

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



LOGIC: Scotland 2021 Review

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MARKET OVERVIEW

Strong final quarter in the Scotland industrial and logistics occupier market brings annual take up to just under 2.6 million sq ft in 2021.

2.6 million sq ft
Occupier take up 2021

£299 million
Investment total 2021

3.1%
Prime annual rental growth

Active fourth quarter for occupier take up

The final quarter of 2021 saw a further 509,400 sq ft of industrial and logistics space taken up in Scotland, bringing the total annual take up to 2.6 million sq ft (units over 50,000 sq ft). This is marginally lower than activity recorded in 2020 (-2.4%). While the year finished strongly, the total for 2021 was largely boosted by a number of bigger transactions completing in the first half of the year. The retail sector accounted for 41% of total take up in 2021, with manufacturing accounting for a further 31%.

Available units lack specifications required by modern occupiers

The total supply of available units over 50,000 sq ft stood at 3.3 million sq ft at the end of 2021. However, occupiers continue to seek good quality, modern industrial space and with the vast majority of these available units over 50,000 sq ft being second hand grade B and C, comprising 98% of total availability,



SCOTT HOGAN, SENIOR SURVEYOR,
SCOTLAND COMMERCIAL

“While the year finished on a strong note, the lack of good quality stock and speculative development in the pipeline may dampen occupier transaction activity for 2022, particularly as occupiers compete to meet both their sustainable and operational needs.”

such units are considered outdated and unsuitable for occupier needs, particularly as tenants increasingly seek more energy efficient industrial buildings.

Supply shortage for prime units and slow development activity driving rental growth

With limited speculative development under construction (units over 50,000 sq ft), each of the major markets in Scotland require more new development to address this shortage of prime industrial space. However, rising build costs and a relative scarcity of industrial land makes it difficult for developers to commit to new projects across Scotland. Within Aberdeen, added uncertainty due to rising energy prices and therefore ambiguity from oil and gas occupiers adds to this complexity.

Prime rents in Scotland for units over 50,000 sq ft increased by 3.1% in 2021, to £7.75 psf, while average rents rose by 4.7%. Forecasts points to continued growth, with 4.0% predicted for 2022 in Scotland. Expectations for the Edinburgh market are particularly high, with average rental growth of 5.6% (RealFor).

Investment remains on an upward trajectory

Investment in industrial and logistics space in Scotland increased for the third consecutive year, totalling £299 million in 2021, compared with £228 million in 2020. The most significant source of investment was overseas capital, which accounted for 35% of the total, followed by UK private property companies, at 31%.

The average weighted yield for assets transacted across Scotland in 2021 was 6.2%. A key investment deal in the year was the sale of Fortis Data Centre, Strathclyde Business Park, Bellshill, acquired by DataVita Ltd. for £43 million in May 2021.

2022 Outlook

Despite rising rents in Scotland, the market continues to offer good value relative to other regions which may encourage relatively footloose occupiers to look to Scotland as an alternative market, given the rapidly rising occupational costs in other regions of the UK.

OCCUPIER MARKET

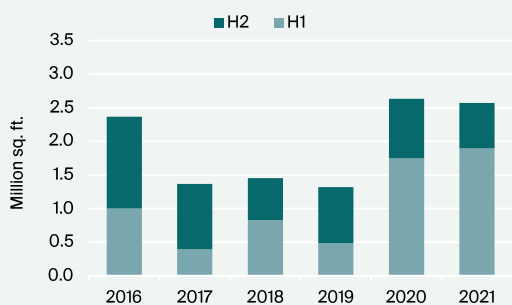
2.6 m sq ft
2021 occupier take up

41%
Take up from retail sector

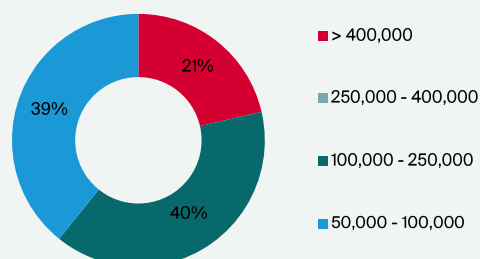
£7.75 psf
Prime rents

5.2%
Vacancy rate

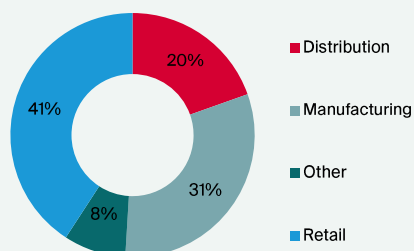
Take up (sq ft)



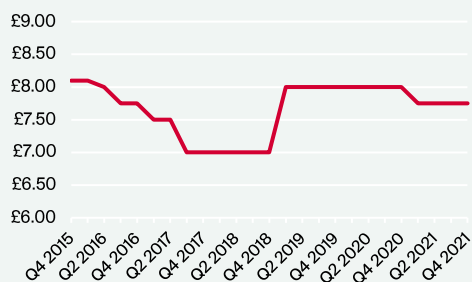
2021 Take up by lot size (sq ft)



2021 Take up by sector (sq ft)



Aberdeen - Prime rents (£psf)



KEY OCCUPIER DEALS 2021

| PROPERTY | SIZE (SQ FT) | OCCUPIER | RENT (OR PURCHASE PRICE) | COMMENTS |
|---|--------------|------------------------|--------------------------|-----------------------------|
| Burnbrae Road, Linwood, Glasgow | 132,171 | Wincanton Holdings PLC | £6.25 psf | Refurbished secondhand unit |
| 4 Roystone Road, Deans Industrial Park, Livingston | 122,892 | ACEO Ltd. | Undisclosed purchase | Owner occupier sale |
| Napier Place, Wardpark Industrial Estate, Cumbernauld | 68,854 | Royal Mail | £5.00 psf | Refurbished secondhand unit |

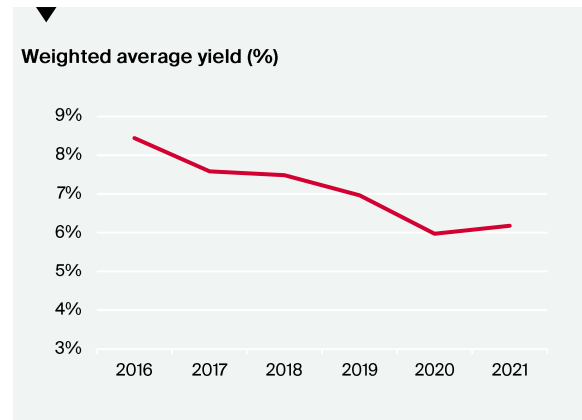
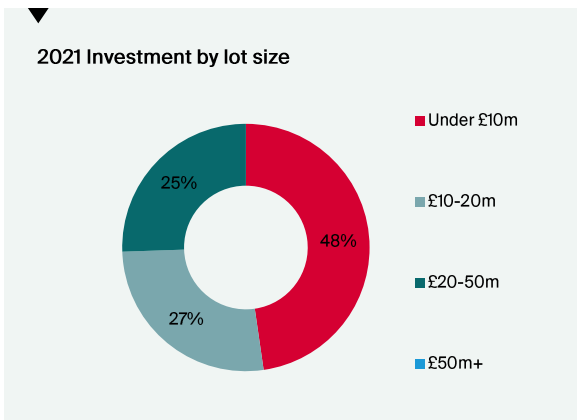
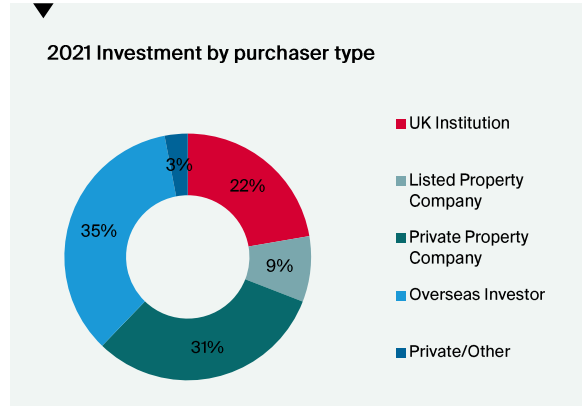
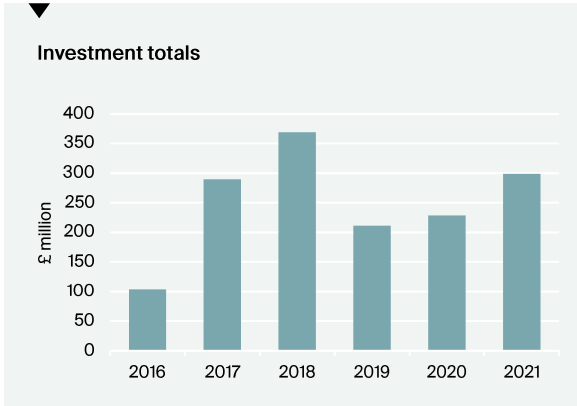
INVESTMENT MARKET

£299 million
Investment total

£5.0 million
Average lot size

31%
Overseas capital

6.2%
Average yield



KEY INVESTMENT DEALS 2021

| PROPERTY | TOWN | PRICE | YIELD | PURCHASER | VENDOR |
|---|------------|--------|-------|-----------------------|---------------------|
| Fortis Data Centre, Strathclyde Business Park | Bellshill | £45m | - | DataVita Ltd. | HFD Group Ltd. |
| D2 Business Park | Aberdeen | £18.5m | 7.56% | Kennedy Wilson Europe | Nuveen Real Estate |
| Eurocentral (Titan) | Motherwell | £14.3m | 5.01% | Lothian Pension Fund | Windward Titan Ltd. |

Source: Knight Frank, Property Data

CONTACTS

LOGISTICS & INDUSTRIAL RESEARCH

Claire Williams

claire.williams@knightfrank.com

+44 203 897 0036

Deirdre O'Reilly

deirdre.oreilly@knightfrank.com

+44 203 995 0785

SCOTLAND COMMERCIAL LOGISTICS & INDUSTRIAL AGENCY

Scott Hogan

scott.hogan@knightfrank.com

+44 1224 415 956

SCOTLAND COMMERCIAL CAPITAL MARKETS

Euan Kelly

euan.kelly@knightfrank.com

+44 131 222 9631

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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