LOGIC: Scotland

Q2 2024

Occupier and investment market trends in the Scotland logistics and industrial sector.

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Occupier Market

Robust interest in new developments is driving prime headline rental growth

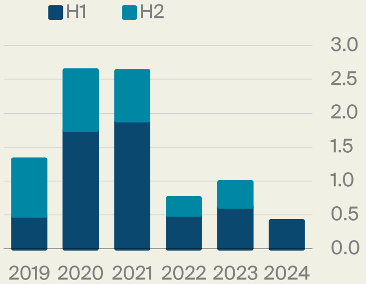
STRONG INTEREST IN NEW DEVELOPMENTS

Occupier take up of industrial units over 50,000 sq ft in Scotland totalled 407,000 sq ft in the first half of 2024. While this marks a 34% decline on H1 2023, some significant transactions completed in H1 and robust interest in the new developments being delivered is placing upward pressure on prime headline rents.

Quarter one saw third-party logistics company, Wincanton, expand its Scottish operations by signing a 15-year lease on Unit 5, Belgrave Logistics Park in Bellshill, at £8.50 psf. Construction works completed on the 127,242 sq ft speculative development in Q4 2023 and it was built to EPC 'A+' and BREEAM 'Excellent' ratings. This deal follows Wincanton's launch of its Scottish Gateway hub last year, occupying a 153,000 sq ft unit at Eurocentral in Motherwell.

In addition, the new 53,735 sq ft Unit 2, Belgrave Point in Bellshill was pre-let to Master Removers Group at a rent of £9.25 psf, shortly before construction works completed on the building in Q1.

Take up (sq ft)
million square feet



Source: Knight Frank Research

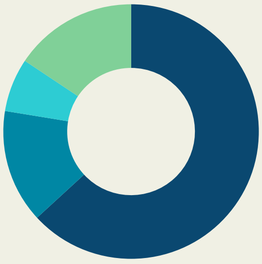
The most notable deal in Q2 was the letting of a 65,608 sq ft unit at 120 Springhill Parkway in Glasgow to furniture retailer, DFS Trading, at £8.25 psf.

Distribution firms comprise 63% of the space taken annually to Q2 2024. This is up significantly from 35% in the same period last year, while retailers and manufacturers have been less active over the past year.

PERSISTENTLY LOW SUPPLY OF NEW, PRIME OPTIONS

A lack of development activity has meant that take up in Scotland remains centred around second-hand units. Over the past four quarters, 77% of take up has comprised second-hand space, while just two transactions have completed on new, high quality 50,000 sq ft+ units.

Take up by sector
Q3 2023 – Q2 2024



Distribution: 63% of take up

Manufacturing: 14% of take up

Other: 7% of take up

Retail: 16% of take up

Source: Knight Frank Research

Occupier Market

407,000 sq ft

Occupier take up
H1 2024

4.9%

Vacancy rate
Q2 2024

£10.00 psf

Prime rents (Glasgow)
Q2 2024

14%

Prime annual rental growth

"There was no new-build space added to availability in Q2 2024"

SUPPLY TRENDS BUCK UK-WIDE PICTURE

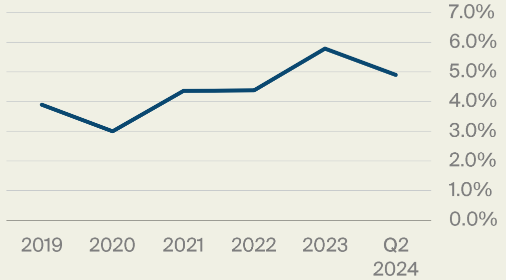
Unlike like the UK-wide trend of increasing supply levels in Q2 2024, availability in Scotland fell by 6.2% and stood at 3.1 million sq ft at end-June (units 50,000 sq ft+). The vacancy rate therefore declined to 4.9%, from 5.2% recorded in Q1 2024. There was no new-build space added to availability, while the volume of second-hand stock declined by 6.4%. Second-hand stock makes up 97% of existing available supply, with only two new units available.

Two units over 50,000 sq ft are under construction speculatively. Canmoor's 202,230 sq ft 'Westway 200' and 87,630 sq ft 'Westway 90', in Renfrew near Glasgow airport, are due for practical completion later this year, targeting BREEAM 'Excellent' and EPC 'A' ratings, and will help to address the shortage of new, high-quality space in the Central Belt.

RENTAL LEVELS & OUTLOOK

Prime rents in the Central Belt have risen by 14% over the past year, to £10.00 psf, while prime rents in Aberdeen stand at £8.50 psf (units over 50,000 sq ft). A lack of high-quality stock options and limited development are contributing to growth in prime rents, and this trend looks set to continue. Average rents in Scotland are forecast to grow by 4.1% this year, and by 2.2% in 2025, according to RealFor.

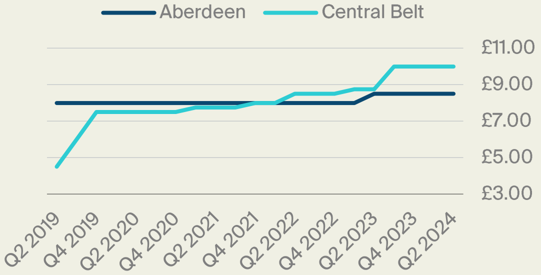
Vacancy Rate
% of stock



Source: Knight Frank Research

"Activity in Scotland remains centred around second-hand units due to the low supply of prime options"

Scotland - Prime Rents
£ per sq ft



Source: Knight Frank Research

Key Occupier Deals
H1 2024

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Unit 5, Belgrave Logistics Park, Bellshill	127,242	Wincanton	£8.50 psf	Speculative Build
120 Springhill Parkway, Glasgow	65,608	DFS Trading	£8.25 psf	Second-hand
Unit 2, Belgrave Point, Bellshill	53,735	Master Removers Group	£9.25 psf	Pre-let
51 McNeil Drive, Eurocentral, Motherwell	52,439	Scottish Power Transmission	Undisclosed	Second-hand

Source: Knight Frank Research

Investment Market

6.00%

Prime NIY – Central Belt
Q2 2024

Stable

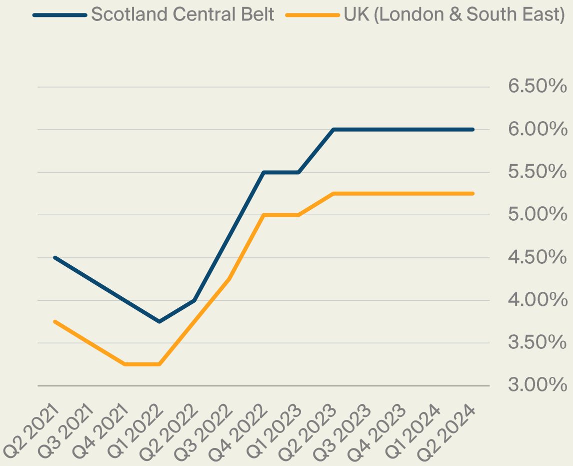
YOY movement in prime yields

INVESTMENT VOLUMES REMAIN SUBDUED

Industrial investment volumes were relatively subdued in the first half of 2024, as deal activity remains challenged by the high cost of debt combined with the shortage of stock on the market. A key deal in Q2 2024 was Ropemaker Properties' £14.73 million sale of four prime industrial units at Fullarton Drive in Cambuslang to a private investor. The price reflected a blended NIY of 6.10%. During the first quarter, Theoreim acquired Units 1 & 2, Cullen Square at Deans Industrial Estate in Livingston, from abrdn for £6.25 million (NIY 6.37%).

Prime yields in the Central Belt have remained at 6.00% over the past five quarters. Prime yields in the region have softened by circa 225 bps since the turn of the investment market in Q2 2022.

Prime Yields
Net initial yield (%)



Source: Knight Frank Research

MARKET VIEW

Active capital targeting assets with lease events

BY EUAN KELLY, PARTNER,
CENTRAL SCOTLAND LOGISTICS & INDUSTRIAL CAPITAL MARKETS

"A slow first half of 2024 due to a lack of available stock, but more transactions will happen in Q3 / Q4. The most active capital is targeting assets with lease events in the short-term, allowing asset management gains. Longer income assets have a much shallower buying pool, but we expect this to change with forecast interest rate cuts. The private market north of the border remains very active for assets under £10 million.

High construction costs will continue to limit new development, and combined with record low vacancy rates, rental growth will continue at pace."

We like questions, if you've got one about our research,
or would like some property advice, we would love to hear from you

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Methodology

This report has been prepared by Knight Frank Research.

Data and information within this report have been provided by Knight Frank occupier and investment teams across the Knight Frank UK network. Third party data sources are also utilised.

For the purposes of this report, take-up figures refer to spaces of 50,000 sq ft or more, that are let, pre-let or acquired for occupation.

Availability refers to all space available for immediate occupation as well as space under construction (built speculatively) that will be available for occupation within the next 12 months.

Investment figures refer to industrial property purchases where the primary motivation is the generation of income. Acquisitions for occupation are excluded. Land sales are included, where the end use of the land is known.

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