

COBALT 16 | COBALT BUSINESS PARK NEWCASTLE **NE27 0BY**



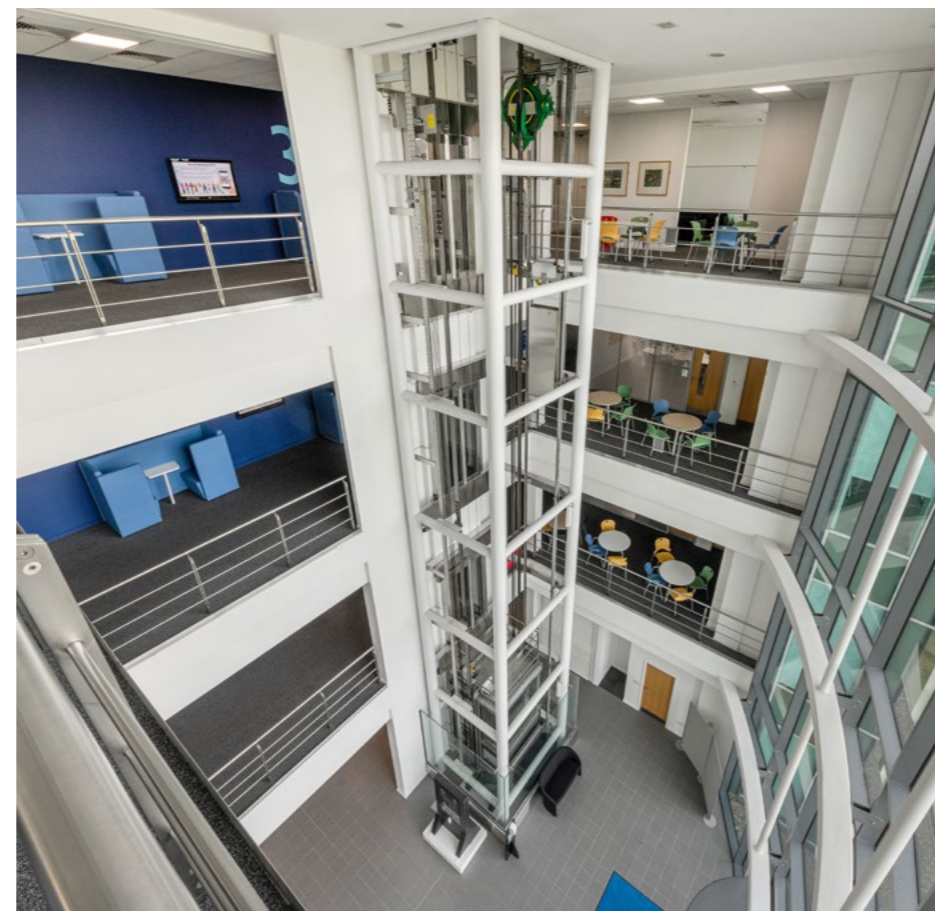
LET TO NORTH TYNESIDE COUNCIL AS THEIR ADMINISTRATIVE HQ AND CIVIC CENTRE
UNTIL **19 NOVEMBER 2042** WITH **ATTRACTIVE ANNUAL FIXED UPLIFTS**



View Video 

EXECUTIVE SUMMARY

- Cobalt Business Park is the UK's largest office park, providing 1.3 million sq ft of Grade A office accommodation.
- In a highly accessible location, in one of North East's largest commercial hubs, providing easy access to Newcastle City Centre, Tyne Tunnel and the wider North East region.
- Numerous amenities including a new Travelodge hotel, Village Hotel and Leisure Club, retail parade, gym, day nursery and also the extensive retail and leisure offering at the nearby Silverlink Shopping Park.
- Cobalt 16, Quadrant East is a modern 119,566 sq ft HQ office **fully occupied** by North Tyneside Council for use as their Civic and Administrative Centre serving North Tyneside.
- The entire property is let under a Lease Plus Agreement, the total income being apportioned 68% to the base income and 32% to the Facilities Management Service provision, provided by Grosvenor Facilities Management Limited.
- The total gross passing income is £3,218,495 per annum made up of, base rent of £2,047,044 per annum and a FM rent of £1,171,451 per annum. The base rent increases annually by 2.6% and the FM rent by reference to the increase in the RPIx index, uncapped.
- The base rent increases to £2,100,267 per annum from 1 April 2024. The vendor will top up the rent to this level.
- The FM contract produces a significant profit. More details are provided later in this document and within the vendors data site.
- **The video tour** was taken without staff being present at the tenant's request.



- Offers are invited in excess of **£30,250,000 (Thirty Million Two Hundred and Fifty Thousand Pounds)** for our client's long leasehold interest. A purchase at this level reflects on the topped up base rent, a **Net Initial Yield of 6.5 %** after deduction of standard purchaser's costs of 6.78%. There is a significantly higher running yield, when the estimated profit from the FM agreement is taken into account.

LOCATION

Newcastle is located approximately 285 miles north of London and 105 miles south of Edinburgh and is the commercial and administrative capital of the North East.

Newcastle benefits from excellent road, rail and air connections with Newcastle Central Station serving the East Coast Mainline and providing a fastest journey time of 2 hours 40 minutes to London King's Cross and 1 hour 30 minutes to Edinburgh Waverley..

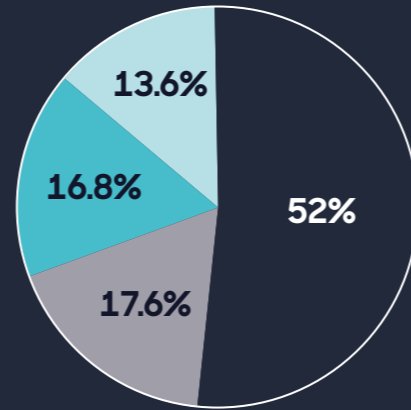
The Central Station also provides the main interchange for the Nexus Tyne and Wear Metro light railway network, supporting 60 stations connecting Newcastle to Gateshead, Sunderland, and Tyneside. The station has approximately 2.7 million passengers a year.

Newcastle International Airport is situated 7 miles west of the city centre providing regular flights to key domestic, European and International destinations.

Newcastle is one of the fastest growing regional economies in the UK and continues to nurture innovation and accelerate investment.

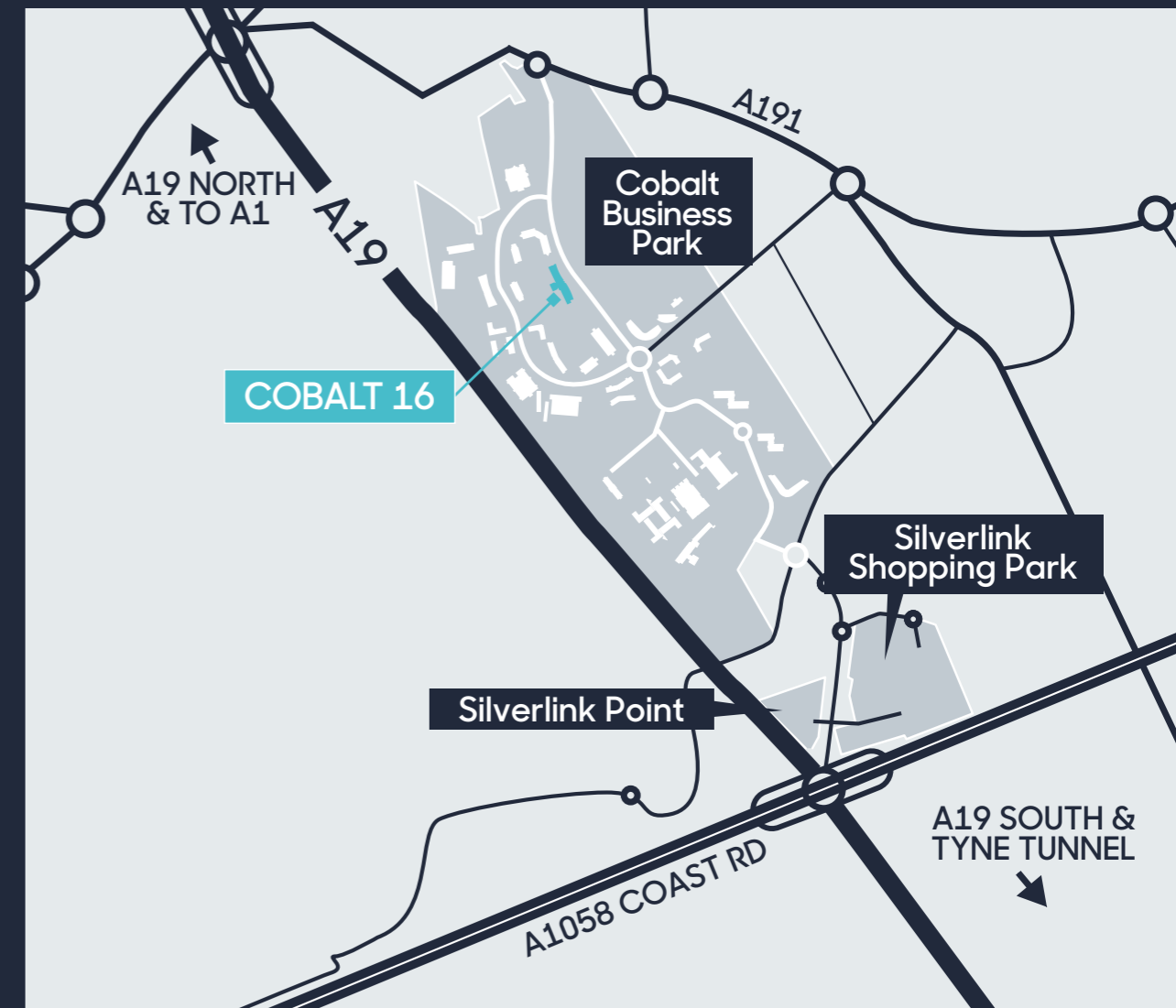
This is aided by a £4.2 billion devolution deal that brings together all seven local authorities of the North East. Newcastle is set to benefit from a new £1.4 billion (£48 million per annum) investment fund that will provide new funding for investors looking to do business in the region.

Newcastle is an international city with a highly developed urban economy. The number of people working in high-skilled jobs is higher than both the regional and UK average.



- Major Group 1-3**
(Managers, Directors and Senior Officials; Professional Occupations; Associate Professional and Technical)
- Major Group 4-5**
(Administrative and Secretarial; Skilled Trades Occupations)
- Major Group 6-7**
(Caring, Leisure and Other Service Occupations; Sales and Customer Service Occupations)
- Major Group 8-9**
(Process Plant and Machine Operatives; Elementary Occupations)

Source:
(ONS, June 2023)
(Invest Newcastle, 2023)



SITUATION

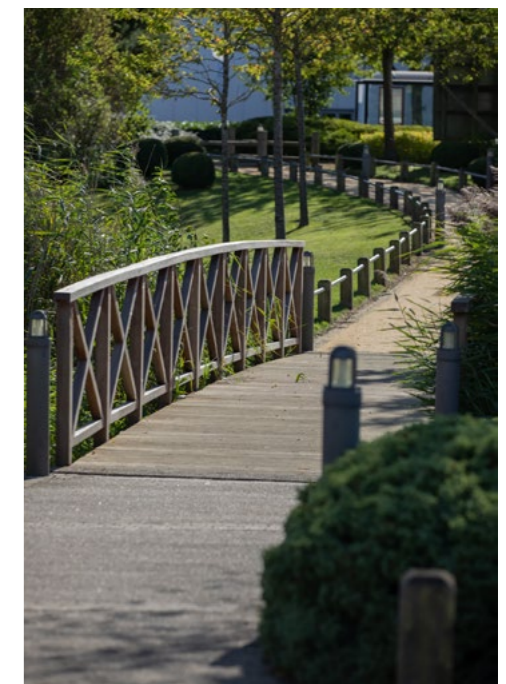
The property is located on Cobalt Business Park, the North East's premier out of town business park situated 5.5 miles to the east of Newcastle City Centre. The park benefits from excellent road connectivity to the wider region via the A1058 Coast Road and the A19 Tyne Tunnel. The newly upgraded £75 million three tier Silverlink Interchange is where the A1058 intersects the A19 and is located directly to the south of the Business Park and facilitates 50,000 vehicles each day.

The Park provides 1.3 million sq ft of Grade A office accommodation over 23 buildings and a working population of 14,000 people. There are a number of HQ buildings at Cobalt and an impressive line-up of corporate occupiers including, Sage Plc, Accenture, Proctor & Gamble, Leeds Building Society, EE and G4S, Hewlett Packard and Northumbria Healthcare NHS Trust.

In addition to the offices, the Park has a nursery, high-end car showrooms, data centres, retail parade, Travelodge and Village Hotels. Adjacent is New York Industrial Estate, a popular and high occupancy estate. There is also 322,000 sq ft of retail and leisure space at Silverlink Leisure Park, located 0.5 miles to the south, with occupiers including; Odeon, Five Guys, M&S, Currys, Next, Sports Direct and Nando's.



- | | |
|--------------------------|---------------------------------|
| 1 Proctor & Gamble | 12 CBX Cobalt Business Exchange |
| 2 Accentura | 13 Cobalt 3:1 Business Centre |
| 3 Siemens Gamsa | 14 DXC Technology |
| 4 Santander | 15 Perfect Image / IT Solutions |
| 5 North Tyneside Council | 16 Sage |
| 6 Morricon Data Services | 17 Newcastle Building Society |
| 7 Leeds Building Society | 18 CBX Data Contra |
| 8 DNV-GL | 19 Cobalt Central |
| 9 NHS | 20 Busy Bees Day Nursery |
| 10 EE | 21 Village hotel Club |
| 11 IBM | 22 Cobalt Hospital |





DESCRIPTION

Cobalt 16 comprises a modern four storey office building completed in 2004 and extended in 2007 to meet the tenant's space requirements for use as the Civic and Administrative Centre for North Tyneside Council. The building is of steel frame construction and features an impressive convex and concave waveform glass façade.

Part of the ground floor has been fitted to provide Council Chamber's including a public viewing gallery. The room can be split to cater for different Council meeting sizes. The office accommodation provides flexible open plan space on either side of a common core and benefits from excellent natural light throughout.

The accommodation provides:

- Air-conditioning
- Full raised accessed floor with clear void 150mm
- LG3 lighting
- Double height feature reception with full height atrium
- 3m clear floor to ceiling height
- Five 13 person passenger lifts

Externally the property provides 470 car parking spaces.

View Video



ACCOMMODATION

Cobalt 16 provides the following net internal floor areas.

ORIGINAL BUILDING			
DESCRIPTION	USE	SQ M	SQ FT
Ground floor	Reception/Atrium	479.9	5,166
Ground floor	Office	2,494.3	26,848
First floor	Office	2,185.1	23,520
Second floor	Office	2,891.8	31,127
Third floor	Office	2,901.9	31,236
Fourth floor	Office/Plant	155.1	1,669
TOTAL		11,108.1	119,566

The 2014 extension extends to 11,063 sq ft over ground, second, third and fourth floor.



TENURE

The property is held under a long sub-underlease from estate developers and managers, Highbridge Properties for a term expiring on 22 March 2121. The ultimate freeholder is North Tyneside Council. The lease provides for a peppercorn rent without review.

TENANCY

The whole property is let to North Tyneside Council on a Full Repairing and Insuring basis by a Lease Plus Agreement, for a term of 25 years from 19 November 2007. In 2011, the council agreed to extend the lease by 10 years to 18 November 2042.

Under the Lease Plus Agreement, the total income is apportioned 68% to the base income and 32% to the Facilities Management Service provision, provided by Grosvenor Facilities Management Limited. The base income is subject to fixed annual increases of 2.6% per annum. The FM income is subject to uncapped annual increases in line with the increase in the RPIx index.

The current base rent is £2,047,044 per annum and the FM income is £1,171,451 per annum both paid by North Tyneside Council. The gross passing rent is £3,218,495 per annum. The Landlord will top-up the base rent to £2,100,267 per annum, to the 1 April 2024, making the total gross rent £3,271,718 per annum.

North Tyneside Council pay a estate service charge and annual insurance premiums to L&G. The service charge is paid over to the estate managers Highbridge properties.

The lease contains a restriction on assignment, with the tenant only able to assign to a public sector body, or somebody who succeeds or carries out all or part of the functions of the tenant.

The tenant has a pre-emption right to buy in the event the Landlord wishes to dispose of its reversionary interest. The tenant has 15 working days to exercise this option and match the best offer submitted. The tenant also has the right to purchase the property at the end of the lease term in 2042 at the property's open market value assuming vacant possession but subject to any existing under leases.



FM AGREEMENT

The FM contract is entered into between L&G and Grosvenor Facilities Management Limited (GFM) and runs co-terminus with the lease plus agreement expiring on 18 November 2042. The contract can be terminated by L&G if requested upon a sale of its long leasehold interest. GFM have undertaken the same contract since 2011 and we understand North Tyneside Council are happy with their services.

FM rent from the council is reviewed annually on the 1 April by taking the current RPIx figure in March of each year and dividing by the base figure of 200.1 and times by a original sum of £638,866. From this sum received, L&G pay Grosvenor Facilities Management Limited for Hard FM charges, currently, £422,691 per annum, and also a contractual amount, into the sinking fund, held by the fund. Surplus amounts are retained by L&G as profit. Over the period of L&G's ownership between 2011 and 2023 the amount of profit received has totalled £3,965,966, equal to a average additional payment of £305,000 per annum. Based on future projections of contractual payments, it is anticipated that appreciable FM profit will be payable to the long leaseholder over the remainder of the lease.

A significant sinking fund surplus has built up over the first 15 years of the lease. The FM provider has the right under the FM Agreement, in Nov 2022 and Nov 2032 to receive 50% of the surplus amount existing with the remaining sum being retained in the sinking fund. On termination of the FM agreement and lease in Nov 2042, provided all services and works stipulated in the agreement have been satisfactorily undertaken the FM provider receives any remaining surplus.

Certain cost elements of works which are regarded as improvement work as opposed to replacement cost will not necessarily fall within the FM contract obligations. An example would be if it was more expensive to install electric boilers in place of gas boilers once the gas boilers are beyond repair. In these circumstances if North Tyneside Council wished to have these works undertaken it would have to contribute the difference in cost, and potentially increase the FM rent, which they are aware of.

Currently BMS optimisation and control inputs, reducing simultaneous heating and cooling adjustment set points and optimising dead bands are currently being spent on.

A copy of the FM agreement along with a summary explanation of how the agreement works and example projections of FM profit are provided in our clients' data site.



COVENANT

North Tyneside Council

North Tyneside Council is one of five unitary local authorities in the Tyne and Wear conurbation placing the borough at the heart of a wider strategic area encompassing over 1.47 million people. The borough covers an area of approximately 6,026 sq miles (2,326.5 sq km) and 208,871 residents.

In the year 2022/2023 the Council had gross expenditure of £729.46 million and useable reserves of £124.86 million.

Grosvenor Facilities Management Ltd

Grosvenor Facilities Management is a Harrogate based provider of the full spectrum of hard and soft FM services with a range of customers in the office, leisure and healthcare sectors. We have outlined their accounts for the last 3 years in the table below, which demonstrates a consistent and well-run business:

YEAR	2022	2021	2020
Turnover	£28,776,053	£28,528,820	£27,229,694
Pre-Tax Profit	£413,039	£465,887	£762,329
Shareholder's funds	£3,247,880	£2,914,042	£3,037,112



North Tyneside Council

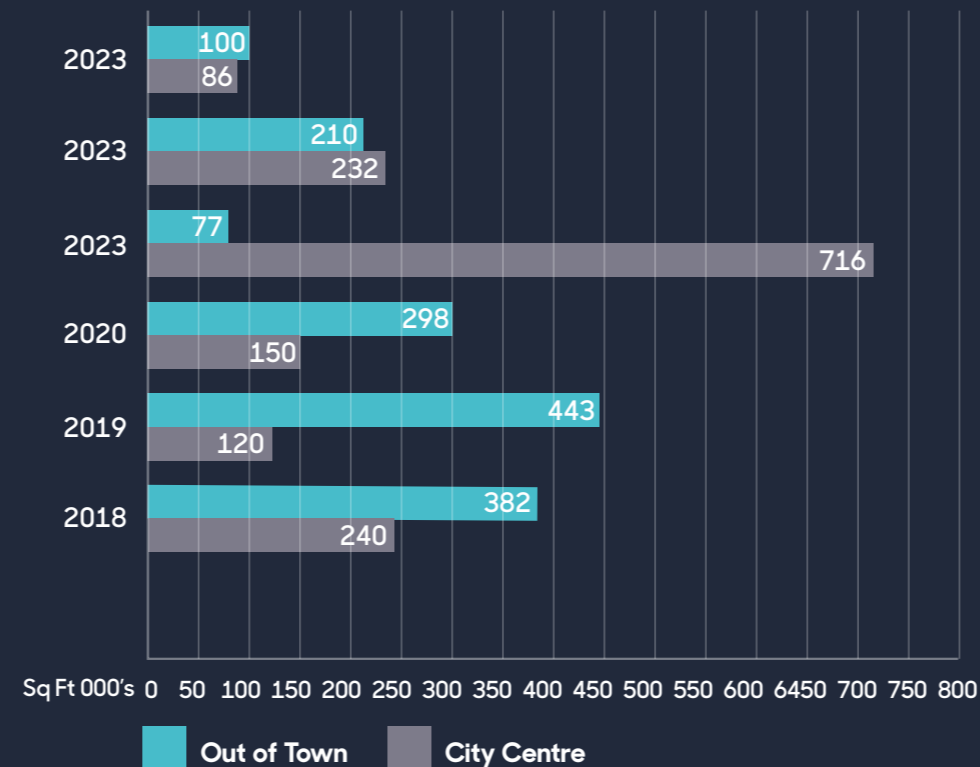


OCCUPATIONAL MARKET

Newcastle is the prime office location in the North East and, as such, serves as the administrative centre for the region. The area is popular with companies in the Information Technology sector, with a number of national and international occupiers located in the city. The most significant employer in this sector is Sage Plc, who relocated from Great Park to a new HQ at Cobalt Business Park over 2020/2021. Other similar occupiers falling in the same sectors include Newcastle Building Society (HQ), Accenture, Leeds Building Society and Proctor and Gamble.

The out-of-town market in the North East continues to perform well with take-up 6% above the 10-year average, whereas the city centre take-up is 4% below average. The 5-year take-up graph demonstrates a clear bias towards the out-of-town market. The 2021 data for city centre take-up is slightly distorted by the inclusion of the 460,000 sq ft HMRC HQ which is being built and due to complete in December 2025.

5 Year Take-up



We have outlined recent significant out of town letting transactions in the table below:

ADDRESS	DATE	SIZE (SQ FT)	TENANT	TERM (BREAK)	RENT (£PSF)	COMMENTS
Victoria House, Newcastle Business Park, NE4 7YL	April 23	15,234	Ministry of Justice	15 (10)	£243,744 (£16.00)	Ground floor office suite. 12 months' rent free by way of incentive. 5 yearly RPI rent review (2%-5%).
Q10, Quorum Business Park, NE12 8EZ	Sept 22	13,900	Evans	10 (5)	£229,350 (£13.50)	First floor office suite in modern out of town office.
Q3, Quorum Business Park, NE12 8EX	Aug 22	26,966	AA	10 (5)	£431,456 (£16.00)	24 months' rent free granted. Rent penalty equivalent to 16 months is payable if tenant exercises the break.
Q12, Quorum Business Park, NE12 8BU	Jul 22	94,656	Verisure	15	Average rent through term £1,615,950 (£17.00)	Dec 34 to £20.79 /sq ft to lease expiry. Modern office occupied as HQ by tenant. Rent is subject to fixed uplifts starting at £9.50/sq ft rising Dec 26 to £14.40/sq ft, Dec 29 to £18.80/sq ft,
Rainton Bridge, Sunderland	Sept 21	207,000	Just Eat	10	£2,691,000 (£13.00)	Mid 2000's detached building previously let to N Power. Situated on a mixed commercial estate.
C23, Cobalt Business Park, NE28 9EJ	Jan 21	125,912	Sage Group Plc	15 (10)	£1,762,768 (14.00 rising to £17.00)	Fixed uplifts starting at £14.00 /sq ft rising year 5 to £15.50/sq ft and increasing to £17.00/sq ft in year 10.



INVESTMENT MARKET

We have outlined comparable long income out of town office transactions in the table below. There are a number of very recent transactions:

ADDRESS	DATE	SIZE (SQ FT)	TENANT	TERM (BREAK)	SALE PRICE (£PSF)	YIELD	COMMENTS
HMRC, Ruskin Square, Croydon, CR0 2WF	Dec 23	195,000	HMRC	18.0	£115,000,000 (£590)	6.10%	25 years from December 2016. Fixed uplift in Dec 26 taking the yield to 7.1%.
NHS House, Newbridge Hill, Bath, BA1 3QE	Dec 23	23,660	Avon and Wiltshire Mental Health NHS Trust	13.5	£7,460,000 (£315)	5.20%	20 year lease extended to June 2037. Next rent review June 2032 CPI (2-4%).
Temple Quay House, Bristol, BS1 6EB	Dec 23	141,000	Government	13.2	£49,500,000 (£351)	5.97%	Fixed uplift in 2024, taking yield to 6.7%. 2002 build office.
Digbeth, Birmingham	Nov 23	88,000	BBC	25	£59,200,000 (£673)	5.00%	Forward commitment. Refurbishment of existing building and extension. 5 yearly rent review (CPI +0.8%).
Q12, Quorum Business Park, Newcastle, NE12 8BU	Jun 23	94,656	Verisure Services (UK) Ltd	14.5	£18,430,000 (£195)	7.65%	Rising from £9.50 /sq ft to £20.80/sq ft. Rent topped up for sale to £1,500,000 pa (£15.80/psf). Virtual freehold. Weaker covenant and significantly topped up rent with no rental increase to Dec 2029.
Sand Martin House, Peterborough, PE2 8TY	Jun 23	90,017	Peterborough City Council	20.3	£47,380,000 (£526)	4.75%	Office building and multi-storey car park. 5-yearly RPI (1-4%) rent reviews. Freehold. Purchased by the tenant.
One Cathedral Square, Blackburn, BB1 1FB	Jan 23	33,216	Blackburn & Darwen Borough Council	18.5	£9,200,000 (£277)	5.40%	Annual upwards only RRs in line with RPI (1% - 5%). Long leasehold 250 years from 2015 at £1 pa without review.
C22, Cobalt Business Park, NE28 9EJ	Jul 20	77,816	Sage Group PLC	15.0	£18,300,000 (£235)	6.30%	Fixed rental uplifts in year 5 & year 10 at 2% pa Equivalent. Sold during Covid-19.
C23, Cobalt Business Park, NE28 9EJ	Mar 20	125,912	Sage Group PLC	15.0 (Break 10)	£26,300,000 (£209)	6.65%	Fixed 5 yearly uplifts at 2% pa equivalent. Included an additional 171 space surface car park also let on a 15 year lease with break at year 10 at £85,000 pa subject to annual 2% pa uplifts. Freehold. Sold during Covid-19.

DATA ROOM

Access to the data room will be provided upon request.

EPC

The building currently has a EPC rating of "C". The certificate was obtained in September 2023. The EPC certificate along with a net carbon zero road map from November 2022 and local authority decarbonization plan dated June 2022, are available in the data site.

VAT

The property is VAT registered. Subject to the tax status of the purchaser it is expected that a transaction will be treated as a Transfer of Going Concern.

PROPOSAL

Offers are invited in excess of **£30,250,000 (Thirty Million Two Hundred and Fifty Thousand Pounds)** for our client's long leasehold interest. A purchase at this level reflects a **Net Initial Yield of 6.5%** after deduction of standard purchaser's costs of 6.78%. There is a significantly higher running yield, when the estimated profit from the FM agreement is taken into account.

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