Summary

City centre and out-of-town activity reached 1,762,000 sq ft in Q4, 12% above the quarterly average. This makes overall take-up for 2012 consistent with levels over the last three years, supported by a stronger performance out-of-town. The shortage of grade A supply has been tempered by the lack of significant grade A deals this year but with healthy future demand in a number of cities and the prospect of lease events over the next three years, there are signs of developer sentiment improving to meet this demand (see Glasgow ‘focus’).

Carl Potter, National Head of Offices
City centre take-up across the nine GVA regional offices for Q4 was 995,000 sq ft, similar to the quarterly average. Manchester and Birmingham finished the year strongly, recording the majority of the top deals in Q4.

For 2012 as a whole take-up was 6% below average. Edinburgh showed the strongest performance compared to the quarterly average in the first half of the year. Take-up in Leeds and Bristol was also above average.

City centre take-up

- City centre take-up totalled 995,095 sq ft in Q4, similar to the quarterly average and was 3.77 million in 2012, 6% below the annual average.
- Take-up was strongest in Manchester and Birmingham in Q4 when compared to the quarterly average, followed by Bristol.

Requirements and upcoming lease events. This is set against a back drop of ever reducing grade A supply. This shift in balance is likely to underpin rental values and should theoretically reduce incentive packages, however landlords are still having to offer large inducements to convince occupiers to move.

In the wider secondary market, existing landlords are keen to renegotiate short term extensions to mitigate void periods and the consequent rating liabilities and service charge shortfalls.

The strong take-up in Edinburgh this year will be balanced by the supply of new grade A accommodation at Atria (200,000 sq ft), 145 Morrison Street (25,000 sq ft), and Charlotte Square (20,000 sq ft) all to be completed this year. At Atria 65,000 sq ft is already pre-let to Brewin Dolphin and Green Investment Bank with strong evidence pointing to a further 40,000 sq ft under offer to PWC.

In the central Manchester office market, the final quarter showed a healthy return of grade A transactions with HSB Insurance taking 19,300 sq ft at Chancery Place and i2 serviced offices taking 22,000 sq ft at 3 Hardman Square. However, we did not see the torrent of anticipated deals with the long awaited ‘Project Tomorrow’ (100,000 sq ft plus) experiencing further delays and BUPA (140,000 sq ft) going on hold for the foreseeable future.

In Birmingham 360,000 sq ft of take-up in the second half of the year doubled that of the first, with some significant deals in Q4 (highlighted in the table below).

There have been some significant long term planning decisions in Birmingham. Paradise Circus has been granted outline planning permission with a first phase of 450,000 sq ft offices and Masshouse has received consent for 600,000 sq ft of offices, with both seeking pre-lets. Developer sentiment is improving as the over-supply from pre-recession speculative space is being absorbed.

In Leeds there are a number of significant requirements of over 30,000 sq ft, particularly from the professional sector. Lease events in 2015/16 are causing occupiers to mobilise due to the shortage of quality space.

Top 5 city centre deals (Q4 2012)

<table>
<thead>
<tr>
<th>City/property</th>
<th>Occupier</th>
<th>Sq ft</th>
</tr>
</thead>
<tbody>
<tr>
<td>Birmingham – 2 Colmore Square</td>
<td>Shoeminters</td>
<td>40,000</td>
</tr>
<tr>
<td>Birmingham – Centre City</td>
<td>HM Courts and Tribunals Service</td>
<td>29,800</td>
</tr>
<tr>
<td>Birmingham – 3 Paradise Circus</td>
<td>G2</td>
<td>27,900</td>
</tr>
<tr>
<td>Liverpool – The Plaza</td>
<td>Service Source</td>
<td>22,275</td>
</tr>
<tr>
<td>Liverpool – 1 The Exchange</td>
<td>TATA</td>
<td>22,100</td>
</tr>
</tbody>
</table>

Rents and forecasts

Headline net effective rents have remained stable over the last six months. Since Q1 2012 Edinburgh has seen an increase in the net effective rent as a result of the strong take-up during the year and Glasgow has seen a fall (see table on page 3).
Out-of-town

- Take-up in the out-of-town markets was 767,000 sq ft in Q4, 34% above the quarterly average.
- Activity was particularly strong in Birmingham at nearly 217,000 sq ft, with over 100,000 sq ft of deals in Manchester and Newcastle.
- The largest deal was at Birmingham Business Park: the sale of land to AEC to develop a new office and research facility totalling 250,000 sq ft, of which 125,000 sq ft will be of an office nature. This amounted to more than half of the total Q4 take-up.
- Headline rents vary between £11 psf in Liverpool and £21.50 psf in Bristol.

Top 5 out-of-town deals (Q4 2012)

<table>
<thead>
<tr>
<th>City/property</th>
<th>Tenant</th>
<th>Sq ft</th>
</tr>
</thead>
<tbody>
<tr>
<td>Birmingham Business Park</td>
<td>AEC</td>
<td>125,000</td>
</tr>
<tr>
<td>Newcastle – Partnership House, Gosforth</td>
<td>Amec</td>
<td>29,700</td>
</tr>
<tr>
<td>Manchester – Abbey and Prudential bdgs, Stockport</td>
<td>Private owner occupier</td>
<td>21,900</td>
</tr>
<tr>
<td>Birmingham Business Park</td>
<td>Waterloo Housing</td>
<td>16,600</td>
</tr>
<tr>
<td>Newcastle – Team Valley</td>
<td>Doosan</td>
<td>14,600</td>
</tr>
</tbody>
</table>

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

In focus: Glasgow

You wait ages for a speculative development and then...

Two speculative developments have broken ground in Glasgow since December: Mountgrange’s 147,000 sq ft former Odeon site at One West Regent Street and BAM’s 163,000 sq ft at 110 Queen Street.

PRUPIM are financing the Mountgrange development, while 1 10 Queen Street will receive a £9.6 million loan from the Scottish Partnership for Regeneration in Urban Centres (SPRUCE) Fund. Both include a retail element, of 9,000 sq ft and 20,000 sq ft respectively.

The two schemes, which will complete during the first half of 2015 aim to meet anticipated demand against the limited supply of grade A stock in the city. The specification of these new developments will also meet occupier needs of changing working practices, including higher density occupation.
Should you wish to discuss the findings of our research in greater detail please do not hesitate to contact:

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