Report

The Big Nine

Quarterly review of the regional office occupier markets

Q4 2011

City Point, Leeds

Summary

Take-up is only 4% down on the quarterly averages so in reality the office market remains relatively healthy. A lack of confidence in what remains a steady market is accentuating a state of continued unease. The reality is that, despite slow progress with deals across the board, transactions are not letting up. Nevertheless take-up in a number of cities going forward will be reduced by the lack of grade A supply and this is already feeding through to headline rents.

Carl Potter, National Head of Offices

- City centre and out-of-town take-up in the nine GVA regional office centres recorded take-up of **1,526,000** sq ft in Q4, **4%** below the quarterly average.
- The out-of-town market made up **36%** of this total, with **549,000 sq ft, 2%** below the quarterly average.
- Headline rents have increased in Manchester, Cardiff and Leeds in response to a tightening grade A supply, while rents remain the same as a year ago in the six other cities. Incentives also remain unchanged.

Q4 2011

The Big Nine

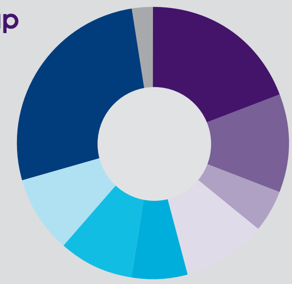
Regional office market review

City Centre

- City centre take-up totalled 977,500 sq ft in Q4, 4% below the quarterly average
- Take-up in Manchester, Birmingham and Bristol was above the quarterly averages
- The largest letting was 62,500 sq ft in Manchester at One St Peter's Square to KPMG
- The short supply of prime space has resulted in an increase in headline rents in Manchester, Cardiff and Leeds since the summer

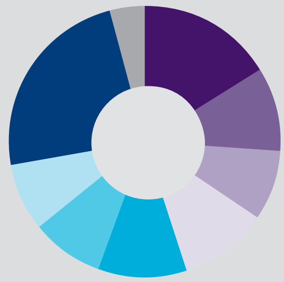
Figure 1

City centre take up



Quarter 4 2011

Birmingham - 189,806
Bristol - 114,194
Cardiff - 48,111
Edinburgh - 97,000
Glasgow - 64,000
Leeds - 88,690
Liverpool - 88,394
Manchester - 264,198
Newcastle - 23,362
(Figures in sq ft)



Quarterly Average

Birmingham - 166,289
Bristol - 100,966
Cardiff - 87,293
Edinburgh - 105,886
Glasgow - 107,443
Leeds - 88,690
Liverpool - 82,992
Manchester - 242,575
Newcastle - 40,087
(Figures in sq ft)

Sentiment subdued

Sentiment in the regional office markets has declined markedly since the summer. Consequently larger requirements have been slow moving, as companies have delayed decisions and take-up in a number of cities has been dominated by small to medium sized transactions.

In **Glasgow** there are a large number of requirements and viewings have been busy but these have not been converted into deals, particularly Grade A. There is still a year of grade A supply, based on past take-up rates, unchanged from last year. However, Abstract Securities has plans to build 170,000 sq ft speculatively this year.

In spite of quieter activity in **Manchester** this year, grade A supply continues to be absorbed. There are a number of large requirements in the pipeline and this points to a grade A supply shortage in 18 months time. The 62,500 sq ft pre-let at One St Peter's Square to KPMG, where GVA acted on behalf of Argent and GMPVF, indicates that occupiers are considering the supply time lag to select the better pre-let opportunities. Carillion will start on site in April, with completion due in Q1 2014.

It has been a quiet end to the year for **Cardiff** in what has otherwise been an exceptional year of take-up, even with the 220,000 sq ft Admiral pre-let deal taken out. The lack of city centre stock indicates that rents could increase further this year, although overall market confidence would suggest otherwise.

In **Birmingham** the recent signing of Grant Thornton's 27,000 sq ft and the Law Society's 57,000 sq ft acquisition within the Cube demonstrates confidence in the city in terms of inward investment. While sentiment is subdued in **Edinburgh**, Brewin Dolphin stockbrokers are to sign a pre-let of 40,000 sq ft at H1, due for completion in 2013.

Top 5 city centre deals (Q4 2011)

City/Property	Occupier	Sq ft
Manchester – St Peter's Square	KPMG	62,500
Birmingham – The Cube	The Law Society	55,000
Manchester – City Tower	Aegis	35,200
Birmingham – Colmore Plaza	Grant Thornton	26,500
Bristol - West Wing, Temple Quay	Creston Plc	27,400

Supply

There remains an abundant supply of office space overall but a shortage of grade A supply is likely to exacerbate with the 18 month to two year development time lag. However, the subdued economic confidence will stem demand in the short term.

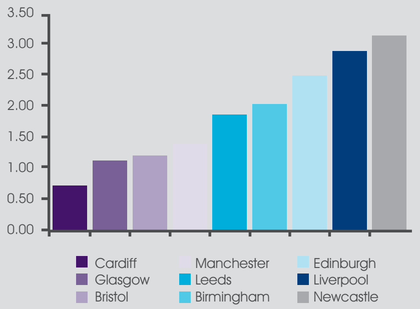
Figure 2 indicates the number of years' supply of grade A office space based on the ten year average grade A take-up in each city. While it does not take account of the small amount of development in the pipeline or space returning to the market, it does give an indication of the comparative supply constraints in the nine cities, with **Cardiff**, **Glasgow** and **Bristol** showing the tightest supply.

Rents and forecasts

Over the last year, headline rents and lease incentives have remained unchanged for six of the nine cities, with Manchester, Leeds and Cardiff seeing an increase in rents since the summer. City centre headline rents vary between £29.50 psf in Manchester and £21 psf in Liverpool. Factoring in rent free periods (less three months fit-out), these figures reduce to net effective rents of £23.51 and £15.23 on a ten year term.

Figure 2

Years' supply of grade A offices based on 10 year average take-up



Our rental growth forecasts indicate that average regional office rents will remain static this year, following an estimated decline of 1.6% last year. Looking forward, rental growth is forecast to show gradual improvement from 1.3% in 2013 to 2.5% in 2016 but will remain below current and expected inflationary levels.

Location	Rents	Rent free incentives (10 year term)	Net effective rent
Glasgow	£28.50	24 months	£23.51
Manchester	£29.50	36 months	£21.39
Leeds	£28.00	36 months	£20.30
Birmingham	£27.50	36 months	£19.94
Bristol	£27.50	36 months	£19.94
Edinburgh	£26.50	36 months	£19.21
Cardiff	£21.50	26 months	£17.38
Newcastle	£20.00	24 months	£16.50
Liverpool	£21.00	36 months	£15.23

Out-of-town

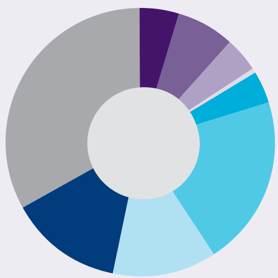
- **Take-up in the out-of-town markets was 549,000 sq ft in Q4, 2% below the quarterly average**
- **Newcastle accounted for a third of this take-up. The largest deal was a 40,400 sq ft letting at Market Dock to Utility Wise**
- **Newcastle, Leeds and Liverpool had a good level of take-up, well above average but the other cities were well below average**
- **Headline rents vary between £14 psf in Liverpool and £21 psf in Bristol**

Top 5 Out-of-town deals (Q4 2011)

City/Property	Tenant	Sq ft
Newcastle – Market Dock	Utility Wise	40,400
Leeds – Rawdon House, Green Lane	EMIS Group Plc	32,900
Newcastle – Quorum BP	Confidential	26,600
Newcastle – Cobalt BP	HP	22,000
Manchester - Jackson House, Sale	Smooth Financial consultants	14,200

Figure 3

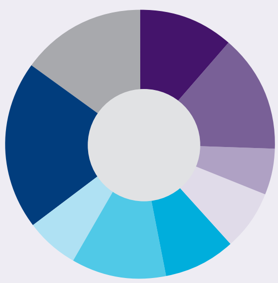
Out-of-town take-up



Quarter 4 2011

Birmingham - 26,601 | Edinburgh - 3,100 | Liverpool - 68,137
Bristol - 39,225 | Glasgow - 22,028 | Manchester - 74,828
Cardiff - 22,600 | Leeds - 112,616 | Newcastle - 179,798

(Figures in sq ft)



Quarterly Average

Birmingham - 64,669 | Edinburgh - 41,350 | Liverpool - 35,572
Bristol - 78,566 | Glasgow - 48,922 | Manchester - 113,409
Cardiff - 31,231 | Leeds - 63,699 | Newcastle - 82,798

(Figures in sq ft)

City Square, Leeds

In focus: Leeds

Market movement

- The Finance and Business Services sector continues to drive demand in Leeds. There was a good level of city centre demand last year, driven by a high volume of small to medium sized deals.
- More significant deals during 2011 included ASDA taking 38,000 sq ft at the Mint and more recently BSky B at 2 Wellington Place and Towry Law at Toronto Square have both taken about 10,000 sq ft. Solicitors Dickinson Dees are looking to occupy approximately 17,000 sq ft at Whitehall Riverside in Leeds, relocating their York office.

Outlook

- Grade A space in the traditional city centre core continues to diminish prompting supply concerns for the future. A number of developers are willing to start building but all require a 50% pre-let or pre-sale. The availability and cost of debt finance continue to dictate the restriction of new builds. There are some significant requirements, including KPMG and Walker Morris and these are possible future pre-let, pre-sale deals.
- If demand remains at current levels, headline rents could increase over the next 18 months as a result of the development time lag.

Matthew Tootell, Director - Leeds

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

GVA is the trading name of GVA Grimley Limited and is a principal shareholder of GVA Worldwide, an independent partnership of property advisers operating globally
gvaworldwide.com

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

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

08449 02 03 04
gva.co.uk

08167