FOREWORD

Whilst the EU referendum result has led to an uncertain trading environment, the North East property market continued its recovery in 2016.

Brexit, of course, was just one of many challenges during the year with regional devolution still a hot topic. In the North East there is no clear path ahead, with proposals for a devolution deal alongside an elected regional mayor rejected in September, but reigned in year-end. Nonetheless, the North East begins 2017 on a positive note. The decision by Nissan to build its new Quasqui and X-Trail SUV models in Sunderland secured not only 7,000 jobs, but also 30,000 in the supply chain. The North East is in fact the only UK region to have a positive trade balance and whilst the falling pound is not good news for all, crucially for the North East, it has helped exports.

In 2016, a market imbalance has developed through rising occupier activity and lack of available space, which has led to the re-emergence of speculative development in the industrial/logistics sector. This is encouraging and illustrates the level of business confidence in the outlook for the region.

Works have now begun at Siglion, a joint venture between Carillion and Sunderland City Council, on the redevelopment of Sunderland’s Vaux site. The first building is to be a 60,000 sq ft office block, but the project will encompass both commercial and residential space over a 20-year regeneration period. The theme of redevelopment of former brewery sites continued in Newcastle with further development of Science Central, under a partnership between Newcastle University and Newcastle City Council. In June, Legal & General Capital agreed to partner in the £335m scheme. Such an endorsement from a major fund provides a huge boost for both the project and the wider region.

While the investment market inevitability goes through its varying cycles, investor interest in the North East continued to thrive in 2016. Prime yields held firm throughout the year continuing to offer a relative discount to regional neighbours. Although domestic buyers were most prevalent in 2016, we envisage that the ‘buyer pool’ will increasingly diversify in the coming year, especially given the favourable exchange rate.

Finally, from a personal perspective it is pleasing that Knight Frank have been active in some of the highest profile and most significant schemes in the region, all of which have created inward investment and jobs in the North East. Knight Frank remains at the forefront of commercial activity and continue to drive regeneration and innovation to support future growth for the region. We are extremely grateful to our clients and fellow professionals who have shared our vision over the past 20 years. I look forward to being part of further successes in 2017 and beyond.

PETER BOWDEN
Partner, Office Head
Knight Frank Newcastle

OCCUPIER MARKET – OFFICES

North East office take-up dipped in 2016, hampered by the uncertain economic environment. Demand has improved in early 2017, leading to a more positive outlook.

Office take-up and demand

Newcastle city centre take-up fell by 15% during 2016 reaching 220,000 sq ft at year-end. Despite this, annual take-up finished marginally below (4%) the long-term average for the city.

Unsurprisingly, Business Services accounted for the largest proportion of city centre take-up in 2016 at 22%. There was also a continued increase in activity in the TMT sector, as the city continues to grow its reputation as a technology hub.

Out of town, total take-up reached 492,000 sq ft, 19% less than in 2015. The North East has attracted an increasing number of ‘footloose’ occupiers in recent years, but uncertainty in 2016 has meant that projects aimed at attracting inward investment have been delayed.

Key transactions

The 35,000 sq ft letting to Convergys at The Rocket in the Stephenson Quarter was the largest city centre transaction of the year. Developed in partnership by Clouston Group and Newcastle City Council, the building reached practical completion in 2015 and forms part of the first phase of a major mixed-use development.

The most significant deal in the TMT sector was Zenlight’s new lease of the entire LiveWorks development on Newcastle Quayside (15,000 sq ft) only months after the building completed.

Out of town, Quorum Business Park secured the largest letting with Sitel taking 47,000 sq ft. Other significant deals included Leeds Building Society moving their regional HQ from Silverlink to Cobalt Business Park and Parseq acquiring 20,000 sq ft at Camberwell House, Duxford Business Park.

Availability

Grade A availability in Newcastle city centre fell by 26% during 2016 to reach 173,300 sq ft at year-end, almost all of which is secondhand space. This total is 23% below the long-term average for the city. The development pipeline over the next two years consists of just 72,000 sq ft split across two comprehensive refurbishment schemes. With the first completion date not until Q4 2017, this means low Grade A availability will continue to be a feature of the market in 2017. The next example of new build space is not due to complete until early 2019, with the planned delivery of 100,000 sq ft at Science Central. Out of town availability is greater with Quorum and Cobalt providing approximately 350,000 sq ft and 260,000 sq ft respectively.

Headline rents

City centre headline rents increased by 5% in 2016 to reach £23.00 per sq ft. This rise followed DAC Beachcroft taking a further 4,500 sq ft at Weetabix Central. Despite the increase, Newcastle still has the lowest prime rent of the major UK regional cities.

Out of town, rents vary between the regional sub-markets. The highest headline rents are at Quorum and Cobalt with £16.60 - £16.50 per sq ft typical.

Key leasing transactions 2016

<table>
<thead>
<tr>
<th>Address</th>
<th>Occupier</th>
<th>Size</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4 Quorum Business Park</td>
<td>Sitel</td>
<td>47,583</td>
<td>Q1</td>
</tr>
<tr>
<td>The Rocket, Stephenson Quarter</td>
<td>Convergys</td>
<td>35,000</td>
<td>Q2</td>
</tr>
<tr>
<td>Cobalt Business Park</td>
<td>Leeds Building Society</td>
<td>20,168</td>
<td>Q2</td>
</tr>
<tr>
<td>LiveWorks, Newcastle</td>
<td>Zenlight</td>
<td>14,920</td>
<td>Q3</td>
</tr>
<tr>
<td>Weetbar Central, Newcastle</td>
<td>DAC Beachcroft</td>
<td>4,507</td>
<td>Q2</td>
</tr>
</tbody>
</table>

Source: Knight Frank Research

Please refer to the important notice at the end of this report
DEVELOPING THE NORTH EAST

IBM, EDS and business parks, with Quorum and Cobalt office take-up at 200,000 sq ft of Sunderland. Over a 4–1 win at his last game being from football with Alan Shearer retires in 2008.

In 150 years. The bank went into public crisis that unfolded the global financial synonymous with Northern Rock in 2009 2010 2011 2012 2013 2014 2015 2016


Brewin Dolphin & 100% pre-let to completion and is achieves practical investment projects.

Biggest inward 100,000 sq ft at Tesco Bank acquire £50m, in one of 2009 2010 2011 2012 2013 2014 2015 2016

quarter reaches Phase of Stephenson House View in 2007 and Scotland. First All Blacks, South Africa hosting games including Olympic related football matches, several Olympic investment volumes in North East companies. were awarded to 42 contacts worth £150m and the first edition Olympic related construction of their new 470,000 sq ft office scheme on construction of their new 470,000 sq ft office scheme on

Siglion commence in Science Central and whilst L&G confirm their models at its model of its Qashqai plant at Newton Aycliffe. Hitachi Rail Europe start to produce the new

Despite Brexit vote, 1 St James Gate sold for £6.4m. for £18m. to Aviva investors

In addition to hosting 1 millionth runner to celebrates the Great North Run

the ‘Business Planning Season’ at the beginning of 2017 would span the year from the 1st April to 31st March 2017. 2017 was a year of transition through the Brexit negotiations. The strong industrial presence in the North East remains as the government negotiations trade deals, market sentiment may fluctuate through 2017/18 depending on the perceived direction of travel.

The negotiations related to the UK withdrawal from the EU will have a significant impact on the 2017/18 business planning season. Although the worst scenario is unlikely to unfold, there will be a great sense of uncertainty across the sector. With this in mind, and the discount on yield from the top regional centres, we anticipate a strong year in 2017.

To developers that speculative development will become more viable with evidence of higher rents being achieved this should stimulate investment development will become more viable with evidence of higher rents being achieved this should stimulate whereas landlords’ presence in the North East means that as the government negotiates trade deals, market sentiment may fluctuate through 2017/18 depending on the perceived direction of travel.

2012

In a week preceding several Olympic football matches, the Olympic Games culminated in the final between France and Spain. With the Olympic Games, the Olympic Games culminated in the final between France and Spain. With the Olympic Games, the Olympic Games culminated in the final between France and Spain.

2011

In seeking planning consent, the Olympic Games and the International Olympic Committee laid down a new set of criteria for projects within Olympic venue areas. The Olympic Games and the International Olympic Committee laid down a new set of criteria for projects within Olympic venue areas.

2010

Rightmove acquire firstly from the top six regional centres, we anticipate a strong year in 2017.

2009

Rightmove acquire firstly from the market and the prospect of an Olympic related construction of the first phase of their new 470,000 sq ft office scheme on

150,000 sq ft office at Light Industrial Estate. The office is let to a local investor for £23.00 per sq ft per annum.

2008

Serviced office development at Time Central in Newcastle offers 15,000 sq ft of office space in one of Newcastle’s prime locations.

2007

Park, shared individual Explosive development of Northern Rock at Middlesbrough after the bank’s collapse in 2009 2010 2011 2012 2013 2014 2015 2016

NORTH EAST PROPERTY MARKET 2017

funding of transport and amenity improvements. Fundamentally, the North East deal that was expected, but would allow the prospect of greater autonomy in spending is growing. This, of course, is also true for Newcastle and Sunderland, where similar business planning seasons are being experienced. The economic climate is currently very challenging, and landlords and occupiers are both looking to take advantage of this climate for major relocations. This means that sustainable funding for development on these sites will be vital to maintain a competitive edge.

Conclusion

Knights

The offices

Knights

Industrial

We anticipate that the continued lack of availability of modern office space will limit consolidation with the market indicating continued high levels of office space availability. The market continues to show signs of recovery, with evidence of higher rents being achieved this should stimulate investment.

Investment

Given the political and economic events of 2016, it was inevitable that the immediate aftermath of the Anglo of 2017 would again probably carry out the drive for additional investment. The market however, is unlikely to return to the levels of activity and sentiment that were recorded in 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024 2025

The deadline for the submission of the Business Planning Season will be 30th November 2017. This will be followed by a period of consolidation and the prospect of an Olympic related construction of the first phase of their new 470,000 sq ft office scheme on

Offices

The lack of Grade A availability will continue to be the dominant feature of the office market, with only refurbishments in hands sent to the market in the next two years. With low supply expected to remain in the immediate future, we anticipate primary availability will increase to 225,000 sq ft per annum.

2016

Double decker bus. Never before has anything been awarded the Olympic Games and the International Olympic Committee laid down a new set of criteria for projects within Olympic venue areas.

2015

United Kingdom connected fibre-optic transatlantic cable service from Newcastle to London, the first step towards connecting the north of the UK to the rest of Europe. The cable will transport data at speeds of up to 1 terabyte per second.

2014

Small rocket that celebrates the 50th anniversary of Apollo 11 and the first moon landing. The rocket is powered by a solid rocket engine and is 39.2 feet tall.

2013

West’s Europe starts construction of their new 150,000 sq ft office at Light Industrial Estate.

2012

North-eastwards towards the Olympic Games, the Olympic Games culminated in the final between France and Spain. With the Olympic Games, the Olympic Games culminated in the final between France and Spain. With the Olympic Games, the Olympic Games culminated in the final between France and Spain. With the Olympic Games, the Olympic Games culminated in the final between France and Spain. With the Olympic Games, the Olympic Games culminated in the final between France and Spain. With the Olympic Games, the Olympic Games culminated in the final between France and Spain. With the Olympic Games, the Olympic Games culminated in the final between France and Spain. With the Olympic Games, the Olympic Games culminated in the final between France and Spain. With the Olympic Games, the Olympic Games culminated in the final between France and Spain. With the Olympic Games, the Olympic Games culminated in the final between France and Spain. With the Olympic Games, the Olympic Games culminated in the final between France and Spain. With the Olympic Games, the Olympic Games culminated in the final between France and Spain. With the Olympic Games, the Olympic Games culminated in the final between France and Spain. With the Olympic Games, the Olympic Games culminated in the final between France and Spain. With the Olympic Games, the Olympic Games culminated in the final between France and Spain. With the Olympic Games, the Olympic Games culminated in the final between France and Spain. With the Olympic Games, the Olympic Games culminated in the final between France and Spain. With the Olympic Games, the Olympic Games culminated in the final between France and Spain. With the Olympic Games, the Olympic Games culminated in the final between France and Spain.
Demand slowed before the EU vote meaning take-up remained below historical measure. Confidence recovered by year-end with occupiers revisiting previously shelved investment plans.

Key transactions

A total of 106,972 sq ft was let in 2016 compared to 177,853 sq ft in 2015. The EU vote in June served to slow demand and renewed concerns around the future of Nissan and its supply chain; specifically, government assurances waxed and waned and there was a greater commitment to build the next generation of Qashqai and Qashqai Judo in Sunderland.

The fall in activity also affected the region’s achievements with an annual increase in completion volumes of only 20% by 2015. The lack of modern stock has resulted in an increasing level of pre-let activity. One example is the newly built Unit 12, Queens Centre at Birtley, let to Co-op Group for an unexpired term of 8 years. The purchase price of £17.3m reflected an indexed yield of 7% with rents at £6.00 per sq ft.

North East office investment volumes in the North East were relatively low in 2016 at £65m. Although, in the 2015 total was £61m less than in 2016, the 2016 total is on par with the previous average. The 2011 total was £181m however, is symptomatic of a lack of stock available on the market rather than a lack of appetite.

Cherry Blossom Way, Cherry Blossom Way, Blyth
Former Jus Rol premises, Coniston Road, Blyth
1 Fiennes Road, Peterlee
Unit 7 Bentall Business Park, Washington
Unit 7 Bentall Business Park, Washington
Figure 4

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