



**FUTURE
SPACE**

REPORT 2024

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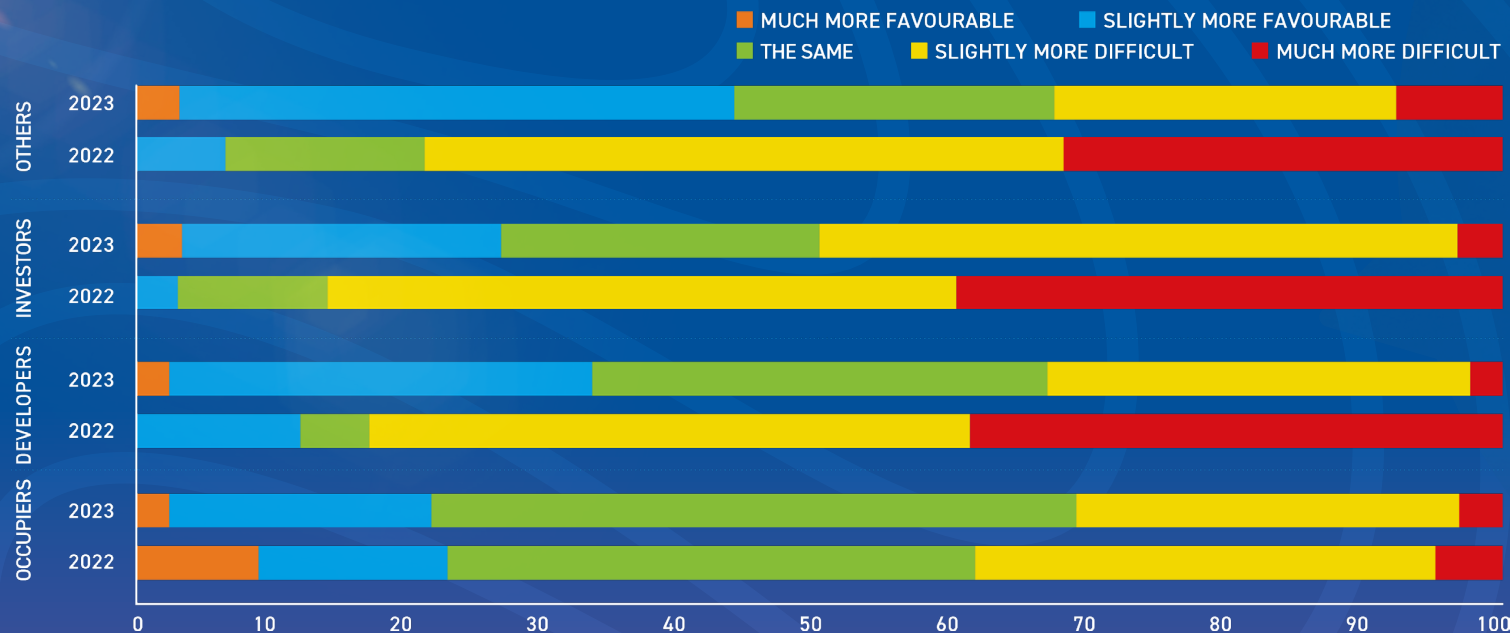


savills



Introduction

How do you view current market conditions?



Welcome to our 7th annual Future Space report from Tritax Symmetry & Savills, in conjunction with our research partner Analytiqa. Previously known as the Industrial & Logistics Spotlight, this report focuses on the view of the year ahead: what do Occupiers, Investors and Developers see as the trends and key factors affecting the future needs for Industrial and Logistics space in the next 12 – 24 months.

The data in this report was collected during the winter of 2023 and was formally launched at the end of January 2024 where we were joined by journalist and broadcaster Robert Peston discussing his view on the geo-political environment for the year ahead. (Click the link below to watch the launch event.) <https://tritaxsymmetry.com/videos/future-space-2024/>

This year we had a record number of responses totalling over 340, providing a robust data set with over 40% Occupier response and 60% split between Investors, Developers and other key roles across the industry. Moreover our Occupier respondents came from a wide variety of sectors from automotive and grocery to parcel delivery, manufactures and online only retailers giving us a broad view of the industry.

Having left behind a challenging 2023 in the real estate markets, Investors will be hoping for more activity in 2024. The highest interest rates in over 15 years and stubbornly high inflation have seen investment and Occupier activity cool in the UK logistics market as the impact of monetary policy drivers starts to filter through the wider economic system.

While manufacturing and construction PMIs experienced some decline, the services sector surged to a six-month high and, whilst we wait for year-end GDP figures, Oxford Economics are suggesting that 2024 will be another muted year with just 0.5% of GDP growth expected. Thus, its an important time to understand Occupier and Investor intentions, whilst gaining insights around the key challenges and opportunities they face.



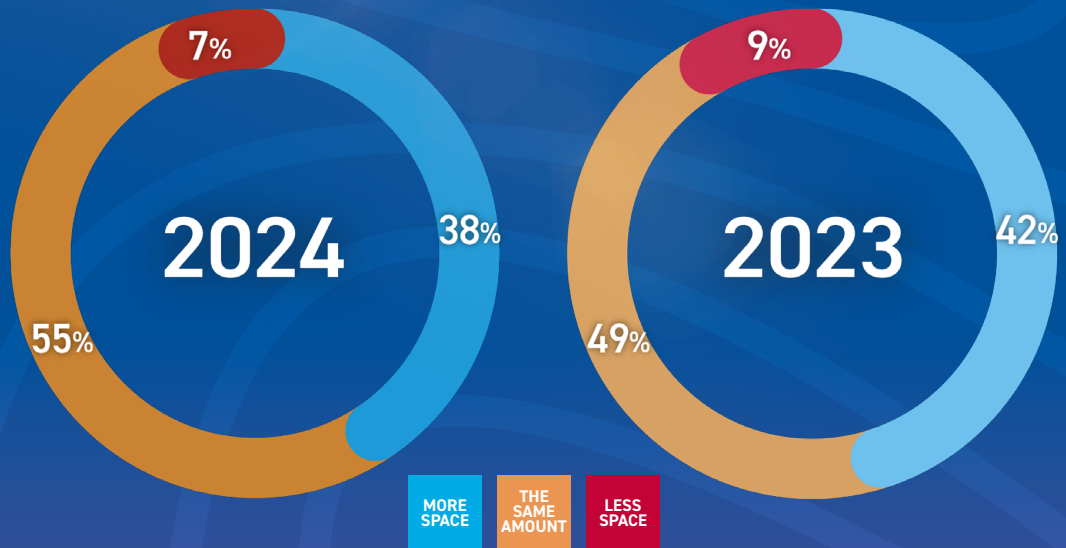
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Occupiers

Do you need more warehouse space over the next two years?



OCCUPIER MARKET IS SHOWING RESILIENCE
55% plan to maintain or increase their warehouse space over the next two years.

Key Occupier concerns

ISSUE	2019	2020	2021	2022	2023
RISING COSTS	2	9	2	1	1
ECONOMIC UNCERTAINTY (E.G. INTEREST RATES, INFLATION)	--	1	6	3	2
AVAILABILITY OF LABOUR	4	7	1	2	3
INCREASED CUSTOMER DEMAND FOR DELIVERY	3	2	3	3	4
END CUSTOMER PRICE ISSUES	8	10	7	9	5
STATE OF THE RETAIL MARKET	5	5	10	5	6
MORE ONLINE PURCHASES	6	2	4	9	7
MANAGING INTERNATIONAL TRADE (INCLUDING BREXIT-RELATED TRADE CHALLENGES)	1	4	5	8	8
AVAILABILITY OF WAREHOUSE SPACE	6	6	8	7	9
NET ZERO/ESG	--	--	--	--	10

1 = MOST IMPORTANT 10 = LEAST IMPORTANT

The survey highlights the challenging macro-environment, with rising costs and economic uncertainty the most pressing concerns for Occupiers right now. These macro pressures are likely to be part of the reason why UK logistics take up falling to 29.1m sq ft, the lowest level since 2017. However we should see this a regression to the mean as this is still 12% above the pre pandemic 10 year average. Indeed headline rents have continued to grow and 38% of Occupiers plan to require more space over the next two years.

This reconfirms that logistics buildings are critical infrastructure for Occupiers' supply chains and the ongoing need for greater supply chain resilience and flexibility. We see this in the impact of trends such as the shift to online or omni-channel retailing and higher stock holdings: 25% still expect to increase the quantity of stock held. Given

recent events in the Middle East and its potential effect on the international supply chain this looks astute.

Aligned with these trends companies still intend to enhance their supply chains further with technology investments, greater corporate-level network visibility and the reduction of CO2-intensive transportation key priorities. When asked what technologies will impact their supply chain over the next five years, 70% identified improving stock visibility (e.g., RFID etc), 65% decarbonising supply chains, 61% warehouse automation, 57% wearable technology and 57% electric vehicles.

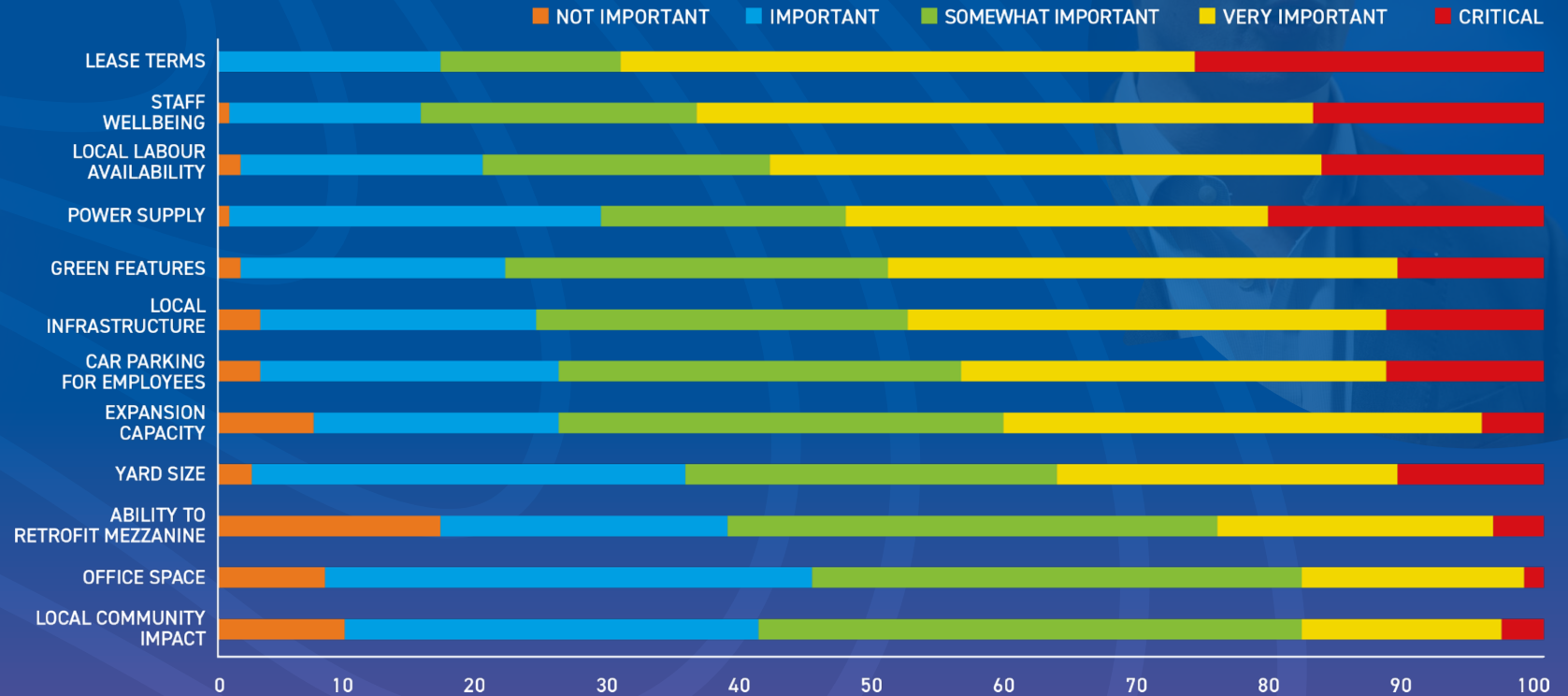
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Occupiers

Rate the following warehouse/real estate features in terms of their importance to your operation

New warehouse requirements will, of course, be driven by the growth of business but other factors such as the consolidation of networks (29%), customer pressure/influence (24%), expansion into new sectors/services (24%) and upgrades of units to meet ESG requirements (20%) are all additional drivers of future demand.

The Midlands and South East remain the top destinations for Occupiers requiring new warehouse space, with 35% expecting to require Big Boxes (100,000sq ft – 400,000sq ft) and 30% Mid Boxes (50,000sq ft – 100,000sq ft).



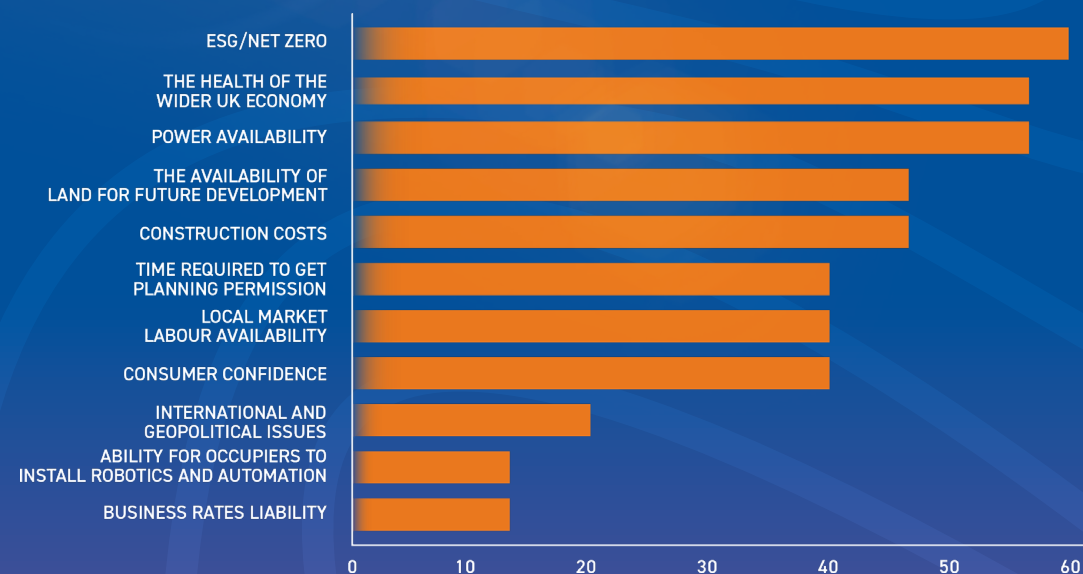
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Investors

ESG moves to the top of the pile for the investment community

How important are the following wider industry issues when considering new industrial and logistics investments?



Amongst the investors that responded, 27% were UK institutions, 23% were overseas investors, 7% were banks, 17% were REITs and 27% were other investor types.

Pricing aspirations are the most important factor for investors when deploying capital, potentially explaining their negative outlook on business conditions. Investment activity in 2023 was suppressed by gaps in pricing expectations between purchasers and vendors, so unsurprisingly, this is the number one factor affecting new investment decisions this year. This is followed by Rental Growth and Occupier market conditions, reflecting the importance of market fundamentals to investors.

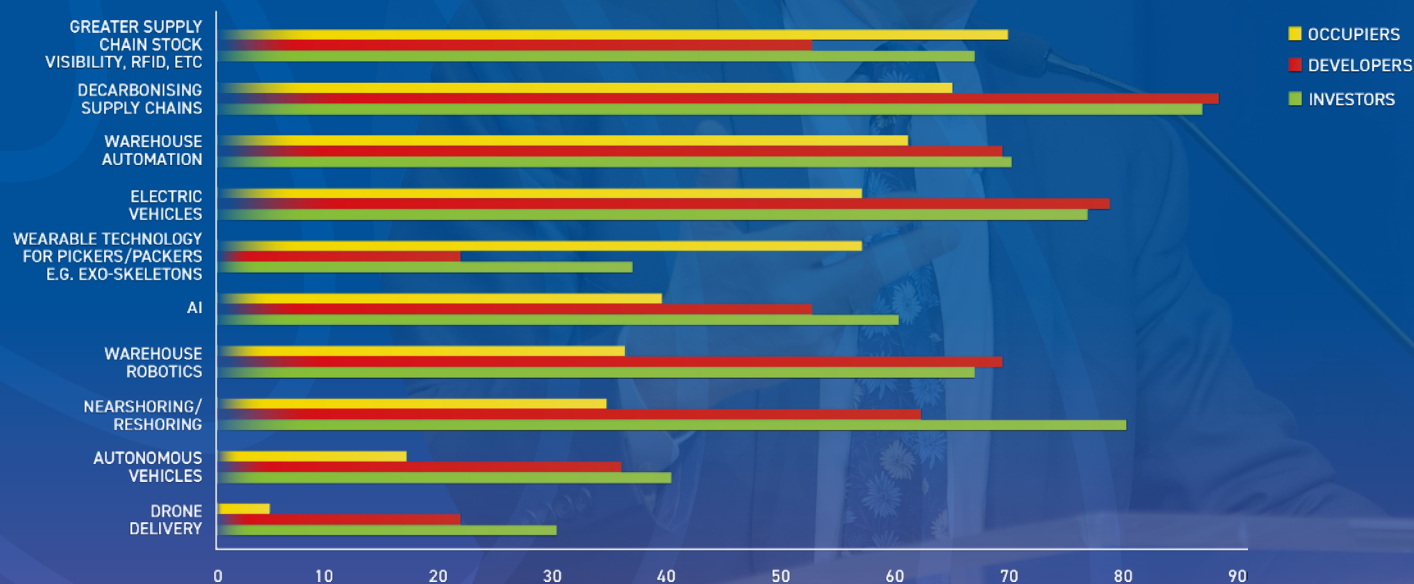
Investors rank ESG/Net Zero as the most critical wider industry issue, with 60% considering it to be 'very important' or 'critical'

issues when considering new investments. Whilst this is at odds with Occupiers its likely Investors recognize the increasing influence of ESG on market dynamics, occupier preferences, and overall asset value, making it a priority in their strategic decision-making process.

Yet, aligned with Occupiers, Investors recognise the health of the wider UK economy as significant factor affecting logistics investments as capital markets are squeezed by inflation and interest rates. Perhaps most interesting is power availability as the joint second factor, aligning with Developers, in recognising that the UK's constrained grid network, particularly in areas where logistics developments are planned, significantly affects the delivery of new schemes. That this now on high Investors list of concerns should demonstrate that this is a significant bottle neck for the industry.

70% of new Innovations will require more warehouse power

What tech or theme will have the greatest impact on the supply chain over the next 5 years?



When considering future technological impact, there are similar themes of congruence and divergence as to what is going to affect the industry the most. 79% of Investors see nearshoring/reshoring as a key theme whereas on 36% of Occupiers agree. Alternately only 37% of investors see wearable technology as potential game changer compared to 57% of Occupiers. Perhaps this is indicative of Investors typically having a longer-term view of market trends whereas Occupiers, given the current economic climate, are more short to mid-term focused.

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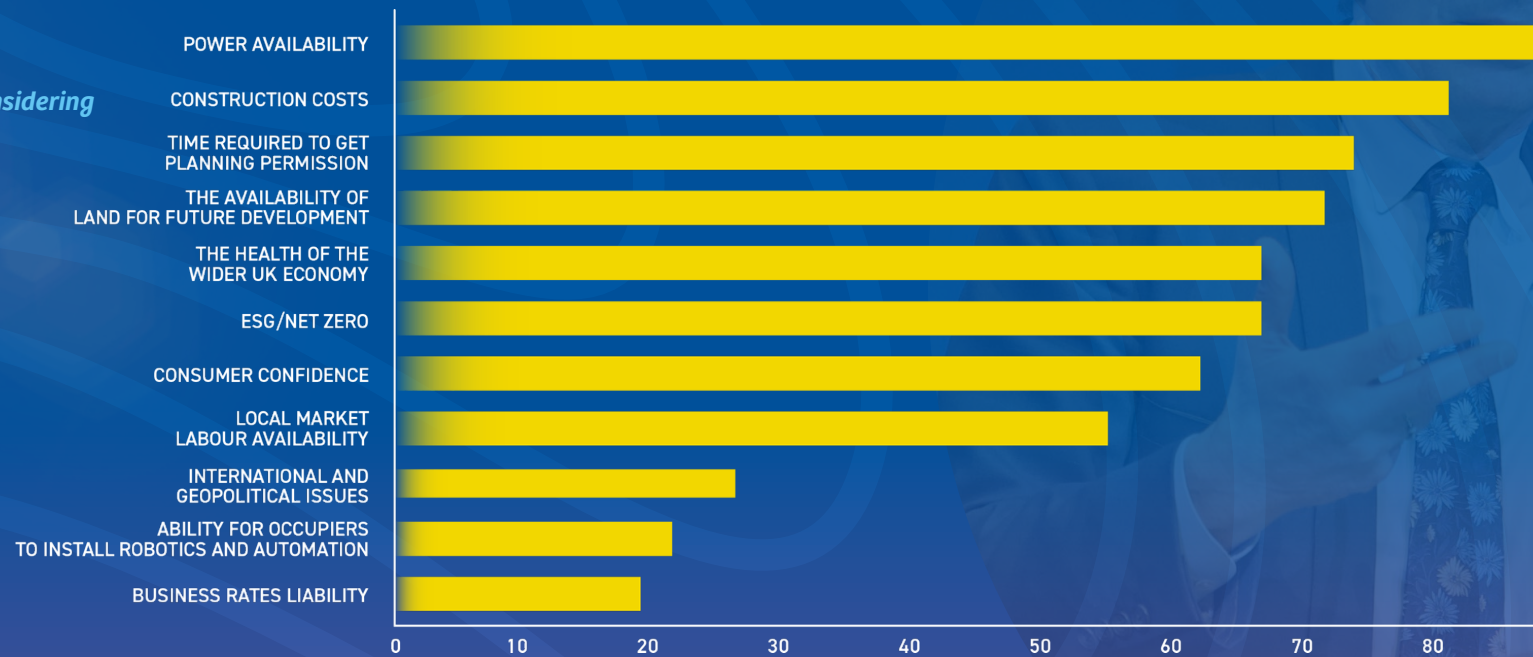




Developers

Power is replacing planning as developers main concern

How important are the following issues when considering new Industrial and Logistics Developments?



In recent years, rising rents and declining yields have made the industrial and logistics market attractive to investment and development. This inevitably led to increased competition for resources needed for development and, as such, before 2022, the lack of potential new sites and managing cost-price inflation were the two most significant challenges for Developers.

Power, both access to it and achieving an adequate supply to their schemes, is the primary concern for Developers with 60% saying its critical issue. As we see Industrial and Logistics buildings modernise, much of the new technology required for automation, robotics and in the

future EV's all require more power and meeting this increase is proving difficult.

Whilst construction costs were the second highest critical issue, there clearly is a convergence with the third and fourth factors: the time to achieve planning permission and the availability of land for future development both with 33% of Developers citing it as critical. This has been an ongoing concern and was debated at length in last years panel. Hopefully there is welcome reform to come as we head into the election later this year as both Labour and Conservative propose new ways speed up planning to enable growth.

Developers appear unlikely to increase the tempo of speculative development this year: with 43% expecting to develop the same quantity of stock and 24% who plan to develop more. Developers typically expect to develop big box units (43%) in the 100k-500k sq ft size band. Mid-box and multi-let units account for 31% and 24%, respectively. Again another sign of regression to mean of pre pandemic levels.

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Take away insights

OCCUPIERS REMAIN IN POSITIVE MOOD AND SENTIMENT IS IMPROVING - 93% EXPECT TO TAKE MORE SPACE

COST PRESSURES AND WIDER ECONOMIC UNCERTAINTY ARE THE MOST IMMEDIATE OCCUPIER CONCERNS WHICH IS RESULTING IN DRIVING EFFICIENCIES AND RESILIENCE IN THEIR SUPPLY CHAINS

ACCESS TO, AND ACHIEVING INCREASING LEVELS OF POWER, LOOKS LIKELY TO BE ONE OF THE KEY FACTORS IMPACTING DEVELOPERS, INVESTORS AND OCCUPIERS OVER THE NEXT DECADE



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