savills

Big Shed Briefing

July 2017

Lyons Park in Coventry where Goodman, advised by Savills, have leased a unit of 440,000 sq ft to a major online retailer

SUMMARY

Subdued start compared to 2016, but in line with long term trends

■ The huge levels of demand from online retailers seen in 2016 has not continued into 2017. However, the market is performing to long term averages with 11.8m sq ft transacted in the first half of the year.

■ We view this more a "pause for thought" as requirement levels remain robust and we expect a number of large requirements to be satisfied in the second half of the year.

■ The West Midlands, South West and the East of England have performed exceptionally well. All regions have seen above average levels of take-up.

■ Nationwide supply has risen by 1.5m sq ft since the turn of the year, and now stands at just over 28m sq ft. However, it should be noted that given the nature of the market this volatility should be expected as large units being developed speculatively, subsequently marketed and then occupied can easily skew reporting.

■ Investment volumes remain strong with £2.3bn deployed into the sector in 2017. The number of deals has fallen by a third, but a number of large capital investments and portfolio transactions have maintained the buoyant investor sentiment.

"With no sign of over development in the sector, the market is well positioned to ride out a short period of subdued occupier demand, when compared to the record levels of take-up achieved in 2016" Kevin Mofid, Head of Industrial & Logistics Research

Nationwide Overview

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Given the political uncertainty which engulfed the UK after the vote to leave the EU it was, in many respects, astonishing to see take-up levels reach record levels in 2016.

Into 2017 negotiations between the UK and the EU are now under way, inflation is increasing, and the residual impact of an unexpected General Election is still being felt. It should come as little surprise therefore that transaction levels in the sector have faltered.

Two key demand drivers however have not changed; the continued shift towards multi-channel retailing and the continued investment in, and growth, of the UK automotive manufacturing sector. And on the supply side, development remains restrained meaning that supply levels are still way below any previous peak.

Latent demand should see take-up levels increase into the second half of the year and there is no evidence to suggest a development boom is planned.

Take-up

■ At a nationwide level take-up has reached 11.8m sq ft for the year to date, a fall of 4.2m sq ft on 2016, but 1% higher than the 10 year average. By deal count, however, the picture is less pleasing, with 47 transactions completed in the first half of the year, the lowest level since 2012.

■ The headlines were also bolstered by the news that Amazon has concluded a deal to purchase land and construct another 2.2m sq ft unit near Bristol, similar to what is already under construction in Tilbury. Savills research will continue to monitor deals of this type, which may suggest the evolution of a new sub class in the sector.

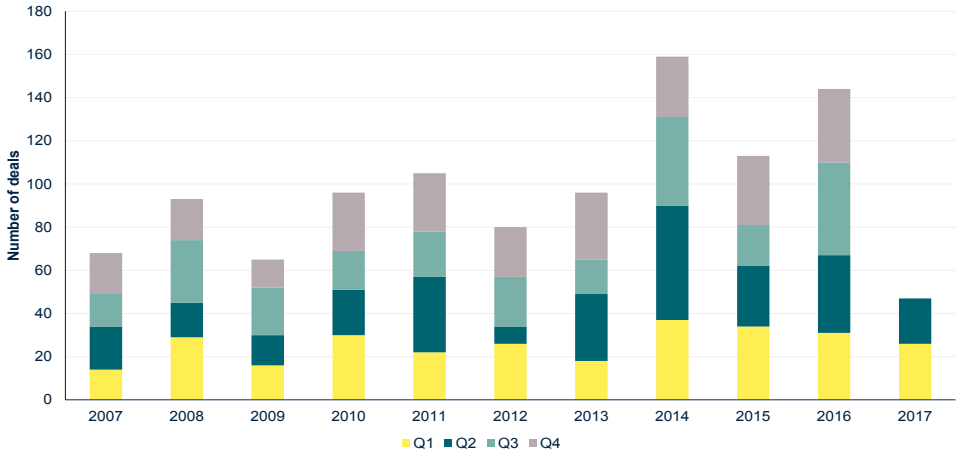
Supply and Pipeline

■ Total supply in the UK has risen 1.5m sq ft in 2017 to 28m sq ft. This has been driven in the most part by a slight increase in the number of speculative units reaching completion and now entering our supply statistics.

■ 3.6m sq ft of space is currently under construction and due for delivery in 2017 and into 2018.

FIGURE 1

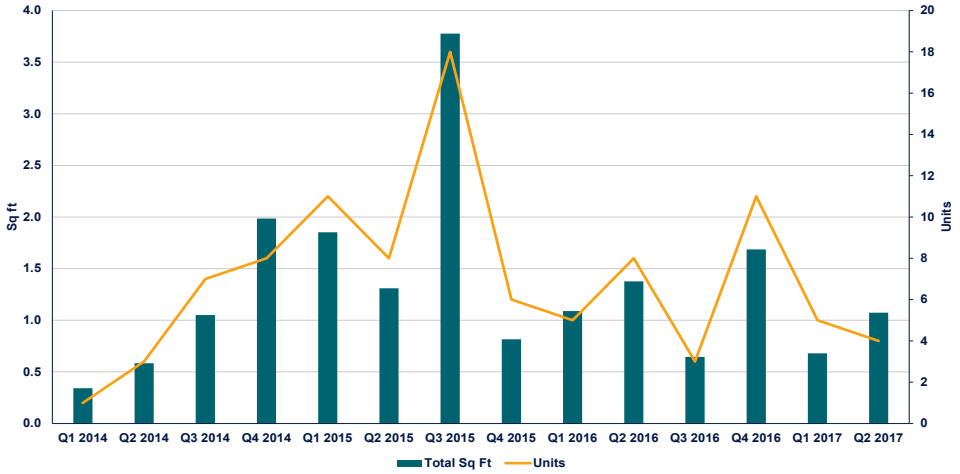
National take-up by deal count



Source: Savills Research

FIGURE 2

Speculative developments announcements fall



Source: Savills Research

▼ Amazon four level warehouse under construction at London Distribution Park . Image Source: Oranmore Precast

London & The South East

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"Whilst there has been a paucity of transactional evidence in the first half of 2017 requirement levels are generally strong, meaning we expect a strong second half of the year, as was the case in 2016." Toby Green, Director: Agency

Supply

■ Falling from 5.5m sq ft at the start of 2016 there is currently 4.7 million sq ft available in the London & the South East across 27 existing units. Supply has increased by 18% from Q4 2016 after a flurry of speculative developments reached completion.

■ The vast majority of supply is sub 200,000 sq ft, indeed there are just six units on the market larger than this, spread across the region from Milton Keynes, to London Gateway and to Andover where he largest unit in the region is Angle 340 at 336,800 sq ft, which was speculatively developed by Goodman and completed in 2016.

■ Due to the number of speculative starts in 2015 and early 2016 units there are now ten speculatively developed units on the on the market totalling 1.9 million sq ft. The region has the highest amount of speculatively developed space available in the UK totalling 2.0 million sq ft which equates to 44% of the total available supply.

Take-up

■ 1.3m sq ft of deals signed in H1 2017 which represents a subdued start to the year as this is 29% below H1 2016 and 46% below the long term average. There were ten deals recorded in H1 2017 which was marginally below the long term average.

■ Given the lack of poorer quality space it is no surprise that 79% of the space transacted in the first half of the year is classified as grade A. There were three deals which involved speculative units being let in H1 2017 which totalled 312,247 sq ft. The quality of the units transacted is reflected in the average rent in the region increasing to £8.09 per sq ft.

■ The largest deal in H1 2017 was Eddie Stobart leasing 180,000 sq ft in Dagenham in a build-to-suit deal. There have been no deals above 200,000 sq ft in 2017 which is reflected in the average deal size in the region which is 129,561 sq ft.

Development Pipeline

■ There are four units currently under construction in the region totalling 900,660 sq ft. The largest unit being Altitude in Milton Keynes where IDI Gazeley is speculatively developing 574,000 sq ft, due to reach completion in early 2018. This is also the largest unit under construction across the whole of the UK.

▼Altitude being developed by IDI Gazeley

TABLE 1

Key Stats

	Stats	Yr/Yr change
Take-up	1.3m sq ft	↓ 29%
Supply	4.7m sq ft	↓ 3%
Development Pipeline	900,660 sq ft	↓ 8%
Quoting Grade A Rent	£7 - £14.50 /sq ft	↔
Vacancy Rate	5.0%	↓ 20bps

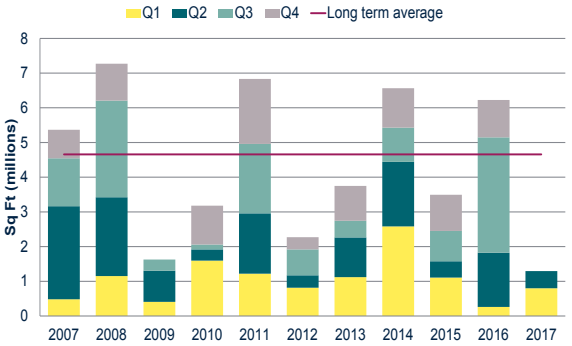
FIGURE 3

Supply by grade

Source: Savills Research

FIGURE 4

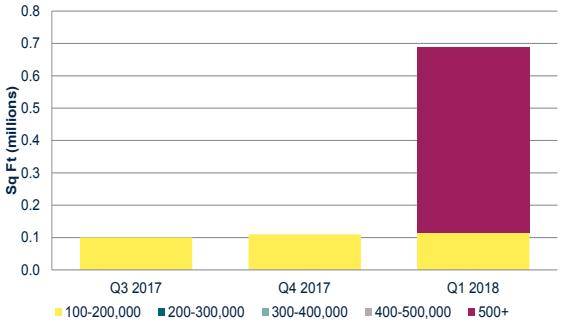
Take-up



Source: Savills Research

FIGURE 5

Development pipeline by size



Source: Savills Research

East Midlands

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"The fact that the East Midlands is well supplied with units across size ranges will put the market in good stead to capture more footloose requirements" Charles Spicer, Director: Agency

Supply

■ There is currently 4.5m sq ft available across 18 existing units, supply has remained relatively stable with just a 6% increase from 2016.

■ The space available in the East Midlands is good quality with 3.7m sq ft of the available space classified as grade A, although some of this will be second hand. There are six units, which have been speculatively developed, available. All of these achieved practical completion in 2016.

■ There is a good choice of units available in each size band which is unlike most regions where there are lack of units available over 200,000 sq ft. There are five units available above 300,000 sq ft, the largest being Tectonic 500 which comprises 499,951 sq ft.

Take-up

■ The East Midlands region has witnessed a relatively quiet year for transactional activity as take-up totals just 1.1 million sq ft. This is 66% below H1 16 and a 42% decrease from the long term average. We are aware of a number of units that are close to going under offer and some large scale occupiers seeking space before the end of 2017.

■ There were seven deals recorded in H1 2017 of which 71% were classified as grade A units. The largest unit transacted was a build-to-suit at Brackmills, Northampton where First Industrial is building a 256,029 sq ft unit for Stanley Black & Decker. Apart from this deal, all the other transactions in H1 2017 were between 100,000-200,000 sq ft.

■ Despite the strong speculative development in the region, there was only one speculative unit let in H1 2017 which was DVP 118 near Derby where TopHat, a modular housing manufacturer and developer, leased 118,000 sq ft. The manufacturing and automotive sector has been the driver of demand accounting for 75% of the units transacted.

Development Pipeline

■ There are five units under construction in the region totalling 812,094 sq ft, the largest being Nickel 28 in South Normanton where Thorngrove is speculatively developing 261,000 sq ft, anticipated practical completion is Q3 2018.

▼DVP118: Let to modular house builder Top Hat industries

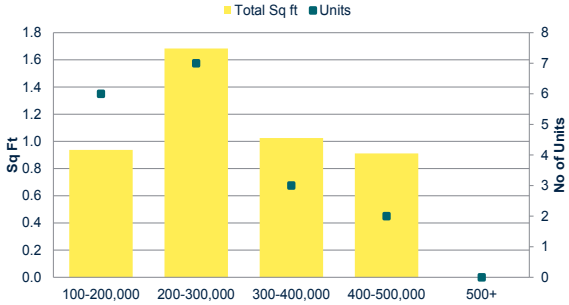
TABLE 2

Key Stats

	Stats	Yr/Yr change
Take-up	1.1m sq ft	↓ 66%
Supply	4.5m sq ft	↓ 8%
Development Pipeline	812,094 sq ft	↑ 198%
Quoting Grade A Rent	£6.50/sq ft	↔
Vacancy Rate	5.8%	↓ 50bps

FIGURE 6

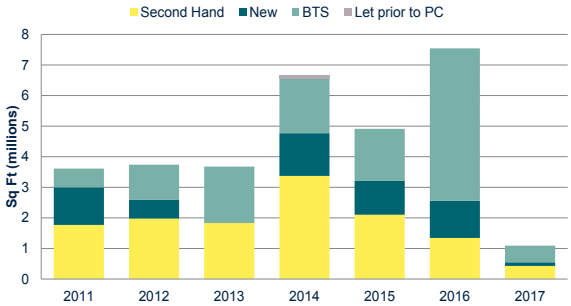
Supply by size



Source: Savills Research

FIGURE 7

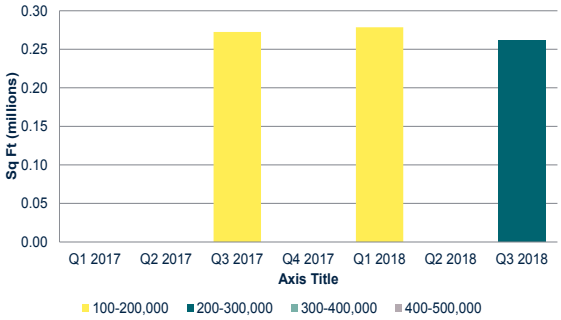
East Midlands take-up



Source: Savills Research

FIGURE 8

Development pipeline by size



Source: Savills Research

West Midlands

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"With take-up in the West Midlands already eclipsing the annual long term average it is clear there is occupier demand for the right product in the right location" Ranjit Gill, Director: Agency

Supply

■ Developers have responded to the previous chronic lack of stock in the West Midlands and available space has increased by 16% from the end of 2016. There is currently 3.5m sq ft available, of which 58% is classified as grade A.

■ There are seven units speculatively available in the region totalling 1.5m sq ft and six of these reached completion in 2017. The largest speculative unit available is M6DC in Cannock which comprises 372,000 sq ft. There has also been strong development activity in Coventry where three new units have achieved practical completion in 2017 totalling 718,546 sq ft.

Take-up

■ There has been strong levels of take-up in H1 2017 with 4m sq ft recorded which was 58% above H1 2016 and a 95% increase on the long term average. This was the strongest H1 take-up performance on record.

■ Despite the strong levels of speculative development there was still strong demand for build-to-suit space with 1.7m sq ft being transacted which equated to 42% of total take-up. Given the fact that there are only three units available over 200,000 sq ft, build-to-suit has been the only viable option for occupiers who are seeking large units.

■ The strong demand for speculative units in the region was evident in H1 2017 with a number of speculatively developed units being let. Two of these units were located in Rugby with Roxhill and Segro's Rugby Gateway scheme anticipated to be fully let in the upcoming quarter.

■ The automotive sector has been the most active business sector in the region accounting for 46% of take-up. Notable occupiers active from this business sector include Jaguar Land Rover, Michelin and Polytec.

Development Pipeline

■ There is currently 741,308 sq ft under construction in the region across six schemes, the largest being Conneqt Alpha in Cannock where Opus is speculatively developing 153,635 sq ft. All of these units are between 100,000-200,000 sq ft, meaning the shortage of new units over 200,000 sq ft will continue in the medium term.

▼M6DC Cannock, developed by Graftongate

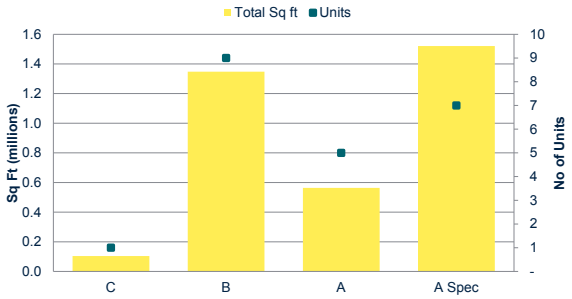
TABLE 3

Key Stats

	Stats	Yr/Yr change
Take-up	4.0m sq ft	↑ 58%
Supply	3.5m sq ft	↑ 60%
Development Pipeline	741,308 sq ft	↑ 68%
Quoting Grade A Rent	£7.00/sq ft	↑ 7.7%
Vacancy Rate	5.5%	↓210bps

FIGURE 9

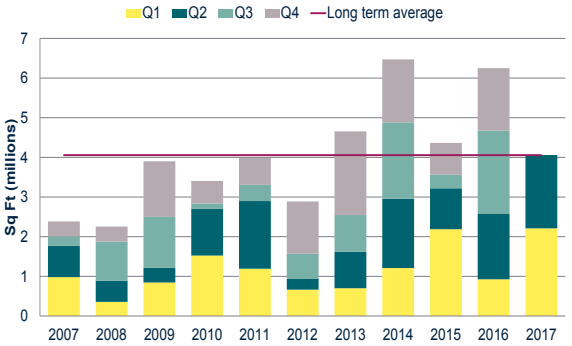
Supply by grade



Source: Savills Research

FIGURE 10

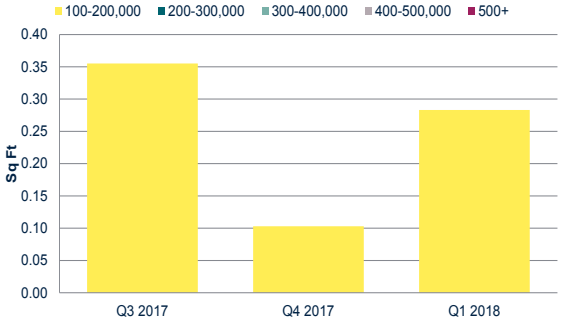
Take-up



Source: Savills Research

FIGURE 11

Development pipeline by size



Source: Savills Research

North West

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"The North West has seen a slow start to the year, but transactional activity is continuing to pick up. We are therefore expecting a strong end to the year." Jonathan Atherton, Director: Agency

Supply

■ The North West has the highest amount of units available across the whole of the UK, although the majority of these are poor quality and are arguably not fit for purpose in the modern supply chain. Indeed, 73% of total space available in the North West is classified as grade B or C which equates to 4.2m sq ft, again, the highest amount in the UK.

■ Whilst there is currently 5.5m sq ft available across 33 separate units, the supply has fallen by 11% from Q4 2016. This has been caused by strong take-up of speculative units in the market, with three being let in H1 2017. The largest unit currently available is Warrington 379 which comprises 378,942 sq ft, this unit is of grade B quality.

Take-up

■ Take-up in the North West reached 1.5m sq ft by the end of H1 2017 which represented a quiet start to the year. This is reflected in the fact that take-up is 28% below the same stage in 2016.

■ It is encouraging though that there is clear occupier demand for speculatively developed units in the region. As previously mentioned there have been three speculative units let in H1 2017, the largest being 360 at Logistics North where Amazon leased 357,700 sq ft in Bolton. Surprisingly there has not been a build-to-suit deal signed this year in the North West, this is unusual as the long term average take-up share proportion of build-to-suit space is 37%.

■ The average deal size in the region for the year is 191,125 sq ft and the 100,000-200,000 sq ft size band was the most popular amongst occupiers in H1 2017 with 63% of deals being recorded in this size band. There have only been two deals this year above 300,000 sq ft the aforementioned Amazon deal at Logistics North and Accroll Papers leasing 368,000 at Unit 3/4 Skelmersdale M58.

Development Pipeline

■ There is 420,847 sq ft under construction across three units, the largest being Magnitude where DB Symmetry is building a 145,000 sq ft unit. The most recent announcement was Orbit Developments embarking on construction of a 110,000 sq ft unit at Academy Business Park in Knowsley.

▼360 at Logistics North

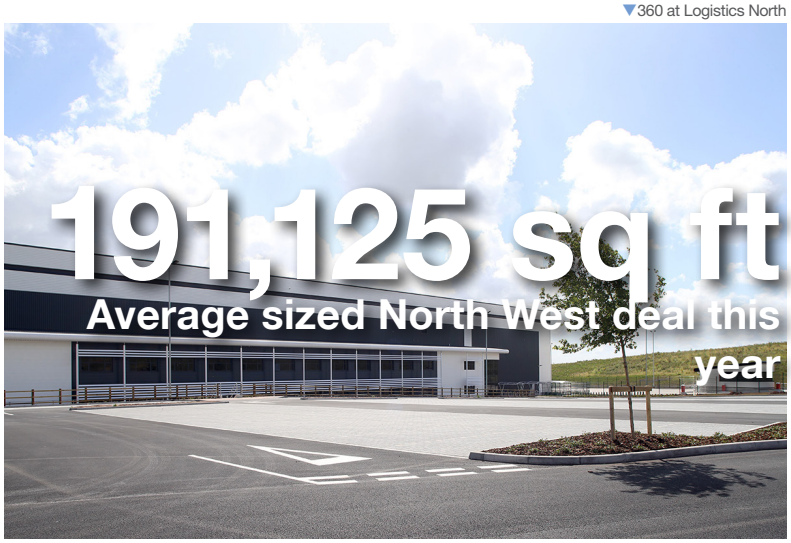


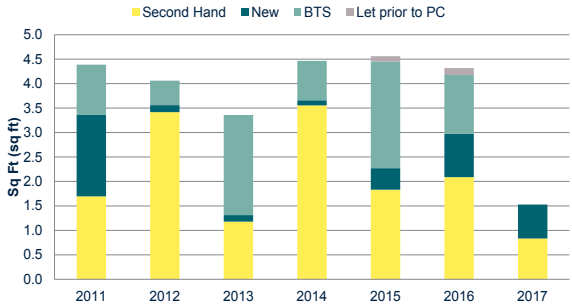
TABLE 4

Key Stats

	Stats	Yr/Yr change
Take-up	1.5m sq ft	↓28%
Supply	5.5m sq ft	↑ 16%
Development Pipeline	420,847 sq ft	↑ 180%
Quoting Grade A Rent	£6.50/sq ft	↔
Vacancy Rate	8.5%	↑ 110bps

FIGURE 12

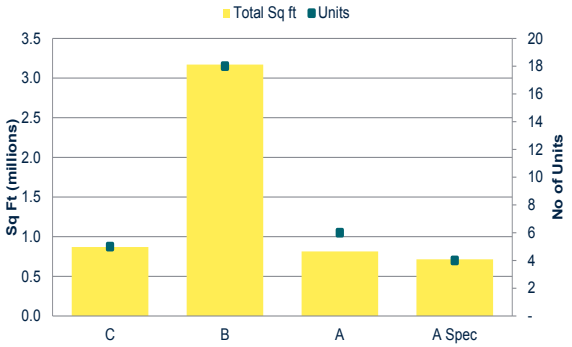
Take-up



Source: Savills Research

FIGURE 13

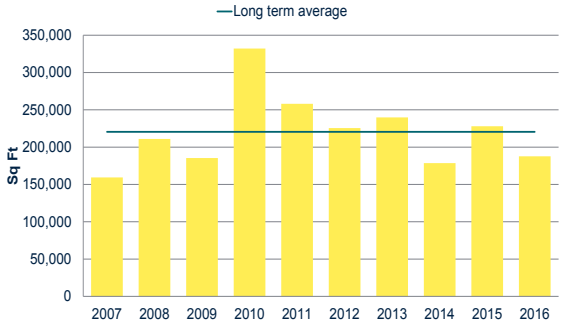
Supply by grade



Source: Savills Research

FIGURE 14

Average deal size



Source: Savills Research

Yorkshire & The Humber

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"There has been a welcome increase in supply in the region in 2017 which will benefit occupiers who have put off decisions due to the lack of available units" Dave Robinson, Director: Agency

Supply

■ The Yorkshire market has seen an increase in available supply this year after the former Polestar unit, now re-branded Sheffield 615, has come to market after a comprehensive refurbishment.

■ There is currently 2.8m sq ft available across 15 existing units, meaning available supply has increased by 12% since Q4 16. The aforementioned Sheffield 615 is now the largest available unit in the country.

■ Following the refurbishment of Sheffield 615, grade A units account for the highest proportion of space available at 54%. The completion of the speculatively developed IP2e at Iport, Doncaster has added 195,000 sq ft to grade A supply.

Take-up

■ After a strong 2016 take-up in the Yorkshire and Humber region has levelled off in H1 2017 with only 736,894 sq ft being transacted. This reflects a 61% decrease from H1 2016 take-up. It was to be expected that take-up would drop in 2017 after 2016 witnessed very strong build-to-suit take-up activity of large units at Verdion's Iport scheme in Doncaster.

■ There were only four transactions in H1 2017. The largest grade A deal was Allied Glass Containers leasing 190,000 sq ft at Wakefield Eurohub. There was only one other grade A deal in the region in 2017 which was Buy it Direct leasing 162,000 sq ft at Transpennine 62 in Elland.

■ Three of the four deals recorded this year have been between 100,000-200,000 sq ft, which in some way can be attributed to a lack of supply of large units, there are currently just two units available above 200,000 sq ft and only one of these is grade A, Sheffield 615.

Development Pipeline

■ There is only one unit over 100,000 sq ft under construction in the Yorkshire region at the moment. DB Symmetry are delivering the 150,000 sq ft SP1 unit at Symmetry Park, Doncaster, due for completion on Q1 2018.

▼Sheffield 615 from Logicor

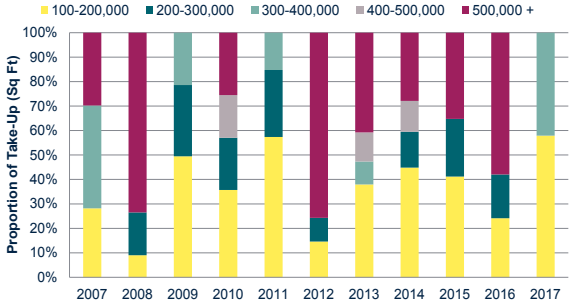
TABLE 5

Key Stats

	Stats	Yr/Yr change
Take-up	736,894 sq ft	↓ 61%
Supply	2.8m sq ft	↑ 9%
Development Pipeline	150,000 sq ft	↓ 23%
Quoting Grade A Rent	£5.75/sq ft	↔
Vacancy Rate	6.1%	↑ 50bps

FIGURE 15

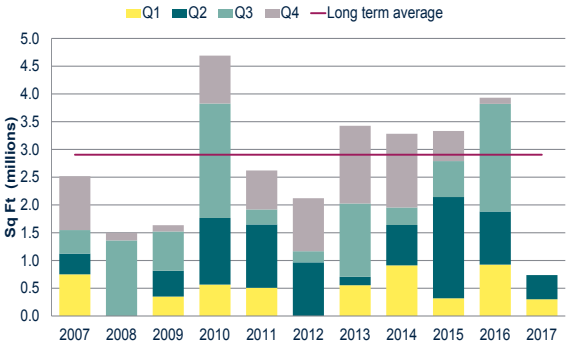
Take-up proportion by size



Source: Savills Research

FIGURE 16

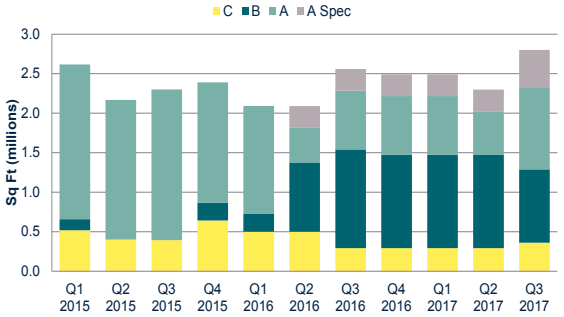
Take-up



Source: Savills Research

FIGURE 17

Supply by grade



Source: Savills Research

South West

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"The South West remains a popular destination for occupiers, particularly those seeking land for large scale build to suit units" Rob Cleeves, Director: Agency

Supply

■ At the end of 2016 available supply in the South West was at chronic low levels and whilst this has been slightly alleviated by two units being added to the market this year, available supply is still heavily constrained.

■ There is currently 833,624 sq ft available across three existing units, the space available in the South West has increased by 122% since the end of 2016 after available supply was at a chronic low of 374,904 sq ft. The largest unit on the market is 200 Western Approach in Avonmouth where 315,747 sq ft is available.

Take-up

■ After a record year for take-up in 2016 in the South West, there has been a decrease in take-up in H1 2017 as take-up was 29% below the same stage in H1 2016. Although this was to be expected due to the supply constraints present in the region. H1 2017 take-up reached 2.5m sq ft, this was aided by Amazon purchasing 33.5 acres of land at Central Park, Bristol where they plan to develop their own 2.2m sq ft unit, however if you exclude this deal only 261,880 sq ft was transacted in H1 2017.

■ There have been no deals for existing units in the South West in H1 2017. This has been primarily caused by the lack of units available in the 100,000-200,000 sq ft size band which is the most active size band for which occupiers operate within.

■ The largest deal in the region this year, aside from the Amazon deal, was DHL acquiring 160,000 sq ft at Central Park in Bristol. This continues the high levels of activity at the scheme as 1.9m sq ft was either let or sold there in 2016. The only other deal to take place was TB Engineering acquiring 101,880 sq ft at Goodman's Gloucester Business Park.

Development Pipeline

■ There are four units in the development pipeline totalling 658,600 sq ft which will slightly alleviate the supply constraints present in the market. The largest unit under construction is Unit 1 Symmetry Park, Swindon where DB Symmetry is speculatively developing 217,000 sq ft.

▼Central Park

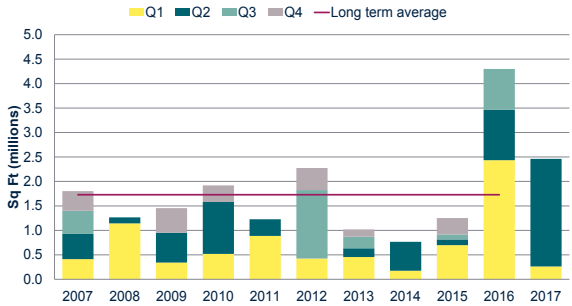
TABLE 6

Key Stats

	Stats	Yr/Yr change
Take-up	2.5m sq ft	↓ 29%
Supply	833,624 sq ft	↓ 29%
Development Pipeline	658,600 sq ft	↑ 60%
Quoting Grade A Rent	£7.25 per sq ft	↑ 3.5%
Vacancy Rate	3.8%	↓ 160bps

FIGURE 18

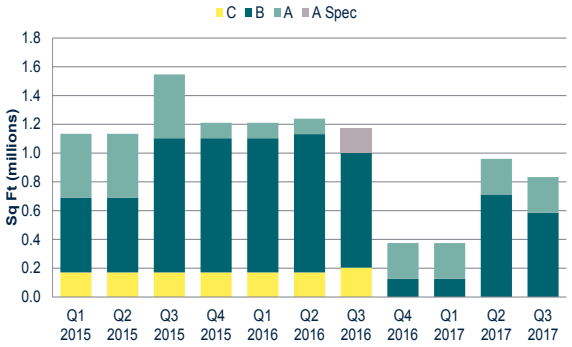
Take-up



Source: Savills Research

FIGURE 19

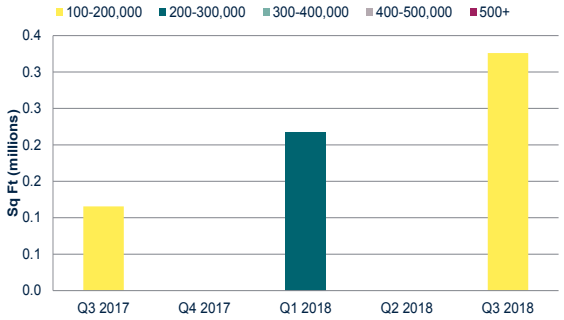
Supply by grade



Source: Savills Research

FIGURE 20

Development Pipeline



Source: Savills Research

East of England

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"Demand remains stable in the region as occupiers are attracted by cost effective rents along with the willingness of landowners to release parcels of freehold land" William Rose, Director: Agency

Supply

■ Supply in the East of England has remained relatively static since the turn of the year with just 718,857 sq ft available representing a 3% decrease from Q4 2016. Indeed, there are just four existing units available in the entire market, demonstrating the supply issues which have hampered growth in the market in recent years are set to continue.

■ There are currently no grade A units available in the region and three of the four units that are currently available are between 100,000-200,000 sq ft. The largest unit on the market is the CDC Building where 274,951 sq ft is currently available.

Take-up

■ Take-up reached 389,699 sq ft in H1 2017 which represented a positive first half of the year for the market. Whilst H1 2017 take-up was 22% below H1 2016 take-up it was still 122% above the long term average.

■ The largest deal in the region in H1 2017 was Treatt acquiring 200,000 sq ft at Suffolk Park near Bury St Edmunds. This was the first deal at Jaynic's scheme which has outline planning for 2m sq ft of business, industrial and distribution space.

■ The only other deal to take place in the region in H1 2017 was Darts Product Europe leasing 189,697 sq ft at Kingston 189 in Peterborough. The lack of grade A space available in the region has hampered take-up from further increasing as there is clear occupier demand for grade A space exemplified by the deals in H1 2017.

■ The lack of grade A units available in the region will result in build-to-suit units being the only viable option, in the the short to medium term, for occupiers who are seeking to secure grade A warehouse space.

■ Manufacturers continue to be the most active business sector in the region. The sector accounted for 100% of take-up in H1 2017 and was the most active acquirer of space in both 2015 and 2016.

Development Pipeline

■ There are no units under construction in the East of England which will mean that the supply constraints that the market are experiencing will continue in the short term.

▼Suffolk Park, Bury St Edmonds

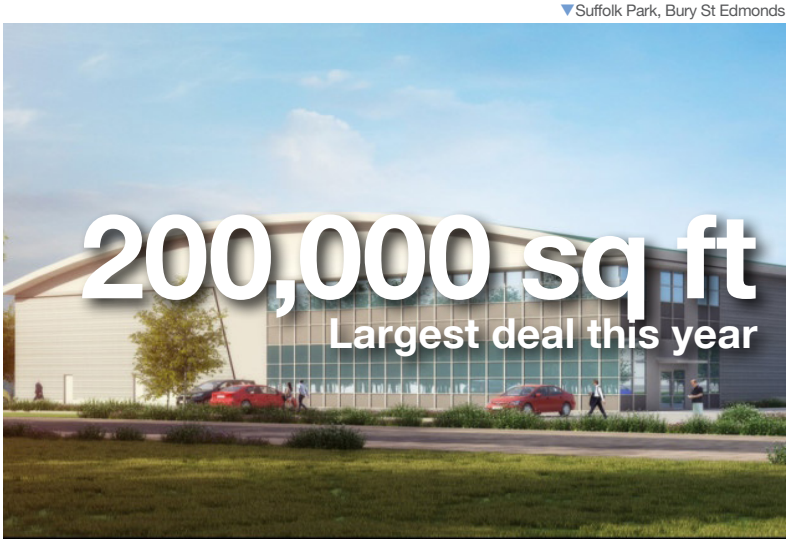


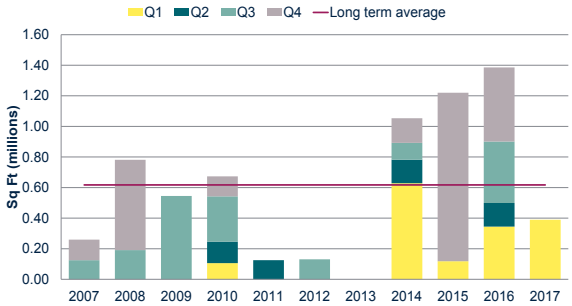
TABLE 7

Key Stats

	Stats	Yr/Yr change
Take-up	389,699 sq ft	↓ 22%
Supply	718,857 sq ft	↓ 16%
Development Pipeline	0m sq ft	↔
Quoting Grade A Rent	£5.25/sq ft	↔
Vacancy Rate	4.1%	↓ 80 bps

FIGURE 21

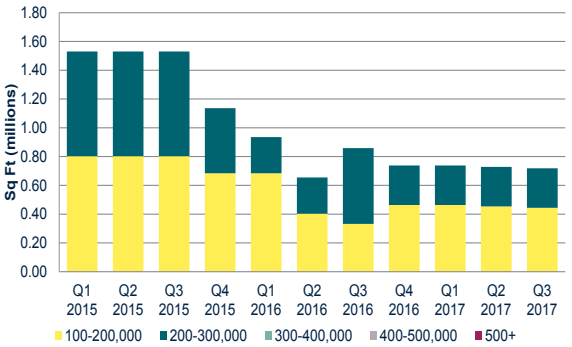
Take-up



Source: Savills Research

FIGURE 22

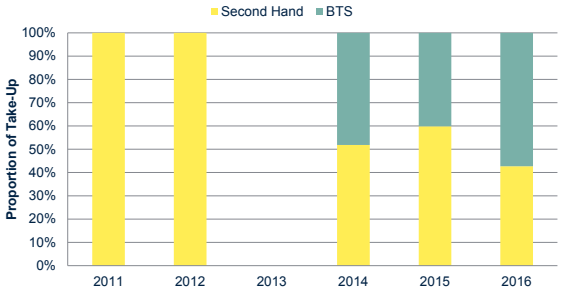
Supply by size range



Source: Savills Research

FIGURE 23

Take-up by grade



Source: Savills Research

Scotland

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"The lack of grade A supply is now critical in Scotland. Demand has been underwhelming for a variety of reasons but there is interest building and the challenge will the lack of supply suppressing the new demand " David Cobban, Director: Agency

Supply

■ The supply of warehouse space in Scotland for units over 100,000 sq ft has fallen by 7% in 2017 and now stands at 1.8m sq ft across the Central Belt.

■ This is made up of 12 separate units of which all bar three are between 100,000 and 200,000 sq ft, with the average size being 156,000 sq ft.

■ All of the units currently on the market are second hand, aside from the Vertex unit at Eurocentral which has been vacant since reaching practical completion in late 2011.

■ The largest unit on the market in Scotland at present is 5 Wardpark Road on the Wardpark South Industrial Estate in Cumbernauld which totals 263,905 sq ft.

Take-up

■ Take-up in Scotland for units over 100,000 sq ft has been historically volatile with take-up ranging from zero sq ft transacted per year to the record 1.7m sq ft transacted in 2016.

■ 2017 has however been disappointing for occupier demand for units over 100,000 sq ft, with no deals being recorded at the half way point of the year.

■ Based upon the long term average 694,599 sq ft of warehouse space over 100,000 sq ft is transacted per year.

■ Over the last ten years the occupier based in Scotland has been diverse with no one occupier type dominating take up. Indeed, food producers have accounted for 21% of all the space transacted compared to 19% of the market accounted for by the 3PL sector.

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.

■ With a number of occupiers recently choosing to build their own units, such as Lidl and other occupiers searching for land to construct their own units, the demand and supply case for future development remains strong.

▼Vertex, Eurocentral

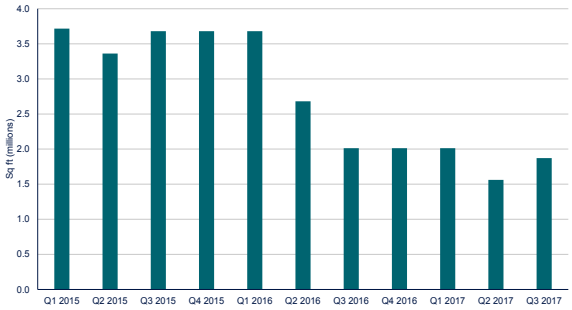
TABLE 8

Key Stats

	Stats	Yr/Yr change
Take-up	0 sq ft	↓ 100%
Supply	1.87m sq ft	↓ 7%
Development Pipeline	0m sq ft	↔
Quoting Grade A Rent	£5.25/sq ft	↔
Vacancy Rate	5.3%	↓ 40 bps

FIGURE 24

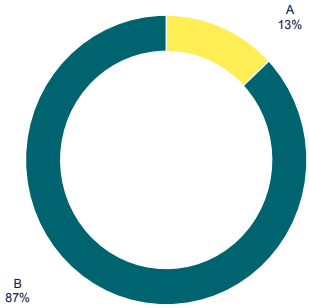
Supply



Source: Savills Research

FIGURE 25

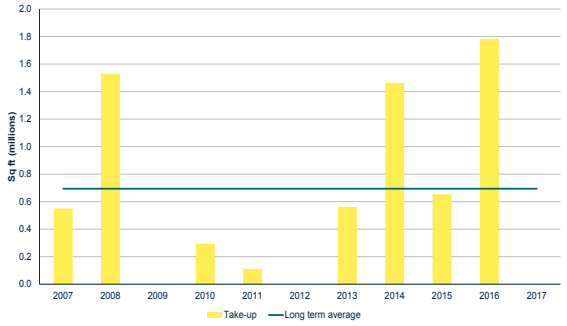
Supply by grade



Source: Savills Research

FIGURE 26

Take-up



Source: Savills Research

National Investment

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■ The positive sentiment aimed at the UK logistics sector has shown little sign of abating into 2017 as investment volumes have reached £2.3bn, almost £1bn higher than the same period in 2016 and 150% higher than the long term average.

■ The market was aided by a number of portfolio transactions. Project Apple saw CBRE Global Investment Partners invest £310m into a joint venture with Prologis whilst SEGRO took full control, from Aviva, of the Airport Property Partnership. Oxenwood also completed their acquisition of the Ultrabox portfolio in a joint venture with AIMCo of Canada.

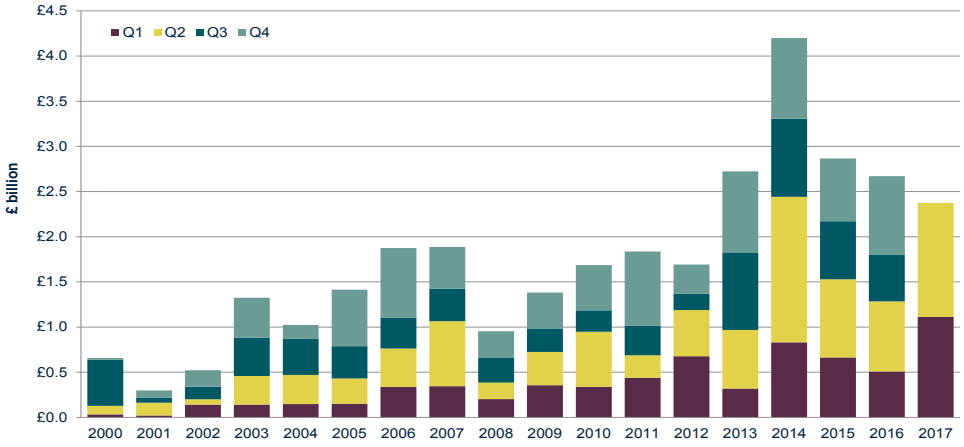
■ The largest single unit deal of the half year came at Hams Hall in the West Midlands where Far Eastern clients of KFIM purchased the 699,983 sq ft Sainsbury's Distribution centre for £98.5m, reflecting a net initial yield of 4.9%.

■ Stock availability remains an issue for investors as many of the largest owners are holding stock rather than trading. This is demonstrated by the fact that deal count has actually fallen year on year. First half investment volumes are made up of 77 deals compared to 116 for the same period in 2016.

■ The Savills prime yield remains unchanged at 5%, however there is increasing downward pressure as demand for prime assets remains high and stock levels low.

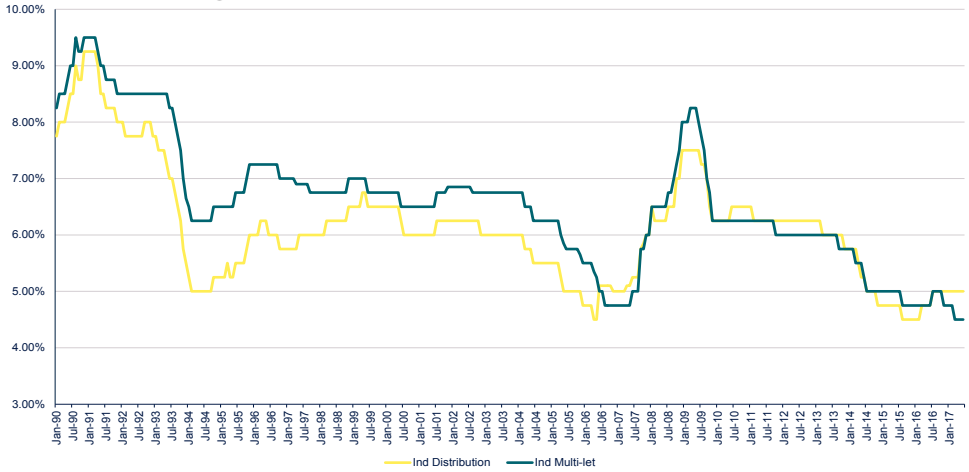
"Given the continued appetite of investors to deploy capital into the sector, and combined with strong competition for prime assets, there is potential for an inward yield shift in the second half of the 2017"
James Williams Director: Investment

FIGURE 27
National logistics investment volumes



Source: Savills/Property Data

FIGURE 28
Industrial & Logistics yields



Source: Savills

▼ Sainsbury's Distribution Warehouse Hams Hall

Build Cost & Programme

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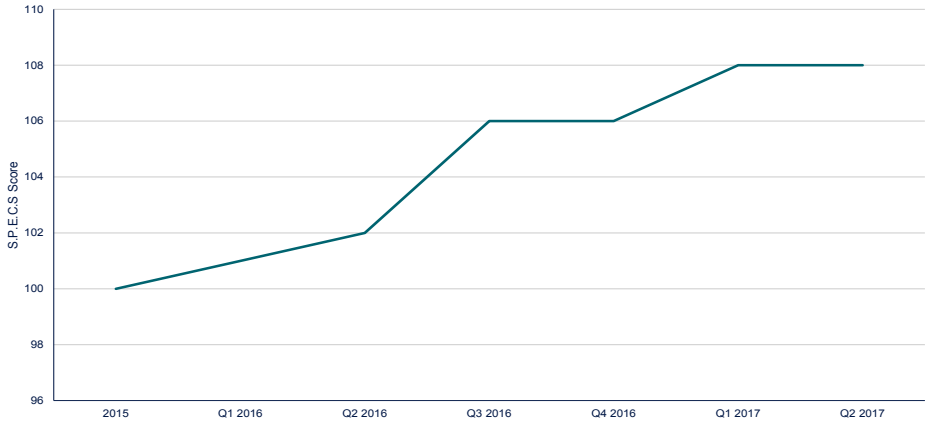
■ The latest indicators from the recently launched Savills ProgrammE and Cost Sentiment Survey (S.P.E.C.S) demonstrate that build costs and programme delivery time scales have stabilised into 2017.

■ Indeed, following an initial rise post EU referendum in build costs and construction time scales 2017 has seen contractors reporting an increase in activity.

■ Generally however, competition in the market is robust and tender returns maintain the view that we are not currently experiencing a rise in build costs. Moreover, given the fact that speculative deliveries have fallen into 2017 now could be considered a good time to tender for further speculative development.

FIGURE 29

Build cost and timescale sentiment



Source: Savills SPECS

OUTLOOK

Demand to rise in second half of the year

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■ With the news take-up has fallen and supply has increased it would be tempting to suggest that a nadir in the UK logistics market has been reached.

■ It should however be noted that as supply has fallen to such low levels that even small rises are, in percentage terms, highly volatile. Indeed, even as recently as January 2016 total supply stood at 33.4m sq ft.

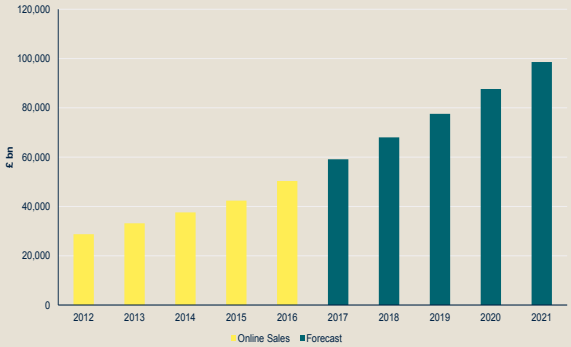
■ Savills are also monitoring the amount of space currently under offer to occupiers, which combined with regular market churn will see take-up levels rise into the second half of the year.

■ Brexit remains the key unknown in the market and the ramifications for the logistics industry, along with the retail and manufacturing supply chain remain unclear. Could markets with higher than average labour supplies be the net beneficiaries as occupiers look to open new units? If so this could see increased demand in Northern regions less dependant on migrant labour.

■ Regardless of Brexit, growth in online retail continues and supply chains continue to adapt. This will continue to see transactional activity as companies reorganise and expand their operations.

FIGURE 30

Online retail sales forecast



Source: Retail Economics

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