# LOGIC: Midlands

Q3 2024

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

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# Occupier Market

## Despite increased availability, supply in parts of the region remains limited

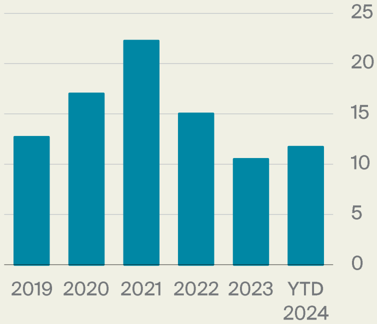
### YTD 2024 TAKE UP ALREADY AHEAD OF 2023 VOLUMES

Another robust quarter was recorded in the Midlands industrial occupier market, with 3.6 million sq ft of space signed across 22 deals (units 50,000 sq ft+). This brings the year-to-date (YTD) total to 11.7 million sq ft, 48% ahead of the same period last year. It is worth noting that this increase in volume has been driven by several large-scale deals completed this year, while the actual number of transactions is roughly in line with the same period last year. YTD take up volumes have also surpassed last year's annual total, with the final quarter still to go.

Key transactions in Q3 included Tesco agreeing to pre-let a 491,000 sq ft unit at Mountpark Hinkley on a 20-year lease at £10.00 psf, while Greggs bakery chain has committed to a 311,551 sq ft new national distribution centre in Kettering to be developed by Tritax Symmetry.

In addition, international contract logistics group, ID Logistics, has launched its UK operations by agreeing to a 10-year lease on the 342,500 sq ft DC7 facility at Prologis Grange Park in Northampton.

**Take up (sq ft)**
million square feet




Source: Knight Frank Research

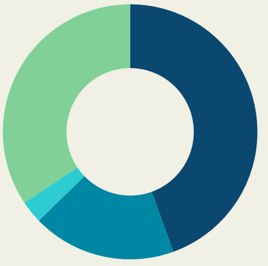
### RETAILER DEMAND RISING

Retailer demand has been rising this year, supported by easing inflationary pressures and an improving economic outlook. The share of take up in the year to Q3 has increased to 34%, from 19% in the same period last year. While annual volumes have been largely boosted by the sizeable lettings to Nike (1.3 million at Magna Park in Corby) and Amazon (1 million sq ft at Northampton Gateway), the number of transactions to retailers has also notably increased.

### VARIETY OF SECOND-HAND STOCK OFFERS CHOICE

Occupiers have signed 22% more second-hand space in the YTD 2024 compared with YTD 2023 as the increased variety of second-hand stock provides more choice to occupiers. Second-hand space now accounts for 37% of YTD take up, up from a 27% share last year. That said, a preference for core locations remains. Demand has also been highest for units under 250,000 sq ft, comprising 68% of the number of units signed this year.

**Take up by sector**
Q4 2023 – Q3 2024



**Distribution:** 45% of take up

**Manufacturing:** 18% of take up

**Other:** 3% of take up

**Retail:** 34% of take up

Source: Knight Frank Research

MARKET VIEW

## Second-hand buildings with the benefit of fit-out are proving popular

BY JAMES CLEMENTS, PARTNER, BIRMINGHAM LOGISTICS & INDUSTRIAL AGENCY

"As we approach the final quarter of 2024, transactional volumes have continued at a steady pace throughout the year.

Availability across the Midlands region is high, but there have been less speculative build announcements, and supply in certain micro markets is very low. Second-hand buildings with the benefit of fit-out have proved popular so far this year, and in prime locations are generally preferred to brand new units, given the capex savings to occupiers."

# Occupier Market

**11.7m sq ft**
Occupier take up
YTD 2024

**6.2%**
Vacancy rate
Q3 2024

**£12.00 psf**
Prime rents
Q3 2024

**9.1%**
Prime annual rental growth

"Demand is highest for units under 250,000 sq ft, comprising 68% of the number of units signed"

## LIMITED SUPPLY IN SOME AREAS

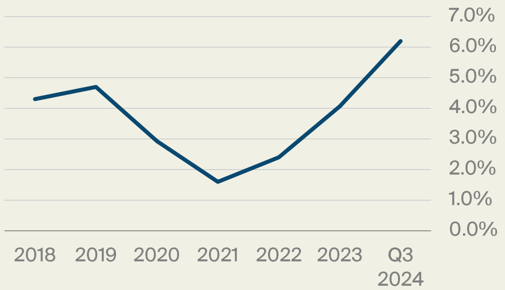
Supply levels continue to trend upward, though at a slower pace than seen in recent quarters. Availability of existing units over 50,000 sq ft rose by 5.8% in Q3, to 23.1 million sq ft, softening the vacancy rate by 40 bps to 6.2%, from 5.8% in Q2 and 4.2% recorded one year ago. While indicating a healthy level of supply, this is concentrated in units under 250,000 sq ft, comprising 80% of the number of available units, while there are parts of the region facing limited supply. Looking at the new and very large end of the market, there are currently no, new speculative units over 400,000 sq ft available across the region.

In addition, a slowdown in the delivery of new space is anticipated over the coming quarters. Speculative space under construction is 17% lower annually, at 4.5 million sq ft (units 50,000 sq ft+). Commencements in Q3 included two units at Fradley Link, Lichfield, comprising 204,500 sq ft and 78,500 sq ft.

## RENTAL LEVELS & OUTLOOK

Prime rents in Birmingham are 9.1% higher annually, at £12.00 psf (units 50,000 sq ft+). Average rental growth of 4.3% is forecast for the East Midlands for 2024, with a slightly higher rate of 5.3% growth predicted for the West Midlands (RealFor). Looking ahead to next year, 3.2% and 3.5% are forecast for the East and West Midlands, respectively.

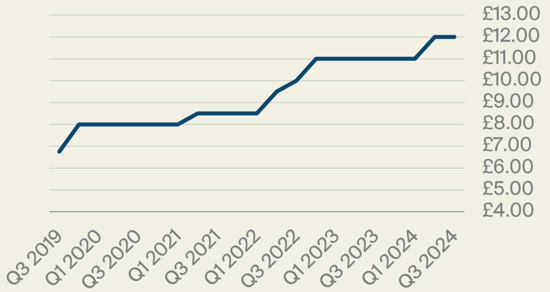
**Vacancy Rate**
% of stock




Source: Knight Frank Research

"No, new speculative units over 400,000 sq ft available"

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




Source: Knight Frank Research

**Key Occupier Deals**
YTD 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 |
| Mountpark Hinkley, Hinkley | 491,000 | Tesco | £10.00 psf | Pre-let |
| Magna Park, Lutterworth | 388,000 | CEF | £9.95 psf | Speculative build |

Source: Knight Frank Research

# Investment Market

**5.50%**

Prime NIY - Birmingham
Q3 2024

**Stable**

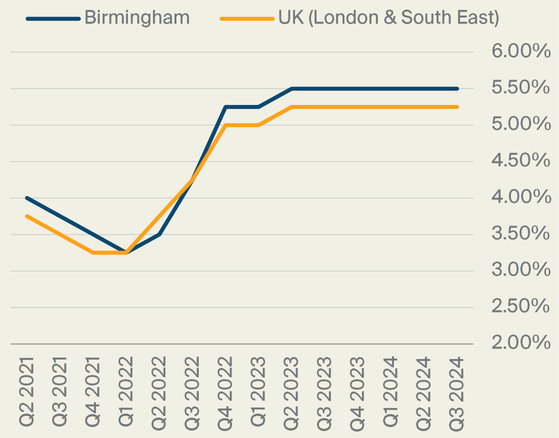
YOY movement in prime yields

## TRANSACTION VOLUMES GAINING MOMENTUM

Prime yields in Birmingham held steady in Q3 2024, at 5.50%, 25 bps softer than for prime London and South East industrial. Yields are trending positive however, and the 25-bps interest rate cut has provided confidence to investors around pricing levels. Transaction volumes have gained momentum with a broader range of buyers starting to return to the market, though there remains a shortage of available opportunities in the region.

Transactions of note in Q3 included EQT Exeter acquiring DC1, DC2 and DC6 Apex Park in Daventry from KFIM for £49.7 million (NIY 5.06%). The units totalling 402,500 sq ft are let to CEVA logistics, CNH Industrial and Cummins Ltd. In the single-let market, CBREIM purchased a 170,276 sq ft unit at Birch Coppice Business Park, Tamworth, from abrdn for £24.6 million, reflecting a NIY of 4.99%, though with high reversionary potential. The unit is leased to DRÄXLMAIER, a manufacturer of automotive parts.

**Prime Yields**
Net Initial Yield (%)




Source: Knight Frank Research

MARKET VIEW

### Buyer pool is varied between UK institutions, REITs and private equity

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

“Q3 saw a significant increase in investment volumes, nearly reaching the total volume achieved for the entire first half of the year.

The buyer pool was significantly varied, with UK institutions marking their return in the region accompanied by REITs and private equity purchasers. The majority of individual transactions (excluding portfolios) continue to be for shorter income, with owners of longer income stock holding on for anticipated yield compression as interest rates are expected to reduce.

Sentiment improved following the announcement of the first BoE base rate reduction in August to 5.00%, and we anticipate transaction volumes to improve further as we now approach the final quarter of the year.”

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.

Knight Frank