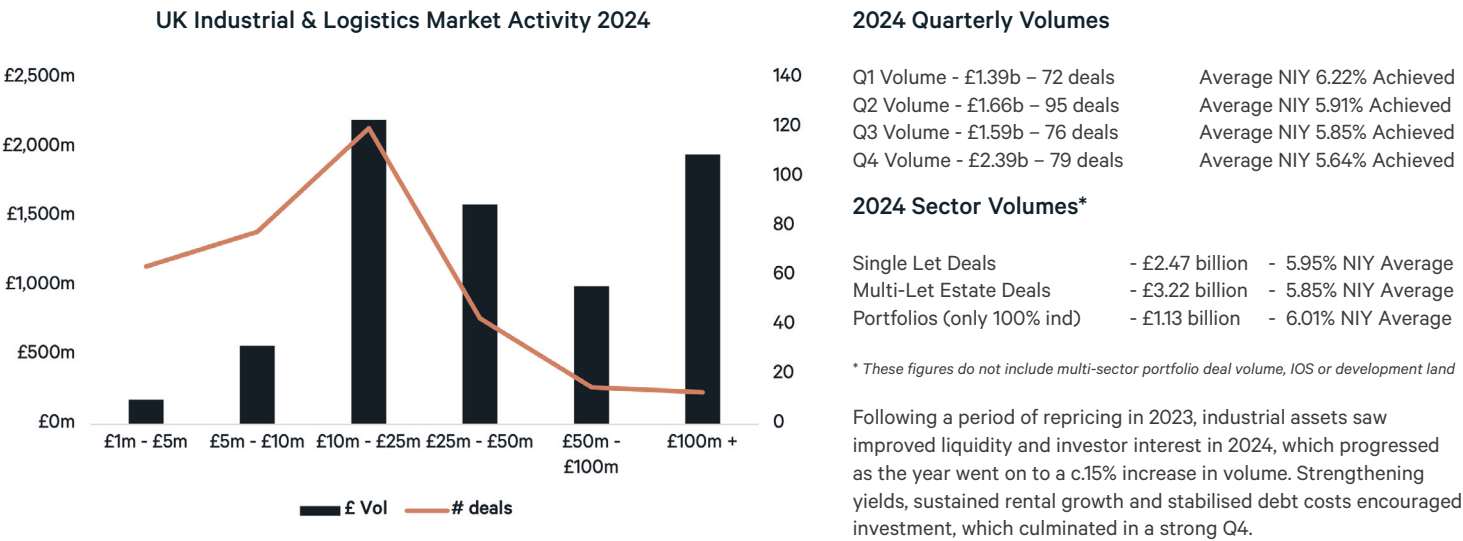


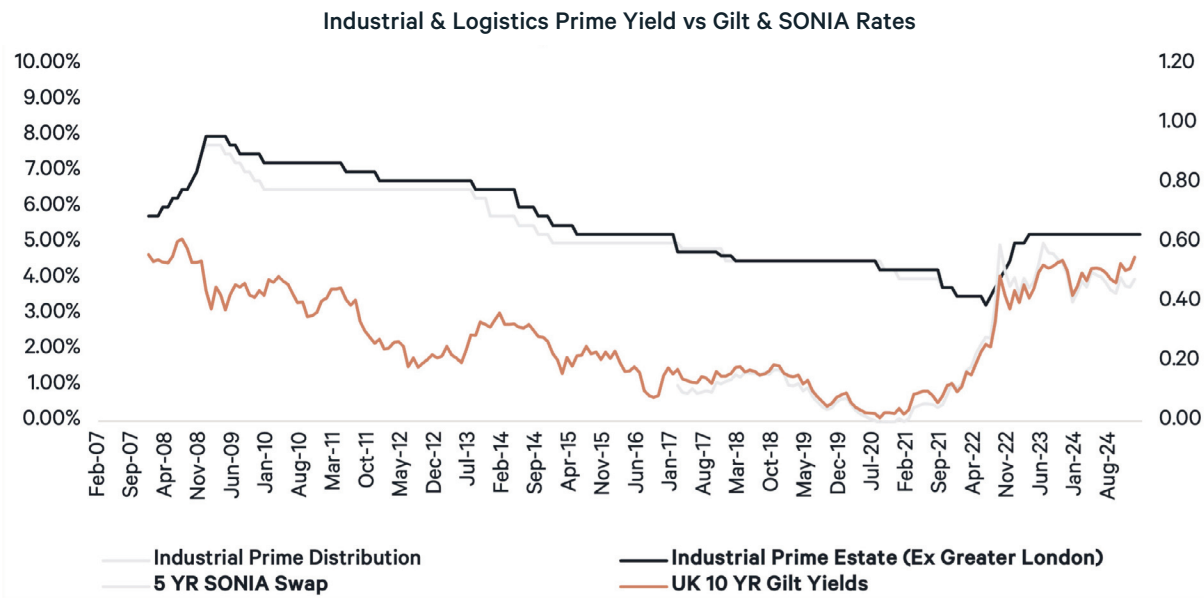
# The Kimmeridgean

## UK Industrial & Distribution - 2024 in Brief



We anticipate investors will take stock of the market in the early part of 2025 taking into account recent rises in debt costs, and where the “risk free” gilt rates are, and impact of recent government fiscal policy. This is likely to be another year where careful re-calibration of investor requirements will be needed. On a more positive note, there appears to be light at the end of the tunnel on a macro perspective with the global conflicts seeming to be on the road to determination, the EU making reconciliatory noises with the UK, and more pressure on the Bank of England to reduce the base rate.

Higher debt rates will continue to fuel a greater spread of pricing across investor strategies, but the considerable weight of capital targeting the sector, in particular on core markets, combined with the relatively limited development over the past 18-24 months, and the sustained rental growth picture, we anticipate that industrial focussed investors will continue to invest strongly over 2025.



Source: Kimmre & MSCI

Key Themes in Industrial Commercial Property for 2025

Sector Outperformance

The industrial and logistics sector is expected to outperform relative to other sectors in rental growth, supported by robust occupier demand and a tight supply pipeline. It is critical to note this is location and unit size specific, whereby pockets of the market are experiencing over-supply relative to demand drivers. That said, we expect these properties to be absorbed in as occupier confidence returns. We have seen greater enquiries in the first few weeks of the year, which reflect positively.

Limited Supply

While availability rates have risen to c.7% across the UK due to returning second-hand stock, speculative development remains muted due to a combination of rising development costs, planning delays, and economic uncertainty, keeping prime stock scarce. As stock remains scarce, sustained rental growth in good quality second hand space should continue.

Efficiency in Supply Chains

Occupiers continue to prioritise de-risking and decarbonising supply chains, pushing demand for high-specification logistics spaces, albeit C-suite decisions have been delayed over the past 12-18 months as a result of macroeconomic headwinds. Key decisions from players like Amazon, who have taken 1m sq ft in Kettering, are predicted to jump start these decision processes.

Looking Ahead

Speculative development is expected to grow modestly, although developers remain cautious about overcommitting in the face of uncertain demand.

Industrial Open Storage (IOS) Consolidation

The IOS market continues to present a key opportunity for value add investors, driven by the robust rental growth whereby rents are estimated to have increased nationally by just under 25% in the past 12 months alone. This rental growth has been propelled by historic low rents, constrained supply, and increasing occupational demand from a diversifying range of industries as covered storage become more gentrified (and expensive). The investment market remains relatively specialist in nature as specific matters, in particular planning, present critical hurdles for investors.

Data Centre Expansion

With increased reliance on AI and cloud computing, data centres are becoming critical, further fuelling demand for prime industrial land.

Sustainability Pressures

Tenants increasingly prioritise energy-efficient properties to reduce operating costs and align with corporate ESG goals. Current estimates indicate over 70% of commercial properties fail to meet Minimum Energy Efficiency Standards (MEES). Upgrading properties to meet MEES standards present a problem for some investors due to the capital investment required, which have increasingly become a trigger for investors to consider sales, to then recycle the capital into more modern properties.

Improved Liquidity

The industrial sector remains the most liquid sector of the commercial property market. Increased participation from diverse global investors is driving this, with strong interest across the risk spectrum, including value-add and core-plus opportunities. Core buyers were particularly active in the final half of the 2024, which we forecast will continue into 2025 despite the high yields being achieved on the “risk free” rate.

Two Tier Market

There is an increasing polarisation of pricing for core investments over core-plus / value add product, the latter being driven in the main by debt backed buyers who need to service the initial interest.

Investor Focus

Investors will continue to prioritise multi-let assets due to their income and covenant diversity creating relative resilience in volatile markets, however the strong showing in the multi let sector relative to recent years is also indicative of the numbers of investors willing to sell.

“Inch Wide, Mile Deep”

There has been greater scrutiny on property fundamentals across all major buying strategies, with commonalities in investor strategy creating stronger interest in particular properties which meet these fundamentals, and very little interest where this is not the case.

Build-to-Core Strategies

Investors are exploring development projects to enhance access to the tightly held industrial market, particularly for multi-let logistics assets – however the market is highly competitive, in particular in the South East.

There May be Trouble Ahead...

Anecdotally there have been more instances of pressure on tenant’s bottom lines resulting in default. This risk is predicted to be higher in the short term due to the government’s fiscal policy, and the rises to energy cost, the minimum wage and employer’s National Insurance contributions. Accordingly, due to the relative delay with occupier decision making, investors are less bullish on letting void periods, and we believe that there will be more scrutiny on tenant covenant strength relative to rental outgoings.

Green Shoots

Whilst it is still early into 2025 we have seen an uptick in occupier sentiment, with large commitments from blue chip companies such as Tesco, Amazon and Nike on key sites. We expect to see more occupiers looking for grade A space with better operational and energy efficiency continue to grow through 2025.

Great Expectations

We anticipate more large scale portfolio transactions and recapitalisation of funds, along with mergers in 2025. Will investment volumes increase over £9 billion? We believe so.

To speak to one of the Kimmre Industrial & Logistics team, please contact:

Richard Peace

+44 (0)20 7952 6104  
+44 (0)7870 649 217  
richard.peace@kimmre.com

Matthew McGrail

+44 (0)20 7952 6102  
+44 (0)7870 555 725  
matthew.mcgrail@kimmre.com

Peter Winfield

+44 (0)20 7952 6101  
+44 (0)7778 159 402  
peter.winfield@kimmre.com

Mike Needham

+44 (0)20 7952 6295  
+44 (0)7903 136 242  
mike.needham@kimmre.com

Russell Nimmo

+44 (0)20 7952 6100  
+44 (0)7835 664 470  
russell.nimmo@kimmre.com

Jody Smith

+44 (0)20 7952 6100  
+44 (0)7971 588 334  
jody.smith@kimmre.com