

The Big Nine

Quarterly review of the regional office occupier markets

Q1 2013



Summary

It is encouraging to see an increase in development activity in the regional office market and developers and investors showing greater interest. In what is typically the slowest quarter, Q1 take-up activity has performed 19% above average, with stronger activity out-of-town particularly in Manchester and Newcastle. Manchester, Leeds and Bristol saw strong take-up in the city centre markets.

Carl Potter, National Head of Offices

- Total take-up in Q1 across the nine cities was 19% above the quarterly average at 1,917,500 sq ft.
- City centre take-up made up 57% of the total at 1,096,800 sq ft, 9% above the quarterly average.
- Out-of-town take-up was 37% above the quarterly average at 820,700 sq ft.

The Big Nine

Regional office market review

City centre

- City centre take-up totalled 1,096,826 sq ft in Q1, 9% above the quarterly average.
- Manchester, Leeds and Bristol performed strongly against quarterly averages, with activity in Edinburgh and Newcastle also above average.

There has been an increase in development activity to satisfy headline Grade A requirements, while smaller secondary churn dominates current deals.

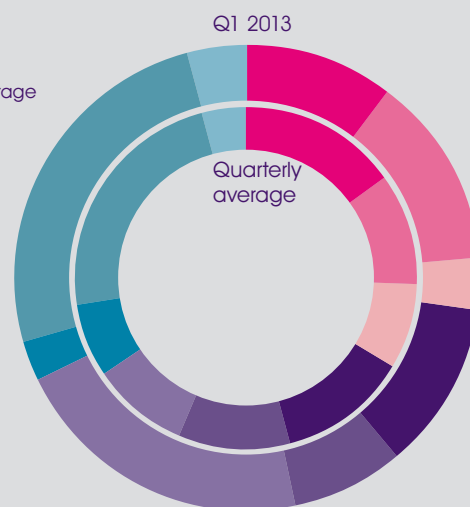
In most regional cities there remains a two-tier market. Deals are still taking time to get over the line and the backbone of activity consists of a churn of secondary stock below 5,000 sq ft. On the other hand, there is a healthy number of large Grade A requirements and the time frame on many of these is shortening as lease event dates creep up, with the best space in tight supply.

Q1 activity has been led by Manchester, Leeds and Bristol, with the largest deal of the quarter being a 73,000 sq ft letting to Jet2 at The Mint in Leeds. In Manchester there has been a good level of demand with the differing rental and lease profiles of the two largest transactions (see table) also reflecting the breadth of demand within the market place for secondary and prime product.

Activity in Bristol has been boosted by the city council completing the 130,000 sq ft purchase of 100 Temple Street from Aviva for around £18 million. The council will occupy 71,000 sq ft, in what is the largest office deal in the city for over ten years. The building is currently occupied by KPMG

Figure 1 City centre take up

	Q1 2013	Quarterly average
■ Birmingham	113,326	153,515
■ Bristol	145,555	103,904
■ Cardiff	39,483	79,778
■ Edinburgh	135,000	122,930
■ Glasgow	85,390	104,561
■ Leeds	229,148	99,867
■ Liverpool	30,000	71,530
■ Manchester	274,800	232,251
■ Newcastle	44,124	40,783



and Capita, which adds requirements to be satisfied over the next few years.

Typical of Q1 and similar to activity in a number of cities, enquiries and requirements coming forward in Birmingham indicate a healthy increase in take-up following a slow start. In Liverpool there are a number of deals in the pipeline and some sizeable requirements that need to move over the next 12 to 18 months, particularly from the financial and business services sector. In Manchester we are seeing continued moves by Barclays (80,000 sq ft) and the much anticipated 'Project Tomorrow' (120,000 sq ft+) is edging ever closer.

Top 5 city centre deals (Q1 2013)

City/property	Occupier	Sq ft
Leeds – The Mint	Jet2	72,950
Bristol – 100 Temple Street	Bristol City Council	71,000
Manchester – Sunlight House	Travel Jigsaw	63,000
Leeds – Criterion Place	KPMG	60,000
Manchester – 3 Hardman Square	World Pay	22,000

These Grade A requirements will encourage pre-let and some speculative development and refurbishments. Indeed we are beginning to see a response to the constrained supply of Grade A space, which we highlighted in our recent 'Tipping Point' reports.

The two speculative schemes in Glasgow by Mountgrange and BAM

that started at the end of last year will soon be joined by Abstract's Vincent Plaza scheme. There are also two schemes gearing up to start speculatively in Bristol. Salmon Harvester has indicated that it will begin building a 100,000 sq ft, £35 million speculative office scheme at Two Glass Wharf, Temple Quay this summer. Skanska has also indicated that it will start building 66,000 sq ft on site at Queen Square in Bristol.

In Leeds, the MEPC 35,000 sq ft scheme at Wellington Place will soon start, following an agreement with Shulmans solicitors to take 15,000 sq ft, with other parties showing interest. Work will also begin this summer on KPMG's new 60,000 sq ft pre-let at Criterion Place in preparation for their lease renewal in 2015.

Elsewhere, in Cardiff the completion of JR Smart's 90,000 sq ft Capital Quarter in Q1 2014 will more than double existing grade A space and in Birmingham, the completion of 2 Snowhill and refurbishment of 5 Brindleyplace increases availability by 300,000 sq ft. Manchester's 58 Mosley Street (104,000 sq ft) has recently returned to the market as a result of the sale of lawyers Cobbetts in a 'pre-pack' agreement to DWF.

Rents and forecasts

Recent employment growth, particularly in office based sectors, implies that the economic fundamentals behind property

City centre headline rents Q1 2013 (£psf)

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

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

demand will improve this year and next, albeit slowly. For the regional office market we expect only minimal average rental value growth this year (+0.5%), rising to 1.5% in 2014 and 2.9% pa by 2017.

Headline rents and incentives continue to show little movement, although there has been an increase in Edinburgh over the past quarter from £26 psf to £27.50 psf, with no change to the rent free period.

Out-of-town

- Take-up in the out-of-town markets was 820,684 sq ft in Q1, 37% above the quarterly average.
- Activity was particularly strong in Manchester and Newcastle and above average in most cities.
- Headline rents vary between £11 psf in Liverpool and £21.50 psf in Bristol.

Top 5 out-of-town deals (Q1 2013)

City/property	Tenant	Sq ft
Newcastle - Quorum	NCFE	50,000
Manchester - Park Square	Jacobs	45,000
Manchester - No1 Archway	U Fast	40,500
Bristol - 930 Aztec West	Nvidia	30,450
Glasgow - Europoint	Enable Scotland	28,600



In focus: Newcastle

Market movement

The market is watching with interest a number of requirements that could have a big impact on the shape of the city centre office market: PWC, Barclays, DWF, RIBA all have requirements. With limited options on new Grade A accommodation offering suites over 30,000 sq ft it may be a case of move early to avoid disappointment.

In the secondary market we are seeing steady take-up and rents holding after falling back in previous years. Stock is being taken out of the market with conversions to hotels to be undertaken. This should help to maintain rental levels and reduce levels of incentives.

Looking forward

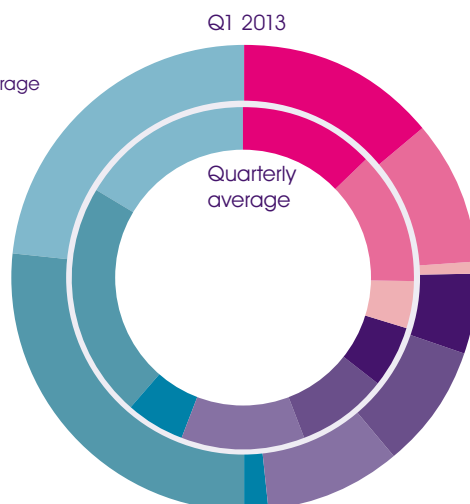
2013 should see the return of cranes to the city skyline for the start of Silverlink Holdings' Stephenson Quarter development. The first phase of the 300,000 sq ft, 10 acre city centre commercial development site will see the development of Rocket, 35,000 sq ft of Grade A offices.

Work is well advanced on a new office development at Science Central, a partnership between Newcastle City Council and Newcastle University and phase 1, a seven storey office building extending to 60,000 sq ft could be on site this year.

Tony Wordsworth, Director - Newcastle

Figure 2 Out-of-town take-up

	Q1 2013	Quarterly average
■ Birmingham	116,119	77,056
■ Bristol	81,650	75,048
■ Cardiff	5,670	27,418
■ Edinburgh	45,185	35,416
■ Glasgow	72,164	50,799
■ Leeds	75,705	69,324
■ Liverpool	15,000	34,130
■ Manchester	219,286	132,072
■ Newcastle	189,905	97,867



London West End

10 Stratton Street
London W1J 8JR

London City

80 Cheapside
London EC2V 6EE

Belfast

Rose Building Third Floor
16 Howard Street
Belfast BT1 6PA

Birmingham

3 Brindleyplace
Birmingham B1 2JB

Bristol

St Catherine's Court
Berkeley Place
Bristol BS8 1BQ

Cardiff

One Kingsway
Cardiff CF10 3AN

Edinburgh

Quayside House
127 Fountainbridge
Edinburgh EH3 9QG

Glasgow

206 St Vincent Street
Glasgow G2 5SG

Leeds

City Point First Floor
29 King Street
Leeds LS1 2HL

Liverpool

Mercury Court
Tithebarn Street
Liverpool L2 2QP

Manchester

81 Fountain Street
Manchester M2 2EE

Newcastle

Central Square
Forth Street
Newcastle upon Tyne NE1 3PJ

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Should you wish to discuss the findings of our research in greater detail please do not hesitate to contact:

Carl Potter

National Head of Offices
0121 609 8388
carl.potter@gva.co.uk

Mark Beaumont

National head of investment
020 7911 2183
mark.beaumont@gva.co.uk

Giles Tebbitts

Research
020 7911 2670
giles.tebbitts@gva.co.uk

08449 02 03 04
gva.co.uk