

LOGIC: North East



Q2 2023

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

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Occupier Market

Supply of new, high-quality units remains constrained

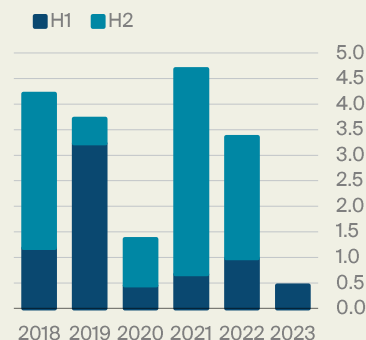
OWNER OCCUPIER SELF-BUILDS BOOST TAKE UP

The first half of 2023 saw almost 453,000 sq ft of industrial and logistics occupier transactions in the North East region (units over 50,000 sq ft). This is 54% below H1 2022, owing to wider economic challenges slowing the pace of activity as well as the shortage of available stock over 50,000 sq ft.

Take up for the twelve months to June 2023 stood at 2.8 million sq ft, and comprised five leasehold deals and four sales. Annual take up is 43% lower than the comparable period the previous year.

The North East market has increasingly seen occupiers look to build their own facilities, with self-builds accounting for 80% of take up over the past year. In the second quarter of 2023, steel construction company, Smulders, began construction on a new 160,000 sq ft, 50-metre high workshop at Hadrian Yard, Wallsend.

Take up (sq ft) million square feet



Source: Knight Frank Research

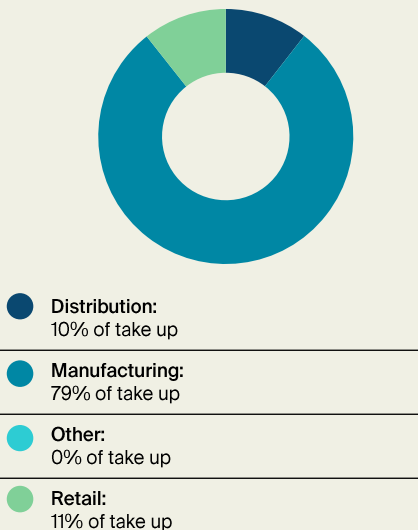
MANUFACTURING FIRMS DOMINATE

Despite the 54% annual decline on overall take up volumes, the amount of space committed to manufacturing firms decreased by just 1.7%. Manufacturers accounted for 79% of take up over the past year, up from 46% over the comparable period last year. In addition, demand from distribution firms has risen, with take up annually to Q2 increasing by 5.7% and comprising 10% of the total, compared to just 6% last year.

A key deal in quarter two was the pre-letting of a 138,000 sq ft unit at Symmetry Park, Darlington, to restaurant supply chain services provider, Martin Brower, at £10.30 psf.

Take up by sector

Q3 2022 – Q2 2023



Source: Knight Frank Research

MARKET VIEW

Deal sizes are smaller, due in part to the lack of available stock



BY SIMON HAGGIE, PARTNER,
NEWCASTLE LOGISTICS & INDUSTRIAL
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“The weakening economy coupled with the Easter holidays and the various bank holidays through May led to a quiet start to Q2. However, June was busier in terms of enquiries and despite ever-increasing interest rates, there seemed to be more activity and optimism in the market.

Deal sizes are definitely smaller, with little above 50,000 sq ft transacting, but this is in part due to the lack of available stock in that size range, which is reflected in the supply figures.

It also feels like we have hit a ceiling in terms of rents, which hit a high of £8.00 per sq ft for new stock last year on Team Valley, but interest has been limited for the available new stock quoted at £8.75 per sq ft this year.”

Occupier Market

453,000 sq ft

Occupier take up
H1 2023

4.2%

Vacancy rate
Q2 2023

£7.50 psf

Prime rents
Q2 2023

Stable YOY

Prime annual rental growth

“The supply of new, high-quality units accounts for just 6.2% of all existing available space”

SUPPLY OF NEW, HIGH-QUALITY UNITS REMAINS CONSTRAINED

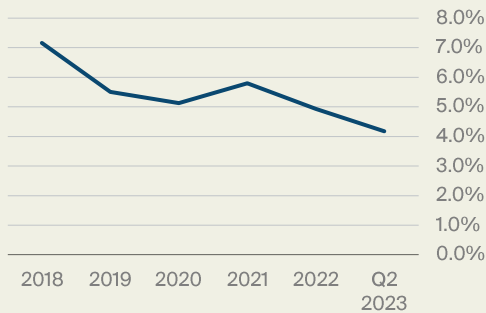
Availability of units over 50,000 sq ft decreased by 20% in Q2, to stand at 1.9 million sq ft. As a result, the vacancy rate declined to a record low of 4.2%, from 5.3% in Q1. The supply of new, high-quality units remains tight and accounts for just 6.2% of all existing available space, in two units.

A total of 816,400 sq ft of space remains under construction speculatively across the region (units over 50,000 sq ft). This spans across seven units, two of which are under offer. Schemes under way include Phase 1, Hillthorn Business Park, Washington, and Connect at Integra 61, Bowburn, in Durham. Both are due to be delivered this year.

RENTAL LEVELS & OUTLOOK

Reflecting a more moderate level of occupier take up, prime rents for units over 50,000 sq ft in Newcastle have remained stable over the past year, standing at £7.50 psf at end-June. Average rental growth of 5.8% is predicted for the North East region for 2023, with slightly higher expectations for Newcastle, of 6.1% (RealFor).

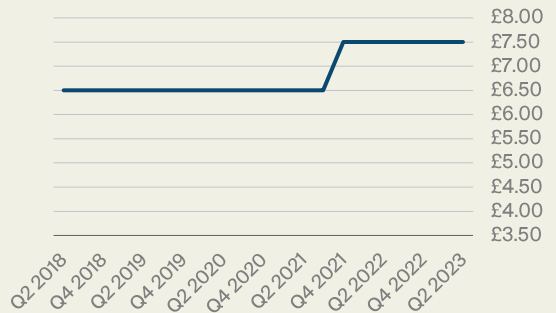
Vacancy rate
% of stock



Source: Knight Frank Research

“Prime rents for units over 50,000 sq ft in Newcastle have remained stable over the past year”

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



Source: Knight Frank Research

Key Occupier Deals H1 2023

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Hadrian Yard, Wallsend	160,000	Smulders	TBC	Pre-sold
Symmetry Park, Darlington	138,000	Martin Brower	£10.30 psf	Pre-let
2 & 3 Stephenson Road, Washington	94,100	Highly Marrelli UK	£4.01 psf	Second-hand

Source: Knight Frank Research

Investment Market

£104 million

Investment total
H1 2023

£10.3 million

Average lot size (excl. portfolio sales)
(last four quarters)

77%

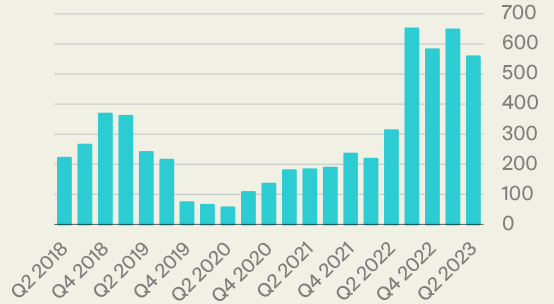
Overseas capital
(last four quarters)

6.00%

Prime yield
Q2 2023

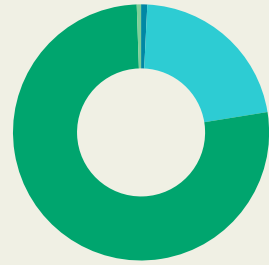
“The total invested for 12 months to end-June 2023 was £558 million”

Investment totals (£m)
(four quarter rolling)



Source: Knight Frank Research

Investment by purchaser type
Q3 2022 – Q2 2023



- **UK institution:**
0% of investment

- **Listed Property Company:**
0.5% of investment

- **Private Property Company:**
22% of investment

- **Overseas Investor:**
77% of investment

- **Private/Other:**
0.5% of investment

Source: Knight Frank Research

“The majority of investment over the past year came from overseas buyers”

INVESTMENT AHEAD OF FIVE-YEAR ANNUAL AVERAGE

Although investment into industrial property in the North East was slower in Q2, with just three deals completing, the total invested over the 12 months to end-June 2023 was £558 million. This compares to £312 million in the comparable period last year and double the five-year rolling annual average for the region. The majority of investment over the past year came from overseas buyers, 77%, up from 34% in the comparable period last year.

Prime industrial yields in Newcastle moved out by 25bps in Q2, to 6.00%, in tandem with the softening of prime yields across the majority of UK regional industrial markets.

Key Investment Deals

H1 2023

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Dynamo Park, Cheltenham Road	Stockton-On-Tees	£70m	-	Wilton Developments	Canmoor Asset Management
Northern Lights Portfolio	Sunderland	(3 units) £24.1m	8.75%	North East Property Partnership	Columbia Threadneedle
Bowburn North Industrial Estate	Bowburn	£4.9m	7.00%	Ward Group Investments	Private

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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