

North East Investment Market

Update: Q1 2019

Current Yields

Offices



Prime Newcastle city centre
single-let: **5.50%**

Prime, multi-let city centre
with 5 year WAULT: **6.50%**

Prime out of town:
6.75% - 7.00%

Industrial



Prime single-let industrial:
5.50%

Prime multi-let industrial
5 year WAULT: **6.50%**

Retail



Prime single let retail in central
Newcastle: **5.5%**

Prime out of town: **6.5%**

55 Degrees North, Newcastle

The North East of England proved, once again, to be in demand for investors in 2018. Both overseas and UK investors acquired commercial assets, with Newcastle city centre offices seeing a slightly higher volume of activity than in 2017. This market has seen consistent tenant demand and ever reducing levels of Grade A supply, with landlords refurbishing existing properties to capture demand and benefitting from rental growth as a result.

In December 2018, Naylor's completed the sale of 55 Degrees North, a landmark mixed-use scheme in central Newcastle. Comprising of 165 apartments, two floors of offices, a restaurant and bar, 55 Degrees North was purchased at a price reflecting a net initial yield of 8.5%, with the sale completing in only four weeks once terms were agreed.

Whilst the out-of-town market may not have seen many individual large transactions in 2018, take-up volumes were higher than in 2017, with investment transactions around double for the same period.

Rental growth, driven by a lack of prime stock and consistent tenant demand, has meant that industrial assets were again strongly sought after in 2018, with further yield compression seen. The industrial market was further buoyed in 2018 by the forward funding of 1.6m sq. ft. of distribution space in Darlington, with a further 1.9m sq. ft. pre-let in Durham, both to an online retailer.

For more information please



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North East Industrial Market

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Integra 61

Headline Rent (under 20,000 sq.ft)
£8.10 /sq.ft

Headline Rent (50,000 sq.ft plus)
£6 /sq.ft. & likely to rise to £6.50 /sq.ft. in 2019

Limited Grade A availability should result in further pre-let activity in 2019 after over **3.6 million sq. ft was pre-let in 2018**

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2018 was a record year in the North East market for large units, with over 6 million sq. ft. of take-up. Whilst the figures were boosted by two significant pre-lets totalling 3.5m sq. ft. to one online retailer, take-up was still extremely healthy.

Despite the uncertainty related to the UK's withdrawal from the European Union, the North East's fundamentals, such as its strong manufacturing heritage, lower cost labour pool and export capabilities, all remain its key strengths.

Retailers continue to upgrade their supply chains in order to compete with the major online operators, with fulfilment and third party logistics companies also looking to ensure they are fit for purpose in today's multi-channel consumer world. As such, we are predicting further take-up in these sectors in the coming 12-24 months.

Supply of Grade A buildings is critically low, with strong take-up levels leading to sustained rental growth. This, aligned with our world-renowned universities, skilled but low cost labour force and availability of cheap land compared to regions

further south, makes the North East an excellent place for investment and development.

New supply in 2019:

- **Velocity 194** in Washington - planning consent and power secured for 157,000 sq. ft. of warehouse/manufacturing space within close access to Nissan, the A19 and A1 (M).
- Having pre-let 2m sq. ft. in 2018 and infrastructure works to finish in 2019, **Integra 61** in Durham offers opportunities for further development of industrial space from 10,000 sq. ft. up to 525,000 sq. ft. in one building.
- UK Land Estates has received planning consent for 200,000 sq. ft. of new development on **Team Valley** following strong take-up of recent new developments on the estate, which is the largest in the North East of England.

North East Office Market

Update: Q1 2019



Headline Rent **£24.50 /sq.ft**

Headline Rent Forecast for Q4 2019 **£25.00 /sq.ft**

Newcastle City Centre Take Up 2018 **240,00 sq.ft**

Out of Town Take Up 2018 **608,000 sq.ft**

Newcastle City Centre Grade A Supply **100,000 sq.ft**

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VAUX

Despite the uncertainties surrounding Brexit, market sentiment was largely positive in 2018 particularly in the city centre.

Limited Grade A supply is driving rental growth and prompting a number of successful refurbishment projects such as 71 Grey Street, which has achieved 97% occupancy and rents of £22.50/sq.ft.

A new headline rent of £24.50 /sq.ft was achieved in the letting to Towergate at Central Square South in Q4 2018 and we expect this to rise to £25.00/sq.ft before the end of 2019.

Occupiers are becoming more discerning and better informed with their space requirements. Staff retention continues to be an important factor, frequently leading to requirement for higher specification space.

The out-of-town market is not quite as buoyant as the city centre market with occupiers still benefitting from a healthy range of options. The headline rents stand at circa £16.50/sq.ft.

New supply in 2019:

- Q2 2019 - The Beam, VAUX, Sunderland = **59,500 sq.ft**
- Q4 2019 - The Lumen, Newcastle Helix = **100,000 sq.ft**

Pipeline Development:

- Milburngate, Durham
- Centre Square, Middlesbrough
- Phases 2 and 3 of VAUX, Sunderland
- Newcastle International Airport Business Park