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

LOGIC: North East Q2 2022

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MARKET OVERVIEW

While take up in the North East industrial market is hampered by a shortage of prime stock, delivery of new, speculative units should provide a boost later this year.

981,700 sq ft	£118 million	15%
Occupier take up H1 2022	*Investment total H1 2022*	*Prime annual rental growth*

Manufacturing occupiers leading take up activity

The first half of 2022 saw 981,700 sq ft of industrial and logistics space taken up in the North East region (units over 50,000 sq ft), 46% ahead of H1 2021 volumes. Take up for the six months to June was mainly driven by deals completing in the earlier months of the year. Occupier activity so far this year has comprised an even mix of both lease and owner occupier deals.

Take up for the 12 months to June 2022 stood at just under 5 million sq ft, with the rolling total boosted by a particularly strong Q3 2021, which saw two large new builds completing. Manufacturing occupiers remain the most active, accounting for 46% of space occupied over the past year and 57% of the number of deals completing.

Shortage of high quality space hampering take up

Overall the market continues to suffer from a shortage of good quality stock. This in turn is hampering take up volumes, though the level of speculative development coming through later this year should alleviate some of this pressure.

At the end of Q2 2022, the total volume of available space stood at 2.2 million sq ft (units over 50,000 sq ft), resulting in a vacancy rate of 4.7%. The vacancy rate has increased sightly on the previous quarter, driven by second hand stock coming back to the market as firms expand or upgrade to newer facilities, though it remains below where it was at the end of last year.

SIMON HAGGIE, PARTNER,
NEWCASTLE COMMERCIAL

"There is no question that the volume of enquiries is slowing, which is inevitable given the economic climate and given that we are in the middle of the holiday season. That said, there is still a healthy number of 100,000 sq ft+ enquiries in the market and, at present, there is still nothing of that size in the pipeline. Developing big sheds of this size in the North East is not for the faint hearted, but anyone brave enough to do so might just pick off some good quality lettings."

Uplift in speculative development activity

Developers have responded to the demand for prime units; construction remains under way at the first phase of Hillthorn Business Park, Washington. Phase 1 is due to be completed later this year and will provide over 363,000 sq ft of new, high spec warehousing across eight units, ranging between 21,500 - 83,000 sq ft. Three of these units will be over 50,000 sq ft on completion. A further 68,250 sq ft is also due to be completed at Turbine Business Park in Q3.

Investment activity robust alongside continued compression in average yields

Investment in the first six months of the year reached £118 million, more than double that of H1 last year. UK investors have been increasingly active, accounting for 44% of the capital deployed in the region over the past year, with 34% from overseas. This compares to 25% and 47%, UK vs foreign investment respectively, in 2021.

The weighted average yield recorded for assets transacted across the North East over the past 12 months was 6.4%. This is down from 7% recorded in the same period last year. The largest investment deal in Q2 was the forward purchase of Integra 61, Durham, by Sunrise Real Estate for £75 million.

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 in Q2 2022. Overall for 2022, average rents in the North East are forecast to increase by 5.2%, with Newcastle in particular forecast to see annual average rental growth of 7.2% (RealFor).

OCCUPIER MARKET

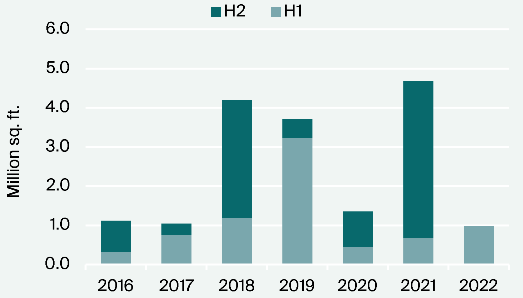
5 million sq ft
Occupier take up (last four quarters)

46%
Manufacturing take up (last four quarters)

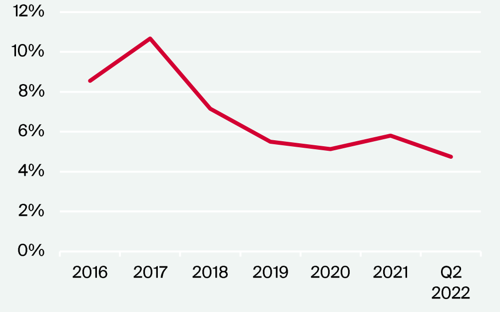
£7.50 psf
Prime rents

4.7%
Vacancy rate

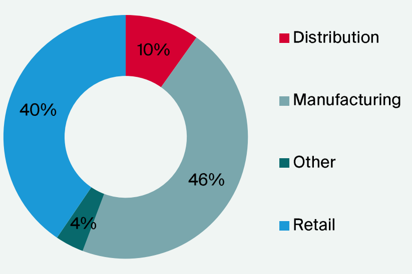
Take up (sq ft)



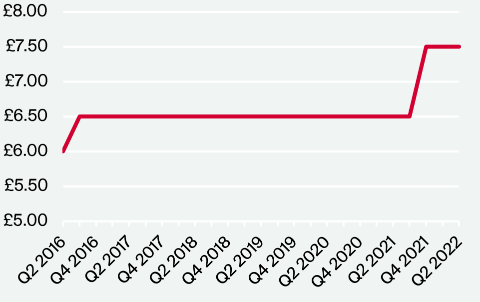
Vacancy rate (%)



Take up by sector (sq ft)
Q3 2021 – Q2 2022



Newcastle - Prime rents (£psf)



KEY OCCUPIER DEALS H1 2022

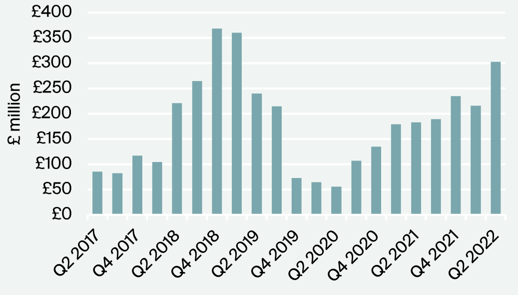
PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Northumberland Dock Road, Wallsend	186,530	Northumbrian Water	Undisclosed	Freehold purchase
Former Wavin Pipes, Meadowfield Industrial Estate, Durham	174,000	Pragmatic Semiconductor Ltd.	£603,000	Second hand
Rainhill Road, Washington	148,944	Hermes	Undisclosed	Freehold purchase
Unit 10, Rutherford Road, Washington	140,781	LWC Drinks Ltd.	£6.5m	Freehold purchase

Source: Knight Frank

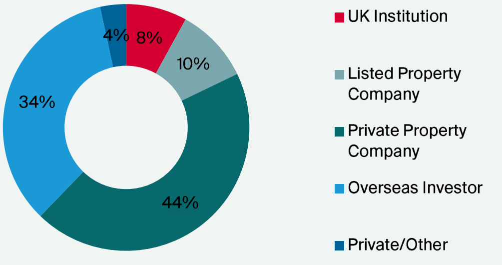
INVESTMENT MARKET

£303 million	£9.8 million	44%	6.4%
Investment total (last four quarters)	*Average lot size (last four quarters)*	*UK investment (last four quarters)*	*Average yield (last four quarters)*

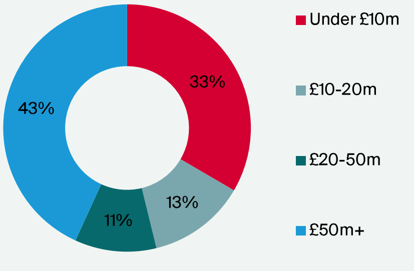
Investment totals (four quarter rolling)



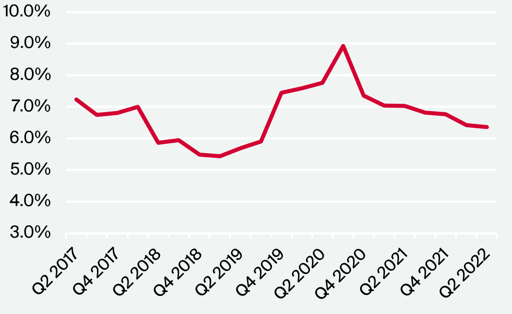
Investment by purchaser type Q3 2021 – Q2 2022



Investment by lot size Q3 2021 – Q2 2022



Weighted average yield (%) (four quarter rolling)



KEY INVESTMENT DEALS H1 2022

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Integra 61	Durham	£75m	-	Sunrise Real Estate	Citrus Group
Velocity 194, Armstrong Road	Washington	£16.2m	4.00%	abrdn	Buccleuch Property
Drum Industrial Estate	Chester-le-Street	£11.8m	6.09%	Marcol Group Ltd.	Paloma Capital

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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