


# The Big Nine

Quarterly review of the regional office occupier markets

Q1 2012



No 4 St Paul's Square, Liverpool. GVA acted for English Cities Fund, who have recently completed a letting of the 7th floor (14,155 sq ft) to Santander.

## Summary

Prospects for the regional office market have improved significantly since the end of last year. Q1 managed to record average take-up, in what is traditionally the slowest quarter of activity. In addition, a large number of requirements have materialised, giving us confidence of increased activity in Q2 and Q3. The improved sentiment is encouraging occupiers with upcoming lease events to start their search while there is still quality stock available.

- City centre and out-of-town take-up in the nine GVA regional office centres recorded 1,611,000 sq ft in Q1, 2% above the quarterly average
- The city centre market made up 59% of this total, with 944,000 sq ft of deals, 7% below the quarterly average
- Out-of-town market recorded take-up of 666,000 sq ft, 17% above the quarterly average

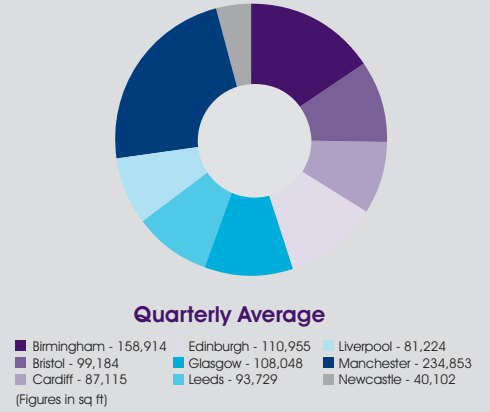
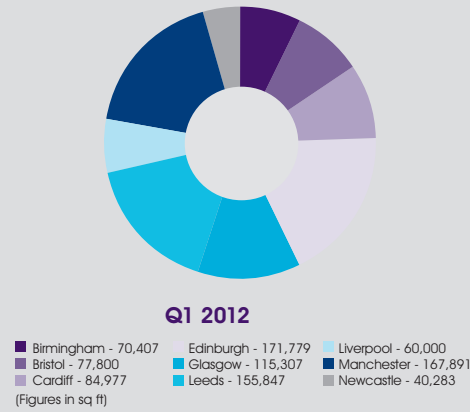
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## Regional office market review

### City Centre

- City centre take-up totalled 944,000 sq ft in Q1, 7% below the quarterly average
- Take-up in **Edinburgh** and **Leeds** was significantly above their quarterly averages
- The largest letting was in Leeds, a 63,500 sq ft freehold sale to the Medical Protection Society at 2&3 Victoria Place
- Sentiment has improved since the end of last year and requirements have increased significantly

Figure 1 City centre take up



### Below average city centre take-up but improved sentiment

City centre take-up was dominated by activity in **Edinburgh** and **Leeds**, with the two largest deals, a 63,500 sq ft freehold sale to the Medical Protection Society in Leeds and 47,800 sq ft pre-let to Brewin Dolphin at Atria 1 in Edinburgh.

**Manchester** also recorded over 150,000 sq ft of deals, consisting of a large number of smaller deals.

While city centre take-up overall was below the quarterly average, Q1 tends to be a seasonal lull. Sentiment has also improved significantly since the end of the year.

### Healthy level of enquiries and requirements

This is supported by an encouraging increase in enquiries and requirements, indicating an improvement in activity during the rest of the year. For example, in **Manchester** and **Edinburgh** there is up to half a million sq ft of named demand in both cities, similar to the amount of grade A space available. In **Manchester**, this includes 60 to 70,000 sq ft for Aviva, 140,000 sq ft for Bupa and 80,000 sq ft for Jacobs Engineering.

Activity in **Edinburgh** city centre continues to dominate over the out-of-town market as quality accommodation is available with sizeable incentives. There is unlikely to be a significant increase in out-of-town activity until supply constraints in the centre translate into reduced incentives and increased rents.

In **Newcastle** there has been an increase in the number of viewings in the city centre and there are half a dozen enquiries for space over 10,000 sq ft. Similarly in **Leeds**, there are also an increasing number of requirements above 10,000 sq ft, dominated by the professional and business services sector.

Welsh Government incentives have contributed to a healthy level of inward investment into **Cardiff** with requirements including 30,000 sq ft for Capita and 80,000 sq ft for Hugh Jones Solicitors.

### Few schemes under construction but developers preparing sites

While there are only a few schemes under construction across the cities, there are some development schemes being prepared for an upturn in activity. In **Glasgow** planning permission has been granted for a 170,000 sq ft development at St Vincent Plaza and Abstract developments are under offer to purchase the land. Scottish Power are buying the site opposite at Charing Cross, with a view to tendering to developers for a 220,000 sq ft headquarters and planning consent has been granted for 143,000 sq ft of speculative space at 110 Queen street.

New supply coming on to the market over the next year in **Birmingham** includes 118,000 sq ft at 2 Snow Hill due for completion in January 2012 and 133,000 sq ft refurbishment at 5 Brindley Place, which should be ready in Q4 2012. In **Bristol**, the Harbourside building has recently completed with half of the 50,000 sq ft still available and in **Manchester** One St Peter's Square is under construction, due for completion in 2014, with 210,000 sq ft still available.

With little development and an increase in lease expiries over the next three years, there are concerns that the choice for occupiers will become restricted. However, there remains a surplus of secondary stock and refurbishment and pre-let will continue to be the main provider of new space.

### Top 5 city centre deals (Q1 2012)

City/Property	Occupier	Sq ft
Leeds – 2&3 Victoria Place	Medical Protection Society	63,552
Edinburgh – Atria 1, Morrison St	Brewin Dolphin	47,816
Glasgow – 6 Atlantic Quay	Hero TSC	35,000
Cardiff – Discovery House	Firstsource solutions	26,378
Bristol – The Old Malt House	Private Individual	25,645

## Rents and forecasts

Over the last six months Manchester has seen an increase in net effective rent with a reduction in the rent free period (see table), following a contraction in grade A supply. While Cardiff has recorded its highest headline rent to £22 psf, rent free periods have also increased, reducing the next effective rent. Meanwhile headline rents have fallen in Edinburgh and Leeds and the remaining five cities are unchanged.

### City centre headline rents Q1 2012 (£psf)

Location	Rents (£)	Rent free (mths on 10 yr term) (£)	Net effective rent*	Net effective rent Q3 2011
Manchester	29.50	24	24.34	21.39
Glasgow	28.50	24	23.51	23.51
Birmingham	27.50	36	19.94	19.94
Bristol	27.50	36	19.94	19.94
Leeds	25.00	30	19.38	20.30
Edinburgh	25.50	36	18.49	19.21
Cardiff	22.00	30	17.05	17.38
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.

Our rental growth forecasts indicate that average regional office rents will show little movement this year and next, following a decline of 1.6% last year. Looking forward, rental growth is forecast to show gradual improvement from 2014 of 1.4% to 2.5% in 2016 but will remain below current and expected inflationary levels.

## Out-of-town

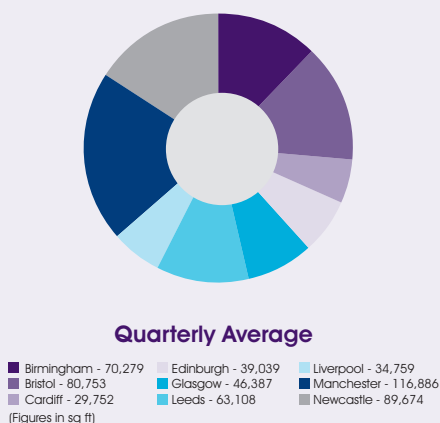
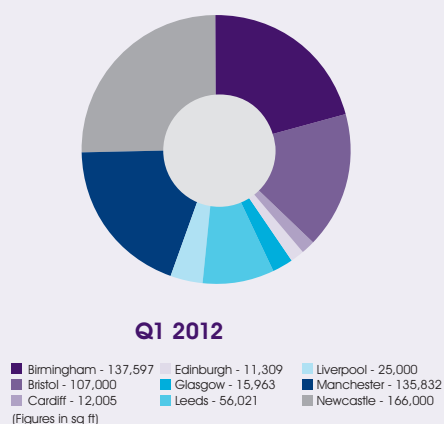
- Take-up in the out-of-town markets was 666,000 sq ft in Q1, 17% above the quarterly average
- Birmingham, Bristol, Manchester and Newcastle all recorded over 100,000 sq ft of deals whereas there was little activity elsewhere

- The largest deal was in Birmingham, a 65,900 sq ft letting to Virgin Media at Eagle 3, Solihull
- Headline rents vary between £14 psf in Liverpool and £20.50 psf in Bristol

### Top 5 out-of-town deals (Q1 2012)

City/Property	Tenant	Sq ft
Birmingham – Eagle 3, Solihull	Virgin Media	65,932
Bristol - Aztec West	BNS Nuclear Services	40,760
Newcastle – Q16, Quorum BP	Fabricom	32,800
Newcastle – Q11, Quorum BP	Confidential	26,310
Manchester – Parkfield House, Altrincham	Aecom	16,137

Figure 2  
Out-of-town take-up



## In focus: Liverpool

### Outlook

Liverpool is currently experiencing an increase in demand due to a number of sizeable inward investment and relocation requirements. These include Financial Service and Insurance companies such as Standard Chartered Bank (60-200,000 sq ft), Barclaycard (70-80,000 sq ft), Direct Line (60-70,000 sq ft) and Pershing (20-25,000 sq ft). Other major requirements in the market include TATA (25,000 sq ft), Hill Dickinson (10-30,000 sq ft) and John West Foods (10,000 sq ft). There are also a number of unnamed requirements that further increase the potential demand.

### Supply

At the present time, there are no new buildings or comprehensive refurbishment projects currently under construction or on site and those developments/refurbishments that are in the pipeline are likely to require a substantial pre-let prior to starting on-site. However, if the named demand materialises, this could see an increase in headline rents during the course of the next 12 months as a result of the development lag.

### Market moves

ECF (English Cities Fund) have recently completed a letting of the 7th floor (14,155 sq ft) at No 4 St Paul's Square to Santander, who have relocated from The Plaza. This represents the largest deal in Liverpool city centre during the first quarter of 2012.

**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

Published by GVA  
10 Stratton Street, London W1J 8JR  
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