LOGIC: London & South East

Q1 2025

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

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Image: Watford Logistics Park

Occupier Market

Steady demand for high-quality units with a continued slowdown in supply growth

SLOW START REFLECTS CAUTIOUS TONE

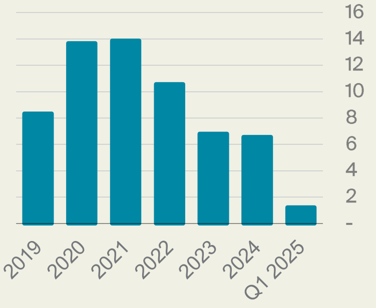
The opening quarter of 2025 recorded 1.2 million sq ft of industrial and logistics take up across the London & South East region. This marks a 25% decline from Q4 2024 and is one-third lower than Q1 2024 (units 50,000 sq ft+). This slower start reflects a more cautious tone in the occupier market, as businesses continue to navigate economic uncertainty, high operational costs, and ongoing inflationary pressures.

FOOTLOOSE OCCUPIERS SEEKING VALUE

Demand remains steady and enquiries are active, but it is clear that some occupiers are delaying decisions, reassessing requirements or prolonging expansion plans. Those who are 'pressing the button' are more frequently footloose occupiers seeking value, resulting in a growing trend of occupiers moving out of Greater London in favour of more affordable space in peripheral locations.

However, new, high-quality space with strong ESG credentials remains a key priority, with almost two-thirds of Q1 take up comprising pre-let or pre-sold space, build-to-suit units, or speculatively developed space. Q1 2025 saw DP World sign a 10-year agreement with Kent Foods Ltd. for LG150 London Gateway Logistics Park in Stanford Le Hope. Kent Foods will store food products arriving at the London Gateway port before distribution throughout the UK. Construction of the 150,765 sq ft unit was completed last year achieving BREEAM 'Outstanding' and EPC 'A' ratings.

Take up (sq ft)
million square feet



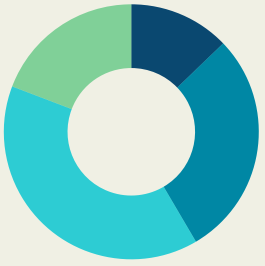
Source: Knight Frank Insight

A notable pre-letting in the quarter included aviation materials supplier Aerospheres committing to a 10-year lease at the 74,941 sq ft DC9 Prologis Park Hemel Hempstead for their new UK headquarters. The building is currently under construction to EPC 'A+' and BREEAM 'Outstanding' standards.

'OTHER' OCCUPIERS DOMINATE DEMAND

Non-traditional (Other) occupiers now comprise the largest share of take up, as drivers of the occupier market become increasingly diverse. Comprising 39% of take up annually to Q1, this is up from 11% in the same period last year. Manufacturers have also been noticeably more active.

Take up by sector
Q2 2024 – Q1 2025



Distribution: 13% of take up

Manufacturing: 29% of take up

Other: 39% of take up

Retail: 19% of take up

Source: Knight Frank Insight

MARKET VIEW

Majority of activity is in the relatively more affordable outer M25 locations

BY TORI FORSTER, SENIOR NEGOTIATOR, LONDON & SOUTH EAST LOGISTICS & INDUSTRIAL AGENCY

"This quarter has continued to be challenging for the industrial occupier market, largely due to the general economic outlook. Vacancy rates have remained broadly similar to last quarter; however, the return of second-hand space has seen a slight increase, with the completion of new build space slowing. Many developers are holding off on speculative building schemes which may have an effect later this year and further into 2026.

Whilst enquiry levels remain positive, take up has eased, and it is taking increasingly longer to get deals over the line. The majority of activity has been in the relatively more affordable outer M25 locations. We believe that these areas will see more rental growth over the coming year as the rents are currently out of kilter with those in Inner London.

The cost of capital expenditure remains a concern for occupiers seeking to move and, invariably, this leads to occupiers remaining put or putting expansion plans on hold."

Occupier Market

1.2m sq ft
Occupier take up
Q1 2025

7.0%
Vacancy rate
Q1 2025

£30.00 psf
Prime rents
Q1 2025

7.1%
Prime annual rental growth

"New, high-quality space with strong ESG credentials remains a key priority"

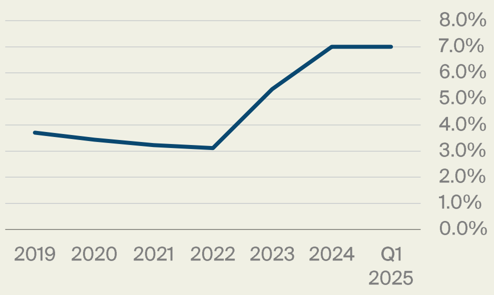
CONTINUED SLOWDOWN IN SUPPLY GROWTH

The pace of supply growth continues to slow, with Q1 recording a negligible 0.2% uplift to 17.3 million sq ft, compared with an average quarterly rise of 11% over the past two years (units 50,000 sq ft+). The vacancy rate has settled at 7.0% for the past three quarters, following a gradual softening from 3.1% recorded at end-2022. A number of mid-sized second-hand units became available in Q1; 58% of all buildings available (by count) are between 50,000 and 100,000 sq ft, with 95% between 50,000 and 250,000 sq ft. However, with the delivery of new development slowing, the supply of new units declined in the quarter. Construction commenced on eight new units in Q1, including two units at MLM Crayford and two units at Causeway Central in Staines upon Thames. Speculative development totalled 4.2 million sq ft in Q1, 18% higher on the previous quarter.

RENTAL LEVELS & OUTLOOK

While some landlords are showing increased flexibility, this is not yet a market-wide shift and, as a result, prime rents remain resilient. Prime rents in West London were unchanged in Q1 but are 7.1% higher annually, at £30.00 psf (units over 50,000 sq ft). Average rents in London are projected to grow by 4.4% in 2025, with 4.6% expected for the South East region (RealFor).

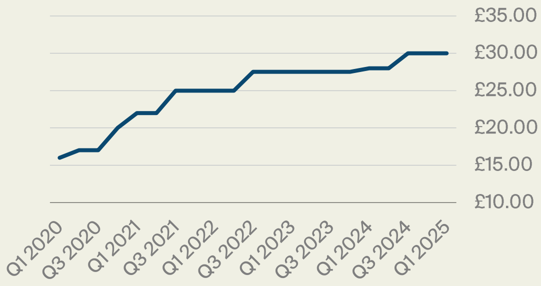
Vacancy Rate
% of stock



Source: Knight Frank Insight

"The vacancy rate has settled at 7.0% for the past three quarters"

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



Source: Knight Frank Insight

Key Occupier Deals
Q1 2025

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
LG150 London Gateway Stanford Le Hope	150,765	Kent Foods Ltd.	£13.25 psf	Speculative build
Unit 1, Castle Estate, High Wycombe	94,756	RH Ahmer	£15.00 psf	Pre-let
DC9, Phase 3, Prologis Park Hemel Hempstead	74,941	Aerosphere	£21.75 psf	Pre-let
Unit 19 -22, Sceptre, Bilton Road, Kingsland Business Park, Basingstoke	71,225	Blatchford Products Ltd.	£13.65 psf	Speculative build

Source: Knight Frank Insight

Investment Market

5.00%

Prime NIY – South East
Q1 2025

-25bps

YoY movement in prime yields

RISING CONFIDENCE FOR BOTH BUYERS AND SELLERS

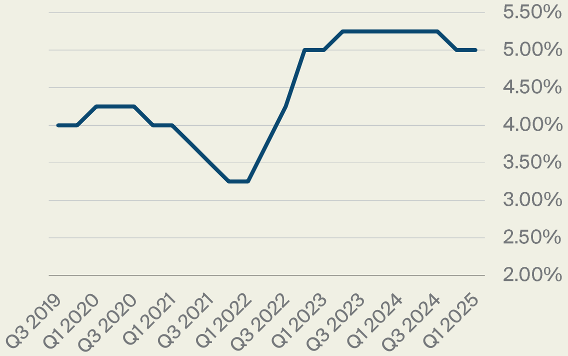
The London & South East industrial investment market showed further signs of improved sentiment in Q1 2025. The strong finish to 2024 for transactions means there is an increasing number of comparables to price off, and confidence is rising on both sides, with buyer and seller expectations beginning to align more closely. There is still ample capital waiting to be deployed, but despite a gradual launch of new supply in Q1, stock remains limited.

In the largest single-let transaction in Q1, Valor Real Estate Partners and QuadReal Property Group's joint venture acquired a 630,000 sq ft Tesco-leased last-mile distribution centre in Purfleet, Essex, from Canada Life for £127.7 million. The price reflected a net initial yield of 5.51%. Tesco has nine years remaining on the lease.

Prime industrial yields in the South East remained stable at 5.00% in Q1 2025, having compressed by 25 bps in Q4 2024.

Prime Yields – South East

Net Initial Yield (%)



Source: Knight Frank Insight

MARKET VIEW

The capital targeting the sector is there and continues to grow

BY JOE KANE, PARTNER, LOGISTICS & INDUSTRIAL CAPITAL MARKETS

"After a strong Q4 2024 within the London & South East industrial and logistics sector, with investment volumes reaching £1.1 billion, 2025 started with a sense of positivity. Despite this, final Q1 investment volumes are likely to be lower than seen in the final quarter of 2024. Given the geopolitical and economic volatility that we have faced at the start of the year, the lower investment volumes are not really a surprise.

The Bank of England's 25 basis point cut at the end of last year undoubtedly boosted confidence, and despite the aforementioned economic and geopolitical events, investor sentiment for the sector remains strong. All of the properties that Knight Frank marketed in Q1—from Core and Core Plus to value-add opportunities—have been well received by a broad spectrum of investors. It is clear that the capital targeting the sector is there and continues to grow.

With this positive sentiment, further drops in BoE interest rates in 2025 are likely to sharpen investment yields within the sector. A strengthening occupier market, with requirements on the rise across the UK, will also act as a catalyst for more allocation to the sector.

A number of transactions within the quarter highlight confidence in the market, with Hines purchasing Project Rum Portfolio from L&G for £92.5 million, Argo purchasing Tuscum Trading Estate in Camberley from Delancey for £40.5 million, and Maple Tree purchasing Verda Park, Wallingford from Equation for c. £30.5 million. Over the past two weeks, we have seen a flurry of opportunities launched across the UK highlighting the depth of confidence in the market."

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 Commercial Insight.

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