

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



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LOGIC: North East 2021 Review

Research, February 2022



MARKET OVERVIEW

A new record achieved for occupier activity in the North East region in 2021, with take up reaching 4.7 million sq ft.

4.7 million sq ft
Occupier take up 2021

£237 million
Investment total 2021

15.4%
Prime annual rental growth

Record year for occupier activity

The fourth quarter of 2021 saw a further 189,800 sq ft of industrial and logistics space taken up in the North East region, bringing the total annual take up to a record high of 4.7 million sq ft (units over 50,000 sq ft). Boosted by a particularly strong third quarter which saw two large new builds completing, the annual total is over three times higher than 2020 volumes and stands 55% ahead of the five-year average of c. 3 million sq ft. The manufacturing sector dominated, accounting for 45% of take up in 2021.

Available units lack specifications required by modern occupiers

The total supply of available units over 50,000 sq ft stood at 2.7 million sq ft at the end of 2021, resulting in a corresponding vacancy rate of 5.7%. While this is slightly higher on an annual basis, the vast majority of this space consists of second hand units and is either

not immediately available or is unsuitable for occupier requirements.

Developers begin to respond to supply shortage for prime units

The strength of enquiries in the North East market coupled with the low levels of suitable stock is boosting appetite for development in the region, though much of the pipeline is already under offer.

Construction is under way at Hillthorn Business Park, Washington, which upon completion will provide almost 368,000 sq ft of new high spec warehousing (units over 50,000 sq ft). Over half of this space is due to be delivered towards the end of 2022.

Investment remains on an upward trajectory

Investment in industrial and logistics in the North East totalled £237 million in 2021, up from c. £100 million in 2020 and represents the third consecutive year of growth. Significant overseas capital flowed into the market during the year, accounting for 49% of the total.

The average weighted yield for assets transacted across North East region in 2021 was 6.8%, compared to 7.4% in 2020. A key investment deal was Butchers Lane, Spennymoor, acquired by Cromwell European REIT for £32.3 million in December 2021.

2022 Outlook

Prime rents in the North East for units over 50,000 sq ft increased by 15.4% over the year, to £7.50 psf, while average rents rose by 6.1%. The forecast points to continued growth, with 4.8% forecast for 2022.

Despite a relatively modest forecast compared with other parts of the UK, the market continues to offer good relative value and this may encourage those occupiers who are relatively footloose or cost-sensitive to the North East market, given rapidly rising occupational costs in other regions.



SIMON HAGGIE, PARTNER,
NEWCASTLE COMMERCIAL

“We are seeing many more footloose big shed enquiries for the North East, which is largely borne out of frustration at the lack of stock across the country. There is little stock in the North East either, although we do have some schemes on site at last, but many are going under offer before the steel frame is up.”

OCCUPIER MARKET

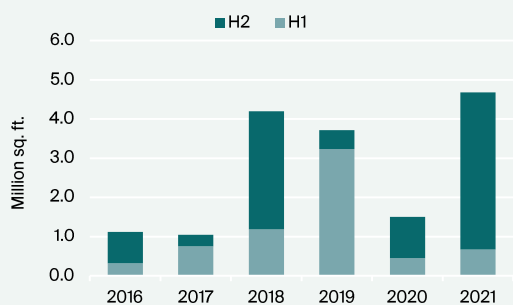
4.7 m sq ft
2021 occupier take up

45%
Take up from manufacturing sector

£7.50 psf
Prime rents

5.8%
Vacancy rate

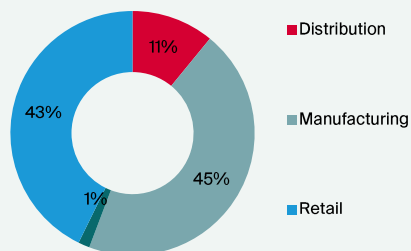
Take up (sq ft)



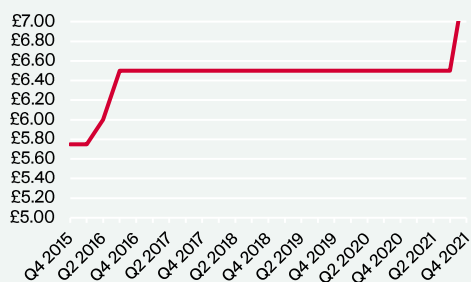
Vacancy rate (%)



2021 Take up by sector (sq ft)



Newcastle - Prime rents (£psf)



KEY OCCUPIER DEALS 2021

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Wynyard Business Park, Stockton	2,000,000	Amazon	-	Freehold
Former Blyth Power Station site, Cambois, Phase 1, Northumberland	1,556,550	British Volt	-	Build to Suit
Unit 7-8, Foxcover Distribution Park, Seaham	132,887	Panther Warehousing	£5.00 psf	-

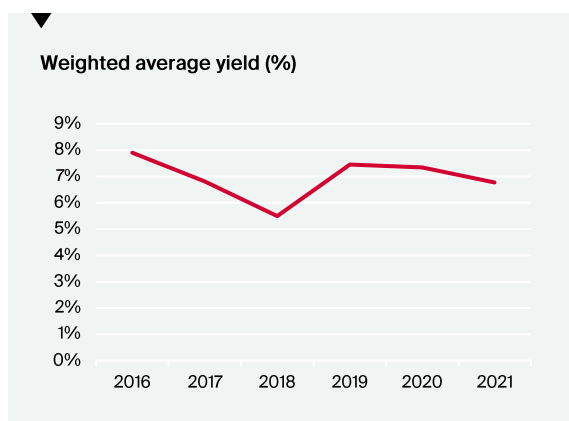
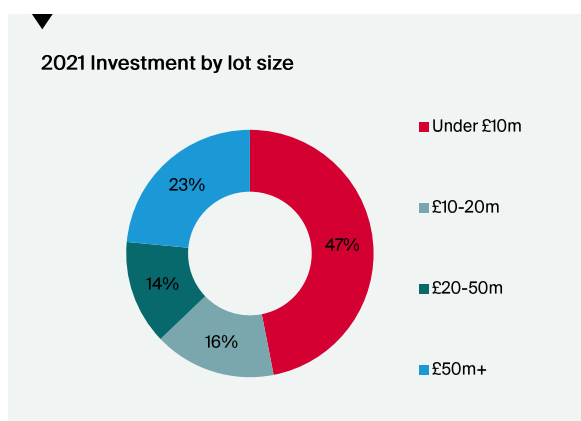
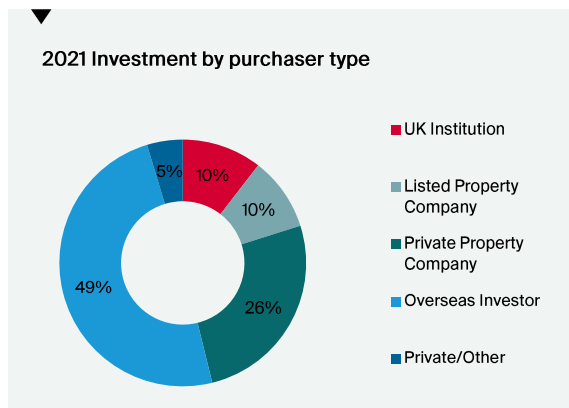
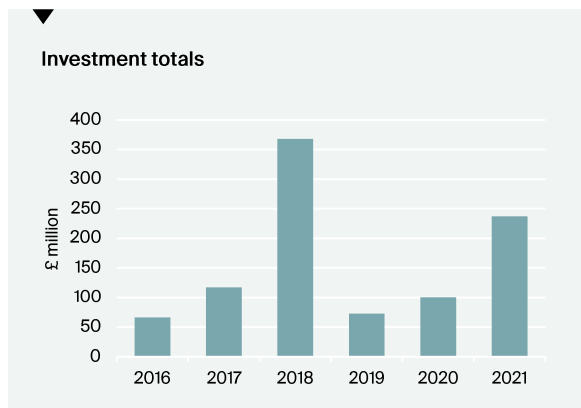
INVESTMENT MARKET

£237 million
Investment total

£6.6 million
Average lot size

49%
Overseas capital

6.8%
Average yield



KEY INVESTMENT DEALS 2021

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Butchers Lane	Spennymoor	£32.3m	6.24%	Cromwell European REIT	Shalimar Properties
The Galleries	Washington	£16.1m	-	Aberdeen Standard Investment	Undisclosed
Riverside Industrial Estate	Newcastle upon Tyne	£10.9m	6.80%	Stenprop Ltd.	AEGON Asset Management

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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