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MULTI-LET

The definitive guide to the UK's multi-let industrial property market

July 2024

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MARKET OVERVIEW

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Multi-let **take-up** is down by over a third compared with pre-pandemic rates, unlike bigger box industrial counterparts that are back to the pre-covid baseline. However, the lack of pre-lettable new development, the erosion of suitable vacancy and unrecorded regears are as much the reason as more circumspect occupier demand.

There is ongoing **rent** momentum though ERV growth has slowed to single digits. Previously stronger segments further ahead in the cycle, such as Inner London, have underperformed peripheral segments recently. Rental reversion is widespread but being captured. High development cost has intensified prime/secondary rent polarisation but rising best quality secondary rents will continue to erode this gap.

Low **void rates** have only marginally ticked up since the rate of new development is so low. Broad scarcity of stock has maintained a high **retention rate** after expiry and a record low **default rate** in 2023 despite rising company insolvencies. Regional void rates are effectively bumping along the bottom. Inner London is the exception, and the void rate has climbed considerably, raising affordability questions. Meanwhile, an encouraging acceleration in **EPC** refurbishments across the UK has reduced overall grade D multi-let space and increased EPC grade B.

In the **occupier outlook,** void rates will stop rising this year and remain well below the peaks of previous cycles. We continue to forecast a moderate U-shape nominal rental growth profile over 2024-28 with the greatest potential for good secondary and a narrower differential between geographical submarkets.

There is more depth to **investment** demand and prime yields tightened 25bps+ in H1 2024. Reversionary multi-let assets (notably good secondary) are currently more sought after than long income index-linked single-lets. Low transactions should pick up as more buyers and sellers re-enter the market. Medium term industrial returns should trend upwards and outperform other property sectors.

£16.31psf ▲
ERV, London & the South East Q1 2024

£8.18psf ▲
ERV, Rest of UK Q1 2024

1.4% ▼
Record low UK multi-let default rate, 2023

9.25% ▲
Forecast UK multi-let void rate peak in 2024

4.3% ▼
Forecast UK multi-let average annual rental growth rate, 2024-28

11.1% ▲
Forecast UK multi-let average annual total return, 2024-28

CONTRIBUTORS

Multi-let is Gerald Eve's unique and market-leading syndicated study that provides detailed industry-reference insight into what would otherwise be an opaque sector.

The results are built from the bottom up, using individual tenancy information on units between 500 sq ft and 50,000 sq ft in size.

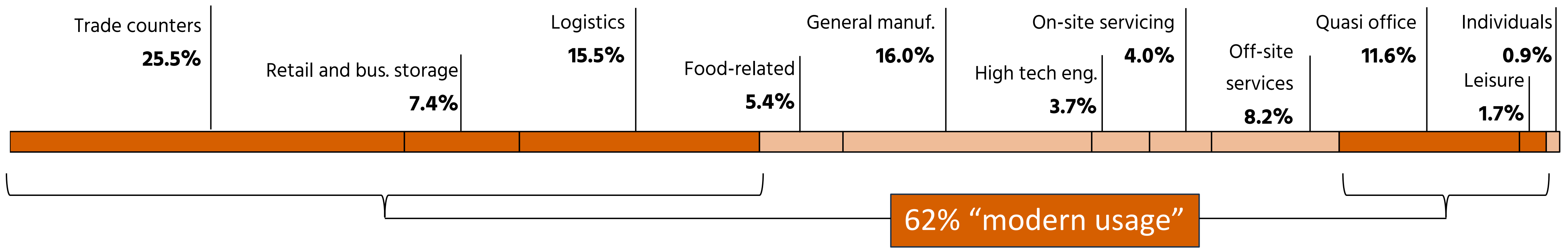
The information spans **16 years**, covering many tens of thousands of individual assets over that time, with a sample size of **147 million sq ft**, valued at over **£27bn** (see Dataset and Definitions for further detail).

Many thanks to the leading UK multi-let industrial property investors who contribute their data to make this important study possible.

MULTI-LET OCCUPIERS - FOOTPRINTS

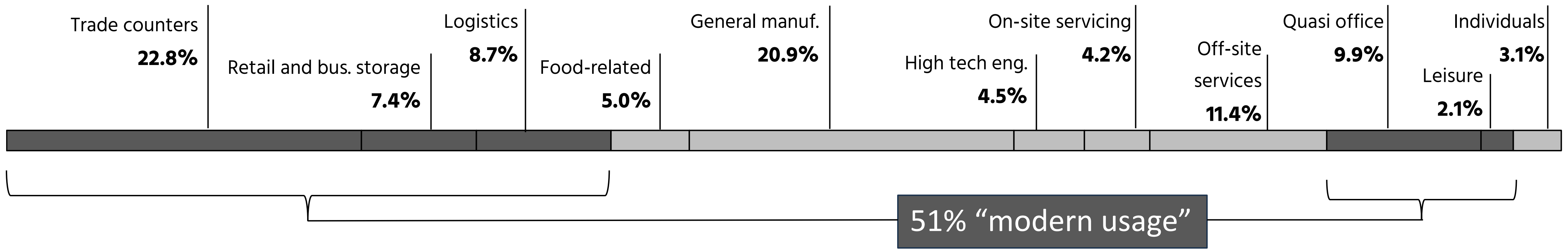
See new take-up analysis overleaf

London & the South East



Rest of UK

"Modern usage" defined as the less traditional, more gentrified activities of retail and logistics, quasi-office and leisure.



Multi-let occupied floorspace by company size (see here for definitions)

Multi-let industrial is well established as a top performing UK property segment. Key to multi-let's success is its transition from traditional industrial use to a diverse, modern and flexible asset class. This coupled with continued very limited new development provides a real defensiveness and resilience for the occupier market that continues to appeal to investors.

Multi-let units in this research are between 500-50,000 sq ft in size and have some similarities to larger industrial units, either in supporting common kinds of business activities or as a trickle-down support, such as logistics or manufacturing. The segment also benefits from its own unique offering and can host quasi-retail/office/leisure activities such as trade counters, legal, finance, public sector and other professional services, data centres, breweries and bakeries (perhaps with a public bar or café), Q-commerce and dark kitchens, gyms, florists, soft play, even dentists or hairdressers and a wide variety of other micro businesses.

After a rapid period of gentrification over 2012-16, the proportion of stock in "modern usage" has remained stable at around 61% in London & the South East and 51% in the rest of the UK. London & the South East is characterised by a greater proportion of logistics occupiers, notably in Greater London units over 25k sq ft where logistics account for 35% of the market. Food–related occupation, while relatively low nationally, has a footprint of over 17% in Inner London units under 25k sq ft. This has eased a little over the past year, however, in line with softened Q-commerce requirements.

More peripheral UK markets have a high proportion of SME tenants, notably in the North East where nearly 20% of multi-let space is occupied by firms with 10 or fewer employees. Meanwhile London is dominated by large national and multinational occupiers.

MULTI-LET TAKE-UP

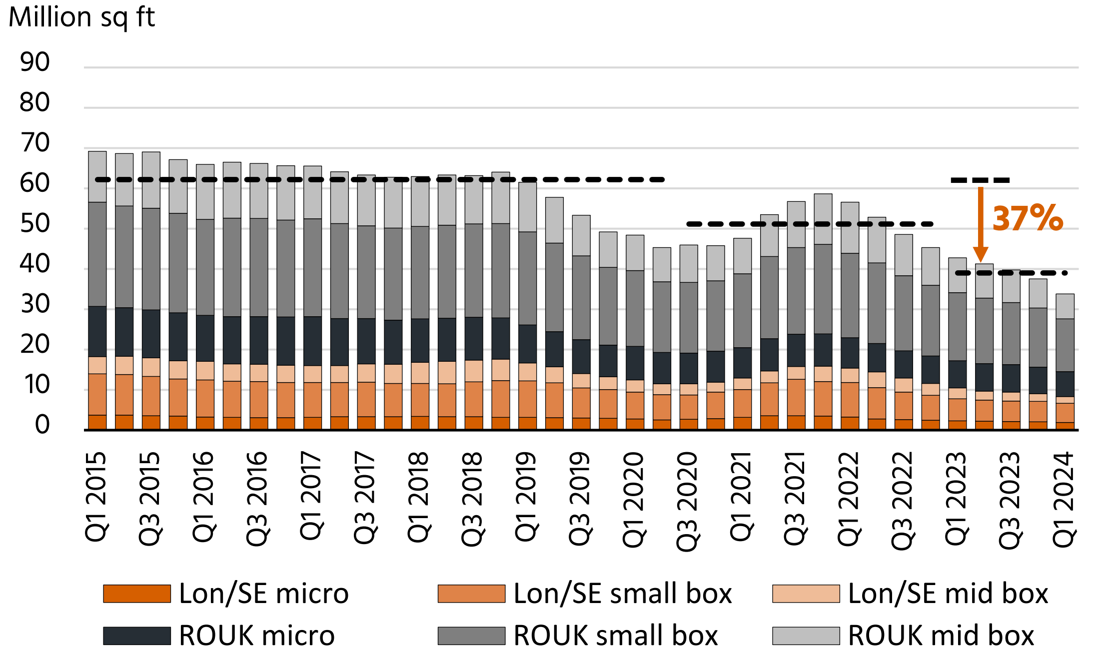
The recorded volume of sub-50k sq ft multi-let lettings is a similar magnitude to the over 50k sq ft lettings featured in our Prime Logistics research. However, the trends before, during and post-pandemic are quite different. Bigger box transactions trended at 47m sq ft pre-pandemic. Pre-let and speculatively-built take-up over covid increased the rolling annual rate by around 57% - topping out at over 90m sq ft in late 2021 and early 2022. This was driven not so much by an increased number of transactions but an increase in the average individual size of transaction. The so-called “mega-shed” units of 500k sq ft+ that typically account for 12% of take-up increased to 40% of the total over covid. Post-pandemic take-up has broadly returned to baseline.

In contrast, multi-let take-up trended at a stable 62m sq ft pre-pandemic, though this had already begun to fall over 2019. There was a small pick-up during covid, though this was nevertheless at an average rate some 18% below the previous period, and there has been a subsequent further reduction in 2023 and 2024. Recorded multi-let take-up post-pandemic is around 37% lower than pre-pandemic.

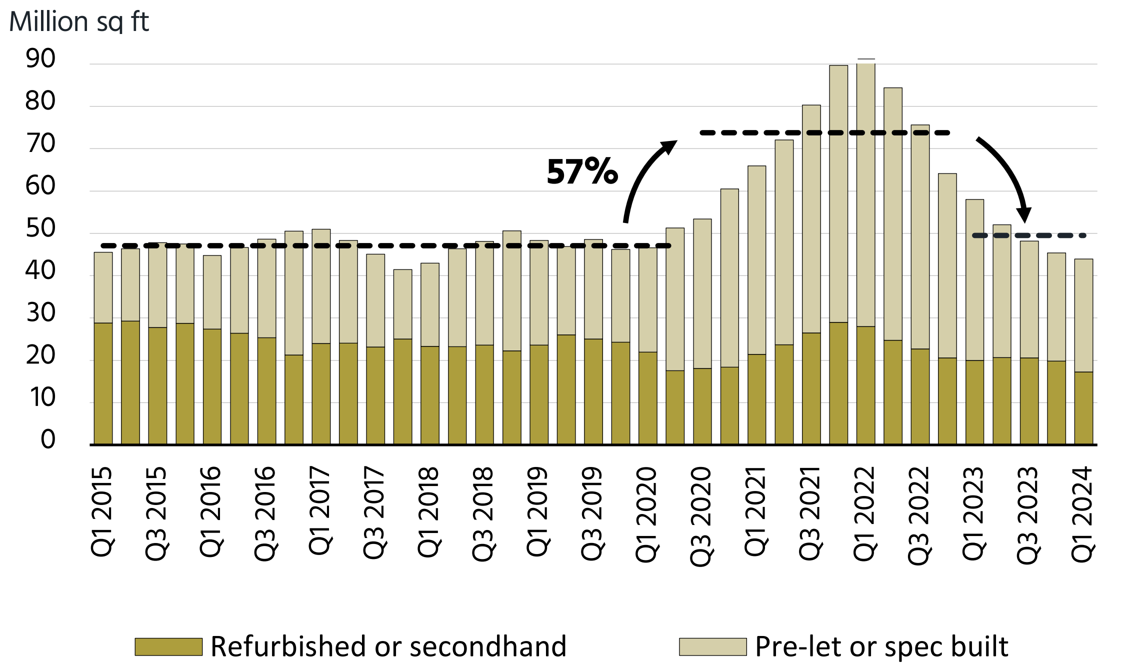
There are several possible reasons for this. Firstly, during the high inflation and recessionary economic backdrop of rising insolvencies mired with geopolitical uncertainty in 2023 occupiers clearly became more hesitant and circumspect, particularly in the final quarter. However, viewings have increased in H1 2024 and enquiries are generally of a better quality. Getting terms agreed is time-consuming, in part due to the education process on how much market rents have increased for occupiers coming back to regear or attempt to relocate.

The wider take-up trend is arguably more reflective of the inability of multi-let occupiers to target new development as compared with their over 50k sq ft counterparts. Indeed, the bigger box trend for refurbished/secondhand space is similar to multi-let. Moreover, dwindling multi-let availability will have compounded the issue, with fewer vacant units to let and more incumbent occupiers regearing where they are (with this potentially not recorded as take-up).

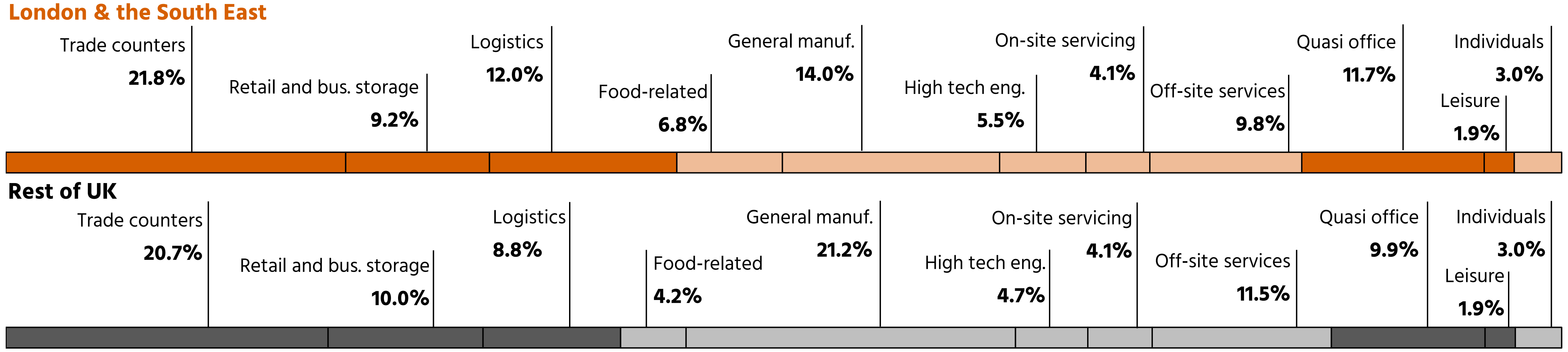
Multi-let rolling annual take-up by unit size and major region
Source: Gerald Eve



Over 50k sq ft UK industrial rolling annual take-up
Source: Gerald Eve



5-year average take-up distribution by business activity and major region
Source: Gerald Eve



MULTI-LET OCCUPIERS – BUSINESS SECTOR OVERVIEW

TRADE COUNTERS: The largest individual segment in multi-let continues to be the mainstay of occupier demand. After a sustained period in wait-and-see mode, trade counters are back in the market to some extent. Many will still seek lease renewals, but replacements are being sought for space that is no longer working (typically being too small or in some cases insufficient EPC credentials).

LOGISTICS: An integral part of the industrial market clustered around the UK's densely-populated urban centres. Structural e-commerce tailwinds continue to support parcel & post occupiers. However, the proportion of online spend has returned to its pre-pandemic trend and strong take-up over recent years means operations are mostly catered for and well represented across key centres.

FOOD-RELATED: Q-commerce was the disruptive new entrant in recent years, rivalling logistics occupiers to establish networks with last-touch depots in premier locations. The sector has now matured, and the retrenchment from the UK for some operators (such as Getir) has eased overall requirements for additional multi-let space.

GENERAL MANUFACTURING: This longstanding traditional activity in multi-let has been crowded out to some extent but continues to have the second largest footprint after trade counters in many UK regions. Demand for smaller industrial units is supported by increased take-up in the bigger boxes in 2024 across key UK manufacturing regional hubs.

HIGH-TECH ENGINEERING: The more specialist end of the production industries in multi-let occupies a smaller and typically more expensive footprint. Occupier demand has been buoyed in recent years by pharmaceutical R&D, and through technological advances in the automotive industry and aeronautics. An acceleration in the use of AI is likely to provide a boost in the coming years.

ON-SITE SERVICING: A diminishing component of the multi-let occupier footprint, certainly in the institutional portfolios. MOT centre operators now account for only low single digit percentages of floorspace. The business model for these types of tenants is under threat as automotive technology moves on and multi-let rent affordability becomes more of an issue.

OFF-SITE SERVICES: This segment includes vehicle & equipment hire along with activities related to the construction sector. It is a challenging period for construction, reflected in its 40% average share of UK company insolvencies. However, there has been limited passthrough to multi-let and units have not come back to the market with any regularity.

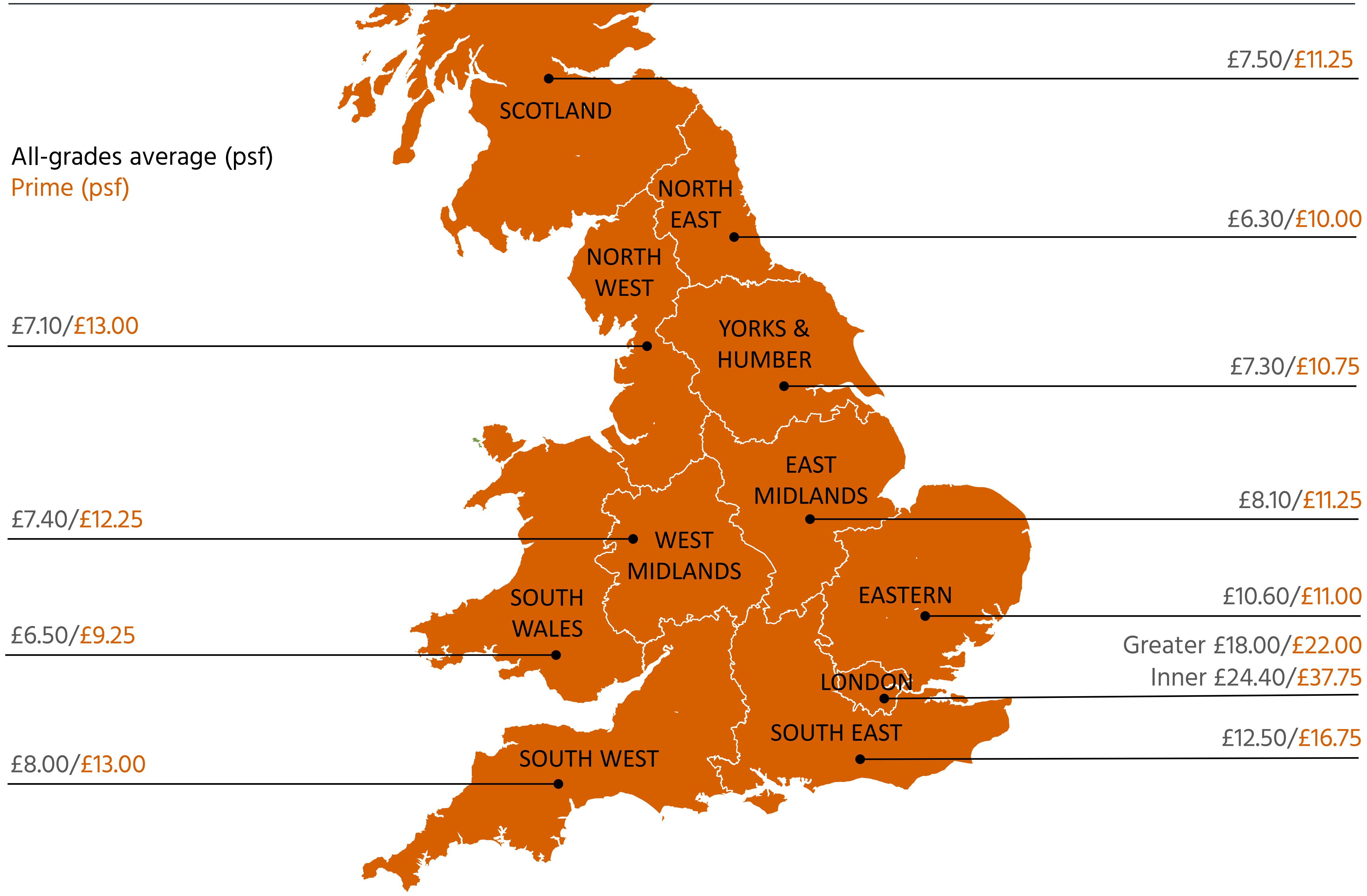
QUASI-OFFICE: This segment can include any type of office use, for example public sector, legal, finance and more broadly the creative industries. The diversity of demand and the flexibility and relative affordability compared with traditional offices gives this segment real defensive resilience. Data centre use provides another significant opportunistic strand of future demand.

LEISURE: The occupier footprint is relatively small and tends towards health and fitness when nearer urban centres and child-friendly play and/or sports such as karting in more peripheral locations. Occupiers that rely on discretionary spend are under pressure currently and the default risk is higher than several of the other multi-let use types.

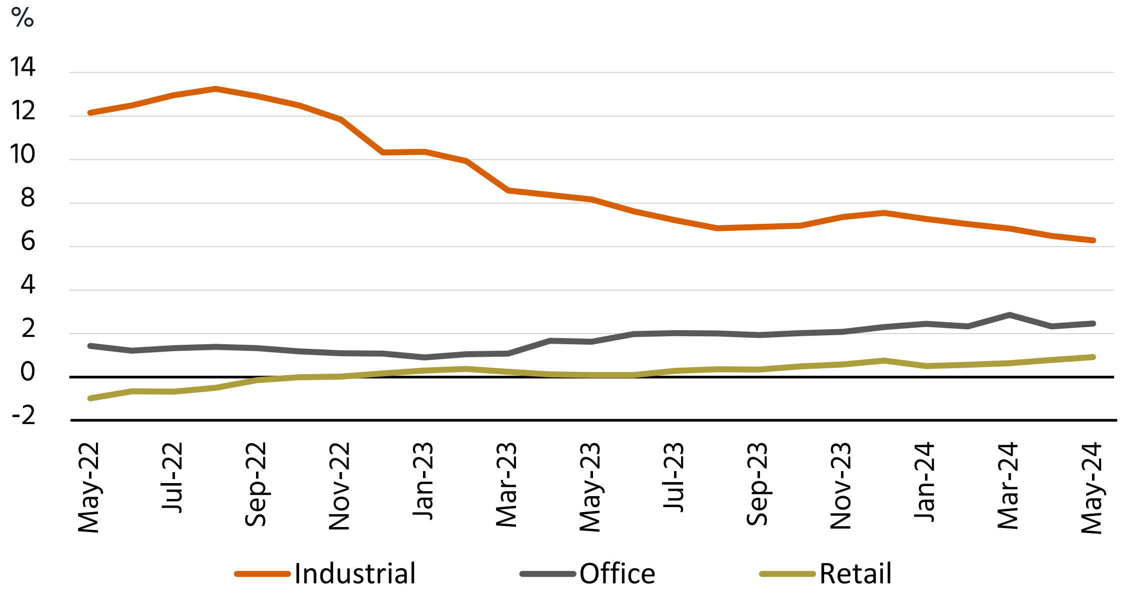
INDIVIDUALS: These micro business tend to represent the smallest component of multi-let occupier demand. However, some pockets remain quite prevalent in more peripheral locations outside of the South East in sub-5,000 sq ft units. The current unpredictability of economic activity coupled with high input cost inflation and strained borrowing affordability puts these tenants at high risk.

INCOME – TOP LEVEL ERVs

Prime and all-grades market rents by region, Q1 2024
Source: Gerald Eve



All-grades annual rental growth by sector
Source: MSCI



Industrial annual rental growth on the MSCI measure has fallen back to mid-single digits, which is around half of the rate of the recent peak of the market in 2022. But it continues to be the case that Industrial has far stronger rental growth than comparator major property sectors and is the only one with continued momentum.

At the prime end of the market some rents are still edging up but many are currently relatively stable, notably in the South East. Prime rents are determined by the heightened cost of development and thus represent only a small proportion of the market (and occupiers that are willing and able to pay the premium). Most multi-let occupiers occupy secondary and refurbished space. Rents in this part of the sector are more freely subject to market forces and the better-quality secondary rents have continued to rise and erode the large gap with prime.

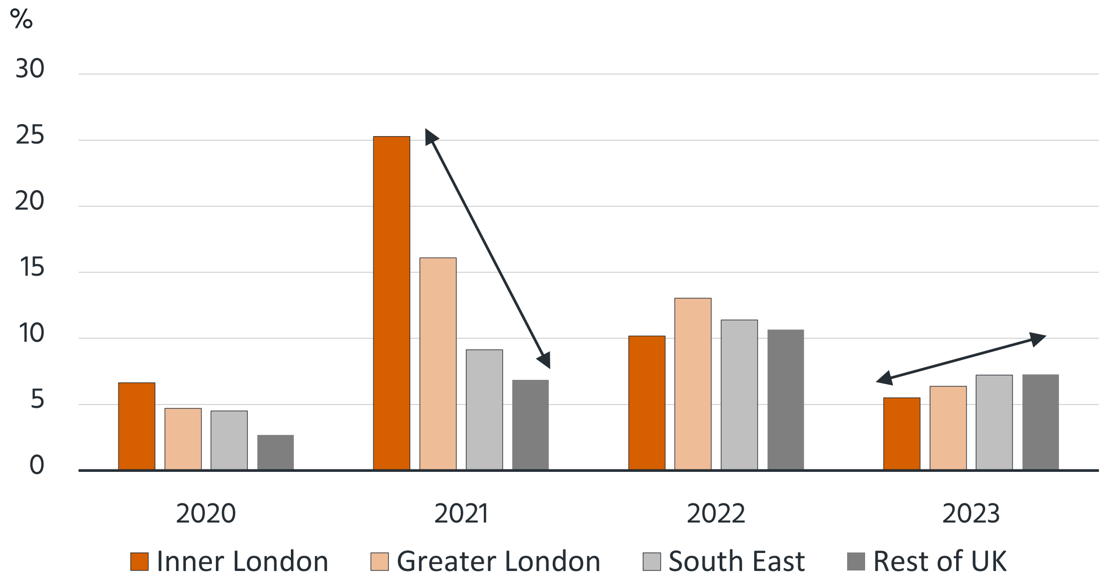
INCOME – ERV IN MORE DETAIL

See overleaf for various detailed rent metrics

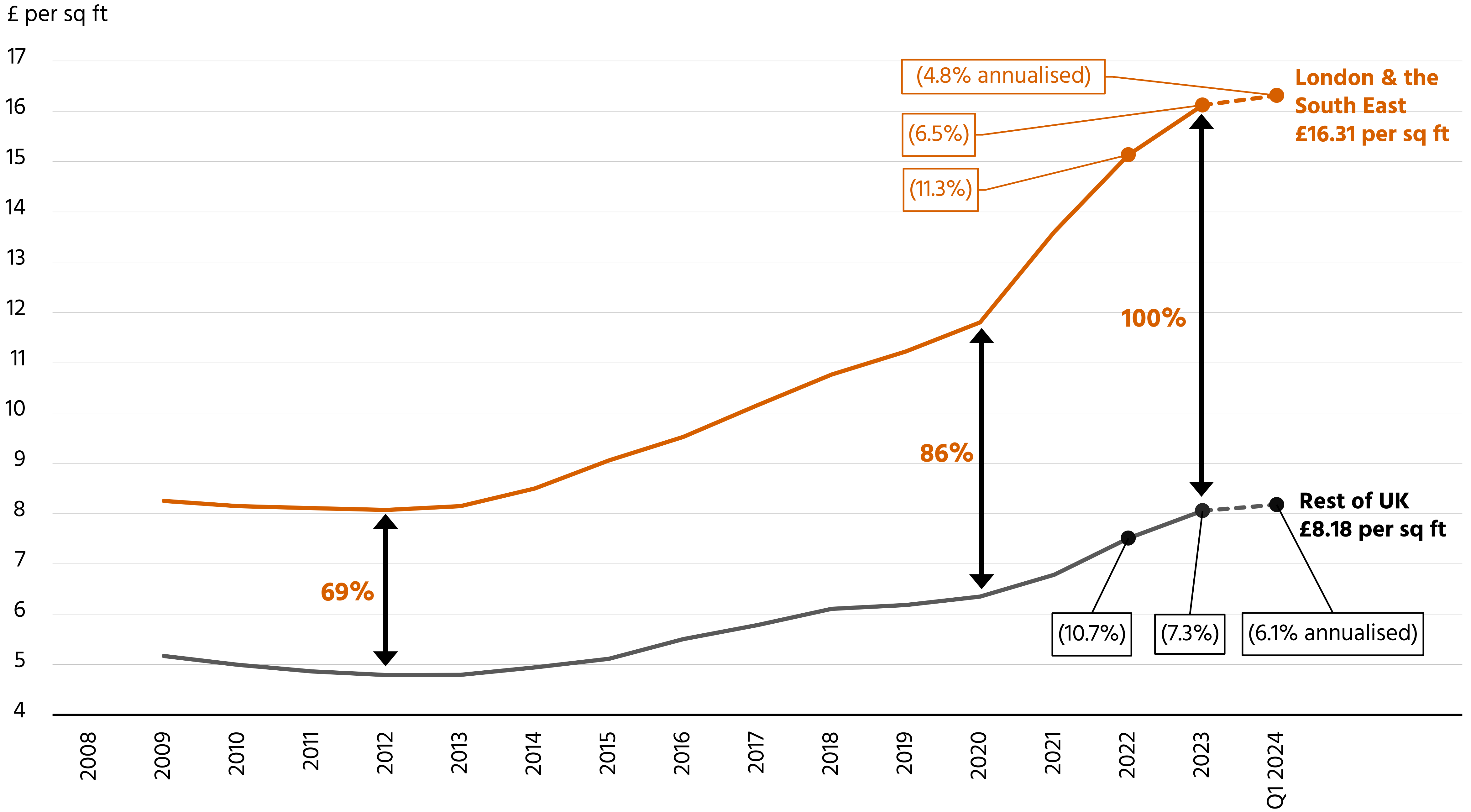
As with MSCI data, the Multi-let study ERV growth slowed considerably in 2023 and into 2024. The stronger segments in London that are ahead in the cycle slowed the most while traditionally weaker segments outperformed in 2023 and caught up somewhat. ERV growth in the regions outside of the South East outperformed in 2023 for only the second time on record (previously in 2016).

Significant reversion is widespread but has now peaked and is being captured in some places (e.g. London), which is a positive indicator for affordability. As previously mentioned, the polarisation of prime over the rest of the market stepped up in 2021 along with reversion and this was still very elevated in 2023. This is especially the case in Inner London where none of the floorspace in the study sample was valued at the £40 psf prime headline rent level. This reflects the thinness of the prime market (and potentially presents a development opportunity).

Multi-let ERV annual growth rates
Source: Gerald Eve



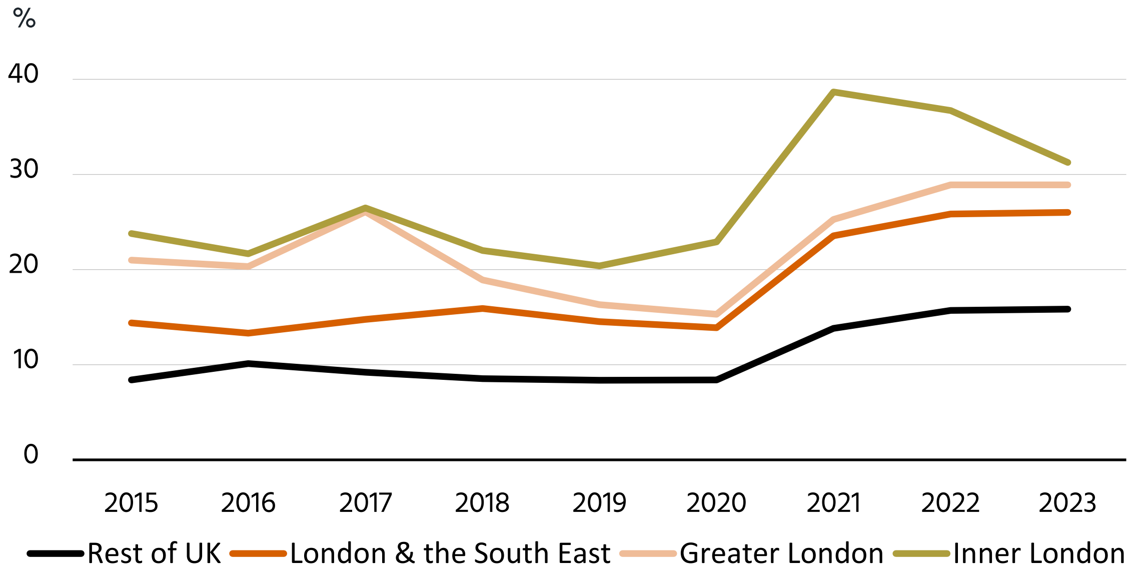
Multi-let ERVs by major region (annual growth labelled in brackets)
Source: Gerald Eve, MSCI



INCOME – DETAILED METRICS

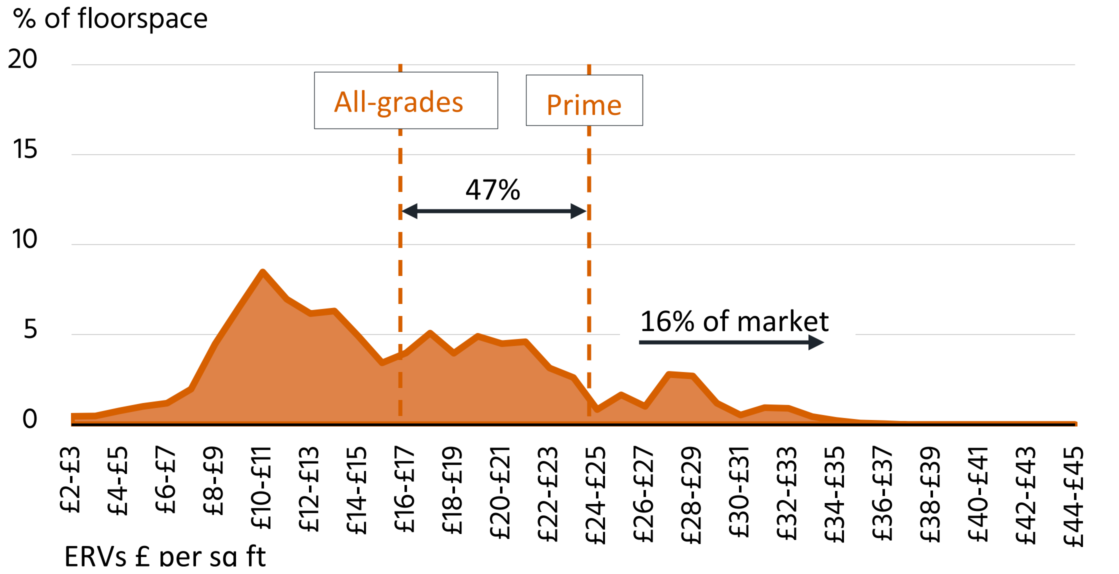
Multi-let reversion (ERV and passing rent) by region

Source: Gerald Eve



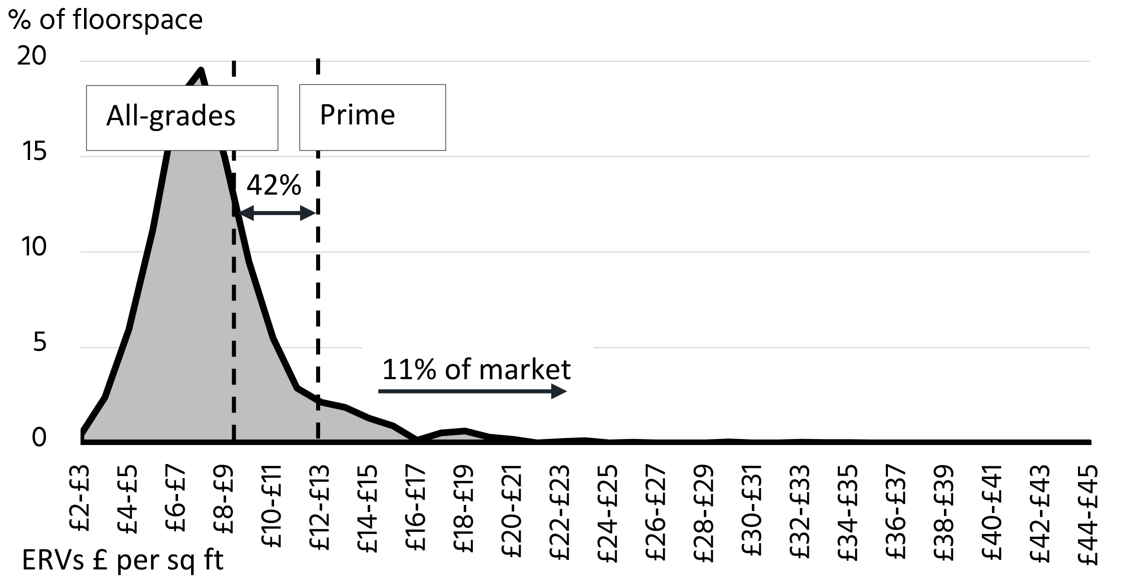
London & the South East ERV distribution

Source: Gerald Eve



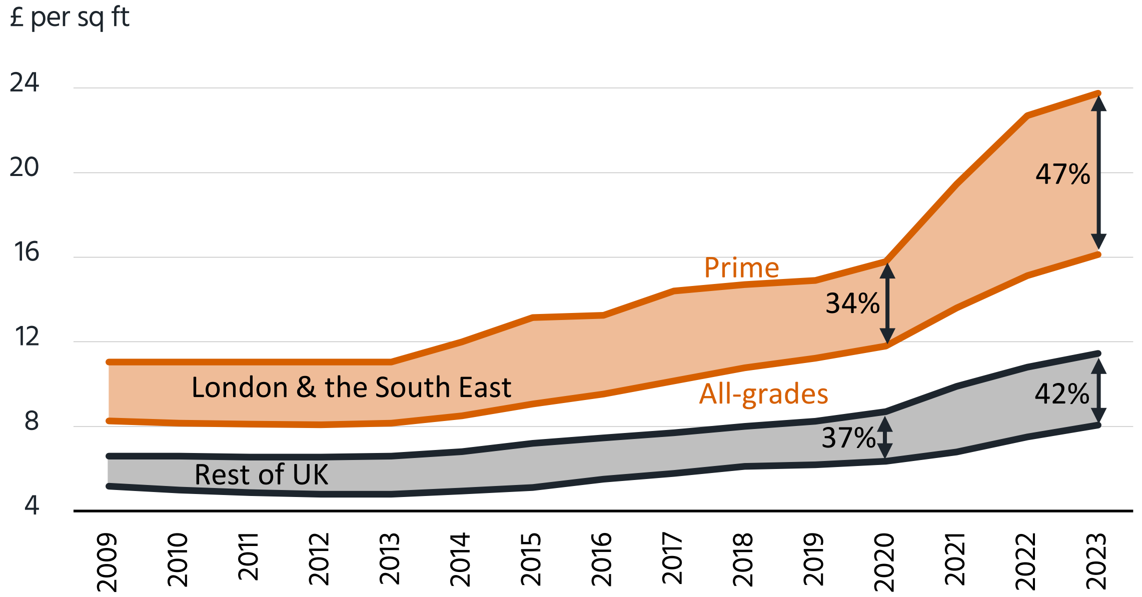
Rest of UK ERV distribution

Source: Gerald Eve



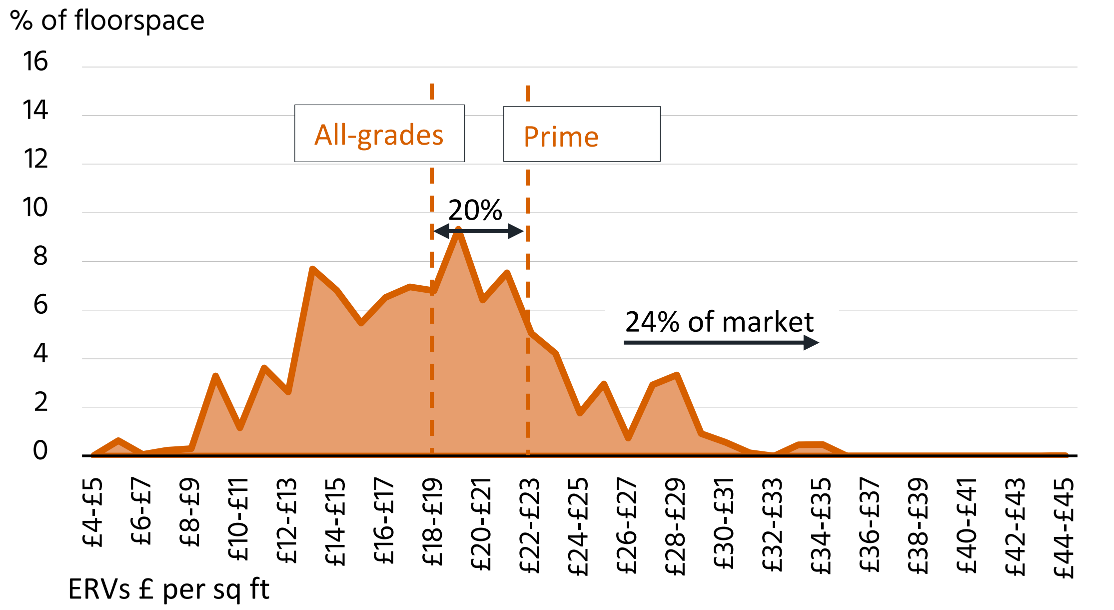
Prime/all-grades multi-let ERVs and spread

Source: Gerald Eve



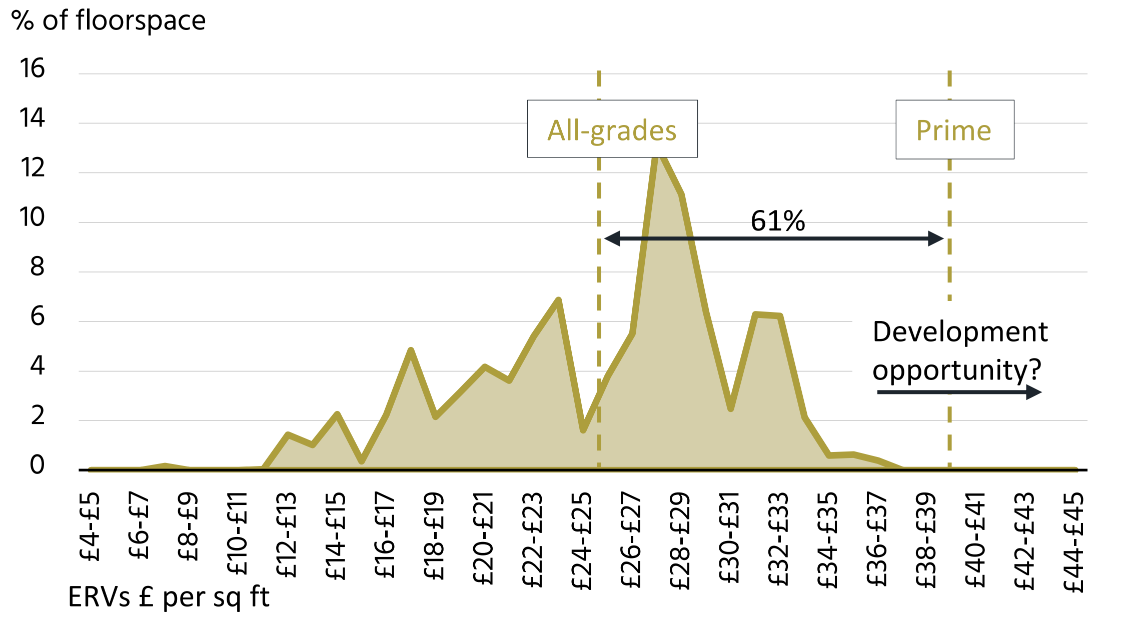
Greater London ERV distribution

Source: Gerald Eve



Inner London ERV distribution

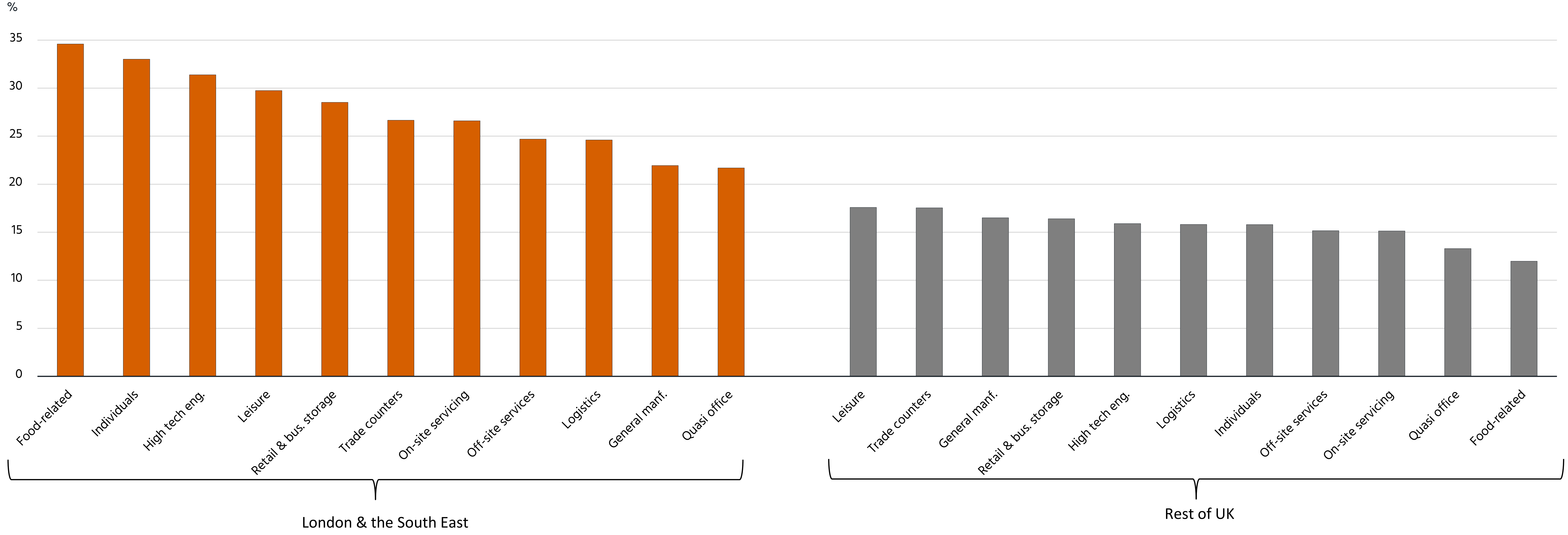
Source: Gerald Eve



INCOME – REVERSION (BETWEEN PASSING RENT AND ERVS)

Reversion from market ERV by tenant type and major region, end-2023

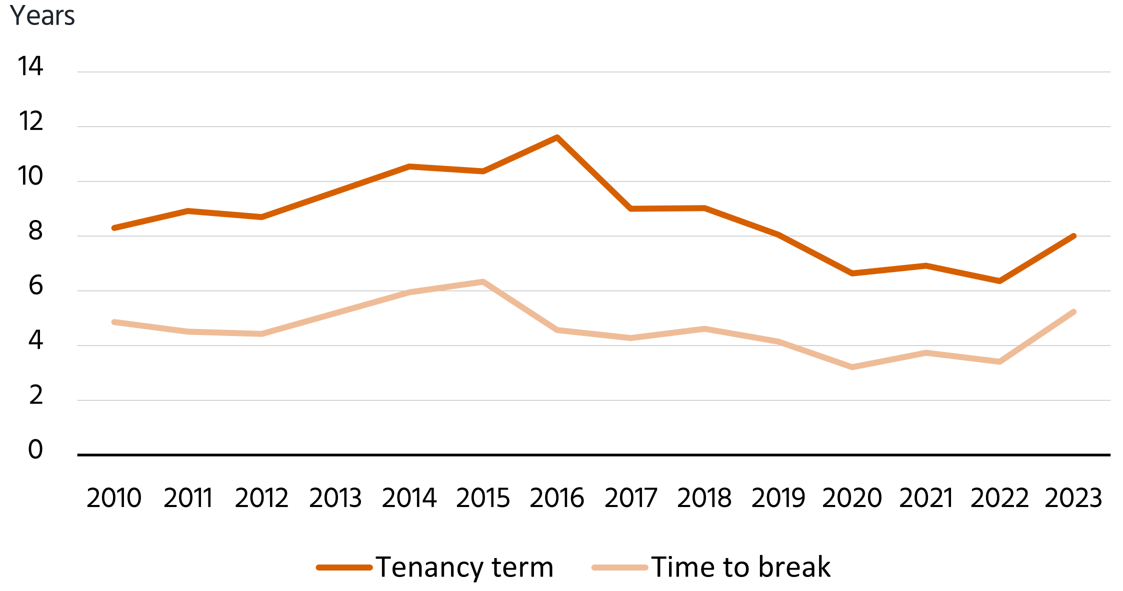
Source: Gerald Eve



INCOME – NEWLY SIGNED LEASE LENGTHS AND TIME TO BREAK

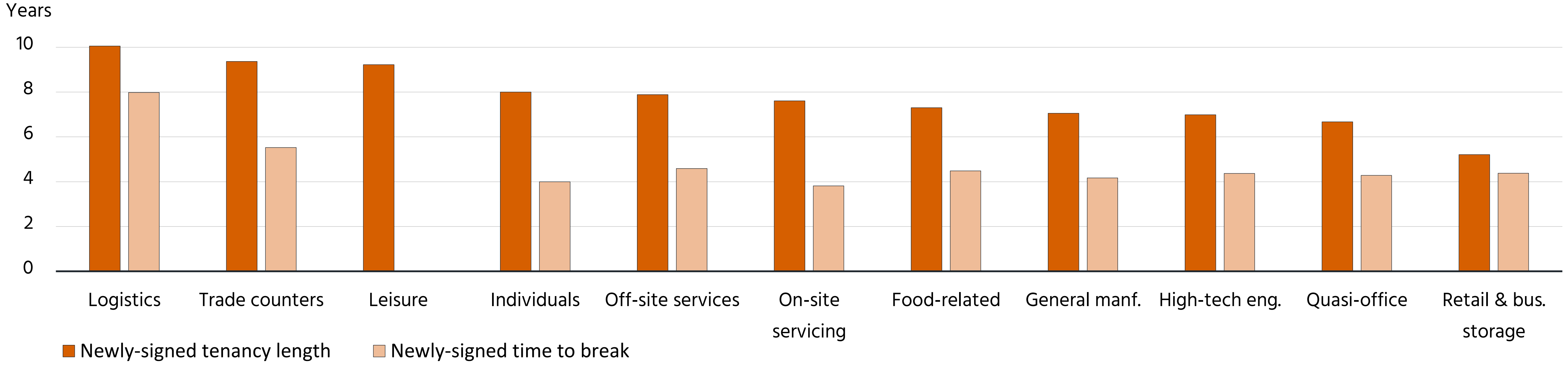
London & the South East income length

Source: Gerald Eve



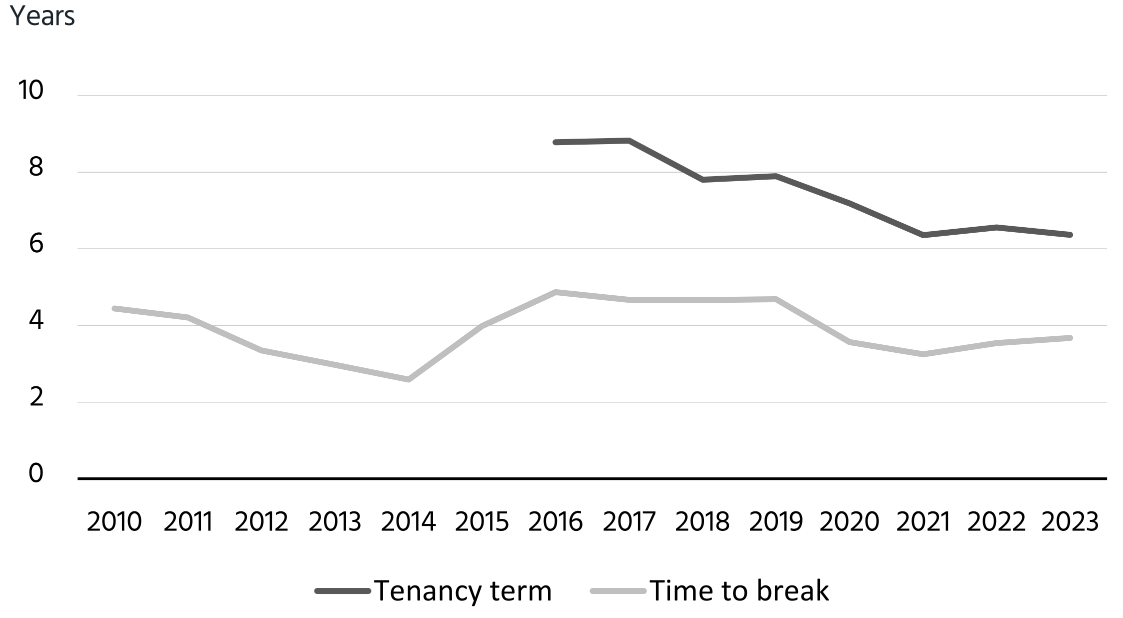
London & the South East, length of income by occupier type

Source: Gerald Eve



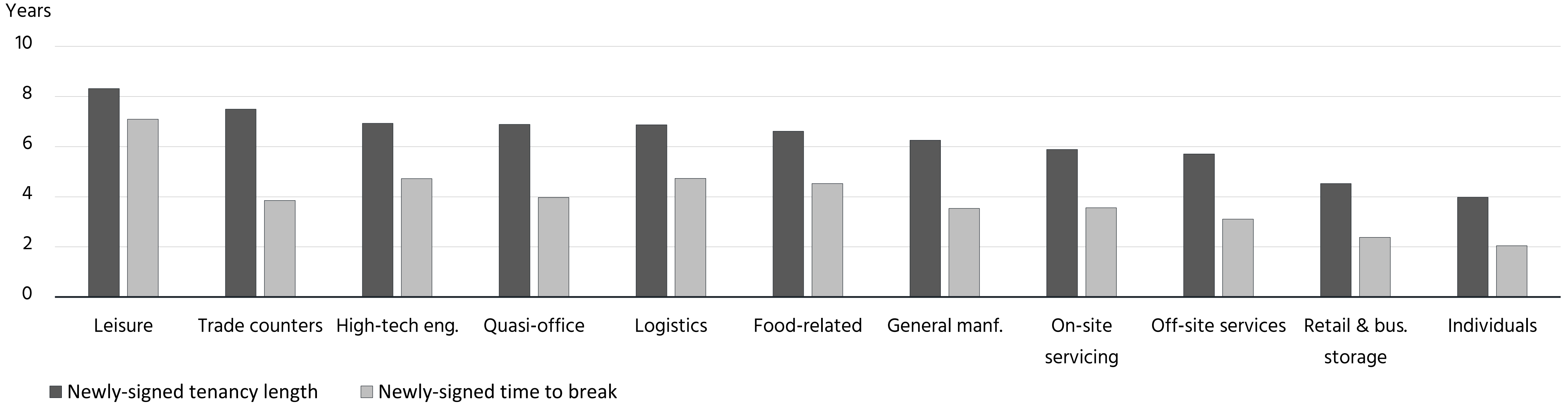
Rest of UK income length

Source: Gerald Eve



Rest of UK, length of income by occupier type

Source: Gerald Eve



INCOME RISK – BREAKS, EXPIRIES AND DEFAULTS

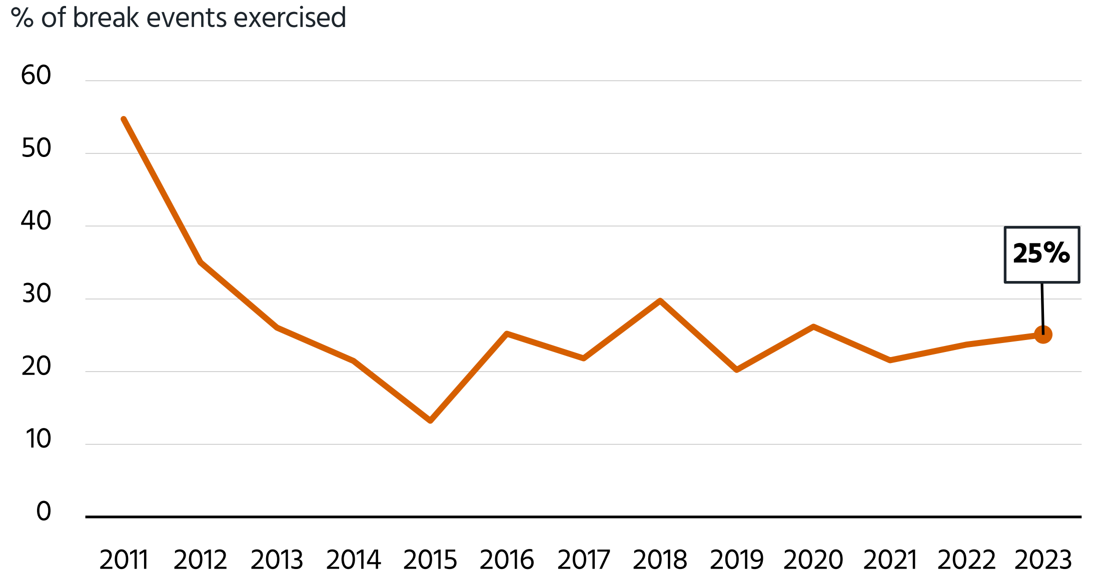
The propensity for a multi-let tenant to exercise a break dropped considerably in the years leading up to 2015 and has been consistent at around 25% since then. Similarly, the retention of occupiers after an expiry trended upwards and peaked at 75% in 2017. There was some volatility over covid, with a boost in 2020 during various lockdowns and with government business support. Subsequently there was a drop to around 50% in 2021, reflecting a shakeout of pent-up occupier activity and landlords seeking to capture rental reversion and move certain weaker tenants on. The most recent data from 2023 suggests a return to stability with a retention rate of around 70%.

The multi-let default rate is more cyclical and has historically tracked the wider UK company insolvency rate fairly closely. In the last couple of years the insolvency rate has trended upwards. Increased interest rates and wage costs have risen sharply and thus UK companies, particularly the smaller firms which took on more debt over covid than their larger counterparts, have been under considerable financial stress. These pressures are nevertheless less acute than during the global financial crisis, and the current rate of insolvencies appears to have recently peaked.

Interestingly though, the two series have diverged over the last two years and the 2023 multi-let default rate fell to a record low of only 1.4%. It seems that the data now reflect longstanding reports from the market that multi-let defaults are relatively uncommon, despite the insolvencies in the economy, and space has not been coming back. In part this divergence could be explained by the current scarcity of suitable multi-let units. During previous periods of economic weakness and relative unit abundance the rent might have been the first thing forfeit, but now accommodation is much more likely to be retained since the chance of finding an alternative in the future would be very difficult. This is consistent with the decreased propensity to exercise a break and elevated expiry retention rate.

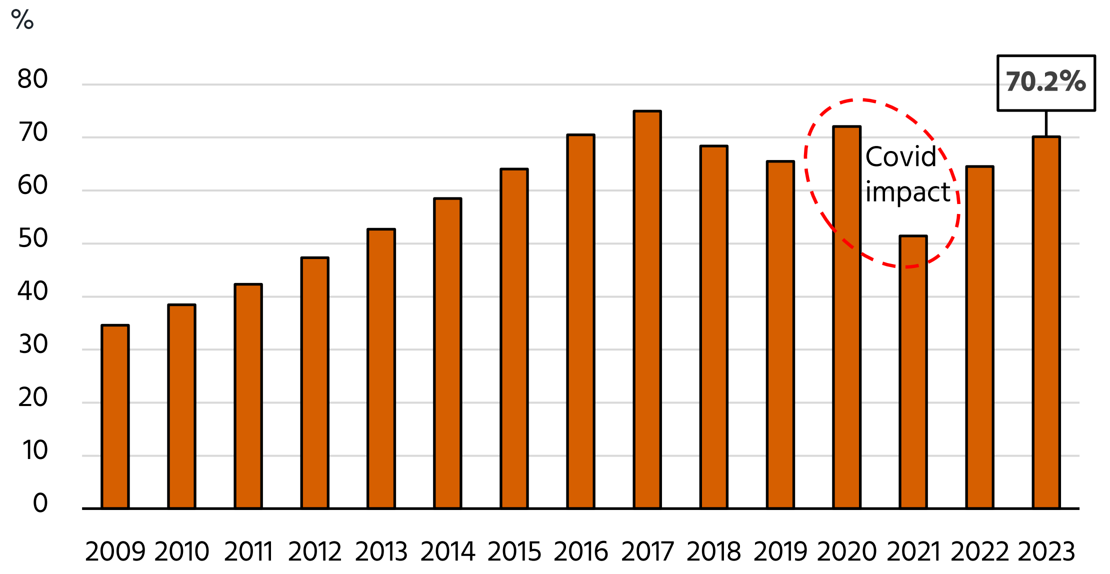
Multi-let propensity to exercise a break

Source: Gerald Eve



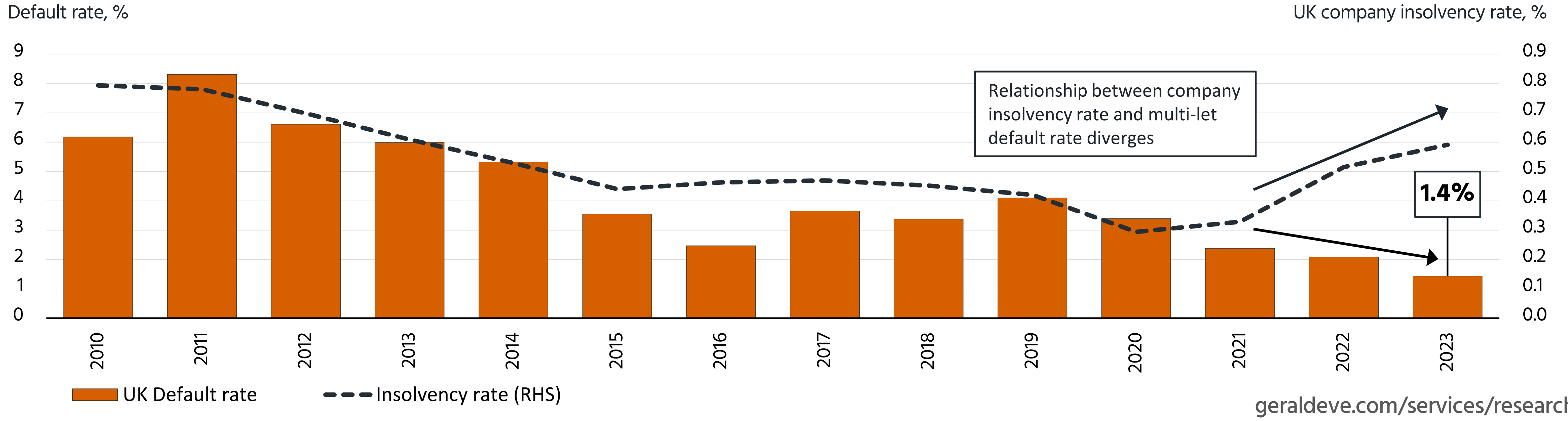
Multi-let proportion of tenants retained after lease expiry

Source: Gerald Eve



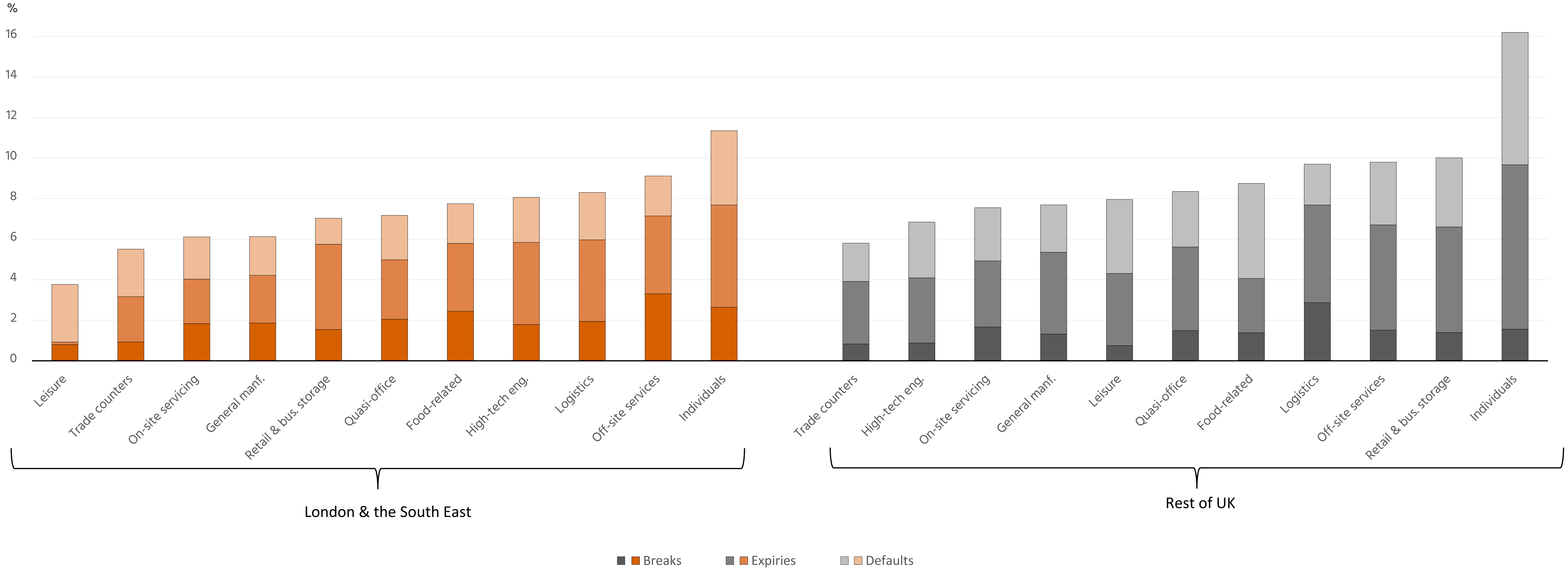
Multi-let default rate and company insolvency rate

Source: Gerald Eve, ONS, The Insolvency Service



MULTI-LET OCCUPIERS – INCOME RISK PROFILE

5-year average annual risk by component, occupier type and major region
Source: Gerald Eve

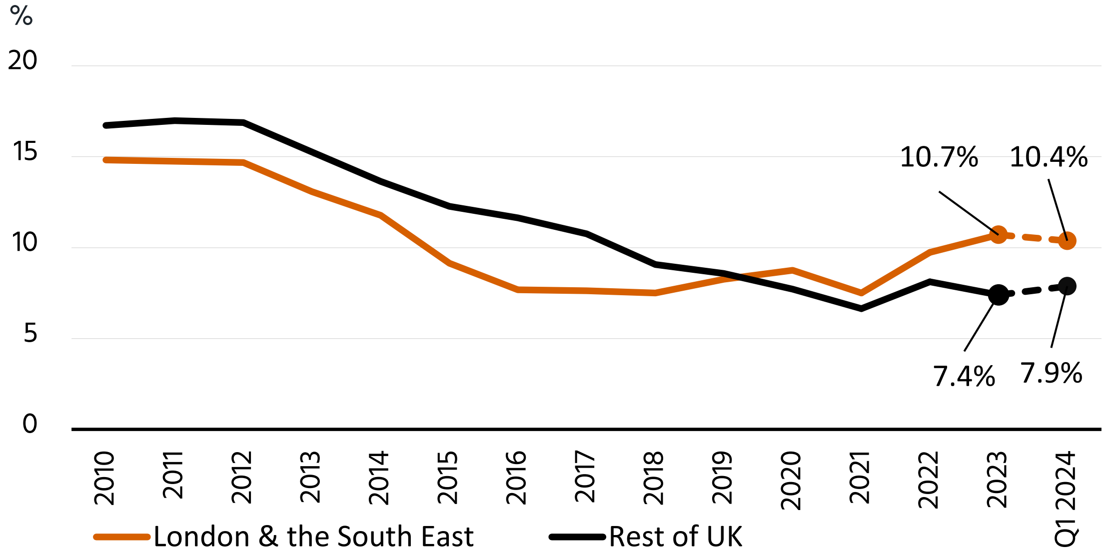


SUPPLY AND DEVELOPMENT

See pipeline schemes by region overleaf

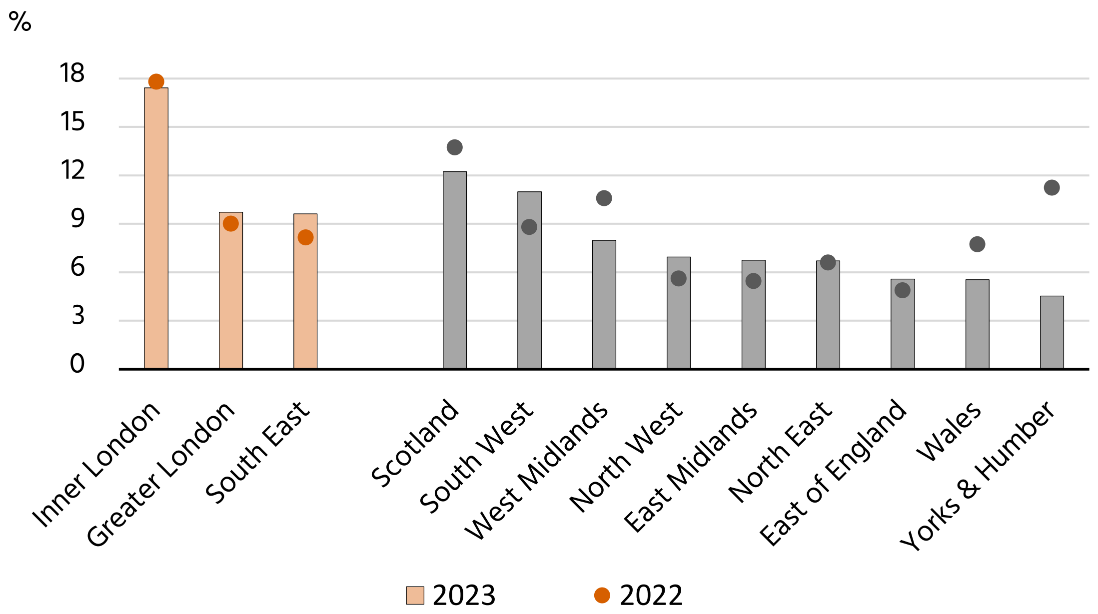
Multi-let void rates by major region

Source: Gerald Eve, MSCI



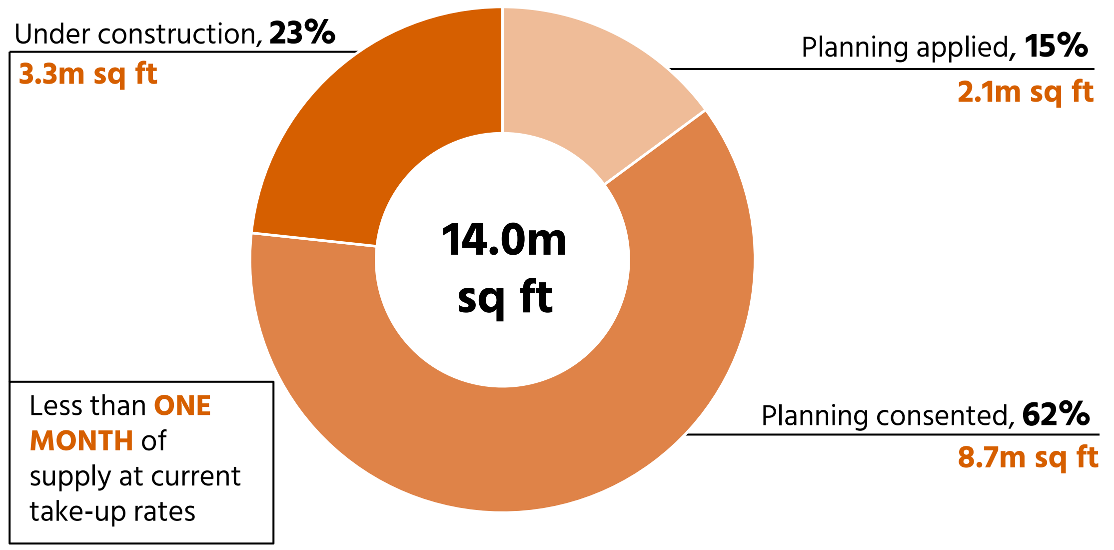
Void rates by region, 2022 and 2023

Source: Gerald Eve



UK multi-let development pipeline by status

Source: Gerald Eve, Property Data



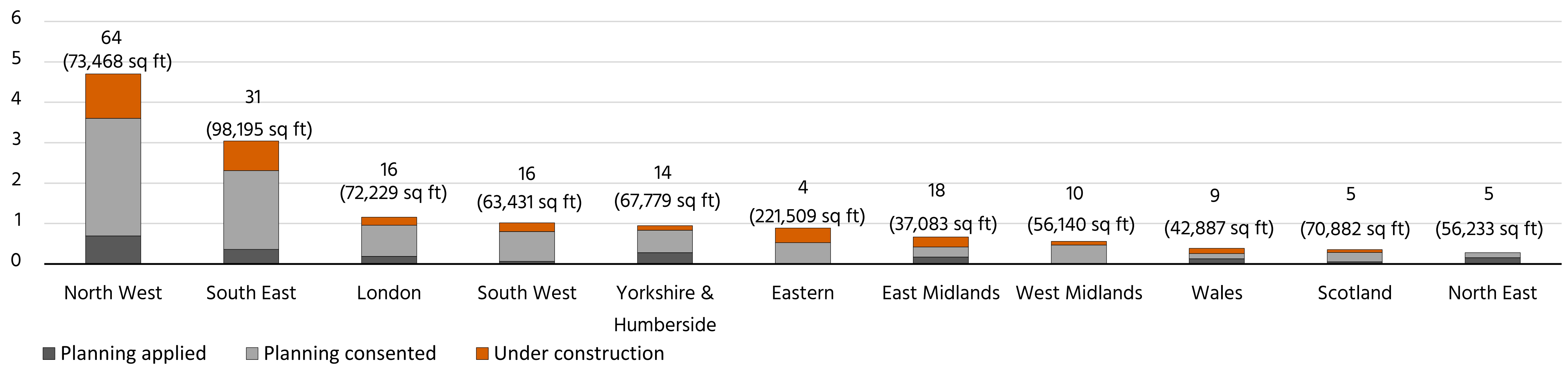
Multi-let industrial void rates at the major regional level usually move in the same direction and historically London & the South East has been 2.5%pts below the rest of the UK. However, in 2023 the London & the South East void rate not only increased while the rest of the UK fell, but it also widened the gap above the regions to an all-time high of 3.3%pts. The South East and Greater London ticked up to 9.6% and 9.7% respectively in 2023, but the major driving force behind the increase was Inner London. The Inner London void rate has been on an upward trend since 2016 and reached a recent peak of 17.8% in 2022. This was due in part to the speculative completion of some schemes at the end of 2022 that were subsequently let early in 2023. However, expectations of a more sizeable drop by end-2023 were confounded and it fell back only slightly to 17.4%. The driving forces in this trend are the premium micro and small box units of less than 25k sq ft.

The Inner London data come from the study sample (albeit a large one) and not the full population so there is potential for inaccuracy. It is also worth noting the ERV distribution on page 9 that shows most of the Inner London multi-let floorspace was valued in the high £20s and early £30s per sq ft rather than the prime ERV of £40 per sq ft. However, the question of affordability must be raised in this context and whether a period of consolidation is now in order while the high level of reversion is wound down. There is some volatility, but in the regions outside of the South East five out of nine geographies recorded a *decrease* in void rate in 2023. All regions other than Scotland and the South West had a lower void rate than the South East. Those locations where the void rate slightly increased, such as the North West and East Midlands remain relatively low at under 7%. This seeming bumping along the bottom is symptomatic of a market with extremely low new development.

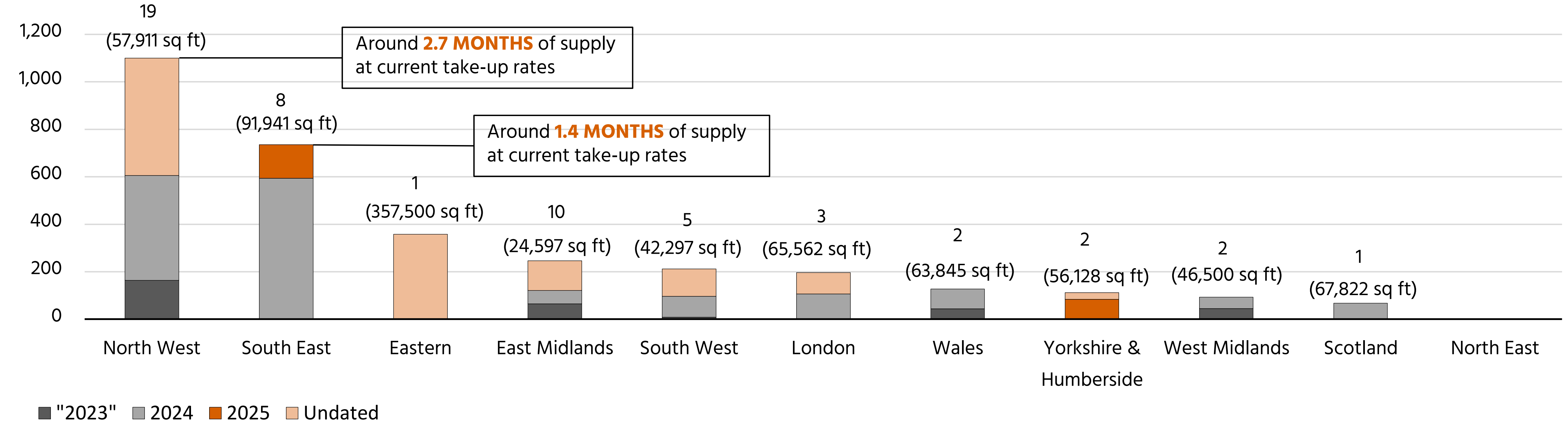
Development pipeline records suggest there are currently 191 multi-let schemes at a planning stage or under construction across the UK, totalling a potential 14.0 million sq ft. Activity continues to be limited by high development cost relative to market capital value, which ultimately require premium quoting rents on new schemes to make them viable. These will be payable by only a small fraction of the multi-let occupier base. The most active region is the North West, with a little over a million sq ft over 19 different schemes due to complete by 2025. The key message, however, continues to be that this is all marginal in the context of the overall size of the UK multi-let market, which is conservatively estimated to be over half a billion sq ft. Even at recent relatively subdued take-up rates there is less than one month of supply currently under construction.

SUPPLY AND DEVELOPMENT

Multi-let development pipeline by region, no. of schemes (and average scheme size)
Source: Gerald Eve, Property Data



Schemes under construction by expected completion dates, no. of schemes (and average scheme size)
Source: Gerald Eve, Property Data



OCCUPIER MARKET OUTLOOK

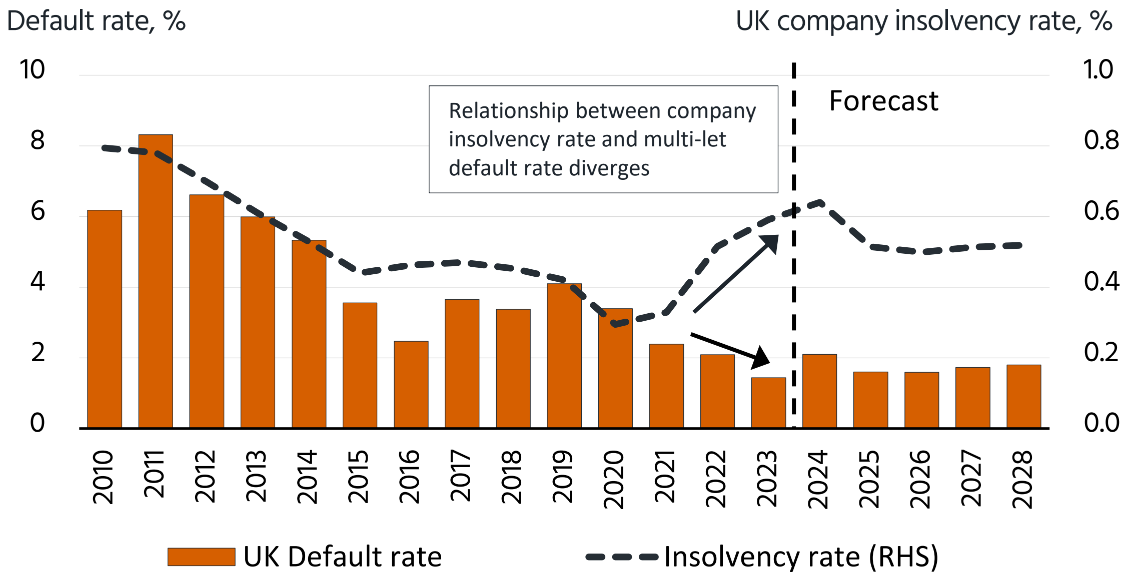
Modelling suggests that the end-year 2024 UK company insolvency rate will peak at around three-quarters of the rate observed during the GFC period. The multi-let default rate was a record low 1.4% in 2023 and while it may step up fractionally in 2024 in line with insolvencies, the divergence of these two formerly closely-related series due to scarcity of multi-let units is set to continue into the forecast period.

Minimal new development and defaults, along with some tenant churn are relatively narrow channels to generate increased multi-let voids. Any increases during the current period of economic weakness should conclude by end-2024. The "peak" in vacancy rates in London & the South East anticipated in 2024 is likely to be moderate in a historical context and come in at under 11%. From 2025, as the market gradually consolidates void rates are likely to ease. London & the South East benefits from the covenant strength and relative rent insensitivity of a significant proportion of larger national and international occupiers, and this should be helpful in bringing voids down. Meanwhile in the rest of the UK the void rate is likely to continue bumping along the bottom and not fall below the rate at the peak of the market in 2021.

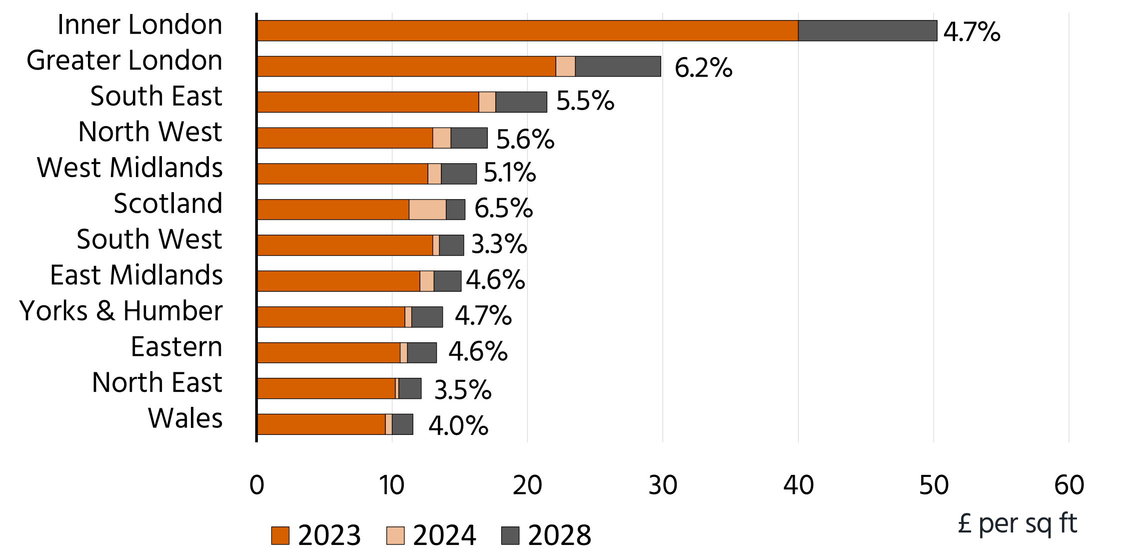
Rental growth is expected to form a U-shape recovery. Lower but positive and rising nominal rental growth will be maintained as the economic recovery gains traction, and there will likely be a narrower range between multi-let submarkets. The best-performing segment will likely be good quality secondary space where rents have been closing the gap with the high prime rents required to justify new development.

Reversion will continue to be captured and the spread between passing and market rents will continue to fall from the exceptionally high levels of 2021. Consequently, passing rental growth will be more consistent over the medium term and greater than ERV growth.

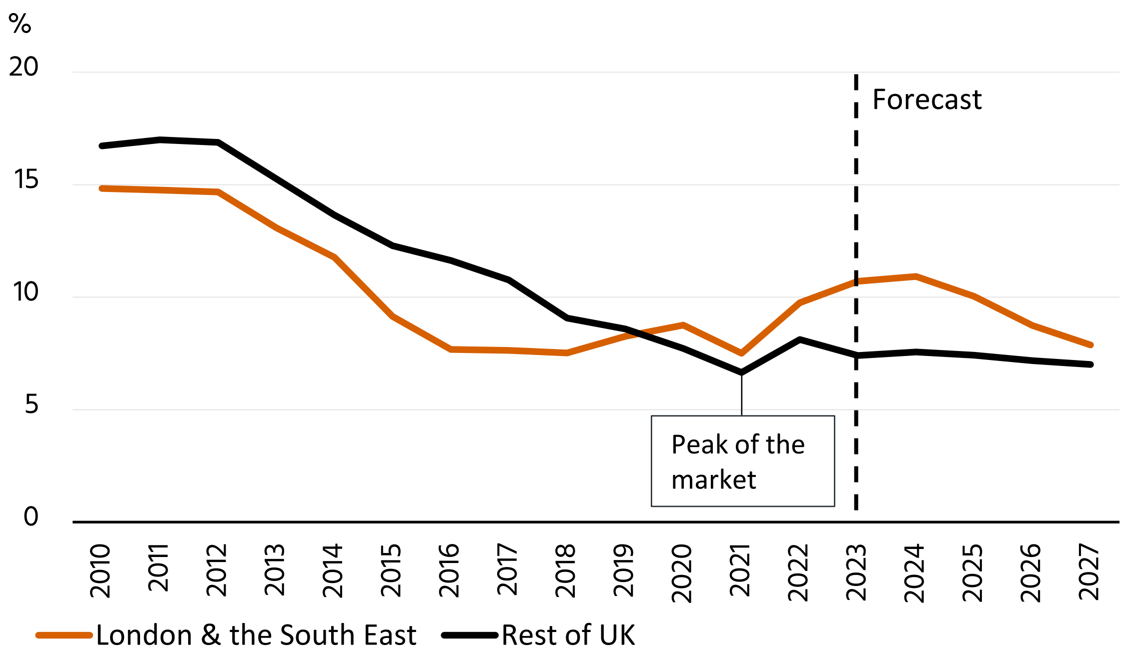
Multi-let default rate and company insolvency rate
Source: Gerald Eve, ONS, The Insolvency Service



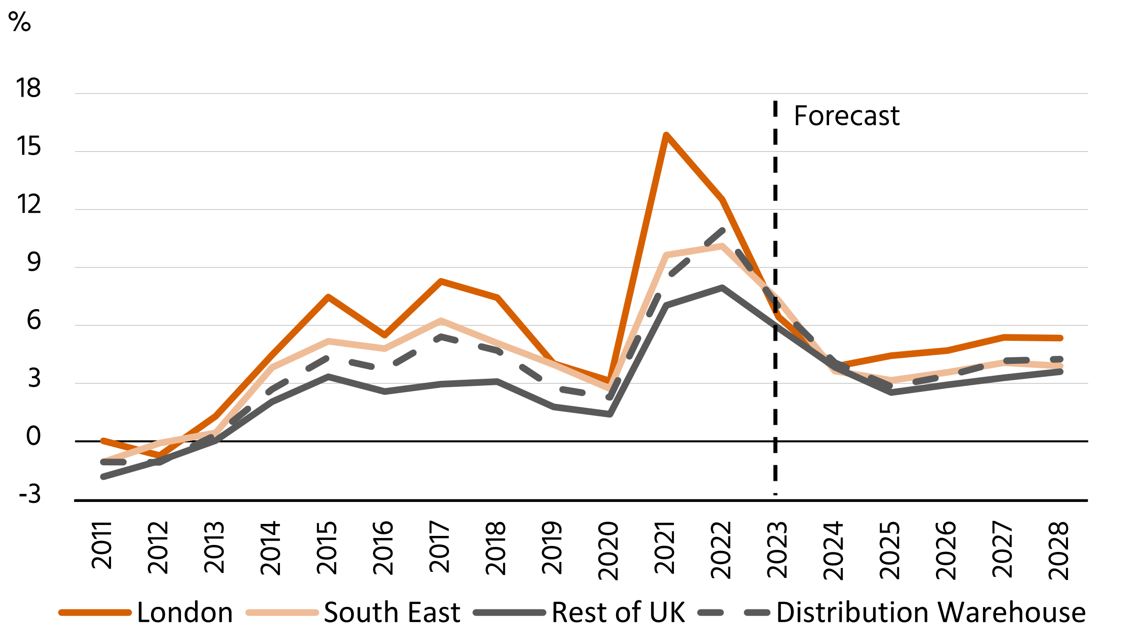
Prime multi-let rents and average annual growth 2024-28
Source: Gerald Eve



Multi-let void rates by major region
Source: Gerald Eve



All-grades multi-let rental growth
Source: MSCI, Gerald Eve



EPCs – REGULATORY DEADLINES AND THE MULTI-LET LANDSCAPE

See the evolution of multi-let EPCs overleaf

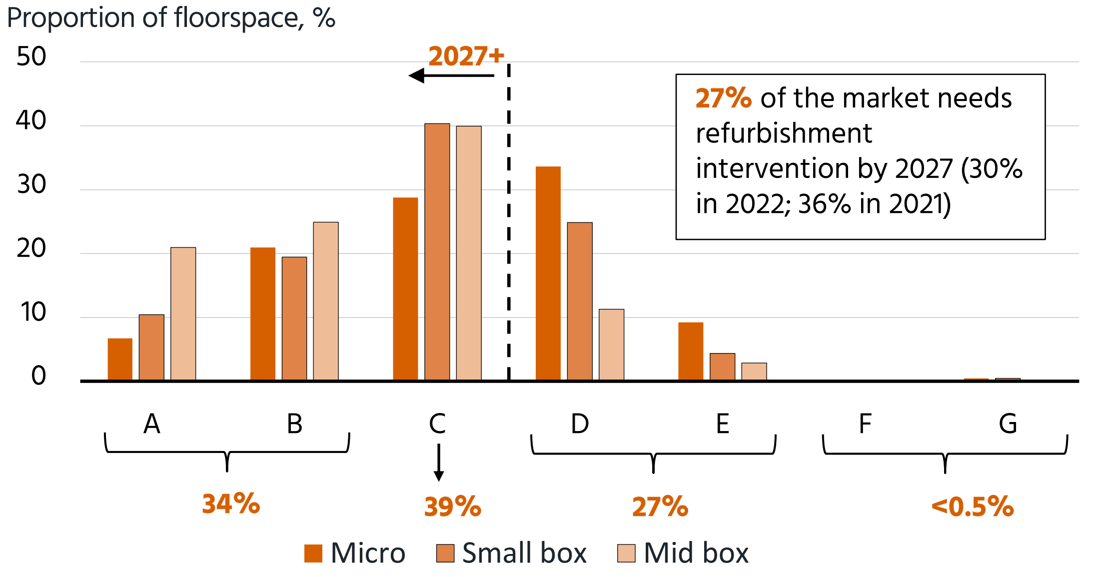
The Minimum Energy Efficient Standards (MEES) dates for compliance. Landlords may not let or continue to let non-compliant units as per below:

APRIL 2023
EPC grades **F&G**

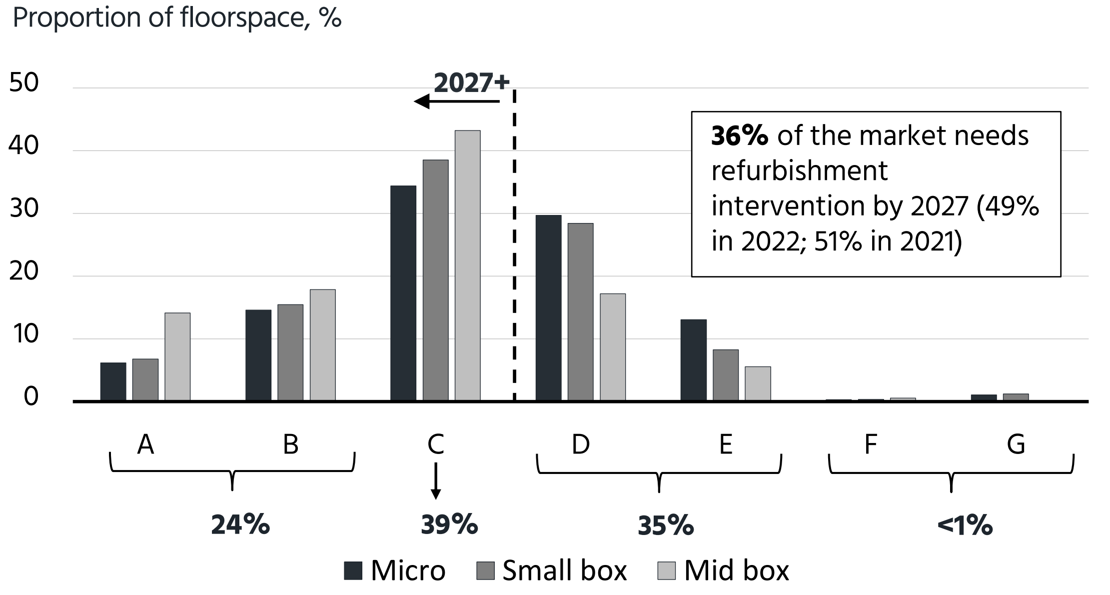
APRIL 2027
EPC grades **D&E**

APRIL 2030
EPC grade **C**

London & the South East multi-let by EPC grade
Source: Gerald Eve



Rest of UK multi-let by EPC grade
Source: Gerald Eve



The Minimum Energy Efficient Standards (MEES) regulations can be fluid and at times opaque. The formulation for how certain attributes in particular combinations qualify for different EPC scores is not made public and can shift from one year to the next. However, the regulatory deadlines opposite have been established and continue to be worked towards by multi-let landlords.

The Multi-let EPC distribution spans from A – G and is split here according to major UK geography and by size of unit. The main cluster for both regions continues to be around grade C. Units in London & the South East tend to be of a higher EPC rating, with notably larger proportions of A and B grade units. Across all segments the larger mid box units tend to be better EPC specified than their smaller and micro unit counterparts.

There have been substantive changes to the landscape over the three years since EPC information was introduced to the study. There has been a drift towards the higher quality left hand side of the distributions for both major UK regions, with an acceleration in 2023 as landlords appear, encouragingly, to have stepped up their engagement with the initiative. Units rated F&G have no longer been lettable since the first regulatory deadline in April 2023 and there are now only trace amounts of these kinds units in the sample.

The next key deadline is in just under three years in April 2027 when any unit rated grade D or below will no longer be compliant. This accounts for 27% of multi-let space in London & the South East, which has fallen from 30% in 2022 and 26% in 2021. There has been even greater progress in the regions outside of the South East where 36% of the market needs refurbishment intervention by 2027, which is down from 49% in 2022 and 51% in 2021.

EPCs – MULTI-LET EVOLUTION

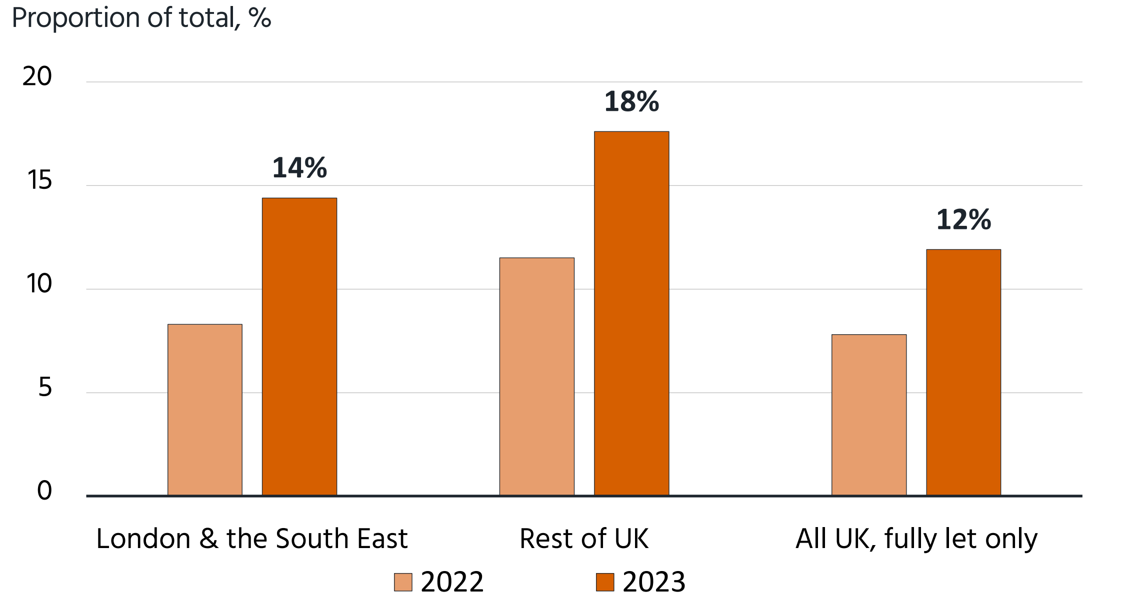
Units rated EPC grade C-G will be non-compliant from 2030 and are a key target for refurbishment. In 2023, landlords outside of the South East upgraded the EPC rating on 18% of this kind of space, up from 12% in 2022. This excellent and increased rate of engagement helps explain how the EPC landscape is changing so rapidly in this region. London & the South East was also impressive, with 14% upgraded in 2023 following 8% in 2022.

Landlords report that they typically uprate units when they become vacant. However, many units will be continuously occupied yet also need improvement. Across the UK, an impressive 12% of let and occupied C-G space underwent an EPC rating uplift in 2023, up from 8% in 2022. Occupied upgrades are thus clearly possible and represent another strength for multi-let over office and retail counterparts.

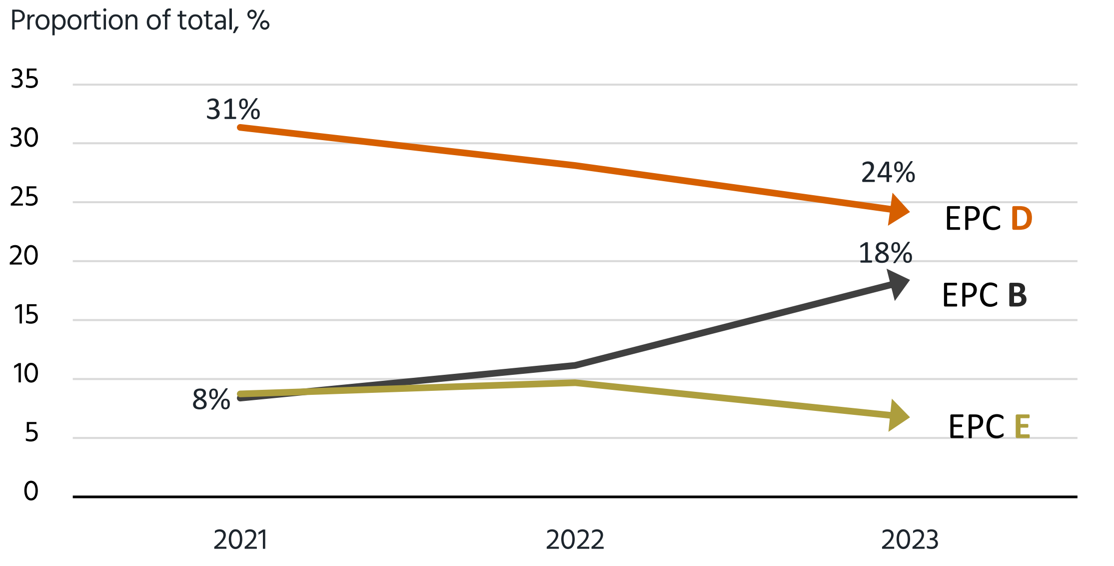
Grade B continues to be the most popular target EPC grade (over 60% of refurbishments in London & the South East and 37% in the regions outside in 2023). It is the most cost-effective option since it can typically be achieved by improving heating and lighting systems, while more intrusive roof-based PV panels are not required. For the most part, grade A EPCs are the domain of new development. Consequently, there has been a sharp reduction in grade D space over the past three years and a steep increase in grade Bs. Grade C units are refurbished *to* as well as *from* so the level has been more constant.

There is an ERV hierarchy of EPC grades, A-E, valued relatively higher to lower. This will capture EPC credentials along with various other quality characteristics. However, at this point of slowdown and catch-up of weaker segments in the cycle, lower grade EPC units have typically had stronger ERV growth over the past year. Thus, even controlling for other quality characteristics it is not yet possible to calculate an ERV "green premium". However, other factors, such as yield and liquidity, will likely be impacted.

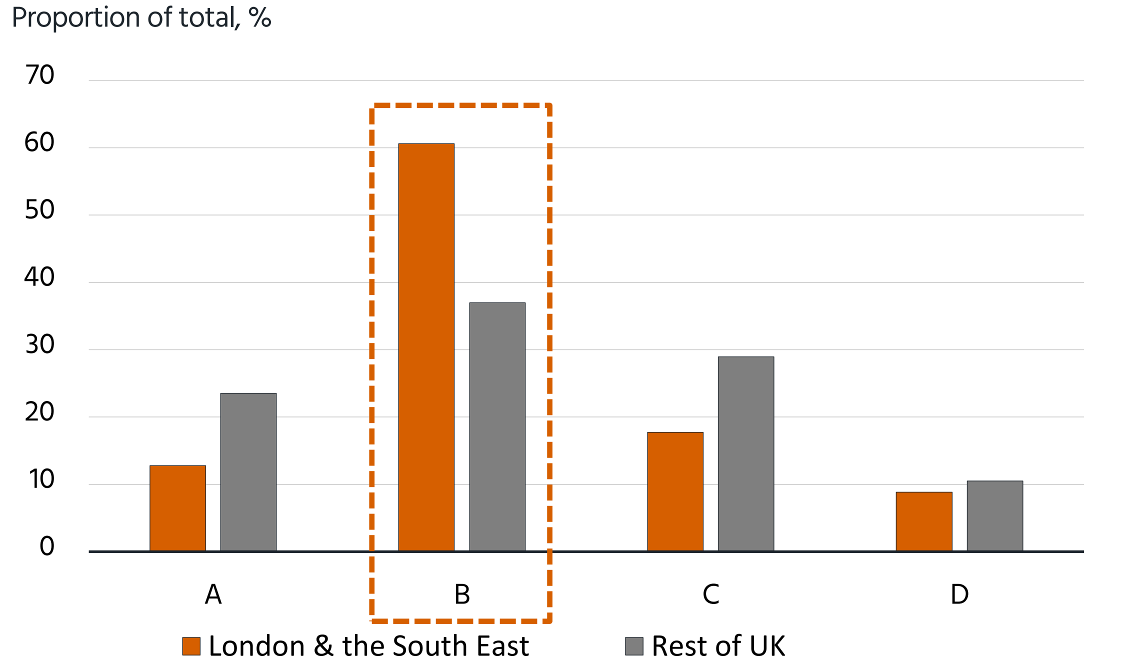
Proportion of EPC grade C-G floorspace upgraded, 2022 & 23
Source: Gerald Eve



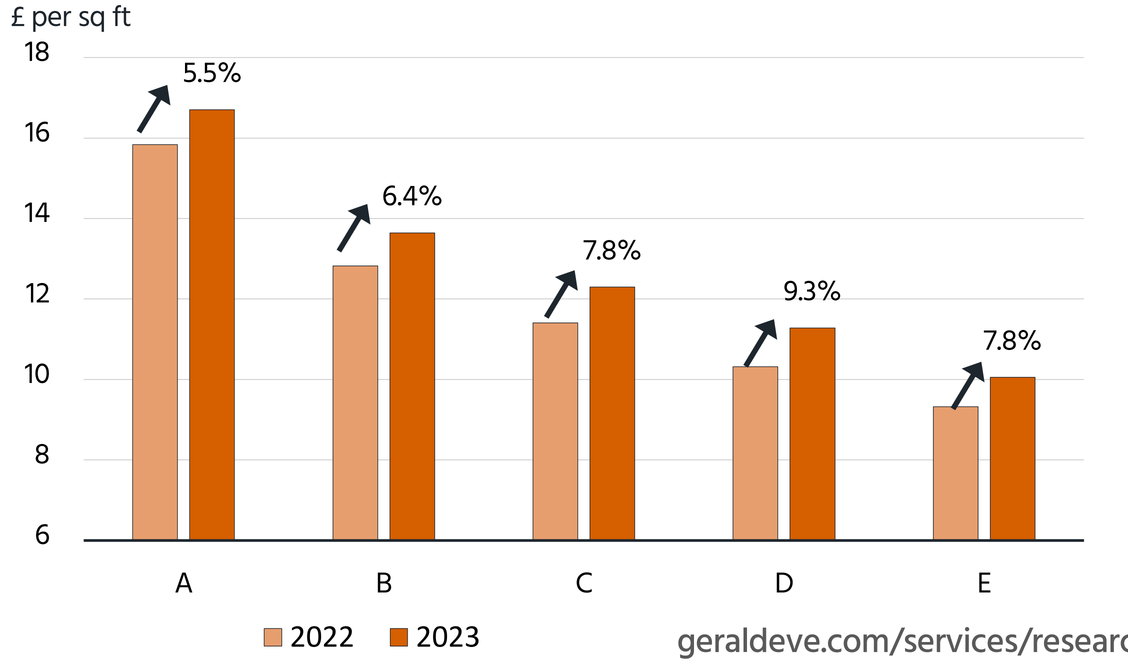
UK multi-let EPC grade proportions, 2021-23
Source: Gerald Eve



Target EPC grade for refurbishments in 2023
Source: Gerald Eve

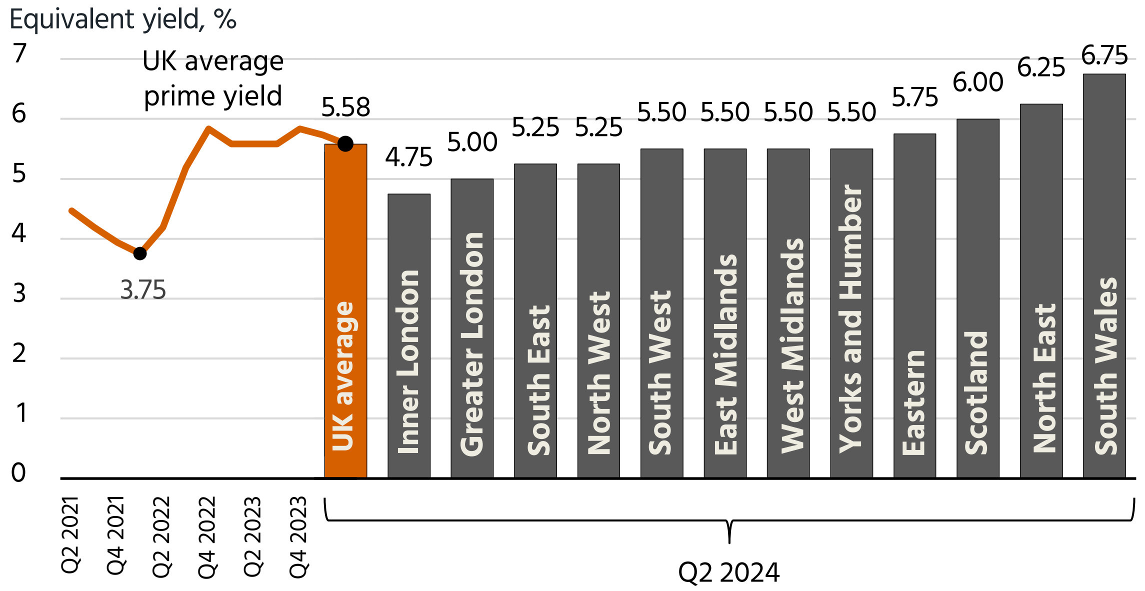


UK multi-let ERVs by EPC grade & rental growth in 2023
Source: Gerald Eve

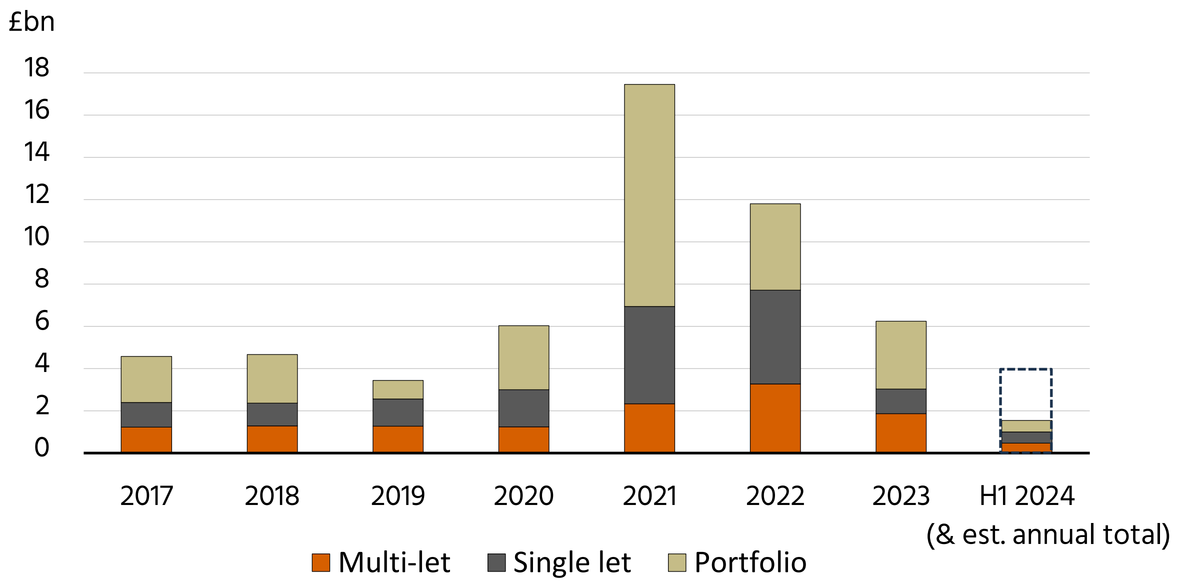


INVESTMENT MARKET

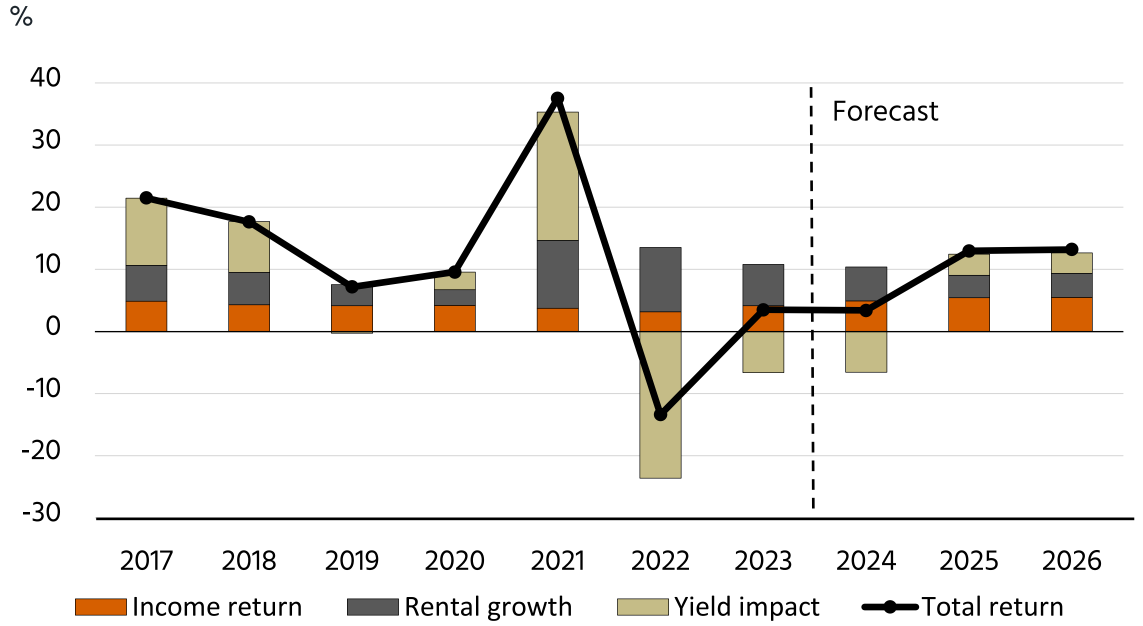
Prime multi-let yields by region
Source: Gerald Eve



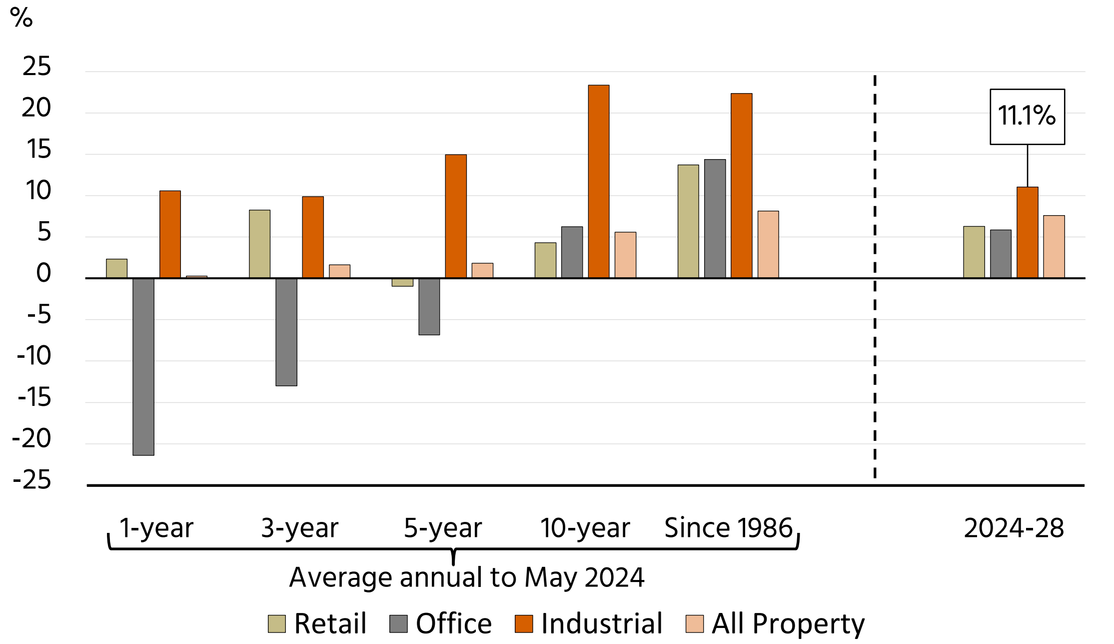
Industrial investment transaction volumes by segment
Source: Gerald Eve



Multi-let annual total return and components
Source: Gerald Eve, MSCI



Total return by sector
Source: Gerald Eve, MSCI



The expectation that Q4 2023 was the bottom of the investment market appears to have borne itself out. Sentiment has continued to improve over 2024, there is more breadth and depth to the buyer pool than at the start of the year and prime yields in the direct market are estimated to have moved in by 25bps+ in H1. There is strong investor demand for all grades of quality, but 'good secondary' is proving especially popular where there is perceived to be greater rental headroom compared with new prime stock. Reversionary multi-let assets are currently more sought after than their long income index-linked single-let counterparts.

Completed transactions were subdued in the first half of 2024, in part as a hangover from the dearth of activity at the end of 2023. Another limiting factor though so far in 2024 has been the lack of investment supply, given the stage in the cycle. However, the volume of sellers has increased recently, and transaction volume should be higher in the second half of the year. It is arguably more acceptable to make assets available now that the bottom of the market was sufficiently long ago, plus the perceived opportunity cost of significant price increases over the short term is limited, given the relatively narrow scope for yield compression.

Lingering core inflation concerns have divided the market on whether the Bank Rate will have its first cut in August. The broader expectation remains, however, that it will be reduced over several increments by the end of 2025. Thus, the cost and availability of debt should continue to become (moderately) more accommodating. The outlook is positive and annual industrial returns should trend upwards over the medium term and outperform the other property sectors – notably in 2025/26 when there may be some small scope for further inward yield shift.

MULTI-LET REGIONS

Click on a region to jump to the page for more detailed analysis and insight.

LONDON

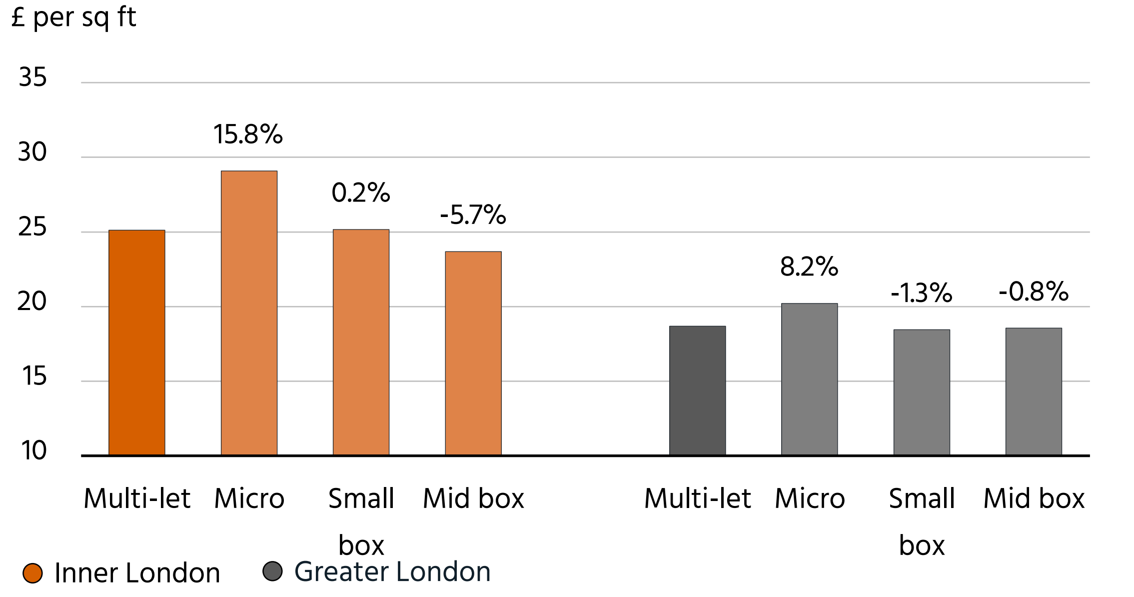
Continue with this region

All-grades ERV by area

Source: Gerald Eve, MSCI

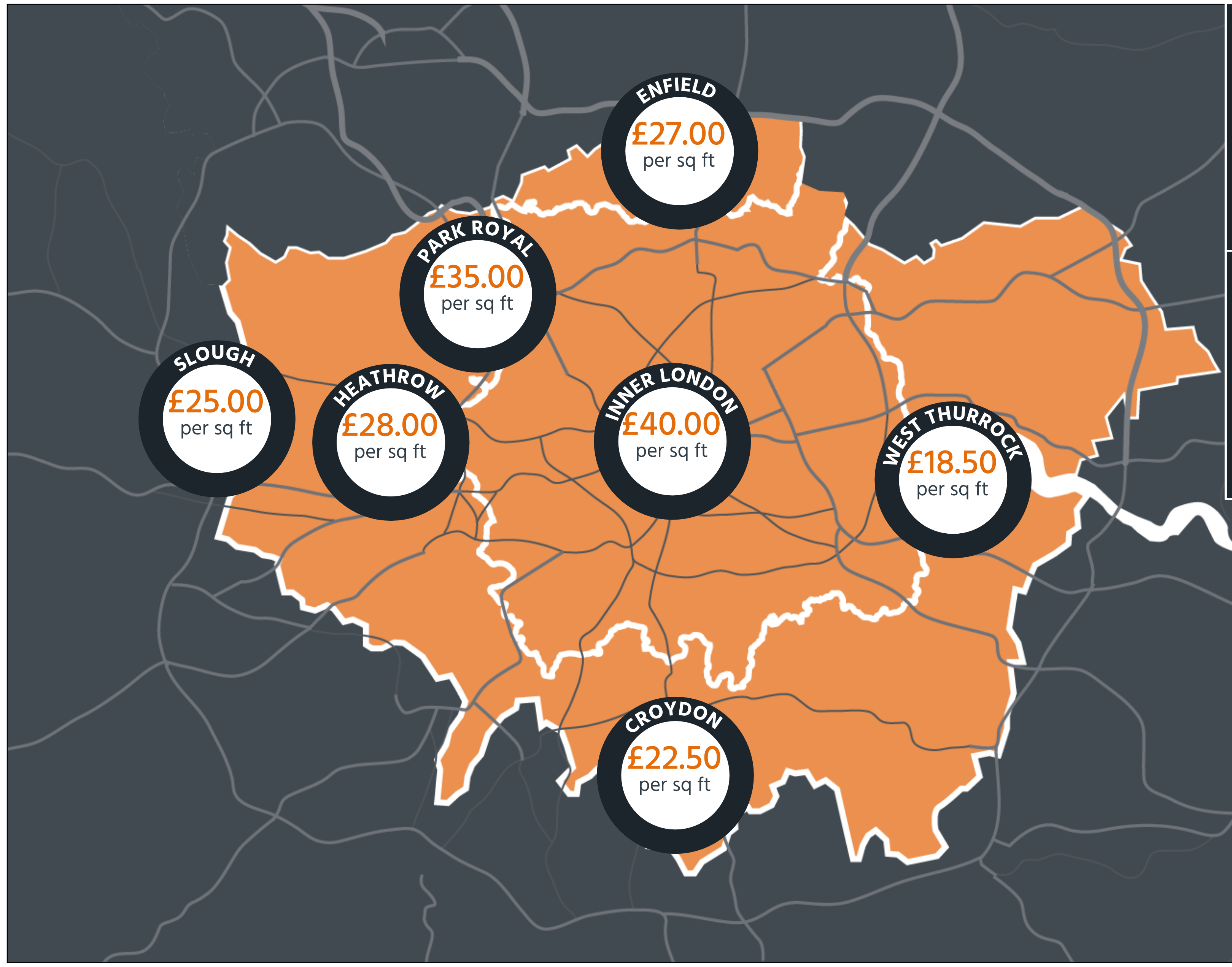
Q1 all-grades ERV by unit size and % premium/discount

Source: Gerald Eve



Q2 prime rents and equivalent yields

Source: Gerald Eve

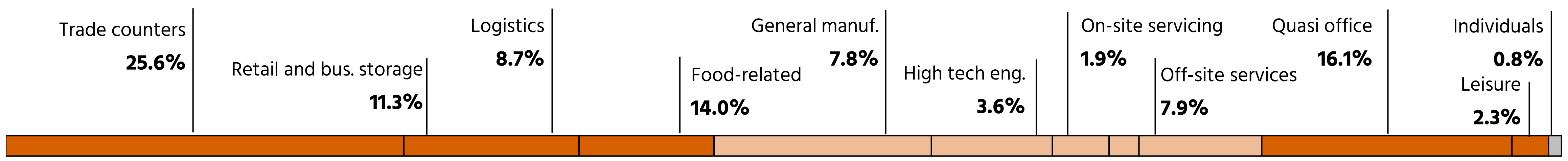


INNER LONDON
4.75%
Q2 EQUIVALENT YIELD
5.00% Q4

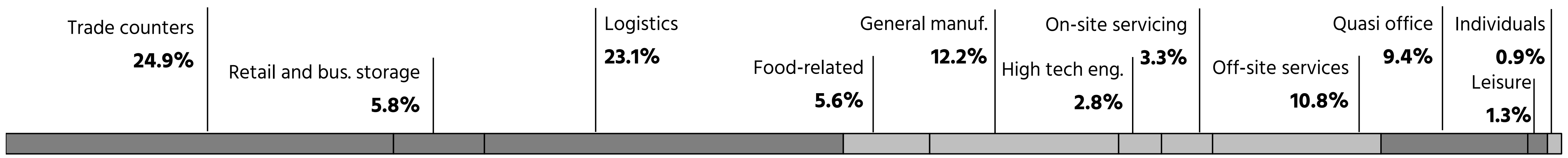
GREATER LONDON
5.00%
Q2 EQUIVALENT YIELD
5.25% Q4

LONDON

Inner London



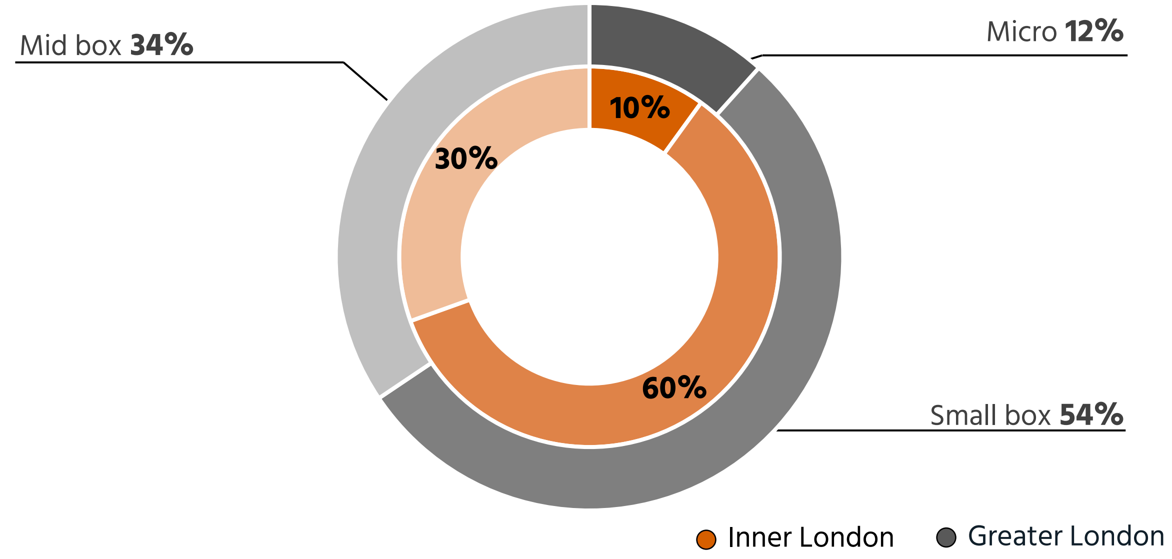
Greater London



London is the UK's most densely populated city and has the largest prime multi-let market in the UK. Inner London is the most affluent, at £40.00 per sq ft, and Park Royal has the premier and largest industrial cluster in the country. The occupier base has diversified and modernised significantly over the past decade and is characterised by an oversized proportion of food-related occupiers in Inner London and logistics operators in Greater London. The majority of occupied multi-let floorspace is by large nationals or multinationals and only a third is held by firms classified as micro or small. The EPC credentials are the best in the country, with the majority in the A-C range. There are 16 schemes in the development pipeline, totalling 1.2m sq ft. However, the majority is at the planning stage. Only 197,000 sq ft is under construction and due for completion over 2024 and 2025, which is negligible in the context of the overall size of the London market.

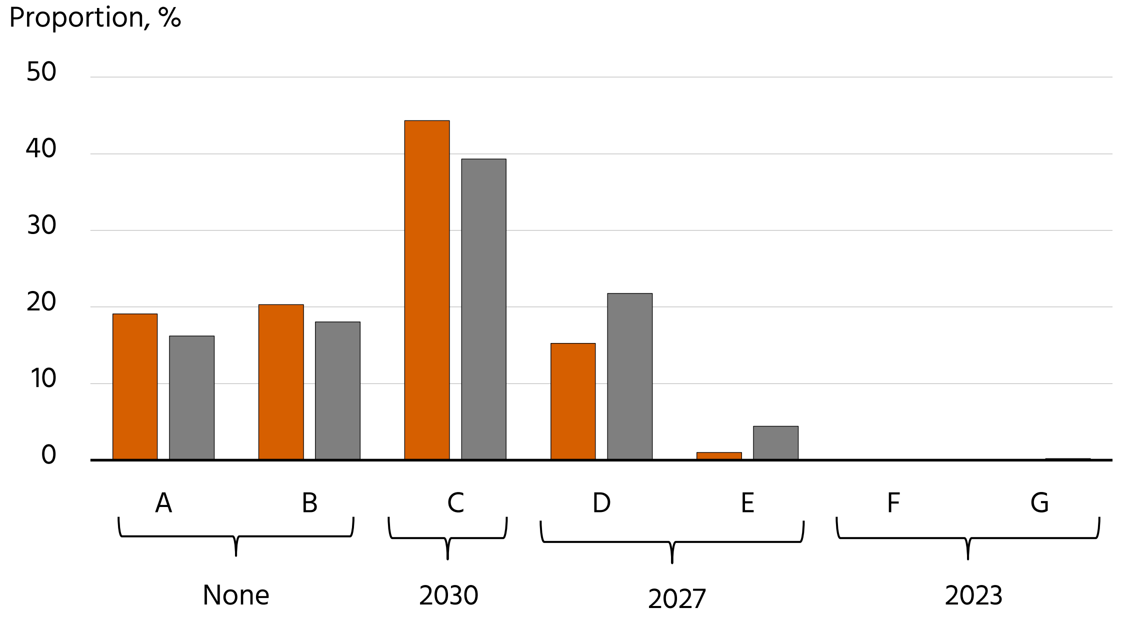
Proportion of floorspace by unit size

Source: Gerald Eve



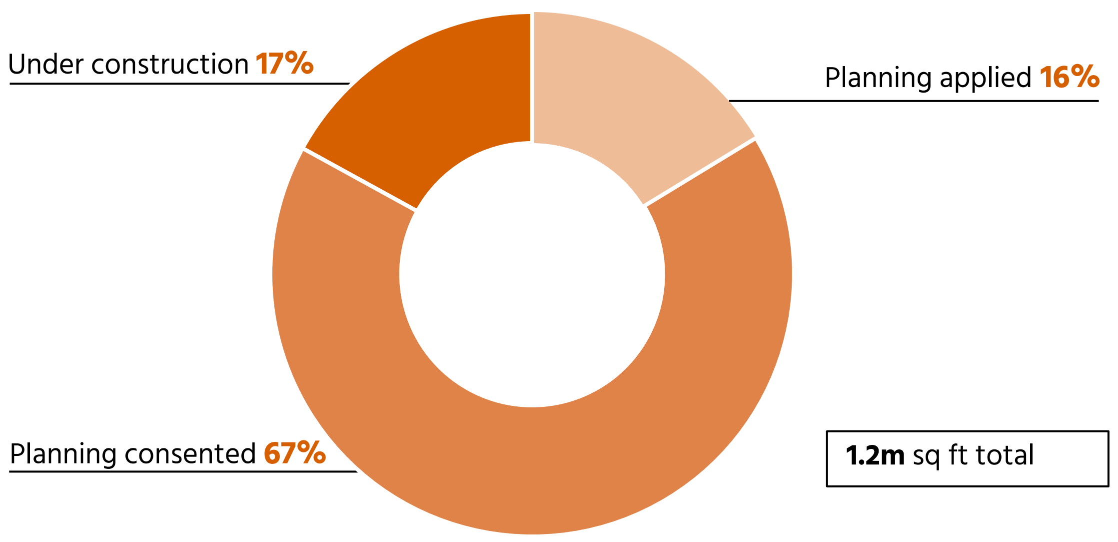
Floorspace by EPC grade (& deadline to non-compliance)

Source: Gerald Eve



Development pipeline

Source: Gerald Eve, Property Data

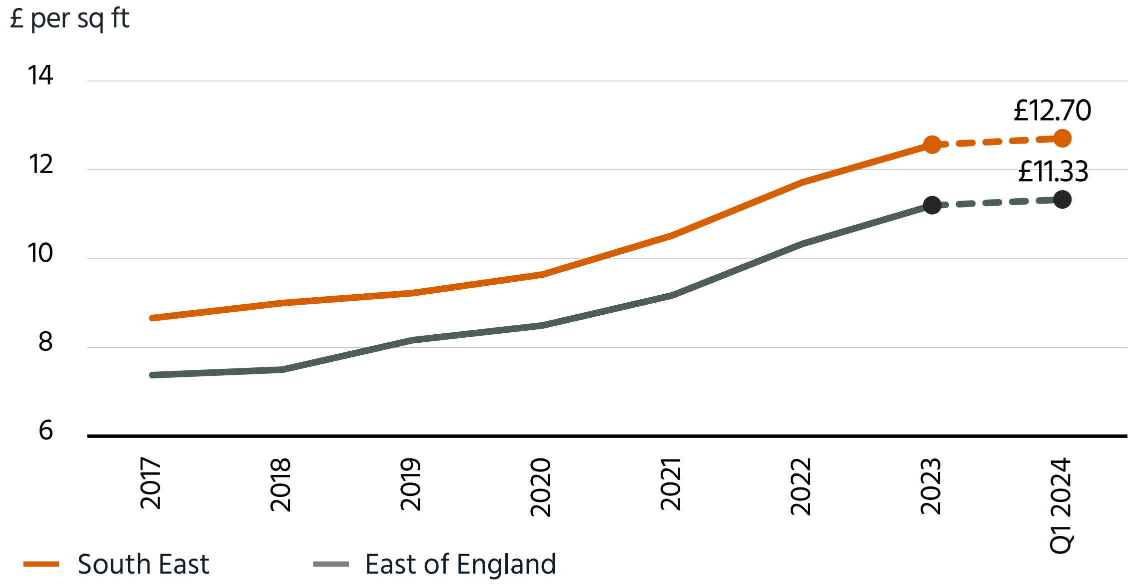


THE SOUTH EAST AND EAST

Continue with this region

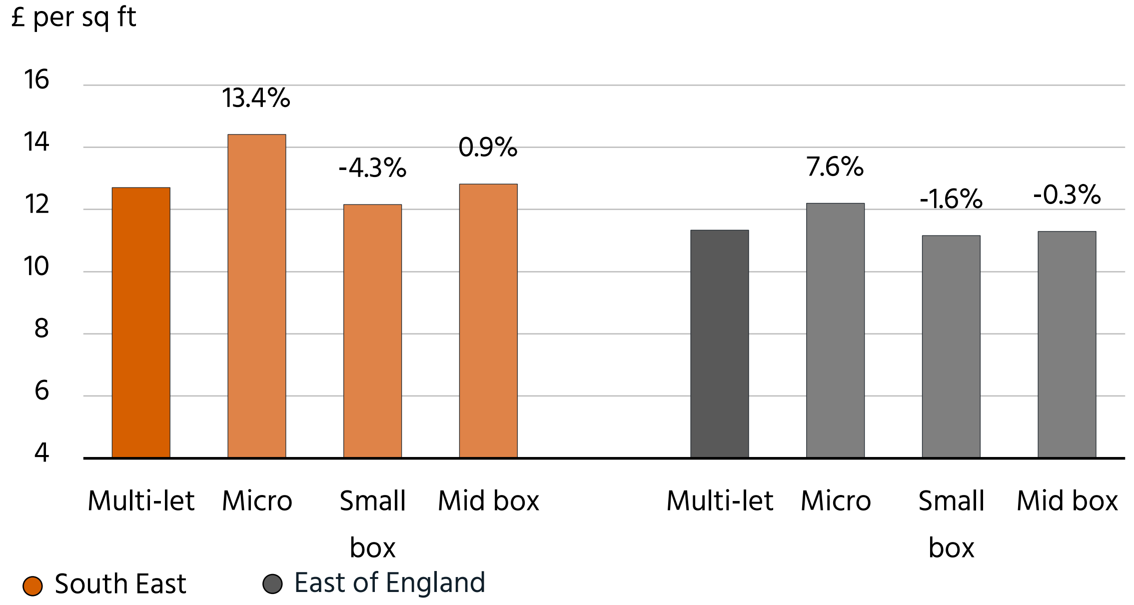
All-grades ERV by area

Source: Gerald Eve, MSCI



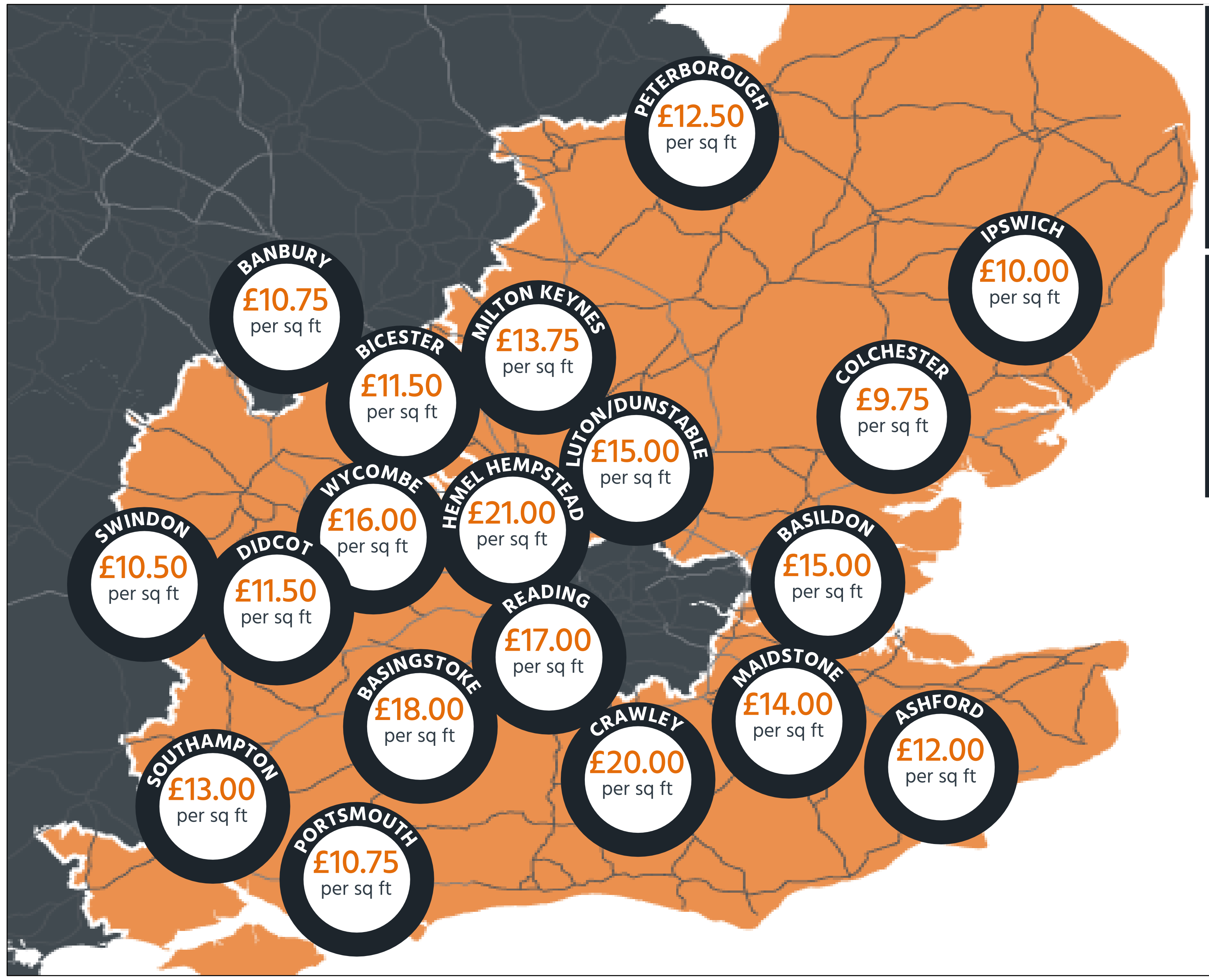
Q1 all-grades ERV by unit size and % premium/discount

Source: Gerald Eve



Q2 prime rents and equivalent yields

Source: Gerald Eve



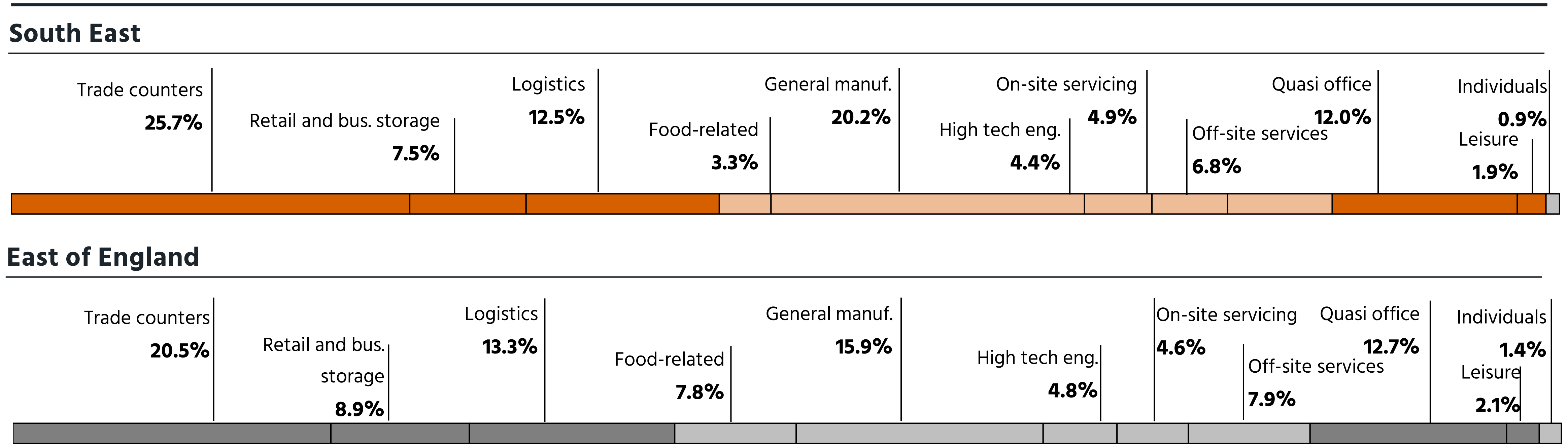
SOUTH EAST

5.25%
Q2 EQUIVALENT YIELD
5.50% Q4

EAST OF ENGLAND

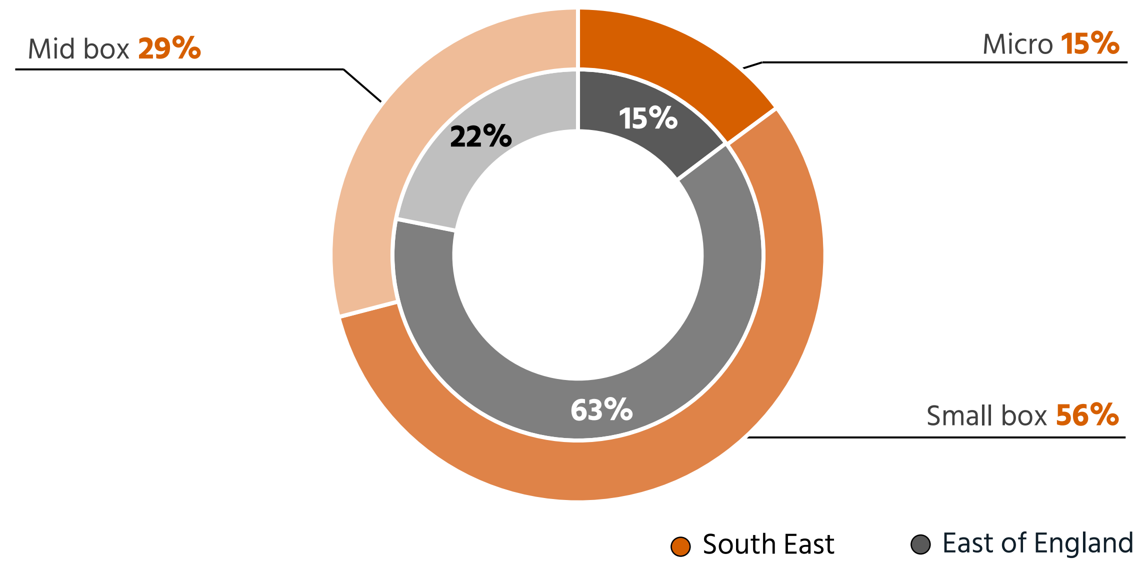
5.75%
Q2 EQUIVALENT YIELD
6.00% Q4

THE SOUTH EAST AND EAST

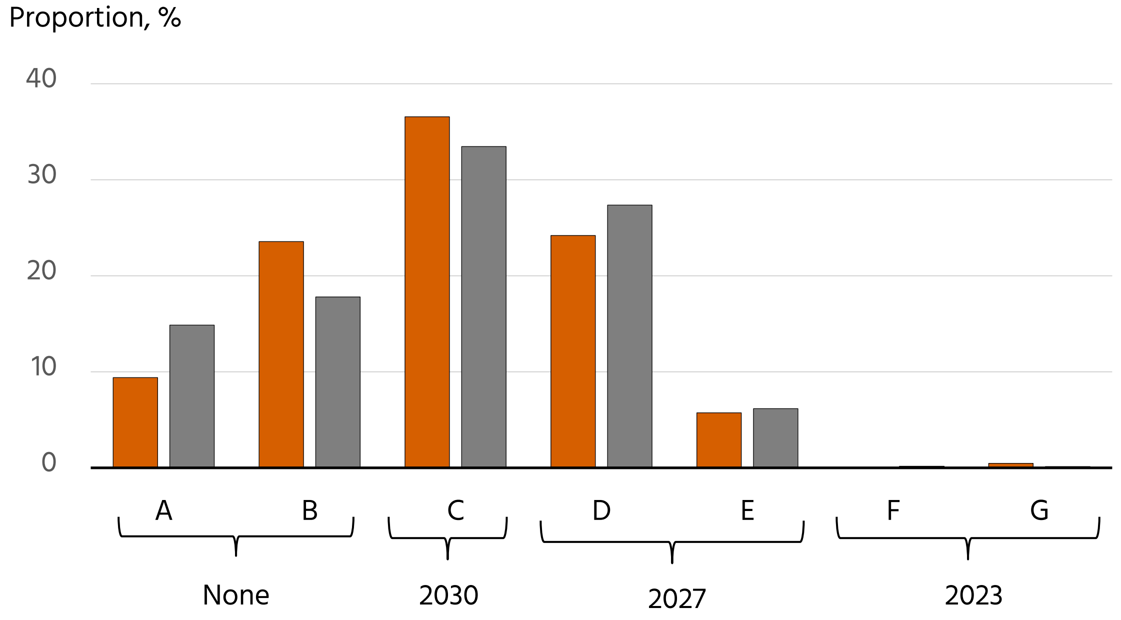


The South and East multi-let markets contain affluent urban centres within commuting distance from London along with several key infrastructure hubs, including some of the UK's largest airports and a series of ports. These regions have benefitted from the ripple effect of London's exceptional rental growth as some more footloose occupiers have looked further afield. Rents range from £21.00 per sq ft in Hemel Hempstead to only £10.00 per sq ft further east in Ipswich. There is a sizeable but more moderate amount of multi-let logistics operations here than in Greater London, and a notably smaller proportion of trade counters in the East of England in favour of food and traditional manufacturing. There are 35 schemes in the pipeline, with 77% of it concentrated in the South East. There is a tiny amount under construction for such significant regions – only nine schemes totalling 1.1m sq ft to come online over 2024/25.

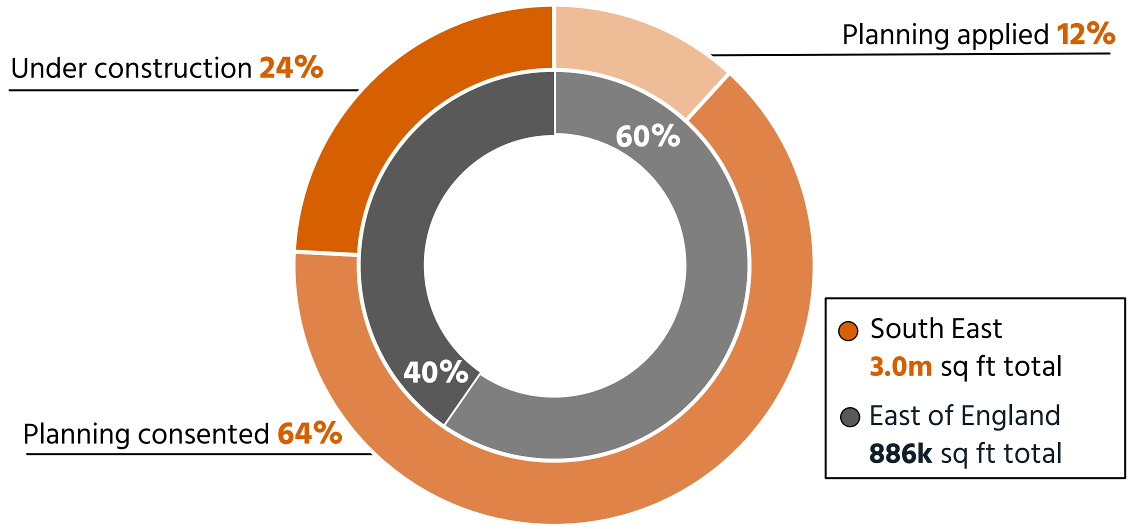
Proportion of floorspace by unit size
Source: Gerald Eve



Floorspace by EPC grade (& deadline to non-compliance)
Source: Gerald Eve



Development pipeline
Source: Gerald Eve, Property Data

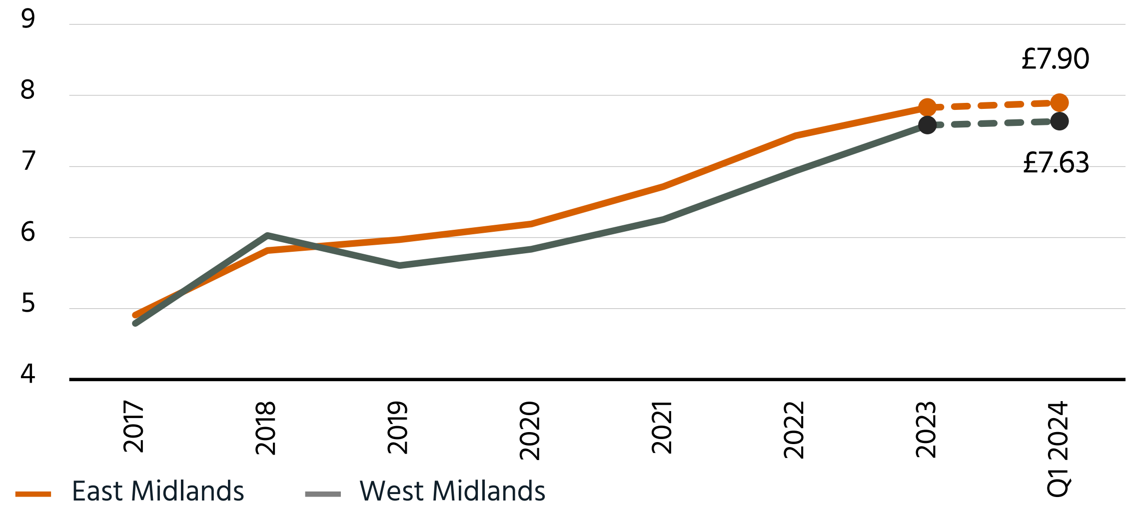


THE MIDLANDS

Continue with this region

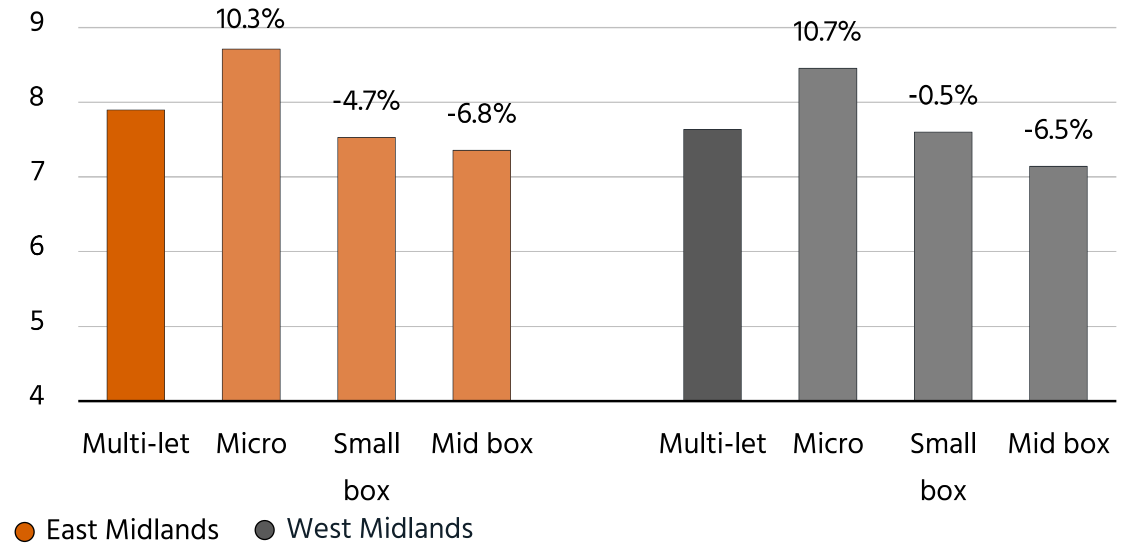
All-grades ERV by area

Source: Gerald Eve, MSCI



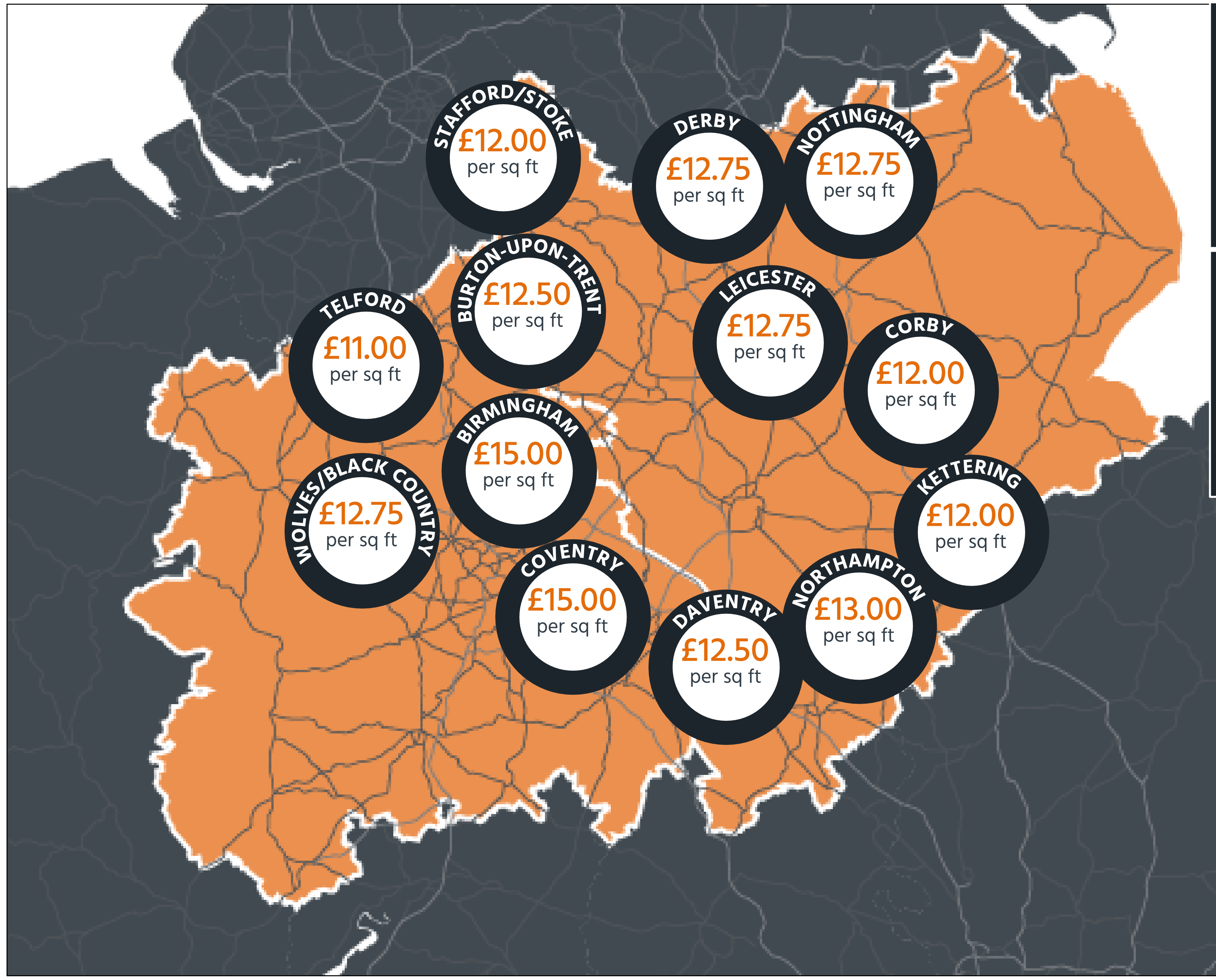
Q1 all-grades ERV by unit size and % premium/discount

Source: Gerald Eve



Q2 prime rents and equivalent yields

Source: Gerald Eve



EAST MIDLANDS

5.50%

Q2 EQUIVALENT YIELD

5.75% Q4

WEST MIDLANDS

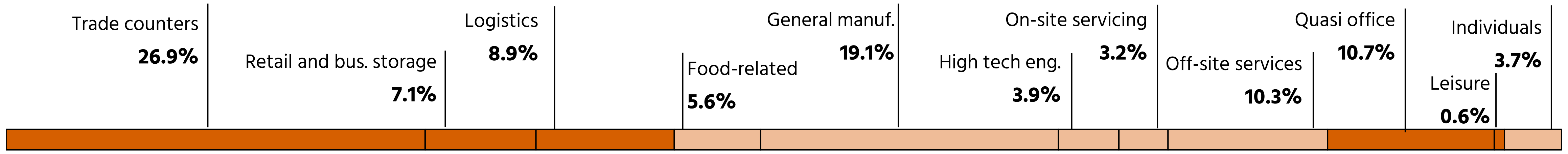
5.50%

Q2 EQUIVALENT YIELD

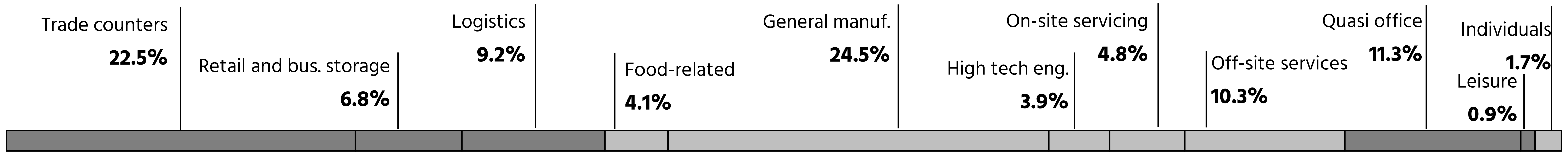
5.75% Q4

THE MIDLANDS

East Midlands



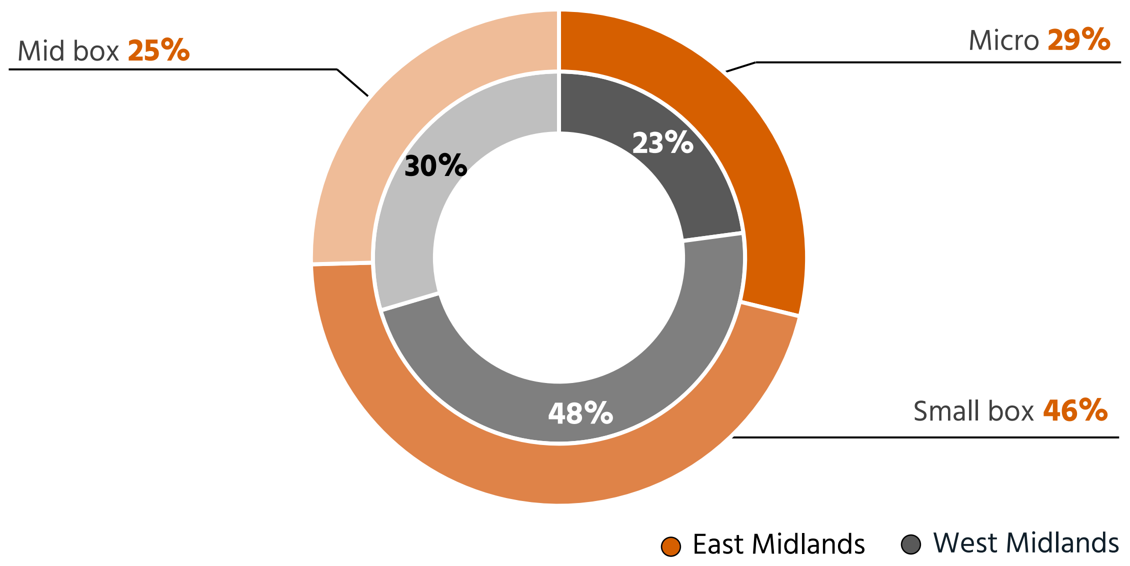
West Midlands



The Midlands benefits from a large population and exceptional connectivity via the national motorway network. The region is serviced by the East Midlands Airport, which is the UK's number one airport for pure freight. Known more for its manufacturing hubs and big box industrial, multi-let has also proliferated. Prime rents vary relatively little, with Telford and Corby at £11.00 - £12.00 per sq ft and Birmingham the most expensive at £15.00 per sq ft. Multi-let space in the Midlands unsurprisingly has a relatively large amount of manufacturing occupiers, particularly in the West Midlands. There are 28 schemes in the pipeline, totalling 1.2m sq ft, which is significantly lower than in the North West or South East. However, an unusually large 37% of schemes in the East Midlands are under construction - 246,00 sq ft over 10 schemes is to be delivered in 2024 and 2025.

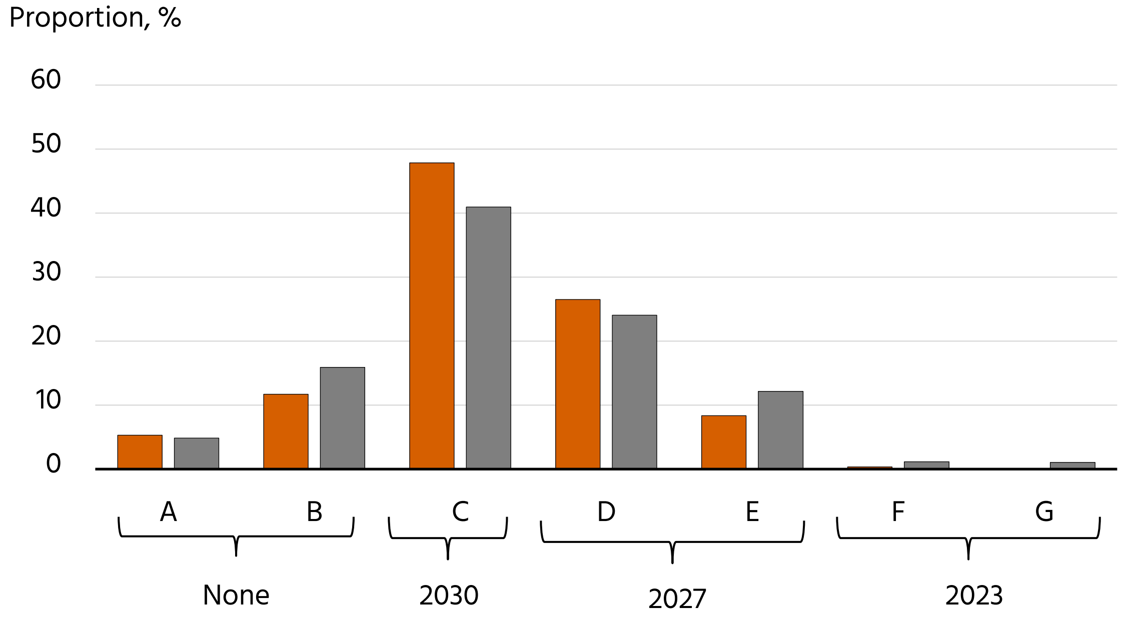
Proportion of floorspace by unit size

Source: Gerald Eve



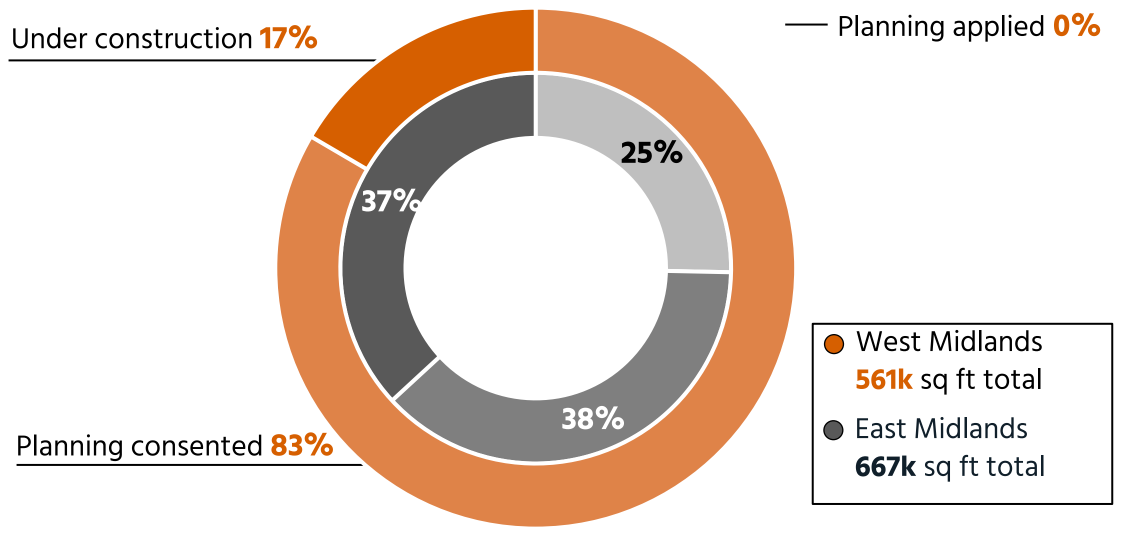
Floorspace by EPC grade (& deadline to non-compliance)

Source: Gerald Eve



Development pipeline

Source: Gerald Eve, Property Data



SOUTH WEST AND WALES

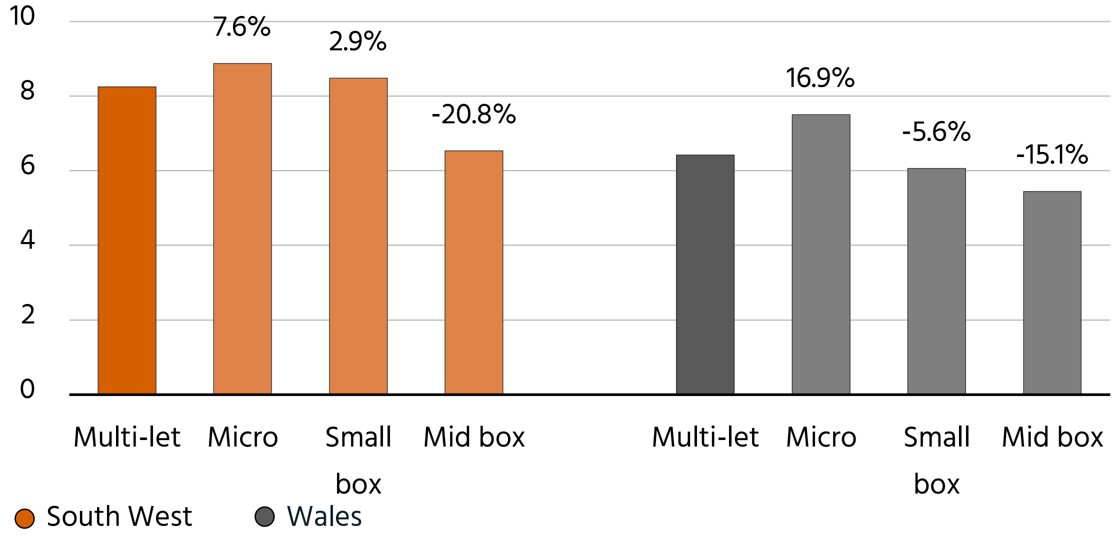
Continue with this region

All-grades ERV by area

Source: Gerald Eve, MSCI

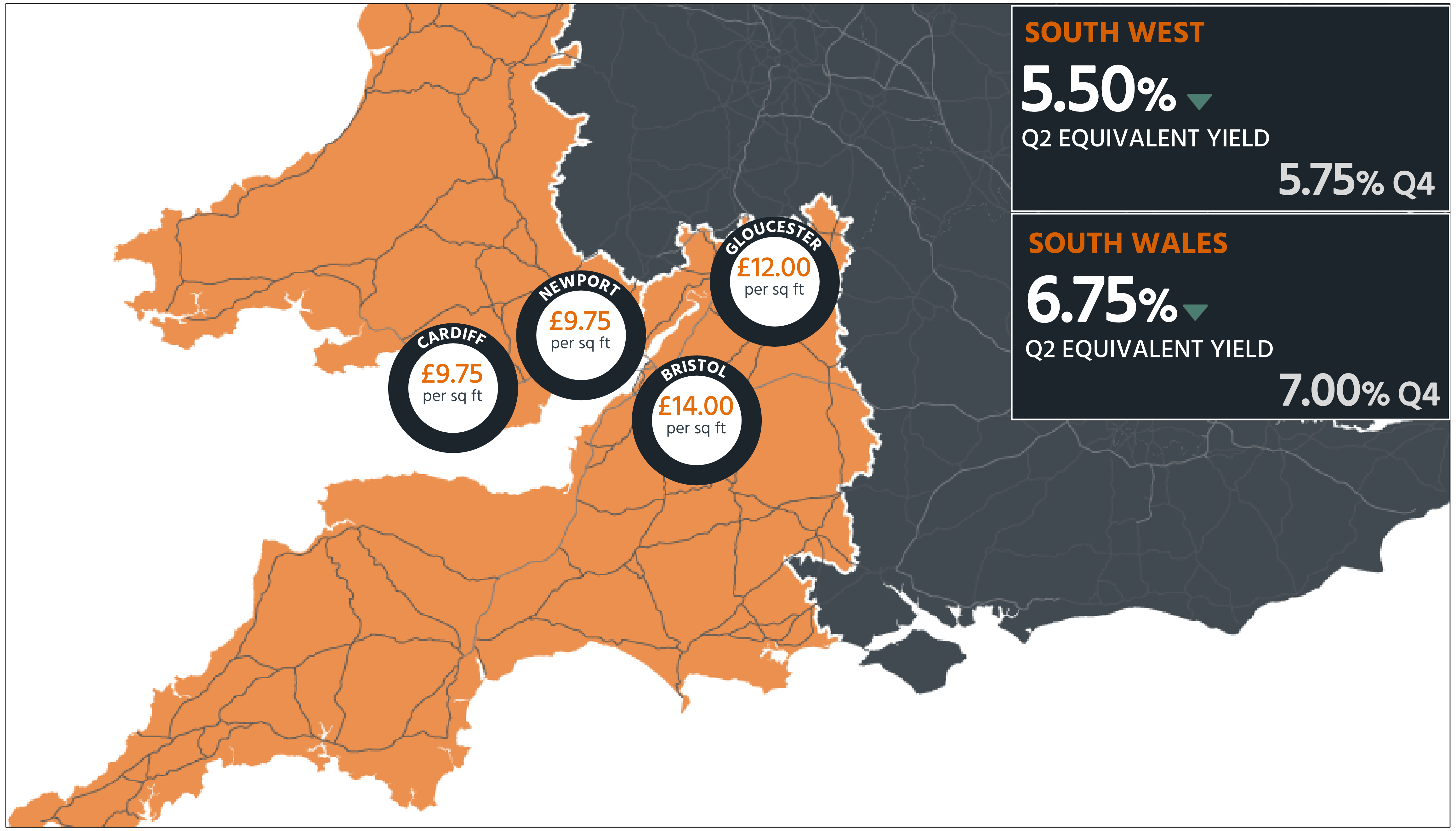
Q1 all-grades ERV by unit size and % premium/discount

Source: Gerald Eve



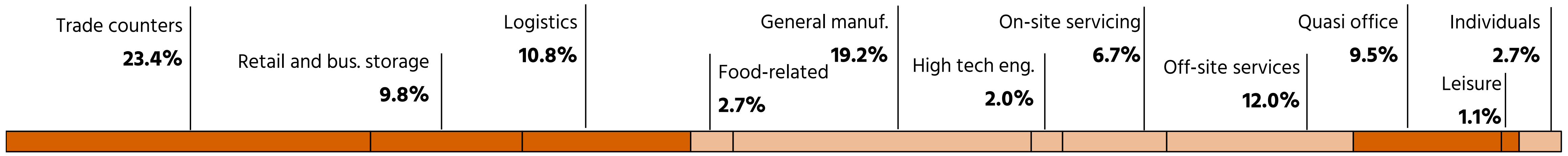
Q2 prime rents and equivalent yields

Source: Gerald Eve

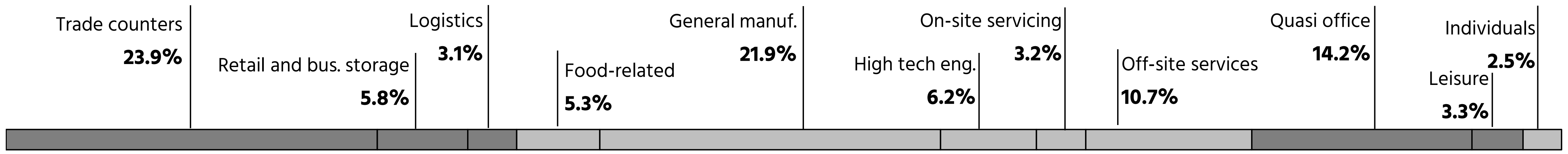


SOUTH WEST AND WALES

South West

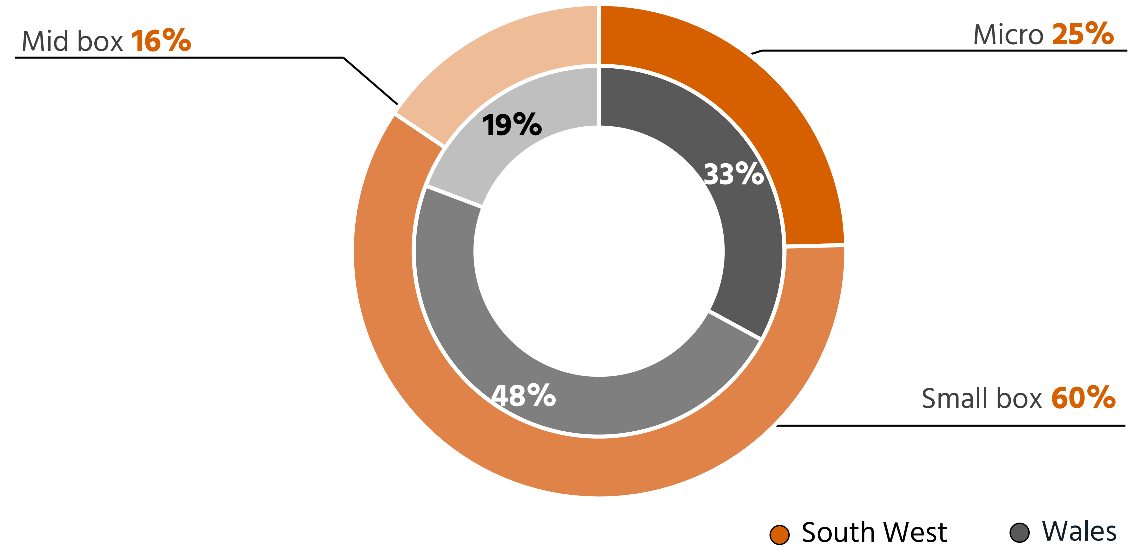


Wales

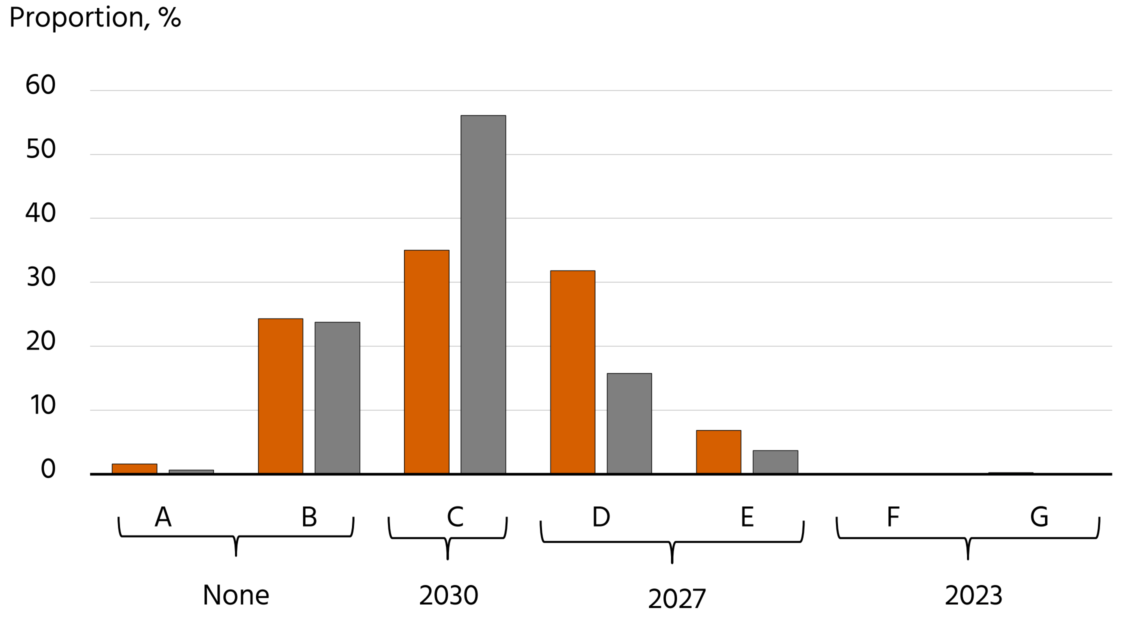


This region's north easterly area is a significant big box logistics location that abuts the M5 motorway on the fringe of the West Midlands market and provides good connectivity to the wider UK motorway network. Bristol offers the region's highest multi-let ERVs, with a prime headline rent of £14.00. The city has a dense and affluent local population, with Avonmouth comprising the key industrial cluster. Wales multi-let, like Scotland, is characterised by a significantly lower proportion of logistics tenants than elsewhere in the UK. There are 25 schemes comprising 1.4m sq ft in the wider region pipeline and generally a low level of development activity compared with the rest of the UK, particularly in Wales. The South West has greater potential development activity and there is currently 211,000 sq ft under construction over five schemes.

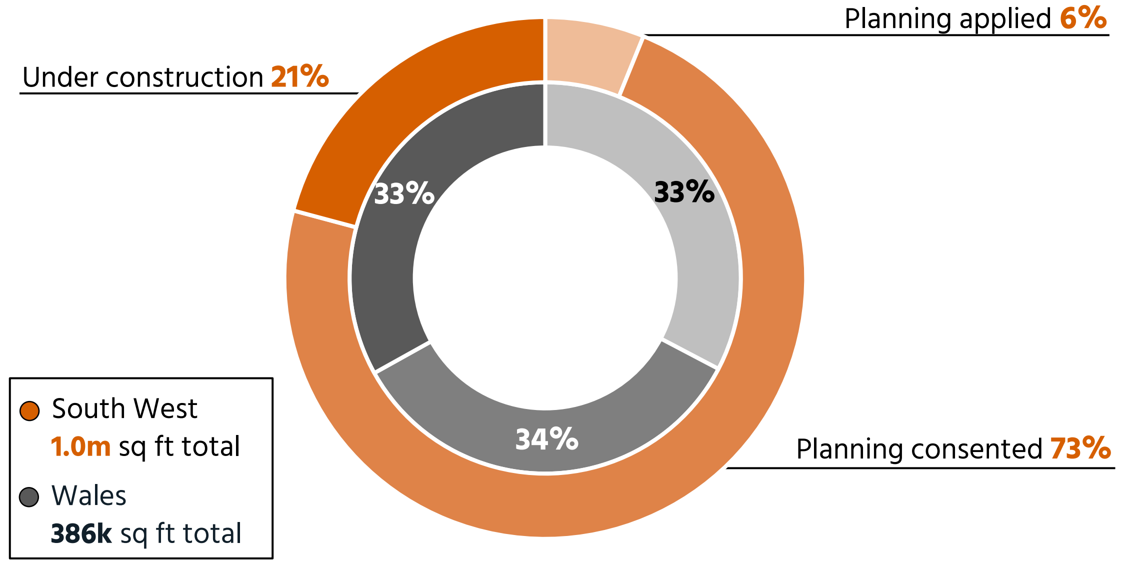
Proportion of floorspace by unit size
Source: Gerald Eve



Floorspace by EPC grade (& deadline to non-compliance)
Source: Gerald Eve



Development pipeline
Source: Gerald Eve, Property Data

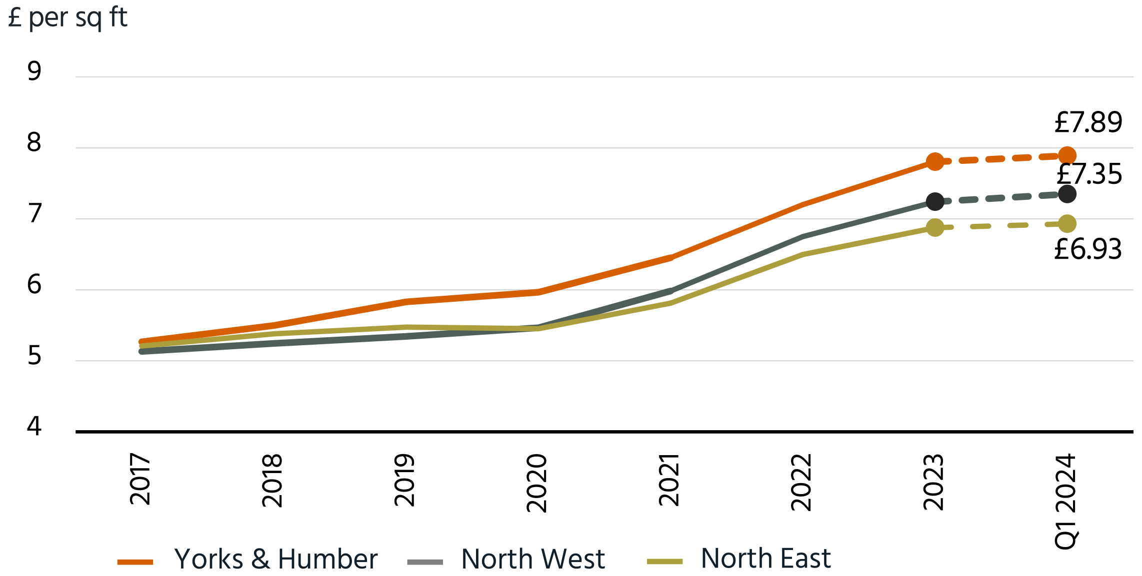


THE NORTH

Continue with this region

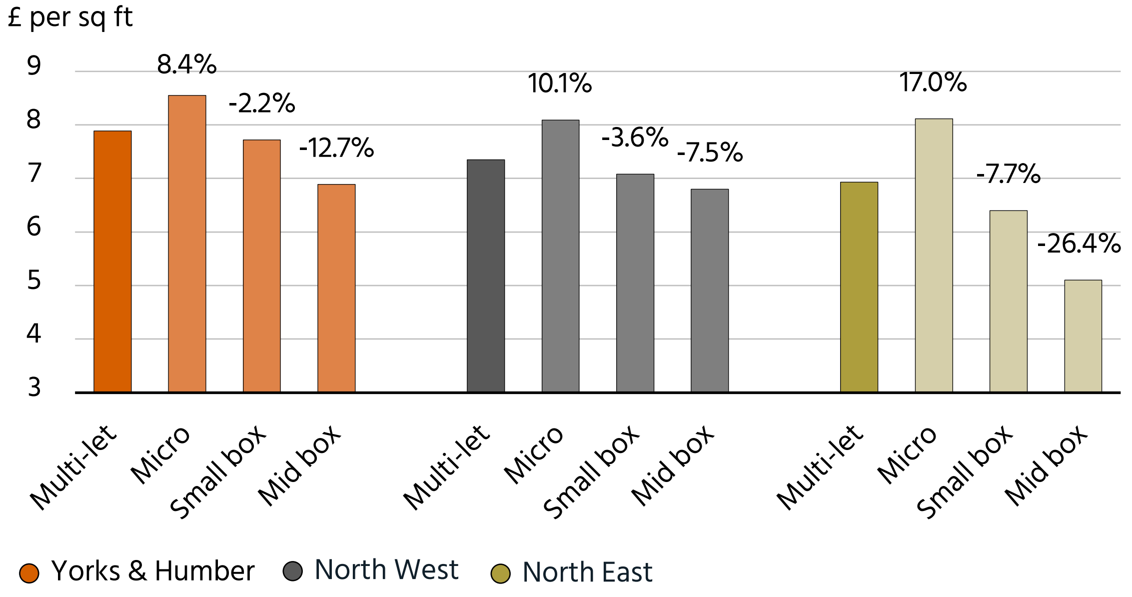
All-grades ERV by area

Source: Gerald Eve, MSCI



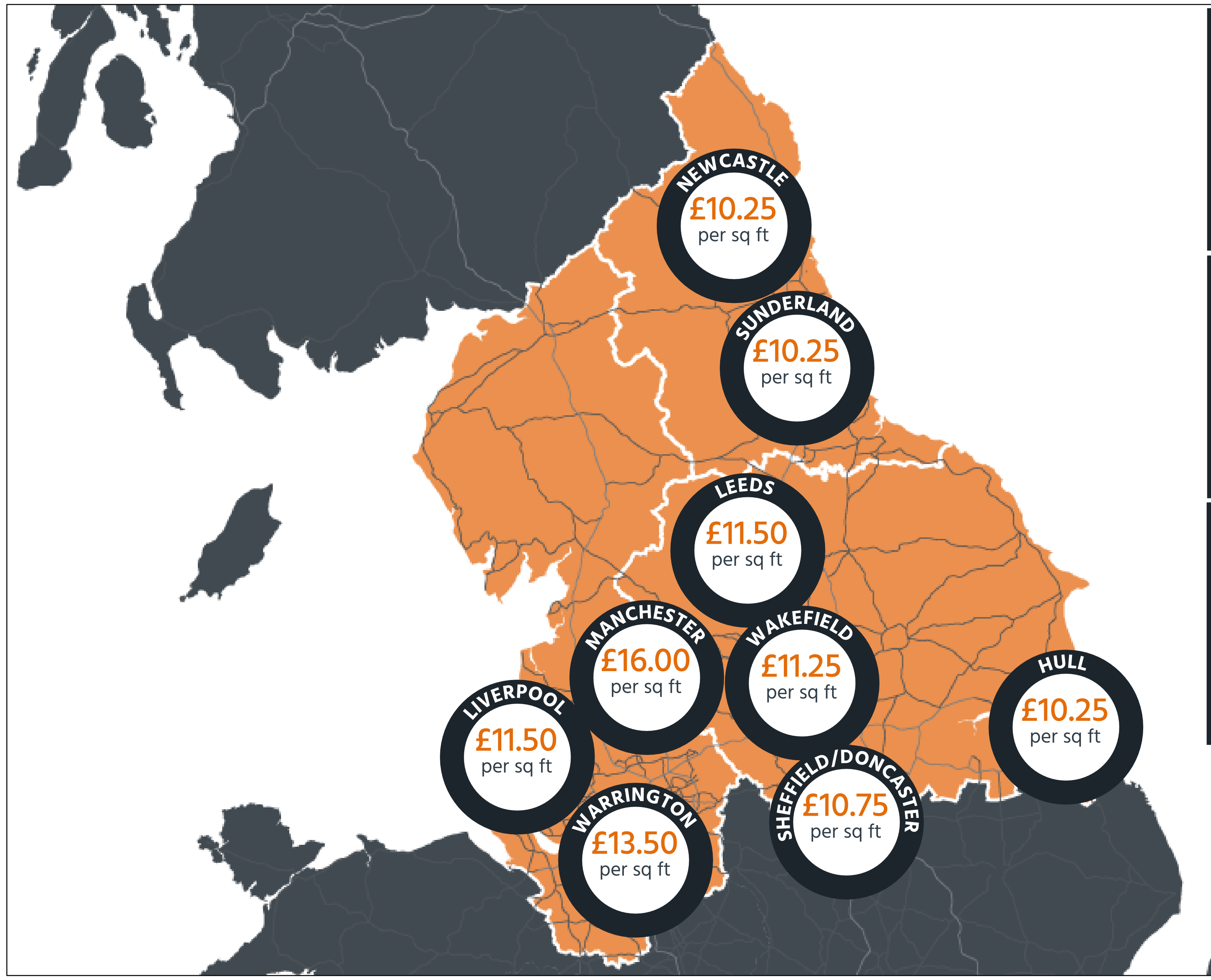
Q1 all-grades ERV by unit size and % premium/discount

Source: Gerald Eve



Q2 prime rents and equivalent yields

Source: Gerald Eve

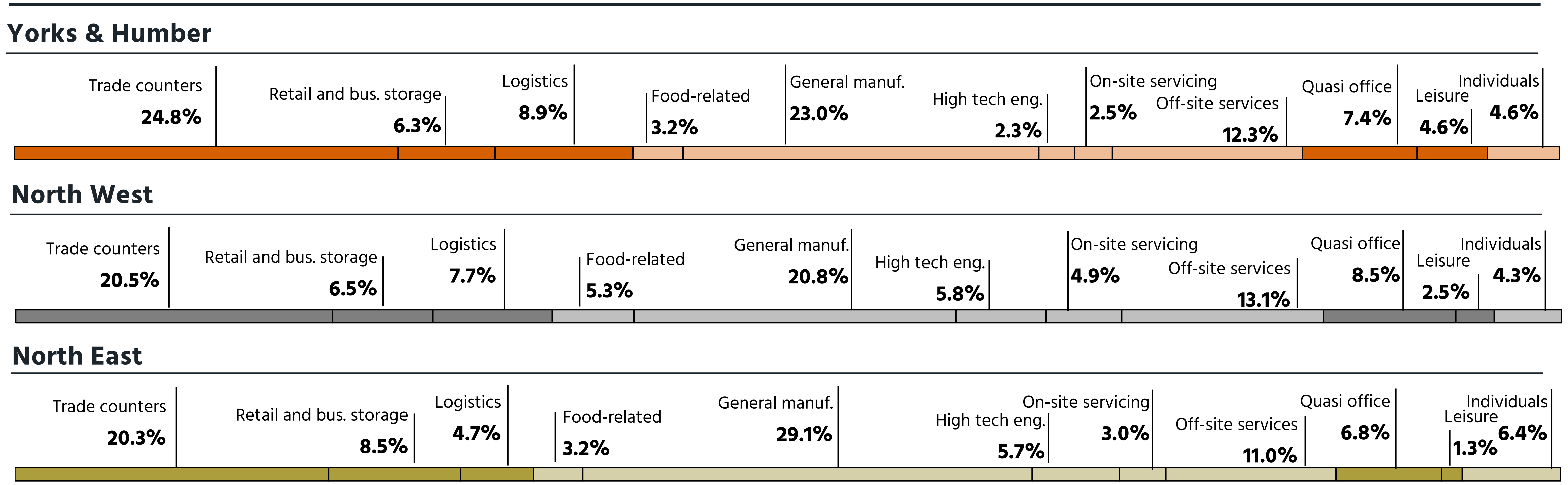


YORKS & HUMBER
5.50%
Q2 EQUIVALENT YIELD
5.75% Q4

NORTH WEST
5.25%
Q2 EQUIVALENT YIELD
5.50% Q4

NORTH EAST
6.25%
Q2 EQUIVALENT YIELD
6.50% Q4

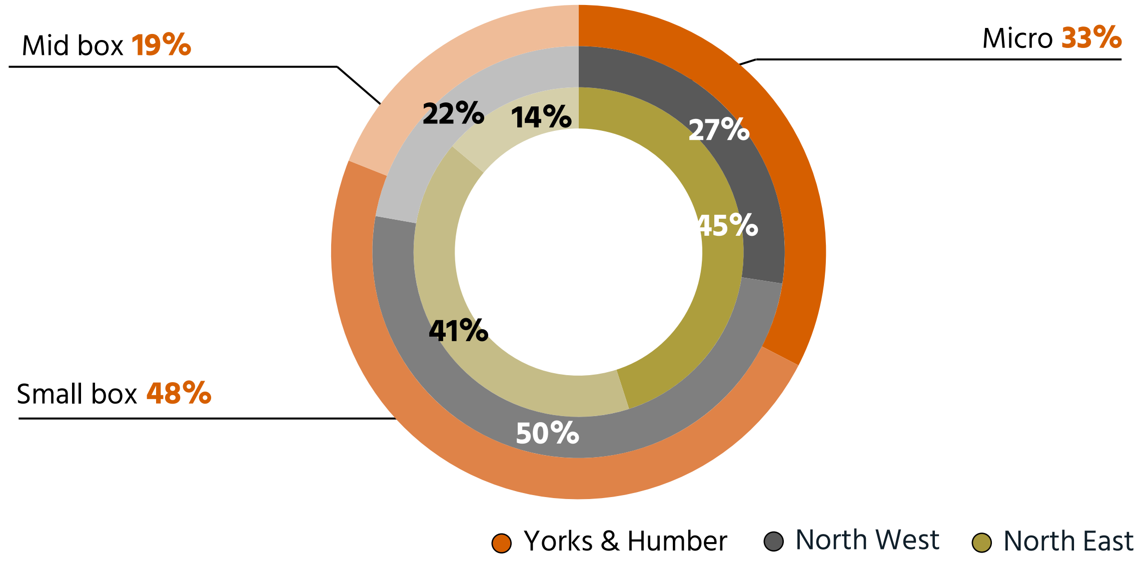
THE NORTH



Multi-let in the North of England is characterised by diversity. Relatively expensive prime space in the North West contains several urban logistics locations and key clusters on arterial motorway networks including the M6 corridor, M65, M60 and M53. There is undersupply for SMEs, further squeezed by higher value alternative uses. The North East has lower ERVs and is a key industrial hub with the highest value of goods exports relative to the size of its economy. The region's primary industrial sectors include manufacturing, rail, aerospace and electronics, with a well-connected supply chain. The proportion of so-called 'Individuals' multi-let ocupiers is also high here, with most occupying firms classified as small or micro. Multi-let is supply-constrained across the North of England, but relatively speaking the North West has the strongest development pipeline in the UK. There is a potential 4.7m sq ft, with 1.1m sq ft under construction across 19 schemes for delivery across 2024 and 2025.

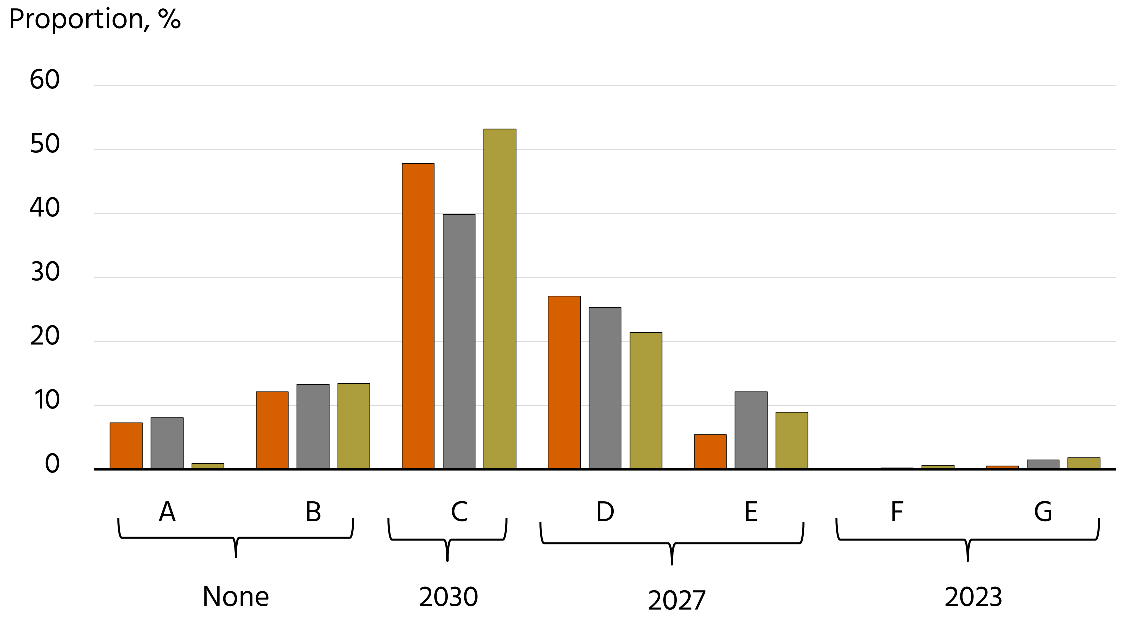
Proportion of floorspace by unit size

Source: Gerald Eve



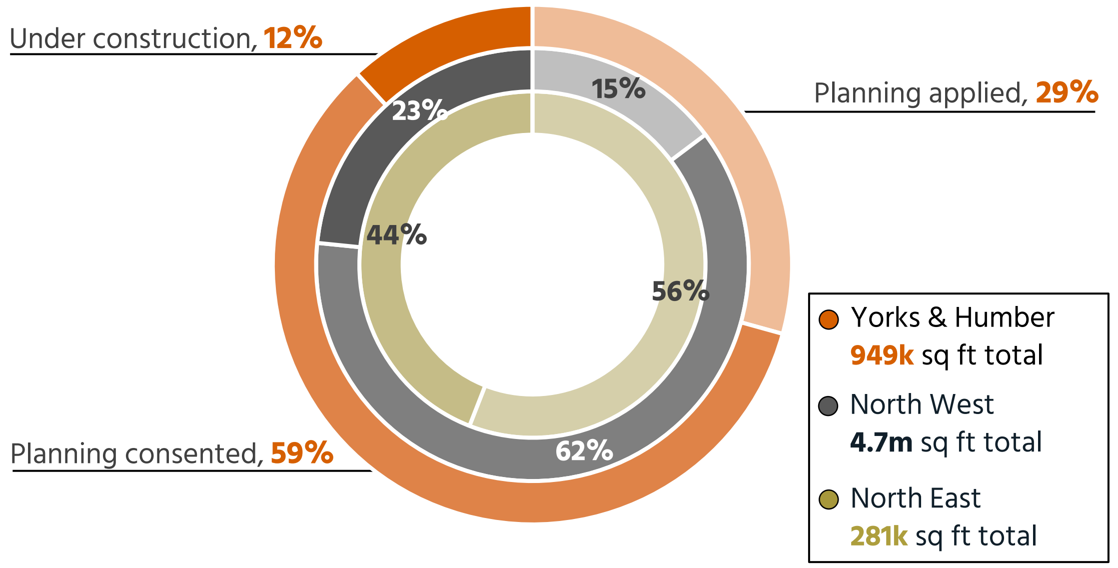
Floorspace by EPC grade (& deadline to non-compliance)

Source: Gerald Eve



Development pipeline

Source: Gerald Eve, Property Data

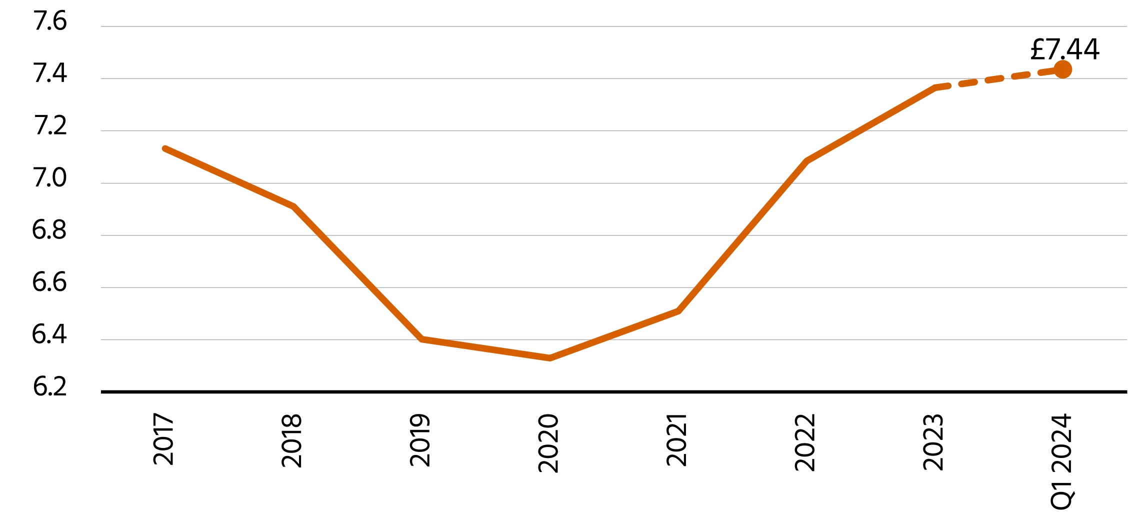


SCOTLAND

Continue with this region

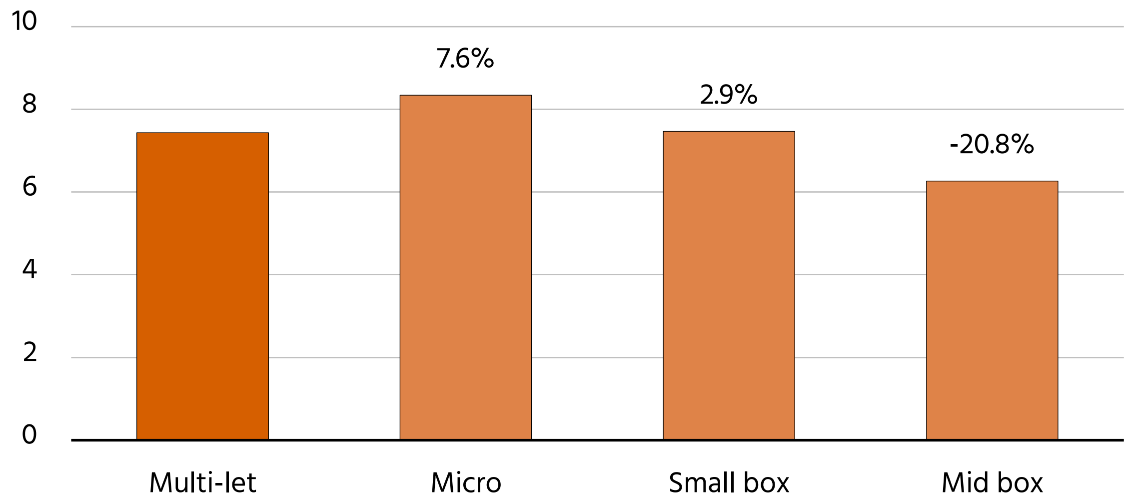
All-grades ERV

Source: Gerald Eve, MSCI



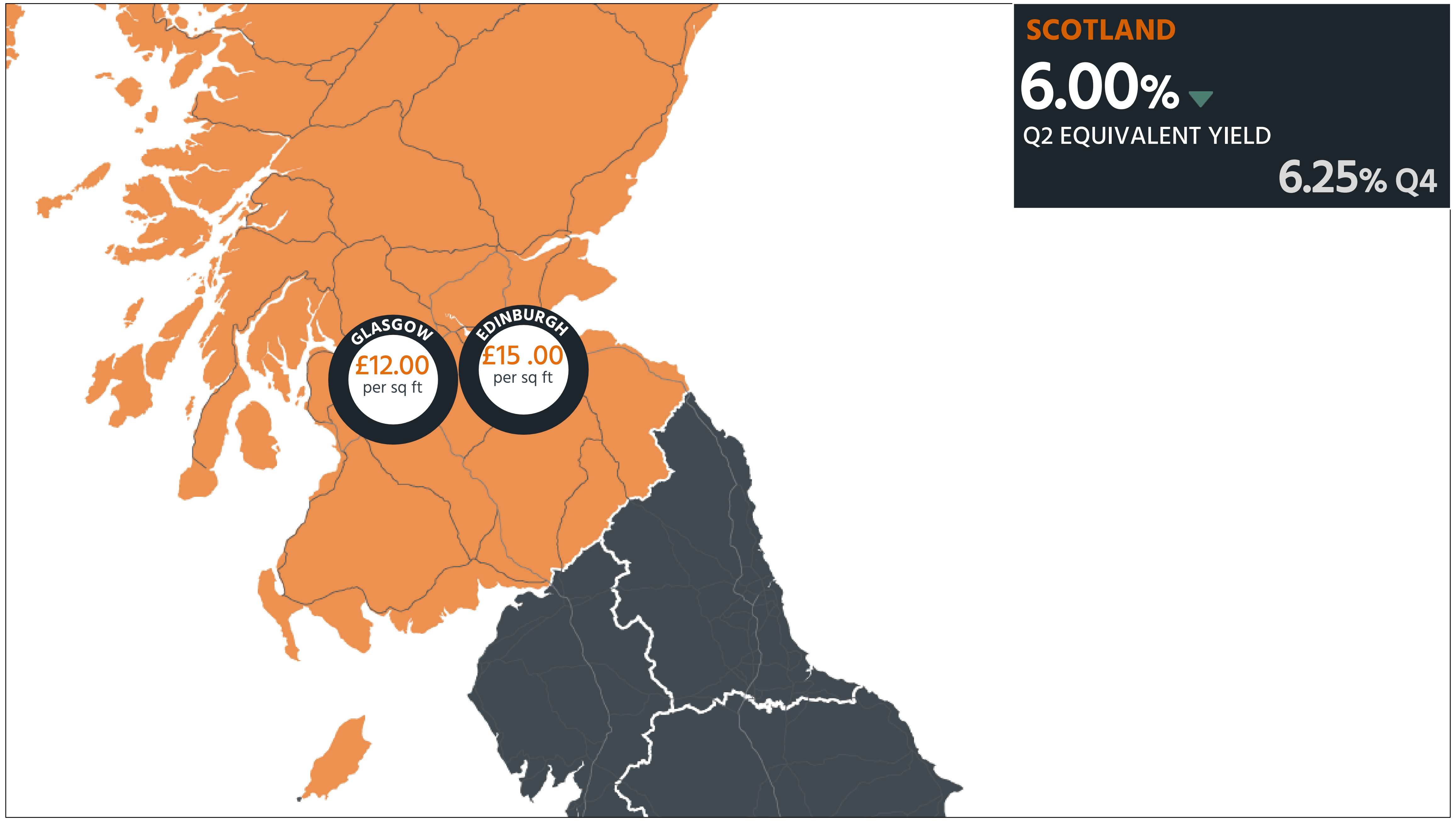
Q1 all-grades ERV by unit size and % premium/discount

Source: Gerald Eve



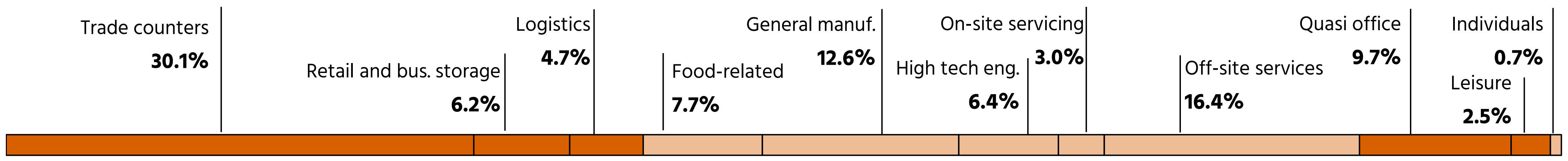
Q2 prime rents and equivalent yields

Source: Gerald Eve



SCOTLAND

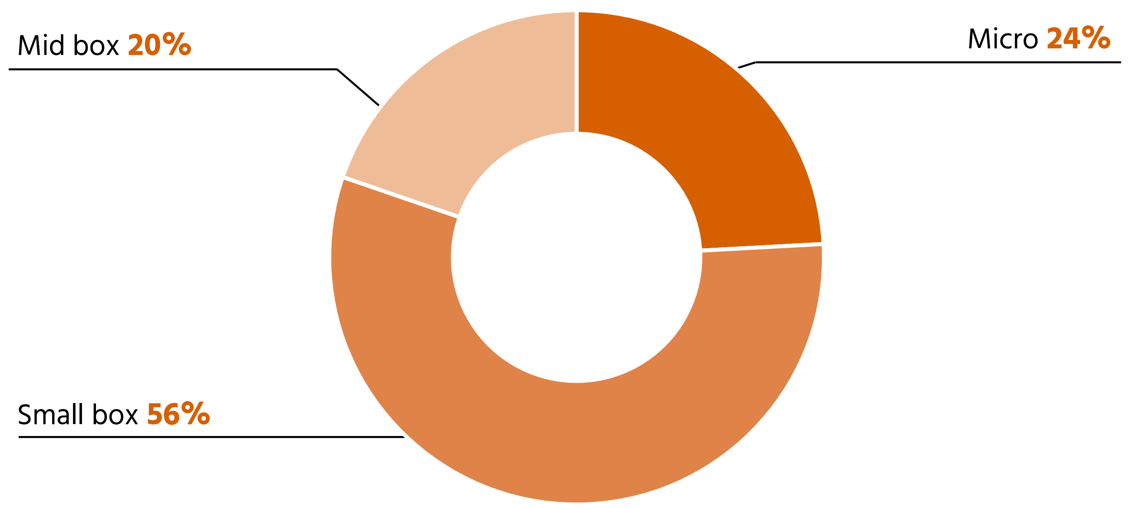
Scotland



Until recently, prime rents in the Scottish Central/M8 corridor region have not seen the kinds of stellar growth observed in other prime multi-let markets across the UK, owing to the relative thinness of evidential transactions. Edinburgh prime rents took a large step up to £15 per sq ft in Q2 following the completion of Capita Park. This represents the new absolute prime and the best-in-class rent benchmark in Scotland. It is not only an excellent addition to raise the overall quality of the Scottish multi-let offering, but it also highlights a differential between Edinburgh and Glasgow. In part this reflects the greater amount of spare potential space in Glasgow. Land prices are sufficiently high in Edinburgh to require quoting rents on a new development like Capita to be £15 per sq ft. Future schemes such as Warehouse REIT's 55k sq ft development at Queenslie will give a better steer on achievable prime rents in the Glasgow market.

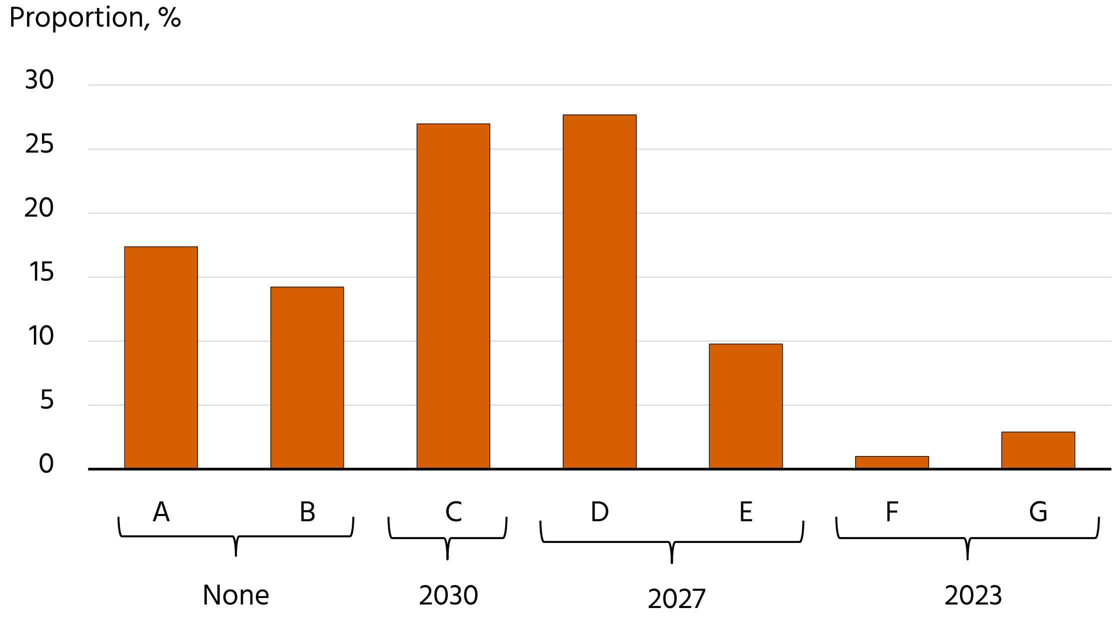
Proportion of floorspace by unit size

Source: Gerald Eve



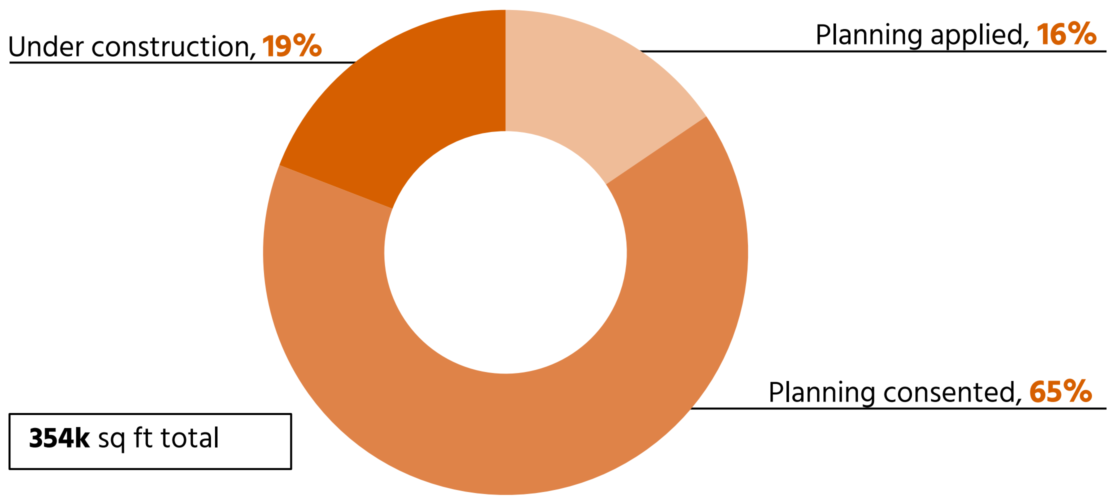
Floorspace by EPC grade (& year of non-compliance)

Source: Gerald Eve



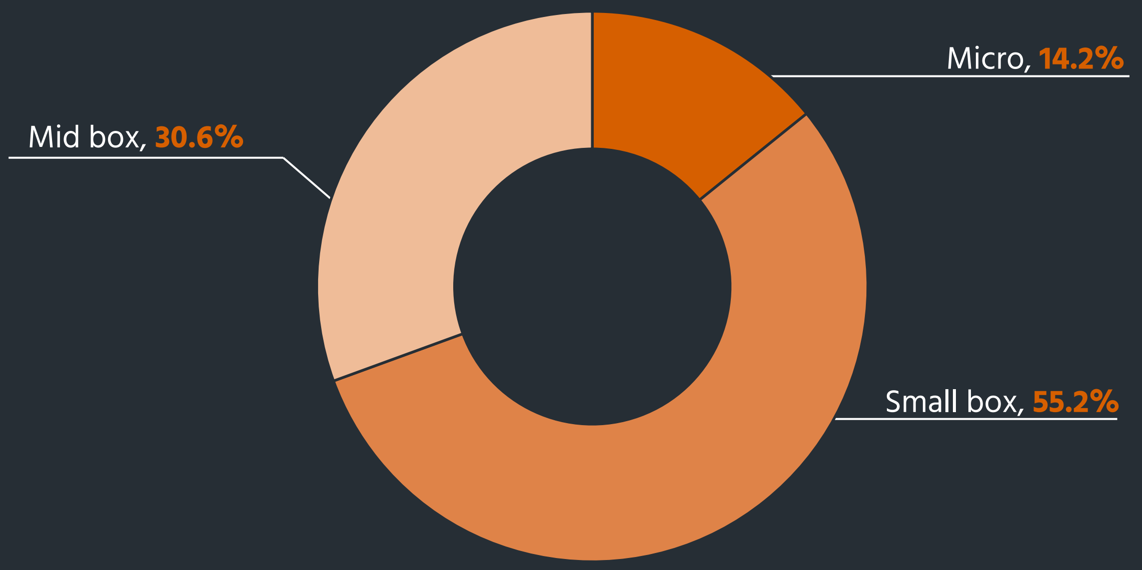
Development pipeline

Source: Gerald Eve, Property Data

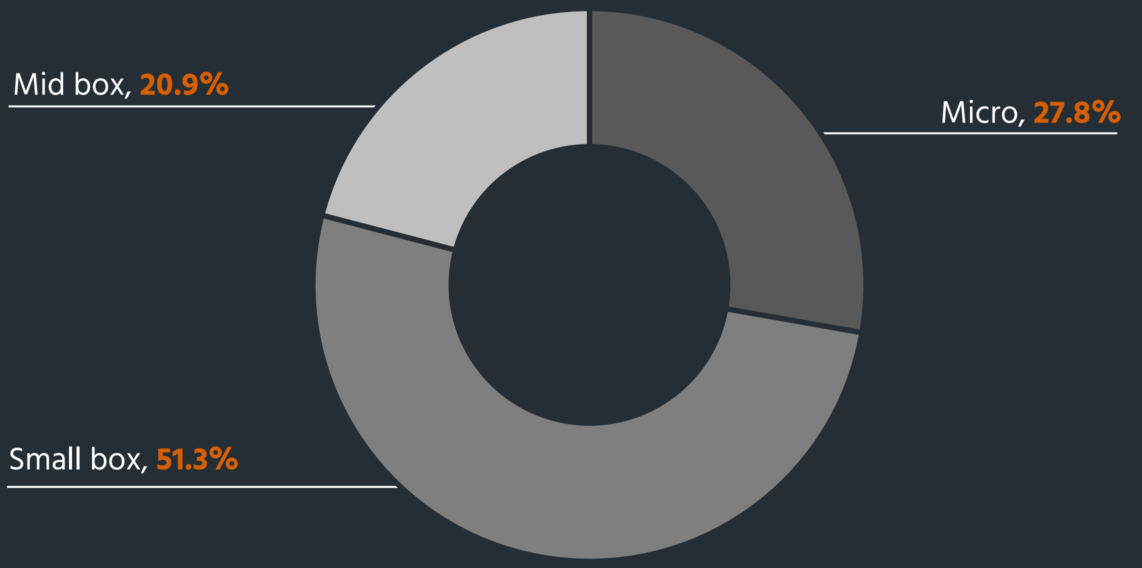


MULTI-LET SAMPLE STRUCTURE

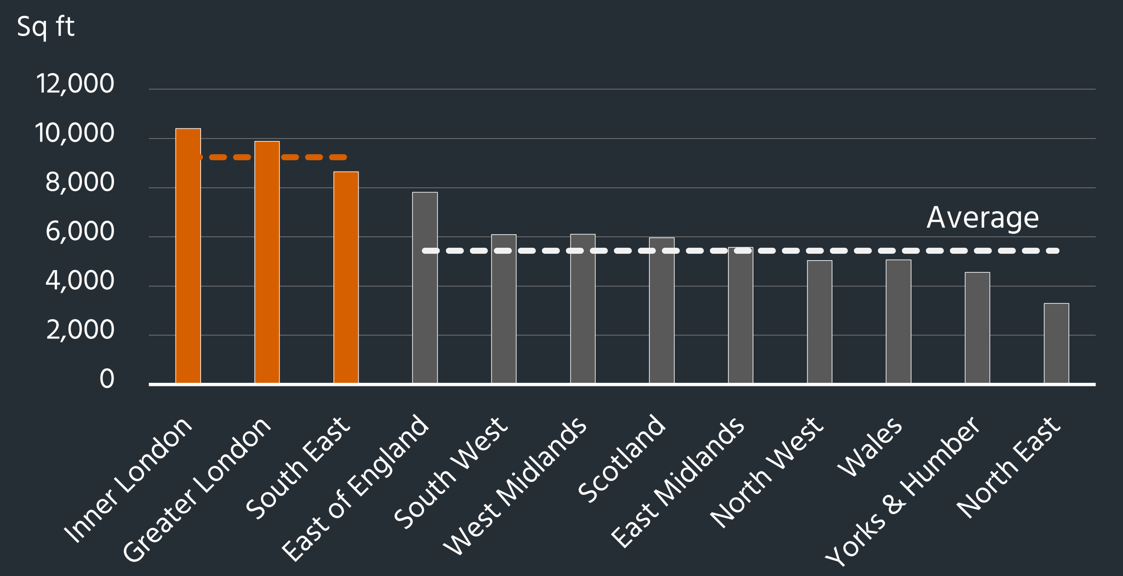
London & the South East floorspace by size of unit
Source: Gerald Eve



Rest of UK floorspace by size of unit
Source: Gerald Eve



Multi-let average unit size by region
Source: Gerald Eve



Multi-let estate sizes by major region
Source: Gerald Eve

DATASET AND DEFINITIONS

1,200+
Estates

12,400+
Units

£27bn
Total capital value

147m sq ft
Total floorspace

£1.6bn
Market rent

17
Contributors

Micro units
500-5,000 sq ft

Small box units
5,001-25,000 sq ft

Mid box units
25,001-50,000 sq ft

A **micro-entity** occupier must meet at least <u>two</u> of the following conditions:

- turnover must be not more than £632,000
- the balance sheet total must be not more than £316,000
- the average number of employees must be not more than 10

A **small** company occupier must meet at least <u>two</u> of the following conditions:

- annual turnover must be not more than £10.2 million
- the balance sheet total must be not more than £5.1 million
- the average number of employees must be not more than 50

MULTI-LET CONTACTS

Agency

London & South East

Josh Pater
Mobile +44 (0)7782 271355
jpater@geraldeve.com

Mark Trowell
Mobile +44 (0)7768 987508
mtrowell@geraldeve.com

Freddie John
Mobile +44 (0)7788 394341
fjohn@geraldeve.com

Midlands

Charles Spicer
Mobile +44 (0)7949 864103
cspicer@geraldeve.com

Sam Pearson
Mobile +44 (0)7557 587826
spearson@geraldeve.com

North

Jason Print
Mobile +44 (0)7833 170680
jprint@geraldeve.com

Scotland

Sven Macaulay
Mobile +44 (0)7767 310373
smacaulay@geraldeve.com

Investment

John Rodgers
Mobile +44 (0)7810 307422
jrodgers@geraldeve.com

Nick Ogden
Mobile +44 (0)7825 106681
nogden@geraldeve.com

Callum Robertson
Mobile +44 (0)7810 655791
crobertson@geraldeve.com

Strategic Land

Sam Skinner
Mobile +44 (0)7880 828020
sskinner@geraldeve.com

Lease Consultancy

Chris Long
Mobile +44 (0)7767 618623
clong@geraldeve.com

Rating

Keith Norman
Mobile +44 (0)7836 549774
knorman@geraldeve.com

Valuation

Richard Glenwright
Mobile +44 (0)7944 585528
rglenwright@geraldeve.com

Research

Steve Sharman
Mobile +44 (0)7508 008118
ssharman@geraldeve.com

Ben Clarke
Tel. +44 (0)207 333 6288
bclarke@geraldeve.com

Property Asset Management

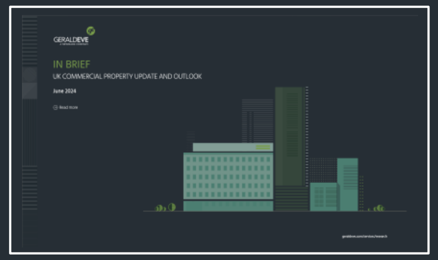
Angela Duru
Mobile +44 (0)7464 904656
aduru@geraldeve.com

Aviation and Infrastructure

John Arbuckle
Mobile +44 (0)7810 181391
jarbuckle@geraldeve.com

John Howells
Mobile +44 (0)7584 099077
jhowells@geraldeve.com

FURTHER INSIGHT



In Brief
June 2024

Prime Logistics
Q2 2024

London Markets
Q1 2024

Gerald Eve, a Newmark Company, is a firm of international property consultants based in the UK. We operate a national network of nine offices and an international association covering 20 European countries and all major US markets. Whether you are a property owner, investor, occupier or developer, Gerald Eve provides independent, intelligent and relevant advice based on detailed market knowledge and sector understanding. Together we have the resource, experience and relationships to deliver the best property solutions for your business.