FUTURE SPACE

REPORT 2025

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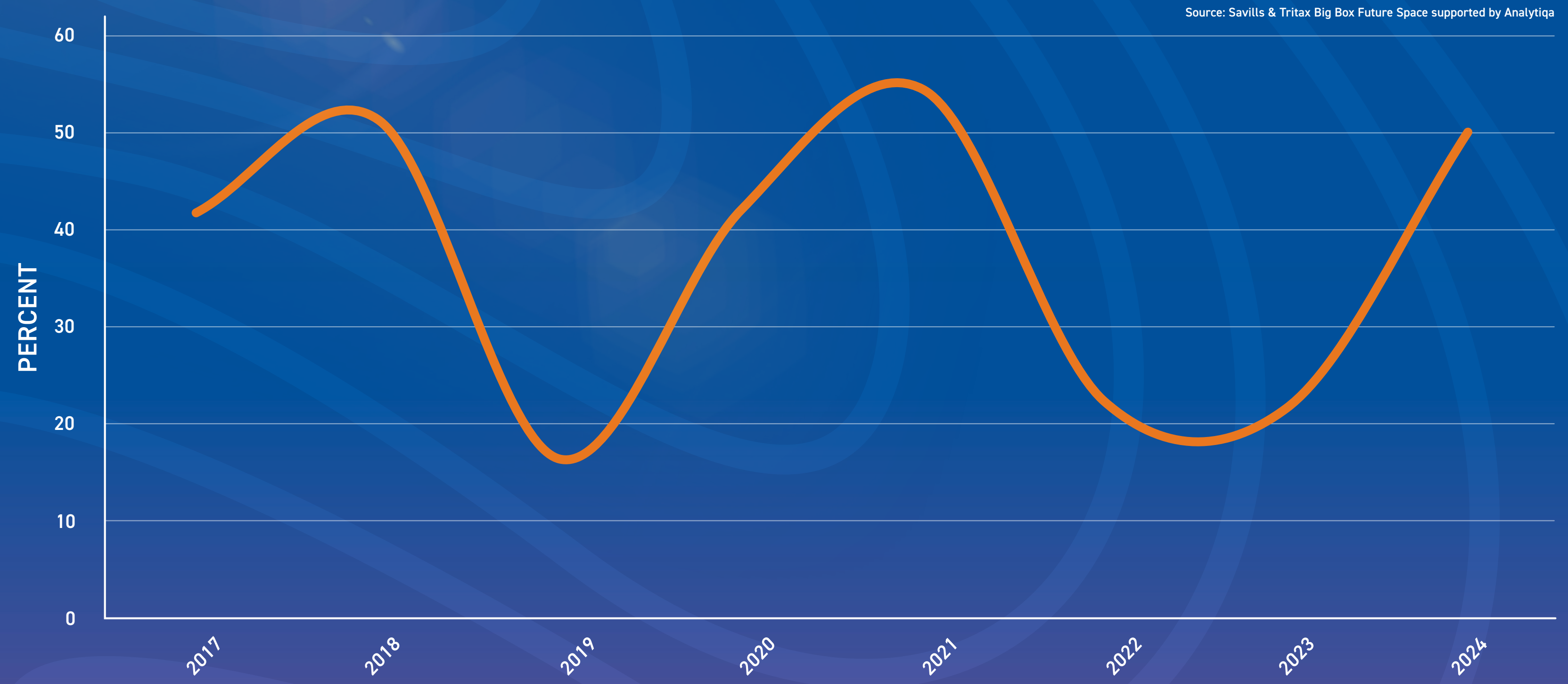
Introduction

There has been a strong uptake in respondents saying conditions are 'more favourable'



Welcome to the 8th annual Future Space report from Tritax Big Box and Savills, conducted by research partner Analytiqa. This report shares the views of Occupiers, Investors and Developers on the key trends and topics shaping the Industrial and Logistics market over the next 12 – 24 months, and beyond.

The survey, conducted in the winter of 2024, drew 330 responses, providing a robust data set. Occupiers accounted for 38% of responses, with the remaining 62% split between Investors, Developers and other key industry players. Our Occupier sample comprises a range of sectors – from automotive and grocery to parcel delivery, manufacturers and online-only retailers – giving us a broad view of the industry.

Turning to our findings, Occupiers see market conditions as slightly improved compared to six months ago, but continue to face diverse and evolving operational challenges, with the cost of labour now the most significant. The drivers of demand for logistics real estate, meanwhile, are multifactorial and extend beyond pure business expansion. Technology adoption and fleet evolution are strategic priorities, all of which have ramifications for power availability, quality of real estate and ESG.

Investors and Developers were more positive than Occupiers on market conditions. Power availability is considered a critical issue by both groups, which is unsurprising given the constraints currently faced by the national grid. Investors are more concerned with the overall health of the economy, and Developers with the time taken to get planning permission and construction costs.

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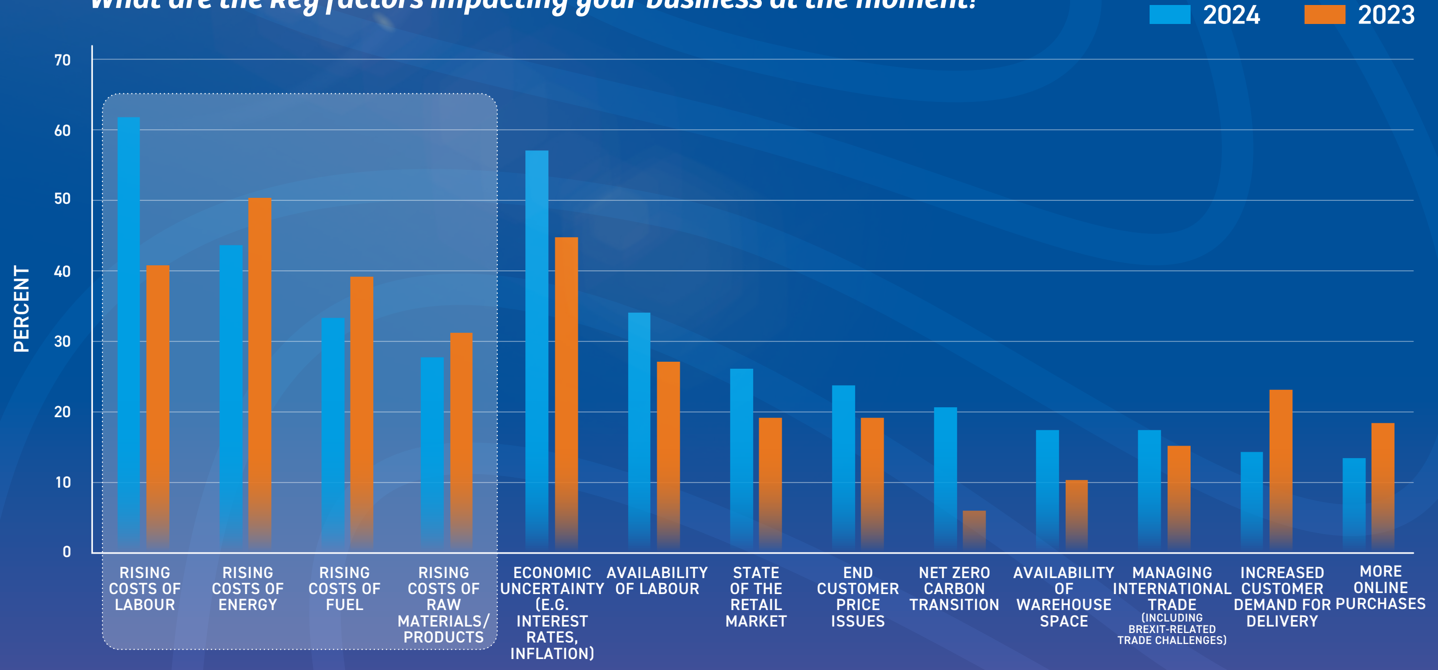
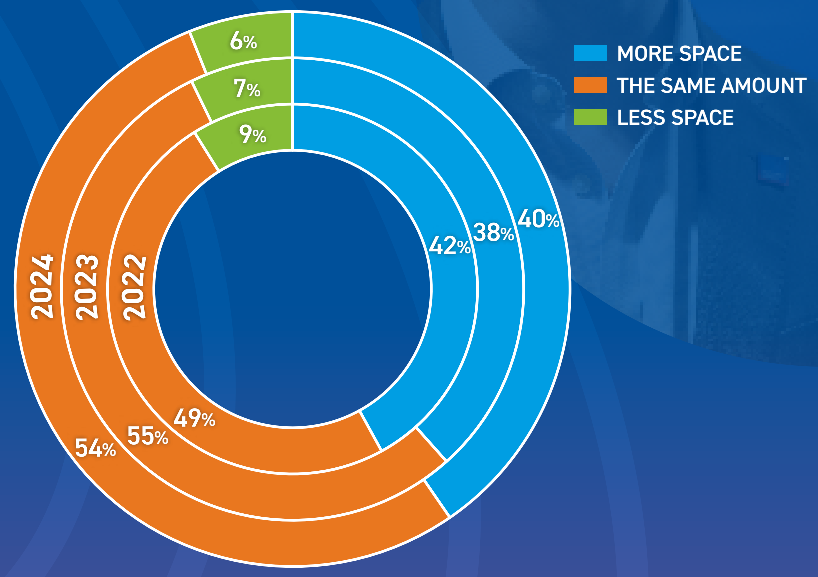
Occupiers: Market conditions

What are the key factors impacting your business at the moment?



Source: Savills & Tritax Big Box Future Space supported by Analytiqa

Thinking about the amount of warehouse space you require over the next two years, do you envisage requiring:



Source: Savills & Tritax Big Box Future Space supported by Analytiqa

Market conditions viewed as slightly improved, but Occupiers continue to face diverse and evolving operational challenges

Whilst more generalist surveys suggest business confidence has fallen since the Autumn Budget, our survey shows that 39% of Occupiers see market conditions as more favourable than the prior six months, up from 22% in 2023. This reflects an improved, albeit still uncertain, economic environment.

This mismatch between our survey results and the wider market may be in part due to timing (the Autumn Budget occurred in the middle of the survey period), but also likely reflects the multi-year and strategic nature of warehouse requirements.

Occupiers face a diverse range of evolving operational challenges. Nine issues (from labour and fuel costs to net zero carbon transition) were selected by at least 20% of Occupiers. Labour costs are now, however, the most significant factor, highlighted by 62% (2023: 41%); with labour sourcing an issue for 34%. Energy costs, the leading issue in 2023, remain significant (selected by 44%).

Reflecting the critical role that logistics real estate plays in managing/mitigating these challenges, 40% of Occupiers expect to increase their requirements for space over the next two years (2023: 38%), while just 6% expect to reduce their estates. Sector-wise, logistics and retailers were most bullish with 53% and 46%, respectively, expecting to expand their networks.

Savills' analysis suggests that 2025 take up is likely to be in the region of 30 million sq ft. In terms of the most in-demand regions for additional warehouse space, our survey shows that the East and West Midlands will remain in focus and, following a relatively quiet 2024, the South East will see a pick-up in activity in 2025.

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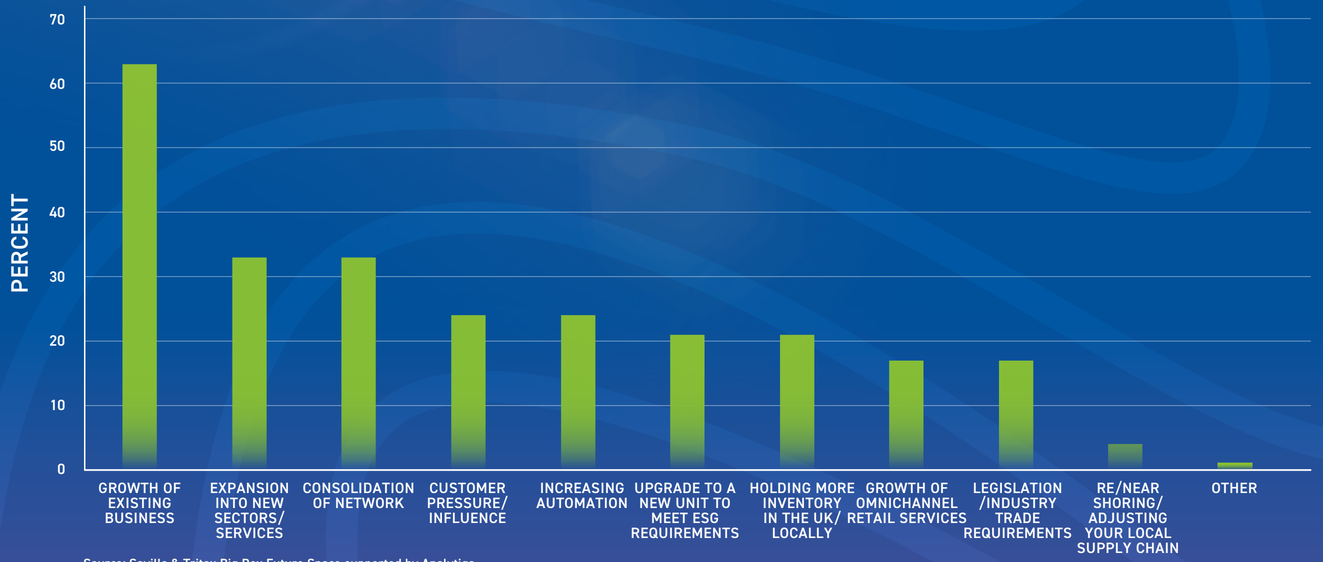
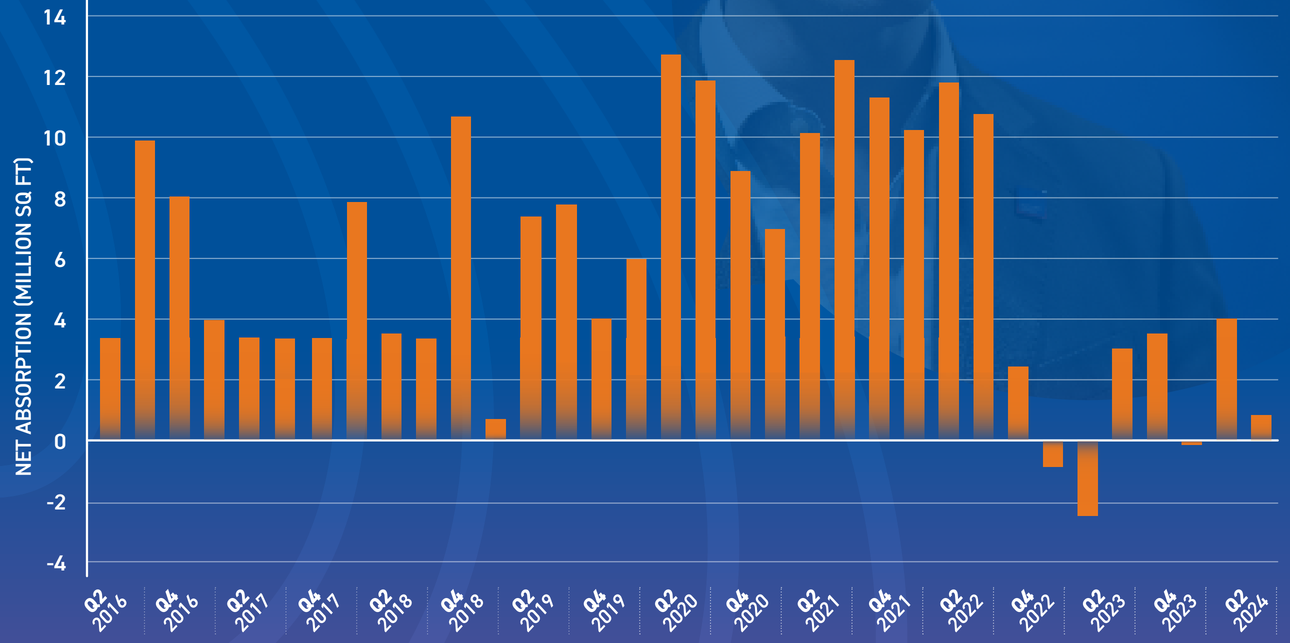
Occupiers: Demand drivers

What are the key factors that influence a decision to take new warehouse space? (Select all that apply)



Source: Savills & Tritax Big Box Future Space supported by Analytiqa

Net absorption has fallen sharply in the last two years



Source: Savills & Tritax Big Box Future Space supported by Analytiqa

Drivers of demand are multifactorial. Business growth is important, but is not the whole story

When asked what drives the decision to take space, the most frequently cited factor for Occupiers (63%) was 'growth of existing business'. Expansion into new business lines and footprint consolidation were joint second (both 33%).

While no surprises here, it is of note that most Occupiers typically identify two to three key factors in their decision-making. A broad range of demand drivers, including network consolidation, technology adoption, resilience and ESG improvements, will continue to combine to generate new requirements in 2025 and beyond.

Indeed, Savills' agency team reports anecdotally that much of 2024's market activity was driven by factors other than net business expansion. This is important for market dynamics.

While demand has been healthy over the past two years, companies are rotating (and often consolidating) into new spaces rather than generating additional requirements. Net absorption has, therefore, been relatively weak. The share of 'Grade A' quality stock has started to decline. Consequently, landlords holding prime modern stock are expected to experience lower void rates, while older stock is at risk of remaining unleased for longer.

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Occupiers: Network evolution

Supply chain evolution ongoing – with technological adoption, ESG and power availability at the forefront

Many Occupiers are looking to adopt new technologies at both a building (40%) and corporate (38%) level. With labour challenges (cost and availability) both prominent, the potential to integrate AI-based tools with automated processes is seen as an appealing solution.

In addition, when asked which technologies and themes will be most important in terms of impact over the next five years, the top four responses centred around decarbonising/greener transportation: electric vehicles, more efficient diesel vehicles, decarbonising supply chains and adopting other fuel types.

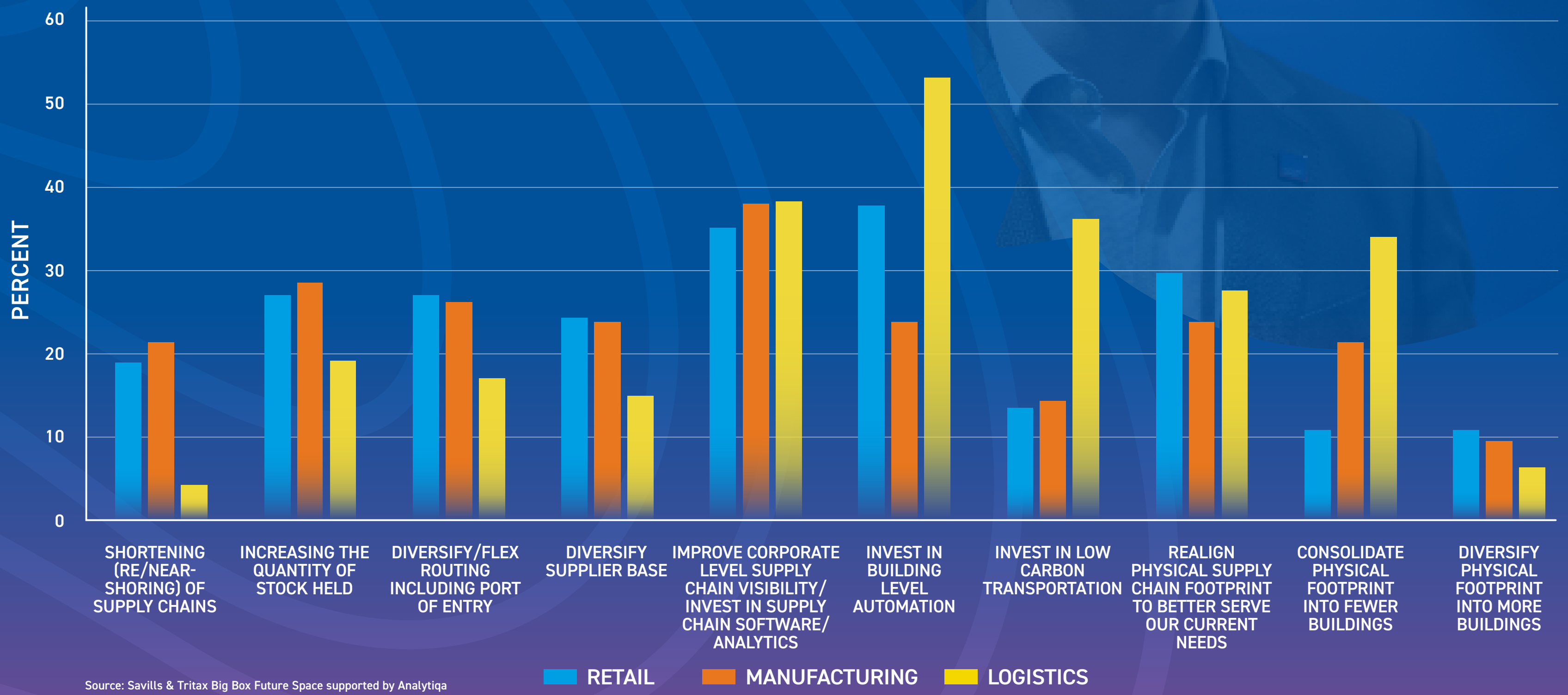
Ongoing fleet evolution, and the rising adoption of power-intensive technologies like automation and AI all combine to increase power requirements. Occupiers are acutely aware of this. Indeed, power availability has climbed the agenda with 36% citing this as a barrier to securing future space, compared to 11% in 2023 and 7% in 2022.

The ESG impacts of this remain important. Carbon performance and renewable energy (onsite generation and storage) were ranked as the first and second most important ESG measures by 61% and 52%, respectively. Occupiers want tangible and measurable ESG initiatives: building environmental classifications scored lower, suggesting a priority shift towards securing detailed, data-led building performance over certification/compliance.

This ongoing supply chain evolution is taking place within an uncertain global trading environment, and our survey suggests that companies are planning accordingly. 25% of Occupiers expect to hold more stock over the next three years. Meanwhile, 15% plan to shorten their supply chains via re/nearshoring. This rises to 20% for manufacturing and retail Occupiers (a significant proportion given the associated costs and challenges), with a similar number of these planning to diversify supply chain routes and supplier bases.

Occupiers continue to evolve their logistics real estate networks as they manage significant changes in their supply chain, underpinning demand for high-quality, modern and well-located logistics buildings.

How do you intend to evolve your supply chain model over the next 3 years? (Select all that apply)



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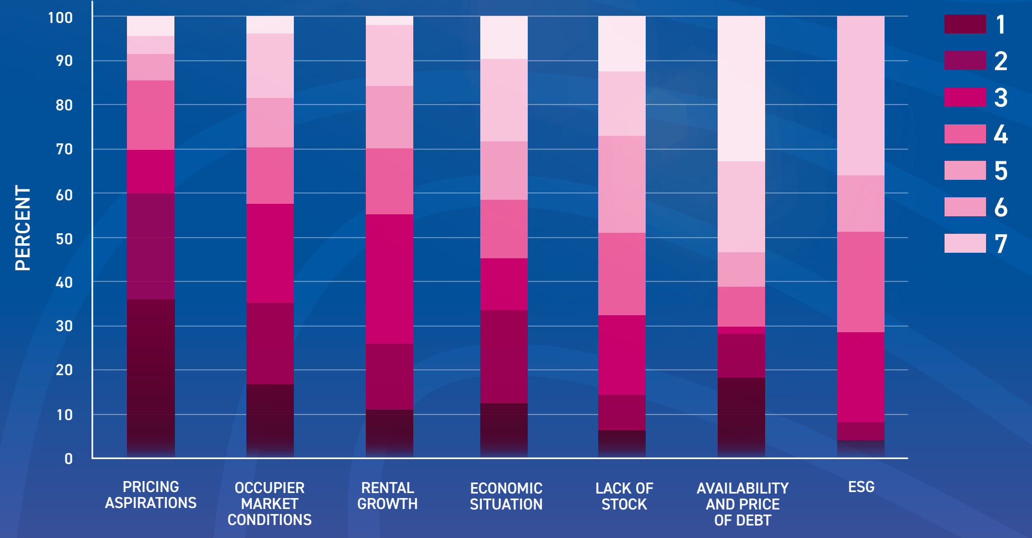
Investors: Outlook

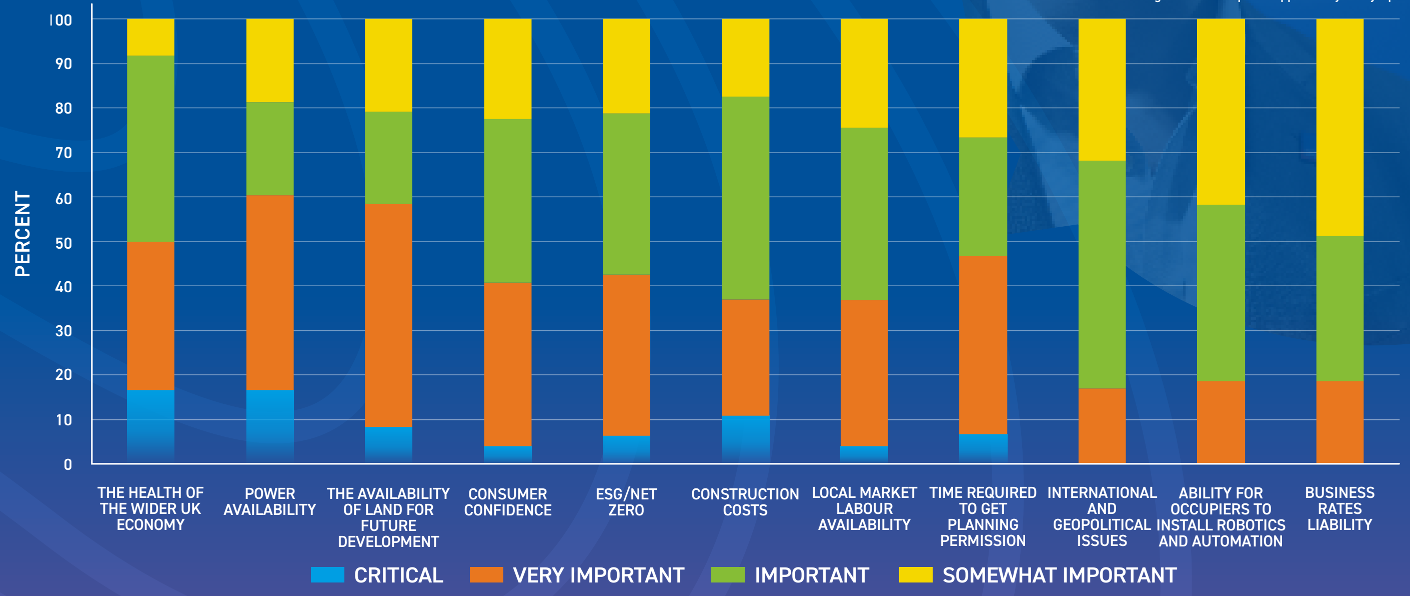
Rank the following factors when considering new investments (1=most important)



Source: Savills & Tritax Big Box Future Space supported by Analytiqa

How important are the following wider industry issues when considering new industrial and logistics investments?

Source: Savills & Tritax Big Box Future Space supported by Analytiqa



Investors cautiously optimistic, and well-aligned with Occupiers

Investors are cautiously optimistic this year, with 55% expecting investment volumes to rise and 45% to remain level. Most Investors don't expect prime yields to tighten significantly this year: 55% predict prime yields at the end of 2025 will be between 4.5% and 5.0%. Given we currently see prime yields as 4.75%, this implies only limited potential for tightening, with just 29% of Investors expecting yields to fall below 4.5%.

Investors remain focused on core locations: South East (80%), West Midlands (63%), East Midlands (61%) and London (61%). By product type, 55% of Investors are targeting prime logistics over the next 12 months; 51% prime multi-let, and 63% last-mile logistics.

Pricing aspirations are the most important factor for Investors when deploying capital (for a second consecutive year). Since 2022, investment activity has been suppressed by gaps in pricing expectations between purchasers and vendors, and we expect this issue to continue to dominate the market in 2025. Concerns around occupier market conditions and rental growth, which reflects the uncertain environment and outlook, are also top of mind.

When asked about the factors affecting the wider industrial and logistics industry, it's encouraging to see Investors aligned with Occupiers. The health of the economy is key, but issues such as power availability and ESG feature prominently.

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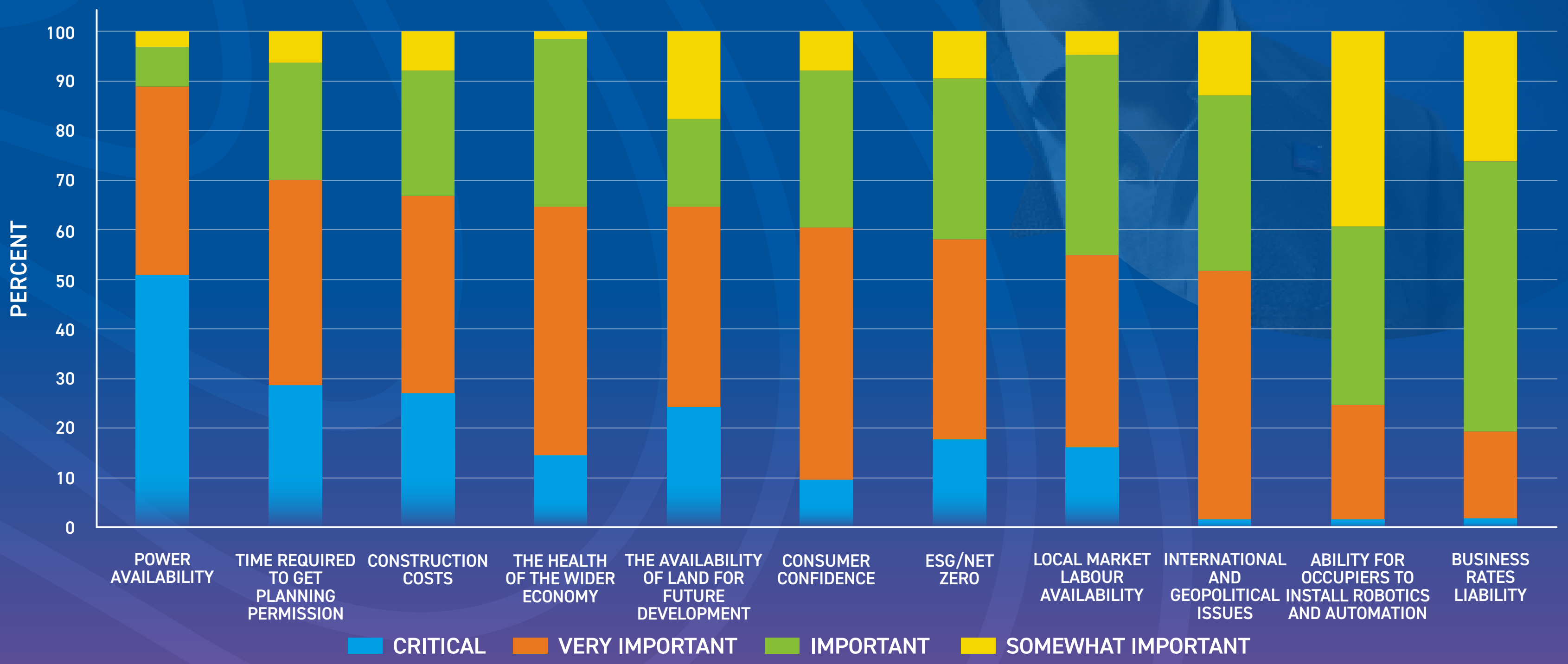
Developers: Intentions

Developers optimistic and remain focused on power availability and ongoing supply-side barriers

As ever, Developers were the most optimistic of the respondents, with 63% saying conditions were more favourable than they were 12 months ago. This optimism is also reflected in their intentions to speculatively develop stock next year, with 32% planning to develop more stock and 52% planning to develop the same amount. Notably, this broadly aligns with Investor intentions to finance speculative development (57%).

Responding to occupier requirements, power availability remains the most important factor for Developers when considering future logistics development, unchanged from last year. Supply-side barriers to development continue to be construction costs and the length of the planning process – issues that have been in play for some time.

How important are the following issues when considering new industrial and logistics developments?



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Key takeaways

INSIGHT 1:
SURVEY RESPONDENTS ARE MORE OPTIMISTIC ABOUT BUSINESS CONDITIONS

All respondent types were more positive about business conditions. This reflects an improved, albeit still uncertain, economic environment. With investors being significantly more optimistic, we may see a sustained recovery in investment volumes.

INSIGHT 2:
COST-BASED CONCERNS CONTINUE TO BE THE MOST IMPORTANT FACTOR TO OCCUPIERS

Occupiers are still primarily concerned by input costs. Notably, this year labour costs have overtaken energy costs as the most important factor, reflecting shifting challenges for occupiers as the energy crisis recedes.

INSIGHT 3:
BUSINESS GROWTH IS IMPORTANT, BUT IS NOT THE WHOLE STORY

A broad range of demand drivers, including network consolidation, technology adoption, resilience and ESG improvements, will continue to combine to generate new requirements in 2025 and beyond.

INSIGHT 4:
DESPITE MORE OPTIMISM INVESTORS DON'T EXPECT YIELDS TO TIGHTEN

While the majority of investors expect investment volumes to rise in 2025, investors overwhelmingly expect prime yields to remain more or less stable over the next four quarters.

INSIGHT 5:
DEVELOPERS ARE WORRIED ABOUT WHAT CAN CONSTRAIN THEIR ABILITY TO BUILD

Power supply, the length of time taken to get planning permission and building costs are all at the top of the agenda for developers. An overwhelming majority of developers plan to develop more or the same amount of stock this year despite the difficulties facing the occupier market.

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