MIDLANDS

Logistics and Industrial Commentary

H2 2014 Review

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- The Midlands saw exceptionally strong demand for units over 50,000 sq ft in H2 2014, with record take-up of 11.47m sq ft. This is more than double the five year half yearly average, bringing the total for 2014 to 18.08m sq ft.
- The retail sector was the key underlying driver of demand accounting for just over half of total take up in H2, while distribution represented just over a fifth. 43% of H2 take-up was accounted for by pre-let / pre-sale transactions.
- The sharp rise in take-up has impacted on availability, which at 6.21m sq ft (across 39 buildings) at the end of H2, which is almost half the level of availability at the end of H1. The space currently available is equivalent to just six months of supply based on take-up trends over the past five years, and approximately 2.1m sq ft of this is under offer (10 buildings).
- Current availability includes eight buildings under speculative construction, totalling 1.55m sq ft. Three additional buildings are expected to commence by the end of the year, which will increase stock by a further 807,000 sq ft.
- Supply in the 20,000 to 50,000 sq ft range also remains low for Grade A space in most prime locations. Recently we have seen announcements of speculative building by Goodman and Lasalle Investment Management committing to new space at Lyons Park, Coventry totalling 214,000 sq ft across 5 units at guide rents of £6.25 psf.
- Under 20,000 sq ft, there remains a reasonable supply of older space available in established industrial locations and multi-let estate, with limited Grade A stock available. There are few new builds in this sector, such as Clowes Developments at Bentley Bridge, Wednesfield building units totalling 35,000 sq ft for units of 5,000 sq ft upwards, at guide rents of £5.95 psf.
- Incentives remain minimal for new build and prime space, with approximately 0.5 to 1 month per year term certain, subject to covenant strength.
- Scarcity of stock and prime consented development sites is a now major concern. Competition for land is growing with developers eating into their existing land banks and a number of occupiers seeking larger scale operational sites.

Selected Midlands transactions H2 2014

Address	Occupier	Size (sq ft)	Rent (per sq ft)	Date
XL240, Swadlincote	Clipper Logistics	242,712	£4.95	Aug 14
DC3, Ryton, Coventry	Jaguar Land Rover	225,000	£5.95	Aug 14
DIRFT II, Daventry	Eddie Stobart	420,000	£5.75	Oct 14
Birch Coppice, Tamworth	UPS	152,500	£6.15	Sep 14
Birch Coppice, Tamworth	Euro Car Parts	778,000	£5.50	Nov 14

Q4 2014 Prime headline rents (£ per sq ft)
▼ / ▲ - movement expected to Q4 2015

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
Birmingham	£6.50 ▲	£6.25 ▲	£6.25 ▲
Black Country	£5.50 ◄ ►	£5.25 ▲	£5.25 ▲
Leicester	£5.75 ▲	£5.75 ▲	£5.75 ▲
Northampton	£5.75 ▲	£5.75 ▲	£5.95 ▲
Stafford	£4.95 ◄ ►	£4.75 ▲	£4.75 ▲
Stoke	£4.95 ◄ ►	£4.75 ▲	£4.75 ▲
Rugby / Daventry	£5.75 ▲	£5.75 ▲	£5.75 ▲

XL240, Swadlincote let to Clipper Logistics plc on a new 10 year lease at a rent of £4.95 per sq ft in August 2014. Knight Frank represented the landlord Sert MST plc.

Regional outlook

- Rental growth is expected to continue with new speculative development targeting rents of £6.25 per sq ft and above for prime new product, this should have a knock on effect on rents in the secondary market which typically offer a discount for prime stock of £0.50 to £1.00 per sq ft.
- Retailers are expected to drive demand, with 3PLs and parcel operators well placed to meet the growing demand from on-line sectors. Additional growth is expected from the supply chain to automotive, aerospace and defence sector industries which have announced their requirements for 2015 and into 2016.
- The imbalance of demand and supply is likely to increase speculative development and investment in on-site infrastructure for key development sites.