

LOGIC: North East



Q1 2024

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

knightfrank.com/research



Occupier Market

Prime rents remain resilient, despite moderation in take up and upward trend in supply

MODERATE FIRST QUARTER FOR TAKE UP

Take up of industrial units over 50,000 sq ft in the North East region totalled 178,000 sq ft in the first quarter of 2024.

One freehold and one leasehold deal completed; 4 Opus Park, Preston Farm in Stockton-on-Tees (107,869 sq ft) was bought for occupation by Direct Line Supplies for £2.85 million. LV Shipping also agreed to lease a 70,000 sq ft unit at Teesside Industrial Estate in Thornaby.

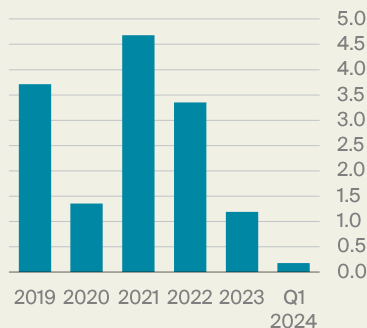
TRANSACTIONS TIMES HAVE LENGTHENED

Take up annually to Q1 2024 stood at 1.4 million sq ft. Similar to the UK-wide picture, the economic challenges of the past year have led to a significant lengthening in the time taken for occupiers to complete transactions. This has resulted in a 47% reduction in annual take up volumes in the North East, compared to the same four-quarter period last year.

DISTRIBUTION FIRMS REMAIN RESILIENT

While manufacturers continue to dominate the North East industrial market, comprising 60% of the

Take up (sq ft)
million square feet



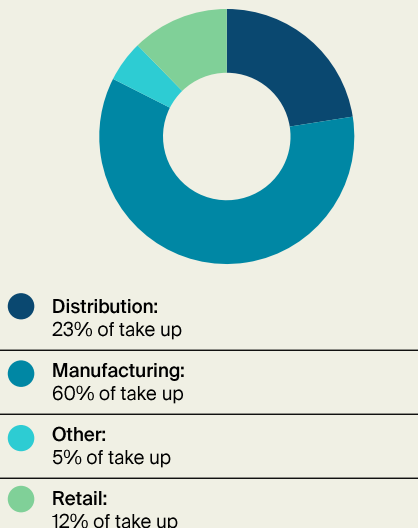
Source: Knight Frank Research

space occupied annually in Q1, the share of take up by distribution firms has risen to 23%, from 12% in the same period last year. In square footage terms, distribution firms have taken the same amount of space annually to Q1 as they did in the previous year, despite the reduction in overall volumes.

SECOND-HAND TAKE UP RISES

With limited new development coming to the market and schemes close to completion largely under offer, occupiers have had to increasingly rely on second-hand stock returning to the market. As a result, despite the year-on-year decline in overall take up, the volume of space occupied that is second-hand has increased, accounting for 78% of the yearly total to Q1, up from 18% recorded in the year to Q1 2023. We do anticipate an increase in new-build lettings next quarter, as long-awaited schemes reach completion.

Take up by sector
Q2 2023 – Q1 2024



Source: Knight Frank Research

MARKET VIEW

Speculative schemes remain few and far between



BY MARK PROUDLOCK, PARTNER,
NEWCASTLE LOGISTICS & INDUSTRIAL
AGENCY

“Speculative schemes breaking ground remain few and far between, with developers targeting pre-lets against a backdrop of increasing second-hand stock returning to the market.

Separately, the announcement that the proposed Britishvolt ‘gigafactory’ site in Blyth is under offer to US private equity firm, Blackstone Group, will hopefully secure the future of the 95-hectare former Blyth Power Station site. Plans to build one of Europe’s largest data centres is unlikely to deliver the number of jobs promised by Britishvolt, however, it is hoped it will deliver employment opportunity and a potential catalyst for a tech industry cluster in a comparatively deprived area of the North East.”

Occupier Market

178,000 sq ft

Occupier take up
Q1 2024

8.2%

Vacancy rate
Q1 2024

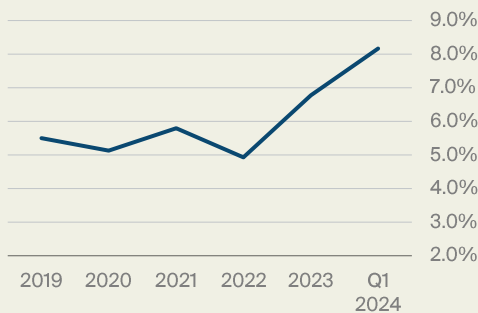
£8.00 psf

Prime rents
Q1 2024

6.7%

Prime annual rental growth

Vacancy rate
% of stock



Source: Knight Frank Research

“The volume of space occupied that is second-hand has increased“

SUPPLY BOOSTED BY THE RETURN OF SECOND-HAND SPACE

Supply levels are trending upwards; availability of units over 50,000 sq ft increased by 21% in Q1, to stand at 3.8 million sq ft. This was wholly driven by the return of second-hand space to the market and brings the vacancy rate to 8.2%, up from 6.8% recorded in the previous quarter. Second-hand stock accounts for 81% of all immediately available space, while 91% of the number of units available are under 250,000 sq ft in size.

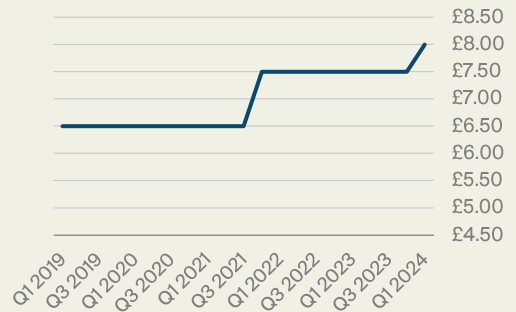
At the end of Q1, 622,000 sq ft of space was under construction speculatively (units over 50,000 sq ft). Phase 1 at Hillthorn Business Park is due to complete imminently, while ground was broken on Greenbox, Darlington in Q1. The Greenbox development comprises three units of 84,000, 105,000 and 213,000 sq ft, with practical completion due for December 2024.

RENTAL LEVELS & OUTLOOK

Prime industrial rents in Newcastle for units over 50,000 sq ft are 6.7% higher on an annual basis, standing at £8.00 psf in Q1 2024. Looking ahead, average rental growth forecasts for the North East have been revised upwards for 2024, to 4.7%, with 4.0% forecast for Newcastle, according to RealFor.

Newcastle - Prime Rents

£ per sq ft (units over 50,000 sq ft)



Source: Knight Frank Research

“Prime rents in Newcastle for units over 50,000 sq ft are 6.7% higher annually, at £8.00 psf”

Key Occupier Deals Q1 2024

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
4 Opus Park, Preston Farm, Stockton-on-Tees	107,869	Direct Line Supplies	£2.85 million	Freehold purchase – Second-hand
Unit 70 Teesside Industrial Estate, Thornaby	70,000	LV Shipping	£2.75 psf	Second-hand

Source: Knight Frank Research

Investment Market

6.00%

Prime NIY - Newcastle
Q1 2024

+25 bps

YOY movement in prime yields

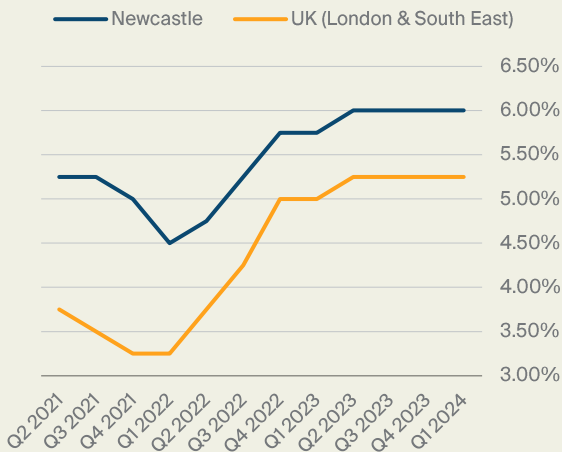
INDUSTRIAL INVESTMENT VOLUMES REMAIN CHALLENGED

Investment transactions in the region remain limited due to the misalignment between buyers' and sellers' pricing expectations. However, at the prospect of base rates being reduced later this year, combined with the region's continued rental growth prospects, we are seeing investor optimism re-emerge, albeit cautiously.

Prime industrial yields in Newcastle remained stable for the fourth consecutive quarter, at 6.00%, having softened by 150 bps since the turn of the market in Q2 2022. The timing of yield compression will now largely rely on when base rates are reduced, later this year.

Prime Yield

Net initial yield %



Source: Knight Frank Research

MARKET VIEW

Demand driven by lack of development pipeline and rental growth prospects



BY DICKON WOOD, PARTNER,
NEWCASTLE LOGISTICS & INDUSTRIAL
CAPITAL MARKETS

“Industrial assets, particularly those located in prime corridors such as A1(M) and A19, present compelling opportunities for investors.

Modern facilities or refurbishment projects in key areas like Washington, Gateshead, Sunderland, and Durham are in demand, driven by the lack of development pipeline and promising rental growth prospects.”

We like questions, if you've got one about our research,
or would like some property advice, we would love to hear from you

**Logistics & Industrial
Research**

Claire Williams
claire.williams@knightfrank.com
+44 20 3897 0036

Deirdre O'Reilly
deirdre.oreilly@knightfrank.com
+44 20 3995 0785

**Newcastle Commercial
Logistics & Industrial Agency**

Simon Haggie
simon.haggie@knightfrank.com
+44 191 594 5009

Mark Proudlock
mark.proudlock@knightfrank.com
+44 191 594 5019

**Newcastle Commercial
Capital Markets**

Dickon Wood
dickon.wood@knightfrank.com
+44 191 594 5036

Valuation & Advisory

Adam Harley
adam.harley@knightfrank.com
+44 191 323 3286

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.



© Knight Frank LLP 2024. This document has been provided for general information only and must not be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this document, Knight Frank LLP does not owe a duty of care to any person in respect of the contents of this document, and does not accept any responsibility or liability whatsoever for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. The content of this document does not necessarily represent the views of Knight Frank LLP in relation to any particular properties or projects. This document must not be amended in any way, whether to change its content, to remove this notice or any Knight Frank LLP insignia, or otherwise. Reproduction of this document in whole or in part is not permitted without the prior written approval of Knight Frank LLP to the form and content within which it appears.