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
Nationwide overview
Strong performance during Covid-19 lockdown period

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.

Supply and Pipeline
Since the start of 2020, supply has risen by 0.41m sq ft and now stands at 36.2m sq ft, reflecting a vacancy rate of 6.8%. 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

Supply slight decline in Grade A availability

Source Savills Research
Supply has fallen 20% from 2019 peak

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.

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

Key statistics

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<thead>
<tr>
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<th>Stats</th>
<th>yr/yr change</th>
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<tbody>
<tr>
<td>Take-up</td>
<td>4.56m sq ft</td>
<td>↑16%</td>
</tr>
<tr>
<td>Supply</td>
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<td>Development Pipeline</td>
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<tr>
<td>Quoting Grade A Rent</td>
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</tr>
<tr>
<td>Vacancy rate</td>
<td>3.96%</td>
<td>↑16bps</td>
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Source: Savills Research
H1 2020 has been a record half-year for take-up. We’ve seen both deals involving tenants with strong covenants and long lease lengths along with a flurry of short-term lettings in response to Covid-19.

### East Midlands

Strong levels of take-up leaves just 1.08 years in supply

#### Supply

The supply of units over 100,000 sq ft has increased in 2020, reaching 7.23 million sq ft through 30 separate units, a 15% increase from the end of 2019. However, due to the increased levels of BTS stock levels are rising faster than supply meaning the vacancy rate remains low at 6.45%. Moreover, using the five-year average, annual take-up there is just 1.08 years left of supply within the region.

The largest available unit on the market is DIRFT 535 totalling 536,991 sq ft, speculatively developed by Prologis. The current supply is skewed towards smaller sized units with 60% by unit count being within the 100,000-200,000 sq ft size band. The region currently has four units over 500,000 sq ft, more than any other region in the UK.

An increase in speculative development completions along with comprehensive refurbishments has caused the proportion of Grade A supply to rise to 73%, up from 63% at the end of 2019.

#### Take-up

A record 4.75m sq ft of space was transacted on H1 2020 with demand coming from a diverse range of occupiers, up 115% on the long-term H1 average. We’ve seen multiple large deals including Aldi committing to a 1.3 million build-to-suit development and Amazon signing for a 20-year lease at Nottingham 550. It should be noted the East Midlands has seen multiple short-term deals in response to Covid-19, 17% of space transacted in H1 2020 has been taken in leases totalling a year or below.

Build-to-suit transactions continue to dominate the market accounting for 60% of take-up in H1 2020 followed by 20% being Grade A speculatively developed and 20% being second hand quality.

The 500,000+ sq ft size band has seen the highest activity accounting for 64% of all space transacted through four deals. We anticipate further activity in this size range in H2 2020.

#### Development Pipeline

There are currently just three units under construction which total 1.17m sq ft, all of which are based at Gazeley’s Magna Park South Lutterworth development.

#### Take-up H1 is 115% above the long-term H1 average

![Graph showing take-up H1 is 115% above the long-term H1 average](source: Savills Research)

#### Supply has risen yet vacancy rate stable at 6.45%

![Graph showing supply has risen yet vacancy rate stable at 6.45%](source: Savills Research)

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**Key statistics**

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<tr>
<td>Take-up</td>
<td>↑ 100%</td>
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<tr>
<td>Supply</td>
<td>↑ 34%</td>
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<tr>
<td>Development Pipeline</td>
<td>↓ 50%</td>
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<tr>
<td>Vacancy rate</td>
<td>↑ 101bps</td>
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Charles Spicer
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High levels of uncertainty hinders H1 take-up

Supply
The level of supply within the region currently stands at 8.64m sq ft through 44 separate units, a 20% increase from the start of 2020. This is due to a number of second hand units coming back to the market along with the recent completion of speculatively developed units. Of the current available stock, 64% is considered Grade A quality with 36% Grade B or C. However, closer analysis highlights that a large proportion of this stock is in need of refurbishment and is currently not capable of accommodating modern occupier requirements.

Of the units on the market, 41% have been constructed speculatively, and 66% are within the 100,000-200,000 sq ft size band. There are just four units above 400,000 sq ft with the largest being Goliath in Coventry at 666,044 sq ft.

Take-up
Take-up in H1 2020 reached 900,315 sq ft through six separate transactions representing a 59% decrease below the long-term H1 average and 40% below H1 2019. There has been a slight decline in larger requirements, unsurprising given the high level of uncertainty within the market, particularly around the automotive and aerospace sectors. The smaller size bands still attract occupier interest, 83% of transactions in H1 2020 by deal count being within the 100,000-200,000 sq ft size band. There have been no deals above 250,000 sq ft in H1 2020, however, we anticipate this will change in H2 2020.

Occupier preference continues to revolve around better quality units with 76% of space transacted in H1 2020 being classed as Grade A.

The majority of demand in H1 2020 has come from online retailers, accounting for 45% of take-up whilst 3PL’s totalled 27% and high street retailers 16%. This is positive news and demonstrates the diverse range of occupiers active within the region.

Development Pipeline
Two units are currently under construction within the West Midlands totalling 235,951 sq ft. Both of which are within the 100,000-200,000 sq ft size band, aligning with occupier demand.

Take-up down 40% on H1 2019

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<td>0.9m sq ft</td>
<td>↓ 40%</td>
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<tr>
<td>Supply</td>
<td>8.64m sq ft</td>
<td>↑ 1%</td>
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<tr>
<td>Development Pipeline</td>
<td>0.24m sq ft</td>
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<td>Quoting Grade A Rent</td>
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<tr>
<td>Vacancy rate</td>
<td>10.31%</td>
<td>↓ 19bps</td>
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Source: Savills Research

Supply increases with speculative completions

Source: Savills Research

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West Midlands
High levels of uncertainty hinders H1 take-up

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The North West has seen a huge up-tick in enquiries and subsequent transactional activity. The strong level of take-up has caused the amount of supply to fall to 4.2 million sq ft; this leaves the region with 1.07 years of supply.

Supply
The supply of warehouse space has decreased dramatically in the last 12 months, falling from the peak of 7.26 million sq ft to 4.24 million sq ft through 22 separate units. Using the five-year average, annual take-up of 3.98 million sq ft this equates to just 1.07 years worth of supply in the region.

Grade A stock now accounts for 47% of all available space, of which 37% has been speculatively developed. In terms of unit count, the supply is skewed towards the smaller size bands, 68% are between 100,000-200,000 sq ft in size, 14% within the 200,000-300,000 sq ft range and 14% within the 300,000-400,000 sq ft range. There is a single unit within the 400,000-500,000 sq ft range and no units above 500,000 sq ft in the region.

Take-up
Take-up in H1 2020 reached 2.64 million sq ft through 12 transactions making it the second best H1 2020 ever recorded. This is 128% above H1 2019 and 56% above the long-term H1 average.

Demand has centred around newly speculatively developed space which has accounted for 44% of take-up in H1 2020. Second hand space has also traded well, reaching 44% of take-up. Occupier preference continues to revolve around better quality units with 56% of space transacted being of Grade A quality.

The largest deal in H1 2020 was Kellogg's leasing 523,500 sq ft at M6 Major St Helens. It should be noted that roughly 30% of the space transacted in H1 2020 was for short-term deals and involved lease lengths of less than a year.

Additionally, Savills are tracking over 1.5 million sq ft of potential deals that should fall into the second half of the year. Given the current global situation, the market dynamics in the North West are incredibly positive.

Development Pipeline
There are currently four units being developed totalling 872,299 sq ft. Three are based at Omega Mountpark Warrington set to reach PC in 2021.

Take-up 30% has been for short-term deals

Supply fallen by 42% in 12 months
H1 2020 take-up has been the strongest H1 ever recorded at 7.13 million sq ft, a 170% increase above the long-term average. Just 4.7% of this has been for short-term lettings highlighting the continued strength of the market despite Covid-19.

Yorkshire and the North East
H1 2020 has seen demand increase for all building grades

Supply
The level of supply has increased to 4.85 million sq ft through 25 separate units, representing a 4% rise from the start of 2020. Using the five-year annual average, take-up there is just 0.87 years worth of supply left within the region.

Strong levels of transactional activity involving Grade A space has considerably reduced the amount in supply, 33% of vacant space is now classed as Grade A down from 50% at the start of the year. Furthermore, 31% of all space is second hand Grade B and 16% Grade C. By unit count the supply is skewed towards the smaller size bands with 76% being between 100,000-200,000 sq ft. There is a single unit available over 500,000 sq ft, Sherburn 667 which provides c. 667,000 sq ft of second hand space near Leeds.

Take-up
Following the two strongest years of take-up ever recorded in the market, H1 2020 has performed exceptionally with take-up totalling 7.13 million sq ft through ten separate transactions. This has already surpassed the 2019 full year figure and is the strongest H1 ever recorded in the region. Given the current uncertainties within the market, it is astonishing 2020 is on track to be the best year on record. Of the space transacted, 82% was build-to-suit and 18% second hand. The largest deal in H1 2020 was Amazon committing to 2.5 million sq ft at Follingsby Max in Gateshead. Given the current supply dynamics, it is difficult to see the preference towards build-to-suit space changing until more units are delivered speculatively and second hand supply is absorbed.

Development Pipeline
There are currently five units under construction totalling 1.72 million sq ft. The largest unit is Wakefield 515 in Knottingley totalling 515,000 sq ft.

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Source: Savills Research
Political and economic uncertainty has taken its toll on the market this year with many deals taking longer to complete. However, Q2 2020 has seen an up-tick in transactional activity along with another 500,000 sq ft currently under offer.

South West & Wales

Wales has seen an increase in activity due to competitive pricing in Newport. This would bring the supply as low as 2.39 million sq ft giving a vacancy rate of 6.73%.

Take-up

Take-up in the South West and Wales market totalled 705,696 sq ft, a 23% increase from H1 2019 but is still 51% below the long-term H1 average. Adhering to regional trends, deal volumes have centred around the smaller size bands with all of the deals being within the 100,000-200,000 sq ft range. H1 2020 has seen occupier demand lean towards better quality space with 62% of space transacted being built-to-suit Grade A, the remaining space was second hand.

The removal of the tolls from the Severn Bridges has improved Wales as an option for occupiers through increased connectivity paired with lower property rents and land prices. Wales has historically accounted for on average 33% of take-up throughout the wider region; however in the past three years, this has reached an average of 47% per annum.

Development Pipeline

There is currently a single unit under construction in the wider region at Unit 1 Chippenham Gateway where St Modwen are developing 106,200 sq ft set to reach practical completion in Q3 2020.

Take-up dominated by smaller-sized units

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Development Pipeline

There is currently a single unit under construction in the wider region at Unit 1 Chippenham Gateway where St Modwen are developing 106,200 sq ft set to reach practical completion in Q3 2020.
Supply
The recent up-tick in transactional activity has led supply to decline in 2020 to now stand at 1.26 million sq ft across six units. Of this, just 15% is classed as Grade A compared to 45% this time last year. Further analysis demonstrates that 41% of supply is Grade C and will be in need of refurbishment as the majority currently cannot accommodate modern occupier requirements.

There are three units available in the 100,000-200,000 sq ft size band, two in the 200,000-300,000 band and a single unit comprising 300,126 sq ft. Moreover, of the current supply, 24% is under offer due to exchange in Q3 2020 which, is set to reduce the vacancy rate further from 5.25% to 3.97%.

Take-up
Take-up in H1 2020 has reached 1.04 million sq ft through four separate transactions, representing a 27% decrease on H1 2019 yet a 174% increase above the long-term H1 average. Built-to-suit space accounted for the largest proportion of take-up, reaching 71%, the remaining 29% was speculatively developed space. No second hand space has been taken in the region, highlighting occupier preference towards better quality units.

Demand has stemmed from a diverse mix of tenants in H1 2020, food manufacturers accounted for the largest proportion of take-up at 61%, followed by wholesalers at 20%. Online retailers remained active accounting for 10% of H1 2020 take-up.

Development Pipeline
There are currently two units under construction at Gateway Peterborough of 385,000 sq ft and 226,000 sq ft. Both of these are due to reach practical completion imminently, after they reach PC there will be no other units under construction in the region. Without any pipeline development, occupiers will need to look to sites such as Gateway 14 in order to satisfy requirements for good quality space.

Take-up dominated by built-to-suit space

Supply 24% is currently under offer
H1 2020 has been a game of two halves with Q1 being extremely active, and Q2 significantly hampered by Covid-19. As restrictions lift, we have experienced strong levels of enquiries similar to the start of the year. The shortage of new space will continue to bring reduced incentives and positive rental growth.

**Scotland**

H1 2020 take-up 165% above the long-term average

- **Supply**
  - The supply of warehouse space in Scotland for units larger than 100,000 sq ft has fallen by 9% from the end of 2019 to stand at 1.34 million sq ft through nine separate units.
  - The supply continues to be dominated by second hand space with no new units available. Just 12% of the supply is of Grade A quality with the remainder being Grades B & C.
  - Additionally, 89% of the available units on the market are within the 100,000-200,000 sq ft size band. There is just one unit within the 200,000-300,000 sq ft size band.
  - The decrease in the amount of supply in the region has caused the vacancy rate in Scotland to now stand at 6.27%.
  - The largest unit on the market is still the Springburn Rail Depot providing 279,303 sq ft of Grade C second hand space.

- **Take-up**
  - Take-up of units in H1 2020 reached 704,531 sq ft through four separate transactions, representing a 165% increase on the long-term H1 average and a 95% increase on H1 2019.
  - Take-up has entirely consisted of second hand units, this is primarily because there are no new speculatively developed units in supply.
  - Again perhaps hindered by the available units in supply, take-up has revolved around the 100,000-200,000 sq ft size band which has accounted for 75% of deals and the 200,000-300,000 sq ft size band 25% of deals.
  - Take-up continues to be constrained by both shortages in the size and quality of available units throughout the region; occupiers are having to settle for lower quality units to satisfy their requirements.

- **Development Pipeline**
  - There are still no units being speculatively developed over 100,000 sq ft in Scotland. As take-up increases, we expect a stable or declining supply which will keep the vacancy rate low in the short to medium term and, in turn push on rental growth.

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**Take-up** dominated by second hand space

**Supply** majority under 200,000 sq ft
Robust investment volumes and good demand for stock putting downward pressure on prime yields again as global investors look to access the sector, spurred on by the strong occupier market.

National investment
Market emerges from hibernation

Capital markets all but ceased during the height of lockdown as investors struggled to undertake due diligence and underwrite rental growth assumptions. As it became clear that inspections and surveys could be undertaken whilst maintaining social distance, and that occupiers were taking space at pre-Covid rental levels, confidence returned, and the rate of transactions continued to increase.

Given the market turbulence across all sectors, it is encouraging to report that Logistics investment volumes have reached £1.12bn for H1, a fall of just 26% when compared with H1 2019. With investors looking to deploy capital into more defensive assets, it is noteworthy that volumes for logistics investment fell by 24% from Q1 to Q2, a statistic all the more remarkable given the entire commercial market volume fell by 82% during the same time period.

Savills recorded an up-tick in transaction numbers in Q2 when compared with Q1, demonstrating the desire to transact in the sector with the most positive occupational outlook. Indeed, of the 50 transactions Savills have recorded information on in 2020, 72% have been for lot sizes under £20m. Key transactions over £20m this year include sale and leasebacks to B&M at Bedford which transacted for £153.8m pre-lockdown and a package of Next warehouses in Doncaster for £120m post-lockdown.

Moving forward, we expect more sale and leaseback transactions to come forward as occupiers look to leverage their covenants to raise capital in uncertain times. We are also tracking a number of portfolios that, providing they transact, would see up to £1 billion added to our investment volumes. Less clear is if and when the UK institutions will return to the market as active sellers.

During lockdown, Savills prime yields have moved out 25bps and now stand at 4.50% for prime single let logistics units and 4.25% for multi-let industrial estates. However, as lockdown has been eased and market activity has returned, positive sentiment and competitive tension is again putting negative pressure on these yields.

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The latest indicators from the Savills ProgrammE and Cost Sentiment Survey (S.P.E.C.S) demonstrate that build costs and programme delivery time scales have polarised in 2020. Following a brief period after lockdown where 60% of speculative construction was paused, all warehouse construction sites are now open and building continues.

As government support comes to an end in the autumn consumer confidence is likely to fall, and bearing in mind that almost two thirds of demand is related to retail, it is unlikely that the current levels of take-up will be sustained even though online shopping rates are currently growing at levels not seen since 2008.

On the supply side, the recent levels of measured speculative development will mean that vacancy rates are highly unlikely to return to post global financial crisis levels of 24%. Indeed, Savills Research have created a model that projects vacancy rates going forward, and even in our downside scenario, where we assume over 15m sq ft of tenant default, vacancy rates rise to just 11.4%.

**BUILD COST AND PROGRAMME**

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As lockdown continued, the levels of speculative and BTS development have declined, therefore contractors have been pricing projects accordingly to maintain previously strong order books. This has meant that we have not seen tender price inflation based on the price of labour or materials. However, social distancing advice and the development of new construction processes have meant that projects are taking longer to complete, and programmes are being adjusted accordingly. This has the potential to lead to higher costs as welfare provision increases and more machinery is needed to complete certain tasks. Moving forward, as speculative and BTS levels increase, we expect contractors will become more selective to the projects they tender.

**2020 Outlook**

What next after lockdown restrictions ease?

As the lifting of restrictions moves into its next phase, we expect the market will also perform differently to the immediate aftermath of lockdown. On the demand side, requirement levels have rebounded sharply after a slow April and early May, but this lag should mean that take-up for ‘churn stock’ in H2 is slower than normal. Key sectors of the economy also remain in a deep freeze, in particular the automotive and aerospace sectors as even the boom in online shopping couldn’t help new van registrations as they fell by 74% in May.

As government support comes to an end in the autumn consumer confidence is likely to fall, and bearing in mind that almost two thirds of demand is related to retail, it is unlikely that the current levels of take-up will be sustained even though online shopping rates are currently growing at levels not seen since 2008.

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