

Research

The big nine

Quarterly review of the regional office occupier markets

Q1 2015



BILFINGER



GVA



1 West Regent Street, Glasgow

Summary

Whilst the news around deals in the pipeline across UK regional cities for the first quarter of 2015 has been exceptional the actual take-up rates have been mixed.

Having ended 2014 with all cities having very positive figures, record take-up rates and with a new development cycle gaining momentum it is clear that the ride back to a fully balanced market is going to be bumpy.

Manchester was the star performer of the quarter boosted by BUPA's 120,000 sq ft deal in Salford Quays as well as strong city centre activity.

The news that HSBC is "coming home" to open up a new HQ for its retail banking business, and in the process take 210 000 sq ft at Miller Development's Arena Central scheme in central Birmingham is clearly a vote of immense confidence in the region.

So despite the figures there is room for optimism and as deals such as HSBC and the other notable requirements fall into place and feed into the statistics we do expect a good and resilient 2015.

Carl Potter,
National Head of Offices

- **Total take-up** during Q1 across the nine cities surveyed was **5% above** the five-year quarterly average at 1,975,800 sq ft.
- **City centre take-up** made up 56% of the total at 1,095,800 sq ft, **5% below** the five-year quarterly average.
- **Out-of-town take-up** was **20% above** the quarterly average at 880,000 sq ft.

The big nine

Regional office market review

City centre

- City centre take-up totalled 1,095,800 sq ft in Q1, 5% below the five-year quarterly average.
- Take-up was around 20% above average in Manchester, Edinburgh and Glasgow but below average elsewhere.
- The largest city centre deal was 49,400 to PWC at No 1 Spinningfields, Manchester.

Take-up across the Big Nine city centres during the first quarter of the year has been dominated by activity in Manchester, supported by above average activity in Glasgow and Edinburgh. Activity in Manchester has been further boosted by large deals in Salford Quays, including BUPA's 120,000 sq ft pre-let deal at Peel's Harbour City. Elsewhere across the cities take-up was below average during Q1, although news around deals and requirements has been exceptional.

The regional office market has received a major vote of confidence with the news that HSBC will be taking 210,000 sq ft at Miller's Arena Central scheme, **Birmingham** city centre. There are plans to move 1,000 roles to a new UK HQ for its ring-fenced retail banking division. The move, initiated by the new rules to separate retail and investment banking, could well instigate further inward investment relocations of good quality jobs from London to the regional markets.

Imminent demand has been further boosted in the Midlands by 'Project Mercury', a 350,000 sq ft requirement in two phases this year and next. There are also a number of high profile named requirements such as Deutsche Bank, Jaguar Land Rover and Network Rail alongside increasing demand from professional services companies.

In Birmingham, the larger schemes such as Paradise Circus and 3 Snowhill, looking to start over the next few months will not come to market until 2017/18. This provides an opportunity for quality refurbishment schemes such as Bruntwood's 110,000

City centre take-up

| | Q1 2015 | Five-year quarterly average |
|--------------|---------|-----------------------------|
| ■ Birmingham | 129,403 | 158,150 |
| ■ Bristol | 106,164 | 128,344 |
| ■ Cardiff | 50,127 | 84,379 |
| ■ Edinburgh | 176,378 | 147,938 |
| ■ Glasgow | 160,121 | 137,417 |
| ■ Leeds | 87,689 | 121,268 |
| ■ Liverpool | 20,000 | 65,846 |
| ■ Manchester | 317,698 | 259,323 |
| ■ Newcastle | 48,238 | 45,848 |

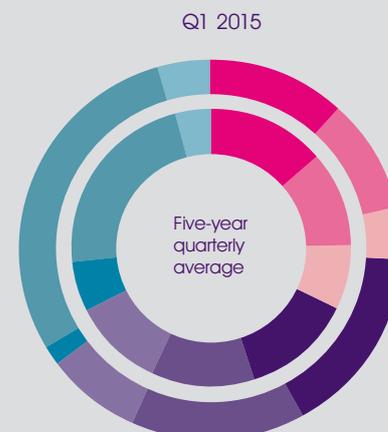
sq ft 2 Cornwall street and IM Properties' 160,000 sq ft 55 Colmore Row to plug some of the supply shortage.

A similar supply gap is evident in **Manchester**. The next development cycle is well underway with over 850,000 sq ft under construction, including No 1 Spinningfields following the 50,000 sq ft pre-let to PwC. However, no schemes will complete until the second half of 2016. This brings an opportunity for refurbished schemes to partly fill this gap with rental growth predicted in this tier of the market.

Sentiment remains high as strong demand over the past 18 months has prompted a number of requirements. Major enquiries in Manchester include lawyers Freshfields (90,000 sq ft) and AVIVA (15,000 sq ft).

In **Bristol** enquiries include lawyers Foot Anstey (20,000 sq ft), Babcock International (25,000 sq ft) and Just Eat (15,000 sq ft). Positive sentiment has brought forward discussions on the next development phase, including Bank Place, schemes on Temple Way, Three Glass Wharf and the 240,000 sq ft Aspire scheme on Victoria Street.

There is currently in excess of 100,000 sq ft under offer in the **Edinburgh** market as well as some substantial requirements from Ernst and Young, KPMG and Amazon. Interestingly, some 250,000 sq ft has been taken from office stock for competing uses over the last few years, so grade B space is in short supply, as well as prime. Smaller requirements may have to look outside the city centre as this 'lost' space is being replaced by



much larger floorplates over the next couple of years at developments such as Quartermile 4, The Haymarket and sites being prepared at New Waverley, Skyparks, Fountainbridge and West Register Street.

In **Leeds**, 480,000 sq ft is under construction on three schemes and work is expected to start on the 173,000 sq ft City Square House project as soon as a joint venture deal is completed. Large requirements in the city include up to 150,000 sq ft to a government department, 90,000 sq ft to BSKyB and 50,000 sq ft to PwC.

The two main deals in **Cardiff** city centre this quarter include Parsons Brinkerhoff taking 13,000 sq ft at No 1 Capital Quarter and Henry Schein taking 9,200 sq ft at Columbus Walk. In **Liverpool**, Peel has submitted plans for 100,000 sq ft of offices at Princes Dock, Liverpool Waters as part of a mixed use development to include flats and a hotel.

Top five city deals (Q1 2015)

| City/property | Occupier | Sq ft |
|------------------------------------|-----------------|--------|
| Manchester – No 1 Spinningfields | PWC | 49,400 |
| Manchester – Two St Peter's Square | EY | 41,600 |
| Manchester – 35 Fountain Street | Rental Cars | 37,800 |
| Glasgow – 1 West Regent Street | The Weir Group | 25,500 |
| Edinburgh – Greenside Row | Baillie Gifford | 22,300 |

City centre headline rents

Q1 2015 (£psf)

| Location | Rents (£) | Rent free (mths on 10 yr term) | Net effective rent* (£) | Net effective rent (£) Q1 2014 |
|--------------------|-----------|--------------------------------|-------------------------|--------------------------------|
| Edinburgh | 31.00 | 18 | 27.13 | 21.39 |
| Manchester | 32.00 | 28 | 25.33 | 22.86 |
| Glasgow | 29.00 | 24 | 23.93 | 23.51 |
| Bristol | 28.50 | 24 | 23.51 | 19.58 |
| Leeds | 26.00 | 15 | 23.40 | 19.38 |
| Birmingham | 30.00 | 30 | 23.25 | 21.38 |
| Newcastle | 23.00 | 24 | 18.98 | 17.74 |
| Cardiff | 22.00 | 24 | 18.15 | 18.56 |
| Liverpool | 21.00 | 30 | 16.28 | 16.28 |
| All cities average | 26.94 | 24.1 | 22.22 | 20.07 |

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



One Rutherglen Links, Clyde Gateway

In focus: Glasgow

Glasgow was the first of the Big Nine cities to undertake speculative development post-recession and the three schemes will all complete over the next quarter in the central business district.

110 Queen Street, One West Regent Street and St Vincent Plaza, totalling 380,000 sq ft of remaining space will likely fulfil a number of the large requirements that have come to the market since the New Year, which include two legal firms, three engineering companies and an accountancy practice. The largest this quarter in the city centre was 25,000 sq ft to the Weir Group at One West Regent Street.

Prime lettings in Glasgow are now £29 psf and tipped to breach £30 psf in the next batch of lettings, as no new stock is yet in the pipeline. The next phase of development will be initiated by a 170,000 sq ft requirement from Morgan Stanley, who will be relocating within the city and similar to the HSBC move in Birmingham, taking the opportunity to expand and relocate a number of London jobs when it moves in 2018.

Three speculative schemes in the Clyde Gateway regeneration area (4-6 min train journey to city centre) have also completed – One Rutherglen Links (34,000 sq ft), Albus (20,600 sq ft) and Olympia (31,400 sq ft) – and have had recent letting success with space let to Glasgow University (Olympia) and Made Brave (Albus).

Recently recognised at the Scottish Property Awards and nominated in the forthcoming BCO Awards, occupiers are considering the Clyde Gateway as the quality of the buildings are on par with the city centre, yet rents are sub £20 psf.

Alison Taylor,
Director – Glasgow

Rental growth

Headline net effective rents have on average increased by 11% across the nine cities over the year to Q1, with the strongest growth in Edinburgh, Bristol and Leeds (see table above). While headline rents have increased by 4%, rent free periods have

fallen by an average of 5 months on a ten year term to 24.1 months. Robust occupier demand and a shortage of grade A supply for the next 12 months are forecast to put further pressure on rents and incentives.

Out-of-town

- Take-up was 880,000 sq ft in the out-of-town markets in Q1, 20% above the five year quarterly average.
- Manchester made up over 40% of all take-up with two large deals at Salford Quays to BUPA and UK Visas and Immigration
- Activity was twice the average in Glasgow but below average across all other cities

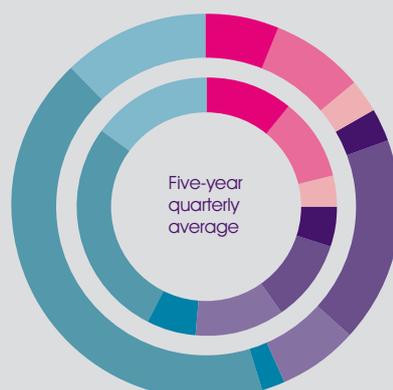
Top five out-of-town deals (Q1 2015)

| City / Property | Tenant | Sq ft |
|--|--------------------------|---------|
| Manchester – Harbour City, Salford Quays | BUPA | 120,000 |
| Manchester – Soapworks, Salford Quays | UK Visas and Immigration | 55,000 |
| Manchester – Wharfside, Old Trafford | Misguided | 44,200 |
| Glasgow – Citypark | Webhelp UK | 33,200 |
| Birmingham Business Park | WM housing | 27,100 |

Out-of-town take-up

| | Q1 2015 | Five-year quarterly average |
|--------------|---------|-----------------------------|
| ■ Birmingham | 55,736 | 79,720 |
| ■ Bristol | 67,365 | 75,943 |
| ■ Cardiff | 24,909 | 27,699 |
| ■ Edinburgh | 24,683 | 38,131 |
| ■ Glasgow | 151,142 | 73,929 |
| ■ Leeds | 59,540 | 80,676 |
| ■ Liverpool | 16,382 | 45,109 |
| ■ Manchester | 373,929 | 201,652 |
| ■ Newcastle | 106,330 | 108,859 |

Q1 2015



London
Birmingham
Bristol
Cardiff
Dublin
Edinburgh
Glasgow
Leeds
Liverpool
Manchester
Newcastle

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