

# Big shed briefing



G Park Bedford, Wixams - where GLP, advised by Savills, have leased 530,000 sq ft across three units to MH Star

2021 take-up 86% above long-term average • Vacancy at 2.91% • Supply at lowest level recorded



Lowest nationwide vacancy rate ever recorded

# National overview

Another record year for take-up and supply at its lowest ever level



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As global economies continue to walk the tightrope of bouncing back from severe Covid related restrictions and the implementation of more public health measures to tackle the current Omicron wave, there remain huge pressures on supply chains which are in turn causing logistics property markets to function in ways we have not previously witnessed.

Whilst many countries are contending with abnormal demand and supply patterns for consumer goods and manufacturing materials the UK is also having to adapt to new trading arrangements with the European Union. From January 1st 2022 all customs declarations for goods entering the EU will have to be made prior to arrival at the border, whereas previously companies could wait 175 days after goods had arrived. As 2022 progresses more stringent, and physical checks, will take place on a wider variety of goods entering the UK. Many trade bodies are suggesting that whilst UK companies are well prepared to deal with the new arrangements concerns remain that European companies will take some time to adapt to the new arrangements, ultimately putting more pressure on a already fragile supply chain.

For companies manufacturing and selling in the UK one response could be to hold more inventory to mitigate for any unforeseen delays at the UK border. This is certainly evident in our latest market data which demonstrates that requirements and take-up are both at record levels.

Overall the logistics property market has proved able to rise to the challenge that Covid-19 has presented over the last two years, but with a backdrop of the lowest vacancy rate ever recorded and rising construction costs, it remains to be seen how the expected demand of 2022 can be satisfied.

## Take-up

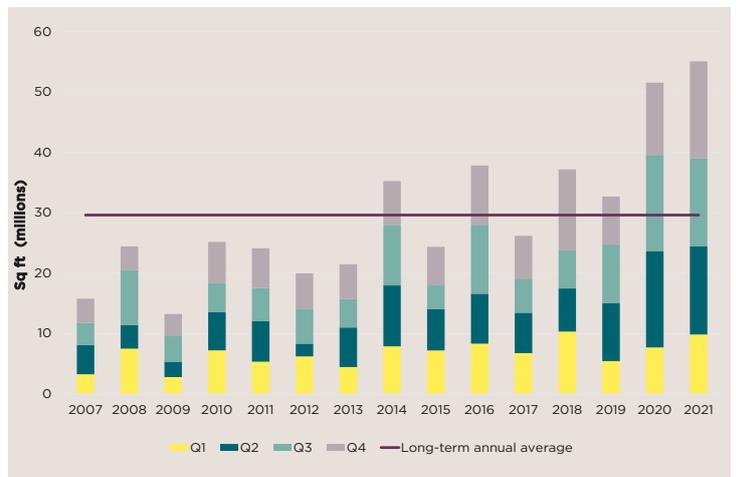
With 16.1m sq ft of new leases signed in Q4, itself a new quarterly record, it is pleasing to report that take-up for 2021 has reached a new annual record of 55.1m sq ft surpassing last years total of 51.6m sq ft and shattering the long term annual average by 86%. We have recorded information of 220 separate transactions, which means for the first time ever there have been more than 200 transactions in any one year, surpassing the 2020 record of 172. What makes the take-up numbers all the more impressive is that during 2021 we have witnessed a decline in both build-to-suit (BTS) and

the take-up of larger units over 400,000 sq ft. This correlates with the suggestion that occupiers need buildings here and now as companies seek to mitigate supply chain issues by increasing their inventory levels quickly. Indeed 15.1m sq ft of speculatively constructed space was leased in 2021, the highest level ever recorded. Perhaps most interesting, however, is the type of companies acquiring space. Whilst online retailers accounted for 35% of take-up 3PLs, automotive, manufacturing and High St retail companies all increased the amount of space taken in 2021, demonstrating a wider breadth of demand when compared to recent averages.

## Supply and Pipeline

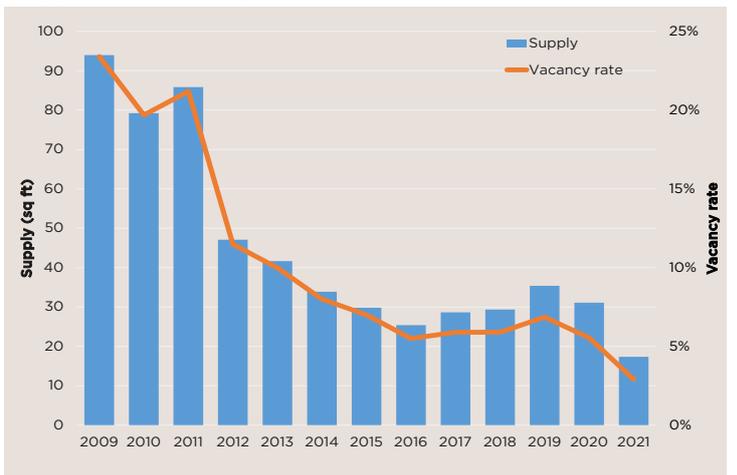
Given the strong levels of take-up, supply has fallen at its fastest pace ever and now stands at 17.35m sq ft, reflecting a vacancy rate of 2.91%, the lowest levels ever recorded. Grade A supply has fallen to 7.15m sq ft, down from 19.7m sq ft prior to the onset of Covid-19 in Q1 2020. Developers have reacted to the prevailing market conditions and there is now 18.6m sq ft under construction. Looking at the combined current and future supply does however show there are just seven buildings available over 400,000 sq ft, which does suggest that many larger requirements will need to be satisfied via a BTS unit in 2022.

## Take-up new annual record



Source Savills Research

## Supply and vacancy reach a new low



Source Savills Research

“We’ve seen a significant increase in the number of deals in 2021, demand has been strongest in the 100,000-200,000 sq ft size band”

# London and the South East

Market shifts to smaller unit take-up



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## Supply

A strong speculative development pipeline has meant that supply in the region has remained broadly stable and shows a market in equilibrium. However, more recently, we have seen multiple units removed from the market due to reoccupation whilst increasing rental growth has enabled the redevelopment of Grade C stock, leading to a decline in the available supply.

Now, the region has 3.67m sq ft available across 25 units, a fall of 1.26m sq ft over 12 months which reflects a vacancy rate of 2.89%. In terms of Grade, 52% of the available supply is Grade A, and 24% is Grade B & C. By unit count, 88% of the available space is within the 100,000-200,000 sq ft size band and 12% is within the 200,000-300,000 sq ft size band. Given occupiers’ preferences for existing good quality space there remains the capacity in the region to deliver more units over 300,000 sq ft on a speculative basis.

## Take-up

The second half of 2021 saw 4.8m sq ft of new leases signed, setting a new H2 take-up record,

which in turn has meant that annual take-up has reached 7.34m sq ft, the fourth year in a row where take-up has exceeded 7m sq ft. In total, there were 43 separate transactions in the region which exceeds the previous record of 35, set in 2019, by 23%.

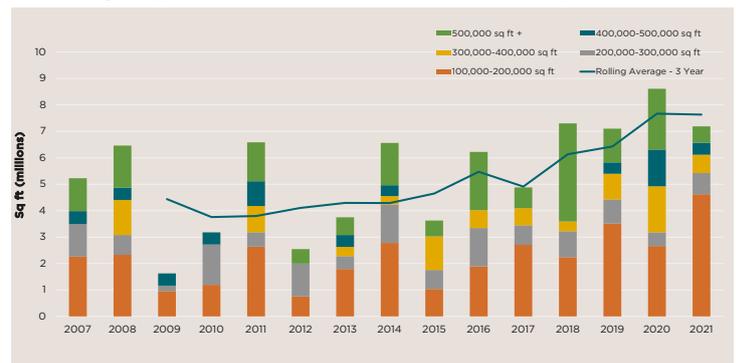
Perhaps the most interesting trend in the region, which make the take-up figures all the more impressive, has been the shift in deals away from the larger end of the market to be dominated by deals in the 100,000 - 200,000 sq ft category. Indeed, in 2021 just 15% of deals were for units over 400,000 sq ft, against a long-term average of 29%, whereas units under 200,000 sq ft accounted for 65% of take-up, the highest proportion of the market ever recorded.

Analysing the sub 200,000 sq ft segment paints a robust picture of demand, as whilst Amazon parcel hubs accounted for seven of the 36 deals in this size band, the demand has come from a wide range of industries including retailers, 3PLs, parcel companies and film studios. Whilst there has only been one deal over 500,000 sq ft; John Lewis taking the former Tesco unit in Milton Keynes which totals 621,579 sq ft, it should also be noted that MH Star, a Chinese E-commerce company, took the entirety of G Park Bedford which totals 534,000 sq ft across three units, such is the lack of supply in the larger size bands.

## Development Pipeline

There are now 23 units under construction across the region totalling 3.6m sq ft. There are no units under construction over 350,000 sq ft and 64% of the units due for delivery in 2022 are under 200,000 sq ft. Within the M25 just 667,000 sq ft is under construction.

## Take-up Big increase in 100,000-200,000 sq ft deals



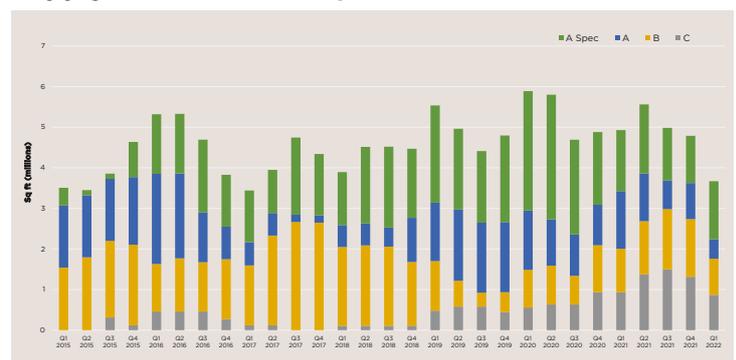
Source Savills Research

## Key statistics

	Stats	yr/yr change
Take-up	7.34m sq ft	↓ 15%
Supply	3.67m sq ft	↓ 26%
Development Pipeline	3.62m sq ft	↑ 168%
Quoting Grade A Rent	£8.50-£25.00/sq ft	c.↑ 25%
Vacancy rate	2.89%	↓ 166 bps

Source Savills Research

## Supply lowest level in five years



Source Savills Research

“Take-up in 2021 has been the best on record, reaching 12.39m sq ft, this is 113% above the long-term average annual figure. There is now just 2.03m sq ft available, most of which is good quality. This will push rents considerably higher”

# East Midlands

Vacancy rate now 1.69%, just 0.19 years of supply



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### Supply

There are just eight units over 100,000 sq ft in the East Midlands totalling 2.03m sq ft which equates to a vacancy rate of just 1.69% or 0.19 years' worth of supply. Savills is aware at least two of the eight units are currently under offer which is set to reduce the available supply even further. The largest unit on the market is Panattoni Park Northampton comprising 430,000 sq ft of Grade A speculatively developed space.

By unit count, 25% of the available supply is within the 100,000-200,000 sq ft size band, 38% is within the 200,000-300,000 sq ft size band, 25% within the 300,000-400,000 sq ft size band and 12% within the 400,000-500,000 sq ft size band.

Due to the strong occupier demand for units in the area, along with rising rents for Grade A stock; the majority of lower quality second-hand space has now been let. Pairing this with multiple speculative developments reaching practical completion, 100% of the available space is now Grade A. This is set to push rents higher and higher as each lease is setting market records.

### Take-up

Take-up has reached 12.39m sq ft across 46 separate transactions, up 113% on the long-term average.

Occupier preference continues to revolve around better quality units. In 2021, 87% of space transacted has been Grade A, 11% has been Grade B and 2% has been Grade C. In terms of specification, 33% of space has been second-hand space, 30% has been built-to-suit space and 37% has been speculatively developed space.

In terms of deal count, 41% have been within the 100,000-200,000 sq ft size band, 30% within the 200,000-300,000 sq ft size band, 9% in the 300,000-400,000 sq ft size band and the 400,000-500,000 sq ft size band and 11% over 500,000 sq ft. Savills continued to see an uptick in requirements for larger units in 2021 which should mean the average size deal continues to increase from its current level of c.270,000 sq ft.

Transactional activity has stemmed from a diverse range of occupiers in 2021, 3PLs have accounted for 39% of take-up, online retailers 30% with the remaining spread across a diverse range of occupiers.

### Development Pipeline

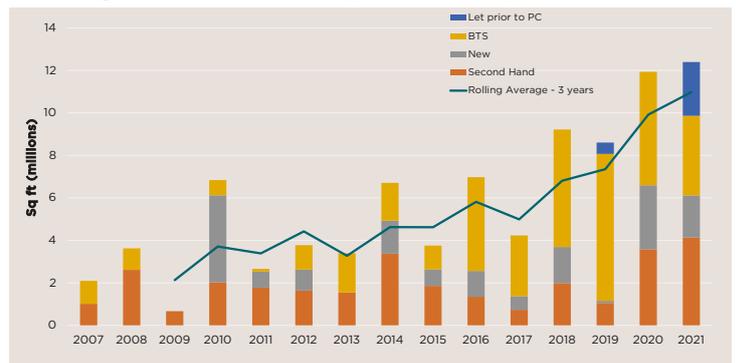
There are currently 19 units under construction, which total 4.43m sq ft. Pleasingly, 42% of these units are over 200,000 sq ft, which will continue to help cater for the larger requirements in the market, especially as the price per acre of Industrial & Logistics land continues to rise at exceptional rates within the region.

### Key statistics

	Stats	yr/yr change
Take-up	12.39m sq ft	↑ 4%
Supply	2.03m sq ft	↓ 57%
Development Pipeline	4.43m sq ft	↑ 184%
Quoting Grade A Rent	£8.25 - £9.00/sq ft	↑ 29%
Vacancy rate	1.69%	↓ 251 bps

Source Savills Research

### Take-up 113% above the long-term average



Source Savills Research

### Supply has fallen 57% in last year, vacancy at 1.69%



Source Savills Research

“The region has seen a huge uptick in demand from a range of occupiers which has led take-up to hit 9.38m sq ft, the highest level achieved setting both record rental and land values in the process. Supply has fallen to the lowest level equating to just 0.41 years, this has pushed on prime rents by 22% in 2021 alone”

# West Midlands

Vacancy rate now 2.34%, down from 7.08% a year ago



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## Supply

The supply of warehouse space within the region currently stands at 2.02m sq ft across nine units, a 66% decrease from this time last year. According to the average annual take-up, there is now just 0.41 years' worth of supply in the region.

Over the last year, developers have responded to the increased demand for better quality space. Consequently, multiple Grade B and C units have been withdrawn from the market for redevelopment along with other units being marketed as being newly refurbished. Now, 42% of space on the market is Grade A whilst 37% is Grade B and 21% is Grade C. In terms of unit count, 78% of the supply is within the 100,000-200,000 sq ft size band, 11% are within the 200,000-300,000 sq ft size band and 11% over 500,000 sq ft. The largest unit on the market is DC660 in Rugby comprising 661,348 sq ft of Grade A second-hand space.

With the current supply and demand dynamics, we envisage that rental growth will exceed the 3.4% p.a forecast by RealFor in the next five years, particularly due to the renewed occupier interest from a wide variety

of occupiers such as Chinese e-commerce companies and Gigafactories rather than the historically prominent manufacturing and automotive sectors.

## Take-up

Take-up in 2021 reached 9.38m sq ft across 40 separate transactions, which is the strongest level ever recorded and is 2.41m sq ft above the second strongest year. Transactional activity has centred around second-hand space which accounted for 46% of the total take-up, 38% has been built-to-suit space and 16% has been speculatively developed space. In terms of grade, 73% of take-up has been Grade A space, 19% has been Grade B space and 8% has been Grade C.

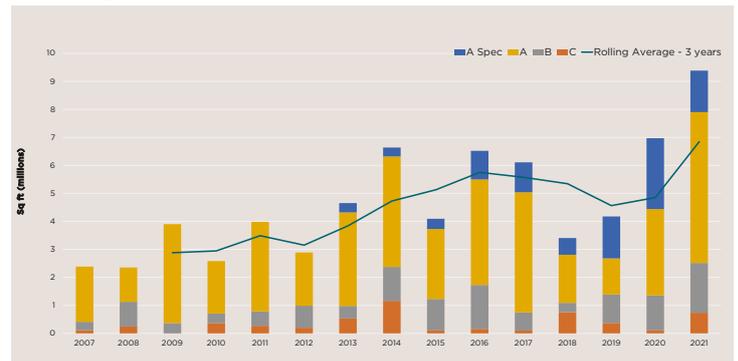
Deal counts highlighted the preference towards smaller size units throughout the region, there have been 27 deals within the 100,000-200,000 sq ft size band, 9 within the 200,000-300,000 sq ft size band, 1 within the 300,000-400,000 sq ft size band and two in the 400,000-500,000 sq ft size band. There was a single deal over 500,000 sq ft in 2021 where Amazon committed to a 2.3m sq ft unit in Peddimore. The deal has set record land values for the West Midlands. The lack of larger units in the region has as much, if not had more of an impact of the shift towards smaller units as occupier preference which is now hindering take-up.

In 2021, 42% of activity has stemmed from Online Retailers, 37% from 3PLs, 10% from manufacturers and 6% from High Street Retailers.

## Development Pipeline

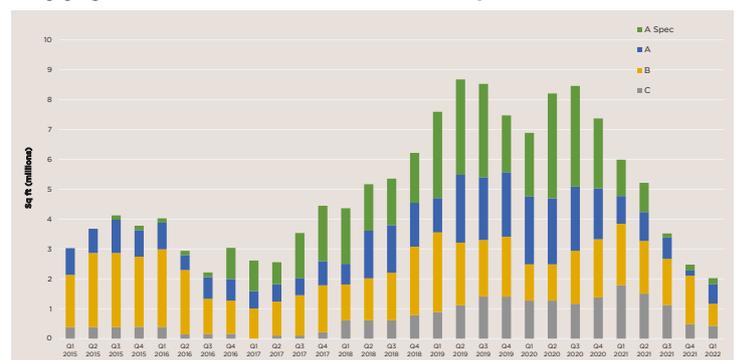
There are 17 units currently under construction within the West Midlands, totalling 3.49 m sq ft. The majority (76%) are below 300,000 sq ft.

## Take-up 101% above long-term average



Source Savills Research

## Supply lowest level ever recorded, only nine units available



Source Savills Research

## Key statistics

	Stats	yr/yr change
Take-up	9.38m sq ft	↑ 35%
Supply	2.02m sq ft	↓ 66%
Development Pipeline	3.49m sq ft	↑ 134%
Quoting Grade A Rent	£8.75/sq ft	↑ 26%
Vacancy rate	2.34%	↓ 528 bps

Source Savills Research

“The North West has continued to see a huge uptick in enquiries and subsequent transactional activity. The strongest take-up on record has caused the amount of supply to fall to 2.56m sq ft; leaving the region with 0.52 years’ worth”

# North West

Vacancy rate falls further, hitting 3.09%, the lowest level recorded



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**Widnes 400, where Marshall & Mirastar is developing a 393,000 sq ft unit due to PG in Q2 2022**

## Supply

The supply of warehouse space has fallen by 37% in the last year to stand at 2.56m sq ft across 12 units. Using the three-year average annual take-up of 4.88m sq ft, this equates to just 0.52 years’ worth of supply in the region.

Grade A stock now accounts for 44% of all available space, 24% is Grade B and 32% is Grade C. In terms of unit count, the supply is skewed towards the smaller size bands, 57% are within the 100,000-200,000 sq ft band, 29% are in the 200,000-300,000 sq ft size band, 7% in the 300,000-400,000 sq ft size band and 7% in the 400,000-500,000 sq ft size band.

Given that vacancy has hit record lows of 3.09%, construction materials continue to be in short supply and occupier demand remains at record levels there is a clear case to suggest that the actual rental growth will far exceed the forecast of 3.5% per annum over the next five years.

## Take-up

Take-up in 2021 has been the best on record reaching 7.44m sq ft across 32 transactions.

This is 13 transactions above the average of 19 per annum, and in terms of sq ft 86% above the long-term annual average of 3.99m sq ft.

In 2021, 75% of space transacted has been Grade A, 22% has been Grade B and 3% had been Grade C. As Covid-19 continues to delay construction, a large proportion of space transacted this year has been second hand (41%) as occupiers seek to satisfy immediate or short term requirements. Although, there have been multiple large build-to-suit deals in particular over 500,000 sq ft, which have demonstrated the continued strength of the market accounting for 36% of the total take-up this year. Speculatively developed space accounted for 27% of the total take-up.

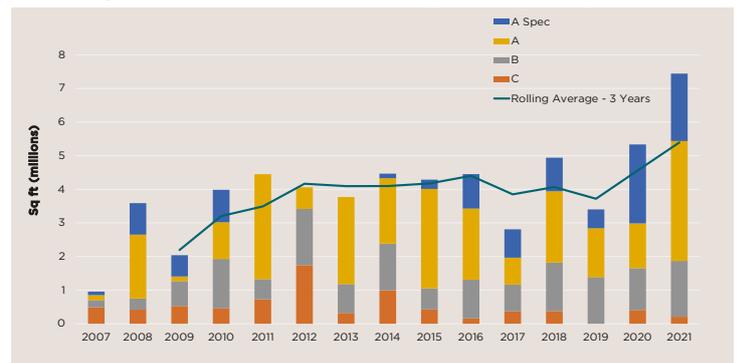
In terms of deal count, 54% were within the 100,000-200,000 sq ft size band, 31% were within the 200,000-300,000 sq ft size band, 6% within the 300,000-400,000 sq ft size band and 9% over 500,000 sq ft.

Online retailers have acquired the most amount of space in 2021, accounting for 34% of the total space transacted. Manufacturers accounted for 25% and 3PLs accounted for 23%. The remaining space was spread over a diverse range of occupiers. The largest deal this year was Home Bargains taking 830,000 sq ft unit at Omega West near St Helens.

## Development Pipeline

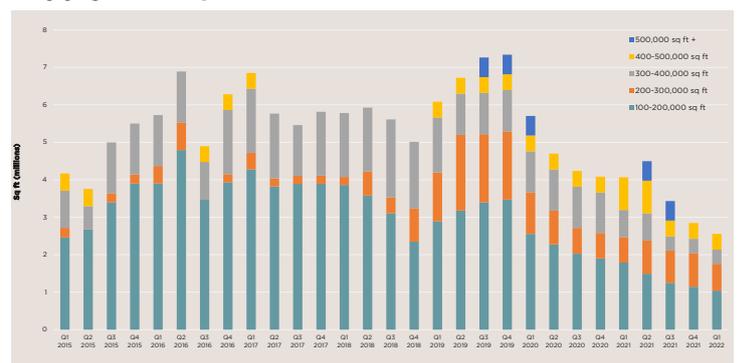
There are currently 11 units being developed, totalling 2.73m sq ft. Six are in the 100,000-200,000 sq ft size band, two are within the 200,000-300,000 sq ft size band, two are within the 300,000-400,000 sq ft size band and there is a single unit under construction over 500,000 sq ft.

## Take-up best ever, 86% above long-term average



Source Savills Research

## Supply fallen by 37% in 12 months



Source Savills Research

## Key statistics

	Stats	yr/yr change
Take-up	7.44m sq ft	↑ 40%
Supply	2.56m sq ft	↓ 37%
Development Pipeline	2.73m sq ft	↑ 117%
Quoting Grade A Rent	£7.75/sq ft	↑ 7%
Vacancy rate	3.09%	↓ 257 bps

Source Savills Research

“ The region continues to attract a diverse range of occupiers. We continue to see daily increases in enquiries and subsequent transactional activity. Supply is now at the lowest level ever recorded leaving a vacancy rate of 1.97%. Occupiers are now turning to the build-to-suit route or waiting multiple months to secure units currently being speculatively developed ”

# Yorkshire and the North East

Vacancy rate just 1.97%; 0.19 years' worth of supply in the market



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## Supply

Supply of units over 100,000 sq ft is now at the lowest level ever recorded in the region. Currently, there is 1.74m sq ft available across 13 separate units. This has pushed the vacancy rate lower to 1.97%, leaving just 0.19 years' worth of supply in the market according to the three-year annual average take-up. Consequently, we have seen a 20% rise in average quoting rents.

Now, just 14% of the available supply is classified as Grade A. The region is in desperate need of new supply to relieve this chronic shortage. 53% of the supply is Grade B, with 33% Grade C. As with a large proportion of Grade B and C stock, they could often be considered obsolete through not being capable of accommodating modern occupier requirements.

Occupier demand for larger units is rising within the region; however, all of the available supply is within the 100,000-200,000 sq ft size band. Consequently, occupiers have to either commit to built-to-suit units or look towards neighbouring regions to satisfy their needs.

## Take-up

Take-up in 2021 has been the strongest ever recorded reaching 11.08m sq ft across 31 separate transactions. Yorkshire & the Humber saw 76% of this activity and the North East 24%. In perspective, this level of take-up is 109% above the long-term average annual figure.

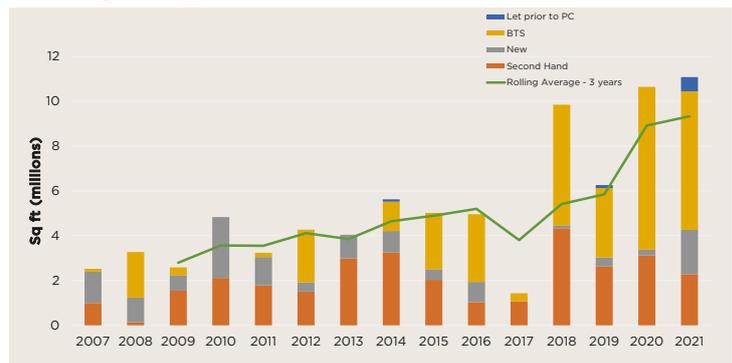
Of the space transacted, 56% was build-to-suit, 24% was speculatively developed space, and 20% was second-hand. In terms of Grade, 82% of take-up was Grade A, 14% Grade B and 4% Grade C. Activity was spread over the size bands - by deal count, 48% of transactions were within the 100,000-200,000 sq ft size band, 16% were within the 200,000-300,000 sq ft size band, 14% were within the 300,000-400,000 sq ft size band, 3% the 400,000-500,000 sq ft size band and 19% the 500,000 sq ft+ size band.

The majority of activity in 2021 has stemmed from online retailers, who have accounted for 47% of all take-up, and 3PLs, who accounted for 30%. Positively we have seen a rise in take-up from manufacturers which have accounted for 15% of take-up this year. It's important to note Amazon has accounted for 43% of the total take-up this year through multiple large transactions.

## Development Pipeline

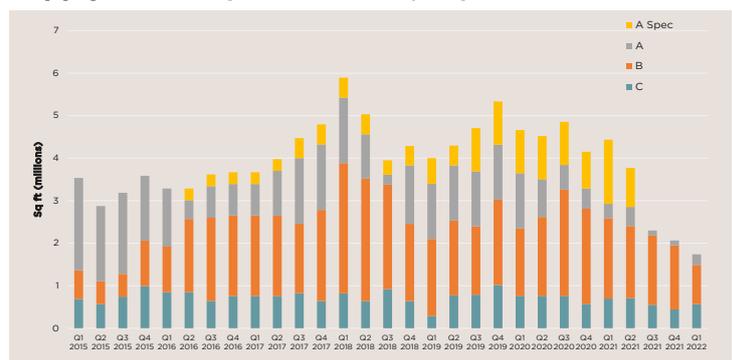
There are currently 10 units under construction totalling 2.22m sq ft. There are six units under construction within the 100,000-200,000 sq ft size band, three within the 200,000-300,000 sq ft size band and a single unit over 500,000 sq ft. There are another c.14 further units that we are tracking in various stages of the planning process and should be announced to start on site imminently.

## Take-up best year ever recorded



Source Savills Research

## Supply chronically low levels, majority second-hand



Source Savills Research

## Key statistics

	Stats	yr/yr change
Take-up	11.08m sq ft	↑ 4%
Supply	1.74m sq ft	↓ 61%
Development Pipeline	2.22m sq ft	↑ 104%
Quoting Grade A Rent	£7.50/sq ft	↑ 20%
Vacancy rate	1.97%	↓ 356 bps

Source Savills Research

“ Take-up in 2021 has been the second strongest ever recorded with demand coming from a range of occupiers. 42% of the available supply is under offer and due to complete early next year. Now, prime rents are in the region of £7.50-£7.75 psf which we expect to increase significantly as supply continues to fall ”

# South West & Wales

Take-up reached 3.58m sq ft, 44% above long-term average



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### Take-up

Take-up in the South West and Wales market totalled 3.58m sq ft across 17 separate transactions, 25% above the three-year annual average. Adhering to regional trends, deal volumes have centred around the smaller size bands, with 70% of deals being within the 100,000-200,000 sq ft size band, 18% in the 200,000-300,000 sq ft size band, 6% the 300,000-400,000 sq ft size band and 6% over 500,000 sq ft.

2021 has seen 74% of take-up being second-hand space, 21% built-to-suit space, and 5% speculatively developed space. The supply is hindering take-up as occupier requirements centre around new, modern units.

In 2021, 34% of take-up has stemmed from the other sector. This is primarily Microsoft taking Imperial Park Newport comprising c. 1 million sq ft for a data centre. Online retailers have accounted for 27%, manufacturers 15%, 3PLs 11% and the remaining has been from a variety of other occupiers.

### Supply

The supply of units over 100,000 sq ft in the region currently stands at 3.61m sq ft across 20 separate units. Closer analysis shows that 32% of the supply is located within Wales and 67% is in the South West. The vacancy rate in the region now stands at 9.22% equating to 1.29 years worth of supply.

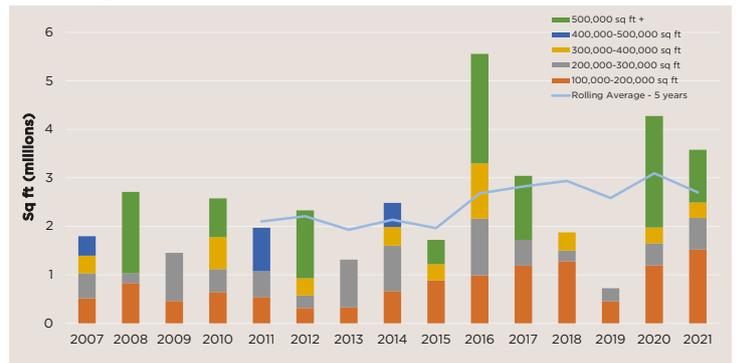
The quality balance is heavily skewed towards lower-quality units, with just 16% of available space classed as Grade A, 41% is Grade B and 43% is Grade C. The increased demand paired with lack of supply has left occupiers with no choice but to commit to these second-hand buildings. Consequently, Savills is aware 42% of the current vacant stock is under offer and due to exchange imminently. This is set to bring the vacancy rate to 5.25%.

By unit count, the supply continues to be dominated by smaller units with 60% being within the 100,000-200,000 sq ft size band, 30% are within the 200,000-300,000 sq ft size band and 10% are within the 300,000-400,000 sq ft.

### Development Pipeline

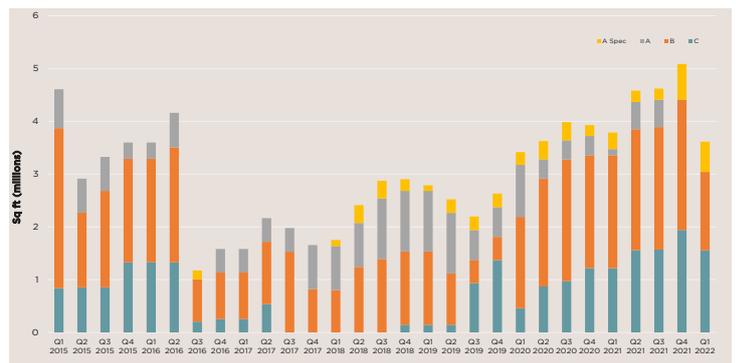
There is currently 670,017 sq ft under construction in the region across four units. All of these are located within the South West. There are three units under construction within the 100,000-200,000 sq ft size band and a single unit within the 200,000-300,000 sq ft size band.

### Take-up now spread over all size bands



Source Savills Research

### Supply just 16% is Grade A, 41% Grade B and 43% Grade C



Source Savills Research

### Key statistics

	Stats	yr/yr change
Take-up	3.58m sq ft	↓ 16%
Supply	3.61m sq ft	↓ 5%
Development Pipeline	0.67m sq ft	↑ 86%
Quoting Grade A Rent	£7.50/sq ft	↑ 3%
Vacancy rate	9.22%	↓ 70 bps

Source Savills Research

“The proximity to major UK ports and access to the rest of the UK continues to attract occupiers with 2021 seeing a rise in European-based firms acquiring space. Supply has dropped significantly resulting in a 16% increase in rents, a rise in the average lease length along with a reduction in incentives offered”

# East of England

Supply down by 33%, vacancy rate now 3.75%



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### Supply

The level of supply in the market has fallen by 33% in the last year. Currently, there is 985,000 sq ft available across three units. The largest unit on the market is at Suffolk Park comprising c. 400,000 sq ft of Grade A space, it's currently under offer. Now, 60% of the space on the market is Grade C (two units) and 40% is Grade A (one unit).

According to the three-year average annual take-up, there is just 0.41 years worth of supply in the market. Further analysis demonstrates that all of the Grade C space available requires refurbishment or even demolition to accommodate modern occupiers. There is a single unit available within the 200,000-300,000 sq ft size band comprising 242,850 sq ft and two units available within the 300,000-400,000 sq ft size band together totalling 742,454 sq ft.

The vacancy rate remains very constrained at 3.75%, this continues to push on rental growth and will lead to the modest forecast of 3.6% p.a in the next five years to be eclipsed.

### Take-up

Take-up in 2021 has reached 2.66m sq ft across six separate transactions, this is 10% above the three-year annual average and 136% above the long-term annual average.

As the market continues to be chronically undersupplied consisting of mainly second-hand low-quality stock, occupiers are continuing to go down the build-to-suit route to acquire space. In 2021, 49% of take-up was built-to-suit, 28% was second-hand and 23% was new speculatively developed space. In terms of Grade, it's evident that occupier preference continues to revolve around better units as all space transacted this year was Grade A, 23% was Grade A speculatively developed space and 77% was Grade A space.

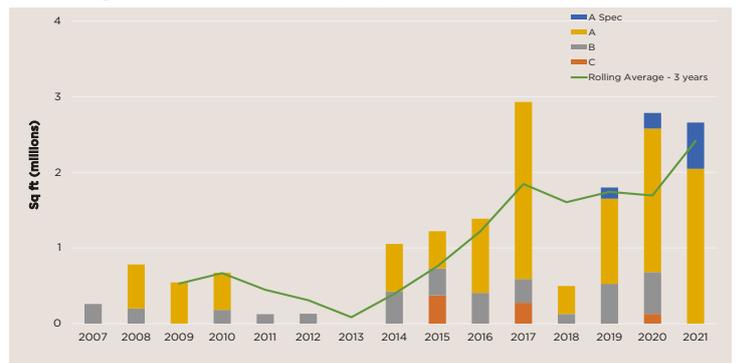
In terms of deal count, transactions have been spread across the size bands with 50% being within the 200,000-300,000 sq ft size band, 17% the 300,000-400,000 sq ft size band and 33% in the 500,000 sq ft+ size band. The average deal size this year was 442,683 sq ft, up from 134,688 sq ft in 2010.

The recent announcement of the Freeport East site within the region has driven enquiries from a diverse range of occupiers, particularly on the Eastern stretch of the A14 and the existing designated sites within the Freeport boundary due to the vast array of benefits locating within them provide.

### Development Pipeline

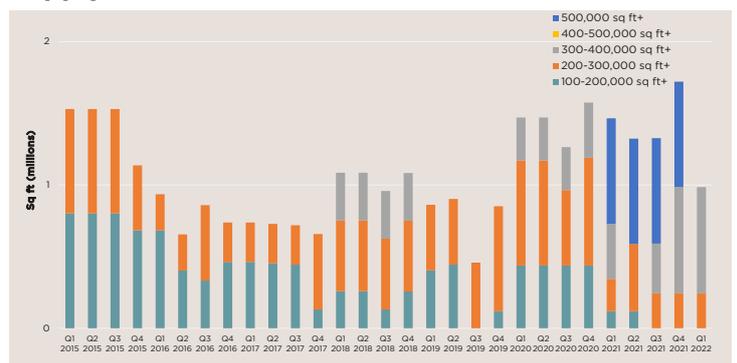
Currently, the region has seven units under construction speculatively totalling 1.48m sq ft. There are three units within the 100,000-200,000 sq ft size band and four within the 200,000-300,000 sq ft size band. Occupiers will need to look to sites in order to satisfy larger requirements for good quality space.

### Take-up dominated entirely by Grade A space



Source Savills Research

### Supply lack of units across all size bands



Source Savills Research

### Key statistics

	Stats	yr/yr change
Take-up	2.66m sq ft	↓ 5%
Supply	0.99m sq ft	↓ 33%
Development Pipeline	1.48m sq ft	-
Quoting Grade A Rent	£7.00/sq ft	16% ↑
Vacancy rate	3.75%	↓ 213 bps

Source Savills Research

🔗 Requirements for units over 100,000 sq ft have risen in the latter half of 2021. Strong levels of transactional activity paired with the redevelopment of old stock has caused the supply to fall to the lowest level on record. This has pushed prime rents 12% higher in the last year alone. We are also seeing reducing incentives and longer lease lengths 🗨️

# Scotland

Vacancy rate now 3.27%, chronic shortage of quality space



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## Supply

The supply of warehouse space in Scotland for units larger than 100,000 sq ft has fallen 55% in the last year to stand at 0.72m sq ft across five separate units.

The supply continues to be dominated by second-hand space with no new units available. Currently, 33% of the space available is Grade B second-hand space, and 67% is Grade C second-hand space.

Of the five units currently available, four are within the 100,000-200,000 sq ft size band and there is a single unit within the 200,000-300,000 sq ft size band. The decrease in the amount of supply in the region has caused the vacancy rate in Scotland to now stand at 3.27%. Using the three-year average annual take-up this equates to just 0.75 years worth of supply within the market.

Moreover, the 220,000 sq ft Former Saica warehouse is now under offer following Savills marketing and is due to conclude early Q1 2022. This will cause the vacancy rate to fall further to just 2.27% leaving the market chronically undersupplied.

Furthermore, closer analysis demonstrates the supply could be considered far lower as the majority of the Grade C space is not capable of accommodating modern occupier requirements. It may be more suitable for a complete refurbishment or even demolishing.

## Take-up

Take-up of units over 100,000 sq ft in 2021 has been robust reaching 1.22 m sq ft across five transactions. This is 43% above the long-term annual average take-up.

In 2021, 45% of take-up has been built-to-suit space and 55% has been second-hand space. All of the second-hand space transacted this year has been Grade B quality.

Take-up continues to be constrained by both shortages in the size and quality of available units throughout the region; occupiers are having to settle for lower quality, and smaller-sized units to satisfy their requirements.

## Development Pipeline

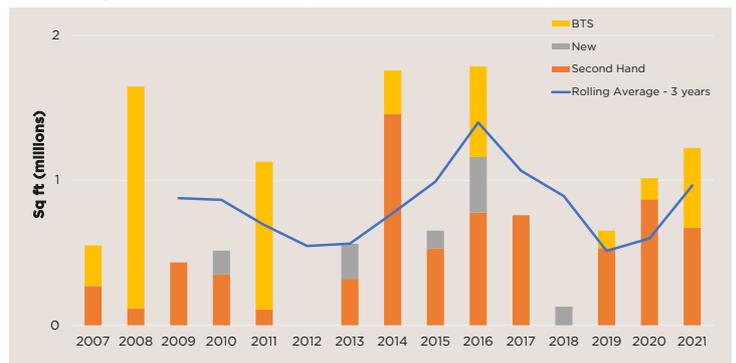
The strong levels of take-up along with ongoing enquiries are providing developers with confidence as a number of key sites are being closely considered for speculative development. However, as it stands there are no current new speculative facilities over 100,000 sq ft proposed or currently available. The Scottish market remains more typically focused on sub 100,000 sq ft speculative schemes going forward.

## Key statistics

	Stats	yr/yr change
Take-up	1.22m sq ft	↑ 21%
Supply	0.72m sq ft	↓ 55%
Development Pipeline	0 sq ft	no change
Quoting Grade A Rent	£7.00/ sq ft	↑ 12%
Vacancy rate	3.27%	↓ 416bps

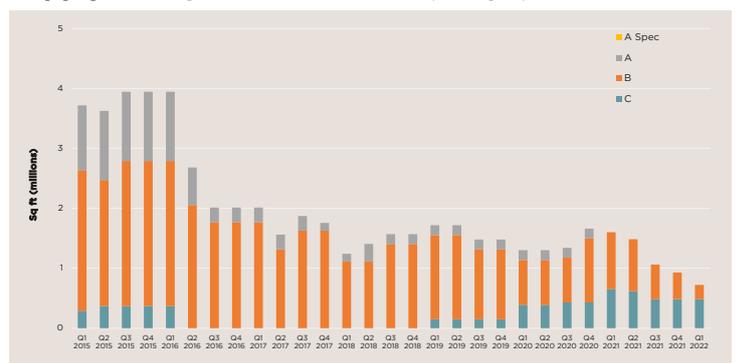
Source Savills Research

## Take-up 43% above long-term annual average



Source Savills Research

## Supply entirely second-hand low quality space



Source Savills Research

“The supply and demand dynamics of the occupier market means strong rental growth is anticipated in all markets in 2022. With investors continuing to compete for the best assets, further yield compression is expected”

# National investment

Investment volumes reach new record



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The continued strength of the occupational market combined with record low levels of vacancy has meant that the investment market has continued to see strong levels of rental growth. This in turn is driving unprecedented positive investor sentiment towards the sector and a record H2 investment volume of £5.15bn, excluding corporate mergers and acquisitions. Total 2021 volumes now stand at £10.42bn, which eclipses the previous annual record set in 2020 by 73%.

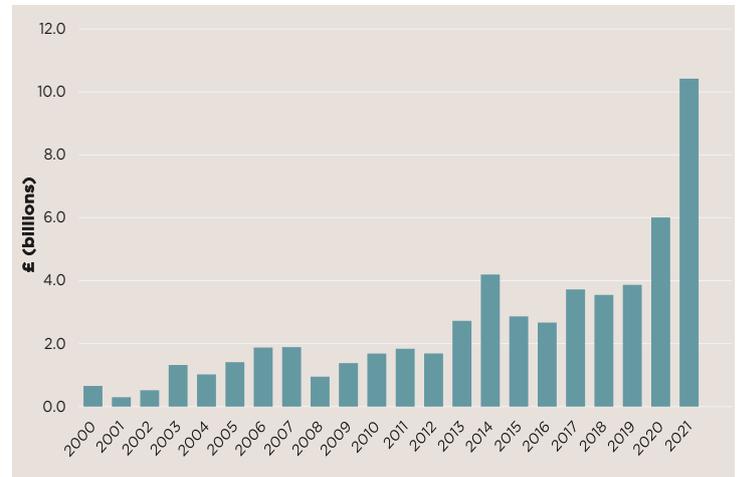
Whilst the volume of portfolios traded reached £4.10bn in 2021, accounting for 39% of total investment volumes, it should also be noted that the market is witnessing a rise in both the number of single-unit deals and average lot sizes. Indeed, excluding portfolios, in 2021 there were 315 single unit transactions recorded by Savills, up 152% on the long term average and the average lot size reached £20.1m, itself a rise of 32% on the long term average.

With Blackstone alone accounting for close to £3bn of deployed capital including their corporate acquisition of St Modwen and many other overseas investors entering the market for the first time it is no surprise that overseas investors accounted for 55% of the total market, the highest proportion ever recorded and up from just 20% in 2018. This has largely been at the expense of UK institutions who, in 2018, accounted for 32% of the market falling to just 16% of the market in 2021.

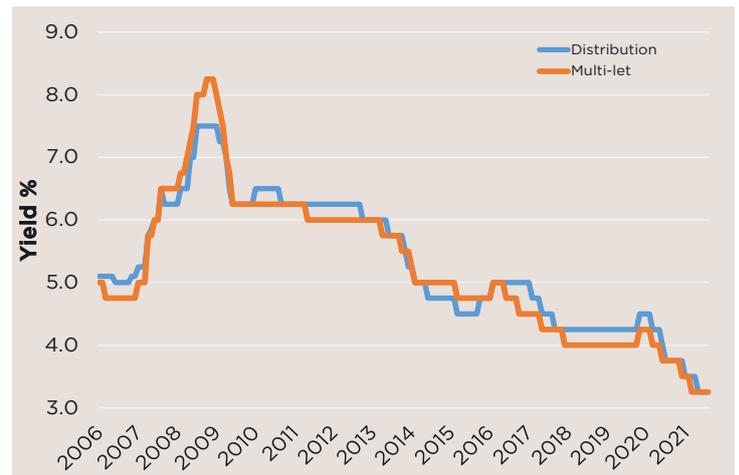
The continued weight of capital in the market will continue to put downward pressure on Savills prime yields which now stand at 3.25% for both logistics and multi-let industrial estates. With the occupational market showing no sign of slowing and supply remaining constrained it is likely that rental growth will continue to outperform forecasts. Indeed if the trajectory of the last two quarters is maintained, then it is likely that many markets will see rental growth of at least 10% in 2022. This optimistic outlook

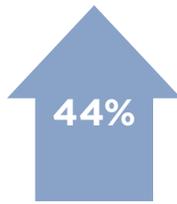
will ensure investors continue to compete for the best assets which in turn will lead yields to compress even further. However, with continued upward pressure on inflation, further interest rate rises are expected and this may limit the extent of yield compression in 2022 when compared to previous years.

## Investment volumes reach new record



## Prime investment yields record lows at 3.25%





Requirements increased by 44% in 2021

# 2022 Outlook

## Where next after another record year?

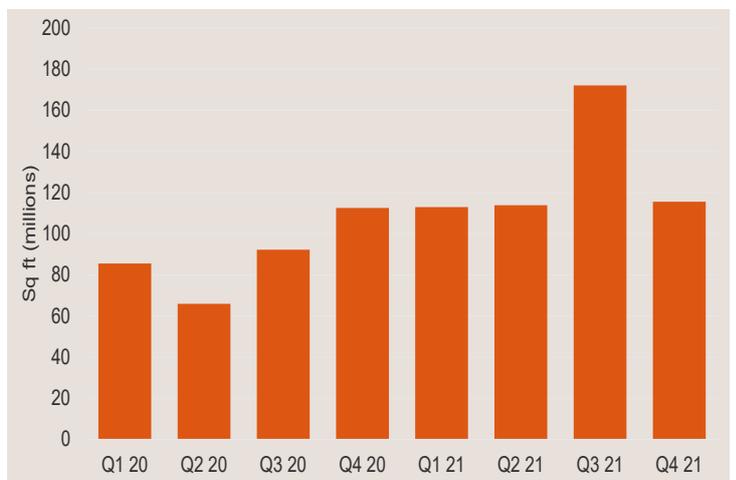
With take-up exceeding 50m sq ft for the second year in a row, and bearing in mind that the three year average for take-up prior to the onset of Covid-19 was 32m sq ft per year, it is worth considering whether the market can continue operating at its current amplified level.

The first point to make is that requirements levels are not falling when compared to the last 18 months, averaging 108m sq ft per quarter. Given that requirement levels have been broadly stable for the last 18 months does demonstrate that there still remains enough demand in the market to satisfy take-up continuing to hover around 50m sq ft per year.

The pinch point however is supply, which is at its lowest ever level. If we combine the current level of existing supply at 18.3m sq ft and add in the speculative pipeline of 18.6m sq ft that would mean that every single building on the market would have to lease in 2022 and a further 13.1m sq ft of BTS deals would need to be signed in order for take-up to exceed

50m sq ft. It should also be noted that 14.3m sq ft of second-hand supply was added to the market in 2021, much of which leased quickly. Therefore it's not impossible to suggest that take-up will remain at elevated levels but it is clear the market can take more speculative development for the foreseeable future.

### Requirements continuing at recent levels



Source Savills Research



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### BUILD COST AND PROGRAMME

Whilst the market data is clear that more speculative development is needed to satisfy anticipated levels of demand developers remain at the mercy of issues in global supply chains that are impacting the availability of key materials for warehouse construction.

Indeed, 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 are continuing to rise.

Whilst good project management and early orders can mitigate some of the issues the overall impact remains that projects are taking longer to deliver than before.

In 2022 we expect that labour availability will become a larger issue as successive lockdowns and the impact of Brexit mean that there are fewer contractors in the market able to

work in a market that has dramatically increased in size. Moreover, from April the use of Red Diesel in construction will be banned. Whilst this move is aimed at pivoting heavy machinery to use less fossil fuels the short term will be that fuel costs increase by 47p per litre which has the knock-on impact of making earthworks considerably more expensive.



### Savills Research

We are 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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