

UK Logistics Market Dashboard



Q4 2023 | Occupier Market

Research Commentary

A return to pre-pandemic take up levels

- UK industrial take up volumes in 2023 moderated to levels seen before the pandemic, following three years of record-breaking activity in 2020-2022. Take up figures for Q4 2023 show 8.1 million sq ft of space committed, bringing the annual total to 29.9 million sq ft (units over 50,000 sq ft). While this marks a -35% decline on 2022 volumes, it aligns more closely with the ten-year, pre-pandemic annual average, of 34 million sq ft.

Focus shifts to existing buildings...

- 2023 saw a decline in pre-let and build-to-suit activity, and a shift in focus towards existing buildings, including speculatively completed space and buildings undergoing high-quality refurbishment. Notably, the share of take up that is second-hand space rose to 47% in 2023, from 32% in 2022.

...as development pipeline slows

- Supply levels of units over 50,000 sq ft trended upwards in 2023, driven predominantly by development completions but also the return of second-hand space.
- However, the volume of speculative space under construction was -28% lower YOY in Q4, at 15.3 million sq ft (units 50,000 sq ft+). A slowdown in the development pipeline will mean that vacancy rates in some markets are likely to gradually fall again in 2024.
- The UK vacancy rate stood at 5.5% in Q4, up from 5.2% in Q3 and 3.3% recorded one year ago, but it remains below the long-term pre-pandemic average, of 8.3%.

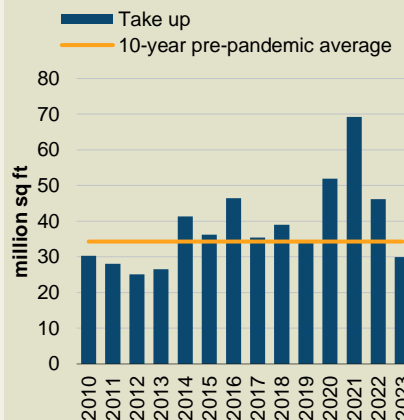
Continued rental growth in core markets

- Prime rents remain resilient, and we continue to see rental growth in core markets despite supply levels rising and take up reverting back to pre-pandemic norms. Prime industrial rents across the UK for units over 50,000 sq ft rose by +7.5% during 2023, with +0.8% growth recorded in the fourth quarter.
- The rate of average rental growth moderated in 2023; in the year to December 2023, annual market rental value growth was +7.6%, down from +10.5% in the same period in 2022. Month-on-month growth in December decelerated to +0.72%, from +0.95% in November, but up from +0.57% in September (MSCI).

“ Initial signs for 2024 are encouraging with 3PLs returning to the market, despite some putting ‘grey’ space into the market. Their customers appear to be wanting more modern space better able to satisfy their ESG requirements. Whilst development completions boosted supply to a healthier level late last year, as the pace of delivery slows, much of the available prime stock will hopefully be steadily absorbed over the coming quarters. ”

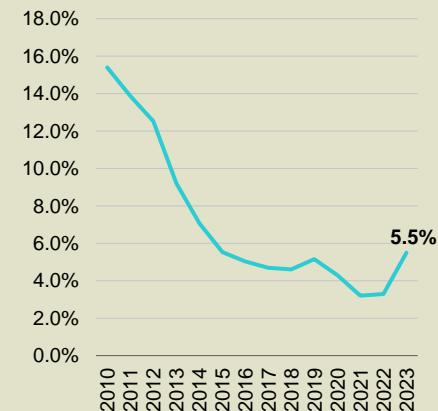
MARKET VIEW
Charles Binks
Head of Industrial & Logistics Agency

Take up (units 50,000 sq ft+)



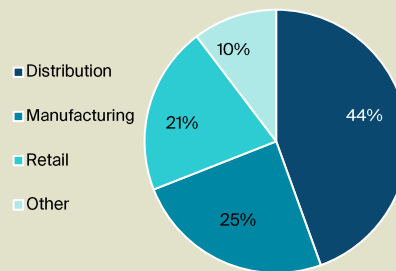
Source: Knight Frank Research

Vacancy Rate (%)



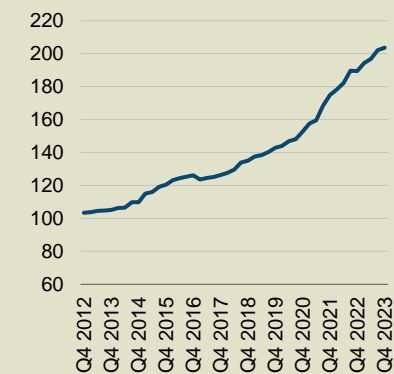
Source: Knight Frank Research

Take up by occupier type, 2023 (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



Q4 2023 | Investment Market

Research Commentary

A return to growth in total returns

- Annual total returns have turned positive, recording +5.2% in December, from -15.8% in September, though monthly total returns were stable. Monthly income returns in December remained unchanged at +0.4% growth, equating to +4.9% in the year (MSCI).
- UK industrial capital values remain volatile; following 13 consecutive declines, annualised capital values returned to growth of +0.2% in December, up from the -19.7% in September, though monthly capital values edged down by -0.4% in December.

Investment ahead of long-term average, despite challenges

- Investment figures for Q4 2023 show £2.4 billion invested in the UK industrial sector, +16% higher than a slow Q3. This brings the total for 2023 to £9.8 billion and although reflecting a -41% year-on-year decline, 2023 volumes stood 38% above the ten-year, pre-pandemic annual average, of £7.8 billion.

Sentiment continues to favour the sector

- 2023 deal activity was challenged by high financing costs, softened yields, and less unanimity among buyers and sellers on where properties should be priced. Sentiment continues to favour the sector as an asset class in which to maintain exposure, but a lack of willing sellers during 2023 kept volumes thin compared to the preceding two years.
- Both cross-border and UK private capital grew their share of the market, comprising 62.1% and 13.7% of 2023 investment, respectively. While institutional investors and REITs were less acquisitive, the buyer pool showed signs of strengthening as the year ended, with UK institutions returning to the market and new interest seeking to capitalise on favourable pricing.
- Prime distribution / warehousing with 15-year income on open market rent reviews settled at 5.25% during 2023. Although prime pricing has stabilised, the performance gap between prime and secondary assets may widen further.

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



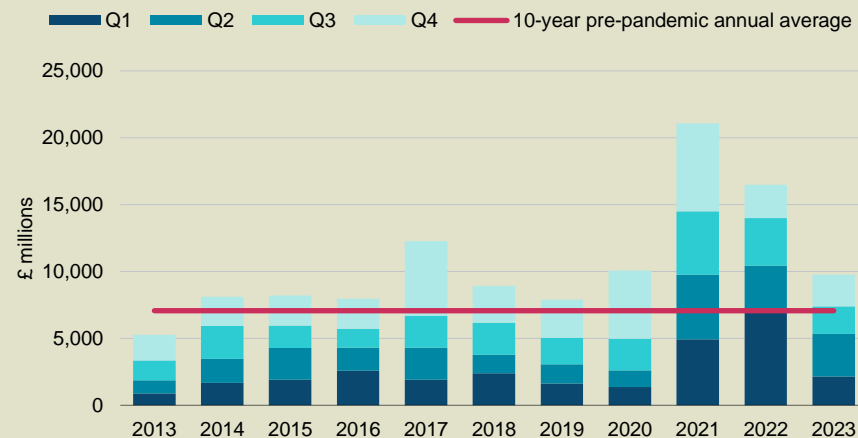
Charles Binks
Partner, Head of Industrial
& Logistics Agency
+44 20 7861 1146
charles.binks@knightfrank.com

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 2024. This document has been provided for general information only and must not 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 document, Knight Frank LLP does not owe a duty of care to any person in respect of the contents of this document, and does not accept any responsibility or liability whatsoever for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. The content of this document does not necessarily represent the views of Knight Frank LLP in relation to any particular properties or projects. This document must not be amended in any way, whether to change its content, to remove this notice or any Knight Frank LLP insignia, or otherwise. Reproduction of this document in whole or in part is not permitted without the prior written approval of Knight Frank LLP to the form and content within which it appears.

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

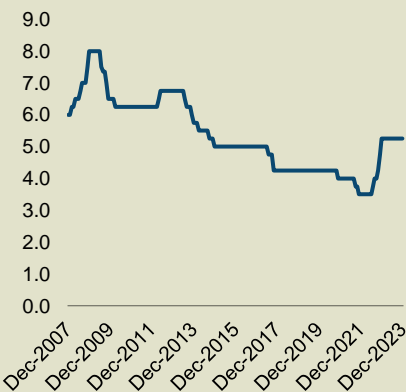


Industrial & logistics - Investment total



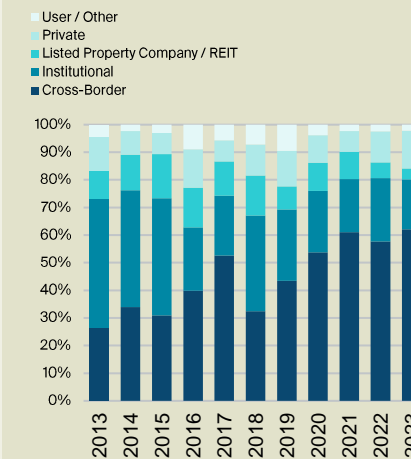
Source: Knight Frank Research, RCA

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



Source: Knight Frank Research

Capital composition (%)



Source: Knight Frank Research, RCA