Kimmre

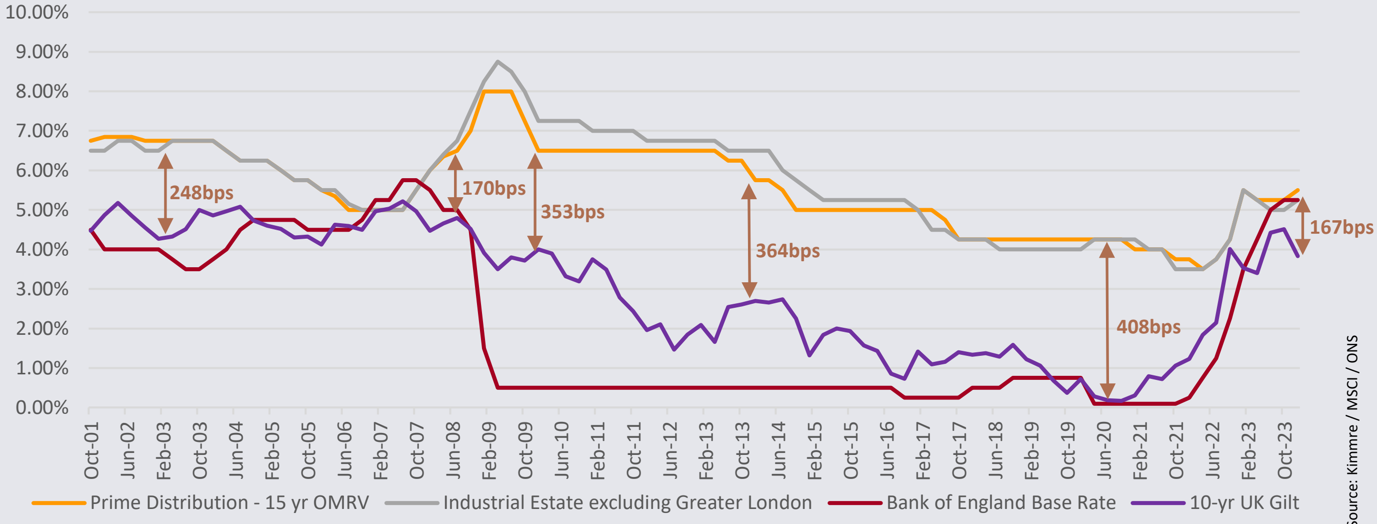
Thought leadership from the Kimmre team

INDUSTRIAL & LOGISTICS EDITION

The Kimmeridgean

Q1 2024

Kimmre: Prime Quarterly Industrial Yields Oct 2001 - Jan 2024



Source: Kimmre / MSCI / ONS

"History Doesn't Repeat Itself, But It Often Rhymes" – Mark Twain

Yield spread between 10-year UK Gilts (UK Gilts) and Prime Distribution Yields (Prime Yields)

Time Span	Yield Spread
2001-2004 (Pre-GFC)	198bps ave
2009-2021 (Post GFC)	350bps ave
Current	167bps

- Applying the post-GFC yield spread to predicted UK Gilts at Y/E 2024 (+/- 25 bps of 3.00%) indicates **there could be a softening pressure on Prime Yields despite swing in investor confidence - however this is unlikely to occur**.
- Key differences between 2007/8 and 2024 are **weight of capital targeting UK Industrial market and the occupational market dynamics.**
- **Many investors have already factored in the anticipated UK Gilt fall into Prime Yields** and are taking the **opportunity to acquire stock in a less competitive environment.**

Kimmre Viewpoint

- Prime yields will remain stable in the short term, and will not start compressing until 2025. We believe industrial will be the sector of choice for 2024.
- We anticipate **greater spread between prime and secondary UK industrial yields** as debt backed buyers account for wider debt margins.
- **Investors will need to continuously recalibrate their outlook throughout 2024** due to impact of geo-political events on markets – namely elections & conflicts.

TRENDS

Build Costs Beginning to Ease?

Substantial build cost inflation developers faced over the previous few years have shown signs of stabilisation/dropping.

Multi-Let's New 'Lease' of Life

Sentiment continues to remain buoyant around the multi-let sector due to the potential to reposition the asset in the short-term providing stronger reversionary potential.

Closing Shop? UK Retail Funds

Interest from retail investors has declined rapidly due to repeated suspensions on the funds. This could signal the end to daily dealings.

Unlocking Potential: Industrial Open Storage

IOS is becoming institutionalised with a flood of capital targeting the sector. However, investors are finding the planning constraints are slowing time horizons to deal execution.

OCCUPATIONAL & DEVELOPMENT MARKET

Tenant Migration – Businesses that do not need to be in high growth rental areas within the M25 are moving to more economical locations in the Home Counties, albeit rents are increasing in these areas.

South East Industrial Supply – Multi-let and mid box industrial supply has risen but remains low against the 10-year average with rental growth expected to be c.7% for 2024. Tenant demand has slowed with many adopting a "wait and see" approach on the economy.

Suppressed Speculative Development – Rising borrowing costs, construction costs and inefficiencies in the planning system has suppressed development. We expect an increase in development in 2024 with inflation and construction costs showing signs of easing, however this will be tempered with reduced investor appetite for speculative development/funding.

Multi Storey Buildings – Many interested developers and investors are waiting to see how the likes of Bloom Developments and SEGRO fare with their new multi storey concepts. House view is that they will be a success in 2024.

OUTLOOK H1 2024

Market Sentiment
Encouraging signs regarding inflation and interest rates will provide greater certainty and stability to investors and occupiers alike.

Distressed Sales
Due to higher rates and refinancing risk distress remains and will loom over many investors for the next 12 months.

Supply Chain
Investment in supply chain to continue due to ongoing disruption caused by inflation & wars in Ukraine/Middle East.

Valuation Adjustment
Book values have undergone adjustment but further adjustments between bid-ask gap to narrow further.

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