
Newcastle

UK Cities 2024 Insights

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Occupier

Take-up

Deals numbers rise for best quality.

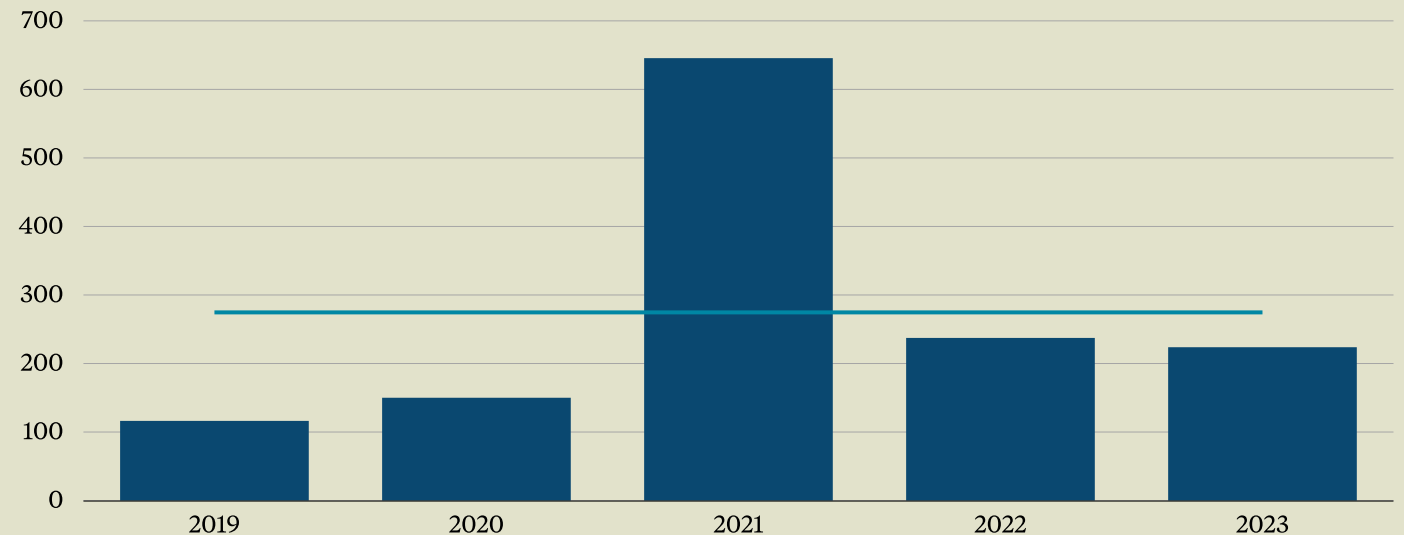
Key Takeaways

- Total take-up in Newcastle's city centre in 2023 reached 224,000 sq ft. This total is just short of take-up of 2022 and is 19% below the 5-year annual average.
- Interestingly, deal numbers have shown steady increase since 2020. In 2023, 47 were completed, the highest total since 2019.
- The flight towards best quality was evident in 2023, with 63% of take-up in new or grade A space.

Newcastle Annual Takeup

sq ft, 000s

■ Take-up — 5-Yr Annual Average



Source: Knight Frank Research, Macrobond

Take-up by Sector

Serviced office providers were active in 2023.

Key Takeaways

- B2B firms accounted for the highest percentage of take-up in 2023, at 32%.
- This was underpinned by strong interest from serviced office providers, with Wizu, Cubo, and Orega each taking circa 20,000 sq ft during the year.

Take-up by Sector 2023

%



Source: Knight Frank Research

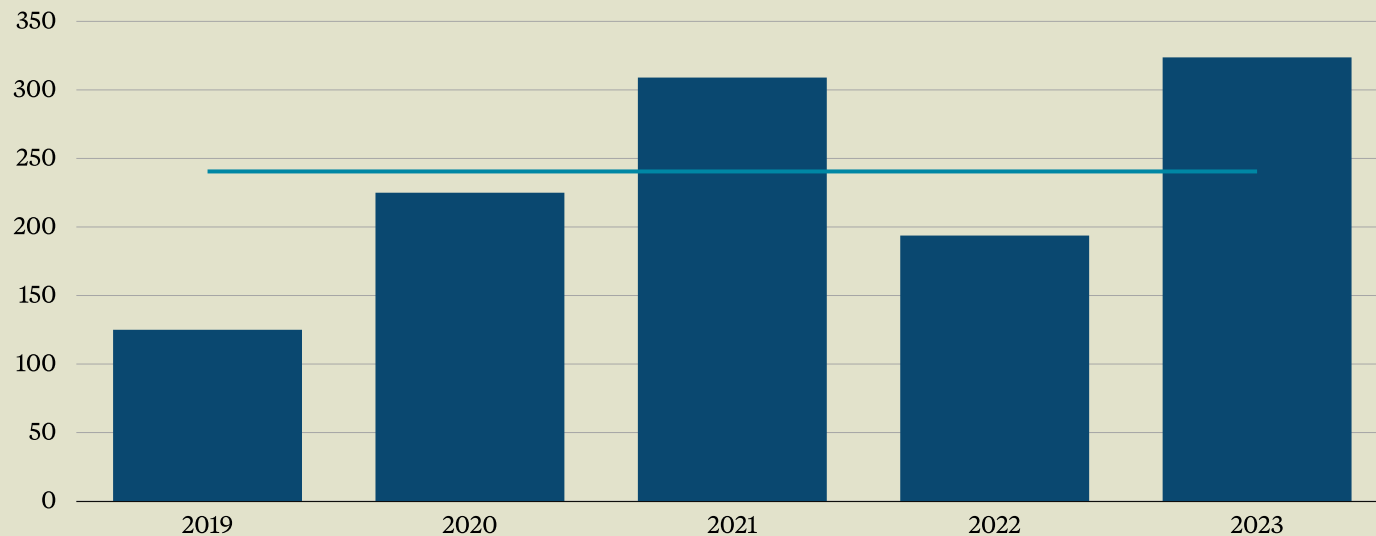
Availability

Rise in availability to be short, with the development pipeline thin.

Newcastle Grade A Supply

sq ft, 000s

■ Grade A Availability — 5-Yr Average



Source: Knight Frank Research, Macrobond

Key Takeaways

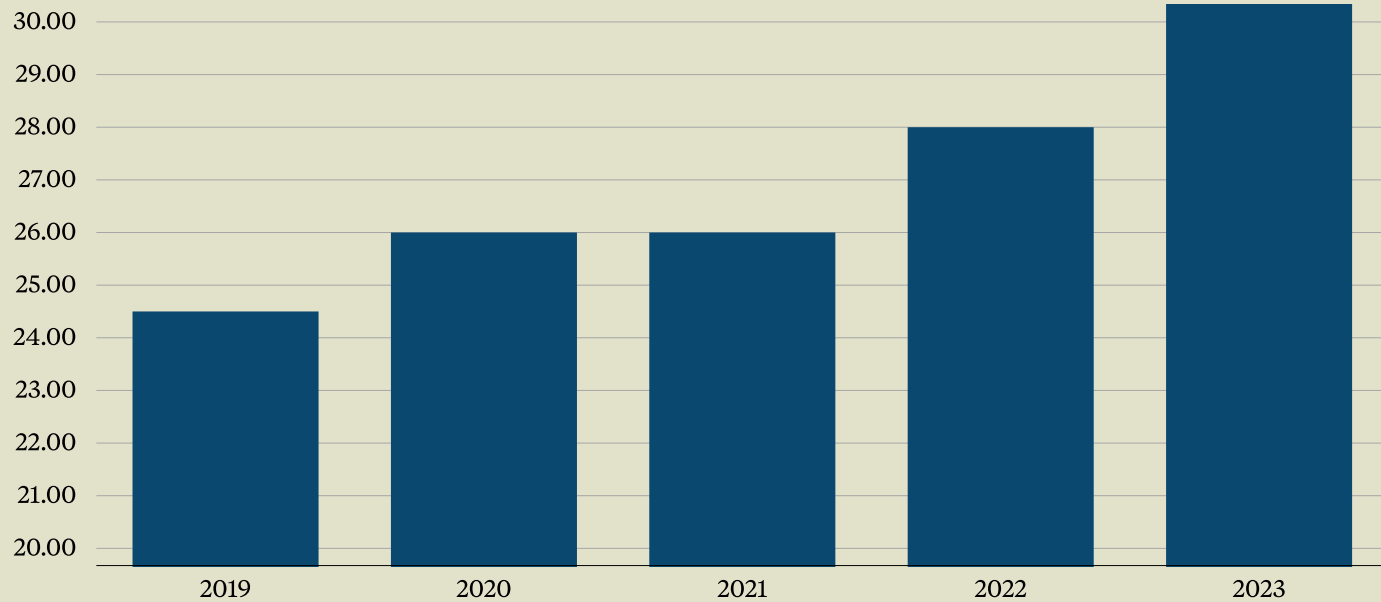
- Grade A availability increased to 323,000 sq ft during 2023. This total is 35% above the 5-year annual average.
- The development pipeline is set to deliver just over 40,000 sq ft of speculative space in the first half of 2024.
- No schemes have broken ground with delivery dates beyond 2024.

Prime Rent

Rents jump in 2023.

Newcastle Prime Rent

£ per sq ft



Source: Knight Frank Research, Macrobond

Key Takeaways

- Prime rents in Newcastle rose by 14% in 2023, reaching £32.00 per sq ft. This is the highest rate of increase across the major UK regional cities.
- Forecasts indicate that rents will remain at £32.00 per sq ft during 2024.



Market Sentiment

- Newcastle office market continues to perform well.
- Demand is mostly lease event-driven, and there is still a significant amount of post-pandemic 'right-sizing' continuing across the sectors.



Future Demand

- Professional Services and TMT are expected to continue to be the most dominant sectors in 2024.
- Three new flex office operators have entered the market in 2023 and we expect this to grow with several more providers setting up in the city in the next 12-18 months.
- With no confirmed new buildings starting on site in 2024, occupiers will need to come to market much earlier to meet their requirements.



Trending

- The flight to quality dominated take-up in 2023, with the majority of take-up being in new build or very high-quality grade A.
- This has driven rental growth and also stimulated investment by some landlords in their assets.
- Speculative Cat B fit undertaken by landlords continues to be a developing trend, with an increase in the number of landlords offering play and space.



Rents, Incentives etc

- The flight to quality has dominated demand and has pushed up prime rents to a new headline of £32.00 per sq ft in 2023.
- Rents in the refurbished market have also risen, but these increases are restricted to those buildings which have seen significant investment in their facilities and ESG credentials.
- Whilst rents increased over the past 12 months, market incentives have stayed relatively constant.

Investment

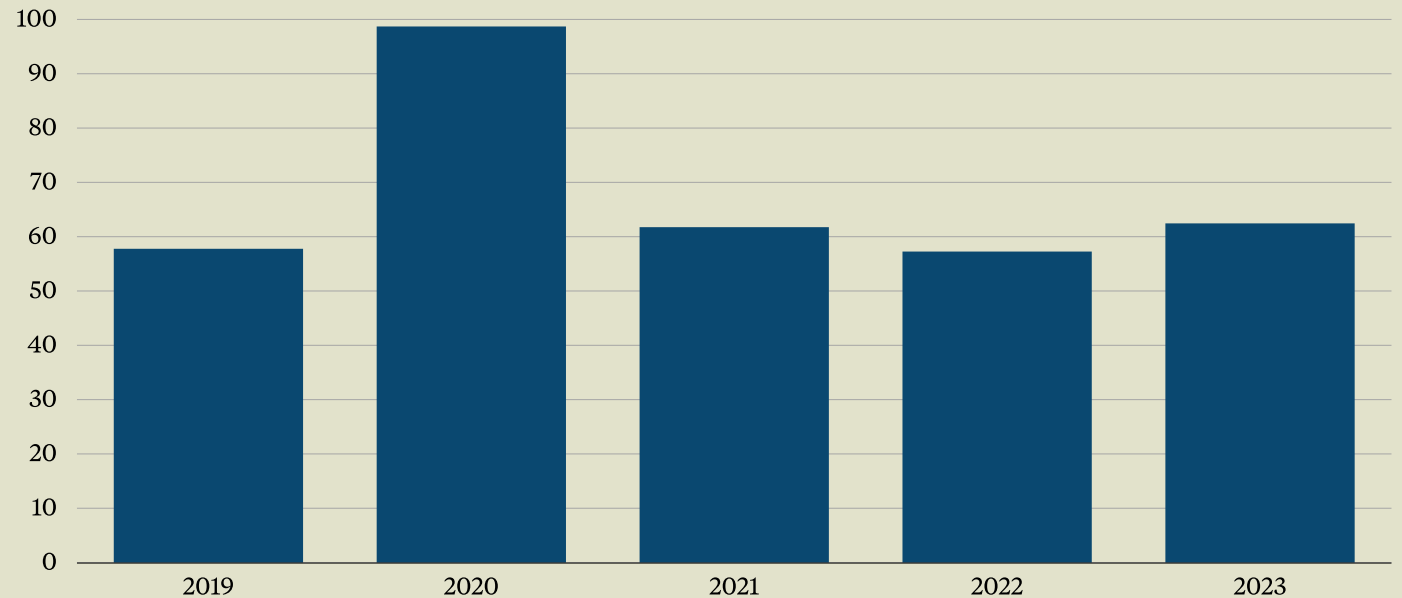
Investment activity holds firm.

Key Takeaways

- Although investor activity was largely muted due to the rise in debt costs, investment volumes in Newcastle registered a year-on-year increase. Over £63m of stock was transacted in 2023, a 9% increase when compared to 2022 and the highest total since 2020.
- The largest deal saw Praxis continue its push into the regional office market with the acquisition of One Trinity Gardens in Newcastle from Abrdn, The investor has agreed to a deal to acquire the 125,000 sq ft office on Broad Chare off Newcastle's Quayside for £18.6m.

Newcastle Annual Investment

£m



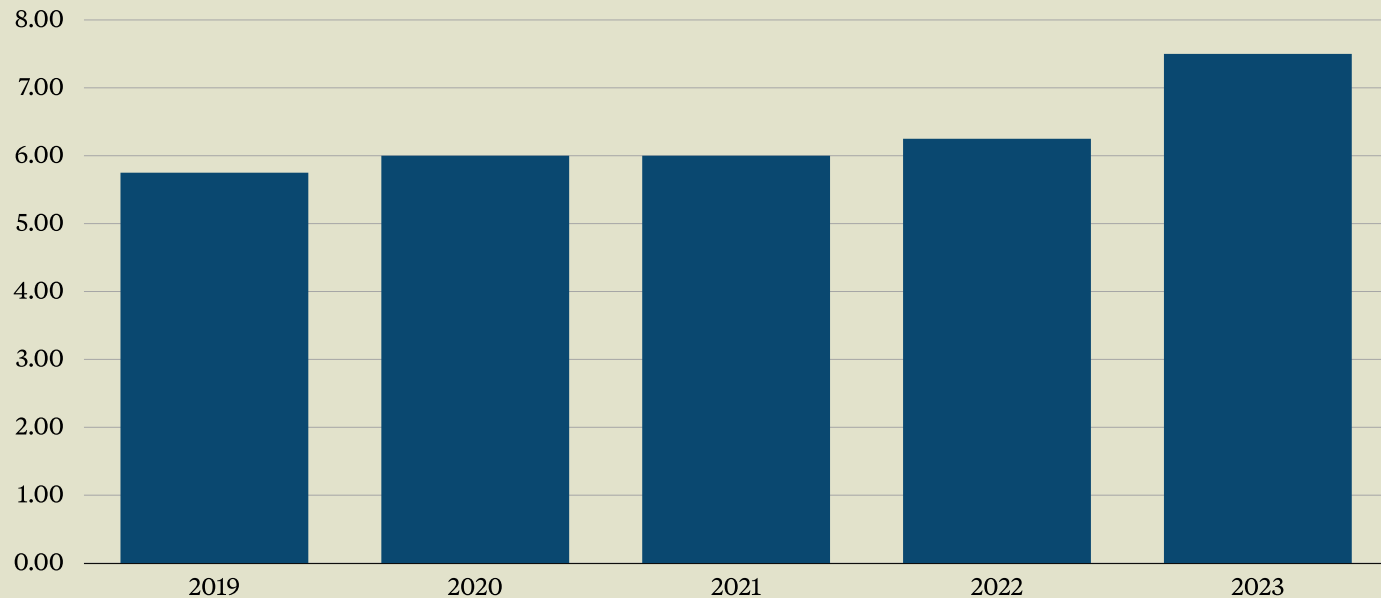
Source: Knight Frank Research, Macrobond

Investment Pricing and Outlook

Pricing softens, but opportunities grow.

Newcastle Prime Yield

%



Source: Knight Frank Research, Macrobond

Key Takeaways

- Prime office yields moved out to 7.50% during 2023, a shift of 125bps.
- Out of town yields typically stand at 8.00%, depending on the age and quality of the asset.



Market Sentiment

- Many investors remain “off” offices.
- The outlook feels positive given the last interest rate decision and the current downward direction of inflation.
- Some pricing discovery is being accepted.
- Yields are set to improve slightly in 2024.



Who's Buying, Who's Selling

- Core plus investors are looking at core and value add looking at core plus.
- Traditional property companies are active, with overseas buyer interest growing.
- Limited institutional appetite.



Opportunities

- Investing in the main regional cities at double-digit cycle high yields presents value.
- Core plus with strong credentials is an opportunity.
- Development is a challenge given build costs and yield levels.
- Alternative uses considered for obsolete assets.



Pricing

- A perfect storm for development resulting in a limited residual site value.
- Prime office yields have moved out by 100bps on average over the past 12 months.

Questions?

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