



# NORTH EAST

Logistics and Industrial Commentary H1 2012

**Knight Frank**



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## H1 2012 market commentary

- Take-up in the North East improved significantly in H1, reflecting the pick-up in demand seen towards the end of 2011 and the first quarter of 2012. Take-up for units in excess of 50,000 sq ft was 1.21m sq ft in H1, up 88% on H2 2011. Moreover, close to 2m sq ft was actually transacted in H1, once smaller deals and opportunistic purchases by property developers are included.
- H1's headline deal was Vantec Europe's pre-sale of a 421,000 sq ft warehouse facility in Washington, on land acquired from Wilton Developments adjacent to Nissan's plant. Washington also saw SNOP UK lease 150,000 sq ft and Fergusons Transport acquire a new 100,000 sq ft facility in H1.
- The above transactions reflect the positive effect that Nissan's expansion is having on activity, certainly in the Washington / Sunderland area. Proximity to Nissan's operations is commanding a notable premium in land values, with Vantec having agreed to pay £330,000 per acre for the Turbine Business Park site, roughly three times that of elsewhere in the region.
- The supply of new and modern units is fast diminishing and the only new large-scale units available are at Drum Park, Chester Le Street, where developers Evander Properties have two high bay warehouse units of 84,000 sq ft and 264,000 sq ft.
- Significantly, the sheer size of the Vantec deal means there is now a clear shortage of sites available in the most sought after locations which are capable of taking a new 100,000 sq ft+ unit.
- While headline rents have remained broadly unchanged over the last few years, the falling supply of modern space has undoubtedly led to a hardening of incentives over the first half of this year. Landlords on the more popular estates are now able to secure lettings with 9 to 12 months rent free for a 5 year term and 18 to 24 months rent free for a 10-year commitment, roughly half that of 12 months ago.

### Q2 2012 Prime headline rents (£ per sq ft)

▼ / ▲ - movement expected to Q2 2013

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000 + sq ft
Newcastle / Gateshead	£6.00 ▲	£5.00 ▲	£4.50 ▲
Sunderland / Washington	£5.00 ◀▶	£4.50 ▲	£4.00 ▲
Durham	£4.75 ◀▶	£4.25 ◀▶	£3.50 ▲
Middlesbrough / Stockton	£4.75 ▲	£4.00 ▲	£3.00 ▲



In May 2012, Fergusons Transport Ltd purchased a new 100,000 sq ft warehouse on Cherry Blossom Way, Washington, for £3.45m. Knight Frank acted for PKF Group, administrators for Easter Group.

## Regional outlook

- The strong first half of 2012 is now giving way to a quieter, more uncertain market. In our view, this is largely in response to the uncertainty created by the on-going turmoil in the Eurozone, with the North East's manufacturing fortunes relying heavily on exports to the area.
- With land supply now critically low in the Washington area, there is a growing case for the local planning authorities to consider the release of further strategic land for employment uses, particularly close to Nissan's operations.
- An absence of speculative development and a growing shortage of new and modern units will continue to put upward pressure of rental levels over the next 12 months, most notably for the larger size of units.

### Selected North East transactions in H1 2012

Address	Tenant	Size (sq ft)	Rent / Price (per sq ft)	Date
Stephenson Industrial Estate, Washington	SNOP UK Limited	151,037	£2.21	April 12
Cherry Blossom Way, Washington	Fergusons Transport Ltd	100,000	£34.50*	May 12
Turbine Business Park, Washington	Vantec Europe	421,000	£330,000 per acre	May 12
North West Industrial Estate, Peterlee	Tinsley Special Products Ltd	97,332	£2.56	June 12

\* Freehold transaction