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Highest rental increase in industrial market in over 30 years

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According to latest research by Colliers, 2021 saw a rental increase of 8.7 per cent for the whole industrial market, the highest growth in over 30 years (since September 1990).

This was prompted by a record low supply of 18.1 million sq ft (down 34 per cent year-on-year) triggered by a new record take-up of 50.7 million sq ft and a record annual share of online sales of 29.1 per cent in 2021, up from a share of 28.1 per cent year-on-year (ONS).

Q4 supply figures equated to a vacancy rate of 3.3 per cent for units sized 100,000 sq ft and above and circa seven months' worth of supply.

Developers, on the other hand, completed more than 11 million sq ft of space in 2021 but more than 75 per cent of this space has either let or is under offer. With regards to 2022, Colliers is currently tracking circa 18 million sq ft that could be delivered. However, some of this space will naturally roll over and complete in 2023.

Colliers' research also reveals that the industrial investment market followed suit in 2021 with a record breaking £16.7 billion. This strong demand for investment assets took the UK industrial net initial yield (NIY) to 3.56 per cent, a compression of 65 Basis Points (bps) year-on-year and drove total returns to reach the highest level since October 1989 at 37 per cent.

London and South East assets are seeing the sharpest yields with national distribution warehouses witnessing the strongest annual yield compression of 100bps to a 3.8 per cent NIY in December 2021.

Total returns for industrial assets reached 43.5 per cent in London compared to 36.5 per cent in the South East and 32.7 per cent for the rest of the UK.

Andrea Ferranti, Head of Industrial and Logistics Research at Colliers commented: “The performance of the industrial market is breaking numerous records, driven by occupiers expanding operations, eye-watering rental growth figures across the UK and investors betting on the long term performance of the sector.

“Due to the uptick in industrial speculative developments, which accounted for 31 per cent of total take up, the highest share since 2011, the share of take-up for purpose built warehouses is at the lowest level since 2014, at 35 per cent, as occupiers are racing to acquire space.”

The key driver of demand is the strong appetite from online pure player companies which took a record share of take-up of 43 per cent compared to 33 per cent in 2020, while general retail recorded an 11 per cent share, down from 18 per cent year-on-year.

Furthermore, Amazon accounted for 28.3 per cent of total take-up, up from 25 per cent in 2020. Circa 14 per cent of total space was also acquired by other online brands such as JD. Com, Bohoo and Buy It Direct to name a few.

Len Rosso, Head of Industrial and Logistics at Colliers added: “In terms of the prime end of the market, the average rental growth was also considerable. For this type of accommodation in London, it recorded 25 per cent and in the regions, they witnessed around 11-16 per cent average growth.

“Flight-to-prime has also been a key theme of the market as energy efficiency savings and ESG requirements are increasingly driving boardroom decisions. This is clearly reflected in the statistics with 72 per cent share of total take-up occurring on new units in 2021.”

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