RESEARCH

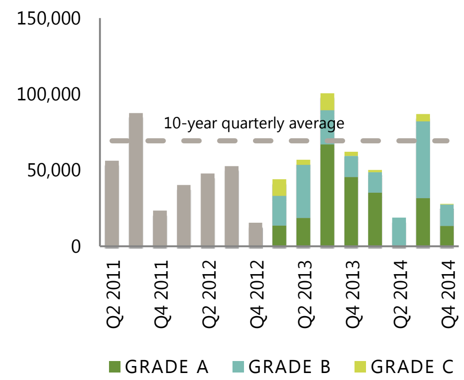
NEWCASTLE OFFICES

MARKET UPDATE **H2 2014**

Occupier market

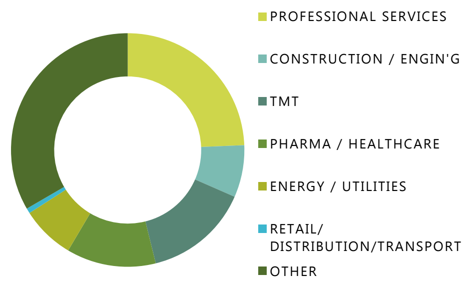
- City centre take-up in H2 totalled 114,827 sq ft, which brought the annual figure to 183,721 sq ft, lower than 2013 but against a backdrop of diminishing Grade A stock.
- Based on Knight Frank data, organisations in the Professional Services sector accounted for 25% of total take-up in H2 2014.
- The out-of-town market continued to thrive, with the completion of 55 deals in H2 totalling 306,375 sq ft, nearly double the take-up activity achieved in H1. The largest deal involved Siemens, which occupied 40,000 sq ft space at Cobalt Business Park.
- Q3 had the highest quarterly city centre take-up of the year, as it has been for the last three years.
- Q3 also had the largest single deal of the year, which saw Newcastle University purchase 89 Sandyford Road (34,134 sq ft).
- With Grade A city centre supply now standing just above 200,000 sq ft (including Gateshead Quays), there is now less than one year's supply based upon long term annual average take-up.
- While the availability of Grade A space grew by 5% on Q4 2013, there is an urgent need for further supply if the city is to match current demand.
- Indeed, as supply continues to fall, prime headline rents are expected to increase.
- Two new schemes are currently under construction, The Rocket at Stephenson Quarter and LiveWorks on Newcastle Quayside. Both are due for completion this summer and will add a further 49,000 sq ft to the market, which will help alleviate some of the pressure on space.

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



Source: Knight Frank LLP

FIGURE 2
H2 2014 take-up by sector



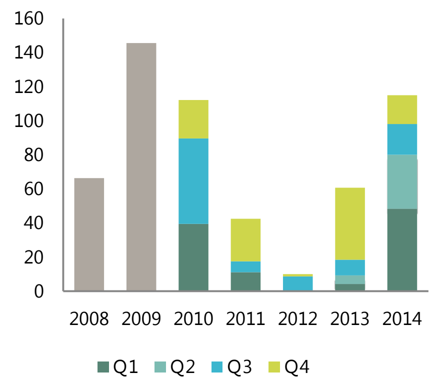
Source: Knight Frank LLP

Agent's view

The falling supply of city centre stock will be the biggest challenge facing the city as this year progresses, notably in the 10,000 sq ft bracket. With demand levels up 25% on this time last year, developers are likely to see increasing opportunities to satisfy the need for more space. Prime headline rents are expected to increase in 2015 as the market adjusts to the shortage of supply. In contrast, faced with a narrower supply gap, and coupled with a good level of enquiries, we expect activity in the out-of-town market to continue to improve in 2015.

In Q3, Global Radio leased 14,000 sq ft at Wellbar Central

FIGURE 3
Newcastle offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

Aviva purchased no.1 James Gate for £18.04m in August 2014.

Investment market

- Investment demand was very strong in 2014, with volumes in excess of £115m, the highest investment turnover since 2009. Even though investment slowed in H2, the full year total was almost double the figure achieved in 2013 (Figure 3).
- One of the notable deals in H2 was Aviva's acquisition of No. 1 St. James Gate for £18.04m, reflecting a net initial yield of 7.25%. The 61,651 sq ft office building is let to Watson Burton solicitors and Baker Tilley accountants.
- Prime office yields remained unchanged at 6.00% throughout 2014.
- Such is the demand for regional assets that two more offices, Nexus House and St Nicholas Building, were released onto the market in Q4 2014. The asking price for Nexus House is £7.45m, reflecting a net initial yield of 7%. The vendor of the St Nicholas Building is seeking offers in excess of £13m, reflecting a net initial yield of 8.54%.
- Q1 2015 will provide a good indication as to what level these assets achieve, and whether the positive market sentiment which has been evident in the past 12 months continues to drive further investment.
- In contrast, the out-of-town office investment slowed in the second half of 2014, with Cobalt 22 the only office released onto the market. The vendors are currently seeking offers in excess of £15.45m, reflecting a net initial yield of 7.74%.

TABLE 1
Selected investment transactions in H2 2014

Date	Address	Purchaser / Vendor	Price	NIY
Oct 14	Quorum Business Park	Sisu Properties Ltd/ Syndicate	£2.6m	13.25%
Oct 14	Melbourne Street	BMB Group / Teeside Pension Fund	£1.62m	14.00%
Aug 14	St James Gate, 1	Aviva Investors / Cauldwell Properties	£18.04m	7.25%

Source: Knight Frank LLP

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