Newcastle Office Market Update

Q1 2018

Overview

Total Newcastle office market take up for Q1 stood at 171,943 sq ft which reflected a 38% (124,527 sq ft) increase on the previous quarter, Q4 2017.

Office take up in Newcastle city centre totalled 39,194 sq ft, equating to the strongest first quarter in the city centre since 2015. The largest city centre letting of the quarter saw Turner and Townsend relocate from Grade B accommodation into 5,228 sq ft of prime Grade A office space at Time Central. A further key deal was the freehold sale of 50 Grey Street to a private owner occupier for £4.05 million following a competitive bidding process.

Headline rents of £23.00 psf remained consistent with the levels experienced during 2017 with many city centre transactions below 5,000 sq ft. 80% of transactions out of town were also sub 5,000 sq ft with a common theme being set for medium sized occupiers acquiring stock for their own occupation.

Out of town take up was also up during the first quarter of 2018, reaching 132,749 sq ft across 45 deals compared to just 86,505 sq ft across 36 deals in Q4 2017. The principal transactions of this quarter were 16,000 sq ft at Durham Gate Spennymoor to Learning Curve and Utility Alliance who took 13,333 sq ft at Quorum business park.

Key Data:

- **39,194 sq ft**
  City Centre take up Q1 2018

- **132,749 sq ft**
  Out of Town take-up Q1 2018

- **£23.00 per sq ft**
  City Centre Headline Rent

- **5.57% NIY**
  Prime Yields

- **65 deals**
  Total Deals Q1 2018
Newcastle Office Market Update

Key Transactions

<table>
<thead>
<tr>
<th>Occupier</th>
<th>sq ft</th>
<th>Address</th>
<th>Leasehold/Freehold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Learning Curve</td>
<td>16,000</td>
<td>Durham Gate, Spennymoor</td>
<td>Leasehold</td>
</tr>
<tr>
<td>Utility Alliance</td>
<td>13,333</td>
<td>Q1 Quorum</td>
<td>Freehold</td>
</tr>
<tr>
<td>Confidential</td>
<td>9,368</td>
<td>50 Grey Street</td>
<td>Leasehold</td>
</tr>
<tr>
<td>Turner and Townsend</td>
<td>5,228</td>
<td>3rd Floor, Time Central</td>
<td>Leasehold</td>
</tr>
</tbody>
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With improving demand and plenty of significant developments in the pipeline there are number of exciting opportunities for investors and developers in the North East market.
Demand

In Q1 there were a total of 65 office deals, with 20 city centre deals and 45 in the out of town market. Demand in the city centre continues to be driven predominantly by the recruitment, technology and finance sectors. There are currently three large, agent-led Newcastle city centre office requirements in the market for an average of 60,000 sq ft of Grade A office space. During Q1 it was also apparent that demand for office accommodation to the South of the River Tyne is rising.

Out of the town the largest requirement is for 50,000 sq ft of Grade A offices in County Durham. We are currently acting on behalf of four retained clients seeking a range of Grade A and Grade B office accommodation in Newcastle, between 4,000 sq ft to 15,000 sq ft and in Teesside between 5,000 sq ft and 10,000 sq ft.

Supply

The shortage of Grade A stock within the city centre has been apparent for some time now and is being addressed across the city but there will be an inevitable supply lag until late 2019. Across the region several office developments are emerging with needed public sector intervention.

In terms of the supply pipeline, this quarter has seen the next phase of planning submitted at Baltic Business Quarter Gateshead for 54,000 sq ft of Grade A office accommodation (due to complete in late 2019). Q1 has also seen the renaming of Newcastle Science Central to the Newcastle Helix, The Lumen (1st phase) and The Spark (2nd phase). The Lumen is currently under construction and also due to be completed in late 2019.

With the recent collapse of Carillion a number of projects have been delayed, including the Vaux Site in Sunderland city centre, which is due to provide 60,000 sq ft of Grade A office space in 2018, which has been delayed until new contractors are appointed. In Darlington, the last phase of the Feethams scheme is due to be completed in Autumn 2019, which will provide 30,000 of Grade A office accommodation within the town centre.

As with the previous quarter the majority of the Newcastle city centre take up figures are from existing refurbished stock. Examples of this include 2 Collingwood Street which recently came to the market with a quoting rent of £17.50 psf, Barclays House on Grey Street with refurbishment due to be completed later this year quoting rent of £22.00 psf and 50 Grey Street due to be refurbished to Grade A specification quoting a rent of £22.00 psf.

Outlook

Newcastle continues to establish itself as a desirable destination for the digital and tech industry with a number of start-ups looking to take advantage of the region’s support networks and innovative office spaces at Campus North and Hoults Yard. Newcastle Gateshead is set to host the Great Exhibition of the North this year and this will shed further spotlight on the current innovation boom in the region.

With improving demand and plenty of significant developments in the pipeline there are still a number of exciting opportunities for investors and developers in the North East market.