GERALDEVE

MULTI-LET

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

June 2022

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MARKET OVERVIEW

There have been some eye-wateringly positive recent data for UK multi-let. Occupier demand is broad-based, and prime ERVs in London in Q1 2022 were up nearly 60% since end-2020, with many regional markets posting figures of up to 40%. Void rates have fallen to or near historic lows, and 2021 was the lowest year for multi-let defaults on record. Investor appetite has been rampant and prime multi-let yields fell as much as 135bps in the year to Q1 2022. This has generated over 50% average annual total return for all grades of multi-let units in London and, incredibly, potentially over 100% for some prime assets.

The many positive endorsements for the sector are wholly justified, but it is also apparent that much of the rental increase is still notional, with underrentedness having jumped to 20% in London & the South East. Meanwhile, the UK company insolvency rate has been trending sharply upwards recently now that government support has been withdrawn from highly indebted SMEs, which is a potential warning sign for the multi-let default rate. Multi-let yield tightening slowed in April and May, and the depth of investors on any one deal has thinned somewhat. Driving this element of hesitancy is rising debt costs, the narrowed multi-let risk premium and extra scrutiny of exit yields. Consequently, after an almost 9% multi-let total return for Q1, this should slow over the course of 2022. We expect a UK multi-let annual total return of 16.6% in 2022, before falling back to high single digits in 2023.

Gerald Eve is the first property consultant to gather the data and conduct the quantitative analysis to estimate the EPC landscape across UK multi-let. In this report we assess the risks and opportunities in terms of legislative timing, geography, unit size, tenant type, lease expiries and impacts on market rent.

£13.85 per sq ft ▲ Q1 London & the South East average ERV	£6.98 per sq ft ▲ Q1 Rest of UK average ERV	7.1% ▲ Q1 London & the South East void rate
7.9% ▲ Q1 Rest of UK void rate	£962m ▼ Q1 UK multi-let investment	16.6% ▼ 2022 forecast UK multi-let annual total return

CONTRIBUTORS

Many thanks to the leading UK multi-let industrial property investors who contributed their tenancy data for the study.

MULTI-LET

Multi-let is Gerald Eve's unique and market-leading syndicated study that provides detailed industry-reference insight into this rapidly changing commercial property segment. The results are built from the bottom up, using individual tenancy information.

This report covers industrial units with a maximum lease length of 30 years.

Units between 500 sq ft and 50,000 sq ft in size are collectively referred to as the multi-let dataset.

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

Units larger than 50,000 sq ft are also in the sample and may also be included as a point of comparison to multi-let.

THE DATASET

2,200+
Estates

13,300+
Units

142.6million sq ft
Total size

£29.3bn
Total capital value

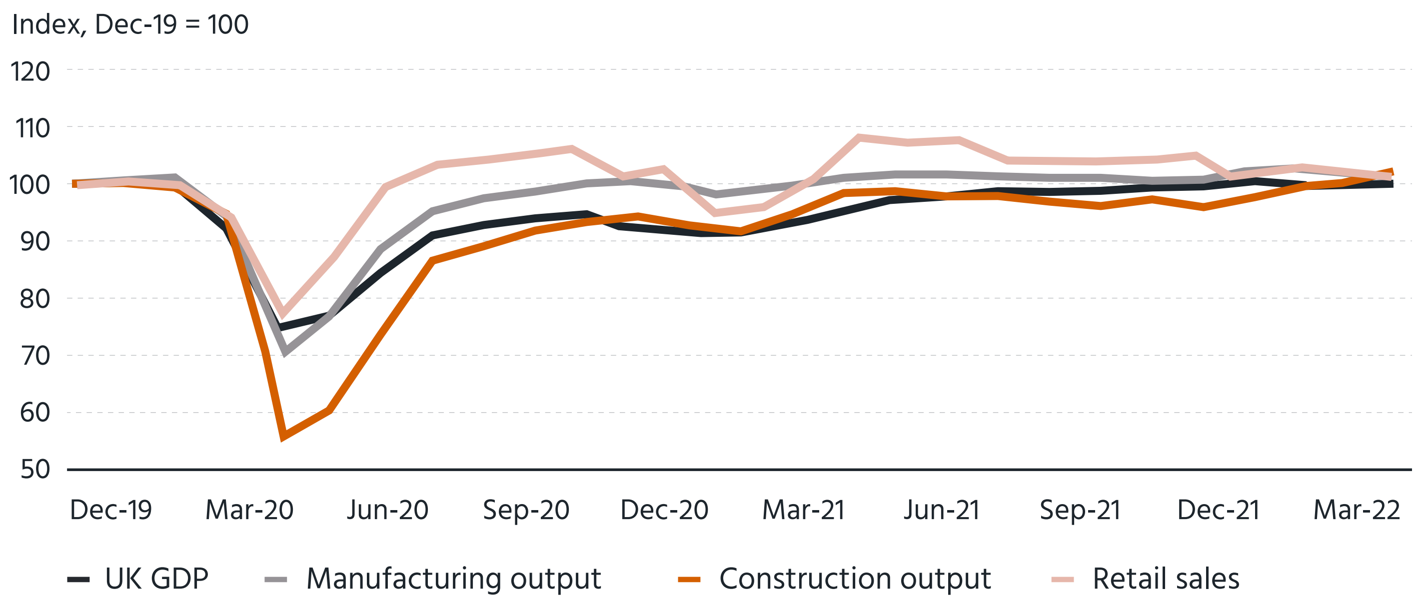
£1.3bn
Market rent

20
Contributors

ECONOMY

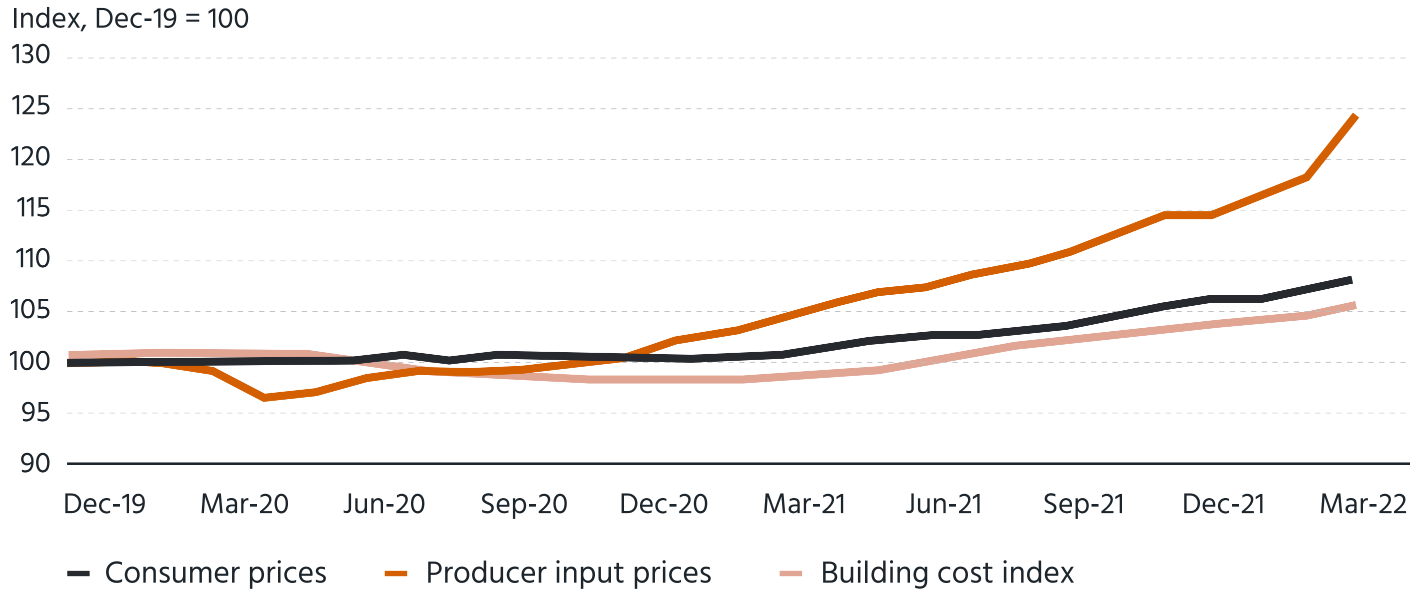
Output and spending

Source: ONS



Input costs and inflation

Sources: ONS, BCIS



CURRENT ANNUAL GROWTH RATE

3.4% UK GDP

0.6% Manufacturing output

3.9% Construction output

-4.9% Retail sales

9.0% Consumer prices

19.2% Producer input prices

7.1% Building cost index

70% Oil price (Brent crude)

Economic expansion slowed early in 2022 as the bounce in confidence post-Omicron has given way to more problematic headwinds. CPI inflation hit a 40-year high of 9% in April, driven by supply squeezes and elevated global goods prices such as steel and concrete, and various foodstuffs impacted amongst other things by the conflict in Ukraine. The large recent rise in the energy price cap is likely to be followed by another in the autumn. The Bank of England has responded with quantitative tightening and increased the base interest rate for the fourth successive meeting in early May to 1.00%. Oxford Economics expects a further 50bps increase over the remainder of 2022.

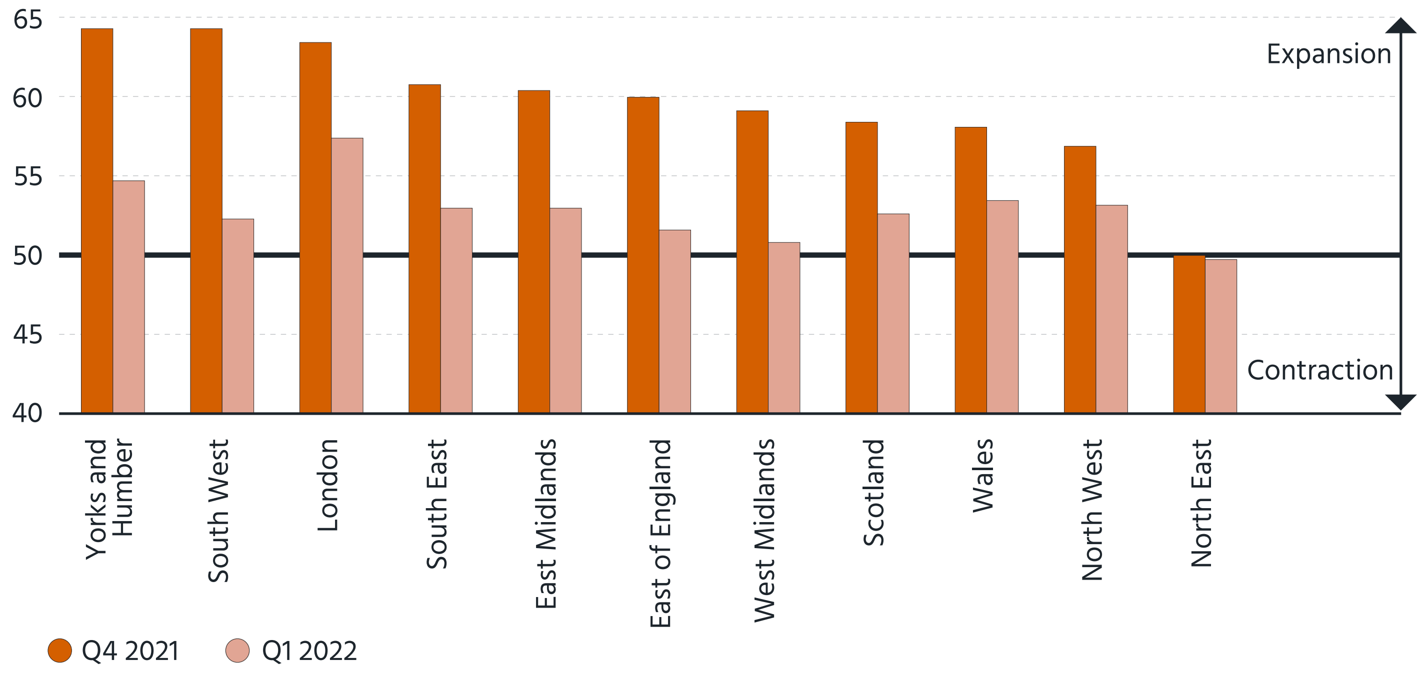
Income tax thresholds have been frozen and national insurance contributions were increased in April. All in this is set to cause the largest drop in real household incomes for over 80 years. Retail sales growth has been erratic and consumer confidence is 'in freefall', with the GfK index currently at a record low since its inception in 1972 - lower than at the start of the covid pandemic or even during the global financial crisis. More positively, CPI inflation should drop considerably in 2023 as the various component base effects fall out of the figures so long as wages and price expectations have not become entrenched.

26.1% Online % of retail sales

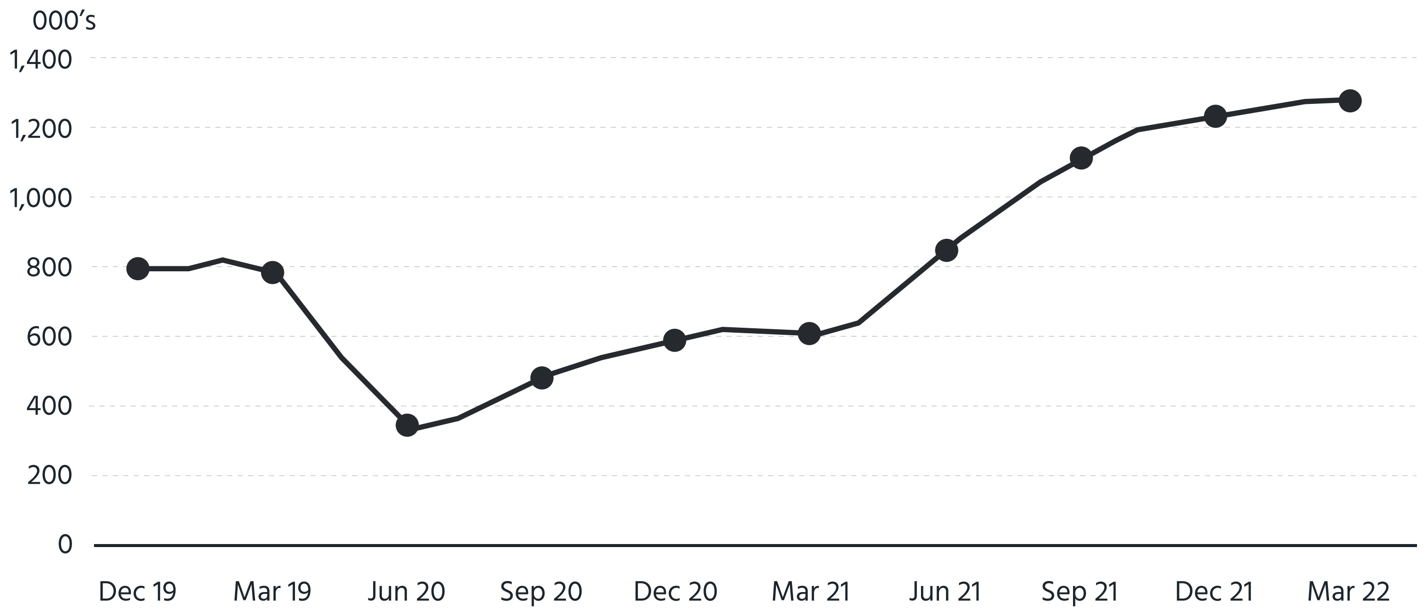
2.11% 10-year bond yield

BUSINESESS

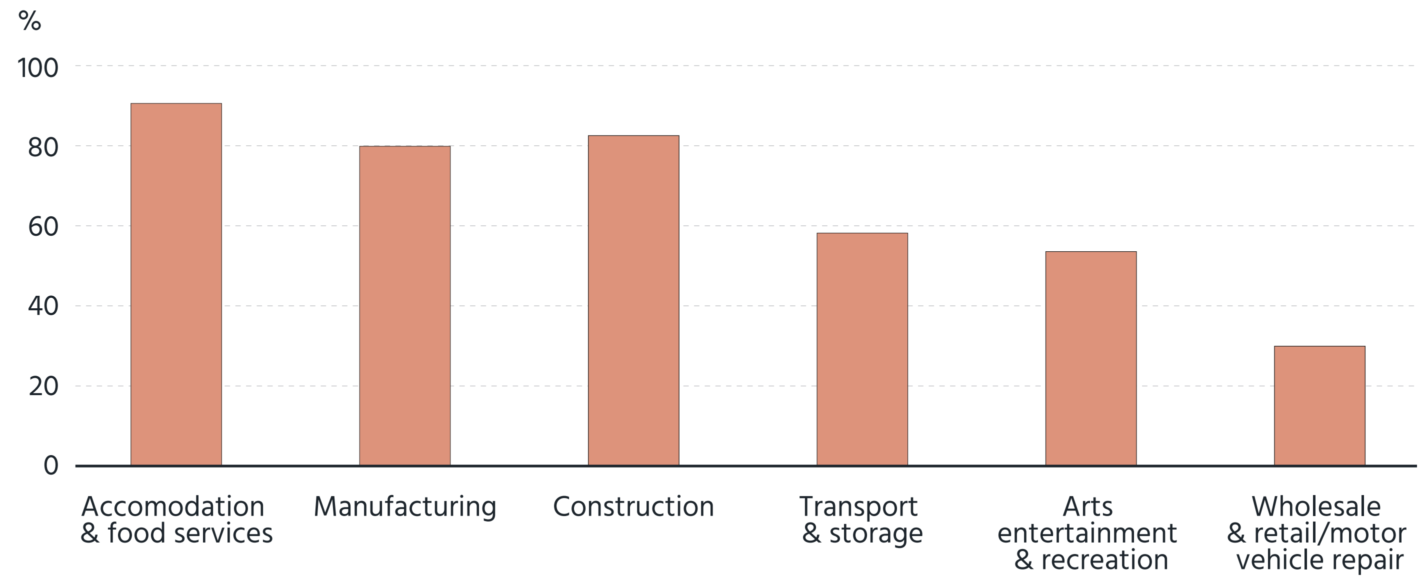
Business Activity PMI index
Source: Natwest



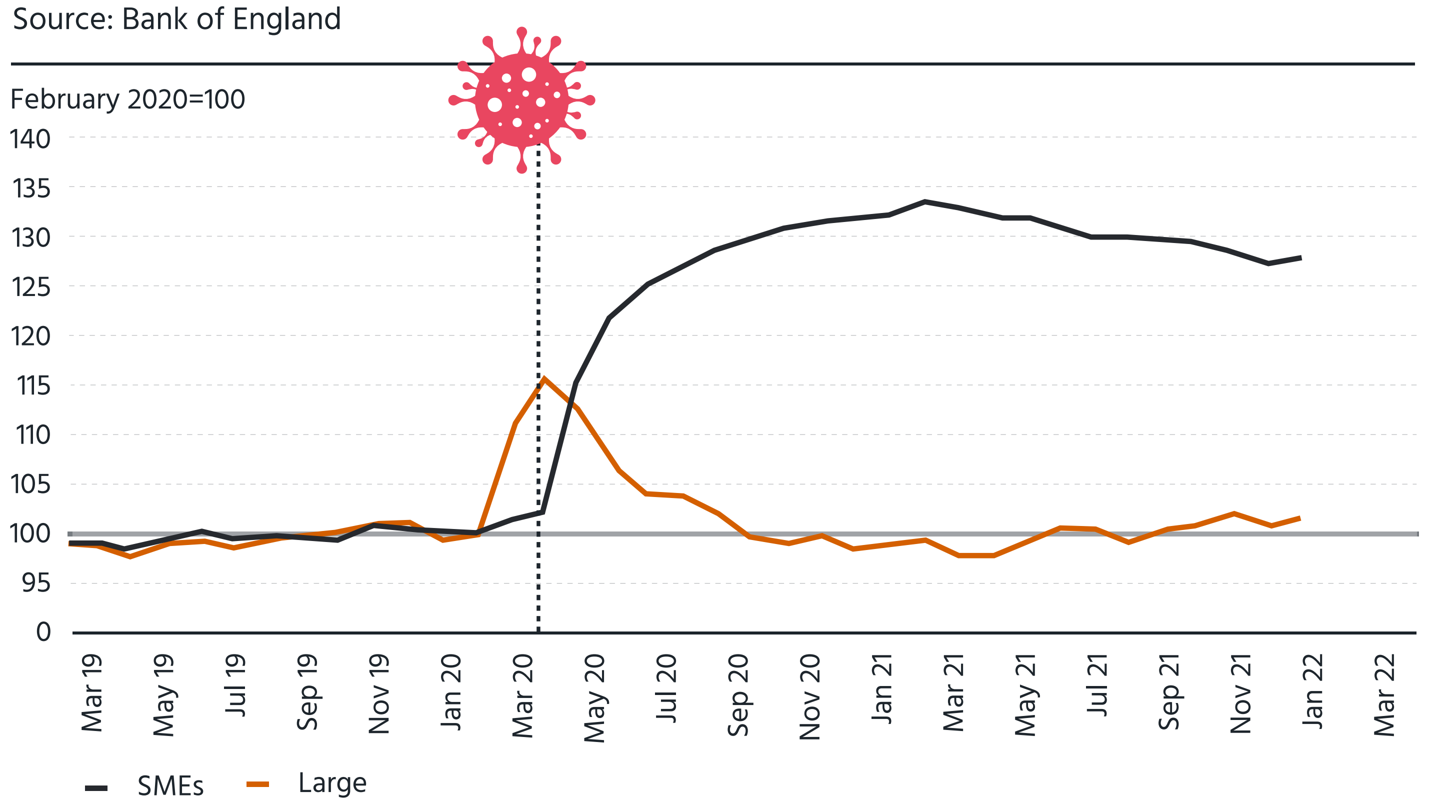
UK job vacancies
Source: ONS



Growth in jobs vacancies since Febuary 2020
Source: ONS



UK: Stock of outstanding loans to firms
Source: Bank of England

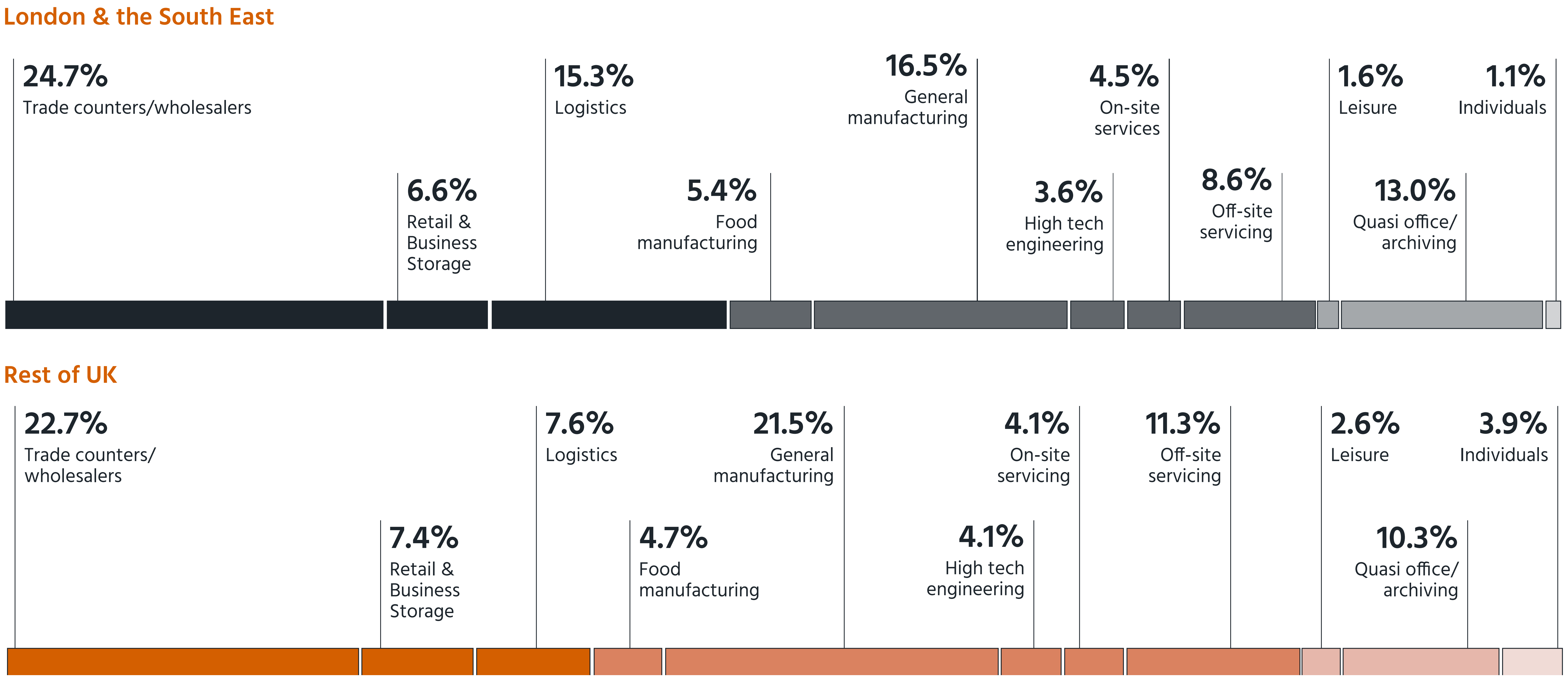


Counter to the wider economic negative rhetoric, business activity indices continued to markedly improve for all regions across the country in Q1. All UK regions are now 50 or above, indicating growth mode. However, this momentum is likely to stall in the coming quarters, with falls in confidence and demand across the economy. Sharply rising input costs are of key concern and businesses across most UK regions have indicated a record rise in output prices to try to offset this.

The increase and expected further increases in interest rates will feed through to business loans that will particularly affect SMEs, which took on significantly more debt over the pandemic through various government support schemes. This has effectively not been paid down since and is going to weigh heavier on SMEs. Meanwhile corporation tax is due to increase from 19% to 25% in 2023. This combined with the generally less attractive UK business environment post-Brexit will have a dampening effect on business investment over the medium term.

More positively, the furlough scheme was successful in avoiding a large surge in unemployment and there are labour shortages across multiple sectors. However, the level of total employment is lower than it was pre-pandemic, indicating a sharp fall in participation since 2019. Job vacancies continue to trend upwards and segments that feed into multi-let feature prominently.

THE MULTI-LET OCCUPIER BASE



The occupier footprints for the two major geographies have stayed essentially constant over the past year. The modernisation of the occupier base towards cleaner, less traditionally industrial uses over 2012-16 seems to have settled down at 61% in London & the South East and 51% in the regions outside. Modern occupiers include trade counters, retailing and logistics, office and leisure. However, much of the food-related occupier base in multi-let could also be a part of this group now, certainly in the South East.

Food-related multi-let occupancy is relatively small nationally, but around 20% of micro and mid box space in some of the most expensive Inner London space is tenanted in this way. This includes activities related to takeaways, catering and microbreweries. Increasingly Q-commerce (super-fast grocery delivery firms) have entered the sample in city centres in the micro units (sub-5,000 sq ft) in London, undoubtedly, and also Manchester and other key UK centres.

KEY MULTI-LET TENANTS

TRADE COUNTERS / WHOLESALERS

HOWDENS | SCREWFIX | selco BUILDERS WAREHOUSE

LOGISTICS

Royal Mail | dpd | ups

GENERAL MANUFACTURING

Lindab | premier paper | UNIFRAX

HIGH TECH ENGINEERING

FORMAPLEX | apph | BRAMMER

LEISURE

JD GYMS | thegym | GOJUMP

FOOD MANUFACTURING

HILTON Food Group plc | Warburtons | müller

QUASI OFFICE / ARCHIVING

IRON MOUNTAIN | EQUINIX | Restore plc

RETAIL AND BUSINESS STORAGE

BUNZL | amazon | vodafone

ON-SITE SERVICING

FAI Auto Parts | halfords autocentre | BELRON

OFF-SITE SERVICES

HSS Hire | Speedy | SUNBELT RENTALS

INCOME

RECORD ERV GROWTH IN LONDON AND THE SOUTH EAST

There has been a huge increase in ERVs over 2021 and into 2022. The multi-let sample suggests a record 15% uplift in London & the South East in 2021 and a near-record 7% in the regions. Inner and Greater London have really led the charge, with 25% annual growth in Inner London in 2021. The dotted lines show the higher frequency estimates for Q1 that indicates no let-up in this pace so far in 2022 either. All-grades rental growth is running at an annualised rate of 16.8% in London & the South East, and 9.8% in the regions outside. This differential is in part reflective of the relative size of the prime markets, which are considerably larger in London & the South East.

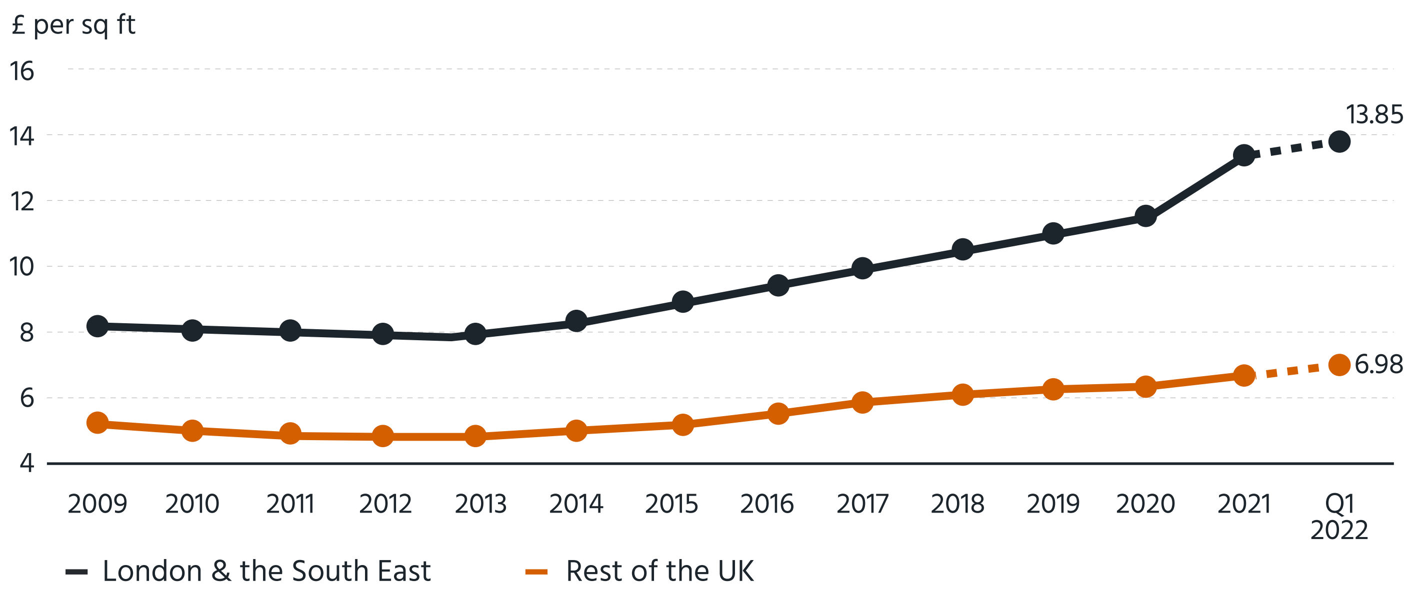
PRIME ERVS PULL AWAY

In London, prime ERVs in Q1 2022 were just shy of 60% higher than they were at the end of 2020 – a complete historical precedent. The average prime Inner London ERV hit £35 per sq ft early in 2022 while Greater London was well over £25 per sq ft. Meanwhile, prime rental growth in the regional markets outside of the South East had similarly significant, double-digit rental growth over this period, with most now between £10 and £13.50 per sq ft. Some, such as in the South West, have risen over 40%. This has translated into relatively smaller increases in all-grades rents, reflective of the relatively smaller prime markets in these regions.

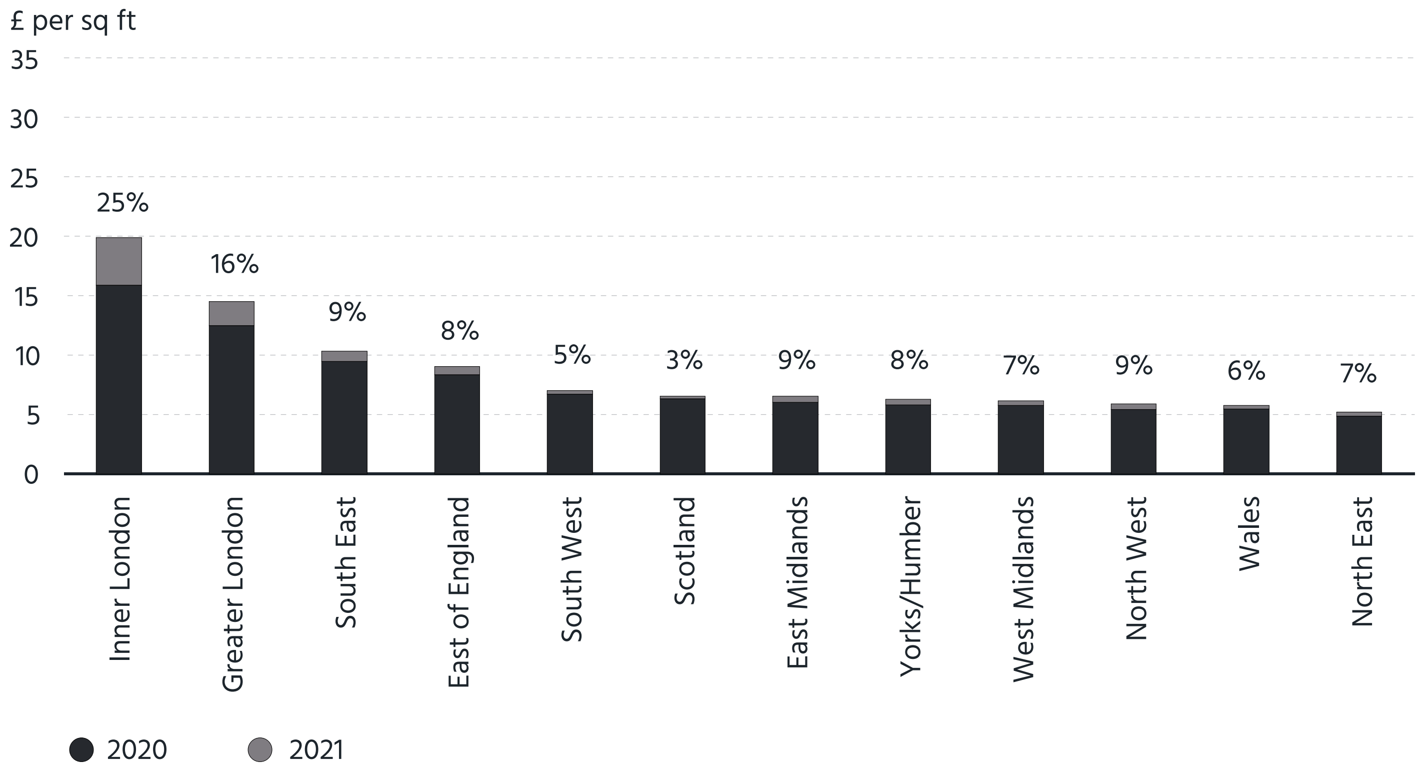
INCREASED UNDERRENTEDNESS AND REVERSION

Clearly this kind of uplift is reflective of a very strong market, but this raises the question of how much this has crystalised across the whole asset class. The charts overleaf show passing rent and ERV, with the differential split into incentives and underrentedness. It is clear that in 2021 passing rent increases only marginally and it is in fact underrentedness that increases substantially - to an incredible 20% in London & the South East and 8% in the regions outside. So despite the incredible headline rental growth figures, this is currently only actually based on a very thin slice of the market and in fact for most multi-let occupiers the rental increases have not filtered through at all yet for them to absorb.

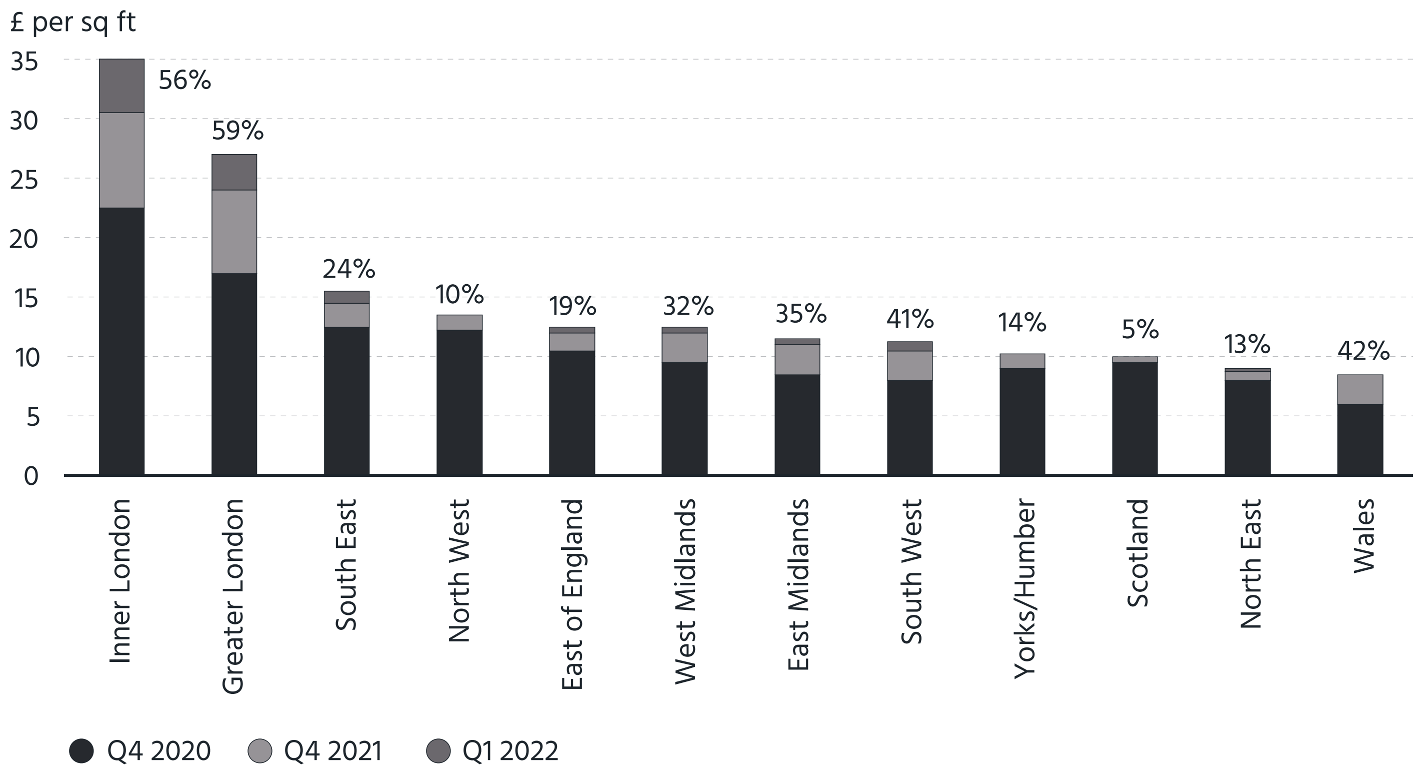
Multi-let ERVs by major UK region
Source: Gerald Eve, MSCI



Multi-let ERVs by region (and growth since end-2020)
Source: Gerald Eve

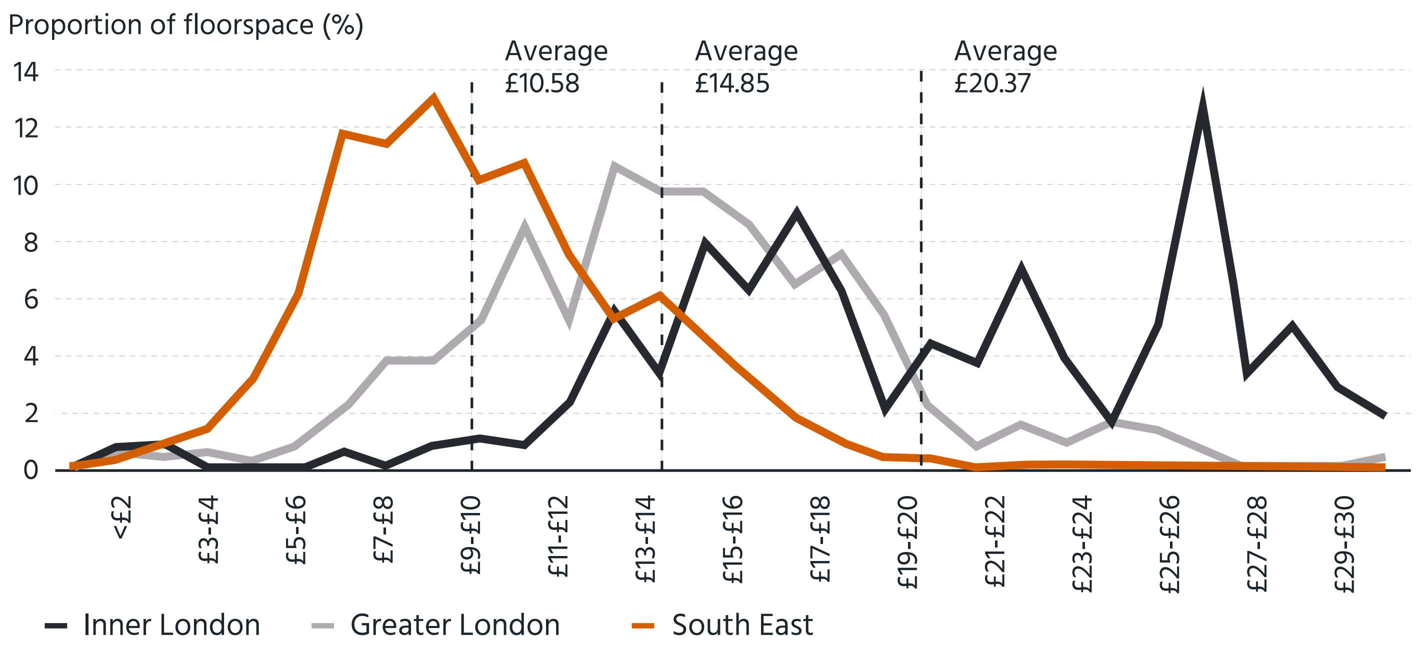


Prime multi-let ERVs by region (and growth since end-2020)
Source: Gerald Eve

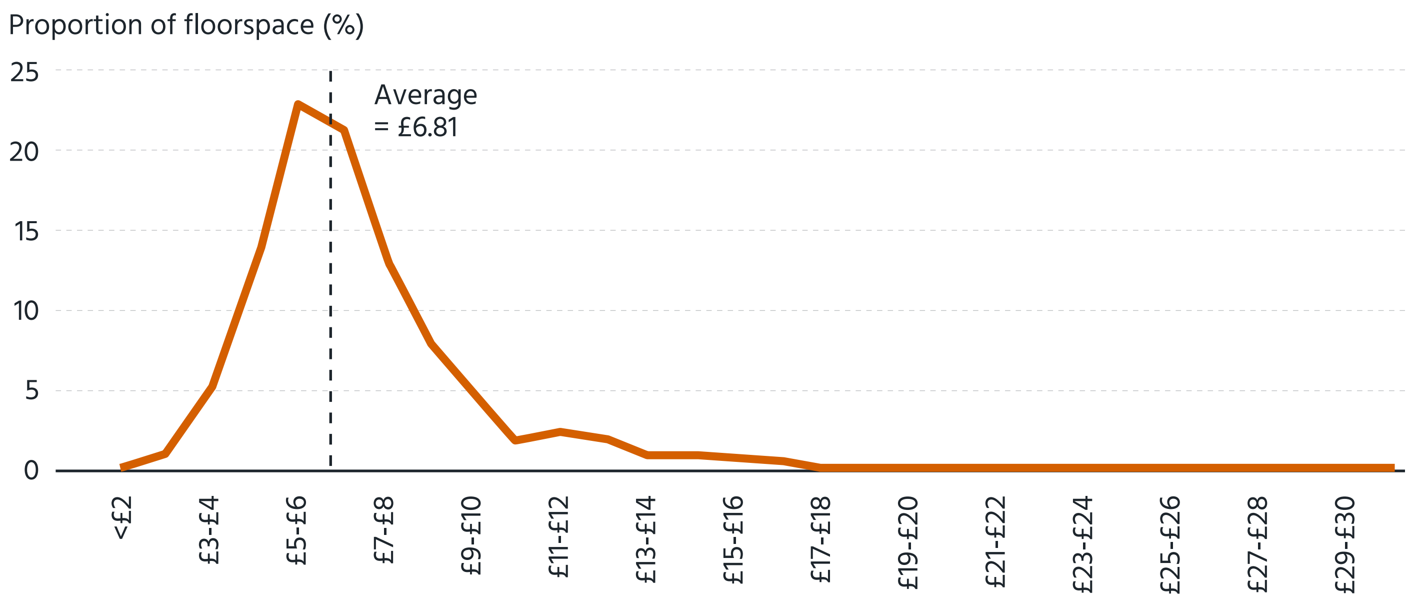


INCOME

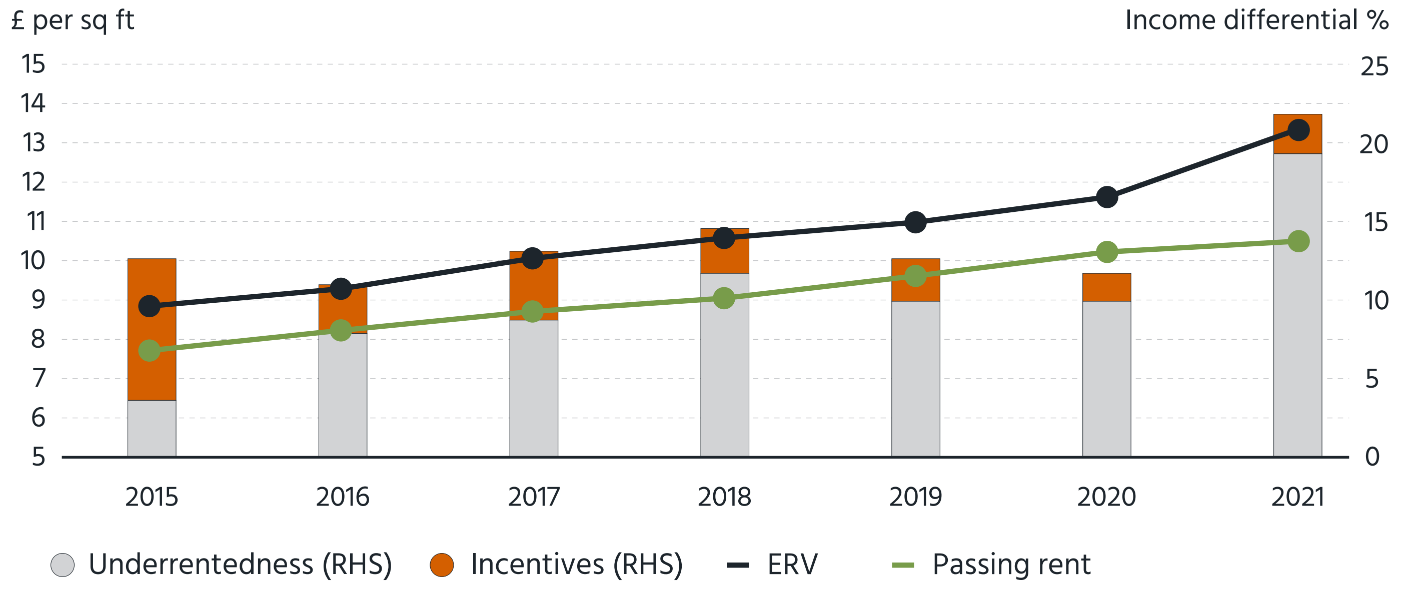
ERV distribution by South East region
Source: Gerald Eve



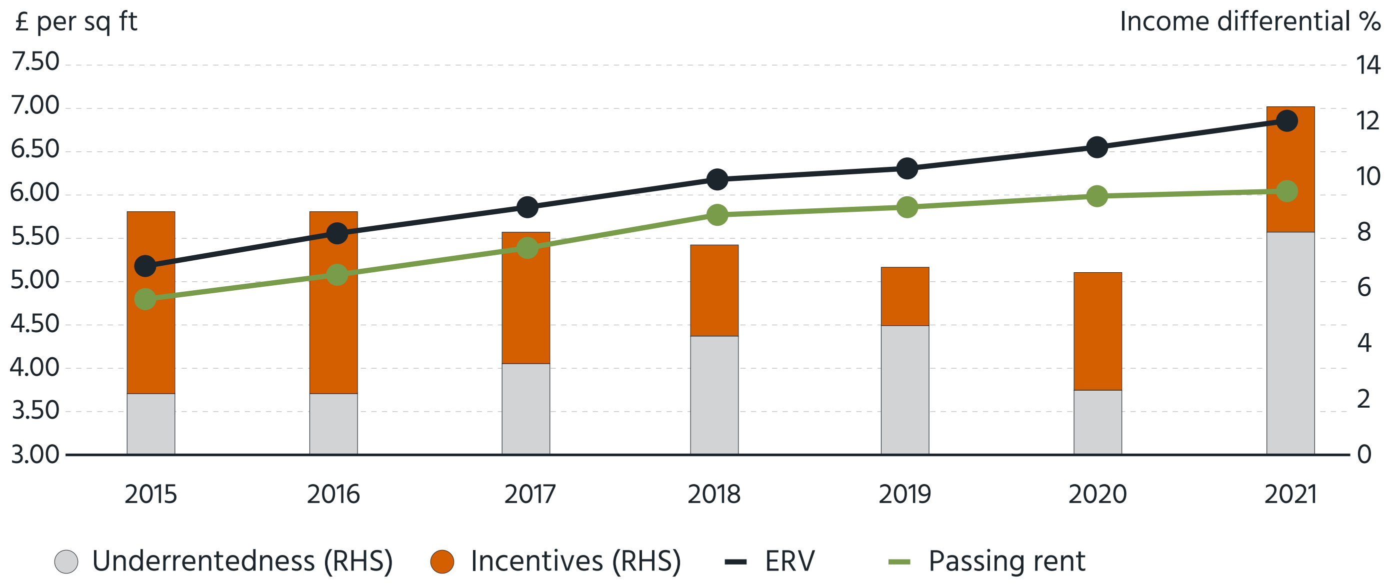
ERV distribution by rest of the UK
Source: Gerald Eve



London and the South East ERVs and passing rent
Source: Gerald Eve



Rest of UK ERVs and passing rent
Source: Gerald Eve



THE MORE EXPENSIVE MARKETS HAVE A BROADER RANGE OF ERVS

The distribution of rents in the regions outside of the South East were relatively narrowly clustered around the average £6.81 per sq ft at the end of 2021. There is a traditional bell-shaped curve, with the majority between £5 per sq ft and £9 per sq ft. However, in the South East, there is a much longer right hand tail, with some of the most prime units reaching up to the high teens in rent. In the London markets the distribution is broadly-based and Inner London has no real curve at all, with units reaching beyond £30 per sq ft and a particular spike at around £27 per sq ft. As ERVs in these markets have accelerated away, the range has stretched significantly.

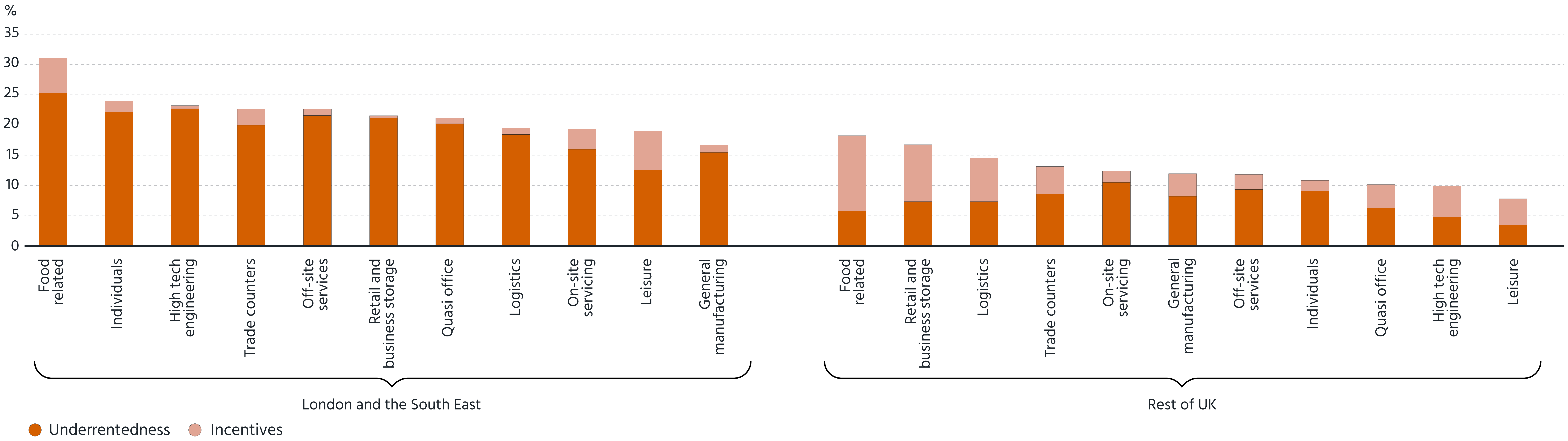
WHICH OCCUPIERS ARE MOST EXPOSED TO UPCOMING REVERSION?

The sharp rise in underrentedness raises the question of which occupiers are potentially exposed to the reversion as rents are renewed and new leases signed, especially given the various darkening economic headwinds. On the subsequent page it is clear that London & the South East is much more affected by underrentedness than the regions outside. Some multi-let occupier groups are now typically paying rents that are over 30% below the market rate, through a combination of underrentedness and rental incentives. This is particularly the case for those related to the food industry, many of which are located in Inner London where ERV growth has been most acute. So-called ‘individuals’ tenants are similarly exposed by almost 25%. These are the smallest and arguably some of the most vulnerable occupiers in the sector and face a potential increase of one-third of their rent liabilities.

INCOME

Discount/reversion from market ERV by tenant type and underrentedness/incentives

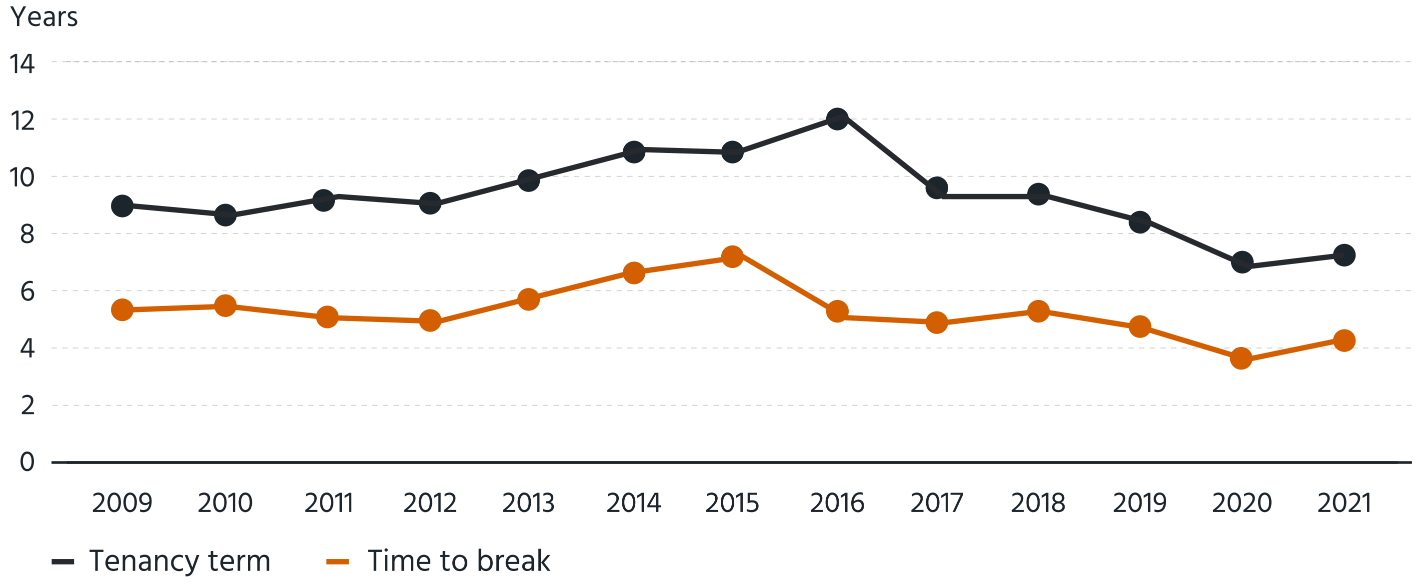
Source: Gerald Eve



INCOME

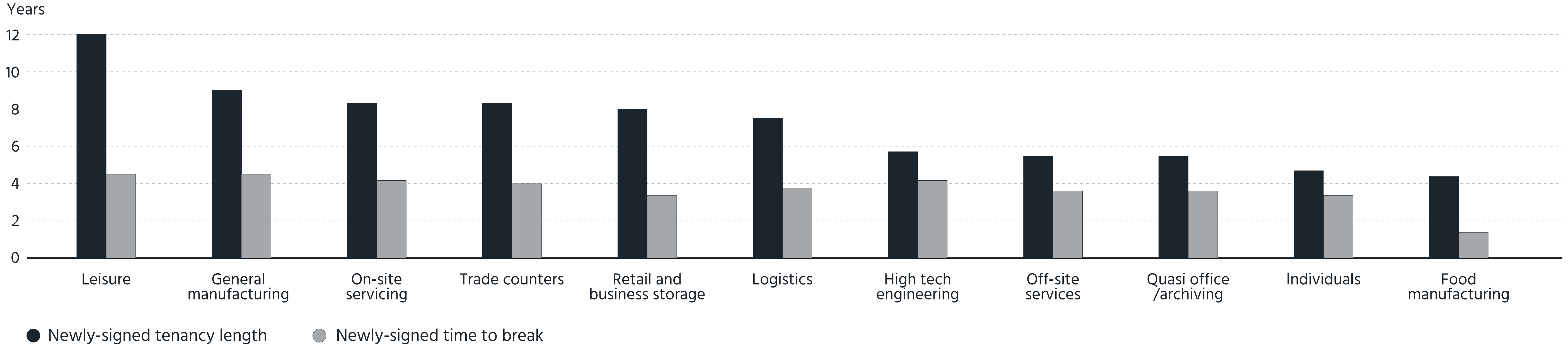
London & the South East newly signed income length

Source: Gerald Eve



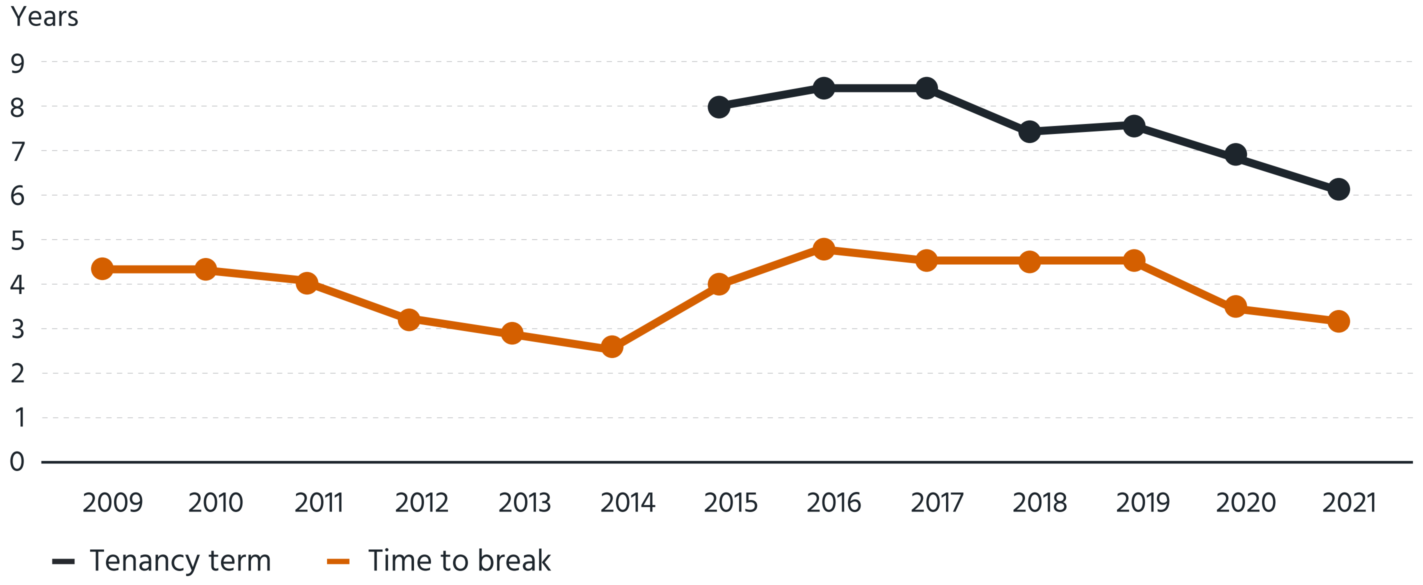
London & the South East length of income by occupier type

Source: Gerald Eve



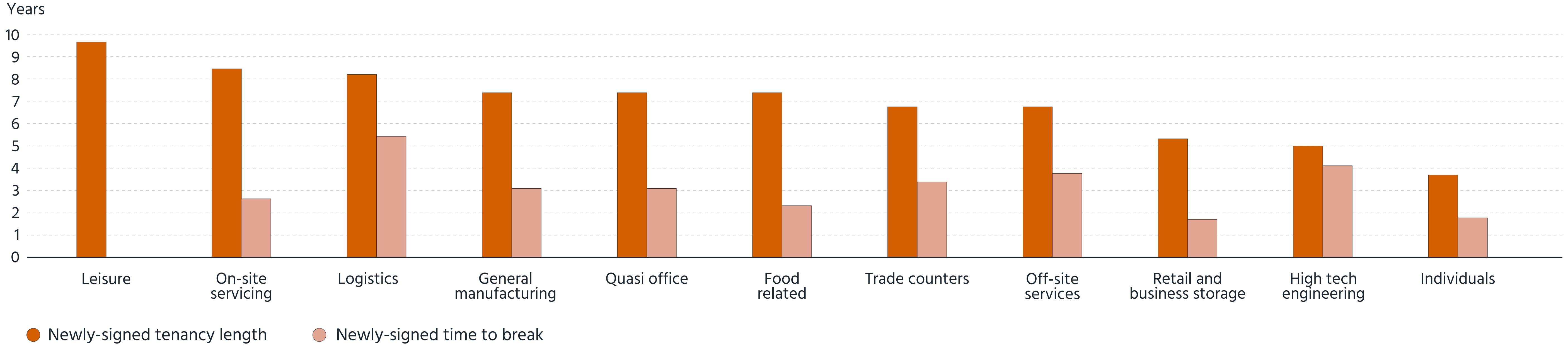
Rest of UK newly signed income length

Source: Gerald Eve



Rest of UK length of income by occupier type

Source: Gerald Eve

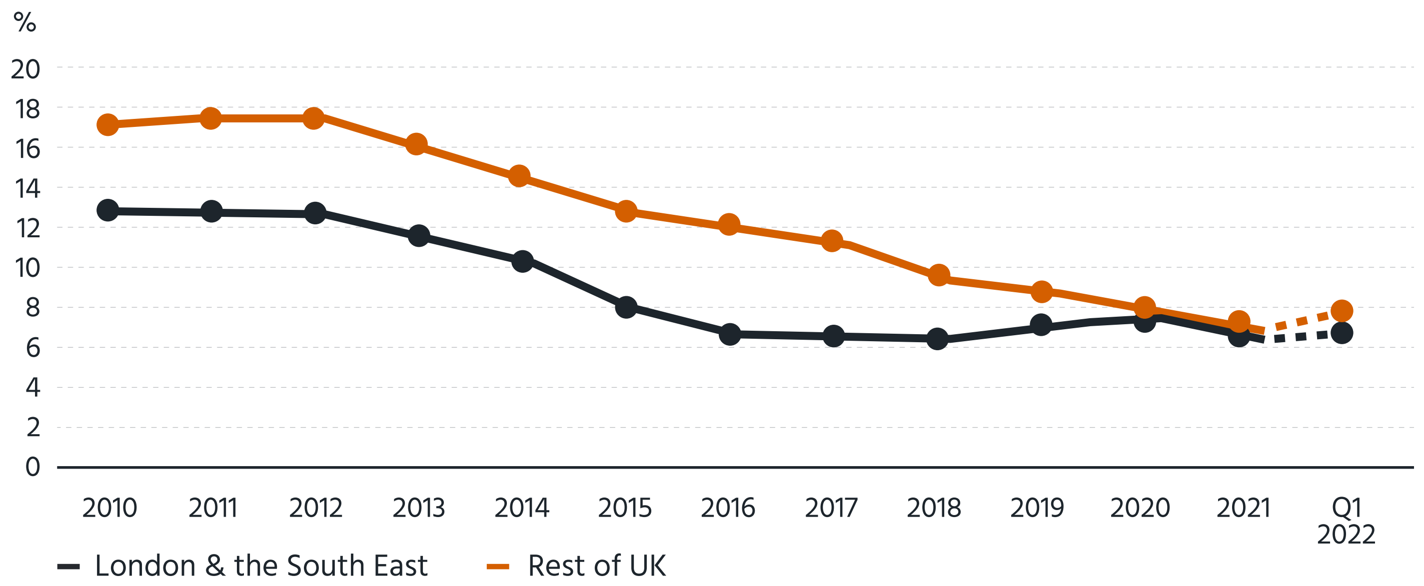


RISK

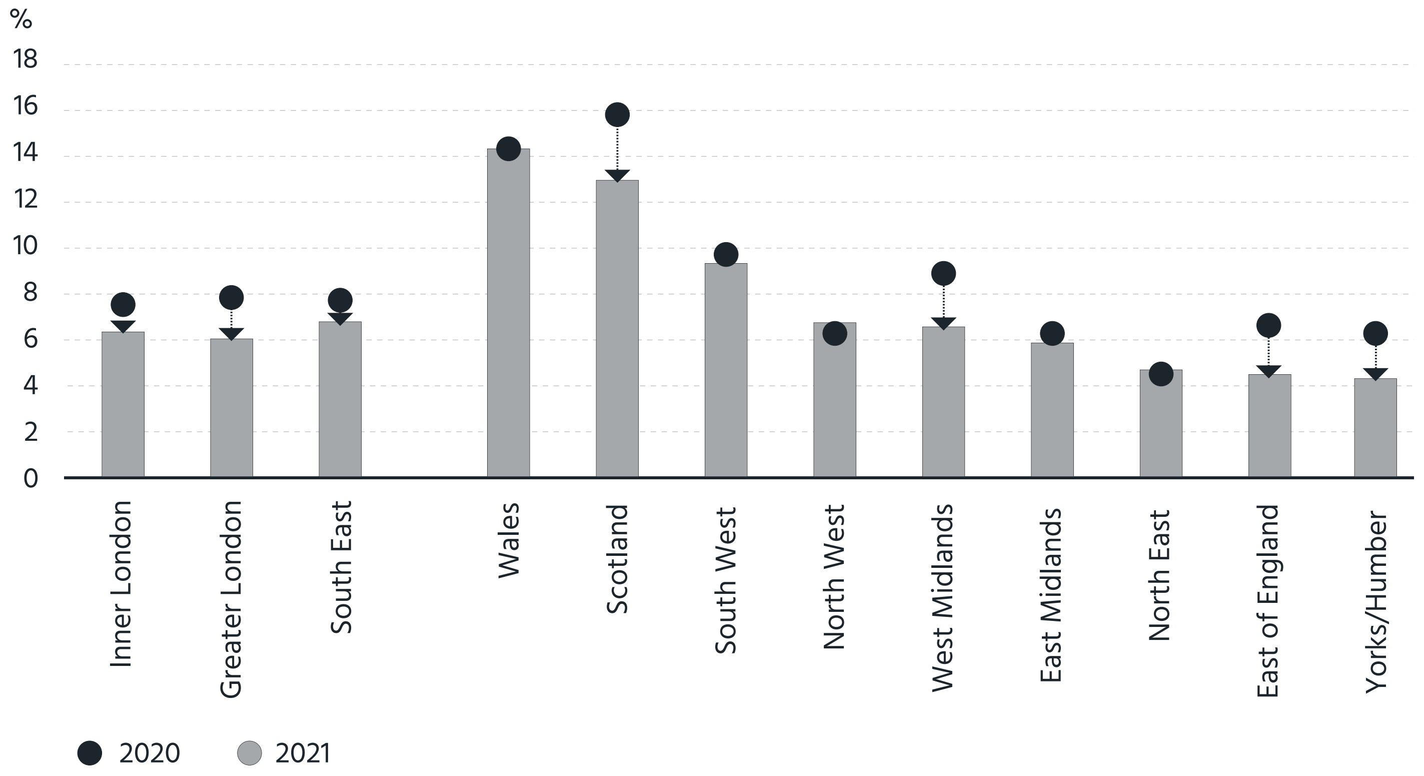
Void rates have been volatile but effectively all fell across the UK over 2021 as a whole. This was also the case for London, where the void rate had been drifting upwards over the last few years and narrowed the historic gap between the two major geographies, raising concerns over potential occupier affordability issues in London. There are early indications, however, that the Q1 void rate may have edged up again (shown in the dotted lines). This series is erratic quarter-to-quarter though so the overall trend could still be said to be downward with an element of bumping along at the bottom.

With regards to other risk indicators the **propensity to exercise a break** was essentially unchanged in 2021 at around 20%. The **default rate** dropped to 2.4% in 2021, which is the lowest on record (see page 16). This in part undoubtedly reflects the strength and resilience of the sector. An overlay of the UK insolvency rate shows a correlation between these two series, though multi-let appears to have bucked the wider insolvencies uptick in 2021. However, the annual frequency can hide a lot of detail and the chart showing insolvencies at a monthly frequency shows a drop-off in 2020 in line with the various government fiscal support. Insolvencies have been trending upwards very sharply since mid-2021 and given the correlation with the multi-let default rate, this bodes more worryingly for 2022/23. The pattern and timing of insolvencies also fits quite neatly with the increase in SME debt shown on page 7.

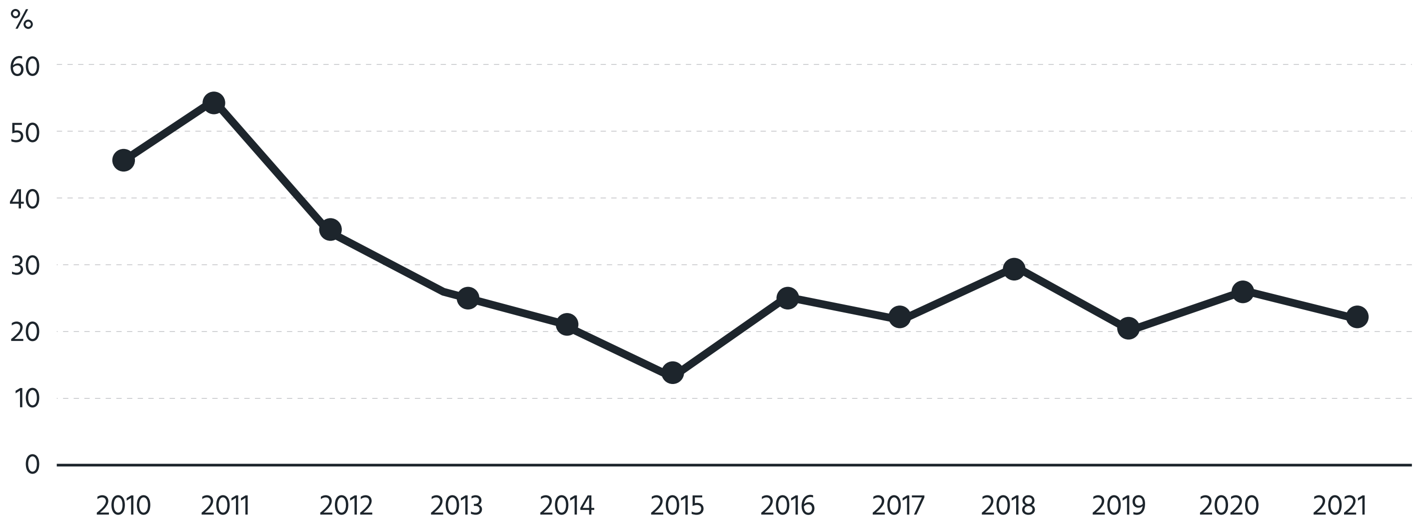
Void rates by major region
Sources: Gerald Eve, MSCI



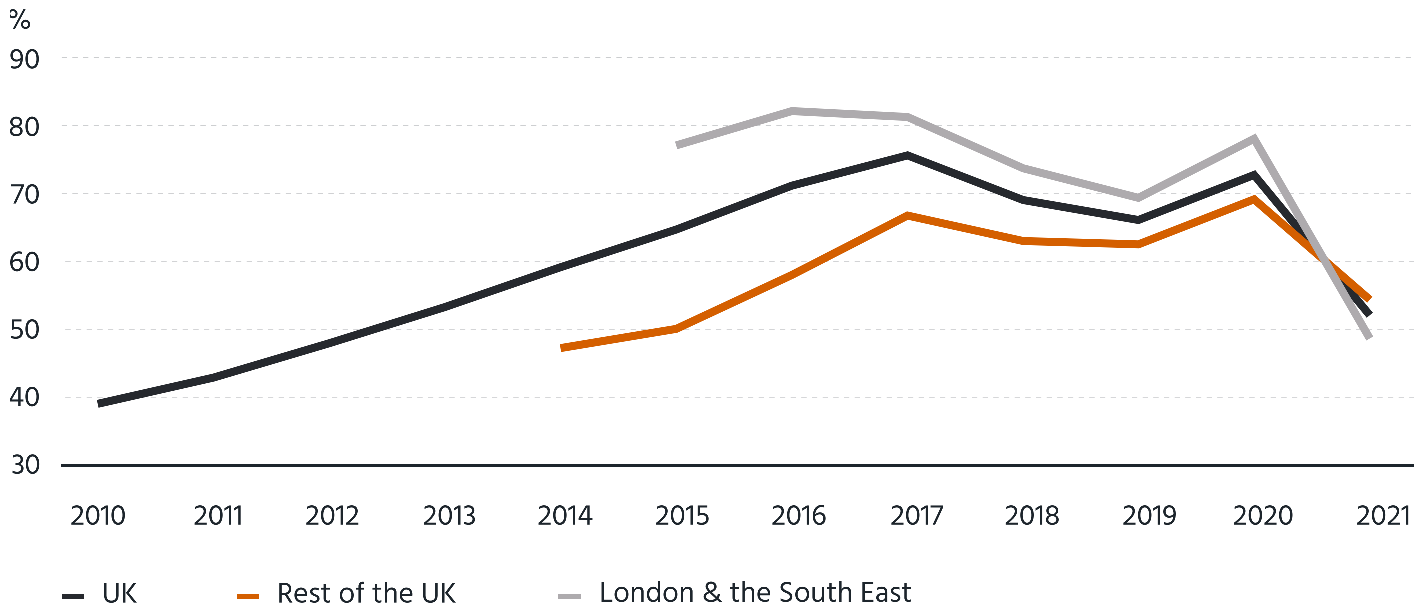
Void rates by region
Source: Gerald Eve



Multi-let propensity to exercise a break
Source: Gerald Eve



Proportion of tenants retained after lease expiry
Source: Gerald Eve

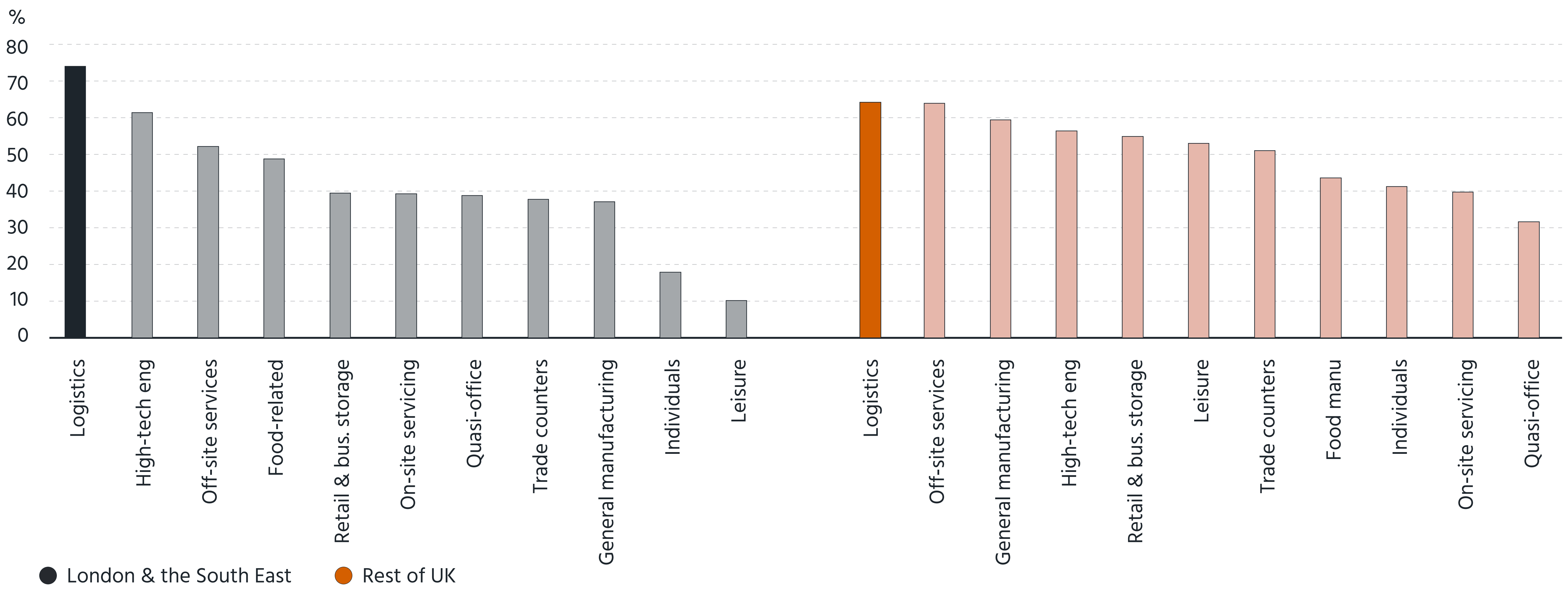


RISK

There has been a large drop in the proportion of tenants retained after an expiry – from over 72% in 2020 to only 52% in 2022. This was the lowest since 2012 and reflects a more fluid market as we reached the tail end of the pandemic. From an individual occupier perspective, logistics occupiers were the most footloose in 2021, and in most cases they vacated after expiry. For this type of strong covenant this is arguably more likely to be tied to a specific logistics contract or reflects some sort of expansion. However, for some weaker covenants from other sectors it could signify a post-pandemic more hard-line approach from landlords to reclaim the unit to re-let it and benefit from increased market ERVs.

In terms of overall risk, expressed as the average annual percentage of income disruption, ‘individuals’ occupiers are the highest, with an almost 16% annual income disruption via breaks, expiries or defaults (see page 17). This is concerning, given that this tenant type occupies someof the cheapest multi-let space but has some of the greatest rental reversion ahead of it. Manufacturers generally occupy similarly inexpensive units but have a relatively much lower risk profile. Trade counters have a relatively low risk profile across both major geographies, likely since most are multi-site, national firms. Leisure occupiers still come out of this analysis relatively well, given their comparatively longer leases. Logistics firms are at a low risk of default but have a relatively high propensity to vacate upon expiry.

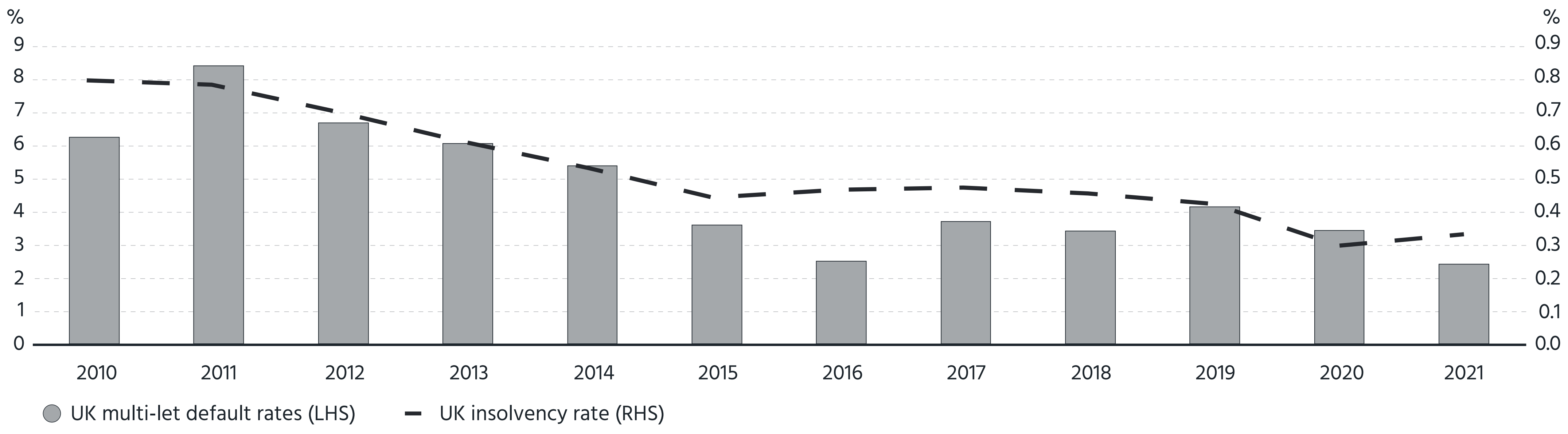
Proportion of tenants that vacated after expiry in 2021
Source: Gerald Eve



RISK

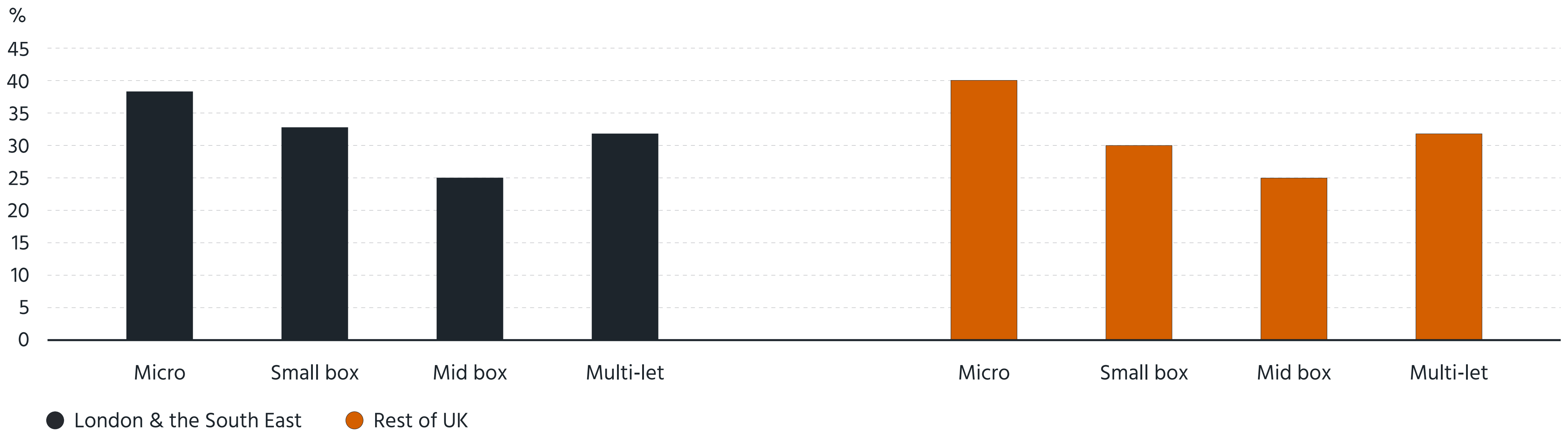
Multi-let default rate and UK company insolvency rate

Source: Gerald Eve, ONS



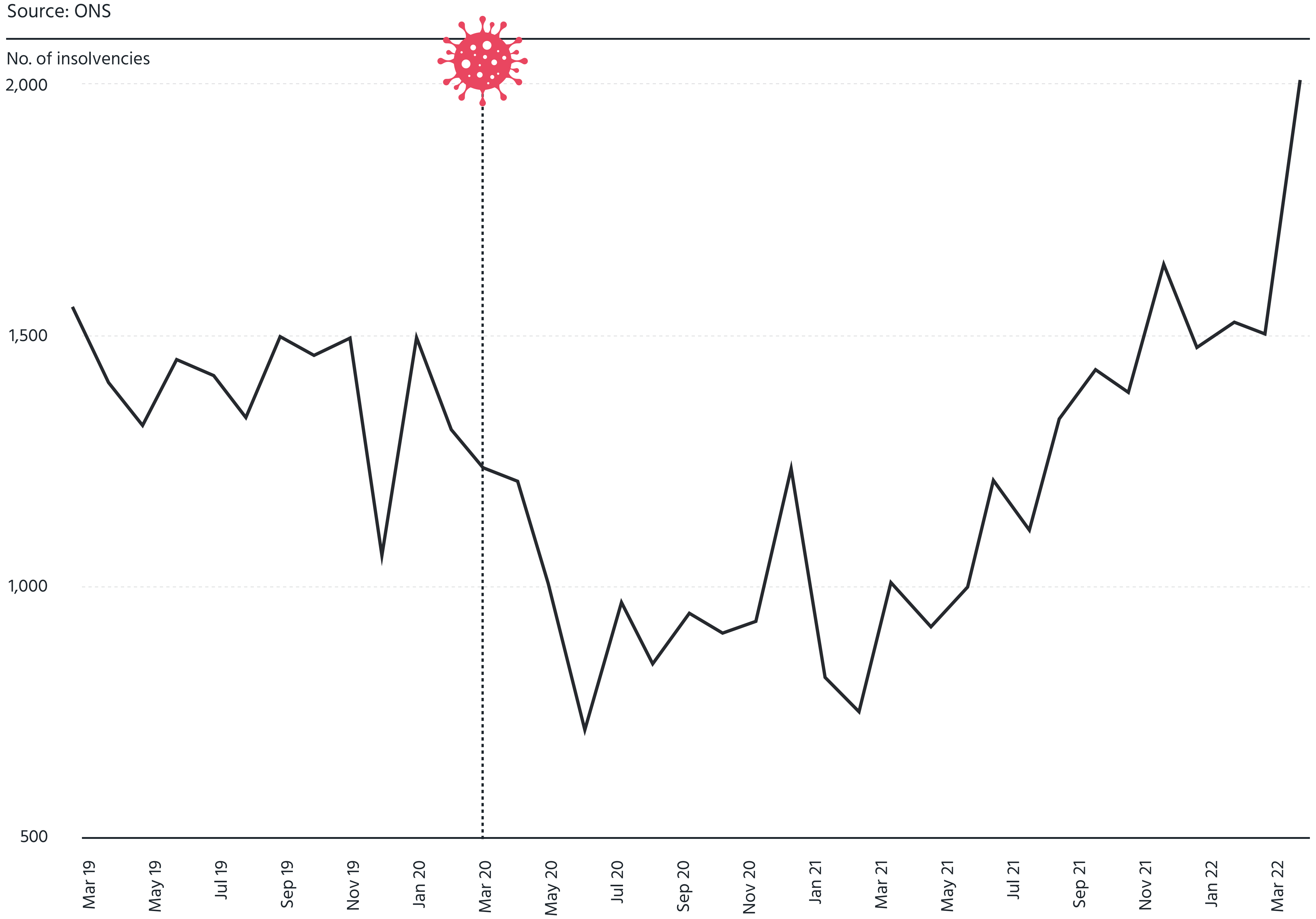
Proportion of floorspace with a lease event in 2022/23, by unit size

Source: Gerald Eve



England and Wales company insolvencies per month

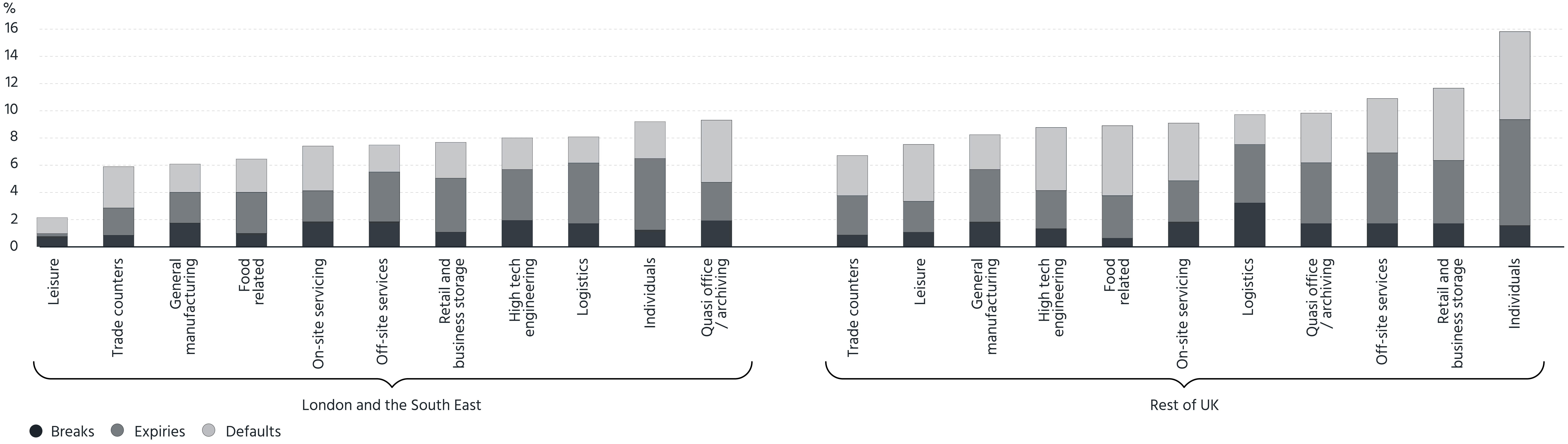
Source: ONS



RISK

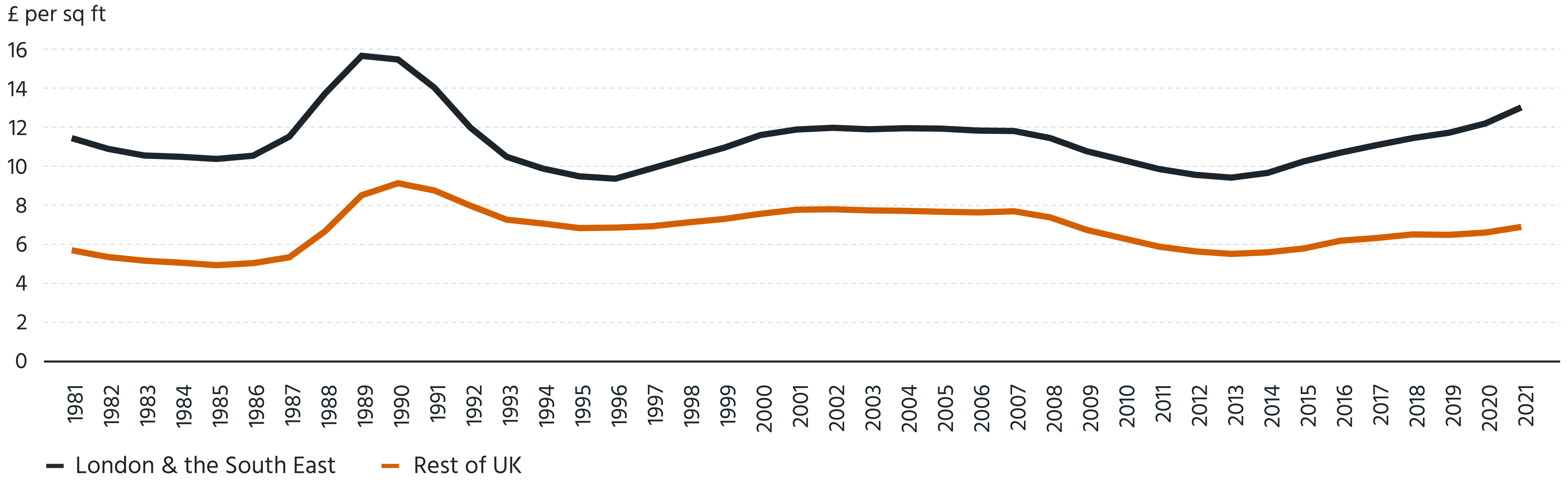
Total average annual risk by occupier and major region

Source: Gerald Eve

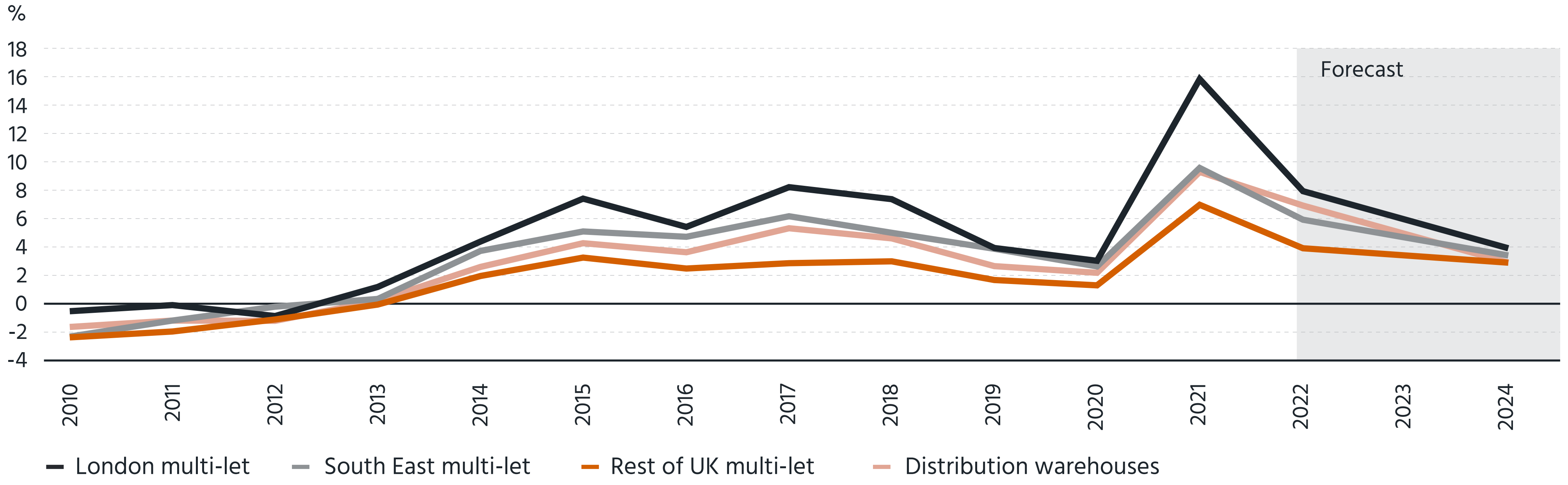


OCCUPIER OUTLOOK

Real multi-let ERVs in 2021 £
Source: Gerald Eve



Annual rental growth
Sources: Gerald Eve, MSCI



The ever-rising record headline multi-let ERVs have pushed out underrentedness and reversion to historic highs. This has understandably led to some nervousness as to whether the market will be able to absorb these increases and if further ERV growth is sustainable. However, it is worth referring to the longer term view in real terms that shows that this recent acceleration is a lot less remarkable than it might seem and suggests further headroom in the occupier market. Moreover, the multi-let tenant base has transitioned over the last several cycles to one that is much more likely to be able to pass on increased costs (such as rent) to end consumers or has sufficient financial backing to absorb rental increases. Undoubtedly the occupier market is entering a phase of increased challenges and the exceptional rental growth of 2021 and Q1 2022 will not be maintained, but we still expect all-grades annual ERV growth to be positive in 2023 and 2024 and at an average 3.5% - 4% in London & the South East, and 3% in the regions.

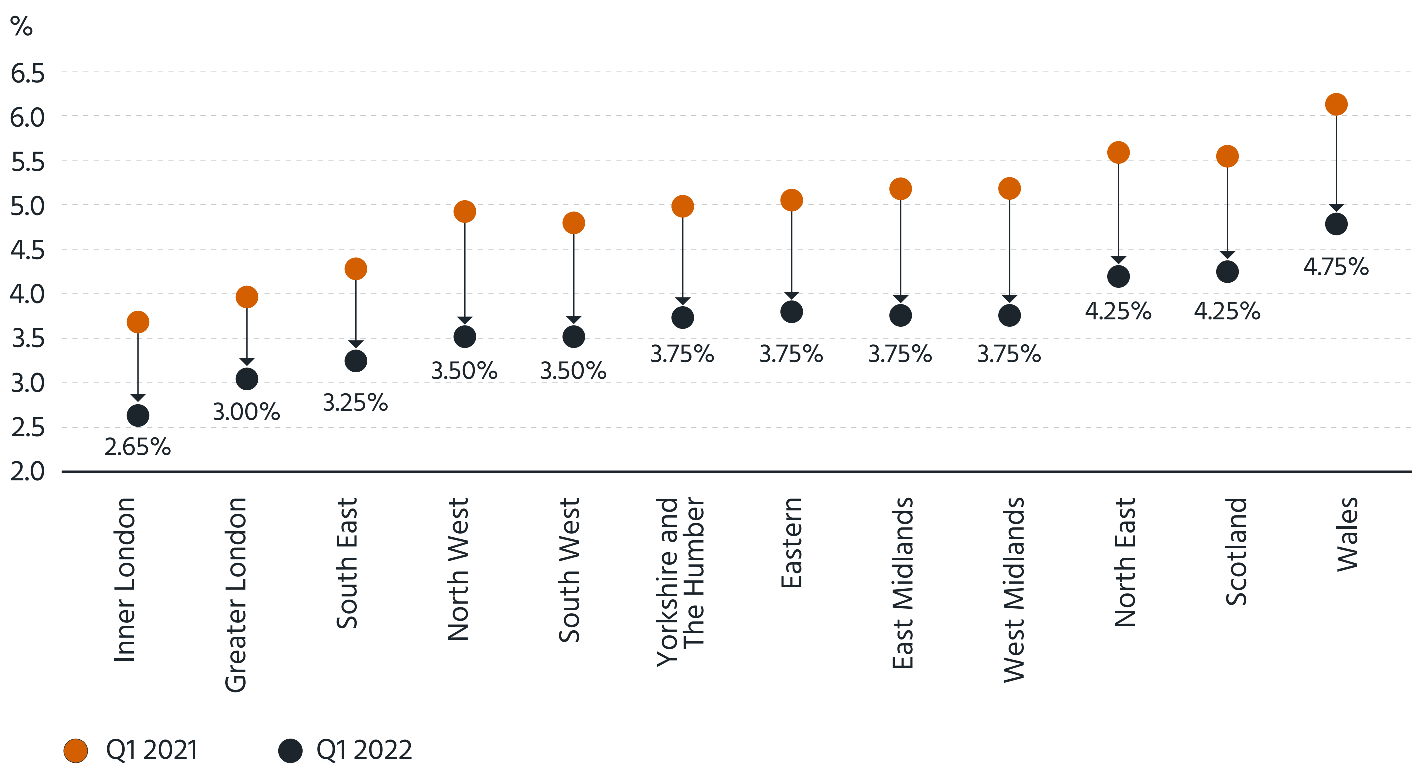
INVESTMENT MARKET

DOWNWARD YIELD MOMENTUM MAINTAINED INTO Q1 BUT LESS SO IN RECENT MONTHS

The global weight of money continued to drive down multi-let yields in Q1 at a similar rate to Q4 at around 25bps in most UK regions. This translated into even greater yield impact in Q1, given the lower base yield. The exception was Inner London where, incredibly, the rate of inward shift accelerated to 35bps in Q1 to take the average prime yield to 2.65%. In more recent months these kinds of price increases have slowed, as rising debt costs and extra scrutiny of exit yields have entered the conversation, especially after the Bank of England's more hawkish tone at the May MPC meeting.

Prime multi-let yields set against a year ago

Source: Gerald Eve

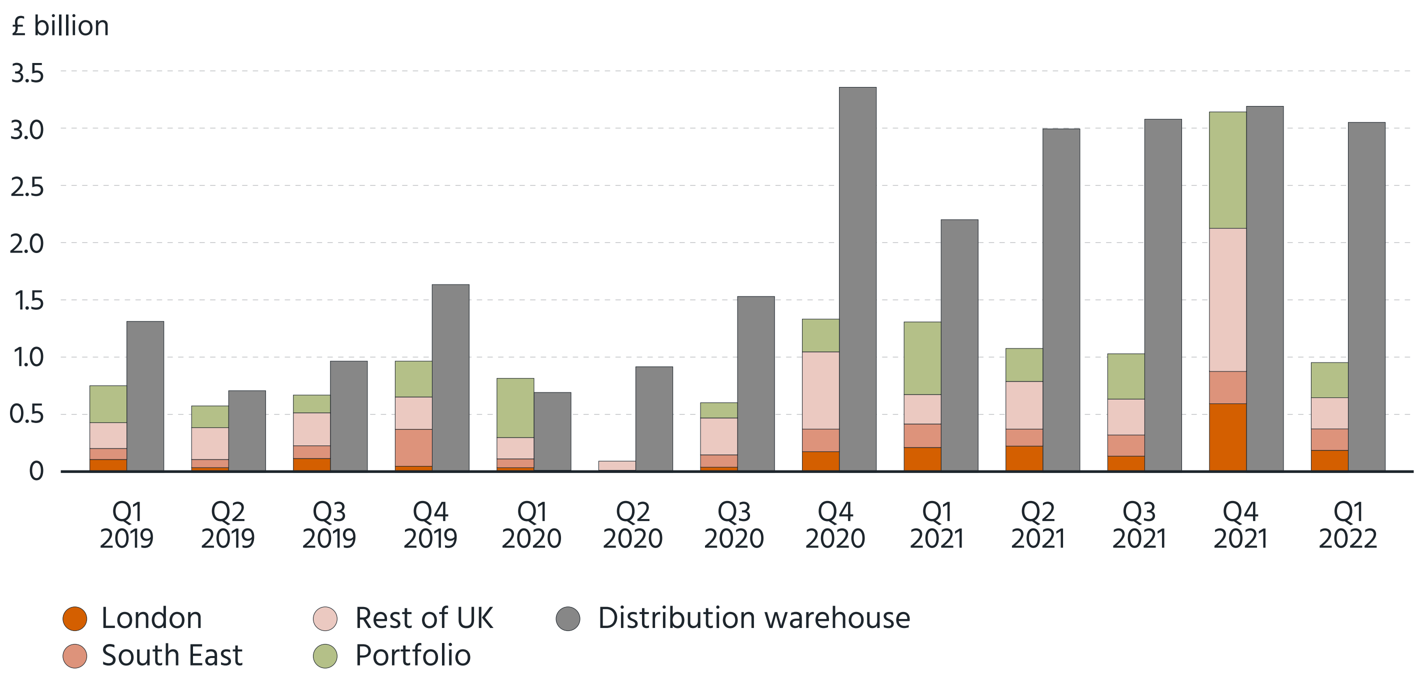


MULTI-LET INVESTMENT VOLUME FELL BACK TO TREND IN Q1 AFTER A MAMMOTH Q4

Multi-let finished 2021 with an exceptional Q4 investment transactions total of over £3bn, which included numerous portfolio deals. This fell back in Q1 to just under £1bn. Taking the year as a whole to Q1, cross-border transactions have been the largest net investment into UK multi-let, notably North American money. More recently in April and May the weight of money has been maintained but the depth of investors on any one deal has thinned as the rising cost of debt now precludes some leveraged investors. Where there may have been 10 underbidders previously, this is now typically around five.

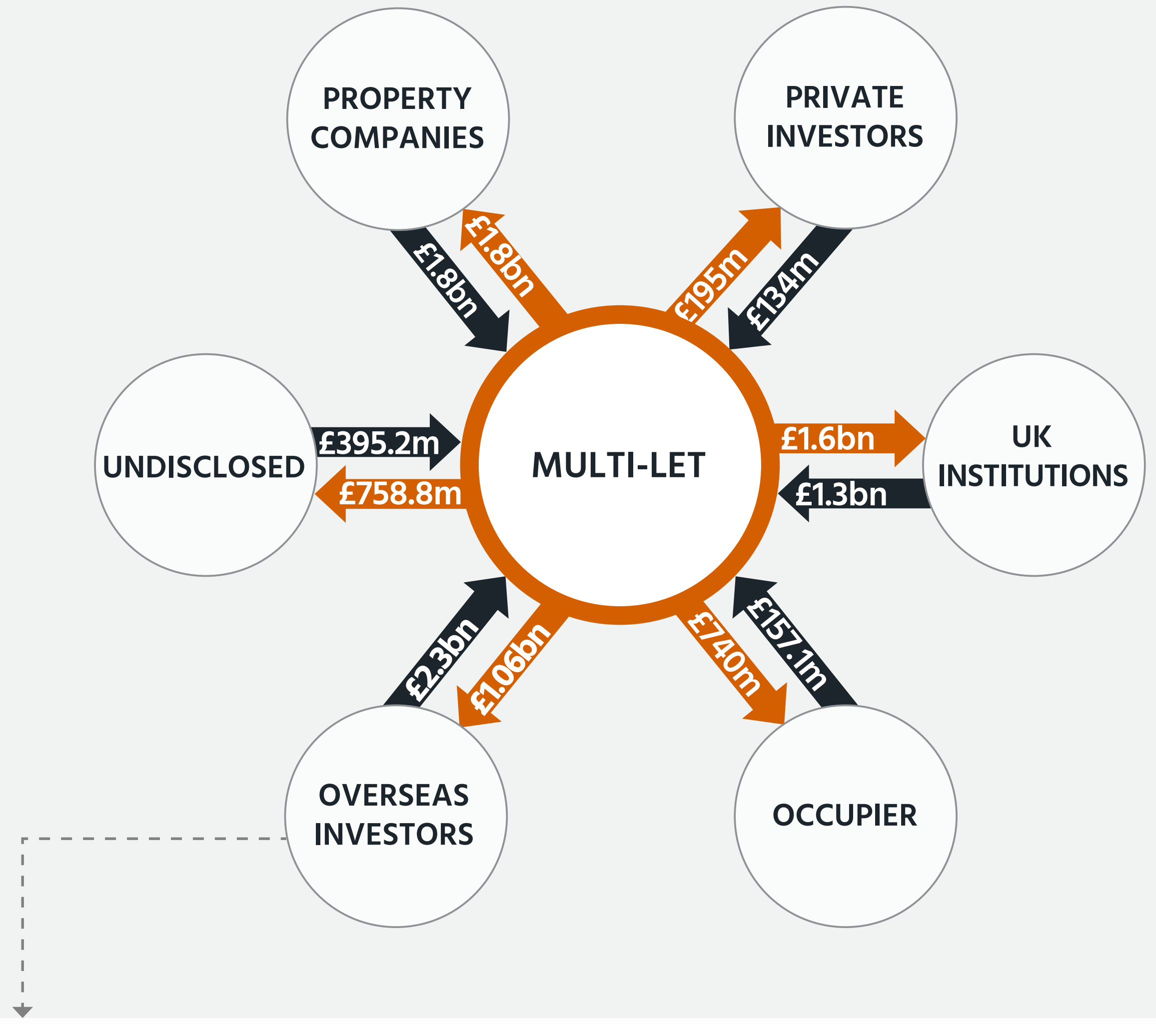
Quarterly investment into multi-let by type & distribution warehouse

Sources: Gerald Eve, Property Data



UK MULTI-LET CAPITAL FLOWS IN THE YEAR TO Q1 2022

Source: Gerald Eve, Property Data



INVESTMENT VOLUME BY INVESTOR SUB-DOMICILE

£1.3m	£455.6m	£199.5m	£179.3m	£257.4m
NORTH AMERICAN	GERMAN	EUROPEAN	MIDDLE EAST	OTHER
53.5% OF OVERSEAS INVESTMENT	19.4% OF OVERSEAS INVESTMENT	8.5% OF OVERSEAS INVESTMENT	7.6% OF OVERSEAS INVESTMENT	11% OF OVERSEAS INVESTMENT

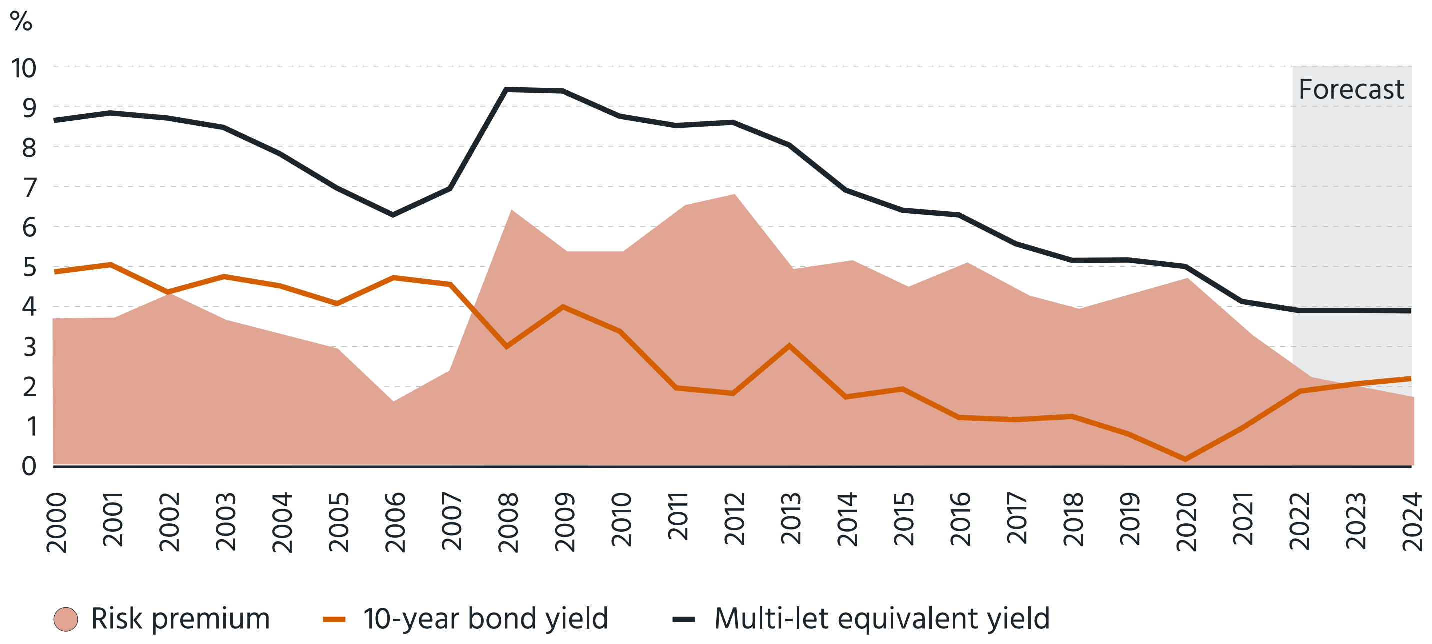
PERFORMANCE AND OUTLOOK

MULTI-LET RISK PREMIUM HAS NARROWED MORE QUICKLY THAN PREVIOUSLY ANTICIPATED

The UK multi-let equivalent yield is estimated to have dropped 23bps so far in 2022 to 4.09% in April, while 10-year government bond yields increased by 92bps to 1.94% over the same period. This suggests that the risk premium for multi-let has fallen to 215bps, the lowest since before the global financial crisis. The Bank of England's hawkish tone means we expect at least a further two 25bps base interest rate increases over the remainder of 2022 for it to reach 1.50%. This has been priced in to some extent, but we expect further bond yield increases and additional narrowing of the multi-let risk premium.

Multi-let risk premium

Sources: Gerald Eve, MSCI, Oxford Economics

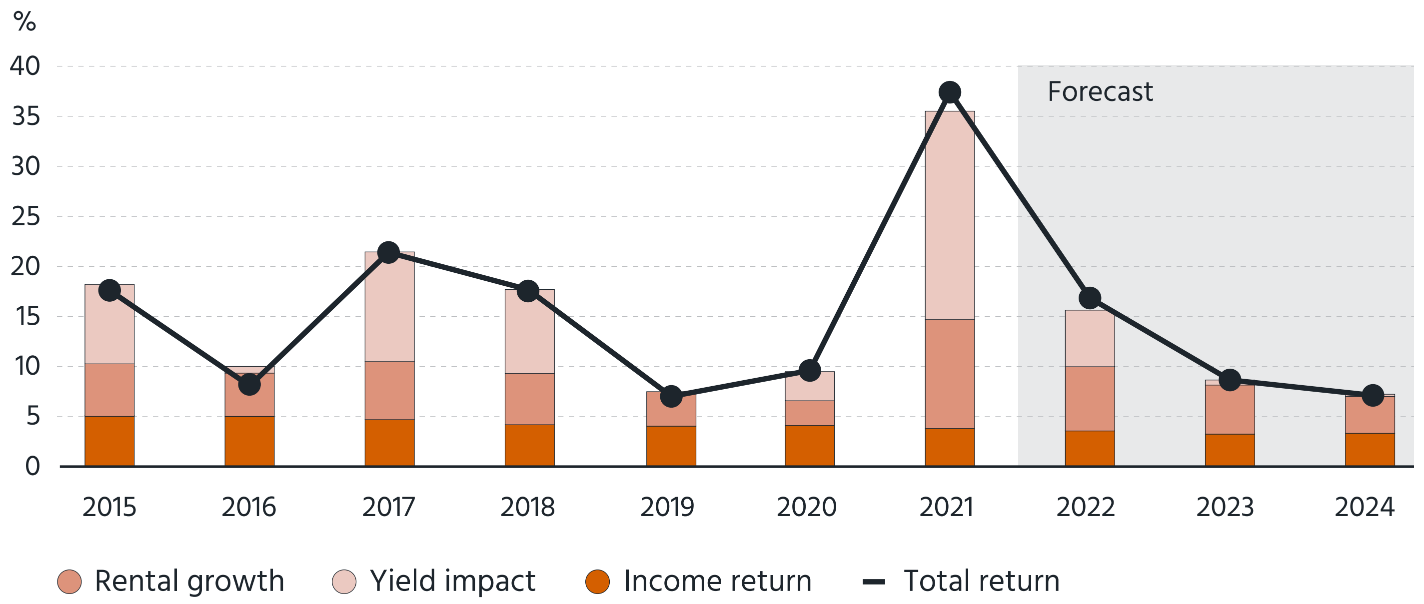


MULTI-LET TOTAL RETURN EXPECTED TO SLOW OVER 2022 AS YIELD IMPACT FALLS AWAY

Higher debt costs and the property risk premium narrowing in this way suggests potentially higher exit yields factored into some purchase decisions. This will be particularly acute for lower-yielding prime assets in London and the South East. However, there is a divergence of opinion about the timing and depth of the cycle. A significant proportion of sellers are now looking to take profits and reposition their portfolios. Consequently, after the almost 9% multi-let total return for Q1, this should slow over the course of 2022. We expect a UK multi-let annual total return of 16.6% in 2022 before falling back to high single digits in 2023.

Multi-let annual total return and components

Sources: Gerald Eve, MSCI

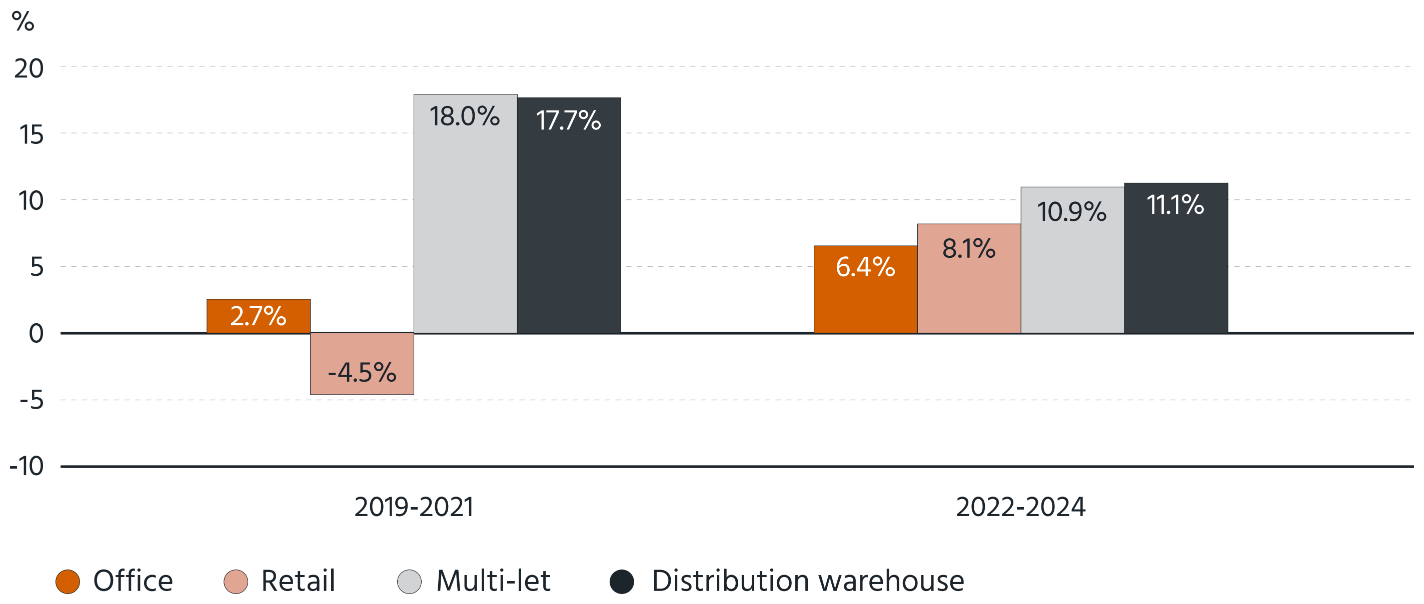


INDUSTRIAL TO CONTINUE TO OUTPERFORM BUT WEIGHTED TO 2022

Multi-let and distribution warehouses were the runaway outperformers over 2019-21, with an average of almost 18% annual return over the period. During this time capital values for retail dropped precipitously, generating a negative annual average total return. However, the retail sector has largely stabilised while offices that have been stagnant over the pandemic have stepped up a couple of gears, notably in London and the South East. Consequently, while we anticipate that industrial will outperform the other major property sectors over the next three years on average, this will be much more marginal and weighted heavily towards 2022.

Average annual return by sector

Sources: Gerald Eve, MSCI



SPOTLIGHT ON: EPCS

Sustainability credentials, and the risks and opportunities surrounding the various upcoming EPC legislation are much spoken about and with increasing fervour. However, Gerald Eve is the first property consultant to gather the data and conduct the quantitative analysis to estimate the EPC landscape across UK multi-let.

The Minimum Energy Efficient Standards (MEES) are fluid and can be at times opaque. There are some future deadlines still under proposal, but they currently state that landlords may not let or continue to let non-compliant units from certain dates, as shown here.

This also means that there may be need to be remedial works mid-letting, but only if a valid EPC certificate exists. Thus those units where there is no certificate (or it is more than 10 years old) would not be impacted under the current legislation and there is currently no requirement to get an EPC rating for a unit until it is re-let.

DATES AT WHICH GRADES BECOME NON-COMPLIANT

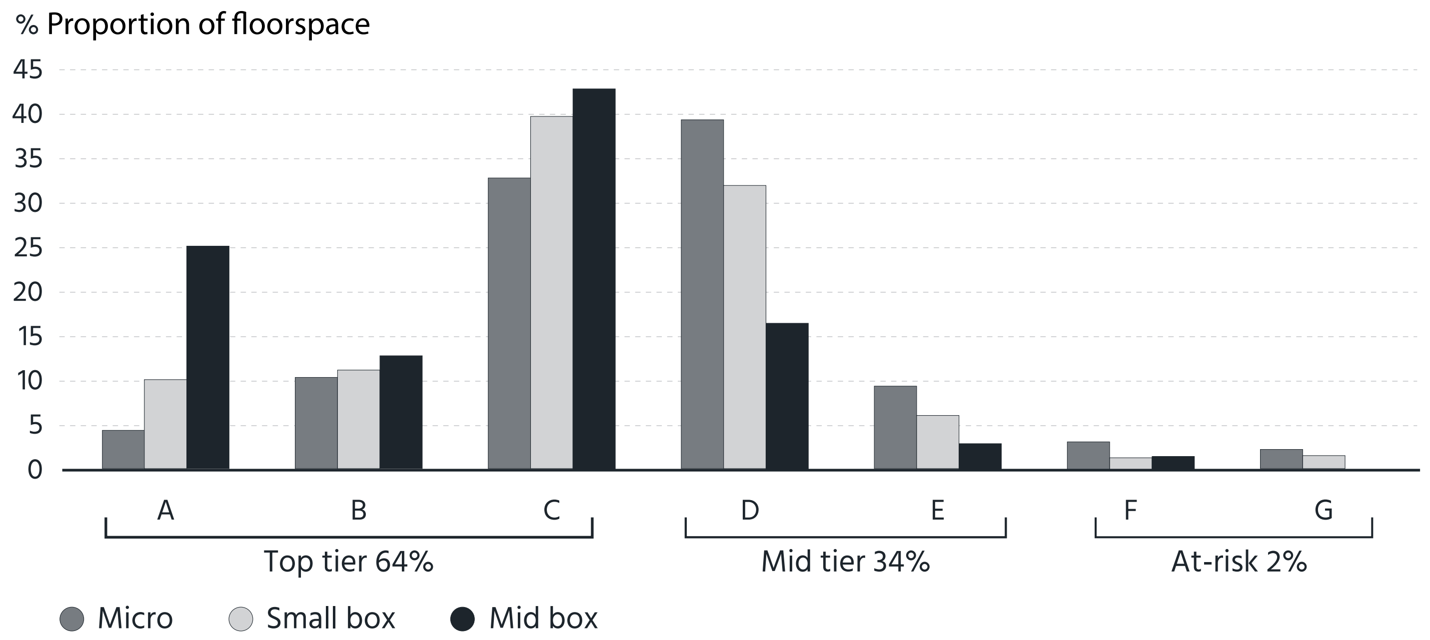
2023
Grades F&G

2027
Grades D&E

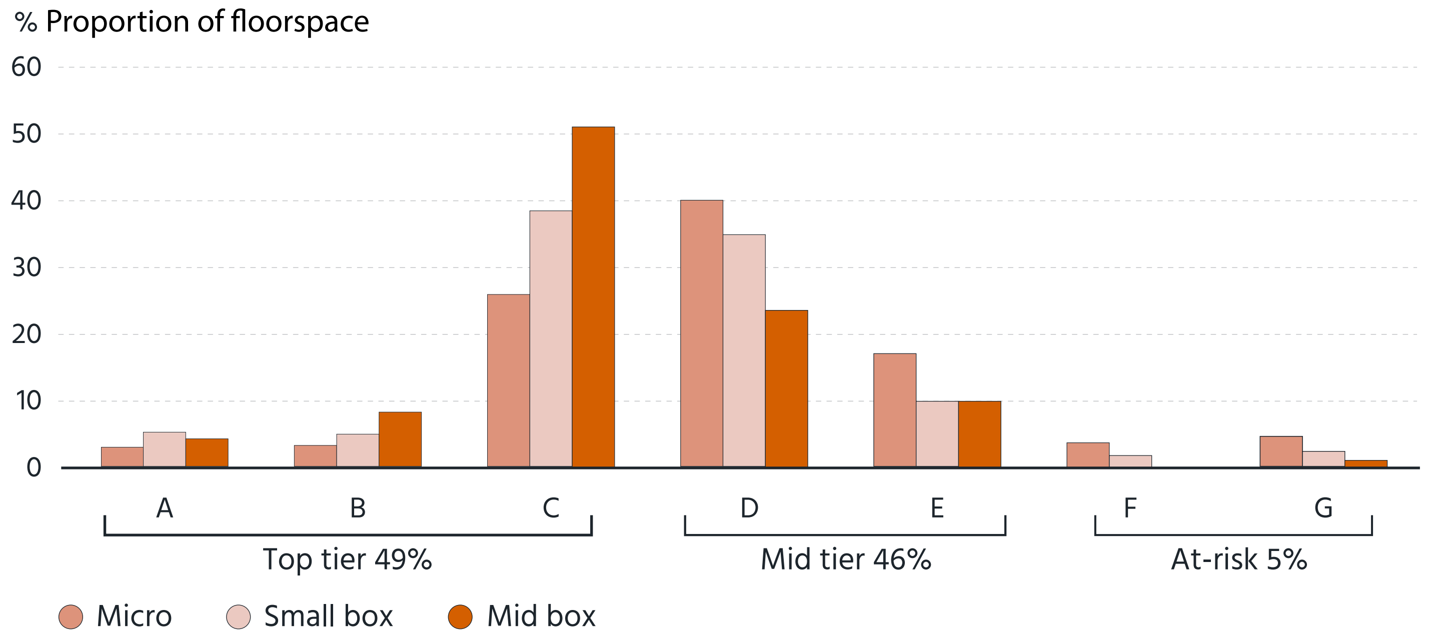
2030
Grade C

SPOTLIGHT ON: EPCS

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



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



The EPC distribution spans from A – G and is split here according to location in London & the South East, the regions outside, and by size of unit. There is a considerable cluster around grades C and D as anecdotally expected. However, there is a surprising amount (around a quarter) of mid box units in London & the South East that are apparently grade A.

Around 2% of the market in London & the South East and 5% of the market in the regions are EPC graded F or G, which we classify as "at-risk" since they will fall below the required standard by April 2023. A much more significant proportion of EPC grades D or E (34% in London & the South East and 46% in the regions) have another five years until they are non-compliant in April 2027. Consequently, over a third of the multi-let floorspace in London & the South East and over a half in the rest of the UK needs some sort of intervention by 2027.

With regards to the size of unit overleaf, this is predominantly a small box issue, though over a third of the at-risk floorspace in the regions are micro units. In terms of occupiers, there tends to be a weighting towards manufacturers and 'individuals' inthis kind of space, which is understandable since they're typically on the lowest rents. Conversely, there is generally an under-representation of trade counters in at-risk and mid-tier space. This corresponds with anecdotal reports from trade counter occupiers who are particularly mindful of their ESG credentials and will generally seek to improve the quality of their accommodation. Partly this is a strategy to try to retain staff also.

Around a third of the mid box at-risk and mid-tier space is being used for in-house logistics in London & the South East, which represents a considerable amount of exposure for this kind of tenancy. This could be explained in part because long term storage is relatively sparsely staffed. Whereas in the regions outside of the South East manufacturers are frequently overweight in at-risk and mid-tier space.

Awareness and accountability surrounding sustainability has been brought into sharp focus in recent years and many occupiers are now scrutinising their accommodation and demanding greater energy efficiency. Under the current regulation the trajectory of the Minimum Energy Efficiency Standards (MEES) is from an EPC E in 2023 to an EPC B by 2030. This has brought EPCs to the forefront of landlords' attention, not least since 88% of non-domestic properties will need to be improved over the next 10 years if they are to remain compliant. This represents a significant challenge to the industry and robust strategies are needed to minimise the risk of stranded assets.

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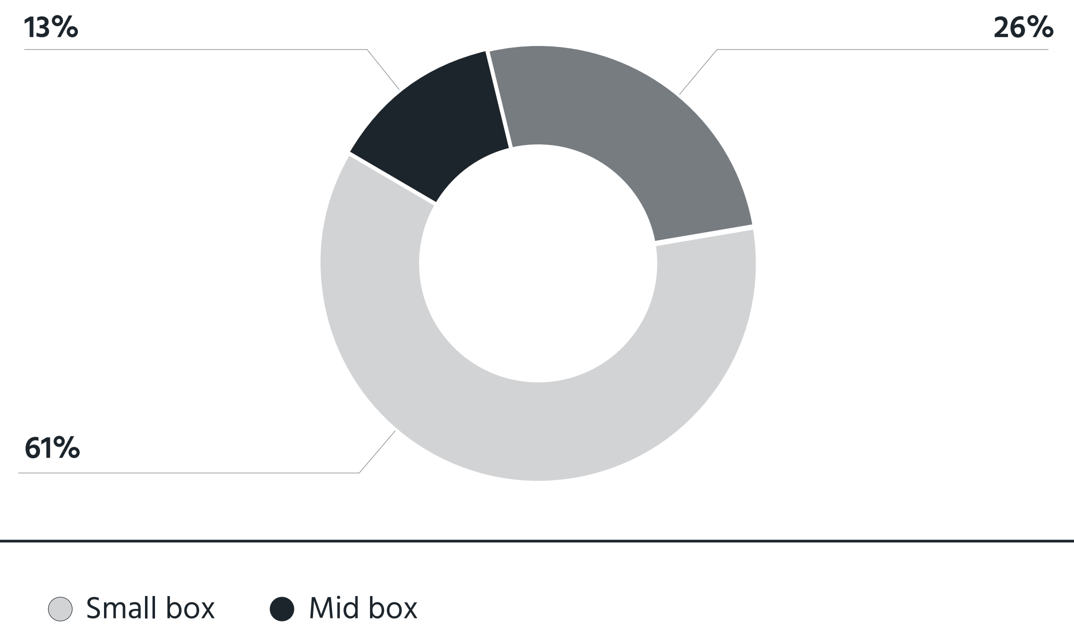
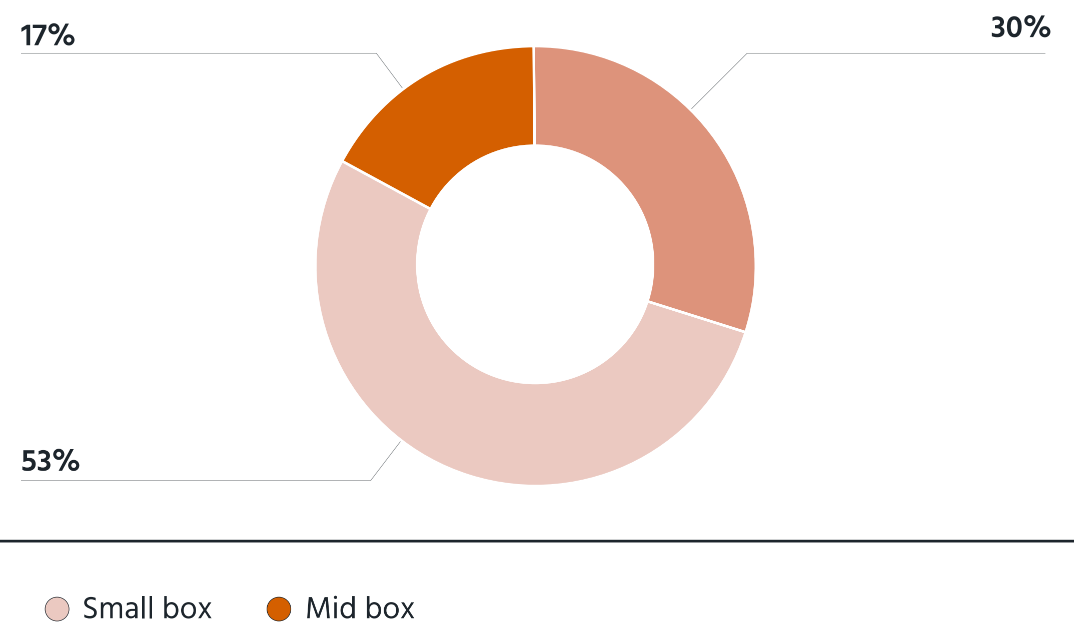
SPOTLIGHT ON: EPCS

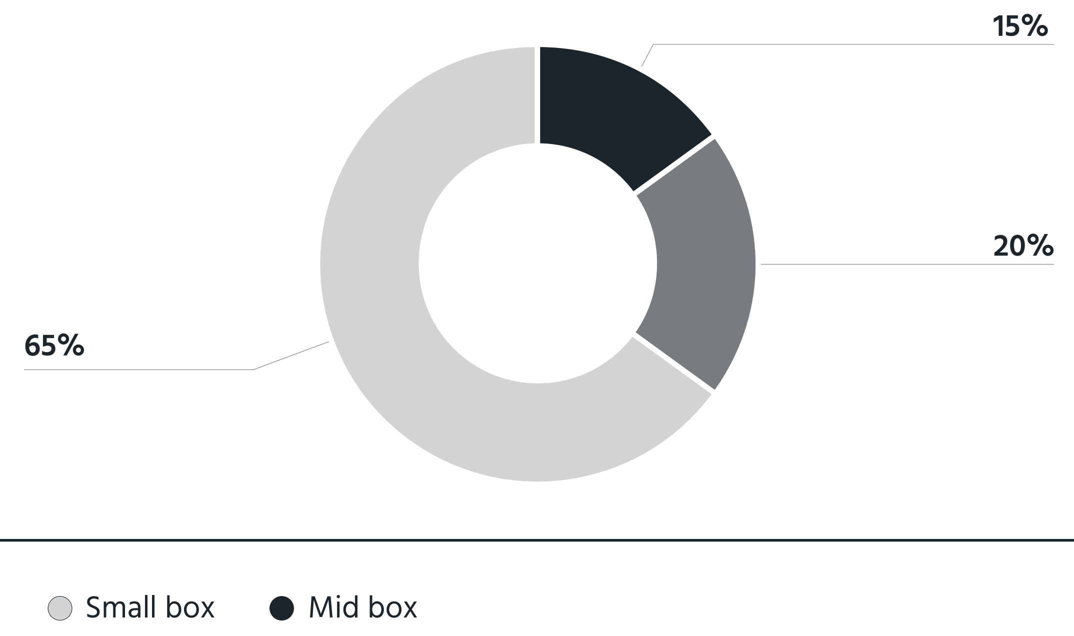
London & the South East at-risk
Source: Gerald Eve



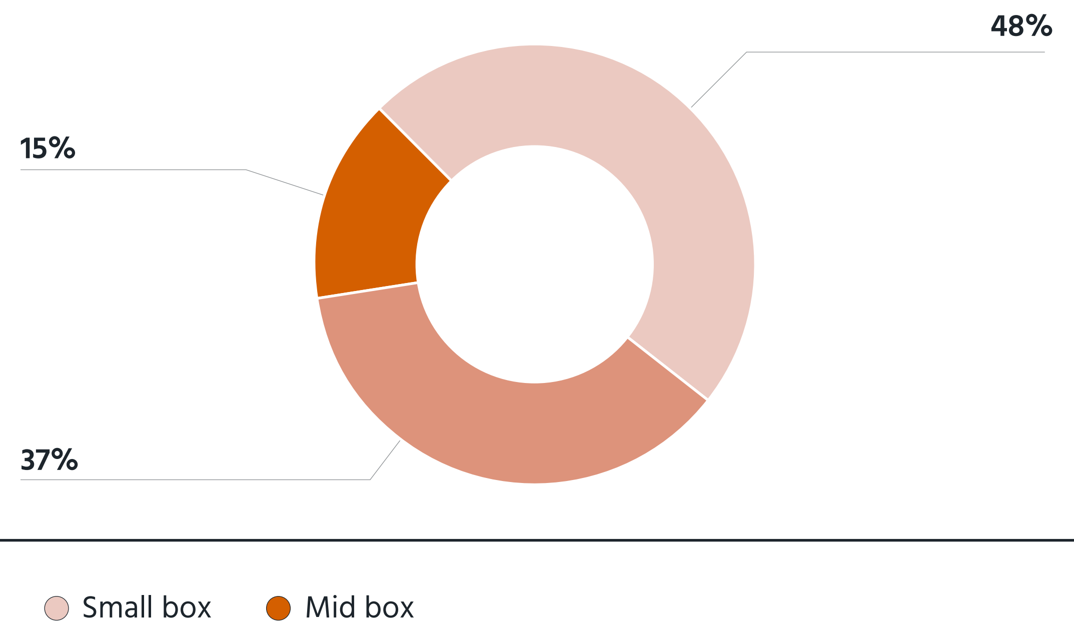
Rest of UK mid-tier
Source: Gerald Eve



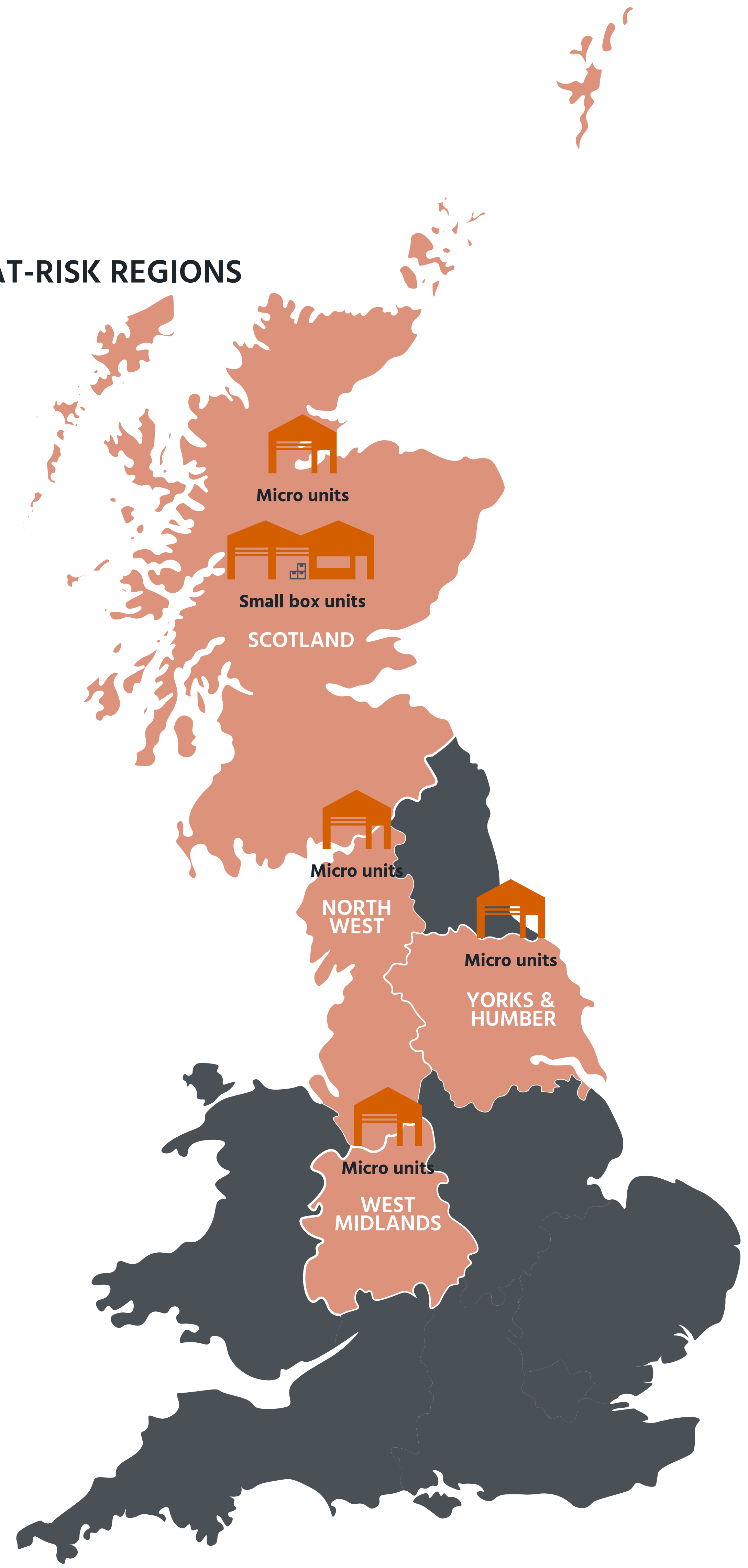
London & the South East mid-tier
Source: Gerald Eve



Rest of UK at-risk
Source: Gerald Eve



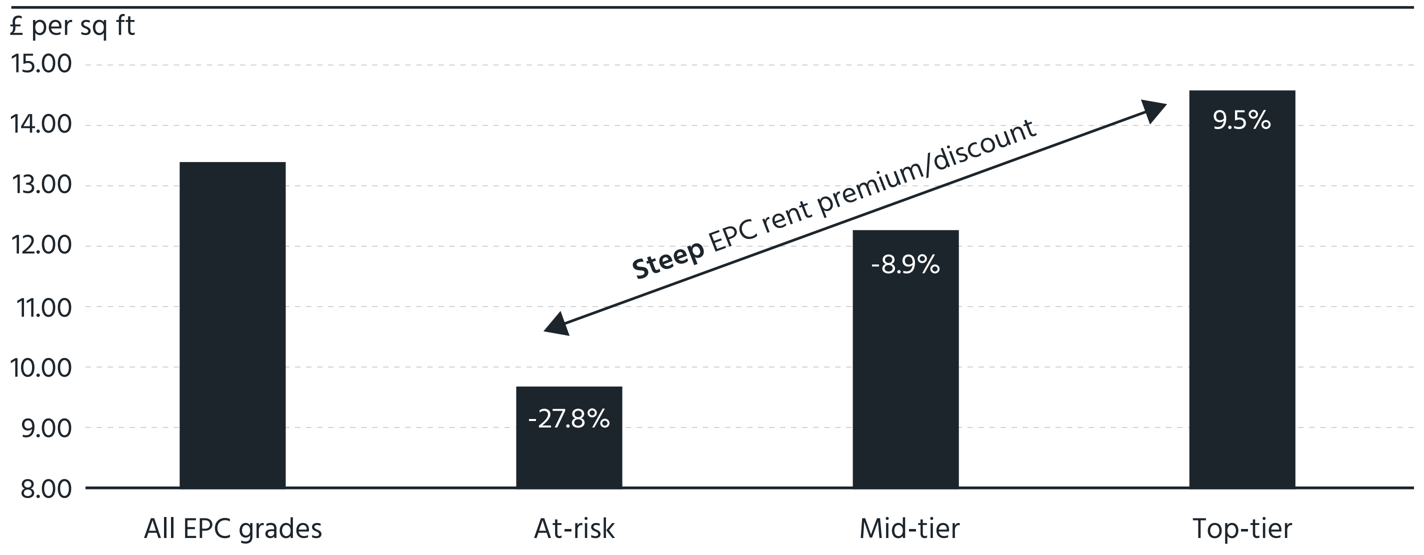
NOTABLE AT-RISK REGIONS



SPOTLIGHT ON: EPCS

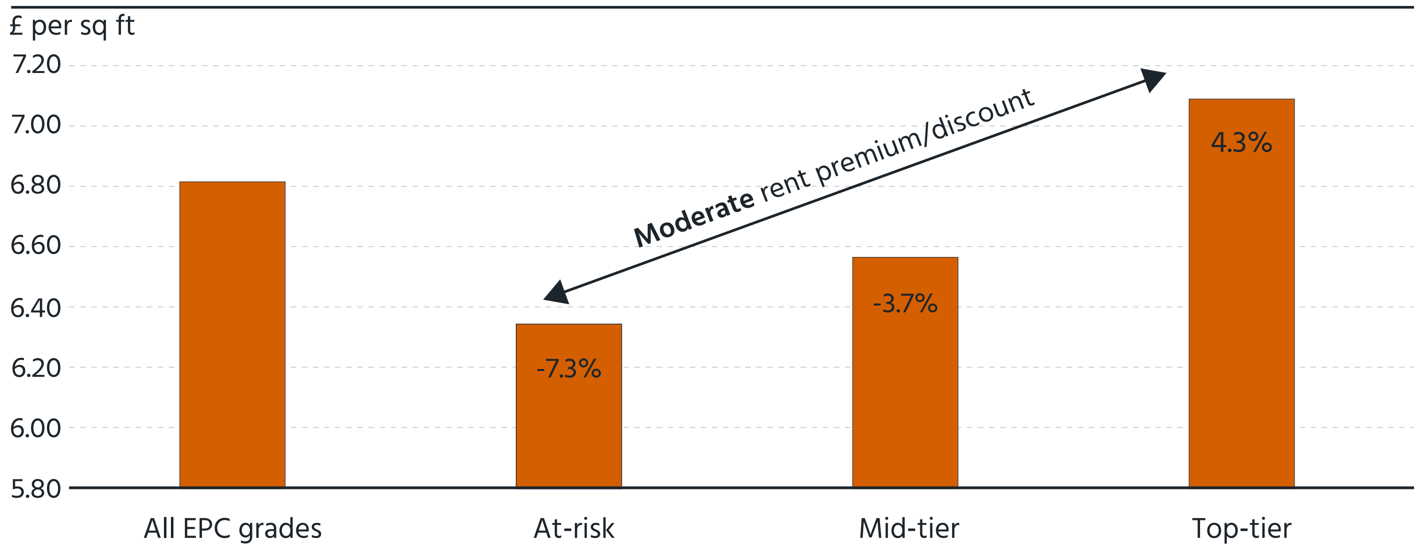
London & the South East ERVs by EPC grade

Source: Gerald Eve



Rest of UK ERVs by EPC grade

Source: Gerald Eve

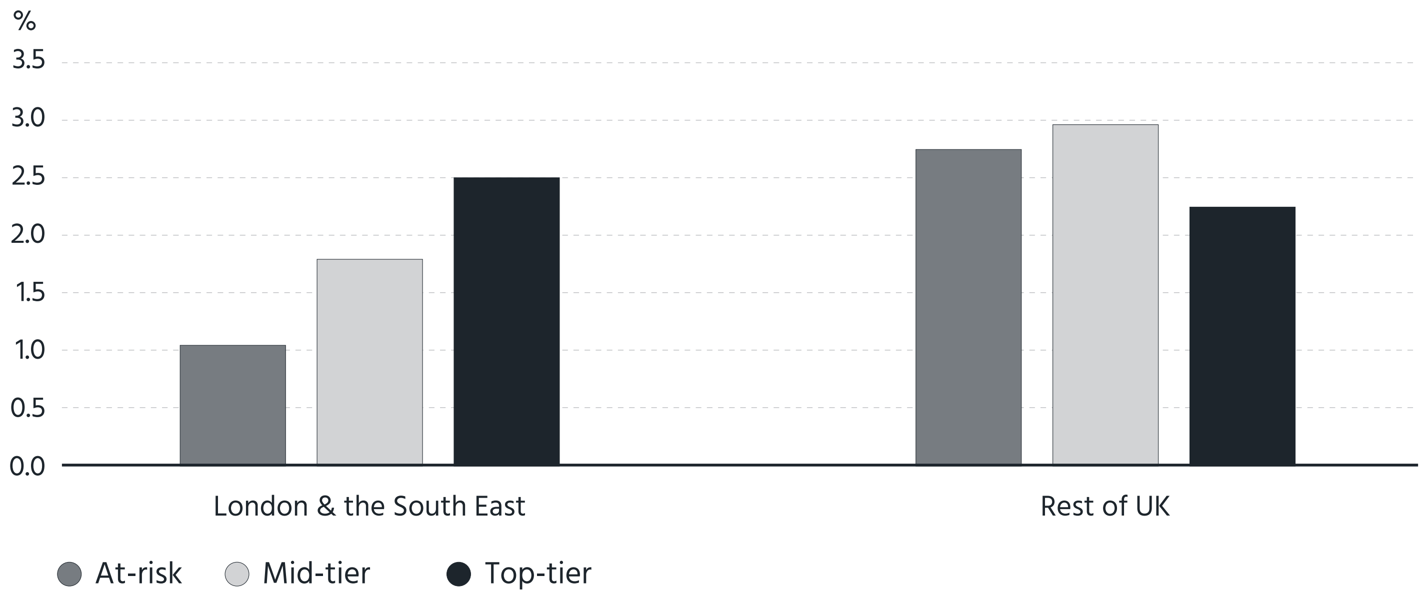


In ERV terms there is a premium over the market average for units with EPC grades A-C. In London & the South East this is 9.5% and in the regions a smaller 4.3%. Units of EPC grade D & E with the 2027 deadline have an average 8.9% and 3.7% discount, respectively. The heaviest penalties are on the EPC at-risk units, at an incredible 27.8% and 7.3% discounts, respectively. This is a correlation and not pure causality as there will be numerous other factors at play (e.g. a well-located, otherwise better-specified unit will be more likely to have a higher EPC rating). However, the data suggest a far wider divergence of ERV growth by EPC grade over the past year, which is arguably in anticipation of the looming MEES deadline.

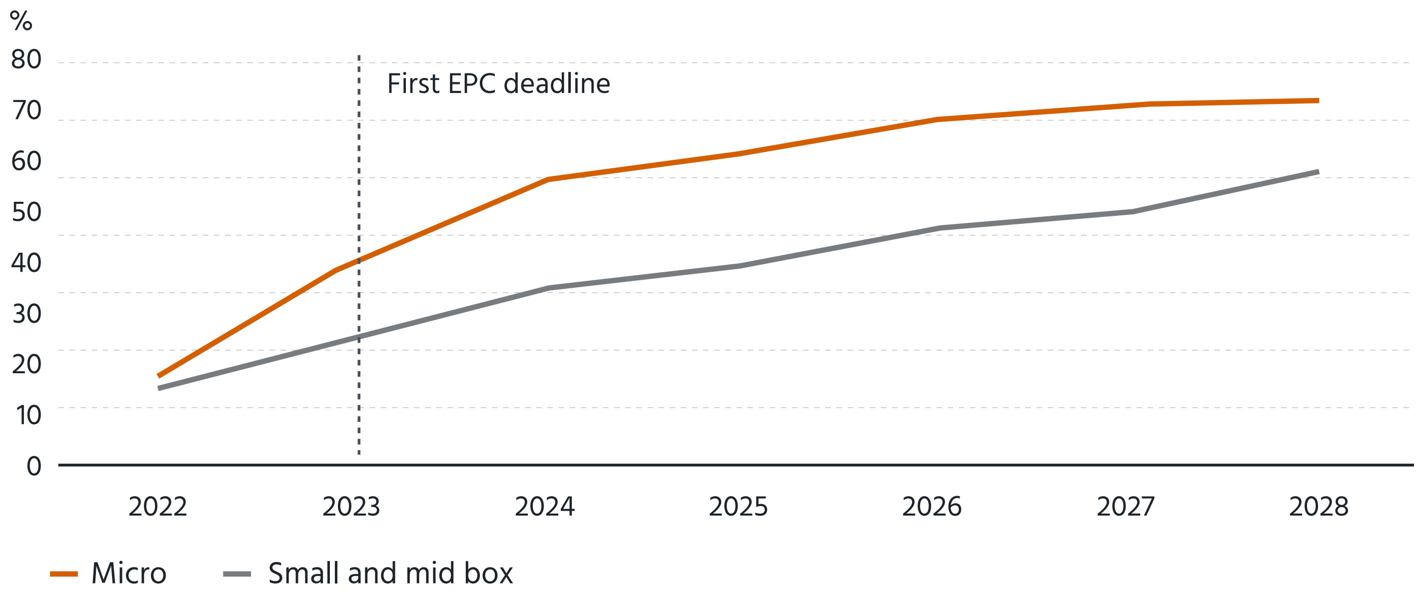
Interestingly, the London & South East default rates split by EPC grouping suggest a lower default rate on the lower-graded space. This is counterintuitive since typically lower grade space would be associated with a weaker covenant and a higher default rate. The sample is small but this could in part be a reflection of wider affordability concerns that supersede EPC-related issues.

SPOTLIGHT ON: EPCS

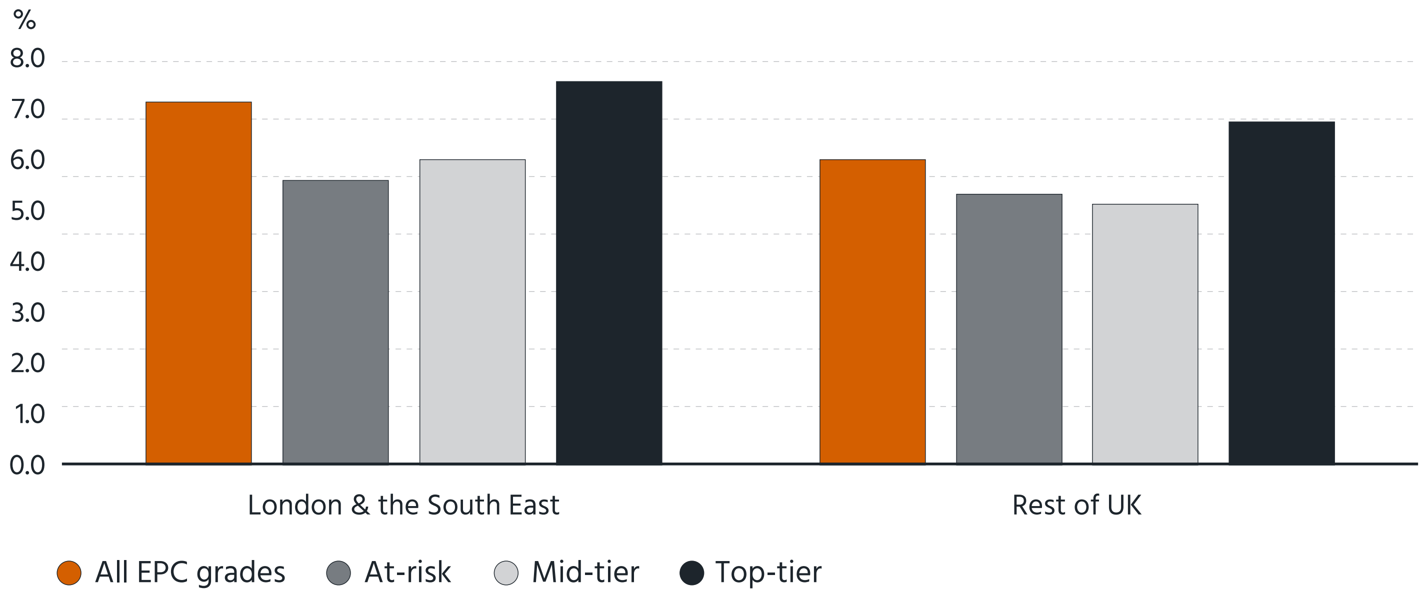
Default rate by major region and EPC grade
Source: Gerald Eve



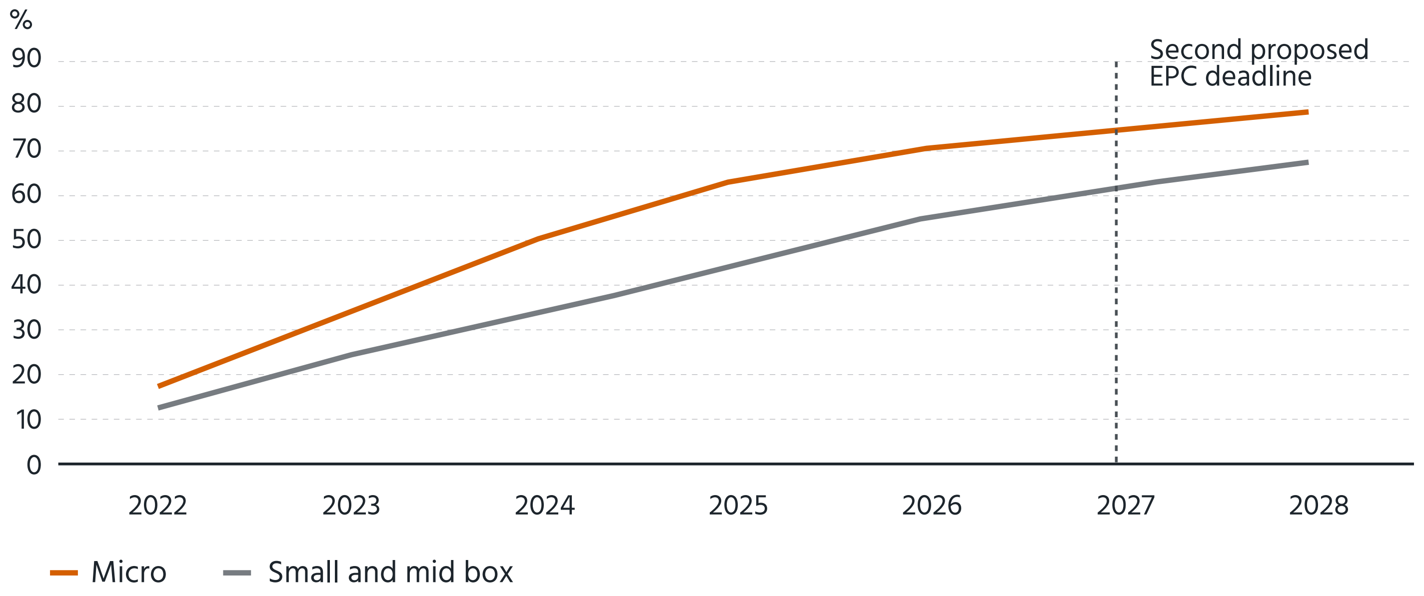
UK cumulative proportion of at-risk lease expiries
Source: Gerald Eve



Newly-signed length of income by major region and EPC grade
Source: Gerald Eve



UK cumulative proportion of mid-tier lease expiries
Source: Gerald Eve



In terms of the length of new lettings in 2021 the at-risk income came in shorter than the other tiers as might be expected. This income length will nevertheless take units way past the April 2023 deadline, which suggests some required modifications will need to be done mid-letting.

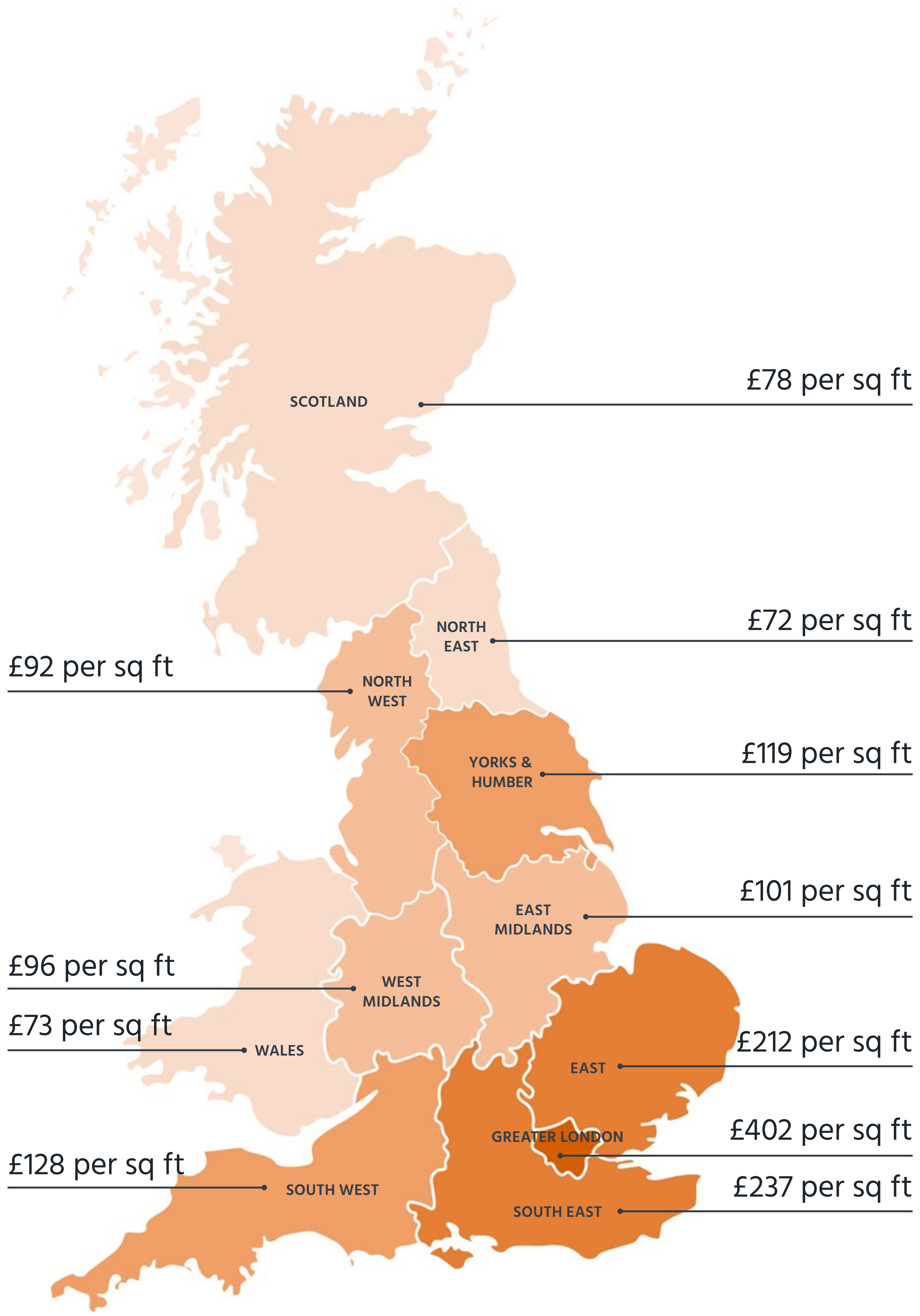
Lease expiry data suggest that only 20%-40% of micro and 15%-25% of small and mid box at-risk space will reach the end of a tenancy before the 2023 deadline. The mid-tier space still has a five year window so around 70%-80% of micro and 55%-60% of small and mid box space of this kind will reach the end of a tenancy before the 2027 deadline.Thus the majority of at-risk space and a substantial minority of grades D and E space will require an EPC intervention to achieve compliance mid-letting.

Of course there are many properties mid-letting that still do not have EPC certificates, or are more than 10 years old and are thus rendered invalid. For these units they may currently be unofficially non-compliant but continue until the end of a letting when an EPC certificate is then required.

REGIONS

AVERAGE CAPITAL VALUE BY UK REGION

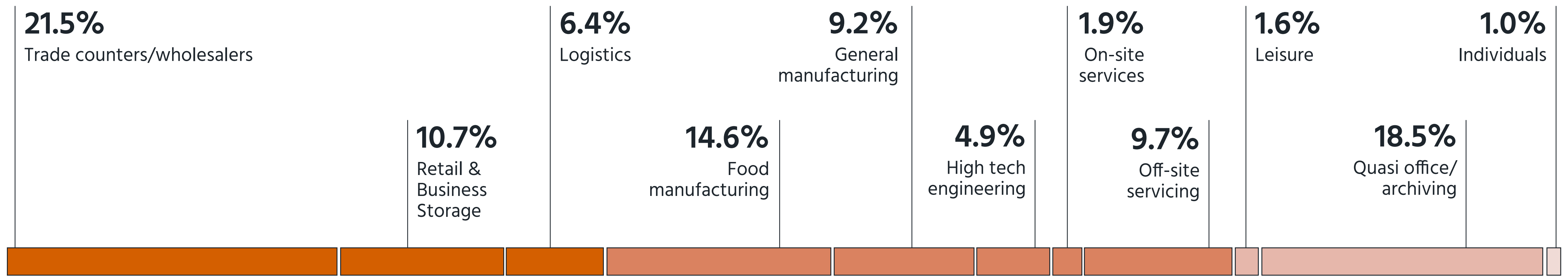
The UK government-defined regions are indicated and shaded to represent the average capital per sq ft. The most expensive Inner London area is split into the different unit sizes, with the smallest micro units the highest valued in the UK at £685 per sq ft – over nine times the cheapest area of the North East.



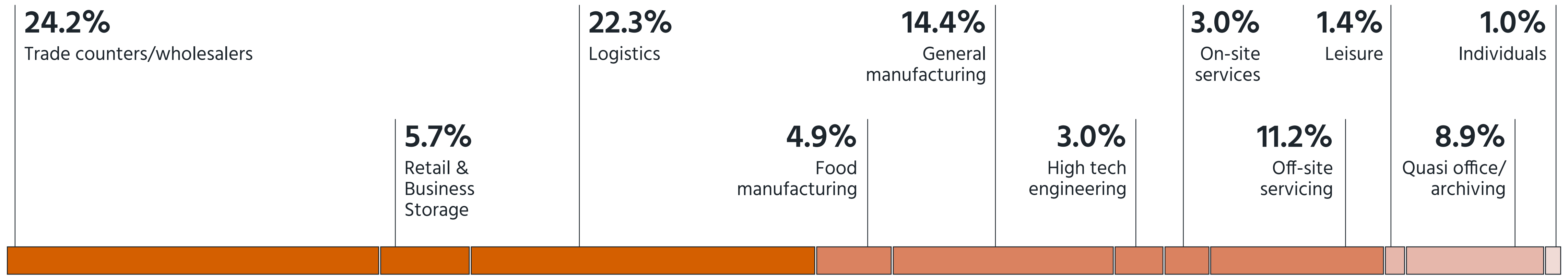
INNER LONDON AVERAGE CAPITAL VALUES

GREATER LONDON

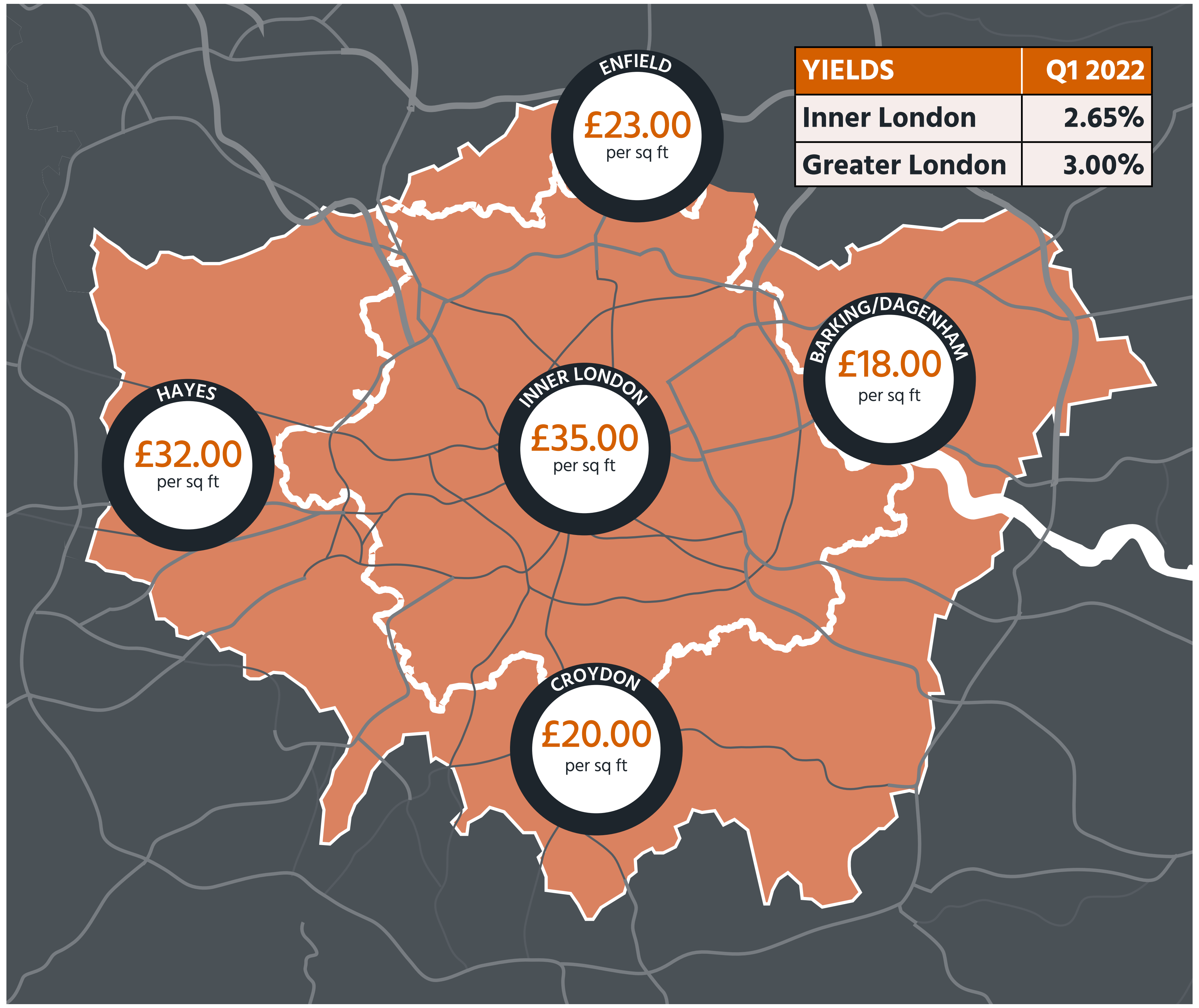
INNER LONDON



GREATER LONDON

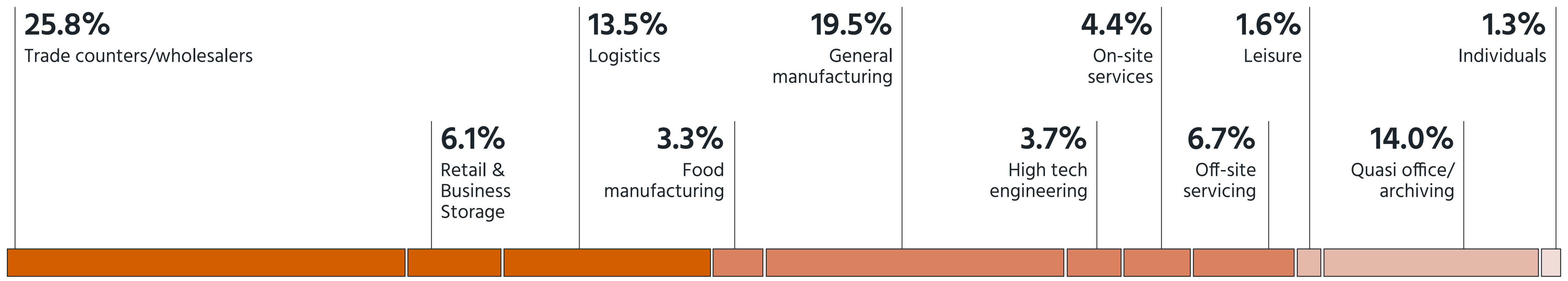


Q1 AVERAGE PRIME RENT AND REGIONAL EQUIVALENT YIELD

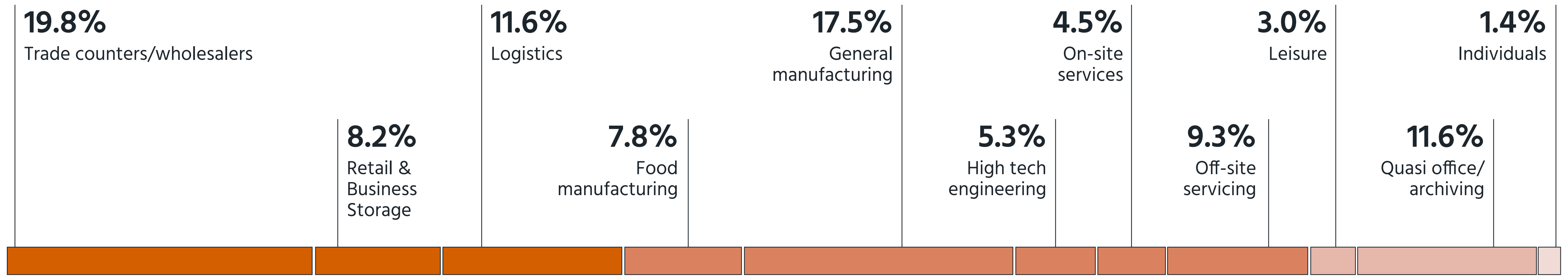


THE SOUTH AND EAST

SOUTH EAST

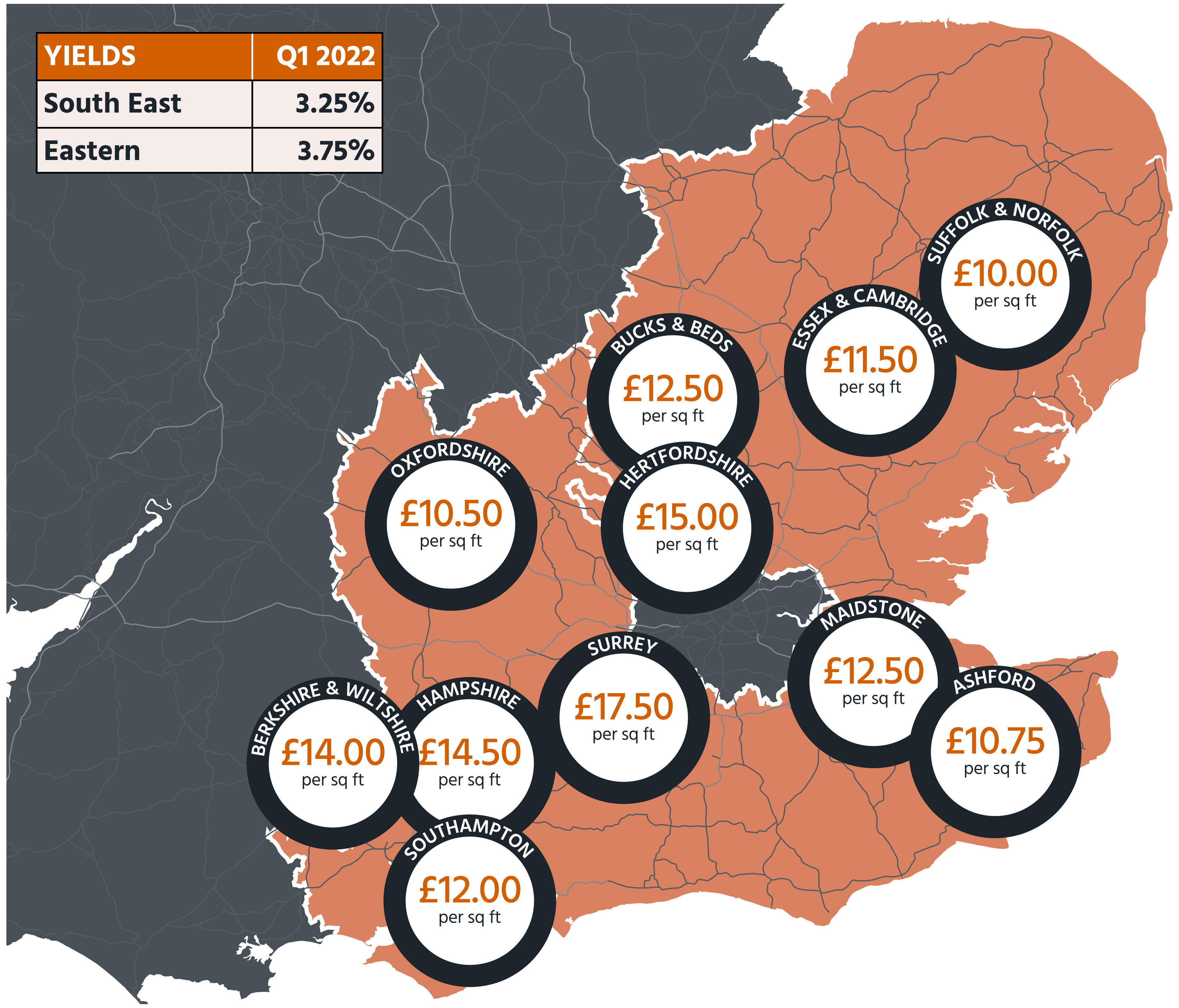


EASTERN



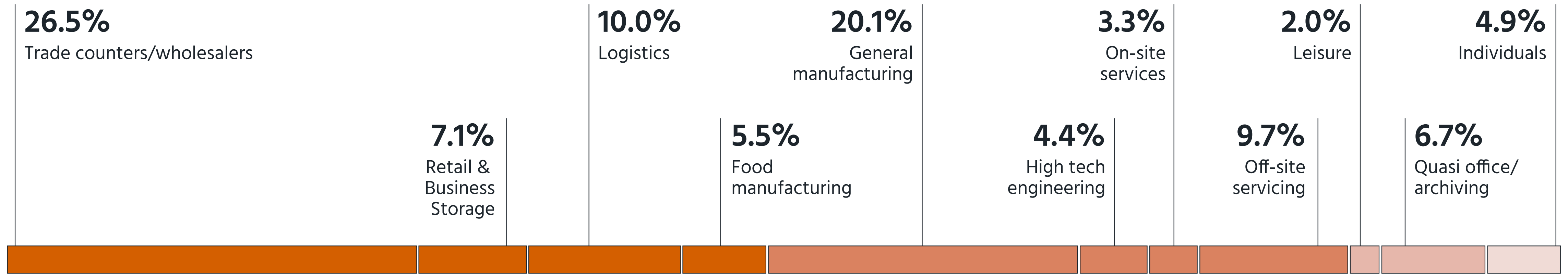
Q1 AVERAGE PRIME RENT AND REGIONAL EQUIVALENT YIELD

YIELDS	Q1 2022
South East	3.25%
Eastern	3.75%

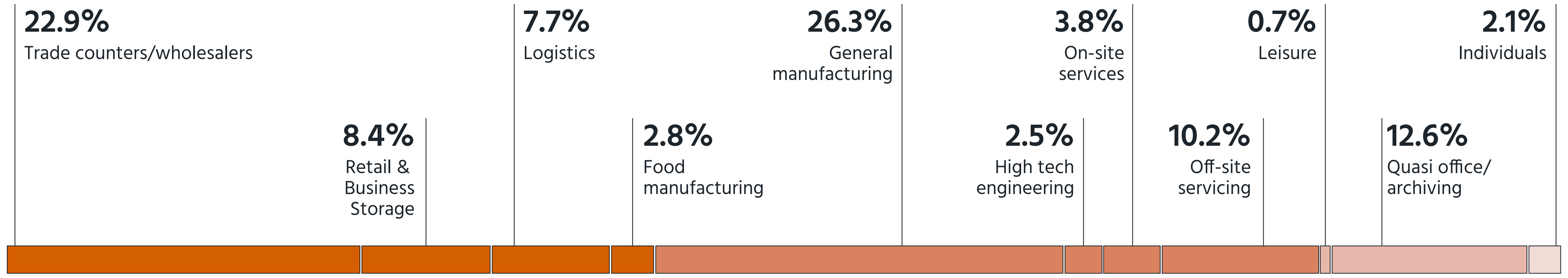


THE MIDLANDS

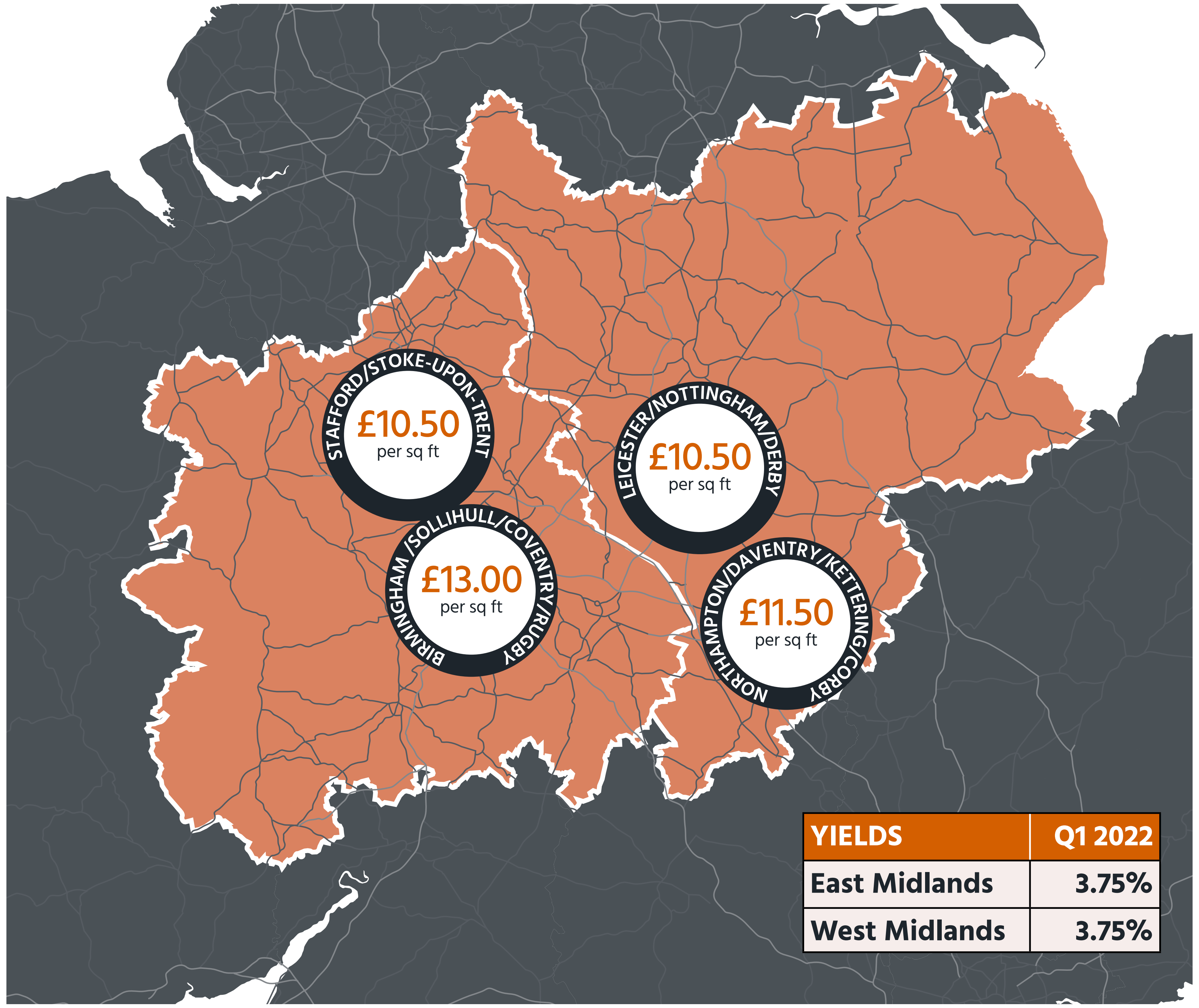
EAST MIDLANDS



WEST MIDLANDS



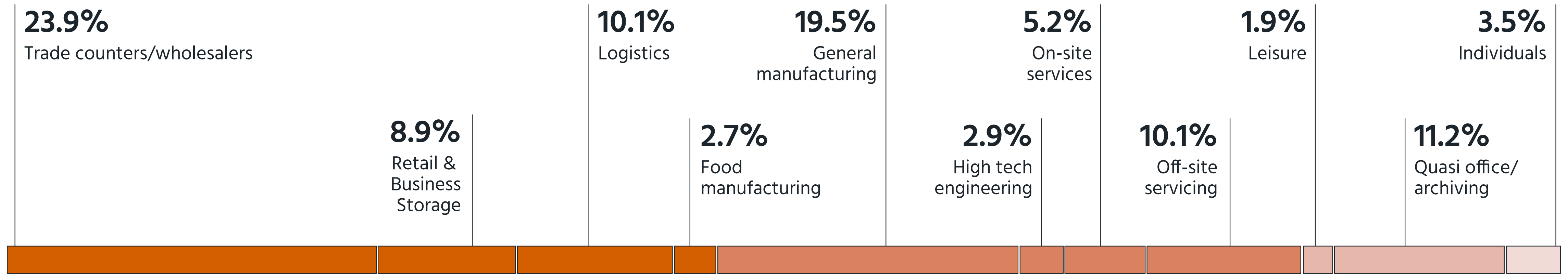
Q1 AVERAGE PRIME RENT AND REGIONAL EQUIVALENT YIELD



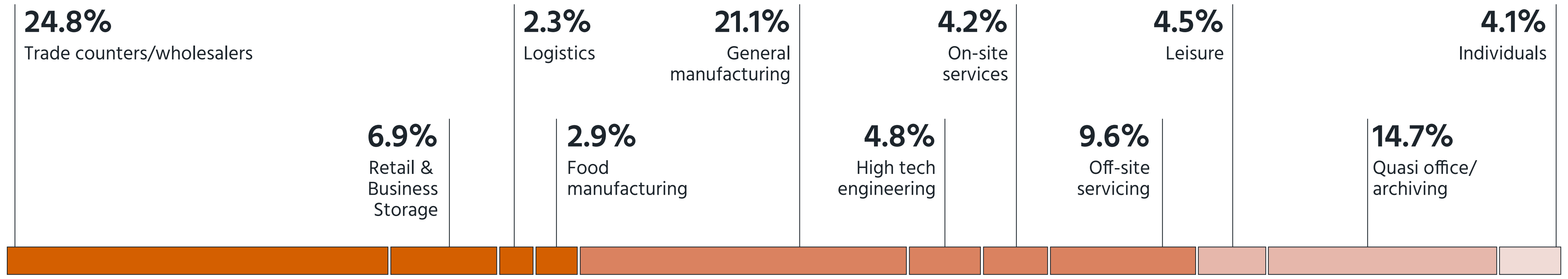
YIELDS	Q1 2022
East Midlands	3.75%
West Midlands	3.75%

SOUTH WEST AND WALES

SOUTH WEST

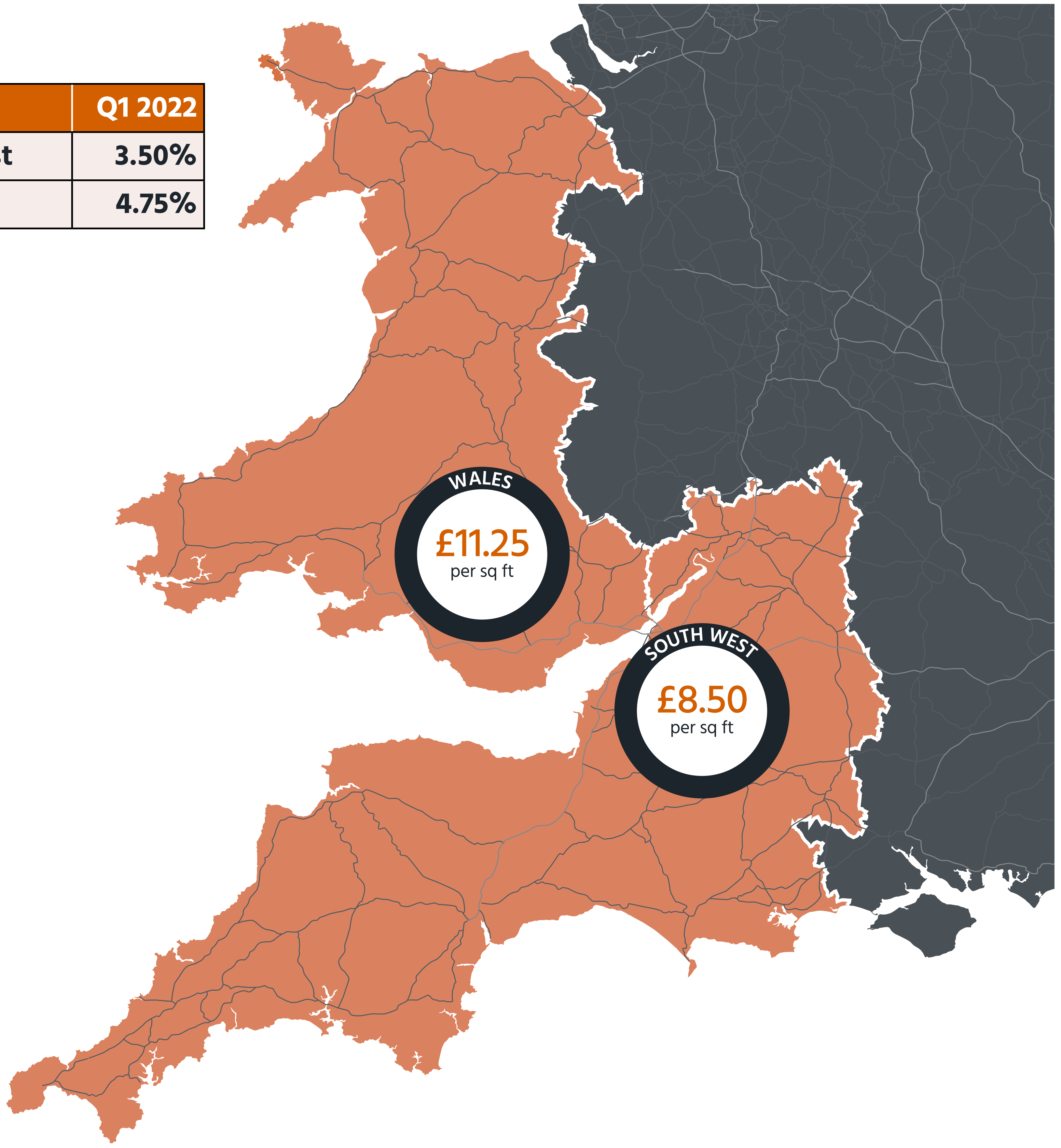


WALES



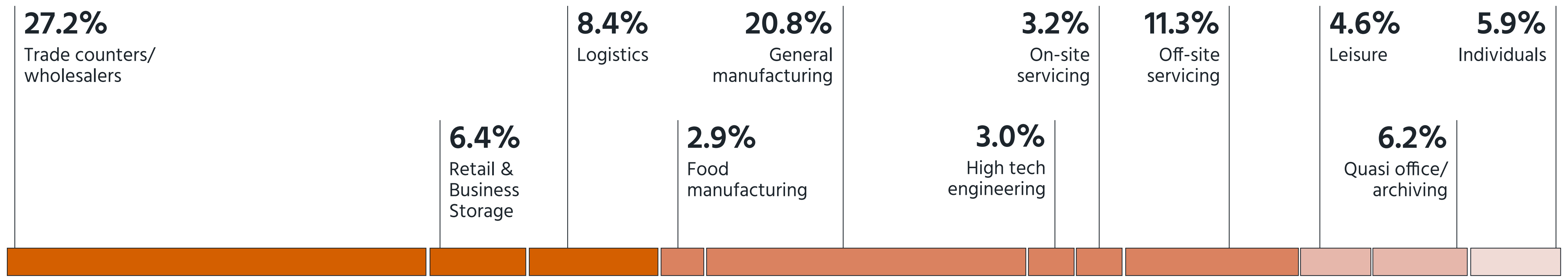
Q1 AVERAGE PRIME RENT AND REGIONAL EQUIVALENT YIELD

YIELDS	Q1 2022
South West	3.50%
Wales	4.75%

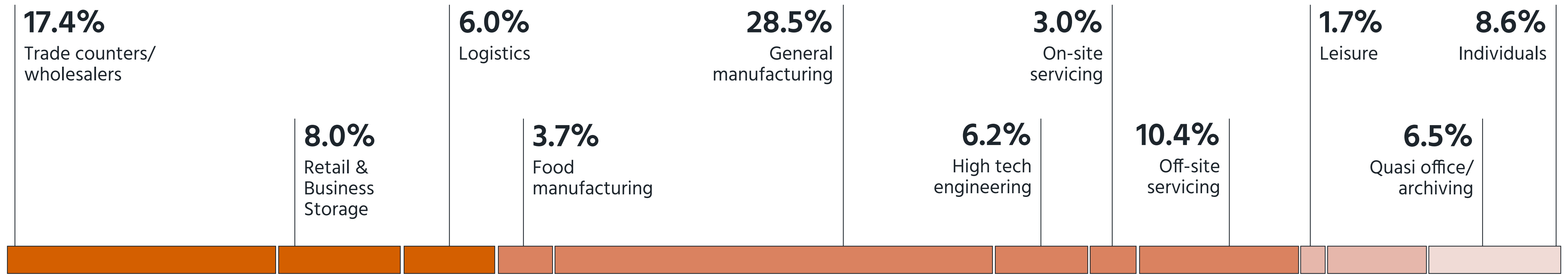


THE NORTH

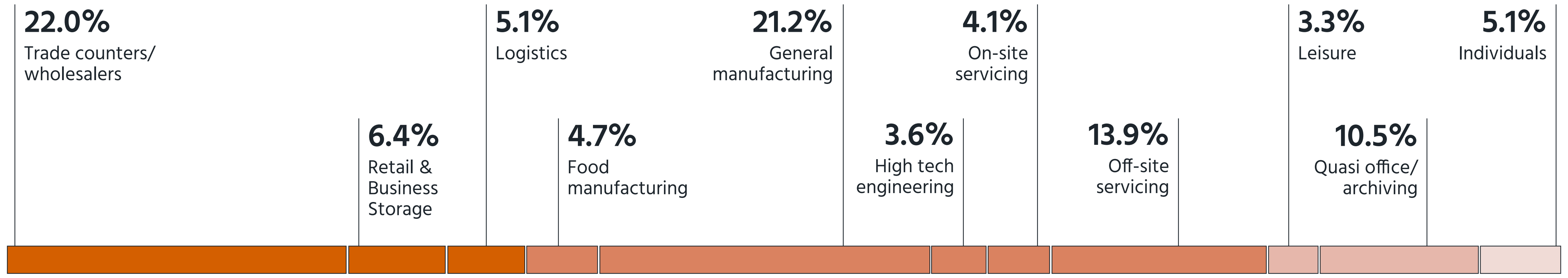
YORKS AND HUMBER



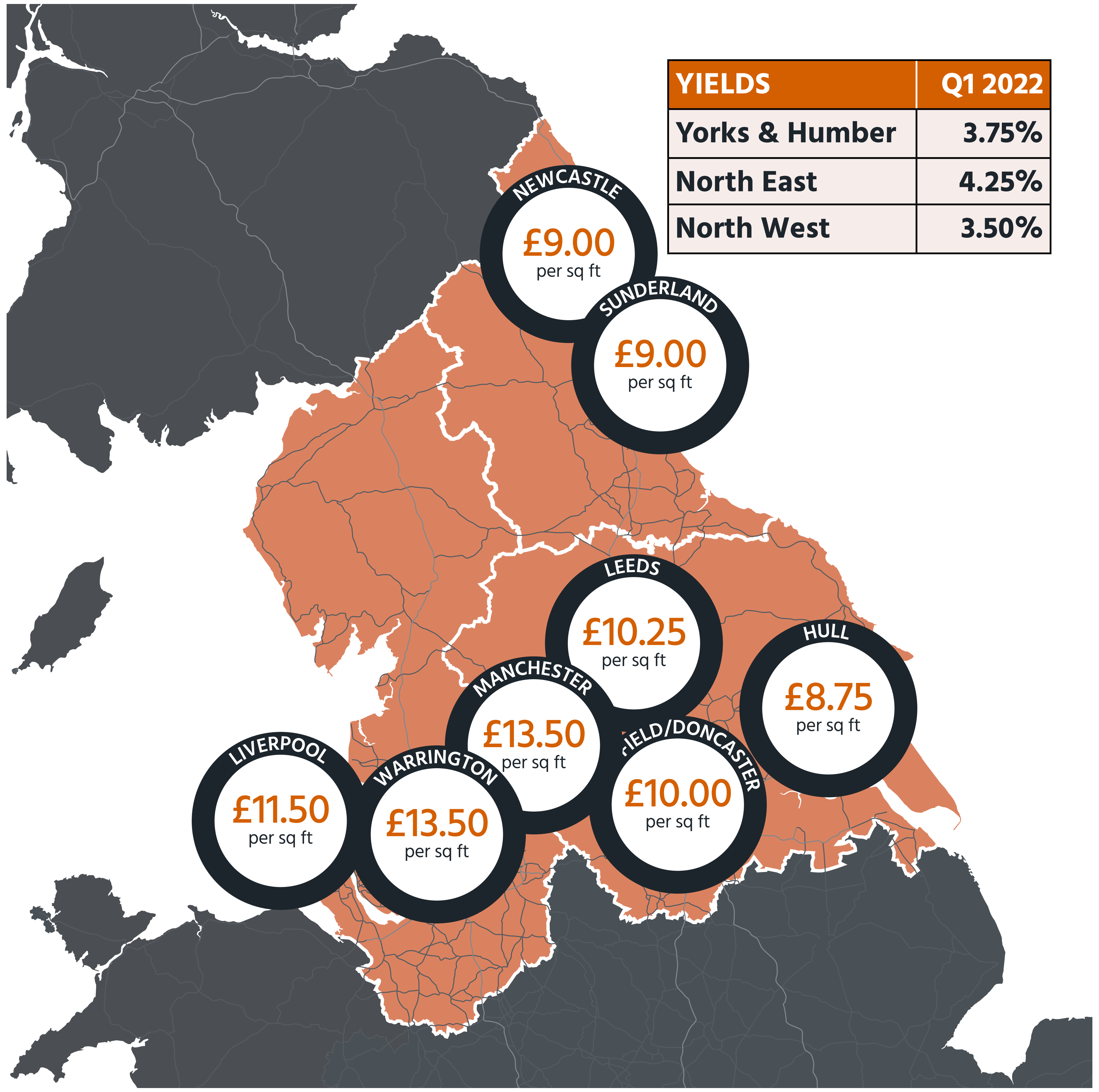
NORTH EAST



NORTH WEST



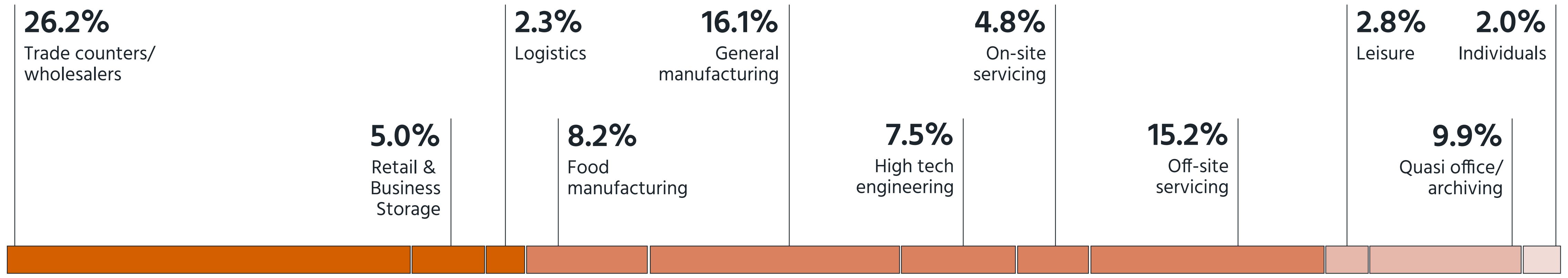
Q1 PRIME RENTS PER SQ FT AND EQUIVALENT YIELDS



YIELDS	Q1 2022
Yorks & Humber	3.75%
North East	4.25%
North West	3.50%

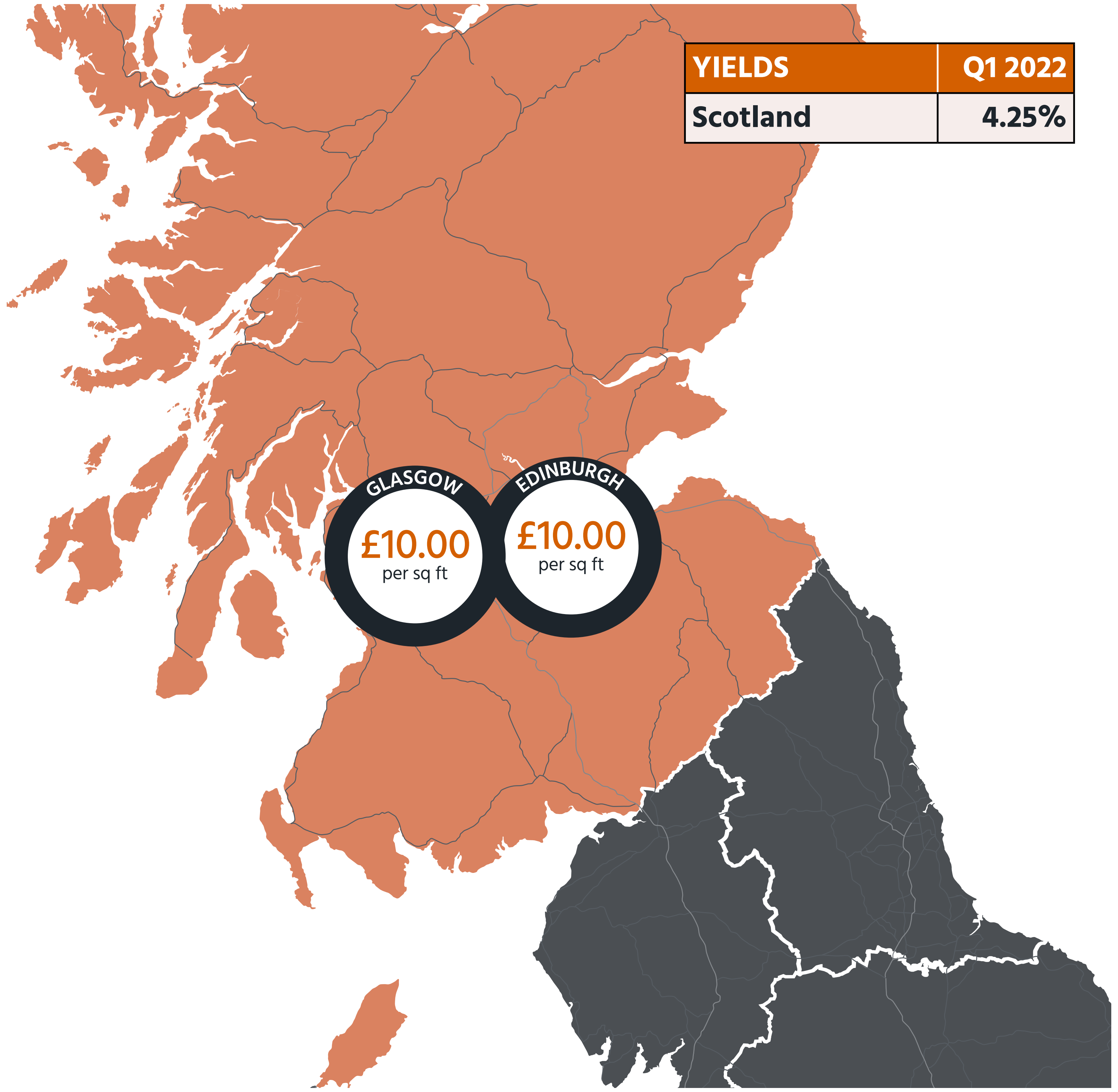
SCOTLAND

SCOTLAND



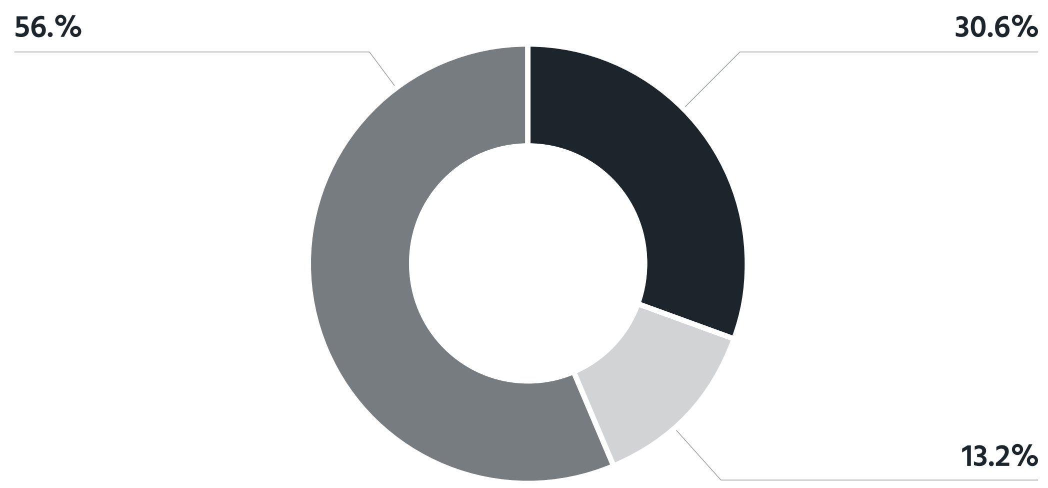
Q1 PRIME RENTS PER SQ FT AND EQUIVALENT YIELDS

YIELDS	Q1 2022
Scotland	4.25%

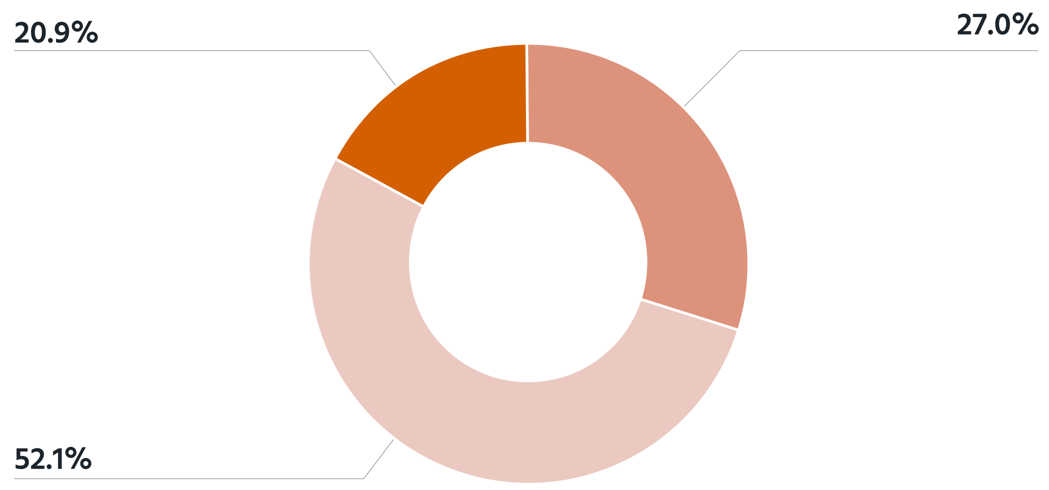


THE MULTI-LET SAMPLE

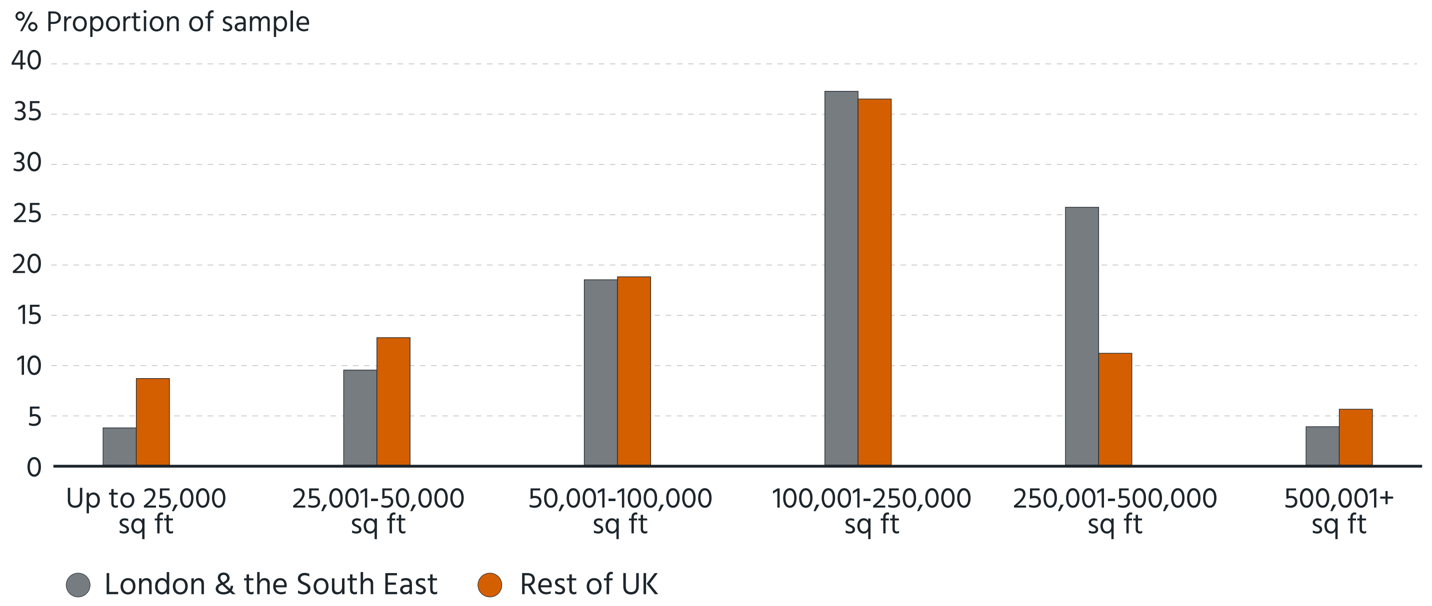
London & the South East
Source: Gerald Eve



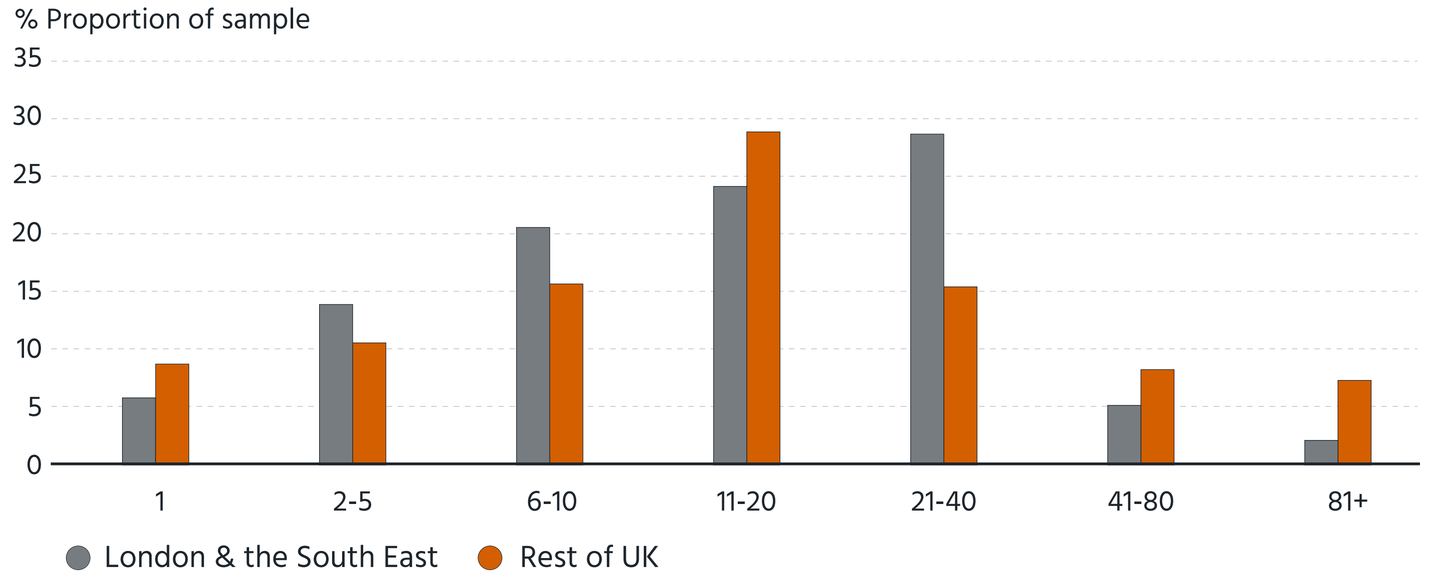
Rest of UK
Source: Gerald Eve

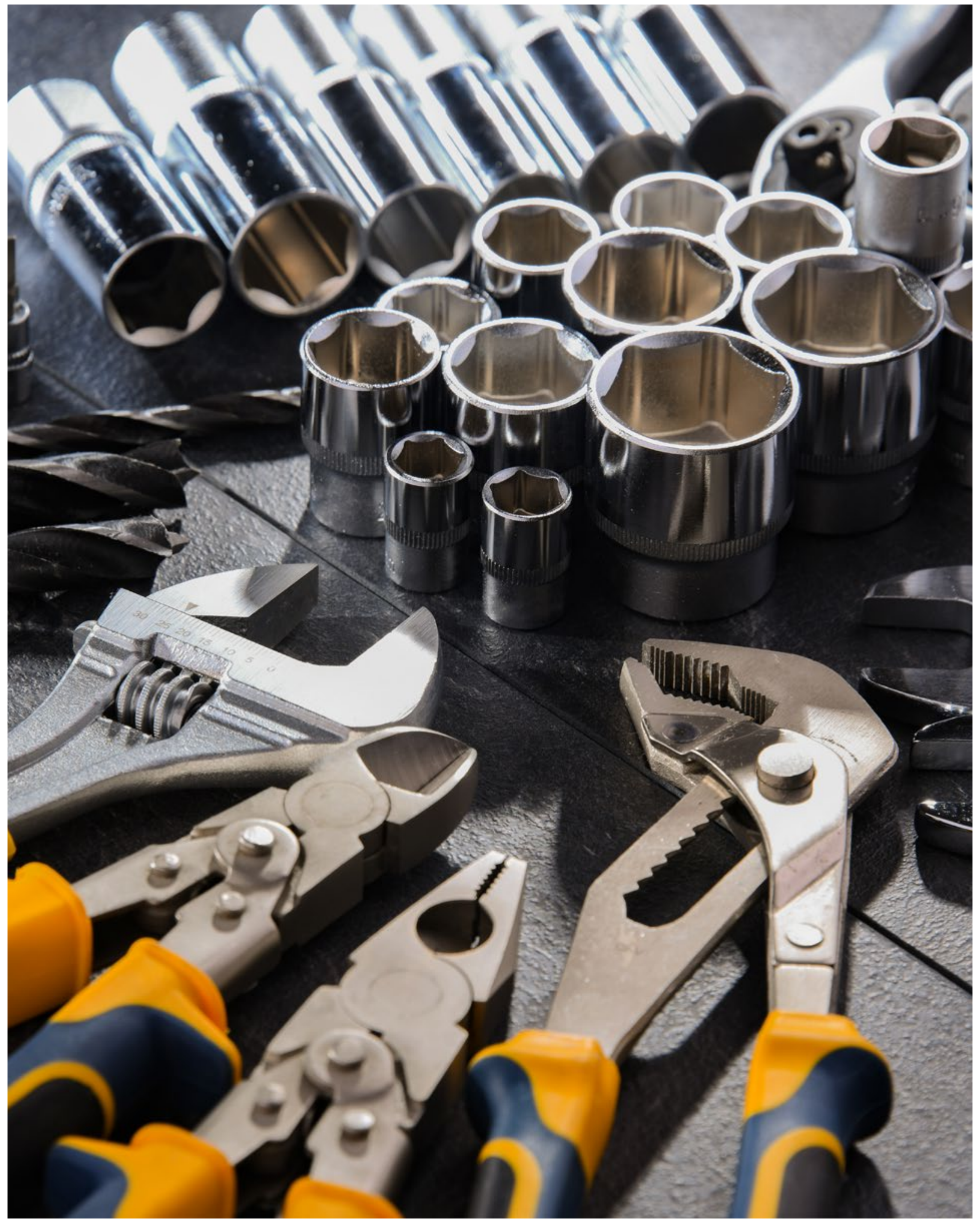


Multi-let estate sizes
Source: Gerald Eve



Multi-let units per estate
Source: Gerald Eve





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Prime Logistics
Q1 2022

In Brief
May 2022

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