

LOGIC: Wales



Q2 2023

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

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Image: Pencoed Technology Park, Bridgend

Occupier Market

Steady demand for new, high-quality units and prime headline rental growth boosts appetite for industrial development in Wales.

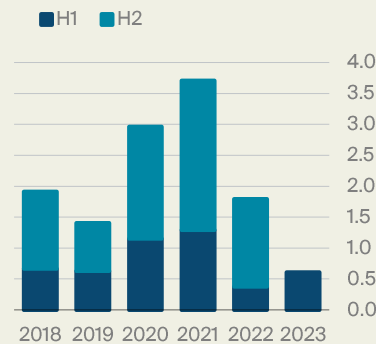
OCCUPIER ACTIVITY REMAINS STEADY

The Wales industrial market recorded 196,600 sq ft of occupier transactions in the second quarter of 2023, bringing take up for the first half of the year to 608,800 sq ft (units over 50,000 sq ft). This is 61% higher than the level recorded in H1 2022. Take up in H1 2023 comprised six leasehold deals and three sales, with the market seeing ongoing interest from occupiers to purchase their own property.

A key deal in quarter two was the letting of the newly constructed 50,000 sq ft unit at Pencoed Technology Park, by Deeside Regeneration. Let to Sainsburys Supermarkets for a new Argos distribution centre, on a 10-year lease at £6.50 psf, the scheme has reached practical completion and was built to BREEAM 'Excellent' standard and an EPC 'A' rating.

Just over 2 million sq ft of space was taken up in the 12 months to June 2023, 28% lower annually. Retailers account for 41% of the total, however, this was bolstered by two notable deals in the latter half of 2022. Manufacturing firms comprise a further 36% of the annual total.

Take up (sq ft) million square feet



Source: Knight Frank Research

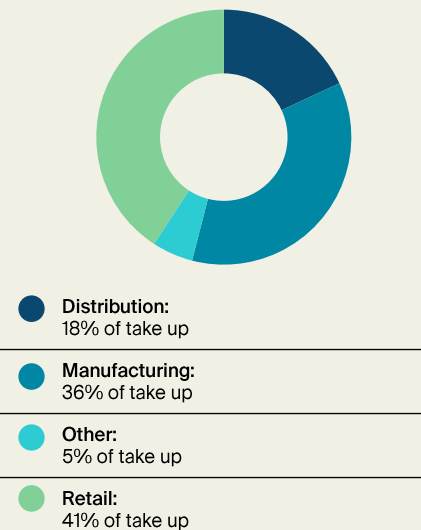
DEMAND FOR HIGH-QUALITY UNITS BOOSTS DEVELOPMENT APPETITE

The latest planned phase at St Modwen Park, Newport comprises 274,000 sq ft in three new builds. All units have been rated 'Very Good' by BREEAM, with a target EPC rating of 'A', while there are strong enquiries at the new quoting headline rent.

Occupiers are demanding higher standards of sustainability and efficiency. This combined with the continued shortage of high-quality space available in Wales is providing St Modwen with the confidence to progress with the next phase of development while continuing dialogue with occupiers seeking new 40,000 sq ft+ options.

A total of 167,800 sq ft was under construction in Wales at the end of June, across three units (units over 50,000 sq ft).

Take up by sector Q3 2022 – Q2 2023



Source: Knight Frank Research

MARKET VIEW

Demand from occupiers to own property



BY NEIL FRANCIS, PARTNER,
CARDIFF LOGISTICS & INDUSTRIAL
AGENCY

“Positively, we are still seeing demand from occupiers to own property. We expect similar sentiment into Q3, with a number of freehold properties likely to become available.

However, the market was somewhat inconsistent this quarter. The Easter break coupled with two bank holidays have slowed down progress on sales. With a number of units over 50,000 sq ft under offer at quarter end, we do expect Q3 to have higher take up.”

Occupier Market

608,800 sq ft

Occupier take up
H1 2023

12.6%

Vacancy rate
Q2 2023

£8.00 psf

Prime rents
Q2 2023

3.2%

Prime annual rental growth

“Occupiers are demanding higher standards of sustainability and efficiency”

SUPPLY OF NEW UNITS REMAINS TIGHT

Availability of units over 50,000 sq ft increased by 6% in Q2, to 5.4 million sq ft, with the vacancy rate rising from 11.9% to 12.6%. This increase was wholly driven by the return of second-hand space to the market. Wider UK economic pressures have started to impact on business viability with a number of closures announced in Q2. We anticipate a continuation of this trend in the coming months, which would in turn further increase the availability of second-hand stock.

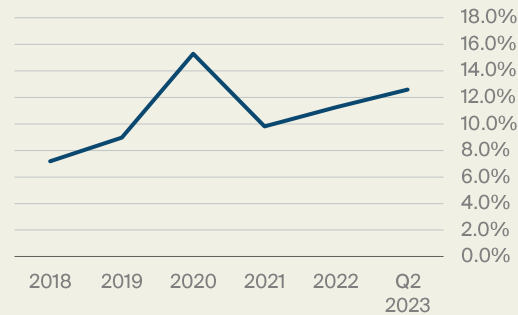
However, 97% of vacant space comprises grade B and C stock, while the supply of new space remained stable in Q2. Just one new unit completed in the quarter, at Pencoed Technology Park, but was immediately let. Therefore, the supply of new, high-quality units remains tight.

RENTAL LEVELS & OUTLOOK

Prime industrial rents in Cardiff and Newport stood at £8.00 psf in Q2 (units over 50,000 sq ft). On an annual basis, prime rents in Cardiff and Newport are 3.2% and 6.7% higher, respectively. Looking to the remainder of the year, average rental growth expectations across Wales remain positive, with 6.1% forecast for 2023 (RealFor).

Vacancy Rate

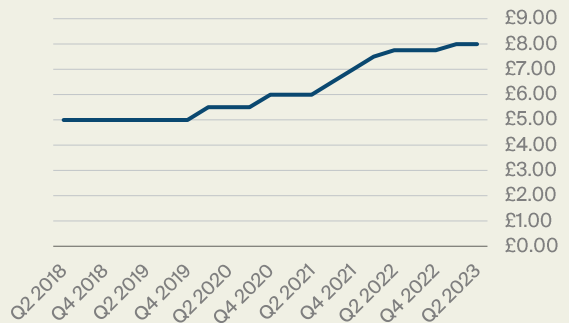
% of stock



Source: Knight Frank Research

Cardiff - Prime Rents

£ per sq ft



Source: Knight Frank Research

“Prime rents in Cardiff and Newport are 3.2% and 6.7% higher on an annual basis, respectively”

Key Occupier Deals

H1 2023

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Excel 95, Deeside Industrial Park, Flintshire	96,597	Undisclosed	£4.75m	Freehold purchase - Second-hand Grade B
Former Tata Steel Works, Pontarddulais, Swansea	96,400	Walters Group	£2.03m	Freehold purchase - Second-hand Grade B
Former Bestway Unit, Brindley Road, Cardiff	81,905	Pelican Healthcare	c.£4.75 psf	Second-hand Grade B
Unit 1, Pencoed Tech Park, Bridgend	50,000	Sainsburys (Argos)	£6.50 psf	Pre-let

Source: Knight Frank Research

Investment Market

£18.5 million

Investment total
H1 2023

£8.2 million

Average lot size
(last four quarters)

40%

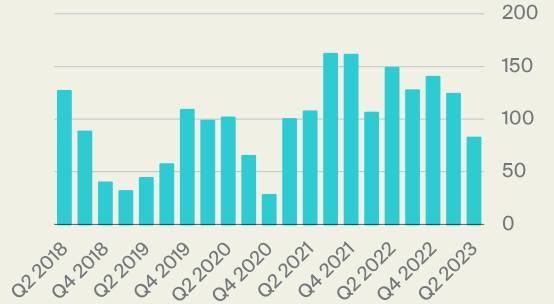
Overseas capital
(last four quarters)

6.00%

Prime yield
Q2 2023

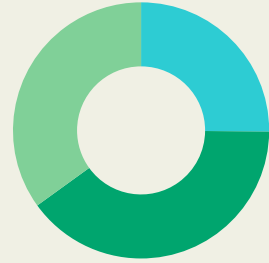
“Investment into industrial property has slowed in H1 2023, with just four deals completing”

Investment totals (£m)
(four quarter rolling)



Source: Knight Frank Research

Investment by purchaser type
Q3 2022 – Q2 2023



- **UK institution:**
0% of investment

- **Listed Property Company:**
0% of investment

- **Private Property Company:**
25% of investment

- **Overseas Investor:**
40% of investment

- **Private/Other:**
35% of investment

Source: Knight Frank Research

SLOWDOWN IN INVESTOR ACTIVITY

Investment into industrial property in Wales has been notably slower in 2023 so far, with just four deals completing. The total invested over the 12 months to end-June 2023 was £83 million. This is down from £149 million recorded over the same period last year (-45%). Over the past year, approx. 40% of the capital invested came from overseas investors, with UK property companies accounting for a further 25%.

Prime industrial yields in Cardiff softened by 25bps in Q2, to 6.00%, in line with the outward movement of prime yields evident across most UK regional industrial markets.

“Overseas buyers accounted for 40% of investment in the twelve months to end-June 2023”

Key Investment Deals

H1 2023

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Dyffryn & Withey Court	Caerphilly	£10m	7.75%	MVJ Capital Ltd.	Springfall Properties
Aberaman Industrial Estate	Aberdare	£3.73m	8.00%	Rodenhurst Estates Ltd.	Private

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

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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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