

LOGIC: London & South East



Q2 2023

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

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Image: Hyperion, Braintree (Marshgate Group/CBRE IM)

Occupier Market

Take up returns to pre-pandemic levels, while supply shortages have eased

TAKE UP RETURNS TO PRE-PANDEMIC LEVELS

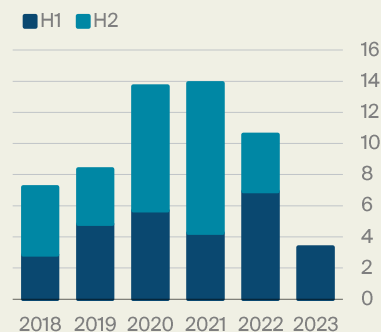
The second quarter of 2023 recorded 1.1 million sq ft of industrial and logistics take up across the London & South East region (units over 50,000 sq ft), bringing the half-yearly total to 3.3 million sq ft. This is less than half the volume recorded in the comparable period last year, but is 1.9% ahead of the pre-pandemic 5-year H1 average.

Over the first half of the year, economic headwinds and inflationary pressures have slowed the pace of transactions completing.

HIGH-QUALITY SPACE SOUGHT AFTER

Occupiers continue to choose new and modern units with strong ESG credentials to satisfy their requirements. Pre-let or pre-sold units, and speculatively completed space, together account for 55% of take up in the first half of 2023. Build-to-suit units account for a further 18% of the total. The remaining 27% of space taken up was second-hand, though a number of these units are due to undergo refurbishment to meet the requirements of occupiers seeking high-quality space.

Take up (sq ft) million square feet



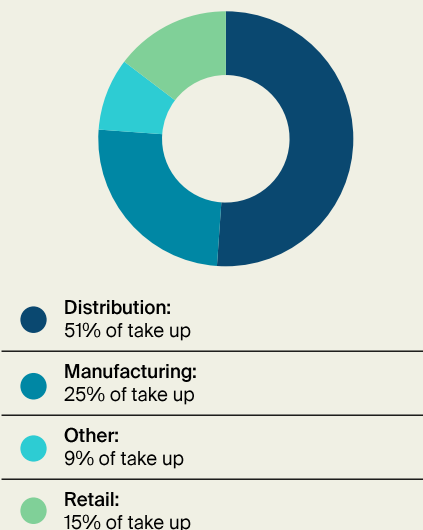
Source: Knight Frank Research

In quarter two, the 158,317 sq ft Unit 5 at Port One Logistics Park was pre-sold to Hemisphere Logistics. Units at Port One Logistics Park have been rated 'Very Good' by BREEAM. At St Modwen Park Gatwick, G120 was pre-let to DHL on a 15-year lease, while DHL also agreed a 10-year lease on a 52,500 sq ft new build at Bolt 57, Miles Gray Road, Basildon. In West London, Matthew Clark agreed to lease 113,604 sq ft at Orbital West, Aerodrome Way, Heston, at £25.50 psf.

DIVERSE MIX OF TENANTS TAKING SPACE

In the 12 months to June, just under 7 million sq ft of space was taken up, with a diverse mix of tenants taking space. Distribution firms accounted for over half of the total (51%). This was followed by manufacturing firms, at 25%, up from 16% recorded one year previous. Retailers' share of take up has decreased year on year, from 48% to 15%.

Take up by sector Q3 2022 – Q2 2023



Source: Knight Frank Research

MARKET VIEW

Rebalance between supply and demand



BY GUS HASLAM, PARTNER,
LONDON & SOUTH EAST
LOGISTICS & INDUSTRIAL AGENCY

“The London & South East industrial market is approaching pre-pandemic levels with a rebalance between supply and demand. With take up down, availability up, and less speculative development, the change is hardly surprising considering the on-going economic headwinds. However, the market is “good”; some geographical areas remain starved of good-quality stock; rents are stable, if not rising in certain areas; enquiries are steady and lettings are completing, though they are often taking longer. With occupiers increasingly cost cautious, we are starting to see incentives tick up.”

Occupier Market

3.3 million sq ft

Occupier take up
H1 2023

5.0%

Vacancy rate
Q2 2023

£27.50 psf

Prime rents
Q2 2023

10%

Prime annual rental growth

“Pre-let or pre-sold units, and speculatively completed space, together account for 55% of H1 2023 take up”

FEWER SPECULATIVE DEVELOPMENT COMMENCEMENTS

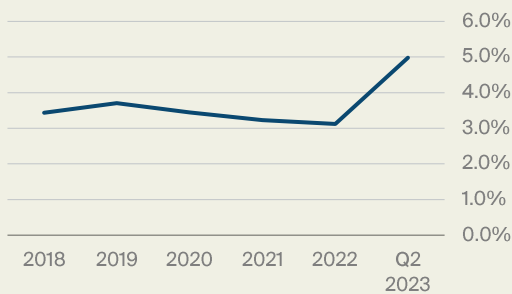
Availability of units over 50,000 sq ft increased by 15.2% in Q2, to 11.8 million sq ft, 16% of which was under offer at quarter end. The uplift in supply was driven by a combination of new development completions and the return of grey space to the market. This resulted in the vacancy rate increasing from 4.3% to 5.0% during the quarter.

Given the higher costs of capital and development costs, we are seeing fewer speculative development commencements across the region. At the end of Q2 2023, 3.4 million sq ft of space was under construction speculatively (units 50,000 sq ft+), 27% lower than Q1. The number of units under construction declined q/q from 38 to 28, with only two new units over 250,000 sq ft under way.

RENTAL LEVELS & OUTLOOK

Reflecting a more moderate level of take up and supply-side increases, prime industrial rents across the region remained stable for Q2 2023. On an annual basis, prime rents in West and East London are 10% and 11.1% higher respectively, at £27.50 psf and £20 psf (units 50,000 sq ft+). Average rents are forecast to grow by 4.3% in London and 4.7% in the South East for 2023, according to RealFor.

Vacancy Rate % of stock

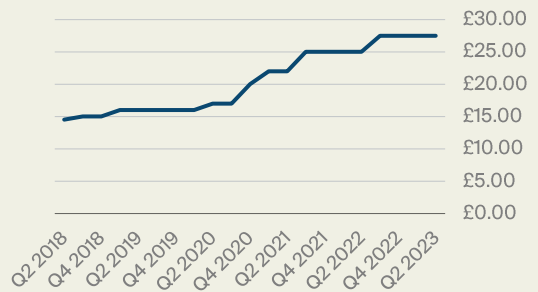


Source: Knight Frank Research

“Given the rise in development and financing costs, we are seeing fewer speculative development commencements”

West London - Prime Rents

£ per sq ft (units >50,000 sq ft)



Source: Knight Frank Research

Key Occupier Deals H1 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
DC3/4, Prologis Park Beddington	151,060	Harvest London	£19.50 psf	Speculative build
G120, St Modwen Park Gatwick, Croydon	120,911	DHL	£14.25 psf	Pre-let
Orbital West, Aerodrome Way, Crawley	113,604	Matthew Clark	£25.50 psf	Second-hand
Pasadena Distribution Centre, Hayes	72,250	Panalux	£20 psf	Second-hand

Source: Knight Frank Research

Investment Market

£941 million

Investment total
H1 2023

£21.2 million

Average lot size
(last four quarters)

43%

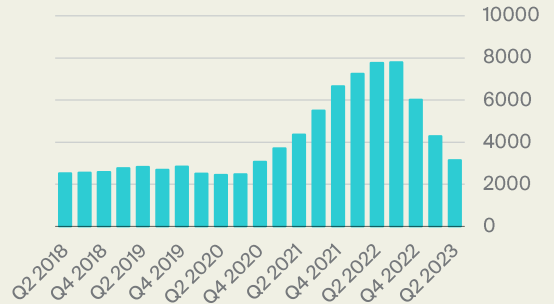
Overseas capital
(last four quarters)

5.00%

Prime yield
Q2 2023

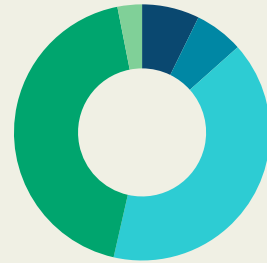
“Approx. £941 million worth of capital was invested in the first half of 2023”

Investment totals (£m)
(four quarter rolling)



Source: Knight Frank Research

Investment by purchaser type
Q3 2022 – Q2 2023



- **UK institution:**
7% of investment
- **Listed Property Company:**
6% of investment
- **Private Property Company:**
41% of investment
- **Overseas Investor:**
43% of investment
- **Private/Other:**
3% of investment

Source: Knight Frank Research

INVESTOR VOLUMES REMAIN THIN

Transaction activity in the region’s industrial investment market has been notably slower over the past year, as wider economic uncertainties have led to a mismatch between buyer and seller expectations. Approx. £941 million worth of capital was invested in the first half of 2023, bringing the total for the four quarters to Q2 to £3.1 billion. This is 60% lower on the comparable period last year. Overseas buyers and UK property companies have been most active over the past year, while institutional investors have been less acquisitive.

Following the outward shift of prime industrial yields in the latter half of 2022, prime yields in the London & South East region have remained stable over the first half of 2023, at 5.00%.

“Prime yields in the London & South East region have remained stable over the first half of 2023”

Key Investment Deals

H1 2023

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Amazon, Hannah Close	Wembley	£74m	3.49%	Confidential	abr dn
Peterborough Gateway	Peterborough	£54m	4.21%	Clarion Partners LLC	Equites International
Alpha Park, Chandler’s Ford	Southampton	£26.2m	4.98%	Leftfield Capital	BlackRock
Fairway Trading Estate, Green Lane	Heathrow	£25m	4.96%	Milton Group	Hermes UK
Wellington Park Industrial Estate	Southampton	£19.3m	4.50%	TRUMPF Laser UK	CBRE IM

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.

