



RESEARCH

# The Big Nine

Quarterly update of regional office activity  
Q3 2018

TOP PERFORMERS

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## MANCHESTER

Occupier market

There was a record level of activity across both Manchester markets during Q3. In the city centre Booking.com took 225,000 sq ft at Allied London's Enterprise City development and there were two further exceptional deals in the out-of-town market to Royal London and Trafford Council.

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## BIRMINGHAM

Investment market

The Birmingham investment market accounted for the headline deal of Q3: the £95m sale of 2 Colmore Square to Railway Pension Trustees. In the out-of-town market Squarestone Growth purchased 28.3 Eagle Court in Solihull for £22m.

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# Big Nine attracts Barclays and Booking.com in record quarter

The scale of transactions in the Big Nine office markets reached a new level in Q3 as Barclays agreed the largest ever deal across the Big Nine - 470,000 sq ft at Buchanan Wharf in Glasgow.

Overall take-up for the quarter was 64% above average, which included record activity across the out-of-town markets. This brings the total for the first three quarters of the year to over 8 million sq ft, well positioned to break last year's record of 10 million sq ft for both the city centre and out-of-town markets.

Barclays was not the only exceptional deal of the quarter, as Booking.com agreed to take 225,000 sq ft at Enterprise City in Manchester. This inward investment is a further indication of the confidence that occupiers are showing in the regional markets. It is encouraging that both these exceptional deals come from the private sector, following the level of activity we have seen from the public sector over the last 18 months.

Having said that the public sector remains very active. There were three 60,000 sq ft deals to central Government and 97,000 sq ft to Trafford Council. This brings public sector activity to 390,000 sq ft for this quarter, almost double the long term average.

Other key activity in Q3 came from the insurance & asset management sub-sector (9%), with Royal London taking 190,000 sq ft in two deals in South Manchester and Edinburgh. Against recent trends the level of co-working office activity dropped off for the first time since the beginning of 2017, amounting to 80,000 sq ft. However we are starting to see the effect of the influx of co-working providers on the market as the number of independent sub 2,000 sq ft deals has fallen to 195, the lowest level in five years, down from an average of 245 over that time.

The Manchester market has again out-performed other cities, headlined by Booking.com, Royal London and Trafford Council, with a record total of over 900,000 sq ft for space taken. This year we expect city centre take-up to breach 1.5 million sq ft for the first time.

With this amount of activity concerns over the lack of prime stock persist. This has been the case for a number of years however levels have reached a new low over the past six months. While net effective headline rents continue to rise (4.3% pa), there are concerns that build cost inflation is impacting on scheme viability and therefore the appetite for speculative development.



**Charles Toogood**

National Head of Offices

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# Market Data – Q3

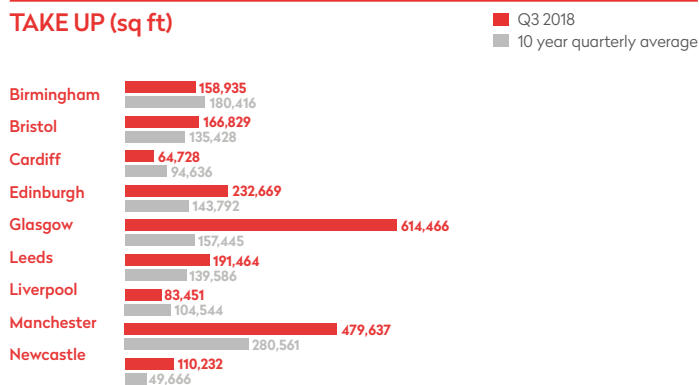
## City centre

TOTAL TAKE UP IN Q3

**2,102,411 sq ft**

**+63%** compared to the ten year quarterly average

### TAKE UP (sq ft)



### TOP FIVE DEALS

City	Property	Occupier	Sq ft
Glasgow	Buchanan Wharf	Barclays	470,000
Manchester	Enterprise City	Booking.com	225,000
Newcastle	Civic Centre	HMCTS	63,350
Glasgow	123 St Vincent Street	HMRC	60,556
Leeds	3 Wellington Place	HMRC	60,000

### HEADLINE RENTS (£psf)

Location	Rents (£)	Rent free (mths on 10 yr term)	Net effective rent*(£)	Net effective rent (£) Q3 2017
Edinburgh	35.00	18	30.63	29.75
Bristol	34.00	18	29.75	26.69
Glasgow	32.50	18	28.44	25.50
Manchester	33.50	24	27.64	27.64
Birmingham	33.00	24	27.23	26.00
Leeds	30.00	24	24.75	24.75
Cardiff	26.00	12	24.05	23.40
Newcastle	24.00	18	21.00	20.13
Liverpool	21.50	24	17.74	17.74
<b>Average</b>	<b>29.94</b>	<b>20.00</b>	<b>25.69</b>	<b>24.62</b>

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

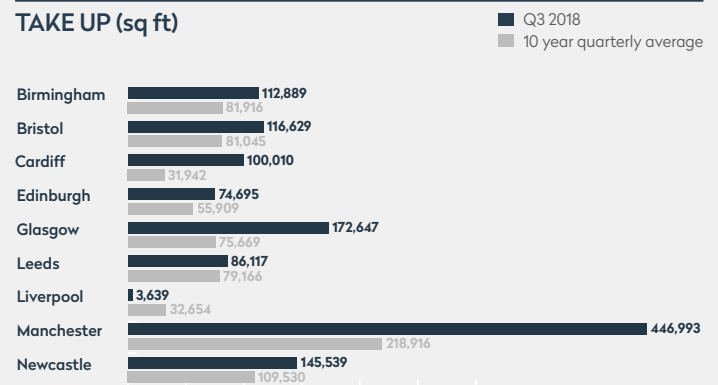
## Out-of-town

TOTAL TAKE UP IN Q3

**1,259,158 sq ft**

**+64%** compared to the ten year quarterly average

### TAKE UP (sq ft)



### TOP FIVE DEALS

City	Property	Occupier	Sq ft
Manchester	Parklands, Alderley Park	Royal London	140,000
Manchester	Talbot Road	Trafford Council	96,765
Cardiff	Woodland House	Cardiff & Vale University Local Health Board	84,750
Glasgow	Maxim Office Park	Sitel	58,744
Bristol	800 Aztec West	Edvance	30,670

### HEADLINE RENTS (£psf)

Location	Rents (£)
Birmingham (Solihull)	25.00
Leeds	22.50
Bristol	22.50
Manchester (South)	22.00
Newcastle	16.95
Edinburgh	22.00
Glasgow	16.50
Cardiff	15.00
Liverpool	14.00
<b>Average</b>	<b>19.61</b>

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# Market activity

## Birmingham

The relatively subdued level of take-up during Q3 does not present a clear picture of sentiment and activity in Birmingham city centre. Viewing enquires and pent-up demand belies transactional activity as there are a number of large deals expected to complete before the end of the year. These include the 130,000 sq ft letting to Birmingham City University for an innovation centre at Eastside Locks where contracts have been exchanged. We therefore expect Q4 activity to bring 2018 figures in line with the five year average of 800,000 sq ft.

The public sector has been the most active this quarter with two central government deals to the Secretary of State at Norfolk House (36,000 sq ft) and Network Rail at Baskerville House (14,000 sq ft). The 22,000 sq ft deal to the General Dental Council at 1 Colmore Square demonstrates the growing trend of inward investment from London and the South East.

## Bristol

Above average activity in Bristol made Q3 the strongest quarter of the year. This is thanks to a handful of 10 to 30,000 sq ft deals in both the city centre and out-of-town markets; headlined respectively by 31,200 sq ft to investment managers Parmenion Capital at Aurora and 30,600 sq ft to Edvance, a subsidiary of EDF at Aztec West.

Of the other key transactions there were two medium sized deals to HMRC and a 28,000 sq ft letting to co-working sector provider DeskLodge at Unum House. This follows the headline letting to Runway East in the previous quarter. The out-of-town market was dominated by healthcare providers as IVC took 17,000 sq ft at the Chocolate Factory and the NHS and Bupa agreed 10,000 sq ft deals.

Pre-let 3 Glass Wharf is the only building under construction, which will help to explain another leap in headline rents to £34 psf.

## Cardiff

Cardiff take-up figures were given a boost during Q3 with the highest level of activity in both the city centre and out-of-town markets this year. The stand-out deal was to Cardiff & Vale University Local Health Board who took 84,750 sq ft at Woodland House, Maes-y-Coed Road. Otherwise there were a handful of smaller deals in the out-of-town market at Cardiff Gate Business Park and Eastern Business Park.

In the city centre EasyHotel and Howells Solicitors agreed to deals around 10,000 sq ft and take-up in Cardiff Bay consisted of six transactions, amounting to 16,500 sq ft.

## Edinburgh

Edinburgh city centre take-up was well above average in Q3, headlined by two high profile lettings to lawyers Brodies (43,000 sq ft) and Pinsent Masons (25,300 sq ft) at Capital Square, Edinburgh's largest speculative office development due for completion in 2020.

The strength of the asset management sector continues in Edinburgh as Royal London and Artemis Fund Management have taken key deals. There are also a number of live requirements from co-working companies.

Grade A supply has eroded further despite the completion of 2 Semple Street, while the recently refurbished 29,000 sq ft Orchard Brae House has also been launched to the market.

Out-of-town activity was dominated by a 30,000 sq ft deal to Charles River at Clearwater House on Heriot Watt Research Park as well as a number of smaller deals in Leith, an area which appears to be benefitting from the lack of supply in the City Centre.

## Glasgow

Glasgow's extraordinary year of take-up activity continues. Barclays have purchased 470,000 sq ft office headquarters at Drum Property Group's Buchanan Wharf site, the largest deal across the Big Nine since we started recording the data ten years ago. This is partly relocation and partly inward investment as the bank aims to accommodate a further 2,500 employees in Glasgow. This is the second large banking deal of the year and HMRC have also taken a further 60,000 sq ft following GPA's 187,000 sq ft transaction in Q1.

This means that city centre take-up is already over twice the long-term annual average, with a quarter still to go. However the two largest transactions this quarter have made up over 80% of take-up, indicating that a two tier market has established in Glasgow with the sub 10,000 sq ft not as buoyant in the run up to Brexit.

## Leeds

It has been another strong quarter in both the city centre and out-of-town markets in Leeds, bringing the total after only three quarters in line with the long term annual average. Activity was headlined by a 60,000 sq ft deal to HMRC at 3 Wellington Place, where there was a further 13,000 sq ft deal to accountants Mazars.

In the out-of-town market BUPA signed for 23,700 sq ft at Kirkstall Forge and Wates signed for 10,275 sq ft at Thorpe Park, where there were three further deals totalling 10,000 sq ft. Grade A space is becoming scarce in the out-of-town market as well as the city centre.

## Liverpool

Overall take-up in Liverpool is in line with the long term average this year, with the city centre and city fringe making up for quieter activity out-of-town. The largest deal in Q3 was a 10,000 sq ft deal to Arup at the Plaza along with a handful of deals around 7,000 sq ft. These include shipping company Hapag Lloyd at No 1 Tithebarn, Willson Grange at 12 Princes Dock and Liverpool John Moores University at Exchange Station.

Shortly after the quarter end betting company SportPesa took 18,400 sq ft at the Royal Liver Building, setting up a strong final quarter. Sentiment in the market remains positive as there are a number of significant requirements all of whom should acquire space within the next 12 months.

## Manchester

Total activity of over 900,000 sq ft in all Manchester markets is a record for a single quarter and includes 460,000 sq ft of take-up in only three deals. Booking.com has taken 225,000 sq ft at Allied London's Enterprise City development as the new global headquarters for its ground transportation division. This is the largest deal in Manchester since 2010 and means that the city centre is expected to reach over 1.5 million sq ft of activity for the first time this year.

There were two further exceptional deals in the out-of-town market; 140,000 sq ft to insurers Royal London and 96,760 sq ft to Trafford Council. Of the other key deals there were seven transactions in both the city centre and out-of-town markets between 10,000 sq ft and 25,000 sq ft.

Q4 is likely to see further activity from We Work with their Amazon tie up at NOMA's Hannover House (90,000 sq ft) and the acquisition of Tesco Pension Fund's Dalton Place (60,000 sq ft). In addition we expect the long running requirements from Money Supermarket (20,000 sq ft) and General Medical Council (20,000 sq ft) to find a home.

## Newcastle

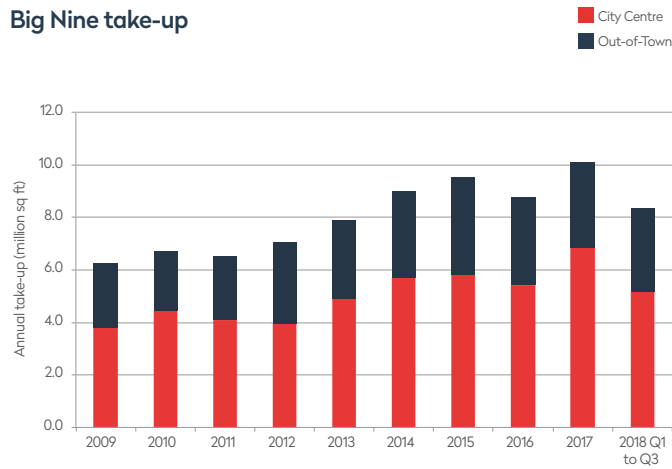
Newcastle has recorded the highest level of take-up for three years, with strong activity in both the city centre and out-of-town markets. The largest deal was to HM Courts and Tribunal Service which took over 63,000 sq ft at the Civic centre. Newcastle University also agreed a 15,000 sq ft deal at Great North House.

In the out-of-town market ten deals transacted over 5,000 sq ft, the largest of which was 20,300 sq ft at Cobalt Business Park to Morrisons Data Services.

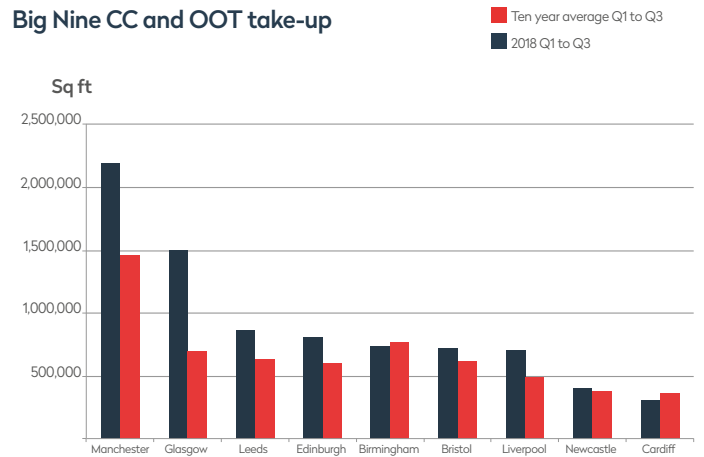
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# Market at a glance

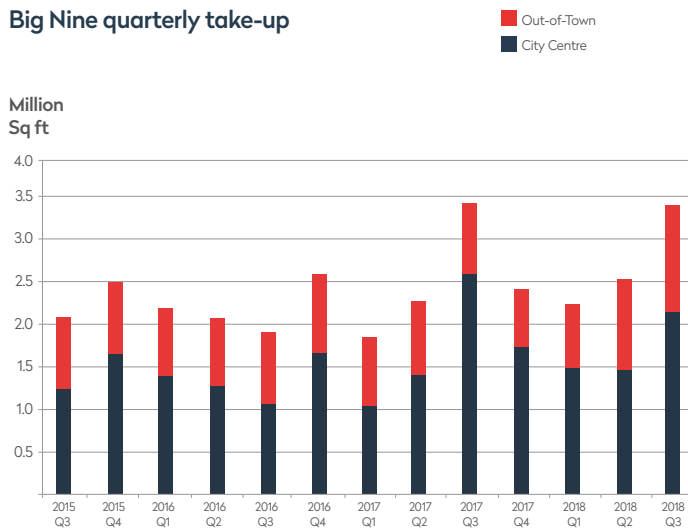
## Big Nine take-up



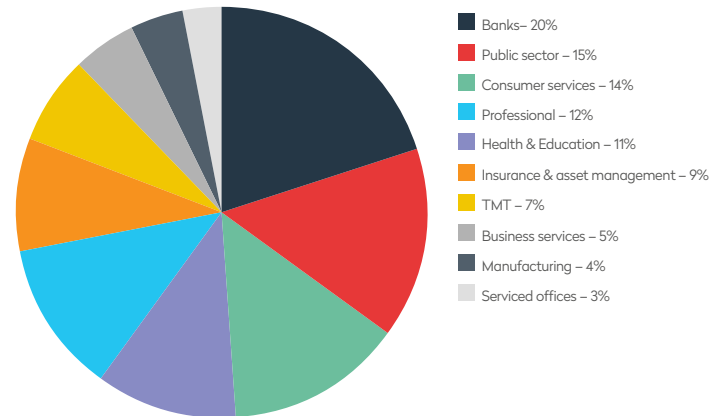
## Big Nine CC and OOT take-up



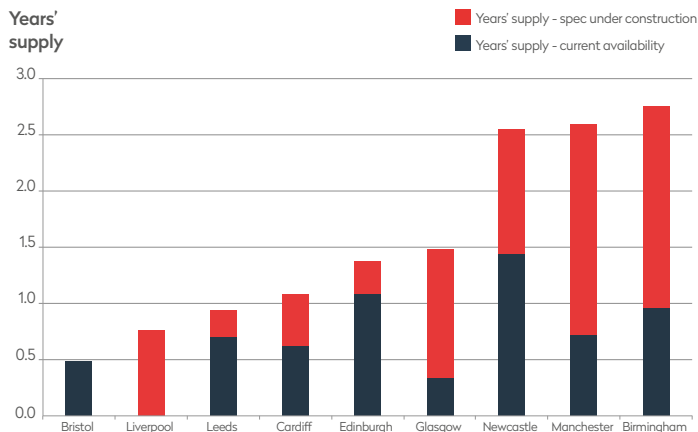
## Big Nine quarterly take-up



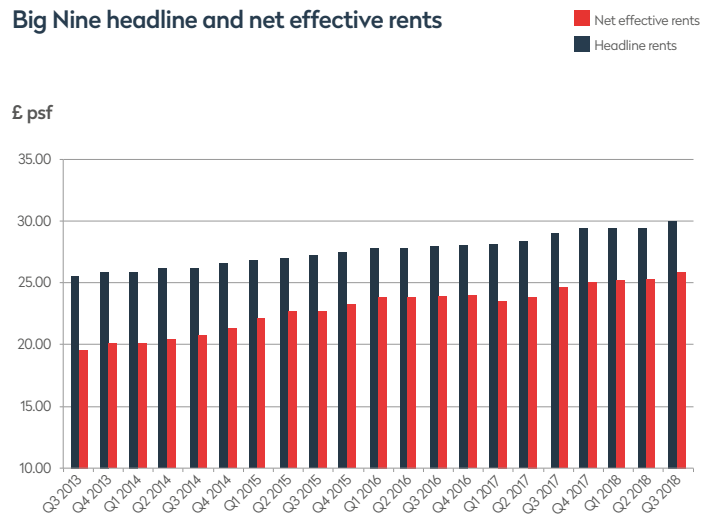
## Big Nine take-up by sector - Q3 2018



## Grade A office supply / demand ratio (years' supply)



## Big Nine headline and net effective rents



## Positive sentiment tempered by Brexit caution

The total volume of office investment across the Big Nine cities during Q3 amounted to £682m. While this is 30% up on the 10 year quarterly average, levels have fallen back this year compared to peak activity during the second half of last year.

Birmingham, Bristol and Manchester all transacted over £140m this quarter and it was a second successive strong quarter for Leeds (£96m). The headline deal in Q3 was the £95m sale of 2 Colmore Square, Birmingham to Railway Pension Trustees. While Manchester continues to lead volumes this year, these other cities have gained share compared to Manchester's strong activity in 2017.

Overseas money continues to show significant interest in the regions as investors benefit from a relatively weak pound. The share of transactions by overseas investors has picked up over the past two quarters, in line with the long term average of a third of activity. Key buyers this year have been from the Middle East and Europe, whilst volumes from German investors are significantly down on long term averages.

The most significant deals in the out-of-town market this year have occurred in Q3. Kuwaiti investor Dimah Capital bought 190,000 sq ft Manchester office campus near the airport for £54m, at a yield of 6.15%. Elsewhere regional overseas investment fund Squarestone has purchased two offices at Eagle Court Business Park near Solihull for £22m.

There has been increasing polarisation in the investment market between prime and secondary. Competition remains strong for prime office stock, and yields continue to harden. This is highlighted by Palmer/Cubex's recently completed Aurora at Finzels Reach, bought by Royal London at a 4.8% yield.

The average equivalent yield for the regional office market according to the MSCI index fell 5 basis points during Q2 to 6.86%, which compares to 7.16% a year ago. The yield gap between prime and secondary property has however begun to widen over the last two quarters reflecting a change in attitude towards the increased risk, larger voids and capital expenditure associated with secondary property. With no material 'distress' in the market this will likely result in stagnation in this part of the market in the short term.

Sentiment does remain positive although it has become increasingly cautious as we approach the Brexit deadline. We expect this caution to be reflected in market volumes over the coming two quarters.



**Mark Frampton**  
Senior Director, Investment

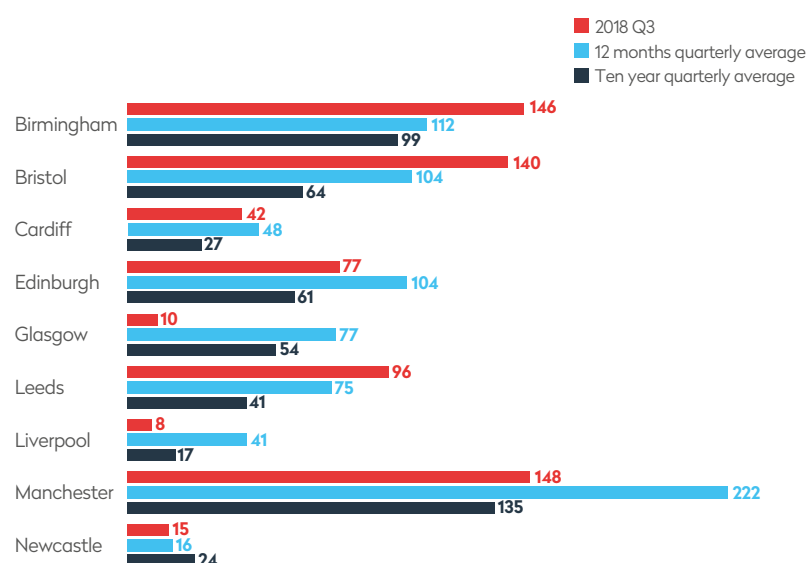
# Market Data – Q3

## TOTAL INVESTMENT VOLUMES IN Q3 2018

**£682 million**

Compared to  
**£562m** (previous quarter – Q2 2018) **£1,127m** (a year ago – Q3 2017) **£525m** (ten year quarterly average)

### BIG NINE INVESTMENT VOLUMES (£ million)



### PRIME CITY CENTRE YIELDS

Location	Q2 2018	Q3 2018	Trend for last 12 months	Peak (2007)
Birmingham	4.75	4.75	↓	4.5
Bristol	5.00	4.75	↓	5
Cardiff	5.50	5.50	→	5
Edinburgh	4.75	4.75	↓	4.75
Glasgow	5.00	5.00	↓	4.75
Leeds	5.00	4.75	↓	4.75
Liverpool	6.00	5.75	↓	5.5
Manchester	4.75	4.75	→	4.5
Newcastle	5.75	5.75	↓	5.25

### TOP FIVE CITY CENTRE DEALS – Q3 2018

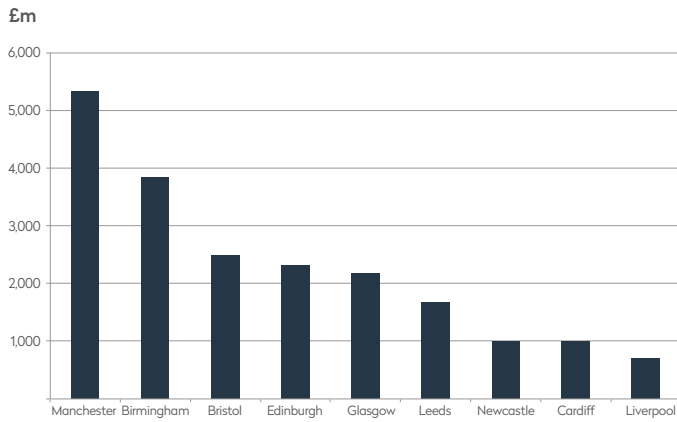
Date	Property	City	Purchaser	Vendor	Price (£m)	NIY (%)
Jul-18	2 Colmore Square	Birmingham	Railways Pension Trustees	Nurton Developments	95.0	6.4
Sep-18	Aurora, Finzels Reach	Bristol	Royal London Asset Man	Palmer Capital	62.1	4.8
Sep-18	1 Sovereign Street	Leeds	Artmax Properties	Gatehouse Bank plc	49.6	5.4
Sep-18	Capital Tower, Kingsway	Cardiff	Trinova Real Estate	Topland Group Plc	25.0	7.5
Aug-18	Torphican Street	Edinburgh	M&G Real Estate	Triuva	22.2	5.97

### TOP FIVE OUT OF TOWN DEALS – Q3 2018

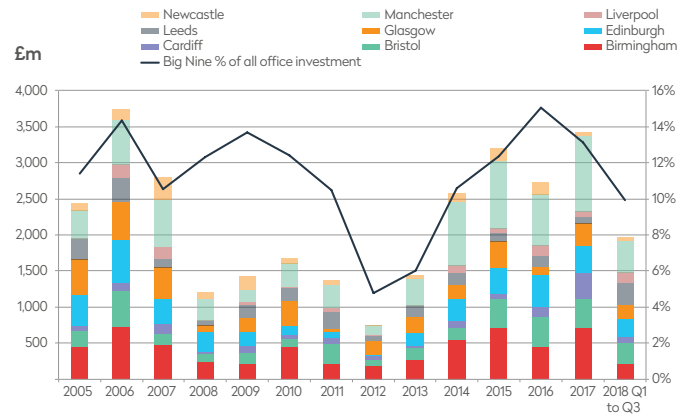
Date	Property	City	Purchaser	Vendor	Price (£m)	NIY (%)
Aug-18	Manchester BP	Manchester	Dimah Capital	TPG Real Estate	54.0	6.15
Aug-18	2&3 Eagle Court	Solihull	Squarestone Growth LLP	Aviva Investors	21.6	8.73
Aug-18	7 Lochside View	Edinburgh	Undisclosed	RDI REIT Plc	13.1	5.9
Aug-18	Thorpe Park	Leeds	Charitable Trust	Scarborough Inv Group Ltd	12.1	N/A
Sep-18	Cranmore Boulevard	Solihull	Wyre Forest Council	Eskmuir Properties Ltd	6.87	6.1

# Market at a glance

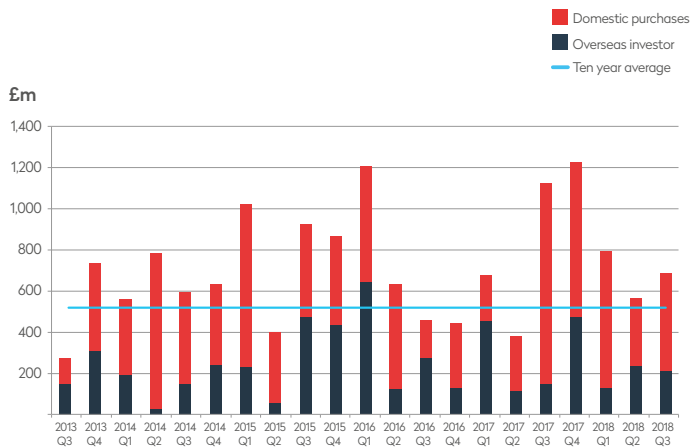
## Big Nine investment volumes 2009 to 2018



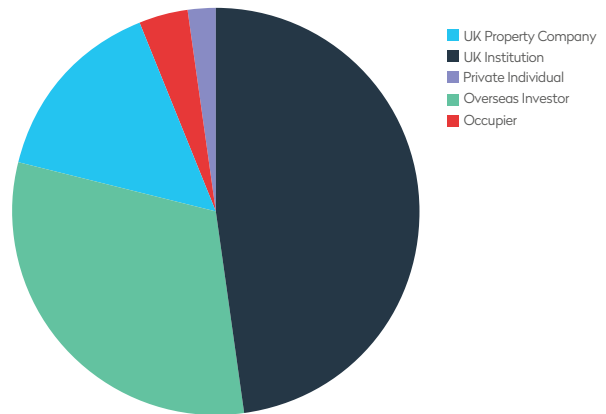
## Big Nine investment volumes by city



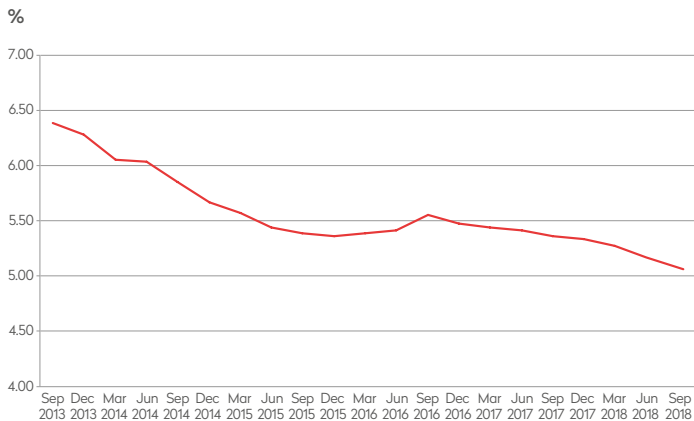
## Big Nine investment volumes



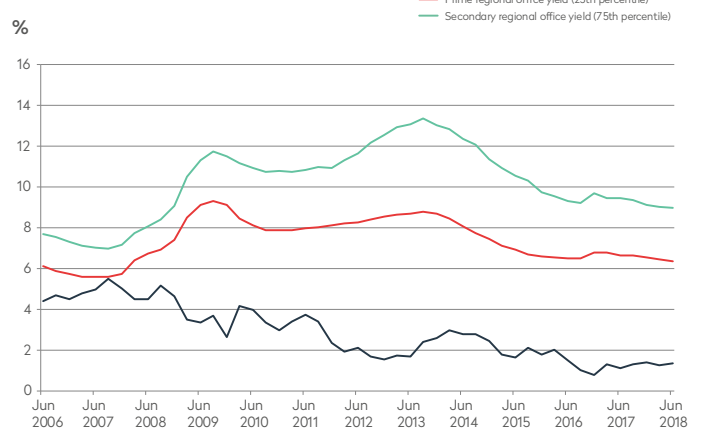
## Big Nine investment volumes by investor type - 2018



## Average Big Nine prime yield



## Regional office yields vs 10 year gilts





# Outlook

- We expect total 2018 take-up for the Big Nine to exceed last year's record of 10.1 million sq ft, as 8.2 million sq ft has already been recorded to Q3.
- With this amount of activity concerns over the lack of prime stock continue. Increased build cost inflation is beginning to impact on scheme viability and the appetite for speculative development. An already low level of standing quality stock means pre-let activity will continue to be the main option for large deals across most cities.
- Average annual regional office rental growth was 1.3% to September 2018. We expect a similar level of growth over the next two years.
- We expect the investment market to become increasingly cautious as we approach the Brexit deadline and this is to be reflected in transaction volumes.

Should you wish to discuss any details within this update please get in touch.

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