

LOGIC: London & South East



2023 Review

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

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Image: Crest Distribution Park, High Wycombe, a development by Goya Developments and Hillwood Properties

Occupier Market

London & South East industrial market settles back to pre-pandemic levels, while prime rents hold firm

TAKE UP RETURNS TO PRE-PANDEMIC NORMS

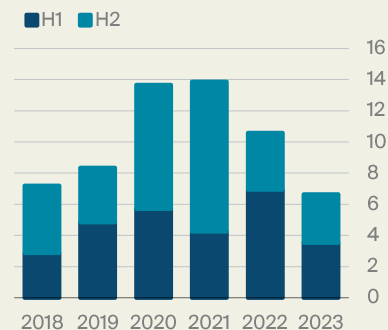
Occupier take up of industrial and logistics units over 50,000 sq ft in the London & South East region reached over 6.6 million sq ft in 2023, 37% below 2022 volumes. Macroeconomic challenges last year led to cost conscious occupiers and a UK-wide moderation in industrial occupier transactions. 2023 saw the London & South East industrial market settling back to pre-Covid norms, with the annual total closer to the region's five-year pre-pandemic annual average, of 6.9 million sq ft.

INCREASE IN IMPORTANCE OF ESG CREDENTIALS

Occupiers continue to choose modern and superior units with strong ESG credentials, with three-quarters of take up in 2023 comprising new, speculatively developed space, build-to-suit (BTS) or pre-let units. The year saw an uplift in pre-let activity in particular, accounting for 28% of the region's take up (up from 9% in 2022), while a further 34% comprised of new, speculatively developed space. Securing BTS deals proved more challenging last year, with just one deal over 50,000 sq ft completing.

Take up (sq ft)

million square feet



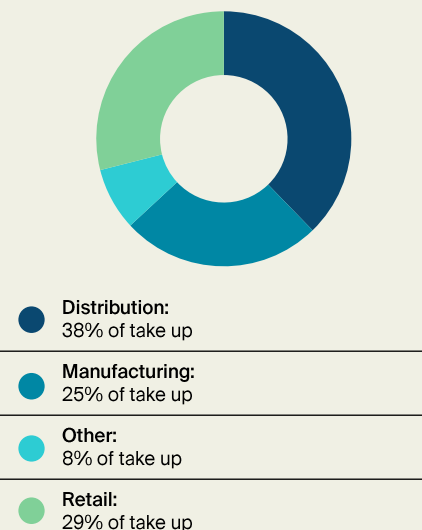
Source: Knight Frank Research

SUSTAINED PRIME HEADLINE RENTAL LEVELS

Landlords remain firm on rents despite a moderation in take up and supply-side increases. We have seen incentives increase however, as landlords look to protect value and secure lettings, while offering flexibility to occupiers. Prime industrial rents in both West and East London for units over 50,000 sq ft remained stable during 2023, at £27.50 psf and £20.00 psf, respectively, though prime rental growth has been recorded in parts of the region where new and modern space is limited.

In Q4 2023, take up totalled 1.3 million sq ft across 15 deals. Noteworthy lettings include the 86,360 sq ft Unit 2, Midas, River Way in Harlow, let to food manufacturer, Alt foods, on a 15-year lease at £14.40 psf. In addition, Unit 1 Hyperion at Horizon 120 Business & Logistics Park in Braintree (76,703 sq ft), was let to medical and orthopaedic supplier, CareCo Ltd. on a 10-year lease at £13.00 psf. Units at Horizon 120 are being built to an EPC rating of "A" and BREEAM "Very Good".

Take up by sector 2023



Source: Knight Frank Research

MARKET VIEW

Uptick in enquiry levels for good quality, second-hand units



BY JAMES MASKEY, PARTNER, LONDON & SOUTH EAST LOGISTICS & INDUSTRIAL AGENCY

"The turn of the year has certainly seen an uptick in enquiry levels, particularly for good quality second-hand units in the multi-let sector. Where landlords are able to identify occupiers with little choice in options, they are very much able to drive terms and pricing, however, decision-making is taking time and negotiations are often protracted.

As economic sentiment (hopefully) improves throughout the year, we are likely to see increased developer appetite, particularly in undersupplied and core locations."

Occupier Market

6.6 million sq ft

Occupier take up
2023

5.4%

Vacancy rate
Q4 2023

£27.50 psf

Prime rents
Q4 2023

Stable YOY

Prime annual rental growth

“Landlords remain firm on rental levels”

SQUEEZE IN DEVELOPMENT PIPELINE

Driven by an influx of ‘grey space’ combined with several development completions, availability of existing floorspace gradually rose over the course of 2023 and stood at 12.9 million sq ft at year-end (units 50,000 sq ft+). A more modest increase of 0.3% in Q4 led to the vacancy rate remaining stable in the final quarter, at 5.4%, though this is up from 3.1% recorded at year-end 2022. Of the total immediately available space, 16% was under offer at quarter-end.

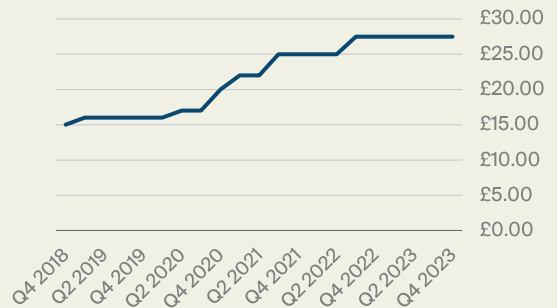
Development activity in the region declined by approximately 37% in 2023, leading to an anticipated reduction in the delivery of new speculative space to the market for the coming year. Approx. 2.8 million sq ft of space was under construction at year-end (units 50,000 sq ft+), down from 4.4 million sq ft recorded one year ago. Only one of these buildings is over 250,000 sq ft.

2024 OUTLOOK

As the development pipeline narrows and enquiry levels remain steady, we anticipate occupiers will take more existing units but still favour prime assets. Projections for rental growth for 2024 are 3.3% for London and 3.0% for the South East, according to RealFor.

West London - Prime Rents

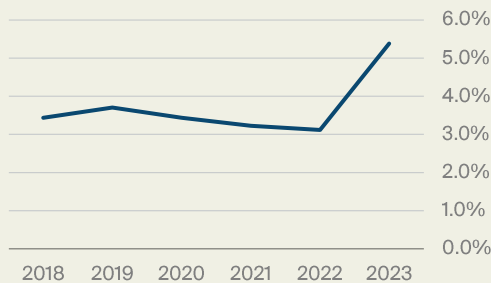
£ per sq ft (units >50,000 sq ft)



Source: Knight Frank Research

Vacancy Rate

% of stock



Source: Knight Frank Research

“The volume of space under construction across the region decreased by 37% in 2023”

Key Occupier Deals 2023

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Panattoni Aylesford	752,823	Tesco	£12.51 psf	Pre-let
DC3/4, Prologis Park Beddington	151,060	Harvest London	£19.50 psf	Speculative build
Unit 1, London Brentwood, Tilbury Road	126,307	Omlog	£12.50 psf	Speculative build
Unit 2, Midas, River Way, Harlow	86,360	Alt Foods	£14.40 psf	Speculative build
Unit 1, Hyperion, Horizon 120 Business & Logistics Park, Braintree	76,703	CareCo (UK) Ltd	£13.00 psf	Speculative build

Source: Knight Frank Research

Investment Market

£2.2 billion

Investment total
2023

£19.1 million

Average lot size
2023

46%

UK Private Property Companies
2023

5.25%

Prime yield
Q4 2023

STABILISATION IN PRIME PRICING

Investment into industrial property in London & the South East totalled £2.2 billion in 2023, 64% lower annually. Market activity in 2023 was challenged by high financing costs, purchaser and vendor pricing disparities, and rapid yield softening.

Prime industrial yields in the region stood at 5.25% at year-end and appear to have stabilised, albeit the performance gap between prime and secondary assets may widen further.

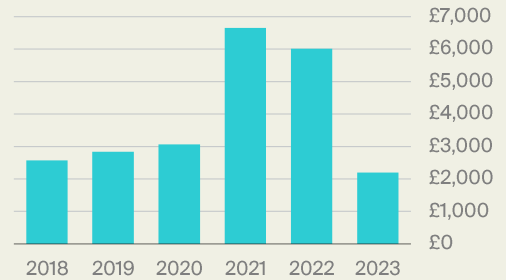
The largest deal in Q4 was Copley Point and Brookfield's acquisition of Polar Park in Heathrow, comprising three units totalling 220,000 sq ft, from Federated Hermes for £54 million (NIY 5.05%). UK private property companies accounted for 46% of the capital invested in the region in 2023.

"Investment in the region totalled £2.2 billion in 2023, 64% lower annually"

"UK private property companies accounted for 46% of the capital invested"

Investment Totals

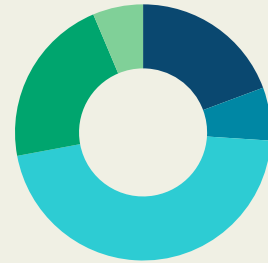
£m



Source: Knight Frank Research

Investment by purchaser type

2023



UK institution:
19% of investment

Listed Property Company:
7% of investment

Private Property Company:
46% of investment

Overseas Investor:
22% of investment

Private/Other:
6% of investment

Source: Knight Frank Research

Key Investment Deals

2023

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Tera 40, Auriol Drive	Greenford	£146m	2.88%	Valor Real Estate Partners	Lothbury IM
Amazon, Hannah Close	Wembley	£74m	3.49%	Confidential	abrdn
75 Bilton Way	Enfield	£50.5m	3.86%	Tritax	IM Properties PLC
The Triple Two Centre	Beckenham	£33.1m	4.20%	Aviva Investors	abrdn
Fulcrum 6, Solent Way	Fareham	£10.5m	5.38%	Tritax	Kier Trade City LLP

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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