

LOGIC: North East



Q3 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 boosted by development completions

ECONOMIC CHALLENGES WEIGH ON OCCUPIERS

The North East region recorded 274,800 sq ft of industrial occupier transactions in the third quarter of 2023 (units over 50,000 sq ft). This follows a slower first half of the year and brings the year-to-date (YTD) total to 727,800 sq ft, significantly below the 2.6 million sq ft recorded over the same period last year.

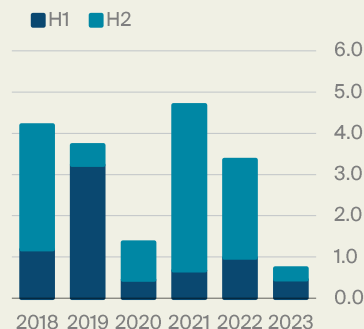
The decline in activity in the year-to-date can be attributed to wider economic pressures slowing the pace of activity. This is in addition to the shortage of available stock over 50,000 sq ft in the region, though a number of new developments over 50,000 sq ft completed construction during the quarter, boosting the supply of new, high-quality space.

However, as occupiers pause for thought during this period of uncertainty, take up for 2023 is likely to be notably lower than the robust levels of demand seen over the past two years.

The largest transaction in Q3 was Encore Packaging Solutions' freehold purchase of a 102,940 sq ft unit on Stephenson Road, North East Industrial Estate in Peterlee, for £3.5 million.

Take up (sq ft)

million square feet



Source: Knight Frank Research

MANUFACTURING FIRMS DOMINATE

Looking at the past four quarters, North East industrial take up totalled almost 1.5 million sq ft, with manufacturers continuing to grow their share of the market.

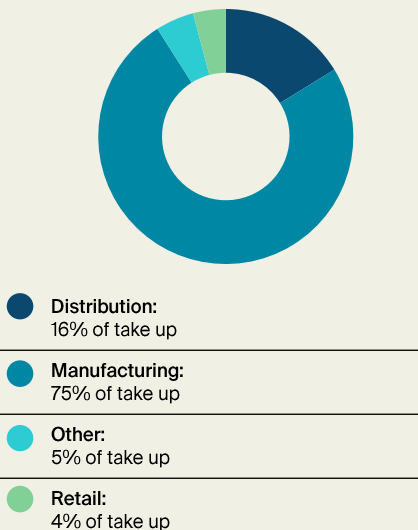
Comprising 75% of the annual take up to Q3, demand from manufacturing companies has risen from 61% in the comparable period last year (annually to Q3 2022) and 44% in the same period the previous year (annually to Q3 2021).

WHILE DEMAND FROM RETAILERS DECLINES

Occupiers from the retail sector, in contrast, have been less active over the past two years. Retailers comprise just 4% of the annual total to Q3 2023, compared with 16% over the same period last year and 45% in the year previous.

Take up by sector

Q4 2022 – Q3 2023



Source: Knight Frank Research

MARKET VIEW

Development pipeline has effectively dried up



BY MARK PROUDLOCK, PARTNER, NEWCASTLE LOGISTICS & INDUSTRIAL AGENCY

“In spite of global uncertainty, there remains demand from companies who are intent on securing new premises across sectors.

While new stock delivered to the market this quarter is welcomed, the development pipeline has effectively dried up. This is restricting inquisitive companies to the limited supply of new stock (if the size fits), a potentially long wait for the right property to come to market, or a pre-let design & build.”

Occupier Market

727,800 sq ft

Occupier take up
YTD 2023

5.1%

Vacancy rate
Q3 2023

£7.50 psf

Prime rents
Q3 2023

Stable YOY

Prime annual rental growth

“The uplift in supply was entirely driven by new development completions”

SUPPLY BOOSTED BY DEVELOPMENT COMPLETIONS

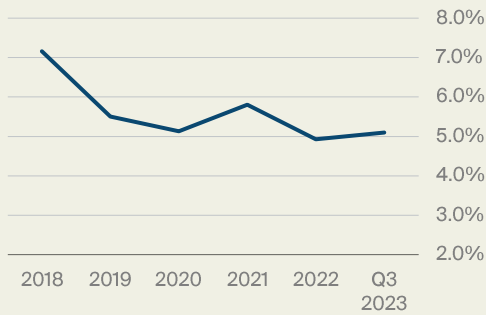
Availability of units over 50,000 sq ft increased by 24% in Q3, to stand at 2.4 million sq ft. This uplift was entirely driven by new development completions, while the availability of second-hand space declined by 7.4%. Units at Connect at Integra 61 in Durham totalling 597,000 sq ft completed construction during the quarter (units 50,000 sq ft+), adding to supply of immediately available stock. As a result, the vacancy rate in the North East rose to 5.1% in Q3, from 4.2% in Q2.

A further 220,000 sq ft across three units remains under way at Phase 1, Hillthorn Business Park, Washington (units 50,000 sq ft+), which are due for practical completion before the end of the year.

RENTAL LEVELS & OUTLOOK

Prime industrial rents in Newcastle for units over 50,000 sq ft+ remain stable, standing at £7.50 psf at end-Q3. Looking ahead to next year, average rental growth is expected to remain positive, with 2.8% growth forecast for 2024 for the North East region and 3.1% predicted for Newcastle, according to RealFor.

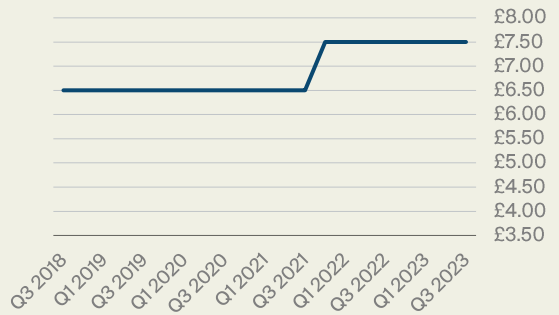
Vacancy rate
% of stock



Source: Knight Frank Research

“Looking ahead to next year, 2.8% average rental growth is forecast for the North East region”

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



Source: Knight Frank Research

Key Occupier Deals Q3 2023

PROPERTY	SIZE (SQ FT)	OCCUPIER	RENT (OR PURCHASE PRICE)	COMMENTS
Stephenson Road, North East Industrial Estate, Peterlee	102,940	The Encore Group	£3.5m	Freehold purchase – second-hand
Unit 1 Fiennes Road, North West Industrial Estate, Peterlee	100,340	The Storage Place	£5.00 psf	Second-hand

Source: Knight Frank Research

Investment Market

£162 million

Investment total
YTD 2023

£12.2 million

Average lot size
(last four quarters)

70%

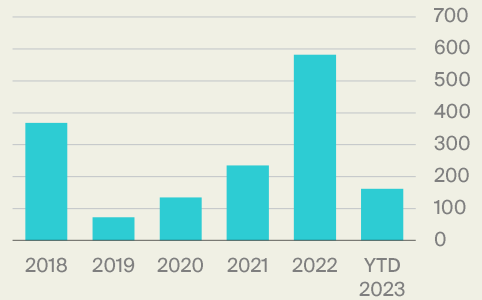
Investment by UK property companies
(last four quarters)

6.00%

Prime yield
Q3 2023

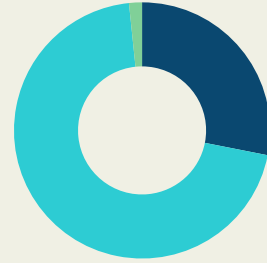
“Prime industrial yields in Newcastle remained stable in Q3, at 6.00%”

Investment totals
£m



Source: Knight Frank Research

Investment by purchaser type
Q4 2022 – Q3 2023



- **UK institution:**
28% of investment

- **Listed Property Company:**
0% of investment

- **Private Property Company:**
70% of investment

- **Overseas Investor:**
0% of investment

- **Private/Other:**
2% of investment

Source: Knight Frank Research

“UK property companies account for the majority of the capital deployed over the past year”

SLOWDOWN IN INVESTMENT VOLUMES

Investment into industrial property in the North East in Q3 2023 was £57.5 million, bringing the YTD total to £162 million, 71% lower on the comparable period last year. Q3 volumes were boosted by one large deal; Teesside Pension Fund acquired Radial 64 in Washington, from Aviva Lime Property Fund, for £51.5 million (NIY 6.83%). UK property companies account for the majority of the capital deployed in the region over the past year, at 70%.

Prime industrial yields in Newcastle remained stable in Q3 2023, at 6.00%, in tandem with the stabilisation of prime yields across all UK regional markets. This follows a 75bps softening of prime yields in Newcastle over the past year.

Key Investment Deals

Q3 2023

PROPERTY	TOWN	PRICE	YIELD	PURCHASER	VENDOR
Radial 64	Washington	£51.5m	6.83%	Teesside Pension Fund	Aviva Lime Property Fund
Armstrong Works, Scotswood Road	Newcastle upon Tyne	£3.4m	8.00%	Allendale Estates	Reece Group
The Cane Factory, Tundry Way, Gateshead	Blaydon	£1.4m	9.24%	Cable Properties & Investments Ltd	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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