Research report

Liverpool city centre office market **'tipping point'**

June 2013

Background

Prior to the economic downturn the Liverpool city centre office market benefitted from significant investment.

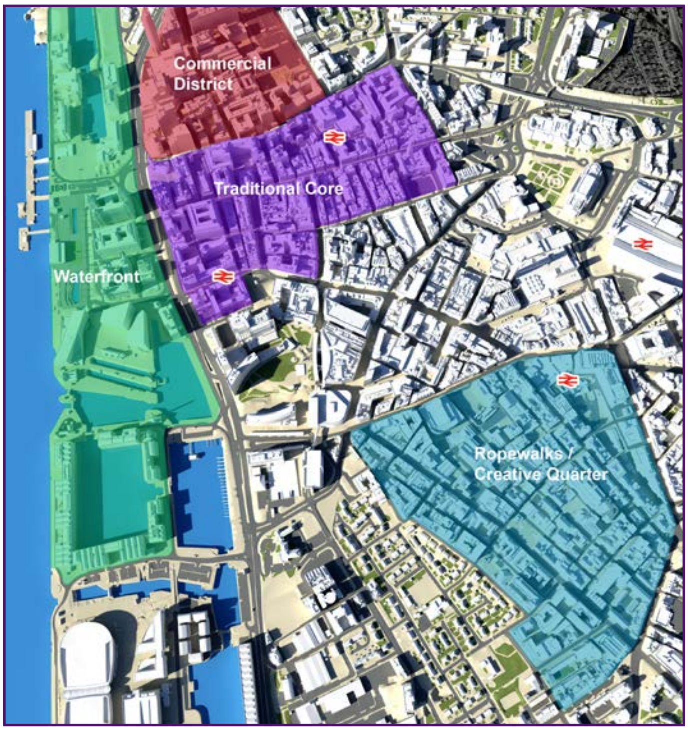
Between 2003 and 2008 a total of four new office buildings were delivered including ECF's No. 1 St Paul's Square (131,000 sq ft) and Rumford Investments' 20 Chapel Street (155,000 sq ft). As a consequence, a number of large occupiers have relocated from the traditional core to what is now known as the 'commercial district'. However, very few new and Grade A refurbishment schemes have been speculatively developed in recent years. If prevailing office absorption rates continue Liverpool city centre could soon be facing an undersupply of built Grade A office space.

The Liverpool city centre office market is essentially a three tier market and the potential shortage of both new and Grade A refurbished space contrasts with an oversupply of lower grade refurbished and unrefurbished stock.

With a limited amount of good quality accommodation remaining, only two major refurbishment schemes currently onsite, occupiers could be left with fewer options than originally anticipated. Particularly with the anticipated increase in demand and take-up levels, and no new or Grade A refurbishment schemes scheduled to start on-site in the foreseeable future. Also the majority of developers/funds are unable or willing to bring forward product without significant pre-commitment.

Our analysis of existing requirements and occupiers with forthcoming lease events reveals a fairly healthy pipeline of potential future demand from occupiers who may look to relocate to more efficient, better specified and more sustainable office accommodation with large floorplates. Therefore, the diminishing supply of new and Grade A refurbished space means that potential occupiers will be faced with an ever decreasing choice.

Within this report we look to illustrate the supply and demand dynamics within the city and identify the market "tipping point".



Liverpool City Centre – Key locations

Liverpool city centre currently has an office stock of approximately 8.2 m sq ft. During the course of the past 10 years the office market has changed dramatically with the emergence of a new 'commercial district' (see map) which is primarily focused around Old Hall Street. This is where the majority of the major new office development and refurbishment projects have taken place and include St Paul's Square and the Plaza. This area along with the Liverpool Waterfront (principally Princes Dock, the 'Three Graces', Mann Island and the Albert Dock Complex) has shifted the focus away from the traditional core.

The City's office market can be divided into four main zones:

1. **Traditional Core**
2. **The Commercial District**
3. **The Waterfront**
4. **Rope Walks/Creative quarter**

The supply story

When considering new and Grade A refurbished buildings with floorplates in excess of 10,000 sq ft, supply comprises the following:

New

Scheme	Developer/ landlord	Available space	Largest floorplate
No. 4 St Paul's Square	English Cities Fund	89,321	14,155
No. 5 St Paul's Square	Standard Life Investments	61,600	20,345
No. 1 Mann Island	Neptune Developments/ Merseytravel	32,688	10,896
Total		183,609 sq ft	

Grade A refurbished

Scheme	Developer/ landlord	Available space	Largest floorplate
The Plaza	Bruntwood	51,041	22,275
Royal Liver Building	Royal London	23,818	29,800
20 Chapel Street	Rumford	56,202	13,000
Walker House	UK Land & Development	123,600	26,587
Total		254,661 sq ft	

Current prime office space under construction / speculative refurbishment

Scheme	Developer/ landlord	Available space	Anticipated Completion Date
The Department	Mere Park	75,164	Mid 2014
India Buildings	Green	33,433 5th Floor (being refurbished)	Sept 2013
Exchange Station	Ashtenne	75,692 (26,171 currently being refurbished)	August 2013
		134,768 sq ft	

There are no other new or Grade A refurbishment schemes scheduled to start on-site in the foreseeable future without significant or entire pre-commitment.

Demand

The Liverpool city centre office market is much smaller in size in comparison to other regional centres such as Manchester, Birmingham and Leeds. Historically, the majority of demand has been underpinned by the public sector and indigenous occupiers from the professional, financial and insurance services sectors. More recently there has also been strong demand from the shipping and wealth management sectors.

During the course of the past few years, the take-up of new space has been relatively low, compared to pre-recession levels. Occupiers have become more "cost conscious" and have either opted to remain in their existing buildings and negotiate/re-gear their leases or relocate to other buildings within the city on financially favourable terms.

Liverpool city centre take-up

Year	Grade A sq ft	Total sq ft
2012	112,803	259,602
2011	126,351	268,298
2010	122,076	207,515
2009	403,800	519, 274
2008	97,326	245, 289
Average	172,471	299,995

Key Prime Transactions from the last 18 months comprise:

Property	Date	Tenant	Area sq ft
Royal Liver Building	April 13	Pershing	28,000
No. 1 Tithebarn	Dec 12	TATA	22,123
The Plaza	Sept 12	Service Source	22,275
The Plaza	Jun 12	Bosch	16,717
No. 4 St Paul's Square	April 12	Santander Corporate	14,155
No. 1 Mann Island	Dec 12	John West Foods	10,896

However, due to the diminishing supply of good quality refurbished buildings with the ability to provide occupiers with large floorplates and the downward pressure on headline rents, there are an increasing number of occupiers now considering new space as well as refurbished accommodation.

There are a number of pending transactions which could potentially see take-up for both new and Grade A refurbished accommodation reach in excess of 150,000 sq ft by the end of the year, further reducing supply. This is close to the five year average of 172,000 sq ft.

We believe that there is currently in excess of 375,000 sq ft of publicly known named demand for both new and Grade A refurbished space in the market. This does not include a number of non-publicised requirements, other strategic longer term requirements or those occupiers who have lease events in the next 2-5 years who are not presently actively seeking to relocate to new premises.

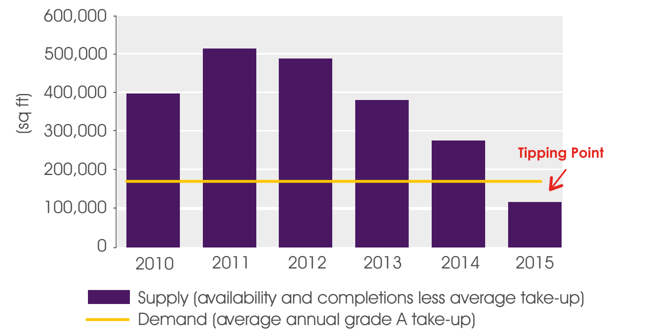
The table below provides a selection of live Grade A requirements:

Company name	Size (sq ft)
DLA Piper LLP	20,000 – 25,000
Mercers	20,000 – 25,000
c/o AM Surveyors	20,000
Roland Smith	15,000
Barclaycard	70,000 – 80,000

The tipping point

Having established the supply and demand dynamics, we now assess the 'tipping point', where the city moves to a point of undersupply. This is illustrated by the graph below, which plots the balance between Grade A supply and demand. For 2010 to 2012 supply is recorded as the actual Grade A availability at the end of the year. Future supply is calculated from the previous year's supply figure, less five year average Grade A take-up, plus any completions due during the year.

Grade A demand / supply balance Source GVA



However, due to the number of current "live" requirements in the market who are actively looking to acquire Grade A space within the next 12-18 months, we could be actually closer to the "tipping point" than this analysis suggests, as the remaining stock may not directly suit the particular requirements of those companies seeking space.

Based on our analysis, we believe that we could be facing a potential undersupply of good quality space by the end of 2014/early 2015. With no new build schemes currently onsite, there is a clear opportunity for developers to bring forward product towards the end of 2014/early 2015.

London West End
London City
Belfast
Birmingham
Bristol
Cardiff
Dublin
Edinburgh
Glasgow
Leeds
Liverpool
Manchester
Newcastle

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