

Occupier and investment market trends in the London & South East logistics and industrial sector.



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LOGIC: London & South East Q2 2022

Research, July 2022



CGI Image: Firestone LDN, Brentford
By courtesy of LGIM

MARKET OVERVIEW

The London and South East industrial market continues to see high volumes of occupier activity, with 7.1 million sq ft of space taken up in the first six months of the year.

7.1 million sq ft
Occupier take up
H1 2022

£3.1 billion
Investment total
H1 2022

14%
Prime annual rental
growth

Record half-yearly take up volumes

A strong second quarter was recorded in the London & South East industrial occupier market, with 4.2 million sq ft of space taken up (units over 50,000 sq ft). This brings the half year total to 7.1 million sq ft, 67% higher than the same period last year and 43% ahead of the five-year H1 average. Quarter two's take up was boosted by one significant deal; garden and leisure products retailer, The Range, committed to a 1.2 million sq ft unit at Gateway 14 at Stowmarket, to be constructed on a built-to-suit basis.

Warehouse space increasingly sought by a diverse mix of tenants

While e-commerce, retail and distribution operators made up a combined 67% of H1 2022 take up, other occupiers including film studio operators, data centre operators and advanced manufacturing firms have signed lease agreements. Sky, Netflix and Apple TV have all signed leases for units currently under construction, ranging between 80,000-200,000 sq ft.



GUS HASLAM, PARTNER
LONDON & SOUTH EAST
LOGISTICS & INDUSTRIAL AGENCY

"H1 2022 has resulted in another impressive period of take up, underpinning developers' continued commitment to deliver high quality speculative industrial development within the London & South East region."

Supply shortage of large-scale product

Owing to a number of development completions in the market, the volume of immediately available space in London & the South East (units over 50,000 sq ft) has remained broadly stable over the past year. As a result, the vacancy rate is similar to levels seen this time last year, at 3.5%. Approx. 45% of immediately available space consists of new, speculative units.

There remains a shortage of larger scale warehouses (250,000 sq ft+). Approximately 6.7 million sq ft of space was under construction speculatively at the end of Q2, across 32 developments. However, 84% of these are under 250,000 sq ft in size.

Continued compression in average yields

The first half of 2022 has seen a total of £3.1 billion invested in London & South East industrial property, 16% higher compared with the same period last year. However, this was mainly driven by transactions taking place in the earlier months of the year. That said, the total for the 12 months to end-June was £7.1 billion, 62% higher YOY.

While the origin of capital remains largely overseas, quite a significant pool of UK property investors also remain active.

The average weighted yield for assets transacted across the region has continued to decline and stood at 3.1% in the 12 months to June 2022. This compares to an average of 4.2% over the same period last year.

Rental growth & Outlook

Prime industrial rents in London & the South East remained mostly stable in quarter two. In West London, prime rents for units over 50,000 sq ft stand at approx. £25 psf, though 14% higher on an annual basis, while East London saw 29% annual growth, to £18 psf. Looking ahead, London and the South East regions are forecast to see average rental growth of 12.7% and 7.8%, respectively for 2022, with the highest expectations for Enfield, at 17.9% (RealFor).

OCCUPIER MARKET

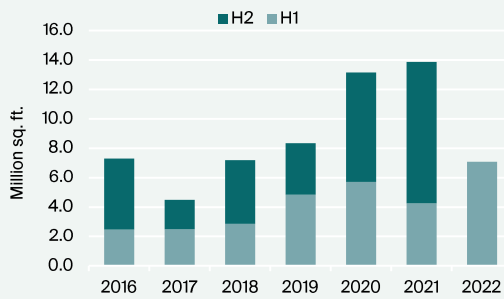
4.2 million sq ft
Occupier take up
Q2 2022

37%
Retail take up
H1 2022

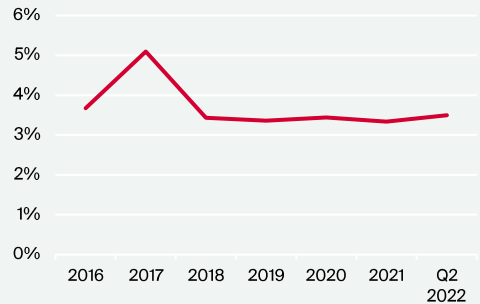
£25.00 psf
Prime rents

3.5%
Vacancy rate

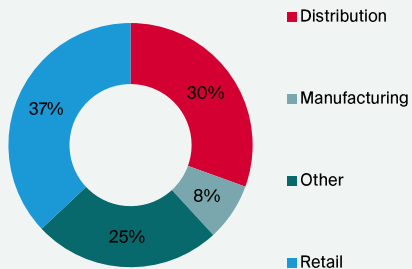
Take up (sq ft)



Vacancy rate (%)



Take up by sector (sq ft), H1 2022



West London - Prime rents (£psf)



KEY OCCUPIER DEALS H1 2022

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Gateway 14, Stowmarket	1,200,000	The Range	-	Freehold purchase / Build-to-Suit
Unit 1, Basingstoke Gateway	630,000	Lidl	£81m	Freehold purchase / Speculative build
Phase 1, Panattoni Park & Phase 2, Panattoni Park, Borehamwood	300,532 (combined)	Sky	£24.50 psf / £23.50 psf	Speculative builds - for Film Studio use
DC234, Prologis Park, Hemel Hempstead	233,860	Amazon Web Services	£17.00 psf	Speculative build
Ascent 126, Ascent Logistics Park, Leighton Buzzard	125,510	Spreetail UK Ltd.	£8.75 psf	Speculative build

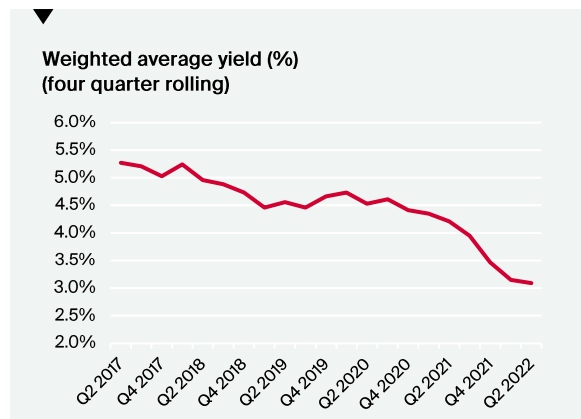
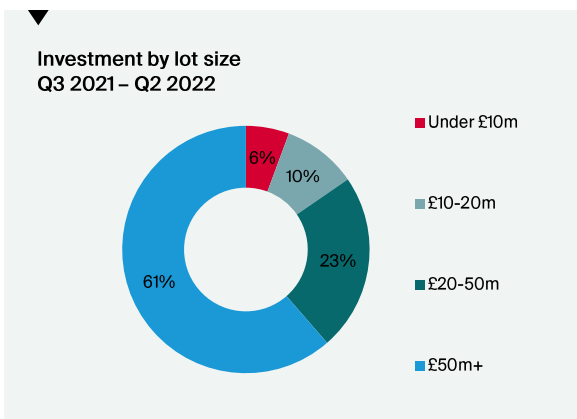
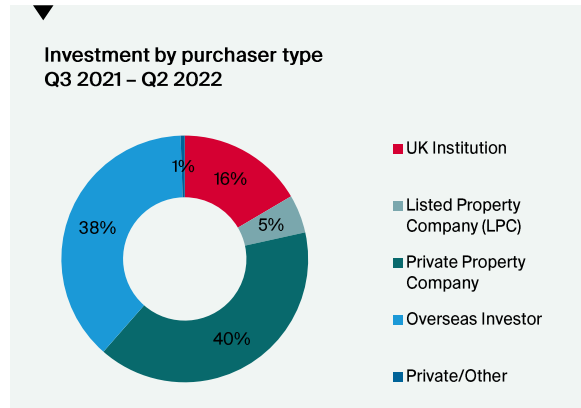
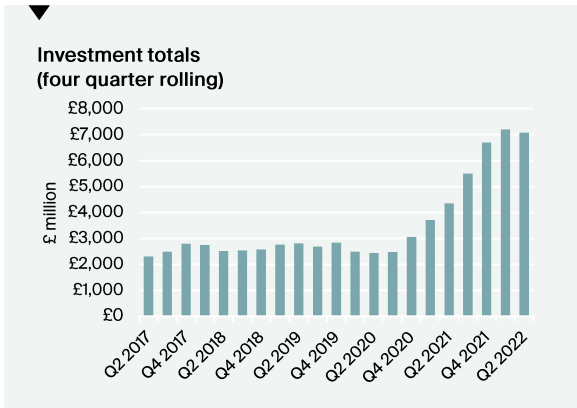
INVESTMENT MARKET

£7.1 billion
Investment total
(last four quarters)

£32 million
Average lot size
(last four quarters)

38%
Overseas capital
(last four quarters)

3.1%
Average yield
(last four quarters)



KEY INVESTMENT DEALS H1 2022

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
International Business Park	Stratford	£185.5m	1.32%	GLP Properties	Kessler Group
ICON Harlow	Harlow	4 units £160m	3.05%	Mirastar	TPG Real Estate / Stoford
Hannah Close Wembley	Wembley	£157m	2.01%	British Land Plc	Carey Group
Ridgeway Trading Estate	Iver	£132.5m	-	Amazon Data Services	abrtn

Source: Knight Frank, Property Data

CONTACTS

LOGISTICS & INDUSTRIAL RESEARCH

Claire Williams

claire.williams@knightfrank.com
+44 20 3897 0036

Deirdre O'Reilly

deirdre.oreilly@knightfrank.com
+44 20 3995 0785

LONDON & SOUTH EAST LOGISTICS & INDUSTRIAL AGENCY

Gus Haslam

gus.haslam@knightfrank.com
+44 20 7861 5299

Tom Kennedy

tom.kennedy@knightfrank.com
+44 20 3640 7029

Paul Mussi

paul.mussi@knightfrank.com
+44 20 7861 1550

Elliot Evans

elliott.evans@knightfrank.com
+44 20 3995 0760

James Maskey

james.maskey@knightfrank.com
+44 20 7861 5257

LOGISTICS & INDUSTRIAL CAPITAL MARKETS

Charles Divall

charles.divall@knightfrank.com
+44 20 7861 1683

Joe Kane

joe.kane@knightfrank.com
+44 20 7861 5447

Johnny Hawkins

johnny.hawkins@knightfrank.com
+44 20 7861 1519

James Clark

james.clark@knightfrank.com
+44 20 3869 4715

Will Gubb

will.gubb@knightfrank.com
+44 20 7861 1595

Hugo Bland

hugo.bland@knightfrank.com
+44 20 7861 1252

Methodology

This report has been prepared by Knight Frank Research.

Data and information within this report have been provided by Knight Frank occupier and investment teams across the Knight Frank UK network. Third party data sources are also utilised.

For the purposes of this report, take-up figures refer to spaces of 50,000 sq ft or more, that are let, pre-let or acquired for occupation.

Availability refers to all space available for immediate occupation as well as space under construction (built speculatively) that will be available for occupation within the next 12 months.

Investment figures refer to industrial property purchases where the primary motivation is the generation of income. Acquisitions for occupation are excluded. Land sales are included, where the end use of the land is known.

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