UK Big Box

2023 Industrial & Logistics Market Review & Outlook

January 2024

JLL SEE A BRIGHTER WAY

Overview

The key **takeaways** from this update are:

Occupier take-up in 2023 totalled 21.0 million sq ft, 36% lower than 2022, but still higher than the pre-Covid average.

Take-up was broadly spread between key occupier **sectors**.

E-commerce take-up accounted for 15% of the total floorspace transacted over 2023.

Headline Grade A availability totalled 36.0 million sq ft at end-2023, 7% up over the quarter and 30% higher than a year ago. An additional 5.8 million sq ft was available in 'grey' space.

Prime headline logistics rents across GB increased by 7.8% over 2023, a slowdown compared with 2021 and 2022 but still above the long-term trend.

Industrial and logistics investment transactions totalled £5.2 bn in 2023, around half the level posted in 2022. Activity was constrained by a lack of supply.

At end-2023, **prime logistics yields** were around 4.75% in London, 5.0% in the South East and 5.25% in the core Regional markets.

JLL's statistics are based on Grade A (new and good quality secondhand) logistics units of 100,000 sq ft +. Take-up includes new build to suit figures where the deal has both signed and the site has planning permission for the proposed building.

Introduction

"Welcome to our latest market update which provides a review of 2023 and some thoughts as to how we see the market developing this year.

Following three years of elevated occupational activity, 2023 was a more challenging year in terms of transacted demand and overall Grade A take-up was around 64% of that posted in 2022. In the context of sluggish economic growth and heightened geopolitical risks, occupiers became more cautious and their decision-making more protracted, which reduced both the volume and velocity of transactions. More specifically, large Built to Suit transactions were few and far between due to uncertainty over yields.

On a more positive note, the year finished strongly with Q4 posting both a higher number of transactions and significantly more floorspace transacted than the preceding quarters, and full year take-up (21.0 million sq ft) was slightly higher than the pre-Covid average. Occupiers that took space highlighted an overall flight to core markets and prime buildings.

'Headline' supply, available on new leases, rose over the year to reach 36.0 million sq ft by year end, 7% up on the previous quarter and 30% higher than a year ago. The immediate availability in completed buildings rose significantly over the year mainly due to speculative completions, but the amount of space under construction fell, reflecting relatively few new speculative starts.

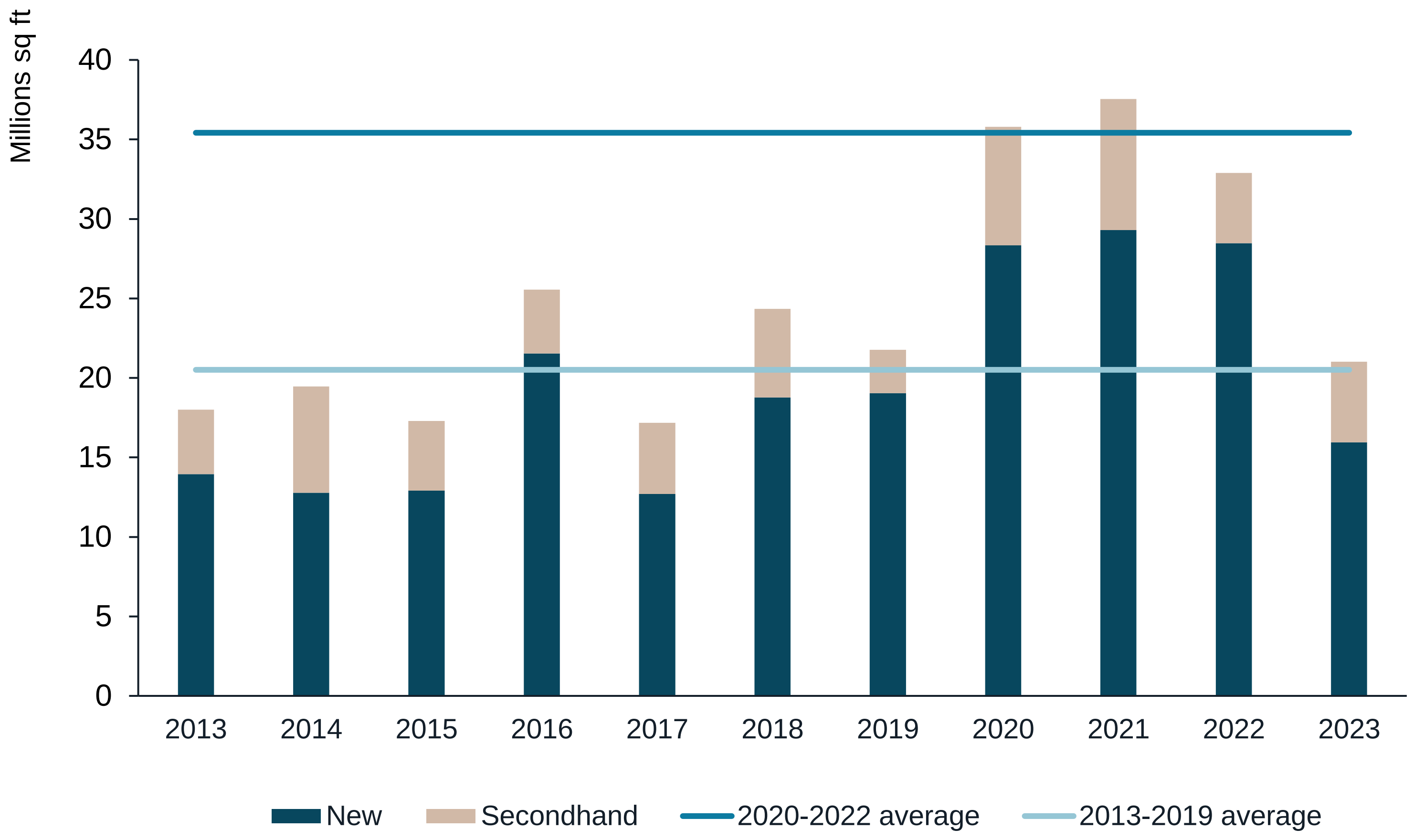
Reflecting these demand and supply dynamics prime headline rental growth decelerated, but across GB still rose by 7.8% over the year; and in most cases tenant incentives remain stable.

Business conditions remain challenging, but there are also reasons for positivity. At the start of the year approaching 5 million sq ft is under offer on the existing available stock with a similar quantity for land or pre-lets. This is based on a diverse range of occupier requirements in the market. In support of this, our Supply Chain and Strategic Occupier Solutions teams start the year with some 30 'live' projects, which suggests a healthy pipeline of future demand. With modest new speculative development likely to start this year, we could still see some demand and supply imbalances emerge in certain core geographies and size bands supporting further rental uplifts."

Ed Cole,
Head of Logistics JLL

Occupier demand moderated in 2023 but ended the year strongly

Grade A take-up involving units of 100,000 sq ft +



Take-up

After three years of elevated take-up, the level of transacted demand slipped back over 2023, but nonetheless showed signs of a recovery towards the end of the year as Q4 posted the highest number of transactions and floorspace taken up.

Over the year just over 21.0 million sq ft was taken up in Grade A units of 100,000 sq ft and over in 87 transactions, a decline of 36% on 2022 in floorspace terms. At 8.1 million sq ft, Q4 accounted for 38% of the annual floorspace taken up.

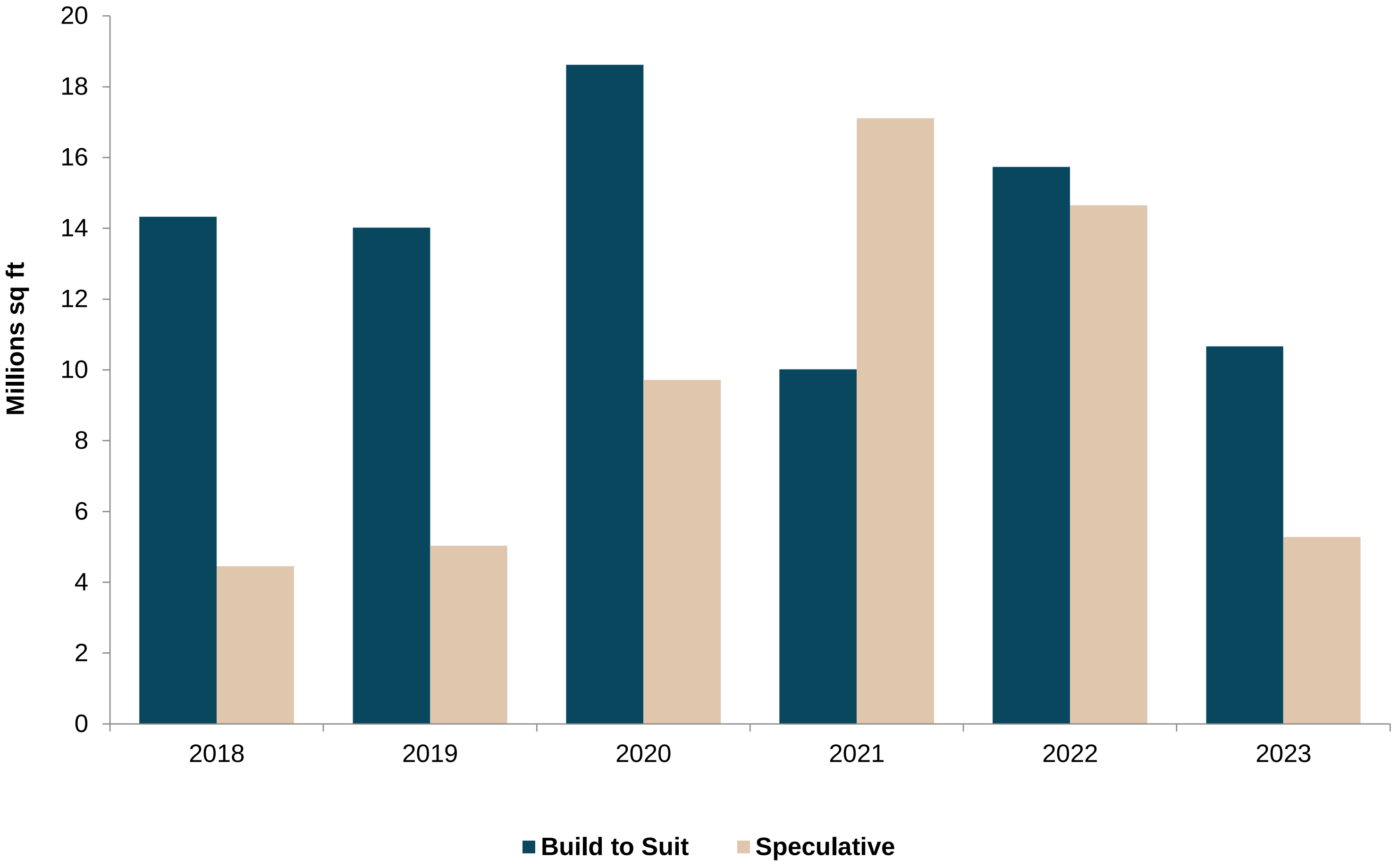
Although well down on 2022 levels, take-up in 2023 was still on a par with the level of take-up recorded pre-Covid and suggests a cyclical adjustment in demand linked to sluggish economic growth and weak business sentiment rather than a more fundamental retrenchment.

New space accounted for 76% of all floorspace taken up, highlighting a strong focus from businesses on acquiring new facilities, whilst the recycling of existing (secondhand) space accounted for the remainder. Included in the latter is ‘grey space’ taken up by way of assignment or subleases from occupiers.

2023 take-up (21.0 million sq ft) compares with a previous 10-year average of 25.0 million sq ft. Broken down, this average reflects an annual average of 35.4 million sq ft during the Covid and post-Covid surge (2020-2022) and an average of 20.5 million sq ft over the seven years pre-Covid (2013-2019).

Occupier take-up and demand for new space was relatively resilient

New take-up: Speculative vs BTS



The take-up of new space

A total of 15.9 million sq ft was taken up in new space, which represented just over three-quarters (76%) of all floorspace transacted over 2023. Within this total, some two-thirds of the space taken up involved Built to Suit deals with the remaining one-third in speculative buildings either built and immediately available or under construction.

In our two-fold segmentation of new space, the Built to Suit category includes land purchased by occupiers with the intention of building their own premises, in addition to more traditional BTS deals with developers. The former is more typical with businesses requiring industrial/manufacturing facilities and the inclusion of a number of these types of deals accounted for about one-quarter of all BTS space taken up. In addition, Q4 saw a major retailer acquire a site for a substantial self-build logistics facility. Overall, only around 40% of the floorspace recorded as BTS involved traditional developer projects.

More traditional BTS developer deals remained challenging over the year due to uncertainty over yields. There were only three such BTS deals over 500,000 sq ft concluded in 2023.

The demand for new space was driven by a range of factors including supply chain restructuring and consolidation, the deployment of automation and robotics and a move into more sustainable facilities. In challenging market conditions, the demand for new space was relatively resilient and suggests a flight to prime buildings.

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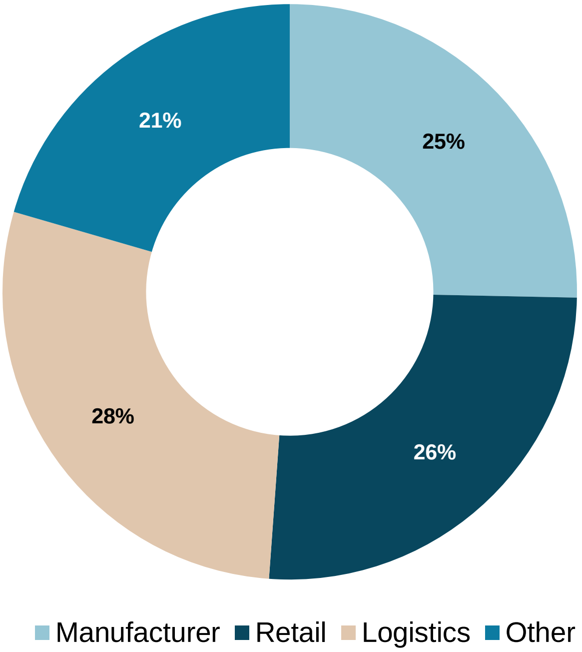
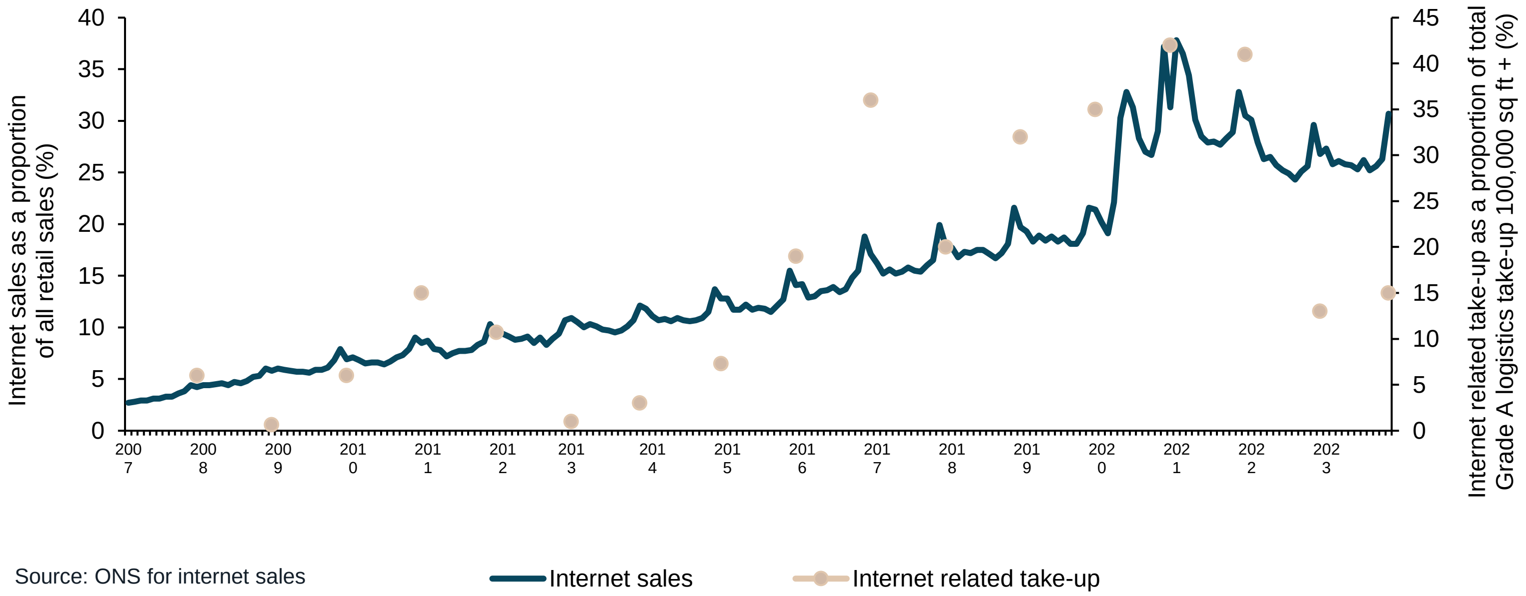
Sector demand was broadly-based and internet demand picked up as a share but with a lower level of floorspace transacted

Grade A take-up **by sector**: 2023



Internet related take-up



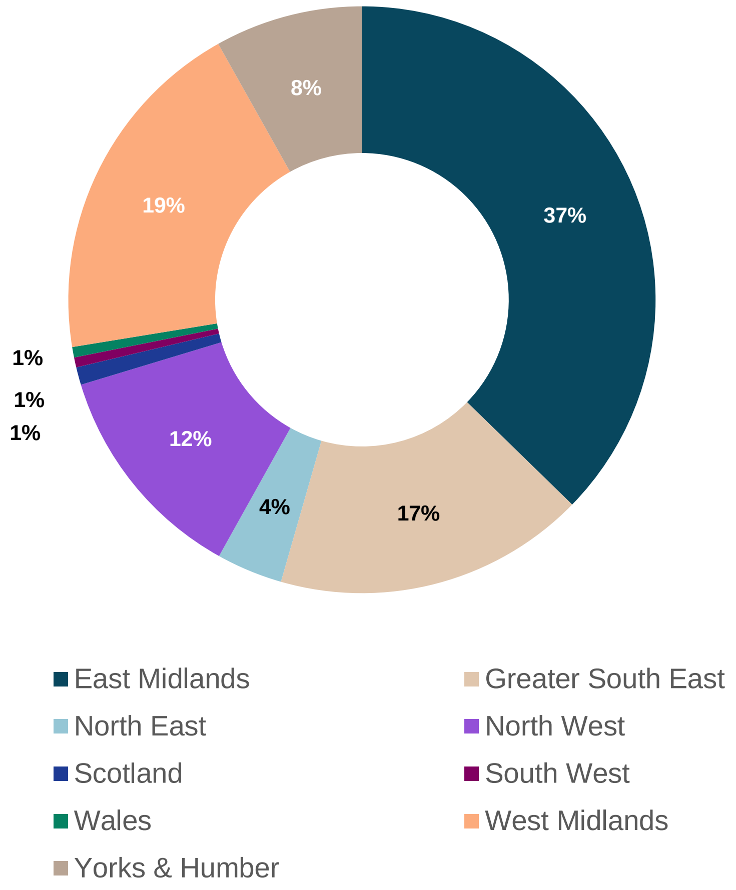
Source: ONS for internet sales

Take-up over 2023 was broadly based with each of our three main **sector categories** accounting for between 25% and 28% of the total. The logistics sector came out marginally on top at a 28% share, followed by retail at 26% and manufacturing which accounted for 25%. The latter includes transactions involving both logistics floorspace, used for storage and distribution, and industrial floorspace, used for manufacturing. The latter contributed some 2.6 million sq ft to the manufacturing total. The 'other' category accounted for a 21% share and included a range of activities including suppliers, importers and distributors and wholesalers.

Take-up directly attributable to **e-commerce** accounted for a 15% share of total take-up over the year, compared with a 13% share in 2022, and 90% of this e-commerce take-up was accounted for by retailers. According to the latest ONS data, internet sales represented 30.7% of total retail sales in November 2023 compared with 27.1% at the end of 2022.

Regional demand highlighted a flight to core geographies

Grade A take-up **by region**: 2023



Regionally, the East Midlands accounted for the largest share of floorspace transacted over the year at 37%, with the West Midlands taking the second highest share at 19%, Take-up in the East Midlands was buoyed by the largest letting of a speculative build (627,000 sq ft at DIRFT in Q3) the largest developer BTS (685,000 sq ft at Castle Donnington in Q1) and the largest deal of the year involving a land purchase at Northampton for a 2.3 million sq ft self-build (Q4). The Greater South East, comprising London, the South East and Eastern regions, accounted for 17% of total take-up. The North West also had a good year with take-up buoyed by a large deal in Q4 (807,000 sq ft) involving a new warehouse for the MoD and a new manufacturing facility for Encirc Glass in Q3. Yorkshire and Humberside accounted for 8% of demand, and the North East for 4%, with its largest deal involving a new gigafactory in Sunderland. Scotland posted a couple of Grade A transactions over the year, but the South West saw just one. The geography of take-up indicates that demand remained relatively robust in core geographies, notably across the key greater South East, Midlands and North West axis. Below, we spotlight the market in south Wales which is attracting more interest from occupiers and developers.

South Wales is an established industrial market but not a major logistics market. Despite fluctuating micro and macro-economic factors, demand within the region has remained at a consistent level only being held back by the lack of supply. As a traditional manufacturing market much of the floorspace is obsolete in its design by modern standards, thus curtailing the response to demand. In recent years, however, we have seen a number of developers take advantage of the demand opportunity by developing a supply of much needed floorspace. For example, St Modwen has developed St Modwen Park in Newport with the first speculative building being constructed in 2016. Approximately 500,000 sq ft of Grade A industrial floorspace has been developed with a further circa. 600,000 sq ft to come. This development has attracted occupiers from South Wales, the South West and further afield. Demand for the space has been consistent, with units under offer before practical completion has been achieved. Over the past 12 months we have seen strong rental growth on units around 100,000 sq ft with quoting rents for the next phase being over £9.00 per sq ft.

Further opportunities for development in Newport, Cardiff, Bridgend and Swansea all offer the opportunity to develop floorspace of grade A classification and to capitalise on the opportunity of pent-up demand for units that meet modern requirements.

Heather Lawrence
Director, Industrial & Logistics, Cardiff

Selective key occupational deals for 2023

Major retailer, 621,000 sq ft, Panattoni Park, Aylesford

Major retailer, 627,707 sq ft, Prologis, DIRFT, Daventry

Mediq Healthcare UK Limited, 279,418 sq ft, EMDC 280, Derby

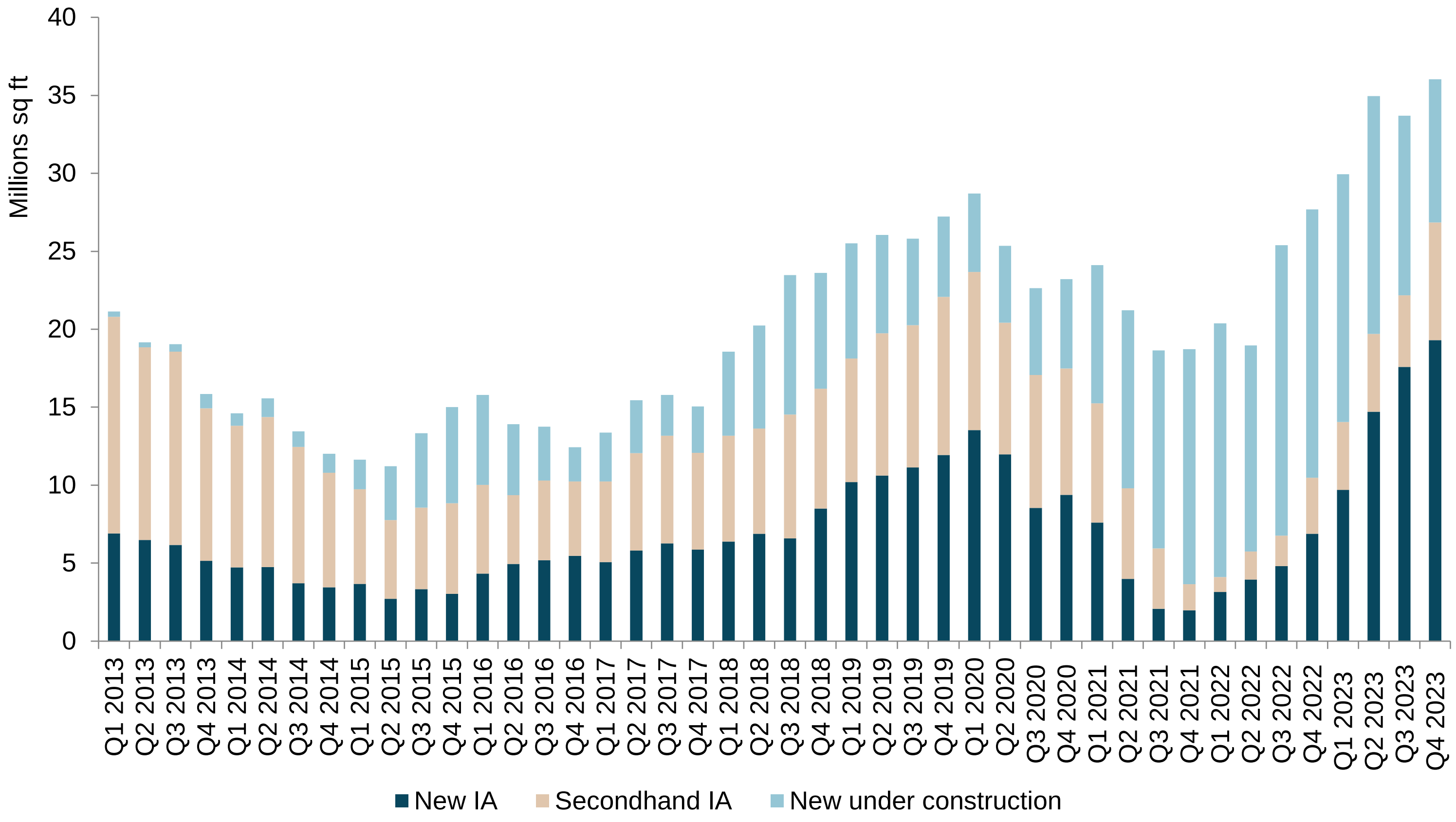
Caterpillar, 128,048 sq ft, Unit 1, Griffen Park Leicester,

PJH Holdings, 200,720 sq ft, Pin 54, Wolverhampton

Anixter, 105,487 sq ft, Horizon 29, Bolsover

End-of-year 'headline' supply was 30% up on a year ago

Grade A supply involving units of 100,000 sq ft and over



Supply

At the end of 2023 our 'headline' total available supply stood at 36.0 million sq ft, and an additional 5.8 million sq ft was available in 'grey space' by way of assignment or subleases.

The headline level of supply was 7% higher than at the end of the previous quarter and 30% higher than a year ago.

More than half (54%) of the available space was in completed new speculative buildings, with speculative developments under construction accounting for another 25%. The remaining 21% was in existing secondhand building.

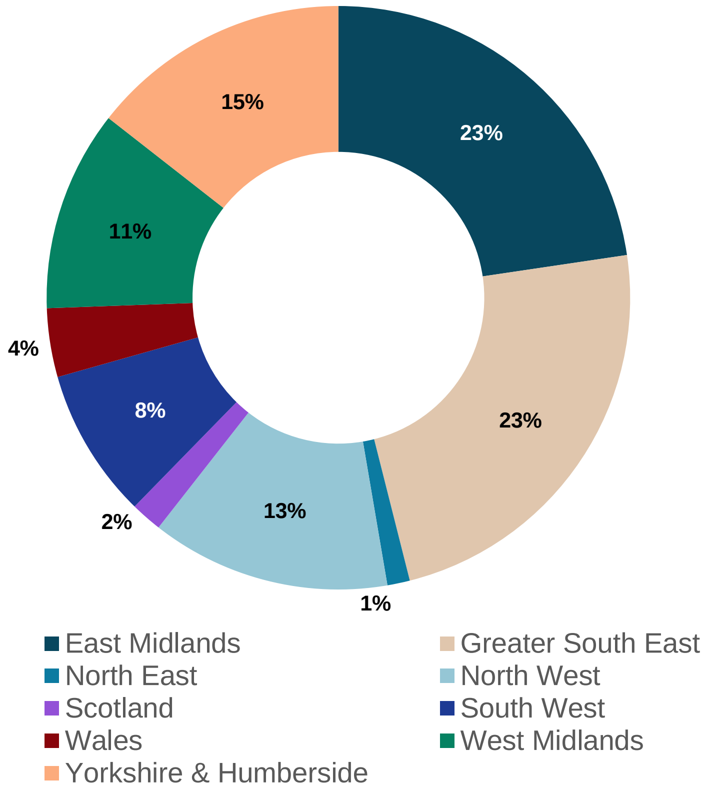
Over the year there was a significant change in the composition of available supply as speculative developments completed and fewer new developments started. A year ago, 62% of the availability had been in speculative buildings under construction with only 25% in completed speculative developments.

The amount of available 'grey space' trended up to Q3 when it reached 6.1 million sq ft, but then saw a small reduction over Q4 to finish the year at 5.8 million sq ft.

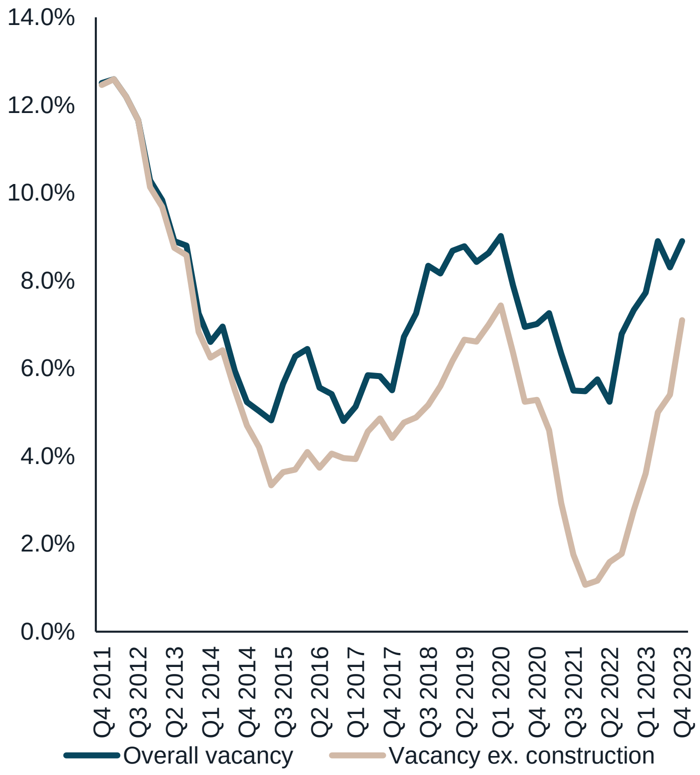
With a relatively modest amount of new speculative development likely to start this year, certain core markets and size bands could see the emergence of demand and supply imbalances. For example, this could be the case in large buildings over 500,000 sq ft in core markets, where demand remains robust but where there is a limited supply or new developments.

Available supply rose over the year but has not run significantly ahead of demand

Grade A supply by region: end-year 2023



Grade A logistics vacancy rates



Available supply

Regionally, at the end of 2023 the East Midlands had the largest quantity and therefore share of available floorspace at 8.2 million sq ft or 23% of the total. However, as noted above, this region also took the largest share of total take-up over the year (37%) and end-of-year supply was only marginally higher than take-up posted in 2023.

Yorkshire and Humberside had the next largest share at 15%, and in this region supply represented just over three times the level of take-up posted in 2023.

The Greater South East, a combination of three individual regions, accounted for 23% of headline supply a higher share than its take-up share over 2023. The North West (13%), the West Midlands (11%) and the South West (8%) were the other regions with shares above 5% of the total.

Vacancy rates have trended up from the record lows registered in 2021/2022. At end-2023, our grade A big box vacancy rate for GB stood at 8.9% for total headline supply or 7.1% if we exclude space speculatively under construction or space under refurbishment.

At the end of 2023 the overall ‘headline’ supply across GB represented slightly under 21 months of supply compared with 2023 take-up. With the ‘grey’ space added, total availability equated to 24 months of 2023 take-up. These ratios do not suggest that market supply has run significantly ahead of demand, and certain core markets, such as the East Midlands, have only around 12 months of supply.

Selective key availability at the end of 2023

Panattoni Park, Avonmouth,
407,367 sq ft and 884,219 sq ft

Powerhouse300, Dartford, 304,198 sq ft,
Bericote & Tritax

DC 327, 327,044 sq ft, DIRFT,
Prologis

Midpoint DC6,163,754 sq ft,
Birmingham, Prologis

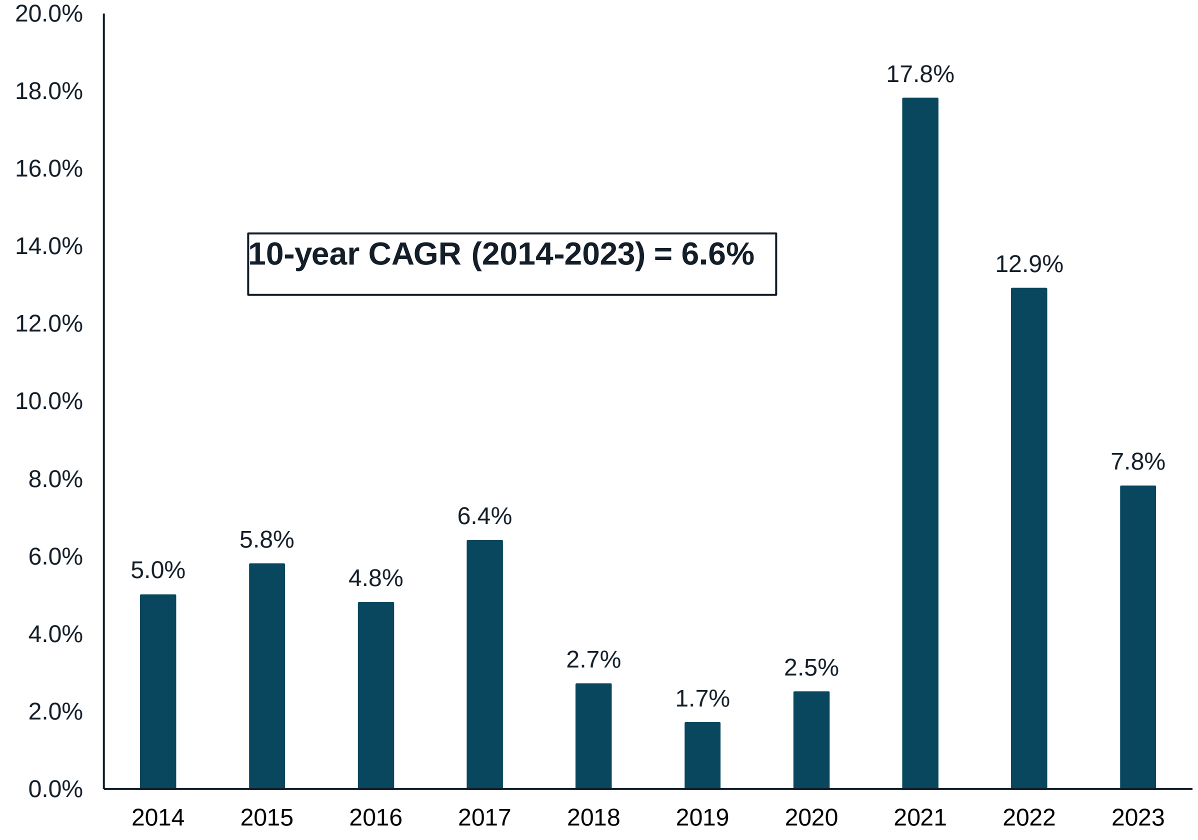
Omega Loop 308, 308,905 sq ft,
Warrington, Barings

Baytree, Leeds
Unit 3, 145,476 sq ft, Baytree Logistics

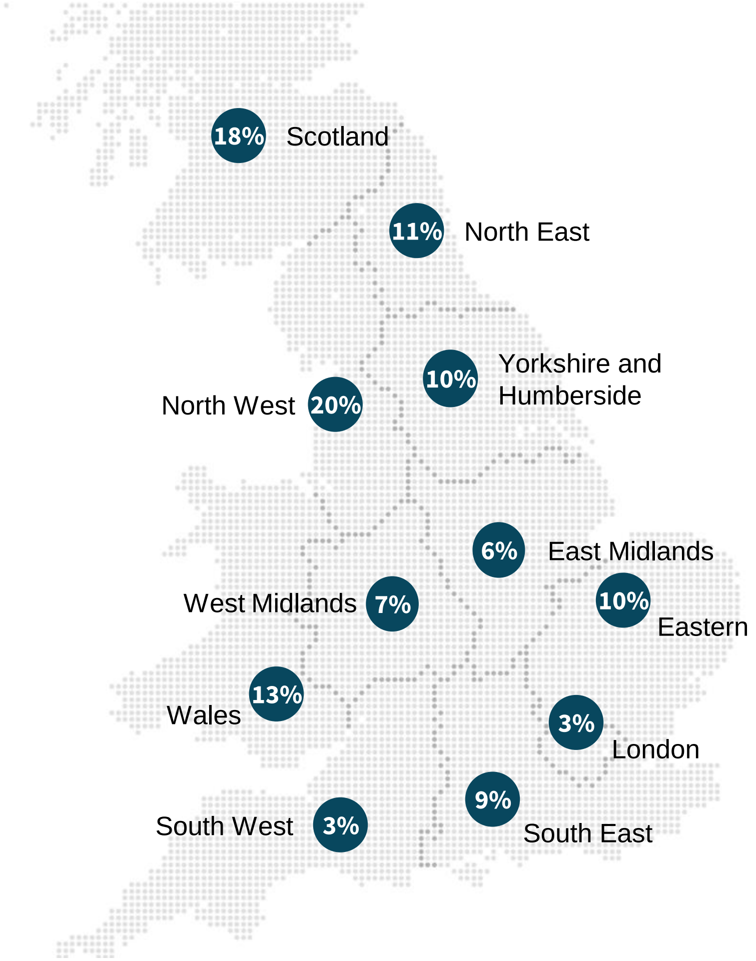
Prime rental growth decelerated over the year but still delivered an average of 7.8% per annum

Prime headline rents across the country, based on 32 logistics markets that JLL track, recorded an unweighted average increase of 7.8% over the year compared with 12.9% in 2022 and 17.8% in 2021. The North West saw the strongest rental growth with a 20% uplift in prime achievable headline rents. Although not major big box markets, both Scotland and Wales posted good growth in prime rents which could encourage more development in these regions. The compound annual growth rate (CAGR) over the past 10 years (2014-2023) was 6.6%.

UK prime headline rental growth



Regional prime headline rental growth, 12 months to end of 2023



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Selective logistics investment transactions in H2 2023

Coventry Logistics Park
£140.5m
784,989 sq ft

Tera 40, Greenford
£146m
340,987 sqft

iForce Corby
c.£100m
847,982 sqft

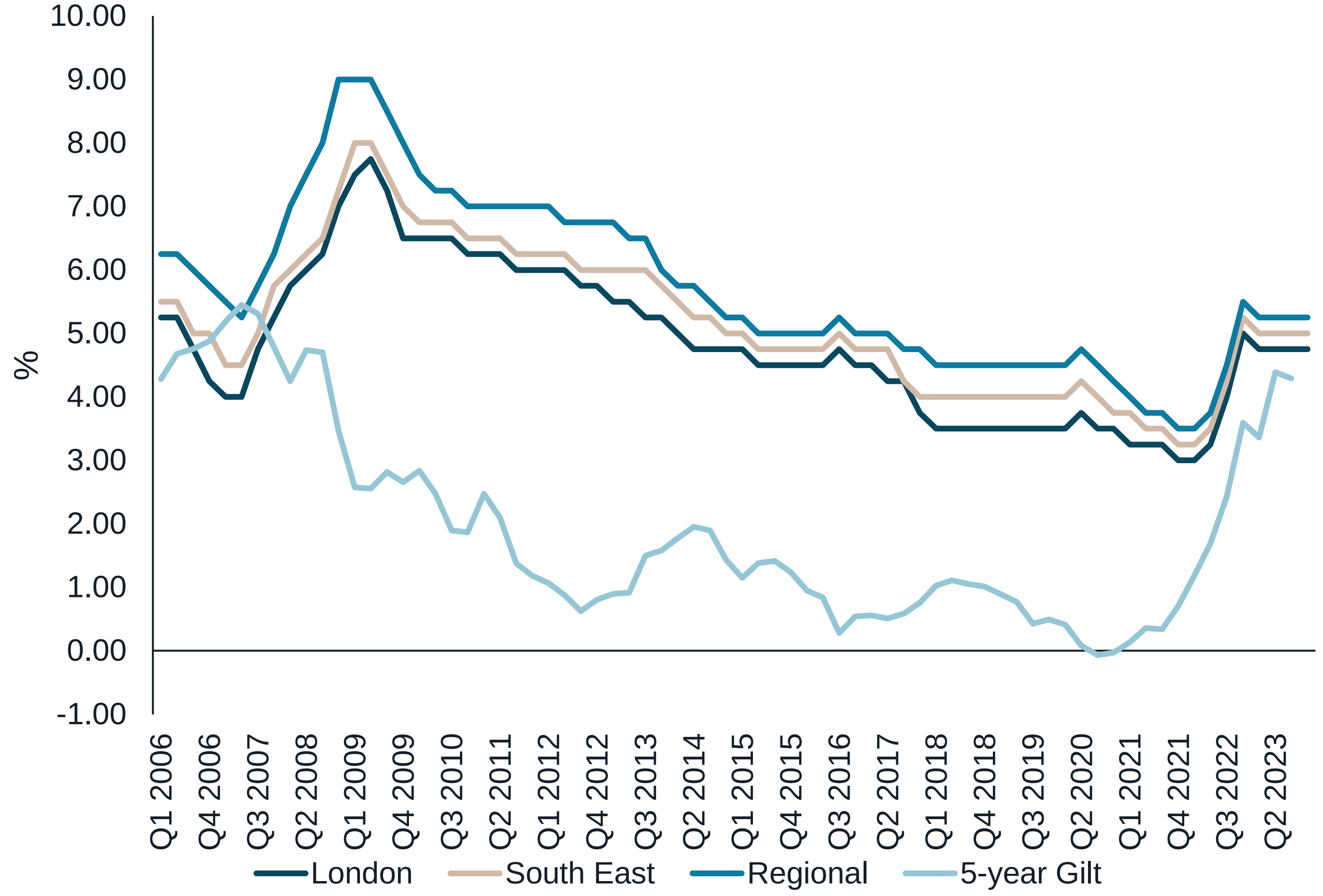
Project Venus
£248m
1,645,092 sqft

Next, Doncaster
£21.2m
263,806 sqft

Co-op Castlewood
£46.1m
480,041 sqft

Investment market update

Prime logistics yields*



**Assuming a 15 year income and OMR*

"2023 proved to be a challenging year in the investment market with a relatively low level of transactions, however, by the year-end sentiment had become more positive on the back of a sharp fall in swap rates and, reflecting this, we anticipate a more confident start to 2024 than we saw at the start of 2023.

After a subdued level of trading in H1, when some £2.9 bn of industrial and logistics stock was transacted across the UK, around £2.3 bn transacted in H2 to bring the full year total to £5.2 bn, around half the volume registered in 2022. The start of war in the Middle East in October caused a weakening in sentiment, particularly after US bond rates spiked in early Q4 in reaction to this. As a result, some owners faced liquidity issues which led a number to make stock available to the market.

However, towards the end of Q4 saw a turning point in sentiment due to a fall in swap rates. Having peaked at c. 5.1% in early Q4, 5-Year Swap rates subsequently fell to around 3.4% by the end of the year resulting in improved demand from investors.

In our assessment prime investment yields edged in by around 25 bps in Q1 but thereafter remained unchanged, against a background of limited evidence, to close the year at around 4.75% in London, 5.00% in the South East and 5.25% for core regional markets. Secondary yields softened over the year.

At the start of 2024 there are a number of significant investments under offer which points to resilient demand and improving investor confidence. With falling inflation, interest rates look likely to reduce over the year which should support pricing and encourage market stability. In this scenario, we expect an increase in investment activity this year with ESG considerations remaining at the forefront of investor decision-making."

Joel Duncan,
Director Capital Markets JLL

Contacts

Occupational

Ed Cole
ed.cole@jll.com

Sophie Kettlewell
sophie.kettlewell@jll.com

Chris Yates
Chris.yates@jll.com

Carl Durrant
carl.durrant@jll.com

Richard James-Moore
richard.james-moore@jll.com

Gemma Constantinou
gemma.constantinou@jll.com

Richard Johnson
richard.johnson@jll.com

Richard Harris
rich.harris@jll.com

Andrew McCracken
andrew.d.mccracken@jll.com

Heather Lawrence
Heather.Lawrence@jll.com

Capital Markets

Philip Marsden
philip.marsden@jll.com

Joel Duncan
joel.duncan@jll.com

Oliver Paine
oliver.paine@jll.com

Allan Wilson
allan.wilson@jll.com

Edward Blood
edward.blood@jll.com

Mathew Atkinson
mathew.atkinson@jll.com

Development

Chris North
chris.north@jll.com

Lease advisory

Andrea Sinclair
andrea.sinclair@jll.com

Valuation

Stuart Smith
stuart.smith@jll.com

Strategic Occupier Solutions

Giles Weir
giles.weir@jll.com

Kieran Webber
kieran.webber@eu.jll.com

Hope Ayers
hope.ayers@eu.jll.com

Rating

Peter Fullam
peter.fullam@jll.com

Supply Chain

Ashley Smart
ashley.smart@jll.com

Darren Sherriff
darren.sherriff@jll.com

Emma Kramer
emma.kramer@jll.com

Research

Jon Sleeman
jon.sleeman@jll.com

Oliver Jones
oliver.jones@jll.com

Thank You

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