

# Market *Insight*

Bringing the latest from the property market direct to you...

The Newcastle Commercial Agency Team at **Sanderson Weatherall LLP** is active across the full spectrum of market sectors.



*'Vigo2' in Washington sold by Sanderson Weatherall LLP*

Working on the ground and in your locality, we know that while the current economic backdrop continues to bring its own set of market challenges, activity is continuing in many areas of commercial property.

## WHAT'S INSIDE

In this issue, we bring you the news and views on the Office, Investment, Industrial and Residential markets, with a round-up from our award-winning agency team.

### P2 Offices

Q3 in 2011 saw the third consecutive period of increased take-up in a market dominated by sub 5,000 sq ft...

### P2 Investment

Changing mindset brings forth new opportunities...

### P3 Industrial

Sector continues to trade well...

### P3 Residential

Comeback set for family development...

### P4 Our Team

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## Offices

*Q3 in 2011 saw the third consecutive period of increased take-up in a market dominated by sub 5,000 sq ft...*

The second half of September 2011 brought an upturn in enquiries, following a quiet summer period for city centre accommodation.

Aside from the BSkyB deal which saw the broadcaster take 36,518 sq ft at Wellbar Central in Gallowgate, the largest city centre leasehold transaction in Newcastle since 2008, take-up continues to be dominated by the sub 5,000 sq ft stock.

Also in the third quarter, several medium sized deals were completed for single floor operators in close proximity to the city's Central Station transport hub.

Small freeholds close to the city centre are in demand, evidenced by a recent transaction in Leazes Park Road which reflected a capital value of £174 per sq ft.



Moving out-of-town, and the third quarter of 2011 saw no significant lettings in either of the former Enterprise Zone schemes of Cobalt and Quorum.

Looking forward, there are a number of enquiries in the range of 20,000 to 30,000 sq ft, which when converted will be a welcome boost to the market. There has been little larger corporate activity this year with the exception of BT, who completed on a significant deal for 43,000 sq ft at Harton Staithes in South Shields.

The 'own front door' products at Lumley Court in Chester-le-Street and Northumberland Business Park have seen continued activity, with capital values up to £130 per sq ft.

Overall, given the attractive lease terms and lower capital values, now is an excellent time for occupiers to move.

## Investment

*Changing mindset brings forth new opportunities...*



**The consensus in the RICS UK Commercial Market Survey Q3 2011 is that the level of enquiries from investors remained largely unchanged over the last quarter.**

A new factor emerging in this market is that some of the early 1990's stock on out-of-town office parks is reverting, after the initial tax period, to the original funding syndicates or their bankers.

This is creating a different mindset and one which is challenging the market offering, as these latter parties enter the frame on the back of a tax decision.

They are seeking an exit to crystallise their position, whether by investment sale or letting at significantly lower rents than the traditional headline rental for these parks, plus rent free incentive. For example, one 50,000 sq ft building has just come to the market at a £60 per sq ft capital asking price.

Certainly, for those better located schemes, this is bringing forward some interesting opportunities - particularly for occupiers with a larger out-of-town requirement or a high yielding potential opportunity for any cash rich investor looking to take a medium to long term view.

A cautionary note to these investments is that the empty rates issue is an additional dynamic to factor into the decision.

Overall, we see the yield gap increasing between well-let long term income and short term let stock.

# Industrial

## Sector continues to trade well...

While the prevailing economic conditions and the European Sovereign debt crisis continue to affect confidence, the local industrial market remains robust for stock close to the main transport corridors.

2010 was a tough year, with only a handful of deals concluded in the circa 100,000 sq ft size range, and, at significantly reduced rental and capital values.

However, in 2011, we have seen an improvement, with a number of larger buildings now occupied or presently under offer.

The local manufacturing base is providing the main source of this activity, with occupiers such as Nissan, Hitachi, Rolls Royce, and SSI all announcing large projects.

Crucially, there has been no speculative development for nearly five years. This, coupled with the lack of funding in the market, means that occupiers will have to look towards design and build opportunities in order to satisfy their ongoing requirements.

Sanderson Weatherall is marketing a host of industrial sites in the range of £75,000 to £150,000 per acre - ideal propositions for the design and build market.

With only two 100,000 sq ft plus modern buildings remaining in Tyne and Wear, we can clearly see that the shortage of this type of stock is an increasing feature, and at a time when enquiries for facilities over 100,000 sq ft are as high as they have been for a number of years.

Some of our current instructions include:

- 100,000 sq ft for Heineken, Gateshead
- 225,000 sq ft for Schmitz Cargobull, County Durham
- 50,000 sq ft for CBREi at Gateway West, Newcastle upon Tyne
- 100,000 sq ft for Max Property Group at Bentall Business Park, Washington

At the smaller end of the market, demand continues to be sporadic, however headline rents have held up well albeit with significantly increased incentives.

Team Valley continues to be seen as a premier industrial location, with rental levels for new units in the 10,000 to 20,000 sq ft range of up to £6 per sq ft, compared with more typical figures of £4.50 to £5 per sq ft elsewhere in the region.

Capital values on vacant stock are continuing to fall, with owner occupier transactions for larger, secondary buildings coming in at around £10 per sq ft or less.

Looking ahead, the market will continue to be about asset management and existing stock, until finance becomes more readily available for new development.

### Industrial Transactions

Address	Occupier	Size	Rent/Price
Vigo2, Birtley Road, Washington	Walker Filtration	130,000 sq ft	£3,950,000
Land at Ashwood Business Park, Ashington	Bernicia	4.25 acres	£550,000
Unit 3 Gateway West, Newburn Riverside	A pharmaceutical company	11,995 sq ft	£62,974 per annum
Bentall Business Park, Washington	Hillarys Blinds	53,812 sq ft	£162,600 per annum

# Residential

## Comeback set for family development...



**The average house price in the North East has slumped more than anywhere else in the country over the course of the year to August 2011.**

A new report by the Department for Communities and Local Government has found that according to data produced, North East average house prices over the last 12 months dropped by 4.8 percent to £133,460 compared to 2010's average of £140,909.

Conversely, there has been an increase in the number of sales of detached properties in excess of £1 million.

That said, and despite the figures, the feedback we are receiving is that residential developers are now looking positively at sites for family housing space, particularly with a deliverable planning consent, and are also taking a serious look at sites with outline planning and strategic land stocks.

Demand for 'Buy to Let' residential is back, with investors seeking to improve returns. A good example was found in a recent sale at North Terrace in Newcastle. The property which is close to the University, reflected a circa capital value of £147 per sq ft.

We see this trend continuing with base rate on hold at 0.5 percent.

## Our team

Our award-winning team is here to help with disposals, property acquisitions and property development across the agency sector.

We know the market and achieve real results for our clients. Earlier this year Estates Gazette named us 'Property Adviser of the Year: Yorkshire and The North East' for a record seventh year running.

**GET IN TOUCH**

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