Trade turbulence to NI hikes – what's the impact for logistics real estate?

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From Liberation Day and triple digit tariffs to a 90 day pause, US trade news has filled front pages and moved markets, fuelling a predictably unpredictable start to 2025. Meanwhile, increases to employer National Insurance contributions and the minimum wage – arguably far more consequential for UK companies, but receiving much less public attention – came into effect in April.

The impact on UK business confidence has been clear. Future output PMI data declined sharply with the UK October Budget and has only just recovered from April's two-year low – as the May US-UK tariff deal provided further clarity, and companies adjust to the new wage environment.

Throughout this period, leasing volumes held up reasonably well, despite what felt like a notable pause in corporate decision-making, as companies assessed the implications. Indeed, space under offer increased in Q1 and, anecdotally, we've seen an encouraging uptick in market activity in Q2.

Why is this? Logistics real estate is critical infrastructure for UK companies – and when it comes to addressing macro uncertainty, companies recognise that the supply chain is a key part of the solution and essential to facilitating growth. Therefore, even with general business confidence at a low, many continue to proactively adjust their networks. Here's what we are seeing:

Retailers responding

Retailers were clearly significantly impacted by the October Budget. Research from Retail Economics estimates that UK retailers will face an additional £5.6bn cost burden in 2025/6, with 37% expected to be absorbed through cost optimisation, 31% through price increases, and the remaining 32% – or £1.8bn – taken as a margin hit. Key areas of cost optimisation will include pricing and promotions strategies, negotiations with suppliers to improve working capital and rationalising store portfolios.

The supply chain will also be a focus area for cost optimisation. For logistics real estate, this is likely to generate activity with greater investment in solutions that will optimise processes and support business growth. This typically includes technology, including more automation. As occupiers deploy these solutions over the medium term, they will need high-quality buildings in prime locations that can support these requirements.

Short-term, however, 3PLs are an attractive solution for retailers – buying them time to work through significant operational change. This has resulted in an uptick in leasing activity in Q2.

Blue-chips turn in a solid performance

Since the October Budget, corporate reporting and analyst forecasts suggest that, across sectors, blue chip businesses have seen growth trimmed not slashed and margins squeezed rather than eroded.

Many large corporates are performing well. M&S, for example, reported a 5% increase in turnover for its last financial year; a figure somewhat overshadowed by the cyber-attack that occurred just before results were announced.

Growth in supply chain volumes – alongside the need for improved efficiency and productivity– are drivers for new and additional warehouse requirements. Meanwhile, newer entrants such as Chinese retailers or 3PLs supporting these businesses are active in the market. This continues to create diverse demand for logistics real estate.

Great news for re-gears

Importantly, supply chain evolution doesn't relate only to overhauling processes and taking on new buildings; it also requires flexing current operations to achieve efficiency and productivity gains. Existing buildings play an important role here, providing they can accommodate the change.

Occupiers are increasingly looking for the security of longer leases to enable enhancements such as adding/realigning racking, new internal layouts and making more use of small scale, modular technology/automation. Where existing buildings are capable of flexing to support these activities, occupiers are happy to remain where they are. Availability of labour plays into this, as moving any distance likely involves re-hiring a significant proportion of the workforce.

For the building owner, this is the point at which they can capture rental reversion that has accumulated as the result of a strong market and the structure of UK leases. It's also an opportunity to collaborate on accretive capex projects, such as solar schemes and EV charging.

As we move through 2025, it's clear that logistics real estate is critical infrastructure for UK companies. We can see this in the resilience of demand, which has been on hold rather than cut through the recent collapse in business confidence. It's also evident in the vital role logistics real estate plays in helping companies adapt to whatever the macro might bring.

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