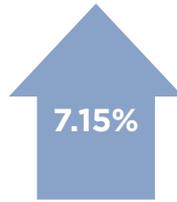


Big Shed Briefing



Prologis RFI DIRFT, where Prologis, advised by Savills, has recently leased 625,000 sq ft of speculative space to a major retailer

Year end take-up 12% above pre-Covid average ● Vacancy rises to 7.15% ● 12.63m sq ft under construction



Vacancy rises 306 bps over the last 12 months

Nationwide overview

Take-up falls 34% but remains 12% above the pre-Covid average



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As we wave goodbye to 2023, many market participants will be looking forward to a better 2024 after what has been a challenging year for real estate in general. The highest interest rates for over 15 years and inflationary pressures have seen investment and occupier activity cool in the UK logistics market as the impact of monetary policy drivers start to filter through the wider economy. Occupiers are no longer primarily in growth mode and are more driven by strategic decision-making, governed by upcoming lease events and a desire to improve the ESG credentials of their real estate portfolios. This has meant that whilst there are a sizeable number of requirements in the market, decision-making is more protracted and the end result may be that an occupier decides to stay in their current premises and revisit their requirement when economic and financing conditions are more favourable.

Whilst economic forecasters are not suggesting base rate drops until the second half of the year there are early indications that the consumer economy remains in reasonable health, with Next reporting better-than-expected performance in the months of November and December. Online sales remained the major contributor to the performance, adding 9.1%, while store retail made a more pedestrian contribution of an additional 0.6%. The same can also be said for the grocery sector where, according to Kantar, a record £13.7bn passed through the tills in the four weeks to 24th December, and one in five households made an online grocery order. Whilst one swallow doesn't make a summer, these numbers should please everyone as occupiers look to return to growth mode as the economic picture improves.

Take-up

At a national level, take-up for 2023 has reached 29.1m sq ft across 130 transactions, a 40% fall year on year, but 12% above the pre-Covid average, signalling a return to more normal market conditions after a record-breaking period.

Whilst deal counts have been 19% above the pre-Covid average, a key contributing factor to falling levels of take-up has been the more muted levels of demand for larger buildings, with take-up for units over 500,000 sq ft falling 61% to 7.32m sq ft.

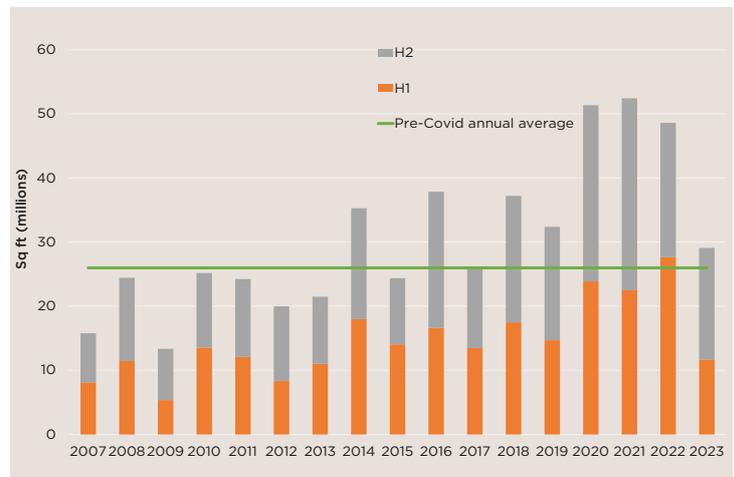
The level of build to suit (BTS) transactions also fell to the lowest level since 2015 as volatility in capital markets made it significantly harder to agree terms on such transactions. Pleasingly, we continue to see diversification of the occupier mix, with manufacturing-related deals accounting for 29% of the market, the highest level since 2017.

Supply and Pipeline

The combination of 18m sq ft of speculative completions in 2023, of which 28% has already been let, and a notable rise in the level of occupier-controlled space on the market, has seen supply rise by 90% over the last 12 months, reflecting a vacancy rate of 7.15%. Whilst no region has been immune from rising supply, there remain many markets that still have less than one year of supply, particularly for units over 300,000 sq ft. The level of speculative completions has meant that the total Grade A supply has increased to 58% of the total, the highest level Savills has ever recorded.

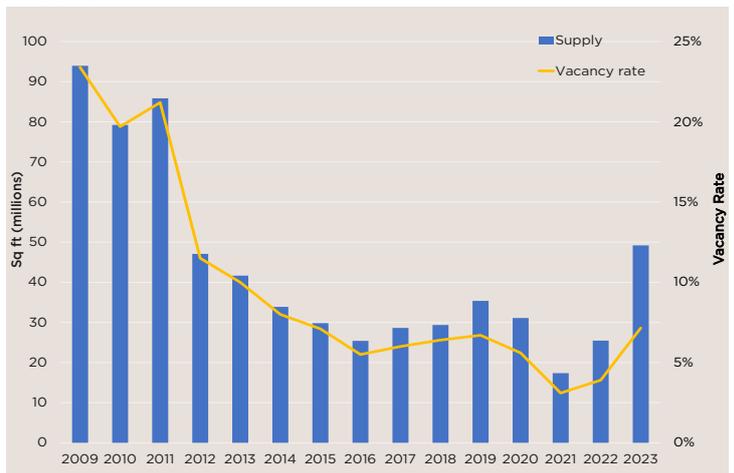
Speculative development announcements have fallen by 34% when compared to 2022, meaning that the total development pipeline for the UK now stands at 12.63m sq ft due for delivery in 2024 and early 2025.

Take-up falls but remains above pre-Covid average



Source Savills Research

Supply rises to almost 50m sq ft



Source Savills Research

“ The supply of warehouses over 100,000 sq ft has increased in the last 12 months; however, with 16% currently under offer and the development pipeline falling 40%, vacancy rates are set to fall during 2024 ”

London and the South East

New build take-up continues to dominate, accounting for 75% of the market as operational efficiencies and ESG increase in importance



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Goodman's Crossways Commercial Park provides c.241,000 sq ft of speculatively developed space. Phase 2 could provide up to c.220,000 sq ft, Savills is agent.

Supply

The last twelve months has seen supply increase by 78% to stand at 9.67m sq ft across 55 units. The rise is attributed to the 1.94m sq ft of speculative development completed throughout the year and a large amount of second-hand space returning to the market. The combined vacancy rate now stands at 6.83%, in isolation the South East sits at 7.50% and London at 5.42%.

Analysing the quality of the current supply shows 38% is Grade A speculatively developed space, 33% is second hand Grade A space, 13% is Grade B and 16% is Grade C space. Currently, 72% of the total stock in London and 64% in the wider South East fail to meet the often requested EPC (Energy Performance Certificate) B standard. Savills envisages that occupiers with lease events will continue to look to take advantage of the rising good quality supply and the benefits better quality units provide.

By unit count, there are 41 available in the 100,000-200,000 sq ft size band, 8 in the 200,000-300,000 sq ft size band, 5 in the 300,000-400,000 sq ft size band and one in

the 400,000-500,000 sq ft size band. Savills rental growth forecasts suggest that in our baseline scenario, rents will increase throughout London and the South East by 4.9% per annum over the next five years.

Take-up

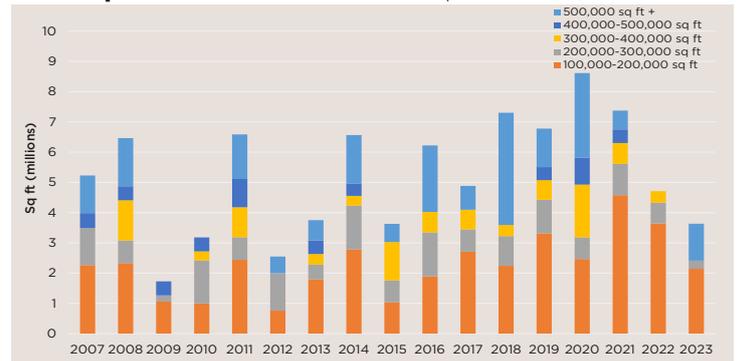
Take-up in 2023 has fallen 23% on 2022 due to the lack of larger (400,000 sq ft+) transactions. There was limited availability of larger buildings across the M1 Corridor and BTS deals were very challenging to agree. Consequently, take-up has totalled 3.63m sq ft across 19 transactions, the average unit size was 191,228 sq ft. This year the South East accounted for 83% of activity and London 17%.

Occupiers continue to choose modern units to satisfy their requirements, with 45% of space transacted in 2023 being built-to-suit space, 30% new speculatively developed space, 15% Grade A second-hand space, 4% Grade B space and 6% Grade C space. Take-up has stemmed from a range of sectors: manufacturers have accounted for 24%, followed by grocery retailers at 17%, 3PLs at 15%, and the 'other' sector 15% which consists of alternative occupiers, including data centres and film studios. Wholesalers have also been active, totalling 12% of take-up throughout the last 12 months.

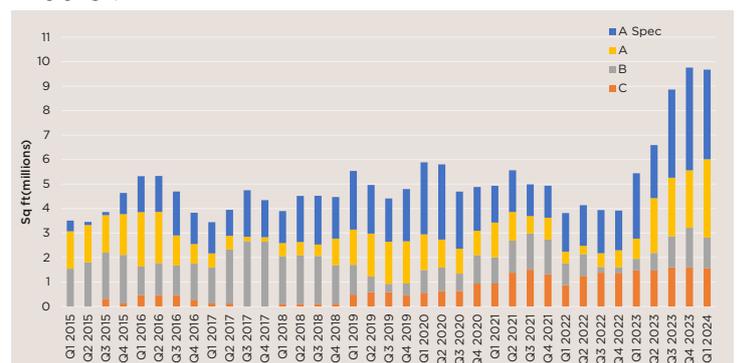
Development Pipeline

The development pipeline has fallen by 40% from this time last year. Consequently, the supply of speculatively developed space will reduce in 2024. There are now 13 units under construction throughout the region, totalling 1.87m sq ft. In isolation, the South East has eight units under construction within the 100,000-200,000 sq ft size band and two within the 200,000-300,000 sq ft size band. London has three units under construction within the 100,000-200,000 sq ft size band.

Take-up well-balanced across occupier sectors



Supply peaked; set to decline with 16% under offer



Key statistics

	Stats	yr/yr change
Take-up	3.63m sq ft	↓ 23%
Supply	9.67m sq ft	↑ 78%
Development Pipeline	1.87m sq ft	↓ 40%
Quoting Grade A Rent	£9.50-£35.00/sq ft	no change
Vacancy rate	6.83%	↑ 272 bps

Source Savills Research

“The East Midlands continues to be the target of many Industrial & Logistics occupiers seeking to acquire space in the UK, with take-up surpassing 2022 levels and the long-term average by 47%. Due to the sustained demand, prime rents have risen by 8% in the last twelve months. Savills expects the vacancy rate to peak at 7.2% in Q1 24 with speculative completions, before falling to sub 6% by year end”

East Midlands

Spec completions and second-hand supply cause supply to rise by 62%



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Supply

There are currently 38 units available over 100,000 sq ft in the East Midlands, totalling 8.67m sq ft - this is a rise of 62% in the last 12 months. This is largely due to 2.6m sq ft of speculative development completions along with 2.21m sq ft of 'occupier-controlled' space being added to the market.

Despite the rise, the vacancy rate remains low at 6.68%. Savills analysis highlights that as long as the vacancy rate remains below 12%, there will be further rental growth within a region. Savills new rental growth projections suggest that in our baseline scenario, the region will see 4.8% growth per annum over the next five years.

Currently, 46% of space on the market is Grade A speculatively developed space, 18% is second-hand Grade A space, 35% is Grade B space and just 1% is Grade C space.

In terms of unit count, there are 21 units available within the 100,000-200,000 sq ft size band, nine within the 200,000-300,000 sq ft size band, five within the 300,000-400,000 sq ft size band and three over 500,000 sq ft.

Take-up

Take-up in 2023 has reached 9.02m sq ft across 28 transactions, representing a 9% increase on 2022. The average transaction size continues to surpass neighbouring regions reaching 322,032 sq ft, highlighting the continued occupier preference for larger units.

Analysing transactional activity by specification shows 54% of space transacted this year has been built-to-suit space, 28% has been speculatively developed space and just 18% was second-hand space. This has been a notable shift in occupier preference as, according to the long-term average, 39% of space transacted per annum is second-hand space. By Grade, 28% of space transacted has been Grade A speculatively developed space, 66% has been Grade A space, 4% has been Grade B space and 2% has been Grade C space.

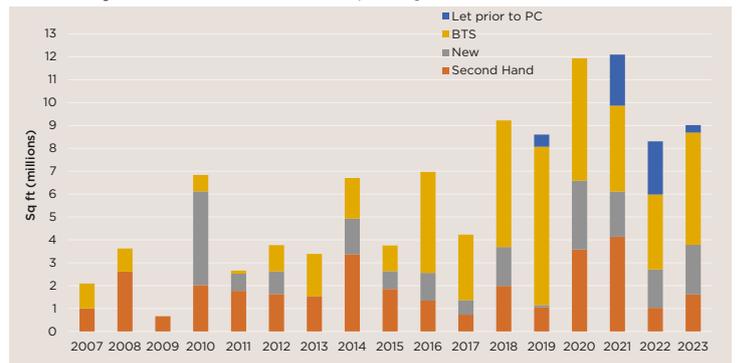
Looking at transactions by unit count, there have been 15 within the 100,000-200,000 sq ft size band, three within the 200,000-300,000 sq ft size band, four within the 300,000-400,000 sq ft size band, three within the 400,000-500,000 sq ft size band and three over 500,000 sq ft.

3PLs were most active in 2023, accounting for 31% of all space transacted; online retailers returned at the back end of the year as certainty over inflation returned, accounting for 26%, whilst manufacturers sought to improve their supply chain resilience, accounting for 17%.

Development Pipeline

There are currently 13 units under construction, totalling 3.07m sq ft. There are eight units under construction within the 100,000-200,000 sq ft size band, one within the 200,000-300,000 sq ft size band, three within the 300,000-400,000 sq ft size band and one over 500,000 sq ft.

Take-up 98% was Grade A quality

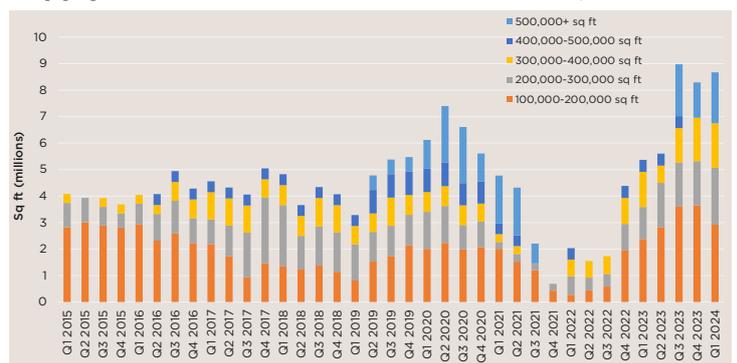


Key statistics

	Stats	yr/yr change
Take-up	9.02m sq ft	↑ 9%
Supply	8.67m sq ft	↑ 62%
Development Pipeline	3.07m sq ft	↑ 9%
Quoting Grade A Rent	£10.50/sq ft	↑ 8%
Vacancy rate	6.68%	↑ 241 bps

Source Savills Research

Supply 55% of units are within the 100-200k sq ft band



Our national requirements index has highlighted a resurgence in occupier interest in the West Midlands. However, occupiers are undoubtedly taking longer to make larger strategic investment decisions. Prime rents in the region remain robust. Savills sees this continuing whilst we have less than a year's worth of Grade A supply

West Midlands

Vacancy remains steady Q2-Q4 2023, now standing at 6.18%



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Segro Park Coventry Gateway, where Segro, advised by Savills, is developing c.360,000 sq ft.

Supply

Following on from the sharp uptick in the available supply at the start of 2023, supply levels have remained stable. There are currently 27 units available over 100,000 sq ft which total 6.04m sq ft. There are no units over 450,000 sq ft available in the region.

Of the available stock, 25% is Grade A speculatively developed space, 45% is Grade A second-hand space, 20% is Grade B space, and 10% is Grade C space.

The West Midlands continues to be dominated by smaller units, with 15 currently available within the 100,000-200,000 sq ft size band, six within the 200,000-300,000 sq ft size band, five within the 300,000-400,000 sq ft size band and one within the 400,000-500,000 sq ft size band.

Despite the rise in supply, the vacancy rate remains broadly in line with the long-term average of 5.98%. When using the five-year annual average take-up, this relates to 0.94 years' worth of supply in the region.

Savills rental growth forecasts suggest that in our baseline scenario, the region is set to see 4.8% growth per annum over the next five years.

Take-up

Take-up in 2023 has reached 3.68m sq ft across 19 transactions, this is a 23% decline on the long-term average. The main reason for this decline was the lack of large units acquired during this period. In the last three years, we have seen an average of five transactions above 400,000 sq ft. In 2023, there has been a single transaction over 400,000 sq ft which has caused the average deal size to fall to 167,221 sq ft.

Economic pressures have led occupiers to pivot away from the build-to-suit route to acquire space towards existing units. In 2023, 26% of space transacted was built-to-suit space, 15% was speculatively developed space and 59% was second-hand space. In terms of Grade, there is still occupier preference towards best-in-class buildings, with 15% being Grade A speculatively developed space, 56% Grade A, 24% Grade b and 5% Grade C space.

By unit count, there have been 13 transactions within the 100,000-200,000 sq ft size band, three within the 200,000-300,000 sq ft size band, two within the 300,000-400,000 sq ft size band and one over 500,000 sq ft. Manufacturers have shown strong commitment to the region, accounting for 33% of all transactions. 3PLs have accounted for 25% of all transactions and grocery retailers 18%.

Development Pipeline

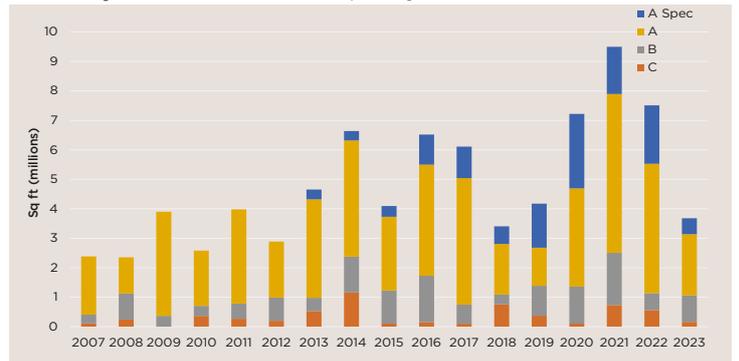
There are 14 units under construction within the West Midlands, totalling 2.89m sq ft. Eight are within the 100,000-200,000 sq ft size band, three the 200,000-300,000 sq ft band and three the 300,000-400,000 sq ft band.

Key statistics

	Stats	yr/yr change
Take-up	3.68m sq ft	↓ 51%
Supply	6.04m sq ft	↑ 103%
Development Pipeline	2.89m sq ft	↑ 12%
Quoting Grade A Rent	£10.50/sq ft	↑ 8%
Vacancy rate	6.18%	↑ 299 bps

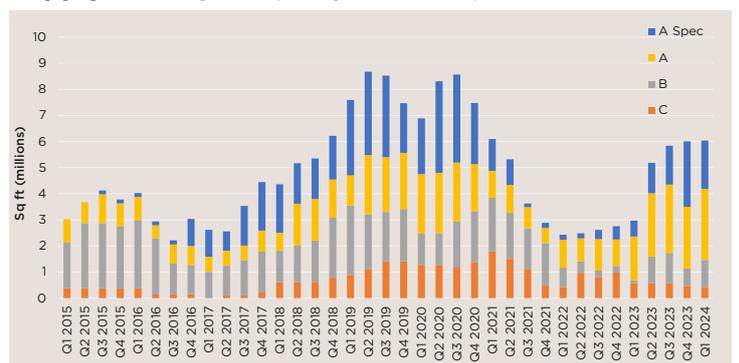
Source Savills Research

Take-up 81% was Grade A quality



Source Savills Research

Supply 70% is good quality Grade A space



Source Savills Research

“ Savills has recorded an uptick in the available supply as second-hand space is returned to the market; however, many of these units are poor quality or in unsuitable locations for many occupiers. Despite the rise in supply, the vacancy rate remains low at 6.69%, far below the 9.6% in 2019. Savills vacancy rate model has analysed lease events, potential tenant failures and development pipeline which suggests this has now have peaked and is expected to fall to 6.1% by Q2 2024 ”

North West

Just 1.13 years worth of supply left given the five-year average take-up



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X-Dock 549 provides 549,500 sq ft of Grade A space. Savills is marketing the unit on behalf of Marshall CDP.

Supply

The supply of warehouse space has increased 83% in the last 12 months to stand at 6.19m sq ft across 31 units.

In terms of Grade, 46% is Grade A speculatively developed space, 14% is second-hand Grade A space, 16% is Grade B space, and 24% is Grade C space. Currently, 79% of the stock within the North West does not reach the EPC B or above standard increasingly requested by occupiers. Landlords should focus on making necessary refurbishments in order to maximise rents achieved.

By unit count, there are 21 units within the 100,000-200,000 sq ft size band, four within the 200,000-300,000 sq ft size band, four within the 300,000-400,000 sq ft size band and two over 500,000 sq ft.

Savills logistics rental growth forecasts from 2024-2028 highlight the North West as having the largest rental growth of any UK region. Savills expects 6.3% per annum over the next five years in our baseline scenario and 4.8% in our pessimistic scenario.

Take-up

Take-up has reached 4.02m sq ft across 16 transactions which is 4% below the long-term average. The average deal size has reached 251,118 sq ft.

Analysing take-up in terms of specification shows 14% being pre-let speculatively developed space, 4% was speculatively built space, 46% was second-hand space and 36% was built-to-suit space. Additionally, in terms of Grade, 18% of space transacted was Grade A speculatively developed space, 39% Grade A, 14% Grade B and 29% Grade C space.

By deal count, there have been nine transactions within the 100,000-200,000 sq ft size band, four within the 200,000-300,000 sq ft size band, one within the 400,000-500,000 sq ft size band and two over 500,000 sq ft. The other alternative sector has accounted for 28% of take-up in 2023, consisting of alternative occupier types, manufacturers accounted for 22% and 3PLs 19%. Furthermore, wholesalers accounted for 12% and high street retailers accounted for 11%, interestingly, online retailers continue to be active, accounting for 9% of all activity.

Development Pipeline

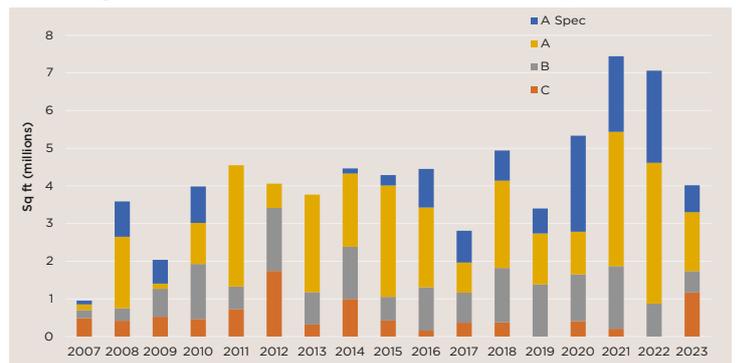
There are currently eight units being speculatively developed throughout the region. There are five units under construction within the 100,000-200,000 sq ft size band, one within the 200,000-300,000 sq ft size band, one within the 400,000-500,000 sq ft size band and one over 500,000 sq ft. Savills is tracking multiple other schemes that have achieved planning, yet issues such as funding have caused them to be temporarily paused.

Key statistics

	Stats	yr/yr change
Take-up	4.02m sq ft	↓ 43%
Supply	6.19m sq ft	↑ 83%
Development Pipeline	2.03m sq ft	↓ 9%
Quoting Grade A Rent	£10.50psf	↑ 20%
Vacancy rate	6.69%	↑ 284 bps

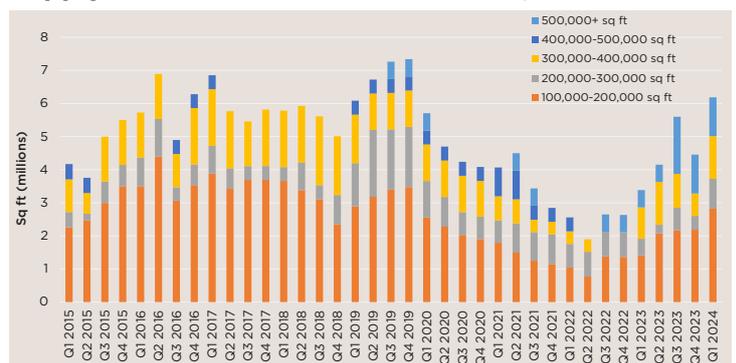
Source Savills Research

Take-up is 10% above pre-Covid annual average



Source Savills Research

Supply six units available over 300,000 sq ft



Source Savills Research

“Inflation and rising base rates have understandably caused a decline in BTS transactions with occupiers leaning towards existing units. In recent weeks, Savills has seen a resurgence in occupier interest for best-in-class quality units to mitigate any future risks. Headline rents remain robust, evidenced by recently refurbished units transacting at prime levels for longer terms, highlighting the continued strength of the market”

Yorkshire and the North East

Vacancy rate just 6.38%; 0.77 years' worth of supply left



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Supply

Currently, there is 6.54m sq ft available across 31 units. In isolation, there are 26 units available in Yorkshire, totalling 5.35m sq ft and five units in the North East, totalling 1.19m sq ft. Based on the past levels of take-up, the current supply in the wider region would last for approximately 0.77 years.

In terms of specification, 46% of space on the market is Grade A speculatively developed space, 10% of space is Grade A space, 18% is Grade B space and 26% Grade C space. Landlords are beginning to recognise occupier requirements and are undertaking comprehensive refurbishments. Now, 31% of all stock meet the widely requested standard of EPC B or above, up from 29% six months ago.

By unit count, 65% are within the 100,000-200,000 sq ft size band, 16% are within the 200,000-300,000 sq ft size band, 10% within the 300,000-400,000 sq ft size band, 6% within the 300,000-400,000 sq ft size band and 3% over 500,000 sq ft.

Savills rental growth prospects show in our baseline scenario, Yorkshire is set to experience 4.4% rental growth per annum over

the next five years and the North East 5.8%.

Take-up

Take-up in 2023 reached 4.55m sq ft across 23 transactions which is 18% below the long-term annual average. When considering the regional breakdown, 78% of activity occurred in Yorkshire & the Humber, with the remaining 22% in the North East.

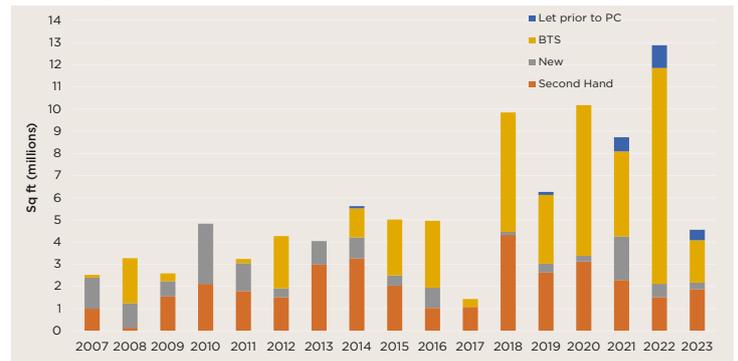
Analysing take-up by specification shows 16% of space transacted was speculatively developed space, 42% was built-to-suit space and 42% second-hand space. In terms of Grade, 17% of activity involved Grade A speculatively developed space, 44% Grade A, 19% involved Grade B space, and 20% involved Grade C space, reflecting the recent trend of occupiers preferring high-quality units.

By unit count, 70% of transactions were within the 100,000-200,000 sq ft size band, 13% were within the 200,000-300,000 sq ft size band, 4% in the 300,000-400,000 sq ft size band, 9% the 400,000-500,000 sq ft size band and 4% over 500,000 sq ft. By sector, 33% of activity stemmed from 3PLs, 18% from manufacturers, 13% from grocery retailers and 10% from wholesalers.

Development Pipeline

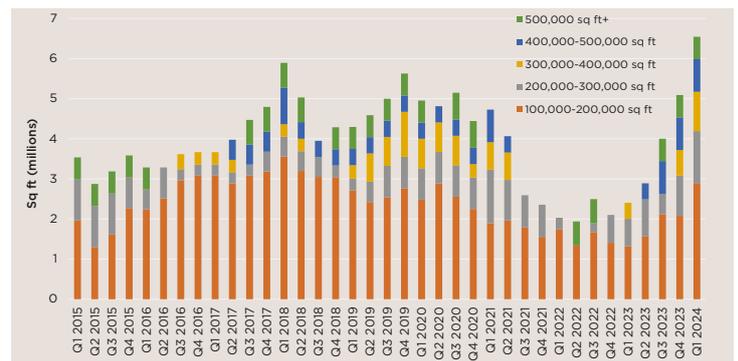
There are currently eight units under construction, totalling 2.24m sq ft. All of these are within Yorkshire - there are three units within the 100,000-200,000 sq ft size band, one within the 200,000-300,000 sq ft size band, two between 300,000-400,000 sq ft and two within the 400,000-500,000 sq ft band.

Take-up 61% was good-quality Grade A space



Source Savills Research

Supply 65% of units in 100,000-200,000 sq ft size band



Source Savills Research

Key statistics

	Stats	yr/yr change
Take-up	4.55m sq ft	↓ 65%
Supply	6.54m sq ft	↑ 172%
Development Pipeline	2.24m sq ft	↓ 67%
Quoting Grade A Rent	£9.00/sq ft	↑ 9%
Vacancy rate	6.38%	↑ 380bps

Source Savills Research

“The wider region has seen a significant uptick in supply as speculative developments have reached practical completion and second-hand units are returned. With inflation levels waning and base rates peaking, we have seen a recent return of occupier demand. In Wales, there has been significant interest from data centres seeking to benefit from the UK fibre-optic cable network and cheaper land values. We expect this to remove significant levels of space imminently”

South West & Wales

Supply continues to rise, yet 23% is currently under offer



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Supply

Currently, there is a total supply of 7.72m sq ft across 26 units, an increase of 65% in the last 12 months. Of this, 3.25m sq ft is located in the South West and 4.47m sq ft is located in Wales. The largest unit available is the former Ford Factory in Bridgend, Wales, which spans 1.6 million sq ft.

In terms of quality, 35% of available space is classified as Grade A, 8% as Grade B, and the majority, 57%, as Grade C space. A large proportion of the vacant stock does not adhere to modern occupier requirements and could be considered obsolete. Currently, just 13% of the total stock in Wales are rated EPC B or above and 33% in the South West.

Furthermore, 62% of the properties available fall within the 100,000-200,000 sq ft size band, while 12% are within the 200,000-300,000 sq ft size band, 11% are within the 300,000-400,000 sq ft size band, 4% are within the 400,000-500,000 sq ft size band and 11% over 500,000 sq ft. It should be noted the largest three units amount to 44% of the total available sq ft.

Savills new rental growth forecasting model

suggests in our baseline scenario, the South West will see 3.8% rental growth per annum over the next five years, whilst Wales will see 2.8%.

Take-up

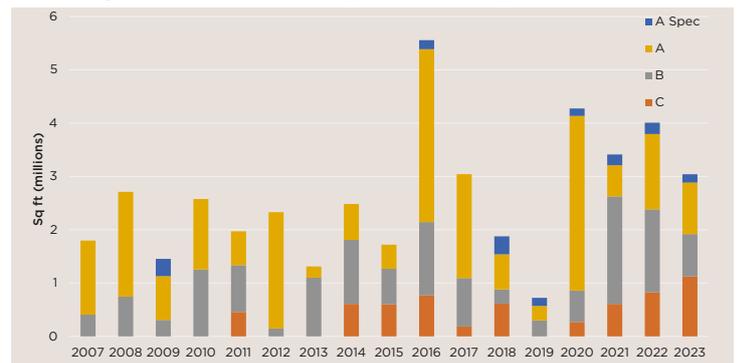
Take-up in the South West and Wales has reached 3.05m sq ft across 18 transactions which is 17% above the long-term annual average. The average transaction size has decreased to c. 168,000 sq ft in 2023, down from 220,000 sq ft ten years ago. In 2023, Wales has seen 85% of activity and 15% in the South West. In terms of specification, 76% of take-up has been from second-hand space, 18% has been built-to-suit space and 6% has been pre-let speculatively developed space. In terms of Grade, 5% has been Grade A speculatively developed space, 32% has been Grade A, 26% has been Grade B space and 37% Grade C space.

Analysing take-up by deal count shows 13 transactions within the 100,000-200,000 sq ft size band, four within the 200,000-300,000 sq ft size band and a single transaction within the 300,000-400,000 sq ft size band. In terms of sector activity, manufacturers were the most active, accounting for 47% of all space transacted, the ‘other’ sector followed closely behind at 23%, the automotive sector 14% and online retailers at 12%.

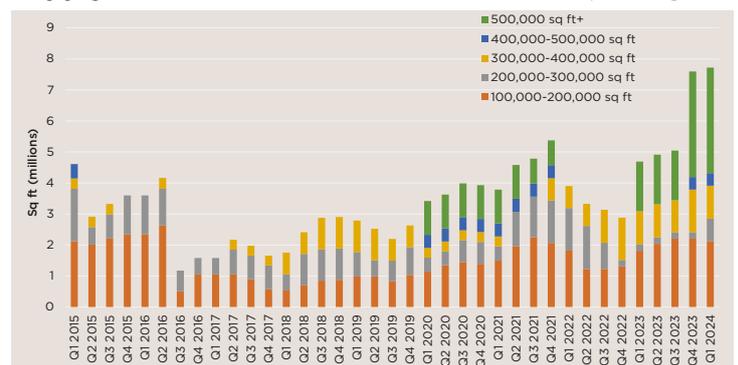
Development Pipeline

Following the recent completion of c. 1.85m sq ft of speculative development, there is just 321,879 sq ft under construction across three units. All of these are within the 100,000-200,000 sq ft size band.

Take-up 17% above the long-term average



Supply 62% are within the 100,000-200,000 sq ft range



Key statistics

	Stats	yr/yr change
Take-up	3.04m sq ft	↓ 24%
Supply	7.72m sq ft	↑ 65%
Development Pipeline	0.32m sq ft	↓ 83%
Quoting Grade A Rent	£8.25/sq ft	↑ 6%
Vacancy rate *	9.41%	↑ 68bps

Source Savills Research

Record levels of inflation along with rising interest rates have caused many existing requirements in the region to be put on pause. As certainty has returned, we have seen occupier interest revive. Those deals that have happened in 2023 have been at market rents, incentives have, however, now pushed back to historical norms and average a month per year term certain

East of England

Vacancy rate at 7.35% forecast to fall to c.6% by Q4 2024



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Supply

The level of supply in the market has risen 186% in the past 12 months to stand at 2.63m sq ft across nine units. Given the five-year average annual take-up, there is 1.14 years worth of supply in the region. The largest unit currently being marketed is Peterborough 736, comprising c. 736,000 sq ft of Grade B second-hand space.

In terms of Grade, 21% of space on the market is Grade A speculatively developed space, 23% is second-hand Grade A space, 38% is Grade B space and the remaining 18% Grade C space. Whilst by unit count, there are 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 over 500,000 sq ft.

The vacancy rate currently stands at 7.35%. Savills modelling has analysed the various lease events, development pipeline and chance of company failure, which suggests the availability will peak at just 7.41% before falling into 2024. Our newest model, Savills

rental growth prospects suggests 4.9% rental growth per annum over the next five years.

Take-up

Take-up in 2023 has reached 622,841 sq ft across four transactions, this is a 51% fall below the long-term annual average. The average unit size transacted in 2023 stands at 155,710 sq ft.

In terms of specification, 41% of space transacted has been second-hand space, 39% has been built-to-suit space and 20% has been pre-let speculatively developed space. By Grade, 20% of take-up involved Grade A speculatively developed space, 39% Grade A space, 21% Grade B space and 20% Grade C space.

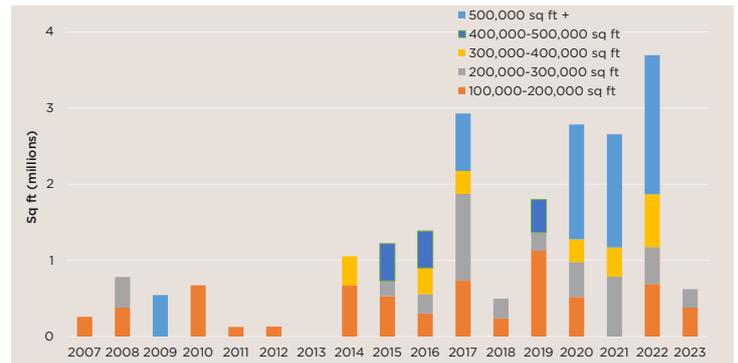
By unit count, three transactions were within the 100,000-200,000 sq ft size band and there was a single transaction within the 200,000-300,000 sq ft size band. Furthermore, Savills requirements data demonstrate a further shift towards smaller-sized units, unsurprising given the current global economic and political uncertainties.

Occupier demand has stemmed from third-party logistics firms, accounting for 60% of all take-up, parcel companies accounted for 20% of take-up and wholesalers at 20%.

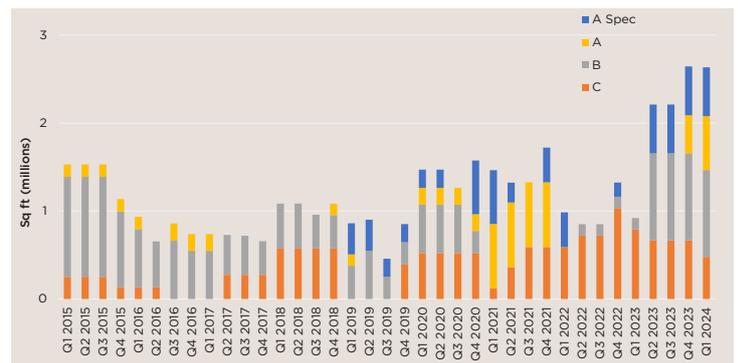
Development Pipeline

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

Take-up fallen 51% below the long-term average



Supply 44% is Grade A quality



Key statistics

	Stats	yr/yr change
Take-up	0.62m sq ft	↓ 83%
Supply	2.63m sq ft	↑ 186%
Development Pipeline	0m sq ft	-
Quoting Grade A Rent	£8.50/sq ft	no change
Vacancy rate	7.35%	↑ 440bps

Source Savills Research

Source Savills Research

“Unsurprisingly, the economic crisis of the past year has caused a shift in occupier requirements throughout the region. Savills has witnessed a decline in leasehold BTS requirements yet an up-tick in interest for freehold properties and land. Pleasingly, transactions on existing units demonstrate continued rental growth with minimal incentives, evidencing the continued strength of the market”

Scotland

Vacancy rate remains stable at 4.95%; forecast to drop to 3.2% by Q4 24



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Supply

The supply of warehouse space in Scotland for units over 100,000 sq ft now stands at 1.52m sq ft across ten units - a 72% rise in the last 12 months. Using the five-year average annual take-up, there is 1.96 years' worth of supply in Scotland.

The supply continues to consist of low-quality units, with 37% of space on the market being Grade B space and 54% Grade C. The 9% of Grade A speculatively developed space on the market is under offer and set to exchange imminently. Savills is acting for the tenant. The vast majority of warehousing continues to fail to meet the widely desired EPC Grade B standard, indicating a need for substantial upgrades to meet the needs of occupiers.

Of the ten units currently available, eight units are within the 100,000-200,000 sq ft size band and two are within the 200,000-300,000 sq ft size band.

Savills new rental growth forecasting model suggests the region will see 4.1% rental growth per annum over the next five years.

Key statistics

	Stats	yr/yr change
Take-up	0.55m sq ft	↑ 26%
Supply	1.52m sq ft	↑ 72%
Development Pipeline	0.2m sq ft	↑ 6%
Quoting Grade A Rent	£8.50/sq ft	no change
Vacancy rate	4.95%	↑ 155bps

Source Savills Research

Take-up

The predominant activity in Scotland revolves around smaller-sized units, as the supply of good quality units over 100,000 sq ft remains limited. In 2023, take-up of units over 100,000 sq ft has reached 545,000 sq ft across three transactions. There have been two transactions within the 100,000-200,000 sq ft size band and one within the 300,000-400,000 sq ft size band.

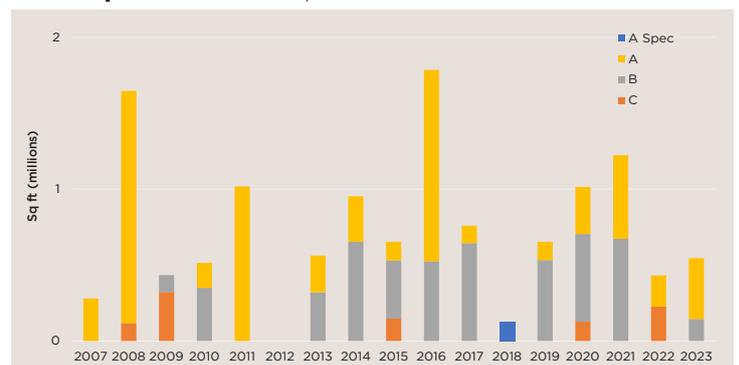
Analysing take-up by specification shows an increasing shift towards best-in-class buildings, with 55% of activity being built-to-suit space and 45% being second-hand space. In terms of specification, 73% of space transacted was Grade A and 27% was Grade B.

In the last year, 3PLs have been the most active, accounting for 82% of activity in the region. Interestingly, as more certainty returns to the wider economic market, we have seen an uptick in activity from manufacturers that have accounted for 18% of activity.

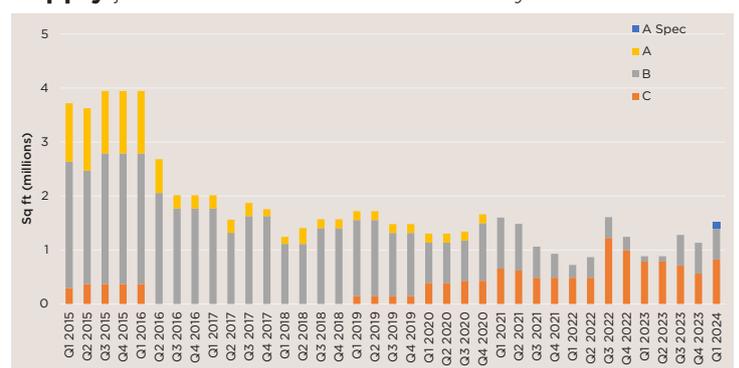
Development Pipeline

There is a single unit under construction within Scotland over 100,000 sq ft. Westway 200 in Renfrew is being developed by Canmoor and, once completed, 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 build-to-suit options.

Take-up 73% Grade A space



Supply just 9% is Grade A which is already under offer



“The H2 rebound in volumes suggests that investors are acting with greater conviction in the market. As 2024 progresses, there remains the potential for more economic bumps in the road. But with a depressed development pipeline, rental growth prospects for good-quality units remain strong”

National investment

H2 rebound in volumes suggests stability is returning to the market



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For many players in logistics capital markets, 2023 will be a year to forget, and whilst investment volumes have certainly improved in the second half of the year, the lofty volumes reached in 2021 and 2022 will have long faded in the memory. By the end of 2023, logistics investment volumes have reached £3.1bn, which whilst a year-on-year fall of 54%, H2 rebounded by 110% when compared with H1. It should also be noted that when compared to the long-term average, investment volumes are actually 54% above the pre-Covid average.

Whilst the long term average does provide some context and reassurance it is difficult to see a marked increase in the first half of 2024 with base rates ‘higher for longer’, a lack of willing sellers and little appetite for BTS or speculative funding.

We have seen a much closer correlation between prime yields and base rates through 2023, with swings in sentiment for when base rates will start to fall and how quickly. It is also easy to equate lower volumes as purely a lack of demand when most deals start with an owner deciding to sell. With the market pricing prime at 5.25% and a market showing c.5% rental growth, it is no wonder that most owners are deciding to hold.

That said, as 2024 progresses, it’s likely that some investors will come under pressure from a myriad of external forces, fund redemptions, maturing loans (refinancing), and LTV breaches, while others may need to recycle their portfolio to raise capital for their development pipeline or indeed, meet their ESG targets. Given many banks’ reluctance to step into the market, as was the case after the GFC, we expect to see the market with elevated levels of stress (‘pressure’) rather than distress, suggesting that while we won’t see a flood of sales, there will be a steady level of transactions and recapitalisations.

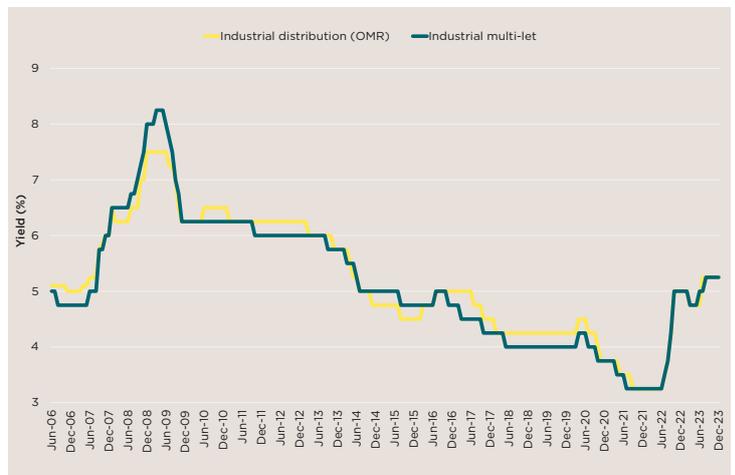
We do, however, expect to see more conviction from investors, particularly in the second half of the year, as base rates start to fall and Gilt yields stabilise (10-year Gilts currently sit at 3.8%, down from a high of 4.5% in October 2023). This should also bring more leveraged investors back into the prime market to supplement the relatively small pool of unlevered buyers who can invest at the current levels, and this, along with more focus on the total return than just the initial yield, suggests that prime yields will move in as the year progresses.

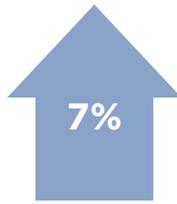
Moreover, rental growth prospects remain strong in undersupplied markets and size ranges, particularly for Grade A units, as our recently released forecasts in [Big Shed Prospects](#) demonstrate, with the UK overall expected to see rental growth of 4.9% in 2024.

Investment volumes fall 54% on 2022 levels



Prime investment yields have risen to 5.25%





Year-on-year growth expected for UK online retail penetration by 2028

Outlook

Reasons to be cheerful, but expect bumps in the road

In our recently released new flagship report, [Big Shed Prospects](#), we examined a bullish and bearish case for the market and suggested that there remain many reasons to be optimistic, albeit with significant potential hurdles to keep an eye on as the year progresses.

We expect online retail, a key driver behind logistics demand, to keep growing, with online retail penetration forecast to increase by 7% year on year, reaching 28.4% by 2027. This growth, using research from Prologis, should equate to additional logistics demand of up to 48m sq ft over the period.

We are also tracking almost 26m sq ft of lease events due in 2024, and with many occupiers looking to upgrade their facilities to better meet ESG credentials, there should be a significant amount of base level demand in the market.

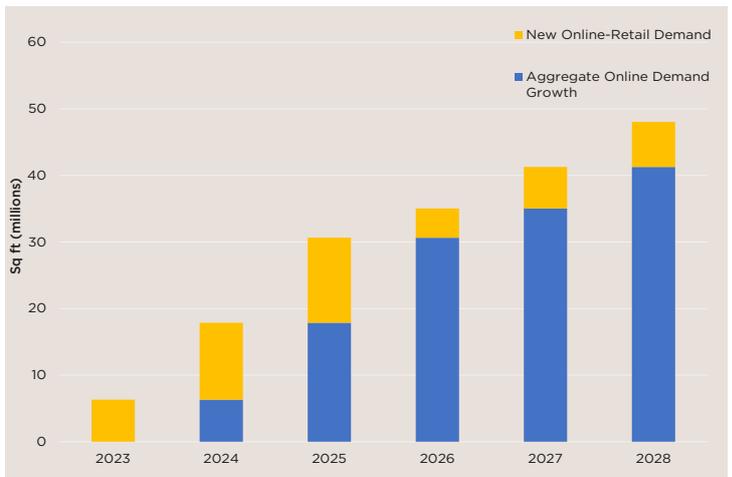
The latest data from our requirements index also makes for pleasing reading, as whilst the overall level of requirements fell in Q4, the number of requirements for units over 500,000 sq ft has increased rapidly, when compared to the end of 2022. All things being equal, this data suggests H1 take-up in the order of 15-16m sq ft.

However, whilst the initial data coming out for retailer Christmas trading is looking positive, the picture will not be uniform, and the biggest risk on

the supply side will be whether we witness a further wave of occupier-controlled space coming to the market or, worse still, company failure that results in the return of second-hand space.

Moreover, we are starting to see buildings stay vacant for longer, albeit not to the levels before the pandemic. However, with BTS deals remaining difficult to transact, we expect that some requirements will divert into existing buildings, meaning that vacancy will drop as the year progresses.

Online retail expected to return to growth



Source Savills Research



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BUILD COST AND PROGRAMME

With a continued difficult and uncertain economic backdrop combined with a challenging debt market, we are starting to see early signs of softer pricing and greater capacity in the wider construction supply chain.

In the logistics sector, where new speculative development announcements have fallen by 34% and BTS by 80%, we are starting to see this excess capacity result in much more

favourable build costs, based on recent project tenders.

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 fallen for the first time since Q2 2020.

With central banks guiding that markets should expect base rates to be 'higher for longer' economic forecasters

are suggesting that we should not expect falls in interest rates until the second half of 2024. This would suggest that construction capacity will remain at elevated levels until this barrier to development is removed as 2024 progresses. It is, therefore, a possibility we should expect further drops in build costs, which in turn may have a positive impact on development viability.



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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