

LOGIC: North East



Q1 2023

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

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Occupier Market

Development pipeline anticipated to support uplift in take up this year.

SLOWDOWN IN OCCUPYER TAKE UP IN QUARTER ONE

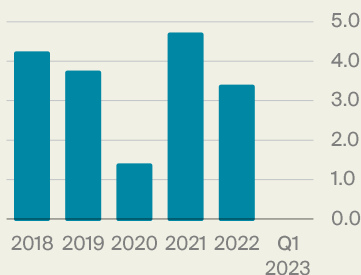
Following a robust final quarter of 2022 for industrial occupier take up in the North East, activity cooled in Q1 2023 with no transactions for units over 50,000 sq ft completing. Take up for the twelve months to end-March 2023 stood at 2.6 million sq ft, 49% lower than the comparable period the previous year.

Wider UK economic headwinds including inflationary pressures and business rates rises may have led to delayed occupier decision-making during the quarter. However, take up is expected to improve in quarter two, with enquiry levels active and a further 4% of all existing available space is under offer.

MANUFACTURERS DOMINATE TAKE UP

The past year has seen manufacturing firms look to the North East region, with 78% of the annual take up to Q1 comprising manufacturers. This is up from 46% over the comparable period last year. Demand from retailers has reduced, making up 10% of the annual total, compared to 44% over

Take up (sq ft)
millions square feet



Source: Knight Frank Research

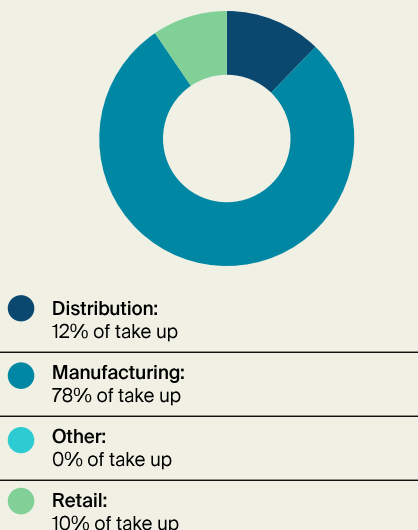
the same period the previous year.

STEADY DEMAND FOR NEW, SPECULATIVE UNITS

Robust occupier demand coupled with supply constraints in the region boosted appetite for development last year, as footloose occupiers look to the North East for opportunities that offer value for money. A total of 816,400 sq ft of space was under construction speculatively at the end of March, (units over 50,000 sq ft), 18% of which is under offer.

Phase 1, Hillthorn Business Park, Washington is due to be completed this year, while four units totalling 596,500 sq ft at Connect at Integra 61, Bowburn, in Durham, which are being built to a target EPC rating of 'A' and BREEAM 'Excellent' standard, are also due to be delivered this year.

Take up by sector
Q2 2022 - Q1 2023



Source: Knight Frank Research

MARKET VIEW

Stock levels increasing



BY SIMON HAGGIE, PARTNER,
NEWCASTLE LOGISTICS & INDUSTRIAL
AGENCY

“Despite the lack of transactions for units over 50,000 sq ft in Q1, in reality, enquiry levels are holding up and a number of both lettings and sales completed in sub 50,000 sq ft sizes during the quarter. There is some decent larger second-hand stock coming back on the market. In particular, Amazon are vacating a 100,000 sq ft building owned by Mileway in Viking Industrial Park, Jarrow.

New stock is completing at Sunderland Council’s Hillthorn Park development in Q2, the majority of which is pre-let. Citrus’ Integra 61 Connect scheme at Bowburn, Durham, is scheduled to complete in July, with strong interest reported in the 300,000 sq ft unit, which is the largest speculatively built shed in the North East. Kans & Kandy are also shortly to complete the refurbishment of a 98,000 sq ft building at Simonside, South Shields, previously occupied by Biffa.

Q2 will inevitably show a higher volume of take up for units over 50,000 sq ft, as construction delays to Hillthorn Park have carried its completion into Q2, while there are a number of other transactions which slipped past the financial year-end and are close to completing.”

Occupier Market

2.6 million sq ft

Occupier take up
(last four quarters)

5.3%

Vacancy rate
Q1 2023

£7.50 psf

Prime rents
Q1 2023

Stable YOY

Prime annual rental growth

“The supply of new, high-quality industrial space remains constrained.”

SUPPLY REMAINS CONCENTRATED IN OLDER STOCK

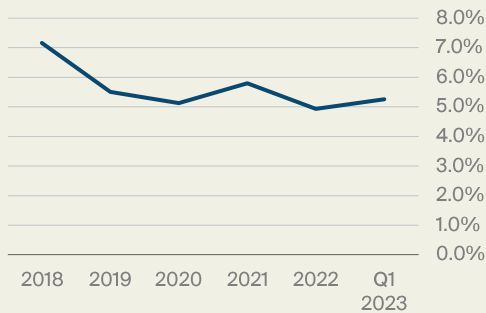
Availability of units over 50,000 sq ft increased by 6.7% in Q1, to stand at 2.4 million sq ft, with a vacancy rate of 5.3%. The vast majority of this space consists of older, second-hand stock (95%), while the supply of new, high-quality industrial space remains constrained. One new build completion in quarter one, at Turbine Business Park, Washington, added to the existing availability of newly built units.

RENTAL LEVELS & OUTLOOK

Reflecting the moderation in take up activity, prime rents for units over 50,000 sq ft in Newcastle have remained stable over the past year, standing at £7.50 psf at end-March.

Further average rental growth of 6.7% is predicted for the North East region for 2023, with higher expectations for Newcastle, of 8.7% (RealFor).

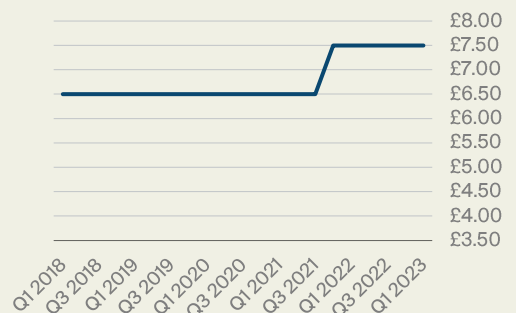
Vacancy rate
% of stock



Source: Knight Frank Research

“Prime rents for units over 50,000 sq ft in Newcastle have remained stable year on year, at £7.50 psf.”

Newcastle - Prime Rents
£ per sq ft (units >50,000 sq ft)



Source: Knight Frank Research

Investment Market

£70 million

Investment total
Q1 2023

£37 million

Average lot size
(last four quarters)

69%

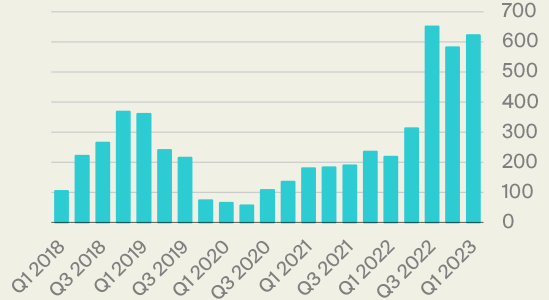
Overseas capital
(last four quarters)

5.75%

Prime yield
Q1 2023

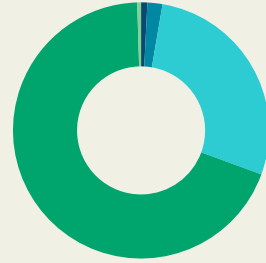
“The total invested for the four quarters to end-March stood at £623 million.”

Investment totals (£m)
(four quarter rolling)



Source: Knight Frank Research

Investment by purchaser type
Q2 2022 - Q1 2023



- **UK institution:**
0.5% of investment

- **Listed Property Company:**
2% of investment

- **Private Property Company:**
28% of investment

- **Overseas Investor:**
69% of investment

- **Private/Other:**
0.5% of investment

Source: Knight Frank Research

“Overseas buyers accounted for 69% of investment over the past year.”

INVESTOR ACTIVITY REMAINS ROBUST

Approx. £70 million worth of capital was invested into industrial property in the North East in Q1 2023. This brings the total for the four quarters to end-March to £623 million, with 69% coming from overseas investors. The annual total is up from £218 million over the same period the previous year and significantly ahead of the five-year rolling annual average for the region. A key deal in quarter one was North East Property Partnership purchasing a portfolio of three industrial assets from Columbia Threadneedle, for £24.1 million (NIY 8.75%).

Following the outward shift of prime yields in the latter half of 2022, prime industrial yields in the region remained stable in Q1 2023, at 5.75%.

Key Investment Deals

Q1 2023

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Dynamo Park, Cheltenham Road	Stockton-On-Tees	Undisclosed	-	Wilton Developments	Canmoor Asset Management
Northern Lights Portfolio	Sunderland	(3 units) £24.1m	8.75%	North East Property Partnership Ltd.	Columbia Threadneedle

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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