5 for 2025: five themes shaping UK logistics real estate

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A surprisingly convincing US election result and a tax-raising UK budget, described by the Chancellor herself as a 'one-off reset', ensured a lively news flow in the final months of 2024. Events like these command attention, but as they settle, a return to an analysis of the fundamentals (of market dynamics, asset quality, income growth and pricing) tells a more complete story. Here's what we see:

1. **Corporate quest for resilience, efficiency and productivity drives demand.** 2024 saw corporates coming back into the market to make strategic adjustments to their supply chains. Occupier confidence has built over the year, helping to push deals over the line and bring forward new requirements. At the end of Q3, space-under-offer stood at 14.2m sq. ft (Q3 2023, 11.3m sq. ft). Confidence remains susceptible to challenging events, such as the recently announced change to employers' NI, which has both a direct and indirect cost impact for businesses. Such events, though, may fuel more automation and technology adoption and, ultimately, demand for the high-quality logistics space that facilitates it. This includes from corporates with good access to capital to fund capex, and 3PLs capable of running tech-enabled supply chains, benefitting from additional outsourced demand.

2. **Headline figures hide significant divergence in submarket performance.** 5.3% vacancy, 3.7% growth in headline rents through Q3 2024, and 12m sq. ft under construction speculatively, would suggest market fundamentals are in good, though not exceptional, health. The devil is in the detail, however. While there's a handful of oversupplied submarkets, many have increasingly limited availability. Vacancy in the West Midlands and North-West is back below 4%, for example. For certain building types, supply constraints are often significant (almost half of South-East spec supply is in just four buildings across two locations). In many regions, supply constraints will build through 2025. With healthy demand, rental growth in the best submarkets should once again outperform consensus.

3. **Development economics attractive, but tiered market will continue.** Those with access to a lower cost of capital, or discounted land, and the ability to navigate the post-pandemic demand environment can deliver attractive returns, as strong rental growth has offset higher costs and exit yields. Those without will continue to face a difficult operating environment. As a result, many will remain on the sidelines. Some may be tempted to compromise to help meet required returns, but getting substandard buildings let in 2025 may require greater incentives … and come with (void cost, capex and ESG) health warnings for long-term investors.

4. **Public and private real estate markets continue to evolve, resulting in significant opportunity.** The REIT sector is consolidating; UK pension funds are restructuring, and global PE funds are being pushed to return equity. Corporate-level activity is likely to continue to create investment opportunities through 2025. The good news is that UK logistics real estate looks attractively priced – underpinned by rebased yields, rental growth, and relatively limited long-term capex requirements. Debt roll-overs may be another catalyst, as cheap debt will increasingly expire. While finance is still widely available for the sector, the cost will now be materially higher. However, for those with embedded/growing rental reversion, and in sectors with positive tailwinds, increased income will more than compensate.

5. **Need for supply chain resilience assumed.** While macro events don't tell the whole story, they are part of it – and continue to drive demand as supply chains evolve. Recent years have ushered in a succession of supply chain challenges from Covid to Ukraine-related energy upheaval to Red Sea

disruption to rising (and likely future) protectionism. How will things play out in 2025? Difficult to call. But companies, as always, will remain focused on what they can control. Supply chain resilience will continue to be a priority and generate change/activity in the market. This has been evident within the manufacturing sector, which has accounted for around a quarter of UK take-up in recent years. Maintaining elevated stock volumes (keeping warehouses full), selective reshoring and tech investment will, therefore, all remain top of mind for occupiers of logistics real estate.

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