Lambert Smith Hampton

FAST FORWARD

ILM2022

INDUSTRIAL & LOGISTICS MARKET

WELCOME

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Fuelled by a global pandemic, the pace of change and levels of activity in the UK industrial and logistics sector were pushed into overdrive in 2021. While there are challenges relating to rising costs, these will continue to be offset by extremely positive fundamentals in the market.

What happened in 2021 was frankly unparalleled, with just about every record you can think of either broken or smashed. The experience of COVID-19 has essentially 'fast-forwarded' structural change, driving a stampede of occupiers to better adapt their supply chains and expand online fulfilment, while the cold reality of Brexit has given impetus for greater onshoring of goods.

As investors in other property sectors continue to grapple with uncertainty, the UK industrial logistics market is thriving. The sector rose to the challenge of COVID-19 in 2020, paving the way for a frenzy of activity in 2021; a year that saw record take-up, record levels of speculative development and, tellingly, record low levels of supply.

Investors are playing their part. The scale of global capital seeking UK logistics is seemingly without limit, drawn in by the sector's relatively defensive attributes and clear evidence of unprecedented levels of rental growth. Such is the strength of occupier demand; investors have never been more assured of putting their money into speculative development.

But it isn't all plain sailing. Conflict in Eastern Europe has raised global geopolitical tensions substantially, bringing a new layer of uncertainty and risking further escalation of inflation. Landlords should be mindful at least of the threat of rising costs to consumers and occupiers alike, as well as the prospect of rising rating liabilities in 2023 and possible moves towards a new online sales tax.

Even if 2022 struggles to match the highs of last year, this does not for a moment look like a bubble about to burst. The growth and activity we are witnessing is underpinned by extremely positive dynamics, which I expect to continue to drive the market for years to come. If anything, a critical lack of supply is likely to prove the main impediment to activity in 2022.

We hope you enjoy our 2022 report. If you require any advice or assistance, our team of experts will be delighted to help.

SUMMARY AND OUTLOOK

Even if the meteoric performance of the UK industrial and logistics market in 2021 will be hard to repeat in 2022, highly supportive structural factors and expectations of continuing rental growth will continue to drive strong activity over the years ahead.

FAST FORWARD

Across a whole host of measures, 2021 was a year of record-breaking achievements for the UK industrial and logistics market. The impact of the pandemic has served to fast-forward structural change which, combined with a more general recovery in the wider UK economy, has fuelled insatiable appetite from occupiers and investors alike.

Nowhere is this boom better reflected than in take-up, which hit a massive new record of 78.0m sq ft in 2021. All segments of the market and most regions of the UK played their part, and, while Amazon took an extraordinary 20% of activity, 2021 would have been a record even if its exploits are discounted. Other types of occupier also made a big impression in 2021, with major deals to data centre providers and, notably, Britishvolt's gigaplant commitment in Northumberland.

While the sense of urgency in occupier requirements may have eased slightly, there has been no let-up in levels of demand. Q1 2022 promises to deliver yet another impressive level of take-up, while circa 50m sq ft of active requirements spanning the length and breadth of the UK bodes very well for activity over the year ahead. If anything, supply may prove to be the main obstacle to activity and, because of this, take-up in 2022 will struggle to beat last year's high.

ECOMMERCE AND THE RACE FOR SPACE

Yet 2021 was no blip. The stimulating influence on the market from structural change in shopping patterns has plenty more to run. The pandemic turbocharged the rise of ecommerce, with online sales as a proportion of all retailing hitting a peak of 36.5% at the height of lockdown in February 2021, compared with a pre-pandemic high of 19.2%. While this has since settled back to reflect the easing of restrictions, consumer behaviour will have been changed irrevocably.

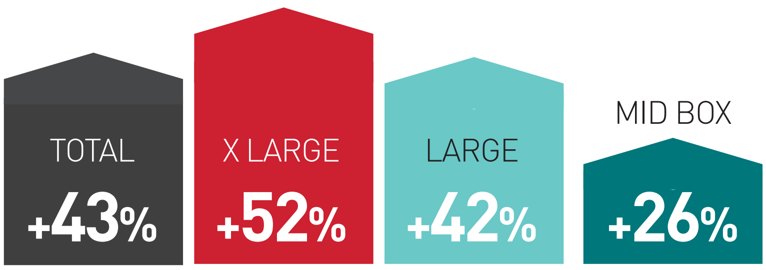
Forecasts by Retail Economics, which are admittedly at the upper end of expectations, suggest that the proportion of non-food sales made online will rise from an estimated 37.0% in 2021 to 49.7% in 2025. Continuing growth on this scale and pace will help to underpin demand, ranging from large format distribution hubs to urban logistics, as retailers, parcel deliverers and logistics operators scramble to meet customer expectations.

STORMING RENTAL GROWTH

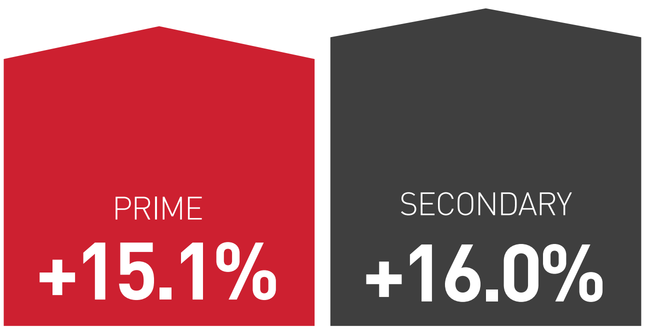
The race for space has fuelled unprecedented rates of rental growth over the past 12 months, with prime headline rents rising by 15% on average across the UK markets in 2021. For the time-being, many occupiers have been largely accepting of these rises as a necessary cost of driving greater efficiencies, thanks in part to the 'substitution effect' arising from the transferal of demand (and therefore rent costs) out of large swathes of the retail property market.

While rental growth has been uneven across the UK, there remains plenty of scope for continuing growth over the year ahead, including within prime areas that have already witnessed strong growth and other markets where growth has been hitherto more muted. We forecast average rental growth across the UK in 2022 to be in the same order as last year, ranging between 12% to 14%, with plenty of evidence to suggest rents have already moved ahead in many markets during the first part of 2022.

UK 2021 TAKE-UP VS FIVE-YEAR AVERAGE



AVERAGE UK RENTAL GROWTH 2021



COUNTING THE COST

Amid this boom, however, the sector faces challenges and risk. The economy should continue its healthy expansion in the wake of Omicron over the coming months, although downside risks come from rising prices and supply chain challenges. Energy price inflation is now a particular concern, exacerbated by geopolitical tensions arising from the war in Ukraine and severe international sanctions on Russia.

While recent headlines have focused on the impact of high inflation on households, rising costs are a broad trend also impacting stakeholders across the industrial and logistics sector. In this environment, landlords should be mindful of these risks on the occupier market. 2023 will see the ratings revaluation come into effect, which is likely to translate into significantly higher ratings liabilities for many occupiers in areas that have seen strong rental growth in recent years. While there is little historic evidence that rates have interfered with rental growth prospects, there is a first time for everything.

SPEC-TACULAR

To capitalise on insatiable demand, the race for space applies equally to developers of industrial and logistics. For units over 50,000 sq ft, a record 20.7m sq ft of speculative space was under construction at the end of the year, up 80% on 2021. Many developers have an appetite for building big, with spec development in the XL segment increasing by 161% year-on-year to account for nearly half the total.

Despite development on such an unprecedented scale, it has still not been enough to prevent supply from tightening ever further. Total UK-wide supply dropped by 26% in 2021 to a new all-time low of 52.3m sq ft, and equates to just one year of average take-up. Furthermore, the current speculative development under construction makes up 40% of this. Developers, it would seem, just cannot build fast enough.

Unprecedented development is all the more remarkable given the sharp rise in build costs over the past 12 months, alongside other challenges to the pipeline, such as securing power supply to development sites and obtaining planning consent in a timely fashion. Developers and contractors have thus far managed adapt well to the challenging conditions, with low yields and rental growth justifying ongoing strong development appetite into 2022. Indeed, our analysis of anticipated spec development starts points to ongoing strong momentum in 2022, with at least 24.3m sq ft deemed likely come forward within the year.

SOARING INVESTMENT

Mirroring occupier market trends, investment activity soared to new heights in 2021. Reflecting considerable global appetite for the sector, £15.2bn of industrial and logistics assets changed hands over the year, approaching double the previous record from 2018. Tellingly, the sector also accounted for a record 27% of all investment into UK real estate 2021, compared with a long-run annual average of circa 13%, reflecting its position as the defensive asset class of choice in the current market.

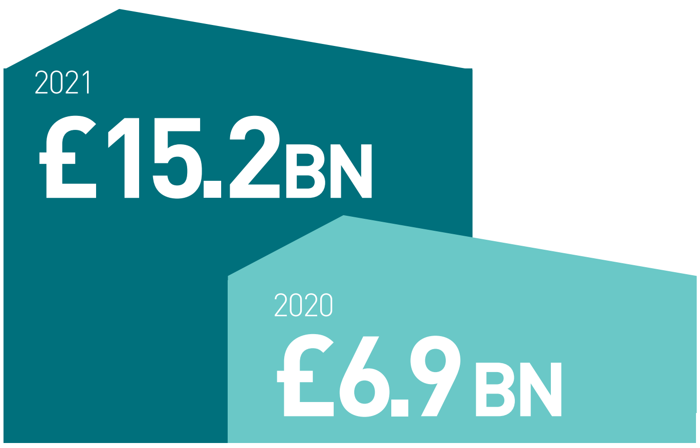
While there is not likely to be any let-up in investment demand, volumes in 2022 may be increasingly challenged by levels of stock. Given the renewed burst of yield compression witnessed in 2021, some investors will certainly be tempted to cash in. However, many more are likely to hold onto their assets, reaping the income and anticipated rental growth, especially as the sector is forecast to continue to outperform other sectors over the medium term.

A cocktail of intense competition for standing stock, a global weight of money and evidence of continuing rental growth is set to funnel increasing levels of investment into speculative development fundings. This has already been clearly reflected in land values, which increased by an average of 53% across the UK's key markets in 2021, and in some cases more than doubled. However, the capacity of contractors to deal with such demand and high prevailing builds costs may interfere with developers' aspirations.

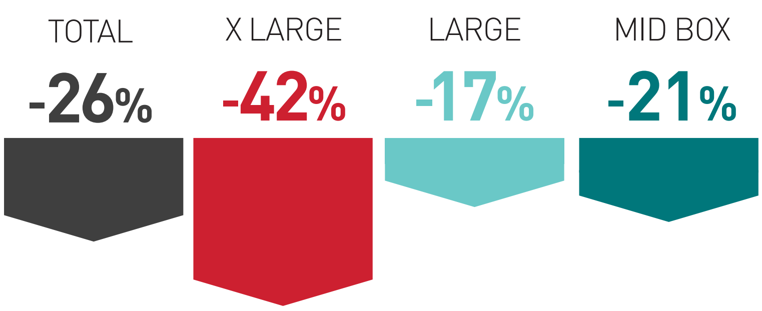
BRIGHT FUTURE

While logistics property demand has been boosted in the short term by trends arising from the pandemic, the sector is also set to see long term gains as a result of accelerated structural changes. Logistics property has a secure role to play in supporting economic activity, which puts it in stark contrast with other property sectors where the longer term impacts on demand remain clouded with uncertainty.

INVESTMENT VOLUME



UK CHANGE IN SUPPLY, Y-ON-Y



Source for all data unless stated: LSH Research

COUNTING THE COSTS

Just as the economic recovery was gaining momentum after the Omicron wave, a fresh burst of uncertainty arrives in the form of military conflict in Ukraine. While rising costs will impact consumers and occupiers alike, structural change will continue to underpin growth and activity in the industrial and logistics sector over the year ahead.

ECONOMIC RECOVERY RESUMES

UK GDP grew by 7.5% in 2021, after contracting by 9.4% in 2020. The Omicron wave had a relatively modest and short lived impact on activity in December into January 2022; but Purchasing Managers' Index (PMI) data indicates that the economy was resurgent in February following the easing of COVID restrictions, with the services sector making a particularly rapid rebound.

The economy should continue to grow over the coming months, although downside risks will come from rising prices, supply chain challenges and global geopolitical tensions. Nonetheless, consensus forecasts suggest that annual growth for 2022 will be healthily in the 4-5% range.

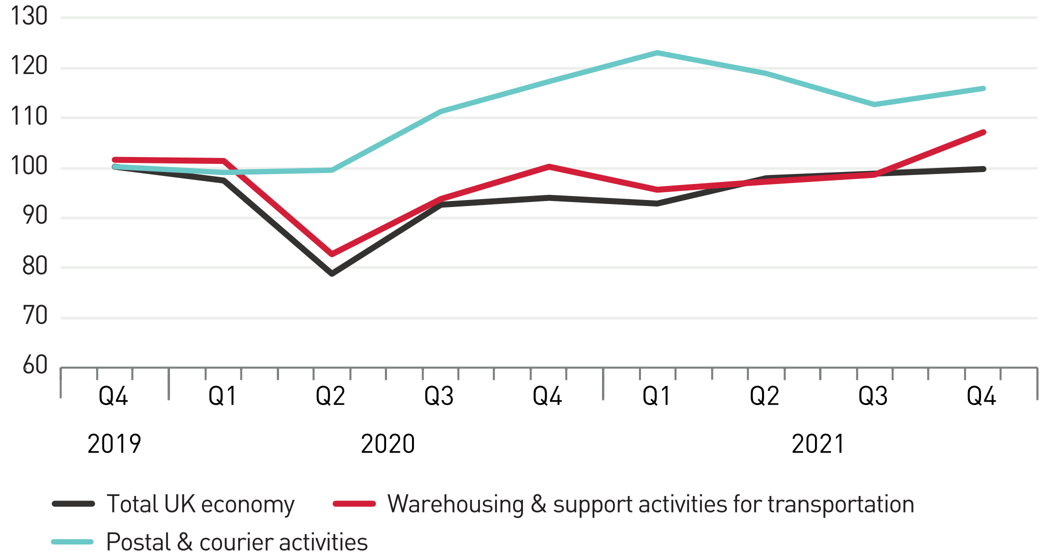
On a quarterly basis, UK GDP should finally get back above its pre-COVID level in Q1 2022, after remaining 0.4% shy in Q4 2021. Sectors driving logistics property demand have already recovered to well above pre-pandemic levels. In Q4 2021, output in the warehousing sector was 5.4% higher than in Q4 2019, while postal and courier activities output was 15.6% higher, despite easing down from lockdown peaks.

PRICES GO UP, UP, UP

The rising cost of living has become a growing concern in recent months, with CPI inflation reaching 5.5% in January, its highest level since March 1992. A further steep rise in inflation is expected in April, when household fuel bills will be impacted by a 54% increase in the Ofgem energy price cap. Capital Economics forecasts that inflation will peak at close to 8% in April.

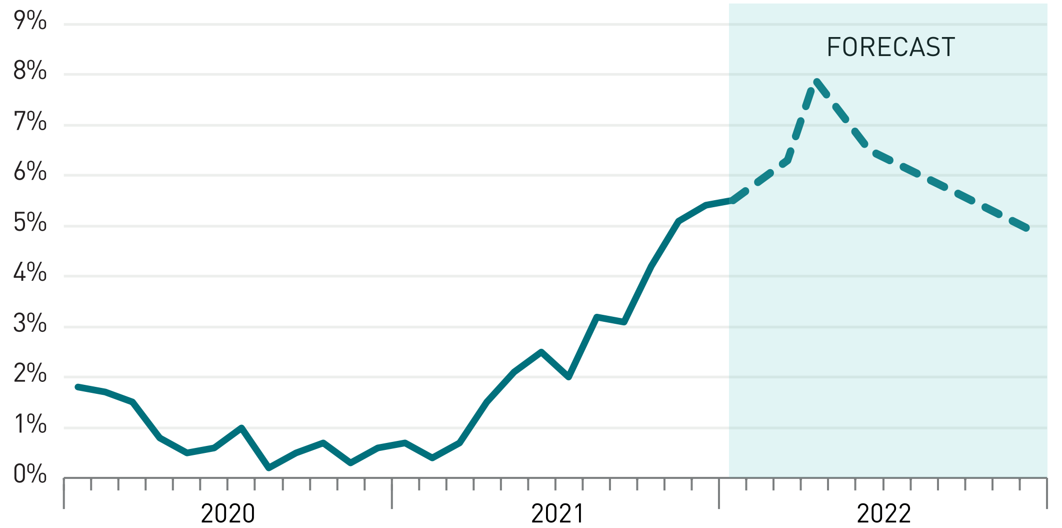
The conflict in Ukraine is creating additional inflationary pressures, primarily through its impact on oil and natural gas prices, and it may cause inflation to fall back from its April peak more slowly than previously expected. If

ECONOMIC OUTPUT BY SECTOR (QUARTERLY INDEX, 2009=100)



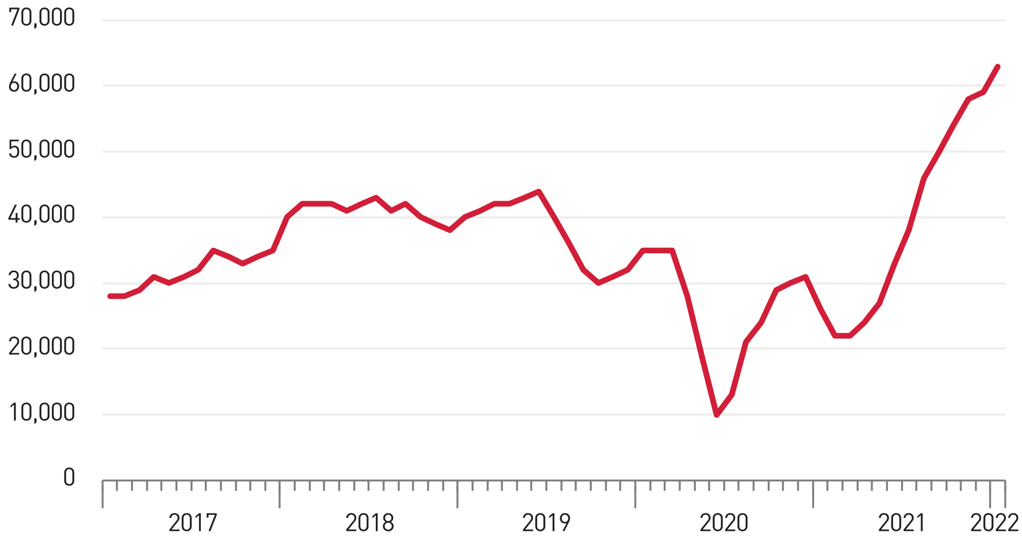
Source: Office for National Statistics

CPI INFLATION (%)



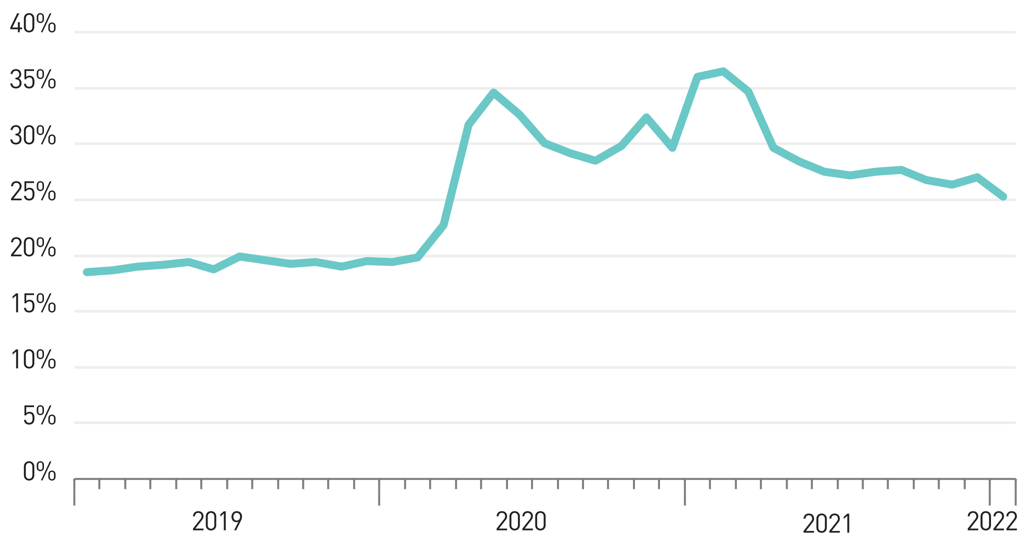
Source: Office for National Statistics/Capital Economics

TRANSPORT & STORAGE JOB VACANCIES



Source: Office for National Statistics

ONLINE SHARE OF TOTAL RETAIL SALES (MONTHLY, %)



Source: Office for National Statistics

oil prices were to rise to $120-130 per barrel, for example, this could effectively add up to two percentage points to inflation.

While recent headlines have focused on the impact of high inflation on households, rising costs are a broad trend also impacting stakeholders across the industrial and logistics sector. Increases in rents, wages, construction, transport and manufacturing costs are variously affecting occupiers, developers and landlords.

SUPPLY & LABOUR SHORTAGES

Product and labour shortages have added to price pressures over the last year. However, there are tentative signs that the peak of the global supply chain crisis may have passed, with manufacturers responding to PMI surveys reporting fewer shortages and delays in recent months. That said, new supply shortages could by created by the Russia-Ukraine conflict, as both countries are leading exporters of commodities, oil and gas.

Labour shortages show no signs of easing any time soon. The labour market is extremely tight, with unemployment dropping to 4.1% in January; back close to its pre-pandemic level. Job vacancies have reached all-time highs; and redundancy rates have fallen to record lows.

The logistics sector has been heavily impacted by labour market shortages. ONS data shows that there were 63,000 transport and storage job vacancies in the three months to January 2022, 142% more than a year earlier.

LOGISTICS LABOUR CHALLENGES

The shortage of HGV drivers has been particular focus of media attention over the last year, with an already ageing workforce being further depleted by a post-Brexit reduction in the number of EU drivers, on top of disruption caused by the pandemic and the lack of young entrants to the occupation.

According to Logistics UK, the number of HGV drivers in employment fell by 49,000 between Q4 2019 to Q4 2021, making the workforce 15.6% smaller than it was before the pandemic. While a sharp rise in the number of HGV vocational tests undertaken in Q4 indicates that some progress is being made in attracting new entrants, the recruitment of drivers remains very challenging.

Other logistics roles are also subject to labour shortages, albeit these are less acute for lower-skilled jobs, where it is easier to recruit workers from other sectors. Nonetheless, employers have had to increase wages across the board in order to attract and retain and staff. Logistics UK reports that there was a significant escalation in warehouse pay in the run up to Christmas last year.

ONLINE RETAIL TO RISE AGAIN

Internet sales soared during the pandemic, with online sales as a proportion of all retailing hitting a peak of 36.5% at the height of lockdown in February 2021. Online retail's market share has since been on a broad downward trend, falling to 25.3% in January 2022, but this is still comfortably above the pre-pandemic level of 19.8% in February 2020.

Online retail volumes could ease further in the short term, as town and city centre activity is boosted by increased office working. Nonetheless, the pandemic has clearly accelerated consumers' adoption of ecommerce and an upward trend is likely to resume before long.

Research by Retail Economics suggests that 27.3% of UK consumers are 'digital shifters' who will make a permanent move to shopping more online. Their forecasts, which are at the upper end of current expectations, suggest that the proportion of non-food sales made online will rise from an estimated 37.0% in 2021 to 49.7% in 2025.

However, a potential disruption to the online retail sector comes from the government's recent announcement of an early-stage consultation, running between February and May 2022, on an online sales tax. The potential tax would be aimed at levelling the playing field between online and physical retailers, with tax revenues being used to fund a reduction in business rates for shops.

MOVING FORWARD

The risks to the economy stemming from the pandemic appear to be receding, but new challenges have emerged that will impact activity in the year ahead. The rising costs of living and doing business will put a squeeze on households and companies; while labour shortages will continue to constrain output. Meanwhile, heightened global geopolitical tensions have added an unexpected and unwanted layer of uncertainty to the outlook.

Nonetheless, the ending of COVID restrictions should underpin a healthy economic recovery in 2022; and the fundamentals underpinning the growth of the industrial and logistics sector remain strong.

Source for all data unless stated: LSH Research

UK OCCUPIER MARKET

OCCUPIER MARKET OVERVIEW

Accelerated structural change arising from the pandemic and the drive to build more resilient, future-proofed supply chains resonated throughout the UK industrial and logistics sector in 2021. And, while a huge weight of money is targeting the sector, supply is struggling to keep pace with demand.

RECORDS SMASHED

Records are proving short-lived in the booming UK industrial and logistics market. Take-up hit a spectacular 78.0m sq ft in 2021, surpassing 2020's previous high by a massive 29%. While activity was strong throughout 2021, Q2 really stood out with stratospheric take-up of 24.7m sq ft fuelled by a wave of large format deals.

2021 was also exceptional for the sheer depth of activity, with take-up comprising 485 deals compared with 358 in 2020. All three of the size-segments boasted record take-up; XL was the star performer against trend, with take-up standing 43% above average, while large unit take-up saw the sharpest growth year-on-year, rising 36%.

ALL ABOUT AMAZON?

Retail and wholesale continued to drive a commanding share of activity, as major players continued with their expansion plans and the strategic reorientation of their supply chains. Amazon blazed a trail yet again, behind 12.5m sq ft of take-up across 32 deals, three of which were 2m sq ft.

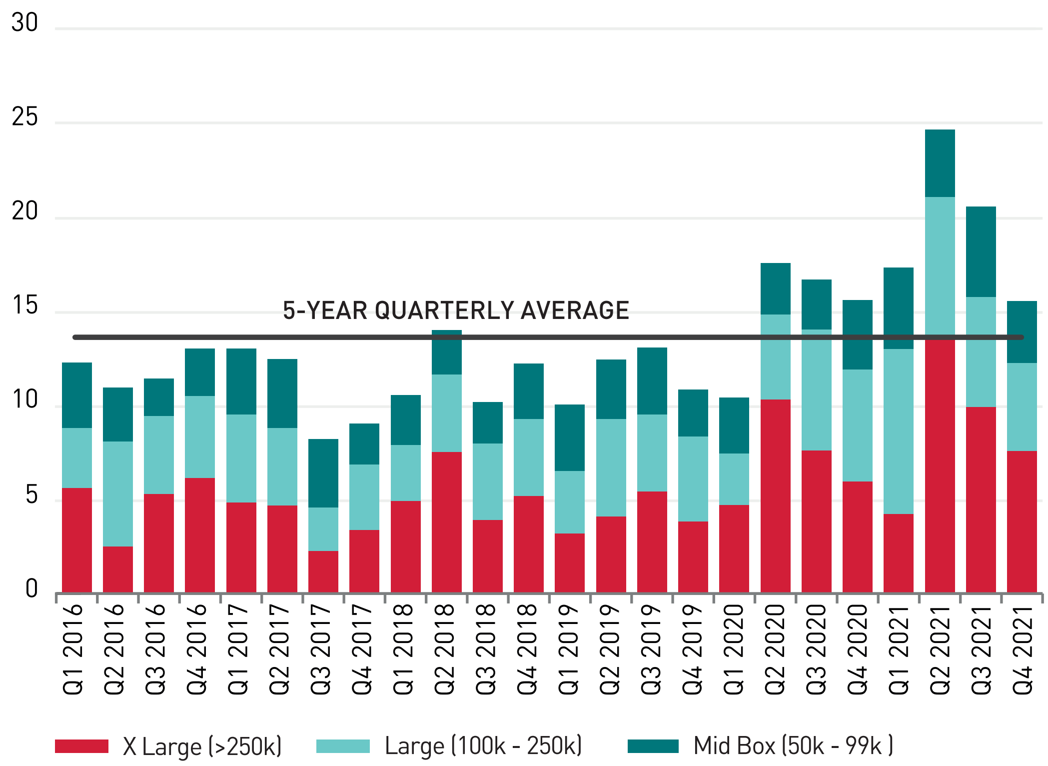
That said, strong activity across other sectors saw retail and wholesale's share of take-up fall slightly, down from 41% in 2020 to 39% in 2021. Distribution and 3PL occupiers were very busy, with take-up rising 26% year-on-year to 14.2m sq ft. This was boosted by an array of deals in the XL segment, including from the likes of CEVA, Eddie Stobart and XPO.

2021 also saw notable transactions from other types of occupiers. Reflecting the drive for enhanced IT infrastructure, data centre operators took 3m sq ft in 2021, which included the UK's largest ever data centre deal - Microsoft's 1m sq ft operation at Imperial Park, Newport. The year also saw brought news of the UK's first ever gigafactory, namely Britishvolt's 1.6m sq ft commitment at Blyth, Northumberland.

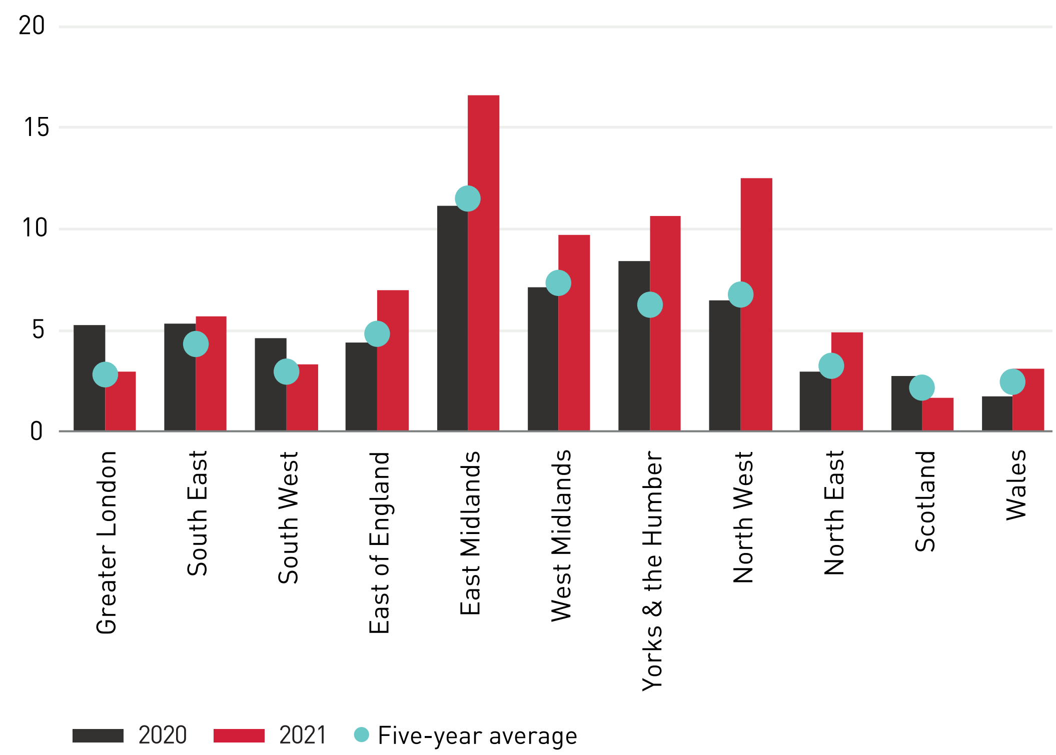
CLAMOURING FOR SPACE

Developers have been vindicated on their decisions to press ahead with speculative schemes, with 2021 showing exceptional activity for newly delivered product. While take-up of design and build space was broadly similar to 2020, take-up of up-and-built grade A space soared to 29m sq ft, 30% above 2020's level.

UK TAKE-UP (M SQ FT)



UK TAKE-UP BY REGION (M SQ FT)



Source for all data unless stated: LSH Research

That said, grade A's share of 2020 take-up fell significantly compared with 2022, reflecting intense competition and a sense of urgency to secure readily available space, regardless of grade. This was especially true of the XL segment, where take-up of secondhand units increased by 88% year-on-year to 8.9m sq ft, while secondhand take-up in the large and mid box segments increased by 53% and 48% respectively.

REGIONAL RECORD-BREAKERS

Reflecting the strength and breadth of demand across the UK, five regions boasted record take-up in 2021, while ten out of the eleven regions saw take-up for the year above their respective five-year annual averages. The East Midlands took the leading share of UK activity in typical fashion, with record take-up of 16.6m sq ft, but the strongest performing regions against trend were the North East (+51%), Yorkshire and the Humber (+71%) and the North West (+86%).

The nature of activity varied to some degree between regions. While Yorkshire and the Humber and the North East's exceptional 2021 was underpinned by mega deals, the North West saw considerable growth in all size-segments. Meanwhile, Scotland was the only part of the UK to underperform against trend in 2021, recording its lowest take-up since 2018 and 23% below the annual average.

EPIC ABSORPTION

Despite a concerted development response, UK supply has fallen dramatically in the face of unprecedented levels of demand. Supply fell at the sharpest rate on record in 2021, dropping by 26% to a new all-time low of 52.3m sq ft. Across all segments combined, current UK-wide supply is equivalent to only 1.0 years of average annual take-up.

Each size segment recorded a marked fall in supply in 2021. The XL segment saw the strongest reduction, falling by 42% year-on-year to its lowest level since 2016, while large and mid box supply fell by 17% and 21% respectively to record lows. Notably, secondhand space felt the full force of strong absorption, most notably in the XL segment, where secondhand supply contracted by a massive 82% year-on-year to leave just 2.1m sq ft available.

SPEC-TACULAR

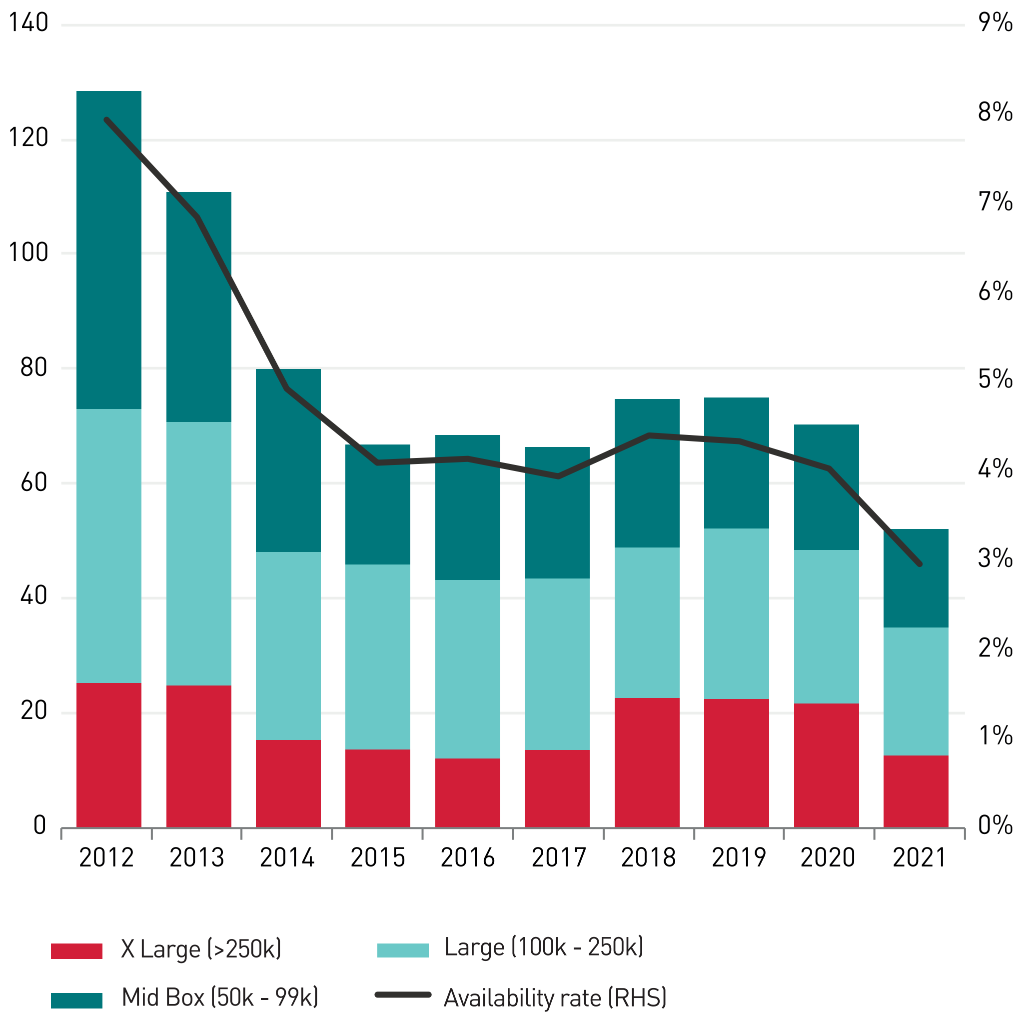
Despite challenges around build costs and delays in the planning process, developers are going to great lengths to capitalise on unparalleled levels of occupier demand. A burst of new development starts in Q4 2021 pushed total UK-wide speculative development under construction to a massive 20.7m sq ft, up 80% on the 2020's previous record and comprising 133 separate units.

The West and East Midlands provide the key focus of this development, with 5.2m sq ft and 4.2m sq ft under construction respectively, accounting for close to half the UK total. Developers are also increasingly comfortable with building ever larger units. Speculative development in the XL segment climbed by 161% year-on-year to 9.4m sq ft, accounting for 45% of the total.

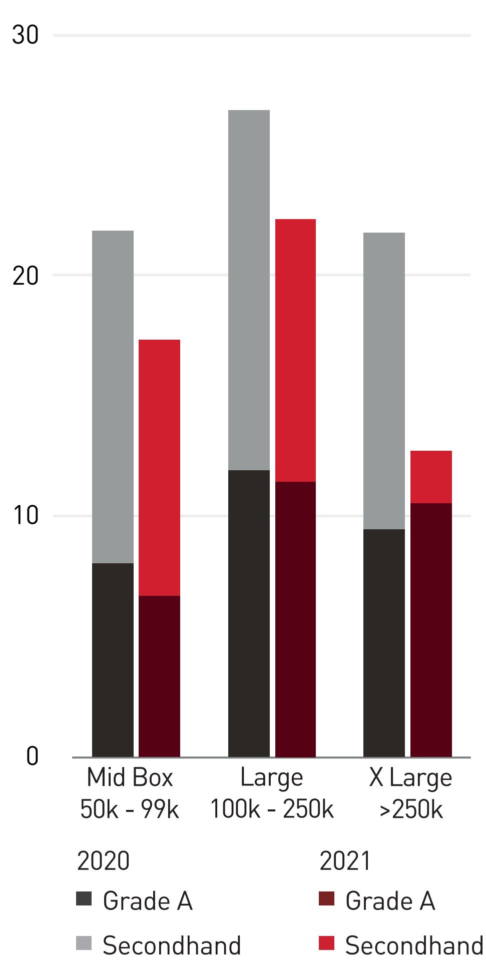
SOUTH WEST IS THE UK OUTLIER

Amid falling overall supply, there were considerable regional variations. The East Midlands and the North West saw the sharpest

UK AVAILABILITY BY SIZE-BAND (SQ FT)



UK AVAILABILITY BY SIZE AND GRADE (M SQ FT)



falls in supply over the course of 2021, down 44% and 49% respectively to stand at new record lows. Moreover, such is the strength of demand that most of the supply in both of these regions is actually under construction and therefore not immediately available.

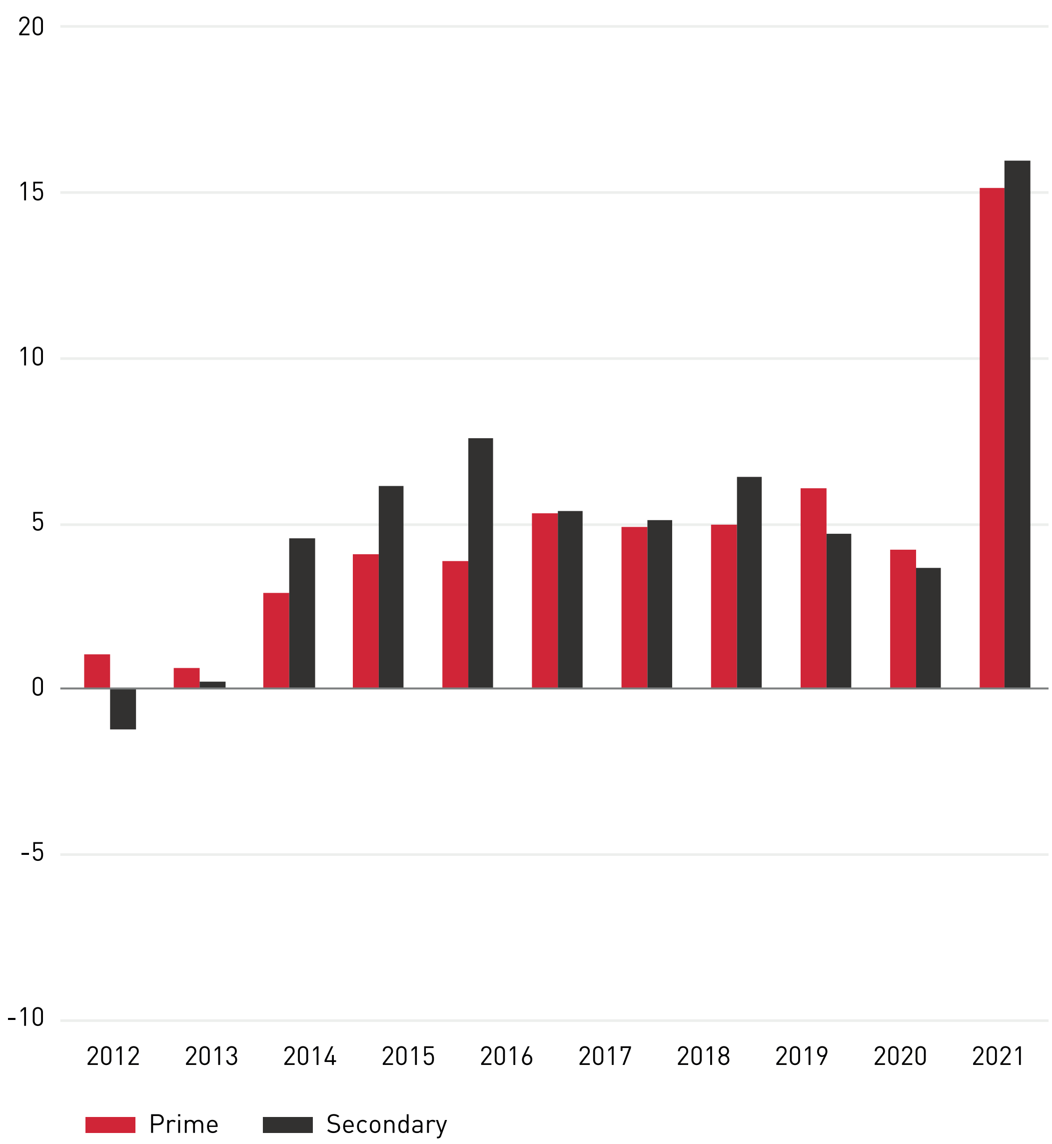
Only two UK regions – the South East and South West – saw increases in supply during the course of 2021, rising by 11% and 17% respectively and driven by substantial increases in large unit availability. However, while supply in the South East remains tight much like other UK regions, the South West is arguably the UK's only outlier, with supply equivalent to 2.0 years of average take-up, twice the UK's overall position.

RAPID RENT RISES

The relentless appetite for space was reflected in considerable upward pressure on rents throughout the UK market. 2021 saw - by a distance - the strongest annual rate of growth on record, with average prime rents for 50,000 sq ft units increasing by 15% year-on-year in Q4 2021. Reflecting the reduced supply for prime space and increased competition, rental growth for secondary units was a touch stronger, rising by 16% on average.

Rental growth nonetheless varied considerably across and within regions. At 30% and 25% respectively, Greater London and Wales recorded the strongest growth on average at the regional level. Within these regions, Barking and Dagenham (up 52%), Park Royal (up 53%) and Newport (up 44%) exhibited the most extreme growth of the key UK markets. Secondary rental growth was strongest in Greater London and the East Midlands, up 25% and 22% respectively.

AVERAGE UK RENTAL GROWTH (%)



REGIONAL AVERAGE RENTAL GROWTH IN 2021 (%), UNITS 50,000 SQ FT

Source for all data unless stated: LSH Research

HITTING THE BIG TIME

The accelerated structural change to retailing arising from the pandemic has rocket-fuelled demand at the larger end of the market, as occupiers rush to expand and build more resilience in their supply chains. Whether development can manage to keep up with this demand is perhaps the greatest challenge to activity in 2022.

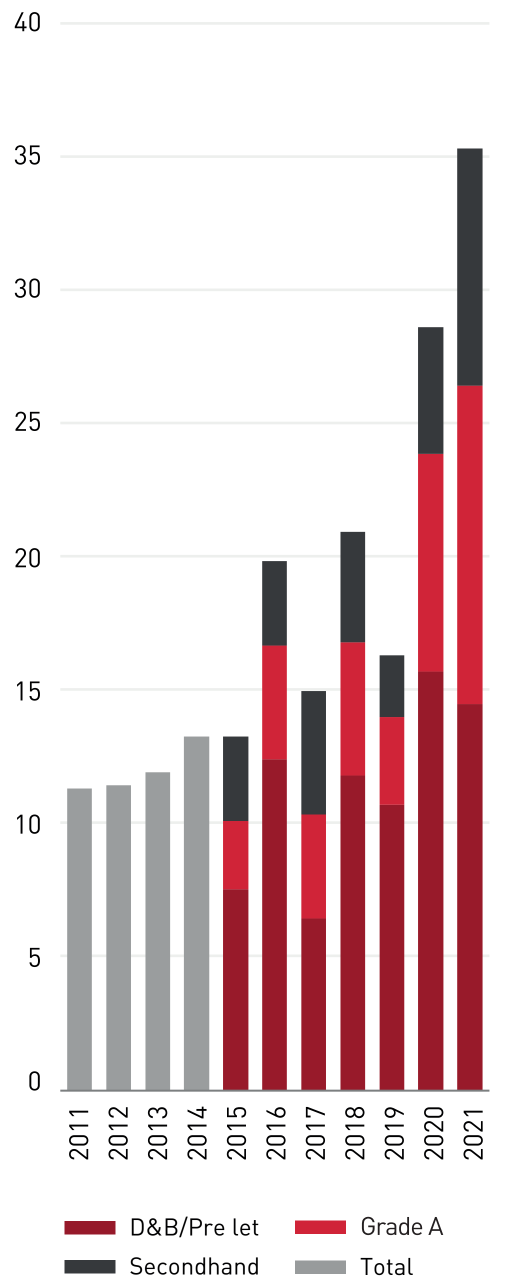
Once again, Amazon's considerable exploits in 2021 played a big role in the record year for take-up in the XL segment. The question is, just how long will Amazon's impression on the market continue? Evidence suggests there is plenty more to still to come, certainly over the next 12 months, as the online retail behemoth continues its ongoing efforts to improves its network while expanding steadily into other areas of fulfilment, such as groceries and logistics services.

But, crucially, Amazon is not the only game in town, evidenced by the fact its share of 2021's record XL take-up slipped from 2020. Major commitments were made by a wide range of businesses, particularly among 3PL and other major online retailers, as well as 'atypical' kinds of occupiers, including data centre operators and electric battery manufacturers, whose impression on the market is sure to grow over the coming years.

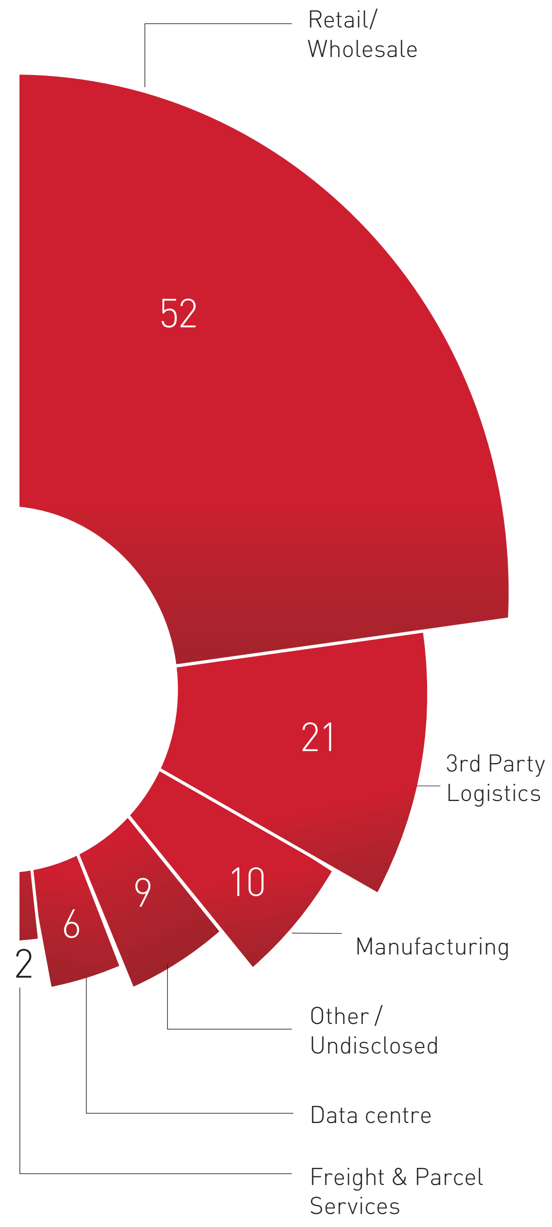
The bold actions of developers in this segment have paid off handsomely, with the arrival of new product helping to drive 2021's soaring take-up. The development of units at this scale has traditionally involved a pre-let but, in this market, developers are confident to spec build at scale in many parts of the UK. Three years ago, spec building units in the order of 500,000 sq ft would have appeared risky; now they are bordering on de rigueur.

With an estimated with over 20m sq ft of active requirements presently in this segment (last year we said 20m), 2022 is shaping up to be another very strong year for take-up. Yet, even if 2021's record will be hard to beat, this is likely to be partly down to the inability of supply to keep up with demand. In the race for space, landlords can be confident of further strong rental growth across the UK's prime and emerging logistics hubs in 2022.

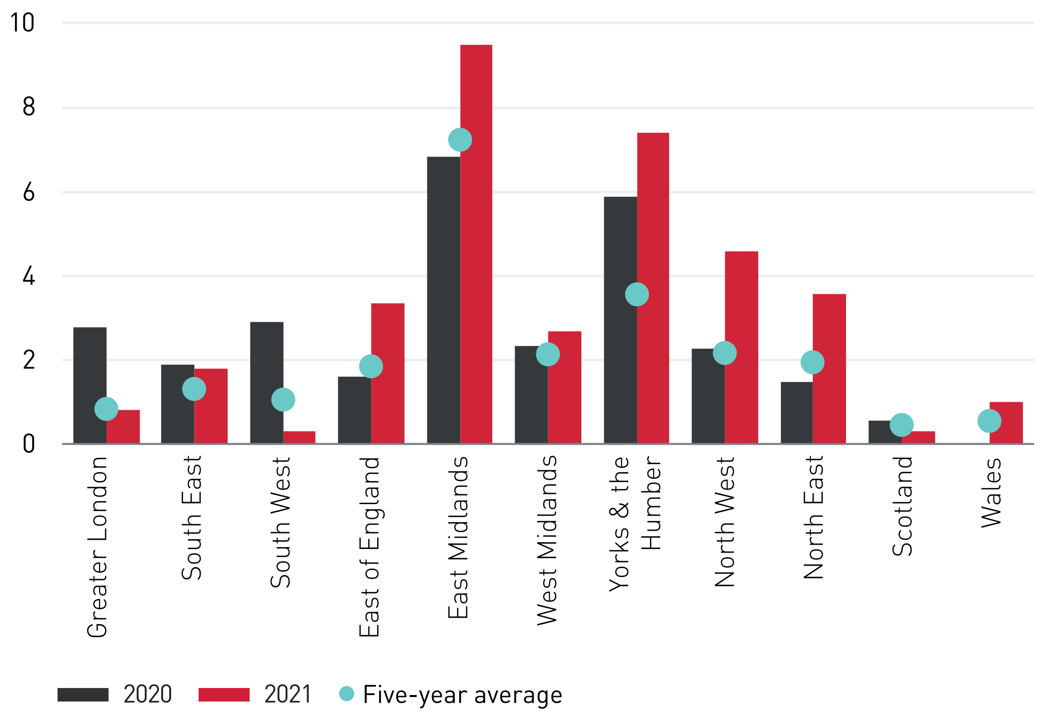
TAKE-UP BY GRADE (M SQ FT)



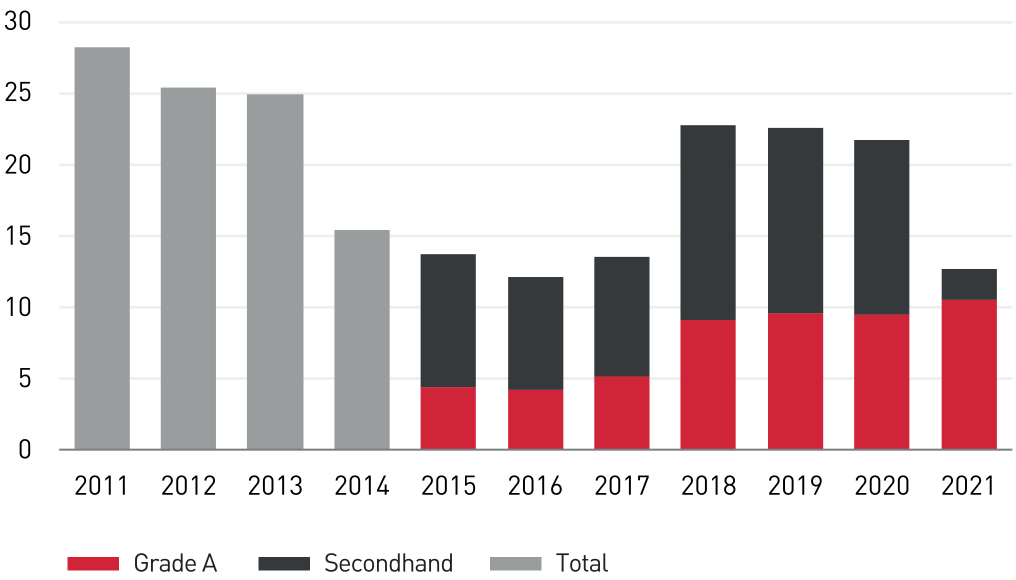
TAKE-UP BY OCCUPIER TYPE (%)



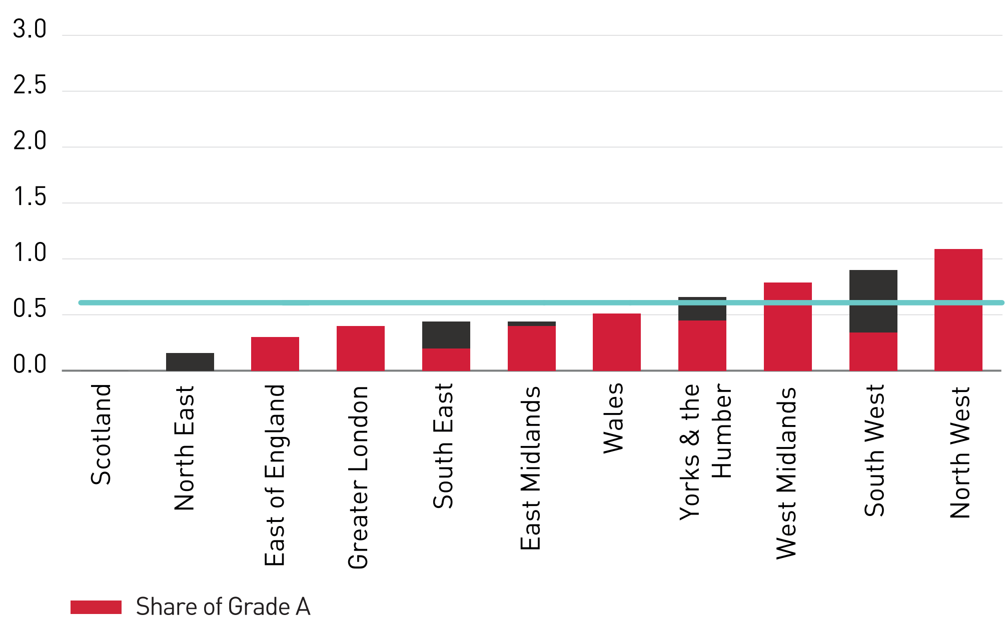
TAKE-UP BY REGION (M SQ FT)



AVAILABILITY BY GRADE (M SQ FT)



YEARS OF SUPPLY BY REGION



DEMAND

UK take-up in the XL segment soared to 35.3m sq ft in 2021, smashing 2020's previous high by 24%. 2021 was also very busy for the segment, with 72 deals over the year, 50% more than recorded in 2020. 2021's new record was less reliant on 'mega deals', characterised by an abundance of activity in the 250,000 sq ft to 450,000 sq ft range.

Amazon took centre stage once again 2021, behind nine deals in the XL segment and all three of the UK's largest deals of 2021, each of which extended to 2m sq ft. While Amazon's take-up of XL units was similar to 2020, at a massive 9.4m sq ft, its share of UK XL segment activity dropped in 2021 as a raft of other occupiers also made waves, such as Boohoo, AO and The Hut Group to name a few.

Hence, retail and wholesale was by a distance the most active sector during 2021, taking a commanding 52% share of XL take-up. However, other sectors were very active in 2021; XL take-up among third party logistics providers increased by 45% year-on-year to 7.2m sq ft, while several data centre deals also helped to fuel 2021's record.

While build to suit commitments took the lion's share of XL activity, take-up of new and refurbished units was a huge 8.1m sq ft, 48% above the previous record in 2020. 2021 also saw the UK's largest ever spec built deal, Amazon's 746,000 sq ft lease of MPS1 Magna Park South, Lutterworth.

The UK's logistics hubs all played their part in 2021's record year. Predictably, the East Midlands boasted the leading share of UK XL-unit activity, with record take-up of 9.5m sq ft. However, the most impressive performances against trend came from the North West and Yorkshire and The Humber where take-up was 99% and 26% above trend respectively.

SUPPLY

UK-wide supply in the XL segment fell by a substantial 42% year-on-year, by far the sharpest contraction of the three segments. For context, XL unit supply of 12.7m sq ft is equivalent to only 0.6 years of average annual take-up, although this rises to 1.1 years if historic build to suit activity is excluded from the demand side of the calculation.

The sharp fall in supply is made more remarkable for the unprecedented level of speculative development that is taking place within the segment. Indeed, at the end of 2021, 75% of the UK's entire supply of XL units was under construction, a clear signal that supply is struggling to keep up with insatiable demand. The East Midlands is the main focus of current XL development, home to nine of the UK's 25 speculative schemes in the segment.

2021 saw the almost complete absorption of existing space in the XL segment, with secondhand unit supply falling by a massive 82% year-on-year. Indeed, virtually all the units that became available in the wake of the pandemic have, ultimately, been re-let with comparative ease to emerging players.

Source for all data unless stated: LSH Research

LARGE

SPEC AT FULL THROTTLE

A huge record year for large segment take-up in 2021 was remarkable given the more mixed make-up of demand for these units compared with the XL bracket. Meanwhile, a lack of supply and another burst of yield compression will continue to funnel investors towards development.

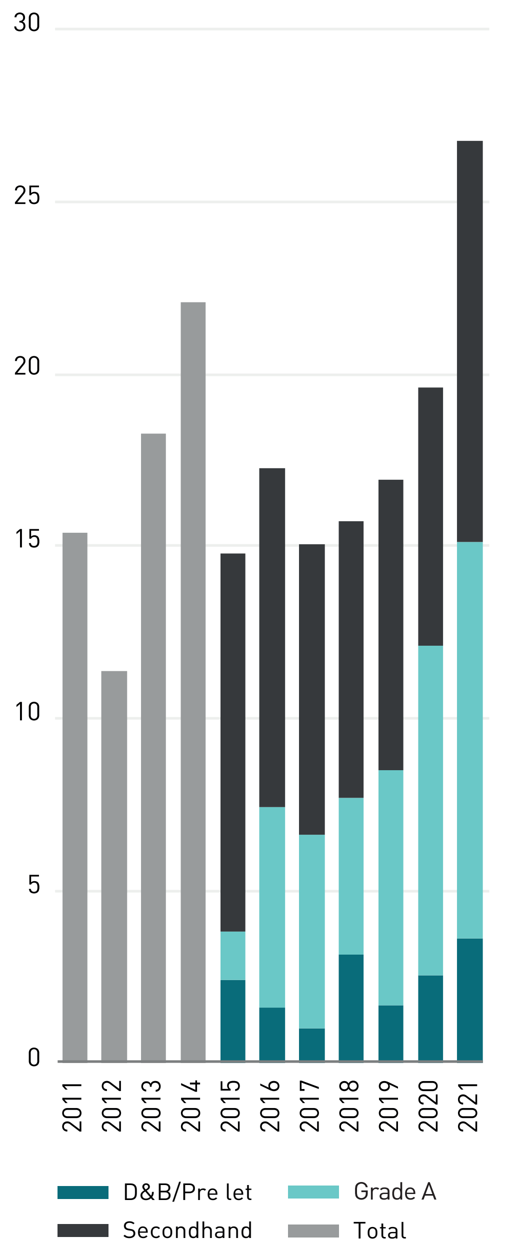
A huge record year for the large segment in 2021 owed much to the ceaseless appetite for space among retailers and third party logistics operators, while evidence suggested that manufacturers and other types of occupiers have started to recover and move on from the impact of the pandemic in 2020.

The move into a new year has seen absolutely no let-up in demand, with active requirements in this segment amounting to approximately 18m sq ft across the UK. Dwindling supply is driving multiple inspections of existing built options and pushing occupiers to commit to longer terms and bigger rents to beat the competition.

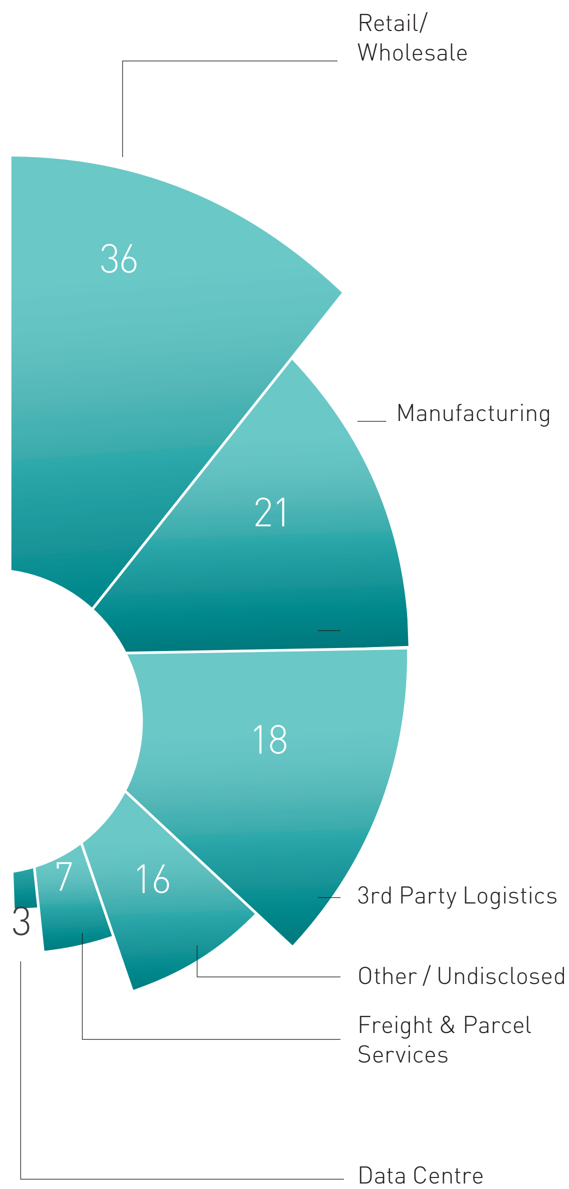
Developers have already responded emphatically in this segment, reflected by the fact that around two-thirds of grade A supply is actually under construction. Alongside the soaring levels of development, recent months have also seen confidence to spec build in parts of the UK that for many years have been devoid of interest, including the North East, Wales and Scotland.

The lack of ready-built supply and a wall of capital seeking deployment into distribution will continue to manifest itself in a huge appetite for speculative development. Over 9m sq ft is tipped to come forward speculatively in this segment in 2022. This is guided in part by the availability of sites, with anticipated starts in the North West and Yorkshire and the Humber rivalling the traditional logistics heartlands of the Midlands. The rush for opportunities in these regions is driving exceptional growth in land values, roughly doubling over the course of 2021, with continuing growth expected into 2022.

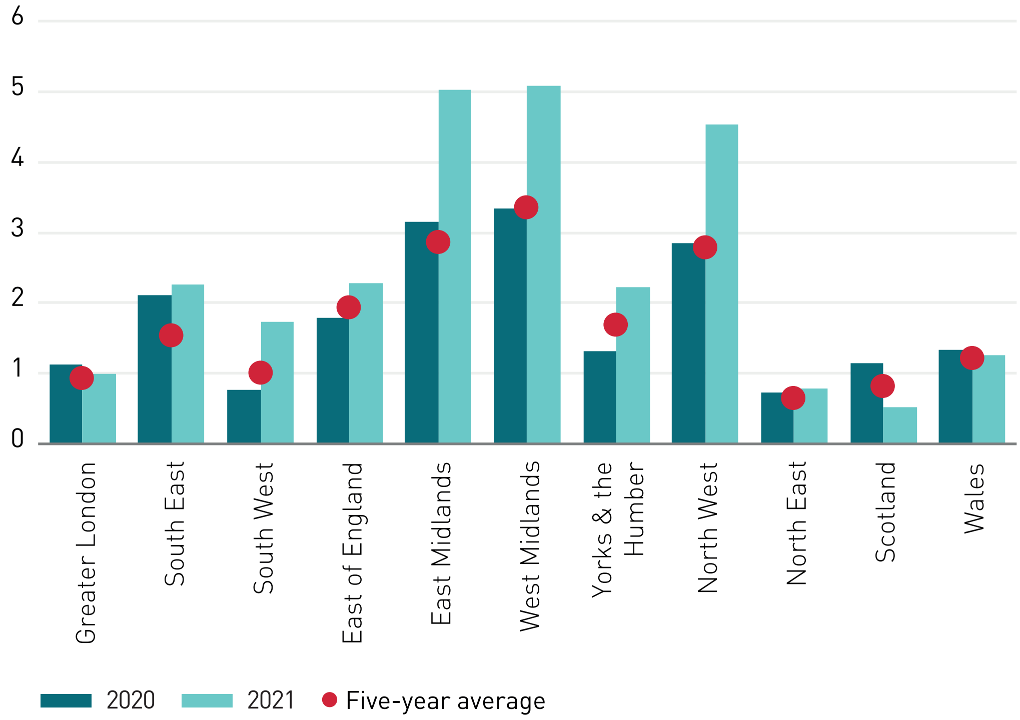
TAKE-UP BY GRADE (M SQ FT)



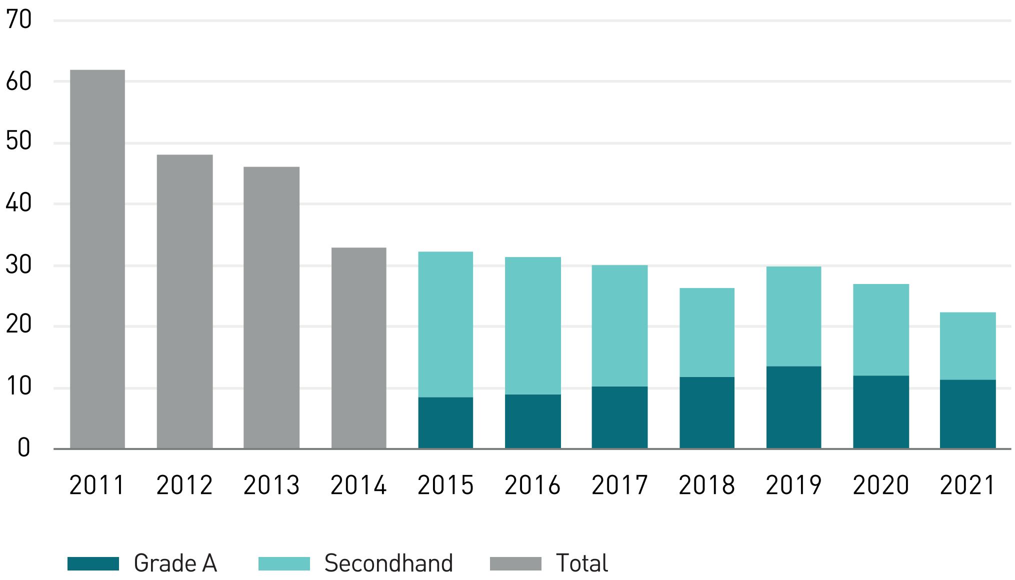
TAKE-UP BY OCCUPIER TYPE (%)



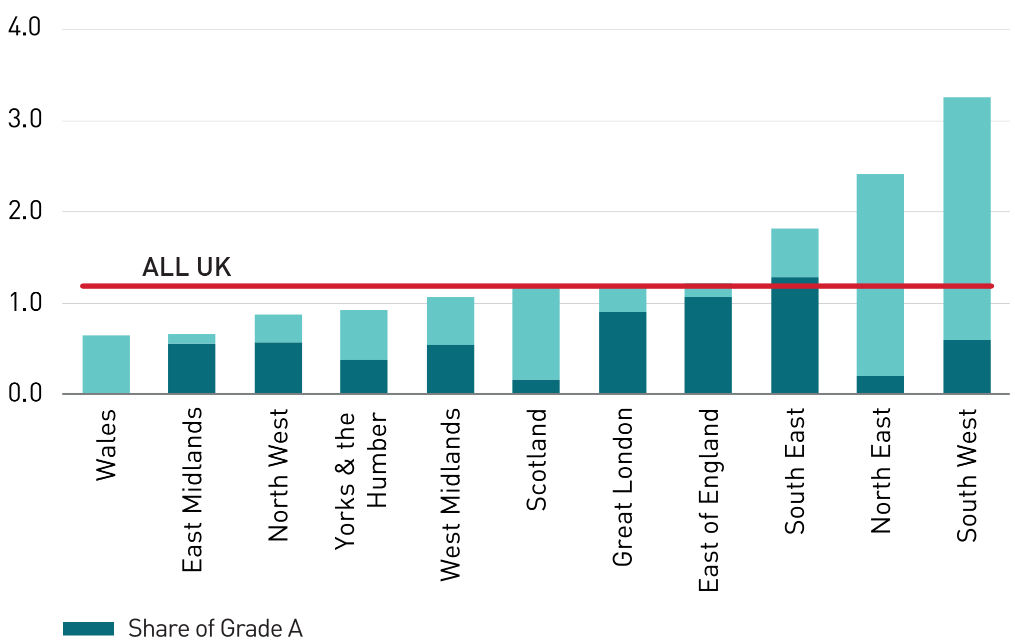
TAKE-UP BY REGION (M SQ FT)



AVAILABILITY BY GRADE (M SQ FT)



YEARS OF SUPPLY BY REGION



DEMAND

UK-wide take-up in the large segment was a mighty 27.6m sq ft in 2021, up 36% on 2020 and 21% above 2014's previous high. At 11.5m sq ft apiece, exceptional demand was seen for grade A and secondhand space in equal measure, while built to suit commitments accounted for 14% of take-up in the segment.

Activity across the key occupier sectors was less evenly split than it was in 2020, with retail & wholesale taking a leading 36% share of 2021 take-up in the large segment. While the share of large unit activity taken by manufacturers and third party logistics operators was down year-on-year, absolute levels of take-up were nonetheless higher in 2021.

Scotland was the only part of the UK to see take-up in this segment fall below the annual trend in 2021. While several regions saw record annual take-up in 2021, the East Midlands performed best against trend, with record take-up of 5.0m sq ft being 75% above average, followed closely by the North West, where activity was 63% above trend. That said, with take-up of 5.1m sq ft, the West Midlands boasted the UK's leading share of large segment activity for a sixth successive year in 2021.

SUPPLY

UK-wide availability in the large segment fell by 17% during 2021 to a record low of 22.3m sq ft. While this amounts to a sharp fall, it was the smallest year-on-year contraction of the three segments. Current UK supply in the segment is equivalent to only 1.2 years of average take-up, down from 1.7 years in 2020.

The contraction was felt most acutely for secondhand product, with the rapid absorption of grade A facilities being mostly offset by unprecedented levels of speculative development. While the availability of grade A space stood only 4% lower year-on-year, secondhand space contracted by 27%, leaving the UK-wide supply relatively evenly split between the two grades.

Remarkably, availability of grade A space is dominated by speculative development. At the end of 2021, a record 7.3m sq ft was under construction in the large segment across the UK, which equates to 65% of total grade A supply. The West Midlands is the most active region for development, home to nine of the UK's 49 schemes followed by the East Midlands and the East, each home to nine schemes.

The wave of large unit development occurring in some regions has done little to alleviate supply shortages. Supply in the East Midlands, for example, is down 55% year-on-year and is equivalent to only 0.7 years of average take-up, while the North West is close behind, with supply equivalent to only 0.9 years of average take-up.

However, against a picture of tightening supply at the overall UK level, choice did improve in several regions over the course of 2021. The South East and South West regions both saw supply increase by well over 50% during 2021, although the latter stands out in absolute terms with availability equivalent to 3.3 years of supply, notably higher than any other UK region.

Source for all data unless stated: LSH Research

MID BOX

BACK ON FORM

Whilst arguably overshadowed by exploits at the larger end of the market, mid box's record year of take-up in 2021 is testimony to the huge depth of demand throughout the UK industrial and logistics market. Moreover, the ongoing push for last mile fulfilment in and around urban areas will spur demand for years to come.

The fact that the mid box segment saw a dramatic improvement in activity from 2020 was no less impressive than the record itself. The rebound in fortunes for this segment reflects more closely the more mixed sectoral make-up of demand, with the wider economic recovery from the pandemic reflected in stronger occupier demand in this space.

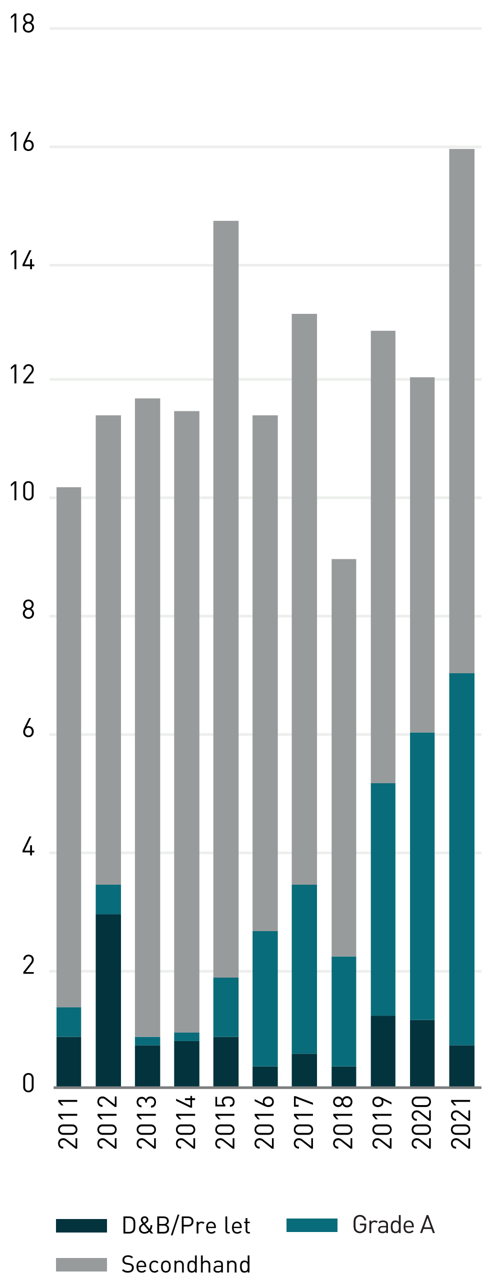
Availability and choice in the market has certainly helped to fuel activity. This was reflected emphatically in the North West region, where relatively plentiful new build and existing supply a year ago paved the way for a huge record in annual take-up, with a clear focus of activity in Manchester and Warrington.

While the supply issues in mid box are not as acute as the larger segments, availability is becoming increasingly scarce. Increased online retail activity, accelerated by the pandemic, will only heighten the need for major parcel companies and online retailers to have delivery centres that serve towns and cities. This will create an ongoing need for mid box development in locations that prioritise access to local populations more than national transport connections.

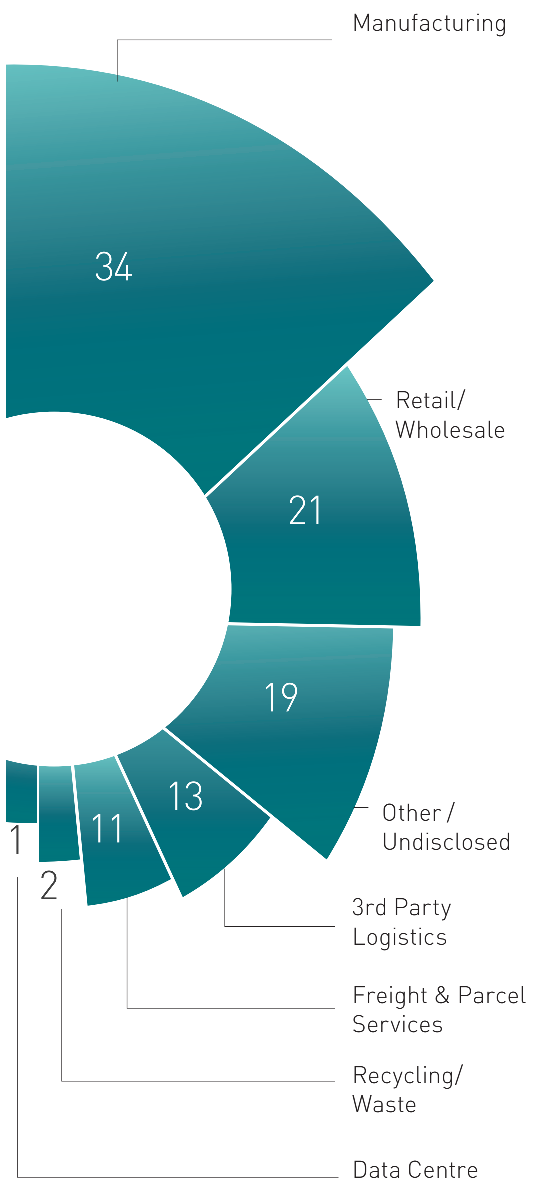
Despite the structural rise in demand for smaller boxes, the focus of development remains biased to the larger end of the market as many developers remain understandably drawn to the relatively better economies of scale afforded to them. However, consumers' ever growing demand for rapid fulfilment and the pressure to drive greater last mile efficiencies suggest opportunity abounds in this segment.

High quality mid box product, in locations that blend access to population centres with good transport links, will find a market. Prime mid box units should achieve significantly higher rents per square foot than XL sheds; prime rents are typically in excess of £20 per sq ft in

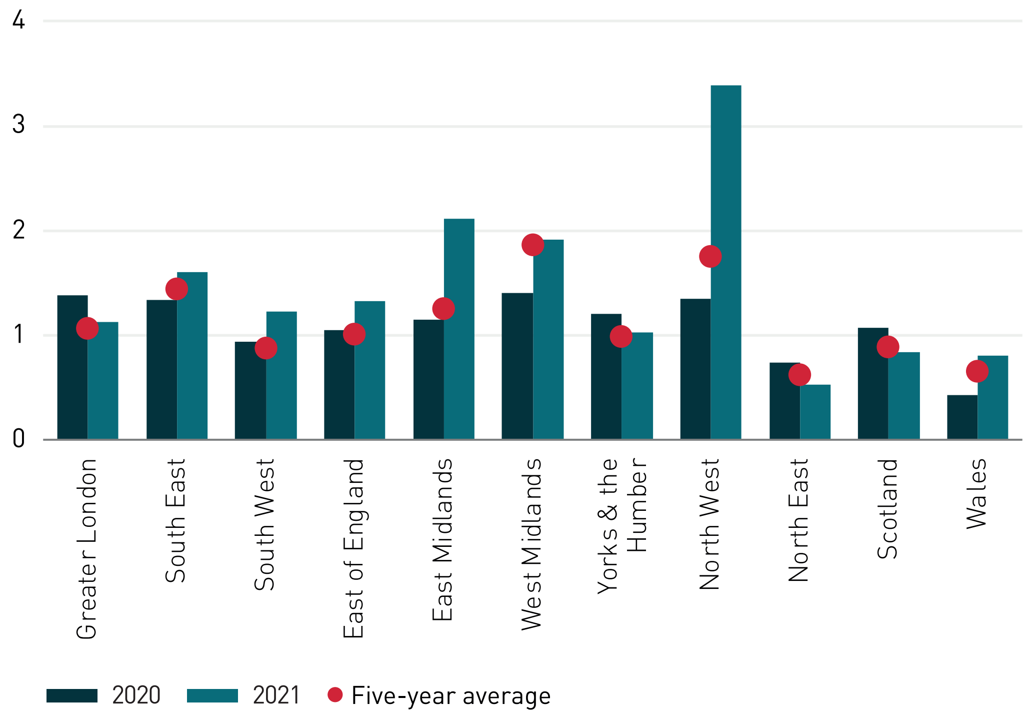
TAKE-UP BY GRADE (M SQ FT)



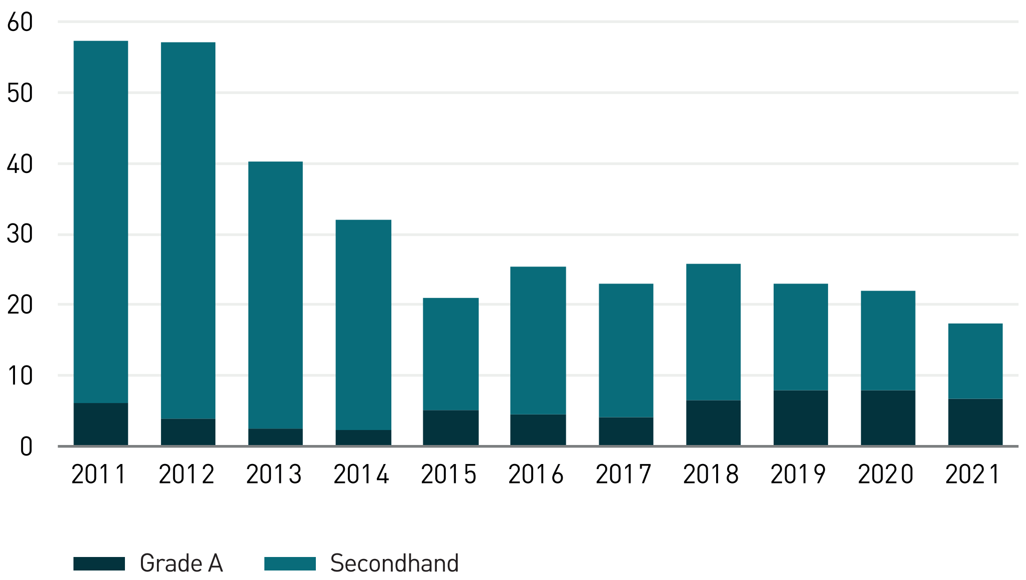
TAKE-UP BY OCCUPIER TYPE (%)



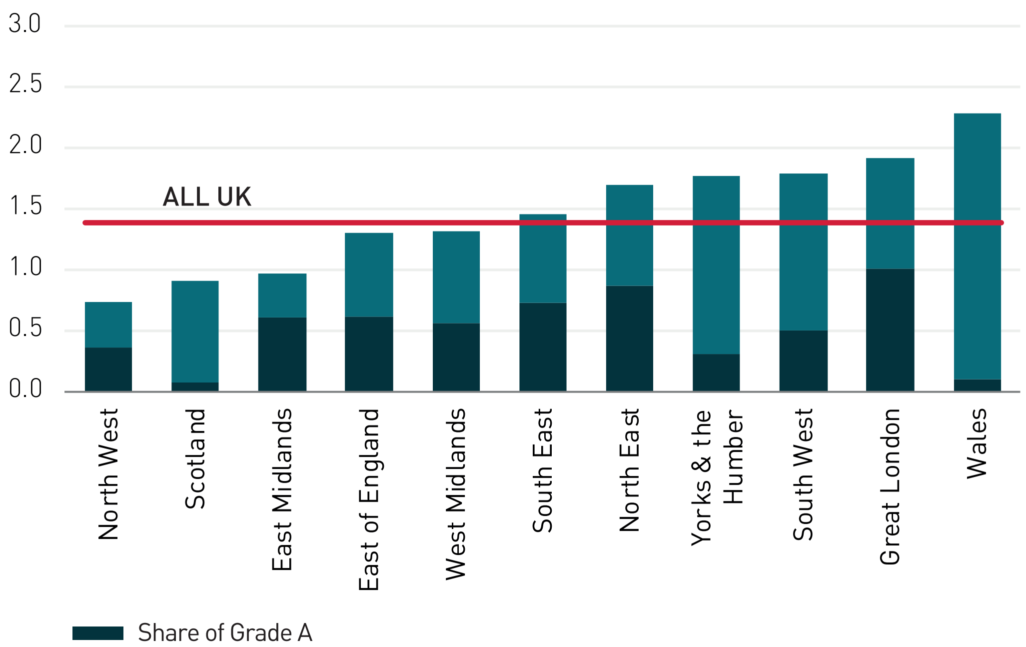
TAKE-UP BY REGION (M SQ FT)



AVAILABILITY BY GRADE (M SQ FT)



YEARS OF SUPPLY BY REGION



parts of Greater London, with growth likely to continue and spread into other highly populated areas of the UK.

DEMAND

Mid box boasted a record year of activity in 2021. UK-wide take-up hit 15.9m sq ft, rebounding by 32% on 2020's total and 26% above the five-year annual average. This record was, however, arguably overshadowed by the two larger segments, eclipsing 2015's previous high by 'only' 8%.

A notable contrast from 2020 was the strong focus on existing high quality space. While built to suit take-up was down 39% on 2020, activity involving new and refurbished space increased dramatically in 2021 and was 59% above average. Clearly, the concerted development response in this segment has ignited demand.

Bar Scotland, all UK regions boasted take-up above the annual average in 2021. However, the East Midlands and North West were the year's standout mid box performers, with take-up being 68% and 93% above trend respectively. Notably, the West Midlands lost its crown as the UK's most active region for mid box, usurped by the North West for the first time on record with a 21% share of the UK market.

While take-up was higher in absolute terms in 2021, the approximate share of activity across the sectors was broadly in line with 2020. As is typical for mid box, manufacturers were the most active occupier group nationally, accounting for 34% of take-up in the segment, rising from 30% in 2020.

Retail & wholesale occupiers took 21% of activity in 2021, exactly the same proportion as 2020. Notably, Amazon was much less busy within the mid box segment in 2021, behind only three deals compared with seven in 2020. In the parcel space, DHL was the only prominent mover in 2021, behind four deals across southern England.

SUPPLY

The UK-wide supply of mid box space contracted by 21% in 2020 2021, to 17.3m sq ft. The fall was driven by a drop in secondhand supply, which decreased by 24% to a record low of 10.6m sq ft, while grade A availability fell by a modest 17% to 6.7m sq ft, thanks to a sustained delivery of new development.

Mid box supply contracted across all regions in 2021, the only exception being Greater London. The falls in supply also varied significantly, being most pronounced in the North West, where it fell by a massive 59% on the back of record take-up. The region is now the tightest supplied region for mid box space, equivalent to only 0.7 years of average take-up.

The sharp fall in mid box supply is notable given the amount of speculative development taking place. At the end of 2021, a record 4.1m sq ft of mid box development was under construction across the UK, comprising 59 units. Notably, in the East Midlands, 43% of mid box availability is under construction.

While Wales and Scotland remain devoid of any speculative development, after a long 15-year hiatus, appetite has spread to the North East. At the end of 2021, 338,000 sq ft of mid box development was coming forward across two schemes in Washington.

Source for all data unless stated: LSH Research

FREE AND EASY

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The UK government has made freeports a key part of its post-Brexit, post-COVID economic strategy. While relocation and development opportunities will be created, strong tax incentives and relaxed planning policies are needed to ensure freeports' success.

Port of Felixstowe

Port of Hull

THE NEW FREEPORTS

Freeports are specially designated geographical areas, usually located at seaports, airports or railports, where a country's normal tax and customs rules do not apply. Globally, there are estimated to be around 3,500 freeports, with some of the most prominent being in the UAE, USA, Singapore, China and Hong Kong.

Freeports have previously existed in the UK, but plans for a new wave of them were crystallised in the Spring 2021 Budget, which confirmed eight new locations in England; at the East Midlands; Felixstowe & Harwich (Freeport East); Humber; Liverpool; Plymouth & South Devon; Solent; Teesside; and Thames.

The UK government has also committed to establish at least one freeport in each of Scotland, Wales and Northern Ireland, subject to discussions with the devolved administrations. A deal to create two Scottish 'green freeports' was announced in February 2022, with the locations to be decided following a bidding process.

Under the UK government's current model, a freeport area can extend up to 45km around a port. However, the customs and tax benefits of the freeport will only be available within specific sites, designated as either 'customs sites' or 'tax sites'. Legislation has been passed establishing some of the first sites, with more expected to be confirmed at later dates.

CUSTOMS SITES

Customs duty and VAT is not applied to imported goods entering a customs site, and only becomes payable if and when goods leave the site to enter the UK market. In addition, businesses benefit from simplified customs procedures in these sites.

Customs sites provide three main potential advantages:

Duty suspension – As companies can defer paying duty until goods leave a customs site, there are cash flow and stock management benefits, particularly for wholesalers and retailers. Goods can be imported in bulk and stored in a warehouse in a customs site, with duty only paid when goods are despatched, thus spreading out payments over a longer period of time.

Duty inversion – Businesses with manufacturing facilities in customs sites are able to import parts and components duty-free, and then manufacture the final product on site; only paying duty on the finished item. This is particularly advantageous when the raw components would have been subject to higher tariffs than the final product.

Duty exemption – Components can be imported into a customs site, manufactured into finished goods on site and then subsequently re-exported, with no duty being payable on either the components or the final product.

TAX SITES

A range of tax reliefs are available in tax sites, incentivising businesses to set up in them. The tax reliefs provide support at various business stages; including land acquisition; construction of premises; purchase of plant and machinery; employment of staff; and the operation of the business.

Stamp Duty Land Tax (SDLT) relief – SDLT relief is available on acquisitions of land and buildings in a tax site. Full relief applies when at least 90% of the purchase price is for qualifying land and buildings. Partial relief applies when 10-90% of the purchase price is for qualifying land and buildings.

Enhanced capital allowances – Firstly, an enhanced Structures and Buildings Allowance (SBA) is available on the construction or renovation of non-residential buildings; at a rate of 10% per annum over ten years. Secondly, there is a 100% first-year Enhanced Capital Allowance (ECA) on plant and machinery.

Employer National Insurance Contributions (NICs) relief – A zero-rate of employer NICs will apply to the earnings of eligible freeport employees, up to an annual threshold of £25,000. This is only for new hires and applies for 36 months per employee.

Business rates relief – Full business rates relief will be available to eligible businesses in tax sites in England. Relief will be available to all new businesses, and certain existing businesses where they expand, until September 2026, for five years from the point at which they first receive relief.

PLANNING POLICY

The customs and tax benefits of freeports are expected to be supplemented by supportive planning policies, using the existing planning system. Importantly, there is the scope for a relaxed approach to planning to apply not just to customs and tax sites, but to extend into the freeport's wider hinterland.

A number of planning tools are expected to be key in support of freeport development:

Permitted Development Rights (PDR) – PD rights were extended in 2021, to allow development in connection with the operation of ports, without the need for planning consent. The change brought PD rights at seaports in line with existing rights at airports.

Local Development Orders (LDOs) – LDOs are created by local planning authorities, and provide blanket planning consent for specific types of development in particular areas. It is expected that they will be used in freeports to authorise a broad range of permitted uses including industrial activity, freight handling, storage and distribution.

Development Consent Orders (DCOs) – DCOs provide similar blanket planning consents to LDOs, but are issued by the Secretary of State. These will be important where a freeport covers multiple local authority areas.

BREXIT BENEFIT?

The government has heralded its freeport policy as a key part of its post-Brexit, levelling-up agenda. However, the extent to which the policy has been enabled by Brexit is debatable. There are approximately 80 freeports in the EU; and the UK was at liberty to have freeports while an EU member.

Indeed, several freeports operated in the UK at various times between 1984 and 2012, including at Liverpool, Southampton, Tilbury, Sheerness and Prestwick Airport. While these freeports saw only limited success, this has been blamed on the constraints of operating freeports within the EU and a lack of commitment from the UK government at the time.

There are crucial differences between the current freeport model and the previous examples. The old freeport model offered only customs benefits, not tax benefits, and these were limited to businesses within port boundaries. The establishment of a 45km outer boundary for the new freeport areas may give them greater scope to flourish.

The government is also providing seed funding for the new freeports, which was not the case in the past, suggesting that it is much more committed to making them a success than previous administrations. Allied to a joined-up suite of customs, tax and planning incentives, this may be vital if the UK is to compete with the most successful international freeports; many of which benefit from significant geographical advantages, being located at major cargo hubs on global shipping routes, in addition to having very relaxed regulatory regimes.

OCCUPIER & INVESTOR INCENTIVES

The incentives on offer at freeports are already attracting industrial and logistics occupiers to explore relocation opportunities. The first tax sites to be designated by legislation include locations where new warehouse developments are imminent such as Gateway 14, Stowmarket (Freeport East) and London Gateway (Thames Freeport) and these are generating strong interest.

The tax incentives of freeports may be most beneficial for new businesses at the start of leases; and companies looking to make large investments in their growth, for which the enhanced capital allowances will be a major attraction. Young, expanding, innovative companies may thus be particularly keen to base themselves in freeport tax sites.

For larger businesses, freeport customs sites may be most attractive as locations for import/export hubs. However, the new freeports are unlikely to be suitable for national distribution centres as, with the exception of the East Midlands, none of them are in the UK's prime logistics heartlands.

The tax and customs advantages of freeports will thus need to be balanced against other locational considerations.

While the tax and customs benefits of freeports are primarily aimed at occupiers, the incentives on offer will provide landlords with a range of selling points that can be used when marketing properties in freeport sites. This will give landlords a significant advantage over competing locations, and may allow them to negotiate higher rents and shorter rent-free periods.

STILL EARLY DAYS

The new wave of UK freeports is still at a nascent stage. For the freeports to be a success, the government will need to strike a balance by providing companies with meaningful tax, customs and planning benefits; while avoiding the pitfalls seen at other global freeports, some of which are seen as magnets for tax evasion and illicit financial flows.

There is also a risk that the establishment of freeports will merely displace businesses from one location to another without generating new economic activity in the UK. In order to fully prove their worth to the economy, the new freeports may need to attract businesses away from EU and other international locations.

Freeports are unlikely to completely change the landscape of the UK industrial and logistics property market, but there will be genuine benefits for many companies in specific locations. The potential advantages should be fully explored by occupiers and investors as more freeport sites are designated and a greater volume of industrial space and land becomes available in these locations.

Port of Liverpool

TEESSIDE FREEPORT


Port of Middlesbrough

Tax sites have been designated at **Wilton International, Teesworks East** and **Teesworks West.** Other proposed sites include the **Port of Middlesbrough, Port of Hartlepool, Teesport, Liberty Steel, LV Shipping** and **Teesside International Airport.**

LIVERPOOL CITY REGION FREEPORT


Port of Liverpool

Legislation has been passed designating tax sites at **Wirral Waters, Parkside (St Helens)** and **3MG (Widnes).** The primary customs site is planned to be at the **Port of Liverpool.**

HUMBER FREEPORT


Hull East

The Humber Freeport area includes the ports of **Hull, Goole, Immingham** and **Grimsby**. The first tax sites to have been designated by legislation are at **Able Marine Energy Park (AMEP)** and **Hull East.**

FREEPORT EAST


Port of Felixstowe

Tax sites have been designated at Freeport East's three key locations; the **Port of Felixstowe, Port of Harwich** and **Gateway 14** in Stowmarket, which is planned to be the largest logistics and business park in East Anglia.

EAST MIDLANDS FREEPORT


East Midlands Airport

England's only inland freeport is in the East Midlands, with the three main locations being the **East Midlands Airport** and **Gateway Industrial Cluster (EMAGIC),** the **Ratcliffe-on-Soar Power Station site** and **East Midlands Intermodal Park (EMIP).**

PLYMOUTH & SOUTH DEVON FREEPORT


Devonport

Plymouth & South Devon Freeport will seek to harness the region's strength in high value manufacturing, and is expected to include sites at **Devonport South Yard, Langage Energy Zone** and **Sherford Business Park.**

SOLENT FREEPORT


Southampton Water

A series of tax sites have been confirmed in **Southampton Water** locations at **Fawley, Marchwood** and **Redbridge**; as well at **Dunsbury Park, Havant.**

THAMES FREEPORT


London Gateway

The Thames Freeport aims to create an economic zone along the A13 corridor into East London. Tax sites have already been designated at the key locations of **Ford Dagenham, London Gateway** and the **Port of Tilbury**.

Source for all data unless stated: LSH Research

INVESTMENT & SPECULATIVE DEVELOPMENT

INVESTMENT MARKET

FULL THROTTLE

While the phenomenal performance of the UK industrial sector in 2021 is unlikely to be repeated anytime soon, the strength of demand and pace of structural change shaping the occupier market will continue to attract a wall of money into the sector over the next 12 months and beyond.

While there is increasing nervousness in financial markets around the grave situation in Ukraine, the investment market for UK industrial shows no sign of pausing for breath into 2022. Q1 looks set to deliver another bumper quarter of volume alongside new records to boast, this time in the form of Arrow Capital Partners' £223m purchase of Amazon's new 2m sq ft facility at Wakefield Hub, the highest price ever paid for a single-let warehouse.

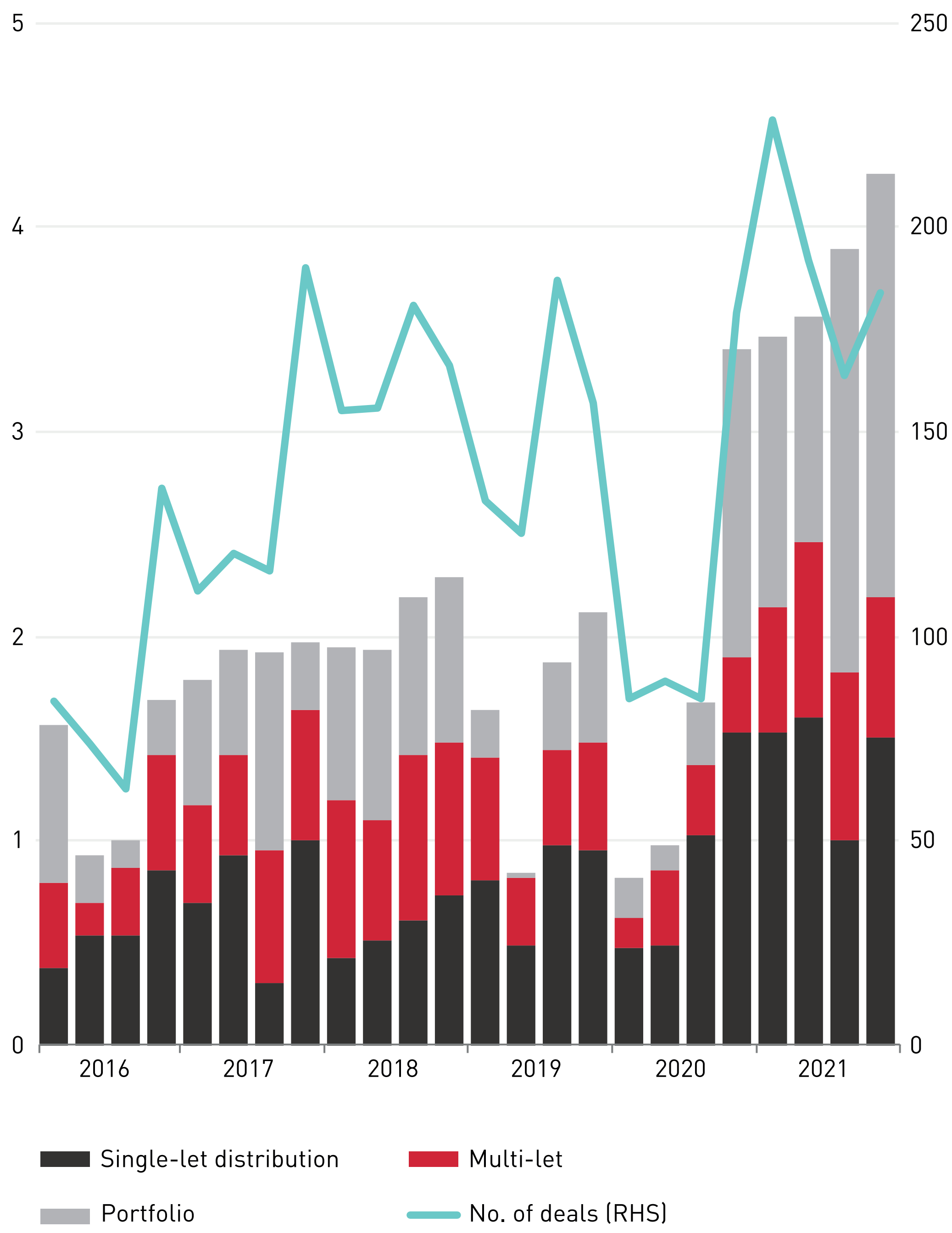
There are however reasons to indicate that volume in 2022 will struggle to quite match last year's exceptional level. Despite ongoing strong demand and new overseas buyers entering the market, availability of stock is likely to provide the main limiting factor. Furthermore, while some investors will be tempted to cash in on the recent burst of yield compression, many other investors will hold on to their assets, especially given that the sector is tipped to continue to outperform the wider property market over the medium term.

With existing stock being increasingly difficult to source, investors will increasingly turn to creating it themselves. 2021 saw a notable jump in both forward-fundings and speculative fundings and this is set to ramp up in 2022, especially as supply levels have failed to keep pace with insatiable occupier demand. Yet, even here, investors face increasing difficulty to realise their aspirations, given ongoing pressures in the construction industry and across supply chains.

Meanwhile, pricing has hit levels once unthinkable for the sector, understandably prompting some to question the risk of overheating. While it is now true that industrial yields no longer look as appealing vis-à-vis lower risk assets, such as government bonds, tight supply and structurally fuelled demand confirms industrial as the defensive property asset class of choice. Moreover, yields in the UK continue to compare relatively well with other prime overseas logistics markets, implying no let-up in global demand.

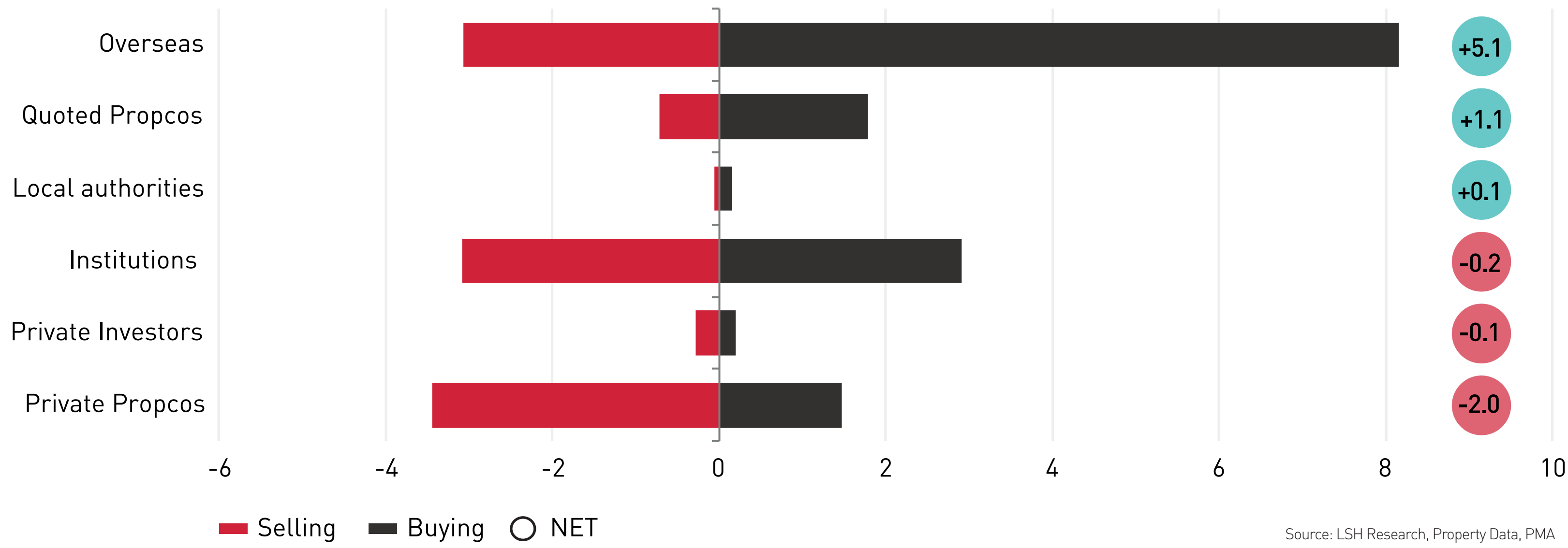
Yield compression is not expected to be feature in anything like the way it has previously, save perhaps for secure index-linked product

INDUSTRIAL INVESTMENT VOLUME (£BN)



Source: LSH, Property Data, PMA

2021 INDUSTRIAL INVESTMENT BY TYPE (£BN)



Source: LSH Research, Property Data, PMA

where high inflation is fuelling intense competition for limited opportunities. In 2022, performance will instead rest upon ongoing expectations of strong rental growth, with assets being sought out for their reversionary potential and in many cases refurbished to better meet the needs of occupiers.

ACTIVITY

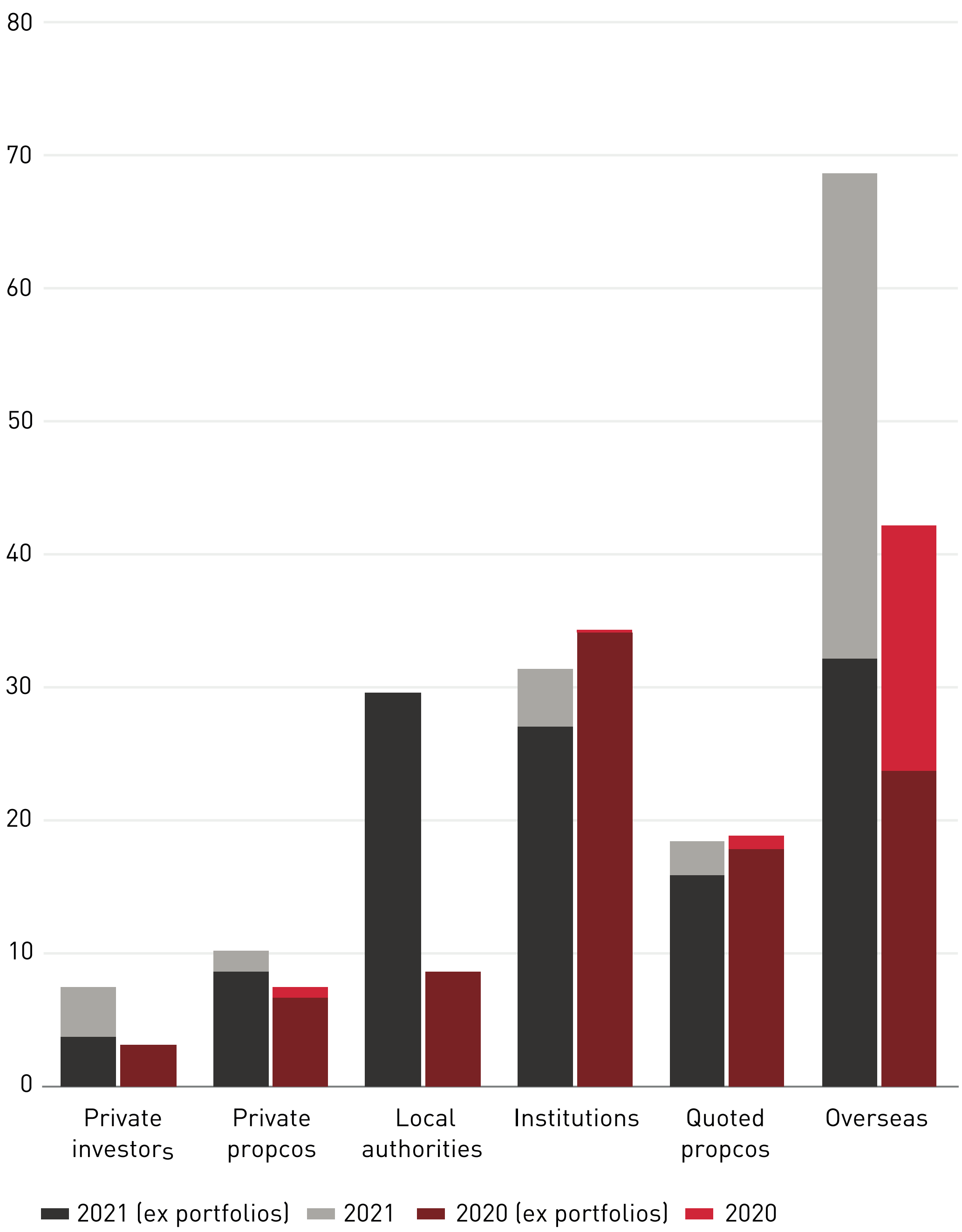
The strength of global appetite for UK industrial and logistics was clearly reflected in the investment market in 2021. Total volume hit a massive new high of £15.2bn for the year, approaching double the previous record from 2018. Moreover, despite the fluctuation of COVID-19 restrictions, 2021 started strongly and grew steadily stronger through the year, culminating in record quarterly volume of £4.3bn in Q4 2021.

While 2021 was a year of recovery for the investment market more generally, industrial remained the clear stand-out performer with regard to activity. Industrial accounted for a massive 27% of all investment into UK real estate in 2021, rising from an 18% share in 2020 and compared with a long-run average of circa 13%. 2021 was also exceptionally busy from a deals done perspective, with 766 recorded industrial deals compared with 438 in 2020.

2021's industrial volume was underpinned by a colossal £10.5bn of investment into distribution warehouses, either as single-let assets or within portfolios. While the experience of the pandemic has driven uncertainty around other sectors, such as offices, it served to underline the defensive attributes of logistics, prompting nothing short of a feeding frenzy for the sector.

2021 volume was also boosted by the largest deal in the industrial sector by a country mile, and indeed one of the UK's largest ever property deals. Blackstone's mammoth £1.7bn (4.0% NIY) sale and leaseback acquisition of the Asda portfolio, comprising 25 distribution units, propelled total industrial portfolio volume in 2021 to a record £6.8bn.

AVERAGE LOT-SIZE BY INVESTOR TYPE (£M)



Source: LSH Research, Property Data, PMA

PRICING Q4 2021

PRIME YIELDS		3 MONTH CHANGE (BPS)	12 MONTH CHANGE (BPS)
South East Industrial	3.50%	-25	-50
Rest of UK Industrial	3.75%	-25	-75
Distribution Warehouses	3.25%	0	-50

TRANSACTION YIELDS		3 MONTH CHANGE (BPS)	12 MONTH CHANGE (BPS)
South East Industrial	4.31%	+82	-80
Rest of UK Industrial	5.17%	-92	-124
Distribution Warehouses	3.62%	-35	-124
All Industrial	4.22%	+19	-103

RESTORE RAINHAM

In June 2021, LSH purchased a single-let warehouse in Rainham on behalf of CBRE Global Investors. The property is let to Restore PLC for a further 18.4 years and was acquired for £31.9m (NIY 3.07%).

ROYAL MAIL PETERBOROUGH

In May 2021, acting on behalf of Kennedy Wilson, LSH completed the acquisition of a Royal Mail facility in Peterborough for £22.0m (NIY 3.90%). The building extends to 207,000 sq ft and has a low site cover.

MADLEAZE TRADING ESTATE GLOUCESTER

Acting on behalf of Peel Developments, in September 2021, LSH completed the disposal of Madleaze Trading Estate in Gloucester for £13.4m (NIY 6.35%). The asset comprises 18 units totalling 298,662 sq ft.

DURHAMGATE, SPENNYMOOR COUNTY DURHAM

Acting on behalf of Cromwell, LSH acquired a 447,892 sq ft unit at Durham Gate, Spennymoor in December 2021 for £32.3m (NIY 6.24%). The property is let to Thorn Lighting for a further 7.5 years.

CARDINAL PARK HUNTINGDON

In November 2021, LSH acquired a multi-let estate in Huntingdon on behalf of Abrdn for £16.2m (NIY 3.30%). The estate comprises 12 units and has a WAULT of 4.55 years to expiry and 2.9 years to break.

TRADE CITY MAIDENHEAD & GRAVESEND

In December 2021, LSH disposed two multi-let estates in Maidenhead and Gravesend on behalf of Kier Property. The Maidenhead asset was acquired by Royal London for £20.0m (NIY 3.65%) and the Gravesend asset was acquired by L&G for £11.8m (NIY 3.63%).

That said, distribution was slightly less dominant in 2021, with its share of the total industrial volume falling from 79% in 2020 to 69% in 2021. This reflected a resurgence in appetite for multi-let assets across the whole risk spectrum. Total multi-let volume, including regional and South East industrials combined, hit £4.7bn in 2021, a threefold increase from 2020's record low and the highest level since 2018.

The turnaround in fortunes for UK multi-lets is arguably as impressive as the soaring volumes for distribution warehouses. The more diverse sectoral make-up of the multi-let occupier market was, evidently, a source of investor caution during the worst of the pandemic in 2020, but this has since given way to a picture of resilience in the market, supported by evidence of strong rental growth across much of the country.

However, the impressive rebound seen for multi-lets during 2021 differed in extent between its two sub-sectors. Fuelled by unprecedented levels of rental growth, the resurgence in multi-let volume in 2021 was most apparent for South East industrials, where total volume hit a record £2.0bn and was 55% above the annual trend. While Rest of UK industrials saw volume hit a 14-year high of £2.7bn in 2021, it was 23% above trend.

BUYERS AND SELLERS

Overseas investors have become synonymous with the UK industrial sector in recent years. Overseas volume soared to £7.9bn in 2021, well over double the previous record from 2020 and more than seven times the annual average from the last 20 years. Evidently, the perceived downside risks around Brexit have receded and been more than offset by the sector's extremely positive fundamentals.

Source for all data unless stated: LSH Research

In typical fashion, overseas buyers dominated at the larger end of the market, behind eight of 2021's ten largest deals. Remarkably, overseas investment was itself dominated by a single North American buyer. On the heels of buying of £1.3bn in 2020, Blackstone deployed a massive £3.1bn across 16 separate purchases in 2021, including the aforementioned Asda Portfolio (£1.7bn), the Defender Portfolio (£400m) and the Albion Portfolio (£283m).

Dominant as Blackstone was, the sheer depth and range of overseas demand was equally as impressive. Overseas buyers were behind 118 purchases in 2021, rising from 81 in 2020 and compared with a long run annual average of circa 30. The year also saw 61 unique overseas buyers, rising from 40 in 2020, and spanning the whole spectrum of lot-sizes.

While 2020's industrial volume was propped up by overseas buyers, 2021's record high was also characterised by a resurgence of domestic buying. Domestic investment in 2021 was almost double 2020's eight-year low, fuelled by record volume from institutional buyers (£2.9bn) and quoted property companies (£1.8bn).

Institutional activity was diverse in 2021, comprising close to 50 unique buyers albeit dominated by a number of the traditional players. Abrdn undoubtedly was the busiest buyer of 2021, behind 16 separate purchases worth a combined £637m, while other buyers of multiple assets in the year included CBRE GI, L&G and NFU. 2021's largest institutional buy was Schroder IM's £205m (NIY 3.40%) purchase of a portfolio comprising six distribution assets.

Despite a rebound in domestic buying, most of the domestic buyer types were actually net sellers of industrial assets to some degree in 2021. Given the buying power and appetite amongst overseas investors, hefty price increases understandably provided a tempting opportunity to sell and, in many cases, crystallise substantial gains. Private propcos were by far the largest net sellers in 2021, with net disposals of £2.0bn worth of industrial assets.

Quoted propcos were the sole major net buyers of industrial property in 2021, totalling £1.1bn for the year. LondonMetric was comfortably the most active in 2021, buying 23 of the year's 70 REIT purchases. However, SEGRO was the largest REIT buyer in 2021 from a volume perspective, and was behind the largest REIT purchase of 2021, namely the acquisition of Matrix Park, Park Royal for £140m (NIY 2.80%).

PRICING AND PERFORMANCE

The performance of UK industrial & logistics was frankly sensational in 2021, confounding expectations of a more modest performance at the start of the year. According to MSCI, UK industrial returns amounted to a stellar 36.4% in 2021, a result propelled by record-breaking quarterly returns of 12.4% in Q4 2021.

Performance was largely driven by a renewed bout of yield compression, alongside strong rates of rental growth in many parts of the UK. The incredible late flourish to 2021 rubberstamped industrial as the UK's top performing UK asset class for a sixth successive year, while the only other property sector to perform anywhere near to industrial was retail warehouses, with returns of 21.9%.

While distribution warehouses dominated 2020 from a volumes perspective, performance was relatively balanced between the sub-sectors. On the back of step-change rises in rental levels, South East multi-lets led the sector with returns of 38.4%, closely followed by distribution warehouses with returns of 35.6%.

The operational resilience of industrial has effectively added a new premium on the relative security of income the sector offers. This is especially true for distribution warehousing, where rent collection was barely impacted amid lockdowns and restrictions, while supply scarcity in the face of insatiable occupier demand is playing firmly into the hands of landlords.

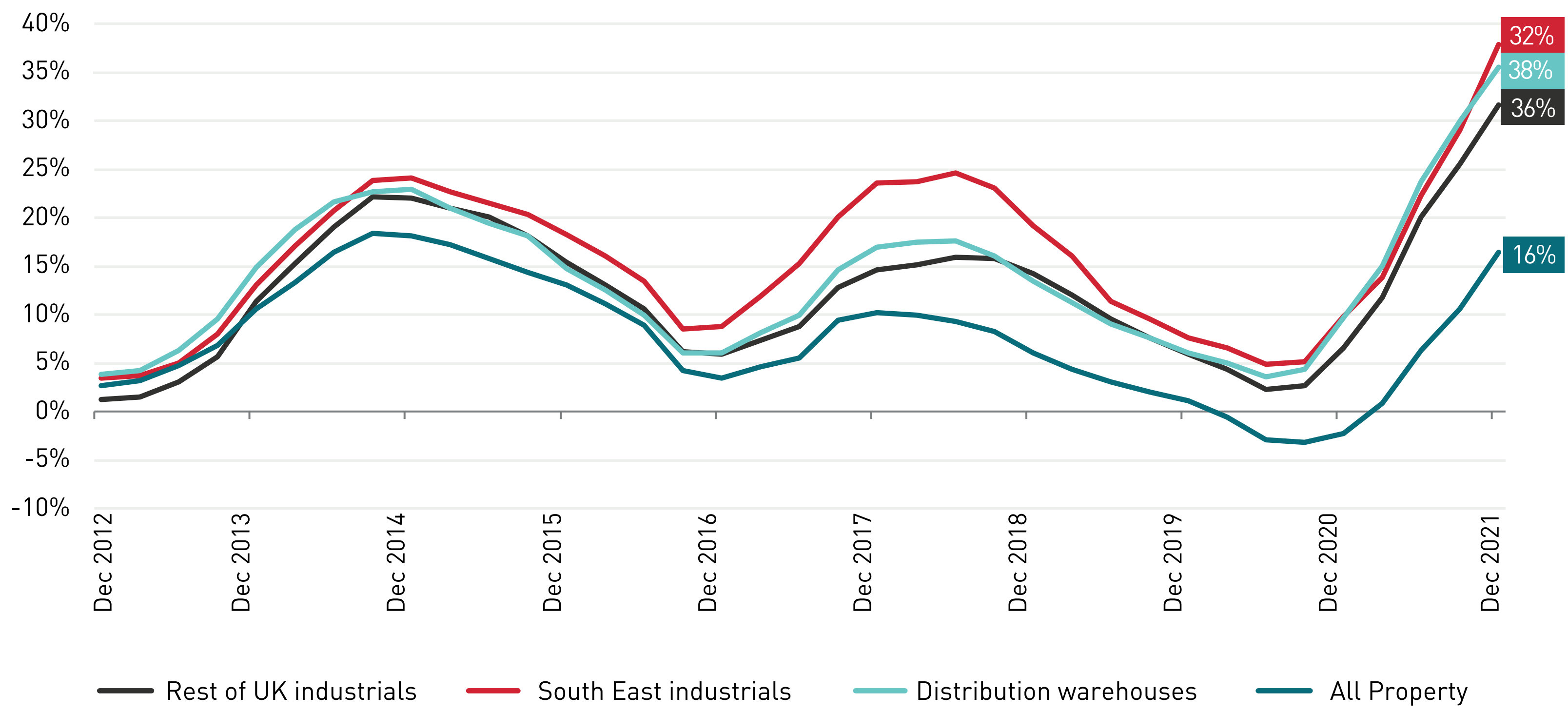
Notional yields across the whole spectrum of the industrial market compressed to new all-time lows during 2021. Yields for long indexed-leased distribution warehouses hardened by 50bps to circa 3.25%, while strong rental growth drove yields for prime South East multi-let estates down to circa 3.75%. While yields sharpened across the board, yields for prime regional multi-lets continue to offer the most value, at circa 4.50%.

The rapid escalation in pricing levels was also clear to see from investment market activity. In Q4 2021, the average industrial transaction yield stood at 4.22%, over 100 basis points lower than its position 12 months previously. Structural change has turned the traditional pricing landscape on its head, with average industrial yields standing well over 200bps lower than for retail.

Latest independent forecasts point to industrial continuing to outperform the wider market over the medium term. However, with limited headroom for further yield compression, performance will moderate on 2021's exceptional level. Latest forecasts from RealFor predict average annual industrial returns of 7.7% per annum over the period to 2026, compared with 6.5% per annum for All Property, led by London estates, with returns of 9.0% per annum.

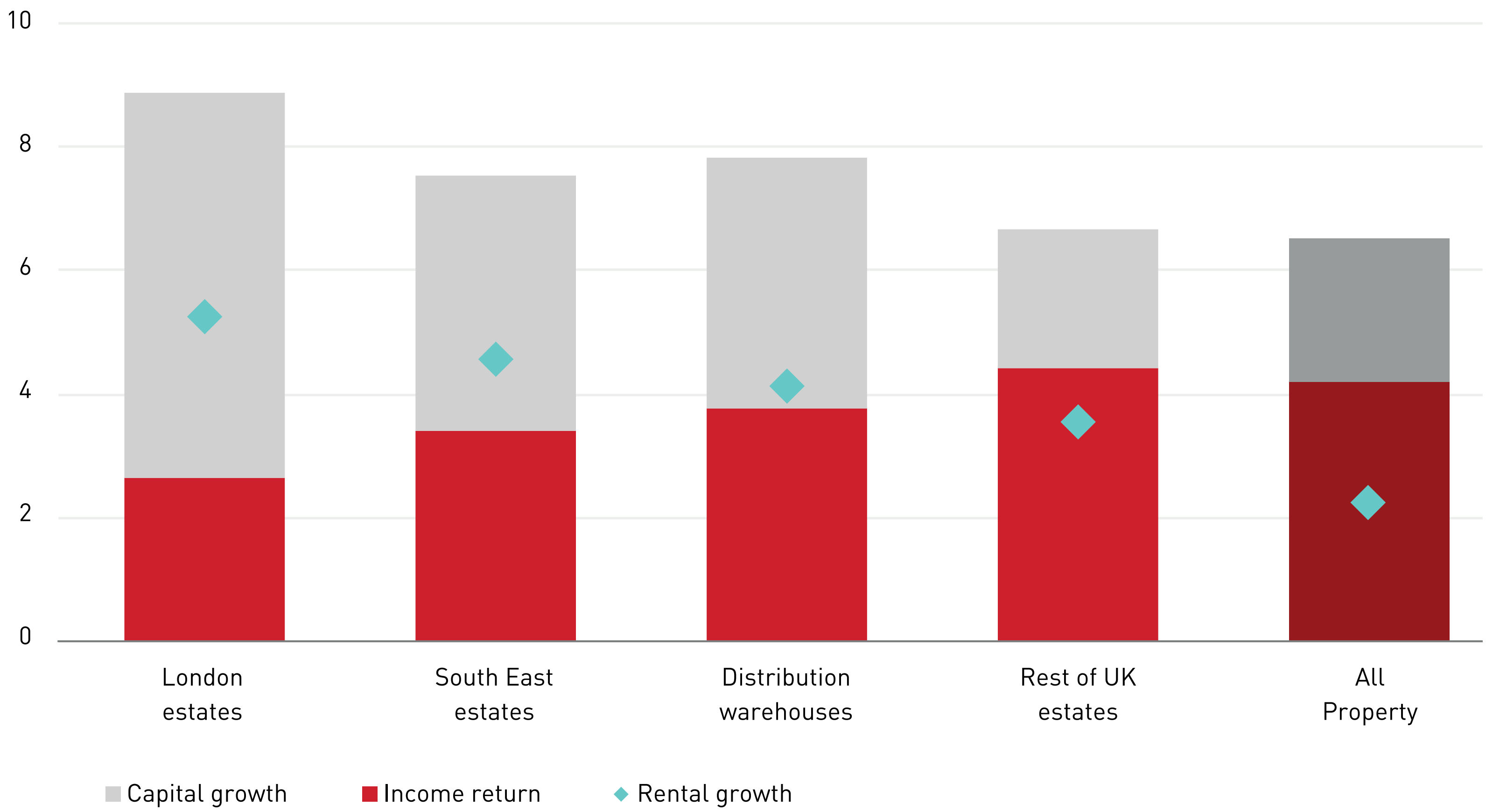
Industrial's relatively modest level of projected outperformance, certainly compared with the recent past, is largely based on ongoing rental growth, which is projected to run at a rate of 4.2% per annum up to 2026. However, these independent forecasts are by nature relatively conservative, with evidence suggesting 2022 will deliver double-digit growth across many markets up and down the UK.

ANNUAL TOTAL RETURN (%, Y-ON-Y)



Source: LSH Research, MSCI

FORECAST COMPONENTS OF RETURN (2022 TO 2026, % P.A.)



Source: LSH Research, RealFor

KEY INVESTMENT TRANSACTIONS IN 2021

	PROPERTY	PRICE (£M)	NIY	MONTH	BUYER	VENDOR
PORTFOLIO	PROJECT ALASKA	£1,700.00	4.00%	JUL 21	Blackstone Real Estate	Asda Foodstores Ltd
	MORGAN STANLEY PORTFOLIO	£303.00	5.50%	FEB 21	BentallGreenOak	Morgan Stanley RE
	ALBION PORTFOLIO	£282.50	5.95%	MAY 21	Blackstone Real Estate	Westbrook Partners
	PURDEY PORTFOLIO	£253.00	5.00%	JAN 21	Partners Group	Paloma Capital
	SEGRO PORTFOLIO	£205.00	3.40%	OCT 21	Schroders	SEGRO
DISTRIBUTION WAREHOUSE	BLETCHAM WAY, MILTON KEYNES	£146.75	3.05%	DEC 21	CBRE Global Investors	Tesco Plc
	BARDON, COALVILLE	£161.00	3.78%	JUN 21	Savills IM	Vestas Investment Man
	PANATTONI 365, LUTON	£102.60	3.00%	NOV 21	Realty Income	Panattoni
	12 WAXLOW ROAD, PARK ROYAL	£50.00	1.07%	DEC 21	GLP	OUEF
	RESTORE PLC, EASTER PARK, RAINHAM*	£31.90	3.07%	JUN 21	CBRE Global Investors	M&G Real Estate
MULTI-LET	BLYTHE VALLEY PARK	£170.16	6.09%	JUE 21	Frasers Property Ltd	IM Properties Plc
	MATRIX PARK, PARK ROYAL	£140.00	2.80%	APR 21	SEGRO	Schroders
	MOWLEM TRADING ESTATE, TOTTENHAM	£126.00	2.50%	AUG 21	Goodman Group	Savills IM
	BEDFONT LOGISTICS PARK, HEATHROW *	£118.50	3.75%	MAR 21	Blackstone Real Estate	Blackrock
	ADANAC PARK NORTH, SOUTHAMPTON *	£43.00	4.10%	JUN 21	CBRE IM	Oceanic Estates

* LSH acted

Source: LSH Research, Property Data, Property Archive

JUST CAN'T GET ENOUGH

Despite rising costs, a veritable tsunami of speculative development is sweeping across the UK. And, with supply struggling to keep up with demand, there is plenty more to come.

PERFECT STORM

Insatiable levels of occupier demand, tight levels of existing built supply and a huge global weight of money targeting UK logistics have driven unprecedented levels of speculative development. For units over 50,000 sq ft, UK-wide spec development under construction hit 20.7m sq ft at the end of 2021, up a staggering 80% year-on-year. Remarkably, this spec development accounts for 40% of total UK supply.

While 2020's surge in development volume was driven by increased unit size, 2021's soaring level better reflects the sheer number of units coming forward. 133 units were under construction at the end of 2021, rising from 76 units 12 months prior. The average size of units under construction was relatively stable compared with 2020, up 2% to 155,925 sq ft.

BUILDING BIG

Many developers have acquired an appetite for building units once considered only appropriate for build to suit. Spec development in the XL segment increased by 161% year-on-year to 9.4m sq ft at the end of 2021, accounting for 45% of the total under construction. XL spec development comprises 25 units, a threefold increase from 12 months prior.

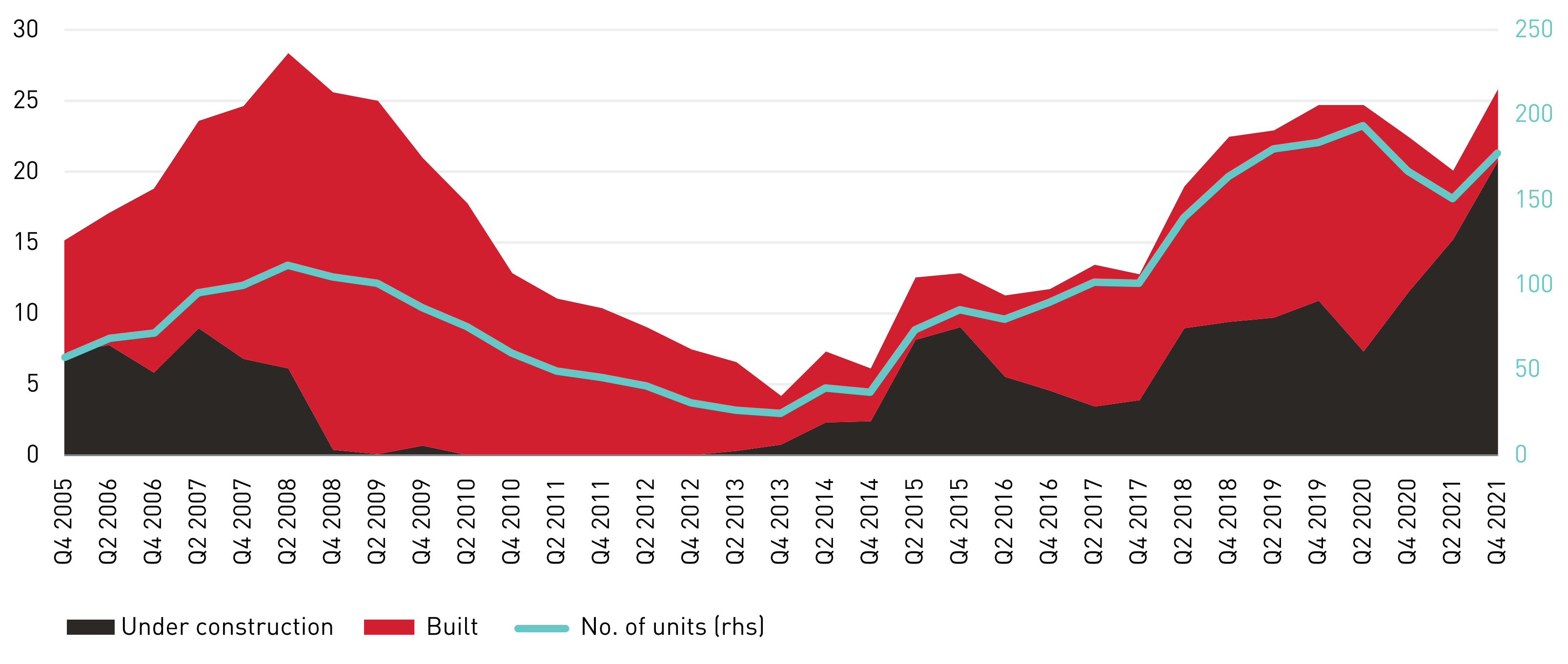
The East Midlands and the North West are hotspots for XL unit development, between them home to 60% of the UK's total volume. Northampton is a particular focus, with four units coming forward across two separate schemes, while Firethorn Trust's 654,225 sq ft unit at Link 655 Link Logistics Park, Ellesmere Port is the UK's largest spec unit underway.

MID BOX MANIA

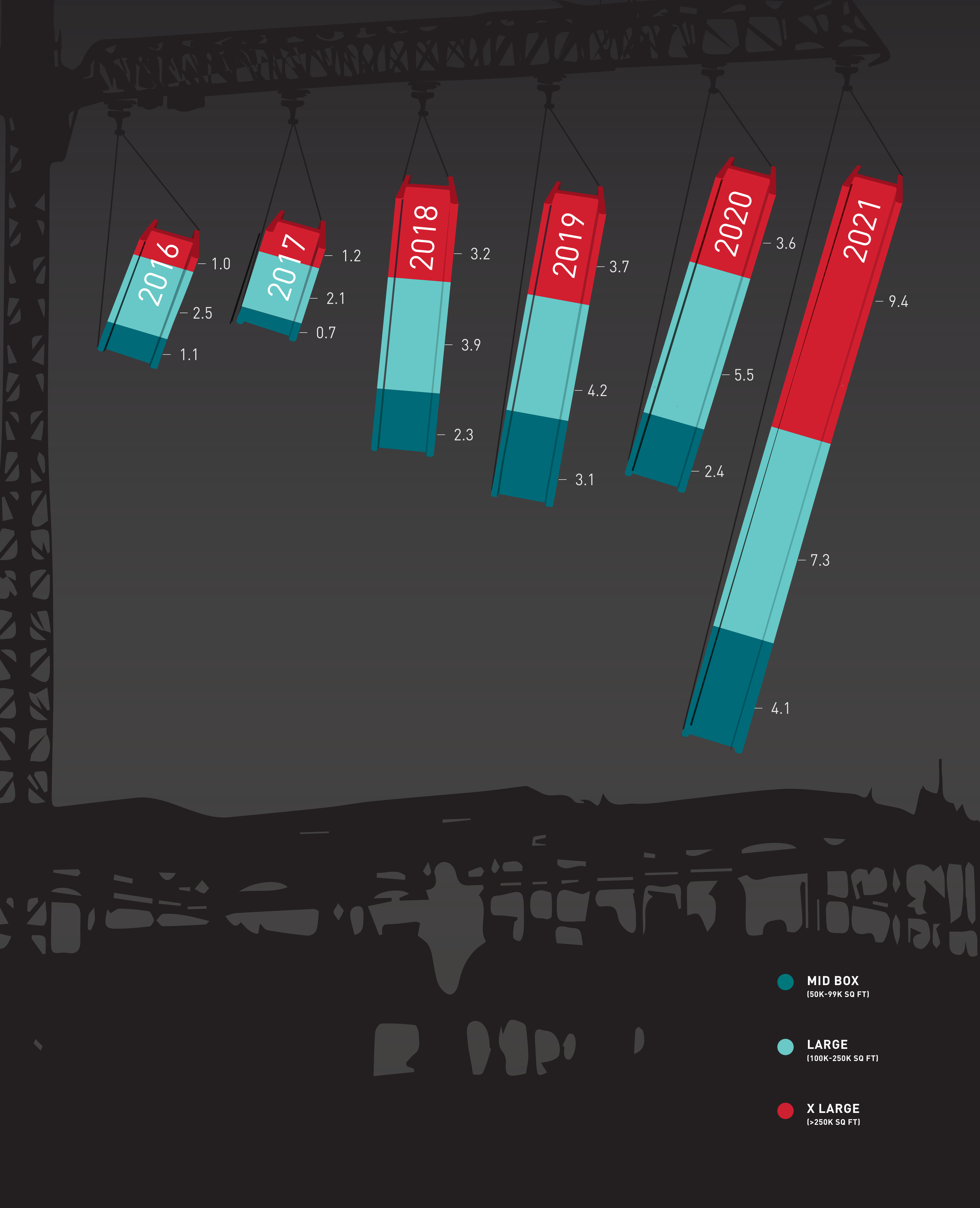
As the key focus of development in 2020, the large segment saw the least dramatic increase in spec development in 2021, albeit still rising by an impressive 32%. However, at the smaller end of the market, UK mid box development increased by 70% year-on-year to stand at a record 4.1m sq ft.

The West Midlands and South East are mid box development hotspots, accounting for 19% and 18% of the UK's development respectively. With minimal activity a year ago, the West Midlands is now home to 780,783 sq ft of mid box spec development across 11 units. In the South East, Crawley is a notable focus, with three separate schemes underway totalling 209,318 sq ft.

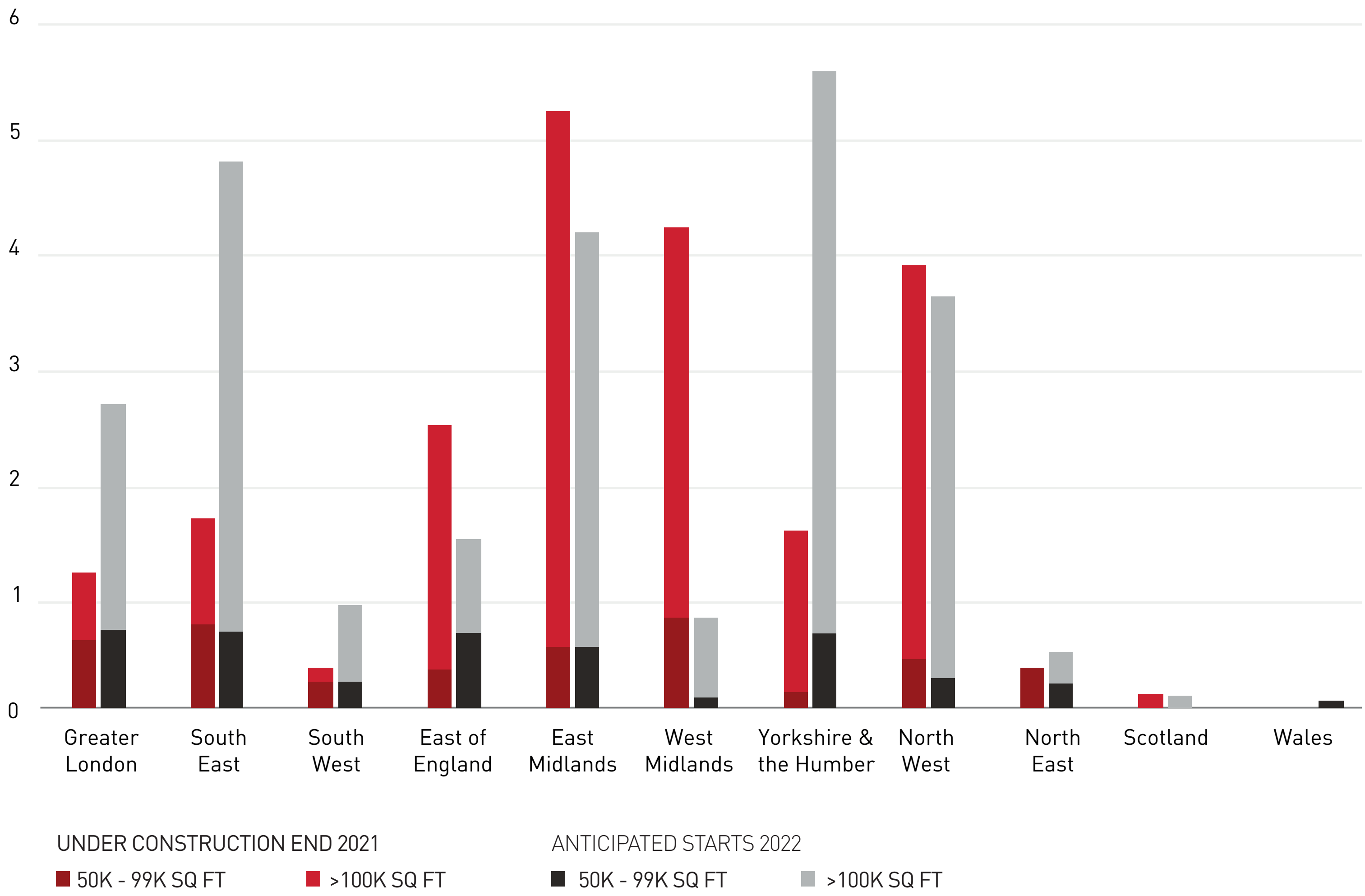
NEW-BUILD AVAILABILITY OF UNITS ABOVE 50,000 SQ FT (M SQ FT)



YEAR END SPEC DEVELOPMENT UNDER CONSTRUCTION (M SQ FT)



SPECULATIVE DEVELOPMENT AND ANTICIPATED STARTS (M SQ FT)



WEST MIDLANDS SEES STRONGEST INCREASE

Across all the segments, the East Midlands accounts for 25% of the UK's total spec development, the highest of any region. However, the West Midlands recorded the strongest increase in spec development in 2021, rising from just one of 120,000 sq ft under construction at the end of 2020 to 4.2m sq ft a year later.

SPEC WAVE REACHES SCOTLAND AND NORTH EAST

Notably, having long-suffered from an aversion to speculative development, improving latent demand and rental growth have finally spurred development in Scotland. Knight Property Group commenced construction of Belgrave Logistics Park in Glasgow, the first large format speculative development in Scotland for 14 years, comprising five-units including one unit 125,665 sq ft. Likewise, for the first time in over a decade, spec development is underway at scale in the North East, with five units under construction across two separate schemes, totalling 338,000 sq ft.

NO SIGN OF SLOWING DOWN

The fact that speculative development has climbed to such an unprecedented level is all the more remarkable for the sharp rise in build costs that developers have had to take into account over the past 18 months. Positively, with increasing signs that build cost inflation is moving towards more stable territory, low yields and rental growth will justify a continuation of strong development appetite into 2022.

Our analysis of anticipated spec development starts points to ongoing strong momentum in 2022, with at least 24.3m sq ft deemed likely come forward within the year. Yorkshire & the Humber is forecast to see the highest volume of spec starts during 2022, including ten XL units. Notably, having seen minimal development activity, Wales is set to see a return of meaningful development in 2022, with schemes coming forward in Cardiff and Newport.

LAND VALUES

The boom in the UK industrial and logistics market has been reflected by emphatic growth in land values. LSH's UK industrial land value index, which covers 32 key locations around the UK, revealed that prime indicative land values increased by a massive 53% on average during 2021, accelerating from the already considerable 17% growth recorded in 2020.

Land value growth was also wide-ranging, with 27 of the 32 UK key markets recording an increase in indicative values during 2021, 26 of which saw double-digit percentage increases. Also, nine markets saw their values surpass the once unthinkable £1m per acre mark, including Leicester, Leeds and Portsmouth.

Some markets also saw a doubling of land values over the year. In the West Midlands, land values in Birmingham and Coventry both rose by a substantial 127% year-on-year to £2.5m per acre. Elsewhere, Manchester recorded the strongest growth of any market, increasing 144% year-on-year, while the southern M1 corridor markets of Luton and Milton Keynes also experienced very strong growth of 112% and 88% respectively.

The outlook for land values is more difficult to predict, especially considering the sheer magnitude of growth seen in many markets over the past year. While land value growth is not expected to match 2021's average, ongoing upward pressure is likely to remain in many core and emerging logistics locations, particularly where evidence suggests there is more headroom for prime rents to continue to push forwards.

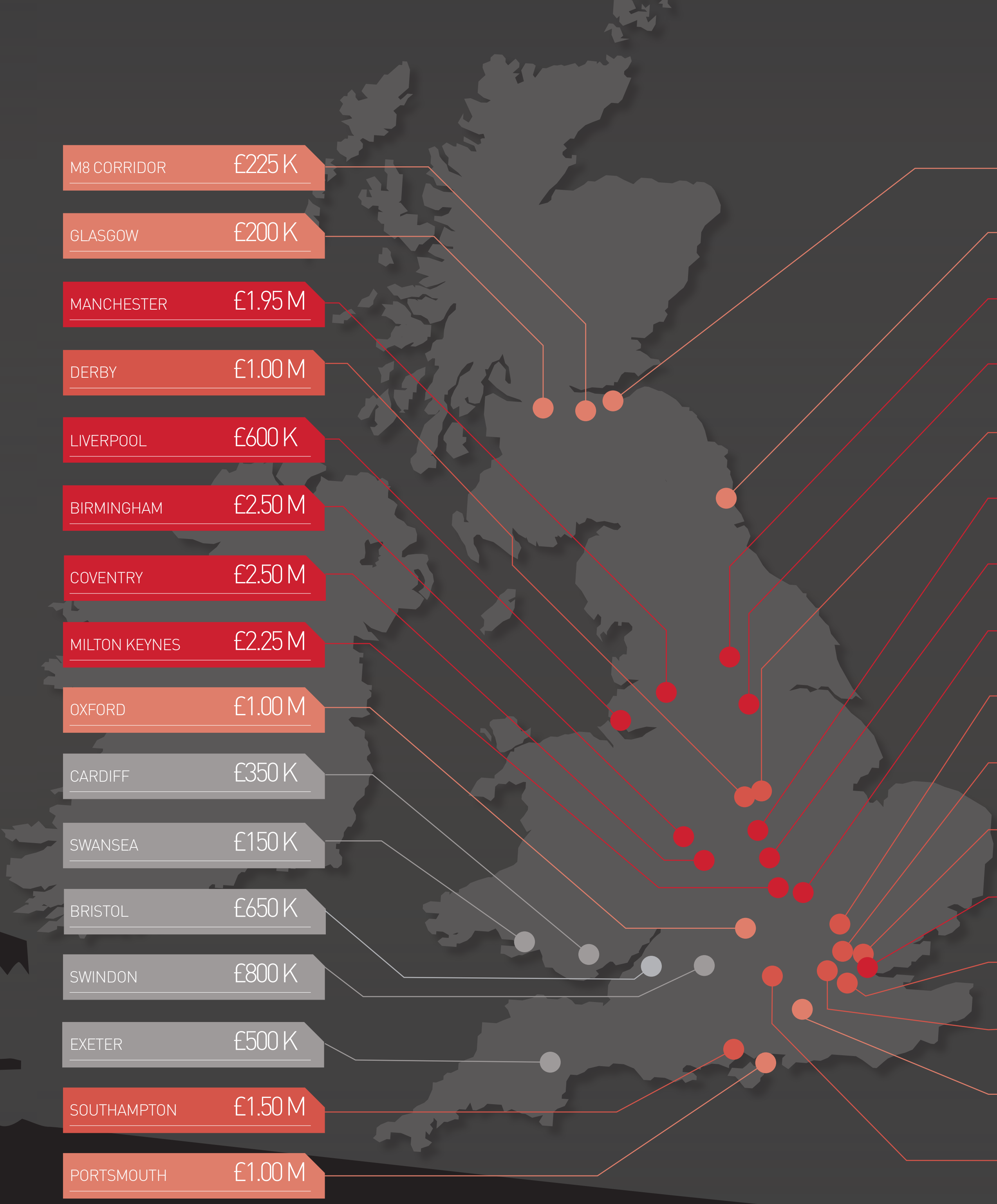
2021 LAND VALUES AND PERCENTAGE CHANGE

NO CHANGE

< 30% CHANGE

30% - 60% CHANGE

> 60% CHANGE



M8 CORRIDOR	£225 K
GLASGOW	£200 K
MANCHESTER	£1.95 M
DERBY	£1.00 M
LIVERPOOL	£600 K
BIRMINGHAM	£2.50 M
COVENTRY	£2.50 M
MILTON KEYNES	£2.25 M
OXFORD	£1.00 M
CARDIFF	£350 K
SWANSEA	£150 K
BRISTOL	£650 K
SWINDON	£800 K
EXETER	£500 K
SOUTHAMPTON	£1.50 M
PORTSMOUTH	£1.00 M
EDINBURGH	£525 K
NEWCASTLE	£350 K
LEEDS	£1.4 M
SOUTH YORKSHIRE	£1.30 M
NOTTINGHAM	£1.00 M
LEICESTER	£1.75 M
NORTHAMPTON	£2.00 M
LUTON	£2.75 M
HEMEL HEMSPTEAD	£3.75 M
NORTH LONDON	£6.50 M
EAST LONDON	£5.50 M
THURROCK	£3.75 M
SOUTH LONDON	£6.00 M
WEST LONDON	£9.50 M
GUILDFORD	£2.75 M
READING	£2.75 M

Land values are quoted on a per acre basis
(reflecting site potential for a minimum of 100,000 sq ft of built stock across one or multiple units)

Source for all data unless stated: LSH Research

PLANNING AHEAD

OLIVER DU SAUTOY
LSH Head of Research

While the boom in UK logistics is one of the economy's clear bright spots, conditions in the supply chain are presenting real challenges for the construction industry. In this article, we explore these pressures and reveal how the industry has had to adapt.

Alongside supply chain issues, the huge amount of capital flowing into the sector is testing the capacity of the construction industry to deliver the new supply that investors and occupiers crave. The challenges have necessitated change from traditional approaches, which is likely to remain for the case foreseeable future.

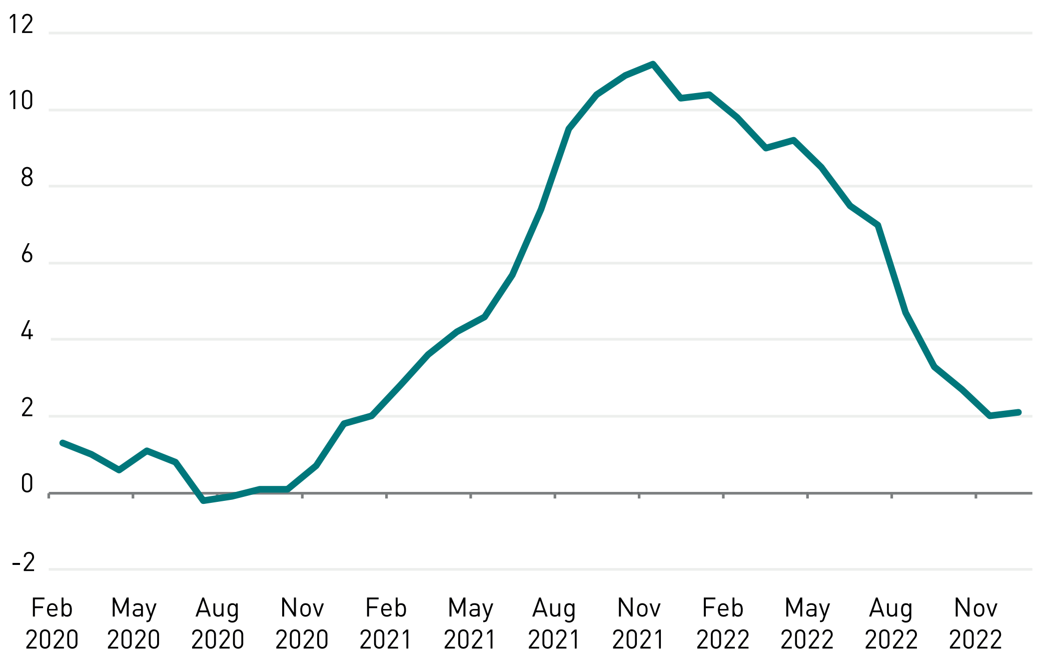
BUILD COSTS RAMP UP

Well-documented difficulties in sourcing building materials and the general disruption in global supply chains in the wake the pandemic have driven up construction costs. The UK's industrial and distribution sector has certainly not been immune from this.

According to the BCIS, general build costs in the UK have increased by 13% since the pandemic struck in 2020, peaking at an annual rate of 11% in November 2021. However, this appears very conservative when compared with warehousing, where project specific evidence points to build cost increases in the order of 32% since mid-2020.

The sharp rise in costs reflects issues with a number of key inputs to the warehousing build process. With regard to materials, the cost of steel has been a leading factor of inflation, with prices rising by over 70% since mid-2020. Moving forward, other material costs may become increasingly significant, with rises in concrete and glazing expected to come in the wake of high energy costs.

GENERAL UK BUILD COST INFLATION (%, YEAR-ON-YEAR)



Source: BCIS

SUSTAINABILITY PREMIUM

Momentum towards more sustainable business practices and commitments to net zero carbon have undoubtedly moved up a gear over the past 12 months. As well as designing in more sustainable design features to lower the operational use of carbon, warehouse building contractors are also employing different methods of construction to reduce embodied carbon where possible.

However, given the limitations that contractors can realistically go to, the purchasing of carbon credits is often utilised to help offset the carbon impact of development. But, if taken further down the supply chain, contractors like Winvic are reviewing construction techniques and methodologies of component materials to reduce the effect of embodied carbon prior to offsetting. This market has also experienced volatility in recent times, with carbon credits rising from £12 per tonne to £30 per tonne in the space of 12 months. At this price, this could add another £1.50 per sq ft on top of current construction costs.

JLR Mercia Park (image courtesy of Winvic).

Plot 12, SEGRO Logistics Park, East Midlands Gateway (image courtesy of Winvic).

DANNY NELSON

Head of Industrial at Winvic Construction Ltd

> The perfect storm of insatiable demand and rising build costs has brought about clear change in the procurement and construction process associated with the delivery of projects within this sector, which in the short-term has no signs of changing. Notwithstanding further economic or political impacts, I am confident we can continue to support our clients and their needs by planning ahead, sharing the risks and collaborating closely.

LONGER LEAD TIMES

Despite the difficulties posed by rising costs, the lengthening of lead times to source the various input materials and the required labour is arguably far more challenging, particularly given the recent clamour to create new product among investors and occupiers.

Of all the input materials associated with warehousing, cladding has proven to be the most challenging to secure in good time. Pre-pandemic, cladding requirements could be put to tender and on site within a period of several weeks. This has been turned on its head over the past 12 months, with lead times on this crucial building element extending to as long as nine months.

DELAYS IN THE PLANNING SYSTEM

Added to the above construction-related challenges, delays are increasingly being seen in the planning system, typically 3-6 months beyond expected determination date. The pandemic has impacted on the capacity of local authority planning departments around the country, a situation exacerbated by the increasing case load arising from the sky-high appetite for development in the sector. While this is not directly related to construction, delays in decisions add another layer of risk to a construction project, including potentially the need to retender.

PLANNING AHEAD

While the above might paint a dispiriting picture, key stakeholders are continuing to deliver in spite of the various challenges. The evidence is clear to see on the ground, where, despite the issues, a record 20.7m sq ft of speculative development in units over 50,000 sq ft is under construction across the UK, a rise of 80% year-on-year.

So how is the industry adapting to manage and mitigate these pressures? In essence, traditional approaches have had to be put aside and every effort is now made to plan as far ahead as possible and minimise risk. Here we outline some of these approaches.

Order in early - Forward planning of the build process is now crucial to ensure delivery is secured in the required time-frame. Hence, the conventional order of processes has been reshuffled. Nowadays, orders of key materials such as cladding are put in at a very early stage, including prior to the granting of full planning permission or highways infrastructure works, to ensure the materials and resources are secured for the construction process.

Fix the costs - while a range key building materials cannot have their prices fixed, such as aggregates and concrete, others can, most notably cladding. Nowadays, rather than go to tender, contractors will more typically place a direct order with the supplier and agree to fix the price for a period of time, however typically only three months, with a fixed price allowance being agreed to service price increases beyond this.

Sharing the risk - increasingly, contractors are securing an indemnity agreement from the commissioning party, whether that be the occupier in a major design and build or the developer in the case of speculative development. Such agreements can run into millions of pounds, and can help to give a project certainty by taking the downside risks of cost escalation and delays away from solely the contractor.

Exploit the upsides - One rather blunt approach to better mitigate against high build costs has been for developers to convince prospective tenants to agree to a Day 1 rent review. In today's fast moving market, this is increasingly being sought by developers of pre-lets to maximise the rental income at the point of occupation, in the process helping to offset some of the risks posed by rising construction costs. Notably, given the strength of demand and a sense of urgency to secure space, many occupiers are prepared to agree to such terms.

HIGHLY RATED

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While the delayed 2023 business rates revaluation should provide retailers with much-needed reductions in business rates, this is likely to be at the expense of occupiers in the industrial and logistics sector. Paul Nash, Rating Director at Lambert Smith Hampton, explains why.

ALL EYES ON 2023

All commercial properties in the United Kingdom are assessed for non-domestic rates based upon open market rental values. Regular revaluations are undertaken by the Valuation Office Agency (VOA) to ensure that changes in rental values are reflected in rateable values and therefore the business rates that occupiers and owners of commercial properties pay.

The next business rates revaluation in England and Wales will come into effect on 1 April 2023 with a valuation date of 1 April 2021. Existing rateable values are based on 1 April 2015 rental values and, as such, the impact of the forthcoming revaluation depends on how rental values have changed over this six-year period.

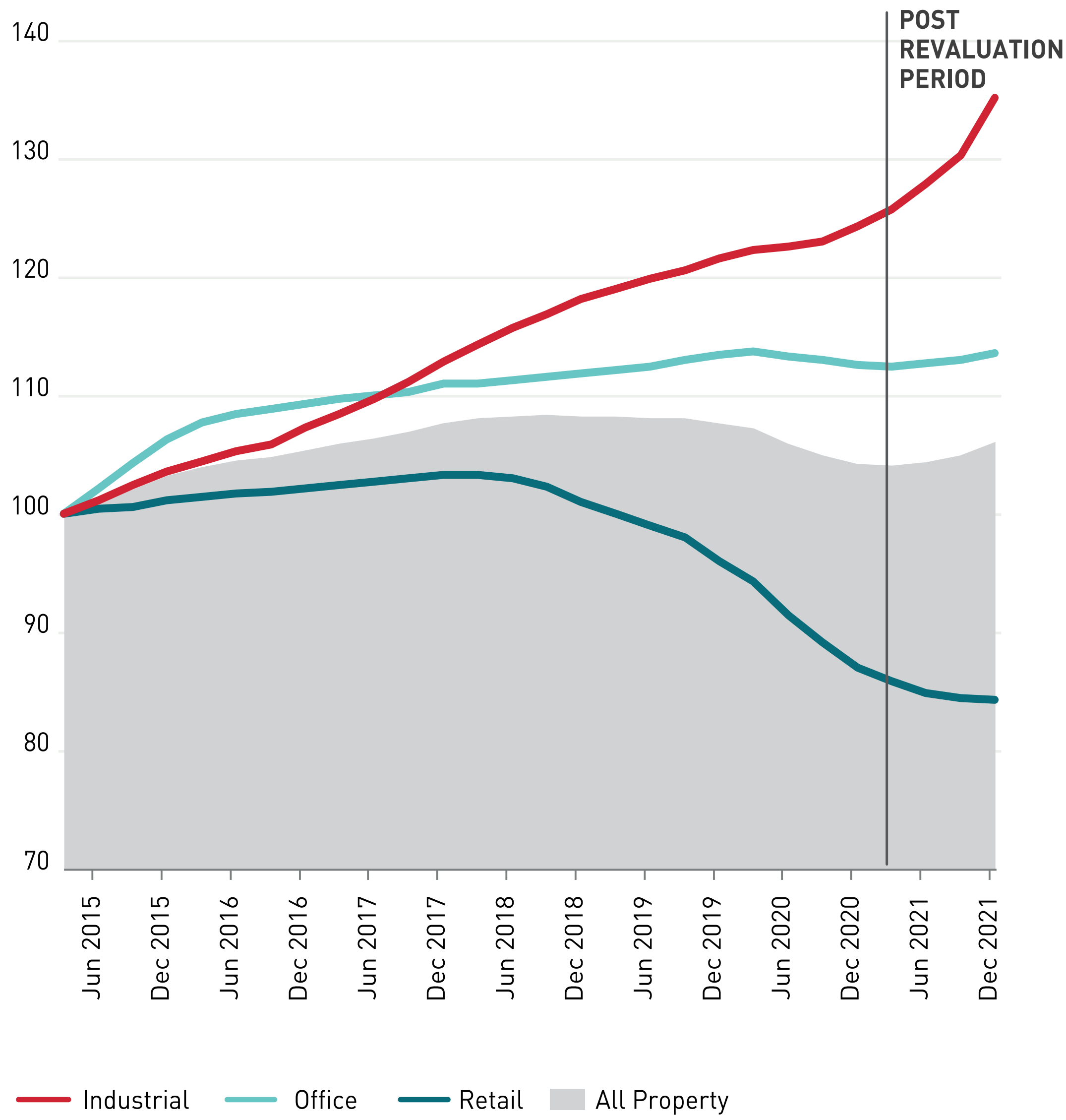
A LEAGUE OF ITS OWN

It is well-documented that industrial has significantly outperformed other sectors in recent years, largely fuelled by structural change in retailing. According to MSCI, rental values for UK retail property have fallen 15% over the valuation period between April 2015 and April 2021, while UK industrial property has experienced growth of over 25%. With the relative movement between the two sectors over the six-year period amounting to over 40%, this implies that the business rates burden is likely to shift significantly away from retailers and onto industrial occupiers.

OTHER SECTORS TO BE SPARED

Although MSCI shows the office sector has experienced a 10% increase in average UK rents, the lack of demand for offices as at 1 April 2021, and the relative paucity of rental

MSCI RENTAL VALUE GROWTH INDEX (MARCH 2015 = 100)



Source: MSCI, LSH Research

evidence due to the pandemic, could well result in the VOA in taking a more cautious approach in valuing office properties. This cannot be said for the industrial and logistics market, where tight supply and record levels of take-up have driven strong rental growth, while also providing the VOA with an abundance of transactional rental evidence on which to base its valuations.

Other sectors, such as leisure and hospitality, which are valued for business rates based on trading performance, could also see rateable values fall as result of the April 2023 revaluation. As at the valuation date of 1 April 2021, many of these properties were unable to trade and, while the VOA are highly unlikely to value these properties at a nil or nominal value, these sectors will likely see an overall fall in rateable value.

LANDLORDS TAKE NOTE

Thus, the boom in logistics means the industrial sector is likely to experience the greatest increase in value relative to other sectors as a result of the revaluation. While this has direct implications for occupiers, who are already grappling with unprecedented rates of rental growth over the past 12 months, the revaluation will also be of great interest to landlords.

Analysis of past trends suggests that changing business liabilities do not typically interfere directly with the path of rental growth. However, given the sheer pace of rental growth in many of UK's industrial markets, landlords should at least be mindful of the possible impacts of the revaluation on occupiers' bottom lines and their ability to pay ever higher rents in 12 to 24 months' time.

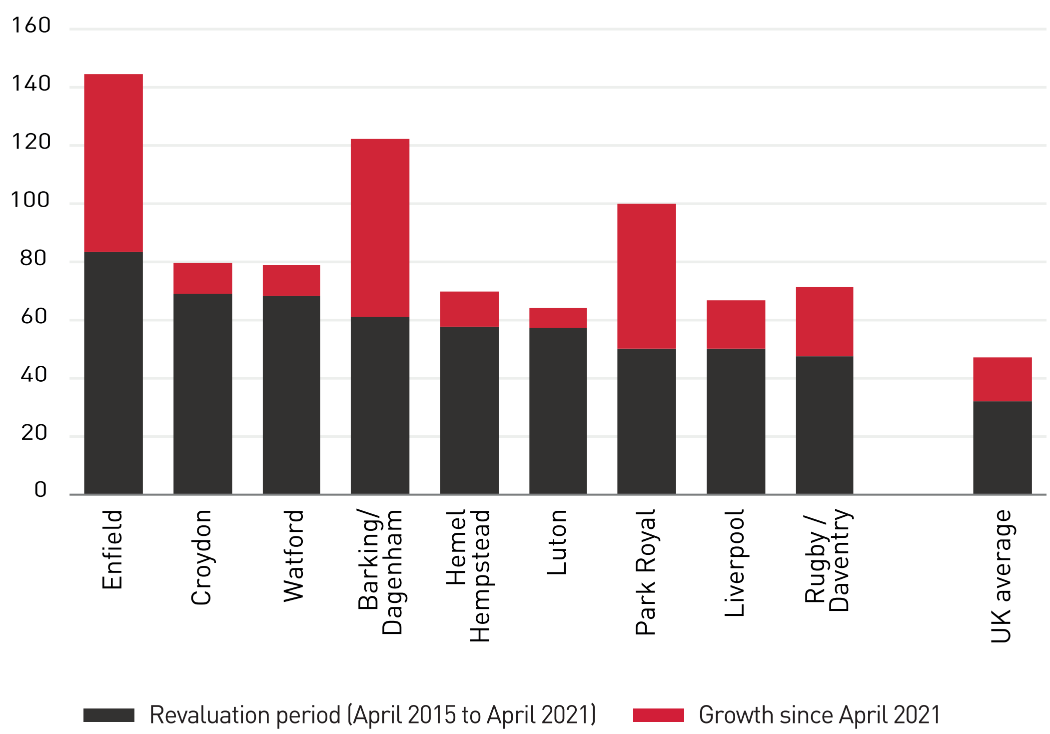
LONDON HOT-SPOT

Levels of industrial rental growth have of course not been uniform, varying significantly across the UK. Lambert Smith Hampton's own data suggests there have been significantly higher levels of rental growth between April 2015 and April 2021 for some industrial properties around the country, particularly in and around Greater London.

In many locations, rents have increased by over 50% over the six-year valuation period to April 2021, which could result in some eye watering increases in rates next year. Furthermore, our research suggests rental growth accelerated rapidly after April 2021, which could cause serious issues for some occupiers with both rents and rates combined increasing to levels which are hard to stomach.

If this were not enough to set alarm bells ringing, the government's intention to consider an online sales tax to help fund a reduction in business rates for retailers could add yet more pain to certain parts of the industrial market if such a tax is implemented.

PRIME RENTAL GROWTH IN NEW VALUATION PERIOD, TOP 10 RISERS (%)



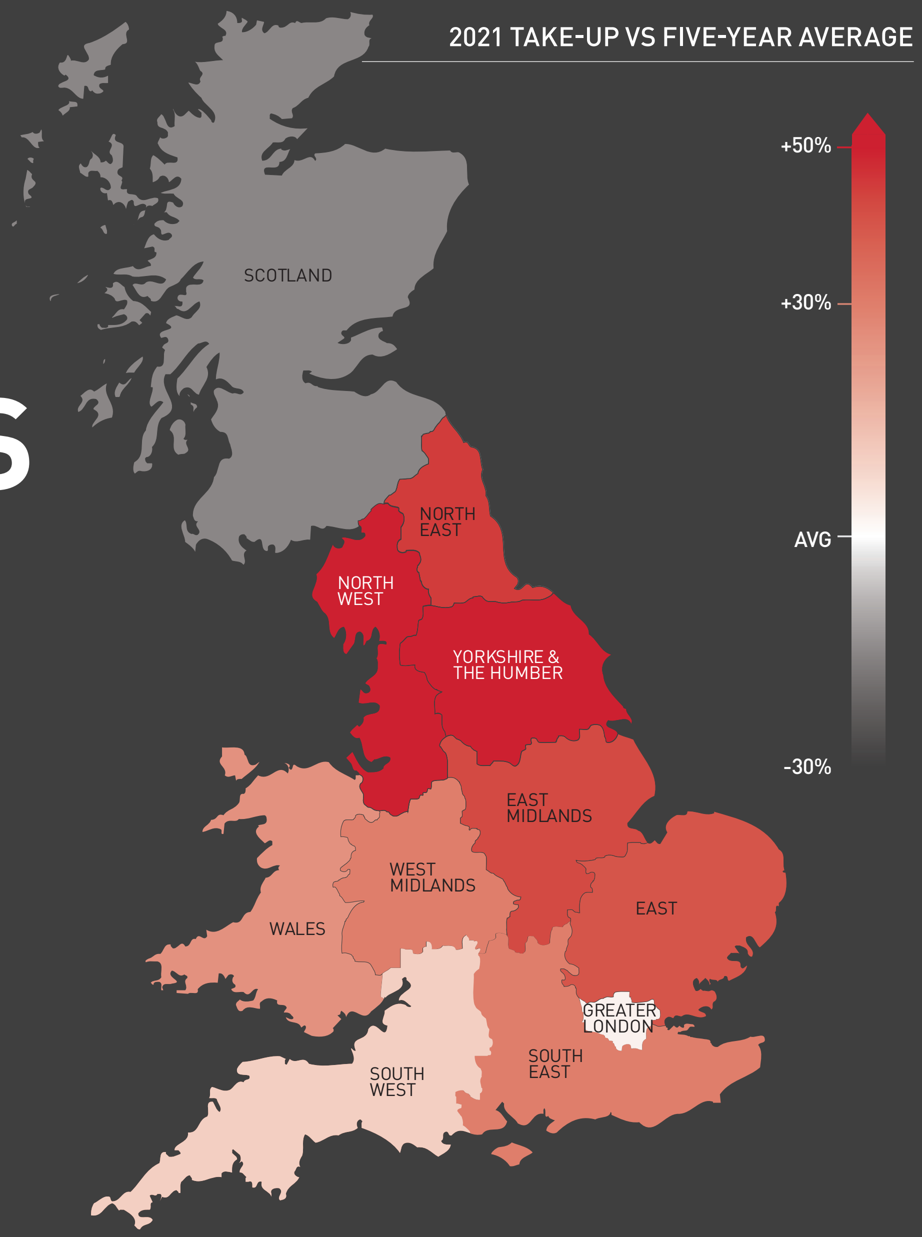
HOW CAN WE HELP?

Lambert Smith Hampton's business rates experts are located throughout the UK and have access to unrivalled market knowledge through our national network of offices. Access to this market data coupled with our business rates expertise means we are ideally placed to provide advice to both occupiers and owners of industrial properties on the likely impact of the 2023 rating revaluation and potential ways to mitigate increases from 1 April next year.

Source for all data unless stated: LSH Research

REGIONAL OCCUPIER MARKETS

2021 HIGHLIGHTS



SCOTLAND

- Scotland is only part of UK to see take-up below trend, down 23% on average.
- Secondhand space accounts for 78% of all take-up due to a long absence of spec development.
- Supply fell for the twelfth consecutive year.

NORTH EAST

- Britishvolt commit to UK's first gigaplant in Blyth, boosting take-up to a three-year high.
- But mid box take-up lowest in over a decade.
- Spec development makes long-awaited return, with 338,000 sq ft underway.

NORTH WEST

- Take-up skyrocketed to a record 12.5m sq ft in 2021.
- North West sees sharpest fall in supply of any region, down 46% year-on-year.
- Speculative development hits record high of 3.8m sq ft, accounting for 62% of availability.

WEST MIDLANDS

- 9.7m sq ft take-up produced the best year since 2014.
- 41 large segment deals drove a record activity in this segment.
- Record speculative development of 4.2m sq ft is underway across 29 schemes.

WALES

- Take-up rebounded 75% year-on-year to 3.1m sq ft.
- Microsoft acquired 1m sq ft data centre at Imperial One, Newport.
- Prime rents surged by average of 26% across the three key markets.

YORKSHIRE & THE HUMBER

- Record take-up of 10.7m sq ft in 2021
- Amazon's two 2m sq ft build to suit deals drove 7.4m sq ft of XL unit take-up.
- Land values increased by 87% on average in 2021, breaking through £1m per acre

EAST

- Take-up hits record 7.0m sq ft, driven by intense XL demand.
- Supply fell by 32%, with XL supply equivalent to only 0.3 years of take-up.
- 2.3m sq ft is under construction, accounting for 58% of total supply.

SOUTH EAST

- Take-up hits a record high of 5.7m sq ft.
- Supply increased by 11% year-on-year, one of two regions with improved supply.
- Average prime rental growth accelerated to 11% year-on-year, with secondary rents up by 20%.

EAST MIDLANDS

- Take-up hits a huge record of 16.0m sq ft, while the region takes a 26% of total UK XL unit activity.
- Supply nose-dived by 44% to all-time low.
- More than three quarters of total supply is under construction.

GREATER LONDON

- 2021 take-up in line with average but down 45% on 2020.
- Total supply remains broadly stable year-on-year.
- Average prime rents rise by 30% in 2021, led by Park Royal with 53% growth.

SOUTH WEST

- Take-up of 3.3m sq ft in line with trend but down 29% year-on-year.
- Supply increased by 17% in 2021, although grade A supply fell by 26%.
- 900,000 sq ft of speculative development expected to come forward in 2022.

Source for all data unless stated: LSH Research

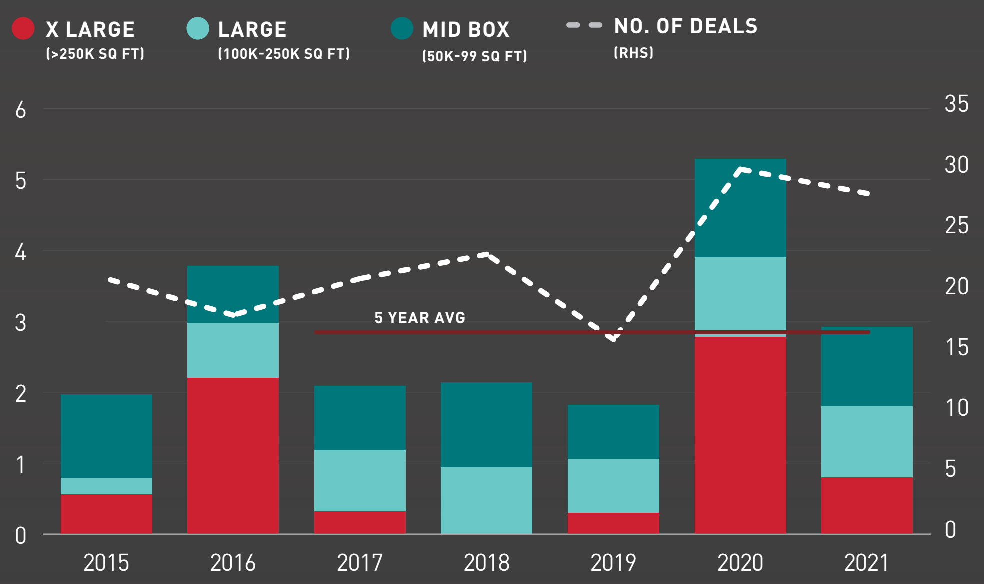
GREATER LONDON

AT A GLANCE

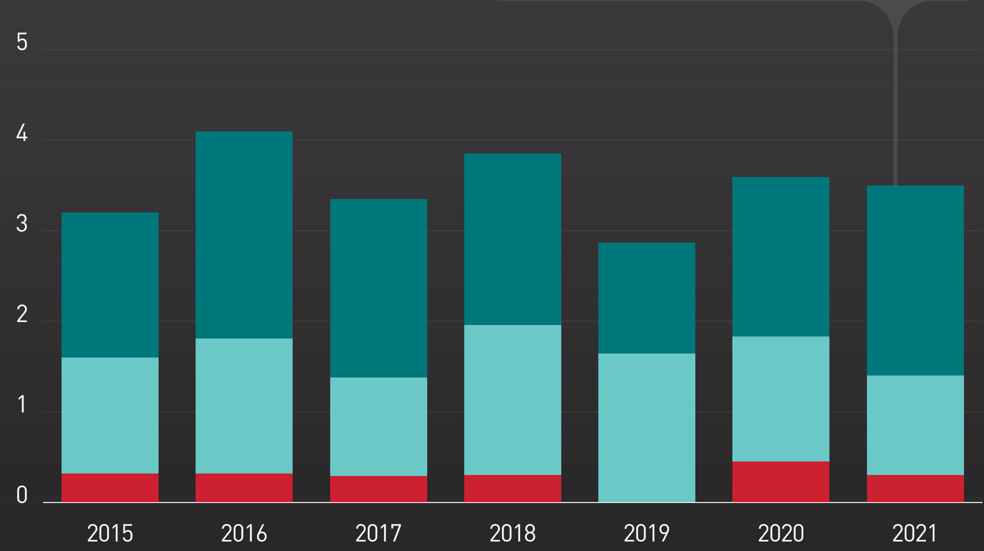
TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	VACANCY RATE	SPEC U/C SQ FT (NO. SCHEMES)
2.9m	+3%	3.5m	1.2	4.2%	1.2m (12)

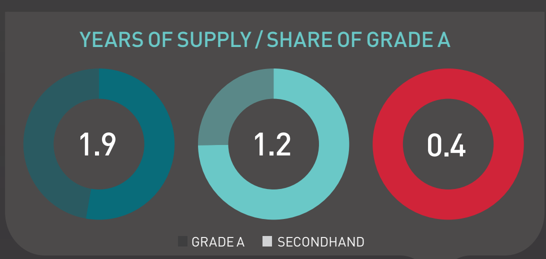
ROCKETING RENTS

TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)





DEMAND

While take-up in 2021 of just under 3m sq ft was a far cry from 2020's huge record total, that year was underpinned by Amazon's 2.3m sq ft build to suit deal in Dartford. Transaction-wise, 2021 was busy, nonetheless, seeing 28 deals compared with 30 in 2020. Dartford was again home to London's largest deal in 2021, namely IKEA's 450,000 sq ft lease at The Powerhouse, which was pre-let during construction last August.

XL units aside, the other two segments both performed well in 2021, both seeing take-up ahead of the annual trend level. Large segment take-up of 1.0m sq ft was 7% above trend and closely in line with 2020's total, while mid box take-up of 1.1m sq ft was 3% ahead of the annual average despite being some way short of 2020s's record. Notably, of the three segments, secondhand space was crucial to mid box activity, accounting for 64% of 2021 take-up, compared with only 26% in the large segment.

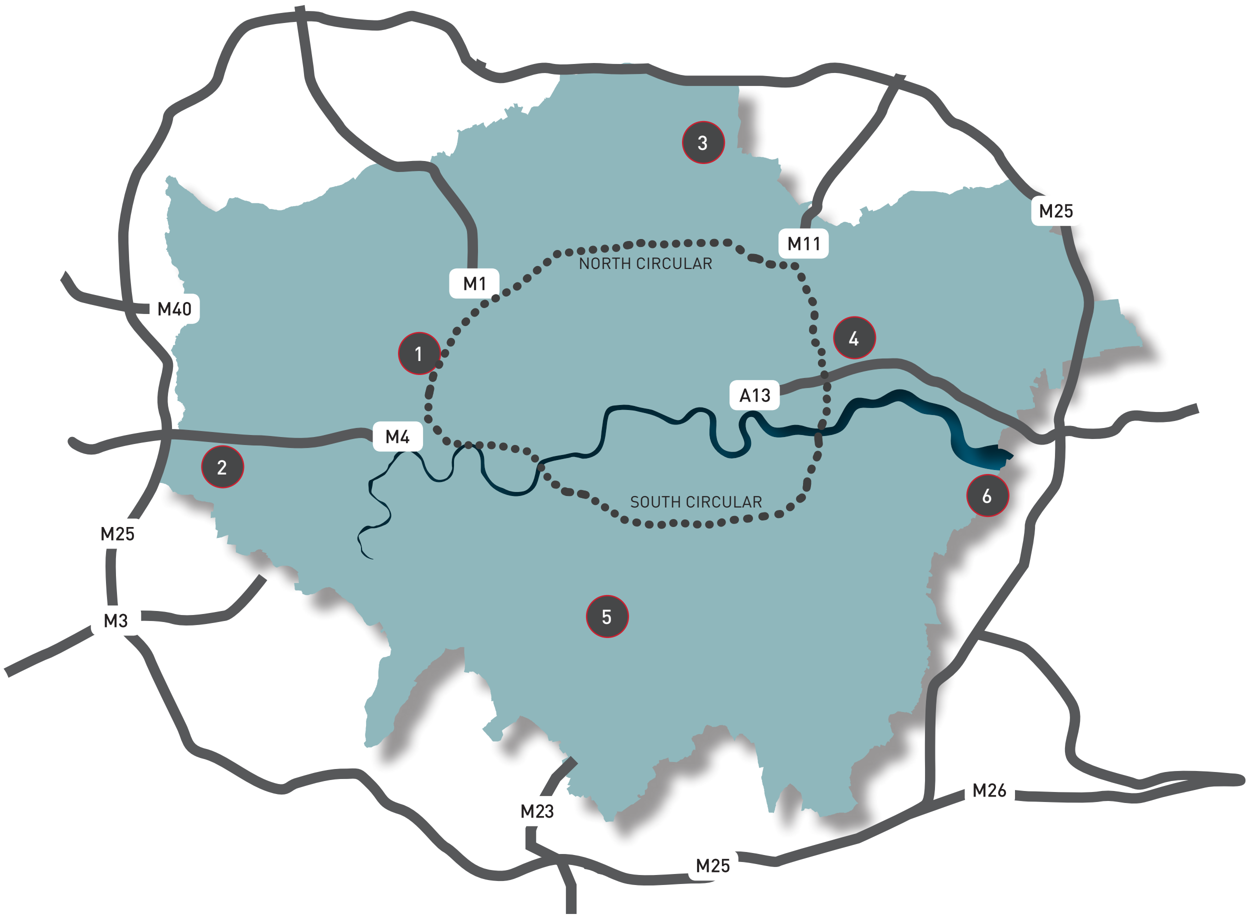
SUPPLY

Unlike many UK regions, total supply in Greater London remained relatively steady during 2021, contracting by just 2% to 3.5m sq ft. Notably, while supply remains tight, equivalent to only 1.2 years of average annual take-up, it is slightly ahead of the UK-wide position (1.0 years), reversing the pattern from previous years.

Availability at the larger end of the market tightened in 2021, with large unit supply contracting by 18% to a four-year low of 1.1m sq ft, and XL unit supply reducing to a single scheme that is currently under construction, namely Purfleet 338, Purfleet Commercial Park (338,000 sq ft). However, the contraction of large unit supply was offset by a 17% increase in mid box supply, where availability stands at a five-year high of 2.1m sq ft and includes eight units under construction. Notable hotspots of spec development in the mid box segment include SEGRO Park Hayes and Tottenham, and Panattoni's Belvedere Wharf.

RENTS

On the heels of strong rental growth in 2020, London saw a year of unprecedented growth in 2021. For prime units of circa 50,000 sq ft, average growth across the region's key markets was 30% in 2021, and ahead of all other UK regions. While every location bar Croydon witnessed double-digit growth in 2021, the average increase was fuelled by exceptional growth in Barking & Dagenham (+52%) and Park Royal (+53%), with prime rents at the latter now standing at £26.00 per sq ft, by a distance the UK's most expensive industrial market.



UNIT SIZE SQFT
PRIME RENT PER SQ FT
YOY CHANGE %

1 PARK ROYAL

20K	50K	100K
£28.00 PER SQ FT	£26.00 PER SQ FT	£24.00 PER SQ FT
+40%	+53%	+43%

Park Royal continues to suffer from a lack of supply, due to the limited availability of sites and high land values. Average land values have surged to over £10m per acre, driven not only by industrial demand but also alternative uses such as data centres. This is having a knock-on effect on the rental tone, as quoting rents for new build properties need to be in the early-to-mid £30s per sq ft to justify these values. Over the next year, it is likely that more occupiers will move out to more cost effective locations, but there are still occupiers with a business need to be in Park Royal who are forced to pay high rents.

2 HEATHROW

20K	50K	100K
£21.00 PER SQ FT	£20.00 PER SQ FT	£19.00 PER SQ FT
+27%	+27%	+23%

Activity remains constrained by a lack of stock in all size brackets, but there is a particularly acute shortage in the mid and big box segments. As a result, there are very few recent deals to report in the larger size brackets; although all four units at SEGRO Park Hayes have been pre-let prior to completion, with the two larger units (82,950 sq ft and 97,600 sq ft) being let first. Limited new stock is set to come through in 2022, putting continued upward pressure on rents.

3 ENFIELD

20K	50K	100K
£22.00 PER SQ FT	£20.00 PER SQ FT	£19.00 PER SQ FT
+35%	+38%	+36%

Demand in Enfield remains strong, partly due to the lower rental tone compared with other London locations. However, rental growth is now being seen on a similar scale to other London markets, with quoting rents for new build kit at £20 per sq ft. Rents are expected to see further significant increases in 2022, which will have knock-on effects on nearby locations such as Waltham Cross, Borehamwood and Watford. The key deal in Enfield at the back end of 2021 was the pre-let of the entirety of SEGRO Park Enfield to Netflix, which saw them secure 232,543 sq ft at a rent in excess of £20 per sq ft.

4 BARKING AND DAGENHAM

20K	50K	100K
£20.00 PER SQ FT	£19.00 PER SQ FT	£18.00 PER SQ FT
+43%	+52%	+47%

The market saw aggressive rent and land value growth in 2021, fuelled by strong appetite for inner M25 urban logistics and limited existing stock. Land deals to Oxenwood/Graftongate and Bridge Industrial intended for mid box commanded values in excess of £6m per acre. Phase 2 of SEGRO Park, Rainham completed in 2021 with the majority let before practical completion, while the final unit saw a re-based quoting rent of £25 per sq ft. Further sites are coming forward in the A13 area from SEGRO, Rainham Steel, Valor and HBD.

5 CROYDON

20K	50K	100K
£17.50 PER SQ FT	£17.00 PER SQ FT	£16.50 PER SQ FT
+8%	+8%	+6%

In contrast with most other London markets, Croydon's availability increased during 2021, mainly driven by the speculative development of Prologis Park Beddington, totalling 221,000 sq ft which was completed in mid-2021. With this being one of the only London locations able to offer mid box units ready for immediate occupation, quoting rents have been inflated to £20 per sq ft. Demand for land remains strong, driving land values to over £5m per acre. Rents and land values are likely to push on further in 2022, bringing them closer to other London locations.

6 DARTFORD/THURROCK

20K	50K	100K
£12.75 PER SQ FT	£11.75 PER SQ FT	£11.50 PER SQ FT
+11%	+12%	+12%

Amazon's lease of Proxima111 in 2021 saw the last existing unit in excess of 100,000 sq ft taken out of the Thurrock market. DP World continues to perform well, with further spec units under construction and already under offer. In Dartford, Wincanton/IKEA took Powerhouse 450 with the final plot set to deliver a 300,000 sq ft unit by the end of 2022. Goodman recently completed a three-unit scheme of 500,000 sq ft at Crossways Commercial Park Dartford, while north of the bridge, Purfleet 338 will complete in 2022.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
DARTFORD	450 POWERHOUSE	2021 Q3	450,000	LET (NEW SPEC)	CONFIDENTIAL	IKEA
STANFORD-LE-HOPE	LG350 DP WORLD LONDON GATEWAY LOGISTICS PARK	2021 Q2	350,000	PRE-LET (BUILD TO SUIT)	CONFIDENTIAL	MADE.COM
WEMBLEY	DC1, VICTORY PARK, EAST LANE	2021 Q3	145,439	LET (SECONDHAND)	£14.75	AMAZON
BARKING	VALOR PARK, 33 THAMES ROAD	2021 Q3	118,442	LET (REFURBISHED)	£14.00	AMAZON
ENFIELD	UNIT 3 SEGRO PARK	2021 Q3	117,476	LET (NEW SPEC)	£21.00	NETFLIX

Source for all data unless stated: LSH Research

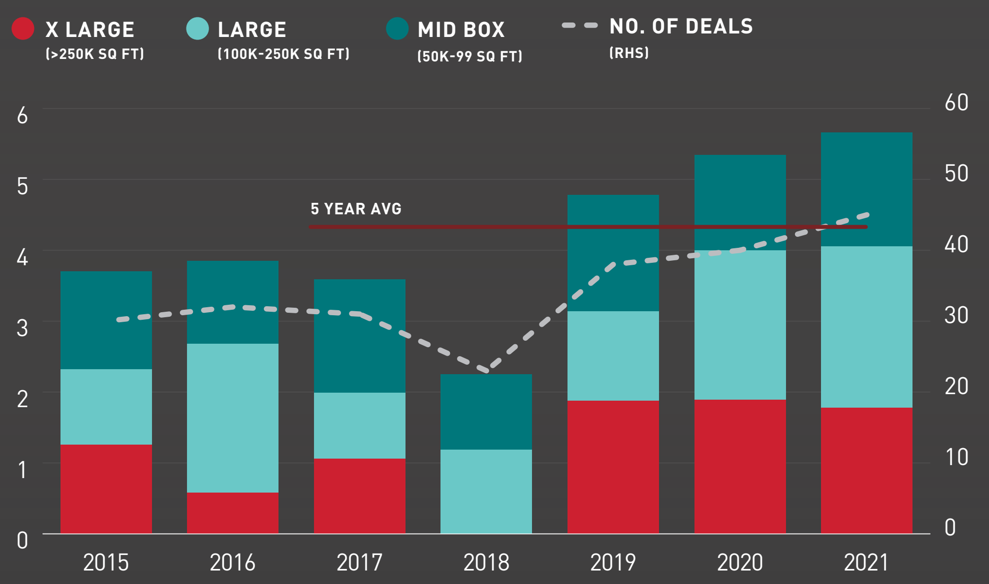
SOUTH EAST

AT A GLANCE

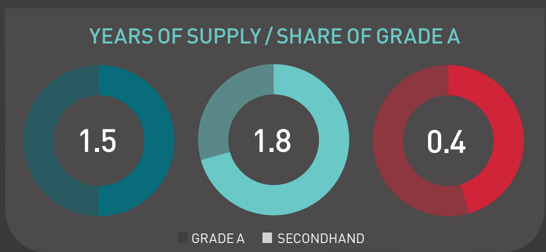
TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	VACANCY RATE	SPEC U/C SQ FT (NO. SCHEMES)
5.7m	+31%	5.5m	1.3	3.6%	1.6m (16)

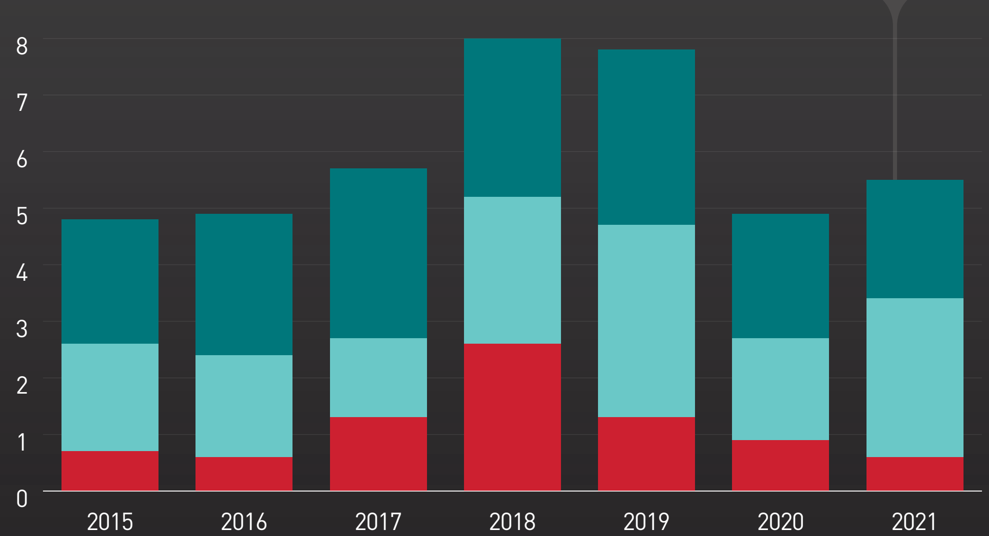
SUPPLY SHIFTS TO LARGE

TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)





DEMAND

The South East region boasted record take-up of 5.7m sq ft in 2021, surpassing 2020's previous high by 6%. Two data centres in Slough were key to the region's take-up in the XL segment during 2021, with Yondr (444,700 sq ft) and Global Technical Realty (401,000 sq ft) each committing to major build to suit agreements in the Berkshire town.

While strong activity was seen across the segments, large unit take-up hit a record 2.3m sq ft and was the strongest performing segment against trend, standing 46% above the annual average. 2021 was also exceptionally busy for the mid box segment, with take-up of 1.6m a fraction below of the previous record in 2019. The influx of spec-built stock to the region has played a major role in driving activity, particularly in the large segment, where secondhand space accounted for only 16% of take-up.

SUPPLY

The South East was one of only two UK regions to see an improvement in supply during 2021, rising by 11% over the year to 5.5m sq ft. While total supply equates to only 1.3 years of average take-up, the region is somewhat better provisioned than the wider UK position (1.0 years). This is a clear reflection of a strong developer response in the region over the past few years, with new and refurbished stock presently accounting for 62% of total supply.

However, the region's overall increase in supply has been entirely driven by the large unit segment, where availability increased by 53% to 2.8m sq ft in 2021. Notably, the vast majority of this is newly-built or under construction, with a notable focus of current development activity at Symmetry Park, Aylesbury and Frontier Park, Banbury. In sharp contrast, XL unit supply almost halved in 2021, with only two options available, the largest of which is MK313, Milton Keynes (313,000 sq ft).

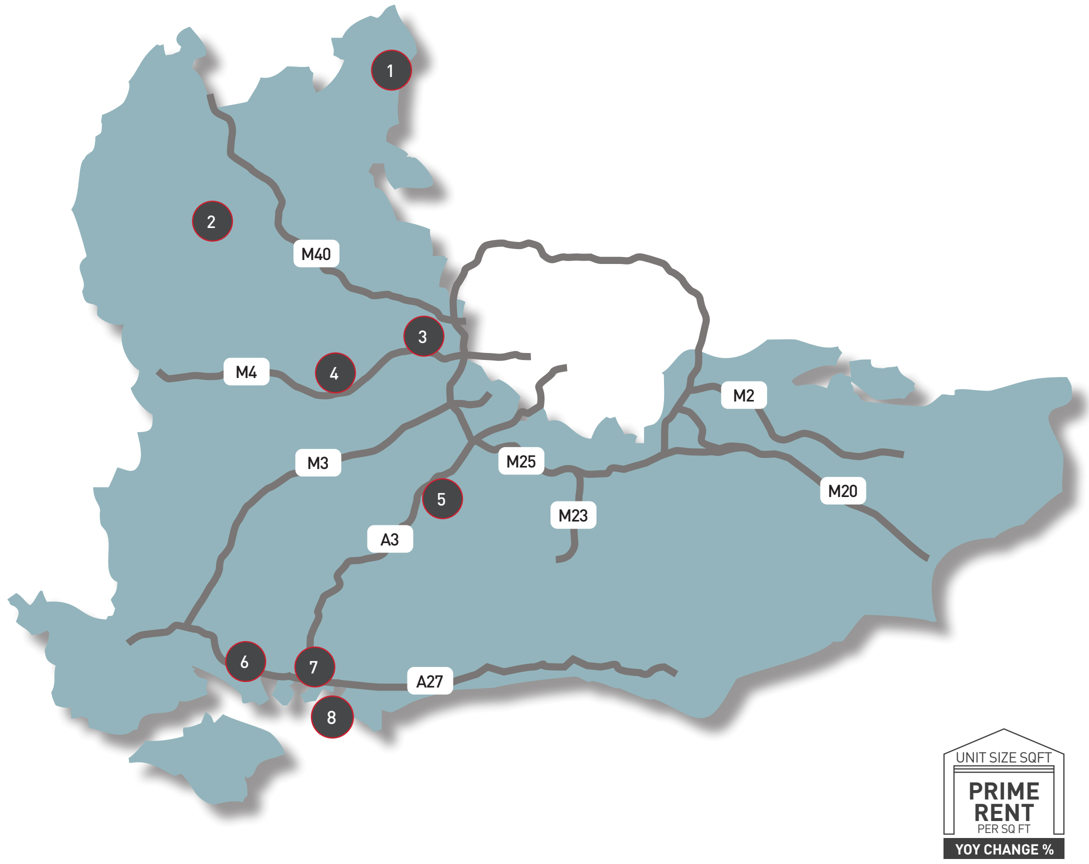
RENTS

The pace of rental growth accelerated across the South East's key markets during 2021. For units of circa 50,000 sq ft, all of the region's eight key markets recorded growth in prime rents in 2021, giving an average annual increase of 11%. Slough was home to the most dramatic rise, with annual growth of 19% pushing the prime rent to £18.50 per sq ft. Growth was similarly strong for secondary space in 2021, with the eight key markets recording average growth of 10%.

1 MILTON KEYNES

Unit size sq ft	20K	50K	100K
Prime rent per sq ft	£9.75	£9.00	£8.50
YoY change %	+11%	+13%	+6%

Milton Keynes continues to grow in popularity as a logistics location, and will benefit from significant development over the next few years with planning permission now granted for 2.2m sq ft in South East Milton Keynes and 4.4m sq ft of mainly logistics employment space as part of the Milton Keynes Eastern Expansion. The lack of good quality supply is fuelling rental growth, with double-digit rents expected to be achieved in 2022.



2 OXFORD

Unit size sq ft	20K	50K	100K
Prime rent per sq ft	£12.00	£9.50	£9.00
YoY change %	0%	+6%	+6%

Availability across all size segments is extremely tight with very little development in the pipeline. Availability of land is scarce and, with very few developments currently under construction, there will be an availability lag until potential new schemes in Bicester and Didcot come through. The science and tech sector plays an important role in the Oxford industrial market and there are signs of larger requirements from SciTech occupiers seeking warehousing and R&D uses in the mid box segment.

3 SLOUGH

Unit size sq ft	20K	50K	100K
Prime rent per sq ft	£19.50	£18.50	£17.00
YoY change %	+18%	+19%	+13%

Availability tightened further in Slough during 2021, due to consistently strong occupier demand. Slough still offers occupiers a discount compared with locations closer to central London, but the limited availability of space is pushing most to look further afield down the M4 and M3 corridors. Prime quoting rents have reached new highs, with figures above £20 per sq ft being quoted for grade A second hand accommodation. Data centre occupiers continue to account for a portion of the demand, but the shortage of available space is also forcing these to look at alternative locations.

4 READING

Unit size sq ft	20K	50K	100K
Prime rent per sq ft	£14.00	£14.00	£13.50
YoY change %	+12%	+12%	+8%

Supply remains constrained, particularly for mid and big box units, although new development is planned at Arlington's Reading International and Panattoni Park Reading. The rapid growth of rents in the west London markets has started to trickle out to locations further afield such as Reading, where prime rents are now looking to push above £14 per sq ft. Upward pressure on rents will continue in 2022 driven in part by demand from occupiers moving out of more expensive locations in London. One of the key deals in 2021 saw UPS take a 127,453 sq ft unit at Island Road for £11.75 per sq ft.

5 GUILDFORD

Unit size sq ft	20K	50K	100K
Prime rent per sq ft	£13.50	£12.00	£11.50
YoY change %	+8%	+9%	+15%

With limited supply, the market demonstrated strong rental growth in 2021. Aviva Investors refurbished 30,000 sq ft at Opus Park, which let with a headline rent of £13.50 per sq ft. Savills IM commenced their refurbishment of the Cathedral Hill estate while Guildford Borough Council commenced phase 2 of the Midleton Road development, where more than half of the units are already reserved. Additional supply will come from planned schemes, including the forthcoming Burnt Common estate, which is awaiting planning approval.

6 SOUTHAMPTON

Unit size sq ft	20K	50K	100K
Prime rent per sq ft	£10.50	£10.50	£10.25
YoY change %	+12%	+10%	+5%

Following robust demand throughout 2021, supply levels suffered with a lag in new development completions to fill the void. This resulted in land values soaring to circa £1.3m per acre and prime space commanding rents of up to £11.00 per sq ft. Supply will improve in 2022, with new schemes including Power Park, Eastleigh by Oxenwood, Adanac North Phase II by Oceanic, and Quest 271 (the former Newsquest site) in Southampton by Salmon Property delivering 150,000 sq ft of quality industrial and logistics space.

7 FAREHAM

Unit size sq ft	20K	50K	100K
Prime rent per sq ft	£10.75	£10.25	£10.25
YoY change %	+8%	+5%	+5%

Occupier demand has been very strong, putting rents under upward pressure. Secondhand stock levels did rise in 2021 but voids were minimised. The 90,717 sq ft 10-unit scheme by Kingsbridge Estates at Concorde Park, Segensworth let successfully and the onward investment sale achieved a landmark yield. At Whiteley, Kier's Logistics City has completed two new 20,000 sq ft units. South of Fareham, the local authority's spec development of 60,556 sq ft at Faraday Business Park, Daedalus is attracting solid interest which bodes well for the year ahead.

8 PORTSMOUTH

Unit size sq ft	20K	50K	100K
Prime rent per sq ft	£11.00	£10.25	£10.25
YoY change %	+7%	+5%	+5%

A lack of supply has hampered strong latent demand at the eastern end of the Solent Corridor, pushing up rents and land values. BioPure's 120,000 sq ft high tech unit at Dunsbury Park has now completed to be followed by three spec units totalling 75,000 sq ft. Developer confidence is high, with a four unit spec scheme of 115,000 sq ft underway at Langstone Park, a big-box scheme of circa 315,000 sq ft at Solent Distribution Park, Havant and nine units up to 15,478 sq ft at Chichester Business Park.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
SOUTHAMPTON	UNIT 1 SOUTH CENTRAL	2021 Q3	118,257	LET (NEW-SPEC)	£10.25	HERMES
DIDCOT	D120, DIDCOT QUARTER	2021 Q2	121,464	LET (NEW SPEC)	£8.50	SIMON HEGELE
BICESTER	UNIT 7 AXIS J9	2021 Q4	160,000	LET (NEW SPEC)	£8.10	ARRIVAL
FARNBOROUGH	170 FARNBOROUGH	2021 Q4	168,241	LET (NEW SPEC)	£12.50	DFS
MILTON KEYNES	TECTONIC 620, BLETCHAM WAY	2021 Q3	617,393	LET (SECONDHAND)	£7.74	JOHN LEWIS

Source for all data unless stated: LSH Research

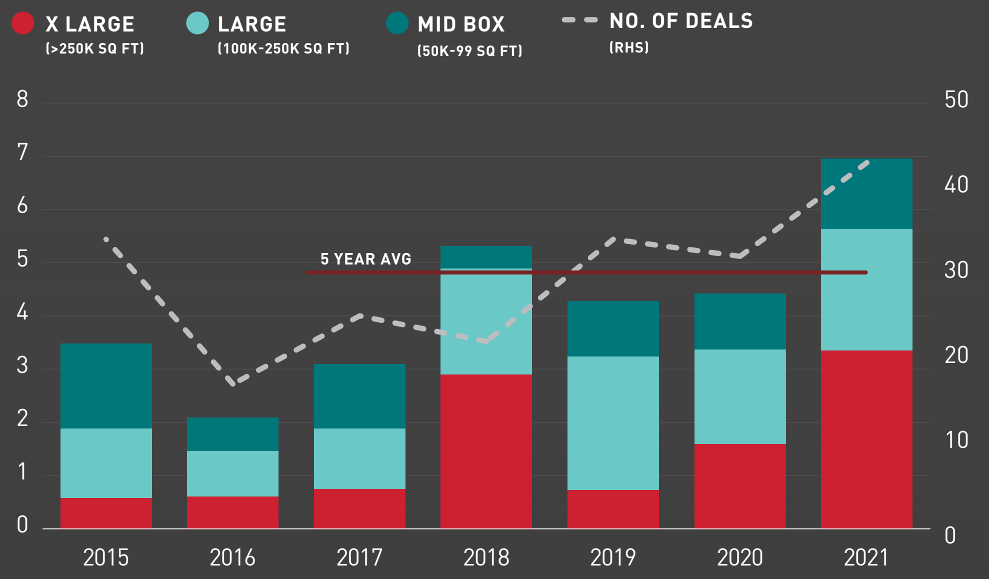
EAST

AT A GLANCE

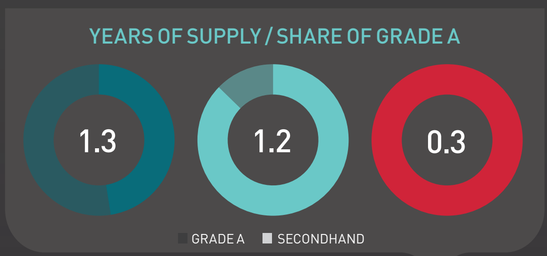
TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	VACANCY RATE	SPEC U/C SQ FT (NO. SCHEMES)
7.0m	+44%	4.2m	0.9	2.8%	2.4m (17)

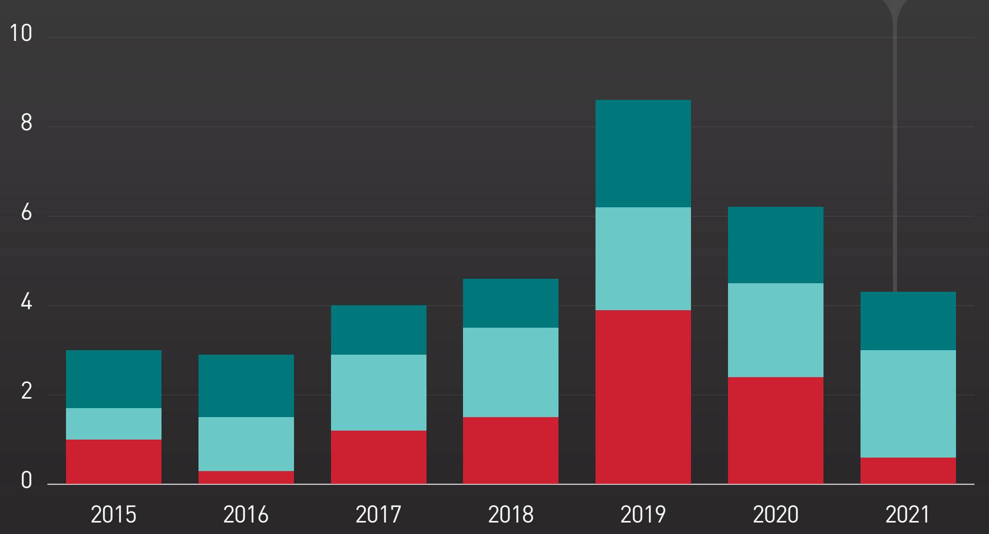
XL FEAST IN THE EAST

TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)





DEMAND

Take-up reached an impressive 7.0m sq ft in 2021 smashing 2018's previous record of 5.3m sq ft and 44% above the five-year average. Strong activity was seen across the segments, although exceptional XL unit take-up of 3.4m sq ft was key. This included Amazon's 736,000 sq ft lease of Peterborough 736 (the former Debenhams unit), the region's largest deal since 2018.

A strong burst of development fuelled the record take-up, with grade A space accounting for 71% of take-up in 2021, rising from a market share of just 10% in 2015. Peterborough and Bedford were also hives of activity, together accounting for over 40% of 2021's take-up. Bedford's recent flurry of spec development has proven successful, with Bedford Link Logistics Park securing Movianto (355,941 sq ft) and Carlton Packaging (172,195 sq ft) as tenants, while MH Star leased all three units at G-Park Bedford Wixams, totalling over 500,000 sq ft.

SUPPLY

Supply contracted by 32% during 2021 to stand at 4.2m sq ft at the end of 2021. The XL segment saw the sharpest contraction, with only 555,000 sq ft available across three units, equivalent to only 0.3 years of average take-up. Meanwhile, supply in the large segment is more ample, relatively speaking, with supply increasing by 12% in 2021 to 2.4m sq ft, equivalent to 1.2 years of supply.

The fall in supply was predominantly driven by secondhand space, which contracted by 62% over the year. Meanwhile, reflecting strong levels of development, grade A supply fell by a modest 11%. Notably, however, 58% of total supply in the region is currently under construction, at 2.3m sq ft. Current development activity comprises 17 units, the largest of which are Unit 1 (300,000 sq ft) and 2 (255,300 sq ft) at Equation Properties' Orwell Logistics Park, Felixstowe. Following the success of Phase 1, Tritax Symmetry has commenced construction of Phase 2 Symmetry Park, Biggleswade, comprising three units totalling 465,000 sq ft, due for completion in Q3 2022.

RENTS

For units of circa 50,000 sq ft, prime rents increased by 15% on average across the region during 2021. All of the region's key markets recorded double digit growth, led by Bedford, where prime rents increased by 21% to £8.75 per sq ft. Notably, reflecting severe supply constraints for existing units, rental growth for secondary space was even stronger than for prime, averaging 20% for the key markets. This was led by Chelmsford, where secondary rents increased by 31% year-on-year to £10.50 per sq ft.

1 BEDFORD

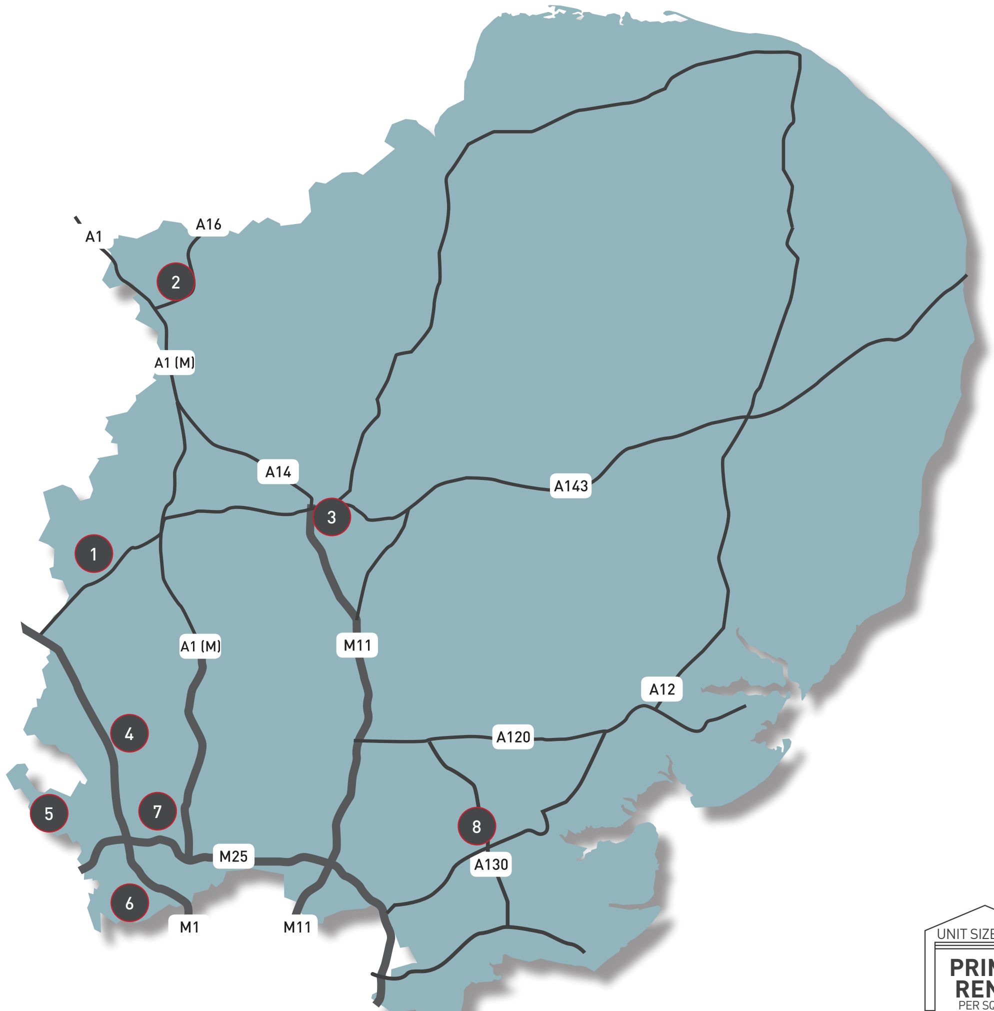
20K	50K	100K
£9.00 PER SQ FT	£8.75 PER SQ FT	£8.50 PER SQ FT
+13%	+21%	+17%

Bedford is a hotspot for new development, although supply has greatly diminished with a flurry of major grade A lettings at GLP's G-Park Bedford, London Metric/ Graftongate's Bedford Link and Bedford 405. Symmetry Park, Biggleswade will alleviate supply slightly with three of the four units remaining totalling 465,000 sq ft, although these are expected to let-up before or close to PC in Q3 2022. Strong demand is also seen at the smaller sub 50,000 sq ft end of the market, thanks to relatively attractive, albeit growing, rents compared with nearby locations.

2 PETERBOROUGH

20K	50K	100K
£8.25 PER SQ FT	£7.75 PER SQ FT	£7.25 PER SQ FT
+14%	+11%	+12%

Peterborough boasted an impressive 1.4m sq ft of take-up in 2021 over five transactions, including Amazon's 737,000 sq ft former Debenhams warehouse at Kingston Park. Here, Firethorn Trust is bringing forward 500,000 sq ft speculatively, including units of 230,000 sq ft, 120,000 sq ft and 90,000 sq ft. Other key developments include Trebor and Hillwood's two-unit scheme at Delta Park, comprising two units of 231,155 sq ft and 307,715 sq ft. Elsewhere, Flagship Park can accommodate up to 600k sq ft, albeit completions are not expected before Q4 2024.



UNIT SIZE SQFT
PRIME RENT PER SQ FT
YOY CHANGE %

3 CAMBRIDGE

20K	50K
£14.50 PER SQ FT	£13.50 PER SQ FT
+12%	+13%

While larger logistics requirements tend to favour other key locations in the region, the smaller end of the market is busy. Wrenbridge is set to complete Gateway Cambridge in summer 2022, a mid box scheme to the north of the city on the A14 where a number of units are already under offer. The mid-tech Bourn Quarter is also under construction, while The Anderson Group has submitted planning on a new mid box scheme at Codhams Lane.

4 LUTON/DUNSTABLE

20K	50K	100K
£11.50 PER SQ FT	£11.00 PER SQ FT	£10.75 PER SQ FT
+5%	+10%	+8%

Luton and Dunstable are seeing significant new development, with Lidl constructing a 1m sq ft distribution centre next to Junction 11a of the M1; and Prologis acquiring the 17 acre former Vauxhall site for a new 300,000 sq ft scheme. Plans are also progressing on the 37 acre Newlands Park project, which will include a range of commercial space. In addition, Wrenbridge is constructing six units of 7,233-40,634 sq ft that will benefit from access to the new Dunstable Northern Bypass, and be available from Q3 2022. Occupier demand remains strong, but leasing activity is restricted by a lack of immediate supply, which is only likely to be alleviated in the medium term.

5 HEMEL HEMPSTEAD

20K	50K	100K
£14.00 PER SQ FT	£13.25 PER SQ FT	£12.75 PER SQ FT
+8%	+20%	+16%

Hemel Hempstead is an established industrial location due to its proximity to the M1, but supply remains low across all size brackets. This is pushing rents upwards and forcing occupiers to search for more cost effective premises further north along the M1 corridor. There is currently little new development taking place due to the shortage of land options, but new space is expected at the Dacorum Borough Council-owned Maylands Gateway site by 2024. This is located next to Prologis Park Hemel Hempstead, which only has one available unit of 234,000 sq ft.

6 WATFORD

20K
£17.00 PER SQ FT
+10%

Watford has continued to benefit from the migration of occupiers moving out of Greater London, where rents have surpassed £30 per sq ft in some locations. Watford Borough Council's Greenhill Works scheme will see construction start imminently and is expected to reach practical completion in early 2023; while Watford Logistics Hub is due to be delivered in Q2 2023. There is a distinct lack of supply, which is likely to intensify throughout 2022, putting pressure on rents. Land values are also being driven upwards, with the recent sale of the Tolpits Lane site providing evidence of values over £6m per acre.

7 ST. ALBANS

20K
£13.00 PER SQ FT
+4%

St Albans remains a secondary logistics location despite good connectivity to the M25 and the wider motorway network. There continues to be a lack of good quality supply and very limited new development. High levels of rental growth in neighbouring towns such as Hemel Hempstead and Watford could help to make St Albans an increasingly attractive alternative location, but it will only be able to take advantage if new stock becomes available.

8 CHELMSFORD

20K	50K
£13.50 PER SQ FT	£11.50 PER SQ FT
+13%	+15%

Chelmsford saw no activity above 50k sq ft in 2021 due to the lack of stock and development. However, other locations are benefitting from constrained supply in the wider area. In 2021, Boxset Basildon saw its three speculative units taken by XPO and Hermes while Weston Homes took a 130,000 sq ft pre-let at Horizon 120, Braintree for modular housing construction. With further speculative development planned in Braintree, Basildon and Brentwood in 2022, Chelmsford is set to miss out on larger requirements.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
PETERBOROUGH	PETERBOROUGH 736, KINGSTON PARK	2021 Q4	736,000	LET (SECONDHAND)	£5.60	AMAZON
BURY ST EDMUNDS	870 SUFFOLK PARK	2021 Q4	394,454	LET (NEW SPEC)	£7.50	BLECKMANN
PETERBOROUGH	GATEWAY 385, GATEWAY PETERBOROUGH	2021 Q2	385,000	LET (REFURBISHED)	£6.00	OATLY
BEDFORD	UNIT 1 BEDFORD LINK LOGISTICS PARK	2021 Q4	355,941	LET (NEW SPEC)	UNDISCLOSED	MOVIANTO
LUTON	LUTON 346	2021 Q3	346,132	LET (NEW SPEC)	£9.50	OCADO

Source for all data unless stated: LSH Research

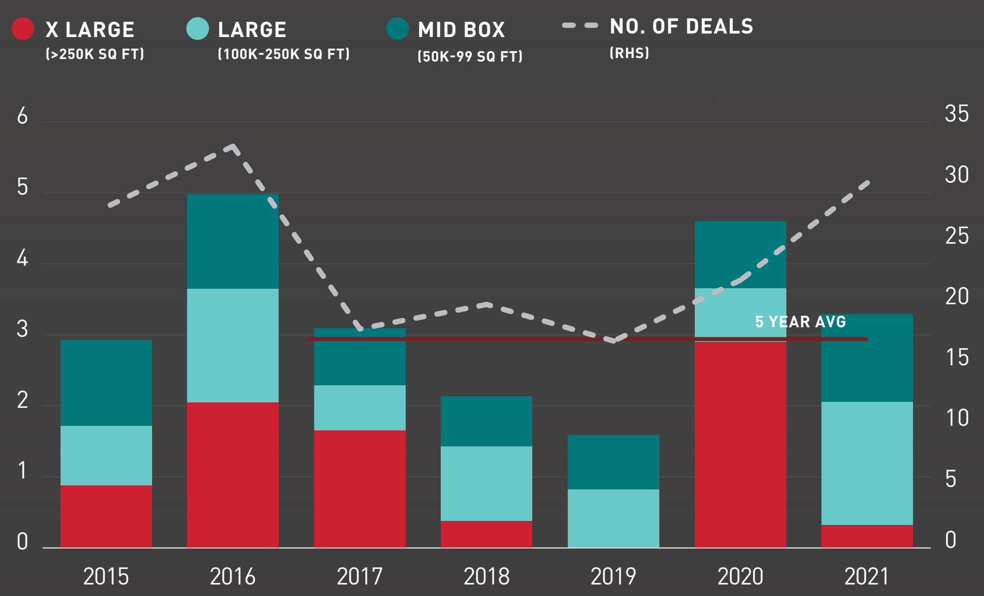
SOUTH WEST

AT A GLANCE

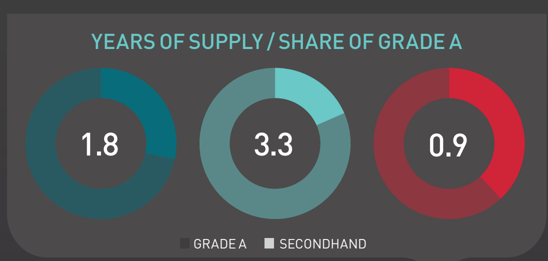
TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	VACANCY RATE	SPEC U/C SQ FT (NO. SCHEMES)
3.28m	+12%	5.8m	2.0	5.2%	343k (4)

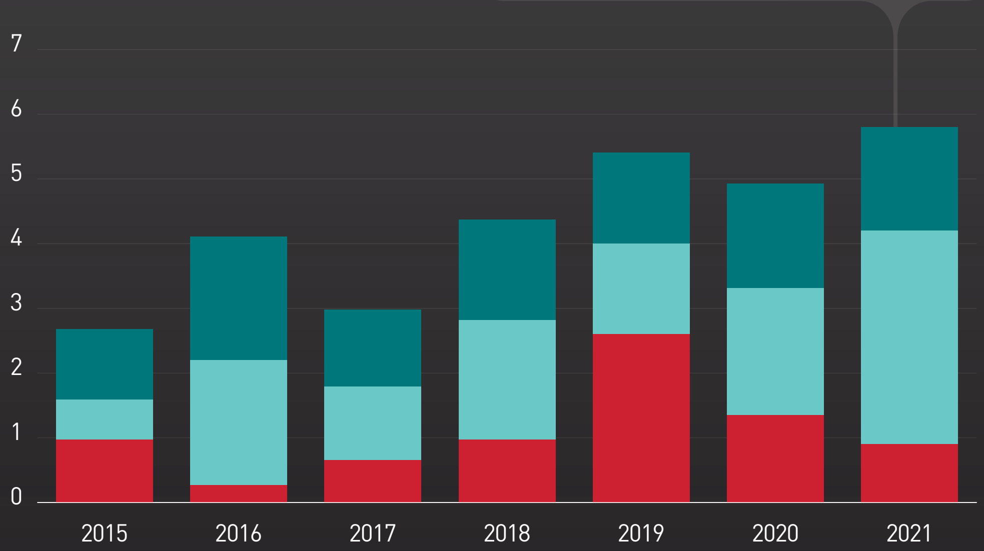
BRISTOL GETS BUSY

TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)





DEMAND

Relative to trend, take-up of 3.3m sq ft across the South West was relatively modest compared with other UK regions in 2021, standing 12% above the five-year annual average. While take-up was down 29% on 2020, that year was heavily skewed by Amazon's massive 2.3m sq ft pre-let in Swindon. Indeed, 2021 was a far more active year, with 30 deals in excess of 50,000 sq ft compared with 22 in 2020, and including 13 deals over 100,000 sq ft.

Amid a busy year, the large segment had its best year on record in 2021, with take-up of 1.7m sq ft By itself, the Bristol area ended 2021 with take-up of 817,000 sq ft across five deals including Amazon's 316,000 sq ft lease of WA316, Western Approach and a number of build to suit deals including Glencar's 196,000 sq ft commitment at Skypark. The mid box segment also performed well in 2021, with take-up of 1.2m sq ft falling just short of 2016's record.

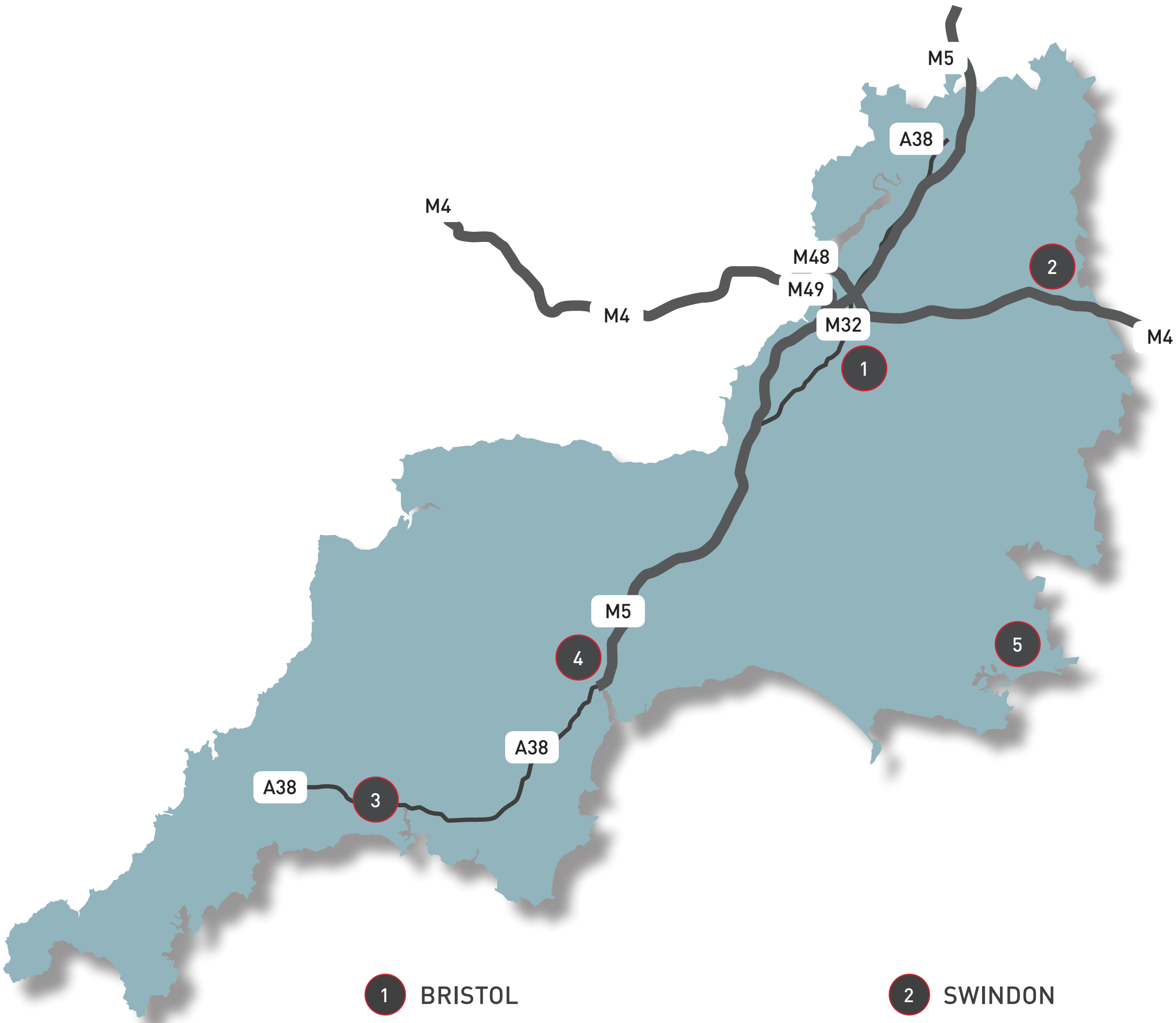
SUPPLY

The South West was one of only two UK regions to see an uptick in supply during 2021, increasing 17% to stand at 5.8m sq ft. Based on average take-up, the South West has by some margin the largest supply compared with other regions, at 2.0 years. This largely reflects growth in secondhand stock, and is also overwhelmingly within the large segment, where availability ballooned by 66% in 2021.

In contrast, grade A supply fell by 26% over the year and accounts for only a quarter of the total supply in the region. While speculative development is taking place, it has failed to take off as dramatically as seen in other UK regions during 2021. At the end of 2021, four speculative units were under construction totalling circa 340,000 sq ft, the largest being Trebor and Hillwood's 113,452 sq ft unit at Central Approach, Bristol. There is more promise in the pipeline for 2022, however, with circa 900,000 sq ft of speculative development expected to come forward, largely centred on the Bristol market.

RENTS

Having been broadly stable in 2020, prime rental growth resumed across the region in 2021, albeit patchily. Growth was led by Exeter, where with prime rents increased by 17% year-on-year to £8.75 per sq ft, while rents remained static in Swindon for a second successive year at £8.00 per sq ft. Notwithstanding the uneven growth between locations, the average rental increase of 6% for the South West was, alongside the North East, the lowest UK regional growth rate in 2021.



UNIT SIZE SQFT
PRIME RENT
PER SQ FT
YOY CHANGE %

1 BRISTOL

20K	50K	100K
£11.50 PER SQ FT	£8.25 PER SQ FT	£8.00 PER SQ FT
+21%	+6%	+7%

While the South West region was relatively subdued in 2021, Bristol experienced another strong year in terms of take-up, beating the previous year's record high and boosted by Logicor's 316,000 sq ft lease of WA316 to Amazon. Supply levels have dropped significantly as spec built and good quality secondhand stock has let-up quickly. The pipeline around the city is positive, with speculative development taking place at Tungsten Park, Matrix 49, Mountpark XL and Horizon 38.

2 SWINDON

20K	50K	100K
£8.00 PER SQ FT	£8.00 PER SQ FT	£7.50 PER SQ FT
0%	0%	0%

Swindon was home to five 50k sq ft plus deals in 2021 although take-up was tempered by an absence of XL unit activity. The development pipeline in healthy, most notably with Panattoni having secured Honda's 370-acre site and the continuing development at St Modwen's Chippenham Gateway site. The area also benefits from a good supply of more affordable secondhand stock, such as at Groundwell Industrial Estate. Notable deals include the letting of Radway Point (100,000 sq ft) and the letting of Trinity Park (79,814 sq ft) to Bleckmann Logistics.

3 PLYMOUTH

20K
£7.25 PER SQ FT
0%

Smaller unit development continues to be popular with the likes of Burrington Estate's Eurotech Park development. However, Plymouth continues to experience a lack of stock in the mid to large box sizes, a situation not helped by the ongoing lack of development to drive the larger end of the market forward. A lack of options means larger deals are limited, one notable example being LSH's letting of the 85,348 sq ft former Bestway unit on Burrington Way to Devonport Royal Dockyard Limited.

4 EXETER

20K	50K	100K
£9.50 PER SQ FT	£8.75 PER SQ FT	£8.00 PER SQ FT
12%	17%	15%

Mid box and large unit activity in the city continues to be focused on the Church Commissioners' land at Exeter Logistics Park, developed by Stoford. Until recently, this has tended to be on a pre-let basis although Stoford is now speculatively building a 28,500 sq ft unit on the site. Positively, other sites are due to come forward with road widening works enabling the development of Oxenwood's Airpark.

5 POOLE/BOURNEMOUTH

20K	50K	100K
£10.50 PER SQ FT	£9.50 PER SQ FT	£9.25 PER SQ FT
11%	+3%	0%

Hermes IM's new development at Fleets Corner Business Park (85,000 sq ft) has been the catalyst for further development. Construction is underway at Chancerygate's Bedrock scheme in Ferndown, offering a range of sizes over a 16.9-acre site. St Modwen Poole (195,000 sq ft) is under offer to a single occupier while a site at Fleets Lane totalling 4.2 acres is under offer to an industrial developer. Magna Park Poole will be constructed in 2022 and deliver up to 48 units.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
BRISTOL	WA316, WESTERN APPROACH	2021 Q2	316,128	LET (SECONDHAND)	£6.00	AMAZON
BRISTOL	H240 HERCULES, CRIBBS CAUSEWAY DISTRIBUTION CENTRE	2021 Q4	244,591	LET (REFURBISHED)	£6.75	DFS
TEWKESBURY	FORMAL HOUSE, FORMAL INDUSTRIAL PARK	2021 Q3	206,875	LET (SECONDHAND)	£3.99	BENSONS FOR BED
POOLE	FLEETS CORNER	2021 Q4	160,000	LET (SECONDHAND)	£8.00	BEYOND RETAIL
PLYMOUTH	UNIT 1 BURRINGTON WAY*	2021 Q2	85,348	LET (SECONDHAND)	£5.27	DEVONPORT ROYAL DOCKYARD

LSH act for the tenant*

Source for all data unless stated: LSH Research

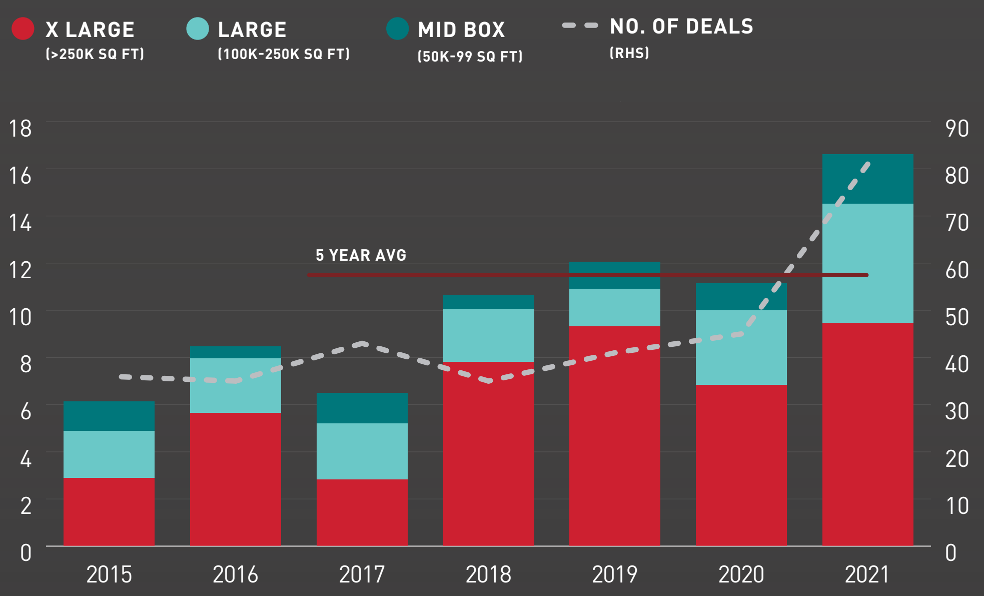
EAST MIDLANDS

AT A GLANCE

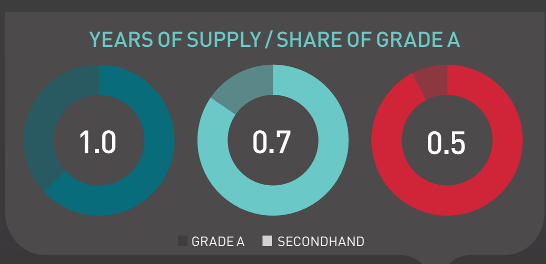
TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	VACANCY RATE	SPEC U/C SQ FT (NO. SCHEMES)
16.6m	+45%	6.5m	0.6	2.7%	5.2m (25)

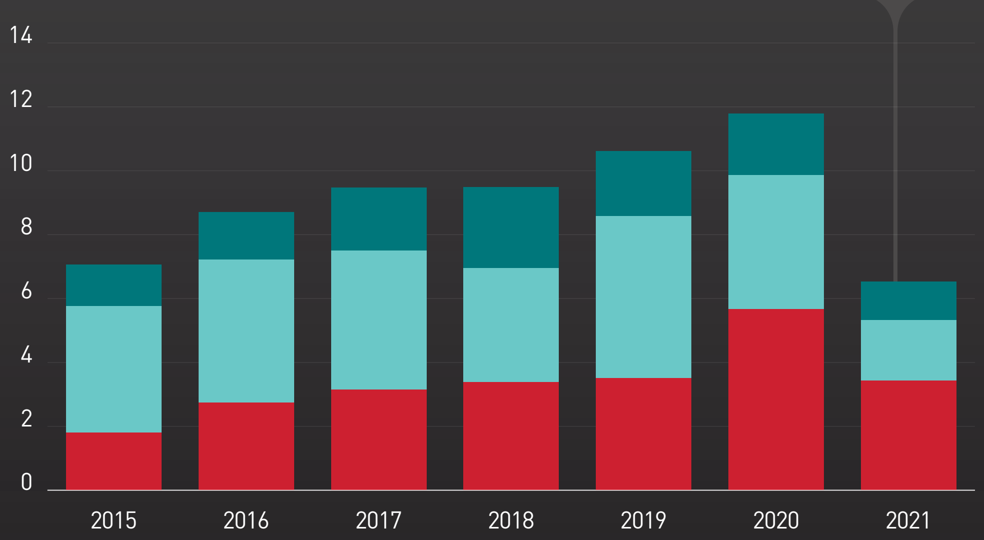
RECORDS ACROSS THE BOARD

TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)





DEMAND

The East Midlands saw colossal take-up of 16.0m sq ft, smashing 2019's previous record by 38%. In typical fashion, the region commanded the largest share of UK activity in the XL segment, with take-up of 9.5m sq ft accounting for 26% of the UK total. Notably, XL take-up was also driven by spec builds as opposed to design and builds, providing clear vindication to large format developers. This included Amazon's 727,000 sq ft lease at MPS1, Lutterworth, the UK's largest ever spec build.

While each of the three segments boasted record take-up in 2021, the most impressive performance against trend was the large unit segment, where take-up of 5.0m sq ft was 75% ahead of the annual average. Notably, in this segment, take-up was evenly split between both new build and secondhand stock, indicative of strong demand across the market. Meanwhile, the mid box segment was not far behind, with record take-up of 2.1m sq ft standing 68% above the annual trend.

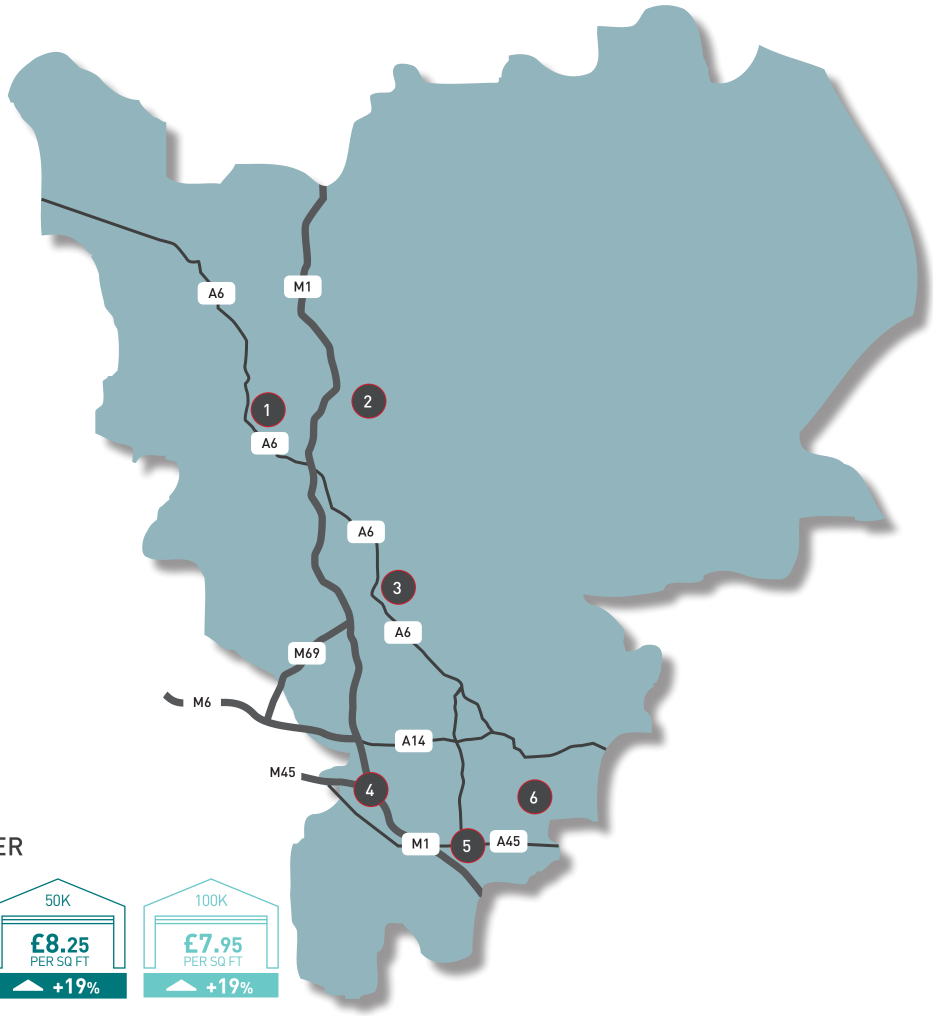
SUPPLY

At the end of 2021, a record 5.2m sq ft of speculative development was underway across the region, more than a quarter of the UK's total. Activity comprised 25 separate units, the largest being MPN2, Lutterworth (503,210 sq ft). Despite this wave of development, supply is failing to keep up with insatiable levels of occupier demand. Total supply – which includes schemes under construction – nose-dived by 44% in 2021 to a new all-time low of 6.5m sq ft.

The East Midlands is now the most tightly-supplied UK region, with availability equating to only 0.6 years of average annual take-up. Moreover, only 20% of this supply is actually immediately available with the remainder under construction. Of the three segments, mid box is arguably the best supplied in the region, with availability of 1.2m sq ft equating to 1.0 years of average take-up. That said, absolute levels of supply in both the mid box and large segments are their lowest on record.

RENTS

The pace of rental growth accelerated in 2021. For prime units of circa 50,000 sq ft, five of the six key markets saw double-digit growth, with average growth for 2021 amounting to 13%. Growth was led by Leicester, where prime rents for 50,000 sq ft units increased by 19% to £8.00 per sq ft. Notably, reflecting the pressure on existing supply, secondary rents increased by an even more substantial 22% on average, led by Rugby/Daventry, with growth of 25%.



1 DERBY

Unit size	20K	50K	100K
Prime rent	£7.50 per sq ft	£7.25 per sq ft	£7.00 per sq ft
YoY change	+11%	+12%	+12%

Supply remains tight following the successful let-up of Panattoni's spec units, including Alloga at Derby370 and JD Sports at Derby515. Positively, Clowes and Hines have commenced groundworks for unit DV195 at Dove Valley Park, a 195k sq ft unit completing in Q4 2022, whilst the infrastructure for the remaining 40 acres will be completed in the same phase to support further delivery in 2023. Elsewhere, spec commitments from Trebor and St Modwen will deliver much-needed stock to the Derby market.

2 NOTTINGHAM

Unit size	20K	50K	100K
Prime rent	£7.50 per sq ft	£7.25 per sq ft	£7.00 per sq ft
YoY change	+11%	+12%	+12%

2021's stand-out transaction was Panattoni's letting of EMDC525 to Buy It Direct Ltd in Q2, at a reported £6.14 per sq ft on a 10-year commitment. A raft of spec schemes will be delivered in 2022, including two units at EMDC, two units at Castlewood Business Park and two units by Panattoni at J28/M1. Newlands has outline consent for circa 800k sq ft across four units at J24/M1 while 10 acres is currently under offer at J28/M1 to Equation, both of which promise an injection of new supply in 2023. Following a successful run at SEGRO's EMG, one plot of 700,000 sq ft remains, rumoured to be under offer to a 3PL company.

3 LEICESTER

Unit size	20K	50K	100K
Prime rent	£8.50 per sq ft	£8.25 per sq ft	£7.95 per sq ft
YoY change	+18%	+19%	+19%

2021 was once again dominated by Magna Park Lutterworth. The entirety of MPN (PC Jun-22) is now either pre-let or under offer, with MPN2 (503k sq ft) under offer at £7.95 per sq ft. Groundworks have commenced at Phase 3 comprising four further units totalling 1m sq ft, two of which are already under offer. Harworth has committed to six new units totalling 332k sq ft on their 54 acre Bardon Hill site and JLR has commenced marketing on three units at their Mercia Park campus, totalling 880k sq ft. While additional spec starts are anticipated during 2022, Leicester is likely to remain supply constrained until strategic sites come forward from 2023.

UNIT SIZE SQFT
PRIME RENT
PER SQ FT
YOY CHANGE %

4 RUGBY/ DAVENTRY

Unit size	20K	50K	100K
Prime rent	£9.00 per sq ft	£8.75 per sq ft	£8.50 per sq ft
YoY change	+16%	+17%	+21%

High profile freehold purchases provided 2021's headlines, chiefly Logicor's £85m acquisition of XPO's 951k sq ft Bigfoot facility and the former GAP building DC660 in Rugby which remains under offer significantly above the quote of £100 per sq ft. Speculation mounts over a 1m sq ft multi-unit pre-let at Symmetry Park Rugby, with detailed consent for an additional 380k sq ft recently obtained and rumoured to be on behalf of Amazon. 2022 is likely to see a refurbished DC660 brought to the market and suggestions of a further 500,000 sq ft of speculative development at DIRFT during Q3.

5 NORTHAMPTON

Unit size	20K	50K	100K
Prime rent	£8.75 per sq ft	£8.50 per sq ft	£8.25 per sq ft
YoY change	+10%	+10%	+14%

A wave of spec completions hit the market in 2021 with the majority now let or close to concluding, examples including Firethorn at Northampton Cross and Phase 2 of Panattoni Park Northampton. Newlands / M&G's 820k sq ft three-unit scheme at Brackmills Gateway is under construction, with deal tables at £8.25 per sq ft. Meanwhile, infrastructure works recently commenced at SEGRO's SLPN where potential exists for 5m sq ft of development, with pre-lets capable of delivery by the end of 2022.

6 WELLINGBOROUGH/ KETTERING/ CORBY

Unit size	20K	50K	100K
Prime rent	£7.75 per sq ft	£7.50 per sq ft	£7.25 per sq ft
YoY change	+3%	+7%	+8%

Corby led the way, reflecting the rising status of the A14 centric markets with occupiers. GLP bought Mulberry out of the 190-acre next phase of MLP at a price in excess of £1m per acre, reflecting a doubling in land values over the year. Rumours of major deals include a 1m sq ft pre-let to Top Hat at MPC, where GLP plans to spec an additional unit of c. 525k sq ft. Tritax Symmetry is spec building 300k sq ft at Symmetry Park Kettering and has detailed consent for an additional 500k sq ft. Notably, SEGRO is guiding in circa £7.00 per sq ft on its final unit at Kettering Gateway (102,500 sq ft), which promises to establish a new tone for the area.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
LUTTERWORTH	MPS1 MAGNA PARK SOUTH	2021 Q3	746,478	LET (NEW SPEC)	£6.50	AMAZON
CASTLE DONNINGTON	SEGRO LOGISTICS PARK EAST MIDLANDS GATEWAY	2021 Q3	640,000	PRE-LET (BUILD TO SUIT)	£7.25	CEVA
DERBY	EMDC 525, EAST MIDLANDS DISTRIBUTION CENTRE	2021 Q2	523,404	LET (NEW SPEC)	£6.14	BUY IT DIRECT LTD
DERBY	DERBY 515, DERBY COMMERCIAL PARK	2021 Q3	514,193	LET (NEW SPEC)	£6.35	JD SPORT
NORTHAMPTON	NX250, NORTHAMPTON CROSS	2021 Q3	250,000	LET (NEW SPEC)	£7.50	MH STAR

LSH act for the landlord*

Source for all data unless stated: LSH Research

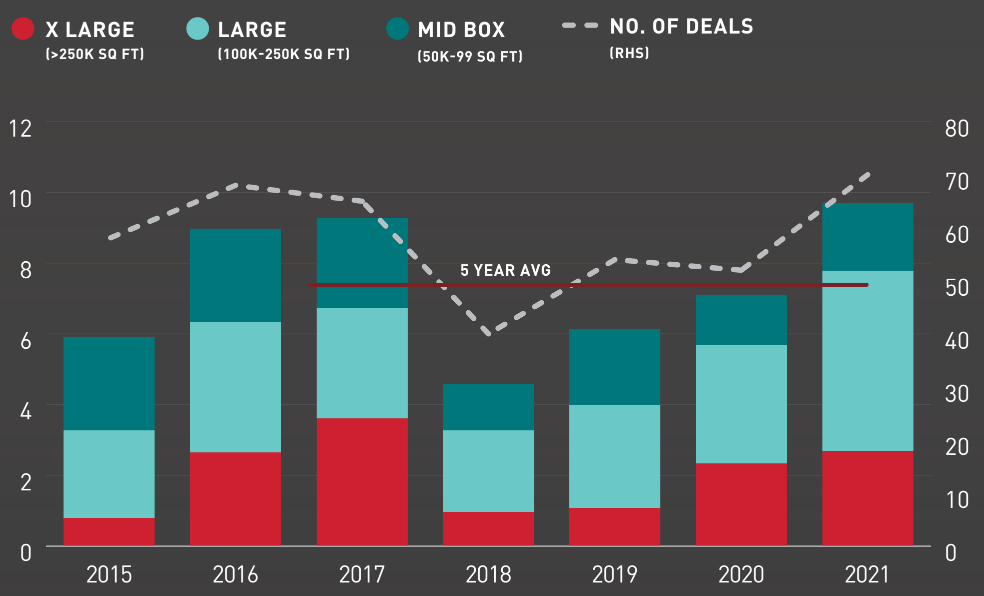
WEST MIDLANDS

AT A GLANCE

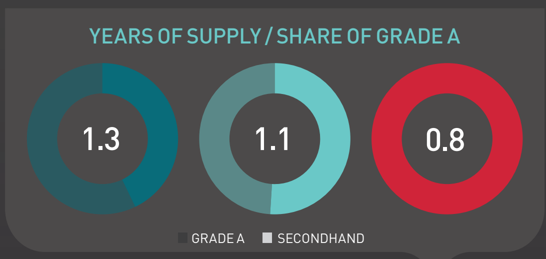
TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	VACANCY RATE	SPEC U/C SQ FT (NO. SCHEMES)
9.7m	+32%	7.7m	1.0	3.0%	4.2m (29)

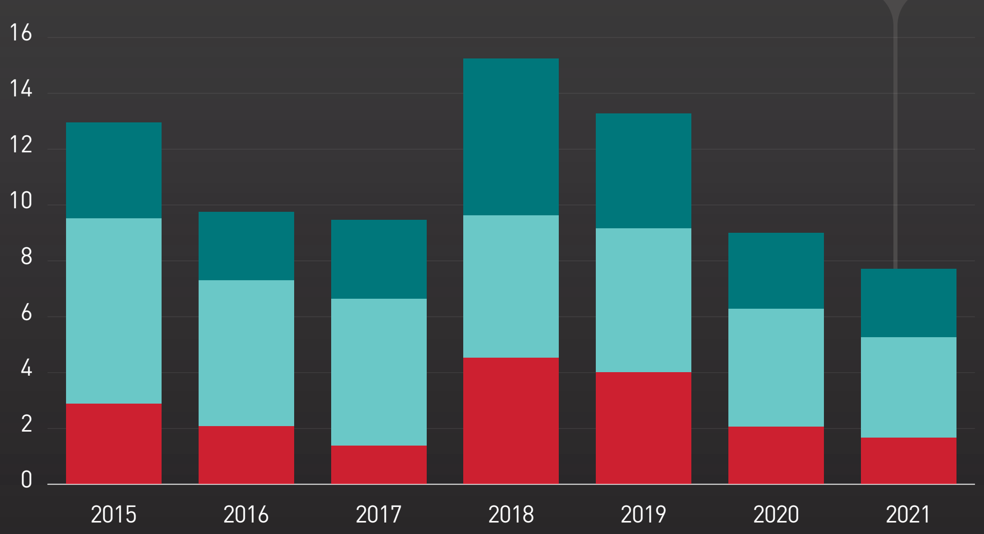
TAKE-UP GOES LARGE

TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)





DEMAND

West Midlands take-up was 9.7m sq ft in 2021, the strongest since 2014 and 42% above the five-year average. This performance was driven by remarkable activity in the large unit segment, where take-up hit a huge record of 5.1m sq ft and comprised 41 separate deals. Reflecting the insatiable demand for space in this segment, secondhand take-up was up 69% year-on-year, while build to suit activity was approaching three times the annual average.

The other segments were also strong in 2021. XL unit take-up of 2.7m sq ft and mid box take-up of 1.9m sq ft were up 15% and 37% year-on-year respectively. Indicative of the appetite and limited availability in the region, XL take-up was dominated by secondhand stock, which was up 61% year-on-year to 1.0m sq ft, a record for this size and grade. The region's largest deal was Pets at Home's build to suit lease of 770 North Stafford Business Park (670,000 sq ft).

SUPPLY

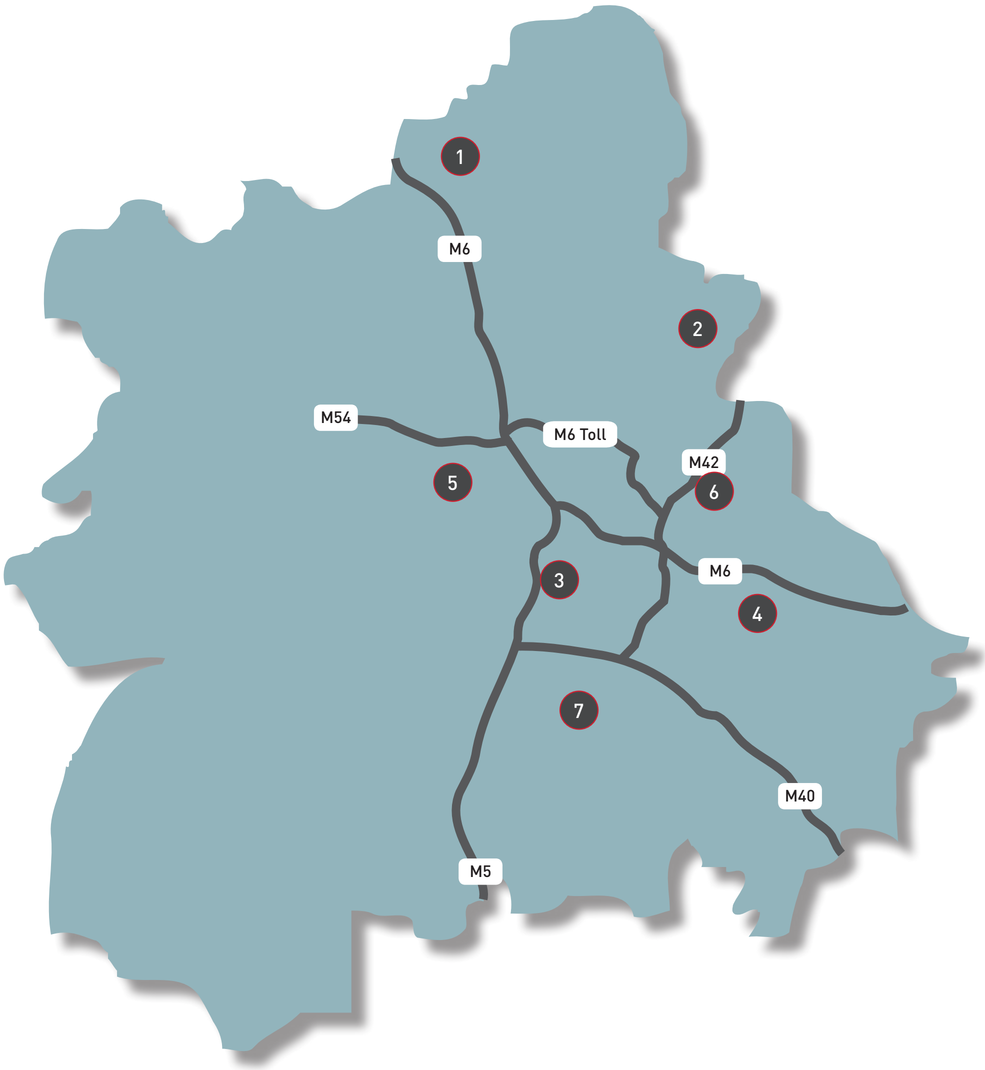
Strong take-up across the region is prompting record levels of speculative development. At the end of 2021, 4.2m sq ft was under construction across 29 schemes. Barberry, Bericote and St Modwen are bringing forward speculative schemes in all size brackets. Key completions in 2022 include Barberry's Wolfpack scheme, Hilton Cross and Bericote's Coventry Logistics Park. A further seven speculative developments are expected to commence construction in 2022, totalling in excess of 1m sq ft and spanning a range of size-bands.

Despite a substantial quantum of development, total supply in the West Midlands equates to only 1.0 years of average annual take-up, down from 1.2 years at the end of 2020. As with other regions, mid box supply is under the least pressure in the region, relatively speaking, equivalent to 1.3 years of average annual take-up.

RENTS

For units of circa 50,000 sq ft, prime rents grew 14% on average across the region's key markets. Notably, indicative of extremely strong demand, secondary rents grew by 21% in 2021. Coventry showed the largest year-on-year prime rental growth, up 21% to £8.50 per sq ft, while Birmingham saw the strongest growth in secondary rents, rising 26% to £8.50 per sq ft. Land values also soared in 2021, rising by 127% in both Birmingham and Coventry to stand at £2.5m per acre.

UNIT SIZE SQFT
PRIME RENT
PER SQ FT
YOY CHANGE %



1 STOKE-ON-TRENT

20K	50K	100K
£7.00 PER SQ FT	£6.75 PER SQ FT	£6.75 PER SQ FT
+8%	+13%	+23%

With low stock levels across the wider region and in Stoke itself, rents are pushing forward. St Modwen's speculatively developed Stoke South and Stoke Central schemes have seen strong demand with lettings to Clinisupplies (75,225 sq ft), Yellow Power (27,056 sq ft) and Eurostar Global (43,311 sq ft). This strong take up has paved the way for further speculative development at Stoke South, comprising two units of 94,000 sq ft and 53,200 sq ft.

2 BURTON UPON TRENT

20K	50K	100K
£8.00 PER SQ FT	£7.50 PER SQ FT	£7.50 PER SQ FT
+19%	+11%	+20%

Take-up has remained strong in Burton and Lichfield with all three units at L&G's Wellington Trilogy mid box scheme at Fradley Park being let. Super Smart took a 103,947 sq ft unit at St Modwen Park Burton, and Werner pre-let 171,550 sq ft at Equation's Quintus scheme at Branston Locks. Moving forward, St Modwen and Cabot both have plans to deliver much needed speculative development for 2022.

3 BIRMINGHAM

20K	50K	100K
£9.50 PER SQ FT	£9.00 PER SQ FT	£8.75 PER SQ FT
+12%	+13%	+30%

Low stock levels and strong demand are driving aggressive rental growth. The strong demand has been shown through lettings where best and final offers are bring called for - All Beauty leased a 100k sq ft secondhand unit at £8.50 per sq ft, £1.50 per sq ft above the original quoting rent. Land values effectively doubled in 2021 and continue to set new records for the region, with deals rumoured to be well in excess of £2m per acre.

4 COVENTRY

20K	50K	100K
£9.00 PER SQ FT	£8.50 PER SQ FT	£8.00 PER SQ FT
+20%	+21%	+23%

A number of large transactions completed in Q4 2021. Kite Packaging took all three units at Canmoor's Puma Park development (totalling 188,931 sq ft) while DCG Logistics leased a refurbished secondhand unit of 295,793 sq ft at Coventry Business Park. Speculative development continues to progress at pace, with three units underway at Manse Opus's Ansty scheme and further activity at Bericote's Coventry Logistics Park.

5 WOLVERHAMPTON

The market has been busy, with CEVA taking Panattoni's 448,089 sq ft Wolverhampton450 at Four Ashes and notable lettings for the last three units on Pantheon Park to Crown Workspace (30,132 sq ft) and Super Smart Services (83,466 & 133,011 sq ft). On the back of this strong take-up, Barberry is pressing ahead with its Wolfpack scheme at Hilton Cross where speculative units of 47,750 sq ft, 62,000 sq ft and 113,000 sq ft will be delivered in 2022.

6 TAMWORTH

Junction 10 of the M42 has continued to see strong take-up. Abrdn leased ACE135 (136,391 sq ft), Relay Park to Movianto, while new spec units at St Modwen Park Tamworth were taken by Box (118,750 sq ft) and Super Smart Services (63,542 sq ft). Moreover, the last two available units at St Modwen Park (both 48,880 sq ft) are rumoured to be under offer as is Tamworth345 at Core 42 (345,414 sq ft), which threatens a dearth of supply amid ongoing strong demand.

7 REDDITCH/ WORCESTER

Worcestershire has also benefitted from Super Smart Services' aggressive expansion with lettings at Worcester 163 (163,170 sq ft), Worcester Six and Unit 1 Sixways Park (116,777 sq ft). In Redditch, just one unit remains at Canmoor / Tristan's Velocity 42 following two mid box lettings in 2021. To fill the gap, St Modwen is speculatively developing two units (42,711 sq ft and 30,240 sq ft) at St Modwen Park, Broomhall, while Stoford has secured consent for an additional 680,000 sq ft at Worcester Six.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
STAFFORD	UNIT 770 NORTH STAFFORD BP	2021 Q1	670,348	PRE-LET (BUILD TO SUIT)	£5.80	PETS AT HOME
STAFFORD	STAFFORD 475 ACTON GATE	2021 Q4	474,593	LET (SECONDHAND)	£6.00	THE RANGE
TAMWORTH	ACE 135 RELAY PARK	2021 Q1	136,391	LET (NEW BUILD SPEC)	£6.75	MOVIANTO
BIRMINGHAM	PRIMUS 100	2021 Q4	100,778	LET (SECONDHAND)	£8.50	ALL BEAUTY
LICHFIELD	WELLINGTON TRILOGY FRADLEY PARK*	2021 Q3	50,978	LET (NEW BUILD SPEC)	£6.95	LONDON CITY BOND

Source for all data unless stated: LSH Research

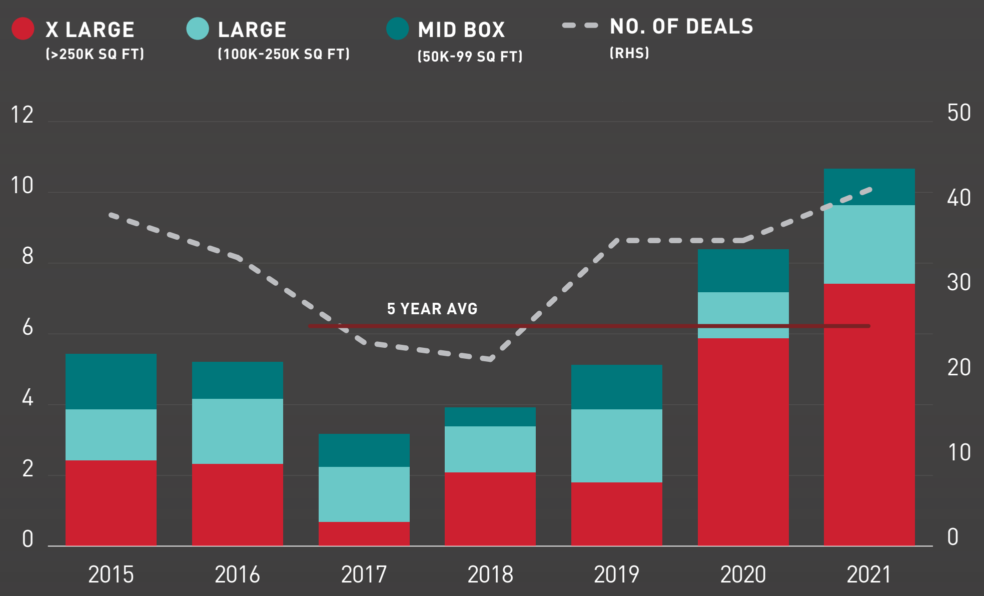
YORKSHIRE & THE HUMBER

AT A GLANCE

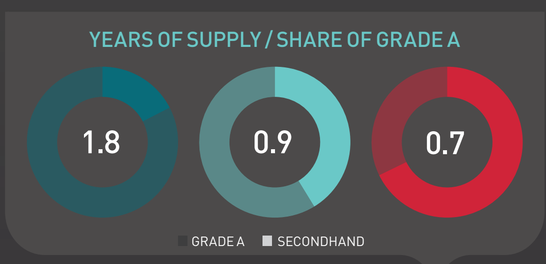
TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	VACANCY RATE	SPEC U/C SQ FT (NO. SCHEMES)
10.7m	+71%	5.4m	0.9	2.5%	1.5m (5)

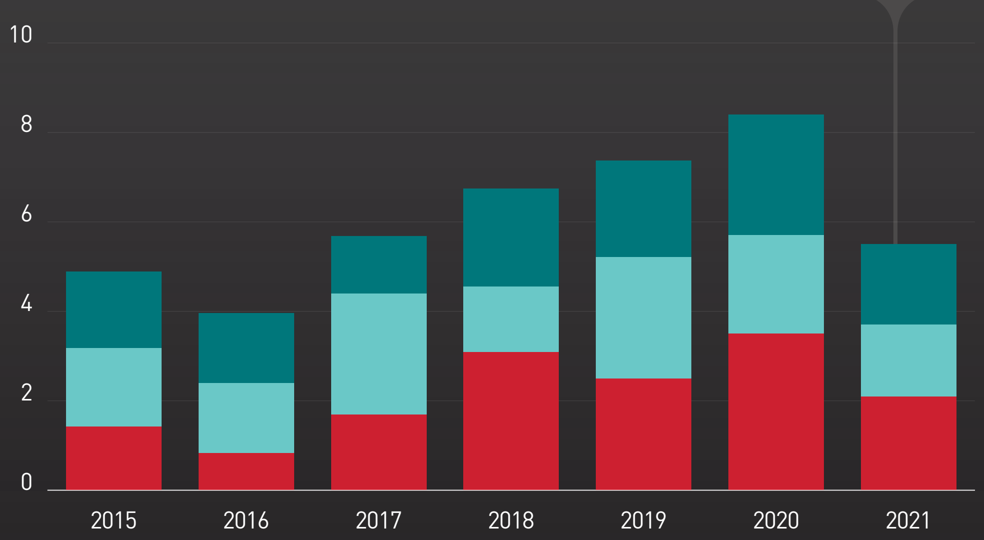
XL DRIVES RECORD YEAR

TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)





DEMAND

2021 was a record year for Yorkshire and the Humber. Take-up hit a massive 10.7m sq ft in 2021, up 27% year-on-year and 71% against the five-year average. Performance was underpinned by four major deals in excess of 500,000 sq ft, including Amazon's two massive build to suit deals of 2m sq ft at Wakefield Hub and Melton West Business Park. Overall, XL volume alone was a massive 7.4m, up 26% year-on-year.

While the XL segment propelled take-up, it was also a record year of activity, with 42 deals being 31% above the five-year average. Take-up in the large segment of 2.2m sq ft was up 70% on 2020 and driven predominantly by secondhand units (1.2m sq ft). In contrast, however, mid box take-up of 1.0m sq ft in 2021 was only in line with the annual average and down 15% on 2020. Notably, however, 600,000 sq ft of mid box take-up involved new or refurbished space, the highest volume since 2012.

SUPPLY

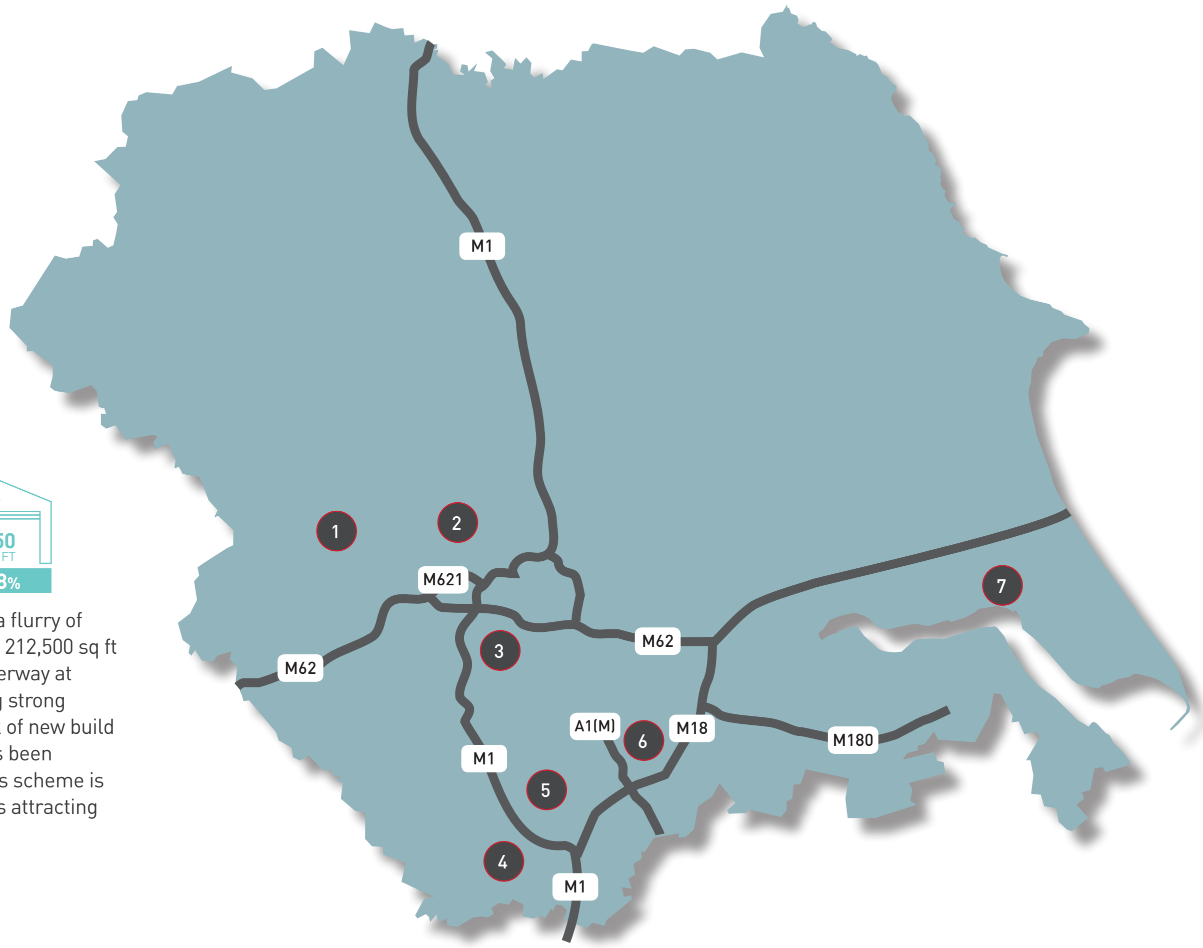
Phenomenal activity over the past year has weighed heavily on supply in the region. Availability fell by 35% during 2021 to 5.4m sq ft, its lowest level since 2016. Although availability fell in all segments, the largest reduction was in the XL range, which declined 40% over the course of 2021 to 2.1m sq ft. Overall supply in the region now equates to only 0.9 years of average annual take-up, down from 2.2 years in 2020. The mid box segment is under the least pressure in terms of supply, equating to 1.8 years of average take-up.

In spite of the sharp falls in supply, a record 1.5m sq ft is under construction across the region. This consists of only five schemes, however, the largest of which is Mammoth 602, G-Park, Doncaster. 2022 promises much in the pipeline, with 5.42 sq ft expected to come forward speculatively, including Firethorn Trust's 660,000 sq ft Sherburn 42 scheme at Sherburn in Elmet.

RENTS

Rents increased across the region's key markets in 2021, with rents for circa 50,000 sq ft unit rising by an average of 12% and 10% for prime and secondary space respectively. Among the largest movements were Hull, where prime rents grew 17% to £6.70 per sq ft, and Doncaster, where secondary rents increased by 14% to £6.20 per sq ft. The region has also seen a dramatic rise in land values over the past year, rising 87% to £1.4m per acre in Leeds and doubling in South Yorkshire to £1.3m per acre.

UNIT SIZE SQFT
PRIME RENT
PER SQ FT
YOY CHANGE %



1 BRADFORD

20K	50K	100K
£7.75 PER SQ FT	£6.75 PER SQ FT	£6.50 PER SQ FT
+15%	+13%	+8%

4th Industrial's Interchange 26 is set to see a flurry of activity in 2022, having funded and delivered 212,500 sq ft across three units. Construction is well underway at Tungsten's Super B and is already attracting strong interest prior to completion, such is the lack of new build stock in the region. Elsewhere, planning has been submitted for 2.8m sq ft in Cleckheaton. This scheme is reportedly linked with Amazon, although it is attracting strong contention from local residents.

2 LEEDS

20K	50K	100K
£8.00 PER SQ FT	£7.00 PER SQ FT	£6.50 PER SQ FT
+14%	+8%	+8%

Leeds has seen phenomenal activity with newly delivered space quickly snapped up at Total Park and Logic Leeds, both of which were recently traded for record NIYs of sub 3.75%. New development will come forward at Triangle 45, Premier Farnell and the Maritime Transport site, Stourton, which has set a new high for land values of circa £1.4m per acre. Elsewhere, PLP and Sterling Capitol are seeking consent for 1.1m sq ft at Topcliffe Farm, which promises to be Leeds' next major development if approved.

3 WAKEFIELD

20K	50K	100K
£8.00 PER SQ FT	£7.00 PER SQ FT	£6.50 PER SQ FT
+19%	+12%	+8%

Amazon stormed into Wakefield in 2021, behind four of seven deals above 50,000 sq ft. This included its massive 2m sq ft pre-let at Mountpark's Wakefield Hub, 515k sq ft at Panattoni's Wakefield 515 and 311k sq ft across two units at PLP's Silkwood Park. A two-unit scheme at Latitude has been sold to CBRE GI and will see much needed mid box stock delivered to the market, while there is more capacity for another wave of big box development at Wakefield Hub.

4 SHEFFIELD

20K	50K	100K
£8.00 PER SQ FT	£7.00 PER SQ FT	£6.50 PER SQ FT
+23%	+12%	+8%

Several schemes are coming through to ease the current supply shortage, including Phase 2 of PLP's Bessemer Park alongside Ergo Park and Catalyst, both of which are being forward-funded. Demand for new product is strong, with PLP's 346k sq ft unit at Smithywood letting up shortly after its delivery in Q1 2021. Headline rents continue to rise in line with Leeds, and are likely break through £7.00 per sq ft for big box units alongside a further upward escalation in land values in 2022.

5 ROTHERHAM

20K	50K	100K
£7.25 PER SQ FT	£6.75 PER SQ FT	£6.25 PER SQ FT
+16%	+13%	+9%

At Interchange Park, Panattoni is set to commence construction of a 630,000 sq ft unit, its largest spec build in the UK to date. While Rotherham has not traditionally been thought of as strong big box location, it is likely to prove increasingly attractive over the next 18 months, offering both a range of options at the larger end of the market and relative value compared with prime logistics locations.

6 DONCASTER

20K	50K	100K
£7.75 PER SQ FT	£6.75 PER SQ FT	£6.50 PER SQ FT
+19%	+13%	+13%

Trebor Developments made waves in Doncaster during 2021. Gateway 4 set a new rental tone while the developer also delivered speculative space at the Aero Centre, Doncaster Sheffield airport. Verdion's iPort scheme also enjoyed continued success in 2021, and there are now plans to speculatively deliver a further 680k sq ft throughout 2022. Extending to 602,000 sq ft, GLP's Mammoth 602, G-Park is available and is one of the UK's largest ready-to-occupy spec-built units.

7 HULL

20K	50K	100K
£7.00 PER SQ FT	£6.75 PER SQ FT	£6.25 PER SQ FT
+17%	+17%	+9%

Activity in the Hull market continues to be dominated by moves in the sub-100,000 sq ft space from more regionally-oriented occupiers. However, a striking exception in 2021 was at Wykeland Group's 61-acre plot at Melton West business park, where Amazon agreed to pre-let a massive 2m sq ft facility arranged over multiple storeys.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
WAKEFIELD	WAKEFIELD HUB	2021 Q2	2,000,000	PRE-LET (BUILD TO SUIT)	CONFIDENTIAL	AMAZON
KINGSTON UPON HULL	MELTON WEST BUSINESS PARK	2021 Q4	2,000,000	PRE-LET (BUILD TO SUIT)	CONFIDENTIAL	AMAZON
DONCASTER	UNIT 1 MULBERRY LOGISTICS PARK	2021 Q3	565,000	PRE-LET (BUILD TO SUIT)	CONFIDENTIAL	EDDIE STOBART
WAKEFIELD	515 CROSS POINT KNOTTINGLEY	2021 Q2	512,850	LET (NEW SPEC)	£5.75	AMAZON
DONCASTER	GATEWAY 4	2021 Q2	408,961	LET (NEW SPEC)	£5.95	GEODIS OBO AMAZON

Source for all data unless stated: LSH Research

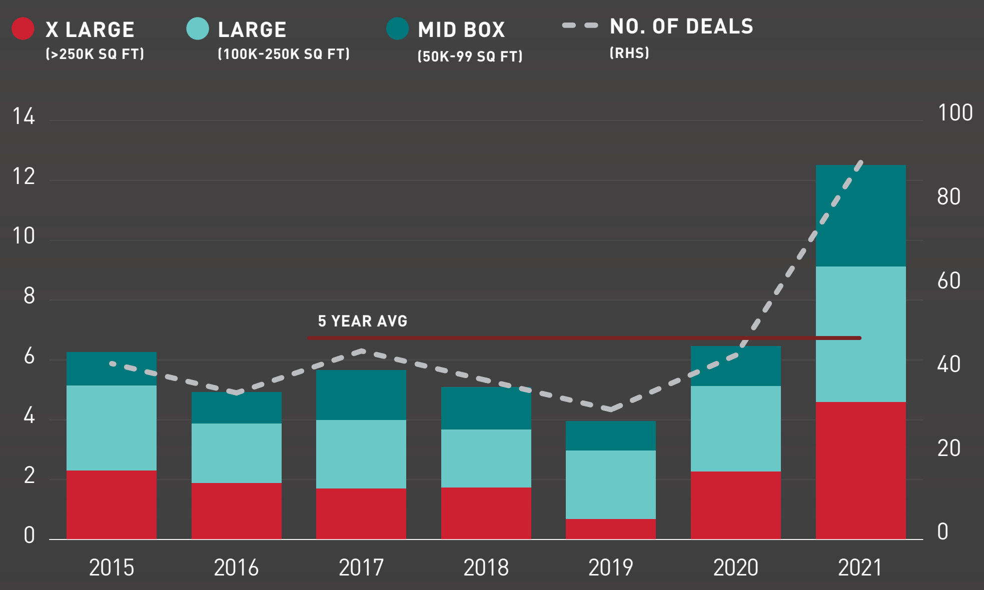
NORTH WEST

AT A GLANCE

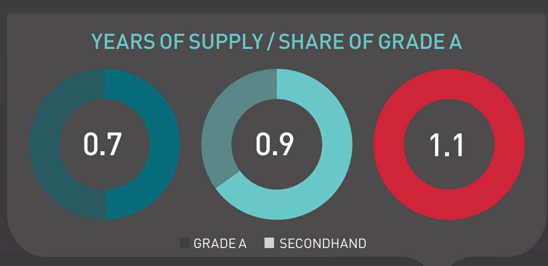
TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	VACANCY RATE	SPEC U/C SQ FT (NO. SCHEMES)
12.5m	+86%	6.2m	0.9	2.3%	3.8m (19)

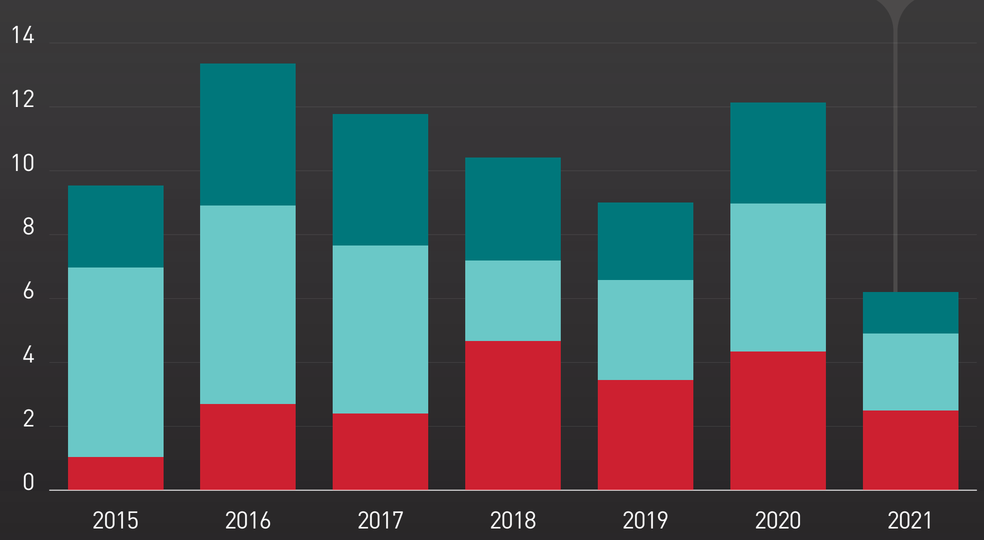
TAKE-UP DOUBLES, SUPPLY HALVES

TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)





DEMAND

Take-up in the North West was a colossal 12.5m sq ft in 2021, a huge record and close to double 2020's total. While all segments boasted a record year, XL performed best, with take-up of 4.6m sq ft more than twice the annual trend. Notably, design and build was less prominent for XL than usual, with the vast majority of take-up being for existing space, both new build and secondhand.

Mid box activity was similarly impressive. Take-up was 93% above trend and usurped the West Midlands as the most active mid box region for the first time on record, home to 20% of the UK total. While activity in the large segment was 'only' 69% above the annual trend, take-up was nevertheless a record 2.5m sq ft in 2021. In contrast with mid box, the delivery of new spec builds was key to driving activity, accounting for 55% of take-up in the segment.

SUPPLY

Despite considerable development activity, record take-up has put a huge dent into overall supply. Total availability across the North West fell by 49% during 2021, the sharpest percentage terms fall of any UK region, leaving total supply equivalent to 0.9 years of average take-up. Mid box is the tightest of the three segments, where record take-up in 2021 has left supply equivalent to only 0.7 years of average take-up, the lowest of any region in the UK for this segment.

Speculative development activity in the North West climbed to a record high of 3.8m sq ft at the end of 2021. Reflecting the pressure on existing built supply, space under construction accounts for 62% of the region's total availability, second only to the East Midlands as a proportion. Nineteen schemes were progressing speculatively at the end of 2021, with a broadly even number coming forward across the three segments. The region's largest active scheme is Firethorn's Link665, Ellesmere Port (654,255 sq ft).

RENTS

Prime rents moved upwards in three of the four key North West locations in 2020. For units of circa 50,000 sq ft, the strongest growth was seen in Liverpool, where prime rents increased by 12% to £7.50 per sq ft. The only location not to see growth in 2021 was Crewe, although this location was the region's strongest mover in 2020. At £8.25 per sq ft, headline rents in Manchester and Warrington continue to be the highest in the region, both of which saw growth of 10% during 2021.

UNIT SIZE SQFT
PRIME RENT
PER SQ FT
YOY CHANGE %

1 LIVERPOOL

UNIT SIZE SQFT	20K	50K	100K
PRIME RENT PER SQ FT	£7.50	£7.25	£6.75
YOY CHANGE %	+11%	+12%	+8%

Merseyside continues to be a strong location for industrial and logistics, with areas that were previously deemed secondary increasingly capturing excess demand. Ellesmere Port is at the epicentre of this trend, with PLP Ellesmere Port (229,160 sq ft) generating strong interest and reportedly close to going under offer. Also in Ellesmere Port, Firethorn Trust is speculatively developing the North West's largest ever single warehouse, comprising 655,086 sq ft at Link Logistics Park; while Arrow Capital will develop 278,921 sq ft at Aviator Park. Elsewhere, construction has commenced at Symmetry Park Merseyside in Knowsley on a 161,900 sq ft warehouse, with a further 700,000 sq ft available on a design and build basis.

2 WARRINGTON

UNIT SIZE SQFT	20K	50K	100K
PRIME RENT PER SQ FT	£8.50	£8.25	£7.75
YOY CHANGE %	+10%	+10%	+12%

Warrington's status as the North West's prime industrial and logistics location remained untouched throughout 2021. Phase Two of Mountpark Warrington Omega is now fully let with a new rental tone for big box units being set at £7.15 per sq ft, although it is rumoured that rents will soon surpass £7.75 per sq ft. Mileway achieved success in the mid box market with the letting of WS50 at Appleton Thorn for £7.50 per sq ft. Demand remains so high in the area that Tungsten's Super W (246,136 sq ft) is the only immediately available warehouse above 100,000 sq ft.

3 MANCHESTER

UNIT SIZE SQFT	20K	50K	100K
PRIME RENT PER SQ FT	£8.50	£8.25	£7.75
YOY CHANGE %	+10%	+10%	+15%

Rising land values and continually strong demand pushed the market to new highs in 2021. A key deal demonstrating this trend was the sale of the Maritime Transport site in Trafford Park to Chancerygate for a reported £1.95m per acre in Q3. Key leasing deals included The Fragrance Shop's occupation of Metro 190 in Trafford Park at £7.25 per sq ft. Evidence that mid box rents have broken the £8.00 per sq ft barrier is expected to be further supported once Argos (changing this because the graphic would suggest that rents are already above £8) completes its acquisition of Guinness Point, Trafford Park.

4 CREWE

UNIT SIZE SQFT	20K	50K	100K
PRIME RENT PER SQ FT	£6.75	£6.50	£6.50
YOY CHANGE %	0%	0%	0%

Panattoni was rewarded for speculatively developing Crewe 305, as it was let to AO in Q3 at £6.35 per sq ft. Meanwhile, the successful letting of PLP Crewe Phase 1 to Brightstar in 2020 encouraged the developer to press on with the speculative development of a single 456,735 sq ft warehouse as Phase 2, which will be available at the end of 2023. Ergo has started construction on Ergo Park Middlewich, where 222,743 sq ft will be ready for occupation in late 2023.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
KNOWSLEY	PLP KNOWSLEY	2021 Q2	650,000	PRE-LET (BUILD TO SUIT)	NDA	AMAZON
MANCHESTER	UNIT 2 ICON, MANCHESTER AIRPORT	2021 Q2	459,000	LET (NEW SPEC)	NDA	THE HUT GROUP
CREWE	CREWE 305	2021 Q3	305,404	LET (NEW SPEC)	£6.35	AO
WARRINGTON	WA257*	2021 Q4	257,319	FREEHOLD PURCHASE (SECONDHAND)	£80.00	MARKS & SPENCER
MANCHESTER	METRO 190, GRAND CENTRAL	2021 Q4	190,660	LET (NEW SPEC)	£7.25	THE FRAGRANCE SHOP

LSH act for the landlord*

Source for all data unless stated: LSH Research

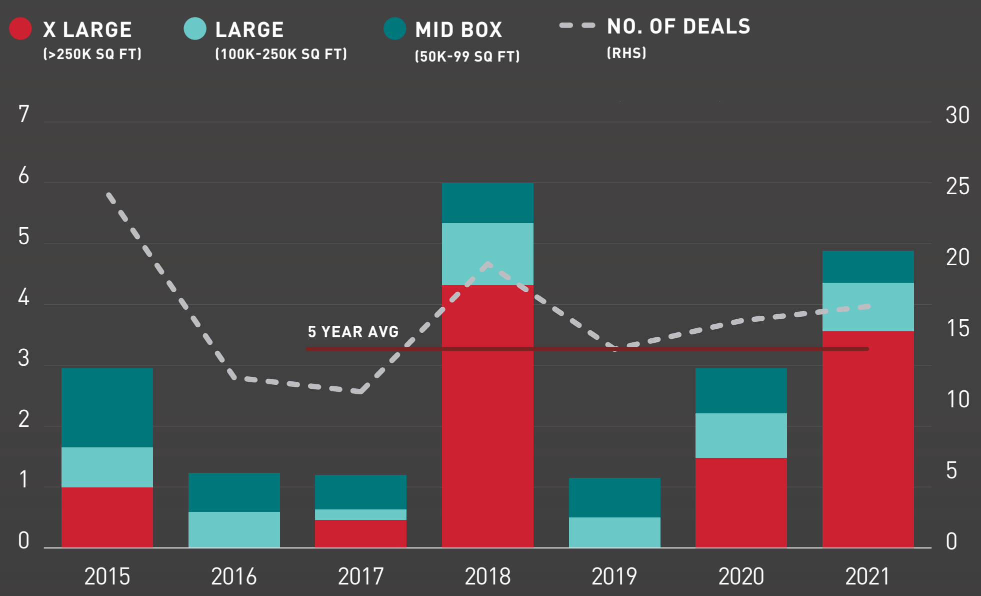
NORTH EAST

AT A GLANCE

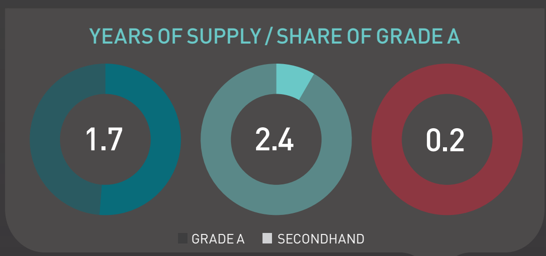
TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	VACANCY RATE	SPEC U/C SQ FT (NO. SCHEMES)
4.9m	+51%	2.9m	0.9	3.5%	383k (5)

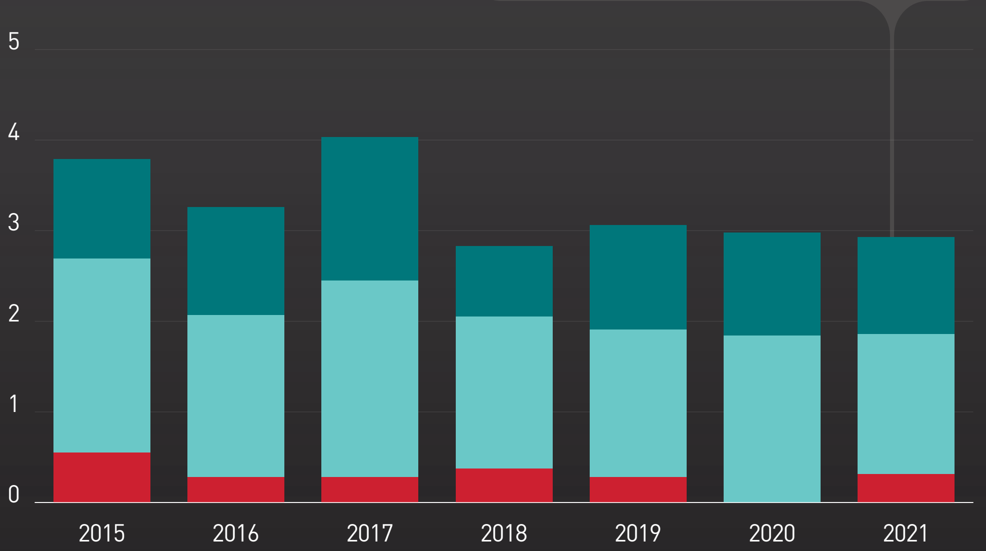
GIGAPLANT POWERS TAKE-UP

TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)





DEMAND

Take-up in the North East hit an impressive 4.9m sq ft in 2021, up 65% on 2020 and the second strongest outturn on record. However, take-up was skewed by two major build to suit deals which together fuelled a record 3.6m sq ft of take-up in the XL unit segment. These comprised Amazon's 2.0m sq ft freehold acquisition of Wynard Business Park, Stockton, which was the region's largest ever deal and the UK's largest deal in 2021, and British Volt's commitment to build a 1.6m sq ft 'gigaplant' at the former Blyth power station site, Northumberland.

2021 brought a total of 17 deals in excess of 50,000 sq ft, up from 16 in 2020. Large unit take-up was up 9% year-on-year to 800,000 sq ft, while mid box unit take-up was down 28% to 530,000 sq ft. Reflecting a lack of existing built grade A stock, large and mid box take-up was dominated by secondhand space, the sole exception being CCN's lease of a 56,000 sq ft refurbishment in Durham.

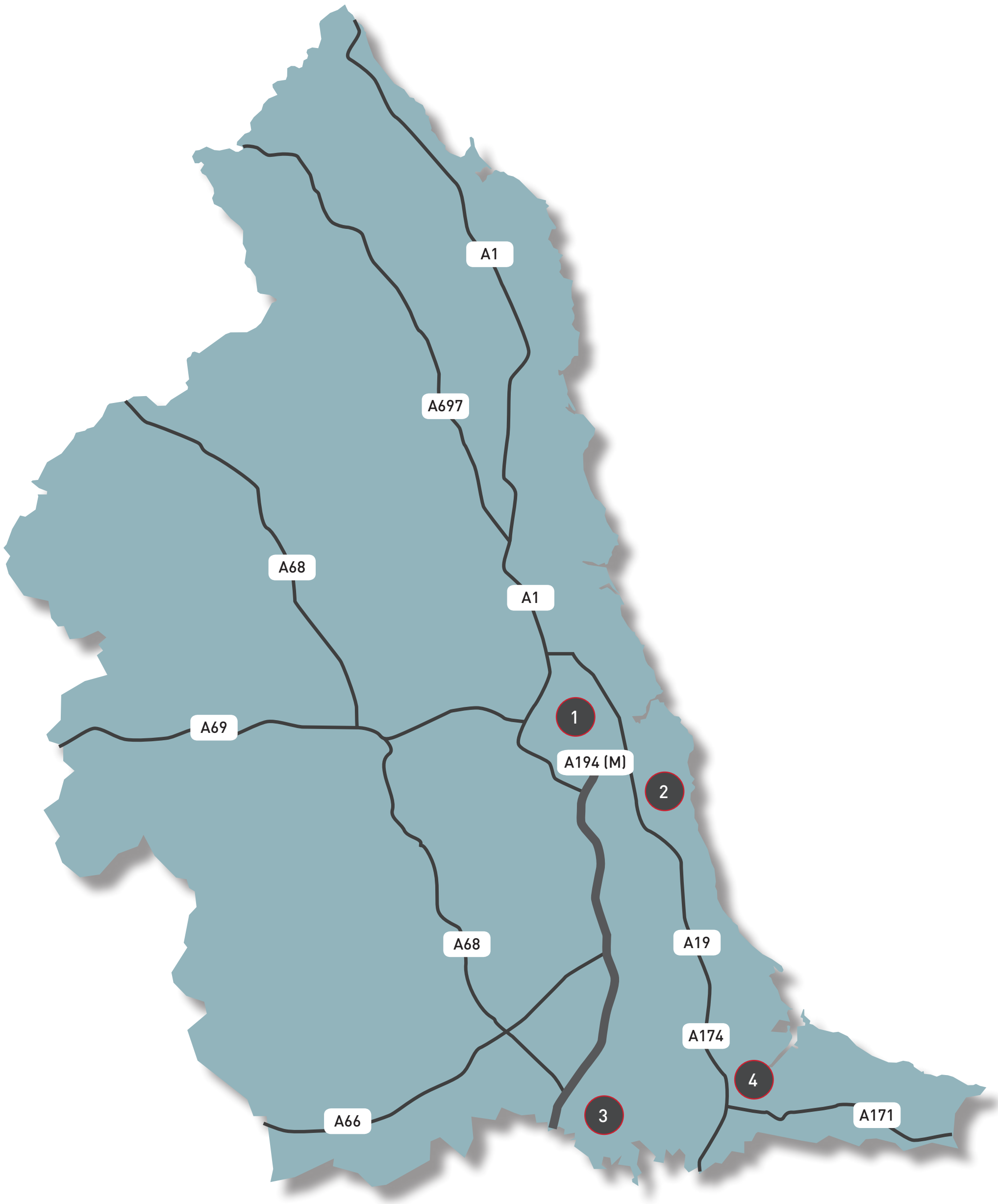
SUPPLY

Availability remained broadly stable during 2021, falling 1% to 2.9m sq ft. While supply in the large unit segment was down 15% to 1.5m sq ft, supply here is relatively ample compared with the UK position, being equivalent to 2.4 years of average take-up, albeit dominated by secondhand space.

For the first time in over a decade, spec development is underway at scale in the North East. At the end of 2021 there were five units under construction across two separate schemes clustered around Washington, totalling 338,000 sq ft. Positively, there are a further five units across two schemes set to commence in 2022 in Sunderland and Durham which will deliver circa 500,000 sq ft. The largest of these, Integra 61, will ultimately offer over 1m sq ft of space and represents the largest logistics development in the North East for a generation.

RENTS

The more positive position on development is beginning to fuel rental growth, but the pace lags other parts of the UK. For units circa 50,000 sq ft, prime rents in the key markets of the North East increased by 6% on average during 2021, the lowest growth rate along with the South West. Growth was led by Sunderland/Washington, where prime rents increased by 9% to £6.25 per sq ft. Average growth for secondary space was also 6% for the key markets in 2021, the lowest of any region.



UNIT SIZE SQFT
PRIME RENT
PER SQ FT
YOY CHANGE %

1 NEWCASTLE-UPON-TYNE / GATESHEAD

20K	50K	100K
£7.50 PER SQ FT	£6.75 PER SQ FT	£6.25 PER SQ FT
+3%	+4%	+4%

On most estates, only basic secondary multi-let stock remains in the face of relentless demand. For the first time in many years, this is truly a landlords' market. Lease terms are hardening, rents are rising and incentives dwindling, even on older established secondary estates. Values and confidence are now at an all-time high, which will support much-needed new development in the area. However, sentiment is being tempered by rising construction costs and, until these stabilise, developments may well be paused.

2 SUNDERLAND/WASHINGTON

20K	50K	100K
£6.75 PER SQ FT	£6.25 PER SQ FT	£6.00 PER SQ FT
+8%	+9%	+9%

To meet strong demand, Sunderland City Council/L&G have commenced construction at Hillthorn Business Park. Comprising ten units ranging from 21,550 to 124,250 sq ft, this is the largest speculative industrial development in the North East region for a generation. Elsewhere, four units of up to 68,250 sq ft are under construction at the neighbouring Turbine Business Park. Following the recently announced Envision AESC Gigafactory at IAMP nearby, 2022 is set to deliver record rents, in the process helping to underpin further development going forward.

3 DARLINGTON

20K
£5.00 PER SQ FT
0%

With construction costs rising, developers are trying to find value in existing stock that offers potential for break up. The largest deal was the acquisition of the 370,000 sq ft former Cleveland Bridge premises by the Adhan Group, for refurbishment and sub-division into smaller units, which will bring much-needed space to the market. Similarly, at Newton Aycliffe, the 313,000 sq ft Formica premises has attracted significant interest, with plans to undertake refurbishment and repositioning of the site after the sale completes.

4 MIDDLESBOROUGH/ STOCKTON ON TEES

20K
£6.00 PER SQ FT
0%

With phase 1 of the TeesAmp scheme, Middlesbrough now effectively full, the commencement of phase 2 is required, and attention is now turning to the development potential offered by area's status as a Freeport. At Teesworks, the market awaits commencement of GE Renewable Energy's new offshore wind turbine manufacturing facility and BP's planned green hydrogen plant. In Stockton, Amazon's 2m sq ft facility is taking shape at Wynyard Park with other significant land deals in the pipeline for distribution operators.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
STOCKTON	WYNYARD BUSINESS PARK	2021 Q2	2,000,000	LAND PURCHASE (BUILD TO SUIT)	CONFIDENTIAL	AMAZON
BLYTH	FORMER BLYTH POWER STATION SITE	2021 Q3	1,556,550	LAND PURCHASE (BUILD TO SUIT)	CONFIDENTIAL	BRITISHVOLT
HARTLEPOOL	GREENLAND ROAD, HARTLEPOOL DOCK	2021 Q3	135,851	PRE-LET (BUILD TO SUIT)	CONFIDENTIAL	STRABAG UK LTD
SEAHAM	UNITS 7/8 FOXCOVER DISTRIBUTION PARK	2021 Q4	132,887	LET (SECONDHAND)	£5.00	PANTHER LOGISTICS
SUNDERLAND	CAMBERWELL WAY, DOXFORD INTERNATIONAL	2021 Q2	102,444	LET (SECONDHAND)	£4.50	FRESH FREIGHT LIMITED

Source for all data unless stated: LSH Research

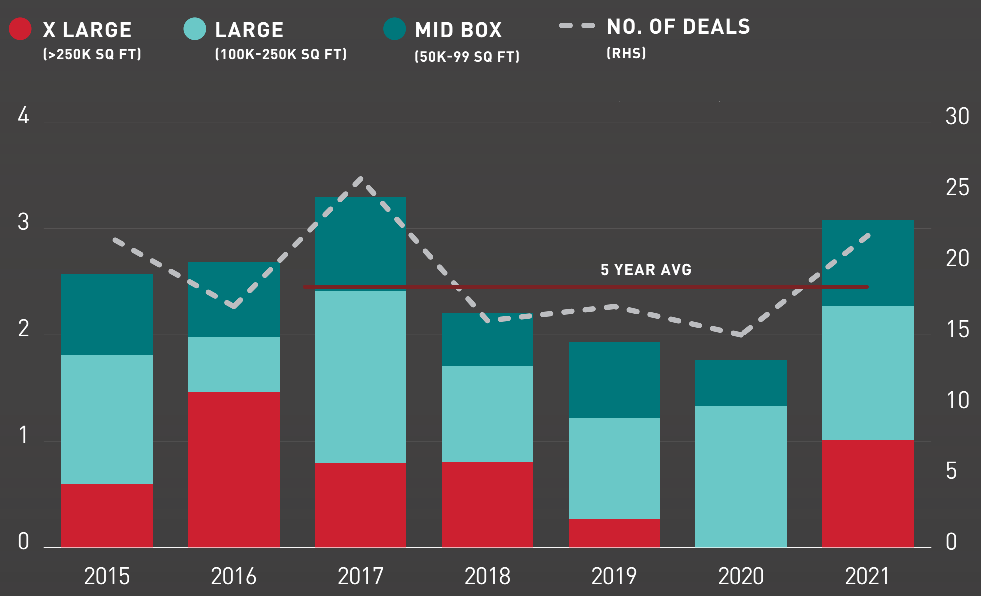
WALES

AT A GLANCE

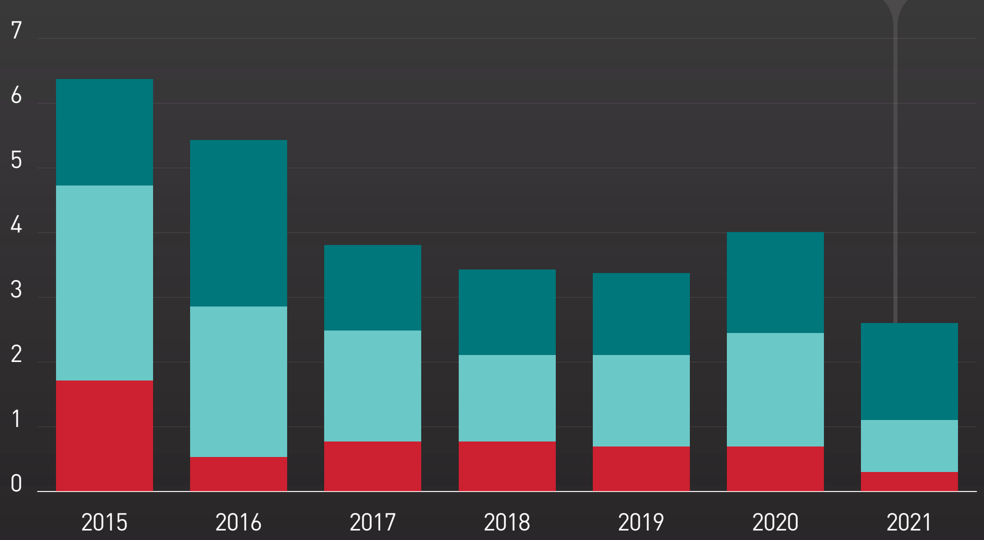
TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	VACANCY RATE	SPEC U/C SQ FT (NO. SCHEMES)
3.1m	+26%	2.6m	1.1	3.0%	0

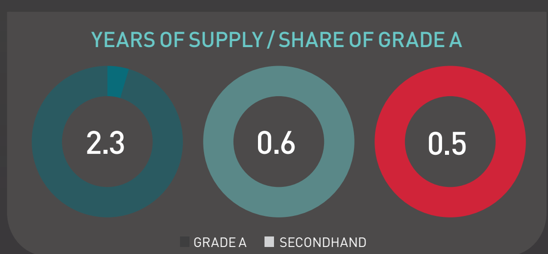
LIFT-OFF FOR RENTS

TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)





DEMAND

Take-up in Wales bounced back in 2021 after a subdued year in 2020, rebounding by 75% to 3.1m sq ft. However, one third of 2021's total came from a single huge deal, with an undisclosed data centre occupier acquiring 1.0m sq ft at Imperial One, Newport. That said, the Welsh market was nonetheless relatively busy in 2021, with 22 deals compared with 15 in 2020 and the most since 2017.

The mid box and large segments also performed well in 2021, with take-up 22% and 4% above the five-year averages respectively. With very little new space coming to the market, secondhand units accounted for 95% total take-up. Notably, the only speculative development that has come forward proved successful, with St Modwen Park in Newport securing lettings on all units, including Genpower's lease of 101,252 sq ft. Demand continues to largely emanate from the manufacturing sector which accounted for 43% of take-up, the highest proportion of any UK region.

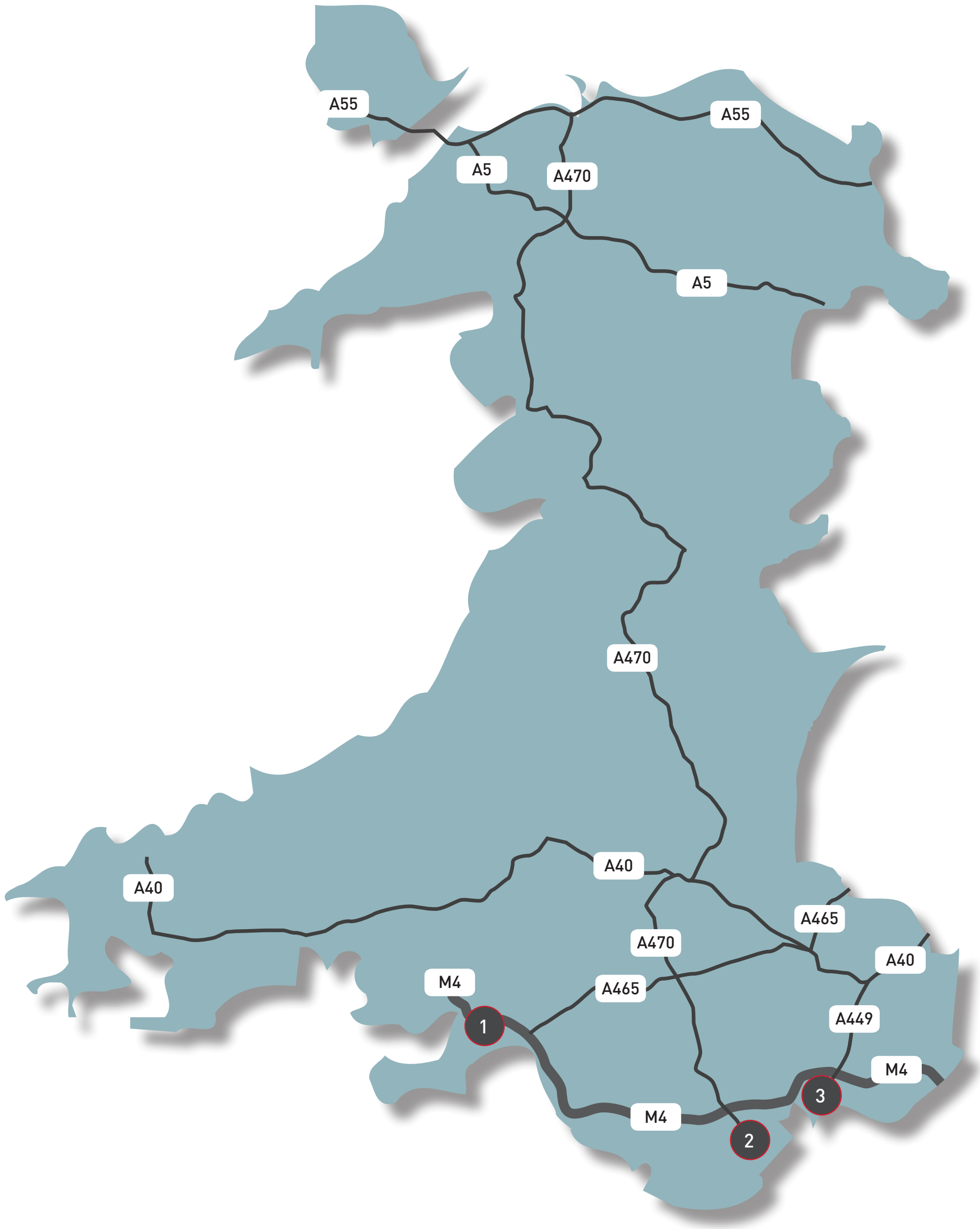
SUPPLY

Following an uptick in supply in 2020, supply retreated again in 2021, falling 36% year-on-year to a new record low of 2.6m sq ft. Of the three segments, supply is tightest in the XL and large segments, equivalent to 0.5 and 0.6 years of average take-up respectively. Mid box supply is relatively ample, however, equivalent to 2.3 years of average take-up.

There remains an acute shortage of grade A space across Wales, making up only 14% of total supply. Moreover, this is predominantly accounted for by 290,000 sq ft at Delta 290, Newhouse Farm Industrial Estate, Chepstow, which is undergoing refurbishment. Following the success of phase 1 at St Modwen Park Newport, phase 2 is expected to bring circa 80,000 sq ft to the market in Q1 2023. Elsewhere, Cubex is planning to deliver 60,000 sq ft at Wentloog Avenue in Cardiff, albeit both the aforementioned developments comprise sub-50,000 sq ft units.

RENTS

Having been static over the previous two years, rents in Wales surged in 2021. For units of circa 50,000 sq ft, prime rents increased by 26% year-on-year on average across the region's key markets. This was led by Newport where prime rents increased by 44% to £6.50 per sq ft, followed by Cardiff with a growth of 36% to £7.50 per sq ft. Meanwhile, Swansea's prime rent remained stable at £5.25 per sq ft. Secondary rents also witnessed strong growth in 2021 across Wales, increasing by 20% year-on-year, with all three key markets achieving growth.



UNIT SIZE SQFT
PRIME RENT PER SQ FT
YOY CHANGE %

1 SWANSEA

20K	50K	100K
£5.50 PER SQ FT	£5.25 PER SQ FT	£4.50 PER SQ FT
+5%	0%	0%

Swansea has a very similar profile to Cardiff, albeit there is limited promise of new development in the area. The largest letting in the region this year involved a 77,538 sq ft unit at Port Talbot at a headline rent of £3.50 per sq ft. There has however been a large amount of activity in the sub 10,000 sq ft unit category and occupiers here are increasingly looking at quality of space over cost of space.

2 CARDIFF

20K	50K	100K
£8.00 PER SQ FT	£7.50 PER SQ FT	£7.00 PER SQ FT
+23%	+36%	+40%

Take up in Cardiff was steady throughout 2021, with large amounts of activity in the 20,000 sq ft to 40,000 sq ft size range. Notably, the 30,979 sq ft of refurbished space at Trident Park commanded comparable rents to the similarly-sized new build at St Modwen Park, Newport. Cubex is speculatively delivering a 60,000 sq ft scheme comprising smaller units in Wentloog Avenue which will bring much-needed new stock into the Cardiff market.

3 NEWPORT

20K	50K	100K
£6.50 PER SQ FT	£6.50 PER SQ FT	£6.25 PER SQ FT
+18%	+44%	+28%

Totalling over 1m sq ft, the sale of Imperial One for Microsoft's planned data centre was Wales's largest deal for many years and by itself accounted for almost a quarter of Wales's take-up in 2021. At St Modwen Park, the latest of the three spec built units was let to Genpower (101,252 sq ft), with a rent of £6.25 per sq ft cementing a huge step change in tone for the market in 2021. Works are underway to develop a further 80,000 sq ft unit on the site with delivery planned in Q1 2023, with a quoting rent of £7.75 per sq ft.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
NEWPORT	IMPERIAL ONE, IMPERIAL PARK NEWPORT	2021 Q3	1,011,569	FREEHOLD PURCHASE (SECONDHAND)	£34.60	MICROSOFT
EBBW VALE	RASSU INDUSTRIAL ESTATE	2021 Q1	172,000	FREEHOLD PURCHASE (SECONDHAND)	£27.65	WELSH GOVERNMENT
CARDIFF	FOREST FARM INDUSTRIAL ESTATE	2021 Q2	119,074	LET (SECONDHAND)	£5.50	CYTIVA
CWMBRAN	GRANGE ROAD	2021 Q3	109,200	LET (SECONDHAND REFURB)	£6.25	CRANE TECHNOLOGIES
NEWPORT	MODWEN PARK NEWPORT	2021 Q4	100,000	LET (NEW SPEC)	£6.25	GENPOWER

Source for all data unless stated: LSH Research

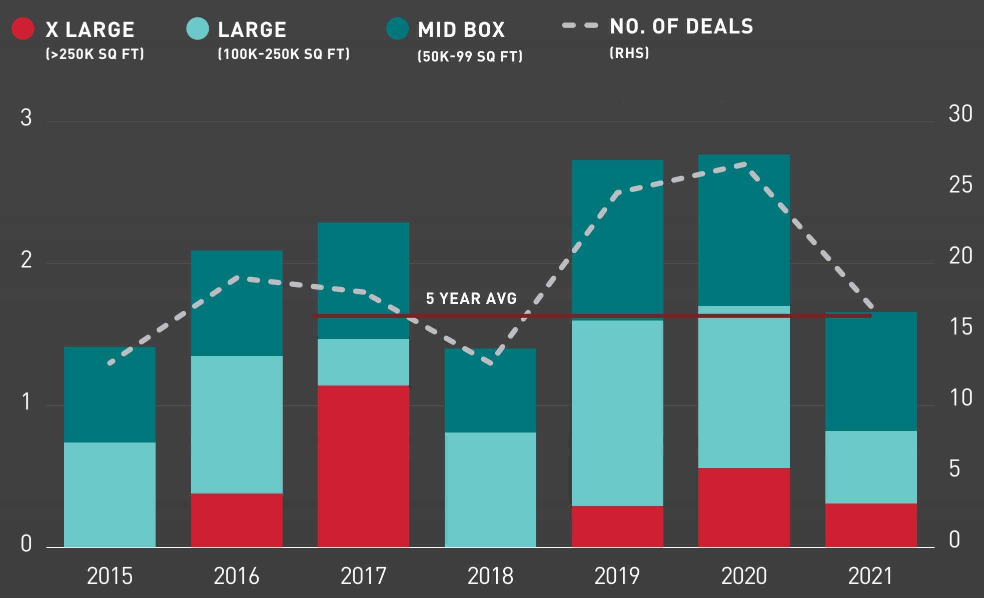
SCOTLAND

AT A GLANCE

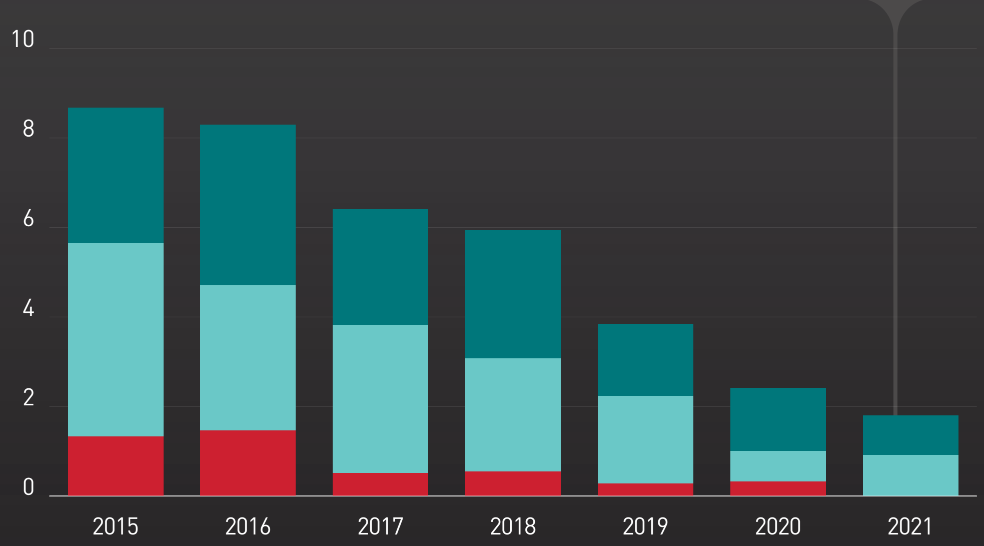
TAKE-UP (SQ FT)	TAKE-UP VS 5-YEAR AVG	SUPPLY (SQ FT)	YEARS OF SUPPLY	VACANCY RATE	SPEC U/C SQ FT (NO. SCHEMES)
1.7m	-23%	1.8m	0.8	1.7%	126k (1)

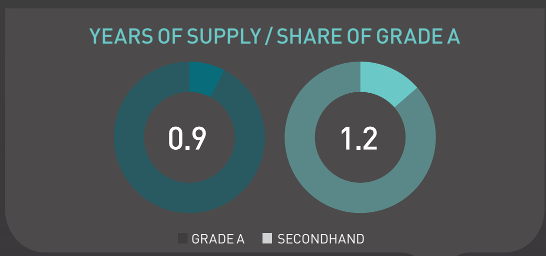
OCADO DELIVERS AMID SUPPLY CRUNCH

TAKE UP (M SQ FT)



AVAILABILITY BY SIZE (M SQ FT)





DEMAND

Scotland was the weakest performing UK region relative to trend in 2021. While other parts of the UK saw spectacular levels of activity, Scotland saw relatively subdued take-up of 1.7m sq ft, 23% below the five-year annual average. Take-up was also skewed by the country's largest deal since 2017, Ocado's 312,153 sq ft build to suit commitment at Eurocentral, Glasgow. This marks the online grocery retailer's first operation north of the border.

An acute lack of supply is certainly an influencing factor behind 2021's tepid activity. An absence of speculative development in Scotland over the last decade continues to be clearly reflected in activity, with secondhand space making up 78% of take-up in 2021. The largest deal for existing built space was GRS Global's 200,000 sq ft lease at Unit 4 M8 Business Park, Shotts. Among the segments, mid box performed best relative to trend in 2021, with take-up of 844,043 sq ft only 5% below the five-year average.

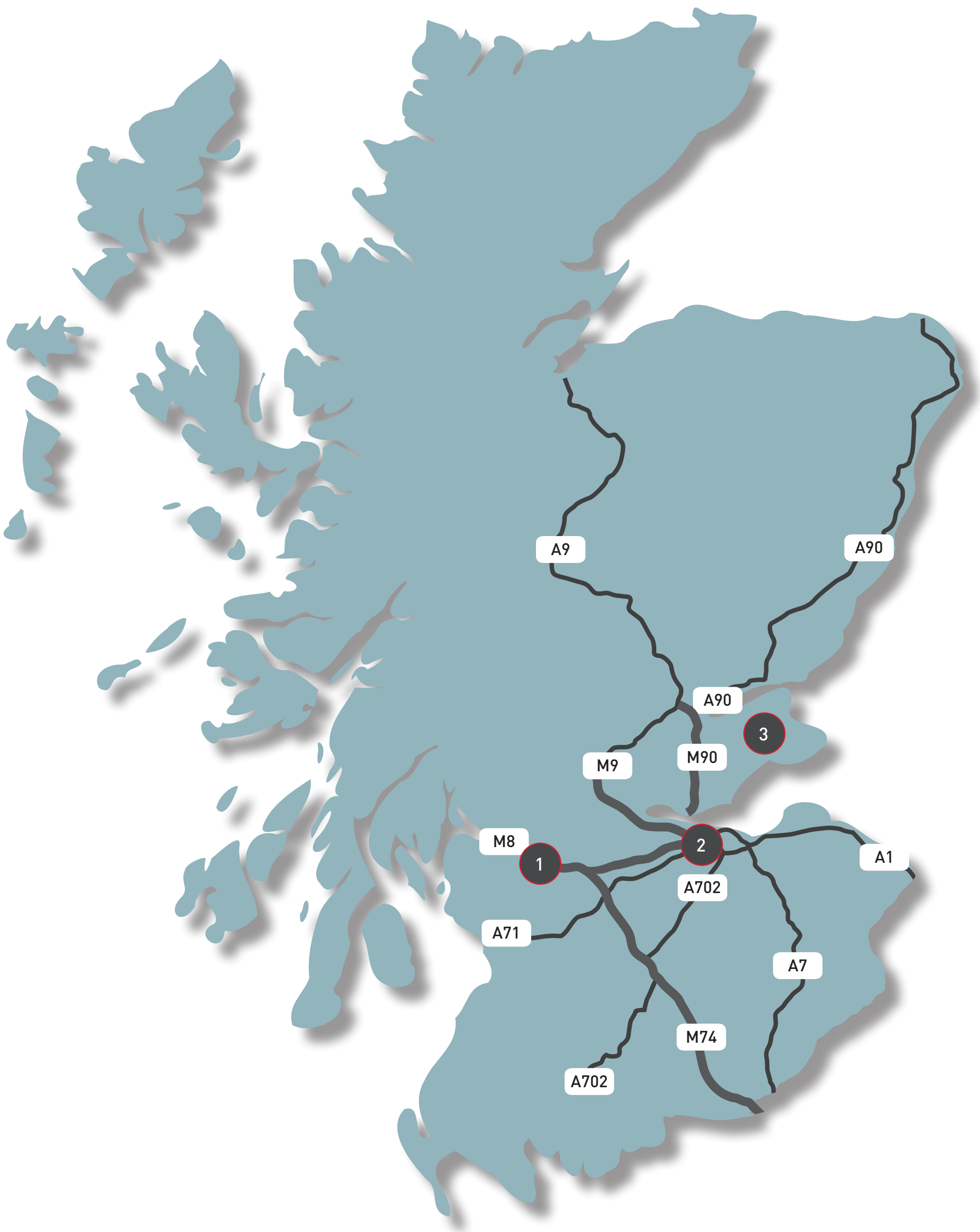
SUPPLY

Total supply in Scotland contracted for a twelfth consecutive year, falling by 28% during 2021 to stand at only 1.8m sq ft. This is equivalent to only 0.8 years of average annual take-up, making Scotland the second most tightly supplied part of the UK after the East Midlands. The supply shortage is most acute in the XL segment where there are currently zero units available, while supply in the large segment is the most abundant, equating to 1.2 years of average take-up and in line with the wider UK position.

While the region has long-suffered from an aversion to speculative development, improving latent demand and rental growth are starting to turn the tables. Notably, in late 2021, Knight Property Group commenced construction of Belgrave Logistics Park in Glasgow, the first large format speculative development in Scotland for 14 years. The five-unit scheme on the former Devro manufacturing facility site includes one unit of 125,665 sq ft and is due for completion in Q2 2022.

RENTS

Having been stable over the past few years, for units of circa 50,000 sq ft, prime rents increased by an average of 5% in Scotland during 2021. The strongest growth was seen in Glasgow, where prime rents increased by 7% to circa £7.50 per sq ft. Edinburgh's prime rent also increased to circa £7.50 per sq ft, albeit from a higher level, with growth of 3% year-on-year.



UNIT SIZE SQFT
PRIME RENT
PER SQ FT
YOY CHANGE %

1 GLASGOW/WEST OF SCOTLAND

20K — £8.50 PER SQ FT — +10%
50K — £7.50 PER SQ FT — +7%
100K — £6.50 PER SQ FT — +4%

Take-up was boosted by Ocado's huge 312,153 sq ft build to suit commitment at Eurocentral. Meanwhile, Tritax Symmetry has submitted a detailed planning application for a 500,000 sq ft build to suit unit at Nova Business Park, which is pre-let to HarperCollins. The publishing firm plans to move to this property on the expiry of its current lease at Bishopbriggs in 2025. Speculative development has also returned to the Glasgow market, with Knight Property Group commencing the construction of Belgrave Logistics Park in Belshill, comprising five units of 18,940-125,665 sq ft due for completion in Q2 2022.

2 EDINBURGH/LOTHIAN

20K — £10.00 PER SQ FT — +11%
50K — £8.00 PER SQ FT — +10%
100K — £7.00 PER SQ FT — +17%

A lack of availability is restricting leasing activity, but there is strong latent demand in the market. Only a handful of large-scale transactions were completed in 2021, including whisky supplier Aceo's acquisition of 122,892 sq ft at 5 Royston Road, Deans Industrial Estate, Livingston. In addition, Barrett Steel took 59,114 sq ft at Newbridge Industrial Estate. There is an urgent need for new speculative development, but high build costs have made it difficult for developers to bring schemes forward. However, with the supply/demand imbalance putting continued upward pressure on rents, the case for new spec development is becoming increasingly persuasive.

3 FIFE

20K — £6.75 PER SQ FT — +4%
50K — £5.75 PER SQ FT — +5%

Occupier demand continues to be mainly focused on sub-50,000 sq ft units. The largest deals of 2021 were both in Glenrothes; with Yes Recycling taking 66,456 sq ft at Whitehill Industrial Estate, and KKR Ltd acquiring at 66,982 sq ft at Eastfield Industrial Estate. Meanwhile, a major new distribution hub is planned by Scarborough Muir Group at Queensferry One in Rosyth, on a 120-acre site next to the Queensferry Crossing and M90 motorway. The masterplan for this mixed-use project was revised in 2021 to primarily focus on high-specification industrial and logistics space.

KEY DEALS

TOWN	BUILDING	DATE	SIZE (SQ FT)	DEAL TYPE	RENT/SALE PRICE (PER SQ FT)	OCCUPIER
GLASGOW	EUROCENTRAL	2021 Q4	312,153	LAND PURCHASE (BUILD TO SUIT)	CONFIDENTIAL	OCADO
SHOTTS	UNIT 4 JUNCTION 5 M8 BUSINESS PARK	2021 Q2	200,000	LET (SECONDHAND)	£1.70	GRS GLOBAL
LINLITHGOW	BLACKNESS ROAD	2021 Q1	186,523	LET (SECONDHAND)	£3.00	MITSUBISHI ELECTRIC AIR CONDITIONING
LIVINGSTON	5 ROYSTON ROAD, DEANS INDUSTRIAL ESTATE	2021 Q1	122,892	LET (SECONDHAND)	CONFIDENTIAL	ACEO LTD
GLASGOW	UNIT 2-20 NAPIER PLACE	2021 Q4	68,854	LET (SECONDHAND)	£5.00	ROYAL MAIL

Source for all data unless stated: LSH Research

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