

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



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LOGIC: North East Q1 2022

Research, May 2022



MARKET OVERVIEW

Industrial occupier take up in the North East reached 5.1 million sq ft in the twelve months to March 2022, almost 3.5 times higher annually.

5.1 million sq ft
Occupier take up
(last four quarters)

£218 million
Investment total
(last four quarters)

15%
Prime annual rental
growth

Annual take up ahead of the five-year average

A robust opening quarter of 2022 was recorded for industrial occupier activity in the North East region, with 778,700 sq ft of space taken up (units over 50,000 sq ft), 90% ahead of Q1 2021 volumes. The total for the twelve months to end-March 2022 stood at an impressive 5.1 million sq ft, almost 3.5 times higher than the comparable period last year and significantly ahead of the five-year average. The rolling twelve-month total was boosted by a particularly strong Q3 2021, which saw two large new builds completing.

Both manufacturing and retail occupiers remain active, respectively accounting for 46% and 39% of activity over the past year.

Decline in supply of suitable modern stock

The total supply of available units over 50,000 sq ft declined by 21% in the first quarter, to stand at 2.1 million sq ft, resulting in a corresponding vacancy rate

of 4.6%. All of this space consists of second hand units, while a large proportion lacks the specifications required by the modern occupier.

Developers respond to demand for prime units

Robust occupier demand coupled with the decline in suitable stock is boosting appetite for development in the region, particularly as footloose occupiers are looking to the North East for new opportunities that offer value for money, as stock levels also diminish in the surrounding regions. With the current pipeline of new stock coming through, it is unlikely to change the dynamics of overall availability, as many of the vacant buildings listed currently will be let during Q2/Q3.

Construction remains under way at Hillthorn Business Park, Washington, which 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 this year.

Robust investor activity from overseas

Investment in industrial and logistics in the North East totalled £28 million in the first quarter of 2022, bringing the total for the four quarters to end Q1 2022 to £218 million invested. This is 21% higher on an annual basis and 28% ahead of the five-year rolling four-quarter average. Over half of the capital deployed in the North East over the past twelve months has been from overseas investors.

The average weighted yield for assets transacted across the North East region over the past twelve months was 6.4%, compared to 7.0% recorded in the comparable period last year.

Rental levels & Outlook

Prime rents in the North East for units over 50,000 sq ft have increased by 15.4% over the past year, standing at £7.50 psf at the end of Q1 2022. Average rental growth of 6.4% is forecast for the North East region in 2022. Newcastle is expected to see 5.2% average rental growth, while stronger expectations are forecast for the Sunderland market, at 6.5% (RealFor).



SIMON HAGGIE, PARTNER,
NEWCASTLE COMMERCIAL

“At last we are starting to see some meaningful development coming out of the ground in our region at asking rents that will raise the bar significantly above historic levels. That said, given the rate at which labour and material costs are increasing, those rental levels will need to move by another 25–50p psf in order to offset the rise in building costs, otherwise the rate of development will stall. The expectation or hope is that build costs will level off this year, but we are yet to see any evidence of that.”

OCCUPIER MARKET

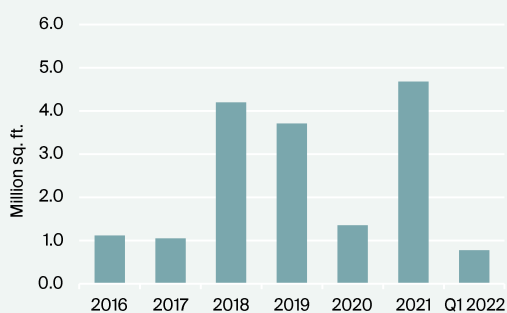
778,700 sq ft
Occupier take up
Q1 2022

46%
Manufacturing
take up
(last four quarters)

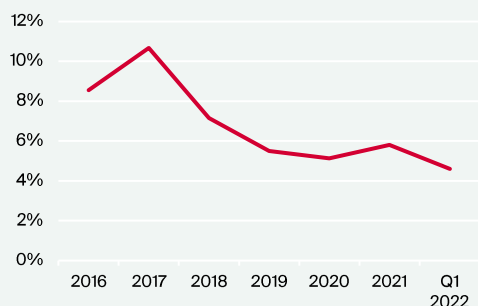
£7.50 psf
Prime rents

4.6%
Vacancy rate

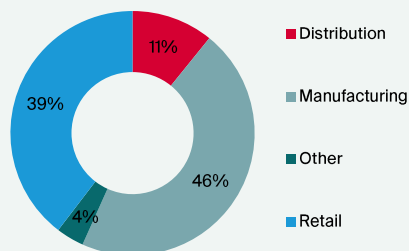
Take up (sq ft)



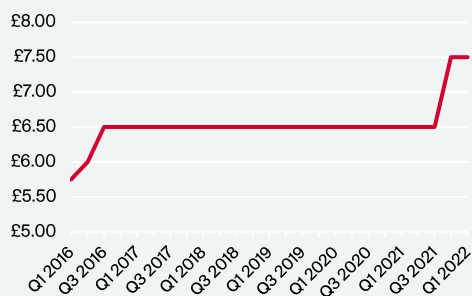
Vacancy rate (%)



Take up by sector (sq ft)
Q2 2021 - Q1 2022



Newcastle - Prime rents (£psf)



KEY OCCUPIER DEALS Q1 2022

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Northumberland Dock Road, Wallsend	186,530	Northumbrian Water	Undisclosed	Freehold purchase
Former Wavin Pipes, Meadowfield Industrial Estate, Durham	174,000	Pragmatic Semiconductor Limited	Undisclosed	Second hand
Unit 10, Rutherford Road, Washington	140,781	LWC Drinks Ltd	£6.5m	Freehold purchase

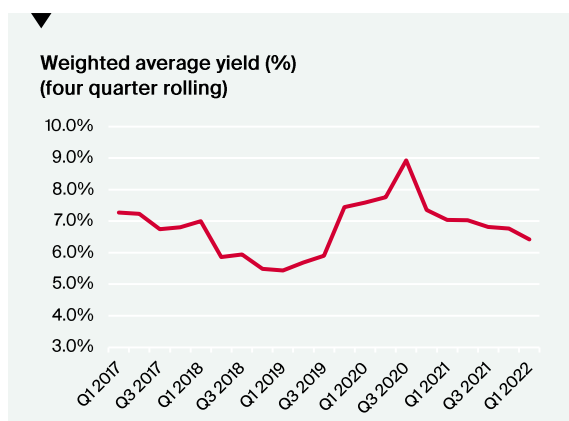
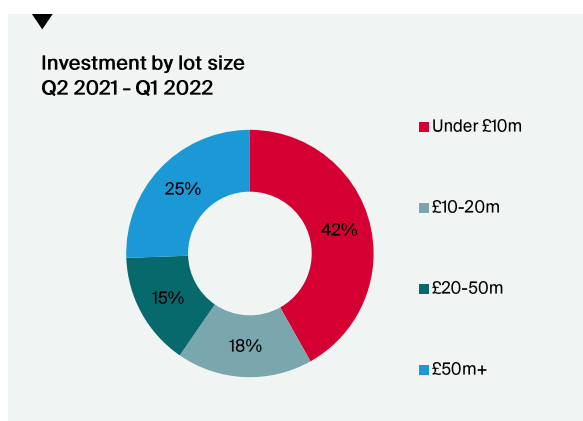
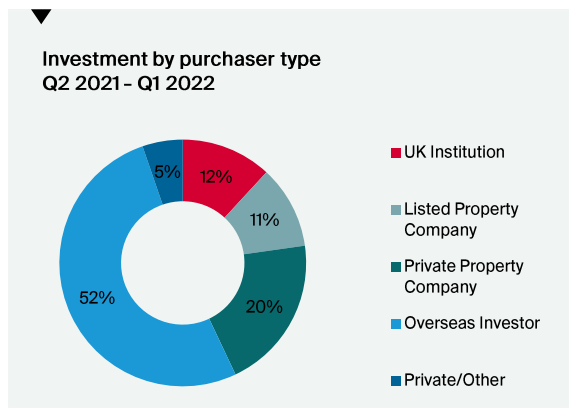
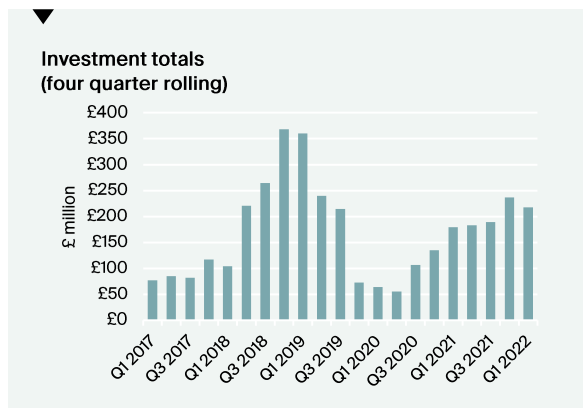
INVESTMENT MARKET

£27.9 million
Investment total
Q1 2022

£7 million
Average lot size
(last four quarters)

52%
Overseas capital
(last four quarters)

6.4%
Average yield
(last four quarters)



KEY INVESTMENT DEALS Q1 2022

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Velocity 194, Armstrong Road	Washington	£16.2m	4.00%	abrdn	Buccluech Property
Drum Industrial Estate	Chester-le-Street	£11.75m	6.09%	Unknown	Isec

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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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