



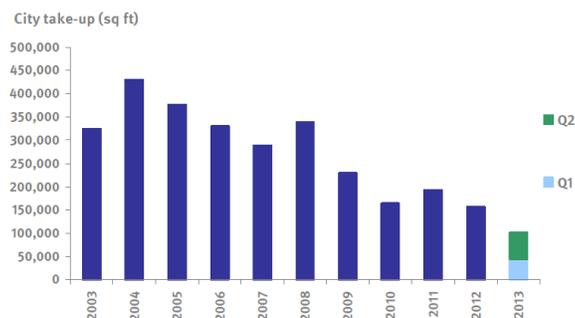
# NEWCASTLE OFFICES

Market update Q2 2013

**Knight Frank**

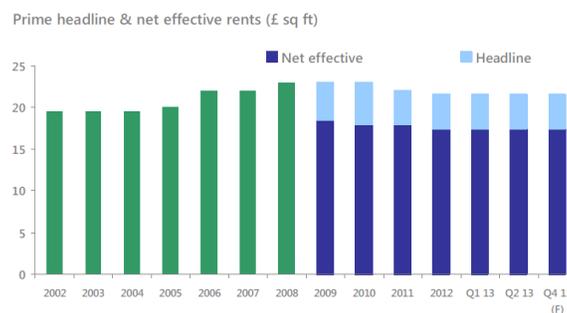
## Key highlights

- The Newcastle city centre office market continues with Q1's momentum, with Q2 take-up amounting to 56,949 sq ft – a rebound on Q1 and 19% up on a year ago. Take-up for the first six months of this year was 101,073 sq ft, 14% above the same period last year.
- Q2 net effective rents were unchanged at £17.50 per sq ft and have remained at this level since Q1 2012. Equally, headline rents remained at £21.50 per sq ft.
- Grade A availability fell to 245,184 sq ft in Q2 – representing an annual fall of 10%, while the vacancy rate remained unchanged at 8% - still relatively low compared with the other major regional cities.



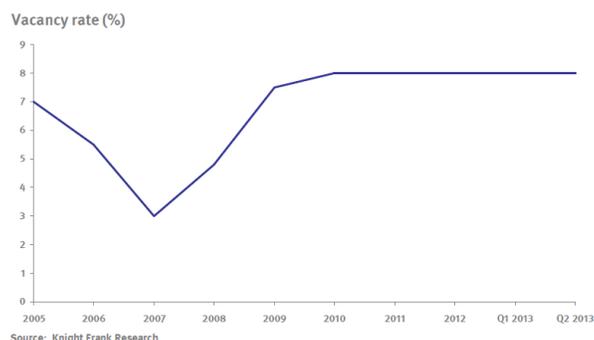
## Office gossip

- There are tentative signs that occupiers are considering expansion and beginning to require more space. For example, BSkyB has taken 14,149 sq ft at Wellbar Cental in addition to the 36,000 sq ft they previously committed, while London & County Mortgages have also taken an additional 9,607sq ft at Bede House where they acquired 3,000 sq ft last year.
- Growing optimism has emerged in the market, with an increasing number of enquires. Total requirements in Q2 amount to 306,900 sq ft, up 50,000 sq ft from Q1, although it remains to be seen whether this will materialise into take-up. There is however, over 70,000 sq ft of city centre offices currently in solicitors' hands, which is a positive sign for the remainder of the year.



## Looking ahead

- The first phase of Stephenson Quarter (35,000 sq ft) is still the only new scheme coming on to the market this year. The Rocket building is currently under construction along with a multi-storey car park and a 4-star Crown Plaza Hotel.
- Hermes Real Estate's The Pearl - the comprehensive redevelopment of Pearl Assurance House is also currently underway and is due for competition in October, providing 38,000 sq ft of Grade A office at the southern end of Northumberland Street.



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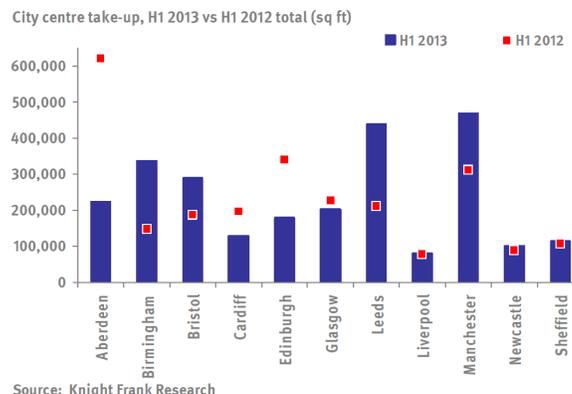
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# UK REGIONAL OFFICES ROUND-UP

Q2 2013

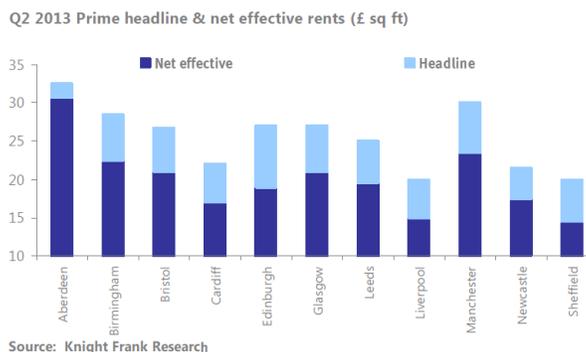
## Occupier demand

- The regional office markets received a welcomed boost in Q2. Demand is relatively robust for the regions, with a growing list of sizeable requirements, mainly from corporate occupiers in the legal and financial sectors.
- The 11 markets combined recorded total take-up of 1,376,023 sq ft during Q2 – up 16% up on Q1 2013. Whilst overall total take-up for H1 2013 stands a modest 2% higher than H1 2012, this was largely due to Aberdeen's exceptional performance in 2012. Indeed, H1 2013 take-up in England's major regional markets has rebounded sharply from H1 2012, namely Birmingham (up 128%), Leeds (up 106%), Bristol (up 54%) and Manchester (up 51%).
- Whilst there was a healthy level of activity, similar to previous quarter, transactions continued to be predominantly characterised by smaller deals.



## Supply and rents

- Availability of Grade A space slipped to 2,831,975 sq ft in Q2 2013 – 15% down on Q2 2012. This reflects the continuing erosion of Grade A space in most markets in the absence of new completions/development activity. A year-on-year double-digit fall was seen in Birmingham (-44%), Leeds (-32%), Glasgow (-17%), Manchester (-13%), Sheffield (-13%), Newcastle (-11%) and Liverpool (-10%), with the exception of Bristol (+31%) and Cardiff (+29%).
- There are signs that sentiment in the occupier market is improving. Headline rents and incentives have been largely stable, with only Aberdeen showing an increase in headline rents (from £31.50 to £32.50). While further significant growth in regional headline rents is unlikely over the remainder of 2013, net effective rents may harden as Grade A supply continues to decline.



## Investment market

- Investment turnover for offices outside London and the South East was subdued in Q2. The latest figures from Property Data suggest c.£346m turnover, 42% down on Q1.
- Strong investor interest in prime office stock in the regions has been maintained, although a shortage of suitable product (prime and long-income assets) remains a major barrier to activity. In the secondary spectrum, investor interest is highly selective, confined to good quality secondary stock where there is potential to add value through asset management.
- Generally, prime yields were largely stable in the regional cities, albeit Q2 saw signs of improved sentiment for prime stock. Aberdeen, Birmingham, Bristol, Cardiff, Edinburgh, Glasgow and Leeds saw prime yields move in by 25bps.

## Prime office yields

	2012		2013		Yield sentiment
	Q3	Q4	Q1	Q2	
Aberdeen	6.50%	6.50%	6.50%	6.25%	→↘
Birmingham	6.50%	6.50%	6.25%	6.00%	→↘
Bristol	6.50%	6.50%	6.50%	6.25%	→↘
Cardiff	6.50%	6.50%	6.50%	6.25%	→↘
Edinburgh	6.50%	6.50%	6.50%	6.25%	→↘
Glasgow	6.50%	6.50%	6.50%	6.25%	→↘
Leeds	6.50%	6.50%	6.50%	6.25%	→↘
Liverpool	7.50%	7.50%	7.50%	7.50%	→↘
Manchester	6.50%	6.50%	6.25%	6.25%	→↘
Newcastle	6.75%	6.75%	7.00%	7.00%	→↘
Sheffield	7.25%	7.25%	7.25%	7.25%	→↘

Source: Knight Frank Research

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