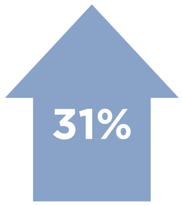
SPOTLIGHT
Savills Research

Big shed briefing

savills

IM Properties Mercia Park where Jaguar Land Rover has signed a lease for a 2.94m sq ft campus - the largest single occupier deal in UK history

Take-up 31% above average ● Vacancy stable at 6.65% ● 6.56m sq ft development pipeline



2019 take-up above long term average

Nationwide overview

Take-up exceeds expectations and vacancy levels remains stable

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DIRFT 535 where Prologis delivered the largest speculative unit of 2019

There have been plenty of economic and political issues with the potential to impact adversely on the UK industrial and logistics market in 2019 but the "stats" and general sentiment paints a positive picture.

In the UK Brexit has dominated the political debate, so much so that a general election was called in December 2019. In a European context economic growth in key markets such as Germany has stalled and at a global level there remains continued uncertainty regarding future trading arrangements between the USA and China.

As we move into 2020 with a government that has a strong working majority we expect that occupiers will be freed from the shackles of uncertainty which may have delayed investment decisions in recent years. This could manifest itself in a number of ways including new entrants to the market, mergers and acquisitions or simply business investment to optimise supply chains for an omni channel retail environment.

Take-up

Despite the aforementioned geopolitical uncertainty it is pleasing to report that take-up for units over 100,000 sq ft has reached 34.21m sq ft across 136 separate transactions; both measures up on their long term averages by 31% and 24% respectively.

Leading the pack geographically are the East Midlands, the South East and Yorkshire where new take-up records have been set.

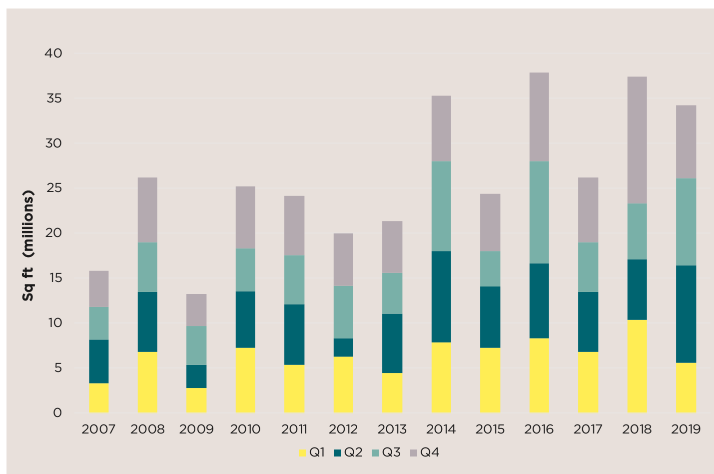
Interestingly by size the market rebalanced somewhat in 2019 with less space transacted for units over 500,000 sq ft, down 3.65m sq ft to 9.84m sq ft. This meant that the key driver of demand came from units between 100 - 200,000 sq ft which accounted for 35% of all the space transacted.

Another positive trend in our take-up stats was the fact that no one sector or occupier dominated, as has happened in previous years. Indeed, 2018's largest occupier Amazon only accounted for 11% of the market this year.

Supply and Pipeline

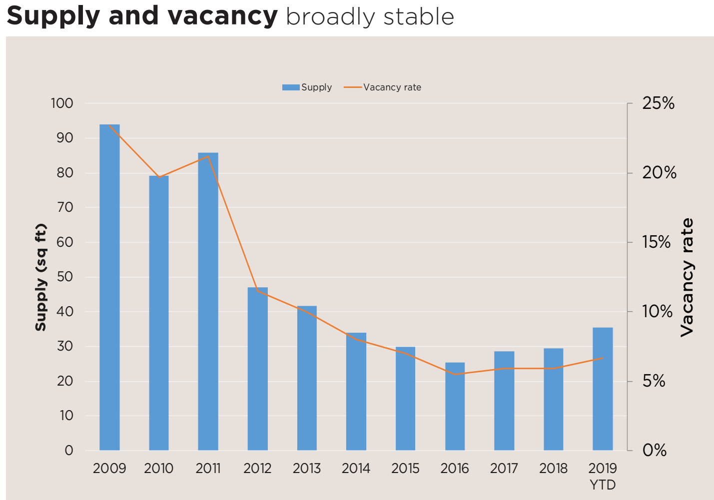
Nationwide supply has risen by 3.92m sq ft and now stands at 35.79m sq ft, reflecting a vacancy rate of 6.65%. Given that we saw 8.88m sq ft of speculative space achieve practical completion in 2019 it is remarkable that vacancy increased by just 39bps. We are not forecasting any sharp rise in supply in 2020 as there is currently just 6.56m sq ft, across 30 units, under construction. However given a generally more stable and positive economic outlook we may see some further speculative development announcements during the course of 2020.

Take-up pattern of strong year/average year broken



Source Savills Research

Supply and vacancy broadly stable



Source Savills Research

"A record year of take-up with demand recorded across all size ranges"

London and the South East

New take-up record set

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Supply

Over the last 12 months supply has increased by 4.5% and now stands at 5.78m sq ft, compromising 30 separate units. Of the space on the market 74% is now classified as grade A, up from just 43% in 2015.

Take-up

Take-up totalled 7.88m sq ft for 2019, a 9% increase on 2018 and a 56% increase above the long term average for the region and a rise of 660,000 sq ft on 2018 setting a new record in the process. In February Amazon took the 574,000 sq ft Altitude unit from Gazeley, which is the largest deal for a speculatively constructed unit in 2019. The largest deal however was in Didcot where a data centre provider purchased land to construct a 700,000 sq ft data centre. Within the M25 SEGRO signed the largest leasehold BTS since 2011 as Ocado signed for a new 304,355 sq ft fulfilment centre in Purfleet.

However, deal volumes in 2019 have centred around the smaller size bands 48% of all deals being for units under 200,000 sq ft. This has meant the average deal size in the region has fallen by 30% to 202,169 sq ft.

There is continued occupier demand for grade A space in the region as 45% of take-up has been for BTS units. Good news for developers however is that 1.78m sq ft of speculative space was taken in 2019, the highest amount since 2011.

Development Pipeline

There are eight units under construction totalling 1.35m sq ft. The largest unit due for delivery in 2020 is Magnitude in Milton Keynes where Gazeley are speculatively developing 312,700 sq ft, set to achieve practical completion in Q3 2020.

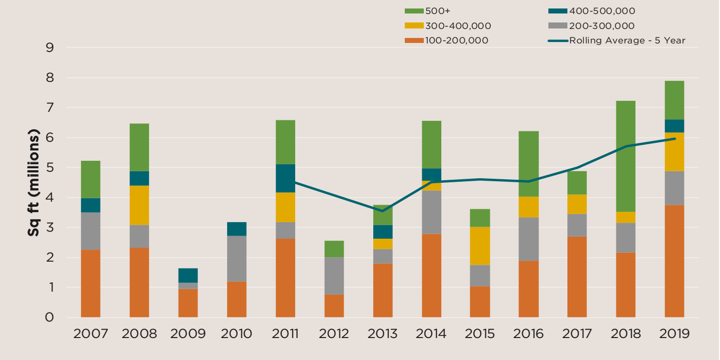
Of the eight units, three are within the M25 with the larger buildings being spread across the wider South East region, meaning that we do not currently see any micro market over supply driven by speculative development.

Key statistics

	Stats	yr/yr change
Take-up	7.88m sq ft	↑ 9.1%
Supply	5.78m sq ft	↑ 4.5%
Development Pipeline	1.35m sq ft	↓ 11%
Quoting Grade A Rent	£7.75-£20.00/sq ft	↑ 8.1%
Vacancy rate	5.00%	↓ 5bps

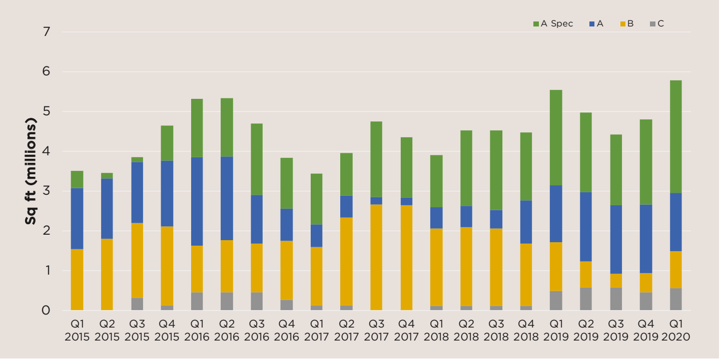
Source Savills Research

Take up New annual record set



Source Savills Research

Supply volatility driven by larger units



Source Savills Research

> **Despite the recent rise in supply, through using the five year annual average take-up there is just 0.93 years of supply left throughout the region**

East Midlands

Second record year of take-up in succession

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Supply

An increase in speculative development completions, paired with large units returning to the market has seen current supply reach 6.27m sq ft representing a rise of 91% from 2018. However, as stock levels have also increased due to strong levels of BTS take-up vacancy remains stable at 5.74%, a rise of just 91bps in 2019.

Using the five year take-up average there is just 0.93 years of supply within the region, however if we excluded BTS from the take up average this rises to 2.5 years. The largest available unit on the market is Nottingham 550 totalling 550,000 sq ft, speculatively developed by Panattoni. This unit is rumoured to be under offer and should a deal complete in Q1 2020 the void period would be less than 12 months.

Interestingly the proportion of Grade A supply has decreased throughout 2019 and now accounts for 63% of supply, down from 74% in 2018.

Take-up

A record 9.57m sq ft of space was taken on new leases in 2019, up 3.8% on 2018. This included the largest ever warehouse deal signed in the UK where JLR committed to 2.9m sq ft across a campus of buildings at IM properties Mercia Park in Ashby de la Zouch.

Whilst this deal ensured BTS units were the dominant type of transaction in 2019, it should be noted that of the 20 separate transactions recorded 20% were for speculatively constructed units, the largest being Northampton 310, taken by Eddie Stobart in June 2019. This was one of the three units Eddie Stobart took at Panattoni Park Northampton together totalling 623,000 sq ft.

Development Pipeline

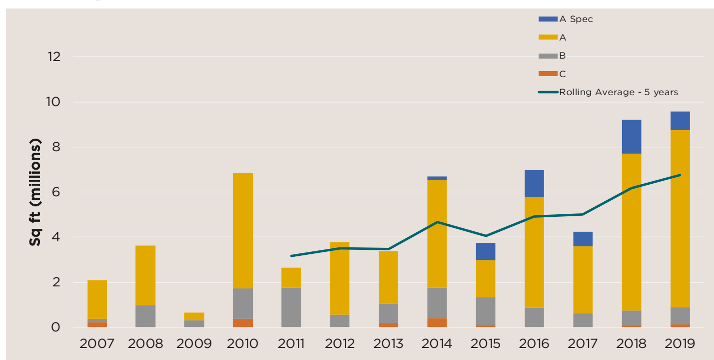
There are currently five units under construction which total 1.56m sq ft. The largest unit currently under construction is IM properties Hinckley 532, which completes in Q1 2020 and is rumoured to already by under offer.

Key statistics

	Stats	yr/yr change
Take-up	9.57m sq ft	↑ 3.8%
Supply	6.27m sq ft	↑ 91%
Development Pipeline	1.56m sq ft	↓ 53.4%
Quoting Grade A Rent	£6.75/sq ft	no change
Vacancy rate	5.74%	↑ 236bps

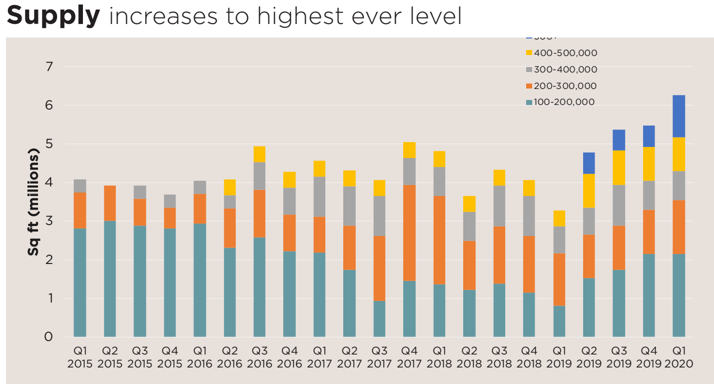
Source Savills Research

Take up record year helped by largest deal in UK history



Source Savills Research

Supply increases to highest ever level



Source Savills Research

> “Take-up of units over 100,000 sq ft in the West Midlands is up 15% in 2019. This is positive news for the market given the ongoing economic and political headwinds within the UK”

West Midlands

Strong 2019 second half sees supply fall

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Supply

Supply within the region currently stands at 7.19m sq ft, falling 17% from the peak of 8.68m sq ft reached in Q2 2019. Of the vacant space on the market 37% is considered to be of grade B & C quality which given the fact take-up is dominated by grade A units could suggest this stock is not suitable for modern requirements.

Of the 40 units on the market 35% have been constructed speculatively and all but 10 are under 200,000 sq ft. This does suggest that the market could take more units of a larger size, historically just 39% of take up is for units under 200,000 sq ft. The largest unit on the market remains Goliath in Coventry at 666,044 sq ft which has been vacant now for 23 months.

Take-up

After five consecutive below average quarters of take-up it was pleasing to see two above average quarters in the second half of 2019. This meant that take-up for H2 2019 was 16% above the long term average and that 2019 overall saw a 15% rise in take-up on 2018. This stronger performance was aided by 1.50m sq ft of transactions for speculatively constructed space, the highest amount since 2011, which made up 38% of the total market in 2019.

The year finished strongly with the largest BTS deal of the year where Amazon committed to 366,000 sq ft which will be constructed at Redditch Gateway by Stoford. Overall the largest tenant type in the region in 2019 was the automotive and manufacturing sector which made up 41% of take-up.

Development Pipeline

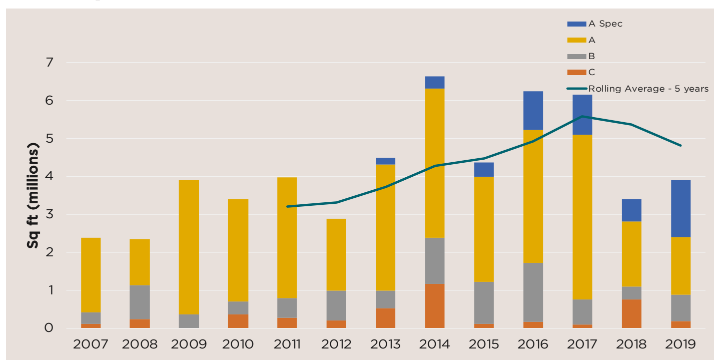
Seven units are currently under construction within the West Midlands totalling 1.49m sq ft. The largest unit currently under construction is the recently announced Fradley 432 where Evans Property Group are speculatively developing 431,500 sq ft set to reach practical completion Q1 2020.

Key statistics

	Stats	yr/yr change
Take-up	3.9m sq ft	↑ 14.5%
Supply	7.19m sq ft	↓ 5.4%
Development Pipeline	1.49m sq ft	↑ 77.4%
Quoting Grade A Rent	£6.95/sq ft	no change
Vacancy rate	8.53%	↓ 90bps

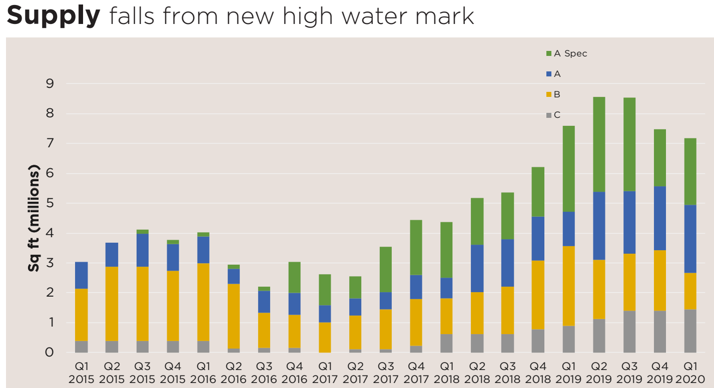
Source Savills Research

Take up above average H2 helps overall rise



Source Savills Research

Supply falls from new high water mark



Source Savills Research

> "Political uncertainty has taken its toll on the market this year with many deals taking longer to complete. We are tracking over 2m sq ft of space under offer which will ensure 2020 starts brightly"

North West

Supply less than 1.5 years based on 5 year average take-up

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Icon 138 where Stoford and TPG are speculatively developing 138,375 sq ft

Supply

The supply of warehouse space for units over 100,000 sq ft currently stands at 5.7m sq ft across 29 separate units representing a 6.2% decrease from 2018.

Grade A stock now accounts for 50% of all available space, of which 42% has been speculatively developed. However, despite the increase in grade A space which currently stands at 2.8 million sq ft through 13 units, using the long term average for grade A take-up in the region there is just 1.34 years worth of supply left within the market.

In terms of unit count, the supply in the North West is skewed towards the 100,000-200,000 sq ft size band with 66% of available units being within this size band. There are just two units currently available within the market over 400,000 sq ft.

Take-up

Following the record year seen in 2018, transactional activity for 2019 has declined reaching 3.27 million sq ft through 17 separate deals representing a 9.8% decrease below the five year average.

The largest deal of the year was Eddie Stobart acquiring 634,910 sq ft at Appleton in Warrington. This is set to be the largest deal within the region in 2019 however it is currently being held with the Secretary of State for final approval.

In addition, Savills are aware of over 2m sq ft under offer through ten separate units due to complete H1 2020 highlighting continued occupier demand throughout the region.

Development Pipeline

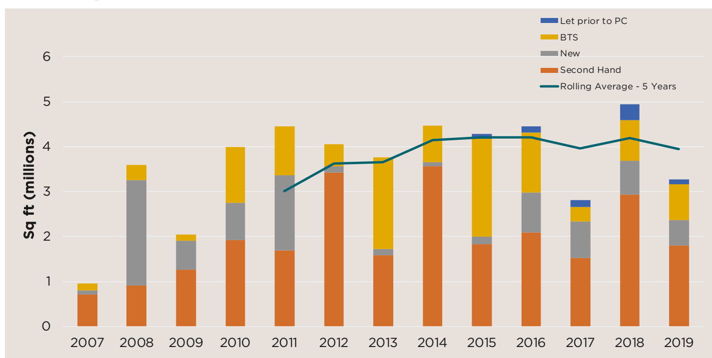
There are currently just two units being developed totalling 263,375 sq ft. The largest is Icon 138 in Manchester totalling 138,375 sq ft. This limited development pipeline may see average rents increase as occupier demand for better quality units limits the supply and thus pushes on rents.

Key statistics

	Stats	yr/yr change
Take-up	3.27m sq ft	↓ 33.8%
Supply	5.7m sq ft	↓ 6.2%
Development Pipeline	0.26m sq ft	↓ 83.23%
Quoting Grade A Rent	£7.25/sq ft	↑ 7.4%
Vacancy rate	7.42%	↓ 66bps

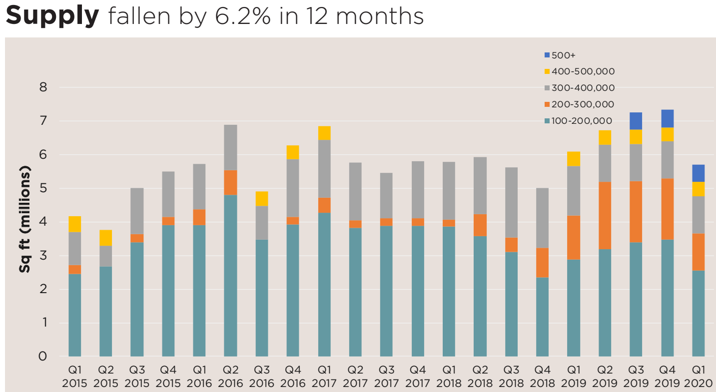
Source Savills Research

Take up second hand space dominates



Source Savills Research

Supply fallen by 6.2% in 12 months



Source Savills Research

> “With take-up being 48% above the long term average it’s pleasing to see so many deals under 200,000 sq ft, meaning its not just big deals skewing the market”

Yorkshire and the North East

Two thirds of deals under 200,000 sq ft

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Supply

Record levels of take-up in 2018 led to a decline in supply within the region but with an increase in speculative development completions supply now stands at 4.66m sq ft across 24 separate units a 16% rise from the start of 2019. The amount of speculatively built units on the market has doubled throughout 2019 and now stands at just over 1m sq ft across six units, the largest being G Park Doncaster at 278,852 sq ft.

Currently, there are four units on the market above 300,000 sq ft of which all are second hand, in fact 79% of the total available space is second hand. The largest unit on the market is Premier Way North which comprises 546,970 sq ft.

Take-up

Following the highest recorded levels of take-up in 2018 the market has performed strongly in 2019 reaching 6.66m sq ft representing a 48% rise above the long term average. As a stand alone sub region Yorkshire had its best year of take-up at 5.21m sq ft.

Of the 25 transactions recorded in the entire region 56% were for second hand units, the largest being Vbites purchasing the freehold for a food manufacturing facility in Whitley Bay. Given the current supply dynamics it is difficult to see these proportions changing until more units are delivered speculatively and second hand supply is absorbed.

The largest deal of 2019 saw Wren Kitchens purchase land in Barton upon Humber to construct a 910,000 sq ft manufacturing and distribution unit.

Development Pipeline

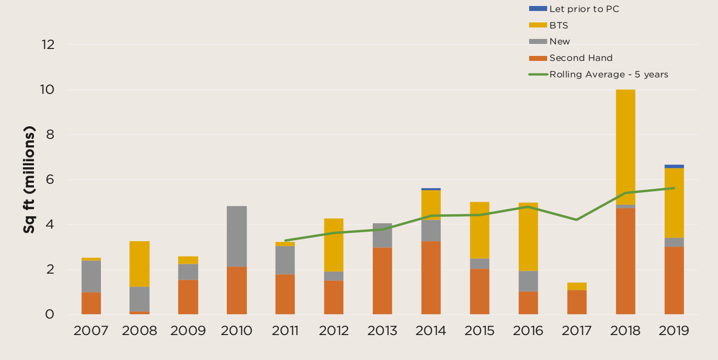
There are currently just two units under construction totalling 751,961 sq ft. The largest unit is Gateway 4 in Doncaster where Trebor Developments are speculatively developing 408,961 sq ft, set to achieve practical completion in Q3 2020.

Key statistics

	Stats	yr/yr change
Take-up	6.66m sq ft	↓ 33.4%
Supply	4.66m sq ft	↑ 16.5%
Development Pipeline	0.75m sq ft	↓ 6.3%
Quoting Grade A Rent	£5.75/sq ft	no change
Vacancy rate	6.39%	↑ 51bps

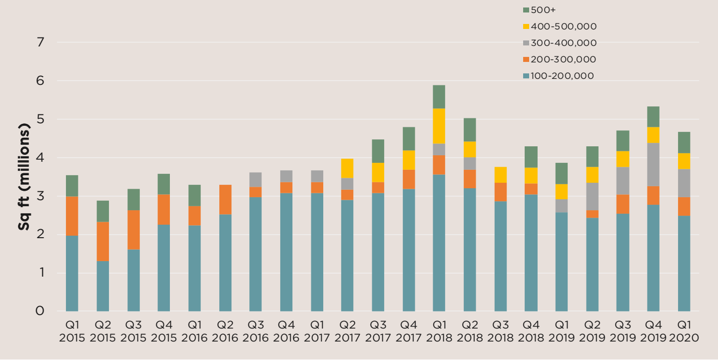
Source Savills Research

Take up second above average year in a row



Source Savills Research

Supply second hand units dominate



Source Savills Research

> "The recent removal of the Severn bridge tolls has heightened the level of interest from occupiers seeking space within Wales. We expect to see the level of interest grow as rents are lower over the bridge"

South West & Wales

Supply increases as large second hand units return to market

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Junction One Central Park where 139,061 sq ft achieved practical completion in Q4

Supply

Over the last two years supply of warehouse space in the region for units over 100,000 sq ft has been reasonably consistent hovering at c. 2.5m sq ft. The returning Imperial Park in Newport totalling 1.08m sq ft has increased the level of supply to 3.41m sq ft through 13 separate units, a 22.5% increase from the start of 2019. However Imperial Park is earmarked for reconfiguration into four smaller sized units, arguably more suitable for the market.

The quality balance of the supply still rests in favour of lower quality units, just 7% of the current vacant warehouse space is of grade A speculatively developed quality whilst 64% is grade B or C. The supply in the region continues to be dominated by smaller units with 62% of the available units being within the 100,000-200,000 sq ft size category.

Take-up

Take-up in the South West and Wales market totalled c. 720,000 sq ft, a 64% decrease from 2018 and a 62% decrease below the three year rolling average. Deal volumes have centred around the smaller size bands with 75% of all transactions (by deal count) being within the 100,000 - 200,000 sq ft size band. The average deal size within the area has increased by 8% from 2018 to stand at 180,717 sq ft.

Occupier demand continues to revolve around second hand space accounting for 79% of all space transacted in 2019. In isolation, Wales accounted for 58% of all space transacted throughout the wider region. Thew removal of the tolls from the Severn bridges has improved Wales as an option for occupiers through increased connectivity paired with lower property rents and land prices.

Development Pipeline

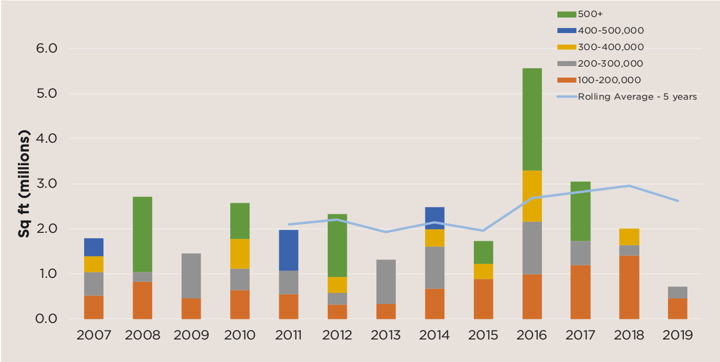
There are four units under construction totalling 535,000 sq ft, all of which are within the 100,000-200,000 sq ft size category. The largest unit due for delivery in 2019 is at Bristol Gateway where Howard Tenens are speculatively developing 183,000 sq ft set to reach practical completion in Q3 2020.

Key statistics

	Stats	yr/yr change
Take-up	0.72m sq ft	↓ 64%
Supply	3.41m sq ft	↑ 22.6%
Development Pipeline	0.54m sq ft	↑ 28.5%
Quoting Grade A Rent	£7.25/sq ft	no change
Vacancy rate	7.51%	↓ 84bps

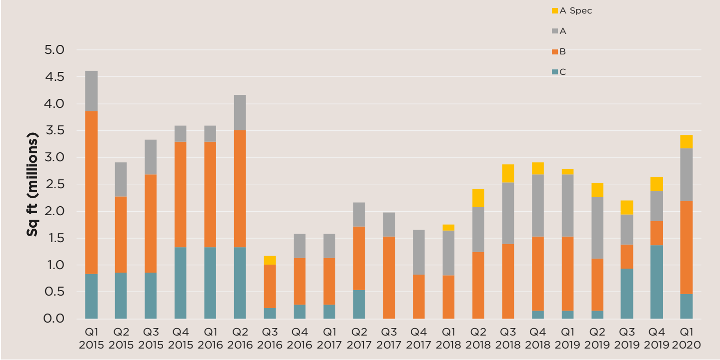
Source Savills Research

Take up dominated by smaller sized units



Source Savills Research

Supply 64% of vacant space is grade B/C



Source Savills Research

> "As we have seen at Suffolk Park there is demand in the region for modern units. It is pleasing to see more speculative development in the region to meet that demand"

East of England

Second highest take-up level ever recorded

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Supply

A recent rise in second hand availability has seen overall supply rise by 70% and now stands at 1.47m sq ft across seven units. Of this just 27% is classified as grade A, down from 56% 12 months ago. Following recent speculative development at Suffolk Park the largest grade A unit on the market is SP206 in Bury St Edmonds.

The majority of supply in the region falls into the 200,000 - 300,000 sq ft category where three units account for 49% of the availability. The largest unit on the market is a second hand unit of 300,000 sq ft near Sudbury.

Take-up

Following on from a below average year in 2018 take-up has rebounded sharply with 1.56m sq ft transacted across nine buildings, the second highest amount ever recorded across both measures.

Interestingly, compared with the previous high water mark of 2017 when BTS deals accounted for 74% of all new space taken, 2019 was more balanced with second hand space accounting for 42% of the market and new speculative space making up 9% and BTS the balance.

3PL's were the dominant tenant accounting for 45% of the space taken with the largest deal being for The Headlam Group who are constructing a 180,000 BTS unit in Ipswich. The largest overall deal was Urban Outfitters who committed to a 432,000 sq ft unit at Gateway Peterborough.

Development Pipeline

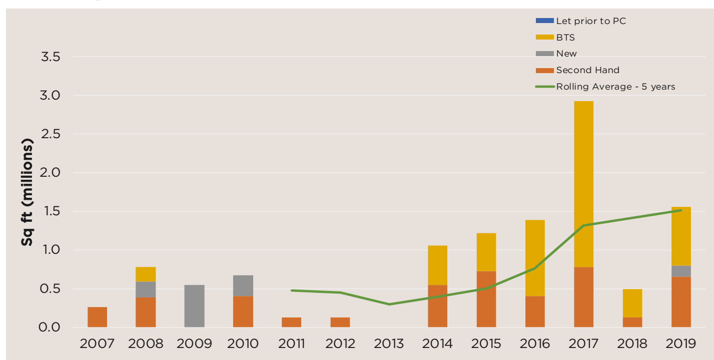
Following the first speculative construction in the region for ten years at Suffolk Park and subsequent letting of SP147 confidence has increased for investors to forward fund the delivery of two units at Gateway Peterborough. The units of 385,000 sq ft and 226,000 sq ft will reach practical completion in Q2 2020.

Key statistics

	Stats	yr/yr change
Take-up	1.56m sq ft	↑ 213%
Supply	1.47m sq ft	↑ 70.7%
Development Pipeline	0.61m sq ft	↑ ∞%
Quoting Grade A Rent	£6.00/sq ft	↑ 9%
Vacancy rate	6.54%	↑ 258 bps

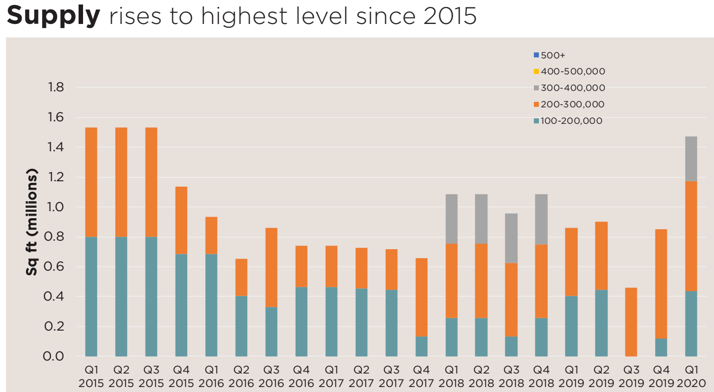
Source Savills Research

Take up balanced across different grades



Source Savills Research

Supply rises to highest level since 2015



Source Savills Research

> "The supply of new and modern space in Scotland continues to be critical. Paired with a rise in take-up, the vacancy rate for warehouses over 100,000 sq ft in Scotland is at a record low of 6.09%"

Scotland

2019 has seen largest deal since 2016

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Springburn Rail Depot, offering 279,303 sq ft of space

Supply

The supply of warehouse space in Scotland for units larger than 100,000 sq ft has fallen by 24% in 2019 to currently stand at 1.3m sq ft through nine separate units. The supply continues to be dominated by smaller, second hand units with 89% of the available units on the market being within the 100,000-200,000 sq ft size band. Additionally, in terms of available space just 13% is of grade A quality.

The decline in supply has pushed vacancy rates for units over 100,000 sq ft within the region to record lows, standing at just 6.09%. The largest unit on the market is Springburn Rail Depot providing 240,000 sq ft of grade C second hand space.

Take-up

Take-up of units over 100,000 sq ft throughout Scotland totalled c. 650,000 sq ft through three separate transactions a 407% increase on the amount of space transacted in 2018.

Transactional activity continues to revolve around second hand stock and build-to-suit units, 82% of all space leased in 2019 was second hand and 18% transacted was build-to-suit space. 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 units to satisfy their requirements.

Development Pipeline

There are still no units being speculatively developed over 100,000 sq ft in Scotland. We continue to predict stable, or declining vacancy rates throughout the region in the medium term.

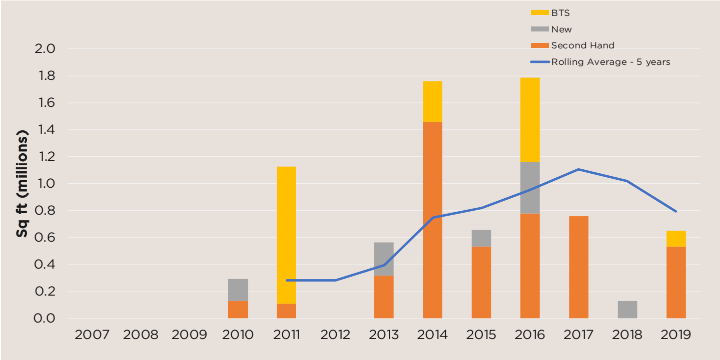
The Scottish industrial and logistics market would welcome speculative development to help relive the constrained nature towards lower quality units seen in the current supply.

Key statistics

	Stats	yr/yr change
Take-up	0.65m sq ft	↑ 407%
Supply	1.3m sq ft	↓ 24%
Development Pipeline	0 sq ft	no change
Quoting Grade A Rent	£5.75/ sq ft	no change
Vacancy rate	6.09%	↓ 199bps

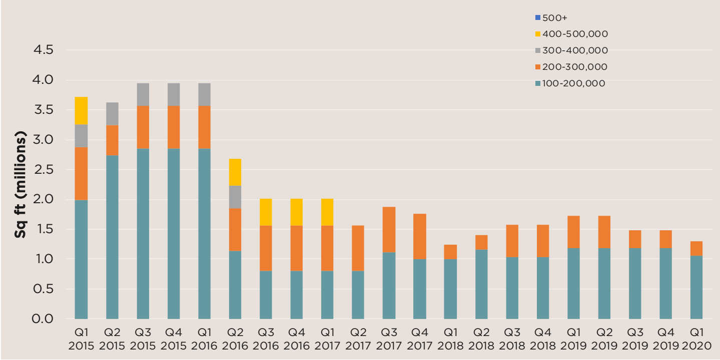
Source Savills Research

Take up second hand units continue to drive the market



Source Savills Research

Supply majority is under 200,000 sq ft



Source Savills Research

> “Given the political uncertainty that pervaded investment markets throughout 2019, a total logistics volume of £3.87bn represents a very strong performance and demonstrates the confidence investors have in the fundamentals of the sector”

National investment

Strong performance in face of headwinds

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MLP Corby where DWS have forwarded funded a BTS unit for Europa Logistics

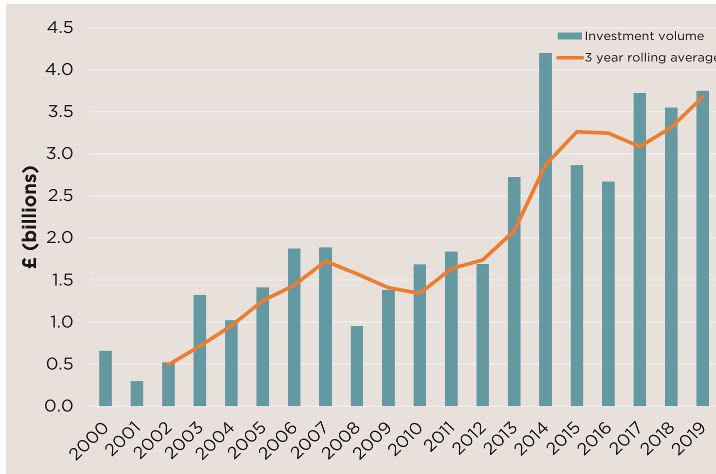
Trading volumes in the logistics investment market faced a number of headwinds through 2019; namely political uncertainty and the fact that as the market matures many developers have adapted their models to hold stock instead of trading.

It is therefore pleasing to report that investment volumes for distribution warehouses have reached £3.87bn for 2019, making it the second highest capital deployment ever, a rise of 9% on 2018 and pushes the three year rolling average to the highest level ever recorded at £3.71bn.

Volumes were helped by two key portfolios which bookended the year, the first being the purchase of DB Symmetry by Tritax in February and the second being the purchase of the Tudor portfolio by Morgan Stanley in December for £241m, reflecting a net initial yield of 3.9%. However the key driver of the market in 2019 was single unit sales between £10m and £35m which reflected 42% of the market.

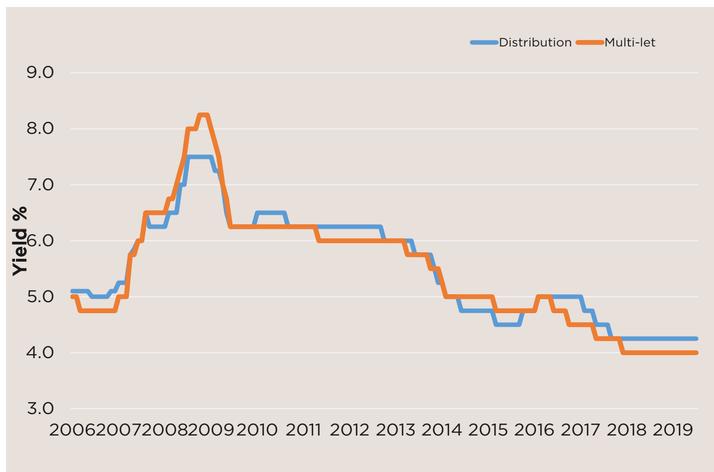
As we move into 2020 it is difficult to see investor interest in the sector wane given the continued strong occupier market dynamics and greater political certainty. The funding of speculative development in under supplied markets will continue to offer an attractive discount to purchasing up and built investments.

Investment volumes second best year ever



Source Savills Research

Prime investment yields remain static



Source Savills Research

8% 2019 pace of growth for UK online retail

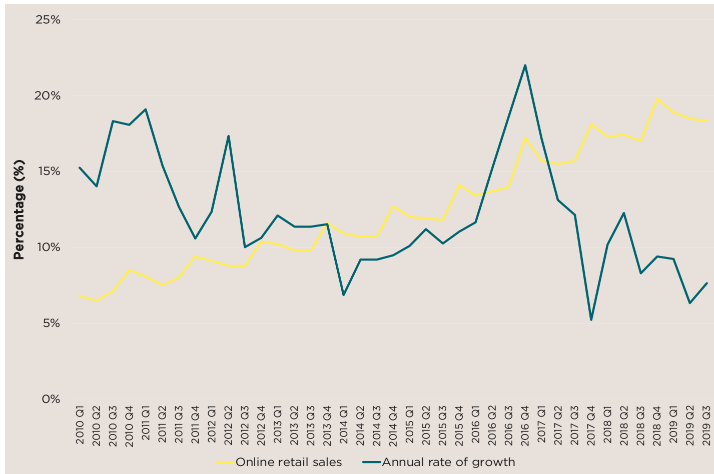
2020 Outlook

Will slowing online retail growth impact the market?

The latest data from the Office of National Statistics shows that whilst the level of online retail in the UK continues to grow, the pace of growth has started to slow in recent years. At the start of the decade growth of close to 20% a year was common place but from 2018 onwards this has slowed to under 10%. At this stage this has had no material impact on the market as online retailers continue to take space and legacy retailers adapt their supply chains to compete.

Moreover the highest growth rate ever recorded was in the second half of 2016 in the immediate aftermath of the Brexit vote. This could suggest that in times of low consumer confidence people turn to online as they perceive it to be cheaper than the high street. Therefore, if as economic forecasts suggest, the UK is set for a period of lower consumer confidence then the logistics sector could stand to be the net beneficiary.

Online retail still growing, but at a lower pace



Source ONS

BUILD COST AND PROGRAMME

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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 have remained stable in 2019.

Lower levels of speculative development have helped ease the pressures that were building with the availability of contractors towards the end of 2018. Combined with contractors pricing tenders with a view to filling their order books this has meant there has been little price inflation to speak of.

Moving into 2020 it will be interesting to see if increased political certainty will mean a rise in speculative development. If we see a post Brexit fall in the availability of overseas labour this pincer movement could see tender price inflation above what is currently forecast.

1% Overall 2020 tender price inflation forecast by Gardiner & Theobald

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Savills Research
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