GERALDEVE
A NEWMARK COMPANY

PRIME LOGISTICS

The definitive guide to the
UK's distribution property market

Q3 2024

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MARKET OVERVIEW

BREADTH OF OCCUPIER DEMAND SET AGAINST A SUBDUED SUPPLY PIPELINE SUPPORTS A POSITIVE RENTAL OUTLOOK

Occupier take-up was 12.4m sq ft in Q3 - up 6% on Q2 and 8% on a year earlier. Demand was diverse, with manufacturers driving the recent improvement, especially those in the renewable energy, construction and food & drink industries. Internet retail remains a structural demand driver, with logistics providers and retailers linked to e-commerce also active. The overall availability rate increased for the seventh consecutive quarter in Q3 to 6.9%, reflecting two opposing underlying forces. Limited development means new-build availability has continued to trend down from its 6% peak in Q3 2023, but a more than offsetting proportion of secondhand space came back to the market again in Q3.

Notwithstanding the dip in sentiment ahead of October's Budget, the economy is set to move into a phase of more sustained (albeit modest) economic growth and commensurate increased lettings activity. Meanwhile, speculative development since late-2022 has trended down to a subdued rate. This, along with some loosening of lease terms, will help underpin prime rental growth. There is increased confidence and activity in the logistics investment market that should translate into rising total return over the medium term, but buyers currently continue to favour reversionary multi-let assets over longer income single-let logistics.

OCCUPIER DEMAND	AVAILABILITY	DEVELOPMENT
12.4m sq ft Take-up, Q3 2024	6.9% Average UK availability rate, Q3 2024	3.1m sq ft Speculative development starts, Q3 2024

RENTS	INVESTMENT	OUTLOOK
£11.96 sq ft Average UK prime rent	5.25% Average UK prime yield	5.5% Annual prime rental growth, 2024-2028

"De-risking and decarbonising supply chains through efficient logistics is mission-critical to big box occupiers, but capturing this demand continues to be hindered by a protracted planning process and weak energy infrastructure. As we've seen in the Midlands this year, 'oven-ready' land which addresses these issues can expect to command a premium."

Charles Spicer
National Head of Industrial and Logistics Agency
cspicer@geraldeve.com

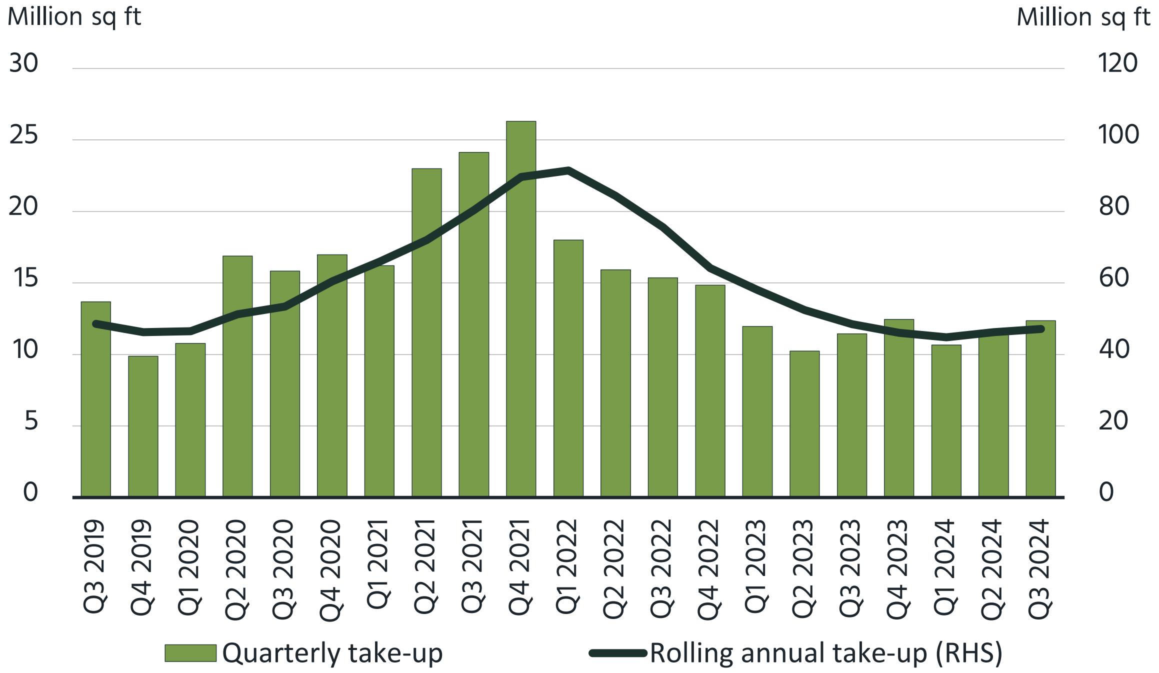
OCCUPIER DEMAND

GRADUAL IMPROVEMENT IN DEMAND: UP 6% IN Q3

Occupier take-up was 12.4m sq ft in Q3, which was up 6% on Q2 and 8% greater than a year earlier. Demand has incrementally improved over 2024, and rolling annual take-up has edged up for the past two quarters and seems now to have settled effectively back to the pre-pandemic average. Landlord and tenant negotiations continue to be protracted, however, as occupiers look for ways to reduce costs in the short term and add greater flexibility to lease structures. Some demand in Q3 was in anticipation of future growth (Evri, for instance, signed up to three buildings to meet 'seasonal business demand'), but many occupiers in Q3 sought to de-risk supply chains or make operational efficiencies through new accommodation.

UK quarterly and rolling annual take-up

Source: Gerald Eve

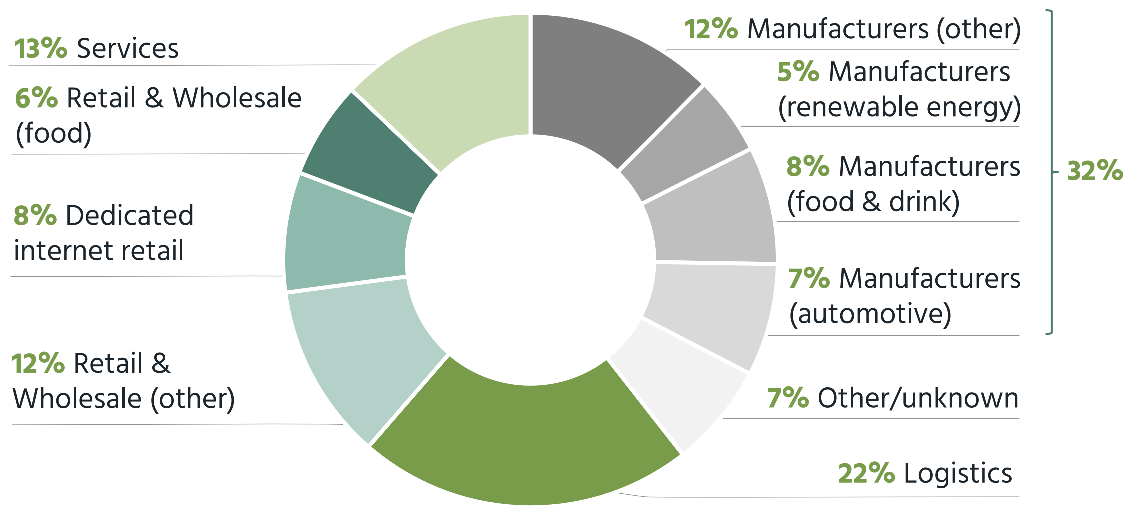


DIVERSITY TO OCCUPIER DEMAND

Manufacturers have accounted for around a third of total take-up over the past year – well in excess of their 25% 10-year average. Indeed, manufacturers took 37% of UK logistics space in Q3, with increased activity across a range of sectors. These include those related to renewable energy storage and production, the food industry or automotive specialists restructuring to produce new, primarily electric, vehicles. Dedicated internet retailers accounted for 8% of demand over the last 12 months – relatively low for this sector, but e-commerce remains a structural demand driver, with several specialist e-commerce logistics providers taking space in Q3.

Take-up by occupier sector, Q4 2023 – Q3 2024

Source: Gerald Eve



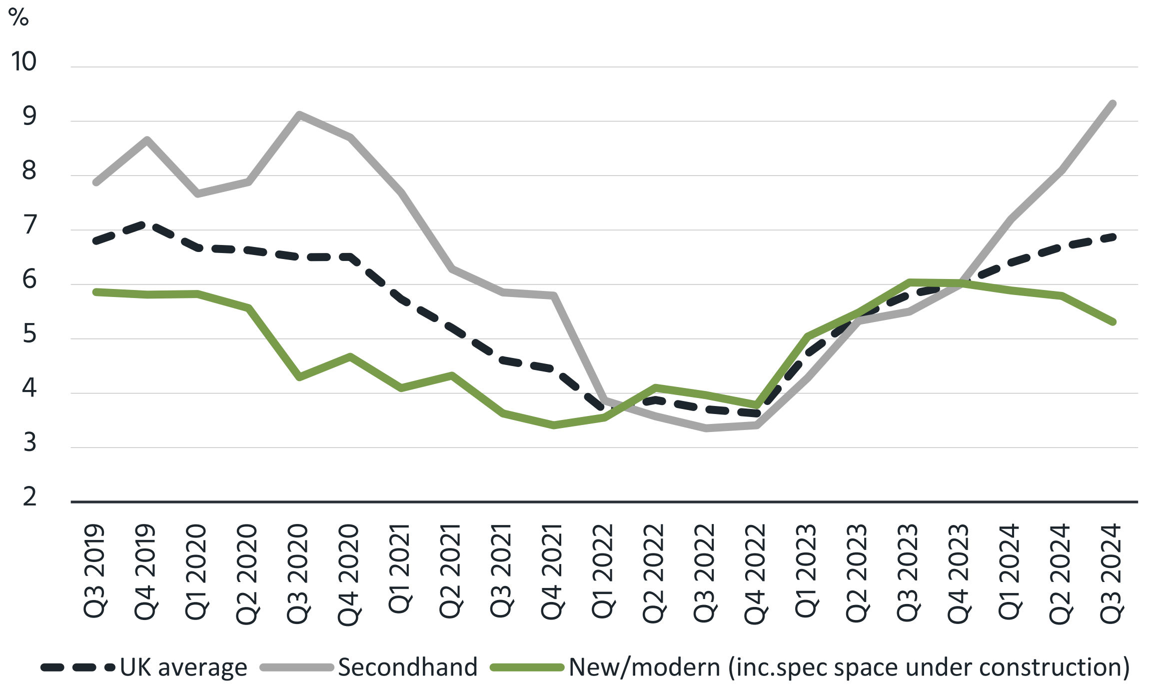
After securing its Nuclear Site Licence earlier this year, Sizewell C acquired 500,000 sq ft of existing space and pre-let another 500,000 sq ft at Orwell Logistics Park in Ipswich in Q3. Contact Mark Trowell for more information.

SUPPLY AND DEVELOPMENT

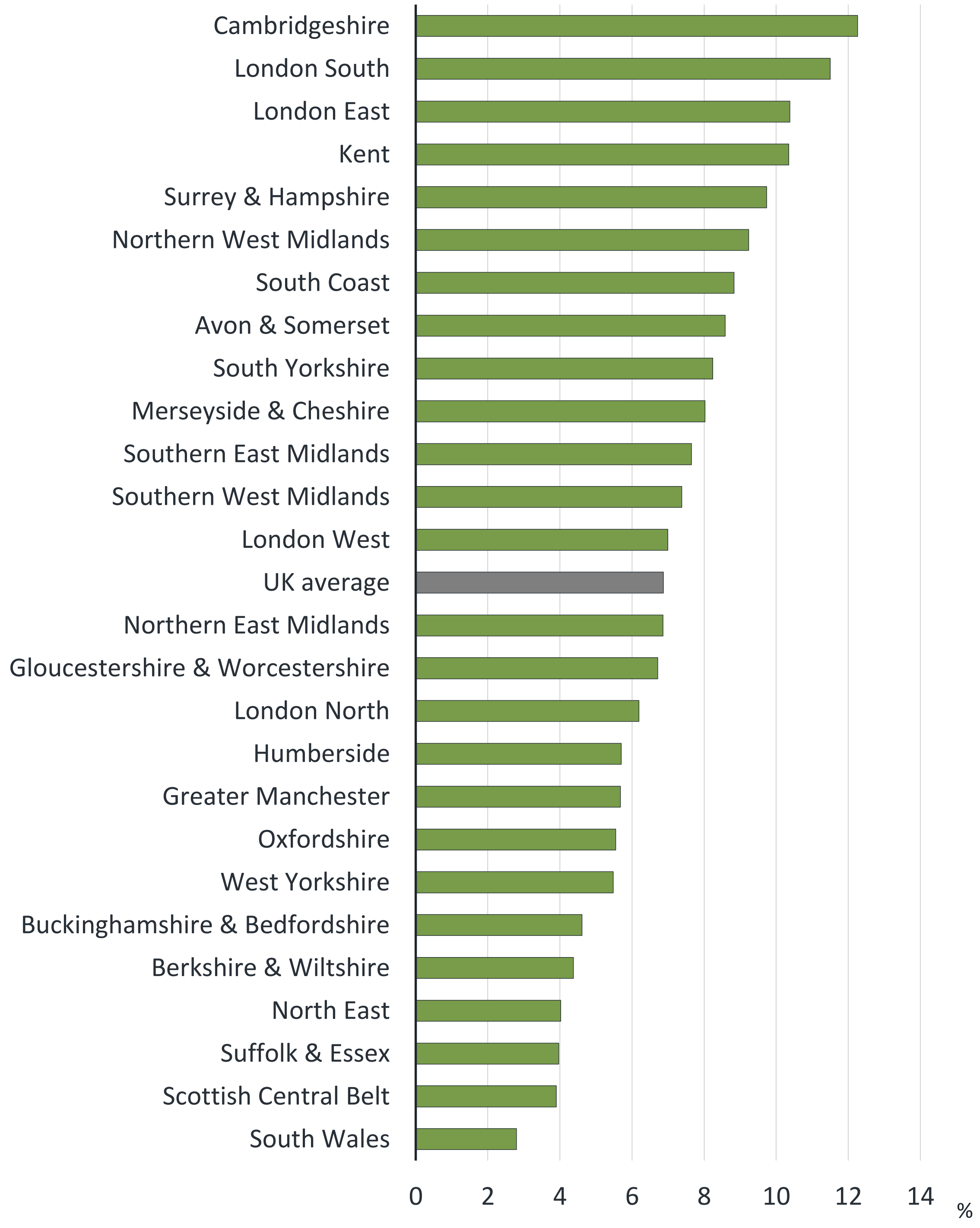
AVAILABILITY UP AGAIN, DRIVEN BY THE RETURN OF SECONDHAND STOCK

The overall availability rate increased for the seventh consecutive quarter in Q3 to 6.9%. However, this is a similar rate to pre-pandemic and upward momentum is slowing. The overall increase is the net result of falling new stock and a sharp rise in secondhand - most noticeably in Merseyside & Cheshire and the Southern West Midlands. Sub-lets (mostly by food and internet retailers and logistics companies) remain a feature of the market and account for 14% of total availability. Tellingly, the significant slowdown in speculative development in 2023 has fed through to current new-build availability, which continues to trend down from its 6% peak in Q3 2023.

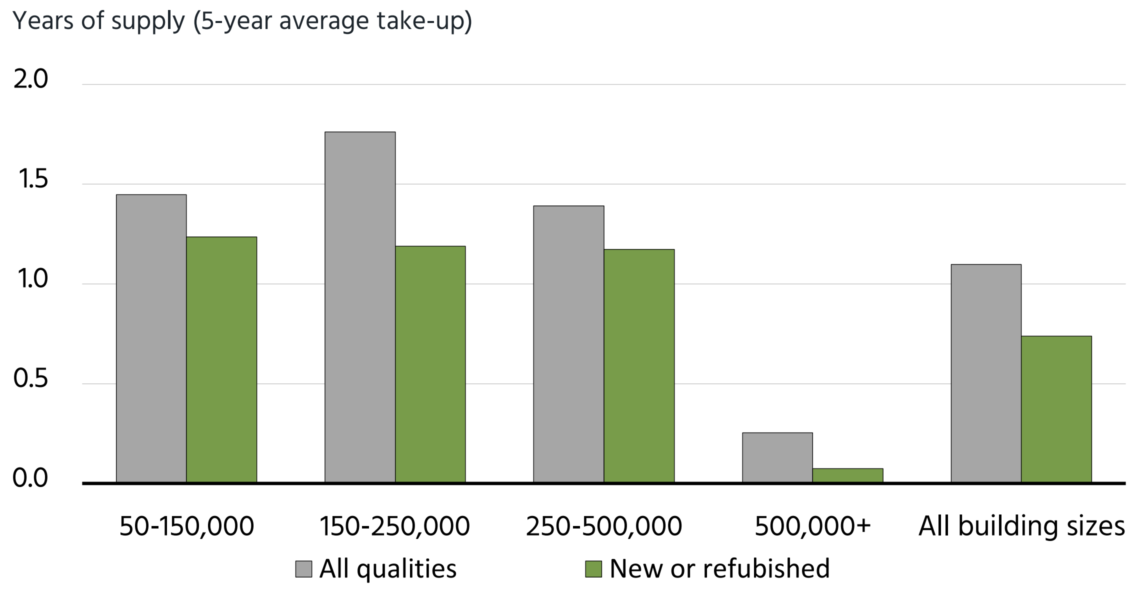
UK logistics availability rate, by quality
Source: Gerald Eve



Q3 2024 availability rate, by region
Source: Gerald Eve



UK years of supply, by building size and quality, Q3 2024
Source: Gerald Eve



LIMITED OCCUPIER CHOICE, ESPECIALLY PRIME BIG BOXES

While the overall headline rate and volume of availability has increased in recent quarters, supply remains relatively low by historic standards. Occupiers still report of a lack of suitable good quality options in certain markets and some available buildings are heavily fitted-out by previous tenants so as to make them unsuitable for all occupier types. Accommodation over 500k sq ft is particularly scarce, with only around three months' of supply at current take-up rates. In this more circumspect period for the economy occupiers will continue to seek out efficiencies and more secondhand space could be returned to the market. Overall availability may increase further in Q4 2024 but 2024 will likely mark the peak of overall availability. Speculative development is set to increase only moderately in 2025 and will act as a drag; meanwhile the return of secondhand space will ease.

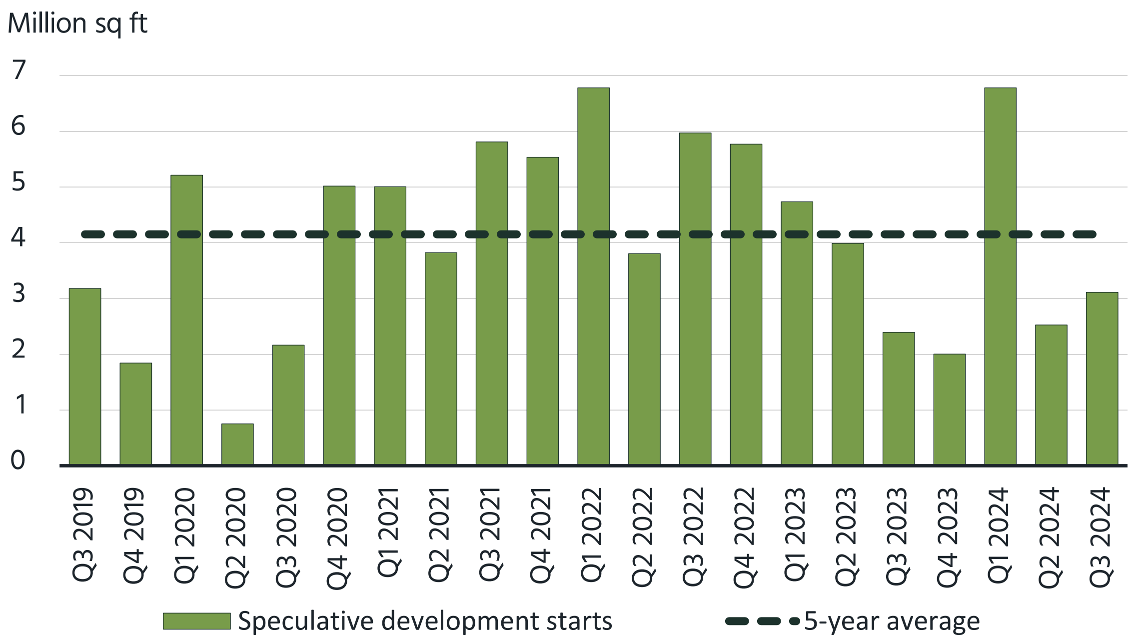
SUPPLY AND DEVELOPMENT

SPECULATIVE DEVELOPMENT ACTIVITY CREEPS UP BUT REMAINS SUBDUED

The volume of speculative development starts in Q3 was higher than in Q2, but still a full 34% below the five-year average. There were 21 new buildings totalling 3.1m sq ft that got underway in Q3 in regions such as Merseyside & Cheshire, the North East and South Yorkshire. Currently, there is just 14m sq ft speculatively under construction across the UK, and this low figure reflects how the higher cost of capital has eaten into developer margins. Only gradual increases are expected over the coming quarters as land is prepared and some of the larger developers take advantage and refinance in the somewhat more accommodative debt market.

Tritax Symmetry is on site speculatively developing a 270,000 sq ft unit at Symmetry Park, Merseyside, due to PC in Q1 2025. Contact Jason Print or visit the website for more information.

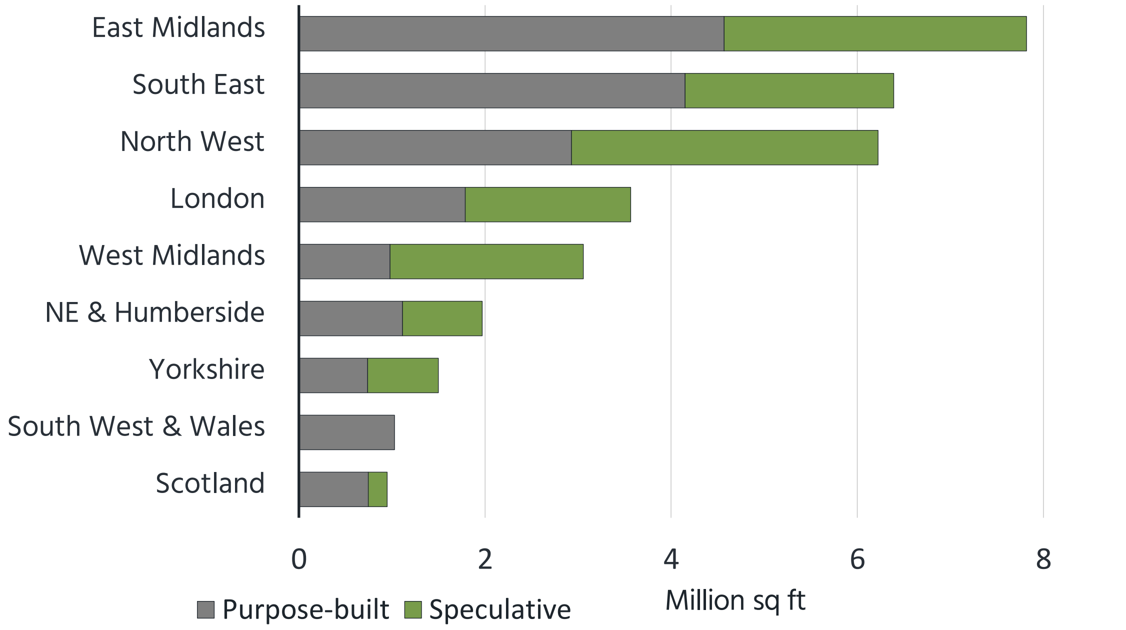
Speculative development starts and five-year average
Source: Gerald Eve



SPEC DEVELOPMENT FOCUSED ON PRIME LOCATIONS IN THE EAST MIDLANDS AND NORTH WEST

The East Midlands was the most active region for development in Q3, with developers such as GLP, Tritax and Logicor on site on various schemes. There is 'oven-ready' land available in this region and developers recognise that occupier demand for space in the Southern East Midlands is high – higher even than during the covid peak. Amazon Web Services plans to invest £8bn over the next five years by building, operating and maintaining data centres across the UK that will ensure that this part of the development market (now classified as 'critical national infrastructure') also remains active. There are already several large scale, high value 'powered land' data centre schemes in the planning pipeline awaiting approval.

Space under construction by type, end Q3 2024
Source: Gerald Eve



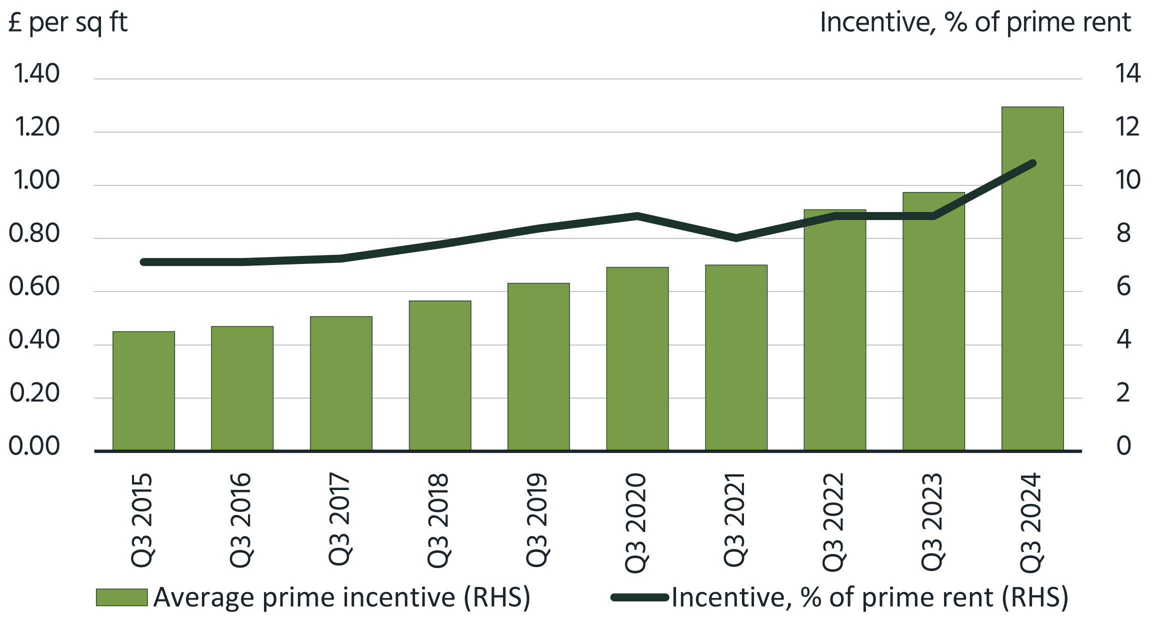
RENTS

LANDLORDS PUSH HEADLINE PRIME RENTS BUT CONTINUE TO BE FLEXIBLE ON INCENTIVES

There is ongoing rent momentum, and the average UK prime headline rent rose by 0.9% from £11.85 in Q2 to £11.96 in Q3. Landlords remain keen to move on prime headline rents but have proved more flexible on incentive packages over 2024. Rent-free periods moved out across all regions in Q3, taking the average to just over 12 months on a typical 10-year lease. Enhanced packages for the inclusion of early lease breaks and the offer of (capped) stepped rents were evident in some markets. This has widened the gap between headline and net effective logistics rents and incentives now account for 11% of average UK prime rents, the highest proportion in over 10 years.

UK prime logistics incentives and proportion of prime rent

Source: Gerald Eve

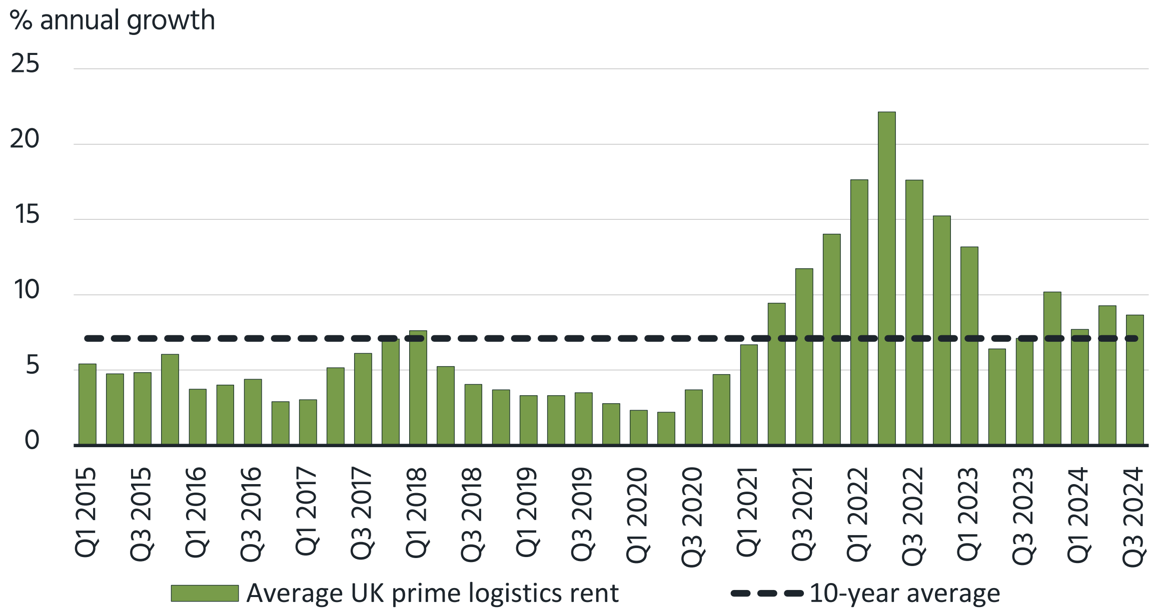


PRIME RENTAL GROWTH ABOVE LONG RUN AVERAGE

Average prime annual rental growth was an inflation-beating 8.7% in Q3. There were notable upticks in Q3 in the East Midlands and South East, especially Suffolk & Essex, Cambridgeshire and the South Coast as new developments reset market tone. Prime rental growth may have slowed since the exceptional covid period but is still above the 10-year average. Occupiers seeking prime space in core logistics locations are still often faced with a limited choice, even including the space under speculative construction. New accommodation continues to be attractive while its potential operational efficiencies still outweigh the rental premium, especially for the larger buildings.

Average UK prime logistics headline rental growth

Source: Gerald Eve

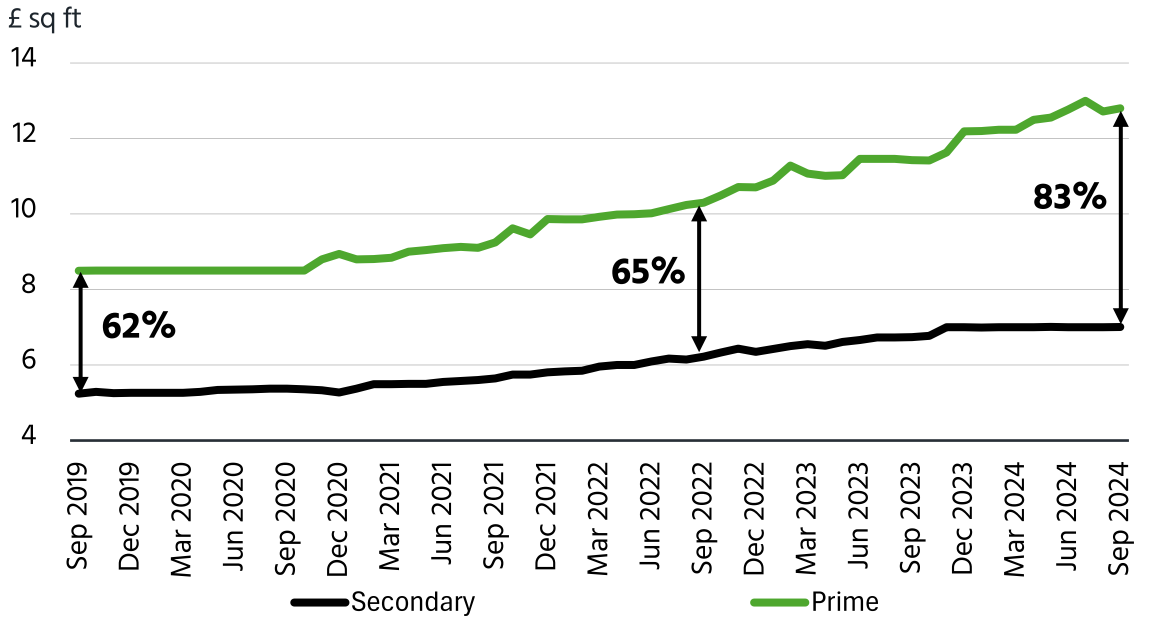


PRIME RENTS CONTINUE TO PULL AWAY FROM SECONDARY

Prime rents have continued to pull away from their secondary counterparts which have effectively been flat over the past year. This polarisation has further to run, given the steep increase in the secondhand availability rate and the below average volume of speculative development activity since Q3 2022. The focus for occupiers, especially those taking the bigger boxes, has been to 'future-proof' supply chains by upgrading to the most energy efficient modern accommodation. The poorer quality unrefurbished space that doesn't comply with short-term energy efficiency regulations has largely been out of favour with occupiers across all building size bands.

Distribution warehouse rents, by quality

Source: MSCI



INVESTMENT

INCREASED ACTIVITY AND COMPETITIVE TENSION

Prime direct market logistics yields were estimated to have remained broadly flat in Q3, having moved in roughly 25bps in Q2. Meanwhile, the all-grades valuations data, which smooths out some of the volatility in the direct market and lags the prime direct market by one quarter, has drifted out marginally over 2024. Almost a year on from the bottom of the investment market in Q4 2023 the market landscape has normalised and is characterised by increased activity and competitive tension. Debt costs have fallen and are accretive again, and sellers are no longer presumed to be distressed. Consequently, an increased number of sales were launched in Q3 with the realistic prospect of achieving a direct market price ahead of valuation.

BUYERS FAVOUR MULTI-LET INDUSTRIAL OVER LOGISTICS

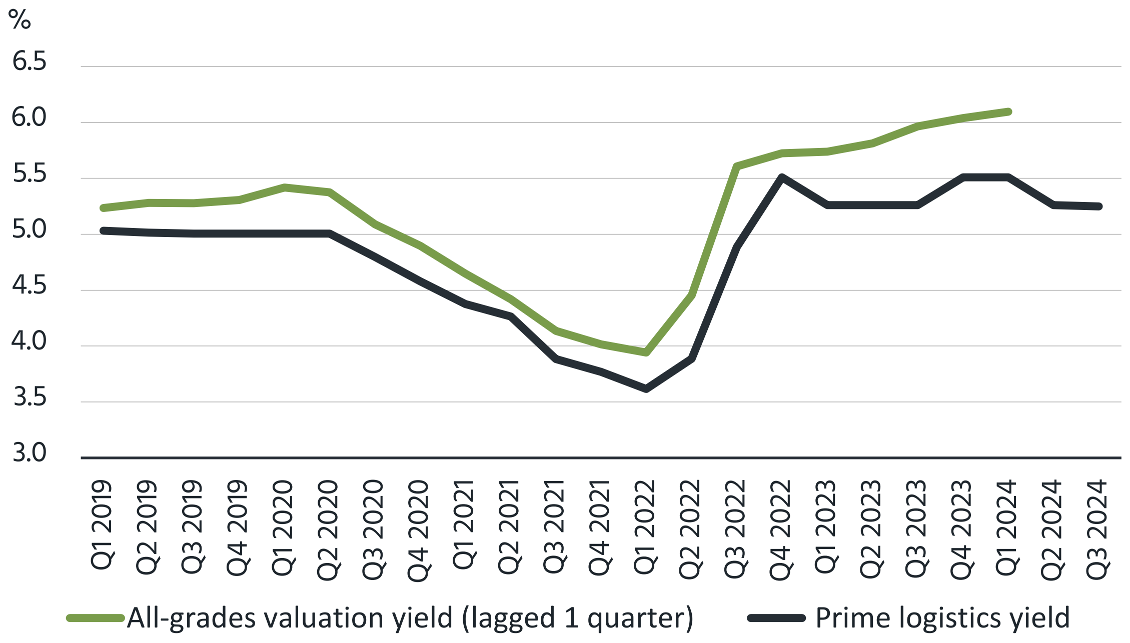
There were several large-scale corporate acquisitions and recapitalisations in the industrial sector in Q3, but the volume of completed logistics transactions remained subdued. This is not only due to the hitherto lack of investment supply and a smaller number of large logistics portfolios being traded, but also the investor perception of 'last-mile' and 'first-mile' investment opportunities. Since 2022, investors have gravitated to smaller last-mile multi-let industrial estates over long income index-linked single-let leases given the greater ability to capture the widespread rental reversion. Single-let assets have accounted for a relatively low quarter to a third of all industrial investment transactions in recent years.

FURTHER SCOPE FOR INWARD YIELD SHIFT FROM 2025

The rate-cutting cycle started in early August and market pricing implies that the Bank Rate will be cut again before the end of the year and a further 100bps over 2025 to reach 3.75% by the year-end. Lower borrowing costs and a sustained (albeit gradual) economic recovery will set a positive backdrop for further improvements in the investment market. The outlook for annual total return is cautiously optimistic and this should trend upwards over the medium term, driven by sustained rental growth and some further scope for inward yield shift in 2025 and 26. The upside potential for returns will be limited, however, given that yields continue in the main to be below where the monetary fundamentals suggest they should be.

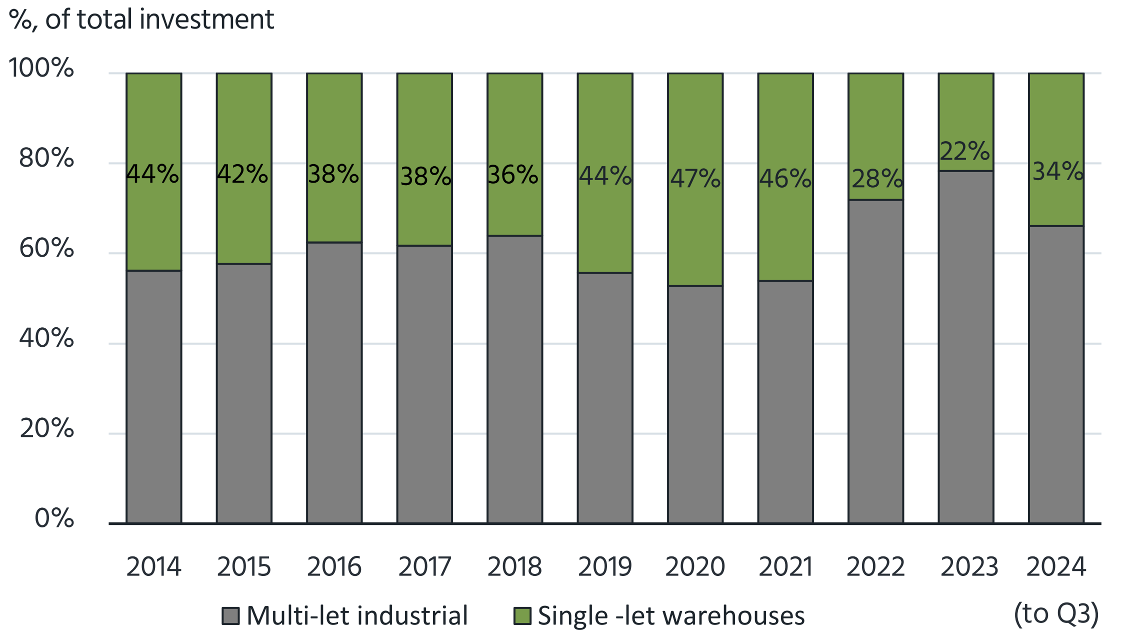
Average UK distribution warehouse equivalent yields

Source: MSCI, Gerald Eve



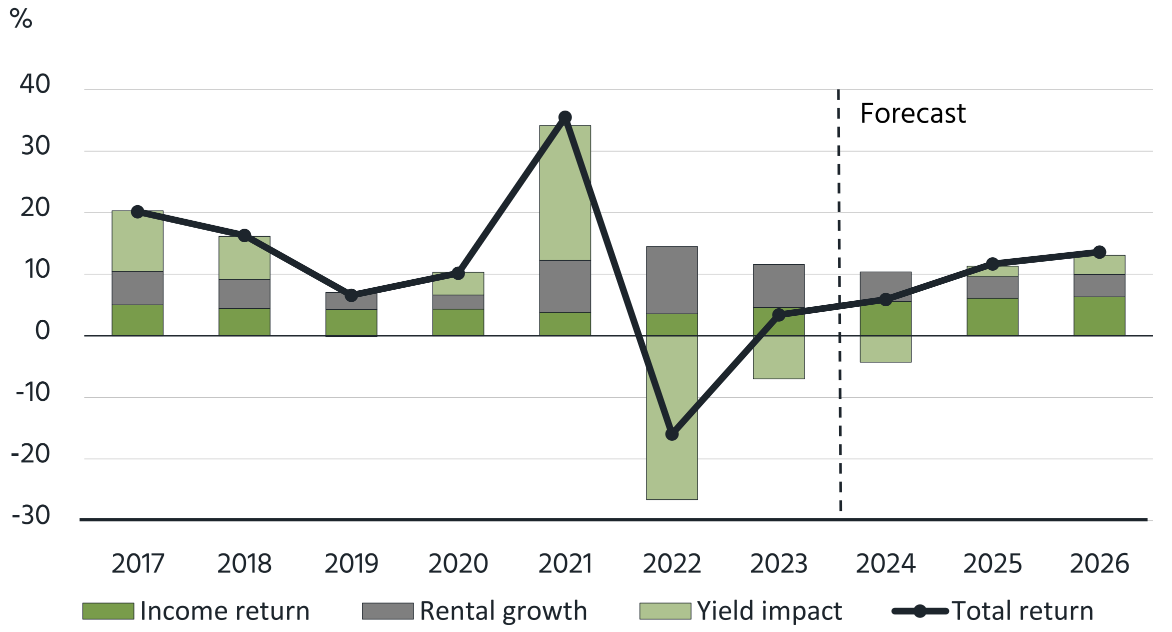
Investment volumes by industrial sector

Source: Gerald Eve, RCA



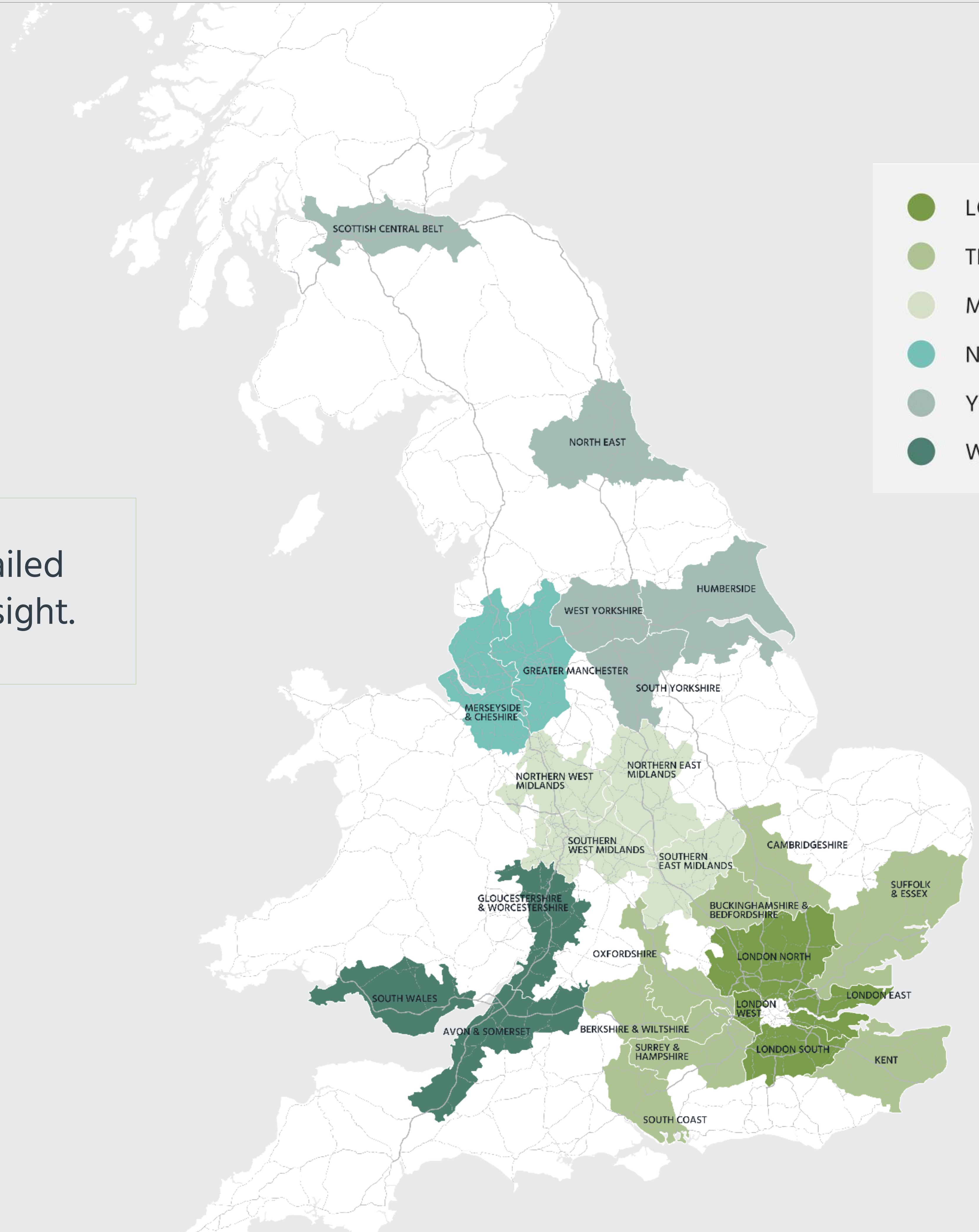
Distribution warehouse annual total return and components

Source: MSCI, Gerald Eve



GERALD EVE REGIONS

Click here for more detailed regional analysis and insight.

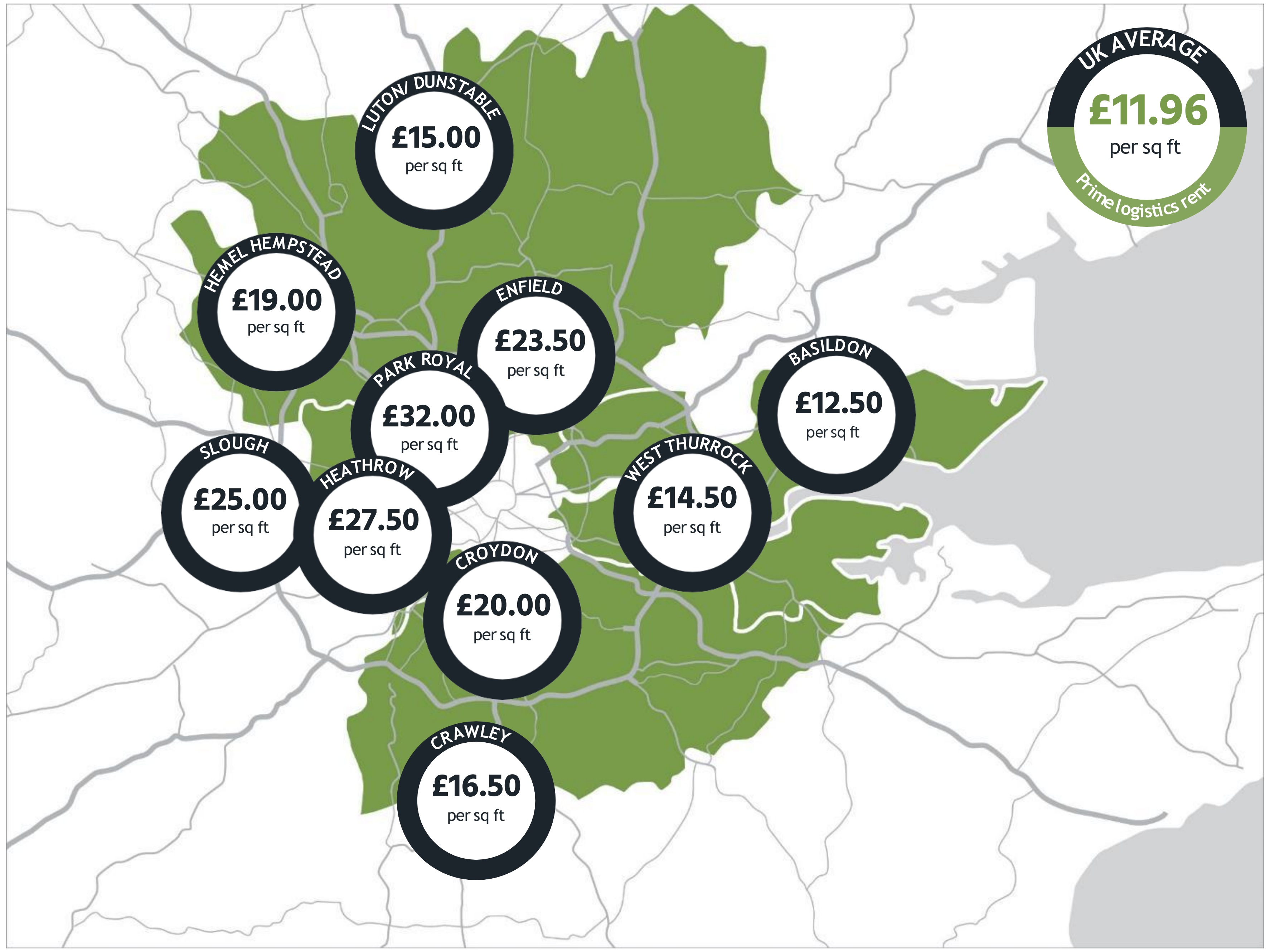


- LONDON
- THE SOUTH EAST AND EAST
- MIDLANDS
- NORTH WEST
- YORKSHIRE, NORTH EAST AND SCOTLAND
- WEST OF ENGLAND AND SOUTH WALES

Contact **Josh Pater** for more information.

LONDON

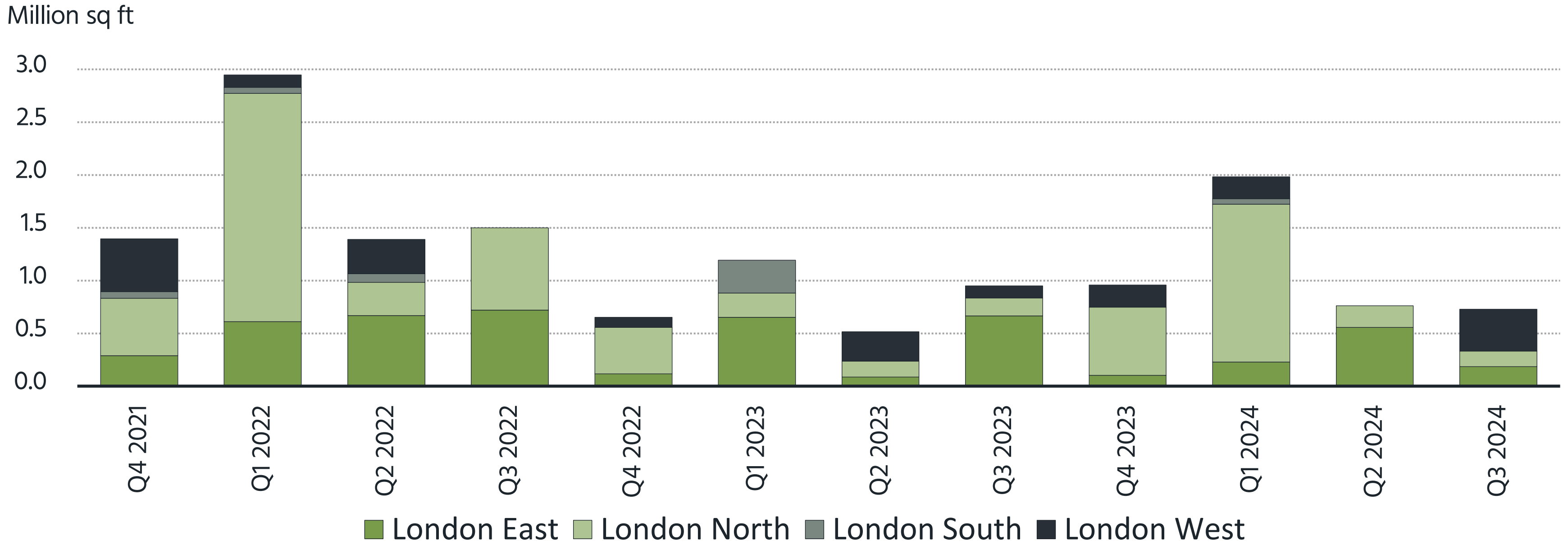
PRIME LOGISTICS RENTS



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



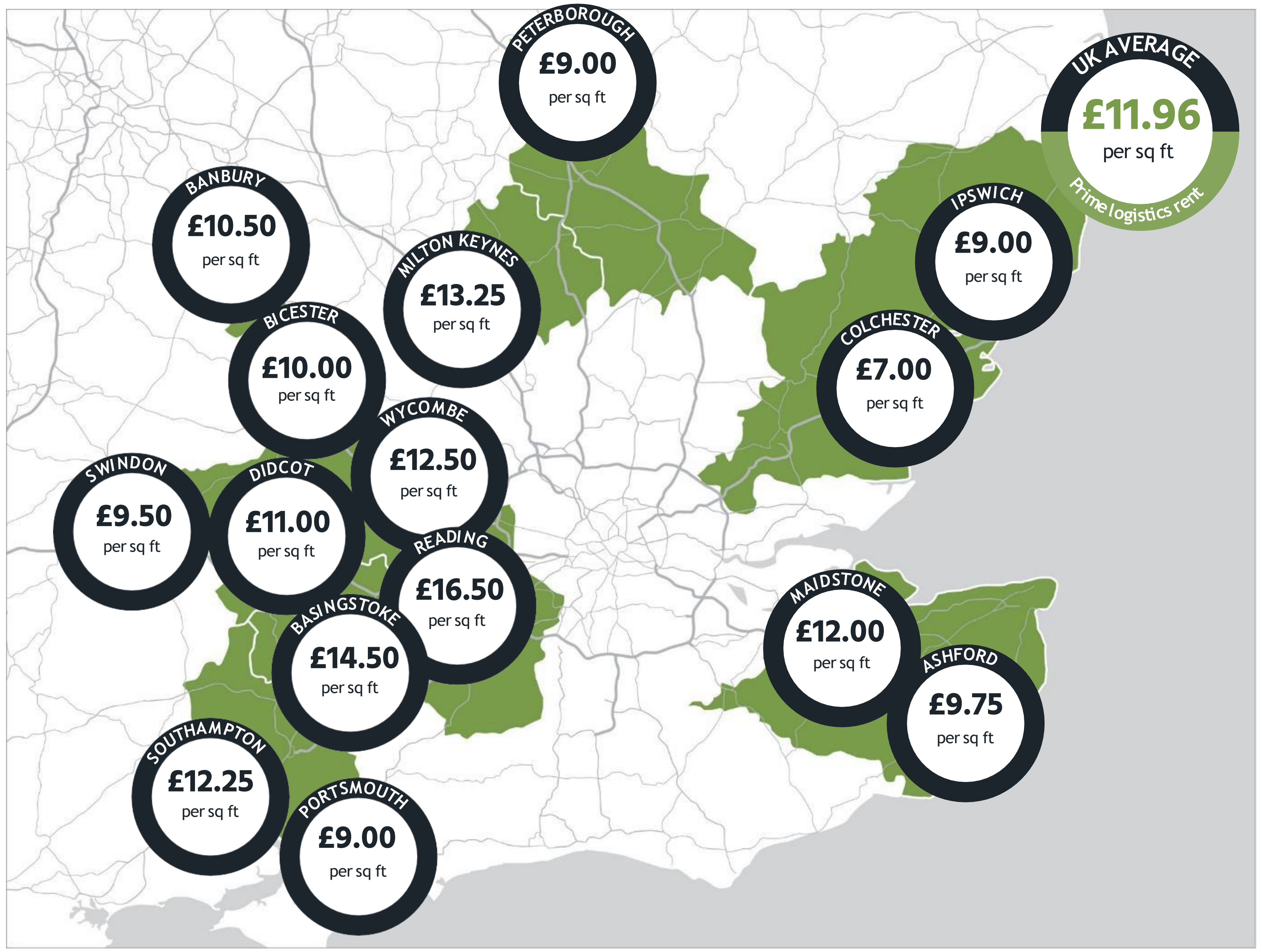
Availability rate by region

Source: Gerald Eve

Contact **Mark Trowell** for more information.

THE SOUTH EAST AND EAST

PRIME LOGISTICS RENTS



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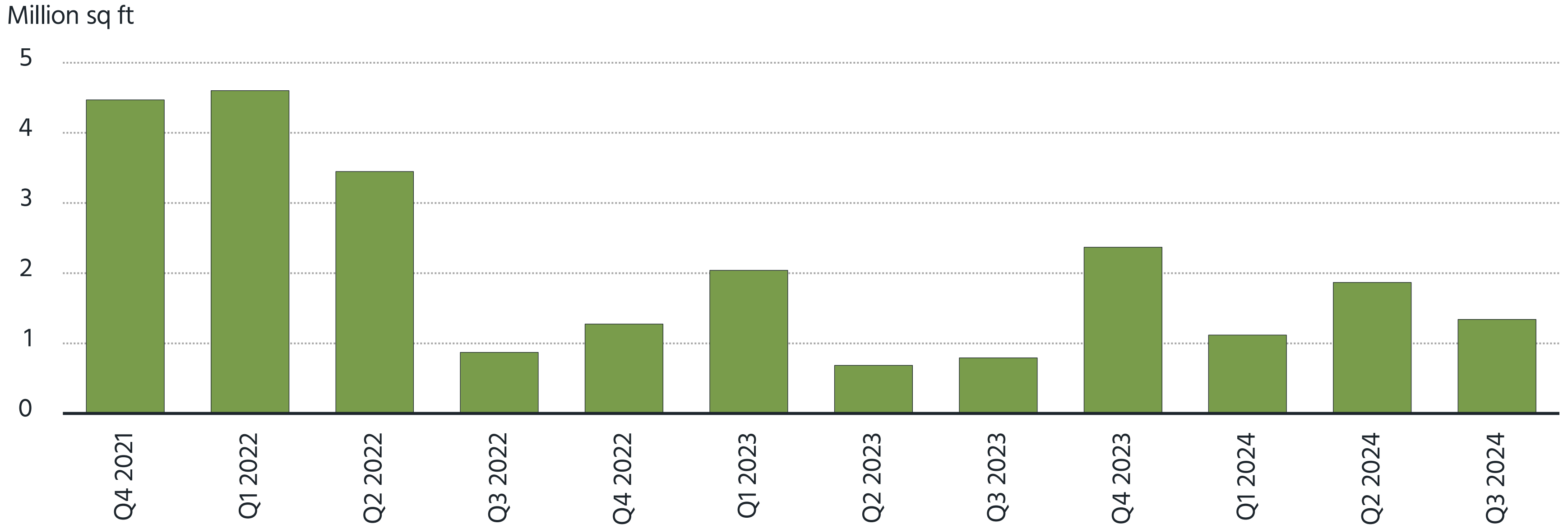
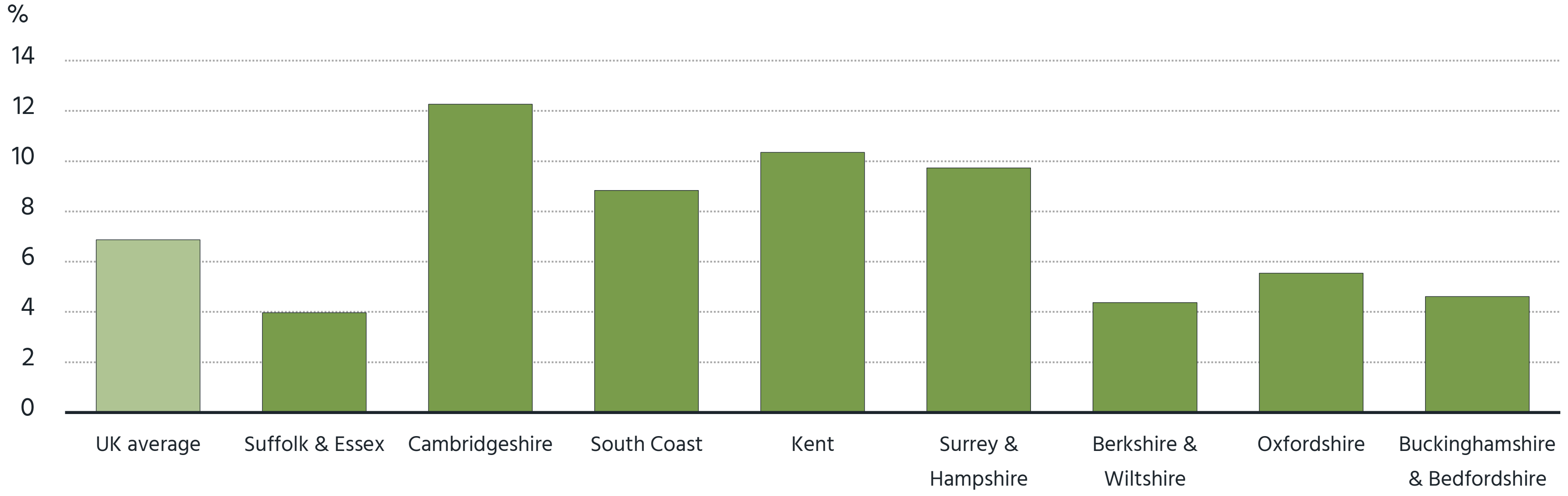


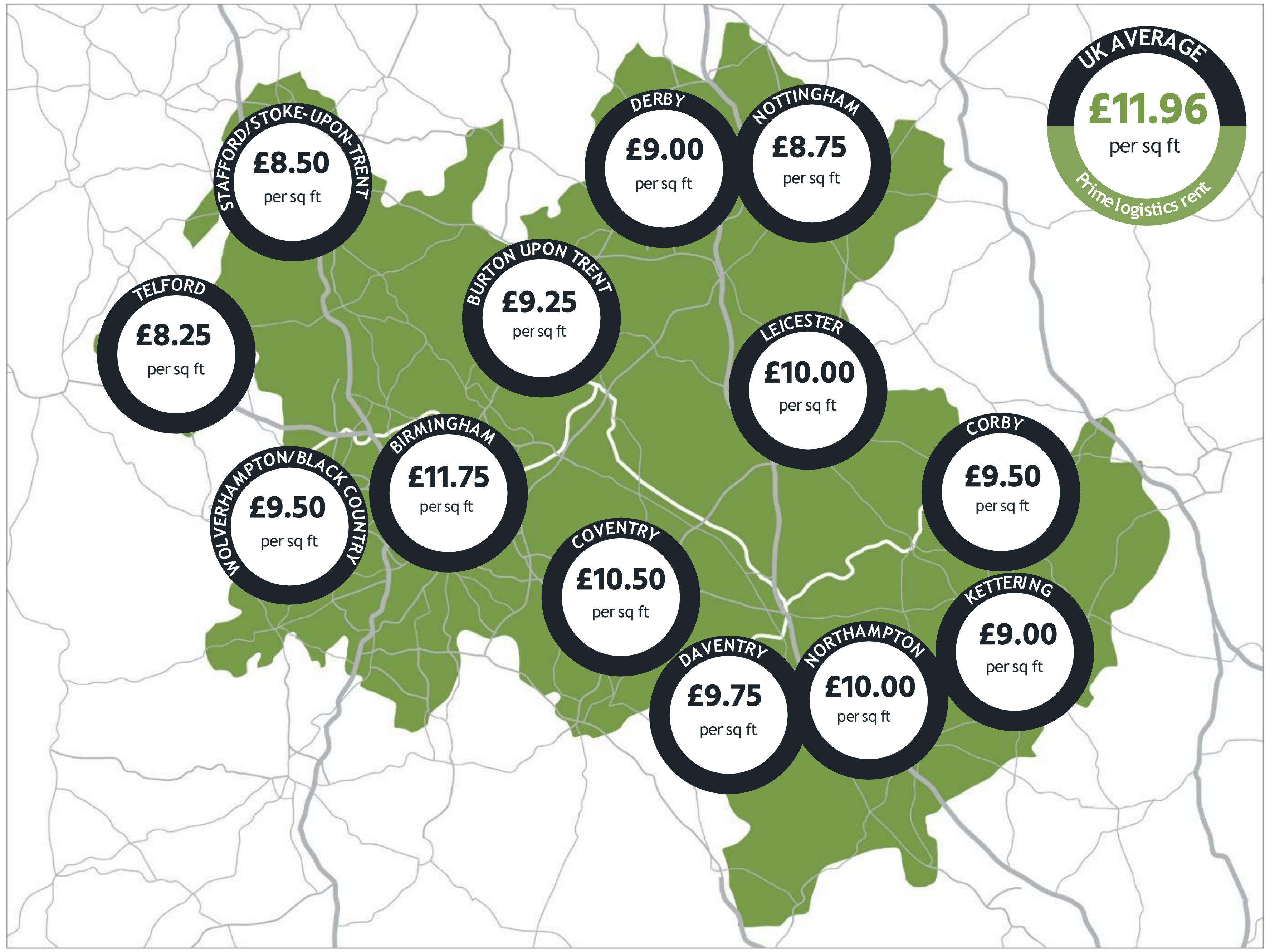
Availability rate by region
Source: Gerald Eve



Contact **Charles Spicer** for more information.

MIDLANDS

PRIME LOGISTICS RENTS



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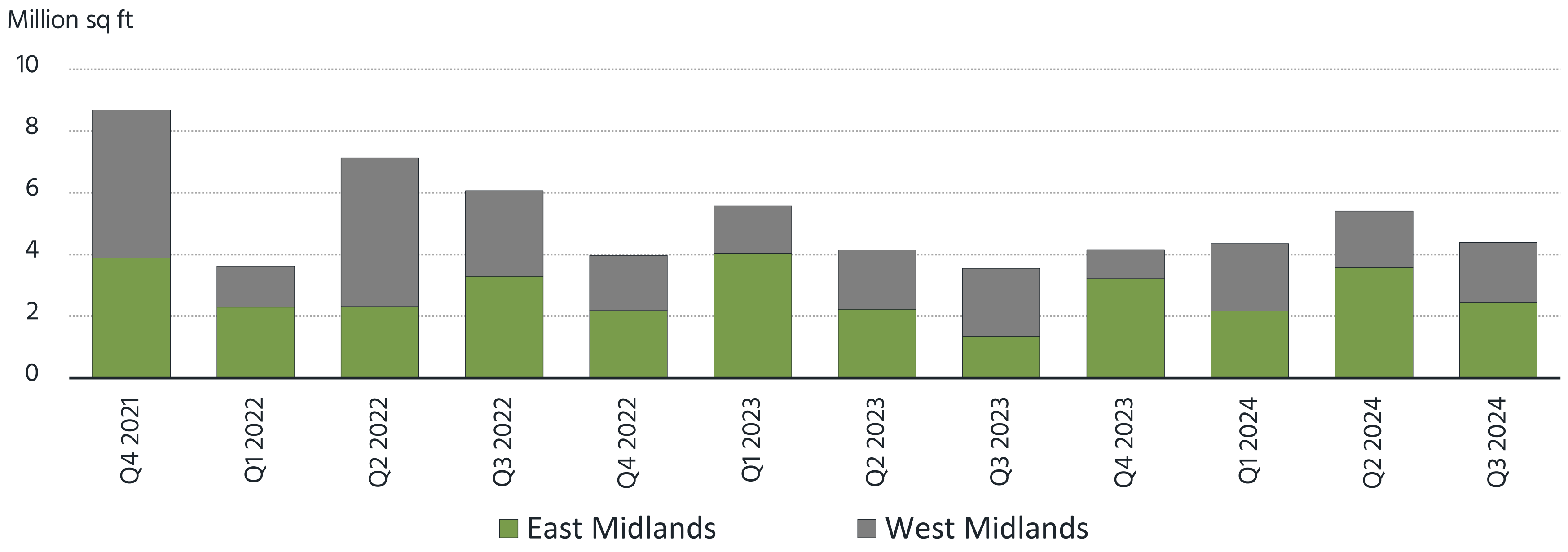


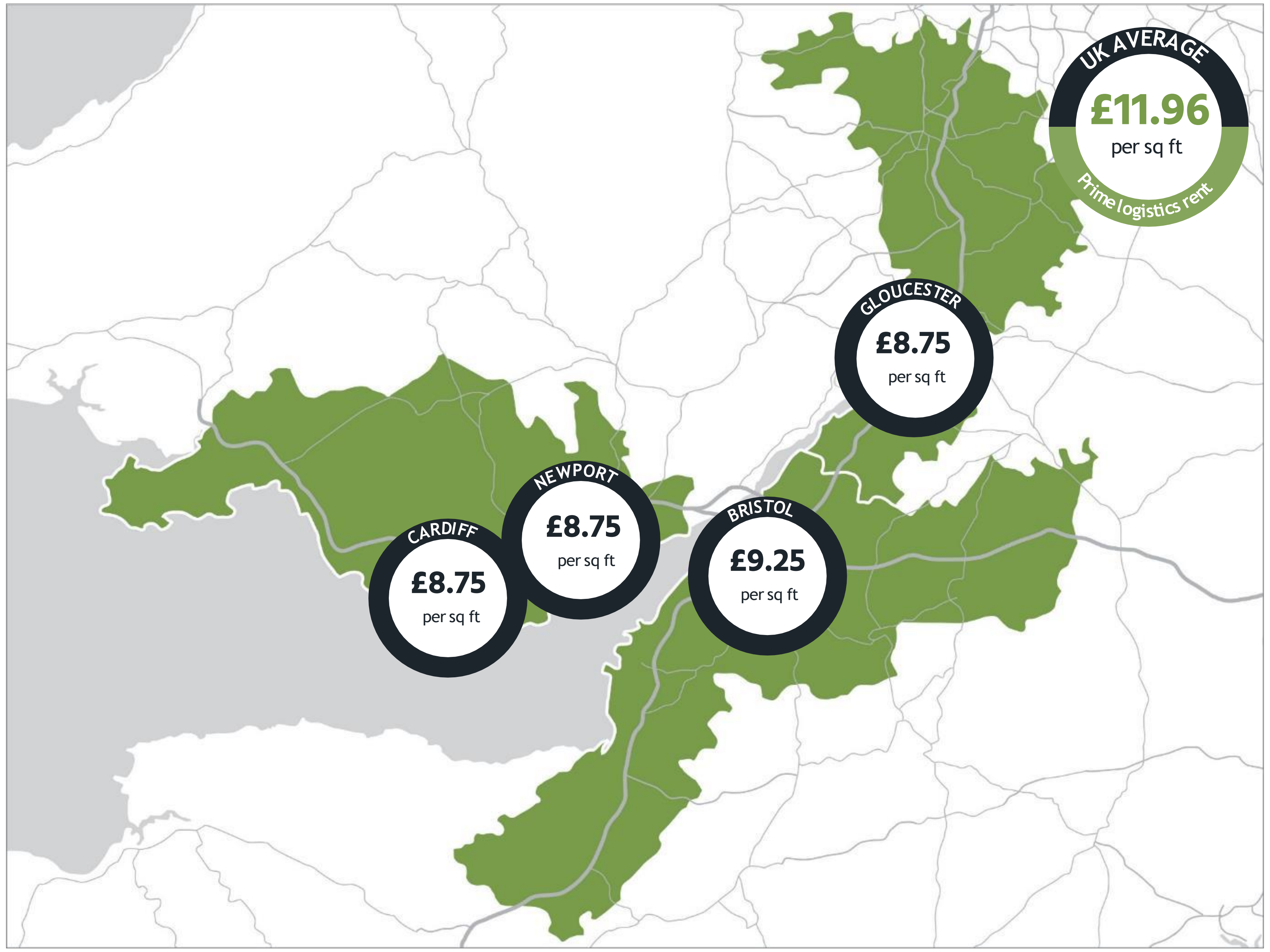
Availability rate, by region

Source: Gerald Eve

Contact **Tom Cater** for more information.

WEST OF ENGLAND AND SOUTH WALES

PRIME LOGISTICS RENTS



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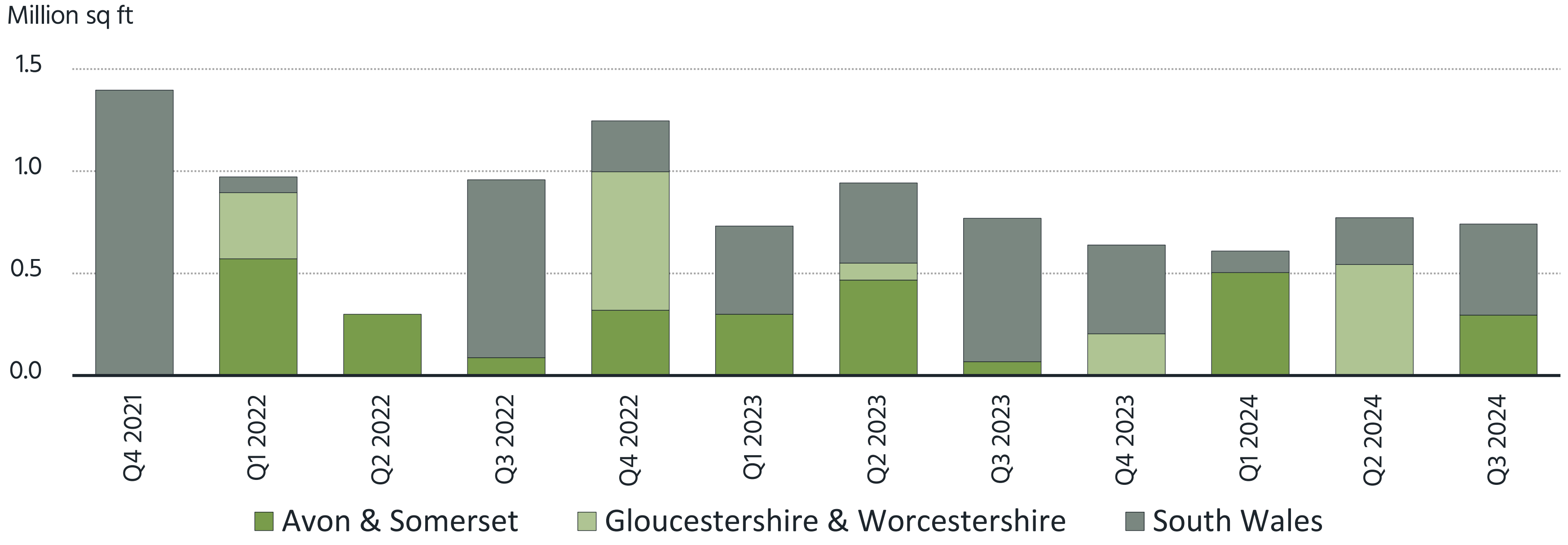
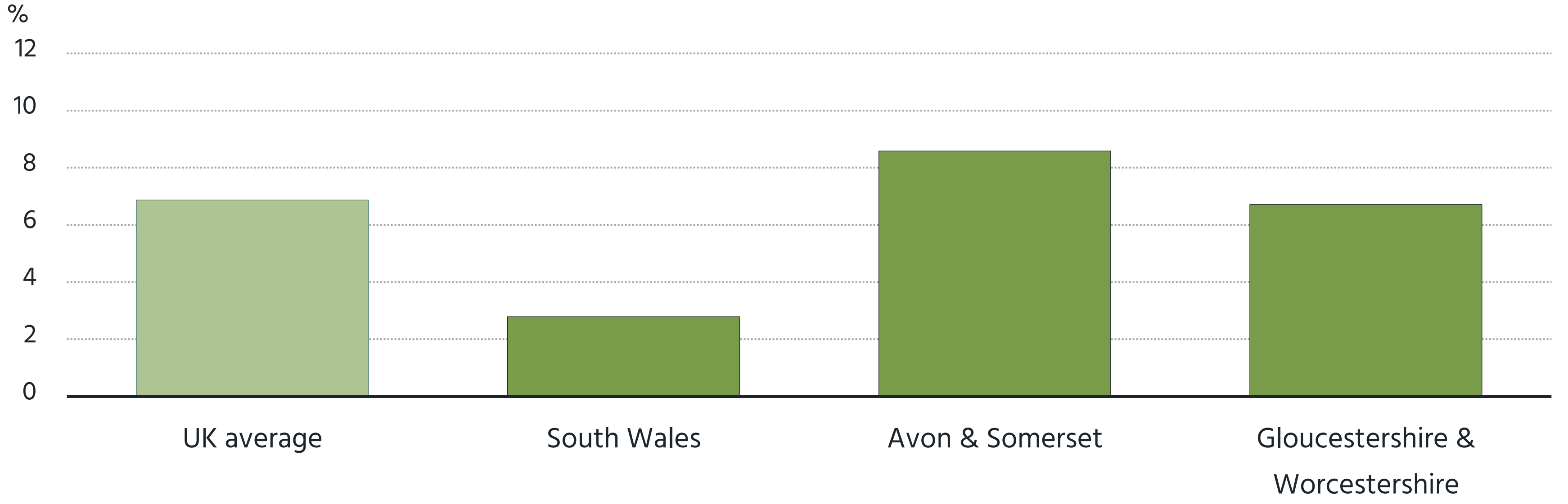
Quarterly occupier take-up by region

Source: Gerald Eve



Availability rate by region

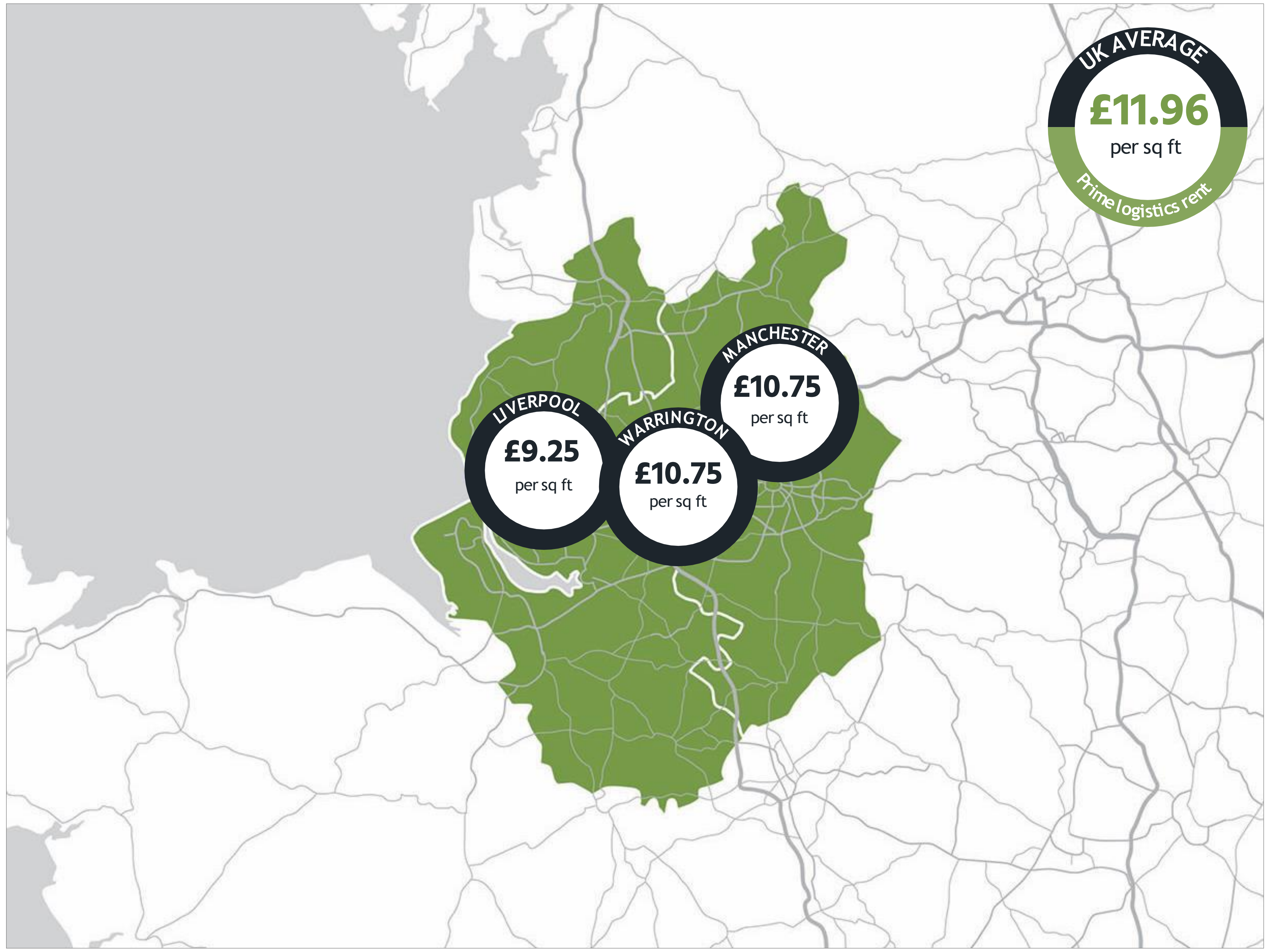
Source: Gerald Eve



Contact **Jason Print** for more information.

NORTH WEST

PRIME LOGISTICS RENTS



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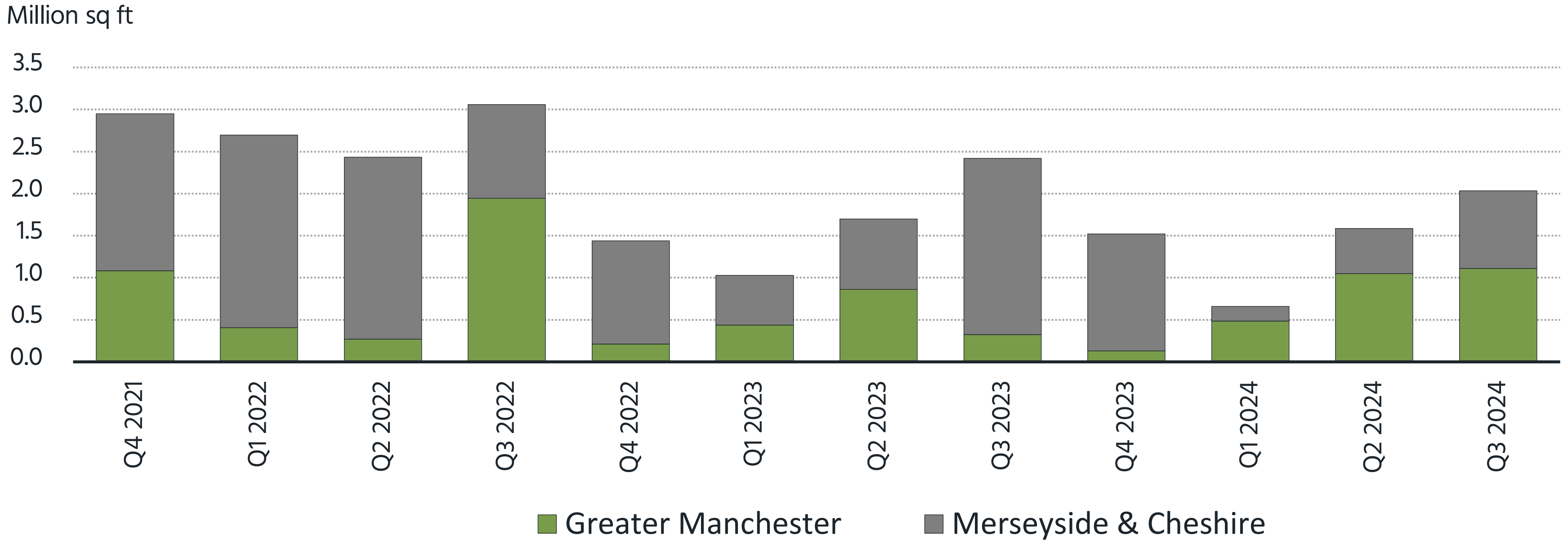
Quarterly occupier take-up by region

Source: Gerald Eve



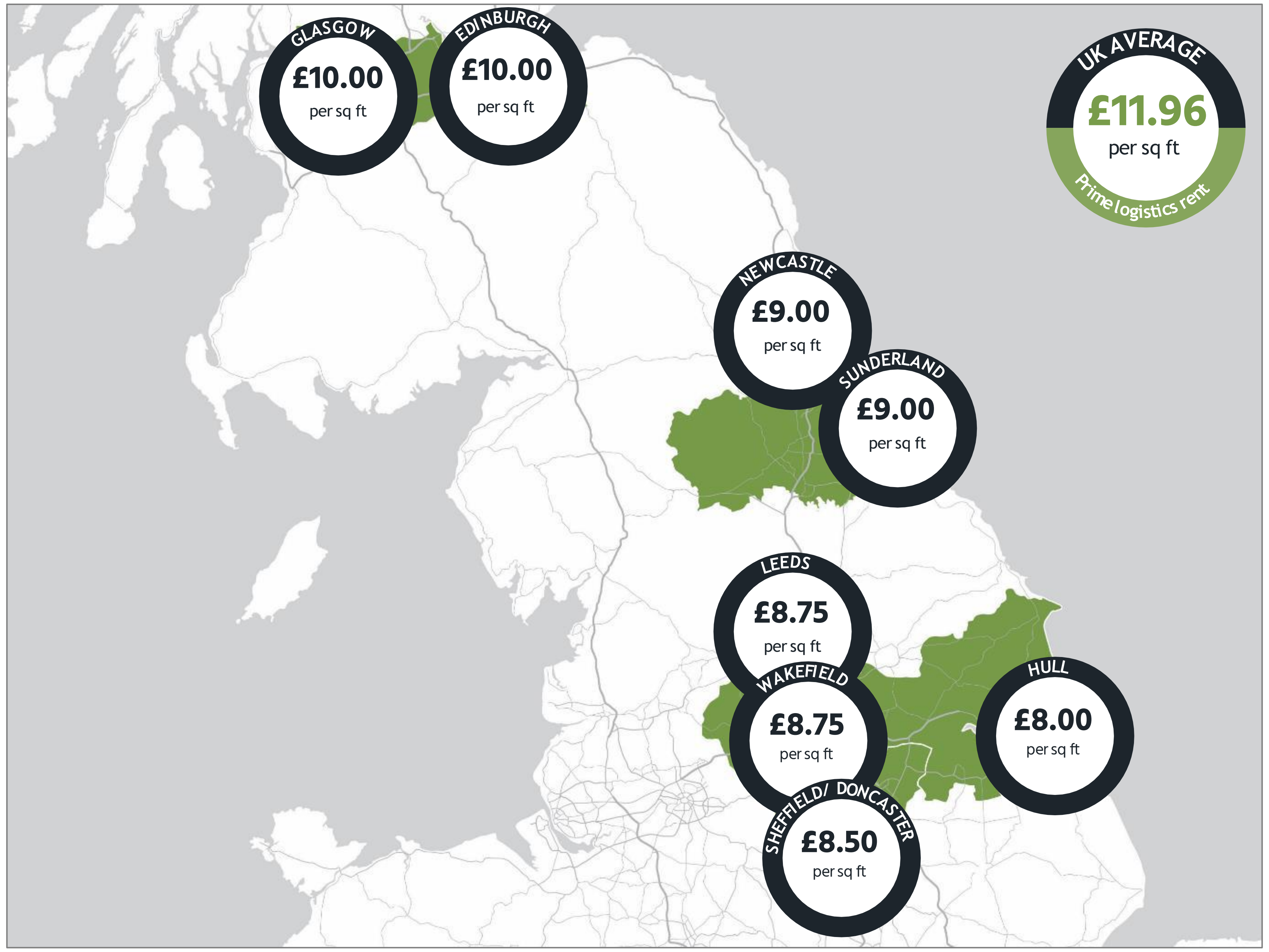
Availability rate by region

Source: Gerald Eve

Contact **Sven Macaulay** for more information.

YORKSHIRE, NORTH EAST AND SCOTLAND

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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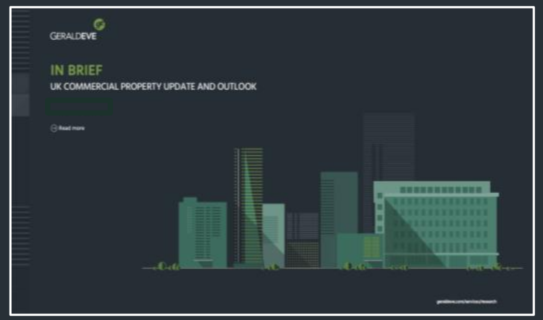
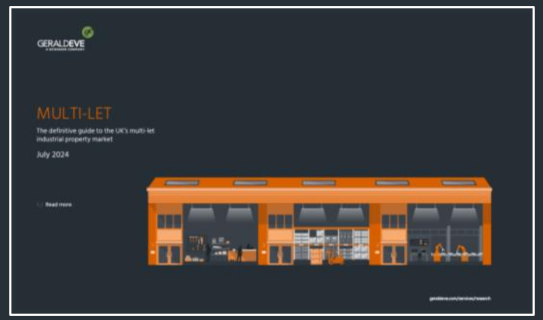
FURTHER INSIGHT



In Brief



Multi-let

London Markets

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