NEWCASTLE OFFICE MARKET
February 2015

HEADLINES

- Newcastle office take-up for 2014 stood at 722,000 sq ft, 14% higher than five year average.
- Prime rents remained at £21.50 per sq ft but new developments quoting £22.00 per sq ft indicate that further upward pressure on rents during the coming months is likely.
- Investment volumes began to rebound and now stand above the five year average.

TAKE-UP AND DEMAND

- The Newcastle office markets, both city centre (CC) and out-of-town (OOT), have seen transactional volumes slowly recovering since 2010.
- Take-up in 2014 performed well with c.722,000 sq ft transacted across CC and OOT markets. These figures bring total annual take-up 14% higher than the five year average. When compared with 2013 annual figures however, last year activity contracted slightly and was down nearly 8%.
- The OOT market had a good year with take-up at c.546,000 sq ft, virtually unchanged on 2013’s figures.
- Cobalt Business Park witnessed the largest transaction of the North East since 2009 with Utilitywise Plc leasing 77,632 sq ft on a 15 year lease at Cobalt 22 in Q3 at a rent of £16.25 per sq ft. Siemens also signed a five year lease for 39,200 sq ft at Cobalt 9B. BNP Paribas Real Estate UK played an active role in both transactions.
- CC take-up totalled c.177,000 sq ft, down 26% on 2013. Nevertheless, this was in line with the five year average and further highlighted the strong performance witnessed in 2013. Grade A take-up in 2013 was the highest since 2008.
- The CC witnessed only two deals over 20,000 sq ft, Newcastle University acquired 34,134 sq ft freehold, at 89 Sandyford Road and Teleperformance signed 28,300 sq ft at Baltic Place.
- The absence of large deals hampered the annual take-up within the CC market. Other significant deals included, Global Radio leasing 14,029 sq ft at Wellbar Centre at a headline rent of £21.50 per sq ft and Ernst & Young taking 11,187 sq ft at Citygate.

RENTS AND SUPPLY

- 2014 witnessed construction start at the Rocket, Forth Banks, which is part of a mixed use scheme that will provide approximately 35,000 sq ft of office space with completion expected in Q4 2015. Overall, availability of Grade A city centre accommodation totals 147,803 sq ft, down 43% on 2013.
- In contrast the OOT market offers over 843,164 sq ft of new available Grade A space. With the majority of this space provided at Cobalt and Quorum Business Park.
- The city centre market in Newcastle is faced with restricted supply of new accommodation over the next 24 months. This factor should contribute to more deals being signed at rents above £20.00/21.00 per sq ft.

Notable transactions of 2014...

<table>
<thead>
<tr>
<th>Property</th>
<th>CC/ OOT</th>
<th>Size (Sq ft)</th>
<th>Ownership</th>
<th>Tenant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cobalt 22</td>
<td>OOT</td>
<td>78,000</td>
<td>Hightbridge Business Park Ltd</td>
<td>Utilitywise</td>
</tr>
<tr>
<td>Cobalt 9B</td>
<td>OOT</td>
<td>39,200</td>
<td>Hightbridge Business Park Ltd</td>
<td>Siemens</td>
</tr>
<tr>
<td>Doford Park</td>
<td>OOT</td>
<td>32,104</td>
<td>Commercial Estate Group</td>
<td>Parseq</td>
</tr>
<tr>
<td>89 Sandyford Road</td>
<td>CC</td>
<td>34,134</td>
<td>(Receivership)</td>
<td>Newcastle University</td>
</tr>
<tr>
<td>Baltic Place</td>
<td>CC</td>
<td>28,300</td>
<td>Robertson</td>
<td>Teleperformance</td>
</tr>
</tbody>
</table>
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INVESTMENT

- Investment volumes rebounded in 2014 and stood at c. £121m, well above the five year average and 230% increase year-on-year with UK Institutions and fund managers leading the race.

- 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 CC where there is only 150,000 sq ft of Grade A space currently available.

- In Q1 2014 Standard Life acquired one of the two buildings at Central Square South for £21.5m at a (NIY) 7.61%, whilst BBC Pension Fund exchanged contracts with Credit Suisse to purchase Time Central at Gallowgate for £24.68m with a (NIY) of 6.4%.

- Some notable transactions within the business parks market included the sale of Tritax Assets Ltd’s Q8 at Quorum Business Park in April for £17.5m at a (NIY) of 8.10%. Furthermore, Standard Life purchased Cobalt 14 at Cobalt Business Park from Merchant Place Development for £10.35m at a (NIY) of 6.75%, while Moor Park Capital acquired Cobalt 2, Cobalt Park for £19.12m at a (NIY) of 7.5%.

Investment volumes have picked-up..

Source: Property Data; BNPPRE Research

THE AGENT’S OUTLOOK

Aidan Baker, Director of Lettings and Sales, provides his outlook for 2015...

- The Newcastle office market continued to improve in 2014 to enjoy an above average year of take-up, but the lack of Grade A supply is now really starting to have an effect on town centre take-up and this will be the main theme moving through 2015.

- The Clouston Group are currently building 35,000 sq ft at The Rocket, part of the £200m Stephenson Quarter development, but The Rocket will be the only new delivery of Grade A space onto the city centre market this year.

- The lack of Grade A space will see upward pressure on rents, particularly for good-quality Grade B space, but equally it could see large requirements concentrate on other regional cities such as Edinburgh, Glasgow and Leeds rather than Newcastle.

- Investment wise, 2014 was a strong year and we would anticipate 2015 following on in a similar mould.

- The UK institutions remain the top investors and accounted for over 70% of the volume of office deals last year.

- Overseas buyers are considering the region with relatively high yields, when compared to the other key regional cities, the investment rationale certainly makes sense and we could see investors strike deals whilst prices are still comparatively cheap.

Still further yield compression to be found...

Source: BNPPRE Research / IPD / BoE

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