Report

The Big Nine

Quarterly review of the regional office occupier markets

Q2 2013

Summary

There is a significant amount of optimism in the regional office markets as the upturn in confidence and recently more stable economic position filters into occupiers' business plans.

There is no doubt that the levels of incentives and lease flexibility are in themselves creating demand but as each city sees Grade A take-up increasing and stock decreasing there are clear signs that landlords with the better quality stock are already beginning to revise their positioning.

Carl Potter, National Head of Offices

- Total take-up in Q2 across the nine cities was 7% above the five-year quarterly average at 1,730,000 sq ft.
- City centre take-up made up 67% of the total at 1,161,000 sq ft, 14% above the five-year quarterly average.
- Out-of-town take-up was 5% below the quarterly average at 569,000 sq ft.

Q2 2013

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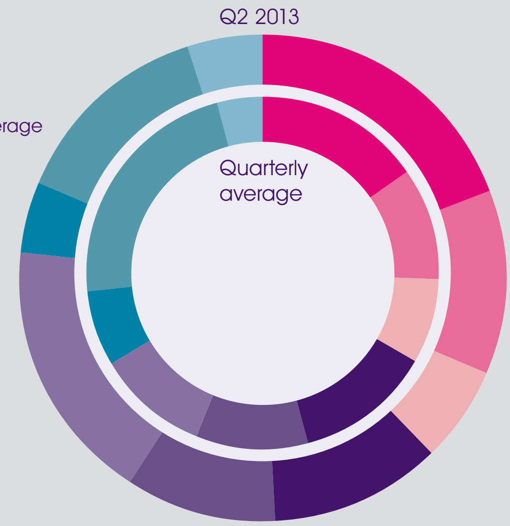
Regional office market review

City centre

- City centre take-up totalled 1,161,000 sq ft in Q2, 14% above the five-year quarterly average.
- Take-up in Q2 was almost twice the average in Leeds and well above average in Birmingham and Bristol.

Figure 1 **City centre take up**

	Q2 2013	Five-year Quarterly average
Birmingham	223,611	157,409
Bristol	143,931	106,128
Cardiff	73,715	79,441
Edinburgh	130,991	126,518
Glasgow	116,735	105,237
Leeds	203,145	105,604
Liverpool	55,000	70,611
Manchester	157,472	228,097
Newcastle	59,949	41,682



The city centre office market has seen strong take-up over the second quarter of the year with most cities above the five-year quarterly average. Activity was particularly strong in Birmingham, Leeds and Bristol, with the three largest deals in these cities, including GVA's 134,000 sq ft letting of Five Brindleyplace (see table and 'In focus: Birmingham').

Leeds has seen a similar level of take-up in the first half of the year to the annual take-up over the previous four years. The large KPMG and JET 2 deals of Q1 have been followed by Yorkshire Building Society taking 76,000 sq ft at Highcross' refurbished Broad Gate development, the largest deal in the city for 10 years. Capgemini have also recently taken 25,000 sq ft in the building.

In Liverpool Pershing have recently taken 28,000 sq ft at the Royal Liver Building and there are two major refurbishment projects on site at India Buildings and Exchange Station, which will provide good quality refurbished space to accommodate future occupational requirements.

The first two quarters of 2013 have seen a continued healthy level of activity in central Manchester but this has largely been confined to smaller transactions. Grade A demand continues to be reduced in line with limited supply, although with in excess of 150,000 sq ft of prime space close to or under offer, the position will change over the next three months. This figure excludes the ongoing 'Project Tomorrow' (120,000 sq ft plus) requirement which gets ever nearer to becoming a reality.

Top 5 city centre deals (Q2 2013)

City/property	Occupier	Sq ft
Birmingham – Five Brindleyplace	Confidential	134,000
Bristol – Winterstoke Road	Imperial Tobacco	85,000
Leeds – Broad Gate	Yorkshire Building Society	76,000
Liverpool - Royal Liver Building	Pershing	28,000
Leeds – Broad Gate	Capgemini	25,389

Similarly, in Edinburgh there has been a healthy level of activity with smaller transactions. While there are lease event requirements in the city centre such as Ernst and Young and Rockstar, West Edinburgh has the largest number of significant deals in the pipeline, including 80,000 sq ft for Sainsbury's Bank.

In Glasgow, there are a number of significant Grade A requirements entering or about to enter solicitors' hands including ATOS (33,000 sq ft), Ashurst (30,000 sq ft) and SAS Memex (16,000 sq ft), providing a much needed boost to the Grade A take-up in Glasgow which has been largely dormant since early 2011.

In Cardiff the Welsh Government has bought JR Smart's 90,000 sq ft speculative office building at Capital Quarter. This will bring the completion date forward to spring next year and enable them to start on another 75,000 sq ft scheme in the Capital Quarter.

Grade A space, which is currently below 50,000 sq ft in the city will also be enhanced by plans for 100,000 sq ft at Callaghan Square. This scheme is also owned by the Welsh Government who are ensuring a healthy supply of office development to encourage inward investment.

In Bristol two speculative office schemes have started on site: Salmon Harvester's 100,000 sq ft at Two Glass Wharf in Temple Quay and Skanska's 60,000 sq ft development at 66 Queen Square, which will increase the choice of prime space in the city.

In Newcastle, there has been an increase in activity during Q2 with deals completed or under offer at East Quay Five, Welbar Central and Baltic Place.

City centre headline rents Q2 2013 (£psf)

Location	Rents (£)	Rent free (mths on 10 yr term) (£)	Net effective rent* (£)	Net effective rent (£) Q4 2012
Glasgow	27.50	24	22.69	22.69
Manchester	29.50	33	22.13	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
Cardiff	22.50	24	18.56	16.31
Newcastle	20.00	24	16.50	16.50
Liverpool	21.00	36	15.23	15.23

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

Rents and forecasts

Overall we are seeing a gradual improvement in occupier sentiment across the regional office occupier markets. Barring any further major economic shocks, we expect average regional office rental values to be broadly flat this year, increase by 1.6% pa next year and gradually accelerate to 2.6% pa in 2017.

While the amount of new space is still low in a number of cities existing landlords continue to offer significant incentives for tenants to stay in their current buildings so significant deals remain on existing new space. Headline rents and incentives remain similar to three months ago, with only Cardiff showing a reduction in rent free period in response to the fall in stock. However other cities are likely to follow suit by the end of the year as prime supply falls.

Out-of-town

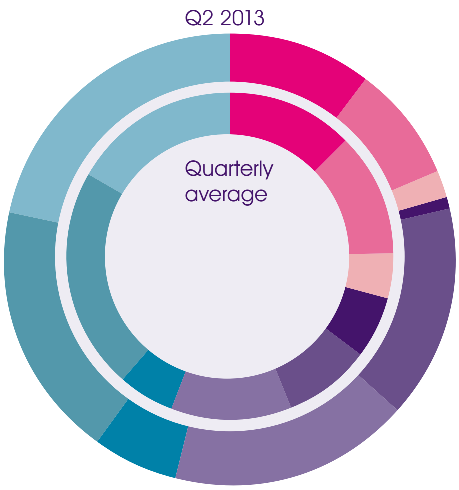
- **Take-up in the out-of-town markets was 569,000 sq ft in Q2, 5% below the five-year quarterly average.**
- **Compared to the quarterly average, activity was strongest in Glasgow, Leeds and Newcastle.**
- **Headline rents vary between £11 psf in Liverpool and £21.50 psf in Bristol.**

Top 5 out-of-town deals (Q2 2013)

City/property	Tenant	Sq ft
Manchester – Cheadle Royal	Balfour Beatty	37,456
Newcastle – Royal Quays	Collingwood Insurance	29,169
Leeds – Thorpe Park	Age Partnerships	18,269
Leeds – Hetton Court	SRCL	14,013
Leeds – Springwood House, Horsforth	Combined Selection Service	11,750

Figure 2 **Out-of-town take-up**

	Q2 2013	Five-year Quarterly average
Birmingham	59,664	76,095
Bristol	47,055	73,493
Cardiff	10,501	26,478
Edinburgh	6,009	35,563
Glasgow	85,808	52,744
Leeds	98,928	70,969
Liverpool	35,000	34,179
Manchester	104,445	130,537
Newcastle	121,753	99,194



In focus: **Birmingham**

GVA let Five Brindleyplace for Hines and Moorfield

Activity in Birmingham has been strong over the year from H2 2012, with almost 700,000 sq ft of deals. Occupier confidence in the city has improved as traditional financial and business services return to the market and we are beginning to see the first signs of reduced incentives.

Hines and Moorfield's £10 million refurbishment of 134,000 sq ft Five Brindleyplace has been let in its entirety by GVA. The occupier, which currently remains confidential, is a middle office inward investor. It will be interesting to see whether this encourages other major companies to decentralise staff.

The deal is the second largest letting that has been achieved in Birmingham since 2002 and the largest since the downturn. In other significant deals, rapidly expanding solicitors DWF have taken 22,000 sq ft at One Snowhill, I2 serviced offices are taking 24,000 sq ft at 2 Snowhill and DAC Beachcroft are rumoured to be taking 58,000 sq ft at Colmore Square.

There has been further absorption of speculative space created before and delivered during the recession. 45,000 sq ft is being acquired at Langley Point for change of use to a free school. Over half of the remaining grade A space is at 2 Snowhill (100,000 sq ft) and Colmore Plaza (163,000 sq ft).

Charles Toogood, Director - Birmingham

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

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