

LOGIC: Midlands



Q3 2023

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

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Occupier Market

Demand returns to pre-pandemic levels, but a shortage in supply persists in certain areas

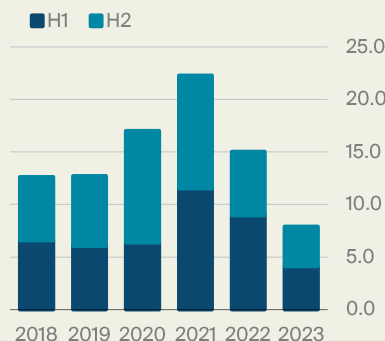
RETURN TO PRE-PANDEMIC TAKE UP LEVELS

Following a moderation in occupier take up in the Midlands industrial and logistics market during the first half of 2023, an active third quarter saw a further 3.8 million sq ft of space committed (units over 50,000 sq ft). This brings the total for the year to date (YTD) to over 7.9 million sq ft. While the YTD total is 37% lower on an annual basis as economic pressures this year slowed the pace of deals completing, the Midlands market appears to be finding its new normal, with occupier transaction volumes returning to pre-pandemic levels.

SHIFT IN OCCUPIER DEMAND

Due to development and financing costs increases, the Midlands region has seen see fewer development commencements this year and concurrently, a shift in occupier demand from build-to-suit units towards existing buildings. Units being developed on a build-to-suit basis accounted for 21% of take up in the YTD, down from 45% over the same period last year. In contrast, new, speculatively developed units or refurbishments comprise 34% of the YTD total, up from 17% last year, while take up of second-hand space has more than doubled year-on-year.

Take up (sq ft)
million square feet



Source: Knight Frank Research

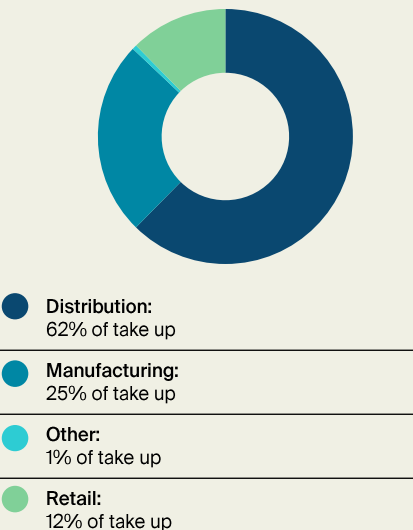
DISTRIBUTION SECTOR DOMINATES

The distribution sector continues to dominate the Midlands occupier market, accounting for 80% of Q3 take up alone and 62% of activity over the 12-months to end-September. Retailers have been less active over the past year, comprising 12% of the annual total, down from 18% recorded in the comparable period last year.

The largest deal in Q3 saw Spanish clothing distributor, Indetex, commit to DC628 at DIRFT in Daventry, at £9.50 psf. Prologis RFI DIRFT's 627,707 sq ft unit is a net zero carbon building and rated BREEAM 'Excellent', with PV systems, a roof terrace, and enhanced external amenities. In addition, grocery supply chain operator, IFCO, agreed to lease a 335,000 sq ft unit at Prologis Park Coventry, on a 15-year lease at £8.90 psf, marking the final letting at the scheme in Coventry. The unit is undergoing refurbishment and is targeting an improved EPC 'A' rating.

Take up by sector

Q4 2022 – Q3 2023



Source: Knight Frank Research

MARKET VIEW

Significant slowdown in new speculative scheme announcements



BY JAMES CLEMENTS, PARTNER,
BIRMINGHAM LOGISTICS & INDUSTRIAL
AGENCY

“Supply across the Midlands is back to pre-pandemic levels, providing occupiers with choice across most size ranges. There remains a lack of supply in some key markets, meaning occupiers must consider build-to-suit sites which take time to come online. The majority of transactions have been in the 100,000 – 249,999 sq ft bracket which in part is due to occupiers taking advantage of cap-ex savings afforded by leasing up tenant ‘grey’ space.

New speculative scheme announcements have all but stopped, with only a couple of well-funded developers considering their positions and aiming to complete buildings when they think there will be a squeeze on supply in 2025.

Rental growth is still forecast across the Midlands, albeit at a slower pace in comparison to previous years.”

Occupier Market

7.9 million sq ft

Occupier take up
YTD 2023

4.2%

Vacancy rate
Q3 2023

£11.00 psf

Prime rents
Q3 2023

10%

Prime annual rental growth

“The Midlands region has seen a shift in occupier demand from build-to-suit units towards existing buildings”

DEVELOPMENT ACTIVITY MODERATES

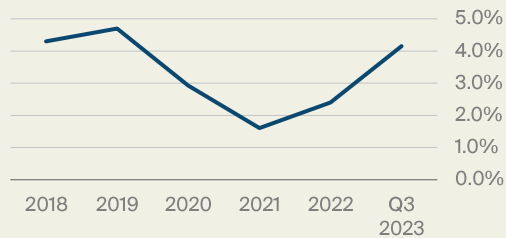
Driven by an influx of ‘grey space’ combined with several development completions, supply levels across the Midlands industrial market have risen by 79% during the first nine months of the year, to stand at 15.2 million sq ft at end-September (units 50,000 sq ft+). However, a more modest increase of 0.7% in Q3 has led to the vacancy rate remaining stable on the previous quarter, at 4.2%. Of the total immediately available space, 13% was under offer at quarter end.

Approx. 5.4 million sq ft of space was under construction speculatively at end-Q3 (units over 50,000 sq ft), 40% lower on an annual basis, while the number of units under way has more than halved. Beyond the development that is on site, any further planned speculative development is limited leaving approx. 16 months’ supply against the region’s five-year annual average take up.

RENTAL LEVELS & OUTLOOK

Prime rents in Birmingham for units over 50,000 sq ft remained stable at end-Q3, at £11.00 psf. Looking ahead to 2024, average rental growth of 2.8% and 3.0% is forecast for the East and West Midlands respectively, with 4.4% forecast for Birmingham (RealFor).

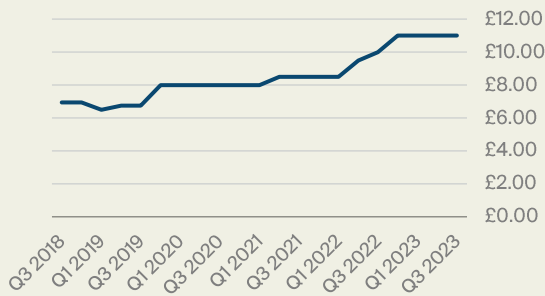
Vacancy Rate
% of stock



Source: Knight Frank Research

“Approx. 5.4 million sq ft of space is under construction speculatively (units over 50,000 sq ft), -40% lower annually”

Birmingham - Prime Rents
£ per sq ft



Source: Knight Frank Research

Key Occupier Deals Q3 2023

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
DIRFT, Daventry	627,707	Indetex	£9.50 psf	Speculative build
Prologis Park, Coventry	335,000	IFCO	£8.90 psf	Speculative build
Magna 163, Lutterworth	163,423	Lloyd Fraser	£8.25 psf	Speculative build
Mammoth Drive, Wolverhampton	70,800	Tesla	£9.00 psf	Speculative build

Source: Knight Frank Research

Investment Market

£1.4 billion

Investment total
YTD 2023

£16.3 million

Average lot size
(last four quarters)

34%

Overseas investment
(last four quarters)

5.50%

Prime yield
Q3 2023

ROBUST THIRD QUARTER FOR INVESTMENT

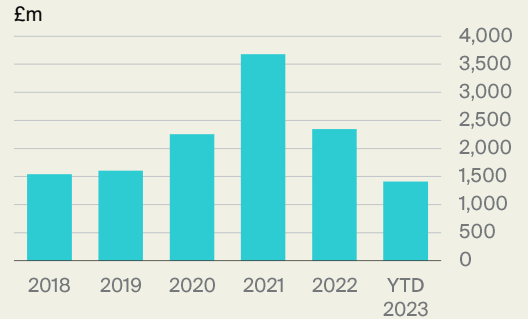
Investment into industrial property in the Midlands totalled £1.4 billion in the year-to-date 2023, 34% below the same period last year with investor activity cooling this year. That said, Q3 saw an improvement on Q2 levels with £530 million transacting, 40% higher quarter on quarter. A key deal in Q3 was DTZ Investors' acquisition of Coventry Logistics Park, for £140.4 million. The park comprises three newly constructed logistics units totalling 784,989 sq ft, all having achieved BREEAM 'Outstanding' and EPC 'A' ratings.

Following a 125bps softening of prime industrial yields in Birmingham over the past year, prime yields stabilised in Q3 2023, at 5.50%, resembling trends across all UK regional industrial markets.

"Prime industrial yields in Birmingham stabilised in Q3 2023, at 5.50%"

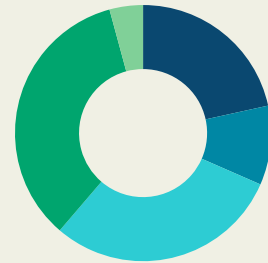
"Q3 investment saw an improvement on Q2 levels, with £530 million transacting, 40% higher quarter on quarter"

Investment totals



Source: Knight Frank Research

Investment by purchaser type Q4 2022 – Q3 2023



- UK institution: 22% of investment
- Listed Property Company: 10% of investment
- Private Property Company: 30% of investment
- Overseas Investor: 34% of investment
- Private/Other: 4% of investment

Source: Knight Frank Research

Key Investment Deals

Q3 2023

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Coventry Logistics Park, Richardson Way	Coventry	£140.4m	-	DTZ Investors	Bericote / JP Morgan
Part Javelin Portfolio	(2 units) Crick / Kettering	£101.3m	(blended) 4.73%	P3 Property / Roebuck Asset Management	SEGRO
Junction Six Industrial Park, Electric Avenue	Birmingham	£58m	4.53%	Tritax Big Box	M&G
Moulton Park Industrial Estate, Deer Park Road	Northampton	£12.4m	4.69%	Kennedy Wilson	Fidelity Investments

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

Logistics & Industrial Research

Claire Williams
claire.williams@knightfrank.com
+44 20 3897 0036

Deirdre O'Reilly
deirdre.oreilly@knightfrank.com
+44 20 3995 0785

Birmingham Commercial Logistics & Industrial Agency

James Clements
james.clements@knightfrank.com
+44 121 233 6460

Edward Kennerley
edward.kennerley@knightfrank.com
+44 121 233 6461

Birmingham Commercial Capital Markets

Ashley Hudson
ashley.hudson@knightfrank.com
+44 121 233 6443

Ben Voss-Wood
ben.voss-wood@knightfrank.com
+44 121 233 6427

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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