

# Newcastle: A north eastern powerhouse



- Mixed use development opportunities
- Emerging tech sector
- Industrial demand





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# Challenges and opportunities

As an affordable location that is attracting public and private investment, new opportunities are beginning to emerge in Newcastle

Newcastle is one of the fastest growing cities in the UK, with 21,000 new homes and 14,000 new jobs expected over the next 12 years. The city's population is projected to reach over 310,000 by 2030, an increase of 6% from 2016, while the city region population is projected to be 2.75 million by 2030.

The combined urban cores of Gateshead and Newcastle are the key employment area in the North East, and the main driver of the city region growth. It benefits from high levels of accessibility and connectivity; approximately 299,000 people work in the urban cores, and 45% of employees travel to work from outside the two local authorities.

In the future, Newcastle will benefit from the North of Tyne devolution deal. Implemented in 2018, the deal will bring Newcastle, North Tyneside and Northumberland together under a Mayor, and will bring an extra £600 million of investment to the region over the next 30 years.

The powers devolved to the new Combined Authority will include land acquisition and disposal, and the ability to establish Mayoral Development Corporations to serve North of Tyne's housing and regeneration ambitions. Four Neighbourhood Opportunity Areas in Newcastle have already been identified in the Core Strategy, which have potential to deliver over 20,000 homes.

## The city in context

Comparison with the other nine UK core cities and additional strong regional centres such as Oxford, Reading and Edinburgh demonstrates Newcastle's strengths, and the areas where the city faces challenges.

The city is becoming more prosperous, with earnings growth of 26% between 2007 and 2017. Of the comparator cities, Leeds is the closest with earnings growth of 22% over the same period.

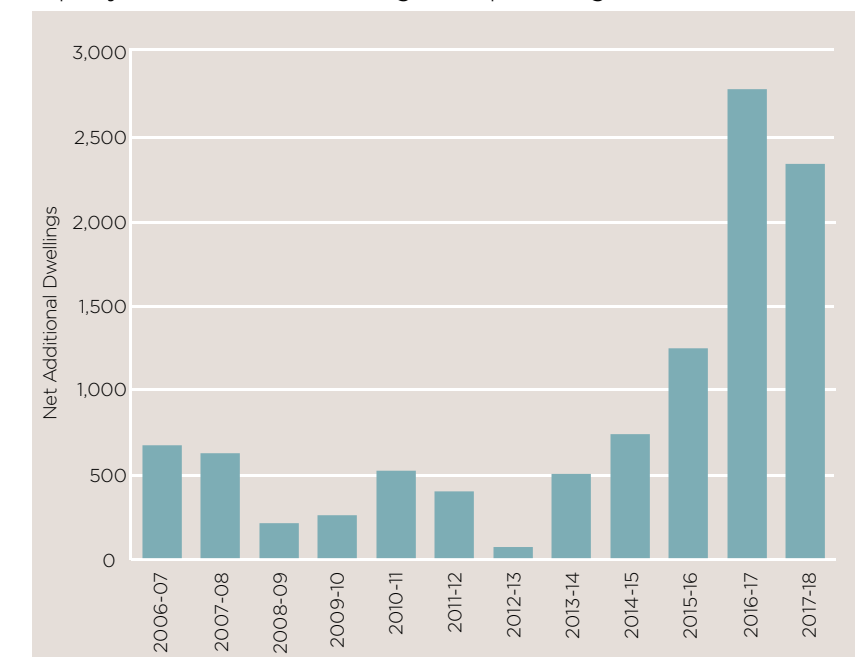
Rising earnings combined with moderate house price growth means Newcastle has relatively affordable housing. Median house prices are 5.85 times median earnings, in line with Liverpool, Sheffield and Glasgow, and

significantly more affordable than the most expensive core city, Bristol, which has a house price to earnings ratio of 9.11.

The city has also benefitted from pro-development local government. Following the downturn during the global financial crisis, housing delivery has risen strongly from 2013-14, and for the last two years, new housebuilding has been equivalent to 2% of existing housing stock. None of the other cities in the comparison group have a housebuilding rate higher than 1.6% of existing stock.

Although Newcastle has a low proportion of the population educated to NVQ4 or above (33.8%), it does manage to retain a high proportion of graduates, with over 36% of students choosing to remain in the city after graduation. The city also has a global pull; nearly 30% of students at Newcastle University are international students. ▶

**Figure 1** Residential development has increased rapidly and is now exceeding local plan targets



Source MHCLG



“ New access to finance should stimulate the city’s tech sector ”

## The growth of the tech sector

Newcastle has seen a significant growth in the tech sector over the last five years, with digital tech start-ups increasing by 154% from 2011 to 2016. With the long-awaited JEREMIE2 funding now live, new access to finance should also stimulate the city’s tech sector. The £120 million fund could support 600 businesses and help create around 2,500 jobs over the next five years.

The then minister of state for digital, Matt Hancock, named the North East of England the fastest growing tech hub outside of London. Business growth and collaboration have been stimulated by a number of support networks including Digital Union and Dynamo, companies that specialise in raising the profile of members and the sector as a whole.

The recent establishment of the Newcastle Tech Trust, a group of experienced founders that understands the needs of early-stage, high-growth tech companies, is further empowering ambitious technology start-ups and scale-ups. Newcastle is home to the only FTSE 100 software company in the UK – The Sage Group plc.



However, Newcastle faces several challenges that need to be addressed to keep up with other competing cities across the UK. In 2018, £27m in venture capital funding was invested in companies headquartered in Newcastle, outperforming Birmingham, Leeds and Glasgow.

But Newcastle still has a business start-up rate per capita that is lower than all the comparator cities. This may in part be due to the lack of appropriate commercial space to attract new occupiers. The 2010-2030 Core Strategy identifies the dated nature of some of the city’s office stock as a challenge.

The provision of more high-specification, serviced and flexible office space, concentrated in the urban core, will be essential to the strength of Newcastle’s emerging technology and media sectors.

In addition to office space, the Core Strategy for Newcastle specifies retail development as a particular priority for the urban core. It sets out a desire to improve the range, quality and quantity of retail provision, with the specific ambition of increasing the amount of comparison retail by 50,000 sq. m. of floor space. Our analysis suggests that future developments should seek to provide flexible retail and leisure formats that are currently under-represented in the city centre, as well as increased cultural, community and civic uses, rather than solely increasing traditional retail supply.

Given the importance of Newcastle city centre as an economic hub for the wider North East region, creating an urban core that acts as a focus for investment and business, and meets the needs of occupiers and residents will be critical for the long-term success of the region. ■

### Key sectors attracting venture capital investment



40%  
Software



30%  
Healthcare



11%  
Energy

## Where next for city centre development?

A range of uses are required to support a vibrant city centre

Grade A office space has significantly diminished after a decade of limited development within Newcastle’s core and the repurposing of a number of buildings to retail, leisure and student housing. Grade A supply is currently at 175,000 sq. ft. This total is 15% below the 10-year average, but more notably, none of this is made up by new development. Failure to meet demand has limited the growth prospects of local businesses and has made it harder to attract new occupiers.

With this lack of supply in the city centre, growth has been inhibited over the last 10 years with occupiers reliant on refurbishments to bridge the gap. Grey Street remains a popular location and refurbished space is letting up at speed, with several transactions in recent months including Earl Grey House and 71 Grey Street. Refurbishments have plugged the gap over the last few years, resulting in impressive rental growth of around 10% on certain buildings. However, new developments are the current preference for larger occupiers as older buildings are less able to accommodate modern methods of working.

Innovative approaches to development have been key to unlocking sites and the city council have made good use of wraparound leases to support office development. This includes the Helix’s 100,000 sq. ft. office

block, due for completion in the second half of 2019, which will help to make a dent in the shortfall of Grade A supply.

Newcastle also has strong partnerships between the private and public sector, supporting and accelerating the development and growth of the city. A £92m investment into the Newcastle and Gateshead’s 80 hectares Accelerated Development Zone is creating a clustering effect, which will stimulate productivity and job growth.

### A mixed use approach

However, funding for speculative commercial development has been very restricted. One way to deliver new commercial space is through mixed use regeneration schemes where the different uses limit the amount of exposure to one single sector.

With this in mind, Newcastle is seeing a new wave of mixed use city centre regeneration schemes, which are revitalising the urban core and enabling it to expand outward.

These schemes are providing complementary rather than competing space. Helix – a £350m joint project between Newcastle City Council, Newcastle University and L&G – creating a new innovation cluster in the city.

In recent years there has been a trend towards smaller office requirements; therefore these initial

buildings are targeting start-ups and SME occupiers, likely to be geared towards Newcastle’s emerging technology and media sectors. However, The Lumen will cater for a larger anchor tenant.

The Stephenson Quarter is a major mixed use scheme including the 35,000 sq. ft. Rocket office building, which has been fully occupied by Convergys since its completion in 2016 – an indication of the demand for new office space in the market. The North East Futures University Technical College (UTC) and the six-storey Phoenix office development is of particular interest. The two buildings will be mutually beneficial and interlinked. Phoenix will accommodate dynamic, high-growth companies and offer the potential for cooperation with the adjacent UTC, giving students work experience and mentoring opportunities. In return, new businesses to the area are able to tap into a skilled talent pool.

Finally, East Pilgrim Street represents one of the most strategically important city centre regeneration areas in the north of England. The northern block of the site is allocated for retail led development which provides an opportunity to extend the prime retail-led offer. This will be supported by mixed uses in the central and southern blocks, including office, residential and leisure. ▶



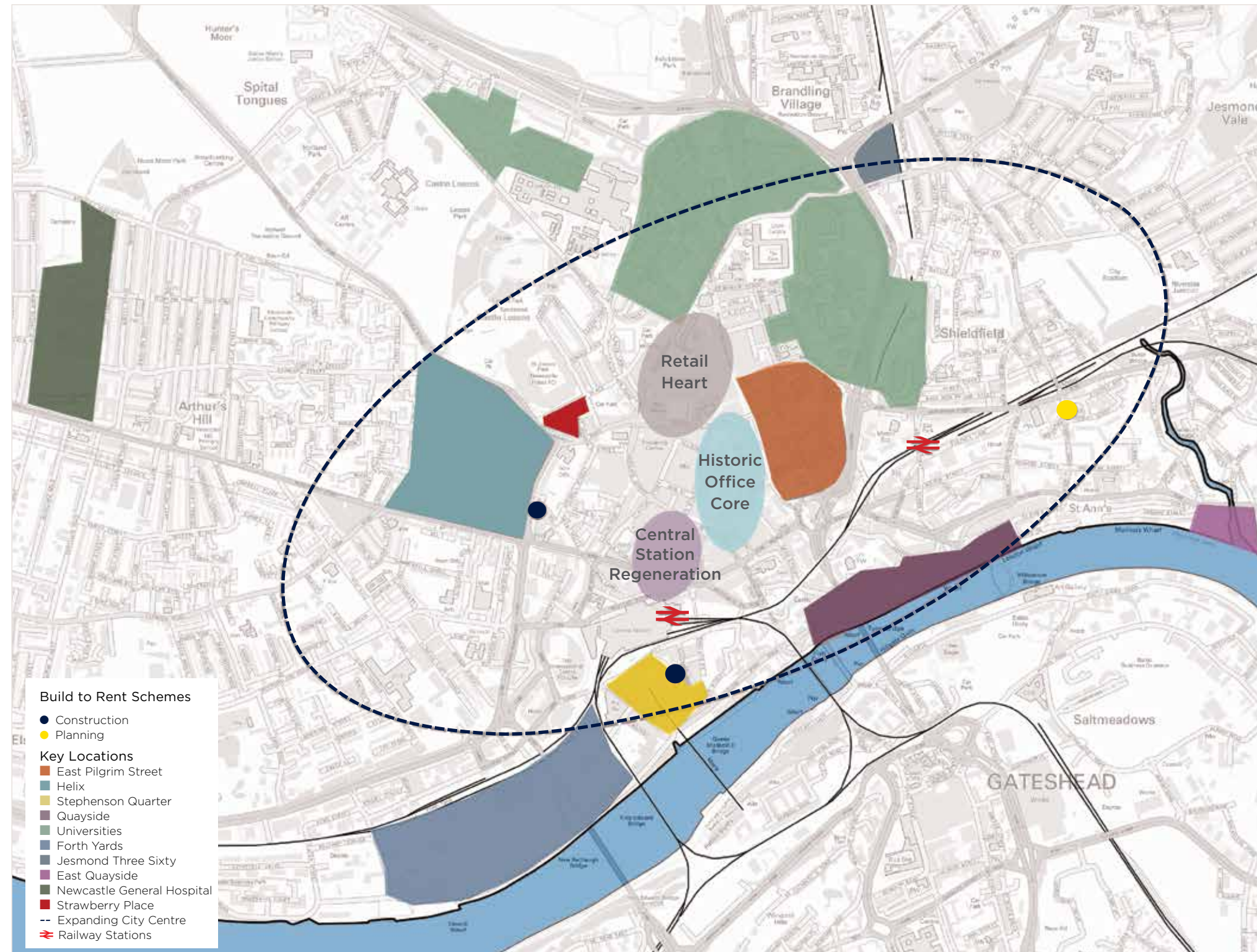




**Top rent: £24.50 per sq. ft.  
Growth of 6% by 2020**

**Bringing residential back to the city centre  
will also support commercial activity**

**Figure 2** The changing structure of the urban core



### Supporting growth

Within Newcastle city centre, around 150,000 sq. ft. of city centre space has become marginalised and largely redundant space for meeting the modern needs of retail, much of which is located around Central Station. There is a great opportunity for regenerating the train station and the area surrounding it, which would have a huge impact on attracting occupiers to the city.

Whilst the traditional CBD continues to be important, a new breed of occupier is emerging, placing less value on a traditional recognised address or location and more focus on quality of working environment, amenity and perhaps most importantly, connectivity.

Savills *What Workers Want Survey* demonstrates that Millennials and Generation Z heavily value the social aspect of work and therefore it is critical that there is a variety of amenities available in the nearby vicinity of a new development to retain and attract new occupiers in the city centre.

Birmingham New Street station's redevelopment is a good example of this and has provided the city with a platform for growth. Over the past 12 months key landmark office buildings in the vicinity of the newly redeveloped Birmingham New Street Station have witnessed some of the highest rental growth in the city.

With £1.5m of planned investment in the station, Newcastle has the potential to replicate this strategy. Bringing residential back to the

city centre will also support commercial activity.

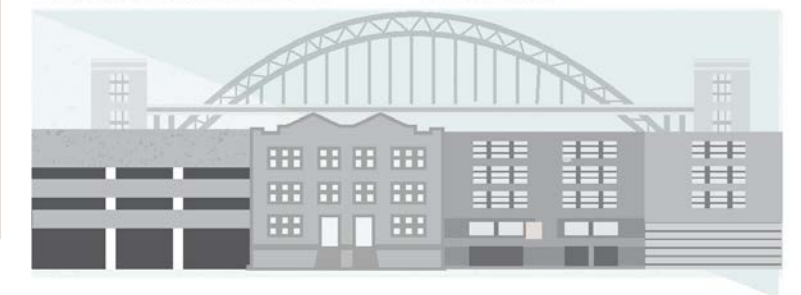
There are a number of sites actively delivering or planning to deliver residential units in the city centre, including Strawberry Place, Forth Yards and Pilgrim Street. However, in comparison to regional peers there is significantly less Build to Rent (BTR) coming forward in Newcastle.

The city's first purpose-built rental scheme, The Forge, is due to open in spring 2019 comprising 280 flats and a full suite of amenities. There are two other schemes coming forward in the city centre, which together will deliver a further 300 rental units.

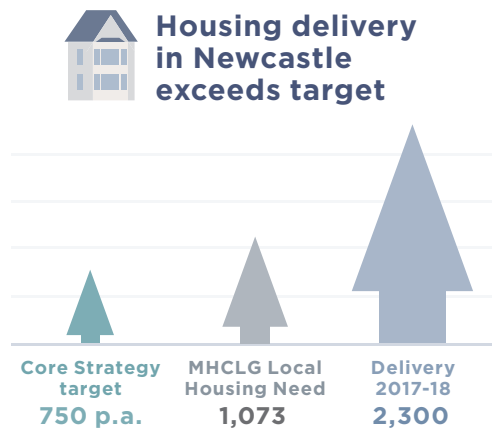
The limited level of BTR delivery in the city is in part due to the relative affordability of housing. This limits the level of demand for rented accommodation, as many residents are able to afford to buy their own homes.

However, provision of rented accommodation remains key to satisfying housing need, and there is a growing pool of 'lifestyle renters' who are attracted by flexible accommodation located close to employment centres and high-quality amenities.

A forward-thinking and targeted approach to delivering a mix of uses in the city centre will have a positive impact on people wanting to live, work and play there and ultimately strengthens the demand for the existing commercial space located there. ■







# Building momentum

A joined-up strategy across the city will be needed to support the growing urban core

Housing delivery across Newcastle has increased dramatically since hitting its nadir in 2012-13 when only 65 dwellings were completed. In 2015-16, net additional dwellings surpassed the 1,000 mark for the first time on record. This was followed up by over 2,700 and 2,300 homes delivered in 2016-17 and 2017-18 respectively – which are record levels for the local authority.

This means that the city is now delivering far in excess of both its Core Strategy target, 750 per annum, and MHCLG’s standardised approach to housing need, 1,073; welcome news following a decade of undershooting its targets. This poses Newcastle a somewhat unique challenge among major regional cities. Not how to increase delivery to meet demand, but how to ensure that this level of delivery continues, so that Newcastle can maintain its position as one of the most affordable UK core cities.

Average new-build values in Newcastle were £196,000 in the 12 months to September 2018, which is marginally higher than second-hand values which were £191,000 over the same period.

Values across Newcastle are highest around the urban fringe and in Jesmond

and Gosforth, while the city centre is lower value. The lower values in the city centre potentially present a challenge for bringing forward new urban regeneration schemes.

### Green belt release

Part of Newcastle’s success in increasing housing delivery has come from large-scale developments following green belt release, in particular Newcastle Great Park. The development started in 2001 and is currently being bought forward by Persimmon and Taylor Wimpey.

Over the past five years, the development has accounted for almost a third (31%) of new-build sales in Newcastle upon Tyne. Newcastle Great Park will continue to be an important contributor to the city’s housing delivery, with a further phase of 1,200 homes receiving outline planning permission in December 2018.

However, Newcastle Great Park isn’t the only large-scale development coming forward on land formerly in the green belt. In 2015, the council released land around Callerton for a 3,000 home development, the first phase of which is due to start on site this year.

### Where next?

Newcastle upon Tyne is highly constrained by the green belt, with over a third (35%) of its area currently protected. This has made it difficult for the council to find unconstrained land outside of the city’s urban core to deliver new housing to meet its need, as highlighted by the need to release land at Newcastle Great Park and Callerton. The city will need to continue to identify new sites if it is to sustain its current and forecast strong economic growth.

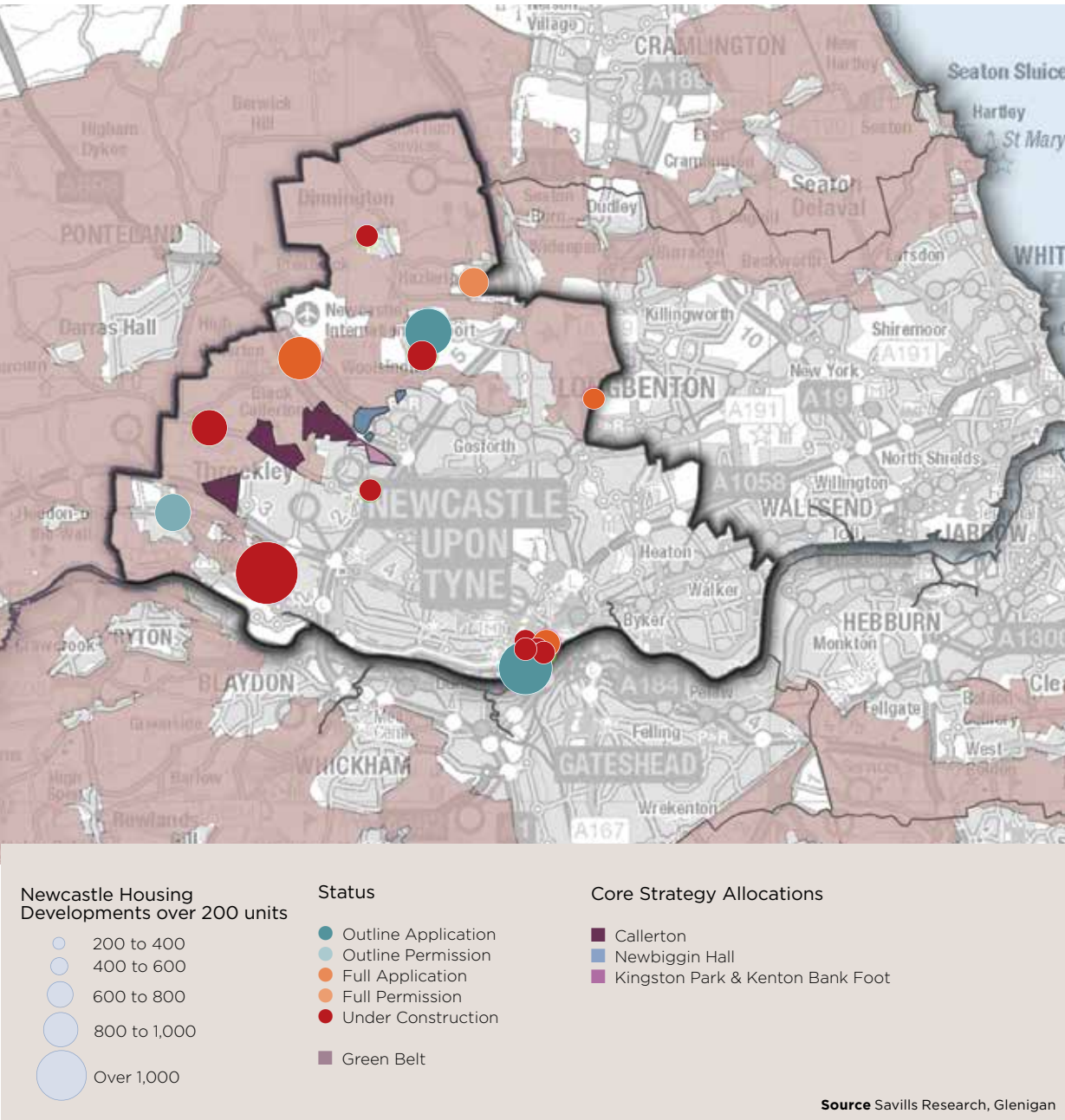
This raises the inevitable question of where next?

Plans are being brought forward by Newby and Igloo for new mixed use developments at the former Calders site and East Quayside respectively, which will regenerate parts of the waterfront. ‘But beyond this, Newcastle will likely have to look at further green belt releases if it is to support future housing growth within its boundaries.’

If this is not possible then the city council will have to look beyond its own borders. Here it will need to co-operate with its partners in the North of Tyne devolution to deliver new housing in their authorities that are properly connected to the city’s employment centres. ■



Figure 3 Where next for housing outside of the city centre?



“ Landlords and developers would be advised to consider speculative development of good quality industrial space ”

# Rising demand from industry

The growth of the Industrial market in the UK is well documented and in the most part has been driven by the continued growth of online retail, which in November 2018 set a new record with 21.4% of all retail sales being recorded online. Research from Prologis states that for every additional €1bn spent online an extra 770,000 sq. ft. of warehouse space is required.

Until recently the North East may have felt comparatively overlooked when it came to benefitting from this surge in demand; however, 2018 saw a sea change as Amazon committed to over 3m sq. ft. of warehouse space in the wider North East, taking build-to-suit facilities in Durham and Darlington. Combined with regular market churn this meant that for units over 10,000 sq. ft. a new take-up record of 4.7m sq. ft. was set.

Not only will this change the perception of the market to many but we anticipate suppliers into Amazon to require space as has happened in other regions when packaging suppliers, for example, take warehouse space close to their fulfilment centres.

The wider North East region is also benefitting from the agglomeration effect of having major car manufacturing in the region, and

notwithstanding current geo-political sensitivities around Brexit, we expect major suppliers to the automotive sector to continue to locate in the region, which will be amplified as R&D progresses into alternative fuel vehicles.

Lastly, we expect to keep a watchful eye on the progress of HS2, and in particular when the contract awards for the rolling stock construction are made. The North East already benefits from the assembly of trains in Newton Aycliffe and if further awards were to be made this would again benefit local suppliers and the supply chain that goes with it.

However, the supply of warehousing has fallen to just over 8m sq. ft. in the wider region, a fall of 37% since 2011, and much of this vacancy is of grade B & C quality and arguably not fit for purpose in today's modern manufacturing and retail supply chains.

With rents in the North East set to rise by 2.2% a year by 2023, in percentage terms more than many other established regions in the UK, landlords and developers would be advised to consider speculative development of good quality industrial space or the refurbishment of second hand stock to bring it to modern standards. ■

2.2%  
rents to rise in  
North East  
p.a. by 2023

37%  
fall since  
2011 of  
warehousing  
availability

3m sq. ft.  
warehouse space  
for Amazon in  
North East

21.4%  
of retail sales  
online

€1bn  
spent online requires  
770,000 sq. ft.  
of warehousing



# Plenty of positives

With above-average growth forecasts for homes and a new wave of city centre regeneration schemes, the signs are encouraging for Newcastle

## Residential

With house prices in the North only recently returning to pre-credit crunch levels, there is more capacity for both household finances and mortgage lenders to support growth over the next five years than in other regions across the UK. Smaller deposits for first-time buyers and lower home-mover loan-to-income ratios compared with most of the rest of the UK are expected to underpin demand in the owner occupier market.

Meanwhile, we expect the ability to achieve higher income yields in the northern cities to underpin

investment demand from both institutional and private investors. We forecast five-year compound house price growth of 17.6% in the North East, outperforming the UK.

## Commercial

After a decade of limited developments within Newcastle's core, the cranes are now firmly back on the horizon. Newcastle is seeing a new wave of mixed use city centre regeneration schemes, including the Helix, East Pilgrim Street and Stephenson Quarter, which is revitalising the urban core and enabling

it to expand outward. Each of these schemes is offering something different providing space which will complement one another rather than compete. While top rents have remained static at around £23 per sq. ft. over the last five years, we expect to see rental growth of 6% by 2022 as new developments complete.

The implications of a forward-thinking and targeted approach to enhancing mixed use schemes will have a positive impact on people wanting to live, work and play there and ultimately strengthens the demand for the existing commercial space located there. ■

Figure 4 Residential values annual change forecasts

	2019	2020	2021	2022	2023	5-year compound growth
UK mainstream	1.5%	4.0%	3.0%	2.5%	3.0%	14.8%
North East	2.0%	5.0%	3.5%	2.5%	3.5%	17.6%

Source Savills Research

“ There is more capacity for both household finances and mortgage lenders to support growth over the next five years than in other regions across the UK ”



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