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

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Report

The Big Nine

Quarterly review of the regional office occupier markets

Q3 2013

Atria, Edinburgh

Summary

Improvements to the economic outlook and occupier confidence is translating into better take-up figures. With a healthy level of deals in the pipeline, 2013 is looking set to record the highest take-up across the regional markets in five years.

Particularly encouraging has been a recovery in markets that have been subdued for some years. Speculative development is now underway in a very limited number of instances and alternative funding mechanisms are being proposed by the Welsh Government in Cardiff to ensure continuity of supply. In general many are now gearing up for the next phase of activity, although there still remains a real prospect that a lack of appetite for new speculative development will lead in some markets very quickly to a shortage in Grade A supply.

Carl Potter, National Head of Offices

- Total take-up in Q3 across the nine cities was 7% above the five-year quarterly average at 1,737,000 sq ft. Overall take-up in Edinburgh was double the quarterly average.
- City centre take-up made up 65% of the total at 1,126,000 sq ft, 10% above the five-year quarterly average.
- Out-of-town take-up was 2% above the quarterly average at 611,000 sq ft.

The Big Nine

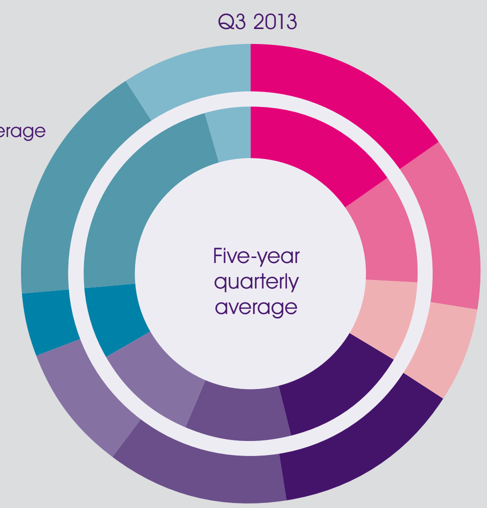
Regional office market review

City centre

- City centre take-up totalled 1,126,000 sq ft in Q3, 10% above the five-year quarterly average.
- Take-up in Q3 was twice the average in Newcastle and well above average in Glasgow, Bristol and Edinburgh.

Figure 1 **City centre take up**

	Q3 2013	Five-year quarterly average
Birmingham	174,000	159,360
Bristol	138,187	107,815
Cardiff	75,142	79,215
Edinburgh	149,609	127,734
Glasgow	143,399	107,246
Leeds	101,100	105,675
Liverpool	50,000	69,526
Manchester	191,856	225,872
Newcastle	102,747	44,895



Confidence returns

Occupier confidence has made a welcome return to a number of the regional city centres in Q3 and 2013 is set to record the highest take-up for five years.

In particular Glasgow and Newcastle have seen the highest level of quarterly take-up in three and five years respectively, and a welcome return of grade A demand.

There has been an improvement in business service sector activity in Newcastle. The most significant deal is 24,000 sq ft to PwC at Central Square South. Barclays are also under offer for 35,000 sq ft at East Quay 5, which is encouraging for Q4 figures.

There has been a gradual build-up of demand in the city, evidenced by 50,000 sq ft requirements. The 34,000 sq ft Rocket development in the Stephenson Quarter will be a much needed addition to stock as demand increases, although completion is not due until 2015.

In central Manchester, whilst the completed transactions within the last quarter are slightly below average, the level and depth of demand being encountered will come to fruition over the next six months. There is over 150,000 sq ft of Grade A space currently under offer, and in excess of 400,000 sq ft of named demand across all grades of space. The completion of One St Peters Square in March 2014 will provide a much needed injection of stock.

Top 5 city centre deals (Q3 2013)

City/property	Occupier	Sq ft
Edinburgh – Capital House	BNY Mellon	54,600
Bristol – Narrow Quay House	Veale Wasbrough Vizards	39,000
Glasgow – Capella	Atos	37,500
Liverpool – Edward Pavillion building	Hampson Hughes	34,000
Edinburgh – Atria One	PwC	32,000

Take-up in Birmingham over the year to Q3 is a similar level to all of 2012 and there is an encouraging level of deals falling into the last quarter. Significant recent deals include the 15,000 sq ft city centre relocation of Allianz from Birmingham International to Colmore Plaza and serviced office provider I2 taking 24,000 sq ft at 2 Snowhill at £28.50 psf.

Liverpool has seen its largest deal this year with Hampson Hughes taking 34,000 sq ft at the Edward Pavillion building, Albert Dock. However, occupiers remain cautious in the city, preferring to re-gear their leases. In Leeds, with the lack of quality stock, there has been broader activity in the secondary market this quarter.

Gearing up for development

A number of cities are seeing increased activity in the pre development pipeline. In Manchester, Hines has obtained planning permission for 175,000 sq ft offices at the former Odeon site, Oxford road, in a joint venture with Manchester and Metropolitan. In Leeds, Central Square (the former Lumiere site) sold recently and has planning consent for circa 195,000 sq ft of offices and Palmer Capital has bought a majority stake in the part developed Finzels Reach site in Bristol where planning permission exists for 164,000 sq ft of offices.

The lack of new stock is being addressed in Cardiff. In addition to construction of JR Smart's Capital Quarter, British Steel Pension Fund is developing a creative industries media centre and WAG have issued an OJEU for a new 90,000 sq ft office building at Callaghan Square with the intention of ensuring available Grade A accommodation. There are also a number of sites at Cardiff Bay and near the Cardiff Central Railway Station that can be brought forward for development in the short to medium term.

In Bristol Skanska are now on site at 66 Queen Square. The 61,000 sq ft city centre scheme, incorporating a Georgian façade, will complete in 2015. The largest deal in Bristol this quarter was 39,000 sq ft at Narrow Quay House to lawyers Veale Wasbrough Vizards and the largest requirement is 40,000 sq ft for KPMG, although their lease expiry is not due until 2018.

City centre headline rents Q3 2013 (£psf)

Location	Rents (£)	Rent free (mths on 10 yr term) (£)	Net effective rent* (£)	Net effective rent (£) Q3 2012
Glasgow	27.50	24	22.69	22.69
Manchester	29.50	33	22.13	22.86
Birmingham	28.50	36	20.66	19.94
Bristol	27.50	36	19.94	19.94
Edinburgh	27.50	36	19.94	18.85
Leeds	25.00	30	19.38	19.38
Cardiff	22.50	24	18.56	16.31
Newcastle	21.00	24	17.33	16.50
Liverpool	21.00	36	15.23	15.23

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

Rental and investment forecasts

With economic growth forecasts now being revised upwards rather than downwards, we have slightly increased our own forecasts for average regional office rental growth. We now expect average rental values to rise by 0.6% for 2013, 1.6% next year and 2.5% by 2017.

%	2011	2012	2013	2014	2015	2016	2017
Rental Value Growth	-1.7	-2.0	0.6	1.9	2.4	2.5	2.5
Capital Value Growth	-4.9	-9.8	-3.3	1.2	1.3	0.7	-0.5
Total Return	1.6	-3.4	3.6	8.5	8.7	8.1	7.0

The property investment outlook is brighter as economic growth accelerates and rental growth prospects improve. The largest improvement in returns between 2013 and 2014 will be in regional offices outside of London and the South East. After 2015 returns are expected to weaken slightly.

Out-of-town

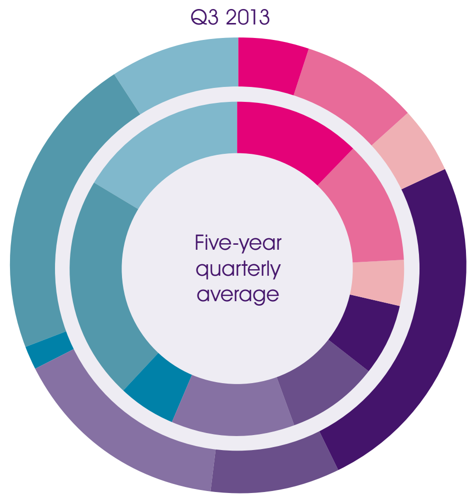
- **Take-up in the out-of-town markets was 611,000 sq ft in Q3, 2% above the five-year quarterly average.**
- **Edinburgh's out-of-town market has seen a marked revival over the past quarter, with significant lettings at Edinburgh Park.**
- **Headline rents vary between £11 psf in Liverpool and £21.50 psf in Bristol.**

Top 5 out-of-town deals (Q3 2013)

City / Property	Tenant	Sq ft
Edinburgh – 3 Lochside Avenue	Sainsbury's	83,000
Edinburgh – 7 Lochside Avenue	Jardine Lloyd Thomson	30,000
Manchester – Southgate One, Cheadle	Automatic Data Processing Limited	21,000
Leeds - Kernal House, Killingbeck Drive	Leeds City Council	13,000
Manchester – Booth Park, Knutsford	RR Donnelly	12,000

Figure 2 **Out-of-town take-up**

	Q3 2013	Five-year quarterly average
Birmingham	32,111	73,780
Bristol	49,990	72,256
Cardiff	29,805	26,653
Edinburgh	151,000	41,638
Glasgow	55,845	52,907
Leeds	94,260	73,293
Liverpool	10,000	32,906
Manchester	132,183	130,623
Newcastle	55,787	96,909



In focus: **Edinburgh**

Out-of-town out of the doldrums

Strong levels of take-up in Edinburgh city centre and diminishing grade A stock over the past two years have shifted the emphasis of demand to West Edinburgh, a location that has suffered since the downturn.

In town the most recent significant deal was PwC taking 32,000 sq ft at the 200,000 sq ft Atria One building on a 20 year lease at a rent around £30 per sq ft. Meanwhile BNY Mellon has consolidated operations into one building at Capital House, Festival Square by acquiring the remaining 54,000 sq ft.

Out-of-town, Sainsbury's Bank has taken 83,000 sq ft at 3 Lochside Avenue, insurance brokers Jardine Lloyd Thomson have taken 33,784 sq ft at 7 Lochside while Lloyds Banking Group has recently bought it's lease on the park (55,000 sq ft). Much of this renewed activity is due to the rent differential, with the headline city centre rent almost twice that of West Edinburgh.

In terms of city centre development Moorfield recently bought the remaining land at Quartermile. Arguably the most deliverable office site in the city, it is understood there are ongoing discussions with one or two occupiers regarding a potential pre-let. Meanwhile initial works have begun on Tiger/Interserve's £200m mixed use development at Haymarket.

Peter Fraser, Associate – Edinburgh