

The Big Nine

Quarterly review of the regional office occupier markets

Q3 2012



102 West Port, Edinburgh. GVA advised NHS on the 37,000 sq ft acquisition.

Summary

A number of cities have seen an increase in smaller secondary transactions but larger Grade A deals are taking longer to mobilise. The out-of-town market is currently performing better than city centres but this may change as larger deals complete towards the end of 2012. Overall take-up is forecast to end the year consistent with levels over the last three years at over 6 million sq ft.

Carl Potter, National Head of Offices

- City centre and out-of-town take-up in the nine GVA regional office centres achieved 1,520,000 sq ft in Q3, 4% below the quarterly average
- The city centre markets made up 60% of this total, with 903,000 sq ft of deals, 10% below the quarterly average
- The out-of-town markets recorded take-up of 617,000 sq ft, 7% above the quarterly average

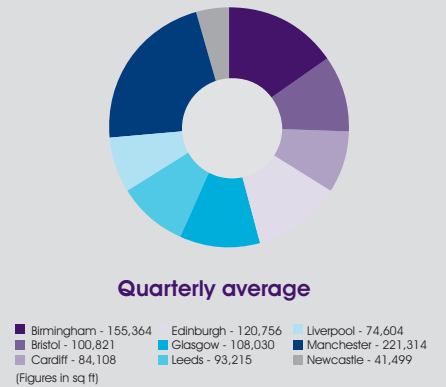
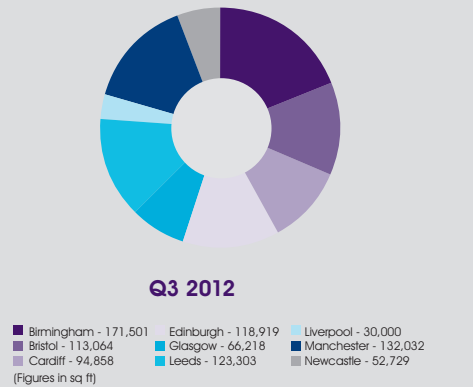
The Big Nine

Regional office market review

City Centre

- City centre take-up totalled 903,000 sq ft in Q3, 10% below the quarterly average.
- Take-up was strongest in Leeds when compared to the quarterly average, with Birmingham, Bristol, Cardiff and Newcastle also above average.
- Grade A availability continues to diminish across the cities - currently 14% of all availability compared to 28% in 2009.

Figure 1 City centre take up



Increased secondary activity but a lack of large grade A deals

City centre take-up activity has been led by **Birmingham** and **Leeds** in Q3 with a steady level of deals in **Bristol**, **Cardiff** and **Edinburgh**.

Leeds city centre continues an improved year of activity with two 30,000 sq ft deals at No 1 Leeds, Whitehall Road. Following a subdued first half of the year in **Birmingham**, Q3 has been far more buoyant, with Q4 anticipated to be equally strong with a number of transactions in solicitors' hands.

A number of cities have seen an increase in smaller secondary transactions with occupiers continuing to gravitate towards the well specified, well refurbished 'value for money space' on offer. The majority of transactions remain driven by lease events, co-locations and consolidations, while the larger Grade A deals are taking longer to mobilise.

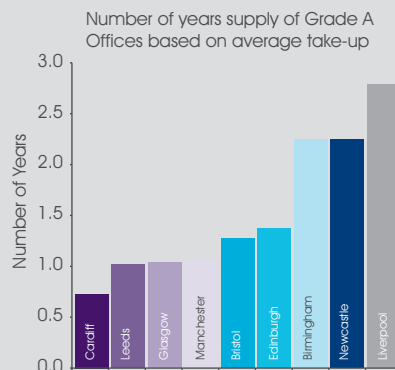
For example in **Manchester**, whilst take-up this year has been respectable, there has been a distinct lack of Grade A transactions. This is to some extent due to the squeeze on available built Grade A product. However there has been a slight lag in the pipeline of deals with a number likely to complete before the end of the year, including the mysterious 'Project Digital' (100,000 sq ft plus). The full year

could be judged on BUPA's 160,000 sq ft requirement, and whilst talks are at an advanced stage with several parties, they may well continue into 2013.

Top 5 city centre deals (Q3 2012)

City/property	Occupier	Sq ft
Cardiff - Ocean Park House	ACT Training	45,000
Edinburgh - 102 West Port	NHS	37,275
Leeds - No 1 Leeds, Whitehall Road	Johnson Publishing	33,867
Leeds - No 1 Leeds, Whitehall Road	Gaz de France Suez	31,155
Birmingham - 2 Colmore Square	BPP Training and Consultancy Ltd	21,000

In **Newcastle** city centre, GVA is currently acting for a client in the health sector looking for 34,000 sq ft which would be the largest take-up in the city centre for 15 months. Following a quiet summer in **Glasgow**, there has recently been an increase in viewings, indicating potential for improved take-up activity by the new year.



Supply

Grade A availability continues to diminish across the cities. In 2009 grade A space made up 28% of all availability. This has gradually declined and is currently 14%. The chart above gives an indication of the number years' supply of Grade A office space across the cities, based on past average take-up levels.

In **Leeds**, the supply of Grade A space has reduced significantly over the past year and there is a particular shortage around the traditional core. Due to a number of considerable requirements, such as 60,000 sq ft for KPMG and 50,000 sq ft for Squire Sanders, developers are not surprisingly showing more interest in buildings where leases are coming to an end, with a view to refurbishment.

Cardiff's lack of Grade A space will be partly remedied by 90,000 sq ft of speculative space being developed by JR Smart in the Capital Quarter, due for completion at the end of 2013.

Rents and forecasts

Headline net effective rents have mainly remained stable during 2012, although there have been some slight falls with a reduction in quoting rents in **Glasgow** and increased incentives in **Cardiff** and **Manchester**.

City centre headline rents Q3 2012 (£psf)

Location	Rents (£)	Rent free (mths on 10 yr term) (£)	Net effective rent*	Net effective rent (£) Q1 2012
Manchester	29.50	30	22.86	24.34
Glasgow	27.50	24	22.69	23.51
Birmingham	27.50	36	19.94	19.94
Bristol	27.50	36	19.94	19.94
Leeds	25.00	30	19.38	19.38
Edinburgh	26	36	18.85	18.49
Newcastle	20.00	24	16.50	16.50
Cardiff	22.50	36	16.31	17.05
Liverpool	21.00	36	15.23	15.23

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

Last year average regional office rents declined by -1.7%. Our rental growth forecasts indicate that there will be a continued fall of -1.3% in 2012, followed by a rise of about 1% in 2013. This improvement will continue with 1.4% growth in 2014 and 2.4% by 2016.



In focus: Edinburgh

Market movement:

It has been a very active 2012 for the Edinburgh city centre market particularly for Grade A stock. Significant deals include Exchange Place 1 let to Blackrock (77,000 sq ft) and Westport 102 to NHS education for Scotland (37,500 sq ft).

Occupiers are tending to re-gear after the search process has been undertaken with landlords still offering very competitive deals for second hand stock.

Supply:

There have been no large schemes completed in 2012 and as a result, Grade A availability stands at 272,000 sq ft, compared to more than 500,000 sq ft a year ago. This would indicate that headline rents and incentives are likely to harden.

Stock in the pipeline includes ATRIA on Morrison Street, a 200,000 sq ft speculative office and conference centre development (48,000 sq ft pre-let to Brewin Dolphin) with completion due early 2013.

Outlook:

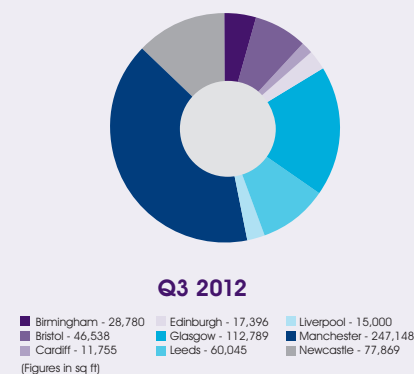
While deals have quietened since the heady activity earlier in the year, there is still demand coming from legal mergers, for example Shoosmiths (10,000 sq ft) and Pagan Osborne (9,000 sq ft).

Toby Withall, Director - Edinburgh

Out-of-town

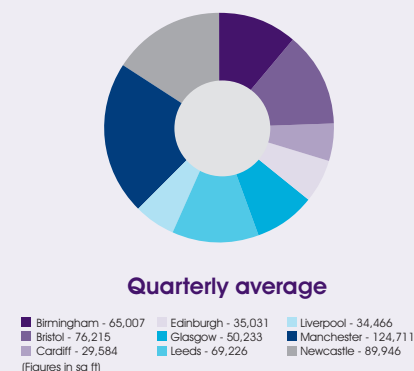
- Take-up in the out-of-town markets was 617,000 sq ft in Q3, 7% above the quarterly average.
- Activity was particularly strong in Manchester and Glasgow but subdued elsewhere.
- The largest deal in South Manchester was the purchase of Wilmslow Office Park by Micromass Waters which will house a new 100,000 sq ft HQ office building and associated laboratory space.
- Headline rents vary between £14 psf in Liverpool and £21.50 psf in Bristol.

Figure 2
Out-of-town take-up



Top 5 out-of-town deals (Q3 2012)

City / Property	Tenant	Sq ft
Manchester – Wilmslow Office Park	Micromass Waters	100,000
Manchester – Cheadle Royal	Blemain Group	50,000
Manchester – Cheadle Heath	On the Beach	17,642
Glasgow – Cardonald BP	Southside Housing Association	16,000
Manchester – Pear Mill, Stockport	LBM	16,000



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Belfast

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Birmingham

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Bristol

St Catherine's Court
Berkeley Place
Bristol BS8 1BQ

Cardiff

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Cardiff CF10 3AN

Edinburgh

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Edinburgh EH3 9QG

Glasgow

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Glasgow G2 5SG

Leeds

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Leeds LS1 2HL

Liverpool

Mercury Court
Tithebarn Street
Liverpool L2 2QP

Manchester

81 Fountain Street
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Newcastle

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