

Big Shed Briefing

January 2017



DC 115 at Prologis RFI DIRFT where, advised by Savills, Prologis is building speculatively a unit of 115,824 sq ft

SUMMARY

2016 sees the highest amount of take-up recorded

- Insatiable demand from online retailers has seen 34.6m sq ft of warehouse space transacted across the UK in 2016 setting a new high water mark.
- The surge in demand has been noted across most regions that Savills monitor. Only the North West has seen a small decline in the area of space transacted, however it should be noted there has actually been a 10% increase in deal volume.
- Given the strong take-up and muted speculative development it should come as no surprise that supply remains critically low at just 27.6m sq ft.

- We do not anticipate a surge in supply given the fact that just 17 units are currently under construction across the country; combined this is just 3m sq ft, even taking this development pipeline into account there is less than a year's worth of supply in the market.
- The continued strength of the occupational market has rippled through into the investment market with £2.6bn of capital invested in the sector in 2016. Whilst our prime yield has moved out by 50bps in 2016 to 5% activity in the fourth quarter has put a renewed downward pressure on yields into 2017.

.....
 “Continued structural change in all aspects of retail will see the logistics sector remain the beneficiary in the short to medium term. Budget retailers remain in the market and new pure-play retailers are keen to build a logistics infrastructure ” Kevin Mofid, Head of Industrial & Logistics Research

Nationwide Overview

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➔ Welcome to our new format Big Shed Briefing which provides commentary and analysis for each major logistics region Savills cover, along with an overview of the investment market and insight from our Building Consultancy team on project time scales and costs.

Take-up

■ Following the results of the EU referendum a period of uncertainty was expected to impact the UK commercial property market with occupiers deferring decisions until the potential impacts became clear.

■ The UK logistics market has, however, performed astonishingly well with Savills recording information on 135 transactions equating to 34.6m sq ft, just 400,000 sq ft over the 2014 record of 34.2m sq ft.

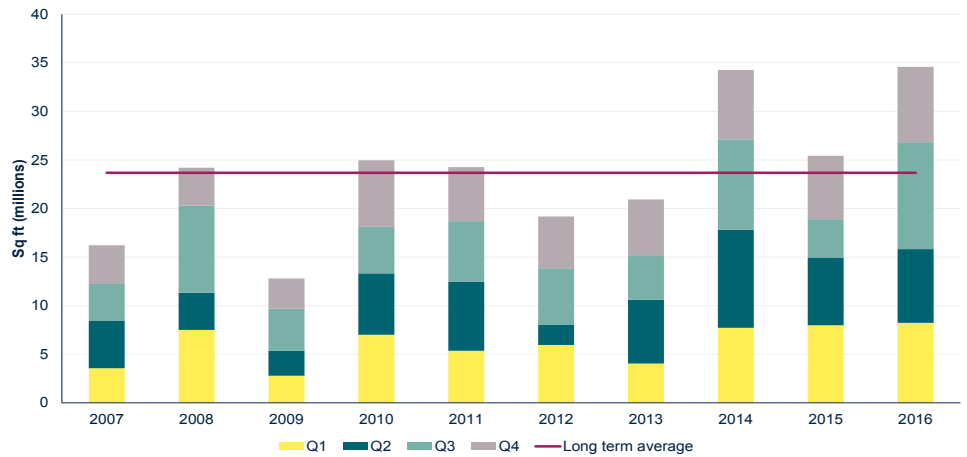
■ This has been assisted in no small part by the insatiable appetite of online retailers to acquire warehouse space as consumers shift to making purchases away from the High Street. Indeed in 2016 online retailers have accounted for 29% of all of the space transacted. However, it should be noted that there is strong activity in many other occupier sectors with 3PLs accounting for 18% of the market and manufacturers a further 16%. Examples being Great Bear committing to a second 479,000 sq ft unit at Markham Vale near Chesterfield and Gestamp Talent acquiring a 543,692 sq ft Build to Suit unit at Four Ashes in Wolverhampton.

Supply and Pipeline

■ The availability of existing units has, for the last two years, hovered around 30m sq ft as the development pipeline of speculative warehousing has struggled to keep pace with demand. Indeed the third quarter of 2016 saw supply fall to the lowest level ever recorded at just 22.7m sq ft, although an increase in supply of second hand units and speculative units reaching completion have seen supply rise to 27.6m sq ft.

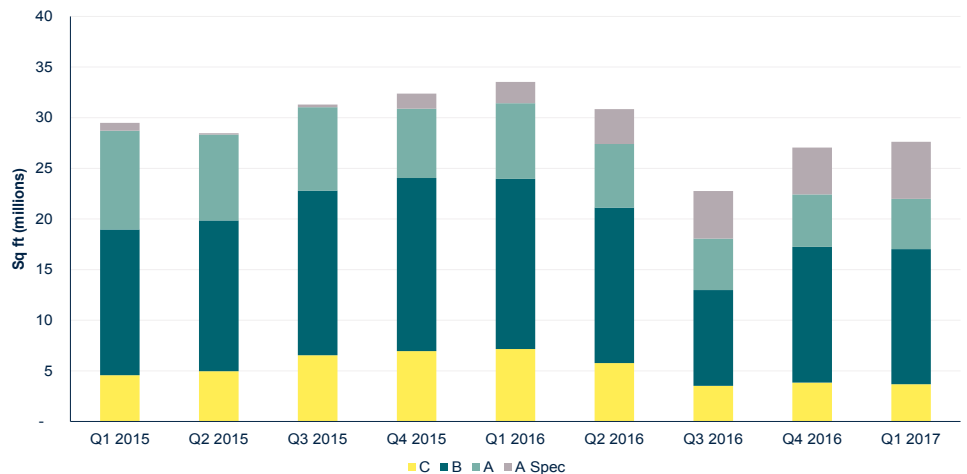
■ Into 2017 we are tracking 17 schemes through the development pipeline which total just over 3m sq ft. The largest being M6DC in Cannock at 372,000 sq ft, a joint venture between Graftongate and Exeter Property Group.

FIGURE 1
Best year ever for take-up



Source: Savills Research

FIGURE 2
Speculative developments increase supply



Source: Savills Research

▼ Amazon dominates the market



London & The South East

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“With take-up increasing dramatically and supply falling further, combined with continued robust demand, we expect further upward pressure on rents into 2017.” Toby Green, Director: Agency

Supply

■ The supply of warehousing over 100,000 sq ft in the South East and within the M25 fell in every quarter in 2016 and now stands at 3.7m sq ft across 24 separate units.

■ Of the 24 units on the market 46% are classified as Grade B, equating to 1.6m sq ft. Grade A supply has also increased as speculatively constructed units reach practical completion and are added to our supply statistics. Examples include DC2 at Prologis Park West London where 113,000 sq ft has been added to our Grade A supply.

■ Examining supply by size range shows that 88% of all units currently on the market are sub 200,000 sq ft with just three units on the market over 200,000 sq ft, the largest being the speculatively constructed Angle 340 in Andover.

Take-up

■ For the year 2016 take-up reached 5.1m sq ft, 32% above the long term average and almost 2m sq ft higher than 2015.

■ Whilst 2.2m sq ft of this demand

was by Amazon in one unit at Tilbury it should be noted that deal volume was also above the long term average as we tracked information on 17 separate transactions throughout the year

■ The lack of supply in the higher size ranges also ensured that 86% of all deals were under 200,000 sq ft in 2016, compared to just 63% in 2015.

■ The lack of supply and strong occupier demand has seen occupiers prepared to pay increasingly higher rental levels. Indeed the average achieved headline rent in the SE & M25 increased by 7% to £7.21 per sq ft.

Development Pipeline

■ There are currently six units either announced or under construction in the SE & M25 which total 976,510 sq ft. By size these are DC9 at Marston Gate (275,000 sq ft), London Gateway (165,000 sq ft), Thurrock 162 (162,508 sq ft), Island Road Reading (130,000 sq ft), Mountpark Southampton (128,000 sq ft) and South Central (116,000 sq ft).

■ The majority of this stock will complete in the third quarter of the year when DC9 at Prologis Park Marston Gate at 275,000 sq ft reaches completion.

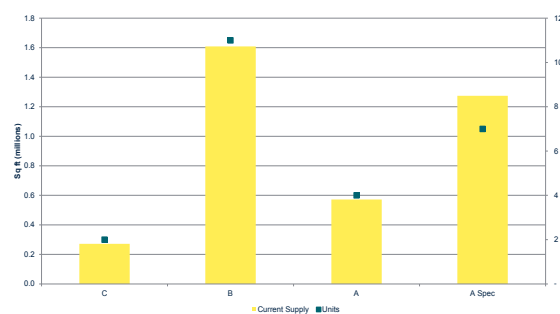
▼ Prologis Park Marston Gate



TABLE 1
Key Stats

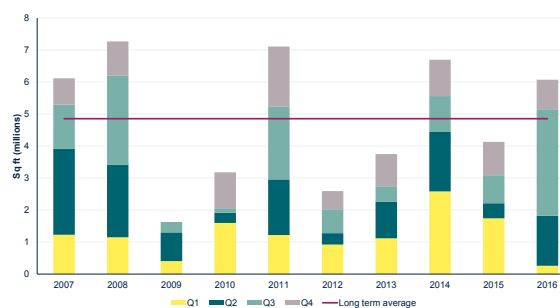
	Stats	Yr/Yr change
Take-up	6.1m sq ft	↑ 48%
Supply	3.7m sq ft	↓ 31%
Development Pipeline	976,510sq ft	↓ 37%
Quoting Grade A Rent	£7 - £14.50 /sq ft	↑ 7%
Vacancy Rate	3.8%	↓ 10bps

FIGURE 3
Supply by grade



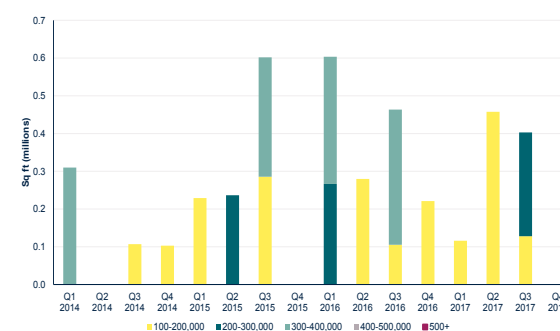
Source: Savills Research

FIGURE 4
Take-up



Source: Savills Research

FIGURE 5
Development completions by size



Source: Savills Research

East Midlands

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“The East Midlands remains a key location to take new warehouse space as 2016 take-up levels demonstrate, however with just 272,494 sq ft due for delivery, Grade A supply issues could emerge into 2017.” Charles Spicer, Director: Agency

Supply

■ Current supply in the East Midlands stands at 4.7m sq ft across 25 separate units, an increase of 7.8% since Q1 2016.

■ Whilst the supply of second hand Grade B units has decreased from 3m sq ft to 1.2m sq ft, as demonstrated by figure six, this has in the most part been replaced by speculatively developed stock. There are currently seven speculatively developed units on the market including the M&G funded Optimus 277 in Leicester and Interlink 255, also in Leicester.

■ As with most regions, supply is skewed towards the smaller end of the spectrum with just four units on the market over 300,000 sq ft, the largest being Quantum at Magna Park Lutterworth at 411,613 sq ft.

Take-up

■ Assisted by 2.8m sq ft being transacted in the fourth quarter alone take-up for the year end reached 6.9m sq ft, beating the long term average by 68% and meaning 2016 was the best year ever for the East Midlands.

■ The largest deal of the year was

Amazon taking a 1.3m sq ft pre-let at Mountpark Bardon, however by deal count the 3PL and manufacturing sector accounted for a further 57% of the market taking a total of 13 units. Examples include Howdens taking two new units at Roxhills Warth Park in Raunds totaling 957,000 sq ft and Yusen Logistics committing to a build to suit unit of 379,000 sq ft at Prologis Park, Wellinborough.

■ These larger deals helped the average size deal increase above the long term average to 287,000 sq ft, the highest level since 2011, as demonstrated in figure eight.

■ Driven by these large bespoke facilities, for the first time ever more than 50% of the market in the East Midlands has been for build to suit units.

Development Pipeline

■ With 2016 seeing just three speculative announcements a total of just 272,494 sq ft is due for delivery in 2017.

■ Prologis will deliver 156,000 sq ft in Kettering and 115,000 sq ft at DIRFT, phase III, both in Q3 2017.

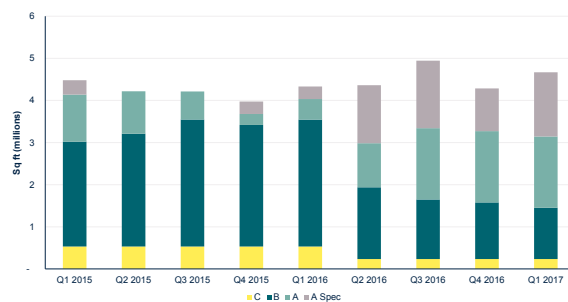
▼ Mountpark Bardon : location of new Amazon Fulfilment Centre



TABLE 2
Key Stats

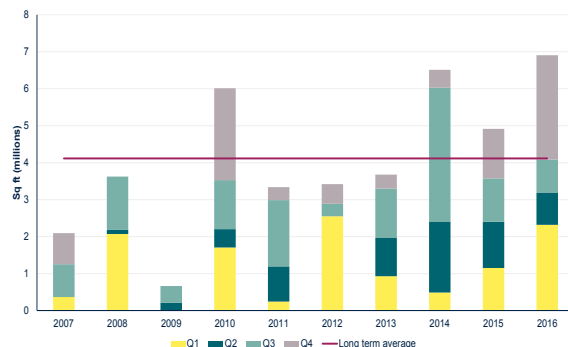
	Stats	Yr/Yr change
Take-up	6.9m sq ft	↑ 40%
Supply	4.7m sq ft	↑ 7.8%
Development Pipeline	272,494 sq ft	↓ 88%
Quoting Grade A Rent	£6.50/sq ft	↑ 8%
Vacancy Rate	6.0%	↑ 88bps

FIGURE 6
Supply by grade



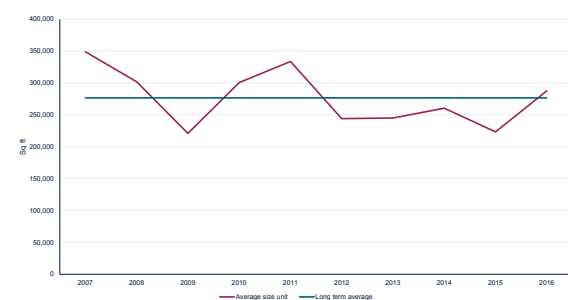
Source: Savills Research

FIGURE 7
East Midlands take-up



Source: Savills Research

FIGURE 8
Average size deals



Source: Savills Research

West Midlands

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“The continued resurgence of the automotive sector in the West Midlands is having knock on effects in the supply chain resulting in a more diverse occupier base compared to other UK regions” Ranjit Gill, Director: Agency

Supply

■ The availability of units in the West Midlands has fallen by a quarter in 12 months and now stands at 3m sq ft, comprising 20 separate units.

■ Of the units on the market at the start of 2017 90% are between 100,000 and 200,000 sq ft. Of the units over 200,000 sq ft Birch Coppice, Plot 6, developed speculatively by IM properties, is the largest, at 282,124 sq ft.

■ Due to a number of units being delivered speculatively in 2016, including two units at Rugby Gateway, the balance of supply in the market has shifted over the last two years. Whilst total supply has decreased the proportion has shifted with a 33% increase in Grade A supply in 12 months.

Take-up

■ 2016 proved to be another strong year for occupier demand in the West Midlands, with 5.5m sq ft transacted across 28 deals, just one deal shy of equalling the 2014 record of 29.

■ Such has been the level of demand for warehouse space in the West Midlands it has the highest level of

take-up for units let during construction of any region in the UK. With Jaguar Land Rover taking 327,000 sq ft at Prologis Park Ryton in the second quarter of 2016 this helped ensure that 14% of deals were for units still under construction.

■ The largest deal of the year came in the fourth quarter of the year when Screwfix committed to a 562,000 sq ft build to suit unit at Prologis Park Fradley on a 10 year term. However, given the fact that 64% of deals were in the sub 200,000 sq ft category the average size deal fell to 197,000 sq ft, the lowest level since 2013.

■ The West Midlands bucks the national trend for online retailers to dominate the market with the sector accounting for just 11% of take-up. Instead, manufacturers and the automotive sector accounted for a combined 35% of the market in 2016.

Development Pipeline

■ Five units totalling 1.3m sq ft are due for completion in 2017 in the West Midlands. These include the largest unit developed in this cycle, M6DC in Cannock, at 372,000 sq ft.

▼ Prologis Fradley Park



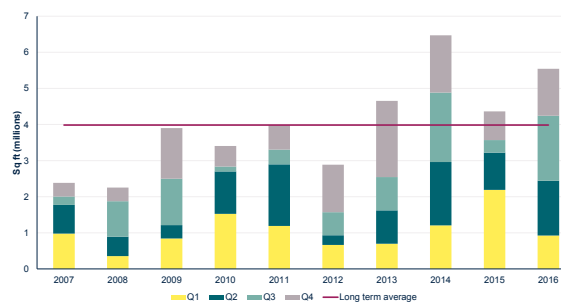
TABLE 3

Key Stats

	Stats	Yr/Yr change
Take-up	5.5m sq ft	↑ 27%
Supply	3.0m sq ft	↓ 25%
Development Pipeline	1.25m sq ft	↓ 44%
Quoting Grade A Rent	£6.50/sq ft	↑ 4%
Vacancy Rate	4.9%	↓ 10bps

FIGURE 9

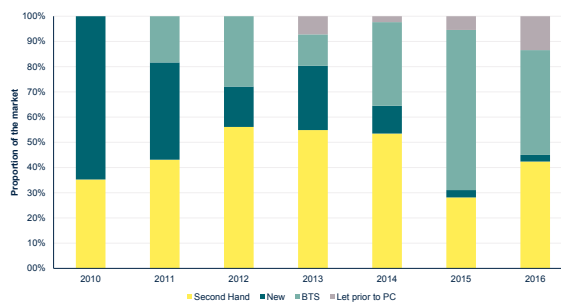
Take-up



Source: Savills Research

FIGURE 10

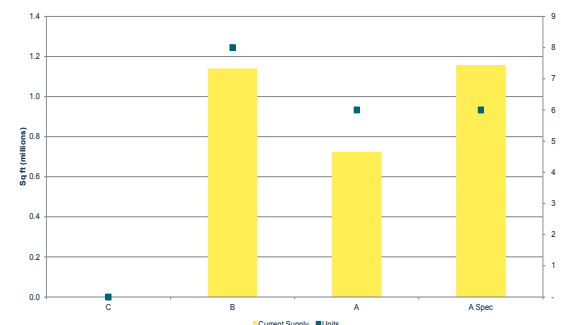
Take-up proportion by grade



Source: Savills Research

FIGURE 11

Current supply by grade



Source: Savills Research

North West

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“We are yet to see the next wave of new speculative development to the region. With just over 1m sq ft of speculative Grade A space left a severe shortage of new space will shortly be upon us” Jonathan Atherton, Director: Agency

Supply

■ There is currently 7.1 million sq ft available across 40 existing units. Supply has increased by 23% from Q1 2016 after a surge of speculative development took place in the region.

■ The North West has the highest amount of available space of all the regions in the UK. However 75% of the units available are either of Grade B or C quality and many of the Grade C units have been vacant for long periods. The region accounts for 54% of all available Grade C units in the UK which highlights the scale of the Grade C supply available in the area.

■ Developers have responded to the lack of Grade A supply in the North West region and there are currently seven speculatively developed units on the market totalling 1.4 million sq ft. This will decline sharply in the first part of 2017 as a number of units are either under offer or have exchanged.

Take-up

■ Take-up reached 4.2 million sq ft in 2016 which was a healthy year for the market. Although this was 8% below 2015 take-up it was still 18% above the long-term average highlighting strong

occupier demand. There were 22 deals recorded in 2016 which is the second highest amount since 2007 underlining the high liquidity evident in the market.

■ Grade A space accounted for 72% of all space transacted in 2016. There were four deals involving recently speculatively developed units totalling 856,000 sq ft, all of these units were let within six months of practical completion.

■ The largest deal in 2016 was AO.com acquiring 386,000 sq ft at Crossflow 380 in Crewe, although the 100,000-199,999 sq ft size band was the most active accounting for 77% of deals. This is reflected in the average deal size for the region which is 190,282 sq ft. The online retail sector was the most active in 2016, acquiring 1.1 million sq ft which equated to a 29% market share. Amazon was the most notably active occupier in 2016 acquiring three units over 100,000 sq ft in the region.

Development Pipeline

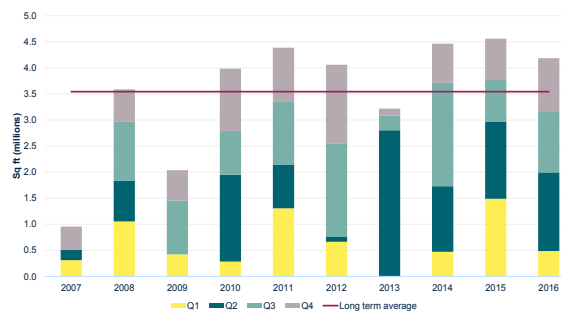
■ There are only two units being speculatively developed in the region, 150,847 sq ft at R-150 in Winsford and 160,000 sq ft at Ma6nitude, Middlewich.

TABLE 4
Key Stats

	Stats	Yr/Yr change
Take-up	4.2m sq ft	↓ 8 %
Supply	7.1m sq ft	↑ 23%
Development Pipeline	0.15m sq ft	↓ 93%
Quoting Grade A Rent	£6.50/sq ft	↑ 8.3%
Vacancy Rate	11.5%	↓ 8 bps

FIGURE 12

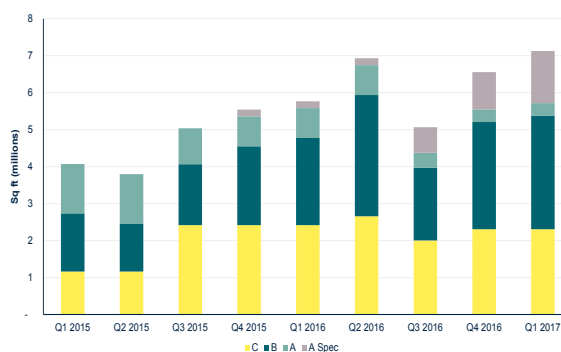
Take-up



Source: Savills Research

FIGURE 13

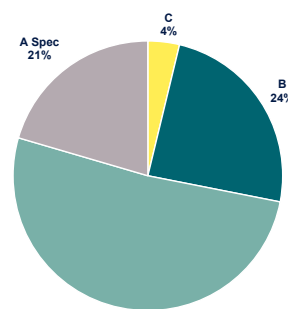
Supply by grade



Source: Savills Research

FIGURE 14

2016 take-up by grade



Source: Savills Research



▼ Crossflow 380

Yorkshire & The Humber

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“Given the recent proportions of take-up in larger size ranges there remains the case for larger units to be speculatively developed in the Yorkshire and Humber region.” Dave Robinson, Director: Agency

Supply

■ There is currently 2.4 million sq ft available across 16 existing units, supply has marginally increased by 4% from Q4 2015. Supply has largely remained static as there has been a lack of speculative development in the market.

■ The quality of the space available is predominantly of a poor quality as 60% of the sq ft on the market is either Grade B or C. There are only two new units on the market which were both speculatively developed in 2015.

■ The current availability in Yorkshire is focussed below 200,000 sq ft as 87% of the units available are in this bracket. The largest unit on the market is the former DHL on Brunel Close, Harworth where 305,348 sq ft is available.

Take-up

■ Yorkshire witnessed a strong year for transactional activity in 2016 as take-up reached 3.9 million sq ft. This was 18% above 2015 total take-up and 39% above the long-term average underlining the strong occupier demand in the market.

■ The lack of large units available on the market has meant that many occupiers

have chosen the build to suit route to fulfil their warehouse requirements. Build to suit deals accounted for 58% of the sq ft transacted in 2016 highlighting their current dominance in the market.

■ The largest deal was Amazon acquiring 1.1 million sq ft at Verdion's iPort in Doncaster. There were five deals at iPort in 2016 totalling 2.3 million sq ft which was the highest amount for one scheme across the UK in 2016.

■ There were three 500,000 sq ft and above deals in 2016, the aforementioned Amazon deal at iPort, Lidl acquired 628,000 sq ft at iPort and L&G Homes leased 550,336 at the Big555 in Sherburn-in-Elmet. This was the biggest deal for an existing unit in 2016, the Big555 had been vacant since achieving practical completion at the peak of the previous development cycle before the global financial crisis.

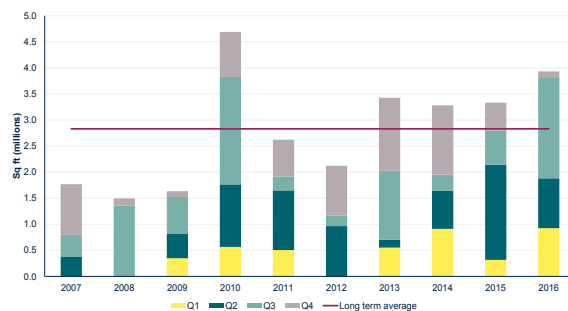
Development Pipeline

■ There are two units under construction totalling 295,000 sq ft, the largest being IP2a.2 at iPort where Verdion are developing 195,000 sq ft.

TABLE 5
Key Stats

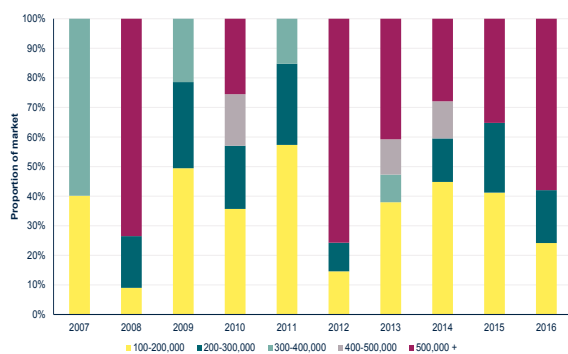
	Stats	Yr/Yr change
Take-up	3.9m sq ft	↑ 18%
Supply	2.4m sq ft	↑ 4%
Development Pipeline	0.195m sq ft	↓ 39%
Quoting Grade A Rent	£5.75/sq ft	↑ 10%
Vacancy Rate	5.4%	↑ 19bps

FIGURE 15
Take-up



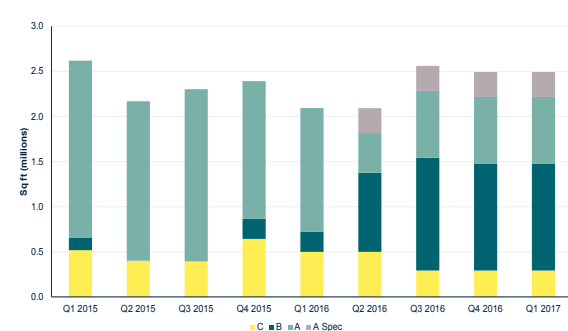
Source: Savills Research

FIGURE 16
Proportion of take-up by grade



Source: Savills Research

FIGURE 17
Supply by grade



Source: Savills Research



▼ Units under construction at iPort Doncaster

South West

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“With record levels of take-up and record low levels of supply there remains capacity for increased levels of speculative development across all markets in the South West.” Rob Cleeves, Director: Agency

Supply

■ There is a chronic lack of supply in the South West market as currently 374,904 sq ft is available across two existing units. There has been a 69% decrease in the available supply from Q4 2015 which underlines the current shortage of large units in the South West region.

■ The only Grade A unit is WA248 in Bristol where 248,127 sq ft is available. The strong occupier demand in the market has resulted in 10 units being removed from supply in 2016.

Take-up

■ 2016 was an astonishing year for the South West market, with 2016 take-up being the strongest year on record. Take-up reached 4.3 million sq ft which was over three and half times 2015 take-up and double the long-term average.

■ There were three deals above 500,000 sq ft in 2016 most notably The Range which acquired land to build 1.1 million sq ft at Central Park, Bristol. Lidl acquired a 500,000 sq ft unit and a 600,000 sq ft unit in Exeter and Bristol respectively.

■ The market was very liquid in 2016 with 14 deals being recorded which was the highest on record and more

than double the long term average. The lack of Grade A units available has meant that 64% of the deals in 2016 involved second hand units.

■ High street retail occupiers have accounted for the highest amount of space transacted at a 27% market share. This figure is skewed by The Range deal at Central Park. The third party logistics business sector accounted for the highest proportion of deals recorded at 36%.

■ There was only one unit speculatively developed in the South West in 2016 which was Howard Tenens' Bristol Gateway which comprised of 169,000 sq ft. This unit was let immediately after practical completion to C M Downton highlighting the strong demand in the South West for modern specification units.

Development Pipeline

■ There is currently 441,600 sq ft under construction across three units, all due for delivery in 2017. Mountpark are developing two units at Mountpark Bristol totalling 199,500 sq ft and 126,500 sq ft, both are due to reach practical completion in Q2 2017. Isec will deliver a 115,600 sq ft unit at Horizon 38 which will achieve practical completion in Q3 2017.

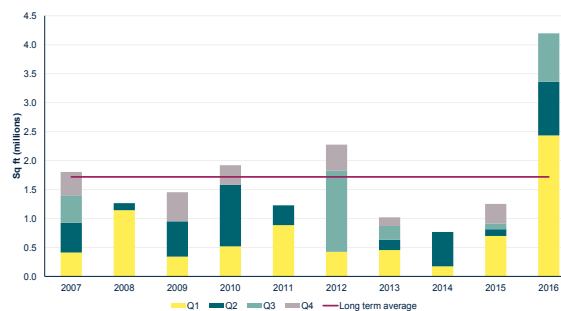
▼ Bristol Gateway



TABLE 6
Key Stats

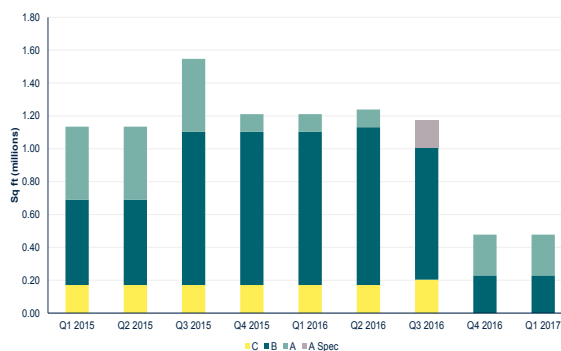
	Stats	Yr/Yr change
Take-up	4.3m sq ft	↑ 359%
Supply	0.48m sq ft	↓ 61%
Development Pipeline	0.41m sq ft	↑ 161%
Quoting Grade A Rent	£8 per sq ft	↑ 10.3%
Vacancy Rate	1.7%	↓ 656bps

FIGURE 18
Take-up



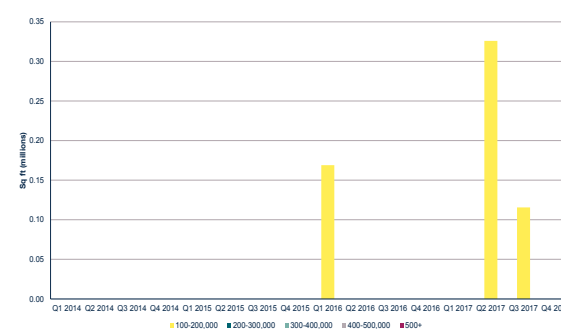
Source: Savills Research

FIGURE 19
Supply by grade



Source: Savills Research

FIGURE 20
Development Pipeline



Source: Savills Research

East of England

“For the third year running we have seen above average take-up in the market. The East of England offers occupiers a cost effective distribution location, close to major arterial roads and the East Coast ports.” William Rose, Director: Agency

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TABLE 7
Key Stats

	Stats	Yr/Yr change
Take-up	1.3m sq ft	↑ 11.5%
Supply	0.74m sq ft	↓ 35%
Development Pipeline	0m sq ft	↔
Quoting Grade A Rent	£5.25/sq ft	↑ 5%
Vacancy Rate	4.2%	↓ 224 bps

Supply

Supply in the East of England continues to fall and currently stands at 738,062 sq ft across four units. This represents a 35% decrease in available supply from Q4 2016.

There is only one Grade A unit available which is Logicor's Kingston 189 where 189,697 sq ft is available, this is however under offer. Across the East of England, two of the three units available are located in Peterborough which highlights the lack of supply in the other markets within the region.

Take-up

2016 was a strong year for the East of England market with 1.3m sq ft transacted. This is 11.5% up on 2015 total and 112% above the long-term average.

Land deals by MMUK and IKO have ensured that there is currently over 1m sq ft coming out of the ground at Alconbury Weald in Huntingdon. These have been build to suit deals as the lack of supply in the market has meant that occupiers who require large new facilities will have to go down the build to suit route.

Build to suit deals accounted for 50% of deals recorded in 2016. This has been a prevalent theme throughout the East of England region as build to suit deals have accounted for over 50% of the deals recorded twice since 2008. The other notable build to suit deal in 2016 was Kingsley Beverage acquiring 150,000 sq ft at Peterborough Gateway.

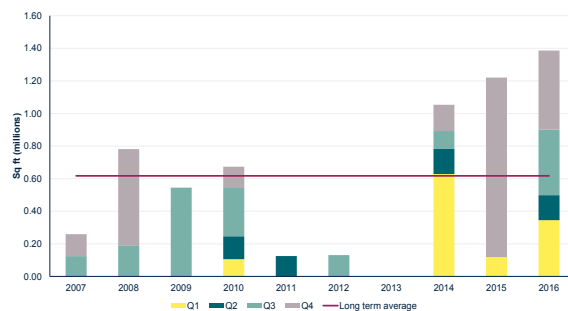
The lack of speculative development in the market has meant that no new units have been let in over five years.

In 2016 the wholesale business sector was the most active, accounting for 38% of space transacted. Historically the food production sector has been the most active since 2007; the sector has acquired 979,487 sq ft in this time period.

Development Pipeline

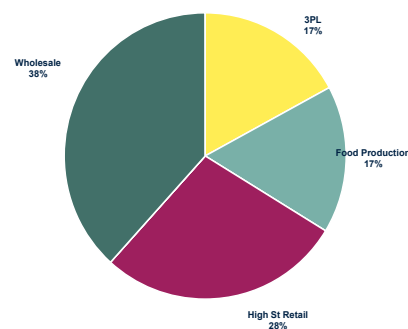
There are no units being speculatively developed in the market. This will result in supply constraints continuing to hamper take-up from further increasing and build to suit options as the only viable option for occupiers who are looking to secure new warehouse space.

FIGURE 21
Take-up



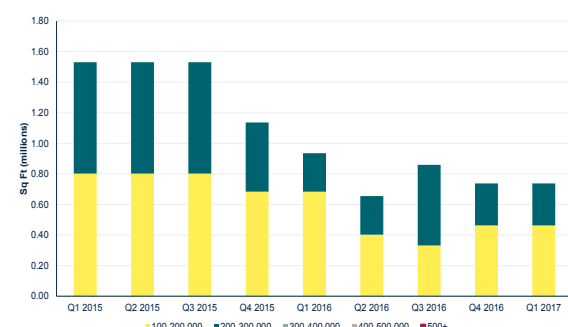
Source: Savills Research

FIGURE 22
Take-up by occupier type

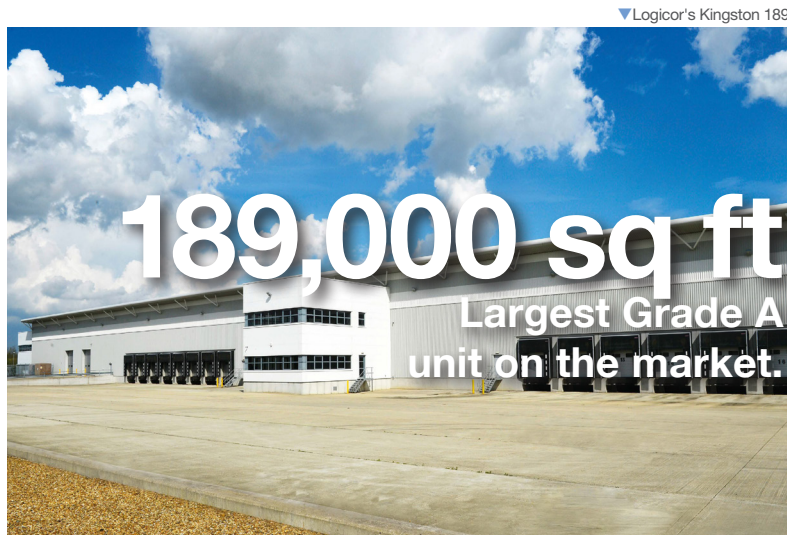


Source: Savills Research

FIGURE 23
Take-up by size range



Source: Savills Research



National Investment

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■ A surge in investment volumes in the fourth quarter of 2016 saw £871m transacted across 43 separate transactions. This ensured that total investment volumes for the year reached £2.6bn made up of over 200 separate transactions, a small decrease of 9.4% year-on-year.

■ For the fourth consecutive year, over £2.5bn has been transacted meaning that the long term average investment volume has increased from £1.2bn to £1.7bn, with 2016 being 53% above the new long term average.

■ Once more, Tritax were the most active investors deploying £326m in the last quarter alone, accounting for 37% of the market.

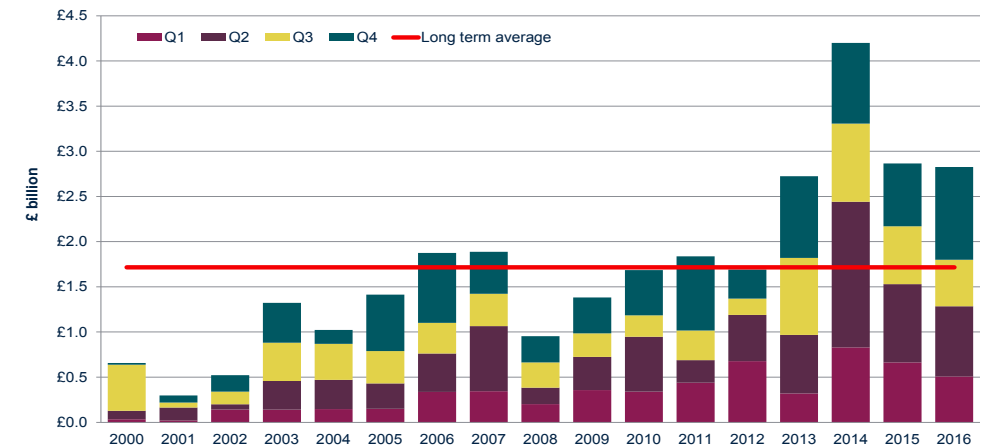
■ Driven by structural change in the sector and continued demand from online retailers the sector proved to be extremely liquid, and buoyant, in the aftermath of Brexit.

■ The Savills Prime Yield has moved out 50bps in the last twelve months, now standing at 5%, however activity in the fourth quarter has placed a downward pressure on this once again. The spread between prime and secondary has narrowed to 137bps, as demonstrated in figure 25.

■ Increasingly, logistics is seen as a global asset class, which is demonstrated by the fact that overseas investors have accounted for a fifth of transactional volumes in 2016.

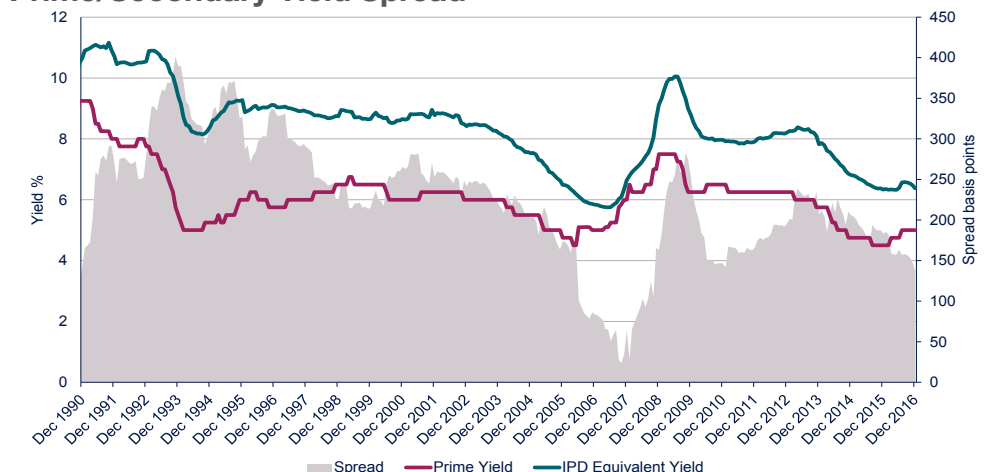
.....
 “For the last two years overseas investors have accounted for just 20% of the market. Given the consistent strength of the occupational market, and the current situation regarding the value of sterling, we expect this proportion to increase”
 James Williams Director:
 Investment

FIGURE 24
National logistics investment volumes



Source: Savills/Property Data

FIGURE 25
Prime/Secondary Yield Spread



Source: Savills/MSCI

▼ Howdens units Warth Park

£101.8m

Forward funding of two Howdens units by Tritax

Build Cost & Programme

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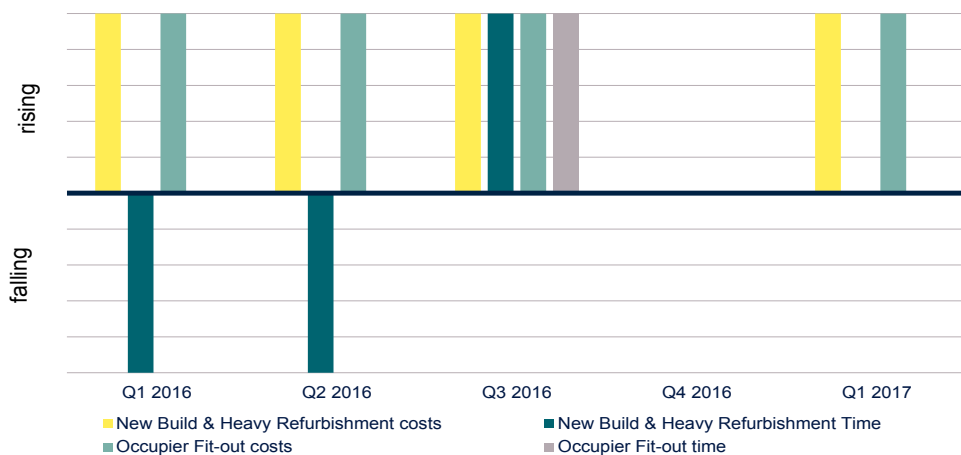


■ The latest indicators from the recently launched Savills Programme and Cost Sentiment Survey (S.P.E.C.S) demonstrate that build costs and programme delivery time scales have had an upward pressure throughout 2016.

■ Given the fact that occupier demand is so strong and skewed towards the build to suit market, along with strong developer demand for speculative units. Savills Building & Project Consultancy are seeing build costs increases in the following size ranges; 100,000-200,000 sq ft at £42-£48/sq ft and 400,000-600,000 sq ft at £33-36/sq ft.

■ Into 2017 we expect this upward pressure on costs to increase as the price of imported raw materials rises and a lack of contractor availability increases labour costs.

FIGURE 26 **Build cost and timescale sentiment**



Source: Savills SPECS

OUTLOOK

2017 to see above average take-up

■ In our post Brexit research paper entitled "Reasons to be cheerful....?" Savills research suggested that three key areas to keep a watching brief on were retailer Christmas performance, the automotive sector and Government infrastructure investment. As these indicators would be leading indicators for the health of the logistics market.

■ On the whole, the Christmas period was a strong one with many retailers reporting strong sales growth on a like-for-like basis. Online retail stands to be the net beneficiary as in November the ONS recorded the highest proportion of online sales ever, at 18.3% of the total market.

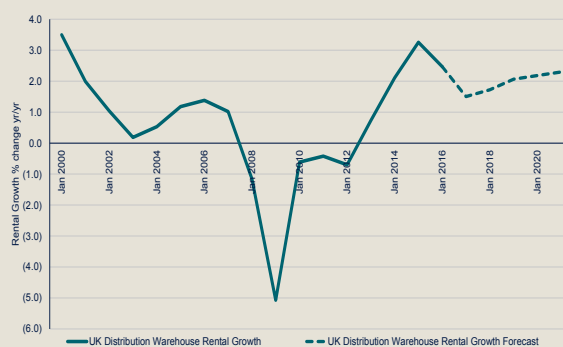
■ Quite how retailers react to this remains to be seen as there does not seem to be a one size fits all approach. Indeed, in the short-term supply may increase slightly, especially given Tesco's recent announcement that they will close a number of distribution centres across the country to gain greater efficiencies.

■ With a number of large deals currently awaiting planning permission, and continued strong demand, we are forecasting take-up for 2017 to remain above the long term average, whilst the Nationwide vacancy rate remains around 6%.

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FIGURE 27 **Rental Growth Forecasts**



Source: Savills Research

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