At a Glance

NEWCASTLE OFFICE MARKET
August 2015

HEADLINES

- Newcastle office take-up for H1 2015 totalled 363,154 sq ft, up 19% on the same period in 2014.
- City centre Grade A supply is circa 123,000 sq ft, down 17% year-on-year.
- Investment volumes hit £89m in the first half of 2015, already up 56% on the five year annual average.

TAKE-UP AND DEMAND

- Following on from last year’s sustained activity, occupier confidence has continued to improve. Total take-up for the first six months of 2015 exceeded 363,000 sq ft. Despite being 13% lower than the second half of 2014, take-up was up 19% on H1 2014.
- The city centre market saw circa 95,000 sq ft taken up in the first half of 2015, this represents a staggering 46% increase on the same period in 2014. Similarly, the out-of-town market witnessed a healthy demand with nearly 270,000 sq ft let, up 12% on the same period last year.
- Notable city centre deals include iParadigms (19,975 sq ft) at the Moorglade Holdings’ Wellbar Central and Performance Horizon (9,786 sq ft) at West One.
- Significant out-of-town transactions completed include CHP taking 17,061 sq ft at Q2 Quorum Business Park and Bede Gaming (12,372 sq ft) at Great Park. Other key deals occurred when Hewlett Packard took 12,070 sq ft and DNV GL signed for 9,790 sq ft in two separate buildings at Cobalt Business Park, Cobalt 21 and Cobalt 13a respectively.

RENTS AND SUPPLY

- With only 123,000 sq ft currently available for occupation, Grade A city centre office stock is in short supply and 17% down year-on-year. As a result, occupiers with requirements of over 35,000 sq ft are left with no choice but to divert their search elsewhere.
- On the contrary, the out-of-town market offers more options, we estimate that current Grade A supply is circa 750,000 sq ft, down 20% in the last twelve months.
- Prime rents were stable at £21.50 psf, however fragmented city centre availability has started to convert into increased rental levels and tighter incentives package, this trend will persist over the remainder of 2015.
- The end of 2015 will witness the completion of the first speculative office scheme in the city centre since 2010, the Rocket, Stephenson Quarter will deliver 35,000 sq ft of much needed Grade A space.
- For the remainder of 2015 we expect sustained demand for Grade A stock, this will cause upward pressure on headline rents, particularly in the city centre.

The stats...at a glance

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<tr>
<th>Take-up</th>
<th>363,000 sq ft</th>
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<td>+ 19% on H1 2014</td>
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<tr>
<th>City centre Grade A supply</th>
<th>123,000 sq ft</th>
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<td>- 17% on H1 2014</td>
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<table>
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<th>Prime yields</th>
<th>6.25%</th>
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<td>Stable on end 2014</td>
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<th>Investment</th>
<th>£89.0m</th>
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<td>+ 10% on H1 2014</td>
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Take-up on course to hit the 5 year average...

Source: BNPRE Research

*end June 2015
INVESTMENT

- Investment volumes hit £89m in the first six months of 2015, up nearly 10% on H1 2014 and up an impressive 56% on the five year average of £57m. This is in relation to a buoyant 2014 investment market when the majority of the deals completed within the first half of the year.
- Buyers have been increasingly looking to take advantage of investment opportunities in the regions. More than £4.8bn was allocated to regional offices in H1 2015, this represents 40% of the total UK office investment volume, up 10 percentage points on the correspondent figures for the first half of 2014.
- On the back of the current performance, Newcastle projected office investment volumes are set to exceed last year’s total of over £100m, this will be underpinned by the attractive yield spread, relative to other key markets.
- In terms of investor origin, overseas investments accounted for nearly 33% of the total for the first six months of 2015, the largest share since 2002, and shows a revitalised appetite for Newcastle’s investable stock.
- Circa £76m (86% of the total) worth of investment was completed at Cobalt Business Park in H1 2015. A Salford-based private investor purchased Cobalt 9a for £22.6m (8.5% NIY) and a private overseas buyer acquired the building occupied in its entirety by Procter & Gamble for £16.75m (7.2% NIY).
- Other notable transactions in Cobalt include the Kuwait-based Investment Manager Dimah Capital paying £15.95m for Cobalt 22 (7.5% NIY), the building is let to Utilitywise for circa 14 years unexpired and Maya Capital’s purchase of two office buildings for a total of £21m, Cobalt 15 (£1.13m at 10% NIY) and Cobalt 9b (£8m at 7.9% NIY), respectively.
- The year’s biggest city centre deal happened when Kames Capital paid £7.72m (6.75% NIY) for the Greenridge Abra Fund’s Nexus House, the building is let for a remaining eleven years to Tyne & Wear Passenger Transport Executive.

Investment volumes got off to an impressive start...

Source: Property Data, BNP Paribas Research
*End June 2015

THE AGENT’S OUTLOOK

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

- Following on from a positive occupier story in 2014, take-up for the first six months of 2015 was buoyant.
- In terms of demand, Professional services and the Media Tech sectors have been increasingly active and will likely to drive take-up levels over the remainder of the year.
- Consequently, available stock has further been absorbed and city centre Grade A availability is now limited. This squeeze in supply will partially be eased by the completion (35,000 sq ft) of The Rocket at Stephenson Quarter later this year.
- The out-of-town market currently offers circa 750,000 sq ft of Grade A available space for occupiers with large requirements and good level of car parking. As a consequence of the decreasing supply across many regional markets, North Tyneside will continue to attract footloose occupiers from across other regional areas.
- While Prime rents remained stable at £21.50 psf, rental incentives have tightened, hence turning in favour to landlords.

Average Initial yields keep moving in...

Source: BNP Paribas Research / IPD / BoI

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