

LOGIC: South West



2023 Review

Occupier and investment market trends in the South West logistics and industrial sector.

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Occupier Market

Continued rental growth for prime, best-in-class buildings, despite take up moderating

TAKE UP LEVELS MODERATE

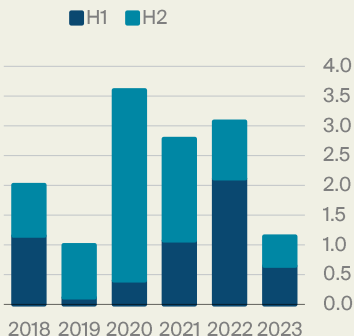
Occupier take up of industrial units over 50,000 sq ft in the South West totalled over 1.1 million sq ft in 2023, 63% below 2022 volumes, though a relatively robust final quarter saw five deals totalling 438,200 sq ft transact.

Following three record-breaking years, occupiers remained cautious amidst a challenging economic environment last year, resulting in a slowdown in the pace of deals completing. The South West market in 2023 was closer to pre-Covid levels, with take up in line with 2019 volumes.

BUT SUSTAINED PRIME HEADLINE RENTAL LEVELS

Despite a moderation in take up, headline rents continue to grow for prime, best-in-class buildings. The letting of Unit 24, St Modwen Park in Avonmouth was the stand-out deal of Q4 that set a new headline rent in Bristol, at £10.00 psf. The 50,472 sq ft new-build was let to beauty and skincare company, L'Occitane, on a 10-year lease. Prime rents in Bristol for units over 50,000 sq ft increased by 12% year-on-year, while in Swindon, prime rents were 30% higher annually, standing at £9.75 psf at year-end.

Take Up
million square feet



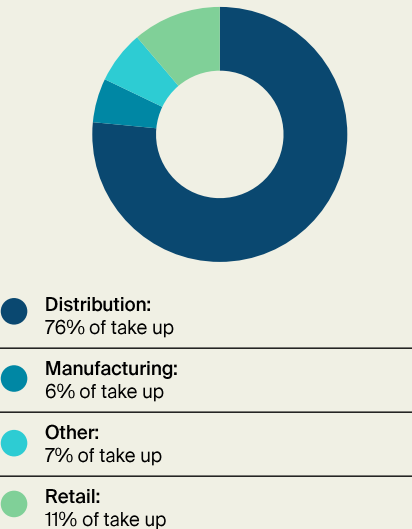
Source: Knight Frank Research

LIMITED PRE-LET AND BUILD-TO-SUIT ACTIVITY

Owing to construction and financing cost pressures and a slowdown in new development commencements, 2023 recorded limited pre-let and build-to-suit activity, with 85% of take up comprising existing units (both speculative and second-hand buildings). Furthermore, all units leased in 2023 were under 250,000 sq ft in size.

Distribution firms dominated the South West market and accounted for 76% of 2023 take up. This was boosted by lettings completed in Swindon earlier in the year including the 224,465 sq ft Keypoint 224 to Panther Logistics and GS Yuasa's expansion into a 175,000 sq ft distribution centre at Unit 8 Ignition Park. Retailers accounted for a further 11% of take up, while the remaining 12% was evenly distributed amongst manufacturers and other, less traditional occupiers.

Take up by sector
2023



Source: Knight Frank Research

MARKET VIEW

Indigenous demand and consolidation by existing occupiers



BY RUSSELL CROFTS, PARTNER,
BRISTOL LOGISTICS & INDUSTRIAL
AGENCY

“Q4 2023 reflected the trends shown throughout the whole year. General activity levels were down throughout the region, with the main activities the product of indigenous demand, or consolidation by existing occupiers. New inward investment deals have been limited, particularly in Q3 and Q4. Both quarters recorded no deals over 100,000 sq ft in a number of regional centres. The lack of data points does not entirely reflect the activity throughout the region, with a number of deals expected in Q1/Q2 2024. Quoting rents have continued to increase at the smaller end of the Knight Frank sample (50,000 – 75,000 sq ft), but remain more challenging for units 100,000 sq ft+. There were no speculative schemes started in Q4 2023, but at least two are expected in Q1 2024, totalling 490,000 sq ft.

Land values remain at a post mini-budget level, but the increase in activity signalled by a number of buildings going under offer is starting to generate increased values.”

Occupier Market

1.1 million sq ft

Occupier take up
2023

5.4%

Vacancy rate
Q4 2023

£10.00 psf

Prime rents
Q4 2023

12%

Prime annual rental growth

“Despite a moderation in take up, headline rents continue to grow for prime buildings”

VACANCY RATE RECOVERS FROM RECORD-LOW

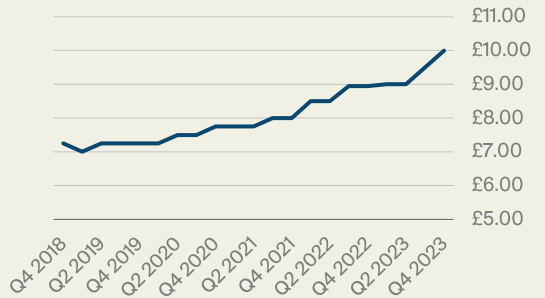
The volume of immediately available units over 50,000 sq ft trended upwards during 2023 and stood at 3.8 million sq ft at year end. This brought the vacancy rate to 5.4% by year-end, up from the record-low of 2.3% recorded one year ago. The uplift was driven by c. 930,000 sq ft of new development completions, providing much-needed new space to the market, as well as the return of second-hand stock. Nevertheless, there remains a shortage of larger, prime units in some locations, with only two, newly developed units over 250,000 sq ft immediately available across the region. Two units remained under construction at year end, totalling 1.3 million sq ft, compared with ten units under way at the same point last year.

2024 OUTLOOK

Looking ahead, a healthier level of new supply combined with a continued preference for high-quality facilities that boast strong ESG credentials are likely to boost the occupational market in 2024. Rental growth is expected to remain positive, with average rental growth of 3.0% forecast for the South West region for 2024, and 3.5% predicted for Bristol (RealFor).

Bristol - Prime Rents

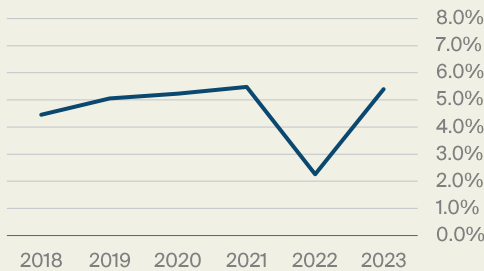
£ per sq ft (units >50,000 sq ft)



Source: Knight Frank Research

Vacancy rate

% of stock



Source: Knight Frank Research

“Two units remained under construction at year end, compared with ten units at the same point last year”

Key Occupier Deals 2023

| PROPERTY | SIZE (SQ FT) | OCCUPIER | RENT (OR PURCHASE PRICE) | COMMENTS |
|--|--------------|----------------------|--------------------------|-------------------|
| Keypoint 224, Swindon | 224,465 | Panther Logistics | £8.15 psf | Second-hand |
| Unit 8 Ignition, Swindon | 175,000 | GS Yuasa | £7.75 psf | Build-to-Suit |
| DC115, Avonmouth | 116,055 | Gregory Distribution | £6.75 psf | Second-hand |
| 1500 Western Approach, Severnside, Bristol | 66,091 | PICS Telecom | £7.75 psf | Second-hand |
| Unit 24, St Modwen Park Avonmouth | 50,472 | L'Occitane | £10.00 psf | Speculative Build |

Source: Knight Frank Research

Investment Market

£241 million

Investment total
2023

£9.3 million

Average lot size
2023

49%

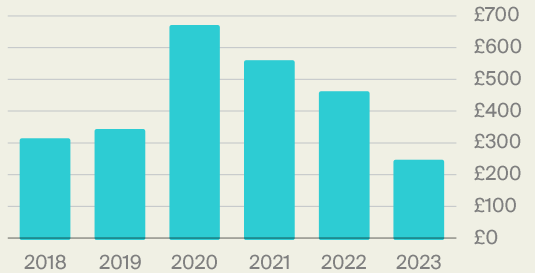
Investment by UK institutions
2023

5.50%

Prime yield
Q4 2023

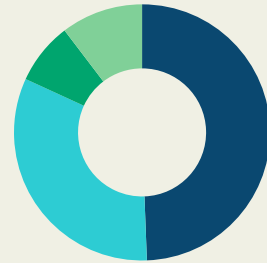
“UK institutions comprised almost half of the capital invested”

Investment totals
£m



Source: Knight Frank Research

Investment by purchaser type
2023



- **UK institution:**
49% of investment

- **Listed Property Company:**
0% of investment

- **Private Property Company:**
32% of investment

- **Overseas Investor:**
8% of investment

- **Private/Other:**
11% of investment

Source: Knight Frank Research

UK INSTITUTIONS MOST ACTIVE IN 2023

Investment in the region in Q4 2023 was robust, with £86 million transacting. However, the challenging investor market throughout the year led to a 47% annual decrease in investment volumes compared to 2022, with the total for the year reaching £241 million. The largest deal in the final quarter and in the year was ICG Longbow’s purchase of The Co-Operative, Cabot Park in Avonmouth, from AXA for £43.1 million (NIY 6.00%). UK institutions were most active in the region in 2023 and comprised almost half of the capital invested, with UK private property companies accounting for a further 32%.

Prime industrial yields in Bristol remained stable in Q4, at 5.50%. Expectations around when base rates begin to fall this year will impact both investor sentiment and the outlook for yield compression.

“Investment during the final quarter of 2023 was robust, with £86 million transacting”

Key Investment Deals 2023

| PROPERTY | TOWN | PRICE | YIELD | PURCHASER | VENDOR |
|--|------------|--------|-------|---------------------------------------|-----------------------------|
| The Co-Operative, Cabot Park | Avonmouth | £43.1m | 6.00% | ICG Longbow | AXA |
| Portside Park | Avonmouth | £25.1m | 4.86% | Colliers Capital | NFU Mutual |
| Wessex Trade Centre | Poole | £12.6m | 6.11% | Telereal Trillium | Bournemouth Borough Council |
| The Maltings Industrial Estate, Brassmill Lane | Bath | £10.7m | 4.89% | Cew Capital | abrdn |
| 1-4, Bamfurlong Industrial Park | Cheltenham | £5.2m | 7.40% | Urban Industrial Income (Scotland) LP | Dunmoore Properties |

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.



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