

LOGIC: North East



Q2 2024

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

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Occupier Market

Supply of new units remains limited, as new completions are quickly absorbed

H1 2024 TAKE UP AHEAD OF LAST YEAR

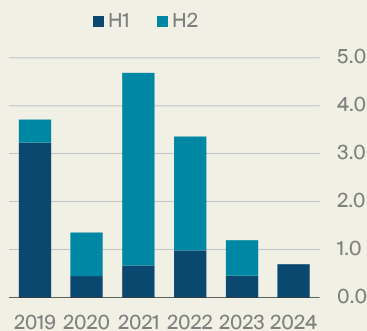
A robust second quarter of 2024 saw 517,500 sq ft of take up in the North East industrial market, across five transactions, bringing the total for the first half of the year to 695,300 sq ft (units 50,000 sq ft+). H1 2024 take up is 54% ahead of the level recorded in H1 2023.

NEW-BUILD COMPLETIONS QUICKLY ABSORBED

The most notable transactions in the quarter were the lettings of Units 2 and 3 at Phase 1, Hillthorn Business Park in Washington, to battery manufacturer, AESC, at £7.50 psf. Construction completed on Phase 1 of the speculative scheme during Q2. Units 2 and 3 measure 66,872 sq ft and 84,036 sq ft respectively, while the remaining Unit 5 (71,200 sq ft) is reportedly under offer.

With limited new developments under way and newly completed buildings quickly being absorbed, occupiers are increasingly relying on the supply of second-hand stock that is returning to the market. As a result, second-hand space accounts for 90% of take up annually to Q2 2024. This is up from 15% in the year to Q2 2023.

Take up (sq ft)
million square feet



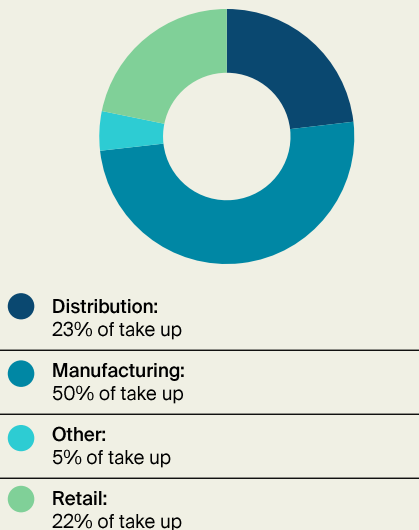
Source: Knight Frank Research

INCREASED ACTIVITY BY DISTRIBUTION FIRMS AND RETAILERS

While manufacturers continue to dominate the North East industrial market, comprising half of take up over the past year, this is down from 79% in the same period last year. Meanwhile, distribution firms and retailers have been increasingly active in the region.

Take up by distribution firms has increased by 11.5% year-on-year, while retailers have taken 3.9% more space. Transactions in Q2 by occupiers in these sub-sectors include a 204,821 sq ft unit at Nelson Way, Cramlington, acquired for occupation by vending machine supplier, Templeman Retail Vending, while DHL signed a 60,041 sq ft unit at Princess Way, Team Valley in Gateshead, at £6.25 psf.

Take up by sector
Q3 2023 – Q2 2024



Source: Knight Frank Research

MARKET VIEW

Limited development is doing little to increase the region's offering



BY MARK PROUDLOCK, PARTNER,
NEWCASTLE LOGISTICS & INDUSTRIAL
AGENCY

“Enquiry levels are arguably stronger than expected heading into what is traditionally a quiet holiday period. Available stock matching occupier need remains an issue, and absorption of new stock and limited speculative development is doing little to increase the region's logistic and industrial offering. While a handful of developers are progressing speculative schemes of limited scale, lack of confidence in viability and depth of demand continue to stifle pipeline development and the focus remains on securing pre-lets.

“Demand remains flattered by a lack of good-quality supply, although we are seeing an uptick in second-hand stock returning to the market.”

Occupier Market

695,300 sq ft

Occupier take up
H1 2024

8.5%

Vacancy rate
Q2 2024

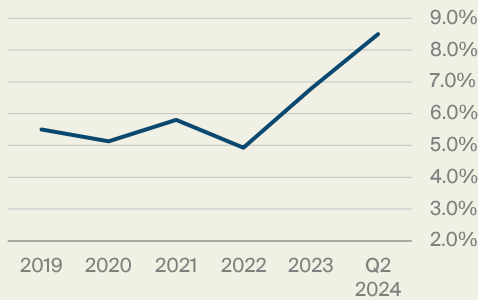
£8.00 psf

Prime rents
Q2 2024

6.7%

Prime annual rental growth

Vacancy rate
% of stock



Source: Knight Frank Research

“Second-hand space accounts for 90% of take up annually to Q2 2024”

LIMITED SUPPLY OF NEW BUILD UNITS

Availability of units over 50,000 sq ft rose by 4.4% in Q2, to stand at just under 4 million sq ft. As a result, the vacancy rate increased to 8.5%, from 8.2% recorded in Q1. The uplift in supply is driven predominantly by the return of second-hand space, with second-hand availability rising by 3.2% and now accounts for 80% of total availability. In terms of new development completions in Q2, Phase 1 at Hillthorn Business Park is now complete; with Units 2 and 3 already committed, and Unit 5 under offer, this leaves a very limited supply of prime, new-build units on offer in the region.

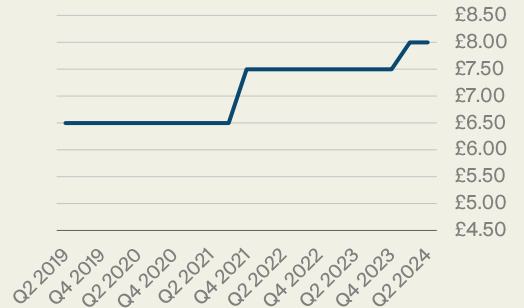
Just four units totalling 475,000 sq ft are under construction speculatively (units 50,000 sq ft+). The three-unit scheme at Greenbox, Darlington, remains under way, while construction works commenced on Unit L7, Intersect 19, Tyne Tunnel Estate in North Shields (72,898 sq ft).

RENTAL LEVELS & OUTLOOK

Prime industrial rents in Newcastle remained stable in Q2 2024, at £8.00 psf (units 50,000 sq ft+). Looking to the remainder of the year, average rental growth forecasts remain positive, with 4.7% forecast for the North East region, and 4.0% predicted for Newcastle, according to RealFor.

Newcastle - Prime Rents

£ per sq ft (units over 50,000 sq ft)



Source: Knight Frank Research

“Second-hand space accounts for 80% of total availability”

Key Occupier Deals H1 2024

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Nelson Way, Cramlington	204,821	Templeman Retail Vending	Confidential	Freehold purchase – Second-hand
Unit 3 Hillthorn Business Park (Phase 1), Washington	84,036	AESC Group	£7.50 psf	Speculative Build
Unit 2 Hillthorn Business Park (Phase 1), Washington	66,872	AESC Group	£7.50 psf	Speculative Build
Princess Way, Team Valley, Gateshead	60,041	DHL	£6.25 psf	Second-hand

Source: Knight Frank Research

Investment Market

6.00%

Prime NIY - Newcastle
Q2 2024

Stable

YOY movement in prime yields

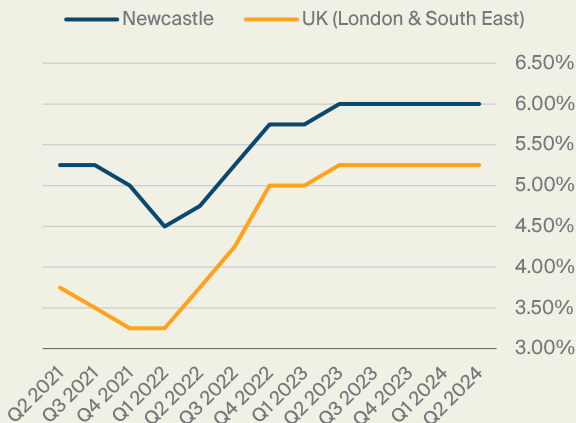
INVESTMENT TRANSACTIONS REMAIN LIMITED

Prime industrial yields in Newcastle remained at 6.00% for the fifth consecutive quarter, having softened by 150 bps since the turn of the market in Q2 2022. At the prospect of a base rate cut later this year, investor optimism is beginning to re-emerge, albeit cautiously.

Investment volumes in the region remain limited. Hyperdrive Unit, Turbine Business Park in Sunderland was acquired by Banafa Properties from Pemberstone Properties for £1.6 million (NIY 7.48%). While Hitachi's acquisition of their 33,000 sq ft unit at Monkton Business Park for £5.3 million was not purchased for investment, it was nonetheless an interesting transaction. Lower capital values are spurring well-capitalised occupiers to take advantage of current market conditions by buying their assets, swapping out opex for capex.

Prime Yield

Net initial yield %



Source: Knight Frank Research

MARKET VIEW

Transactions under offer will boost volumes for Q3



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

“H1 2024 was a period of reduced investment volumes in the industrial sector. The acquisition by Hitachi of their unit at Monkton Business Park was a notable transaction; based on their annualised passing rent, the purchase price would have represented a market-leading yield of 5.50%. It is also worth noting the depth of investor interest in the asset, with three underbids at yields of between 5.75% - 6.00%.

We are beginning to witness increased demand and are aware of a number of transactions which are under offer and will boost volumes for Q3. Investor interest is coming from a cross-section of institutional, private equity and overseas capital.”

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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