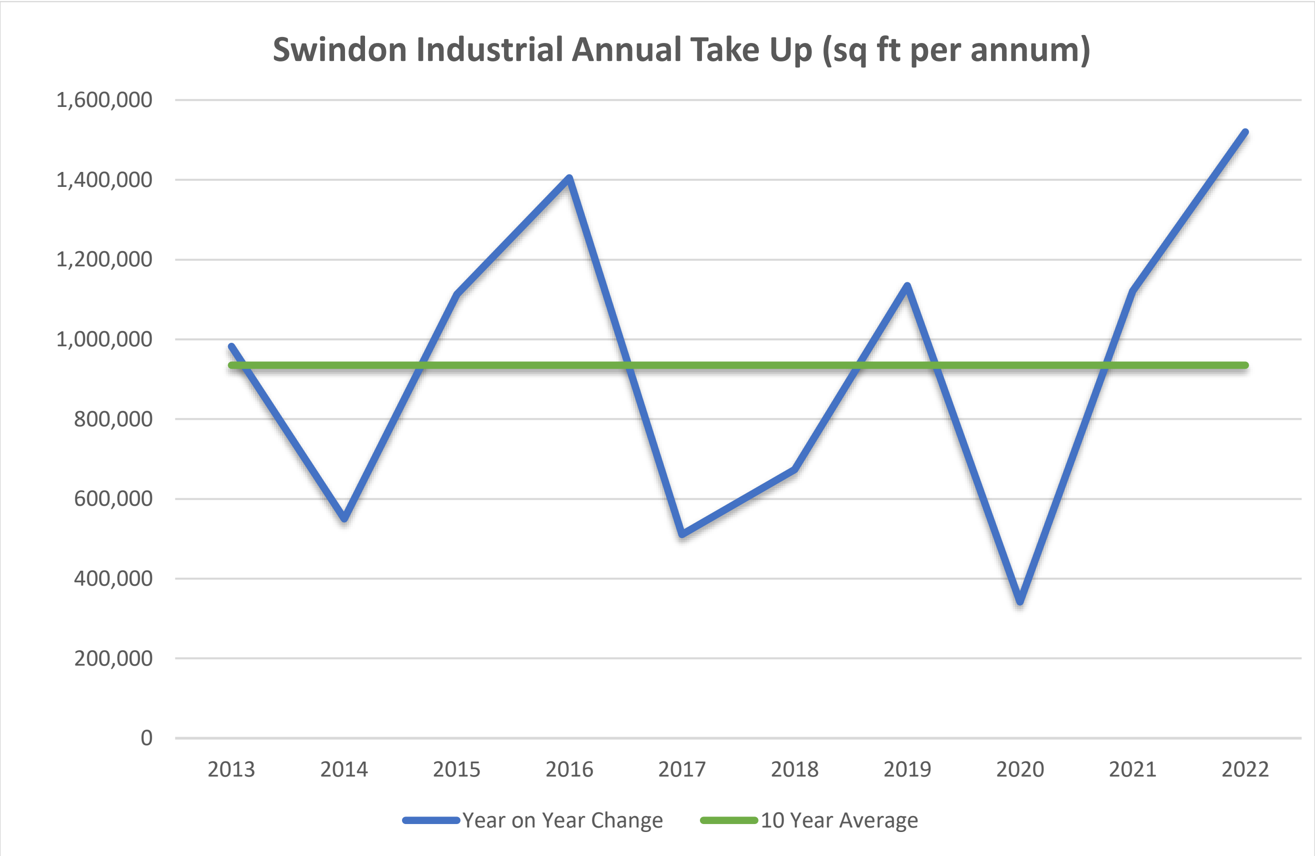
Swindon Industrial Property Market Insight – Winter 2023

Occupational Market

2022 was another strong year for industrial take up in Swindon, ending the year at approximately 1.5 million sqft in 63 transactions. This was a 35% increase compared to previous year although in a complete reversal of 2021, 70% of the transactions took place in the first half of the year whilst 45% were compressed into the first quarter.

Given the lag between deals being agreed and completing, a significant proportion of the requirements originated in 2021 as the pandemic continued to fuel demand for logistics space, particularly in the 3PL and online retail sectors. It also highlighted the strong recovery from the 2020 recession and ongoing supply chain issues attributable to Brexit.



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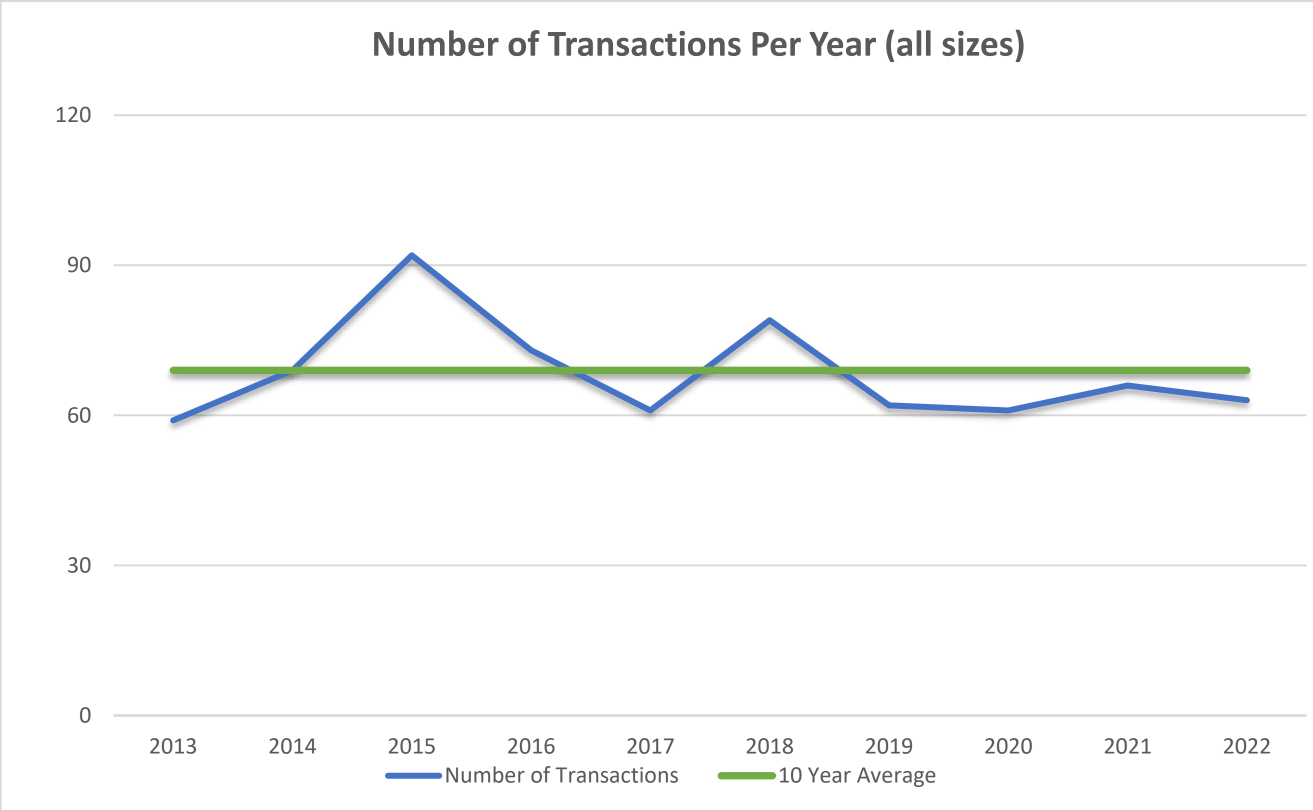
A slowdown in the second half of 2022 was probably to be expected as pressure eased from the system. Nevertheless, the reduction in transaction numbers was exacerbated by the war in Ukraine, rising energy costs, high inflation and political turbulence. In particular, we experienced a reduction in enquiries in the final quarter of 2022 and the ongoing fallout from these challenges is likely to hinder the market further as we make our way through the year.



As it currently stands, total vacant stock is approximately 1.2 million sq ft in units above 5,000 sq ft. Of this, 100,000 sq ft is about to commence construction at the Icon building in north Swindon whilst a further 250,000 sq ft is understood to be under offer. With no other development likely to come forward during 2023, supply will become even more constrained unless we see a significant increase in property becoming available.

At the smaller end of the market, availability is particularly limited below 3,000 sq ft where there remains a chronic shortage of supply of both freehold and leasehold stock.

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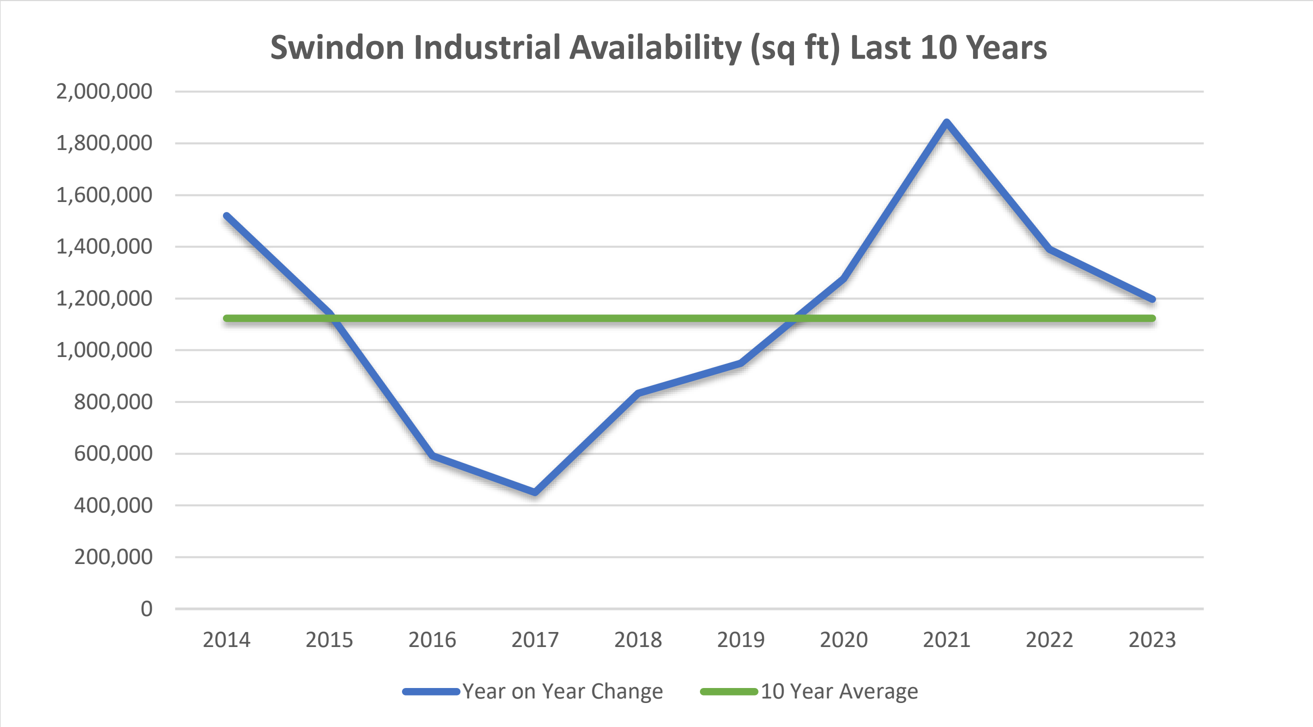

As at February 2023, the number of vacant units in each size range (including those under offer) are:

100,000 sq ft plus	3 Units (one under construction, one older/poor specification)
50,000 – 100,000 sq ft	5 units (no new)
20-50,000 sq ft	6 units (one new)
10-20,000 sq ft	12 units (no new)
5-10,000 sq ft	11 units (no new)

Rents

Rents continued to increase during 2022 with growth evident across all size ranges. However, the outlook for 2023 will largely depend on the wider economy and the impact of the predicted recession. An increase in supply may put downwards pressure on rents. However, with vacant stock at half the level compared to the beginning of the 2009 recession, any increase would need to be substantial to have a significant impact. If not, and we see businesses continue to navigate the headwinds, supply will remain constrained and rents should hold up well. Indeed, there is potential for further rental growth, especially as any new development will have to be at higher rents to compensate for higher investment yields and increased costs of construction.

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Size Sqft	New	Modern / Refurbished	Older second hand
0 - 3,000	£10 - 12 sq ft plus*	£9 -11 sq ft	£7 - £8.50 sq ft
3 - 10,000	£8 - 9 sq ft*	£7.50 - £8.50 sq ft	£6.5 - £7 sq ft
10 - 50,000	£8.50 sq ft	£6.50- £7.50 sq ft	£5 - £6 sq ft
50,000 plus	£8.50 sq ft plus	£6.50 - £7.50 sq ft	£5 - £6 sq ft

* this is an estimation as no new stock has been built for 5 years

Investment Market

Investment activity in Swindon is limited by the size of the market which typically generates low transaction numbers. However, several sales have taken place and in common with the national trend, yields have pushed out and values reduced in a swift reaction to rising interest rates and the increased cost finance. Consequently, multi let industrial estates that were achieving yields of c.6% in the first half of 2022 are now at c.7% or higher. Yields for stand alone, single let properties have also pushed out in the region of 100 basis points.

Transactions of note included the sale of the multi occupied Woodside Business Park (guide price £5.46m) at South Marston Park and the stand alone Chelsea Building at Rivermead (guide price £2.265m).

Despite this rapid correction, there is still a significant appetite from well-funded investors who perceive that any further interest rate rises are already factored into the cost of borrowing and that prices have largely completed this adjustment. Therefore, where there is an appetite to sell, there is still likely to be a good level of demand albeit at a realistic price point.

Land Supply

Limited land supply has been a long standing problem in Swindon that will continue to hold back development. Admittedly, Panattoni are progressing their planning application at the 370 acre former Honda manufacturing site and once granted, this will satisfy demand for big box warehousing in Swindon and the wider region. However, any small to medium size development is restricted to just a handful of smaller sites most of which have issues to overcome if they are to be developed. In particular, rising yields and construction costs have created a disconnect between what developers can afford to pay and landowners expectations. It may take a while before the market adjusts either through confidence in rental growth, a reduction in land values or a combination of both.

Summary

Clearly we face a challenging period throughout 2023 and possibly beyond. There is also a risk that even if the recession is brief and shallow, growth, when it comes, may be limited for a sustained period. Nevertheless, the industrial market is in a fundamentally different place to the beginning of previous recessions, not least in terms of the supply of both development land and built stock. Our prediction therefore is that whilst we are likely to see a market inclined towards weaker demand and slightly longer void periods, we are not expecting significantly increased supply or a reduction in rents. It is also imperative that we plan for new development now to satisfy demand as the economy recovers, which it surely will.

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