

Research

The big nine

Quarterly review of the regional office occupier markets

Q2 2015



2 Arena Central, Birmingham

Summary

The regional office markets have continued to demonstrate the strong occupier story with city centre take up across the Big Nine UK cities during the second quarter of 2015 almost 50% ahead of the five year quarterly average.

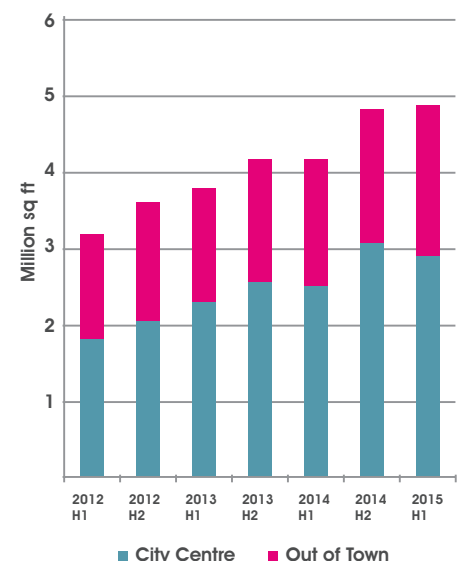
This significant take up has been led by Birmingham, fuelled by HSBC's announcement to locate its new 212,000 sq ft retail bank HQ into Miller's Arena Central scheme, but also supported by other significant deals both new into the city and growing indigenous occupiers. Other centres also had above average deal levels with Leeds leading the chasing pack buoyed by significant lettings to Addleshaw Goddard and PwC.

And whilst the headline grabbing large deals underpinned the inward investment story, with Manchester attracting in Ford Credit and Freshfields, other centres are relying upon an exceptionally strong base of 10,000 sq ft lettings to accumulate significant overall take up levels.

Out of town there has been a similar success story with take up exceeding 1 million sq ft for the first time since the downturn, with two stand out deals at the Soapworks in Salford Quays and International House adjacent to Birmingham Airport.

Carl Potter,
National Head of Offices

Big Nine take-up



The big nine

Regional office market review

City centre

- City centre take-up totalled 1,758,700 sq ft in Q2, 47% above the five-year quarterly average
- Take-up was exceptional in Birmingham, three times the five year quarterly average, putting the half year figures on a par with the annual average
- Elsewhere, take-up was 65% above average in Leeds and well above average in most other cities.
- The largest deal was 212,000 sq ft to HSBC at 2 Arena Central, Birmingham.

Following a comparatively modest start to the year the regional office markets have seen an exceptional second quarter, lifting 'big nine' take-up figures for the first half of the year to the highest level since the downturn. Take-up in Birmingham amounted to three times the quarterly average, supported particularly by Leeds and Manchester as well as above average take-up in Edinburgh Cardiff and Bristol.

Take-up for the half year point in **Birmingham** has exceeded all records at 650,000 sq ft, with year-end take-up anticipated at around a million sq ft, which would also be a record. A number of significant transactions have occurred during Q2 including the well publicised 212,000 sq ft pre-sale to HSBC at Arena Central, a 46,000 sq ft letting to Birmingham City University at Eastside Locks and a 35,000 sq ft letting to Extra Energy at 54 Hagley Road.

The next wave of speculative development is moving closer. Infrastructure works have now commenced at Argent's Paradise development which, when complete, will enable a start on site in respect of two speculative office buildings totalling c. 310,000 sq ft due to complete during 2018. Two major refurbishments will soon be underway with Bruntwood's 110,000 sq ft 2 Cornwall Street due to complete in October 2016 and IM Properties' 153,000 sq ft 55 Colmore Row scheduled for early 2017. No other schemes are currently committed.

Q2 was another strong period of performance in **Manchester** as occupier confidence continues.

The sheer number of transactions below 10,000 sq ft illustrates the depth of the

City centre take-up

	Q2 2015	Five-year quarterly average
■ Birmingham	521,136	179,953
■ Bristol	159,839	132,859
■ Cardiff	111,982	86,166
■ Edinburgh	170,277	150,421
■ Glasgow	109,773	132,210
■ Leeds	213,126	129,496
■ Liverpool	59,774	69,477
■ Manchester	359,829	269,259
■ Newcastle	52,977	47,504

marketplace as the impressive level of take-up is underpinned by only a couple of 'stand out' deals, 45,000 sq ft to Ford Credit at First Street and 42,000 sq ft to Freshfields at Arndale House.

Areas performing well include King Street, which continues to attract occupiers from a range of sectors and at impressive rental levels. Also schemes on the immediate north eastern fringe of the city are seeing unprecedented levels of demand with the dramatically improved environment and relatively low rents compared to the city centre.

Significant deals for **Leeds** include 51,500 sq ft pre-let to Addleshaw Goddard at 3 Sovereign Square and 49,600 sq ft to PwC at Central Square. Both buildings are due for completion during the second half of next year. With 52,000 sq ft let or under offer at 6 Wellington Place, MEPC are going ahead with the adjoining 75,000 sq ft 5 Wellington Place.

In **Edinburgh** marketing for pre-lets is actively underway at New Waverley and construction of Quartermile and Haymarket is progressing on site. The supply of larger floorplates is becoming sparse as speculative schemes under construction are gaining interest. This tightening of supply has been further exacerbated by the conversion of offices to other uses and has also prompted more activity in peripheral locations. There are currently four 40 to 50,000 sq ft requirements on the West Edinburgh business parks.

Following record take-up in 2014, activity in **Bristol** this year has been quieter. In spite of this a number of 2 to 12,000 sq ft grade B deals have taken activity above the quarterly average, while there have been none of the large requirements needed to generate the next phase of development. These schemes are likely

Q2 2015



to be CEG's 200,000 sq ft Aspire site at Temple Street, where demolition work has started and Fintel's Reach, where Cubex has submitted plans for 95,000 sq ft.

Despite below average quarterly take-up in **Glasgow**, Grade A demand is at its highest since pre-recessionary times, with a number of large corporate space users circling the remaining space in three new build developments all now completing. With Grade A requirement totals in excess of 300,000 sq ft, almost equalling new stock availability, none should find themselves homeless but may be left disappointed as the long standing occupier friendly market finally evaporates in favour of the landlords. Peripheral locations such as Finnieston and Clyde Gateway are now also enjoying recent successes, as the economic conditions continue to improve and demand steadily picks up across all sectors showing a depth to the recovery not visible until now.

There has been a steady level of sub 10,000 sq ft deals in **Liverpool** but there are larger deals in the pipeline. The refurbishment at The Department is reaching completion and Peel has been granted planning permission for the eight storey 100,000 sq ft William Jessop House.

Top five out-of-town deals (Q2 2015)

City / Property	Tenant	Sq ft
Birmingham – 2 Arena Central	HSBC	212,000
Leeds – 3 Sovereign Square	Addleshaw Goddard	51,500
Leeds – Central Square	PwC	49,600
Birmingham – Eastside Locks	Birmingham City University	46,000
Manchester – First Street	Ford Credit	45,000

City centre headline rents

Q2 2015 (£psf)

Location	Rents (£)	Rent free (mths on ten yr term)	Net effective rent* (£)	Net effective rent (£) Q2 2014
Edinburgh	31.00	18	27.13	21.39
Manchester	32.00	24	26.40	24.80
Bristol	28.50	18	24.94	20.93
Glasgow	29.50	24	24.34	23.51
Leeds	26.50	15	23.85	19.38
Birmingham	30.00	30	23.25	21.38
Cardiff	22.50	21	19.13	18.56
Newcastle	21.50	21	18.28	17.74
Liverpool	21.00	30	16.28	16.28
All cities average	26.94	22.3	22.62	20.44

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



In focus: Cardiff

There has been a significant increase in occupier activity across Cardiff city centre and the bay area over the past year. Take-up has been over 100,000 sq ft in three of the past four quarters, compared to just four of the previous 20 quarters.

A 40,000 sq ft deal at Six Park Street pushed Q2 city centre take-up to 30% above the quarterly average at 112,000 sq ft. This has been supported by GVA's acquisition of 15,700 sq ft for the AA, at Capital Tower, Cardiff's tallest office building. Also Network Rail has taken the 10,000 sq ft first floor at No 1 Capital Quarter, which completed last year.

Significant requirements in the city include 25 to 30,000 sq ft to a law firm and 50,000 sq ft to NHS Wales Shared Services. The latter's preferred option from a shortlist of three is widely believed to be No 2 Capital Quarter, JR Smart's 85,000 sq ft development located near the station and due for completion in early 2016.

The area around the station is the focal point for new development with Rightacres' 134,000 sq ft 1 Central Square also due to complete next year. The majority is still available and will boost the low level of good quality supply in the city. In terms of refurbishments, 39,000 sq ft 2 Kingsway is underway and due to complete early next year.

A significant level of older stock no longer fit for office occupiers has been converted to other uses over the past two years, particularly for student accommodation.

Prime rents in Cardiff are £22.50 psf, with 21 months' rent free on a ten year term, a net effective increase of 3% over the year to Q2.

Tom Merrifield

Associate
Cardiff

Rental growth

Headline net effective rents have on average increased by 11% across the nine cities over the 12 months to Q2 (and 17% over the last two years) with the strongest growth in

Edinburgh, Bristol and Leeds. Two years ago average rent free periods reached a high of 32 months on a ten year term and have fallen by almost 10 months to 22.3.

Out-of-town

- Take-up was 1,032,700 sq ft in the out-of-town markets during Q2, 38% above the five year quarterly average and the highest level since the downturn.
- Deals in Solihull and Salford Quays make up a third of this total, with take-up in Liverpool and Glasgow also well above average. Take-up in Birmingham would have been 50% above average even without the Interserve deal.
- Two stand out deals over 100,000 sq ft were to Interserve at International House, Solihull and TalkTalk at the Soapworks in Salford Quays.

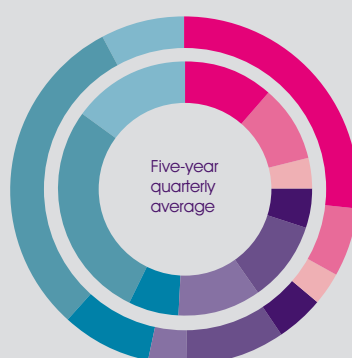
Top five out-of-town deals (Q2 2015)

City / Property	Tenant	Sq ft
Birmingham – International House, Solihull	Interserve	145,000
Manchester – Soapworks, Salford Quays	TalkTalk	106,000
Manchester – Exchange Quay, Salford Quays	SAGE	27,700
Birmingham – Parkside Birmingham BP	Changan Automotive	24,800
Bristol – Nibley Court, Yate	Apak Group	22,500

Out-of-town take-up

	Q2 2015	Five-year quarterly average
■ Birmingham	277,175	86,763
■ Bristol	65,716	73,272
■ Cardiff	32,631	27,701
■ Edinburgh	44,872	39,288
■ Glasgow	95,831	75,799
■ Leeds	37,257	78,819
■ Liverpool	85,840	48,533
■ Manchester	315,291	209,665
■ Newcastle	78,125	110,670

Q2 2015



London
Birmingham
Bristol
Cardiff
Dublin
Edinburgh
Glasgow
Leeds
Liverpool
Manchester
Newcastle

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