

RESEARCH

# The Big Nine

Quarterly update of regional office activity

Q2 2019

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TOP PERFORMERS

## MANCHESTER

### Occupier market

Take-up amounted to 491,000 sq ft during Q2 in Manchester city centre, 65% above the quarterly average. The key transactions were in the flexible workspace sector, where Spaces has taken 122,000 sq ft at 125 Deansgate and WeWork has taken 51,000 sq ft at Hyphen.

## EDINBURGH

### Investment market

Edinburgh accounted for more than a third of volumes during Q2 with two large deals; the mixed use 4-8 St Andrew Square was sold to KanAm Grundinvest Fonds for £120m and the Leonardo Innovation Hub at Crewe Toll was bought by South Korean investors for £100m.



One Temple Quay, Bristol

**CHARLES TOOGOOD**

Principal  
National Head of Offices



**Activity in Q2 was led by a number of large city centre deals, combined with record levels of activity in the flexible workspace sector. Q2 alone has seen over 600,000 sq ft of flexible workspace deals.**

## Step change in flexible workspace activity dominates the market

**Take-up has been strong across the Big Nine regional office markets during Q2, with activity heavily skewed towards larger deals, city centre markets and the 'modern' sectors of flexible workspace and TMT. Conversely smaller deals, the out-of-town markets and traditional sectors such as financial, professional and business services have underperformed.**

Q2 activity was 10% up on the long term average, bringing the half year total to 4.3 million sq ft (6% up on the average). Activity in Q2 was led by a number of large city centre deals, combined with record levels of activity in the flexible workspace sector. Q2 alone has seen over 600,000 sq ft of flexible workspace deals, which is already similar to the annual totals in the previous two years (see charts overleaf).

The flexible workspace deals included the two largest ever in the sector across the regional markets, 120,000 sq ft to Spaces at 125 Deansgate in Manchester and 92,000 sq ft to WeWork in Birmingham. In addition there were two further lettings to WeWork in Birmingham and the sector accounted for over a third of city centre take-up in Bristol, Edinburgh, Liverpool and Manchester.

Elsewhere the largest deal of the quarter was an exceptional 203,000 sq ft to software company Sage Plc at Cobalt Business Park, Newcastle, while most out-of-town markets underperformed. In the city centres the largest deal was to the Stars Group, (the owner of Sky Betting & Gaming), who pre-let 135,000 sq ft at 4 Wellington Place in Leeds.

These headline deals mean that flexible workspace, TMT and consumer services accounted for almost 80% of activity over 5,000 sq ft. In stark contrast there was very little activity by the public sector, finance and particularly professional services sectors.

There was a wide divergence in activity by deal size (see chart). In contrast to Q1 the amount of take-up in deals greater than 50,000 sq ft was more than twice the long term average. Conversely the level of activity in deals below 25,000 sq ft was down by 20%. This explains the level of caution that agents are reporting in some markets as smaller deals are taking time to progress.

There is 5.4 million sq ft of offices under construction across the Big Nine markets, with Birmingham, Manchester and Glasgow each seeing more than 1 million sq ft of development. Half of the space under construction is already pre-let, and of the speculative space available, approximately two-thirds is in just two markets - Manchester and Birmingham. The substantial speculative developments completing across the 'Big Nine' cities this year include Snowhill (370,000 sq ft) and 2 Chamberlain Square (167,000 sq ft) in Birmingham; Landmark Oxford Road (160,000 sq ft) in Manchester and Lumen (106,000 sq ft) in Newcastle.

Headline rents continue on an upward trajectory and have reached a new average high of £30.56 psf across the Big Nine cities. With an average rent free period of 19.3 months on a ten year term, this equates to a net effective rent of £26.41 psf, an increase of 4.8% over the past 12 months.

### TOTAL TAKE-UP IN Q2

**2.34 million sq ft**

▲ **10%** UP ON THE 10 YEAR QUARTERLY AVERAGE



City Centre  
**1.6 million sq ft**



Out-of-town  
**740,800 sq ft**

### UNDER CONSTRUCTION

**5.4 million sq ft**

#### SKewed TOWARDS



MANCHESTER  
**29%**



BIRMINGHAM  
**21%**



GLASGOW  
**18%**

### HEADLINE RENTS AVERAGE

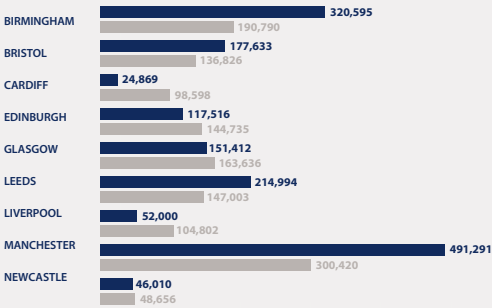
**£30.56** ACROSS ALL NINE CITIES

# City centre

## TOTAL TAKE UP IN Q2

1,596,320 sq ft | ▲ 20% compared to the ten year quarterly average

### TAKE UP (SQ FT)



■ Q2 2019 ■ 10 year quarterly average

### HEADLINE RENTS (£PSF)

Location	Rents (£)	Rent free (mths on 10 yr term)	Net effective rent*(£)	Net effective rent (£) Q2 2018
Edinburgh	36.00	15	32.40	29.75
Bristol	35.00	18	30.63	28.44
Manchester	35.00	24	28.88	27.64
Glasgow	32.50	15	29.25	26.25
Birmingham	34.00	24	28.05	27.23
Cardiff	27.00	12	24.98	24.05
Leeds	30.00	24	24.75	24.75
Newcastle	24.00	18	21.00	21.00
Liverpool	21.50	24	17.74	17.74
Average	30.56	19.33	26.41	25.20

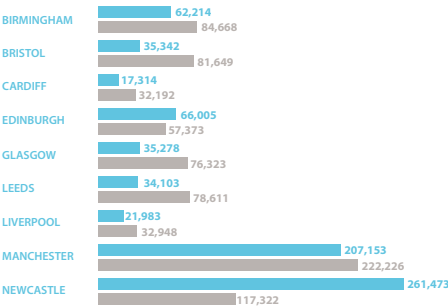
\*including rent free period less three month fit-out.

# Out-of-town

## TOTAL TAKE UP IN Q2

740,865 sq ft | ▼ -5% compared to the ten year quarterly average

### TAKE UP (SQ FT)

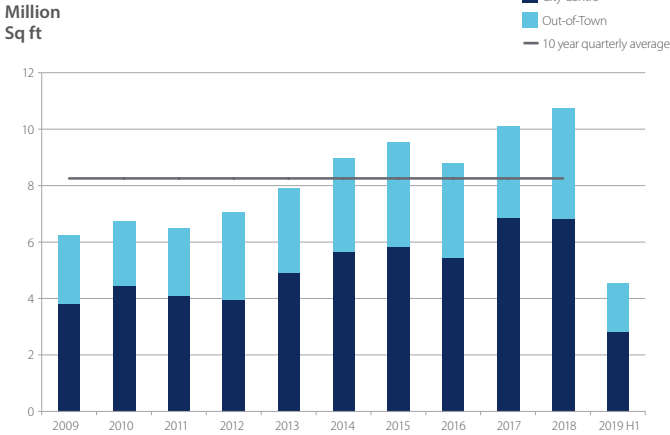


■ Q2 2019 ■ 10 year quarterly average

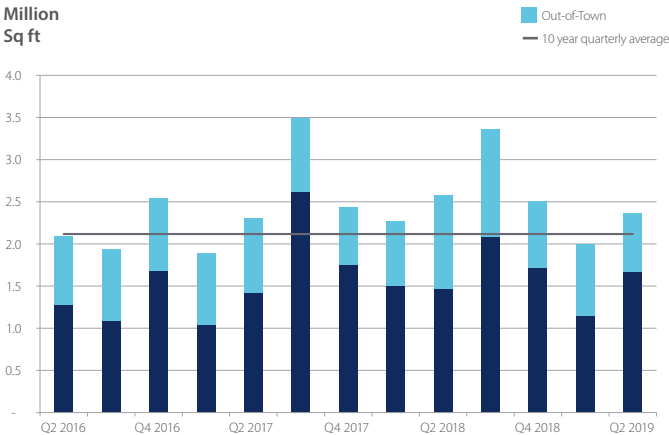
### HEADLINE RENTS (£PSF)

Location	Rents (£)
Birmingham (Solihull)	25.00
Leeds	24.75
Bristol	23.50
Manchester (South)	24.00
Edinburgh	22.00
Newcastle	16.95
Glasgow	16.50
Cardiff	15.00
Liverpool	14.00
Average	20.19

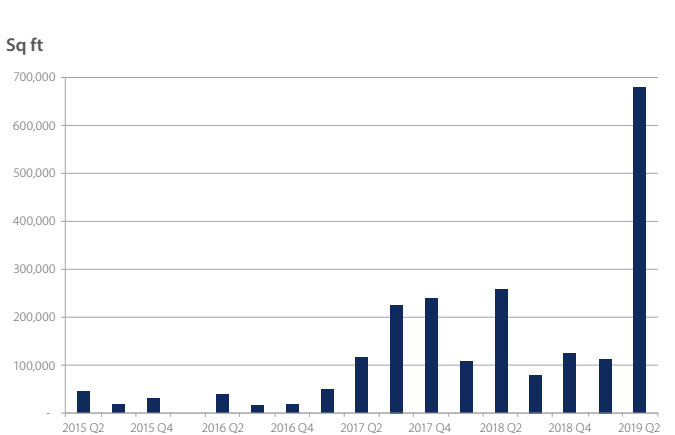
TAKE-UP



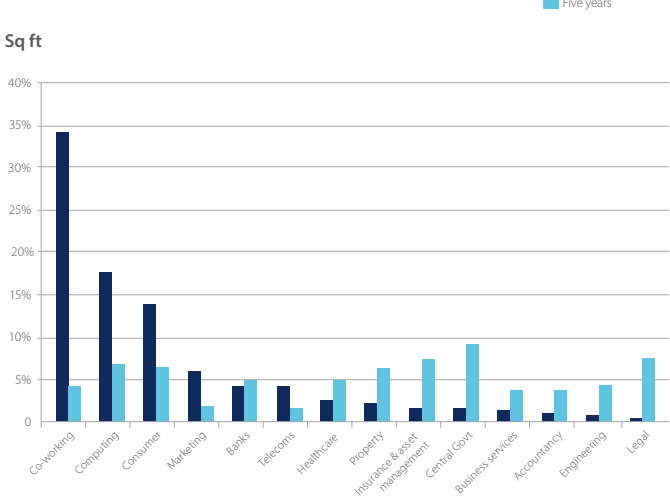
QUARTERLY TAKE-UP



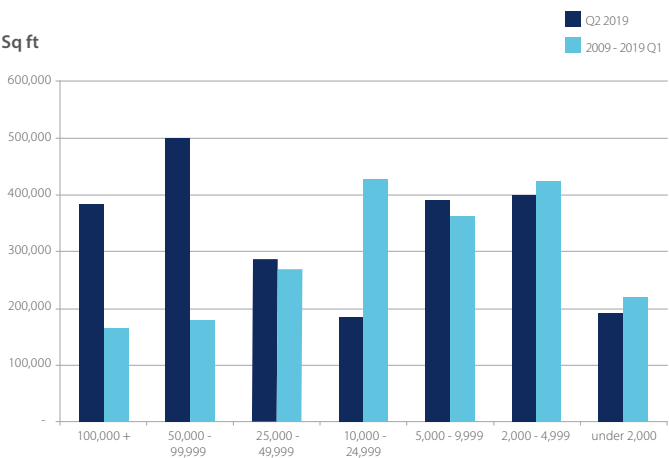
FLEXIBLE WORKSPACE TAKE-UP



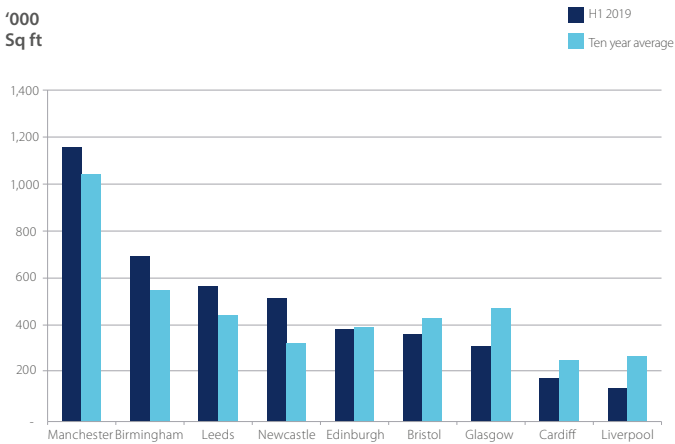
TAKE-UP BY KEY SECTORS



TAKE UP BY SIZE BAND



CC AND OOT TAKE-UP



[Occupier market](#)
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# Birmingham

WeWork have dominated the Birmingham office market this quarter as a new entrant. The company has agreed three deals amounting to 229,000 sq ft, including the largest deal in Birmingham so far this year, 92,600 sq ft at 6 Brindleyplace.

The two other deals are in the heart of the CBD, 81,000 sq ft Louisa Ryland House and 55,000 sq ft at Nuveen Real Estate's 55 Colmore Row.

The record low level of grade A availability (157,000 sq ft) will be boosted this year by the completion of 370,000 sq ft Snowhill and 167,000 sq ft at 2 Chamberlain Square. Construction has also just started on 228,000 sq ft 103 Colmore Row, which is due for completion in 2021. The 25-storey building is being developed speculatively by Tristan Capital with development partner Sterling Property Ventures.

A new record headline rent of £34 psf has been achieved at 55 Colmore Row, surpassing the previous peak in 2008. With 515,000 sq ft transacted in Birmingham city centre this year and a handful of large requirements which include a blue chip operator, the public sector and major legal practices, we expect take-up in the city centre to exceed 900,000 sq ft.

In the out-of-town market the two largest deals were both on Birmingham Business Park, 9,800 sq ft to The British Heart Foundation and 13,100 sq ft to GKN. This brings the total for the year on the business park to 79,600 sq ft across nine deals.

## KEY DEALS - Q2 2019

Property	CC / OOT	Sq ft	Occupier
6 Brindleyplace	CC	92,670	WeWork
Louisa Ryland House, Newhall Street	CC	81,280	WeWork
55 Colmore Row	CC	55,092	WeWork
2100 The Crescent, Birmingham Business Park	OOT	13,172	GKN
Compton House, Birmingham Business Park	OOT	9,854	British Heart Foundation

## KEY SECTOR ACTIVITY FOR H1 2019



Flexible workspace  
47%

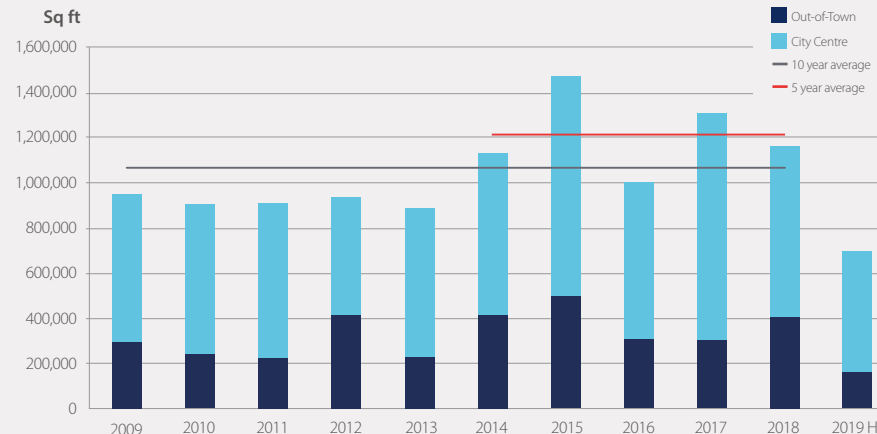


Consumer services  
16%



Legal  
9%

## TAKE-UP



## TAKE-UP



City Centre

**320,595 sq ft**



Out-of-town

**62,214 sq ft**

## HEADLINE RENT

City Centre

**£34 per sq ft**

Out-of-town

**£25 per sq ft**

## UNDER CONSTRUCTION



**1.2 million sq ft**

**33% prelet**

## PRIME YIELD

**5.00%**



Occupier market		Occupier data		Occupier charts		Investment market		Investment data		Investment data		Outlook		Contact			
Birmingham		Bristol		Cardiff		Edinburgh		Glasgow		Leeds		Liverpool		Manchester		Newcastle	

## Bristol

The Bristol city centre market has been dominated by co-working deals this quarter accounting for 38% of take-up. The two main deals were to Spaces, who has taken 26,500 sq ft at Programme, and 30,600 sq ft to Clockwise in the Generator Building. Elsewhere in the city centre there has been a handful of deals in the professional, finance and TMT sectors of between 5,000 sq ft and 10,000 sq ft and a large number of sub 5,000 sq ft deals.

Activity in the out-of-town market was more subdued, led by an 8,000 sq ft transaction to Willmott Dixon at Eldon Office Park.

There is a good number of enquiries for the rest of the year although there remains a level of caution in the market and deals are taking time to progress. Currently there is very little current grade A space available, with the two buildings under construction not due to complete until next year. Within these, 93,000 sq ft remains available at Glassfields on Temple Way and 200,000 sq ft at 1 Assembly, Temple Quarter (although BT are reported to be interested in the whole building).

Headline rents of £35 psf are expected to move to £36.50 psf as deals which are under offer at 1 Assembly complete.

### KEY DEALS - Q2 2019

Property	CC / OOT	Sq ft	Occupier
The Generator Building, Finzels Reach	CC	30,611	Clockwise Serviced Offices
Programme, All Saints Street	CC	26,500	Spaces
One Temple Quay	CC	9,781	Landmark Space Limited
Eden House, Eden Office Park	OOT	8,067	Willmott Dixon
26 Baldwin Street	CC	7,150	Loungers

### KEY SECTOR ACTIVITY FOR H1 2019



Flexible workspace  
**30%**

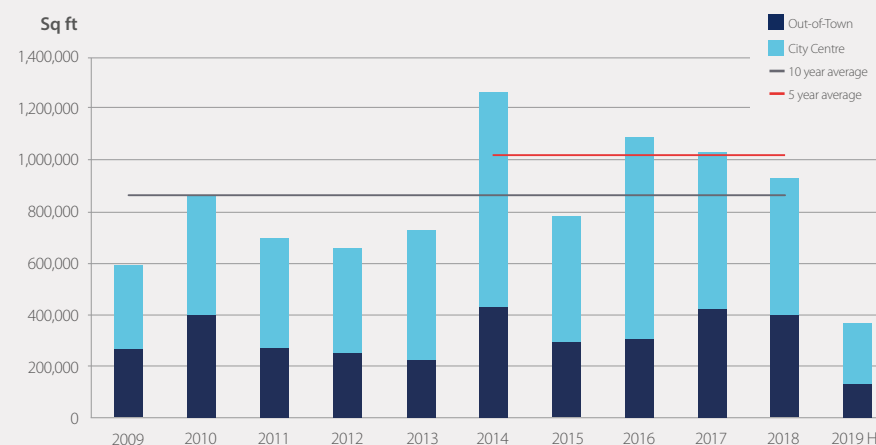


Insurance & asset  
management  
**21%**



Accountancy  
**13%**

### TAKE-UP



### TAKE-UP



City Centre  
**177,633 sq ft**



Out-of-town  
**35,342 sq ft**

### HEADLINE RENT

City Centre  
**£35 per sq ft**

Out-of-town  
**£23.50 per sq ft**

### UNDER CONSTRUCTION



**293,000 sq ft**  
**11%**  
prelet

### PRIME YIELD

**4.75%**



# Cardiff

There was a very low level of take-up across the Cardiff office market this quarter, amounting to 25,000 sq ft in the city centre and 17,000 sq ft out-of-town.

The city centre market saw a handful of medium sized deals including 7,800 sq ft to the insurance company Red Apple and 5,900 sq ft to LoopUp at Churchill House. The key out-of-town deal was 5,800 sq ft to financial services company Madison CF UK Ltd at Alexandra Gate and there was a handful of smaller deals.

The recent completions at Central Square and Capital Quarter have mostly been let. This leaves the city centre again with a low level of grade A availability, currently just 75,000 sq ft. There are however a number of pipeline schemes which include the 250,000 sq ft Ledger Building at Central Quay, 65,000 sq ft Hodge House and 85,000 sq ft Interchange Scheme, Central Square.

## KEY DEALS - Q2 2019

Property	CC / OOT	Sq ft	Occupier
Global Reach	CC	7,769	Red Apple
Churchill House	CC	5,900	LoopUp
3 Alexandra Gate	OOT	5,790	Madison CF UK Ltd
Vision Court	OOT	3,492	Indoor Biotechnologies
Parc Ty Glas	OOT	3,370	Ubiquity

## KEY SECTOR ACTIVITY FOR H1 2019

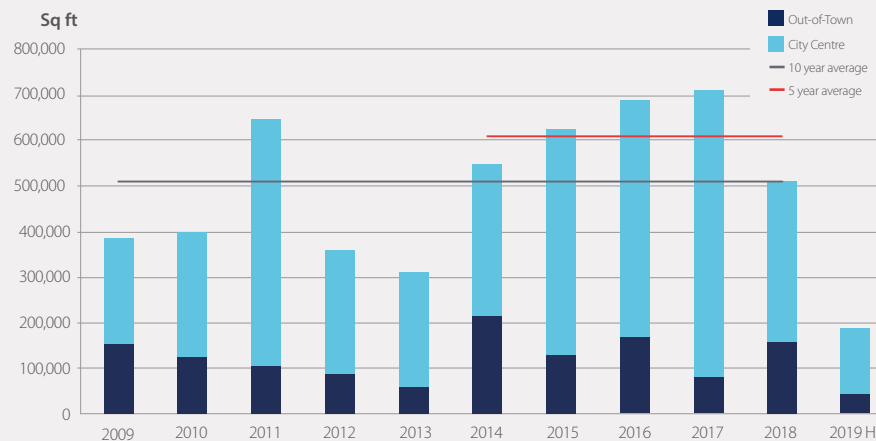


Banks & building  
societies  
16%



Insurance & asset  
management  
12%

## TAKE-UP



## TAKE-UP

City Centre

**24,869 sq ft**

Out-of-town

**17,314 sq ft**

## HEADLINE RENT

City Centre

**£27 per sq ft**

Out-of-town

**£15 per sq ft**

## UNDER CONSTRUCTION



**270,000 sq ft**

**100% prelet**

## PRIME YIELD

**5.75%**



[Occupier market](#)
[Occupier data](#)
[Occupier charts](#)
[Investment market](#)
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# Edinburgh

Take-up for the first half of the year is in line with the ten year average, supported by higher than average activity in the out-of-town market, while the city centre is down. This year there has been much less activity in traditional sectors such as banking, insurance and TMT, while consumer services, other private services and particularly flexible workspace is up.

The two most significant deals in the Edinburgh market this quarter were both to co-working companies. WeWork has taken 40,500 sq ft at 80 George Street in the city centre and Instant Offices took 35,600 sq ft out-of-town at Broadstone in the Gyle. All other deals were below 10,000 sq ft and these are taking longer to complete.

Speculative space under construction includes around 61,000 sq ft at Capital Square, which completes next year and a further 60,000 sq ft at New Fountainbridge, which has recently broken ground. All other new schemes have been pre-let including 189,000 sq ft New Waverley, recently handed over to the Government Property Agency, 61,000 sq ft The Mint, pre-let to Baillie Gifford, which completes soon, and the other half of Capital Square to lawyers Brodies and Pinsent Masons.

There has been an uplift in headline rents to £36 psf, the highest across the Big Nine markets.

## KEY DEALS - Q2 2019

Property	CC / OOT	Sq ft	Occupier
80 George Street	CC	40,585	We Work
Broadstone, South Gyle Crescent	OOT	35,608	Instant Offices
Pioneer House, Technopole	OOT	9,321	Syneos
Heriot Watt University Research Park	OOT	7,898	Dukosi
39 George Street	CC	7,806	Bourse Scotland

## KEY SECTOR ACTIVITY FOR H1 2019



Flexible workspace  
27%

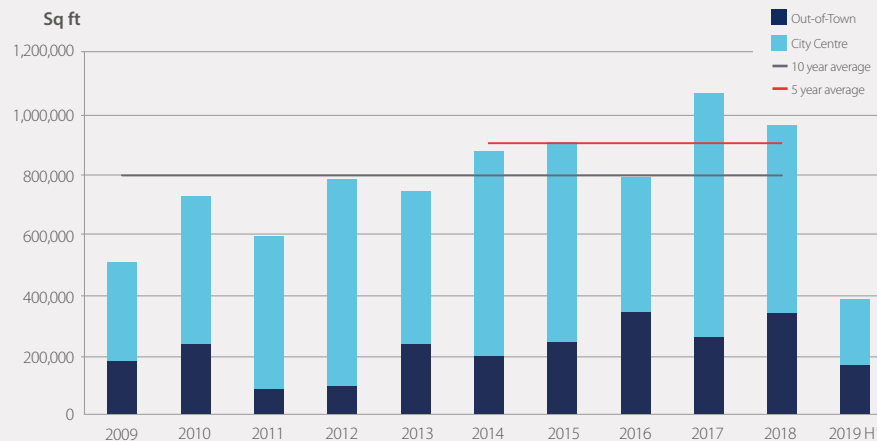


Membership body  
17%



Health & social care  
11%

## TAKE-UP



## TAKE-UP



City Centre  
117,516 sq ft



Out-of-town  
66,005 sq ft

## HEADLINE RENT

City Centre  
£36 per sq ft

Out-of-town  
£22 per sq ft

## UNDER CONSTRUCTION



303,100 sq ft  
43% prelet

## PRIME YIELD

4.75%



# Glasgow

There are four substantial and well progressed deals in the Glasgow office market pipeline, which mean the figures for the full year are expected to substantially improve on the below average take-up during the first half of the year.

The key deal in the city centre during Q2 was to hotel chain Hilton taking 41,665 sq ft of offices at the recently refurbished 191 West George Street. There were also two c.20,000 sq ft transactions to artificial intelligence company ARM and JP Morgan Chase. Clydesdale Bank, which took a pre-let of 110,000 sq ft at 177 Bothwell Street last year, has taken a further 13,000 sq ft at Granite House, 31 Stockwell Street. In the out-of-town market, the largest deal was 9,000 sq ft to Beeks Financial at Lumina, Hillington Park.

There is 1,054,000 sq ft under construction in Glasgow (including Atlantic Quay, Buchanan Wharf and 177 Bothwell Street). Of this, 767,000 sq ft is pre-let (Barclays, Clydesdale and GPA) and 287,000 sq ft is available, although discussions are already taking place with occupiers for this space.

Headline rents have remained at £32.50 psf, although the current scarcity of grade A availability means that secondary/ grade B headline rents have also increased, and combined with reducing rent free periods, net rental growth in this sector continues to accelerate.

## KEY DEALS - Q2 2019

Property	CC / OOT	Sq ft	Occupier
191 West George Street	CC	41,665	Hilton
St Vincent Plaza	CC	26,910	ARM
141 Bothwell Street	CC	20,227	JPMC
Granite House, 31 Stockwell Street	CC	13,801	Clydesdale Bank
Lumina, 40 Ainslie Road	OOT	8,988	Beeks Financial

## KEY SECTOR ACTIVITY FOR H1 2019



Computing  
25%

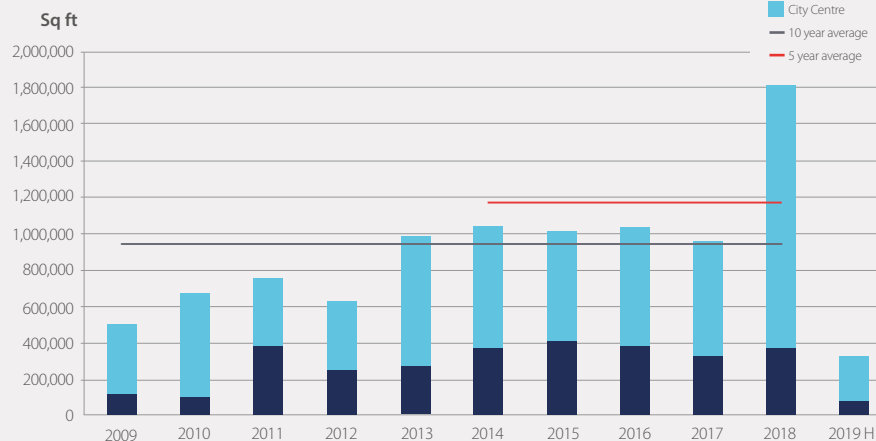


Consumer services  
24%



Banks & building societies  
20%

## TAKE-UP



## TAKE-UP



City Centre

**151,412 sq ft**



Out-of-town

**35,278 sq ft**

## HEADLINE RENT

City Centre

**£32.50 per sq ft**

Out-of-town

**£16.50 per sq ft**

## UNDER CONSTRUCTION



**1.05 million sq ft**

**73% prelet**

## PRIME YIELD

**5.00%**



## Leeds

Activity in Leeds city centre has been boosted by the substantial pre-let on MEPC's 135,000 sq ft 4 Wellington Place to the Stars Group, (the owner of Sky Betting & Gaming). This is the latest phase of the 1.5m sq ft Wellington Place development and is expected to complete this year. This is the second successive strong quarter in the city centre, bringing take-up to within 100,000 sq ft of the annual average at the half year stage.

Other key city centre deals include flexible workspace company IWG (Spaces) who took 23,500 sq ft at Park Row and Credit Karma who took 8,000 sq ft at 6 East Parade. The majority of the sub 5,000 sq ft churn deals were in the historic core in York Place, Park Row and Greek Street. Activity was more subdued in the out-of-town market where the largest deal was 7,000 sq ft to Leeds community Health Care NHS Trust at Stockdale House in Headingley.

There is no new build speculative construction activity in the city centre as 7&8 Wellington Place and 4 Wellington Place are both pre-let. Two comprehensive refurbishments will complete later in the year: The majority of 66,000 sq ft Majestic Cinema is under offer to Channel 4 and 34 Boar Lane (46,000 sq ft) is currently available.

### KEY DEALS - Q2 2019

Property	CC / OOT	Sq ft	Occupier
4 Wellington Place	CC	135,131	The Stars Group Inc
7 Park Row	CC	23,498	IWG (Spaces)
6 East Parade	CC	8,008	Credit Karma
Stockdale House, Headingley	OOT	7,010	Leeds community NHS Trust
3320 Century Way, Thorpe Park	OOT	6,173	M and T Butler

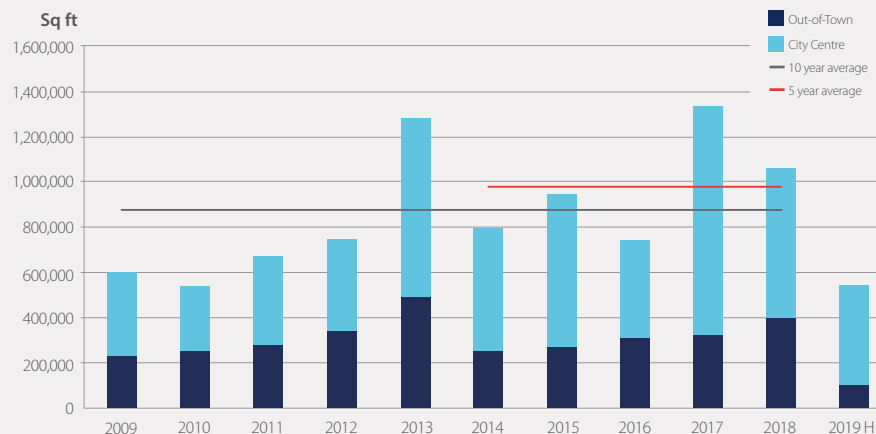
### KEY SECTOR ACTIVITY FOR H1 2019

★ ★ ★ Consumer services  
38%

Insurance & asset management  
18%

Engineering  
8%

### TAKE-UP



### TAKE-UP



City Centre

214,994 sq ft



Out-of-town

34,103 sq ft

### HEADLINE RENT

City Centre

£30 per sq ft

Out-of-town

£24.75 per sq ft

### UNDER CONSTRUCTION



635,000 sq ft

81% prelet

### PRIME YIELD

5.00 %



# Liverpool

It has been a quiet first half of the year in Liverpool with one notable transaction, the letting to Park Foods (26,000 sq ft) at 20 Chapel Street. However, the second half of the year is expected to be much stronger with a number of large lettings due to complete during Q3 and Q4.

These include Sony at the Echo Building (50,000 sq ft), Onward Housing at Watson Building (20,000 sq ft) and three or four other transactions all in excess of 20,000 sq ft.

Looking further ahead, 160,000 sq ft is being developed by Liverpool City Council at the Spine in Paddington Village, which is due for completion in September 2020 and is already 44% let.

There has been significant rental growth in both the grade B & B+ sectors primarily due to the diminishing supply of good quality large floor plate buildings. Headline rents remain at £21.50 psf with 24 months rent free on a ten year term and at £14 psf in the out-of-town market.

## KEY RECENT DEALS

Property	CC / OOT	Sq ft	Occupier
Edward Pavillion, Albert Dock	CC	32,810	Clockwise
20 Chapel Street	CC	26,000	Park Foods
4 St Pauls Square	CC	19,625	Avenue HQ
Cotton Exchange	CC	7,400	Yozu

## KEY SECTOR ACTIVITY FOR 12 MONTHS TO H1 2019



Flexible workspace  
37%

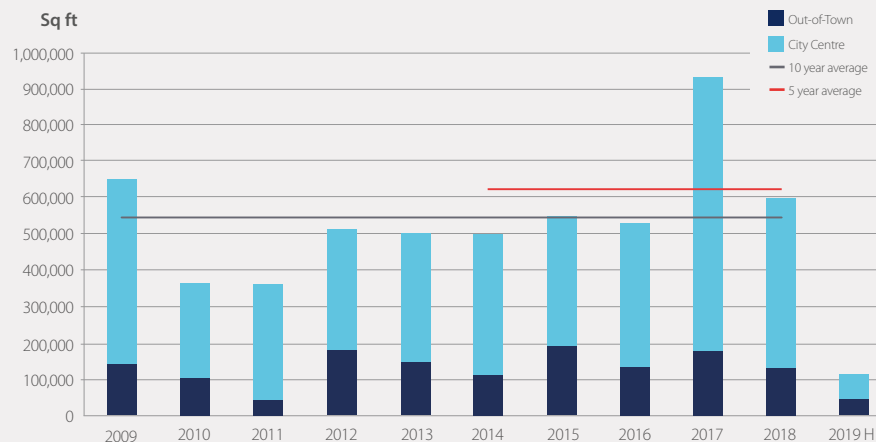


Consumer services  
31%



Accountancy  
9%

## TAKE-UP



## TAKE-UP



City Centre

52,000 sq ft



Out-of-town

21,983 sq ft

## HEADLINE RENT

City Centre

£21.50 per sq ft

Out-of-town

£14 per sq ft

## UNDER CONSTRUCTION



160,000 sq ft

44% prelet

## PRIME YIELD

6.00%



Occupier market

Occupier data

Occupier charts

Investment market

Investment data

Investment data

Outlook

Contact

Birmingham

Bristol

Cardiff

Edinburgh

Glasgow

Leeds

Liverpool

Manchester

Newcastle

# Manchester

Manchester city centre office activity reached 491,300 sq ft during Q2, 64% above the quarterly average. In the key transaction of the quarter Spaces have agreed the largest flexible workspace deal in the UK outside London, taking 122,000 sq ft at 125 Deansgate, at the headline rent of £35.00 psf.

It is understood that BT have taken a significant amount of the available space for three years.

There is considerable activity from the flexible workspace sector as WeWork has also taken its fourth location in Manchester, 51,000 sq ft at Hyphen and there is more than half a dozen co-working operators looking for substantial amounts of space.

Elsewhere in the city centre advertising and public relations company WPP have committed to 82,000 sq ft which will be constructed at Enterprise City, St John's. The largest deal in the out-of-town market was to telecommunications company Verastar, which has agreed a 61,000 sq ft deal at One Dovecoat in Sale.

There is 1.6 million sq ft of space under construction in Manchester, of which 38% is pre-let. Of the million sq ft of speculative space under construction, key developments include Landmark Oxford Road, 100 Embankment and Circle Square. Headline rents remain at £35 psf although we understand that asking rents have increased to £37 psf.

## KEY DEALS - Q2 2019

Property	CC / OOT	Sq ft	Occupier
125 Deansgate	CC	121,892	Spaces
Enterprise City, St Johns	CC	82,000	WPP
Dovecoat	OOT	61,000	Verastar
Hyphen	CC	51,000	WeWork
3 Piccadilly Place	CC	32,436	Barclays Bank

## KEY SECTOR ACTIVITY FOR H1 2019



Serviced offices  
23%

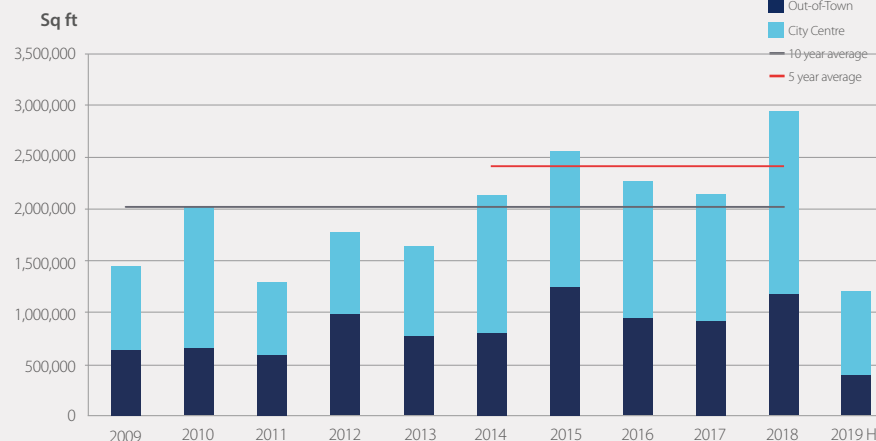


Consumer services  
13%



Insurance & asset  
management  
12%

## TAKE-UP



## TAKE-UP



City Centre  
491,291 sq ft



Out-of-town  
207,157 sq ft

## HEADLINE RENT

City Centre  
£35 per sq ft

Out-of-town  
£24 per sq ft

## UNDER CONSTRUCTION



City Centre  
1.6 million sq ft  
38% prelet

PRIME YIELD  
5.00%



Occupier market

Occupier data

Occupier charts

Investment market

Investment data

Investment data

Outlook

Contact

Birmingham

Bristol

Cardiff

Edinburgh

Glasgow

Leeds

Liverpool

Manchester

Newcastle

# Newcastle

Software company Sage Plc has taken 203,000 sq ft in two deals at adjacent buildings Cobalt 22 and Cobalt 23 on Cobalt Business Park in Newcastle. The company has agreed a 15 year lease with Highfield Properties and will complete a re-fit of the buildings before relocating from Great North Park.

This deal means it is the second successive strong quarter for take-up in the out-of-town market, pushing the total for the half year above the annual average. Elsewhere a 10,000 sq ft deal was agreed by a confidential occupier at Berrymoor Court, Cramlington and there was a handful of circa 5,000 sq ft deals.

In terms of development activity the 106,000 sq ft Lumen at the Newcastle Helix regeneration scheme in the city centre is expected to complete at the end of this year, with the next phase of the scheme, 107,000 sq ft Spark, due to commence soon. At the Stephenson Quarter, Newcastle Council are looking to appoint a development partner to complete the next mixed-use phase including an element of speculative office development.

## KEY DEALS - Q2 2019

Property	CC / OOT	Sq ft	Occupier
Cobalt 23	OOT	125,912	Sage Plc
Cobalt 22	OOT	77,816	Sage Plc
Berrymoor Court	OOT	10,070	Confidential
26 Mosley Street	CC	8,683	26 Mosley Street Ltd
Pandon Building	CC	5,929	Elsdon Consulting

## KEY SECTOR ACTIVITY FOR H1 2019



Business services  
52%

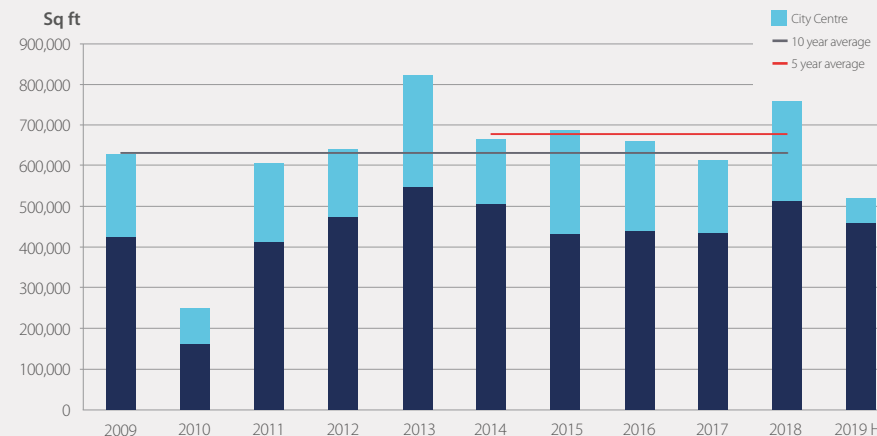


Banks & building societies  
16%



Flexible workspace  
15%

## TAKE-UP



## TAKE-UP



City Centre  
46,010 sq ft



Out-of-town  
261,473 sq ft

## HEADLINE RENT

City Centre  
£24 per sq ft

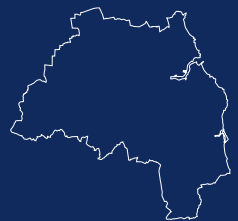
Out-of-town  
£16.95 per sq ft

## UNDER CONSTRUCTION



106,000 sq ft  
0% prelet

PRIME YIELD  
6.00%



Occupier market		Occupier data		Occupier charts		Investment market		Investment data		Investment data		Outlook		Contact			
Birmingham		Bristol		Cardiff		Edinburgh		Glasgow		Leeds		Liverpool		Manchester		Newcastle	



**MARK FRAMPTON**  
Principal, Investment

“

**Activity was heavily skewed towards Birmingham and Edinburgh this quarter, totalling circa £200 million each (75% of the total).**

## Overseas investors dominate

**‘Big Nine’ office investment volumes during Q2 amounted to £575 million, 5% up on the ten year quarterly average. Overseas investment continues to drive the market, accounting for 85% of transactions during Q2. UK real estate remains a ‘safe haven’ asset and overseas investors continue to benefit from the materially weakened currency. Conversely there has been a notable slowdown in activity from the UK institutions.**

Activity was heavily skewed towards Birmingham and Edinburgh this quarter, totalling circa £200 million each (75% of the total). The UK's largest office transaction outside London so far this year was the sale of Priory Court and Lewis Building in Birmingham by Legal & General Property to Gulf Islamic Investments, which transacted for £139 million. The deal was agreed at the end of last year, although uncertainty surrounding Brexit delayed the transaction. It does however demonstrate there is clearly good interest in long yielding prime opportunities.

In Edinburgh the mixed use 4-8 St Andrew Square was sold to KanAm Grundinvest Fonds for £120m and the Leonardo Innovation Hub at Crewe Toll was bought by South Korean investors for £100m.

Grade A buildings with long dated income and secure covenants continue to receive strong interest, although there has been a drop in the number of deals. Key domestic purchasers were in the £10m to £15m bracket and included Topland, BlackRock and CBRE Investors.

There remains a weight of money for value added and opportunist deals outside the prime market but with limited distress and vendor pricing expectations holding firm, the delta between vendors and purchasers continues. However there is a reasonable turnover of deals in the smaller lot sizes.

Q2 saw a flurry of activity with the Brexit date extended to October. However this seems to be short lived with activity waning. With the Brexit deadline approaching, investment volumes are expected to be down next quarter. This is similar to the pattern observed in Q1, however, the lack of development stock and quality existing supply is also suppressing activity.

Prime yields across the Big Nine have softened in a number of cities this quarter. This is based more on market sentiment than real evidence but if the uncertainty dissipates, it is likely that transaction volumes will resume and yields will harden again. The average prime yield across the nine cities is currently 5.25% compared to 5.11% in Q1 and 5.17% a year ago. However the MSCI monthly index has not yet registered any softening in the average equivalent yield for all regional offices, which was 6.96% in June compared to 7.02% in March.

TOTAL FOR Q2

**£575 million**

**▲ 5%**

UP ON THE 10 YEAR QUARTERLY AVERAGE

VOLUMES BY CITY



EDINBURGH  
**£214m**



BIRMINGHAM  
**£185m**



GLASGOW  
**£96m**

VOLUMES BY INVESTOR TYPE



OVERSEAS  
INVESTOR  
**85%**



UK PROPERTY  
COMPANY  
**11%**



UK  
INSTITUTION  
**3%**

PRIME YIELD

**4.75%**

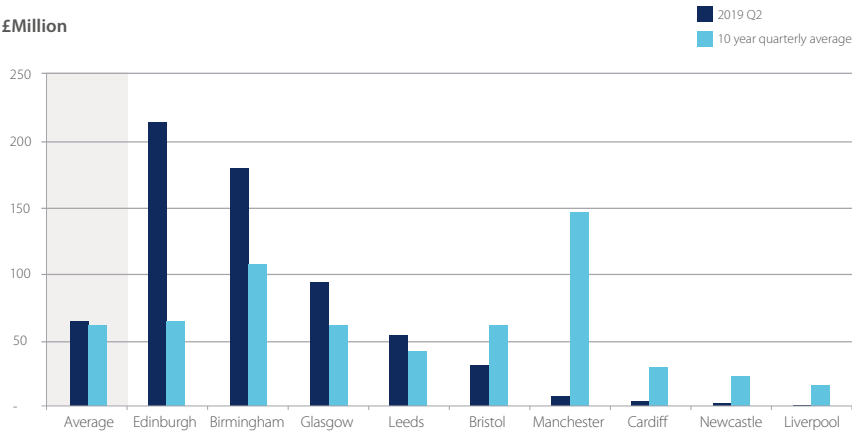
PREVIOUS PEAK (2007)

**4.50%**

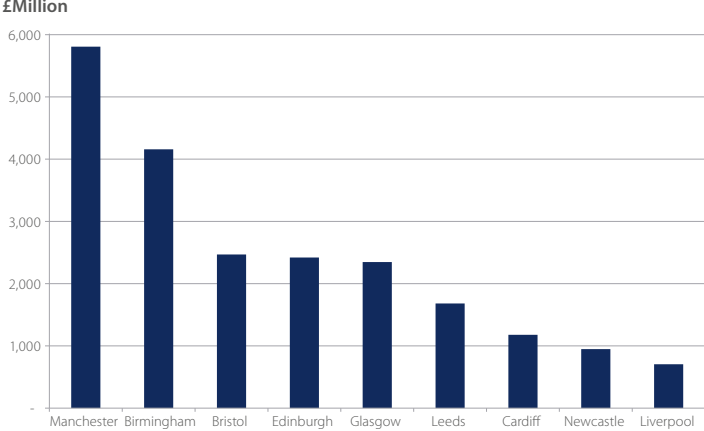
TOTAL INVESTMENT VOLUMES IN Q2 2019



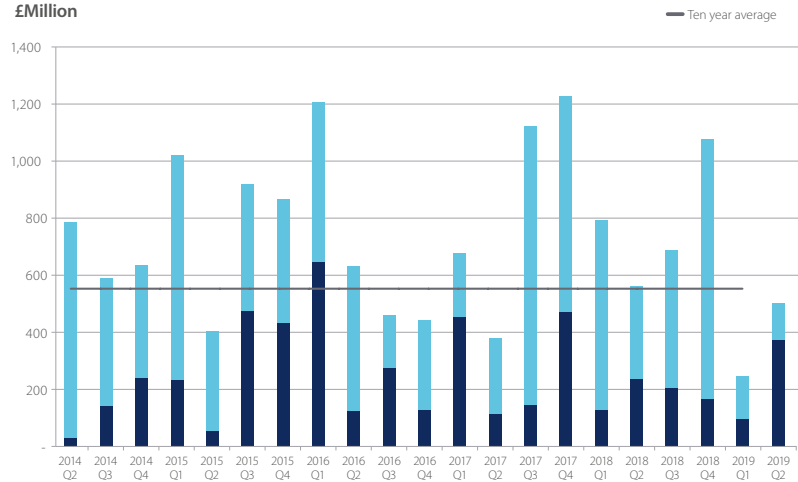
INVESTMENT VOLUMES



INVESTMENT VOLUMES 2009 TO 2018



INVESTMENT TRANSACTIONS



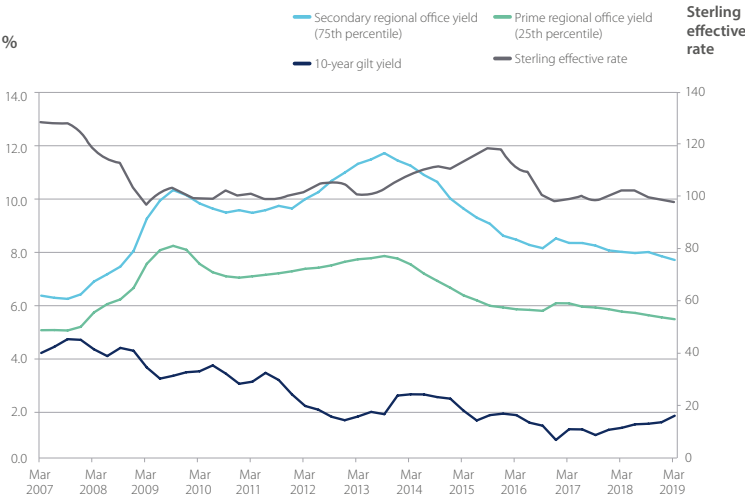
TOP FIVE DEALS – Q2 2019

Date	Property	City	Purchaser	Vendor	Price (£m)	NIY (%)
Jun-19	Priory Court / Lewis Bldg	Birmingham	Gulf Islamic Investments	Legal & General Property	139.0	5.00
May-19	St Andrew Square, 4-8	Edinburgh	KanAm Grundinvest Fonds	Standard Life Pooled PPF	90.0	4.45
Jun-19	Leonardo Innovation Hub	Edinburgh	South Korean investors	Brockton Capital LLP	100.0	5.90
Jun-19	St Vincent Street, 110	Glasgow	South Korean investors	Savills IM	48.4	N/A
Jun-19	The Mint, Sweet Street	Leeds	Gatehouse Bank Plc	Patron Capital Partners	41.5	6.50

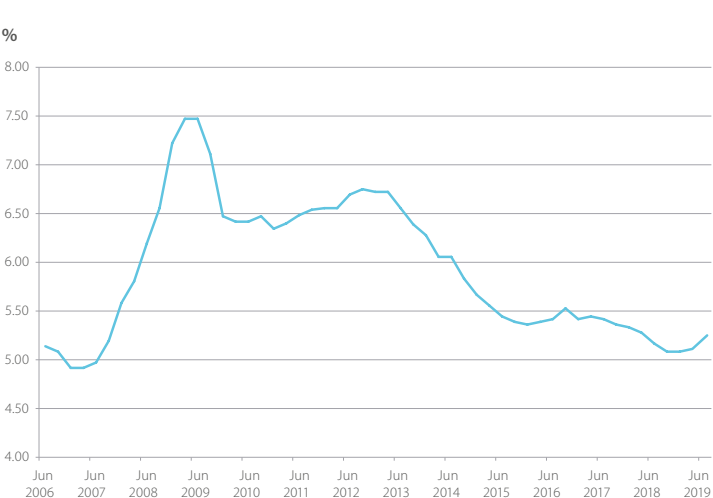
PRIME CITY CENTRE YIELDS

Location	Q1 2019	Q2 2019	Trend for last 12 months	Peak (2007)
Birmingham	4.75	5.00	↑	4.50
Bristol	4.75	4.75	↓	5.00
Cardiff	5.50	5.75	↑	5.00
Edinburgh	4.75	4.75	→	4.75
Glasgow	5.00	5.00	→	4.75
Leeds	4.75	5.00	→	4.75
Liverpool	5.75	6.00	→	5.50
Manchester	4.75	5.00	↑	4.50
Newcastle	6.00	6.00	↑	5.25

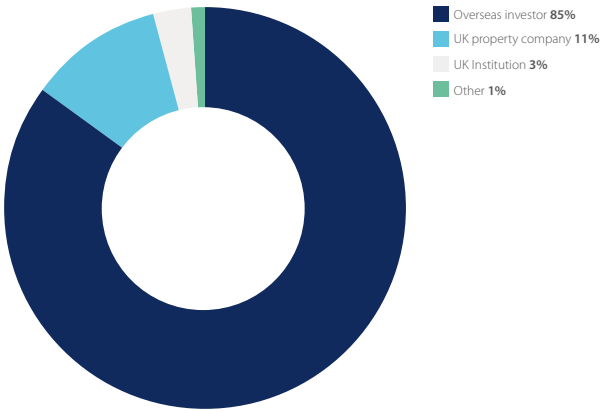
REGIONAL OFFICE YIELDS VS 10 YEAR GILTS



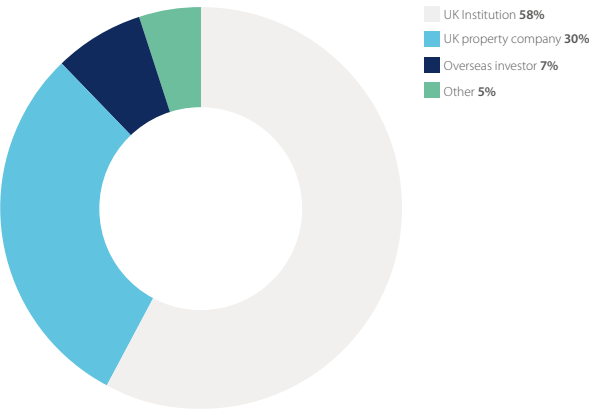
AVERAGE BIG NINE PRIME YIELD



INVESTOR VOLUMES BY PURCHASER TYPE Q2 2019



INVESTOR VOLUMES BY VENDOR TYPE Q2 2019



“ Prime yields across the Big Nine have softened in a number of cities this quarter. This is based more on market sentiment than real evidence but if the uncertainty dissipates, it is likely that transaction volumes will resume and yields will harden again.

[Occupier market](#)[Occupier data](#)[Occupier charts](#)[Investment market](#)[Investment data](#)[Investment data](#)[Outlook](#)[Contact](#)[Birmingham](#)[Bristol](#)[Cardiff](#)[Edinburgh](#)[Glasgow](#)[Leeds](#)[Liverpool](#)[Manchester](#)[Newcastle](#)

# Outlook

**An increasingly tight labour market as well as strong retail sales figure suggest that the underlying fundamentals of the economy remain positive; but with little chance of Brexit related uncertainty waning soon growth in the second half of this year is still set to slow to an under trend 1.3% this year.**

We continue to maintain an assumption that an “orderly” departure from the EU will be the eventual outcome. However the impact on business investment and consumer confidence aligns with the Markit / CIPS Purchasing Managers Indices which slid below the crucial 50 no-change value in June at 49.5. If the UK crashes out of the EU with a no-deal the slowdown is anticipated to be much more marked.

A number of agents are reporting substantial deals in the pipeline notably Birmingham, Glasgow, Liverpool and Manchester, which bodes well for the second half of the year. Phase 3 of the Government hub programme remains very acquisitive with enquiries in a number of markets and significant requirements remain among flexible workspace operators. We are likely to continue to see caution in some markets as the Brexit deadline approaches resulting in smaller deals taking time to progress.

The fundamentals in the investment market remain positive, with a greater demand than supply and significant capital focussing on core long dated income. The expectations are for continued institutional stagnation but with Sterling still weakened, overseas capital will continue to dominate the market. Investors will be looking closely at the regional growth of the major flexible workspace operators, with the natural next step for growth expected to be in Edinburgh, Glasgow and Leeds.

According to MSCI average annual regional office rental growth was 2% to June 2019. We forecast growth of approximately 1.5% pa for the next two years.



2 Central Quay, Glasgow

Occupier market		Occupier data		Occupier charts		Investment market		Investment data		Investment data		Outlook		Contact	
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