LOGIC: Midlands

Q2 2024

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

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Occupier Market

Take up levels strengthen, but second-hand supply causes vacancy rate to edge upwards

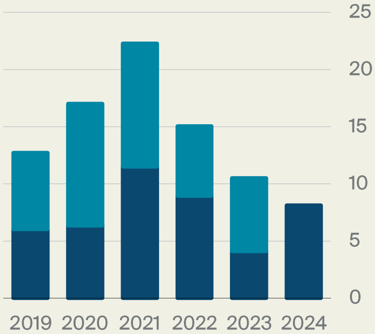
TAKE UP STRENGTHENS

Following a steady first quarter of 2024 for occupier take up in the Midlands industrial market, with 3.7 million sq ft recorded, the pace of activity picked up further in Q2 with some high-profile transactions completing and 4.5 million sq ft of take up recorded (units 50,000 sq ft+). This brings the H1 2024 total to 8.1 million sq ft, ahead of the region's pre-pandemic five-year H1 average. Take up in the Midlands during the first half of 2024 represents 47% of the space committed across the UK.

Sportswear company, Nike, signed a long-term lease on a 1.3 million sq ft build-to-suit campus and national supply chain hub at Magna Park in Corby. The campus will comprise logistics warehousing, offices, sport and recreation facilities in a single building, with developers GLP targeting a BREEAM 'Outstanding' rating and Net Zero Carbon in construction.

Also at Magna Park Corby, Bleckmann, a logistics provider specialising in fashion retail, signed a 10-year lease on MPC 3. Construction completed on the 586,000 sq ft speculative building earlier this year and the unit has also achieved BREEAM 'Outstanding' and EPC 'A+' ratings.

Take up (sq ft)
million square feet



Source: Knight Frank Research

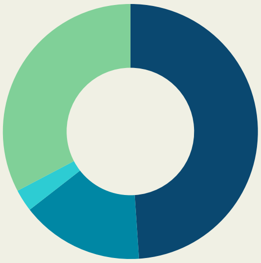
UPLIFT IN TAKE UP BY RETAILERS

As the economic outlook improves, demand from retailers has risen. Over the past four quarters, retailers' share of take up has increased to 33%, from 14% in the same period last year. This growth is largely boosted by the significant letting to Nike as well as Amazon's commitment to 1 million sq ft at Northampton Gateway at the end of 2023. Excluding these deals, take up by retailers still grew by 32% year on-year.

Distribution firms continue to be the most active occupiers in the Midlands, comprising 49% of take up volumes and 46% of the number of transactions.

Occupier demand has been highest for 50,000 - 100,000 sq ft buildings during H1 2024, accounting for one-third of the number of units signed.

Take up by sector
Q3 2023 – Q2 2024



Distribution:
49% of take up

Manufacturing:
15% of take up

Other:
3% of take up

Retail:
33% of take up

Source: Knight Frank Research

MARKET VIEW

The market is in a good position to surpass last year's total take up

BY JAMES CLEMENTS, PARTNER, BIRMINGHAM LOGISTICS & INDUSTRIAL AGENCY

"Our H1 2024 research figures for take up in the Midlands above 50,000 sq ft reached 8.1 million sq ft in 28 transactions. This puts the market in a good position to surpass last year's annual take up of 10.5 million sq ft.

Availability has been creeping up, albeit at a slower pace than at the turn of the year. This is mainly in the second-hand market as there have been very few new speculative build units announced this year."

Occupier Market

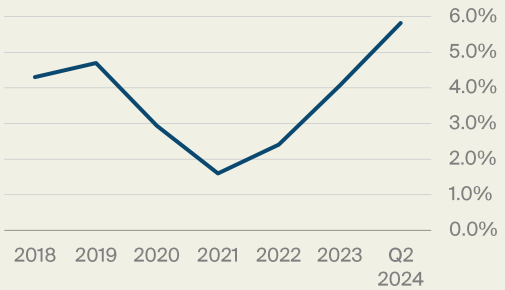
8.1m sq ft
Occupier take up
H1 2024

5.8%
Vacancy rate
Q2 2024

£12.00 psf
Prime rents
Q2 2024

9.1%
Prime annual rental growth

Vacancy Rate
% of stock



Source: Knight Frank Research

"Retailers' share of take up has risen to 33%, from 14% in the same period last year"

"The uplift in supply was primarily driven by an increase in second-hand availability"

SUPPLY CONCENTRATED IN SECOND-HAND STOCK

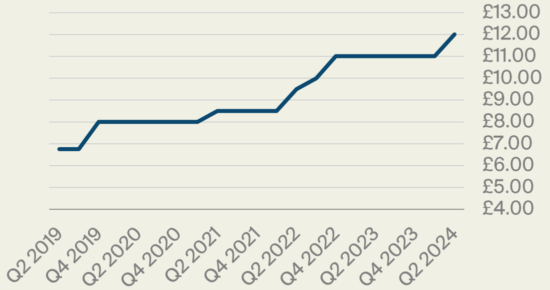
Availability of existing buildings increased by 13.4% in Q2, to 21.9 million sq ft (units over 50,000 sq ft). This brings the vacancy rate to 5.8%, from 5.2% recorded in the previous quarter. The uplift in supply was primarily driven by a 22% increase in second-hand stock availability, while the supply of new, speculative space edged up by a more marginal 1.4%. In addition, 63% of existing supply now comprises second-hand space, while half is lower quality stock, grading B or below.

Speculative space under construction was 7.6% higher in the quarter, but 34% lower year-on-year (units 50,000 sq ft+). Commencements this quarter included four units at Sentinal Logistics Park in Birmingham (293,419 sq ft), while St Modwen has begun developing 392,403 sq ft across five units at Indurent Burton, to be delivered in Q1 2025. Total supply (existing units and space under construction), excluding space under offer, equates to 20 months' supply against the region's five-year average take up.

RENTAL LEVELS & OUTLOOK

Prime rents in Birmingham increased to £12.00 psf in Q2 (units 50,000 sq ft+). Average rental growth of 4.4% and 4.2% respectively is forecast for the East and West Midlands for 2024, according to RealFor.

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



Source: Knight Frank Research

Key Occupier Deals
H1 2024

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Magna Park, Corby	1,300,000	Nike	Confidential	Build-to-Suit
SEGRO Park, Northampton	1,250,000	Yusen Logistics	£9.00 psf	Build-to-Suit
Magna Park, Corby	586,000	Bleckmann Logistics	£9.50 psf	Speculative build
Magna Park, Lutterworth	388,000	CEF	£9.95 psf	Speculative build
DC2, Fradley Park, Lichfield	352,810	Super Smart Service	£8.00 psf	Speculative build

Source: Knight Frank Research

Investment Market

5.50%

Prime NIY - Birmingham
Q2 2024

Stable

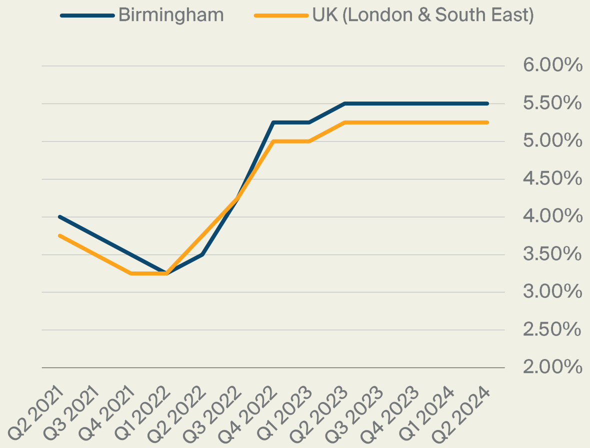
YOY movement in prime yields

RESURGING CONFIDENCE AND POSITIVE SENTIMENT ON YIELDS

Prime yields in Birmingham remain stable, at 5.50%. An expected interest rate cut later this year is providing a basis for resurging confidence and positive sentiment on yields. Prime yields in the region have softened by circa 200 bps since Q2 2022. Meanwhile, transaction volumes remain sluggish due to a lack of available opportunities.

Q2 2024 saw EQT Exeter acquire two single-let assets from abrdn. The first, a 162,000 sq ft unit at Swift Valley Industrial Estate in Rugby, was bought for £17.5 million (NIY 4.95%) and is occupied by Technicolor Video Services. Following this, a 166,143 sq ft building at 5010 Middlemarch, Siskin Parkway East in Coventry, was purchased for £21 million (NIY 4.76%) and is fully leased to Food Service Logistics.

Prime Yields
Net Initial Yield (%)



Source: Knight Frank Research

MARKET VIEW

Lack of longer income opportunities

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

"Transaction volumes for the first half of 2024 remain subdued due to a lack of available stock and specifically longer income opportunities.

Transactions overall were dominated by sub 5-year income of buildings developed between 1990-2010, offering both leasing risk and capital expenditure exposure attracting private equity buyers.

For newer buildings with less capital expenditure exposure, appetite from UK institutions resurged albeit with limited opportunities available to purchase."

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.