CLUTTONS

UK industrial market monitor

Quarter four – 2020

Cluttons market monitors track investment and occupier activity across the UK office, retail and industrial sectors. This edition focuses on the industrial market in London & the South East and, in the Rest of the UK, Birmingham, Coventry, Leeds, Manchester, Northampton and the West Midlands. We hope you find it informative.

In this report

SUMMARY OF FINDINGS	IMPLICATIONS
Industrial take-up across London, the South East and rest of the UK's regional markets has been declining quarter on quarter since the middle of 2017. Strong growth in rental values suggests that this is the result of limited availability particularly of new stock. Despite the headwinds and uncertainty created by the pandemic induced economic slump there are encouraging signs of increased activity in Q3 and Q4.	Before the pandemic, the growth in e-commerce was driving the demand from operators for fulfilment centres and last mile logistics. Lockdown has accelerated the growth of e-commerce. If, as seems likely, internet sales continue at heightened levels after lockdown restrictions are eased, demand for suitable warehouse space must increase further.
Availability has been on an increasing trend across all UK industrial markets but is not excessively above average historic levels. High levels of construction activity are evident across all markets; but 50% or more of the space being built is pre-let.	Availability rates have been increasing but the numbers remain indicative of a tight occupational market albeit one that is easing. The success developers are having securing commitments from occupiers suggests that operators are swapping older space for more efficient new premises.
Rental values continue to increase in each submarket. Inner and Outer London command a rental premium over the rest of the South East; rental growth had been relatively subdued elsewhere following the Global Financial Crisis - but this has not been the case since 2015.	Inner London rents have grown at annualised rate of 10% over the last five years. Rents inside and outside the M25 are up by 6% a year over the same period. Birmingham and Coventry rents have grown 5% a year since 2015 and Leeds rental values are by the annualised equivalent of 8% a year.
In the short term nervous sentiment surrounding the effects on the economy of the pandemic lockdown led to weak liquidity in industrial investment markets in Q2 and Q3 2020. Transaction levels, however, grew back strongly in Q4. In the longer term transaction levels might be held back by an inability to source suitable opportunities leading to further yield compression.	Strong levels of rental value growth have tempted investors to put ever increasing amounts of money into the sector. Yields have hardened and capital values have grown by 5% a year in the UK's regions and 10% a year in London since the end of 2015.
Strong rebounds in transaction levels and liquidity translated into outstanding levels of capital growth in the final quarter of the year. Industrial yields are now lower than both offices and retail. As a result of recent strong capital growth, the industrial sector is now at least 30% of the UK's institutional commercial real estate market.	Funds and REITs that have previously shied away from "sheds" are now aggressively seeking to increase their exposure. We expect strong rental growth and hardening yields to continue. But as the element of income return produced diminishes performance from industrial assets will eventually become more volatile.

Demand for industrial and warehouse space is driven by the economic performance of the retail, logistics and manufacturing sectors. At present, economic output in these sectors is below pre-pandemic levels. But the Government has announced its road map to lifting restrictions, which means an end to the third national lockdown is in sight—this should release a strong economic recovery.

In December, when lockdown restrictions were eased for Christmas, retail sector output grew by 2% and logistics sector output grew by 3%. But, for each of these sectors, output remains below pre-pandemic levels. Despite the heightened contribution from online, retail output is 1% below February levels and logistics is 10% lower.

February's flash IHS/Markit PMI survey[1] detected only a marginal fall in manufacturing output over the month. This contrasts with a sharp reduction in January at the start of the third national lockdown. Manufacturing companies cite severe supply chain disruptions as a factor holding back production volumes—this is attributed to international shipping delays, strong worldwide demand for raw materials and Brexit-related trade frictions.

On 22 February the Government announced its road map to lifting the third, and it is hoped final, national lockdown. This means non-essential shops could open from 12 April, and pubs and restaurants could open from 17 May. Overseas travel may be back on the agenda before autumn, and the whole adult population could be vaccinated by the end of July. The Bank of England's Andy Haldane said the economy was about to turn "a decisive corner with enormous amounts of pent-up financial energy waiting to be released like a coiled spring".

SEGRO, the UK's largest REIT by market capitalisation, accompanied its end year results with some pertinent comments; the REIT affirmed its belief that rental growth would continue to be driven by increased occupier demand and a shortage of modern warehouse space—particularly in urban markets and those located inside or on the edge of cities. Furthermore, e-commerce levels would not retreat markedly post-pandemic because:

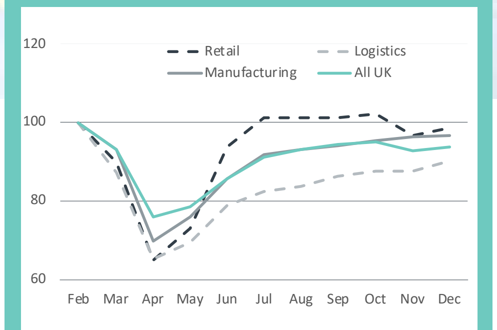
"there has been a step-change in consumer behaviour. Some of the factors that were considered as barriers to increased levels of online sales penetration (for example concerns about the quality of food bought online and reluctance to share financial information over the internet) have been overcome and habits have potentially changed irrevocably."

[1] PMI data are compiled by IHS/Markit for more than 40 economies worldwide, including the UK. Each national PMI dataset is compiled from questionnaire responses from a survey panel of senior purchasing executives (or similar) at around 400 companies. Variables include employment, prices, new orders, and future output. For each variable, panel members are asked to report an increase, decrease or no change compared with the previous month, and to provide reasons for any changes.

-10%

Logistics sector output is 10% below pre-pandemic levels. Despite a heightened contribution from online, retail output is down 1%.

Output by sector 2020, UK



Source: Office for National Statistics

SEGRO also sought to burnish its Environmental, Social and Governance (ESG) credentials by committing to be net-carbon neutral by 2030, driven by changes in development activity and the operation of existing buildings.

The EU-UK Trade and Cooperation Agreement finally completed at the end of Q4. It is nominally a free trade agreement insofar as, subject to rules of origin, goods are not subject to any tariffs or quotas. Non-tariff barriers in the form of customs checks and time consuming paperwork are, however, formidable. Last quarter, we speculated about EU based businesses that previously supplied goods to the UK from the mainland acquiring additional premises in the UK. Additionally, it is now clear that the increased bureaucracy and higher transport costs have necessitated businesses closing UK distribution facilities and servicing EU clients from inside the EU.

Traffic on the M20 might be running freely but the first official statistics released by ONS indicate that UK trade with the EU suffered a record decline in January. Exports from the UK fell 41% and imports decreased 29%. That there were no similar falls in the UK's trade with non-EU countries clearly shows that UK - EU trade has been massively disrupted by Brexit."

A data search reveals that there were 1,700 lettings of industrial space in Q4 2020; just 22% were for more than 10,000 sf and most (60%) involved space under 5,000 sf. One of the largest spaces transacted last year was Sherburn 667 near Leeds, and close to the A1(M)/M62 in Yorkshire. The former Debenhams distribution unit, which is 667,000 sf in size, was let to Clipper.

Aviva Investors achieved the highest rent in Q4 2020 in a letting of two self-contained warehouses known as Rock & Roll on the Park Royal industrial estate. Both Rock, 26,510 sf, and Roll, 34,160 sf, were let to Garden Campus for 15 years at £17.50 psf. What must have been one of Q4's highest total annual rents was achieved by Gazeley UK. Magnitude 312 at Magna Park, Milton Keynes, completed in October 2020. The entire 314,000 sf space was let to Royal Mail at an annual rent of £2.43m or £7.75 psf.

This quarter in the Rest of UK sector we are focusing on Birmingham, Coventry, Leeds, Manchester, Northampton and the North West Midlands. These are not necessarily the largest 'Rest of UK' markets, but they have had the highest quarterly average take-up over the past five years.

£17.50

Aviva Investors let Rock & Roll on the Park Royal industrial estate to Garden Campus at £17.50 psf, achieving the highest rent of Q4 2020.

£2.43m

Gazeley leased the entire 314,000 sf at Magnitude 312 at Magna Park, Milton Keynes to Royal Mail at an annual rent of £2.43m.

London & the South East

London & the South East in figures

London & the South East
Opposite, recent quarterly activity in the London and the South East is compared to activity last quarter, last year and to average levels. The outlook for rents and yields is summarised.

Take-up declined in Q4. Over the whole of 2020 take-up is 18% lower than 2019, and 39% below the 5-year average. Availability levels have increased but development completions are trending lower suggesting that there is an increasing amount of second hand stock coming on to the market.

We expect occupier demand for new builds to remain strong driving rental value growth. Strong investment demand will continue to drive yields down.

Take-up (m sf)

Quarter	Year	Vs. 5-year quarterly average
▼	▼	▼
-5%	-18%	-39%
Q4 : 4.8 Q3 : 5.0	2020 : 18.0 2019 : 22.1	5-year quaterly average : 7.8

MSCI asking rents (£ per sf)

Quarter	Year	12 month outlook
▲	▲	▲
+1%	+5%	+3%
Q3 : 1% Q2 : 1%	2019 : 6% 2018 : 7%	2022 : 3% 2023 : 2%

Availability (m sf)

Quarter	Year	Vs. 5-year quarterly average
▲	▲	▲
+6%	+30%	+28%
Q4 : 50.3 m sf Q3 : 47.4 m sf	2020 : 50.3 m sf 2019 : 38.9 m sf	5-year average : 39.4 m sf

Development completions (m sf)

Quarter	Year	Vs. 5-year quarterly average
▼	▼	▼
-7%	-29%	-6%
Q4 : 2.1 Q3 : 2.3	2020 : 7.9 2019 : 11.1	5-year average : 2.3

Investment (£ bn)

Quarter	Year	Vs. 5-year quarterly average
▲	▼	▲
+195%	-9%	+92%
Q4 : £1.4 Q3 : £0.5	2020 : £2.8 2019 : £3.1	5-year quaterly average : £0.7

MSCI All London Yield

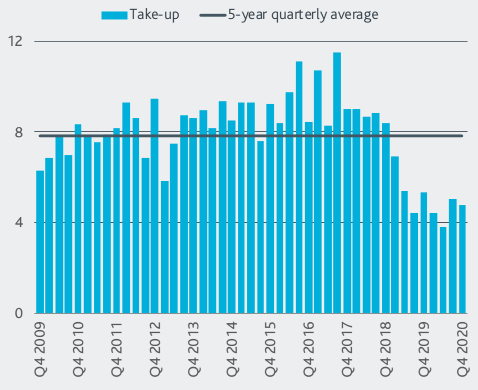
Quarter	Year	12 month outlook
▼	▼	▼
-17 bps	-4 bps	-13 bps
Q4 : 5.2% Q3 : 5.4%	2020 : 5.2% 2019 : 5.3%	2022 : -13 bps 2023 : -6 bps

Note: 'Inner London' refers to markets inside the South and North Circular, 'Outer London' refers to markets outside the South and North Circular but inside the M25, Rest of South East refers to markets inside London's neighboring counties but outside the M25.

Source: Cluttons, MSCI/EY, Property Data

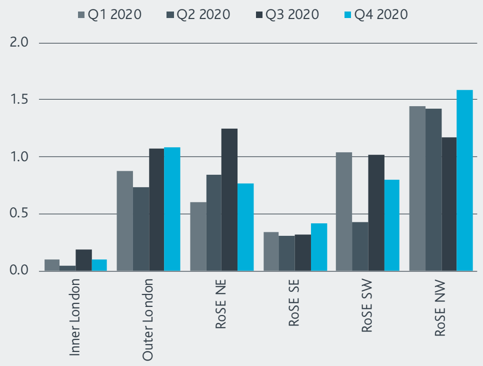
Take-up

Total take-up, London & South East (m sf)



Source: Cluttons analysis of Costar data

Take-up by quarter (m sf)



Source: Cluttons analysis of Costar data

Recent transactions

Building	Size (m sf)	Tenant
Prologis Park, Bedford	0.10	ToughGlaze
Magna Park, Milton Keynes	0.31	Royal Mail
Symmetry Park, Bicester	0.16	Ocado
Basildon 115, Basildon	0.12	Swan Housing Association
Bedfont Road, Feltham	0.09	Royal Mail

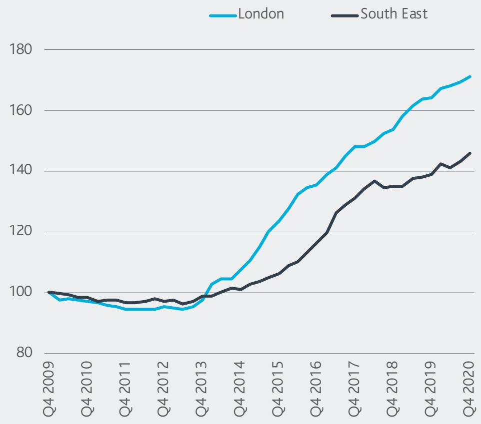
Source: Costar

In Q4 2020 total take-up decreased by 5% to 4.77m sf. Take-up in London amounted to 1.19m sf and a further 3.58m sf was let in the Rest of the South East (RoSE). The largest letting, 314,000 sf to Royal Mail at Magna Park, represented 8% of the RoSE total in Q4.

Take-up in Inner London decreased 45% in Q4 2020 to just 106,000 sf, but in Outer London it increased by 1% to 1.1m sf. In the Rest of the South East market outside the M25 take-up decreased by 5%; the market was sustained by increased levels of take-up in Basildon, Medway, Milton Keynes and Oxford.

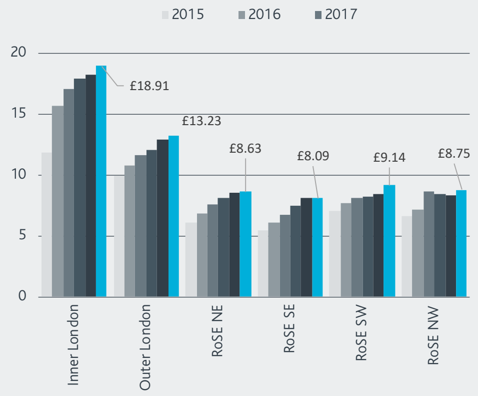
Rents

Average rent index (2009=100)



Source: Cluttons analysis of Costar data

Average rent achieved (£ per sf)



Source: Cluttons analysis of Costar data

Historic growth in average rent achieved (%)

	Q4 2020	12 month	3 year	5 year
Inner London	-2.3	3.6	3.6	9.8
Outer London	3.4	2.7	4.4	6.0
RoSE NE	-0.9	4.9	0.4	5.9
RoSE SE	0.9	1.6	4.6	7.1
RoSE SW	5.6	0.2	6.4	8.1
RoSE NW	13.8	8.2	4.0	5.4

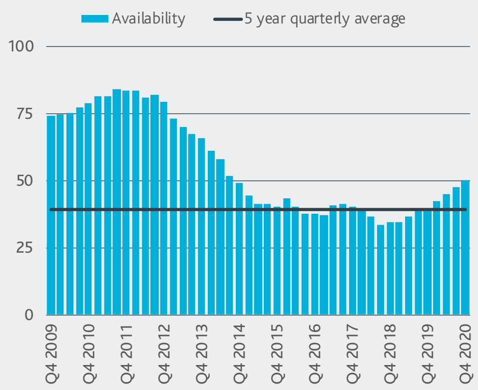
Source: Costar

Robust rental value growth continues across both London and the Rest of South East (RoSE) markets driven by the demand for units from e-commerce businesses.

Rental values continue to increase in each of the London & South East markets. Inner and Outer London command a premium to rents in the RoSE, but rents are more broadly comparable across the RoSE markets.

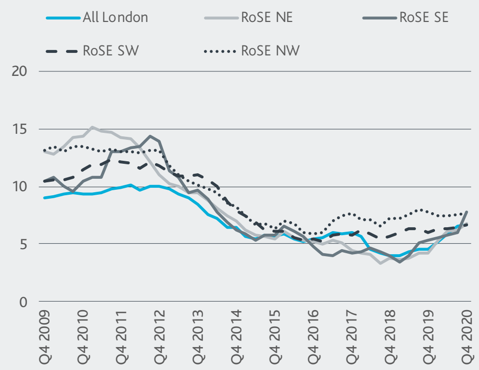
Availability

Total availability, London & South East (m sf)



Source: Cluttons analysis of Costar data

Availability rates (%)



Source: Cluttons analysis of Costar data

Recent additions to supply

Building	Size (m sf)	Rent (£ per sf)	Condition
Proxima III, Grays	0.11	10.50	2006 build
Nursling Industrial Estate, Southampton	0.11	8.00	2000 build
Circular 13, Barking	0.11	8.00-10.00	2006 build
Camino Park, Gatwick	0.09	15.00	2002 build
Summit Centre, West Drayton	0.07	11.00-13.00	2018 refurbishment

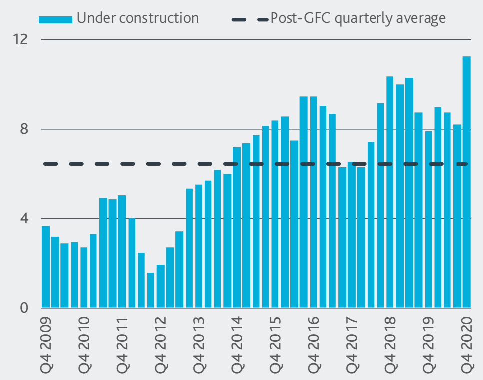
Source: Costar

Availability has been on an increasing trend across all London and South East markets. It increased by 6% from 47.4m sf in Q3, to 50.3m sf in Q4 2020 and was 30% above the 38.9m sf of space available at the end of 2019.

In the last 12 months the inner London availability rate has increased from 2.7% to 5.7% and the Outer London rate has increased from 4.9% to 6.8%. The availability rate in the RoSE has risen from 5.8% to 7.1%. These numbers remain indicative of a tight occupational market albeit one that is easing.

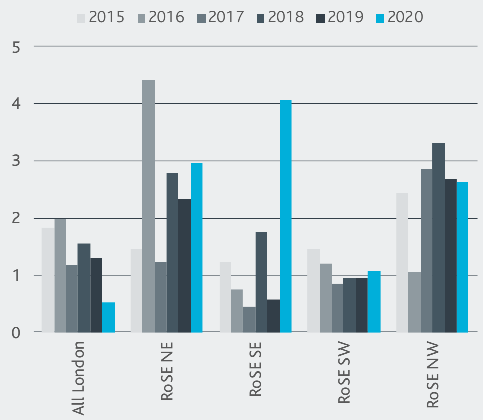
Under construction

Total under construction, London & South East (m sf)



Source: Cluttons analysis of Costar data

Under construction by market Q4 2020 (m sf)



Source: Cluttons analysis of Costar data

Notable developments

Building	Size (m sf)	Let (%)	Completing
Symmetry Park, Biggleswade	0.66	100	2022
Avocet Distribution Park, Rainham	0.60	23	2022
The Power House, Dartford	0.45	0	2021
Crossways 239, Dartford	0.24	0	2021
Prologis Park, Bedford	0.15	0	2021
Nathan Way, London, SE2	0.06	100	2021

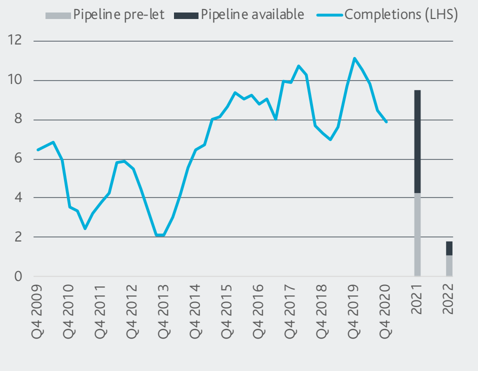
Source: Costar

The amount of space under construction increased by 37% in Q4, from 8.2m sf in Q3 to 11.2m sf. It has increased by 43% since Q4 2019 and is 30% above the 5-year quarterly average of 8.6m sf.

In the last 12 months the amount of space under construction in London has more than halved from 1.3m sf to 518,000 sf at the end of Q4. In the RoSE space under construction has increased by 64%. The biggest increases in construction activity have been in Kent, Luton and Oxford.

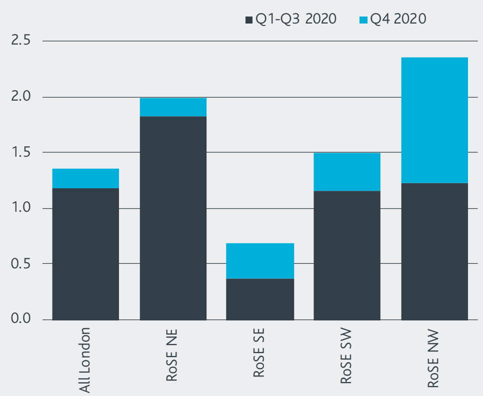
Development

Rolling 12 month completions and 3-year pipeline, London & South East (m sf)



Source: Cluttons analysis of Costar data

Development completions by market (m sf)



Source: Cluttons analysis of Costar data

Recent completions

Building	Size (m sf)	Let (%)	Rent (£ per sf)
Bedford Link, Bedford	0.17	0	7.95
London Medway Commercial Park, Medway	0.15	100	6.00-7.00
Unit 1, Harvell Road, Abingdon	0.12	100	8.50
Tyson Park, Basingstoke	0.12	0	11.00
Unit 2 Mighty, Orpington	0.07	0	16.25

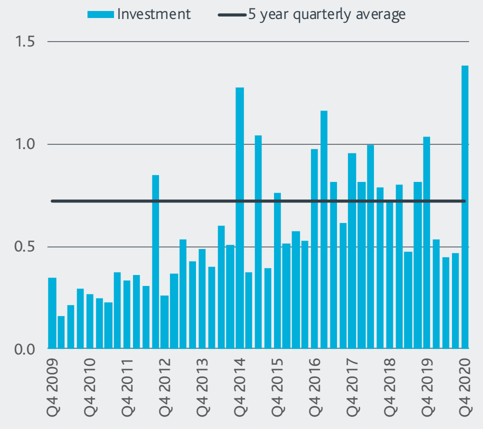
Source: Costar

In the last 12 months the development pipeline has delivered 7.9m sf across London and the South East in 190 units. This is a decrease of 29% from the 11.1m sf in 233 units delivered in 2019. A further 11.3m sf industrial space is due to be completed in the next two years. 5.3m sf of this space has already been let.

In 2020, 1.4m sf was completed in Outer London; the majority of this space being in Enfield and Heathrow. There have not been any development completions in Inner London since Q1 2019. Across the RoSE, 6.5m sf was completed in 2020 concentrated in Berkshire, Essex, Oxford and the South Coast.

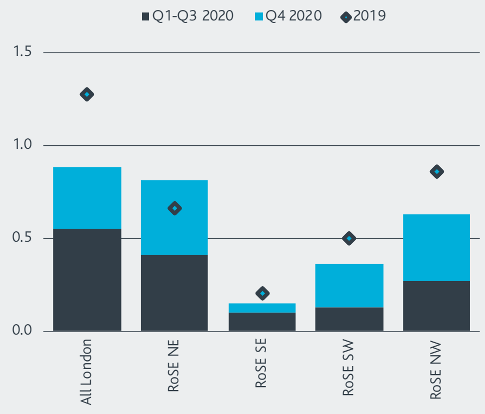
Investment

Total Investment volumes, London & South East (£bn)



Source: Cluttons analysis Property Data transactions

Investment volumes by market segment (£bn)



Source: Cluttons analysis Property Data transactions

Recent transactions

Building	Price (£m)	Yield (%)	Buyer
Electra Park, E16	133.0	2.60	SEGRO
DNATA City, Stanwell	80.3	3.80	Hines Pan-Euro Core Fund
New England, Barking	41.8	2.10	QuadReal & Valor Real Estate
Summit Centre, Heathrow	37.5	4.00	Blackstone Real Estate
Windrush Industrial Park, Witney	33.5	5.50	BA Pension Fund

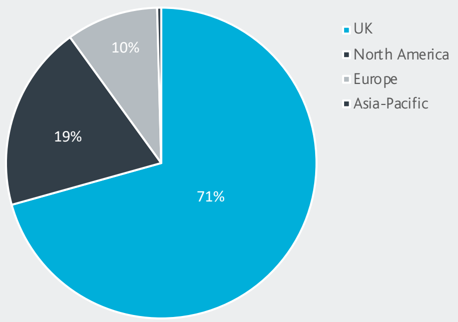
Source: Costar, Property Data

Investment volumes have been on a downward trend since 2016 and the lack of liquidity in Q2 and Q3 might have reinforced this view. Transaction levels, however, grew back strongly in Q4 when acquisitions increased by 195% to £1.4bn in Q4. This is 80% above the 5-year quarterly average of £772m.

Despite the strong recovery in Q4, total transactions for 2020 of £2.8bn represented a decrease of 9% from the £3.1bn transacted in 2019. Transactions across London decreased from £1.3bn in 2019 to £885m in 2020. Transactions across the RoSE partly made up for this; increasing by 5% to £1.95bn in 2020.

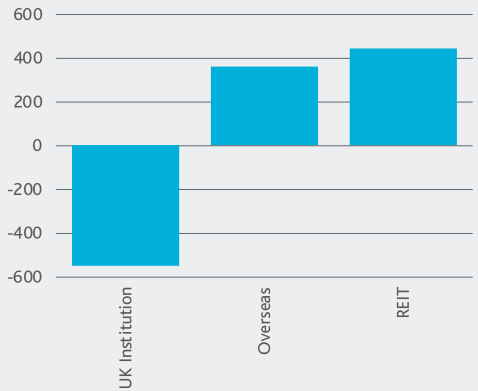
Investment (continued)

Sources of investment Q4 2020, London & South East



Source: Cluttons analysis Property Data transactions

Net investment - London & South East 2020 (£m)



Source: Cluttons analysis Property Data transactions

Yields and capital value growth (%)

	Yields			Capital value growth				
	Q4 2020	Q3 2020	Q4 2019		Q4	12 month	3 year	5 year
Inner London	4.25	4.25	3.75	London	30.9	8.4	9.5	10.3
Outer London	4.50	4.50	4.00	Rest of South East	18.7	3.6	5.9	7.0
RoSE NE	6.00	6.00	5.75					
RoSE SE	6.00	6.00	5.75					
RoSE SW	6.75	6.50	6.50					
RoSE NW	6.00	6.00	5.75					

Source: Costar, MSCI

Note: Yields are the weighted average of Costar's average yield for sale transactions rounded to the nearest 25 bps, Costar transactional data is collected via their local market research executives as and when transactions are reported. MSCI capital values are based on valuation data submitted by >100 portfolios containing 394 properties. Q4 capital growth has been annualised.

Historically, overseas investors have been more interested in trophy or status buildings; typically, central London offices. Overseas investors have been responsible for just 17% of London and South East industrial investments since the Global Financial Crisis. But in the last three years 30% of purchases have been by overseas investors, this continued into Q4 2020.

In 2020 net investment, that is purchases less sales, by overseas investors amounted to £365m. Net investment by REITs amounted to £444m as they sold £3m and acquired £447m. UK institutions, however, were net disinvestors and sold £774m while acquiring £226m of industrial assets.

Rest of the UK

Rest of the UK in figures

Rest of the UK

Opposite, recent quarterly activity in the UK's regional industrial markets is compared to activity last quarter, last year and to average levels. The outlook for rents and yields is also summarised.

Although take-up increased by 13% in the whole of 2020 compared to 2019, take-up fell back in Q4 and is 28% below its 5-year average level. Availability has decreased in Q4, but the medium-term trend is one of increasing levels of available space to let. Both development completions and the amount of space under construction have fallen in recent quarters.

As with London and the South East, we expect demand from both occupiers and investors to drive rents up and yields down. Rest of UK industrials may provide stronger total return performance because of their yield premium to industrials in London and the South East.

Take-up (m sf)

Quarter	Year	Vs. 5-year quarterly average
-27%	+13%	-28%
Q4 : 15.4 Q3 : 21.1	2020 : 69.3 2019 : 61.5	5-year average : 21.4 m sf

MSCI asking rents (£ per sq ft)

Quarter	Year	12 month outlook
+1%	+4%	+2%
Q3 : 1% Q2 : 1%	2019 : 5% 2018 : 6%	2022 : 2% 2023 : 2%

Availability (m sf)

Quarter	Year	Vs. 5-year quarterly average
-6.5%	+11.7%	-24.8%
Q4 : 153.7 Q3 : 164.4	2020 : 153.7 2019 : 137.6	5-year average : 204.3

Development completions (m sf)

Quarter	Year	Vs. 5-year quarterly average
-49%	-16%	-33%
Q4 : 4.8 Q3 : 9.	2020 : 30.9 m sf 2019 : 36.7 m sf	5-year average : 7.2 m sf

Investment (£ m)

Quarter	Year	Vs. 5-year quarterly average
+111%	+20%	+121%
Q4 : £3.5 Q3 : £1.6	2020 : £7.1 2019 : £5.9	5-year quaterly average : £1.6 bn

MSCI Rest of UK industrial yield

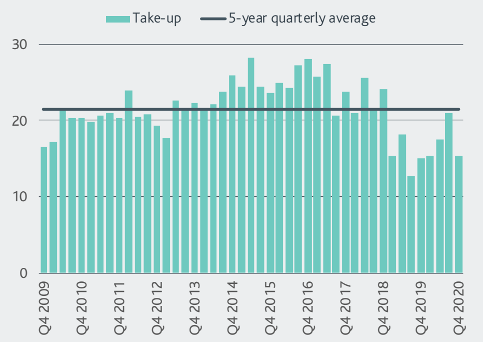
Quarter	Year	12 month outlook
-23 bps	-5 bps	-12 bps
Q4 : 6.2% Q3 : 6.5%	2020 : 6.2% 2019 : 6.3%	2022 : -12 bps 2023 : -6 bps

Note: This quarter in the Rest of UK section we are focusing on Birmingham, Coventry, Leeds, Manchester, Northampton and Shropshire and Staffordshire and their surrounding areas. Shropshire and Staffordshire includes Cannock, Lichfield, Stafford, Stoke-on-Trent, Tamworth and Telford, described in this report as the 'North West Midlands'.

Source: Cluttons, MSCI/EY, Property Data

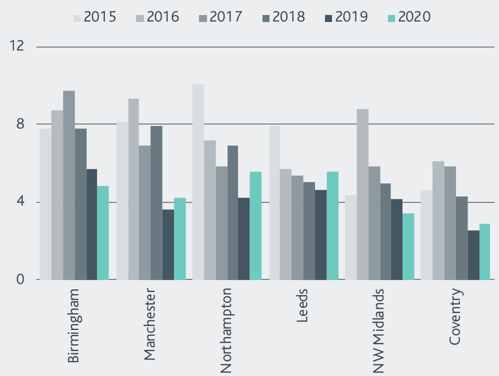
Take-up

Take-up, UK regions (m sf)



Source: Cluttons analysis of Costar data

Annual take-up 2015-2020, six centres (m sf)



Source: Cluttons analysis of Costar data

Recent transactions

Building	Size (m sf)	Tenant	Comments
H.Park, Rochdale	0.65	L'Oréal	Agreement to lease
Fradley Park, Lichfield	0.44	ASOS	Built 2020, 15 year lease
Prologis Park, Kettering	0.43	Ceva Logistics	Built 2020, 10 year lease
Odette 58, Northampton	0.06	Fisher & Paykel	Built 2020
Barberry 57, Birmingham	0.06	IMI Truflo Marine	Agreement to lease

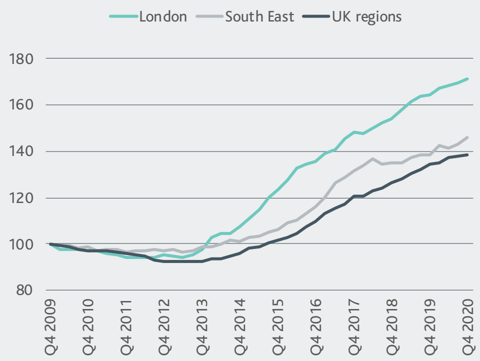
Source: Costar

Take-up decreased by 27% to 15.4m sf in Q4. Q4's total was also 28% below the 5-year quarterly average of 21.4m sf. A total of 69.3m sf was leased in 2020, an increase on 61.5m sf in 2019. In Q4, however, take up fell in all RUK regions except East of England and Scotland.

Take-up in the six featured regional centres had been on a downward trend since 2016/17. In 2020 year-on-year take-up decreases in Birmingham and the North West Midlands were balanced by increased activity in the other four centres. Total take up of 26.5m sf was 6% higher than take-up of 24.9m sf in 2019.

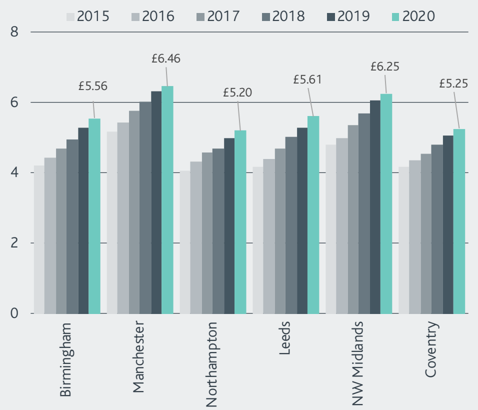
Rents

Average rent index, UK regions (2009=100)



Source: Cluttons analysis of Costar data

Average rent achieved, six regional centres (£ per sf)



Source: Cluttons analysis of Costar data

Historic growth in average rent achieved (%)

	Q4 2020	12 month	3 year	5 year
Birmingham	4.4	5.3	5.9	5.7
Coventry	6.7	6.5	6.2	6.2
Leeds	6.1	8.0	4.5	7.8
Manchester	-0.6	3.1	5.2	5.4
Northampton	-6.0	-7.4	2.7	4.2
North West Midlands	3.1	3.6	4.9	4.7

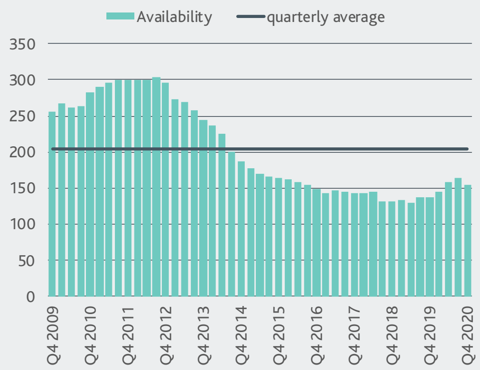
Source: Costar

In the six featured regional centres rental values had been on a downward trend until the end of 2014. Thereafter rental value growth in the rest of UK regions has maintained pace with the South East albeit off a lower base.

The demand from e-commerce for warehouse space in locations that can serve the UK's main conurbations and population centres has been a positive driver of rental values for the UK regions. Rental growth rates have been stronger in London and the South East because of a more limited supply of development sites.

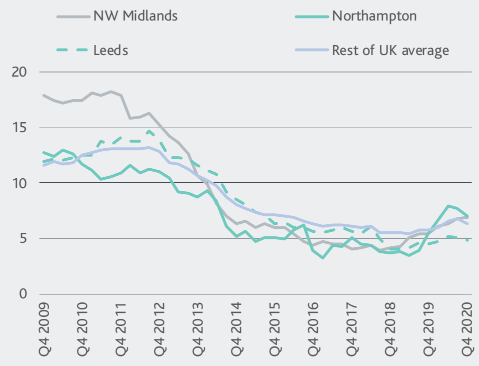
Availability

Availability, UK regions (m sf)



Source: Cluttons analysis of Costar data

Availability rates (%)



Source: Cluttons analysis of Costar data

Recent additions to supply

Building	Size (m sf)	Rent (£ per sf)	Condition
Rockingham 528, Corby	0.53	3.85 - 4.70	Built 2013
MW300, Rochdale	0.27	3.15 - 3.85	Built 1988
Unit 2002, Corby	0.26	3.80 - 4.65	Built 2008
Scotia Rd, Stoke-on-Trent	0.25	3.90 - 4.75	Built 1970
Willenhall 246, Walsall	0.25	4.15 - 5.00	Built 2000
Shop Direct Fulfilment Centre, Salford	0.24	4.40 - 5.35	Built 1960

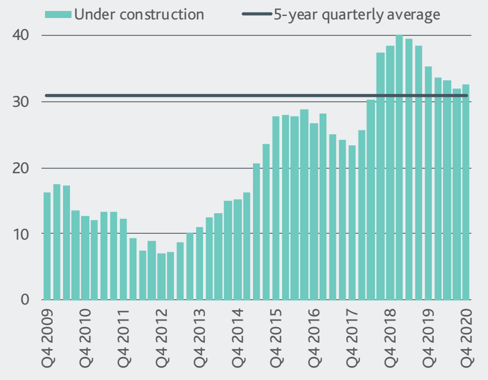
Source: Costar

Availability had been on a gently increasing trend across all regional industrial markets since the second half of 2018. It decreased by 6.5% from 164.4m sf in Q3 to 153.7m sf in Q4 - but is 11.7% above the 137.6m sf of space available at the end of 2019. Availability is 24.8% below the long run quarterly average of 204m sf but this metric was running at very high levels in 2010/13 reflecting availability rates of 13%.

Across the six featured centres, availability amounts to 49.9m sf and is 7.8% lower than it was in Q3. In Northampton and North West Midlands availability has increased by more than 30% in the last 12 months. The latter market has the highest availability rate at 6.9% and Leeds is the lowest, with an availability rate of just 4.8%. These rates suggest that supply remains tight in these markets for the moment.

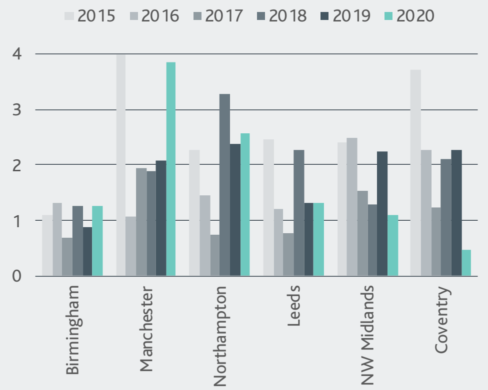
Under construction

Total under construction, UK regions (m sf)



Source: Cluttons analysis of Costar data

Under construction, six centres (m sf)



Source: Cluttons analysis of Costar data

Notable developments

Building	Size (m sf)	Let (%)	Completing
Jaguar Land Rover, Solihull	0.99	100	2021
Lidl, Bolton	0.98	100	2021
Liverpool Road, Salford	0.87	100	2021
Royal Mail, Daventry	0.84	100	2023
Wakefield 515, Knottingley	0.55	100	2021

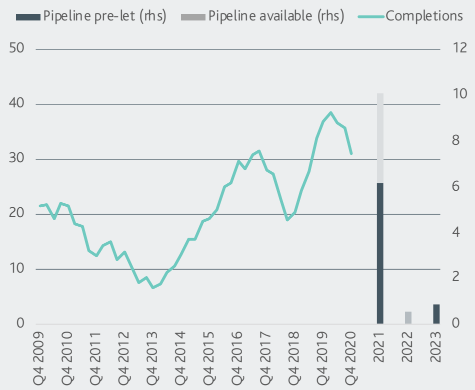
Source: Costar

In Q4 2020, the amount of space under construction increased by 2.4% from 31.9m sf in 425 buildings, to 32.7m sf in 396 buildings. The amount of space under construction across the rest of the UK's regions, however, has decreased by 7.2% since Q4 2019. This reflects a degree of caution from developers regarding the strength of demand for the amount of available new space.

In the last 12 months the amount of space under construction in the six regional centres has decreased by 5.6% from 11.2m sf to 10.6m sf. Construction in Birmingham has increased by 41% and construction in Manchester has risen 85%. This has been balanced by falls in construction activity in the North West Midlands and Coventry of 51% and 79% respectively.

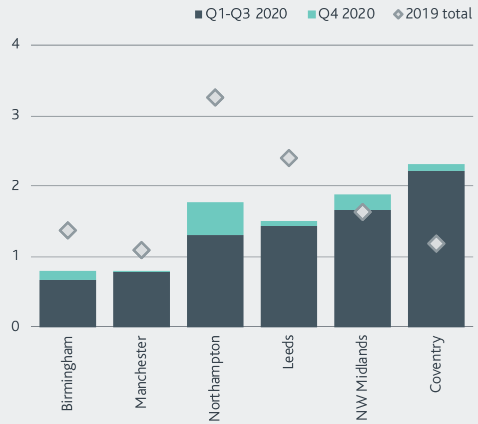
Development

Rolling 12 month completions and 3-year pipeline, UK regions (m sf)



Source: Cluttons analysis of Costar data

Development completions (m sf)



Source: Cluttons analysis of Costar data

Recent completions

Building	Size (m sf)	Let (%)	Rent (£ per sf)
Next Warehouse Extension, Wakefield	0.78	100	5.25
Geddington Road, Corby	0.72	100	4.50
Jaguar Land Rover Powertrain Facility, Coventry	0.62	100	6.50
Meggitt, Rugby	0.49	100	5.50
Fradley 437, Lichfield	0.44	100	6.00

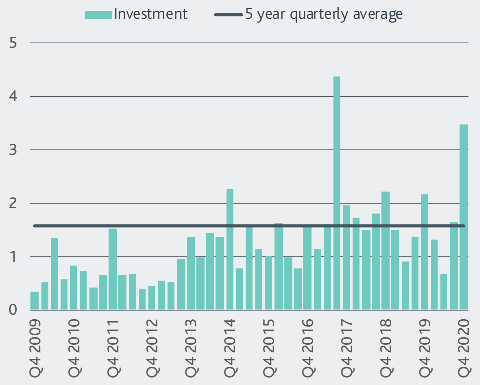
Source: Costar

In the 12 months to Q4 2020, the development pipeline delivered 485 units providing 30.9m sf. This is a decrease of 16% from the 36.7m sf in 551 units delivered in 2019. A further 11.5m sf industrial space is due to be completed in the next three years. 7.0m sf or 61% of this space has already been let.

In the last 12 months the amount of new build space delivered in the six regional centres has decreased by 17.2%; 9.1m sf was delivered across 150 units in 2020, while 11.0m sf in 158 units was delivered in 2019. Space delivered in Birmingham, Manchester, Northampton and Leeds has decreased by 42%. However, the amount of space delivered in the North West Midlands and Coventry has risen by 15% and 95% respectively.

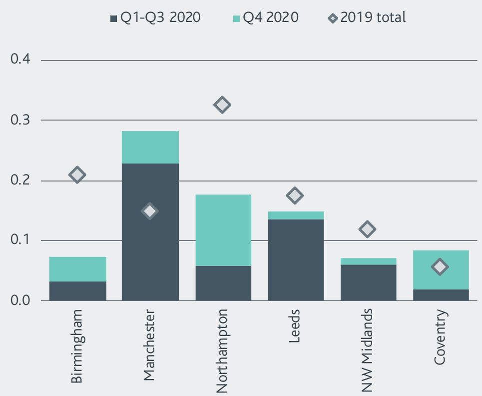
Investment

Total investment volumes, UK regions (£bn)



Source: Cluttons analysis of Property Data transactions

Investment volumes (£bn)



Source: Cluttons analysis of Property Data transactions

Recent transactions

Building	Price (£m)	Yield (%)	Buyer
Marsh Leys, Bedford	90.50	3.52	BlackRock UK Property
525 Haydock,	79.00	4.10	Gingko Tree Investment
Manton Wood, Worksop	72.23	4.20	British Overseas Bank Nominees
BCA Logistics, Corby	67.65	4.45	DTZ Investors
Magna Park, 1200 + 1300	44.31	5.81	Ares Management LLC

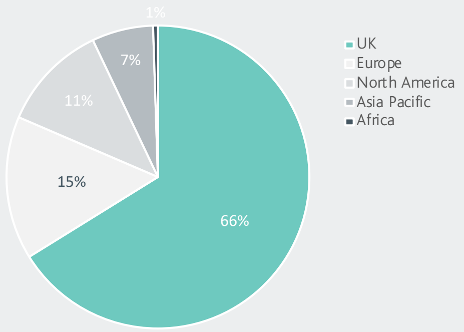
Source: Costar, Property Data

Despite the headwinds created by the pandemic, investment volumes held up well in both Q3 2020 and particularly Q4. In Q4, acquisitions increased by 111% from £1.6bn in Q3 to £3.5bn. This is more than double the 5-year quarterly average of £1.5bn.

Investment purchases in the six regional centres decreased by 19.5% in 2020; from £4.2bn in 2019 to £3.4bn. The fall off in investment spending ranged between 5% in the North West Midlands and 48% in Birmingham. In Manchester, however, investment increased by 76% from £453m to £796m.

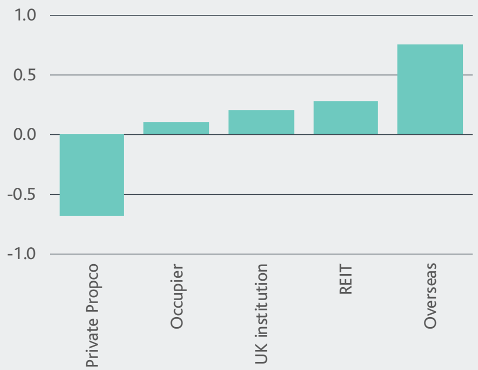
Investment (continued)

Sources of investment Q4 2020, UK regions



Source: Cluttons analysis of Property Data transactions

Net investment Q4 2020, UK (£bn)



Source: Cluttons analysis of Property Data transactions

Yields and capital value growth (%)

	Yields			Capital value growth				
	Q4 2020	Q3 2020	Q4 2019		Q4	12 month	3 year	5 year
Birmingham	7.75	8.00	7.50	Birmingham	17.6	1.4	5.0	6.0
Manchester	6.50	6.50	6.25	Bristol	15.1	2.1	4.0	4.8
Northampton	7.75	7.75	7.50	Glasgow	30.8	10.4	7.3	5.7
Leeds	7.75	7.75	7.50	Leeds	22.9	5.3	5.1	5.2
NW Midlands	6.50	6.50	6.25	Manchester	17.7	4.7	6.3	6.0
Coventry	6.75	6.75	6.50					

Source: Costar, MSCI

Note: Yields are the weighted average of Costar's average yield for sale transactions rounded to the nearest 25 bps, Costar transactional data is collected via their local market research executives as and when transactions are reported. MSCI capital values are based on valuation data submitted by >100 portfolios containing 394 properties. Q4 capital growth has been annualised.

Between 2009 and 2018, overseas money funded 25% of industrial purchases in the UK's regions. But overseas investors have become more interested in this segment of the market recently due to its superior performance. In Q4 2020, overseas investment amounted to 34% of purchases and, in 2019, it amounted to 43% of purchases.

In 2020, net investment - that is purchases less sales - into UK regional industrial assets by overseas investors amounted to £971m. Private property companies sold £1.2bn of assets and bought £485m. UK institutions were net investors, purchasing £1.2bn of assets and selling £1.0bn. Overseas investors bought assets worth £1.3bn and sold £583m.

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