SUMMARY

Most regional markets see above average and record take-up levels

- Nationwide deal counts remain in line with long term averages meaning that transaction activity reached 16.4m sq ft for the first half of the year, a third higher than the long term average.

- For the moment demand and supply remains in equilibrium as supply in the UK has fallen in 2018 and now stands at 27.7m sq ft, reflecting a vacancy rate of just 5.8% nationally.

- Demand has come from a wide range of tenants including grocery, high street and online retailers but also the manufacturing sector with a number of deals to modular homes manufacturers.

- There is 9.1m sq ft of speculative space currently under construction or due for delivery in the remainder of 2018 and into 2019.

- We expect there will further speculative announcements in the second half of 2018 that will increase that number further and therefore increase vacancy rates.

- Investment stock supply remains a bottleneck to higher investment volumes as £1.58bn was transacted in the first half of 2018, a 31% decrease on the same period in 2017. However volumes are still 70% higher than the half year average of £0.93bn.

“With 9.1m sq ft currently under construction across the country investors and developers should be prepared to see vacancy rates enter a period of greater volatility”

Kevin Mofid, Head of Industrial & Logistics Research
Given the current economic headwinds, debate about the health of the retail sector and continued uncertainty about what our future trading arrangements with the EU will look like into 2019 and beyond, it is pleasing to report that we are still searching for superlatives to describe the ongoing health of the UK logistics and industrial market.

Currently occupier demand and warehouse supply remain in equilibrium. Reassuringly the mix of companies taking warehouse space has widened to include high street retailers, grocers, pure play retailers and manufacturers.

We should remember that the health of the retail sector is crucial to the health of the logistics sector, as almost two thirds of take-up relates to retailers in some way. Therefore activity by retailers such as Marks & Spencer, Shop Direct and B&Q to take additional warehouse space to ensure their supply chains are fit for purpose is a positive sign.

Take-up

- At a nationwide level take-up for the half year has reached 16.4m sq ft, 3.3m sq ft more than this time last year and 33% higher than the long term H1 average.

- Whilst build to suit transactions have accounted for 57% of deals so far this year it should be noted that deal counts have been maintained at above average levels. This demonstrates a liquidity of demand and also that its not just larger deals skewing the take-up numbers higher.

- The East Midlands, Yorkshire and the South East have all achieved above average or record levels of take-up.

Supply and Pipeline

- Total supply in the UK has fallen in 2018 and now stands at 27.7m sq ft, reflecting a vacancy rate of just 5.8% nationally. Of the current supply on the market 44% is classified as grade A, up from just 35% in Q1 2015.

- We expect this position to alter over the next year as there is currently 9.1m sq ft due to reach PC in the second half of 2018 and into 2019.
London & The South East

“2018 has seen strong take-up via freehold land acquisitions. This will restrict speculative development opportunities and in turn keep vacancy rates lower and support sustained rental growth” Toby Green, Director: Agency

Supply
■ Over the last two years supply in the region for units over 100,000 sq ft has been reasonably consistently hovering around 4m sq ft. At the half year point of 2018 there is 4.09m sq ft of stock on the market across 22 units, with an average size of 186,000 sq ft.

■ Interestingly, and unlike the East and West Midlands, the make-up of the supply by quality and size has remained constant. For example 60% of the stock currently on the market is classified as grade A compared to 64% two years ago.

■ The available supply is still dominated by smaller units with 57% of supply in the 100,000 - 200,000 sq ft category. However, for the first time in over four years, there is now a unit on the market over 500,000 sq ft. Altitude, developed by Gazeley, and standing at 21m tall and 574,000 sq ft completed in Q1 this year and offers occupiers an existing option in the South East who may have previously looked for Build to Suit options.

Take-up
■ 3.96m sq ft of warehouse space was transacted in the first half of the year, the highest amount since 2014 and 70% higher than the long term average.

■ Whilst the average deal size in 2018 has been 396,000 sq ft, up from the long term average of 215,000 sq ft, it is worth noting that there have been ten separate transactions. This is in line with recent years and demonstrates a liquidity of demand across all ranges and sizes.

■ Demonstrating the demand for well located and cost effective space deals involving three second hand units, and totaling 405,000 sq ft, along the Southern M1 corridor have all been concluded in the second quarter of this year.

■ Rents continue to rise in the market, demonstrated at Heathrow where Do & Co have paid £15.75 per sq ft for a 172,000 sq ft build to suit unit, a new record for a non air side unit.

Development Pipeline
■ There 11 units currently under construction in the region which total 1.72m sq ft. Pleasingly many markets are seeing much needed supply come forward including the M40 and M1 corridors along with 380,000 sq ft within the M25.

“2018 has seen strong take-up via freehold land acquisitions. This will restrict speculative development opportunities and in turn keep vacancy rates lower and support sustained rental growth” Toby Green, Director: Agency

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East Midlands

“We are seeing continued rental growth in the region which is narrowing the historic gap with the West Midlands”
Charles Spicer, Director: Agency

Supply
■ The supply of warehouse space in the region has, in the most part, remained stable over the last three years at between four and five million sq ft, and currently stands at 4.19m sq ft, across 19 units giving a vacancy rate of 4.6%.

■ Whilst total supply levels have remained broadly constant the make up of existing unit supply has changed dramatically over the last four years. Indeed, at the start of the third quarter of 2015 just 17% of supply was considered grade A whereas currently 61% of all stock on the market is considered grade A.

■ Likewise, the size ranges of existing unit supply have also changed as developers have reacted to increasing unit sizes demanded by tenants. At the start of 2015 69% of stock on the market was between 100,000 and 200,000 sq ft whereas now just 29% of the units on the market are in that size range. The largest unit on the market in the region remains Quantum at Magna Park at 411,613 sq ft.

Take-up
■ The occupational market in the area continues to set records with 4.01m sq ft of space transacted at the half year point. This is just 200,000 sq ft shy of the total amount of space transacted in 2017 and 146% higher than the long term H1 average and also the highest amount ever for a first half of the year.

■ It is positive to note that whilst there have been four build to suit deals agreed in 2018 totalling nearly 2 million sq ft at East Midlands Gateway there have actually been 11 deals in total making it the best Q1 ever by deal count demonstrating strong demand across grades and sizes.

■ Away from East Midlands Gateway Prologis achieved success as their speculatively developed unit DC 115 at DIRFT was let to Panic Transport, giving a void from PC of just seven months.

Development Pipeline
■ There is 2.35m sq ft currently under construction across nine units, with an average size of 261,000 sq ft.

■ However, with a number of developers quoting £6.75 - £6.95 per sq ft on units under 200,000 sq ft, we expect that the region will see strong rental growth, especially given the aforementioned lack of smaller units in the region.

Key Stats

<table>
<thead>
<tr>
<th>Stats</th>
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<tr>
<td>Take-up</td>
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</tr>
<tr>
<td>Vacancy Rate</td>
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Source: Savills Research
West Midlands

“Whilst Brexit is meaning deals are generally taking longer to complete we believe there is pent up demand for good quality space, which is being supported by the rents that have been achieved this year” Ranjit Gill, Director: Agency

Supply

The supply of existing units over 100,000 sq ft in the region currently stands at 5.1m sq ft, the highest level for at least four years. However, almost 700,000 sq ft is accounted for in one unit, the former Toys R Us building in Coventry, which has seen considerable competitive bidding recently.

Removing this unit brings supply to 4.4m sq ft, broadly in line with the upward trend we have witnessed in recent quarters.

As with the East Midlands developers reacting to prevailing market conditions have changed the balance of supply both in terms of quality and size. For example 62% of current supply is classified as grade A, compared to just 30% at the start of 2015 and 54% of current supply for units over 200,000 sq ft, compared to the same time two years ago when there were no units on the market over 200,000 sq ft.

Take-up

Take-up in the area has however been subdued in first half of the year with just 1.38m sq ft transacted, across eight separate deals.

In the most part this fall can be attributed to the reduction in demand from the automotive and manufacturing sectors. This sector has, over the last five years, averaged 2.2m sq ft of take-up per year, compared to just 800,000 sq ft so far in 2018.

Given the current state of the negotiations for the UK to leave the European Union it may not be until 2019 that we see demand from these sectors increase once the terms of our future relationship with the EU is known.

It should however be noted that good demand has been maintained for speculatively constructed units. Three speculatively constructed units have been let this year, all in Coventry, with an average void period of six months.

Development Pipeline

Savills is currently tracking 1.7m sq ft under construction in the area across nine schemes with an average unit size of 191,000 sq ft.

The largest unit is Wolverhampton 450 where First Panattoni are delivering 448,000 sq ft, the largest unit developed speculatively in the West Midlands in this cycle.

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North West

“After a relatively sluggish first quarter, we are beginning to see take-up in line with the long term average. With a number of significant deals due to complete over summer, the region is set for another robust year” Jonathan Atherton, Director: Agency

Supply
■ There is 5.6 million sq ft available in the North West across 30 separate units which is the highest amount of any region, although 62% of the available space is either grade B or C quality. There is weak occupier demand for this product which has resulted in poorer quality units staying vacant for long periods.
■ Despite the North West having the most amount of supply in the UK, supply has actually been falling in the region. Current supply is 18% below the highs of 2016 where supply totalled 6.9 million sq ft. Furthermore with occupier demand being focussed predominantly on grade A space, there is only 1.06 years of grade A supply in the region. There are 11 grade A units available in the North West, with the largest being Middlewich 353 which comprises 353,102 sq ft.

Take-up
■ After a sluggish start to 2018, transactional activity picked up in Q2 with take-up reaching 1.66 million sq ft by the end of the half year. This was on par with the H1 2017 but a 4% decrease on the long term H1 average. Occupier demand remains stable as there have been eight deals in the North West this year which is equal to the long term average.
■ The largest deal in the North West was Movanto leasing 373,000 sq ft at Haydock Green which is being developed by Morley Estates. The only other deal above 300,000 sq ft was Royal Mail leasing 346,153 sq ft at Unit 1 Mountpark Omega, Warrington which was let prior to practical completion. This was the first unit let at the scheme after Mountpark had speculatively funded three new units at the Omega South development.
■ Despite the North West having the highest amount of grade B and C space available in the UK, occupier demand has focussed on grade A space with 70% of the space transacted being grade A in H1 2018.

Development Pipeline
■ There is 1.47 million sq ft under construction across eight schemes, the largest being First Panattoni’s 375 at Logistics North, Bolton where 375,000 sq ft is being developed. The new development is fairly spread out across the region, with two schemes under construction in both Crewe and Bolton. The average unit size under construction is 184,083 sq ft.

TABLE 4

<table>
<thead>
<tr>
<th>Stats</th>
<th>H1 17 vs H1 18</th>
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<tbody>
<tr>
<td>Take-up</td>
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<tr>
<td>Vacancy Rate</td>
<td>7.9%</td>
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</table>

FIGURE 12
Take-up by quarter

FIGURE 13
Supply by grade

FIGURE 14
Development Pipeline
Supply
- At the end of H1 2018 there was 2.5 million sq ft available which is the lowest amount on record. Of the ten deals that were recorded in H1 2018 all involved existing units and there have only been three units added to the market which has resulted in the supply shortfall. Furthermore there are only two units available over 200,000 sq ft, the largest being Enterprise Park, Sherburn, where 405,662 sq ft is being marketed.
- As a result of the strong occupier demand, there are only four grade A units available, the largest being IP2e Iport which comprises 195,000 sq ft. The unit was speculatively developed by Verdion and achieved practical completion in Q2 2017.

Take-up
- The region has experienced strong levels of transactional activity in H1 2018. There was 2.9 million sq ft transacted in H1 2018 in Yorkshire which was higher than the half year amount for 10 of the previous 11 years. Furthermore H1 2018 take-up was 294% above H1 2017 and double the long term average.
- Additionally the North East has had a stellar half year with 2.0 million sq ft transacted. This has been primarily driven by Amazon leasing 1.5 million sq ft at Symmetry Park scheme in Darlington. There were also three other deals over 100,000 sq ft in the North East highlighting the strong occupier demand in the region as there hadn’t previously been a deal since 2015.

Development Pipeline
- Developers are responding to the lack of grade A supply, there are six units under construction totalling 1.1 million sq ft. The largest unit is at G Park Doncaster where IDI Gazeley are developing 275,300 sq ft. The average unit size is 178,988 sq ft and the majority of the new development is concentrated in the Doncaster area with four units under construction.

“With constrained existing unit supply and a strong development pipeline we expect quoting rents to exceed £6 in the next 12 months” Dave Robinson, Director: Agency
South West

“There are a number of sizeable requirements across the region being discussed and we anticipate significant activity in the second half of the year”

Rob Cleeves, Director: Agency

Supply

- There is currently 1.90 million sq ft available across nine units in the South West region, this is an increase of 32% from the end of 2017. This has been caused by the addition of two units to supply in 2018. These are the former Lidl unit in Weston-Super-Mare which comprises 314,658 sq ft and Groundwell Distribution Centre in Swindon where 149,173 sq ft is available.

- Each size band is fairly well catered for in the South West, there are three units available over 300,000 sq ft. The largest being Cribbs Causeway Distribution Centre where 384,768 sq ft is available. Aside from the aforementioned former Lidl unit all the available units are either located in Bristol or Swindon.

Take-up

- Take-up in the South West has been subdued in H1 2018 with only 375,286 sq ft transacted across a single unit. This was B&Q leasing a build to suit unit at G Park Swindon which will be adjacent to their current facility at the scheme.

- The lack of deals in the region can be partly attributed to the lack of supply, with limited units for occupiers to lease. Although there were two units added to the market at the end of H1 2018 which could result in an uptick in letting activity towards the end of the year.

Development Pipeline

- There are three units under construction in the South West totalling 389,769 sq ft. All of the units being speculatively developed are concentrated in the 100,000-200,000 sq ft size band; the average size for units under construction is 129,923 sq ft.

- All the units under construction are located in Bristol which will mean the supply constraints that are present in the other markets in the region will persist in the short term.

<table>
<thead>
<tr>
<th>TABLE 6</th>
<th>Key Stats</th>
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<tr>
<td>Stats</td>
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Source: Savills Research

FIGURE 18

Take-up

Source: Savills Research

FIGURE 19

Supply by grade

Source: Savills Research

FIGURE 20

Development Pipeline

Source: Savills Research

314,658 sq ft

Largest grade A unit available in the South West

Former Lidl, Weston Super Mare


East of England

“We are pleased to see large scale speculative development return to the region after a prolonged absence which will encourage grade A take-up and further rental growth” William Rose, Director - Agency

Supply

- Supply in the East of England has risen slightly in 2018 and now stands at 958,084 sq ft across four separate units giving a regional vacancy rate of 4.5%.
- In the most part this has been driven by a single large unit of 332,600 sq ft at Hardwick Industrial Estate in Kings Lynn, which came to the market at the end of 2017. However, it should be noted that 60% of the supply is currently occupied in the short term by Gardman following the fire at their Midlands facility. Once their relocation back to the Midlands is complete this space will be available for occupation.
- All units currently on the market are grade B or grade C and the average size is 231,000 sq ft.

Take-up

- Following on from four consecutive years of growth and the success of Gateway Peterborough, developed by Roxhill, which is now has just two plots remaining, 2018 has started slowly. There have been just two deals on units over 100,000 sq ft which total 237,470 sq ft.
- Online retailer Yours Clothing have taken 127,470 sq ft at Newcombe House in Peterborough.
- Meanwhile at Suffolk Park, Bury St Edmunds, local company Sealey Professional Tools has bought a seven acre site where they intend to construct a 110,000 sq ft unit for future expansion.

Development Pipeline

- Much needed grade A supply will be delivered to the market in Q4 2018 after Jaynic announced the development of two units at Suffolk Park Bury St Edmunds.
- The first speculative units to be delivered in the region for over a decade will see two units constructed, one of 206,491 sq ft and another of 147,241 sq ft.

Table 7

<table>
<thead>
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<th>Stats</th>
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<td>Vacancy Rate</td>
<td>4.5%</td>
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</table>

Source: Savills Research

Figure 21

Figure 22

Figure 23

Source: Savills Research
Supply

- The supply of warehouse space in Scotland for units over 100,000 sq ft has risen by 25% in 2018 and now stands at 1.57m sq ft across the Central Belt.

- This is made up of 10 separate units of which all bar two are between 100,000 and 200,000 sq ft, with the average size being 156,934 sq ft.

- The largest unit on the market in Scotland at present is the former Lidl unit at Deans Industrial Estate which totals 291,710 sq ft, which came to the market in the second quarter of 2018. This follows the purchase of 50 acres by Lidl at Eurocentral where a new 750,000 sq ft Regional Distribution Centre is currently under construction for occupation in 2020.

Take-up

- The deal flow for units over 100,000 sq ft in Scotland this year has been subdued with just one unit transacted so far this year.

- Drinks manufacturer BrewDog have completed the acquisition of the Vertex building at Eurocentral near Motherwell.

- The 128,000 sq ft unit sold for a capital value of £60 per sq ft.

Development Pipeline

- There are no units under construction speculatively over 100,000 sq ft in Scotland meaning we do not expect vacancy rates to fluctuate in the medium term.

- However, with the recent changes to the Scottish business rates regime, it is hoped that developers and investors will now be able to bring forward much needed grade A space to the Scottish market.

Take-up

- Whilst supply has increased, this is skewed by the sizeable Lidl RDC, as otherwise supply has been reduced by the recent purchase of Vertex and letting of Colossus 1. Meanwhile no new build and very little other facilities of scale and quality have entered the market meaning that the Scottish Region is in much need of speculative development” Ross Sinclair, Director: Agency

**TABLE 8**

<table>
<thead>
<tr>
<th>Key Stats</th>
<th>Stats</th>
<th>H1 17 vs H1 18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-up</td>
<td>0.128 sq ft</td>
<td></td>
</tr>
<tr>
<td>Supply</td>
<td>1.57m sq ft</td>
<td>↑ 19%</td>
</tr>
<tr>
<td>Development Pipeline</td>
<td>0m sq ft</td>
<td>←</td>
</tr>
<tr>
<td>Quoting Grade A Rent</td>
<td>£5.25/sq ft</td>
<td>←</td>
</tr>
<tr>
<td>Vacancy Rate</td>
<td>4.5%</td>
<td>↓ 90 bps</td>
</tr>
</tbody>
</table>

**FIGURE 24**

**Take-up**

Source: Savills Research

**FIGURE 25**

**Supply**

Source: Savills Research

**FIGURE 26**

**Current Supply by grade**

Source: Savills Research

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**National Investment**

- The industrial and logistics market continues to attract significant interest from UK institutions and overseas investors. Access to stock remains a key issue which is reflected in the investment volumes achieved in the first half of the year.

- £1.58bn was transacted in the first half of 2018, a 31% decrease on the same period in 2017. However volumes are still 70% higher than the half year average of £0.93bn.

- Assisting the investment volumes were a number of portfolios, including the Magnus Portfolio which traded for £150m reflecting a net initial yield of 6.41% and the Mountpark portfolio purchased by M&G for £93.7m.

- The largest single-let transaction of the year to date has been Tritax forward funding a £120.7m build to suit development in Darlington where Amazon will construct a 1.5m sq ft facility. Upon completion Amazon will take a 20 year lease which will reflect a net initial yield of 5%.

- Savills prime yields have fallen by 50bps in the last 12 months and now stand at 4.25% for prime single let logistics units and 4.00% for multi-let industrial estates, the lowest level ever seen.

- We expect further yield compression particularly for prime logistics units and South East industrial given the weight of capital targeting the sector combined with the scarcity of stock.

“The key investment fundamentals of the logistics market continue to remain strong. This, combined with intense competition amongst investors, is expected to lead to further yield compression during H2 2018”

Tom Scott Director: Investment
The latest indicators from the Savills ProgrammE Cost Sentiment Survey (S.P.E.C.S) demonstrate that build costs and programme delivery time scales have increased slightly into 2018.

For the construction industry this higher level of development and occupier demand is manifesting itself in a number of different ways. For small to mid box schemes we are seeing programme and cost pressure whereas on the larger schemes these are being absorbed for the time being.

We are starting to see strain in certain segments of the contractor market, and the beginning of some selection of tenders due to the volume of work. Splitting out development readiness works and smart procurement are helping to mitigate this.

OUTLOOK

Where next for industrial and logistics?

With 2017 being a record year for investment into the overall industrial and logistics sector, yields falling to the lowest levels seen since 2006, most markets continuing to see vacancy rates fall and land values increase it would be tempting to suggest the market has reached a turning point.

Medium term rental growth is expected to continue, as whilst the rate of growth for online retail is slowing, it is crucially, still growing and in November 2017 accounted for 19.8% of all retail sales, setting yet another record.

The UK also remains, on a per capita basis an “under-warehoused country” with just 7.61 sq ft of warehousing per head compared to almost 39 sq ft per head in the USA.

So, whilst the levels of speculative development have reached levels not seen in the current cycle, there is good reason to suggest that net absorption levels will remain strong, providing of course that larger build to suit requirements can be diverted to speculatively developed units.

This would in turn drive rental growth in many other markets mirroring what we have seen in the South East where speculative units have achieved rents 9.2% higher than build to suit units.