



Radius

# The North East:

real estate deals rebound in Q1 2023





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## EXECUTIVE SUMMARY

From Newcastle United's triumphant return to the Champions League to the ongoing investment from Nissan in Sunderland (where the Japanese carmaker has now made more than 250,000 electric vehicles), the North East has enjoyed its share of glory.

The region may have been savouring its moment in the spotlight, but has the shine rubbed off on its commercial real estate sector?

Last year saw deals drop as the combined effect of an overall stock shortage and widespread economic uncertainty took hold. Yet EG's data shows that the market has begun to rebound in Q1 2023, raising the prospect of a jump in future deals.

Drawing on exclusive EG data, this report reveals:

- How the CRE market has rebounded in Q1 2023
- The net zero specialists improving Newcastle's office landscape
- The current bright spots for the retail market
- The main players driving a BTR boom in Newcastle and beyond
- The scale of the EPC challenge



## OFFICES – LOW-CARBON SPECIALIST TAKES ON A NEWCASTLE HQ

The presence of a 463,000 sq ft mega-deal (HMRC's prelet at Newcastle's Pilgrim's Quarter) made 2021 a stand-out year. But despite the inevitable drop in deal space in 2022, investment and occupational markets remained strong.

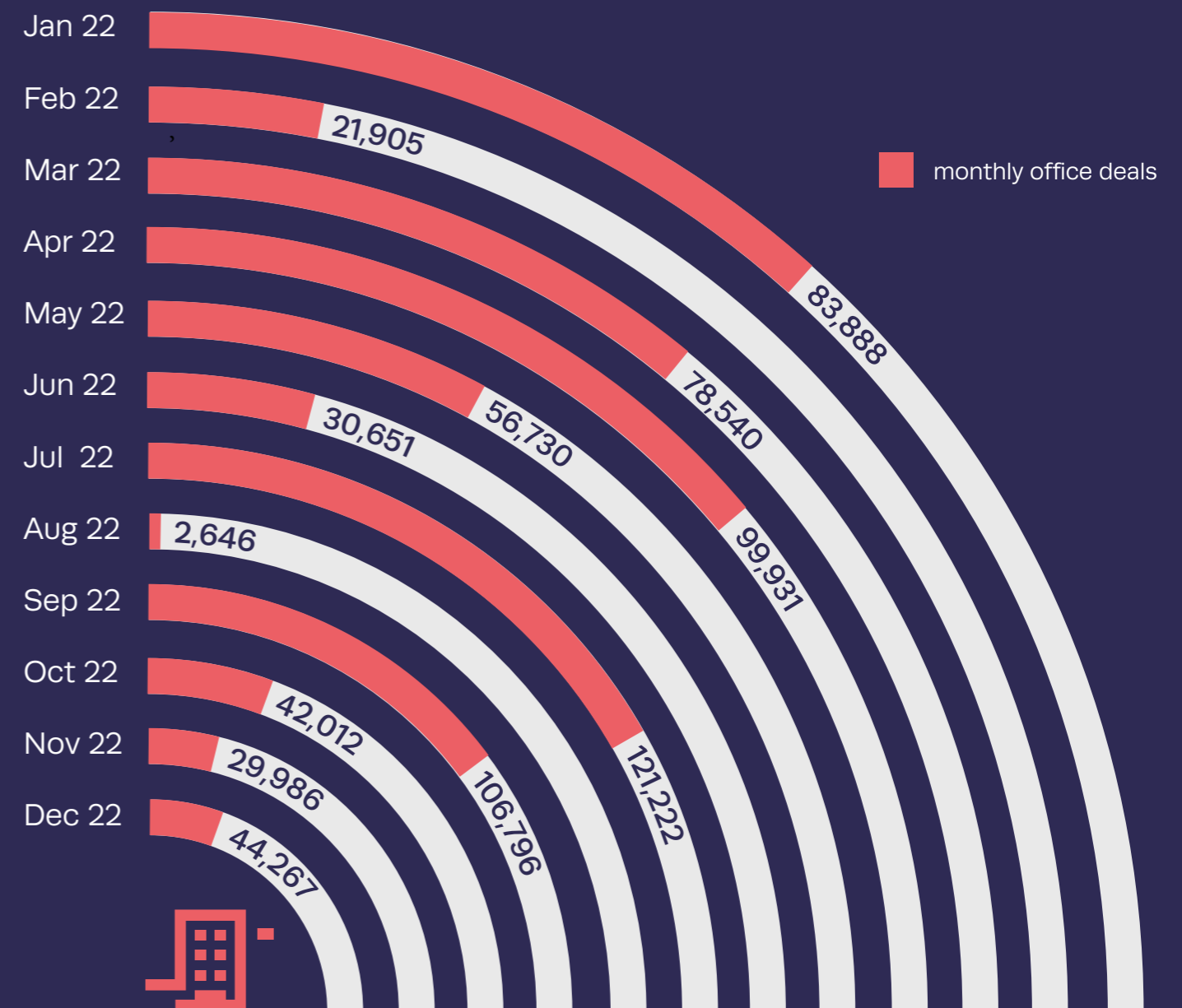
This would be a welcome sign in its own right. But given the dramatic change in the economy – and the gloomy predictions from some quarters for CRE more generally – this stands out as particularly impressive.



HMRC's prelet at Newcastle's Pilgrim's Quarter



### Monthly office deals throughout 2022



Significant lettings over the past 18 months have included RSA Insurance signing for a prelet on 37,392 sq ft at Sunderland's Faber building and low-carbon specialist Equans taking on 25,297 sq ft (at £16.50 per sq ft) at the Neon building at Newcastle's Quorum Business Park.

The grade-A office space, which boasts air conditioning powered by low-carbon heat pumps, will be the UK headquarters for the Paris-based company. Equans has been tasked with improving the environmental performance of a number of buildings in Newcastle.

Significant investment purchases included Praxis's acquisition (amount undisclosed) of the 75,178 sq ft Rainton Bridge Business Park in Houghton-le-Spring and Avignon Capital's £9.9m purchase of Cobalt Park in Newcastle.

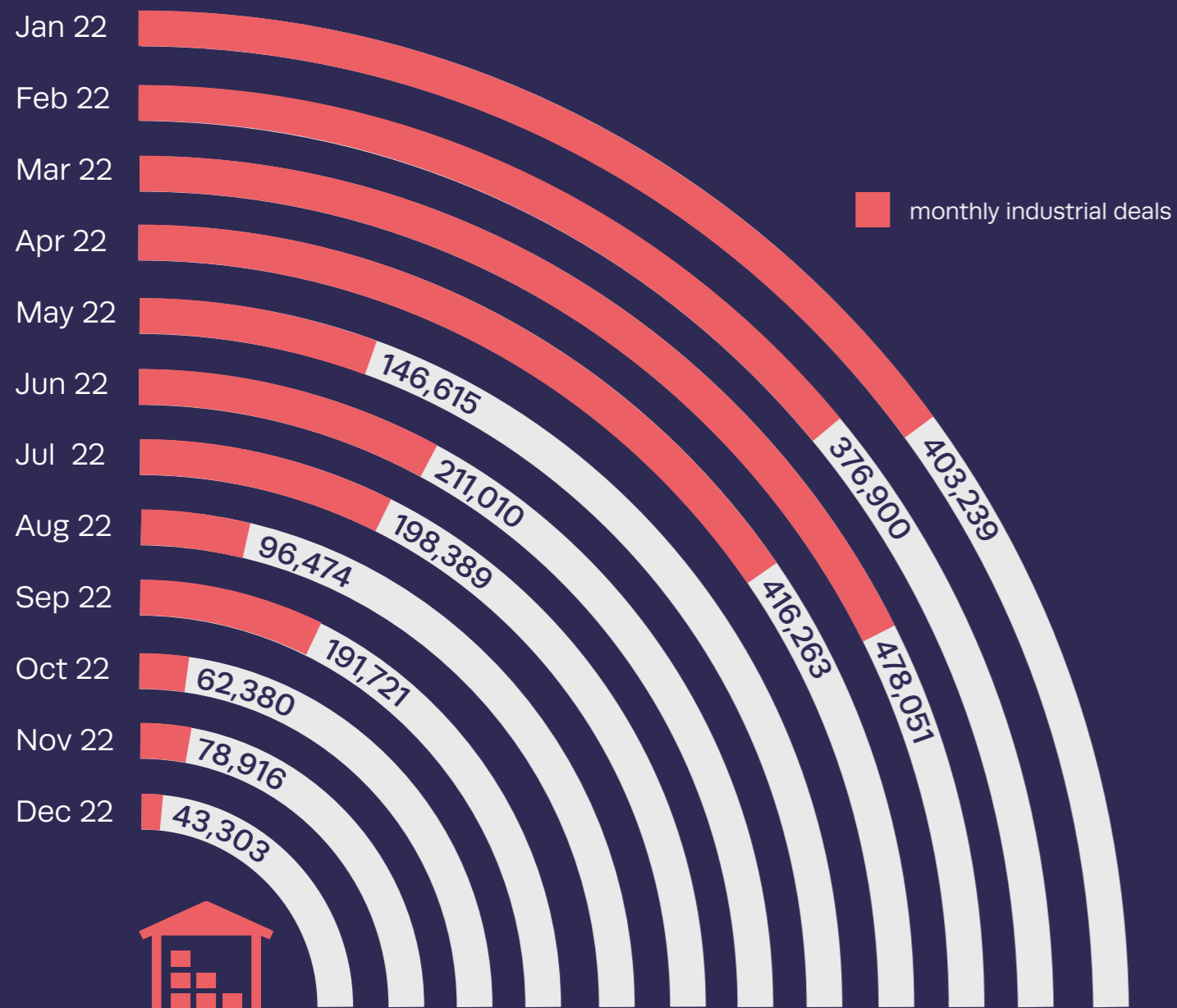


Neon building at Newcastle's Quorum Business Park.

## INDUSTRIAL – TRANSACTIONS RISE IN Q1 2023



### Monthly industrial deals throughout 2022



Compared with offices, the industrial and logistics market experienced more of a decline in 2022. Yet the numbers for Q1 2023 show signs of a partial recovery, with transactions spiking in early February and March.

Given the region's ambitions for green technology, it is notable that Cambridge-based Pragmatic Semiconductors, which manufactures a lower-cost alternative to silicon chips, has taken 172,041 sq ft at the former Wavin Pipes facility at the Meadowfield Industrial Estate, south of Newcastle.

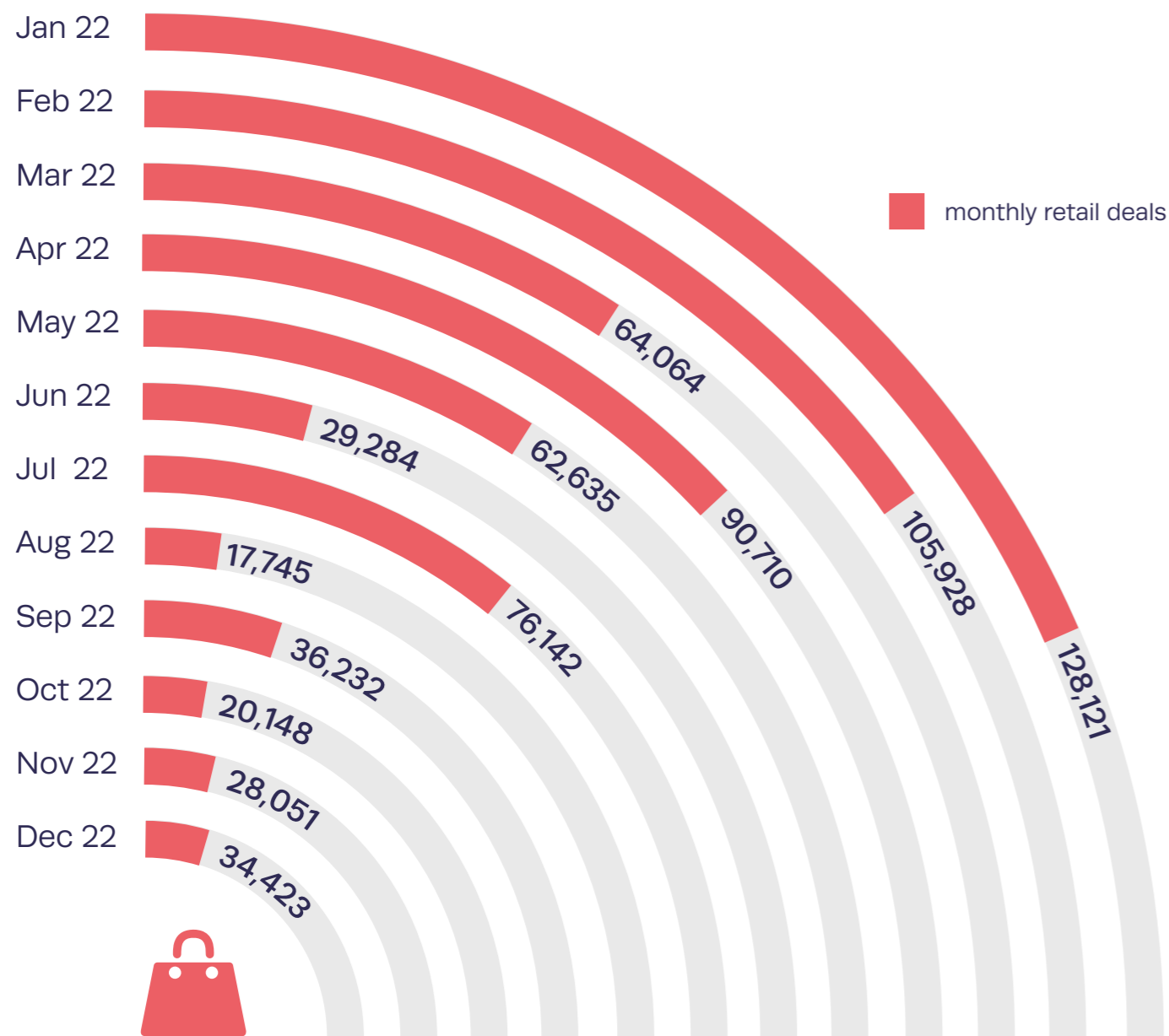
In the largest logistics deal of 2022, Panther Warehousing took 132,997 sq ft of industrial premises at Admiralty Way in Seaham. The tenant, which will pay £5 per sq ft, was represented by Knight Frank, while Naylor's Gavin Black represented the landlord.

Encouragingly, the region continues to attract interest from outside investors. One stand-out deal was Sage Estates' purchase of a large warehousing facility (102,940 sq ft) in Peterlee from Walkers Snack Foods.

# RETAIL – AVERAGE RENTS RISE BY 30%



## Monthly retail deals throughout 2022



Throughout last year, retail transactions showed a steady decline, perhaps reflecting nervousness around a squeeze on discretionary spending. By the end of 2022, deals had plateaued at around 40,000 per sq ft per month.

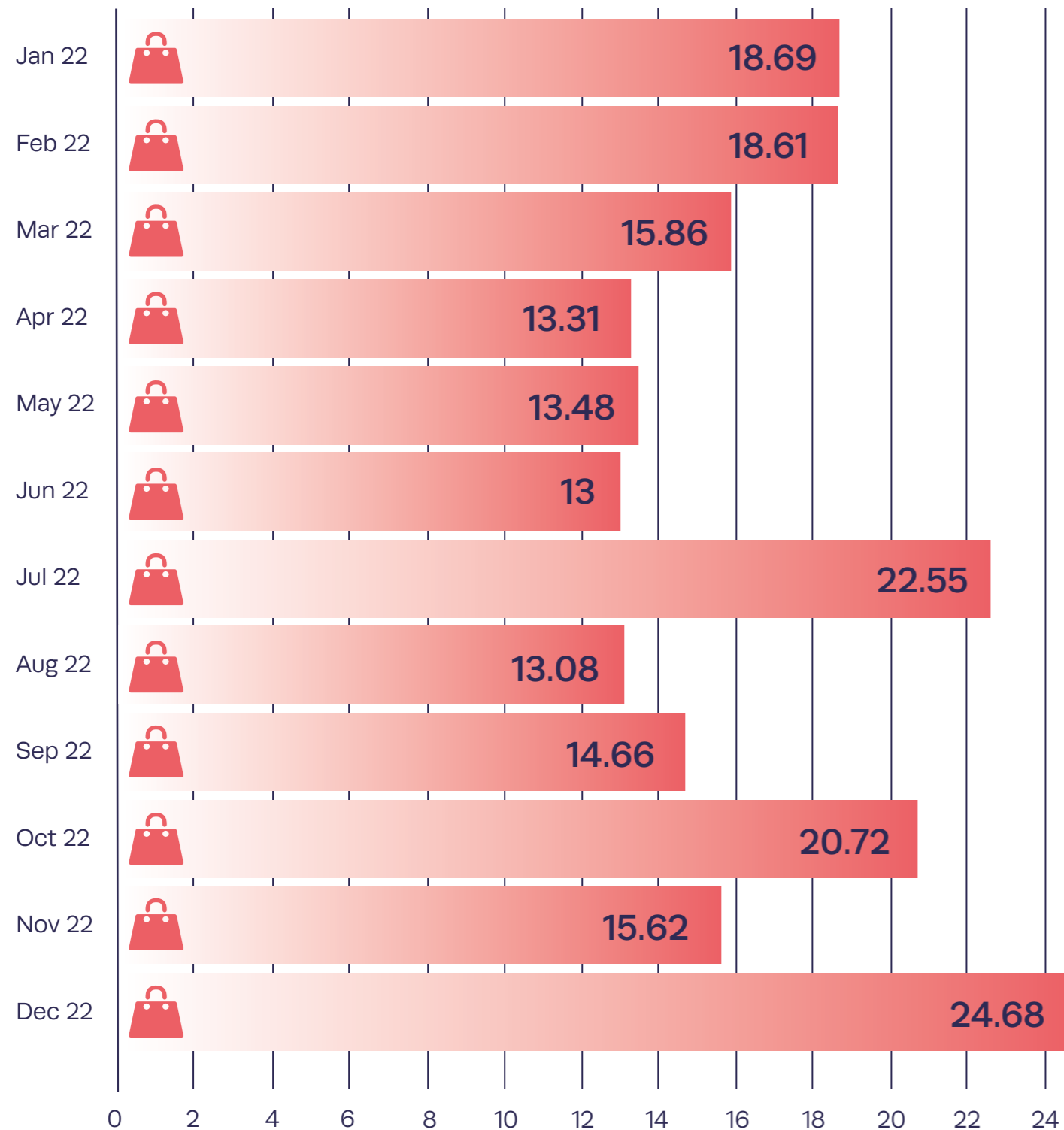
Another stark trend has been the sharp rise in rents, which finished the year at more than £25 per sq ft on average – a significant jump on £19 per sq ft in January 2022. While this will evidently please landlords, it could also create a drag on future deals.







## Average achieved retail rent in 2022 (£)



In terms of recent deals, larger retailers appear to have maintained their appetite for new premises. For example, home furnishings retailer Dunelm has taken 30,000 sq ft at Gateshead's Retail World, paying £11 per sq ft on a 10-year lease.

Meanwhile, hospitality hub Stack has taken over the former Marks & Spencer store in Durham. The brand – which brings together independent restaurants and food stalls in a convenient indoor space – has already established bases in Newcastle and Sunderland.

When it comes to investment, noteworthy acquisitions include Zurich Assurance's purchase of the 95,058 sq ft Galleries Retail Park in Washington for £26.1m and John Berk purchasing Newcastle's 80,000 sq ft Primark store for £18.8m. JLL acted for the purchaser in both deals.



## BTR – NEWCASTLE TO GET 841 MORE UNITS

A base for large employers and home to four universities, Newcastle is a natural fit for Britain's fast-growing build-to-rent sector, in which developers (including REITs) purchase sites with the aim of turning them into quality rented accommodation.

Newcastle has had six large BTR developments complete in recent years, accounting for 901 individual units. Notable operators include Grainger – which runs a 283-unit site with investor Panacea Property Development – and Omnia Property Group.

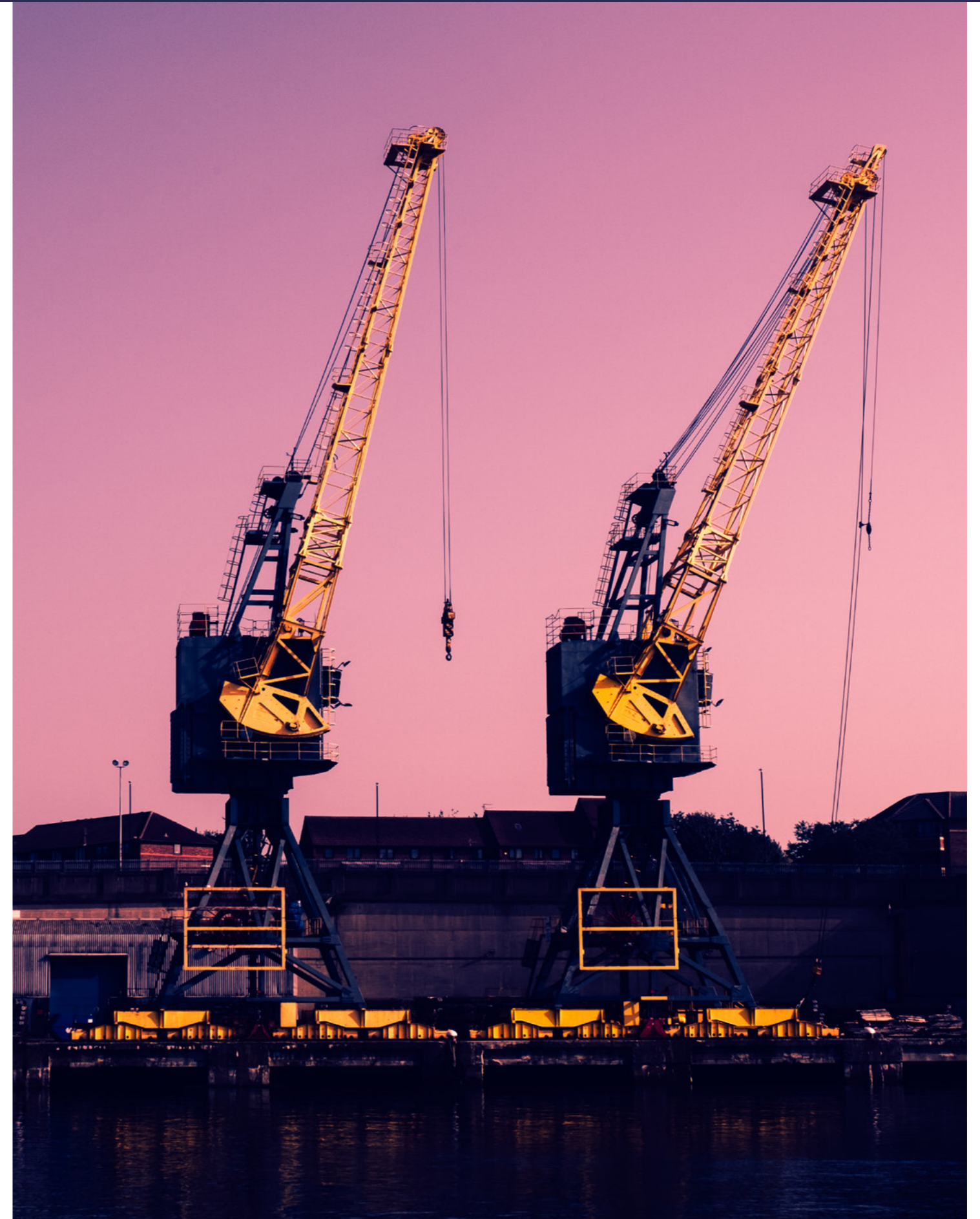
Two large developments are set to join the market over the next two years. These are Olympian Homes' 525-unit development at Pottery Lane (due to complete in 2025) and Legal & General's 316-unit complex at Helix. The latter will be part of a mixed-use development.

As with other major cities, the BTR market shows little sign of slowing down. In February 2023, Beech Holdings announced that it had secured £20m of financing from investors for a 241-unit office-to-resi conversion at Cale Cross in central Newcastle.

"As a developer committed to levelling up the regions, especially those across the North, we are incredibly excited to be realising the potential of the building," commented Stephen Beech, the group's chief executive, upon the announcement.

Encouragingly, the sector is spreading beyond large urban centres, helping to meet the need for quality family housing. In May, BTR specialist Native Residential was appointed as the operator of the residential component of the 450,000 sq ft Milburngate development in Durham.

The BTR element, known as The Gardens, will comprise 153 homes, alongside 60,000 sq ft of retail and leisure space and a 92-bedroom Premier Inn hotel.





## **EPC – 47% OF PROPERTIES RATED AT LEAST C**

As the UK steps up the pace towards its 2050 net zero target, the real estate sector faces a more immediate challenge.

Tougher rules on energy efficiency mean that, as of April, non-domestic premises with an EPC rating lower than E are no longer eligible to be traded or leased. The minimum standard will rise again to C in 2027 and to B in 2030.

EG data gives a unique insight into the state of today's market in the North East and the potential impact of future EPC rules.

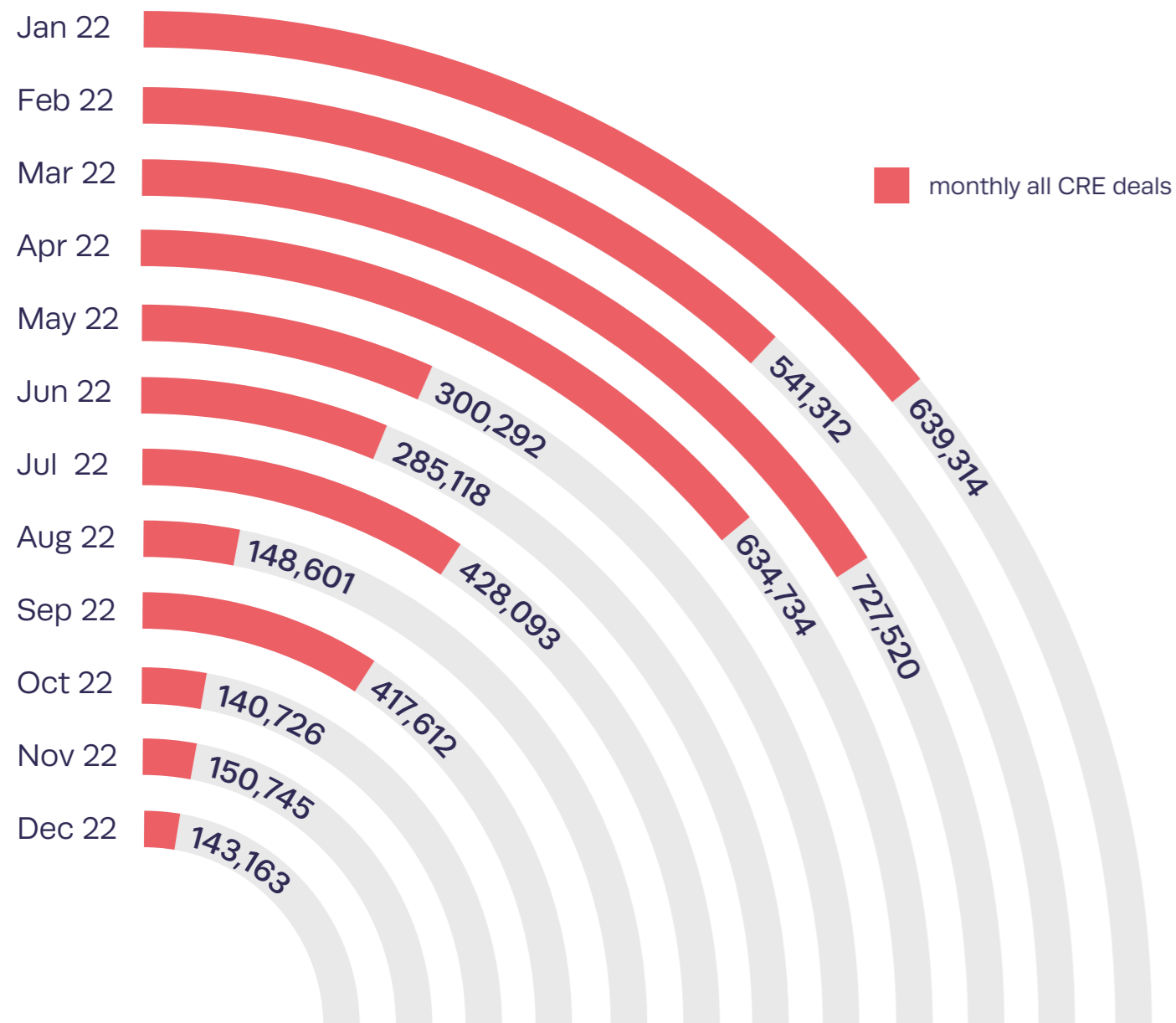
Of the non-domestic properties transacted last year, 6.31% were rated below E. However, this may include investors looking to take advantage of the opportunity to improve the environmental performance of older buildings.

At the other end of the scale, just 1.19% of the transactions concerned premises with an EPC rating of A, while the figures for EPC B and C were significantly stronger, at 13.41% and 33.08% respectively.



## WHAT'S NEXT FOR THE NORTH EAST?

### All CRE deals throughout 2022



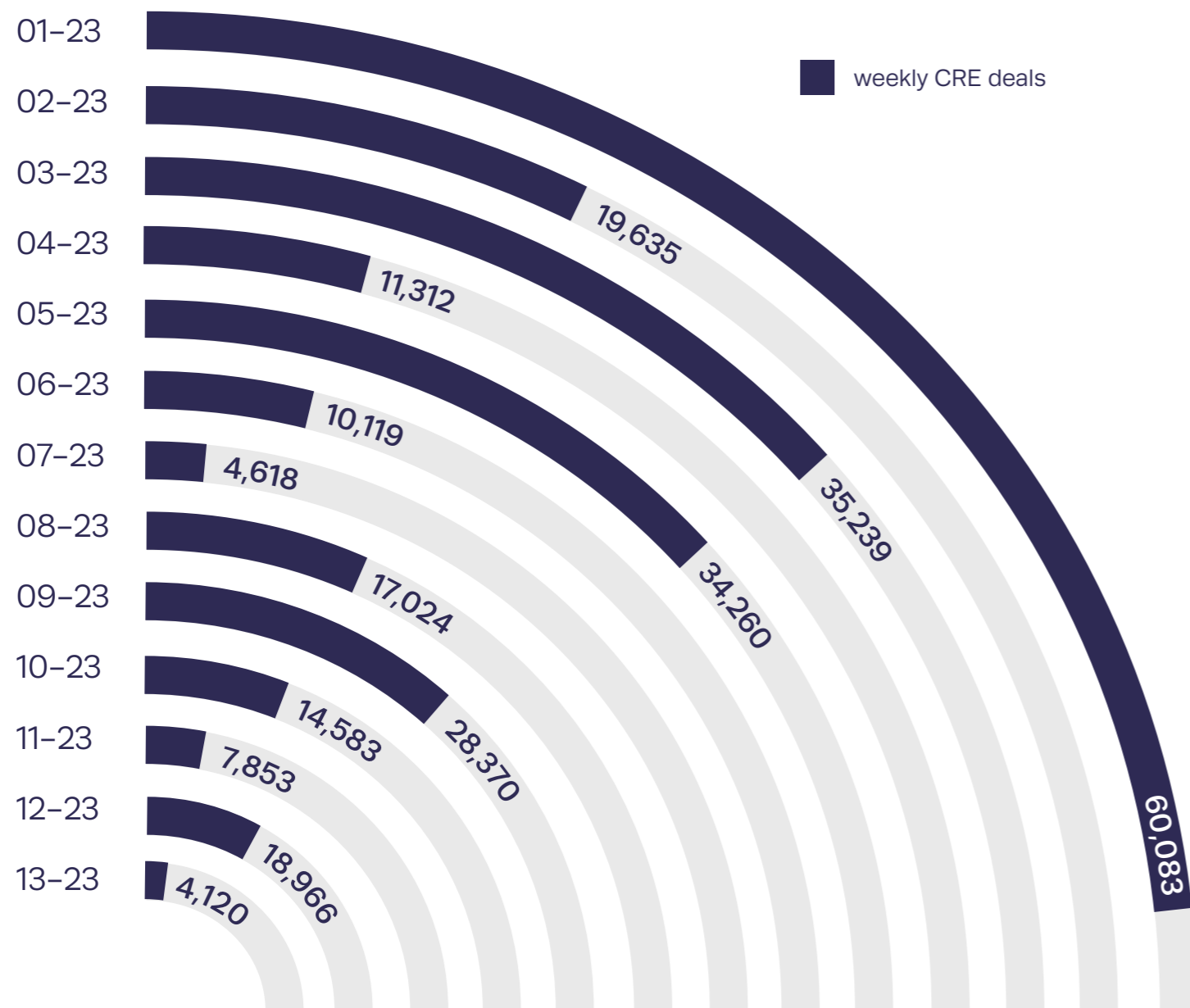
As a key focus of the government's levelling-up agenda, the North East economy remains keenly watched by policymakers and investors alike.

Unlocking the region's full economic potential will require many elements, but one that cannot be understated is the presence of good-quality real estate to provide a base for future investors.

On that front, today's market offers both good and bad news. The positive story is that the region continues to bring in business. However, the more concerning trend is the lack of space to house them.



 Weekly CRE deals in Q1 2023



That said, deal volumes in Q1 2023 should be encouraging for market-watchers. In all three sectors, deals have recovered against the second half of 2022 – a period widely regarded as an economic turning point.

Of course, whether this momentum continues remains to be seen, but there is every indication that the demand is there to reward those who seek to meet it.

“ If companies are looking for headquarters or office space in the North East, the options are no longer limited to Newcastle. They have options beyond that such as Sunderland and Durham, which also offer grade-A offices and new-build premises.”

**Michael Downey, director, Parker Knights**





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