Midlands Logistics & Industrial Insight Report

2021 Mid Year Review

H1 2021 Overview

With take up almost 75% higher than the same period last year, occupier appetite for space in the Midlands market remains extremely robust.

The effects of the pandemic on consumer habits has propelled the Midlands logistics & industrial market toward new heights with a potentially record breaking year on the cards.

Availability is reaching critical levels of shortage, and the current pipeline of speculative development only goes some way in plugging the gap.

Occupier demand is intense with fierce competition to secure buildings leading to informal tender bidding on leasehold opportunities. It's no exaggeration to say that almost every 'big box' in the market whether existing or under construction has several parties seriously interested and as we all know there are no prizes for second place.

Rents are continuing on an upward trajectory, and yields are hardening further. As a direct result land pricing is hitting record levels, significantly in excess of previous highs at the top of the last cycle, with gross pricing in the best locations of circa £1.5m per acre plus.

Has there ever been a more opportune time to be in the market?

St Modwen Park Stoke South

Transactions

Following the 17.01m sq ft transacted in 2020 demand for accommodation in the Midlands has continued, with over **11.14m sq ft already taken so far in 2021**. This already equates to 82% of the 5 year annual average take up for the region. Just 29% of take up has been on a build to suit basis so far this year.

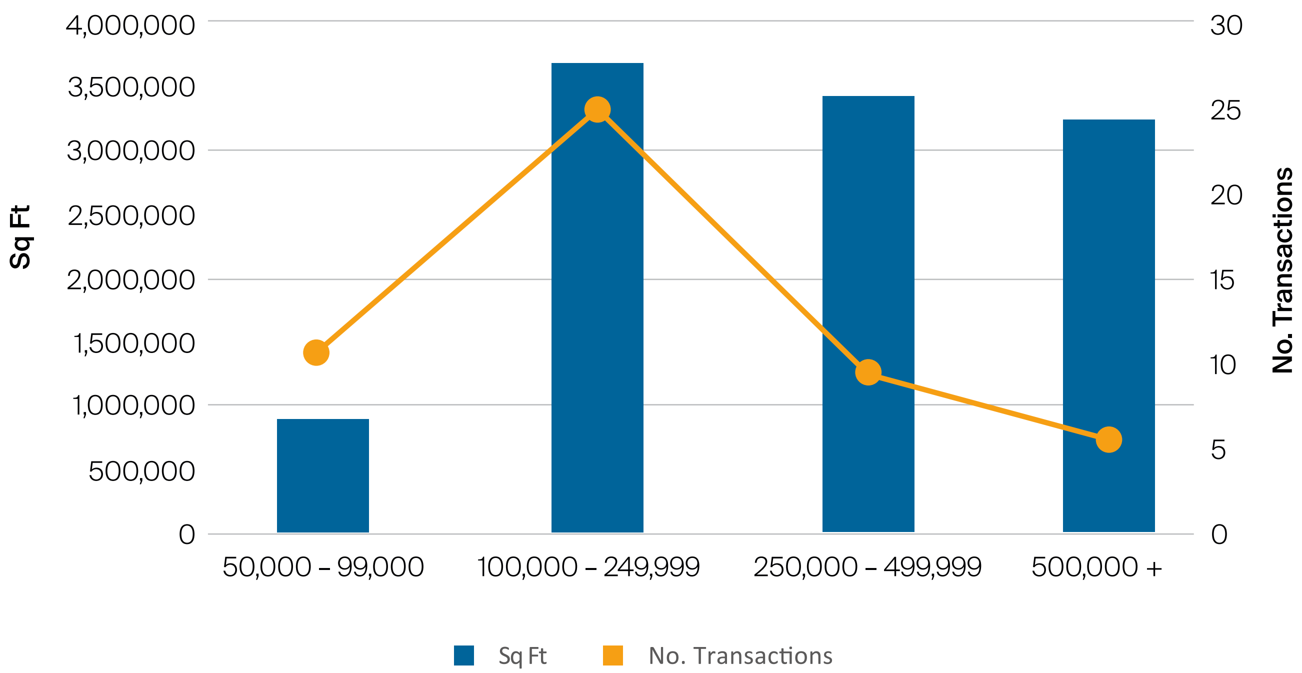
Knight Frank LOGIC data for the Midlands has recorded the following levels of take up during the first half of 2021

Size (Sq Ft)	Take Up (Sq Ft)	Number of Transactions	Average Size (Sq Ft)
50,000 - 99,999	759,087	11	69,008
100,000 - 249,999	3,660,459	25	146,418
250,000 - 499,999	3,439,001	10	343,900
500,000 +	3,286,125	5	657,225
TOTALS	**11,144,672**	**51**	**218,523**

Headline transactions have been as follows

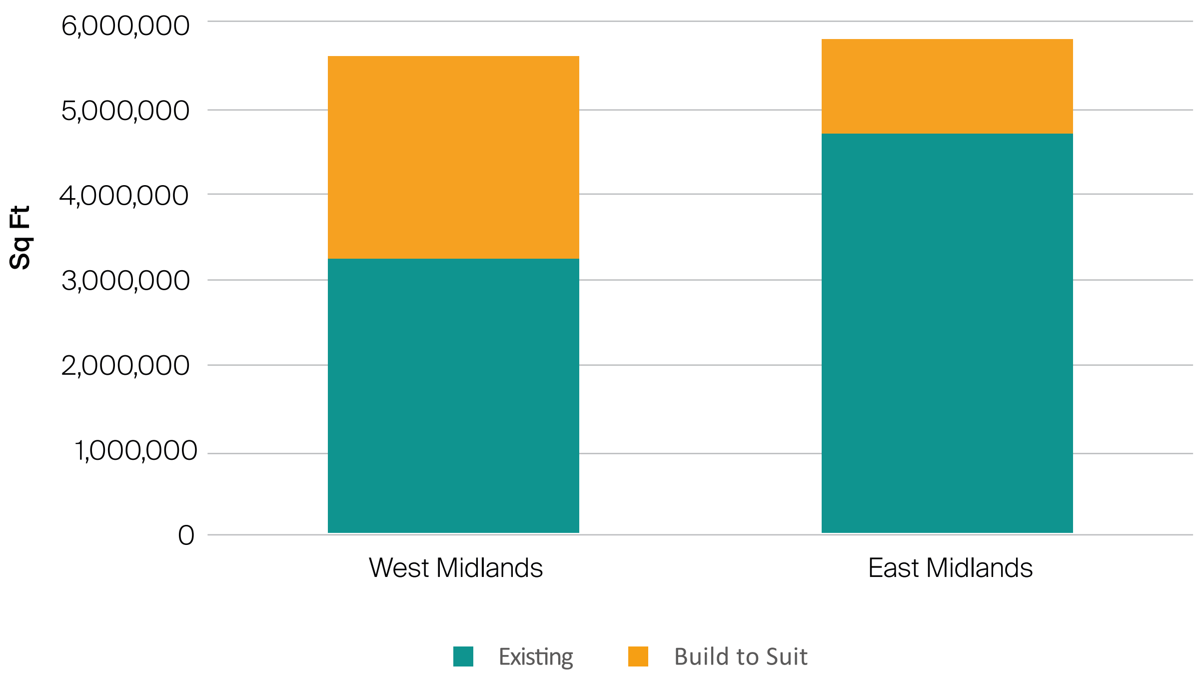
Address	Developer / Landlord	Occupier	Size (sq ft)
Damson Parkway Solihull	Prologis	Jaguar Land Rover	1,000,000
Redhill Business Park Stafford	Stoford	Pets at Home	670,000
Rockingham 528 Corby	Staples (Tenant)	Wincanton	528,108
EMDC 525 Castle Donington	Panattoni	Buy it Direct	525,000
Wolverhampton 450 Four Ashes	Panattoni	CEVA	450,000

H1 2021 Midlands Transactions



Transactions by Region

Total amount of space taken is split evenly between the East & West Midlands. The West Midlands has had the largest number of transactions, with 29 verses 22 in the East. The West Midlands has seen the most amount of pre-let activity.

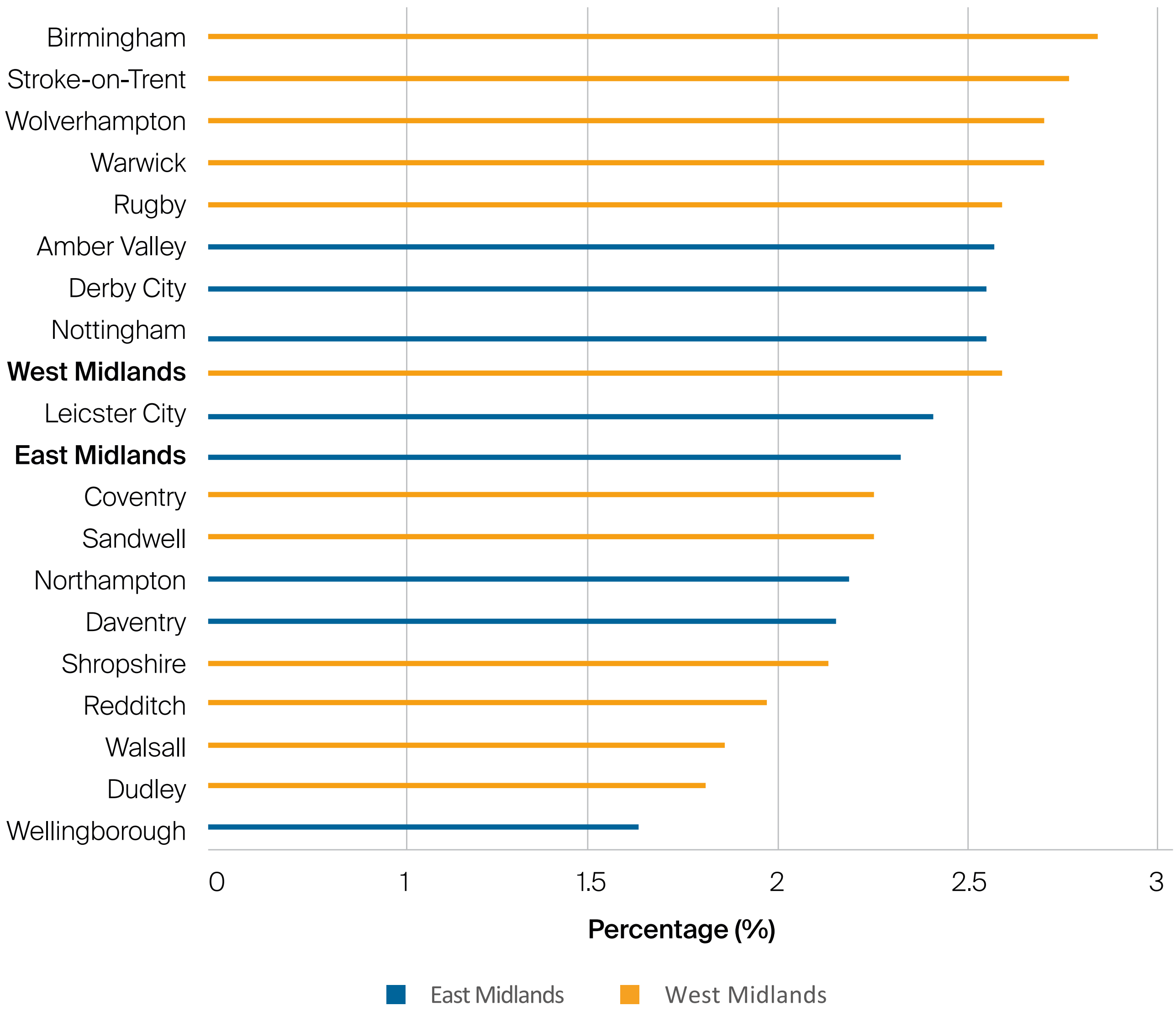


Rental Forecasts

There is **strong and accelerating rental growth forecast for markets across the region** over the next five years. Some of the West Midlands markets have the strongest average rental growth forecast over the five year period, with rents in Birmingham and in Stoke-on-Trent expected to rise an average of 2.3% per annum over the next five years.

Rental growth is expected to accelerate sharply in some of the East Midlands markets. By 2025, the market of Derby is forecast to see the strongest of any of the Midlands markets, with 2.9% rental growth anticipated. Stoke-on-Trent and Shropshire are also expected to see strong acceleration in rental growth over the period.

Average Annual Retal Growth Forecast (2021-2025)

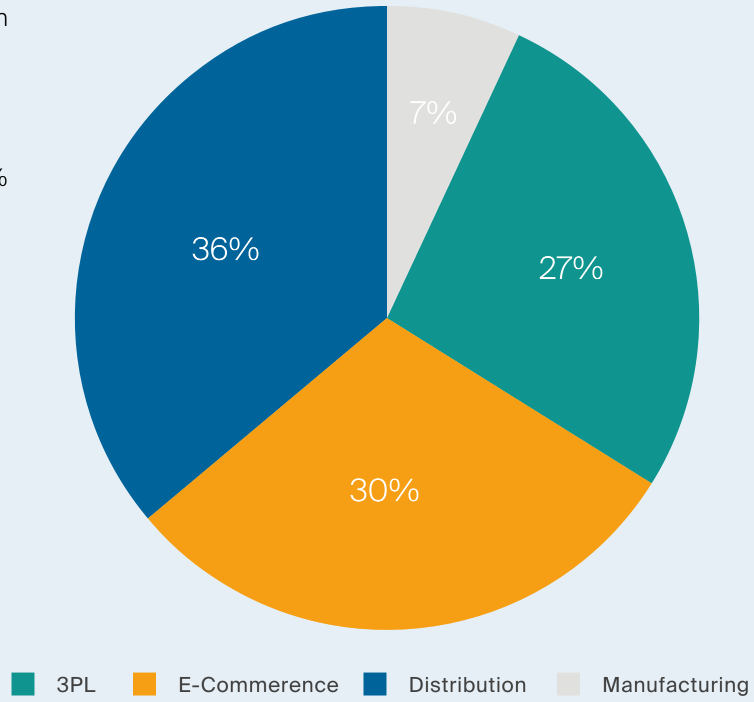


Source: Knight Frank Research, RealFor

Occupiers

As in 2020 the B8 Storage & Distribution sectors have been the most active.

93% of transactions have come from the distribution markets with direct occupier distribution taking the highest portion of take up (36%), closely followed by pure e-commerce (30%), and 3PL sector (27%). In past years manufacturing users have accounted for circa 20% of transactions, albeit this dropped to 11% in 2020 and is currently 7% so far this year.



A selection of the most active occupiers are as follows:

In order to strengthen their supply chain network, JLR acquired the largest pre-let of the year so far with c.1m sq ft close to their Solihull manufacturing plant.

As a timely strategic move given the amount of new pet owners over the past 12 months the retailer acquired the second largest pre-let so far this year of 670,000 sq ft on Redhill Business Park, Stafford.

The online fashion brand has acquired two buildings this year, in Daventry and Wellingborough totalling approximately 700,000 sq ft.

Following last year's acquisitions totalling circa 450,000 sq ft, the e-commerce 3PL can't seem to stop! The company have acquired another 436,808 sq ft in 4 buildings across the Midlands this year... so far...

The 3PL can be awarded the largest acquisition of an existing building so far this year after taking 528,000 sq ft in Corby. Given the amount of contracts doing the rounds at the moment, it is likely Wincanton will add to their tally before the end of the year.

Another (half) year, another busy (half) year for one of the most active occupiers over the last decade. Amazon are rumoured to have concluded acquisitions on circa 1m sq ft so far in 2021. After acquiring circa 1.2m sqft in the region last year it's a good bet this will be exceeded in 2021.

Labour

Over the past 15-months, the COVID-19 pandemic has **accelerated growth in online retail** and consequently amplified the labour requirements of related transport, logistics and warehousing operations. As a result, there has been a shift in labour requirements – away from city centre retail shops and into distribution centres and roles in logistics and deliveries. Due to the strong presence of logistics firms and retail fulfilment centres in the Midlands, the region has a high proportion of the workforce already employed in these sectors and **pressures on the local labour pool are rising**. Many local authorities in the region have unemployment rates below the UK average and as operators take more space in the region, there is a rising need for staff within these facilities.

The Confederation for British Industry (CBI) is predicting the UK economy will return to pre-Covid levels a year earlier than previously expected, upgrading their forecast to 8.2% GDP growth this year (up from a previous forecast of 6.2%), followed by 6.1% growth in 2022. The recovery in job postings has been fastest in manufacturing and distribution hubs.

The **Midlands is a strategic location for distribution centres**, and due to the growth in online retail, towns in the region have recorded some of the strongest jobs growth in the country. Job postings have risen in Mansfield, which recorded 20% growth on pre-pandemic job ads, and Stoke-on-Trent, with 17% (Source: Indeed, Centre for Cities).

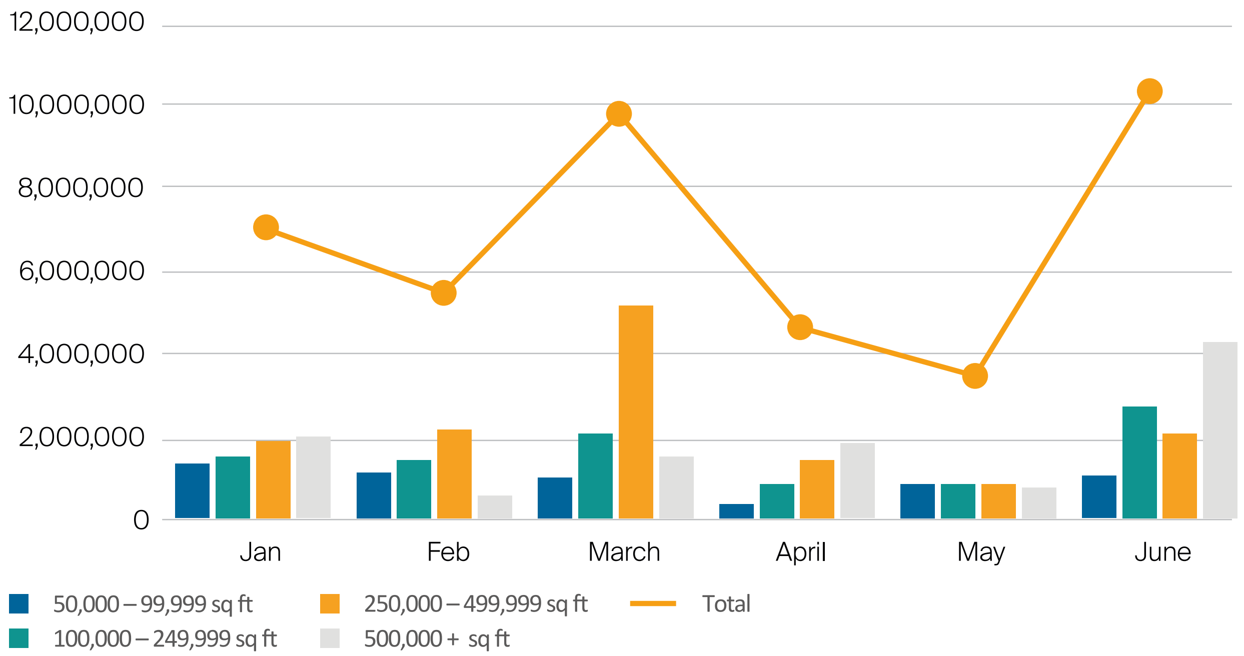
Strong future growth in employment is forecast for some part of the region, as online retailers and distributors expand their bases in the region. Employment growth is forecast to exceed 5% over the next five years in Wellingborough, Kettering, Nottingham, North Northamptonshire and South Northamptonshire. As the regional economy grows, the challenge of attracting talent will become even more critical for operators.

The tightening labour market is further compounded by the UK's recent departure from the EU. Warehouse and logistics operators will need to look at how they attract and retain talent post-Brexit, this will become even more critical as the economy recovers and competition for labour increases.

Requirements

Knight Frank have recorded over 40m sq ft requirements in the first half of 2021 over 50,000 sq ft.

2021 Requirements



Following a relatively subdued 2020 **requirements in the mid box market (50,000 – 99,999 sq ft) have seen a resurgence.** As these occupiers tend to be more location specific, most will have a tough time finding and acquiring space given this size band has received less attention from speculative developers than others.

The **highest number of requirements has been received in the 100,000 – 249,999 sq ft size band** with more regional covenants looking to make larger investments in buildings in order to capitalise on consumer demand.

Occupiers looking for 250,000 – 499,999 sq ft will need to be quick. With close to **14m sq ft recorded in this size range so far this year** companies may need to explore build to suit, split operations between multiple buildings or consolidate facilities and take larger (the last two options still proving problematic).

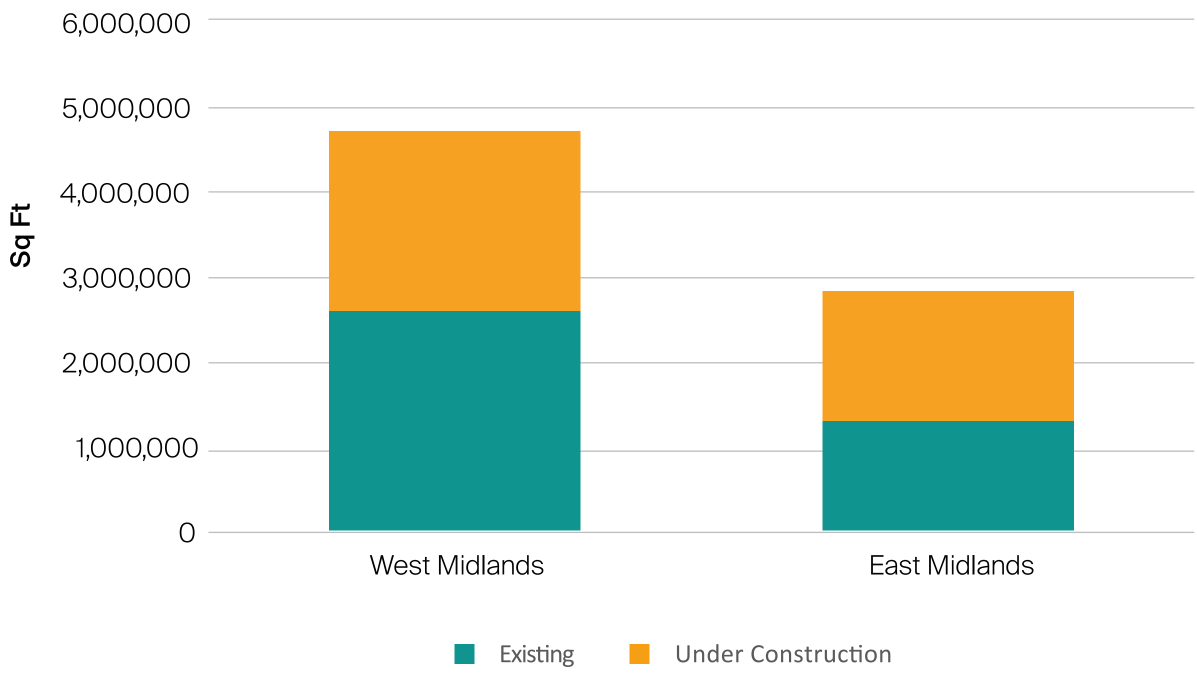
Concrete, longer term, **demand for facilities over 500,000 sq ft has been stronger than the previous year** (which were mainly shorter term and pandemic related). Buildings in this range will have their pick of tenant interest where only the best lease profiles will win out.

Availability

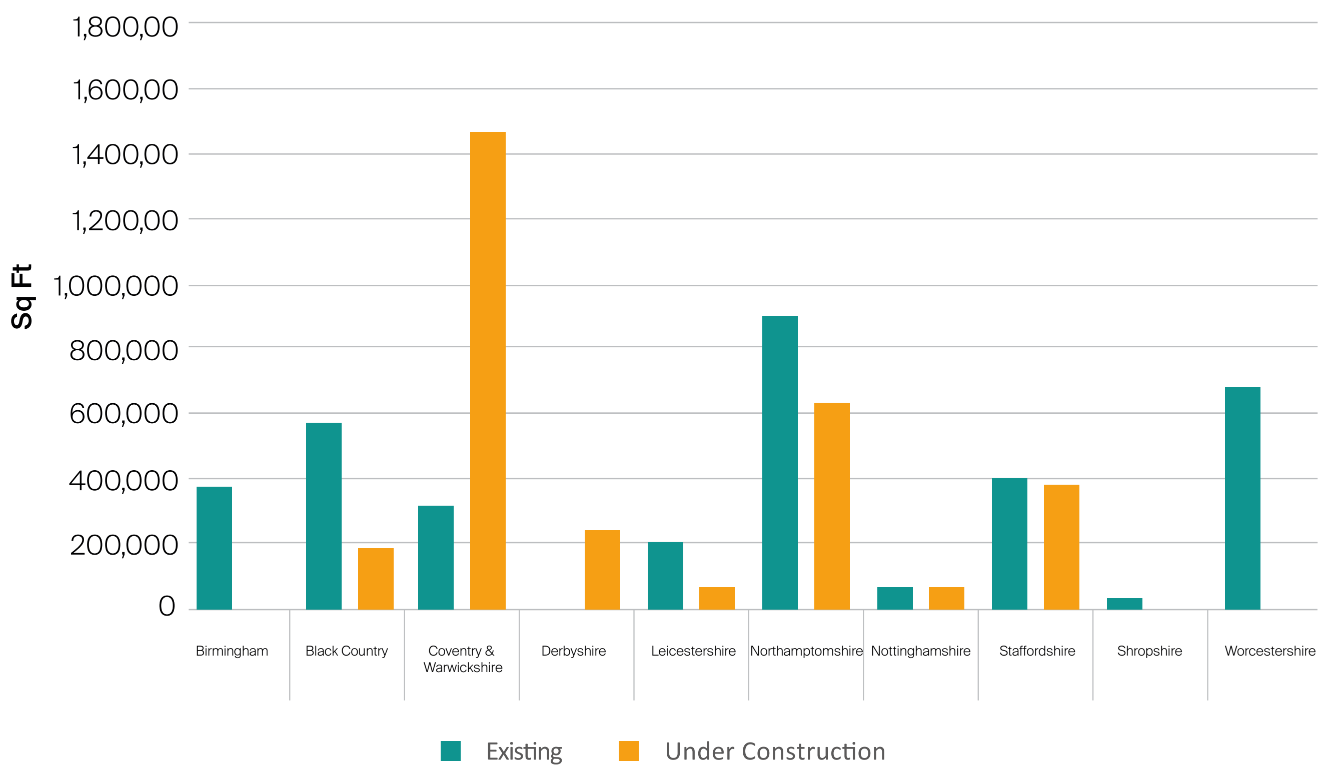
As we entered 2021 available standing stock equated to 8 months supply, increasing to 10 months including speculative under construction. During the first half of this year the shortage of supply has reached drastic levels with only 3 months of existing buildings remaining, pushing to near 7 months including under construction.

Excluding those buildings rumoured to be under offer, existing availability currently stands at 3.75m sq ft (30 buildings) across the Midlands, with 68% being in the West Midlands. There is 3.88m sq ft under speculative construction (24 buildings), again with a majority (57%) in the West Midlands.

Midlands availability

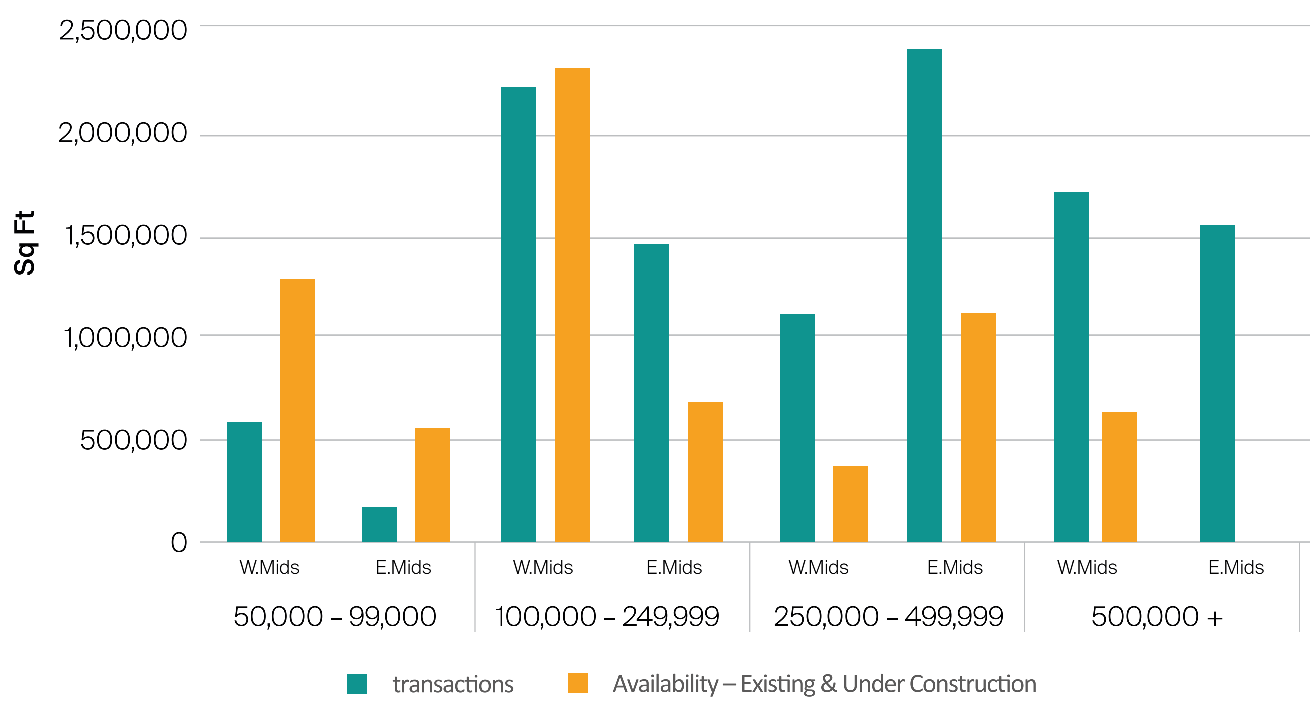


Availability by region (sq ft)



The lack of availability coupled with limited new buildings coming online creates an **extremely strong case for speculators across all size categories**. It is fair to assume that any building reaching practical completion in 2021 is very unlikely to remain available at the time the next wave of speculative development comes through in late 2022 / 2023.

H1 2021 Take Up compared to Availability (existing & under construction)



H1 2021 Transactions Heat Map

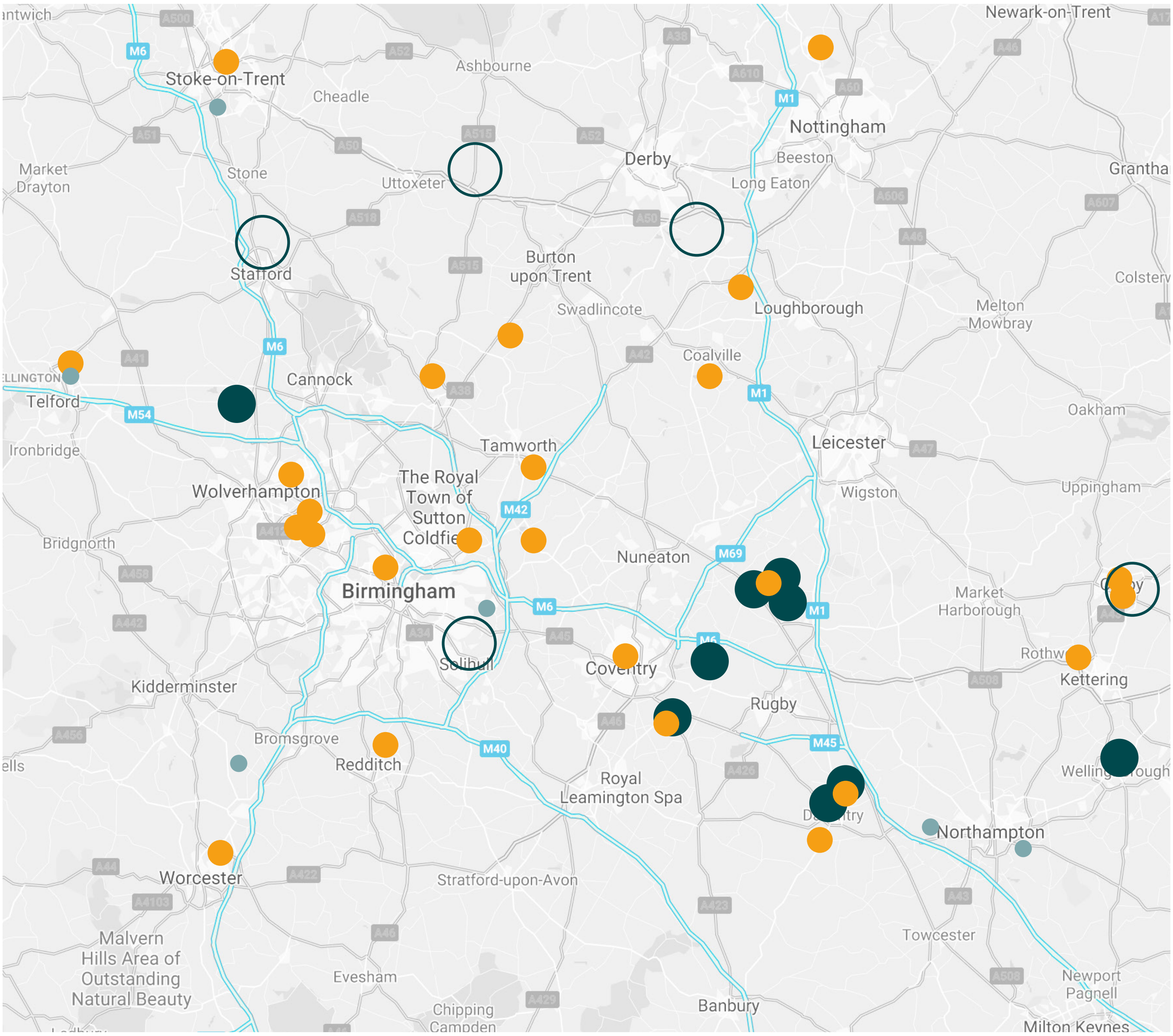
Transactions

50,000 – 99,999 sq ft

100,000 – 249,999 sq ft

249,999 – 500,000 sq ft

500,000 sq ft +



The Speculators

With a shortage of supply across the region, those constructing buildings right now are likely to improve upon development appraisals written some 12 months ago.

With the letting of EMDC and Wolverhampton 450 already under their belt this year, Panattoni will be hoping for more success across the rest of their Midlands portfolio, and with good reason. Earlier in the year the developer announced the speculative of development of near 1m sq ft across three buildings in Northampton (forward sold to GLP) and more recently 515,000 sq ft in Derby.

Having had a wildly successful couple of years at East Midlands Gateway, SEGRO are underway with 220,000 sq ft which is due to complete October 2021.

After announcing the speculative development of two units at the end of last year at DIRFT and Ryton the former has now been taken and the latter reaching practical completion. Prologis are currently on site with two units in Kettering, 92,320 sq ft and 246,458 sq ft.

Following stellar performances on speculative units over the past couple of years St Modwen have announced a further roll out of speculative development in Stoke on Trent.

Are due to get underway building 105,699 sq ft at Lyons Park in Coventry. As the last parcel of development land left on the park the building is a welcome addition.

With an enviable land bank it was only a matter of time until Tritax Symmetry made more of a move in the Midlands following other developments in Banbury. The developer have announced the speculative development of two units in Rugby (134,000 and 186,000 sq ft) due to complete 2022.

There are others likely to capitalise on current market conditions including Firethorn; GLP; Barberry; Graftongate; Tungsten and Evans Property Group.

With several new entrants to the market we expect there to be some further additions to this line up as we progress into 2022.

Lyons Park, Coventry – 105,699 sq ft speculative build by Goodman

Capital Markets

- **Current figures show a record £6.6 billion was invested in the UK industrial and logistics sector in H1 2021, more than double the level recorded in H1 2020.**
- **Industrial and logistics assets in the Midlands region attracted £1.6 billion of investment in H1 2021. 59% of this capital came from overseas investors.**

Investment Market Activity

Strong occupier market dynamics continue to drive activity in the investment market. Current figures show investment into UK industrial and logistics totalled a record £6.6 billion in H1 2021, more than double the £2.7 billion recorded in H1 last year. Investment into the Midlands region has reached £1.6 billion in H1 2021, compared with just £347 million in H1 2020.

Overseas investors have accounted for just over half of the total spend in the UK so far this year. Overseas investors accounted for 59% of investment into the industrial sector in the Midlands, compared with 41% in H1 2020. While buyers from the US continue to dominate, there has been a rise in capital coming from Middle Eastern investors.

In January, Oryx Real Estate Partners acquired Peugeot's UK headquarters in Coventry. Oryx Capital provides customized introductory solutions to Middle Eastern investors. The property comprises a 14-acre land plot with two separate buildings, a circa 106,700 sq ft office, and a circa 59,100 sq ft warehouse, both fully leased to Peugeot for another eleven years, with two RPI-linked rent reviews remaining.

Key Deals H1 2021

Property	Price (£ million)	Purchaser	Vendor	Yield
Skygate, East Midlands Gateway	100.5	Blackbrook Capital	Trenport Investments	3.84%
Jaguar Land Rover, Solihull	132.50	W.P Carey	Prologis	5.12%
Amazon, Bardon	160.00	Savills Investment Management	Vestas Investment Management	3.94%
Amazon, Hinkley	104.50	Aberdeen Standard	IM Properties	3.10%
Pets at Home, Stafford Business Park	c.100.0	Tesco Pension Fund	Stoford	4.00%

Source: Knight Frank Research, Property Data

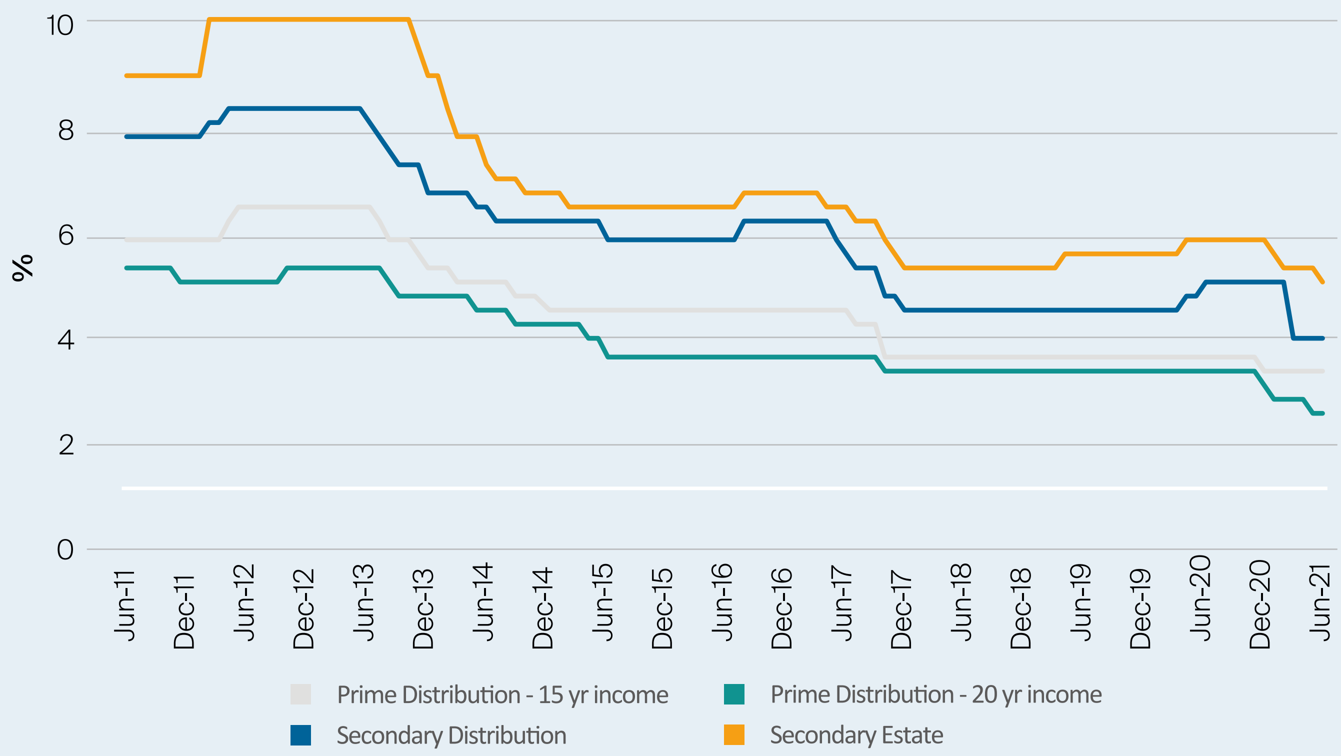
Investment Market Outlook

The favourable structural trends in the online retail market and robust occupier market are also attracting new sources of capital to the UK logistics market. Investors that have traditionally focused on retail and office are increasingly seeking to diversify their holdings and tilt their portfolio towards logistics. For example, British Land recently announced a shift in their strategy, seeking to target fulfilment and urban logistics. As investors seek to grow their exposure to the sector and increase capital allocations, competition for assets will continue to drive pricing.

As pricing at the prime end of the market sharpens, an increasing number of investors are seeking returns further up the risk curve. Across the UK, the average weighted yield for distribution assets transacted in H1 2021 was 5.0%, up slightly from 4.8% in 2020.

There is rising competition for assets fitting a core+ investment profile. However, how investors perceive risk will influence how they add the plus to a core strategy and thus drive their asset selection. Investors are looking to assets that have some level of risk, whether that is location risk, leasing risk or a need for improvement/refurbishment in order to drive higher returns. Some investors will favour strong locations with assets that offer potential for improvement/refurbishment or short lease lengths. Other investors may seek out locations where they anticipate rising demand and future rental growth.

Industrial yields



Source: Knight Frank

H2 2021 Outlook (and beyond)

Following the seismic shift across the UK logistics & industrial market last year, activity in the Midlands market can't seem to be slowed down... at least whilst there is availability that is.

The Midlands looks set to hit a record year of take up albeit 2022 might be hampered as supply dries up and we await the next wave of speculative development.

Given wider economic factors, **one real possibility remains in that we could quite simply run out of existing large footprint buildings**. Developers face significant hurdles in bringing forward sites in terms of rising prices and shortages of construction materials, along with issues around site assembly / acquisition and navigating the planning system.

We expect an **increase in build to suit** activity over the next 12 – 18 months. There will still be pressures on delivering buildings however as long as occupiers are considering positions early enough there are plenty of oven ready sites in core locations that can accommodate... provided they are looking for scale that is. The smaller **mid-box occupiers may struggle** in this regard as it is more expensive to build, leads to inefficient less dense developments and is not as attractive to the investor market as big box'.

There is **huge growth potential over the next couple of years** across all size ranges in almost all locations. Former secondary markets are now achieving previous record prime rents. The best end of the market is absolutely soring, a trend which is only likely to only continue was occupiers scramble over one another for space.

The next couple of years are likely to be very fruitful for investors and developers with exposure to the sector in the region. **All the pieces of the jigsaw are coming together** for rental growth and seriously pent up occupational demand that will only grow more frustrated at not being able to identify immediately ready buildings in target locations.

The only slight negative for the Midlands is that with very little stock opportunities we may lose some more footloose occupiers to other regions... not that we're competitive at all!