

CREDIBLE THINKING

UK MARKET FUNDAMENTALS REMAIN STRONG FOR 'BIG BOX' LOGISTICS



WRITTEN BY

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My previous 'Credible Thinking' piece, written from my living room in the depths of lockdown #1, highlighted the incredible performance in the 'Big Box' (300,000 sq ft+) market since start of the pandemic. It's safe to say, this trend has not abated in the 21 months since.

In 2021, take up in the 'Big Box' market equated to 29.4m sq ft, which is the equivalent of 59% of total figures for the year (100,000 sq ft +). Occupiers' flight to 'bigger is better' has become very apparent as they are looking to improve their supply chains. As a result of this, there are currently only three available new build units that are immediately available to occupy over 300,000 sq ft (excluding those under offer and/or under construction).

The headline grabber of the last 18 months has been the level of rental growth that has been witnessed around the country. One of the best performing markets has been the Midlands which has witnessed an unprecedented increase in the headline rents being achieved.

Whilst proposals are being circulated ahead of these levels, achieved prime rents on new build product now stands at £8.75 psf in the 'Golden Triangle' which is an increase of 23% in as little as 18 months. **For context, that is as much rental growth as had been witnessed in the 10 years from 2009 to 2019** and, if the growth continued on that trajectory, prime rents would be £10.75 psf by Q4 2023.

Northampton is set to break the £9.00 psf mark shortly and Birmingham should see its first double digit rent on a unit just shy of 100,000 sq ft. Once the mental barrier around achieving double digit rents starts to be eroded, we anticipate that a number of schemes will push their quoting rents upwards, in an attempt to capitalise on this sustained period of demand.

The market accepted discount in rent for quantum may and should become a thing of the past. If anything, there is a strong case to be put forward for a rental premium for those sites that can deliver larger scale facilities, few as they are. In any global marketplace, if demand is increasing for an asset (in this case a 300,000 sq ft + 'Big Box'), and the availability of said asset is the most depleted, the fundamentals of demand v supply dynamics would dictate a premium should be paid for that asset. Watch this space.

Clearly there are currently other factors at play than just the strong depth of occupier demand and dwindling supply.

Inflationary pressures and long lead times on building materials are having an impact on build costs. These cost increases have to be absorbed in the deal terms, whether that be increasing the rent, a shortening of incentives or an increase in the lease term. Realistically we are seeing all three metrics sway in favour of landlords. Especially those who are willing to be more robust on leasing terms.

With a UK vacancy rate of 2.6%, the lowest ever recorded, this upward rental trajectory is set to continue in the short to medium term. Whether it continues as the pace of the last 18 months is yet to be seen, but what is clear is that rents aren't going to plateau at their current levels any time soon. The extent of occupiers demanding space is as diverse as it's been for a long time and we are seeing less and less mention of and reliance upon, the 'Big A'.

As long as the healthy level of demand we are seeing across all of our enquiry schedules continues in a similar vein, this market still has a healthy amount of growth yet to be unlocked.

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