SUMMARY

■ Supply has increased in 2015 by 11% from the record lows that were reached in the first quarter of the year. Supply at a nationwide level now stands at 34m sq ft with a nationwide vacancy rate of 8.04%.

■ The market is typified by units being of a smaller and poorer quality with 72% of units classified as grade B or C and only 7.5% of units on the market over 300,000 sq ft.

■ We expect our supply statistics to be increasingly volatile throughout 2016 as we are currently tracking 7.1m sq ft, across 39 schemes, to be delivered in 2016. For example, supply in the South East increased by over half a million sq ft in the final quarter on account of two speculatively delivered units entering our supply statistics.

■ The occupier market remains robust with take-up reaching 24.1m sq ft, above the long term average of 22m sq ft. By deal count the number of transactions surpassed 100 for only the second time on record.

■ The investment market followed occupier trends with £3.12bn transacted, the second highest year on record and significantly above the long term average of £1.6bn per year. Whilst investor sentiment remains strong we do not envisage significant downward pressure on our prime yield of 4.5%.

“2015 was another strong year in the occupational and investment market. Given the take-up trends we have seen and the lack of supply of larger units a case could be made to speculatively develop even larger units than currently planned” Kevin Mofid, Head of Industrial & Logistics Research
Availability

- Across the UK the supply of existing warehouses over 100,000 sq ft increased in 2015 by 11% to 34m sq ft across 200 schemes. It should be noted that the percentage increase is coming from a low base as the start of 2015 had the lowest ever recorded supply figures decreasing by 67% from the record highs of 94m sq ft in 2009. Using the stock figures Savills have produced with the UKWA the nationwide vacancy rate is now 8.04%.

- The market is characterised by units being of a poorer quality and smaller size. Savills classify 72% of the sq ft on the market to be grade B in quality and below, also just 16% of the units on the market are over 300,000 sq ft. For units over 500,000 sq ft occupiers have just one option, the Sherburn 550 unit in Yorkshire. Once this unit is let the largest grade A units on the market are both 380,000 sq ft: J4M8 in West Lothian, and DC 380 in Harlow.

- Of the core logistics regions, the North West has the highest amount of stock which is arguably not fit for purpose in the omni-channel supply chain. The South East has seen supply increase to 4.7m sq ft as speculative units enter our supply figures. Units such as the Angle 265, developed by Goodman and Anglesea Capital and Prologis at London Gateway account for 581,000 sq ft. Our supply statistics will be increasingly volatile throughout 2016 as speculatively constructed units enter our supply figures and are subsequently let to occupiers.

Take-up

- At a Nationwide level take up in the logistics sector, for units over 100,000 sq ft, has reached 24.1m sq ft. Whilst this is 9.5m sq ft down on a record 2014 of 33.6m sq ft, take up levels are 9.5% above the long term average of 22m sq ft per year.

- In terms of deal count alone Savills recorded information on over 100 transactions, which is the second highest year ever recorded.

- Some press coverage in 2015 suggested that the era of the “Mega shed” was coming to an end. Our analysis demonstrates that the larger size bands are performing better as deal volume over 300,000 sq ft increased by 18% from 2014 to 2015, whereas deal volume for units below 200,000 sq ft decreased by 47%. Indeed 14.3m sq ft was transacted in this size band in 2015 compared to 7.4m sq ft in 2014. We believe that this decrease in take-up is caused primarily by supply side constraints that will be addressed as increased speculative developments complete in 2016.

- Another key trend of 2015 has been the increased prevalence of the Build-to-Suit sector (BTS) which in 2015 made up 44% of the market, the highest level since 2008. As previously mentioned, this has been driven by a lack of supply in the market for larger units. Therefore if occupiers are not prepared to compromise on either location, size or unit quality then BTS is the only remaining alternative.

Development Pipeline

- The “Golden Triangle” and surrounding areas have long been the traditional heartland of the UK logistics market and 2015 has proved no different with the combined East and West Midlands accounting for 38% of all take-up. The average deal size in the Midlands for 2015 was 218,000 sq ft against a national average of 255,000 sq ft. This a direct impact of the lack of supply for larger units and hence cost conscious occupiers have looked at cheaper locations for BTS units.

- The impacts of omni-channel retail on the market have been discussed widely and in 2015 the impact has been clearly demonstrated. Amazon alone accounted for 10% of the floor space transacted, and combined online retailers and parcel delivery companies made up 20% of the market.

- Since 2013 73 schemes have been announced across the country which total 13.6m sq ft, to place this in context from 2005 to 2009 40.47m sq ft was delivered across the country.

- The average sized unit being delivered is currently 186,397 sq ft, indeed just 9 units have been announced over 300,000 sq ft, the largest being Prologis Park in Dunstable at 358,000 sq ft due for delivery in Q2 2016.

- Throughout 2015 3.3m sq ft was delivered to market of which 25% has already been let. Of the schemes currently announced and under construction Savills are currently tracking 7.1m sq ft due for delivery in 2016 across 39 schemes.

**GRAPH 1**

2015 take-up remains above average

**GRAPH 2**

Increased Build-to-Suit prevalence

Graph source: Savills
**Investment**

- Full year investment volumes in 2015 in the logistics sector have reached £3.12bn, with almost £700m of stock transacted in the final quarter.

- Whilst this is a decline from the record volumes of 2014 it should be noted that 2015 is now the second highest year on record with almost £1.5 billion more than the long term average of £1.6 billion transacted.

- The largest deal for a single unit in 2015 was Tritax Big Box Reit forward funding a new Customer Fulfilment Centre for Ocado at Erith in Kent, the purchase price of £98.9m reflecting a net initial yield of 5.25%. The largest portfolio sale of the year was Logicor purchasing a portfolio of 16 units for £388m in April.

- As the year progressed investors started to deploy capital into the sector through development funding opportunities. We estimate that of the 44 schemes announced in 2015, 41 per cent attracted forward funding commitments from third-party investors or major institutions. Indeed, these forward funding commitments accounted for £247m of deployed capital, equating to just shy of 10 per cent of the total investment market for logistics.

- Savills prime yield for distribution warehouses is currently 4.50% having moved in 125bps over the past two years, but just 25bps in 2015. Whilst investor sentiment towards the sector is still strong we are seeing investors become increasingly discerning when it comes to stock selection.
OUTLOOK

Speculative delivery and subsequent deals will see supply levels become increasingly volatile into 2016....

- Savills are tracking at least 4.8m sq ft of deals that are due to complete in the first quarter of 2016. Bearing in mind that the quarterly average is 5.5m sq ft we therefore expect another above average start to the year.

- Speculative development has seen total supply figures creep upwards into 2016. However, given that 7.1m sq ft is due for delivery in 2016 we expect that supply statistics will be volatile. Furthermore, given the lack of existing supply for larger units there is an argument that developers could look to speculatively deliver units over 400,000 sq ft.

- With investment volumes in the sector comfortably outperforming the long term average in the last three years it perhaps time to consider where “the new normal” for the sector lies, particularly given the structural shift in retail habits which is driving the occupier market. Looking at the historic relationship between volumes and total returns, suggests that as returns stabilise around 10% per annum then the new normal for investment volumes in the sector will settle between £2.5-3bn per year.

Key Occupier Data
Current Grade A / new supply (over 100,000 sq ft): 9.5m sq ft, down 8% year/year
Average annual take-up: 22.02m sq ft
2016 speculative development completions: 7.1m sq ft (39 schemes)
Vacancy rate: 8.04%

Key Investment Data
Big Shed Prime Yields
Long term income: 4.50%
Medium term income: 5.25%
Short term income: 5.75%

Average Price Weighted Yield
2015: 5.90%
2014: 6.53%

Graph source: IPD/RealFor/Savills

Please contact us for further information

Richard Sullivan
National Head of Industrial
+44 (0)20 7409 8125
rsullivan@savills.com

Toby Green
Director - South East
+44 (0)20 7409 9903
tgreen@savills.com

Ranjit Gill
Director - Birmingham
+44 (0)21 634 8402
rsgill@savills.com

Jon Atherton
Director - Manchester
+44 (0)161 277 7207
jatherton@savills.com

Dave Robinson
Director - Leeds
+44 (0)113 220 1218
darobinson@savills.com

Rob Cleeves
Director - Bristol
+44 (0)117 902 227
rceleeves@savills.com

William Rose
Director - Peterborough
+44 (0)1733 201 391
wrose@savills.com

James Williams
Director - UK Investment
+44 (0)20 7409 8785
jebwilliams@savills.com

Simon Collett
Building Consultancy
+44 (0)20 7409 5951
scollett@savills.com

Kevin Mofid
Research
+44 (0)20 3618 3612
kmofid@savills.com