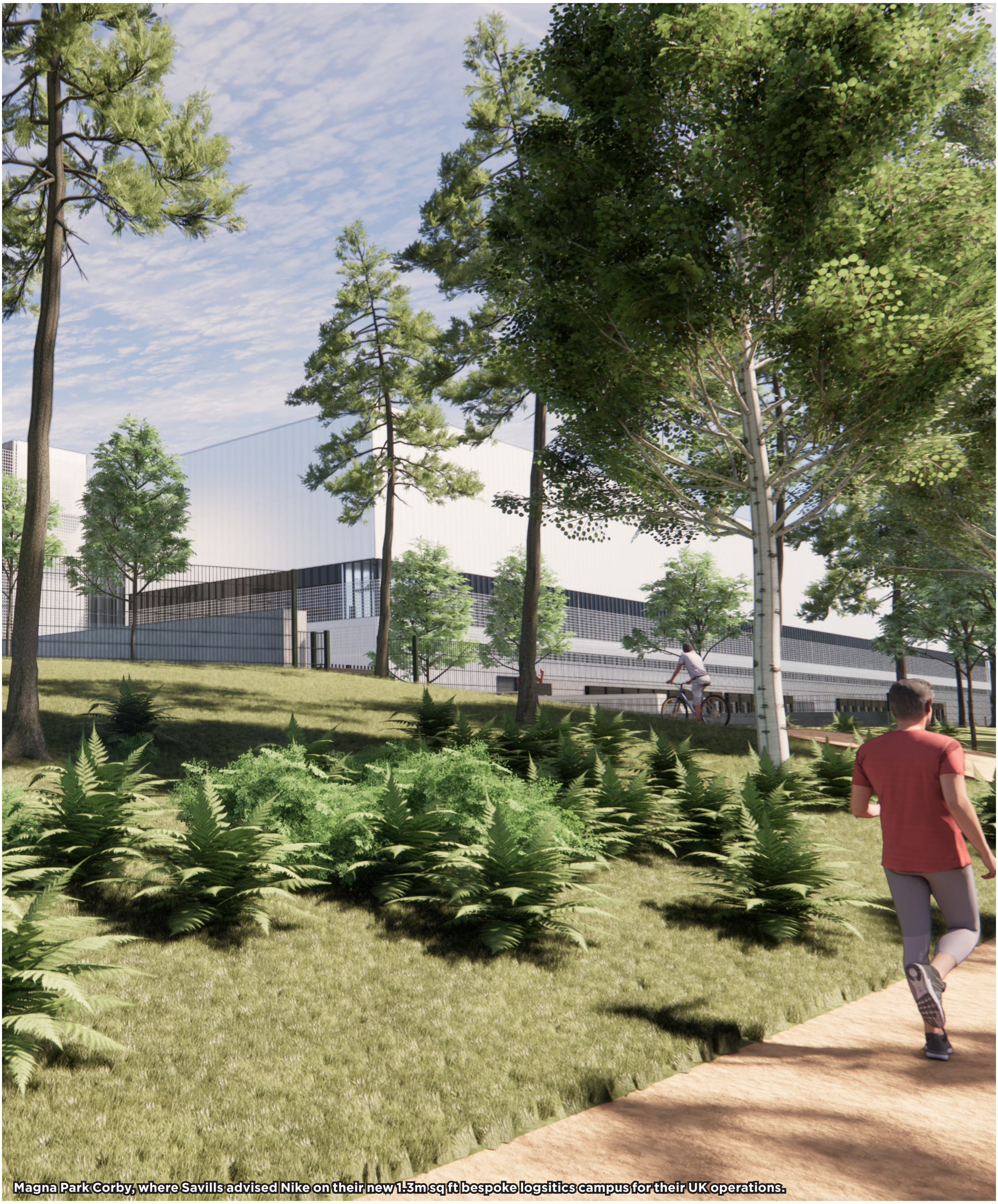
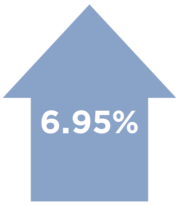
SPOTLIGHT
Savills Research

Big Shed Briefing



Magna Park Corby, where Savills advised Nike on their new 1.3m sq ft bespoke logsitics campus for their UK operations.

Take-up over 13% above long-term H1 average ● Vacancy rises to 6.95% ● 10.16m sq ft under construction



Vacancy rises 155 bps over the last 12 months

Nationwide overview

Demand rises in first half of the year as take-up of existing units set to drive a fall in vacancy into 2025

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Panattoni Park Avonmouth, where Panattoni, advised by Savills, has delivered 1.3m sq ft speculatively.

Following a challenging 2023 in the UK logistics market, where take-up dropped by 43% year on year, a better 2024 was hoped for by many as economic indicators started to move back towards a more positive outlook. Whilst the Bank of England has yet to move base rates downwards the narrative has changed to "when, not if". This has been made possible by the continued improvement of the inflation readings, which continue to trend closer to the target of 2%.

The recent general election result was founded on the principle of "change" and whilst it is too early to comment, financial markets have responded positively. The Labour party covered planning reforms in its manifesto along with a strategy for sustained economic growth, which may offer some optimism for more activity in the latter half of the year and beyond.

We continue to see generally positive, albeit not blockbuster, indicators for the logistics market. For example, Q1 2024 GDP growth exceeded expectations and has been revised upwards to 0.7%. The latest retail data from the ONS shows that sales have increased, and crucially for the logistics sector, volumes have also increased, notably in the non-food sector. Pleasingly, we are also seeing online penetration increase, which now stands at 26.2%, up from 25.4% a year ago. Consumer confidence, overall, remains in positive territory but is a volatile indicator. As winter draws in, attention will return to energy prices, and retailers will turn their attention to Christmas trading. If we continue to see volume growth instead of just sales growth, this will bode well for the logistics property market.

Nearshoring remains on the agenda as global supply chains continue to struggle with geopolitical events. The average cost of moving a 40ft container between Asia and Northern Europe hit $6,855 in late June, up more than 110% in two months. Whilst many shippers are confident that supply chain bottlenecks will be avoided, we expect this trend will continue to add fuel to the nearshoring fire. All of the above continues to feed into occupier behaviour and the Savills requirements index has risen almost 12% Q-o-Q, suggesting that take-up levels will continue to improve.

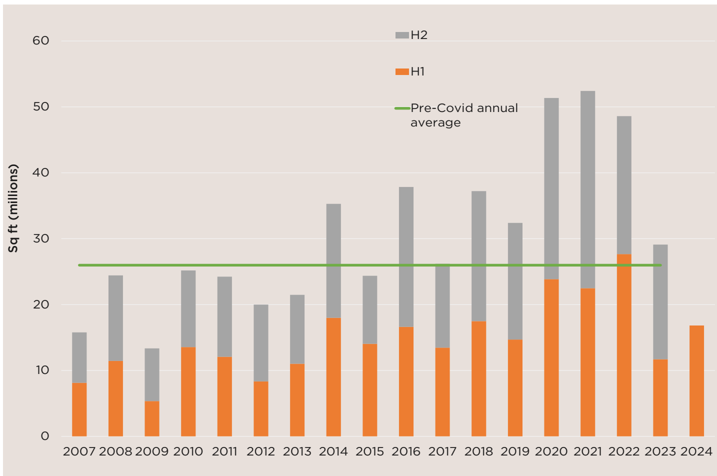
Take-up

At a national level, take-up for the first half of 2024 for units over 100,000 sq ft has reached 16.82m sq ft across 63 transactions. This is a 44% increase on H1 2023, a 13% increase on the long-term average and demonstrates improving confidence as the year progresses with 61% of take-up occurring in Q2. Whilst we have seen 5.5m sq ft of build-to-suit (BTS) deals so far this year, 18% ahead of H1 2023, overall, this segment of the market remains depressed, accounting for 33% of the space transacted, compared to the long-term average of 37%. Indeed, by unit count, 75% of transactions in 2024 have been for existing units. Encouragingly, we continue to see diversification of the occupier mix, with manufacturing-related deals accounting for 28% and 3PLs accounting for 33%; take-up from online retailers remains subdued, at just 5% of the market.

Supply and Pipeline

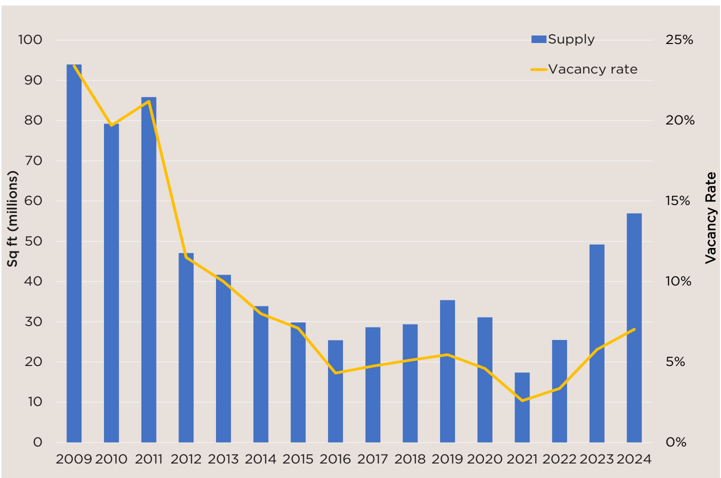
The combination of 5.7m sq ft of speculative completions in H1 2024, and 12.2m sq ft of second-hand space returning to the market has seen supply rise 14% in the last six months to stand at 56.28m sq ft, reflecting a 6.95% vacancy rate. Of the total supply, 55% is classified as Grade A, which has trended down from 58% at the start of the year. With 13% of the current supply under offer and strong demand for existing units, we expect the nationwide vacancy rate to trend downwards into 2025. There is currently 10.16m sq ft of space being developed speculatively, 9% of which is under offer.

Take-up is 44% ahead of H1 2023



Source Savills Research

Supply and Vacancy* rises to highest level since 2011



Source Savills Research *UK total inventory reassessed in 2024 to provide new vacancy time series

"Savills has recorded signs of improvement, with the requirements index for units over 100,000 sq ft reaching its highest point since Q2 2023"

London and the South East

93% of space transacted in H1 2024 has been Grade A quality

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SEGRO Park Enfield, providing c. 235,000 sq ft of best-in-class space. Savills is the agent.

Supply

Over the past twelve months, supply has increased by 28%, reaching 11.5m sq ft across 68 units. This rise is due to 1.02m sq ft of speculative development completions alongside 2.3m sq ft of second-hand supply returning to the market. Now, the combined vacancy rate stands at 7.98%, the South East stands at 8.98%, and London 5.92%.

There are, however, variations across the region, with the Southern M40/A1 Corridor and the A10/M11 Corridor being under supplied, given the five-year annual average take-up in each market. In comparison, the Eastern Corridor A13/A12 Corridor and Kent markets could now be considered oversupplied.

Currently, 41% of the available supply is Grade A speculatively developed space, 26% is Grade A space, 14% is Grade B space and 19% is Grade C space. In terms of unit count, there are 52 units available in the 100,000-200,000 sq ft range, twelve in the 200,000-300,000 sq ft range, and four in the 300,000-400,000 sq ft range.

Take-up

In H1 2024, take-up has reached 1.62m sq ft across eight transactions. Recently, Savills has witnessed improving occupier sentiment, with 7% of the current supply being placed under offer, along with our in-house requirements index for units over 100,000 sq ft being at the highest point since Q2 2023. This gives weight to a greater level of activity in H2 2024.

Of those occupiers that have continued acquiring space, there is still a clear preference towards best-in-class quality buildings. In H1 2024, 93% of space transacted has been Grade A space and 7% has been Grade B space. 84% of space transacted has been second-hand space, 9% has been new speculatively developed space and 7% BTS space.

BTS activity accounts for, on average, 40% of activity per annum. Despite H1 2024 witnessing a dip in this trend, our in-house requirements data highlights that there is continued demand for BTS units as occupiers look to improve their supply chains; however, there is a continued lack of large consented and deliverable sites across the South East. Viability has also been an issue, yet with improving build costs, bespoke BTS units are becoming more feasible.

In terms of unit count, there have been six transactions within the 100,000-200,000 sq ft size band one within the 300,000-400,000 sq ft size band and one within the 400,000-500,000 sq ft size band. So far third-party logistics firms have accounted for 34% of transactional activity, wholesalers 29% and food producers 15%.

Development Pipeline

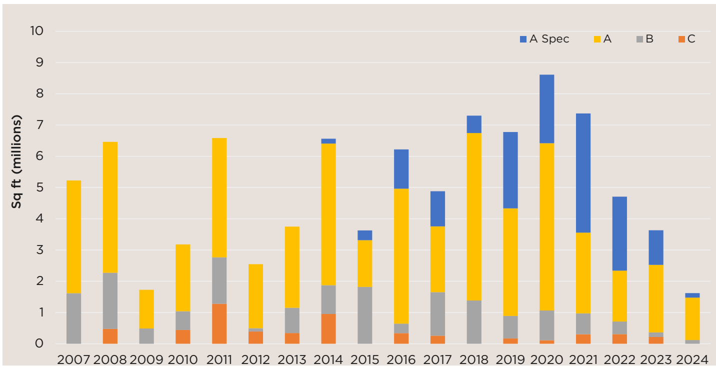
There are currently 13 units under construction, totalling 2.69m sq ft. Of these, seven are in the 100,000-200,000 sq ft size band, three are in the 200,000-300,000 sq ft size band, one is in the 300,000-400,000 sq ft size band, and two are in the 400,000-500,000 sq ft size band.

Key statistics

	Stats	yr/yr change
Take-up	1.62m sq ft	↓ 35%
Supply	11.5m sq ft	↑ 28%
Development Pipeline	2.69m sq ft	↑ 102%
Quoting Grade A Rent	£9.50-£37.50/sq ft	↑ 7%
Vacancy rate	7.98%	↑ 142 bps

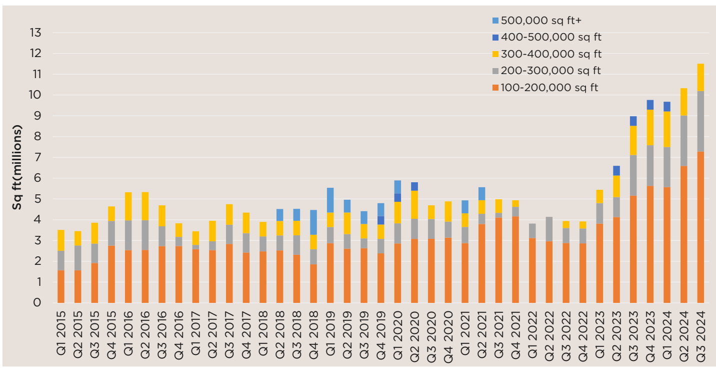
Source Savills Research

Take-up centred around best-in-class buildings



Source Savills Research

Supply just 1.8 years' worth given five-year average take-up



Source Savills Research

> **“Multiple large second-hand units have returned to the East Midlands market, most of which were built pre-2000. Recent trends suggest these units may remain unoccupied as occupiers prefer top-tier or custom facilities to enhance supply chain resilience. Consequently, Savills’ vacancy rate modelling indicates a higher vacancy rate for a longer period than initially expected, dropping below 6.5% by H1 2025”**

East Midlands

Speculative completions and growth in second-hand space increase supply by 26%, yet BTS transactions rise 108% on levels seen in H1 2023

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GLP’s, Magna Park, Corby, where Savills, has advised GLP on the disposal of c.600,000 sq ft of speculatively developed space to Bleckmann.

Supply

A recent increase in completed speculative developments and second-hand supply returning to the market has contributed to the rise in vacant warehouse space in the region. Currently, there are 50 available units totalling 11.29m sq ft. The vacancy rate has increased to 8.62%. As long as the vacancy rate remains below 12%, there will be continued rental growth within the region. Savills suggests a prolonged period of higher vacancy rates as second-hand supply is absorbed. Rising requirements, falling development pipelines and continued issues with BTS developments will lead occupiers to acquire existing units.

Closer analysis highlights 37% of the available supply is Grade A speculatively developed space, 30% is second-hand Grade A space, 31% is Grade B space, and 2% is Grade C space. In terms of unit count, there are 27 units between 100,000-200,000 sq ft, eleven between 200,000-300,000 sq ft, nine between 300,000-400,000 sq ft, one between 400,000-500,000 sq ft and two over 500,000 sq ft.

Take-up

Take-up in 2023 reached 8.12m sq ft across 26 transactions - a 33% increase above the long-term annual average. In 2024, occupier activity has rebounded further, with take-up already reaching 5.02m sq ft across eleven transactions, an 87% increase above the long-term H1 average.

Analysis of transactional activity by specification shows a clear preference for larger, highly specified units, with 63% of space transacted in H1 2024 being BTS space, 34% being speculatively developed space, and just 3% being second-hand space. Our requirements index supports the demand for best-in-class quality buildings, particularly those with top ESG credentials.

By unit count, there have been five transactions within the 100,000-200,000 sq ft size band, one within 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. As economic certainty returns to the wider UK market, occupiers continue to choose the Golden Triangle as their preferred location for large national distribution centres. Third-party logistics firms have dominated take-up, accounting for 50% of activity, followed by high street retailers at 28%, and wholesalers at 8%.

Development Pipeline

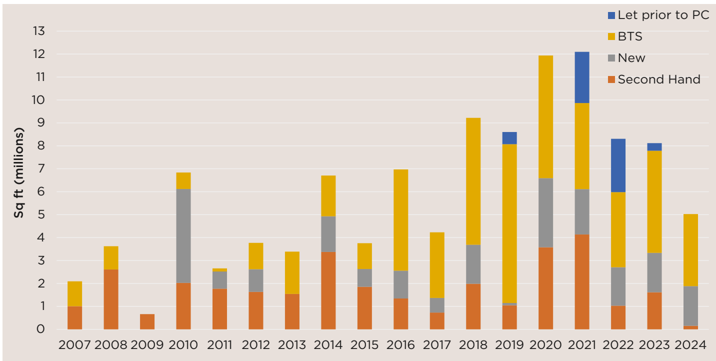
The development pipeline has decreased by 47% in the last twelve months, which will help keep the vacancy rate lower and allow for further rental growth. There are now six units under construction, totalling 1.96m sq ft, 26% of which is under offer.

Key statistics

	Stats	yr/yr change
Take-up	5.02m sq ft	↑ 104%
Supply	11.29m sq ft	↑ 26%
Development Pipeline	1.96m sq ft	↓ 47%
Quoting Grade A Rent	£10.75/sq ft	↑ 10%
Vacancy rate	8.62%	↑ 161 bps

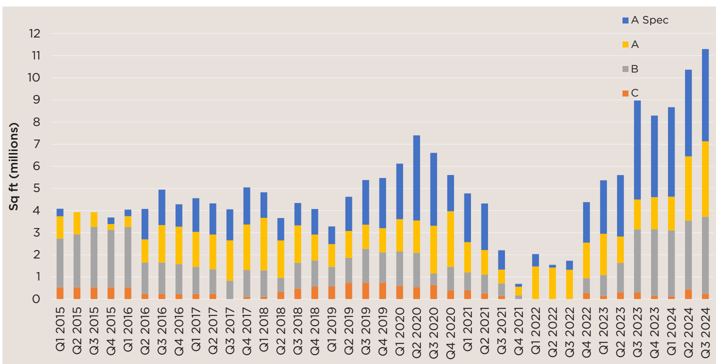
Source Savills Research

Take-up 93% was Grade A quality



Source Savills Research

Supply 10% of available units are under offer



Source Savills Research

Our national requirements index highlighted an increase in occupier demand at the end of 2023, driven by nearshoring and increased stock holdings for improved resilience against future shocks. This trend has been confirmed in the first half of 2024, with take-up already 37% above the long-term H1 average

West Midlands

The region is well positioned for future rental growth, with just 1.16 years' worth of supply available based on the five-year annual average take-up

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Gravelly Point in Birmingham, where Savills has advised on the letting of c.285,000 sq ft.

Supply

Savills' vacancy rate forecast suggested a more pessimistic outlook for the West Midlands than what has actually transpired. Occupiers have weathered the challenges better than expected, resulting in less supply returning to the market. The slight uptick in vacant space in H1 2024 has been driven by speculative development completions. Currently, there are 37 units over 100,000 sq ft available, totalling 7.37m sq ft. The vacancy rate currently rests at 7.44%.

Of the available stock, 36% is Grade A speculatively developed space, 14% is Grade A second-hand space, 26% is Grade B space, and 24% is Grade C space. West Midlands occupier requirements are heavily focused on power availability and the ability to future-proof units for automation, which most Grade B and C stock cannot provide.

There are currently 22 units available within the 100,000-200,000 sq ft size band, eleven within the 200,000-300,000 sq ft size band, and four within the 300,000-400,000 sq ft size band.

Take-up

Throughout 2023, occupiers paused their expansion plans, with take-up reaching 3.68m sq ft, a 27% decline from the long-term average. As inflation has waned and political certainty has increased, there has been a resurgence in business activity. Take-up has totalled 2.99m sq ft across eleven transactions, 37% above the long-term H1 average. The average transaction size was 272,066 sq ft.

So far in 2024, 84% of space transacted has been Grade A, 6% has been Grade B, and 10% has been Grade C. In terms of specification, 16% of space transacted has been BTS, 36% has been new speculatively developed space, and 48% has been second-hand space. By unit count, there have been three transactions within the 100,000-200,000 sq ft size band, three within the 200,000-300,000 sq ft size band, four within the 300,000-400,000 sq ft size band, and one within the 400,000-500,000 sq ft size band.

Occupier activity has been varied, with 29% of demand stemming from manufacturers, 28% from third-party logistics firms, 15% from the automotive sector, 12% from online retailers, and 12% from wholesalers.

Development Pipeline

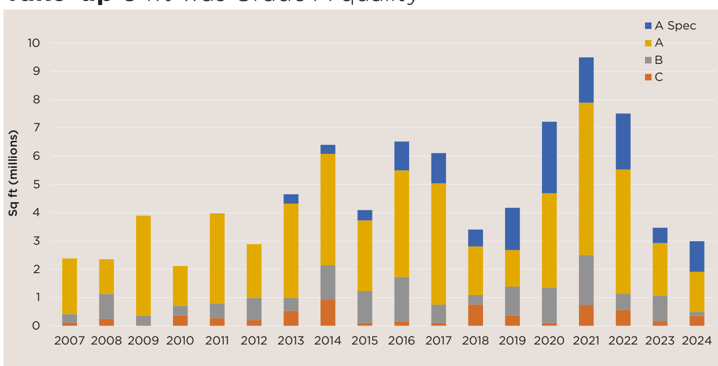
There are nine units under construction speculatively. Of these, seven are within the 100,000-200,000 sq ft size band, and two are within the 300,000-400,000 sq ft size band.

Key statistics

	Stats	yr/yr change
Take-up	2.99m sq ft	↑ 105%
Supply	7.37m sq ft	↑ 26%
Development Pipeline	1.61m sq ft	↓ 41%
Quoting Grade A Rent	£10.75/sq ft	↑ 10%
Vacancy rate	7.44%	↑ 132 bps

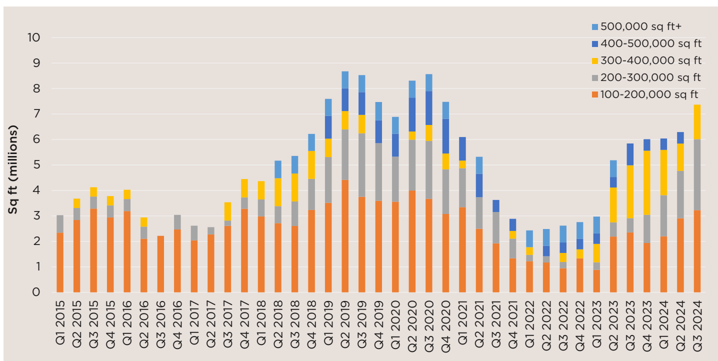
Source Savills Research

Take-up 84% was Grade A quality



Source Savills Research

Supply 59% by count are in the 100-200,000 sq ft band



Source Savills Research

> "Savills' vacancy rate model, which has analysed lease events, potential tenant failures, and the future development pipeline, indicates that the vacancy rate peaked at the predicted 7.01% in February. Savills expects it to fall below 6.5% by the end of the year, due to a lack of new development announcements and minimal risk of tenant failures"

North West

Supply falls from peak of 6.56m sq ft in recent months as deals complete

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Viking Park Widnes, where EQT Exeter recently reached practical completion on 201,240 sq ft of speculatively developed space. Savills is the agent.

Supply

Comparing the level of vacant warehouse space from this time twelve months ago highlights a 12% increase. Monthly analysis suggests we are past the peak, which occurred in February. Currently, there is 6.28m sq ft available across 31 units. Using the five-year annual average take-up, this equates to just 1.15 years' worth of supply. Savills' internal requirements index supports this view, showing a significant uptick in the past quarter. Additionally, with almost 24% of the supply under offer, the vacancy rate is set to fall imminently.

In terms of grade, 45% of available space is Grade A speculatively developed space, 16% is second-hand grade A space, 18% is Grade B, and the remaining 21% is low-quality Grade C, which is arguably better suited for redevelopment.

The majority of the supply consists of smaller units, leading occupiers seeking large developments to pursue BTS options. There are 25 units in the 100,000-200,000 sq ft size band, two in the 200,000-300,000 sq ft size band, four in the 300,000-400,000 sq ft size band, and two over 500,000 sq ft.

Take-up

Take-up in 2023 totalled 4.02m sq ft across 16 transactions, broadly in line with the long-term average. Occupiers in H1 2024 have paused due to economic and political uncertainties, resulting in take-up falling to 1.39m sq ft across six transactions. In the last two months, there has been an uptick in enquiries, causing 24% of the vacant supply to be placed under offer.

Analysing take-up by specification demonstrates an occupier shift towards better quality units, driven mainly by ESG performance and enhanced automation capabilities. So far, 2024 has seen 12% of activity in pre-let speculatively developed space, 60% in BTS space, and 28% in second-hand space.

In terms of deal count, there have been three units transacted in the 100,000-200,000 sq ft size band, two in the 200,000-300,000 sq ft size band, and one in the 400,000-500,000 sq ft size band. On average, there are eleven transactions annually in the 100,000-200,000 sq ft size band, three in the 200,000-300,000 sq ft size band, two in the 300,000-400,000 sq ft size band, one in the 400,000-500,000 sq ft size band, and one over 500,000 sq ft. Manufacturers have dominated activity in 2024, accounting for 80% of all activity followed by wholesalers at 20%.

Development Pipeline

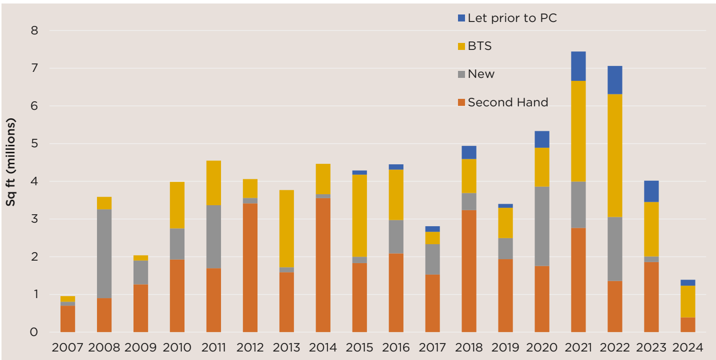
There are currently eleven units being speculatively developed, totalling 2.65m sq ft. There are six units in the 100,000-200,000 sq ft size band, two in the 200,000-300,000 sq ft size band, one within the 300,000-400,000 sq ft size band, one in the 400,000-500,000 sq ft size band and one over 500,000 sq ft.

Key statistics

	Stats	yr/yr change
Take-up	1.39m sq ft	↓14%
Supply	6.28m sq ft	↑12%
Development Pipeline	2.65m sq ft	↑185%
Quoting Grade A Rent	£10.75psf	↑13%
Vacancy rate	6.71%	↑50bps

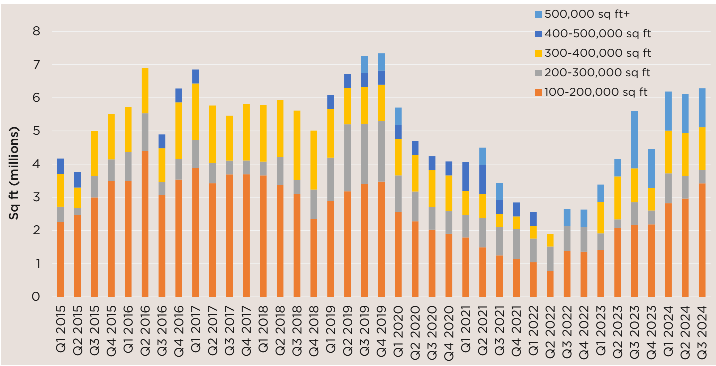
Source Savills Research

Take-up 91% was Grade A in 2024



Source Savills Research

Supply six units available over 300,000 sq ft



Source Savills Research

> Savills has recorded an uptick in the available supply as second-hand space returns to the market; however, a large proportion of these are unsuitable for many occupier's requirements, particularly surrounding ESG credentials. Savills expects, with continuing issues surrounding BTS developments and their viability, many recent requirements will filter towards existing larger stock which will cause the vacancy rate to fall

Yorkshire and the North East

Vacancy rate remains low at 6.37%; 1.14 years' worth of supply left

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K161 at Konect 62 in Knottingley, where Cole Waterhouse & Henderson Park, advised by Savills, has recently let 161,000 sq ft to Oakland International.

Supply

The addition of large units to the market has caused the supply of warehouse space to rise. There is now 9.71m sq ft of warehouse space across the two regions, with 8.42m sq ft available in Yorkshire and 1.29m sq ft in the North East. This results in a vacancy rate of 6.37%, providing 1.14 years of supply based on the five-year annual average take-up. The supply level in Yorkshire is increasingly dynamic, with some micro-locations experiencing oversupply while others face undersupply. Currently, the West Yorkshire market appears to be undersupplied compared to the South Yorkshire market. Savills advises developers to consider micro-market dynamics to realise rental growth potential.

Of the space on the market, 51% is classified as Grade A, 21% as Grade B, and 28% as Grade C. Occupiers are now realising the importance of securing good quality units for long-term resilience and are actioning lease terms to consolidate or improve their existing portfolios. By unit count, there are 23 units within the 100,000-200,000 sq ft size band, seven within the 200,000-300,000 sq ft size band, five within the 300,000-400,000 sq ft size band, four within the 400,000-500,000 sq ft size band, and two over 500,000 sq ft. Currently, the two largest units make up 12% of the available sq ft.

Take-up

Take-up in 2023 reached 4.55m sq ft across 23 transactions, a dip from previous years. Occupiers have understandably been cautious in the first half of 2024, with take-up reaching 2m sq ft across 13 transactions; 81% of activity occurred in Yorkshire whilst 19% in the North East. In terms of sq ft, this is a decline from the long-term H1 average, however, when looking at unit counts, the region is performing 30% ahead. This shows occupier activity continues, but with a preference towards smaller unit sizes. Analysing take-up by specification shows 29% of space transacted was speculatively developed space, 6% was BTS space and 65% second-hand space.

By unit count, there have been ten transactions within the 100,000-200,000 sq ft size band and three within the 200,000-300,000 sq ft size band. By sector, 31% of activity has stemmed from third-party logistics firms, 16% from wholesalers and 15% manufacturers. The remainder was spread across various grocery and high street retailers.

Development Pipeline

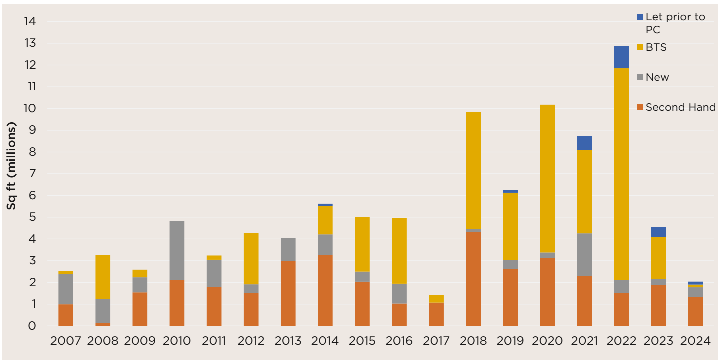
There are now just three units under construction in the wider region totalling 460,476 sq ft as developers pause consented developments. This will keep the vacancy rate lower as supply is absorbed. There are two in the 100,000-200,000 sq ft size band and one in the 200,000-300,000 sq ft size band.

Key statistics

	Stats	yr/yr change
Take-up	2.09m sq ft	↓ 4%
Supply	9.71m sq ft	↑ 142%
Development Pipeline	0.46m sq ft	↓ 90%
Quoting Grade A Rent	£9.50/sq ft	↑ 15%
Vacancy rate	6.37%	↑ 367bps

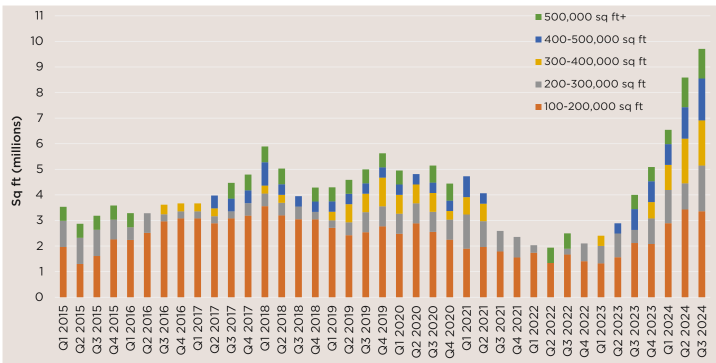
Source Savills Research

Take-up 30% below the long-term average



Source Savills Research

Supply 56% by count within 100-200,000 sq ft size band



Source Savills Research

> “The South West and Wales have experienced significant investment in recent months, notably being selected as future sites for gigafactories. This development has attracted interest from numerous smaller businesses. Combined with the revival of data centres and unconventional warehouse occupiers, this trend is expected to significantly reduce supply in the near future”

South West & Wales

Take-up has already surpassed long-term annual average by 27%

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Huntworth Business Park in Bridgwater, where Savills is advising Howard Tenens on the disposal of 112,558 sq ft.

Supply

Supply has risen 22% in the last twelve months to stand at 6.15m sq ft. That being said, Savills notes we have passed the peak supply of c. 8m sq ft recorded in March this year. Of the current supply, 2.32m sq ft, or 38%, is located in Wales, while 3.83m sq ft, or 62%, is in the South West. Based on the five-year annual average take-up, this equates to 1.73 years' worth of supply in the wider market. The largest unit available is the former Wilko Distribution Centre in Caldicot, comprising 920,000 sq ft. Notably, 29% of the current supply is concentrated in two units, each over 500,000 sq ft.

Regarding quality, 38% of the available space is Grade A speculatively developed, 4% is second-hand Grade A, 9% is Grade B, and 49% is Grade C. In terms of unit count, there are 11 units available in the 100,000-200,000 sq ft size band, six units in the 200,000-300,000 sq ft band, three units in the 300,000-400,000 sq ft band, one unit in the 400,000-500,000 sq ft band, and two units over 500,000 sq ft.

The resurgence of occupier interest in the region, primarily driven by its relative affordability, higher supply, and favourable demographic conditions, has led to a significant portion of the supply being placed under offer. Currently, 42% of the supply is under offer, with the majority being good-quality space. These transactions are set to close imminently, which would reduce the vacancy rate to 2.9%.

Take-up

Take-up in the South West and Wales has already surpassed the long-term annual average by 27%, totalling 3.28m sq ft across eleven transactions. Typically, the region sees 2.57m sq ft transacted across eleven units annually. Interestingly, the majority of this activity has been in Wales, which has accounted for 66% of the transactions, while the South West has accounted for 34%. In terms of specifications, 78% of the space transacted this year has been second-hand, 15% has been BTS and 7% has been speculatively developed. Historically, the long-term average shows that 53% of space transacted annually is second-hand, 38% is BTS, and the remainder is speculatively developed. This shift has primarily been driven by the lack of new developments coming forward.

Analysing take-up by deal count for H1 2024 shows six transactions within the 100,000-200,000 sq ft size band, four within the 200,000-300,000 sq ft size band, and one over 500,000 sq ft. Annually, the region typically sees seven transactions in the 100,000-200,000 sq ft size band, three in the 200,000-300,000 sq ft size band, one in the 300,000-400,000 sq ft size band, and one over 500,000 sq ft. The other sector, which consists of the likes of data centres and film studios has accounted for 73% of activity in 2024, the 3PL sector 17%. The remainder were taken by manufacturing firms and parcel companies.

Development Pipeline

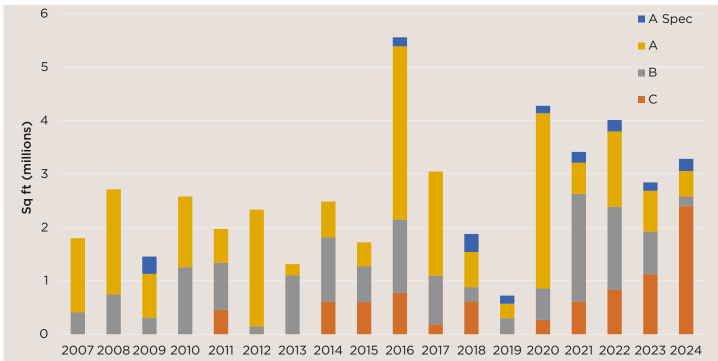
There are currently three units being speculatively developed within the wider region, one within the 100,000-200,000 sq ft size band and two in the 200,000-300,000 sq ft size band.

Key statistics

	Stats	yr/yr change
Take-up	3.28m sq ft	↑ 259%
Supply	6.15m sq ft	↑ 22%
Development Pipeline	0.59m sq ft	↓ 63%
Quoting Grade A Rent	£8.75/sq ft	↑ 9%
Vacancy rate *	5.08%	↑ 76bps

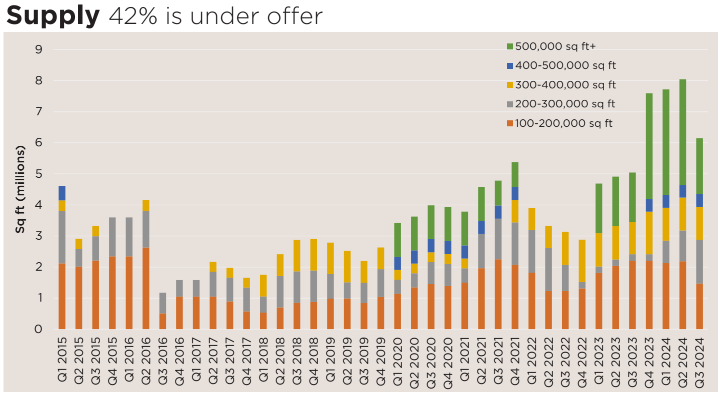
Source Savills Research

Take-up bolstered by large lettings



Source Savills Research

Supply 42% is under offer



Source Savills Research

> “Requirements within the East of England have surged in Q2 2024, particularly interesting given recent large-scale investments in the area. Consequently, all the top-tier vacant spaces are now under offer and are expected to finalise in Q3 2024. Given the region’s limited stock, the vacancy rate can vary rapidly, and we anticipate it will drop to 5.3% by the end of the year.”

East of England

Vacancy rate at 7.05%, 28% of supply is within one large unit

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Jaynic’s Suffolk Park scheme, where Greene King has recently aquired land to self-build a bespoke facility. Savills is the agent.

Supply

The level of supply in the market has increased by 18% over the past twelve months, reaching 2.61m sq ft across nine units. According to Savills’ analysis, the peak of supply has been surpassed, and the vacancy rate is expected to fall to approximately 5.3% by the end of the year. Based on the five-year average annual take-up, there is only 1.13 years’ worth of supply available in the region. The largest unit currently on the market is Peterborough 736, offering around 736,000 sq ft of Grade B second-hand space, which alone constitutes 28% of the total available supply. Analysing the vacant supply in terms of grade shows 21% of space available is Grade A speculatively developed space; however, all is currently under offer, 7% is second-hand Grade A space, 38% is Grade B and 34% Grade C space.

By unit count, there are currently two units available within the 100,000-200,000 sq ft size band, four within the 200,000-300,000 sq ft size band, two within the 300,000-400,000 sq ft size band and one unit over 500,000 sq ft.

Take-up

Economic and political uncertainty affected occupier expansion plans during 2023, resulting in a take-up of 622,841 sq ft across four transactions. This trend has persisted into 2024, with take-up currently standing at 371,511 sq ft across two transactions. However, requirements have started to increase, with approximately 1.2m sq ft now under offer and set to exchange in H2 2024. Despite a dip in activity in the big box market, the mid-box size range has continued to outperform expectations, highlighting sustained occupier demand.

Savills continues to observe a lack of high-quality space and minimal speculative development pipeline, which is hindering broader market activity. All transactions in 2024 have involved BTS spaces, with no new developments and all available speculatively developed space under offer, this trend is likely to continue. Historically, the five-year annual average shows that 18% of space transacted per annum is new speculatively developed space, with a significant increase in years when such units are available, 53% is BTS space and 29% is second-hand space.

Occupier demand has stemmed from third-party logistics firms, accounting for 66% of all activity and food producers who have accounted for 34% of activity.

Development Pipeline

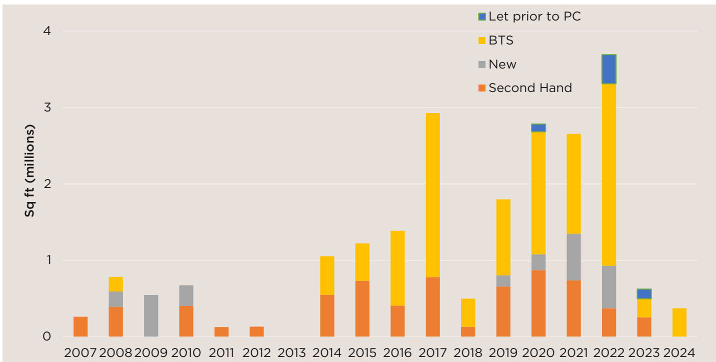
There is now no development pipeline. Occupiers seeking space within the region must either go down the BTS route to acquire space or acquire one of the nine existing units.

Key statistics

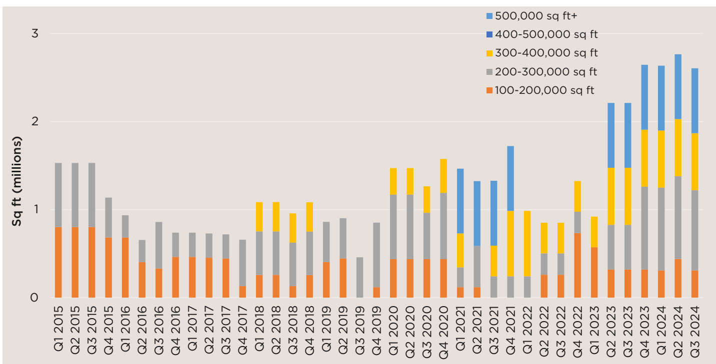
	Stats	yr/yr change
Take-up	0.37m sq ft	↓ 2%
Supply	2.6m sq ft	↑ 18%
Development Pipeline	0m sq ft	-
Quoting Grade A Rent	£8.75/sq ft	↑ 2%
Vacancy rate	7.05%	↑ 42bps

Source Savills Research

Take-up falls; however, c.1.2m sq ft is currently under offer



Supply skewed due to large second-hand units



Source Savills Research

> **“Recent surges in demand for industrial and logistics properties in the Scottish Central Belt suggest an uptick in activity in the second half of 2024. However, several barriers to growth exist. Occupiers are increasingly seeking top-quality stock and the shortage of Grade A big box facilities is pushing them towards properties under 100,000 sq ft, a segment that has performed well”**

Scotland

Vacancy rate falls to 4.28%; forecast to drop to 3.92% by Q4 24

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Recently exchanged and developed Belgrave Logistics Park, comprising of 126,960 sq ft. Savills acted for the tenant.

Supply

The supply of warehouse space in Scotland for units over 100,000 sq ft now totals 1.36m sq ft across seven units, marking an 11% decline over the past six months, which indicates that the region is past the peak in vacancy. Based on the five-year average annual take-up, there is 1.72 years' worth of supply in Scotland. The five-annual take-up for Grade A space is currently around 320,000 sq ft. With no Grade A supply available, occupiers must resort to BTS options or settle for smaller warehouses.

The existing supply consists entirely of lower-quality units, with 42% being Grade B and 58% being Grade C. The recently completed Belgrave Logistics Park was the only Grade A building available, which has now been leased, Savills represented the tenant. Savills' requirements database indicates that tenants are increasingly concerned about power and energy costs, driving demand for buildings with higher sustainability credentials. However, most warehouses in Scotland do not meet the desired EPC Grade B standard, necessitating significant upgrades to satisfy occupiers' needs.

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

Take-up

The predominant activity in Scotland centres around smaller units due to the limited supply of good-quality spaces over 100,000 sq ft. In 2023, the take-up of units over 100,000 sq ft reached 545,000 sq ft across three transactions: two within the 100,000-200,000 sq ft range and one within the 300,000-400,000 sq ft range. In 2024, there has been one transaction within the 100,000-200,000 sq ft size band. Belgrave Logistics Park was leased by a third-party logistics firm looking to expand within the central belt.

As observed across the United Kingdom, occupiers are seeking best-in-class buildings. On average over the past five years, 43% of transacted space has been Grade A, 44% Grade B, and 13% Grade C. The proportion of high-quality take-up increases when speculatively developed units reach completion, underscoring sustained demand.

Development Pipeline

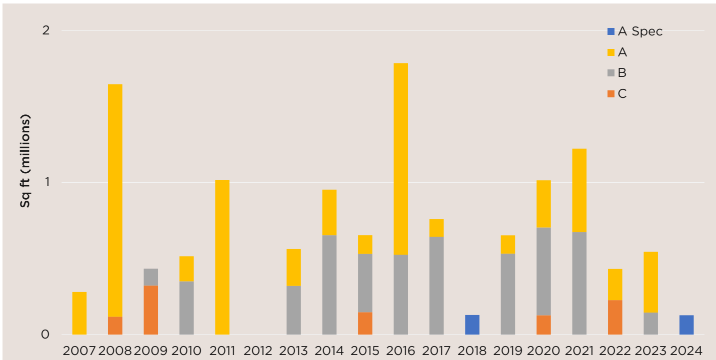
There has been no change in the development pipeline. Canmoor continues construction of Westway 200 in Renfrew which will provide 202,230 sq ft of Grade A space. Additionally, Savills is tracking c.450 acres at various stages in the planning process which could provide BTS options.

Key statistics

	Stats	yr/yr change
Take-up	0.13m sq ft	↓ 48%
Supply	1.36m sq ft	↑ 7%
Development Pipeline	0.2m sq ft	no change
Quoting Grade A Rent	£8.50/sq ft	no change
Vacancy rate	4.28%	↓ 25bps

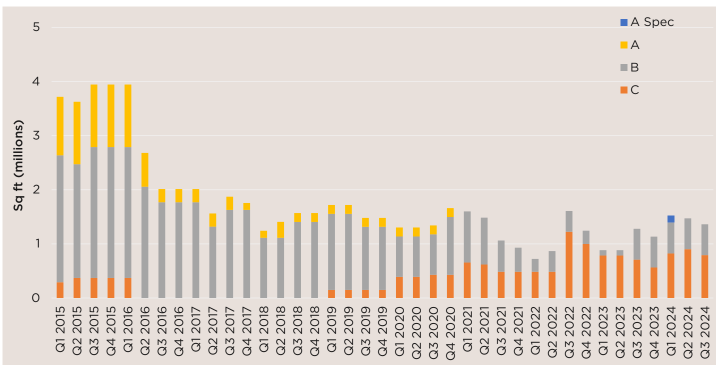
Source Savills Research

Take-up 100% was Grade A space



Source Savills Research

Supply falls, with 19% also now currently under offer



Source Savills Research

> "With more widespread investor conviction and focus on total returns rather than just initial yield, we are seeing more bidders and selectively stronger pricing"

National investment

Is the stage set for investment volumes to trend upwards?

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Amazon, Chesterfield which Savills sold for Warehouse REIT for £46m.

Logistics capital markets faced significant challenges in 2023, with very few sellers at the pricing that buyers were prepared to pay.

Indeed, analysing all subsectors shows that global capital markets have had their most subdued start to the year since 2012, down 18% YoY. However, against that backdrop of lower volumes, logistics and industrial has increased its global share to 27% of the total investment market, the highest proportion ever recorded, demonstrating investors remain committed to the wider structural story that has propelled the sector forward over the last decade.

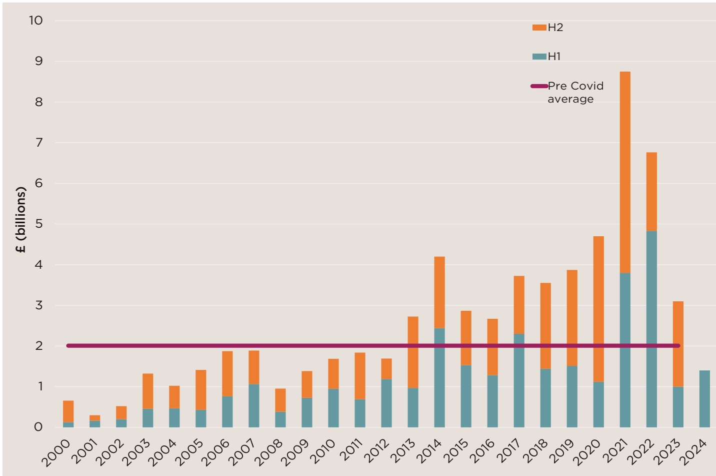
Closer-to-home investment volumes in the first-half of the year for UK distribution have reached £1.4bn, a 41% increase when compared to the first half of 2023 and a 47% increase when compared to the pre-Covid H1 average.

With a strong first half performance in the occupier market, we expect sentiment to continue improving as the year progresses, especially when other externalities, such as falling base rates, are considered. Indeed, 97% of European investors responding to the latest INREV investor intentions survey flagged that the current level of interest rates was having an adverse impact on volumes.

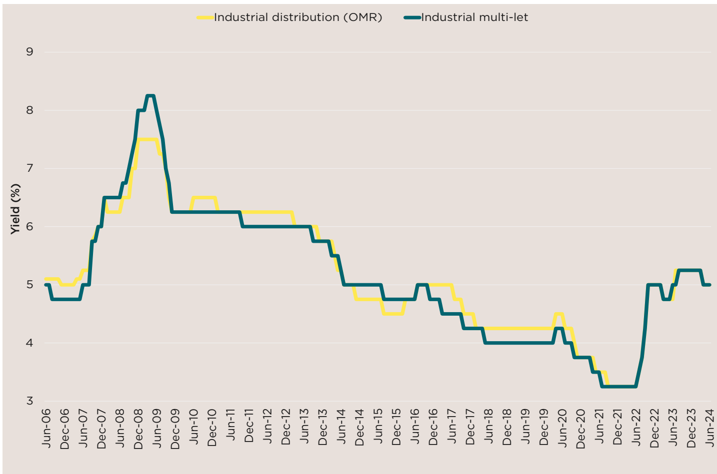
This macro environment and more widespread belief in further rental growth should aid in closing the bid/ask spread in the market, which has been one of the key barriers to elevated investment volumes over the last twelve months.

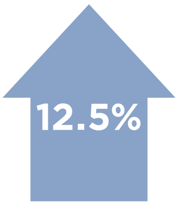
The Savills prime yield for both distribution and logistics currently sits at 5% , having moved in by 25 bps during the first half of the year. Providing there is little deviation in the outlook for interest rates, we expect pricing to improve and , with it, volumes to start a slow trend upwards which, in turn, will start to put inward pressure on yields.

Investment volumes increased 41% on H1 2023



Prime investment yields have fallen to 5.00%





Year-on-year growth for Amazon global retail sales

Outlook

Political stability and falling base rates to the rescue?

The Savills requirements index continues to show upward movements, with a 15% rise in the second quarter of 2024, suggesting that a further 15m sq ft of take-up should be expected in the second half of the year. This would mean that total take-up for 2024 will exceed the 29.1m sq ft of space transacted in 2023.

There is a case to be made, however, that the risk to this forecast is on the upside and that conditions in the second half of year will stimulate demand more than we expect.

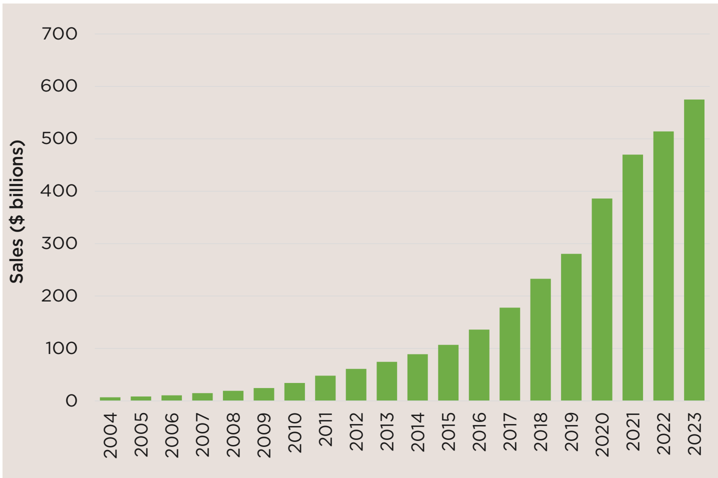
Firstly, with a new government in place, a period of political stability is expected. Whilst we wait to see how Labour will enact its manifesto, we can expect businesses to be more confident to make investment decisions now that the general election has taken place.

Consumer confidence remains robust and as we head into the second half of the year, we can expect the Bank of England to cut interest rates, with Oxford Economics forecasting two inward movements by year end to bring the rate to 4.75%.

With requirements for units over 500,000 sq ft remaining 250% higher than where they were in Q1 2020, it is plausible we will start to see a rise in larger deals, which will have a skewing impact on the overall take-up numbers.

In the online retail sector, the engine room of growth over the last decade, there are signs of renewed optimism. For Amazon, at a global level, Q1 retail sales were up 12.5% YoY and in the USA, they will add a further 43m sq ft to their network in 2024, a trend we expect to see in the UK and Europe as we move into 2025

Amazon global retail sales continue to grow



Source Statista

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BUILD COST AND PROGRAMME

Whilst take-up at a nationwide level has increased by 44% YoY 75% of this take-up has been for existing units, meaning that BTS remains subdued. If we combine this with a fall in speculative development announcements, it is clear to see there is less construction of additional warehouse space being undertaken compared to recent years. It is therefore little surprise that we are starting to see evidence of softer build costs and additional capacity in the construction supply chain.

This is reflected in the latest data from the [Savills ProgrammE and Cost Sentiment Survey (S.P.E.C.S)] which has shown that build costs in the logistics sector have started to fall from recent high levels. Indeed, for certain commodities, such as steel, we have witnessed a fall of c.33% since July 2022.

With requirements trending upwards, particularly for larger units, and with BTS viability increasing, we expect to see construction activity improve as the year progresses. We also expect to see continued interest from building owners in delivering comprehensive refurbishments to improve the ESG characteristics of older units to ensure assets are not stranded as occupier focus continues to revolve around better-quality units.

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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