

LOGIC: London & South East



Q2 2024

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

Prime rents remain steady, despite moderated demand and increased supply

SLOW BUT STEADY TAKE UP

The second quarter of 2024 recorded 1.1 million sq ft of industrial and logistics occupier take up across the London & South East region (units over 50,000 sq ft). This brings the half-yearly total to 2.9 million sq ft, 19% lower than the volume recorded in H1 2023. The London & South East industrial market has returned to more typical pre-pandemic market conditions.

Twelve transactions completed in quarter two, all of which were under 150,000 sq ft in size. The largest of these was the 147,015 sq ft Unit 4, PLP MK in Milton Keynes, let to keg supply chain company, Kegstar, on a 15-year lease at £13.00 psf. The unit was developed last year in accordance with the UK Green Building Council and is rated EPC 'A'.

RISE IN DEMAND BY FOOD AND DRINK MANUFACTURERS

Food and drink manufacturers were particularly active in the region in Q2. Greene King Brewers agreed terms with developer Jaynic at Suffolk Park in Bury St Edmunds for a new 129,100 sq ft brewery. The plot sits alongside a 161,344 sq ft warehouse that Greene King leased from Jaynic last year. In addition, Carlsberg Marston's Brewing

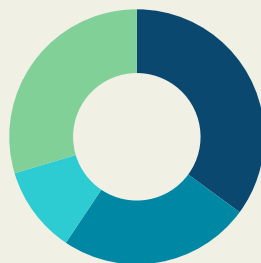
Company (CMBC) agreed a 15-year lease on Unit 1, Total Park in Bedford (105,315 ft), while bakery company Warburtons agreed to pre-let the 65,000 sq ft Unit 6, Symmetry Park in Biggleswade on a 25-year lease.

The manufacturing sub-sector accounted for 60% of take up in the second quarter and 24% over the past year. Demand from retailers is also gradually strengthening as the economic outlook improves. Retailers comprised 30% of annual take up, up from 17% in the same period last year.

VARIETY OF SECOND-HAND STOCK OFFERS MORE CHOICE

Take up of second-hand space has risen by 14% year-on-year and comprised 42% of take up annually to Q2. The majority of this comprises good-quality, grade A buildings, with the increased variety of available second-hand stock providing more choice. However, a preference for prime units in core locations remains.

Take up by sector Q3 2023 – Q2 2024



- **Distribution:**
35% of take up

- **Manufacturing:**
24% of take up

- **Other:**
11% of take up

- **Retail:**
30% of take up

Source: Knight Frank Research

THAMES VALLEY MARKET VIEW

Tenants seeking more flexible lease terms to counter the headwinds

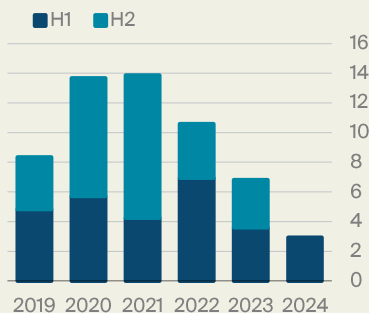


BY SHAUN ROGERSON, PARTNER,
LONDON & THAMES VALLEY
LOGISTICS & INDUSTRIAL AGENCY

“Despite weaker demand during the first half of this year, there remains an undersupply of available warehouse accommodation in the Thames Valley and wider region. As a result, headline rents have continued to rise, and rent-free periods have remained consistent. Tenants are instead seeking more flexible lease conditions to counter the market’s headwinds, and break options at years 3 or 5 have become more commonplace.

Developers are delivering much needed new sustainable warehousing in many of the towns throughout the region, with new speculative schemes under way in Basingstoke (Intec Business Park & Tungston Park), Hook (Bartley Junction), Frimley (Frimley BP), Bracknell (Logistics City / Eco 52), Reading (Greenlight & Hurricane Park), Slough (Edinburgh Avenue) and High Wycombe (Tungsten Park). As a result of the ongoing supply demand imbalance and with new, higher quality warehouse accommodation due to come available this year, rents are set to further increase.”

Take up (sq ft) million square feet



Source: Knight Frank Research

Occupier Market

2.9m sq ft

Occupier take up
H1 2024

6.5%

Vacancy rate
Q2 2024

£28.00 psf

Prime rents
Q2 2024

1.8%

Prime annual rental growth

“Availability of new-build units edged down by 0.8% in Q2”

RETURN OF SECOND-HAND SPACE BOOSTS SUPPLY

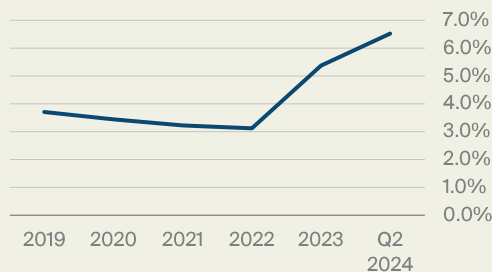
Supply levels rose in Q2 driven by the return of second-hand space to the market. Approximately 15.8 million sq ft of existing floorspace was available at quarter-end (units 50,000 sq ft+), representing an 11.9% quarterly increase and 34% annually. Second-hand availability alone rose by 22% during the quarter, while the availability of new-build units edged down by 0.8%. Supply also remains heavily concentrated in units under 250,000 sq ft, comprising 93% of the number of available units. The quarterly uplift in supply softened the vacancy rate further to 6.5%, from 5.9% recorded in Q1.

Speculative space under construction was 38% higher annually to Q2, at 4.7 million sq ft (units 50,000 sq ft+). Notable commencements included two units at Panattoni Park Milton Keynes (448,366 sq ft and 343,666 sq ft), and two at Panattoni Park Sittingbourne (439,228 sq ft and 205,320 sq ft).

RENTAL LEVELS & OUTLOOK

Prime industrial rents for units over 50,000 sq ft remained mostly stable in Q2 2024. Prime rents are currently £28.00 psf in West London, £23.50 psf in North London, £21.00 psf in South London, and £20.00 psf in East London. Average rents are forecast to grow by 5.5% in London and 5.1% in the South East for 2024, according to RealFor.

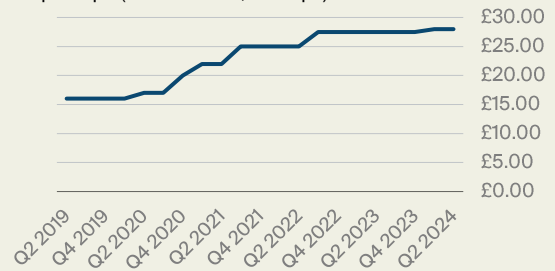
Vacancy Rate
% of stock



Source: Knight Frank Research

West London - Prime Rents

£ per sq ft (units over 50,000 sq ft)



Source: Knight Frank Research

“The manufacturing sector accounted for 60% of Q2 take up and 24% over the past year”

Key Occupier Deals H1 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
Unit 4, PLP MK, Milton Keynes	147,015	Kegstar	£13.00 psf	Speculative build
Unit A1, A2 & D1 Spark, Bishop's Stortford	113,885	Delta Group	Undisclosed	Pre-let

Investment Market

5.25%

Prime NIY – South East
Q2 2024

Stable

YOY movement in prime yields

MARKET OUTLOOK APPEARS MORE STABLE

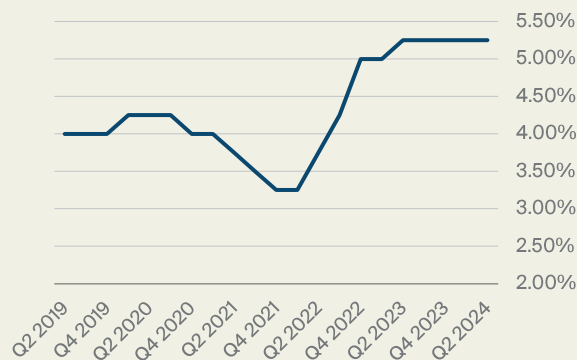
Prime industrial yields in the South East region remained stable in Q2, at 5.25%, though the quarter saw sentiment improve and strong pricing taking place on assets going under offer. Since the turn of the market in Q2 2022, prime yields in the region have softened by circa 200 bps.

Subdued transaction volumes this year have been due to a lack of supply as opposed to a lack of demand. With the general election behind us and a base rate cut likely to take place during the third quarter, there is a renewed sense of optimism amongst buyers and sellers, and an increasing consensus that now is an attractive time to enter the market.

Investment deals in Q2 include Kennedy Wilson’s acquisition of the Heathrow Estate, a multi-let industrial estate, from SEGRO for £87.4 million. The estate totals 310,000 sq ft, with tenants including HSS Hire and PRS Logistics. In addition, ARES purchased Unit B, New Hythe Lane in Aylesford from Oxenwood Real Estate for £34.6 million (NIY 5.75%). The 246,000 sq ft unit is occupied by GXO Logistics.

Prime Yields – South East

Net Initial Yield (%)



Source: Knight Frank Research

MARKET VIEW

Renewed optimism, and good demand for the right product



BY WILL GUBB, PARTNER,
HEAD OF INDUSTRIAL CAPITAL MARKETS

“2023 was a challenging year for the sector, with inflationary pressures resulting in a continued softening of yields and heightened debt costs. Since the turn of the year, there has been a renewed sense of optimism, and in H1 2024, a number of buyers who sat on the sidelines throughout last year returned to the market, on the premise that the market is “shallowing out” and the outlook was much more stable, especially with a potential rate cut on the near-term horizon.

Although transaction volumes will be subdued for the first half of 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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