



NEWCASTLE OFFICES

Market update Q3 2013

Knight Frank

Key highlights

- The Newcastle city centre office market continues to see a buoyant level of activity, with Q3 take-up amounting to 102,747 sq ft – 80% up on the preceding quarter and 95% up on a year ago. Total take-up for this year so far was 203,820 sq ft, 45% above the same period last year.
- Q3 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 220,000 sq ft in Q3 – representing an annual fall of 15%, while the vacancy rate remained unchanged at 8% - still relatively low compared with the other major regional cities.

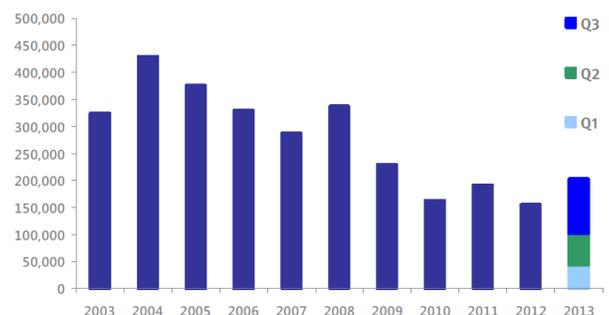
Office gossip

- The largest letting in Q3 was PWC's relocation to Central Square South where they acquired over 23,000 sq ft.
- Other significant lettings included The National Audit Office taking 9,000 sq ft at Danmerc's St Nicholas Building and Silk Law took 4,000 sq ft at Standard Life's One Trinity Gardens. As a result, city centre Grade A supply continues to diminish.
- Market sentiment continues to improve, as shown by an increasing number of enquires. Total requirements in Q3 amounted to 526,000 sq ft, up 219,100 sq ft from Q2, although it remains to be seen whether this will translate into take-up.

Looking ahead

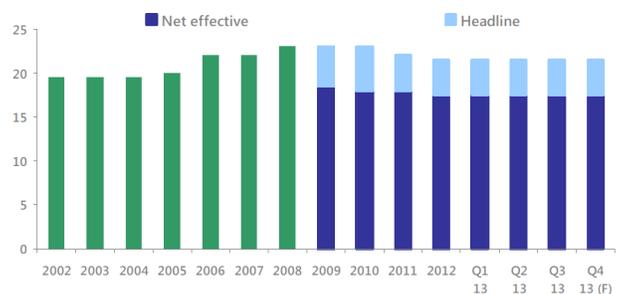
- Hermes' refurbishment of The Pearl is due for completion in November 2013 and will provide the city's first high quality refurbishment for some time, delivering units ranging from 500 to 38,000 sq ft.
- Stephenson Quarter remains the only new office space under construction in the city. With take-up continuing to improve and at least one further substantial letting due to be announced in Q4, concern and speculation over the lack of new Grade A supply in the pipeline for the next two years is increasing.
- With a shortage of available Grade A supply in the city centre and no major additional supply scheduled for delivery in the near future, rents are expected to come under pressure and conversely, incentives are expected to harder.

City take-up (sq ft)



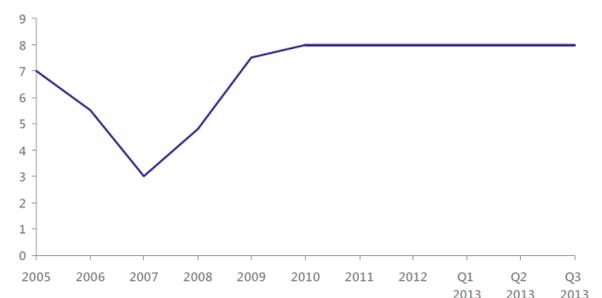
Source: Knight Frank Research

Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Vacancy rate (%)



Source: Knight Frank Research

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UK REGIONAL OFFICES ROUND-UP

Q3 2013

Occupier demand

- Sentiment and demand continued to improve in the regional office markets in Q3, with occupier demand remaining relatively robust. Indeed, there is a healthy list of sizeable requirements, mainly from occupiers in the legal and financial sectors.
- The 11 markets combined recorded total take-up of 1,461,951 sq ft during Q3. Whilst this represents a modest increase of 6% on Q2 2013, it is 22% above the overall total take-up recorded for the same period, with strong performance and double digit increases seen in Glasgow (+100%), Newcastle (+95%), Aberdeen (+71%), Liverpool (+52%), Sheffield (+34%), Bristol (+22%) and Manchester (+11%).
- However, there was a healthy level of activity, transactions continued to be predominantly characterised by smaller deals.

City centre take-up, Q3 2013 vs Q3 2012 total (sq ft)

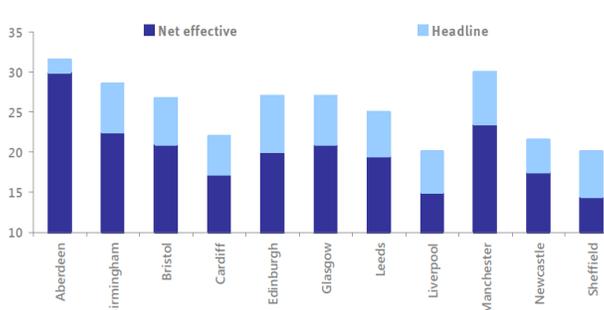


Source: Knight Frank Research

Supply and rents

- Q3 saw a marginal quarterly decrease in Grade A supply, which slipped from 3,225,544 sq ft in Q2 to 3,069,805 sq ft in Q3. This reflects the continuing erosion of Grade A space in the absence of new completions/development activity. Quarter-on-quarter double-digit falls were seen in Cardiff (-19%), Birmingham (-17%), and Newcastle (-10%). Only two cities experienced a quarterly increase in supply, namely Aberdeen (+45%) and Glasgow (+4%).
- Whilst occupier sentiment is improving, headline rents have been largely stable, with only Aberdeen projected to see an increase in headline rents by the year-end. While growth in regional headline rents is unlikely over the remainder of 2013, net effective rents may edge up as Grade A supply continues to decline.

Q3 2013 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Q3 saw a buoyant level of investment activity. According to the latest figures from Property Data, investment turnover for offices outside London and the South East was c. £870m, up 82% on a year ago.
- Whilst investor demand for prime office assets in the regions has remained strong, most regional office markets have started to, and are likely to continue to, suffer from a shortage of available stock (prime and long-income assets). Since prime buying opportunities are limited, increasing interest is being seen in good quality secondary assets which offer sound fundamentals, with prospects for active management.
- Prime yields in the regional cities generally hardened during Q3, with Aberdeen, Bristol, Edinburgh, Glasgow, Liverpool, Manchester and Newcastle seeing prime yields move in by 25 bps. Birmingham and Cardiff were the exceptions, with prime yields remaining stable in Q3.

Prime office yields

	2012	2013			Yield sentiment
	Q4	Q1	Q2	Q3	
Aberdeen	6.50%	6.50%	6.25%	6.00%	→↘
Birmingham	6.50%	6.25%	6.00%	6.00%	→↘
Bristol	6.50%	6.50%	6.25%	6.00%	→↘
Cardiff	6.50%	6.50%	6.25%	6.25%	→↘
Edinburgh	6.50%	6.50%	6.25%	6.00%	→↘
Glasgow	6.50%	6.50%	6.25%	6.00%	→↘
Leeds	6.50%	6.50%	6.25%	6.15%	→↘
Liverpool	7.50%	7.50%	7.50%	7.25%	→↘
Manchester	6.50%	6.25%	6.25%	6.00%	→↘
Newcastle	6.75%	7.00%	7.00%	6.75%	→↘
Sheffield	7.25%	7.25%	7.25%	6.75%	→↘

Source: Knight Frank Research

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