

UK LOGISTICS & INDUSTRIAL OUTLOOK

Key Findings:

- **Take-up totalled 9m sq ft during the first quarter of 2024**, as the market saw 55 transactions for units of 50,000 sq ft and bigger. Although this represents a contraction of 12% quarter on quarter, the value falls between the 5 year and 10-year pre pandemic Q1 average.
- The share of demand facilitated within speculatively developed space fell during the quarter due to **increased appetite for second hand existing buildings**. Demand for existing space totalled 4.7m sq ft – the highest level since Q1 2022.
- **Availability contracted for the first time since Q2 2022**. Total availability now stands 64.8m sq ft, a contraction of 3% driven predominantly by a reduction in the supply of Grade B and Grade C space.
- **Investment volumes remain muted** although a total quarterly volume of £1.3bn marks a minor improvement on the Q4 2023 value.

Q1 2024

ECONOMY & OUTLOOK

Performance Indicators & Commentary

GDP forecast Annual Growth
1.01% | 0.98% | 1.26%
2024 2025 2026

GVA - T&S* forecast Annual Growth
-6.69% | 2.92% | 3.84%
2024 2025 2026

GVA - Manufacturing forecast Annual
1.61% | -0.14% | 0.62%
2024 2025 2026

Annual Online Sales Growth
-5.21% | -3.56% | -1.13%
2024 2025 2026

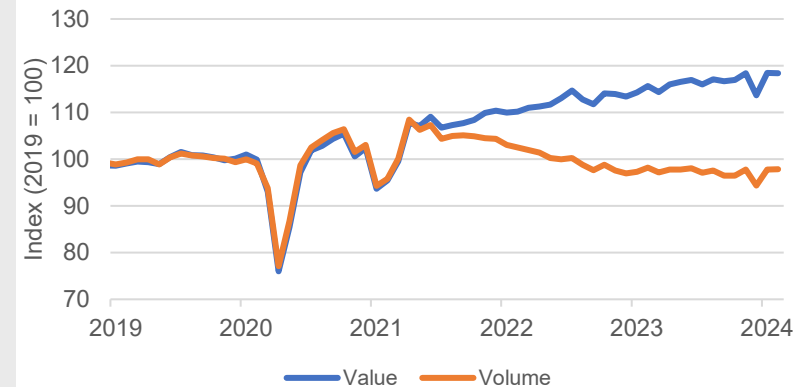
ECONOMY

The UK economy grew by 0.2% in January 2024, following a fall of 0.1% in the final month of 2023. Nevertheless, in the three months to January this still put GDP in negative territory of 0.1%. Retail sales volumes remain flat following a quieter than anticipated golden quarter for retailers, and despite an improvement in consumer confidence. The consumer price index rose by 3.2% in the 12 months to March, a slight deceleration from 3.8% during February, whilst CPIH remained flat signalling some cooling in pricing. The MPC has now voted to keep rates stable at 5.25% for five consecutive meetings, with the marginally split voting highlighting a softening of stance from the MPC. The UK Manufacturing PMI breached into expansionary territory briefly during March but has since contracted to negative territory during April. Despite this contraction the consensus for the manufacturing sector has improved relative to its struggles over recent years, and a score of 48.7 in April following some expansion in March shows the sector sitting close to stable. Supply chain pressures continued to increase throughout 2023 and into 2024 resulting in some friction and delays, but pressures have not reached the same levels seen during the global pandemic.

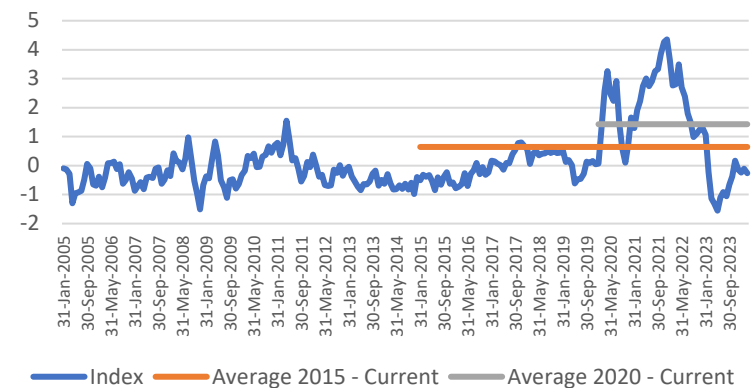
OUTLOOK

The outlook for growth remains muted, with HM Treasury consensus of independent forecasters suggesting growth of 0.4% for 2024, albeit with an improved outlook for inflation at 2.1% by the end of the year. The ongoing effort to tackle inflationary pressures is working, but slower than expected and inflation driven by recent hikes in fuel prices is likely to keep price levels higher and for slightly longer. We still believe the interest rate cutting cycle is likely to begin during Q3, but is likely to be gradual and modest until inflation is firmly under control. However, the start of a rate cutting cycle and a change in policy tenor will likely improve consumer confidence and result in an improvement in consumer markets, aiding cash flow for the retail sector and releasing some pent-up demand that has been on hold over the last 18 months.

Retail Sales Value & Volume Indices

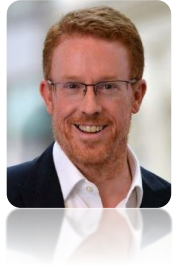


Global Supply Chain Pressure Index



NATIONAL OVERVIEW

Occupier Market



“Demand remains robust despite the tough economic conditions. The return of major logistics operators indicates that ‘normality’ is returning to the market, and a drop in supply, albeit small, is encouraging. It suggests an improvement in occupier market conditions and potentially increased competitive tension towards the tail end of 2024.”

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

DEMAND

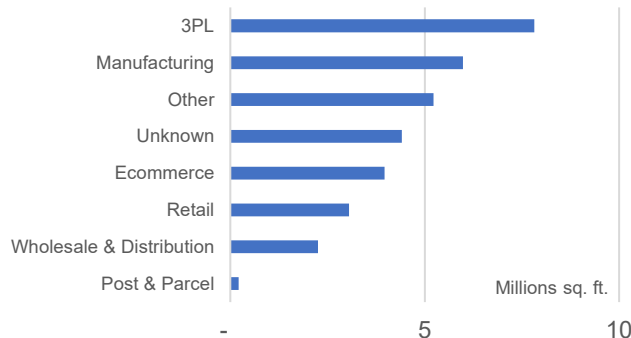
Occupational demand fell just short of 9m sq ft from 55 transactions during the first quarter of 2024. Although the Q1 volume is a contraction of 12.4% on the previous Q4 2023 volume, take-up sits firmly between both the pre-pandemic five- and ten-year Q1 average. The share of demand facilitated through speculatively developed space fell to its lowest level since Q2 2020, as demand for existing space saw a significant increase accounting for 4.7m sq ft of the 9m sq ft. Despite an increase in take-up of existing second-hand buildings, demand continues to focus on Grade A space with a 72% share of total demand. From a sector perspective Q1 demand saw the return of the 3PL sector, which recorded its highest volume of take-up since Q2 2022, aided by a large built to suit deal of 1.1m sq ft for Yusen at Northampton Gateway. The Midlands continues to attract significant demand, with 4.2m sq ft recorded over the period, whilst the South-East and East region saw take-up break 2m sq ft for the first time since 2022.

PIPELINE & AVAILABILITY

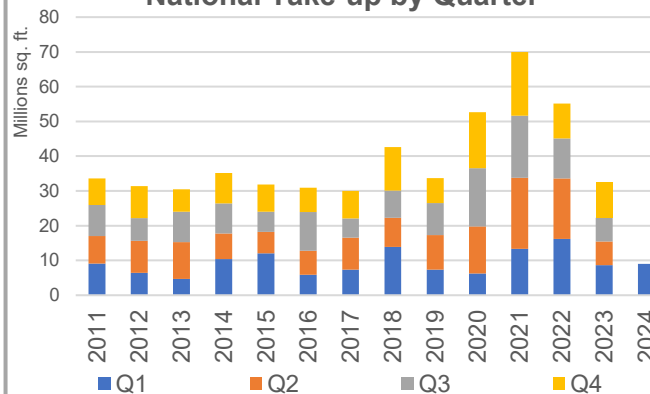
Total available space for units of 50,000 sq ft and above contracted for the first time since Q2 2022, with just 64.8m sq ft of space currently available. Whilst the total availability of space contracted marginally by 3%, this contraction was predominantly driven by a 5% reduction in the volume of Grade B and C space being marketed, whilst total available Grade A space contracted by 1%. Of the 64.8m sq ft currently on the market, it is believed that circa 8.65m sq ft is currently under offer across 52 different units, representing an 11% reduction in the volume of space under offer but no change to the number of units under offer. 36m sq ft of space is currently available within units either speculatively under construction or having recently completed, whilst the availability of second-hand space fell to 28.3m sq ft during the quarter. There is currently 13.6m sq ft of space under-construction, an increase of 4% relative to the Q4 value, but 34% below the Q1 2023 level.

Take-up	Take-up	Availability	Under offer
9.0m sq ft Q1 2024	32.9m sq ft Q2 '23 - Q1 '24	64.8m sq ft Q1 2024	8.6m sq ft Q1 2024
-12.4% Q-o-Q	47.5m sq ft Q2 '22 - Q1 '23	-3% Q-o-Q	6.9m sq ft Built stock
+4.4% Q1 24 vs Q1 23	-31% change vs Q2' 22 - Q1 '23	+9% Q1 '24 vs Q1 '23	1.6m sq ft Under Constr.
+5.7% vs 10yr Q1 Av		+14.8% Q1 24 vs 10yr av	

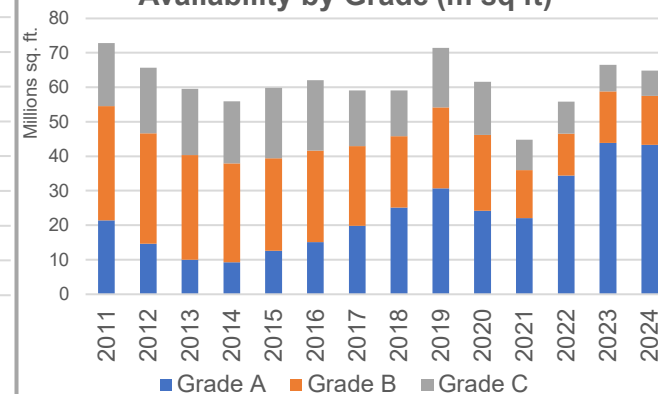
Take-up by Sector



National Take-up by Quarter



Availability by Grade (m sq ft)



NATIONAL OVERVIEW

Investment Market



“A marginal improvement in investment volumes and stability in pricing may signal a turning tide for the sector and point towards an improvement throughout 2024. However, the primary challenge for investors targeting the sector remains an absence of suitable opportunities.”

Ed Cornwell – Head of L&I Capital Markets

Volumes

£1.3bn
Q1 2024

+11.5%
Q-o-Q

+4.5%
Q1 '24 vs Q1 '23

-46%
Q1 23 vs 10yr Q1 av

Volumes

£6.4bn
Q2 '23 -Q1 '24

£9bn
Q2 '23 -Q1 '24

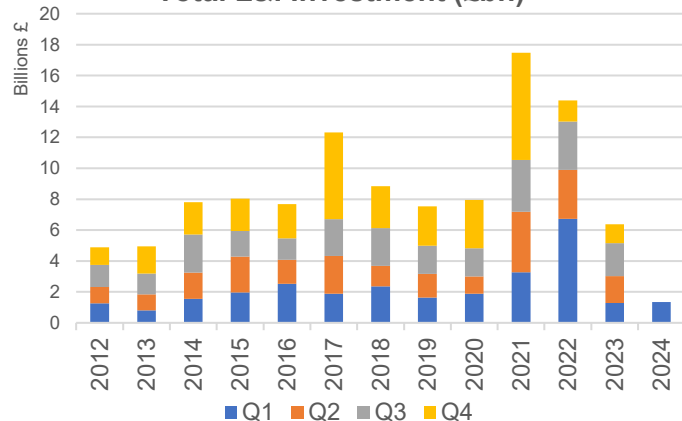
£9.7bn
10 year annual av.

Pipeline

£661m
Under offer

£1.6bn
Available

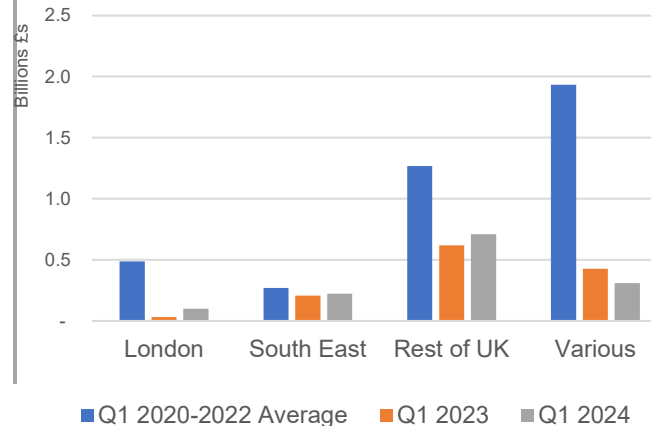
Total L&I Investment (£bn)



VOLUMES

Total investment volumes during the first quarter of 2024 amounted to £1.34bn, an 11% improvement on the Q4 2023 value, and 4% above the Q1 2023 value. 62 transactions were recorded, of which 54 were for single asset purchases, accounting for £944.7m of the total volume. Although volumes appear to of shown a minor recovery in the short term, the Q1 2024 value remains 35% below the 5-year pre-pandemic Q1 average. The market continues to be typified by caution and deliberation resulting in over 65% of volumes relating to purchases with lot sizes of £50m and smaller, with just 4 of the 62 transactions being for bigger lot sizes. Demand continues to focus on primary locations with the Midlands and the North-West, which combined accounting for 40% of total investment volumes. A lack of suitable product has also meant that regions, such as South West saw investment volumes breach £100m for the first time since Q1 2022, whilst the South East saw its highest volume since Q3 2022.

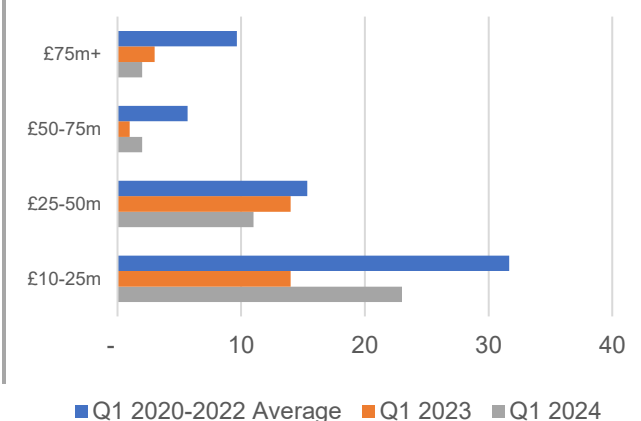
Investment by Region (£bn)



PRICING & RETURNS

The pricing of Logistics & Industrial assets continued to show stability throughout Q1 2024, with the average prime yield in the UK currently standing at 5.39%, a minor contraction of 6BPS QoQ. Whilst headline yields remain largely unchanged, continued adjustment in the pricing of secondary and tertiary markets has led to several contractions in average yields across the regions. Although vendor and purchaser's price aspirations remain somewhat adrift, the sector's re-pricing throughout 2023 followed by some stability throughout early 2024 has seen a steady line-up of investors looking to deploy into the sector. As such the marginal uptick in investor demand amidst the backdrop of limited supply has enabled pricing levels to remain stable so far throughout 2024, potentially marking the bottom of the cycle. Annual returns have returned to positive territory primarily driven by sustained rental growth, albeit these will remain modest as rental growth continues to temper, and yields remain stable in the short term.

Number of Deals by Lot Size



NATIONAL OVERVIEW

Rents & Yields Trends, Performance

C&W Prime Rent 100+

£11.40
Average

0.4%
Q-o-Q

5.2%
Y-o-Y

C&W Prime Yield

4.65%
Headline

5.39%
Average

-5.84 BPS
QoQ Average Yield Shift

C&W Prime Rent 50-100k

£12.22
Average

1%
Q-o-Q

7.7%
Y-o-Y

MSCI Total Return (MI%)

+5.9%

Annualised to Mar 2024

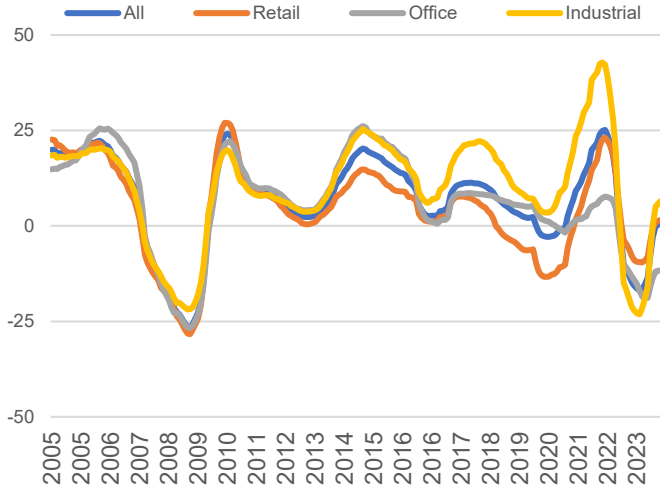
+5.1%

Annualised to Dec 2023

-15.7%%

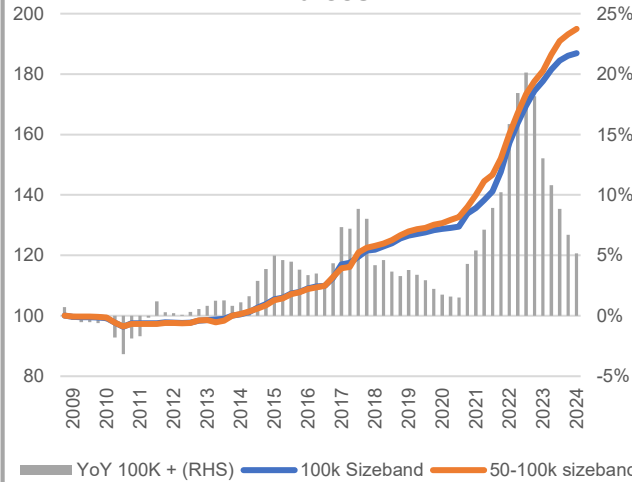
Annualised to Sept 2023

Total Annual Return (%)

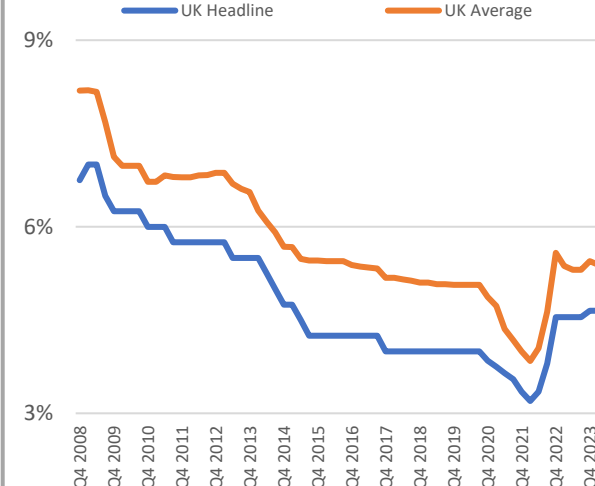


Source: C&W 2024, MSCI 2024

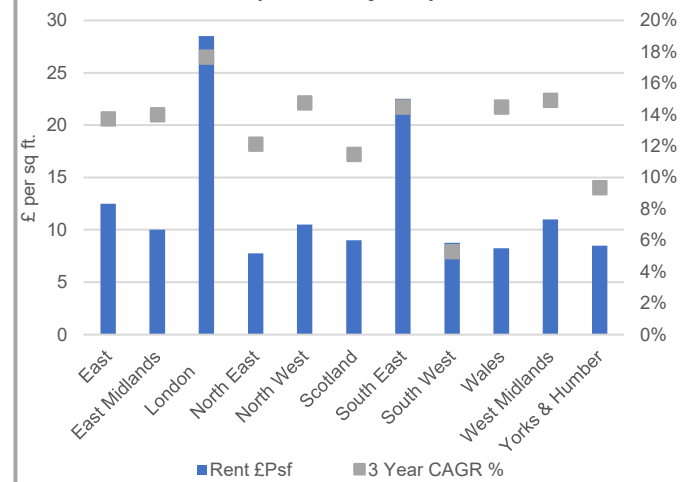
Average Prime Rental Growth Indices



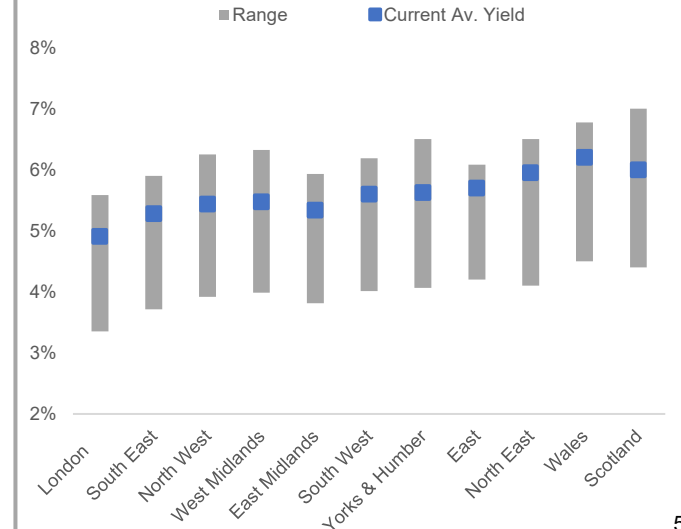
Prime Yield by Type



Prime Headline Rents by Region (100K sq ft +)



Yield by Region vs 10 yr. spread



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