Report

The Big Nine

Regional office market

Q2 2011

Piccadilly Place, Manchester

Summary

Along with the Admiral deal in Cardiff, there is optimism that take-up figures for 2011 will be boosted by deals that are now looking well progressed – BUT in the longer term we are concerned that enquiries are thin. The mix of enquiries is interesting however, with a good increase in grade A requirements in the 12-20,000 sq ft mark – a key ingredient in the regions' mix of take-up historically.

Carl Potter, National Head of Offices

- The city centre and out-of-town office take-up in the nine GVA regional markets totalled 1.59 million sq ft in Q2, similar to the three year quarterly average
- City centre take-up has been enhanced by the granting of planning permission of Admiral Insurance's 215,000 sq ft building in Cardiff, whereas out-of-town activity was modest
- Grade A supply is continuing to tighten, and this is enabling headline rents to hold firm. This needs to be contrasted with the increasing supply of secondary stock which is weakening average rental growth

Q2 2011

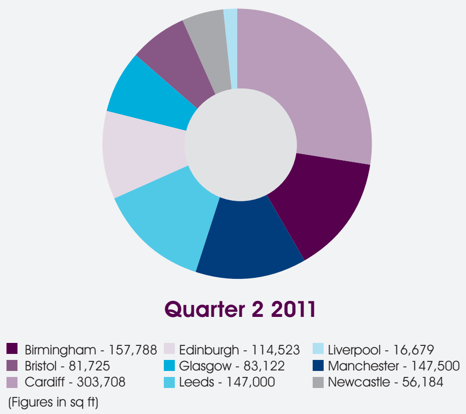
The Big Nine

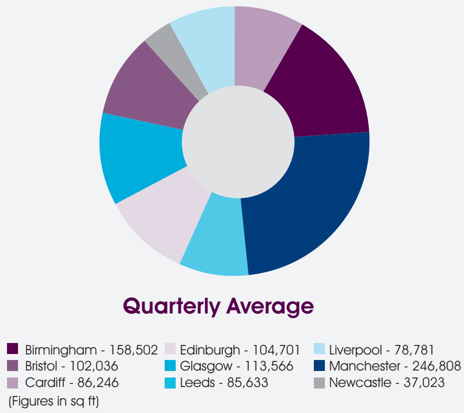
Regional office market review

City Centre

- City centre take-up totalled 1.1 million sq ft in Q2, 9% above the quarterly average
- Take-up was boosted by Admiral's 215,000 sq ft scheme in Cardiff and strong take-up in Leeds
- Availability of prime space continues to diminish in most regional centres, while there remains a plentiful supply of secondary property

Figure 1 **City centre take up**





Regional office market take-up figures have been given a much needed injection with the Admiral deal in Cardiff.

While in general longer term enquiries are thin, there are also some significant deals in the pipeline which we are optimistic will be completed in the second half of the year, including JP Morgan and Morgan Stanley in **Glasgow**, BSkyB in **Newcastle**, and Grant Thornton and the Law Society in Birmingham.

There has been a re-emergence of the financial and business service sector in **Birmingham**, following two years of low activity. There are imminent requirements from Grant Thornton, Chartis Insurance and RSM Tenon, all driven by lease events, ensuring they will take place before the end of the year. However, longer term enquiries are thin. **Bristol** is seeing an improvement in enquiries and quality as good sized professional firms come back to the market.

Edinburgh Q2 figures have been buoyed by the 60,000 sq ft Amazon deal, although there has otherwise been a slump in demand since April. In **Glasgow**, there has been a reversal in fortunes between the city centre and the out-of-town markets with the city centre seeing a poorer level of activity in Q2, while Strathclyde Business Park has seen two significant deals.

There has been a good level of activity in **Leeds** city centre, boosted by a 35,000 sq ft deal at The Mint to Asda. Activity in **Liverpool** will be relying on a number of requirements likely to improve figures later in the year, the largest of which is 90,000 sq ft for Weightmans, a solicitors firm.

What's the big deal?

Top 5 city centre deals (Q2 2011)

City/Property	Occupier	Sq ft
Cardiff	Admiral Insurance	215,000
Edinburgh – Waverley Gate	Amazon	60,000
Manchester – 55 Spring Gardens	Linder Myers	47,500
Cardiff – Hodge House	Serco	46,300
Birmingham – The Axis	Ministry of Justice	39,000

Supply

A two-tier market is apparent in most cities, where grade A supply continues to tighten with so little development, and secondary property remains in plentiful supply.

In terms of grade A supply, each city will reach a tipping point when supply is less than the annual take-up. By projecting supply and taking average annual take-up, we estimate that **Bristol** will be the first to reach this point this year, followed by **Manchester, Edinburgh** and **Glasgow** next year. Of course the reality is more complex, as demand will also be met by grey space and the availability of good secondary property, as well as pre-lets. However, it does indicate which cities may be the first to see a return to development.

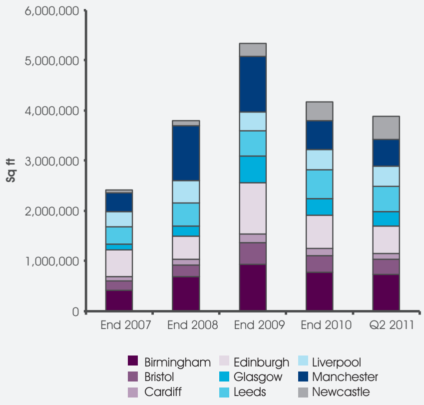
Rents and forecasts

Headline rents and lease incentives have remained fairly static over the past quarter, although there is some indication of pressure on incentives, as a result of diminishing grade A supply.

City centre headline rents vary between £28.50 psf in **Glasgow** and **Manchester** and £21.00 psf in **Liverpool**. Factoring in rent free periods less three months fit-out, these figures reduce to net effective rents of £23.51 and £14.70. Rent free incentives are typically around 36 months on a ten year lease but vary between 20 and 42 months across the nine cities.

Figure 2

Regional office grade A city centre availability



Average rental growth forecasts in the regional office markets are less encouraging, showing a decline of 1-2% in most regions and 4% in the North East, West Midlands and Wales. Looking further forward, we expect rents to stabilise next year with growth of around 2.5% from 2013.

Location	Rents	Rent free incentives (10 year term)	Net effective rent
Glasgow	£28.50	24 months	£23.51
Manchester	£28.50	30 months	£22.09
Birmingham	£27.50	36 months	£19.94
Bristol	£27.50	36 months	£19.94
Edinburgh	£26.50	36 months	£19.21
Cardiff	£21.00	24 months	£17.33
Leeds	£25.50	42 months	£17.21
Newcastle	£20.00	24 months	£16.50
Liverpool	£21.00	33 months	£14.70

Out-of-town take-up

- **Take-up in the out-of-town markets was 493,000 sq ft in Q2, 10% below the quarterly average**
- **There was between 50,000 and 100,000 sq ft of take-up in most cities, while Edinburgh and Liverpool saw little activity**
- **The largest deal was a 38,000 sq ft letting at Strathclyde Business Park, Glasgow, to the Wood Group**
- **Headline rents vary between £14.00 psf in Liverpool and £21.00 psf in Bristol**

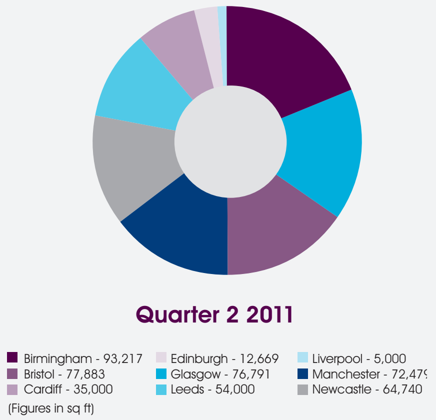
What's the big deal?

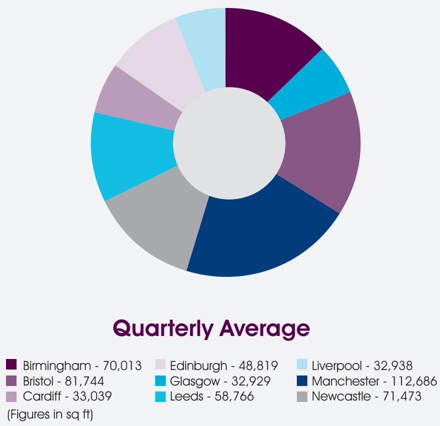
Top 5 Out-of-town deals (Q2 2011)

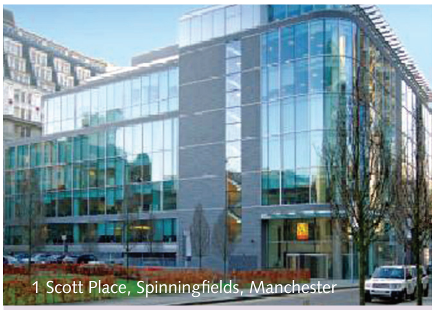
City/Property	Tenant	Sq ft
Glasgow – Strathclyde BP	The Wood Group	38,000
Birmingham – Blythe Valley Park	Kier Group	23,300
Bristol – Lysander House	Brightside Group	18,800
Glasgow – Strathclyde BP	Gamesa	17,500
Birmingham Business Park	Metroshipping	16,800

Figure 3

Out-of-town take-up






1 Scott Place, Spinningfields, Manchester

In focus: Manchester

Market movement

- All eyes are on KPMG's choice for occupation in 2014, with Argent/ GMPVF's 278,000 sq ft One St Peter's Square scheme tipped as the favourite
- Financial occupiers, such as Santander and Lloyds Banking Group, are believed to be looking at new/additional space

Trends

The two tier market

- The **grade A** market is looking at an undersupply of stock, with the 545,000 sq ft available likely to be absorbed within 18 months. As a result, incentive packages have dwindled while rents have strengthened
- In the **secondary market** a healthy level of supply has led to falling rents and increased incentive packages, but as stock is absorbed, rents will harden and the better quality, well located refurbishments will win out

Outlook

No big changes in the short/ medium term as occupiers stay put. However, the city's full year take up figures are likely to reflect a reasonable performance with transactions such as the Indian outsourcing operator Aegis (40,000 sq ft) due to complete next quarter

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