

UK Logistics Market Dashboard

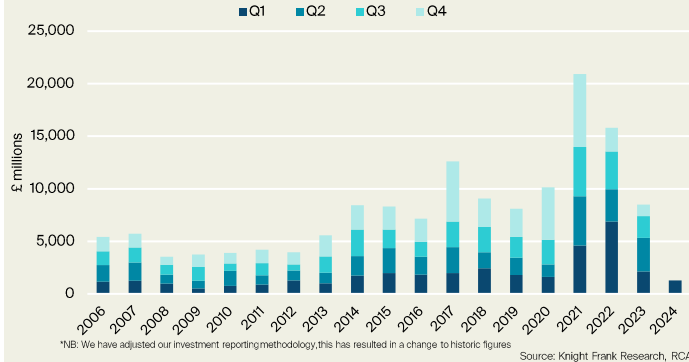


April 2024

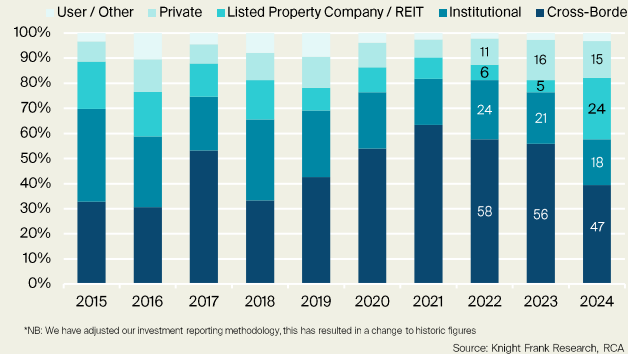
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Investment market

Industrial & logistics - Investment total

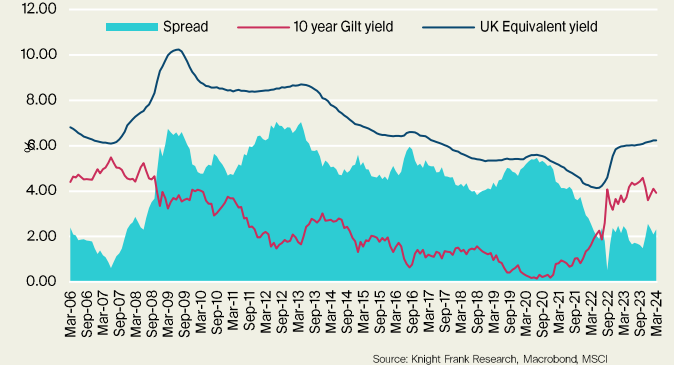


Capital composition (%)



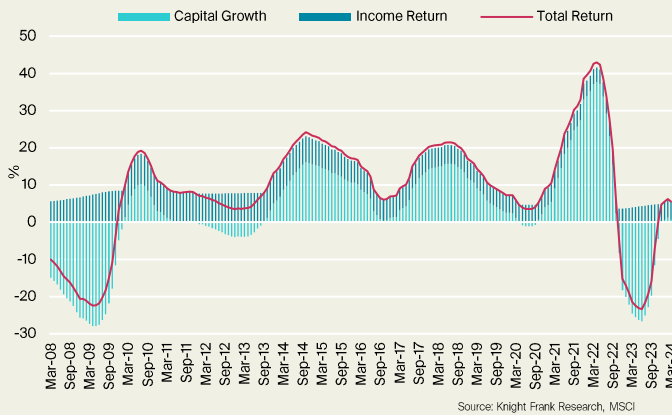
Yields

Industrial yields



Performance

Industrial Total returns - annualized (all assets)



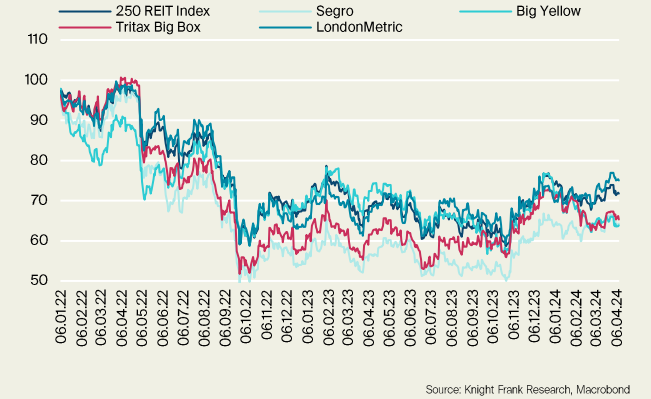
Total Returns forecast (%) -Q4 2023

	2024	2025	2026	2027	2028	2024-28 CAGR
Industrial	9.5	9.7	8.8	7.2	6.8	8.4
Office	6.2	8.9	8.5	7.7	7.3	7.7
Retail	7.6	9.2	8.5	7.2	6.9	7.9
Other	7.3	8.7	8.1	6.9	8.0	7.8
All Property	7.9	9.3	8.6	7.4	7.0	8.0

Source: Knight Frank Research, RealFor

Listed real estate

Real Estate Equities - total returns indices 01/01/2022 = 100



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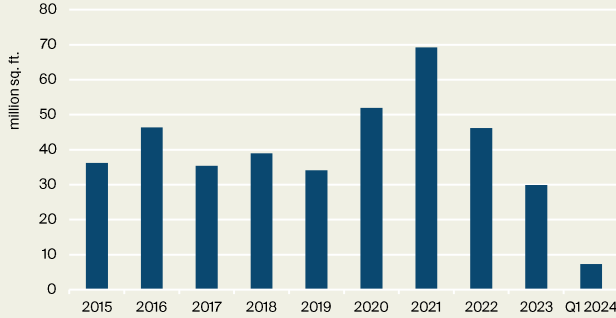
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Occupier market

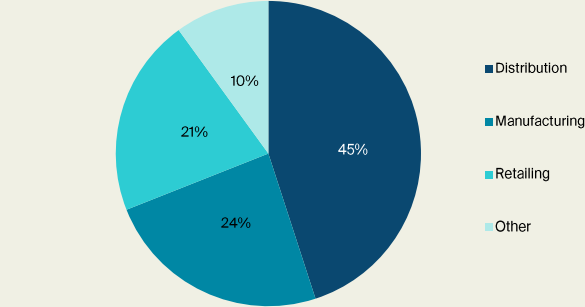
Take up (units over 50,000 sq. ft.)



*Q1 2024 figure is preliminary

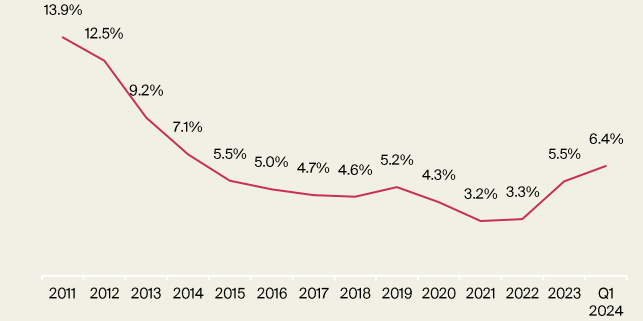
Source: Knight Frank Research

Take up by occupier type – last 4 quarters (units over 50,000 sq. ft.)



Source: Knight Frank Research

Vacancy Rate (%)

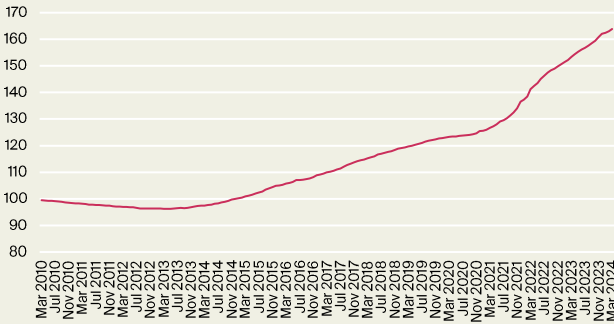


*Q1 2024 figure is preliminary

Source: Knight Frank Research

Rents

Average market rental growth
Jan 2010 = 100



Source: Knight Frank Research, MSCl

Average rental growth forecast (%)
-Q4 2023

	2024	2025	2026	2027	2028	2024-28 CAGR
UK	4.2	2.8	2.5	2.7	3.0	3.0
London	4.7	3.5	3.5	4.0	4.4	4.0
South East	4.4	2.8	2.6	3.0	3.4	3.3
South West	3.0	1.8	1.5	1.9	2.3	2.1
Eastern	5.4	3.0	2.4	2.6	3.0	3.3
East Midlands	4.4	2.5	1.9	2.0	2.4	2.6
West Midlands	4.0	2.6	2.1	2.3	2.7	2.7
North West	4.5	2.5	1.9	2.0	2.2	2.6
Yorks & Humber	3.3	1.8	1.5	1.9	2.4	2.2
North East	3.3	2.2	2.1	2.3	2.6	2.5
Scotland	2.1	1.2	1.3	1.6	1.9	1.6
Wales	2.3	1.2	1.1	1.7	2.3	1.7

Source: Knight Frank Research, RealFor

Development

Development completions (units over 50,000 sq. ft.)



Source: Knight Frank Research, Glenigan

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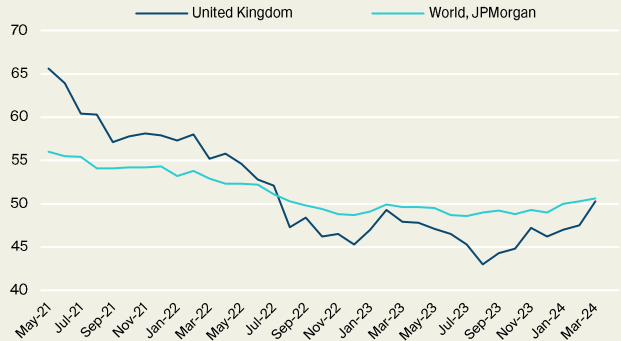
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Industry, trade and manufacturing

Manufacturing PMI Index



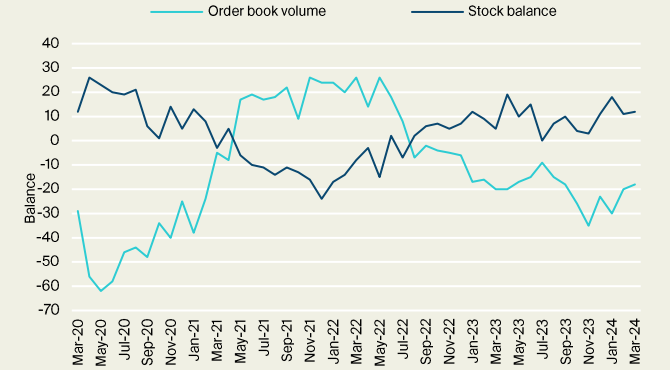
Source: Knight Frank Research, Macrobond

Global Supply Chain Pressure Index (GSCPI)
Standard deviations from average value



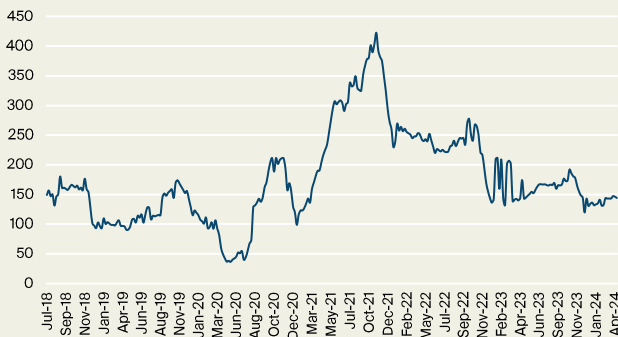
Source: Knight Frank Research, Macrobond

Order Books, Stocks Balance and Output Prices
CBI Monthly Survey



Source: Knight Frank Research, Macrobond

Job Vacancies Index - Transport/Logistics/Warehouse



Source: Knight Frank Research, ONS

Shipping container costs
40' container (FEU) indices for ocean freight
April 2024(USD)

	05/04/2024	Last Month	Last year	2 years ago
Global Container Index	\$2,462	\$4,501	\$1,412	\$9,416
China/ East Asia to N.Europe	\$3,325	\$5,456	\$2,617	\$12,314
N.Europe to N.America E.Coast	\$1,664	\$1,714	\$3,893	\$7,623

Source: Knight Frank Research, Freightos

Key comments

- The Flash Manufacturing PMI increased to 50.3 in March from 47.5 in February, and the first time it has been in expansion (exceeded 50) since July 2022. The expansion was mostly driven by domestic orders.
- Supply chain issues following the Red Sea crisis, along with weak export demand and input price increases continued to drag on production. However, manufactures confidence improved in March, with 58% expecting production to increase over the next year, compared to 7% expecting contraction.
- Supply Chain Pressure Index in World decreased to -0.27 points in March from -0.11 points in February of 2024.
- The number of container ships on order has risen significantly in recent years, which will help boost resilience and keep shipping costs down. According to Shiphub, the container ship order book stands at 7.1 million TEUs for 2023-2024, 2.6 times higher deliveries than average.
- Job vacancies in the transport, logistics and warehouse sector remain stable.
- Global shipping costs are down this month, compared with last month but remain higher than last year.
- Online retail penetration rates declined further in March, with 25.4% of retail sales. This is down from 25.7% in February, and 26.1% recorded in March last year. Online grocery retail penetration rates appear to be showing signs of stabilising, with 8.9% recorded in March, comparable with 8.7% recorded in February and 8.8% in March last year.

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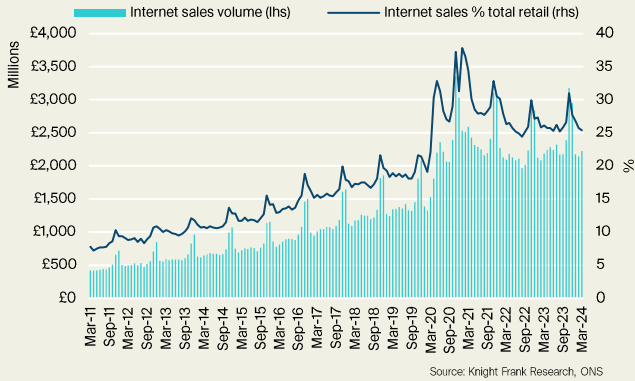
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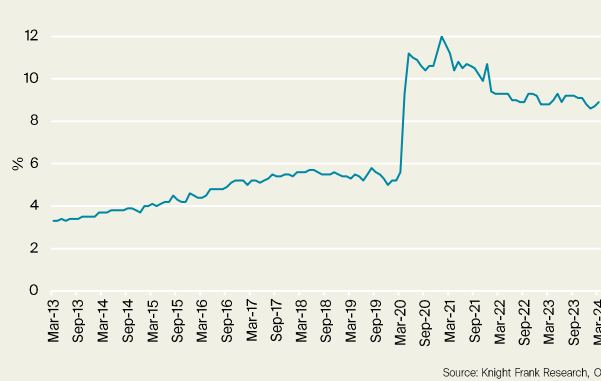
Online retail sales

UK Internet Retail Sales (monthly)



Source: Knight Frank Research, ONS

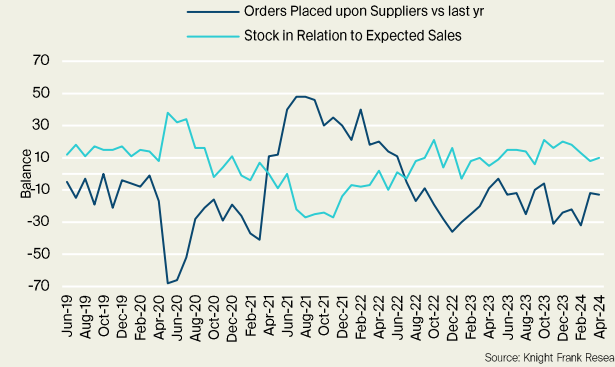
UK grocery market – proportion of online retail (%)



Source: Knight Frank Research, ONS

Retail distribution

Retailing – stock volumes and supplier orders (expected)
CBI – Distributive trades monthly survey



Source: Knight Frank Research, CBI

Market commentary

Beyond the Numbers: Why Q1 market data doesn't tell the full story for the sector

According to the Q1 market data, occupier take up is flat, vacancy rates are rising and rental growth slowing. However, a look beyond the market data, at the fundamentals underpinning demand and supply is needed to get a complete picture of the market. As we look ahead, prospects of looser monetary policy, a consumer-led recovery, manufacturing growth and the ongoing geopolitical uncertainties all point to expanding requirements for the sector.

Strong fundamentals persist, despite lacklustre take up in Q1

Preliminary Q1 figures point to stabilised occupier demand, with 7.3 million sq ft of space taken up, the same as last year's first quarter. However, the five-year average offers a less favourable comparison. Economic uncertainty, higher interest rates and rising operational cost pressures continue to weigh on occupiers, making them hesitant to commit to new facilities. However, the economic outlook is improving, inflation is falling, and it appears that interest rate cuts are likely later this year. Meanwhile, the structural trends and fundamentals underpinning occupier demand remain strong.

Prospects for a loosening in monetary policy grow as inflation eases

Following a peak of 11.1% in October 2022, inflation (CPI) has trended downwards, reaching 3.2% in March 2024, from 3.4% in February and 4.0% in January. This is expected to continue through 2024, with Oxford Economics expecting it to reach 2.3% by the end of the year. Lower inflation is likely to drive a consumer-led recovery. Retail occupiers have been far less acquisitive in terms of space over the past couple of years. However, retail-driven demand and continued growth in online penetration rates support the need for network expansion. Despite moderating inflation, the timing of interest rate cuts remains uncertain. Oxford Economics believe that June looks the most likely timing of the first cut, with rates cut a total of 75bps by the end of the year. However, as of Monday, 22nd April, the markets (interest rate futures) are pricing in the first rate cut (25bps) for August, with a total of 54bps this year. The MPC's decision on whether to cut rates in June will likely hinge on April data for core inflation and wage growth.

Geopolitical uncertainties continue to make a case for just-in-case strategies

Though many firms have reverted to just-in-time inventory strategies post-Covid due to cost pressures and improved efficiencies, inventory levels remain elevated (compared with pre-pandemic levels). Ongoing geopolitical concerns, including tensions in the Middle East and the war in Ukraine, continue to pose risks for international trade and highlight the need for resilient supply chains. This is helping support occupier demand, with a need to source or store more goods or components domestically rather than rely upon lengthy, just-in-time supply chains.

Rental growth continues, though the pace has slowed

Though the pace of the market has slowed, with occupiers taking longer to commit, new developments continue to set new headline rents, driving up prime rents. From both an investor and increasing an occupier perspective, there's a polarisation in demand, with interest focused on 'best-in-class' assets that meet ESG (environmental, social and governance) requirements. This is reflected in performance, with rental growth for prime assets outpacing the wider market. In 2023, average rents (in units over 50,000 sq ft, outside of London) were 10.2% higher than in 2022, while prime rents were 11.1% higher. Preliminary figures for the first quarter show that average rents (in units over 50,000 sq ft, outside of London) have risen 2.0% q/q, while prime rents have risen faster.

Vacancy rising

The vacancy rate continues to soften due to a combination of development completions and secondhand space returning to the market. Preliminary figures point to approximately 72 million sq ft of space available (excluding units under construction) at the end of Q1 2024, and a vacancy rate of c.6.4%, up from 5.5% at the end of last year. The Midlands and North West markets in particular, saw availability rise significantly. The slower pace in the occupier market has meant less pre-let activity, and thus development completions have led to higher vacancy levels. The vacancy rate is at its highest level for ten years, meaning that occupiers willing to commit, have a good selection of readily available facilities to choose from. And despite continued growth in headline rents, incentives for occupiers (rent-free periods) have shown a slight upward trend over the past few quarters. However, development completions are now slowing, and this will limit any further softening in vacancy. With high inflation and increased debt costs, development IRRs have struggled over the past year and development activity has decreased as a result.

UK manufacturing set for growth... But competition from China could pose a risk

Following two years of contraction, industrial production is anticipated to expand in 2024 and beyond. Indeed, the latest March manufacturing PMI figure points to increased optimism for the UK manufacturing sector, with a reading of +50, pointing to expansion for the first time in two years, with rising domestic orders the key to recent growth. The S&P survey found that 58% of manufacturers expect production to increase over the next year, compared to 7% expecting contraction. Despite falling production levels over the last two years, manufacturing firms have represented a quarter of all space taken up by occupiers in 2022/23. Additional production and distribution space requirements will likely materialise as the sector enters growth mode this year. The rate of growth forecast for the sector overall is relatively modest and lags wider GDP growth expectations. However, the overall growth projections mask a mixed bag of performance expectations across the sub-sectors. Over the next five years, robust growth is forecast for machinery and equipment, computer, electronics and optical products, as well as transportation equipment and pharmaceuticals, while several heavy manufacturing sub-sectors are expected to contract. However, competition from overseas poses a downside risk to the growth of high-value manufacturing in the UK. China is also looking to grow its capabilities in advanced manufacturing and green technology sectors, as well as upgrade existing manufacturing processes and supply chains. Investments into manufacturing in China have gained momentum, growing at 9.4% y/y TTD in January-February. Chinese banks are facilitating a surge in new borrowing for the manufacturing sector as they expand their manufacturing capabilities, and across China, new factories producing electric vehicles (EVs), batteries, and other products integral to the green transition (such as solar panels and wind turbines) are popping up. In March, China reported its strongest manufacturing PMI since February 2023, driven by an uptick in overseas demand. Chinese domestic consumption remains weak, and the expansion of the manufacturing sector in China will mean more goods being produced for the export market.

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