Richborough Estates

PAP/2024/0297

CBRE

# Land at J9 M42, Lichfield Road, Hams Hall



**Market Report and Occupier Overview for the site known as J9 M42**

Market Report Prepared for: Richborough COMMERCIAL

June 2024

# Contents



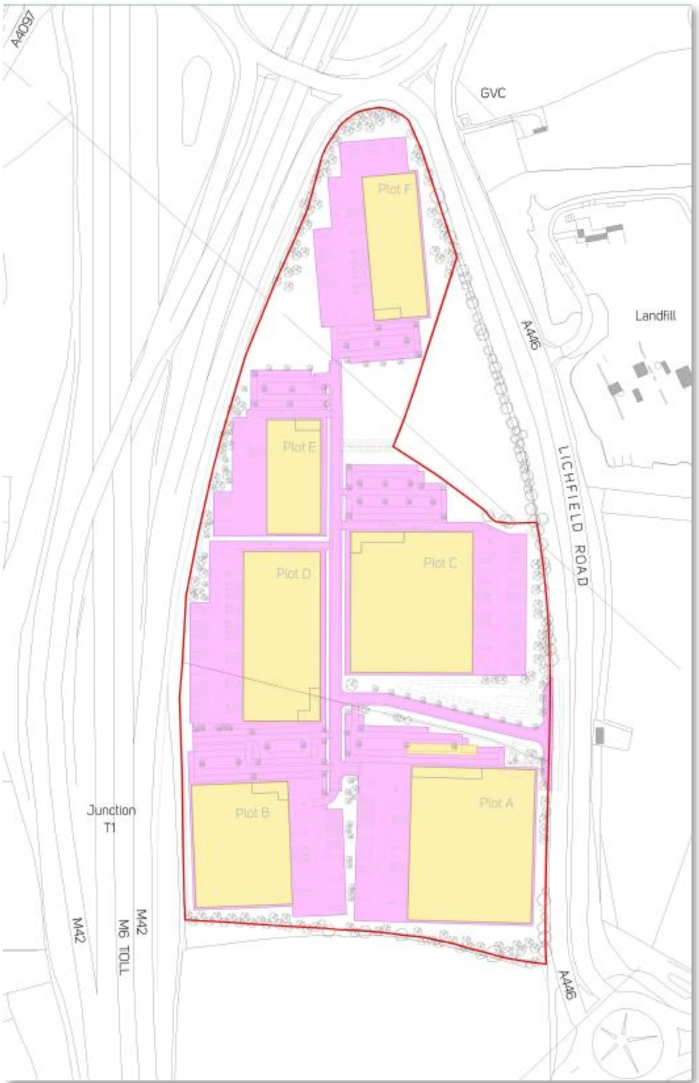
 

# Introduction

- CBRE have been asked to provide a market report for the c.48 acre site known as Land at J9 M42, Lichfield Road, Hams Hall, on behalf of Richborough Estates.
- CBRE have been asked to provide advice on the disposal strategy, and comment on the potential demand and suitability of the site for industrial and logistics development.
- This report includes a site overview, brief market overview; occupier demand; and disposal strategy.

# Site Overview

- The c.48 acre subject site sits within the M42 corridor and is accessed off Lichfield Road, A446. The A446 feeds directly off Junction 9 of the M42 motorway, which subsequently provides direct access to the M6 and M6Toll motorways.
- With such proximity to the motorway junction, the site is strategically located enabling excellent access to the wider national motorway network.
- This unparalleled accessibility results in the subject site considered as one of the top  prime sites in the West Midlands. It’s location is a crucial connectivity point for Birmingham, Coventry and the wider Midlands region.
- The site is located near the village of Curdworth, North Warwickshire and surrounding area is a combination of rural land, residential dwellings, and industrial and commercial developments.
- To the south of the site less than 3 miles aways is Hams Hall Distribution Park, an extremely well established industrial and logistics park and one of the largest in the UK. The park is home to logistic occupiers and retailers such as BMW, Sainsbury’s and DHL due to its strategic location. The park also includes a Rail Freight Terminal, enabling efficient multimodal transportation of goods.
- The M42 corridor is notorious for demand to be ‘much in excess’ of supply with an exceptionally tight market. Industrial space immediately surrounds the site and also across the West Midlands, is seriously undersupplied as buoyant demand is frustrated by almost non-existent existing availability and pipeline development.
- Whilst the site sits within the West Midlands, it would also appeal to occupiers that typically acquire units in the East Midlands due to the sites strategic location and proximity to the national motorway network.
- CBRE have been provided with an outline masterplan detailing unit sizes ranging from c.59,000 sq ft – 167,000 sq ft.




# Industrial Market Commentary

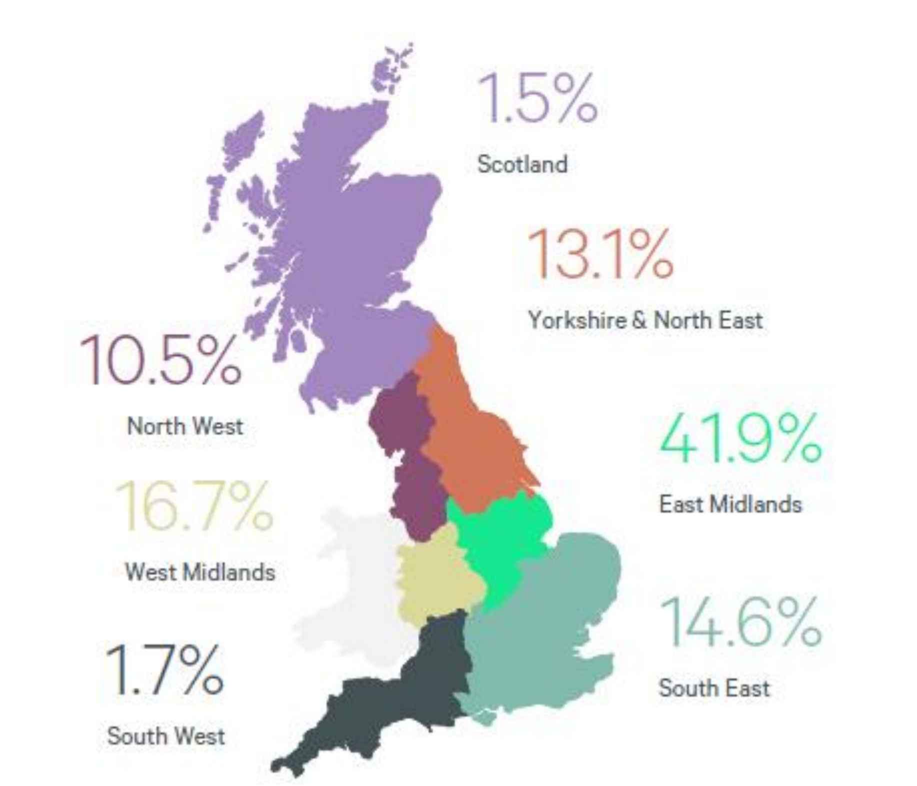
## UK Market Overview

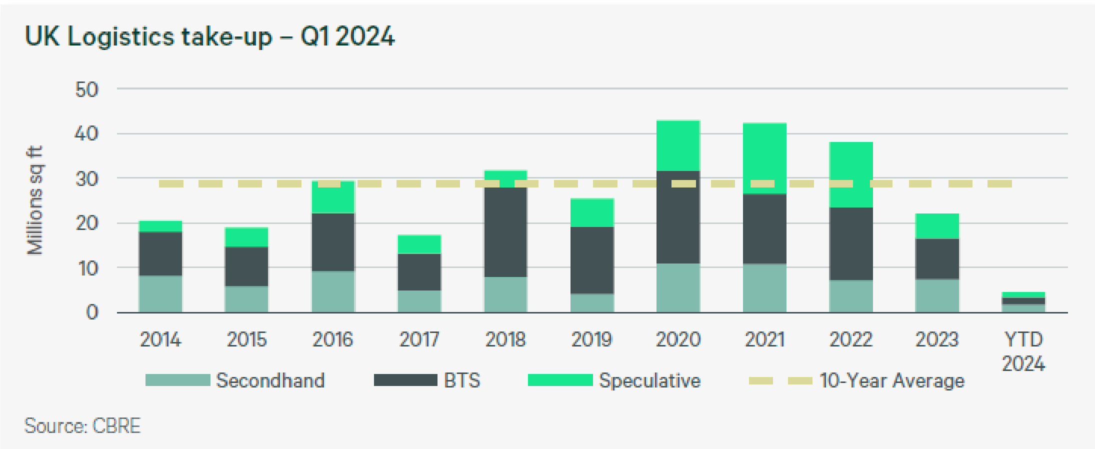
### Availability and Take-Up

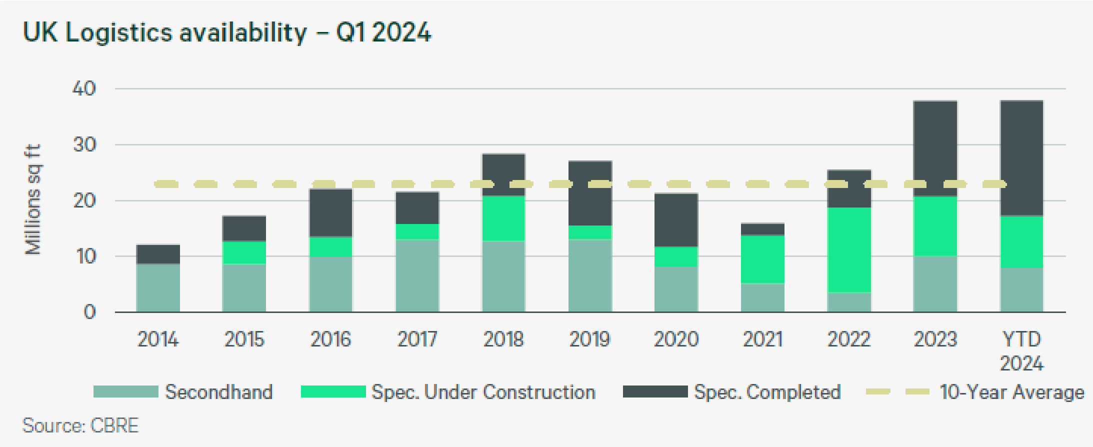
Take-up in Q1 2024 totalled 4.5m sq ft, down by 49% QoQ and 31% below the five-year average Q1 take-up (6.6m sq ft). There was a nearly even split between take-up of second hand and Build-to-Suit (BTS), each contributing 38% and 37%, respectively

Availability increased slightly by 73k sq ft across the UK. Speculative builds represented 79% of available space with 24% under construction compared to 29% last quarter, demonstrating the decline in speculative pipeline development.

The East Midlands remained dominant in its share of UK take-up with a rolling twelve-month average of 41.9%, and positively the West Midlands takes second place. This take-up is compared by square footage with the East Midlands typically leading the way due to the large number of big box, especially over 500,000 sq ft, transactions. When looking at the number of transactions, the West Midlands outperformed the East Midlands in Q1 2024, completing five transactions as opposed to the East Midlands two, demonstrating the strong demand for the West Midlands region.

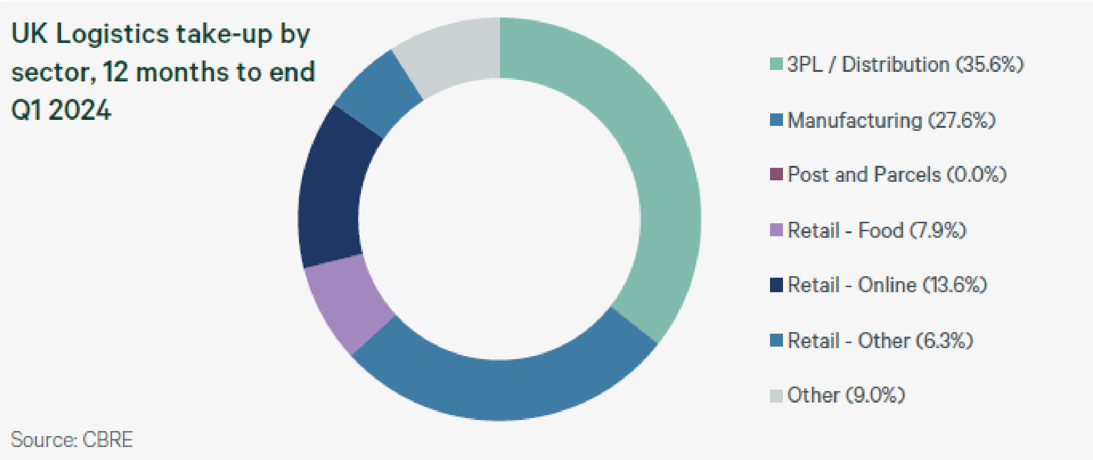





Q1 2024 has seen a larger proportion of smaller box (100k-300k sq ft) units being taken this quarter. The average deal size in the quarter was 223k sq ft, this is lower than the 12-month rolling average of 273m sq ft

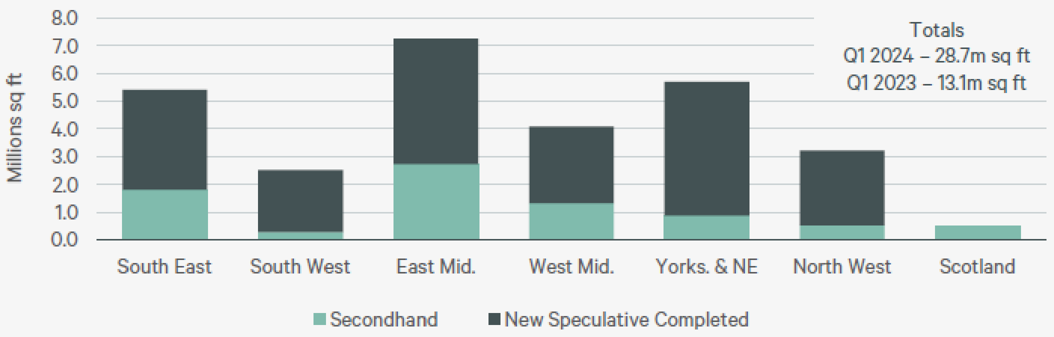
The majority of Q1 2024 take-up was in the 3PL (56.5%) and manufacturing (26.7%) sectors




In Q1 2024 the UK vacancy rate rose 22bps to 5.28%, this rise is less sharp than the previous quarters' increases of 53bps in Q4 and 117bps in Q3 2023, highlighting the reduction in pipeline supply.

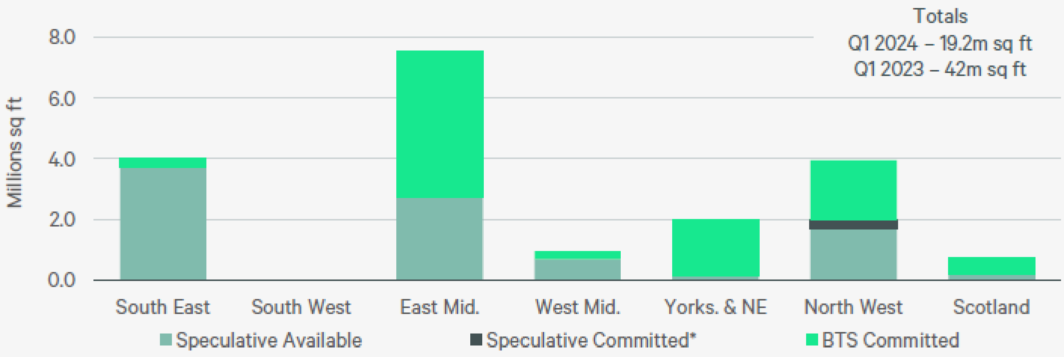
The total space under construction this quarter was 19.2m sq ft, 10.4% down QoQ, of which BTS space totalled 9.7m sq ft. Space under construction is now broadly in line with the pre-pandemic averages of 21.2m sq ft in 2018 and 19.1m sq ft in 2019

**Ready-to-occupy supply – end Q1 2024**




Source: CBRE

**Development pipeline (under construction) – end Q1 2024**




Source: CBRE

*Committed indicates either pre-let or under offer

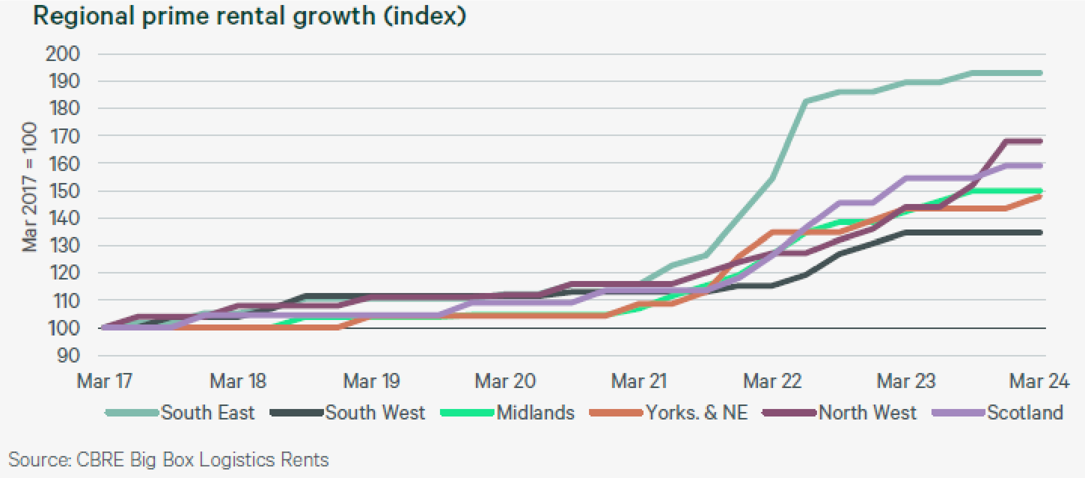
There has been an increase in ready-to-occupy available space nationally when comparing Q1 2024 figures with Q1 2023. However, the majority of this increase is due to the availability of grey space (availability via sublease or assignment) and existing second hand stock. These products often trade at a discount to market rent and can offer lease flexibility for occupiers looking for short term space. As a result, the ready-to-occupy availability for occupiers looking for high quality, long term, business continuity and expansion space is significantly diminished when grey space and second-hand stock is stripped out.

The lack of new build, high quality availability is heightened even more when looking at the development pipeline which has more than halved since Q1 2023, further constraining supply as less development is brought forward.

Another factor in the limited pipeline availability within the West Midlands is the lack of “sites of scale”. Occupiers focus has changed over the past three years with a direction of consolidation and modernisation. The West Midlands being a region that has for many years been popular with industrial and warehouse users alike, has meant that the region suffers from any land availability to satisfy these larger requirements. The M42 corridor as mentioned is extremely well placed to satisfy this pent up demand when compared to other areas such as the Black Country and Birmingham.

## Rents

Prime rents remained stable throughout the UK, only the Yorkshire and the North East region saw an increase of 3% QoQ.




The West Midlands has seen consistent and sustained rental growth since the beginning of the pandemic. This is most notable when comparing the West Midlands to the East Midlands. Historically the West Midlands lagged c.£0.50 – £1.00 per sq ft behind the East Midlands. However, due to the constrained supply and high demand for the West Midlands, this market now achieves rental values in line and in some cases in excess of the East Midlands. This growth has been fuelled by occupiers desire realign their supply chain in strategic prime locations close to population centres, coupled with a continued shortage of supply.

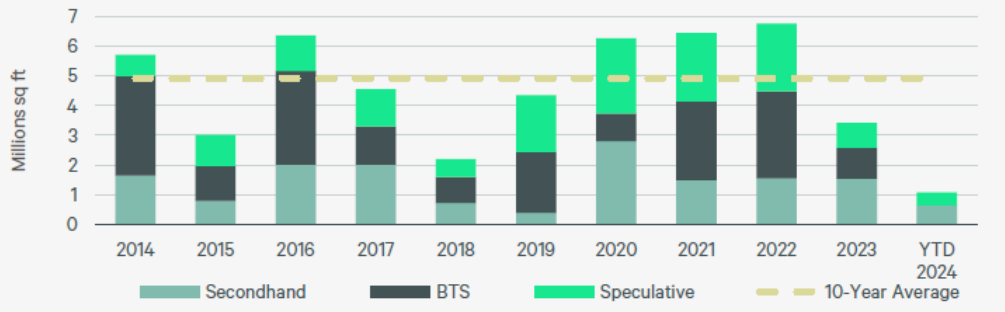
## West Midlands Market Overview

Take-up in the West Midlands totalled 1.1m sq ft across five deals in Q1 2024, almost double that seen in Q4 2023. Demand predominantly came from the 3PL sector, with one deal coming from the manufacturing sector

At the end of Q1 2024 the region saw 4.8m sq ft of available space, decreasing for the second consecutive quarter. Available space was made up of 58% new completed speculative space, 28% second hand, and 14% speculative space under construction. The vacancy rate increased to 4.80% in Q1 (from 4.52% in Q4 2023) due to a 1m sq ft increase of available newly completed speculative stock

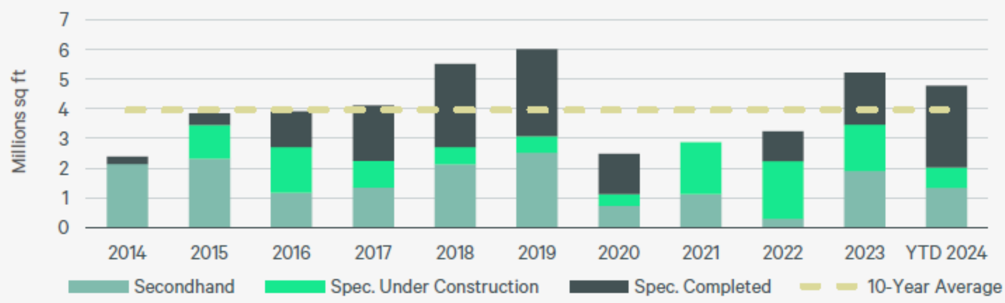
Prime big box rents for the West Midlands remained stable at £9.75 psf, as did the prime yield at 5.25%

West Midlands Logistics take-up – Q1 2024




Source: CBRE

West Midlands Logistics availability – Q1 2024




Source: CBRE

Whilst the take-up Q1 2024 bar appears to be low in comparison to previous whole years, the West Midlands has experienced a strong start to 2024. The majority of activity and transactions typically occur in the latter half of the year, and therefore the West Midlands has seen above average activity for Q1 2024. As can be seen in the take-up graph, Build-To-Suit transactions accounted for a large proportion of the market in 2021 and 2022 and include single transactions of over 500,000 sq ft. When analysing take-up for speculative development and existing stock, therefore removing single one-off transactions, the West Midlands has consistently performed and Q1 2024 is in line with previous years. The concern looking ahead is that the West Midlands may not be able to achieve the level of speculative development take-up as seen in previous years due to the lack of current and pipeline development. This is further highlighted in the West Midlands availability graph and the continued decline in speculative under construction space which is crucial for market growth and progress.

With speculative development decreasing, the West Midlands has less than 12 months supply based on current and forecast take-up. This further highlights, that whilst there might be current availability showing above the 10-year average, it is a very short term solution for the region and lacks the breadth and depth in development required for future and sustained growth.

The current vacancy rate of 4.8% is significantly lower than the 12% experienced after the Global Financial Crisis and is forecast to fall during 2024 due to the aforementioned lack of development coming to the market.

Looking specifically at the M42 corridor and units over 100,000 sq ft, of the 4.5 million sq ft that has been built over the past 2 years, only just over 600,000 sq ft remains available split across three units, providing one quarters take up of space.

Of the three available units only one is located in the immediate vicinity of the subject site, with a number of interested parties. There are currently no units under construction or identified to begin construction in 2024.

## Market Summary

Due in large part to the growth of e-commerce and the onshoring of manufacturing and assembly following Brexit, coupled with the COVID-19 pandemic, the UK logistics market was extremely active from 2018 into 2021.

Whilst there was a slight recalibration in the market during the latter half of 2022/early 2023 due to the rise in interest rates, inflationary pressures in the economy and construction cost increases, the market has stabilised and activity in the logistics sector remains positive and buoyant

With construction costs stabilising, economic pressures softening and tenant demand remaining strong, especially in the West Midlands for prime strategic sites, new and pipeline development is in a position to be very successful and would be received extremely positively by occupiers and the logistics sector.

In addition, the make up of modern logistics and manufacturing has changed considerably over recent years. The variety of jobs that can be sustained within these facilities is much more diverse, with a stronger mix of skilled workforce including the likes of engineers, IT technicians and Research and Development. Aesthetically, modern buildings present significantly better than they did 10 years ago, and are no longer considered the eye sores that they have in the past.

# M42 Corridor Analysis

## Supply and Demand Dynamics

- The M42 corridor, particularly J9, has always experienced a high level of demand due to its location, labour force and ability to reach 90% of the UK population within 4 hour HGV drive time. It provides direct connectivity to the M6, M6 Toll, M1, M5 and M40 motorways, facilitating efficient transportation across the UK.
- Occupier demand is extremely strong for the M42 due to its proximity to key transport hubs. The subject site in particular is located close to Birmingham International Airport, Birmingham International Train Station, and Hams Hall Intermodal Rail Freight Terminal. This facilitates seamless integration of road, air and rail transport, critical for local, national and international occupiers, especially when supply chains are under increasing strain.
- The rise in e-commerce has played a vital role in the demand for strategically located prime industrial sites in the UK. The increase in next-day or same-day delivery services has directly impacted demand for industrial and logistics space. Again the strategic nature of the site makes it a preferred choice for occupiers.
- Occupiers seeking “best in class” accommodation is more prevalent than ever due to occupiers becoming acutely aware of the industry impact on the climate and therefore the need to meet sustainability and ESG requirements.
- However, occupiers are struggling to meet these goals with existing warehouse space due to their inefficiency and therefore further development would create highly-specified warehouses with energy-efficient systems attracting 5A1 occupiers.
- As mentioned, the M42 corridor currently has no new build speculative industrial units under construction, in addition to no committed pipeline speculative development in the foreseeable future.

- This lack of speculative development coupled with a scarce supply of good quality existing available space is prohibiting occupiers acquiring space in the area and deterring national and international occupiers.
- The M42 corridor is not able to provide occupiers with the quality of space that meets their own ESG and CRS agendas, resulting in this particular industrial market losing occupiers, which further hinders attracting other high quality global occupiers.
- Furthermore, the lack of active and pipeline development schemes on the M42 corridor is forcing occupiers that would naturally want to be in this strategic location to consider other areas, typically the East Midlands due to its more mature and committed development pipeline.

## Occupier Specifics

- J9 of the M42 will continuously attract logistic operators and 3PL's due to proximity to transport hubs and its ability to reduce delivery times across the UK due to the central location.
- However, in addition to this, the location also appeals to manufacturing and automotive industry due to its access to a strong labour supply, and key manufacturers and suppliers such as JLR at Mercia Park and BMW at Hams Hall.
- It also appeals to the aerospace industry given the nearby presence of Birmingham Airport, along with Research & Development occupiers as a result of the universities and research institutions in the region.
- The above provides a snapshot of the plethora occupiers that would be attracted to a development scheme along the M42 corridor. Not only would these high quality occupiers further complement the current occupier landscape, but the symbiotic nature created would further attract innovative businesses to the area.
- The table below details occupier demand for region, more specifically those that would want to locate at Junction 9 of the M42:

| OCCUPIER | SIZE (SQ FT) | LOCATION | COMMENTS |
|---|---|---|---|
| NMS UK | 100,000 – 200,000 | West Midlands | MoD defence contractor. FH or LH. Coventry / Leicester / Tamworth. |
| Evri | 50,000 – 150,000 | West Midlands | LH. B8. Require occupation asap. |
| Lotus Cars | 50,000 – 100,000 | Warwickshire | LH requirement for B8 / B2 for expansion. |
| Rockwool | Up to 1,000,000 | M42 Warwickshire | Looking for a new bespoke manufacturing facility. |
| Schumacher Packaging | Up to 750,000 | M42 Warwickshire | Looking to expand out of space near Birmingham Airport for a new packaging facility. |
| Latham Timber | c.200,000 | Midlands | Will consider existing, U/C, and D&B options. |
| Subsidiary of Tata Group | 50,000 – 100,000 | West Midlands | B2 requirement for production development |
| Primark | From 200,000 | National | LH. Preference for the Midlands due to location. |

| OCCUPIER | SIZE (SQ FT) | LOCATION | COMMENTS |
|---|---|---|---|
| Biesse | 30,000 – 60,000 | West Midlands | Manufacturing requirement to facilitate European network. |
| Shein | 150,000 – 250,000 | West Midlands | Chinese internet clothing retailer. LH. B8 use. |
| OBO Government Contract | c.100,000 | Midlands | B2/B8 use. LH immediate requirement. |
| Octopus Energy | 100,000 – 300,000 | Midlands / Golden Triangle | LH requirement for expansion. |
| DHL | 150,000 – 250,000 | Midlands | D&B preference |
| Partners in Logistics | 30,000 – 100,000 | Birmingham, Coventry, Leamington and surrounds | Require LH B8 unt, occupation asap. |
| AJS Parts | 30,000 – 100,000 | Midlands | LH. Expansion purposes. |
| Poundland | 150,000 – 300,000 | Birmingham & surrounds | B8 requirement for existing or units under construction. |
| Direct Line | 50,000 – 70,000 | M6 / M42 | Require high quality unit. Occupation during 2024/2025. |

## Regional Economic and Employment Benefits

- The unparalleled prime location and strong skilled labour supply ensure that the M42 corridor consistently appeals to national and international occupiers.
- Further development in this area would continue to create diverse and skilled jobs as occupiers adapt to sustain and grow their operations efficiently and effectively. Logistic occupiers seek skilled engineers for automated warehouses, whilst manufacturing R&D occupiers seek a high tech labour force that will contribute to innovation and productivity.
- The development of this talent would further attract high quality occupiers which in turn would attract and create numerous skilled jobs, creating a positive cyclical effect.
- The employment benefits from further development would positively impact the local and regional economy, attract investment and produce economic growth. This would lead to better infrastructure and services for the region.
- It would also ensure the area continues to be perceived and recognised as a prime destination for high quality occupiers, further fostering future development in a sustainable manner.

# Conclusion

In conclusion to this report, we feel that there is a very timely and opportune moment to capitalise on the ongoing demand for well-located logistics space , of scale on the M42 corridor.

Many occupiers are now becoming acutely aware of the lack of existing stock and the limited pipeline supply and are therefore factoring in the associated timeframes of development in their business planning.

This site offers a fantastic opportunity to develop what would be considered a prime site in the region. The Midlands is currently responsible for c. 58% of all take up in the UK so far this year (over 100,000 sq ft), continuing to demonstrate the demand for the region and attraction to industrial and logistic occupiers.

We are seeing, and expect to see, a robust level of enquiries for space within the region for the following reasons:

- Lack of immediately available speculative space
- Market stability due to land transactions taking place
- On shoring via Brexit
- Continued rise of E-commerce
- Increase in manufacturing and R&D occupiers

We have had various discussions with a number of major 3PLs and manufacturers, all of which have a desire within their business plans to occupy space of at least BREEAM Excellent over the next 5 - 7 years. Therefore, speculative development providing this space will be positively received by the market due the current lack of new build supply and inefficiencies of existing buildings.

As a final point, we are now very much in a post covid environment, with what we would consider a normalised market not dissimilar to 2018. Given the current lack of prime speculative development pipeline, occupiers are now allowing themselves much more time to source the right solution for their business, being proactive rather than reactive.

# Thank you

For more information

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