

LOGIC: Midlands



Q1 2024

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

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Occupier Market

Slowdown in the pace of new construction starts

STEADY FIRST QUARTER FOR OCCUPIER TAKE UP

The opening quarter of 2024 recorded 3.1 million sq ft of industrial and logistics occupier take up in the Midlands region, across 11 transactions (units over 50,000 sq ft). This is 4.5% ahead of the previous three-month total, though quarter one take up was propelled by one significant deal.

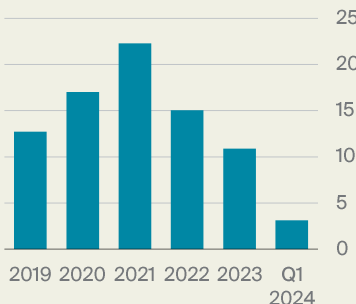
DISTRIBUTION FIRMS ACTIVE

Yusen Logistics agreed to pre-lease 1.25 million sq ft at SEGRO Park, Northampton. The unit will be developed on a build-to-suit (BTS) basis to a BREEAM 'Excellent' sustainability rating.

Other notable lettings in the quarter included the 450,000 sq ft Campus 450 @ DIRFT, Daventry, to Open Box Logistics. Food distribution firm, Boughy Distribution, also agreed a 15-year lease on Ergo 330, a speculatively built 331,800 sq ft unit in Newcastle-under-Lyme.

Distribution firms continue to be the most active occupiers, accounting for 88% of Q1 take up and 65% over the past year. Retailers comprised a further 22% of the annual total.

Take up (sq ft)
million square feet



Source: Knight Frank Research

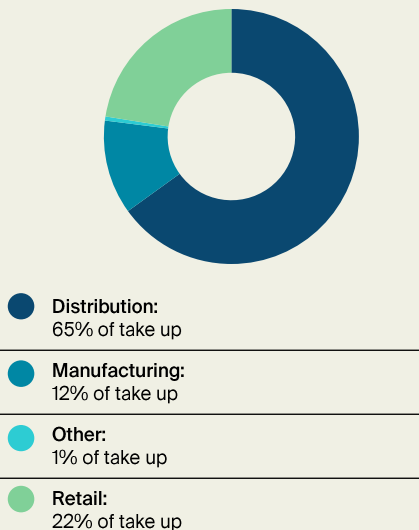
RISE IN TAKE UP OF SECOND-HAND UNITS

Annual take up for the four quarters to Q1 2024 is 16% lower annually, at 11.5 million sq ft, due to economic instability last year reducing occupier transactions to pre-pandemic levels. Despite this, take up of second-hand space has risen by 53% over the past year. Comprising 39% of the twelve-month total, this is up from 21% over the comparable period last year.

Speculatively developed units accounts for a further 37% of annual take up volumes. The remaining 24% comprises BTS or pre-let units, down from 67% in the same period last year, with occupiers more hesitant to commit to units prior to practical completion.

Occupier demand is highest for 100,000-250,000 sq ft units, comprising 44% of the annual take up (by count). Steady enquiry levels continues to be seen for units in this size band.

Take up by sector
Q2 2023 – Q1 2024



Source: Knight Frank Research

MARKET VIEW

New speculative build announcements have largely come to a halt



BY JAMES CLEMENTS, PARTNER,
BIRMINGHAM LOGISTICS & INDUSTRIAL
AGENCY

“The logistics and industrial occupational market in the Midlands has started positively in 2024 with several high-profile transactions. Our research figures for take up in the Midlands for units over 50,000 sq ft reached 3.1 million sq ft, across 11 transactions.

Availability has increased further from the end of 2023, but new speculative build announcements have largely come to a halt, and there are size ranges in certain parts of the region with limited supply.”

Occupier Market

3.1m sq ft

Occupier take up
Q1 2024

5.2%

Vacancy rate
Q1 2024

£11.00 psf

Prime rents
Q1 2024

Stable

Prime annual rental growth

“Take up of second-hand space rose by 53% over the past year”

VACANCY RATE TRENDS UPWARDS

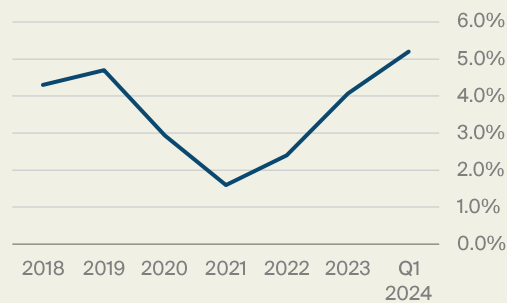
The amount of available floor space increased by 29% in the first quarter of 2024, to 19.4 million sq ft (units over 50,000 sq ft). Several development completions totalling 3.4 million sq ft boosted the volume of immediately available floorspace. A number of second-hand units were also returned to the market during the quarter. The vacancy rate has therefore continued its upward trend, rising to 5.2% in Q1, from 4.1% recorded in Q4 2023.

The pace of new construction starts, however, continues to slow. Approximately 4.9 million sq ft of speculative space was under construction at end-Q1, 40% lower year-on-year. Excluding space under offer, total supply (existing units and space under construction) equates to 18 months’ supply against the region’s five-year average annual take up.

RENTAL LEVELS & OUTLOOK

Prime rents in Birmingham for units over 50,000 sq ft remain stable, at £11.00 psf. Average rental growth forecasts for 2024 have been revised upwards, with growth of 4.4% and 4.2% forecast for the East and West Midlands respectively, and a higher rate of growth forecast for Birmingham, of 5.3% (RealFor). Average rental growth in the region is expected to slow next year.

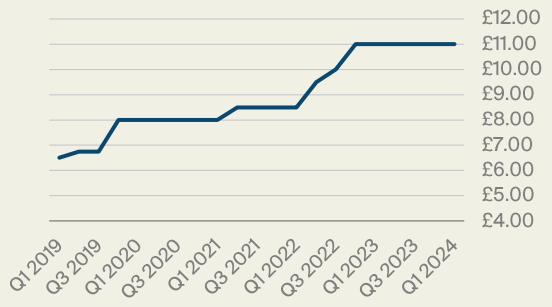
Vacancy Rate
% of stock



Source: Knight Frank Research

“Speculative space under construction is 40% lower year-on-year”

Birmingham - Prime Rents
£ per sq ft (units over 50,000 sq ft)



Source: Knight Frank Research

Key Occupier Deals Q1 2024

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
SEGRO Park, Northampton	1,250,000	Yusen Logistics	£9.00 psf	Build-to-Suit
Campus 450 @ DIRFT, Daventry	450,000	Open Box Logistics	Confidential	Second-hand
DC1 Prologis Park, Rugby	376,563	Hoover	£8.75 psf	Second-hand
Ergo 330, Newcastle Under Lyme	331,800	Boughy Distribution	£8.00 psf	Speculative build

Source: Knight Frank Research

Investment Market

5.50%

Prime NIY - Birmingham
Q1 2024

+25 bps

YOY movement in prime yields

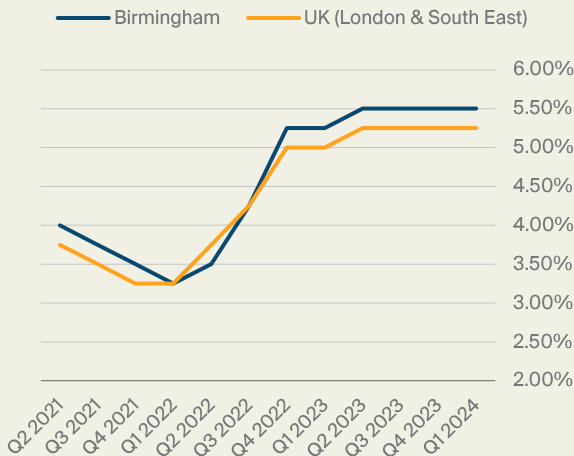
PRIME INDUSTRIAL YIELDS STABLE

Prime industrial yields in Birmingham remained stable for the fourth consecutive quarter, at 5.50%, 25 bps softer than for core London & South East industrial units. Since the turn of the market in Q2 2022, prime yields in Birmingham have softened by 200 bps, with the outlook for compression largely subject to a downward movement in interest rates this year.

A key investment deal in the Midlands during the first quarter of 2024 was Clarion Partners' acquisition of the Decimal Portfolio comprising two industrial estates in Kettering and Redditch, for £80.1 million (5.00% blended net initial yield). In addition, Clarion Partners Europe acquired a modern, single-let warehouse in Middlemarch Business Park, Coventry, from BlackRock's UK Property Fund, for £28.6 million. The price reflected a net initial yield of 4.25%.

Prime Yields

Net Initial Yield (%)



Source: Knight Frank Research

MARKET VIEW

Confidence stabilising in the sector, however, still finite stock available



BY BEN VOSS-WOOD, PARTNER,
BIRMINGHAM LOGISTICS & INDUSTRIAL
CAPITAL MARKETS

“During Q1 2024, the industrial investment market across the Midlands continued to show resilience, as more buyers became active indicating a resurgence of confidence within the sector.

Transaction volumes still remain subdued, largely due to a lack of available stock as opposed to the amount of buyers seeking to deploy capital. The market continued to be dominated by US-backed investors, although with signs of UK institutions becoming more active for the right core product.”

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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