HB1/3

Economics Proof of Evidence of Stephen Nicol, BA, MA

NICOL ECONOMICS

HB (South Caldecotte) Ltd

LAND AT SOUTH CALDECOTTE

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Economics Proof of Evidence of
Stephen Nicol, BA, MA

APPENDICES

July 2020

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1. Appendix A: Burbage Realty report

Land at South Caldecotte
Milton Keynes

Burbage Realty

July 2020

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1.0 Introduction

HB (South Caldecotte) Ltd has submitted a planning appeal following Milton Keynes's Council's refusal of its outline planning application for the development of land at South Caldecotte, for employment uses" *comprising of warehousing and distribution (Class B8) floorspace (Including mezzanine floors) with ancillary B1a office space, general industrial (Class B2) floorspace (Including mezzanine floors) with ancillary B1a office space, a small standalone office (Class B1) and small café (Class A3) to serve the development; car and HGV parking areas, with earthworks, drainage and attenuation features and other associated infrastructure, a new primary access off Brickhill Street, alterations to Brickhill Street and provision of Grid Road reserve to Brickhill Street".*

Burbage Realty Partners Ltd has been instructed by HB (South Caldecotte) Ltd to provide a concise review of the market for large-scale logistics properties (units over 100,000 sq ft) with specific reference to the potential of the subject site at South Caldecotte to meet market demand.

The report begins by outlining Burbage Realty's credentials in the industrial and logistics market, it then provides a short description of the site and an analysis of its location in terms of its ability to fulfil a warehouse operator's requirement to service customers and provide an adequate supply of labour. The report then analyses demand for large-scale logistics properties within an identified market area and the way in which a development on the site may contribute to meeting market demand. It then considers alternative sources of supply in this area before presenting its conclusions.

2.0 Burbage Realty Logistics Market Credentials

Burbage Realty was formed in 2003 as the first "logistics and industrial property consultants" in the UK. The company's innovative niche practice is recognised as the foremost real estate consultancy in the national distribution sector.

Burbage Realty has secured numerous industry awards in recognition of its market expertise since formation in 2003 including being the current UK Property Awards' National Industrial Agency Team of the Year.

Burbage Realty is instructed on some of the largest and most prestigious logistics sites in the UK, including:

- Magna Park, Milton Keynes (M1 junction 13)
- Prologis Park Marston Gate (M1 junction 13)
- Prologis Park Pineham (M1 junction 15a)
- Panattoni Park Northampton (M1 junction 16)
- Magna Park Lutterworth (M1 junction 20)
- Segro Logistics Park East Midlands Gateway (M1 Junction 24)

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3.0 Site Description

The subject site is broadly triangular and extends to approximately 56.8 hectares. It is bounded to the East by the A5, to the West by Brickhill Street and to the North by the railway line. Known as South Caldecotte, the site is situated within the Parish of Bow Brickhill immediately to the south of Milton Keynes. Importantly, it is the only site in Milton Keynes and the Southern M1 market that can accommodate very large (850,000 sq ft +) distribution warehouses favored by national and international companies.

The close proximity of Milton Keynes, Bletchley and Fenny Stratford provides workers with the ability to reach the park by both bus, train, bicycle and car; all of which are important to potential occupiers attracting and retaining staff. The site benefits from being adjacent to Bow Brickhill railway station which will, with buses, provide employees with a means of getting to work by public transport not available at the existing distribution parks in the town. Milton Keynes's Redway cycle routes also connect into the Park via the V10 Redway cycle route.

Milton Keynes is the principal logistics location in the Southern M1 motorway corridor. The town's excellent road communications provide access to approximately 85% of the UK's working age population within a 4½ hour HGV drive time.

The site is strategically situated on the southern boundary of Milton Keynes, benefiting from excellent access to both the M1 (Junctions 13 & 14) and the A5 trunk road. The A5 now links directly to the M1 motorway via the new Junction 11A and A5-M1 Link Road (Dunstable Northern Bypass). The recent improvements to the A5 have vastly improved access to the western side of Milton Keynes, providing logistics occupiers with a valuable alternative north-south route between the M1 and M6 motorways.

This connectivity means that the site provides good access to the country's major commercial markets (e.g. London, Birmingham, Manchester and Liverpool), container ports (e.g. Felixstowe, Southampton, Tilbury, London Gateway and Liverpool), and international air and rail terminals.

The investment decisions of National Distribution Centre (NDC) and Regional Distribution Centre (RDC) requirements are based on a number of key specific locational demand requirements, all of which are intrinsic to the success of their operations:

- Excellent proximity and connectivity to the motorway/trunk road network;
- Maximisation of access to potential markets;
- Minimisation of drive times to potential markets;
- Availability and accessibility to an appropriate skilled workforce;
- Ability of a site to accommodate the necessarily large footprint and building height involved with units of this size; and
- Absence of neighbouring uses where conflict is likely to arise/restrictions may be placed on business operations (e.g. adjacent residential use, which may result in conditions limiting hours of deliveries).

The attractiveness of the site is further enhanced by its situation within a robust labour force. A readily available labour force is a key consideration for logistics property operators. Labour statistics were accumulated for the authorities of Milton Keynes (which includes the subject site and neighbouring authorities of Bedford, Central Bedfordshire, and Luton. There is a total of

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587,000 people of working age (16-64) within this area of which 17,200 are unemployed. The area has a relatively low economically inactive population of 114,700. Of the economically inactive 20,000 (17.4%) want a job. Reference can be made to Table 1 below for a further breakdown of the labour statistics. The increase in unemployment levels due to Covid-19 is unknown but early forecasts predict a significant rise.

Table 1: Regional Labour Statistics of Possible Labour Force for South Caldecotte Logistics Park

Area	Total Number of People Within Working Age (16-64)	Number of People Unemployed	Economically Inactive	Economically Inactive But Want a Job
Milton Keynes	169,500	5,400	24,300	6,000
Bedford	105,400	3,500	21,700	4,700
Central Bedfordshire	176,700	3,500	32,700	5,900
Luton	135,400	4,800	36,000	3,400

Source: Nomis, Official Labour Market Statistics Jan – Dec 2019, downloaded 15th May 2020

4.0 Market Demand

Market Drivers

Occupier demand for large-scale logistics properties is driven by a number of key 'sectors' which require these facilities for a variety of reasons. In particular –

- Retailers require logistics facilities to replenish their stores but also to meet growing online sales;
- Manufacturers require facilities to manage inbound materials and parts, work in progress and for the storage and distribution of finished goods;
- Third party logistics contractors require these facilities to service contracts secured from retailers, manufacturers, and other operators;
- Wholesalers require these facilities primarily to service smaller retailers;
- Post and parcel operators require these facilities to meet expanding parcel volumes, which is largely attributable to the growth in online retail;
- Waste and recycling companies require facilities to process waste and recycling and this has become more important over recent years due to requirements to reduce the amount of waste sent to landfill.

In general, most demand for large-scale logistics buildings is concentrated along the major motorway corridors and trunk roads which make up the Strategic Road Network (SRN). The SRN

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comprises all trunk motorways and 'A' roads. In 2014, the SRN was 4.,300 miles long, made up 2.4 percent of the total road length in England, but carried 32.7 percent of road traffic in England. Both the A5 and M1 form part of the SRN.

Market Demand

Prior to Covid-19, the logistics occupational market was in a robust state, characterised by continued occupier demand set against a distinct lack of supply. National take up of Grade A logistics warehouse space (units of more than 100,000 sq ft) in 2019 was approximately 24.2 million sq ft, which remains above the 10-year average. Specifically, 40% of all take up was focused on the Midlands.

Take up of warehouse space in Q1 2020 was somewhat slower, largely due to the uncertain political climate in Q4 2019. However, Q2 2020 showed signs of strong recovery, with a significant number of existing buildings being leased on the M1 corridor and many retailers and third-party logistics operators taking existing buildings and pre-lets. This demand was driven largely by two factors, pent up demand and the rapid increase in online sales resulting from the Covid-19 Lockdown.

According to Colliers, take-up of logistics space over 100,000 sq ft in H1 2020 totalled 17.7 million sq ft, 20% above the same period last year. This includes circa 1 million sq ft of take-up in March of short-term lettings, including Tesco re-occupying around 600,000 sq ft at Fenny Lock Milton Keynes to accommodate the increase in supermarket spending since the Covid-19 lockdown. Overall, online retailers accounted for 64% of take-up in Q2 2020 reflecting the rapid increase of online sales which rose, during Q2 2020, to 32.8% which is the highest level on record.

In the medium to longer term, a requirement for greater supply chain resilience and a potential shortening of supply chains that are more reliant on UK suppliers is expected to lead to increased demand for warehouse space to hold a greater inventory of just-in-time products. The lockdown period has also increased households' reliance on online deliveries, and this is likely to increase e-commerce activity in the future, further underpinning the sector in the medium to longer term through heightened demand for more warehouse space.

Overall, whilst there remains wider market and economic uncertainty, the sector is continuing to witness strong levels of demand from a range of occupiers for logistics space.

Sitting on the boundary of both the East Midlands and South East markets, the site is an ideal location for occupiers looking to service local, South East, national and international markets.

There continues to be a large number of market requirements that have yet to be satisfied showing ongoing and strong demand within the M1 Corridor market around Milton Keynes, a sample of some of the occupiers with current requirements (as of July 2020) in the market area are shown below:-

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Business Sector	Requirement size (sq ft)
Famous department store looking to increase its online offering.	300 – 400,000
International online retailer needing to meet growing demand.	400 - 600,000
NHS Supply Contract.	250 – 350,000
High street clothing retailer looking to remain in the area.	300 – 500,000
Third party logistics operator looking to consolidate its warehouses.	600-700,000
Milton Keynes occupier looking to expand.	200-400,000
Document storage company.	250-300,000
Online food supplier looking to expand.	200-300,000
Supermarket with an existing Milton Keynes facility looking for long term warehouse solution.	300-500,000
Modular homes manufacturer looking to open new facility.	500 – 700,000
MK based third party logistics company with new contracts.	500,000
International firm looking between MK & St Neots.	750,000
Third party logistics operator looking to open a distribution campus.	600,000
Car parts storage	400-600,000
New Zealand logistics company looking to open in the UK	200,000
Parcel distribution company	300,000
Chocolate manufacturer	300,000
Breakfast cereal manufacturer	300,000

It is important to note that since starting to promote this site there have been a number of occupiers who could have moved to a warehouse at South Caldecotte but have taken buildings elsewhere, or are in discussion on sites outside of Milton Keynes. In the last two years these include:

- 4PX Has taken 335,000 sq ft in Leicester
- Aldi Has bought land in Bedford to construct an 800,000 sq ft warehouse

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•	Amazon	Has taken 405,000 sq ft in Bedford and 532,000 sq ft in Hinckley
•	BSH	Has taken 850,000 sq ft in Corby
•	B&M	Has bought land in Bedford and constructed a 1 million sq ft warehouse
•	Clipper	Has taken 535,000 sq ft at DIRFT
•	Eddie Stobart	Has taken three units totalling 600,000 sq ft in Northampton
•	Europa	Has taken 500,000 sq ft in Corby
•	Great Bear	Has taken 334,000 sq ft in Banbury
•	Makita	Unable to find a site for 350,000 sq ft in Milton Keynes reviewing options
•	Wayfair	Has taken 1,000,000 sq ft in Lutterworth
•	West Coast	Moved from Milton Keynes to take 340,000 sq ft in Andover

5.0 Market Supply – Short Term

The strong level of take-up in the UK market over the past few years both from second-hand Grade A stock and recently constructed speculative space had reduced availability across the UK at the end of 2019 to a near record low of 6%. Confidence in the strong fundamentals of the Industrial and logistics market has led to further speculative construction which had increased availability to 8% but this only represents 13 months' supply of demand compared with the average level of Grade A take up over the previous five years.

During 2019, the East Midlands witnessed the second year in a row of record take-up and, according to Savills, take-up totaled 9.57 million sq ft (units in excess of 100,000 sq ft), reflecting an increase of 3.8% on 2018's figures. The East Midlands, followed by the South East, remained the UK's most active region in terms of take-up and Savills estimated that just 0.93 years of supply remained across the region at year end. There is still an appetite for speculative development, but the tight supply of ready and available sites will restrict the ability to deliver these new buildings exacerbating the supply constraints in the market.

With the letting in May 2020 of MK360 on Standing Way, Snelshall East to M&S, and following the letting of 186,000 sq ft Latitude unit at Magna Park Milton Keynes to SOSHC and the letting of the 575,000 sq ft Altitude unit at Magna Park Milton Keynes to Amazon the only new large scale logistics facility in Milton Keynes is the 220,000 sq ft building at Griffen Park on Yeoman's Drive which is compromised due to hours of use and lighting restrictions relating to the close proximity of houses to the building's loading yard.

There is currently only one unit of over 300,000 sq ft under construction, this is the 312,000 sq ft Magnitude building at Magna Park Milton Keynes, which will be ready from occupation next month. Good levels of interest are being shown in the building.

In addition to the limited available supply of buildings, there is currently no land available for large-scale (350,000 sq ft+) logistics buildings in Milton Keynes. Below we list the employment site allocations in Milton Keynes which, on cursory inspection, would seem to offer numerous site opportunities but once the characteristics of the individual sites are considered then the true dearth of availability is laid bare.

For the sites to be truly appealing to the logistics market they need to be well located for access to the motorway and main trunk roads, ideally exceed 10 hectares in order to provide the scale of the units required by the market and have suitable planning permission to appeal to the

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logistics sector (i.e. have a B8 planning consent). In identifying the sites below both market knowledge and information contained within the Milton Keynes Core Strategy document has been utilised. The base date for the data is April 2013, therefore where we have adjusted this in the table to reflect the position as at May 2020 (the sites below are also referred to in Table 6.1 of the Draft Plan).

Location	Size (hectares)	Use Classes	Comments
Magna Park	10	B2/B8	Construction has commenced on the final plot at Magna Park with a 312,700 sq ft and 88,000 sq ft speculative unit due to be completed later this year.
Eagle Farm North	28	B1(c) /B2/B8	Completely developed and occupied by H&M in a 750,000 sq ft warehouse and Amazon in a 574,258 sq ft warehouse.
Shenley Wood	17.8	B1/B2/B8/C2/D1	Largest site being promoted is 2.9 ha so too small for logistics development.
Western Expansion Area	17	B1/B2/B8	Split into two employment areas creating smaller unit development opportunities.
Pineham	10.9	B1/B2/B8	Largest potential building circa 330,000 sq ft as part of land lies in Floodzone 3. *See Note 1 below.*
Walton	9.5	B1/B2/B8	Site split into 3 development areas two are residential only a small amount allocated for employment.
Wolverton Mill	8.2	B1/B2/B8	The site is too small for large scale logistics operations and is split up into smaller sites.
Knowlhill	7.4	B1/B2/B8	The site is too small for large scale logistics operations and is split into smaller sites.
Tower Gate	7.1	B1/C2/D1	The site is not identified for B8 uses, and is too small for large scale logistics operations.

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Location	Size (hectares)	Use Classes	Comments
Bletchley (Brickfields)	5.9	B1/B2/B8	The site is too small and too far West of the M1 for large scale logistics operations.
Kents Hill	5.2	B1/B2/B8	Currently looking to promote the employments sites for school uses, and the site would be too small for large scale logistics operations.
Linford Wood	5.1	B1	Identified for non B8 uses.
Snelshall West	5.1	B1/B2/B8/C1	The site that is being promoted is too small for large scale logistics.
Broughton/Atterbury	4.8	B1/B2/B8/C2/D1	The site is too small for large scale logistics operations.
Snelshall East	4.7	B1/B2/B8	Being developed by DHL for a 240,000 sq ft building for its own occupation.
West Ashland	4.7	B1/B2/B8	The site is too small for large scale logistics operations.
Northern Expansion Area	3.1	B1/B2/B8	The site is too small for large scale logistics operations.
Wolverton	2.6	B1/B2/B8	The site is too small for large scale logistics operations.
Caldecotte	2.5	B1/B8/C2	The site is too small for large scale logistics operations.

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Location	Size (hectares)	Use Classes	Comments
Mount Farm	1.9	B1/B2/B8	The site is too small for large scale logistics operations.
Redmoor	1.7	B2/B8	The site is too small for large scale logistics operations.
Woburn Sands	1.3	B1	No B8 consent.
Crownhill	1.2	B1/B8/C2	The site is too small for large scale logistics operations.
Wymbush	1.2	B1/B2/B8	The site is too small for large scale logistics operations.
Willen Lake	1.1	B1	No B8 consent
Fox Milne	1	B1/B2/B8	The site is too small for large scale logistics operations.
Old Wolverton	1	B2/B8	The site is too small for large scale logistics operations.
Total	159.1		

Note 1: The MKDP owned Pineham site listed in the table, which is located immediately adjacent to the sewage treatment works at J14 of the M1, has a development brief which was adopted in August 2016 and may therefore be brought forward for commercial development. Although the site is shown as 10.9 hectares a third of the site lies within flood risk zones 2 and 3, where development will not, according to the development brief, be permitted. If the site were brought forward for a single B8 building, then it looks likely that the largest building it could accommodate would be a circa 300 - 330,000 sq ft.

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6.0 Market Supply – Longer Term

Milton Keynes East is identified in the Local Plan as the main site that could provide longer term employment land within the town. This could provide 105 hectares of employment land immediately due south of Newport Pagnell and is likely to include an element of distribution warehousing.

The Local Plan envisages delivery of this once the infrastructure has been established and wider road network has been improved. A planning application for the development of two warehouses on 19.30 hectares within part of the Milton Keynes East Strategic Urban Extension area was refused planning permission in June 2020 on five grounds, the main ones being that the application was premature because of the lack of infrastructure and highway improvement works being needed. Given the extent of the infrastructure works needed it looks unlikely that employment land will be developed in Milton Keynes East SUE for a number of years.

7.0 Conclusions

South Caldecotte is identified as a Strategic Employment Site in Plan:MK and is an ideal location to service a wide range of logistics and warehouse requirements. Its prominent location, within the M1 corridor and immediately adjacent to the A5, provides occupiers with exceptional connectivity to the country's major commercial markets, container ports, international air and rail terminals, this accessibility to the strategic road network is key.

Market demand for large-scale logistics buildings has continued to grow in recent years, reflecting an improved economy and the growth of online retailers. With the completion of development at Eagle Farm North, coupled with the speculative construction on the final plot at Magna Park, Milton Keynes currently has no land to accommodate very large-scale logistics facilities in the next few years.

In assessing the unsatisfied occupier demand, the increasing demand from the distribution sector and the attractiveness of Milton Keynes as a location, the current land supply position leaves Milton Keynes unable to benefit from the long-term economic advantages these occupiers would bring. Since the H&M deal at Eagle Farm, if you were to look at the availability of land with all the appropriate key attributes able to accommodate occupiers looking for distribution facilitates in excess of 500,000 sq ft, of which there are a number in the market, there is no such site in Milton Keynes that could satisfy these requirements whereas South Caldecotte could accommodate many.

The site at South Caldecotte is centrally located and has the key attributes necessary for a key distribution park. The supply of large-scale logistics properties and land capable of accommodating them is limited and unable to meet the growing demand in the short to medium term. The site is well positioned to meet the growing demand for large-scale logistics properties.

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2. Appendix B: Hampton Brook Corporate brochure (extracts)

Pinnacle, Central Milton Keynes

HamptonBrook

- Hampton Brook is a privately owned property development and investment company focusing predominantly on the East Midlands and South East. Established in 1996, Hampton Brook is celebrating over 20 years in business
- Hampton Brook believes in working in partnership with occupiers, land owners and investors to maximise the outcome for all parties
- Hampton Brook have procured some of the most prestigious commercial developments across the region
- We pride ourselves in our local knowledge and professional expertise which allows us to deliver a wide ranging product from institutional to bespoke and reflects our ability to deliver for a range of building owners
- Hampton Brook are committed to sustainable development
- Excellent track record with over 6 million sq.ft. of bespoke commercial space delivered, with over 4 million sq.ft. in the pipeline
- Strategic Land portfolio of over 750 acres being brought through the planning system

Panattoni Park, Jn 16 of M1, Northamptonshire
Industrial & Logistics Park

- Strategic land promotion of a 120 acre site at the largely underdeveloped Junction 16 of the M1 Motorway in Northampton
- Hampton Brook negotiated the land drawdown with multiple land owners
- Hampton Brook assembled, promoted and delivered an outline planning consent of 1.7m sq.ft. for warehouse and industrial use on a previously unallocated site
- The land assembled by Hampton Brook enabled the scheme to be constructed by Centerbridge & Panattoni, who are delivering buildings of between 100,000 sq.ft. and 800,000 sq.ft.

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Panattoni Park, Junction 16 of M1, Northamptonshire

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Brioche Pasquier, Milton Keynes
Bespoke Manufacturing Warehouse HQ

- Hampton Brook worked in partnership with Brioche Pasquier to develop their bespoke UK headquarters manufacturing facility totalling 250,000 sq.ft. with 160,000 sq.ft. in Phase 1
- Hampton Brook acquired the former Alps Electronic facility which required regeneration and brought it forward through the planning process to obtain a new outline planning consent for B1, B2 and B8 use. This enabled infrastructure to be advanced to ensure Brioche Pasquier's timescales were met
- In addition to the development of the building, Hampton Brook undertook a comprehensive fit out programme on behalf of Brioche Pasquier
- Working in partnership with the local Council, UK Trade and Industry and together with our flexible approach to meet the occupier's bespoke needs, ensured that Brioche Pasquier chose Milton Keynes for its first UK Manufacturing facility, providing further inward investment

Magnetic Park, Desborough, Northamptonshire

Business Park Development

- Hampton Brook have developed 600,000 sq.ft. across the 56 acre business park in 6 buildings over the past few years
- The site was anchored by a lease to Great Bear for a unit of 473,000 sq.ft. which delivered the infrastructure to enable the subsequent development of the rest of the business park
- Further freehold bespoke premises have been delivered for Okay Engineering, Jacaranda Carpets, Dunkelman Shoes and Partridge Print in various buildings of between 20,000 sq.ft. and 40,000 sq.ft.
- Land at the front of the scheme was sold to BP / M&S for a fuel station

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Magnetic Park, Desborough, Northamptonshire

Testimonials

Reiser - Milton Keynes
"We were delighted to work with Hampton Brook to provide our much needed expansion space within Milton Keynes. As part of the build process, Hampton Brook undertook a complex fit-out package to include machine testing and customer demonstration areas, which was a key driver behind our reasons to relocate, Hampton Brook took on board the unique nature of our requests and delivered an excellent building."
Richard Watson, Managing Director, Reiser

Belkin - Rushden, Northamptonshire
"After meeting a number of developers, Hampton Brook proved to be able to provide a building to our exact specification in the appropriate timescale. They were also able to provide the necessary changes required which inevitably occur during construction, on time and budget."
Adrian Walters, Logistics Director, Belkin Components

Deloitte LLP - Milton Keynes
"We welcome the opportunity to relocate to Central Milton Keynes and to take a significant amount of space in this prestigious development. We look forward to our continuing relationship with Hampton Brook for the delivery of first class facilities for our people."
Bob Warburton, Managing Partner, Finance & Legal

Milton Keynes Council - Milton Keynes
"Working in partnership with development companies such as Hampton Brook is crucial in securing new investment into the city and bringing forward new sites and premises. This is a key example of the sort of work we do and it shows how working together in partnership can give results."
Pam Gosal, Head of Corporate Economic Development & Inward Investment

Radstone Technology - Towcester, Northamptonshire
"Being the manufacturer of a cutting edge hi-tech product our building had to be designed by people who understood our product, and how it could be manufactured now and in the future. Hampton Brook structured a team that were able to fulfil our brief."
J. Perrin, Managing Director

Broadband Buyer - Milton Keynes
"We are delighted to have secured this high quality headquarters warehouse and office; working with Hampton Brook has allowed us to protect the future and growth of the company within Milton Keynes."
Oliver Essame, Managing Director, Broadband Buyer

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Brioche Pasquier UK Ltd - Milton Keynes
"Hampton Brook's development expertise has allowed us to deliver this new manufacturing facility in the UK. The new factory will also enable us to become closer to our customers and distributors within the UK. Brioche Pasquier will continue our development in the UK through this new production site."
Pascal Pasquier, CEO

Great Bear - Desborough, Northamptonshire
"Hampton Brook's proactive and responsive attitude throughout the whole process of development, facilitated our move into the new 476,000 sq.ft. warehouse on budget and on time. This enabled a seamless transition of the storage distribution service contract which was vital to our business."
Colin McDavid, Great Bear Distribution

Trek Bicycle Corporation Ltd - Milton Keynes
"We have worked with Hampton Brook on the design of the new facility at Tilbrook which incorporates indoor bike parking areas, and full shower and changing facilities as over half of our staff are keen cycling commuters."
Nigel Roberts, Director, Trek Bikes UK

Dentons - Milton Keynes
"We're delighted to be working in partnership with Hampton Brook. The Pinnacle is an ideal choice for us, providing a prestigious location for the firm and excellent facilities for our staff."
David Risbridger, Managing Partner, Denton Wilde Sapte LLP

Hankook Tyres - Daventry, Northamptonshire
"Hampton Brook is committed to understanding the needs of each and every client, to ensure the right product is developed on time every time. There is a firm commitment to a partnership approach by all parties' involved ensuring maximum performance and satisfaction for all."
R. Page, Managing Director, Hankook Tyre UK Ltd

Morgana Systems - Milton Keynes
"We selected Hampton Brook to be our preferred development partner because of their successful track record in providing properties to occupier's specific requirements, delivered on time and to the highest quality and value, with our new 45,000 sq.ft. bespoke facility we have been able to incorporate our showroom, offices, R and D, warehousing and workshop under one roof. This was a vital requirement for us to accelerate our product development programme and maintain our international reputation as leaders and innovators in the emerging digital print and document finishing solutions market. The new premises are an excellent base to allow Morgana to grow and prosper in the future."
Bob Legrove, Finance Manager, Morgana Systems Ltd

3. Appendix C1: Savills Big Shed Briefing, January 2020

UK Logistics – January 2020

SPOTLIGHT
Savills Research

Big shed briefing

savills


IM Properties Mercia Park where Jaguar Land Rover has signed a lease for a 2.94m sq ft campus – the largest single occupier deal in UK history

Take-up 31% above average • Vacancy stable at 6.65% • 6.56m sq ft development pipeline

31%

2019 take-up above long term average

Nationwide overview

Take-up exceeds expectations and vacancy levels remains stable

Richard Sullivan
National Head
of Industrial & Logistics
020 7409 8125
rsullivan@savills.com

DIRFT 535 where Prologis delivered the largest speculative unit of 2019

There have been plenty of economic and political issues with the potential to impact adversely on the UK industrial and logistics market in 2019 but the "stats" and general sentiment paints a positive picture.

In the UK Brexit has dominated the political debate, so much so that a general election was called in December 2019. In a European context economic growth in key markets such as Germany has stalled and at a global level there remains continued uncertainty regarding future trading arrangements between the USA and China.

As we move into 2020 with a government that has a strong working majority we expect that occupiers will be freed from the shackles of uncertainty which may have delayed investment decisions in recent years. This could manifest itself in a number of ways including new entrants to the market, mergers and acquisitions or simply business investment to optimise supply chains for an omni channel retail environment.

Take-up

Despite the aforementioned geopolitical uncertainty it is pleasing to report that take-up for units over 100,000 sq ft has reached 34.21m sq ft across 136 separate transactions; both measures up on their long term averages by 31% and 24% respectively.

Leading the pack geographically are the East Midlands, the South East and Yorkshire where new take-up records have been set.

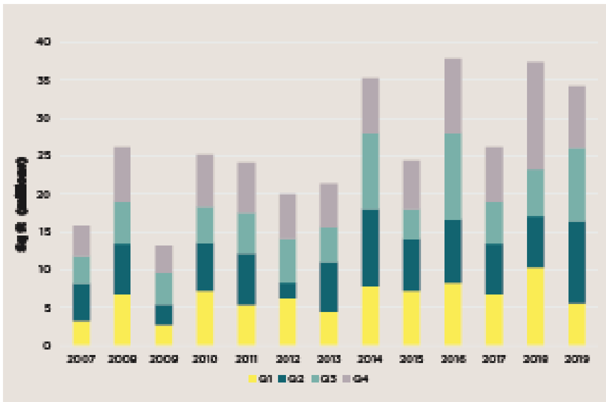
Interestingly by size the market rebalanced somewhat in 2019 with less space transacted for units over 500,000 sq ft, down 3.65m sq ft to 9.84m sq ft. This meant that the key driver of demand came from units between 100 - 200,000 sq ft which accounted for 35% of all the space transacted.

Another positive trend in our take-up stats was the fact that no one sector or occupier dominated, as has happened in previous years. Indeed, 2018's largest occupier Amazon only accounted for 11% of the market this year.

Supply and Pipeline

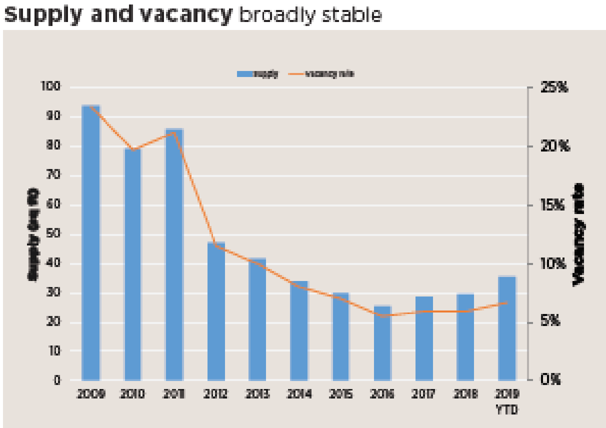
Nationwide supply has risen by 3.92m sq ft and now stands at 35.79m sq ft, reflecting a vacancy rate of 6.65%. Given that we saw 8.88m sq ft of speculative space achieve practical completion in 2019 it is remarkable that vacancy increased by just 39bps. We are not forecasting any sharp rise in supply in 2020 as there is currently just 6.56m sq ft, across 30 units, under construction. However given a generally more stable and positive economic outlook we may see some further speculative development announcements during the course of 2020.

Take-up pattern of strong year/average year broken



Source Savills Research

Supply and vacancy broadly stable

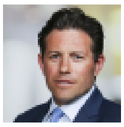


Source Savills Research

> A record year of take-up with demand recorded across all size ranges

London and the South East

New take-up record set



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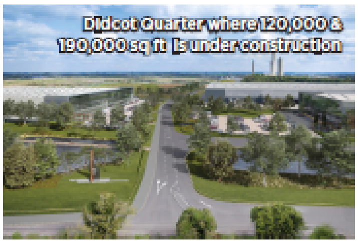


Supply

Over the last 12 months supply has increased by 4.5% and now stands at 5.78m sq ft, compromising 30 separate units. Of the space on the market 74% is now classified as grade A, up from just 43% in 2015.

Take-up

Take-up totalled 7.88m sq ft for 2019, a 9% increase on 2018 and a 56% increase above the long term average for the region and a rise of 660,000 sq ft on 2018 setting a new record in the process. In February Amazon took the 574,000 sq ft Altitude unit from Gazeley, which is the largest deal for a speculatively constructed unit in 2019. The largest deal however was in Didcot where a data centre provider purchased land to construct a 700,000 sq ft data centre. Within the M25 SEGRO signed the largest leasehold BTS since 2011 as Ocado signed for a new 304,355 sq ft fulfilment centre in Purfleet.

However, deal volumes in 2019 have centred around the smaller size bands 48% of all deals being for units under 200,000 sq ft. This has meant the average deal size in the region has fallen by 30% to 202,169 sq ft.

There is continued occupier demand for grade A space in the region as 45% of take-up has been for BTS units. Good news for developers however is that 1.78m sq ft of speculative space was taken in 2019, the highest amount since 2011.

Development Pipeline

There are eight units under construction totalling 1.35m sq ft. The largest unit due for delivery in 2020 is Magnitude in Milton Keynes where Gazeley are speculatively developing 312,700 sq ft, set to achieve practical completion in Q3 2020.

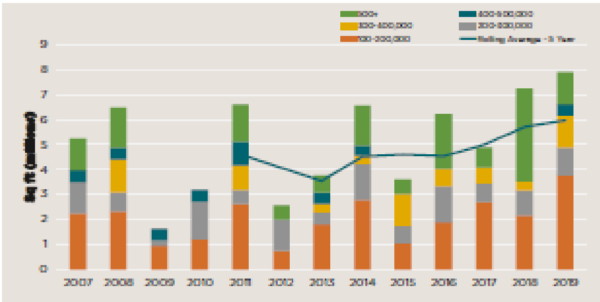
Of the eight units, three are within the M25 with the larger buildings being spread across the wider South East region, meaning that we do not currently see any micro market over supply driven by speculative development.

Key statistics

	Stats	yr/yr change
Take-up	7.88m sq ft	↑ 9.1%
Supply	5.78m sq ft	↑ 4.5%
Development Pipeline	1.35m sq ft	↓ 11%
Quoting Grade A Rent	£7.75-£20.00/sq ft	↑ 8.1%
Vacancy rate	5.00%	↓ 5bps

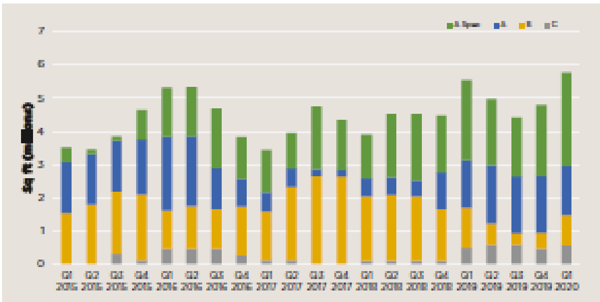
Source Savills Research

Take up New annual record set



Source Savills Research

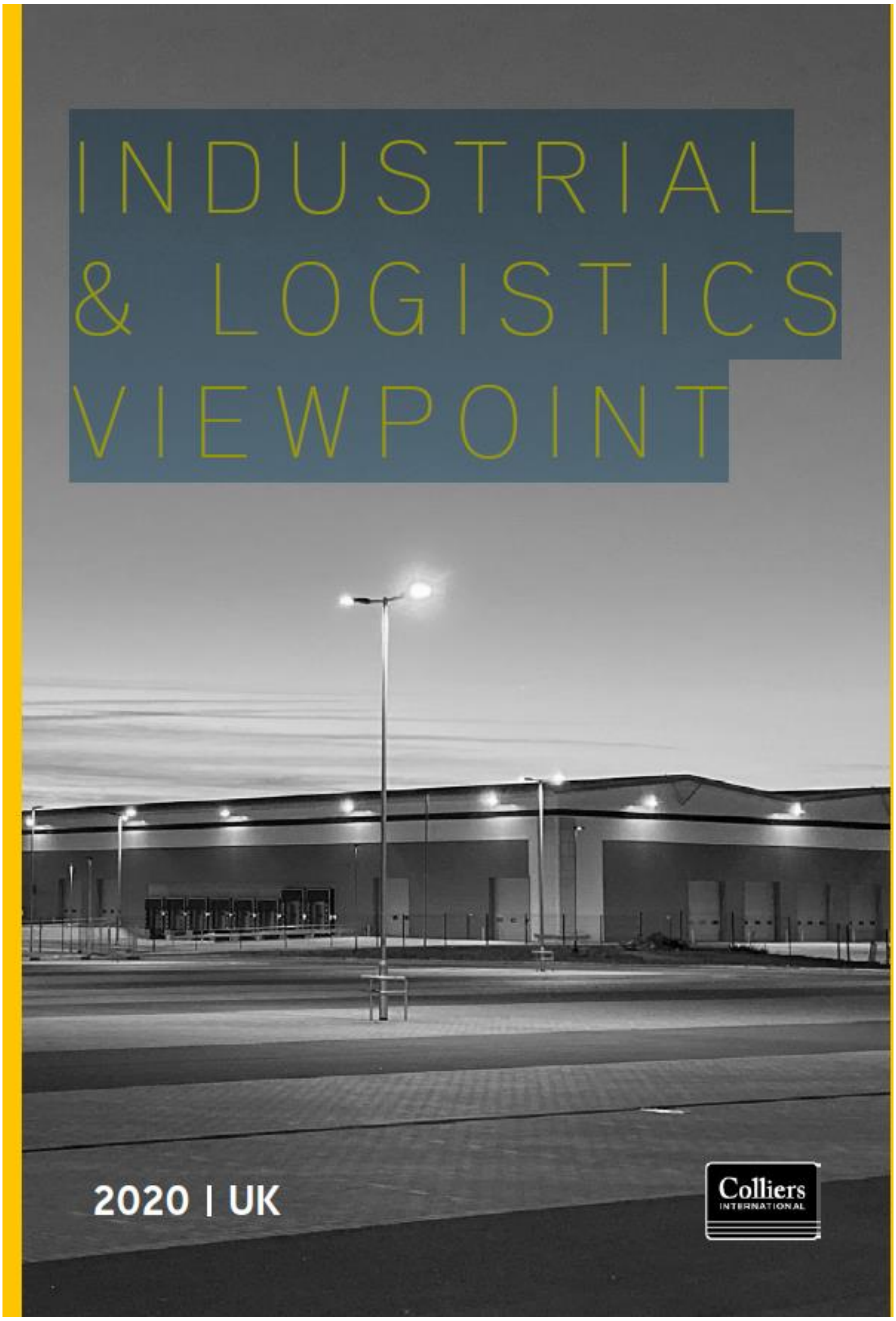
Supply volatility driven by larger units



Source Savills Research

NICOL ECONOMICS

4. Appendix C2: Colliers Industrial & Logistics Viewpoint, March 2020



NATIONAL MARKET

Economic outlook

The heightened economic volatility that we have seen in the wake of the Government's Brexit negotiations and planning in 2019 has placed an unprecedented strain on UK supply chains. There are concerns that economic weakness could impact consumer spending. While the latest ONS data shows a very strong labour market with an unemployment rate of 3.8%, Q4 2019 household spending saw a negligible 0.1% q/q rise. Annual wage growth in December 2019 topped 2.9% and with a sluggish inflation at about 1.4%, this should support consumer spending in 2020.

GDP growth in 2019 is expected to reach 1.3% (Oxford Economics), partly impacted by trade protectionism and an associated rise in global uncertainty which caused a deterioration in business investment. The economic performance in 2020 is forecast to moderate to 1%, before picking up to 1.9% in 2021.

It is worth mentioning that the impact of Covid-19, commonly called Coronavirus, is not yet visible in the official data, but given China's position at the centre of many global supply chains, a temporary negative impact of some scale is likely.

Market overview

Strong market fundamentals are expected to drive the industrial sector forward as occupiers' focus on streamlining supply chains continues unabated. Based on current market dynamics, total space under offer, and the wider consumer and technological landscape, we were expecting 2020 to be a record year in terms of demand. However, material downside risks associated with the Covid-19 virus may limit the occupational upside over the first half of the year.

2019 was a very challenging year for business planning. Political uncertainty and exchange rate volatility made it extremely difficult for businesses to commit to large capital expenditures. Nevertheless, the sector has been supported by strong occupational demand driven by occupier needs to future-proof supply chain operations. In this regard, take-up figures for large distribution warehouses (greater than 100,000 sq ft) topped 30m sq ft, in line with the five-year average.

Supply has increased and now stands at around 36m sq ft, but considering that 9.0m sq ft of new-build space was completed in 2019, the market remains well-balanced in terms of supply and demand, with developers seemingly unfazed by the current economic jitters. In this respect, our records show that 6.6m sq ft is either under construction as of February 2020, or recently completed and available to let.

In terms of MSCI performance measurements, the industrial sector out-performed all other property asset classes, partly driven by very strong rental growth in London and key South East locations. The sector has enjoyed strong rental growth for several years now and consequently, we expect this to moderate in 2020, although logistics units located in densely populated areas will reach above average returns.

The view from the expert

Now that the political impasse around Brexit has been resolved following the December 2019 election, the sector can start to move forward. The big challenge facing the logistics industry remains the low margins with retailers and consumers still expecting more for less. This is not sustainable in the long-term.

The conundrum of low margins versus large investments required for new technologies, mechanisation and automation will continue to define who will be able to future-proof their supply chain.

We should expect to see consolidation in the UK based freight forwarding and 3PL sectors, particularly amongst SMEs.

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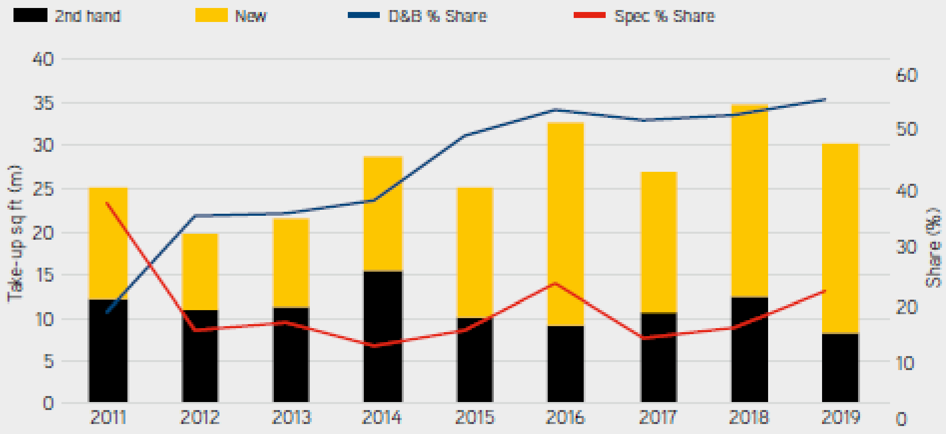
Supply chain challenges

The success of a retailer's online strategy is closely linked to the distribution sector and supply side functions. This explains the strong levels of take-up nationally for both large distribution warehouses and urban logistics space as companies seek to cope with increasing demand.

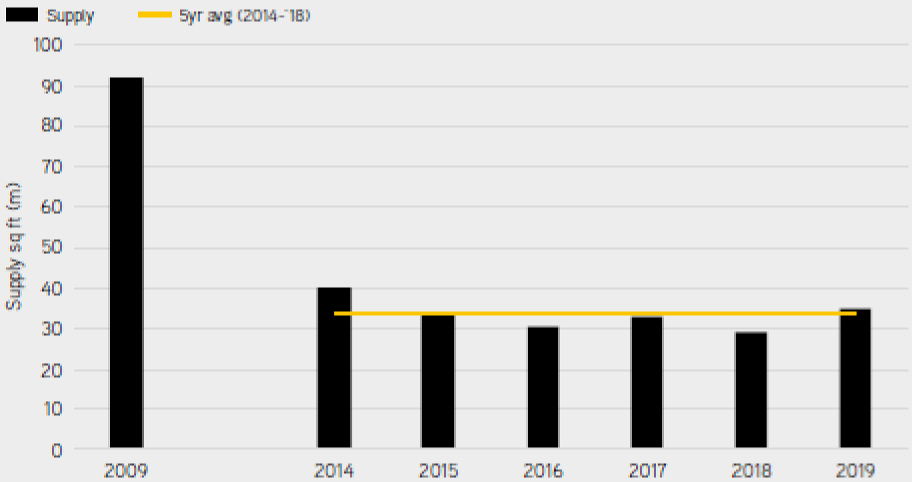
Colliers predicts that the next 10 years will be transformational in the way that occupiers use their industrial space and integrate technology. The use of robotics and the implementation of the 5G network will allow greater control over stock management and turnaround times. Consequently, the use of 'big data' and increased digitisation will be the next battleground for supply chain operators and retailers as they look to exploit synergies within their global business. The continuous growth of ecommerce, coupled with moderate economic growth prospects, will force retailers to continue to develop their omnichannel strategy more efficiently.

Take-up by type of unit - Strong fundamentals continue to drive the sector forward



Note: units 100,000+ sq ft | Source: Colliers International

National Supply - The market remains well-balanced with supply in line with the five-year average



Source: Colliers International

NICOL ECONOMICS

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LONDON & THE SOUTH EAST

Occupier market

The London and South East market had a strong year in 2019 with take-up for distribution warehouses larger than 100,000 sq ft reaching 6.1m sq ft. This is 9% up on 2018. When analysed within the national context, take-up in the wider South East market (including London) accounted for a national share of 21%, the second largest share after the Midlands (45%).

A recurring theme over the past few years has been the lack of sites and limited choice for occupiers to fulfil their requirements and based on the latest study, there is less than 10 months' worth of supply in the wider London and South East market. Consequently, both London and the South East out-performed other UK locations in terms of rental growth, with the latest MSCI quarterly data for Q4 2019 showing an annualised rental growth of 3.9% in both markets.

While there has been slight uptick in the development pipeline, availability still remains very tight and occupiers, in some instances, are exploring a wider range of locations due to several factors, such as rental growth, labour availability and most importantly, unit specifications. Emerging locations along the A1(M), such as Biggleswade, and M40, like Banbury and Bicester, have attracted interest from occupiers and developers. Amongst some of the most notable deals, Colliers advised Tritax Symmetry on the pre-let of a new 661,000 sq ft purpose-built RDC at Symmetry Park Biggleswade. Upon practical completion, targeted for Q1 2021, Co-op will take a new 20-year lease. Furthermore, the electric vehicles and components manufacturer, Arrival Automotive Ltd, took Unit 1A, Link 9 in Bicester (120,599 sq ft). The unit was let in December 2019, around eight months after practical completion.

With regards to activity inside the M25, the capital continues to attract a wide range of occupiers. Some of the key deals include Amazon taking 180,000 sq ft at Wembley180, whilst the food wholesaler, Wanis Ltd, agreed terms on a freehold turnkey distribution warehouse (140,000 sq ft) at SEGRO Park Rainham and Beavertown Brewery signed a pre-let of a 126,595 sq ft design and build unit at Enfield Distribution Park.

Looking forward, we expect this strong demand, partially driven by the growth of ecommerce, to continue to put further pressure on rents. Due to the lack of available sites, industrial investors will be increasingly assessing alternative use investment opportunities, for a long-term industrial play. This will potentially be facilitated as the change in consumer behaviour, advances in technology and urbanisation continue to bring the industrial and retail sectors closer together.

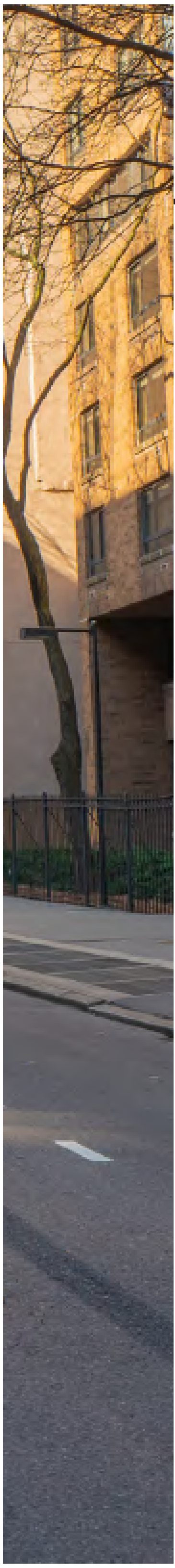
Investment

Investor appetite for assets located in London and the South East of England continues unabated as propcos, UK institutions and overseas funds remain attracted by reversionary investment opportunities and the long-term prospects that the market has been offering. As a result, provisional investment volumes reached almost £1bn in London in 2019, up 43% year-on-year. On the other hand, volumes for the wider South East market registered a 17% contraction, over the period, to £1.6bn.

5. Appendix C3: The Future Of Global Real Estate", Savills, May 2020

NICOL ECONOMICS


NEGOTIATING
AN ANCIENT
DISRUPTOR
ASSESSING THE
LONG-TERM IMPACT
OF COVID-19 ON
REAL ESTATE
BY SAVILLS WORLD RESEARCH



Manhattan, New York during stay-at-home measures in April 2020

When we decided on the theme 'tipping points' for our 2020 Impacts programme at the end of 2019, various topics were discussed: climate change, demographics, technology and many more. What we didn't know is that we were about to be faced with a pandemic. Covid-19 changed the way we work and live almost overnight and is likely to have a long-term impact on real estate. A Black Swan event (or Grey Rhino for those who argue the warning signs were visible) tipping point.

The impact Covid-19 will have on the global economy is being fiercely debated. Most forecasters agree that there will be a global recession deeper than the global financial crisis (GFC) and many expect it to be the deepest since the Second World War. The debate is around the shape of the recovery. Will there be a V-shaped rebound? Or is a U, L or W shape more likely? We're even hearing discussions about 'a Nike swoosh-shaped' recovery.

As countries come out of their strict lockdowns but social distancing is still encouraged, the long-term impact of Covid-19 is yet to be seen. Many believe the world will emerge as a different place. Here, we discuss the potential changes that may be seen across the different sectors.

1. OFFICES

Despite the success of home working, offices still provide a vital role in culture, community and connection

The Covid-19 pandemic has the potential to become one of the biggest tipping points for the future of offices, impacting corporate location strategies, office design and management as well as occupier practices.

Many corporates have allowed flexible working in some form for years. However, the large proportion of employees working away from the office in the wake of Covid-19 for an extended period may be the catalyst for accelerating flexible working patterns. According to the Savills Global Sentiment Survey of research heads in 31 countries around the world, 84% of respondents expected home working to somewhat increase, the remaining 16% expect it to greatly increase. Over half expect the use of video conferencing to greatly increase after the pandemic.

But the office will still play a vital role. Katrina Kostic Samen, Head of Savills KKS Workplace Strategy & Design says: "Workplace change was inevitable. However, what we expected to evolve over time transformed almost overnight in response to the pandemic. These exceptional circumstances are akin to an elastic band being stretched to its limit; it will go back but not completely.

"It will be down to businesses to determine how this evolves but it must be with people at the heart. The role of the office long term is vital to provide what we crave – culture, community and connection, essential after the emotional and physical impact of the pandemic."

We expect to see a shift towards diverse location strategies and the emergence of a hybrid model, a combination of home working, local office hubs and a head office. This is an opportunity to improve long-term employee wellbeing, organisational resilience, and sustainability. A reduction in the environmental footprint may arise from less travel, shorter supply chains and sustainable building design, to name a few examples.

If the home is to become more important as a workplace, consideration will need to be given to longer term work from home policies. Cyber security and confidentiality, health and good ergonomics for a home office will all need to be managed.

Communication and policies will be needed to develop 'flexible people' and not just focus on flexible workplaces. In some places, particularly the developing world, slow home internet connections or high-density households mean working from home is just not feasible.

An increase in home working isn't the only trend that could change office space. Safety, hygiene and employee wellbeing are in the spotlight. Regular deep cleaning of the work premises has become a fundamental health and safety ›

NICOL ECONOMICS

consideration for businesses and is one of the more visible ways in which a company can demonstrate its commitment to providing staff with a safe working environment. Occupiers may look again at building ratings schemes such as LEED and WELL that are focused on creating sustainable spaces and delivering occupant comfort, health and wellbeing.

Contactless design in buildings, for example in appliances, lifts and doors, is expected to increase according to 87% of Savills research heads across the globe.

Some 63% expect occupier density in offices to decrease. This could see occupiers taking the same amount, or potentially more, office space as before the pandemic, but using it differently.

Sarah Dreyer, Head of Research for Savills US says: "Going forward, health and safety will come first. How this plays out in office demand is yet to be seen and is not likely to be clear until more effective virus treatment and prevention measures are available. At one end, those organisations that have adapted well to having a remote workforce could re-evaluate future in-office functions and ultimately reduce office size requirements. The net impact on demand will be affected by changes to workplace design and a possible reversal of high occupancy densities and desk sharing to one of lower densities and more generous circulation and collaboration areas."

Despite Savills researchers expecting a slight fall in occupier demand, they are less bearish on office investment activity.

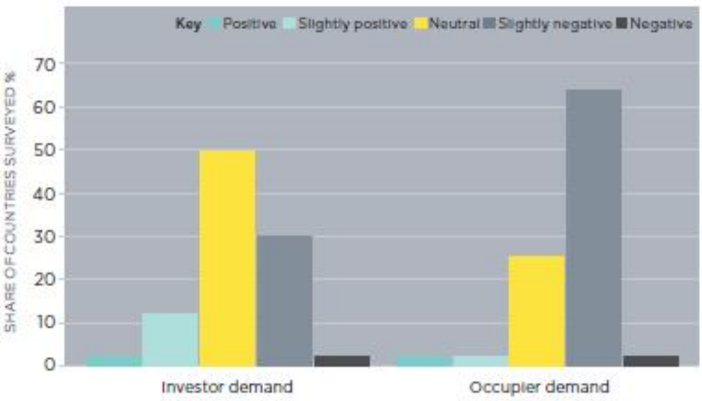
Half expect no change due to Covid-19, one-third forecast less activity and the remainder expect an increase. This reflects the ongoing demand for real estate from investors seeking long term secure income streams and the comparatively good returns the sector offers.

Flexible offices, in particular hot desks, could be impacted by the focus on hygiene in the short term. Many flexible offices are putting together plans for adjusting the use of their space while the pandemic is still ongoing, but we expect these design changes to be temporary.

Larger companies may find flexible space does not suit them in the shorter term as they prefer to retain control of the cleaning procedures and density. However, long term, companies of all sizes are expected to focus on flexibility in terms of overall costs and office space in particular, which will likely benefit flexible offices.

Jessica Alderson, Global Researcher, Workthere, adds: "Our data, collected from over 100 flexible offices, showed that 62% of flexible office providers are optimistic about the prospects for the sector over the next

IMPACT OF COVID-19 ON OFFICE DEMAND AFTER PANDEMIC HAS PASSED

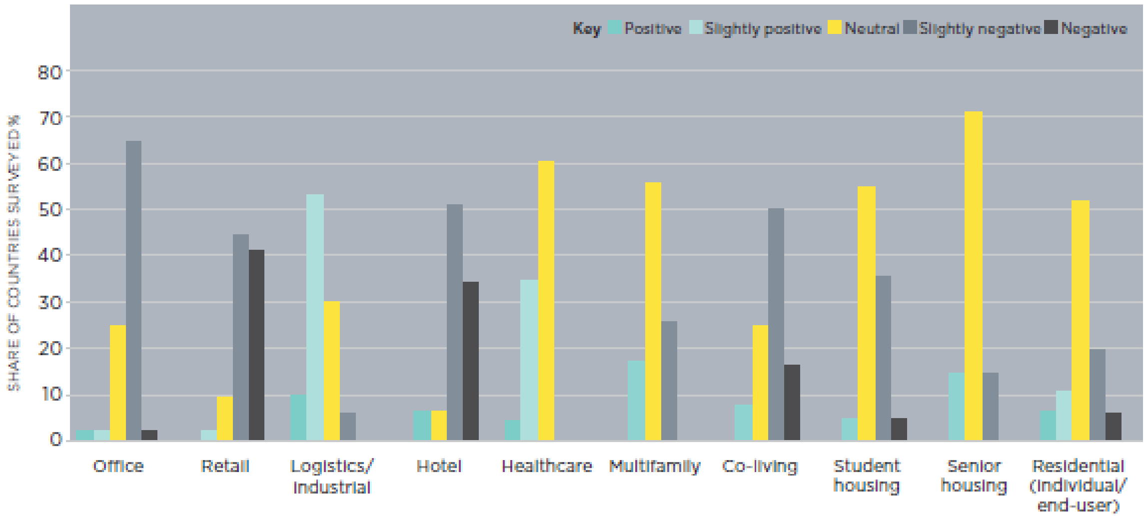


Source Savills Research

NICOL ECONOMICS

"WE CAN EXPECT THE GROWTH OF REGIONAL MANUFACTURING HUBS SUCH AS MOROCCO FOR WESTERN EUROPE, AND MEXICO FOR THE USA"

IMPACT OF COVID-19 ON OCCUPIER DEMAND AFTER PANDEMIC HAS PASSED, BY SECTOR



Source Savills Research

12 months. In the short term, flexible offices will likely face challenges, with increased risk of contract cancellations as companies go into survival mode, albeit global contract occupancy levels are still above 70%."

2. LOGISTICS

We expect to see supply chain diversification and the growth of regional manufacturing hubs

Thanks to the global growth in online retail, logistics was a sector already in vogue. The pandemic is expected to accelerate its ascension. Some online retailers, particularly supermarkets, struggled to keep pace with the surge in demand from consumers during lockdowns, pushing their supply networks to the limit.

With more people than ever before using online retail, the market is forecast to deepen longer term. Further investment in logistics space to service this demand and ensure resilience against future surges of demand will follow. Some 63% of country research heads expect to see some kind of positive impact on occupier demand in the logistics sector as a result of Covid-19.

Globally, one of the most widely felt impacts of the outbreak is in manufacturing and the supply chain. In 2003, at the time of SARS, China was less integrated into global supply chains and constituted approximately 4% of the world economy; it now stands at 16%, according to the IMF.

Domestic factory closures and the disruption of sending everything from car parts to clothing overseas effects companies from Boston to Berlin. Just-in-time inventories mean the cushion for even the slightest disruption is minimal, and this resulted in empty warehouses and shelves, and consumers unable to consume.

Companies may look to diversify their supply chains across several global locations to insulate against possible future incidents. This is a trend that had already started in Asia as manufacturers took advantage of lower-cost locations outside of China, leading to greater investment in Vietnam, Cambodia and India. The trend was further accelerated by the US-China trade war.

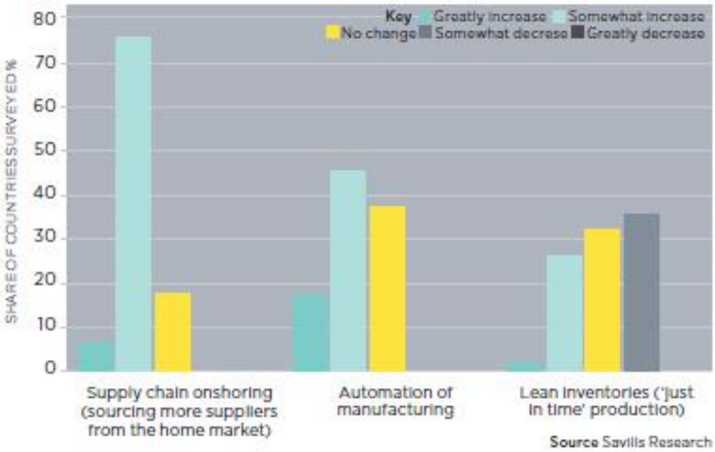
However, China dominates global manufacturing, and we expect to see a gradual, not immediate, shift. Moving operations costs money. Increased automation may offset higher labour costs, but it requires huge capital investment.

Other factors must be taken into consideration. Kevin Mofid, Head of Savills UK Logistics and Industrial Research, says: "By bringing operations closer to their home markets, costs will likely increase. Will the post Covid-19 consumer be prepared to accept higher costs at a time when economic activity is set to be slower? Moreover, the perception that nearshoring increases the amount of inventory held in warehouses is not necessarily true. Shifting more manufacturing to the home market may in fact weaken demand for logistics as supply chains shorten."

In reality, we're likely to see future investment that would have gone solely to the lowest-cost destination be spread across many. In a trade-off between cost and distance, nearshoring is likely to outpace onshoring. We can expect to see the growth of regional manufacturing hubs such as Morocco for western Europe, and Mexico for the USA. ›

NICOL ECONOMICS

IMPACT OF COVID-19 ON SUPPLY CHAINS AND MANUFACTURING AFTER PANDEMIC HAS PASSED



Source Savills Research

This could change the dynamics of regional logistics networks. For example, Morocco, easily accessible to western Europe by ferry, could readily integrate into the existing logistics corridor that spans the ports of southern Spain, the Iberian Peninsula into France. This, in turn, may boost demand for logistics at strategic entry points, such as Algeciras, Valencia and Barcelona.

3. RETAIL

Online retail will accelerate, but the desire for physical retail will remain

Consumers were already looking for more from their retail experience prior to the pandemic. As Tom Whittington sets out on page 46, we can expect even greater consumer appetite for community and convenience-based retail, and a higher share of discretionary spending on leisure experiences rather than superfluous purchases. This will have a further knock-on effect to the way we shop and the amount of retail space we need. More repurposing and re-imagining of existing retail space will follow.

While the rise of online retail is expected to accelerate, shopping is a sensory experience and the desire for physical retail will remain. In emerging markets in particular, shopping is a recreational activity and a hallmark of the burgeoning middle classes. Our researchers in India, Indonesia and Thailand all cited a more positive outlook for the sector once the pandemic has passed.

These countries have among the lowest e-commerce penetration rates in the world and for the majority of consumers physical retail is still the only retail.

4. HOTELS

Hit hard in the short term, but the longer-term fundamentals driving demand will stay unchanged

The hotel market was one of the hardest hit by the Covid-19 pandemic in terms of operational performance. International travel restrictions and national lockdowns saw many hotels close across the globe. Yet, the long-term demand fundamentals remain largely unchanged. Marie Hickey, Director, UK Commercial Research, Savills, says: "Once travel restrictions are lifted there will continue to be short-term challenges facing demand and operational recovery. However, the longer-term fundamentals driving demand remain, with many commentators forecasting that hotel performance will be back at pre-Covid-19 levels by 2022."

For our research heads across the globe, the expectations of travel patterns once the pandemic has passed vary. Just over half believe personal domestic travel will increase, compared with 29% who think it will fall. However, 71% and 77% expect personal international travel and business travel to decrease respectively.

Business travel in many parts of the world was not back at pre-GFC levels when Covid-19 struck, some of which

Consumers still value the sensory experience of physical retail

6. Appendix C4: Savills Big Shed Briefing, July 2020

UK Logistics – July 2020

SPOTLIGHT
Savills Research

Big shed briefing

savills

Savills, acting on behalf of NewCold, have acquired 25 acres of land in Corby * to construct the largest cold store in Europe at c.640,000 sq ft
*Image used is existing facility in Wakefield

H1 take-up 66% above long-term average • Vacancy stable at 6.58% • 6.25m sq ft development pipeline

2020 H1 take-up
over the same period
for 2019

Nationwide overview

Strong performance during Covid-19 lockdown period

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Panattoni Park Nottingham: 550, 000 sq ft leased to Amazon

It is extraordinary to think how much the world has changed since our last market update at the start of 2020. The personal and professional challenges resulting from the pandemic are unprecedented and , for everyone, the focus remains on staying safe and saving lives. With lockdown restrictions starting to ease it is also becoming more evident how important the UK industrial and logistics sector is to our daily lives and instrumental to our economic recovery.

In many respects supply chains have been tested to the limit, initially to feed the nation and provide for essential services to cope with the pandemic. Examples include establishing temporary hospitals, sourcing and distributing PPE and keeping food shelves stocked. Consumers have relied on all other non-essential purchases being satisfied via online platforms.

As we continue to adapt to this new normal, some interesting statistics are emerging with online sales now accounting for 33% of all retail sales, up from 21% at the start of the year. Consequently, logistics real estate is benefiting from this increase, reflected in our half-year take-up figures. This early boost to our economy is welcome, but we must be mindful that there is still much hardship and disruption to endure as the country emerges from lockdown. Our sector has a vital part to play in getting the country back on its feet.

Take-up

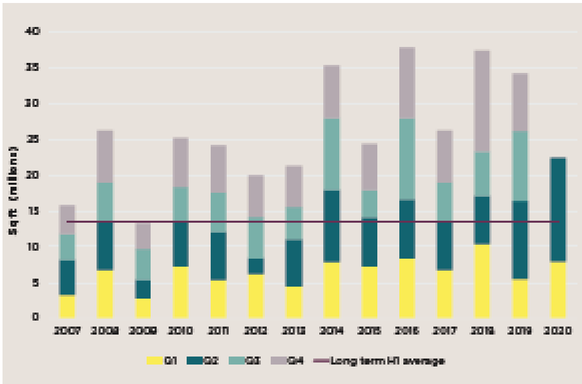
Given the global turmoil created by Covid-19, it is remarkable to report that take-up for H1 2020 has reached 22.4m sq ft, this is the best H1 performance ever recorded and is 38% above 2019 and 66% above the long-term average. Scratching the surface of the data, however, shows that 36% of the take-up has been to Amazon and a further 11% of the take-up has been for deals where the lease is for less than 12 months due to Covid-19.

It is also important to mention that 6.8m sq ft of the take-up relates to multi-level Amazon units where we have recorded the upper floors as take-up. Notwithstanding this, if we were to include those units at just their footprint, take-up would still be the second highest H1 ever.

Supply and Pipeline

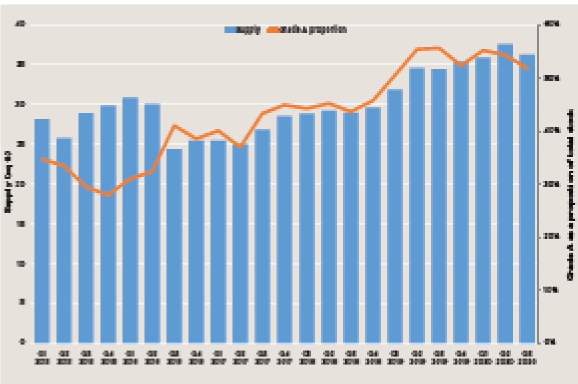
Since the start of 2020, supply has risen by 0.34m sq ft and now stands at 36.2m sq ft, reflecting a vacancy rate of 6.58%. We have seen a slight fall in the amount of BTS which has meant the level of Grade A supply has fallen from 20.4m sq ft to 18.8m sq ft, now accounting for 52% of supply, a fall of 3%. Given the economic climate, a key metric to monitor will be the levels of second hand supply as this could point to a rise in tenant failure. Whilst too early to draw a definitive trend, the level of supply for grades B & C has risen by 9% to 17.46m sq ft. It is likely that Grade A supply will continue to decline as just 0.9m sq ft of speculative announcements were made in Q2, the lowest level since the first quarter of 2017.

Take-up strongest H1 performance ever recorded



Source Savills Research

Supply slight decline in Grade A availability



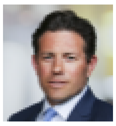
Source Savills Research

NICOL ECONOMICS

"H1 2020 take-up has been the best on record reaching 4.56 million sq ft"

London and the South East

Supply has fallen 20% from 2019 peak



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Supply

H1 2020 has seen strong transactional activity which has reduced supply to 4.69 million sq ft across 29 separate units, a 20% fall from the peak of 5.89 million sq ft seen at the end of 2019.

The quality balance of the supply continues to lean towards better quality units. Of the space on the market, 71% is classified as Grade A compared to just 39% three years ago. Smaller units make up the majority of the available stock with 79% being within the 100,000-200,000 sq ft size band. The largest unit on the market is Panattoni Park Luton 346, providing 346,132 sq ft of speculatively developed warehouse space.

H1 has seen a significant increase in freehold demand for large B8 sites for the Data Centre and Film sectors removing Industrial & Logistics sites from the future development pipeline.

Take-up

H1 2020 take-up totalled 4.56 million sq ft, a 74% increase above the long-term H1 average for the region and 16% above H1 2019. The largest deal was Amazon committing to a 2.3 million sq ft unit at Littlebrook in Kent.

Occupier preference continues to lean towards high quality Grade A space accounting for 91% of all take-up. Build-to-suit space dominated accounting for 67% of space transacted, followed by speculatively developed space at 16% with second hand Grade A space accounting for just 8%. The remaining 10% consisted of second hand Grade B space.

H1 2020 saw nine separate deals, an 18% decrease on the H1 average. The deals were spread over all size bands with 55% involving units over 300,000 sq ft including a cluster of larger deals on the M1 and M40.

Development Pipeline

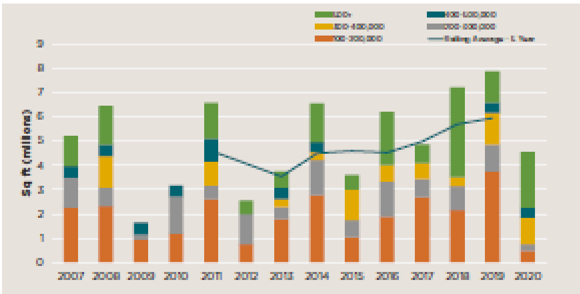
There are nine units under construction totalling 1.52m sq ft, a 13% rise from the start of the year. Five are in the South East at 994,019 sq ft and four within the M25 totalling 528,401 sq ft. The current speculative development aligns with occupier demand as the majority (78%) are within the 100,000-200,000 sq ft size range, there is a single unit within the 200,000-300,000 sq ft, and one being developed within the 300,000-400,000 sq ft range.

Key statistics

	Stats	yr/yr change
Take-up	4.56m sq ft	↑ 16%
Supply	4.69m sq ft	↑ 6.3%
Development Pipeline	1.52m sq ft	no change
Quoting Grade A Rent	£7.75-£20.00/sq ft	no change
Vacancy rate	3.96%	↑ 16bps

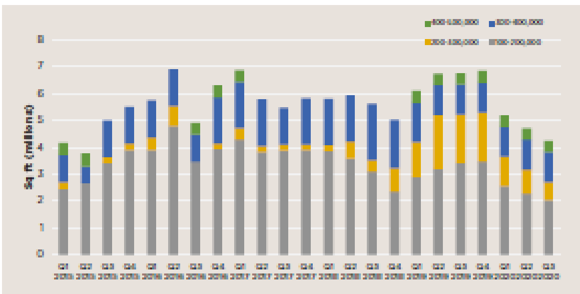
Source Savills Research

Take-up H1 74% above the long-term average



Source Savills Research

Supply 79% within the smallest size range



Source Savills Research

NICOL ECONOMICS

7. Appendix C5: Cushman and Wakefield Summer 2020 Logistics & Industrial Regional Outlook

UK LOGISTICS & INDUSTRIAL REGIONAL OUTLOOK

SUMMER 2020

CUSHMAN & WAKEFIELD

Summary

- After activity ground to a near-halt in early April, market sentiment returned quickly as the importance of the logistics sector to our economy became evident.
- Three mega deals by Amazon brought Q2 take-up volume to 13.3m sqft, the strongest Q2 on record. When 3.6m sqft of short-term deals (mostly to food retailers and the public sector) are also accounted for, H1 take-up was also the strongest ever recorded at 22.6m sqft.
- A sharp increase in the average deal size made up for the lower number of deals during Q2 (46 compared to 59 on average).
- Boosted by Amazon, e-commerce accounted for 64% and 48% of take-up during Q2 and H1 respectively, a record-high.
- Availability stabilized at 73.5m sqft during the quarter, with a slowdown in new speculative starts.
- Prime headline rents are generally being maintained, with landlords in many cases willing to improve incentives instead.
- In the investment market, both the number of deals and volumes nearly halved since the lockdown relative to Q2 2019, with £780m transacted across 36 deals. Overseas capital and domestics REITs have been the most active investors over this period.
- The material uncertainty clauses on valuations have now been removed which is a positive step for the sector and confirms that there are enough reference points to enable 'price discovery'.

Outlook

- With 16m sqft of long-term deals under offer at the end of Q2, take-up is likely to surpass the 10-year average of 33m sqft this year. By comparison, at the height of the GFC in 2009 take-up totalled only 25m sqft, with c.90m sqft of supply.
- A significant amount of space under offer is to e-commerce occupiers, in what could be a record year for the sector in terms of net absorption.
- Online sales kept on growing in May vs April (+19.7%) accounting for 33.4% of total sales, up from 30.8%.
- Occupiers across many sectors are looking at increasing inventory levels as a result of their experiences during the pandemic.
- After facing the challenges posed by lockdown, and given the short term economic uncertainty, most developers have reviewed their speculative development plans, with some being delayed temporarily. Spec completions are forecast to reach 7.6m sqft this year, half 2019's levels, with 1.6m sqft committed for 2021 so far.
- ESG concerns have risen up the logistics' sector agenda over the last few years and the pandemic is likely to accelerate this trend further.
- Currently, tenants are passing on their cashflow shortfall to the landlord in terms of temporary rent free periods, moving to monthly rent payments or withholding rent. If landlords do not collect enough rent to satisfy their financing covenants, will the issue be passed on to the banks?

Key Stats

	Value	Q-o-Q change	Y-o-Y change	High since 2008	Low since 2008
Take-up (Q2)*	13.3m sqft	+134%	+39%	13.3m sqft	6.2m sqft
Take-up (Q1+Q2)*	19m sqft	na	+13%	21.4m sqft	11.4m sqft
Availability	73.5m sqft	+1%	+15%	95.0m sqft**	55.4m sqft**
C&W Average Prime Big Box Rent	£7.90 psft	0.3%	1.4%	£7.90 psft	£6.00 psft
C&W Prime average yield	5.10%	0	0	8.20%	5.10%

* Excluding short term deals
** Since Q3 2009

Source: Cushman & Wakefield

NICOL ECONOMICS

UK LOGISTICS & INDUSTRIAL REGIONAL OUTLOOK

SUMMER 2020

CUSHMAN & WAKEFIELD

Economy

ECONOMY HIT HARD BUT TURNAROUND UNDERWAY

The impact of the lockdown on the economy became fully apparent in Q2, with the economy contracting by 20% in April. Several high frequency indicators suggest activity has picked up since restrictions began to be eased. Markit's Manufacturing PMI bounced back in expansion territory in June (50.1) while retail sales grew by 10.2% in May relative to April.

However, any improvement in the second half of the year is not likely to prevent a sharp drop in GDP for 2020, which is seen falling by over 10% by Oxford Economics. The jury is still out on the shape of the recovery further ahead, which is likely to be heavily influenced by policy decisions.

Occupier market

E-COMMERCE BOOSTS VOLUMES BUT NUMBER OF DEALS DOWN

After activity ground to a near-halt in early April, sentiment has improved markedly throughout the lockdown, with an uptick in deals, enquiries and short-term "emergency" requirements giving way to longer-term requirements. Illustrating this shift, over 90% of the 16.3m sqft under offer at the end of June was long-term, compared to 68% of deals done during the lockdown at the beginning of June

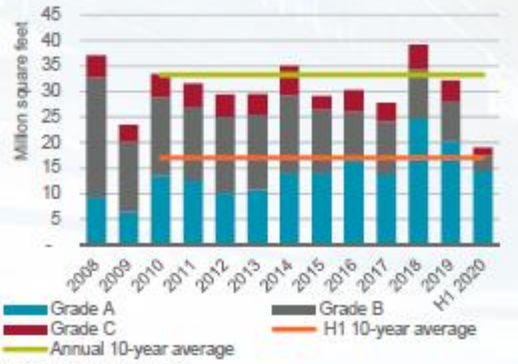
Amazon bolstered take-up by taking 7.5m sqft across 8 deals, including a 2.3m sqft pre-let at Tritax's Littlebrook Power Station site in Dartford, Kent. The e-commerce giant equally secured planning permission for two 2m sqft warehouses at Follingsby Max, Gateshead, and Gateway 45, Leeds.

On the back of these deals, take-up reached 13.3m sqft between April and June, the strongest Q2 on record. H1 take-up rose to 19m sqft, 11% above the 10-year average. When 3.6m sqft of short-term deals (mostly to food retailers and the public sector) are also accounted for, transactions rose to 22.6m sqft, the strongest H1 on record. A sharp increase in the average deal size (290,000 sqft in Q2 compared to 142,000 sqft last year) made up for a reduction in the number of deals since the beginning of the lockdown (46 compared to 59 on average).

Manufacturing & consumer confidence

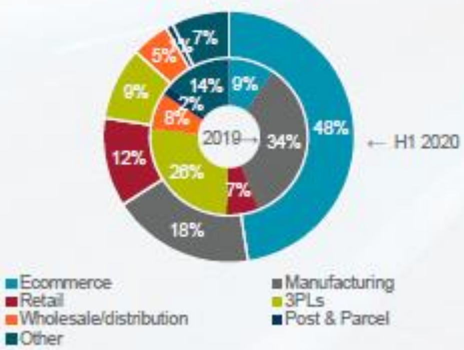
Source: Markit, ONS

Take-up



Source: Cushman & Wakefield

Take-up by sector



Source: Cushman & Wakefield

UK LOGISTICS & INDUSTRIAL REGIONAL OUTLOOK

SUMMER 2020

CUSHMAN & WAKEFIELD

Unsurprisingly, e-commerce accounted for the lion's share of take-up, 64% and 48% of the Q2 and H1 totals respectively, a record-high. Several requirements also continue to emanate from parcel delivery companies such as Hermes that have been in expansion mode since the beginning of the pandemic.

While appetite for speculative development is undiminished, the lockdown has impacted completion timescales and in some cases developers have delayed new starts. At quarter-end there was 6.4m sqft of speculative development under construction. The reduced amount of new stock brought to market made up for the lower number of deals so that availability stabilised during the quarter at 73.5m sqft.

Prime headline rents have held up relatively well so far. C&W prime Big Box rent index edged up by 0.3% during the quarter and by 1.4% y-o-y. While in some cases landlords have offered to compromise on headline rents to secure long term leases, more commonly we have seen increased incentives being used to secure deals. Evidence suggests that three extra rent-free months for a five-year term are commonplace, equating to a 5-6% reduction in net effective rents in the first 5 years of the term. The chart on the right hand side also suggests a bifurcation in rental growth across size ranges.

Investment market

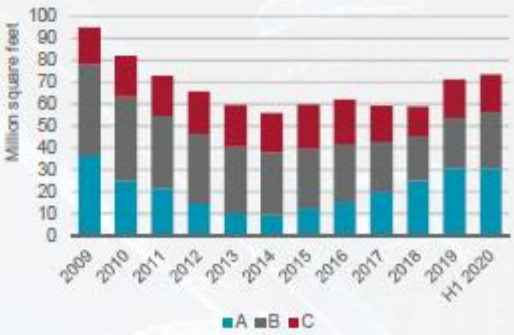
ACTIVITY RESUMES WHILE INVESTORS REAPPRAISE RISK

The lockdown disrupted investment activity, with over £800m worth of deals either collapsed or on hold towards the end of June.

Both the number of deals and investment volume nearly halved between April and June relative to the corresponding period last year. Circa £780m was transacted across 36 deals, compared to £1.4bn across 67 deals in Q2 2019.

Owing to a good Q1, which was admittedly skewed by a couple of entity deals, the downturn was less severe when looking at the first six months of the year (-21% to £2.2bn). In H1, 5 deals accounted for 50% of total transaction volumes. Similarly, a small group of investors have accounted for the bulk of transactions since the lockdown.

Availability

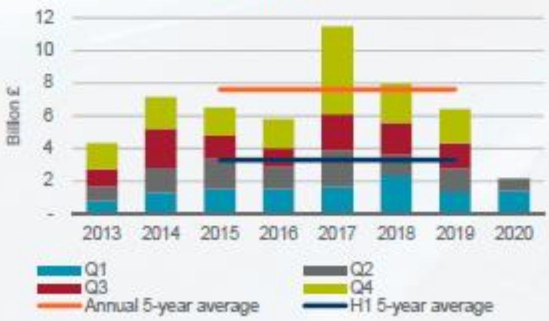


Source: Cushman & Wakefield

C&W prime annual rental index by size bracket (Dec. 2008 = 100)

Source: Cushman & Wakefield

UK logistics & industrial investment volumes



Source: Cushman & Wakefield, RCA

UK LOGISTICS & INDUSTRIAL REGIONAL OUTLOOK

SUMMER 2020

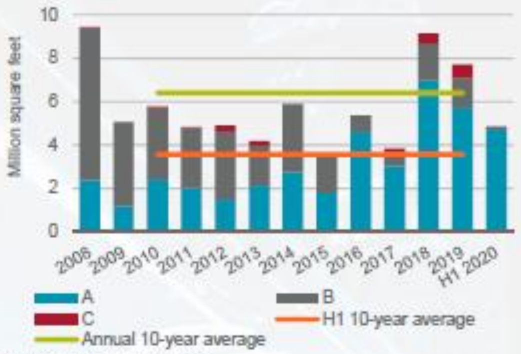
CUSHMAN & WAKEFIELD

London/South East/East

SUPPLY FALLS AS DEMAND BOUNCES BACK

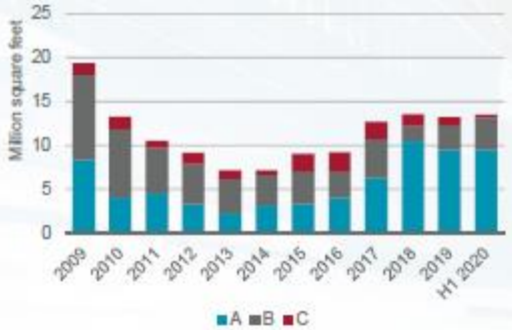
- Buoyed by Amazon's 2.3m sqft pre-let at Littebrook Power Station site, take-up during Q2 reached 4.1m sqft, taking the H1 total to 4.8m sqft, 23% above the 10-year average of 3.9m sqft.
- Positively, the number of deals between April and June (13) was in line with the 10-year average. At end of June, there was also a healthy amount of space under offer (2.9m sqft across 21 units), in what is shaping up as a good year for the London/South East logistics market.
- Pent-up demand for Grade A space and greater availability of product drove activity in Bedfordshire and Oxfordshire where a number of large spec built units let: Bedford 405 (405,312 sqft, PCd in August 2019) let to Amazon, and Unit 5 at Central M40 (330,000 sqft PCd in April 2019) let to Great Bear Distribution.
- Another notable deal during the quarter was the letting of the newly refurbished MK360, Millton Keynes, to M&S, as the company gears up for the JV with Ocado due to start in September this year and deals with the 'hibernation' of unsold stock during the lockdown period.
- Speculative development has moderated across the region in response to Covid-19 with some schemes initially scheduled for this year pushed back to 2021. 2.2m sqft of speculative space is due to PC in 2020, still above the 10-year average of 1.9m sqft, but well below the 4m sqft+ delivered last year. At the end of June there was 2.3m sqft under construction across 18 units.
- The largest units currently under construction are Gateway 385 and Gateway 266 at Gateway Peterborough, ready for occupation in August.
- The rebound in leasing activity combined with lower levels of new supply led to a 8% q-o-q decline in availability that stood at 13.5m sqft at end of June, 2/3 of its post-GFC peak.
- The rental growth profile varies across submarkets and size brackets. Generally, smaller units within and near the M25 have continued to achieve high rents: SEGRO's 60,105 sqft spec build in Bracknell recently achieved a headline rent of £13.5 psft (asking: £12.50 psft). For South-East Big Box, there are examples where headline rents have been reduced, albeit often in return for a longer-lease or reflecting the covenant strength.

Take-up



Source: Cushman & Wakefield

Availability



Source: Cushman & Wakefield

	Value	Q-o-Q change	Y-o-Y change
Take-up (Q2)*	4.1m sqft	+483%	+189%
Take-up (Q1+Q2)*	4.8m sqft	na	+9%
Availability	13.5m sqft	-8%	+7%
C&W Prime Rent (Big Box)	£15.75 psft	0	0
C&W Prime yield	4.0%	0	0

Source: Cushman & Wakefield

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