

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



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LOGIC: Midlands 2021 Review

Research, February 2022



MARKET OVERVIEW

A new record for take up in the Midlands industrial and logistics market in 2021, with 22.3 million sq ft of space taken.

22.3 million sq ft
Occupier take up 2021

£3.7 billion
Investment total 2021

6.25%
Prime annual rental
growth

Occupier take up at an all-time high

The Midlands industrial and logistics market has reached a new all-time level of take up, with 22.3 million sq ft of space taken in 2021 (units over 50,000 sq ft). This represents a 31% uplift on 2020. The annual total has now exceeded the previous record set in 2014 and stands 65% ahead of the five-year average of 13.6 million sq ft. The distribution sector dominated in 2021, accounting for 62% of activity.

Acute shortage of immediately available units

The Midlands region is experiencing an acute shortage of immediately available space across all size ranges. A total of 5.4 million sq ft of space was available at the end of 2021 (units over 50,000 sq ft), 44% below levels at the end of 2020. The vacancy rate is now below 2%, a record low for the region.



JAMES CLEMENTS, PARTNER,
BIRMINGHAM COMMERCIAL

“A record year for take up has left the Midlands with very little stock while the speculative development pipeline remains behind market demand. With availability at an all-time low, 2022 should continue to see significant rental growth, and increasing speculative development and build to suit activity across the region.”

Competition for quality space is driving pre-let activity and rental growth

Occupiers looking for larger units face limited options, with only units under construction or build to suit options available. Given the level of pent-up demand in the Midlands market, there is 7.8 million sq ft of speculative development currently under construction. However, 26% of this was already under offer at year end and strong pre-let activity is expected to be a feature of the market again in 2022.

Despite a rise in development activity, most developments scheduled to complete over the next twelve months are already committed or under offer. Limited availability is expected to persist in 2022 and will likely drive further rental growth. Prime rents for units over 50,000 sq ft increased by 6.25% over the course of 2021, to £8.50 psf.

Rise in pre-lets boosting forward funding transactions

2021 was a particularly strong year for investment activity in the region, with £3.7 billion transacted, up from £1.5 billion in 2020. With operators increasingly looking to secure buildings prior to completion, further forward-funding opportunities are likely to emerge. In line with trends across the UK during the year, the origin of investment was largely overseas capital, accounting for 57% of total acquisitions.

2022 Outlook

Looking to the year ahead, further rental growth is anticipated across the Midlands. Average rental growth of 5.4% is forecast for the East Midlands in 2022 and 4.9% for the West, while the Birmingham market is forecast to see 5.1% growth this year (RealFor).

Inflationary pressures are a key headwind, impacting development and operational costs across all sectors. However the strong fundamentals for logistics, and the key location benefits offered by the region are likely to underpin robust activity in the year ahead.

OCCUPIER MARKET

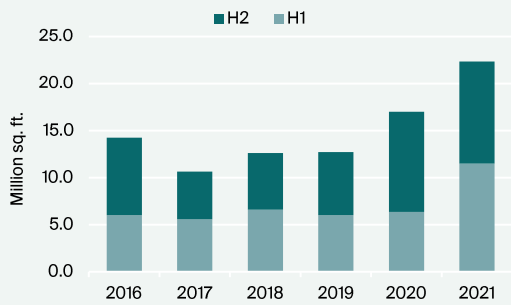
22.3 m sq ft
2021 occupier
take up

62%
Take up from
distribution
sector

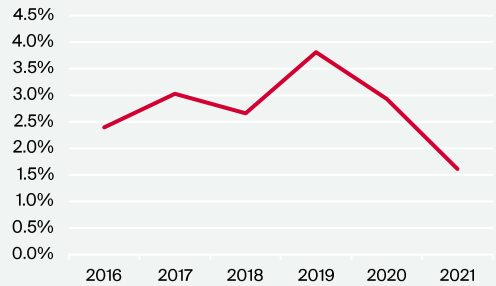
£8.50 psf
Prime rents

1.6%
Vacancy rate

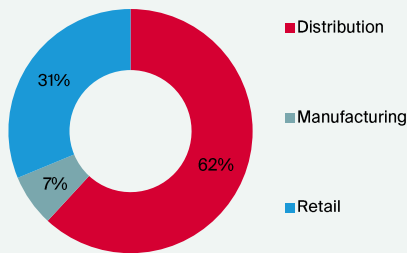
Take up (sq ft)



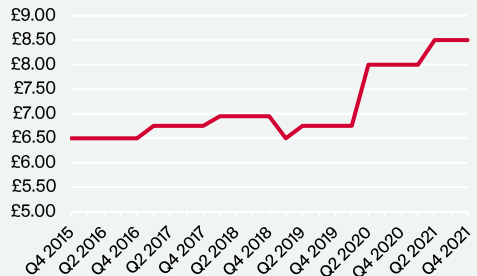
Vacancy rate (%)



2021 Take up by sector (sq ft)



Birmingham - Prime rents (£psf)



KEY OCCUPIER DEALS 2021

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Damson Parkway, Solihull	1,063,017	Jaguar Land Rover	£7.00 psf	Pre-let
MPS1 Magna Park, Lutterworth	746,000	Amazon	£6.50 psf	Speculative Build
Redhill Business Park, Stafford	670,000	Pets at Home	£6.00 psf	Pre-let
Prologis RFT DIRFT, Daventry	538,000	Stobart	£6.95 psf	Pre-let

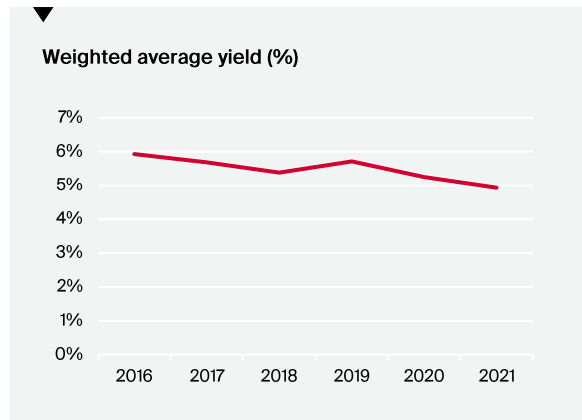
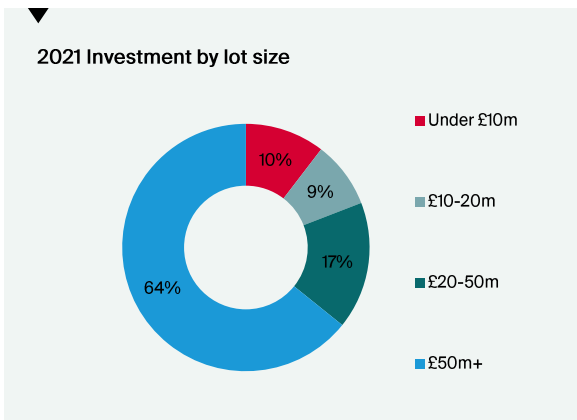
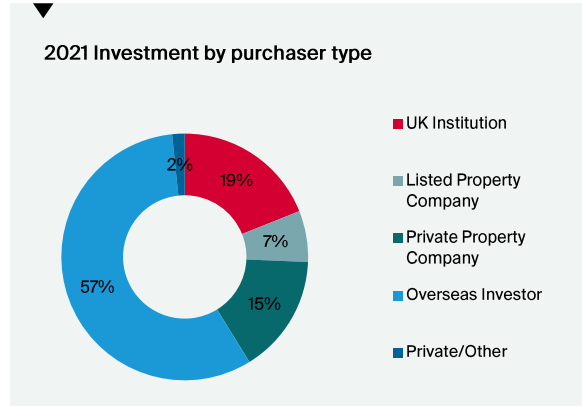
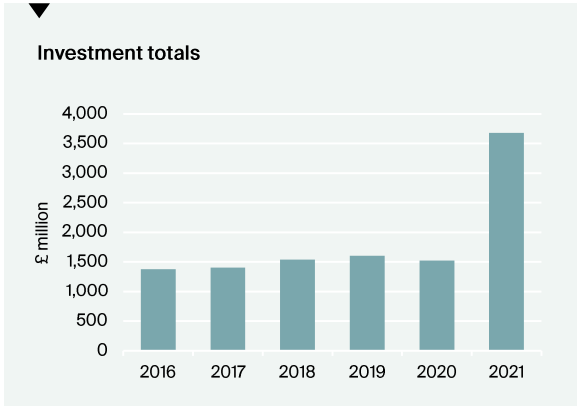
INVESTMENT MARKET

£3.7 billion
Investment total

£25.5 million
Average lot size

57%
Overseas capital

4.9%
Average yield



KEY INVESTMENT DEALS 2021

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Mulberry Logistics Park	Corby	£192.4m	-	GLP UK Management Ltd.	Mulberry Developments
Amazon Fulfilment Centre	Bardon	£161m	-	Savills IM	Vestas Investment Man
Panattoni Park (Phase 2)	Northampton	£150m	-	GLP UK Management Ltd.	Panattoni

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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