

Research

The big nine

Quarterly review
of the regional
office occupier
markets

Q4 2014



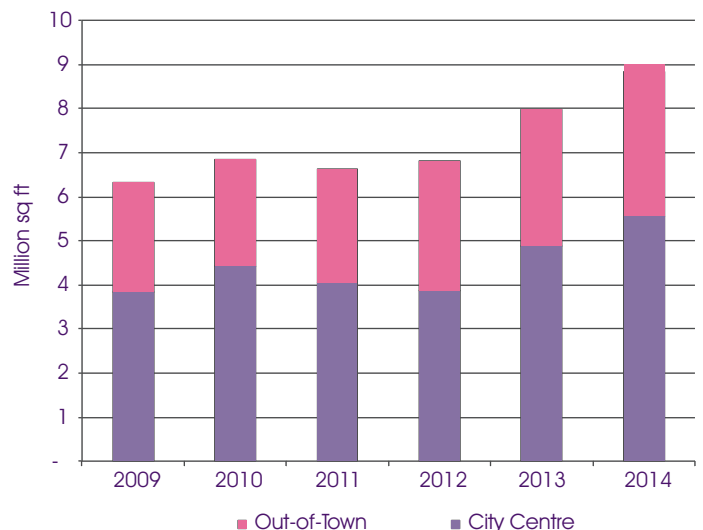
Summary

The last quarter of 2014 has produced a significant set of figures that underscores the bounce back in both developer and investor interest in the regional office markets. A number of cities have hit some record take-up figures, not just for the last quarter but 2014 overall.

And this is despite falling levels of supply which in 2015 is going to be a drag on take-up but a cue for real increases in rental growth. We have already seen the effects of tightening Grade A supply levels both in asking and achievable rents and the activity reflects well on those who pioneered the post-recession speculative developments in a handful of regional UK cities.

Carl Potter, National Head of Offices

Big Nine office take-up



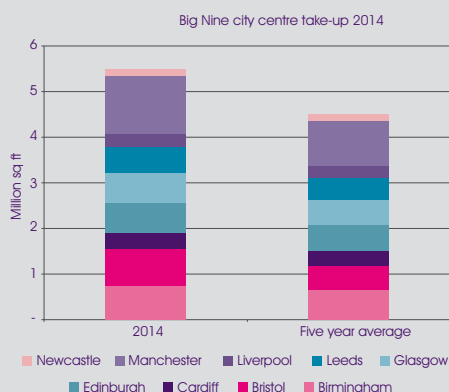
The big nine

Regional office market review

City centre

- City centre take-up totalled 1,945,700 sq ft in Q4, 70% above the five-year quarterly average.
- Take-up was three times the quarterly average in Bristol and twice in Birmingham
- The largest deal was 108,500 sq ft to Standard Life Investments at 6 St Andrew Square, Edinburgh.

Take-up was exceptional in the final quarter of 2014 across the 'big nine' cities, taking the total for 2014 to 5.6 million sq ft, 23% above the five year average and the highest since 2008. Manchester achieved the highest level of take-up during 2014 at 1.33 million sq ft, followed by Bristol (836,000 sq ft) and Birmingham (713,000 sq ft).



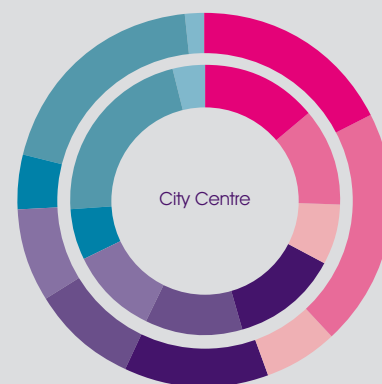
During Q4, Bristol and Birmingham were the outstanding performers with three times and twice the average take-up respectively. The **Bristol** market is performing very strongly with a number of major deals completing during the last quarter. These included the largest, a 69,000 sq ft letting to Ovo Energy at 1 Rivergate; pre-lets of 52,000 sq ft to KPMG at 66 Queen Square and 28,000 sq ft to PwC at Two Glass Wharf and the comprehensive refurbishment of 46,000 sq ft to Mapfre at 1 Victoria street. EDF Energy are also under offer on 78,000 sq ft at Bridgewater House, giving Q1 figures a significant head start.

A bumper last quarter with 340,000 sq ft of deals in **Birmingham** puts take-up for the year over 710,000 sq ft, the

City centre take-up

	Q4 2014	Five-year quarterly average
■ Birmingham	341,164	161,667
■ Bristol	401,235	131,721
■ Cardiff	124,133	83,487
■ Edinburgh	242,282	143,933
■ Glasgow	181,628	134,247
■ Leeds	157,568	121,121
■ Liverpool	87,114	69,304
■ Manchester	382,678	253,334
■ Newcastle	27,949	43,993

Q4 2014



highest since 2008. Four site transactions in 2014 brings forward the prospect of speculative development this year, particularly with the recent 98,000 sq ft deal of HS2 at Two Snowhill. The four CBD schemes, at 55 and 103 Colmore Row and neighbouring Louisa Ryland House and 2 Cornwall Street amount to 600,000 sq ft. They currently have prospective completion dates between Q4 2016 and Q1 2018.

The much heralded larger 'pre-let' requirements in **Manchester** that were expected to commit before the end of the year largely failed to materialise. However despite this, full year take-up was in line with previous record levels, which represents an outstanding year both in terms of the amount of space transacted and the quantum of deals. One significant final quarter deal that did sign was the 45,000 sq ft commitment by DLA Piper (advised by GVA) at One St Peter's Square. Space continued to transact at Piccadilly Place with both EC Harris (7,500 sq ft) and NuGeneration Ltd (16,500 sq ft) both signing up.

Q4 activity in **Glasgow** brings annual take-up to well above the five year average, with significant deals including the first pre-let at 1 West Regent Street, 13,600 sq ft to Global Radio and the largest deal of the quarter, 34,000 sq ft let to Cigna Insurance at Ignis's Grosvenor building, opposite central station. The next phase of speculative development is likely to be initiated by the 150,000 sq ft Morgan Stanley requirement as well as other large requirements coming to the market this year.

Edinburgh also saw strong take-up in Q4 with the largest deal across the cities, 108,000 sq ft to Standard Life Investments at 6 St Andrew Square. This is despite the dip in enquiries earlier in the year. There are now three developments underway, totalling over 300,000 sq ft, at St Andrew Square, Quartermile and phase one of the Haymarket. All are due for completion in 2016/17.

Activity in **Newcastle** has been led by the out-of-town market, with a 40,000 sq ft deal at Cobalt Business Park to Siemens. However, in the centre, Newcastle city council and Newcastle University's joint venture, 29,000 sq ft The Core building at Science Central has recently completed and the 34,000 sq ft Rocket development is due to complete in July.

In **Cardiff**, BBC Wales has exchanged contracts with Rightacres for its 150,000 sq ft new headquarters at the Central Square regeneration scheme. Subject to planning consent, construction is expected to start this summer. Meanwhile solicitors Blake Morgan have become the first tenant to sign up to One Central Square, with a 26,000 sq ft letting. The 134,000 sq ft speculative development is due to complete at the end of this year.

City/property	Occupier	Sq ft
Edinburgh – 6 St Andrew Square	Standard Life Investments	108,500
Birmingham – Two Snowhill	HS2	98,000
Bristol – 1 Rivergate	OVO Energy	69,700
Bristol – 66 Queen Square	KPMG	52,000
Bristol – 1 Victoria Street	Mapfre	46,600

City centre headline rents Q4 2014 (£psf)

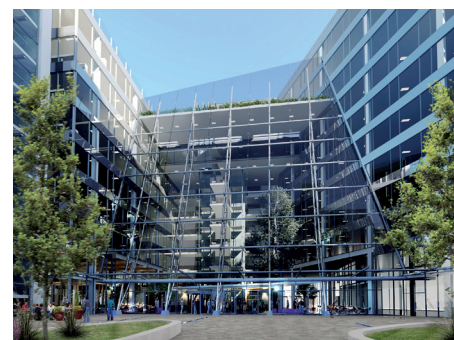
Location	Rents (£)	Rent free (mths on 10 yr term)	Net effective rent* (£)	Net effective rent (£) Q4 2013
Manchester	32.00	28	25.33	22.86
Glasgow	29.00	21	24.65	23.51
Edinburgh	29.50	28	23.35	21.39
Birmingham	30.00	30	22.50	21.38
Bristol	28.50	30	22.09	19.94
Leeds	26.00	24	21.45	19.38
Cardiff	21.50	24	17.74	18.56
Newcastle	21.50	24	17.74	17.33
Liverpool	21.00	30	16.28	16.28
All cities average			21.24	20.07

*Including rent free period less three month fit-out.

Rental growth

Net effective headline rents among the big nine cities have increased by an average of 5.8% over the past year, with Manchester and Leeds seeing the strongest growth (see table above). Improving occupier demand

and shortages of grade A space should lead to a gradual acceleration in headline regional office rental growth this year and next. Incentives continue to tighten as the market becomes more landlord friendly.



In focus: Leeds

Take-up in Leeds amounted to 550,000 sq ft during 2014, 13% above the five year average. The largest deal was to Law firm Squire Patton Boggs, who become the first tenant at MEPC's 6 Wellington Place, taking 32,382 sq ft of the 104,000 sq ft building.

There has been considerable interest shown in the speculative schemes under construction in Leeds. Roydhouse Properties/M&Gs' 220,000 sq ft Central Square scheme is on site and is due for completion in 2016. Other schemes under construction include 60,000 sq ft at One Sovereign Square, already pre-let to KPMG and 69,000 sq ft at 6 Queen Street by Marshall CDP/Rockspring.

There are some major imminent requirements in the city which are likely to result in additional pre-let activity this year, such as Sky, PwC and Towergate. In addition there is an extensive list of lease events over the next few years. These will dictate the progress of other pipeline schemes such as 173,000 sq ft City Square House, Bruntwood/Kier's 93,000 sq ft 3 Sovereign Square, 106,000 sq ft MEPC's 3 Wellington Place and Bridges Ventures/ Evenacres' 50,000 sq ft 6 East Parade.

GVA is also forecasting that strong occupier demand and an acute shortage of grade A office space will drive headline rents to a new high of £27-£28 per sq ft by the end of the year, up from the current £26 per sq ft, which Handelsbanken recently paid for 8,100 sq ft at 1 Whitehall Riverside.

Matthew Tootell,
Director – Leeds

Out-of-town

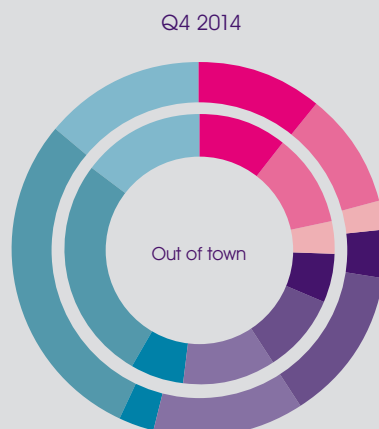
- Take-up was 927,400 sq ft in the out-of-town markets in Q4, 28% above the five year quarterly average.
- There were over 270,000 sq ft of deals in Manchester and over 100,000 sq ft in Birmingham, Glasgow, Leeds and Newcastle.
- The largest deal was 40,000 sq ft at Cobalt Business Park, Newcastle to Siemens.

Top five out-of-town deals (Q4 2014)

City / Property	Tenant	Sq ft
Newcastle – Cobalt 9b	Siemens	40,000
Bristol – 740 Aztec West	Alcatel Lucent	38,500
Glasgow – Skypark 1, Elliot Place	Lockheed Martin	35,000
Manchester – Kings Reach, Stockport	CDL	30,000
Birmingham Business Park – 4040 Lakeside	WM Housing	27,100

Out-of-town take-up

	Q4 2014	Five-year quarterly average
■ Birmingham	101,047	78,314
■ Bristol	91,649	79,083
■ Cardiff	22,667	28,890
■ Edinburgh	39,185	41,857
■ Glasgow	122,440	67,424
■ Leeds	118,132	80,784
■ Liverpool	29,176	46,712
■ Manchester	267,146	195,539
■ Newcastle	126,653	104,980



Birmingham
Bristol
Cardiff
Dublin
Edinburgh
Glasgow
Leeds
Liverpool
London
Manchester
Newcastle

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