

LOGIC: North West



Q2 2023

Occupier and investment market trends in the North West logistics and industrial sector.

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Image: Connect 6, Preston

Occupier Market

Take up levels moderate, but the supply of new, larger units remains constrained.

MODERATION IN TAKE UP LEVELS

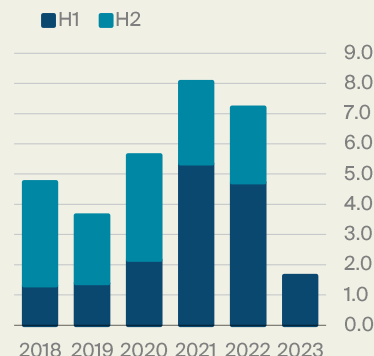
The second quarter of 2023 recorded 844,700 sq ft of take up in the North West region (units over 50,000 sq ft). This brings take up for the first half of the year to 1.6 million sq ft, 65% below the H1 2022 levels. Recent economic challenges have weighed on occupier decision-making, resulting in a moderation in take up levels in the first half of the year. However, with 25% of all existing available space under offer at quarter end, we expect take up levels to improve in the coming quarters.

Occupier deals in Q2 included the purchase of a 234,182 sq ft unit at the former Saica Pack site, Ellesmere Port, by Northwood Paper. In addition, Unit 11, MA6NITUDE, Middlewich, was let to Jet 2, on a 15-year lease at £7.50 psf. The 149,000 sq ft new build is rated EPC 'A' and BREEAM 'Very Good'.

Take up in the 12 months to June 2023 totalled 4.1 million sq ft, 45% lower annually. A combination of speculatively developed and built-to-suit units comprise 51% of take up over the past year, as occupier demand increasingly focuses on better quality, more sustainable buildings.

Take up (sq ft)

million square feet



Source: Knight Frank Research

PREFERENCE TOWARDS SMALL TO MID-BOX UNITS

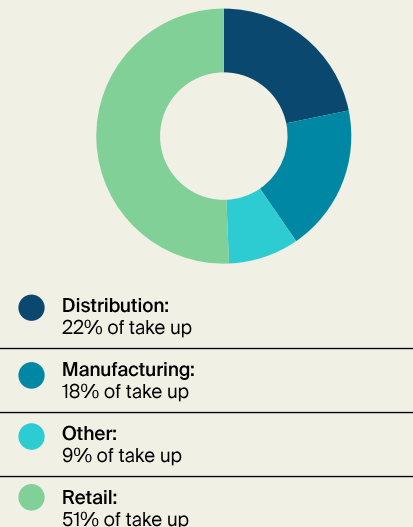
Analysis of space taken by unit size demonstrates a preference towards smaller to mid-box units, with 70% of take up in the year to Q2 under 100,000 sq ft in size, compared to 44% in the comparable period last year.

DIVERSE RANGE OF OCCUPIERS TAKING SPACE

The North West continues to benefit from quite a diverse range of occupiers. Retailers account for over half of the annual take up (51%). This is largely boosted by the letting of Crewe460 to TK Maxx in Q1 2023. Demand from other, alternative occupiers has increased over the past year, with its share of the 12-month total rising to 9%, from 4% in the comparable period the previous year.

Take up by sector

Q3 2022 – Q2 2023



Source: Knight Frank Research

MARKET VIEW

Modern space remains the focus for the majority of occupiers



BY SAM ROYLE, PARTNER,
MANCHESTER LOGISTICS & INDUSTRIAL
AGENCY

“Whilst the volume of transactions has trended downwards in the first half of the year, the fundamentals of the occupational market remain strong. Modern space remains the focus for the majority of occupiers and those landlords who have undertaken high quality refurbishments or delivered new build product have been able to push the boundaries on rents, capitalising on the lack of modern stock in the market.

Whilst leasing enquiries have tapered back to pre-pandemic levels, demand competition remains robust and rental growth is strong. Hitting £9.50 psf headline rents on 50,000 sq ft+ is a new benchmark for the region, but achieving rents around this level is likely to continue as more occupiers are demanding modern warehouse space with the best ESG credentials, in addition to the viability issues faced in the funding and development markets.

We expect an increase in transaction volumes in H2 2023, with a substantial amount of space already under offer, particularly for design and build opportunities servicing the increasing number of bespoke warehouse requirements which may not suit the standard institutional build.”

Occupier Market

1.6 million sq ft

Occupier take up
H1 2023

3.8%

Vacancy rate
Q2 2023

£8.05 psf

Prime rents
Q2 2023

3.9%

Prime annual rental growth

“Demand from other, alternative occupiers has increased over the past year”

LOW SUPPLY OF NEW, LARGER UNITS

Supply levels edged up by 2.5% in Q2, to stand at 5.6 million sq ft (units over 50,000 sq ft), with the vacancy rate increasing by 10bps in the quarter, to 3.8%. The supply uplift was wholly driven by a return of second-hand stock, while the availability of new, speculatively developed space declined by 22%, to approx. 1.1 million sq ft. A shortage of new, larger units persists, with only one new unit over 250,000 sq ft immediately available at end-Q2.

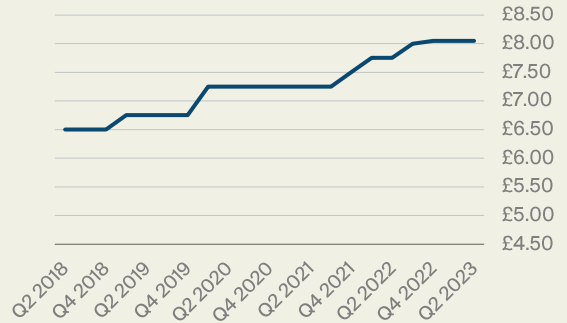
Speculative development under way at the end of June was 16.1% higher on the previous quarter, at 2.7 million sq ft (units over 50,000 sq ft). Four new units commenced construction in Q2, including K107 in Knowsley and Vortex 107 in Ellesmere Port.

RENTAL LEVELS & OUTLOOK

Prime rents in Manchester for units over 50,000 sq ft remained stable in Q2, at £8.05 psf. On an annual basis, prime rents in Manchester and Liverpool are 3.9% and 10.7% higher, respectively, while prime rents in Warrington reached a new headline rent in Q2, to £9.50 psf (units 50,000 sq ft+). Average rental growth of 6.2% is forecast for the North West region for 2023, ahead of the forecast for the UK as a whole, of 5.1%, according to RealFor.

Manchester - Prime Rents

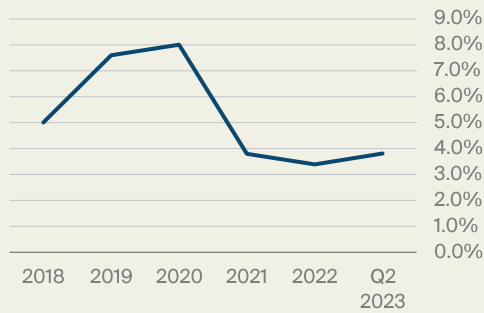
£ per sq ft



Source: Knight Frank Research

Vacancy rate

% of stock



Source: Knight Frank Research

“The supply uplift was wholly driven by a return of second-hand stock”

Key Occupier Deals H1 2023

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Crewe 460, Crewe	456,735	TK Maxx	£7.50 psf	Speculative build
Saica Pack, Ellesmere Port	234,182	Northwood Paper	£19.42 psf	Freehold purchase – second-hand
Unit 11 MAGNITUDE, Middlewich	149,000	Jet 2	£7.50 psf	Speculative build
Unit 3 Omega, Warrington	91,247	SGI	£9.50 psf	Second-hand

Investment Market

£952 million

Investment total
H1 2023

£27.6 million

Average lot size
(last four quarters)

65%

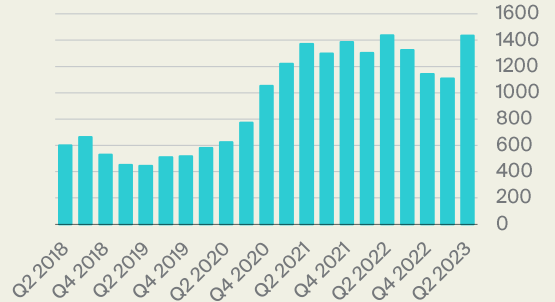
Overseas capital
(last four quarters)

5.50%

Prime yield
Q2 2023

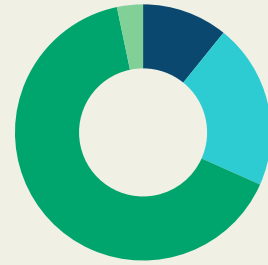
“Over the 12 months to June, £1.4 billion was invested, 52% ahead of the region’s 5-year rolling annual average”

Investment totals (£m)
(four quarter rolling)



Source: Knight Frank Research

Investment by purchaser type
Q3 2022 – Q2 2023



- **UK institution:**
11% of investment

- **Listed Property Company:**
0% of investment

- **Private Property Company:**
21% of investment

- **Overseas Investor:**
65% of investment

- **Private/Other:**
3% of investment

Source: Knight Frank Research

INVESTMENT AHEAD OF 5-YEAR AVERAGE

Approx. £696 million was invested into industrial property in the North West in Q2 2023, bringing the H1 2023 total to £952 million. This is 44% ahead of the volume invested in H1 2022. Over the 12 months to June, £1.4 billion was invested, 52% ahead of the region’s five-year rolling annual average. The Q2 total was boosted by Blackstone’s acquisition of the Harbert Portfolio, from Harbert Management Corporation, for £480 million. The portfolio comprised two industrial estates and reflected a blended NIY of 4.40%. Overseas buyers have accounted for 65% of investment over the past year.

“Overseas buyers have accounted for 65% of investment over the past year”

Prime industrial yields in Manchester softened by 25bps in Q2, to 5.50%, in tandem with the outward shift of prime yields across most UK regional markets.

Key Investment Deals

H1 2023

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Harbert UK Portfolio	Manchester / Heywood	£480m	4.40%	Blackstone	Harbert Management Corporation
Units 1, 2 & 3 Gorseley Point	Widnes	£89m	5.30%	Clarion Partners	Mirastar
Units 1-3, Carrington Gateway	Carrington	£20m	5.26%	Cabot Properties	Wain Estates

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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