It's the shed market
...but not as we know it

2021 has certainly been the year of highs except when it comes to the availability of stock. Rents, values and building costs have increased which has impacted the market significantly. Yields have sharpened again as investors fight for assets within a sector which continues to outperform all others. All under the cloud of Covid 19 which continues to pose many challenges.


Reading International Logistics Park

The industrial and logistics property market ("shed market") in the UK and Reading was one of records. The market once again outperformed despite the ongoing challenges with Covid. As reported in 2020 the pandemic was a catalyst for the shed market with online retail activity accelerating shed demand. Such was the acceleration it is estimated that the growth over the last 18 months is equivalent to what would have happened over 5 plus years had there been no pandemic.

Online Retail Sales Share of Market

UPS - Unit A Island Road

Whilst the extreme acceleration of online retail demand seems to have stabilised for now (see graph), retailers and 3PLs still have a long way to catch up from a property perspective. High tech manufacturing particularly in traditional white-collar areas such as the Thames Valley, has contributed to the demand for sheds over the course of the last year. This is due to advancements in technologies and demand from low carbon industries. New markets such as film studios are also providing additional demand in the market.

Demand

Reading, despite being held back due to the lack of new stock, has notched up records of its own. 2020's take up of 447,973 sq ft was easily beaten, rising to a record 780,142 sq ft. The largest letting of the year follows the online retail trend with UPS leasing the 127,000 sq ft Unit A Island Road. It appears that this letting was at least in part to assist Amazon, judging by the branded HGVs visiting the unit. In a surprising turn of events, Thermal Management Solutions leased 87,340 sq ft at Suttons Business Park. The unit was due to be redeveloped but given the urgency they leased the existing unit on the site that was earmarked for the new build "Suttons Central".

" The 2021 industrial and logistics property market in the UK and Reading was one of records "

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Winnersh Film Studios

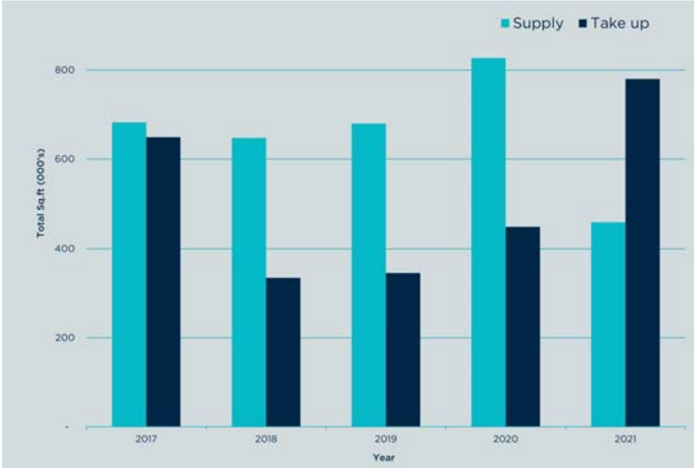
" Winnersh is in the 'golden triangle' for film and TV production and provides much needed space for this rapidly growing sector "

Ready...lights, camera, action!

As predicted in last year's report finally, a real reason to mention films! Headlines were created when Stage 50 announced its plans for Winnersh Film Studio at Frasers Property's Winnersh Triangle. Part of this scheme includes several shed lettings which will be used to support ongoing film production. Winnersh is in the "golden triangle" for film and TV production and provides much needed space for this rapidly growing sector, which is also experiencing a property supply shortfall. The shed market will continue to play a role in its growth, whilst also potentially competing for land as the sector matures.

Supply

Supply is now at an all-time low with the availability of existing units almost halving from 825,394 sq ft to 457,552 sq ft. As with the previous few years, the availability of larger units remains extremely limited with only 6 units available over 15,000 sq ft! At least one of these units is also under offer, along with 18 of the 53 units currently available in the market. Further, the largest unit of 91,700 sq ft at Exeter Way, Theale has over 50% office content which won't suit most occupiers.



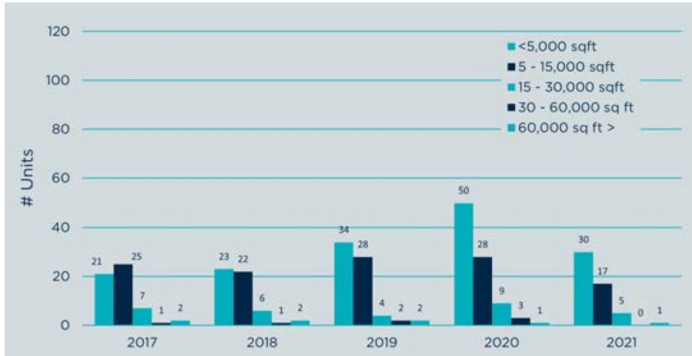
Supply and Demand 2017 - 2021

There are a handful of new schemes proposed which will help plug the gap, but all are unlikely to be completed during 2022. As a result, it is going to be a difficult 12 months for occupiers. The risk is that current Reading occupiers looking to expand will be forced out of the area to towns which are ahead of the speculative development curve, such as Basingstoke. The takeover of Arlington by Brookfield caused a delay to the development at Reading International Logistics Park, a scheme comprising 4 units totalling 162,500 sq ft. However, with the takeover now complete this will be the first scheme to "come out of the ground" and steal a march on the competition.

Closely behind will be Panattoni's 150,000 sq ft 3 unit scheme at Theale and Goya's 185,000 sq ft 10 unit scheme at Woodley, which are currently being considered by their respective LPAs. As a result of the dearth of supply, it is likely that the next record rent will be set on a refurbished unit this year. This will set a benchmark for those new schemes coming down the track. Development opportunities remain scarce, unless local authorities are prepared to release green field sites for commercial use and not just residential.

"...only 6 units available over 15,000 sq ft! "

CGI of proposed Panattoni Site Theale



Total Supply 2017 - 2021

Investment

As with the previous year, the UK shed investment market remained bouyant. The flight to this "safe" market continued and the weight of cash to invest in the sector remained high. This inevitably saw yields sharpen to record levels. With prime yields now consistently better than 3% in greater London it is fair to assume that around 3% could be secured in Reading.

Whilst across the UK there has been some large funding and portfolio activity, Reading has not seen any significant investment activity. In November, London & Cambridge sold their newly built unit in Woodley to Boundary Real Estates for £5.85m or 4% net initial yield. The unit comprises 15,500 sq ft and is let to Travis Perkins. Further, Total Park Theale was sold with 50% let by Total Developments to RTP for £10.51m. Urban Logistics REIT also purchased Creative House Theale via sale and lease back in July. The unit comprises 14,510 sq ft and was leased back for a two-year period. The purchase price of £3.3m reflected a net initial yield of 5.3%. It will be interesting to see if rising interest rates curtail the investment market in 2022.

" yields sharpened to record levels "

Total Park Theale sold to RPT Real Estate Ltd

Rise of the MEES

To help the UK achieve its target of net zero carbon emissions by 2050, the Government introduced the Minimum Energy Efficiency Standard (MEES) for commercial buildings in 2015, which brings both threats and opportunities to all stakeholders. Looking forward, this will be of particular importance to shed landlords and tenants. From April 2018, it has been unlawful for landlords to grant a new lease, lease extension or lease renewal of a sub-standard commercial property. A property is deemed sub-standard if it has an EPC rating of F or G. However, these rules are changing from April 2023, when it will be unlawful for Landlords to continue to lease a sub-standard commercial property.

This is only the beginning however, as by 2030, the Government aims to deem any commercial property with an EPC rating below a B as sub-standard. The Government has proposed this to be a phased implementation, with an interim milestone of EPC C by 2027. This means that many Landlords may be sitting on a time-bomb if they do not get their properties up to the required standard in time. As a result, we expect to see landlord's during 2022 preparing for these changes, particularly as ESG (Environmental, Social Governance) credentials are already starting to influence investor and landlord decision making. Over time we expect this to create two tier occupational and investor markets.

Materials shortage and high build costs

It is estimated that the cost of building work increased 24.5% in 2021 (BEIS) which is causing issues for shed developers. Ultimately cost inflation over time (all other things being equal) will simply translate into falling land prices. However, the strength of occupier demand and lack of supply has meant that currently this has not impacted land values, as rents and yields improve. At the moment developers are passing this cost on to occupiers through higher rents whilst land values remain at record levels.

More concerning is the physical shortage of building materials. The combination of competing with large demand projects (such as HS2 and Crossrail), Brexit, Covid and ongoing shipping disruption is the main reason for the current hiatus. Larger developers are likely to fare better going forward as they benefit from their buying power. Conceivably this could result in a two-tier market with smaller to medium sized developers unable to compete. Those developers backed by institutions on a site-by-site basis may also find it more difficult to compete with the larger developers and property companies.

" the strength of occupier demand and lack of supply has meant that currently this has not impacted land values, as rents and yields improve "

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Reading Industrial Market 2021

Haslams 2021 Highlights

Unit 31-33 Suttons Business Park
87,340 sq ft
Let for Aberdeen to Thermal Management Solutions

2-4 Darwin Close
72,930 sq ft
Sold for RBC to Magenta Self Storage

Unit 5 Worton Grange
46,768 sq ft
Let for UBS to Rygor Commercial

STAGE FIFTY

Acquisition of Winnersh Film Studios
Acquired for Stage 50

Unit 21 Suttons Business Park
31,150 sq ft
Let for Aberdeen to Hutchinson Stop

Unit 2 Total Park
25,891 sq ft
Let for RTP to Tower Cold Chain

Click to read our past Reading Industrial Market Reports:-

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