NEWCASTLE OFFICE MARKET REVIEW

- Take-up of Newcastle offices reached 722,000 sq ft in 2014
- Prime rents remain at £21.50 per sq ft but upward pressure is likely
- Investment volumes move above the five year average

The take-up of office space in Newcastle reached 722,000 sq ft in 2014, 14% higher than five year average but slightly down on the figures for 2013, according to research from BNP Paribas Real Estate, the leading property adviser.

Aidan Baker, head of business space at the firm’s Newcastle office said: “The office market, in both the city centre and out-of town locations, has seen transactional volumes slowly recovering since 2010. While the 722,000 sq ft of office space that was transacted is above the five-year average, activity in the office market was down nearly 8% compared to 2013.

“The out-of-town market had a good year with take-up standing at around 546,000 sq ft. This was virtually unchanged on 2013’s figures. Cobalt Business Park witnessed the largest transaction in the North East since 2009 with Utilitywise Plc taking 77,632 sq ft on a 15 year lease at Cobalt 22 at a rent of £16.25 per sq ft. Siemens also signed a five year lease for 39,200 sq ft at Cobalt 9B.

“The ongoing shortage of significant sized Grade A space within the city centre was reflected by the lack of transactions in 2014. There were only two deals of over 20,000 sq ft, with Newcastle University taking 34,134 sq ft at 89 Sandyford Road and Teleperformance signing for 28,300 sq ft at Baltic Place. Total take-up in the city centre was just 177,000 sq ft; a fall of 26% on 2013.

“With only approximately 150,000 sq ft of Grade A space currently available in the city centre, and the supply of new accommodation over the next 24 months remaining restricted, upward pressure on rents will be maintained.”

BNP Paribas Real Estate’s research reveals that annual rents remained at £21.50 per sq ft for prime space but with new developments quoting £22.00 per sq ft the indications are that further upward pressure on rents during the coming months is likely.”

The report also reveals that investment volumes began to rebound and at £121m this was well above the five year average and represented a 230% increase year-on-year, with UK Institutions and fund managers being the most active buyers.
Standard Life acquired one of the two buildings at Central Square South in 2014 for £21.5m at a yield of 7.61%, while the BBC Pension Fund agreed to buy Time Central at Gallowgate from Credit Suisse for £24.68m.

BNP Paribas Real Estate’s Aidan Baker commented: “Investment rational has been driven by the lack of supply in the market, with no significant speculative activity the limited Grade A space has strengthened investors’ appetite for Newcastle’s assets. This has been more prominent in the city centre where the lack of top quality space is most acute.

“While UK institutions remain the top investors and accounted for over 70% of the volume of office deals last year our report highlights that overseas buyers are considering the region, which has relatively high yields when compared to the other key regional cities. We could see investors keen to strike deals whilst prices are still comparatively cheap.”

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About BNP Paribas Real Estate
BNP Paribas Real Estate, one of the leading international real estate providers, offers its clients a comprehensive range of services that span the entire real estate lifecycle: property development, transaction, consulting, valuation, property management and investment management. BNP Paribas Real Estate has local expertise on a global scale through its presence in 38 countries with more than 180 offices and 3,700 employees (17 wholly owned and 21 by its Alliance network that represents today more than 3,000 people). BNP Paribas Real Estate is a subsidiary of BNP Paribas.
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