LOGIC: London & South East

2024 Review

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

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Image: PR2, Park Royal, a 77,705 sq ft development by KSP and Patrizia

Occupier Market

Steady demand, broad tenant base, and stable vacancy rate, despite a challenging market

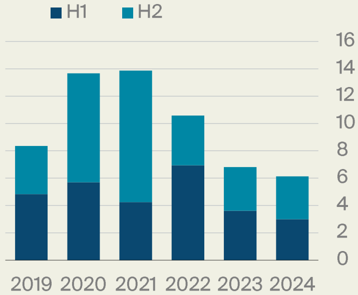
'SLOW AND STEADY' TAKE UP AMIDST A CHALLENGING YEAR

Occupier take up of industrial and logistics units over 50,000 sq ft in the London & South East region totalled 6.1 million sq ft in 2024. This represents a 10% decline on the 6.8 million sq ft recorded in 2023 and is 11% below the five-year pre-pandemic average. Following a robust Q3 for take up, a more modest final quarter saw 1.2 million sq ft recorded across 15 transactions.

Occupiers grappled with increased operational costs throughout the year, resulting in prolonged decision-making and suspended expansion plans for many. But challenges aside, demand remains steady; lettings are completing but at a slower rate than evident during the COVID years. Enquiry levels are robust, and the year ended with 1.6 million sq ft of space under offer across the region.

The largest unit signed in the final quarter was a 180,021 sq ft unit at Aviator, Manston Business Park in Kent, which was let to Speciality Breads Ltd. for five years. Other transactions included Chesapeake Pharmaceutical & Healthcare Packaging taking over the remainder of Netflix's lease at the 84,289 sq ft Unit 1 Segro Park in Hayes, while a 75,277 sq ft new speculative unit at Dartford X was let to RTV Group, a media services company on a 10-year lease at £13.00 psf.

Take up (sq ft)
million square feet



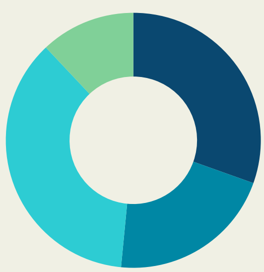
Source: Knight Frank Research

BROADENING OCCUPIER BASE

The London & South East occupier market is becoming increasingly diverse, with demand coming from a broader range of sub-sectors. Take up by non-traditional (Other) occupiers accounted for 37% of take up in 2024, up from 8% in 2023. While this is significantly boosted by Sizewell C's signing of 1.1 million sq ft at OLP, Ipswich in Q3, when excluded, take up by other occupiers still grew year-on-year—an encouraging trend in a market where overall take up levels moderated.

Despite the challenging year, landlords held firm on headline rents, particularly for new and prime units. Prime rents in West London grew by 9.1% in 2024 to £30.00 psf (units 50,000 sq ft+). North and South London prime rents rose by 23% and 17% annually, respectively, to £24.50 psf and £21.00 psf. Prime rents in the East remained stable at £20.00 psf.

Take up by sector
2024



Distribution:
30% of take up

Manufacturing:
21% of take up

Other:
37% of take up

Retail:
12% of take up

Source: Knight Frank Research

MARKET VIEW

Occupiers are embracing the decentralisation from London

BY TOM KENNEDY, ASSOCIATE,
LONDON & SOUTH EAST
LOGISTICS & INDUSTRIAL AGENCY

"Demand has stabilised and returned to pre-pandemic market conditions with a steady, albeit slower take up. The return of second-hand space has also slowed, and rents continue to hold firm, particularly for Grade A space. During Q4, we observed occupiers prioritising value over quality due to increased moving costs. Occupiers are exploring smaller sub-markets with slightly lower rents and are willing to embrace the decentralisation from London.

2025 will hopefully bring some positivity with further cuts in interest rates and more foreign investment tipped to hit our shores. We will hopefully see activity in the land market back to full flow, with some large sites rumored to be coming forward. This will hopefully spur the development market into action and, in turn, encourage occupiers to search for that flight-to-quality."

Occupier Market

6.1m sq ft

Occupier take up 2024

7.0%

Vacancy rate Q4 2024

£30.00 psf

Prime rents Q4 2024

9.1%

Prime annual rental growth

"Take up by non-traditional occupiers accounted for 37% of take up in 2024, up from 8% in 2023"

VACANCY RATE STABILISES

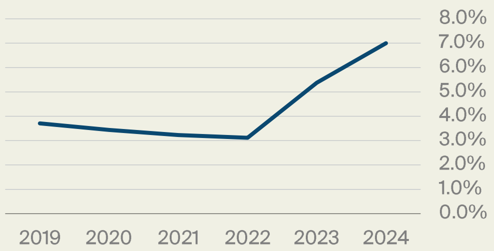
2024 recorded a one-third increase in the supply of existing units over 50,000 sq ft, reaching 17.2 million sq ft by year-end. However, the pace of growth slowed significantly in the fourth quarter. Rising by just 0.9% in Q4, the increase was solely driven by new development completions, with 1.6 million sq ft of new stock added. Meanwhile, the supply of second-hand stock declined by 10%. The overall vacancy rate has now stabilised at 7.0%; this compares to an average quarterly rise of 50bps observed over the past two years. However, it remains elevated compared to year-end 2023, of 5.4% and year-end 2022, of 3.1%.

Speculative space under construction fell by 15% in the quarter to 3.5 million sq ft (units 50,000 sq ft+). Commencements in Q4 included four units at Phase 3 of Symmetry Park, Biggleswade.

2025 OUTLOOK

Occupier demand in 2025 is likely to remain broadly consistent with the levels seen in 2024. Although we may see further rises to the vacancy rate, it is likely to peak this year before starting to moderate, based on a slowdown of second-hand stock feeding back to the market and a decline in development activity. According to RealFor, average rents are forecast to grow by 4.2% in London during 2025, with 3.8% expected for the South East region.

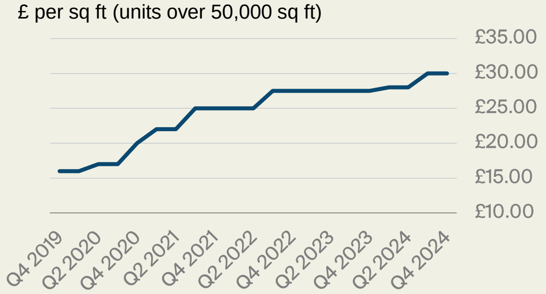
Vacancy Rate
% of stock



Source: Knight Frank Research

"The vacancy rate has now stabilised at 7.0%"

West London - Prime Rents
£ per sq ft (units over 50,000 sq ft)



Source: Knight Frank Research

Key Occupier Deals
2024

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Units 1, 2 & 3 Orwell Logistics Park, Felixstowe	1.1 million	Sizewell C	Undisclosed	Speculative build / Pre-let
Hemel 465, Boundary Way, Hemel Hempstead	465,000	Brakes Catering Equipment	£15.00 psf	Second-hand
Unit 1, Segro Park Hayes	84,289	Chesapeake	£21.50 psf	Second-hand
RP6, Radius Park, Heathrow	67,522	Rock-It Global & Dynamic	£26.00 psf	Second-hand refurbishment
Bridge Point Uxbridge, Riverside Way	50,315	Nippon Express	£26.50 psf	Speculative build

Source: Knight Frank Research

Investment Market

5.00%

Prime NIY – South East
Q4 2024

-25 bps

QoQ movement in prime yields

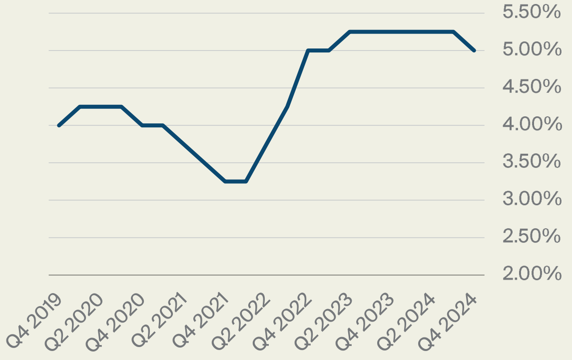
STRONG BIDDING AND BROADER BUYER POOL

Prime industrial yields in the South East region sharpened to 5.00% during Q4, marking the first compression in a new prime pricing cycle. This follows six consecutive quarters whereby the region's prime yields bottomed at 5.25%. The final quarter was characterised by positive sentiment and busier transactional activity, with strong bidding on high-quality assets and multiple offers for schemes that previously attracted only a few. A significant amount of capital remains poised for deployment and transactions are progressing well, particularly on core income-producing assets. Although 2024's investment volumes were subdued, the broadening buyer pool should lead to improved activity in 2025.

Q4 saw Chancerygate purchase Questor Industrial Estate in Dartford from Schroders for £145.6 million (NIY 5.16%). The multi-let estate comprises 685,000 sq ft of warehouse space across 84 units, 65 of which are let, and with reversionary potential at full occupancy. In addition, M&G acquired Unit 5 Apex Park in Bedford for £7.3 million (NIY 4.36%). The 37,000 sq ft unit is let to Matthew Clark Bibendum Ltd until December 2036.

Prime Yields – South East

Net Initial Yield (%)



Source: Knight Frank Research

MARKET VIEW

We anticipate an increased depth of bidders for best-in-class assets as we move into 2025

BY JOE KANE, PARTNER,
LOGISTICS & INDUSTRIAL
CAPITAL MARKETS

"A broad spectrum of investors were active during Q4, a number of which had not been active in the UK industrial and logistics sector for some time, and we anticipate this strong momentum to carry forward into 2025.

The Bank of England's 25 basis point cut at the end of last year undoubtedly boosted confidence, and despite some economic and geopolitical events, investor sentiment remained stable. Further drops in BoE interest rates in 2025 are likely to sharpen investment yields within the sector. A strengthening occupier market will also be a catalyst for more allocation to the sector.

A number of larger transactions highlight the confidence in the market, with Segro purchasing Enfield Distribution Park for £110 million, Chancerygate purchasing Questor Industrial Estate for £145.6 million, and CBREIM acquiring Circular Point, Chingford, for just under £53 million and Priory Park, Aylesford, for £45 million.

The uptick in stock levels during the final quarter of 2024 proved that demand for well-located best-in-class multi-let industrial estates and best-in-class logistics assets remains high. The buyer profile continues to be led by private equity, specialist industrial sector investors, and UK institutional funds managing local authority pension mandates. Encouragingly, there is growing interest from a wider array of investors across the globe. We anticipate an increased depth of bidders for best-in-class assets as we move into 2025, along with increasing demand from a diverse range of investors across all return levels."

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.

Knight Frank