

Intelligent Investment

UK Logistics Q2 2023

MARKET SUMMARY

CBRE RESEARCH
JULY 2023



Content



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Highlights



Investment



Key logistics contacts



Authors and research links



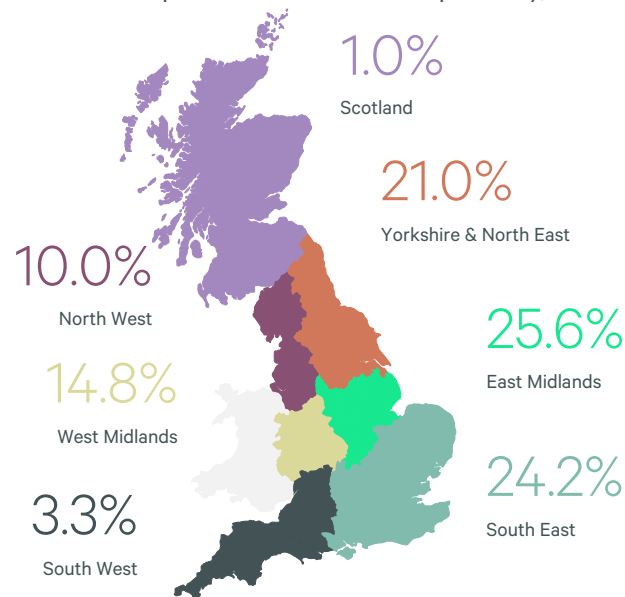
For queries regarding data contained in this report, please contact [Tasos Veziridis](#) or [Annabel Nash](#)



Highlights

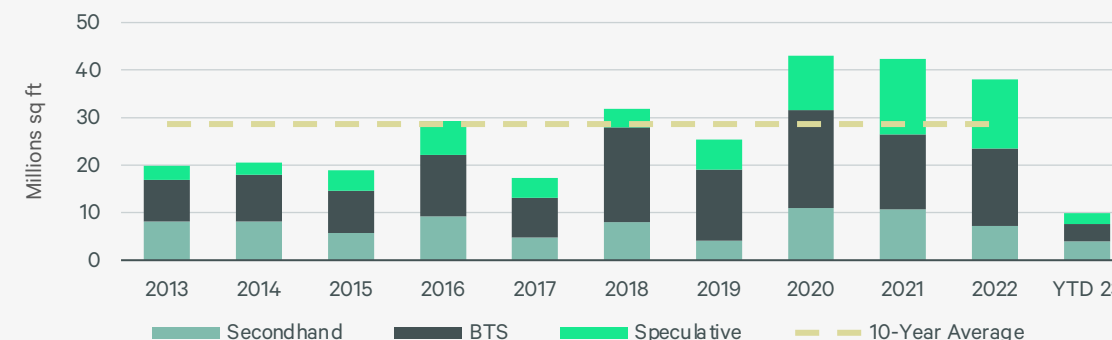
- H1 2023 take-up totalled 10.0m sq ft, representing a 56% decrease compared to the record H1 in 2022. Take-up in Q2 contributed 3.4m sq ft to this half year total, which was 48% down on the previous quarter. Occupiers displayed caution amid the uncertain economic environment, with deals taking longer to get over the line due to slower decision making
- Available space at the end of H1 totalled 32.3m sq ft. During the quarter, more than 3m sq ft of available speculative space reached practical completion, resulting in over half of the space available becoming ready-to-occupy (either speculative completed or secondhand)
- During the first half of the year, the largest share of take-up was in the East Midlands, contributing 34.5%, followed by the South East at 23.5%. On a 12-month rolling basis, these regions have also seen the largest share of take-up at 25.6% and 24.2% respectively, followed by Yorkshire and North East at 21.0%

UK Logistics take-up share by region, 12 months to end Q2 2023



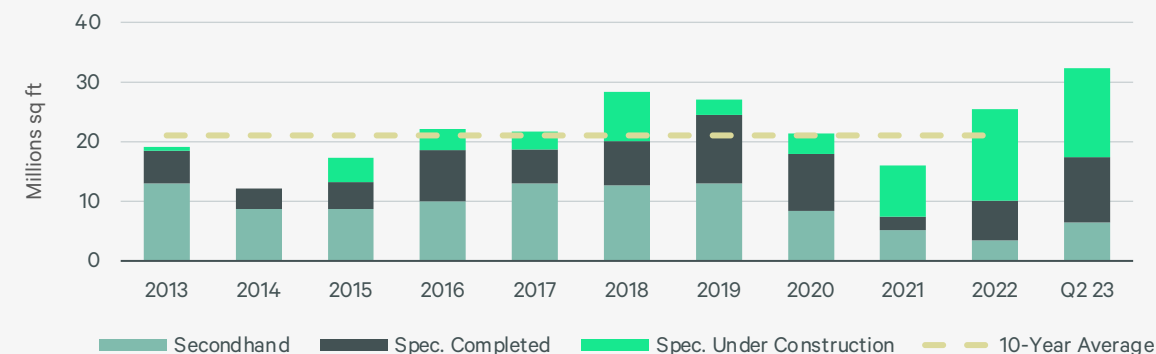
Source: CBRE

UK Logistics take-up Q2 2023



Source: CBRE

UK Logistics availability Q2 2023



Source: CBRE

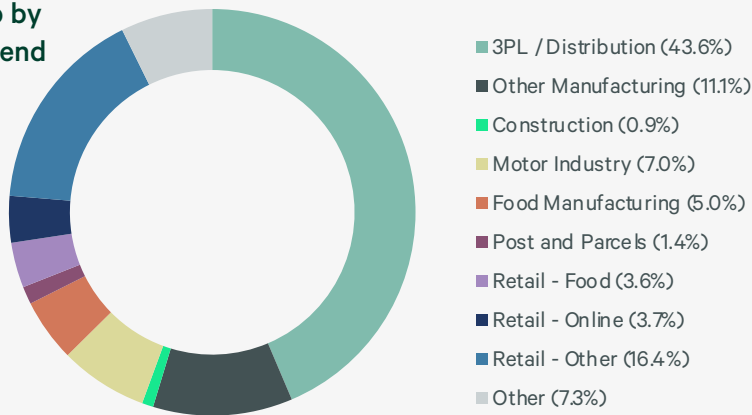
Note: CBRE UK Logistics data relates to units above 100,000 sq ft and minimum 10m eaves unless stated otherwise. Speculative units under construction count as available if planned physical completion is within the following 12 months. BTS stands for build-to-suit.



Highlights

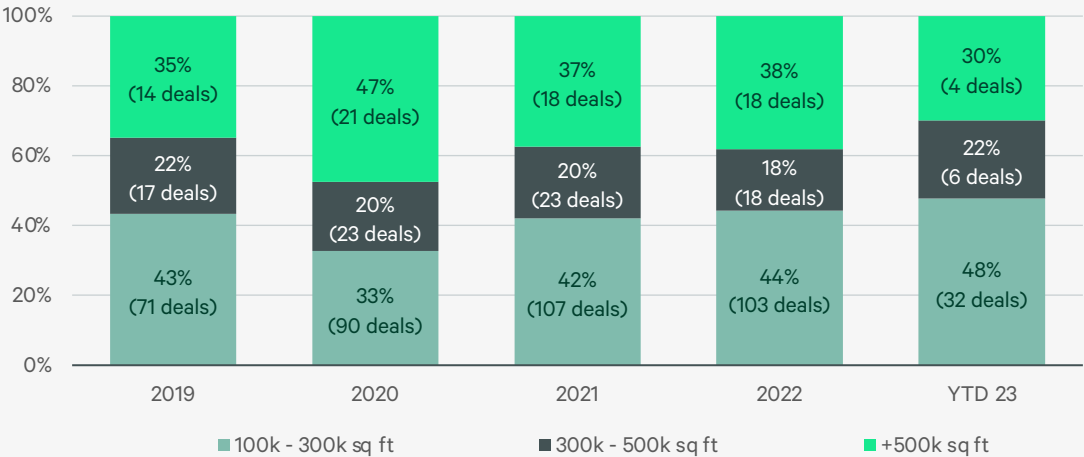
- 17 deals completed in the second quarter, bringing the H1 total to 42 deals. This was down compared to the last two H1 periods of 2021 and 2022, when there were 80 deals. A further 36 buildings were under offer at the end of Q2 across 10.4m sq ft, an increase from 29 in Q1 2023
- Take-up by size band during Q2 was concentrated in the smaller building size category, between 100k - 300k sq ft, with an additional 14 deals bringing the H1 total to 32 deals under 300k sq ft. The average deal size for the year to date stands at 237,016 sq ft, which is 16% smaller than H1 2022
- During H1, third-party logistics occupiers (3PLs) were the most active with 42.7% of take-up. Demand from manufacturers and the motor industry has also continued, contributing 18.6% and 10.5% respectively during the first half of the year. In the 12 months to end Q2 2023, 3PLs have taken the most logistics space (43.6%), followed by omnichannel and offline retailers (16.4%)

UK Logistics take-up by sector, 12 months to end Q2 2023



Source: CBRE

UK take-up (%) and number of deals by size band



Source: CBRE

UK Logistics selected deals Q2 2023

| Town | Size (sq ft) | Occupier |
|---------|--------------|----------------------|
| Banbury | 144,800 | Williams Engineering |
| Hull | 420,463 | Smith & Nephew |
| Rugby | 661,348 | Sainsburys |

Source: CBRE

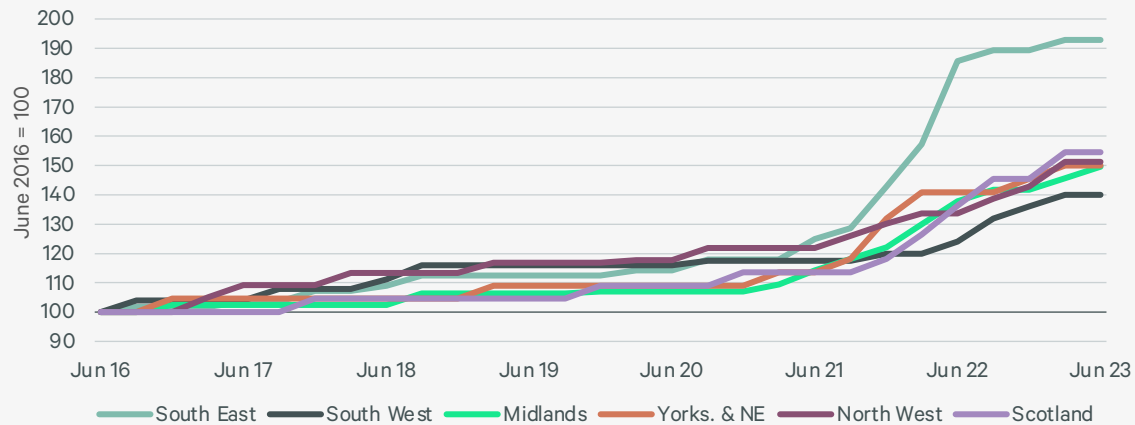
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Highlights

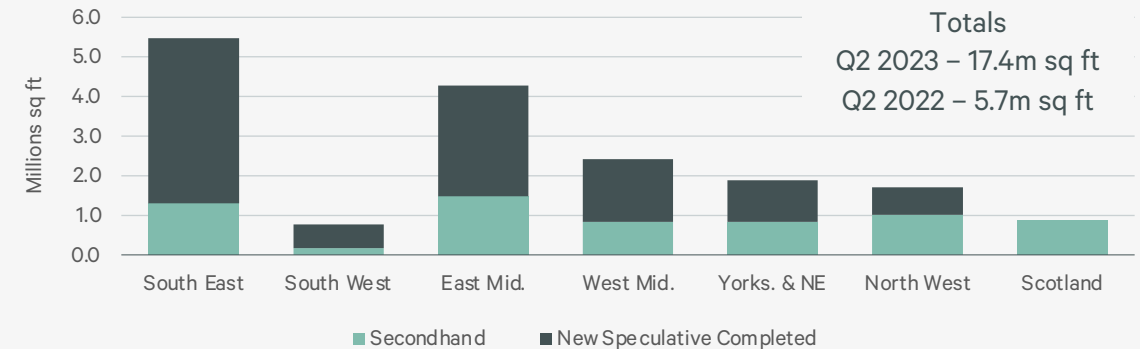
- The UK vacancy rate increased to 3.36%, up from 2.58%, as ready-to-occupy space grew 32% QoQ to 17.4m sq ft. This was driven by a number of speculative schemes reaching practical completion, increasing the stock of new built speculative space, up 45% QoQ to 10.9m sq ft
- Space under construction decreased for the first time since Q4 2021, down by 18% QoQ to 34.5m sq ft, as new starts slowed. The distribution of construction remains equally weighted with around 17.2m sq ft currently under construction for both build-to-suit and speculative buildings
- Prime rental levels remained stable in most UK regions through Q2, with the East and West Midlands the only regions reporting growth of 3% QoQ. The UK prime rent, based on the South East M25 West, stands at £27.00 psf

Regional prime rental growth (index)



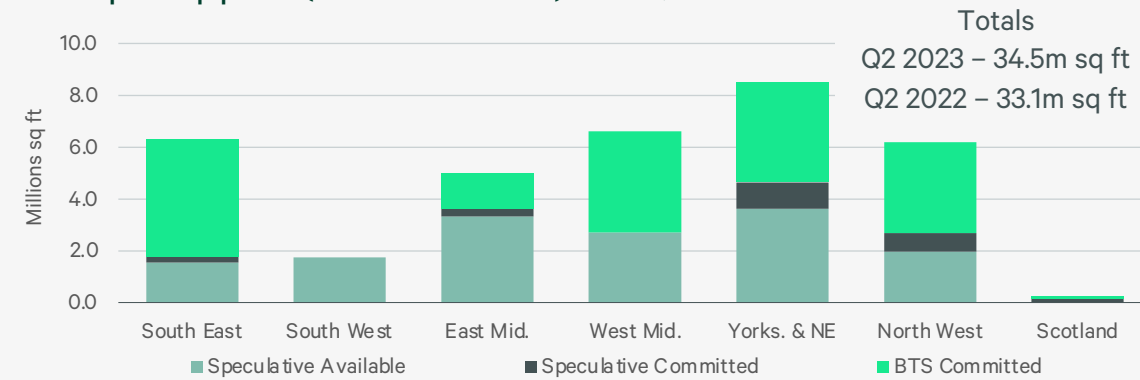
Source: CBRE Big Box Logistics Rents

Ready-to-occupy supply – end Q2 2023



Source: CBRE

Development pipeline (under construction) – end Q2 2023



Source: CBRE

*Committed indicates either pre-let or under offer

Note: UK vacancy rate refers to the buildings that are physically built and standing, capable of being utilised by an occupier immediately.



South East

- Take-up in the South East was 0.4m sq ft across three deals, bringing the H1 total to 2.3m sq ft, down 39% compared to H1 2022. During H1, the largest share of take-up was for build-to-suit units (41%) followed by secondhand (31%). Manufacturers and 3PLs took the most amount of space, both contributing 0.7m sq ft, respectively. The South East had the most under offer buildings of any UK region at the end of Q2, comprising 12 buildings aggregating to 2.7m sq ft
- Available space increased by 10% QoQ to 7.0m sq ft, which was driven by new completed speculative space more than doubling to 4.2m sq ft, pushing the vacancy rate up from 2.88% to 4.62%. The largest share of available space in the South East is now within new ready-to-occupy speculative space (60%), with speculative under construction now contributing to 22% of the total
- The South East prime big box rent remained stable at £27.00 psf. The prime yield for the region stayed at 5.25%

South East Prime Big Box Rent

M25 West Area

£27.00

per sq ft pa

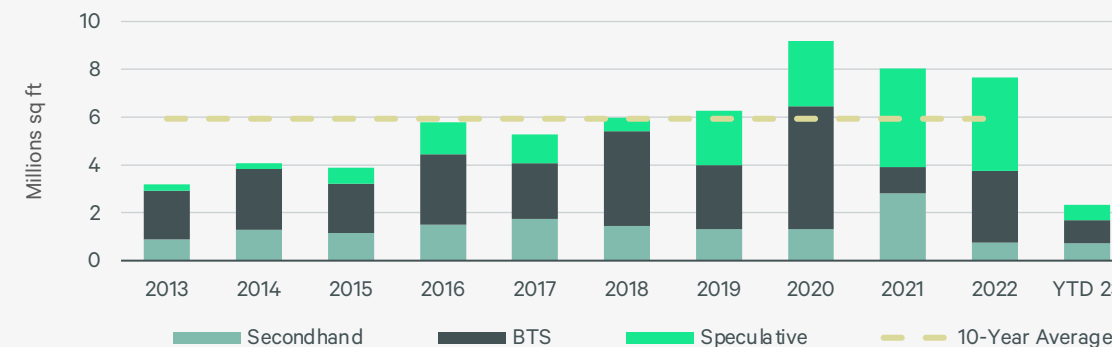
South East Prime Big Box Equivalent Yield

M25 West Area

5.25%

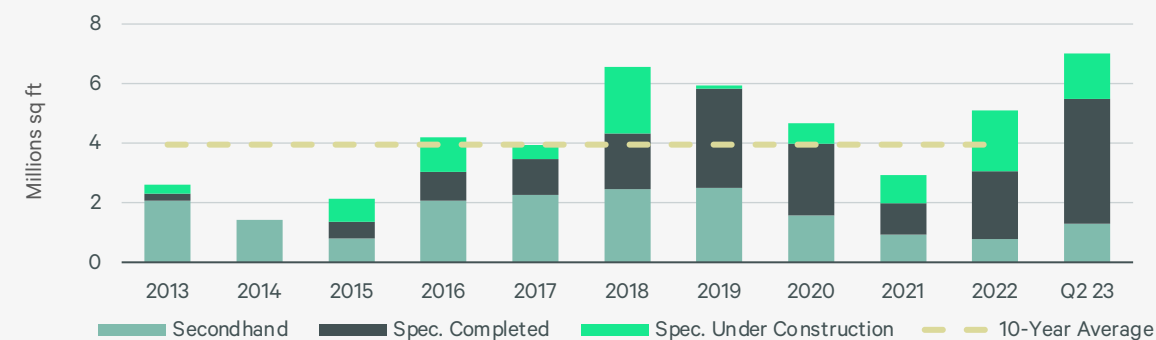
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South East Logistics take-up Q2 2023



Source: CBRE

South East Logistics availability Q2 2023



Source: CBRE

Note: CBRE UK Logistics data relates to units above 100,000 sq ft and minimum 10m eaves unless stated otherwise. Speculative units under construction count as available if planned physical completion is within the following 12 months. BTS stands for build-to-suit.



South West

- Following a no-deal quarter in Q1, one secondhand deal completed during Q2 in the South West. This brought the H1 take-up total to 0.1m sq ft, down 88% compared to H1 2022. No big box units were under offer at the end of the quarter
- Availability in the South West was 2.5m sq ft, with available speculative buildings under construction continuing to contribute to the largest portion of available space at 69% across some medium box and XXL (500k sq ft+) units. This was followed by speculative space ready-to-occupy at 24%, with only one additional secondhand unit available. The vacancy rate was 2.52% at the end of H1
- The South West prime rent stayed at £8.75 psf in Q2. The big box prime yield remained at 5.50%

South West Prime Big Box Rent

Bristol sub-market

£8.75

per sq ft pa

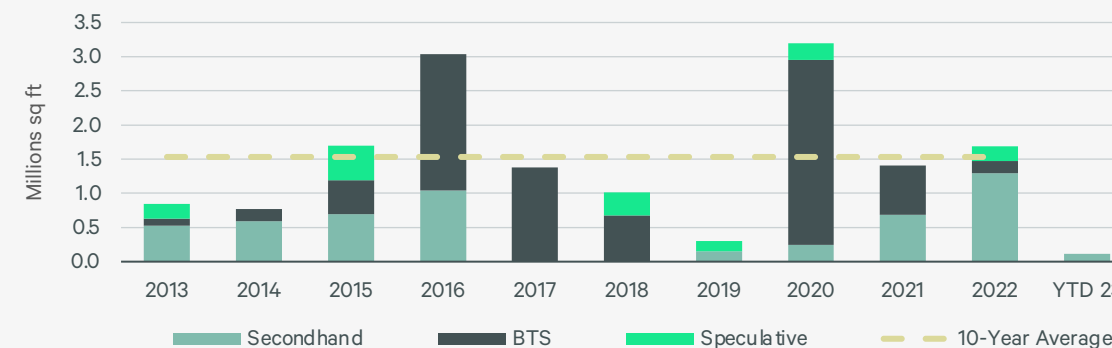
South West Prime Big Box Equivalent Yield

Bristol sub-market

5.50%

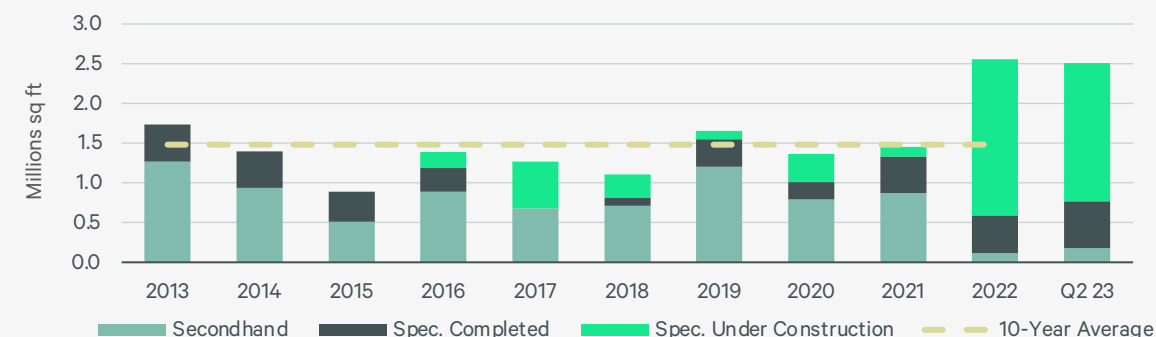
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South West Logistics take-up Q2 2023



Source: CBRE

South West Logistics availability Q2 2023



Source: CBRE

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East Midlands

- East Midlands had the highest share of take-up of all regions in Q2 at 1.1m sq ft across six deals, bringing the total H1 take-up to 3.4m sq ft. This was down 14% compared to the same period in 2022. During H1, 55% of take-up was for secondhand space, followed by build-to-suit (30%). This was a change in the trend seen through 2022, where speculative space was the most sought after by occupiers in the East Midlands. 3PL operators continued to be the most active in H1 (63% of take-up). An additional seven buildings were under offer in Q2, extending to 2.4m sq ft
- The East Midlands continued to have the highest availability per region at 7.6m sq ft, with the vacancy rate increasing from 2.89% to 3.23%. This was driven by a 25% QoQ increase in new completed speculative buildings that reached practical completion
- The prime rent for the East Midlands increased a further 3% QoQ to £9.50 psf. Prime yields for the region remained stable at 5.25%

East Midlands Prime Big Box Rent

M1-M6 junction

£9.50

per sq ft pa

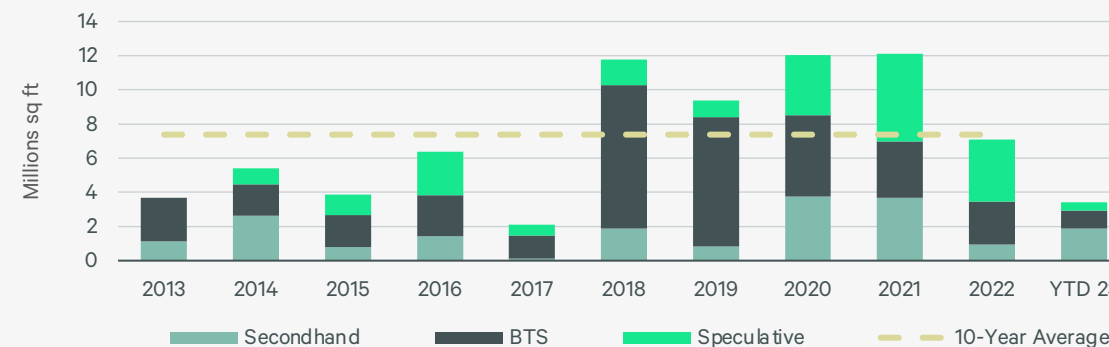
East Midlands Prime Big Box Equivalent Yield

M1-M6 junction

5.25%

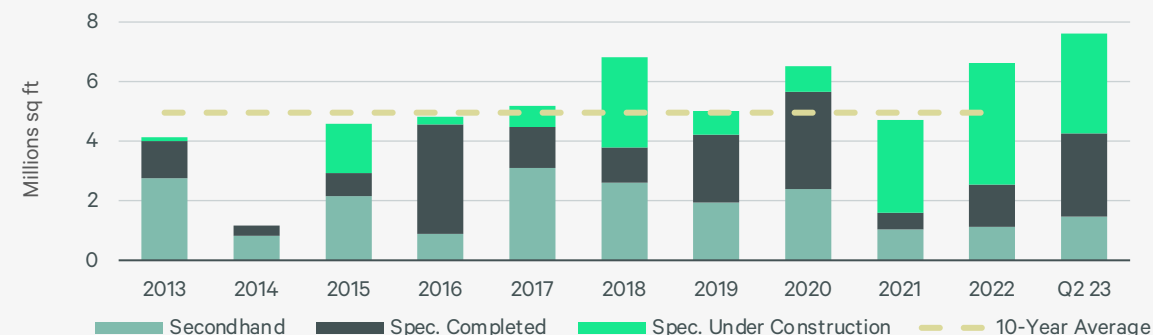
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East Midlands Logistics take-up Q2 2023



Source: CBRE

East Midlands Logistics availability Q2 2023



Source: CBRE

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West Midlands

- Take-up in the West Midlands was concentrated in two secondhand buildings comprising 0.8m sq ft, with demand derived from 3PLs and food retail. This brought the H1 total to 1.9m sq ft, a 61% decrease compared to H1 2022. 3PLs continued to be the most active sector in the West Midlands, taking 48% of the space in the first half of the year. A further 0.5m sq ft was under offer at the end of Q2 across three buildings
- Availability was up 21% QoQ to 5.1m sq ft. The largest share of space available are speculative buildings under construction (53%) across 2.7m sq ft, an increase of 11% compared to Q1. There was also an increase in ready-to-occupy stock this quarter, with a 30% increase in newly completed speculative space and a 46% increase in secondhand, resulting in the vacancy rate increasing from 2.32% to 3.06%
- Prime big box rents for the West Midlands increased 3% QoQ up to £9.50 psf. The prime yield was stable at 5.25%

West Midlands Prime Big Box Rent

Birmingham

£9.50

per sq ft pa

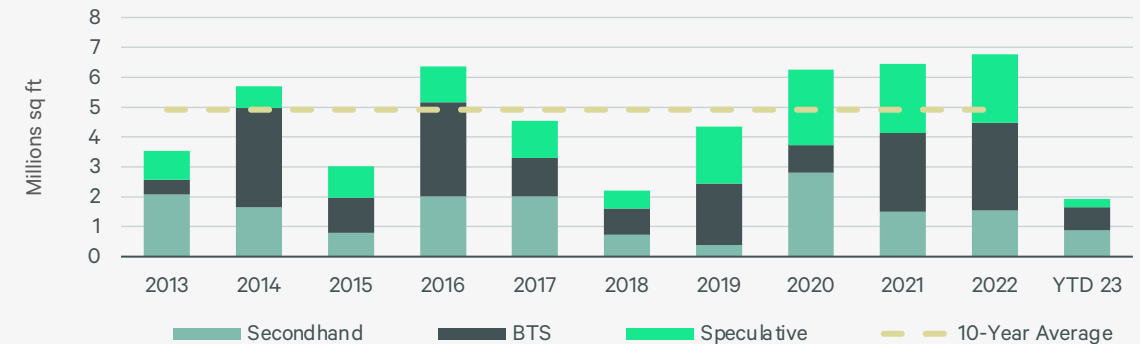
West Midlands Prime Big Box Equivalent Yield

Birmingham

5.25%

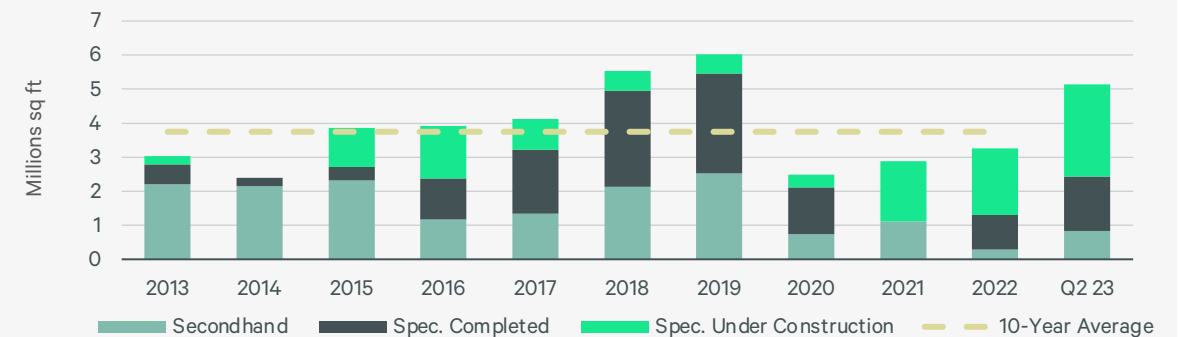
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West Midlands Logistics take-up Q2 2023



Source: CBRE

West Midlands Logistics availability Q2 2023



Source: CBRE

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Yorkshire and North East

- Yorkshire and North East had take-up of 0.7m sq ft during Q2 comprising three deals, up 16% QoQ. The take-up for H1 totalled 1.4m sq ft, with the largest share in build-to-suit units (54%), followed by secondhand (27%). Manufacturers were the most active in the region during the first half of the year, contributing to 49% of take-up, with 3PL operators and omnichannel retailers also taking space. Nine additional buildings were under offer at the end of Q2 across 3.9m sq ft
- The region saw availability decrease during Q2 by 9% QoQ to 5.5m sq ft. Out of the space available, most of the space was in speculative under construction at 66% and newly completed speculative space (19%). Ready-to-occupy increased slightly QoQ due to some speculative completions, resulting in a moderate increase in the vacancy rate to 2.28%. Yorkshire and North East continued to have the tightest vacancy rate of all regions
- Yorkshire and North East prime rents remained stable at £8.25 psf in Q1. Prime big box yields also were steady at 5.25%

Yorkshire and North East Prime Big Box Rent

Wakefield sub-market

£8.25

per sq ft pa

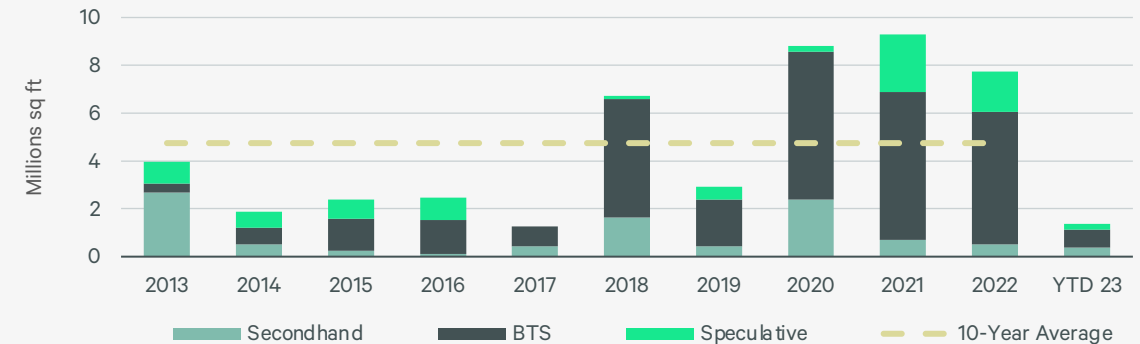
Yorkshire and North East Prime Big Box Equivalent Yield

Wakefield sub-market

5.25%

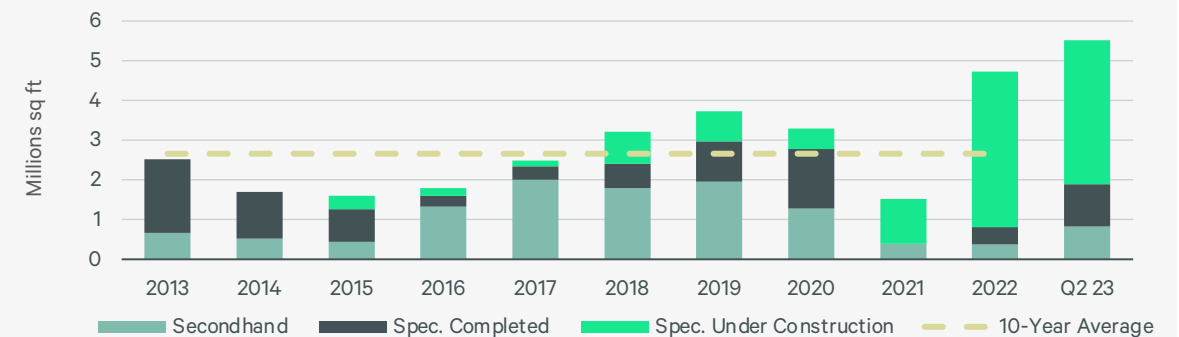
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Yorkshire & North East Logistics take-up Q2 2023



Source: CBRE

Yorkshire & North East Logistics availability Q2 2023



Source: CBRE

Note: CBRE UK Logistics data relates to units above 100,000 sq ft and minimum 10m eaves unless stated otherwise. Speculative units under construction count as available if planned physical completion is within the following 12 months. BTS stands for build-to-suit.



North West

- The North West saw two deals complete in Q2 across 0.3m sq ft, bringing the H1 total to 0.8m sq ft. This was 81% below the previous year's record H1 period. During the first half, all take-up was for new buildings with the majority share in speculative space (79%). Demand came from omnichannel retail, manufacturing and the motor industry. At the end of Q2, a further 0.5m sq ft of space was under offer comprising three buildings
- Available space in the North West grew by 16% compared to Q1 to 3.7m sq ft, driven by a 67% QoQ increase in secondhand availability. However, the largest share of available space continued to be speculative under construction (54%). The North West vacancy rate increased in line with the growth in secondhand availability, from 2.11% to 2.76%
- The North West prime rent remained at £9.00 psf, with prime yields also stable at 5.25%

North West Prime Big Box Rent

Warrington sub-market

£9.00

per sq ft pa

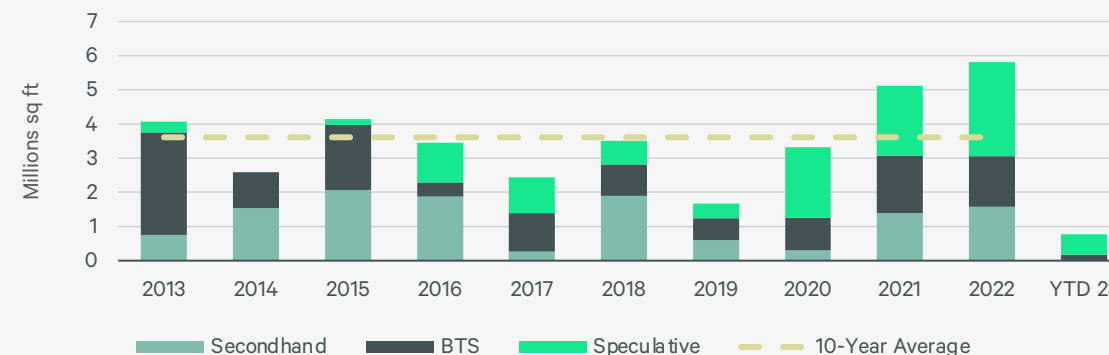
North West Prime Big Box Equivalent Yield

Warrington sub-market

5.25%

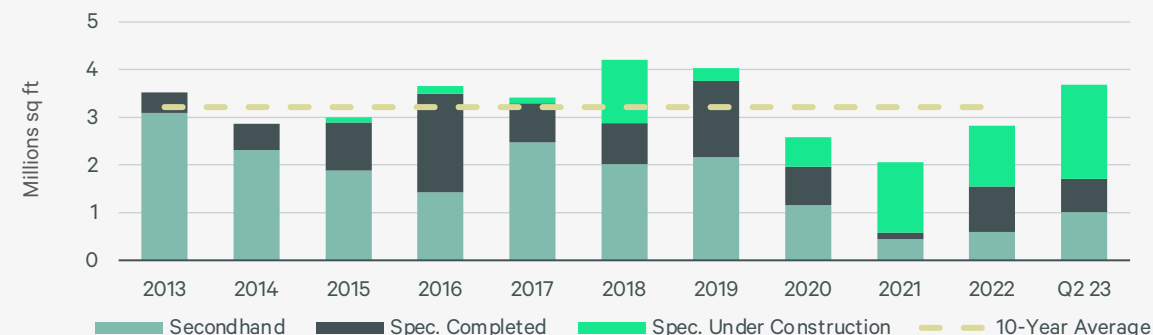
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North West Logistics take-up Q2 2023



Source: CBRE

North West Logistics availability Q2 2023



Source: CBRE

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Scotland

- There was no big box activity during Q2 in Scotland, resulting in no take-up in H1. Two new buildings remained under offer at the end of the quarter, one speculative and the other build-to-suit, across 0.4m sq ft
- Scotland availability grew slightly by 19% QoQ to 0.9m sq ft, with the addition of a third available secondhand building. Scotland's vacancy rate changed with this addition, increasing from 5.80% to 6.60%
- The Scotland big box prime rent remained constant at £8.50 psf, with the prime yield staying at 6.00%

Scotland Prime Big Box Rent

Glasgow sub-market

£8.50

per sq ft pa

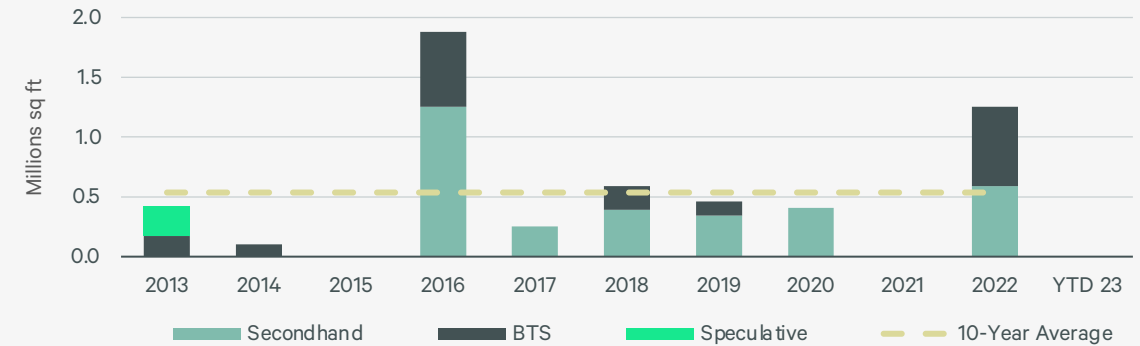
Scotland Prime Big Box Equivalent Yield

Glasgow sub-market

6.00%

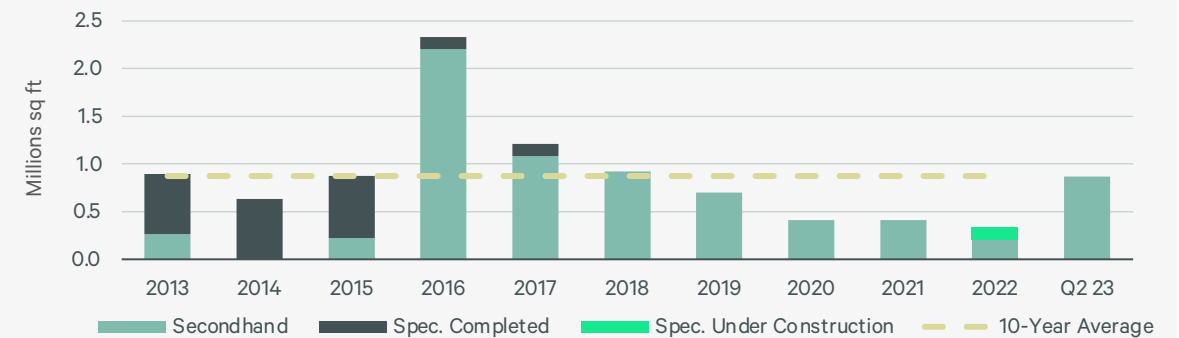
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Scotland Logistics take-up Q2 2023



Source: CBRE

Scotland Logistics availability Q2 2023



Source: CBRE

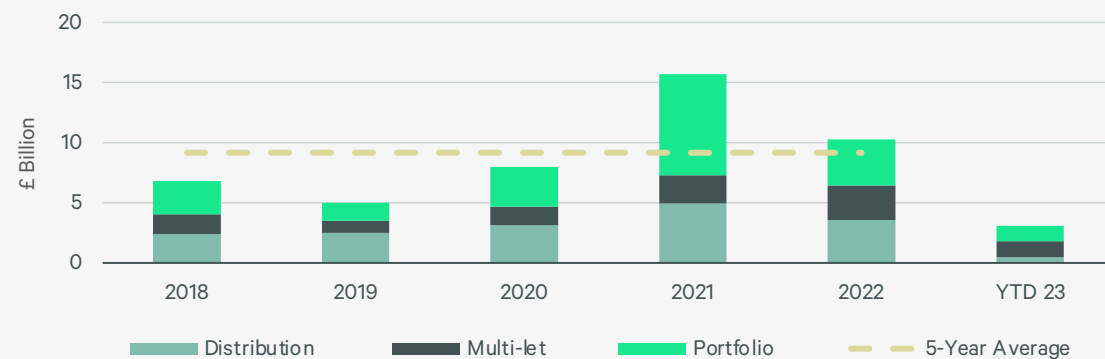
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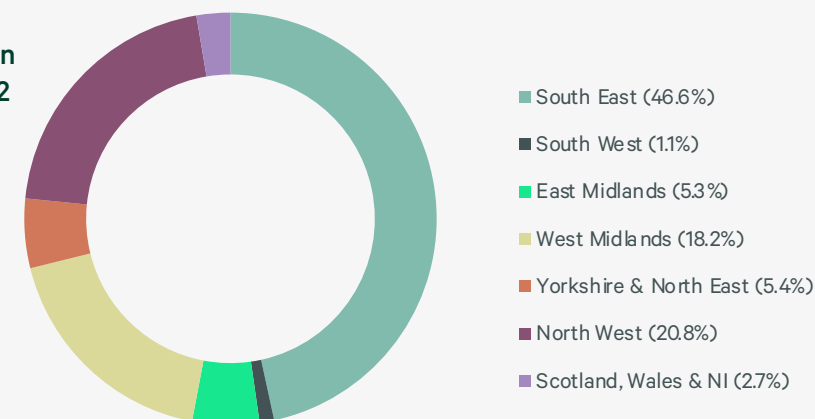
Investment

- Q2 2023 investment volumes (transactions over £5m) were £2.1bn, up 116% QoQ. This brought the H1 total to £3.1bn, down 54% compared to the record H1 period of 2022. Within Q2, portfolio sales contributed to the largest share of investment volumes at 46%, followed by multi-let sales (42%). Rolling 12-month investment volumes totalled £6.6bn
- By region, the North West led the way by contributing 50% of Q2 investment volumes (excl. portfolios). This was followed by the South East at 31%, and West Midlands at 15%. In the 12 months to end of Q2 2023, the South East region had the largest share of investment at 47%
- In Q2, the private equity sector continued to dominate investment into logistics property, capturing 67% of investment volumes. This was followed by property companies at 19%, and REITs and UK institutions both contributing 5%

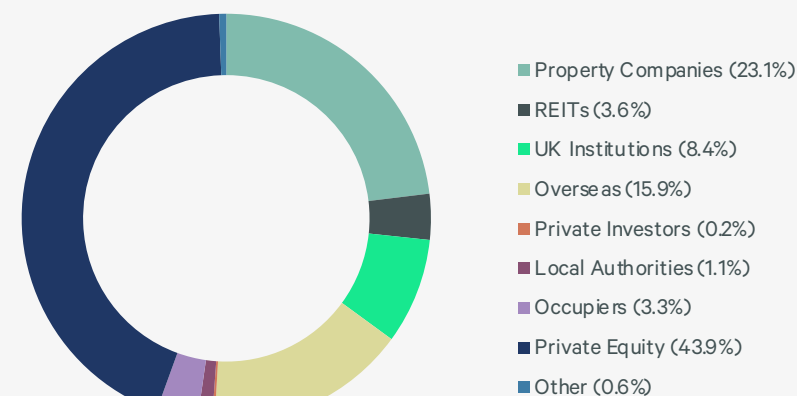
UK Logistics investment volumes Q2 2023



UK Logistics investment by region (excl. portfolios) – 12 months to end Q2 2023



UK Logistics investment by purchaser type – 12 months to end Q2 2023



Note: Investment data in this report relates to transactions greater than £5m.



Investment

UK Logistics relevant investment deals – Q2 2023

| Address | Purchase price (£m) | NIY | Area (sq ft) | Purchaser |
|--|---------------------|-------|--------------|------------------|
| Widnes Logistics Park, Widnes | £89m | 5.31% | 707,960 | Clarion Partners |
| Project Spears (Portfolio) | £152m | 5.42% | 946,916 | Blackstone Group |
| Junction 6 Industrial Park, Birmingham | £58m | 4.48% | 385,923 | Tritax |

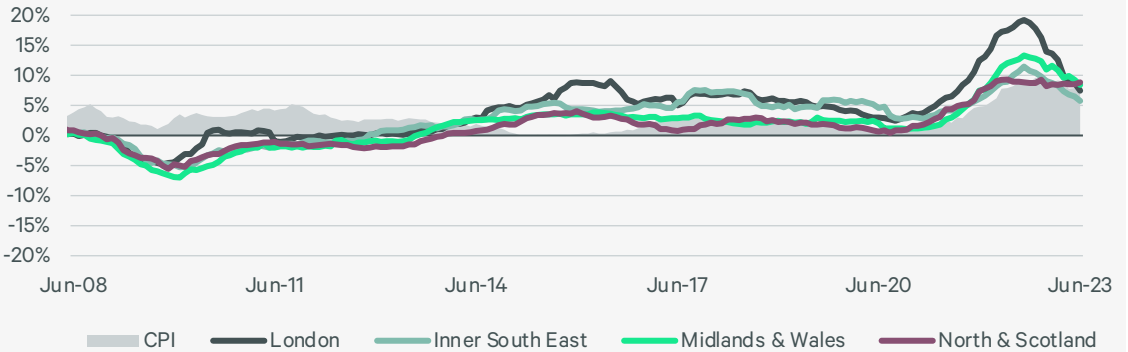
Source: CBRE

UK prime equivalent investment yields – July 2023

| | | |
|------------------------------------|---------------------------------|----------------------------------|
| Prime Distribution – Excluding M25 | Prime Offices – London West End | Prime Retail – High Street Shops |
| 5.25% | 3.75% | 6.75% |

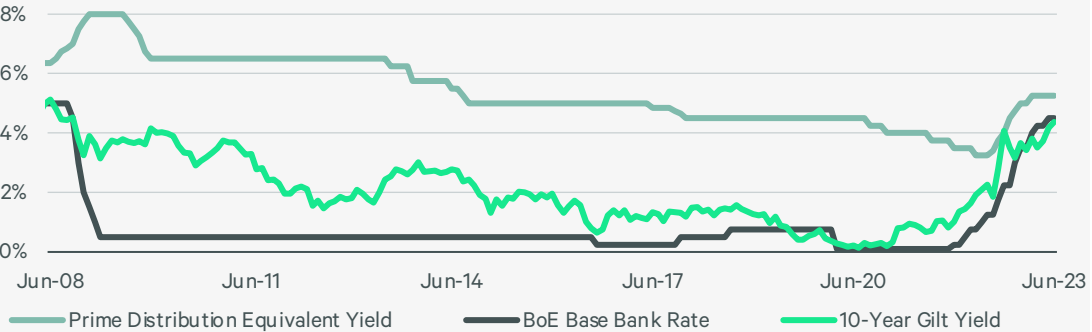
Source: CBRE Monthly Equivalent Prime Yields

UK industrial rental growth and inflation



Source: ONS, MSCI

Distribution vs. Government bond yields



Source: CBRE Monthly Yields, Bank of England, Macrobond

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