

# LOGIC: London & South East



Q1 2024

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

## Positive first quarter for London & South East industrial occupier market, despite headwinds

### QUARTERLY UPLIFT IN OCCUPIER TAKE UP

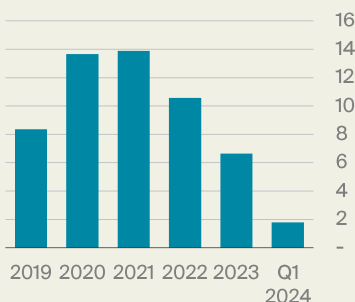
The opening quarter of 2024 recorded 1.8 million sq ft of industrial and logistics take up across the London & South East region (units over 50,000 sq ft). While this is 21% below the first quarter of last year, it is ahead of the previous quarterly total, of 1.3 million sq ft. Subdued activity brought on by economic headwinds over the past year has seen take up volumes return to pre-pandemic levels. The total for the past four quarters amounts to 6.2 million sq ft, 39% lower annually.

### DISTRIBUTION FIRMS REMAIN RESILIENT

Despite experiencing challenges last year due to the absence of large third-party logistics (3PL) firms leasing space and a decline in retail activity, the distribution sector remains resilient. Distribution firms accounted for two-thirds of take up in the first quarter, and 43% over the past year, with retailers comprising a further 31% of the annual total.

There were some notable transactions in quarter one; Brakes Catering Equipment agreed a 20-year lease on the 465,000 sq ft Hemel 465, Boundary Way in Hemel Hempstead, which Amazon vacated last year. Significant investment is planned for

#### Take Up (Sq ft) million square feet



Source: Knight Frank Research

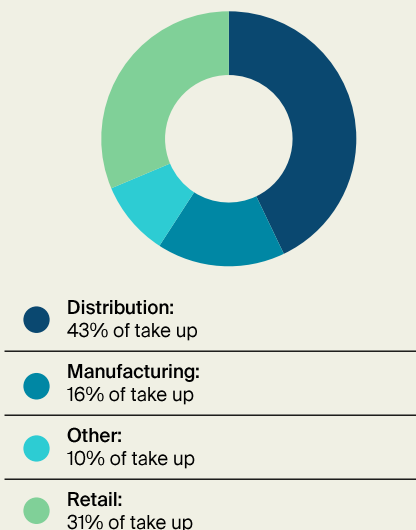
the site to make it suitable for food-service operations and improve sustainability standards. Another large deal included the letting of LG395, London Gateway in Stanfords-le-Hope, a 394,974 sq ft new-build, to freight-forwarding company, Ziegler.

The remaining transactions in the quarter comprised units under 250,000 sq ft, with units 50,000 - 100,000 sq ft most in demand.

### RISE IN DEMAND FOR SECOND-HAND STOCK

While there remains a preference for core locations and prime units, some occupiers have been attracted to the increased availability of second-hand stock returning to the market. Take up of second-hand space has risen by 13% over the past year, despite a 39% overall reduction. Second-hand space accounted for 43% of the yearly total, up from 23% in the comparable period last year. Nevertheless, the continued demand for the most ESG-compliant space has led to further rental growth for best-in-class units.

#### Take up by sector Q2 2023 - Q1 2024



Source: Knight Frank Research

### MARKET VIEW

## Rents continue to hold up, particularly for prime space



BY PAUL MUSSI, PARTNER,  
LONDON & SOUTH EAST  
LOGISTICS & INDUSTRIAL AGENCY

“Demand has weakened, and we are back to more typical pre-pandemic market conditions where take up is slower, but steady. The supply of second-hand space has increased (this quarter’s 5.9% vacancy rate is the highest for several years), but rents continue to hold up. This is particularly the case for prime Grade A space, which is generally in short supply and where we are still seeing a ‘flight-to-quality’.

Greater/Inner London rental growth has slowed, but we are still seeing strong rental growth in many of the Outer M25 towns, where there is a wide rental disparity with Greater London/Inner M25 rents. This is due to a combination of factors, such as companies decentralising to benefit from relatively cheaper rents and the increased indigenous demand created by the natural growth of many Outer London towns.

We anticipate a resurgent market once we overcome these temporary challenging economic conditions, and when an increase in occupier demand will meet with a shortage of prime space, in many locations.”

# Occupier Market

1.8m sq ft

Occupier take up  
Q1 2024

5.9%

Vacancy rate  
Q1 2024

£28.00 psf

Prime rents  
Q1 2024

1.8%

Prime annual rental growth

“Speculative development has more than halved over the past year”

## SUPPLY FOCUSED ON SMALLER UNITS

Supply levels continue to trend upwards, with 14.2 million sq ft of existing floorspace available at the end of March (units 50,000 sq ft+). This represents a 9.3% increase on the previous quarter and is 38% higher annually. The vacancy rate rose to 5.9% in Q1, from 4.3% recorded one year ago. Supply remains concentrated in units under 250,000 sq ft, comprising 80% of available space. Furthermore, second-hand space accounts for 56% of availability.

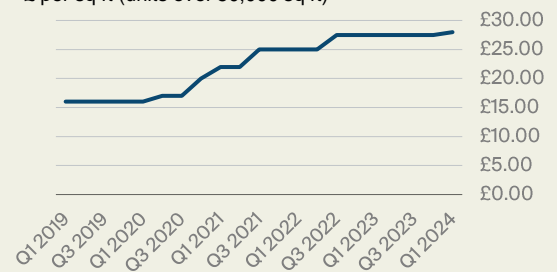
Development activity continues to decline due to a combination of higher build and financing costs, and a shortage of suitable development land available. Speculative development has more than halved over the past year, with 2.1 million sq ft of space under construction at the end of March, across 24 units (units over 50,000 sq ft).

## RENTAL LEVELS & OUTLOOK

Prime industrial rents continue to rise despite the moderation in take up and increased supply levels. For units over 50,000 sq ft, prime rents in West London rose by 1.8% annually to Q1, to £28.00 psf, while double-digit growth was recorded in North and South London, to £23.50 psf and £21.00 psf, respectively. Prime rents in East London have remained stable over the past year, at £20.00 psf. Average rental growth projections for 2024 have been revised upwards, with 4.7% now forecast for London and 4.4% for the South East (RealFor.)

### West London - Prime Rents

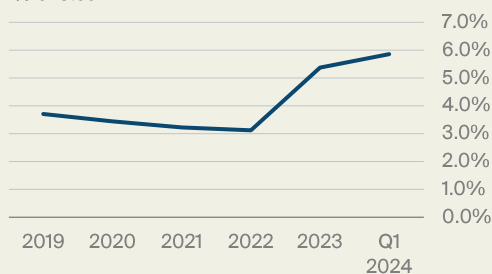
£ per sq ft (units over 50,000 sq ft)



Source: Knight Frank Research

### Vacancy Rate

% of stock



Source: Knight Frank Research

“Prime rents in West London for units over 50,000 sq ft rose by 1.8% annually to Q1, to £28.00 psf”

## Key Occupier Deals

Q1 2024

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Hemel 465, Boundary Way, Hemel Hempstead	465,000	Brakes Catering Equipment	£15.00 psf	Second-hand
LG395 London Gateway Stanford Le Hope	394,974	Ziegler	Undisclosed	Speculative build
Hemel 161, Prologis Hemel Hempstead	161,134	Food Service Logistics Ltd.	£18.00 psf	Second-hand
Brooklands 59, Vickers Drive, Weybridge	58,800	Britannia Row	£19.00 psf	Speculative build

Source: Knight Frank Research

# Investment Market

## 5.25%

Prime NIY – South East  
Q1 2024

## +25 bps

YOY movement in prime yields

### DIVERGENCE BETWEEN CORE AND SECONDARY ASSETS

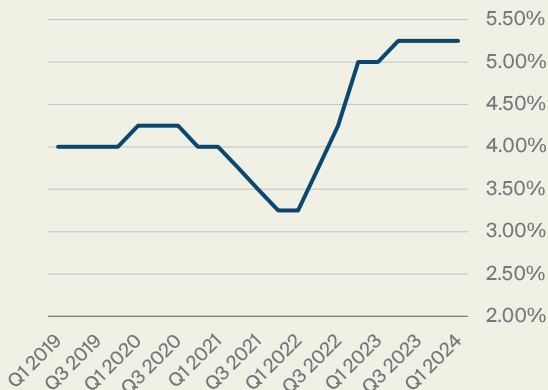
Prime industrial yields in the South East region remained stable for the fourth consecutive quarter, at 5.25%. Since the turn of the market in Q2 2022, prime yields in the region have softened by circa 200 bps.

Transaction volumes in the industrial investment market remain challenged by a lack of willing sellers and a dearth of large-scale opportunities; sellers have been focusing on more challenging asset classes such as offices and retail. Activity is anticipated to gather momentum when base rates are reduced later this year, though the diverging performance between core and secondary assets is anticipated to continue.

Notable investment deals in the region in Q1 included Swallowfield Way, Waterway Park in Hayes, acquired by Tritax from DTZ Investors for £46.7 million (3.65% NIY) and Project Clover, comprising three multi-let industrial estates, for £34 million (5.22% NIY), acquired by Hines.

#### Prime Yields – South East

Net Initial Yield (%)



Source: Knight Frank Research

### MARKET VIEW

Renewed sense of optimism since the turn of the year



BY WILL GUBB, PARTNER,  
HEAD OF INDUSTRIAL CAPITAL MARKETS

“2023 was a challenging year for the sector, with inflationary pressures resulting in a softening of yields and heightened debt costs. Since the turn of the year, there has been a renewed sense of optimism, and in Q1 2024, a number of buyers who sat on the sidelines throughout last year returned to the market, on the premise that the market had “bottomed out” and the outlook was much more stable.

Although transaction volumes will be subdued in Q1 2024, this is down to a lack of stock as opposed to a lack of demand. For the right product, there is good demand, and the buyer profile is still dominated by the private equity, industrial sector specialist, and local authority pension fund mandates managed by UK institutional funds.”

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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