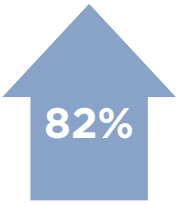
SPOTLIGHT
Savills Research

Big shed briefing

savills

EMDC 525 where Panattoni and AEW, advised by Savills, have leased 523,404 sq ft to Buy it Direct

H1 take-up 82% above long-term average ● Vacancy at 4.37% ● Supply falls at fastest pace ever



H1 2021 take-up above long-term average

Nationwide overview

Record levels of take-up and supply falling at its fastest ever rate

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DIRFT: Prologis have bought back the 404,000 sq ft former Arcadia unit and leased to Boohoo

As 2021 has progressed, it would seem that not a day goes by without reading another news story that relates back to the logistics sector. The property press continues to report information on new occupier requirements and transactions, which in turn creates opportunities for investors to deploy capital in the sector. In the wider market, issues remain about the availability of labour, with HGV drivers in particular currently being in short supply, and macro events such as the recent incident in the Suez Canal have shone a light on the fragility of global supply chains. These macro events are reinforcing the view that, in the medium term, supply chains will shift from operating 'just in time' to a 'just in case' model. Essentially this means holding more inventory than has previously been considered normal, which in turn means having access to more warehouse space.

Away from wider supply chain issues, online retail continues to play an important role in the continued health of the sector. Forecasts from Forrester suggest that, whilst fluctuations in the level of online retail should be expected as life returns to normal, overall, the pandemic has accelerated the growth that we were already experiencing. With Forrester suggesting that online retail will reach 37% of all retail sales by 2025, up from 20% before the pandemic, it is clear that more warehouse space will be required.

Over the next 18-24 months, however, the key issue will be one of warehouse supply. The availability of construction materials - an issue which we explore in more detail on the last page of this report - will mean that the pace of delivery for new speculative supply will not be able to keep up with demand. This could cause a bottle-neck effect as occupiers consider their options when looking to satisfy new requirements.

Take-up

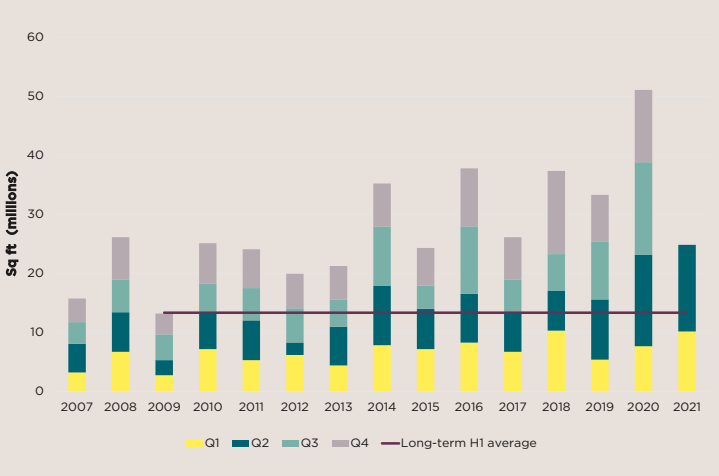
At the halfway point of 2021, 24.41m sq ft of warehouse space has been transacted, setting a new H1 take-up record in the process, 82% above the long-term H1 average of 13.4m sq ft. Examining the take-up trends in further detail shows some interesting trends which demonstrate a resilience and strength in the market, which may counter historical perceptions. Firstly, we have logged 107 separate transactions so far this year, which against the annual average of 113 transactions per year shows just how active the market is. Also, take-up for units over 500,000 sq ft has fallen back to 22% of the market, down from 44% of the market in 2020. In their place, demand for units between 100,000 and 200,000 sq ft has increased, accounting for 36% of the market, up from 27% in 2020. In the most part this has been driven by online retailers taking smaller parcel delivery style units, the sector alone has taken 2.8m sq ft of units under 200,000 sq ft in 2021. Given the number of large requirements in the market, we expect that the full-year figures will see this balance shift. Take-up from manufacturers has also risen, to account for 15% of take-up, up from 8% in 2020, correlating with recent notes from the ONS which show that manufacturing is increasing its share of UK GDP.

Supply and Pipeline

Given the strong levels of take-up, supply has fallen at its fastest pace ever and now stands at 25.08m sq ft, a fall of 6.93m sq ft since the start of the year. This fall in supply means that, at a nationwide level, vacancy now stands at 4.37%, the lowest level since Savills started recording the metric, and a fall of 221 bps in 12 months. Grade A supply now stands at 6.91m sq ft, again the lowest level we have ever recorded.

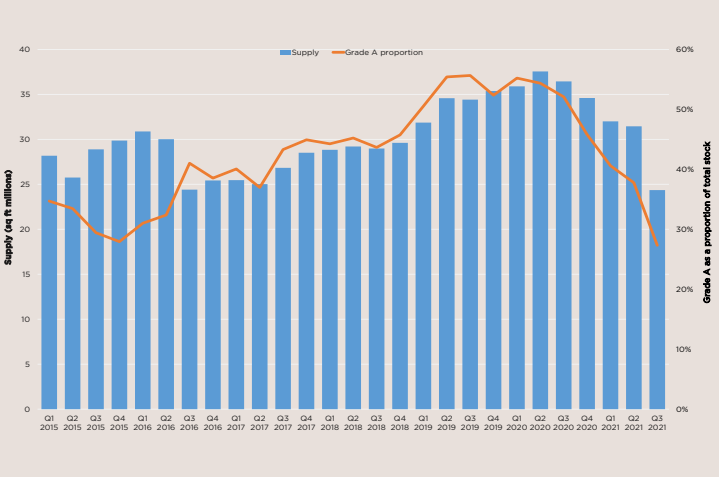
We are currently tracking 16.79m sq ft of speculative development which will add much-needed supply given the current levels of take-up and requirements.

Take-up strongest H1 performance ever recorded



Source Savills Research

Supply fastest decline in availability ever recorded



Source Savills Research

> H1 2021 take-up has reached 2.65m sq ft. We're currently tracking another 3.78m sq ft, which is due to complete in Q3 2021. It's set to be another strong year

London and the South East

Vacancy rate remains constrained at 3.95%

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Supply

The level of supply has remained broadly stable over the last year. Currently, supply is 4.87m sq ft across 33 units, which reflects a vacancy rate of 3.95%. This is the fourth lowest vacancy out of the regions.

Occupier preference towards better quality units in the past year has caused a shift in the quality balance of the available stock. Now, 41% of the supply is classified as Grade A compared to 71% last year. Smaller units make up the majority of the available stock - by unit count, 90% are within the 100,000-200,000 sq ft size band, 4% within the 200,000-300,000 sq ft band and 6% in the 300,000-400,000 sq ft size band. The largest unit on the market is Panattoni Park Luton 346, providing 346,132 sq ft of speculatively developed space.

Closer analysis shows that 38% of the supply sits in more peripheral locations. It should also be noted that 27% of the total supply is located in the Inner M25, meaning that just 1.97m sq ft of supply is in core South East locations.

Take-up

H1 2021 take-up totalled 2.65m sq ft, in line with the long-term H1 average. Savills is currently tracking c. 900,000 sq ft of existing supply which is under offer, along with c. 2.89m sq ft of bespoke built-to-suit space due to exchange imminently.

Occupier preference continues to lean towards high-quality Grade A space accounting for 80% of all take-up, of that 37% is built to suit, 36% speculatative development and 27% Grade A second-hand units. In terms of sq ft transacted, the region shows a decline on the level of activity seen in 2020 which was inflated by the 2.3 million sq ft Amazon deal in Dartford. It's important to look at activity in terms of deal count: H1 2021 saw 18 separate transactions, an 100% increase on H1 2020, demonstrating a high level of occupier activity. The deals were centred around the smaller size bands: 89% by deal count were within the 100,000-200,000 sq ft size band and the remaining 11% were within the 200,000-300,000 sq ft size band. There have been no deals this year above 300,000 sq ft.

Savills has continued to see a rise in occupier activity from the Data Centre and Film sectors, together they have accounted for 36% of the total take-up, an increase from 10% in 2020 and compares with a long-term average of 17%.

Development Pipeline

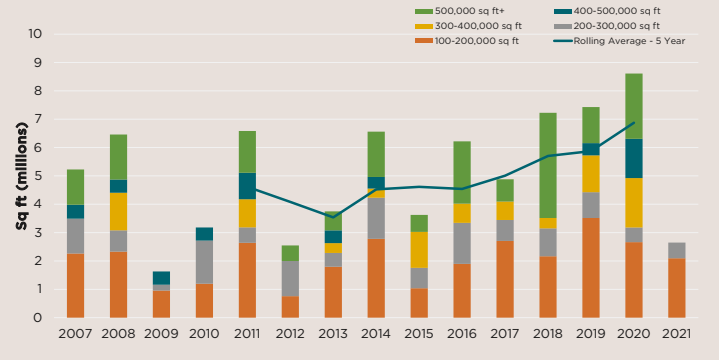
There are now 30 units under construction totalling 5.32m sq ft, a 250% rise from this time last year. This includes some larger units such as the 450,000 sq ft Powerhouse 450 at The Bridge Dartford and the 338,267 sq ft uni at Purfleet Commercial Park. There are 22 spread within the South East totalling 3.72m sq ft with an average size of 168,917 sq ft and eight within the Inner M25 totalling 1.6m sq ft averaging 200,361 sq ft.

Key statistics

	Stats	yr/yr change
Take-up	2.65m sq ft	↓ 42%
Supply	4.87m sq ft	↑ 3.7%
Development Pipeline	5.32m sq ft	↑ 250%
Quoting Grade A Rent	£8.00-£22.00/sq ft	↑ 10%
Vacancy rate	3.95%	↓ 1 bps

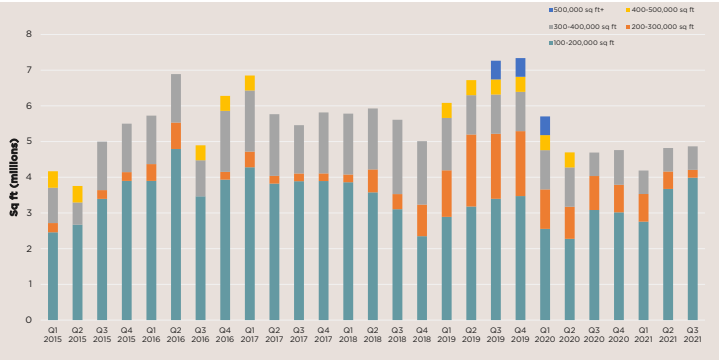
Source Savills Research

Take-up H1 in line with long-term average



Source Savills Research

Supply dominated by smaller-sized units



Source Savills Research

> **H1 2021 has been another strong year for take-up, reaching 5.08m sq ft. Supply is now chronically low at 3.42m sq ft, pushing the vacancy rate to the lowest on record at 2.98%. Rents are set to increase substantially**

East Midlands

Strong levels of take-up leaves just 0.34 years of supply

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Supply

The supply of units over 100,000 sq ft has rapidly declined in the past year, standing at 3.42m sq ft across 17 separate units. This has pushed the vacancy rate to the lowest level on record at 2.98%, leaving just 0.34 years' worth of supply in the region. Moreover, Savills is aware that c. 900,000 sq ft of the vacant supply is currently under offer, set to exchange in Q3 2021. This will compress the supply and vacancy rate further, pushing rental growth in the process.

The largest unit on the market is Magna Park Lutterworth South 1 comprising c.750,000 sq ft - it's currently under offer due to exchange in Q3 2021.

The current supply is skewed towards smaller-sized units with 82% by unit count being within the 100,000-200,000 sq ft size band. Above 200,000 sq ft, there are only three units on the market, meaning that occupiers will increasingly be pushed to examine BTS options to satisfy such requirements.

Take-up

H1 2021 take-up has reached 5.08m sq ft across 20 separate transactions, with demand coming from a diverse range of occupiers, up 113% on the long-term H1 average.

Occupier preference continues to revolve around better quality units. In 2021, 81% of space transacted has been Grade A, with the remaining being Grade B space. In terms of specification, 57% of space transacted has been second-hand space, 33% speculatively developed space, with the remaining being built-to-suit space.

In terms of deal count, 50% have been within the 100,000-200,000 sq ft size band, 20% within the 200,000-300,000 sq ft band, with the balance for larger units. Savills has seen an uptick in requirements for larger units in 2021 which should mean the average size deal continues to increase from its current level of 254,000 sq ft.

Development Pipeline

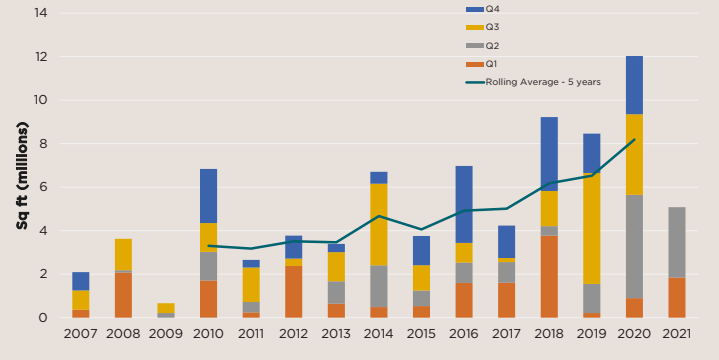
There are currently 14 units under construction, which total 3.43m sq ft. Pleasingly, 57% of these units are over 200,000 sq ft, which should help cater for the larger requirements in the market.

Key statistics

	Stats	yr/yr change
Take-up	5.08m sq ft	↓ 10%
Supply	3.42m sq ft	↓ 54%
Development Pipeline	3.43m sq ft	↑ 193%
Quoting Grade A Rent	£7.50/sq ft	↑ 11%
Vacancy rate	2.98%	↓ 347 bps

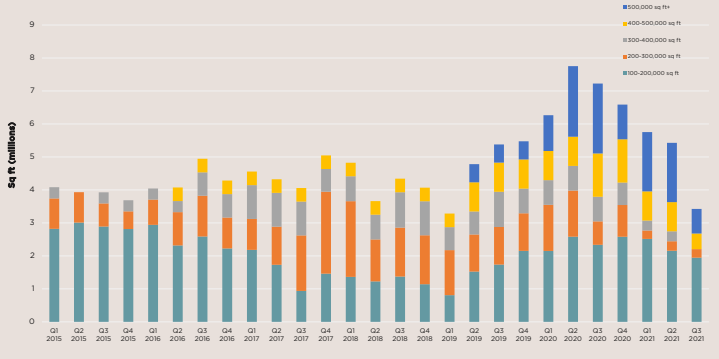
Source Savills Research

Take-up H1 is 113% above the long-term H1 average



Source Savills Research

Supply has fallen 54% in last year, vacancy at 2.98%



Source Savills Research

> **Take-up has rebounded strongly reaching 3.75m sq ft through 21 seperate transactions, it's the second best H1 on record. Given that just 20% of our supply is Grade A, the 1.86m sq ft of speculative pipeline will be welcomed by occupiers**

West Midlands

Vacancy rate now 5.03%, down from 10.31% a year ago

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Supply

The level of supply within the region currently stands at 4.31m sq ft across 23 separate units, a 50% decrease from this time last year. According to the average annual take-up, there is now just 0.91 years' worth of supply in the region.

The current stock is heavily skewed towards lower quality second-hand units. Currently, just 20% of space on the market is Grade A, whilst 44% is Grade B, and 36% Grade C. Closer analysis highlights that a large proportion of this stock is in need of refurbishment and is not currently capable of accomodating modern occupier requirements. Developers are beginning to recognise this, and we are seeing older Grade B and C units refurbished to provide fit-for-purpose space.

Furthermore, in terms of unit count, 70% are within the 100,000-200,000 sq ft size band, whilst 26% are within the 200,000-300,000 sq ft size band and 4% in the 400,000-500,000 sq ft size band. The largest unit on the market is Stafford 475 comprising 474,591 sq ft of Grade B second-hane space.

The shortage of vacant stock is reducing the incentives offered with transactions whilst pushing on rental growth. With the current supply and demand dynamics, we predict rental growth will exceed the 2.2% p.a forecast by RealFor in the next five years.

Take-up

Take-up in H1 2021 reached 3.75m sq ft across 21 separate transactions. Historically, demand has centred around the manufacturing and automotive sectors; however, we are now seeing a rapid uptick in activity from other occupiers. In 2021, 47% of activity has come from 3PLs, 30% from online retailers and the remainder spread over other sectors - a positive indicator for the market.

Occupier preference has revolved around Grade A space, accounting for 85% of space transacted in the region. Grade B space accounted for 8% of all space transacted, whilst 7% was Grade C. Activity continues to revolve around smaller-sized units - by deal count, 71% were within the 100,000-200,000 sq ft size band, and 14% within the 200,000-300,000 sq ft band. The largest deal this quarter was CEVA leasing Wolverhampton 450 comprising 448,089 sq ft, it was speculatively developed by Panattoni.

Development Pipeline

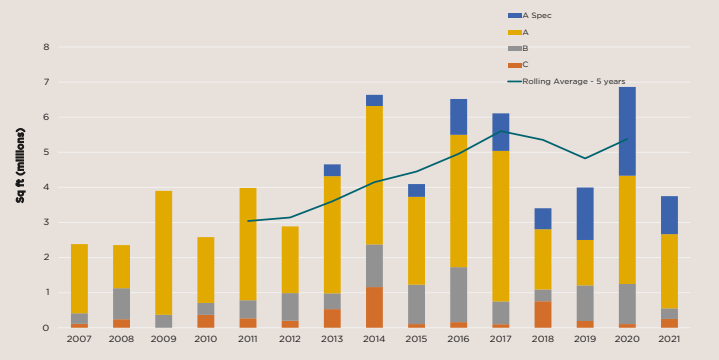
There are 11 units currently under construction within the West Midlands, totalling 1.86 million sq ft. Nine are within the 100,000-200,000 sq ft size band, and two within the 300,000-400,000 sq ft band.

Key statistics

	Stats	yr/yr change
Take-up	3.75m sq ft	↑ 275%
Supply	4.31m sq ft	↓ 50%
Development Pipeline	1.86m sq ft	↑ 675%
Quoting Grade A Rent	£7.50/sq ft	↑ 8%
Vacancy rate	5.03%	↓ 528 bps

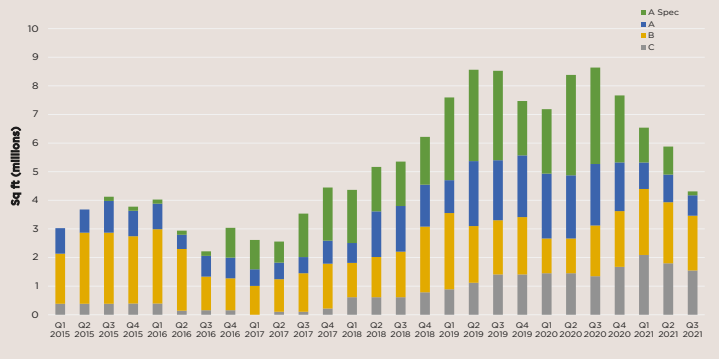
Source Savills Research

Take-up 77% above long-term H1 average



Source Savills Research

Supply down 50% in a year, just 20% now Grade A



Source Savills Research

> "The North West has continued to see a huge uptick in enquiries and subsequent transactional activity. The strongest H1 take-up on record has caused the amount of supply to fall to 2.7m sq ft; this leaves the region with 0.59 years' of supply"

North West

Vacancy rate falls further, hitting 3.37%, the lowest level ever

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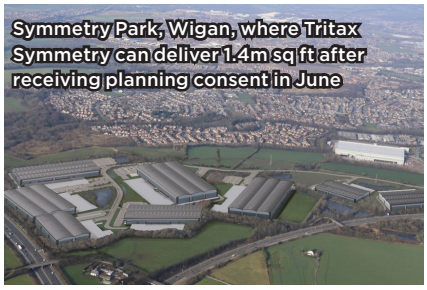


Symmetry Park, Wigan, where Tritax Symmetry can deliver 1.4m sq ft after receiving planning consent in June

Supply

The supply of warehouse space has decreased dramatically in the last 12 months to stand at 2.7m sq ft across 14 separate units. Using the three-year average annual take-up of 4.56m sq ft, this equates to just 0.59 years' worth of supply in the region.

Grade A stock now accounts for 36% of all available space, of which 17% has been speculatively developed. In terms of unit count, the supply is skewed towards the smaller size bands, 64% are between 100,000-200,000 sq ft band, 21% within the 200,000-300,000 sq ft range and 7.5% within the 300,000-400,000 sq ft and 400,000-500,000 sq ft size bands. The largest available unit is Matrix 420 in Chorley, comprising 421,810 sq ft of Grade A second-hand space.

Savills is aware that 36% of the current available space is under offer and due to exchange in Q3 2021 - this would drop the vacancy rate further to 2.12%.

Take-up

Take-up in H1 2021 has surpassed expectations reaching 3.58m sq ft across 18 separate transactions. It's the best H1 we have ever recorded, 89% above the long-term average.

In terms of Grade, 60% of space transacted in 2021 has been Grade A, 27% Grade B, and the remaining Grade C.

As Covid-19 has delayed construction times, we have seen an increase in take-up of second-hand space in the region to satisfy immediate requirements. 2021 has seen 45% of space transacted being second-hand, 28% being built-to-suit, with the remainder being speculatively developed space. Occupier demand has centred on smaller sized units; the average deal size in 2021 currently stands at 198,822 sq ft.

We continue to see strong levels of activity from a variety of different occupier types in the North West, which continues to demonstrate the strength of the market. The largest deal this year has been Amazon committing to a 650,000 sq ft unit in Knowsley.

Development Pipeline

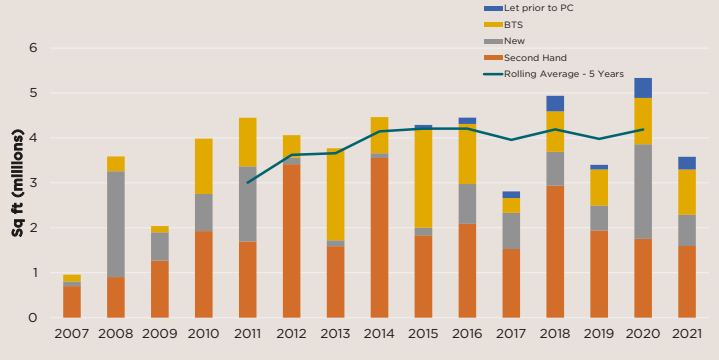
There are currently 10 units being developed, totalling 2.12m sq ft. Six are in the 100,000-200,000 sq ft size band, two in the 200,000-300,000 sq ft size band, and two within the 300,000-400,000 sq ft size band.

Key statistics

	Stats	yr/yr change
Take-up	3.58m sq ft	↑ 36%
Supply	2.7m sq ft	↓ 36%
Development Pipeline	2.12m sq ft	↑ 144%
Quoting Grade A Rent	£7.25/sq ft	no change
Vacancy rate	3.37%	↓ 211 bps

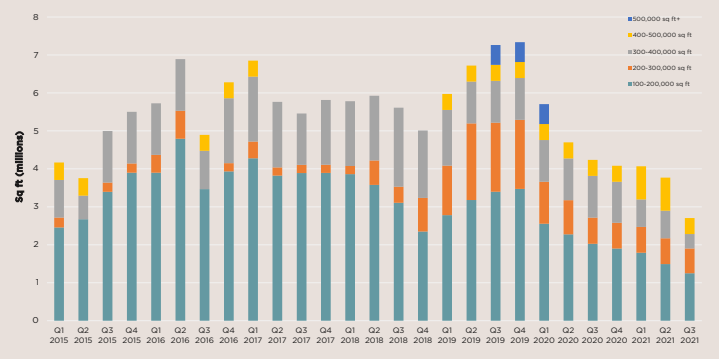
Source Savills Research

Take-up best H1 ever recorded, at 3.58m sq ft



Source Savills Research

Supply fallen by 36% in 12 months



Source Savills Research

> **The strength of the occupational market seen in 2020 has continued into 2021. H1 2021 take-up has been record-breaking, reaching 6.77m sq ft. Supply is now at the lowest level ever recorded. Consequently, we have seen a dramatic uptick in rents and a reduction in incentives offered**

Yorkshire and the North East

Vacancy rate just 2.90%; 0.28 years' worth of supply in the market

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Mammoth 602, where GLP are set to speculatively develop a 601,761 sq ft unit

Supply

Supply of units over 100,000 sq ft is now at the lowest level ever recorded in the region. Currently, there is 2.45m sq ft available across 17 separate units. This has pushed the vacancy rate lower to 2.90%, leaving just 0.28 years' worth of supply in the market according to the three-year annual average take-up.

Now, just 5% of the available supply is classified as Grade A. The region is in desperate need of new stock to relieve this chronic shortage. 65% of the stock is Grade B, with 30% Grade C. As with a large proportion of Grade B and C stock, they could often be considered obsolete through not being capable of accommodating modern occupier requirements.

An ongoing concern is that we are seeing occupier demand for larger units increase within the region; however, 88% of the stock is within the 100,000-200,000 sq ft size band, and 12% the 200,000-300,000 sq ft size band. Consequently, occupiers have to either commit to built-to-suit units or look towards neighbouring regions.

Key statistics

	Stats	yr/yr change
Take-up	6.77m sq ft	↑ 0.07%
Supply	2.45m sq ft	↓ 50%
Development Pipeline	2.71m sq ft	↑ 58%
Quoting Grade A Rent	£7.00/sq ft	↑17%
Vacancy rate	2.90%	↓ 335 bps

Source Savills Research

Take-up

Following the three strongest years of take-up ever recorded in the market, H1 2021 has performed exceptionally, with take-up totalling 6.77m sq ft through 10 separate transactions. This has already surpassed the average annual figure by 36% and is the strongest H1 ever recorded in the region.

Of the space transacted, 43% was build-to-suit, 34% was speculatively developed space, and 23% was second hand. The largest deal in H1 2021 was Amazon committing to c.2m sq ft at the Wakefield Hub.

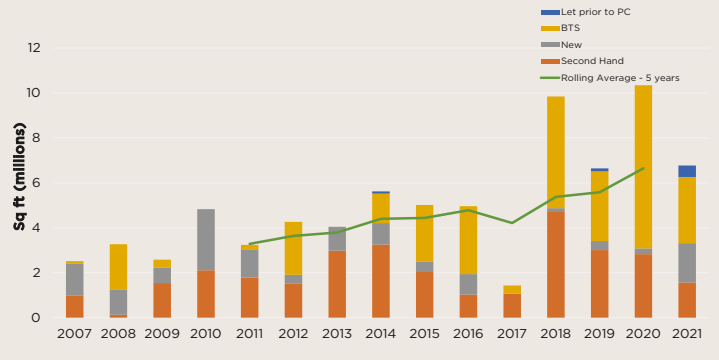
Activity was spread over the size bands - by deal count, 37% were within the 100,000-200,000 sq ft size, 21% in both the 200,000-300,000 sq ft and 300,000-400,000 sq ft size bands. The 400,000-500,000 sq ft size band saw 5% of deals, and the 500,000 sq ft+ size band saw 16%.

The majority of activity in 2021 has stemmed from online retailers, who accounted for 43% of all take-up, and 3PLs, who accounted for 27%.

Development Pipeline

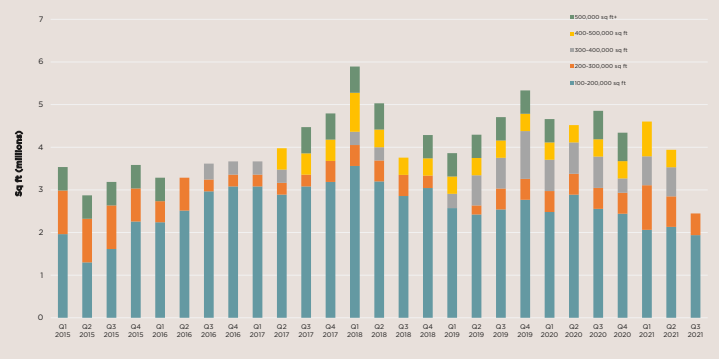
There are currently 10 units under construction totalling 2.71m sq ft. Two of the units announced speculatively are over 600,000 sq ft, which will be welcome by occupiers given the number of larger requirements in the region.

Take-up best H1 ever recorded



Source Savills Research

Supply dominated by smaller units



Source Savills Research

> Recently, the South West & Wales has seen an increase in activity due to competitive pricing compared to other regions. However, the lack of good quality supply continues to hinder take-up. Developers and investors should focus on improving existing Grade B & C space to improve returns

South West & Wales

H1 2021 take-up reached 1.1m sq ft; incentives reduce

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Tungsten Park, Avonmouth, where a 240,000 sq ft speculative unit is under construction

Supply

The supply of units over 100,000 sq ft in the region currently stands at 4.62m sq ft across 24 separate units. Imperial Park in Newport is the largest unit at 800,000 sq ft, skewing the current availability.

The quality balance is heavily skewed towards lower-quality units, with just 16% of available space classed as Grade A, down from 36% at the start of last year. This is hindering take-up as occupiers are looking at neighbouring regions to satisfy their requirements for good quality units.

Additionally, by unit count, the supply continues to be dominated by smaller units, with 66% 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.

Savills is aware that 21% of the current vacant stock is under offer and due to exchange in Q3 2021. This is set to bring the vacancy rate to 9.39%

Take-up

Take-up in the South West and Wales market totalled 1.1m sq ft across seven separate transactions, 30% above H1 2020. Adhering to regional trends, deal volumes have centred around the smaller size bands, with 72% of deals being within the 100,000-200,000 sq ft size band, 14% in the 200,000-300,000 sq ft size band, and 14% the 300,000-400,000 sq ft size band.

H1 2021, has seen 62% of take-up being second-hand space, 29% built-to-suit space, and 9% speculatively developed space. The supply is hindering take-up as occupier requirements centre around new, modern units.

Development Pipeline

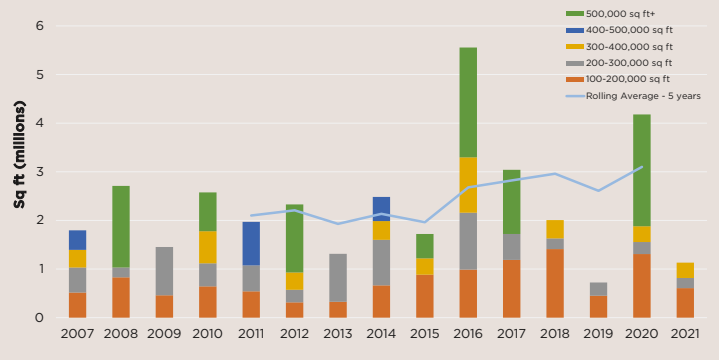
There is currently 825,210 sq ft under construction in the region across five units. Four of these units are under construction in the South West and one in Wales. Of the five, two are under construction in the 100,000-200,000 sq ft size band, and a single unit in both the 200,000-300,000 sq ft band and the 300,000-400,000 sq ft band.

Key statistics

	Stats	yr/yr change
Take-up	1.1m sq ft	↑ 30%
Supply	4.62m sq ft	↑ 16%
Development Pipeline	0.83m sq ft	↑ 654%
Quoting Grade A Rent	£7.25/sq ft	no change
Vacancy rate	11.90%	↑ 170 bps

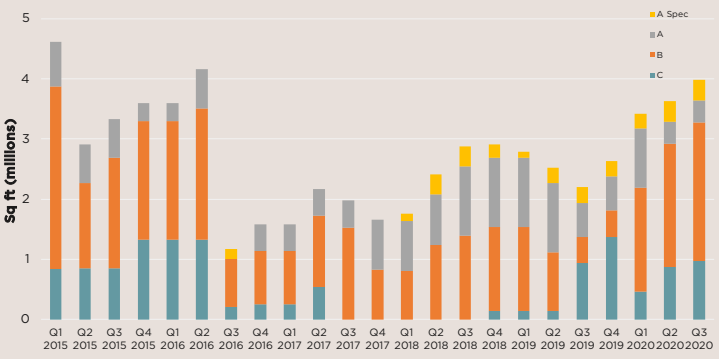
Source Savills Research

Take-up dominated by smaller-sized units



Source Savills Research

Supply just 16% are Grade A, skewed by Imperial Park



Source Savills Research

> We have recorded a significant uptick in occupier requirements in the last year, highlighting the prominence of locating in the East of England due to our ports and proximity to London and the rest of the UK

East of England

Supply is skewed due to one large unit; it's now under offer

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Supply

The level of supply in the region has increased by 14% over the last year. Currently, there is 1.45m sq ft available within the region through four units. The largest unit on the market is 736 Kingston Park in Peterborough comprising 736,000 sq ft of Grade A space - it's currently under offer, set to exchange in Q3 2021. Following the exchange, there will be just three units available, providing 709,380 sq ft of Grade C second-hand space. Further analysis demonstrates all of the Grade C available space is in need of refurbishment and is arguably more suitable for demolition in order to accommodate modern occupiers.

Aside from the aforementioned 736 Kingston Park, the remaining vacant units are all below 350,000 sq ft.

The vacancy rate remains constrained at 5.73%, which continues to push on rental growth. As 736 Kingston Park exchanges, the vacancy rate will drop to 2.81% demonstrating the volatility of supply in the region.

Take-up

Take-up in H1 2021 has reached 901,000 sq ft through three separate transactions, whilst a slight decline on 2020, this remains 117% above the long-term H1 average.

New speculatively developed space accounted for the largest proportion of take-up, reaching 68% - the remaining 32% was built-to-suit space. No second-hand space has been taken in the region, highlighting occupier preference towards better quality units. The two recent speculatively developed units at Peterborough Gateway were let in Q1 2021, shortly after completion, to MH Star and Oatly. The short void period highlights the continued occupier demand within the region.

As the supply consists of low-quality second-hand space, we are seeing occupiers increasingly go down the build-to-suit route to obtain large modern units. The shortage of new space will continue to bring reduced incentives and positive rental growth.

Development Pipeline

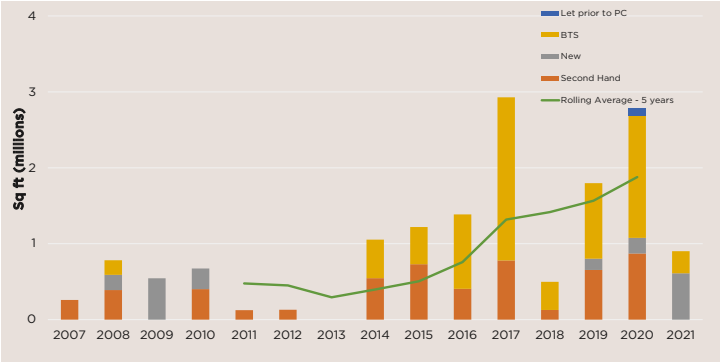
There are currently two units under construction at Delta Park in Peterborough of 307,500 sq ft and 230,940 sq ft. After they reach PC, there will be no other units under construction in the region. Without any pipeline development, occupiers will need to look to sites such as Gateway 14, Suffolk Park, Flagship Business Park or Peterborough South in order to satisfy requirements for good quality space.

Key statistics

	Stats	yr/yr change
Take-up	0.9m sq ft	↓14%
Supply	1.45m sq ft	↑14%
Development Pipeline	0.54m sq ft	↓11%
Quoting Grade A Rent	£6.00/sq ft	no change
Vacancy rate	5.73%	↑48 bps

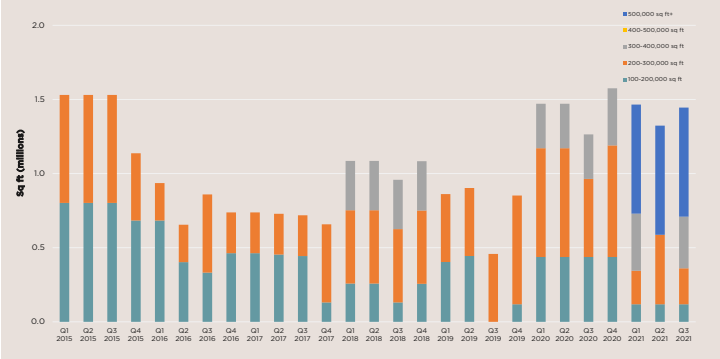
Source Savills Research

Take-up dominated by Grade A space



Source Savills Research

Supply 51% is currently under offer



Source Savills Research

> Statistically, demand for buildings over 100,000 sq ft appears to have declined. However, demand is present, but the shortage of available good quality stock and new development pipeline produces figures that would suggest otherwise. This critical shortage has, however, reduced incentives and increased rental growth across the wider market

Scotland

Re-occupation of vacant stock pushes vacancy lower to 5.70%

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Nova Park, Glasgow, where HaperCollins have committed to a 550,000 sq ft BTS

Supply

The supply of warehouse space in Scotland for units larger than 100,000 sq ft has fallen 6% in the last year to stand at 1.25m sq ft across nine separate units.

The supply continues to be dominated by second-hand space with no new units available. Currently, 49.7% of the space available is Grade B second-hand space, and 50.3% is Grade C second-hand space.

Of the nine units currently available, eight are within the 100,000-200,000 sq ft size band, and there is a single unit within the 200,000-300,000 sq ft size band.

The decrease in the amount of supply in the region has caused the vacancy rate in Scotland to now stand at 5.70%.

The largest unit on the market is 10-12 Cloberfield in Milngavie, totalling 226,449 sq ft - Savills are the acting agents.

Take-up

Take-up of units in H1 2021 reached 550,000 sq ft through a single transaction. HarperCollins has committed to a 550,000 sq ft built-to-suit unit at Nova Business Park in Glasgow. This letting has taken another substantial piece of development land away from the future pipeline.

Take-up continues to be constrained by both shortages in the size and quality of available units throughout the region; occupiers are having to settle for lower quality, and smaller-sized units to satisfy their requirements.

Development Pipeline

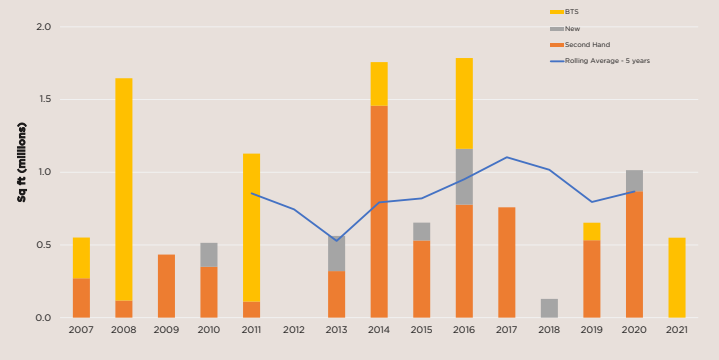
There are still no units being speculatively developed over 100,000 sq ft in Scotland. As take-up increases, we expect a stable or declining supply which will keep the vacancy rate low in the short to medium term and, in turn, push on rental growth. Consequently, the occupier led build-to-suit market will have to satisfy the needs of the industrial market in Scotland.

Key statistics

	Stats	yr/yr change
Take-up	0.55m sq ft	↓ 22%
Supply	1.25m sq ft	↓ 6%
Development Pipeline	0 sq ft	no change
Quoting Grade A Rent	£6.50/ sq ft	↑ 13%
Vacancy rate	5.70%	↓ 57 bps

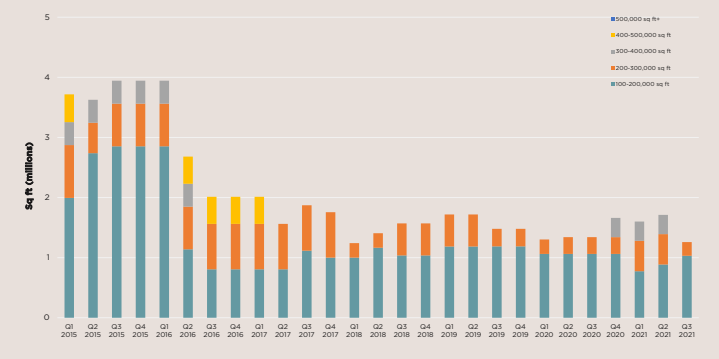
Source Savills Research

Take-up dominated by bespoke BTS letting



Source Savills Research

Supply majority under 200,000 sq ft



Source Savills Research

> The continued positive sentiment in the occupational market means investors remain keen to deploy capital into the sector. Given the weight of capital targeting the sector there is every likelihood yields will compress further in the coming months

National investment

Investment volumes set to reach new record

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Savills IM have acquired a 1m sq ft fulfilment centre for £161m

The positive sentiment in the occupational market continues to feed into the logistics investment market, with investment volumes for the half-year reaching £3.8bn. This is a 239% increase on H1 2020 and already exceeds the five-year annual average investment volume, which stands at £3.7bn per year. Given that, traditionally, the latter part of any year sees a stronger performance in the investment market, it is all but certain that 2021 will see another record year for capital deployed into the logistics sector, exceeding the £4.7bn transacted in 2020.

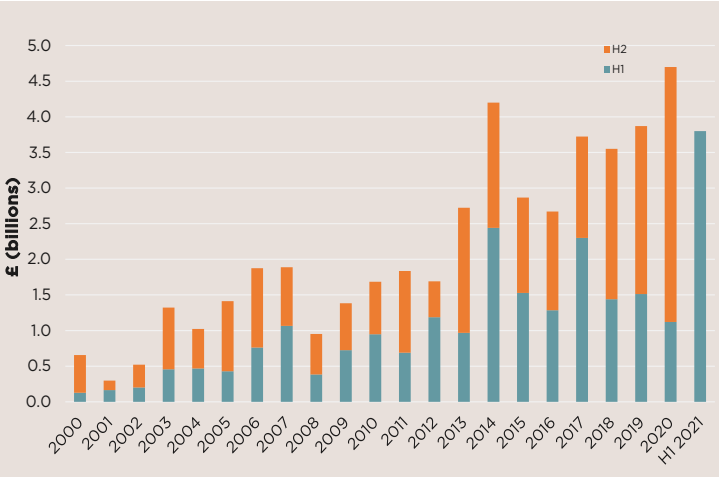
Whilst there have been notable portfolio transactions such as BentallGreenOak purchasing a £300m portfolio from Morgan Stanley and Blackstone acquiring the Albion and Vantage portfolios for a combined £469m, there have also been a number of high-value single asset purchases from overseas investors. Savills Investment Management (advised by Savills) has purchased the largest single-let unit this year, paying £161m for an Amazon fulfilment centre in Bardon, and Deka (also advised by Savills) has purchased the John Lewis Distribution Centre in Milton Keynes for £100m, reflecting a net initial yield of 3.75%.

We expect this trend to continue in the second half of the year as the logistics market presents an interesting dichotomy for UK Institutions. For funds keen to raise cash either in line with strategy or more promptly to meet redemptions, the logistics market offers a ready pool of experienced buyers often able to pay prices above valuation. In addition, many other investors still remain underweight to the logistics sector and are prepared to invest into a market with strong rental growth prospects and capital growth maintaining its upward trajectory.

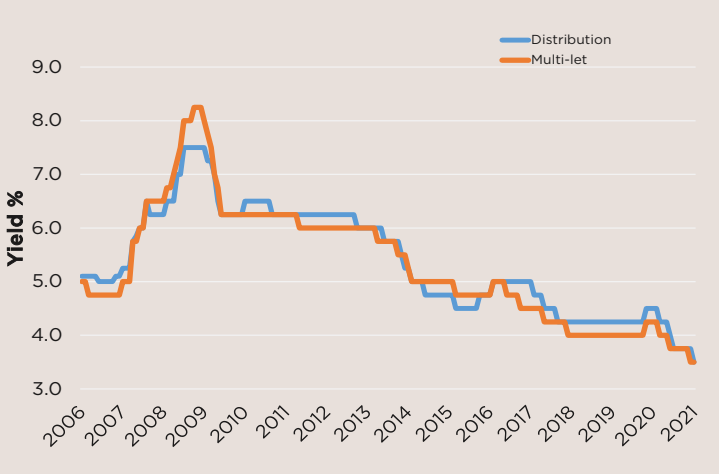
The sheer and ever increasing weight of capital combined with strengthening sentiment across the market has seen further downward pressure on yields, which now stand at record low levels of 3.5% for both distribution warehouses and multi-let estates, moving in 100 bps and 75 bps respectively in the last 12 months. The question on many investors' minds now will be how low can they go and where can we find value?

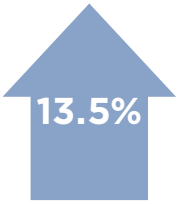
With the occupational market showing no sign of slowing and new grade A product being created from speculative development and large-scale build-to-suits, there will be increased competition for the best assets and we expect to see further downward pressure on yields in H2. Investors searching for value would be advised to examine what refurbishment opportunities exist for well-located, second hand assets that are either vacant or have upcoming lease events. Such opportunities will present options to deliver better quality stock into a supply starved market.

Investment volumes already exceeding annual average



Prime investment yields record lows at 3.5%





Rental growth forecast by RealFor by 2025

2021 Outlook

What next for rental growth?

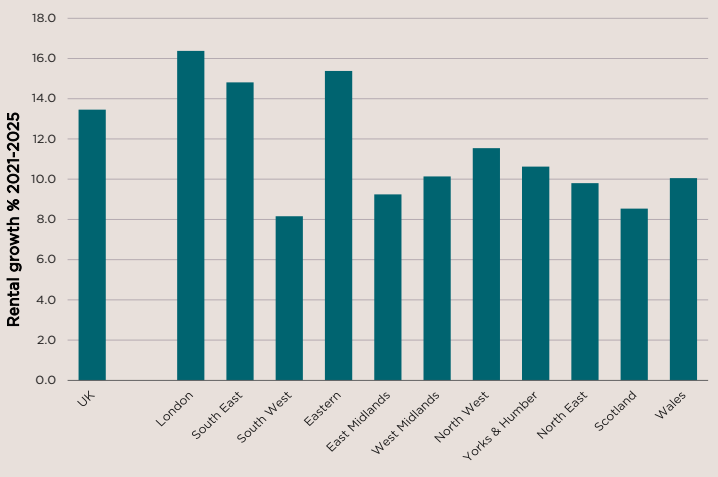
Given the sharp declines in vacancy across most of the regions we cover, and the strong current levels of take-up, attention has turned towards what rental growth should be expected in the medium term. The latest rental growth forecasts from RealFor suggest the wider logistics market should expect to see growth of 2.7% p.a until 2025. Whilst these macro-econometric forecasts take into account past performance and wider economic indicators such as GDP, employment and consumer confidence, they do not readily consider localised market conditions.

Given that vacancy has hit record low levels in many regions, construction materials are in short supply, and occupier demand remains at record levels, there is a clear case to suggest that actual rental growth will exceed the current forecasts.

In Yorkshire, for example, vacancy has reached a historic low of 2.35%, and take-up at the half-year has reached 6.7m sq ft, already exceeding the annual average. There is just 113,000 sq ft of Grade A space on the market, and whilst the developers are aiming to replenish the pipeline, the competition for these units will be fierce.

We expect this situation will accelerate rental growth over the next two years before dropping back over the latter half of the five year forecast period.

Rental growth forecast 13.5% growth by 2025 to be eclipsed



Source RealFor

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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 the short term as the availability of cladding, steel and concrete negatively impact the delivery of new warehouse space. Globally, a perfect storm has emerged as the demand for raw materials has surged as lockdown restrictions have ended.

Manufacturers, however, are still playing catch up, having furloughed workers and reduced production. What's more, for a short period, British Steel also stopped accepting new orders, only to reverse the decision while simultaneously raising prices by £100 per tonne, the second price rise in a little over a month. Whilst Savills is tracking 16.79 m sq ft of speculative warehouse construction, some of these projects are being delayed, and some of the planned speculative announcements for the remainder of the year may have to be pushed back to 2022. Given the pressures in the supply chain and the lack of available contractors, developers should factor in the potential for tender price inflation and a significant delay to programmes.

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Savills Research
We are a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the UK property market.

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