

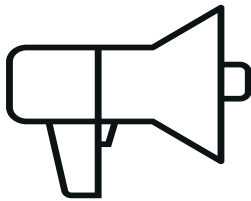
UK Industrial: Positioning for the next phase of growth



UK Industrial: Positioning for the next phase of growth

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Key messages

- 01

Industrial real estate relative performance prospects are expected to remain strong for the long term. However, we believe that the extent of outperformance seen over the previous cycle is unlikely to be repeated, with yields having re-rated and rental growth prospects less exceptional, though still strong.
- 02

Although we observe a cyclical slowdown in occupational demand for Industrial property, in our view this reflects a normalisation in line with its historic relationship to the macro economy. We believe the long-term drivers of industrial property demand remain positive and broad-based, with a substantial runway for further growth supported by the global megatrends of Digitalisation and Deglobalisation.
- 03

We believe the risks posed by higher US tariff rates on occupation of the Industrial property are limited and more asset and occupier-specific rather than broad-based; a survey of 263 multi-let Industrial tenants over Q2 2025 found just 8.5% expected to be impacted by tariffs, with the majority estimating an impact of under 10% of profits.¹

1. Source: L&G and JLL survey, 2025

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- 04

With occupational markets normalising, we expect supply – both general supply and that of fit-for-purpose efficient stock – to be an increasingly important driver of performance, benefiting multi-lets in London and the Southeast, as well as urban logistics over larger regional logistics.
- 05

Following a correction in yields over 2022-2023, we believe urban logistics and multi-lets remain attractively priced, particularly in London and the Southeast.
- 06

Performance of broad real estate sectors seems to be converging. This may suggest investors should exercise greater selectivity within an evolving Industrial sector in order to deliver outperformance.
- 07

In this context we recommend segment and asset selection – with the age of property and associated capex requirements of increasing importance – location underwriting and targeting investment styles, which may offer greater growth potential.

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The evolving Industrial investment landscape



Industrial: A beneficiary of global megatrends

Within real estate, the Industrial sector has arguably been the primary beneficiary of the structural shift in global economies catalysed by four megatrends, Digitalisation, Demographics, Deglobalisation, and Decarbonisation.²

Digitalisation: Industrial has benefited from a surge in occupational demand driven by the growth of e-commerce, with this secular trend supporting demand for both larger, 'big-box' regional logistics and 'mid-box' last-mile urban logistics, along with driving broader space demand from small and medium-sized enterprises (SMEs) in the multi-let segment. In addition, data centres are an emerging but material growth area for power abundant Industrial sites.

Demographics: Continued urbanisation has contributed to greater housing demand, constraining Industrial land supply in stronger cities as well as providing a source of localised demand for the services provided by many industrial occupiers. Meanwhile, sub-sectors of Industrial, such as trade parks and self-storage, have benefitted from shifting consumer preferences, both for outsourcing home improvements and smaller household sizes necessitating increased storage requirements.

Deglobalisation: Geopolitical volatility has increased the focus on supply chain resilience, while governments are increasingly incentivising additional onshoring of critical industries, with implications for inventory levels and future manufacturing demand.

Decarbonisation: We believe the Industrial sector is one of the best placed real estate sectors when it comes to delivering net-zero commitments. Our estimates suggest that Industrial assets - on average - tend to be less energy intensive than an average commercial building,³ with the additional cost of transitioning an 'average' asset to net zero the equivalent of 3% of asset capital value for London Industrial, versus 5% for regional logistics and an All Property average of 7%.

For the 10 years to December 2024, UK Industrial property delivered rental growth of 5.6% p.a., ahead of the All Property average of 1.8% (MSCI Annual). Strong rental growth, combined with a re-rating of Industrial real estate, has delivered compelling outperformance, with Industrial returning 10.4% p.a. versus 4.0% for All Property for the 10-year period to December 2024. UK institutional allocations to the sector have grown from 13.6% to 34.8% between 2010 and 2024,⁴ supported by capital value growth and asset creation. Allocations to the Industrial sector have been a key driver of alpha in recent years for real estate funds; as at Q1 2025, the top performing quartile of UK funds over the prior 10 years had a 59.7% weighting towards Industrial, versus 19.5% for the bottom quartile (as shown in the first chart on page 5).

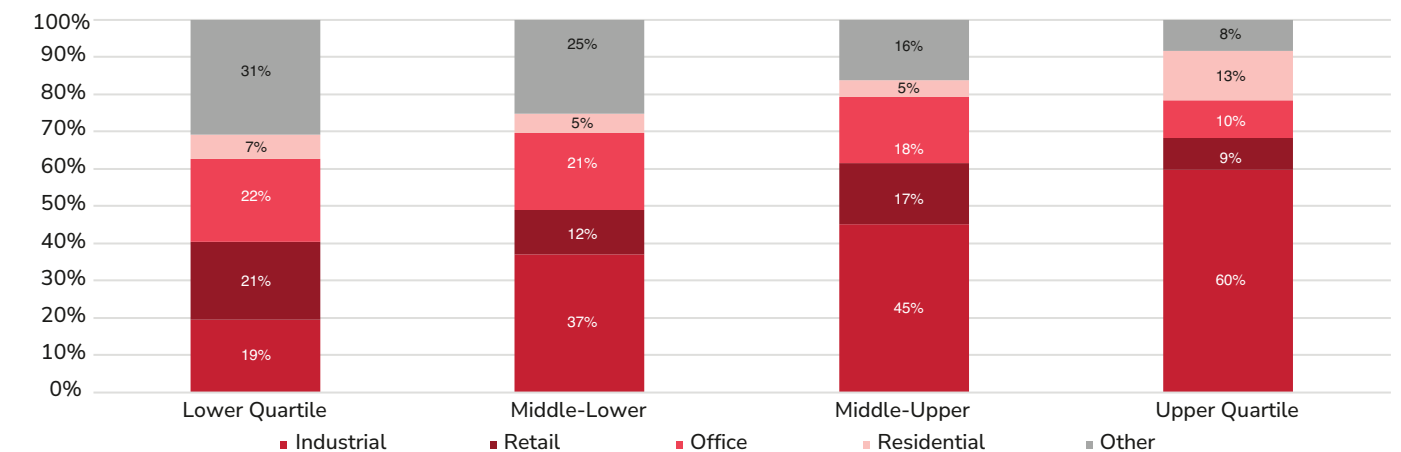
2. More information on the influence of the four global megatrends on the Industrial sector can be found in our previous publication: [LGIM Blog: Beyond beds and sheds: Industrial real estate in a 4D world](#)

3. Energy usage intensity estimates incorporate Scope 1, 2 and 3 emissions

4. MSCI Annual Index (2025)

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MSCI-AREF Quarterly Property Fund Index: 10 years to Q1 2025

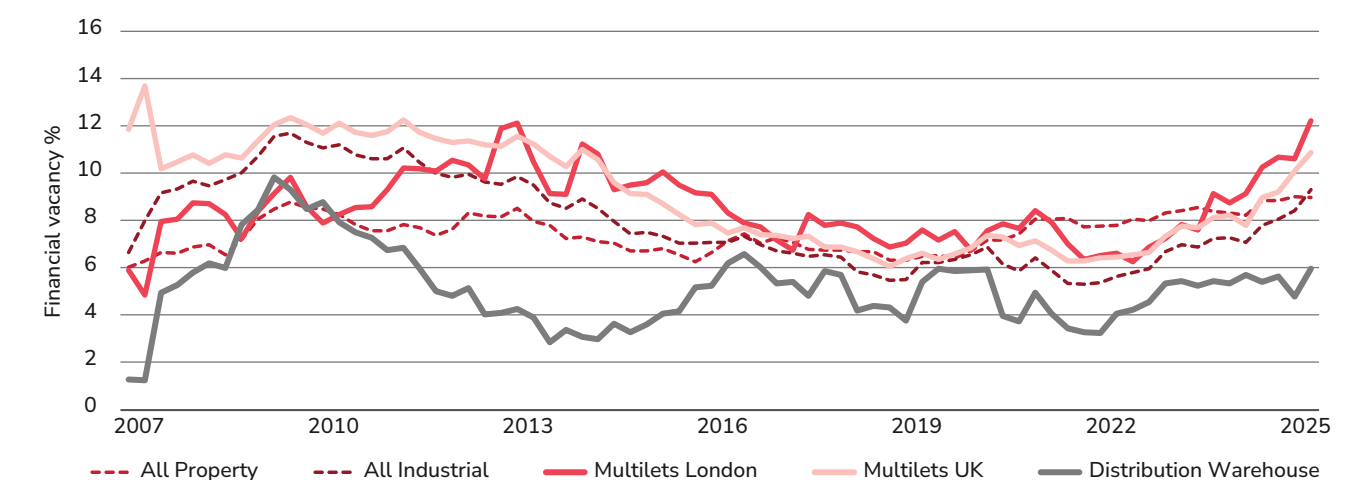


Source: L&G, MSCI, AREF (2025). Past performance is not a guide to the future.

Future performance prospects and key risks

The Industrial occupational market has softened in recent quarters, with vacancy rising (albeit while levels remained in line with long-term averages) and take-up softening across UK regions. In addition, there are concerns that pockets of Industrial could be impacted by the implementation of increased US tariffs.

Vacancy rates (MSCI) 2007-2025Q2

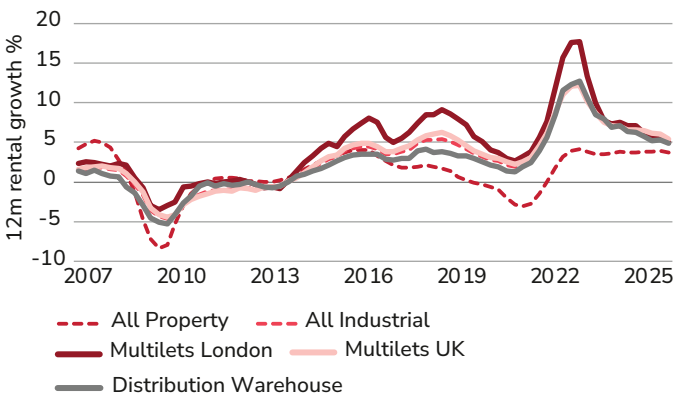


Source: PMA (2025).

While take-up continues to normalise following the post-Covid surge in demand, in our view, the fundamentals of occupation in the Industrial real estate market remain robust. Rental growth continues to outstrip other sectors, with yields more generous than the equally in-favour residential sector, according to the MSCI UK Quarterly Index. However, we anticipate the performance differential to other sectors will

narrow, predominantly due to the relative re-rating of yields across commercial property sectors and moderating Industrial rental growth prospects following a period of unsustainable 5%+ growth. This, in our view, necessitates a more targeted approach within the Industrial sector. While in recent years a rising tide has lifted all boats, we believe selectivity across sub-sectors,⁵ assets and investment styles will be increasingly important in delivering alpha, alongside active asset management.

12-month rolling rental growth 2007-2025Q2



Forecasts of UK Industrial MSCI Returns 2025-2029



Source: MSCI Quarterly Index, PMA, L&G (2025).

5. Previous published L&G research highlights seven sub-sectors of Industrial: London and South-East multi-lets, rest of UK multi-lets, regional logistics, urban logistics, data centres, self-storage, trade parks, cold storage and open storage

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When assessing the relative resilience and future growth prospects across the Industrial real estate sector, we have focused on six fundamental questions:

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Is Industrial real estate more sensitive to the economy than other real estate sectors?
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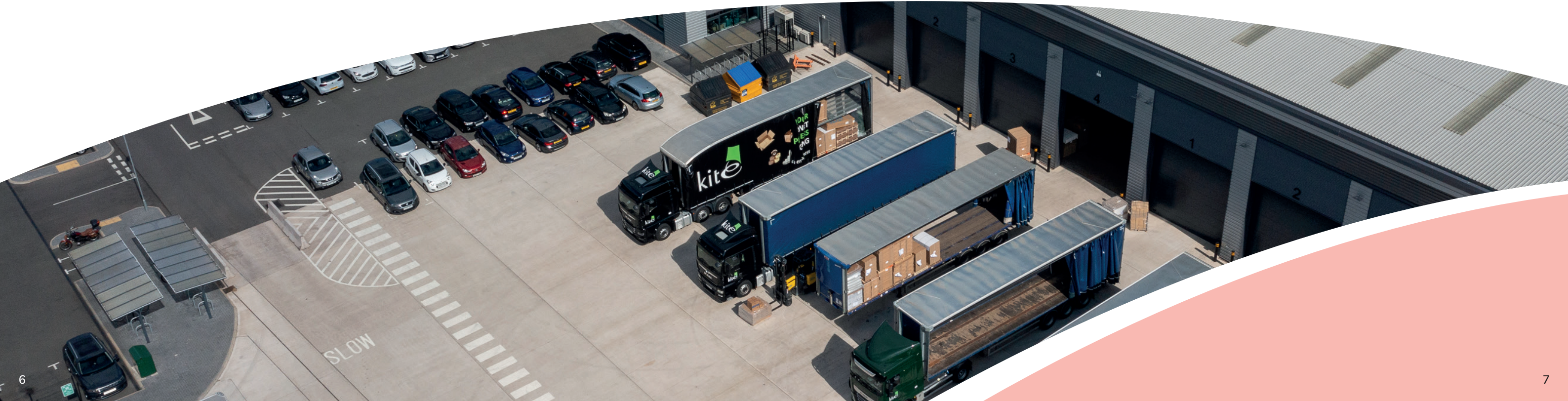
Has the role of e-commerce played out in Industrial?
- 03

Will Deglobalisation derail or deliver sector performance?
- 04

Where are supply risks and constraints most evident?
- 05

How do sub-sectors within UK Industrial compare on a cyclical and structural basis?
- 06

Do yields provide a sufficient risk premium given moderating growth expectations?



01.

Is Industrial more sensitive to the economy than other real estate sectors?

We believe the recent slowdown in occupational demand for Industrial property has been caused by cyclical, rather than structural, factors, with three main driving forces:

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Weak UK economic growth
- 02

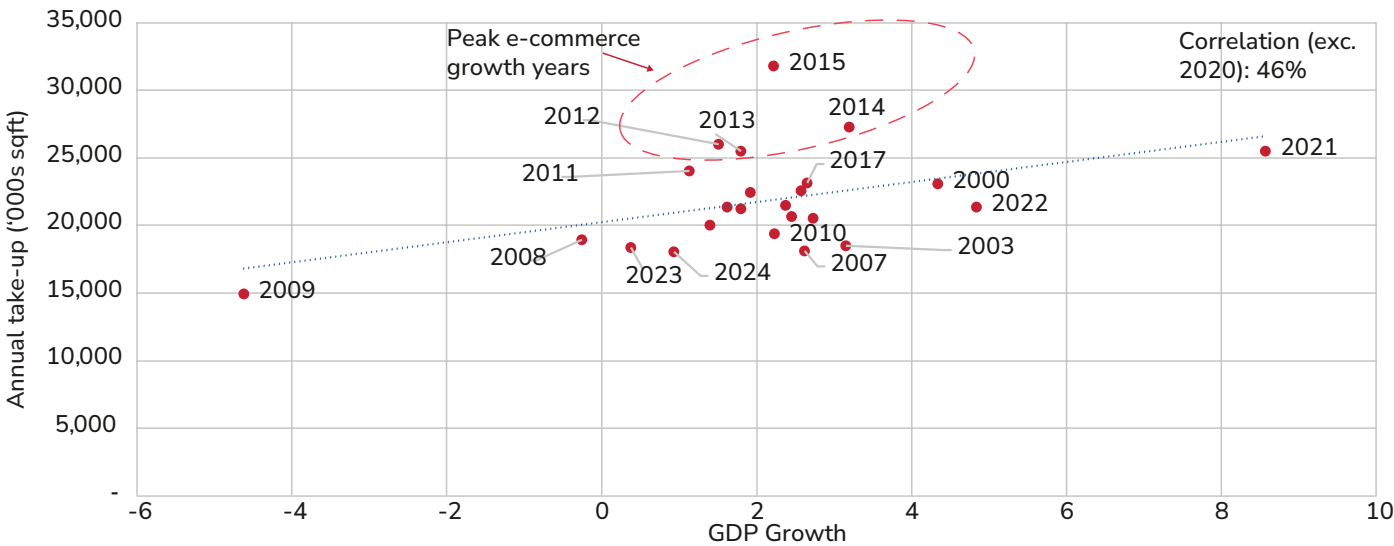
Post-Covid supply increases, particularly of regional logistics
- 03

Rental growth reverting to pre-Covid trend, driven by the above two factors

Industrial rents have always had a lagging correlation to the UK economy. Between 1987 and 2012, the correlation between UK GDP and the subsequent year's Industrial ERV growth was 67%, versus 70% across All Property. This relationship weakened after 2012, the point at which e-commerce penetration levels surpassed 10% of total retail sales. As the pace of e-commerce sales growth moderates, it is reasonable to anticipate that Industrial's sensitivity to the macro environment will revert closer to its long-term average.

When comparing the UK Industrial take-up for sub-100,000 sq ft units versus UK GDP growth, it is evident that Industrial occupier demand has always been correlated to growth in the UK economy. However, this relationship moderated during peak years of e-commerce growth. Slower Industrial take up over 2023 and 2024 is in keeping with its long-term relationship with the economy.

Standard Industrial (sub-100k sq ft) take-up versus GDP



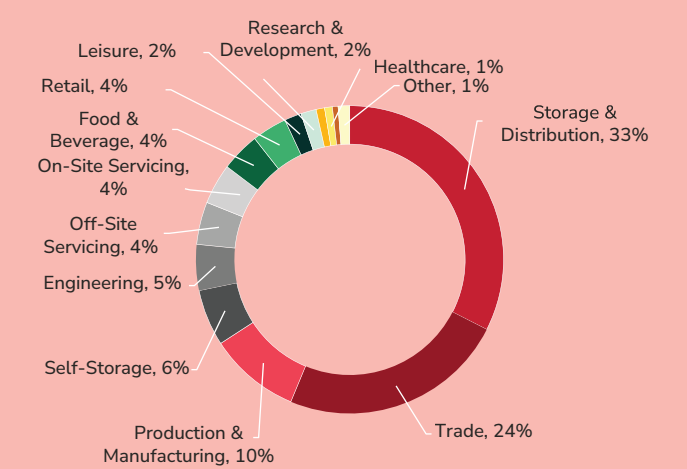
Source: L&G, PMA (2025)

In our view, the observed slowdown in Industrial occupational markets is consistent with the sector's historic sensitivity to economic growth, which has been exacerbated by a normalisation in occupational demand following the post-Covid surge in supply and rental growth. An exceptional period of e-commerce growth may also be moderating, leaving the sector more sensitive than before to broader economic growth than has been apparent in its recent history.

Greater sensitivity to economic growth increases the importance of occupier diversification within an Industrial real estate exposure. As the below mix of occupied floorspace / take-up demonstrates, the regional logistics space has a more concentrated tenant base, predominantly focused on the retail / e-commerce and manufacturing sectors. In comparison,

multi-lets have exposure to a broader range of occupier types, meaning this sector is likely less exposed to risks that may be present in an individual industry or affecting a specific company. We note that 56.7% of income comes from the top 10 occupiers for Industrial assets in the MSCI Quarterly index, versus 17.4% across L&G managed small to mid-sized multi-let estates. Urban logistics assets, an attractive subset of the multi-let market, typically occupying units sized between 10,000 and 70,000 sq ft, would ordinarily have an occupier mix and concentration sitting somewhere in between multi-lets and regional logistics.

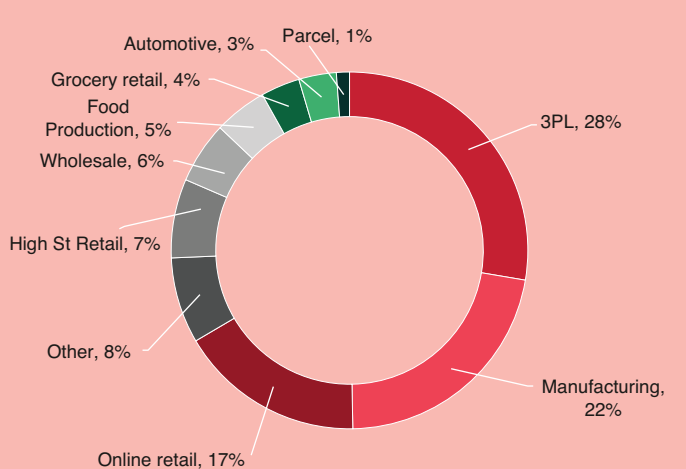
Multi-let occupier mix (L&G multi-let portfolio, ERV)



Source: L&G, Savills (2025) Asset allocation is subject to change.

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Regional logistics, 2021-2025 take-up





02.

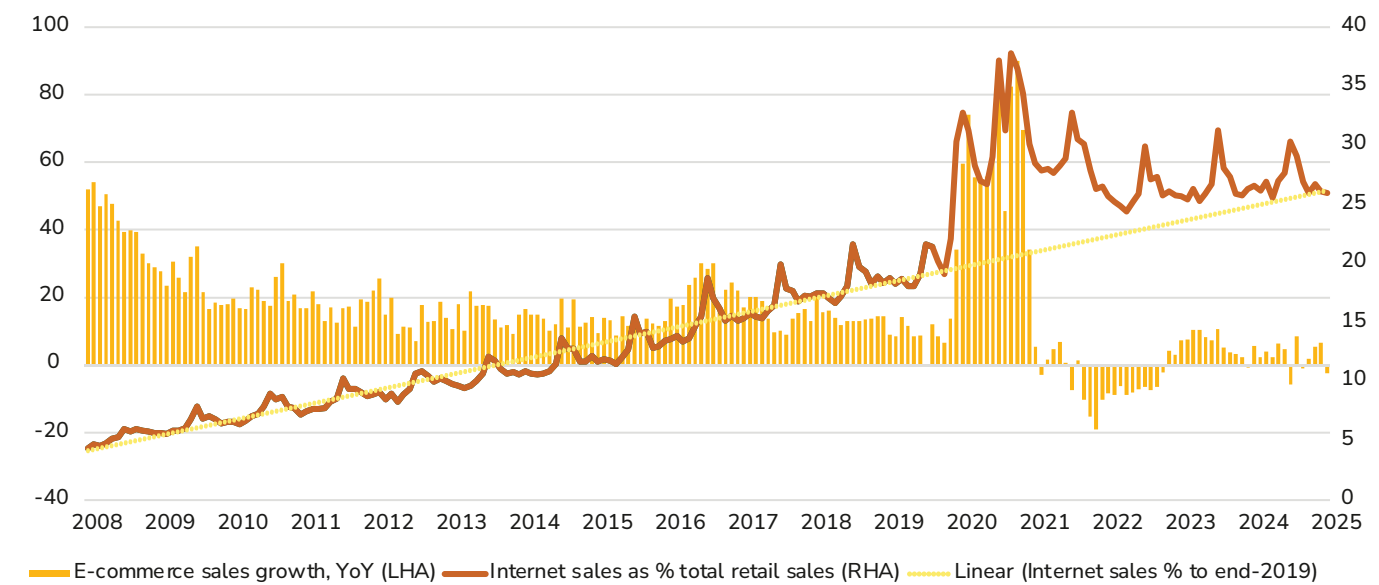
Are we there yet? Has the role of e-commerce played out in Industrial?

E-commerce has been an important growth driver for Industrial, with retailers and e-commerce operators accounting for an increasing share of take-up over the past two decades, positively impacting growth throughout Industrial typologies.

While the rate of e-commerce growth has moderated as the sector matures, forecasters continue to expect the channel to account for an increasing share of overall retail sales. We believe there are persuasive demographic and technological trends that support this picture of sustained growth. Younger generations are the most prolific online shoppers, with 96% of 16-24-year-olds and almost all 25-34-year-olds shopping online versus 65% of over 65-year-olds.⁶ This should benefit e-commerce penetration rates as younger generations progressively move into their peak consumption years of 30-49.

From a technological standpoint, we continue to see a greater level of innovation taking place through e-commerce channels; for example, social commerce – the sale of products directly through social media channels – is expected to grow at three times the rate of overall consumer spending.⁷ In addition, we anticipate many of the retail-related efficiencies and innovation catalysed by generative AI and robotics are more likely to benefit e-commerce, be it via more efficient inventory management, autonomous or driverless last-mile delivery or AI shopping assistants, particularly in retail categories which have historically been slower adopters of e-commerce, such as grocery. Green Street forecasts that online will account for 33% of total retail sales in 2029 within the UK, up from 27% currently.

UK e-commerce growth



Source: L&G, ONS, 2025

In total, we expect e-commerce to remain a positive structural tailwind for the Industrial sector, supporting a continued rise in floorspace requirements as well as a need for occupiers to move to more appropriate space, even though its growth is likely to continue at more moderated levels. We believe more supply-constrained sub-sectors of Industrial real estate that serve e-commerce – for example, urban rather than regional logistics and cities such as London with tight Industrial land supply and fit-for-purpose logistics stock – are best placed to navigate this period.

6. GWP Group, 2025
7. Accenture, 2022

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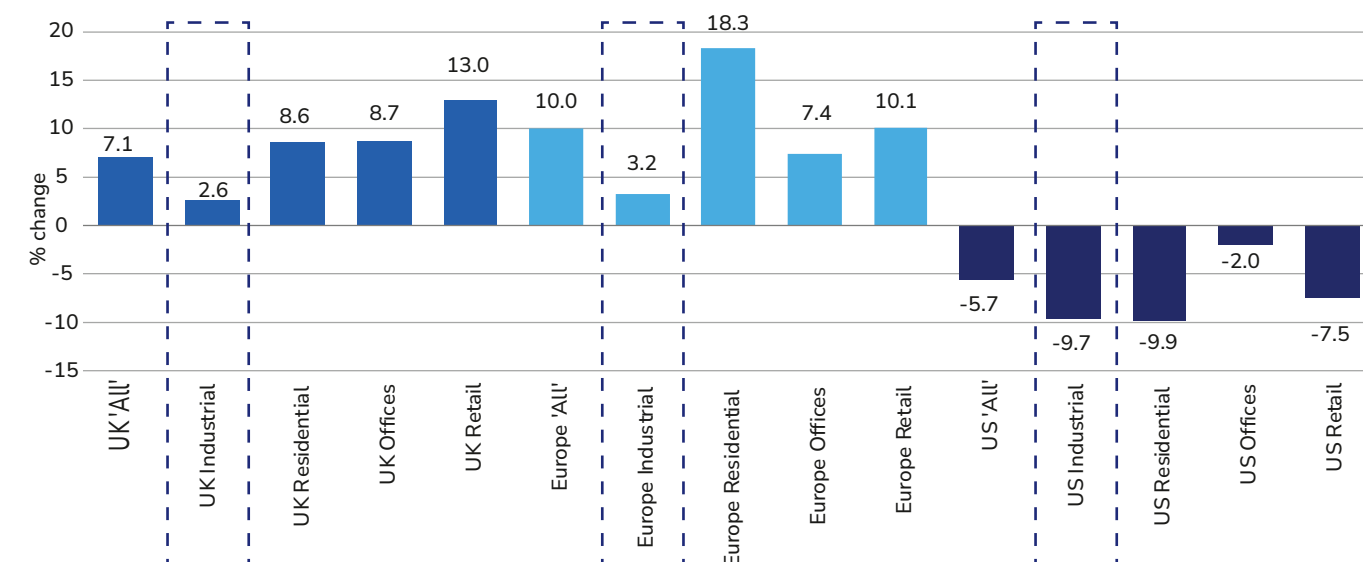
03.

Will deglobalisation derail or deliver sector performance?

While equities rebounded sharply following 'Liberation Day', Industrial REIT performance lagged (see adjacent chart), potentially reflecting greater perceived risks from tariffs for the sector. In reality, by the start of June 2025, UK Industrial REIT discounts to NAVs in the UK and Europe traded in line

with the average across a basket of UK REITs, reflecting, in our view, a trimming of the upside potential previously priced in. Nonetheless, the exposure of the UK Industrial sector to trade disruption remains worthy of interrogation.

REIT total returns by sector, 5th June versus end of March 2025



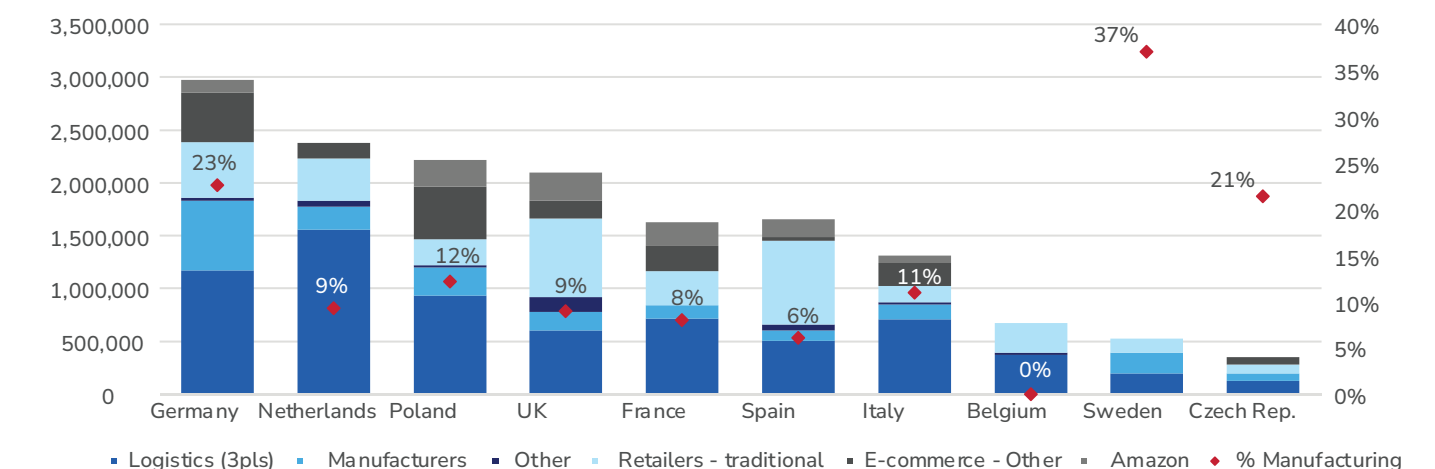
Source: L&G, Bloomberg, PMA (2025).
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UK Industrial's exposure to the manufacturing sector is more limited than many other European countries, as highlighted in the chart below, although exposure varies significantly by Industrial segment. Across L&G's small to medium-sized multi-let estates, the share of market rental value let to occupiers using the units for production and manufacturing is 8.3%, with a survey of occupiers in Q2 2025 finding that only 8.5% were impacted by US tariffs, with 63% of these businesses expecting an impact of less than 10% on profits. This low exposure reflects the sub-sector's higher weighting towards SMEs servicing the domestic economy. We do note, however, the potential for weaker capital flows from USD-denominated investors as a result of the depreciation of the US dollar over 2025.

Manufacturing represents a larger, but not dominant, share of the regional logistics market, with the UK Industrial sector less exposed to the industry than its continental peers. Based on the revised details of the US-UK Prosperity Deal, we expect the direct impact of tariffs to be limited at a sector-level, albeit with greater risk of material idiosyncratic risk at an asset and occupier-level. We see greater risk within the regional logistics market, where there is more exposure to the manufacturing sector and higher income concentration risk.

Logistics take up estimates 2024 by country and sector



Source: PMA (2025)

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While trade disruption poses some near-term risks, a reconfiguration of global trade presents potential opportunities over the medium term, driven by on/near-shoring and a greater emphasis on supply chain resilience. This topic is not new; over the past decade, UK supply chains have been subjected to more frequent external shocks, incorporating Brexit, Covid-19 and the Russia-Ukraine war as well as ‘Liberation Day’.

Within the UK, there is little hard evidence of onshoring to date. Manufacturing output has broadly flat lined in real terms since Brexit, albeit this has been hindered by a 12.6% decline in goods exports since 2019.⁸ While inventory levels have not materially changed at an aggregate level over recent years, the UK has experienced periodic surges in inventories, including during Q4 2024 when concerns regarding potential changes to US trade relations emerged. We anticipate a focus on supply chain resilience and flexibility is likely to remain. We see this particularly boosting demand from third-party logistics operators (3PLs), who can enable retailers and businesses to more easily flex their inventory levels based on market conditions.

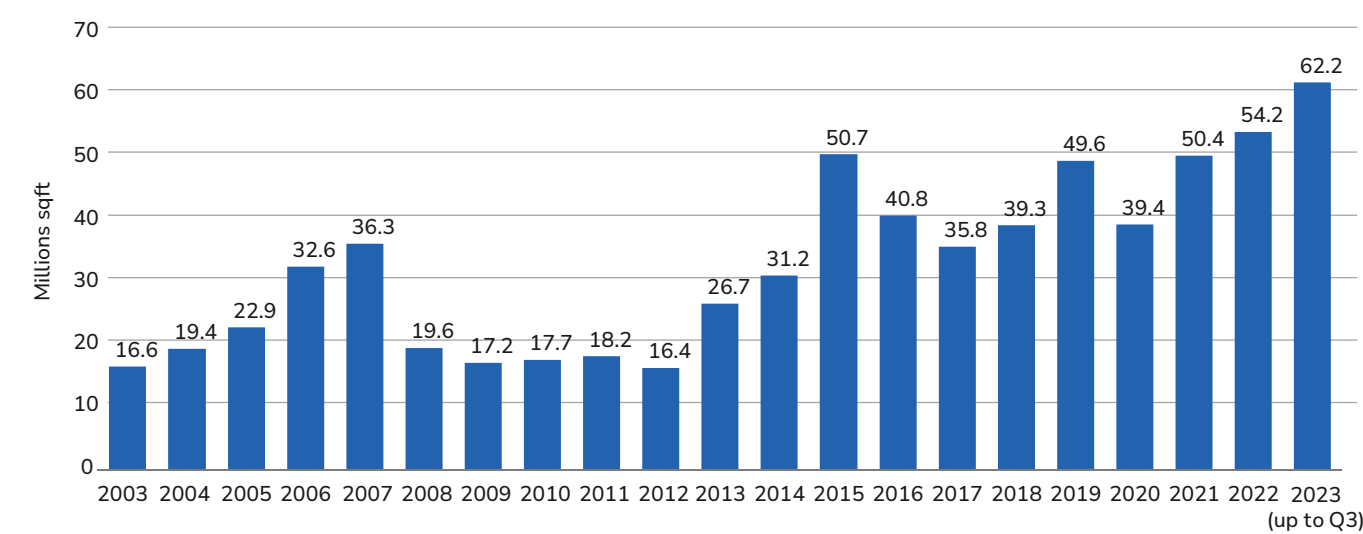
Import data provides more tangible evidence of supply chain reconfiguration post 2020. Non-EU imports account for a larger share of UK imports, led by China, India and Turkey, while Central and Eastern Europe countries⁹ are accounting for a growing share of European exports. On balance, UK evidence is indicative of greater emphasis on supply chain resilience, localisation and diversification, rather than onshoring. This may yet evolve given persistent geopolitical tensions, which is already increasing the focus on supporting domestic production capabilities for critical industries, including Defence, as indicated in the UK government’s most recent Modern Industrial Strategy. Anecdotal leasing evidence suggests some pick up in defence-related Industrial occupation in defence-oriented local economies.

The experience of the US could give an indication of the future, despite it fundamentally being a different economy to the UK in terms of scale, fiscal firepower and manufacturing capabilities. Bank of America research found that reshoring has created 20% of manufacturing jobs in the last 15 years, with half of these in the past five years due to policy initiatives. This has had a knock-on impact on real estate space requirements, with NAIOP reporting a record high in US manufacturing construction pipeline in 2023, representing 11.5% of the national Industrial pipeline.

8. Goods volumes: Q4 2023 vs Q4 2019 excluding precious metals. [Recent trends in UK trade volumes and balances - Office for National Statistics](#)
9. Notably Czech Republic, Hungary, Poland, Romania and Slovakia

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US manufacturing construction pipeline



Source: NAIOP, Newmark (2024)

As global trade patterns continue to shift and geopolitical tension remains elevated, we anticipate continued supply chain reconfiguration to be an additional net positive demand driver for the Industrial sector over the medium to longer term, with the potential for a more material impact on specific cities and regions home to clusters of critical industries.



04.

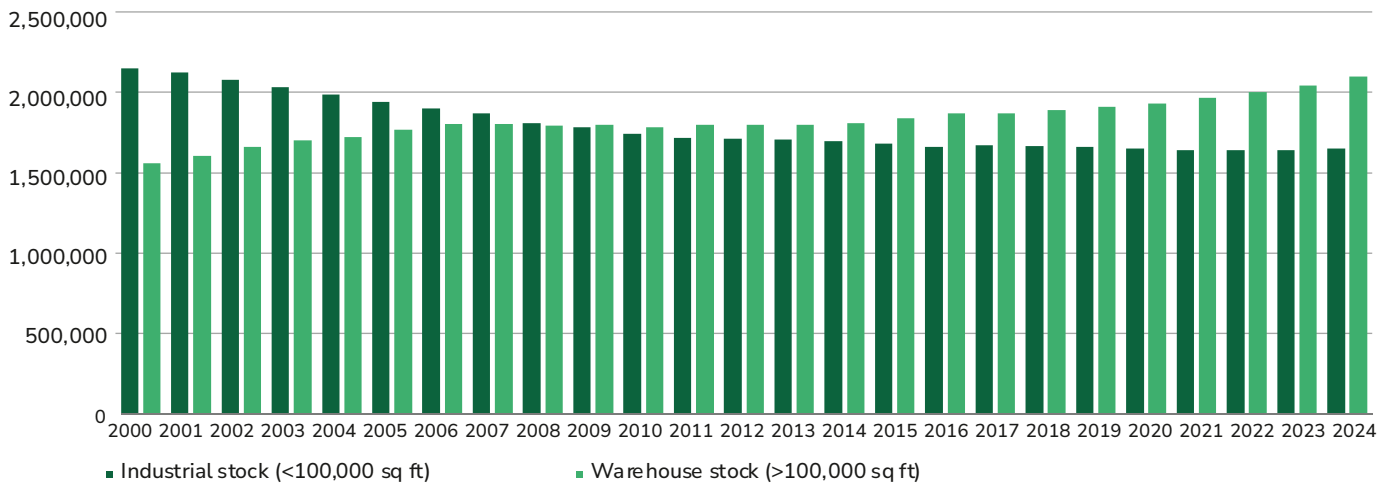
Where are supply risks and constraints most evident?

We maintain our conviction that the fundamental long-term drivers of industrial occupier demand remain robust, although the exceptionally strong periods of rental growth observed in recent years are unlikely to persist. In such an environment, we would anticipate that supply will play an increasingly critical role in dictating future long-term rental growth. We believe targeting segments and geographies with higher barriers to new supply is likely to be beneficial to performance.

Supply elasticity across the Industrial real estate sector varies considerably, with regional logistics development historically being far more responsive to increased occupational demand. We expect this to modestly reduce potential long-term rental growth, along with increasing the risk of depreciation as stock ages.

From a geographic perspective, London has seen Industrial stock reduce by an average of -0.6% p.a. over 2000-2025. We expect continued strong housing demand, higher land values and lack of available commercial space to result in sustained Industrial supply constraints in London, supporting stronger relative long-term rental growth prospects. Similarly, we expect higher land prices and increased residential demand to result in lower Industrial supply delivery.

Industrial stock by size band ('000 sq ft)



Source: PMA (2025), VOA (2025)

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05.

How do sub-sectors within UK Industrial compare on a cyclical and structural basis?

The growth of the UK Industrial sector, along with the broadening of the investable universe, means there is an increasing need to further differentiate between the various sub-sectors. Below we outline the seven sub-sectors of Industrial and the structural and cyclical headwinds and tailwinds likely to drive future returns.

Segment	Definition	Structural: 4D support	Cyclical
Urban Logistics	Typically, 20,000-70,000 sq ft (mid-box) units in or near urban locations designed to allow rapid throughput of goods for B2B and B2C.	Growing urban populations, specific growth hubs. Ecommerce savvy older generations. Pressure to de risk all parts of the supply chain and provide fleet electrification solutions. AI-supported distribution management.	Lack of fit for purpose product. Development frictions create opportunity for equity development.
Regional Logistics	Typically, plus 100,000 sq ft units let to single / small number of occupiers	Onshoring need. Ecommerce savvy older generations. Pressure to de risk all parts of the supply chain and provide fleet electrification solutions. AI-supported distribution management.	Emerging obsolescence risk on older product will differentiate market. Rising occupier costs differentiate product allowing operational efficiencies.
Multi-let Estates	Collection of smaller, often sub 10,000 sq ft units with multiple occupier types often serving urban areas	Land pressure from housing need. Pressure for UK plc to innovate to counter deglobalisation risk.	Equity-led development opportunity both new and infill. Rising occupier costs differentiate product allowing operational efficiencies.
Trade	Trade park units typically smaller than multi-let estate with a trade counter positioned in front of Warehousing. Can be trade only or open to public.	Longer leases and typically stronger covenants. Housing and infrastructure need; benefits from climate event remediation. Fragmentation of supply chains	Some risk from slower housing transactions
Self-Storage	Self-service storage facilities located within a warehouse or purpose-built facility	Changing lifestyle and habits. Life events: divorce and death. Structural undersupply versus US. Increasing differentiation by stock generation and operational efficiencies.	Some risk from slower housing transactions
Cold Storage	Refrigerated storage and distribution	Need for fresh-frozen food, vaccines and pharma. Ecommerce savvy older generations. Pressure to de risk all parts of the supply chain and provide fleet electrification solutions. AI-supported distribution management. Higher energy and build-to-suit costs.	Rising occupier costs differentiate product allowing operational efficiencies.
Open Storage	Industrial-zoned land used for storing items not requiring indoor protection	Land value underpin. Opportunities for consolidation centres to decarbonise construction industry, for instance. Greater supply risk.	Growing investor interest but difficult to find scale

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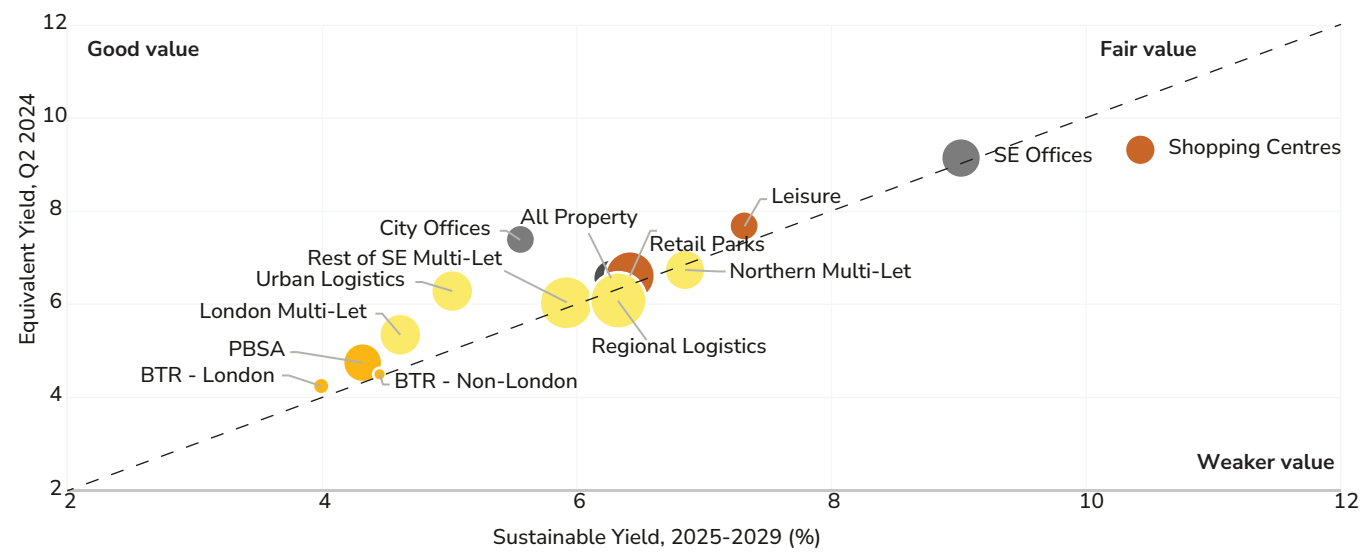
06.

Do Industrial yields provide a sufficient risk premium given moderating growth expectations?

One method of assessing whether real estate yields represent fair value involves comparing what a theoretical sustainable yield should be versus valuation yields. A sustainable yield is calculated by building up a target rate of return based on risk-free rates, UK property's historic risk premium, sector rental growth expectations and netting off depreciation and fund management costs. As the below demonstrates, we see UK

property screening as reasonable value, with a stronger relative value case for multi-lets in the Southeast and, in particular, London, along with Urban Logistics. However, in totality, the value case for Industrial relative to other sectors is less clear-cut, reiterating the importance of selection within the sector, both at a segment and asset-level.

Valuation yields (Q2 2025) versus 'Sustainable' yield



Source: LGIM RA Research, PMA, MSCI Quarterly Index as at Q2 2025. Sustainable yield calculated by taking assumption of risk-free rates (assumed 4%) + property risk premium + assumption of fund management costs – expected future net income growth.
Past performance is not a guide to the future.

An alternative approach to understanding relative value is by comparing a forward-looking risk premium across sectors and versus history. Between 1980 and 2024, UK property delivered an average risk premium¹⁰ of 2.3% p.a. above 10-year gilts. Based on PMA's rental growth expectations for 2025-2029 and in-house depreciation assumptions, we compute UK multi-lets as having a forward risk premium of 2.8% versus 2.2% for regional logistics. While both are reasonable relative to All Property, this supports our view that there is a more compelling relative value case for multi-lets over regional logistics.

Strategic implications

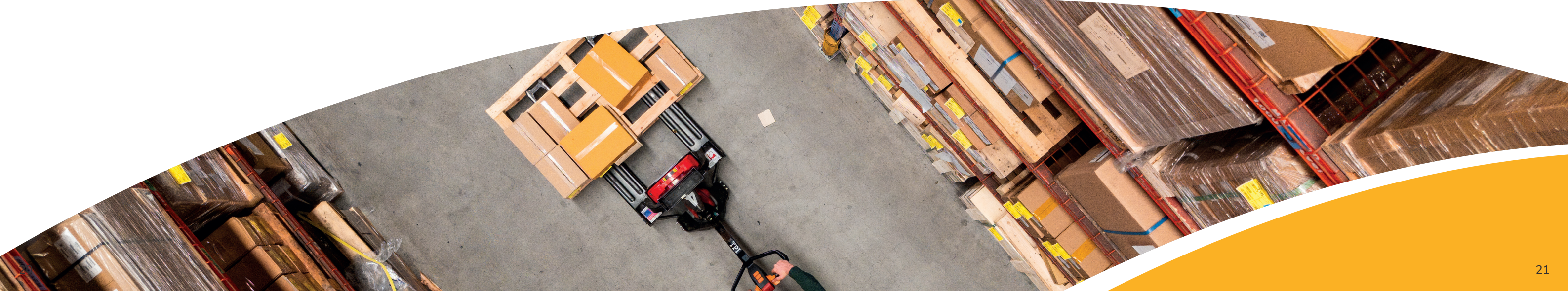
Industrial real estate has treated investors well in recent years, underpinned by structural shifts in occupational demand. We believe these structural drivers of demand have enduring momentum and will continue to result in strong relative performance for the sector in the future, underpinned by positive investor sentiment and capital flows.

While momentum remains, we believe tighter yields and a narrower spread in expected returns to other real estate sectors necessitates a more targeted approach to the sector to drive relative outperformance. We continue to favour segments and geographies that benefit from both structural demand tailwinds and barriers to new supply, with London / the Southeast multi-lets and urban logistics screening as particularly attractive.

Notably, these segments also provide opportunities to move further up the risk/return spectrum, driving higher returns via active asset management, targeted developments and densification. In an increasingly crowded market, a more granular focus on underlying fundamentals, asset selection and higher growth segments within the Industrial sector is key to delivering stronger relative performance.

10. Defined here as annual excess return above 10-year gilt yields

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Key risk

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested. Past performance is not a guide to future performance.

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