

LOGIC: North East



2023 Review

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

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Occupier Market

Supply levels boosted by development completions, but further speculative development is limited

OCCUPIERS PAUSE FOR THOUGHT DURING 2023

Occupier transactions of industrial units over 50,000 sq ft in the North East region totalled 1.2 million sq ft in 2023, 64% below the levels recorded in 2022. 2023 saw occupiers pause for thought, and both lettings and sales slowed amidst macroeconomic headwinds.

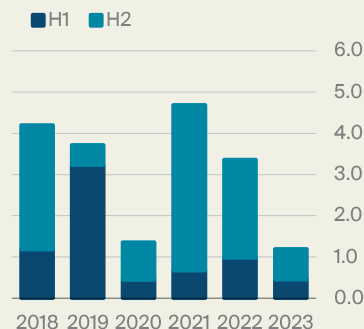
Eight deals completed in 2023, comprising a balanced mix of five leasehold and three freehold transactions.

One transaction completed in the final quarter; the 464,212 sq ft former Nestle plant in Fawdon, Newcastle, was sold to bakery business, Country Style Foods in December. Another notable deal in 2023 included Encore Packaging Solutions' freehold purchase of a 102,940 sq ft unit on Stephenson Road, North East Industrial Estate in Peterlee, for £3.5 million.

Manufacturers continue to dominate the industrial occupier market in North East region, comprising 69% of the year's take up volumes. The share of take up from distribution firms has risen to 20%, up from 9% in 2022, while retailers were less active in 2023.

Take up (sq ft)

million square feet



Source: Knight Frank Research

POSITIVE INTEREST IN NEW DEVELOPMENT

Three units totalling 220,000 sq ft are nearing practical completion at Phase 1, Hillthorn Business Park in Washington (units 50,000 sq ft+), Final handover is expected imminently with two of the three units under offer. Only Unit 5 (71,200 sq ft) is unspoken for.

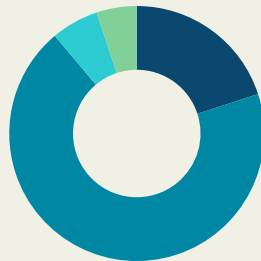
PRIME RENTS STABLE, BUT LOW RELATIVE TO UK AVERAGE

Prime industrial rents in the region remain stable at £7.50 psf (units over 50,000 sq ft), with headline rents in smaller units (under 20,000 sq ft) standing at £9.00 psf.

The region continues to offer favourable value for prime buildings relative to other parts of the UK. This may encourage footloose or cost-sensitive occupiers to the North East, particularly considering the higher occupational costs observed over the past 18 months.

Take up by sector

2023



● Distribution: 20% of take up

● Manufacturing: 69% of take up

● Other: 6% of take up

● Retail: 5% of take up

Source: Knight Frank Research

MARKET VIEW

Focus shifting to existing stock as speculative pipeline all but stops



BY MARK PROUDLOCK, PARTNER, NEWCASTLE LOGISTICS & INDUSTRIAL AGENCY

“Demand is holding up in spite of headwinds, but the time taken to complete transactions seems to have increased exponentially.

Some new schemes which have been long-awaited are on the verge of completion, with the majority of units either under offer or exchanged. With limited speculative schemes in the pipeline, attention is likely to shift to second-hand stock where we anticipate an increase in availability.”

Occupier Market

1.2 million sq ft

Occupier take up
2023

6.8%

Vacancy rate
Q4 2023

£7.50 psf

Prime rents
Q4 2023

Stable YOY

Prime annual rental growth

“Both lettings and sales have slowed amidst macroeconomic headwinds“

LIMITED SUPPLY OF NEW, LARGER UNITS

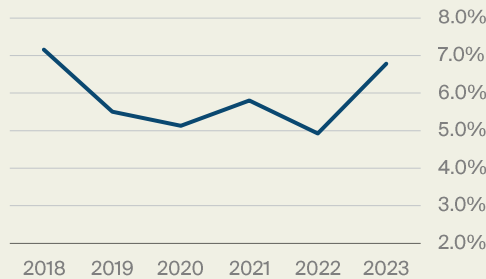
Supply levels of units over 50,000 sq ft increased by 40% during 2023, to 3.1 million sq ft, increasing the vacancy rate to 6.8% by year-end, from 4.9% one year ago. Approx. 647,000 sq ft of speculative space completed construction during the year, including units at Connect at Integra 61, Durham, the largest speculatively built industrial scheme in the region in recent years. Yet, the supply of new, larger units is constrained, with only two newly developed units over 100,000 sq ft available.

A limited volume of good-quality, second-hand stock returned to the market in 2023, including Mileway’s 100,000 sq ft Enterprise House at Viking Industrial Park, South Tyneside, with such buildings attracting interest from occupiers.

2024 OUTLOOK

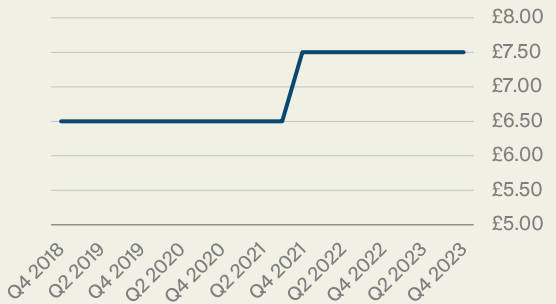
No further development is planned beyond that on site, providing narrow options for businesses seeking new and modern warehouse space, albeit we do anticipate some additional second-hand stock returning to the market. Looking ahead, average rental growth is expected to slow but remain positive, with 2.8% growth forecast for the North East region for 2024, and 1.6% for 2025, according to RealFor.

Vacancy rate
% of stock



Source: Knight Frank Research

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



Source: Knight Frank Research

“Beyond the development that is on site, the pipeline is now limited”

Key Occupier Deals 2023

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Nestle plant, Fawdon, Newcastle	464,212	Country Style Foods	Confidential	Freehold purchase – Second-hand
Hadrian Yard, Wallsend	160,000	Smulders	Confidential	Pre-sold
Stephenson Road, North East Industrial Estate, Peterlee	102,940	The Encore Group	£3.5m	Freehold purchase – Second-hand
Unit 1 Fiennes Road, North West Industrial Estate, Peterlee	100,340	The Storage Place	£5.00 psf	Second-hand
2 & 3 Stephenson Road, Stephenson Industrial Estate, Washington	94,079	Highly Marrelli UK	£4.01 psf	Second-hand

Source: Knight Frank Research

Investment Market

£107 million

Investment total
2023

£7.2 million

Average lot size
2023

49%

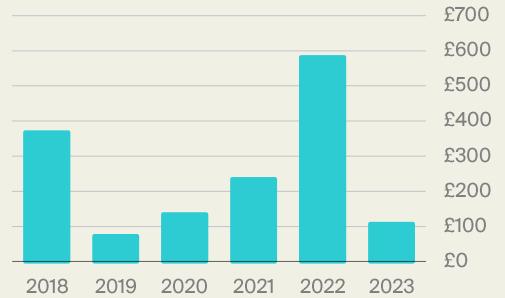
Investment by UK property companies
2023

6.00%

Prime yield
2023

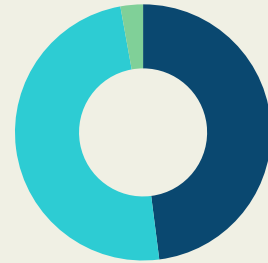
“£107 million transacted, 30% below the region’s five-year pre-pandemic average”

Investment totals
£m



Source: Knight Frank Research

Investment by purchaser type
2023



- **UK institution:**
48% of investment

- **Listed Property Company:**
0% of investment

- **Private Property Company:**
49% of investment

- **Overseas Investor:**
0% of investment

- **Private/Other:**
3% of investment

Source: Knight Frank Research

SLOWER YEAR FOR INVESTMENT

Investment into the North East industrial sector in 2023 totalled £107 million. This represents an 82% decline compared with 2022, though one large portfolio sale accounted for 73% of 2022 volumes, inflating the figures for that year. Instead, investment in 2023 was 30% below the region’s five-year pre-pandemic average.

In Q4, Ashworth IMS acquired Unit C & D, Viking Industrial Park in Jarrow, from Columbia Threadneedle for £2.4 million (NIY 6.71%). UK private property companies accounted for almost half (49%) of investment into the region last year, with UK institutions comprising a further 48%.

Prime industrial yields in Newcastle stood at 6.00% in Q4 2023 and appear to have stabilised.

“Prime industrial yields in Newcastle have stabilised”

Key Investment Deals

2023

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Radial 64	Washington	£51.5m	6.83%	Teesside Pension Fund	Aviva Lime Property Fund
Northern Lights Portfolio	Sunderland	(3 units) £24.1m	8.75%	North East Property Partnership	Columbia Threadneedle
Dynamo Park, Cheltenham Road	Stockton-On-Tees	£5.5m	-	Wilton Developments	Canmoor Asset Management
Bowburn North Industrial Estate	Bowburn	£4.9m	7.00%	Ward Group Investments Ltd.	Private
Unit C & D, Viking Industrial Park	Jarrow	£2.4m	6.71%	Ashworth IMS 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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