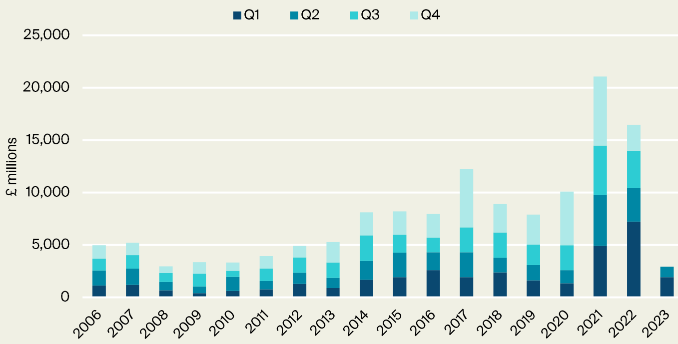
UK Logistics Market Dashboard

June 2023

INTERNAL USE AND KEY CLIENTS ONLY

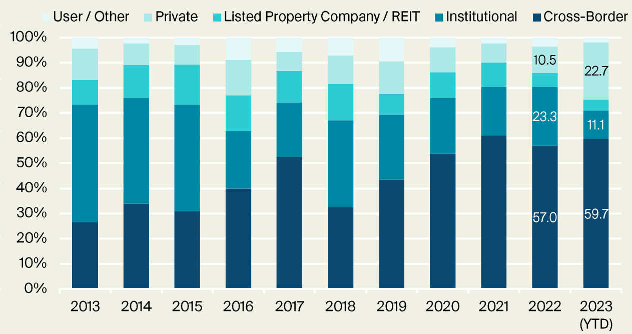
Investment market

Industrial & logistics - Investment total



Source: Knight Frank Research, RCA

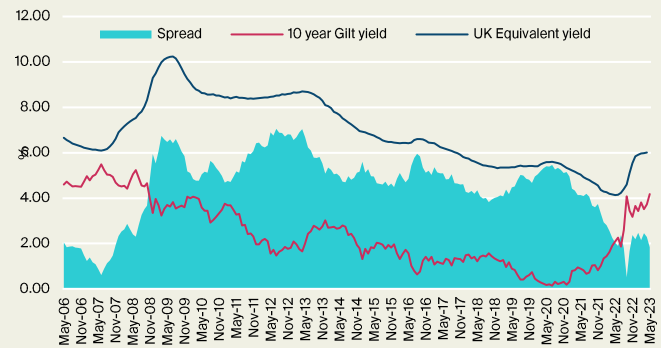
Capital composition (%)



Source: Knight Frank Research, RCA

Yields

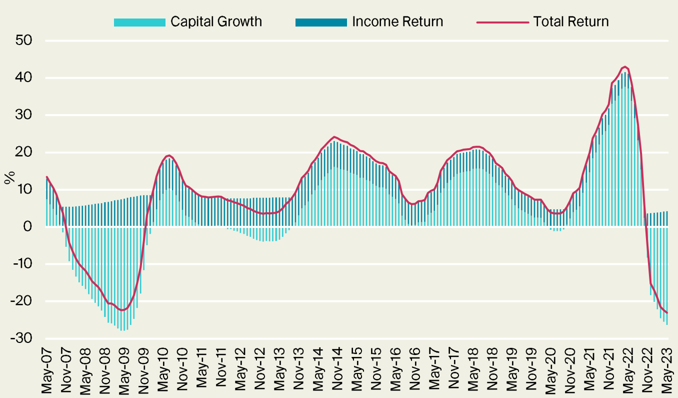
Industrial yields



Source: Knight Frank Research, Macrobond, MSCI

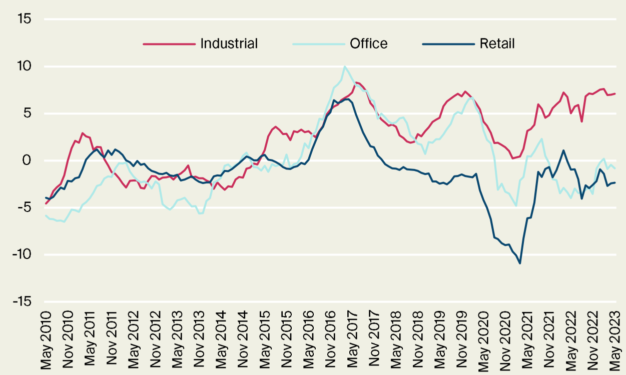
Performance

Industrial Total returns – annualized (all assets)



Source: Knight Frank Research, MSCI

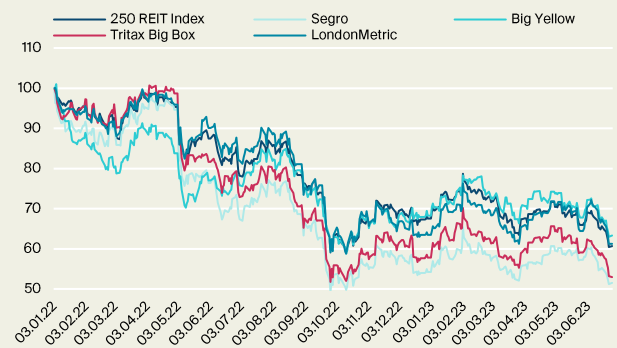
Net Operating Income (y/y % change)



Source: Knight Frank Research, MSCI

Listed real estate

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

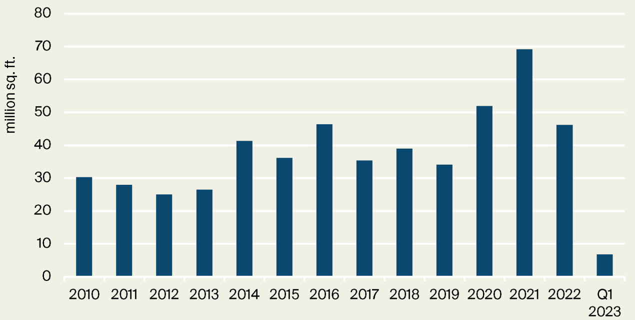
UK Logistics Market Dashboard

June 2023

INTERNAL USE AND KEY CLIENTS ONLY

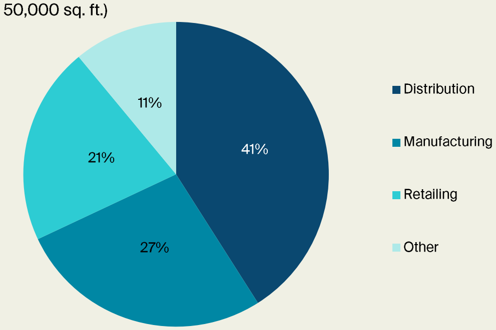
Occupier market

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



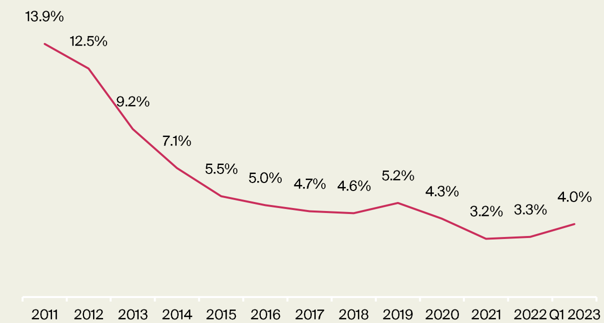
Source: Knight Frank Research

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



Source: Knight Frank Research

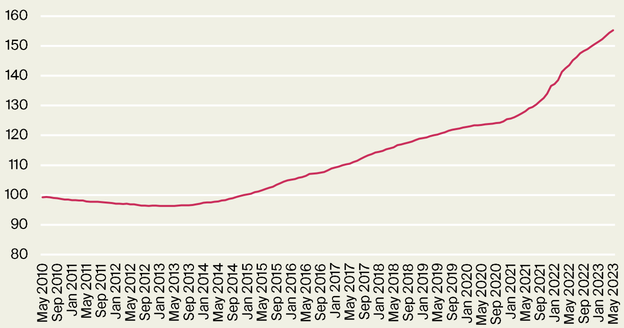
Vacancy Rate (%)



Source: Knight Frank Research

Rents

Average market rental growth
Jan 2010 = 100



Source: Knight Frank Research, MSCI

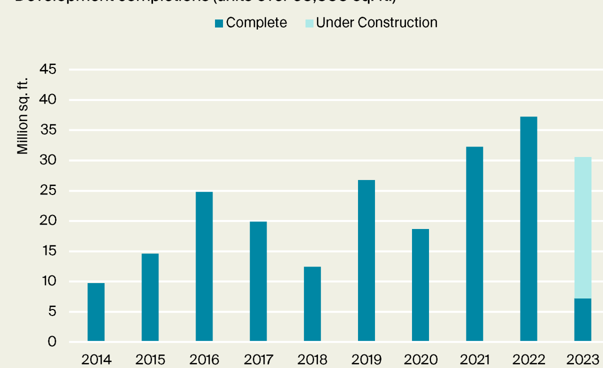
Average rental growth forecast (%) -Q1 2023

	2023	2024	2025	2026	2027	2023-27 CAGR
UK	5.1	3.1	2.3	2.3	2.6	3.1
London	4.0	3.6	3.2	3.2	3.6	3.5
South East	4.7	3.0	2.3	2.5	2.9	3.1
South West	5.2	2.6	1.6	1.5	1.9	2.5
Eastern	6.4	3.8	2.8	2.5	2.7	3.6
East Midlands	5.2	3.5	2.1	1.8	2.1	2.9
West Midlands	5.7	3.7	2.2	1.9	2.2	3.1
North West	7.8	4.0	2.3	1.8	1.9	3.6
Yorks & Humber	7.2	3.4	1.9	1.6	1.9	3.2
North East	6.7	3.1	1.8	1.7	2.1	3.0
Scotland	5.9	2.2	1.1	1.1	1.4	2.3
Wales	3.8	2.5	1.4	1.3	1.7	2.1

Source: RealFor

Development

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



Source: Knight Frank Research, Glenigan

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

UK Logistics Market Dashboard

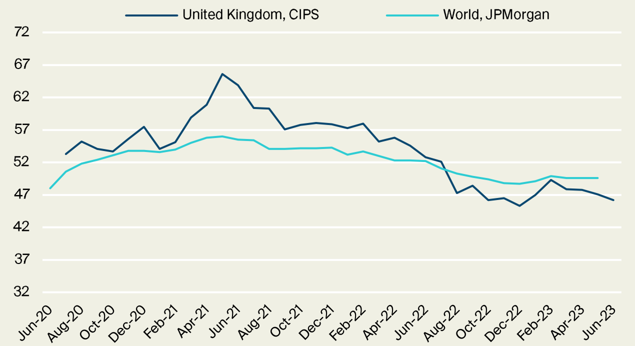
June 2023

INTERNAL USE AND KEY CLIENTS ONLY

Knight Frank

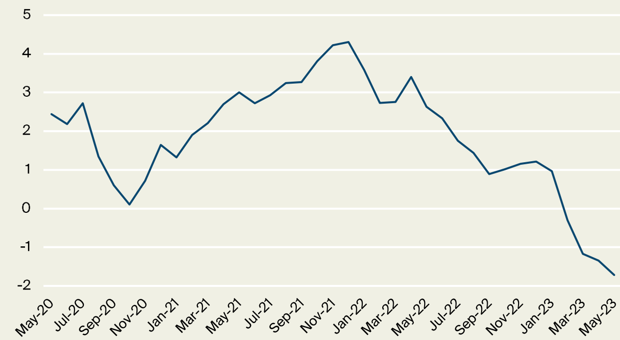
Industry, trade and manufacturing

Manufacturing PMI Index



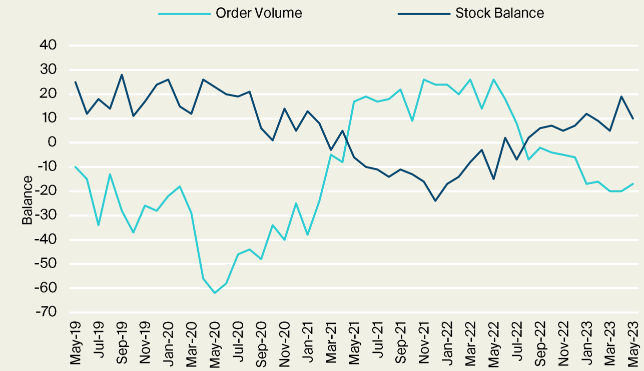
Source: Knight Frank Research, Macrobond

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



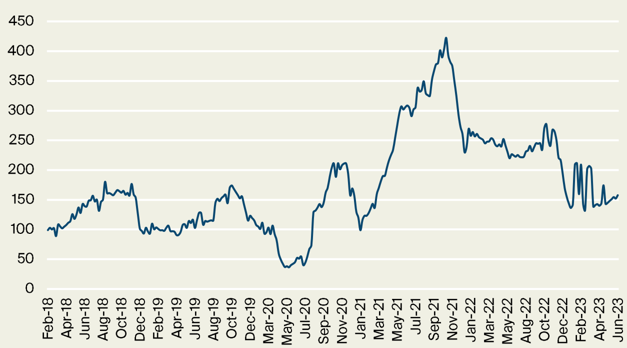
Source: Knight Frank Research, Macrobond

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
June 2023 (USD)

	23/06/2023	Last Month	Last year	2 years ago
Global Container Index	$1,297	$1,407	$7,032	$6,753
China/ East Asia to N.Europe	$1,266	$1,420	$10,587	$11,359
N.Europe to N.America E.Coast	$2,082	$2,143	$8,250	$5,748

Source: Knight Frank Research, Freightos

Key comments

- The Flash Manufacturing PMI decreased to 46.2 in June 2023 from 47.1 in May.
- The manufacturing sector continues to report recessionary conditions. Output levels in the manufacturing sector decreased moderately during June. Production cutbacks were attributed to falling new orders amid subdued underlying demand and a headwind from customer destocking.
- Supply conditions improved again in June, as signalled by a reduction in vendor lead times across the manufacturing sector. Fewer supply shortages encouraged suppliers to reduce their inventory levels. However, demand was weaker than expected leading to a rise in stock of finished goods.
- Manufacturing supply chains have continued to improve. The Global Supply Chain Pressure Index (GSCPI) was at -1.71 in May, the lowest since the start of the index in 1997. Readings for all global regions are below their historical averages. The easing of backlogs in Britain were a key part of the reason for the decline, along with improving Taiwan delivery times.
- Job vacancies in the transport, logistics and warehouse sector have trended upwards since the start of May 2023. While they are down compared with levels recorded during the pandemic, they remain above pre-pandemic levels (2018/19).
- Global shipping costs have continued to fall this month, in line with easing supply chain pressures.
- Online retail penetration rates rose in May, with 26.5% of retail sales. This compares to 26.0% in April and 26.7% in May last year. Online grocery retail penetration rates rose in May, with 8.8%, compared with 8.6% in April but down from 9.2% in May last year.

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

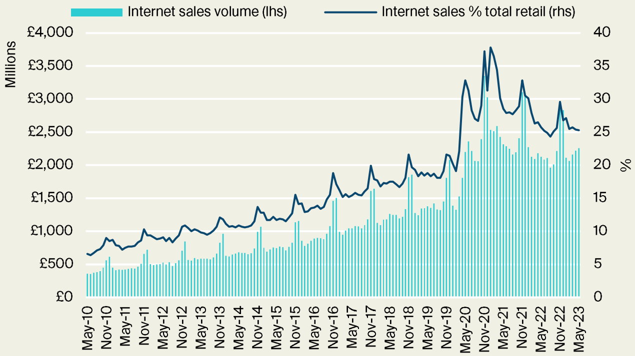
UK Logistics Market Dashboard

June 2023

INTERNAL USE AND KEY CLIENTS ONLY

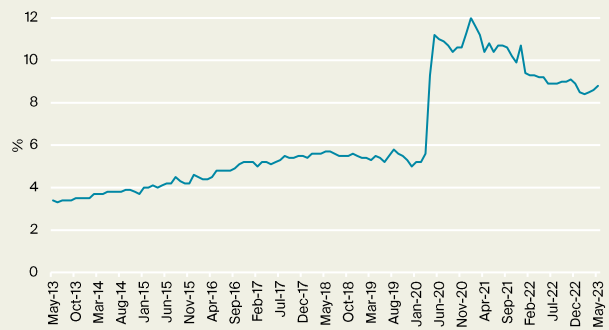
Online retail sales

UK Internet Retail Sales (monthly)



Source: Knight Frank Research, ONS

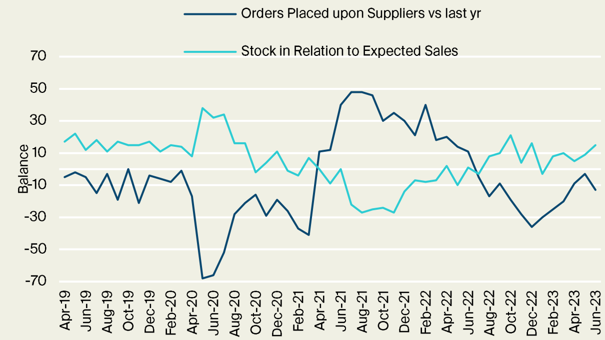
UK grocery market – proportion of online retail (%)



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

Flex Appeal: Why flexible warehouse options are set to rise

Economic uncertainty and inflationary pressures
UK inflation remains stubbornly high. The Consumer Prices Index (CPI) rose by 8.7% in the 12 months to May 2023, unchanged from April, though core inflation had accelerated. The Bank of England responded with a 50bps rise in interest rates in June, taking the base rate to 5.0% and putting further pressure on borrowing costs.
With higher borrowing costs, consumers and firms face higher debt servicing costs. As a result, manufacturers face weaker than anticipated order books and falling sales rates pushing up stock levels.
June's manufacturing PMI reading (46.5) continues ten months of sub-50 readings and demonstrates the sector remains stuck in contraction. Weaker confidence and market uncertainty were the main factors dragging on production.
However, while there are clearly headwinds, consumers are still spending, the labour market remains buoyant, and most manufacturers still forecast growth over the next 12 months. These factors should support continued occupier demand.

Rise in available space
Take up volumes have fallen, with a preliminary total of 11.9 million sq ft occupied in H1, compared with 26.5 million sq ft in H1 last year and a pre-pandemic average of 17.3 million sq ft. In contrast to the previous few years, when logistics operators and online retailers sought to expand their capacity rapidly, economic uncertainty and inflationary pressures are now leading to a more cautious approach.
Preliminary Q2 2023 figures show the vacancy rate has increased to 4.7%, from 4.0% in Q1 and is expected to rise further throughout the second half of the year.
The rise in the amount of space available has been driven by secondhand space coming back to the market as well as speculative development completions. Although heightened development and financing costs have capped the number of new schemes currently getting underway, with take up levels now suppressed, some of this newly available space could be offered up on a flexible basis.

Cost conscious occupiers
Greater economic uncertainty and higher borrowing costs mean many occupiers will be reluctant to take on additional or more costly facilities. Companies in the UK have deleveraged significantly since the global financial crisis. However, expansion plans are often funded (at least in part) by debt. As a result, even growing firms may be wary about committing to additional or larger facilities.
Firms looking to expand their operating capacity or extend their operations into new markets may look to test the market, taking temporary or flexible space rather than committing to long leases or taking on debt to fund a costly fit-out.
Flexible storage options can allow a firm to de-risk their operations, avoid long-term lease commitments or excess space, and hire space according to their requirements in terms of the quantum of space and length of time required.

Supply chain issues are easing... but greater awareness of the threats remain
Numerous events have led to significant disruptions to supply chains in recent years, and manufacturers and logistics operators have become acutely aware of the risks. Firms' buffer/safety stock requirement calculations have been impacted by the lengthy lead times experienced during the pandemic.
In broad terms, fewer supply shortages encouraged suppliers to reduce their inventory levels in May. Holding additional stock costs money, and firms will not want to do this unnecessarily. However, firms may seek greater agility and, thus, flexibility to respond better to potential disruptions in the future.

Investors seek to maximise income
Higher financing costs mean higher required returns, and with weak or negative capital growth at present, investors must look to income to drive returns.
Offering space on a flexible basis could help protect against voids, with the potential to secure higher rents.
A flexible operating model does come with additional operational costs. It requires active management and will not appeal to investors seeking a passive income from a long lease. However, an operating partner could manage this.

Who is doing this?
Prologis has recently partnered with Bis Henderson Space to offer a flexible warehouse model. A 335,000 sq ft unit at Prologis Park, Wellingborough West, East Midlands, will be offered on a flexible "pallet-by-pallet" basis.

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