

SandgateHouse

102 QUAYSIDE
NEWCASTLE UPON TYNE
NE1 3DX



FOR SALE - Prime, Securely Let City Centre Office Investment

New 15 Year Lease



Investment Summary

- Rare opportunity to acquire a trophy, **Grade A office building** in the heart of Newcastle upon Tyne city centre
- Sandgate House occupies a prime waterfront position on **Newcastle's Quayside**, one of the city centre's principal office locations
- Detached, 5 storey office building extending to **30,440 ft²**
- **Freehold**
- Due to undergo an **extensive refurbishment** by the tenant with works commencing in September 2016
- Fully let as the Head Quarters to one of the North of England's most successful and established law firms, **Ward Hadaway Solicitors**
- Let on a recently renewed lease expiring 6 October 2031, providing an **unexpired term of 15 years**
- Rent of **£675,000 per annum**

We have been instructed to seek offers in excess of **£10,200,000 (Ten Million, Two Hundred Thousand Pounds)**, which reflects a **net initial yield of 6.20%**, based on purchaser's costs of 6.70%.



Location

Newcastle upon Tyne is the regional capital and principal focus of economic activity within the North East of England.

With a population of 280,177 people the city is located 270 miles north of London and 105 miles south of Edinburgh. Newcastle is the largest employment centre in Tyne & Wear with 166,011 employees in 2011. Newcastle has a demographic profile which is attractive to the service sector being biased towards younger and more highly educated workers. The service sector accounts for nearly 90% of employment in the city. The Financial & Business Services sector accounted for 25% of jobs at this level showing the strength of the office economy and office demand.

The office market has been central to the growth of Newcastle as a city and since the regeneration of the Quayside in the early 1990s, the market has continued to grow and mature leading to increasingly high quality developments similar to those in competing regional centres such as Leeds and Manchester.

Newcastle has attracted many high profile global, national and regional occupiers, many of which have expanded or upgraded their existing space. Companies include Barclays Bank plc, PWC, Sage Group, Virgin Money Plc and Procter & Gamble. The city centre has continued to attract new private sector companies recently including BSKyB, DAC Beachcroft Solicitors, Convergys and Qubic Tax. Newcastle is also home to national and regional legal firms including Bond Dickinson LLP, Watson Burton LLP, DWF LLP, Irwin Mitchell LLP and Eversheds LLP.

The city is home to a wide range of important public sector functions with not only local and regional government operations, but national government departments based in the area. The most significant are HM Revenue & Customs and the Department for Work & Pensions.

Newcastle plays host to two leading universities attracting over 50,000 students from more than 125 countries combined. The University of Newcastle features in the top 20 of the majority of the UK rankings and is currently number 10 in the UK for overall student satisfaction. It is a member of the Russell Group (an elite group of 24 of the country's most highly regarded universities) and is ranked number one in this group for graduate employment. Northumbria University is located within a modern, and expanding, city centre campus with an outstanding reputation as the largest university in the North East. The importance of the contribution of the universities to the city was recognised in 2005 when Newcastle was designated as one of six UK Science Cities.

Newcastle's retail offerings serve as the primary retail destination for over 600,000 people making it the dominant retail centre in the North East. There is approximately 2.6 million ft² of retail floorspace ranking the city sixth out of the 100 PROMIS Centres. The prime area is centred around Intu Eldon Square Shopping Centre and Northumberland Street and is home to a number of national retailers including John Lewis, Marks & Spencer, Fenwick's and Debenhams. In addition, Intu Metrocentre, one of the UK's largest out of town shopping centres, is within 15 minutes' drive time.



NORTHUMBERLAND STREET



INTU ELDON SQUARE



INTU METROCENTRE



Current Inward Investment

SCIENCE CENTRAL

As part of Newcastle Science City (a partnership between Newcastle University and Newcastle City Council), Science Central is a new urban quarter central to Newcastle's economic future and a hub for the scientific growth of the city. Science City is home to Newcastle Hospitals NHS Foundation Trust which is already established in the science and health industry. It is one of the UK's largest trusts with more specialist services than any other group of hospitals outside of London, including Newcastle University's Institute for Ageing (the largest of its kind in Europe) and the International Centre for Life (where university researchers and Trust clinicians are pioneering science, in the fields of genetics and fertility treatment).

Spanning 24 acres of mixed-use prime city centre development land, it is the largest development of its kind in the UK. The development is located on the outskirts of the CBD on the site of the former Scottish & Newcastle Brewery. The masterplan includes a world class research facility as well as office and residential accommodation, retail offerings and a wealth of new landscaped public realm.

More information can be found at <http://www.newcastlesciencecentral.com>

STEPHENSON QUARTER

Stephenson Quarter is a major mixed use development. The site was formally home to the Robert Stephenson & Co Locomotive Works, the crucible of the railway industry, and where the revolutionary Rocket was built in 1829. Phase 1 has been completed which includes Newcastle's only recently developed Grade A office building extending to 35,000 ft², the recently completed Crowne Plaza Hotel, 360 space multi storey car park and Hawthorn House which is being redeveloped to provide studio office space.

Further development will take place including residential apartment blocks, additional commercial development and public space. More information can be found at <http://www.stephensonquarter.com>

INTU ELDON SQUARE EXPANSION

Intu Eldon Square is the city's main shopping centre and has seen extensive investment with the opening of a 450,000 ft² extension anchored by a new Debenhams department store, All Saints and Apple among others. The extension is 100% let and the centre as a whole now comprises some 1.35 million ft² prime retail and leisure space. Intu are continually investing in the centre supported by a £25 million redevelopment of Greys Quarter. This flagship redevelopment will provide the city centre with 21 new leisure operators including the likes of TGI Fridays, Giraffe, Bella Italia and anchor luxury operators such as The Alchemist and Chaophraya.

CENTRAL STATION

East Coast and Network Rail have recently transformed Newcastle's Central Station. The Grade I Listed station has seen its iconic portico pedestrianised and glazed to create a new public space to house new retail and catering choices. Commercial space has doubled which has enhanced the existing retail and leisure provisions at the station.

The £8.6 million project demonstrates the importance of Newcastle's Central Station as a gateway to the city and a major transport hub for the North East and the national rail network with 67 East Coast trains serving the station each week day.

NORTHUMBRIA POLICE HEADQUARTERS

Northumbria Police Authority has recently refurbished the former Network Rail office adjacent to Central Station to create a new £37 million state of the art Policing facility. The project has provided significant regeneration utilising two existing buildings which now connect together via a new build element. The new Headquarters has replaced their former Market Street location.

STEPHENSON QUARTER

INTU ELDON SQUARE



Communications

NEWCASTLE INTERNATIONAL AIRPORT

Newcastle International Airport is situated 7 miles (11 km) to the north west of the City and is recognised as being one of the top ten regional airports in the UK with over 4.6 million passengers flying to over 80 destinations worldwide. There are frequent scheduled flights to London with a journey time of approximately one hour and recent long haul scheduled routes including Dubai and New York. The British Air Transport Association (BATA), whose members include some of the world's leading airlines and tour operators, voted Newcastle International the UK's best airport. Cheapflights.com, Mirror Travel and Which Magazine have all also voted Newcastle the UK's Best Airport. The airport is also linked to the city centre by direct frequent services on the Tyne & Wear Metro.

ROAD

Newcastle City Centre is served by two main arterial routes linking it to the A1(M) via the A167 Central Motorway leading north and south through the city via the Tyne Bridge, and the A189 (St James' Boulevard) via the Redheugh Bridge which leads directly to Gallowgate. The A1(M) connects the region to the rest of the UK motorway network from Edinburgh in the North to London in the South.

RAIL

Newcastle's Central Station is the major transport hub for the region and benefits from being situated on the East Coast Mainline Railway, operated by East Coast Trains, offering a fastest journey time to London Kings Cross Station of 2 hours 37 minutes and to Edinburgh Waverley of 1 hour 25 minutes. In addition, Central Station serves as a hub for local rail services throughout Tyne & Wear as well as being a major exchange on the Tyne & Wear Metro.

TYNE & WEAR METRO

Outside of London, Newcastle is the only city in England to benefit from an underground rail network. The Tyne & Wear Metro provides a rapid transport system connecting the wider Tyneside area and stretching from Sunderland in the South East corner to Newcastle International Airport in the North West corner with a further 58 stations in between; the Tyne and Wear Metro is considered one of the most efficient public transport systems in the UK and plays a major role in the relatively low traffic congestion that the City enjoys.



Situation

Sandgate House is situated on the Quayside area of Newcastle upon Tyne city centre.

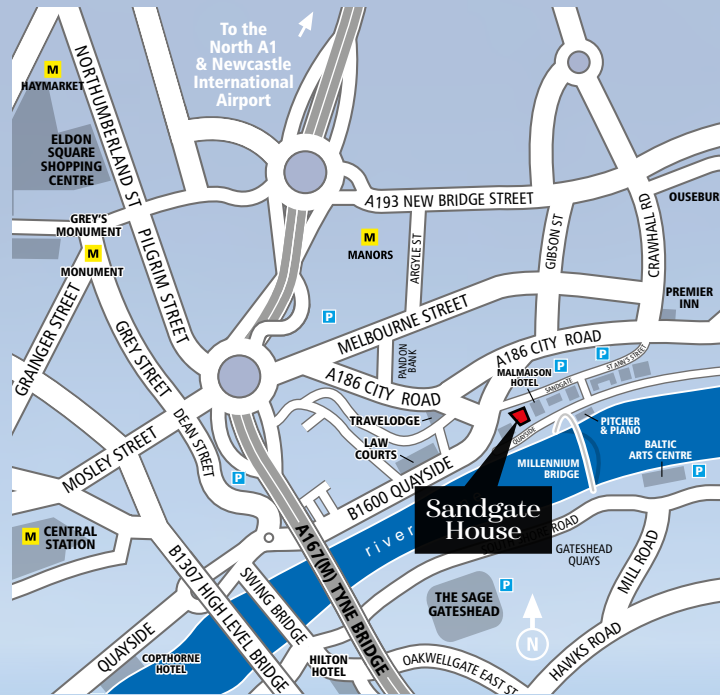
The Quayside was developed in the 1990's as office occupiers sought larger, more modern floor plates outside the traditional office core of Grey Street and Pilgrim Street. The Quayside now offers an attractive, landscaped working environment, better car parking provision than the traditional CBD and a good range of leisure facilities including hotels, restaurants and bars.

The property itself resides on a very prominent position benefitting from a gateway view of iconic tourist attractions including the Millennium Bridge, Baltic Centre for Contemporary Art and the Sage Music Venue.

Surrounding leisure occupiers include The Malmaison Hotel, Pitcher & Piano, Gusto, Starbucks and Las Iguanas. Office occupiers located on the Quayside include Knight Frank LLP, Bond Dickinson LLP, KPMG LLP, Regus, The Northumberland Estates and NFP&I.

The Quayside is serviced by the A186 City Road which connects this area to the rest of the city centre and the A167 (M) central motorway. This provides transport links to the A1(M) and the rest of the North East region.

The Quayside area is only a 5-10 minute walk from Grey Street, Northumberland Street and the Eldon Square Shopping Centre.



SandgateHouse



Gateshead Millennium Bridge

Aerial View

1 SANDGATE HOUSE

- 2 Quayside
- 3 Millennium Bridge
- 4 Baltic Centre for Contemporary Art
- 5 Baltic Place
- 6 Law Courts

- 7 The Sage Music Centre
- 8 Trinity Gardens
- 9 Central Motorway
- 10 Tyne Bridge
- 11 Grey Street
- 12 Northumbria University

- 13 Newcastle Civic Centre
- 14 Northumberland Street
- 15 Newcastle University
- 16 Eldon Square
- 17 Hilton Hotel
- 18 Copthorne Hotel

- 19 Central Square
- 20 Stephenson Quarter - The Rocket /Crowne Plaza
- 21 Central Station
- 22 Citygate
- 23 Wellbar Central

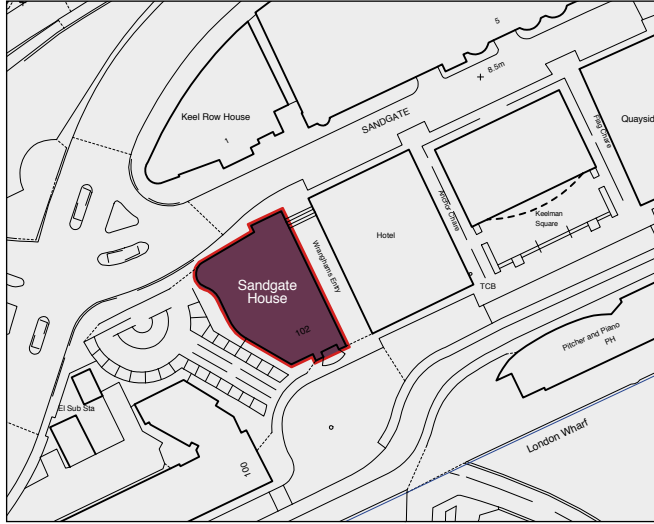
- 24 St James' Park
- 25 Baltic Business Centre
- 26 Newcastle Science Central Development



Description

The property comprises a detached headquarters office building constructed in 1996 on ground and four upper levels. The building is of steel frame construction with brick and stone cladding beneath a part flat and part curved roof.

Internally the property provides a mixture of open plan and cellular floor plates behind a core at the front of the building. The first and second floors are being fully refurbished by the tenant to provide open plan accommodation with new comfort cooling, bespoke 'intelligence' lighting system and new ceilings.



Upon completion of the refurbishment works (Approximately December 2016) the building will encompass the following specification:

- New suspended ceilings
- New LED 'intelligence' lighting system
- Comfort cooling throughout (replacing the previous R22 system)
- BMS Improvements
- New floor finishes*
- Internal redecoration
- Creation of open plan floor plates as per tenants requirements (1st & 2nd floors)
- 2 x passenger lifts
- Ground floor reception area
- Male / Female and disabled WC facilities to all floors and shower facilities to ground floor
- 100 car parking spaces (1:304 ft²) - located to the rear in Sandgate Car Park

Details of the full refurbishment programme can be provided on request.

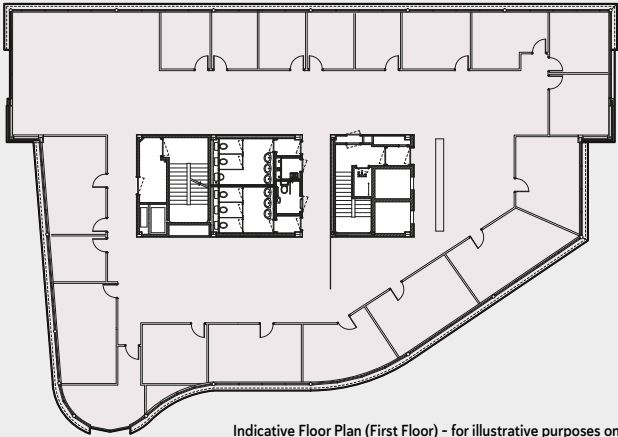
* Floor finishes on the 3rd and 4th floor have recently benefitted from upgrades to floor finishes.



Accommodation

The property has been measured in accordance with the RICS Code of Measuring Practice (Sixth Edition) and provides the following net internal areas (NIA):

Floor	m ²	ft ²
Ground	396.59	4,269
First	577.28	6,214
Second	619.09	6,664
Third	617.23	6,644
Fourth	617.69	6,649
Total	2,827.88	30,440



The total floor area to be assumed for rent review purposes is 29,514 ft² as stated as an assumption in the lease.

The property benefits from 100 car parking spaces situated to the rear in Sandgate multi storey car park providing a ratio of 1:304 ft². A parking ratio of this level is in line with out of town Business Park parking ratios.

Tenure

The property is held freehold. The title includes 100 car parking spaces that are held long leasehold for a term of 999 years from January 1996 at a rent of one peppercorn.

Tenancy

The property is fully let to Ward Hadaway Solicitors (WH 2013 LLP - OC359032) on a renewed lease which commenced on 22 December 2015 and expires on 06 October 2031 offering 15 years unexpired on the lease.

The property was originally built for Ward Hadaway in 1996 who have been in occupation since this date.

The rent is £675,000 per annum with open market rent reviews every 5 years with the next review with effect from 21 December 2020.

The lease includes the provision for 100 car parking spaces at Sandgate Car Park located to the rear of the subject property.

The lease is guaranteed by The Several Persons Listed in Schedule 7 of the lease. This list of Guarantor Parties is 19 of the equity partners within the firm.

Based on the measured areas and car parking at £1,000 per space, per annum, the newly agreed rent reflects a rate of £18.89 /ft². (£19.50 /ft² adopting areas stated in the lease).

As such the rent shows excellent potential for growth in the context of recent transactions and city centre current supply/demand dynamics. Headline rents in Newcastle city centre have now hit £23.00 /ft² and landlords are increasing quoting rents for existing city centre space. Capital incentives associated with the lease re-gear are all being allocated to the tenant's refurbishment.



Covenant Status

Ward Hadaway, established in 1988, is one of the UK's Top 100 law firms and a major player in the North of England, operating from offices in Newcastle, Leeds and Manchester.

Ward Hadaway, headquartered from the subject property, employ more than 450 staff, with over 80 partners, offering a full range of legal services to clients across the private and public sectors as well as bespoke advice to individuals. They are rated as one of the leading law firms in the country by independent legal guides Legal 500 and Chambers & Partners and are acknowledged national experts across a wide range of specialist areas.

The firm has enjoyed strong and consistent growth (25% over the last 5 years) and after expanding in the North East for 20 years, opened its Leeds office in 2008 followed by the Manchester office in 2012. The continued growth of the firm is further emphasised with Ward Hadaway recently moving to new accommodation in Leeds to 5 Wellington Place.

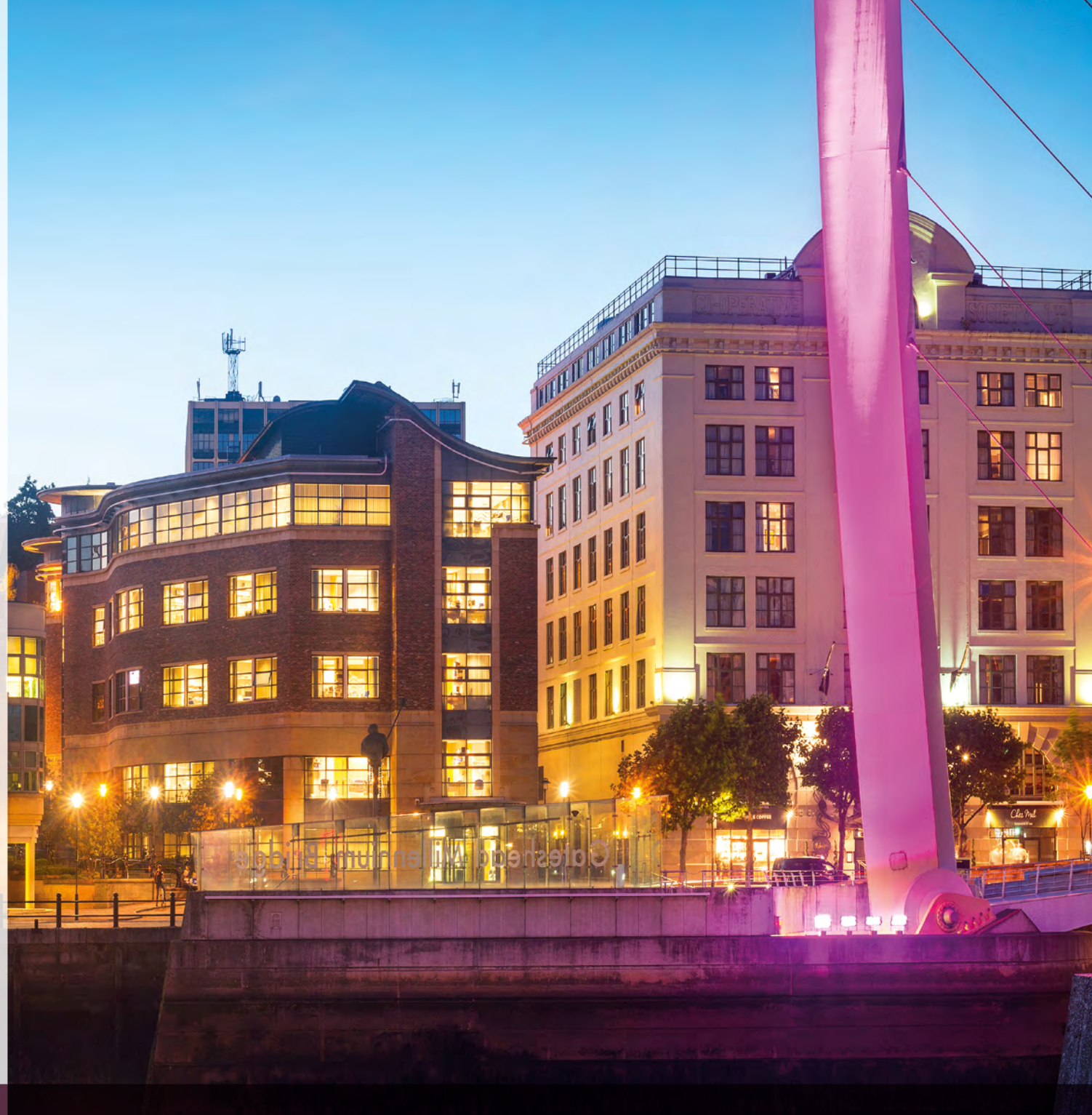
Ward Hadaway Solicitors are a private partnership and therefore are under no formal obligation to publish accounts. The lease of Sandgate House is held and guaranteed in the names of 19 equity partners acting jointly and severally on behalf of the firm.

For the year to 30 April 2016 the firm has reported income rising by 7.20% to £35.8m. Corporate fee income (made up of corporate, commercial and property teams) also rose 41.5% during the year. Like for like profit margin rose to 32.2% while the net debt reduced by over 80%.

To the year-end April 2015 annual income was £33.5 million with a marked growth in litigation, private client and property departments. Ward Hadaway was also named Property Team of the year at the Northern Law Awards 2015. Across the wider business income grew by 28.5% in Manchester.

To the year end 2014 the litigation department had turnover of £16m which represented just short of 50% of the firm's total turnover. This built on previous growth of over 10% in the previous 2 years. The firm also retained its title as PFI Law Firm of the Year in England 2014 (previously also won in 2013). Ward Hadaway also doubled the size of their premises in The Observatory in Manchester city centre during 2014. This follows on from successes in 2013 with the firm finishing the year ranked as the Most Active Law Firm in the North East for Corporate Transactions according to an independent analysis from Experian Corpin.

Ward Hadaway are committed to the location and have been in occupation of Sandgate House since construction in 1996. They also occupy the neighbouring Keel Row House which lies to the rear.



Newcastle Office Market

SUPPLY

Newcastle City Centre is currently suffering from a gross under supply of new Grade A offices.

The supply of Grade A accommodation currently stands at only c. 120,000 ft² as listed in the table below:

BUILDING	LOCALITY	AVAILABILITY (FT ²)
Time Central	Gallowgate	8,000
The Hub	Northumberland Street	12,000
Central Square South	Stephenson Quarter	34,940
Trinity Gardens	Quayside	27,204
2 St James' Gate	City Fringe	36,639
TOTAL		118,783

This equates to a limited supply timeline of only 6 months which continues to improve rental growth office prospects across the city.

TAKE-UP

Total take-up for 2015 reached 260,200 ft², an increase of 42% when compared to 2014. Notably, the 2015 total represented the highest level of take-up recorded since the financial crisis of 2008. Initial figures for H1 2016 show take up in the region of 88,000 ft² for Grade A city centre space.

Demand remains strong and there are currently 25 known requirements for Grade A offices in the City Centre totalling in excess of 100,000 ft².

RENTS

Prime headline rents increased to £23.00 /ft² in H1 2016. This marked the highest achieved rents since 2007. With availability expected to tighten during the remainder of 2016, a further rise in prime rents is anticipated. Prime rents in 2007 reached £24.00 /ft².

Strong demand coupled with limited supply has resulted in a reduction in tenants' incentive packages. Over the last 18 months they are now typically equivalent to 9 months for every 5 years of term certain and 15 - 18 months rent free for a 10 year term.

RECENT LETTING EVIDENCE

The letting of 35,000 ft² at The Rocket has been the largest transaction of H1 2016.

Other recent lettings are included in the table below:

BUILDING	DATE	GRADE	HEADLINE RENT (/FT ²)	SIZE (FT ²)	COMMENTS
Live Works, Quayside	Q2 2016	A	£22.00	15,000	Fully let to ZeroLight
The Rocket, Stephenson Quarter	Q2 2016	A	£22.00	35,000	Fully let to Convergys
Wellbar Central	Q2 2016	A	£23.00	4,500	Part 8th floor let to DAC Beachcroft
West Tower, Baltic Place	Q1 2016	A	£18.00	1,790	Part 3rd floor let to Kayence
One Citygate East	Q4 2015	A	£22.00	22,950	Three floors let to Ernst & Young
Quayside House	Q4 2015	A	£20.00	1,659	3rd floor let to Pantheon Macroeconomics
Central Square	Q3 2015	A	£19.50	15,155	3rd floor let to Orchard Systems
The Hub	Q3 2015	A	£17.00	17,000	Let to Ubisoft
Rotterdam House	Q2 2015	B	£17.50	5,645	Ground floor let to Ramboll Energy
Trinity Gardens	Q2 2015	A	£21.50	3,041	Ground floor suite let to Allied Irish Bank
30-32 Grey Street	Q2 2015	B	£18.00	1,425	1st floor let to Office Angels
Wellbar Central	Q1 2015	A	£21.50	19,904	5th and 7th floor suite let to Iparadigms
Central Square South	Q4 2014	A	£21.00	8,000	4th floor suite let to Penspen Integrity

DEVELOPMENT PIPELINE

Newcastle's development pipeline is significantly constrained with no new office buildings proposed to be constructed going forward in Newcastle city centre. With supply levels at an all-time low, and no development on the horizon, rents will continue to be forced upwards as evidenced recently with numerous landlords increasing the quoting rents on existing available stock to reflect the supply/demand environment.

In the last year there has been three new office schemes which have completed. The Core, at Science Central, was pre-let to Newcastle University, Aviva's 'Rocket' (Stephenson Quarter) which completed late in 2015 (35,000 ft²), is fully let to a single occupier as is the 'Live Theatre' (following completion of works in January 2016). This again shows the strength of the occupational market in the city centre.

REGIONAL OFFICE INVESTMENT MARKET

Investment activity in the North East is thriving as private investors, domestic institutions and overseas funds increase their focus on the regional office market in search of higher returns than those found in London and the South East.

North East investment activity during 2015 exceeded £1billion of which city centre institutional office investment was above £92m. This showed a year on year increase of 80% in the institutional office market led by UK institutions supported by core plus and opportunity players entering the market. As the economy has strengthened and yields have hardened in London and the South East, institutional investors have increasingly sought the more attractive returns available in strong regional centres such as Newcastle. The subject building is the first institutional grade building which has been available during 2016.

Recent regional investment sales are included in the table opposite:

BUILDING	DATE	PRICE	YIELD	COMMENTS
3 Sovereign Square, Leeds	July 2016	£43,750,000	5.42%	Fully let to Addleshaw Goddard LLP for 17.5 years. Acquired by Leeds City Council. Forward purchase with PC in September.
Newcastle University Business School, Newcastle upon Tyne	July 2016	£60,000,000	3.74%	Fully let to Newcastle University
1 Byrom Place, Manchester	June 2016	£14,400,000	5.40%	Fully let to JMW Solicitors for an unexpired term of 10 years. JMW Solicitors for the year ending April 2015 showed turnover of £19.2m, pre-tax profit of £2.3m and net assets of £5.3m.
Citymark, Edinburgh	January 2016	£43,000,000	5.62%	Fully let to Bank of Scotland Plc for an unexpired term of 11 years
Citygate, Newcastle upon Tyne	January 2016	£18,950,000	6.57%	Multi-let with a WAULT of 6.5 years. Let to Ernst & Young and UNW
Lochside Avenue, Edinburgh Park	December 2015	£19,050,000	6.29%	Fully let to Sainsburys Bank with an unexpired term of 9 years
Central Square North, Newcastle upon Tyne	December 2015	£21,580,000	6.42%	Multi-let with a WAULT of 8.0 years. Let to Cushman & Wakefield, GVA and Ove Arup Partners
60 Spring Gardens, Manchester	December 2015	£7,800,000	5.75%	Fully let to Agead Insurance with an unexpired term of 5.2 years
Wellbar Central, Newcastle upon Tyne	December 2015	£40,075,000	6.04%	Multi-let with a WAULT of 7.0 years. Let to BSKyB, Irwin Mitchell and DAC Beachcroft
Nexus House, Newcastle upon Tyne	April 2015	£7,725,000	6.75%	Predominantly let to Tyneside Transport Service Limited with an unexpired term of 11.25 years

Management Company

All freeholders on quayside own shares in the management company established to take on responsibility for the maintenance and operation of the common areas of the quayside. Shares have been allocated on a pro-rata basis in line with the floor area and the estate service charge is apportioned similarly. We understand the management company currently recovers the service charge contribution direct from the tenant. The freeholders shares in the management company will be transferred to the purchaser on completion.

The services currently provided by the management company include the following:

- 24 Hour security (across entire estate/office buildings and car parking)
- Landscaping
- Street cleaning
- Maintenance and repair of common areas
- Street lighting
- Operation of the car parking



VAT

The property has been elected for vat and therefore vat will be payable on the purchase price. It is envisaged that the sale will be dealt with by way of a TOGC.

Capital Allowances

There are no capital allowances available with this property.

EPC

The property has an energy performance rating of C (68). The epc rating will be upgraded on completion of the refurbishment works.

Proposal

We have been instructed to seek offers in excess of **£10,200,000 (Ten Million, Two Hundred Thousand Pounds)**, which reflects a **net initial yield of 6.20%**, based on purchaser's costs of 6.70%.

For further information
or to arrange an inspection
please contact:

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House