

	YoY Chg	12-Mo. Forecast
8.0% Vacancy Rate	▼	▼
519,119 sq ft Take-Up	▲	▼
£26.00 psf Prime rent	▬	▲

KEY INDICATORS Q4 2021

	YoY Chg	12-Mo. Forecast
32.5 M UK Employment	▲	▲
4.1% UK Unemployment Rate	▼	▼
0.25% Interest rate	▲	▲

Source: ONS

ECONOMY: Continued positive growth but interest rates on the rise

The UK economy surpassed its pre-pandemic level for the first time in November. GDP rose by 0.9% during the month, taking the economy to 0.7% above the February 2020 level. This is clearly a positive for the UK real estate market and demonstrates a clear direction of travel, but we should expect weaker data for December once the effects of Omicron are felt. The biggest gain was in the construction sector, which expanded by 3.5%, largely reflecting an easing of the supply issues that have restricted growth for the last two years. The base rate rose for the first time since 2018 in response to rising inflation rates driven by the price of fuel and energy.

The recovery in the labour market continued in the three months to November 2021. The UK employment rate was 75.5%, 0.2% higher than the previous quarter, but still 1.1% below the pre-pandemic level. Forecasts suggest jobs growth in office-using industries will continue through the next 12 months and beyond.

OCCUPIER FOCUS: Pre-letting driving take-up while supply continues to fall

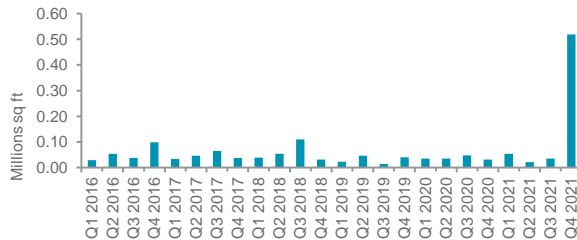
Take-up totalled a record-breaking 519,119 sq ft in the fourth quarter, driven by HCHLG/HMRC's pre-let of 462,847 sq ft at Pilgrim's Quarter, the largest transaction ever recorded in this market. Take-up for the full year reached 630,079 sq ft, four times higher than the previous year and more than double the five-year annual average.

Improving sentiment since the end of 2020 has driven strengthening demand in 2021. However, there remains a lack of quality available stock in the Newcastle market. Availability fell to 555,000 sq ft in Q4 2021, the lowest since Q3 2020. The availability of new and refurbished space remained particularly low; at the year-end there was just 120,000 sq ft available to lease, representing a vacancy rate of 1.7% for this grade of space. There is just 130,000 sq ft under construction speculatively. The paucity of standing new stock, the limited pipeline and the current demand for the very best space helped maintain the prime rent at £26.00 per sq ft, a record level for this market.

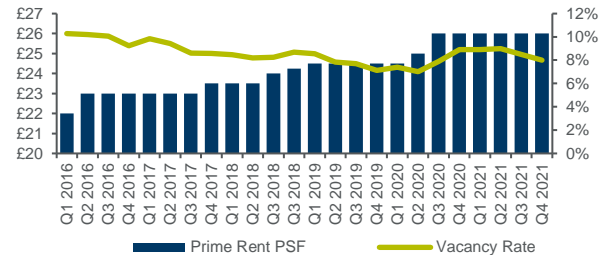
INVESTMENT FOCUS: Lack of supply continues to suppress sales volumes

There was one investment transaction in the fourth quarter: Topland Group's purchase of Citygate II for £19.0 m. The ongoing lack of stock continued to weigh on activity. Although investor demand remains strong, driven in part by the particularly tight occupier market, lack of speculative development and turnover will continue to reflect stock availability. Pricing remained stable at 5.75%.

TAKE-UP



OVERALL VACANCY & PRIME RENT



MARKET STATISTICS

NEWCASTLE	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	% CHANGE Q-O-Q	% CHANGE Y-O-Y
Stock (Sq ft)	6,972,231	6,972,231	6,972,231	6,972,231	6,972,231	0.0%	0.0%
Take-up (Sq ft)	31,912	53,553	21,850	35,557	519,119	-	-
Supply (Sq ft)	624,000	624,000	630,000	590,000	555,000	-5.9%	-11.1%
Vacancy Rate	8.9%	8.9%	9.0%	8.5%	8.0%	-	-
Spec Construction (Sq ft)	166,000	198,500	198,500	198,500	130,000	-34.5%	-21.7%
Prime Rent (per sq ft)	£26.00	£26.00	£26.00	£26.00	£26.00	0.0%	0.0%
Investment Turnover (Millions)	-	£5.00	£8.09	£9.60	£19.00	97.9%	8.6%
Prime Net Initial Yield	5.75%	5.75%	5.75%	5.75%	5.75%	-	-

KEY LEASE TRANSACTIONS Q4 2021

PROPERTY	MARKET	TENANT	Size (Sq ft)	TYPE
Pilgrim's Quarter, New Bridge Street	Newcastle	HCHLG / HMRC	462,847	Pre-let

KEY DEVELOPMENTS Q4 2021

PROPERTY	MARKET	DEVELOPER/TENANT	SF	COMPLETION
One Strawberry Lane	Newcastle	Ask Real Estate / Home Group	70,000	Q2 2022
Bank House, Pilgrim's Place	Newcastle	Reuben Brothers	110,000	Q4 2022

KEY SALES TRANSACTIONS Q4 2021

PROPERTY	MARKET	SELLER / BUYER	SF	PRICE
Citygate II	Newcastle	EPIC-REIT / Topland Group	63,524	£19.0 m

GREG DAVISON

Partner,
Office Agency Newcastle
+44 (0) 191 223 5710
greg.davison@cushwake.com

PATRICK SCANLON

Partner,
Head of UK Offices Insight
+44 (0) 203 296 4994
patrick.scanlon@cushwake.com

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