Respondent ID Number: PSLP/629

Savills on Behalf of Wilson Bowden Developments

Matter 5: Employment Development and Town Centres

Issue 1: Whether the assessment of the need for employment and the employment floorspace requirement are soundly based

5.1) The Housing and Economic Development Needs Assessment (EB-EMP1) sets out a 'planned growth scenario' of 18,500 jobs for the Borough (2011 – 2036). How has the Employment Land Review (EB-EMP2) taken into account local factors in arriving at the need for employment land in the following sectors, and is the approach justified:

a. Offices (formerly Class B1(a), now covered by Class E(c) (WBD response N/A)

b. Industrial (Class B2 and B8)

The 2017 Leicester and Leicestershire Housing and Economic Development Needs Assessment (HEDNA) did not quantitatively assess the need for large-scale B8 warehousing (i.e. units >9,000sqm) in Charnwood, only providing a county-wide need of 472ha. The 2018 Employment Land Review (ELR) was therefore not well-placed to make a quantitative or qualitative assessment of the requirement for this type of employment land but reasonably concluded in paragraph 6.30 that a failure to provide any large B8 land would ***"mean that an element of market demand is unaddressed in the next plan"***. The ELR therefore reasonably concluded that there would be a requirement for a site of at least 10ha to meet the needs of the local market (paragraph 6.34).

Therefore, with the absence of a quantitively assessed large-scale B8 employment need in Charnwood, we consider that the approach taken by the ELR is justified. However, the Plan fails to allocate a site of this nature, which we suggest should be rectified in order to make the Plan sound (justified and effective). We have set out in our response to Matter 2 that the plan could be made sound by allocating land south-east of J23 as demonstrated in the concept plan attached to our Matter 2 Hearing statement.

5.2) Is an extra 10 hectares on top of the identified need for employment land justified to support an improvement in vacancy rates to allow for churn and market choice, and how was that figure arrived at?

As the 2017 HEDNA was undertaken on a sub-regional level (Leicester and Leicestershire), the ELR sought to adjust its findings to account for local considerations (p.52). One of these was that, at the time the report was written in 2018, employment space vacancy rates in Charnwood were around 3.7%, which was considered to be too low to allow the market to function effectively. The ELR concluded that a vacancy rate of 7.5% would be preferable, estimating that 10ha of extra land on top of the assessed need would be sufficient to bring the vacancy rate back up to this level. It should be noted that the extra 10ha recommended in the Employment Land Review is for small-scale industrial land (<9,000sqm) rather than for large-scale units >9,000sqm, for which a contingency supply has not been proposed.

We consider that, in light of the ongoing growth of the large-scale warehousing and logistics sector in the East Midlands since the Employment Land Review was conducted in 2018, there is a need to take a similar approach to providing some contingency large-scale employment land in line with the above approach taken in the Plan to provide 10ha of contingency land for small-scale units. The Savills Big Shed Briefing January 2022 (Appended) puts the current

East Midlands vacancies (for units over 100,000sqft) at just 1.69% (compared to a national average of 2.91%), with a supply of only 8 units over 100,000sqft. The report concludes that national supply of big sheds is at its lowest ever level, with demand spiralling (Figure 1). Similar recent research by CBRE also found that the East Midlands had the largest take-up of any region in the UK in Q1 2022 with over 3.4m sqft of space taken (Figure 2). Therefore, we support the inclusion of the above 10ha contingency for small sites, and propose that the Plan should go further and look to provide a level of contingency land that is clearly required to support churn in the local market for large-scale warehousing (i.e. sites up to 25ha in size). This would represent a positively prepared Plan and would be in line with the PPG which states that LPAs should assess "evidence of market demand (including the locational and premises requirements of particular types of business) – sourced from local data and market intelligence, such as recent surveys of business needs, discussions with developers and property agents and engagement with business and economic forums" (ID: 2a-026-20190220). We do not consider that this approach has been robustly undertaken by CBC.

The NPPF (*paragraph 81)* also states:

"*Planning policies and decisions should help create the conditions in which businesses can invest, expand and adapt. Significant weight should be placed on the need to support economic growth and productivity, taking into account both local business needs and wider opportunities for development. The approach taken should allow each area to build on its strengths, counter any weaknesses and address the challenges of the future. This is particularly important where Britain can be a global leader in driving innovation, and in areas with high levels of productivity, which should be able to capitalise on their performance and potential*" (*Savills emphasis*)

WBD is aware of a major local business that wishes to expand / relocate but the adopted and emerging plan makes no suitable provision for this.

The Framework (paragraph 82) goes on to state:

"*Planning policies should:*

a) set out a clear economic vision and strategy which positively and proactively encourages sustainable economic growth, having regard to Local Industrial Strategies and other local policies for economic development and regeneration;

b) set criteria, or identify strategic sites, for local and inward investment to match the strategy and to meet anticipated needs over the plan period;

c) seek to address potential barriers to investment, such as inadequate infrastructure, services or housing, or a poor environment; and

d) be flexible enough to accommodate needs not anticipated in the plan, allow for new and flexible working practices (such as live-work accommodation), and to enable a rapid response to changes in economic circumstances."

Finally, in respect of storage and distribution requirements, paragraph 83 of the Framework states:

"*Planning policies and decisions should recognise and address the specific locational requirements of different sectors. This includes making provision for clusters or networks of knowledge and data-driven, creative or high technology industries; and for storage and*

distribution operations at a variety of scales and in suitably accessible locations." (Savills emphasis).

We contend that the plan fails to meet the requirements of the Framework and is therefore not sound.

We consider that the regional / sub-regional requirements are a separate matter to large-scale local employment requirements as they relate to site requirements of >25ha and will be addressed as part of the wider Leicester and Leicestershire growth study being addressed as part of the Duty to Cooperate.

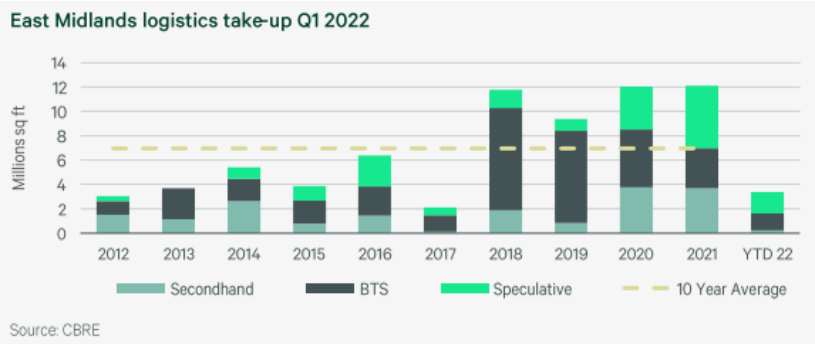
Figure 1: Key East Midlands Big Shed Statistics (Source: Savills Big Shed Briefing January 2022)

Key statistics

	Stats	yr/yr change
Take-up	12.39m sq ft	↑ 4%
Supply	2.03m sq ft	↓ 57%
Development Pipeline	4.43m sq ft	↑ 184%
Quoting Grade A Rent	£8.25 - £9.00/sq ft	↑ 29%
Vacancy rate	1.69%	↓ 251 bps

Source Savills Research

Figure 2: East Midlands logistics take-up 2012 - Q1 2022 (Source: CBRE UK Logistics Market Summary, Q1 2022)



5.4) Should the Loughborough Science and Enterprise Park accommodate more general office and industrial uses as suggested by the Employment Land Review (EB/EMP/2) paragraph 7.16?

We consider that support should be given to the Science and Enterprise Park allocation as Science Parks are historically long-term, complex projects which need sufficient time to be delivered. We agree with the stance taken by the Council in TP-3 paragraph 5.4 which states that Loughborough University's 'gatekeeper' policies will prevent the site coming forward for general employment use. Therefore, the Science and Enterprise Park should be considered to be separate and not a competitor to other employment allocations in the Plan. The ELR also considers the Science Park to be justified as an allocation on its own merits as a separate specialist allocation, and therefore we do not consider it to form part of the traditional industrial

and logistics employment land supply (Class B2 and B8 uses) requiring highly accessible locations.

Additionally, the Employment Land Review goes on to state that *"while it is impossible to quantify, a shortage of general space could constrain the potential of the Science Park to 'spin off' firms and generate added industrial value."* (p.22). Therefore, it is clear that the evidence base supports the inclusion of the Science Park allocation for a specialist use, and that there is a symbiotic relationship between more general employment land and this specialist allocation. To aid the delivery of the science park, it is therefore important that a sufficient amount of general employment land is allocated to support the functioning of the Science Park, including supply chains.

5.5) Is the allocation of 154.8 hectares of employment land in Policy DS4 justified compared with the assessed need of 44.5 hectares set out in the Employment Land Review? If so, why, and what is the amount of oversupply? Is the Plan making any contribution to strategic need?

As outlined in our previous representations, we consider the employment land need (identified in the ELR) of 44.5ha to be an underestimation of the true need in the Borough, as large-scale employment needs have not been accounted for. The ELR recognises this, stating that a further site of at least 10ha is required in addition to this 44.5ha to support the need for large-scale warehousing. We therefore consider the need to be at least 54.5ha when this extra site (of minimum 10ha) is taken into account. The Plan makes no provision for the identified requirement for a >10ha site with excellent access to the M1 motorway. The Plan also makes no contribution to the wider strategic need in Leicestershire (which has yet to be apportioned through the Duty to Cooperate), which CBC state will be dealt with by the wider Strategic Growth Options study and other ongoing joint working.

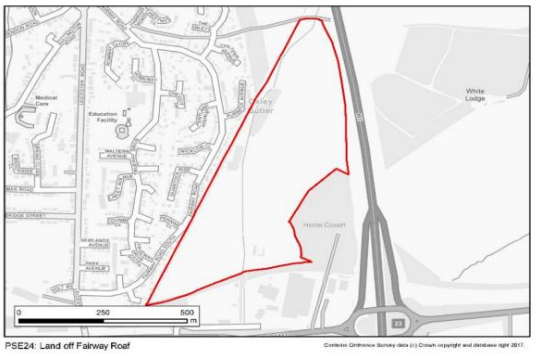
We agree with the findings of the ELR (paragraphs 7.14 - 7.17) which state that the allocation of land west of the existing Loughborough Science Park is considered to be in addition to the assessed need to meet a separate and specific market need. We consider that due to the specialist nature of the Science Park, this site should not be conflated with the remaining 81.8ha of allocated employment land.

5.6) Does the Plan identify a 10 hectare site for larger units (over 9,000 sqm), as recommended in the Employment Land Review? If so, where is it and how will it meet the requirements of that sector?

The ELR recommended that a site of minimum 10ha with excellent access to the M1 be allocated in the Plan. The ELR considered sites from a previous SHELAA, which has since been superseded by the 2020 iteration which was submitted as the evidence base for the submission Plan.

After considering the sites in this superseded SHELAA, the ELR recommended that site PSE24 (to the north west of J23) be allocated, "because it is the only site capable of accommodating some large units as well as smaller unit employment space" (ELR 2018, Appendix A). This 25ha site is shown in Figure 3 below (however it is now allocated for 5ha employment and 100 residential units):

Figure 3: PSE24 Site Plan (Source: Charnwood Employment Land Review 2018, Appendix A)

PSE24	Land off Fairway Road	

Land east of J23 (a similar size: 22ha) was considered as part of the ELR, but at this time it was considered as part of SHELAA site PSE265 (Figure 4), which included land already part of the adopted Science Park allocation under Policy CS23 of the 2015 Core Strategy. We consider that, had land east of J23 been considered separate to the wider Science Park allocation, the ELR may have found it to be a reasonable alternative.

Figure 4: PSE265 Site Plan (Source: Charnwood Employment Land Review 2018, Appendix A)

PSE265	Expansion of Loughborough Science and Enterprise Park		Land West of Snell's Nook Lane

The recommendation in the ELR has been ignored in the draft Plan, which allocates only 5ha of site PSE24 for employment (with the remainder allocated for 100 dwellings), which we consider to be insufficient to meet the needs of large-scale warehousing (which was the entire premise for its initial recommendation in the ELR). The Draft Plan contains no reasonable alternative allocations which are able to meet the 10ha need for a site with excellent access to the M1, therefore it is considered that an alternative site such as land east of Junction 23 is required in order to make the Plan sound.

Issue 2: Employment Allocations and Other Employment Policies

5.7) Do the allocations in Policy DS4 accord with the evidence and findings in the Employment Land Review in terms of the assessments in Appendix A of that document? Is the employment allocation at Dishley Grange justified by the evidence?

The Employment Land Review made recommendations for a site to be allocated of at least 10ha with excellent access to the M1 to meet Charnwood's large-scale employment needs. The allocations in Policy DS4 are not consistent with this requirement, and therefore the Plan is not positively prepared nor justified.

5.8) Are the employment allocations in Policy DS4 based on a robust site selection methodology, positively prepared and will they be deliverable in accordance with the trajectory in Appendix 2? Why is the Loughborough Science and Enterprise Park not included in the trajectory? Are the employment and housing land trajectories in Appendix 2 aligned?

The site selection process cannot be described as positively prepared, justified or effective, as CBC have failed to allocate a site for large warehousing of 10ha+ with excellent access to the M1 as recommended in the 2018 ELR. The allocations are also not justified, as reasonable alternatives were not adequately considered through the Sustainability Appraisal process. The Sustainability Appraisal did not consider individual sites, therefore it is difficult to confirm that the allocations contained within Policy DS4 are reasonable and constitute sustainable development.

Issue 3: Warehousing and Logistics Floorspace

5.14) How will the Areas of Opportunity identified in the Study be taken forward? Does this represent an unmet need across the Leicester and Leicestershire authorities or is it a cross boundary issue to apportion the distribution of logistics space?

One of the identified Key Areas of Opportunity (AO4) is centred on the M1 corridor. However, CBC have failed to allocate any large (or strategic) sized employment land along this corridor, with the exception of LSEP (Science and Enterprise Park) which has a restricted use. The Plan ignores this area of opportunity identified in the evidence base, which we consider should be a key area for future large-scale logistics development, particularly in light of the ELR's recommendation for the allocation of a site of minimum 10ha with excellent access to the M1. The strategic (>25ha) employment site requirements are above the local employment need and should be considered in addition to the local need.

5.15) Should the Plan be more explicit about addressing the need for logistics and warehousing floorspace to 2041 identified in the Study? Is there a need for a specific reference to logistics and warehousing within Policy E1 (Meeting Employment Needs) or within other policies as well, for example Policy DS1?

The Statement of Common Ground (SCG/10) relating to warehousing and logistics makes clear that CBC intend to deal with strategic warehousing needs through regional and sub-regional joint working, namely the Strategic Growth Options study (as stated in EXAM 2). However, this study will only consider sites of >25ha. CBC has not published any documents explaining the failure to consider sites which would fall into the 'large B8' category (i.e. sites >9,000sqm and <25ha). It should also be noted that, with the exception of the LSEP Science Park allocation west of Loughborough (which is allocated for specialist uses), the 2020 SHELAA contained no sites of 25ha+. The original Warehousing and Logistics in Leicester and Leicestershire study was published in April 2021, well before Regulation 19 consultation, yet this study has not been adequately incorporated into the Pre-submission Plan nor the accompanying Sustainability Appraisal.

We therefore consider that the Plan is not justified, as it does not take into account the entirety of the submitted evidence base. There is therefore a need to be more explicit about how CBC

intends to deal with the need for large-scale employment land in the Plan, as this is not dealt with in the current Plan.

5.16) Overall, does the Plan allocate a sufficient amount, mix and choice of employment sites to meet future needs and has the Plan's economic strategy been positively prepared? Are the Plan's economic and housing strategies aligned?

First and foremost, the Charnwood Local Plan fails to address its own employment land requirements as identified in the 2018 ELR, which recommends the provision of a site of minimum 10ha with excellent access to the M1 motorway to meet the need for large-scale warehousing. We consider that deferring this requirement to the wider Leicester and Leicestershire work is inappropriate, as strategic cross-boundary need is a separate issue. Additionally, Charnwood's Economic Development Strategy 2018-2020 (document EB/EMP/5) states a number of actions and objectives required to create favourable conditions for economic growth. One of these is to *"facilitate the supply of major employment sites and enable infrastructure through planning and growth delivery mechanisms"* (p.3). We consider that, owing to the lack of a 10ha employment site being allocated with close proximity to the M1, this objective has not been met in the Plan. This renders the plan unsound because it is neither justified or effective in meeting its own needs, nor is it reflective of the evidence base and does not align with the objectives of the Economic Development Strategy.

The strategic employment needs (25 Ha + sites) are considered to be different and above that which is identified in the ELR. The strategic need represents a third tier of employment land provision (illustrated in Figure 5). CBC has an opportunity to be more positive in its plan making by safeguarding land for this requirement given the obvious locational advantages offered in Opportunity Area 4 (as defined in the Warehousing and Logistics in Leicester and Leicestershire study). The Plan fails to recognise the three different tiers of employment land provision that the Plan is expected to cover – two of which (small-scale and large-scale employment) are expected to be met within Charnwood's administrative area in this Plan period. These requirements should not be confused with the wider regional/sub-regional requirement for strategic employment land (25Ha +).

SPOTLIGHT
Savills Research

Big shed briefing

savills

G Park Bedford, Wixams - where GLP, advised by Savills, have leased 530,000 sq ft across three units to MH Star

2021 take-up 86% above long-term average ● Vacancy at 2.91% ● Supply at lowest level recorded

Lowest nationwide vacancy rate ever recorded

National overview

Another record year for take-up and supply at its lowest ever level

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Tectonic 620, where John Lewis have leased 617k sq ft of second hand space

As global economies continue to walk the tightrope of bouncing back from severe Covid related restrictions and the implementation of more public health measures to tackle the current Omicron wave, there remain huge pressures on supply chains which are in turn causing logistics property markets to function in ways we have not previously witnessed.

Whilst many countries are contending with abnormal demand and supply patterns for consumer goods and manufacturing materials the UK is also having to adapt to new trading arrangements with the European Union. From January 1st 2022 all customs decelerations for goods entering the EU will have to be made prior to arrival at the border, whereas previously companies could wait 175 days after goods had arrived. As 2022 progresses more stringent, and physical checks, will take place on a wider variety of goods entering the UK. Many trade bodies are suggesting that whilst UK companies are well prepared to deal with the new arrangements concerns remain that European companies will take some time to adapt to the new arrangements, ultimately putting more pressure on a already fragile supply chain.

For companies manufacturing and selling in the UK one response could be to hold more inventory to mitigate for any unforeseen delays at the UK border. This is certainly evident in our latest market data which demonstrates that requirements and take-up are both at record levels.

Overall the logistics property market has proved able to rise to the challenge that Covid-19 has presented over the last two years, but with a backdrop of the lowest vacancy rate ever recorded and rising construction costs, it remains to be seen how the expected demand of 2022 can be satisfied.

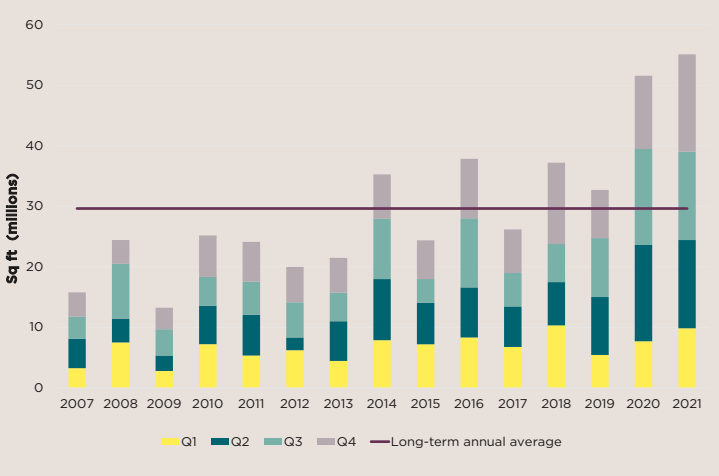
Take-up

With 16.1m sq ft of new leases signed in Q4, itself a new quarterly record, it is pleasing to report that take-up for 2021 has reached a new annual record of 55.1m sq ft surpassing last years total of 51.6m sq ft and shattering the long term annual average by 86%. We have recorded information of 220 separate transactions, which means for the first time ever there have been more than 200 transactions in any one year, surpassing the 2020 record of 172. What makes the take-up numbers all the more impressive is that during 2021 we have witnessed a decline in both build-to-suit (BTS) and the take-up of larger units over 400,000 sq ft. This correlates with the suggestion that occupiers need buildings here and now as companies seek to mitigate supply chain issues by increasing their inventory levels quickly. Indeed 15.1m sq ft of speculatively constructed space was leased in 2021, the highest level ever recorded. Perhaps most interesting, however, is the type of companies acquiring space. Whilst online retailers accounted for 35% of take-up 3PLs, automotive, manufacturing and High St retail companies all increased the amount of space taken in 2021, demonstrating a wider breadth of demand when compared to recent averages.

Supply and Pipeline

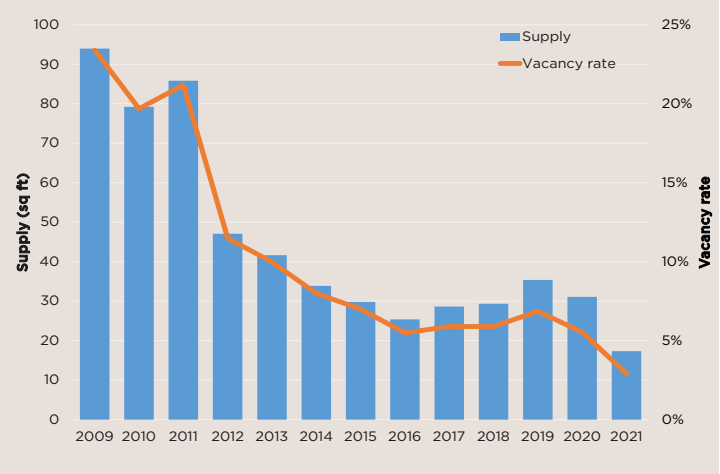
Given the strong levels of take-up, supply has fallen at its fastest pace ever and now stands at 17.35m sq ft, reflecting a vacancy rate of 2.91%, the lowest levels ever recorded. Grade A supply has fallen to 7.15m sq ft, down from 19.7m sq ft prior to the onset of Covid-19 in Q1 2020. Developers have reacted to the prevailing market conditions and there is now 18.6m sq ft under construction. Looking at the combined current and future supply does however show there are just seven buildings available over 400,000 sq ft, which does suggest that many larger requirements will need to be satisfied via a BTS unit in 2022.

Take-up new annual record



Source Savills Research

Supply and vacancy reach a new low



Source Savills Research

> “We’ve seen a significant increase in the number of deals in 2021, demand has been strongest in the 100,000-200,000 sq ft size band”

London and the South East

Market shifts to smaller unit take-up

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Director
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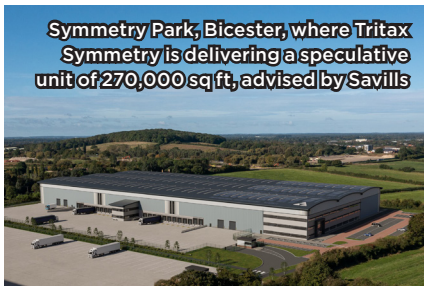


Supply

A strong speculative development pipeline has meant that supply in the region has remained broadly stable and shows a market in equilibrium. However, more recently, we have seen multiple units removed from the market due to reoccupation whilst increasing rental growth has enabled the redevelopment of Grade C stock, leading to a decline in the available supply.

Now, the region has 3.67m sq ft available across 25 units, a fall of 1.26m sq ft over 12 months which reflects a vacancy rate of 2.89%. In terms of Grade, 52% of the available supply is Grade A, and 24% is Grade B & C. By unit count, 88% of the available space is within the 100,000-200,000 sq ft size band and 12% is within the 200,000-300,000 sq ft size band. Given occupiers’ preferences for existing good quality space there remains the capacity in the region to deliver more units over 300,000 sq ft on a speculative basis.

Take-up

The second half of 2021 saw 4.8m sq ft of new leases signed, setting a new H2 take-up record, which in turn has meant that annual take-up has reached 7.34m sq ft, the fourth year in a row where take-up has exceeded 7m sq ft. In total, there were 43 separate transactions in the region which exceeds the previous record of 35, set in 2019, by 23%.

Perhaps the most interesting trend in the region, which make the take-up figures all the more impressive, has been the shift in deals away from the larger end of the market to be dominated by deals in the 100,000 - 200,000 sq ft category. Indeed, in 2021 just 15% of deals were for units over 400,000 sq ft, against a long-term average of 29%, whereas units under 200,000 sq ft accounted for 65% of take-up, the highest proportion of the market ever recorded.

Analysing the sub 200,000 sq ft segment paints a robust picture of demand, as whilst Amazon parcel hubs accounted for seven of the 36 deals in this size band, the demand has come from a wide range of industries including retailers, 3PLs, parcel companies and film studios. Whilst there has only been one deal over 500,000 sq ft; John Lewis taking the former Tesco unit in Milton Keynes which totals 621,579 sq ft, it should also be noted that MH Star, a Chinese E-commerce company, took the entirety of G Park Bedford which totals 534,000 sq ft across three units, such is the lack of supply in the larger size bands.

Development Pipeline

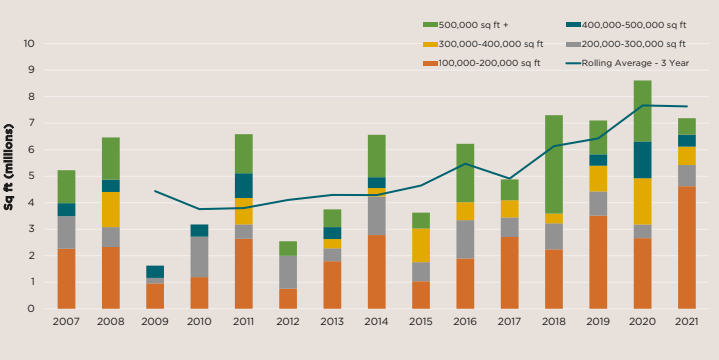
There are now 23 units under construction across the region totalling 3.6m sq ft. There are no units under construction over 350,000 sq ft and 64% of the units due for delivery in 2022 are under 200,000 sq ft. Within the M25 just 667,000 sq ft is under construction.

Key statistics

	Stats	yr/yr change
Take-up	7.34m sq ft	↓15%
Supply	3.67m sq ft	↓26%
Development Pipeline	3.62m sq ft	↑168%
Quoting Grade A Rent	£8.50-£25.00/sq ft	c.↑25%
Vacancy rate	2.89%	↓166 bps

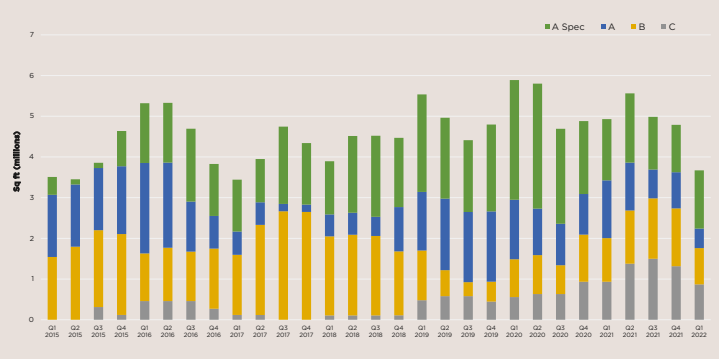
Source Savills Research

Take-up Big increase in 100,000-200,000 sq ft deals



Source Savills Research

Supply lowest level in five years



Source Savills Research

> **Take-up in 2021 has been the best on record, reaching 12.39m sq ft, this is 113% above the long-term average annual figure. There is now just 2.03m sq ft available, most of which is good quality. This will push rents considerably higher**

East Midlands

Vacancy rate now 1.69%, just 0.19 years of supply

Charles Spicer
Director
Birmingham
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Supply

There are just eight units over 100,000 sq ft in the East Midlands totalling 2.03m sq ft which equates to a vacancy rate of just 1.69% or 0.19 years' worth of supply. Savills is aware at least two of the eight units are currently under offer which is set to reduce the available supply even further. The largest unit on the market is Panattoni Park Northampton comprising 430,000 sq ft of Grade A speculatively developed space.

By unit count, 25% of the available supply is within the 100,000-200,000 sq ft size band, 38% is within the 200,000-300,000 sq ft size band, 25% within the 300,000-400,000 sq ft size band and 12% within the 400,000-500,000 sq ft size band.

Due to the strong occupier demand for units in the area, along with rising rents for Grade A stock; the majority of lower quality second-hand space has now been let. Pairing this with multiple speculative developments reaching practical completion, 100% of the available space is now Grade A. This is set to push rents higher and higher as each lease is setting market records.

Take-up

Take-up has reached 12.39m sq ft across 46 separate transactions, up 113% on the long-term average.

Occupier preference continues to revolve around better quality units. In 2021, 87% of space transacted has been Grade A, 11% has been Grade B and 2% has been Grade C. In terms of specification, 33% of space has been second-hand space, 30% has been built-to-suit space and 37% has been speculatively developed space.

In terms of deal count, 41% have been within the 100,000-200,000 sq ft size band, 30% within the 200,000-300,000 sq ft size band, 9% in the 300,000-400,000 sq ft size band and the 400,000-500,000 sq ft size band and 11% over 500,000 sq ft. Savills continued to see an uptick in requirements for larger units in 2021 which should mean the average size deal continues to increase from its current level of c.270,000 sq ft.

Transactional activity has stemmed from a diverse range of occupiers in 2021, 3PLs have accounted for 39% of take-up, online retailers 30% with the remaining spread across a diverse range of occupiers.

Development Pipeline

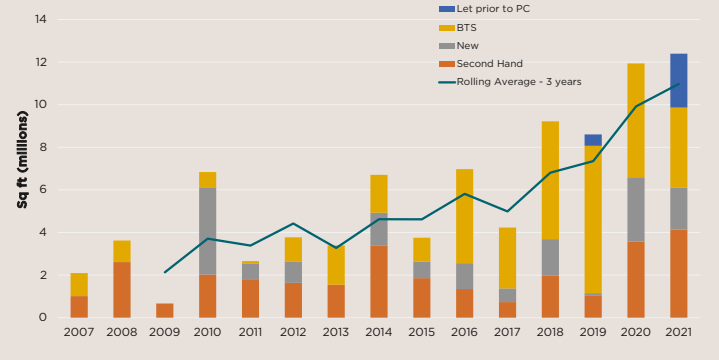
There are currently 19 units under construction, which total 4.43m sq ft. Pleasingly, 42% of these units are over 200,000 sq ft, which will continue to help cater for the larger requirements in the market, especially as the price per acre of Industrial & Logistics land continues to rise at exceptional rates within the region.

Key statistics

	Stats	yr/yr change
Take-up	12.39m sq ft	↑ 4%
Supply	2.03m sq ft	↓ 57%
Development Pipeline	4.43m sq ft	↑ 184%
Quoting Grade A Rent	£8.25 - £9.00/sq ft	↑ 29%
Vacancy rate	1.69%	↓ 251 bps

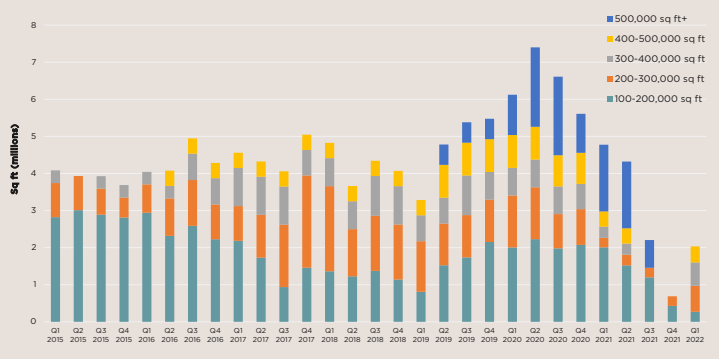
Source Savills Research

Take-up 113% above the long-term average



Source Savills Research

Supply has fallen 57% in last year, vacancy at 1.69%



Source Savills Research

> **The region has seen a huge uptick in demand from a range of occupiers which has led take-up to hit 9.38m sq ft, the highest level achieved setting both record rental and land values in the process. Supply has fallen to the lowest level equating to just 0.41 years, this has pushed on prime rents by 22% in 2021 alone**

West Midlands

Vacancy rate now 2.34%, down from 7.08% a year ago

Ranjit Gill
Director
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Hams Hall, where Prologis is speculatively developing three units totalling 475,000 sq ft

Supply

The supply of warehouse space within the region currently stands at 2.02m sq ft across nine units, a 66% decrease from this time last year. According to the average annual take-up, there is now just 0.41 years' worth of supply in the region.

Over the last year, developers have responded to the increased demand for better quality space. Consequently, multiple Grade B and C units have been withdrawn from the market for redevelopment along with other units being marketed as being newly refurbished. Now, 42% of space on the market is Grade A whilst 37% is Grade B and 21% is Grade C. In terms of unit count, 78% of the supply is within the 100,000-200,000 sq ft size band, 11% are within the 200,000-300,000 sq ft size band and 11% over 500,000 sq ft. The largest unit on the market is DC660 in Rugby comprising 661,348 sq ft of Grade A second-hand space.

With the current supply and demand dynamics, we envisage that rental growth will exceed the 3.4% p.a forecast by RealFor in the next five years, particularly due to the renewed occupier interest from a wide variety of occupiers such as Chinese e-commerce companies and Gigafactories rather than the historically prominent manufacturing and automotive sectors.

Take-up

Take-up in 2021 reached 9.38m sq ft across 40 separate transactions, which is the strongest level ever recorded and is 2.41m sq ft above the second strongest year. Transactional activity has centred around second-hand space which accounted for 46% of the total take-up, 38% has been built-to-suit space and 16% has been speculatively developed space. In terms of Grade, 73% of take-up has been Grade A space, 19% has been Grade B space and 8% has been Grade C.

Deal counts highlighted the preference towards smaller size units throughout the region, there have been 27 deals within the 100,000-200,000 sq ft size band, 9 within the 200,000-300,000 sq ft size band, 1 within the 300,000-400,000 sq ft size band and two in the 400,000-500,000 sq ft size band. There was a single deal over 500,000 sq ft in 2021 where Amazon committed to a 2.3m sq ft unit in Peddimore. The deal has set record land values for the West Midlands. The lack of larger units in the region has as much, if not had more of an impact of the shift towards smaller units as occupier preference which is now hindering take-up.

In 2021, 42% of activity has stemmed from Online Retailers, 37% from 3PLs, 10% from manufacturers and 6% from High Street Retailers.

Development Pipeline

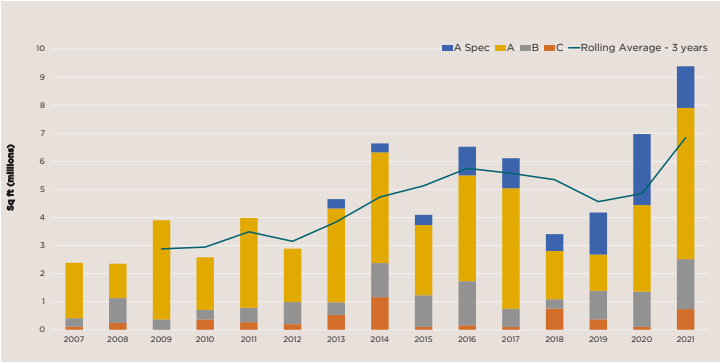
There are 17 units currently under construction within the West Midlands, totalling 3.49 m sq ft. The majority (76%) are below 300,000 sq ft.

Key statistics

	Stats	yr/yr change
Take-up	9.38m sq ft	↑ 35%
Supply	2.02m sq ft	↓ 66%
Development Pipeline	3.49m sq ft	↑ 134%
Quoting Grade A Rent	£8.75/sq ft	↑ 26%
Vacancy rate	2.34%	↓ 528 bps

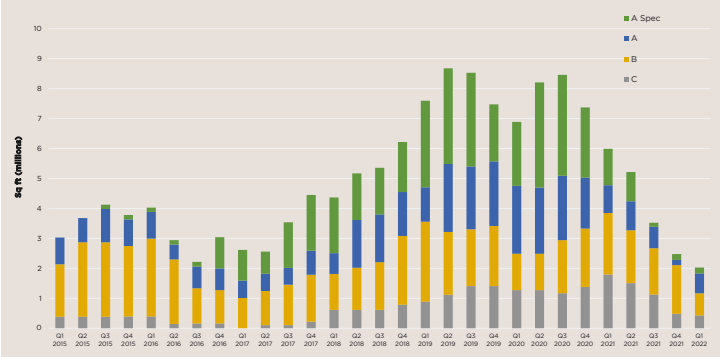
Source Savills Research

Take-up 101% above long-term average



Source Savills Research

Supply lowest level ever recorded, only nine units available



Source Savills Research

> The North West has continued to see a huge uptick in enquiries and subsequent transactional activity. The strongest take-up on record has caused the amount of supply to fall to 2.56m sq ft; leaving the region with 0.52 years' worth

North West

Vacancy rate falls further, hitting 3.09%, the lowest level recorded

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Widnes 400, where Marshall & Mirastar is developing a 393,000 sq ft unit due to PC in Q2 2022

Supply

The supply of warehouse space has fallen by 37% in the last year to stand at 2.56m sq ft across 12 units. Using the three-year average annual take-up of 4.88m sq ft, this equates to just 0.52 years' worth of supply in the region.

Grade A stock now accounts for 44% of all available space, 24% is Grade B and 32% is Grade C. In terms of unit count, the supply is skewed towards the smaller size bands, 57% are within the 100,000-200,000 sq ft band, 29% are in the 200,000-300,000 sq ft size band, 7% in the 300,000-400,000 sq ft size band and 7% in the 400,000-500,000 sq ft size band.

Given that vacancy has hit record lows of 3.09%, construction materials continue to be in short supply and occupier demand remains at record levels there is a clear case to suggest that the actual rental growth will far exceed the forecast of 3.5% per annum over the next five years.

Take-up

Take-up in 2021 has been the best on record reaching 7.44m sq ft across 32 transactions. This is 13 transactions above the average of 19 per annum, and in terms of sq ft 86% above the long-term annual average of 3.99m sq ft.

In 2021, 75% of space transacted has been Grade A, 22% has been Grade B and 3% had been Grade C. As Covid-19 continues to delay construction, a large proportion of space transacted this year has been second hand (41%) as occupiers seek to satisfy immediate or short term requirements. Although, there have been multiple large build-to-suit deals in particular over 500,000 sq ft, which have demonstrated the continued strength of the market accounting for 36% of the total take-up this year. Speculatively developed space accounted for 27% of the total take-up.

In terms of deal count, 54% were within the 100,000-200,000 sq ft size band, 31% were within the 200,000-300,000 sq ft size band, 6% within the 300,000-400,000 sq ft size band and 9% over 500,000 sq ft.

Online retailers have acquired the most amount of space in 2021, accounting for 34% of the total space transacted. Manufacturers accounted for 25% and 3PLs accounted for 23%. The remaining space was spread over a diverse range of occupiers. The largest deal this year was Home Bargains taking 830,000 sq ft unit at Omega West near St Helens.

Development Pipeline

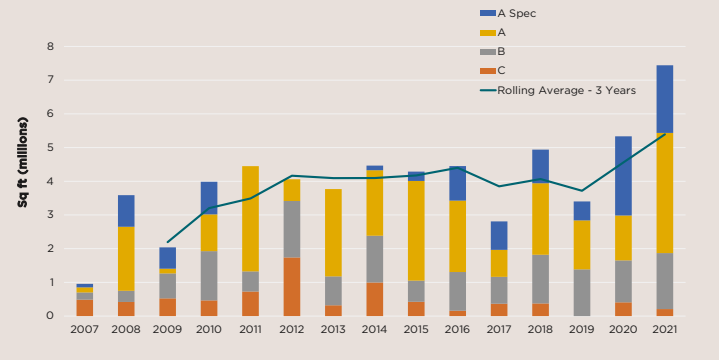
There are currently 11 units being developed, totalling 2.73m sq ft. Six are in the 100,000-200,000 sq ft size band, two are within the 200,000-300,000 sq ft size band, two are within the 300,000-400,000 sq ft size band and there is a single unit under construction over 500,000 sq ft.

Key statistics

	Stats	yr/yr change
Take-up	7.44m sq ft	↑ 40%
Supply	2.56m sq ft	↓ 37%
Development Pipeline	2.73m sq ft	↑ 117%
Quoting Grade A Rent	£7.75/sq ft	↑ 7%
Vacancy rate	3.09%	↓ 257 bps

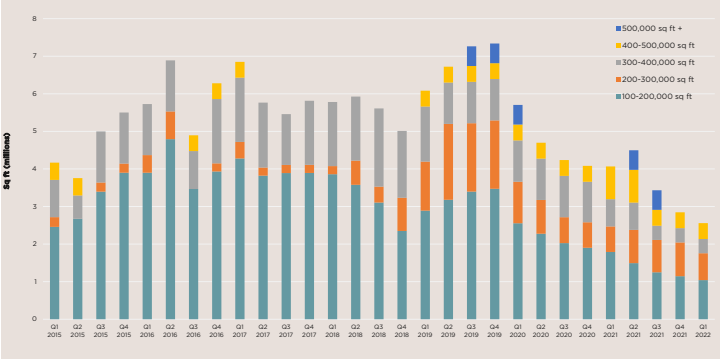
Source Savills Research

Take-up best ever, 86% above long-term average



Source Savills Research

Supply fallen by 37% in 12 months



Source Savills Research

> The region continues to attract a diverse range of occupiers. We continue to see daily increases in enquiries and subsequent transactional activity. Supply is now at the lowest level ever recorded leaving a vacancy rate of 1.97%. Occupiers are now turning to the build-to-suit route or waiting multiple months to secure units currently being speculatively developed

Yorkshire and the North East

Vacancy rate just 1.97%; 0.19 years' worth of supply in the market

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Supply

Supply of units over 100,000 sq ft is now at the lowest level ever recorded in the region. Currently, there is 1.74m sq ft available across 13 separate units. This has pushed the vacancy rate lower to 1.97%, leaving just 0.19 years' worth of supply in the market according to the three-year annual average take-up. Consequently, we have seen a 20% rise in average quoting rents.

Now, just 14% of the available supply is classified as Grade A. The region is in desperate need of new supply to relieve this chronic shortage. 53% of the supply is Grade B, with 33% Grade C. As with a large proportion of Grade B and C stock, they could often be considered obsolete through not being capable of accommodating modern occupier requirements.

Occupier demand for larger units is rising within the region; however, all of the available supply is within the 100,000-200,000 sq ft size band. Consequently, occupiers have to either commit to built-to-suit units or look towards neighbouring regions to satisfy their needs.

Take-up

Take-up in 2021 has been the strongest ever recorded reaching 11.08m sq ft across 31 separate transactions. Yorkshire & the Humber saw 76% of this activity and the North East 24%. In perspective, this level of take-up is 109% above the long-term average annual figure.

Of the space transacted, 56% was build-to-suit, 24% was speculatively developed space, and 20% was second-hand. In terms of Grade, 82% of take-up was Grade A, 14% Grade B and 4% Grade C. Activity was spread over the size bands - by deal count, 48% of transactions were within the 100,000-200,000 sq ft size band, 16% were within the 200,000-300,000 sq ft size band, 14% were within the 300,000-400,000 sq ft size band, 3% the 400,000-500,000 sq ft size band and 19% the 500,000 sq ft+ size band.

The majority of activity in 2021 has stemmed from online retailers, who have accounted for 47% of all take-up, and 3PLs, who accounted for 30%. Positively we have seen a rise in take-up from manufacturers which have accounted for 15% of take-up this year. It's important to note Amazon has accounted for 43% of the total take-up this year through multiple large transactions.

Development Pipeline

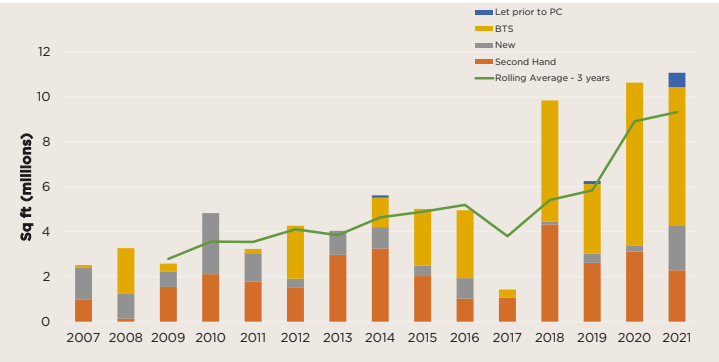
There are currently 10 units under construction totalling 2.22m sq ft. There are six units under construction within the 100,000-200,000 sq ft size band, three within the 200,000-300,000 sq ft size band and a single unit over 500,000 sq ft. There are another c.14 further units that we are tracking in various stages of the planning process and should be announced to start on site imminently.

Key statistics

	Stats	yr/yr change
Take-up	11.08m sq ft	↑ 4%
Supply	1.74m sq ft	↓ 61%
Development Pipeline	2.22m sq ft	↑ 104%
Quoting Grade A Rent	£7.50/sq ft	↑ 20%
Vacancy rate	1.97%	↓ 356 bps

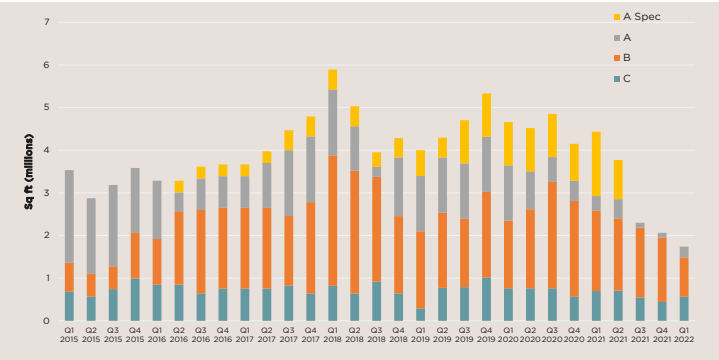
Source Savills Research

Take-up best year ever recorded



Source Savills Research

Supply chronically low levels, majority second-hand



Source Savills Research

> Take-up in 2021 has been the second strongest ever recorded with demand coming from a range of occupiers. 42% of the available supply is under offer and due to complete early next year. Now, prime rents are in the region of £7.50-£7.75 psf which we expect to increase significantly as supply continues to fall

South West & Wales

Take-up reached 3.58m sq ft, 44% above long-term average

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WA 316, where Logicor leased 316,000 sq ft to a major retailer in 2021

Supply

The supply of units over 100,000 sq ft in the region currently stands at 3.61m sq ft across 20 separate units. Closer analysis shows that 32% of the supply is located within Wales and 67% is in the South West. The vacancy rate in the region now stands at 9.22% equating to 1.29 years worth of supply.

The quality balance is heavily skewed towards lower-quality units, with just 16% of available space classed as Grade A, 41% is Grade B and 43% is Grade C. The increased demand paired with lack of supply has left occupiers with no choice but to commit to these second-hand buildings. Consequently, Savills is aware 42% of the current vacant stock is under offer and due to exchange imminently. This is set to bring the vacancy rate to 5.25%.

By unit count, the supply continues to be dominated by smaller units with 60% being within the 100,000-200,000 sq ft size band, 30% are within the 200,000-300,000 sq ft size band and 10% are within the 300,000-400,000 sq ft.

Take-up

Take-up in the South West and Wales market totalled 3.58m sq ft across 17 separate transactions, 25% above the three-year annual average. Adhering to regional trends, deal volumes have centred around the smaller size bands, with 70% of deals being within the 100,000-200,000 sq ft size band, 18% in the 200,000-300,000 sq ft size band, 6% the 300,000-400,000 sq ft size band and 6% over 500,000 sq ft.

2021 has seen 74% of take-up being second-hand space, 21% built-to-suit space, and 5% speculatively developed space. The supply is hindering take-up as occupier requirements centre around new, modern units.

In 2021, 34% of take-up has stemmed from the other sector. This is primarily Microsoft taking Imperial Park Newport comprising c. 1 million sq ft for a data centre. Online retailers have accounted for 27%, manufacturers 15%, 3PLs 11% and the remaining has been from a variety of other occupiers.

Development Pipeline

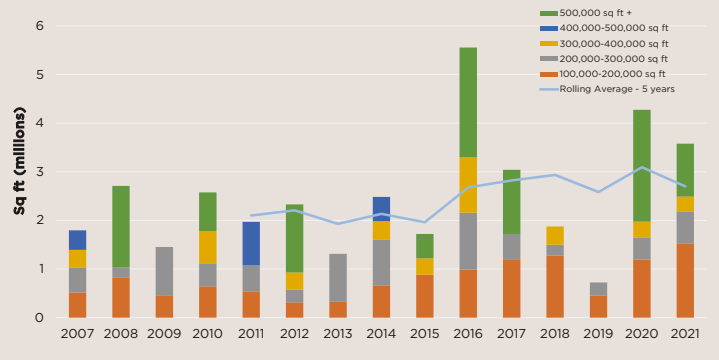
There is currently 670,017 sq ft under construction in the region across four units. All of these are located within the South West. There are three units under construction within the 100,000-200,000 sq ft size band and a single unit within the 200,000-300,000 sq ft size band.

Key statistics

	Stats	yr/yr change
Take-up	3.58m sq ft	↓16%
Supply	3.61m sq ft	↓5%
Development Pipeline	0.67m sq ft	↑86%
Quoting Grade A Rent	£7.50/sq ft	↑3%
Vacancy rate	9.22%	↓70 bps

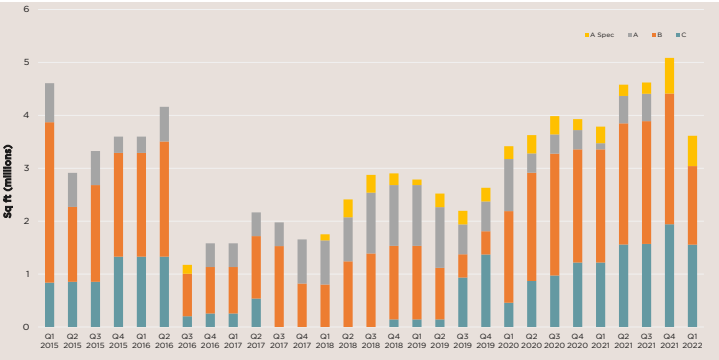
Source Savills Research

Take-up now spread over all size bands



Source Savills Research

Supply just 16% is Grade A, 41% Grade B and 43% Grade C



Source Savills Research

> **The proximity to major UK ports and access to the rest of the UK continues to attract occupiers with 2021 seeing a rise in European-based firms acquiring space. Supply has dropped significantly resulting in a 16% increase in rents, a rise in the average lease length along with a reduction in incentives offered**

East of England

Supply down by 33%, vacancy rate now 3.75%

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Supply

The level of supply in the market has fallen by 33% in the last year. Currently, there is 985,000 sq ft available across three units. The largest unit on the market is at Suffolk Park comprising c. 400,000 sq ft of Grade A space, it's currently under offer. Now, 60% of the space on the market is Grade C (two units) and 40% is Grade A (one unit).

According to the three-year average annual take-up, there is just 0.41 years worth of supply in the market. Further analysis demonstrates that all of the Grade C space available requires refurbishment or even demolition to accommodate modern occupiers. There is a single unit available within the 200,000-300,000 sq ft size band comprising 242,850 sq ft and two units available within the 300,000-400,000 sq ft size band together totalling 742,454 sq ft.

The vacancy rate remains very constrained at 3.75%, this continues to push on rental growth and will lead to the modest forecast of 3.6% p.a in the next five years to be eclipsed.

Take-up

Take-up in 2021 has reached 2.66m sq ft across six separate transactions, this is 10% above the three-year annual average and 136% above the long-term annual average.

As the market continues to be chronically undersupplied consisting of mainly second-hand low-quality stock, occupiers are continuing to go down the build-to-suit route to acquire space. In 2021, 49% of take-up was built-to-suit, 28% was second- hand and 23% was new speculatively developed space. In terms of Grade, it's evident that occupier preference continues to revolve around better units as all space transacted this year was Grade A, 23% was Grade A speculatively developed space and 77% was Grade A space.

In terms of deal count, transactions have been spread across the size bands with 50% being within the 200,000-300,000 sq ft size band, 17% the 300,000-400,000 sq ft size band and 33% in the 500,000 sq ft+ size band. The average deal size this year was 442,683 sq ft, up from 134,688 sq ft in 2010.

The recent announcement of the Freeport East site within the region has driven enquiries from a diverse range of occupiers, particularly on the Eastern stretch of the A14 and the existing designated sites within the Freeport boundary due to the vast array of benefits locating within them provide.

Development Pipeline

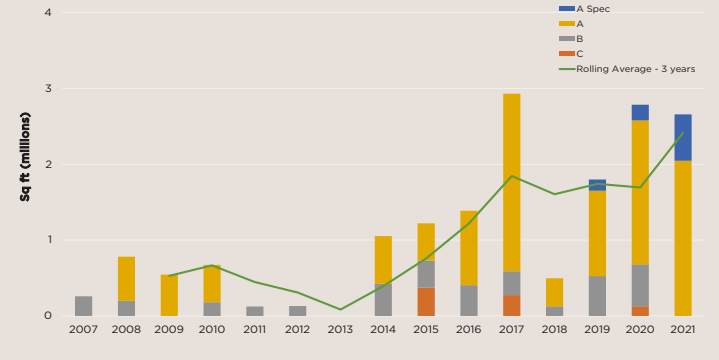
Currently, the region has seven units under construction speculatively totalling 1.48m sq ft. There are three units within the 100,000-200,000 sq ft size band and four within the 200,000-300,000 sq ft size band. Occupiers will need to look to sites in order to satisfy larger requirements for good quality space.

Key statistics

	Stats	yr/yr change
Take-up	2.66m sq ft	↓ 5%
Supply	0.99m sq ft	↓ 33%
Development Pipeline	1.48m sq ft	-
Quoting Grade A Rent	£7.00/sq ft	16% ↑
Vacancy rate	3.75%	↓ 213 bps

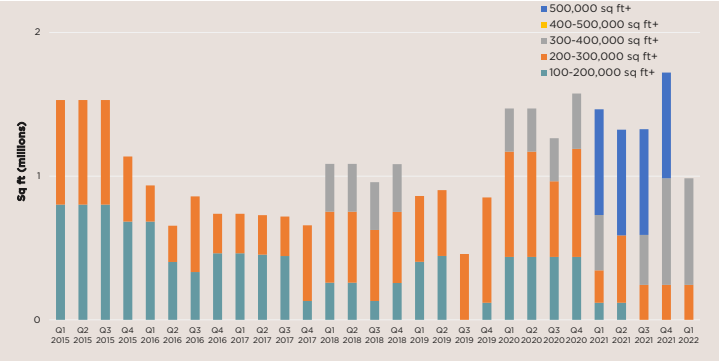
Source Savills Research

Take-up dominated entirely by Grade A space



Source Savills Research

Supply lack of units across all size bands



Source Savills Research

> **Requirements for units over 100,000 sq ft have risen in the latter half of 2021. Strong levels of transactional activity paired with the redevelopment of old stock has caused the supply to fall to the lowest level on record. This has pushed prime rents 12% higher in the last year alone. We are also seeing reducing incentives and longer lease lengths**

Scotland

Vacancy rate now 3.27%, chronic shortage of quality space

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10-12 Cloberfield Road, Glasgow, where Savills is marketing a unit of 226,000 sqft

Supply

The supply of warehouse space in Scotland for units larger than 100,000 sq ft has fallen 55% in the last year to stand at 0.72m sq ft across five separate units.

The supply continues to be dominated by second-hand space with no new units available. Currently, 33% of the space available is Grade B second-hand space, and 67% is Grade C second-hand space.

Of the five units currently available, four are within the 100,000-200,000 sq ft size band and there is a single unit within the 200,000-300,000 sq ft size band. The decrease in the amount of supply in the region has caused the vacancy rate in Scotland to now stand at 3.27%. Using the three-year average annual take-up this equates to just 0.75 years worth of supply within the market.

Moreover, the 220,000 sq ft Former Saica warehouse is now under offer following Savills marketing and is due to conclude early Q1 2022. This will cause the vacancy rate to fall further to just 2.27% leaving the market chronically undersupplied.

Furthermore, closer analysis demonstrates the supply could be considered far lower as the majority of the Grade C space is not capable of accommodating modern occupier requirements. It may be more suitable for a complete refurbishment or even demolishing.

Take-up

Take-up of units over 100,000 sq ft in 2021 has been robust reaching 1.22 m sq ft across five transactions. This is 43% above the long-term annual average take-up.

In 2021, 45% of take-up has been built-to-suit space and 55% has been second-hand space. All of the second-hand space transacted this year has been Grade B quality.

Take-up continues to be constrained by both shortages in the size and quality of available units throughout the region; occupiers are having to settle for lower quality, and smaller-sized units to satisfy their requirements.

Development Pipeline

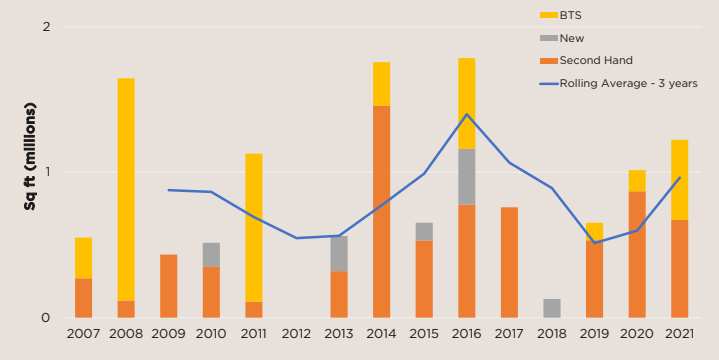
The strong levels of take-up along with ongoing enquiries are providing developers with confidence as a number of key sites are being closely considered for speculative development. However, as it stands there are no current new speculative facilities over 100,000 sq ft proposed or currently available. The Scottish market remains more typically focused on sub 100,000 sq ft speculative schemes going forward.

Key statistics

	Stats	yr/yr change
Take-up	1.22m sq ft	↑ 21%
Supply	0.72m sq ft	↓ 55%
Development Pipeline	0 sq ft	no change
Quoting Grade A Rent	£7.00/ sq ft	↑ 12%
Vacancy rate	3.27%	↓ 416bps

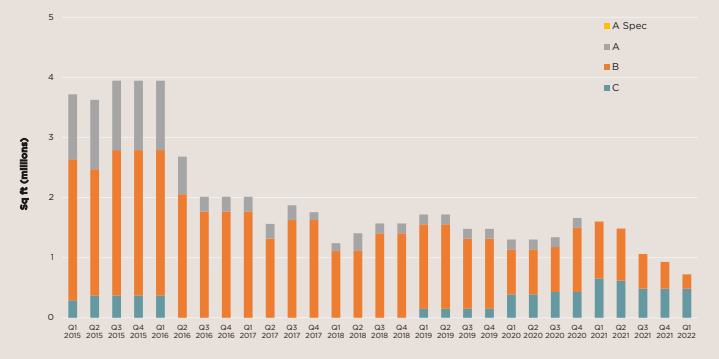
Source Savills Research

Take-up 43% above long-term annual average



Source Savills Research

Supply entirely second-hand low quality space



Source Savills Research

> The supply and demand dynamics of the occupier market means strong rental growth is anticipated in all markets in 2022. With investors continuing to compete for the best assets, further yield compression is expected

National investment

Investment volumes reach new record

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Panattoni Park Luton, where Panattoni, advised by Savills have sold to Realty Income Corporation

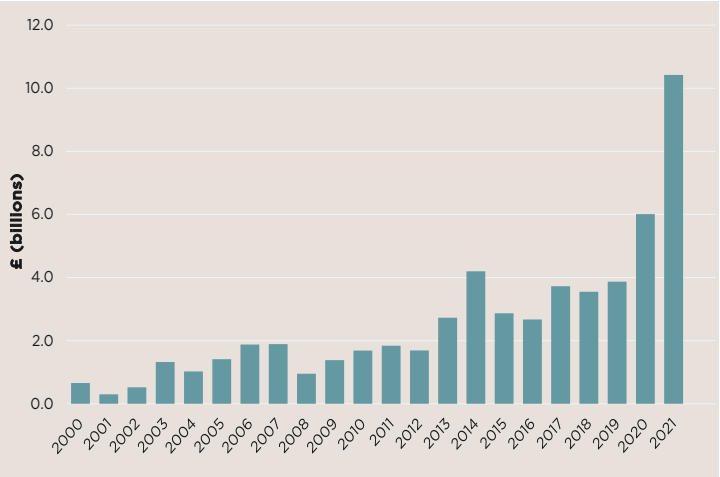
The continued strength of the occupational market combined with record low levels of vacancy has meant that the investment market has continued to see strong levels of rental growth. This in turn is driving unprecedented positive investor sentiment towards the sector and a record H2 investment volume of £5.15bn, excluding corporate mergers and acquisitions. Total 2021 volumes now stand at £10.42bn, which eclipses the previous annual record set in 2020 by 73%.

Whilst the volume of portfolios traded reached £4.10bn in 2021, accounting for 39% of total investment volumes, it should also be noted that the market is witnessing a rise in both the number of single-unit deals and average lot sizes. Indeed, excluding portfolios, in 2021 there were 315 single unit transactions recorded by Savills, up 152% on the long term average and the average lot size reached £20.1m, itself a rise of 32% on the long term average.

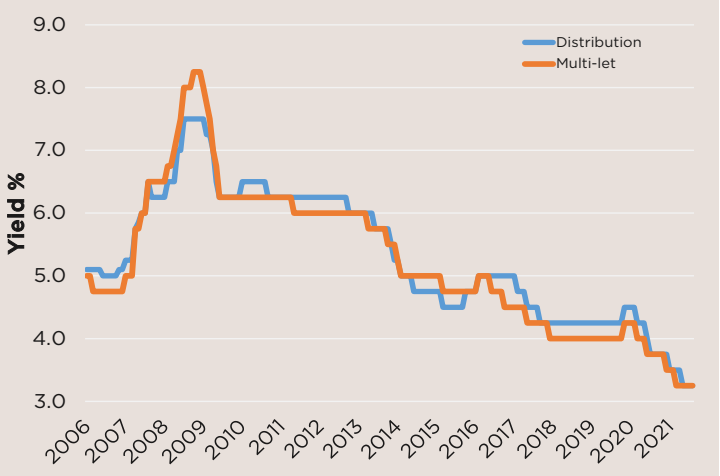
With Blackstone alone accounting for close to £3bn of deployed capital including their corporate acquisition of St Modwen and many other overseas investors entering the market for the first time it is no surprise that overseas investors accounted for 55% of the total market, the highest proportion ever recorded and up from just 20% in 2018. This has largely been at the expense of UK institutions who, in 2018, accounted for 32% of the market falling to just 16% of the market in 2021.

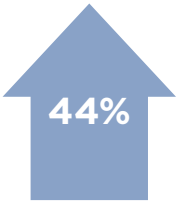
The continued weight of capital in the market will continue to put downward pressure on Savills prime yields which now stand at 3.25% for both logistics and multi-let industrial estates. With the occupational market showing no sign of slowing and supply remaining constrained it is likely that rental growth will continue to outperform forecasts. Indeed if the trajectory of the last two quarters is maintained, then it is likely that many markets will see rental growth of at least 10% in 2022. This optimistic outlook will ensure investors continue to compete for the best assets which in turn will lead yields to compress even further. However, with continued upward pressure on inflation, further interest rate rises are expected and this may limit the extent of yield compression in 2022 when compared to previous years.

Investment volumes reach new record



Prime investment yields record lows at 3.25%





Requirements increased by 44% in 2021

2022 Outlook

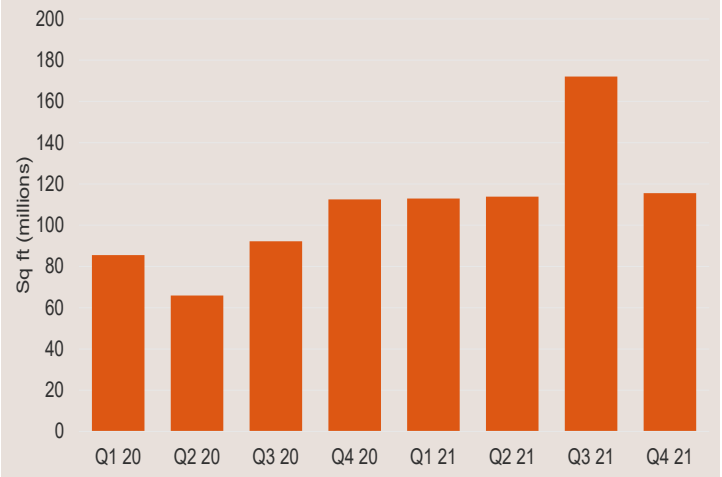
Where next after another record year?

With take-up exceeding 50m sq ft for the second year in a row, and bearing in mind that the three year average for take-up prior to the onset of Covid-19 was 32m sq ft per year, it is worth considering whether the market can continue operating at its current amplified level.

The first point to make is that requirements levels are not falling when compared to the last 18 months, averaging 108m sq ft per quarter. Given that requirement levels have been broadly stable for the last 18 months does demonstrate that there still remains enough demand in the market to satisfy take-up continuing to hover around 50m sq ft per year.

The pinch point however is supply, which is at its lowest ever level. If we combine the current level of existing supply at 18.3m sq ft and add in the speculative pipeline of 18.6m sq ft that would mean that every single building on the market would have to lease in 2022 and a further 13.1m sq ft of BTS deals would need to be signed in order for take-up to exceed 50m sq ft. It should also be noted that 14.3m sq ft of second-hand supply was added to the market in 2021, much of which leased quickly. Therefore it's not impossible to suggest that take-up will remain at elevated levels but it is clear the market can take more speculative development for the foreseeable future.

Requirements continuing at recent levels



Source Savills Research

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BUILD COST AND PROGRAMME

Whilst the market data is clear that more speculative development is needed to satisfy anticipated levels of demand developers remain at the mercy of issues in global supply chains that are impacting the availability of key materials for warehouse construction.

Indeed, the latest indicators from the *Savills ProgrammE and Cost Sentiment Survey* (*S.P.E.C.S*) demonstrate that build costs and programme delivery time scales are continuing to rise. Whilst good project management and early orders can mitigate some of the issues the overall impact remains that projects are taking longer to deliver than before.

In 2022 we expect that labour availability will become a larger issue as successive lockdowns and the impact of Brexit mean that there are fewer contractors in the market able to work in a market that has dramatically increased in size. Moreover, from April the use of Red Diesel in construction will be banned. Whilst this move is aimed at pivoting heavy machinery to use less fossil fuels the short term will be that fuel costs increase by 47p per litre which has the knock-on impact of making earthworks considerably more expensive.

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