

Big shed briefing



DIRFT, where Prologis, advised by Savills, have leased a 840,000 sq ft build-to-suit unit to Royal Mail Group.

Record take-up at 50.1m sq ft • Vacancy fallen to 5.70% • 8.19m sq ft development pipeline

80%

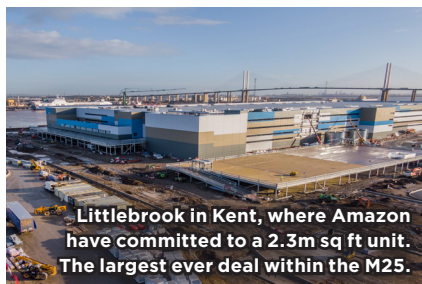
Take-up in 2020, 80%
higher than the
long-term average

Nationwide overview

Record breaking year for take-up has reduced vacancy rates to 5.70%



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Since our last market update in July 2020, it seems that in many respects we have come full circle as restrictions have been lifted only to be reintroduced as Covid-19 cases continue to rise in the cold winter months. As before, the challenges in a personal and professional capacity are unprecedented, and the clear focus remains on staying safe and saving lives. What has become increasingly clear, just from keeping abreast of the news flow over the Christmas period, is that the logistics sector has never been so vital to everyone's day-to-day lives. Firstly, online retail continues to be many people's lifeline to keeping lives as close to normality as possible and, whilst we await official figures from the ONS, data from IMRG showed that online retail was 51% higher in early December 2020 when compared with December 2019. Secondly, we saw how quickly events at our border caused supply chain delays and the return of food rationing by a number of the main supermarkets in the run-up to Christmas. Businesses will be relieved about the fact that a trade deal was agreed covering our future trading relationship with the EU, but it should be noted that this trade deal creates barriers to trade, rather than removing them. Therefore, as the dust settles, it is possible that we will see companies look to restructure their supply chains to gain greater operational efficiencies. Thirdly, as the world prepares to roll out a number of Covid-19 vaccines, there has been much discussion as to the suitability of our temperature-controlled supply chain. In reality, we expect there to be little impact on the big box sector when it comes to vaccine distribution, but all of the aforementioned factors are combining to give the logistics sector a profile in the mainstream which has the potential to promote the sector to policymakers for years to come.

Take-up

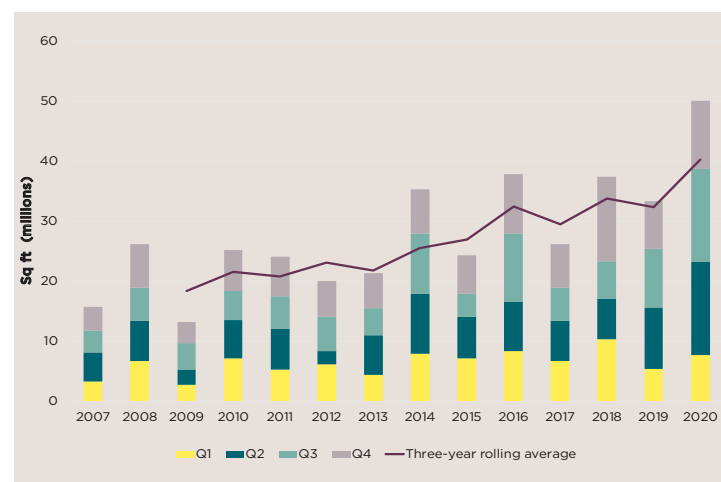
Whichever metric we use, 2020 breaks all previous records with new leases signed for 50.1 m sq ft of warehouse space, 12.7m sq ft ahead of the previous record set in 2016 and also comprising 165 separate transactions, breaking the previous record of 163 set in 2014. Whilst it is important to say we have seen a large proportion of space leased to Amazon

(25%) and a number of leases on terms less than five years (12%), take-up would still break new records even if Amazon and short-term deals were removed from our time series. Another key factor of 2020 has been the surge in take-up for units over 500,000 sq ft with 25 deals recorded, making it the highest year since our records began and also more than the previous two years combined. Given the number of requirements currently in the market for units over 500,000 sq ft, this is a trend we expect to continue into 2021.

Supply and Pipeline

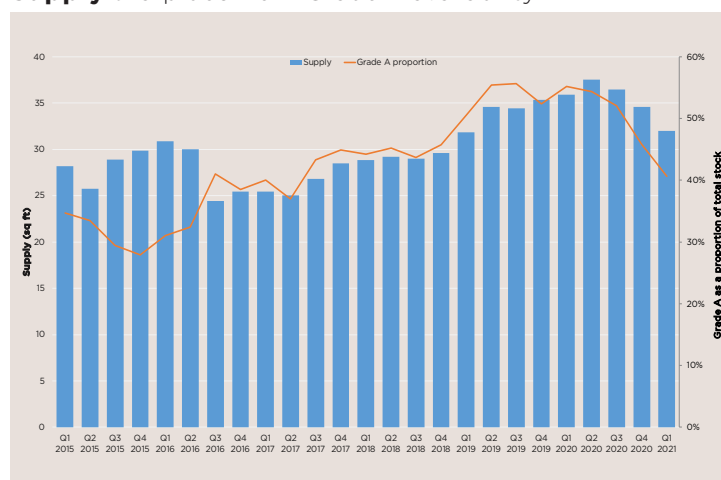
Over the last 12 months, supply has fallen by 3.8m sq ft to 32m sq ft reflecting a vacancy rate of 5.70%, which has been aided by the fact that we have seen 10.8m sq ft of deals for space developed speculatively, the highest level ever recorded. The strong levels of take-up have rapidly depleted Grade A supply which now stands at 12.9m sq ft accounting for 41% of total supply, its lowest level since 2017 and a fall from 55% of total supply just 12 months ago. We are currently tracking 8.19m sq ft of speculative development due to reach PC in 2021 which given current take-up levels will largely maintain supply and vacancy broadly at its current level.

Take-up strongest year ever recorded



Source Savills Research

Supply sharp decline in Grade A availability



Source Savills Research

📈 Take-up in 2020 has been the best on record reaching 8.26m sq ft. The region is now severely undersupplied with just 0.61 years left given the five-year annual average take-up. 📉

London and the South East

Vacancy rate drops to 3.49%, the lowest level since 2016



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Supply

2020 has seen the strongest level of transactional activity ever recorded which has reduced the level of supply to 4.19m sq ft across 26 units, a 27% decrease on the level seen at the beginning of 2020.

Occupier preference towards Grade A space has shifted the quality balance of the available supply. Now, of the space on the market, 55% is classified as Grade A compared to 71% at the end of H1 2020. The largest unit on the market is Panattoni Park Luton 346, providing 346,132 sq ft of speculatively developed space.

The supply is skewed towards the smaller size bands, by unit count, 81% of the available stock is within the 100,000-200,000 sq ft size band and 12% is within the 200,000-300,000 sq ft size band. The remaining two units are within the 300,000-400,000 sq ft size band.

2020 continues to see a significant increase in freehold demand for large sites for the Data Centre and Film sectors, accounting for c.8% of take-up in 2020. These are removing Industrial & Logistics sites from the future development pipeline.

Key statistics

	Stats	yr/yr change
Take-up	8.26m sq ft	↑ 11%
Supply	4.19m sq ft	↓ 27%
Development Pipeline	2.72m sq ft	↑ 101%
Quoting Grade A Rent	£7.75-£20.00/sq ft	no change
Vacancy rate	3.49%	↓ 151bps

Source Savills Research

Take-up

2020 take-up totalled 8.26m sq ft, a 21% increase above the five-year average for the region and 160% above figures seen 10 years ago. The largest deal was Amazon committing to a 2.3m sq ft unit at Littlebrook in Kent.

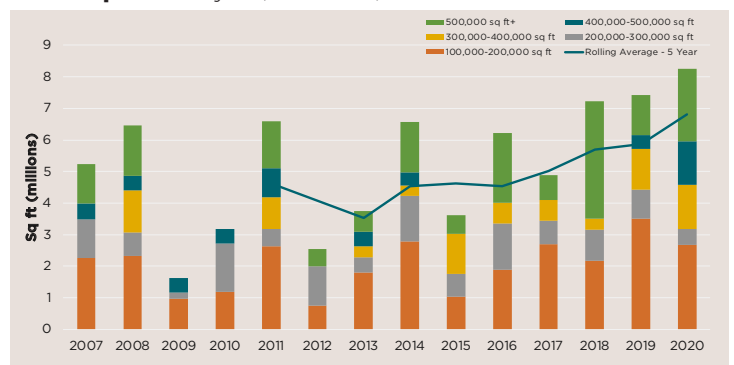
Occupier preference continues to lean towards high-quality Grade A space totalling 87% of all take-up. Build-to-suit space dominated accounting for 52% of space transacted, followed by speculatively developed space at 28% with the remaining being second-hand space.

2020 saw 29 separate deals, a 19% decrease on 2019, but 18% above the long-term average. By unit count, 66% were within the 100,000-200,000 sq ft size band, 7% in the 200,000-300,000 sq ft size band, 14% in the 300,000-400,000 sq ft size band, 10% in the 400,000-500,000 sq ft, and 3% above 500,000 sq ft. With fewer transactions in 2020, the average deal size has increased substantially from c. 205,000 sq ft seen last year to c.285,000 sq ft in 2020.

Development Pipeline

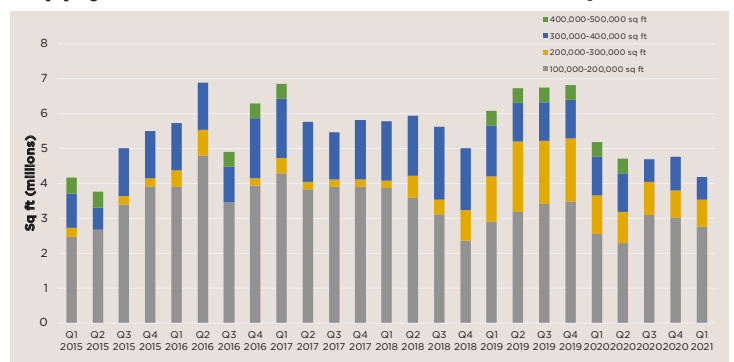
Developers have responded to the lack of supply with 16 units under construction totalling 2.72m sq ft, a 101% rise from the start of last year. Eight are in the South East at 1.6m sq ft and eight within the M25 totalling 1.12m sq ft. There are 12 units under construction in the 100,000-200,000 sq ft size band, three in the 200,000-300,000 sq ft size band, and a single unit in the 300,000-400,000 sq ft size band.

Take-up record year, however, 40% is Amazon



Source Savills Research

Supply at lowest level since 2015, 3.49% vacancy rate



Source Savills Research

2020 has been a record year of take-up reaching 12.03m sq ft, 30% above the previous high watermark. The region continues to cement its position as the key strategic logistics location in the country. As a result, developers must ensure there is enough stock in the pipeline to meet future demand.

East Midlands

Strong levels of take-up leaves just 0.69 years in supply



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Magna Park South, in Lutterworth, has recently reached practical completion providing over 1m sq ft.



Supply

The record levels of take-up have caused the supply of units over 100,000 sq ft to decrease. Currently, there are 26 units available totalling 5.75m sq ft representing an 8% decrease from this time last year. The strong level of activity continues to keep the regional vacancy low at 5.16% which, under normal circumstances, would be expected to trigger rental growth. Using the five-year annual average take-up there is just 0.69 years worth of supply in the market.

The current supply is skewed towards the smaller sized units with 73%, by unit count, being within the 100,000-200,000 sq ft size band. There is a single unit available within the 200,000-300,000 sq ft and the 300,000-400,000 sq ft size band, two within the 400,000-500,000 sq ft size band, and three over 500,000 sq ft.

The recent addition of over 1m sq ft of Grade A speculatively developed space at Magna Park Lutterworth South has shifted the proportion of Grade A supply in the region. Now, 62% of the available supply is

considered Grade A, 22% is Grade B and 16% Grade C.

Take-up

A record 12.03m sq ft of space was transacted in 2020 across 32 transactions with demand coming from a diverse range of occupiers. The most active sectors, however, were 3PLs who took 46% of the figure compared to the long term average of 17%. This was followed by grocery retailers and online retailers which accounted for 13% and 12% of the total take-up respectively. The remaining 29% of take-up was from a range of sectors.

2020 has seen nine deals above 500,000 sq ft, 350% above the annual average of two deals per year. Furthermore, the rising occupier demand for larger units is shown in the average deal size which has increased by over 27% in the past 10 years to stand at c. 375,865 sq ft.

Build-to-suit transactions continue to dominate the market accounting for 44% of take-up followed by 25% being Grade A speculatively developed and 31% being second-hand quality.

Development Pipeline

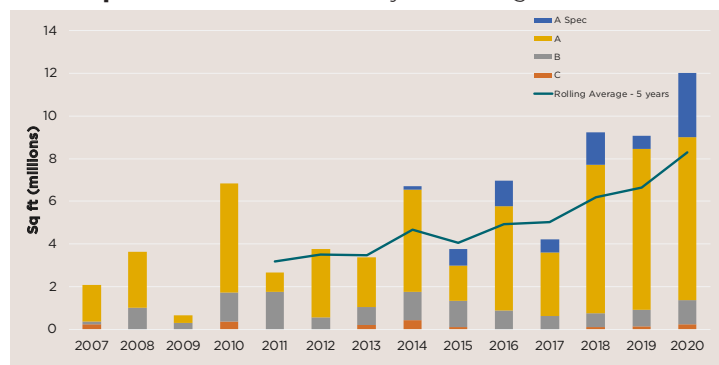
Developers have responded to the increased transactional activity and lack of supply. There are now eight units under construction which total 1.95m sq ft.

Key statistics

	Stats	yr/yr change
Take-up	12.03m sq ft	↑ 38%
Supply	5.75m sq ft	↓ 8%
Development Pipeline	1.95m sq ft	↑ 25%
Quoting Grade A Rent	£6.95/sq ft	↑ 3%
Vacancy rate	5.16%	↓ 58bps

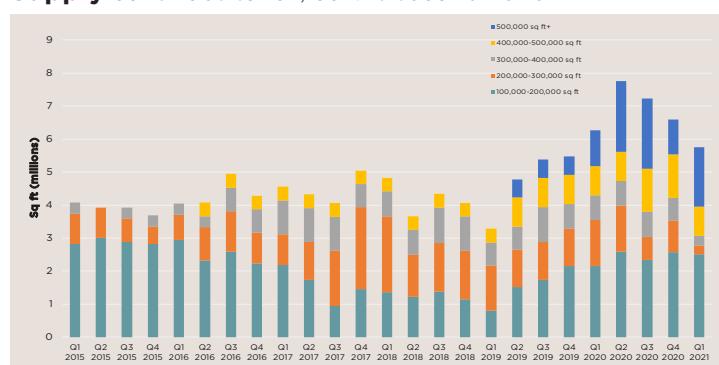
Source Savills Research

Take-up is 46% above the five-year average



Source Savills Research

Supply continues to fall, 59% is second hand



Source Savills Research

“It’s great news that take-up is returning to higher levels, particularly given the region’s historic dominance by manufacturing and automotive companies who have been largely absent from the market. Focus should now turn to replenishing Grade A stock which is in short supply.”

West Midlands

Record-breaking take-up after two slower years



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Supply

The level of supply within the region currently stands at 6.54m sq ft across 36 units, representing a 9% decrease from this time last year. Using the five-year average annual take-up there is just 0.54 years worth of Grade A supply in the region. Of the currently available stock, 36% is considered Grade A quality, 31% is Grade B and 33% Grade C. It is, however, worth questioning the suitability of Grade C stock for modern logistics operations considering that just 3% of take-up over the last two years has been for Grade C units.

When analysing the market by size, 72% are within the 100,000-200,000 sq ft size band (30% are Grade A), 19% between the 200,000-300,000 sq ft size band, 3% within the 300,000-400,000 sq ft size band, 6% 400,000-500,000 sq ft. The largest unit on the market is Acton Gate in Stafford totalling c. 475,000 sq ft of Grade B second hand space.

Take-up

Take-up in H2 2020 outperformed expectations reaching 5.61m sq ft bringing

the 2020 total to 6.61m sq ft, 65% above take-up in 2019. Demand came from a variety of sectors; however, online retailers and 3PLs accounted for the highest proportion of take-up at 29% each. This is positive news demonstrating the strength of demand in the market despite the lull in requirements from the historically prominent aerospace and automotive sectors.

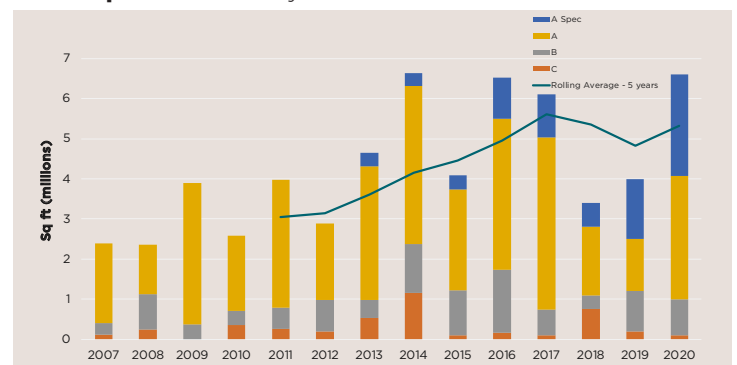
This year, in terms of deal count, we have seen 69% fall within the 100,000-200,000 sq ft size range, 16% within the 200,000-300,000 sq ft range, 3% within the 300,000-400,000 sq ft, 6% between the 400,000-500,000 sq ft size band and 6% above 500,000 sq ft. The largest deal in 2020 was Pets at Home committing to a 670,000 sq ft built-to-suit unit at Redhill Business Park in Stafford, for a 20-year term.

Occupier preference continues to revolve around better quality units with 85% of space transacted in 2020 being classed as Grade A, 13% was classified as Grade B, and the remaining Grade C.

Development Pipeline

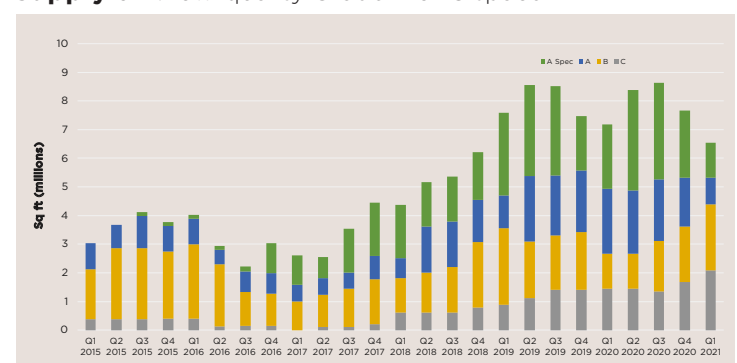
Six units are currently under construction within the West Midlands totalling 808,924 sq ft. All of these units are within the 100,000-200,000 sq ft size band aligning with occupier demand. Although this will help relieve some supply constraints, we are seeing increased interest in larger units, as evidenced by larger deals done in Q4 2020 of 300,000 sq ft+.

Take-up second-best year ever



Source Savills Research

Supply 67% low-quality Grade B or C space



Source Savills Research

Key statistics

	Stats	yr/yr change
Take-up	6.61m sq ft	↑ 65%
Supply	6.54m sq ft	↓ 9%
Development Pipeline	0.81m sq ft	↓ 46%
Quoting Grade A Rent	£6.95/sq ft	no change
Vacancy rate	7.73%	↓ 80bps

Source Savills Research

“The strong level of take-up has caused the amount of supply to fall to 4.07m sq ft; this leaves the region with 0.98 years of supply. The current supply shortage and minimal development pipeline will keep vacancy rates low and push on prime rents.”

North West

Vacancy rate falls to 5.19%, the lowest level ever recorded



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Haydock 525, the largest speculative deal since 2010 comprising c. 525,000 sq ft.

Supply

Given the current global situation, the market dynamics in the North West are incredibly positive. The supply of warehouse space has decreased by over 29% during the last 12 months to currently stand at 4.07m sq ft across 20 units. Using the five-year average annual take-up of 4.27m sq ft, this equates to just 0.98 years worth of supply in the region.

Occupier preference towards Grade A stock has shifted the quality balance of the supply, now just 33% of the available stock is Grade A whilst 56% is Grade B and 11% Grade C.

In terms of unit count, the supply is heavily skewed towards the smaller size bands, 65% are within the 100,000-200,000 sq ft size band, 15% within the 200,000-300,000 sq ft band, 10% within the 300,000-400,000 sq ft and 10% within the 400,000-500,000 sq ft. There are no units above 500,000 sq ft on the market in the region.

Take-up

Take-up in 2020 reached 5.16m sq ft across 25 transactions making it the best year on record. This is 52% above 2019 and 38% above the long-term average.

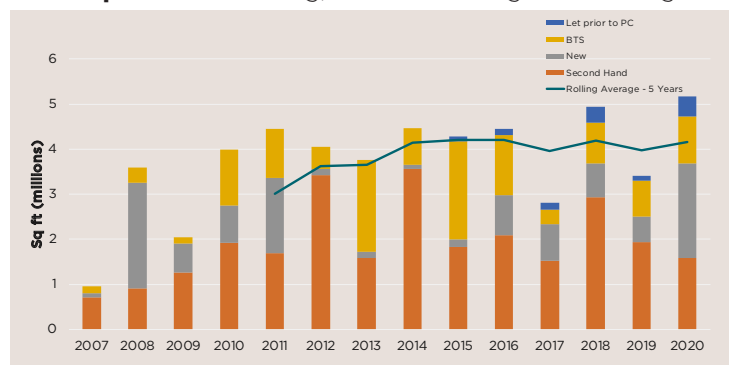
Adhering to recent trends, demand has centred around new speculatively developed space which accounted for 50% of take-up. Built-to-suit space accounted for 20% of take-up, and second-hand space accounted for 30%. Occupier preference continues to revolve around better quality units with 71% of space transacted being of Grade A quality. As the supply of Grade A space diminishes, we envisage a decline in incentives offered along with sustained rental growth.

In terms of deal count, 72% of transactions involved units within the 100,000-200,000 sq ft size band, 8% in the 200,000-300,000 sq ft size band and 300,000-400,000 sq ft size band, 4% in the 400,000-500,000 sq ft size band and 8% above 500,000 sq ft.

Development Pipeline

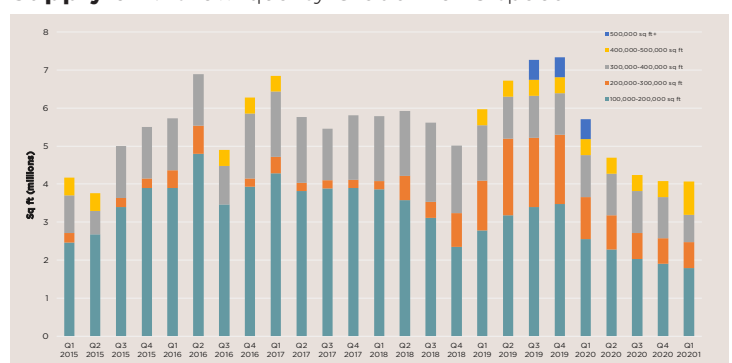
There are currently six units being developed totalling 1.26m sq ft. Two are within the 100,000-200,000 sq ft size band and four within the 200,000-300,000 sq ft band.

Take-up record-breaking, 38% above long-term average



Source Savills Research

Supply 67% is low-quality Grade B or C space



Source Savills Research

Key statistics

	Stats	yr/yr change
Take-up	5.16m sq ft	↑ 52%
Supply	4.07m sq ft	↓ 29%
Development Pipeline	1.26m sq ft	↑ 385%
Quoting Grade A Rent	£7.25/sq ft	no change
Vacancy rate	5.19%	↓ 223bps

Source Savills Research

🏡 2020 take-up has been the strongest ever recorded at 10.35 m sq ft, 111% increase above the long-term average. Moreover, just 8% of take-up in 2020 has involved deals with lease lengths below five years, highlighting the continued strength of the market despite Covid-19. 🏡

Yorkshire and the North East

Best ever year for take-up, 220% above figures seen 10 years ago



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Supply

The level of supply within the wider region has remained steady. Currently, there is 4.6m sq ft available through 23 units, representing a 1% decrease in the last 12 months.

The vacancy rate in the region has decreased by 65 basis points in the last 12 months to stand at 5.74%. Using the five-year annual average take-up, there is now just 0.69 years worth of supply in the region.

Strong levels of transactional activity involving Grade A space has considerably reduced the amount in supply, 40% of vacant space is now classed as Grade A down from 50% at the start of last year. Furthermore, 41% of all space is second-hand Grade B and 19% Grade C.

By unit count, the supply is skewed towards the smaller size bands with 65% being between 100,000-200,000 sq ft, 17% within the 200,000-300,000 sq ft size band and 9% in both the 300,000-400,000 and 400,000-500,000 sq ft size bands.

Take-up

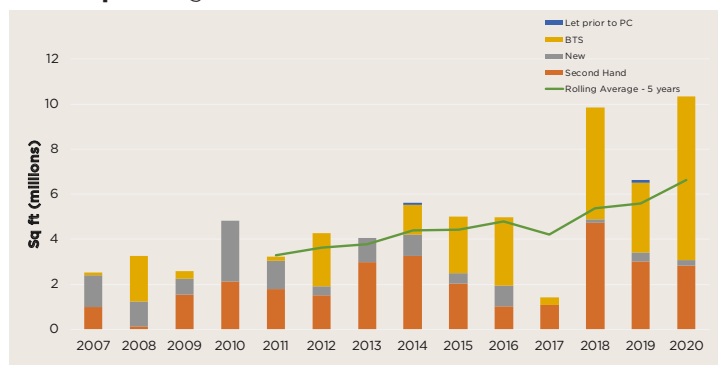
Following the two strongest years of take-up ever recorded in the market, 2020 has outperformed expectations with take-up totalling 10.35m sq ft through 21 transactions representing a 56% increase on 2019.

Of the space transacted, 70% was build-to-suit, 27% second hand and 3% new speculatively developed space. The largest deal in 2020 was Amazon committing to 2.5m sq ft at Follingsby Max in Gateshead. In terms of deal count, 52% were within the 100,000-200,000 sq ft size band, 14% within the 300,000-400,000 sq ft size band, 5% within the 400,000-500,000 sq ft size band and 29% in the 500,000 sq ft+ size band. The average deal size in the region has increased substantially in the last 10 years from 190,442 sq ft to 492,667 sq ft in 2020.

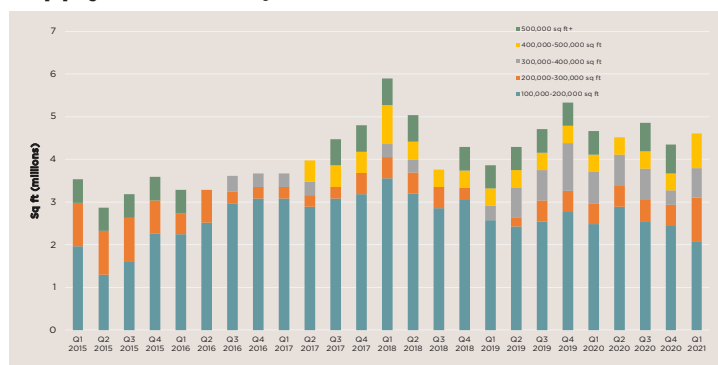
Development Pipeline

There are currently four units under construction totalling 1.09m sq ft. The largest unit is Wakefield 515 in Knottingley totalling 515,000 sq ft.

Take-up strongest ever recorded



Supply dominated by smaller-sized units



Key statistics

	Stats	yr/yr change
Take-up	10.35m sq ft	↑ 56%
Supply	4.6m sq ft	↓ 1%
Development Pipeline	1.09m sq ft	↑ 45%
Quoting Grade A Rent	£6.25/sq ft	↑ 4%
Vacancy rate	5.74%	↓ 65bps

Source Savills Research

“Take-up in 2020 has outperformed expectations. We’ve seen a diverse range of tenants acquire space, highlighting the strength of the market. Wales continues to see an increase in activity due to competitive pricing.”

South West & Wales

Only 1.24 years of supply left in the market



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Supply

The level of supply in the market has remained steady over 2020 currently sitting at 3.79m sq ft across 17 separate units, an 11% increase on last year. There is now just 1.24 years worth of supply in the market given the five-year average annual take-up. Furthermore, with c.415,000 sq ft currently under offer and only one unit under construction, we envisage the level of supply and vacancy rate throughout the region, decreasing in the short-to-medium term. At just over 1m sq ft, Imperial Park in Newport continues to be the largest unit on the market.

The quality balance is heavily skewed towards lower-quality units with just 12% of available space classed as Grade A, 56% is Grade B, and 32% Grade C. Additionally, by unit count, the supply continues to be dominated by smaller units with 71% being within the 100,000-200,000 sq ft size band. There are three units available above 300,000 sq ft, all of which are of second-hand quality.

Take-up

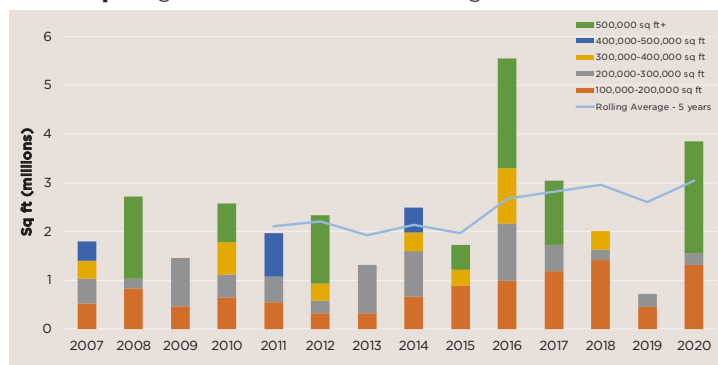
Take-up in the South West and Wales market totalled 3.86m sq ft, a 433% increase on 2019, and 27% above the five-year average annual. Adhering to regional trends, deal volumes have centred around the smaller size bands with 82% of the deals by unit count being within the 100,000-200,000 sq ft range. There was a single deal within the 200,000-300,000 sq ft size band, and one above 500,000 sq ft. The largest deal this year was Amazon committing to a 2.3m sq ft unit at Panattoni Park Swindon.

Occupier demand continues to revolve around better quality units with 64% of deals involving Grade A units. Our data suggests that the lack of good quality supply is pushing occupiers towards the build-to-suit route as 76% of space transacted in 2020 was built-to-suit.

Development Pipeline

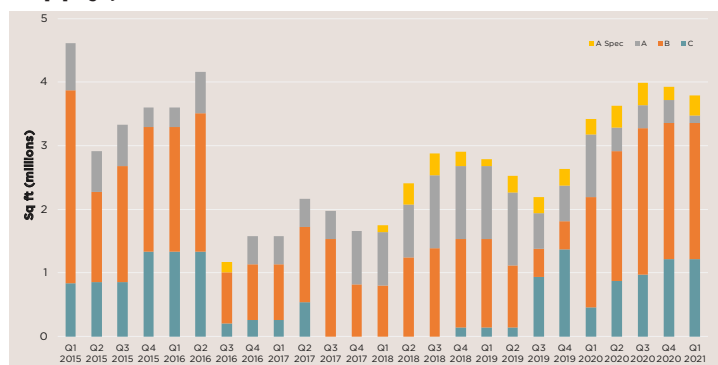
There is currently a single unit under construction in the wider region: Bristol 360, which is being developed by Mountpark. The unit will total 360,000 sq ft and is set to reach practical completion in H1 2021.

Take-up largest deal since records began



Source Savills Research

Supply just 12% is classified as Grade A



Source Savills Research

Key statistics

	Stats	yr/yr change
Take-up	3.86m sq ft	↑ 433%
Supply	3.79m sq ft	↑ 11%
Development Pipeline	0.36m sq ft	↓ 33%
Quoting Grade A Rent	£7.25/sq ft	no change
Vacancy rate	9.92%	↑ 241bps

Source Savills Research

“There is currently just 0.78 years worth of supply left in the East of England, and with no units currently under construction, we are starting to see reduced incentives and sustained rental growth.”

East of England

Second-best year for take-up, 75% was Grade A



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Supply

The supply of warehouse space over 100,000 sq ft in the region currently stands at 1.47m sq ft across four units. Whilst strong transactional activity has been pushing supply downwards, the recent marketing of 736 Kingston Park has meant that the overall level of supply is stable on an annual basis. Of the current supply, 92% is classed as Grade A compared to 15% six months ago. It should be noted that the aforementioned 736 Kingston Park accounts for half the total supply in the region and 50% of all Grade A space.

The available units are spread between all size bands with a single unit in each; however, there are no units available within the 400,000-500,000 sq ft band. Moreover, using the five-year annual average take-up, there is just 0.78 years worth of supply in the region.

Take-up

Take-up in 2020 has been the second-best year on record reaching 2.78m sq ft through

nine transactions, representing a 78% increase on 2019 and 48% increase above the five-year annual average.

In terms of deal count, 45% were between 100,000-200,000 sq ft in size, 22% 200,000-300,000 sq ft and 11% 300,000-400,000 sq ft. In 2020, 22% of transactions involved units over 500,000 sq ft equating to two transactions, this has been the most recorded in any year demonstrating the rising occupier demand for larger units.

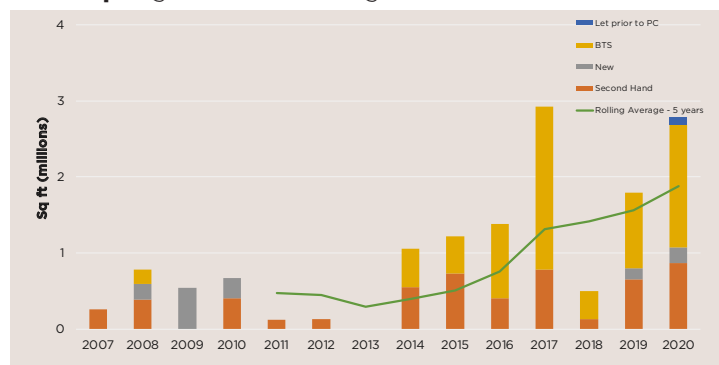
Occupier preference continues to centre around Grade A space accounting for 75% of transactions, 20% was Grade B and 5% Grade C. Built-to-suit space accounted for the largest proportion of take-up, reaching 58%, 31% involved second-hand space and the remaining 11% involved speculatively developed space.

Demand has stemmed from a diverse mix of tenants in 2020, food manufacturers accounted for the largest proportion of take-up at 34%, followed by 3PLs at 31% and online retailers at 13% with the balance spread evenly across other industries.

Development Pipeline

Following the delivery of 611,000 sq ft at Peterborough Gateway by Newlands, there are now no units under speculative development in the region. Current market conditions suggest that further speculative development will be well received.

Take-up region continues to grow national market share



Source Savills Research

Supply dominated by 736 Kingston Park Peterborough



Source Savills Research

Key statistics

	Stats	yr/yr change
Take-up	2.78m sq ft	↑ 55%
Supply	1.47m sq ft	no change
Development Pipeline	0 sq ft	↓ 100%
Quoting Grade A Rent	£6.00/sq ft	no change
Vacancy rate	5.88%	↓ 66 bps

Source Savills Research

“Take-up has risen to its highest level for five years as Covid-related requirements helped boost overall demand. The continued shortage of good quality space will further reduce incentives and push on rents.”

Scotland

Supply consists entirely of low-quality second-hand space



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Supply

The supply of warehouse space in Scotland for units larger than 100,000 sq ft currently stands at 1.6m sq ft across nine separate units.

Occupier demand for good quality space has shifted the quality balance of the available supply. There are no Grade A units available on the market, 59% of the available space, is classified as Grade B second-hand and 41% as Grade C second-hand space.

In terms of unit count, 67% are within the 100,000-200,000 sq ft size band, and 22% are within the 200,000-300,000 sq ft size band. There is a single unit within the 300,000-400,000 sq ft size band which is Mossend 1 at Eurocentral Scotland providing 320,000 sq ft of Grade B second hand space.

The slight increase in the available supply has pushed on the region's vacancy rate, which now stands at 7.43%, remaining well below the 12% mark needed for rents not to rise.

Take-up

Take-up in 2020 reached 1.02m sq ft across six separate transactions, representing a 55% increase on 2019 take-up and 17% above the five-year average.

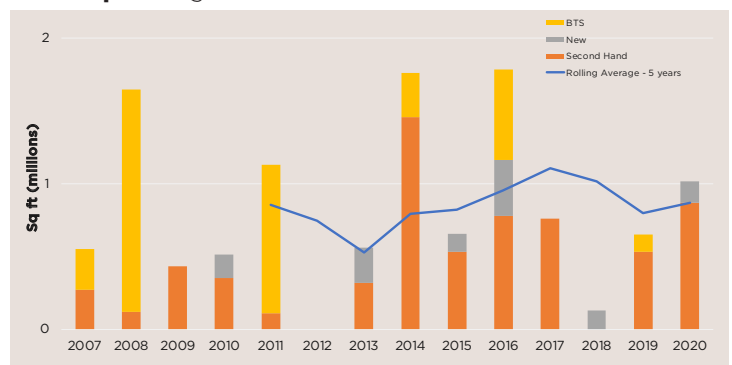
Adhering to historic trends, occupier demand has centred around the smaller-sized units. The 100,000-200,000 sq ft size band accounted for 72% of space transacted whilst the 200,000-300,000 sq ft size band accounted for 28% of space transacted.

Take-up in 2020 has revolved around second-hand space totalling 86% of all space transacted whilst 14% has been built-to-suit. Interestingly, Savills is seeing an increase in enquiries for built-to-suit opportunities due to the lack of good quality existing units. Occupier demands are increasing and lower-quality units are often unable to satisfy their requirements.

Development Pipeline

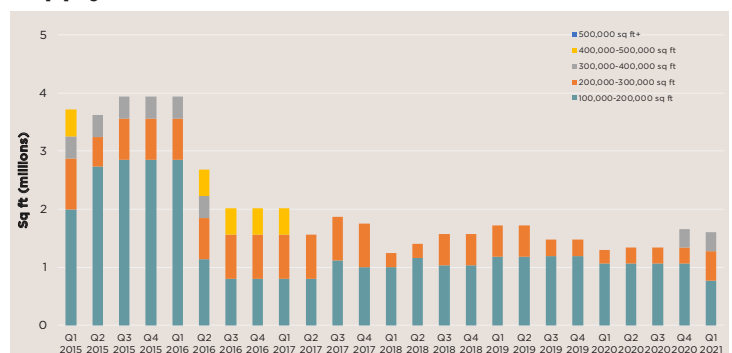
There are still no units being speculatively developed over 100,000 sq ft in Scotland. As take-up increases, we expect a stable or declining supply which will keep the vacancy rate low in the short-to-medium term and, in turn, push on rental growth. This has been evidenced in the recent letting of Titan at Eurocentral to the NHS at £6.25 psf.

Take-up strong due to Covid-19-related transactions



Source Savills Research

Supply consists of smaller second-hand units



Source Savills Research

Key statistics

	Stats	yr/yr change
Take-up	1.02m sq ft	↑ 55%
Supply	1.6m sq ft	↑ 23%
Development Pipeline	0 sq ft	no change
Quoting Grade A Rent	£6.25/sq ft	↑ 9%
Vacancy rate	7.43%	↑ 134bps

Source Savills Research

“The supply and demand dynamics of the occupier market will continue to drive strong competition for the best assets which in turn will drive strong investment volumes and downward pressure on yields for 2021.”

National investment

Record volumes and lowest ever yields



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Given the fact that capital markets all but ceased at the height of the initial lockdown it is remarkable therefore to report that investment volumes for distribution warehouses have reached £4.7bn, a 25% increase on 2019, a 121% increase on the long term average and shattering the previous high water mark of 2014 by over £500m. As it became clear how due diligence could be undertaken and rental growth assumptions underwritten, the market rebounded strongly with 76% of 2020 capital deployment occurring in the 2nd half of the year.

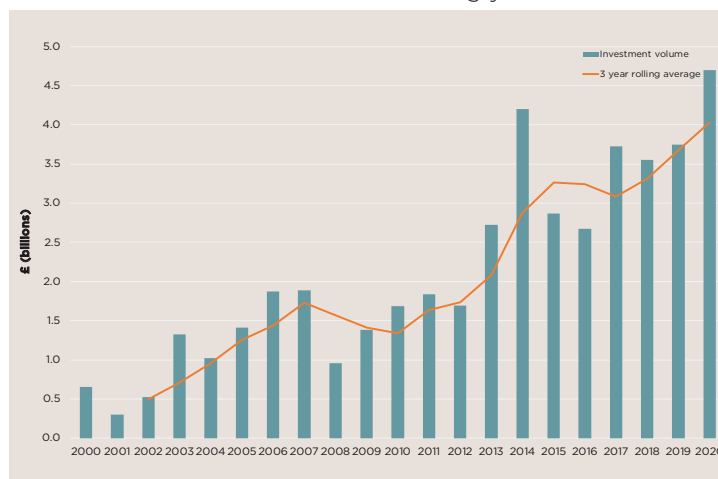
Whilst there have been notable single building transactions, the real story of the year has been the fact that 44% of the market has been dominated by the purchase of portfolios. Indeed 2020 saw the largest industrial deal in UK history, excluding corporate sales such as the purchase of Logisor by CIC, when Blackstone paid £473m for the Platform portfolio, a collection of assets sold by Prologis following their acquisition of Liberty.

A further key trend has been the change in purchaser profile with overseas investors accounting for 52% of the transaction volumes equalling 2017 as the joint highest proportion ever recorded. Proportionally, this has been at the expense of the UK institutions who accounted for just 18% of trades, down from 21% the year before. However in absolute terms UK institutions traded just over £1bn worth of stock which has been broadly stable for the last four years.

The sheer weight of capital and sentiment surrounding the market has seen further downward pressure on yields which now stand at 3.75% for both distribution warehouses and multi-let estates moving in 50bps and 25bps respectively in the last 12 months.

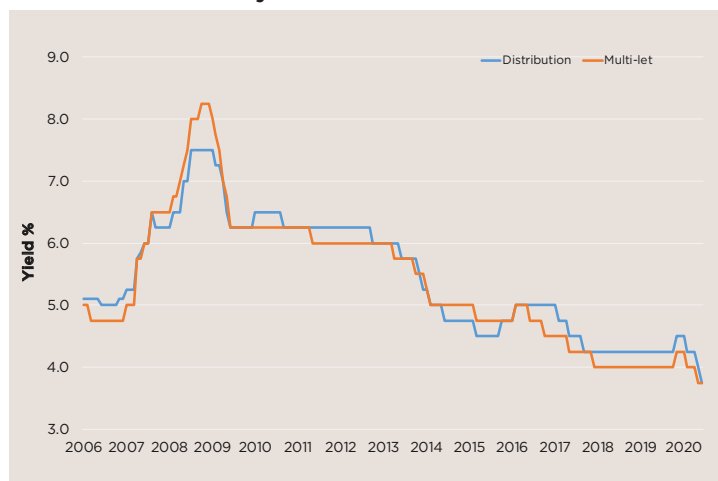
Moving forward we expect to see investor sentiment continue to remain strong around the UK logistics sector buoyed by the strong metrics from the occupier market which continues to outperform. With vacancy falling in most markets it is fair to assume continued rental growth which continues to underpin investor interest in the sector. Combined, these factors create conditions that will continue to put downward pressure on yields. However, previous issues regarding access to Grade A stock have not been removed and it is therefore likely that increasing numbers of investors may start to consider edging further up the risk curve and consider the forward funding of speculative development as a method to access the market at a discount.

Investment volumes record-breaking year at £4.7bn

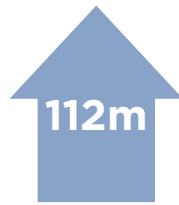


Source Savills Research

Prime investment yields lowest levels ever recorded



Source Savills Research



112m sq ft of
warehouse
requirements logged
by Savills in Q4 2020

2021 Outlook

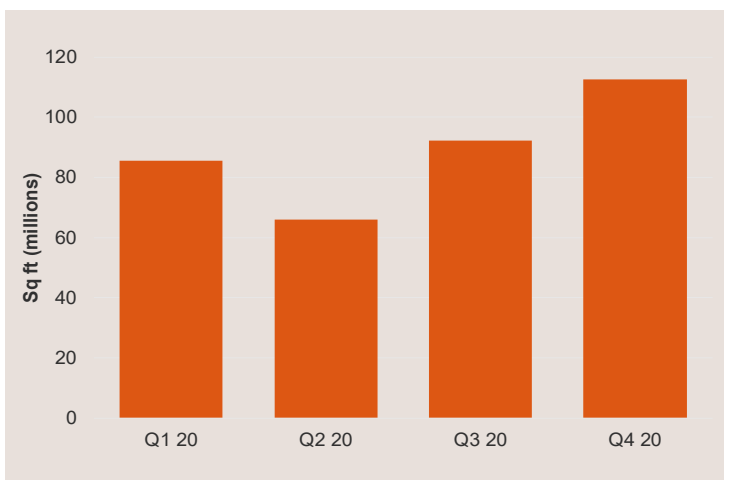
Where next after the record-breaking 2020?

Given the fact 2020 has seen all previous records broken when it comes to take-up, it would be reasonable to assume that 2021 will not achieve similar levels. However, in Q4 2020, Savills recorded 112m sq ft of requirements across the entire market, the highest level we have ever recorded. This would suggest that demand remains strong and that requirements have shifted from short-term crisis management to longer-term strategies. We expect that 2021 will see much more considered thinking from occupiers who need to adapt their supply chain and distribution models to the post-Covid world. This will entail greater thinking about future levels of online retail and the required inventory levels, but also the changing geographies in terms of customer delivery.

It is also likely we will see more evidence of intentions emerge from the manufacturing and automotive sectors. While not expecting a sharp rebound in warehouse demand initially, there is every likelihood that discussions around nearshoring move away from media construct to actual requirements for new space. Indeed,

recent research from Savills suggests that for every £1bn of investment by UK manufacturers triggers a ripple effect for 175,000 sq ft of additional warehouse space needed in the supply chain.

Requirements rise to highest level in Q4 2020



Source Savills Research



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BUILD COST AND PROGRAMME

The latest indicators from the *Savills Programme and Cost Sentiment Survey (S.P.E.C.S)* demonstrate that build costs and programme delivery time scales are expected to rise in 2021.

Following a brief period after the first lockdown, warehouse construction has rebounded sharply, both for build-to-suits and speculative units. This means that contractors are getting busier and, as a result, becoming more selective in

what they tender for whilst also passing on any cost rises to the end consumer. Indeed, December saw the news that British Steel planned to increase prices by £80 per tonne, amounting to an increase of 20% attributed, in the most part, to rising costs for raw materials.

The structural challenges related to process change to accommodate Covid-19, the availability of labour, Brexit and general capacity in the

construction system will all conspire in 2021 to increase build costs, but also add time to current programme durations. In turn, this has the potential to impact how quickly speculative units can be delivered into an already supply starved market.



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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