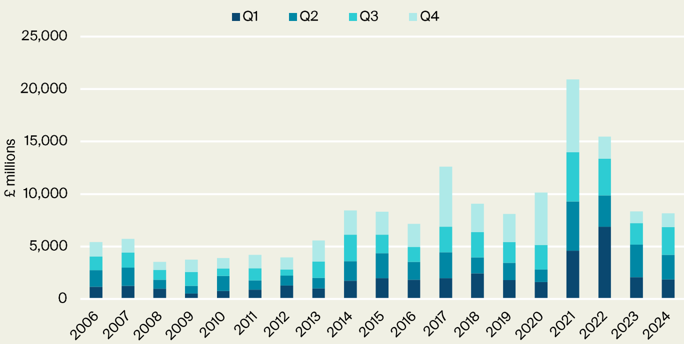
UK Logistics Market Dashboard

November 2024

Investment market

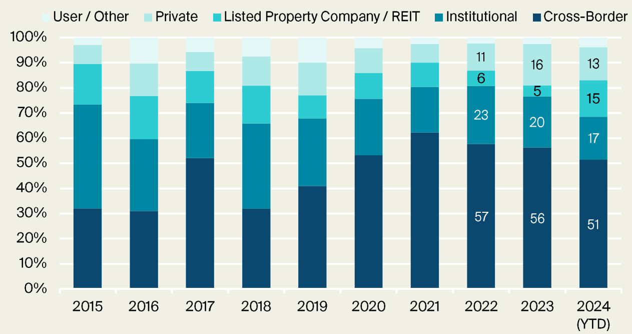
Industrial & logistics - Investment total



*Q4 2024 transaction volumes are incomplete

Source: Knight Frank Research, RCA

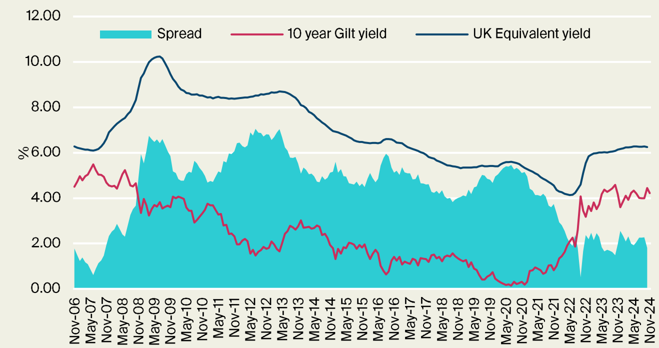
Capital composition (%)



Source: Knight Frank Research, RCA

Yields

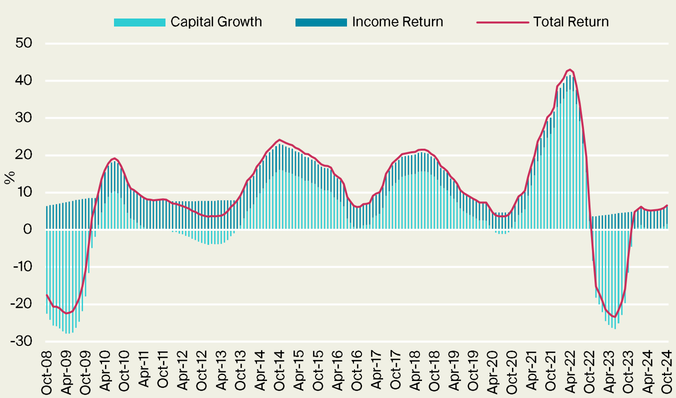
Industrial yields



Source: Knight Frank Research, Macrobond, MSCI

Performance

Industrial Total returns – annualized (all assets)



Source: Knight Frank Research, MSCI

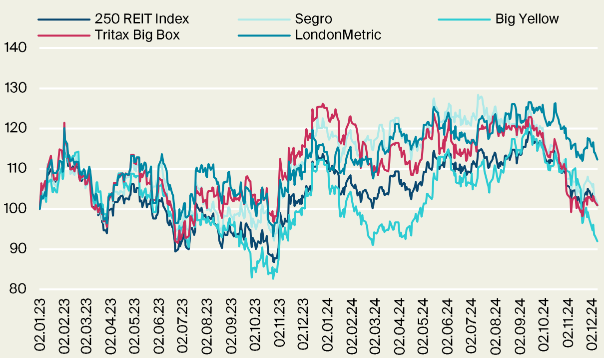
Total Returns forecast (%) -Q3 2024

	2024	2025	2026	2027	2028	2024-28 CAGR
Industrial	7.4	9.4	9.0	8.1	7.1	8.4
Office	-0.3	6.6	8.5	8.0	7.3	7.6
Retail	8.2	8.9	8.8	7.8	6.7	8.1
Other	6.1	8.1	8.5	8.0	7.2	8.0
All Property	5.1	8.4	8.8	8.0	7.1	8.1

Source: Knight Frank Research, RealFor

Listed real estate

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



Source: Knight Frank Research, Macrobond

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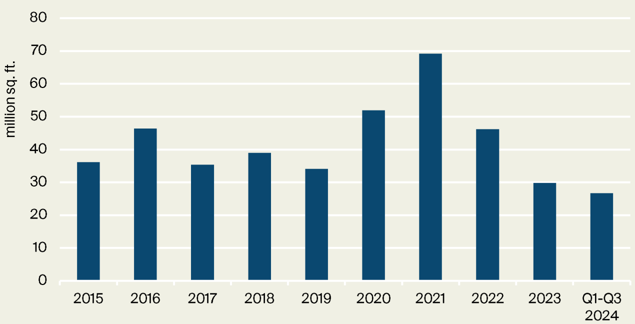
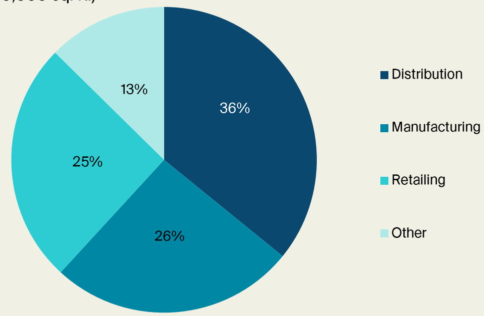
Occupier market

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



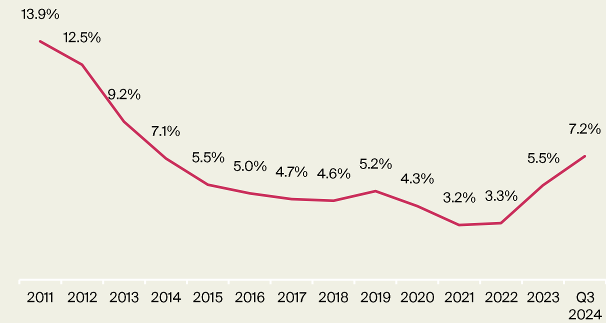
Source: Knight Frank Research

Take up by occupier type – last 4 quarters (to Q3 2024) (units over 50,000 sq. ft.)



Source: Knight Frank Research

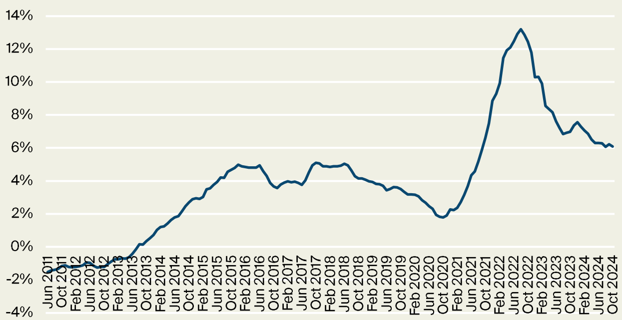
Vacancy Rate (%)



Source: Knight Frank Research

Rents

Annual average market rental growth
%



Source: Knight Frank Research, MSCI

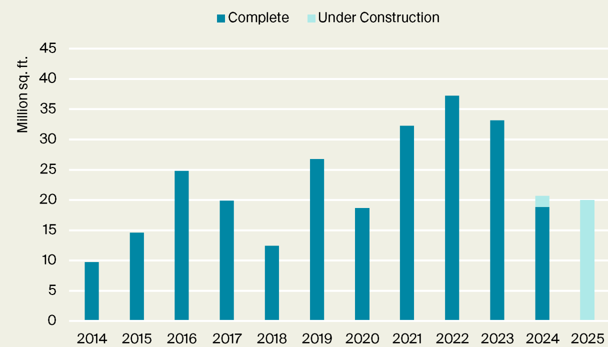
Average rental growth forecast (%) -Q3 2024

	2024	2025	2026	2027	2028	2024-28 CAGR
UK	5.5	3.7	2.8	2.8	3.0	3.5
London	5.3	4.2	3.4	3.6	3.8	4.1
South East	5.6	3.8	2.9	3.1	3.3	3.8
South West	8.1	4.3	2.4	2.2	2.2	3.8
Eastern	6.2	3.5	2.5	2.9	3.0	3.6
East Midlands	4.6	3.2	2.1	2.3	2.4	2.9
West Midlands	4.4	2.9	2.2	2.6	2.9	3.0
North West	7.4	4.5	2.7	2.4	2.4	3.9
Yorks & Humber	5.9	3.6	2.2	2.2	2.5	3.3
North East	4.1	2.8	2.1	2.3	2.5	2.8
Scotland	4.4	2.8	1.9	2.1	2.2	2.7
Wales	3.0	2.4	1.8	2.4	2.7	2.5

Source: Knight Frank Research, RealFor

Development

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



Source: Knight Frank Research, Glenigan

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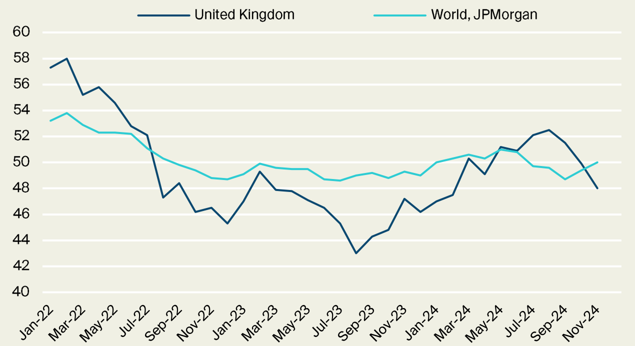
UK Logistics Market Dashboard

November 2024

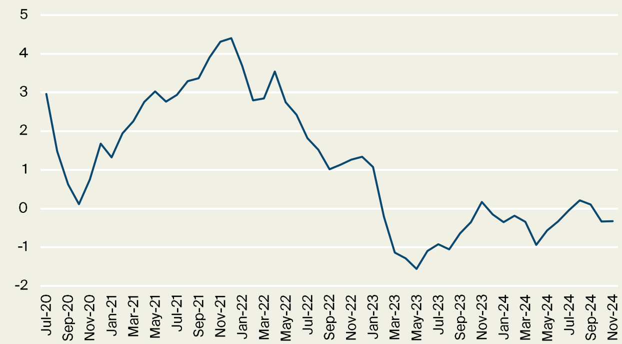
Industry, trade and manufacturing

Manufacturing PMI Index



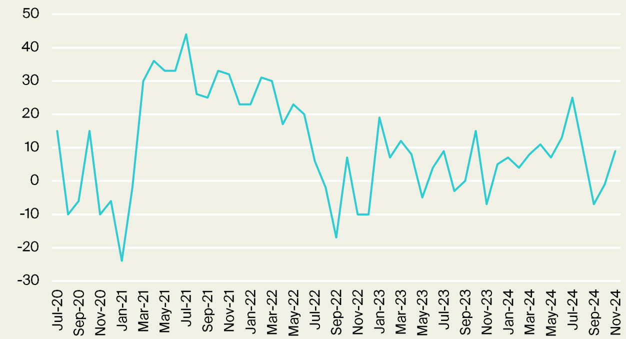
Source: Knight Frank Research, Macrobond

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



Source: Knight Frank Research, Macrobond

Expectations for future manufacturing output
CBI Industrial Trends Monthly Survey
% balance expecting improvement/deterioration



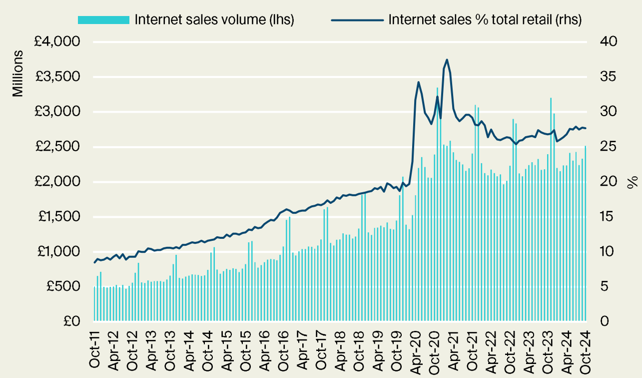
Source: Knight Frank Research, Macrobond

Job Vacancies Index - Transport/Logistics/Warehouse

Source: Knight Frank Research, ONS

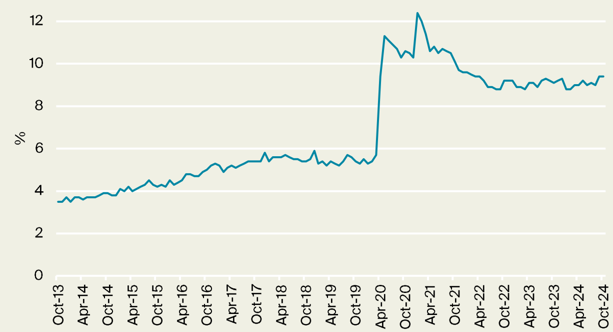
Online retail sales

UK Internet Retail Sales (monthly)



Source: Knight Frank Research, ONS

UK grocery market – proportion of online retail (%)



Source: Knight Frank Research, ONS

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UK Logistics Market Dashboard

November 2024

Knight Frank

Market commentary

Investment

- We expect a higher level of investment activity in Q4 this year than in Q4 last year. So far, the total investment in Q4 stands at £924 million, and with further transactions still being recorded and completed, the Q4 total will be higher than the £1.1 billion recorded last year.
- Despite a weak start to 2024, robust levels of activity in the second half of this year have boosted the annual investment total, with £7.7 billion recorded for the year so far. We expect the annual investment total to be on par with or exceed the £8.6 billion total for 2023.
- REITs and Listed property companies have been far more acquisitive in 2024 than in the previous two years. They accounted for 15% of investment, compared with just 5% in 2023 and 6% in 2022. Meanwhile, institutional investors have accounted for just 16% of the market this year, compared with 20% last year and 23% in 2022.
- Ten-year gilt yields softened (month-on-month) in October to 4.4% (month-end) from 4.0% at the end of September. However, much of the softening recorded in October and early November was reversed later in November, which saw yields harden to 4.2% by month-end. The current reading (10/12/2024) is 4.29%.
- While October saw gilt yields soften, the UK industrial equivalent yield moved in the opposite direction. Hardening 3bps from 6.27% in September to 6.24% in October. The equivalent yield is 16bps softer than a year ago, representing a 180bps premium over gilt yields (October). This is the narrowest premium over gilts since October 2023. Despite gilts hardening since the end of October, there may be some upward pressure on industrial equivalent yields, with further softening revealed in the November figures.
- Significant transactions in November include the purchase of the Moulding Portfolio by RN3 Partners for £180 million. Matt Moulding, co-founder of The Hut Group (THG), sold the Icon site next to the Manchester airport, which is currently tenanted by his ecommerce group. Icon will be the first asset in RN3's portfolio.

Returns

- Annual UK Industrial capital growth (all assets) continued to accelerate in October, with 1.57% growth recorded, up from 0.88% in September 2024 and the highest reading since October 2022 (MSCI).
- Annual total returns rose to 6.59% in October from 5.87% in September 2024 (MSCI).

Occupier Market Activity

- Occupier take up in Q3 2024 totalled 9.4 million sq ft. On a par with the 9.5 million sq ft recorded last quarter, it takes the year-to-date total to 27 million sq ft, compared with 30 million sq ft for the whole of last year.
- At the end of Q3, the vacancy rate was 7.3% across the UK, up from 6.9% at the end of Q2 2024. We expect a modest increase to materialise in the year-end figures based on current figures.
- A notable occupier transaction in November involved the taking up of Oldham 369, a 369,000 sq ft facility in Oldham, North West, by food manufacturer Inspired Global Cuisine (IGC), who supply supermarkets including Iceland.
- Another recent transaction of note was Vantage Data Centres purchasing the Former Wilko DC in Magor, Wales, in December. Vantage Data Centres are seeking to expand their base in South Wales, having acquired the Former Ford Plant in Bridgend earlier this year. While not taken up for industrial and logistics use, removing this 846,000 sq ft unit from the availability total should help reduce vacancy in Wales this quarter.

Rental Growth

- Average rents for UK Industrial continue to grow. The annual growth rate in the year to October is 6.09%; this marks a slight deceleration from September (MSCI). Monthly rental growth of 0.39% was recorded in October, up from 0.72% in September (MSCI).
- The latest (Q3 2024) forecasts from RealFor mark an upward revision since the Q2 projections, with UK industrial rents expected to increase by 5.5% this year, slowing to 3.7% growth in 2025, with a CAGR of 3.5% (2024-28), up from 3.3% projected last quarter.
- The South West region is expected to see the most substantial rental growth this year, with 8.1% growth now forecast. London leads in rental growth expectations over the five-year forecast, with a 4.1% CAGR.

Development

- We anticipate that just over 20 million sq ft of new stock will have completed during 2024. This figure includes both available space and space that has already been committed on either a build-to-suit or pre-let basis.
- There is a current pipeline of c.20 million sq ft that is under construction and expected to complete in 2025, this figure is likely to be revised as more schemes commence. Despite relatively high levels of vacancy across the market as a whole, supply constraints exist in certain size bands and specific markets, which is helping to give developers the impetus to bring forward new schemes.

Industry/Trade

- The UK Manufacturing PMI fell further in November to 48.0, from 49.9 in October and 51.5 in September. The reading showed the manufacturing sector contracted the most since February. Ongoing concerns surrounding the economic outlook, costs, and weak demand have led to cutbacks in staffing, purchasing, and inventory stocks. Weaker demand for exports from the US, China, and EU has also led to a further drop in new export businesses. Meanwhile, supply chain worries have intensified as the combination of the Red Sea crisis, port disruptions, and border regulation issues led to longer supplier delivery times, input shortages and rising costs.
- According to the CBI Industrial Trends survey in November 2024, the monthly net balance of new orders increased to -19 in November 2024 from -27 in October. Total order books were reported as below "normal" but improved relative to last month. Export order books were also seen as below normal. Output has underperformed expectations in recent months, with manufacturers pointing to uncertainty around the UK Budget, the US elections and recent political instability in Europe as among the factors leading customers to pause or cancel orders. Many firms still need to work through the implications of the Budget for their business plans.
- Online retail penetration rates (excl. auto fuel) remained stable at 27.7% in October from 27.8% in September 2024, and higher than in October last year. The amount spent online rose 7.9% compared with September, while an annual comparison shows a rise of 5.0% on October 2023.
- Online grocery retail penetration rates were stable at 9.4% in October, the same percentage as recorded in September. Online grocery penetration rates have not seen the same decline post-pandemic as the broader online retail market. While rates did fall back from their pandemic peak as expected, the decline was modest. They appear to have bottomed out at the start of this year, and recent months have shown rises year-on-year.

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