

LOGIC: Midlands



2023 Review

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

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Occupier Market

Take up returns to pre-pandemic average, while prime rents remain robust

TAKE UP RETURNS TO PRE-PANDEMIC NORMS

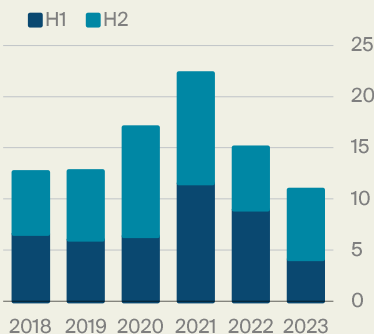
Occupier take up of industrial units over 50,000 sq ft in the Midlands region reached 10.9 million sq ft in 2023, across 60 transactions, with almost 3 million sq ft of take up recorded in the final quarter alone.

Due to broader economic pressures causing delays in occupier decision-making and a moderation in UK-wide transactions last year, the annual total for the Midlands is 27% below 2022 levels. Nevertheless, the market gained pace in the second half of the year and appears to be reverting to pre-pandemic patterns, with full-year take up closer to the region's five-year pre-pandemic annual average.

PREFERENCE TOWARDS EXISTING UNITS

Development and financing cost increases have led occupiers to lean towards existing buildings (both speculatively developed and second-hand) over build-to-suit (BTS) or pre-let options. Units being developed on a BTS basis accounted for 25% of take up last year, down from 38% in 2022. Meanwhile, speculatively developed space comprised 39% of the total, (up from 19% in 2022), and take up of second-hand space rose to 36% in 2023 (from 19% in 2022).

Take up (sq ft)
million square feet



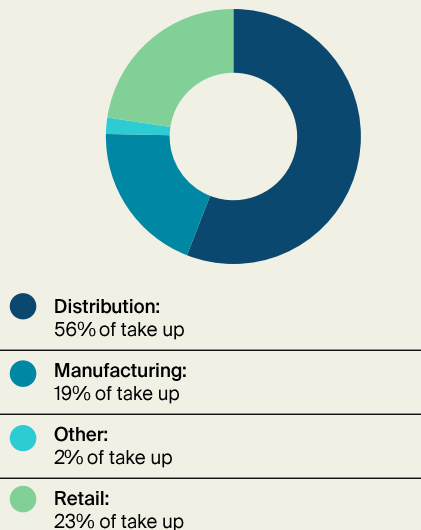
Source: Knight Frank Research

RISE IN DEMAND FOR SMALLER BUILDINGS

While overall take up in the region fell by 27% annually, 2023 saw the number of deals decline by 17%, highlighting a preference towards smaller buildings. Notably, take up of units ranging between 50,000-100,000 sq ft increased by 4.3% year-on-year in 2023. This has led to a reduction in the average sized transaction from 209,000 sq ft in 2022 to 182,000 sq ft in 2023. Despite this, the Midlands stands out among all UK regions with the highest average deal size, owing to its strong strategic position for large national distribution centres.

Distribution firms continue to dominate the Midlands occupier market and accounted for 56% of activity in 2023. This is up slightly from 53% last year. Retailers comprised 23% of the total, boosted by Amazon committing to a footprint of 1 million sq ft at SEGRO's Northampton Gateway site, as well as the letting of 662,197 sq ft at Rugby 661 to Sainsburys earlier in the year.

Take up by sector
2023



Source: Knight Frank Research

MARKET VIEW

Parts of the region will have a scarcity of supply in 2024



BY JAMES CLEMENTS, PARTNER,
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AGENCY

“The occupational market in the Midlands gained pace in the second half of the year. Take up is down compared to the pandemic years, but generally in line with the years that preceded it.

Availability has increased from the previous year with a lot of ‘grey space’ being announced to the market but most of this has now traded, and with the announcement of new speculative schemes slowing and an increase in requirements being received, there will be parts of the region with a scarcity of supply in 2024 and beyond.”

Occupier Market

10.9 million sq ft

Occupier take up
2023

4.1%

Vacancy rate
Q4 2023

£11.00 psf

Prime rents
Q4 2023

Stable YOY

Prime annual rental growth

“Occupiers are leaning towards existing buildings over build-to-suit options”

DEVELOPMENT ACTIVITY MODERATES

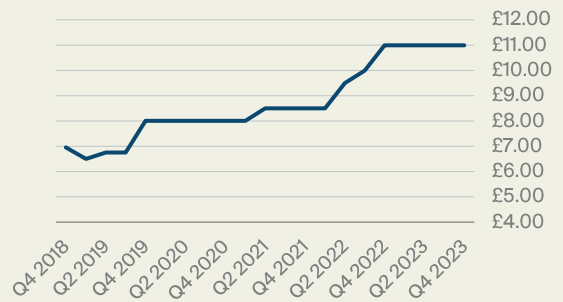
Driven by an influx of ‘grey space’ combined with several development completions, availability of existing floorspace gradually rose over the course of 2023 and stood at 15 million sq ft at year-end (units 50,000 sq ft+), though supply levels remained relatively stable during Q4. The vacancy rate therefore increased to 4.1% in Q4, from 2.4% recorded one year ago. Approx. 6.8 million sq ft of speculative space was under construction at year-end, 6.5% lower annually. In addition, 8.4% of total supply (existing and speculative under construction) was under offer at year-end.

2024 OUTLOOK

The outlook for 2024 is encouraging with a number of units under offer and an increase in requirements being received, but given the slowdown in new speculative schemes announcements, we anticipate a scarcity of supply in some parts of the region this year. Rental growth is expected to remain positive, with average rental growth of 2.8% and 3.0% forecast for 2024, and 4.4% forecast for Birmingham (RealFor). Prime rents in Birmingham remained stable in 2023, at £11.00 psf, while prime annual rental growth of 3.4% was recorded in Coventry, to £9.25 psf (units 50,000 sq ft+).

Birmingham - Prime Rents

£ per sq ft (units >50,000 sq ft)

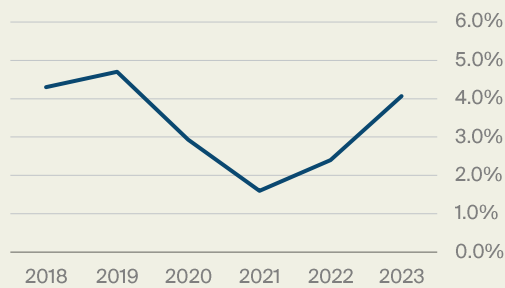


Source: Knight Frank Research

“8.4% of total supply was under offer at year-end”

Vacancy Rate

% of stock



Source: Knight Frank Research

Key Occupier Deals 2023

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Northampton Gateway, Northampton	1,000,000 (floorplate)	Amazon	Confidential	Land purchase for Build-to-Suit
Rugby 661, Rugby	662,197	Sainsburys	£9.00 psf	Second-hand
DIRFT, Daventry	627,707	Indetex	£9.50 psf	Speculative build
Segro Park, Coventry	595,000	Syncreon Technology (UK) Ltd.	£8.75 psf	Build-to-Suit
Magna Park, Lutterworth	388,000	CEF Logistics	£9.95 psf	Speculative build

Source: Knight Frank Research

Investment Market

£1.8 billion

Investment total
2023

£18.3 million

Average lot size
2023

33%

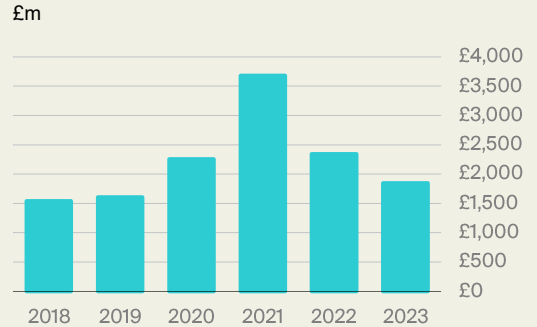
Overseas investment
2023

5.50%

Prime yield
Q4 2023

“£1.8 billion transacted in 2023, 21% below 2022 volumes but ahead of pre-Covid levels”

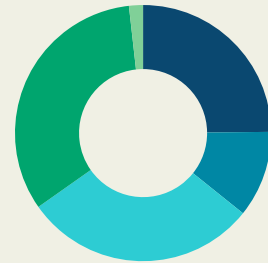
Investment totals



Source: Knight Frank Research

Investment by purchaser type

2023



- UK institution: 25% of investment

- Listed Property Company: 11% of investment

- Private Property Company: 29% of investment

- Overseas Investor: 33% of investment

- Private/Other: 2% of investment

Source: Knight Frank Research

INVESTMENT AHEAD OF PRE-COVID LEVELS

Investment into the industrial sector in the region was reasonably robust in 2023 despite the challenging environment. A total of £1.8 billion transacted in 2023, 21% below 2022 volumes but ahead of pre-Covid levels. A notable deal in the final quarter included Aviva Investors’ acquisition of Leicester Distribution Park, from Graftongate Developments and BlackRock, for £104.1 million (NIY) 4.90%. The scheme comprises eight units totalling 713,500 sq ft and is fully let.

Overseas buyers accounted for 33% of industrial investment in the Midlands in 2023, while UK private property companies comprised 29%, and UK institutions, 25%. Prime industrial yields in Birmingham remained stable in Q4 2023, at 5.50%.

“Overseas buyers accounted for 33% of investment in the Midlands in 2023”

Key Investment Deals

2023

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Fradley Park	Lichfield	£140.5m	5.68%	Ares	Legal & General
Coventry Logistics Park, Richardson Way	Coventry	£140.4m	4.52%	DTZ Investors	Bericote / JP Morgan
Leicester Distribution Park, Sunningdale Road	Leicester	£104.1m	4.90%	Aviva Investors	Graftongate / BlackRock
Eddie Stobart Unit, Long Croft Road	Corby	£92m	4.34%	P3 (Roebuck)	Tritax Big Box
Junction Six Industrial Park, Electric Avenue	Birmingham	£58m	4.53%	Tritax Big Box	M&G

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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