

LOGIC: London & South East



Q1 2023

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

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Image: Hyperion, Braintree (Marshgate Group/CBREIM)
Construction completed on units 1-3

Occupier Market

Steady demand for high quality, larger units in the London & the South East region, while supply shortages are eased.

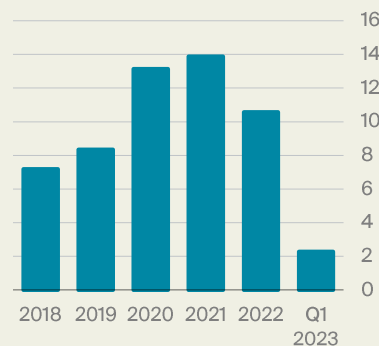
NEW, HIGH QUALITY SPACE DOMINATING TAKE UP

The opening quarter of 2023 saw 2.3 million sq ft of industrial and logistics space taken up across the London & South East region (units over 50,000 sq ft), bringing the total for the four quarters to end-March to 10.2 million sq ft. This is 29% lower than the comparable period last year, with a relative slowdown in transactions as occupiers contend with cost pressures amid wider macroeconomic pressures.

Over half of the space taken up in the region over the past year has been either pre-let or new, speculative buildings, 58%, with build-to suit units accounting for a further 19%. Occupier demand is increasingly focused on more sustainable, energy efficient buildings and best-in-class space.

In addition, take up of high-quality, large sized units over 400,000 sq ft remained steady over past year, accounting for 28% of the industrial space occupied in the region.

Take up (sq ft)
millions square feet



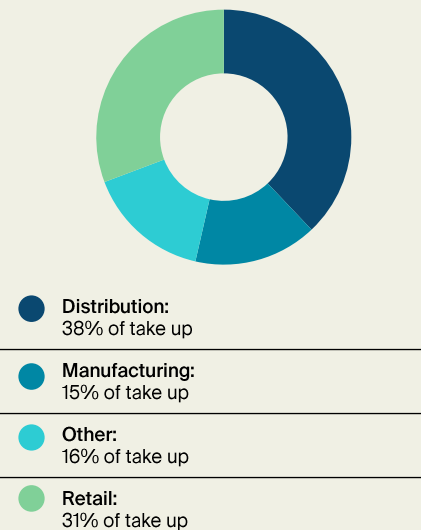
Source: Knight Frank Research

INCREASED ACTIVITY BY DISTRIBUTION FIRMS

Despite the overall decline in take up, the past twelve months have seen a 12% increase in space taken by distribution firms, accounting for 38% of the annual total. This is up from 28% over the same period the previous year. Other (alternative) sectors are also making up a growing share of the market, increasing from 6% to 16%, while retailers have been less active, with its share of take up decreasing from 44% to 31% over the period.

Key deals in Q1 included medi-tech manufacturer, Siemens Healthineers, committing to a new 602,000 sq ft R&D facility in Bicester, to be constructed on a build-to-suit basis, while a 151,060 sq ft unit at DC3/4, Prologis Park Beddington was let to vertical farm operator, Harvest London, on a 20-year lease at £19.50 psf.

Take up by sector
Q2 2022 - Q1 2023



Source: Knight Frank Research

MARKET VIEW

Enquiries have picked up across all size ranges



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

“Operational cost increases have played an important role in the market in quarter one. We have seen a slower start to 2023 for take up compared to last year and number of second-hand buildings that have come back to the market during the first quarter, several of which are good quality buildings. Enquiries in the market have picked up across all size ranges in recent weeks and a number of buildings that are currently under offer are close to completion. We therefore anticipate an up-tick in take up levels over the coming months.”

Occupier Market

2.3 million sq ft

Occupier take up
Q1 2023

4.3%

Vacancy rate
Q1 2023

£27.50 psf

Prime rents
Q1 2023

10%

Prime annual rental growth

“The past twelve months have seen a 12% increase in space taken by distribution firms.”

AVAILABILITY LEVELS EDGE UPWARDS

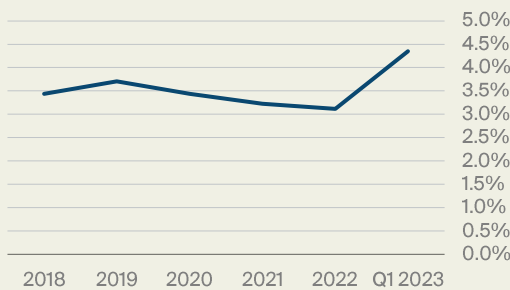
Supply shortages in the region eased further during the quarter. The volume of available space rose from 7.3 million to 10.3 million sq ft (units over 50,000 sq ft), though 14% of this is under offer. This brings the vacancy rate to 4.3%, up from 3.1% recorded in Q4 2022. The uplift in supply was largely driven by a return of second-hand stock, and while the availability of new space also rose during the quarter, there remains a shortage of new, larger-sized units over 250,000 sq ft.

A further 4.7 million sq ft of space is under construction, across 38 units, however, the vast majority of these are units under 250,000 sq ft.

RENTAL LEVELS & OUTLOOK

Despite the moderation in take up and ease in supply levels, prime rents are continuing to trend upwards. Prime industrial rents in West and East London for units over 50,000 sq ft are 10% and 11% higher respectively on an annual basis, at £27.50 psf and £20 psf. Average rents are forecast to grow by a more modest rate for 2023, of 5.3% in London and 3.3% in the South East region, according to RealFor.

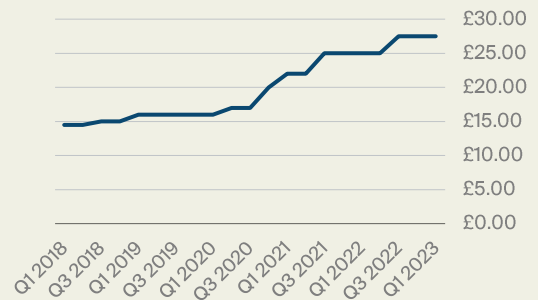
Vacancy Rate
% of stock



Source: Knight Frank Research

“Occupier demand is increasingly focused on more sustainable, energy efficient buildings and best-in-class space.”

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



Source: Knight Frank Research

Key Occupier Deals Q1 2023

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Siemens Healthineers R&D Facility, Symmetry Park	602,000	Siemens Healthineers	Undisclosed	Build-to-suit
LG165 London Gateway, Stanford Le Hope	165,000	Transmec UK LTD	£11.50 psf	Speculative build
DC3/4, Prologis Park Beddington	151,060	Harvest London	£19.50 psf	Speculative build
Unit 7, Ventura Park Radlett	87,164	Location Collective	£17.50 psf	Second-hand

Source: Knight Frank Research

Investment Market

£450 million

Investment total
Q1 2023

£25 million

Average lot size
(last four quarters)

44%

Overseas capital
(last four quarters)

4.75%

Prime yield
Q1 2023

INVESTOR ACTIVITY SLOWS

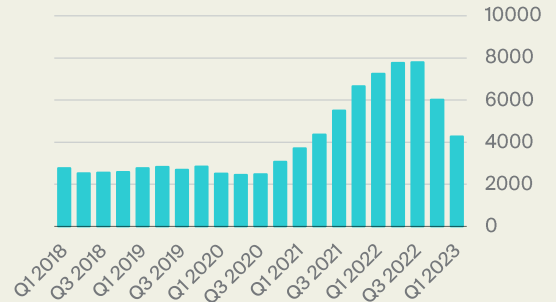
Approx. £450 million worth of capital was invested into industrial property in London & the South East in Q1 2023, bringing the total for the four quarters to end-March to £4.3 billion. This is 41% lower on an annual basis, following a notable slowdown in investor activity in the market since mid-2022. However, it remains ahead of the five-year rolling annual average for the region. Overseas buyers and UK property firms were most active, respectively accounting for 44% and 41% of the volume invested over the past year.

Following the outward shift of prime yields in the latter half of 2022, prime industrial yields in the region stabilised in Q1, at 4.75-5.00%.

“Investment into industrial property in London & the South East for the four quarters to end-March totalled £4.3 billion.”

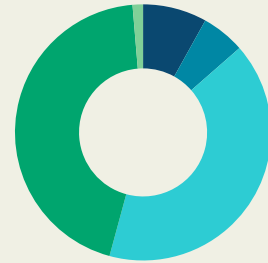
“Overseas buyers and UK property firms were most active in the four quarters to end-March.”

Investment totals (£m) (four quarter rolling)



Source: Knight Frank Research

Investment by purchaser type Q2 2022 - Q1 2023



UK institution:
8% of investment

Listed Property Company:
6% of investment

Private Property Company:
41% of investment

Overseas Investor:
44% of investment

Private/Other:
1% of investment

Source: Knight Frank Research

Key Investment Deals

Q1 2023

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Peterborough Gateway	Peterborough	£51.3m	4.46%	Clarion Partners LLC	Equites International
Alpha Park, Chandler's Ford	Southampton	£26.2m	4.98%	Leftfield Capital	BlackRock
Prodrive, Chalker Way	Banbury	£15.2m	5.59%	Leftfield Capital	Prodrive Holdings Ltd.
Yodel Delivery Network, County Oak Way	Crawley	£7.2m	6.55%	RealTerm	Mayfair Capital

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.

