GERALDEVE
A NEWMARK COMPANY

PRIME LOGISTICS

The definitive guide to the
UK's distribution property market

Q2 2024

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MARKET OVERVIEW

A CAUTIOUSLY OPTIMISTIC OUTLOOK: REDUCED SPECULATIVE DEVELOPMENT WILL UNDERPIN RENTS AND INVESTMENT VOLUMES SHOULD INCREASE

Occupier take-up was 11.9m sq ft in Q2 - up 14% on Q1 and 19% on Q2 2023. Manufacturers have driven the recent improvement in demand, especially those in the automotive, food & drink and construction industries. Short term comparisons are favourable but over the longer-term demand is effectively back to the pre-pandemic average.

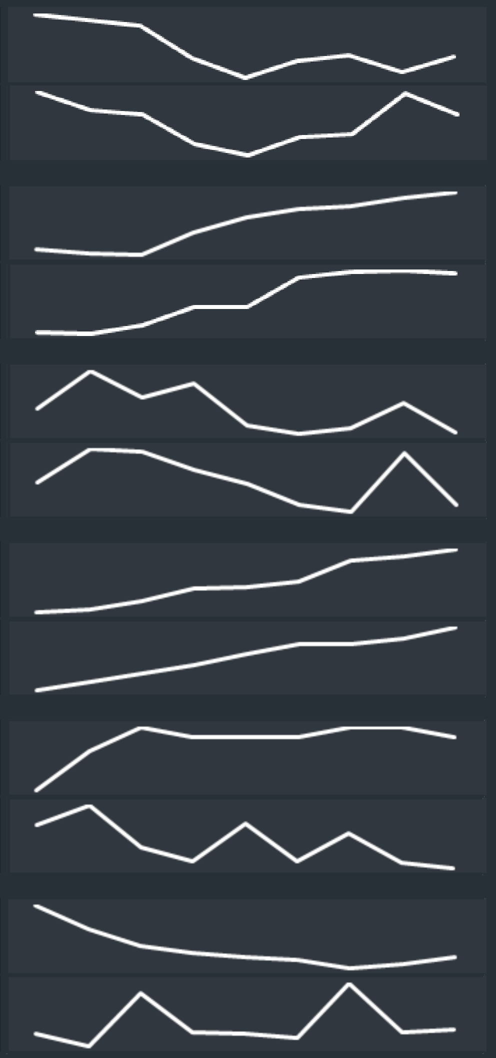
The overall rate of availability increased for the sixth consecutive quarter to 6.7% in Q2 but remains relatively low by historic standards. As with demand, this was back to a similar position to that immediately prior to the pandemic in 2020. Speculative development continued at its much-reduced rate in Q2 which, along with some flexibility in lease terms, will help underpin prime rents.

In the investment market, prime yields were estimated to have moved in by 25bps in Q2. Sentiment has continued to improve, there is more depth to the buyer pool and, crucially, the constraints on investment supply should start to release a little as we move further from the bottom of the market in 2023. Scope for yield tightening is limited but industrial returns should trend upwards over the medium term and outperform the other property sectors.

Q2 2024 UK LOGISTICS MARKET DASHBOARD

Sources: Gerald Eve, ONS, RCA

		Q2 2024	Two-year trend
OCCUPIER DEMAND	Take-up	11.9m sq ft	
	% new/modern	72%	
AVAILABILITY	Availability rate	6.7%	
	New/modern availability rate	4.5%	
DEVELOPMENT	Development starts	6.3m sq ft	
	Spec development starts	2.5m sq ft	
OCCUPIER COSTS	Average prime rent, sq ft	£11.85	
	Average weekly earnings	£687	
INVESTMENT	Average prime yield	5.25%	
	Transaction volume	£1.4bn	
ECONOMY	Annual GDP growth	-0.6%	
	Retail sales % online	26.2%	



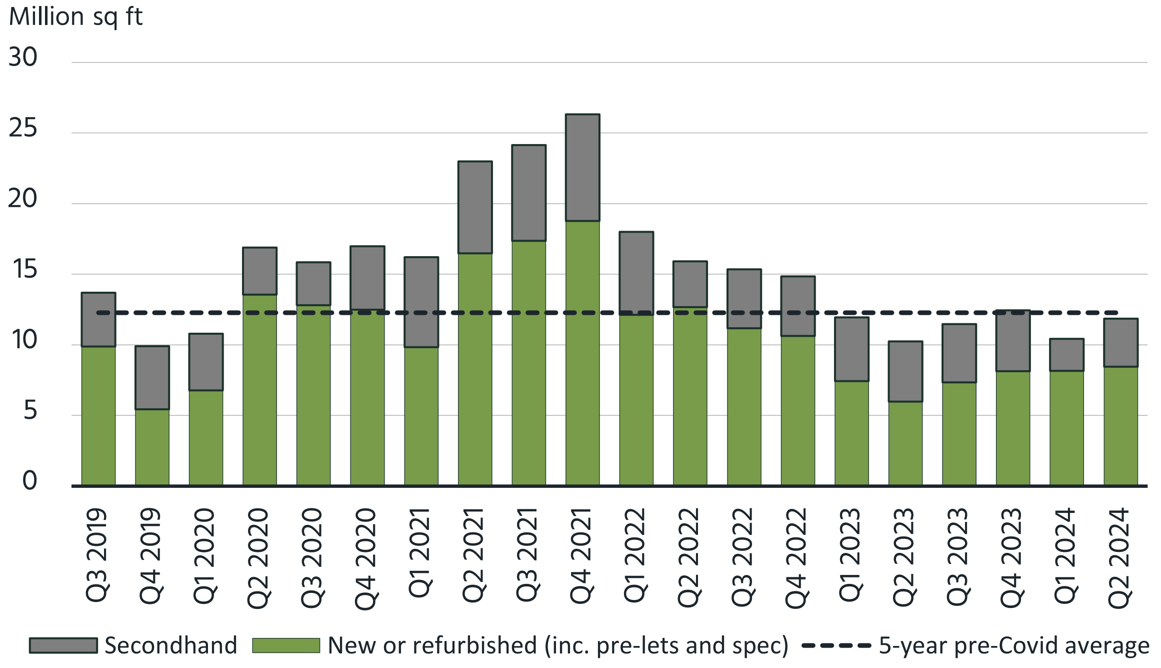
OCCUPIER DEMAND

OCCUPIER DEMAND UP 14% IN Q2

Occupier take-up was 11.9m sq ft in Q2 - up 14% on Q1 and 19% on Q2 2023. Short term comparisons are favourable but over the longer-term take-up is still effectively back to the pre-pandemic average, where it has been for the past 18 months. Occupiers have been cost-conscious and mindful of weaker trading conditions and have typically eased off on any expansion plans. But with an economic recovery gaining gradual traction and with most occupiers having shaken-out excess space, there is greater confidence around making further lettings. Space under offer both up-and-built or in the planning system also increased in Q2.

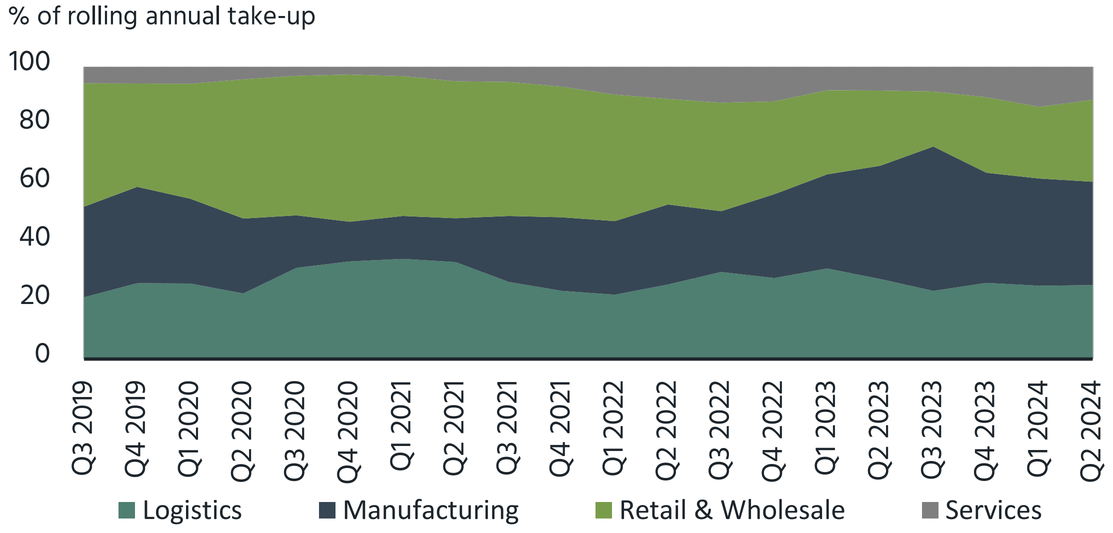
Quarterly take-up by quality

Source: Gerald Eve



Take-up by occupier sector

Source: Gerald Eve



MANUFACTURERS A SUSTAINED DRIVER OF POST-PANDEMIC DEMAND

The headline letting in Q2 was Nike's 1.3m sq ft pre-let at Magna Park Corby. This is particularly notable since, post-pandemic, retailer demand has fallen in favour of a focus on cost-saving and efficiency. In contrast, manufacturers have gained market share since 2022 and accounted for 39% of take-up in Q2. The automotive sector (Porsche, BMW, GSF Car Parts), food and drink (Kegstar, Carlsberg) and construction (Daikin, MiTek, Keracoll) were all active in Q2. Reasons for deals vary, but many are looking to de-risk supply chains through nearshoring operations while some are preparing for future expansion.

Q2 2024 key demand statistics

Source: Gerald Eve

In total there was 11.9m sq ft of take-up, up 14% on Q1.

The average unit size taken-up was 152,087 sq ft, up from 137,034 sq ft in Q1.

Manufacturers accounted for 39% of take-up.

12 buildings totalling 1.8m sq ft were taken up by occupiers in the automotive industry.

30% of the buildings taken-up were speculatively-built.

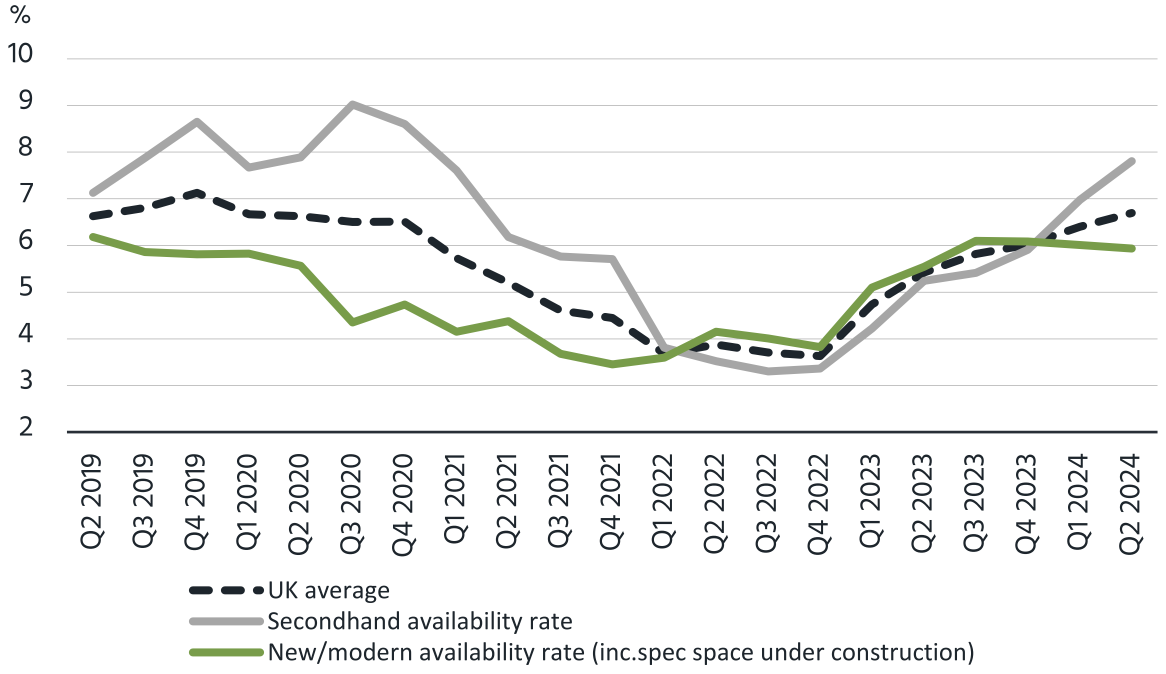
The average spec unit size taken up was 175,251 sq ft, up from 135,646 sq ft in Q1.

SUPPLY AND DEVELOPMENT

RETURN OF SECONDHAND STOCK DRIVES INCREASE IN AVAILABILITY

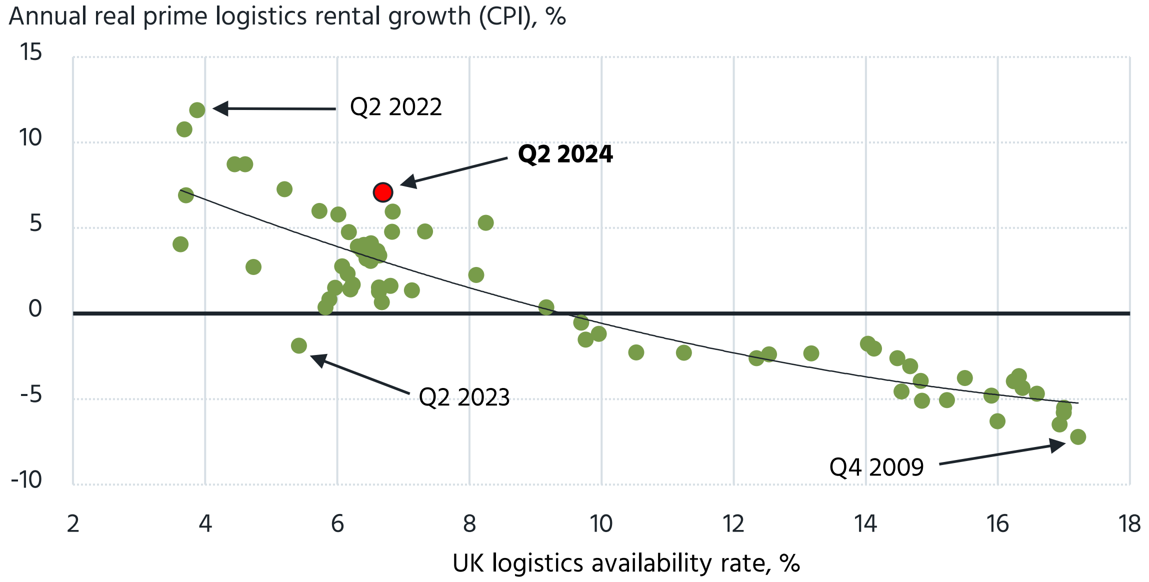
The overall rate of availability increased for the sixth consecutive quarter to 6.7% in Q2, which was the same rate recorded immediately prior to the pandemic in Q1 2020. The increase was driven by the return of secondhand stock, most noticeably in South Yorkshire, Avon & Somerset and the Northern West Midlands. Sub-lets (mostly by retailers and logistics companies) remain a feature of the market and account for 13% of total availability, but this proportion has been unchanged for several quarters. Most returned space in Q2 was due to occupiers trading up accommodation at a lease event, rather than the release of surplus space.

UK logistics availability rate, by quality
Source: Gerald Eve



Q2 2024 availability rate, by region
Source: Gerald Eve

Real rental growth and availability rate, Q1 2007-Q2 2024
Source: Gerald Eve, Bank of England



AVAILABILITY STILL LOW ENOUGH TO DRIVE REAL RENTAL GROWTH

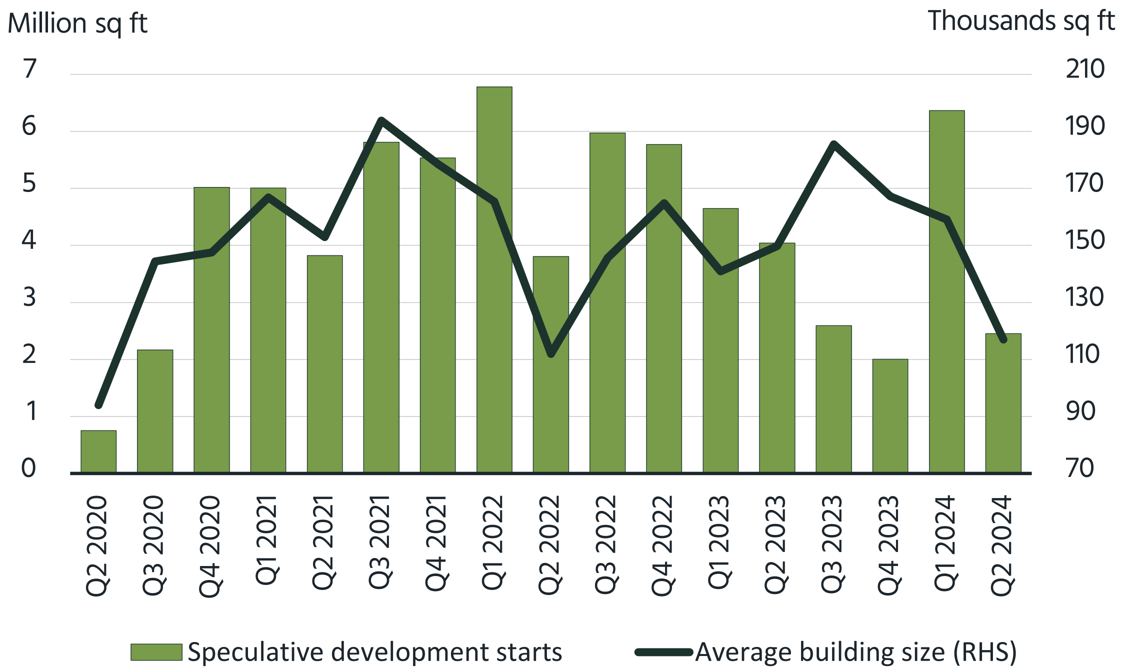
While the overall headline rate and volume of availability has increased in recent quarters, supply remains low by historic standards. Occupiers still report of a lack of viable options in certain markets, especially those with a clustering of former internet retailer accommodation, which is often heavily fitted-out and racked and therefore often unsuitable for other occupier types. As the market continues to return to more typical trading conditions and occupiers make decisions on upcoming lease events, more secondhand space could be returned to the market and overall availability may increase further in H2 2024. This increase will be moderate and any 'peak' of this supply cycle will still be restrictive enough to support positive real rental growth.

SUPPLY AND DEVELOPMENT

ONGOING MUTED SPECULATIVE DEVELOPMENT

The number and volume of speculative development starts fell sharply in Q2 after the spike in Q1. There were 21 new buildings totalling 2.5m sq ft in regions such as Merseyside & Cheshire, London North and South Yorkshire. The Q2 figure reestablished the much-reduced quarterly rate that has trended down since 2022. Softened tenant demand, and high build costs in the form of materials and cost of capital has eroded developer margins and increased risk. However, there was a noticeable increase in land preparations in Q2 in a sign of greater confidence for more favourable future conditions when the tap can be turned back on again.

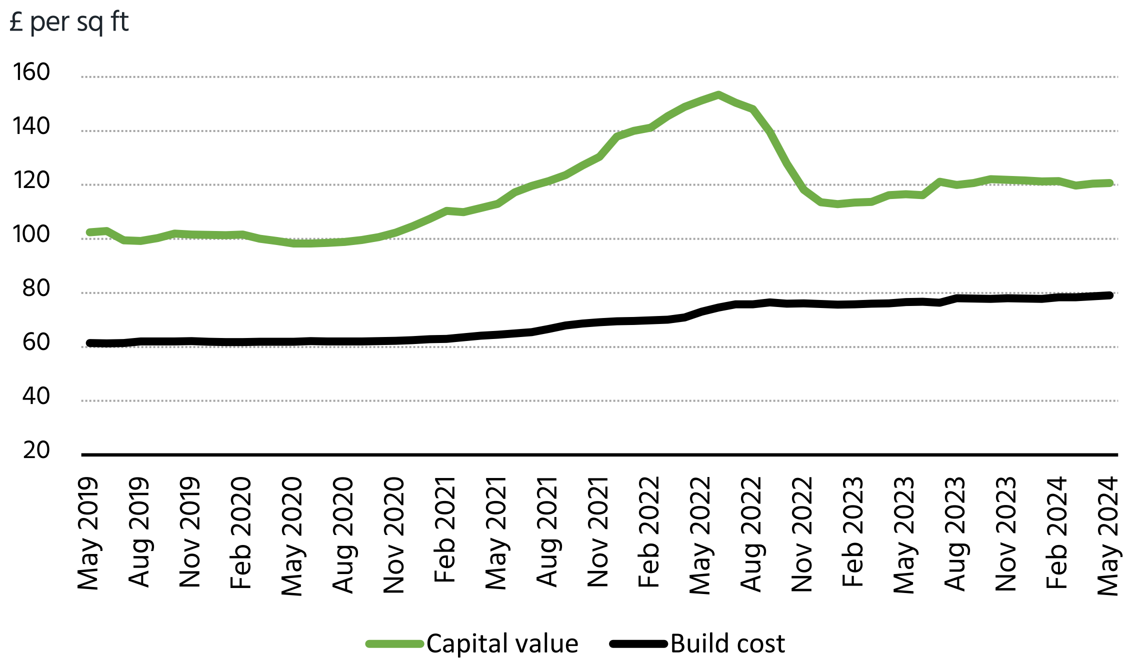
Speculative development starts and average building size
Source: Gerald Eve



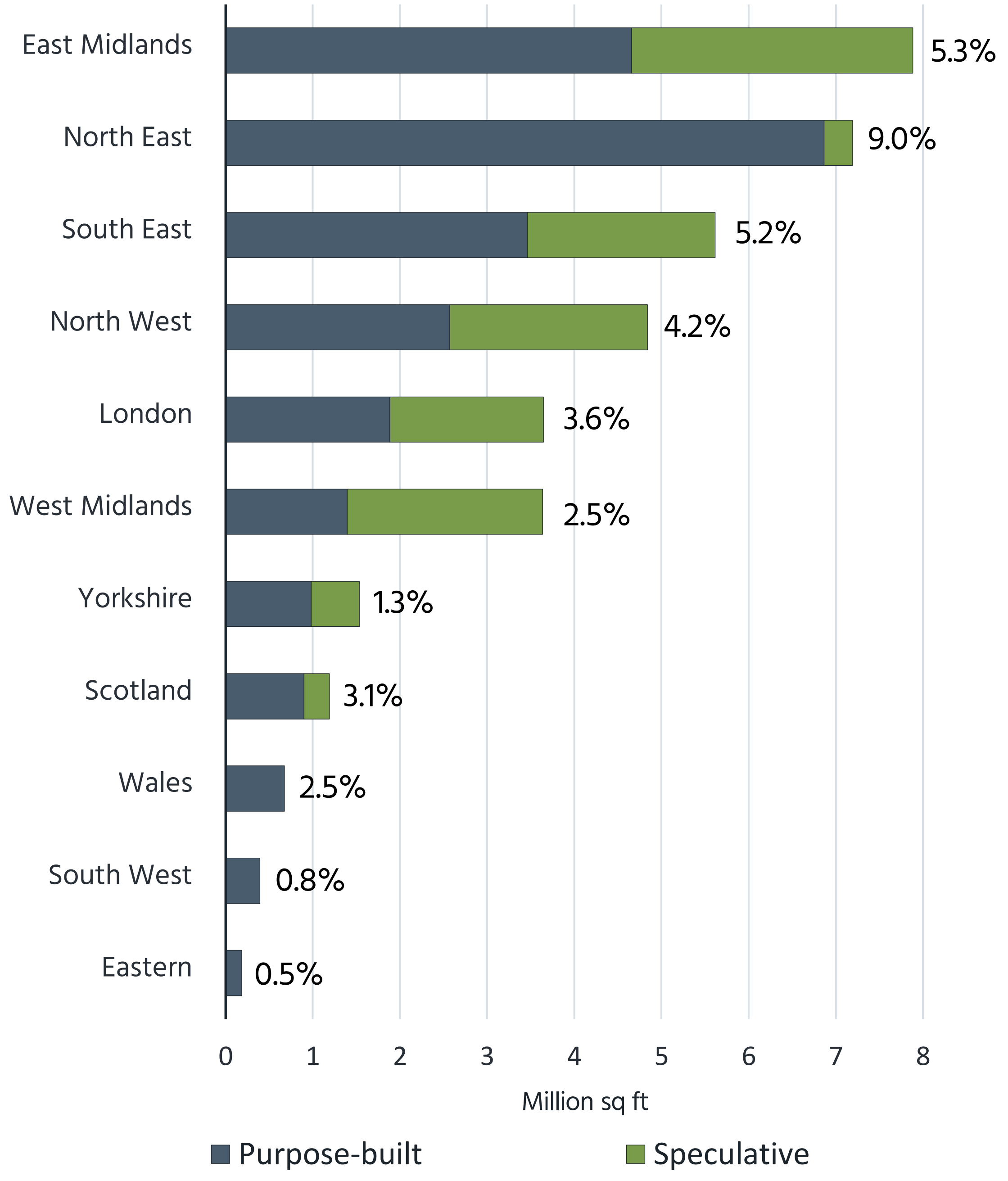
MOST ACTIVITY IN EAST MIDS AND THE NORTH EAST

Most development in Q2 was underway in the East Midlands, with developers such as SEGRO, Tritax and Logicor notably active. However, the North East was the most active region relative to total stock, with 9% currently in development. Several large-scale manufacturing units, mostly in the renewable energy sector, continue their long build periods in this region. More generally, there are several large scale, high value 'powered land' data centre schemes in the planning pipeline which will likely ensure that development activity will remain high relative to stock in non-core (often coastal) locations over the medium term.

Distribution warehouse capital value and build cost
Source: Gerald Eve, MSCI, BCIS



Space under construction at end-Q2 2024 (and % of stock)
Source: Gerald Eve



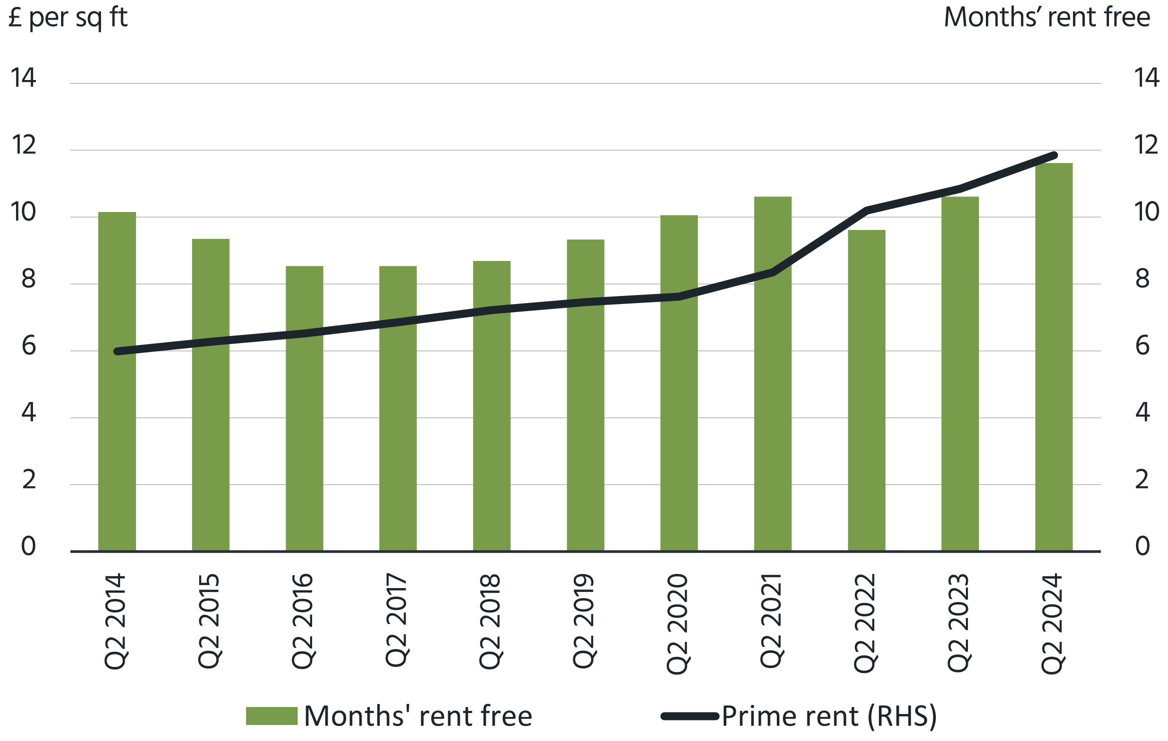
RENTS

LANDLORDS PUSH HEADLINE PRIME RENTS, BUT PROVE MORE FLEXIBLE ON INCENTIVES

Quarterly UK prime headline rental growth was 1.6% in Q2, and annual growth was 9.3%. Growth was strongest in Oxfordshire, the North West and London North, all regions with low availability rates and low levels of development. Landlords are keen to maintain and move on headline rents but are proving more flexible on incentives. Rent-frees moved out across all regions in Q2, taking the average to just under 12 months on a typical 10-year lease. Enhanced packages that include early lease breaks are also attainable in some cases.

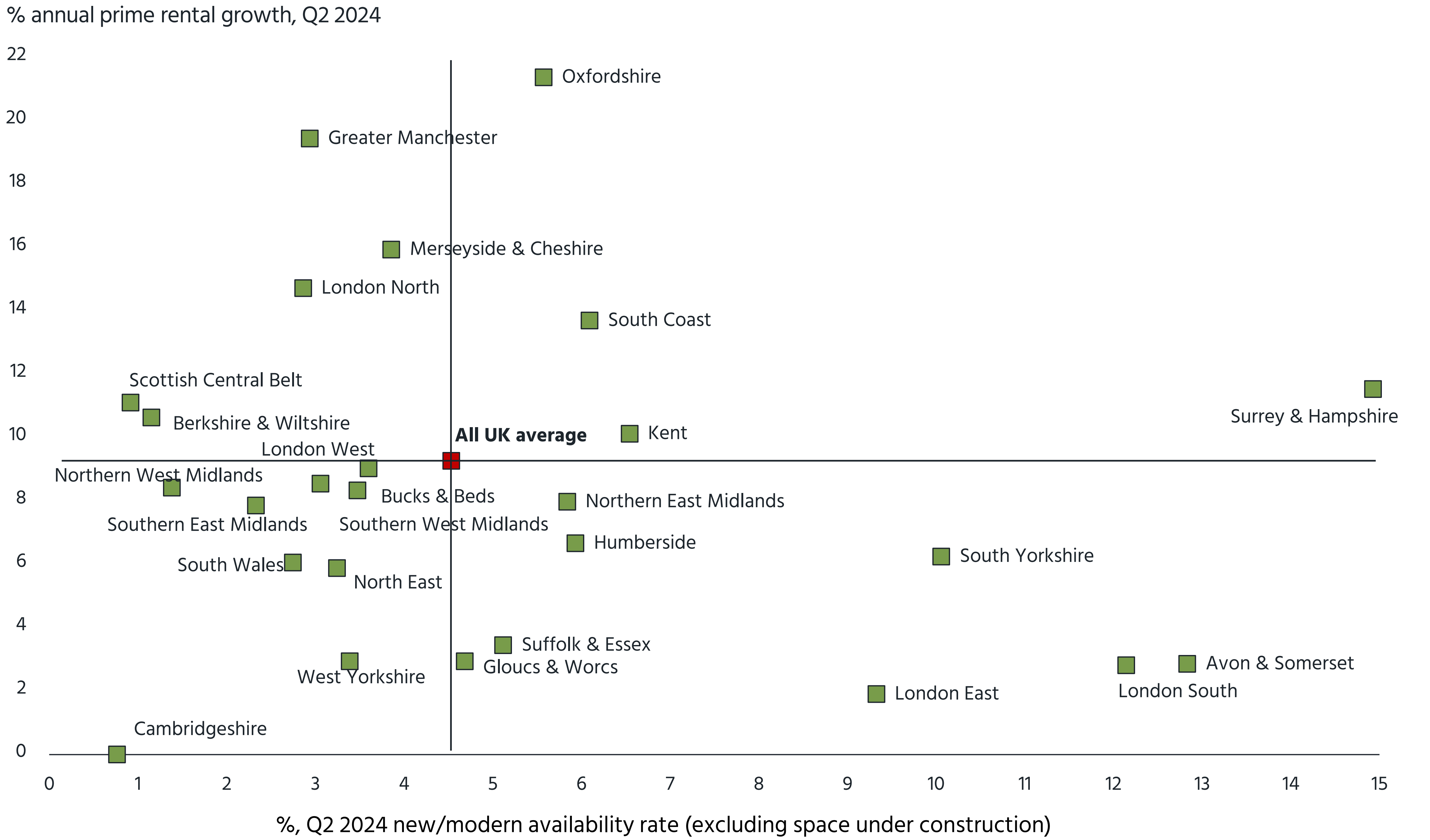
UK average prime rent and incentives, 10-year lease

Source: Gerald Eve



Q2 2024 annual prime logistics rental growth and new/modern availability rate, by region

Source: Gerald Eve



INVESTMENT

PRIME DIRECT MARKET YIELDS MOVE IN 25BPS

Prime direct market yields were estimated to have moved in by 25bps in Q2. Meanwhile, the all-grades valuations data smooth out some of the volatility in the direct market and lag the prime direct market by one quarter – and these continue to drift somewhat. Overall, the expectation that Q4 2023 was the bottom of the investment market appears to have borne itself out. Sentiment has continued to improve over 2024 and there is more breadth and depth to the buyer pool than at the start of the year. Long income index-linked leases on single-let assets are still relatively out of favour compared with multi-let. With such large reversion in the market, those assets with the best ability to capture it are currently the most sought after.

LOW INVESTMENT VOLUME BUT INCREASING SELLERS

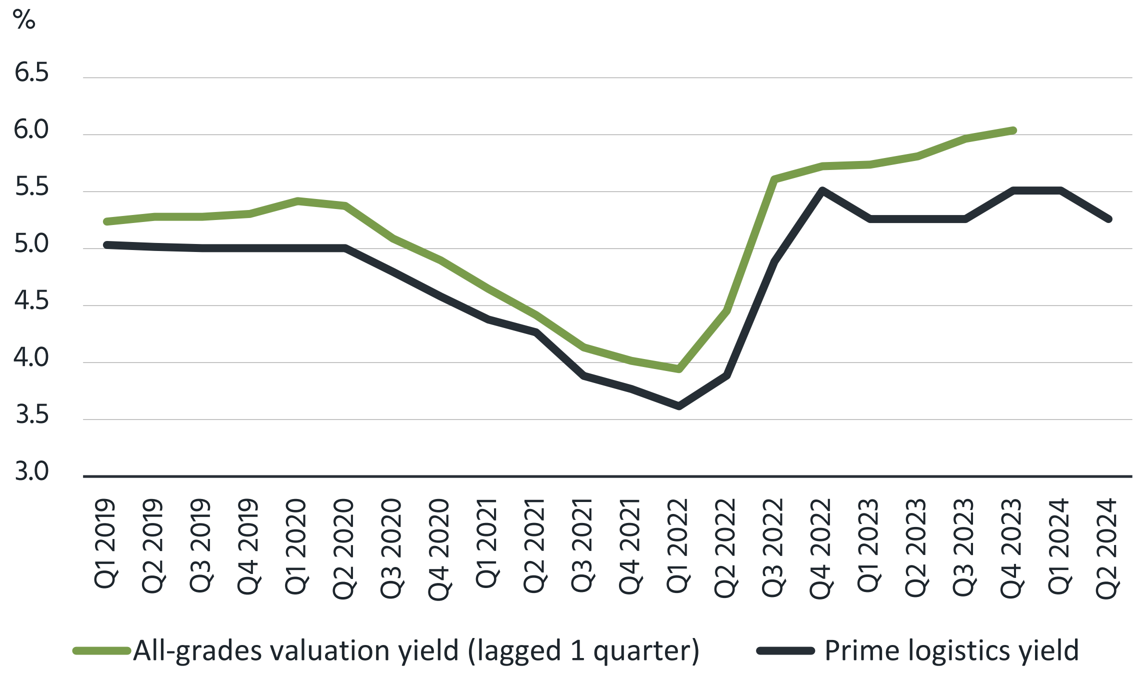
Completed transactions were subdued in the first half of 2024, mostly as a hangover from the dearth of activity at the end of 2023. The limiting factor in the face of increased buyer intentions in 2024 has been the lack of investment supply. However, the volume of sellers has increased recently and activity should pick up somewhat. It is arguably more acceptable to make assets available now that the bottom of the market was sufficiently long ago, plus the perceived risk of meaningful inward yield shift and price increases over the short term is limited, given the expected future cost of debt and relatively low yield carry.

A CAUTIOUSLY OPTIMISTIC OUTLOOK FOR RETURNS

Oxford Economics forecasts that Bank Rate will be cut by 25bps in August and November this year and a further 75bps next year. Thus, the cost and availability of debt should continue to become (moderately) more accommodating. The outlook is cautiously optimistic and annual property returns should trend upwards over the medium term – notably in 2025 when there may be some small scope for inward yield shift. Industrial should outperform the other property sectors but the upside potential for returns will be limited, given that yields continue in the main to be below where the monetary fundamentals suggest they should be.

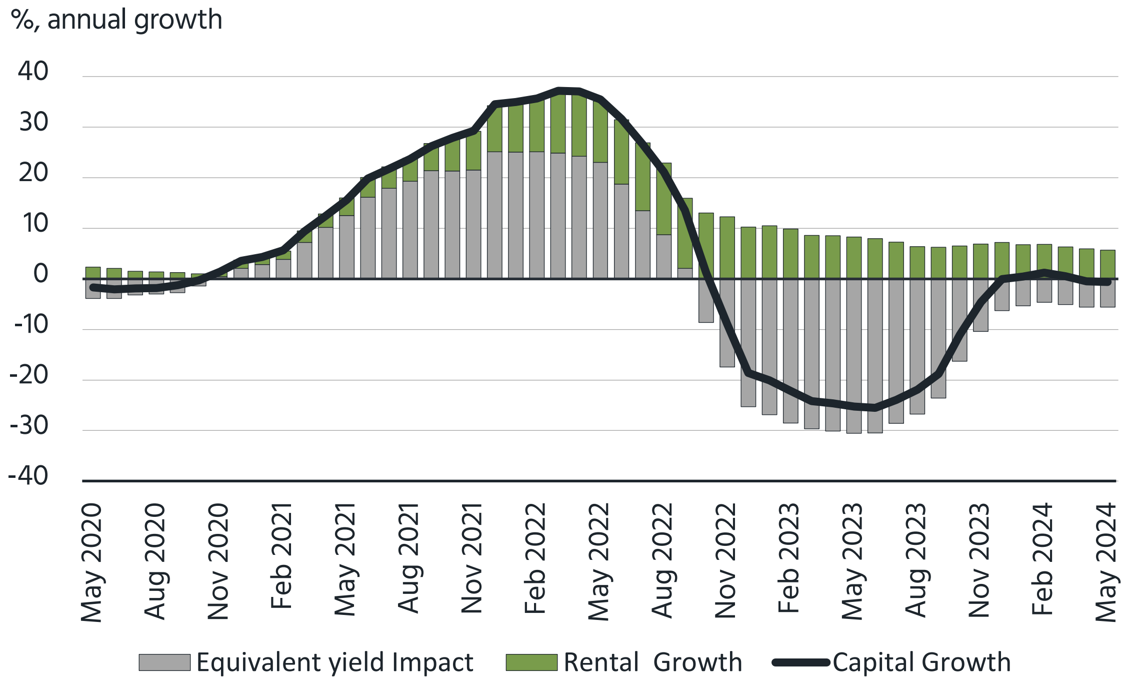
Average UK distribution warehouse equivalent yields

Source: MSCI, Gerald Eve



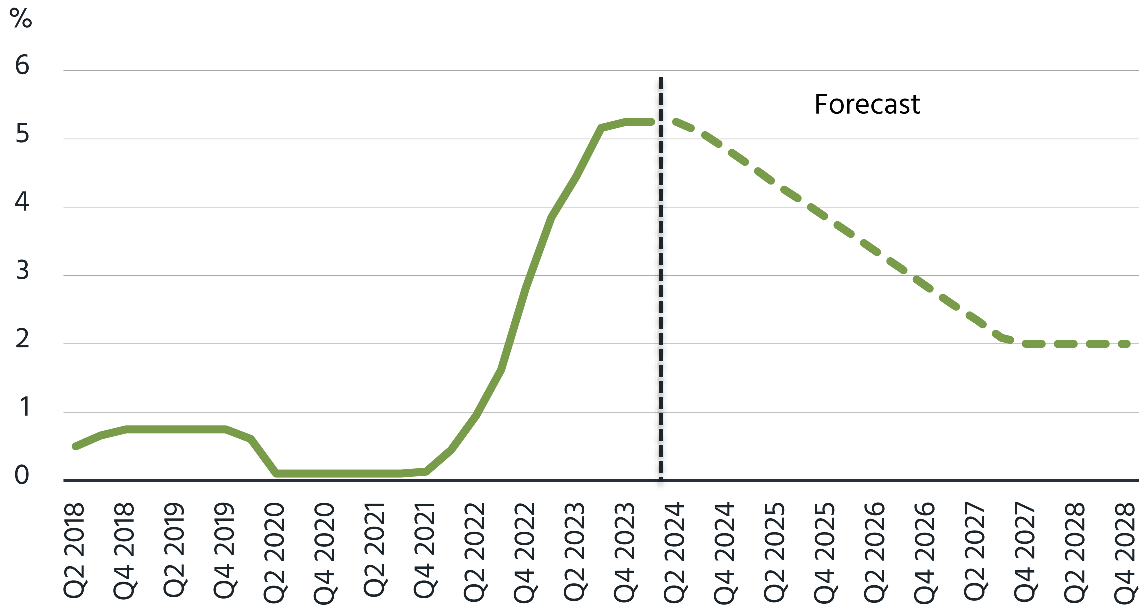
Distribution warehouse annual capital growth

Source: MSCI



UK Bank Rate

Source: Bank of England, Oxford Economics



OCCUPIER MARKET OUTLOOK

LIMITED SPECULATIVE DEVELOPMENT...

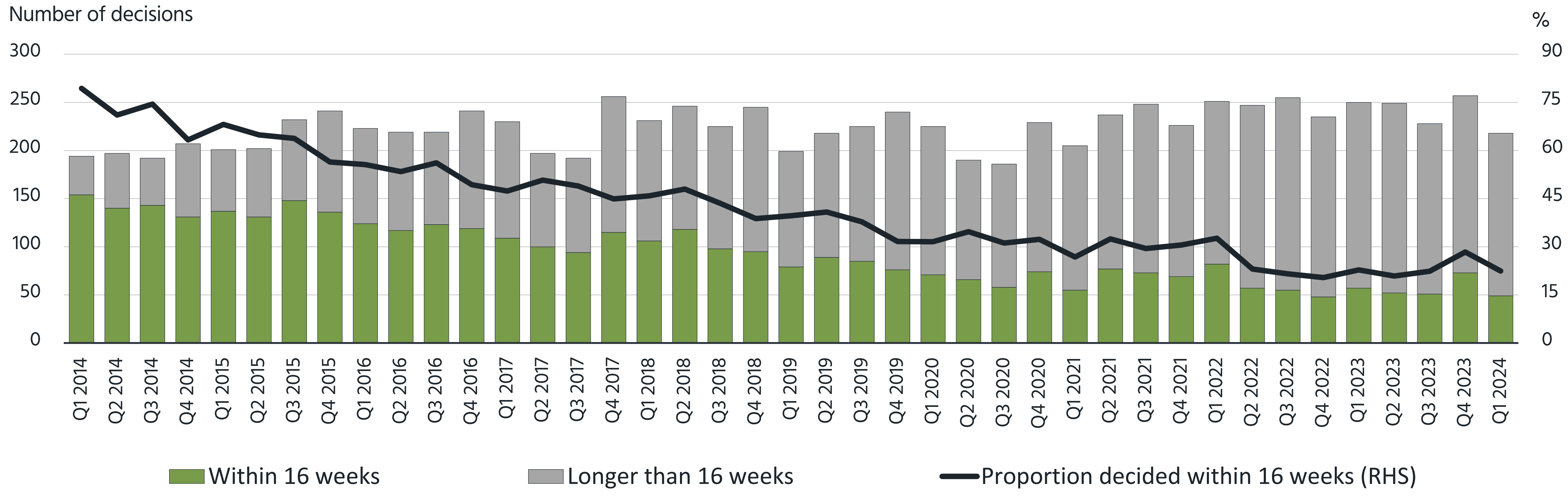
Prime, well-located, energy-efficient space is in short supply given the recent slowdown in speculative development activity and the protracted length of time needed to take sites through the planning process. A large planning application requiring an EIA should be decided within 16 weeks, but this statutory target has been missed with increasing regularity over the past 10 years. Only 23% of major warehouse planning applications were decided in this timescale in Q1 this year, down from almost 80% 10 years ago. These protracted timescales limit the pipeline of new deliveries and make the process more expensive. This effective brake on new development in turn puts a floor under prime rents.

..WILL MAINTAIN AND GROW PRIME RENTS

The 5-year outlook for rental growth is positive and above the rate of inflation, albeit around half the magnitude of the pandemic years, averaging 4.8% per year to 2028. The logistics sector will continue to benefit from established structural drivers including nearshoring, renewable energy production and storage, e-commerce, automation and technology/data creation. In the context of the property cycle over the last 10 years, the current volume of available space is relatively high (although around half is secondhand) and occupier demand is back to its long run average, but development activity is subdued. This prime supply/demand tightness is set to continue over the short term.

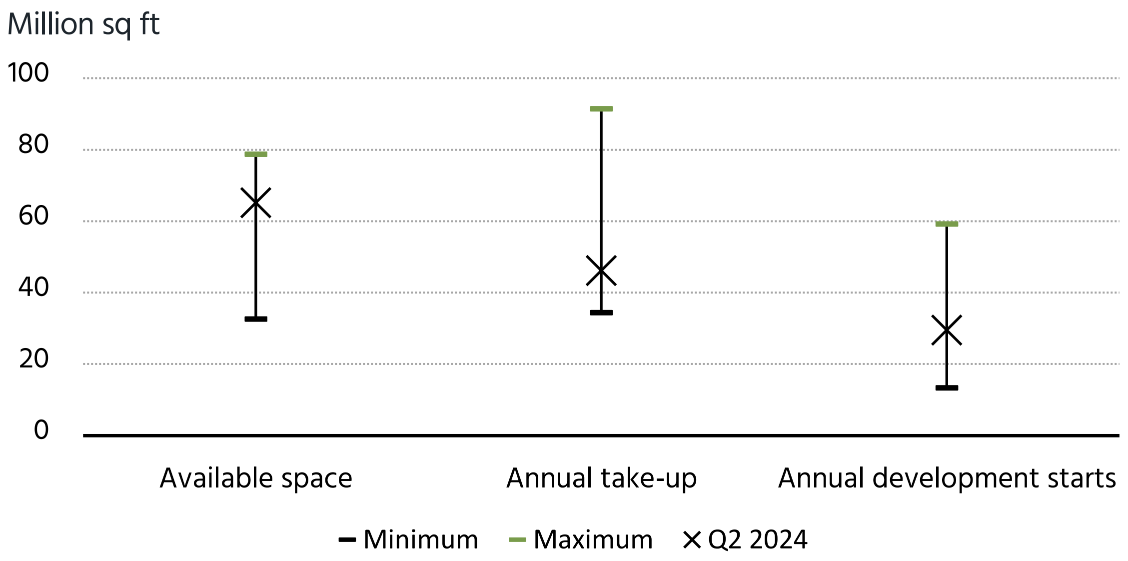
Planning application decision times, large format storage and warehousing units

Source: Department for Levelling Up, Housing and Communities; Gerald Eve



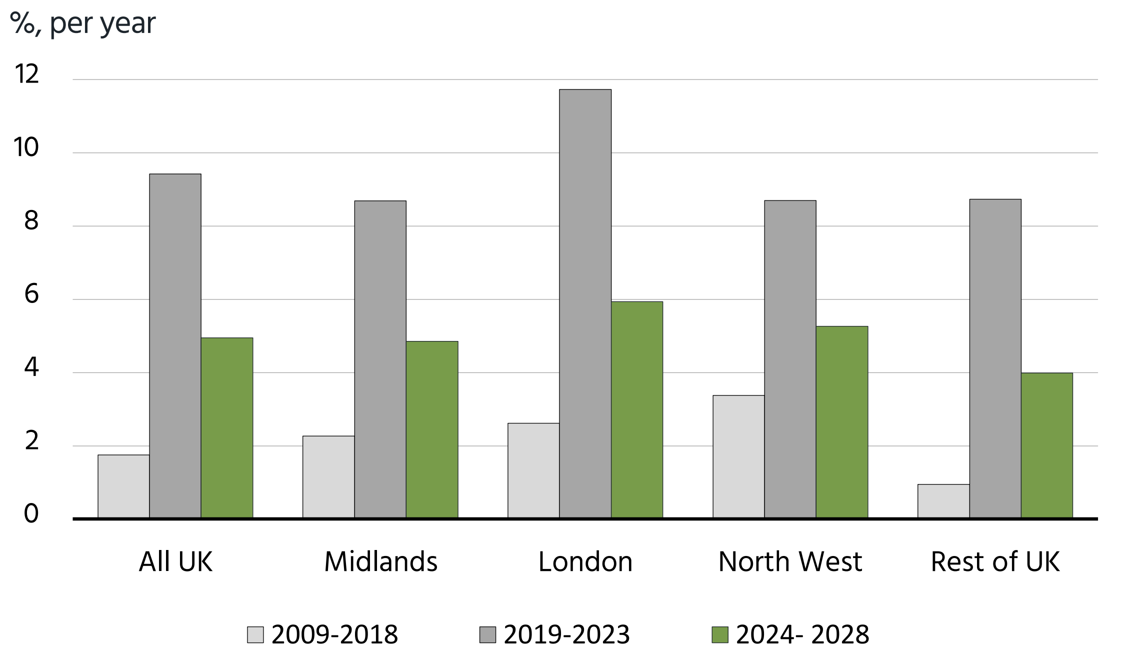
10-year market context, Q2 2014-Q2 2024

Source: Gerald Eve



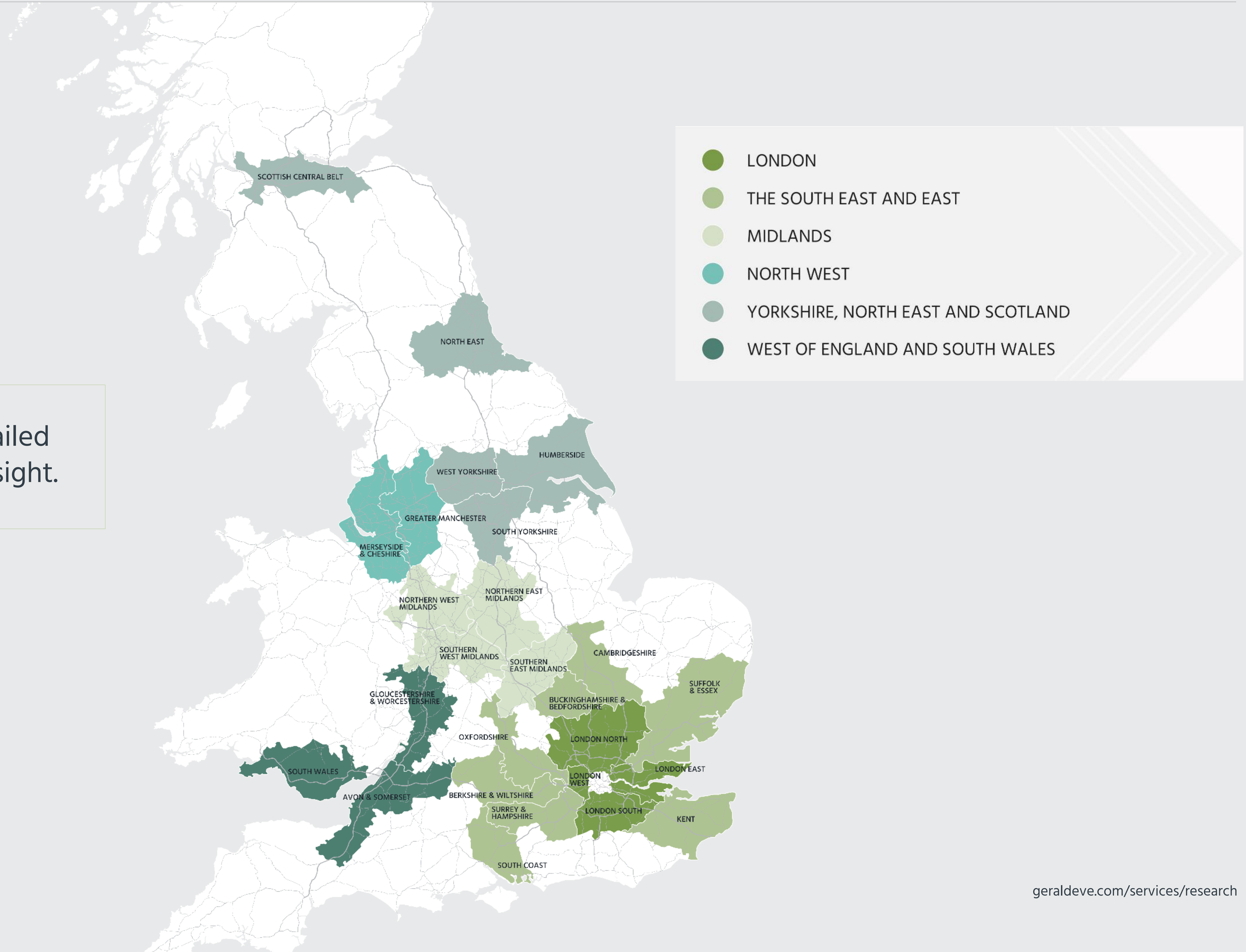
Annual average prime logistics rental growth by region

Source: Gerald Eve



GERALD EVE REGIONS

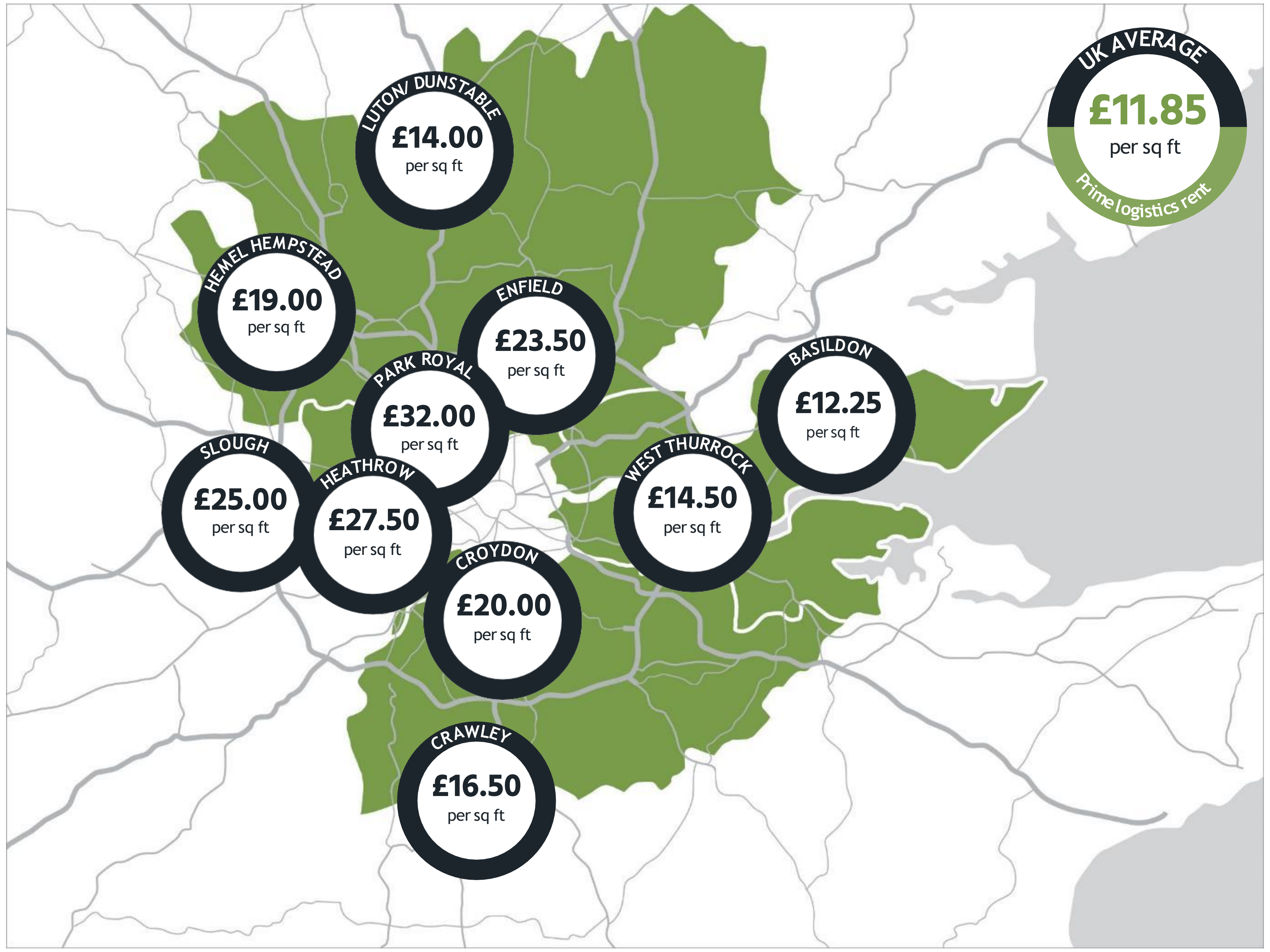
Click here for more detailed regional analysis and insight.



Contact **Josh Pater** for more information.

LONDON

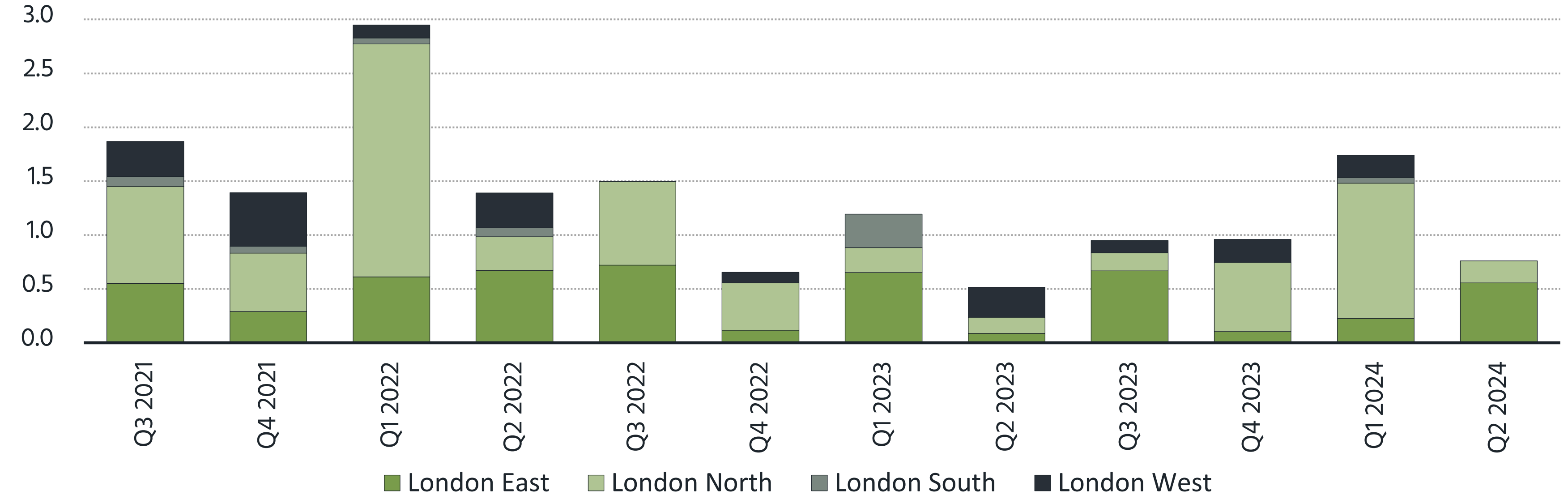
PRIME LOGISTICS RENTS



Prime rent: typical achievable headline rent in £ per sq ft for units of good quality over 50,000 sq ft and let on a typical 10 year lease to a tenant of strong covenant.

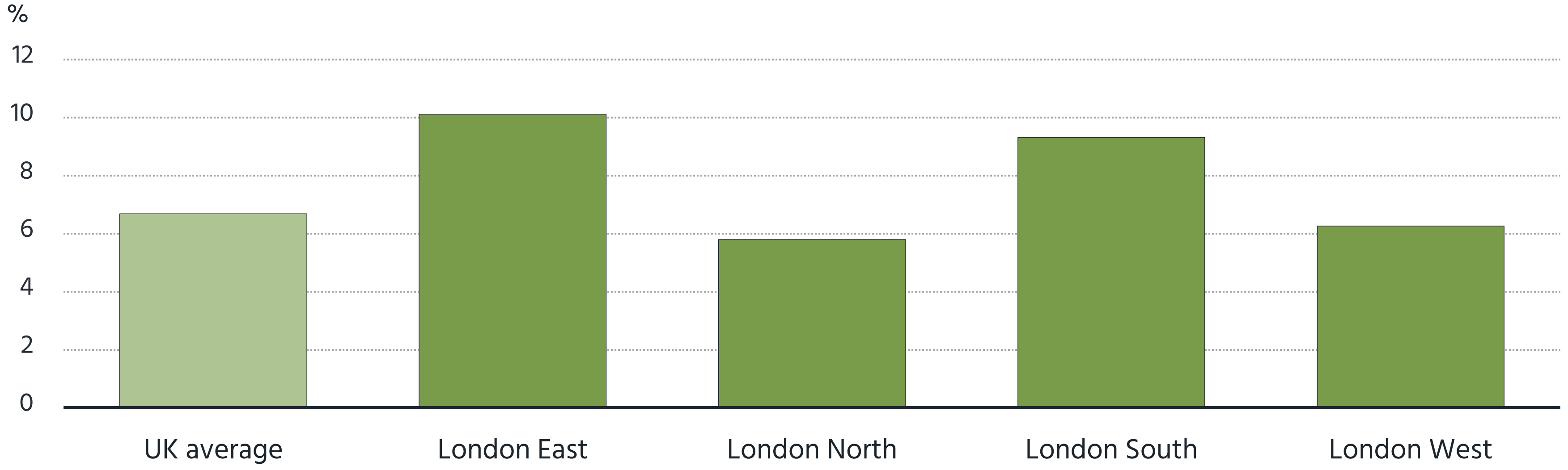
Quarterly occupier take-up by region

Source: Gerald Eve



Availability rate by region

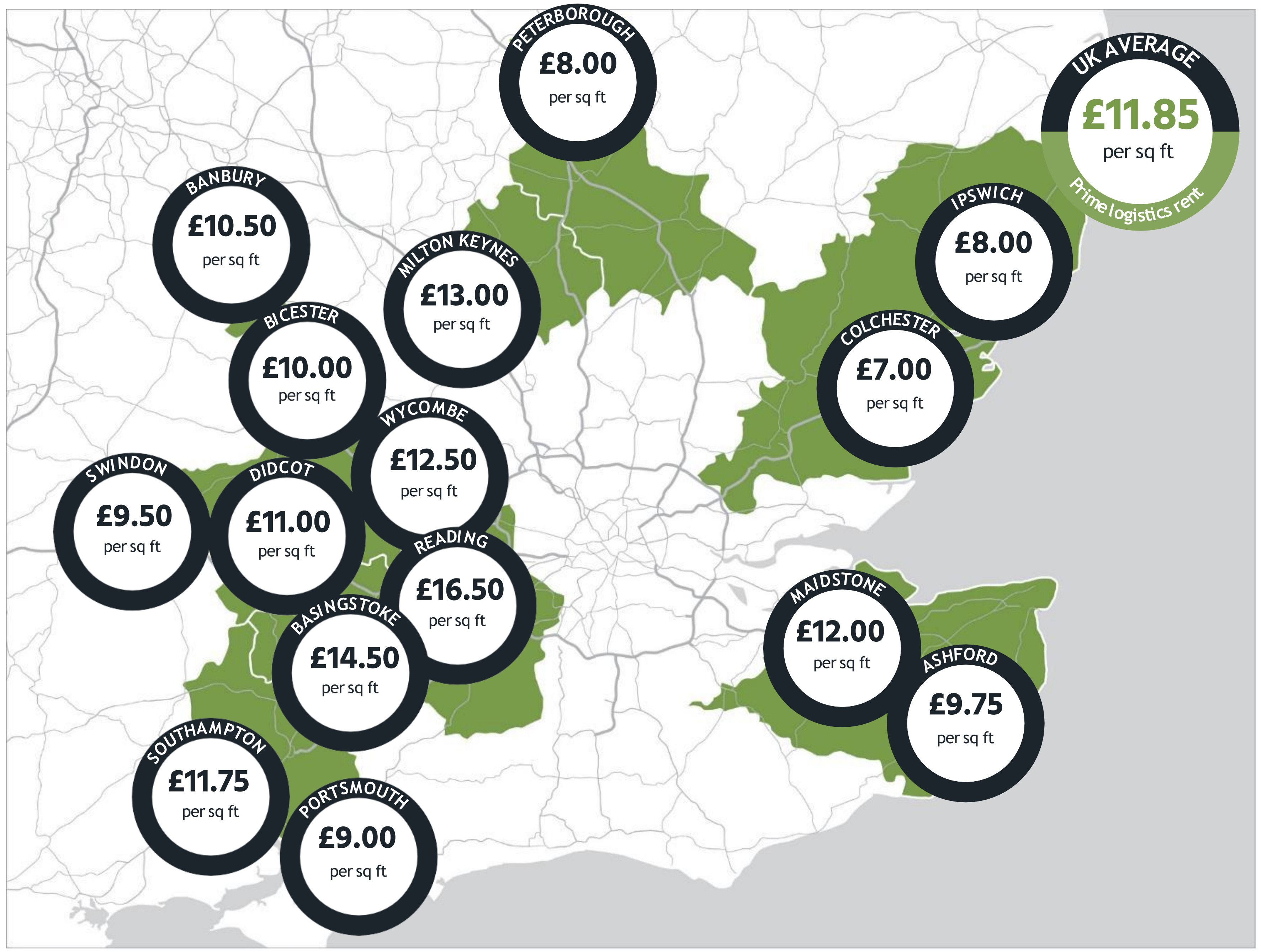
Source: Gerald Eve



Contact **Mark Trowell** for more information.

THE SOUTH EAST AND EAST

PRIME LOGISTICS RENTS



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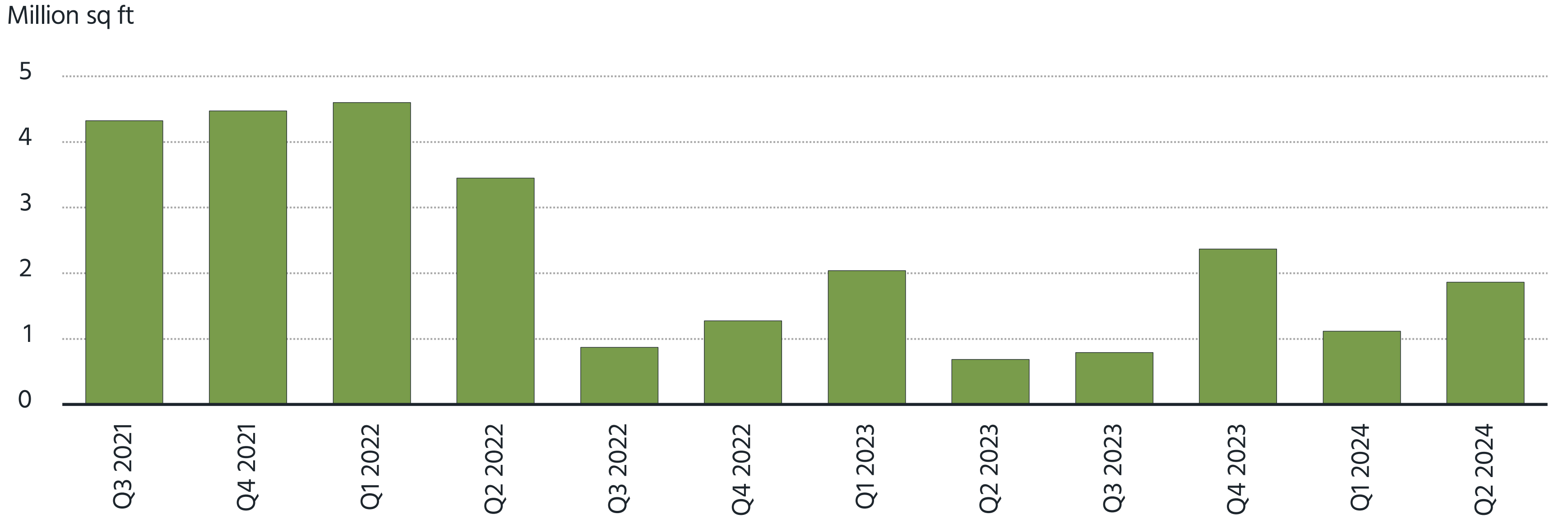
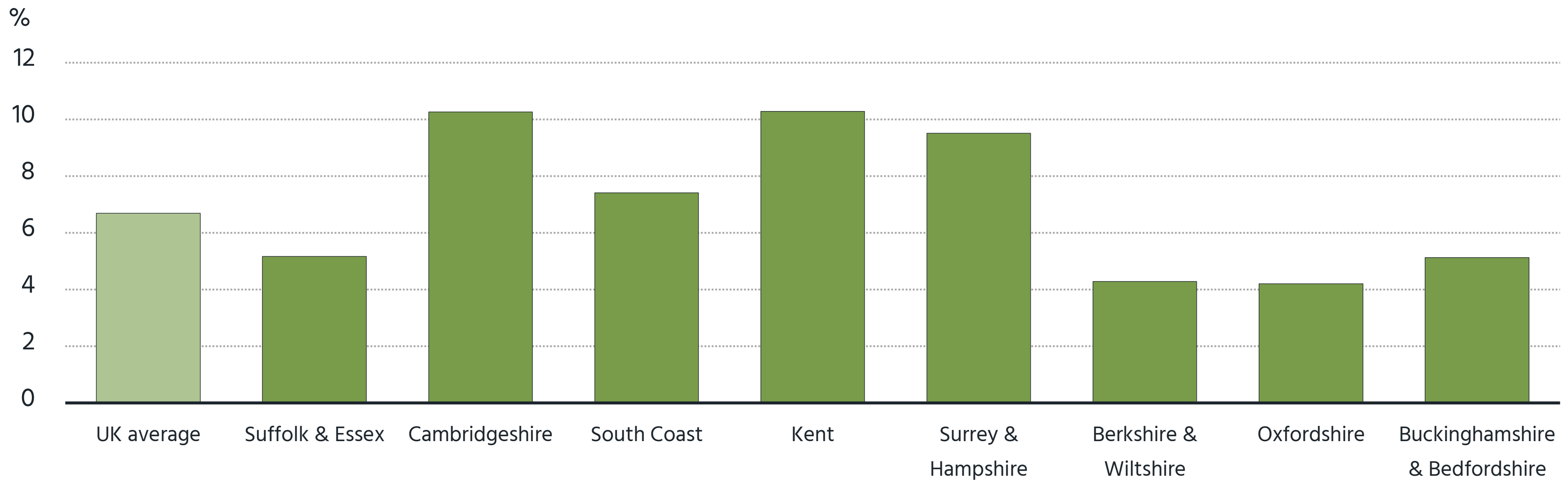


Availability rate by region

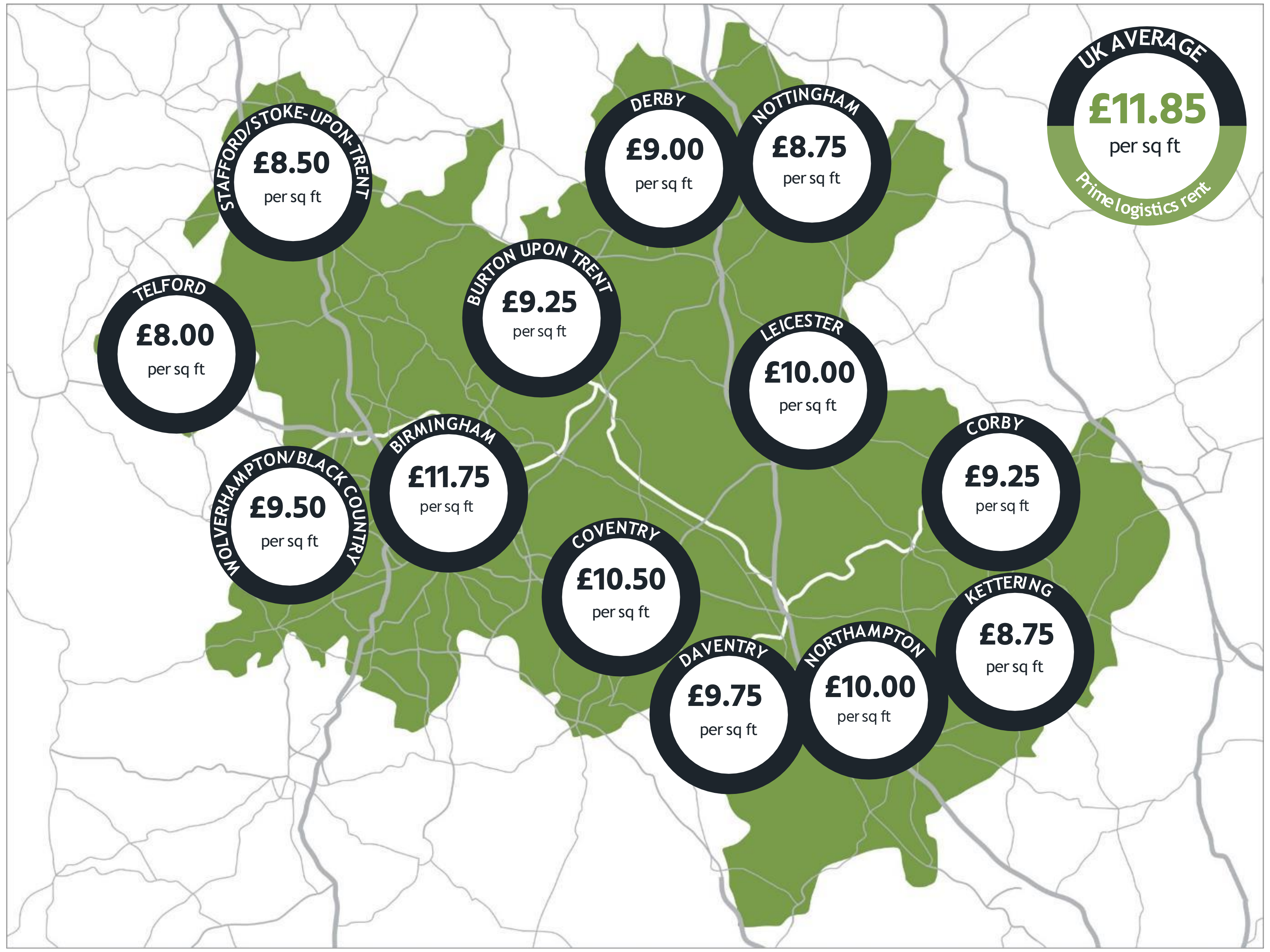
Source: Gerald Eve



Contact **Charles Spicer** for more information.

MIDLANDS

PRIME LOGISTICS RENTS



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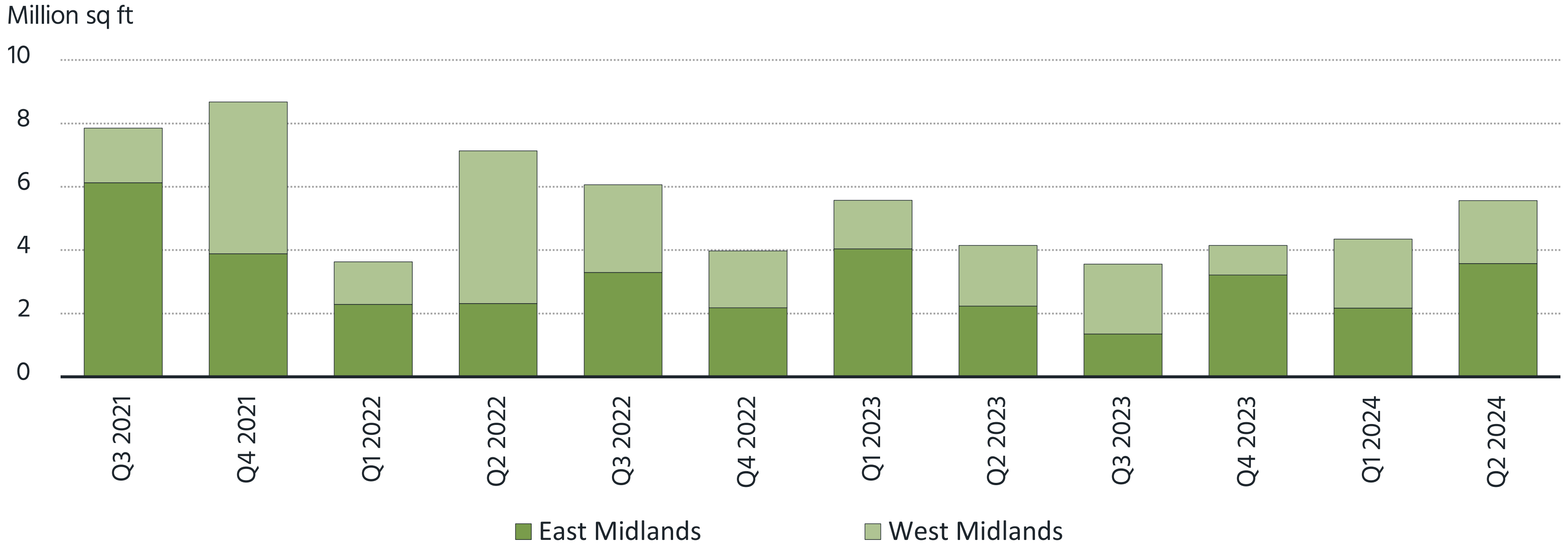


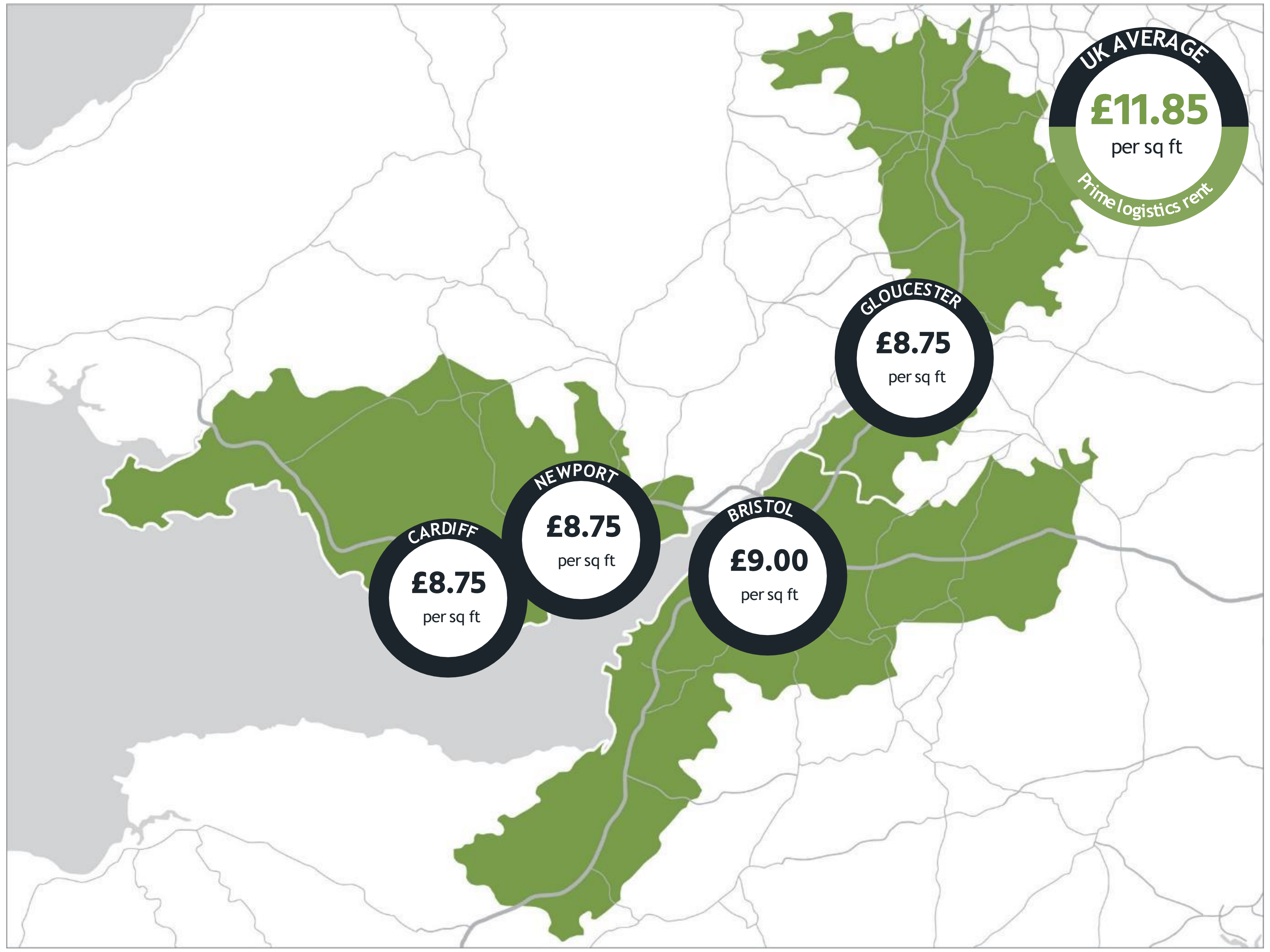
Availability rate, by region

Source: Gerald Eve

Contact **Tom Cater** for more information.

WEST OF ENGLAND AND SOUTH WALES

PRIME LOGISTICS RENTS



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Quarterly occupier take-up by region

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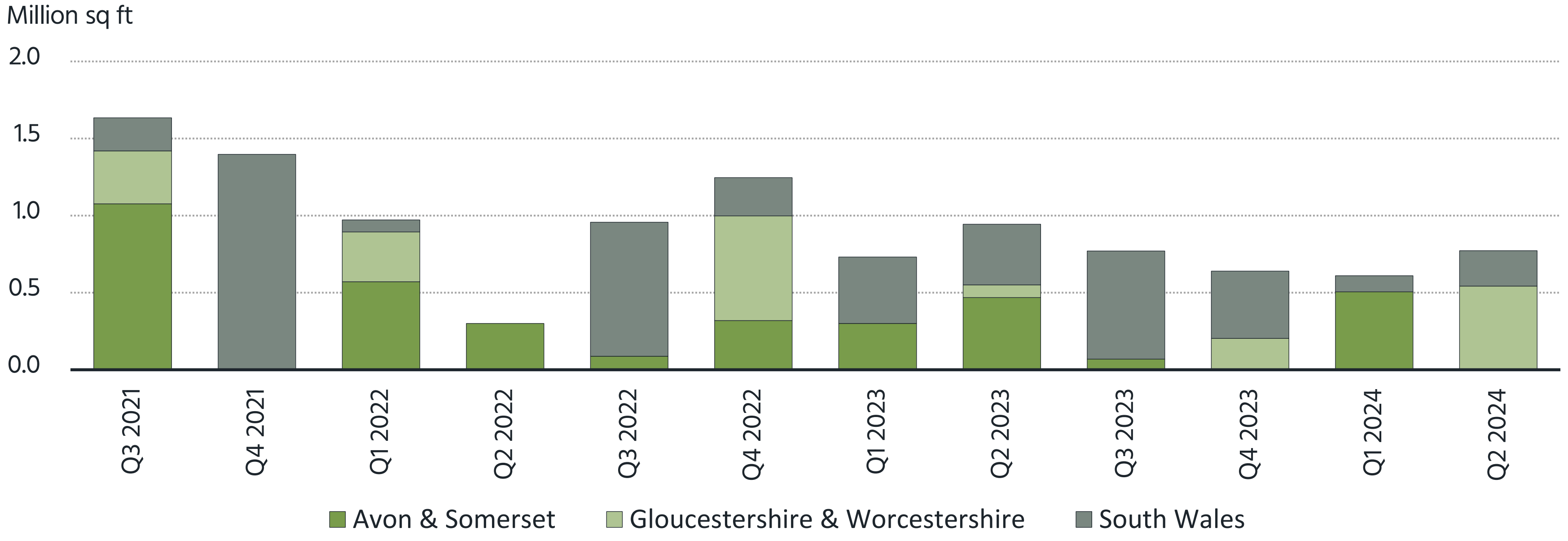
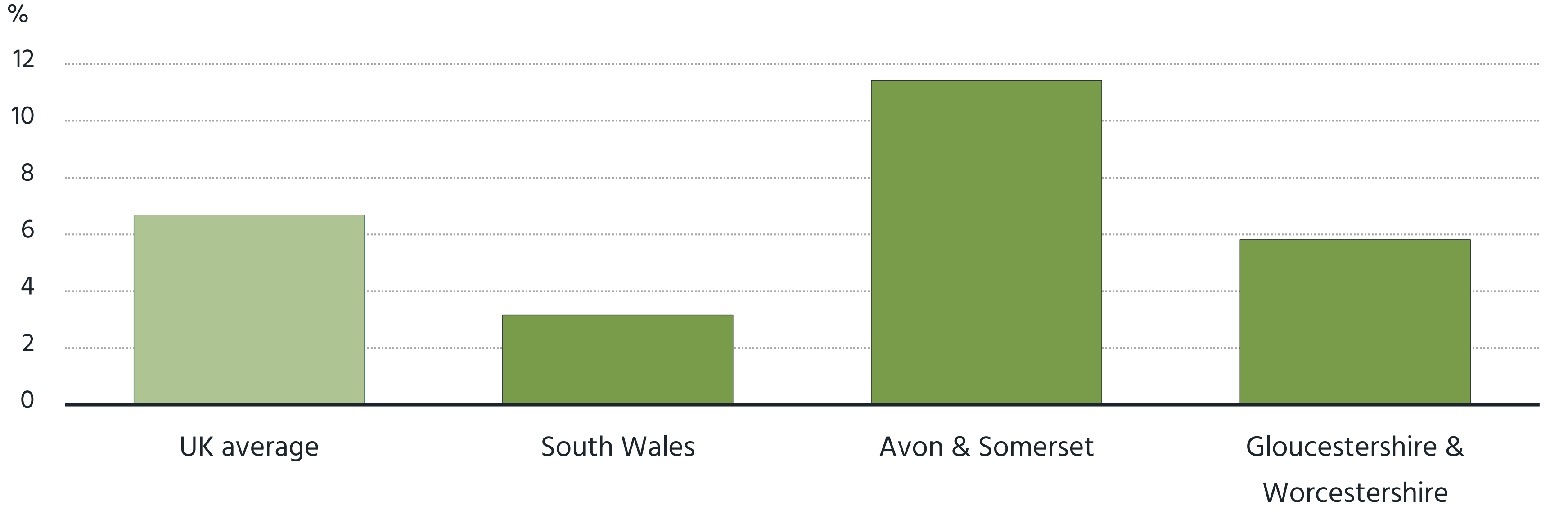


Availability rate by region

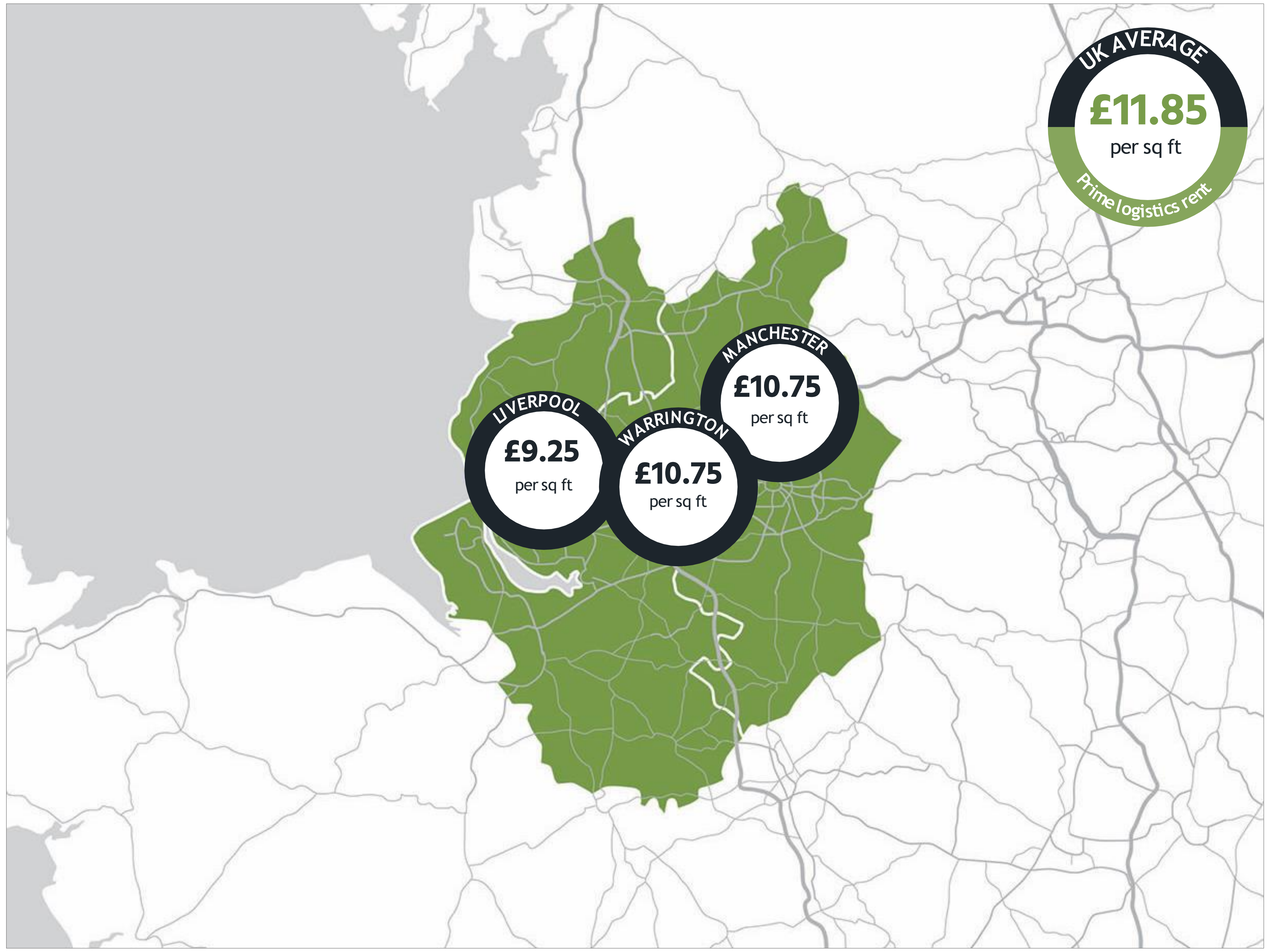
Source: Gerald Eve



Contact **Jason Print** for more information.

NORTH WEST

PRIME LOGISTICS RENTS



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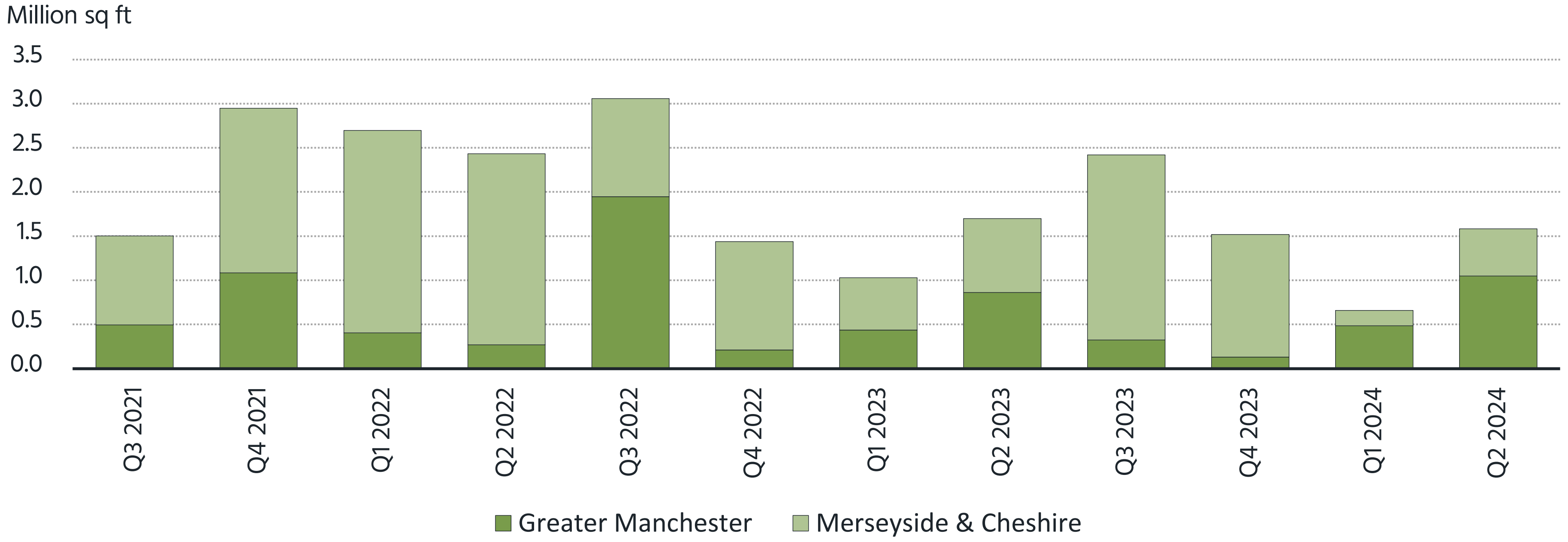
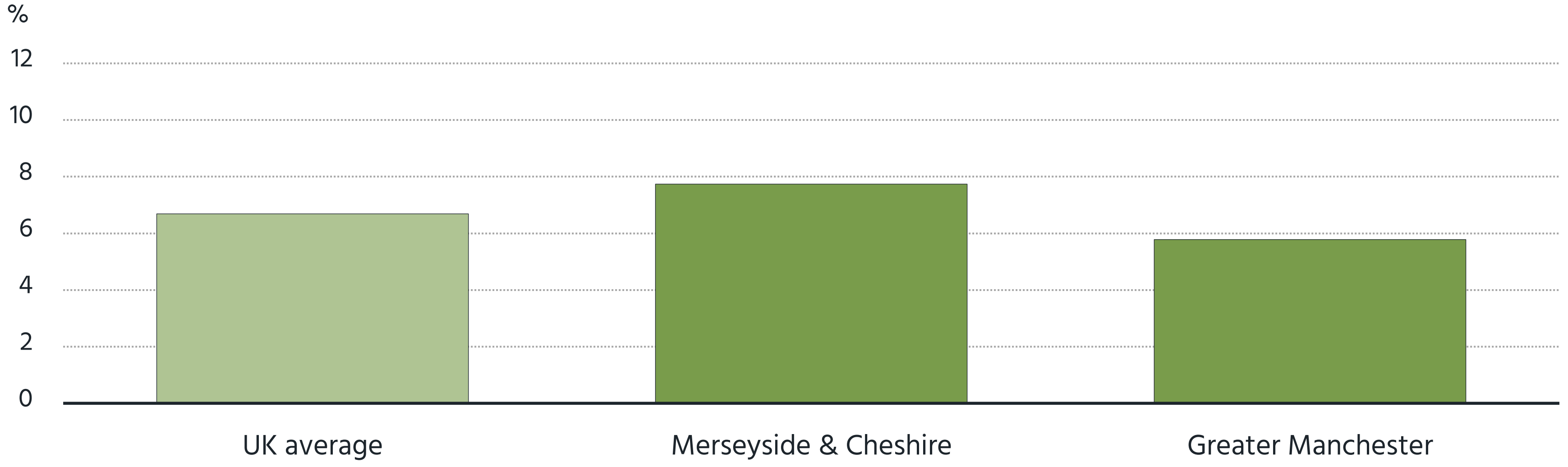
Quarterly occupier take-up by region

Source: Gerald Eve



Availability rate by region

Source: Gerald Eve



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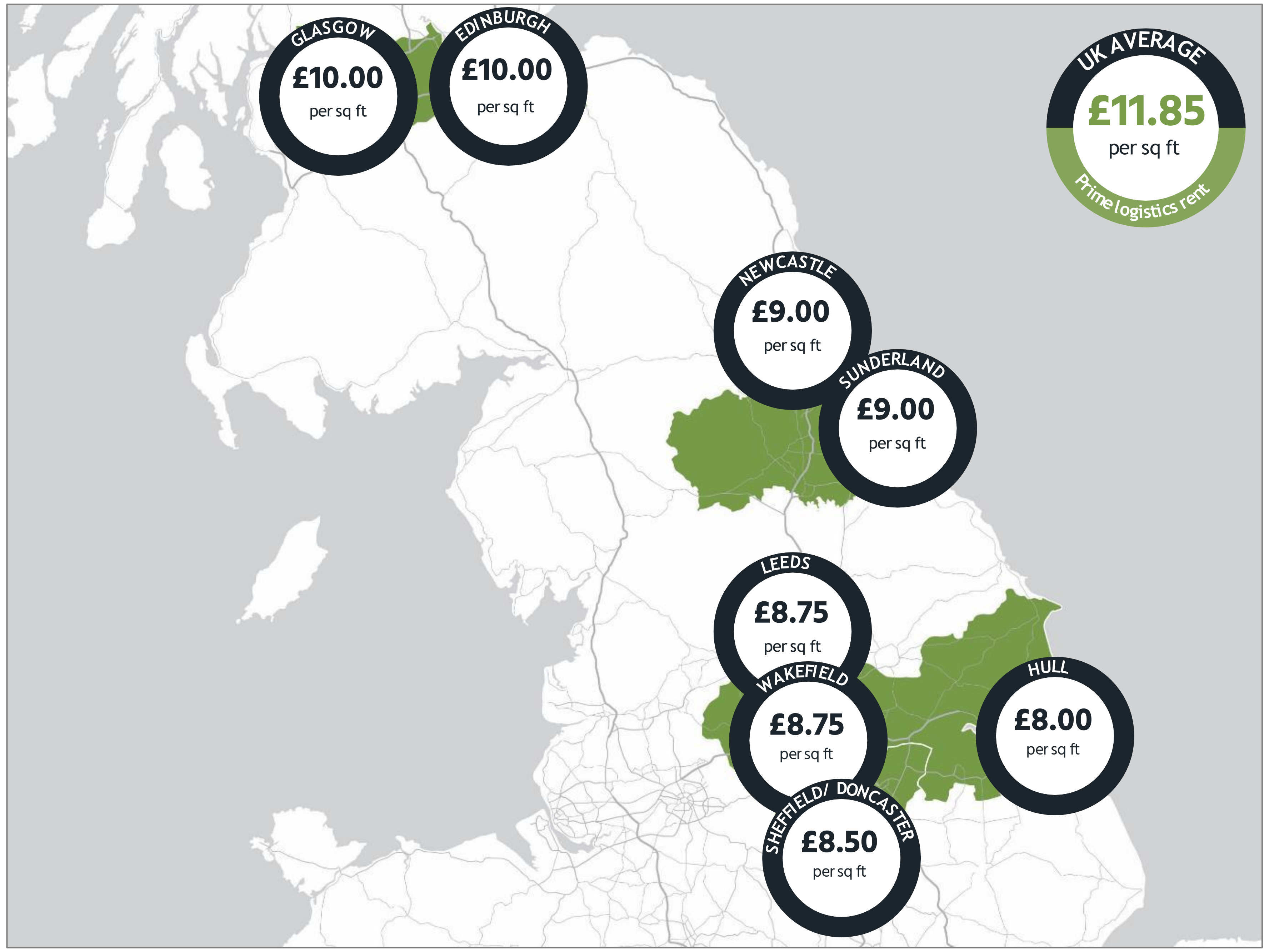
YORKSHIRE, NORTH EAST AND SCOTLAND

PRIME LOGISTICS RENTS



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Quarterly occupier take-up by region

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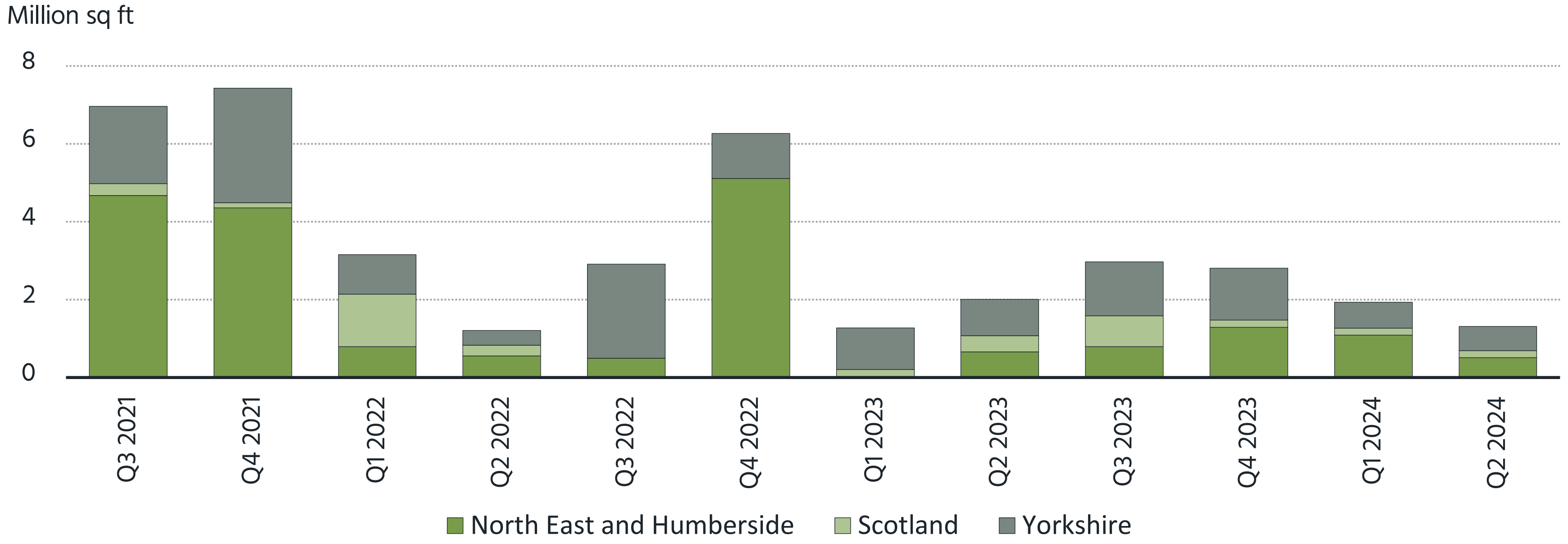

Availability rate by region

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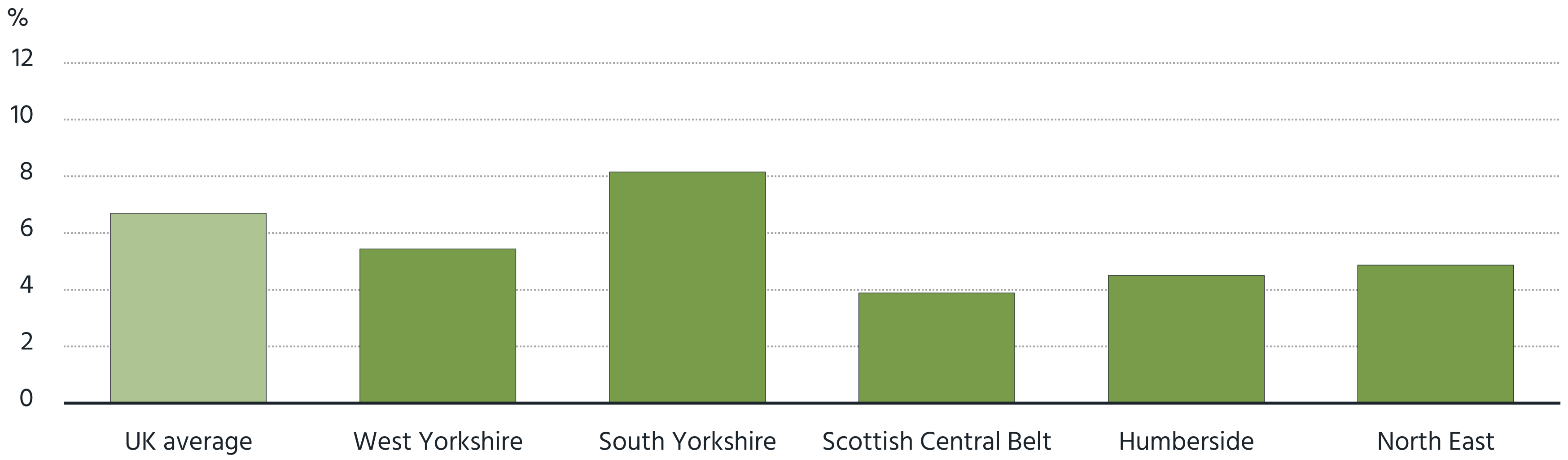

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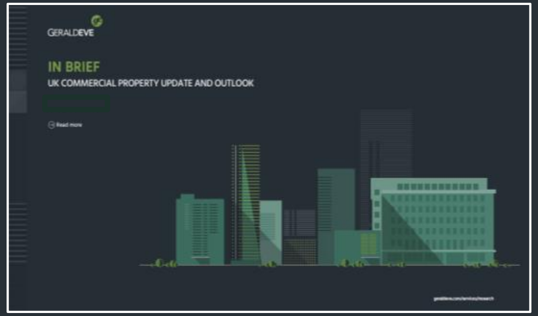
FURTHER INSIGHT



In Brief
June 2024

Multi-let
Autumn 2023

London Markets
Q1 2024

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