UK LOGISTICS & INDUSTRIAL OUTLOOK

Key Findings:

- **Take-up has shown early signs of recovery** with a total volume of 6.7m sq ft transacting during the quarter.

- The volume of **space under offer has also risen**, now standing at 8.5m sq ft up from 7.5m sq during Q2 2023.

- Availability has continued to increase, although our Q3 stats highlight a **deceleration in the volume of stock coming to market**. Availability had previously been growing by circa 4m sq ft a quart since Q2 2022.

- The **volume of grey space coming to market has also slowed**, with total space available by way of sub lease now standing at 7.7m sq ft.

- **Investment volumes breached £2bn** for the first time since the September mini budget during Q3 2022, pointing to the **gradual return of investor confidence and some stability returning to the market.**

- **Rental growth has continued to moderate**, as competitive tension eases. However, persistent **pockets of under-supply are likely to maintain some upward pressure** as we progress through 2024.

Q3 2023

CUSHMAN & WAKEFIELD

ECONOMY & OUTLOOK

Performance Indicators & Commentary

GDP forecast Annual Growth	GVA T&S* forecast Annual Growth	GVA Manufacturing forecast Annual	Annual Online Sales Growth
0.4% (2023) | 0.5% (2024) | 1% (2025)	-3.7% (2023) | -5.5% (2024) | -5.5% (2025)	3.9% (2023) | 1% (2024) | -1.2% (2025)	1.7% (2023) | -5.4% (2024) | -1.2% (2025)

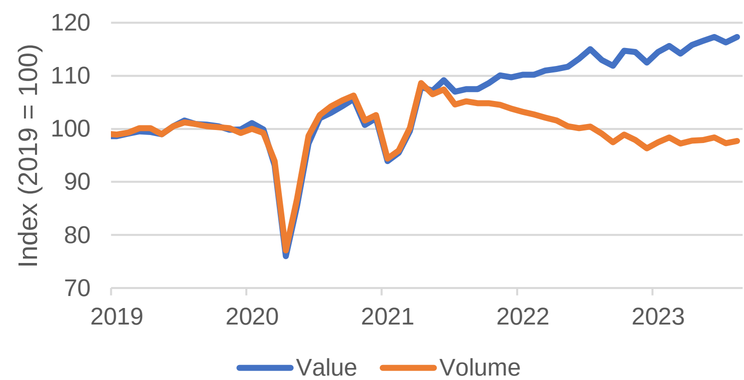
ECONOMY

The inflationary pressures that have been weighing on consumers, and resulted in consecutive interest rate hikes, seems to be easing. CPI rose by 6.7% in August, after a 6.8% increase in July. This has dampened both retail sales values and volumes, and reducing revenues and supply chain requirements for large occupiers. However, the recent pause in interest rate hikes driven by a result of weakening economic data, suggests a change in tact by the MPC and that earlier hikes are now working to slow the economy and spending. Monthly GDP for July saw a fall of 0.5%, following growth of 0.5% in the previous month. The Services and Construction sectors both saw 0.5% falls in the month, while the Production sector fell by 0.7%. Nevertheless, the economy has still grown by 0.2% over the last three months. As a result of previous interest rate hikes it is expected that coming quarters will be typified by low economic growth and a cooling consumer market, which will impact revenues over the short term.

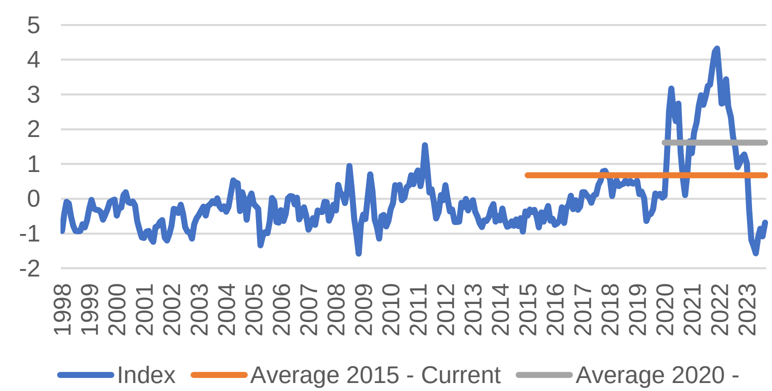
OUTLOOK

The UKs position remains firmly uncertain with a small chance of entering a period of recession. Broadly the outlook for the economy remains balanced and is largely dominated by anticipation of moderate to low economic growth and easing inflation as we look to the end of 2023 and beyond. Optimism can be derived from economic growth (Gross Value Added) within the services, manufacturing and construction sectors which point to resilience within these industries. However, it is largely felt that the effects of tightening monetary policy, despite the rates hike cycle nearing its end, are yet to be felt in full force, and as such recovery will largely be dependent on the transmission of higher central bank interest rates through early 2024. The consumer market is buoyed by cautious optimism, with many retailers showing resilience against tough trading conditions, although this may change as we enter 2024. For many industries 2022 proved to be a significant year for rationalisation and bankruptcies, and it is felt that 2023 may prove to be similar or fall just short. Stability and recovery is tipped to return during the second half of 2024, and its broadly felt a clear pathway to recovery exists.

Retail Sales Value & Volume Indices



Global Supply Chain Pressure Index



*Gross Value AddedTransportation & Storage

Source: Moody’s Analytics Sept 2023, Federal Reserve Bank of New York 2023

NATIONAL OVERVIEW

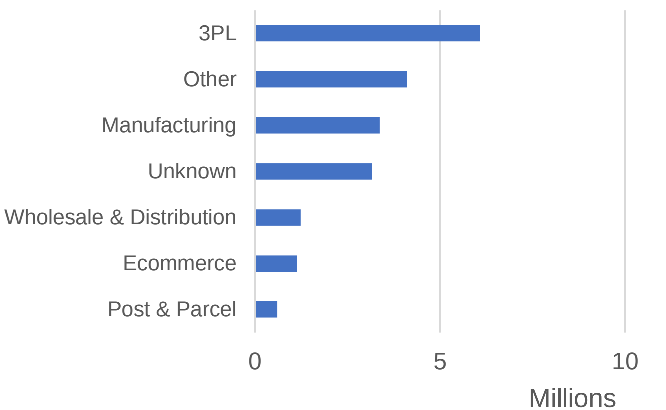
Occupier Market

"Our Q3 stats point to early signs of recovery within the occupational market, with a significant increase in the volume of space under offer. However, we expect the recovery to be drawn out, as occupiers continue to adjust to the economic headwinds of todays market"

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

Take-up	Take-up	Availability	Under offer
6.7m sq ft Q3 2023	21.6m sq ft Q1-Q3 2023	65.2m sq ft Q3 2023	8.5m sq ft Q3 2023
+6.4% Q-o-Q	45.3m sq ft Q1-Q3 2022	+3% Q-o-Q	7.7m sq ft Built stock
-42.4% Q3 23 vs Q3 22	-52% change vs Q1-Q3 22	+33% Q3 23 vs Q3 22	800k sq ft Under Constr.
-18% vs 10yr Q3 Av		+9.45% Q3 23 vs 10yr av	

Take-up by Sector Q1-Q3 (m sq ft)

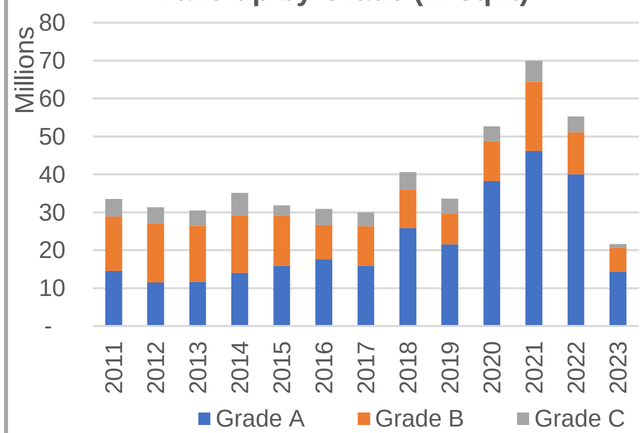


Source: C&W 2023

DEMAND

Occupational demand for logistics and industrial property recovered marginally during Q3 2023, reaching 6.7m sq ft up from 6.3m sq ft during Q2 2023. The slight recovery was driven by an increase in take-up within units of Grade B and Grade C quality, with take-up of Grade A space continuing to account for a smaller proportion of total demand within the market. In addition to a marginal increase in the total amount of space signed for, the total amount of space under offer rose from 7.5m sq ft during Q2 to reach 8.5m sq ft during Q3, pointing to signs of a further occupational recovery through Q4 2023 and early 2024. Occupational demand has also shifted towards smaller sized units, as occupiers delay and deliberate commitments to large schemes. This shift has also resulted in a pause in the drive to quality, owed to the macroeconomic headwinds of today. Take-up of space within units of 50,000 – 100,000 sq ft accounted for 2 million sq ft of total demand during the quarter, an increase of 28% on Q2 and 25% above the 5 year pre pandemic average.

Take-up by Grade (m sq ft)

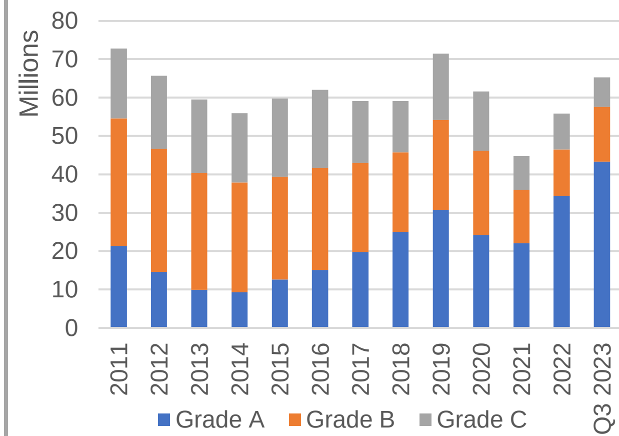


PIPELINE & AVAILABILITY

Although total availability continued to rise throughout Q3 2023 reaching 65.25m sq ft, the quarter saw a marked deceleration in the volume of space being bought to the market. Since Q2 2022 the occupational market had seen availability consistently rise by circa 4m sq ft each quarter. However, Q3s figure of 65.25 million sq ft signalled an increase of just 2.1m sq ft, suggesting a deceleration of growing supply levels. The volume of grey space being bought to the market also decelerated during the quarter, with 7.7m sq ft now available by way of sublease.

A strong development pipeline continues to bring deliver quality stock to the market, as of Q3 2023 37 million sq ft of space is available within speculative developments that have either recently completed or are currently under construction, rising from 33 million sq ft during Q2. Despite this some regions continue to be characterised by persistent pockets of under-supply particularly for larger units of Grade B and Grade C quality.

Availability by Grade (m sq ft)



NATIONAL OVERVIEW

Investment Market

"Investor conviction is remains positive, which is encouraging transaction activity. Although trading conditions remain tough, there are signs of stability month to month particularly at the core end of the market. However, elevated bond / gilt yields and the cost of debt are still impacting pricing models across the sub-sectors and differing asset quality."

Ed Cornwell, International Partner, Logistics & Industrial Cap Markets

Volumes	Volumes	Pipeline
£2bn Q3 2023	£4.9bn Q1-Q3 2023	£1bn Under offer
+21% Q-o-Q	£13bn Q1-Q3 2022	£3.5bn Available
-35% Q3 23 vs Q3 22	£6.6bn Q1-Q3 10 yr Av	
-7% Q3 23 vs 10yr Q3 av		

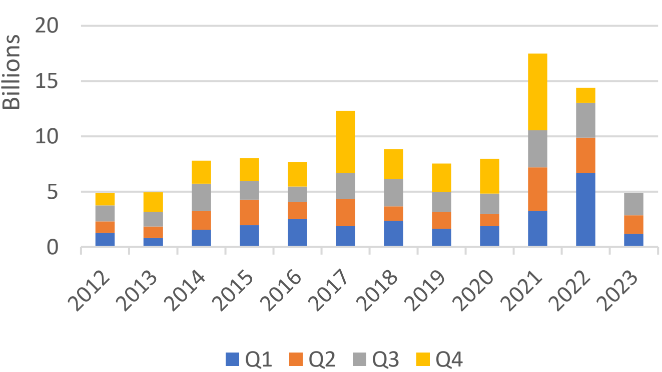
VOLUMES

Improvements in sentiment from Q2 onwards, and a sense of some stability returning to the market resulted in total investment volumes exceeding £2bn for the first time since Q3 2022. A strong Q3 has helped 2023 volumes to recover, now amounting to £4.9bn, which falls inline with Q1-Q3 2019. Although the total number of deals recorded reduced from 62 during Q2 to 56 during Q3, investment volumes increased 21.6% quarter on quarter. The total volume of £2.03 bn also exceeds the five year pre-pandemic average for Q3. Recovery in investment volumes has come as a result of growth in higher value lots trading, with investment for properties with a lot value in excess of £75m rising from £353m during Q2, to some £805m during Q3. Investor conviction in the sector remains as evidenced by the 8 Portfolio trades in the quarter totalling £841m, up from 6 transactions during Q2. There was also a significant boost for single asset transactions, where total investment volume rose by 44%, pointing to sustained conviction for high value core and core + assets.

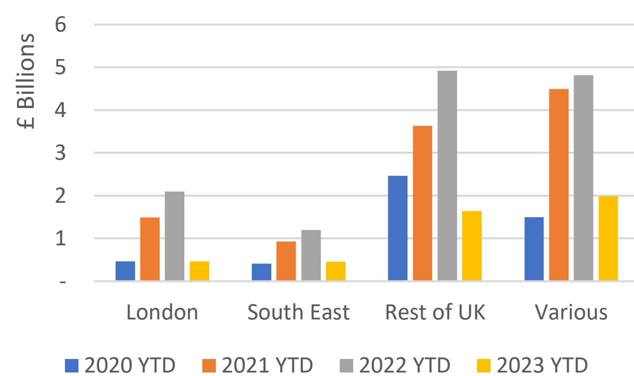
PRICING & RETURNS

Prime headline yields remained stable during Q3 for Industrial and Logistics assets, following the swift re-pricing of assets from H2 2022 onwards. Recent news of inflation beginning to moderate, also points to some stability in the base rate hiking cycle which has aided short term stability for real estate investment. It is broadly felt that the pricing of prime logistics and industrial assets has now done enough to incentivise re-entry of capital and encourage activity over coming quarters, although investment volumes are likely to remain below the levels seen in recent years, as buyers and sellers make continuous adjustments and the marginal gap in buyer seller expectations persists. Anticipated investor returns are likely to fluctuate in the short term due to current bond / gilt yields which will impact pricing models. Athough the outlook for rental growth has begun to moderate, persistent pockets of imbalance within the occupational market will continue to push returns within the sector.

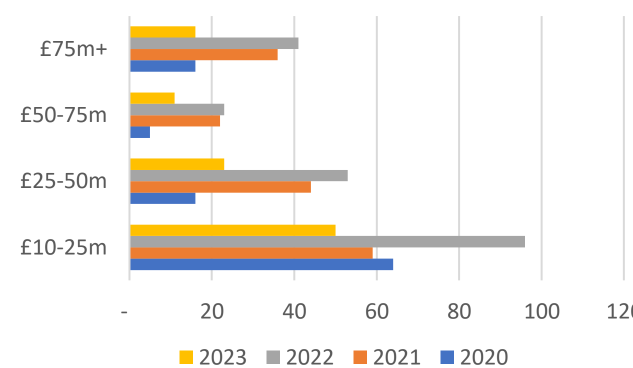
Total L&I Investment (£bn)



Investment by Region Q1-Q3



Number of Deals by Lot Size Q1-Q3



Source: C&W 2023

NATIONAL OVERVIEW

Rents & Yields Trends, Performance

C&W Prime Rent 100+

£11.26
Average

1.7%
Q-o-Q

8.8%
Y-o-Y

C&W Prime Rent 50-100k

£11.96
Average

2.4%
Q-o-Q

10.1%
Y-o-Y

C&W Prime Yield

4.55%
Headline

5.31bp
Average

0bps
QoQ Average Yield Shift

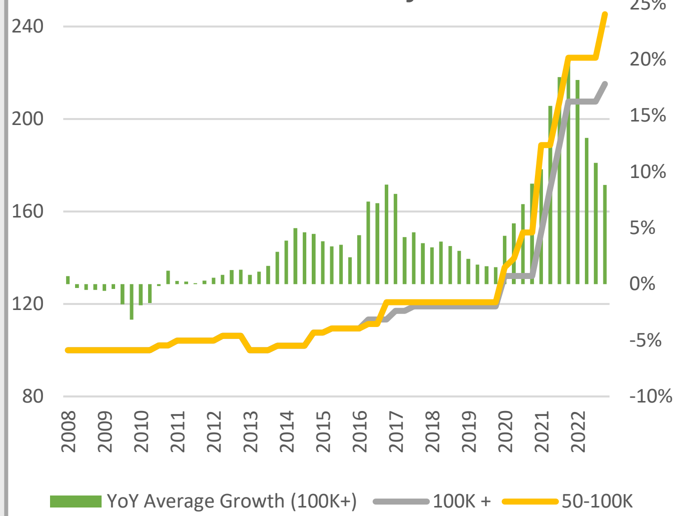
MSCI Total Return (MI%)

-15.7%
Annualised to Sept 2023

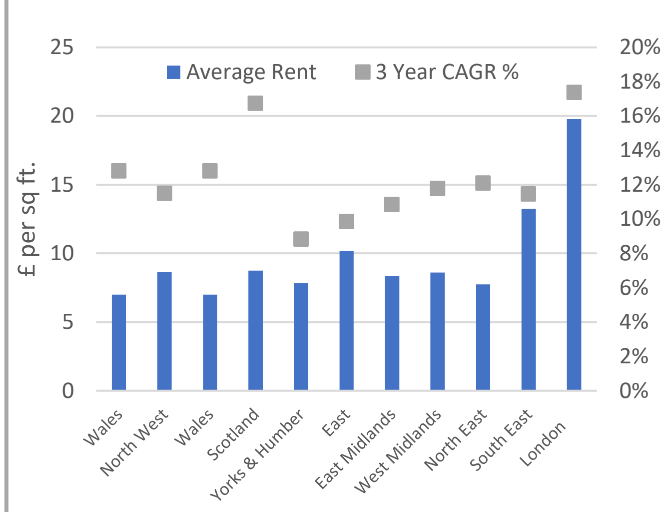
-23.2%
Annualised to June 2023

-21.2%
Annualised to Mar 2023

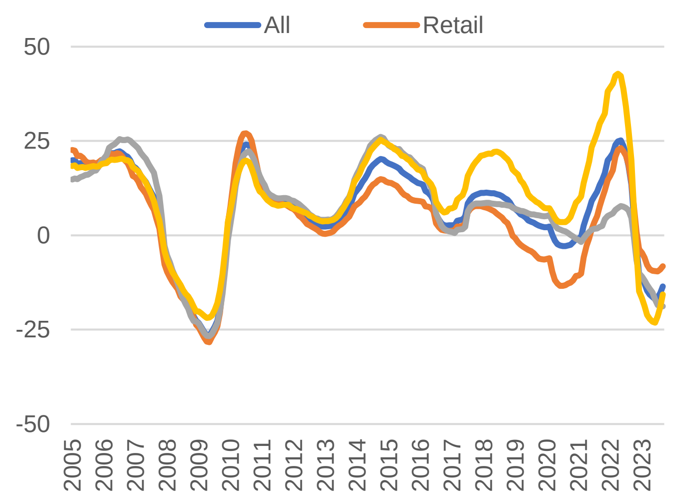
Prime Rental Index by Size Band



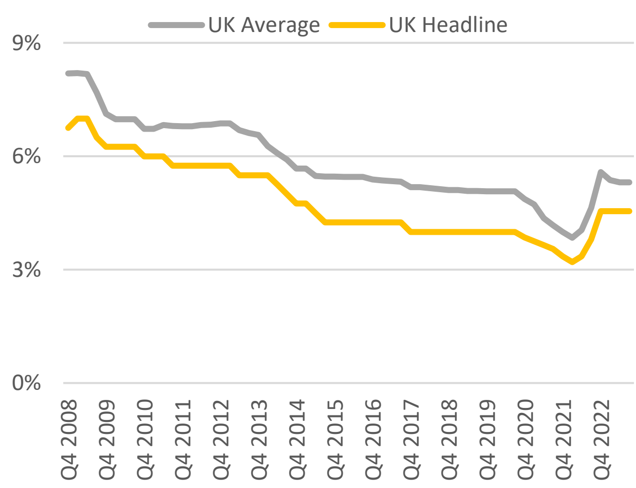
Prime Rents by Region (100K sq ft +)



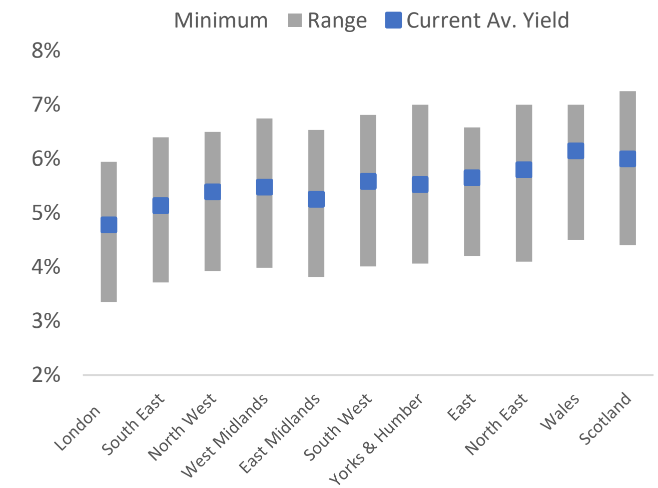
Total Annual Return (%)



Prime Yield by Type



Yield by Region vs 10 yr. spread



Source: C&W 2023

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