OUTLOOK

• Improved sentiment in the Newcastle office market looks set to continue.
• 2013 will be the best year since 2008 for grade A city centre (CC) take-up, with in excess of 130,000 sq ft let.
• Overall CC take-up is likely to exceed 250,000 sq ft.
• In the out of town (OOT) market, 2013 take-up is expected to be on a par with 2012.
• Whilst OOT headline rents will remain unchanged in the near term, there is potential for CC headline rents to rise next year, as competition for limited grade A space intensifies.
• Next year could see some CC occupiers forced to consider OOT offices because of the diminishing CC grade A supply level.
• If this happens, it could significantly impact OOT grade A supply.
• As market confidence is steadily restored, investment deal volumes can be expected to continue to rise.
• Favourable yields in the region will be a pull for investors looking to secure quality assets.

INVESTMENT

• Newcastle office investment for Q1-Q3 2013 reached £23.7m, almost double the annual 2012 level.
• OOT business parks have proved popular, with two sales completed at Cobalt and a third sale at Quorum.
• One of the biggest deals to date was Lloyds Bank’s £7.93m sale of Building 15 at Cobalt Business Park to a private investor, in a deal reflecting a yield of 16.5%. The 93,500 sq ft building is currently let to Trillium with 4.75 years unexpired on its lease.
• There has been the commencement of development activity in the CC.
• Hermes Real Estate is due to launch its 38,000 sq ft refurbished office scheme, ‘The Pearl’, before the year end. The 1960’s building, located on New Bridge Street West, is currently undergoing a wholesale refurbishment programme.
• Work on Silverlinks’ long awaited Stephenson Quarter development is now underway, with the Rocket, a 34,000 sq ft grade A office building now under construction. Completion is scheduled for early 2015.
• Whilst these new developments are welcome news, concern has been raised about the number of office conversions to alternative uses.
• Michigan Investments recent purchase of Bruce Building on Percy Street, will now see the one time Newcastle Breweries headquarters transformed into a mixed-use scheme, which will include student accommodation.

Key investment transactions, Q2 & Q3 2013

<table>
<thead>
<tr>
<th>Date</th>
<th>Address</th>
<th>Market</th>
<th>Size (sq ft)</th>
<th>Purchaser</th>
<th>Vendor</th>
<th>Price (£m)</th>
<th>Yield (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul 13</td>
<td>15 Cobalt Business Park</td>
<td>OOT</td>
<td>93,500</td>
<td>Private Investor</td>
<td>Lloyds Banking Group</td>
<td>7.93</td>
<td>16.5%</td>
</tr>
<tr>
<td>Jun 13</td>
<td>Milburn Quarter, Dean Street</td>
<td>CC</td>
<td>Mixed Use (66% offices)</td>
<td>Undisclosed Receiver</td>
<td>6.5</td>
<td>15.1%</td>
<td></td>
</tr>
<tr>
<td>May 13</td>
<td>Quorum Business Park</td>
<td>OOT</td>
<td>31,240</td>
<td>Santon Group</td>
<td>Tritax Assets</td>
<td>3.36</td>
<td>13.3%</td>
</tr>
<tr>
<td>May 13</td>
<td>Bruce Building, Percy Street</td>
<td>CC</td>
<td>22,400</td>
<td>Michigan (Office &amp; Investments of Retail)</td>
<td>University</td>
<td>1.74</td>
<td>5.4%</td>
</tr>
</tbody>
</table>

Source: Property Data, BNP Paribas Real Estate

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THE OCCUPIER MARKET

• This year has seen a rise in activity levels in the Newcastle occupational market.
• Between Q1-Q3 2013 CC take-up reached 178,705 sq ft, up 27% on the equivalent period in 2012.
• This rise reflects the strong occupier demand for CC grade A space.
• The OOT market has also performed well; Q1-Q3 2013 take-up was up 6% on Q1-Q3 2012 at 364,585 sq ft.
• Major CC deals this year have included PwC’s 24,000 sq ft letting at Parabola Estates, Central Square South. To accommodate the new tenant, existing building occupants had to be relocated to alternative floors in the building.
• Since the end of Q3 the CC market’s largest deal in nearly three years has also completed, with Barclays leasing 35,000 sq ft at Visage Properties’ East Quay 5. The bank will be upsizing from 25,000 sq ft at Grey Street.
• Whilst the upturn in market activity is certainly welcome, it is still lease events driving the rise in take-up.
• With the flurry of grade A lettings this year, the CC grade A supply level is reaching a critical level with approximately one year’s supply remaining.
• At the end of Q3 there was 225,000 sq ft of grade A space available, with only four schemes capable of accommodating requirements of more than 15,000 sq ft.
• By contrast the OOT market continues to offer a wide array of grade A accommodation, although this is slowly depleting as favourable financial packages attract new occupants.
• In Q3 2013 OOT grade A availability was 1.09m sq ft, down 9% on Q3 2012.

RENTS

• The Q3 Newcastle CC headline rent reached £21.50 per sq ft, after stabilising at £20.00 per sq ft for more than three years.
• This rise reflects the rising demand for grade A space, which is becoming increasingly scarce in the CC.
• The strength of demand has meant CC incentive levels are falling, with occupiers now typically expecting to receive 12 months rent-free on a 5 year term, down from 18 months at the start of the year.
• At £16.25 per sq ft the Q3 2013 OOT headline rents was slightly down on the Q3 2012 level of £16.95 per sq ft.
• This reflects the high supply of OOT grade A space and lack of occupier competition.

Top market deals

<table>
<thead>
<tr>
<th>Address</th>
<th>Size (sq ft)</th>
<th>CC/OOT</th>
<th>Tenant/Purchaser</th>
<th>LH/FH</th>
<th>Rent (psf)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1, Quorum Business Park</td>
<td>40,000</td>
<td>OOT</td>
<td>TDR Training</td>
<td>Freehold</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>East Quay 5</td>
<td>35,000</td>
<td>CC</td>
<td>Barclays</td>
<td>Leasehold</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>Central Square South, Orchard Street</td>
<td>24,000</td>
<td>CC</td>
<td>Price Waterhouse Cooper</td>
<td>Leasehold</td>
<td>£20.00*</td>
</tr>
<tr>
<td>Wellbar Central, Gallowgate</td>
<td>14,400</td>
<td>CC</td>
<td>BSkyB</td>
<td>Leasehold</td>
<td>£21.50</td>
</tr>
<tr>
<td>Yorkshire Chambers</td>
<td>13,000</td>
<td>CC</td>
<td>Solutions Recruitment</td>
<td>Freehold</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>Bede House</td>
<td>9,900</td>
<td>CC</td>
<td>Ingeus UK</td>
<td>5 year lease</td>
<td>£11.25</td>
</tr>
<tr>
<td>Bede House</td>
<td>9,680</td>
<td>CC</td>
<td>London &amp; Country Mortgages</td>
<td>10 year lease</td>
<td>£11.25</td>
</tr>
<tr>
<td>St Nicholas Building, St Nicholas Street</td>
<td>8,900</td>
<td>CC</td>
<td>National Audit Office</td>
<td>Leasehold</td>
<td>£16.50</td>
</tr>
</tbody>
</table>

* Quoting rent

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