UK LOGISTICS & INDUSTRIAL OUTLOOK

Q3 2022

Key Findings

- **Occupier demand fell** to 11.6 million sq.ft. during Q3 2022, a decrease of 28% quarter on quarter (QoQ). However, this figure remains c.40% higher than the pre-pandemic Q3 average, and the 2022 YTD figure of 43.9 million also remains significantly above the five-year average.
- Demand from **3PLs, well-positioned retailers and the manufacturing sector remain elevated**, accounting for approximately 67% of take-up YTD. Simultaneously the portion of take-up attributed to e-commerce and the closely-associated post and parcel sector has continued its downward trend.
- Despite a worsening macro-economic outlook, developers have continued to respond to market undersupply, by commencing the construction of over 5 million sq.ft of space during Q3.
- Investment volumes reached £2.9bn during the quarter, a fall of 8% QoQ, although **YTD volumes remain 25% ahead** of the same period last year. This shift can be particularly attributed to a lack of portfolios transacting during the quarter, with **total investment volumes expected to slow over the coming months.**

CUSHMAN & WAKEFIELD

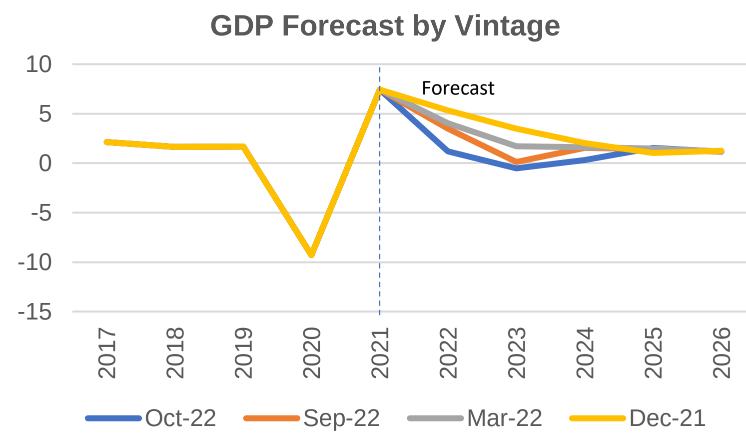
ECONOMY & OUTLOOK

Performance Indicators & Commentary

GDP forecast Annual Growth	GVA T&S* forecast Annual Growth	Industrial Production Index	Annual Online Sales Growth
1.2% (2022) | -0.5% (2023) | 0.3% (2024)	3.9% (2022) | 0.9% (2023) | -6.8% (2024)	97.6 (2022) | 96.1 (2023) | 95 (2024)	-7% (2022) | 1.5% (2023) | -3.2% (2024)

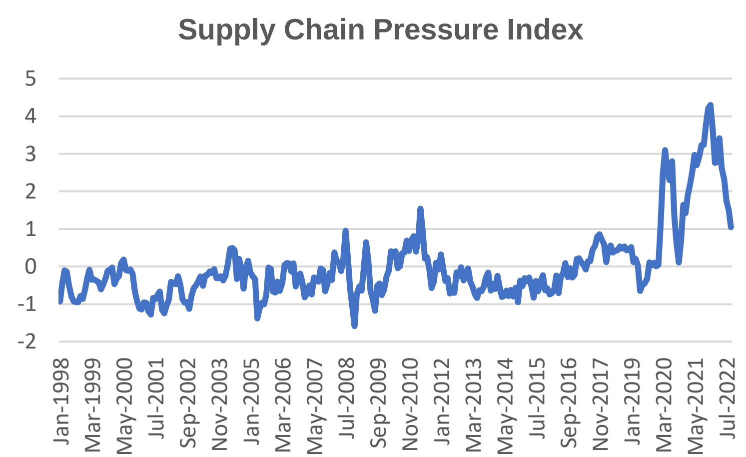
ECONOMY

Whilst the economy rebounded strongly in Q1, inflationary pressures have challenged household incomes and consumer and business spending, as well as spurring strikes and industrial action. Current political instability as the result of the recent mini-budget and its associated U-turns have devalued the pound and severely impacted financial markets, this has exacerbated existing uncertainty caused by the war in Ukraine which has led to volatility in energy and commodity prices and increased pressure on supply chains. As such inflation has prompted action from the Bank of England which has raised interest rates by 200 bp so far in 2022 with further rises anticipated in the coming months. For commercial property, higher interest rates mean that investors are seeking higher yields, particularly through capturing rental growth, or shifting allocations to value-add and opportunistic assets. There is growing evidence of assets in the commercial sector being withdrawn from the market due to a widening spread between buyer and seller expectations on pricing.



OUTLOOK

Following the global shocks of both the Covid-19 pandemic, and the Russian invasion of Ukraine, supply chain resilience remains a key focus for industry. Supply chain strategy will continue to drive activity for the sector particularly as occupiers seek supply chain optimisation, cost efficiencies, operational resilience and agility. Although occupiers are making logical defensive shifts towards cash conservation and business safeguarding, significant reductions in inventory levels would further expose those supply chain risks unearthed by the pandemic and conflict and are therefore unlikely to be widespread. Market performance in the short-term will be largely dictated by the immediate corporate response – particularly relating to new commitments for logistics space – before some stability and normalization is expected to return over the medium and longer term. We are already witnessing a number of assets being withdrawn from the market, due to the spread between vendor and purchaser expectations, whilst this is likely to remain in play over coming quarters, the gap has already begun to close as prices have been adjusted in favour of liquidity.



*Transportation & Storage

Source: Moody's Analytics October 2022, Federal Reserve Bank of New York 2022

NATIONAL OVERVIEW

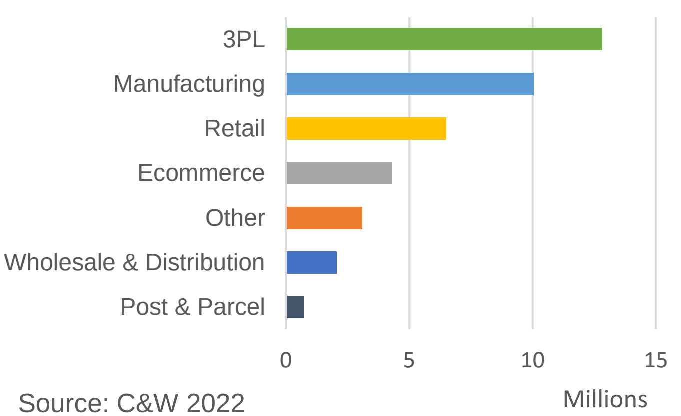
Occupier Market

"Despite the current economic outlook, occupier demand remains robust, and whilst undoubtedly the market will slow, it remains well placed to weather the macroeconomic storm. Following unparalleled post-pandemic growth some compression is inevitable and probably necessary."

Richard Evans, International Partner, Head of UK Logistics & Industrial

Take-up	Take-up	Availability	Under offer
11.6m sq ft Q3 2022	43.9m sq ft 2022 YTD	49.7m sq ft Q3 2022	9m sq ft Q2 2022
-28% Q-o-Q	51.9m sq ft 2021 YTD	+9.5% Q-o-Q	4.5m sq ft Stock
-42% Q3 22 vs Q3 21	-15% Change	+1.5% Q3 22 vs Q3 21	4.5m sq ft BTS/pre-let
+17% Q3 22 vs 10yr av		-19% Q3 22 vs 10yr av	

Take-up by Sector YTD (m sq ft)

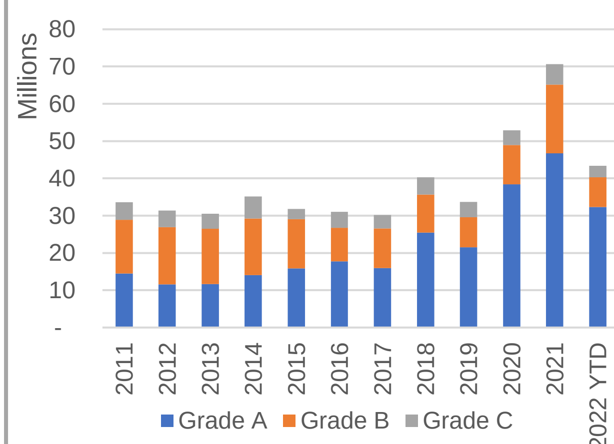


Source: C&W 2022

DEMAND

Occupier demand fell to 11.6 million sq. ft. during Q3 2022, a 28% decrease QoQ, and the lowest level since the outbreak of the Covid-19 pandemic. However, considering the longer-term context, Q3 take-up was c.40% higher than the pre-pandemic quarterly average whilst, total take-up year to date (Q1-Q3) currently stands at a total of 43.9 million sq.ft, 32% above the five year Q1-Q3 average. 3PLs, such as Maersk and Rhenus who both took units of over 600k sq ft, remained active during the quarter acquiring 3.7 million sq.ft of space (accounting for approximately 32% share of Q3 total take-up). Whilst retailers, such as Next who finalised their deal for 1.2 million sq. ft. build to suit facility in South Elmsall and Farmfoods who signed for 244K sq ft, were also particularly acquisitive, taking 2.5 million sq ft. (21% share of Q3 total take-up). Ecommerce occupiers continued their downward trend, again accounting for a small share of take-up at just 4.5%, their least active period since Q4 2019.

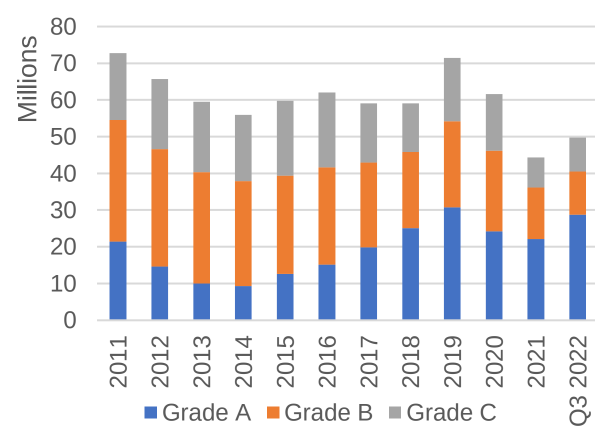
Take-up by Grade (m sq ft)



PIPELINE & AVAILABILITY

Developers continued to respond to the buoyant occupational market during Q3, starting the development of approximately 5.9 million sq ft. At present some 18 million sq ft of speculative space is now under construction. Notable starts in Q3 include five units totalling 1.4 million sq ft at three different locations being delivered by Prologis and 2 units totalling 1.2 million sq ft at Panattoni Park Bristol, also scheduled for completion in mid-late 2023. Based on space already completed and that which is now under construction, we anticipate that by year-end 2022, over 23 million sq.ft will be delivered. The marginal decrease in take-up during the quarter has led to an increase in availability, rising from the historic low of 44.8 million sq.ft recorded in Q4 2021 to 49 million sq.ft at the end of Q3. Again, for a third consecutive quarter, the stock of available Grade B and C stock fell, indicating a lack of return of second-hand space coming back to market.

Availability by Grade (m sq ft)



NATIONAL OVERVIEW

Investment Market

"Although shaded by current trading conditions, a heathy appetite for the UK Logistics and Industrial market remains. It is inevitable that Investment volumes over the coming quarters are going to be somewhat impacted by deferred spending and increased deal friction."

Ed Cornwell, International Partner, Logistics & Industrial Cap Markets

Volumes	Volumes	Pipeline
£2.9bn Q3 2022	£12.6bn 2022 YTD	£935m Under offer
-7.8% Q-o-Q	£10bn 2021 YTD	£2.2bn Available
-10.9% Q3 22 vs Q3 21	+26% Change	
+23% Q3 22 vs 10yr av		

VOLUMES

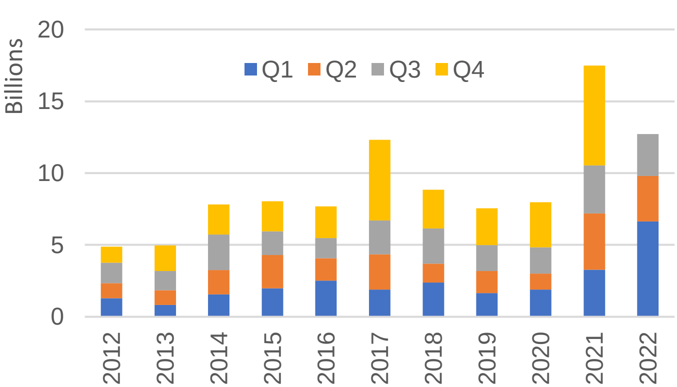
For a second consecutive quarter, investment volume within the UK logistics and industrial market fell, reaching just £2.9bn during the quarter, a 7.85% fall vs Q2 despite the number of transactions completed increasing slightly. YTD investment volume currently stands at £12.6bn, marginally ahead of the £10.09bn recorded by this time last year.

As with Q2, investors favoured single assets again during Q3, resulting in a further decrease in the volume acquired as portfolios. Since Q1 2020, c.45% of investment volume has been as portfolio transactions; during Q3, this fell to just below 25%. A further shift was recorded QoQ in the lot sizes being acquired: total investment in lot sizes exceeding £50 million grew marginally (+1.5%), whilst lot sizes up to £50m contracted by approximately 20%. Investment this quarter was largely attributed to institutional investors such as Barings and Aviva, and sector specialists like Blackbrook Capital and Prologis both of which made multiple acquisitions during the quarter.

PRICING & RETURNS

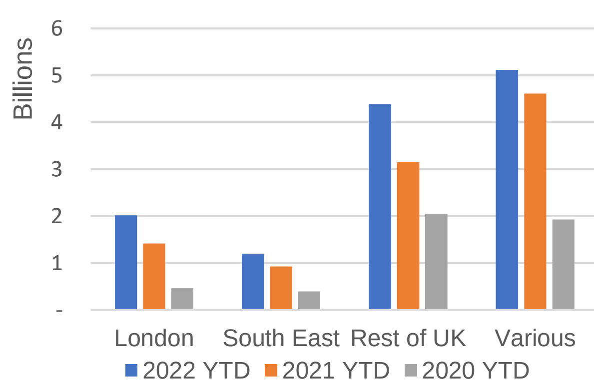
The worsening macroeconomic outlook, and resulting affect on financial markets and the cost of borrowing, have resulted in an acceleration in shifts in pricing and returns. Despite sustained interest for UK L&I investment assets, investment volumes over the coming quarters will undoubtedly be affected. This is likely to accelerate the ongoing price re-adjustment, which saw Q2 record the first outward movement in yields since 2012. At the end of Q3, the average prime UK yield shifted outwards by nearly 60 bps, whilst the prime headline yield saw a 45 bps shift. Further adjustment is expected in coming quarters. However, plenty of well-considered capital continues to target the sector as investors' conviction in the market fundamentals remain strong. The anticipated short-term adjustment in pricing levels not only re-opens the market to those previously priced out but will also lead to a more attractive entry point for capital as the market transitions to the next stage of the cycle.

Total L&I Investment (£bn)

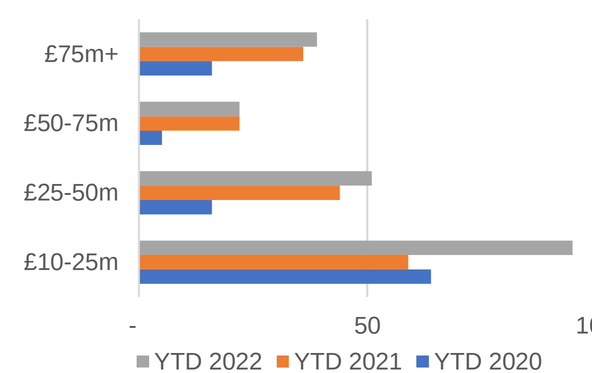


Source: C&W 2022

Investment by Region (£bn)



Number of Deals by Lot Size



NATIONAL OVERVIEW

Rents & Yields Trends, Performance

C&W Prime Rent 100+

£10.34
Average

3.5%
Q-o-Q

20.2%
Y-o-Y

C&W Prime Rent 50-100k

£10.85
Average

3.6%
Q-o-Q

18.2%
Y-o-Y

C&W Prime Yield

4.64%
Q-o-Q

+59bp
Q-o-Q

+46bp
Y-o-Y

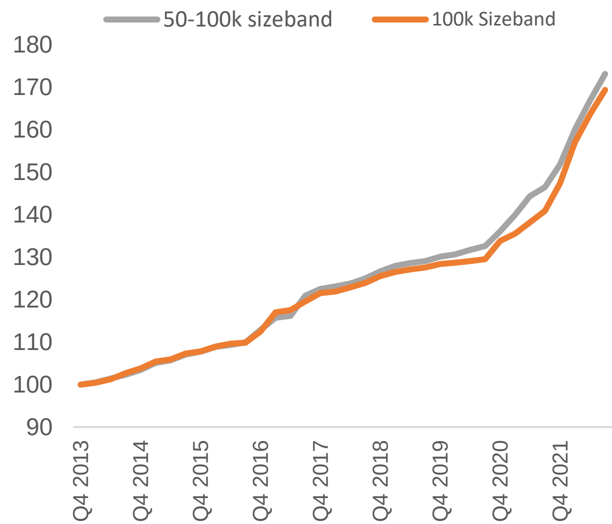
MSCI Total Return (MI%)

17.9%
Annualised to Sept 2022

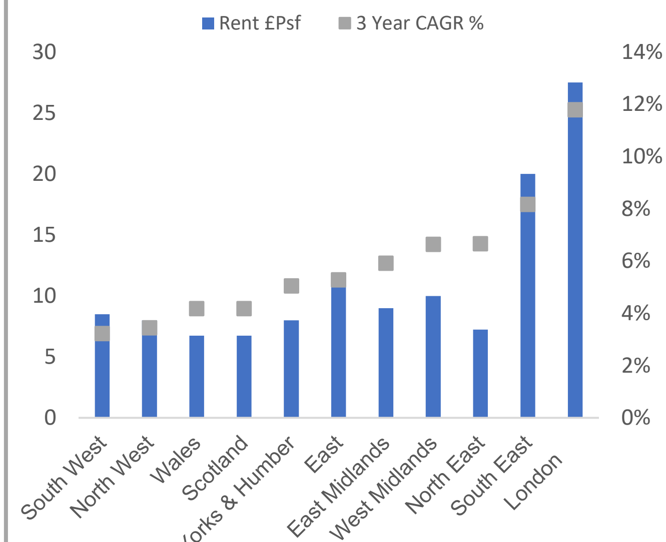
36.9%
Annualised to June 2022

42.9%
Annualised to Mar 2022

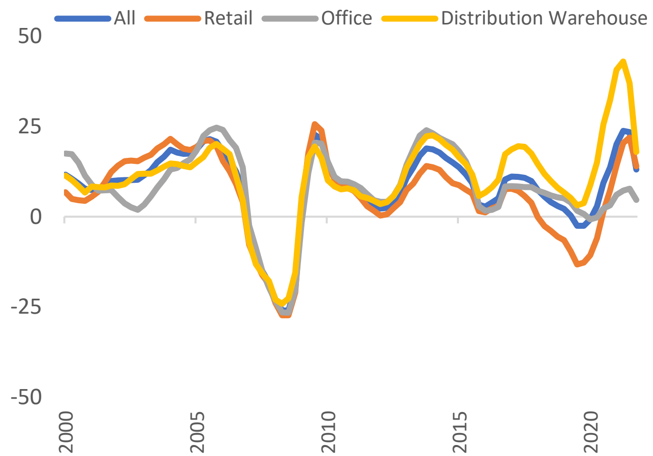
Rental Growth Indices by type



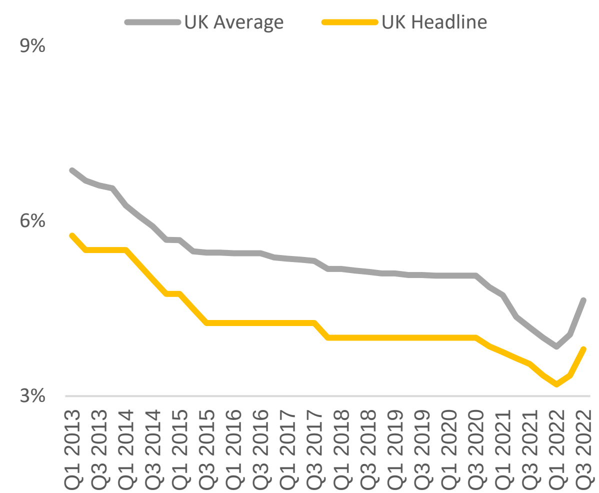
Rents by Region (100K sq ft +)



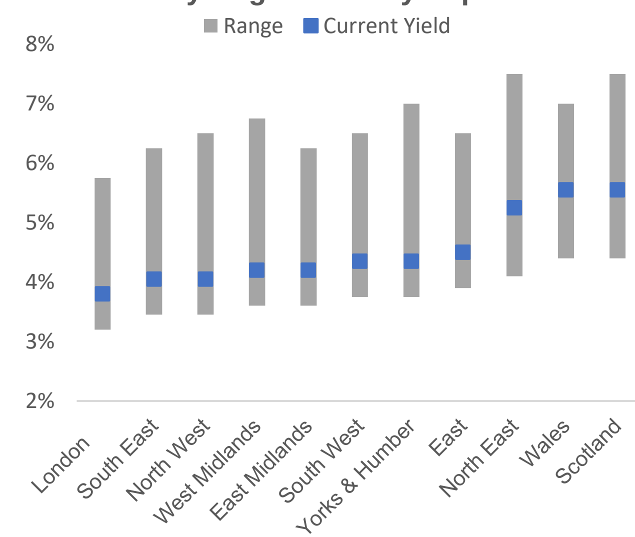
Total Annual Return (%)



C&W Prime Yield



Yield by Region vs 10 yr. spread



Source: C&W 2022

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