

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



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LOGIC: Midlands 2022 Review

Research, January 2023



MARKET OVERVIEW

Annual take up in the Midlands industrial market stood at 15 million sq ft in 2022, with build-to-suit and pre-lease agreements dominating.

15 million sq ft
Occupier take up 2022

£2.4 billion
Investment total 2022

29%
Prime annual rental growth

New, high quality industrial space dominating

The Midlands region saw 2.4 million sq ft of industrial and logistics space taken up in the final quarter of 2022 (units over 50,000 sq ft). This brings take up for the full year to just over 15 million sq ft, a 33% decline on the record levels seen in 2021 of 22.3 million sq ft.

Demand for new, high quality space was the standout feature of the Midlands industrial market in 2022, with 81% of take up comprising a combination of pre-let speculative buildings and build-to-suit units. This has led to prime rents in Birmingham for units over 50,000 sq ft increasing by 29% in 2022, to £11 psf.

The distribution sector continues to dominate the Midlands occupier market, accounting for 69% of activity, up from 62% last year. The largest deal of Q4 was by logistics provider, DSV, who agreed a 10-year lease on 387,500 sq ft at Brackmills Gateway, Northampton, at £8.50 psf. The new building is BREEAM 'Outstanding' certified.



JAMES CLEMENTS, PARTNER,
BIRMINGHAM COMMERCIAL

“Given the record-breaking take up in 2021, it was always going to be challenging to replicate these levels in 2022. The 15 million sq ft transacted over the past 12 months is in line with the five-year average with a close to even split between the East and West Midlands regions. The traditional core markets saw more activity than the previous year with the 'Golden Triangle' securing 58% of transactions compared to 42% in 2021.

Toward the end of 2022, speculative development slowed, and as we now move into the new year we anticipate supply to come from existing buildings with lease events.”

Rising completions ease supply-side pressures

Availability in the Midlands at year end stood at 8.5 million sq ft (units over 50,000 sq ft), resulting in a vacancy rate of 2.4%. This has increased from 1.6% recorded one year ago and follows six consecutive quarters of sub 2% vacancy rates. The improvement in supply is owing to a number of development completions in Q4. Nevertheless, second-hand units still comprise the majority of immediately available space (74%), most of which is unsuitable for modern occupier requirements and particularly for occupiers working towards improving their ESG credentials.

Supply still behind market demand

Despite the rise in completion levels, supply levels remain behind market demand in the Midlands. At end-December, there was 7.3 million sq ft of speculative space under construction across 49 units. Combining this with the volume of immediately available space, and excluding space under offer, this leaves just over ten months' worth of supply to satisfy demand requirements. There is also only one new, speculatively built unit over 400,000 sq ft available to satisfy high quality, larger requirements, though this unit is currently under offer.

Investment ahead of five-year average

Investment into industrial property in the Midlands in 2022 totalled £2.4 billion. While 36% down on the record levels seen in 2021, as a slowdown in investor sentiment was seen towards the latter half of 2022, activity is still 3% ahead of the five-year average. Overseas buyers accounted for 39% of investment.

2023 Outlook

Looking ahead, average rental growth forecasts from Q3 2022 were 3.6% for the East Midlands and 3.8% for the West (RealFor) for 2023. Inflationary pressures are a key headwind impacting both development costs and operational costs, and the market will undoubtedly see more cost conscious occupiers this year. However, at the end of 2022, the supply/demand dynamics across the Midlands region will continue to support rental growth as we move into 2023.

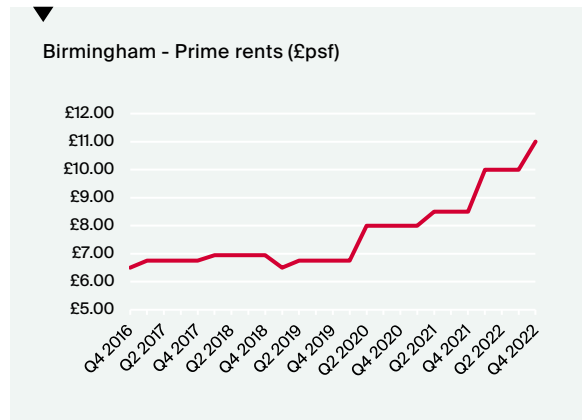
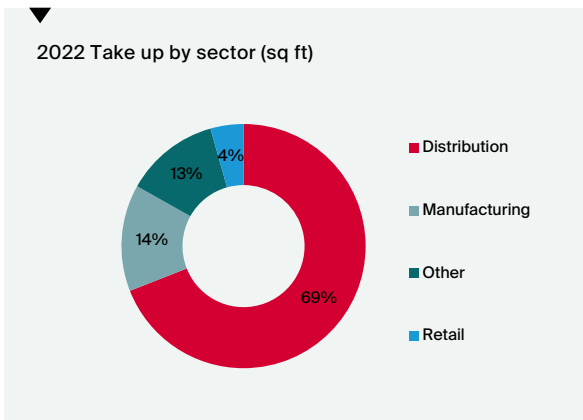
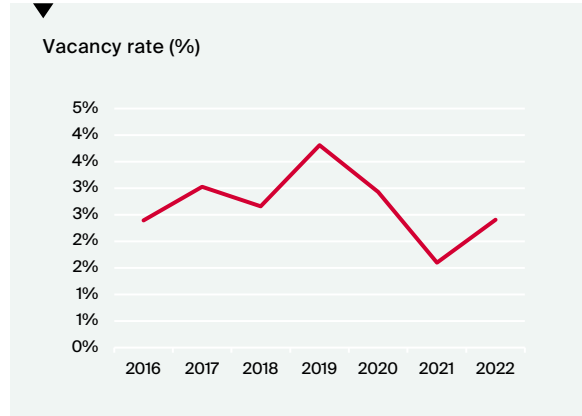
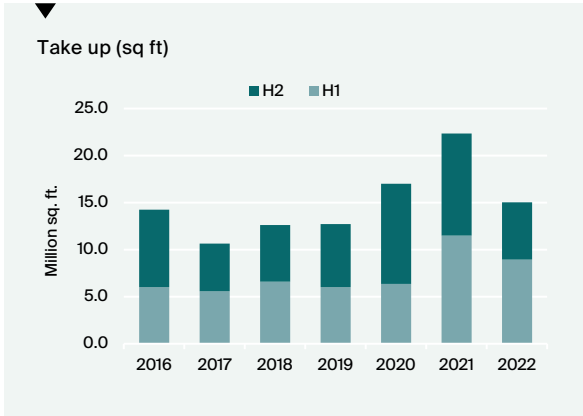
OCCUPIER MARKET

15 million sq ft
Occupier take up
2022

69%
Take up from
distribution
sector

£11 psf
Prime rents

2.4%
Vacancy rate



KEY OCCUPIER DEALS 2022

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT	COMMENTS
Faultlands Farm, Nuneaton	980,842	Rhenus	Confidential	Build-to-Suit
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, Coventry	484,720	DHL	£7.95 psf	Pre-let
Panattoni Park, Northampton	430,000	Hotel Chocolat	£7.95 psf	Speculative build

Source: Knight Frank

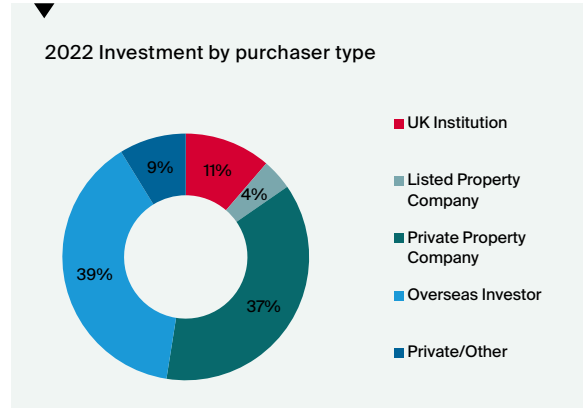
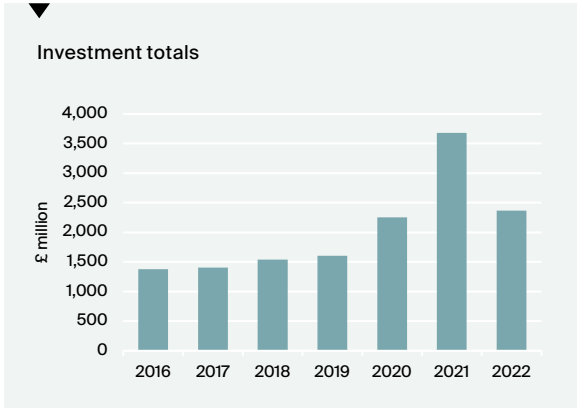
INVESTMENT MARKET

£2.4 billion
Investment total

£20.2 million
Average lot size

39%
Overseas capital

5.25%
Prime yield



KEY INVESTMENT DEALS 2022

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Sainsbury's NDC, Relay Drive, Relay Park	Tamworth	£98.35m	2.80%	Railpen	OLIM
Richardson Parkway	Wednesbury	£90.5m	2.88%	BentallGreenOak	abrdn
Newell Rubbermaid, Halifax Avenue	Lichfield	£60.4m	3.38%	M7 Real Estate	Legal & General
Beko PLC, Coppice Business Park	Tamworth	£54m	3.78%	BOREAL	Schroders
EV Cargo, Zorro	Ashby-De-La-Zouch	£44.75m	2.98%	CCLA Investment Management Ltd.	AIMCo / Canmoor
Poundland, Springvale Avenue	Bilston	£31.3m	5.12%	BOREAL	Canada Life

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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