Research

Knight Frank

Thames Gateway

Commercial Market Report • Winter 2007

Contents

Introduction to the Thames Gateway	2
Major developments	2
Thames Gateway at a glance	3
Inner North quadrant	4
Inner South quadrant	5
Outer North quadrant	6
Outer South quadrant	6
Investment market	7

Property market overview

- The Thames Gateway remains competitively priced with an average prime industrial rent of £7.40 per sq ft, 17% lower than the average for the M25 market. The differential is more marked for industrial land values, with an average of £776,000 per acre across the Thames Gateway, offering a significant 43% discount to the wider M25. These notable discounts will continue to act as a magnet for investors and occupiers seeking cost efficient opportunities.
- Industrial take-up totalled 1.7 million sq ft to Q3 2007, of which 58% was located in the Inner North quadrant. However, over the longer-term, no single quadrant has dominated industrial take-up, illustrating the breadth and diversity of the sector across the whole of the Thames Gateway.
- The Inner North quadrant, home of Canary Wharf, has accounted for 85% of office take-up in the Thames Gateway since 2002. The most significant office transaction this year occurred at The Royals Business Park, where London Borough of Newham acquired the 252,000 sq ft Building 1000 for the council's administrative centre.
- The commercial development pipeline of Thames Gateway totals a staggering 53.7 million sq ft, 49% of which is offices, driven by continued development at Canary Wharf and plans at Stratford City, Greenwich Peninsula and Ebbsfleet.

Knight Frank Newmark Global

Introduction to the Thames Gateway

What is the Thames Gateway?

Thames Gateway is Europe's largest and most ambitious regeneration programme. It covers an area of 240,000 acres stretching 40 miles eastwards from East London on both sides of the river to the Thames Estuary. By 2016, it is intended that the area will provide 180,000 new jobs and 160,000 new homes.

The hosting of the 2012 Olympic Games will greatly enhance the reputation of this strategically located area for investors, developers and occupiers alike. Significant investment in transport infrastructure has already brought the Thames Gateway closer to the heart of London, while the availability of large brownfield sites provides great opportunities for large-scale, sustainably delivered commercial and residential development.

Transport infrastructure

For the ambitious Thames Gateway plans to be realised, it is paramount that the required transport infrastructure investment takes place and is phased appropriately in order for large sites to be developed successfully. The timeline to the left provides a summary of key transport schemes planned across the Thames Gateway.

Transport infrastructure timeline

Year	Scheme	Cost (£ m)
2006	A249 Iwade Bypass to Queenborough Improvement	100.0
2007	New DLR Platform at Stratford Regional Station	18.9
2007	Kent Thameside Fastrack – Later phases to 2025	122.0
2007	A206 Thames Road Improvement	22.7
2008	A2/A282 Dartford Improvement (M25 Junction 2)	120.0
2008	M25 Junction 1b – Widening	66.0
2008	East London Transit (Thames Gateway Transit) Later phases to 2015	79.0
2009	Channel Tunnel Rail Link (Domestic Services)	520.0
2009	A2 Bean to Cobham Phase 2 (Pepperhill to Cobham)	122.0
2009	DLR Woolwich Arsenal Extension	180.0
2009	DLR 3-car upgrade, Bank – Lewisham	136.5
2009	Sittingbourne Northern Relief Road	65.0
2010	DLR Stratford International Extension	185.0
2010	East London Line Extension (Phase 1)	900.0
2011	Greenwich Waterfront Transit Phase 1 (Thames Gateway Transit) Later phases subject to funding and planning	58.0
2012	Proposed A13 Renwick Road Junction Improvements	50.0
2012	A13/A130 Sadlers Farm Junction Improvements – Canvey Island	63.0
2015	Thames Gateway Bridge	500.0
2016	DLR Barking Reach	250+
2017	Crossrail	16.0 bn

Source: DfT 2007

In the short-term, the Channel Tunnel Rail Link (CTRL) will provide a substantial boost to the entire region. It will link St Pancras with the continent via the new station at Ebbsfleet and, from 2009, Stratford, slashing journey times to central London and enhancing the attractiveness for occupiers considering moving out of London. The Crossrail link, due to open in 2017, will also bring benefits to East London, substantially increasing connectivity between East and West of the capital.

At an estimated cost of £500 million, the proposed six-lane Thames Gateway Bridge will link Thamesmead with Beckton, a vital component of the planned transport measures and pivotal to unlocking the regeneration potential of the Thames Gateway. However, the project faces fierce opposition from environmental groups and the Government recently re-opened the Public Inquiry. If it proceeds, completion is scheduled for 2015.

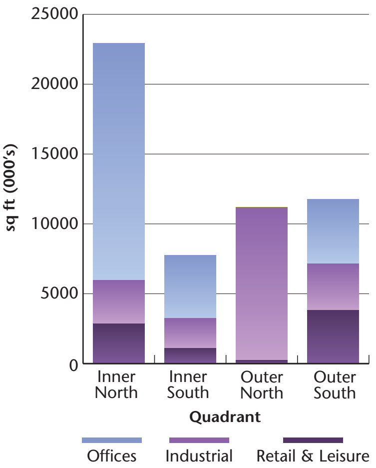
Smaller transport measures linking local centres of employment will also be key in supporting employment growth and development. For example, the Docklands Light Railway (DLR) extensions will benefit Woolwich with a new river crossing linking it with Stratford in 2009, while additional new DLR stations moving eastward to Dagenham Dock will be vital to bringing new housing developments at Barking Riverside to fruition.

Major developments

The Thames Gateway regeneration programme is a 30 year long project consisting of a wide range of schemes varying in both size and nature. The expected transformation of the area is put into context by Figure 1 which illustrates the commercial development pipeline. Brief details of the key Thames Gateway developments planned for the next two decades are listed below.

The hosting of the 2012 **Olympic Games** will have a dramatic and positive effect on the Thames Gateway. Indirectly, the staging of the Games will greatly enhance the perception of East London and the wider Thames Gateway both as a place to live and do business, helping to galvanise large scale investment and promoting physical redevelopment. Directly, the hosting of the Olympics in the heart of the Lower Lea Valley will result in the physical transformation of a large area in need of regeneration. After the Games, the 500 acre Olympic Park will have its sporting facilities scaled back and modified to suit the needs of local communities and businesses. Over 9,000 new homes and 3 million sq ft of new commercial floorspace will be provided.

Figure 1
Commercial Development Pipeline



Source: Knight Frank Research

Analysis includes schemes with planning consent and under construction of over 10,000 sq ft

Stratford City, to be developed by Westfield, is one of the most ambitious commercial developments in the South East. Adjacent to the Olympic Park, Stratford City will comprise one of the largest mixed-use developments in the UK. Covering 73 hectares of largely derelict former industrial land, the next 15 years will see the creation of a new £4 billion metropolitan centre for East London, with more than 100 shops, three department stores and (potentially) 5 million sq ft of office space, together with new urban districts which will provide 30,000 jobs and homes for 11,000 residents.

By 2020 **Greenwich Peninsula,** assuming the current consents are implemented, will have over 20,000 residents and employ 24,000 people. The site includes 1.6 miles of river frontage and covers 190 acres. When completed, it will comprise three residential neighbourhoods – Peninsula Quays, Peninsula Riverside and Parkside, each with their own character and form. The commercial heart of the Peninsula includes the O2 Arena as the centrepiece of a 650,000 sq ft 'entertainment district' together with over 3 million sq ft of office space.

Situated between Dartford and Gravesend, **Ebbsfleet Valley** will be a major new settlement and will account for most of the new housing and employment growth planned in the Kent Thameside area. Being developed by Land Securities, Ebbsfleet will contain 3,000 homes and 2,190 acres of new parks and open spaces and create around 20,000 new jobs over the coming 20 years. The scheme will benefit greatly from the strategic links provided to it by the new Ebbsfleet station, with just a 17 minute journey into central London.

Thames Gateway at a glance

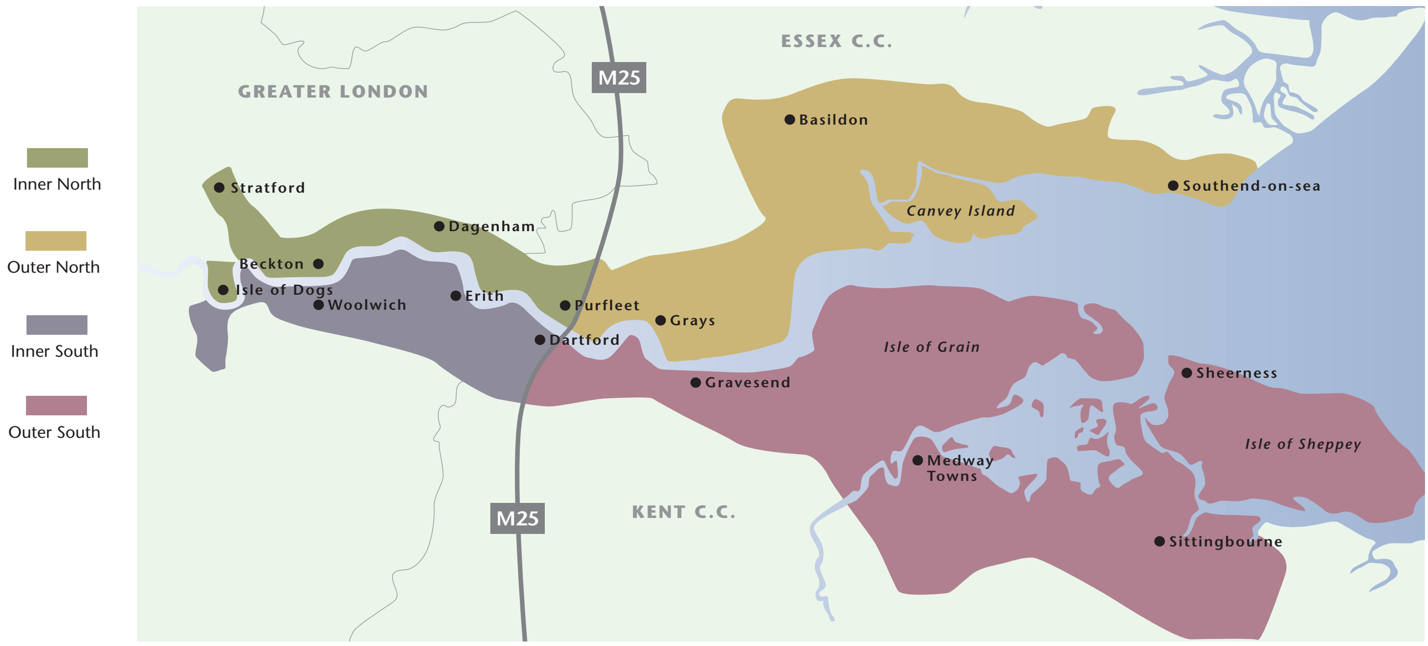


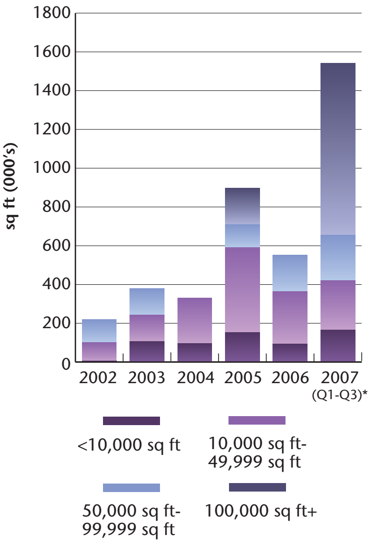
Table 1 **Key industrial market statistics**

Quadrant	Prime rent (£ per sq ft)	Top land values (£/acre)	Availability at Q3 2007 (sq ft)	Average take-up 2002-2006 (sq ft)	Take-up Q1-Q3 2007 (sq ft)	Pipeline (sq ft)	Years of supply
Inner North	10.00	1,500,000	2,397,564	475,675	1,587,742	3,139,752	6.6
Inner South	9.00	1,500,000	2,985,410	432,532	447,836	2,124,251	4.9
Outer North	8.00	1,000,000	2,379,495	557,846	445,492	10,921,529	19.5
Outer South	6.50*	500,000	1,956,510	453,860	209,754	3,361,173	7.4

Source: Knight Frank Research

*Excludes Charles Park at Crossways

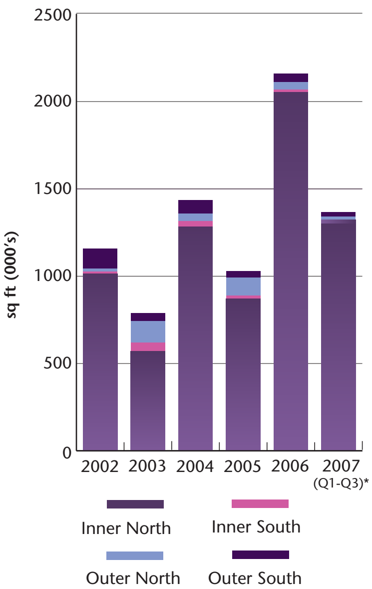
Figure 2
Inner North Industrial Take-up



Source: Knight Frank Research

Building 1000, The Royals Business Park

Figure 3
Office Take-up in the Thames Gateway



Source: Knight Frank Research

Inner North quadrant

Major improvements to the A13 over the last decade have helped to open up large swathes of brownfield land for development eastward. Closer to London, recent and forthcoming investment in the Docklands Light Railway (DLR) is helping to improve the appeal of East London as a place to live and work, enhancing the prospects of key schemes such as The Royals Business Park and Barking Riverside.

Industrial

Inner North industrial take-up to Q3 2007 was an impressive 1.57 million sq ft, accounting for 58% of all activity across the Thames Gateway. Transactions in excess of 100,000 sq ft accounted for 60% of take-up, the largest of which was the letting of Gazeley's 492,000 sq ft Ultrabox to Carpetright.

Business relocation from the 200 acre Olympic Park site has been a significant driver of recent demand. RD Park in Beckton is home to a number displaced businesses and, since completion in July 2007, all 23 units have either been sold, let or are under offer. Two significant transactions involving displaced companies include Wanis' taking of 115,000 sq ft at Leyton Business Park and Capital Print & Display's 105,000 sq ft acquisition at RD Park.

Prime industrial rents within the Inner North quadrant are highest in the London area, with prime rents of £10.00 per sq ft typical around Bow and Stratford. Land values are also highest here as residential use increasingly competes with traditional industrial, resulting in the focus of industrial development shifting eastwards along the A13. The area around Dagenham and Rainham has been subject to considerable development as its lower land values are now more conducive to industrial use.

Of the 2.4 million sq ft of industrial space available across the quadrant, 57% is accounted for by units in excess of 100,000 sq ft, and concentrated around Dagenham and Rainham. Two examples, both in Dagenham, include Gazeley's 232,000 sq ft Voltaic and AMB's recently acquired Binary Park, which comprises two units of 145,000 and 177,000 sq ft, one of which was recently placed under offer to DSI.

The pipeline totals 3.1 million sq ft in the Inner North quadrant. Development of medium-sized distribution units is anticipated due to the current lack of supply. For example, at Dagenham Dock, Ravensbourne and Standard Life are planning to speculatively develop Phases 3 and 4 at Thames Gateway Park next year, totalling 340,000 sq ft with unit sizes ranging from 20,000 to 70,000 sq ft.

Offices

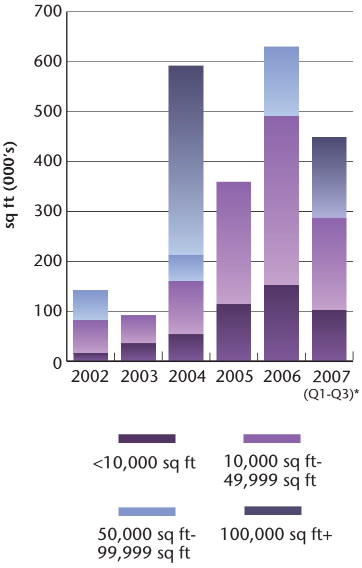
With the emergence of Canary Wharf over the last 20 years, the Inner North quadrant possesses an office market of international importance. Canary Wharf already accounts for a third of total employment in the London part of the Thames Gateway and employment is expected to increase from 82,000 to 120,000 jobs by 2016 (TG Interim Plan, 2006).

The vast majority of office take-up occurs within the Docklands area and has accounted for 85% of all take-up within the Thames Gateway since 2002. This has been focused in the Canary Wharf area although the most significant office deal in 2007 year occurred outside, at The Royals Business Park, where Newham Council took 252,000 sq ft at Building 1000 for an administrative centre.

There is 1.1 million sq ft of office space available across the Inner North quadrant, which accounts for 49% of all available office space within the Thames Gateway. The Docklands market alone accounts for over 39% of the Thames Gateway's available office space.

There is a substantial 17.0 million sq ft of office space in the pipeline in the Inner North quadrant, which underlines the scale of transition that East London is undergoing from a predominantly industrial to a serviced-based employment location. With 1.4 million sq ft under construction, the Docklands market accounts for 87% of all office space underway in the Thames Gateway. Examples include 5, 20 and 25 Churchill Place, developed by the Canary Wharf Group, which collectively total circa 1 million sq ft.

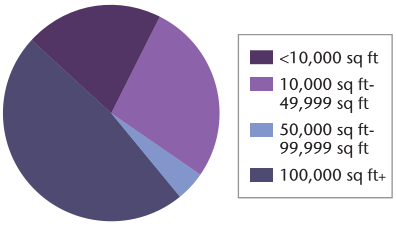
Figure 4
Inner South Industrial Take-up



Source: Knight Frank Research

Horizon Business Centre, Erith

Figure 5
Inner South Industrial Availability
(Q3 2007)



Source: Knight Frank Research

Inner South quadrant

The Inner South quadrant has recently seen a number of key road transport improvements, which has boosted the appeal of the area for occupiers and investors. Improvements to the A206 and the dualling of the entire South Thames Development Route (STDR) have greatly enhanced accessibility, running from the Blackwall Tunnel in the east to Dartford in the west.

Industrial

Take-up in the Inner South quadrant totalled 447,000 sq ft to Q3 2007 and has been more evenly distributed across the sizebands compared with the Inner North. The largest transaction recorded was Moss Electrical's 120,000 sq ft freehold purchase of Dartford Gateway, Sandpit Road, Dartford.

Freehold demand dominates activity on units below 10,000 sq ft. Demand for this type of unit has been strongest closer to central London, such as at Teesland's IO centre in Woolwich, where staff amenity has proved a key selling point. The final phase, offering 6 units of 3,000 to 5,000 sq ft, is currently under construction. The highest industrial prime rents within the quadrant are found closest to London, with rents of £9.00 per sq ft.

The Inner South quadrant has 2.9 million sq ft of available space, or 30% of the Thames Gateway total. Similarly to the Inner North, much of the available space (47%) is accounted for by a handful of units in excess of 100,000 sq ft, such as ProLogis' 672,000 sq ft Bridgeside scheme in Dartford which includes a 570,500 sq ft Regional Distribution Centre (RDC).

However, over three quarters of available units are actually under 10,000 sq ft and several speculatively built schemes of this nature can be found in the stretch from Thamesmead through to Erith on the emerging South Thames Development Route. Examples include Exton Estate's Belvedere Business Park, which completed last year, and GEL's Horizon Business Centre at Veridion Park, Erith, which recently reached practical completion.

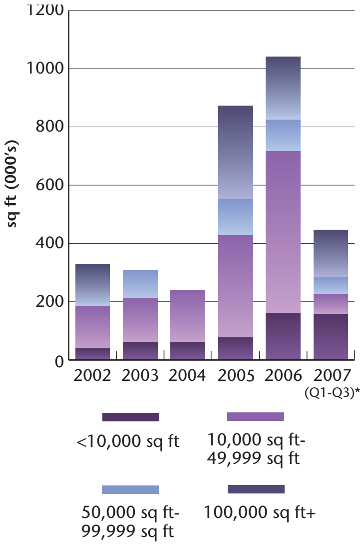
The quadrant has 2.1 million sq ft of industrial space in the pipeline, which is the lowest of the four quadrants, with the focus along the A2016 in close proximity to the proposed Thames Gateway Bridge. Arguably, the supply of smaller units has not been matched by that of medium-sized units of between 15,000 and 80,000 sq ft, despite a growing number of requirements, and it is therefore likely that speculative development of such units will re-occur.

For example, ProLogis will speculatively develop 400,000 sq ft at the former Littlebrook Power Station, Dartford, in summer 2008 which will provide a mix of unit sizes ranging from 11,000 to 256,000 sq ft. Most schemes, however, are available on a design and build basis. Examples include DMI Properties' Alchemy Park in Belvedere which proposes 570,000 sq ft across six units, and Phases 2 & 3 of Tilfen Land's Veridion Park in Erith which will see 67 acres developed into circa 540,000 sq ft of warehouse and industrial space with a mix of unit sizes planned.

Offices

With average annual office take-up of just 26,000 sq ft over recent years, the Inner South quadrant does not possess a significant office market in comparison with the Inner North quadrant. The development of Greenwich Peninsula over the next two decades, however, will see the creation of 3 million sq ft of office space, developed by Meridian Delta and AEG.

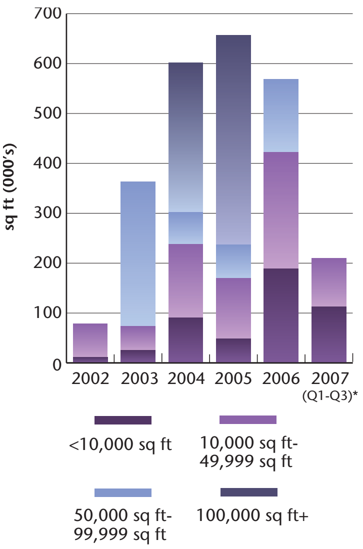
Figure 6
Outer North Industrial Take-up



Source: Knight Frank Research

London Gateway, former Shellhaven site
(computer generated image)

Figure 8
Outer South Industrial Take-up



Source: Knight Frank Research

Outer North quadrant

Accessibility to the Outer North quadrant has been boosted significantly following improvements to the A13, which bodes well for future industrial development eastwards of the M25. The proposed London Gateway scheme at the former Shellhaven site close to Canvey Island has the potential to alter the dynamics of the Thames Gateway industrial market, with the development of 10 million sq ft of new space.

Industrial

With 445,000 sq ft of take-up in the year to Q3 2007, demand for industrial space has been relatively subdued in the Outer North quadrant in comparison with 2006, when an unprecedented 1 million sq ft of transactions occurred. The most significant deal this year, and the only transaction above 100,000 sq ft, has been the 160,000 sq ft short-term let to Ecotherm at 44 Yardly Business Park in Basildon.

Of the 2.4 million sq ft of available space in the Outer North quadrant, much of the modern space is located on its western edge around Thurrock, in close proximity to the M25. Much is focused on small to medium-sized units, with 32% in units of under 10,000 sq ft and 47% comprised within units of 10,000 to 49,999 sq ft.

One scheme which recently completed is West Thurrock Trade Park, developed by Goodman and recently purchased by RREEF. It comprises 22 units, ranging from 2,200 to 21,000 sq ft, nearly all of which are available on a leasehold basis. Elsewhere, Equity Estates' Clipper Park, in Tilbury, completed in September 2007 and comprises 24 small units of up to 2,700 sq ft, six of which have sold.

An estimated 19.5 million sq ft of industrial space is in the pipeline across the Thames Gateway, 10.9 million sq ft of which is within the Outer North quadrant, or 56% of the total. One significant speculative development currently under construction is ProLogis and Standard Life's Imperium 315 in Basildon, which comprises a single 315,000 sq ft distribution unit.

The overwhelming majority of the industrial development proposed within the quadrant is accounted for by the London Gateway project, located on the former Shellhaven site near Canvey Island.
This enormous 10 million sq ft industrial and logistics scheme, proposed by DP World, was granted full planning permission in May 2007 and has the potential to create 16,500 jobs. Construction of the initial phases are expected between 2010 and 2014.

Outer South quadrant

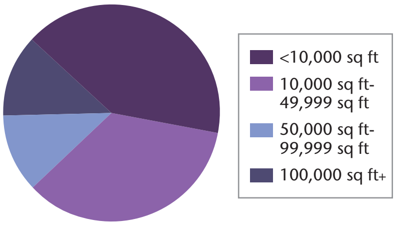
The Outer South quadrant is currently the least accessible of the four quadrants, evidenced by the fact that prime industrial rents are among the lowest in the Thames Gateway. However, recent improvements to the road infrastructure have occurred with several more underway, while the CTRL will significantly boost rail accessibility from North Kent into London when domestic services open in 2009.

Industrial

Take-up of industrial space in 2007 to Q3 in the Outer South quadrant was 210,000 sq ft which is considerably muted compared with the previous three years. There have been no transactions in excess of 50,000 sq ft in the year to date. However, in February, Supermarket chain Aldi exchanged contracts with SEEDA to build a 600,000 sq ft regional office and distribution centre at Queenborough on the Isle of Sheppey, with completion expected in 2009.

The relative strength of demand for smaller unit sizes is evident at Space Group and Legal & General's 178,000 sq ft Charles Park, located at the western-most edge of the quadrant, in Crossways near Dartford. Demand for the scheme is strong with half of the 24 units, which range from 3,000 to 25,000 sq ft, having already let since practical completion in June. Rents of between £7.75 and £10.00 per sq ft have been achieved depending on unit size. However, this is an exception in the quadrant, with prime rents typically much lower, for example just £5.00 per sq ft at the Isle of Grain.

Figure 9
Outer South Industrial Availability
(Q3 2007)



Source: Knight Frank Research

Of the 2.0 million sq ft of available industrial space in the Outer South quadrant, 42% is comprised of units below 10,000 sq ft, while 35% of the available space is between 10,000 sq ft and 49,999 sq ft. Unlike the Inner quadrants, space in excess of 50,000 sq ft accounts for just 23% of total availability.

There is 3.3 million sq ft of industrial space in the pipeline for this quadrant. Two schemes, both located in Sittingbourne, are Cantium Business Park, which is under construction, and Gazeley and Standard Life's G Park, which could potentially provide up to 1.8 million sq ft of distribution space. This development offers design and build opportunities for distribution units of 100,000 sq ft and above.

Offices

Ebbsfleet Valley, the major new community planned within the Outer South quadrant, has planning for circa 4.5 million sq ft of offices. The transformational nature of this scheme is put into context by the fact that annual office take-up since 2002 across the Outer South quadrant has averaged just 95,000 sq ft. Given the proximity to the new Ebbsfleet International rail station, the area has the potential to be a significant back-office location, generating up to 20,000 new jobs. Due to its scale, the scheme has a 20 to 30 year timeline in which to develop fully.

Prime rents in the Outer South quadrant are £22.50 per sq ft based on evidence at Crossways Business Park, near Dartford.

Investment market

"The Thames Gateway will continue to attract investors."

The majority of investment transactions within the Thames Gateway region has historically comprised industrial buildings and development sites, with both property companies and institutional investors active in the area.

Institutional buyers have, until recently, been the most competitive for South East industrial investments. However, currently they are not under pressure to invest in property due to decreasing cash allocations and, in some instances, capital outflows from funds. In addition, the increasing cost of debt and general market uncertainty has resulted in yields for both prime and secondary investments moving out across the UK. The much publicised 'credit crunch' has compounded this effect and reduced market confidence and transactional volume. However, this has led to opportunities for buyers who were previously priced out of the market for investments with immediate asset management angles and/or future development upside.

While no sector or location is immune from market uncertainty, the Thames Gateway region is to some extent insulated and will continue to attract investors due to its long-term strategic importance. New entrants to the market are expected, as pricing becomes more attractive and the area's profile continues to rise. With continuing pressure on land within Greater London as a whole, together with improving communications, rental growth prospects remain strong.

Notable recent transactions in the Thames Gateway region are listed below:

- Binary Park, Dagenham was acquired by AMB Property Corporation in October 2007. The San Francisco based REIT bought the 19.5 acre site, comprising two vacant distribution warehouses totalling 320,000 sq ft, for around £33 million, which reflected a capital value of approximately £103 per sq ft.
- Charlton Gate Business Park, London SE7 was acquired by Hermes in June 2007 from British Land. The property comprised 147,500 sq ft of modern industrial accommodation arranged in six units. The estate sold for £24.556 million which reflected a net initial yield of 4.59%.
- Thomas Road Industrial Estate, London E14 was acquired by Galliard Homes in May 2007 from British Land. The property comprised a 1980s multi-let estate situated on a 3.1 acre site. The estate sold for £13.1 million which reflected a net initial yield of 3.35%.

Charles Park, Crossways

Research

Research
Oliver du Sautoy
Senior Analyst
+44 (0) 20 7861 1592
oliver.dusautoy@knightfrank.com

Development and Funding
Bruce Hickman
Partner
+44 (0) 20 7861 1651
bruce.hickman@knightfrank.com

Logistics and Industrial
Paul Mussi
Associate
+44 (0) 20 7861 1550
paul.mussi@knightfrank.com

Offices
Emma Goodford
Partner, National Offices
+44 (0) 20 7861 1144
emma.goodford@knightfrank.com

Jonathan Saxon
Partner, Docklands Commercial
+44 (0) 20 7718 5202
jonathan.saxon@knightfrank.com

Investments
Richard Claxton
Partner
+44 (0) 20 7861 1221
richard.claxton@knightfrank.com

Planning
Jeremy Edge
Partner
+44 (0) 20 7861 1535
jeremy.edge@knightfrank.com

Public Sector and Strategic Consultancy
James Leaver
Partner
+44 (0) 20 7861 1133
james.leaver@knightfrank.com

Thames Gateway Residential Development
Charlie Hart
Partner
+44 (0) 20 7473 6820
charlie.hart@knightfrank.com

Knight Frank has three dedicated offices within the Thames Gateway market:

Docklands Commercial
One Canada Square
Canary Wharf
London
E14 5AA
+44 (0) 20 7718 5200

Thames Gateway
(Residential Development, Sales & Lettings)
Warehouse W
Royal Victoria Dock
London E16 1BD
+44 (0) 20 7473 6820

Canary Wharf
(Residential Sales & Lettings)
18-19 Cabot Square
Canary Wharf
London
E14 4QW
+44 (0) 20 7512 9955

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, financial and corporate institutions. All recognise the need for the provision of expert independent advice customised to their specific needs.

Knight Frank Research Reports are also available at **www.knightfrank.com**

Americas
USA
Bermuda
Brazil
Caribbean

Australasia
Australia
New Zealand

Europe
UK
Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
Poland
Portugal
Russia
Spain
The Netherlands
Ukraine

Africa
Botswana
Kenya
Malawi
Nigeria
South Africa
Tanzania
Uganda
Zambia
Zimbabwe

Asia
China
Hong Kong
India
Indonesia
Macau
Malaysia
Singapore
Thailand

Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Registered office: 20 Hanover Square, London W1S 1HZ

Knight Frank