SPOTLIGHT
Savills Research

Big shed briefing

savills

Panattoni Park Avonmouth where Panattoni, advised by Savills, is speculatively developing 1.3m sq ft of space due for completion in Q3 2023

Take-up falls back to pre-Covid levels ● Vacancy at 3.94% ● 20.19m sq ft under construction

Manufacturing-related take-up at 11.4m sq ft, the strongest year ever.

Nationwide overview

3PLs and manufacturers push take-up to the third strongest year ever

Richard Sullivan
National Head
of Industrial & Logistics
020 7409 8125
rsullivan@savills.com

It comes as no great surprise that the Collins English Dictionary's word of the year was 'permacrisis' in 2022 as event after event conspired to bring ever increasing levels of uncertainty to occupier and capital markets. From both a financial and political perspective, we hit a pinnacle of uncertainty in the early autumn as consumer confidence plummeted, inflation continued to rise and bond yields soared in the wake of a less-than-successful mini-budget. While we have seen financial markets settle somewhat after a change in tack on fiscal policy, this nonetheless marked a turning point in all property market cycles with clear impacts for the logistics sector.

At a high level, there remain many positive demand drivers within our sector. Whilst online retailers are not immune to wider issues in the economy, as demonstrated by the recent collapse of Made.com, the level of online sales has slowly been creeping up in the second half of the year, reaching 30.2% in November, the highest level since Christmas 2021. In the manufacturing sector, talk of supply chain resilience continues to keep executives busy and we are starting to see this feed into our data with manufacturing-related take-up reaching its highest level ever, 73% ahead of the long-term average, at 11.4m sq ft.

Rising energy prices have shone an even stronger light on ESG metrics, and take-up for second-hand units accounted for just 22% of the deals signed in 2022, a record low and a trend we expect is here to stay.

Take-up

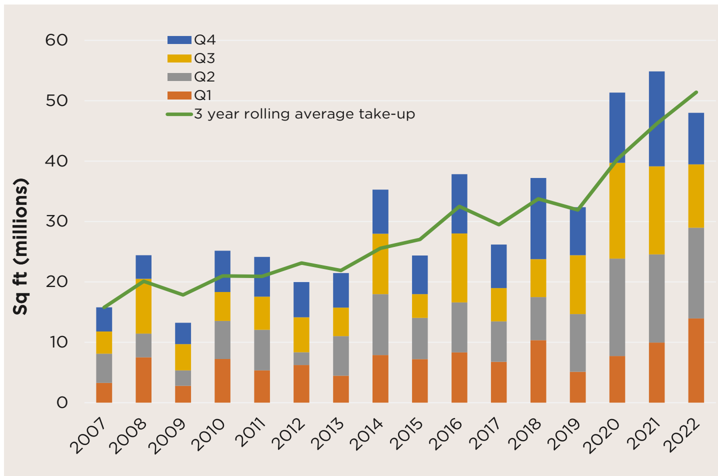
At a nationwide level, 2022 is a tale of two halves, with record levels of take-up in H1 giving way to what feels like a sharp decline in the second part of the year. However, notwithstanding a natural return to pre-Covid levels amplified by wider economic and political issues, year end take-up has reached 47.99m sq ft, making 2022 the third strongest year ever and exceeding the pre-Covid high watermark of 37m sq ft by 10m sq ft. The second half of the year saw take-up fall by 34% to reach 19.01m sq ft, which in a long-term context is 22% ahead of the H2 average.

Over the year we have seen 23.9m sq ft of build-to-suit transactions, the highest amount ever recorded, which equates to 50% of the market. At 13.6m sq ft, speculative take-up accounted for 28% of the market, the highest level we have ever recorded. Demonstrating how in demand modern buildings are, 50% of all speculative take-up occurred prior to the building reaching practical completion, meaning that the average void for speculatively constructed units in 2022 was just one month. At a business sector level, many interesting trends are playing out. Online retailers took just 6.6m sq ft of new space, the lowest level since 2017. Traditional retailers, on the other hand, took 9.3m sq ft of space - the highest level since 2016. The 3PL sector continued in its race for space and took 14.8m sq ft of new space, which at 30% of the market set a new record in the process. What's more, 86% of these units are considered Grade A, against a long-term average of just 60% highlighting that, more than ever, 3PLs need high-quality space to provide better staff welfare and ESG-compliant facilities in order to retain and win key client contracts.

Supply and Pipeline

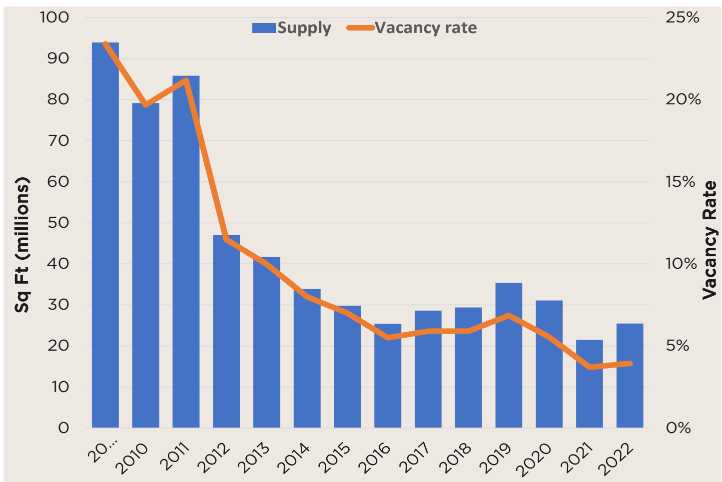
Over the last 12 months, supply has trended upwards from historical lows and now stands at 25.5m sq ft, reflecting a vacancy rate of 3.94%. The level of Grade A supply continues to trend upward as speculative units complete and now stands at 11.6m sq ft. With 20.19m sq ft of speculative units due for delivery in 2023 and into 2024, it is likely that vacancy and total supply will trend upwards to recent medium-term averages unless we see developers re-evaluate previously announced schemes.

Take-up 56% above the long-term average



Source Savills Research

Supply and vacancy rise at gentle pace



Source Savills Research

> **Despite robust demand for large bespoke units in the region, take-up has declined. This is due to a severe shortage of large, good-quality units and deliverable sites across the M1 Corridor, where historically high levels of built-to-suit activity have been recorded annually**

London and the South East

Vacancy hits 3.97%; 0.7 years' worth of supply left in region

Toby Green
Director
South East
020 7409 9903
tgreen@savills.com

DP World London Gateway, one of eight UK freeports providing opportunities of up to 1.6m sq ft. Savills are agents.

Supply

The supply of warehouse space over 100,000 sq ft has increased in 2022 as multiple units have reached practical completion, along with some second-hand units being returned to the market. Currently there is 5.29m sq ft available across 34 units. There are 20 units available in the South East and 14 within Greater London. In terms of quality, 50% of space of the market is Grade A speculatively developed space, 13% is second-hand Grade A space, 9% is Grade B, and 28% is Grade C space.

ESG is becoming increasingly important to occupiers and currently, a large proportion of the Grade B or C stock may be considered obsolete through not reaching occupier standards. The specification of these units should be carefully assessed and the necessary refurbishment or developments completed.

In terms of unit count, there are 28 units 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.

Take-up

Take-up in 2022 reached 4.46m sq ft, this is lower than the long-term annual average of 5.34m sq ft. However, analysing take-up by deal count shows continued strength in the occupational market as 2022 saw 29 separate transactions, up from the long-term average of 25 per annum.

Following on from last year, the region has seen a shift away from larger units towards the smaller size bands. In 2022, 86% 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 10% of transactions, and the 300,000-400,000 sq ft size band saw 4%. The average deal size this year was 153,680 sq ft.

In terms of grade, 53% of all space transacted in 2022 has been Grade A speculatively developed space, 31% has been Grade A, 9% Grade B and 7% has been classified as Grade C space.

Occupier demand has been diverse with demand coming from a range of sectors, 3PLs have accounted for 41% of the activity followed by the 'other' sector at 32% which includes the likes of data centres and film studios. We have also recorded an increase in activity from manufacturers which have accounted for 10% of take-up in 2022.

Development Pipeline

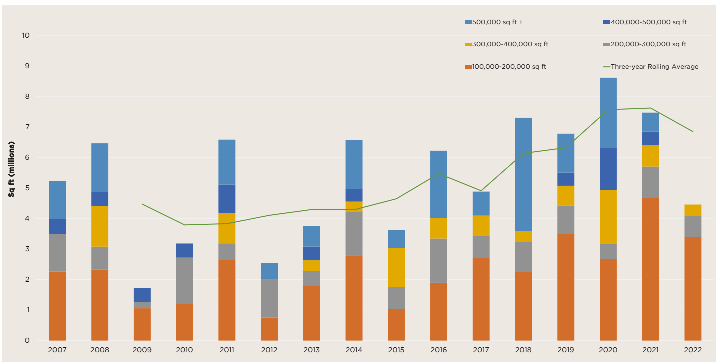
There are now 17 units under construction across the region totalling 3.1m sq ft, 88% of which are based in the South East and 12% within London. There are 10 units under construction within the 100,000-200,000 sq ft size band, five within the 200,000-300,000 sq ft size band and two within the 300,000-400,000 sq ft size band.

Key statistics

	Stats	yr/yr change
Take-up	4.46m sq ft	↓ 40%
Supply	5.29m sq ft	↑ 39%
Development Pipeline	3.10m sq ft	↓ 14%
Quoting Grade A Rent	£9.00-£35.00/sq ft	↑ 40%
Vacancy rate	3.97%	↑ 90 bps

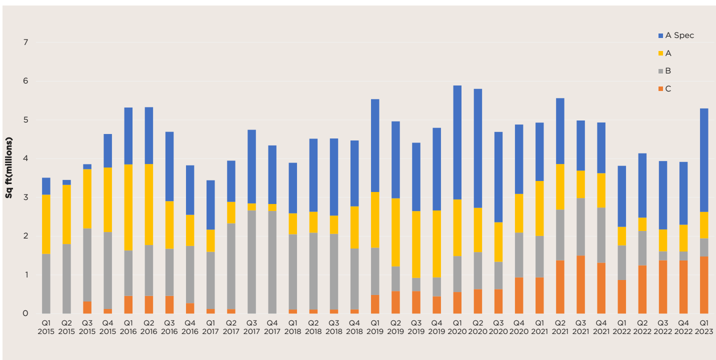
Source Savills Research

Take-up continued shift towards smaller-sized units



Source Savills Research

Supply has increased, 63% is good-quality Grade A space



Source Savills Research

> "Take-up in 2022 has reached 8.31M sq ft across 27 transactions. This is 40% above the long-term annual average take-up seen in the region. Demand is continuing into 2023 with 40% of the units in the development pipeline already under offer and set to exchange in 2023"

East Midlands

Vacancy rate now 4.25%, just 0.49 years of supply given average take-up

Charles Spicer
Director
Birmingham
0121 6348 407
caspicer@savills.com

East Midlands Distribution Centre 342, providing 342,744 sq ft of Grade A space. Savills are agents.

Supply

There are now 26 units available over 100,000 sq ft in the East Midlands, totalling 5.37m sq ft, this equates to a vacancy rate of 4.25%. The largest unit on the market is Campus 450 at DIRFT which provides 451,002 sq ft of Grade B second-hand space. Savills is aware that 12% of the current supply is under offer and due to exchange in Q1 2023.

The quality of the available supply has witnessed a shift in recent months as speculative schemes have reached PC. Now, 80% of the current supply is Grade A space, 17% is Grade B space and 3% is Grade C space.

In terms of unit count, there are 16 units within the 100,000-200,000 sq ft size band, five within the 200,000-300,000 sq ft size band, four within the 300,000-400,000 sq ft size band and a single unit within the 400,000-500,000 sq ft size band.

It's positive to see developers have responded to the chronically low levels of supply in the region. Now, as the majority of units are better quality, we are seeing a greater level of enquiries on existing stock from occupiers that could have gone down the build-to-suit route or into neighbouring regions. This has kept prime rents high at £9.75 psf.

Take-up

Take-up in 2022 has reached 8.31m sq ft across 27 transactions, which is 40% above the long-term annual average. In terms of deal count, there are, on average, 20 transactions per annum. The average unit size transacted has increased to 307,645 sq ft from 268,804 sq ft a year ago, which highlights the shifting occupier demand towards larger units.

Analysing transactional activity by specification shows a continued trend towards better quality units: 39% of space transacted in 2022 has been built-to-suit space, 28% has been pre-let speculatively developed space, 20% has been new speculatively developed space and 13% has been second-hand space. The East Midlands continues to attract occupiers and is a popular location for occupiers seeking to consolidate their supply chains and maximise efficiencies.

By unit count, 33% of transactions were within the 100,000-200,000 sq ft size band, 26% were within the 200,000-300,000 sq ft size band, 15% in the 300,000-400,000 sq ft size band, 7% the 400,000-500,000 sq ft size band and 19% over 500,000 sq ft. 3PLs have been most active, accounting for 53% of all space transacted, manufacturers 17%, the 'other' sector 13%, grocery retailers 10%, high street retailers 5% and online retailers just 2%. This demonstrates resilience despite the fall in online retailer activity.

Development Pipeline

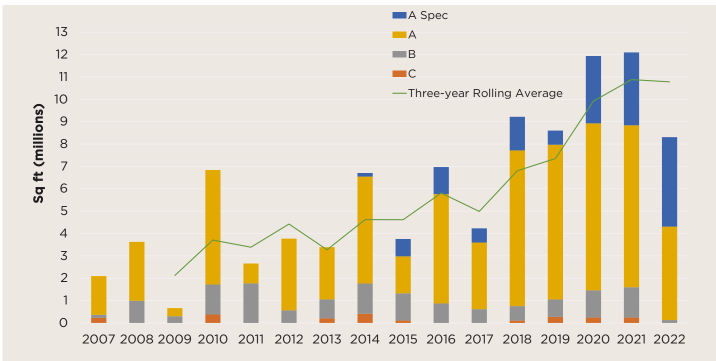
There are currently 12 units under construction, totalling 2.82m sq ft, 40% of which is under offer. There are seven within the 100,000-200,000 sq ft size band, four within the 300,000-400,000 sq ft size band and one over 500,000 sq ft.

Key statistics

	Stats	yr/yr change
Take-up	8.31m sq ft	↓ 31%
Supply	5.37m sq ft	↑ 164%
Development Pipeline	2.82m sq ft	↓ 36%
Quoting Grade A Rent	£9.75/sq ft	↑ 8%
Vacancy rate	4.25%	↑ 256 bps

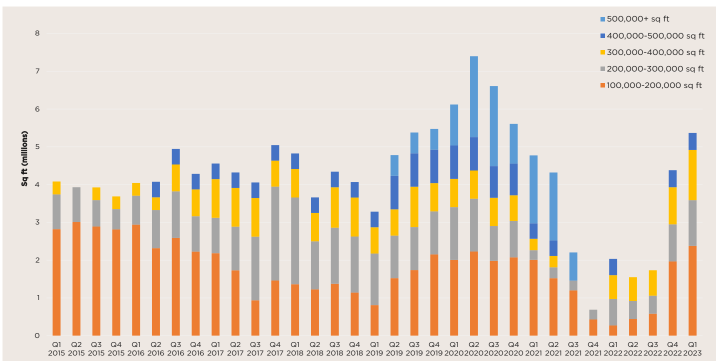
Source Savills Research

Take-up 98% was Grade A space



Source Savills Research

Supply increased as developments reach PC



Source Savills Research

> "Take-up in 2022 has been robust, reaching 7.43m sq ft across 28 transactions. Although a decline on 2021, we have seen demand stem from a range of sectors, which has kept the level of supply low. The vacancy rate stands at 3.06%, which continues to push prime rents higher in the region"

West Midlands

3PLs have targeted the West Midlands to lead UK expansion

Ranjit Gill
Director
Birmingham
0121 634 8402
rsgill@savills.com

Baytree Nuneaton, where Baytree, advised by Savills, is delivering over 1m sq ft for Rhenus

Supply

The level of supply within the region currently stands at 2.87m sq ft across 11 units, representing a 23% increase from this time last year. Using the three-year average annual take-up, there is just 0.36 years' worth of supply in the West Midlands.

Of the available stock, 21% is Grade A speculatively developed space, 55% is Grade A second-hand space, 4% is Grade B space and 20% is Grade C space. It is worth questioning the suitability of the Grade C stock for modern logistics operations, as just 8% of take-up over the last two years has been for Grade C units.

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

With the current supply and demand dynamics, we continue to expect that rental growth will exceed the 4% forecasts per annum by RealFor in the next five years.

Key statistics

	Stats	yr/yr change
Take-up	7.43m sq ft	↓ 22%
Supply	2.87m sq ft	↑ 23%
Development Pipeline	2.59m sq ft	↓ 26%
Quoting Grade A Rent	£9.75/sq ft	↑ 11%
Vacancy rate	3.06%	↑ 44 bps

Source Savills Research

Take-up

Take-up in 2022 has reached 7.43m sq ft across 28 transactions, a 58% rise above the long-term average. Despite a slight decline in activity in 2022 compared to 2021, the average deal size has remained on an upward trajectory, reaching 265,436 sq ft in 2022.

Occupier demand continues to revolve around better quality space with 47% being built-to-suit in 2022, 21% speculatively developed space let prior to practical completion, 6% new speculatively developed space and 26% second-hand. Analysing take-up in terms of grade shows 83% of space transacted was grade A, 10% was Grade B and 7% was Grade C.

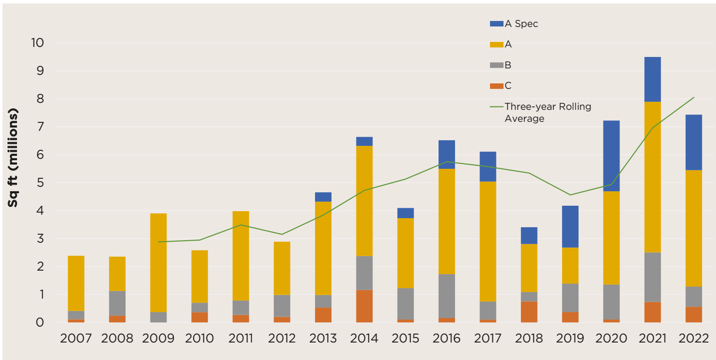
Deal counts demonstrated the preference towards smaller units as 57% of deals were recorded within the 100,000-200,000 sq ft size band, 18% within the 200,000-300,000 sq ft size band, 11% within the 300,000-400,000 sq ft size band, 3% the 400,000-500,000 sq ft size band and 11% over 500,000 sq ft.

Manufacturers and the automotive sector have historically dominated take-up in the West Midlands; however, in recent years, we have seen a sustained shift to a more diverse range of occupiers. In 2022, 3PLs accounted for 56% of the total take-up, the 'other' sector 16%, and manufacturers 11%.

Development Pipeline

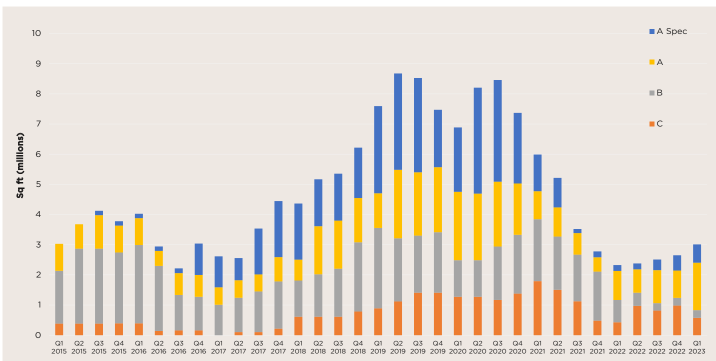
There are 13 units currently under construction within the West Midlands, totalling 2.59m sq ft. There are eight within the 100,000-200,000 sq ft size band, two within the 200,000-300,000 sq ft size band and three within the 300,000-400,000 sq ft size band. A large proportion of these units have strong interest, but should they add to the vacant stock after PC, the vacancy rate would rise to 5.9%, which is still below the long-term average of 5.98%.

Take-up 83% was Grade A quality



Source Savills Research

Supply 69% of units in the 100,000-200,000 sq ft range



Source Savills Research

> "Take-up in the North West reached 7.06m sq ft in 2022 through 24 transactions. We're continuing to track enquiries from multiple parties on good quality prime stock, now 50% of the development pipeline is under offer and due to exchange in Q1 2023. The increased competition has caused net effective rents to increase through falling incentives"

North West

2023 will be characterised by chronically low levels of good quality space

Jon Atherton
Director
Manchester
0161 277 7207
jatherton@savills.com

Gorsey Point, Widnes, where Savills have let c. 650,000 sq ft to various occupiers on behalf of Mirastar.

Supply

The supply of warehouse space has increased by 32% in the last 12 months to stand at 3.38Mm sq ft across 16 units. Using the three-year average annual take-up of 6.61m sq ft, this equates to just 0.51 years' worth of supply in the region.

In terms of Grade, 17% of the available space is Grade A, 51% is Grade B and 32% is Grade C. Savills has analysed the EPC standards of each unit in the North West, a large proportion do not comply with the government targets of reaching EPC B by 2030. These units should undergo comprehensive refurbishment in order to be attractive to future occupiers.

By unit count, 63% of the vacant stock is within the 100,000-200,000 sq ft size band, 13% is within the 200,000-300,000 sq ft size band, 19% is within the 300,000-400,000 sq ft size band, and 5% over 500,000 sq ft.

The vacancy rate continues to remain at low levels and won't rise substantially in the short to medium term soon as 50% of the development pipeline is already under offer.

Take-up

Take-up has reached 7.06m sq ft across 24 transactions causing the average deal size to reach 294,191 sq ft. The long-term annual average take-up currently stands at 4.19m sq ft.

In 2022, 46% of take-up has been built-to-suit space, 35% has been speculatively developed space and the remaining 19% was second-hand space. According to the long-term average, 51% of space transacted per annum is second-hand space, 24% is new speculatively developed space and 25% is built-to-suit space.

By deal count, in 2022, 46% of transactions have been within the 100,000-200,000 sq ft size band, 17% within the 200,000-300,000 sq ft size band, 17% within the 300,000-400,000 sq ft size band, 3% within the 400,000-500,000 sq ft size band and 17% over 500,000 sq ft. Grocery retailers accounted for 27% of take-up in 2022, 3PLs 22%, online retailers 17%, the automotive sector 9%, with the remainder spread across a range of sectors.

Savills has seen lease lengths increase in the North west to stand at 13.36 years. Moreover, due to the rising competition, prime rents have been pushed higher to £8.75 psf.

Development Pipeline

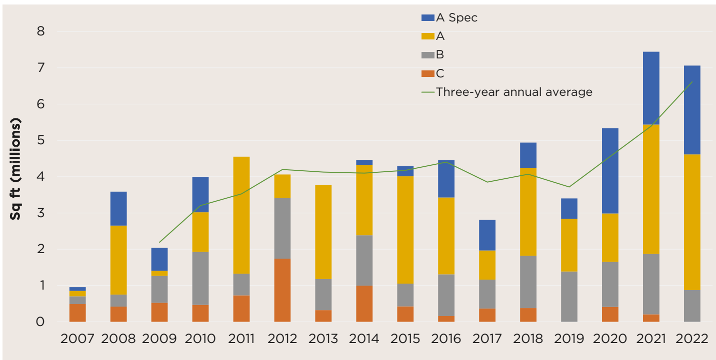
There are currently seven units being speculatively developed, totalling 2.23m sq ft. There are three units within the 100,000-200,000 sq ft size band, two within the 300,000-400,000 sq ft size band, one within the 400,000-500,000 sq ft size band and one over 500,000 sq ft.

Key statistics

	Stats	yr/yr change
Take-up	7.06m sq ft	↓ 5%
Supply	3.38m sq ft	↑ 32%
Development Pipeline	2.23m sq ft	↓ 18%
Quoting Grade A Rent	£8.75/sq ft	↑ 13%
Vacancy rate	3.83%	↑ 74 bps

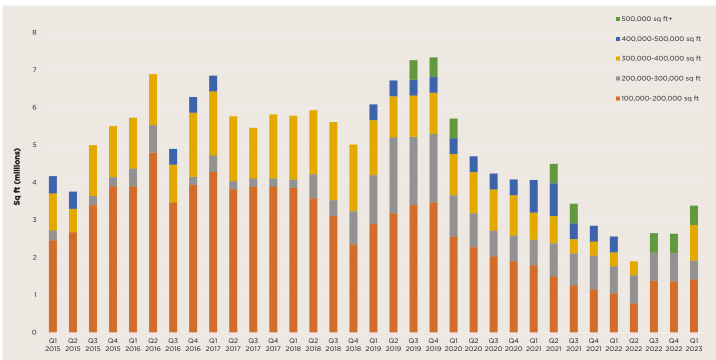
Source Savills Research

Take-up 68% above long-term average



Source Savills Research

Supply is majority low-quality smaller units



Source Savills Research

The region continues to attract activity from occupiers due to the lower land values and rents. However, the chronically low levels of built ready-to-go stock has caused immediate requirements to be satisfied in neighbouring regions or through the built-to-suit route. Developers have responded to the increased occupier demand; however, some speculative schemes have been paused due to funding and construction issues

Yorkshire and the North East

Vacancy rate just 2.50%; 0.23 years' worth of supply

Tom Asher
Director
Leeds
0113 220 1228
tom.asher@savills.com

Richard Scott
Director
Newcastle
0191 323 3147
richard.scott@savills.com

Big K, Konect 62, comprising 735,000 sq ft of new speculatively developed space. Savills are agents.

Supply

The supply of units over 100,000 sq ft currently stands at 2.4m sq ft across 14 units. There is 1.9m sq ft available in Yorkshire across ten units and c. 500,000 sq ft available in the North East across four units. The vacancy rate now stands at 2.50% which equates to just 0.23 years' worth of supply.

The majority of space available is low-quality second-hand space with just 22% classified as Grade A, 41% as Grade B space and 37% second-hand Grade C space. Like the majority of the UK, occupier preference revolves around better quality units with 85% of take-up in the last three years being Grade A space. Consequently, a large proportion of the Grade C or B space could be considered obsolete through not being able to accommodate modern occupier requirements.

In terms of size, 72% of available units by count are within the 100,000-200,000 sq ft size band, 21% are within the 200,000-300,000 sq ft size band and 7% within the 300,000-400,000 sq ft size band.

Key statistics

	Stats	yr/yr change
Take-up	10.52m sq ft	↓ 5%
Supply	2.4m sq ft	↑ 18%
Development Pipeline	6.89m sq ft	↑ 210%
Quoting Grade A Rent	£8.25/sq ft	↑ 10%
Vacancy rate	2.50%	↑ 16 bps

Source Savills Research

Take-up

Take-up in 2022 has reached 10.52m sq ft across 25 units, surpassing the long-term annual average take-up by 88%. In isolation, 70% of take-up was in Yorkshire and 30% was within the North East.

The chronically low levels of good-quality built stock has led occupiers down the built-to-suit route to acquire space. In 2022, 70% of space transacted was built-to-suit space, 10% was pre-let speculatively developed space, 6% was new speculatively developed space and 14% was second-hand space.

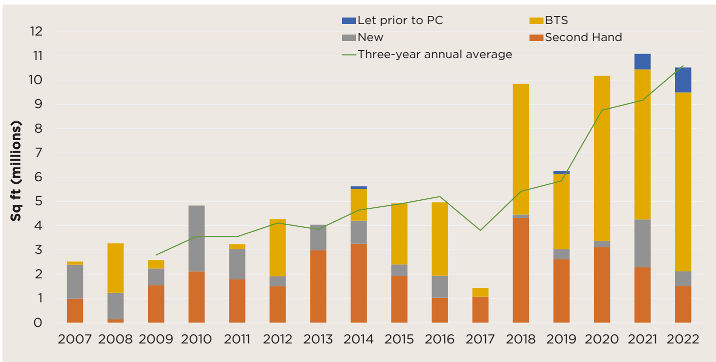
In terms of deal count, 52% of transactions were within the 100,000-200,000 sq ft size band, 12% were within the 200,000-300,000 sq ft size band, 8% in the 400,000-500,000 sq ft size band and 28% over 500,000 sq ft. The average deal size this year reached 420,941 sq ft which is significantly higher than other regions.

In 2022, manufacturers were the most active accounting for 37% of all take-up, online retailers accounted for 21%, high street retailers 15% and 3PLs 12%. The remaining take-up was spread over a diverse range of sectors.

Development Pipeline

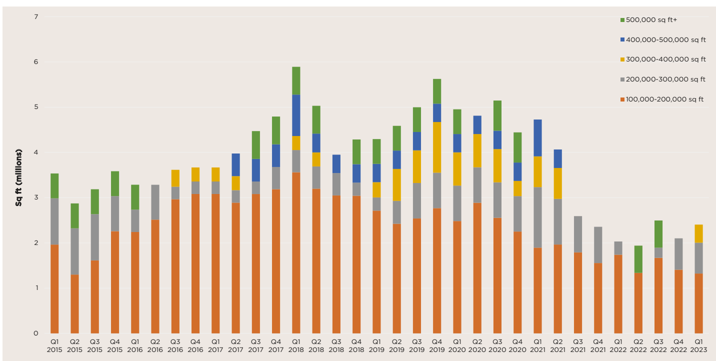
There are currently 26 units under construction, totalling 6.89m sq ft. There are 12 units under construction within the 100,000-200,000 sq ft size band, six within the 200,000-300,000 sq ft size band, six in the 300,000-400,000 sq ft size band and two over 500,000 sq ft. Many of these units are about to go under offer, but should they reach practical completion before exchanging, the vacancy rate would rise to 9.65%, which is crucially under the 12% threshold needed for rental growth.

Take-up 89% was good-quality Grade A space



Source Savills Research

Supply dominated by smaller sizes, majority second-hand



Source Savills Research

> **“Take-up in 2022 has been the best on record as occupiers continue to commit to large build-to-suit units in the region, 73% of take-up was in the South West and 27% in Wales. We have, however, seen an increase in large manufacturing units returning to the market in Wales which has increased the vacancy rate in the region to 8.73%. Many of these second-hand units have received interest from investors for redevelopment”**

South West & Wales

Supply has increased yet 41% is currently under offer

Rob Cleeves
Director
Bristol
01179 102 227
rcleeves@savills.com

Jack Davies
Associate Director
Cardiff
01179 102 208
jack.davies@savills.com

Panattoni Park Avounmouth, providing 882,000 sq ft and 406,000 sq ft of speculatively developed space. Savills are agents.

Supply

The supply of units over 100,000 sq ft currently stands at 4.36M sq ft across 18 units. There is 3.57m sq ft available in Wales and 0.77m sq ft in the South West. The largest unit on the market is the former Ford Factory in Bridgend, Wales, comprising 1.6m sq ft, it's currently under offer and set to exchange Q1 2023. In isolation, the South West market is chronically undersupplied, with a vacancy rate of 2.05%.

The quality balance is heavily skewed towards lower-quality units; just 16% of space available across the regions is classified as Grade A, 11% is Grade B and 73% is Grade C.

In terms of unit size, 78% of the available units are within the 100,000-200,000 sq ft size band, 6% within the 200,000-300,000 sq ft size band, 11% within the 300,000-400,000 sq ft size band and 6% over 500,000 sq ft.

When the units under offer complete early next year, the vacancy rate across the South West and Wales will fall dramatically to 5.15%. It is noted a region will continue to see rental growth as long as vacancy rates are <12%.

Key statistics

	Stats	yr/yr change
Take-up	5.95m sq ft	↑ 74%
Supply	4.36m sq ft	↑ 11%
Development Pipeline	1.86m sq ft	↑ 177%
Quoting Grade A Rent	£7.75/sq ft	↑ 3%
Vacancy rate	8.73%	↓ 122bps

Source Savills Research

Take-up

Take-up in the South West and Wales has been the best on record, reaching 5.95m sq ft across 27 transactions. To compare, the region, on average, sees 2.69m sq ft transacted per annum across 11 transactions. The region's cheaper rents and able workforce have led occupiers to target good-quality existing units. In terms of grade, 46% of space transacted this year has been built to suit, 4% has been new speculatively developed space and 50% has been second-hand space. The region, on average, sees the majority (53%) of space transacted per annum being second-hand space due to the lack of new units. In terms of grade, 54% of space transacted in 2022 was Grade A space, 32% was Grade B space, and the remaining 14% was Grade C.

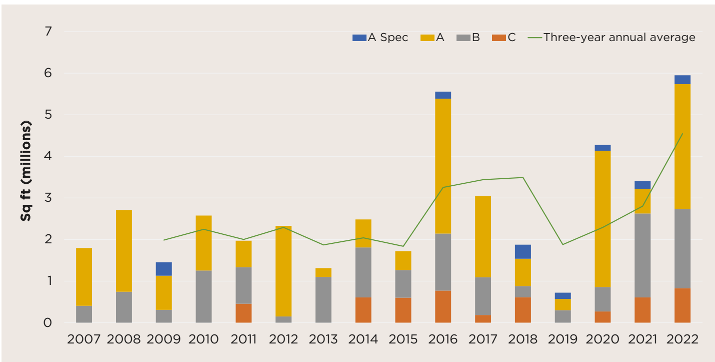
Occupier preference continues to revolve around smaller-size units with 70% of transactions by unit count being within the 100,000-200,000 sq ft size band, 15% within the 200,000-300,000 sq ft size band, 7% the 300,000-400,000 sq ft size band, 4% within the 400,000-500,000 sq ft size band and 4% over 500,000 sq ft. The average deal size this year reached 220,382 sq ft.

Online retailers were the most active this year, accounting for 38% of all space transacted, which was followed by manufacturers at 25%. 3PLs accounted for 18% in the 'other' category.

Development Pipeline

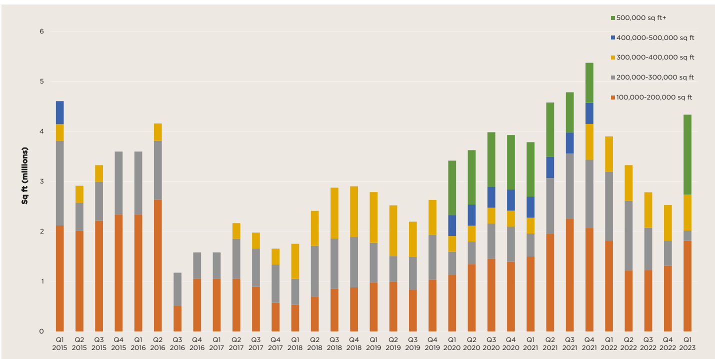
There is 1.86m sq ft under construction through five units across the region. There are two units under construction within the 100,000-200,000 sq ft size band, one unit in the 300,000-400,000 sq ft size band, one within the 400,000-500,000 sq ft size band and one unit over 500,000 sq ft.

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



Source Savills Research

Supply is 43% below levels seen 12 months ago



Source Savills Research

> **Take-up in 2022 has been the best on record. Savills has seen an influx of activity and requirements in the region from occupiers seeking to 'near-shore' but also to utilise Felixstowe and transportation infrastructure which allows access to a large proportion of the UK population within four hours**

East of England

Lowest vacancy rate recorded at 2.91%; 0.3 years' worth of supply left

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

Phil Dennis
Director
Chelmsford
01245 293 216
pdennis@savills.com

Supply

The level of supply in the market has fallen by 7% in the last year. Currently there is 920,540 sq ft available across five units, 14% of which is under offer. According to the three-year annual average take-up, there is just 0.3 years' worth of supply in the region.

In terms of grade, the vacant stock consists entirely of second-hand, low-quality stock, with 86% classified as Grade C and 14% Grade B. Whilst by unit count, there are currently four units available within the 100,000-200,000 sq ft size band and one within the 300,000-400,000 sq ft size band.

The vacancy rate remains very constrained at 2.91%, which is the lowest level we have ever recorded. This continues to push the rental tone for the region higher, particularly for prime units, which now stands at £8.25 psf. The vacancy rate is set to remain low; it will rise to just 5.11% when the development pipeline reaches practical completion.

Take-up

Take-up in 2022 has reached 3.69m sq ft across 11 separate transactions, this is 187% above the long-term annual average and 26% above the previous high watermark. As expected, it is the lack of good-quality existing stock paired with the large proportion of consented and deliverable industrial & logistics sites that is pushing occupiers towards build-to-suit units.

In 2022, 65% of space transacted has been built-to-suit space, 25% has been speculatively developed space, and just 10% has been second-hand space. There is a clear shift from occupiers requiring space towards best-in-class units in order to ensure resilience in the future. In terms of unit count, 45% of the transactions were within the 100,000-200,000 sq ft size band, 27% was within the 200,000-300,000 sq ft size band, 10% the 300,000-400,000 sq ft size band and 18% over 500,000 sq ft.

Occupier activity has been diverse, 36% of take-up has stemmed from high street retailers, 26% from manufactures, 14% from grocery retailers and 12% from 3PLs. The remainder was spread across a range of occupier types. In 2022, the largest transaction was at Gateway 14, a designated custom and tax Site as part of Freeport East where, an occupier has committed to a 1.2m sq ft unit.

Development Pipeline

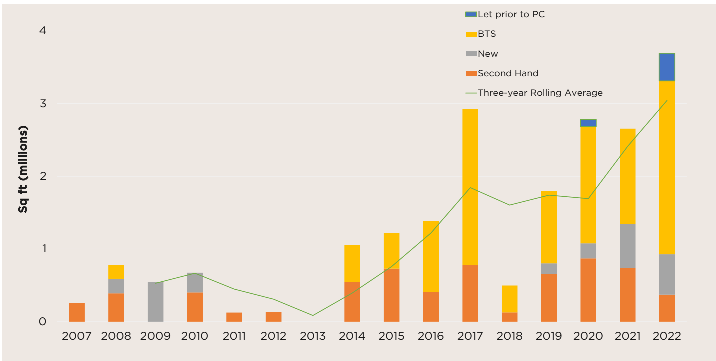
Currently, the region has two units under construction speculatively, totalling 555,300 sq ft. Both units within the 200,000-300,000 sq ft size band.

Key statistics

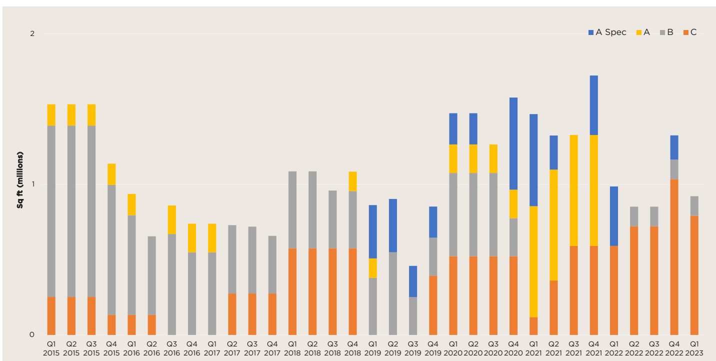
	Stats	yr/yr change
Take-up	3.69m sq ft	↑ 39%
Supply	0.92m sq ft	↓ 7%
Development Pipeline	0.55m sq ft	↓ 62%
Quoting Grade A Rent	£8.50/sq ft	↑ 21%
Vacancy rate	2.91%	↓ 84 bps

Source Savills Research

Take-up 67% was built-to-suit space



Supply all low-quality second-hand space



Source Savills Research

“Take-up in Scotland of units over 100,000 sq ft continues to remain lean due to the low availability of new speculative development but also due to the economic pressures which are affecting the ability for clients to go down the built-to-suit route. Despite this, the low vacancy rate of 3.34% is contributing to encouraging rental growth in the region and reduced incentives”

Scotland

Vacancy rate now 3.34%; all space is second-hand and low quality

Ross Sinclair
Director
Glasgow
0141 222 4145
rsinclair@savills.com

Eurocentral 145 which Savills has acquired for an occupier client.

Supply

The supply of warehouse space in Scotland for units over 100,000 sq ft now stands at 884,094 sq ft across six units, which equates to a vacancy rate of 3.34%. Using the three-year average annual take-up, there is just 0.94 years' worth of supply in Scotland.

Continuing on from past years, 11% of space on the market is Grade B and 89% is Grade C space.

Of the six units currently available, four 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 1.6% 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

Due to the record low levels of supply, take-up of units over 100,000 sq ft in 2022 has been subdued in comparison to previous years, reaching 576,449 sq ft across four transactions. In comparison, Scotland sees, on average, 836,648 sq ft of space transacted per annum across four units.

Analysing take-up by grade shows 36% of take-up was built-to-suit space and 64% was second-hand space adhering to past trends. In terms of grade, 36% was Grade A space, 25% was Grade B space and 39% was Grade C space.

In 2022, occupier preference continues to revolve around the 100,000-200,000 sq ft size band. There have been three transactions within the 100,000-200,000 sq ft size band and a single transaction within the 200,000-300,000 sq ft size band. On average, 60% of transactions per annum are within the 100,000-200,000 sq ft size band. The largest transaction this year was the sale of 10-12 Cloberfield Road, comprising 226,449 sq ft to a private occupier. Manufacturers accounted for 36% of take-up in 2022 and 3PLs accounted for 25%.

Development Pipeline

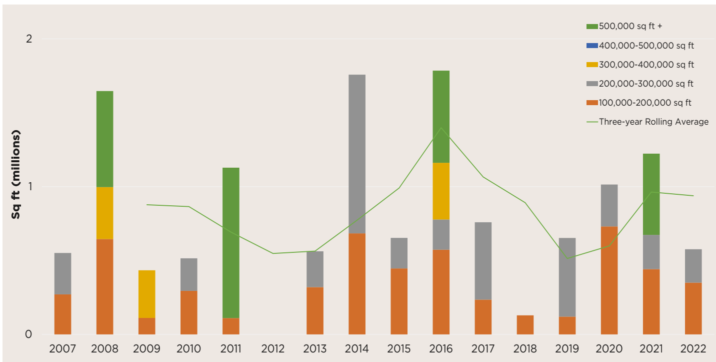
Developers have responded to the increased demand for better-quality and larger units in the region and there is now a single unit over 100,000 sq ft under construction at Belgrave Logistics Park where Knight Property are developing 126,960 sq ft.

Key statistics

	Stats	yr/yr change
Take-up	0.58m sq ft	↓ 53%
Supply	0.88m sq ft	↑ 22%
Development Pipeline	0 sq ft	no change
Quoting Grade A Rent	£8.00/sq ft	↑ 28%
Vacancy rate	3.34%	↑ 7bps

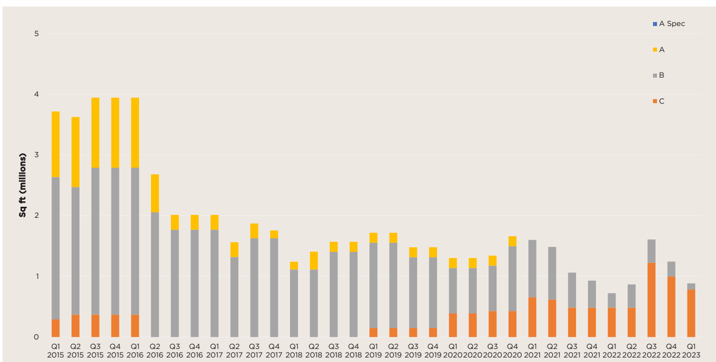
Source Savills Research

Take-up all below 250,000 sq ft



Source Savills Research

Supply entirely second-hand low-quality space



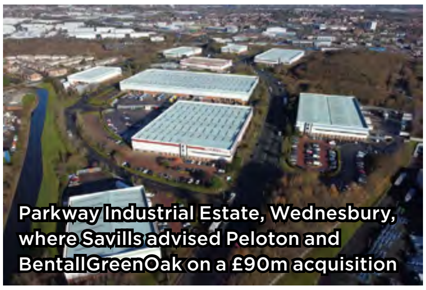
Source Savills Research

"The continued favourable occupier market conditions mean that the logistics sector will remain a key target for investors. While pricing stabilised to a degree by the end of 2022, with base rates having not yet reached their peak, there is potential for limited outward yield shift in H1 2023"

National investment

Fast-moving pricing and weight of capital keep market liquid

Tom Scott
Director,
UK Investment
020 7075 2819
tscott@savills.com



Parkway Industrial Estate, Wednesbury, where Savills advised Peloton and BentallGreenOak on a £90m acquisition

Whilst the history books will show that 2022 was, in terms of investment volumes, the second strongest year ever recorded, this statistic sits in contrast to market sentiment in the final third of the year. By year end investment volumes for logistics units reached £6.76bn, comfortably beating the long-term average by 158%. However, of that £6.76bn, 71% was transacted in the first half of the year and in Q4 volumes fell back to £946.6m, the lowest Q4 level since 2012.

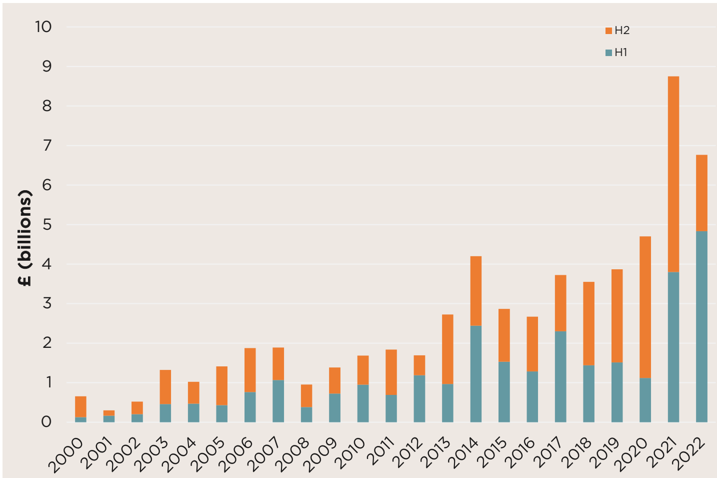
Context, however, is key, as by any long-term measure the market is still functioning well and liquidity remains as H2 volumes comfortably exceed the long term average by 41%.

Key to this liquidity has been how fast pricing has readjusted in the market to reflect changes in monetary policy and the wider global bond markets. During the GFC, pricing moved out by 300bps, over 31 months, whereas, in the current market we have seen an outward shift of 275 bps, to 5%, in just five months. That pace of change has created opportunities for investors to deploy capital in the confidence that a nadir point is in sight and returns in the new environment can be met.

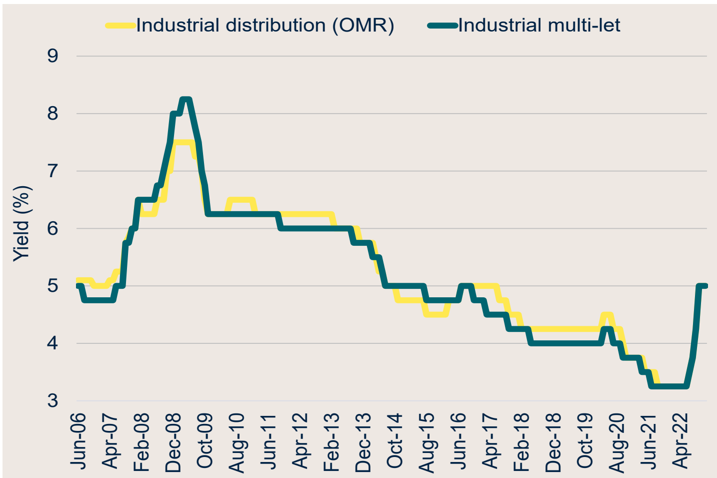
What has been interesting to observe is how the purchaser and vendor profile has shifted in such a short space of time. In 2021 overseas investors accounted for 57% of capital deployed and this was rising into 2022, reaching 64% in Q2 22, but falling back to just 37% by Q4 22. Whilst overseas investors remain the dominant purchaser type we are seeing occupiers and other financial institutions look to invest and increase their exposure to the market. For the most part, this has been driven by UK institutions bringing stock to the market in a bid to transact quickly to meet fund redemptions, indeed Q3 saw 96% of vendors classified as a UK institution a figure which normally averages 55%.

Into 2023 we expect that continued low vacancy rates in the occupational market will give investors continued confidence to transact in the sector. However, with continued economic volatility and the consensus being that base rates have yet to reach their peak, it is likely that there will be continued outward movement in yields in the first half of the year.

Investment volumes second best year ever



Prime investment yields have risen by 275 bps



41% The level requirements fell by in 2022

Outlook

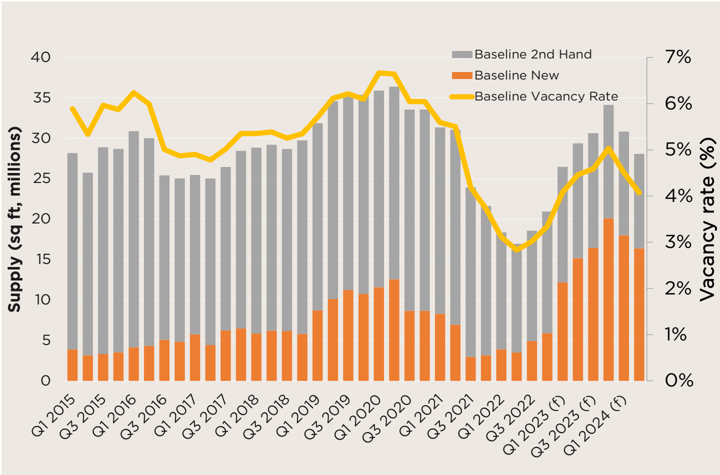
Normalising take-up and rising vacancy?

Whilst there are many reasons to be optimistic about demand drivers, the sector is not recession-proof and a weakening consumer environment, combined with rising occupational costs such as the Business Rates revaluation, will put downward pressure on take-up. Indeed in Q422 we recorded the lowest amount of new requirements, at 38.7m sq ft, since we started to collect this data in 2020. This would suggest that it is unlikely for take-up to exceed 10m sq ft in any given quarter in 2023, meaning a return to a pre-Covid level of c.30m sq ft should be expected.

We do however expect to see a fall in the level of BTS take-up, given continued uncertainty in capital markets, as these could become harder to forward fund. This should translate into higher take-up, proportionally, of existing space. Given that there is close to 21m sq ft and over 100 units due to complete into 2023 this is arguably good news for developers with units due to complete in the next 12 months.

It is likely that 2023 will see significantly fewer speculative announcements meaning that the level of Grade A supply, whilst initially rising in 2023, will then start to fall into 2024. With economists forecasting a shallow but prolonged recession and an upturn in 2024, it is possible that demand rebounds into a market with vacancy rates much lower than long-term averages which would drive amplified rental growth into 2024 and 2025. Indeed, the Savills vacancy rate forecasting model supports this thesis with our baseline projection suggesting supply rises to 35m sq ft and a vacancy of 5%. Our downside modelling, where take-up falls by levels not seen since the GFC, would see vacancy rise to just over 7%, which, whilst concerning, remains some way off the 24% seen in the aftermath of the GFC.

Vacancy initially rising, but falling into an economic upturn?



Source Savills Research

Will Cooper
Director, Building & Project Consultancy
020 7409 8952
wcooper@savills.com

BUILD COST AND PROGRAMME

With record levels of speculative completions and a near-record level of BTS deals, the well-publicised issues around the price and availability of raw materials have not conspired to see a decline in development.

The latest indicators from the *Savills ProgrammE and Cost Sentiment Survey* (*S.P.E.C.S*) demonstrate that build costs, whilst at elevated levels in monetary terms, are showing evidence of reaching a plateau. Whilst the price of key materials has fallen, such as steel by 19% according to data from the ONS, this is being offset by cost rises elsewhere such as increased costs for labour which remains in scarce supply.

The same can also be said for project timescales as the lead time for cladding orders has fallen back to pre-Covid levels of c.26 weeks but the availability of installers remains a challenge to the programme.

Into 2023 it is likely that we will see less speculative and BTS development announcements meaning there is every likelihood that contractors and materials suppliers cut their cloth accordingly to try and maintain a full order book. Therefore we expect to see some softening in both build costs and project durations as contractors start to compete for work.

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.

Richard Sullivan
Agency
0207 409 8125
rsullivan@savills.com

Richard Merryweather
Investment
0207 409 8838
rmerryweather@savills.com

Simon Collett
Building Consultancy
0207 409 5951
scollett@savills.com

Kevin Mofid
Research
0203 618 3612
kmofid@savills.com

Will Laing
Research
0207 535 2955
will.laing@savills.com