

Research

The Big Nine

Quarterly review of the regional office occupier markets

Q4 2015



The Lewis Building, Bull street, Birmingham, being renovated by Legal and General

Summary

The regional office markets have continued to improve on last year's record levels of occupational take-up, with 9.6 million sq ft transacted in the big nine city centre and out-of-town markets during 2015. This is 20% above the five year average.

The final quarter of 2015 headlined with 150,000 sq ft let to the BBC in Cardiff, 100,000 sq ft let to SKY at Leeds Dock and over 100,000 sq ft of deals on Edinburgh Park – demonstrating the returning strength of the out of town markets.

With this strong demand and continued tight levels of grade A supply in the city centre markets, we have witnessed a 10% increase in net effective headline rents over the last year.

With the financing of new speculative development proving to be a significant challenge in the regional city centres this continued high level of demand, and the re-emphasised focus on regional offices presents a significant opportunity for those able to piece together the development jigsaw.

Carl Potter,
National Head of Offices

City centre

Q4 total take-up
1.67m sq ft

+38%

above five-year quarterly average

- Cardiff outstanding take-up in Q4 due to BBC deal
- Glasgow, Leeds and Liverpool well above average
- Record annual city centre take-up in Birmingham

Out of town

Q4 total take-up
0.89m sq ft

+13%

above five-year quarterly average

- Three of the largest deals were at Edinburgh Park
- Manchester, Bristol and Leeds Q4 take-up well above average
- Record annual out-of-town take-up in Manchester

Top five city deals
(Q4 2015)

City/property	Occupier	Sq ft
Cardiff – Broadcasting House	BBC Wales	150,000
Leeds - Leeds Dock	SKY	60,500
Edinburgh – Argyle House	University of Edinburgh	57,570
Birmingham Science Park	UNITE	56,000
Manchester – One St Peter's Square	Addleshaw Goddard	56,000

Top five out-of-town deals
(Q4 2015)

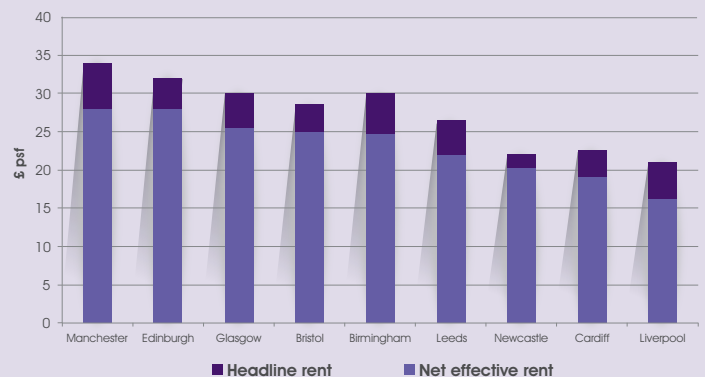
City/property	Occupier	Sq ft
Edinburgh – 4/5 Lochside View	JP Morgan Chase	53,704
Birmingham – Lansdowne Gate	National Grid	46,000
Manchester – Edward Street	Stockport Homes	43,500
Bristol – Vertex Park	ALD Automotive	36,000
Edinburgh – 6 Lochside View	HSBC	31,015

Headline Rent

Big Nine average
headline rent
£27.39
(up 3% since
Q4 2014)

Average
rent free
21.3
months
(down 20% from
26.9 months at
Q4 2014)


Net effective
headline rent
£23.21
(up 9% since
Q4 2014)





Q4 2015

The Big Nine

Regional office market review

Strong take-up figures during the final quarter of the year across the 'big nine' have taken total activity for 2015 (city centre and out-of-town) to 9.6 million sq ft, 20% above the five year average. This is the fourth consecutive annual increase in take-up and compares to an average of 6.6 million sq ft during the downturn years of 2009 to 2012.

Take-up over the year was well above average in Birmingham and Manchester in both the city centre and out-of-town markets. Other markets where activity was well above average include Cardiff and Leeds city centres and Glasgow and Edinburgh out-of-town.

Q4 take-up was dominated by above average activity in most city centres and a number of large deals in Edinburgh out-of-town.

The stand out letting was in **Cardiff**: 150,000 sq ft to BBC Wales, following Legal and General's £400m backing for the Central Square Scheme. The 135,000 sq ft first phase will soon complete, as will JR Smart's 80,000 sq ft 2 Capital Quarter.

The key letting in **Manchester** this quarter was 56,000 sq ft to Addleshaw Goddard at One St Peter's Square, bringing annual city centre take-up to 1.3 million sq ft, close to record levels. This does not include the 80,000 sq ft Freshfields deal at One New Bailey that will fall into Q1, one of an increasing number of businesses to 'northshore'. The XYZ building is now fully let but the remaining five buildings under construction have 600,000 sq ft available, phased to 2018.

In **Glasgow** Q4 has seen key deals on all three speculative schemes that completed last year. These include 39,000 sq ft to KPMG and 17,700 sq ft

to Whyte and MacKay at St Vincent Plaza. CMS has taken 21,000 sq ft at 1 West Regent Street and DWF 17,000 sq ft at 110 Queen street. Morgan Stanley is also close to signing a 155,000 sq ft pre-let on Bothwell Exchange which is being developed by HFD Property Group, and a further 220,000 sq ft building is planned for the remainder of the site. The next wave of speculative development is imminent with Titan Investors recently securing a 180,000 sq ft revised planning consent for Broadway Central and the proposed 95,000 sq ft New Exchange, Cadogan Street due to start on site later this year.

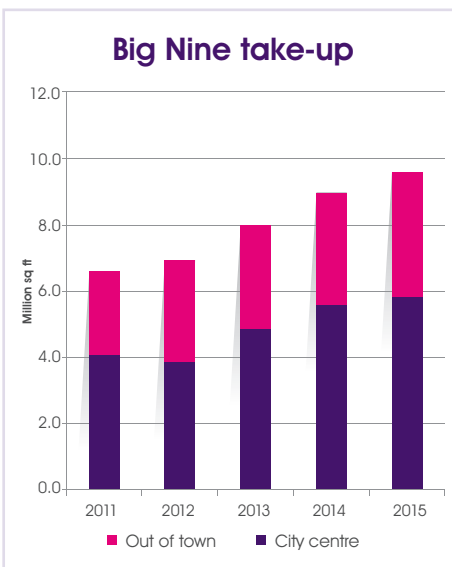
In town there have been a number of lettings at Telereal Trillium's Argyle House, including the largest in the city, 57,000 sq ft to the University of Edinburgh and 14,000 sq ft to Codebase.

In the **Bristol** market EDF Energy is close to agreeing a 81,000 sq ft deal at Bridgwater House, while the largest city centre deal in Q4 was 27,000 sq ft to TLT Solicitors at No 1 Redcliff Street. Investment activity has flourished and there has been a number of recent development site transactions in the city including AXA IM at Bank Place, Goodman at St Mary Le Port and Skanska next to Temple Meads Station.

The key deal in the **Newcastle** city centre market in Q4 was 22,500 sq ft to Ernst & Young at One City Gate East, taking annual activity 20% above average. Recent completions include 'The Rocket' at Stephenson Quarter (35,000 sq ft) and Liveworks (14,000 sq ft) providing much needed grade A space. However the out-of-town market continues to outperform the city centre and almost half of the space taken was in two deals at Partnership House, Gosforth.

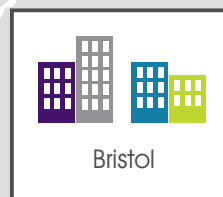
The healthy level of demand in **Liverpool** continues with over 100,000 sq ft let during Q4, including 11,100 sq ft to Mann Island Finance and 11,800 sq ft to Inenco at the Corn Exchange. The New Year has brought an increase in the number of requirements across all grades of accommodation. While take-up for 2015 was at a similar level to 2014, the big issue in the next few years that needs to be addressed is the lack of Grade A supply.

Supply of prime space remains tight across the nine cities with an average of just under a years' current grade A availability, based on past take-up rates. This has resulted in **net effective headline rents** increasing by 9% during 2015, predominantly due to rent free periods falling by over 5 months on a ten year term, to 21 months.



The latest stand out deals in **Leeds** are two lettings of 60,500 sq ft and 36,500 sq ft to SKY at Allied London's Leeds Dock. Of the four schemes (totalling 450,000 sq ft) in the city centre due to complete this year, almost a third of the space is now let. A number of refurbishments are underway, looking to satisfy the large number of requirements in the city.

The key story in **Edinburgh** is the deals at Lochside View, Edinburgh Park; two freehold purchases totalling 85,000 sq ft to JP Morgan Chase and a 31,000 sq ft letting to HSBC.



City Centre		
	Q4 2015	5 year Quarterly Average
Birmingham	212,449	176,770
Bristol	93,604	133,318
Cardiff	290,374	94,158
Edinburgh	174,610	152,592
Glasgow	211,649	135,655
Leeds	267,187	140,964
Liverpool	113,216	76,960
Manchester	259,632	250,408
Newcastle	46,930	52,293

Out of town		
	Q4 2015	5 year Quarterly Average
Birmingham	102,858	92,679
Bristol	94,708	73,638
Cardiff	25,773	29,107
Edinburgh	141,389	42,269
Glasgow	62,648	82,615
Leeds	98,490	81,492
Liverpool	24,093	46,714
Manchester	250,553	222,779
Newcastle	92,892	118,510



2 Cornwall Street, Birmingham.

A speculative major refurbishment by Bruntwood.

In focus: Birmingham

Birmingham city centre recorded its highest ever level of annual office take-up during 2015, at 970,000 sq ft, beating the previous high of 886,000 sq ft in 2008.

The most significant deal of the last quarter was to inward investor Advanced Computer Software Group, who took a 45,000 sq ft pre-let at the Mailbox, with the refurbishment due for completion

in March. This is another significant inward investment into the city following the 212,000 sq ft HSBC deal earlier in the year.

The frequency of these inward investment deals has increased as Birmingham benefits from the capital investment of the last few years including the completion of Grand Central station, the opening of the metro and the expectation of HS2 in 2026.

The development pipeline is responding to the increased level of activity with the major refurbishments at 55 Colmore Row, 2 Cornwall Street and The Lewis Building underway. The enabling works have started at Paradise Circus and an imminent funding agreement at 3 Snowhill could soon

kickstart the 360,000 sq ft office scheme.

Over the past year headline rents have remained at £30 psf but rent free periods have come in from 33 months to 24 months on a ten year term, resulting in a 10% increase in net effective rent. Secondary rents have also shown strong growth over the year, with levels in the central business district around £21.50 psf.

Carrying on from the strong performance of 2015 there is a good depth to demand, with deals underway and Q1 figures already looking likely to achieve well above the quarterly average.

Charles Toogood
Senior Director
Birmingham

Rents and Yields

City centre headline rents Q4 2015 (£psf)

Location	Rents (£)	Rent free (mths on ten yr term)	Net effective rent* (£)	Net effective rent (£) Q4 2014
Manchester	34.00	24.00	28.05	25.33
Edinburgh	32.00	18.00	28.00	23.35
Glasgow	30.00	21.00	25.50	24.65
Bristol	28.50	18.00	24.94	22.09
Birmingham	30.00	24.00	24.75	22.50
Leeds	26.50	24.00	21.86	21.45
Newcastle	22.00	12.00	20.35	17.74
Cardiff	22.50	21.00	19.13	17.74
Liverpool	21.00	30.00	16.28	16.28
Average	27.39	21.33	23.21	21.24

Out-of-town headline rents Q4 2015 (£psf)

Location	Rents (£)
Bristol	21.00
Birmingham (Sollihull)	21.00
Manchester (South)	20.00
Leeds	17.00
Newcastle	16.95
Glasgow	16.50
Edinburgh	16.50
Liverpool	14.00
Cardiff	13.50
Average	17.38

Prime city centre yields

Location	Q2 2015	End 2015	End 2016
Birmingham	5.00	4.75	Same
Bristol	5.25	5.25	Same
Cardiff	5.75	5.75	Same
Edinburgh	5.50	5.25	Down
Glasgow	5.50	5.25	Down
Leeds	5.25	5.25	Same
Liverpool	6.00	6.00	Same
Manchester	4.75	4.75	Same
Newcastle	6.00	6.00	Same

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

London
Birmingham
Bristol
Cardiff
Dublin
Edinburgh
Glasgow
Leeds
Liverpool
Manchester
Newcastle

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