SPOTLIGHT
Savills Research

Big shed briefing

savills

Magna Park Corby where TopHat, advised by Savills, have taken a 650,000 sq ft BTS unit

Best ever H1 take-up reaching 28.7m sq ft ● Vacancy at 3.01% ● 16.46m sq ft under construction

90%

Take-up ahead of the long-term H1 average

Nationwide overview

Record H1 take-up against an uncertain economic backdrop

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SLPEMG: Where Maersk have taken a 686k sq ft BTS unit

As the months have passed in 2022, it is clear to see that sentiment in economies the world over has changed dramatically. Whilst inflation was already starting to rear its head at the start of the year the situation in Ukraine has amplified the situation further largely through higher energy and food costs.

In the UK consumer confidence has fallen to the lowest level since records began and whilst retail sales are still showing increases in value, the volume of sales has been declining steadily since October 2021, according to data from the ONS.

Whilst governments have been implementing policies to aid the consumer the reaction, in the most part, has been for central banks to start raising interest rates, and in the UK rates now stand at 1.25% with further rises seen as an inevitability. Perhaps most relevant to our sector is the current trajectory of online sales which now stands at 25.9% of all retail sales, the lowest level since before the onset of Covid-19.

Given this economic backdrop history would tell us cracks in the occupational market would start to appear but at the time of writing there is little to suggest this. Indeed in the first half of this year Savills have logged over 200m sq ft of occupier requirements, a fall of just 2% when compared with the first half of 2021. Against the backdrop of supply chain resilience and the need to hold more inventory, we continue to see strong demand as our latest data demonstrates.

Take-up

With 15m sq ft of new leases signed in Q2, making it the second best Q2 on record, it is pleasing to report that take-up for H1 22 has reached a new record of 28.6m sq ft surpassing last years total of 24.5m sq ft and exceeding the H1 average by 90%.

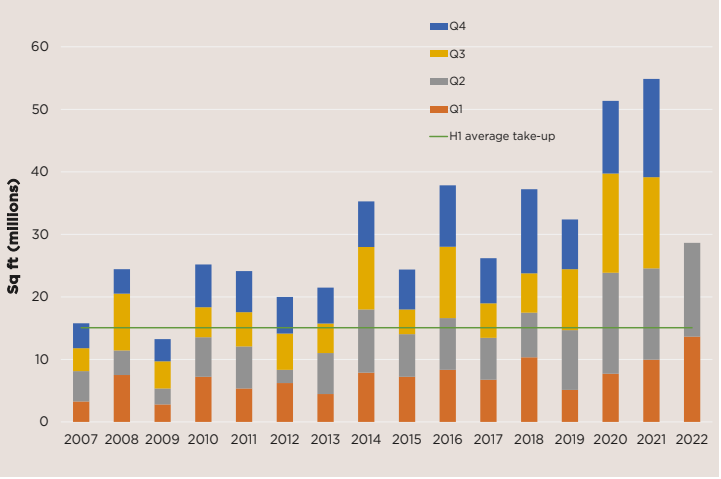
Given low levels of vacancy it is interesting to observe that build-to-suit take-up has accounted for 54% of all of the space transacted so far in 2022, the highest proportion this segment has ever accounted for. Whilst the level of speculative take-up remains strong accounting for 7m sq ft of demand so far this year the bigger story is the fall in demand for second-hand units which accounted for just 21% of take-up, proportionally the lowest level ever recorded. Whilst partly a supply issue, second-hand units will have lower ESG credentials and given the rising costs associated with running warehouses it comes as no surprise that occupiers are gravitating to better quality buildings with better ESG features.

The biggest story remains just how diverse the current occupier base in the sector is. With online retailer take-up falling back to 18% of the total, down from 35% last year, other occupier groups have more than compensated. Whilst 3PLs have continued taking space and account for 25% of 2022 take-up there has been a resurgence in demand from the manufacturing and automotive sector who have taken 7m sq ft, which is 11% more than the whole of 2021.

Supply and Pipeline

With a number of speculative completions in the first half of the year and the rising demand for BTS units supply has increased by 1% in 2022 to 18.4m sq ft, which reflects a vacancy rate of just 3.01%. Whilst this is the first vacancy up-tick we have seen for 18 months it should be viewed in the context of the five-year average for vacancy which sits at 5.9%. We are tracking 16.46m sq ft of speculative development due for delivery in 2022 and 2023 and expect new announcements to tail off given the wider economic context.

Take-up 90% above the long-term H1 average



Source Savills Research

Supply and vacancy continue to fall

Source Savills Research

> **Take-up in 2022 has been in line with the long-term average reaching 2.62m sq ft. It's been the strongest year in terms of deal count, surpassing the previous H1 watermark by five transactions. Demand has been strongest in the 100,000-200,000 sq ft size band**

London and the South East

Vacancy hits 3.18%; large proportion of supply is poor quality

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PLP Milton Keynes , where PLP are speculatively developing 10 units ranging from c.14k sq ft to c.310k sq ft

Supply

Continued speculative development and strong occupier demand has meant the region has remained broadly stable in terms of the supply and demand dynamics. More recently, we have seen a shift in the quality balance of the available stock as low-quality Grade C units return to the market. Currently, 59% of the available space on the market is Grade A, just 6% is Grade B and 35% is Grade C space.

Now, the region has 3.94m sq ft available across 25 units. The supply is pretty much equal between London & the South East, with 57% being marketed within the wider South East and 43% within London.

In terms of unit count, there are 21 units 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 within the 300,000-400,000 sq ft size band.

A large proportion of the Grade C space should be earmarked for redevelopment or refurbishment as they do not reach the ESG standards expected by many occupiers.

Take-up

The first half of 2022 saw 2.62m sq ft of space transacted, which is just 1% lower than the amount seen in 2021 and just 2% lower than the long-term H1 average. There has been a significant increase in the number of deals in recent years with 2022 setting a new H1 record as 24 separate transactions have been recorded.

Following on from last year, the region has seen a shift away from larger units towards the smaller size bands. In 2022, 82% of transactions have been within the 100,000-200,000 sq ft size band compared to a long-term average of 66%. The 200,000-300,000 sq ft size band saw 12% of transactions and the 300,000-400,000 sq ft size band saw 6%.

In terms of Grade, 45% of all space transacted in 2022 YTD has been Grade A speculatively developed space, 35% has been Grade A, 8% Grade B and 12% has been classified as Grade C space.

Occupier demand has been diverse with a sustained demand coming from a diverse range of sectors, 3PLs have accounted for 43% of the activity followed by the other sector at 39% which includes the likes of Data Centres and Film Studios.

Development Pipeline

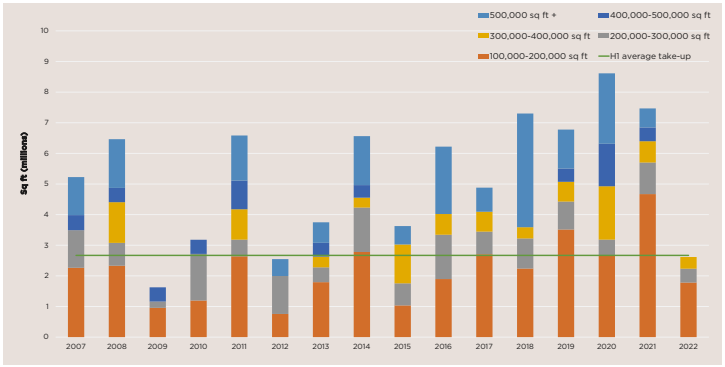
There are now 22 units under construction across the region totalling 3.57m sq ft, 85% of which are based in the South East and just 15% within London. There are, in total, 17 units under construction within the 100,000-200,000 sq ft size band, three within the 200,000-300,000 sq ft size band and two within the 300,000-400,000 sq ft size band.

Key statistics

	Stats	yr/yr change
Take-up	2.62m sq ft	↓ 1%
Supply	3.94m sq ft	↓ 21%
Development Pipeline	3.57m sq ft	↓ 33%
Quoting Grade A Rent	£9.00-£30.00/sq ft	c.↑ 36%
Vacancy rate	3.18%	↓ 95bps

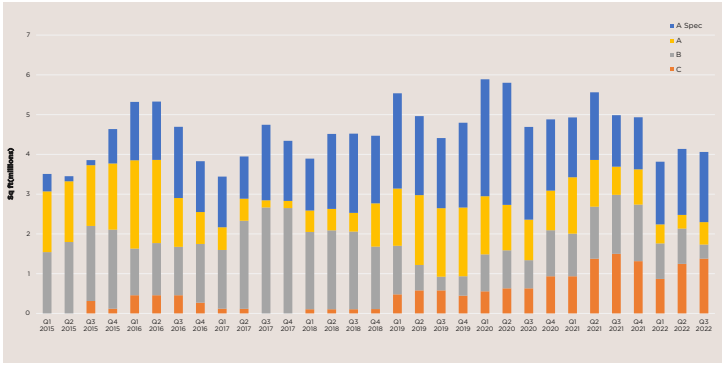
Source Savills Research

Take-up show a sustained shift towards smaller units



Source Savills Research

Supply 35% is low quality Grade C space



Source Savills Research

> **Take-up in 2022 has reached 4.95m sq ft which has caused the supply to remain at chronically low levels, standing at just 1.73m sq ft. This means that there is just 0.16 years worth of supply in the region**

East Midlands

Vacancy rate now 1.40%, just 0.16 years of supply

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Supply

There are now just eight units over 100,000 sq ft in the East Midlands totalling 1.73m sq ft which equates to a vacancy rate of just 1.40%. The largest unit on the market is Unit 2 Mountpark Bardon comprising c. 360,000 sq ft of Grade A second-hand space. In terms of unit count, there are four units available within the 100,000-200,000 sq ft size band, two units within the 200,000-300,000 sq ft size band and two within the 300,000-400,000 sq ft size band. There are no units above 360,000 sq ft which, given the rising occupier demand for larger units in the region, is leading to an increase in built-to-suit deals. However, due to increasing construction costs and the lead times, requirements are being satisfied in neighbouring regions through existing stock.

The strong occupier demand for units in the area, along with rising rents for top-quality stock has led to all of the lower-quality space being either let or withdrawn for comprehensive refurbishment. All of the available space is considered Grade A, this increased competition will further push net effective rents higher through a reduction in incentives offered.

Take-up

Take-up has reached 4.95m sq ft across 12 transactions, this is 96% up on the long-term H1 average. Interestingly, the average transaction size has increased substantially in the last year to c. 412,000 sq ft which highlights this shifting occupier demand towards larger units.

Occupier preference continues to revolve around better quality units. In 2022, 49% of space transacted has been speculatively developed space of which 28% was let before practical completion, 48% was built-to-suit space and just 3% was second-hand space. Despite the lack of stock and rising rents, the region's infrastructure and location has cemented itself as the preferred location for many occupiers seeking Industrial & Logistics real estate in the UK.

By deal count, 17% of transactions have been within the 100,00-200,000 sq ft size band, 17% have been within the 200,000-300,000 sq ft size band, 17% the 300,000-400,000 sq ft size band, 17% the 400,000-500,000 sq ft size band and 32% over 500,000 sq ft. Following UK-wide trends, 3PLs have been the most active in the region accounting for 36% of the total take-up, this was followed by manufacturers accounting for 26% and the other sector at 16%.

Development Pipeline

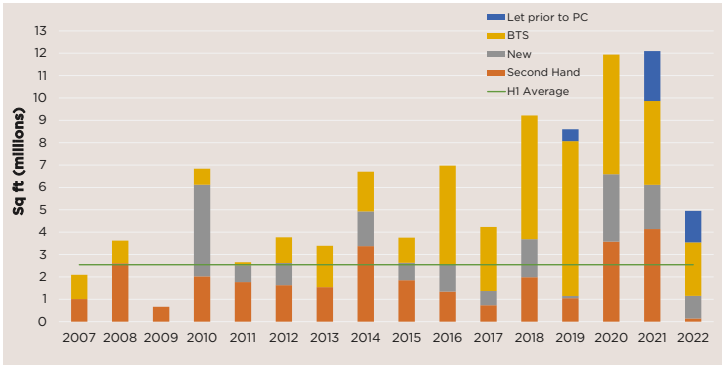
There are currently 27 units under construction, which total 5.06m sq ft. There are 20 within the 100,000-200,000 sq ft size band, four within the 200,000-300,000 sq ft size band, three within the 300,000-400,000 sq ft size band. Savills are tracking these units closely as many are already under offer or have strong interest however, should these add to the supply figures the vacancy rate would rise to just 5.45%.

Key statistics

	Stats	yr/yr change
Take-up	4.95m sq ft	↑ 4%
Supply	1.73m sq ft	↓ 21%
Development Pipeline	5.06m sq ft	↑ 48%
Quoting Grade A Rent	£9.75/sq ft	↑ 30%
Vacancy rate	1.40%	↓ 52 bps

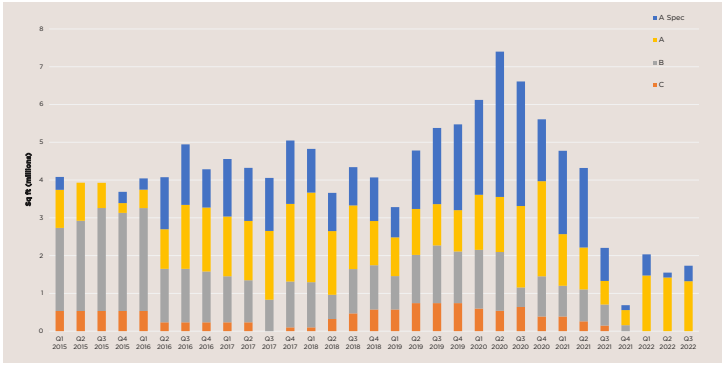
Source Savills Research

Take-up 100% was Grade A space



Source Savills Research

Supply fallen by 21% in past 12 months



Source Savills Research

> **“Take-up in the West Midlands has reached 4.57m sq ft, the best H1 ever recorded. The level of supply remains extremely tight which has resulted in prime rents being on a par if not higher than the East Midlands ”**

West Midlands

Vacancy steady at 2.77%; more deals in the pipeline

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Prologis Park Hams Hall, where Britishvolt have committed to a c.240,000 sq ft unit

Supply

The supply of warehouse space over 100,000 sq ft currently stands at 2.51m sq ft across 10 units, this is a 29% decrease in the past 12 months. According to the three-year annual average take-up, there is just 0.36 years' worth of supply in the West Midlands.

Analysing the available supply by Grade shows 14% of space on the market is Grade A speculatively developed quality whilst 44% is second-hand Grade A stock, 10% is Grade B and 32% is Grade C space. The low-quality Grade C space is unsuitable for many occupiers and would benefit from comprehensive refurbishment to improve their ESG credentials, infrastructure and building design.

By unit count, 60% of the available supply is within the 100,000-200,000 sq ft size band, 10% is within the 200,000-300,000 sq ft size band, 10% the 300,000-400,000 sq ft size band, 10% the 400,000-500,000 sq ft size band and 10% over 500,000 sq ft. With the current supply and demand dynamics, we continue to expect that rental growth will exceed the 4.3% forecasts per annum by RealFor in the next five years.

Key statistics

	Stats	yr/yr change
Take-up	4.57m sq ft	↑ 47%
Supply	2.51m sq ft	↓ 29%
Development Pipeline	2.22m sq ft	↑ 19%
Quoting Grade A Rent	£9.75/sq ft	↑ 30%
Vacancy rate	2.77%	↓ 138 bps

Source Savills Research

Take-up

Take-up in 2022 has reached 4.57m sq ft across 18 transactions, this is the strongest H1 ever recorded and is 103% above the long-term H1 average. The average deal size YTD has been in line with the long-term average reaching c. 250,000 sq ft. Transactional activity has centred around better quality space, 10% of space transacted YTD has been new speculatively developed space, 18% has been speculatively developed space let before practical completion, 51% was built-to-suit space and 21% was second-hand space.

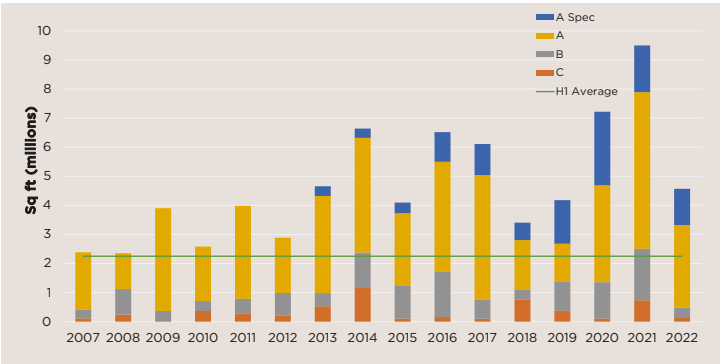
Deal counts highlighted the preference towards smaller size units throughout the region, there have been 10 deals within the 100,000-200,000 sq ft size band, three within the 200,000-300,000 sq ft size band, three within the 300,000-400,000 sq ft, one within the 400,000-500,000 sq ft size band and one over 500,000 sq ft. The largest deal this quarter was Iron Mountain committing to a unit of 675,000 sq ft at Symmetry Park Rugby, in total Iron Mountain took 1m sq ft at the site.

Third-party logistics firms have accounted for 35% of the total take-up YTD, this was followed by manufacturers accounting for 23% and the other sector accounting for 22%.

Development Pipeline

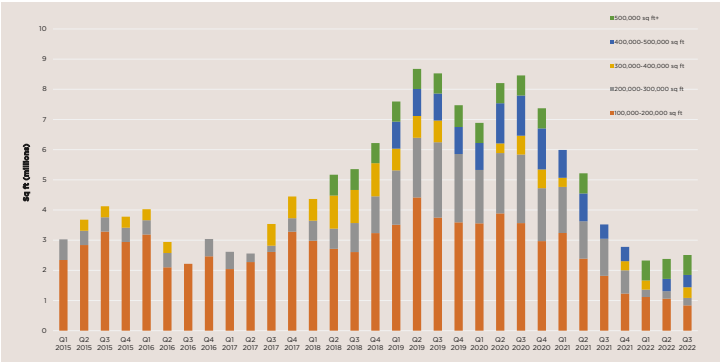
There are 10 units currently under construction within the West Midlands, totalling 2.22m sq ft. There are six units under construction within the 100,000-200,000 sq ft size band, one within the 200,000-300,000 sq ft size band, two within the 300,000-400,000 sq ft size band and a single unit within the 400,000-500,000 sq ft size band.

Take-up 89% was Grade A quality



Source Savills Research

Supply 60% of units in the 100,000-200,000 sq ft range



Source Savills Research

> **Take-up in the North West reached 4.22m sq ft in 2022 through 15 transactions. Demand continues to revolve around better quality units and we're now seeing heightened interest for existing stock from a diverse range of occupiers. This increased competition has caused net effective rents through decreased incentives**

North West

Vacancy rate stands at 3.07%, 57% of supply is poor quality

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Hooton Park, where Stoford will deliver a 668k sq ft unit for automotive maker Stellantis

Supply

The supply of warehouse space has fallen by 23% in the past 12 months to stand at 2.65m sq ft across 13 units. Using the three-year average annual take-up of 5.39m sq ft, this equates to just 0.47 years' worth of supply in the region.

In terms of Grade, 43% of the available space is Grade A, 29% is Grade B and 28% is Grade C. A large proportion of the Grade B and C stock do not currently reach the EPC standards set out by the government. Consequently, these units will need to undergo comprehensive refurbishments in order to be lettable in the future.

Looking at the unit count, the supply is skewed towards the smaller size bands, 69% are within the 100,000-200,000 sq ft size band, 23% are within the 200,000-300,000 sq ft size band and 8% are over 500,000 sq ft.

The vacancy rate continues to remain at record low levels and won't be relieved any time soon as units under construction are now frequently let before practical completion. There is a clear case to suggest that the actual rental growth will far exceed the forecast 19.4% over the next five years.-

Take-up

Take-up in H1 2022 has reached 4.22m sq ft across 15 transactions, this is 103% above the long-term H1 average take-up.

In 2022, 32% of space transacted has been Grade A speculatively developed space, 51% has been Grade A space and the remainder Grade C space, demonstrating a clear preference toward better quality space. There are clear cost benefits for occupiers residing in Grade A buildings due to their greater energy efficiency, we are seeing this as one of the main drivers towards Grade units.

As certainty returned to the market following the pandemic, we have seen lease lengths increase within the North West. Mirroring this trend we have seen a rise in the amount of built-to-suit transactions compared to H1 2021. In 2022, 40% of take-up has been for built-to-suit units, 33% has been for speculatively developed space and the remainder has been for second hand space. In terms of deal count, there have been seven transactions within the 100,000-200,000 sq ft size band, two within the 200,000-300,000 sq ft size band, four within the 300,000-400,000 sq ft size band and two over 500,000 sq ft.

Development Pipeline

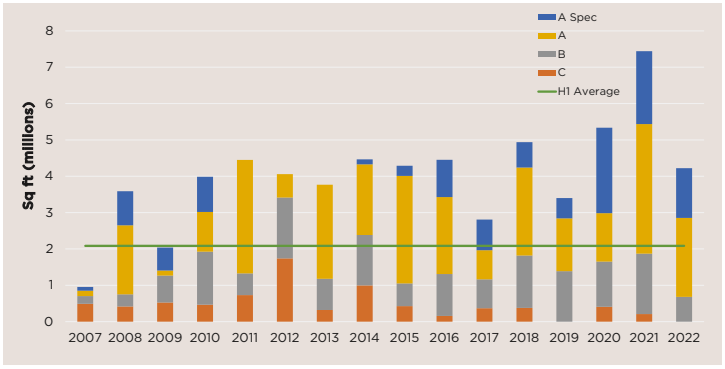
There are currently six units being developed, totalling 1.94m sq ft. There are three within the 100,000-200,000 sq ft size band, one in the 300,000-400,000 sq ft size band, one in the 400,000-500,000 sq ft size band and one over 500,000 sq ft.

Key statistics

	Stats	yr/yr change
Take-up	4.22m sq ft	↓ 1%
Supply	2.65m sq ft	↓ 23%
Development Pipeline	1.94m sq ft	↓ 8%
Quoting Grade A Rent	£8.50/sq ft	↑ 17%
Vacancy rate	3.07%	↓ 2 bps

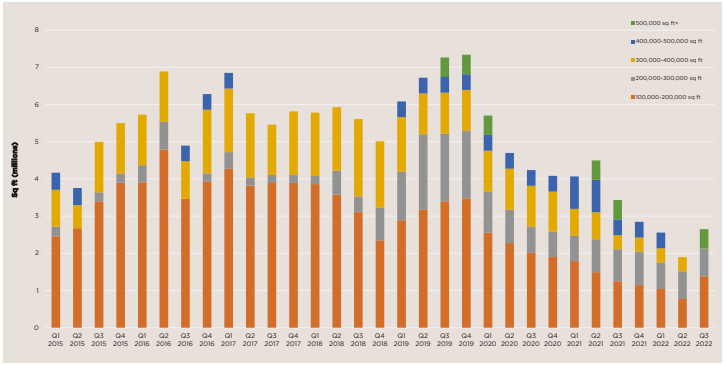
Source Savills Research

Take-up already 6% higher than long-term annual average



Source Savills Research

Supply fallen by 23% in the last 12 months



Source Savills Research

> **The chronic lack of stock in the region has caused a blurring between Yorkshire & the North East, occupier demand is now centred on the complete region rather than particular hotspots. Consequently, we are seeing increased developer and investor activity within the North East. The development will be welcomed as there is currently 0.27 years' worth of supply throughout the two regions**

Yorkshire and the North East

Vacancy rate just 2.75%; requirements continue to surge

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Symmetry Park Doncaster, where B&Q have committed to c. 420,000 sq ft

Supply

Following the completion of multiple speculative developments, the supply of units over 100,000 sq ft now stands at 2.5m sq ft across 14 units. There is 1.7m sq ft available within Yorkshire across eight units and c.800,000 sq ft available in the North East across six units. A large proportion of this space has strong interest from multiple parties and 24% is currently under offer. The vacancy rate across the two regions now stands at 2.75% equating to just 0.27 years worth of supply.

Now, 45% of the available supply is Grade A, 35% is Grade B and 20% is Grade C. As previously noted, a vast proportion of this space could be obsolete through not being able to accommodate modern occupier requirements. We are seeing rising concerns surrounding the suitability of a unit particularly referencing its ESG credentials, power availability and amenities.

In terms of unit count, 86% of the available units are within the 100,000-200,000 sq ft size band 7% are within the 200,000-300,000 sq ft size band and 7% are over 500,000 sq ft.

Take-up

Take-up in 2022 has reached 5.78m sq ft across 14 units, already surpassing the long-term annual average by 10%. In isolation, Yorkshire & the Humber saw 67% of this activity and the North East saw 33% of the activity.

The chronically low levels of supply has pushed occupiers towards the build-to-suit route to acquire space, 79% of space transacted in 2022 was built-to-suit bespoke space, 17% was second-hand space and 4% was speculatively developed space.

Demand was spread across the size bands, 64% of transactions were within the 100,000-200,000 sq ft size band, 8% were within the 200,000-300,000 sq ft size band and 14% within the 400,000-500,000 sq ft and 500,000 sq ft+ size band. The largest deal this year was Amazon committing to a 2.2m sq ft unit at Melton West Business Park in Hull.

The region has seen demand from a diverse range of occupiers, 42% of take-up was from manufacturers, 38% from online retailers and the remainder was spread almost equally across a variety of alternative occupiers.

Development Pipeline

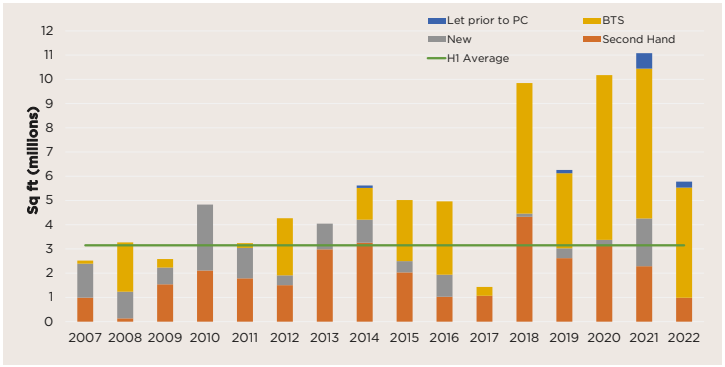
There are currently 12 units under construction totalling 2.47m sq ft. There are six units under construction within the 100,000-200,000 sq ft size band, five within the 200,000-300,000 sq ft size band and a single unit under construction within the 300,000-400,000 sq ft. These units have strong interest, however if they were to add to the supply figure once PC'd the vacancy rate in the region would rise to just 5.32%.

Key statistics

	Stats	yr/yr change
Take-up	5.78m sq ft	↓17%
Supply	2.5m sq ft	↓4%
Development Pipeline	2.47m sq ft	↓9%
Quoting Grade A Rent	£7.50/sq ft	↑7%
Vacancy rate	2.75%	↓35 bps

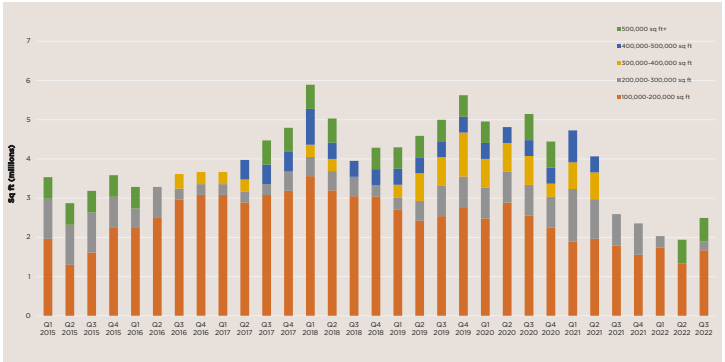
Source Savills Research

Take-up 84% above the long-term H1 average



Source Savills Research

Supply chronically low levels, majority second-hand



Source Savills Research

> **Take-up in 2022 has surpassed expectations, driven by Wayfair's letting at Panattoni Park Swindon. The level of supply has now fallen to the lowest level since 2019, reflecting a vacancy rate of 5.89%. Closer analysis shows many of the remaining units are unsuitable for modern occupiers through their unsatisfactory ESG credentials and inability to provide sufficient power**

South West & Wales

Low vacancy set to push rental growth higher than forecasts

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Titan, in Yate, comprising of c. 255,000 sq ft was acquired by Savills for a client

Supply

The supply of units over 100,000 sq ft in the region currently stands at 2.62m sq ft across 14 units. Closer analysis highlights that 42% of the current supply is located within Wales and 58% is within the wider South West region. The vacancy rate in the wider region now stands at 5.89%, according to the three-year annual average this equates to just 0.94 years' worth of supply.

The quality balance is heavily skewed towards lower-quality units, with just 22% of available space classed as Grade A, 52% is Grade B and 26% is Grade C. Now, the lack of good quality stock has left occupiers no choice but to commit to speculatively developed units before they reach practical completion or head down the built-to-suit route.

By unit count, 57% are within the 100,000-200,000 sq ft size band, 29% are within the 200,000-300,000 sq ft size band and 14% are within the 300,000-400,000 sq ft size band.

Due to the rising rents seen within the region, we are witnessing rising occupier demand for units further within Wales.

Take-up

Take-up in the South West and Wales market has totalled 3.49m sq ft across 15 units which is already 37% above the long-term annual average seen within the region. So far in 2022, transactions have centred around better quality units with 50% of space transacted being built-to-suit. In terms of Grade, 65% of space transacted has been Grade A, 18% has been Grade B and 17% has been Grade C space. The supply is hindering take-up as occupier requirements centre around new, modern units.

In terms of unit size, by deal count 73% of transactions have been within the 100,000-200,000 sq ft size band, 20% have been within the 200,000-300,000 sq ft size band and 7% have been over 500,000 sq ft.

In 2022, 56% of space transacted has been from online retailers, this was followed by 3PLs accounting for 14%, and the other sector which accounted for 14%. The region, due to it's infrastructure and cheaper land values has attracted a diverse array of occupiers including the likes of vertical farms.

Development Pipeline

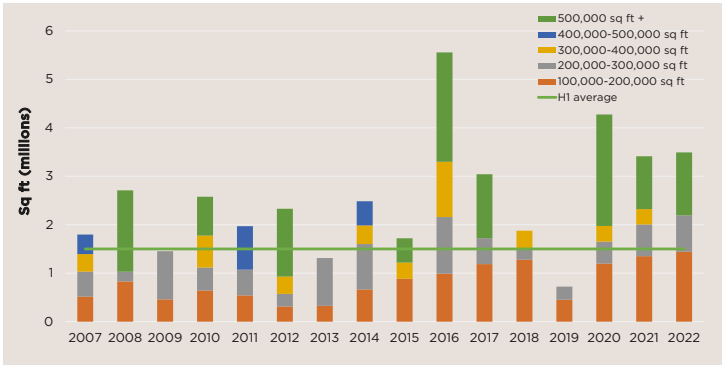
There is just c.113,000 sq ft under construction through a single unit within the region. However, developers are indeed responding to the rising occupier demand and Savills are tracking twelve units in various stages of the planning process that could start development imminently.

Key statistics

	Stats	yr/yr change
Take-up	3.49m sq ft	↑ 240%
Supply	2.62m sq ft	↓ 43%
Development Pipeline	0.13m sq ft	↓ 84%
Quoting Grade A Rent	£7.75/sq ft	↑ 7%
Vacancy rate	5.89%	↓ 601 bps

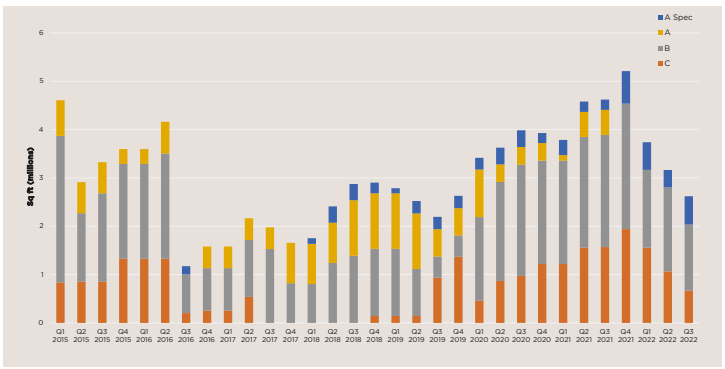
Source Savills Research

Take-up already 37% above the long-term average



Source Savills Research

Supply has fallen by 43% in the past 12 months



Source Savills Research

“The East of England continues to see numerous requirements from European-based firms in hopes to improve their supply chain resilience. The proximity to a vast proportion of the UK population and major UK ports, along with multiple large consent sites has stimulated take-up to hit 2.91m sq ft, it’s the best H1 recorded and just 20,000 sq ft shy of the previous annual watermark”

East of England

Supply down by 36%, vacancy rate now 2.98%

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Supply

The level of supply in the market has fallen by 36% in the last year. Currently, there is 850,000 sq ft available across four units. According to the three-year annual average take-up, there is just 0.35 years’ worth of supply in the region.

In terms of Grade, the vacant stock consists entirely of second-hand low-quality stock with 85% considered Grade C and 15% Grade B. Whilst by unit count, there are currently two units available 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.

The vacancy rate remains very constrained at 2.98%, this continues to push on rental growth with net effective rents increasing through a reduction of incentives offered. Consequently, we expect the modest rental growth forecast of 5.2% per annum over the next five years to be eclipsed, particularly due to the surge of overseas requirements we are now experiencing.

Take-up

Take-up in 2022 has reached 2.91m sq ft across seven separate transactions, this is 223% above H1 2021 and 409% above the long-term annual average. The large proportion of consented and deliverable sites is proving fruitful for occupiers seeking bespoke builds. This availability, paired with the lack of good quality existing units has led 2022 take-up to be heavily dominated by build-to-suit transactions. So far, 82% of space transacted has been built-to-suit space, 14% has been speculatively developed space and 4% has been second-hand space. In terms of deal count, transactions have been spread across the size bands with 43% being within the 100,000-200,000 sq ft size band, 14% the 200,000-300,000 sq ft size band, 14% the 300,000-400,000 sq ft size band and 29% over 500,000sq ft.

The announcement of Freeport East status within the region has driven inquiries from a diverse range of occupiers along the Eastern stretch of the A14 as occupiers look to capitalise on the vast range of benefits offered in locating within designated sites. In 2022, the largest transaction was at Gateway 14, a designated Custom & Tax Site as part of Freeport East where an occupier has committed to a 1.2m sq ft unit. In total, high street retailers have accounted for 41% of space transacted in 2022 followed by manufacturers at 21% and 3PLs at 14%.

Development Pipeline

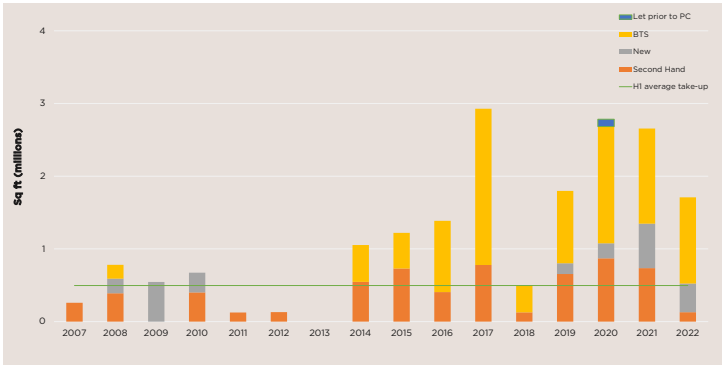
Currently, the region has 5 units under construction speculatively totalling 1.1m sq ft. There are two units within the 100,000-200,000 sq ft size band and three within the 200,000-300,000 sq ft size band.

Key statistics

	Stats	yr/yr change
Take-up	2.91m sq ft	↑ 223%
Supply	0.85m sq ft	↓ 36%
Development Pipeline	1.09m sq ft	↑ 102%
Quoting Grade A Rent	£8.00/sq ft	↑ 33%
Vacancy rate	2.98%	↓ 228 bps

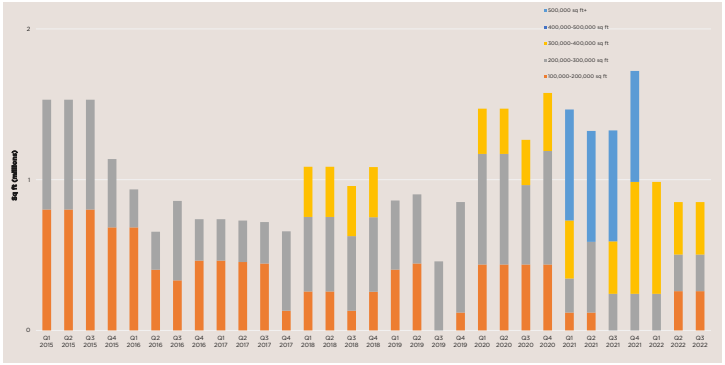
Source Savills Research

Take-up 100% was Grade A space



Source Savills Research

Supply lack of units across all size bands



Source Savills Research

> **The shortage of good quality Grade A space and development sites are hindering take-up in the region. Occupational requirements have been growing but the lack of immediate accommodation, inflation and growing construction costs are leading a number of occupiers to pause for this period of uncertainty and not commit to units that have long lead times**

Scotland

Vacancy rate now 6.85% as second-hand units return to the market

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Supply

The supply of warehouse space in Scotland for units larger than 100,000 sq ft has risen by 51% in the past 12 months to stand at 1.61m sq ft across ten units. According to the three-year average annual take-up, there is 1.6 years worth of supply in the region.

The supply continues to be dominated by second-hand space with no newly developed units available. Currently, 23% of all space on the market is classified as Grade B and 77% is classified as Grade C. As is the case throughout the UK, many of these Grade C units are unsuitable for modern occupiers.

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

RealFor, an economic forecaster are predicting that rental growth will reach an average of 3.1% per annum over the next five years. Due to the lack of good quality stock, Savills expects rental growth to exceed this on premium buildings through increased competition.

Take-up

Take-up of units over 100,000 sq ft in 2022 has been subdued. We have recorded a single transaction over 100,000 sq ft. The unit was 100,000 sq ft of Grade A built-to-suit space highlighting occupier preference towards better quality units.

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, generally these fall just short of 100,000 sq ft. However, Savills has c.230,000 sq ft in Milngavie, Glasgow under offer to purchase which should conclude in Q3. Our industrial team is also involved in acquiring c. 150,000 sq ft in Eurocentral with this building similarly under offer.

Development Pipeline

As previously mentioned, the strong levels of requirements within Scotland, paired with multiple large deals close to completion is providing developers with confidence, consequently 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.

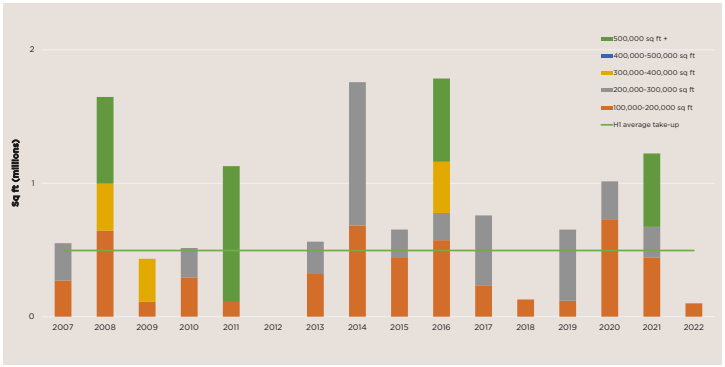
Typically, the multi-let industrial estate market is performing extremely well across all locations with any refurbished space mostly letting up very quickly following availability and works completion.

Key statistics

	Stats	yr/yr change
Take-up	0.1m sq ft	↓ 88%
Supply	1.61m sq ft	↑ 51%
Development Pipeline	0 sq ft	no change
Quoting Grade A Rent	£7.00/ sq ft	no change
Vacancy rate	6.85%	↑ 204bps

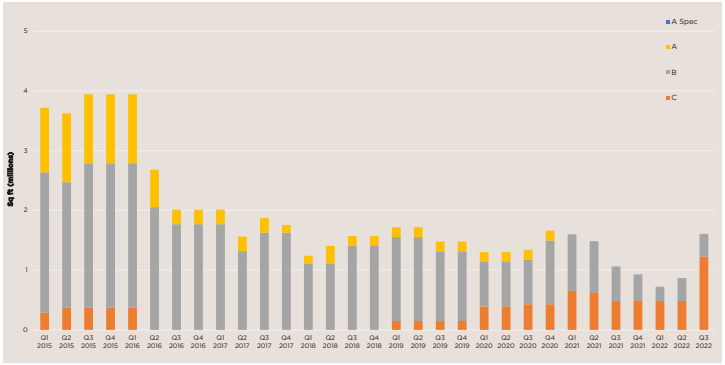
Source Savills Research

Take-up focused on bespoke units



Source Savills Research

Supply entirely second-hand low quality space



Source Savills Research

“Record-breaking first half of 2022 belies market sentiment at the end of this period, with a number of investors taking stock of the impact interest rate rises will have on pricing and the market characterised by outward yield movement”

National investment

Investment volumes set new H1 record

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Carpetright Purfleet where Abrdn, advised by Savills, have sold a 492,000 sq ft unit to Valor for £143m

The first half of 2022 has seen total logistics investment volume reach £4.8bn. This is the highest first half investment volume ever recorded, £1bn ahead of the 2021 record and 340% above the long term average. Key deals in the first half of the year include Goldman Sachs' disposal of the Hercules portfolio to Axa REIM for £391m and Arrow Capital purchasing the Amazon fulfilment centre in Wakefield for £233m, which is the largest single let transaction of the year so far.

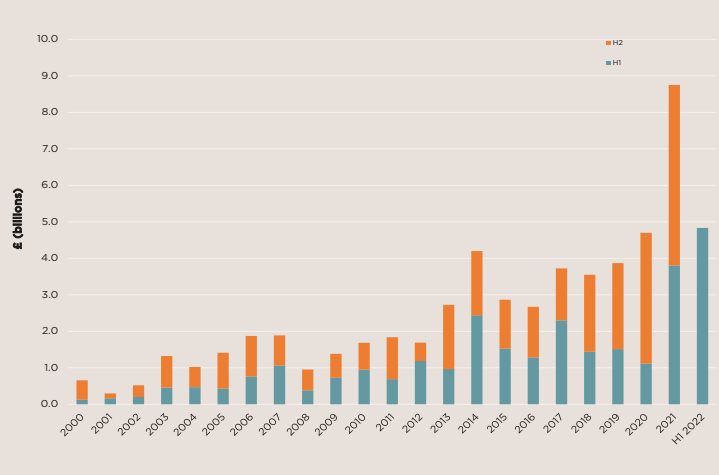
The volume transacted belies current sentiment though, and as the year has progressed this has changed markedly as investors digest how rising debt costs impact buying decisions. Indeed, 66% of the capital deployed in the sector this year was in the first quarter of the year. With interest rates having since risen from historic lows to 1.25% in just six months, investors are now assuming further rate rises will come in the second half of the year. For leveraged buyers the rising cost of capital is having a material impact on the price investors are able to pay for assets. As a result Savills have this month moved our prime yield for both logistics and multi-let out to 3.5% with further outward pressure expected.

As our research demonstrates the occupational market continues to perform at exceptional levels with supply and demand remaining mismatched which in turn is driving rental growth. With MSCI reporting 5% rental growth already for this year at a nationwide level. Indeed, when compared with other sectors of commercial real estate the occupier market drivers really are compelling.

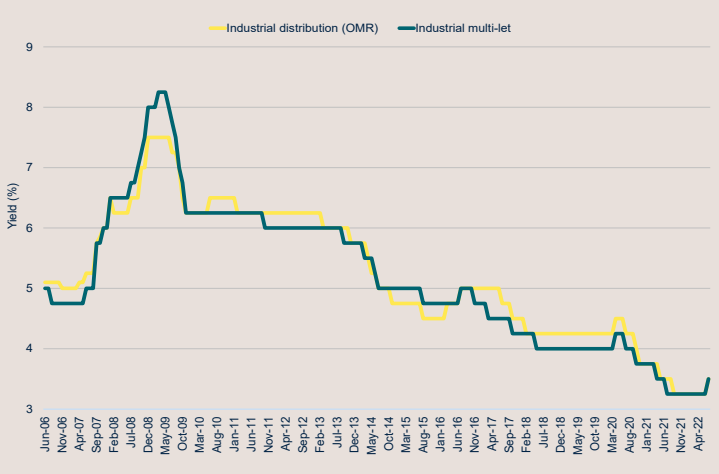
However it is clear that the definition of prime has narrowed dramatically as investors are now seeking assets where rental growth can be captured through asset management or lease events and generally unable to sit on low yields for an extended period of time.

Moving forward we expect a slower third quarter as the market regroups over the summer and new pricing levels emerge. During this period of reflection we anticipate that the buyer pool for assets will thin out which, combined with new pricing levels, could see the UK institutions return to the market having accounted for just 18% of acquisitions over the last three years, down from a high of 42% of the market in the middle of the last decade.

Investment volumes best H1 ever recorded



Prime investment yields stand at 3.5%



Take-up fell by 30% in 2008

Outlook

Where next after the best H1 ever?

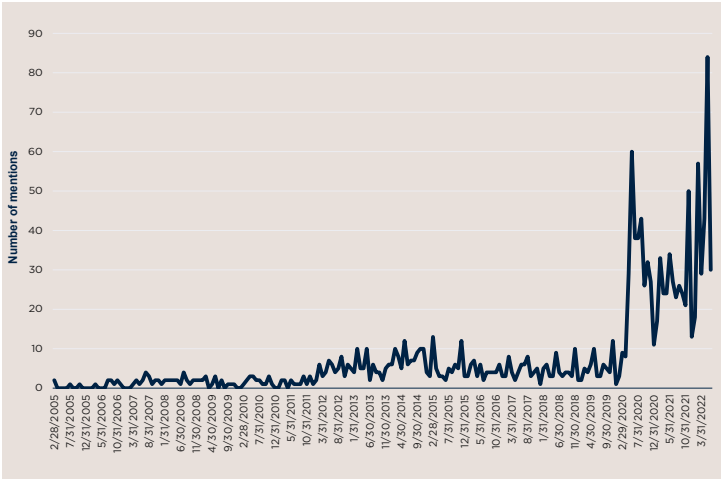
Against an ever worsening economic backdrop the question has to be how long the industrial and logistics market can continue to operate at its current amplified levels. Whilst predominantly US focussed, recent announcements from Amazon and profit warnings from UK and European online retailers suggest that we should expect to see less demand from this segment of the occupier base, and by knock on, the parcel carriers too, in the near term.

Using the longest time series available from PMA we observe that occupier demand fell by 30% during the GFC recession of 2008. This would imply annual take-up falling back to c.39m sq ft a year, still significantly ahead of the pre-Covid average of 26m sq ft per year.

There are however many complex factors at play to suggest any drop off will not be as severe. In the post-Covid world exasperated by the situation in Ukraine supply chain resilience is one of the most pressing factors companies need to deal with. Indeed, if retailers do not hold enough inventory and manufacturers can't source components then what business do they have? Recent data from Sentieo, which analyses publicly listed companies annual reports shows that mentions of "near-shoring" are at their highest ever level. This suggests that companies will look to their warehouse real estate in order to remain competitive, which in turn will go some way to mitigate for demand falls from other sectors.

On the supply side it is hard to see vacancy rising dramatically through over development which should continue to mean there is competitive tension for units which in turn will continue to push rents in both prime and secondary markets.

Near-shoring on the rise in company reports



Source Sentieo, an AlphaSense company

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BUILD COST AND PROGRAMME

The well publicised issues around the price and availability of raw materials have not conspired to see a decline in new warehouse development, both on the speculative and BTS side.

However, 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 still and elevated levels. Whilst good project management and early orders have mitigated some of the issues the overall impact remains that projects are taking longer to deliver than before.

As we head into the second half of the year there are early signs that the rampant build cost inflation we have witnessed over the last two years may be starting to stabilise. Whilst tender prices are not falling developers are reporting that a plateau may have been reached, based on recent examples for new projects. With rising energy costs we are now seeing even greater emphasis on developing new warehouse units to even higher ESG standards. We expect that occupiers will place an even higher weighting on warehouse features that save on cost and reduce the carbon output of the warehouse operation.

savills

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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