LOGIC: Midlands

Q2 2023

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

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Occupier Market

Take up moderates while enquiry levels hold steady

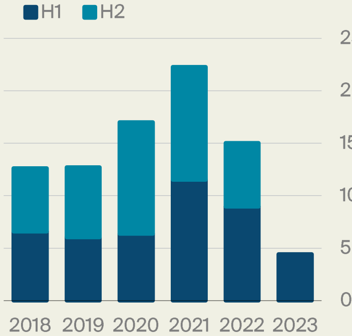
SLOWDOWN IN OCCUPIER DECISION-MAKING

Take up in the Midlands industrial market totalled 2.1 million sq ft in the second quarter of 2023 (units 50,000 sq ft+), bringing the total for the first half of the year to over 4.4 million sq ft. This is 51% lower than the H1 2022 levels.

Economic pressures continue to slow the pace of occupier decision-making, resulting in a moderation of transaction levels in the first half of the year. However, enquiry levels remain steady in the region, particularly for mid-box units between 100,000-250,000 sq ft. Of all available space (existing and under construction), 14% was under offer at quarter end, while 32% of new, speculatively completed space was under offer.

Build-to-suit units account for 48% of take up in H1 2023, with speculative units comprising a further 23%. In Q2, PJH committed to a new 200,000 sq ft unit on Wobaston Road, Wolverhampton, which is being constructed on a build-to-suit basis. In addition, the newly developed 172,639 sq ft unit at Apollo II, Ansty Park, Coventry was let to Staircraft at £9.25 psf on a 15-year lease. The building is rated EPC 'A' and BREEAM 'Excellent'.

Take up (sq ft)
million square feet



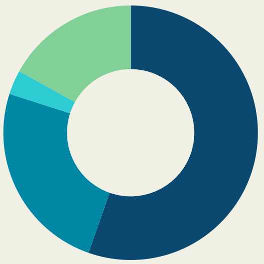
Source: Knight Frank Research

The first half of the year saw a 52% annual uplift in take up of second-hand space. This was boosted by the letting of the 662,197 sq ft Rugby 661 to Sainsburys, at £9 psf on a 10-year lease. In addition, analysis of the number of deals transacted demonstrates a preference towards smaller to mid-box units, with 75% of units occupied in H1 2023 under 250,000 sq ft in size, compared to 61% in H1 2022.

UPLIFT IN DEMAND FROM MANUFACTURERS

In the 12 months to June, take up reached 10.5 million sq ft. Distribution occupiers accounted for the majority of the annual total, at 55%. However, manufacturing firms have been increasingly active, with take up growing by 15% YOY and accounting for 25% of the total, up from 11% one year previous. Retailers have been less active, at 17%, compared to 31% in the same period the previous year.

Take up by sector
Q3 2022 – Q2 2023



Distribution:
55% of take up

Manufacturing:
25% of take up

Other:
3% of take up

Retail:
17% of take up

Source: Knight Frank Research

MARKET VIEW

Occupiers are sub-letting to mitigate costs

BY JAMES CLEMENTS, PARTNER, BIRMINGHAM LOGISTICS & INDUSTRIAL AGENCY

"Compared to the past couple of years, take up in the Midlands has slowed in H1 2023, similar to levels seen in 2017. Occupiers still favour new buildings over second-hand, but are taking longer to make decisions.

Availability has increased this year, but circa 25% of existing buildings are assignments / sub-lettings from occupiers trying to mitigate costs on buildings they no longer need. Speculative development has all but stopped for now, but we are aware of several well-capitalised developers looking to take advantage of the lack of future supply by committing to new developments later this year."

Occupier Market

4.4 million sq ft

Occupier take up
H1 2023

4.2%

Vacancy rate
Q2 2023

£11.00 psf

Prime rents
Q2 2023

16%

Prime annual rental growth

"Manufacturing occupiers have been increasingly active, with activity growing by 15% YOY"

GRADUAL EASE OF SUPPLY LEVELS

Availability of units over 50,000 sq ft increased by 27% in Q2, to 15.1 million sq ft. This results in the vacancy rate increasing from 3.3% to 4.2%, and compares to the acute 1.7% record low one year ago. The uplift in supply was driven by a combination of new development completions and the return of grey space to the market.

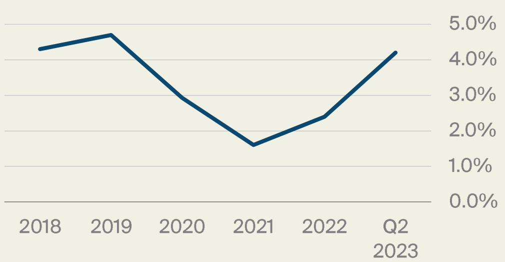
Given the rise in development and financing costs, we are seeing fewer speculative development commencements. Just under 8 million sq ft of space was under construction speculatively at quarter end (units over 50,000 sq ft), 1.1% lower on Q1 2023 and 8.3% lower annually.

RENTAL LEVELS & OUTLOOK

Reflecting a more moderate level of take up and supply-side increases, prime rents in Birmingham for units over 50,000 sq ft remained stable in Q2, at £11.00 psf, but are 16% higher on an annual basis.

Looking at 2023 as a whole, 6.0% and 5.9% average rental growth is forecast for the East and West Midlands, respectively (RealFor).

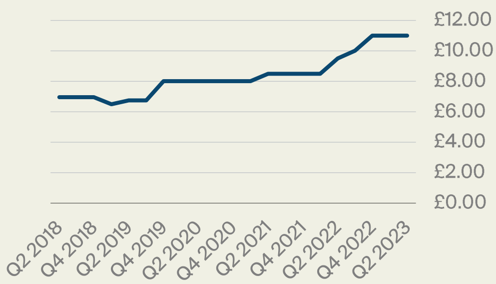
Vacancy Rate
% of stock



Source: Knight Frank Research

"Given the rise in development and financing costs, we are seeing fewer speculative development commencements"

Birmingham - Prime Rents
£ per sq ft



Source: Knight Frank Research

Key Occupier Deals
H1 2023

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Rugby 661, Rugby	662,197	Sainsburys	£9.00 psf	Second-hand
Segro Park, Coventry	595,000	Syncreon Technology (UK) Ltd.	£8.75 psf	Build-to-Suit
Apex Park, Daventry	357,221	Hankook Tyre UK Ltd.	£8.50 psf	Build-to-Suit
Apollo II, Coventry	172,639	Staircraft	£9.25 psf	Speculative build

Source: Knight Frank Research

Investment Market

£728 million

Investment total
H1 2023

£16 million

Average lot size
(last four quarters)

38%

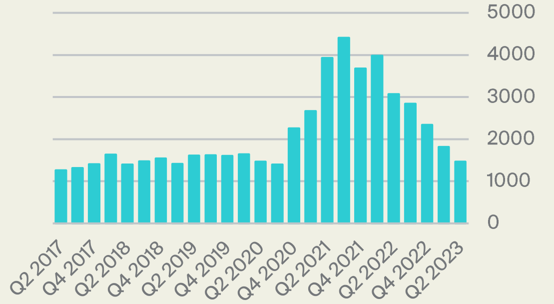
Investment by UK private property companies
(last four quarters)

5.25 – 5.50%

Prime yield
Q2 2023

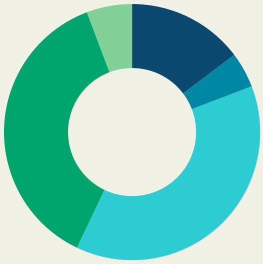
“Investment into industrial property has slowed in H1 2023, with £728 million transacting”

Investment totals (£m)
(four quarter rolling)



Source: Knight Frank Research

Investment by purchaser type
Q3 2022 – Q2 2023



- **UK institution:** 15% of investment
- **Listed Property Company:** 4% of investment
- **Private Property Company:** 38% of investment
- **Overseas Investor:** 37% of investment
- **Private/Other:** 6% of investment

Source: Knight Frank Research

SLOWDOWN IN INVESTOR ACTIVITY

Investment into industrial property in the Midlands has slowed in H1 2023, with £728 million transacting, 55% lower than the H1 2022 levels. This brings the total for the 12 months to June 2023 to £1.5 billion, 31% below the five-year rolling average for the region. UK property companies accounted for 38% of the annual total, up from 27% in the same period last year. A key acquisition in H1 2023 was the sale of Fradley Park, Lichfield, in March, by Legal & General to Ares Management for £140.5 million, reflecting a net initial yield of 5.68%.

Following a softening of prime yields in the latter half of 2022, prime industrial yields in Birmingham were relatively stable in Q2 2023, ranging between 5.25 - 5.50%.

“UK property companies accounted for 38% of the volume invested over the past year”

Key Investment Deals
H1 2023

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Fradley Park	Lichfield	£140.5m	5.68%	Ares	Legal & General
Project Garrison	Birmingham	£46m	5.80%	Mileway	LondonMetric
Smyths Toys, Arrow 248, Geddington Road	Corby	£30.5m	4.55%	Leftfield Advisors	Arrow AM
DHL Unit, Stirling Park	Solihull	£20.5m	4.20%	CBRE IM	LondonMetric

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.