

LOGIC: North East



Q3 2024

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

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Occupier Market

Demand remains steady, while the supply of new-build units remains constrained

TAKE UP IN A GOOD POSITION AGAINST LAST YEAR'S TOTAL

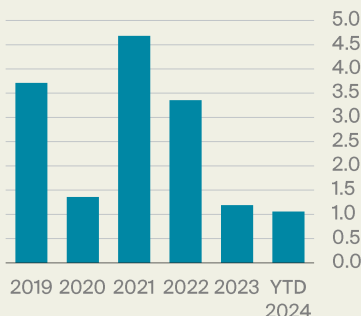
The North East industrial market recorded 364,200 sq ft of occupier take up in Q3 2024, across three transactions (units 50,000 sq ft+). This brings the year-to-date (YTD) total to almost 1.1 million sq ft, 46% ahead of the volume recorded in the same period last year. Looking to the final quarter, steady enquiries and nearly 250,000 sq ft of space under offer position the North East industrial market well against last year's annual take up, of 1.2 million sq ft.

OCCUPIERS RELYING ON SECOND-HAND OPTIONS

A notable letting in the third quarter included Unit S2, Tyne Tunnel Estate in North Shields (65,173 sq ft), to car dealership, Lookers plc, on a 15-year lease. The second-hand unit has undergone extensive refurbishment and was let at £7.50 psf. The limited supply of new-build units in the region combined with the constrained development pipeline means that occupiers are increasingly relying on second-hand stock. As a result, second-hand space accounts for 86% of take up so far this year.

Take up (sq ft)

million square feet



Source: Knight Frank Research

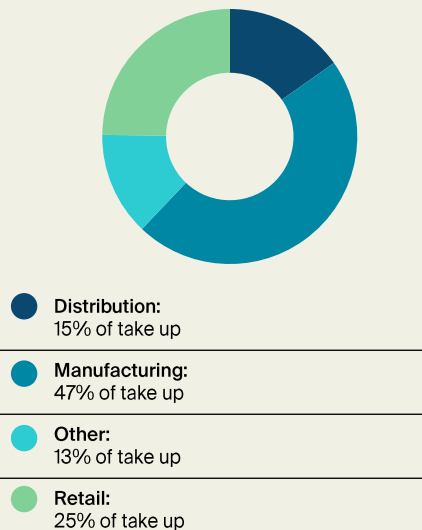
In terms of freehold transactions, Shalam Packaging, a manufacturer of plastic containers, purchased the 99,049 sq ft Unit 8 at West Quay Court in Sunderland for £3.9 million. In addition, the Ministry of Defence (MOD) acquired Coherent's former semiconductor factory at Newton Aycliffe, County Durham, to secure future supply lines of semiconductors for the military, boosting the UK's defence capabilities and exports.

SHIFT IN OCCUPIER DYNAMICS

Although manufacturers continue to dominate the North East industrial market, comprising 47% of take up over the past four quarters, this is down from a 75% share in the same period last year. Retailers have been more active, with their share of take up rising from 4% last year to 25% this year. The share of take up by other, alternative occupiers has risen to 13%, from 5% last year, though this is entirely driven by the MOD's acquisition.

Take up by sector

Q4 2023 – Q3 2024



Source: Knight Frank Research

MARKET VIEW

Pipeline development remains constrained



BY MARK PROUDLOCK, PARTNER, NEWCASTLE LOGISTICS & INDUSTRIAL AGENCY

“Enquiry levels held up across what is typically the quiet summer holiday period, giving cause for optimism heading into Q4. However, pipeline development remains constrained as developers wrestle with viability, further squeezed by the costs or potential loss of land associated with Biodiversity Net Gain (BNG). Requirements for new developments with secured consents or agreed BNG strategies sit in the driving seat in terms of deliverability.”

Occupier Market

1.1m sq ft

Occupier take up
YTD 2024

9.7%

Vacancy rate
Q3 2024

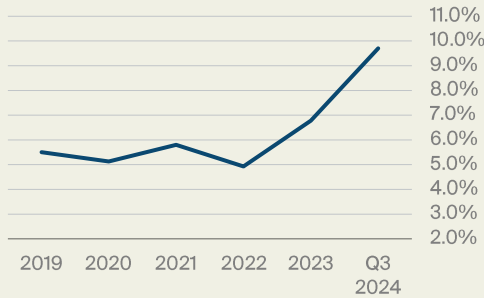
£8.00 psf

Prime rents
Q3 2024

6.7%

Prime annual rental growth

Vacancy rate
% of stock



Source: Knight Frank Research

“Retailers’ share of take up has risen from 4% last year to 25% this year“

SECOND-HAND SPACE DOMINATES MARKET SUPPLY

Availability of units over 50,000 sq ft continues to trend upwards driven by the return of second-hand units. Rising by 14% in Q3, availability of existing floorspace now stands at 4.5 million sq ft. This brought the vacancy rate to 9.7%, from 8.5% recorded in Q2 and 6.0% recorded one year ago. Second-hand availability increased by 18% in Q3 and now accounts for 83% of all available space. Meanwhile, the supply of new-build space remained unchanged.

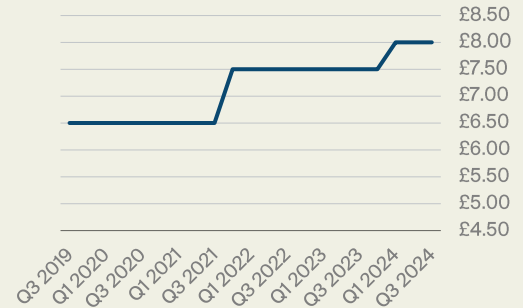
Just four units totalling 475,000 sq ft are under construction speculatively across the region (units 50,000 sq ft+). This includes a three-unit scheme at Greenbox, Darlington, and a 72,898 sq ft unit at Intersect 19, Tyne Tunnel Estate in North Shields.

RENTAL LEVELS & OUTLOOK

Prime industrial rents in Newcastle remained stable in the third quarter of 2024, at £8.00 psf (units 50,000 sq ft+). Average rental growth of 4.1% is forecast for the North East region for 2024, with 3.0% expected for 2025, according to RealFor. Stronger growth is predicted for Newcastle, of 5.5% and 3.4% for 2024 and 2025, respectively.

Newcastle - Prime Rents

£ per sq ft (units over 50,000 sq ft)



Source: Knight Frank Research

“Second-hand space accounts for 83% of all available space”

Key Occupier Deals YTD 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
Unit S2 Tyne Tunnel Estate, North Shields	65,173	Lookers plc	£7.50 psf	Second-hand refurbishment
Princess Way, Team Valley, Gateshead	60,041	DHL	£6.25 psf	Second-hand

Source: Knight Frank Research

Investment Market

6.00%

Prime NIY - Newcastle
Q3 2024

Stable

YOY movement in prime yields

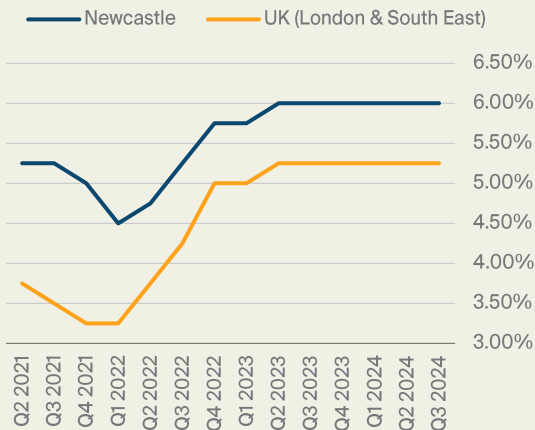
PRIME INDUSTRIAL YIELDS HOLD STEADY

Although investment volumes in the region remain relatively subdued due to a shortage of stock, demand remains robust, and some notable transactions completed during Q3. Westbrook acquired Follingsby Park Industrial Estate in Gateshead from Legal & General for £116 million. The multi-let estate totals 1 million sq ft and the price achieved reflects a NIY of 5.10%. In addition, Urban Logistics REIT purchased the freehold of Units 1 & 2, North West Industrial Estate in Peterlee for £8.3 million, reflecting a NIY of 6.63% with reversionary potential in May 2025. The two units total 109,000 sq ft and are occupied by construction and mining equipment company, Caterpillar (UK) Limited until 2030.

Prime industrial yields in Newcastle held steady at 6.00% in Q3 2024, having softened by 150 bps since the turn of the market in Q2 2022.

Prime Yield

Net initial yield %



Source: Knight Frank Research

MARKET VIEW

The strongest quarter for investment for two years



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

“Investment volumes remain constrained by a lack of stock offered to the market as opposed to any perceived softening in buyer sentiment. Despite limited stock, Q3 2024 marks the strongest quarter for investment into the North East industrial sector for two years, boosted in part by the Follingsby Park transaction. There remains good interest across the sector from private equity, overseas and private investors.”

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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