

LOGIC: North West



Q3 2024

Occupier and investment market trends in the North West logistics and industrial sector.

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Occupier Market

Improving take up volumes, while second-hand space boosts supply

TAKE UP IMPROVES WITH EACH PASSING QUARTER

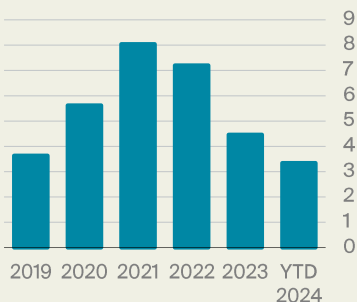
The industrial and logistics market in the North West continues to progress well this year, with take up volumes improving with each passing quarter. Over 1.8 million sq ft transacted in Q3 (units over 50,000 sq ft), 72% ahead of the previous quarter. Although in part boosted by two large transactions, the number of deals completed has also risen. Take up for the year-to-date (YTD) amounts to 3.3 million sq ft, 43% higher than the same period last year, while a further 1.6 million sq ft of space was under offer at the end of September.

The largest building let in Q3 and in the YTD was the 654,255 sq ft Link 655 at Ellesmere Port, which was signed confidentially to a retailer. Firethorn Trust developed the unit speculatively in 2022, achieving net zero carbon in construction and to BREEAM 'Excellent' and EPC 'A' standards.

NEW HEADLINE RENT

Another noteworthy transaction was at Unit 1, Cobalt 2, a 61,500 sq ft new-build in Chadderton. Let to ADI Global Distribution for a 10-year term at £10.50 psf, the deal set a new headline rent for units over

Take up (sq ft)
million square feet



Source: Knight Frank Research

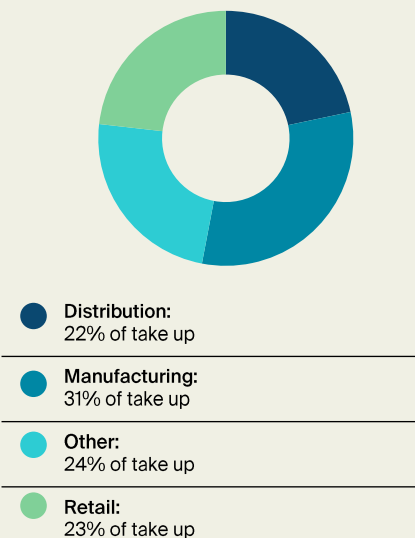
50,000 sq ft in the region. In addition, Imperial 164, a 164,305 sq ft new-build in Rochdale, was let to Cleland McIvor, a clothing and textiles manufacturer, on a 15-year lease at £9.50 psf.

New, speculatively built or second-hand grade A space comprised 63% of Q3 take up, as occupiers remain focused on new or good-quality refurbished buildings that better satisfy their ESG targets.

RISE IN DEMAND BY MANUFACTURERS

Take up over the past year has been quite evenly split between the four major occupier groups. Demand from distribution firms remains steady. Manufacturers have taken 142% more space over the past year, with their portion of take up rising from 15% last year to 31% this year. Overall, retailers have been less active over the past year, though their share has been notably boosted by the letting at Link 655.

Take up by sector
Q4 2023 – Q3 2024



Source: Knight Frank Research

MARKET VIEW

We expect an uptick in rental tones for second-hand stock



BY SAM ROYLE, PARTNER,
MANCHESTER LOGISTICS & INDUSTRIAL AGENCY

“The bulk of transactions this year have been focused around Greater Manchester, with take up levels down across Merseyside and Cheshire. We have seen an increase in the number of second-hand units returning to the market this year, which has boosted supply levels. With less than 10 months’ worth of supply of grade A stock and a limited deliverable development pipeline, we anticipate increasing take up levels of second-hand accommodation. With limited new-build availability for occupiers, we expect an uptick in rental tones for second-hand accommodation and the rental gap between Grade A and second-hand will start to close.”

Occupier Market

3.3m sq ft

Occupier take up
YTD 2024

7.1%

Vacancy rate
Q3 2024

£10.50 psf

Prime rents
Q3 2024

11%

Prime annual rental growth

“Manufacturers’ share of take up rose from 15% last year to 31% this year”

VACANCY RATE DRIVEN BY SECOND-HAND SPACE

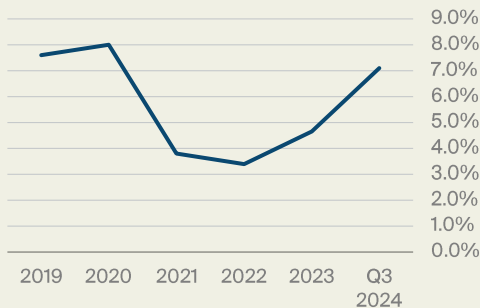
Driven by the return of second-hand space, supply levels rose by 7.2% in Q3 to just under 11 million sq ft (units 50,000 sq ft+). Second-hand availability alone rose by 11% during the quarter. This resulted in the overall vacancy rate rising to 7.1% in Q3, from 6.6% in Q2. While construction works completed on several developments in Q3, robust activity in the new-build market during the quarter has meant that the supply of new-build units declined by 3.7%.

Speculative space under construction was 19% lower in the quarter, with 3.1 million sq ft under way across 19 units (units over 50,000 sq ft). Commencements in Q3 included Bolton 330 (330,122 sq ft) and Knowsley Hub 50 (50,000 sq ft).

RENTAL LEVELS & OUTLOOK

Prime rents in Manchester for units over 50,000 are 5.0% higher in Q3, at £10.50 psf, representing 11% growth annually. Average rental growth forecasts have been revised upwards, with 5.5% now forecast for the North West region for 2024 and 3.6% for 2025 (RealFor). Stronger growth is predicted for Manchester for 2024 and 2025, of 7.6% and 4.8% respectively.

Vacancy rate
% of stock

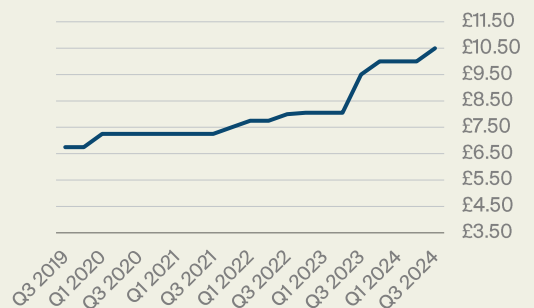


Source: Knight Frank Research

“The supply of new builds declined by 3.7%”

Manchester - 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 |
|------------------------------|--------------|-------------------------|--------------------------|-------------------|
| Link 655, Ellesmere Port | 654,255 | Confidential | Confidential | Speculative build |
| Stakehill 295, Middleton | 294,458 | GXO | £9.00 psf | Second-hand |
| Imperial 164, Rochdale | 164,305 | Cleland Mclvor | £9.50 psf | Speculative build |
| FP3 Frontier Park, Burnley | 158,800 | Stolle Machinery | £7.75 psf | Pre-let |
| Unit 1, Cobalt 2, Chadderton | 61,500 | ADI Global Distribution | £10.50 psf | Speculative build |

Source: Knight Frank Research

Investment Market

5.50%

Prime NIY - Manchester
Q3 2024

Stable

YOY movement in prime yields

INVESTOR SENTIMENT IS TRENDING POSITIVE

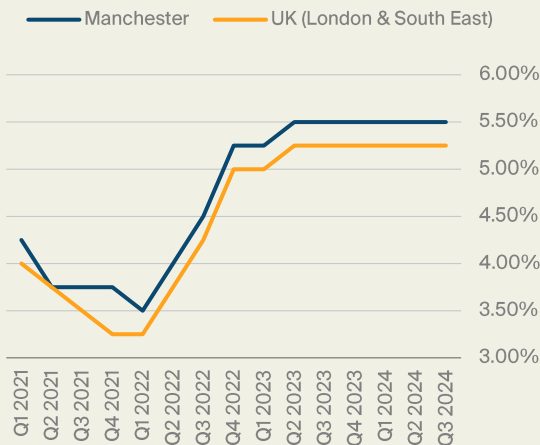
Prime industrial yields in Manchester remained stable in Q3 2024, at 5.50%, 25 bps softer than for prime London & South East industrial. Since the turn of the market in Q2 2022, prime yields in the region have softened by circa 200 bps. However, sentiment is trending positive, particularly since the Bank of England’s 25-bps base rate cut in August.

Investment volumes in the region remain subdued relative to the long-term average for the North West region. Nevertheless, some notable deals completed in Q3, with strong pricing taking place on units under offer.

A notable transaction in Q3 included Cabot’s acquisition of Honeywell International’s Cheshire distribution hub in Ellesmere Port from CCLA Investment Management for £18.5 million (5.63% NIY). Honeywell has just over five years remaining on the lease.

Prime Yield

Net initial yield %



Source: Knight Frank Research

MARKET VIEW

Strong investor appetite remains for prime locations and/or quality product



BY CRAIG BARTON, PARTNER,
MANCHESTER LOGISTICS & INDUSTRIAL
CAPITAL MARKETS

“Transactional volumes for Q3 2024 were muted, although strong investor appetite still remains, certainly for prime locations and/or quality product.

NFU’s acquisition of a three-unit mid-box scheme at Kingsway Business Park, for £21.9 million, reflected a 5.20% NIY and a reversionary yield in the late 5%. There was significant depth of interest with 11 formal offers received from a combination of UK institutions and private equity investors, which drove pricing way beyond the original quote of 6% NIY.

In the speculative funding market, Indurent has now funded Unit 4, Omega, Warrington, comprising circa 420,000 sq ft for around £130 psf amidst strong investor appetite. We also know that there was good interest in the speculative funding of the mid-box scheme, Hollinwood Junction in Oldham on the M62, which is now also under offer.

Premier Park, Trafford Park is the most notable deal in the market and has received strong investor interest. The quoting price of £37.5 million (4.16% NIY) has been driven substantially higher with competitive bidding by a number of UK institutions, attracted by the highly reversionary nature of current rents.”

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.



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