Big shed briefing

28% take-up increase • National vacancy stable • 7.15m sq ft of spec development pipeline

Panattoni Park Northampton where Eddie Stobart have taken 625,000 sq ft across three units
2019 so far has been dominated by talk of Brexit, stockpiling, preparations for no deal and much mainstream media attention discussing the availability of warehouse space to assist with these potential outcomes.

Savills has been consistent in the view that Brexit has had limited impact thus far on the demand for warehouse space and far more important drivers are around the structural changes in retailing, the growth of the online retail sector and how UK manufacturing supply chains respond in the long term to leaving the EU.

With that in mind it is pleasing to report that UK take-up for the half year has reached 16.07m sq ft, 28% up on the long term average for the first half of a year. Moreover the second quarter in isolation was outstanding with 9.55m sq ft transacted, making it the highest level of Q2 take-up since 2014 and the second best Q2 on record.

Perhaps most encouraging is that fact that take-up is not dominated by one occupier or indeed one sector. This demonstrates that demand is coming from a wide mix of tenants all reacting to wider economic and structural factors to get their supply chains in good order. We expect this pattern to continue for the rest of 2019 and anticipate take-up to breach the 30m sq ft mark.

Take-up

Whilst take-up at a national level appears very positive regional market dynamics vary considerably.

Yorkshire and the North East lead the pack with 4.09m sq ft of space transacted almost beating already its annual average of 4.31m sq ft. The North West on the other hand has seen take-up fall by 38% to just over 1m sq ft. Deal count is also strong with 71 transactions recorded up from 59 in the corresponding period for last year.

Supply and Pipeline

Nationwide supply has risen in 2019 and now stands at 34.14m sq ft, reflecting a vacancy rate of just 6.62%. Of the current supply on the market 56% is classified as grade A, up from 35% in Q1 2015.

We expect this balance to alter further in favour of grade A units in 2019 as we track the speculative development market. Currently there are 34 units under construction totalling 7.15m sq ft.
Take-up dominated by grade A units

Supply
H1 2019 has seen strong transactional activity which reduced supply to 4.2 million sq ft across 24 separate units, a 24% fall since the peak of 5.5 million sq ft at 2018 year end.

The quality balance of the supply continues to shift as speculatively developed units come to market. Grade A stock now makes up 78% of all space available, of which 53% has been speculatively developed, together totalling 3.29 million sq ft across 17 units. H1 2018 saw just 54% of all space available being grade A quality. The supply in the region continues to be dominated by smaller units with 79% of available units being within the 100,000-200,000 sq ft size category.

Take-up
Take-up in the London and the South East totalled 3.92 million sq ft for H1, a 60% increase above the long term H1 average for the region and just 4% below H1 2018. The largest unit let in H1 2019 within the region was Altitude at Milton Keynes totalling 574,000 sq ft. However, deal volumes in H1 have centred around the smaller size bands with the average deal size falling 24% from 2018 to stand at 217,659 sq ft. The fall in average deal size is due to the absence of large freehold land deals like those seen in 2018 to Aldi, B&M and Lidl.

There is continued occupier demand for grade A space in the region with 43% of space let in H1 2019 involving speculatively developed warehouse space and 36% being build-to-suit space.

Development Pipeline
There are ten units under construction totalling 1.96 million sq ft, only one of which is being developed within the inner M25, two of these units Savills are aware are currently under offer. 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.

Take up 60% above H1 average

Key statistics

<table>
<thead>
<tr>
<th></th>
<th>Stats</th>
<th>H1 18 vs H1 19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-up</td>
<td>3.91m sq ft</td>
<td>↓ 3.7%</td>
</tr>
<tr>
<td>Supply</td>
<td>4.21m sq ft</td>
<td>↓ 6.8%</td>
</tr>
<tr>
<td>Development Pipeline</td>
<td>1.52m sq ft</td>
<td>↑ 9.5%</td>
</tr>
<tr>
<td>Quoting Grade A Rent</td>
<td>£7.75-£18.50/ sq ft</td>
<td>↑ 16%</td>
</tr>
<tr>
<td>Vacancy rate</td>
<td>3.8%</td>
<td>↓ 42bps</td>
</tr>
</tbody>
</table>

Source: Savills Research

Strong take-up of the speculatively built space reduces the vacancy rate to 3.8%
Increased levels of take-up leave just 8 months worth of supply in the market. Take-up for H1 19 is already 53% above the long term average with more deals in the pipeline.

East Midlands

Continued strong demand for BTS units

Supply
An increase in speculative development completions, paired with large units returning to the market has led current supply to total 5.37 million sq ft representing a rise of 64% from 2018 yet still maintains a low vacancy rate of 5.4%. The proportion of supply has altered dramatically, 2015 saw 19.44% of space available on the market classified as grade A yet recent speculative development has shifted the proportion of grade A units to 57.80%.

Using the five year average of grade A take-up in the market there is just 0.68 years left of grade A quality supply within the region. The largest available unit on the market is Nottingham 550 having reached practical completion in March 2019 totalling 550,000 sq ft, speculatively developed by Panattoni. The current supply is skewed towards smaller sized units with 75% being below 300,000 sq ft, of these units just 33% are of grade A speculatively developed quality.

Take-up
Take-up in H1 2019 has reached 2.52 million sq ft, 33% above the H1 long-term average take-up evidencing continued strength in the East Midlands market. Interestingly, H1 2019 has seen 82% of space transacted involve grade A quality units with grade B space accounting for the other 15%, it seems occupier demand in the region revolves around better quality units.

Build-to-suit transactions continue to dominate the market with the largest deal being at Mountpark Bardon where VF Corporation has leased 578,620 sq ft.

Development Pipeline
There are currently eight units under construction which total 2.34 million sq ft, adhering to the regional trends these are primarily located in Northamptonshire where five units are being developed. The largest unit is DIRFT in Daventry where Prologis are developing 535,000 sq ft which is due to reach practical completion in Q4 2019.

Take-up dominated by grade A units

Supply speculative development increases supply
Supply still less than two years despite recent rise

Supply
Supply within the region currently stands at 8.53 million sq ft, falling 1.7% from the peak in Q1 2019. Of the vacant space on the market, 37% is considered to be of grade B & C quality which given the fact take-up is dominated by grade A units could suggest this stock is not suitable for modern requirements.

The high levels of take-up and occupier demand seen in recent years has stimulated speculative development, since the beginning of 2018 2.44 million sq ft of speculatively developed warehouse space has been added to the West Midlands. However, despite the recent rise in supply in the region, using the five-year rolling average yearly take-up there is just 1.6 years left of supply within the market.

Take-up
Take-up in H1 2019 reached 1.48 million sq ft through eight transactions, representing a 6.3% decrease on H1 2018. There has been a slight decline in larger requirements within the region which is unsurprising given the ongoing economic and political uncertainty. However, the smaller size bands continue to attract occupier interest with 63% of all space leased in H1 being within the 100,000-200,000 sq ft size band. Grade A quality space continues to see the strongest demand with 67% of all space leased in H1 2019 being of grade A quality.

Whilst take-up in H1 2019 has been subdued, Savills are aware of multiple deals in the pipeline over 250,000 sq ft which should complete in H2 2019. More specifically, there is 485,000 sq ft currently under offer set to exchange in Q3 2019. Furthermore, with strong demand from developers, investors and occupiers land values in the West Midlands continue to rise which will further impact rental growth in the region.

Development Pipeline
Nine units are currently under construction within the West Midlands totalling 1.71 million sq ft. The largest unit currently under construction is the recently announced Fradley 432 where Evans Property Group are speculatively developing 431,500 sq ft set to reach practical completion Q1 2020.

Take-up balanced across all grades

Key statistics

<table>
<thead>
<tr>
<th></th>
<th>Stats</th>
<th>H1 18 vs H1 19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-up</td>
<td>1.48m sq ft</td>
<td>↓ 6.3%</td>
</tr>
<tr>
<td>Supply</td>
<td>8.52m sq ft</td>
<td>↑ 59%</td>
</tr>
<tr>
<td>Development Pipeline</td>
<td>1.25m sq ft</td>
<td>↓ 26%</td>
</tr>
<tr>
<td>Quoting Grade A Rent</td>
<td>£7/sq ft</td>
<td>no change</td>
</tr>
<tr>
<td>Vacancy rate</td>
<td>10.5%</td>
<td>↑ 372 bps</td>
</tr>
</tbody>
</table>

Underlying demand is still strong yet ongoing political and economic uncertainty continues to impact larger requirements

Source: Savills Research
A subdued start to the year with take-up expected to pick up in second half

North West

Volatile 2019 expected for region

Supply
The region continues to have the second largest amount of supply within the UK, currently sitting at 7.26 million sq ft across 38 units, representing a 22% rise from the end of 2018.

The grade balance of the available stock has shifted as grade A speculatively developed space reaches practical completion, grade A stock now accounts for 52% of all available space up from 42% in 2018. However, despite the increase in the proportion of grade A quality space, through using the five-year average take-up of grade A space in the region there is just 1.45 years left of supply in the North West.

There are just five units in the region over 300,000 sq ft, of which just two are of grade A speculatively developed quality which have both reached practical completion in the last six months.

Take-up
Following the record year seen in 2018, transactional activity for H1 2019 has been relatively subdued reaching 1.03 million sq ft through six transactions representing a 39% decrease below the long term H1 average.

The largest deal of the year so far has been Kammac acquiring 365,000 sq ft at M58 Skelmersdale. Additionally, Savills are aware of four units currently under offer in the region due to complete next quarter totalling 1.02 million sq ft and highlighting continued occupier demand in the region.

Development Pipeline
There are currently just two units being developed totalling 232,210 sq ft. The largest being Unit B at Aviator Business Park totalling 125,000 sq ft. This limited development pipeline could see average rents increase as continued demand limits the supply of smaller good quality units.

Take up dominated by second hand units

Key statistics

<table>
<thead>
<tr>
<th></th>
<th>Stats</th>
<th>H1 18 vs H1 19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-up</td>
<td>1.03m sq ft</td>
<td>↓ 38%</td>
</tr>
<tr>
<td>Supply</td>
<td>7.26m sq ft</td>
<td>↑ 30%</td>
</tr>
<tr>
<td>Development Pipeline</td>
<td>0.23m sq ft</td>
<td>↓ 84%</td>
</tr>
<tr>
<td>Quoting Grade A Rent</td>
<td>£6.75/sq ft</td>
<td>no change</td>
</tr>
<tr>
<td>Vacancy rate</td>
<td>9.5%</td>
<td>↑ 182bps</td>
</tr>
</tbody>
</table>

Source: Savills Research
Yorkshire and the North East

Strong Build to suit market drives take-up

Supply
Record levels of take-up in 2018 led to a decline in supply within the region but with an increase in speculative development completions supply now stands at 4.7m sq ft across 23 separate units a 22% rise on 2018. Consequently, the amount of grade A speculatively developed space on the market has increased 67% since 2018-year end. The majority of the available space sits within the 100,000-200,000 sq ft size band accounting for 54% of all available space on the market.

Currently, there are four units on the market above 300,000 sq ft of which all are second hand, in fact 78% of the total available space is second hand. The largest unit on the market is Premier North Industrial Estate which comprises 546,970 sq ft.

Take-up
Following the highest recorded levels of take-up in 2018 led to a decline in supply within the region but with an increase in speculative development completions supply now stands at 4.7m sq ft across 23 separate units a 22% rise on 2018. Consequently, the amount of grade A speculatively developed space on the market has increased 67% since 2018-year end. The majority of the available space sits within the 100,000-200,000 sq ft size band accounting for 54% of all available space on the market.

Currently, there are four units on the market above 300,000 sq ft of which all are second hand, in fact 78% of the total available space is second hand. The largest unit on the market is Premier North Industrial Estate which comprises 546,970 sq ft.

Take-up
Following the highest recorded levels of take-up in 2018 the market has performed equally as well in H1 2019 reaching 4.09m sq ft representing a 55% rise above the long term H1 average. Adhering to past trends in the region, build-to-suit space accounted for the majority of transactions at 47% of total space leased. Interestingly, by deal count 53% of deals involved second hand units compared to just 35% being build-to-suit units highlighting the larger average deal size of build-to-suit transactions. The average deal size in the region stood at 372,005 sq ft last year demonstrating occupier preference for smaller unit sizes.

The region saw the largest deal nationwide in H1 2019 which was Amazon acquiring 730,715 sq ft at iPort in Doncaster.

Development Pipeline
There are currently just three units under construction totalling 647,961 sq ft. The largest unit is Gateway 4 in Doncaster where Trebor Developments are speculatively developing 408,961 sq ft, set to achieve practical completion in Q1 2020.

Take-up buoyant 2018 continues into 2019

Key statistics

<table>
<thead>
<tr>
<th>Category</th>
<th>Stats</th>
<th>H1 18 vs H1 19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-up</td>
<td>4.09m sq ft</td>
<td>↓ 16%</td>
</tr>
<tr>
<td>Supply</td>
<td>4.71m sq ft</td>
<td>↑ 26%</td>
</tr>
<tr>
<td>Development Pipeline</td>
<td>0.65m sq ft</td>
<td>↓ 41%</td>
</tr>
<tr>
<td>Quoting Grade A Rent</td>
<td>£5.75/ sq ft</td>
<td>no change</td>
</tr>
<tr>
<td>Vacancy rate</td>
<td>6.7%</td>
<td>↑ 83bps</td>
</tr>
</tbody>
</table>

Source: Savills Research

Supply majority under 200,000 sq ft

Source: Savills Research
South West
Grade A supply to drive take-up forward

Supply
In recent years supply levels have hovered at around 2 million sq ft and have recently dropped to stand at 1.95m sq ft representing a 4% decrease from 2018-year end.

Current supply in the South West is skewed towards smaller size units with no vacant units above 400,000 sq ft. As speculatively developed units have come to the market the proportion of grade A stock has increased to stand at 52%. The largest unit on the market is the Former Morrison’s at Cribbs Causeway Distribution Centre totalling 384,786 sq ft. Currently, there are just two grade A speculatively developed units on the market equating to 22% of the total supply, the rest is considered second hand.

Take-up
Following strong years of take-up, transactional activity in H1 2019 has fallen to the lowest levels ever recorded in the region by Savills. Take-up reached 266,173 sq ft through two separate deals, representing a 29% fall from H1 2018 and a 76% decrease below the long term H1 average. Interestingly, second hand space accounted for 56% of the total space transacted with 44% being built-to-suit space.

Despite the fall in take-up, given the five year yearly average take-up of 1.8m sq ft and the current supply there is still just 1.09 years of supply left in the South West market. The largest deal of H1 2019 was Oak Furniture Land acquiring 149,173 sq ft at Groundwell Distribution Centre in Swindon.

Development Pipeline
There is a total of 249,315 sq ft being speculatively developed in the region across three separate units. The largest unit being Junction One where Barwood Capital are speculatively developing 137,315 sq ft, set to reach practical completion in Q3 2019.
Supply
Recent transactional activity involving two of the largest buildings in the East of England has led supply to drop to the lowest levels ever recorded within the region currently standing at 458,237 sq ft across two units, only one of which is grade A quality.

The supply is skewed towards the 200,000-300,000 sq ft size category with 100% of available units being within this range. Given the occupier preference for units within the 100,000-200,000 sq ft size band with an average of 70% of total sq ft transacted being within this range there is evidently supply constraints in the market. Moreover, using the five-year average annual take-up for the region of 1.42m sq ft there is just 0.32 years of supply left in the East of England.

Take-up
Following on from a below average year of take-up in 2018, H1 2019 has outperformed predictions reaching 1.19 million sq ft at the half year point representing a 48% increase above the long term yearly average. The high levels of take-up can be attributed to the influx in build-to-suit transactions which have accounted for 52% of the total space transacted 2019 YTD. The 100,000-200,000 sq ft size band performed the best in the region accounting for 64% of the total sq ft transacted and 83% of deal count. Interestingly, 75% of all space transacted was of grade A quality, highlighting occupier preference for top quality space in the area.

The largest deal in H1 2019 was at Peterborough Gateway where Urban Outfitters will take 432,000 sq ft.

Development Pipeline
Following the delivery of two units last year at Suffolk Park in Bury St Edmunds, there are now no speculative units scheduled for delivery in 2019. However, Savills are aware of the potential to speculatively develop two units at Peterborough Gateway and other potential sites coming forward.

Take up strong demand for all grades

Supply concentrated in one size band

Headlam Group have committed to a 180,000 sq ft BTS in Ipswich.

William Rose
Director,
Peterborough
01733 201 391
wrose@savills.com

Headlam Group  have committed to  a 180,000 sq ft BTS in Ipswich.
Strongest start since 2016

Supply
The supply of warehouse space in Scotland for units larger than 100,000 sq ft has fallen by 14% since 2018 year end and now stands at 1.48 million sq ft across ten separate units. The supply at present is skewed towards smaller, second hand units with 90% of the available units on the market being within the 100,000-200,000 sq ft size category, just 11% of the total available space is of grade A quality.

Evidently there is both a supply shortage in size and quality of available units in the region, with the vacancy rate hitting the lowest level ever recorded at 5.55%. The largest unit on the market is Lidl’s Regional Distribution Centre at Deans Industrial Estate comprising 291,710 sq ft following the forthcoming relocation to their new 750,000 sq ft base in Eurocentral.

Take-up
Take-up in Scotland in H1 2019 reached 360,966 sq ft through two separate transactions, representing a 180% increase on the full year figure for 2018. Take-up has primarily consisted of second hand units accounting for 67% of all space transacted yet there has been a recent influx in the proportion of build-to-suit space totalling 33% of all space transacted in 2019 YTD.

As predicted, it seems that take-up has perhaps been constrained by occupiers seeking required features which existing lower quality buildings cannot provide and are thus exploring the build-to-suit option. The largest deal in H1 2019 was Malcolm Logistics acquiring 240,966 sq ft at 16 Blackburn Road in Bathgate, Savills acted on behalf of the vendor.

Development Pipeline
Following on from last year, there are still no units being speculatively developed over 100,000 sq ft in Scotland meaning we do not expect vacancy rates to fluctuate in the medium term.

Take-up second hand units drive market

Supply majority is under 200,000 sq ft
There have been lower investment volumes in Q2 driven by continued political uncertainty yet pricing remains stable.

National investment
Investor demand keeps volumes strong

The current geopolitical climate and continued uncertainty around Brexit has had a clear impact on investment into all commercial sectors with overall investment volumes currently down 43% compared to the first half of 2018.

It is therefore encouraging that investment volumes for distribution warehouses have reached £1.51bn for H1 2019, 5% higher than the corresponding time in 2018 however the multi-let subsector saw significantly lower volumes than H1 2018.

While the portfolio market has been quieter than usual, volumes were clearly helped by the £250m sales of DB Symmetry to Tritax in the first quarter.

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 continue to pause for thought, while others become more active as they continue to rebalance away from retail and into industrials.
2019 Outlook

Where will future rental growth come from?

MSCI shows that over the last five years rents have increased for distribution warehouses by 3.9% p.a on average. Whilst take-up remains strong there has been a supply response with speculative development increasing. And with 56% of vacant supply being classified as grade A it is only natural that pressure will be applied to rental growth levels. Indeed market forecast house Realfor are suggesting rental growth will be a more subdued 1.8% p.a until 2023.

Continued geopolitical 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. Continued uncertainty around Brexit will keep overseas contractors away from the UK meaning that existing UK contractors and the supply chain will be working near capacity. If BTS take-up and speculative development continue at the levels they are it is not unreasonable to see upward pressures on costs into 2020 and beyond.

Overall 2019 tender price inflation forecast by Gardiner & Theobald

Build Cost and Programme

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 first half of 2019.

Continued geopolitical 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.