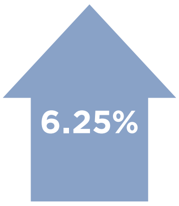
UK Logistics – July 2023

SPOTLIGHT
Savills Research

Big Shed Briefing

Prologis RFI DIRFT, where Prologis, advised by Savills, has recently delivered c. 950,000 sq ft of speculative development

Take-up falls to pre-Covid average ● Vacancy rises to 6.25% ● 14.99m sq ft under construction



Vacancy is in line with pre-Covid average

Nationwide overview

Vacancy at 6.25%, sheltered by a diminishing speculative pipeline

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Persimmon's bespoke timber frame factory in Loughborough, comprising 493,493 sq ft.

As we reach the halfway point of 2023, it has become increasingly clear that economic data in the UK remains volatile and unpredictable, as demonstrated by two recent announcements. Firstly, revised forecasts from the IMF suggest that it is likely that the UK will avoid recession in 2023 and instead post growth of 0.4%, a significant upgrade from earlier forecasts which suggested a fall of 0.5%. They did however note that inflation remained "stubbornly high", this was demonstrated by the June announcement from the ONS stating that CPI fell less than expected to 8.7%, meaning the UK now has the joint highest inflation in the G7.

With the Bank of England seemingly prioritising taming inflation over growth, it is likely that there will be further outward movements in the base rate bringing further uncertainty to the market.

Higher costs of capital will impact the market in many ways; developers will find it harder to fund speculative developments, which will constrain the development pipeline. The pricing aspirations of investors remain mismatched, and occupiers will consider their options on financing when it comes to capital expenditure. However, in the midst of all the volatility, unemployment remains historically low and consumer confidence, regarding their own personal situation, remains surprisingly high, meaning that occupiers still need to consider the suitability of their supply chains for a market that will continue to grow, notwithstanding the challenges in the short term.

Take-up

At a national level, take-up for the half year has reached 12.49m sq ft across 56 separate transactions, which is the lowest H1 take-up since 2013, albeit just 1% shy of the pre-Covid H1 average. At a deal count perspective, the level of individual transactions is in line with long-term averages, but with just six deals this year over 400,000 sq ft, this has had a dampening effect on the average deal size which has fallen from 272,000 sq ft over the last three years to 222,000 sq ft in 2023.

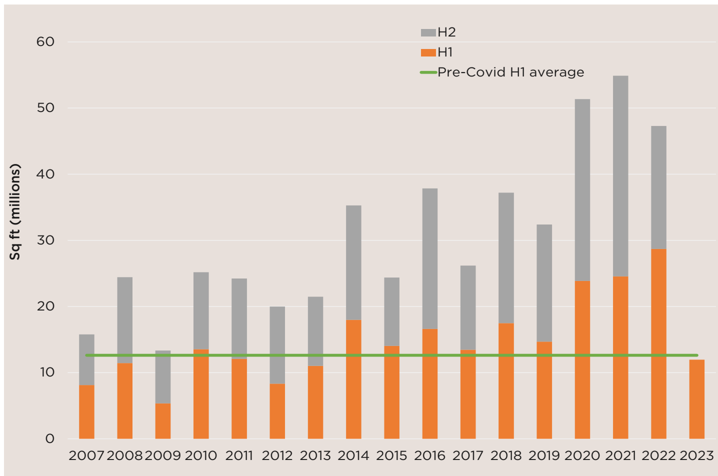
Analysing take-up by unit quality also reveals some interesting trends. As we suspected at the start of the year, the level of build-to-suit take-up has fallen back to 5.2m sq ft, accounting for 41% of demand this year. Demand for speculatively constructed units remains strong, accounting for 22% of the market and broadly in line with 2022, but perhaps most interesting is that we have seen, on a proportional basis, a rise in demand for second- hand units accounting for 37% of the market, up from just 21% in 2022. Whilst this remains lower than long-term averages, as the second-hand market typically accounts for 46% of transactions, it does suggest that occupiers are taking advantage of more flexible terms available through the space being marketed for sub-lease.

The diversity of the occupier mix continues to point to a well-balanced market less dominated by one particular segment, as we have witnessed with online retailers over the last five years. Indeed, online retailers accounted for just 6% of space taken so far in 2023, and manufacturing-related demand has continued its resurgence, accounting for 28% of all take-up, up from just 13% in 2021.

Supply and Pipeline

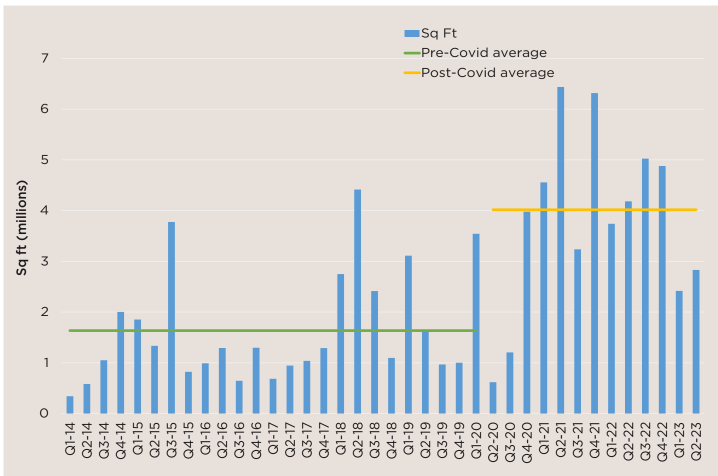
With an increased level of occupier-controlled supply on the market and 9m sq ft of speculative completions in Q2 23 alone, we have seen supply rise to 41.9m sq ft, reflecting a vacancy rate of 6.25%, which is just shy of the pre-Covid average of 6.3%. There is now 21.8m sq ft of Grade A space on the market, which at 52% of total supply, is the highest level since 2020. We expect this to start trending downwards as current supply is acquired and the development pipeline is not replenished as quickly. Indeed we have logged just 22 speculative announcements this year, compared to 39 over the same period in 2022.

Take-up H1 drops to pre-Covid averages



Source Savills Research

Speculative development announcements fall



Source Savills Research

> “Our requirements database has seen an uptick in occupier interest during H1 2023, which indicates that we have a stronger H2 2023 to come. Speculative development announcements have fallen by 77% from H1 2022 to H1 2023; only 0.37m sq ft of speculative development has been announced this year”

London and the South East

New build take-up accounted for 81% of the market as operational efficiencies and ESG increase in importance

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PLP MK: Reserve matters consent secured for 1m sq ft with 21 metres clear height. Savills are agents.

Supply

Over the past year, the supply of warehouse space over 100,000 sq ft has witnessed a 128% increase, reaching a total of 8.98m sq ft across 51 units. This growth can be attributed to the completion of multiple units as well as the inclusion of grey/occupier-controlled space which now accounts for 14% of the overall availability. In terms of regional distribution, there is currently 6.48m sq ft of warehouse space available in the South East across 37 units, while London offers 2.5m sq ft across 14 units.

Occupiers are placing an increasing emphasis on environmental, social, and governance (ESG) factors. Presently, a significant portion of the warehouse stock falls short of the required EPC B (Energy Performance Certificate) standard, which is outlined in government policy. Currently, 74% of the total stock in London and 68% in the wider South East fail to meet this standard.

Analysing the vacant stock shows 40% of the total sq ft is Grade A speculatively developed space, 27% is Grade A second-hand space, 14% is Grade B, and 19% is Grade C. There are now 38 units between 100,000 and 200,000 sq ft, eight between 200,000 and 300,000 sq ft, four units between 300,000 and 400,000 sq ft, and one unit between 400,000 and 500,000 sq ft. Vacancy has risen to 6.50%; Savills modelling suggests that it is to peak at 6.96% before falling in 2024.

Take-up

Take-up in 2023 has reached 2.52m sq ft across 11 transactions, which is in line with the long-term average. In 2023, 73% of transactions have been within the 100,000-200,000 sq ft size band, 9% within the 200,000-300,000 sq ft size band and 18% over 500,000 sq ft. The average deal size this year was 229,108 sq ft.

Occupiers continue to choose modern units to satisfy their requirements, with 59% of space transacted in 2023 being built-to-suit space, 22% new speculatively developed space, 15% Grade A second-hand space, and just 4% Grade C space.

Occupier demand has been diverse, with demand coming from a range of sectors: manufacturers have accounted for 41% of the activity, followed by grocery retailers at 29% and the 'other' sector at 16%.

Development Pipeline

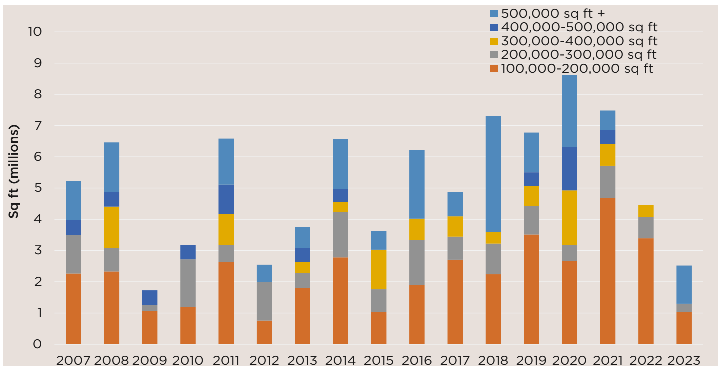
There are now just eight units under construction across the region, totalling 1.33m sq ft, representing a 63% decline in development activity in the last 12 months. There are six units under construction within the 100,000-200,000 sq ft size band, one within the 200,000-300,000 sq ft size band, and one within the 300,000-400,000 sq ft size band.

Key statistics

	Stats	yr/yr change
Take-up	2.52m sq ft	↓ 7%
Supply	8.98m sq ft	↑ 128%
Development Pipeline	1.33m sq ft	↓ 63%
Quoting Grade A Rent	£9.50-£35.00/sq ft	↑ 17%
Vacancy rate	6.50%	↑ 342 bps

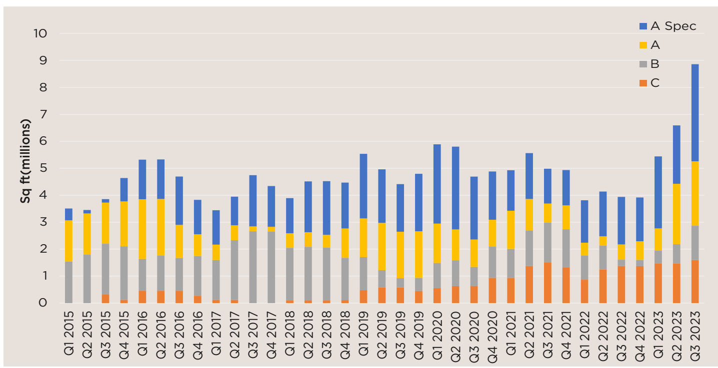
Source Savills Research

Take-up lack of larger deals pushes numbers down



Source Savills Research

Supply has increased, 67% is good-quality Grade A space



Source Savills Research

> "Take-up in 2023 has declined from levels seen in recent years, yet remains in line with the long-term H1 average. Despite an increase in the amount of 'grey space' (33% of all availability) a significant proportion has strong interest or is already under offer. We're also tracking multiple large requirements from occupiers committed to the 'golden triangle' seeking units of 500,000 sq ft plus"

East Midlands

Vacancy rate at 6.99%, yet still just 0.83 years' of supply given past take-up

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Prologis RFI DIRFT, where Prologis, advised by Savills, has recently delivered c.950,000 sq ft of speculative development.

Supply

There are 41 units available over 100,000 sq ft in the East Midlands, totalling 8.98m sq ft - this is a rise of nearly 418% from the record lows we saw last year. Despite it being one of the quickest upticks in vacancy to 6.99%, it should be noted this is now in line with the long-term UK average. Since 1980, as long as the vacancy rate has remained below 12%, there has been rental growth in the region.

Of the current supply, 16% is under offer and is set to complete next quarter. This will cause the vacancy rate to fall back sub 6%. Furthermore, despite the increase in supply, when using the long-term annual average take-up, there is still just 0.83 years' worth of supply in the region.

Due to refurbishments and speculative development completions, 65% is considered Grade A, 32% grade B and just 3% is Grade C. Savills predicts occupiers will shift from built-to-suit units towards existing units due to issues regarding funding but also the greater availability of stock.

In terms of size bands, there are 26 units within the 100,000-200,000 sq ft size band, seven within the 200,000-300,000 sq ft size band, four within the 300,000-400,000 sq ft size band, one within the 400,000-500,000 sq ft size band, and three over 500,000 sq ft.

Take-up

Take-up in H1 2023 has reached 2.5m sq ft across nine transactions, which is in line with the long-term H1 average. The average unit size is still larger than neighbouring regions, totalling 277,454 sq ft in 2023, further demonstrating evidence of occupier demand towards larger units.

Analysing transactional activity by specification shows a continued trend towards better quality units: 55% of space transacted has been built-to-suit space, 25% has been speculatively developed space, of which, half was let prior to practical completion and 20% was Grade A second-hand space. All space transacted in 2023 has been of Grade A quality.

By unit count, 45% of transactions were within the 100,000-200,000 sq ft size band, 45% were within the 300,000-400,000 sq ft size band, and 10% in the 400,000-500,000 sq ft size band.

Manufacturers have been the most active in 2023, accounting for 34% of all space transacted, 3PLs accounted for 26%, and high street retailers 16%. The remainder was spread over a range of retailer-related occupiers.

Development Pipeline

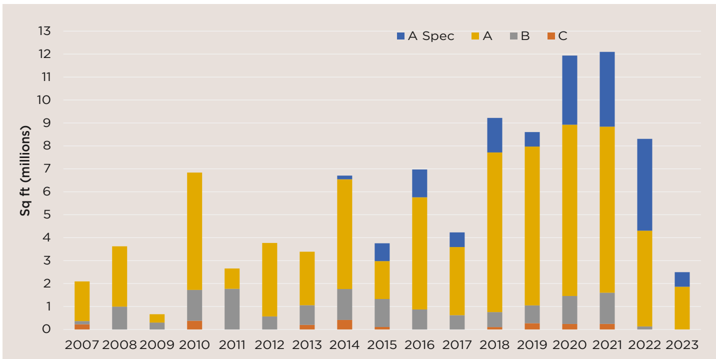
There are currently ten units under construction, totalling 3.71m sq ft. There are three under construction in the 100,000-200,000 sq ft size band, four in the 300,000-400,000 sq ft size band and three over 500,000 sq ft.

Key statistics

	Stats	yr/yr change
Take-up	2.50m sq ft	↓ 52%
Supply	8.98m sq ft	↑ 418%
Development Pipeline	3.71m sq ft	↓ 27%
Quoting Grade A Rent	£9.75/sq ft	no change
Vacancy rate	6.99%	↑ 559 bps

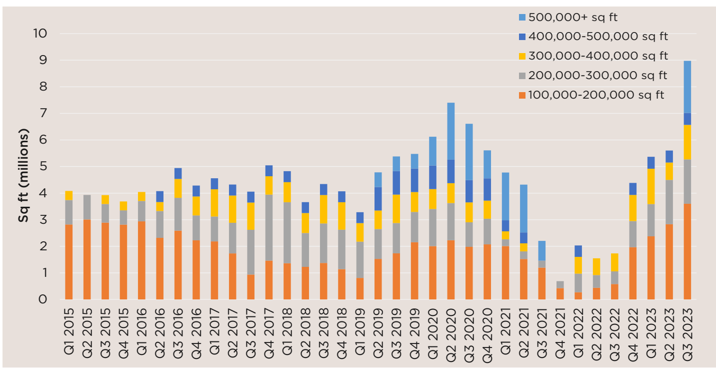
Source Savills Research

Take-up was 100% Grade A quality in H1 2023



Source Savills Research

Supply has risen across all size bands



Source Savills Research

> Supply in the region has increased with an influx of 'grey space' which now accounts for 31% of the total available space. However, whilst yes, we have seen multiple occupiers pause for thought during this particular period of uncertainty, towards the end of the quarter, activity has increased. Now, 20% of the total supply is under offer

West Midlands

Vacancy rose to 6.10% yet is set to fall to 4.86% as under-offers complete

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Ergo 354 in Fradley provides 354,000 sq ft of space and is immediately available. Savills are agents.

Supply

The level of supply within the region currently stands at 5.84m sq ft across 27 units, representing a 123% increase from this time last year. Despite this rise, it should be noted that the vacancy rate is in line with the long-term average and when using the three-year average, annual take-up, there is still just 0.72 years' worth of supply within the region.

Of the available stock, 25% is Grade A speculatively developed space, 45% is Grade A second-hand space, 20% is Grade B space, and 10% is Grade C space.

Analysing the vacant stock by size shows there are 17 units available within the 100,000-200,000 sq ft size band, two within the 200,000-300,000 sq ft size band, six within the 300,000-400,000 sq ft size band, and two in the 400,000-500,000 sq ft size band.

Currently, 20% of the available supply is under offer and is set to exchange in Q3 2023 - this will bring the vacancy rate down to 4.86%. According to forecasts from RealFor, the region is set to see rental growth of 5.3% per annum for the next five years.

Take-up

Take-up in 2023 has reached 1.62m sq ft across eight transactions, which is 25% below the long-term average. The average deal size this year was 202,727 sq ft.

Occupiers in the region have undoubtedly faced pressures given rising interest rates, inflation and other macroeconomic factors and have gone down the existing unit route to acquire space. In 2023, 66% of space transacted has been second-hand space, 17% has been built-to-suit space and 17% has been newly built, speculatively developed space. The vast majority, when analysing the take-up trends by grade, still is good quality space, with 81% of take-up being Grade A quality, 9% Grade B, and 10% low-quality Grade C space.

Deal counts demonstrated the preference towards smaller units as 88% of deals were recorded within the 100,000-200,000 sq ft size band and 12% in the 500,000 sq ft+ size band.

Grocery retailers have dominated activity in 2023, accounting for 41% of the total take-up (Sainsbury's acquiring Rugby 661), followed by wholesalers at 30% and 3PLs at 23%.

Development Pipeline

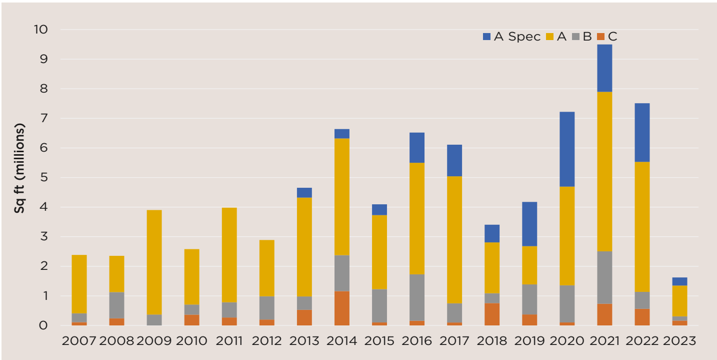
There are 13 units currently under construction within the West Midlands, totalling 2.74m sq ft. There are seven within the 100,000-200,000 sq ft size band, four within the 200,000-300,000 sq ft size band, and two within the 300,000-400,000 sq ft size band.

Key statistics

	Stats	yr/yr change
Take-up	1.62m sq ft	↓ 59%
Supply	5.84m sq ft	↑ 123%
Development Pipeline	2.74m sq ft	↑ 23%
Quoting Grade A Rent	£9.75/sq ft	no change
Vacancy rate	6.10%	↑ 322 bps

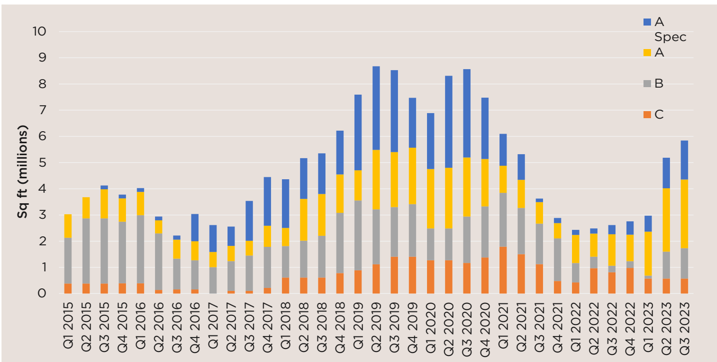
Source Savills Research

Take-up 81% was Grade A quality



Source Savills Research

Supply 60% of supply is Grade A



Source Savills Research

> “The region continues to be well balanced between supply and demand. We have witnessed an uptick in supply, but a lot of these units are poor quality or in remote locations and won’t be suitable for the majority of the occupiers. We expect to see some significant transactions this year, which should bolster end-of-year take-up figures for the region”

North West

Vacancy at 6.17%, remaining below peak of 9.6% in 2019

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X-Dock 549 provides 549,500 sq ft of Grade A space. Savills is marketing the unit on behalf of Marshall CDP.

Supply

The supply of warehouse space has increased by 111% in the last 12 months to stand at 5.6m sq ft across 25 units. Using the three-year average annual take-up, this equates to just 0.84 years’ worth of supply in the region. The vacancy rate has increased to 6.17%, yet is still crucially below the peak of 9.6% in 2019.

In terms of grade, 39% is Grade A speculatively developed space, 7% is second-hand Grade A space, 28% is Grade B space, and 26% is Grade C space.

By unit count, 68% are within the 100,000-200,000 sq ft size band, 8% are within the 200,000-300,000 sq ft size band, 12% are within the 300,000-400,000 sq ft size band, and 12% are over 500,000 sq ft.

We expect prime rents to continue to grow due to the supply and demand dynamics remaining consistent for Grade A space. RealFor is suggesting 5.3% per annum for the next five years.

Take-up

Take-up has reached 2.15 across nine transactions which is 3% above the long-term H1 average. The average deal this H1 stood at 238,859 sq ft.

In 2023, occupier demand has leant towards better quality units, with 7% of take-up being pre-let speculatively developed space, 21% being existing speculatively developed space, 46% being built-to-suit space and 26% second-hand space. Additionally, in terms of grade, 74% of space transacted was good-quality Grade A, 10% Grade B and 16% low-quality Grade C space.

By deal count, in 2023, there has been four deals within the 100,000-200,000 sq ft size band, three within the 200,000-300,000 sq ft size band, one within the 300,000-400,000 sq ft size band, and one within the 400,000-500,000 sq ft size band.

Manufacturers have accounted for 43% of the total take-up in 2023, followed by high street retailers at 21%. The ‘other’ sector, which consists of the likes of data centres and film studios, have also been active, accounting for 14% of take-up.

Development Pipeline

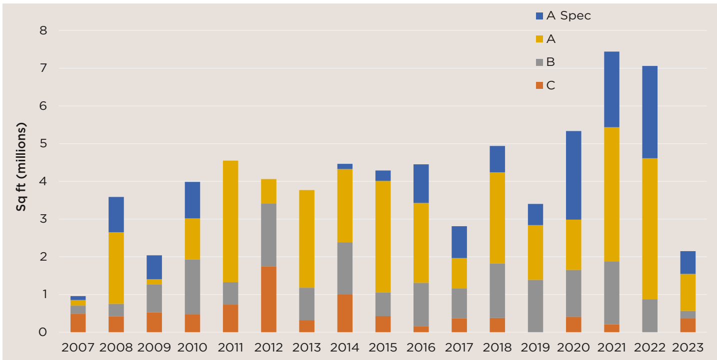
There are currently five units being speculatively developed, totalling c.925,000 sq ft. There are four units under construction within the 100,000-200,000 sq ft size band and one within the 300,000-400,000 sq ft size band. Savills is tracking multiple other schemes that have achieved planning, yet issues such as funding have caused them to be temporarily paused. Should these units come to the market without being pre-let, the vacancy rate would rise to just 7.2%.

Key statistics

	Stats	yr/yr change
Take-up	2.15m sq ft	↓ 48%
Supply	5.60m sq ft	↑ 111%
Development Pipeline	0.93m sq ft	↓ 52%
Quoting Grade A Rent	£9.50/sq ft	↑ 12%
Vacancy rate	6.17%	↑ 308 bps

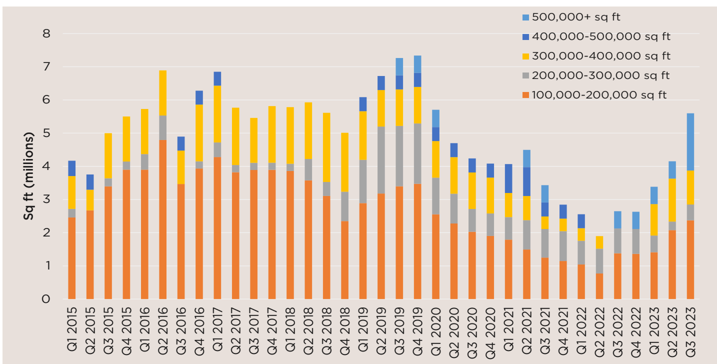
Source Savills Research

Take-up in line with long-term H1 average



Source Savills Research

Supply increase driven by sub-lease space



Source Savills Research

> “Activity in the region has experienced a decline, primarily driven by economic challenges. Despite the temporary setback, there is an expectation that activity will rebound in the near future, driven by growing occupier requirements. In terms of occupier activity, built-to-suit take-up, in particular, has declined due to economic pressures; however, we have seen increased interest in existing units, with a number under offer and scheduled to complete in Q3 2023”

Yorkshire and the North East

Vacancy rate just 3.97%; 0.37 years’ worth of supply

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Super B in Bradford, where Savills advised Tungsten in the letting of 230,000 sq ft to Advanced Supply Chain.

Supply

Currently, there is 4m sq ft available across 21 units representing a vacancy rate of 3.97%. Specifically, there are 14 units available in Yorkshire, totalling 2.87m sq ft, resulting in a vacancy rate of 3.86%. In the North East, there are seven units, totalling 1.13m sq ft, equating to a 4.31% vacancy rate. Based on the average take-up, the current supply in the wider region would last for approximately 0.37 years.

Grade A units now comprise 44% of the stock, followed by 35% for Grade B and 21% for Grade C. Further analysis reveals that a significant portion of the Grade C or B space may no longer meet modern occupier requirements, whilst 71% of all units do not meet the future government policy’s required EPC B standard. In the North East, just one of the seven units is of Grade A quality yet is already under offer and set to exchange imminently, whilst 60% by square footage is Grade C and unlikely to be fit for modern occupiers.

By unit count, 75% falls within the 100,000-200,000 sq ft size band, and 10% in the 200,000-300,000 sq ft band. The remaining size bands each account for 5%.

Take-up

During the first half of 2023, the total take-up of space slowed, amounting to 2.1m sq ft across ten transactions. This figure is 32% below the long-term average. When considering the regional breakdown, 86% of the take-up occurred in Yorkshire & the Humber, while the remaining 14% took place in the North East.

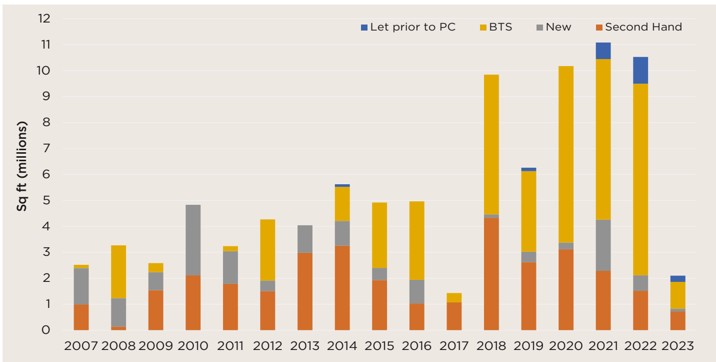
In 2023, 49% of the transacted space was built-to-suit, 11% was pre-let speculatively developed, 5% was existing speculatively developed, and 35% was second-hand space. In terms of grade, 65% of the activity involved Grade A space, 24% involved Grade B space, and 11% involved Grade C space, reflecting the recent trend of occupiers preferring higher-quality units.

When considering the number of deals, 60% of the transactions fell within the 100,000-200,000 sq ft size band, while 30% occurred in the 200,000-300,000 sq ft size band. The remaining 10% took place in the 500,000 sq ft+ size band. In terms of sector distribution, third-party logistics firms accounted for 46% of the activity, followed by 28% from grocery retailers, 14% from manufacturers, and 12% from the ‘other’ sector.

Development Pipeline

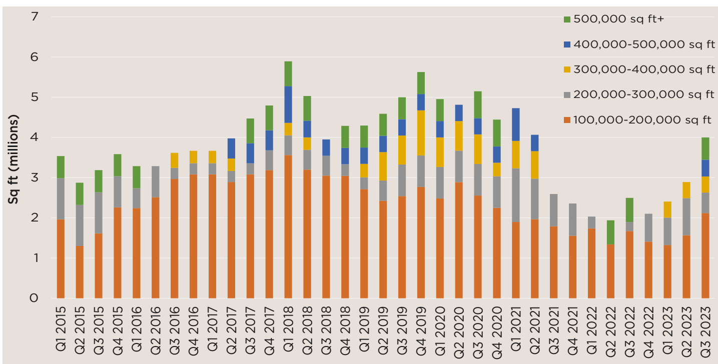
There are currently 19 units under construction, totalling 4.55m sq ft. There are ten units within the 100,000-200,000 sq ft size band, three within the 200,000-300,000 sq ft size band, four within the 300,000-400,000 sq ft size band, and two within the 400,000-500,000 sq ft size band.

Take-up 65% was good-quality Grade A space



Source Savills Research

Supply dominated by smaller sizes; majority second-hand



Source Savills Research

Key statistics

	Stats	yr/yr change
Take-up	2.10m sq ft	↓ 63%
Supply	4.00m sq ft	↑ 60%
Development Pipeline	4.55m sq ft	↑ 84%
Quoting Grade A Rent	£7.50-£8.25/ sq ft	↑ 10%
Vacancy rate	3.97%	↑ 122 bps

Source Savills Research

> "With a skilled workforce, strategic transportation networks, and government support, the region will continue to attract investment and drive innovation which will bring much-needed improvements to the quality of warehouse stock. We've noticed an unsurprising decline in activity in 2023; however, we're continuing to track enquiries from multiple parties on good-quality prime stock"

South West & Wales

Supply continues to rise, yet 38% is currently under offer

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Panattoni Park Avonmouth, where Panattoni, advised by Savills, is delivering 1.3m sq ft speculatively.

Supply

Currently, there is a total supply of 5.05m sq ft across 22 units in the South West and Wales industrial and logistics market. Of this, 3.63m sq ft is located in Wales, while the South West accounts for 1.42m sq ft. The largest unit available is the former Ford Factory in Bridgend, Wales, which spans 1.6 million sq ft.

When considering the vacancy rate, the combined figure for the South West and Wales is 8.73%. However, when examining the South West in isolation, it becomes evident that the region is experiencing a chronic undersupply, with a vacancy rate of only 3.58%. This scarcity is likely to drive rental prices higher. Upon completion of units that are currently under offer, the vacancy rate across the South West and Wales will significantly decrease to 5.81%.

In terms of quality, 20% of available space is classified as Grade A, 16% as Grade B, and the majority, 64%, as Grade C space. Furthermore, 77% of the properties available fall within the 100,000-200,000 sq ft range, while 5% are within the 200,000-300,000 sq ft range, 13% are within the 300,000-400,000 sq ft range, and 5% exceed 500,000 sq ft.

Take-up

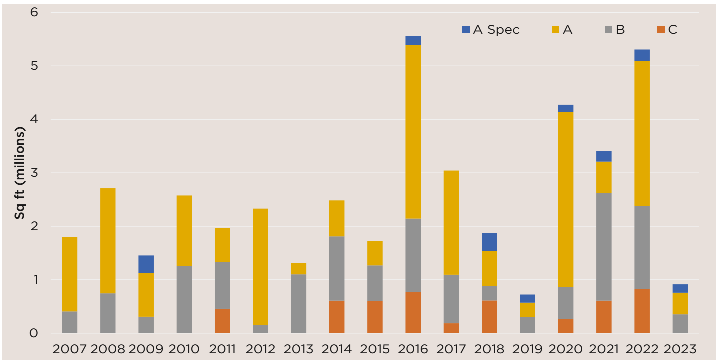
Take-up in the South West and Wales has fallen to c.910,000 sq ft across four transactions. According to the long-term average, the region sees 1.49m sq ft of activity in H1 across six transactions. Regionally, the South West has seen 51% of transactions and Wales 49%. In terms of specification, 83% of the space transacted this year has been second-hand space, while 17% has been pre-let speculatively developed space. In terms of grade, 17% of take-up was pre-let speculatively developed, 44% was Grade A, and the remaining 39% was Grade B space.

Occupiers in the region continue to show a preference for smaller-size units. Among the unit count, 50% of transactions fell within the 100,000-200,000 sq ft size range, 25% within the 200,000-300,000 sq ft range, and another 25% within the 300,000-400,000 sq ft range. The average deal size this year reached 228,451 sq ft. In terms of sector activity, manufacturers were the most active, accounting for 39% of all space transacted. Online retailers followed closely behind at 32%, with automotive companies at 17%, and logistics firms at 13%.

Development Pipeline

There is 1.61m sq ft under construction through five units across the region. There are three units under construction within the 100,000-200,000 sq ft size band, one unit within the 400,000-500,000 sq ft size band, and one over 500,000 sq ft.

Take-up 39% below the long-term average



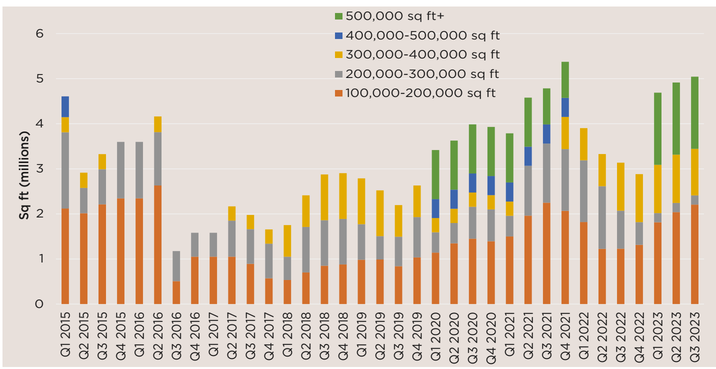
Source Savills Research

Key statistics

	Stats	yr/yr change
Take-up	0.91m sq ft	↓ 76%
Supply	5.05m sq ft	↑ 61%
Development Pipeline	1.61m sq ft	↑ 1138%
Quoting Grade A Rent	£8.00/sq ft	↑ 3%
Vacancy rate	8.73%	↑ 221%

Source Savills Research

Supply 1.16 years' worth of supply



Source Savills Research

> "It's not surprising, as in the majority of the regions, take-up has fallen due to economic and political uncertainty. However, the market does remain stable, with a limited development pipeline helping keep vacancy rates low. Our modelling suggests vacancy will hit a peak of 8.6% before falling in 2024"

East of England

Vacancy rate at 6.55%; 0.72 years' worth of supply left

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CrossLink 252 in Huntingdon provides 251,746 sq ft of space. Savills are agents.

Supply

The level of supply in the market has risen 160% in the past year to stand at 2.21m sq ft across seven units. Given the average take-up, that equates to just 0.72 years' worth of supply. The largest unit currently being marketed is Peterborough 736, comprising c. 736,000 sq ft of Grade B second-hand space.

In terms of grade, 25% of space on the market is Grade A speculatively developed space, 45% is second-hand Grade B space and 30% second-hand Grade C space. Whilst by unit count, there are two units available within the 100,000-200,000 sq ft size band, three within the 200,000-300,000 sq ft size band, one within the 300,000-400,000 sq ft size band and one over 500,000 sq ft.

The vacancy rate currently stands at 6.55%. Savills modelling has analysed the various lease events, development pipeline and chance of company failure, which suggests the availability will peak at just 8.6% before falling into 2023. RealFor suggests rental growth of 6.1% per annum in the next five years.

Take-up

Take-up in 2023 has reached c.380,000 sq ft across three transactions, this is 34% below the long-term H1 average. The average unit size has declined significantly from c. 335,000 sq ft in 2022 to just 125,000 sq ft in 2023.

Over the past six months, we have seen an increase of supply of lower quality existing units, often occupiers can acquire these units on more preferable lease terms. Consequently, in 2023, 67% of space transacted has been second-hand space and 33% has been pre-let speculatively developed space. On average, 62% of space transacted was built-to-suit, 8% was speculatively developed space and 30% was second-hand space.

In terms of unit count, all three transactions have been within the 100,000-200,000 sq ft size band. Furthermore, Savills requirements data demonstrate an occupier shift towards smaller-sized units in recent months - unsurprising given the current global economic and political uncertainties.

Occupier demand has stemmed from third-party logistics firms, accounting for 34% of all take-up, parcel companies at 33% of take-up and wholesalers at 33%.

Development Pipeline

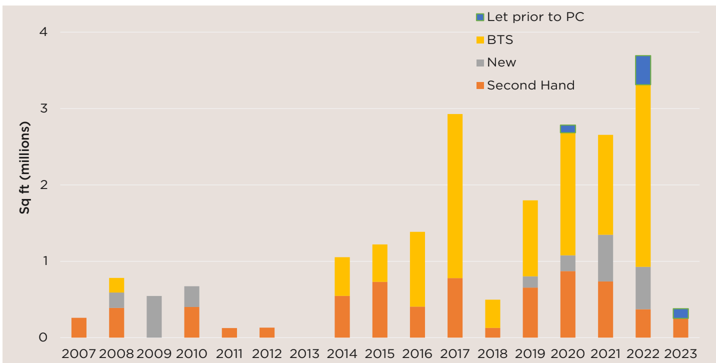
Following on from the recent completion of the units under construction, there is now no development pipeline. Occupiers seeking space within the region must either go down the built-to-suit route to acquire space or acquire one of the seven existing units.

Key statistics

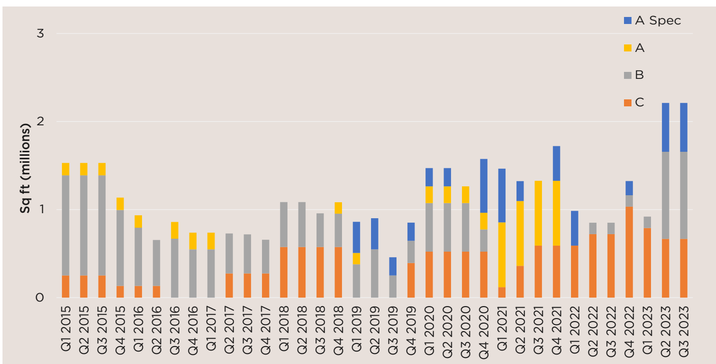
	Stats	yr/yr change
Take-up	0.38m sq ft	↓ 87%
Supply	2.21m sq ft	↑ 160%
Development Pipeline	0m sq ft	-
Quoting Grade A Rent	£8.50/sq ft+	↑ 6%
Vacancy rate	6.55%	↑ 359 bps

Source Savills Research

Take-up no BTS deals this year



Supply 25% is Grade A quality



Source Savills Research

> "The prevailing energy crisis has sparked a surge in occupiers seeking high-quality, energy-efficient buildings in Scotland, driven by the need to enhance supply chain resilience. However, a staggering 81% of existing warehouse stock in Scotland falls below the desired EPC Grade B, presenting significant challenges for occupiers"

Scotland

Vacancy rate now 4.47% as second-hand space returns to market

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Belgrave Logistics Park, where Knight Property is developing 126,960 sq ft.

Supply

The supply of warehouse space in Scotland for units over 100,000 sq ft now stands at 1.28m sq ft across eight units - a 45% rise since the start of the year, yet still below figures seen 12 months ago. Using the three-year average annual take-up, there is 1.44 years' worth of supply in Scotland.

The supply continues to consist of low-quality units, with 45% of space on the market being Grade B space and 55% Grade C. There is a significant gap between demand and availability of Grade A space, with the majority of warehousing failing to meet the widely desired EPC Grade B standard, indicating a need for substantial upgrades and retrofits to meet the growing demand for energy efficiency.

Of the eight units currently available, six are within the 100,000-200,000 sq ft size band and two are within the 200,000-300,000 sq ft size band.

RealFor, an economic forecaster, predicts that rental growth will reach an average of 4.6% per annum over the next five years.

Key statistics

	Stats	yr/yr change
Take-up	0.29m sq ft	↑ 190%
Supply	1.28m sq ft	↓ 20%
Development Pipeline	0.12m sq ft	-
Quoting Grade A Rent	£8.50/sq ft	↑ 21%
Vacancy rate	4.47%	↓ 233bps

Source Savills Research

Take-up

The predominant activity in Scotland revolves around smaller-sized units, as the supply of units over 100,000 sq ft remains limited. In the first half of 2023, there were two transactions recorded, totalling 290,000 sq ft, both of which were within the 100,000-200,000 sq ft size range. The long-term H1 transactional average stands at 309,432 sq ft.

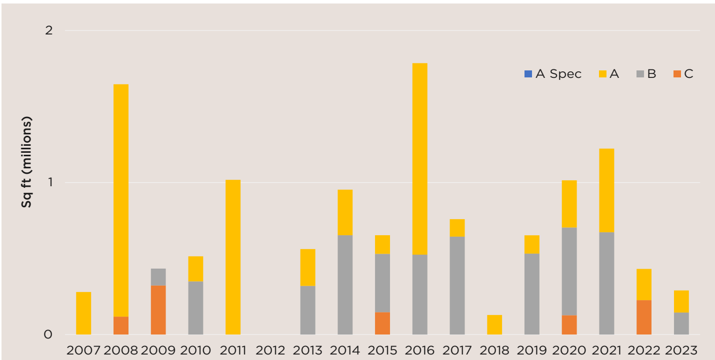
Upon analysing the take-up by grade, it becomes evident that all the recorded take-up comprised second-hand space. Among this space, 50% constituted second-hand Grade A properties, while the remaining 50% represented second-hand Grade B properties. The activity can be attributed to third-party logistics firms and manufacturers, each accounting for 50% of the overall activity.

Notably, the largest deal in 2023 was Eurocentral 145, involving the acquisition of a 145,000 sq ft property by Savills for one of our occupier clients. The demand for bespoke buildings that precisely align with operational needs is also gaining significant traction, with Savills currently tracking multiple requirements from occupiers seeking such customised spaces.

Development Pipeline

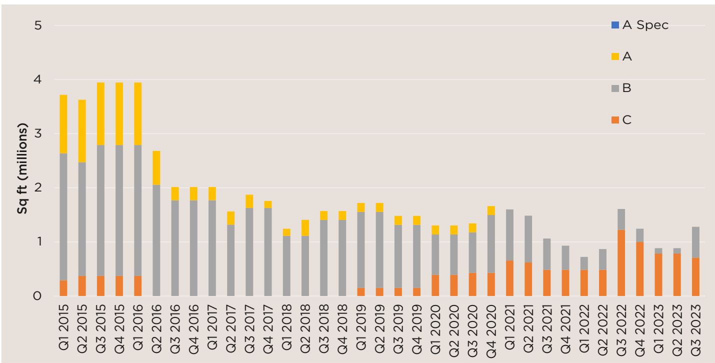
Continuing on from the last report, there is still a single unit over 100,000 sq ft under construction, speculatively over 100,000 sq ft at Belgrave Logistics Park, where Knight Property is developing 126,960 sq ft - it's currently under offer. Savills is continuing to track the future land pipeline in the region and is currently analysing c.450 acres at various stages in the planning process.

Take-up up 190% on H1 2022 levels



Source Savills Research

Supply consists of low-quality second-hand space



Source Savills Research

> **"Investment volumes remain muted as economic uncertainty continues to keep buyer and seller pricing aspirations apart. However, with significant amounts of dry powder targeting the sector and an increasingly realistic approach from vendors, we do expect some bounceback during the second half of the year"**

National investment

Plenty of dry powder waiting in the wings

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Unit A Centrum West Logistics Park, where Savills advised on the purchase at c.£40m.

As 2023 has progressed, sentiment in the market has ebbed and flowed as economic data, particularly around inflation and base rates, has flattered to deceive. With further outward movements in the base rate expected, the uncertainty in the market is not expected to dissipate as quickly as many hoped.

Investment volumes for the first half of 2023 have reached £0.99bn, which is a 79% decline from the record volumes achieved in H1 2022. Due to the record high investment volumes set in 2022, the volume declines observed in the logistics sector have also been more pronounced than the overall commercial sector, where volumes have declined by 47%, although it should be noted that for the logistics sector, H1 remains 5% above the pre-Covid H1 average.

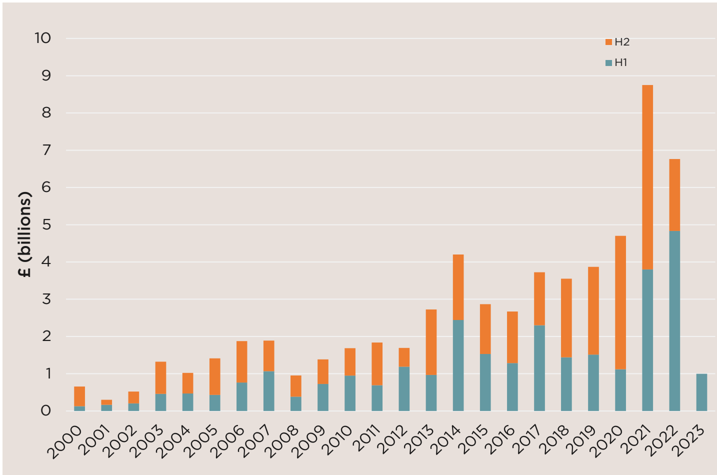
With 60% of transactions coming in Q1 and economic data surprisingly on the upside, prime yields moved inwards to 4.75% in March, with further downward pressure expected. However, in a sign of how quickly sentiment is changing, our prime yield has recently shifted outwards to 5%, with further outward movement expected unless the Bank of England can control inflation in the relatively short term.

So where does the market go from here? Data from Realfin shows that equity raising has increased by 92% since 2019, with an estimated US$811bn in dry powder sitting in the accounts of unlisted funds globally. This, combined with asset allocators still favouring real estate above other asset classes, implies that capital is there to be invested but the market currently lacks willing and motivated sellers. Indeed a recent survey conducted by Savills valuation suggests a clear divergence of opinion on future pricing, with the spread of responses from investors ranging from a fall in values by 15% to a rise in values by 15%. With such a spread of opinion, it is no surprise price discovery in the market remains elusive.

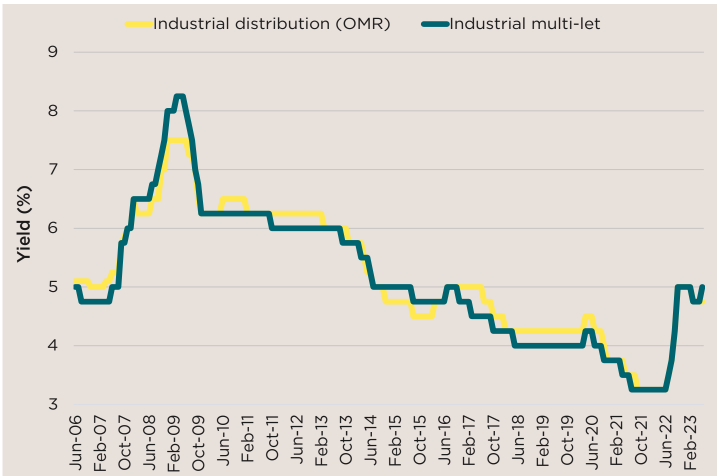
However, as referenced earlier in this report the speculative pipeline continues to decrease, meaning recent supply rises will start to taper into 2024. Occupier requirements are also rising which, assuming deals subsequently occur, means that supply will start to erode. This in turn will create pockets of under-supply where rental out performance is more likely to be achieved.

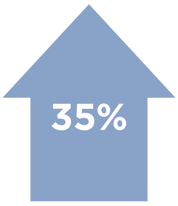
As the year progresses we expect that vendor and seller aspirations will become more aligned as funds continue to deal with redemptions and forthcoming refinancing starts to bring stock out to the market. This should mean that volume levels start to increase but not at the pace anticipated at the start of the year.

Investment volumes falls 79% on H1 22 levels



Prime investment yields have risen back to 5%





Forecast for the level of UK online retail penetration by 2027

Outlook

Requirement levels suggest that take-up will rise in H2

With the lowest H1 take-up since 2013, it is tempting to suggest that the recent boom in market activity has run its course, but it is worth taking a short - and long-term view moving forward. Examining short-term market performance, Savills Research has created an index based on our data of every occupational requirement in the market. This index has a strong correlation to the level of take-up on a nine-month lag. It is therefore no surprise that H1 2023 take-up has fallen as our index reached its lowest point back in late summer of 2022. The promising news is that our requirements index has rebounded in H1 23 with a strong rise in the number of requirements over 500,000 sq ft. Should the correlation of requirements to take-up be maintained, we would expect the second half of the year to see a rise in the level of new leases signed.

Taking a longer-term view, it is clear that the key structural driver of increased online retail remains in place, along with new sources of demand from the manufacturing sector. The latest forecasts from Statista suggest the online retail penetration rate in the UK will rise to 35% by 2027, with growth coming from the fashion, food and electronics sectors.

Demand from manufacturing-related occupiers continues to rise as companies look to re-risk their supply chains, although we view this trend as more of a slow burn given the complexities of changing global manufacturing supply chains.

Lastly, as the population of the UK continues to grow, so will the demand for warehouse space. Indeed with the UK population set to reach 71m by 2033, the need to deliver more housing becomes paramount. Based on research from the BPF, which states that each new household requires 69 sq ft of warehouse space, we estimate that an additional 224m sq ft of space will be needed by 2033 just to meet the needs of our growing population.

Requirements have risen by 64% in 2023

Source Savills Research

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BUILD COST AND PROGRAMME

As recently reported in parts of the property press, the Building Research Establishment (BRE) has withdrawn its certification from Kingspan Insulated Panels. Kingspan is a significant supplier of insulated cladding across the Industrial and Logistics sector. This means it will no longer have Loss Prevention Certification Board (LPCB) certification, which is an industry-recognised standard for investors, insurers and occupiers. Whilst stakeholders ascertain the implications of this move by the BRE, it is possible in the near term, that this will create further volatility in build costs and programme length.

Notwithstanding the above, with development announcements falling, it is likely that the build cost inflation we have witnessed over the last three years will start to abate. As things stand, we seeing the cost of many raw materials, such as steel, fall; however, this is being off-set by continued rises in the price of labour, which is reflected in the Savills ProgrammE and Cost Sentiment Survey (S.P.E.C.S) which is yet to see a downward trend. As contractors start to compete for less work, competitive tendering situations will ensure that costs start to fall which, in turn, may improve scheme viability and allow new speculative schemes to come forward.

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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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