

LOGIC: North West



Q3 2023

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

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Image: Bolton 280, Bolton

Occupier Market

Supply levels boosted by development completions, but a slowdown in delivery of new space expected next year

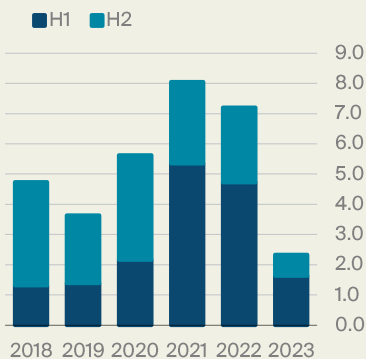
TAKE UP LEVELS MODERATE

The third quarter of 2023 recorded 697,300 sq ft of take up in the North West industrial occupier market (units 50,000 sq ft+), bringing the total for the year-to-date (YTD) to over 2.3 million sq ft. Similar to the nationwide picture, the YTD total is 60% lower on the same period last year, as economic pressures reduce the pace of deals completing. With 13% of all existing available space and new space under construction under offer at end-September, we estimate that the year-end total will be closer to pre-Covid-19 levels.

BUT CONTINUED GROWTH IN PRIME HEADLINE RENTS

While both take up and lease enquiries are contracting back to pre-pandemic levels, demand competition remains robust. New and modern space remains the focus for most occupiers which is driving continued growth in headline rents in the region. This includes buildings that have undergone high-quality refurbishments as speculative development in the region slows. Notably, the share of take up that is second-hand grade A or B space has risen to 65% in the nine months to September 2023, from 25% in the comparable period last year.

Take up (sq ft) million square feet



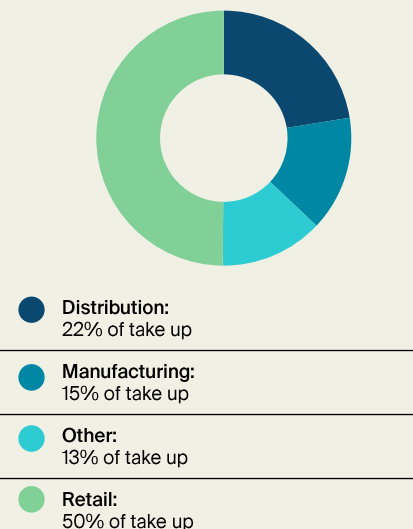
Source: Knight Frank Research

DISTRIBUTION AND RETAIL OCCUPIERS REMAIN ACTIVE

Take up in the 12 months to September 2023 totalled 3.7 million sq ft, 44% lower annually. Distribution firms and retailers remain active, combined accounting for 72% of the annual total. Demand from other, alternative occupiers such as plant and equipment hiring and waste management companies has increased, with its share of the 12-month total rising to 13%, from 3% in the comparable period the last year. In contrast, take up by manufacturers has declined.

Occupier deals in Q3 included the letting of K53, Acornfield Road in Knowsley, to 3PL company MAC Logistics on a five-year lease at £9.00 psf. The 52,947 sq ft new build is rated EPC 'A' and BREEAM 'Very Good'. Also in Q3, transportation and distribution company, John K Phillips, agreed a 15-year lease on Solar 120, a 120,511 sq ft unit at Europa Boulevard in Warrington, at £8.75 psf.

Take up by sector Q4 2022 – Q3 2023



Source: Knight Frank Research

MARKET VIEW

Prime rents remain resilient despite slowdown in transactions



BY SAM ROYLE, PARTNER,
MANCHESTER LOGISTICS & INDUSTRIAL
AGENCY

“Similar to the nationwide picture with inflationary pressures and wider economic uncertainty, the North West occupational market is taking a much more cautious approach when it comes to leasing warehouse space.

We are experiencing extended decision-making and a general slowdown in transactions. Whilst the volume of transactions has dropped in comparison to the previous 2 - 3 years, take up figures are falling back to pre-pandemic levels.

Prime rents have remained resilient, and we continue to see rental growth in core markets, albeit there are occurrences of larger incentive packages being offered by landlords to secure the best occupiers, minimise void periods and achieve these new headline rents.”

Occupier Market

2.3 million sq ft

Occupier take up
YTD 2023

4.6%

Vacancy rate
Q3 2023

£9.50 psf

Prime rents
Q3 2023

19%

Prime annual rental growth

“The quarterly supply uplift was wholly driven by new development completions”

SUPPLY UPLIFT BOOSTED BY NEW COMPLETIONS

Supply levels increased by 22% in Q3, to stand at 6.9 million sq ft (units over 50,000 sq ft), with the vacancy rate increasing from 3.8% in Q2 to 4.6% in Q3. However, the quarterly supply uplift was wholly driven by new development completions, with c. 1.5 million sq ft of new space added, while the availability of second-hand space marginally declined during the quarter.

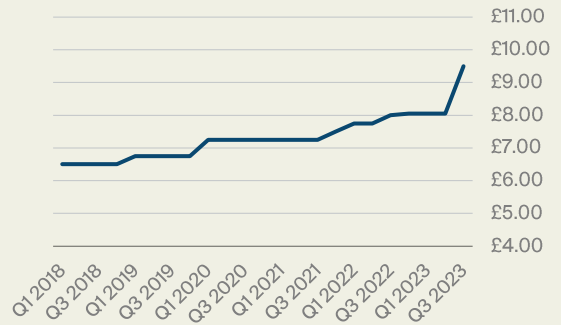
Development activity has been steadily falling over the past 12 months due to increased build and financing costs. Approx. 1.5 million sq ft of speculative space was under construction at end-September, 46% lower year-on-year (units 50,000 sq ft+). We therefore expect a slowdown in the delivery of new space to the market next year.

RENTAL LEVELS & OUTLOOK

Prime industrial rents in Manchester for units over 50,000 sq ft+ increased by 19% annually to Q3, standing at £9.50 psf at end-September. Average rental growth of 3.5% is predicted for the North West region next year, ahead of the forecast for the UK as a whole, of 3.1%, according to the latest RealFor forecasts.

Manchester - Prime Rents

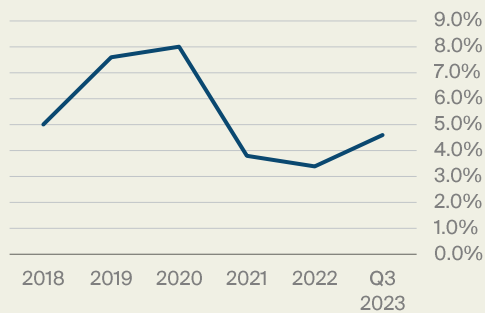
£ per sq ft (units >50,000 sq ft)



Source: Knight Frank Research

Vacancy rate

% of stock



Source: Knight Frank Research

“Approx. 1.5 million sq ft of speculative space was under construction at end-September, 46% lower year-on-year”

Key Occupier Deals

Q3 2023

| PROPERTY | SIZE (SQ FT) | OCCUPIER | RENT (OR PURCHASE PRICE) | COMMENTS |
|---|--------------|-----------------|--------------------------|-------------------|
| Real 257, Woolston, Warrington | 257,319 | Stapleton Tyres | £7.25 psf | Second-hand |
| Solar 120, Europa Boulevard, Warrington | 120,511 | John K Phillips | £8.75 psf | Second-hand |
| K53, Acornfield Road, Knowsley | 52,947 | MAC Logistics | £9.00 psf | Speculative build |
| Hurricane 52, Hurricane Drive, Speke | 52,760 | Montirex | £8.25 psf | Speculative build |

Source: Knight Frank Research

Investment Market

£1.1 billion

Investment total
YTD 2023

£28.9 million

Average lot size
(last four quarters)

66%

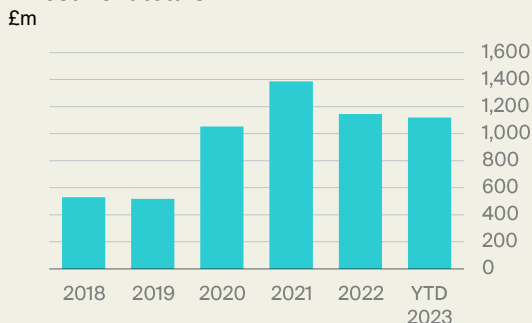
Overseas capital
(last four quarters)

5.50%

Prime yield
Q3 2023

“Investment in the year-to-date is 21% ahead of the five-year annual average for the region”

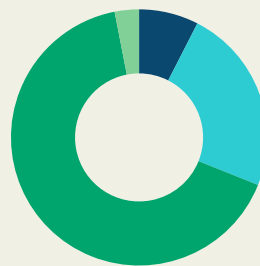
Investment totals



Source: Knight Frank Research

Investment by purchaser type

Q4 2022 – Q3 2023



- **UK institution:**
7% of investment
- **Listed Property Company:**
0% of investment
- **Private Property Company:**
24% of investment
- **Overseas Investor:**
66% of investment
- **Private/Other:**
3% of investment

Source: Knight Frank Research

ROBUST INVESTMENT VOLUMES

A total of £83.1 million was invested into industrial property in the North West in Q3. This brings the year-to-date total to over £1.1 billion, 32% higher than the comparable period last year and 21% ahead of the five-year annual average. Overseas buyers account for 66% of the total invested over the past year, boosted by Blackstone’s £480 million acquisition of the Harbert Portfolio in Q2. UK private property companies comprise a further 24% of the annual total, while investment by UK institutions has declined from 20% last year, to 7% this year.

Following a 100bps softening of prime industrial yields in Manchester over the past year, prime yields remained stable in Q3 2023, at 5.50%, in tandem with the stabilisation of prime yields across all UK regional markets.

“Prime yields in Manchester remained stable in Q3 2023, at 5.50%”

Key Investment Deals

Q3 2023

| PROPERTY | TOWN | PRICE | YIELD | PURCHASER | VENDOR |
|---------------------------|-----------|--------|-------|---------------------|-----------------|
| Viking Park, Foundry Lane | Halebank | £32m | 6.14% | Infinium | Legal & General |
| Wrights Pies, 2nd Ave | Crewe | £15.1m | 7.80% | Angelo Gordon & Co. | Wrights Pies |
| Arrow Trading Estate | Audenshaw | £12.6m | 7.70% | Marchmont IM | CEG |

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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