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
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 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)

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

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 fill-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.
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)

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

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.

Chris Cheap, Director - Manchester
Should you wish to discuss the findings of our research in greater detail please do not hesitate to contact:

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