

LOGIC: Midlands



Q1 2023

Occupier and investment market trends in the Midlands logistics and industrial sector.

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Occupier Market

Demand for new, high quality space in the Midlands remains steady, while supply-side pressures are eased by development completions.

STEADY DEMAND FOR NEW, HIGH QUALITY SPACE

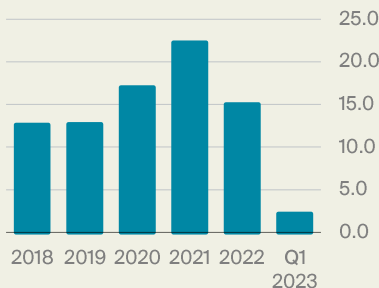
The opening quarter of 2023 recorded 2.2 million sq ft of occupier take up in the Midlands region (units over 50,000 sq ft), 41% lower than that recorded in Q1 2022. Demand for new, high quality space remains steady, with build-to-suit and new, speculative buildings accounting for 80% of take up in Q1.

Syncreon Technology committed to a 595,000 sq ft unit at Segro Park, Coventry, in the West Midlands at £8.75 psf, while Hankook Tyre signed 357,221 sq ft at Apex Park, Daventry, East Midlands at £8.50 psf. Both units are being constructed on a built-to-suit basis to a BREEAM 'Excellent' standard and EPC 'A' rating. Occupiers continue to search for better quality, sustainable buildings with strong ESG credentials.

TAKE UP IMPROVED THROUGHOUT THE QUARTER

Demand for larger sized units is holding up; while take up for the four quarters to Q1 2023 is one-third lower annually, at 13.5 million sq ft, units over 250,000 sq ft comprise 60% of this volume, up from 56% over the same period last year.

Take up (sq ft)
millions square feet



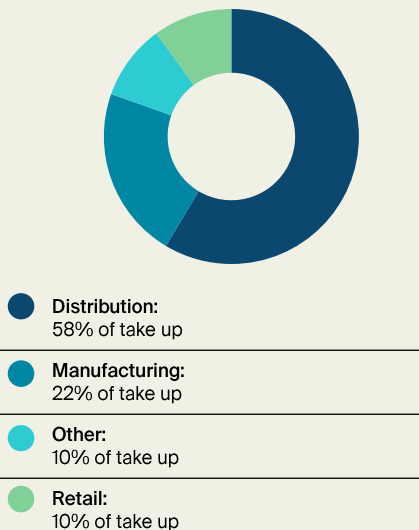
Source: Knight Frank Research

Turmoil in the financial markets in Q4 may have weighed on occupier decision making and resulted in a dampening of transaction levels early in the first quarter. However, take up improved throughout the quarter and a further 19% of all existing available space is under offer. In addition, 22% of the new, existing space is under offer, compared with just 4% last quarter.

INCREASED ACTIVITY BY MANUFACTURING OCCUPIERS

With the Midlands region offering a strong strategic position for national distribution, take up continues to be dominated by distribution firms, comprising 58% of annual take up. Manufacturing occupiers have also been increasingly active, with activity growing by 18% YOY and accounting for 22% of the annual total. This compares with 12% in the same period last year. Retailers have been notably less active, accounting for 10% of the total, compared with 41% in the previous year.

Take up by sector
Q2 2022 - Q1 2023



Source: Knight Frank Research

MARKET VIEW

Activity returning to pre-pandemic levels



BY JAMES CLEMENTS, PARTNER,
BIRMINGHAM LOGISTICS & INDUSTRIAL
AGENCY

“The Midlands industrial market seems to be finding its new normal, with transactional activity settling to that of pre-pandemic times and in line with Q4 of last year. Availability has increased from the same period last year with just under nine months’ supply of existing, immediately available product. This is in part due to c.2 million sq ft of grey space announced to the market since the start of the year.

Speculative development has all but stopped for now, with only a few buildings due to complete after 2023 / into 2024. There remain pockets of the market where availability is very thin; occupiers looking in these areas will need to consider their options early to allow for a build-to-suit.”

Occupier Market

2.2 million sq ft

Occupier take up
Q1 2023

3.2%

Vacancy rate
Q1 2023

£11.00 psf

Prime rents
Q1 2023

29%

Prime annual rental growth

“Prime rents in Birmingham for units over 50,000 sq ft increased by 29% over the past year.”

SUPPLY-SIDE PRESSURES EASED BY DEVELOPMENT COMPLETIONS

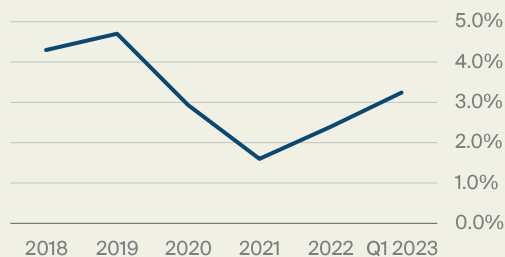
The amount of available floor space (units over 50,000 sq ft) increased by 36% in Q1, to 11.6 million sq ft. This resulted in a vacancy rate of 3.2%, relieving the acute 1.5% record low one year ago, with a number of new units completing construction in Q1. The supply of second-hand space also rose in the quarter, though 18% of this is currently under offer.

An additional 8.1 million sq ft of speculative development was under way at end-March, 10% lower on an annual basis. Despite rising completion levels, fewer speculative developments are commencing construction, which may be due to the rise in development and financing costs.

RENTAL LEVELS & OUTLOOK

Demand for new, high quality space led to prime rents in Birmingham for units over 50,000 sq ft increasing by 29% over the past year, to stand at £11.00 psf at end-March. Average rents in the West and East Midlands respectively are forecast to grow by a more moderate 4.0% and 3.1%, for 2023, according to RealFor.

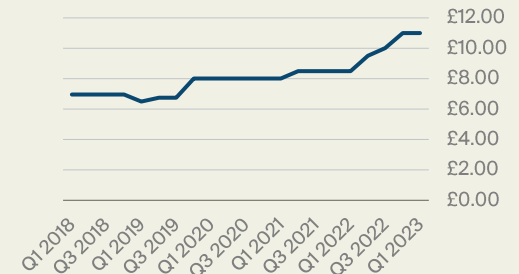
Vacancy Rate
% of stock



Source: Knight Frank Research

“Take up improved throughout the quarter and a further 19% of all existing available space is under offer.”

Birmingham - Prime Rents
£ per sq ft



Source: Knight Frank Research

Key Occupier Deals Q1 2023

| PROPERTY | SIZE (SQ FT) | OCCUPIER | RENT (OR PURCHASE PRICE) | COMMENTS |
|----------------------------|--------------|-------------------------------|--------------------------|-------------------|
| Segro Park, Coventry | 595,000 | Syncreon Technology (UK) Ltd. | £8.75 psf | Build-to-Suit |
| Apex Park, Daventry | 357,221 | Hankook Tyre UK Ltd. | £8.50 psf | Build-to-Suit |
| Mercia Park, Appleby Magna | 315,000 | DSV Logistics | £8.25 psf | Speculative build |

Investment Market

£276 million

Investment total
Q1 2023

£18 million

Average lot size
(last four quarters)

40%

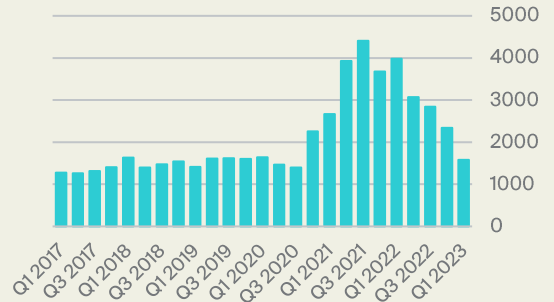
Overseas capital
(last four quarters)

5.25%

Prime yield
Q1 2023

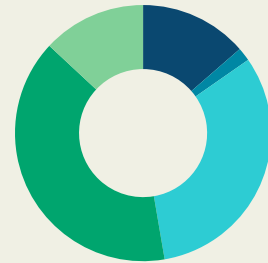
“Investment in Q1 2023 was 24% higher than the previous subdued quarter.”

Investment totals (£m)
(four quarter rolling)



Source: Knight Frank Research

Investment by purchaser type
Q2 2022 - Q1 2023



- **UK institution:**
13% of investment
- **Listed Property Company:**
2% of investment
- **Private Property Company:**
32% of investment
- **Overseas Investor:**
40% of investment
- **Private/Other:**
13% of investment

“Overseas buyers accounted for 40% of investment in the four quarters to Q1 2023”

Source: Knight Frank Research

OVERSEAS INVESTORS REMAIN ACTIVE

A total of £276 million was invested into the Midlands industrial sector in Q1 2023, 24% higher than the previous, more subdued quarter. This brings the rolling four quarter total to end-March to £1.6 billion. Overseas buyers accounted for 40% of the annual total, with a further 32% coming from UK property firms.

A key deal in the quarter was the sale of Project Garrison, a multi-let portfolio in Birmingham, acquired by Mileway for £46 million, reflecting a net initial yield of 5.80%.

Following a notable softening of prime industrial yields in the latter half of 2022, prime yields in Birmingham remained stable in Q1 2023, at 5.25%.

Key Investment Deals

Q1 2023

| PROPERTY | TOWN | PRICE | YIELD | PURCHASER | VENDOR |
|--|-------------------|--------|-------|------------------------|---------------------------|
| Project Garrison | Birmingham | £46m | 5.80% | Mileway | LondonMetric Property plc |
| Unit A, Palletforce, Centrum Way Business Park | Burton-upon-Trent | £40m | 5.85% | St Modwen | abrdn |
| Impact Park, Willenhall Lane | Walsall | £35.2m | 5.00% | Mayfair Capital | Canmoor / BA Pension Fund |
| Smyths Toys, Arrow 248, Geddington Road | Corby | £30.5m | 4.55% | Leftfield Advisors Ltd | Arrow Asset Management |

Source: Knight Frank Research

We like questions, if you've got one about our research,
or would like some property advice, we would love to hear from you

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Methodology

This report has been prepared by Knight Frank Research.

Data and information within this report have been provided by Knight Frank occupier and investment teams across the Knight Frank UK network. Third party data sources are also utilised.

For the purposes of this report, take-up figures refer to spaces of 50,000 sq ft or more, that are let, pre-let or acquired for occupation.

Availability refers to all space available for immediate occupation as well as space under construction (built speculatively) that will be available for occupation within the next 12 months.

Investment figures refer to industrial property purchases where the primary motivation is the generation of income. Acquisitions for occupation are excluded. Land sales are included, where the end use of the land is known.



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