MIDLANDS

Logistics and Industrial Commentary H2 2012

Knight Frank

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H2 2012 market commentary

- The Midlands market rebounded in H2 2012 following a quiet summer, with take-up in 50,000 sq ft+ units reaching 5.57m sq ft, 41% above the H1 2012 total. The period saw considerable activity from the automotive sector and third party logistics operators, while parcel deliverers were also active for mid-sized units.
- H2 saw three sizeable design and build deals, the largest of which was Sainsbury's pre-let of the 1m sq ft DIRFT II facility in Daventry. Additional large deals are in the pipeline, particularly in Northampton, where Dacsher is due to acquire a 250,000 sq ft at Brackmills and Carlsberg is seeking c. 360,000 sq ft.
- H2 also saw 813,000 sq ft of new, speculatively developed space taken-up, with the largest deals including Lear's lease of Rivet, Coventry totalling (222,000 sq ft) and Hobbycraft's lease of First Point, Burton-on-Trent (213,000 sq ft).
- Supply is becoming a real issue. Only ten new buildings in excess of 100,000 sq ft are available, several of which are currently under offer, while the availability of modern secondhand warehouse space is equivalent to just c.9 months of take-up.
- Falling supply in the 100,000 sq ft market has prompted a degree of headline rental growth in the Golden Triangle markets of Northampton, Daventry, Rugby and Leicester as well as Birmingham. Rental incentives also hardened in H2, in some cases reducing to 6-9 months rent free per 5 year term.
- The sub-20,000 sq ft market continues to see a regular level of churn, particularly where landlords have been proactive and aggressive with terms. As a result, vacancy rates have reduced substantially on many of the larger multi-let estates.
- While several sites are being brought forward, only a few already have infrastructure in place. One example comprises Phase 2 of RD Park, Hinkley, where Goodman has invested £12m into infrastructure provisions. The site is capable of providing up to 850,000 sq ft in a single building.

Selected Midlands transactions H2 2012

Address	Tenant	Size (sq ft)	Rent / Price (psf)	Date
Rivet, Coventry	Lear Corporation	222,598	£5.50	Jul 12
DC3, The Fort, Birmingham	Jaguar Cars	166,052	£5.50	Aug 12
DIRFT II, Daventry	Sainsbury's	1,000,000	Undisclosed	Oct 12
ProLogis Park Ryton, Coventry	Network Rail	300,000*	Undisclosed	Oct 12
First Point, Burton-on-Trent	Hobbycraft	213,240	£4.75	Nov 12

* Freehold pre-sale purchase

Q4 2012 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to Q4 2013

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
Birmingham	£6.00 ◄►	£5.50 ▲	£5.50 ▲
Black Country	£5.25 ◄►	£4.95 ▲	£4.75 ◄►
Leicester	£5.50 ◄►	£5.25 ◄►	£5.25 ▲
Northampton	£5.75 ◄►	£5.50 ◄►	£5.50 ▲
Stafford	£4.95 ◄►	£4.50 ◄►	£4.25 ◄►
Stoke	£4.95 ◄►	£4.50 ◄►	£4.25 ◄►
Rugby / Daventry	£5.75 ◄►	£5.25 ◄►	£5.50 ▲

Computer generated image of the DIRFT II facility, Daventry which Sainsbury's agreed to pre-let on a design and build basis in October 2012. The 1m sq ft deal was the UK's largest transaction in H2 2012.

Regional outlook

- Diminishing supply is likely to force occupiers to consider design and build solutions in 2013. The sticking point, particularly for third party logistics providers, is the long leases such deals require. Either occupiers will need to rethink their leasing strategy or developers will need to take a more flexible approach.
- We expect Automotive-led demand to level out in 2013, with the retailers, West Midlands' manufacturers and third party logistics operators driving demand.
- With the remaining supply of new-build sheds likely to be taken up over the next 12 months, developers are likely to turn their attention towards site acquisition and preparation in 2013. This activity will be focused in the prime areas where there is already a clear shortage of good quality space, such as Birmingham and the surrounds.