

LOGIC: South West



Q1 2024

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

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Occupier Market

Supply levels boosted by development completions, but speculative pipeline is now limited

MODEST OPENING QUARTER FOR TAKE UP LEVELS

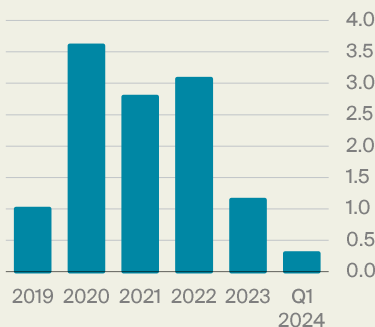
Occupier take up of industrial units over 50,000 sq ft in the South West totalled 293,600 sq ft in the first quarter of 2024. This marks an 18% decline on the 356,700 sq ft recorded in the same quarter last year, and a 33% decrease on the previous three-month period.

BUT ACTIVITY EXPECTED TO REALIGN WITH PRE-COVID AVERAGE

Despite the quieter first quarter for space committed, the occupier market remains active. Approx. 2.3 million sq ft of space is under offer and expected to transact over the coming months.

To put this into context, annual take up to Q1 2024 amounted to 1.1 million sq ft. This is 50% below the comparable period last year and is reflective of prolonged transaction times due to economic headwinds encountered over the past year. If the majority of these units under offer were to complete later this year, the pace of occupier take up would re-align with the region's five-year, pre-pandemic annual average, of 2.4 million sq ft.

Take up (sq ft)
million square feet



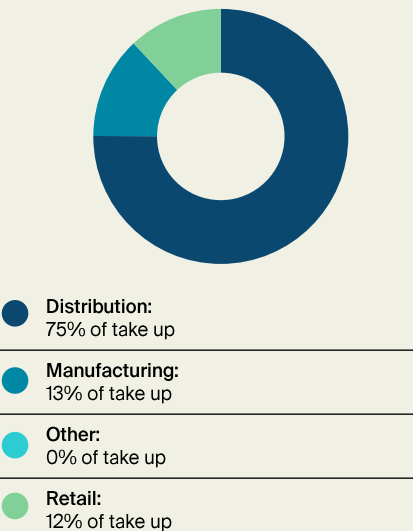
Source: Knight Frank Research

DISTRIBUTION SECTOR CONTINUES TO DOMINATE

Distribution firms continue to dominate the South West industrial occupier market, comprising 75% of take up over the past year. The largest transaction in quarter one was the sale of the former Curver unit at Cardrew Industrial Estate in Redruth. Plastic products manufacturer, Curver, vacated the 228,577 sq ft unit in Q4 2023 and the property was purchased freehold in Q1 by Conway Bailey Transport, a local haulage firm.

Demand over the past year has been focused on units under 250,000 sq ft, leading to a reduction in the average-sized deal. Although there have been no units over 250,000 sq ft transacting, a number of properties above this size are under offer. This includes new speculatively developed units at Avonmouth which underscores the demand for prime units in core locations of the South West.

Take up by sector
Q2 2023 – Q1 2024



Source: Knight Frank Research

MARKET VIEW

Robust activity for units sub-100,000 sq ft



BY RUSSELL CROFTS, PARTNER,
BRISTOL LOGISTICS & INDUSTRIAL
AGENCY

“Q1 2024 has represented the third quarter in a row with no prime deals over 100,000 sq ft completing, but this is not the full story. Activity for units sub-100,000 sq ft has been robust, and £10.00 psf has been achieved for the second time by St Modwen at Access 18 Avonmouth.

There are rumours that Mountpark have their 360,000 sq ft unit under offer, signalling the first of the region's ‘big sheds’ to be occupied since the Mini-Budget. Speculative starts would have happened were it not for distress in the contractor landscape, with St Modwen proposing a 210,000 sq ft unit, and Equation/BGO starting a 285,000 sq ft unit, both in Avonmouth.

In the second-hand market, the largest deals took place at the geographical margins, with the sale of 285,000 sq ft in Redruth by Curver, and the administrators of Duraflex gearing up to sell 246,000 sq ft in Tewkesbury.”

Occupier Market

293,600 sq ft

Occupier take up
Q1 2024

7.4%

Vacancy rate
Q1 2024

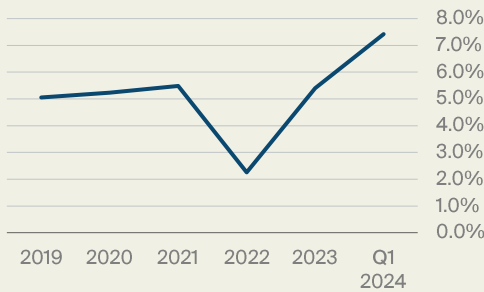
£10.00 psf

Prime rents
Q1 2024

11%

Prime annual rental growth

Vacancy rate
% of stock



Source: Knight Frank Research

“Demand over the past year has been focused on units under 250,000 sq ft”

DEVELOPMENT COMPLETIONS BOOST SUPPLY

Supply levels continue to trend upwards, with 5.3 million sq ft of existing floorspace available at the end of March (units 50,000 sq ft+). This represents a 40% increase on the previous quarter, though it is predominately boosted by two recent development completions - Panattoni’s 882,000 sq ft and 431,000 sq ft units in Avonmouth. The supply of second-hand space also rose by 9.9% during the quarter. The vacancy rate now stands at 7.4%, up from 5.4% in Q4 2023.

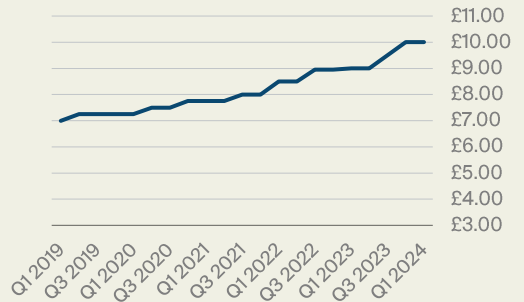
Three new units over 50,000 sq ft commenced construction in Q1, totalling 422,800 sq ft. This includes Unit 1, Matrix 49 (285,000 sq ft) in Bristol and two units at Access 18 by St Modwen. However, the volume of speculative space under construction is now 82% lower on an annual basis.

RENTAL LEVELS & OUTLOOK

Prime rents remain resilient, with double digit prime annual rental growth recorded in both Bristol and Swindon, to £10.00 psf (units 50,000 sq ft+). Looking ahead, rental growth forecasts have been revised upwards, with 6.2% average rental growth expected for the South West region for 2024, and 7.3% predicted for Bristol (RealFor).

Bristol - Prime Rents

£ per sq ft (units over 50,000 sq ft)



Source: Knight Frank Research

“The volume of speculative space under construction is now 82% lower on an annual basis”

Key Occupier Deals Q1 2024

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Former Curver Unit, Cardrew Industrial Estate, Redruth, Cornwall	228,577	Conway Bailey Transport	Undisclosed	Freehold purchase - second-hand
Unit 3 Express Park, Bridgwater	64,989	VADO Home	£7.22 psf	Second-hand

Source: Knight Frank Research

Investment Market

5.50%

Prime NIY - Bristol
Q1 2024

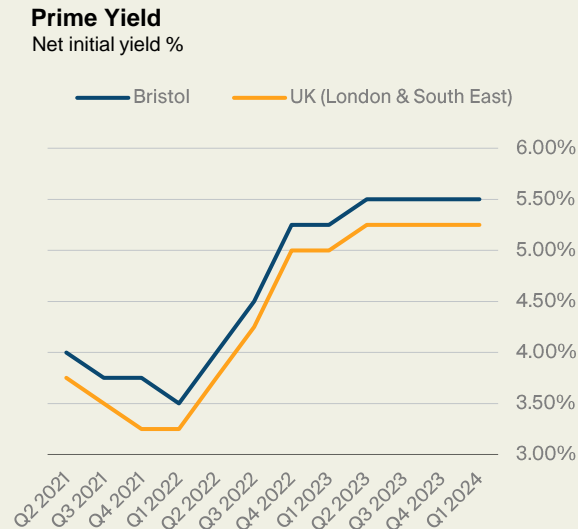
+25 bps

YOY movement in prime yields

PRIME INDUSTRIAL YIELDS STABLE

The opening quarter of 2024 was quite limited in terms of the number of transactions completing in the South West region. The largest transaction was Paloma Real Estate's acquisition of Link Industrial Estate in Poole, from William Fishwick and Son Ltd, for £6.9 million, reflecting a net initial yield (NIY) of 7.65%.

Prime industrial yields in Bristol have remained stable over the past four quarters, at 5.50%. This is 25 bps softer than that recorded one year ago. Since the turn of the investment market in Q2 2022, prime yields in the region have softened by circa 200 bps, with the outlook for yields largely reliant on the timing of base rates being reduced later this year.



Source: Knight Frank Research

MARKET VIEW

Optimistic that deal volumes will increase as we move through the year



BY NICK THURSTON, PARTNER,
BRISTOL LOGISTICS & INDUSTRIAL
CAPITAL MARKETS

“Investment volumes remain relatively subdued as a result of inflationary pressures and increased debt costs. There is an increasing consensus that we have reached the bottom of the market, and with the expectation that interest rates will be reduced later this year, this should fuel deal activity as we move through 2024.

Recent transactions that have completed, including ICG's acquisition of the Co-Op distribution unit in Avonmouth (Dec '23), for £43.1 million, reflecting 6.00% NIY (8.75-year income), demonstrate the demand for well-located, modern single-let investments.”

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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