

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



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LOGIC: London & South East Q3 2022

Research, October 2022



CGI image: Firestone LDN, Brentford
By courtesy of LGIM

MARKET OVERVIEW

New, speculative units dominate the London & South East industrial occupier market, with 8.6 million sq ft of space taken up in the year to date.

8.6 million sq ft
Occupier take up
YTD 2022

£5 billion
Investment total
YTD 2022

10%
Prime annual rental
growth

New, high quality units most in demand

Following a strong first half to 2022 during which over 7 million sq ft of industrial and logistics space was taken up in London & the South East, a further 1.6 million sq ft of take up was recorded in the third quarter (units over 50,000 sq ft). This brings the year to date (YTD) total to over 8.6 million sq ft, 12% below the level recorded in the same period last year.

Smaller lot sizes (units under 250,000 sq ft) and new, speculatively built units were the main features of the occupier market in Q3. The majority of take up in the quarter comprised a combination of newly developed space, pre-let and build-to-suit units (75%).

Retail and distribution operators remain active

Amazon signed a 15-year lease on 164,162 sq ft at 32 New Lane, Havant, at £23.24 psf, with the building being redeveloped on a build-to-suit basis. The London & South East market is a consumer-orientated logistics market, and retailers and distribution firms continue



TOM KENNEDY, ASSOCIATE
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“Although the investment market is currently undergoing a period of turbulence, the occupational market remains resilient. There are soft signs of change, though this is insufficient to dampen continued rental growth due to the shortage of large, newly-built stock available.”

to dominate, accounting for 70% of YTD take up.

Low levels of new, large product available

The volume of immediately available space in London & the South East increased by 6.3% in Q3, to 8.4 million sq ft. This brings the vacancy rate back to levels seen in mid-2021, at 3.7%. This increase is mainly driven by the release of second-hand space back to the market, while the availability of new, high quality units has declined by 14%. In addition, 88% of total available comprises units under 250,000 sq ft. With only two new, speculative units over 250,000 sq ft available, supply levels at the very large end of the market remain tight.

Approximately 4.5 million sq ft of space was under construction speculatively at the end of September, 5% higher than the previous quarter (units over 50,000 sq ft). Of the 40 developments under way, there are also only two over 250,000 sq ft available.

Both overseas and domestic investors active

Investor activity in the London & South East industrial market remained robust in Q3 2022 with £1.3 billion transacting. This brings the YTD total to £5 billion, 19% ahead of levels recorded in the same period last year. Quarter three saw Prologis UK acquire two prime estates in Park Royal and Watford, from Schroders Capital for approximately £200 million. Both estates are occupied by a diverse mix of tenants.

Quite a significant pool of UK property investors have been active so far this year, comprising 44% of investment. Institutional investors were less active, accounting for 11%, compared to 19% YTD Q3 2021.

Outlook

While the weighted average yield for assets transacted across London & the South East region in the YTD has fallen to 3.10%, a softening in yields was evident towards the end of September and this continues as we enter the final quarter of 2022.

Prime rents for units over 50,000 sq ft in West London increased by 10% in Q3 to £27.50 psf, while East London recorded 11% prime rental growth, to £20 psf. While the rental story remains positive, 2023 is expected to see a slower rate of growth, with 5.8% and 3.5% average growth forecast for London and the South East, respectively (RealFor).

OCCUPIER MARKET

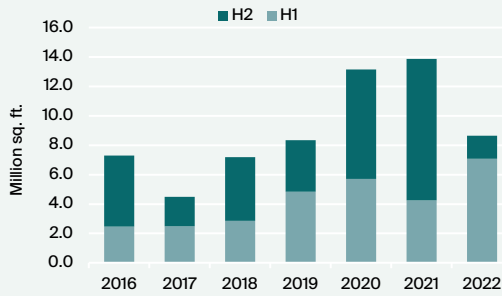
1.6 million sq ft
Occupier take up
Q3 2022

36%
Retail take up
YTD 2022

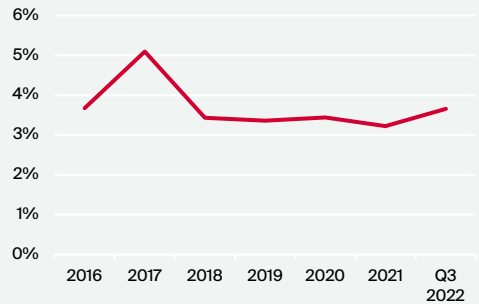
£27.50 psf
Prime rents

3.7%
Vacancy rate

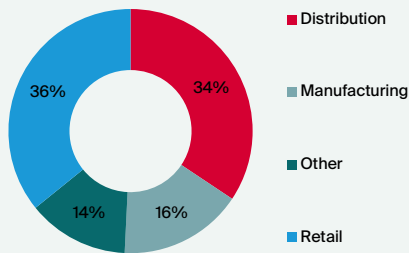
Take up (sq ft)



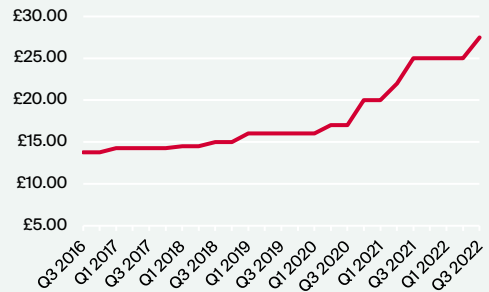
Vacancy rate (%)



Take up by sector (sq ft), YTD 2022



West London - Prime rents (£psf)



KEY OCCUPIER DEALS Q3 2022

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Phase II Unit 4, Symmetry Park, Biggleswade	230,000	Noatum Logistics	£8.50 psf	Speculative build
32 New Lane, Havant	164,162	Amazon UK Services Ltd.	£23.24 psf	Redevelopment into bespoke build-to-suit storage and distribution facility
Unit 2, G Park, Milton Keynes	139,814	XPO Logistics	£9.75 psf	Speculative build
Crossways 138, Dartford	138,062	Albion Fine Foods	£12.25 psf	Speculative build
Unit 8, Segro Park, Tottenham	50,050	StockX	£25.50 psf	Speculative build

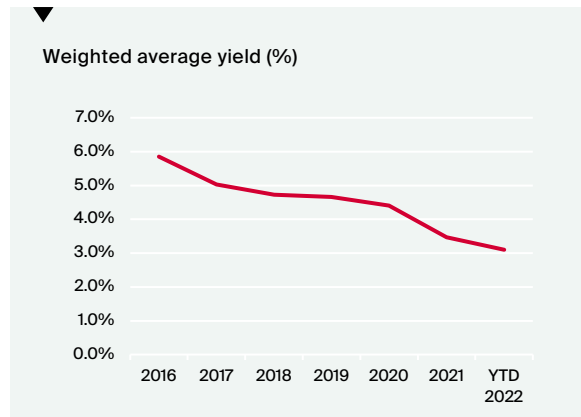
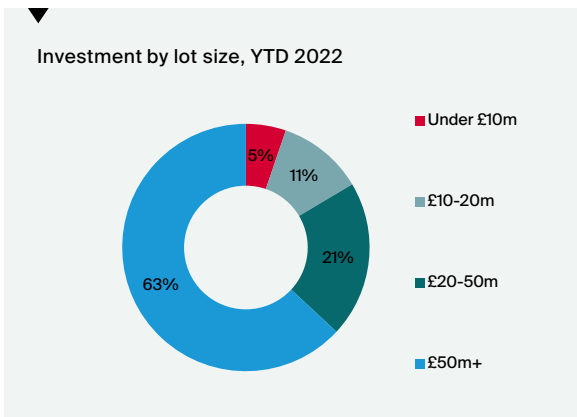
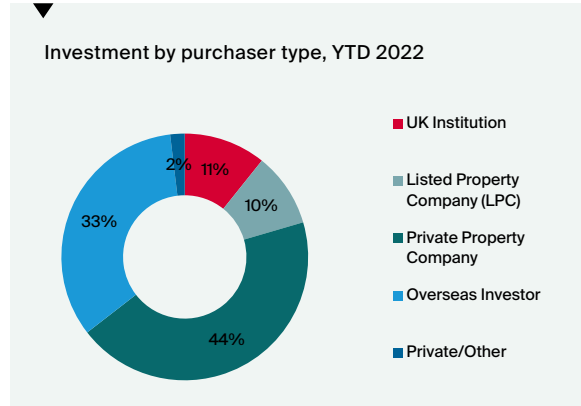
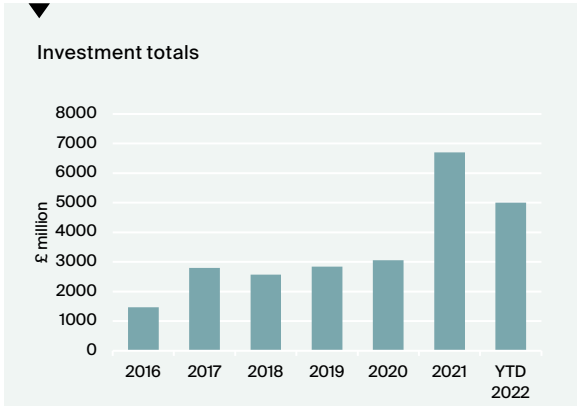
INVESTMENT MARKET

£1.3 billion
Investment total
Q3 2022

£33.6 million
Average lot size
YTD 2022

44%
Domestic investment
YTD 2022

3.1%
Average yield
YTD 2022



KEY INVESTMENT DEALS Q3 2022

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Prologis Imperial & Prologis Central Park	Watford / Park Royal	(2 estates) £200m	-	Prologis UK Ltd.	Schroders Capital
Horndon Industrial & Logistics Park, West Horndon	Brentwood	£93m	3.69%	Kennedy Wilson Europe	Federated Hermes
Amazon, New Lane	Havant	£90.9m	3.93%	LCN Capital Partners	Bridges Fund Management Ltd.
Westlands Industrial Estate	Hillingdon	£83m	2.24%	St. Modwen Properties	M&G Real Estate

Source: Knight Frank, Property Data

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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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