

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



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LOGIC: South West Q1 2022

Research, May 2022



MARKET OVERVIEW

Strong start to the year for industrial take up in the South West region, with over 1.1 million sq ft of space occupied in the first quarter, a four-fold increase year on year.

3.6 million sq ft

*Occupier take up
(last four quarters)*

£534 million

*Investment total
(last four quarters)*

9.7%

*Prime annual rental
growth*

Strong opening quarter for occupier take up

The South West region recorded a very robust opening quarter of 2022 for industrial take up, with over 1.1 million sq ft occupied across eight deals (units over 50,000 sq ft). This compares to just 278,600 sq ft recorded in Q1 2021. The total for the twelve months to end-March 2022 stood at 3.6 million sq ft and is 6% higher annually. Both distribution and manufacturing occupiers remain active, respectively accounting for 36% and 33% of activity over the past year.

Availability and new supply remain constrained

As strong occupier demand continues apace, supply levels saw quite a sharp decline in the first three months, by 22%, to stand at 2.9 million sq ft (units over 50,000 sq ft). This brought the corresponding vacancy rate down to 4.5%, compared to 5.7% at year end 2021. In addition to this tightening market, the vast majority of available space is second hand stock, while a quarter of the space was under offer at the end of March.



RUSSELL CROFTS, PARTNER,
BRISTOL COMMERCIAL

“Market performance remains at elevated levels, with a lack of stock in all sizes ranges and ages driving rental growth. Enquiry levels peaked at an all time in January and February, before dropping back slightly in March. The short term outlook is focussed on delivery of speculative developments to meet occupier demand, with rents rising throughout the build period.”

Persisting shortage of larger sized units

Development activity in which to provide new opportunities for occupiers remains constrained in the South West region, particularly for the larger end of the market. Two speculative units remained under construction in the region at the end of quarter one, totalling 186,000 sq ft, at More+, Avonmouth.

A shortage of high quality, larger units persists; there were only two units in the 250-400,000 sq ft size bracket immediately available for letting at the end of March 2022, only one of which is newer stock.

Investors remain active, though growth has slowed

Investment into the industrial sector in the South West totalled £179 million in Q1 2022, 10% lower than Q1 2021 volumes. The total for the four quarters to end Q1 2022 showed £534 million invested, 36% of which was from overseas.

A key investment deal in quarter one included the Tesco Distribution Centre at Lanson Roberts Road, comprising 541,100 sq ft of floorspace. Realty Income Corporation purchased this property for £104.7 million at a net initial yield of 4.02%.

The weighted average yield for assets transacted across the South West region over the past twelve months has declined to 5.0%, compared to 5.2% recorded in the comparable period last year and 6.8% five years previous. This demonstrates the gradual inward movement of average yields taking place into the industrial market at present.

Rental levels & Outlook

Prime rents for all size bands across the South West region have risen over the past year, most particularly in Bristol and Exeter, which saw 9.7% and 17% growth respectively for units over 50,000 sq ft, to £8.50 psf.

Continued growth in average rents is expected for the rest of 2022, with 4.9% predicted for South West overall, and stronger growth of 6.0% and 5.9% forecasted for Exeter and Bristol, respectively.

OCCUPIER MARKET

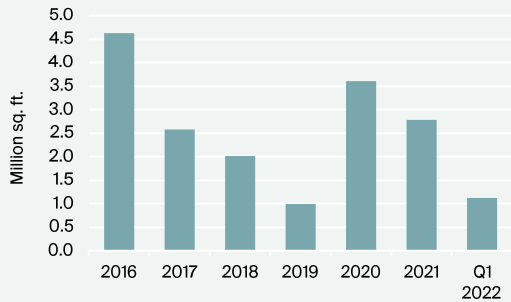
1.1 m sq ft
Occupier take up
Q1 2022

36%
Distribution take up
(last four quarters)

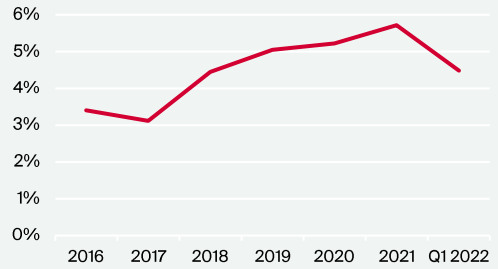
£8.50 psf
Prime rents

4.5%
Vacancy rate

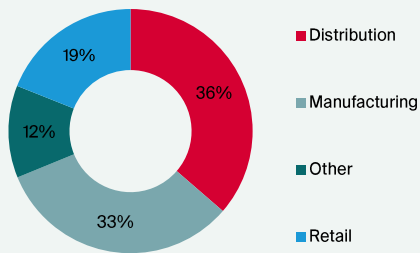
Take up (sq ft)



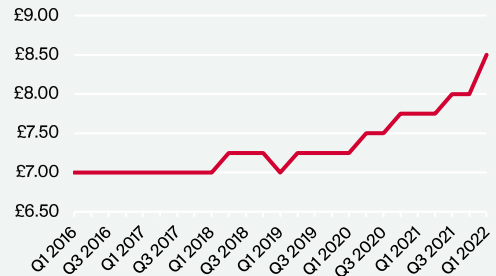
Vacancy rate (%)



Take up by sector (sq ft)
Q2 2021 - Q1 2022



Bristol - Prime rents (£psf)



KEY OCCUPIER DEALS Q1 2022

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Cheney Manor / SN200, Swindon	203,200	Amazon	£4.00 psf	Second hand
H160 Hercules, Bristol	160,000	Gregory Distribution	£7.00 psf	Second hand
Groundwell Industrial Estate, Swindon	149,173	Neptune	£6.50 psf	Second hand
Supercharger, Avonmouth	106,890	Expeditors	£7.50 psf	Speculative Build

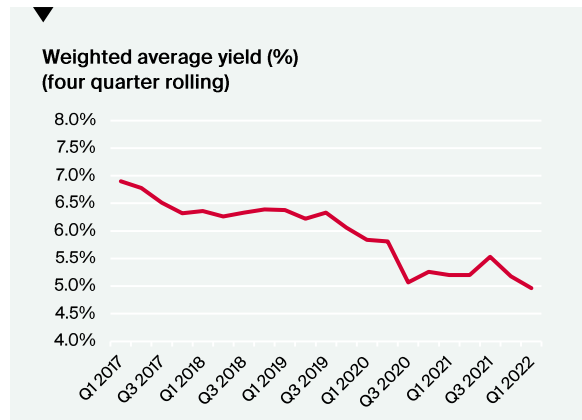
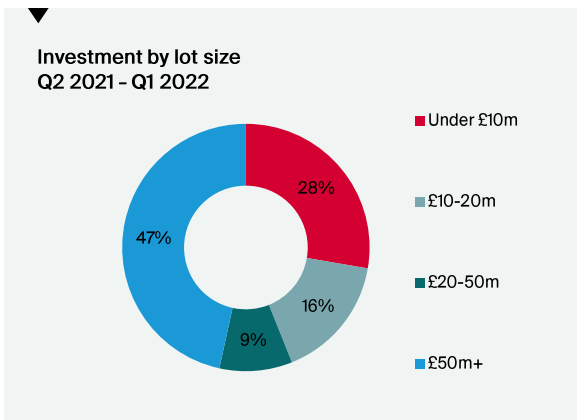
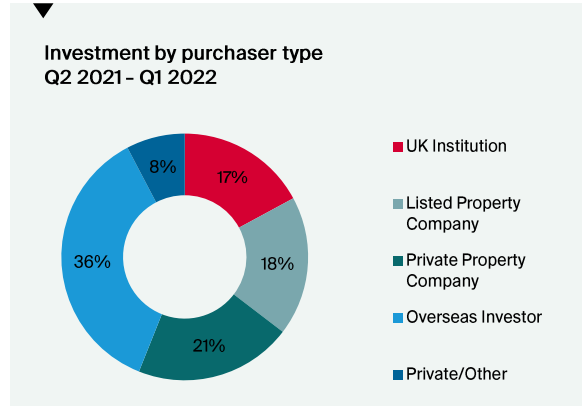
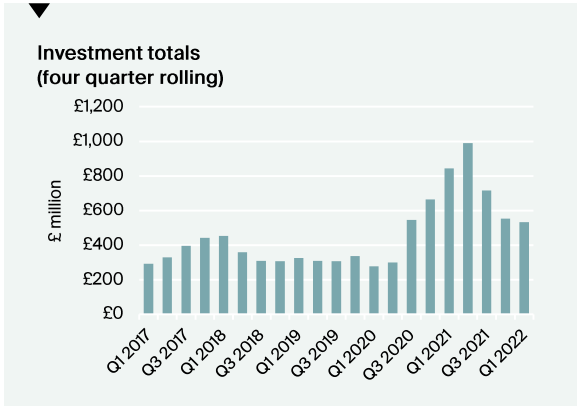
INVESTMENT MARKET

£179 million
Investment total
Q1 2022

£11.6 million
Average lot size
(last four quarters)

36%
Overseas capital
(last four quarters)

5.0%
Average yield
(last four quarters)



KEY INVESTMENT DEALS Q1 2022

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Tesco Distribution Centre, Lanson Roberts Road	Avonmouth	104.7m	4.02%	Realty Income Corporation	Roebuck Asset Management
Former Morrisons Distribution Centre, Lysander Road	Bristol	£53m	5.00%	Fortress Investment Group	Hines UK
Mill Place Industrial Estate	Gloucester	£10.4m	6.10%	Picton Property Income	Robert Hitchins Ltd.

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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