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MULTI-LET

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

July 2023

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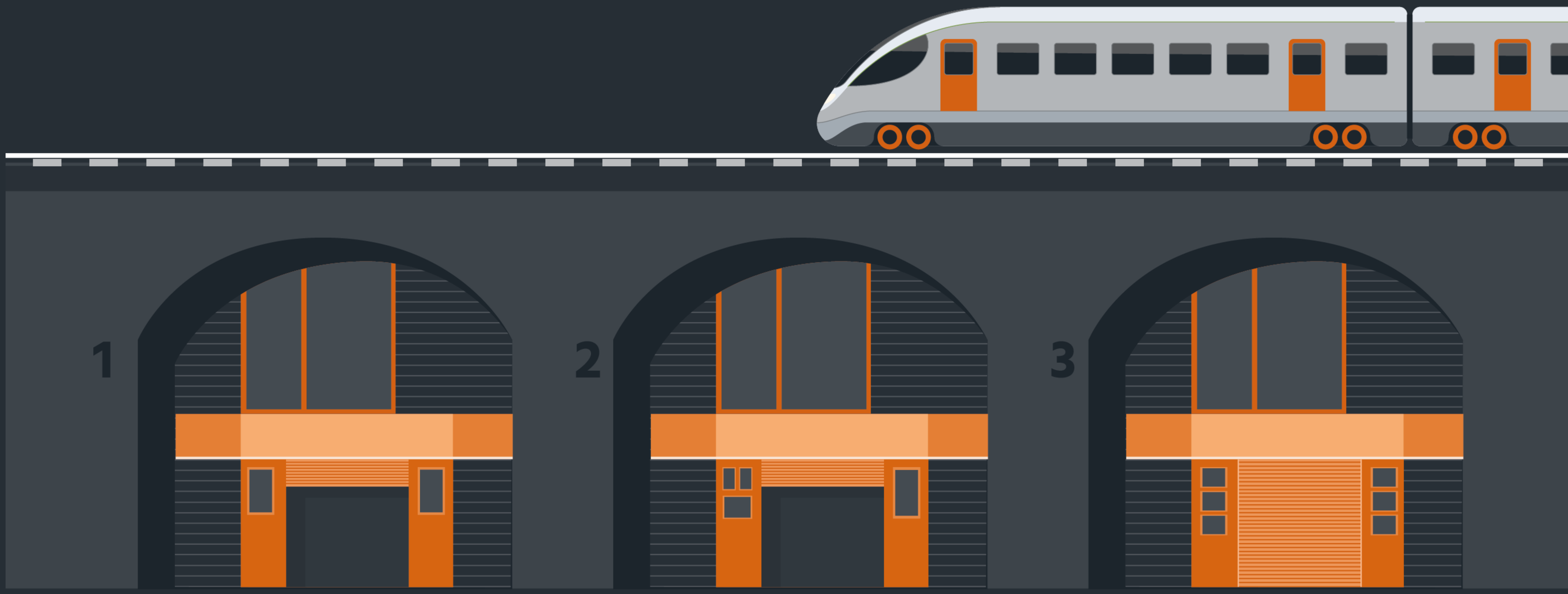

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MARKET OVERVIEW

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Headline ERV growth showed signs of cooling in central London, albeit from a high level. Meanwhile, more fringe and peripheral UK locations have played catch up, with the regions outside of the South East posting double digit ERV growth in 2022 for the first time on record. Void rates continue to tick up from recent historic lows as did the multi-let default rate in 2022, which at 4.3% was the highest since 2014. The steep rise in the UK company insolvency rate suggests this will increase again in 2023 though remain below the magnitudes observed during the financial crisis. We nevertheless remain upbeat on multi-let's diversity and defensiveness through this challenging period, which is set to keep ERV growth positive. Landlords will seek to maintain headline rents through increased incentives and a lack of realisable physical supply will also continue to underpin the market.

The all-in cost of debt has more than doubled following the dramatic increases in SONIA (and its forward curve) after 13 consecutive Base Rate rises, most recently the 50bps increase to 5.00% in June. Nevertheless, the industrial sectors are expected to resume their dominance over the other property sectors over 2023-27, albeit less emphatically than has been the case historically.

EPC analysis suggests that landlords are engaging with the MEES regulatory deadlines and around 10% of multi-let floorspace rated C-G was upgraded in 2022. This appears to be possible during an ongoing letting, which gives multi-let an advantage over other property types. However, a significant proportion upgraded only to just meet minimum prevailing regulations, with the most popular improvement outside of the South East a grade C rating.

£15.38psf ▲	£7.61psf ▲	9.2% ▲	8.2% ▲	4.3% ▲	6.0% ▲
ERV, London & the South East Q1 2023	ERV, Rest of UK Q1 2023	Vacancy rate, London & the South East Q1 2023	Vacancy rate, Rest of UK Q1 2023	UK multi-let default rate 2022	Forecast end-2023 multi-let equivalent yield

CONTRIBUTORS

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

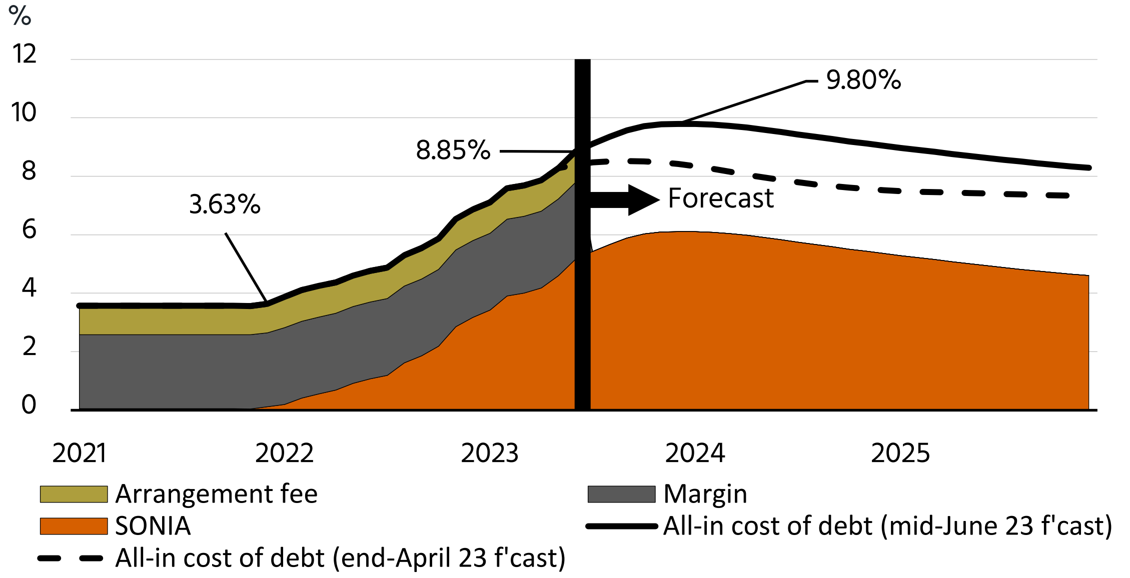
The information spans **15 years**, covering many tens of thousands of individual assets over that time, with a sample size in 2022 of **146 million sq ft**, valued at over **£26bn**.

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

INVESTMENT MARKET

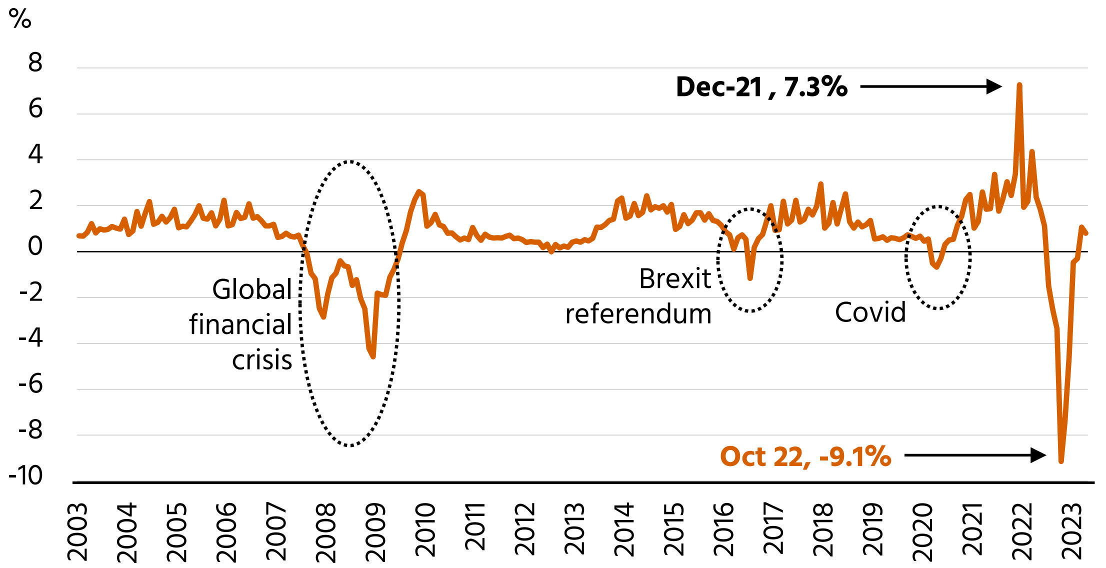
Notional all-in cost of debt and components, industrial

Source: Gerald Eve, Bayes Business School, Chatham Financial



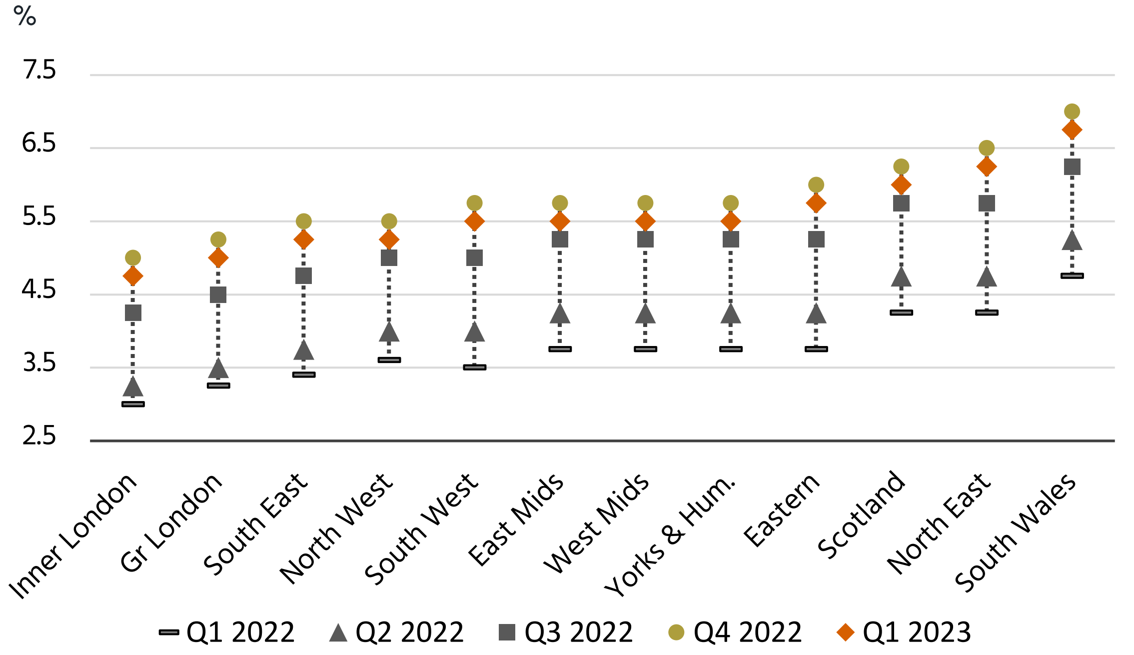
UK multi-let monthly total return

Source: MSCI, Gerald Eve



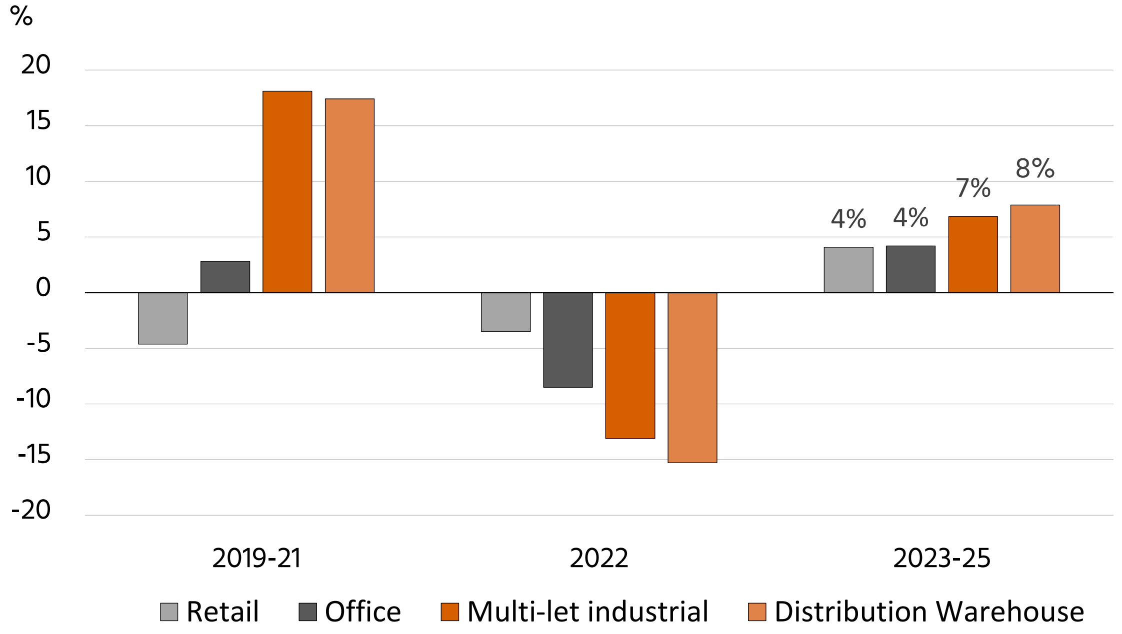
Prime multi-let yields by region

Source: Gerald Eve



Average annual total returns by sector

Source: Gerald Eve, MSCI



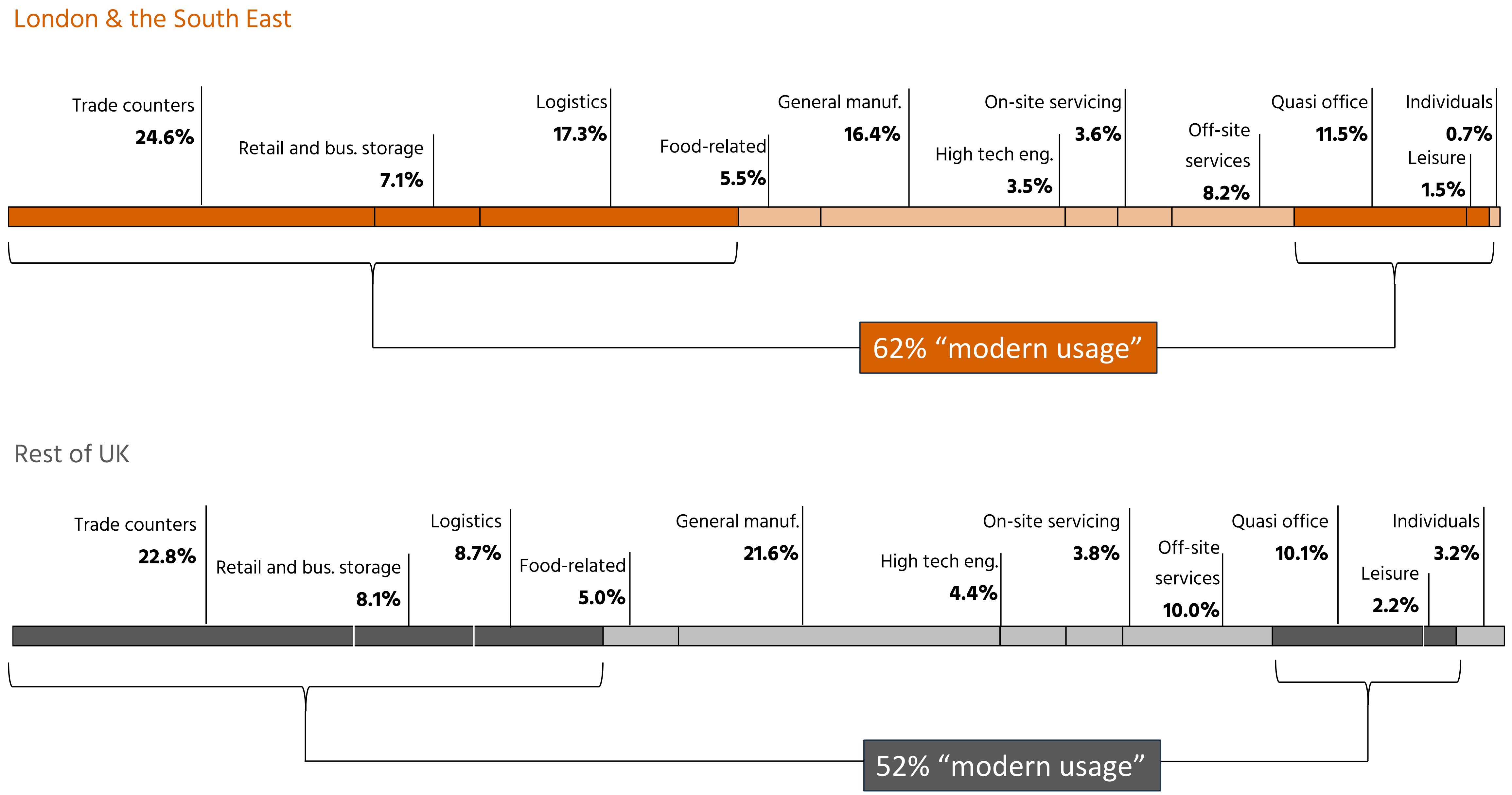
Key changes to the cost of debt has been the central feature for the industrial investment market over the past 18 months. A notional all-in cost is calculated here as the average lending margin and arrangement fee plus SONIA. In reality the arrangement fee is likely to be amortised over a period of several years, but as an exercise this stack has more than doubled following the significant increases in SONIA (and its forward curve) after 13 consecutive Base Rate rises, most recently the 50bps increase to 5.00% in June.

The most dramatic impact on multi-let was in Q4 2022 following September's "mini" budget. October 2022 marked multi-let's worst-ever monthly total return of -9.1%, just 10 months after its strongest ever month. In part this is testament to the liquidity and transparency of UK industrial. But since February this year until relatively recently industrial pricing in the direct market rallied somewhat, driven by conviction amongst a relatively small but well-capitalised investor pool looking to steal a march on the market and buy through a period of reduced pricing and competition.

Indications so far in Q2 are that live investment deals have still gone ahead, owing to a combination of lack of investment supply set against the weight of equity targeting the sector that have maintained prices in the direct market. For capital targeted at UK real estate industrial is still arguably the most prudent option.

Industrial assets massively outperformed the other UK sectors over 2019-21, with average annual returns in the high teens versus low single digits for offices and negative average returns for retail. After an initial sharper correction in 2022 the industrial sectors are expected to resume their dominance over the other major property types but less emphatically than has been the case historically.

THE MULTI-LET OCCUPIER BASE



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

OCCUPIERS

Click here for the definitions of company sizes

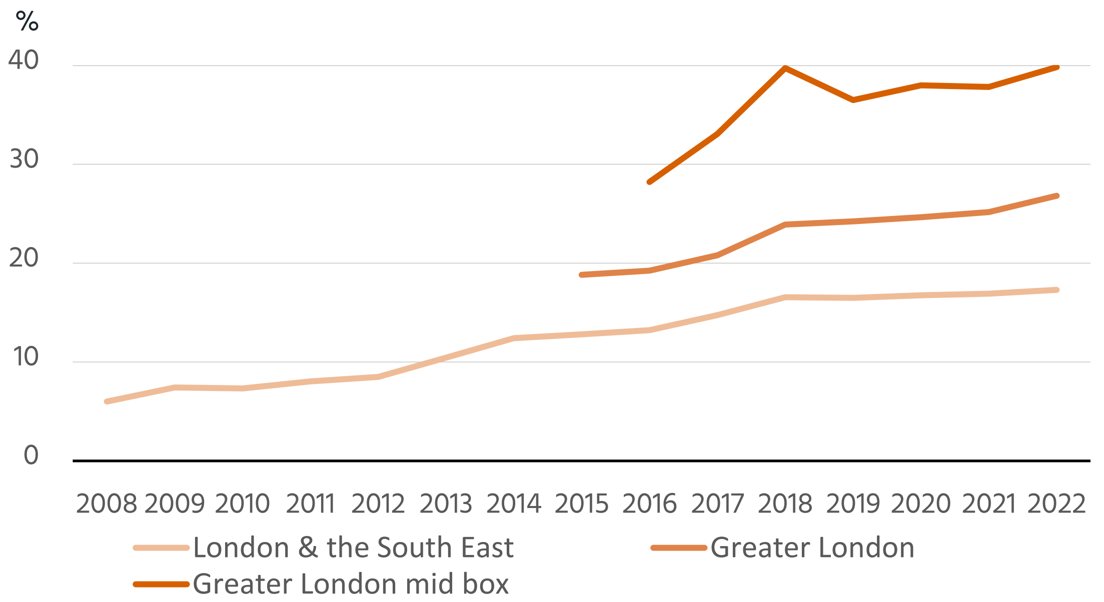
The footprint of floorspace occupied by 'modern use' multi-let tenants versus more traditional uses was broadly maintained at 62% in London & the South East and 52% in the Rest of the UK. This provided further evidence that the structural shift in the sector is largely complete.

There have been some ongoing occupier trends, however. Logistics has a relatively small multi-let footprint outside of the South East, at 9%. The proportion is higher within the region at over 17%, commensurate with the broader and denser urban population requiring parcel and post services. Moreover, the logistics multi-let footprint continues to trend upwards, driven by mid box units in Greater London where logistics now occupy around 40% of the space.

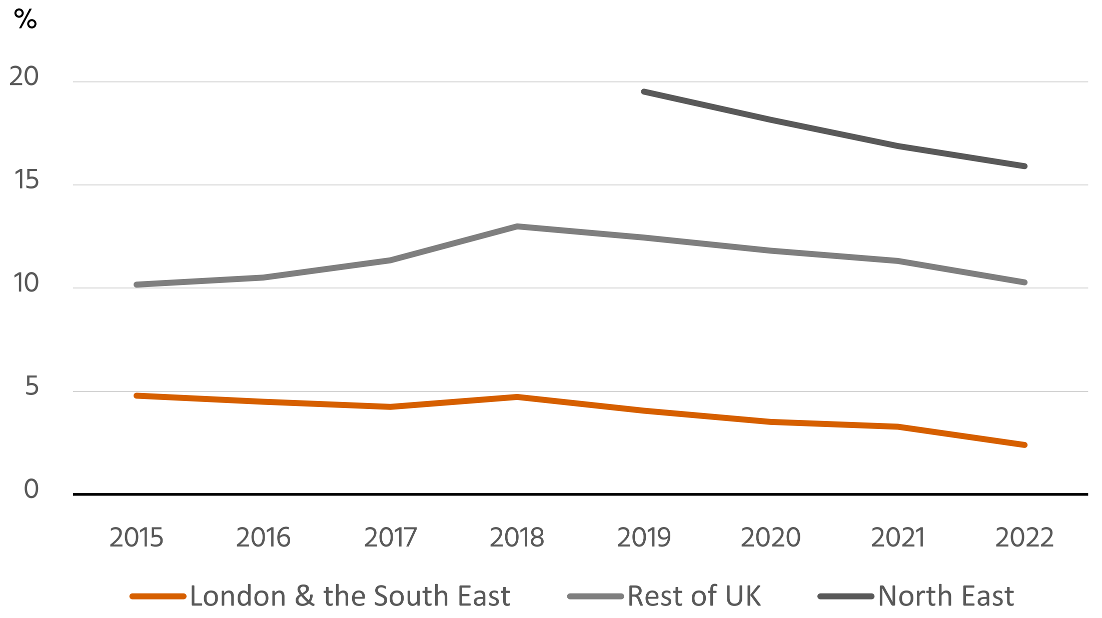
The micro multi-let units of less than 5,000 sq ft comprise a significant proportion of the UK market, with 13% of all floorspace in London & the South East and over 26% in the regions outside. This is the key type of unit for the smallest and most informal multi-let occupier – the so-called 'Individuals' that do not have a company name on the lease. The data suggest these tenants have been getting squeezed out since 2018 as the asset class has become more institutionalised, with a downward trend in London & the South East and the rest of the UK and notably the North East where the proportion is much higher.

In terms of company size, around two-thirds of London & the South East multi-let floorspace is let by larger national and multi-national firms. This is inverted for multi-let space in progressively more regional locations, with only a third of floorspace occupied in this way in the North East and over 16% occupied by micro firms employing fewer than 10 people. This suggests greater covenant strength in the more expensive South East, but the data also show that the larger firms are more polarised - greater proportions experienced both employee growth and contraction in 2022, whereas the micro counterparts that continued to trade were typically more stable.

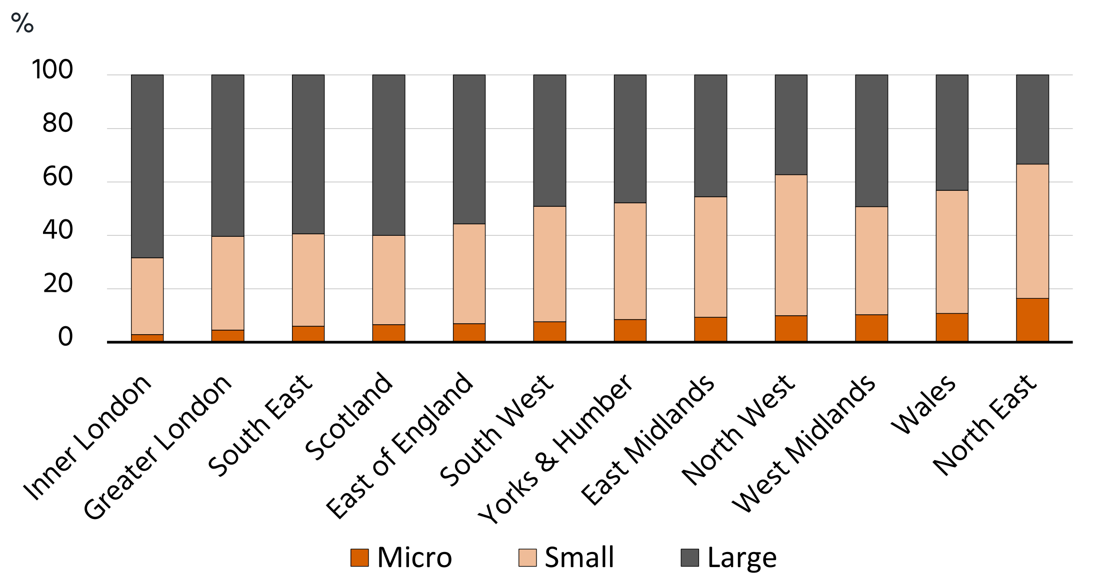
The logistics footprint in multi-let
Source: Gerald Eve



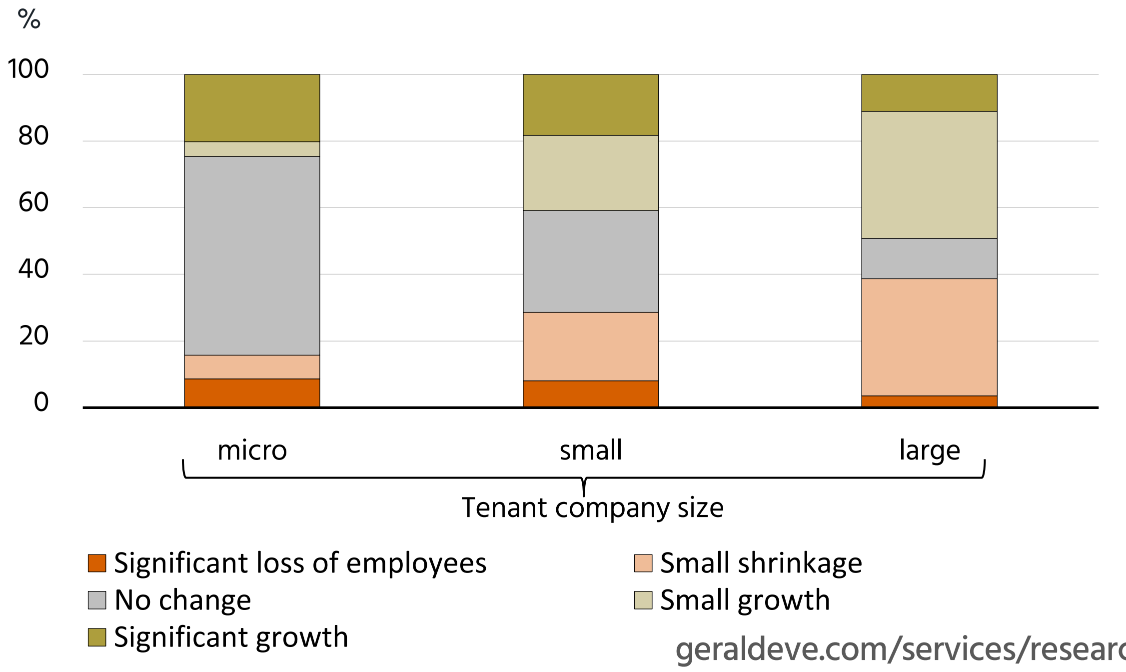
The 'individuals' footprint in micro sub-5k sq ft units
Source: Gerald Eve



Multi-let occupied floorspace by company size
Source: Gerald Eve, Oblong UK



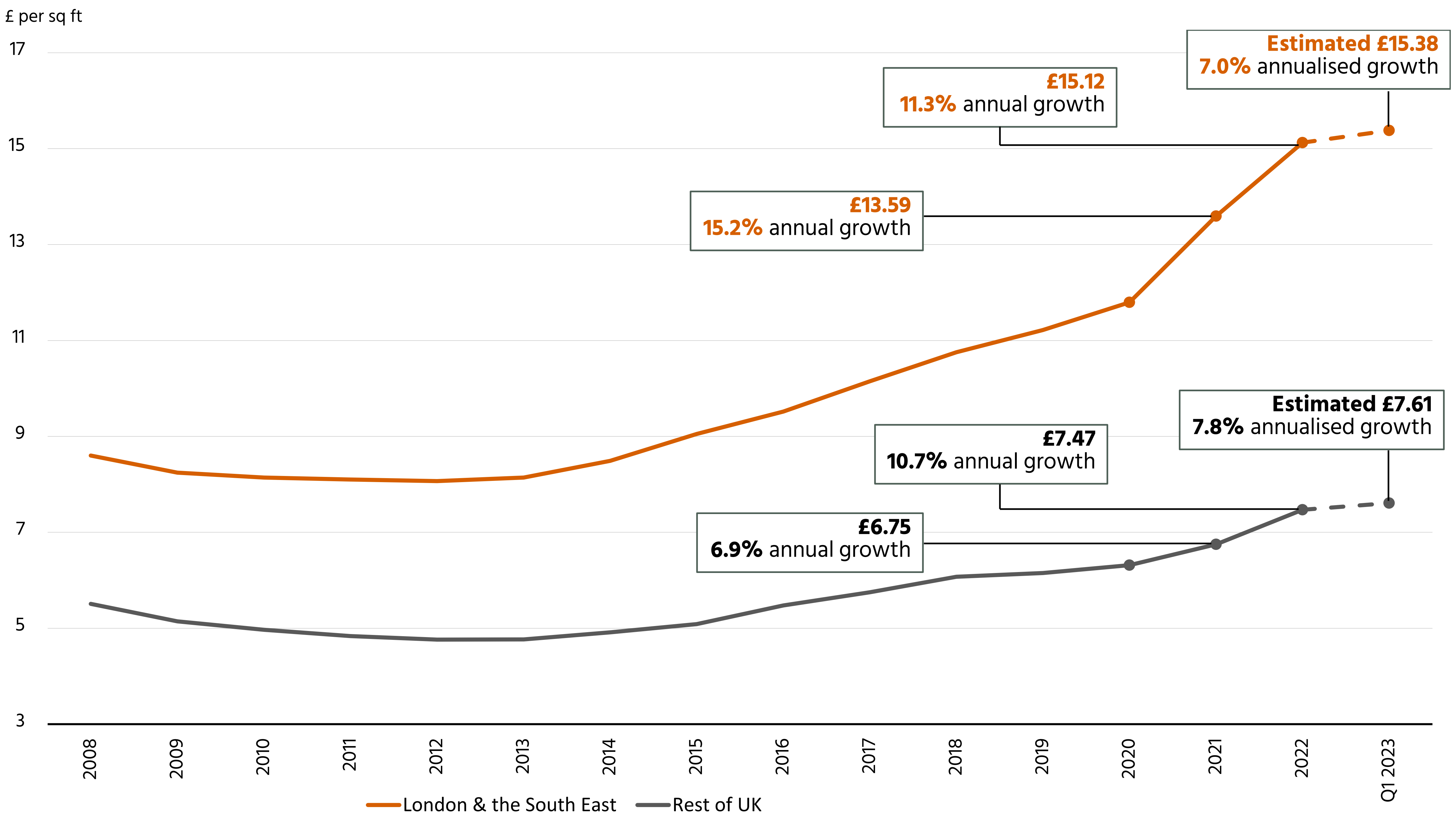
Multi-let occupiers, employee change by company size
Source: Gerald Eve, Oblong UK



INCOME - ERVs

Multi-let ERVs by major region

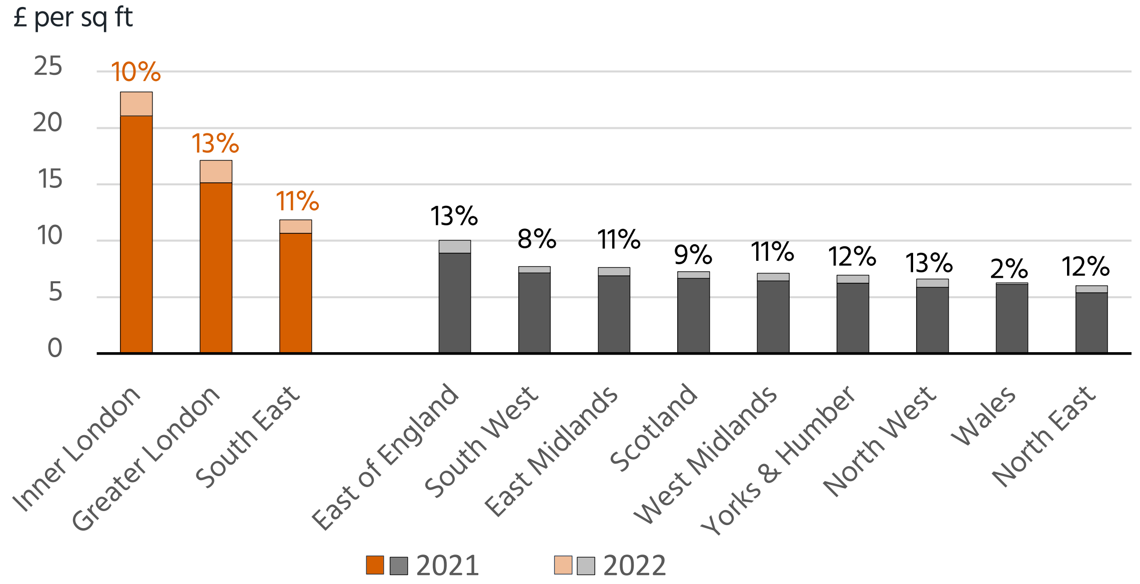
Source: Gerald Eve, MSCI



INCOME – RENTS BY REGION

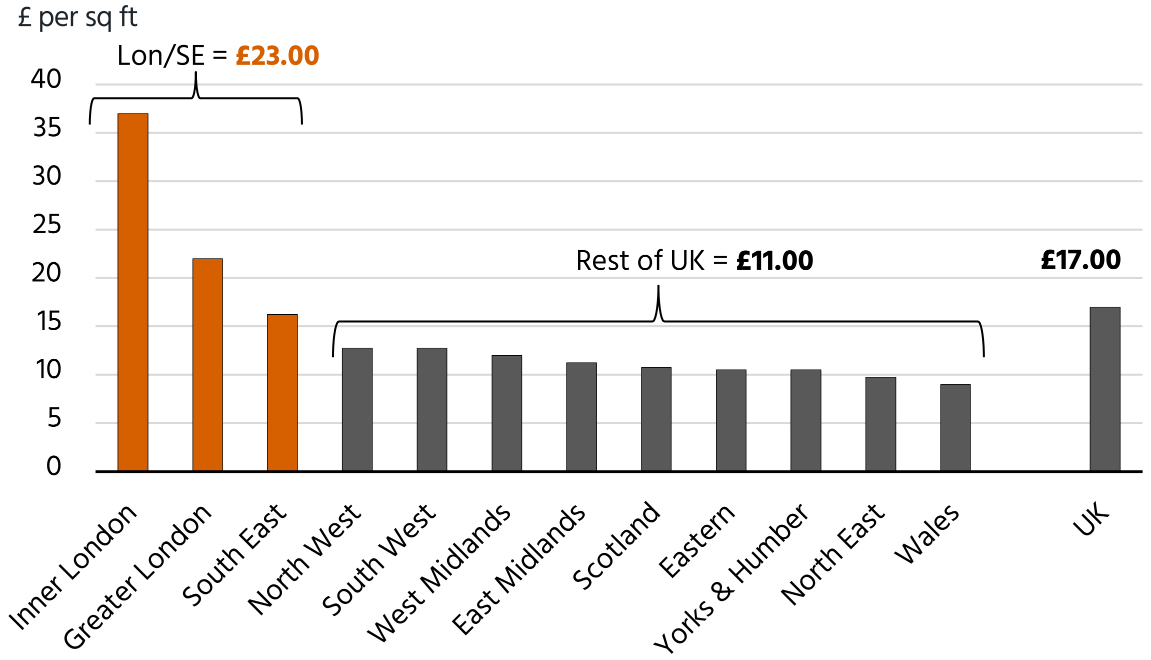
Multi-let ERVs by region (and annual growth to 2022)

Source: Gerald Eve



Prime Q1 multi-let ERVs

Source: Gerald Eve



Multi-let headline ERV growth continued to be strong in 2022 and the all-grades figure in London & the South East pushed through £15 per sq ft by the end-year. Rental growth was again double digit but at 11.3% in 2022 it was a notable slowdown from 15.2% in 2021. In contrast, multi-let ERVs accelerated outside of the South East. Rental growth was 10.7% in 2022, up from 6.9% in 2021. This was the strongest growth we have on record and the first time multi-let of all grades outside of the South East has had double digit ERV growth.

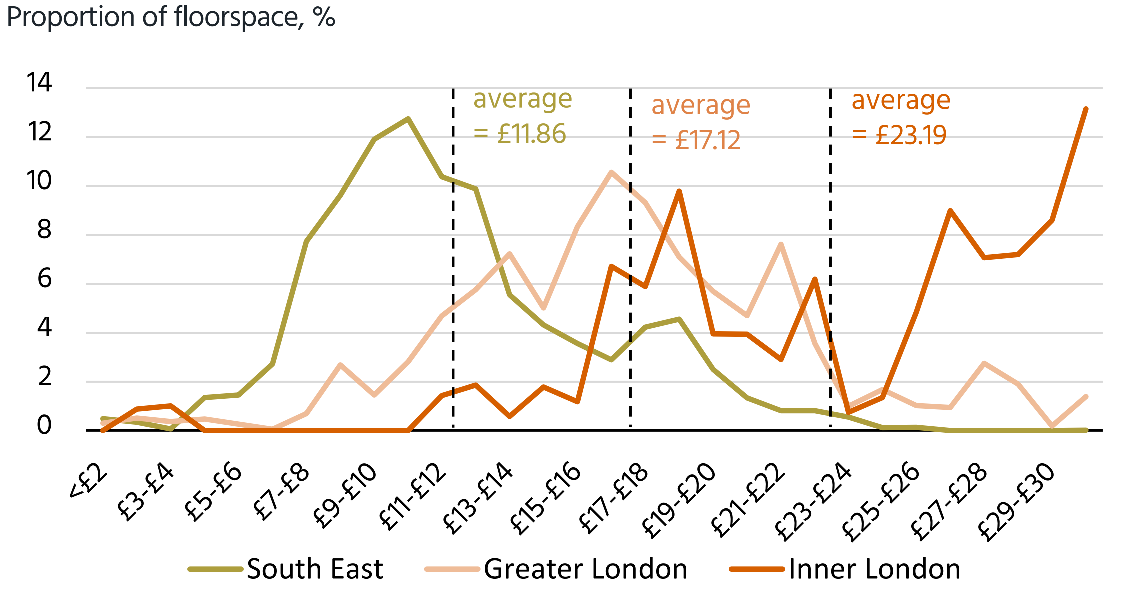
Regions of note in 2022 were the East of England and the North West, with 13% ERV growth. Micro units in the North West were the standout performers, with rental growth of 15.3%. Broadly though all regions performed strongly except for Wales, where rental growth was just under 2.5%.

The data suggest that Inner London ERV growth is beginning to cool, albeit from a high base. After massively outperforming in 2021, Inner London ERVs were the slowest growing London & South East sub-region in 2022 at 10%. In more fringe locations rental momentum pushed on for some segments - South East rents accelerated, notably the sub-5k sq ft micro units, which increased 11.7% in 2022, up from 5.5% in 2021. Greater London micro units were the outperforming segment in 2022, with 16% ERV growth.

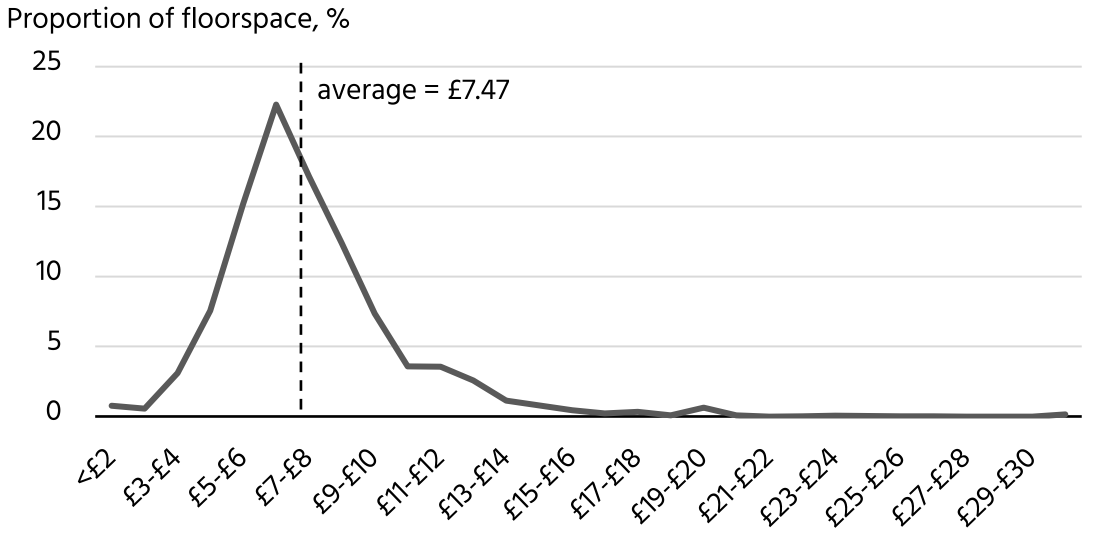
While more regional and fringe locations have continued to catch up with Inner London so far in 2023, nominal ERV growth is slowing more broadly right across the UK. London & the South East ERV growth fell to an annualised 7.0% in Q1, while the Rest of UK slowed less and outpaced the South East with 7.8%. In the prime markets there was a greater loss of momentum and headline rents were generally flat in Q1, with the UK average at £17 per sq ft and Inner London at an incredible £37 per sq ft.

INCOME - DISTRIBUTIONS AND REVERSION

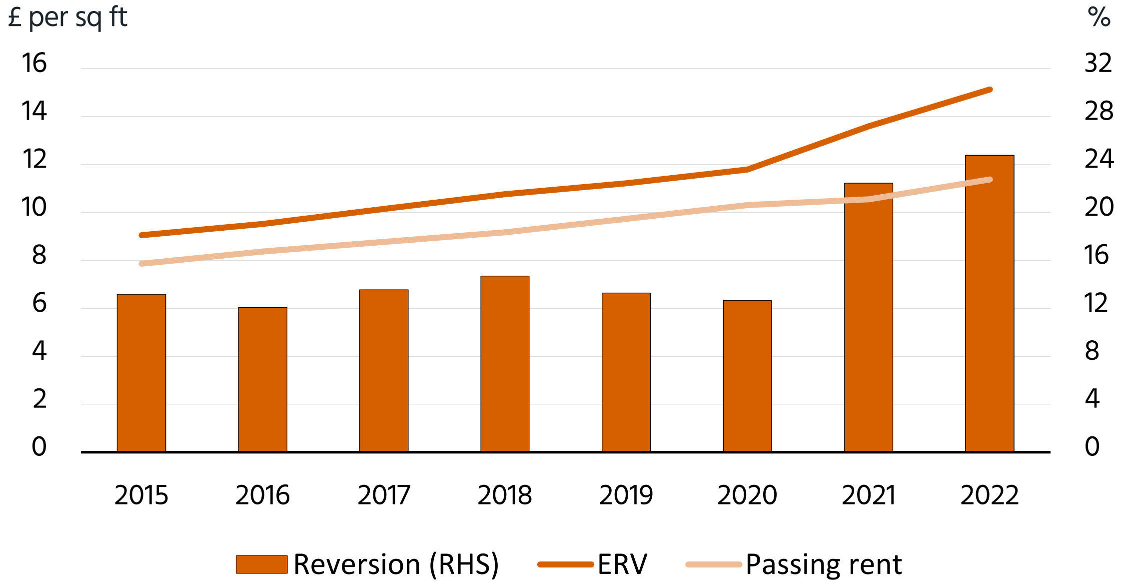
ERV distribution by South East region
Source: Gerald Eve



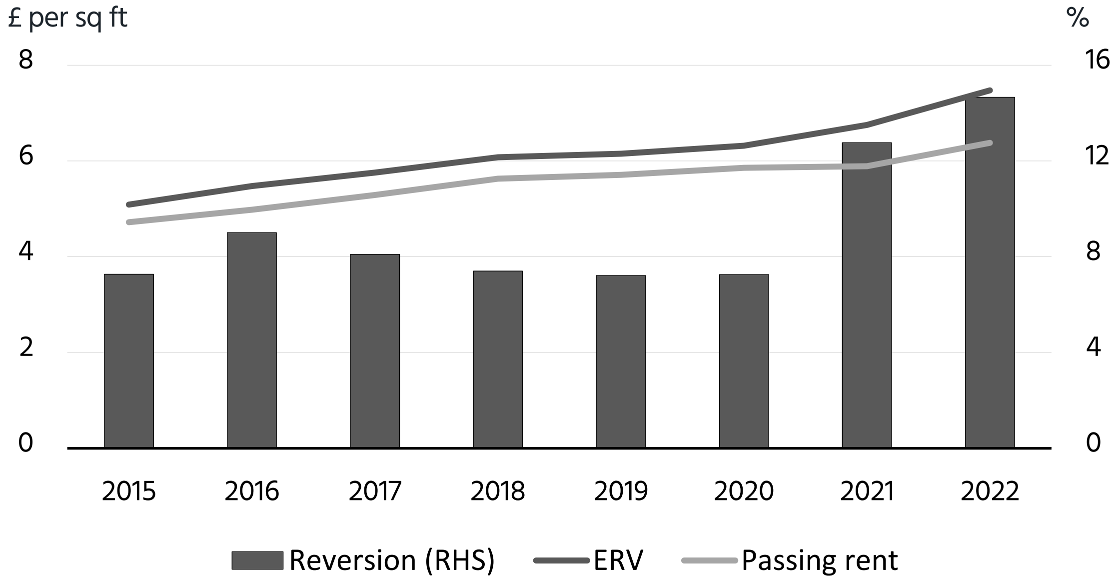
ERV distribution, Rest of UK
Source: Gerald Eve



London & the South East ERV and passing rent
Source: Gerald Eve



Rest of UK ERV and passing rent
Source: Gerald Eve



The ERV distributions for Greater London, the South East and the regions outside the South East form conventional bell-shaped curves around their averages. Inner London stands apart, with its relative diversity forming an unconventional distribution as rents at the top end have been stretched so precariously over recent years.

Passing rents across both major UK regions accelerated in 2022 as some of the more intense market uplift that began in 2021 filtered through into what occupiers are now paying on the ground. Nevertheless, reversion stepped up in all locations again in 2022 as market ERVs pulled away. Outside of the South East the reversion had stepped up to over 14% in 2022 – more than double the figure in 2020 and driven by strong ERV growth in outperforming regions such as the North West. Reversion continues to be highest in Inner London, at over 36%, with the average market ERV in Inner London mid box units an incredible 40% above passing rents.

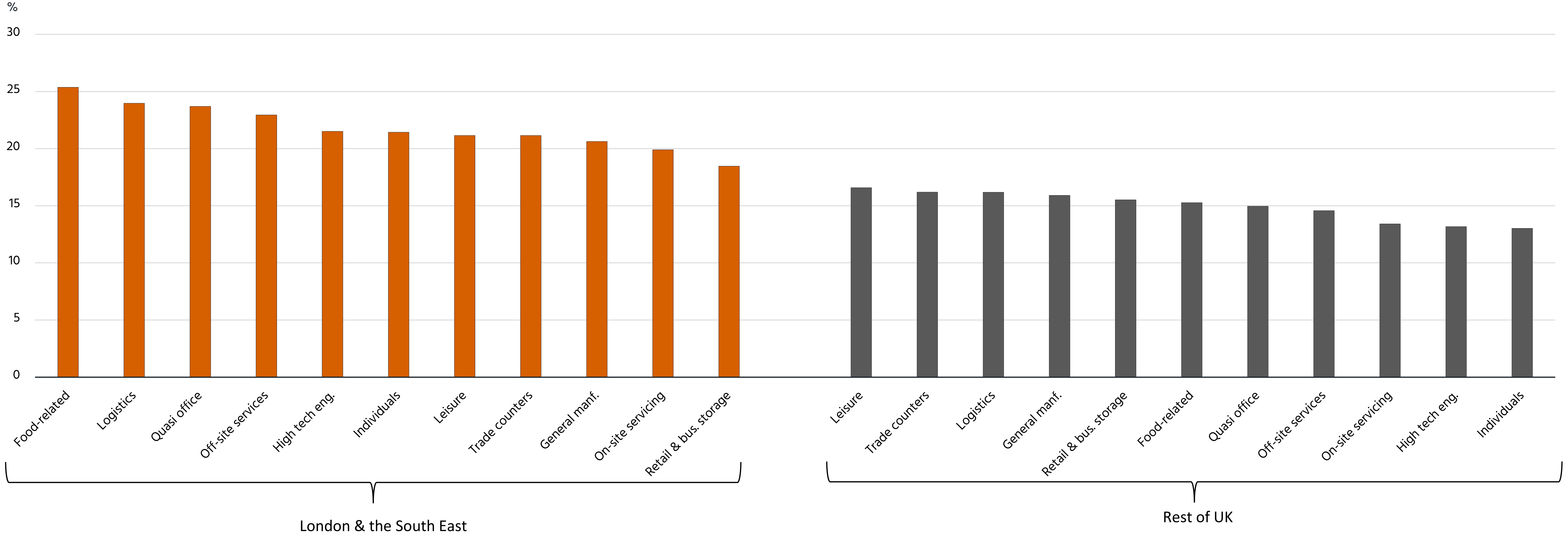
By tenant type, food-related occupiers in London and the South East continue to have the largest reversion at over 25%. This is due principally to them occupying the most expensive micro units in Inner London that have until now had the strongest ERV growth.

Income length has been trending downwards over the past six years. Newly-signed lease lengths were just under 7 years in both major geographies in 2022, down from over 12 years in London & the South East and 9 years in the rest of the UK. Similarly, where breaks have been used, these have been reduced to around 4 years on average, from over 7 years in London & the South East in 2016. By occupier type, trade counters are now taking some of the longest leases of almost 9 years on average. In contrast, the so-called 'Individuals' in the Rest of the UK only committed to 4 years in 2022.

INCOME - REVERSION

Reversion from market ERV by tenant type and major region, end-2022

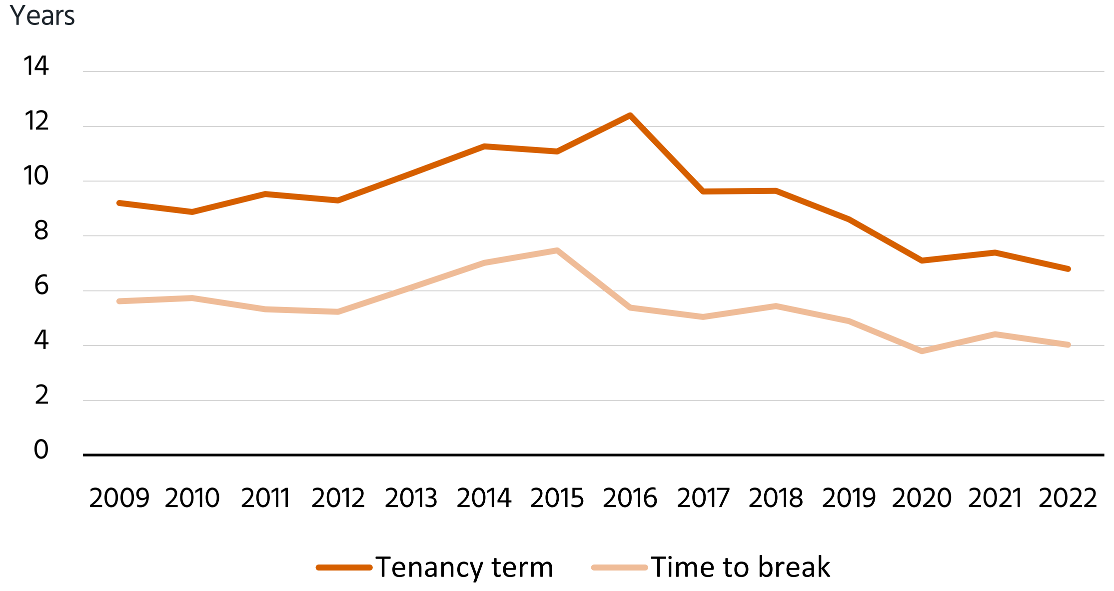
Source: Gerald Eve



INCOME – NEWLY SIGNED LEASE LENGTHS AND TIME TO BREAK

London & the South East income length

Source: Gerald Eve

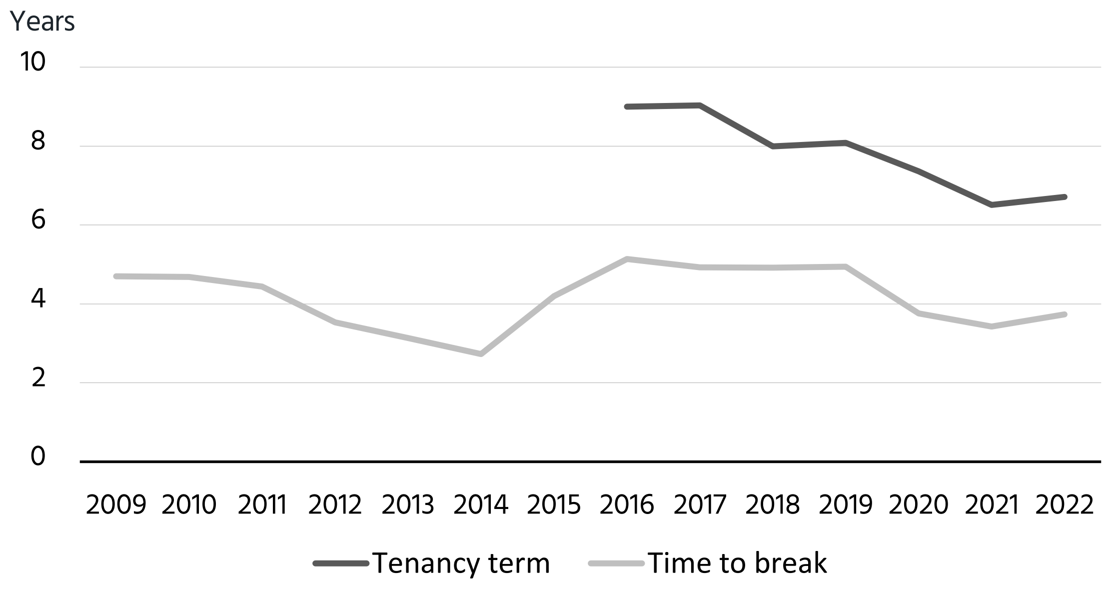


London & the South East, length of income by occupier type

Source: Gerald Eve

Rest of UK income length

Source: Gerald Eve



Rest of UK, length of income by occupier type

Source: Gerald Eve

SUPPLY AND DEVELOPMENT

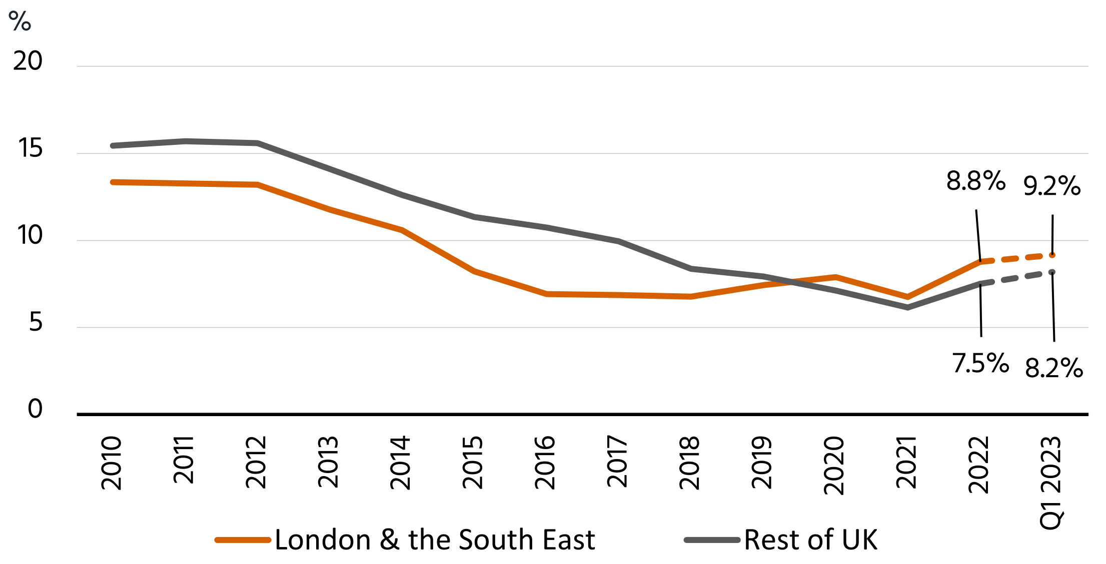
Void rates ticked up annually in both major regions in 2022 and leading indicators suggest further increases so far in 2023. Not only is the overall trend upwards, but vacancies in London & the South have in the last few years overtaken those in the rest of the UK.

Void rates for all multi-let sizebands increased for both major geographies in 2022 but the London & the South East 25k – 50k sq ft mid box voids increased particularly noticeably. The main driver was Inner London where the overall void rate increased from 10.3% in 2021 to an incredible 17.1% in 2022. This was due in part to the speculative completion of some schemes at the end of 2022 that were subsequently let in 2023 so the figure is overstated somewhat. That nevertheless only accounts for about 4 percentage points of the void rate and the trend was unambiguously upward.

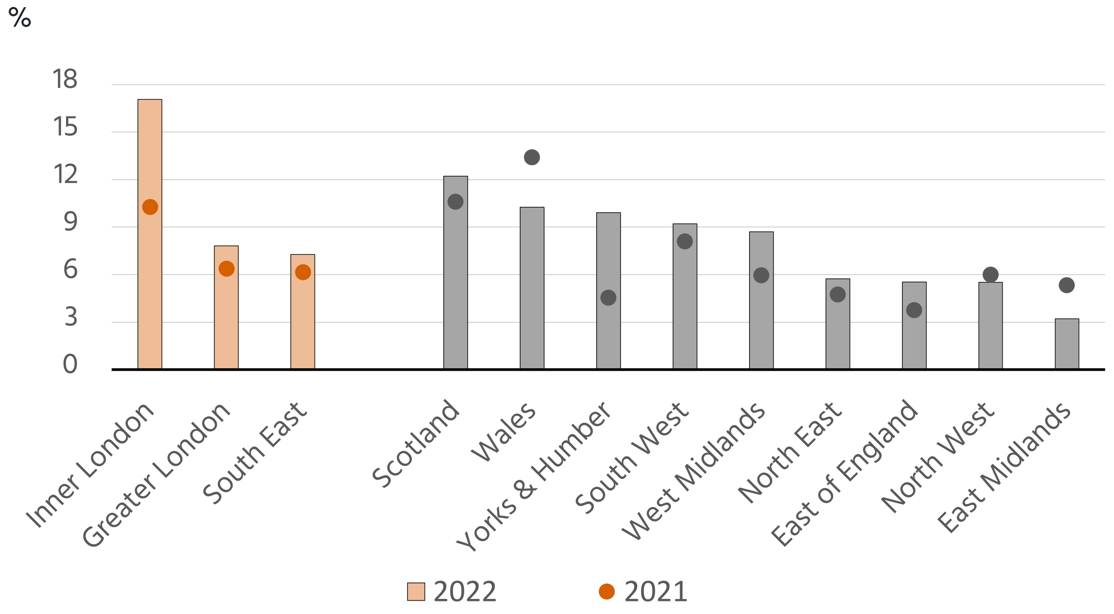
In terms of occupier churn, the data suggest that typically around two-thirds of multi-let space vacated through various means in 2022 was re-let within the year while the remaining third remained void. However, around two-thirds of vacated space remained void in Inner London. Whether this represents an affordability issue or landlord driven one is unclear and potentially both. ERVs are the highest in the country in Inner London and so is the rental reversion for landlords to capture. Occupier covenant strength is arguably the highest, measured by the relatively smaller volume of micro and small-sized firms occupying multi-let space than elsewhere in the country. However, this brings with it more diversity of occupier expansion and contraction.

In most regions outside of the South East the void rate edged up somewhat in 2022, but the North West and East Midlands bucked the trend and the void rate fell. The North West has the larger and more reliable sample and here the small and mid box void notably fell, which coincides with the acceleration of ERVs in this region.

Multi-let vacancy rates by major region
Source: Gerald Eve, MSCI

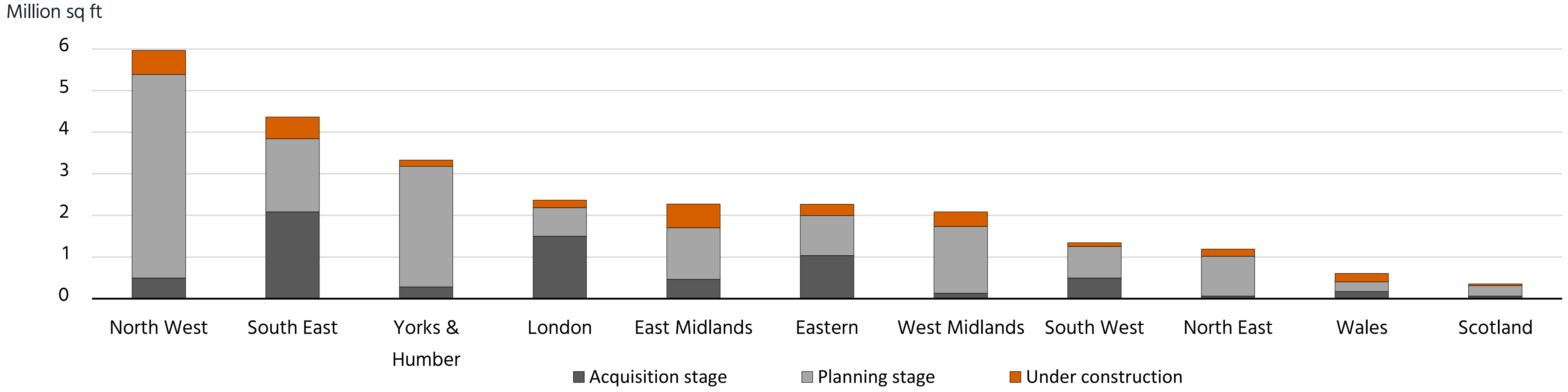


Multi-let vacancy rates by UK region
Source: Gerald Eve

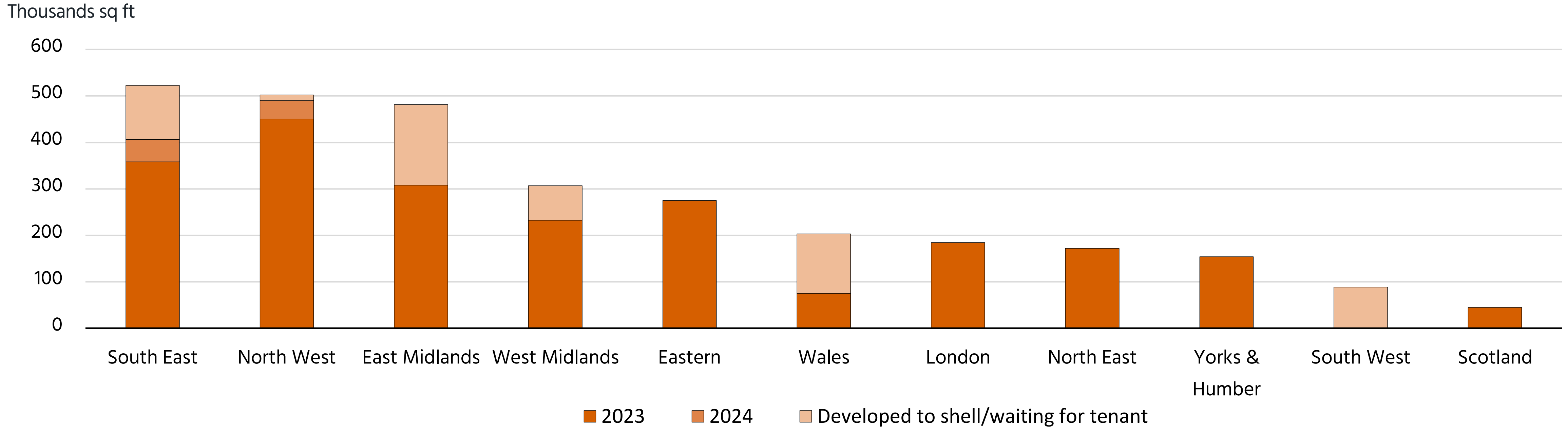


SUPPLY AND DEVELOPMENT

Multi-let development pipeline by region
Source: Gerald Eve, Property Data

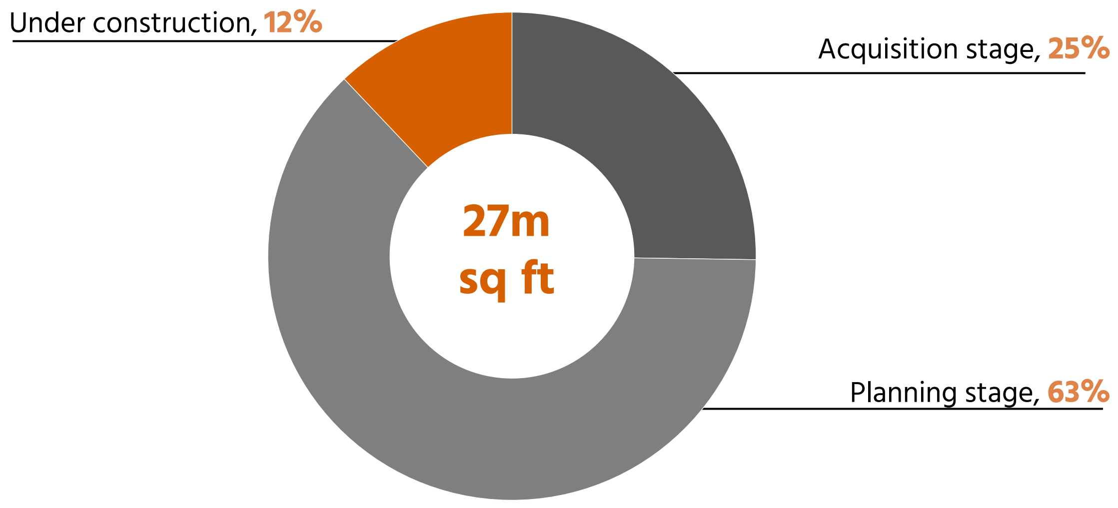


Expected completion dates of schemes under construction
Source: Gerald Eve, Property Data



Development pipeline records suggest that in total there are currently 381 multi-let schemes at various stages across the UK, totalling a potential 27 million sq ft of new supply. However, this is very much notional since only around 12% of this is under construction, with the remainder at the site acquisition or planning stages. Development costs may have eased somewhat but this is from an extremely elevated position, and the softening (and now likely further softening) of multi-let yields makes many of these potential schemes effectively unfeasible over the medium term. (Potential) activity is greatest in the North West, though the South East technically has the most sq ft on-site. The space under construction in any one region is at most half a million sq ft, which will have a relatively limited impact. To put this in context, there is over 6 million sq ft under construction of the larger 50k+ sq ft units in the South East and over 3 million in the North West.

Multi-let development pipeline by status
Source: Gerald Eve, Property Data



RISK – BREAKS, EXPIRIES AND DEFAULTS

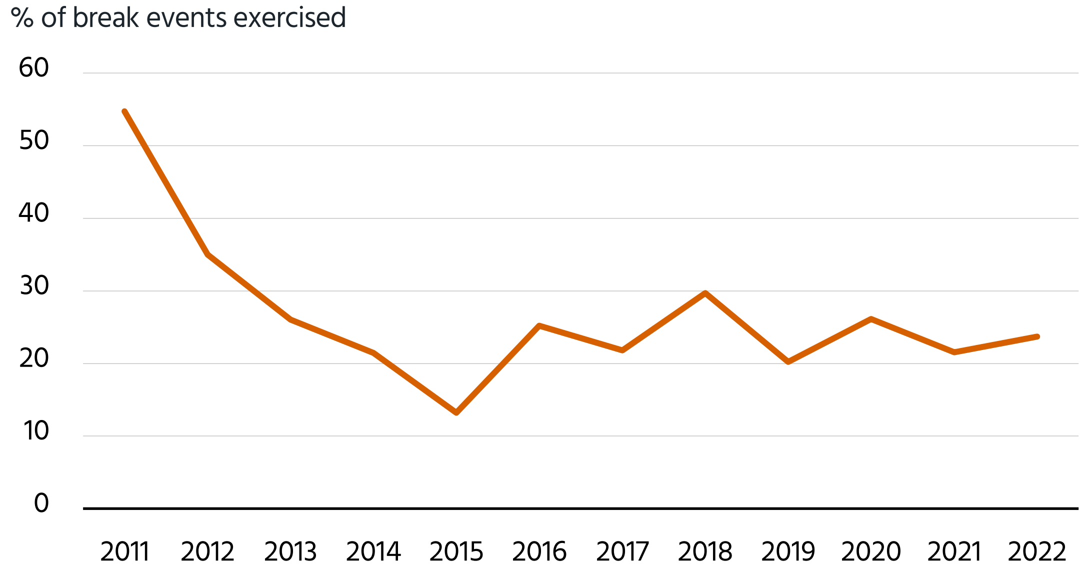
Since 2015 the propensity for a multi-let tenant to exercise a break has been remarkably consistent and occurs around 23% of the time on average. In contrast, the retention of occupiers after an expiry trended consistently upwards, peaked at 75% in 2017 and has since dropped to around two-thirds. The pandemic caused some volatility - in 2020 during the various lockdowns and government business support tenants were retained 72% of the time - close to the 2017 peak. This was subsequently reversed in 2021 and the retention rate was only slightly over 50%. This was when market rental growth really took off and was a likely result of pent-up activity and a desire on the part of landlords to maximise rental reversion and move certain occupiers on. Tenant retention returned to a more stable 65% in 2022.

The multi-let default rate nearly doubled to reach 4.3% in 2022, albeit from a record low in 2021. This was the highest since 2014 but still far below the kinds of rates recorded after the financial crisis. The recent increase was unsurprising given the rise in the wider UK company insolvency rate following its sharp decline in 2020 amid various covid government support measures.

The multi-let default rate tracks the wider UK company insolvency rate fairly closely and thus the latter serves as a useful leading indicator. The bottom right chart below shows the quarterly rolling average of UK company insolvencies to May 2022. The trend has been upwards since mid-2021 and suggests there will be a significantly higher annual figure again for 2023. However, a direct translation to multi-let defaults that would materially impact void rates and ultimately rental growth is not a given. Current anecdote from the market does not suggest that insolvencies and defaults are playing a key role and the sectoral data for insolvencies might be able to explain why.

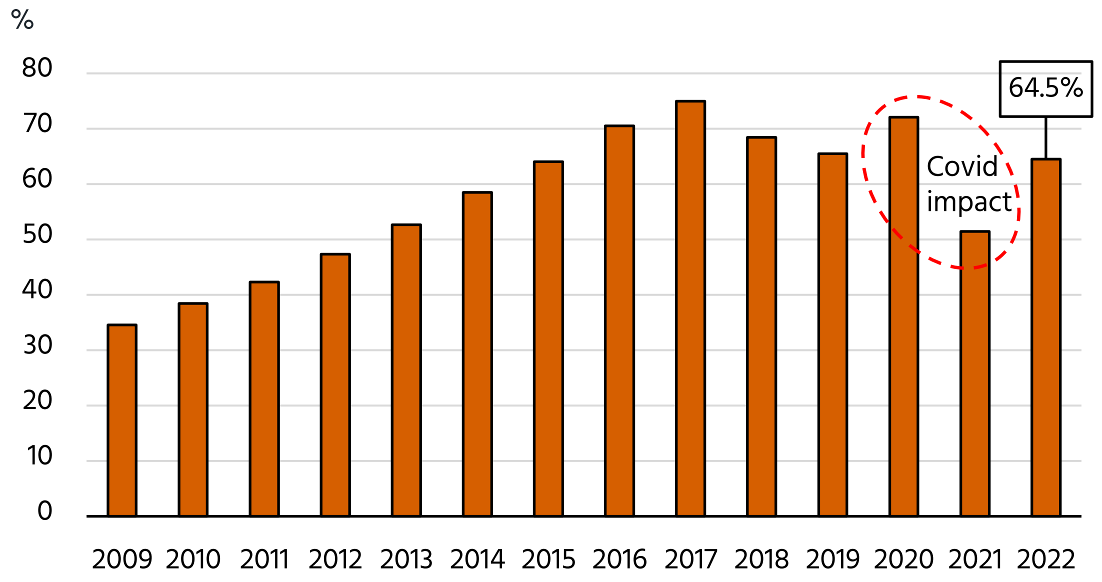
Multi-let propensity to exercise a break

Source: Gerald Eve



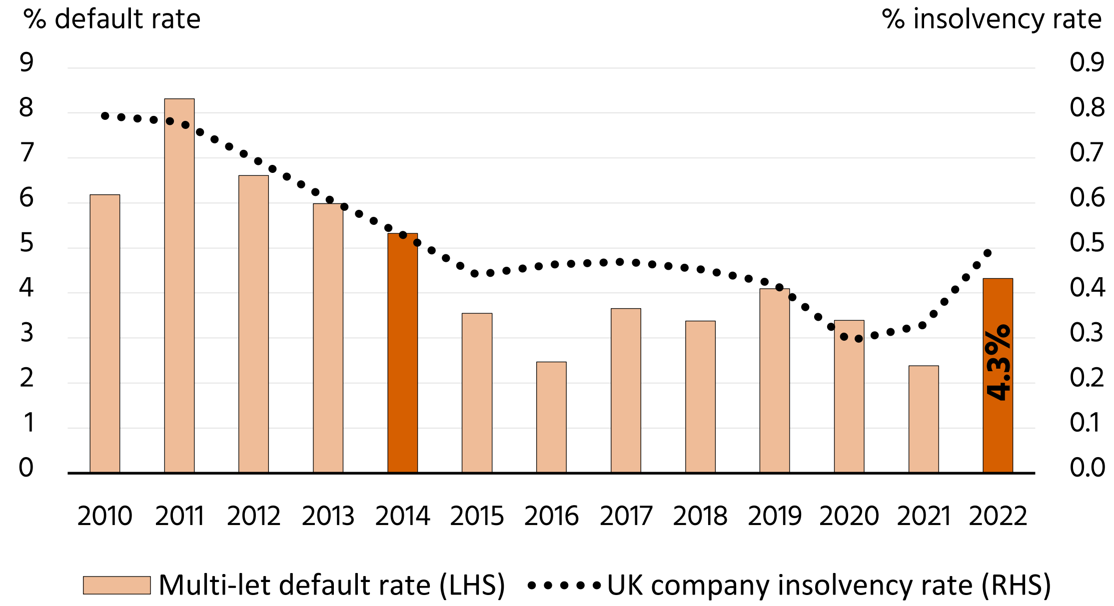
Multi-let proportion of tenants retained after lease expiry

Source: Gerald Eve



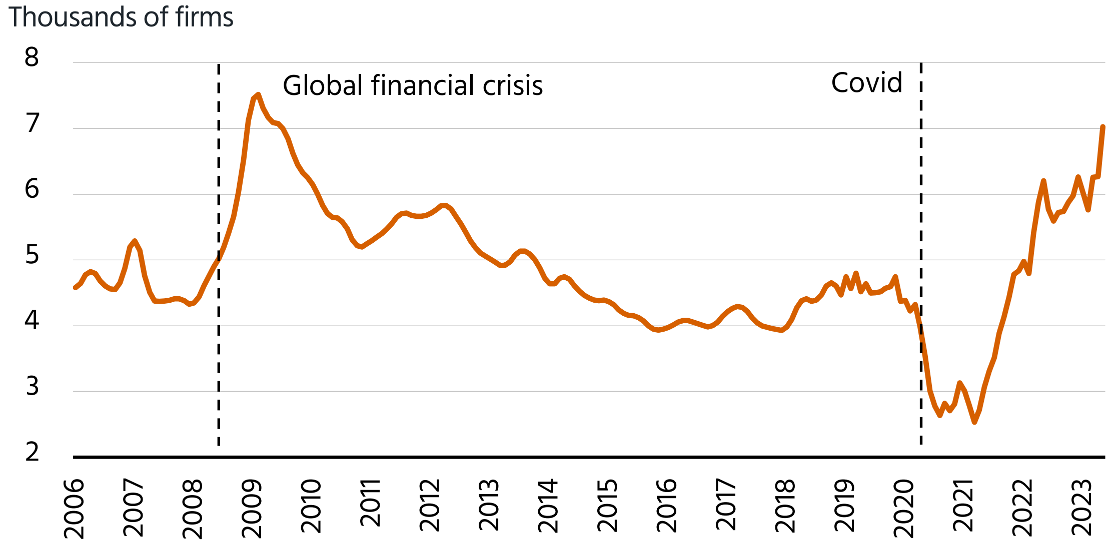
UK multi-let default rate and company insolvency rate

Source: Gerald Eve, The Insolvency Service, ONS



Rolling UK quarterly insolvencies to May 2023

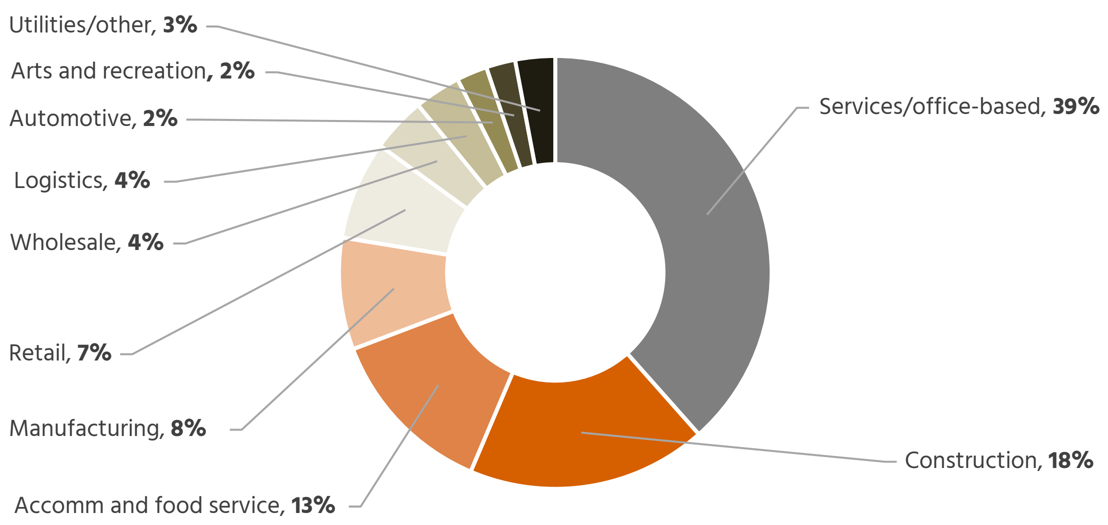
Source: The Insolvency Service, ONS, Gerald Eve



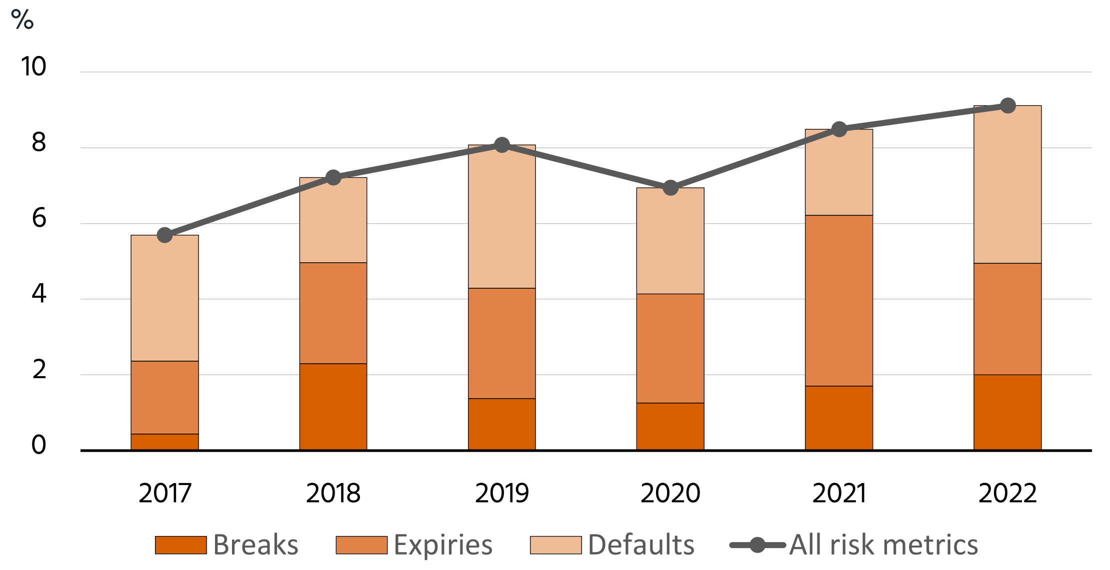
RISK – COMBINED METRICS

Company insolvencies split by sector reveal a bias towards services/office-based sectors and construction, which together account for well over half of the total. Multi-let has a diversified occupier base, taking tenancies either derived by or directly for a broader non-traditional range of activities that include leisure, the arts and healthcare. This diversity of demand gives the asset class flexibility and robustness during a slowdown. In addition, the occupier footprint is skewed somewhat away from where business insolvencies are most prevalent, with a greater focus on retail & logistics and manufacturing. When the various risk metrics are brought together, there was a noticeable dip in 2020 followed by greater income risk in 2021 and 2022. Both major UK regions had similar all-in risk metrics in 2022 of around 9%, but this represented an upward trend to a record high for London & the South East.

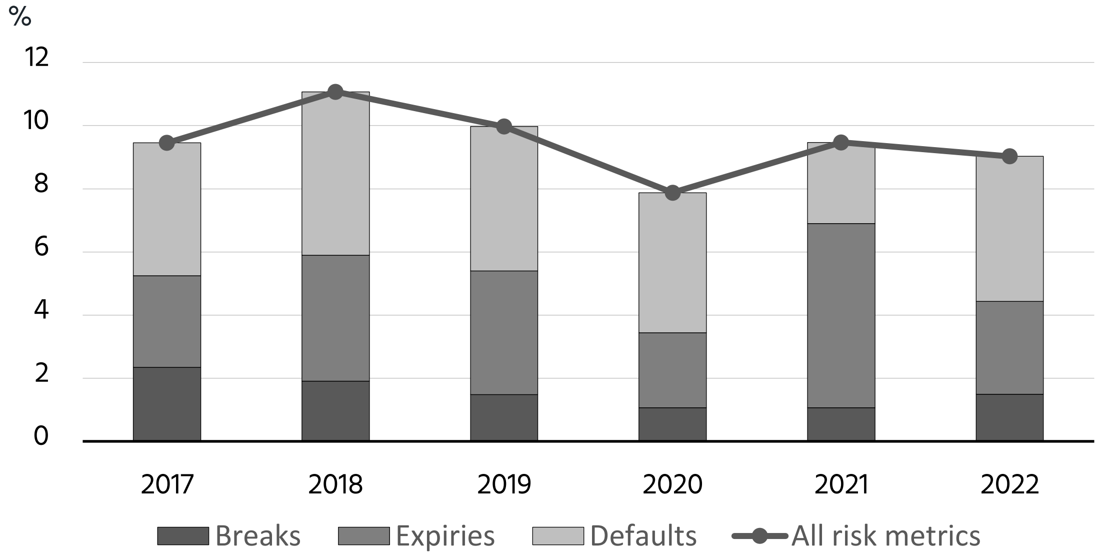
UK 3-year average proportion of insolvencies by sector
Source: The Insolvency Service, Gerald Eve



London & the South East annual income risk
Source: Gerald Eve



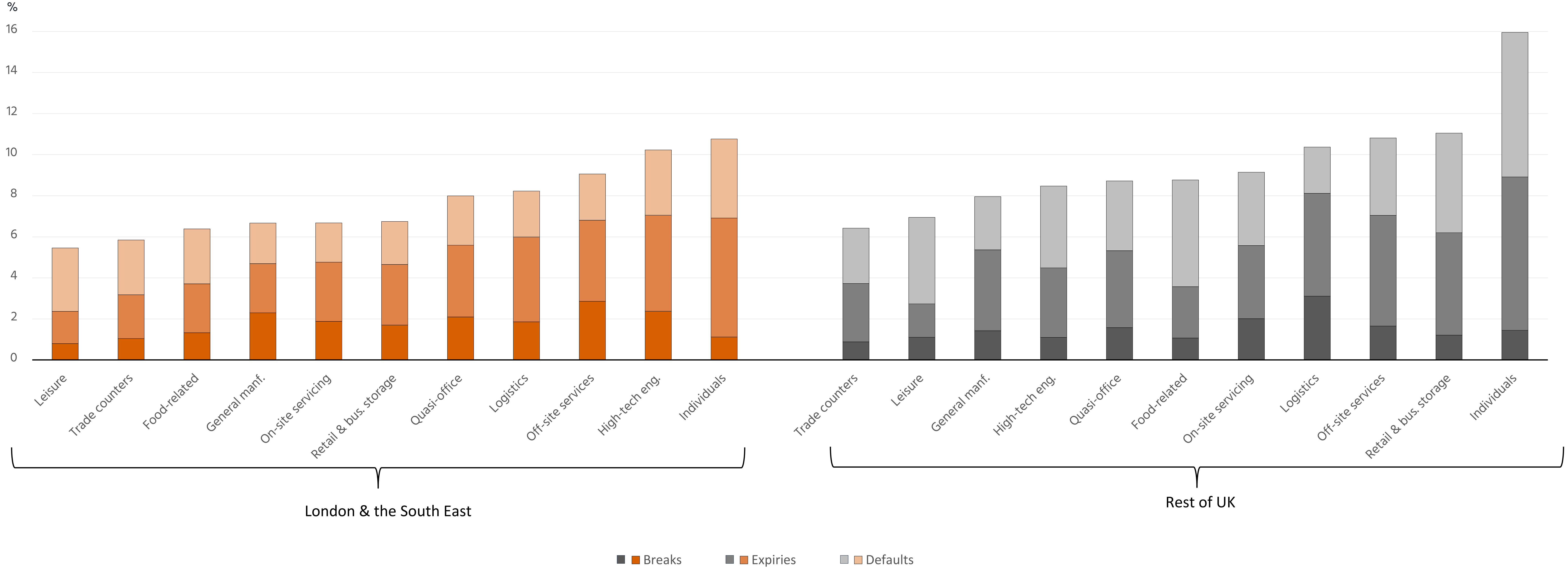
Rest of UK annual income risk
Source:, Gerald Eve



RISK BY OCCUPIER TYPE AND MAJOR UK REGION

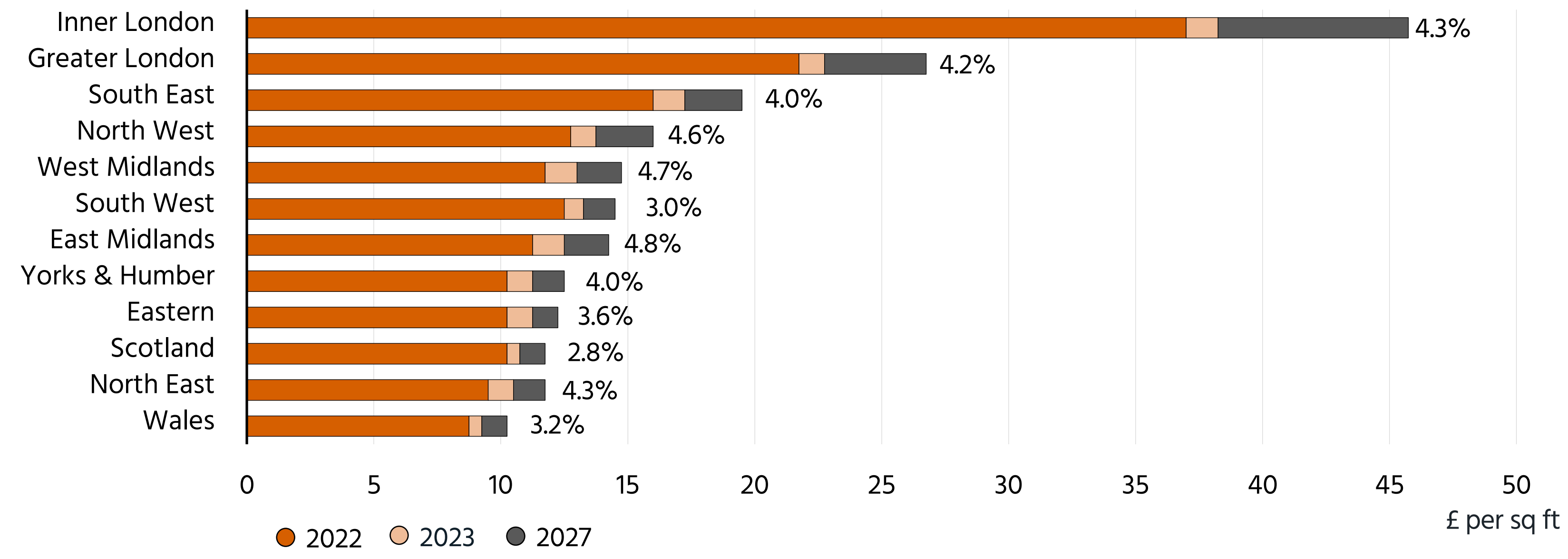
5-year average annual risk by component, occupier type and major region

Source: Gerald Eve

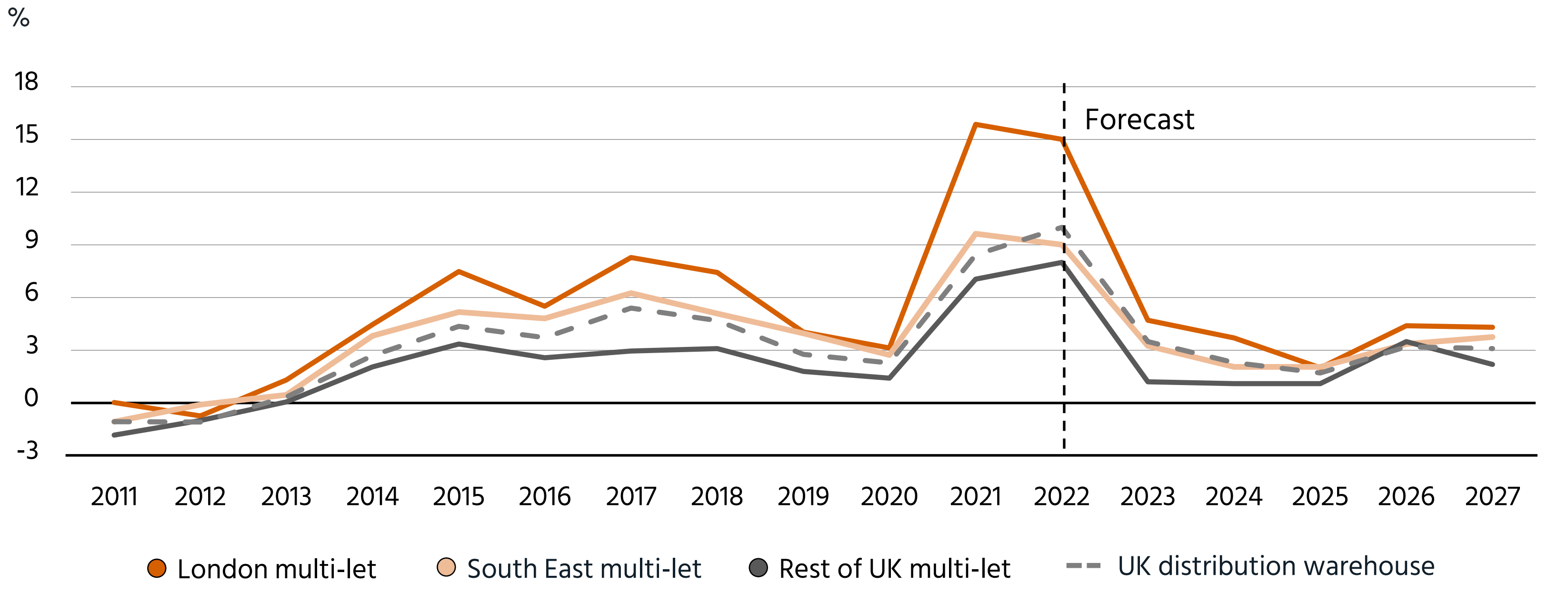


OCCUPATIONAL OUTLOOK

Prime multi-let rents and average annual growth 2023-27
Source: Gerald Eve



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



The likelihood is that tighter expected monetary policy combined with already tightening fiscal policy will push the economy into recession from late 2023. This will create more uncertainty and hesitancy amongst occupiers against a backdrop of already slowing demand and ongoing elevated cost pressures. Rental growth momentum going into 2023 will likely have accounted for much of this year's movement, with continued relatively more muted headline growth in 2024 and 2025 while record rental reversion is gradually unwound. Nevertheless, we remain upbeat on multi-let's diversity and defensiveness through this challenging period, which is set to keep nominal rental growth positive. In part landlords will seek to maintain headline rents through increased incentives and there remains a lack of realisable physical supply that will also underpin the market. While consumers may cut back on overall consumption during the downturn, some spending may switch from leisure services and holidays toward cheaper retail goods and DIY that will be supportive to logistics - and potentially trade counters despite increasing weakness in the housing market.

EPCs – REGULATORY DEADLINES AND THE MULTI-LET LANDSCAPE

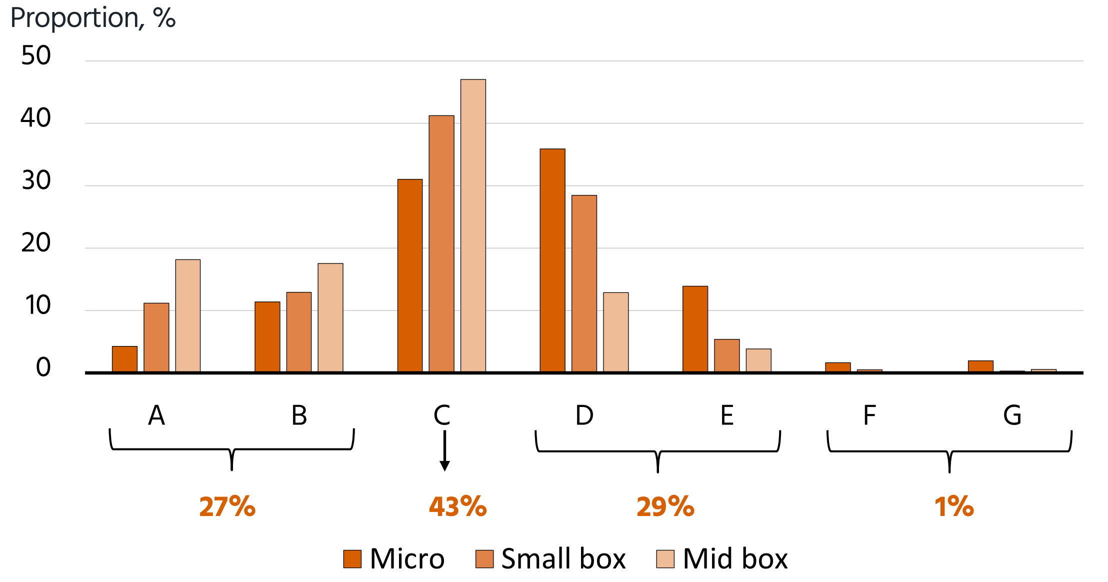
The Minimum Energy Efficient Standards (MEES) dates for compliance. Landlords may not let or continue to let non-compliant units as per below:

APRIL 2023
EPC grades **F&G**

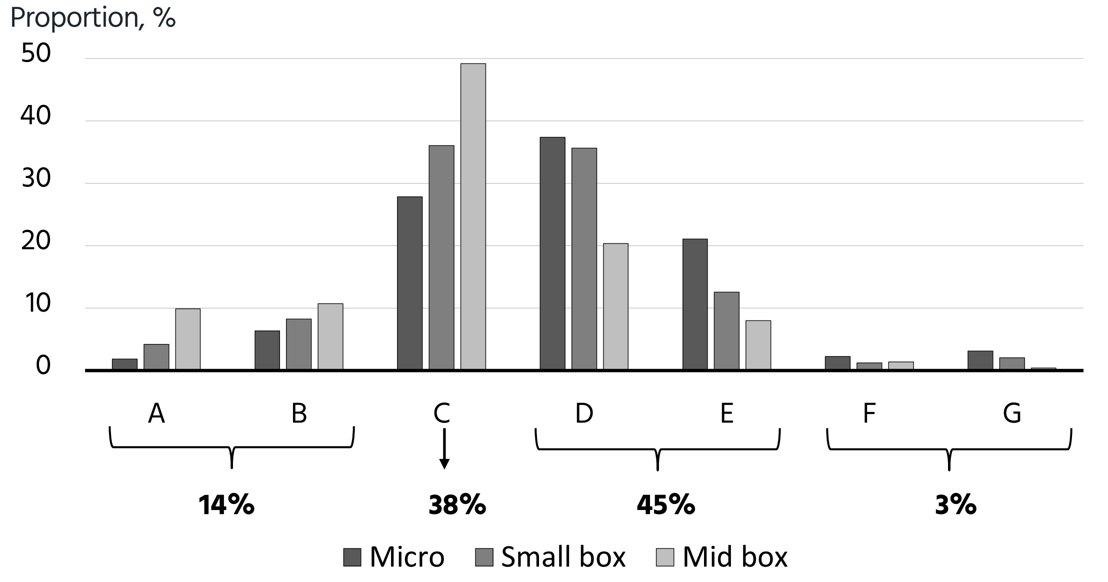
APRIL 2027
EPC grades **D&E**

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) 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 now been established.

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 grades C and D but there have been changes to the landscape since EPC information was introduced in the last Multi-let study with the 2021 data.

Around 1% of the market in London & the South East and 3% in the Rest of the UK at end-2022 were graded EPC F or G. This is down from 2% and 5% last year, respectively. This now represents a tiny proportion of the market that required refurbishment in Q1 this year in order to remain compliant and lettable from April.

The next set of regulatory hurdles for multi-let affect a far greater number of units. All D & E-rated units must be upgraded by April 2027 and all C-rated units must be upgraded by April 2030 to remain compliant. These groups have been whittled down slightly since last year and details of the changes are analysed overleaf. But these grades of units will need sustained attention over the next several years if all regulatory requirements are to be met.

As of end-2022, 30% of London & the South East multi-let floorspace required an upgrade by April 2027, which increases to a much larger 73% needing an intervention by 2030. In the Rest of the UK, these respective figures are 48% and 86% so this will continue to be a key topic for the next several years.

EPCs – MULTI-LET DEVELOPMENT UPGRADES IN 2022

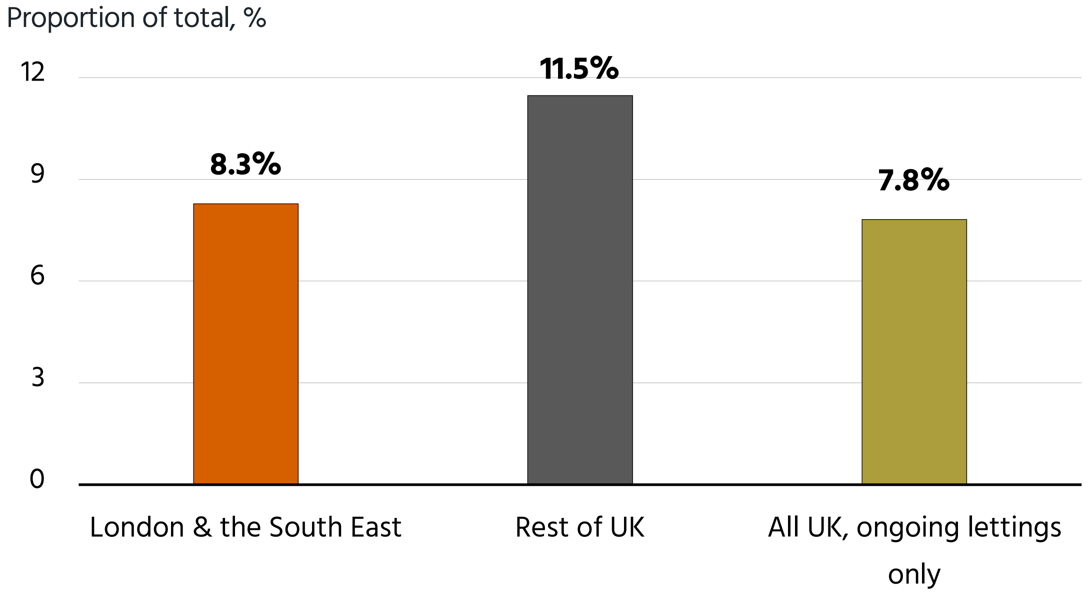
In London & the South East 8.3% of C-G rated floorspace underwent an EPC improvement in 2022. A larger 11.5% of equivalent floorspace was uprated in the Rest of the UK. It is also important to ascertain if units have been refurbished in this way during an ongoing letting since the wording of the MEES regulations is that landlords “may not continue to let” non-compliant units and thus many will have to be improved in this way, with no window of vacancy.

Across UK multi-let 7.8% of units rated C-G with an ongoing letting were improved in 2022, which was only a slightly lower proportion than all multi-let floorspace. This shows that an EPC upgrade for a unit with uninterrupted occupancy and income stream with no window of vacancy is broadly possible for multi-let, which is arguably less doable for the other property sectors.

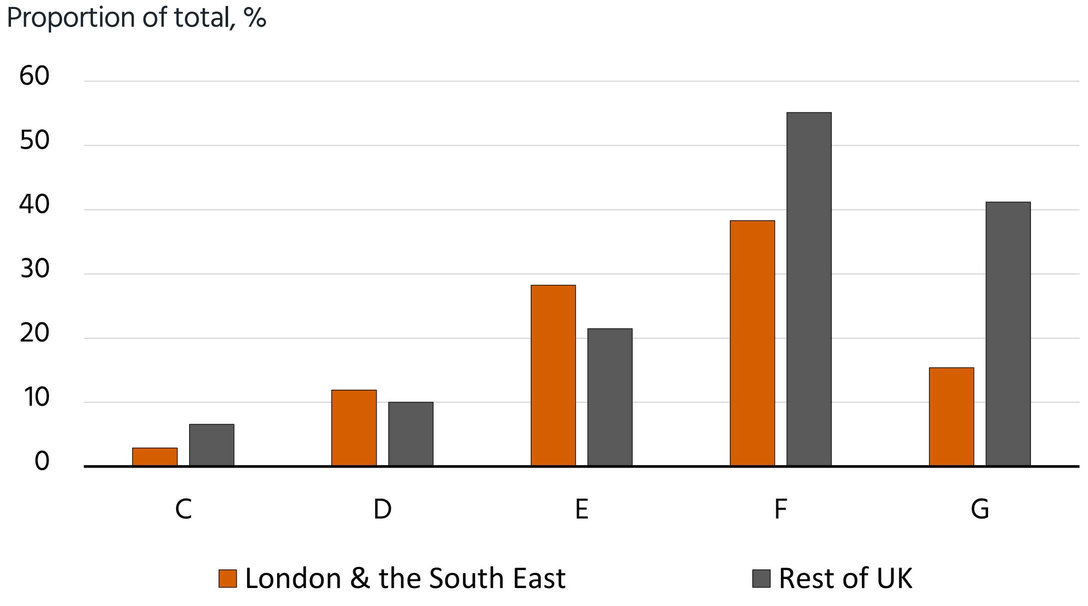
The most common grades to be given an uprating were, unsurprisingly, those rated F and G in 2021. Over 50% of all F-rated floorspace in the regions was uprated in 2022. Floorspace rated D & E face the next regulatory hurdle and between approximately 20% and 30% of EPC E floorspace and around 10% of grade D was uprated in 2022. It is encouraging that multi-let landlords are engaging with this process and means we can look relatively favourably to the next deadline in 2027.

The donut charts show the range of destination EPC grades for the two major UK geographies. The most popular destination grade for London & the South East was EPC grade B, whereas the Rest of the UK was a C. Similarly, the most popular EPC grade destination UK-wide for an ongoing letting in 2022 was a C, which might indicate that this is typically the highest that can be achieved without impacting a sitting tenant too problematically.

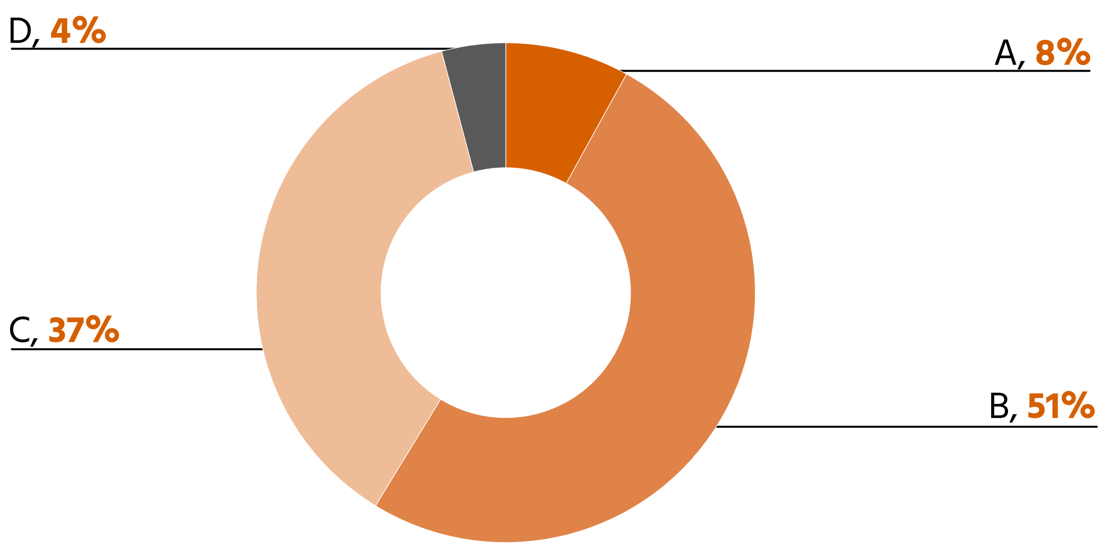
Proportion of floorspace uprated, 2021 EPC grade C-G
Source: Gerald Eve



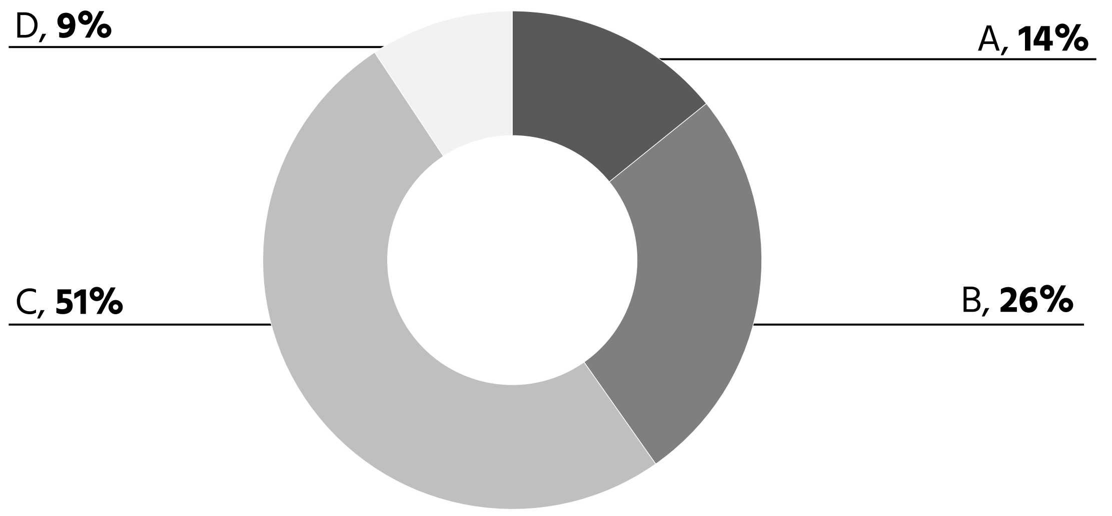
Proportion of floorspace uprated, by 2021 EPC source grade
Source: Gerald Eve



London & the South East 2022 uprated EPC grade
Source: Gerald Eve



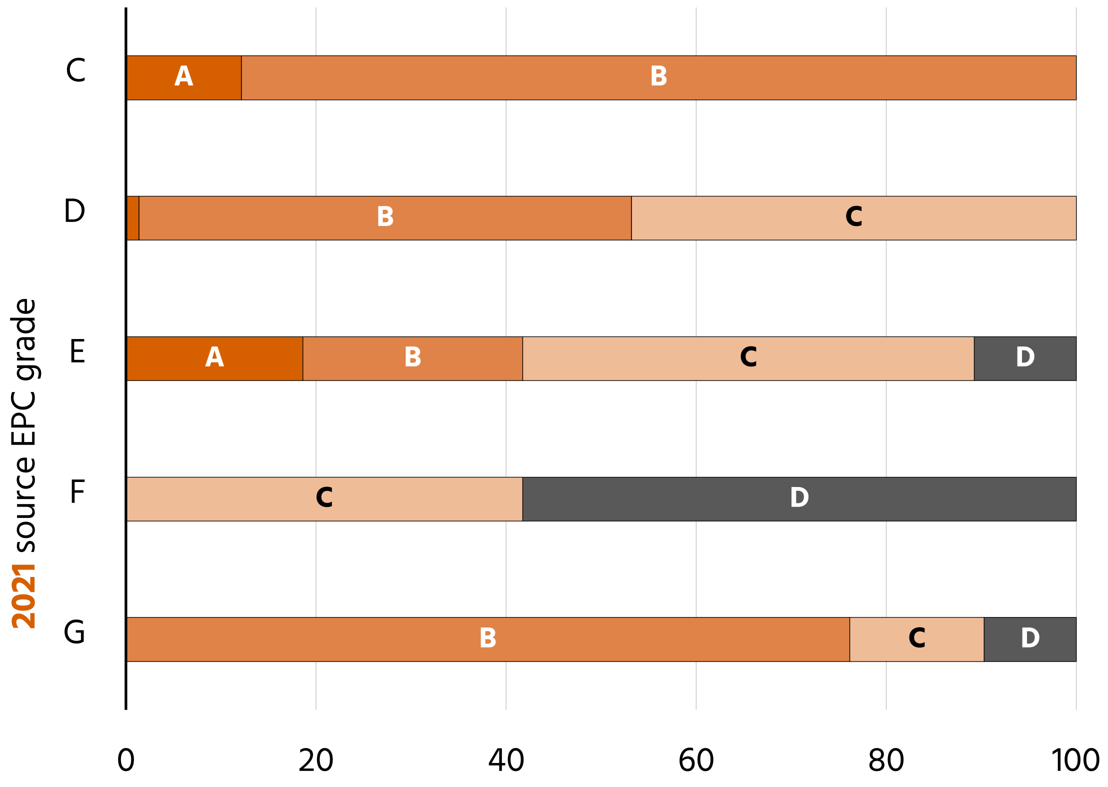
Rest of UK 2022 uprated EPC grade
Source: Gerald Eve



EPCs – MULTI-LET DEVELOPMENT UPGRADES IN 2022

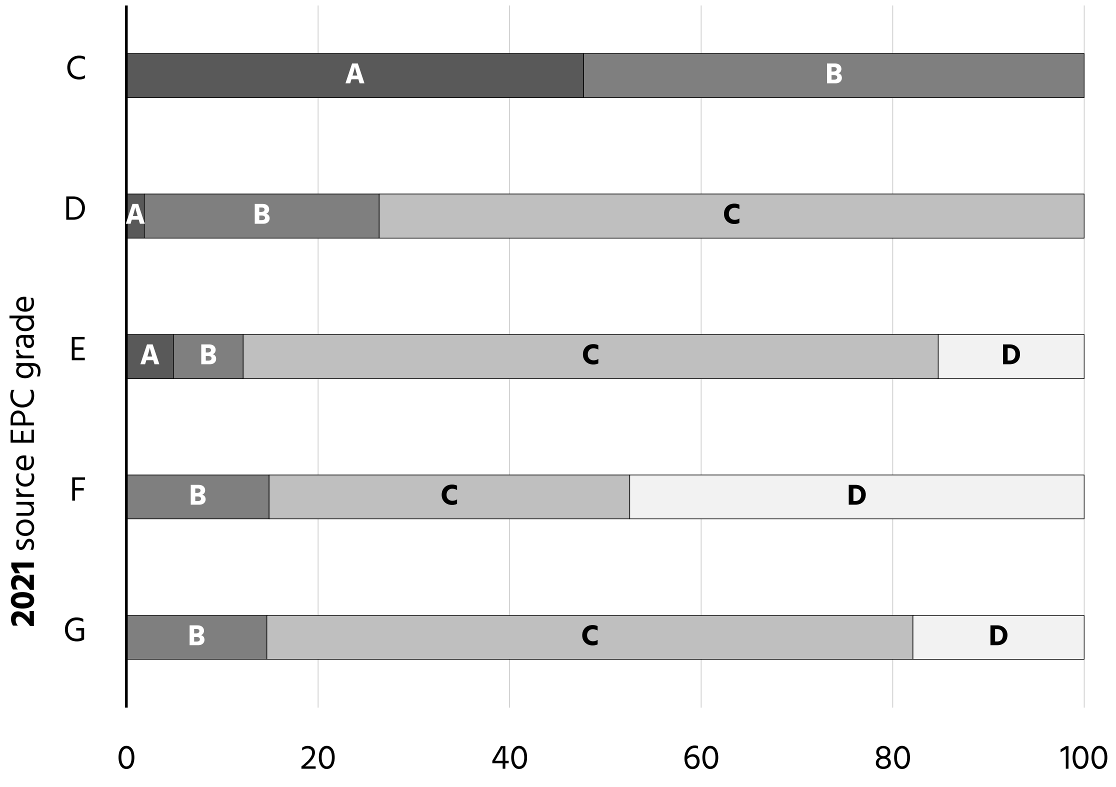
London & the South East EPC upgrades

Source: Gerald Eve



Rest of UK EPC upgrades

Source: Gerald Eve

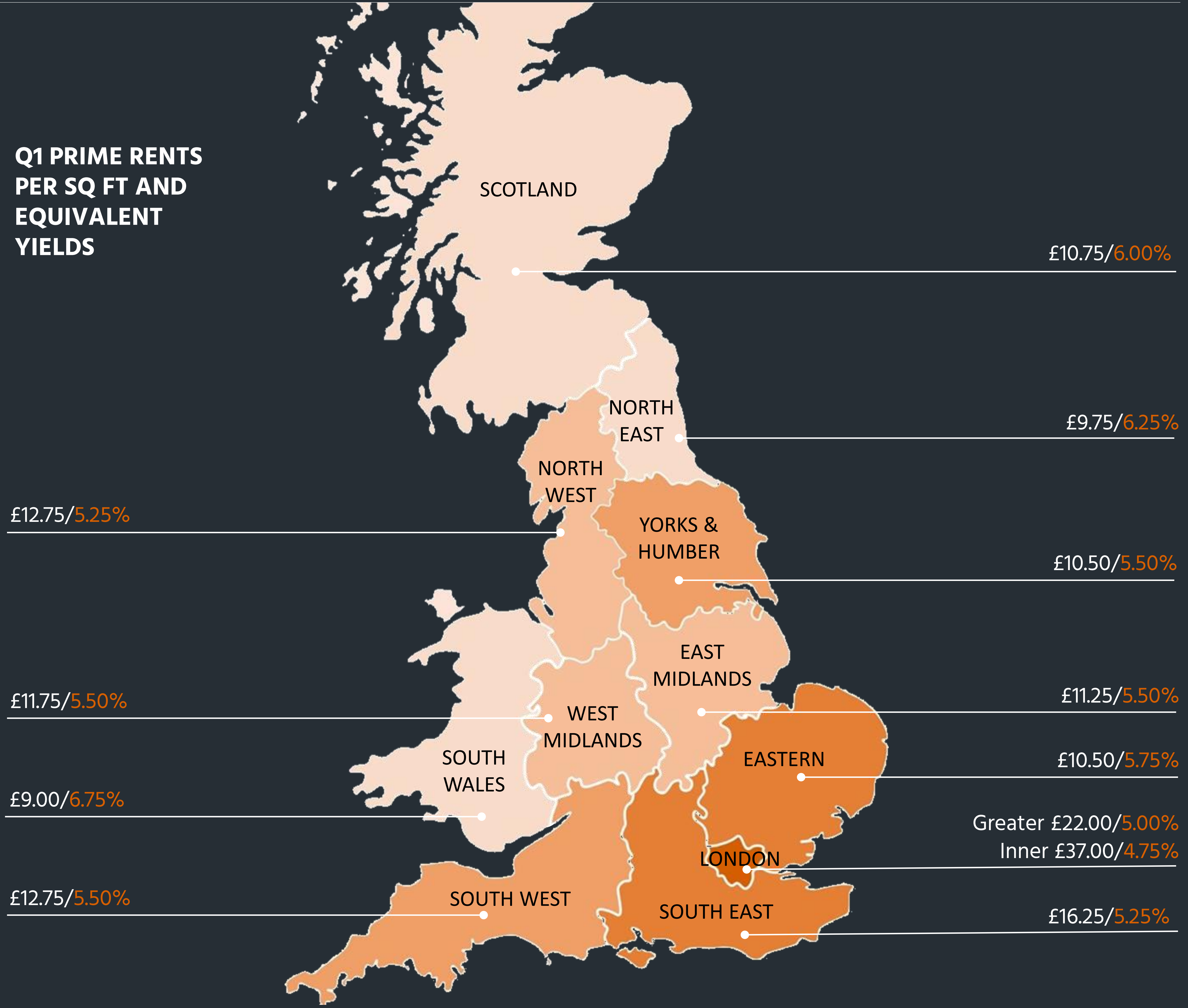


The above charts show the starting 2021 EPC grade on the left-hand side and the proportions converted into the various new 2022 EPC grades spread horizontally. There is some evidence that landlords are taking a relatively short-term perspective in some cases, bringing stock up to just meet the minimum regulations. A large proportion of former F-rated floorspace was brought up to only a grade D in 2022 – the new lowest acceptable certification. An upgrade to EPC C was popular for D and C-rated floorspace in 2022, which still leaves the task of subsequent upgrades before 2030 when EPC C is no longer permissible. A relatively small proportion of refurbishments took the EPC grade all the way up to A grade.

MULTI-LET REGIONS

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

Q1 PRIME RENTS PER SQ FT AND EQUIVALENT YIELDS



LONDON

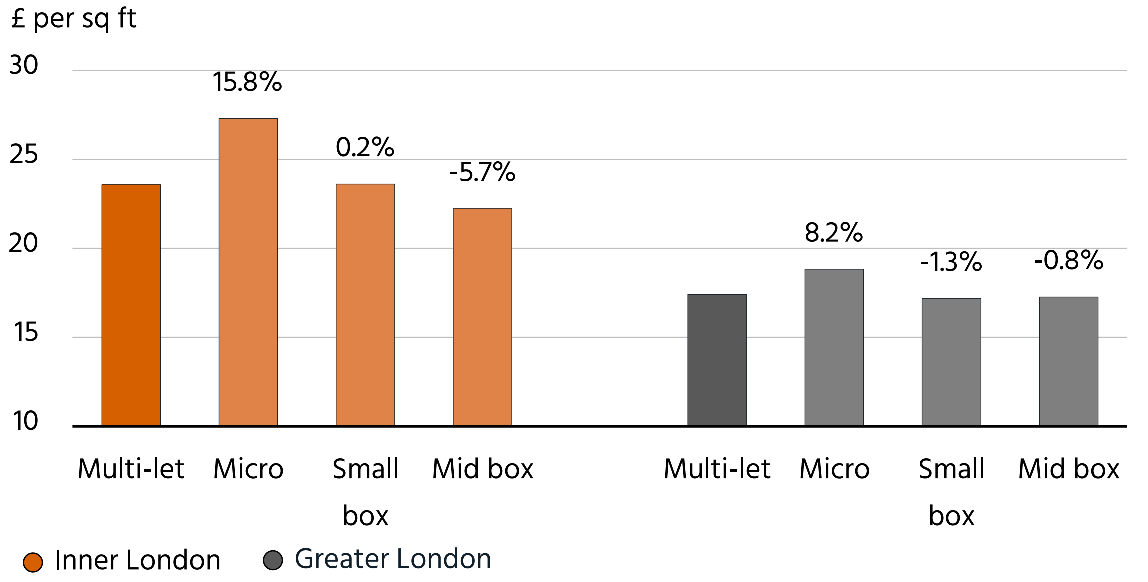
Continue with this region

All-grades ERV by area

Source: Gerald Eve

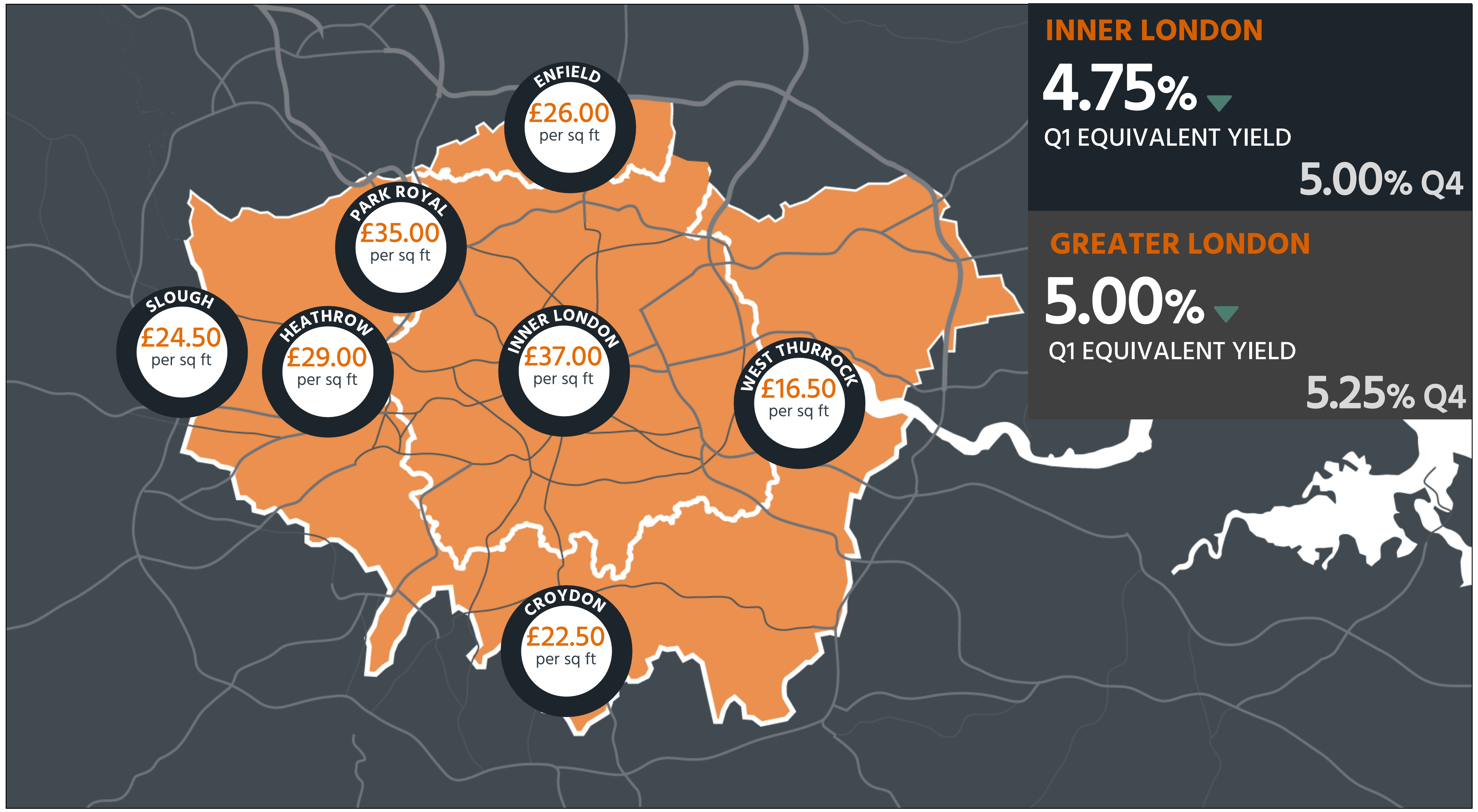
Q1 all-grades ERV by unit size and % premium/discount

Source: Gerald Eve



Q1 prime rents and equivalent yields

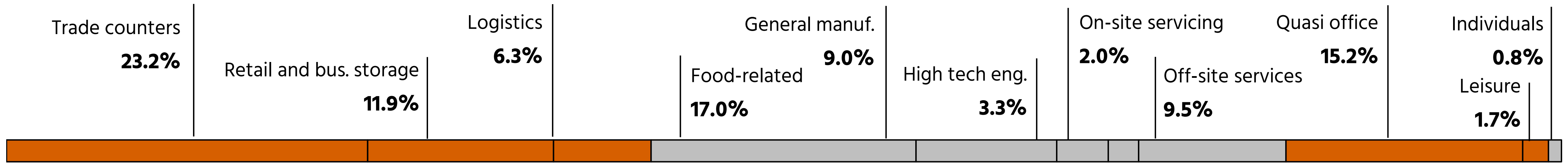
Source: Gerald Eve



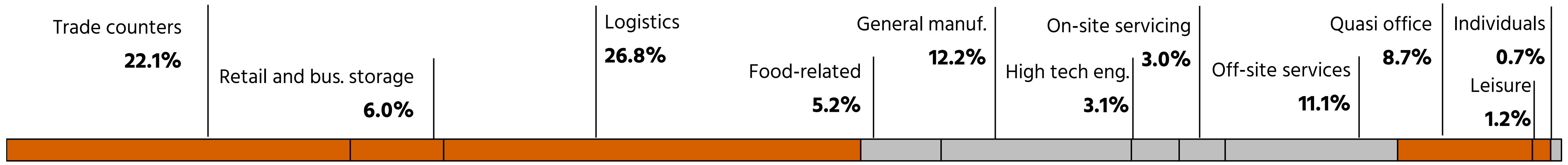
LONDON

London has the largest prime multi-let market in the UK with the highest rates of rental growth, though this has slowed in recent quarters. Inner London is the most expensive, at £37.00 per sq ft and West Thurrock to the east is the cheapest at £16.50 per sq ft. Micro units in the centre carry a significant 16% premium over the average size. The market is characterised by a notably oversized proportion of food-related occupiers in Inner London and logistics operators in Greater London, notably in the mid box units. 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 a tiny proportion of F&G units and a majority in the A-C range. There are 30 schemes in the development pipeline, totalling 2.4m sq ft. However, the majority is at the early site acquisition stage and only 184,000 sq ft is under construction and due for completion later in 2023.

Inner London

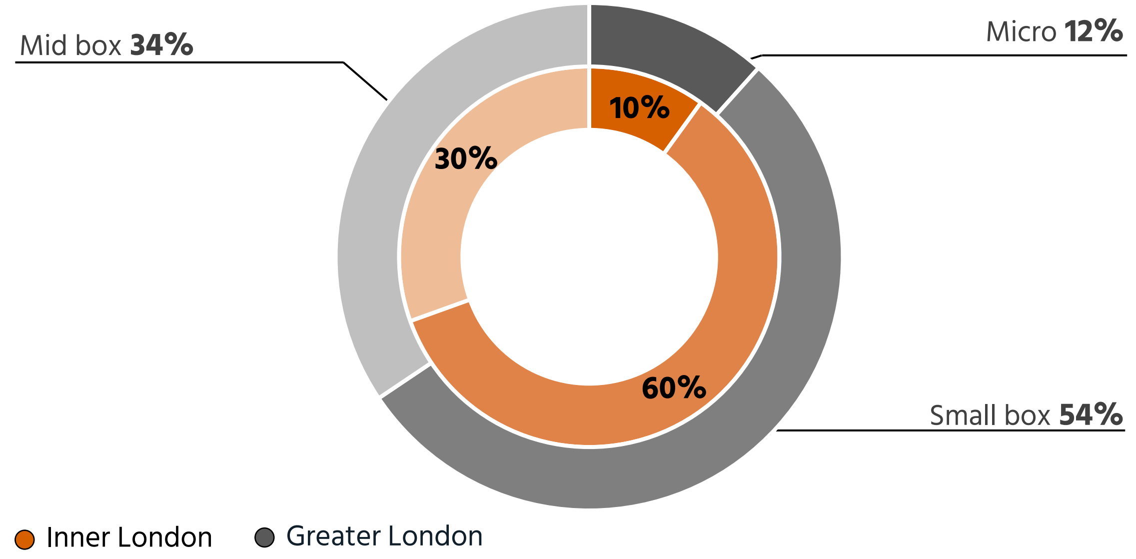


Greater London



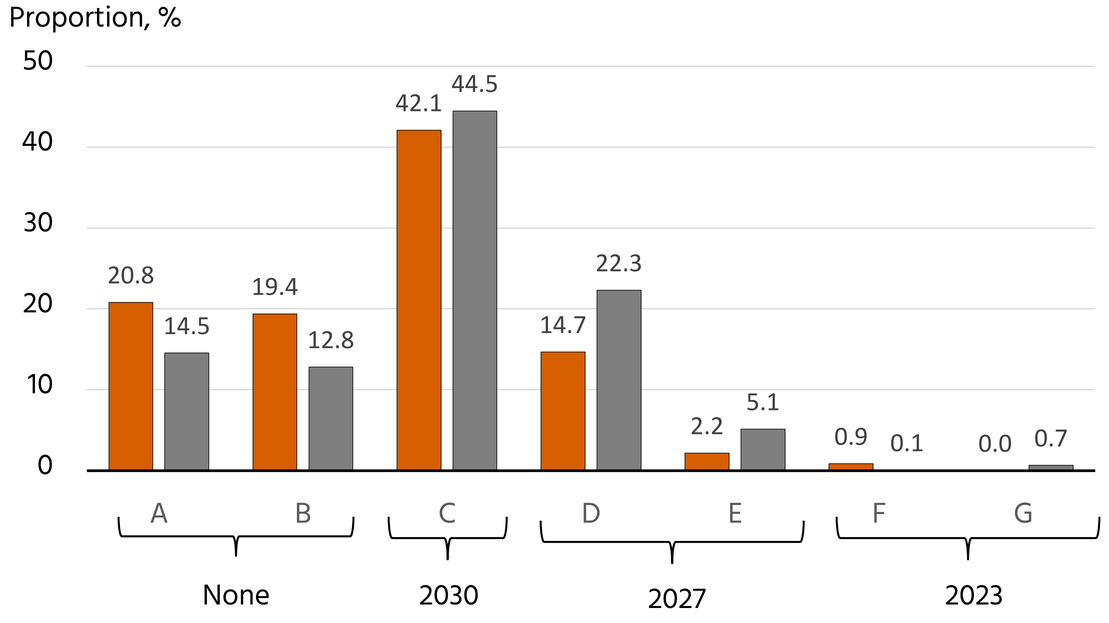
Proportion of floorspace by unit size

Source: Gerald Eve



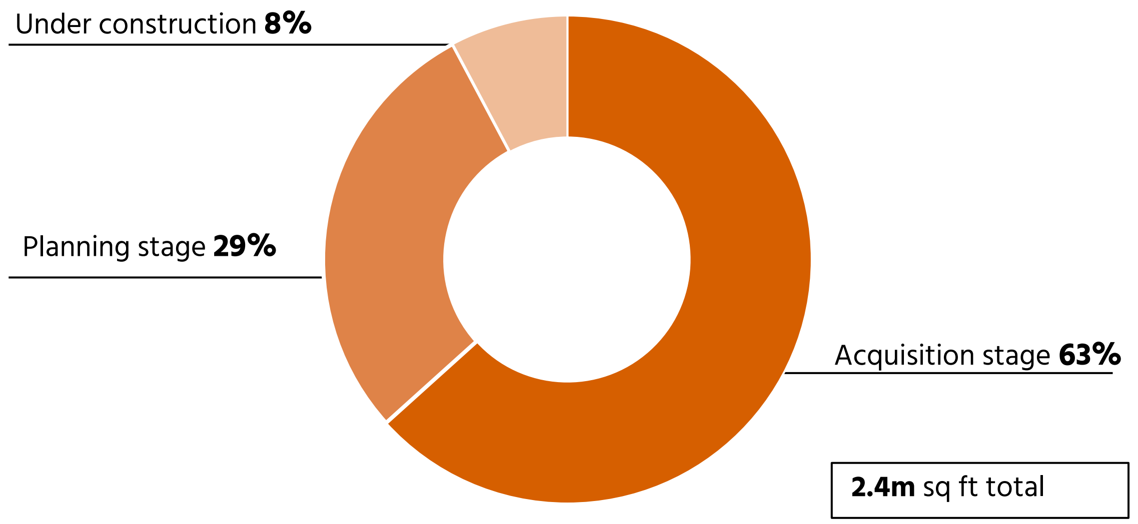
Floorspace by EPC grade (& deadline to non-compliance)

Source: Gerald Eve



Development pipeline

Source: Gerald Eve, Property Data

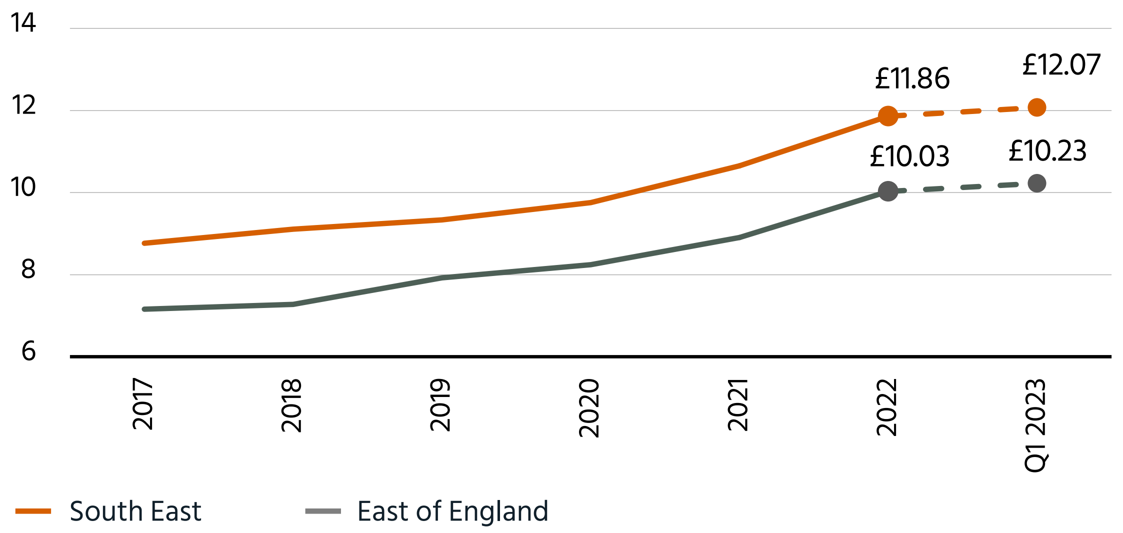


THE SOUTH AND EAST

Continue with this region

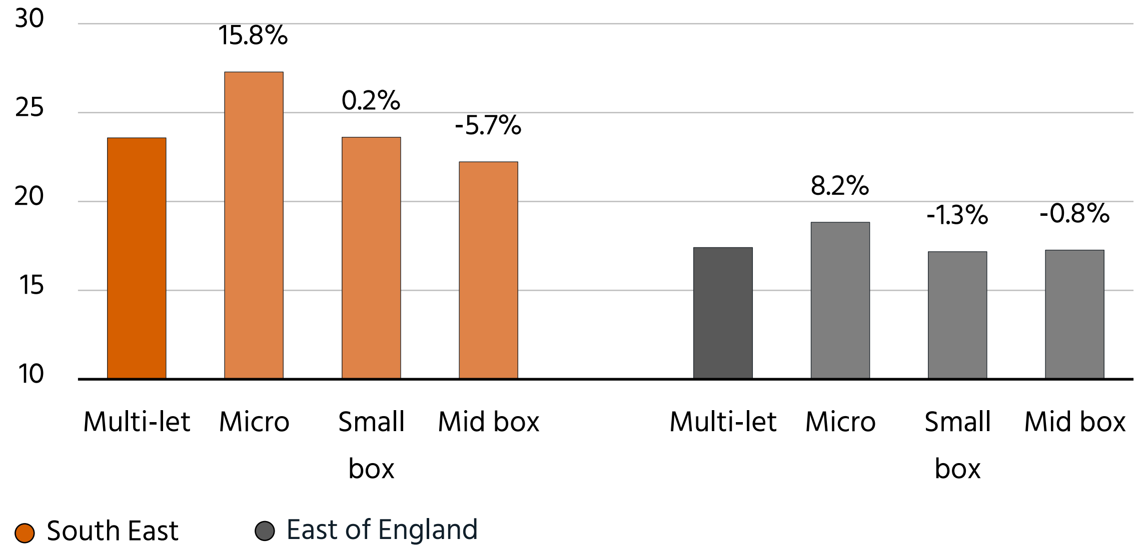
All-grades ERV by area

Source: Gerald Eve



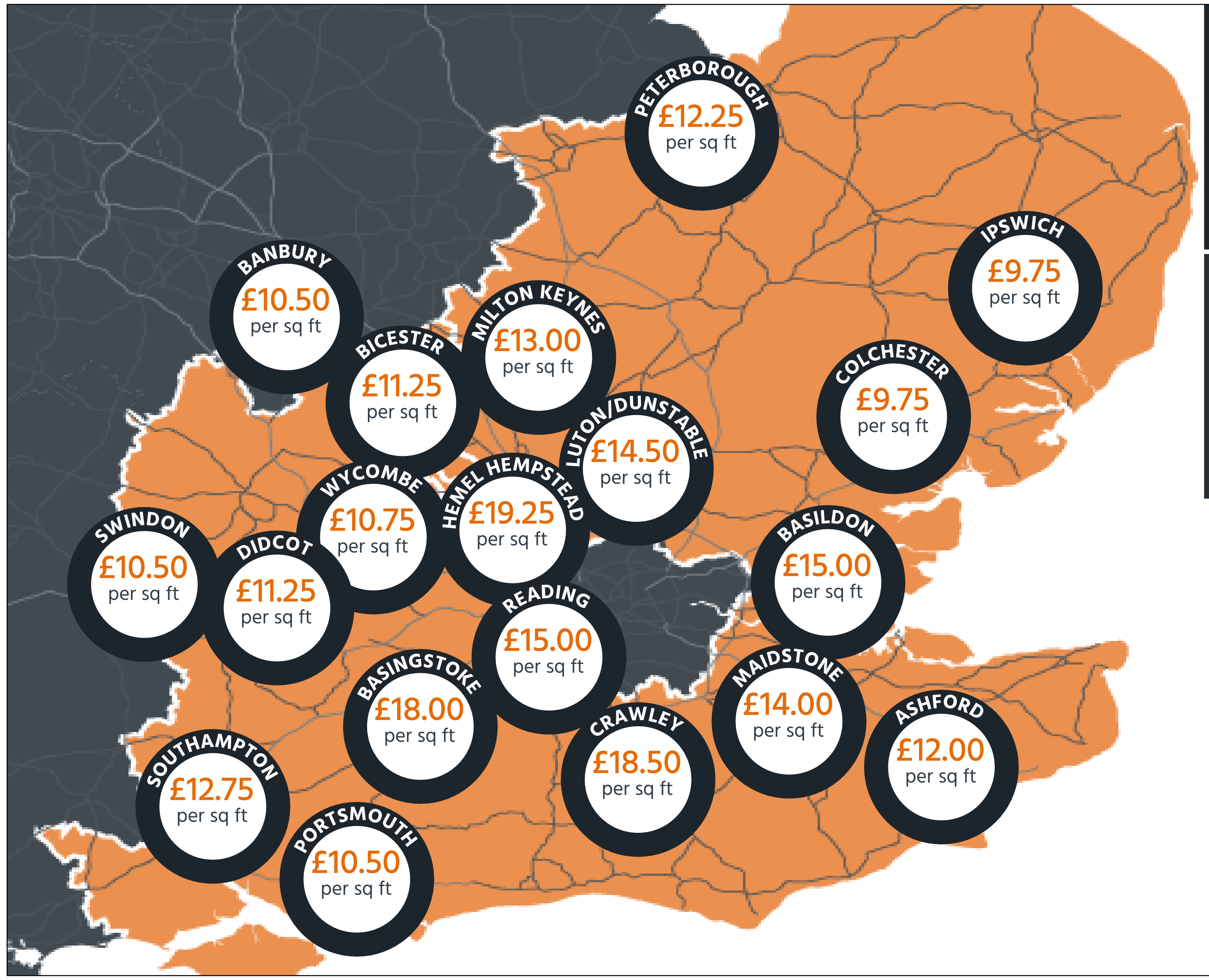
Q1 all-grades ERV by unit size and % premium/discount

Source: Gerald Eve



Q1 prime rents and equivalent yields

Source: Gerald Eve



SOUTH EAST

5.25%
Q1 EQUIVALENT YIELD

5.50% Q4

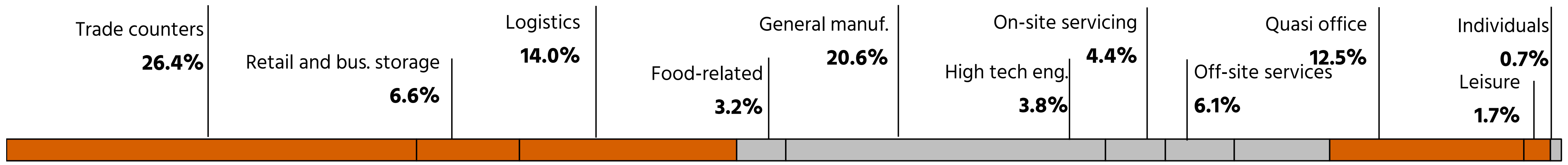
EAST OF ENGLAND

5.75%
Q1 EQUIVALENT YIELD

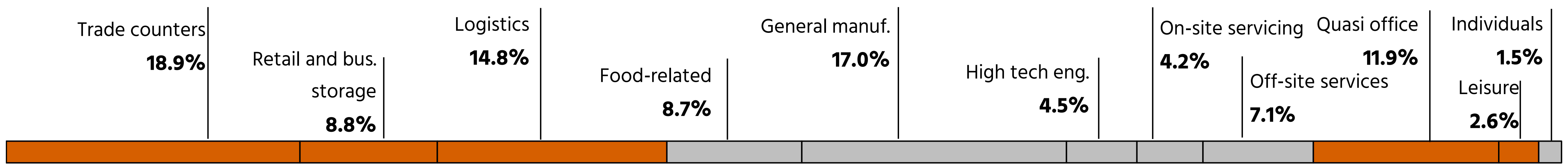
6.00% Q4

THE SOUTH AND EAST

South East



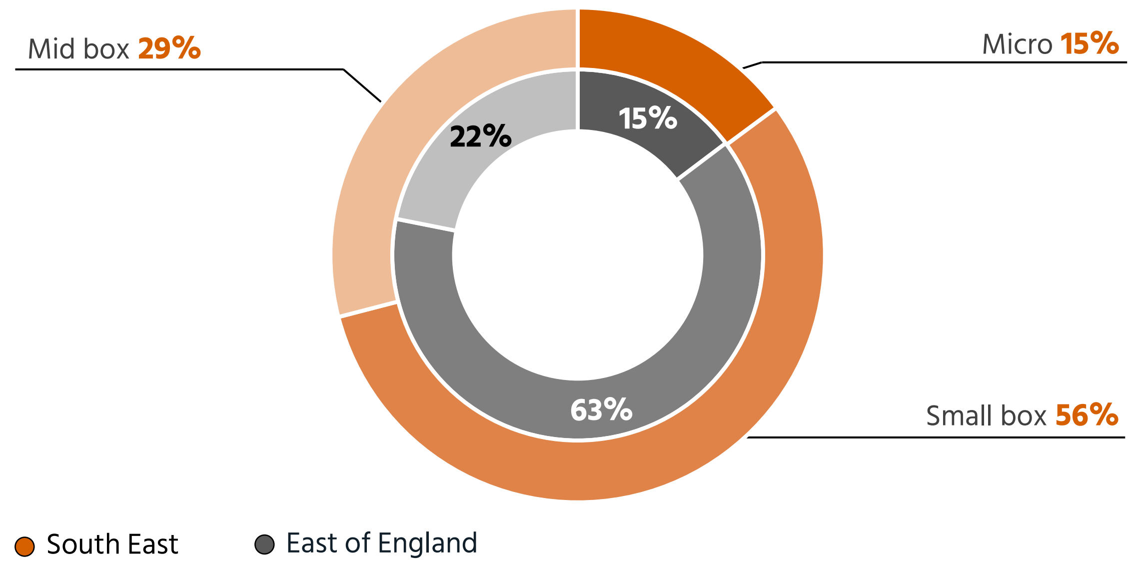
East of England



The South and East covers a wide range of multi-let markets, from £19.25 per sq ft in Hemel Hempstead to only £9.75 per sq ft in Ipswich. There is a 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. Well over a third of multi-let space is EPC grade D or below and will need refurbishment before 2027. There are 94 schemes in the potential pipeline, with two-thirds of the floorspace concentrated in the South East. Multi-let is a supply-constrained sector but the South East is one of the more active regions, with around half a million sq ft currently under construction. Although less active, 275,000 sq ft is under construction in the East of England and due for completion in 2023.

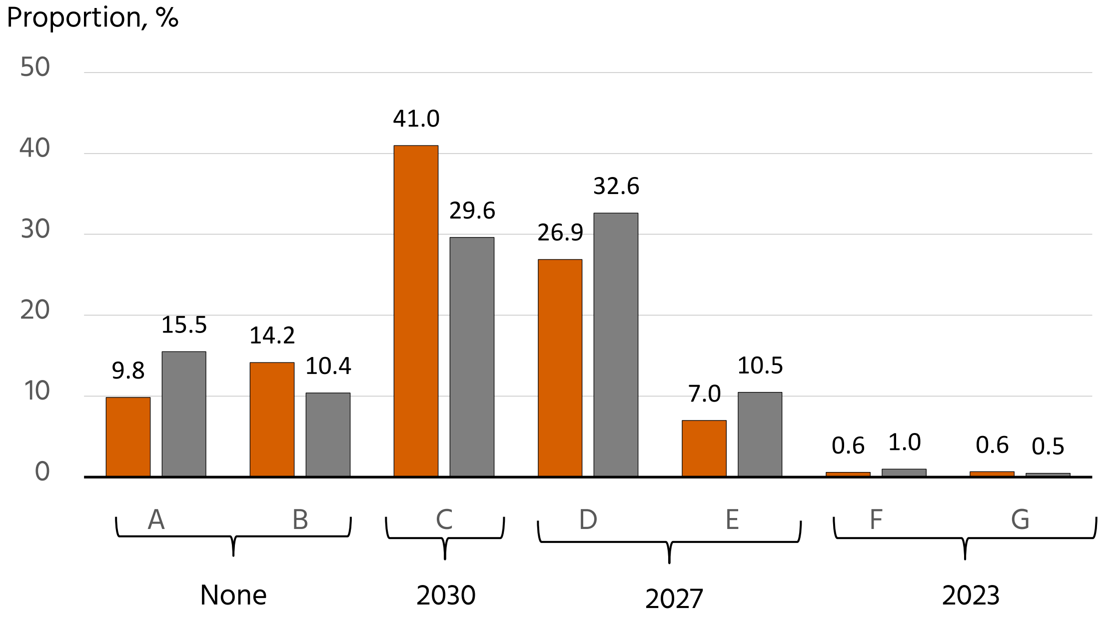
Proportion of floorspace by unit size

Source: Gerald Eve



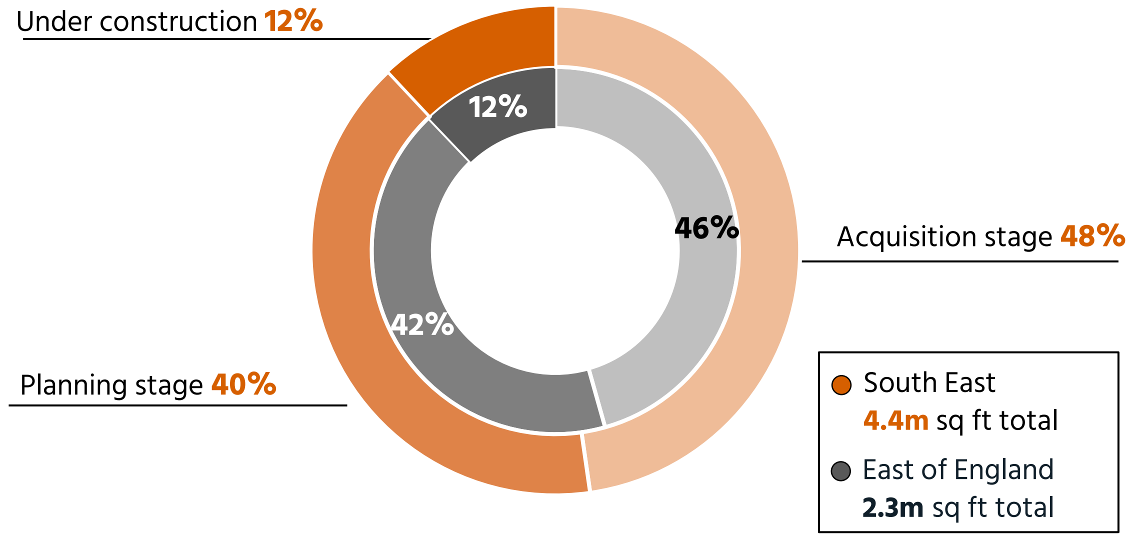
Floorspace by EPC grade (& deadline to non-compliance)

Source: Gerald Eve



Development pipeline

Source: Gerald Eve, Property Data

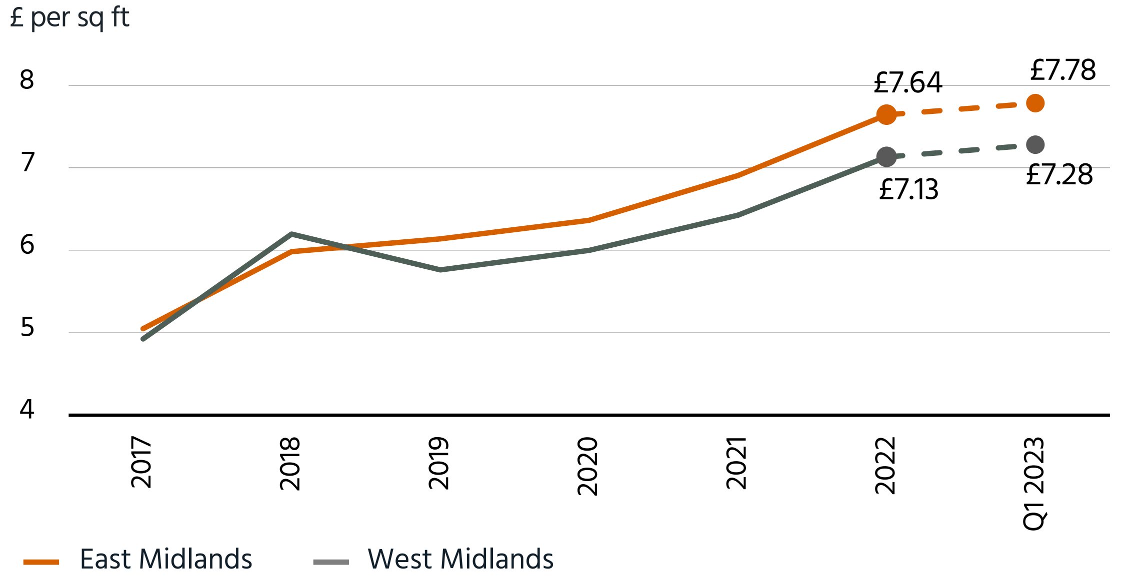


THE MIDLANDS

Continue with this region

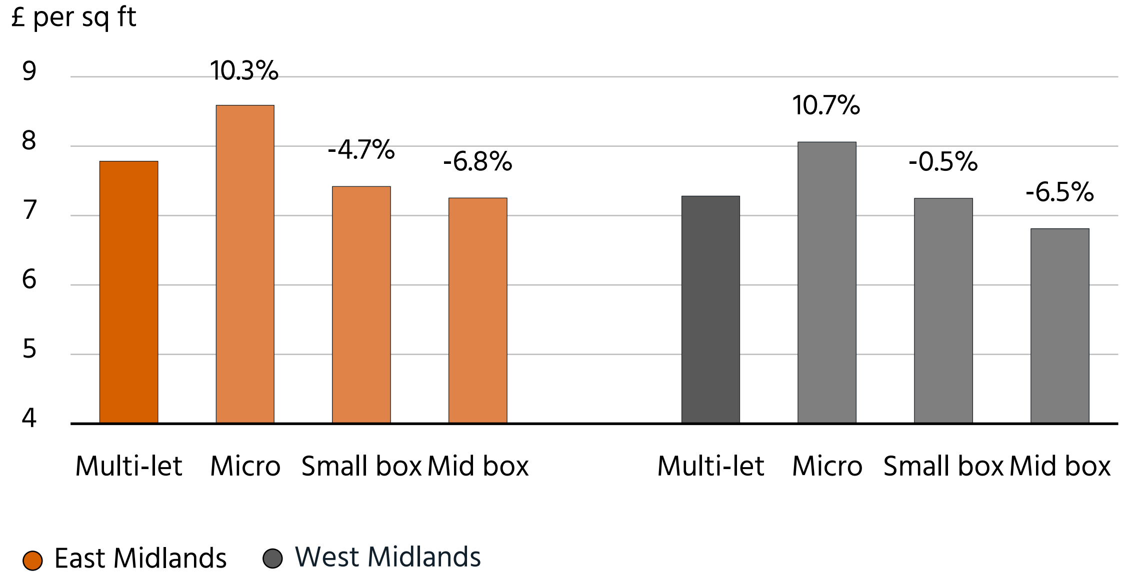
All-grades ERV by area

Source: Gerald Eve



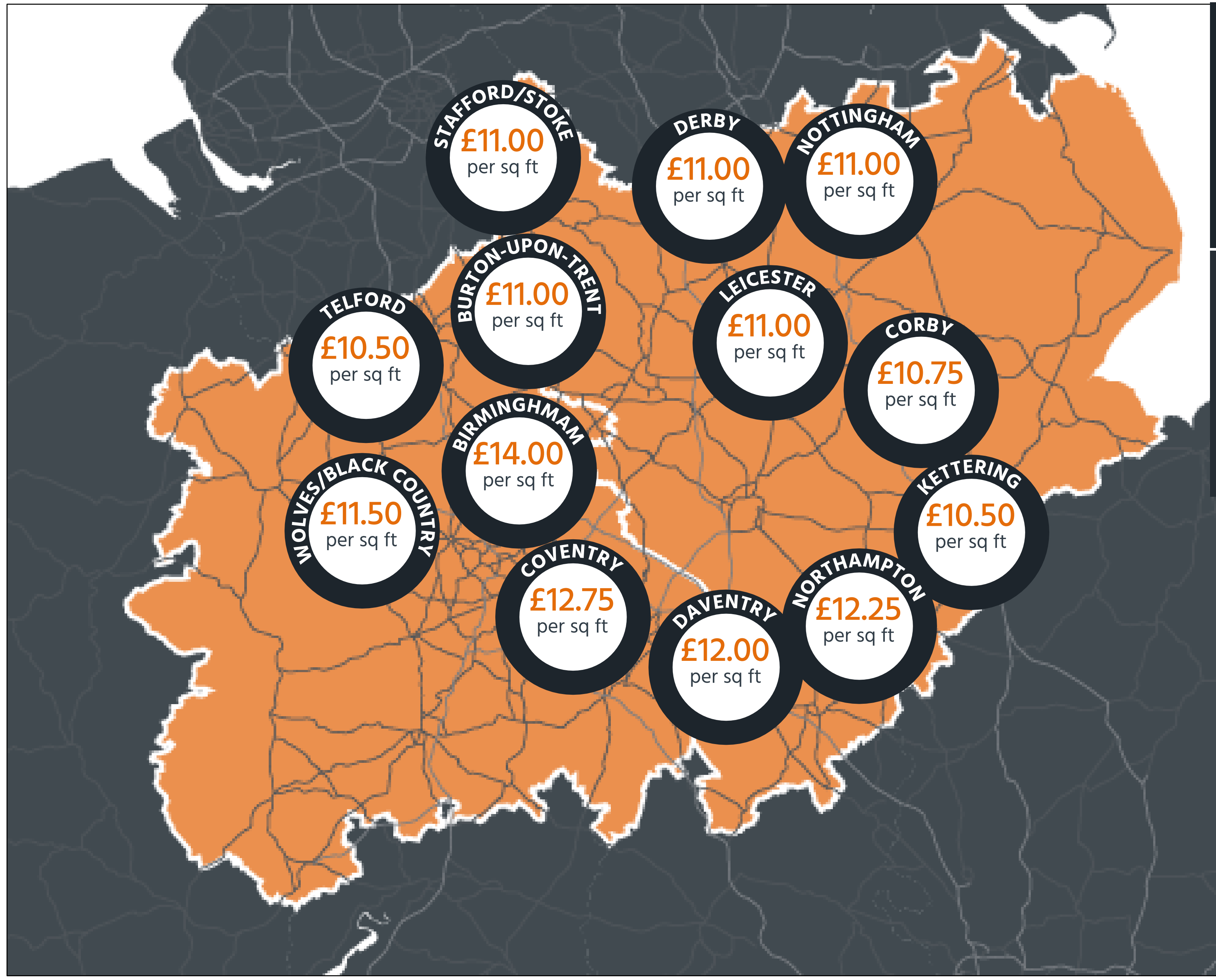
Q1 all-grades ERV by unit size and % premium/discount

Source: Gerald Eve



Q1 prime rents and equivalent yields

Source: Gerald Eve



EAST MIDLANDS

5.50%

Q1 EQUIVALENT YIELD

5.75% Q4

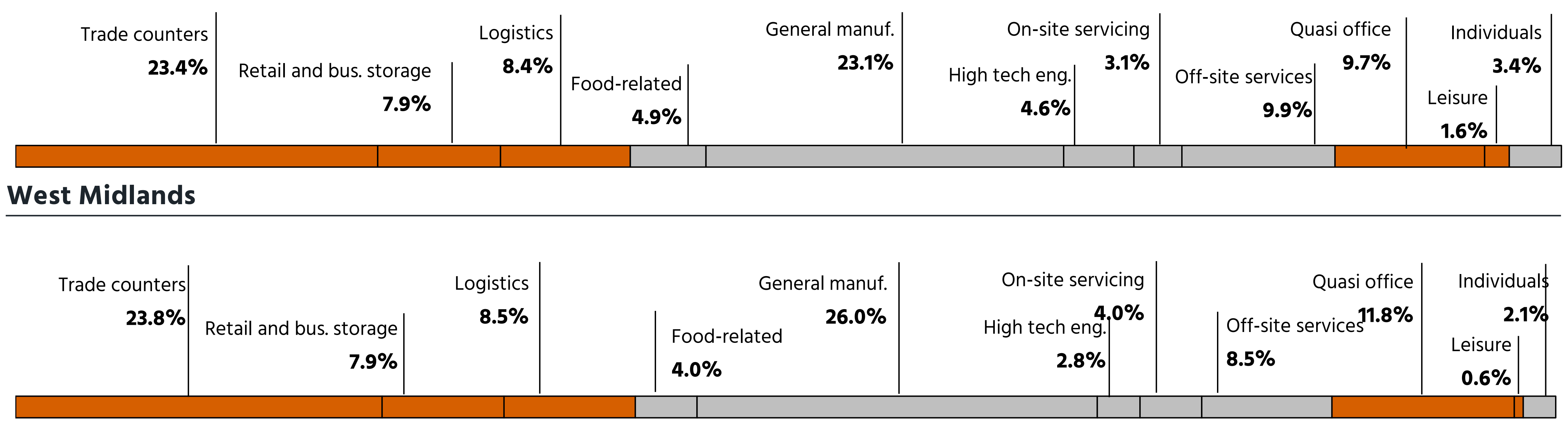
WEST MIDLANDS

5.50%

Q1 EQUIVALENT YIELD

5.75% Q4

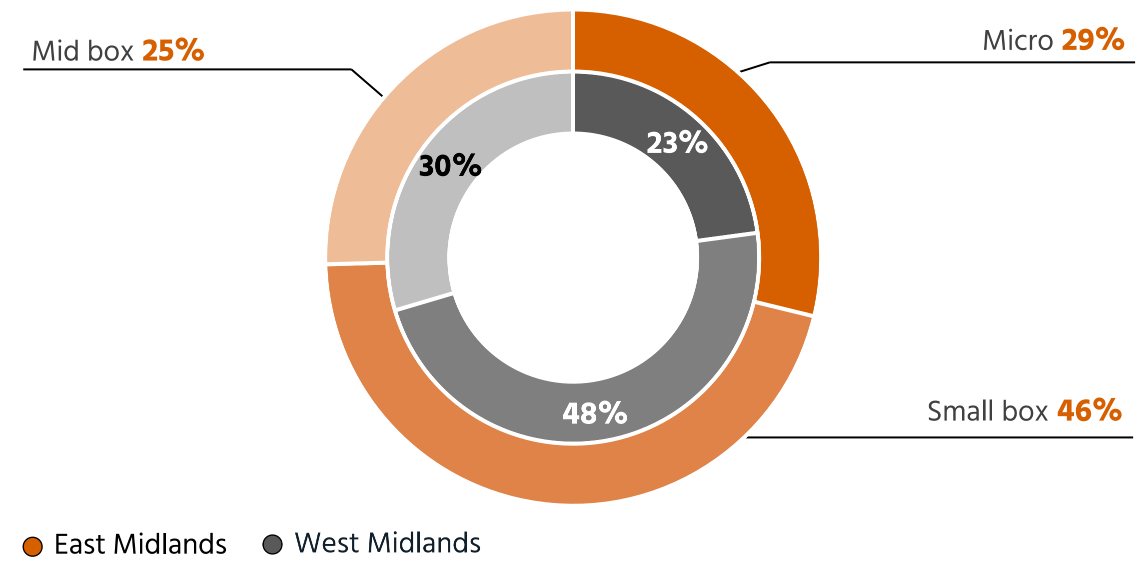
THE MIDLANDS



Prime rents vary relatively little in the Midlands, with Telford and Corby at £10.50 - £10.75 per sq ft and Birmingham the most expensive at £14.00 per sq ft. Multi-let space in the Midlands has a higher proportionate amount of manufacturing occupiers than the South, particularly in the West Midlands. A significant 7.2% of stock in the West Midlands was at grades F&G in 2021. This was successfully refurbished in the main by end-2022, though the West Midlands still had some way to go. There remains a significant amount of multi-let space at EPC grade D & E that will need refurbishment before 2027. There are 83 schemes in the potential pipeline, totalling 4.4m sq ft. A large 20 out of the potential 47 schemes in the East Midlands are under construction, making the East Midlands the third highest region after the North West and the South East. Meanwhile 9 out of the potential 36 schemes are under construction in the West Midlands, placing it fourth.

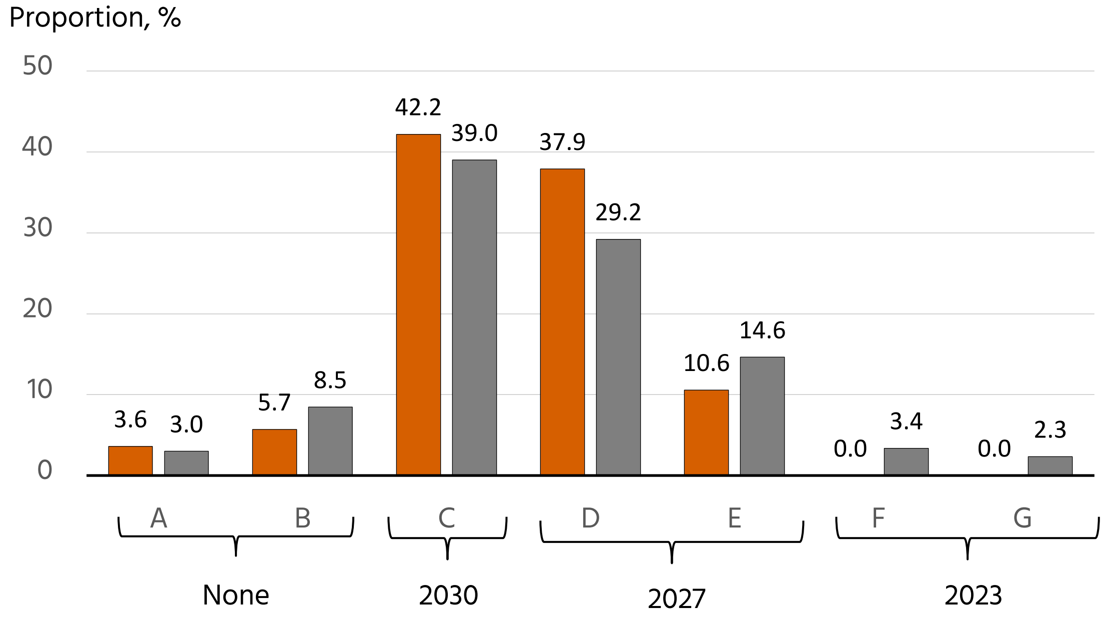
Proportion of floorspace by unit size

Source: Gerald Eve



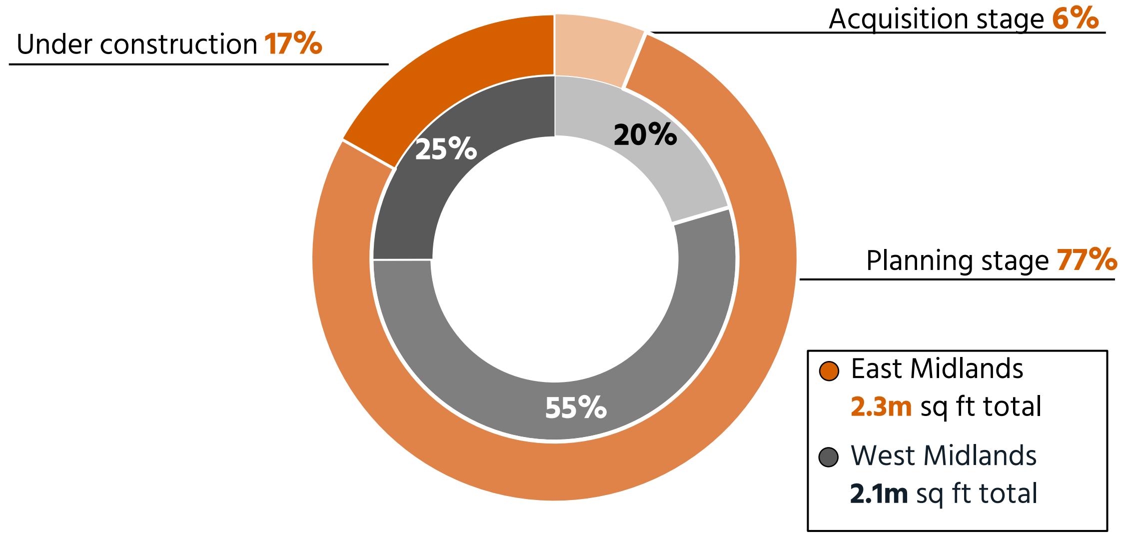
Floorspace by EPC grade (& deadline to non-compliance)

Source: Gerald Eve



Development pipeline

Source: Gerald Eve, Property Data

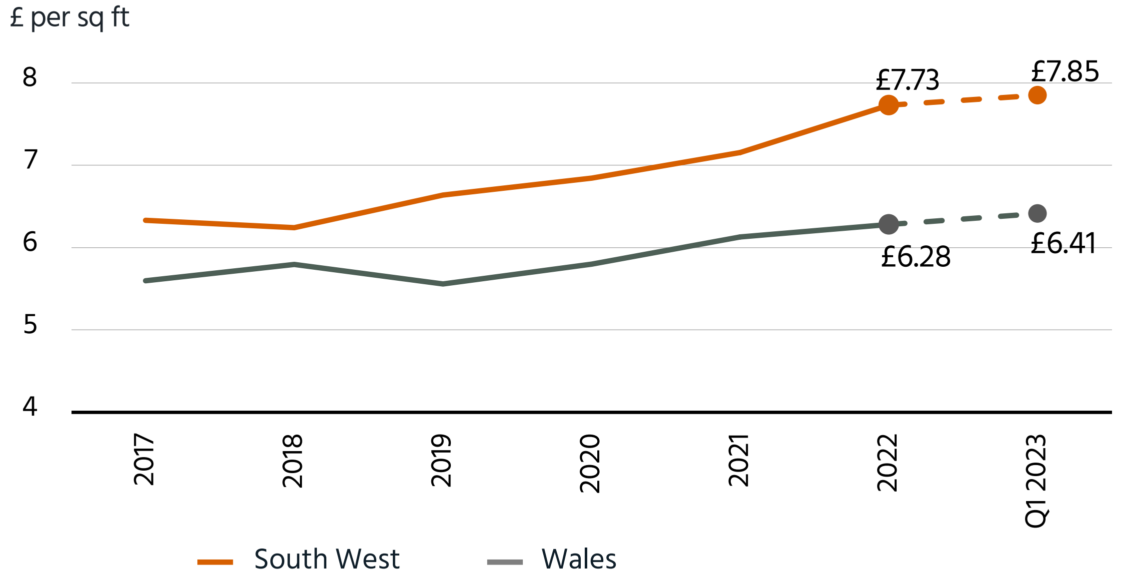


SOUTH WEST AND WALES

Continue with this region

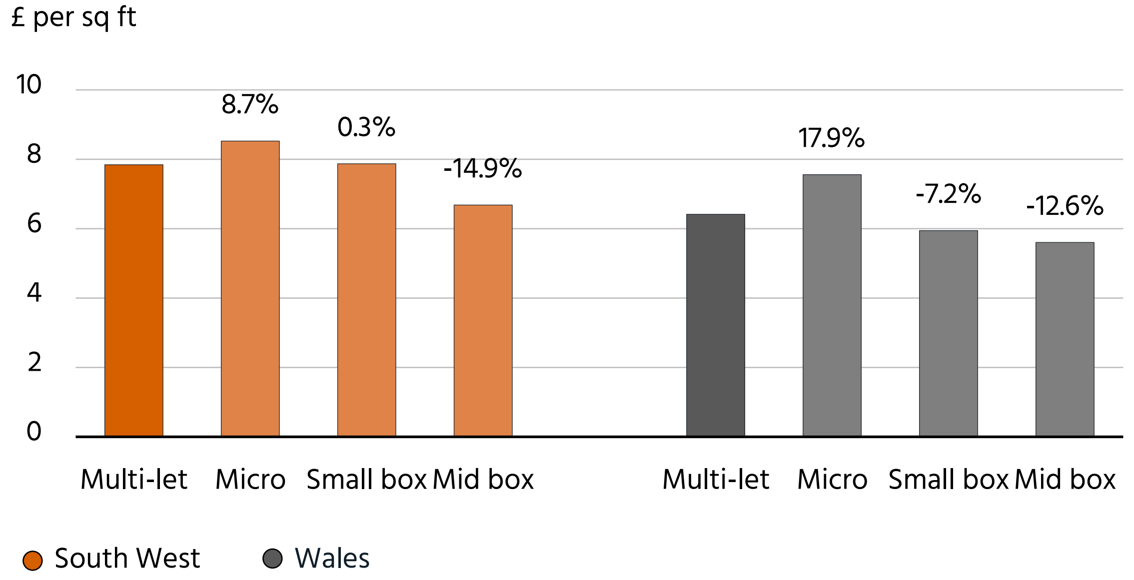
All-grades ERV by area

Source: Gerald Eve



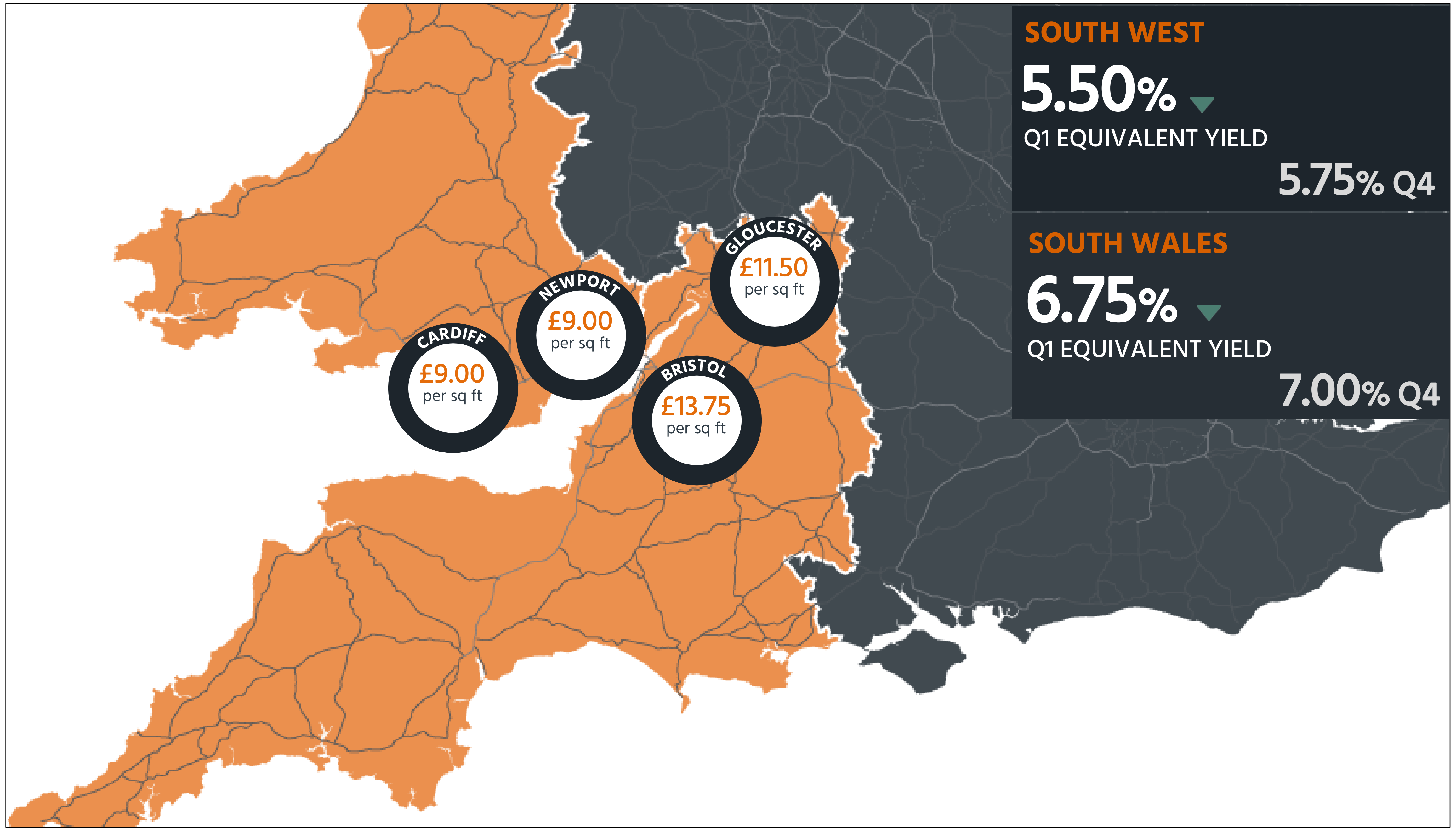
Q1 all-grades ERV by unit size and % premium/discount

Source: Gerald Eve



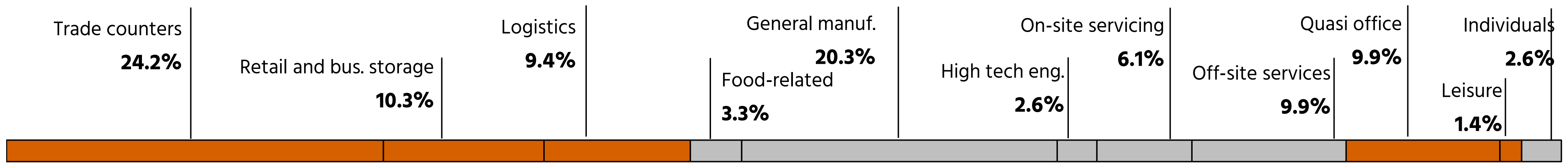
Q1 prime rents and equivalent yields

Source: Gerald Eve

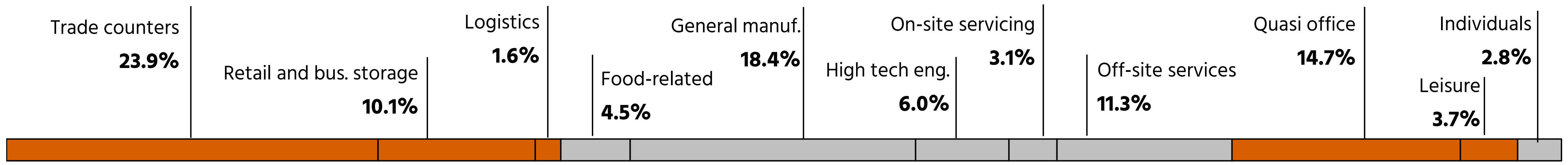


SOUTH WEST AND WALES

South West



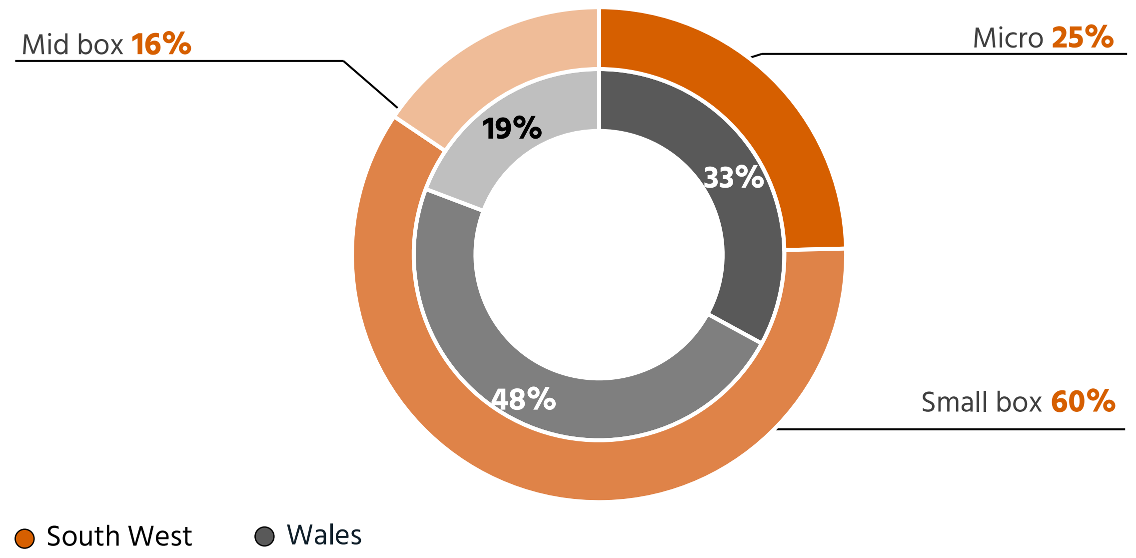
Wales



The prime market in this region is dominated by Bristol, valued at £13.75 per sq ft, compared with only £9.00 per sq ft across in South Wales. Wales multi-let, like Scotland, is characterised by a significantly lower proportion of logistics tenants than elsewhere in the UK. While negligible proportions of both markets are rated as EPC grades F&G, there is a significant remaining proportion that are D&E following a series of improvements in 2022. This momentum will need to be continued to bring down the entire stock of D & E units by 2027. There are 32 schemes in the potential pipeline and generally a low level of development activity compared with the rest of the UK. Wales has the second smallest potential pipeline in the UK after Scotland but has a comparatively high 203,000 sq ft under construction spread over 5 schemes. The South West has greater potential development activity, but only 89,000 sq ft under construction over 4 schemes.

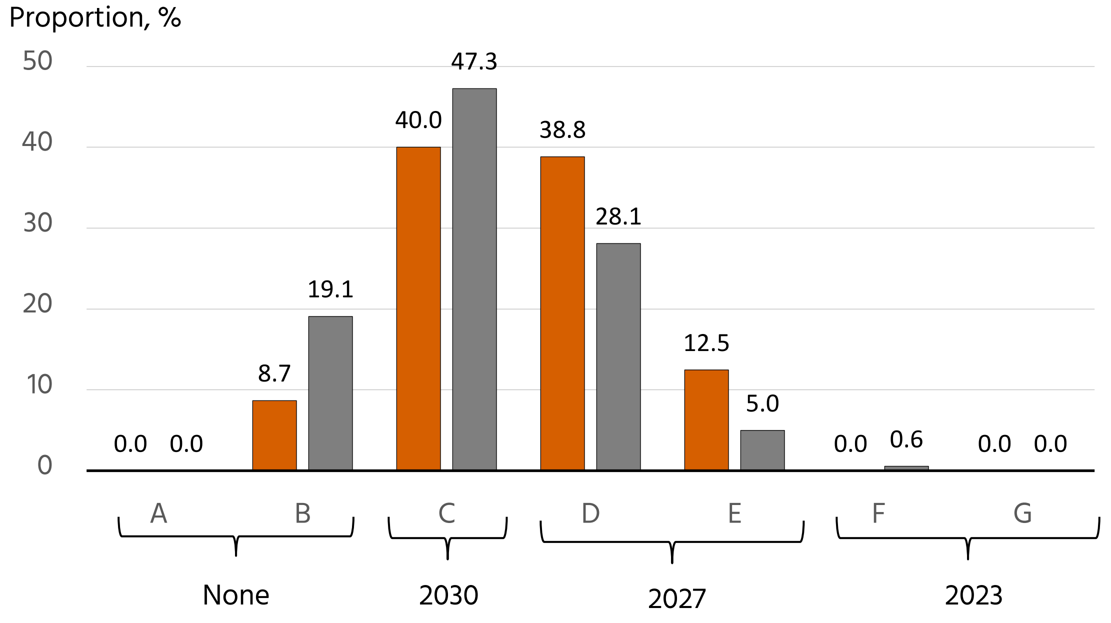
Proportion of floorspace by unit size

Source: Gerald Eve



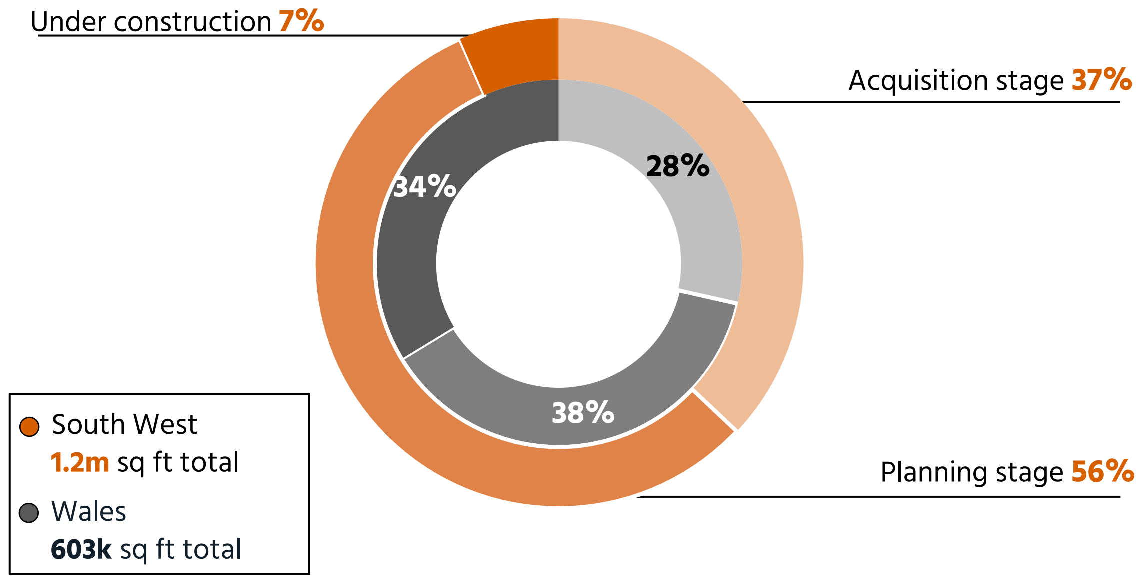
Floorspace by EPC grade (& deadline to non-compliance)

Source: Gerald Eve



Development pipeline

Source: Gerald Eve, Property Data

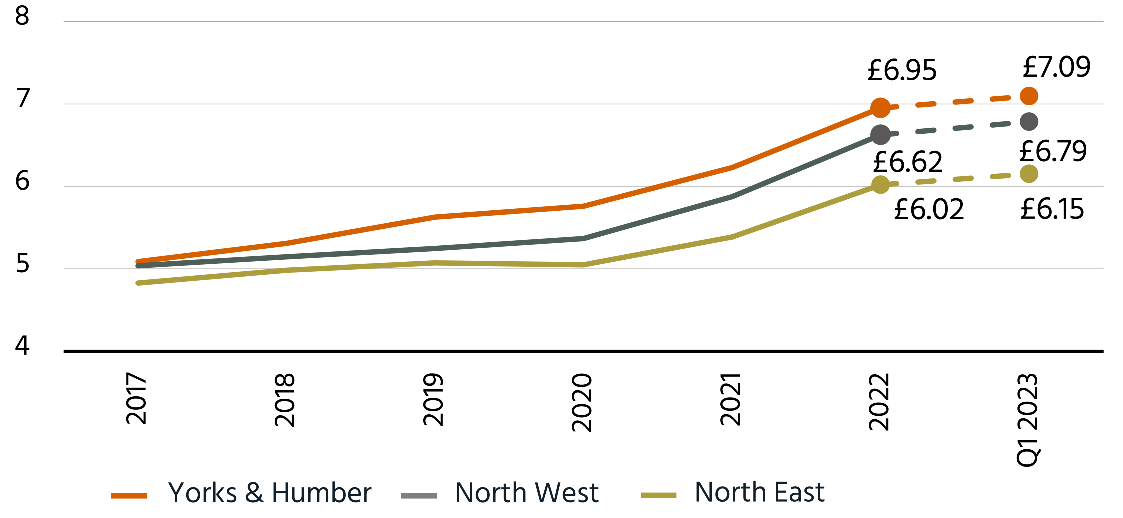


THE NORTH

Continue with this region

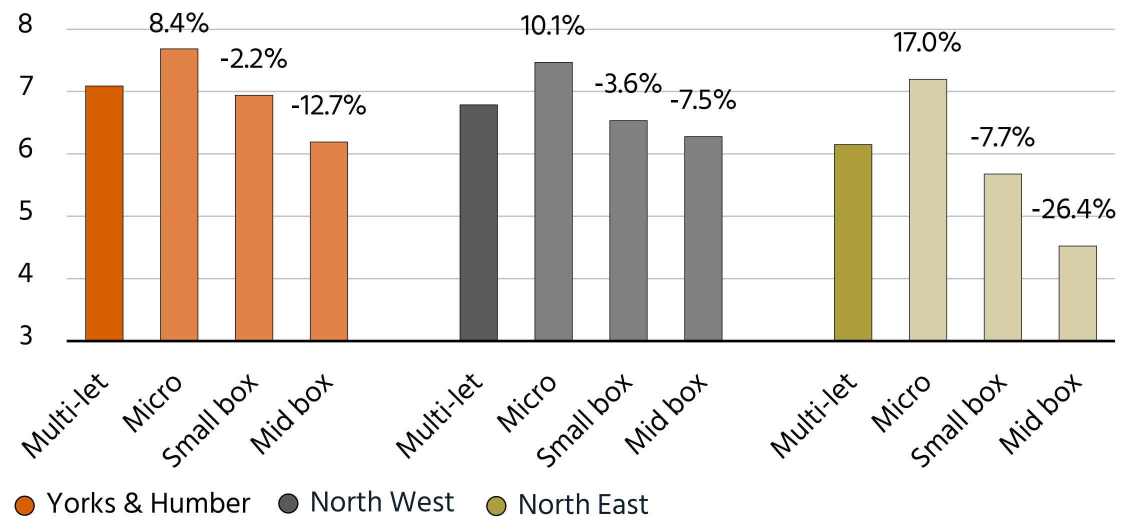
All-grades ERV by area

Source: Gerald Eve



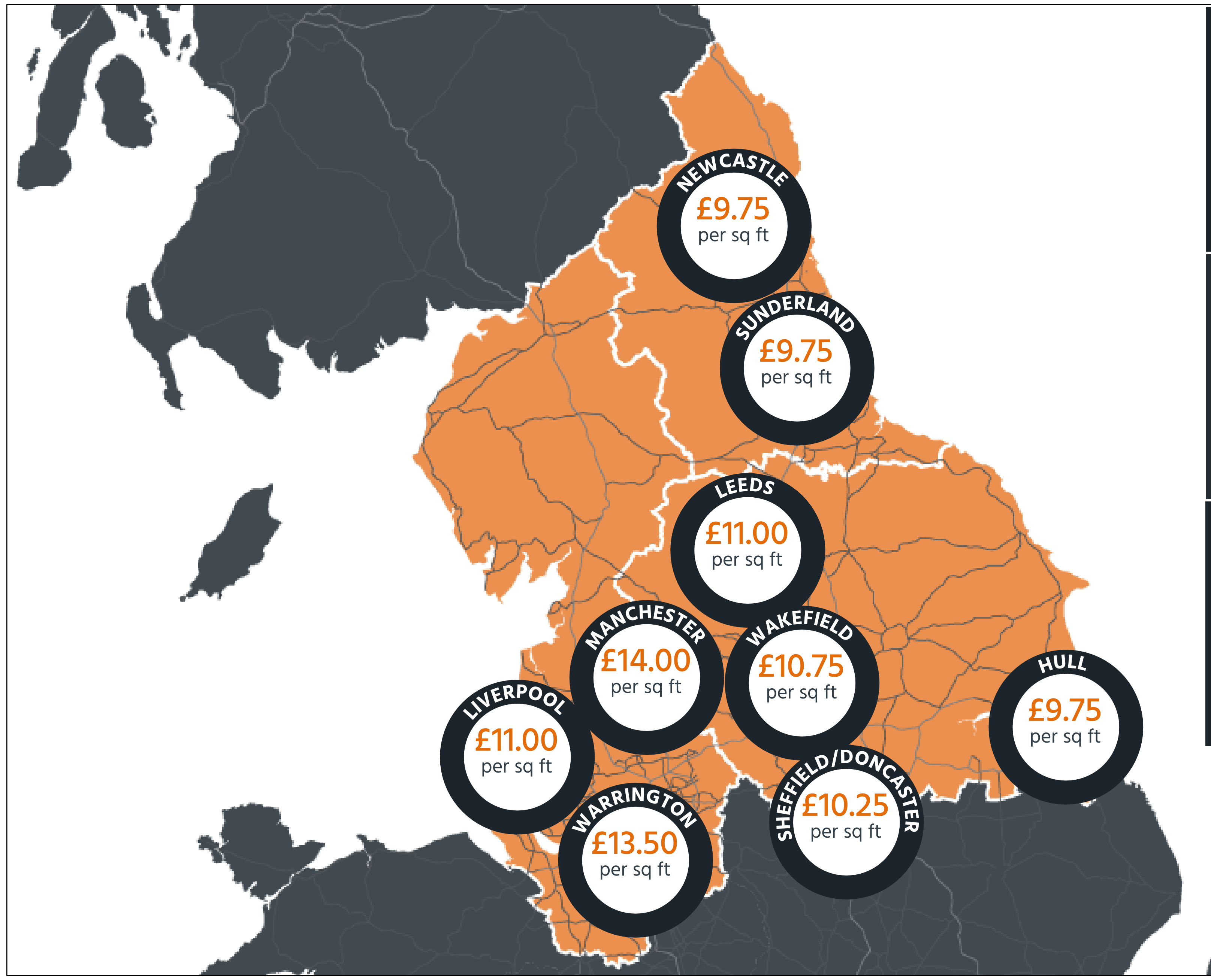
Q1 all-grades ERV by unit size and % premium/discount

Source: Gerald Eve



Q1 prime rents and equivalent yields

Source: Gerald Eve

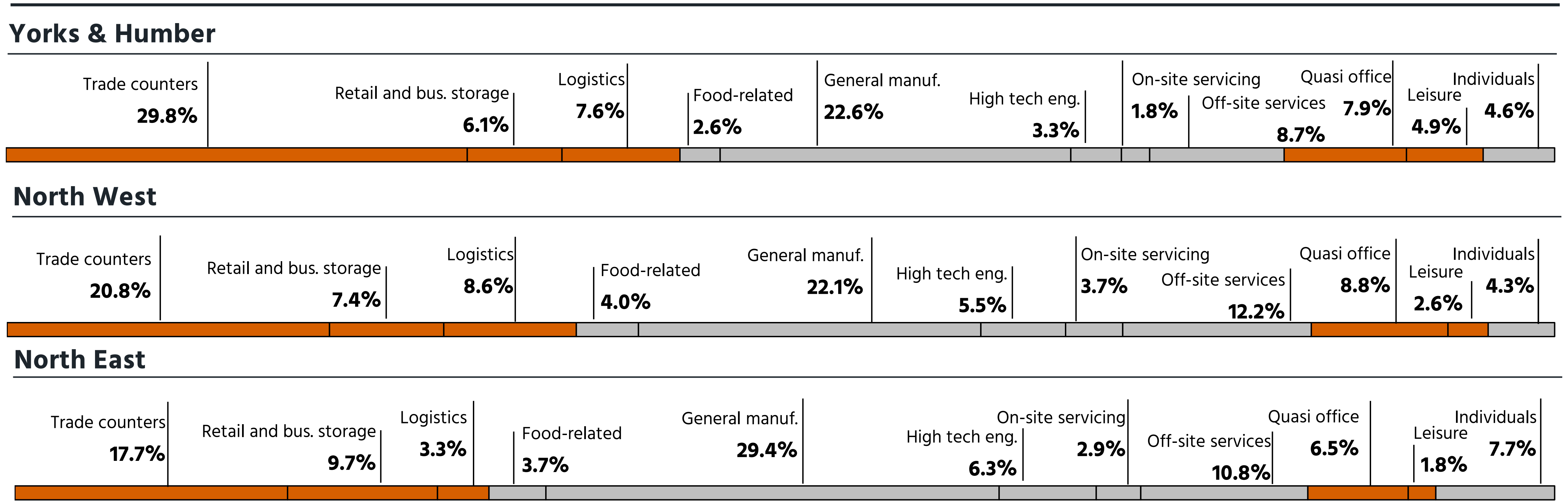


YORKS & HUMBER
5.50%
Q1 EQUIVALENT YIELD
5.75% Q4

NORTH WEST
5.25%
Q1 EQUIVALENT YIELD
5.50% Q4

NORTH EAST
5.75%
Q1 EQUIVALENT YIELD
6.00% Q4

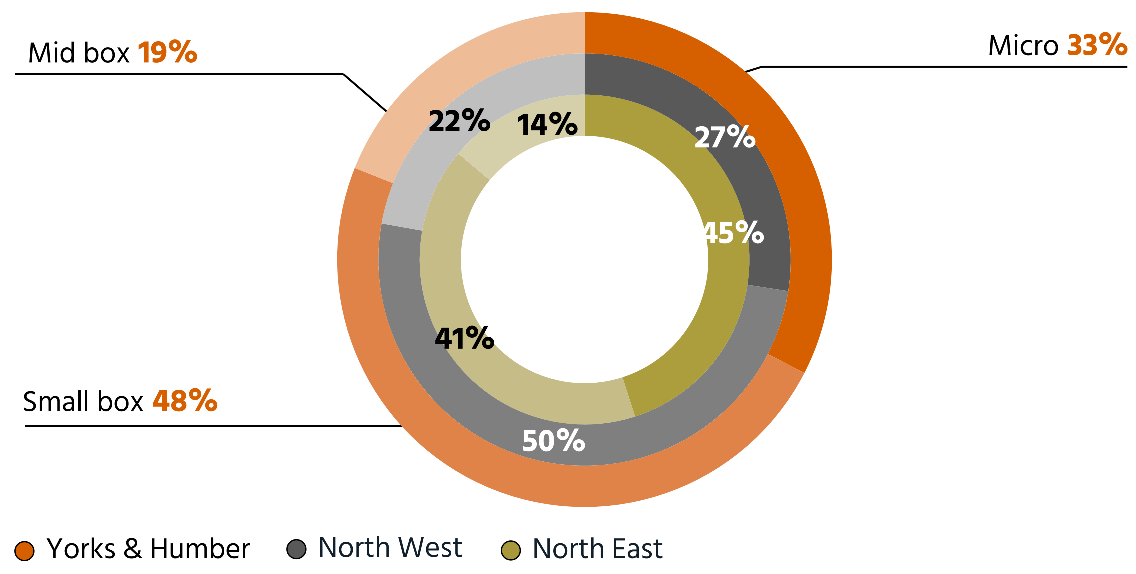
THE NORTH



Multi-let in the North of England is characterised by diversity - relatively expensive prime space in the North West, such as Manchester at £14.00 per sq ft, and cheaper markets in Hull, Newcastle and Sunderland at £9.75 per sq ft. There is a sizeable cluster of EPC grade D and below that will need intervention before 2027. The proportion of the so-called 'Individuals' is high here, particularly in the North East where traditional manufacturing in multi-let is also prevalent. Here the majority of firms occupying multi-let space are classified as small or micro. The effective UK multi-let development pipeline is minimal, but the potential for activity in the north is significant, with a potential 10.5m sq ft spread over 151 schemes. However, a very small proportion are anything other than potential and actually under construction. The North West is one of the most active UK regions, with around 500,000 sq ft under construction and most of it due in 2023.

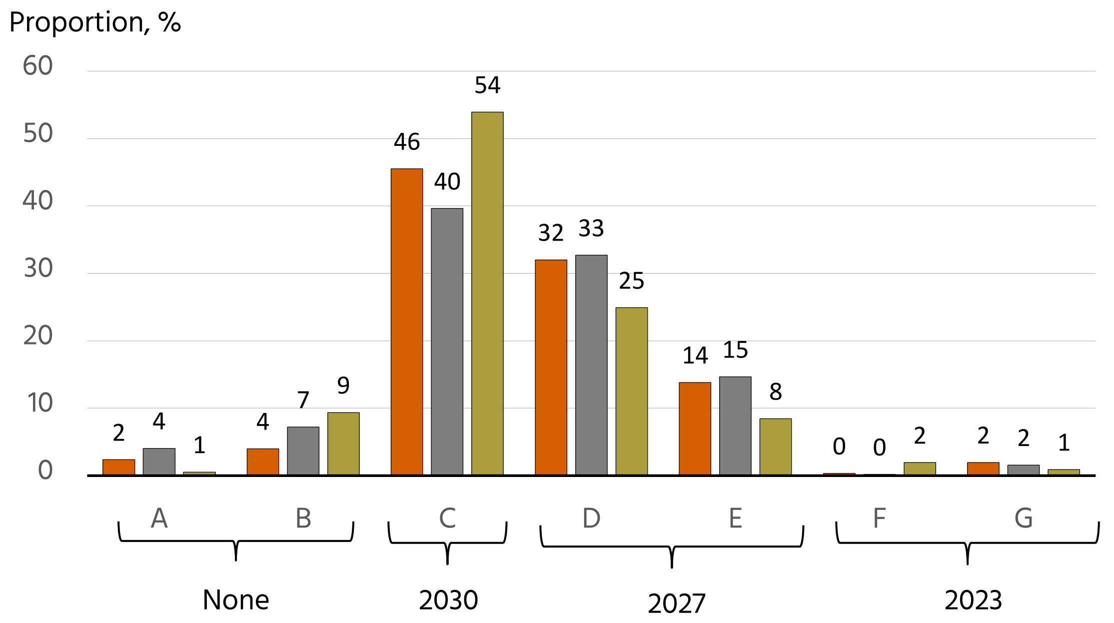
Proportion of floorspace by unit size

Source: Gerald Eve



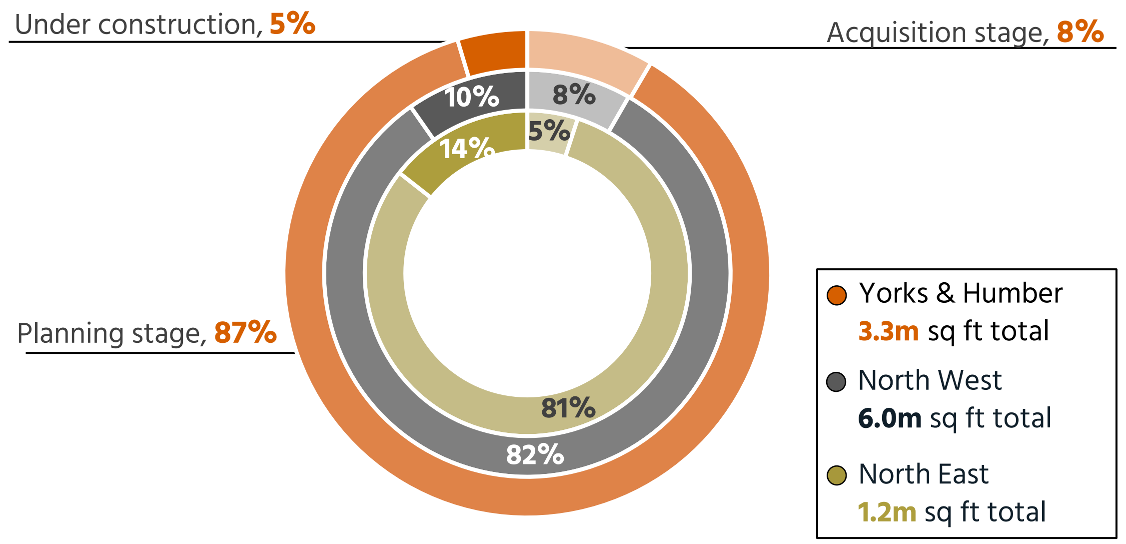
Floorspace by EPC grade (& deadline to non-compliance)

Source: Gerald Eve



Development pipeline

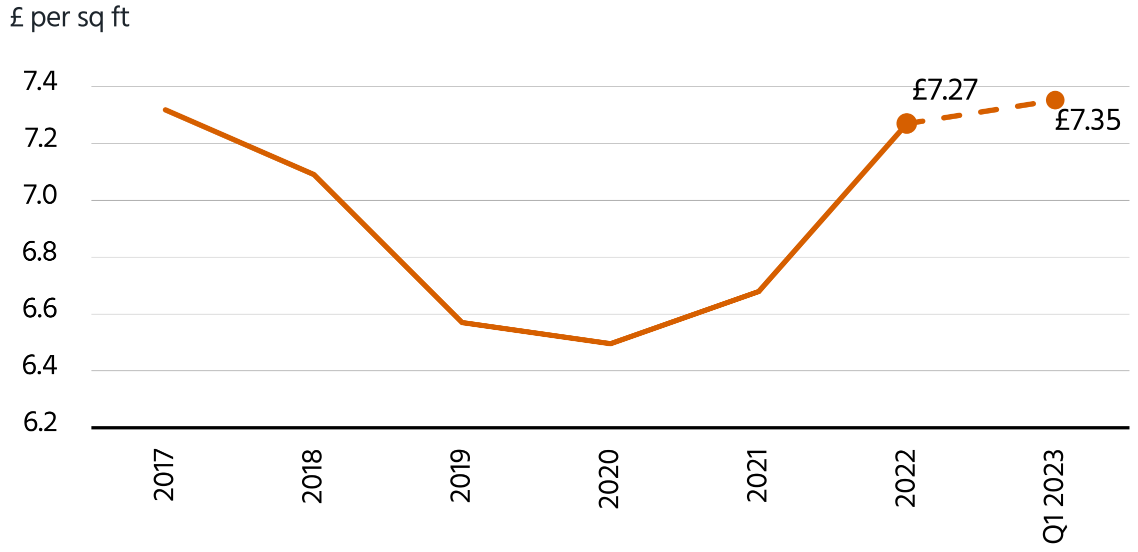
Source: Gerald Eve, Property Data



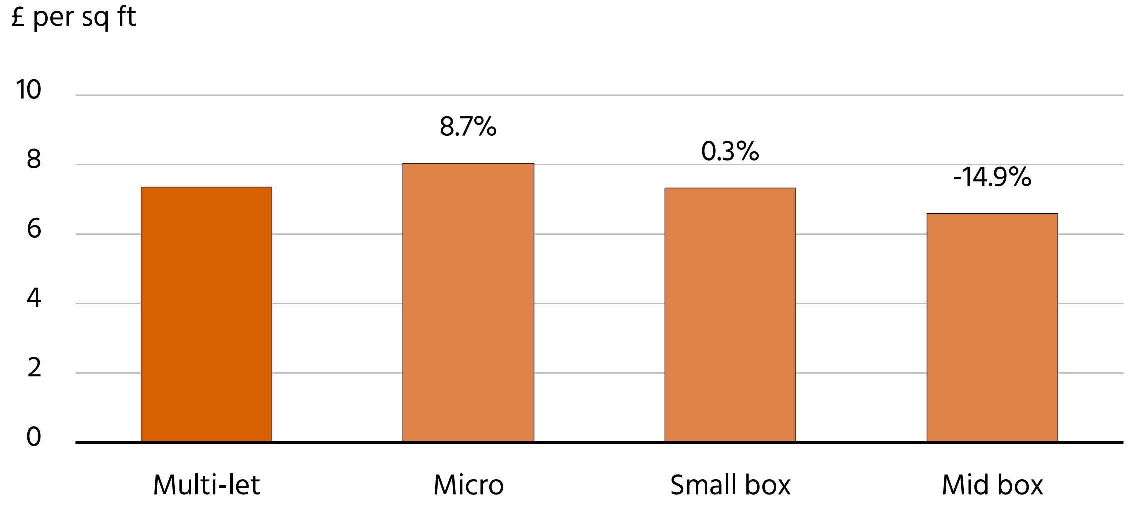
SCOTLAND

Continue with this region

All-grades ERV
Source: Gerald Eve



Q1 all-grades ERV by unit size and % premium/discount
Source: Gerald Eve

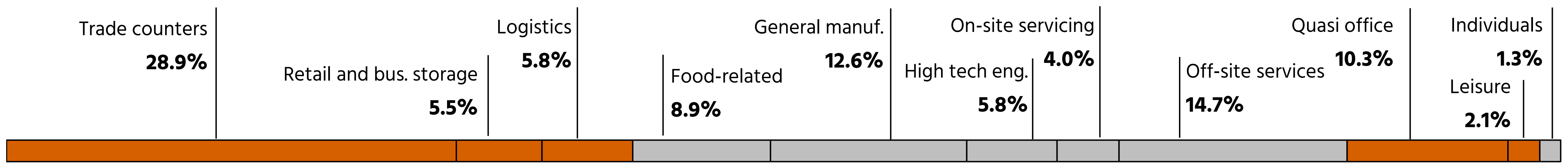


Q1 prime rents and equivalent yields
Source: Gerald Eve

SCOTLAND
6.00%
Q1 EQUIVALENT YIELD
6.25% Q4

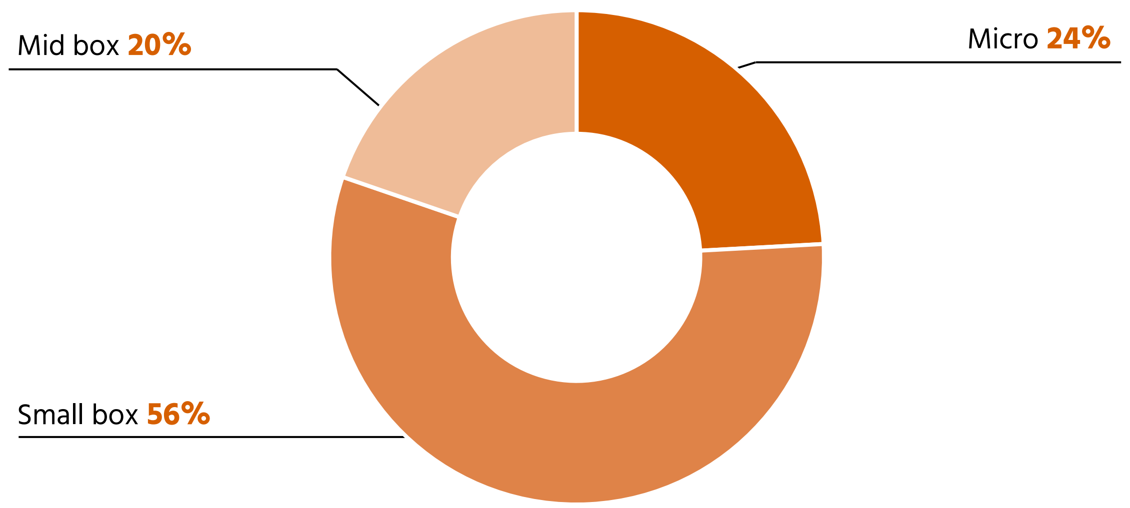
SCOTLAND

Scotland

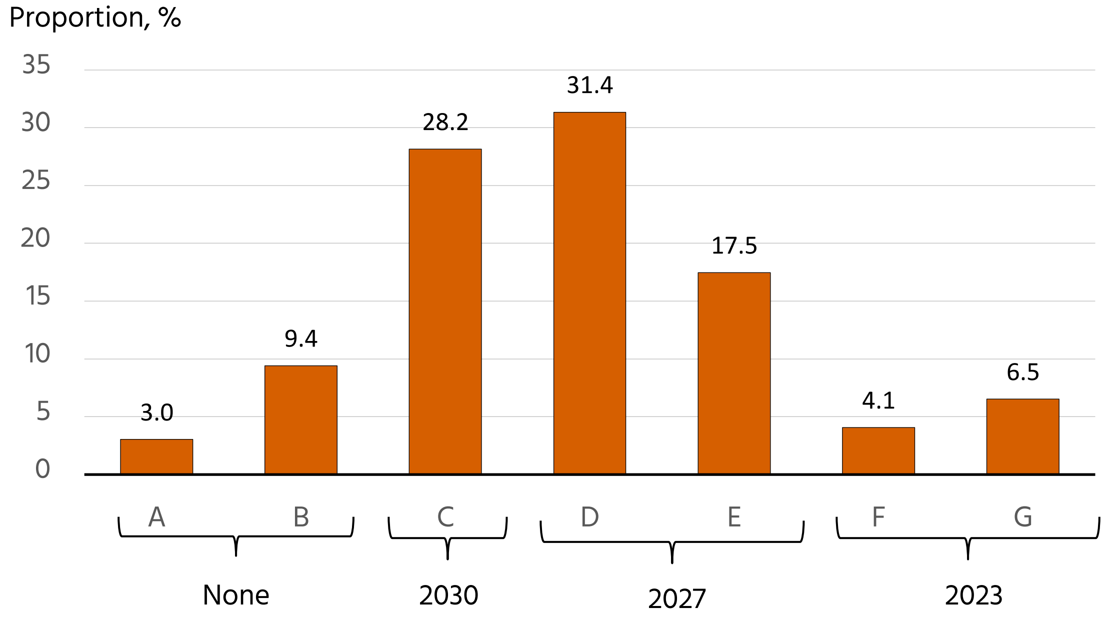


Prime Scotland multi-let rents have not seen the kinds of stellar growth observed over the rest of the UK owing to the relative thinness of the market and lack of transactions. However, the Glasgow multi-let prime rent has edged fractionally above Edinburgh following prime lettings at the new Bellshill industrial estate. Scotland multi-let, similar to Wales, is characterised by a relatively low proportion of multi-let logistics tenants. However, Scotland has the greatest proportion of large national firms occupying multi-let space than anywhere outside of the South East. Scotland has the smallest multi-let development pipeline in the UK. Following the completion of Bellshill in Q3 2022 there is now a mere 355,000 sq ft of potential schemes in the pipeline and only 45,000 sq ft under construction at Hillington Road, Glasgow, which is due to complete this year. More problematically though Scotland still had a significant proportion of EPC grade F & G units by end-2022.

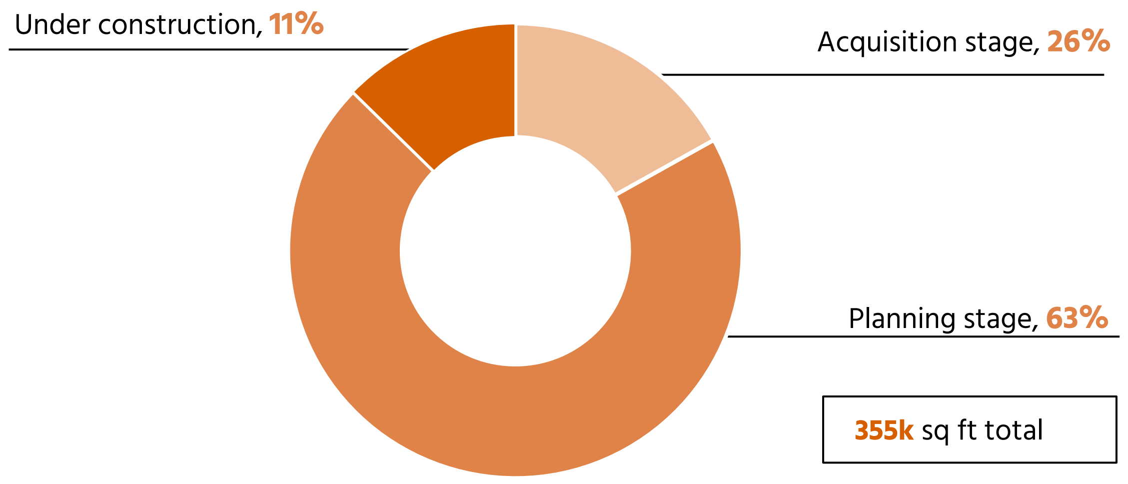
Proportion of floorspace by unit size
Source: Gerald Eve



Floorspace by EPC grade (& year of non-compliance)
Source: Gerald Eve

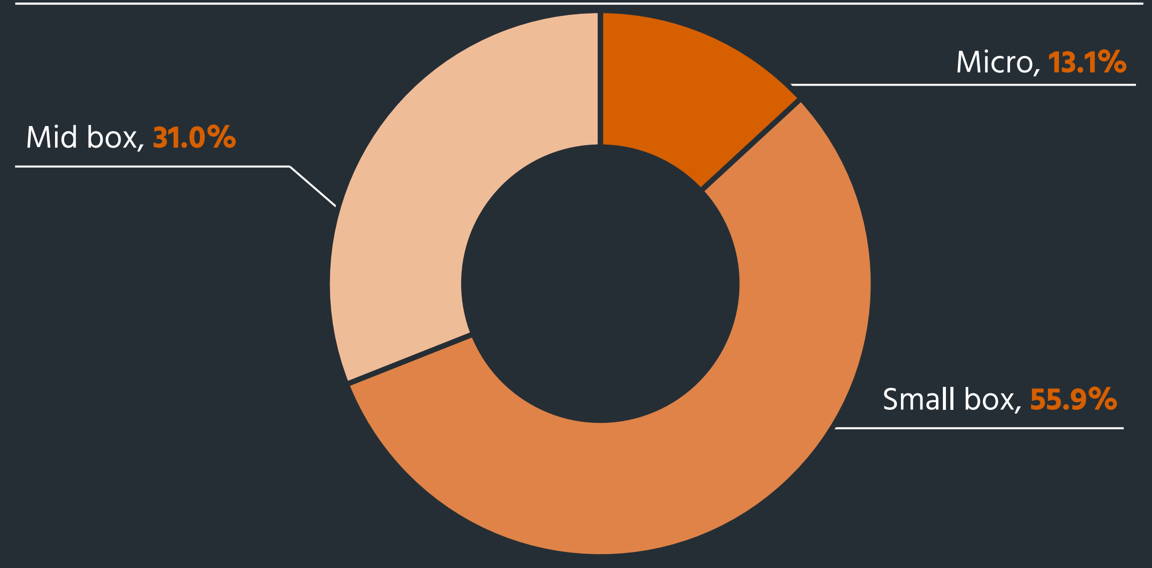


Development pipeline
Source: Gerald Eve

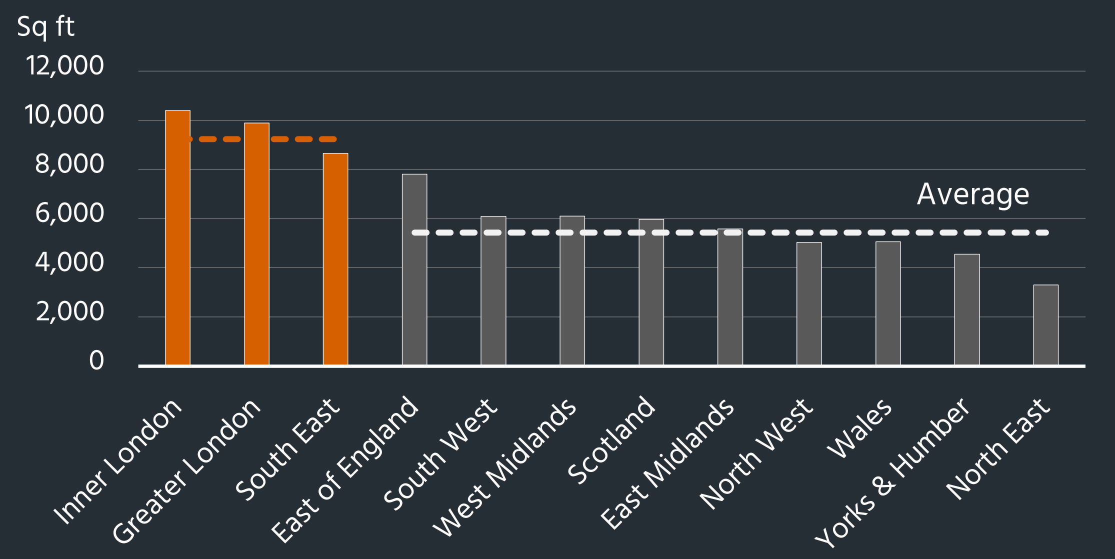


MULTI-LET SAMPLE STRUCTURE

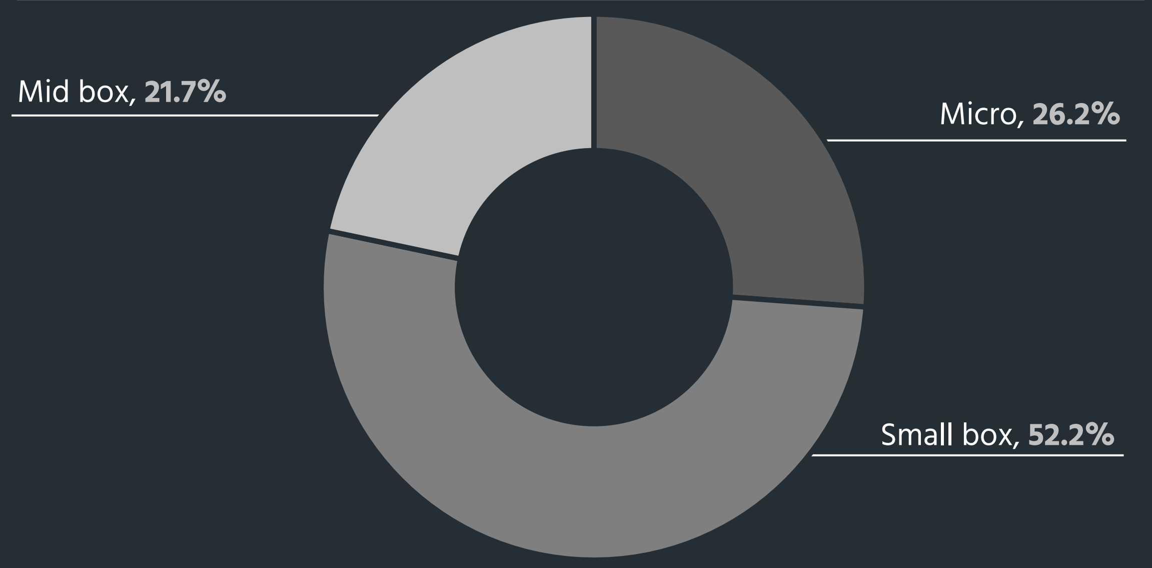
London & the South East floorspace by size of unit
Source: Gerald Eve



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



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



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

DATASET AND DEFINITIONS

1,300+
Estates

12,400+
Units

£26.1bn
Total capital value

145.5m sq ft
Total floorspace

£1.5bn
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 two 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 two 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

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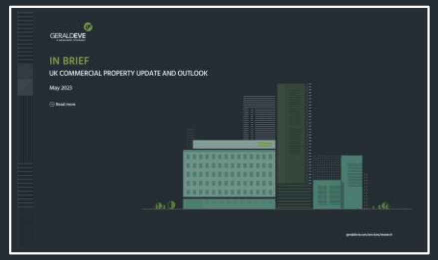
FURTHER INSIGHT



In Brief
May 2023

Prime Logistics
Q1 2023

London Markets
Q1 2023

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.