

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



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LOGIC: Midlands Q3 2022

Research, October 2022



MARKET OVERVIEW

Build-to-suit and pre-lease agreements dominate Midlands industrial occupier activity in Q3 2022, while availability remains persistently low.

11.8 million sq ft
Occupier take up
YTD 2022

£2.3 billion
Investment total
YTD 2022

18%
Prime annual rental
growth

Large, grade A units in high demand

Both build-to-suit and speculative development continue to be key features of the Midlands industrial occupier market, as demand for new, high quality space remains robust and a shortage of suitable second-hand space persists.

A total of 3.3 million sq ft of industrial and logistics space was taken up in the third quarter of 2022 (units over 50,000 sq ft), bringing the total for the year to date to over 11.8 million sq ft. Of this year-to-date (YTD) total, 69% comprises a combination of pre-let speculative buildings and build-to-suit units. This compares to just 25% in the same period last year.

Accounting for 71% of YTD take up, distribution firms continue to dominate the Midlands industrial market. All but one of the occupier transactions in Q3 were by 3PL firms or parcel carriers. The largest deal of the quarter was by logistics provider, Rhenus, who committed to two buildings totalling 980,842 sq ft at Faultlands, Nuneaton and the build-to-suit



JAMES CLEMENTS, PARTNER,
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“Activity has remained steady across the Midlands this year and Q3 has continued a trend that should result in 2022 take up ahead of the five-year average. As fewer second hand buildings are coming to market, occupiers are committing to speculative buildings ahead of practical completion, cementing new headline rents. With volatility in capital markets going into Q4, speculative schemes are likely to be delayed which will only exacerbate the supply / demand imbalance across the Midlands.”

development is targeting a BREEAM ‘Outstanding’ rating.

Vacancy rate remains persistently low

The volume of immediately available space in the Midlands stood at 6.2 million sq ft at the end of September (units over 50,000 sq ft). While this is marginally higher than the previous quarter, the vacancy rate remains particularly low, at 1.8%.

Shortage of new, large-scale units available

The vast majority of this available space (84%) is second-hand. There were only eight new, speculatively built units immediately available at the end of Q3, all of which are under 400,000 sq ft in size.

Just under 9 million sq ft of space is under construction speculatively (units over 50,000 sq ft), 10% higher on an annual basis. This spans across 57 units, 81% of which are under 250,000 sq ft in size.

In total, there is over 1.6 million sq ft of planned speculative development in the pipeline. That said, the shortage of very large units (over 400,000 sq ft) will persist, with just one unit of this size under construction at the end of Q3 and one other in the planning pipeline.

UK private investors increasingly active

Quarter three saw approximately £679 million invested in Midlands industrial property across 20 deals, bringing the YTD total to £2.3 billion. Overseas buyers remain active, accounting for 47% of investment, though UK private investors are also increasingly active, at 32%.

Outlook

While the weighted average yield for assets transacted across the Midlands in the YTD September has fallen to 4.36%, a notable softening in yields was seen towards the end of September and this has continued as we enter the final quarter of 2022.

On the rental side, prime rents for units over 50,000 sq ft in Birmingham are 18% higher annually, at £10 psf. Average rental growth is forecast to continue rising, by 4.7% and 5.0% in the East and West Midlands, respectively (RealFor).

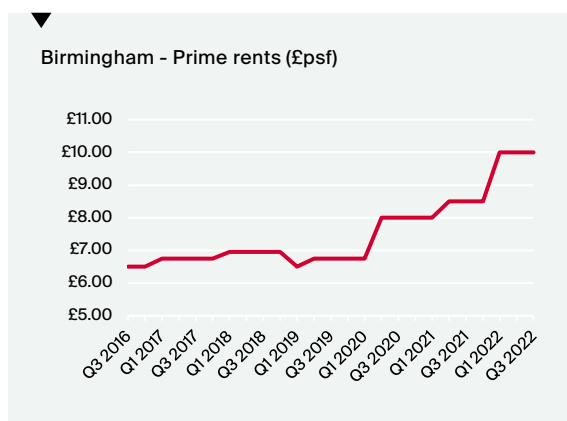
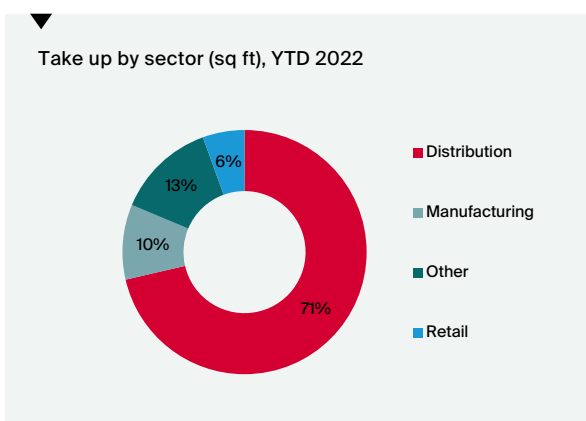
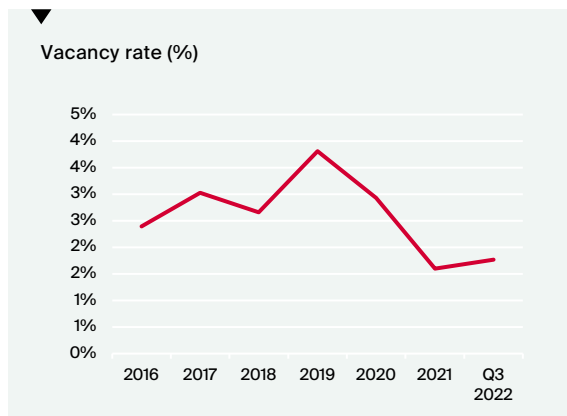
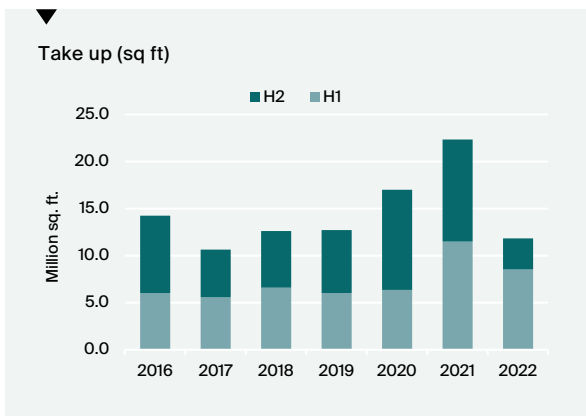
OCCUPIER MARKET

3.3 million sq ft
Occupier take up
Q3 2022

71%
Distribution
take up
YTD 2022

£10.00 psf
Prime rents

1.8%
Vacancy rate



KEY OCCUPIER DEALS Q3 2022

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT	COMMENTS
Faultlands Farm, Nuneaton	980,842	Rhenus	Confidential	Build-to-Suit
Coventry Gateway, Coventry	320,000	DHL	Base rent £8.50 psf	Build-to-Suit
Symmetry Park, Kettering	320,000	Iron Mountain	£7.25 psf	Build-to-Suit
Coventry Logistics Park, Coventry	251,488	Geodis	£8.75 psf	Pre-let
W246 Wellmans Road, Willenhall	246,973	Dreams	£8.00 psf	Second-hand

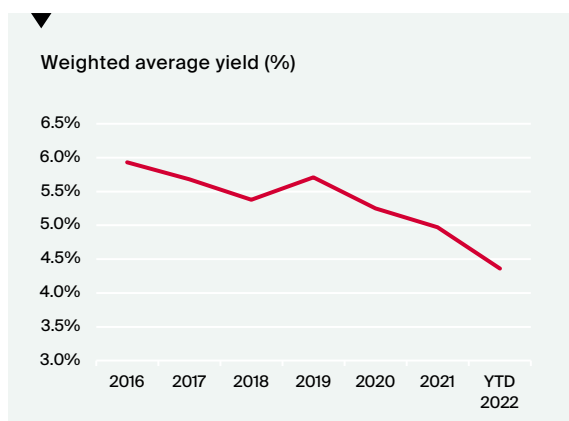
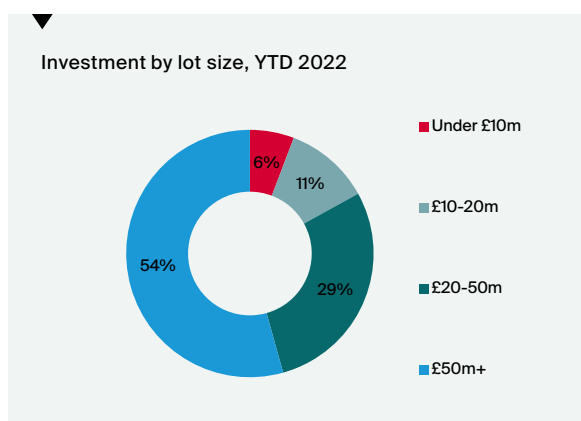
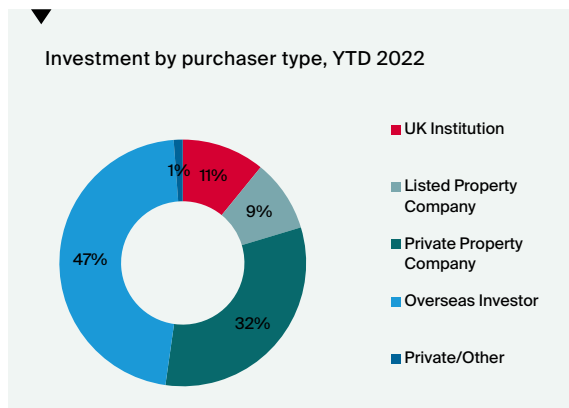
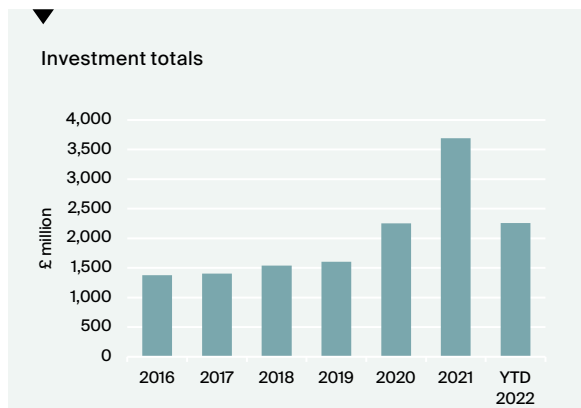
INVESTMENT MARKET

£679 million
Investment total
Q3 2022

£24.8 million
Average lot size
YTD 2022

47%
Overseas capital
YTD 2022

4.4%
Average yield
YTD 2022



KEY INVESTMENT DEALS Q3 2022

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Beko PLC, Plots 5 & 6 Birch Coppice Business Park	Tamworth	£54m	3.78%	Boreal	Undisclosed
DHL, Beveridge Lane	Bardon	£35.4m	4.70%	Urban Logistics REIT Plc	Oxenwood Real Estate LLP
Toyota, Magna Park 2200	Lutterworth	£29.4m	3.57%	Copley Point Capital Ltd.	Aviva Investors

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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