

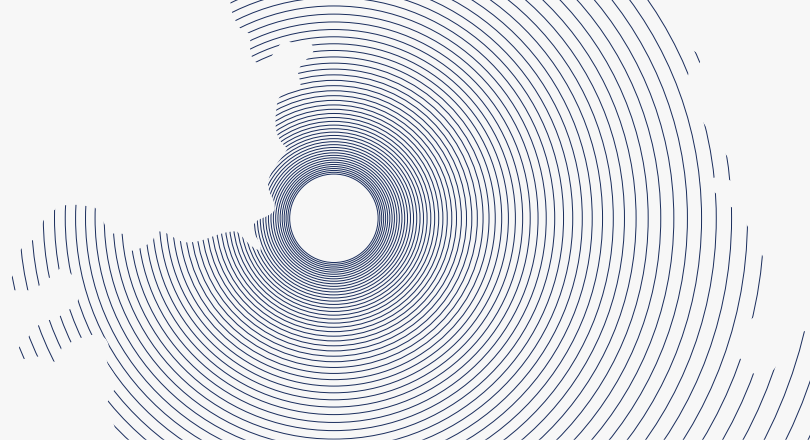


NORTH WEST **INDUSTRIAL** **& LOGISTICS**

OCCUPIER & INVESTMENT
MARKET REVIEW

H1 2023
RESEARCH

DTRE



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The North West occupational markets have held up well despite a wider UK slowdown in occupier demand. Whilst overall take-up volumes are down on the 5-year average they are up 15% in the Big Box (100,000 sq ft +) sector in the first six months of 2023 when compared to the last six months of 2022.

The region's small/multi-let (sub 50,000 sq ft) and Mid-Box segment (50-100,000 sq ft) have also seen strong demand as evidenced by rising rents, but the lack of new and good quality second-hand units is holding back take-up volumes, which are down 29% y-o-y.

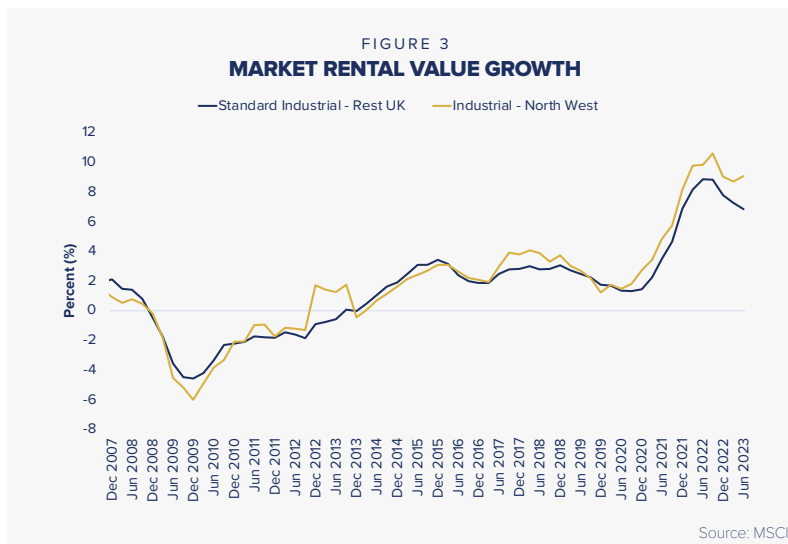
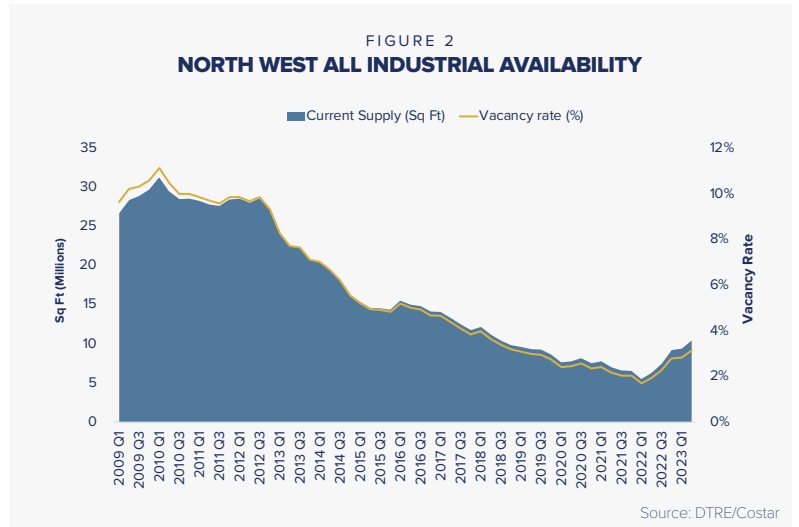
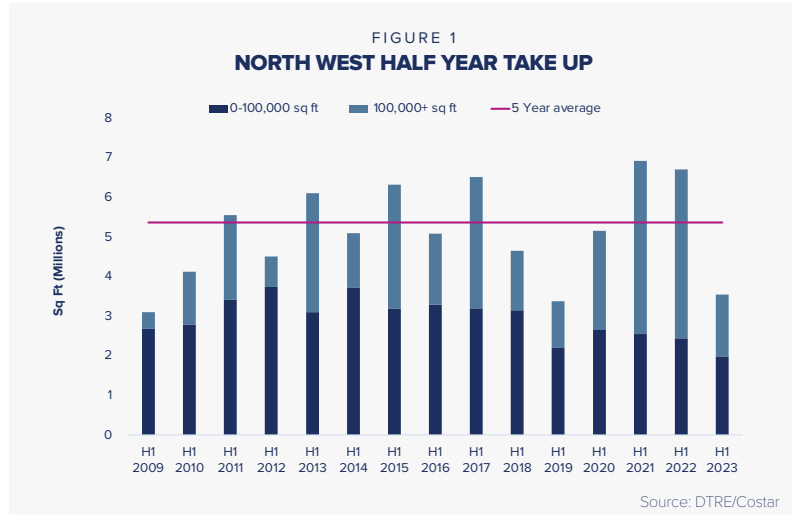
Take-up totalled 3.5m sq ft in H1, split between 1.6m sq ft in the Big Box sector and 1.9m sq ft in the Mid Box and small-unit sector (See Fig 1).

In terms of supply, the North West all industrial vacancy rate remains tight (see Fig 2) at just 3.1% and is indeed the tightest regional vacancy rate in the UK.

Looking ahead, an additional 2.7m sq ft of speculative space will be added to the region's supply before the end of the year, but there is only 723,000 sq ft under construction due for completion in 2024, and that number is unlikely to see a significant increase, with the current market for funding speculative development proving difficult due to the cost of debt. This will keep a relatively low ceiling on the region's vacancy rate, particularly in the smaller size ranges, as 82% of all the spec development currently underway is in units of 25,000 sq ft or greater.

In the smaller size ranges, Chancerygate and Kier broke ground in the first half of 2023. At Bridgewater Point, Trafford Park, Chancerygate and Northwood started construction on a development of 130,000 sq ft in 16 units ranging from 5,000 – 13,000 sq ft.

Kier, backed by Investec have started on a new Trade City scheme at Elizabeth Street, Manchester which will provide 9 units of between 3,800-23,600 sq ft. Both schemes will reach completion in 2024.

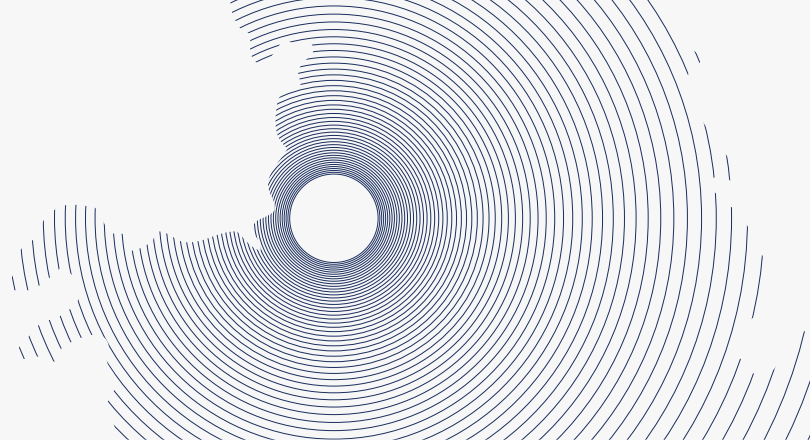


The North West's tight vacancy rate has continued to promote strong rental growth, with annual rental growth according to the MSCI's Quarterly Property Index for 'All Industrial' in the North West running at 9.1% by end H1 up from 8.7% in March and well ahead of the 15 year average of 1.8% (2008-2022).

This rental growth has been highlighted in specific locations where 'Mid-box' rents have broken double digits, such as at Trafford Park where Platinum International took 40,000 sq ft, paying £10.50 psf for a refurbished second-hand unit.

Another key location where rents have witnessed significant growth is at Omega, Warrington, where Unit 3 Omega South achieved £9.50 psf on 91,000 sq ft. The unit is second-hand, having previously been let to Royal Mail at £7.50 psf just three years ago - an increase of 27%.

The lack of existing supply, coupled with the difficulties in development finance, continue to underpin the long-term outlook for rental growth. Occupiers have less options to choose from whilst simultaneously being under pressure to meet ESG targets, operate from modern energy efficient buildings, and attract and retain staff.



Contrary to the rest of the UK, the North West investment market has seen plenty of activity so far in 2023. Despite rising interest rates and other macro headwinds a total of £1.07bn has transacted in the first half of 2023. Even excluding the record purchase of Trafford Park and Heywood Distribution Park by St Modwen at £480m, volumes have exceeded the 10-year average for H1 by 31%.

As shown in Fig 4, when totalling everything H1 has outperformed all previous years on record, and is above the 10-year average of £1bn for the whole year and just short of 2022's entire total.

Whilst 2023 investment volumes in the North West have been dominated by the St Modwen purchase of 12 assets on Trafford Park and Heywood Distribution Park, there have been other notable deals that underline investor appetite for the region and sector.

The key theme in most deals has been "access to reversion". The new headline rents being achieved across all unit sizes in the North West, underpinned by the supply/demand fundamentals, has provided investors with the much needed confidence that they can continue to push rents on in the region, in the face of the macro-economic headwinds.

With the all-in cost of debt soaring to 6.50%+, from 2.5% just 18 months ago, the above average trading levels in 2023 reflect investors belief in the North West rental growth story, as they anticipate running yields rising above 6% early in the hold period.

We expect this trend to continue as the rental growth story in the occupier markets continues to underpin this investment thesis. With monetary policy expected to stabilise we do not expect to see yields moving out any further for the remainder of 2023.

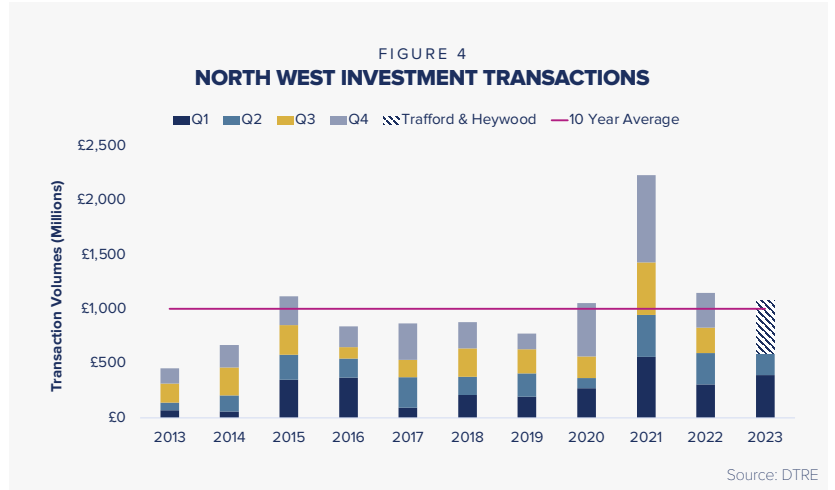
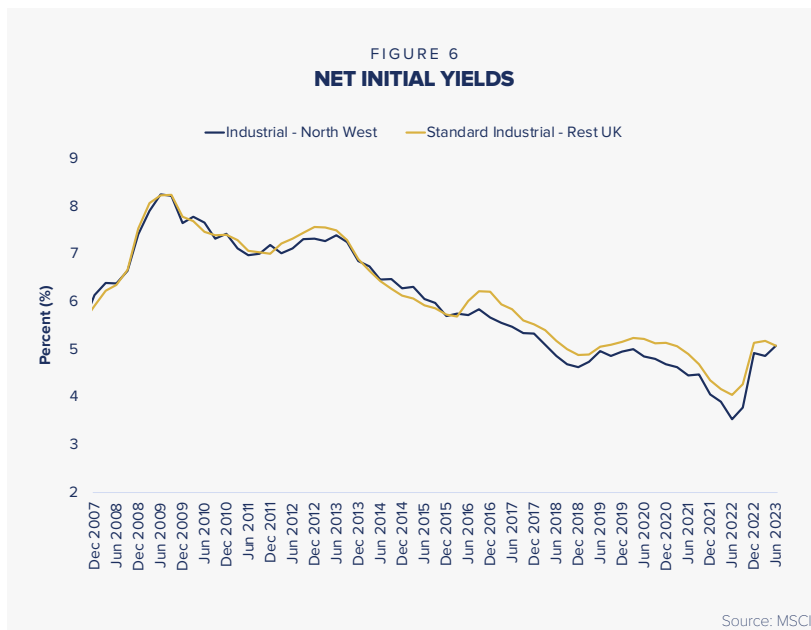



FIGURE 5
KEY NORTH WEST INVESTMENT TRANSACTIONS

H1 '23

Date	Address	Price Achieved	NIY	Vendor	Purchaser
Jun-23	Supply Chain Coordination Ltd / Kammac Ltd, Phase 1 & 2 Gorsey Point, Widnes	£89m	5.30%	Mirastar DTRE	Clarion Partners
Apr-23	Trafford & Heywood Distribution Park, Manchester	£480m	4.40%	Harbert DTRE	St Modwen
Apr-23	Carrington Gateway, Carrington, Manchester	£20m	5.15%	Wain Estates	Cabot Properties
Mar-23	Kammac, Warrington 379, Dallam Lane, Warrington	£22.5m	7.75%	M&G DTRE	Hines
Feb-23	Amazon UK Services Ltd, Logistics North, Bolton	£43.5m	5.00%	Aviva Investors	Amazon



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HENRY BUNTING
PARTNER 

Despite the ongoing challenges to the investment market the North West has seen the highest level of investment across the UK in H1 through a number of high profile transactions.

The North West has seen just over £1bn of deals so far this year, 30% of the UK total. This highlights the continued demand for industrial stock in the region and the expectation that rental growth will outperform most other parts of the UK in the coming years.

Indeed, rental growth for NW industrial has reached 9.1% in the year to end June, compared to a UK average of 7.7% and we expect this to continue given the under supply of new build stock and continued occupational demand across many of the region's sub-markets.

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