

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



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LOGIC: North East 2022 Review

Research, January 2023



MARKET OVERVIEW

Annual take up in the North East industrial market stood at 3.4 million sq ft in 2022, while vacancy rate falls despite acceleration in speculative development.

3.4 million sq ft
Occupier take up 2022

£582 million
Investment total 2022

Stable YOY
Prime annual rental growth

Owner-occupier self-builds dominate take up

After a strong third quarter of 2022 where 1.6 million sq ft of industrial space was taken up across the North East region, the final quarter witnessed a slowdown in take up for units over 50,000 sq ft, with just one deal completing. This brings the year end total to 3.4 million sq ft, 28% lower than the record levels seen in 2021, of 4.7 million sq ft.

2022 saw a number of manufacturing owner occupier self-builds boosting annual take up. In the final quarter, JDR Cables began construction on their new 742,709 sq ft cable manufacturing facility in Cambois, near Blyth, Northumberland, costing an estimated £130 million. Also notable is South Korean steel manufacturer SeAH Wind's 1.13 million sq ft factory at Teesworks, Middlesbrough which remains under way.

Manufacturing occupiers overall accounted for 71% of 2022 take up. This compares to 45% in 2021.



SIMON HAGGIE, PARTNER,
NEWCASTLE COMMERCIAL

"Q4 take up looks pretty thin, but in reality we are typically negotiating deals between 3 and 9 months before they legally complete and 2022 take up is more a reflection of a quiet summer for enquiries. The biggest blow regionally has been the collapse of the British Volt 30GWh Gigafactory, planned for a 93-hectare site near Blyth to serve the electric vehicle industry. The writing has been on the wall for this £3.8bn project for some time, because of its inability to raise the required funds, but not all hope is lost and there are reportedly a number of manufacturers ready to jump into their boots for this unique site."

Vacancy rate continues to trend downwards

The volume of immediately available space in the North East increased by 8.4% over the final quarter of 2022, to 2.3 million sq ft (units over 50,000 sq ft), however, it is 15% lower on an annual basis. This results in a vacancy rate of 4.9%, compared to 5.8% at end-2021. The majority of this space consists of older, second hand stock, with just one new build completion in Q4, at Turbine Business Park, Washington, adding to immediately available stock.

Uplift in speculative development activity

2022 saw speculative development activity accelerate in response to supply constraints in the North East. A total of 867,000 sq ft of space was under construction speculatively at year end, across eight units (units over 50,000 sq ft). This compares to just three units totalling 220,000 sq ft at the same point in 2021.

In Q4 2022, development started on-site on four units at Connect at Integra 61, Bowburn, in Durham, providing over 596,000 sq ft of new, high speculative warehousing. Construction also remains under way at the first phase of Hillthorn Business Park, Washington and at Turbine Business Park.

Portfolio sale boosts overall investment volumes

Industrial investment in the North East reached a new record high in 2022, of £582 million. This compares to £235 million in 2021, however, the acquisition of Project George by GIC Real Estate for £425 million in Q3 2022 significantly boosted the annual total. Activity slowed in Q4, with just £22 million invested.

2023 Outlook

While prime rents for units over 50,000 sq ft in Newcastle remained stable year on year, at £7.50 psf, average rental growth of 5.4% was recorded in the North East region (RealFor). Further modest growth in average rents of 1.7% is predicted for 2023. Enquiry levels remain active while the appeal of the region to manufacturers should support demand. However, wider UK economic headwinds including inflationary pressures and business rates rises could lead to business fall-out, most likely to be felt in the multi-let market.

OCCUPIER MARKET

3.4 million sq ft

Occupier take up
2022

71%

Manufacturing
take up

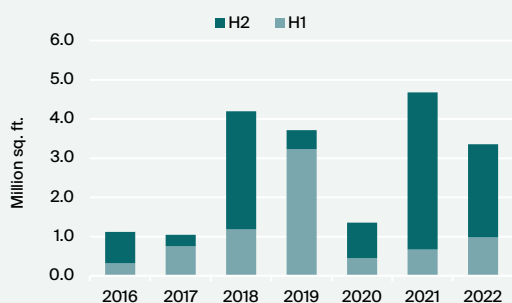
£7.50 psf

Prime rents

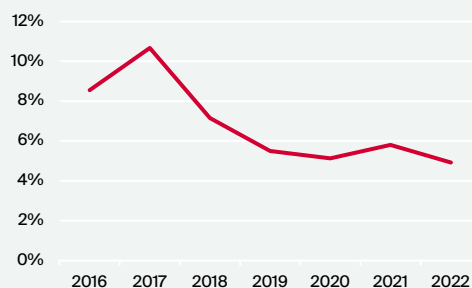
4.9%

Vacancy rate

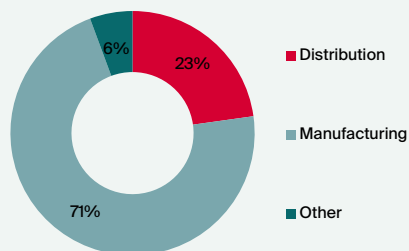
Take up (sq ft)



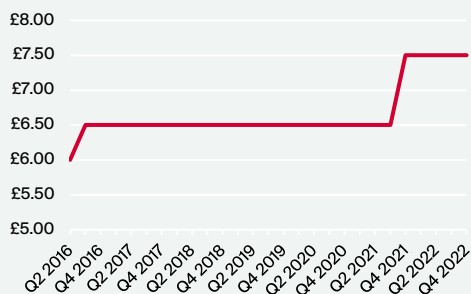
Vacancy rate (%)



2022 Take up by sector (sq ft)



Newcastle - Prime rents (£psf)



KEY OCCUPIER DEALS 2022

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Teesworks, Middlesbrough	1.13 million	SeAH Wind	Self-build	Owner occupier new build
Cambois, Blyth, Northumberland	742,709	JDR Cables	Self-build	Owner occupier new build
Greencroft Industrial Estate, Stanley	240,000	Lanchester Wines	Self-build	Owner occupier new build
Former Wavin Pipes, Meadowfield Industrial Estate, Durham	174,000	Pragmatic Semiconductor Ltd.	£3.47 psf	Second-hand
3 Cherry Blossom Way, Washington	100,815	Nissan Motor Manufacturing UK	£6.20 psf	Second-hand

Source: Knight Frank

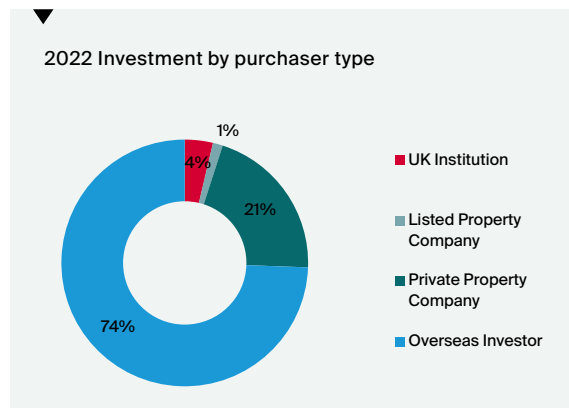
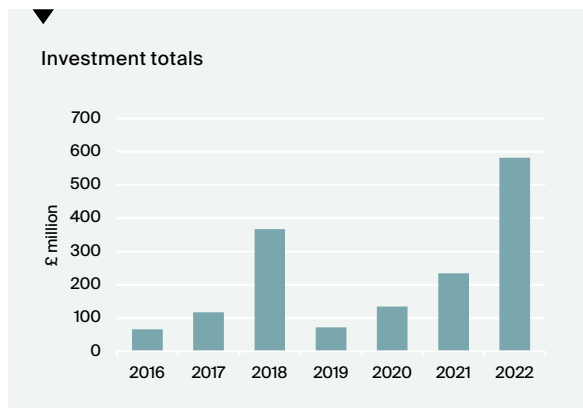
INVESTMENT MARKET

£582 million
Investment total 2022

£36.4 million
Average lot size

74%
Overseas capital

5.25%
Prime yield



KEY INVESTMENT DEALS 2022

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Project George Portfolio	Various locations	£425m	4.50%	GIC Real Estate	Northwood Investors
Integra 61	Durham	£75m	-	Sunrise Real Estate	Citrus Group
Velocity 194, Armstrong Road	Washington	£16.2m	4.00%	abr dn	Buccleuch Property
Drum Industrial Estate	Chester-le-Street	£11.8m	6.09%	Marcol Group Ltd.	Paloma Capital
Royal Mail, 9-10 Wearfield	Sunderland	£4.86m	5.20%	Columbia Threadneedle	Hanro Ltd.

Source: Knight Frank, Property Data

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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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