

NEWCASTLE OFFICES

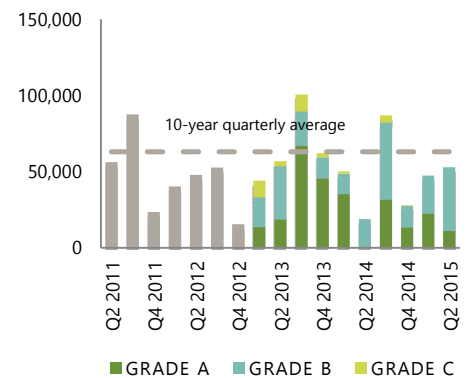
MARKET UPDATE H1 2015

Occupier market

City centre take-up in H1 2015 reached 100,000 sq ft, representing a 13% decrease on H2 2014. However, it is important to note that total city centre take-up in H1 2015 did show a significant improvement on H1 2014, which saw take-up reach 69,000 sq ft.

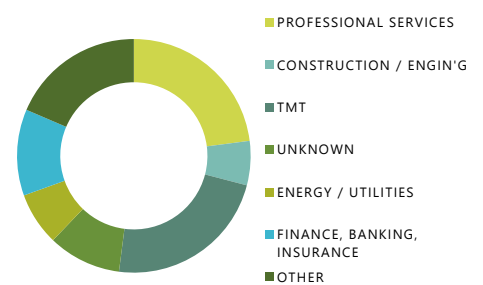
- Take-up activity in H1 2015 was made up of firms from diverse backgrounds, all actively looking to expand / relocate to the city centre (Figure 2). The opportunity to occupy space at a regional city remains to be a significant factor for potential occupiers, and it is likely that Newcastle will continue to attract organisations from different industries for the remainder of the year.
- A total of 33 deals were completed in the fast half of this year, with a greater proportion of deals occurring in Q2. However, the largest leasing deal in H1 occurred in the first quarter, with Iparadigms leasing 19,904 sq ft of Grade A space at Wellbar Central.
- While take-up in Q2 was marginally up on Q1, both quarters fell short of the 10-year quarterly average (Figure 1).
- Activity was particularly strong on Grey Street, with a surge of interest bringing the famous street back into demand. Lettings on this street in Q2 included Gardiner & Theobald (1,884 sq ft), Adecco (1,780 sq ft) and Office Angels (1,425 sq ft). This follows a renaissance of the leisure scene on Grey Street with numerous of new bars and restaurants opening in the last 12 to 18 months.
- As Grade A stock continues to diminish, the development of 'The Rocket' at Stephenson Quarter (35,000 sq ft) and Liveworks (14,000 sq ft), both due to be completed in Q3 2015, will provide much needed space. These schemes will offer a combined total of 49,000 sq ft, with 'The Rocket' set to provide floor plates of over 10,000 sq ft, tailored for occupiers with larger requirements.
- Prime office rents are expected to increase going forward, as a lack of new Grade A stock becomes available.
- The positive trend in the out-of-town market continued, with 374,810 sq ft transacted in H1 2015, 12% up on H2 2014.

FIGURE 1
City centre take-up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2
H1 2015 take-up by sector



Source: Knight Frank LLP

Agent's view

Grade A supply in the city centre is set to receive a major boost as 'The Rocket' and 'Liveworks' near completion in Q3. This could spark another round of activity as the second half of the year approaches, as competition for new office premises in the city centre strengthens. Going forward, there is a slight concern that once these two schemes complete, they will be no new office developments under construction, which could put significant pressure on future prime office rents.

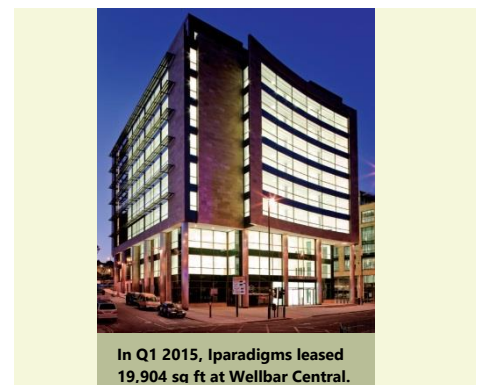
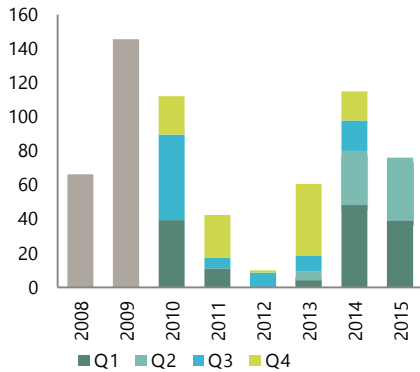


FIGURE 3

Newcastle offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

Investment market

- Market sentiment continued to remain positive in 2015, as volumes reached £76m in H1 2015. This more than doubled the number of transactions in H2 2014.
- Prime office yields have remained unchanged at 6.00% for the last 18 months, offering higher returns than other regional cities such as Manchester and Leeds.
- One of the deals in H1 2015 involved Knight Frank's sale of Nexus House on behalf of Greenridge, which offered just over 11 years of undoubted government income. Kames Property Income acquired this asset for £7.73m, just over its asking price of £7.45m, reflecting a net initial yield of 6.75%.
- Another key deal in the city centre saw the purchase of St Nicholas House by a private investor, which was understood to have met the asking price of £13m, reflecting a net initial yield of 8.50%. The asset was multi let, with a weighted average unexpired lease term of approximately 2 years.
- In the out-of-town market, activity was largely driven by overseas investors. The rising international attention provides evidence that Newcastle is now becoming an attractive hotspot for keen investors looking to capitalise on strong returns from office schemes beyond London.
- In terms of activity, Cobalt 22 was acquired by Knight Frank on behalf of an overseas investor (Dimah Capital) for £15.95m, reflecting a net initial yield of 7.50%. This asset is let to Utilitywise on a new 15-year lease in a recently completed office building.
- Knight Frank also acted on behalf of the vendor of Cobalt 15, which is let to the Department of Work & Pensions with c. 3 years unexpired. The property was sold to Maya Capital for £13m, reflecting a net initial yield of 10.10%. Maya Capital also acquired Cobalt 9b, which is let to Siemens with c. 4 years unexpired, for £8m reflecting a net initial yield of 9.25%.
- Additional out-of-town secondary assets have been introduced to the market and it will be interesting to see how these fare in the second half of the year.

TABLE 1

Selected investment transactions in H1 2015

Date	Address	Purchaser / Vendor	Price	NIY
Jun 15	Cobalt 15	Maya Capital / Undisclosed	£13m	10%
Mar 15	Nexus House, 33 St James Boulevard,	Kames Property Income / Greenridge Abra Fund	£7.73m	6.75%
Feb 15	St Nicholas House	Private Investors	£13m	8.5%
Feb 15	Cobalt 22	Dimah Capital / Cobalt 2007 EZ Property	£15.95m	7.5%

Source: Knight Frank LLP



Cobalt Business Park was subject to a number of key investment deals including Cobalt 22, which was purchased by Dimah Capital for £15.95m in Q1 2015.



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