MIDLANDS

Logistics and Industrial Commentary

H1 2016 Review

Jon Ryan-Gill, Midlands Industrial Agency
+44(0)121 233 6454
jon.ryan-gill@knightfrank.com

- Take-up of units over 50,000 sq ft reached 6.04m sq ft in H1 2016. This is 34% above the level of take-up at the same time last year and 37% up on the H1 five year average.
- Pre-lets and Design & Build accounted for over half of all take-up in the first half of the year, second- hand space accounted for a further 31% and new existing space for 13%. With just over 3m sq ft known to be under offer, take-up for the whole of 2016 is expected to be in line with the 5 year annual average of 11.6m sq ft.
- Strong take up from 3PLs (c. 44%) and retailers (c. 24%) continues to drive the market. However, automotive supply chains are performing well (with c.16% market share). One of the largest occupiers continuing to expand is Amazon, and we expect to see this carry on throughout the remainder of the year.
- Existing new built stock is now just short of 2m sq ft across 12 buildings, as a result of a number of speculative developments completing in H1.
- Prime rents are well established in the order of £6.25-£6.50 psf in the most core locations, with some secondary locations starting to catch up. We have for the first time seen £6.75 psf achieved in the market from IM Properties on their 80,000 sq ft pre-let to HIB at Birch Coppice.
- It has been encouraging to see some larger schemes allocated such as East Midlands Gateway by Roxhill. Land supply is continuing to deplete however and there is limited new stock set to replace it, particularly around Coventry and Birmingham.
- Rental incentives remain unchanged with approximately one month per year term certain for the strongest of covenants on institutional length leases.
- Despite the EU referendum there is still optimism in the market and deals have completed since the end of June 2016; these include JLR's commitment to two new facilities at ProLogis Park, Ryton for 327,000 and 140,000 sq ft, respectively.

Selected Midlands transactions H1 2016

Address	Occupier	Size (sq ft)	Rent (per sq ft)	Date
DC7, ProLogis Park, Ryton	Jaguar Land Rover	327,000	£6.25	Jun-16
Unit A, Grange Park, Northampton	Clipper Logistics	303,000	£6.25	Mar-16
Chrome, Park Lane, Minworth	DHL	102,000	£6.50	Mar-16
Black Velvet, Hams Hall	The Works	172,000	£6.30	Feb-16
Ansty Park, Coventry	Fanuc	130,000	Undisclosed	Feb-16

Q2 2016 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to Q2 2017

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
Birmingham	£6.75 ▲	£6.75 ▲	£6.50 ▲
Black Country	£5.95 ▲	£5.75 ▲	£5.50 ▲
Leicester	£6.25 ▲	£6.25 ▲	£6.00 ▲
Northampton	£6.25 ▲	£6.25 ▲	£6.25 ▲
Stafford	£5.50 ◄ ►	£5.25 ◄ ►	£5.25 ◄ ►
Stoke	£5.50 ◄ ►	£5.25 ◄ ►	£5.25 ◄ ►
Rugby / Daventry	£6.00 ▲	£6.00 ▲	£6.10 ▲

CGI image of the new 130,000 sq ft HQ facility for Fanuc UK at Ansty Park, Coventry, where Knight Frank are the retained agents.

Regional outlook

- We expect to see stock diminish from its prevailing current level, which equates to around nine months' supply of existing/ speculative space.
- Landlords are set to benefit from rental increases at rent review / lease renewal. Following a period of sustained rental growth over the last two years we should also now see some rental growth in secondary areas, albeit rents in prime locations will inevitably peak out at some stage.
- Post Brexit and given that new build stock has yet to trade, developers will be cautious about speculative building, although it may pick up again towards the end of the year.