Tritax Management's Head of Research Henry Stratton shares insights on the UK's logistics real estate occupational and capital markets:

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1. Occupational demand

- Despite an economic backdrop that's supportive but not giving much lift, we're seeing stable levels of occupational activity – 21.3m sq. ft in 2024 (2023: 22.1 m sq. ft).
- This is because the big drivers in our sector – shifting consumer behaviour, evolving supply chains and the drive for sustainability – remain as relevant as ever.
- With larger companies leading the way, corporates capitalising on these structural trends are generating demand on the back of strong business performance (growing revenues, improving margins, winning market share and developing new business lines).
- This is true across sectors, creating diverse demand:
  - E-comm penetration is growing and parcel companies had a strong end to 2024.
  - Hi-tech manufacturers are investing in their supply chains and require modern, well-specified buildings to facilitate complex processes. These are requirements that might, in the past, have gone offshore. Manufacturers accounted for 28% of demand last year (5.4m sq. ft) up from 11% (2.1m sq. ft) in 2015 (pre-Brexit/ Covid/ inflation/ conflicts/ tariffs).
  - 3PLs were less active in 2024 but still comprised 23% of demand, underpinned by several large lettings, such as Yusen, DSV, Bleckmann, Supersmart and ID Logistics. Our Future Space survey shows increasing automation, better supply chain visibility and fleet transition remain top priorities for 3PLs. High-quality modern space is well-placed to facilitate this.
- New space accounted for 61% of demand in 2024, broadly in line with historic trends. Many corporates are currently rotating into higher quality, often new(er), space that better facilitates modern day supply chains, with a focus on technology and automation as routes to increasing productivity and lowering cost. This is pertinent given increases to labour costs with rises in employer's NI and minimum wage. Net absorption remains positive but not as strong as recent years.
- We're seeing good levels of demand across all sectors and regions, with the Midlands in focus, which accounted for 51% of demand in 2024.

2. Supply, vacancy and rents

- Supply has reset with 14.7m sq. ft of completions in 2024 (down from 30.3m sq. ft in 2023).
- Build to suit activity remains below historic norms as ongoing economic and geopolitical uncertainty weighs on decision-making; the shorter lead-time associated with taking speculatively built space is attractive.
- At 12.8m sq. ft, speculative space under construction is broadly unchanged on a year ago. Similar to 2024, a significant proportion will complete in H1 2025.
- While vacancy (at 5.6%) was flat across the second half of 2024, it is likely to fluctuate a little through 2025 given the timing of speculative completions.
- Headline rents increased across all UK regions (ex. London) in 2024 and MSCI recorded distribution warehouse ERV growth of 5.3%.

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- In contrast to London, which saw exceptional growth in H2 2021 and through 2022, the wider national logistics market continues to see more sustainable (mid-single-figure) growth.
- With nominal rental growth just ahead of inflation, national big box logistics rents remain affordable (especially given the criticality of these building to occupiers' supply chains).

3. Capital markets

- Sustainable rental growth and stable yields have helped underpin a pick-up in investment activity, with £8bn industrial and logistics assets transacted last year.
- Investor interest continues to increase with a deeper pool of bidders for high-quality assets, but pricing discipline remains – no surprise given the external capital market and wider cost of capital.
- Two new entrants completed deals in Q4 2024, reflecting ongoing global interest in the UK logistics market.

Given the positive drivers in our sector, there are many reasons to be optimistic as we look ahead. Demand is healthy with potential to increase. Supply is under control, albeit market dynamics are localised – and vacancy and rental growth will reflect this. The sector is well-positioned to continue to deliver attractive returns. Capturing significant existing reversion alongside future rental growth will underpin income; while capital growth could be supplemented by a degree of yield compression given attractive pricing analysis and increased investor interest.