the market, those developers who have built out space over the last 12 to 18 months have been rewarded with high rental levels and freehold prices. Notwithstanding, tenants who are willing to acquire secondary multi-let space can still find landlords willing to offer flexible deals at attractive rents."

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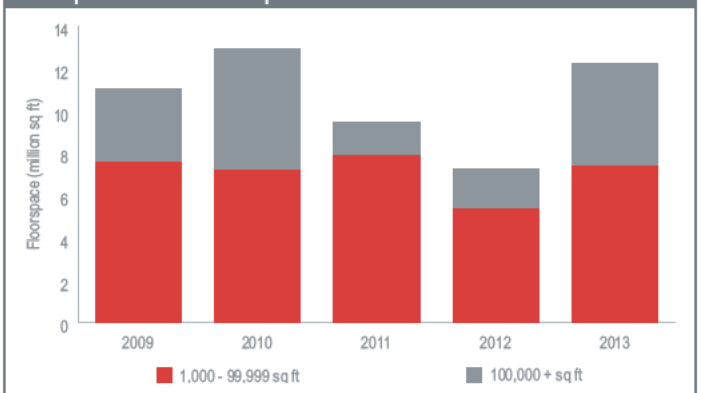
Yorkshire & Humberside

Occupier demand

Industrial take-up across Yorkshire & Humberside totalled around 12.2 million sq ft in 2013, 69% up on 2012. Take-up involving units from 1,000 sq ft to 99,999 sq ft totalled 7.4 million sq ft, 38% up on 2012. Take-up involving units of 100,000 sq ft and over totalled 4.8 million sq ft, over double the level recorded in 2012.

The largest increase recorded in take-up involving units from 1,000 sq ft to 99,999 sq ft was in units from 50,000 to 99,999 sq ft, where floorspace transacted in 2013 was 66% up on 2012.

Take-up of industrial floorspace 2009 to 2013



Source: JLL / CoStar

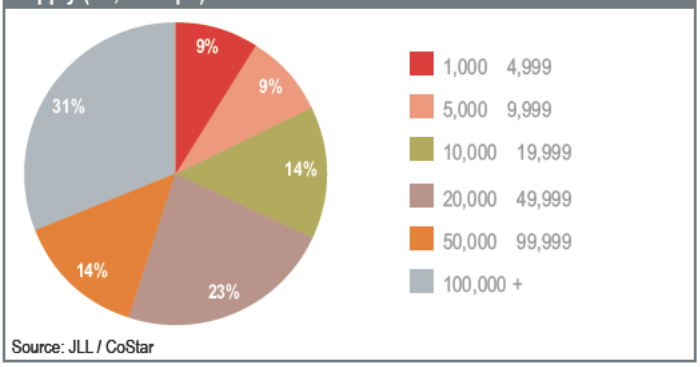
Availability

At the end of December 2013, there was some 32.3 million sq ft of industrial floorspace available across the Yorkshire and Humberside market, 17% down on the end of December 2013. Availability in Yorkshire and Humberside accounted for 11.8% of the GB total.

The available supply in units below 100,000 sq ft totalled 22.4 million sq ft, 15% lower than at the end of December 2012. Around 8% of the available floorspace in this size band comprised new or refurbished floorspace, compared with a GB average of 7%.

At the end of December 2013, availability in units of 1,000 to 99,999 sq ft represented around three years of supply compared with the annual average take-up rate over the past five years (2009 – 2013).

Supply (≥1,000 sq ft) at end of December 2013



Source: JLL / CoStar

Speculative development

At February 2013 there was around 38,000 sq ft of industrial floorspace speculatively under construction in one scheme in Yorkshire & Humberside.

Prime industrial rents (£ per sq ft)

Prime headline rents remained unchanged over the 12-month period to December 2013.

Location	December 2012	December 2013
Leeds	5.75	5.75
Doncaster	4.50	4.50
Hull	4.25	4.25
Wakefield	5.00	5.00

Assumes minimum of 10,000 sq ft.

Yorkshire & Humberside agency comment

"Demand has been an improving picture since Q4 2013 and continues to be robust throughout the Yorkshire region for units under 100,000 sq ft. Negotiations are moving in the landlord's favour with incentive packages beginning to harden and headline rents starting to see upwards movement, particularly where product is modern. The region is facing an acute shortage of good quality stock and even though we are seeing selective instances of speculative development, it will not satisfy demand. Build to suit will become more prevalent over the next 12-24 months.

The big shed market remains active, although demand is largely retail-led and focused on key sites or buildings mostly in established locations around Wakefield or Doncaster. The manufacturing sector is starting to generate more demand, although this mostly remains sub 100,000 sq ft."

Richard Harris, Director (Leeds)
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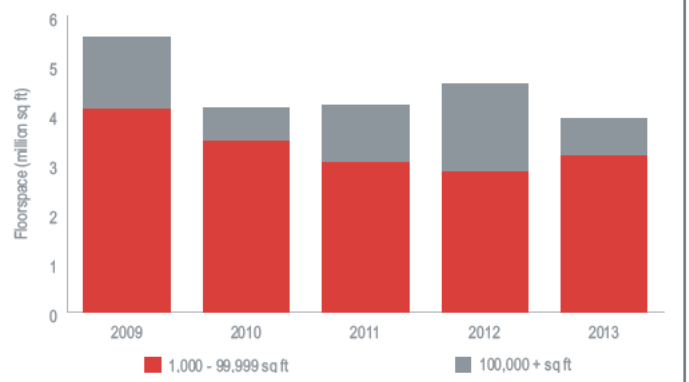
North East

Occupier demand

Industrial take-up in the North East totalled around 3.9 million sq ft in 2013, 16% down on 2012. Take-up involving units from 1,000 sq ft to 99,999 sq ft totalled 3.2 million sq ft, 12% up on 2012, whereas take-up involving units of 100,000 sq ft and over totalled around 740,000 sq ft, 59% down on 2012. The North East was the only region to record an overall decline in take-up in 2013 compared with 2012.

The largest increase recorded in take-up involving units from 1,000 sq ft to 99,999 sq ft was in units from 50,000 to 99,999 sq ft, where floorspace transacted in 2013 was 29% up on 2012.

Take-up of industrial floorspace 2009 to 2013



Source: JLL / CoStar

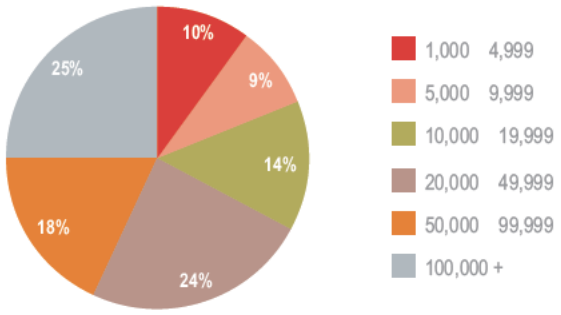
Availability

At the end of December 2013, there was some 15.0 million sq ft of industrial floorspace available across the North East market, 11% lower than at the end of December 2012. Availability in the North East accounted for 5.5% of the GB total.

The available supply in units below 100,000 sq ft totalled 11.3 million sq ft, 11% lower than at the end of December 2012. Around 7% of the available floorspace in this size band comprised new or refurbished floorspace matching the GB average.

At the end of December 2013, availability in units of 1,000 to 99,999 sq ft represented around three and a half years of supply compared with the annual average take-up rate over the past five years (2009 – 2013).

Supply (≥1,000 sq ft) at end of December 2013



Source: JLL / CoStar

Speculative development

As at February 2014 there was no industrial floorspace speculatively under construction in the North East.

Prime industrial rents (£ per sq ft)

Prime headline rents remained unchanged over the 12-month period to December 2013.

Location	December 2012	December 2013
Newcastle	5.00	5.00
Team Valley	5.50	5.50
Stockton-upon-Tees	4.00	4.00
Washington	4.50	4.50
Sunderland	4.25	4.25

Assumes minimum of 10,000 sq ft.

North East agency comment

"Demand for industrial and warehouse space continues to be driven by the manufacturing sector, generating a number of B2 and B8 requirements in key locations close to the manufacturing base. As space is taken up, these requirements will need to go further afield to be satisfied, thus having a positive effect on the wider North East region. The wave of speculative development rippling out of the South East and Midlands is yet to reach the region. Therefore, the stock of good quality space is extremely limited, especially in some size brackets. We anticipate a small number of speculative schemes will begin in 2014, with additional momentum being gained through increased demand towards the end of the year and into 2015."

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Scotland

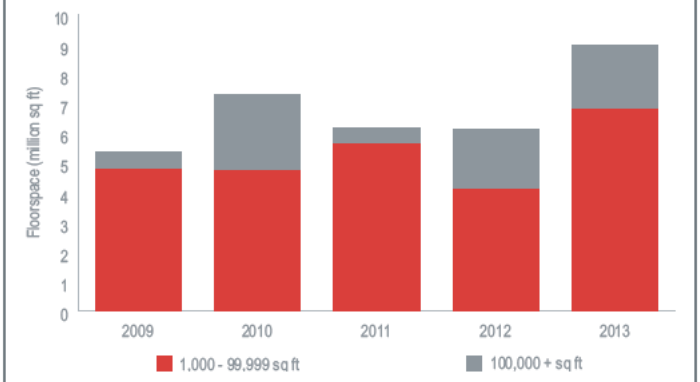
Occupier demand

Industrial take-up in Scotland totalled around 9.0 million sq ft in 2013, 46% up on 2012. Take-up involving units from 1,000 sq ft to 99,999 sq ft totalled 6.8 million sq ft, 65% up on 2012, and take-up involving units of 100,000 sq ft and over totalled 2.2 million sq ft in 2013, 9% up on 2012.

The largest increase recorded in take-up involving units from 1,000 sq ft to 99,999 sq ft was in units from 50,000 to 99,999 sq ft where floorspace transacted in 2013 was over two and a half times higher than the level recorded in 2012.

The level of take-up posted in 2013 was the highest annual level recorded over the past five years (2009-2013).

Take-up of industrial floorspace 2009 to 2013



Source: JLL / CoStar

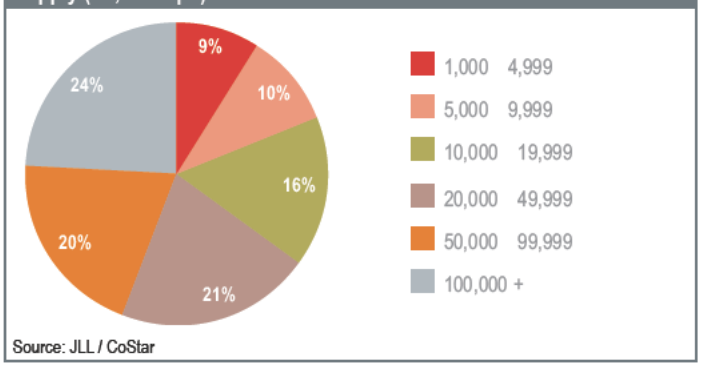
Availability

At the end of December 2013, there was some 24.6 million sq ft of industrial floorspace available across Scotland, 16% lower than at the end of December 2012. Availability in Scotland accounted for 9% of the GB total.

The available supply in units below 100,000 sq ft totalled 18.8 million sq ft, 14% lower than at the end of December 2012. Around 4% of the available floorspace in this size band comprised new or refurbished floorspace, compared with a GB average of 7%.

At the end of December 2013, availability in units of 1,000 to 99,999 sq ft represented around three and a half years of supply compared with the annual average take-up rate over the past five years (2009 – 2013).

Supply (≥1,000 sq ft) at end of December 2013



Source: JLL / CoStar

Speculative development

At February 2013 there was around 162,000 sq ft of industrial space speculatively under construction in six schemes in Scotland. All units under construction were smaller than 100,000 sq ft.

Prime industrial rents (£ per sq ft)

Prime headline rents edged up in Glasgow and Aberdeen over the 12-month period to December 2013 but remained unchanged elsewhere.

Location	December 2012	December 2013
Edinburgh (South Gyle)	7.00	7.00
Rest of Edinburgh	6.00-6.50	6.00-6.50
Glasgow	6.00	6.50
Aberdeen	8.50	8.75

Assumes minimum of 10,000 sq ft.

Scotland agency comment

"In 2013 Edinburgh announced the first speculative development in over five years at West Edinburgh Business Park, South Gyle. There have been some land sales and a small number of pre-let requirements circulating due to a lack of larger stock. There has been more sustained demand and dwindling stock in key strategic locations such as Sighthill, South Gyle, Newbridge and other areas such as Rosyth and Dunfermline, all close to the M8, M9, Forth Road Bridge and the forthcoming Queensferry Crossing. Aberdeen continues to have strong demand combined with a lack of existing stock, with some developers speculatively developing units and handling larger BTS requirements for the oil and gas, and subsea sector. The west coast industrial property market witnessed significant signs of improvement in 2013, with stronger demand across the whole spectrum of buildings and size range, increased levels of transactions and improvement in occupier confidence. Prime hotspots remain motorway corridors, such as Cambuslang and Eurocentral. Secondary locations, such as East Kilbride and Cumbernauld, have seen higher levels of enquiries throughout the year. Mirroring historic trends, the majority of demand is for units below 10,000 sq ft."

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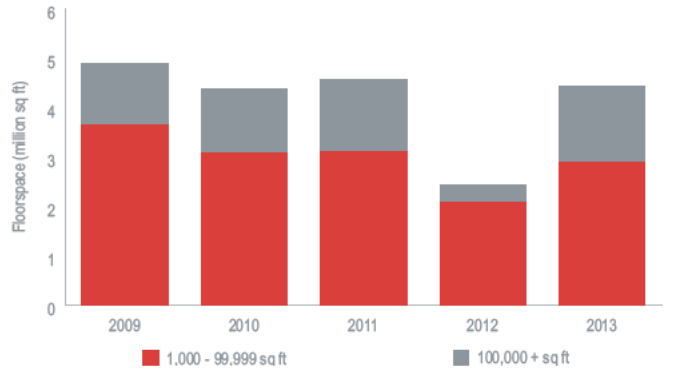
Wales

Occupier demand

Total industrial take-up in Wales was around 4.4 million sq ft in 2013, 82% up on 2012. Take-up involving units from 1,000 sq ft to 99,999 sq ft totalled 2.9 million sq ft, 39% up on 2012. Demand for large units rose more sharply, with take-up involving units of 100,000 sq ft and over up four fold on 2012.

The largest increase recorded in take-up involving units from 1,000 sq ft to 99,999 sq ft was in units from 20,000 to 49,999 sq ft, where floorspace transacted in 2013 was almost double the level recorded in 2012.

Take-up of industrial floorspace 2009 to 2013



Source: JLL / CoStar

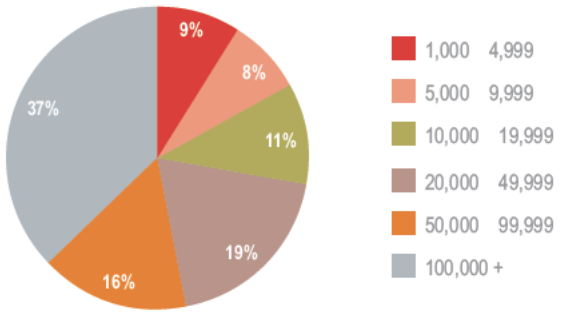
Availability

At the end of December 2013, there was some 14.7 million sq ft of industrial floorspace available across Wales, 27% down on the end of December 2012. Availability in Wales accounted for 5.4% of the GB total.

The available supply in units below 100,000 sq ft totalled 9.3 million sq ft, 27% lower than the end of December 2012. Around 9% of the available floorspace in this size band comprised new or refurbished floorspace, compared with a GB average of 7%.

At the end of December 2013, availability in units of 1,000 to 99,999 sq ft represented around three years of supply compared with the annual average take-up rate over the past five years (2009 – 2013).

Supply (≥1,000 sq ft) at end of December 2013



Source: JLL / CoStar

Speculative development

As at February 2014 there were three schemes speculatively under construction in Wales totalling 72,000 sq ft.

Prime industrial rents (£ per sq ft)

Prime headline rents edged up in Cardiff, Newport, Swansea and the Wrexham/Deeside area over the 12-months to December 2013.

Location	December 2012	December 2013
Cardiff	5.00	5.50
Newport	4.25	4.50
Swansea	4.00	4.25
Wrexham / Deeside	3.00	3.50

Assumes minimum of 10,000 sq ft.

Wales agency comment

"Much improved market conditions in 2013 provide reasonable grounds for optimism in the Welsh industrial market, although it is clear that the recovery is focused upon new and modern floorspace. In 2013, industrial take-up rose by 82% on the previous year, with a consequent fall in total floorspace availability to levels approaching those pre-downturn. A number of factors have contributed to this improved picture, most notably rising confidence, but also evidence of re-shoring in the manufacturing sector, overflow demand from the Midlands and the changing nature of distribution."

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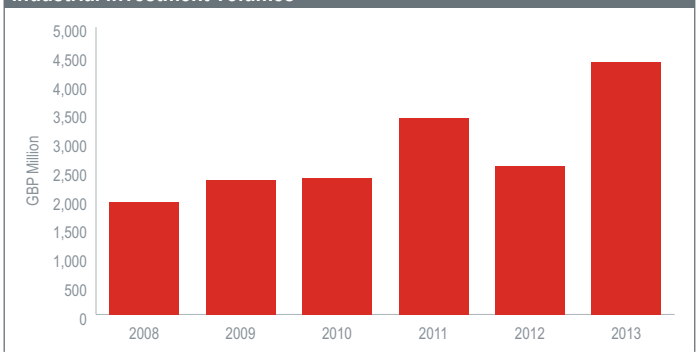
UK investment market performance

Investor demand and supply

Investment in the UK industrial property market, including both multi-let estates and single-let distribution, totalled £4.4 billion 2013. This was 70% up on 2012 (£2.6 billion) and its highest level in the last seven years (2007 – 2013).

Appetite for industrial property picked up in 2013 with strong demand from both domestic and international buyers. Investment in UK industrial property was at its second highest level since our records began in 2004. 2006 was the only year to record a higher level of investment in industrial property at £4.9 billion.

Industrial investment volumes



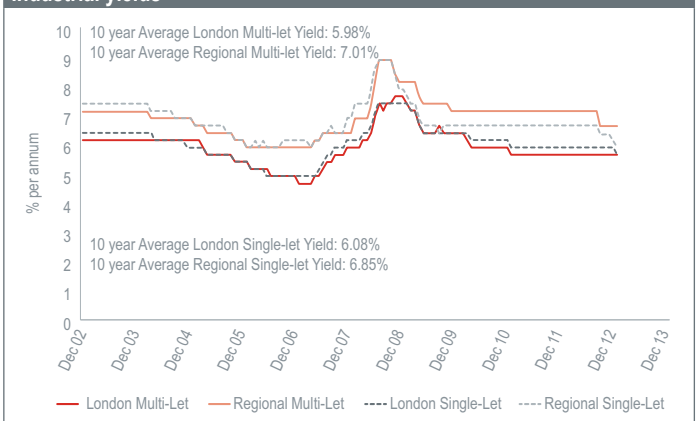
Source: JLL

We expect demand for multi-let assets to remain focused on prime estates in London and the South East this year. With confidence in the market strong and global money targeting the UK, the main constraint on activity will be a lack of available stock in the market as investors remain reluctant to sell their prime assets.

Industrial yields

At the beginning of March 2014 prime yields for multi-let estates in the South East and regionally stood at 5.75% and 6.25-6.50% respectively. Regional yields moved in by around 75-100 bps over the year to March. Investor demand will remain focused on prime stock, but as the availability of this stock continues to fall investors will look at good quality secondary assets and the arbitrage between prime and secondary yields will narrow.

Industrial yields



Source: JLL

IPD performance

The UK industrial market produced a total return of 5.6% in Q4 2013, according to the IPD Quarterly Index. Distribution warehouses outperformed standard industrials in Q4 with a total return of 5.8% compared with 5.6%.

In the year to Q4 2013 the UK industrial market produced a total return of 11.8%. Standard industrials posted a total return of 11.2% compared with 13.3% for distribution warehouses.

All industrial capital values registered an increase of 3.9% in Q4 2013. Both standard industrials and distribution warehouses posted an increase of 3.9%.

All industrial rental values increased by 0.6% in Q4 2013; both standard industrials and distribution warehouses registered an increase of 0.5%.

At the end of December 2013 the IPD Monthly Index showed an industrial vacancy rate for the UK of 9.9% (of income) which was down on 12 months earlier (11.9%) and down from a recent peak of 18.2% in August 2009.

Forecasts

Current model-based forecasts from JLL indicate that industrial property will deliver an average annual total return of 8.4% over the five years 2014-2018 with distribution warehouses outperforming standard industrials at 9.4% and 8.1% respectively.

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UK Industrial Property Trends Today – March 2014

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