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

Knight Frank

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LOGIC: Midlands Q2 2022

Research, July 2022

MARKET OVERVIEW

Occupier demand in the Midlands remains robust despite a shortage of immediately available stock, with strong pre-let and build-to-suit activity in the first half of 2022.

7.8 million sq ft
Occupier take up H1 2022

£1.4 billion
Investment total H1 2022

18%
Prime annual rental growth

Distribution firms dominating occupational market

The Midlands region recorded a total of 4.2 million sq ft of occupier take up in the second quarter of 2022 (units over 50,000 sq ft). This brings the total for H1 2022 to over 7.8 million sq ft, ahead of the five-year H1 average. Approximately 63% of H1 take up was made up of pre-lets or build-to-suit industrial units.

Distribution firms continue to be the most active in the market and accounted for 58% of occupier activity in the first half of the year. Iron Mountain has been particularly active, acquiring close to 1.8 million sq ft over the first half of the year.

New, high quality units in short supply

Availability levels remain constrained; there is just over 6 million sq ft of immediately available space in the Midlands (units over 50,000 sq ft), 19% of which is under offer. This has resulted in the vacancy rate remaining sub 2% at the mid-point of the year. In addition, the vast majority of this space (86%) consists of second-hand units, with only six new speculatively built units immediately available across the Midlands region as we move into H2.

JAMES CLEMENTS, PARTNER, BIRMINGHAM COMMERCIAL

"The market has continued to perform well in Q2 2022 with record rents being achieved across the region. The supply demand imbalance is increasing which is likely to drive rents on into the second half of the year, particularly on second hand/existing stock."

Strong speculative development activity, though behind market demand

The level of speculative development activity in the Midlands remains positive for the region given the lack of available industrial stock. There is about 8.8 million sq ft of space under construction speculatively, across 53 units, with 60% in the East and 40% in the West. This compares to just 3.3 million sq ft of space under construction recorded 12 months ago.

However, the speculative development pipeline remains behind market demand. Taking into account the volume of immediately available space and space under construction that is currently under offer, this leaves just over nine months' worth of supply when compared to the five-year average, to satisfy demand requirements in the region.

Average yields continue to compress

The first half of 2022 has seen £1.4 billion invested in Midlands industrial property. This was mainly driven by transactions taking place in the earlier months of the year which totalled just over £1 billion. The largest multi-let deal in Q2 was Richardson Parkway, Wednesbury, acquired by BentallGreenOak for £90.5 million / NIY 2.88%. For the 12 months to end-June, just over £2.9 billion transacted, with the average sized deal being c.£22 million over the period.

The weighted average yield for assets transacted across the Midlands region over the past 12 months was 4.5%. This compares to an average of 5.1% in the same rolling 12-month period last year.

Rental levels & Outlook

Prime rents for units over 50,000 sq ft in Birmingham are 18% higher annually to Q2, at £10.00 psf. Average rents in the East and West Midlands are forecast to grow by 8.9% and 11.0%, respectively, for 2022 (RealFor).

OCCUPIER MARKET

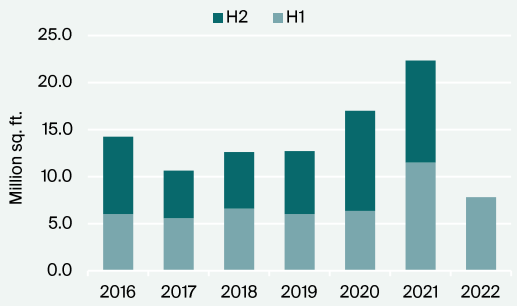
4.2 million sq ft
Occupier take up Q2 2022

58%
Distribution take up H1 2022

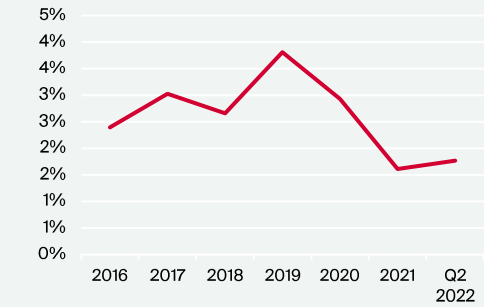
£10.00 psf
Prime rents

1.8%
Vacancy rate

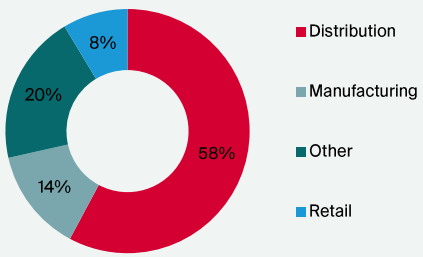
Take up (sq ft)



Vacancy rate (%)



Take up by sector (sq ft), H1 2022



Birmingham - Prime rents (£psf)

KEY OCCUPIER DEALS H1 2022

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
MLP, Corby	640,000	Top Hat	£7.95 psf	Build-to-Suit
MPN2 Magna Park North, Lutterworth	503,216	Iron Mountain	£7.95 psf	Pre-let
Coventry Logistics Park	484,720	DHL	£7.95 psf	Pre-let
Panattoni Park, Northampton	430,000	Hotel Chocolat	£7.95 psf	Speculative build
DC2 Prologis Park, Hams Hall, Coleshill	259,510	British Volt	£8.95 psf	Pre-let

Source: Knight Frank

INVESTMENT MARKET

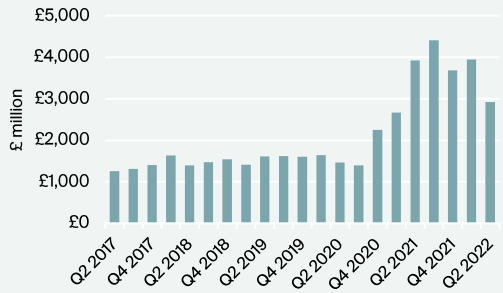
£2.9 million
Investment total (last four quarters)

£22.1 million
Average lot size (last four quarters)

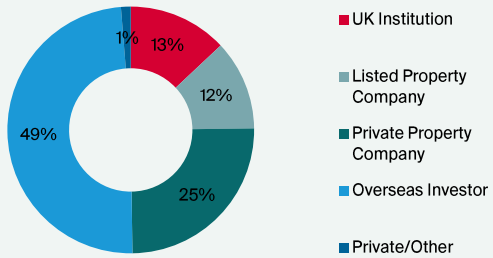
49%
Overseas capital (last four quarters)

4.5%
Average yield (last four quarters

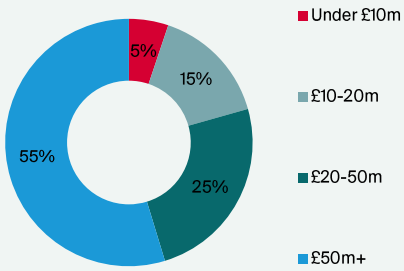
Investment totals (four quarter rolling)



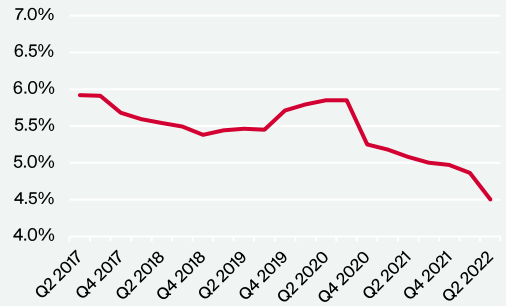
Investment by purchaser type Q3 2021 – Q2 2022



Investment by lot size Q3 2021 – Q2 2022



Weighted average yield (%) (four quarter rolling)



KEY INVESTMENT DEALS H1 2022

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Central Park	Rugby	£106m	-	ARES (Israel)	Undisclosed
Richardson Parkway	Wednesbury	£90.5m	2.88%	BentallGreenOak	abrdn
Mercia Park	Tamworth	£80m	-	Vestas Investment Mgt	DSV Solutions Ltd.
Raynesway Portfolio	Leicester	£70m (2 units)	-	Boundary Real Estate	Raynsway Properties

Source: Knight Frank, Property Data

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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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