

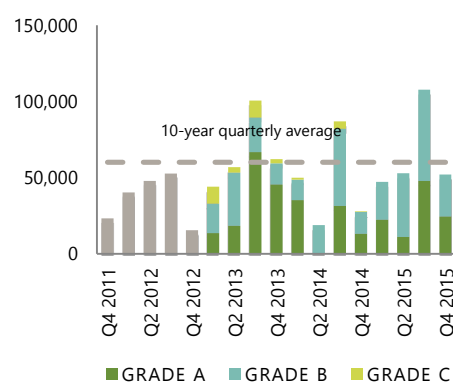
# NEWCASTLE OFFICES

## MARKET UPDATE H2 2015

### Occupier market

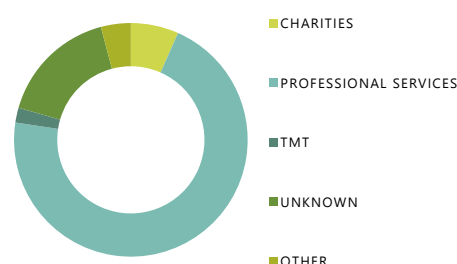
- Office take-up in Newcastle increased by 59% in H2 to reach 160,000 sq ft. Of this, a total of 107,800 sq ft was transacted in Q3, a record amount of quarterly take-up for the city.
- As a result total take-up for the year reached 260,200 sq ft, an increase of 42% when compared to 2014. Notably, the 2015 total represented the highest level of take-up recorded since the financial crisis of 2008.
- The Technology, Media and Telecoms (TMT) sector represented the largest occupier group in both H2 and during 2015, accounting for 34% and 30% respectively. This continues the trend from last year where the sector was responsible for 27% of total space let. During H2, the 17,000 sq ft letting to game development company Ubisoft at the Haymarket Hub was the largest transaction by a TMT occupier. This was one of three leases above 10,000 sq ft committed to by a technology firm in H2.
- The letting of 23,000 sq ft to Ernst & Young at One Citygate was the largest transaction of H2 however. This was followed by the 18,300 sq ft sale to Adderstone at Kings Manor. These transactions contributed to a total of eight deals above 10,000 sq ft during 2015. This represents a notable increase from last year when four deals above this threshold were completed.
- In H2, Grade A availability increased by 11% to reach 234,000 sq ft at year end (new and second hand). As a result, supply levels recorded an annual increase 16% at year end, the largest annual rise of the past six years. Despite this, availability remains well below (8%) the 5-year average.
- At the end of 2015, there were no new development schemes under construction in Newcastle. As such, supply levels are expected to decrease sharply in 2016.
- Prime headline rents increased to £22.00 per sq ft in H2 2015, a rise of 2%. This marked the first example of growth in prime rents since Q4 2011. With availability expected to tighten in 2016, a further rise in prime rent is anticipated.

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



Source: Knight Frank LLP

FIGURE 2  
H2 2015 take-up by sector



Source: Knight Frank LLP

### Agent's view

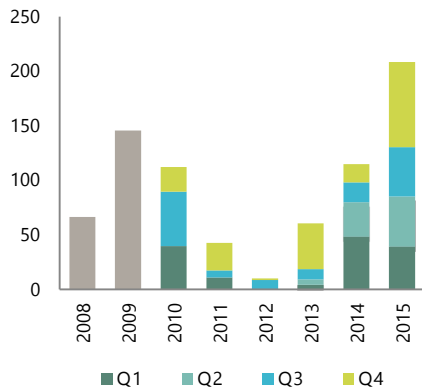
Although total availability of Grade A space in the city stood at 234,000 sq.ft (including Gateshead Quays) at the end of 2015, only The Rocket and Live Works offer 'brand new' Grade A accommodation. With no further new space expected to come to market until at least mid-2017, several refurbishment projects are now being brought forward. Upon completion, these will be well placed to satisfy new demand.



One City Gate let to accountancy firm Ernst and Young.

FIGURE 3

## Newcastle offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

## Investment market

- Investment turnover increased by 44% in H2 2015 with £123m of office stock sold during the period. As a result, total office investment for the year rose to £208m, 85% above the 10-year average. Notably, this meant that turnover for 2015 was the highest annual total since 2007.
- The completion of three transactions above £20m supported the rise in turnover in H2. This meant that, combined with the single transaction above this threshold in H1, 2015 recorded the highest amount of large lot sales (above £20m) for eight years.
- The purchase of Wellbar Central on Gallowgate for £40.075m by Orchard Street Investment Management was the largest transaction of H2. Markedly, this deal also represents the city's largest office sale since 2010. The building is multi-let to tenants including Sky UK Limited, Irwin Mitchell, DAC Breachcroft, Greggs and Global Radio with a WAULT of seven years.
- Under offer at the end of 2015 was Earl Grey House, a multi-let office and leisure investment on Newcastle's iconic Grey Street. The sale is set to complete in Q1 2016 with pricing circa £12,055,000, reflecting a NIY of 7.50% and a WAULT of 13.86 years to the break options.
- Supported by the Orchard Street Investment Management deal, UK institutions accounted for the majority of turnover in H2, 68%. This contrasts H1 where the purchaser group accounted for just 9%.
- At year end, prime yields were unchanged at 6.00%. Yield levels have now held firm for two years and remain 125 basis points above the market peak of 4.75% recorded in 2007.

TABLE 1

### Selected investment transactions in H2 2015

| Date   | Address           | Purchaser / Vendor                         | Price   | NIY    |
|--------|-------------------|--|---------|--------|
| Dec-15 | Wellbar Central   | Orchard Street IM / Moonglade Holdings Ltd | £40.07m | 6.04%  |
| Jul-15 | Newburn Riverside | Kames Property Income / UK Land Estates    | £21.72m | 8.38%  |
| Dec-15 | Central Square    | UK CPT / Parabola Estates                  | £21.58m | 6.42%  |
| Jul-15 | Cobalt 12         | Private Investor / Henley Estates          | £16.75m | 7.19%  |
| Oct-15 | Cobalt 7A 7B + 8  | Praxis / Undisclosed                       | £11.50m | 11.30% |

Source: Knight Frank LLP



Earl Grey House, a multi-let office and leisure investment on Newcastle's iconic Grey Street being sold by Knight Frank.



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