

# UK Logistics Market Dashboard



Q2 2023 | Occupier Market

## Research Commentary

### Market Overview

- The fundamentals of the occupier market remain robust, with low vacancy rates by historical standards, continued rental growth prospects and occupier demand from manufacturers and distribution firms.
- Both average and prime rents for UK industrial continue to grow, although the rate of growth has moderated. Prime industrial rents across the UK for units over 50,000 sq ft rose by 1.2% in Q2 2023 and by 8.2% on an annual basis. Average rents for UK Industrial in the year to June 2023 increased by 7.6%, down from a peak rate of growth of 13.2% in the year to August 2022 (Source: MSCI).

### Take up

- Take up volumes have fallen, with just over 6 million sq ft occupied in the UK in Q2 2023 (units over 50,000 sq ft). This is down -15% on Q1 2023. A total of 13.2 million sq ft was occupied in H1 2023, compared with 26.5 million sq ft in H1 2022 (-50%).
- In contrast to the previous three years, when logistics operators and online retailers sought to rapidly expand their capacity, economic uncertainty and inflationary pressures are now leading to a more cautious approach and decision-making is taking longer.
- The latest occupier data shows a rising share of take up by manufacturers, representing 29% of all floorspace taken in the four quarters to Q2 2023. This compares with 20% in the comparable period last year, and 14% in the previous year (four quarters to Q2 2021).

### Supply

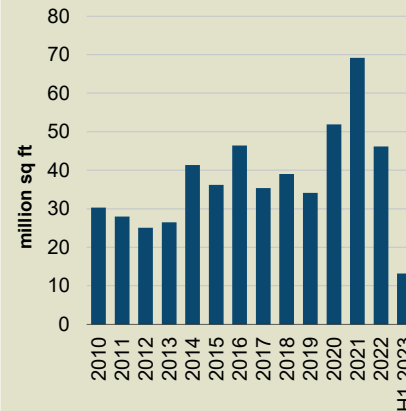
- Q2 2023 figures show the vacancy rate increasing from 4.0% in Q1 2023 to 4.6% in Q2 2023 and is expected to rise further throughout the second half of the year.
- The rise in vacancy is a result of a combination of both development completions and the return of second-hand space to the market. Availability of second-hand space rose by 12% in Q2, while the availability of new space increased by 35% (units 50,000 sq ft+).
- Inflationary pressures continue to impact build and financing costs, and although development is ongoing, fewer speculative developments are commencing. Approx. 21 million sq ft of space was under construction speculatively at the end of Q2, down -11% on the previous quarter (units 50,000 sq ft+).

“ We anticipate a more challenging market for the rest of 2023. Supply levels are rising, but rather than much alleviation in rents, we anticipate incentives rising, as occupiers become more cautious of increased operating costs and landlords look to secure lettings. ”

**MARKET VIEW**  
Charles Binks

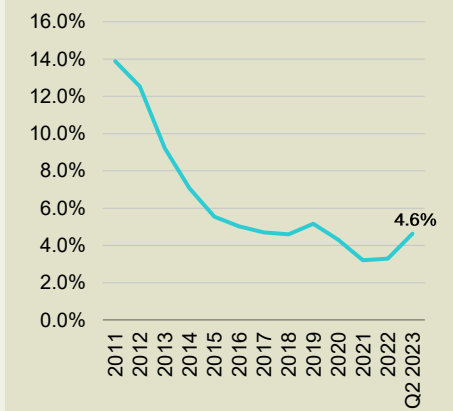
Head of Industrial & Logistics Agency

Take up (units 50,000 sq ft+)



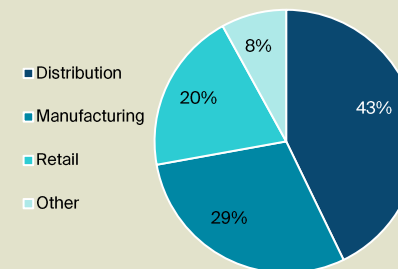
Source: Knight Frank Research

Vacancy Rate (%)



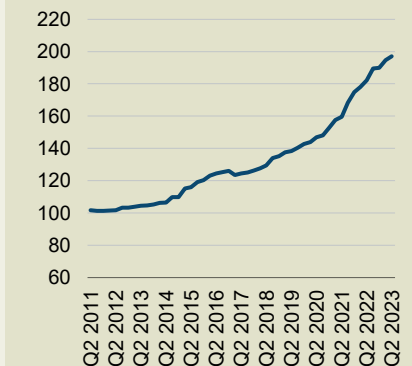
Source: Knight Frank Research

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



Source: Knight Frank Research

UK prime rental index (units 50,000 sq ft+) Q1 2009 = 100



Source: Knight Frank Research

# UK Logistics Market Dashboard



Q2 2023 | Investment Market

## Research Commentary

### Market Overview

- Annual UK Industrial capital growth continues to fall. In the year to June, -26.6% was recorded, down from -24.5% in March (Source: MSCI). This is the lowest figure since June 2009 (-27.6%) following the GFC.
- Annual total returns also declined, standing at -23.4% in June, from -21.5% in March (MSCI). However, monthly total returns remain in positive territory.

### Investment

- Investment in Q2 2023 totalled £2.2 billion, bringing the total for the first half of the year to £4.1 billion. Though this is down compared with the £10.4 billion transacted in H1 2022, it exceeded the ten-year pre-pandemic average (2010-2019) of £3.3 billion.
- Investment activity so far in 2023 has been impacted by the repricing of yields and rising debt costs, leading to a disparity between buyer and seller expectations and slowing deal activity.
- Cross-border capital continues to be the driving force in the market, accounting for 63.5% of the total invested so far this year. Private capital has grown its share, accounting for 17.3% of the market so far this year, up from 10.5% in 2022. Institutional investors and REITs have been far less acquisitive so far this year, respectively accounting for 14.1% and 3.0% of the market, compared with 23.3% and 5.6% last year.

### Yield Tone

- Prime Distribution / Warehousing with 15-year income on open market rent reviews were at 5.25% at the end of Q2 2023, stable on Q1 2023.
- Repricing has been rapid, with prime yields moving out 175bps over the past year. As interest rates remain high, some further repricing is anticipated, but movements are expected to be modest.

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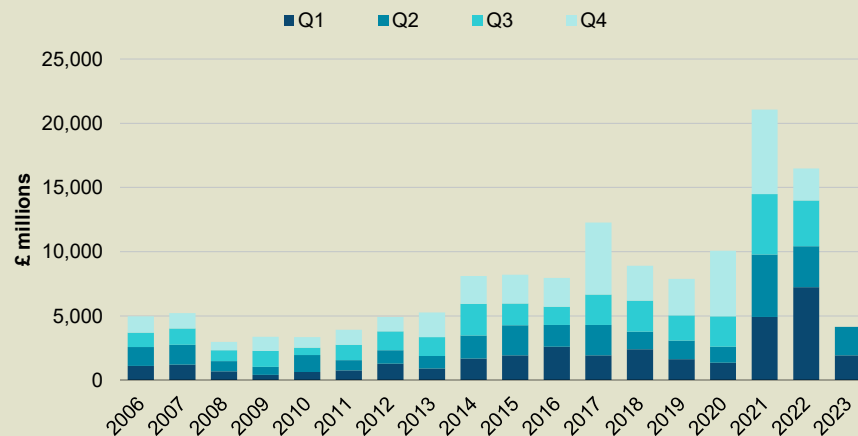
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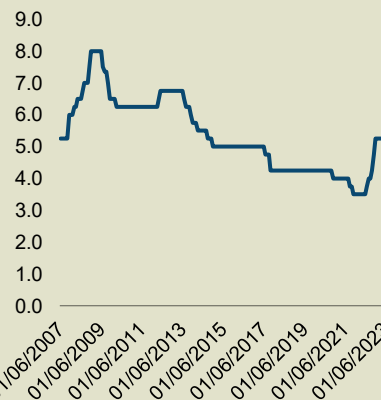


## Industrial & logistics - Investment total



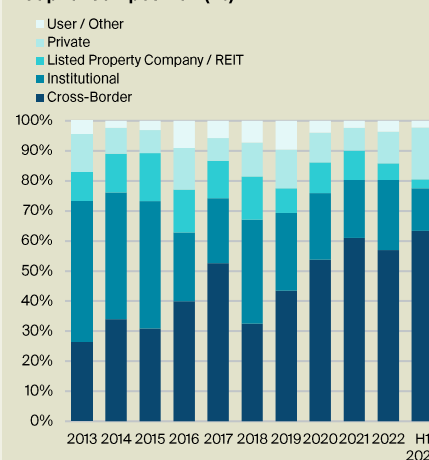
Source: Knight Frank Research, RCA

## Prime Distribution/Warehousing (15 year income) NIY (%)



Source: Knight Frank Research

## Capital composition (%)



Source: Knight Frank Research, RCA