

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



LOGIC: London & South East 2021 Review

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Research, January 2022



CGI Image: SEGRO Park, Hayes
By courtesy of SEGRO

MARKET OVERVIEW

Another record year for the London and the South East occupier market, with 13.9 million sq ft taken up in 2021, 47% higher than the five-year average.

13.9 million sq ft
Occupier take up 2021

£6.7 billion
Investment total 2021

25%
Prime annual rental
growth

Buoyant occupier demand continues to drive new records for take up and rents

The final quarter of 2021 saw a further 4 million sq ft of industrial and logistics space taken up in London and the South East region, bringing the 2021 annual total to a new record high of 13.9 million sq ft (units over 50,000 sq ft). The annual total has now exceeded the previous record year in 2020 and stands 47% ahead of the five-year average.

The retail sector dominated, accounting for 58% of take up in 2021. This was driven mainly by growth in online retailing. Overall, the year was characterised by continued strong demand combined with a lack of available stock, driving growth in rents and pricing, including land values.

Low levels of large available product

Total availability of units over 50,000 sq ft stood at 4.4 million sq ft at the end of 2021, 17% lower year-on-year.



GUS HASLAM, PARTNER,
LONDON & SOUTH EAST
LOGISTICS & INDUSTRIAL AGENCY

“The outlook for 2022 is a continuation of 2021’s theme with strong demand and a lack of choice for the occupier. A year where we will see unprecedented levels of rent being achieved across Greater London.”

Supply is particularly constrained at the larger end of the market. Declining stock levels have driven down the vacancy rate to a new low of 2.8%.

Strong rental growth and pre-let activity boosts appetite for development

A combination of record take up levels, record low supply and rising rents is driving appetite for development. There is currently 3.7 million sq ft of speculative space under construction across the London and South East market. However, with just one of these developments over 250,000 sq ft in size, the supply pipeline at the very large end of the market is particularly acute. In addition, rising build costs and supply issues are delaying delivery schedules.

The largest deal in 2021 was Amazon taking a 15-year lease on 736,700 sq ft at Kingston Park, Peterborough, at a rent of £5.60 per sq ft. Some large pre-lettings were agreed in Q4 also due to declining immediately available stock. This includes pharmaceutical distribution firm, Movianto, agreeing a pre-lease for Unit 1 at Bedford Link Logistics Park, a 355,941 sq ft warehouse, for 15 years. Pre-lets accounted for 35% of take up in the fourth quarter.

Investment activity has been robust

2021 was a particularly strong year with investment volumes totalling approximately £6.7 billion, almost three times greater than 2020 levels. Significant overseas capital flowed into the market during the year, accounting for 45% of the total.

The average weighted yield for assets transacted across London and the South East region in 2021 was 3.5%, compared to 4.4% in 2020.

2022 Outlook

Based on strong rental growth recorded in 2021, growth projections have been revised up sharply across all UK regions. London and the South East regions are expected to see the strongest growth, with an average of 8.7% and 6.7% in 2022, respectively (RealFor).

OCCUPIER MARKET

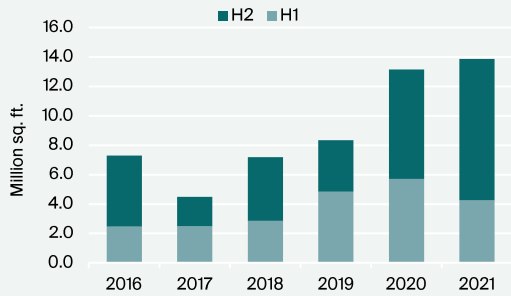
13.9 m sq ft
2021 occupier
take up

58%
Take up from
retail sector

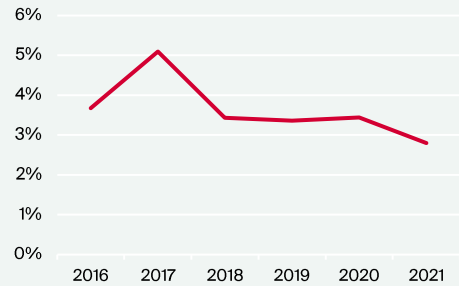
£25.00 psf
Prime rents

2.8%
Vacancy rate

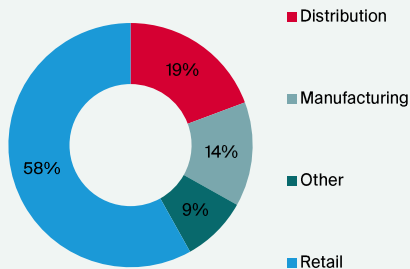
Take up (sq ft)



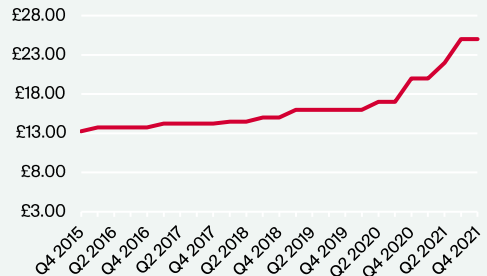
Vacancy rate (%)



2021 Take up by sector (sq ft)



West London - Prime rents (£psf)



KEY OCCUPIER DEALS 2021

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
The Power House, Dartford	450,000	IKEA	£10.75 psf	Pre-let
Units 1-3, SEGRO Park, Enfield	232,453	Netflix	£19.50 psf	Speculative build
Unit 2, Southern Approach, North Feltham Trading Estate, Feltham	70,261	Williams & Hill Forwarding Ltd.	£17.50 psf	Secondhand
Unit 2, A&B Waxlow Road, Park Royal	69,887	Garden Campus Ltd. (Garden Studios)	£17.00 psf	Secondhand
Unit A, SEGRO Park, Greenford	53,660	Belazu	£16.50 psf	Speculative build

Source: Knight Frank

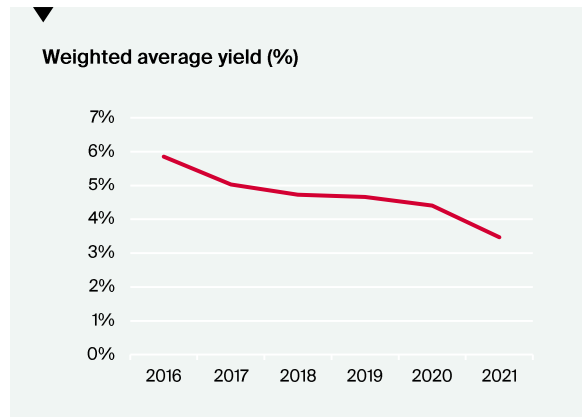
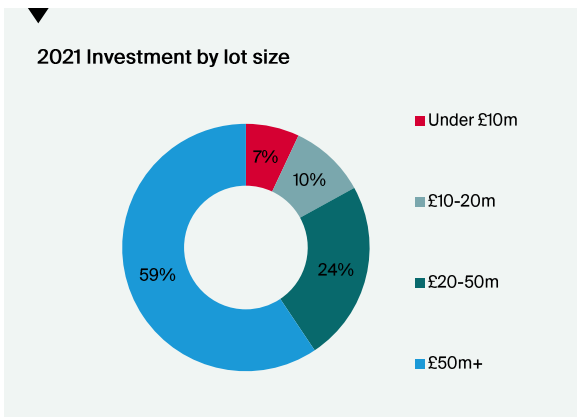
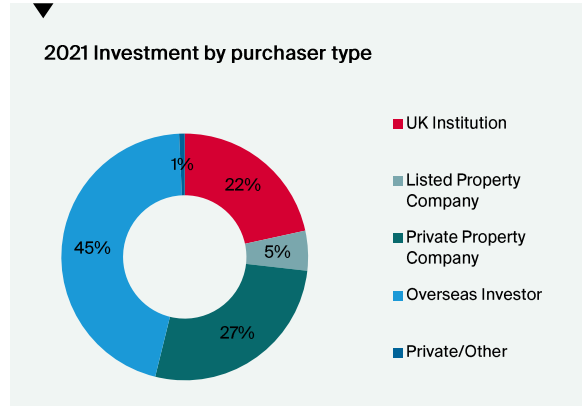
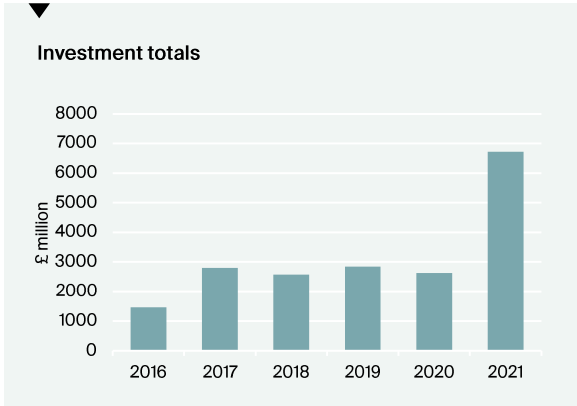
INVESTMENT MARKET

£6.7 billion
Investment total

£28.5 million
Average lot size

45%
Overseas capital

3.5%
Average yield



KEY INVESTMENT DEALS 2021

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Carpentright	Purfleet	£143m	3.09%	Blackstone Capital	abrdn
Bletchem Way	Milton Keynes	£140m	-	CBRE Global Investors	Tesco Plc
Matrix Park, Park Royal	NW London	£140m	2.80%	SEGRO Plc	Schroder REIM

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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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