

NORTH EAST

Logistics and Industrial Commentary

H2 2015 Review

- Take up of units in excess of 50,000 sq ft reached 1.1m sq ft in H2, down 3% on the first half of the year. This brings the total for 2015 to 2.2m sq ft, compared with 2.4m sq ft in 2014.
- Occupier take up in H2 was boosted by the 441,000 sq ft development of an additional warehouse facility in Sunderland by Vantec Europe to service the Nissan car plant. Vantec also took a 97,000 sq ft unit on the adjacent Pattinson Industrial Estate, for a related customer.
- Falling oil prices are adversely affecting occupier demand for engineering space in the region which is heavily dependent on the North Sea oil industry, and which for the last five or six years has enjoyed significant take-up.
- Lack of new development in the market is putting pressure on the diminishing stock of second hand space. Of the 17 units available in this category (2.0m sq ft) only 4 are modern in appearance and of those, 3 are units within the Port of Tyne which may not be coming to the market as originally thought.
- Whilst new units are scarce, those that are available are establishing new rent levels but they are still not at rates which support viable development without grant assistance. The two larger lettings at Portobello Trade Park achieved £6.00 and £6.50 sq ft, respectively, although £6.00 sq ft was achieved at Team Valley 7 years ago. UK Land is on site developing an 11,000 sq ft unit at Queens Court, Team Valley which is being marketed at a rent of £8.25 sq ft.
- The investment market peaked at pre-recession yields in H2. A modern 28,000 sq ft unit let to Hermes Parcelnet Ltd with 6 years unexpired achieved a yield of 7.25% after costs, while a 33,000 sq ft unit let to Geopost with 7½ years unexpired is under offer at 7.2%.

Selected North East transactions in H2 2015

Address	Occupier	Size (sq ft)	Rent / Price (per sq ft)	Date
Kingsway, Team Valley, Gateshead	CCF	34,281	£205,000 pa	Sep-15
Unit 10 North Tyne Industrial Estate, Newcastle	Healthcare Environmental Group	18,325	£642,000	Aug-15
Western Approach, South Shields	Travis Perkins	89,886	£1,450,000	Aug-15
Hillthorn Business Park, Washington	Vantec Europe	441,000	Build Costs £23m	Jul-15
New York Ind Est, North Shields	End Clothing	52,909	£224,863	Jul-15

* Freehold transaction



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Q4 2015 Prime headline rents (£ per sq ft) ▼ / ▲ - movement expected to Q4 2016

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000+ sq ft
Newcastle / Gateshead	£6.50 ▲	£6.00 ▲	£5.75 ▲
Sunderland / Washington	£5.25 ▲	£5.25 ▲	£5.00 ▲
Durham	£5.25 ◀▶	£5.25 ◀▶	£5.25 ◀▶
Middlesbrough / Stockton	£5.00 ◀▶	£4.50 ◀▶	£4.00 ◀▶



Former Be Modern Premises at Western Approach, South Shields recently sold to Travis Perkins

Regional outlook

- 2016 will be quieter than 2015. Nissan continues to dominate the regional economy and although production of the new Infinity model was delayed, cars are now rolling off the production line and this has stimulated activity in the component and logistic sectors, particularly with Vantec's £23m warehouse investment.
- Hitachi's rail plant will come on stream later this year but production lines will not produce carriages until 2017, and the spin off from the plant is insignificant compared to Nissan's influence in the region.
- With little activity on site the prospect of establishing higher rental levels will be challenging, though there are a few small scale schemes, which could set new rent levels.