

UK Logistics Market Dashboard



Q3 2023 | Occupier Market

Research Commentary

Rental levels continue to grow despite a more challenged market

- Both average and prime rents for UK industrial continue to grow, albeit at a more modest pace. Prime industrial rents for units over 50,000 sq ft rose by +2.5% in Q3 2023 and by +6.7% on an annual basis.
- Annual market rental value growth in the year to September 2023 was +7.1%, down from +13.0% in the year to September 2022 (MSCI). Month-on-month growth showed a slight acceleration in September, with +0.57% growth, up from +0.54% in August.

Take up levels moderate

- Amidst the challenging economic backdrop, occupier take up volumes have fallen this year, with approx. 21.5 million sq ft occupied over Jan-Sept (YTD), representing a significant -43% fall year-on-year (units over 50,000 sq ft). Although Q3 2023 take up volumes were reasonably robust at 8.6 million sq ft, exceeding Q2 by 53%, the quarterly total was -24% lower than Q3 2022 levels.
- The latest occupier data demonstrates continued resilience from distribution firms and a growing share of take up by manufacturers, but a decline in demand from retailers. Distribution firms accounted for 48% of all floorspace taken in the four quarters to Q3 2023, up from 41% in the comparable period last year. Manufacturing firms represented 27% of the annual take up, up from 21% in the same period last year. The share of take up by retailers has declined to 18% this year, from 26% last year.

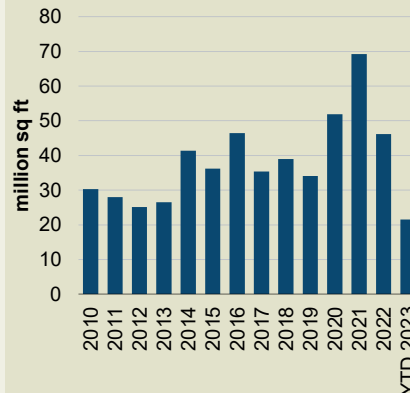
Vacancy rate rises, while speculative development declines

- The latest Q3 figures show the vacancy rate rising from 4.6% in Q2 2023 to 5.2% in Q3.
- The rise in vacancy is largely driven by development completions, as well as the return of second-hand space to the market. Availability of second-hand space rose by +7% in Q3, while the availability of new space increased by +26% (units 50,000 sq ft+).
- While we may see further rises to the vacancy rate, it remains well below the long-term, pre-pandemic average, of 8.3%. A decline in development activity this year will also mean a slowdown in the delivery of new space to the market next year. Approx. 15.4 million sq ft of space was under construction speculatively at end-Q3, -28% lower on the previous quarter and down -30% year-on-year (units 50,000 sq ft+).

“We anticipate the market remaining challenged for the remainder of 2023 and into the New Year. Supply levels are rising, through a combination of new builds reaching PC and second-hand, modern space returning to the market. But rather than much alleviation in rents, we anticipate incentives rising as landlords look to protect value, whilst offering occupiers the flexibility they require.”

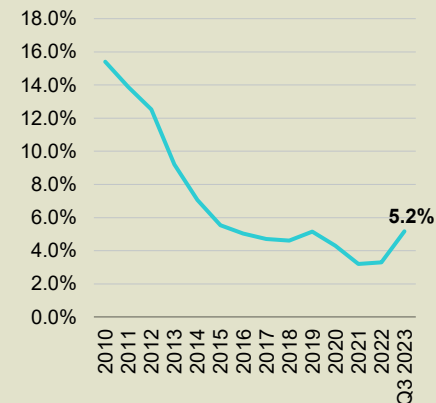
MARKET VIEW
Charles Binks
Head of Industrial & Logistics Agency

Take up (units 50,000 sq ft+)



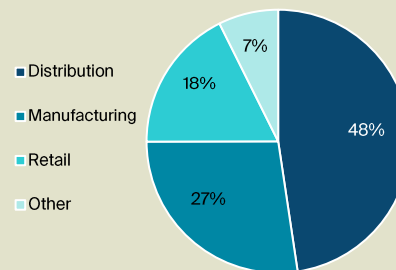
Source: Knight Frank Research

Vacancy Rate (%)



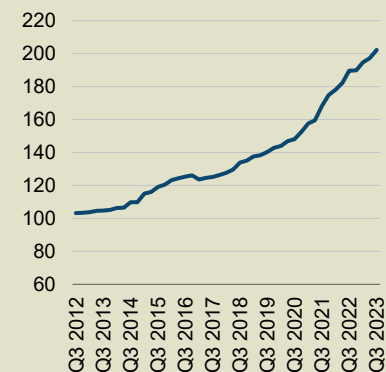
Source: Knight Frank Research

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



Q3 2023 | Investment Market

Research Commentary

Market Overview

- Annual capital value growth declined by -19.7% in September; however, this is an improvement from -22.8% in August (MSCI). Monthly capital values have returned to positive growth territory, up +0.2% in September.
- Annual total returns were -15.8% lower in September, up from -19.2% in August. Monthly total returns remain positive, with +0.6% growth in September.

Investment volumes thin but ahead of pre-pandemic averages

- Industrial investment figures for Q3 2023 show a total of £2 billion invested. This brings the total for Jan-Sept 2023 (YTD) to £7.2 billion, and while 48% lower compared with the £14 billion transacted over the same period in 2022, it is 51% ahead of the ten-year YTD pre-pandemic average (2010-2019), of £4.8 billion. YTD 2023 investment has also exceeded the ten-year pre-pandemic annual average, of £7.1 billion (+2.4%).
- Investment activity remains challenged by the cost of finance, the gap between purchaser and vendor expectations and yield repricing. There remains a weight of capital targeting the sector with well-capitalised buyers seeking out a pricing advantage, but as vendors continue to see value in industrial property over other asset classes, a leaner pool of sellers has also slowed deal activity.
- Cross-border investors continue to contribute the largest share of capital, accounting for 61.7% in the year to date. Private capital accounts for a further 16.5%, while institutional investors and REITs have been less acquisitive so far this year.

Prime yields stabilise but remain under pressure

- Prime Distribution / Warehousing with 15-year income on open market rent reviews remained stable in Q3, at 5.25%, though they remain under pressure given elevated government bond yields. Since their turning point in June 2022, prime yields have softened by 175bps.

Contact us

COMMERCIAL RESEARCH



Deirdre O'Reilly
Senior Research Analyst
Commercial Research
+44 20 3995 0785
deirdre.oreilly@knightfrank.com

CAPITAL MARKETS



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

AGENCY



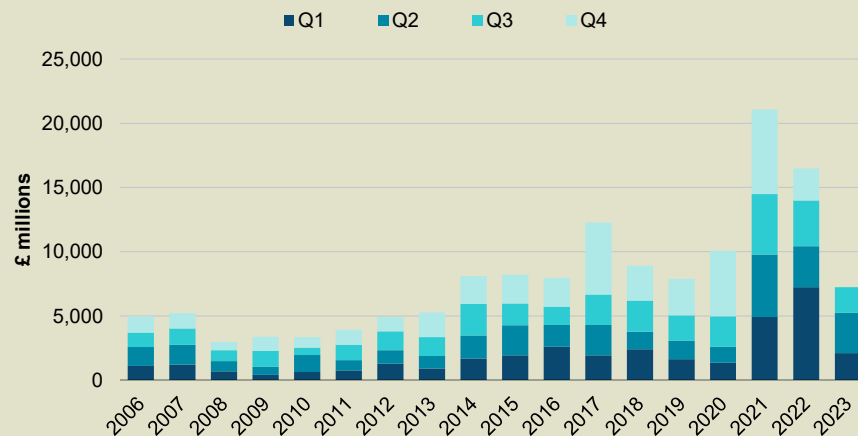
Charles Binks
Partner, Head of Industrial
& Logistics Agency
+44 20 7861 1146
charles.binks@knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs. Important Notice: © Knight Frank LLP 2021 This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 6AN, where you may look at a list of members' names.

Knight Frank Research
Reports are available at
knightfrank.com/research

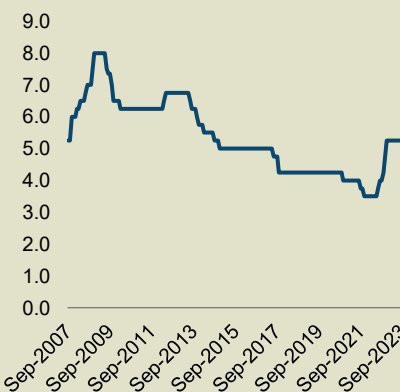


Industrial & logistics - Investment total



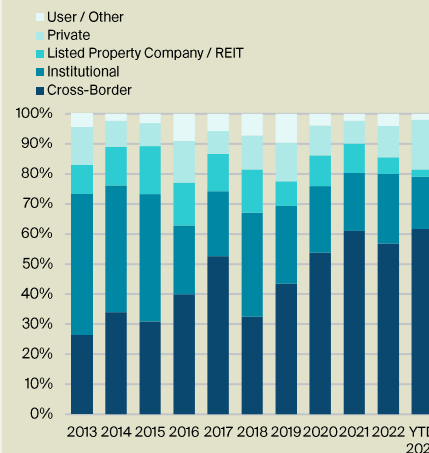
Source: Knight Frank Research, RCA

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



Source: Knight Frank Research

Capital composition (%)



Source: Knight Frank Research, RCA