

LOGIC: South West



Q3 2023

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

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Occupier Market

Prime rental growth continues despite moderation in take up

SUBDUED TAKE UP LEVELS

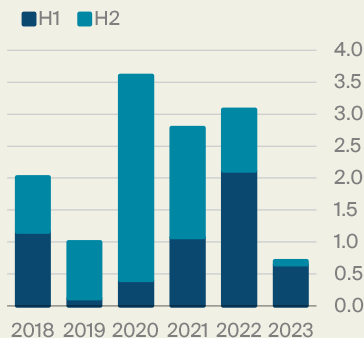
Occupier take up in the South West industrial market was subdued in Q3 2023, with just one deal completing (units 50,000 sq ft+). Bathroom furniture manufacturer, Brit Ocean Bathrooms, agreed to lease 55,387 sq ft at 2A/2B Blackworth Industrial Estate in Swindon, at £6.00 psf.

In the year to date, the region has seen just six deals totalling 703,200 sq ft complete. This compares with 2.9 million sq ft across 24 deals over the comparable period last year.

ECONOMIC PRESSURES CAUSING SOME TENANT DISTRESS

Broader economic uncertainty and inflationary pressures have impacted business confidence this year, causing some tenant distress. This has led to a slowdown in transaction activity and a return of second-hand space to the market. However, evidence of demand for prime and high-quality second-hand stock with strong ESG credentials is providing landlords with reason to remain firm on prime headline rents.

Take up (sq ft)
million square feet



Source: Knight Frank Research

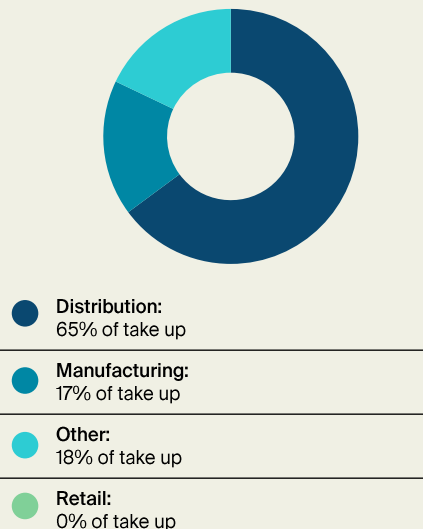
Occupiers in the region are showing a preference for mid-box units, with all space committed so far this year under 250,000 sq ft in size.

DISTRIBUTION FIRMS DOMINATE

Take up for the 12 months to September was 77% lower annually, at 896,700 sq ft (units over 50,000 sq ft). In terms of sector activity, distribution firms have been the most active over the past year, accounting for 65% of the annual total, though the volume of space committed to distribution firms has declined by 35% year-on-year.

Other, less traditional occupiers account for a further 18%, while manufacturing companies comprise the remaining 17% of the annual total. Retailers have been virtually absent from the South West logistics market over the past year.

Take up by sector
Q4 2022 – Q3 2023



Source: Knight Frank Research

MARKET VIEW

Identifiable pocket of demand for prime mid-box and big box



BY RUSSELL CROFTS, PARTNER,
BRISTOL LOGISTICS & INDUSTRIAL
AGENCY

“The market in Q3 2023 remained a hard place to transact with occupiers. The wider economic uncertainty has had a material effect on levels of enquires, with a corresponding drop in deal levels. However, there remains an identifiable pocket of demand for prime mid-box and big box. Typically driven by ESG requirements, blue chip companies are the backbone of demand for the very best speculative units, or pre-let demand. This is clustered around the economic hot spots of the region, somewhat isolating grade B and C locations (owing to lack of viability).”

Occupier Market

703,200 sq ft

Occupier take up
YTD 2023

5.3%

Vacancy rate
Q3 2023

£9.50 psf

Prime rents
Q3 2023

6.1%

Prime annual rental growth

“The supply of new and modern logistics space remained unchanged during the third quarter”

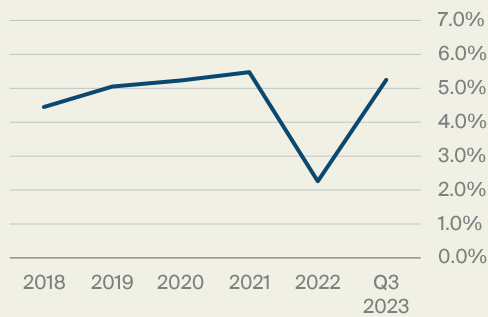
SUPPLY UPLIFT CONCENTRATED IN OLDER, SECOND-HAND STOCK

Supply levels rose by 22% during Q3, to stand at 3.7 million sq ft (units 50,000 sq ft+), with the vacancy rate increasing from 4.3% to 5.3% over the quarter. This uplift is entirely driven by the return of second-hand space to the market, most of which is grade B and C stock and necessitates refurbishment in order to suit modern occupier requirements. In contrast, the supply of new and modern space remained unchanged. There are only two, newly developed units over 250,000 sq ft immediately available. A further 1.3 million sq ft of space is under construction speculatively (units 50,000 sq ft+), the vast majority of which is Panattoni's 882,000 sq ft unit in Avonmouth.

RENTAL LEVELS & OUTLOOK

Prime rents in Bristol reached a new headline of £9.50 psf in Q3 (units over 50,000 sq ft), representing 6.1% growth year-on-year. Prime annual rental growth of 20% and 5.9% has been recorded in Swindon and Exeter, respectively, to £9.00 psf. Forecasts for 2024 show a more moderate rate of average rental growth for the South West region, at 2.0%, while 2.4% is forecast for Bristol (RealFor).

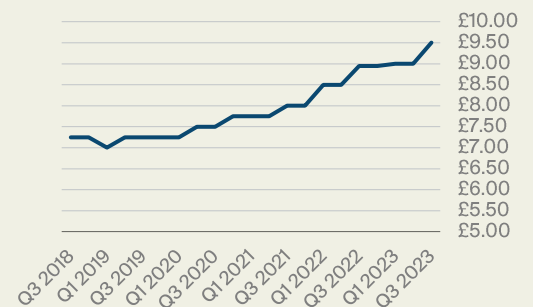
Vacancy rate % of stock



Source: Knight Frank Research

Bristol - Prime Rents

£ per sq ft (units >50,000 sq ft)



Source: Knight Frank Research

“Prime rents in Bristol reached a new headline of £9.50 psf in Q3, representing 6.1% growth year on year”

Key Occupier Deals YTD 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
2A/2B Blackworth Industrial Estate, Swindon	55,387	Brit Ocean Bathrooms	£6.00 psf	Second-hand

Source: Knight Frank Research

Investment Market

£129 million

Investment total
YTD 2023

£10.1 million

Average lot size
(last four quarters)

37%

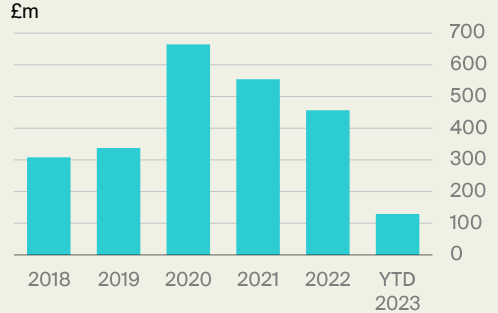
Investment by UK institutions
(last four quarters)

5.50%

Prime yield
Q3 2023

“Prime industrial yields in Bristol remained stable in Q3 2023, at 5.50%”

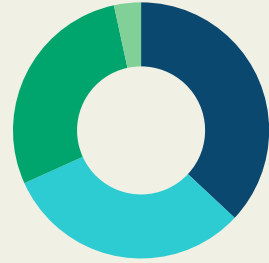
Investment totals



Source: Knight Frank Research

Investment by purchaser type

Q4 2022 – Q3 2023



- **UK institution:**
37% of investment

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

- **Private Property Company:**
31% of investment

- **Overseas Investor:**
28% of investment

- **Private/Other:**
4% of investment

Source: Knight Frank Research

SLOWDOWN IN INVESTMENT VOLUMES

Investment volumes remain thin, with £49.4 million transacted in Q3 2023. This brings the YTD total to £129 million, 65% lower than the comparable period last year. In Q3, Colliers Capital acquired Portside Park, Avonmouth, for £25 million (NIY 4.86%). Investment over the past year has come from quite an even mix of buyer types, including UK institutional investors (37%), UK private property companies (31%) and overseas investors (28%).

Prime industrial yields in Bristol remained stable in Q3 2023, at 5.50%, in tandem with the stabilisation of prime yields across all UK regional markets. This follows a 100bps softening of prime yields in Bristol over the past year.

“Investment over the past year has come from quite an even mix of buyer types”

Key Investment Deals

Q3 2023

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Portside Park	Avonmouth	£25.1m	4.86%	Colliers Capital	NFU Mutual
The Maltings Industrial Estate, Brassmill Lane	Bath	£10.7m	4.89%	Cew Capital	abrdn
Barberry 14, Severn Road	Avonmouth	£3.3m	4.91%	Private	Barberry Industrial

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

**Logistics & Industrial
Research**

Claire Williams
claire.williams@knightfrank.com
+44 20 3897 0036

Deirdre O'Reilly
deirdre.oreilly@knightfrank.com
+44 20 3995 0785

**Bristol Commercial
Logistics & Industrial Agency**

Russell Crofts
russell.crofts@knightfrank.com
+44 117 917 4535

Ed Rohleder
ed.rohleder@knightfrank.com
+44 117 917 4984

**Bristol Commercial
Capital Markets**

Nick Thurston
nick.thurston@knightfrank.com
+44 117 917 4536

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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