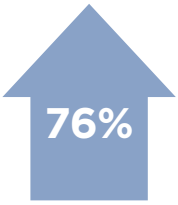
SPOTLIGHT
Savills Research

Big shed briefing

savills

DP World London Gateway Logistics Park where 231,000 sq ft is due for speculative delivery in 2019

32% take-up increase • Supply at highest level since '14 • Record level of spec development



Rise in the rolling average take-up level since 2009

Nationwide overview

Take-up records tumble in many regions

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Integra 61 Durham, the largest deal of the year at 1.99m sq ft

With recent headlines about the high st and retailers trading updates starting to filter through it would be tempting to suggest that the logistics property market might be experiencing similar headwinds.

It is pleasing to report that take-up in 2018 has risen by more than 8m sq ft year on year and take-up related to retail (in all its forms) accounted for 53% of this demand.

We expect that this trend will continue into 2019 and beyond as retailers continue to get their supply chains fit for purpose in the multi-channel world. Both Next and Marks & Spencer have announced they will be spending hundreds of millions of pounds on their supply chains in the coming years.

We should make note of the growth of new entrants to the market, such as Wayfair.com who are increasing the amount of warehouse space they need at exponential level.

Lastly, we are not currently seeing Brexit have a significant impact on occupier demand, either positive or negative. This may change as more clarity emerges on the UK's post 29th March trading arrangements, but occupiers should be comforted by the fact that supply levels are now at their highest level since 2014.

Take-up

At a nationwide level take-up reached 34.1m sq ft for 2018 a 32% increase on 2017 and 14.1m sq ft above the long term average.

Whilst the actual deal counts were marginally up the average deal size is at its highest level ever and now stands as 281,000 sq ft.

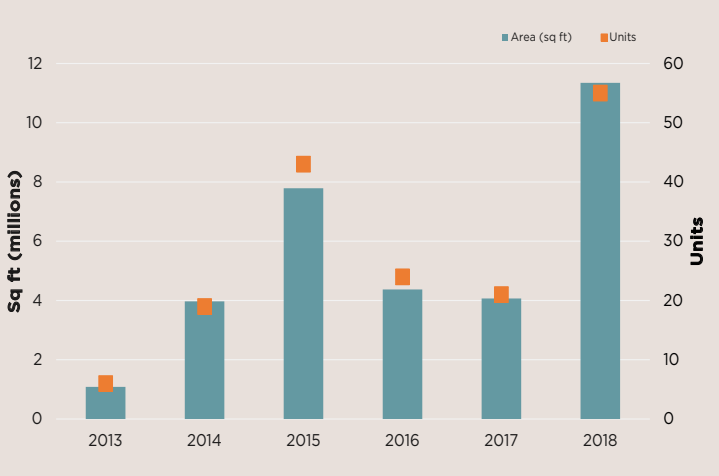
New records were set in many markets including the East Midlands, Yorkshire, the North West and the South East.

Supply and Pipeline

Nationwide supply has risen in 2018 and now stands at 31.4m sq ft, reflecting a vacancy rate of just 5.3%. Of the current supply on the market 51% is classified as grade A, up from just 35% in Q1 2015 .

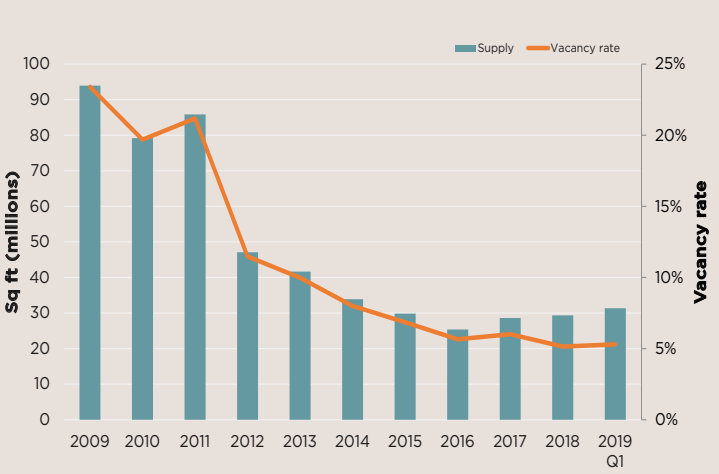
We expect this balance to alter further in favour of grade A units in 2019 as 2018 saw a record number of speculative development announcements; 55 units were announced totalling 11.3m sq ft. Of the units due for delivery 67.5% are under 200,000 sq ft.

Speculative announcements almost triple



Source Savills Research

Supply and vacancy slight up-tick in supply



Source Savills Research

> Strong occupier demand and the lack of stock in London continues to drive rental growth across the region

London and the South East

Unprecedented demand for larger units

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Supply

The quality balance of the supply has shifted as speculatively developed units have come to the market. Grade A stock now makes up 69% of all space on the market totalling 3.83 million sq ft across seventeen units, a 108% increase on the amount of grade A space available in 2017.

Increased speculative development paired with large 2nd hand units returning to the market such as Tectonic 620 comprising 617,393 sq ft has caused supply to rise. Current supply totals 5.54 m sq ft, representing a 42% rise from 2017, 71% of this supply is under 200,000 sq ft, which correlates with long term take-up trends with 64% of deals being in the same size band. Unit sizes increase as you move north with the largest units, Tectonic 620 and Altitude both being in Milton Keynes.

Take-up

Take-up levels increased 33% in 2018 reaching 6.35 m sq ft through 20 separate deals, the highest amount of activity since 2014. The average deal size has risen by 66.4% from 2017 reaching a record high of 312,379 sq ft for the region, a 40% increase above the long term yearly average.

Build-to-suit transactions accounted for 45% of deals within the region, totalling 4.58 million sq ft. The largest deal in the region was Lidl acquiring land and self-building 1.1 million sq ft in Dunstable.

We are expecting a strong start to 2019 with 1.5m sq ft of warehouse space already under offer.

Development Pipeline

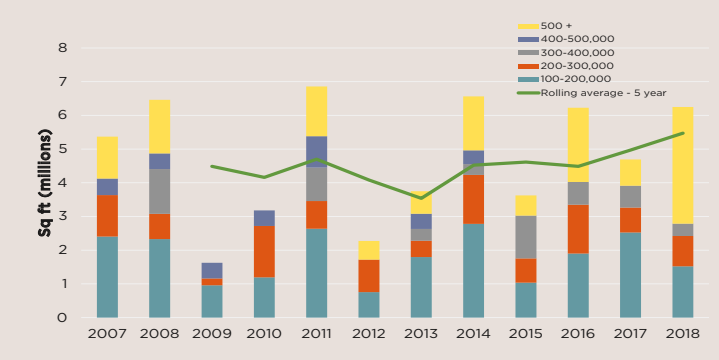
There are eight units under construction totalling 1.52 m sq ft, but there are no units under construction inside the M25 and just two in the Home Counties. The largest unit due for delivery in 2019 is Bedford 405 where Goodman are speculatively developing 405,000 sq ft, set to reach practical completion in Q3 2019.

Key statistics

	Stats	yr/yr change
Take-up	6.35m sq ft	↑ 33%
Supply	5.54m sq ft	↑ 42%
Development Pipeline	1.52m sq ft	↓ 2.9%
Quoting Grade A Rent	£7.5-£18/ sq ft	↑ 9%
Vacancy rate	5.5%	↑ 120bps

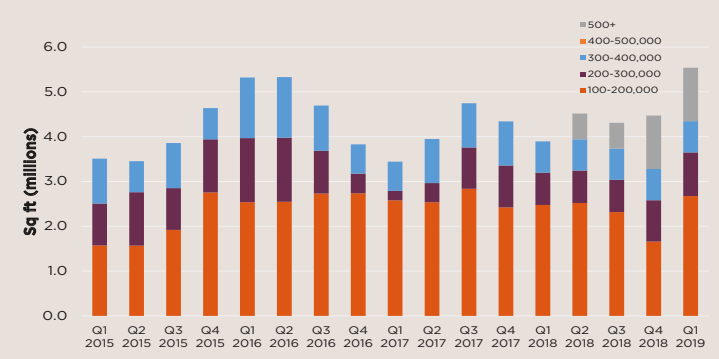
Source Savills Research

Take up rolling average reaches new high



Source Savills Research

Supply rises in smaller units



Source Savills Research

> 2018 saw grade A space account for 94% of the total space transacted with grade B &C space equating to just 6%.

East Midlands

Best year ever for take-up in the region

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Supply

Since the recent high point was reached in Q4 2017 supply has been decreasing and now stands at 3.28m sq ft, a fall of 33.99% in 12 months, reflecting a vacancy rate of just 3.8%.

Whilst the vacancy rate has fluctuated around the 4% market in the last four years the make-up of the supply has altered dramatically. For example at the start of 2015 there was 2.7m sq ft of grade B & C supply on the market accounting for 67% of supply. On the other hand at the start of 2019 this proportion had fallen to 43%.

The largest unit on the market remains Quantum at Magna Park at 411,613 sq ft which has been vacant for 32 months having been under offer twice in the last 12 months.

Take-up

2018 has been a record year with 8.92 m sq ft of space transacted, 101% above the long term average and more than double what was transacted in 2017.

Comparing transaction volumes with 2017, all building types experienced around twice as much activity in 2018, such as the amount of new grade A space transacted increasing 166%. In fact, 2018 saw grade A space account for 94% of the total space transacted with grade B &C space equating to just 6%.

Build-to-suit space dominated the market with the largest deal being c.1.3 million sq ft at Segro Logistics Park East Midlands Gateway (Big Box 1). Segro Logistics Park East Midlands Gateway has been one of the most successful schemes in the region in 2018 securing 4 build to suit deals totalling over 2 million sq ft of space.

Development Pipeline

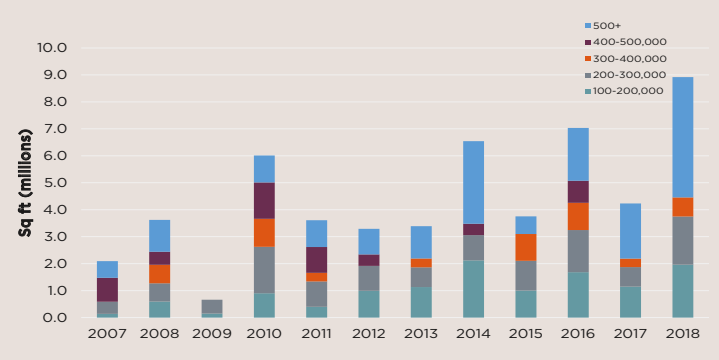
There are 12 units under construction which total 3.34msq ft, primarily located in Northamptonshire where seven units are under construction. The largest unit is Nottingham 550, where Panattoni are developing 550,000 sq ft due to reach practical completion in Q1 2019.

Key statistics

	Stats	yr/yr change
Take-up	8.92m sq ft	↑ 111%
Supply	3.28m sq ft	↓ 19%
Development Pipeline	3.34m sq ft	↑ 149%
Quoting Grade A Rent	£6.75/sq ft	↑ 4%
Vacancy rate	2.9%	↓ 160bps

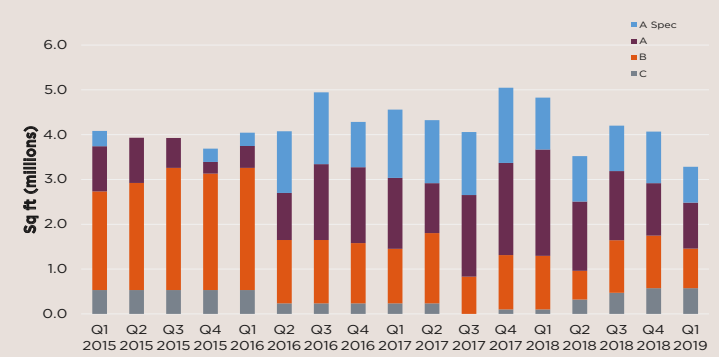
Source Savills Research

Take up record year for units over 500,000 sq ft



Source Savills Research

Supply proportion of grade A supply increases



Source Savills Research

> Understandably Brexit has dampened demand in certain sectors such manufacturing but others remain active and we expect a pick up once the uncertainty is lifted

West Midlands

Supply still less than two years despite recent rise

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Supply

The level of supply currently stands at 7.46 m sq ft, the highest level ever recorded representing a 76% increase from 2017. Of this, however, 46% of the supply is considered to be grade B & C, accounting for close to 3.5m sq ft.

Recent strong demand has stimulated speculative development and since 2016 over 1.8 m sq ft of grade A space has come to the market through units such as Wolverhampton 450 where Panattoni delivered 448,089 sq ft.

Supply has also been skewed by multiple large 2nd hand units further increasing supply such as the UK's current largest available unit Goliath at Cross Point Business Park in Coventry at 666,044 sq ft.

Take-up

After two strong years take-up has tailed off in 2018 reaching 3.41 m sq ft through 18 transactions, representing a 44% decrease from take-up in 2017.

Second hand units accounted for 44% of the total space leased in the region, whilst build-to-suit units accounted for 38% of the total space leased.

Take-up was skewed towards smaller sized units with 67% of the deal count involving units between 100,000-200,000 sq ft.

Sectors previously inactive, particularly wholesale retail which accounted for 28% of the total space leased (up from 3% in 2017), took more space then historically active industries such as automotive and manufacturing.

Development Pipeline

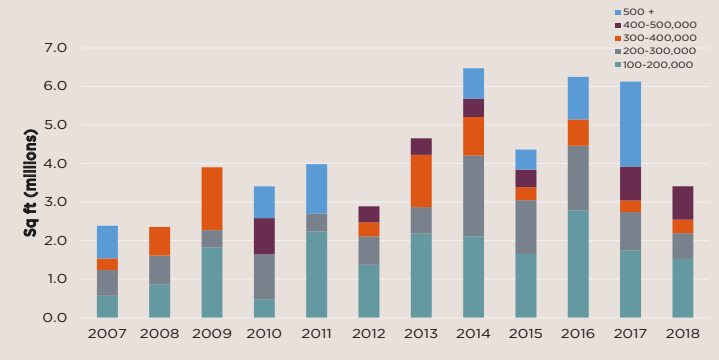
Five units are currently under construction totalling 837,584 sq ft. The largest unit currently under construction is 233,025 sqft at Prologis Park Birmingham Interchange, the others are all sub 200,000 sqft.

Key statistics

	Stats	yr/yr change
Take-up	3.41m sq ft	↓ 44%
Supply	7.46m sq ft	↑ 76%
Development Pipeline	0.84m sq ft	↑ 29%
Quoting Grade A Rent	£7/sq ft	no change
Vacancy rate	7.7%	↑ 310bps

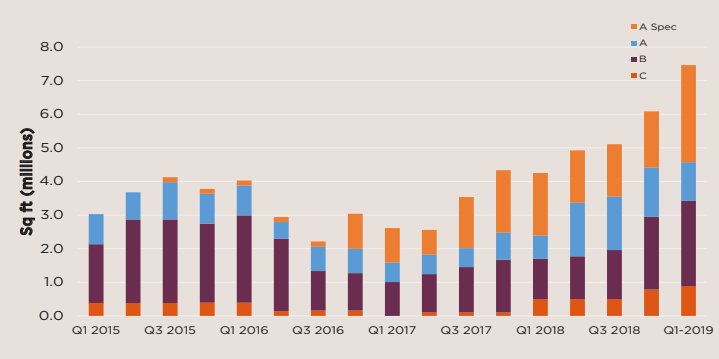
Source Savills Research

Take up falls to 2012 levels



Source Savills Research

Supply rises in all grades



Source Savills Research

> "The North West bounced back from a sluggish 2017 to report a record year. We expect 2019 to continue this trend going forward"

North West

Build-to-suit deals help take-up rise

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375 at Logistics North

Supply

The North West now has the second largest amount of supply within the UK, currently sitting at 5.97 m sq ft across 31 units.

The grade balance of the available stock has slowly shifted with grade A stock now accounting for42% of all vacant units on, up from 30% a year ago. Despite the increase in grade A quality units, based upon the long term average take-up of grade A space, the region has just 1.3 years left of grade A supply.

The current supply is skewed towards the smaller size bands with 65% of available units between 100,000-200,000 sq ft. There are only five units available in the region over 300,000 sq ft.

Take-up

Following a below average year in 2017 transactional activity for 2018 has risen above the long term average. Take-up reached 4.58 m sq ft across 23 separate transactions, representing a 63% increase from take-up in 2017 and a 26% increase above the long term average.

Following UK wide trends, take-up was dominated by the 100,000-200,000 sq ft which accounted for 70% of the market by deal count. There were no deals above 400,000 sq ft in the region.

The majority of the deals involved lower quality units with 70% of the units transacted being second hand, amounting to 2.87m sq ft. Additionally the amount of build to suit space increased to 902,062 sq ft in 2018, a 175% rise on the level of BTS space transacted in 2017.

The average deal size in 2018 was 198,952 sq ft, a 13% increase on 2017 evidencing increased occupier demand for larger units. The largest deal of the year was Movianto acquiring 373,000 sq ft at Haydock Green in Saint Helens.

Development Pipeline

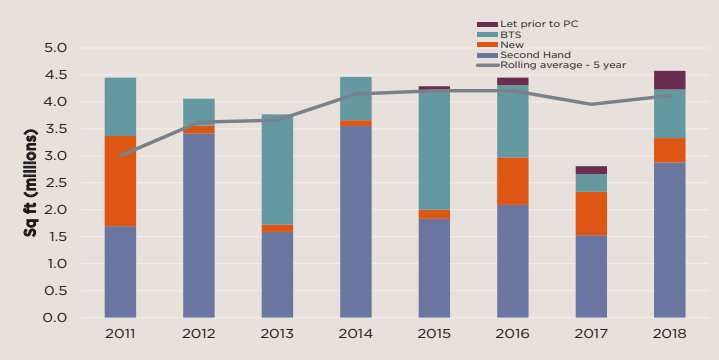
There are seven units being developed n totaling 1.55 m sq ft. The largest being 525 Haydock in Saint Helens at 523,500 sq ft, set to reach practical completion in Q2 2019.

Key statistics

	Stats	yr/yr change
Take-up	4.58m sq ft	↑ 63%
Supply	5.97m sq ft	↑ 3.3%
Development Pipeline	1.55m sq ft	↑ 0.36%
Quoting Grade A Rent	£6.75/sq ft	↑ 4%
Vacancy rate	4.7%	↑ 10bps

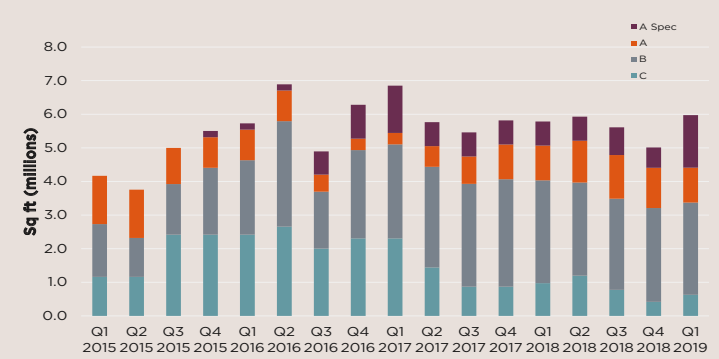
Source Savills Research

Take up returning to recent levels



Source Savills Research

Supply Grade A supply increases



Source Savills Research

> A stellar year with large build-to-suit deals driving the market. With large sites and a readily available labour force we expect the trend to continue

Yorkshire and the North East

Take-up levels reach new high as supply continues to fall

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Symmetry Park Darlington where DB Symmetry are delivering 1.5m sq ft

Supply

The market has experienced increasing supply constraints stimulated by record levels of take-up throughout 2018. Available supply currently sits at 3.75 m sq ft across 19 separate units representing a 35% fall from 2017.

The majority of available supply sits within the 100,000-200,000 sq ft size band accounting for 84% of available units. However, there are three units in the region over 400,000 sq ft, the largest being Premier North Industrial Estate which comprises 546,970 sq ft. Of the available supply 83.81% is classified as 2nd hand.

Take-up

2018 has seen the strongest levels of demand ever recorded. Take-up reached 9.48 m sq ft through 25 separate deals, a 562% increase from 2017 and a 68.6% increase from the previous high water mark of 5.62 m sq ft in 2014. It should be noted that we regard 2017 as an anomalous year as take-up was a 66% decrease on the long term average.

The increase can be attributed to multiple large BTS deals, such as Amazon acquiring 1.99 m sq ft at Integra 61 in Durham. In 2018, 28% of of the floor space transacted was for build-to-suit units however by deal count 68% of deals were for second hand units. In fact, Yorkshire saw the largest second hand deal nationwide through Clipper acquiring Sheffield 615 totalling 615,000 sq ft.

The 100,000-200,000 sq ft size band experienced the highest deal volume in 2018, with 48% of deals recorded being within this size band. The 400,000 sq ft+ size band also performed well, accounting for 24% of units transacted.

Development Pipeline

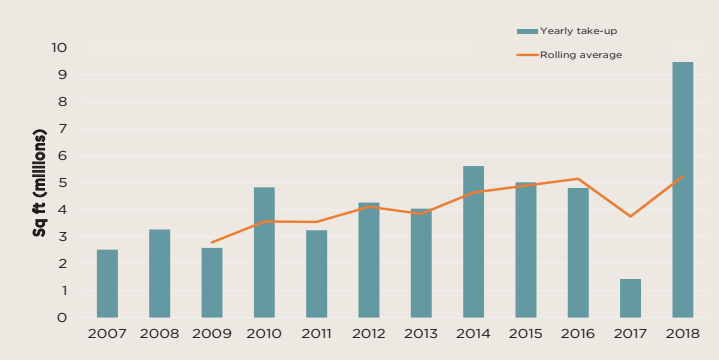
There are currently four units under construction throughout the region totalling 804,765 sq ft. The largest unit is G Park Doncaster where Gazeley are speculatively developing 275,300 sq ft. The unit is set to achieve practical completion in Q1 2019.

Key statistics

	Stats	yr/yr change
Take-up	9.48m sq ft	↑ 562%
Supply	3.75m sq ft	↓ 35%
Development Pipeline	0.80m sq ft	↑ 199%
Quoting Grade A Rent	£5.75/ sq ft	no change
Vacancy rate	5.8%	↓ 260bps

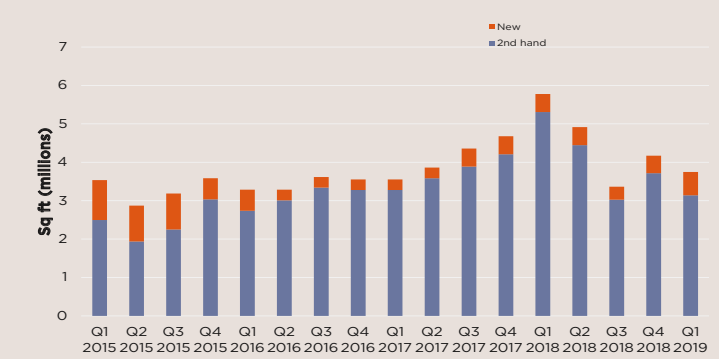
Source Savills Research

Take up new record achieved



Source Savills Research

Supply yearly fall of 35%



Source Savills Research

> "The increased speculative activity and contraction of land supply will mean a shift away from build-to-suit into existing stock"

South West

Speculative development filling "the void"

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Supply

The supply constraints within the market have alleviated in 2018 with supply rising 41.6% to reach 2.03m sq ft.

The supply is skewed towards smaller sized units as 44% of available units are under 200,000 sq ft with no units above 400,000 sq ft. The largest unit on the market is the Former Morrison's at Cribbs Causeway Distribution Centre totalling 384,786 sq ft.

62% of available space is classified as grade A, a 32% increase on the amount of grade A supply in 2017. However, Western 105 is the only new speculatively developed unit currently available where Richardsons and Curtis Hall developed 105,500 sq ft, the eight other units (89%) are all classed as second hand.

Take-up

Following two strong years of take-up, activity within the region has fallen to the lowest levels since 2014. Take-up reached 995,106 sq ft through five separate deals; a 50% fall from 2017 take-up and a 66% decrease below the long term average, albeit with recent years being dominated by large deals by Lidl, The Range and Amazon.

All 2018 deals involved solely speculatively developed or build-to-suit demonstrating demand for high quality units. Indeed the two speculatively developed units let in 2018 with a void of below 8 months.

The largest deal of 2018 was B&Q acquiring G Park Swindon, a build-to-suit unit totalling 375,286 sq ft.

The market was dominated by retailers who accounted for 70% of the total space leased with manufacturing and automotive making up the balance.

Development Pipeline

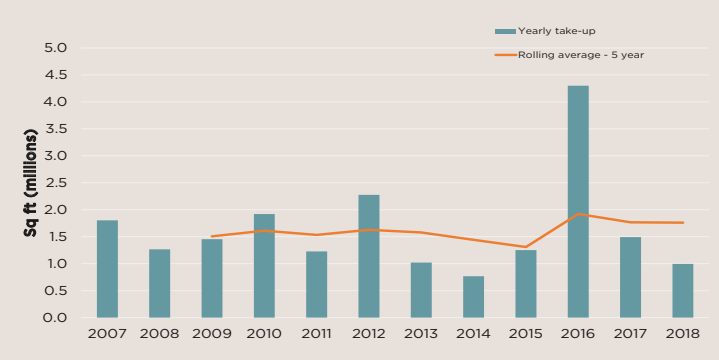
There is a total of 416,520 sq ft being speculatively developed across three separate units. The largest unit being Access 18 where St Modwen are speculatively developing 151,330 sq ft, set to reach practical completion in Q1 2019.

Key statistics

	Stats	yr/yr change
Take-up	0.99m sq ft	↓ 33%
Supply	2.03m sq ft	↑ 43%
Development Pipeline	0.42m sq ft	↑ 27%
Quoting Grade A Rent	£7.25/sq ft	no change
Vacancy rate	7.3%	↑ 200 bps

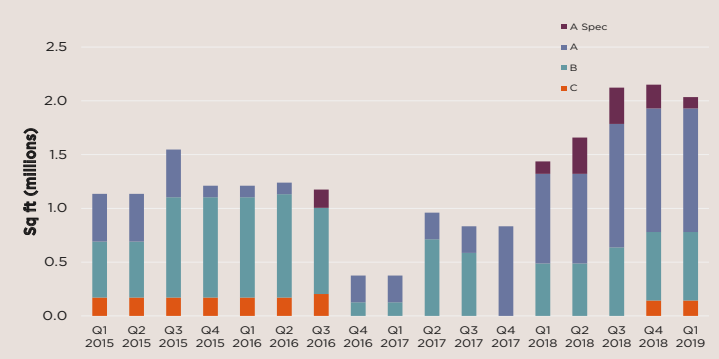
Source Savills Research

Take up returns to 2014 levels



Source Savills Research

Supply Just over a years supply on the market



Source Savills Research

> It is pleasing to see new speculative units come forward which, with vacancy rates so low in the region, will drive rental growth

East of England

Next wave of development sites will drive future demand

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Supply

Even with the delivery of 353,732 sq ft speculative space at Suffolk Park Bury St Edmunds the total supply of units over 100,000 sq ft has fallen year on year and now stands at 861,833 sq ft across five separate units.

The main driver for the fall in supply has been almost 500,000 sq ft of grade C space being withdrawn from the market in King's Lynn after Gardman chose to re-occupy after their Midlands warehouse was damaged by fire.

All units in the region on the market are under 300,000 sq ft, with the average size being 172,000 sq ft. The largest unit on the market is Huntingdon 252 which has been vacant for 16 months.

Take-up

Following on from four consecutive years of growth and the success of Gateway Peterborough, developed by Roxhill, which is now has just two plots remaining, 2018 has started slowly. There have been just three deals on units over 100,000 sq ft which total 467,470 sq ft.

Online retailer Yours Clothing have taken 127,470 sq ft at Newcombe House in Peterborough.

Meanwhile at Suffolk Park, Bury St Edmunds, Sealey Professional Tools has bought a seven acre site where they intend to construct a 110,000 sq ft unit for future expansion. The largest deal of the year has been LDH Ladoria who have purchased a site at Ipswich Gateway where Panattoni are constructing a 40m high unit of c.230,000 sq ft.

Development Pipeline

Following the delivery in Q4 2018 of two units at Suffolk Park Bury St Edmunds which total 353,732 sq ft there are no speculative units scheduled for delivery in 2019.

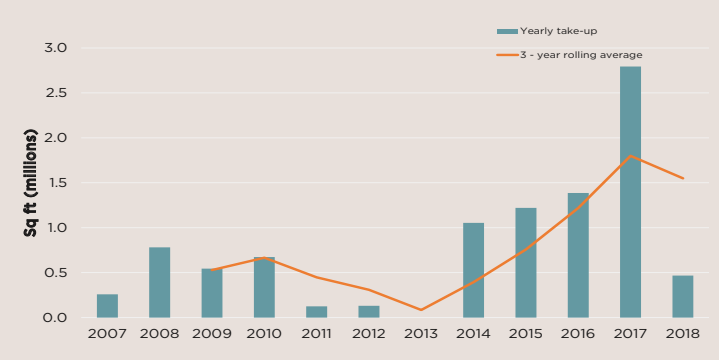
These units are the first speculative units to be delivered in the region for over a decade.

Key statistics

	Stats	yr/yr change
Take-up	0.47m sq ft	↓83%
Supply	0.86m sq ft	↓20%
Development Pipeline	0m sq ft	↓100%
Quoting Grade A Rent	£5.50/sq ft	no change
Vacancy rate	2.5%	↓50bps

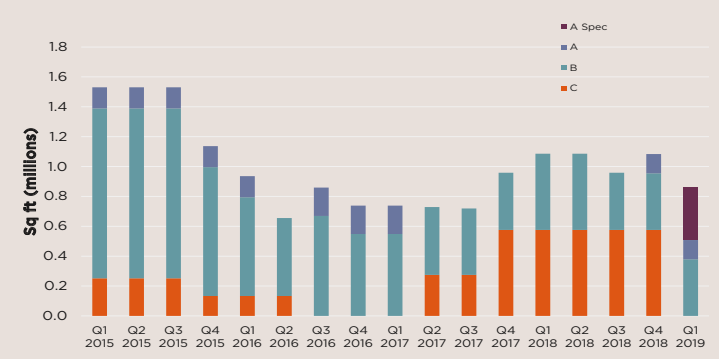
Source Savills Research

Take up falls to 2012 levels



Source Savills Research

Supply balance shifts towards grade A



Source Savills Research

> **The supply of new and modern space in Scotland is at a critical stage. It is felt that the market is on the cusp of receiving much needed speculative development. Until such time we continue to rely on Build-to-Suit opportunities.**

Scotland

Subdued big box market continues

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Lidl unit, Deans Industrial Estate

Supply

The supply of warehouse space in Scotland for units over 100,000 sq ft has risen by 38% in 2018 and now stands at 1.72m sq ft across the Central Belt.

This is made up of 11 separate units of which all bar two are between 100,000 and 200,000 sq ft, with the average size being 156,232 sq ft.

The largest unit on the market in Scotland at present is the former Lidl RDC at Deans Industrial Estate which totals 291,710 sq ft, which came to the market in the second quarter of 2018. This follows the purchase of 50 acres by Lidl at Eurocentral where a new 750,000 sq ft RDC is currently under construction and due for occupation in 2020.

Take-up

Largely predicated by the lack of good quality supply the deal flow for units over 100,000 sq ft in Scotland this year has been subdued with just one unit transacted so far this year.

Drinks manufacturer BrewDog has completed the acquisition of the Vertex building at Eurocentral near Motherwell.

The 128,000 sq ft unit sold for a capital value rate of £60 per sq ft.

Along with the reduced supply, take up has perhaps also been constrained by occupiers seeking critically required features which existing second had speculative buildings can't offer or adapt to provide.

Development Pipeline

There are no units under construction speculatively over 100,000 sq ft in Scotland meaning we do not expect vacancy rates to fluctuate in the medium term.

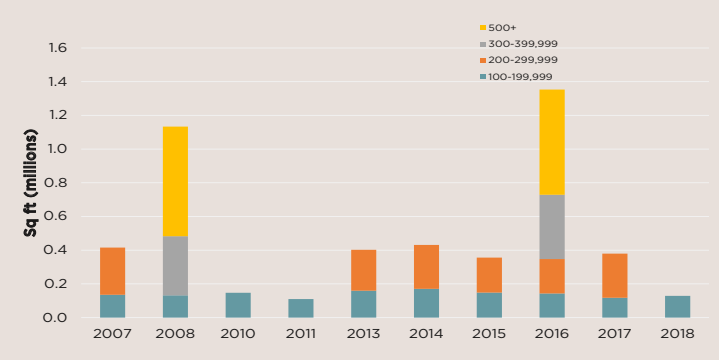
Larger scale occupiers such as Lidl and DPD for example have elected to purchase land at Eurocentral and progress Built to Suit with their preferred developer. However it is hoped that the lack of supply will encourage new development, albeit, typically for Scotland this is very much likely to be under 100,000 sq ft.

Key statistics

	Stats	yr/yr change
Take-up	0.13m sq ft	↓66%
Supply	1.72m sq ft	↑38%
Development Pipeline	0 sq ft	no change
Quoting Grade A Rent	£5.75/ sq ft	↑9.5%
Vacancy rate	4.9%	↑135 bps

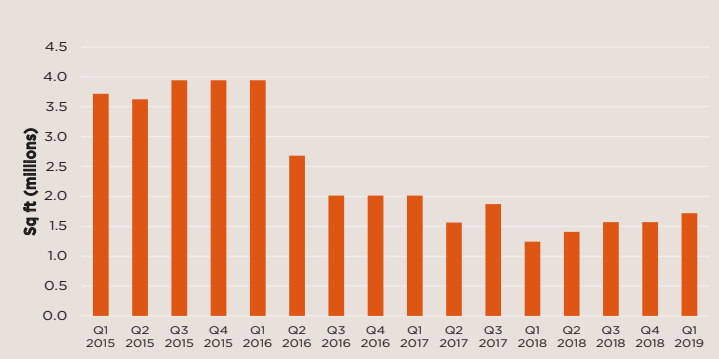
Source Savills Research

Take up falls to 2011 levels



Source Savills Research

Supply slight rise in 2018



Source Savills Research

> Relative to other sectors which saw significantly reduced transaction levels, volumes and notably pricing logistics proved stubbornly resilient despite growing geopolitical and economic uncertainty

National investment

Market proves to be resilient and liquidity remains

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The Hub, traded for 4.63%

The industrial and logistics market continues to be resilient despite the many geopolitical and economic headwinds converging on the commercial real estate asset class as a whole.

It is therefore encouraging that investment volumes for distribution warehouses have reached £3.55bn for 2018, marginally lower than 2017. The three year rolling average has now reached a new height of £3.32bn, the highest level ever recorded and up from £2.1bn just five years ago.

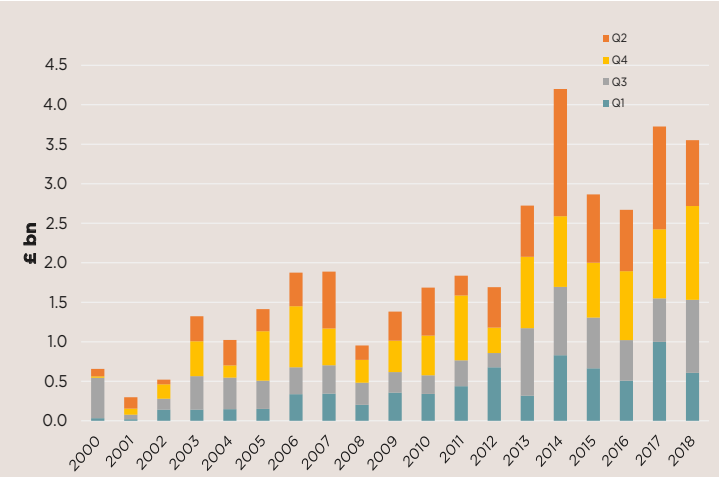
By almost every metric 2018 mirrored 2017 - deal count, average lot sizes and the proportions of deals within certain ranges were all broadly in line with last year. 2018 did however lack larger portfolio transactions over £300m, with two of that scale in 2017.

The largest single let transaction of the year was Tritax's forward funding of a 1.99m sq ft facility Amazon facility in Durham. Upon completion Amazon will take a 20 year lease at a rent reflecting a net initial yield of 5.25%.

Savills prime yields have remained largely static for the last 12 months and now stand at 4.25% for prime single let logistics units and 4.00% for multi-let industrial estates, the lowest level ever seen.

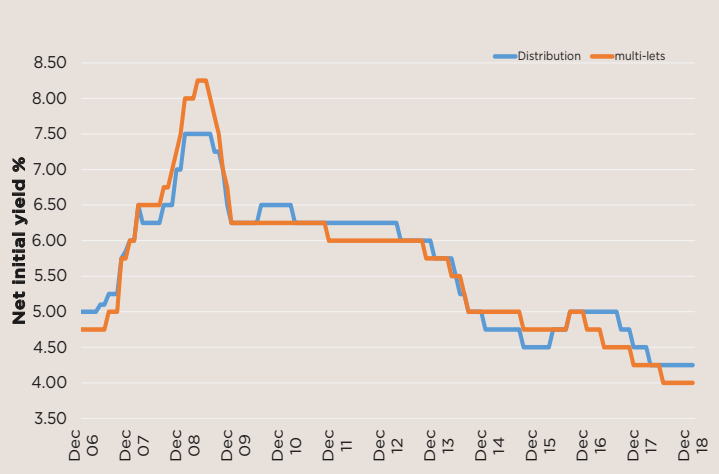
As we move through 2019, we expect that continued Brexit uncertainty will see some investors pause for thought until greater clarity emerges although given the sustained popularity of the sector amongst investors it is difficult to envisage any significant adjustment in pricing, notwithstanding any political or economic shocks.

Investment volumes slight fall in 2018

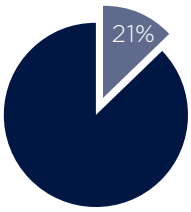


Source Savills Research

Prime investment yields remain static



Source Savills Research



In November 2018 online retail accounted for its highest proportion of retail sales ever

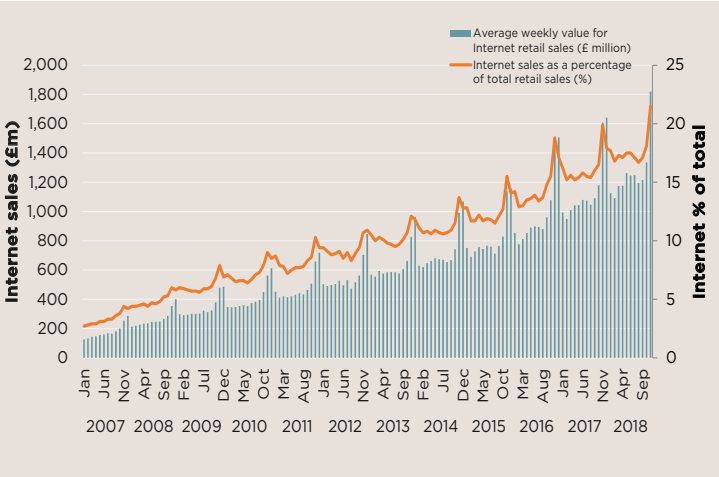
2019 Outlook

Is Brexit a non event when compared to structural change?

A glance at the mainstream press would suggest that companies are stockpiling product at such a rate that supply cant keep track of demand. To date Savills have tracked just two deals over 100,000 sq ft that have any link to Brexit at all. That may change of course as preparations for "no deal" intensify but it remains to be seen how the short term Brexit related requirements will marry up with the longer term aspirations of the landlord community.

More likely to have an impact on demand is the continued shift online which in November reached its highest level ever of 21.5%. Global Data are forecasting online spend to reach £75bn by 2023 which based on historical norms would suggest an extra 20m sq ft being required, but based on recent take-up levels would actually seem conservative.

Online retail reaches highest level ever



Source ONS

BUILD COST AND PROGRAMME

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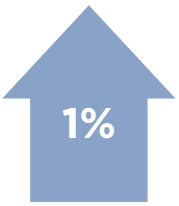
The latest indicators from the Savills ProgrammE and Cost Sentiment Survey (S.P.E.C.S) demonstrate that build costs and programme delivery time scales have remained largely static for the second half of 2018.

Continued geo-political uncertainty does however have the potential to impact two of the key elements of build costs and programme length; the price and availability of steel and the availability of skilled labour

Uncertainty around Brexit will keep overseas contractors away from the UK. Combined with an already strong speculative and build-to-suit programme the sector could face labour shortages into 2019.

With no end in sight to the current trade war between the USA and China, combined with further currency fluctuations the price of imported steel could change further into 2019.



Overall 2019 tender price inflation forecast by Gardiner & Theobald

Savills Research
We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the UK property market.

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