LOGIC: London & South East

Q3 2023

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

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Image: EOS, Horizon 120 Business & Logistics Park, Braintree (Marshgate Group)

Occupier Market

New, high-quality units continue to dominate take up across London and the South East

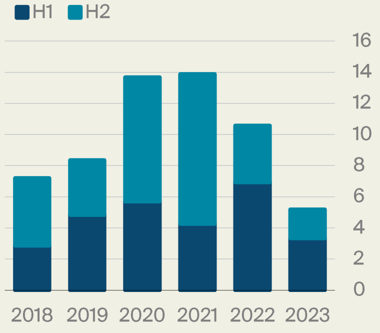
STEADY DEMAND DESPITE ECONOMIC CHALLENGES

The third quarter of 2023 recorded a robust 1.9 million sq ft of industrial and logistics take up across the London & South East region, 25% higher than Q3 2022 levels (units 50,000 sq ft+). This brings the volume of space taken up in the year-to-date (YTD) to 5.2 million sq ft.

The YTD total represents a 38% decline on an annual basis, as occupier decision-making this year has slowed. However, there is a steady stream of ongoing active requirements, and with a further 12% of all available space (existing and under construction) under offer at end September, the 2023 take up total is expected to revert back to the region's five-year pre-pandemic average take up level (2015-2019).

The largest deal in quarter three and indeed in the year-to-date was Panattoni's 752,823 sq ft speculative unit in Aylesford. The building has been pre-let to Tesco on a 20-year lease, at £12.51 psf, and is being built to a minimum BREEAM rating of 'Excellent' and EPC 'A'. The remainder of deals during the quarter consisted of smaller lot sizes (units under 250,000 sq ft).

Take up (sq ft)
million square feet



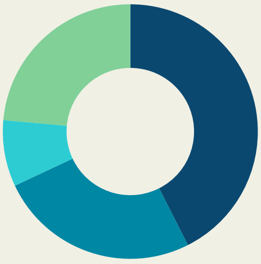
Source: Knight Frank Research

INCREASE IN IMPORTANCE OF ESG CREDENTIALS

A combination of pre-let or pre-sold units, speculatively completed space, and build-to-suit units accounts for three-quarters of the space taken up in the year-to-date, as occupiers continue to choose high-quality units with strong ESG credentials. This has led to landlords remaining firm on prime rents. However, we have started to see incentives rising as landlords look to secure lettings amidst a challenging economic environment.

Looking at the past four quarters, take up totalled 7.3 million sq ft. Distribution firms comprise 43% of the annual total, and 88% of which is new and modern logistics space. Manufactures account for a further 25% of the total, up from 16% over the comparable period last year. Despite Tesco's substantial letting this quarter, retailers' share of take up has fallen to 24%, from 41% last year.

Take up by sector
Q4 2022 – Q3 2023



Distribution:
43% of take up

Manufacturing:
25% of take up

Other:
8% of take up

Retail:
24% of take up

Source: Knight Frank Research

MARKET VIEW

Pandemic 'race for space' has slowed

BY TOM KENNEDY, ASSOCIATE,
LONDON & SOUTH EAST
LOGISTICS & INDUSTRIAL AGENCY

"As can be seen from the Q3 statistics, take up is approaching pre-pandemic levels. The pandemic 'race for space' has slowed and occupiers have been hit by increased operational costs and the cost-of-living pinch.

We are seeing a trend of deals from tenants who are either consolidating their operations, satisfying a new contract or moving to a new Grade A, sustainable premises. This has maintained growth in average rents, and with a lack of speculative development being brought forward, should continue to do so."

Occupier Market

5.2 million sq ft

Occupier take up
YTD 2023

5.4%

Vacancy rate
Q3 2023

£27.50 psf

Prime rents
Q3 2023

Stable YOY

Prime annual rental growth

"2.7 million sq ft of space was under construction speculatively at end-September, 41% lower on year-on-year"

SPECULATIVE DEVELOPMENT SLOWS

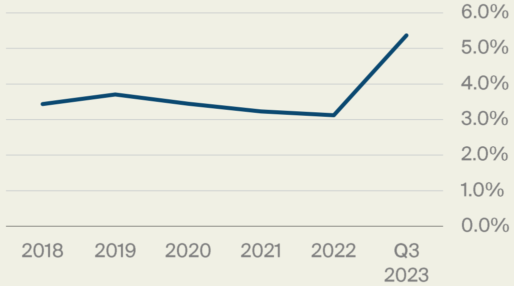
Since the beginning of the year, the volume of immediately available space (units over 50,000 sq ft) has increased by 77%, reaching 12.9 million sq ft at end-September. Supply levels in quarter three rose by 9%, though this can be mostly attributed to a number of development completions while the uptick in the supply of second-hand space was marginal, at +0.8%. The vacancy rate now stands at 5.4%, up from 5.0% in quarter two and 3.1% recorded at the beginning of the year.

Development activity has been steadily falling over the past 12 months due to increased build and financing costs. Approx. 2.7 million sq ft of speculative space was under construction at end-September, 41% lower year on year (units 50,000 sq ft+). We therefore expect a slowdown in the delivery of new space to the market next year.

RENTAL LEVELS & OUTLOOK

Prime industrial rents in both West and East London for units over 50,000 sq ft+ have remained stable over the past year, at £27.50 psf and £20 psf, respectively. While the rental story remains positive, 2024 is expected to see a more moderate rate of rental growth, with 3.3% and 3.0% average growth forecast for London and the South East, respectively, according to RealFor.

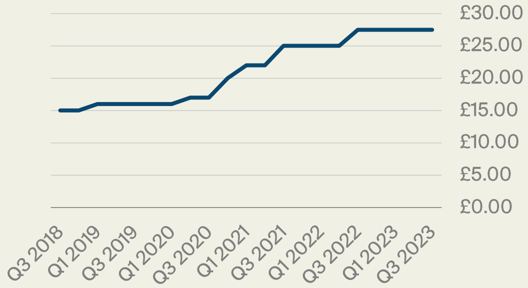
Vacancy Rate
% of stock



Source: Knight Frank Research

"While the rental story remains positive, 2024 is expected to see a slower rate of rental growth"

West London - Prime Rents
£ per sq ft (units >50,000 sq ft)



Source: Knight Frank Research

Key Occupier Deals
Q3 2023

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Panattoni Aylesford	752,823	Tesco	£12.51 psf	Pre-let
Unit 1, London Brentwood, Tilbury Road	126,307	Omlog	£12.50 psf	Speculative build
LG119 London Gateway, Stanford Le Hope	119,050	Costco	£12.50 psf	Speculative build
Unit 6, Symmetry Park, Aston Clinton	116,487	LWC Drinks	£10.75 psf	Speculative build
Unit 5, PLP Milton Keynes	70,866	Huel Ltd.	£12.50 psf	Speculative build

Source: Knight Frank Research

Investment Market

£1.7 billion

Investment total
YTD 2023

£18.6 million

Average lot size
(last four quarters)

49%

UK Private Property Companies
(last four quarters)

5.25%

Prime yield
Q3 2023

PRIME INDUSTRIAL YIELDS STABILISE

Similar to levels seen in Q1 and Q2, a total of £590 million was invested into industrial property in London & the South East in Q3 2023. This brings the volume of capital invested YTD to £1.7 billion and is 69% lower annually as high inflation and increased borrowing costs continue to weigh on property markets. Prime industrial yields in the region appear to have stabilised, at 5.25%, though they remain under pressure given elevated government bond yields.

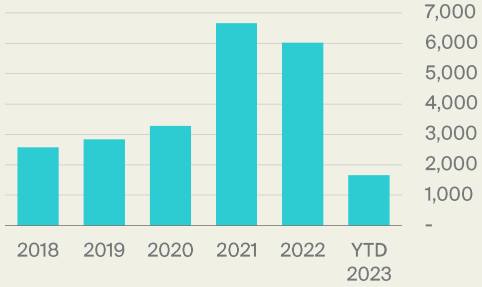
The largest deal in the region in Q3 was Valor Real Estate Partners' acquisition of Tera 40 industrial estate in Greenford from Lothbury IM for £146 million (NIY 2.88%). The estate comprises four modern distribution assets totalling 340,650 sq ft which are fully let to Tesco, Palletways, Royal Mail and Micheldever.

"The volume of capital invested for the year-to-date is 69% lower annually"

"Prime industrial yields in the London & South East region have stabilised but remain under pressure"

Investment totals

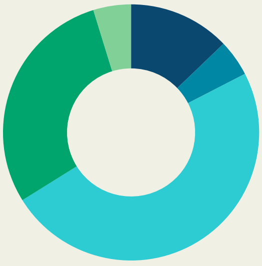
£m



Source: Knight Frank Research

Investment by purchaser type

Q4 2022 – Q3 2023



UK institution: 13% of investment

Listed Property Company: 4% of investment

Private Property Company: 49% of investment

Overseas Investor: 29% of investment

Private/Other: 5% of investment

Source: Knight Frank Research

Key Investment Deals

Q3 2023

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Tera 40, Auriol Drive	Greenford	£146m	2.88%	Valor Real Estate Partners	Lothbury IM
75 Bilton Way	Enfield	£50.5m	3.86%	Tritax	IM Properties plc
The Triple Two Centre	Beckenham	£33.1m	4.20%	Aviva Investors	abrdn
Flex Meadow	Harlow	£15.6m	5.72%	Kennedy Wilson	Columbia Threadneedle
Euroway Industrial Estate	Aylesford	£14.5m	4.96%	Orchard Street IM	CBRE IM

Source: Knight Frank Research

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you

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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.

Knight Frank