

Research

The big nine

Quarterly review
of the regional
office occupier
markets

Q3 2014



1 Rivergate, Bristol where GVA have recently let 69,700 sq ft to OVO Energy

Summary

Increasing occupier confidence continues across the regional office markets.

The level of occupier activity is underpinning the decisions by a number of funds to move into the regional city development markets during 2013 and this is clearly now paying dividends with much of the new Grade A space being let at or before completion.

There are still a number of cities where new speculative development has yet to commence in earnest although the positioning of developers and funds to move forward with key sites in each city is continuing to gather momentum. What we have not yet seen is much pure speculative forward funding and this remains difficult to achieve except where the occupational story is absolutely solid.

Carl Potter, National Head of Offices

- **Total take-up** in Q3 across the nine cities surveyed was **9% above** the five-year quarterly average at 1,988,000 sq ft.
- **City centre take-up** made up 56% of the total at 1,119,000 sq ft, **1% above** the five-year quarterly average.
- **Out-of-town take-up was 20%** above the quarterly average at 869,000 sq ft.

The big nine

Regional office market review

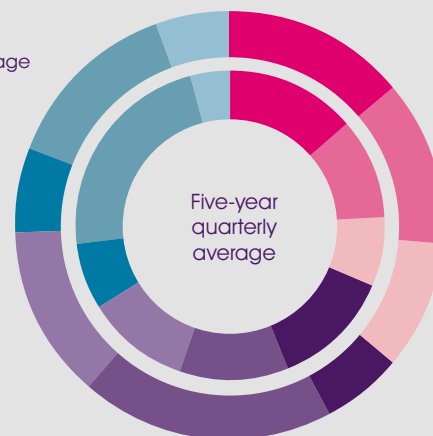
City centre

- City centre take-up totalled 1,119,000 sq ft in Q3, 1% above the five-year quarterly average.
- The strongest activity when compared to the five-year quarterly average was **Glasgow** with over 200,000 sq ft of deals. Take-up was also well above average in **Bristol**, **Cardiff** and **Leeds**.

City centre take-up

	Q3 2014	Five-year quarterly average
■ Birmingham	156,202	150,579
■ Bristol	140,273	116,614
■ Cardiff	109,174	82,404
■ Edinburgh	68,393	136,495
■ Glasgow	213,430	126,328
■ Leeds	147,051	120,168
■ Liverpool	73,000	76,740
■ Manchester	150,000	250,821
■ Newcastle	61,542	45,144

Q3 2014



Significant deals to act as a catalyst to the market

City centre take-up across the nine city centres during Q3 was in line with the five year quarterly average and is now higher during the first three quarters of 2014 than it has been over the same period for the previous five years. This puts the market in a position to eclipse the strong level of take-up of 2013. Take-up in **Manchester**, **Glasgow** and **Bristol** has already overtaken the annual average for the previous five years.

There are a number of significant prospective deals across the nine cities that are likely to act as a catalyst for more occupier activity. These include the design and build for BBC Wales at Central Square in **Cardiff**, HS2's inward investment deal in **Birmingham** and the interest being shown in the speculative developments in **Bristol** (see 'In Focus').

The headline news in **Birmingham** is HS2's 99,000 sq ft inward investment deal to take the remaining space at Two Snowhill at £29 psf, a post-recession high rent. It is the largest public sector deal to locate into Birmingham and there are likely to be a number of supporting businesses following suit. After a quieter first half of the year, this deal, which will fall into next quarter's figures, will help push Birmingham's projected annual take-up near to the long term average of around 650,000 sq ft.

In **Cardiff**, the BBC's long standing requirement for relocation from Llandaff

to the Council / Rightacres site at Central Square has been agreed. The deal is a 150,000 sq ft design and build, on a 20 year lease, 3 years rent free and at a rent in the region of £21 psf. The scheme is likely to act as a catalyst to further occupier activity in the city. Rightacres will start on site this autumn and it is expected to complete in 2018. The scheme will also include 20,000 sq ft of offices for solicitors Blake Morgan, which will complete two years earlier.

Strong activity in **Glasgow** has been led by deals to Network Rail and Clydesdale Bank (see table below) as well as a handful of 20,000 sq ft deals. Pre-letting enquiries have also been buoyant on buildings under construction, which bodes well for imminent future take-up. With an estimated 2 million sq ft of lease events coming up between now and 2018, we believe that the city once again is not far from the next phase of development activity.

Occupier confidence shows no signs of ebbing in the central **Manchester** market with the 1 million sq ft take-up barrier all but being broken much earlier than expected. The story is now the quantum of deals rather than the headline grabbing transactions earlier in the year.

The final quarter could well see pre-let commitment from the likes of EY (35,000 sq ft) and PWC (45,000 sq ft) at schemes close to starting on site, most notably at 2 St Peters Square and No 1

Spinningfields. The Cotton Building at Spinningfields (160,000 sq ft) remains the only scheme under construction in the city, which is known to be high on the wish list of Shoosmiths (30,000 sq ft) and Global Radio (18,000 sq ft).

In **Edinburgh** despite the uncertainty and low levels of take-up in Q3 caused by the referendum, business confidence is strong. The TMT and charity sectors have been particularly active this quarter and we are now likely to see a pickup in activity from financial and legal firms.

The largest deal in **Leeds** this quarter was a 27,289 sq ft sub-let from Eversheds to the Department of Health. With two significant pre-lets in the pipeline, we anticipate a strong finish to the year. In **Liverpool** there is now only 100,000 sq ft of new grade A supply following sizeable deals such as 22,000 sq ft to Mercers at 4 St Pauls Square and 11,000 sq ft to WP Thompson at 1 Mann Island.

Top five city centre deals (Q3 2014)

City/property	Occupier	Sq ft
Glasgow St Vincent Street	Network Rail	48,570
Cardiff Portcullis House	Velindre NHS Trust	36,200
Newcastle Sandyford Road	Newcastle University	34,134
Glasgow Stockwell street	Clydesdale Bank	31,425
Leeds Bridgewater Place	Department of Health	27,289

Rental growth

The continuing strong employment growth and strong service sector output growth, particularly for business services and finance, indicates healthy and improving occupier demand in the office market.

While the table shows that net effective prime rents have shown strong growth in some cities over the year to Q3, IPD data indicates that improving occupier demand is yet to translate into significant average rental growth for the office sector outside London and the South East. Year-on-year growth is currently under 1% but this rate of growth should begin to accelerate next year to 2.2% and by 2.9% pa over the forecast period to 2018.

City centre headline rents Q3 2014 (£psf)

Location	Rents (£)	Rent free (mths on 10 yr term)	Net effective rent* (£)	Net effective rent (£) Q3 2013
Manchester	32.00	28	25.33	22.13
Glasgow	28.50	21	24.23	22.69
Edinburgh	29.50	30	22.86	19.94
Birmingham	29.50	33	22.13	20.66
Bristol	27.00	30	20.93	19.94
Leeds	25.00	30	19.38	19.38
Cardiff	21.50	24	17.74	18.56
Newcastle	21.50	24	17.74	17.33
Liverpool	21.00	30	16.28	15.23
All cities average			20.73	19.53

*Including rent free period less three month fit-out.

Out-of-town

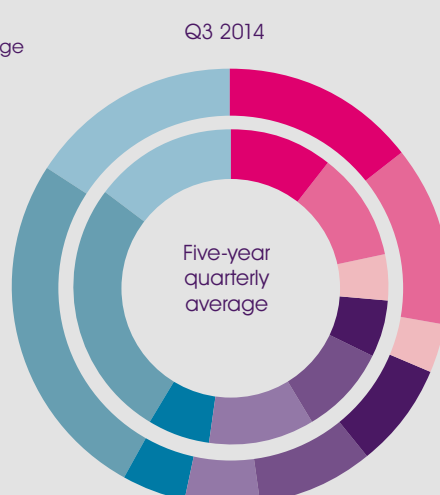
- Take-up was 869,000 sq ft in the out-of-town markets in Q3, 20% above the five year quarterly average.
- There were over 200,000 sq ft of deals in Manchester and over 100,000 sq ft in Birmingham, Bristol and Newcastle.
- The largest deal was 77,000 sq ft at Cobalt Business Park, Newcastle to Utilitywise.
- Headline rents in the out-of-town markets vary between £11 psf in Liverpool and £21.50 psf in Bristol.

Top five out-of-town deals (Q3 2014)

City / Property	Tenant	Sq ft
Newcastle - Cobalt Business Park	Utilitywise	77,632
Bristol Keypoint, Almondsbury	TSB	63,853
Birmingham Business Park, 4040 Lakeside	IMI	35,933
Manchester - Christiefields	Contour Housing	23,582
Cardiff Llanishen	Wales and West Housing	20,357

Out-of-town take-up

	Q3 2014	Five-year quarterly average
Birmingham	125,508	77,470
Bristol	118,075	79,704
Cardiff	30,989	33,454
Edinburgh	66,998	43,641
Glasgow	74,356	65,335
Leeds	49,946	77,471
Liverpool	40,000	45,921
Manchester	227,673	193,056
Newcastle	135,477	105,443



In focus: Bristol

Increased enquiries spark interest in spec developments

An increase in occupier enquiries has brought new life to the Bristol office market over the last few months. Two speculative developments that started last year have received occupier interest: PWC are under offer on almost a third (30,000 sq ft) of 2 Glass Wharf at Temple Quay Central, at a record rent of £28 psf. Also, Skanska's 66 Queen Square development, which is due for completion next year, is likely to be taken by a long-running 45,000 sq ft requirement from KPMG.

Remaining schemes with significant amounts of grade A space in the city include 78,000 sq ft at the Temple Back scheme and 78,000 sq ft at Bridgwater House, Finzels Reach. This was the last development to complete in the previous wave of speculative development.

The recent bout of activity has been led by the largest letting since 2008, which has exchanged contracts at 1 Riversgate, a 69,716 sq ft deal to OVO Energy, which will formally complete next quarter. Other recent significant lettings include two deals at Kings Orchard: 17,000 sq ft to Parsons Brinkerhoff and 15,000 sq ft to Tribal Group. Mapfre are also reported to be showing interest in M&G's 1 Victoria street refurbishment, to satisfy their 48,000 sq ft requirement.

**Richard Kidd, Director
Bristol**

London West End
London City
Belfast
Birmingham
Bristol
Cardiff
Dublin
Edinburgh
Glasgow
Leeds
Liverpool
Manchester
Newcastle

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