UK Logistics Market Dashboard

May 2024

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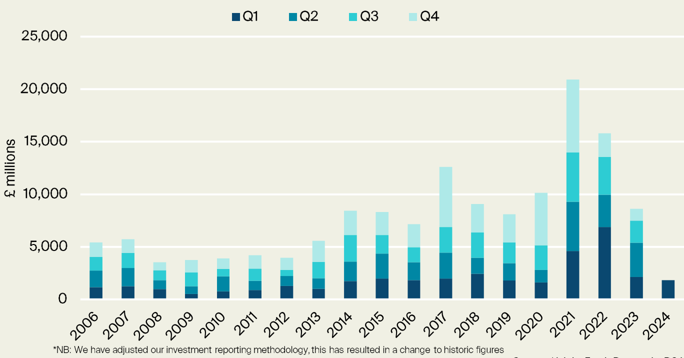
Investment market

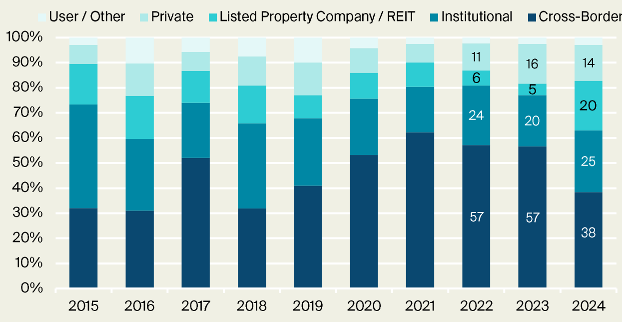
Industrial & logistics - Investment total



*NB: We have adjusted our investment reporting methodology, this has resulted in a change to historic figures

Source: Knight Frank Research, RCA

Capital composition (%)

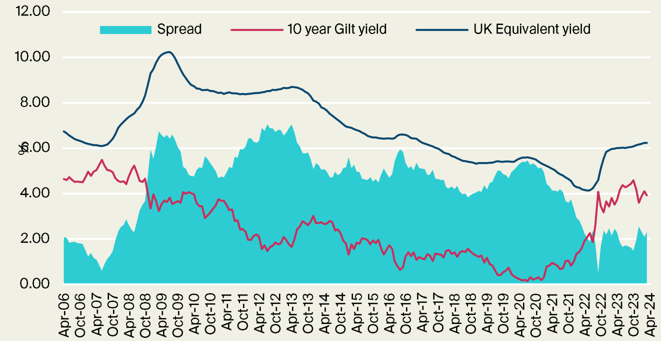


*NB: We have adjusted our investment reporting methodology, this has resulted in a change to historic figures

Source: Knight Frank Research, RCA

Yields

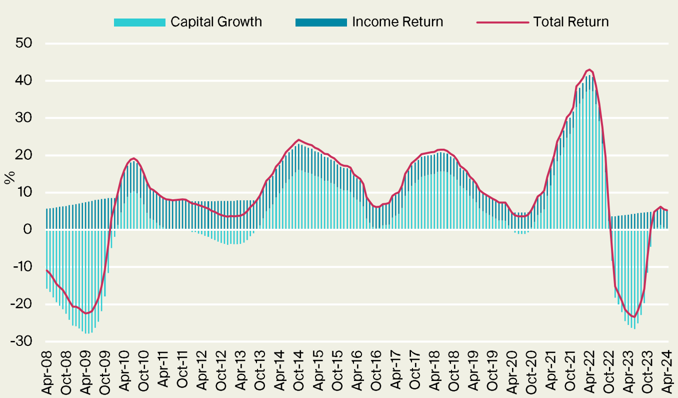
Industrial yields



Source: Knight Frank Research, Macrobond, MSCI

Performance

Industrial Total returns – annualized (all assets)



Source: Knight Frank Research, MSCI

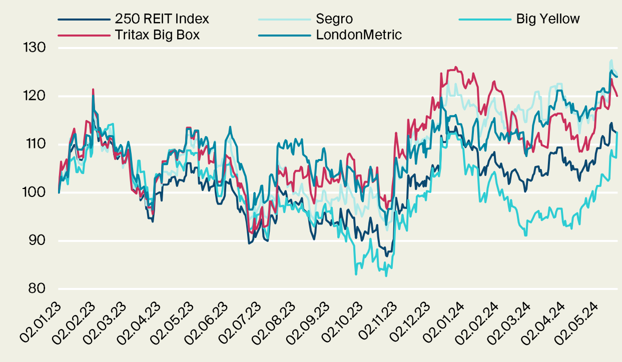
Total Returns forecast (%)
-Q1 2024

	2024	2025	2026	2027	2028	2024-28 CAGR
Industrial	8.4	9.3	8.6	7.6	6.9	8.1
Office	0.7	6.2	8.0	7.6	7.2	5.9
Retail	8.0	8.9	8.2	7.3	6.8	7.8
Other	5.9	8.1	7.9	7.5	7.1	7.3
All Property	5.8	8.2	8.3	7.5	6.9	7.4

Source: Knight Frank Research, RealFor

Listed real estate

Real Estate Equities - total returns indices
01/01/2023 = 100



Source: Knight Frank Research, Macrobond

Research

Claire Williams
Head of UK & Europe Industrial Research
+44 203 897 0036
Claire.Williams@knightfrank.com

Capital Markets

Charles Divall
Head of Industrial Capital Markets
+44 20 7861 1683
charles.divall@knightfrank.com

Agency

Charles Binks
Partner, Industrial & Logistics Agency
+44 20 7861 1146
charles.binks@knightfrank.com

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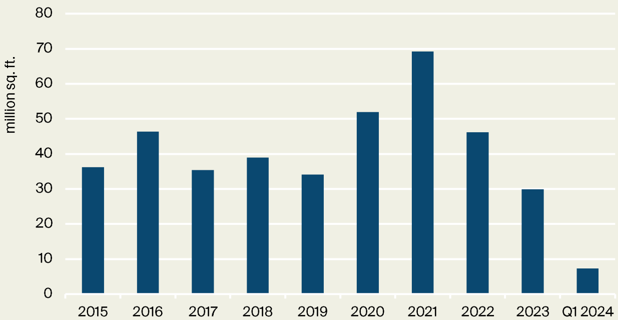
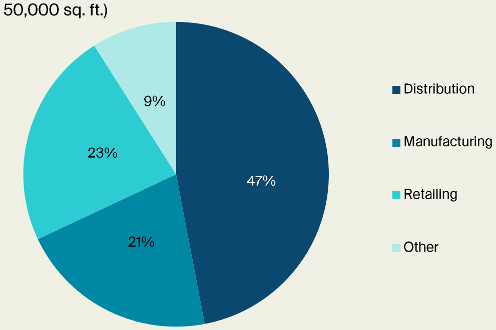
Occupier market

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



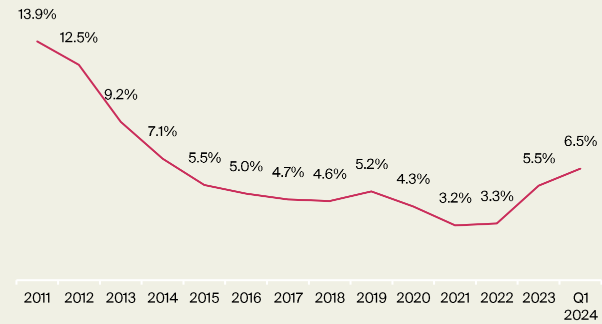
Source: Knight Frank Research

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



Source: Knight Frank Research

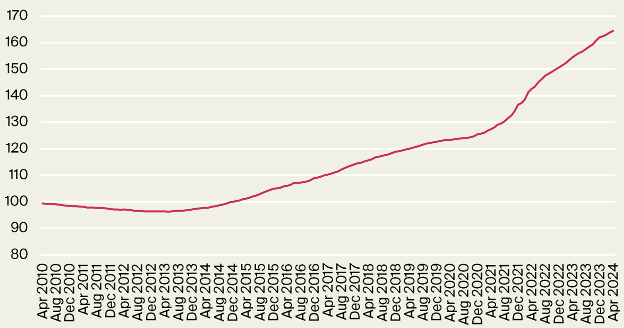
Vacancy Rate (%)



Source: Knight Frank Research

Rents

Average market rental growth
Jan 2010 = 100



Source: Knight Frank Research, MSCI

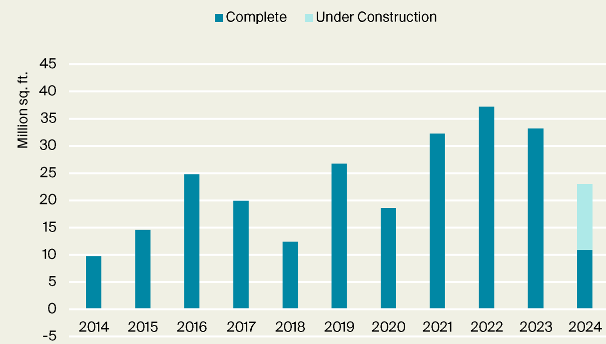
Average rental growth forecast (%) -Q1 2024

	2024	2025	2026	2027	2028	2024-28 CAGR
UK	4.7	3.1	2.4	2.7	2.9	3.2
London	5.5	4.0	3.2	3.5	3.8	4.0
South East	5.1	3.5	2.7	2.8	3.1	3.4
South West	6.2	3.2	2.1	2.1	2.2	3.1
Eastern	3.7	3.2	2.7	3.0	3.1	3.1
East Midlands	4.4	2.4	1.9	2.3	2.6	2.7
West Midlands	4.2	2.4	2.1	2.6	2.9	2.9
North West	5.3	3.0	2.2	2.4	2.5	3.1
Yorks & Humber	4.7	2.5	1.8	2.0	2.3	2.6
North East	4.7	2.8	2.2	2.4	2.5	2.9
Scotland	4.1	2.2	1.7	1.9	2.0	2.3
Wales	3.6	1.6	1.2	1.9	2.4	2.1

Source: Knight Frank Research, RealFor

Development

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



Source: Knight Frank Research, Glenigan

Research

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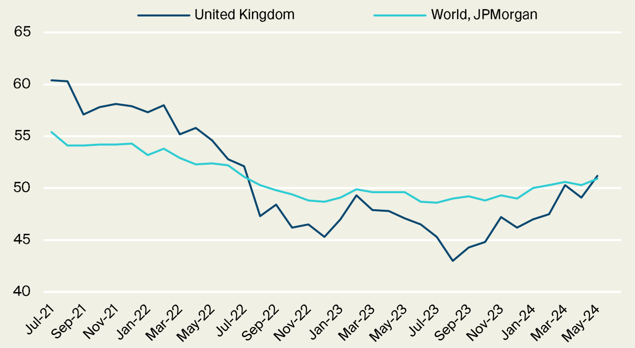
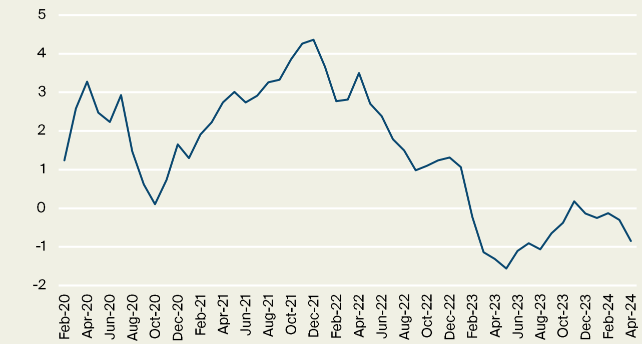
Industry, trade and manufacturing

Manufacturing PMI Index



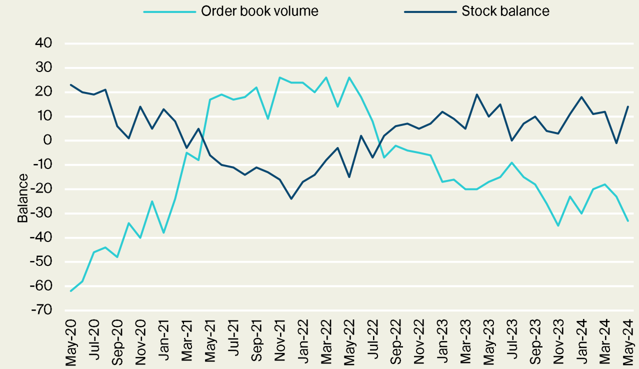
Source: Knight Frank Research, Macrobond

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



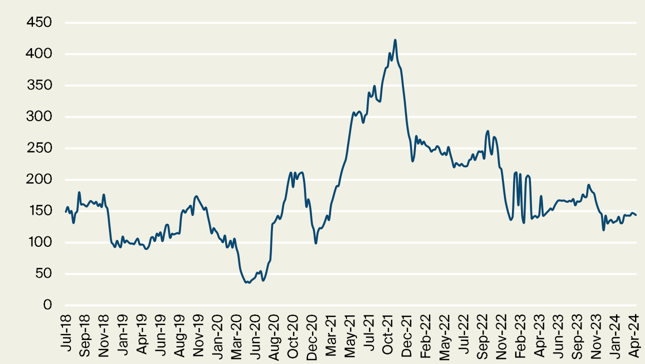
Source: Knight Frank Research, Macrobond

Order Books, Stocks Balance and Output Prices
CBI Monthly Survey



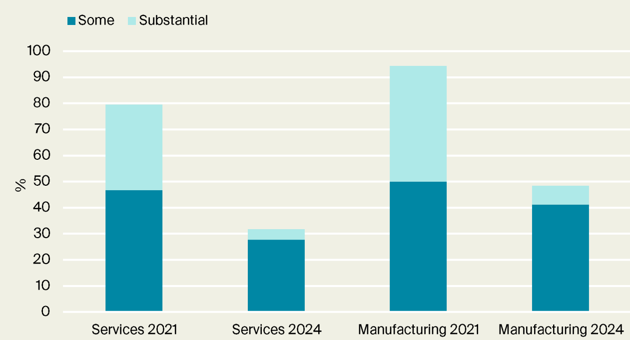
Source: Knight Frank Research, Macrobond

Job Vacancies Index - Transport/Logistics/Warehouse



Source: Knight Frank Research, ONS

Supply Availability Indexes



Source: Knight Frank Research, Federal Reserve Bank of New York.

Key comments

- The Flash Manufacturing PMI increased to 51.2 in May from 49.1 in April and its highest reading in two years. The expansion was mostly driven by improved intakes of new work. The outlook also brightened as manufacturers' positive sentiment rose to its highest level since early-2022, with 63% of companies expecting output to expand over the coming year.
- Supply chain disruptions have eased, but remain a concern. Supply Chain Pressure Index decreased to -0.85 points in April from -0.30 points in March of 2024. Easing supply chain pressures have contributed to the slowdown in inflation.
- New data from the Federal Reserve Bank of New York shines more light on the impact of supply chain disruptions. New Supply Availability Indices closely tracks the GSCPI and indicate that supply availability had generally been improving since early 2023, but over the past couple of months, improvement has stalled and continue to impact a significant number of firms, particularly in the manufacturing sector. Almost half of manufacturing firms surveyed reported ongoing supply chain issues.
- Job vacancies in the transport, logistics and warehouse sector remain stable.
- Online retail penetration rates rose to 26.5% in April, from 26.2% in March 2024. However, while penetration rates rose, sales fell, just by a smaller proportion than overall retail sales. Online grocery retail penetration rates remain stable month-on-month, with 8.9% recorded.

Research

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Head of UK & Europe Industrial Research
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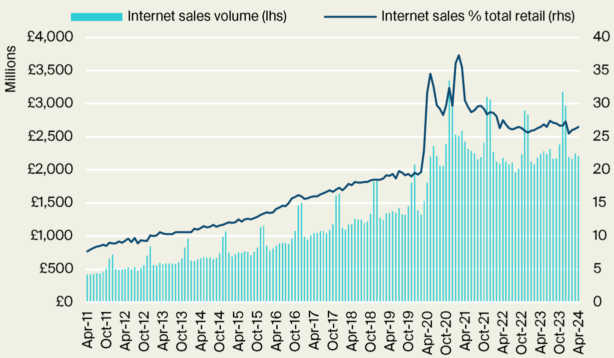
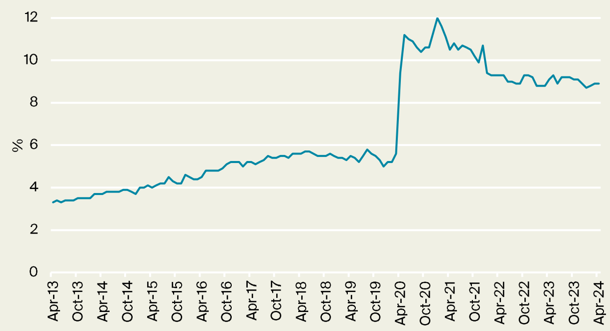
Online retail sales

UK Internet Retail Sales (monthly)



Source: Knight Frank Research, ONS

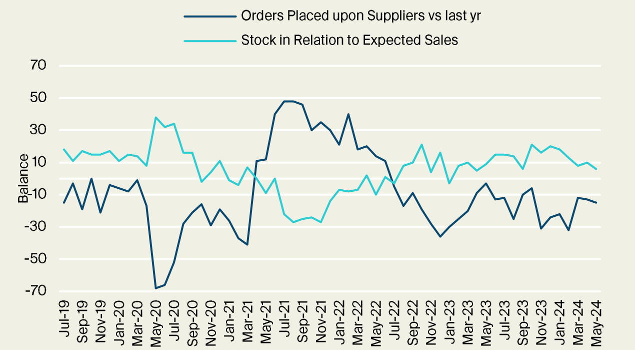
UK grocery market – proportion of online retail (%)



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

An election call, an inflation fall and confidence improves as economic growth returns

As the major parties start to lay out their election policies, what are we likely to see? How will these policies impact the industrial and logistics sector? And will the needs of the sector be addressed?

Rishi Sunak calls UK general election for 4th July

Despite having until January 2025, Prime Minister Rishi Sunak announced a General Election for the 4th of July, giving just six weeks' notice. Autumn was previously thought to be the most likely timing, but this announcement caught both the opposition and his own (Conservative) Party off guard.
While the major parties have yet to release official election manifestos, they have dropped hints and promises over the course of the past few years, which offer a clue to their vision for the country.
The primary election pledges are not likely to focus on the industrial and logistics sector. However, every government has an industrial strategy, and policies around national infrastructure, housing, wages and the broader economy will all have implications for operators, investors and the wider requirements of the sector.
The Labour Party is expected to win the election, with Oddschecker currently showing an average of 1/40 for a Labour victory; meanwhile, odds for a Conservative win average 12/1. The Financial Times general election model currently shows Labour receiving 44.3% of the national vote share, compared with 23.6% for Conservatives.
So, what would a Labour government mean for the industrial and logistics sector? We take a look at some of the proposals and their implications for the sector.

Policies and Implications of a Labour Government

1. Ports and National Infrastructure

In 2023, the National Infrastructure Commission laid out the scale of the task awaiting future governments to fix infrastructure in the UK over the coming decades. It calculated that £30bn a year was needed from the taxpayer, with a further £40bn to £50bn a year from the private sector.
Last year, the (Conservative) Government set an ambitious target to grow rail freight by at least 75%. The Labour Party has also expressed their commitment to increasing rail freight, and whilst it has outlined plans to nationalise consumer routes, it has stated that it has no plans to nationalise rail freight companies.
Labour plans to merge the NIC (National Infrastructure Commission) and IPA (Infrastructure and Projects Authority) to "better support the delivery of major capital projects." This new, combined body (to be called the National Infrastructure and Service Transformation Authority) would stipulate from the outset how projects are planned, designed and costed.
Labour has also pledged to invest up to £1.8bn into port infrastructure across the UK if it comes into power after the forthcoming General Election. However, the specifics of the locations and projects this spend could target are yet to be defined.
Labour have announced they will set out a 10-year infrastructure strategy within the first year in power. They have announced their plans to grow infrastructure investment will rely on increasing private-sector financing. They also aim to streamline the planning system for nationally significant infrastructure projects (NSIPs) such as major housing developments, power plants, railways, road networks and health centres.

2. Housing

Both Conservatives and Labour are targeting 300,000 new homes per annum. However, the approach (Labours New Towns vs Conservatives brownfield sites) and stringency of the targets differ slightly.
This target of 300,000 homes per annum would mean 1.5 million new homes over the next five years. Meeting these targets would mean around a 50% rise in housing deliveries, based on current delivery levels.
More dwellings will mean a greater need for industrial and logistics property and infrastructure. More households means more customers and increased demand for goods. And these goods need to be produced, stored and delivered. Additional dwellings mean more delivery addresses and greater demands on logistics networks.
Our Future Gazing research, released earlier this year, found that for each dwelling in Britain, there is 109 sq ft of industrial and logistics space. If this relationship holds true and the housing targets set by either Party are met, a further 163.5 million sq ft of industrial and logistics floorspace would be needed over the next five years.

3. Business Taxes

Labour has previously announced plans to replace business rates with a framework of "business property taxation", aimed at aiding high street retailers by levelling the playing field between traditional brick-and-mortar businesses and their online counterparts. However, details about how this plan would work have not been forthcoming, which may suggest that plans have since been shelved.
Both Labour and Conservatives have ruled out increasing corporation tax.

More noise than signal from April's inflation figures

UK inflation has fallen to 2.3%, just above the target rate of 2%, down from 3.2% in March. It's the lowest it's been in almost three years, but while the latest dip, driven by energy prices, has sparked some hope for future interest rate cuts, the drop is smaller than anticipated.
Prices rose in most other sectors. Services inflation, the most critical indicator for the Bank of England, came in at 5.9%, down marginally from 6% in March and much higher than expected (5.4% consensus forecast) due to several annual price hikes.
This persistent services inflation reduces the chances of the Bank of England cutting rates at its next meeting in June. Oxford Economics has revised its expectations around the timing of the first cut, which is now expected to come in August rather than June, with two 25bps cuts anticipated by year-end.

Confidence improves as economic growth returns

The UK economy has exited its technical recession, with Q1 GDP estimates suggesting it grew 0.6%. The outlook for 2024/25 has also improved. Oxford Economics revised up their forecast for 2024 to 0.9% (from 0.6% previously), with a further 2% growth forecast in 2025.
Last year saw a robust rebound in real incomes, but high inflation coupled with tighter financial conditions led to caution from consumers. While mortgage rates have come down, the lagged impact of tighter monetary policy will continue to impact disposable incomes. Many borrowers with fixed-rate mortgage deals expiring this year will face significant rises in interest payments.
Yet, falling inflation, the prospect of looser monetary policy and an improving economic outlook are beginning to boost consumer confidence. The GfK Consumer Confidence Index two points in May, to -17. With an improved outlook for personal finances (up five points) and a boost for views on the broader economy in the coming year (up four).
As we look to the second half of 2024, lower inflation coupled with ongoing wage growth should support real household incomes and improve sentiment, which will, in turn, help boost consumer spending.
The amount of warehouse space taken up by retailers has fallen back quite considerably in the past couple of years. Yet as the consumer economy improves, the post-pandemic correction for online retail sales eases, and the economic picture improves, retail businesses will become more acquisitive as their confidence to enact their expansion plans grows.

Delays on route

With an election on the horizon and interest rate cuts now not expected until late summer, we will not likely see a significant pickup in activity in either the investment or occupier markets until then.
While higher financing costs have impacted investor sentiment, many buyers are well-capitalised and continue to target the sector's strong fundamentals. However, the lack of motivated sellers has meant far fewer options available for buyers and, thus, lower levels of investment activity.
Occupiers have prioritised cost-consciousness due to inflationary pressures, which has led to a decline in demand for space. Many occupiers have opted to maintain their current footprints rather than expand their network or upsize facilities and incur significant capital expenditure for fit-out costs. Also, occupiers seeking to use debt to fund expansion plans or investment into new facilities may be delaying their plans in the hope of finding cheaper funding options later in the year.

Key Contacts

Claire Williams
Head of UK & Europe Industrial Research
+44 203 897 0036
Claire.Williams@knightfrank.com

Johnny Hawkins
Head of Logistics & Industrial
+44 20 7861 1519
Johnny.Hawkins@knightfrank.com

Will Gubb
Head of Industrial & Logistics Capital Markets
+44 20 7861 1595
Will.Gubb@knightfrank.com

Charles Binks
Partner, Industrial & Logistics Agency
+44 20 7861 1146
Charles.Binks@knightfrank.com