

LOGIC: London & South East



Q3 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 edge up despite a challenging market

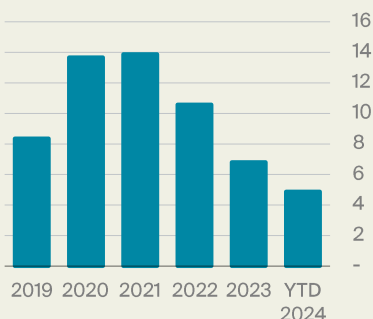
TAKE UP IMPEDED BY MACRO ENVIRONMENT

The third quarter of 2024 recorded almost 2 million sq ft of industrial and logistics occupier take up across the London & South East region (units over 50,000 sq ft). While this is marginally above the same period last year and the highest quarterly total recorded since Q1 2023, volumes this quarter were notably boosted by one significant deal.

Nuclear power company Sizewell C secured 1.1 million sq ft at the entire of Orwell Logistics Park (OLP) in Ipswich to initially support the supply chain requirements for the construction of its nuclear power station in Suffolk, where work is already progressing on-site. Sizewell C will occupy two completed units of 301,214 sq ft and 256,255 sq ft (Phase 1) and agreed to pre-let a further 525,000 sq ft (Phase 2), along with over five acres of open storage space.

Take up for the year-to-date (YTD) amounted to 4.9 million sq ft, 12% lower than the same period last year. Macroeconomic and political challenges have continued to weigh on occupiers this year; however, with the economic outlook improving, the general election behind us, and a positive level of enquires, this may lead to improved take up in the coming quarters.

Take up (sq ft)
million square feet



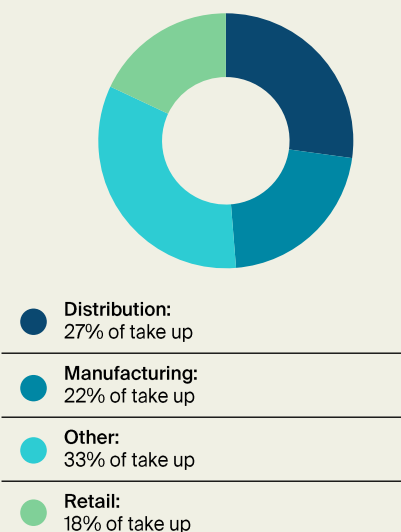
Source: Knight Frank Research

Another notable letting in Q3 was the 67,522 sq ft RP6, Radius Park at Heathrow to international freight forwarding company Rock-It Global & Dynamic on a 15-year lease. The unit recently underwent extensive refurbishment, and the building was let at £26.00 psf.

VARIETY OF OCCUPIER BASE IS EXPANDING

Demand over the past year has come from quite a diverse mix of occupiers. Notably, the share of take up by other, alternative occupiers has risen to 33% from 13% last year. While this is largely bolstered by Sizewell C, when excluded, take up by non-traditional occupiers has still risen by 12% year-on-year in a market that has seen take up levels moderate. These include occupiers such as film studio operators and companies specialising in transport infrastructure. While demand from manufacturers remains steady, distribution firms and retailers have been less active in the London & South East market over the past year.

Take up by sector
Q4 2023 – Q3 2024



Source: Knight Frank Research

MARKET VIEW

Increased void rates will present opportunities for churn on multi-let assets



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

“Q3 2024 proved challenging for the industrial occupational market. Whilst enquiry levels remained positive, continued economic uncertainty limited the number of transactions. Rents have, in general, remained firm but the cost-cautious occupier is taking longer to make the decision to relocate. In this game, time can be a “killer” to a deal. The holiday period was quieter than usual, though that did not prevent several larger requirements being issued and some notable deals completing. Clearly there remains confidence in the Greater London & South East industrial market.

Void rates are continuing to increase across the region, though some areas like Heathrow and West London are faring better than others. Whilst of some concern, this will present opportunities for churn on multi-let assets, to increase rents and widen the tenant base.

We are back to pre-pandemic activity levels where the need for strong agency is a prerequisite.”

Occupier Market

4.9m sq ft

Occupier take up
YTD 2024

7.0%

Vacancy rate
Q3 2024

£30.00 psf

Prime rents
Q3 2024

9.1%

Prime annual rental growth

“Only three new-build units over 250,000 sq ft available”

SUPPLY DRIVEN BY SECOND-HAND STOCK

Availability rose by 7.9% in Q3 to 17.1 million sq ft (units 50,000 sq ft+) and is 32% higher annually. The vacancy rate therefore softened to 7.0%, from 6.5% recorded in Q2. While construction completed on over 1 million sq ft of floorspace in Q3, robust demand for new, modern buildings has meant that the actual supply of new buildings rose by only 2.6% (+180,000 sq ft). Meanwhile, second-hand availability rose by 11%. Much of the second-hand supply (69%) provides good quality, grade A options. However, total supply remains heavily concentrated in units under 250,000 sq ft, comprising 95% of the number of available units, while there are only three new-build units over 250,000 sq ft available.

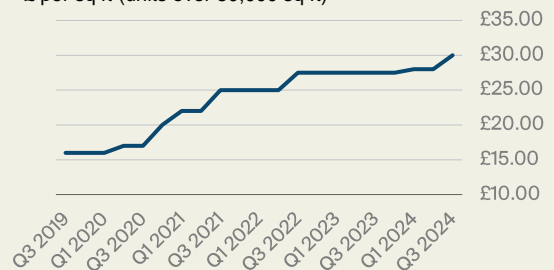
Speculative space under construction declined by 13% in the quarter to 4.1 million sq ft (units 50,000 sq ft+). Commencements this quarter included four units at Phase 3 of Prologis Park Hemel Hempstead.

RENTAL LEVELS & OUTLOOK

Prime industrial rents in West London increased by 7.1% in Q3 and are 9.1% higher annually, at £30.00 psf (units 50,000 sq ft+). Prime rents in East, North and South London remained stable, at £20.00 psf, £23.50 psf and £21.00 psf, respectively. Average rents are forecast to grow by 6.0% in London this year and 4.5% next year, while 4.4% and 3.3% growth is expected for the South East 2024 and 2025, respectively, according to RealFor.

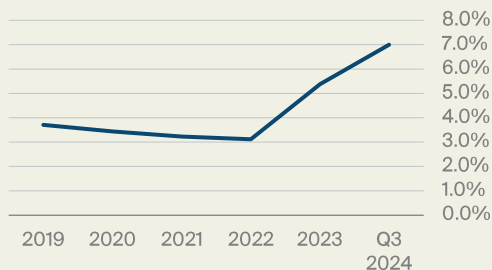
West London - Prime Rents

£ per sq ft (units over 50,000 sq ft)



Source: Knight Frank Research

Vacancy Rate
% of stock



Source: Knight Frank Research

“Prime industrial rents in West London increased by 7.1% in Q3, to £30.00 psf”

Key Occupier Deals YTD 2024

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Units 1, 2 & 3 Orwell Logistics Park, Felixstowe	1.1 million	Sizewell C	Undisclosed	Speculative build / Pre-let
Hemel 465, Boundary Way, Hemel Hempstead	465,000	Brakes Catering Equipment	£15.00 psf	Second-hand
Hemel 161, Prologis Hemel Hempstead	161,134	Food Service Logistics Ltd.	£18.00 psf	Second-hand
RP6, Radius Park, Heathrow	67,522	Rock-It Global & Dynamic	£26.00 psf	Second-hand refurbishment
Bridge Point Uxbridge, Riverside Way	50,315	Nippon Express	£26.50 psf	Speculative build

Source: Knight Frank Research

Investment Market

5.25%

Prime NIY – South East
Q3 2024

Stable

YOY movement in prime yields

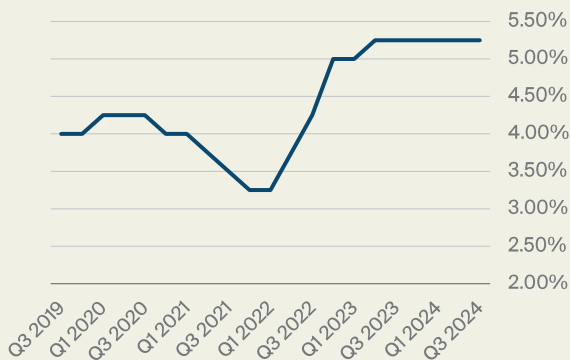
BOTTOM OF THE CYCLE HAS PASSED

Prime industrial yields in the South East region remained stable in Q3, at 5.25%, though the quarter saw sentiment improve and a renewed sense of optimism in the investment market. With the general election behind us, the first base rate cut, and debt costs lowering, there is now a strong consensus that the bottom of the cycle has passed.

Transaction volumes remain sluggish, but this is typical of a market going through a capital value correction where buyers' and sellers' expectations are misaligned. A number of buyers who sat on the sidelines throughout the past year are beginning to return and strong pricing is starting to take place. Q3 saw Prologis purchasing Western Avenue Business Park, a 16-acre site in Park Royal, from DTZ Investors for £125 million. The purchase price reflects a net initial yield (NIY) of 4.07%, though the asset is considered to be highly reversionary. In addition, Legal & General acquired Tradeway and Sutton Trade Park, a 112,500 sq ft multi-let industrial estate in Sutton, from SEGRO for £38.25 million (NIY 3.89%).

Prime Yields – South East

Net Initial Yield (%)



Source: Knight Frank Research

MARKET VIEW

Boost in confidence and strong demand for high-quality assets



BY JOE KANE, PARTNER,
LOGISTICS & INDUSTRIAL
CAPITAL MARKETS

“As we head into the final quarter of 2024, there is a consensus that we are now through the bottom, and there has been a renewed sense of optimism from a wide spectrum of investors. The Bank of England's 25 basis point cut has undoubtedly boosted confidence and the anticipated upcoming base rate cuts in Q4 will further boost confidence as we head into 2025.

A number of larger transactions in Q3 highlighted the confidence in the market, with Prologis purchasing Western Avenue Business Park, Park Royal, for £125 million, Harleyford purchasing Masthead Industrial Estate in Dartford for £38.45 million, and NFU acquiring Insignia Park, Dunstable for £37.25 million.

Whilst transaction volumes are relatively subdued, this is largely due to a lack of available stock as opposed to a shortage of demand. For high-quality assets, demand remains strong. The buyer profile continues to be led by private equity, specialist industrial sector investors, and UK institutional funds managing local authority pension mandates. We have seen extremely aggressive bidding processes on a number of best-in-class assets this quarter.”

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.

