LOGIC - RESEARCH

NORTH EAST

Logistics and Industrial Commentary

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H1 2016 Review

- The relatively good performance of 2015 was carried over into Q1 2016, however enquiry levels dropped significantly in Q2 2016, which in part is attributable to the uncertainty pre and post Brexit. Take-up of units over 50,000 sq ft totalled 324,000 sq ft in H1 2016, compared with 1.1m sq ft in H2 2015, although that figure had been significantly boosted by Vantec's 440,000 sq ft warehouse.
- The region has been adversely affected by the sharp fall in oil prices and subsequent downturn in the North Sea oil industry which has been detrimental for a large number of engineering businesses. The most noteworthy casualty has been the OGN Group which has recently closed its main facility in Wallsend which covers a total of 461,000 sq ft of buildings on a 75 acre sites.
- Demand from other areas of manufacturing and warehousing remains stable.
- There is a shortage of modern units which is creating a significant disparity between rental and capital values for modern and older second-hand space. This is highlighted by UK Land's letting of its new 11,614 sq ft unit at 12 Queens Court; Team Valley which will establish a record rent level of £8.10 sq ft for the estate. In comparison rents on modern second hand space are typically between £5.50 - £6.50 sq.ft. The success of this letting has encouraged UK Land to commence a larger phase of units on Team Valley which will complete in March 2017. Dukesway Central, as it is known, will provide three units ranging from 12,183 sq ft to 26,694 sq ft. Quoting rents start at £7.65 sq ft. UK Land is also currently seeking planning consent for two 35,000 sq ft units on a prominent Kingsway site in Team Valley, but it is unlikely that construction will start this year unless there is a pre-let.
- The investment market has cooled somewhat but there is very little industrial stock on the market of a scale that will attract major institutions, although there is product for the smaller property companies. Yields still seem to be holding up and the North East remains attractive to investors with a general perception that rental levels are at historic lows so there is some anticipation of growth.

Selected North East transactions in H1 2016

Address	Occupier	Size (sq ft)	Rent / Price (per sq ft)	Date
Cherry Blossom Way, Washington	Amazon UK Services Ltd	100,282	£5.00	Jun-16
St.Cuthberts Way, Newton Aycliffe	Gestamp Tallent	37,053	£2.85	May-16
Unit 15 Octavian Way, Team Valley, Gateshead	Pet Supermarket	7,290	£6.25	Apr-16
Unit 7 Bentall Business Park, Washington	Timberway Ltd	70,000	£2.15	Mar-16
G1 Tyne Tunnel Trading Estate, North Shields	City Plumbing Supplies	5,750	£5.00	Mar-16

Q2 2016 Prime headline rents (£ per sq ft)
▼/▲ - movement expected to Q2 2017

Market	under 20,000 sq ft	20,000 to 50,000 sq ft	50,000+ sq ft
Newcastle / Gateshead	£8.00 ◄►	£7.00 ◄►	£6.00 ▲
Sunderland / Washington	£6.50 ◄►	£6.00 ◄►	£5.00 ▲
Durham	£5.25 ◄►	£5.25 ◄►	£5.25 ◄►
Middlesbrough / Stockton	£5.00 ◄►	£4.50 ◄►	£4.00 ◄►

Unit 12 Queens Court, Team Valley, Gateshead

Regional outlook

- A quiet summer is anticipated. Once the markets have settled down however we expect to see a resumption in demand.
- The vote to leave the EU may have consequences for the future of the Nissan car plant. In the short term Nissan has too much invested in the Washington plant and it remains the most efficient in Europe, but in the medium to longer term the effect of export duties may undermine profitability as around 85% of the cars are manufactured for export.
- With no sign of recovery in oil prices, this market sector will continue be affected for some time and this will have an effect on the regional engineering industries and in particular the former shipbuilding areas around the River Tyne.