

Prime Mixed-Use Reversionary Investment with WAULT of 16 years



Vine & Provincial House

148-152 Northumberland Street Newcastle upon Tyne NE1 7DX



Investment Highlights

- **Prime High Street/Mixed-Use** investment opportunity on pedestrianised Northumberland Street
- **WAULT** of 16 years to expiry and 15.3 to breaks
- Strong tenant line up with **44%** of the income secured to **Boots UK Ltd**
- Close proximity to **Primark, M&S, Starbucks** and Metro & Bus Stations
- Numerous **asset management** opportunities
- We are instructed to seek offers in excess of **£3,790,000** which reflects a **net initial yield of 8.0%** and a **reversionary yield of 9.33%** after deduction of purchaser's costs of 6.52%.



Location

The city of Newcastle upon Tyne is the regional and commercial capital of the North East. The population of the city is approximately 259,000, whilst the wider primary catchment area is 1,502,000. Newcastle is approximately 451km (280 miles) north of London, 160km (100 miles) north of Leeds and 175km (109 miles) south of Edinburgh.

Transport links are excellent, with the A1 (M) and A19 providing the principal north/south routes. The A69 extends west towards Hexham and Carlisle. As well as being the focal point of a network of local rail services, Newcastle Central Station is a major staging point on the East Coast Main Line and Cross Country Network. The shortest journey time to London is 2 hours 37 minutes, and to Edinburgh 1 hour 30 minutes.

The city is served by Newcastle International Airport situated approximately 11km (7 miles) north of the city centre. The Airport is the tenth busiest of the UK's 59 airports, providing daily flights to over 80 destinations worldwide.





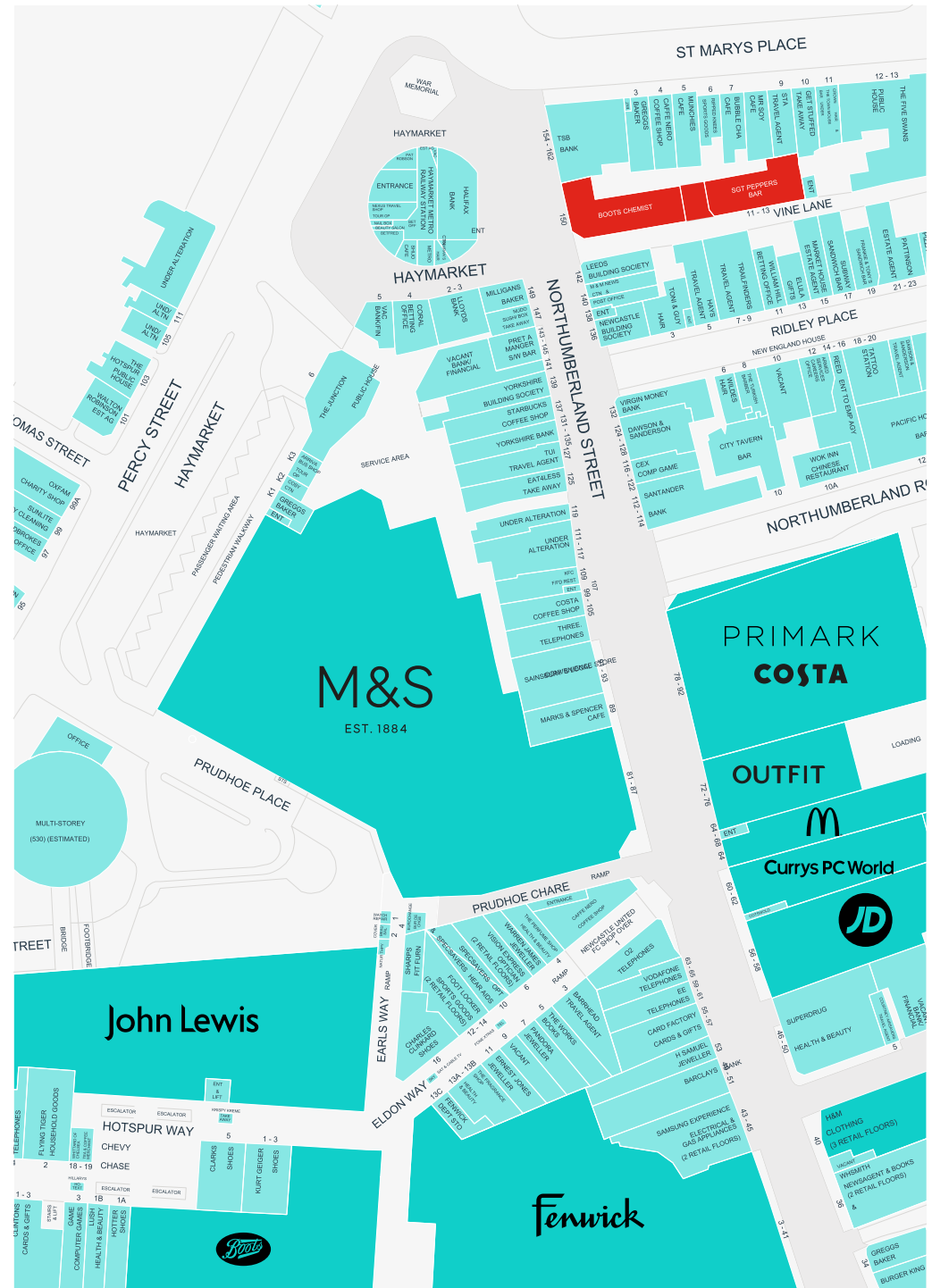
Vine & Provincial House

A167 (M)

Situation

The subject property is situated on the prime pedestrianised Northumberland Street close to retailers such as Primark, M&S, Starbucks, Pret a Manger and Sainsbury's. The property is close to the Haymarket Metro Station which has footfall in excess of 6 million people per year. The station is also the main stop for shoppers coming into the city centre. Other notable occupiers in the locality include Newcastle University, Northumbria University, the Civic Centre and the Royal Victoria Infirmary.

Northumberland Street is one of the UK's leading high streets and is home to the likes of **Fenwick**, **JD Sports**, **H&M**, **Outfit**, **Samsung**, **Sports Direct**, **O2**, **TK Maxx**, **McDonalds** and **Curry's PC World**.



Description

The property consists of two distinctive buildings. Provincial House, which fronts Northumberland Street is an attractive three-storey property with a stone façade. The property is occupied by Boots the Chemist at ground floor. The ground floor has a glazed frontage with stone columns fronting Northumberland Street and a return frontage onto Vine Lane. There is a separate office entrance fronting Northumberland Street. The two upper floors provide open-plan office accommodation with lift access.

Vine House which sits to the rear of Provincial House fronting Vine Lane is of traditional brick construction under a flat roof. The ground floor is occupied as a public house trading as Sergeant Peppers. The public house also has the benefit of ancillary staff accommodation at first floor. The additional upper floors provide open-plan office accommodation on first and second floors. There is a separate office entrance with lift access to the upper floors. The buildings are interconnected at first and second floors.



Newcastle Retail Market

Traditionally the Newcastle retail market was centred around the Grainger Town core which included streets such as Grainger Street, Grey Street and their side streets. However as the city developed emphasis shifted towards Northumberland Street and Eldon Square shopping centre which was built during the 1970's. Northumberland Street has become known as one of the country's leading high streets, with pre-recession rental values reaching £3,552 per sq m (£330 per sq ft) in terms of Zone A. Similar rental levels had been established within parts of Eldon Square.

The extension to Eldon Square shopping centre, which opened in spring 2010, has been successful in attracting retailers such as Apple, Superdry, Paperchase, Adidas and Hollister to the city. To add to this, the 39,483 sq m (425,000 sq ft) extension has been anchored by a new 16,722 sq m (180,000 sq ft) Debenhams strengthening the city's department store offer. Other department stores include Fenwick, M&S, John Lewis, Primark and TJ Hughes.

Northumberland Street continues to thrive and has seen a number of improvements during the recession, with Primark doubling up into the former BHS store and redeveloping the façade. Intu have continued to invest in Eldon Square and have created a new frontage onto Northumberland Street with units which have been occupied by O2 and Caffè Nero. JD Sports have doubled up into the former HMV unit and Monument Mall has been comprehensively redeveloped to create one of the best blocks of high street in the UK housing tenants such as Jack Wills, Hugo Boss, Fat Face, Sports Direct, Michael Kors and Molton Brown.



Newcastle Office Market

Newcastle city centre continues to suffer from an under-supply of Grade A office space, with availability currently standing at 25% below the long term average. The supply of Grade A accommodation currently stands at c. 98,000 sq ft, which is approximately 6 months' take-up on recent figures. As a result of the shortage of Grade A space, secondary office accommodation has seen significant rental growth in the city.

There have been a number of lettings of refurbished secondary office space in Newcastle city centre between £16-£18 per sq ft. The growth can be seen in the recent letting within Vine and Provincial House on the second floor with a rent of £12.46 per sq ft being achieved.



Tenure

The property is held long leasehold for a term of 125 years from 25th December 1979. There is currently a head rent payable of £50,000 per annum. The head rent is reviewed every 5 years and is based on a percentage of fair market rent.



Rental Commentary

Northumberland Street rents reached a peak of c. £330 per sq ft in terms of Zone A, as with all high streets these levels fell back during the recession but a number of retailers have continued to take space, such as Primark, Sports Direct, JD Sports, Sainsbury's, O2 and Caffè Nero. As a result rents are starting to recover towards pre-recession levels.

There have been a number of lettings and rent reviews carried out in the vicinity. The table below shows comparable retail rents.

| Property | Tenant | Rent pa | Zone A | Effective Date | Comment |
|-------------------------------|--------------|-------------|--------|----------------|---|
| 109 Northumberland Street | KFC | £95,000 | £166 | Q1 2015 | New letting |
| 142-145 Northumberland Street | Pret | £132,000 | £153 | Q4 2016 | Lease renewal |
| 127 Northumberland Street | Tui | £130,000 | £167 | Q2 2017 | New letting |
| 120 Northumberland Street | CEX | £72,500 | £142 | Q3 2017 | New letting |
| 119 Northumberland Street | Virgin Media | £79,000 | £152 | Q1 2018 | Rent increase at review from £70,000 to £79,000 |
| 147 Northumberland Street | Nudo Sushi | c. £110,000 | £153 | Q1 2018 | Rent review. Rent increased from £70,000 |

Taking the above retail rents into consideration in our opinion there is considerable growth to be had from the Boots rent review in October 2019. In our opinion there will be further growth on the forthcoming lease renewal with The Church of England Children's Society. The recent rental levels set within the building together with the wider market evidence support an ERV of £12.50 per sq ft.

Accommodation & Tenancy

| Unit | Tenant | sq ft | sq m | Lease Start | Lease Expiry | Rent | Rent psf | Comment |
|---|--|-----------------------|----------------|---------------------|---------------------|-----------------------------|-----------------|---|
| Ground Floor | Boots UK Limited | 3,482 (1,389 ITZA) | 323.5 | 11th October 2014 | 10th October 2024 | £167,000 | £120.23 ITZA | Rent review due in October 2019. The tenant is currently benefitting from a period of 3 months' rent free. The vendor will top up any outstanding rent free on completion. |
| Ground Floor Public House | Unique Pub Properties Limited | 4,224 | 392.4 | 13th April 1981 | 22nd December 2104 | £52,299 | £12.38 | 5 yearly rent reviews. |
| Vine House 1st Floor | Kaplan Financial Limited | 3,044 | 271.5 | 29th September 2017 | 28th September 2022 | £36,500 | £11.99 | Mutual L&T annual break options. Service Charge increase capped annually to CPI. |
| Provincial House 1st Floor | The Church of England Children's Society | 2,840 | 263.8 | 31st March 2016 | 30th March 2019 | £24,417 | £8.60 | |
| Second Floor | Kaplan Financial Limited | 6,579 | 611.2 | 29th September 2017 | 28th September 2022 | £82,000 | £12.46 | The Tenant has an option to break on 29th September 2020 giving 6 months notice. Service Charge increase capped annually to CPI. |
| Fire escape license | Lloyds Bank | - | - | Annual licence | - | £500 (£250 net) | - | The annual fee is £500pa, but split 50/50 with the freeholder. Therefore a net rent of £250pa is received. |
| Roof Aerial | Telefonica UK Limited | - | - | 9th June 2005 | 8th June 2015 | £16,014.61 (£10,676 net) | - | Tenant holding over. Rent is paid annually in advance and has been collected up until 08/06/2019. This will be apportioned to the vendor at the date of completion. The freeholder receives £5,338pa, which is 1/3 of the rent. |
| Total | | 20,169 | 1,873.7 | | | £378,730.61 | | |
| Head Rent | | | | | | £50,000 | | |
| Additional Payment to freeholder | | | | | | £5,588 | | |
| Net Rent | | | | | | £323,142 | | |

Tenant Covenant

The property is well let to a number of strong covenants:



Boots UK Limited

The UK's leading pharmacy-led health and beauty retailer. Boots have 2,486 stores, 637 opticians and 493 hearing care locations with over 90% of the UK population within 10 minutes of a Boots store. They employ around 57,000 staff.

Below is a summary of their last 3 years accounts and their Creditsafe rating:

Credit Safe Rating out of 100: **69 (Low Risk)**

| | 31st Aug 2017 | 31st Aug 2016 | 31st Aug 2015 |
|---------------------|----------------|----------------|----------------|
| Turnover | £6,837,000,000 | £6,876,000,000 | £9,192,000,000 |
| Pre Tax Profit | £498,000,000 | £523,000,000 | £652,000,000 |
| Shareholder's Funds | £1,772,000,000 | £1,204,000,000 | £1,240,000,000 |



Kaplan Financial Limited – part of Kaplan Inc

The UK's leading global provider of diverse education and training. Kaplan combines over 70 years of education experience with programmes covering accountancy and financial training. They have 27 locations throughout the UK as well as home study and online learning.

Below is a summary of their last 3 years accounts and their Creditsafe rating:

Credit Safe Rating out of 100: **47 (Moderate Risk)**

| | 31st Dec 2016 | 31st Dec 2015 | 31st Dec 2014 |
|---------------------|---------------|---------------|---------------|
| Turnover | £152,845,000 | £155,006,000 | £157,983,000 |
| Pre Tax Profit | -£1,159,000 | -£2,031,000 | -£720,000 |
| Shareholder's Funds | £24,926,000 | £27,201,000 | £28,973,000 |



Unique Pub Properties Limited

A wholly owned subsidiary of Ei Group plc (Enterprise Inns). Ei Group plc are the largest portfolio manager of pubs in the UK with some 4,500 properties.

Below is a summary of their last 3 years accounts and their Creditsafe rating:

Credit Safe Rating out of 100: **87 (Very Low Risk)**

| | 30th Sep 2017 | 30th Sep 2016 | 30th Sep 2015 |
|---------------------|---------------|---------------|---------------|
| Turnover | £68,279,000 | £68,101,000 | £67,270,000 |
| Pre Tax Profit | £53,044,000 | £51,368,000 | £22,833,000 |
| Shareholder's Funds | £960,561,000 | £918,287,000 | £852,693,000 |



The Church of England Children's Society

Founded in 1881 by Edward Rudolf, a Sunday school teacher. The Archbishops of Canterbury and York are current honorary presidents of The Children's Society with HRH The Duchess of Gloucester GCVO the presiding president. The society works with children and young people who are unloved and unable to cope helping them step by step for as long as it takes.

Below is a summary of their last 3 years accounts and their Creditsafe rating:

Credit Safe Rating out of 100: **97 (Very Low Risk)**

| | 31st Mar 2018 | 31st Mar 2017 | 31st Mar 2016 |
|---------------------|---------------|---------------|---------------|
| Turnover | £38,408,000 | £39,506,000 | £29,750,000 |
| Pre Tax Profit | £2,425,000 | £1,151,000 | £1,059,000 |
| Shareholder's Funds | £44,568,000 | £28,376,000 | £35,444,000 |



Telefonica UK Limited

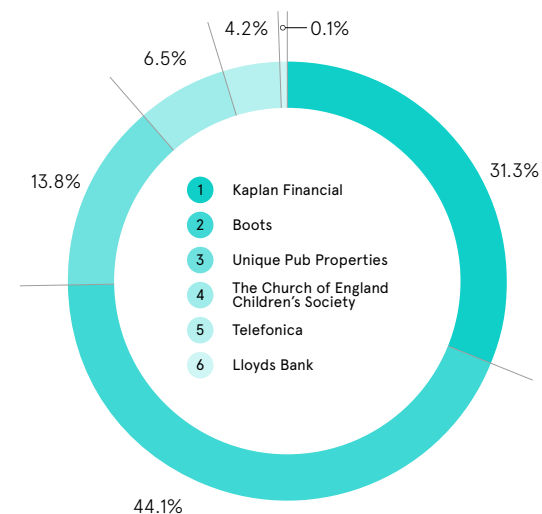
Part of Telefonica, one of the world's largest telecommunications companies. They operate in 17 countries, have 343 million customers and employ over 122,000 people. Brands include Telefonica, Movistar, Vivo and O2. In the UK it operates under the O2 brand employing 6,700 staff in over 450 retail locations.

Below is a summary of their last 3 years accounts and their Creditsafe rating:

Credit Safe Rating out of 100: **87 (Very Low Risk)**

| | 31st Dec 2017 | 31st Dec 2016 | 31st Dec 2015 |
|---------------------|----------------|----------------|----------------|
| Turnover | £5,471,000,000 | £5,374,000,000 | £5,393,000,000 |
| Pre Tax Profit | £543,000,000 | £545,000,000 | £1,405,000,000 |
| Shareholder's Funds | £1,701,000,000 | £1,835,000,000 | £1,988,000,000 |

Tenant Income Profile



Asset Management

The property lends itself to a number of asset management angles. A summary of the opportunities to add value are set out below:

- Re-gear the leasehold interest or acquire the freehold
- Carry out the rent review on the Boots unit in October 2019
- Re-gear the office leases and move rents on. The passing rents are currently low compared with current market rents in the city
- Refurbish the office accommodation and take advantage of growth in rents for refurbished office space.
- Convert the upper floors to student accommodation. The property sits between both universities and would lend itself to student accommodation, subject to the relevant consents
- Renew the telecoms mast lease on the roof
- Re-gear the pub lease. There may be an opportunity to take a premium in return for a shorter lease with RPI increases



Service Charge

The service charge is currently running at £4.87 per sq ft and is 100% recoverable. Kaplan Financial Limited have caps on their service charge, but the budget is currently below the level of their cap.

EPCs

The EPCs are available on request.

Contact

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Or

Simon Harland

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Tel **0191 255 7770**

Proposal

We are instructed to seek offers in excess of **£3,790,000** which reflects a net initial yield of **8.0% off the net rent of £323,142** after deduction of purchaser's costs of 6.52% and a reversionary yield of **9.33%** once the reviews and renewals are carried out.

VAT

The property is elected for VAT and it is anticipated that the sale will be treated as a TOGC.

MHPI Ltd

City Quadrant

Waterloo Square

Newcastle upon Tyne

NE1 4DP



Misrepresentation Act: These particulars shall not form part of any offer or contract and no guarantee is given as to the condition of the property or the accuracy of its description. An intending purchaser or tenant is not to rely on any representation made in these particulars and must satisfy himself as to their accuracy by his own investigation before entering into any contract. November 2018.