

RESEARCH

# The Big Nine

Quarterly update of regional office activity

Q3 2019

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TOP PERFORMERS

## GLASGOW

Occupier market

Q3 activity was headlined by JP Morgan Chase agreeing a pre-sale of 272,800 sq ft at One Central, Argyle Street; the fourth largest deal across the Big Nine in ten years. This lifted Glasgow city centre take-up to 352,500 sq ft, more than double the quarterly average.

## LEEDS

Investment market

Leeds accounted for almost half of all Big Nine investment volumes during Q3, following two exceptional deals to Legal & General: 377,730 sq ft at 7-8 Wellington Place for £211m and 373,900 sq ft Quarry House, let for 25 years to The Secretary of State.



60 Church Street, Birmingham, sold by Catalyst to Topland for £16.8 million.

**CHARLES TOOGOOD**Principal  
National Head of Offices

**Over the last 12 months average prime rents have increased by around 3% in both the city centres and out-of-town locations. This is similar to the MSCI regional office index which records rental growth of 2.5% to September 2019**

## Significant transactions to JPMC and GPA lift Big Nine take-up

The Big Nine markets continue to attract large inward investment and relocation deals, boosting take-up during the third quarter. In Glasgow JP Morgan Chase agreed a 272,800 sq ft pre-sale at One Central, Argyle Street, which was the fourth largest deal across the Big Nine markets over the past ten years. The second phase of the Government Property Agency's relocation is also underway with a 110,800 sq ft letting at Platform 21 in Birmingham.

Total city centre and out-of-town activity during Q3 amounted to 2.1 million sq ft. This was just above the ten year quarterly average, as was take-up for the year to date figure of 6.3 million sq ft. Although this is significantly short of the record levels of the last two years it is at a similar level to the referendum year 2016, the last time the market was so affected by political uncertainty.

The second half of the year tends to show stronger activity but Brexit has impacted on occupier decisions this quarter, particularly for small to medium sized deals. This is emphasised by deal size activity (see occupier charts overleaf) where for the second quarter in succession, take-up is well above average for the largest size band but below average for the lower size bands. There has also been a wide divergence in performance between the cities this quarter, particularly the city centres. Over the year as a whole the larger cities, led by Manchester, are performing the best against their long term averages (see occupier charts overleaf).

In terms of sectoral demand this year the IT sub sector has recorded 545,000 sq ft of take-up and we expect 2019 to be stronger than the previous high in 2015, while the slowdown in activity by professional services occupiers continues.

We expect flexible workspace demand to reach a new high this year, although demand has fallen back in Q3 following record activity in Q2.

In response to flexible working we are seeing some landlords starting to provide a Cat A+ finish and rentalise the fit out and furniture. For example L&G's 7,000 sq ft The Landing in Bristol is under offer for a premium rent of £38.00 psf.

In terms of new supply Manchester and Birmingham have the most amount of new stock coming forward. While all other markets remain relatively constrained there has been some activity in the development pipeline in other cities, with some new starts, development purchases and planning permissions granted for new speculative developments. In the city centres Bristol, Cardiff, Glasgow and Newcastle have all seen new starts over the summer.

Asking and achieved rents continue to edge upwards across the cities. Over the last 12 months average prime rents have increased by around 3% in both the city centres and out-of-town locations. This is similar to the MSCI regional office index which records rental growth of 2.5% to September 2019.

Looking forward all eyes rest on Parliament as it attempts to reach a satisfactory outcome to Brexit. Any continuing delay is likely to prolong the caution in the occupier markets. A positive decision will likely see an improvement in business sentiment, decision making and a reawakening of pent-up demand.

### TOTAL TAKE-UP IN Q3

## 2.1 million sq ft

▲ 3% UP ON THE 10 YEAR QUARTERLY AVERAGE



City Centre  
**1.39 million sq ft**



Out-of-town  
**786,888 sq ft**

### UNDER CONSTRUCTION

## 5.9 million sq ft

### SKewed TOWARDS



MANCHESTER  
**28%**



BIRMINGHAM  
**20%**



GLASGOW  
**19%**

### HEADLINE RENTS AVERAGE

## £30.78

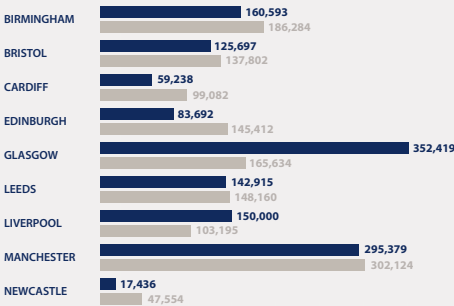
ACROSS ALL NINE CITIES

# City centre

## TOTAL TAKE UP IN Q3



### TAKE UP (SQ FT)



■ Q3 2019 ■ 10 year quarterly average

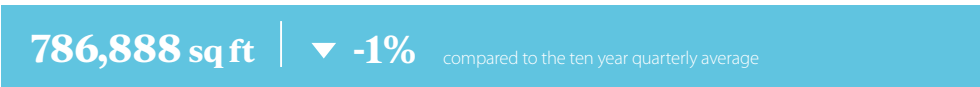
### HEADLINE RENTS (£PSF)

Location	Rent (£)	Rent free (mths on 10 yr term)	Net effective rent*(£)	Net effective rent (£) Q3 2018
Edinburgh	36.00	15	32.40	30.63
Bristol	35.00	18	30.63	29.75
Manchester	36.50	24	30.11	27.64
Glasgow	32.50	15	29.25	28.44
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	24.50	18	21.44	21.00
Liverpool	21.50	24	17.74	17.74
Average	30.78	19.33	26.59	25.69

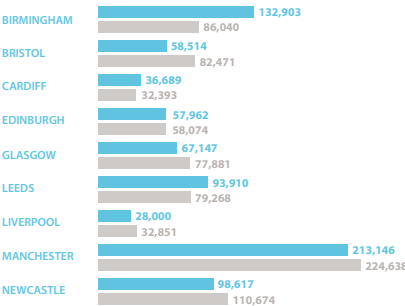
\*including rent free period less three month fit-out.

# Out-of-town

## TOTAL TAKE UP IN Q3



### TAKE UP (SQ FT)

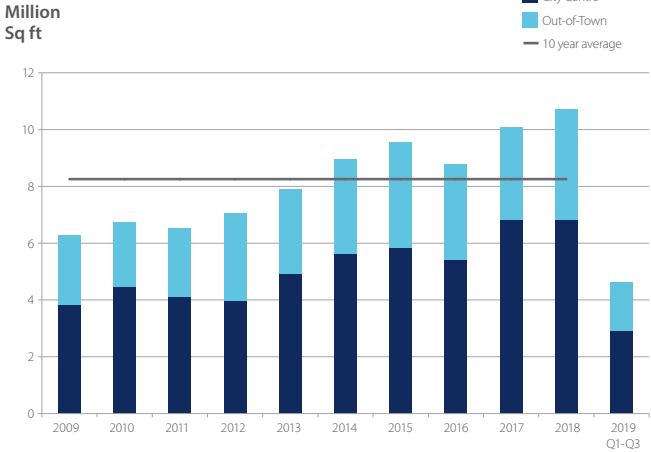


■ Q3 2019 ■ 10 year quarterly average

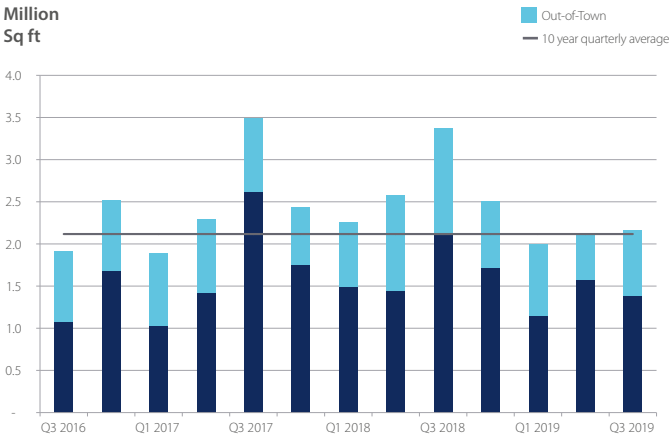
### HEADLINE RENTS (£PSF)

Location	Rent (£)	Rent (£) Q3 2018
Birmingham (Solihull)	25.00	25.00
Leeds	24.75	22.50
Bristol	23.50	22.50
Manchester (South)	24.00	22.00
Edinburgh	22.00	22.00
Newcastle	16.95	16.95
Glasgow	16.50	16.50
Cardiff	15.00	15.00
Liverpool	14.00	14.00
Average	20.19	19.61

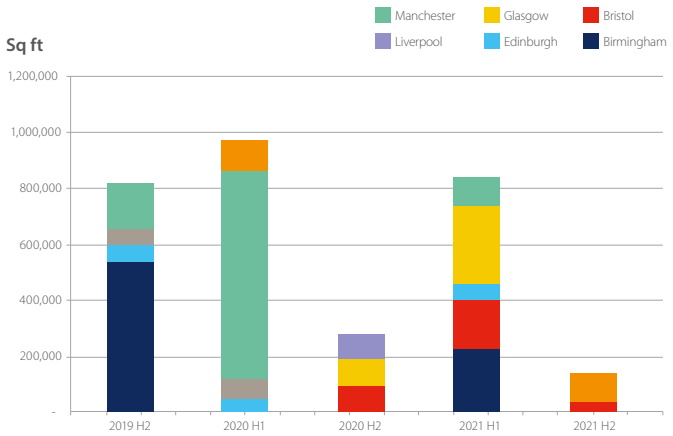
TAKE-UP



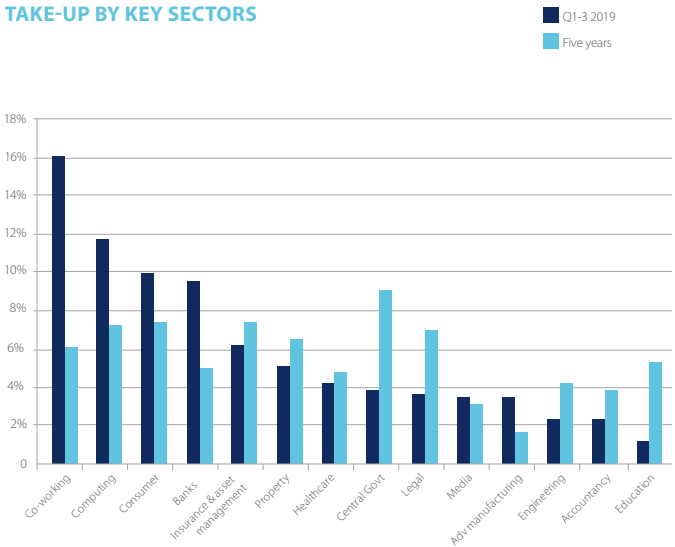
QUARTERLY TAKE-UP



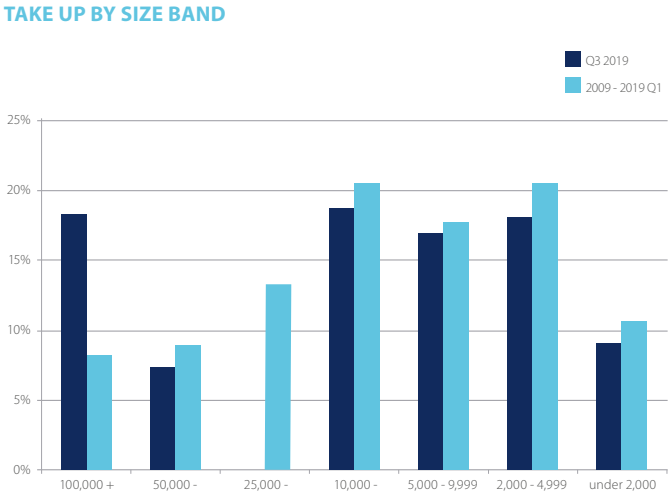
SPECULATIVE COMPLETIONS



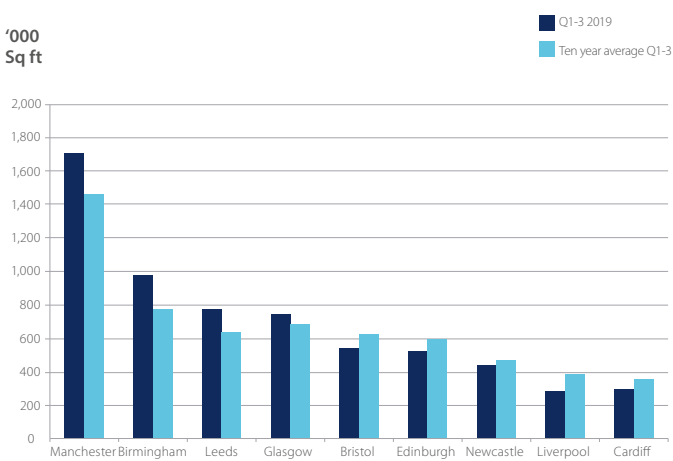
TAKE-UP BY KEY SECTORS



TAKE UP BY SIZE BAND



CC AND OOT TAKE-UP



# Birmingham

Birmingham city centre take-up activity during Q3 was headlined by the Government Property Agency acquiring 110,800 sq ft at Platform 21 on Stephenson Street in the second phase of its relocation strategy. Following a strong H1 this brings take-up for 2019 to 675,000 sq ft, on course to comfortably exceed the ten year annual average of 730,000 sq ft by the end of 2019.

There are some significant requirements in the pipeline including BT's 200,000 sq ft plus hub requirement, two 60,000 sq ft plus strategic relocations and the next phase of the government hub programme. This is promising for the two large speculative developments at 3 Snowhill (370,000 sq ft) and 2 Chamberlain Square (167,000 sq ft), which are expected to complete by the end of the year.

It has been another strong quarter in the Birmingham out-of-town market, bringing the total for the year so far to 319,000 sq ft, just below the annual average. The key deal of the quarter was to automotive manufacturer ZF who received permission for 90,000 sq ft offices and 88,000 sq ft R&D at Blythe Valley Business Park. There have also been a handful of 5,000 sq ft to 10,000 sq ft deals along the M42 corridor including two at Birmingham Business Park, reducing the vacancy rate on the park to 5%, its lowest for 20 years.

## KEY DEALS - Q3 2019

Property	CC / OOT	Sq ft	Occupier
Platform 21, Stephenson Street	CC	110,780	GPA
Plot A, Blythe Valley Park	OOT	90,001	ZF
Pegasus House, Solihull	OOT	11,093	Llamasoft
Regeneration House, Coleshill	OOT	8,882	Engie
2480 The Crescent, Birmingham Business Park	OOT	8,750	Vector

## KEY SECTOR ACTIVITY FOR Q1-3 2019



Flexible workspace  
32%

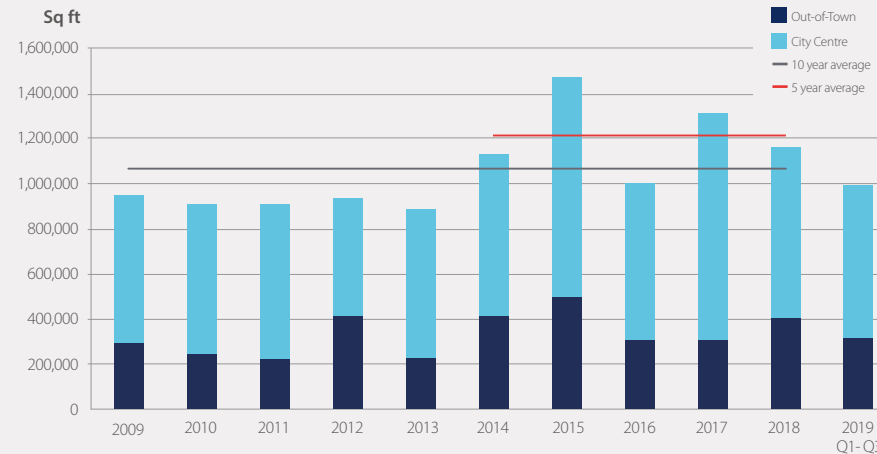


Advanced manufacturing  
17%



Central government  
15%

## TAKE-UP



## Q3 TAKE-UP



City Centre  
160,593 sq ft



Out-of-town  
132,903 sq ft

## HEADLINE RENT

City Centre  
£34 per sq ft

Out-of-town  
£25 per sq ft

## UNDER CONSTRUCTION



1.16 million sq ft  
34% 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

Q3 activity in Bristol city centre was led by three 10,000 sq ft to 20,000 sq ft transactions to financial services firms Aon, Hargreaves Lansdown and Rowan Dartington, along with a handful of 5,000 sq ft plus deals to technology companies. However the headline news is that BT has recently signed the whole of 200,000 sq ft 1 Assembly, Temple Way as part of its national hub programme. This deal falls into Q4 and will bring city centre activity comfortably above the ten year annual average by the end of 2019.

Over the summer there has been an increase in development pipeline activity. The speculative 93,000 sq ft Distillery at Glassfields and Nord Developments' 34,000 sq ft One Portwall Place are currently under construction. These are expected to be followed soon by 110,000 sq ft Halo at Finzels Reach as developers Cubex has received final planning approval. Also the final site at 4 Glass Wharf has recently been purchased by Tristan Capital which they intend to speculatively develop.

The key deal in the out-of-town market was 16,900 sq ft let to facilities management company Mitie at the Chocolate Factory and there were two circa 10,000 sq ft deals at Bristol Business Park and Aztec West to Stirling Dynamics and Edvance UK Ltd.

### KEY DEALS - Q3 2019

Property	CC / OOT	Sq ft	Occupier
Temple Point	CC	19,440	Rowan Dartington
Chocolate Factory	OOT	16,915	Mitie
2 College Square	CC	12,686	Hargreaves Lansdown
230 Bristol Business Park	OOT	12,130	Stirling Dynamics
One Redcliff Street	CC	10,392	Aon

### KEY SECTOR ACTIVITY Q1-3 2019



Insurance & asset  
management  
**26%**

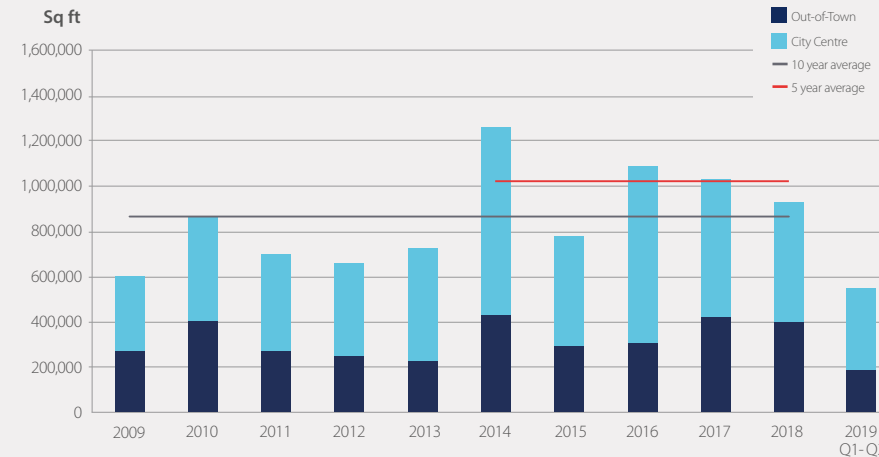


Flexible workspace  
**22%**



Accountancy  
**8%**

### TAKE-UP



### Q3 TAKE-UP



City Centre

**125,697 sq ft**

Out-of-town

**58,514 sq ft**

### HEADLINE RENT

City Centre

**£35 per sq ft**

Out-of-town

**£23.50 per sq ft**

### UNDER CONSTRUCTION

**327,000 sq ft****64% prelet**

### PRIME YIELD

**5.00%**

# Cardiff

It has been a relatively quiet year in the Cardiff office market, with take-up totalling 286,000 sq ft to Q3, still some way short of the ten year annual average of 514,000 sq ft.

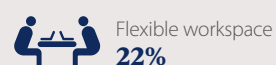
In Q3 there were two deals above 10,000 sq ft; Starling Bank took 14,130 sq ft at Brunel House in the city centre and recruitment agency New Directions took 17,130 sq ft at Lambourne House on Cardiff Business Park. Elsewhere there were a number of deals at Callaghan Square which included occupiers Amey and Grant Thornton.

In terms of new schemes underway, JR Smart has broken ground on the latest Capital Quarter development in John Street, where 107,000 sq ft offices are expected to complete by Q1 2021. At the substantial regeneration of Rightacres' former Brewery site Central Quay, preliminary works have started on the 220,000 sq ft Ledger Building.

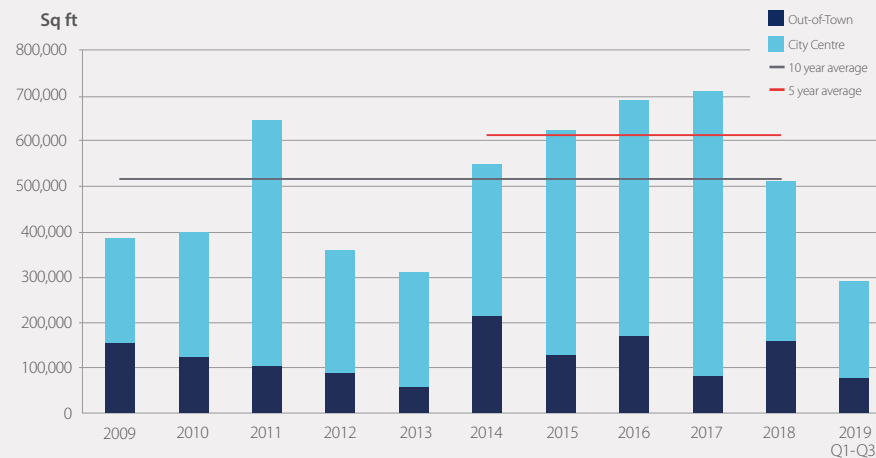
## KEY DEALS - Q3 2019

Property	CC / OOT	Sq ft	Occupier
Lambourne House, Cardiff Business Park	OOT	17,130	New Directions
Brunel House, Fitzalan Road	CC	14,130	Starling Bank
3 Assembly Square	CC	7,374	Sapiens
13-14 Neptune Court, Ocean Way	CC	6,718	Private
3 Callaghan Square	CC	6,200	Grant Thornton

## KEY SECTOR ACTIVITY FOR Q1-3 2019



## TAKE-UP



## Q3 TAKE-UP



City Centre

59,238 sq ft



Out-of-town

36,689 sq ft

## HEADLINE RENT

City Centre

£27 per sq ft

Out-of-town

£15 per sq ft

## UNDER CONSTRUCTION



379,000 sq ft

71% prelet

## PRIME YIELD

5.75%



# Edinburgh

**Take-up and overall sentiment in the Edinburgh market has been subdued this quarter. Underperformance in the city centre so far this year has been partially alleviated by relatively upbeat out-of-town demand.**

The scarcity of new supply in the city centre and increased out-of-town take-up activity is encouraging more out-of-town development and refurbishment. The largest deal of the quarter, 35,000 sq ft to Motability at Forthstone, has led developer CEG to purchase 68,000 sq ft Hafton House, which it plans to refurbish. Also on Edinburgh Park, Parabola has broken ground on a new speculative 60,000 sq ft office building.

In the city centre the two largest deals were around 10,000 sq ft: Illuminate Technologies Ltd have moved from Edinburgh Park to Apex, Haymarket and financial services advisor Multrees has moved to larger premises in Princes Street.

In the city centre development market 60,000 sq ft at 10 George Street is expected to complete soon. The building was initially pre-let to Aberdeen Asset Management, however following the merger with Standard Life, the company has chosen not to occupy the space. In terms of available speculative space, there is 60,000 sq ft at Capital Square, which completes next year and a further 60,000 sq ft at New Fountainbridge where Vastint have recently started on site. The only other space coming forward is at Haymarket, which is rumoured to be starting on site later this year.

## KEY DEALS - Q3 2019

Property	CC / OOT	Sq ft	Occupier
Forthstone, South Gyle Crescent	OOT	35,261	Motability
Apex 2/3, Haymarket Terrace	CC	11,713	Illuminate Technologies Ltd
40 Princes Street	CC	10,978	Multrees
31-33 Pennywell Road	OOT	10,000	Citizens Advice Edinburgh
1 Leith Walk	OOT	6,383	Social Bite

## KEY SECTOR ACTIVITY FOR Q1-3 2019



Flexible workspace  
27%

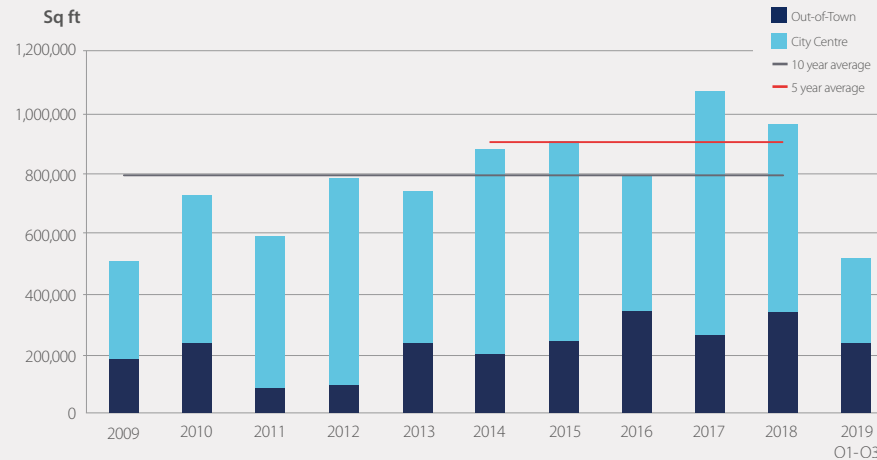


Membership body  
17%



Health & social care  
11%

## TAKE-UP



## Q3 TAKE-UP



City Centre  
**83,692 sq ft**



Out-of-town  
**57,962 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**  
**5.00%**





# Glasgow

Occupational demand remains buoyant in the Glasgow office market. Quarterly activity has been headlined by the granting of permission for JP Morgan Chase's 272,800 sq ft headquarters in order to consolidate its technology operations in Argyle Street. Developer Osborne + Co is expected to start construction early next year. This is the fourth largest deal across the Big Nine over the past ten years and following the Barclays deal 12 months ago, is another significant boost to Glasgow's credentials as a major financial services employer.

Otherwise in Glasgow the key activity was in the property, engineering and technology sub-sectors. The largest deal was 25,800 sq ft to Flagship Property Solutions on Strathclyde Business Park, where the top three out-of-town deals were all located.

We anticipate strong occupational demand continuing as the city benefits from some very large public sector requirements as well as a number of >50,000 sq ft private sector enquiries. Despite the Brexit uncertainty, activity will be further boosted by a healthy level of lease events as well as an increase in employment from growth in the newly emerging tech, health, and quantum sectors. There is also evidence of 'homeshoring' deals, with companies moving back to the UK and 'northshoring' as companies look to relocate operations out of London.

This level of occupational demand is encouraging development activity in Glasgow. FORE Partnership has started construction on the speculative 95,000 sq ft Cadworks on Cadogan Street where Bowmer and Kirkland has been appointed contractor. In the refurbishment market, Ambassador Group has started work on The Ink Building, formerly known as Hanover House.

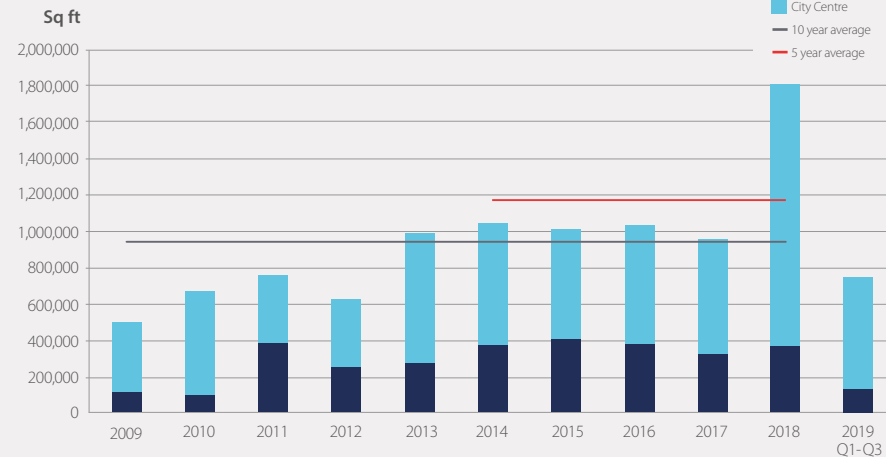
## KEY DEALS - Q3 2019

Property	CC / OOT	Sq ft	Occupier
One Central, Argyle Street	CC	272,858	JPMC
Carnbroe House, Strathclyde Business Park	OOT	25,771	Flagship Property Solutions
Solais House, Strathclyde Business Park	OOT	19,290	Kick ICT
9 George Square	CC	7,063	Stantec
Turnberry House, 175 West George Street	CC	6,652	Oh Polly

## KEY SECTOR ACTIVITY FOR Q1-3 2019



## TAKE-UP



## Q3 TAKE-UP



City Centre  
**352,419 sq ft**



Out-of-town  
**67,147 sq ft**

## HEADLINE RENT

City Centre  
**£32.50 per sq ft**

Out-of-town  
**£16.50 per sq ft**

## UNDER CONSTRUCTION



**1.15 million sq ft**

**67% prelet**

## PRIME YIELD

**5.00%**



## Leeds

Leeds city centre take-up activity has already reached the ten year annual average in the first three quarters of the year. The key deals this quarter were in the TMT sector, headlined by IT consultancy BJSS taking 30,500 sq ft at 1 Whitehall Quay and new TV studios Versa Studios taking 26,000 sq ft on Whitehall Road. These have been supported by a number of circa 10,000 sq ft to 15,000 sq ft deals to media and marketing companies such as Red Kite Games and Channel 4.

In addition DLA Piper has a well advanced requirement to take more than 100,000 sq ft of space for its global operations which is expected to enter into solicitor's hands this year. There are also a number of 30,000 sq ft to 40,000 sq ft requirements in the city centre.

The two schemes under construction at Wellington Place (totalling 512,000 sq ft) are both pre-let. Of the two comprehensive refurbishments in the city, 46,000 sq ft at 34 Boar Lane has recently completed and remains available, while a substantial part of the 66,000 sq ft Majestic Cinema is under offer to Channel 4 and is due to complete next year.

In the out-of-town market, home technology company SharkNinja has taken 16,000 sq ft at Thorpe Park, the largest deal on the park for six years. Meanwhile there are two notable occupiers in the out-of-town market, O2 and Arup who are looking to relocate to the city centre.

### KEY DEALS - Q3 2019

Property	CC / OOT	Sq ft	Occupier
1 Whitehall Quay	CC	30,492	BJSS
Kidd House, Whitehall Road	CC	26,000	Versa Studios
3150 Thorpe Park	OOT	16,021	Shark Ninja
No 1 Leeds, 26 Whitehall Road	CC	15,586	JPI Media Publishing Ltd
Park Row House	CC	12,496	Red Kite Games Ltd

### KEY SECTOR ACTIVITY FOR Q1-3 2019



Consumer services  
**32%**

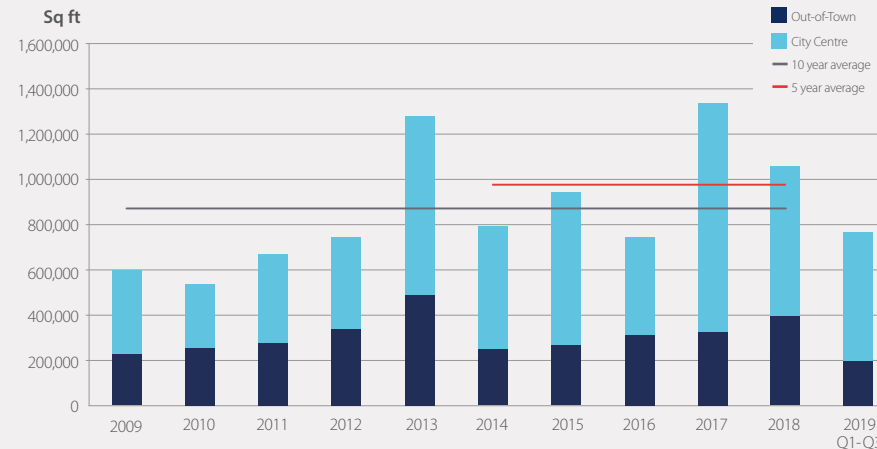


Insurance & asset  
management  
**13%**



Computing  
**11%**

### TAKE-UP



### Q3 TAKE-UP



City Centre  
**142,915 sq ft**



Out-of-town  
**93,910 sq ft**

### HEADLINE RENT

City Centre  
**£30 per sq ft**

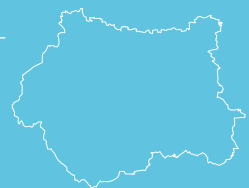
Out-of-town  
**£24.75 per sq ft**

### UNDER CONSTRUCTION



**578,000 sq ft**  
**89%**  
prelet

**PRIME YIELD**  
**5.00 %**



# Liverpool

Following a slow start to the year, take-up activity in Liverpool city centre during Q3 amounted to 150,000 sq ft, the highest quarterly total for two years. In the key deal of the quarter, Sony has leased 65,000 sq ft over three floors at Echo Place on Old Hall Street.

This is the former Liverpool Echo headquarters, which is being redeveloped as a mixed use project to include a hotel and new retail units.

Elsewhere Bibby Line let 20,800 sq ft at Exchange flags, Onward Housing took 20,000 sq ft at the Watson Building and accountants BDO agreed a 7,800 sq ft deal at No 1 Tithebarn. There are a number of other 10,000 sq ft plus transactions currently in solicitors' hands that should ensure a strong finish to the year.

While the level of enquiries has slowed over the summer, BT has a 100,000 sq ft requirement and is considering a short list of sites. The only building currently under construction in the city is 160,000 sq ft Spine in Paddington Village by Liverpool City Council, where 80,000 sq ft is still available.

## KEY RECENT DEALS - Q3 2019

Property	CC / OOT	Sq ft	Occupier
Echo Place, Old Hall Street	CC	65,000	Sony
Exchange flags	CC	20,800	Bibby Line
Watson Building, Renshaw Street	CC	20,000	Onward Housing
No 1 Tithebarn	CC	7,864	BDO

## KEY SECTOR ACTIVITY FOR Q1-3 2019



Media  
26%

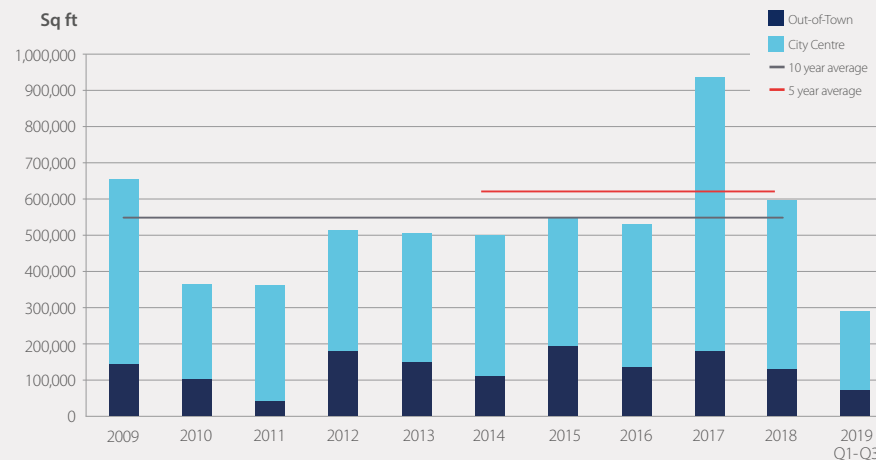


Flexible workspace  
21%



Consumer services  
18%

## TAKE-UP



## Q3 TAKE-UP



City Centre

**150,000 sq ft**



Out-of-town

**28,000 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

The Manchester market remains strong, particularly in the city centre which has already achieved 1.1 million sq ft in take-up this year, in line with the annual average. All take-up in 2019 is expected to comfortably surpass 2 million sq ft for the sixth year in succession.

Across the Manchester markets there were a handful of medium sized deals from a wide variety of sectors. In the largest of these ME Group Holdings took 37,100 sq ft at Cheadle Royal Business Park and insurance group Marker Study let 35,470 sq ft at Arndale House.

The strength of the flexible workspace market continues in Manchester as IWG's boutique brand 18 is under offer to take 40,000 sq ft at Landmark, Oxford Road which has almost completed. A number of other operators are actively looking for space, including The Offices Group, Gilbanks and Avenue HQ. Also as part of its hub relocation, BT are rumoured to have chosen New Bailey.

In terms of new supply, occupiers have a considerable choice of space coming to the market over the next year. Of the 1.65 million sq ft under construction in Manchester, 61% remains available and there is more than 700,000 sq ft of speculative space in a number of developments completing by Q3 next year.

The latest phase in Manchester's mixed-use 20-acre First Street site, 170,000 sq ft No8 First Street has completed. Further down the development pipeline, Peel Media and joint venture partner Legal & General Capital, have secured a loan for the £1 billion phase two of MediaCityUK, the 200-acre mixed-use site, including 540,000 sq ft of offices.

## KEY DEALS - Q3 2019

Property	CC / OOT	Sq ft	Occupier
The Lakehouse	OOT	37,130	ME Group Holdings
Arndale House	CC	35,476	Marker Study
Lee House	CC	27,723	Capita Business Services Ltd
St James Tower	CC	26,359	Regus
Oakfield 4, Cheadle Royal BP	OOT	24,715	DOW Chemical Co

## KEY SECTOR ACTIVITY FOR Q1-3 2019



Flexible workspace  
20%

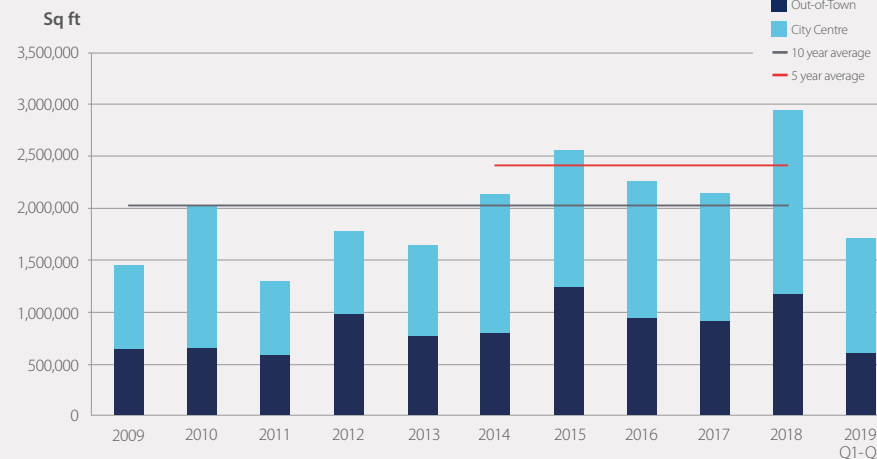


Legal  
9%



Computing  
8%

## TAKE-UP



## Q3 TAKE-UP



City Centre  
295,379 sq ft



Out-of-town  
213,146 sq ft

## HEADLINE RENT

City Centre  
£36.50 per sq ft

Out-of-town  
£24 per sq ft

## UNDER CONSTRUCTION



1.65 million sq ft  
39% 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

The Newcastle out-of-town market continues to dominate activity following a very strong first half of the year and so far accounts for more than 80% of take-up. Out-of-town activity in Q3 was led by Ocado's 21,800 sq ft new build in Sunderland.

Following subdued city centre activity the Newcastle market will need a strong final quarter to bring overall take-up for the year in line with the ten year average.

Encouragingly there are three circa 50,000 sq ft plus enquiries from public and professional services occupiers, which bodes well for the city centre development market. There is 206,000 sq ft under construction at the Newcastle Helix; 106,000 sq ft The Lumen completes at the beginning of next year and this has already received strong expressions of interest. The next phase of the scheme, 107,000 sq ft Spark, has also recently broken ground. Quoting rents on new stock such as The Lumen are at £26.00 psf.

## KEY DEALS - Q3 2019

Property	CC / OOT	Sq ft	Occupier
The Beam, Vaux, Sunderland	OOT	21,830	Ocado
Scottswood House, Newcastle Business Park	OOT	17,049	Private
The Fram Well, Framwellgate Peth	OOT	12,033	Probation Service
Franklin, Rainton Bridge	OOT	9,429	DRS Ltd
1A Hylton Park	OOT	5,632	Blissfull Futures

## KEY SECTOR ACTIVITY FOR Q1-3 2019



Computing  
46%

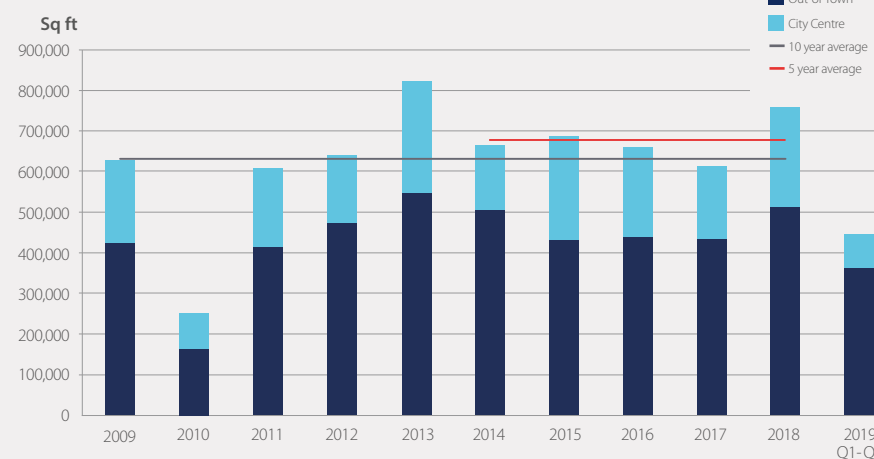


Business services  
14%



Flexible workspace  
13%

## TAKE-UP



## Q3 TAKE-UP

City Centre  
**17,436 sq ft**



Out-of-town  
**98,617 sq ft**

## HEADLINE RENT

City Centre  
**£24.50 per sq ft**

Out-of-town

**£16.95 per sq ft**

## UNDER CONSTRUCTION



**206,555 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

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**Domestic purchasers have dominated investment volumes for the first time this year. However in general, overseas investors continue to show greater interest than the institutional market.**

## Legal & General account for half of investment volumes across the Big Nine

**Two exceptional deals to Legal & General in Leeds lifted the total volume of investment activity across the Big Nine to £990 million during Q3, the highest quarterly total in 2019 so far and 74% up on the 10 year quarterly average.**

The two deals, each worth more than £200 million were transacted within a month of each other. L&G forward-funded the Government Property Association's Leeds hub, 377,730 sq ft at 7-8 Wellington Place for £211m and also acquired 373,900 sq ft Quarry House, let for 25 years to The Secretary of State for Housing, Communities and Local Government. L&G has now invested more than £1.5 billion in 10 government hubs across the regional cities, showing the continuing attraction of prime office stock in the regions with long dated indexed income.

These deals have masked the underlying lower level of activity this year, which was widely anticipated due to the political uncertainty. This is borne out by the lower number of transactions for the year to Q3 which are 33% down on the same period for the last two years. The reason for this being vendors' pricing expectations not sufficiently reflecting the perceived level of risk outside core prime stock.

However, a host of buyers remain in the market with considerable amounts of capital to invest, following the trend of large occupiers continuing to show interest in the Big Nine cities. While overall occupier sentiment remains relatively positive, the lack of grade A supply in cities such as Leeds and Edinburgh presents potential opportunities for new build or repositioning of existing stock.

Aside from Leeds there was well above average activity in Bristol and Edinburgh this quarter. Continued buyer interest is highlighted by a handful of deals between £25 million and £100 million. M&G Real Estate sold Temple Quay House,

Bristol to Alpha Real Capital for £73 million, where strong bidding resulted in a net initial yield of 4.00%. Other key deals included the sale of 360,000 sq ft Exchange Flags in Liverpool to Ashtrom Properties UK for £68m and Exchange Plaza in Edinburgh sold by Murray Estates for £54 million.

In the £10 million to £20 million bracket Topland have purchased three regional offices this quarter. These include 58 Spring Gardens and 151 Deansgate in Manchester and 60 Church Street in Birmingham for £16.8 million.

Domestic purchasers have dominated investment volumes for the first time this year. However in general, overseas investors continue to show greater interest than the institutional market. They continue to benefit from the materially weakened currency and have accounted for a significant proportion of transactions if one considers that some UK based buyers are funded by overseas capital.

There continues to be a lack of stock in the market and there has been less transactional evidence for prime multi-let buildings. The average of prime yields across the Big Nine has softened to 5.31% at the end of September from 5.25% at the end of June and a cyclical low of 5.08% at the end of 2018.

According to the MSCI monthly index the average equivalent yield for all regional offices has shown little movement over the past six months at around 7% (6.97% in September). Capital value growth of 1.2% in the year to September 2019, combined with rental growth has resulted in a total return of 7%, down from 10.3% in the previous year.

TOTAL FOR Q3

**£990 million**

**▲ 74%**

UP ON THE 10 YEAR QUARTERLY AVERAGE

VOLUMES BY CITY



LEEDS

**£476m**



BRISTOL

**£136m**



EDINBURGH

**£118m**

VOLUMES BY INVESTOR TYPE



OVERSEAS  
INVESTOR

**15%**



UK PROPERTY  
COMPANY

**26%**



UK  
INSTITUTION

**53%**

PRIME YIELD

**5.00%**

PREVIOUS PEAK (2007)

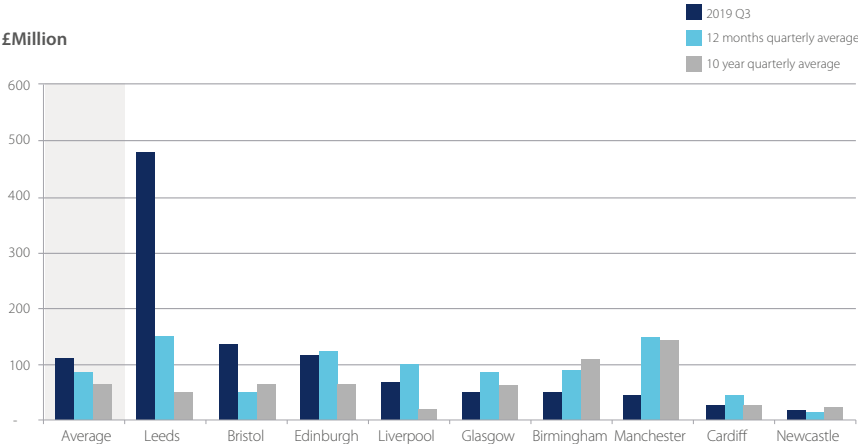
**4.50%**



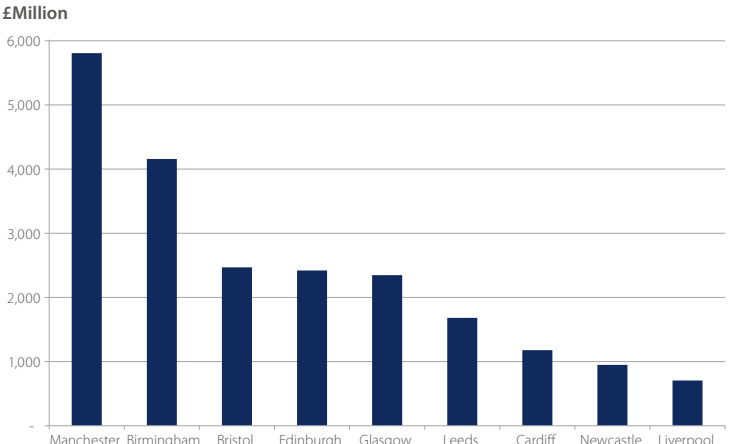
TOTAL INVESTMENT VOLUMES IN Q3 2019



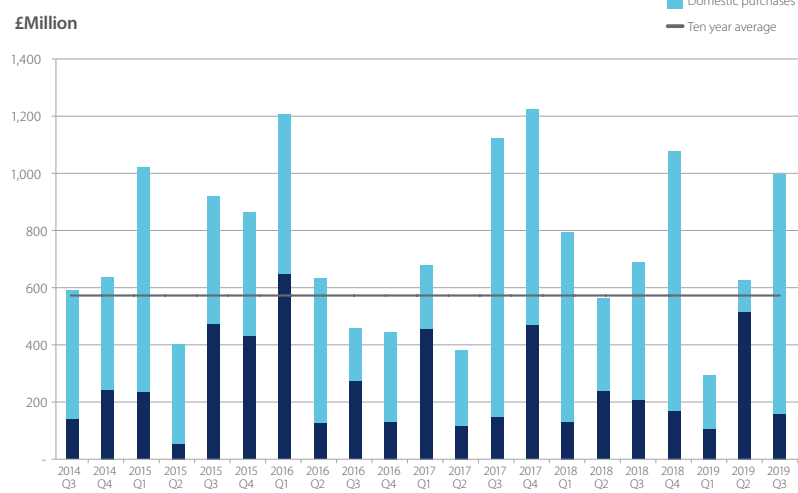
INVESTMENT VOLUMES



INVESTMENT VOLUMES 2009 TO 2018



INVESTMENT VOLUMES



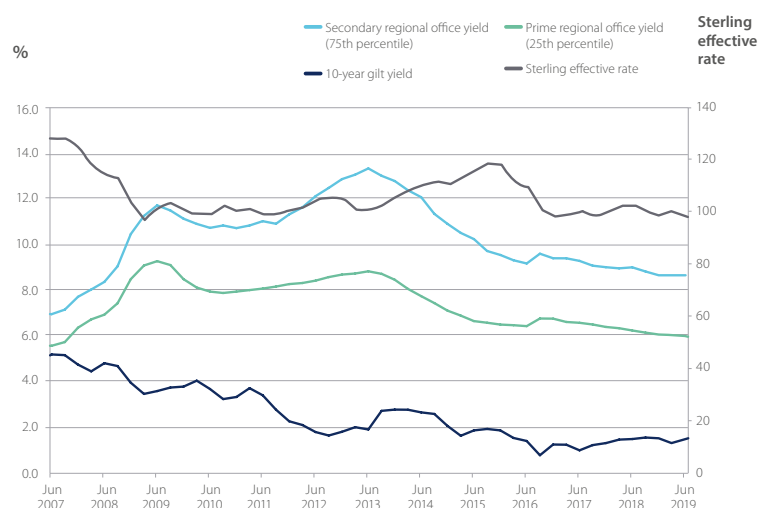
TOP FIVE DEALS – Q3 2019

Date	Property	City	Purchaser	Vendor	Price (£m)	NIY (%)
Sep-19	Quarry House, Quarry Hill	Leeds	Legal & General Retire	R20 Ltd	243.0	3.10
Aug-19	7-8 Wellington Place	Leeds	Legal & General Pensions	Hermes REIM	211.0	4.30
Aug-19	Temple Quay House	Bristol	Alpha Real Capital LLP	M&G Real Estate	73.3	4.02
Aug-19	Exchange Flags	Liverpool	Ashtrom Properties UK	Shelborn Asset Management	68.0	7.60
Aug-19	Exchange Plaza	Edinburgh	Client of M&G Real Estate	Murray Estates	54.0	5.30

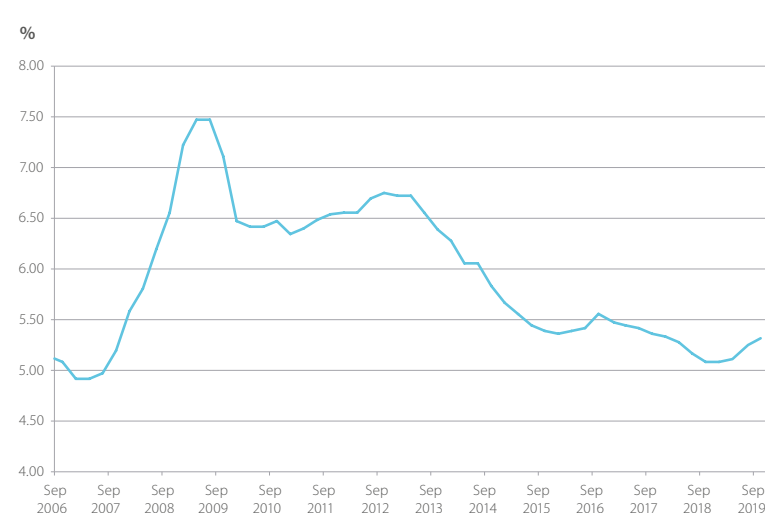
## PRIME CITY CENTRE YIELDS

Location	Q2 2019	Q3 2019	Trend for last 12 months	Peak (2007)
Birmingham	5.00	5.00	↑	4.50
Bristol	4.75	5.00	↑	5.00
Cardiff	5.75	5.75	↑	5.00
Edinburgh	4.75	5.00	↑	4.75
Glasgow	5.00	5.00	→	4.75
Leeds	5.00	5.00	↑	4.75
Liverpool	6.00	6.00	↑	5.50
Manchester	5.00	5.00	↑	4.50
Newcastle	6.00	6.00	↑	5.25

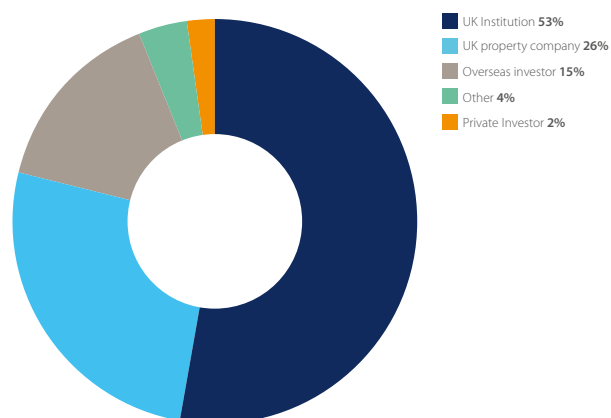
## REGIONAL OFFICE YIELDS VS 10 YEAR GILTS



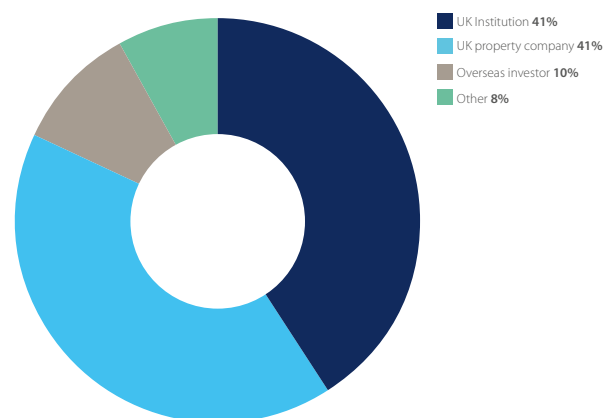
## AVERAGE BIG NINE PRIME YIELD



## INVESTOR VOLUMES BY PURCHASER TYPE Q3 2019



## INVESTOR VOLUMES BY VENDOR TYPE Q3 2019



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Two exceptional deals to Legal & General in Leeds lifted the total volume of investment activity across the Big Nine to £990 million during Q3, the highest quarterly total in 2019 so far and 74% up on the 10 year quarterly average.

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

## Outlook

**The outlook for UK economic growth continues to be dominated by political and Brexit-related matters. In the short-term this is having a knock-on effect on the economy as the uncertainty is damaging business confidence. This comes at a time when global factors are less favourable, with ongoing global trade tensions and a slowdown in the global economy potentially adding further stress to the UK economy. In September, the Treasury further downgraded its economic growth consensus forecasts to 1.2% and 1% for 2019 and 2020 respectively.**

This uncertainty has affected the office investment market all year, but the occupier market has only recently seen an impact, with caution entering some markets. This has mainly affected small to medium sized indigenous demand. Regardless of Brexit uncertainty long-term strategic demand remains robust as the regional markets continue to benefit from substantial public and private sector inward investment and relocation transactions.

There are a number of enquiries in the Big Nine cities for the latest phase of the Government hub programme along with 13 BT hub requirements. There are also some significant requirements from flexible workspace operators and lease events from indigenous occupiers. This activity will further enhance the importance of the Big Nine as major centres of employment.

Of the 3.3 million sq ft of speculative space under construction in the Big Nine cities, 760,000 sq ft will complete by the end of the year. The most substantial schemes include 3 Snowhill (370,000 sq ft) and 2 Chamberlain Square (167,000 sq ft) in Birmingham and Landmark, Oxford Road (180,000 sq ft) in Manchester. Up to 100,000 sq ft of speculative space will complete in a number of cities next year, however in Manchester there is more than 750,000 sq ft being delivered in new schemes which include 1&2 Circle Square, 100 Embankment and 2 New Bailey.

While political uncertainty will continue to play a pivotal role in investment decisions, the fundamentals in the investment market remain positive. There is a significant weight of global capital ready to invest and whilst we are seeing most deals completed of core or long income nature, capital is ready to invest throughout the risk spectrum.



Proposed 55,000 sq ft G51 at Pacific Quay, Glasgow. Avison Young are agents on behalf of Expresso Property.

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

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