

RESEARCH

The Big Nine

Quarterly update of regional office activity
Q1 2019

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TOP PERFORMERS

MANCHESTER

Occupier market

Take-up across all Manchester office markets totalled over 500,000 sq ft during Q1, with a broad spread of activity across a number of sectors including professional, financial, TMT and utilities. Lawyers Eversheds Sutherland represented the largest deal, a 47,500 sq ft pre-let at Two New Bailey.

EDINBURGH

Investment market

Hyundai Asset Management completed the largest deal of the quarter, purchasing offices in Gyle Square, Edinburgh for £52m. This deal, along with a significant transaction to Corum XL ensured that overseas investment accounted for 40% of all transaction volumes.

The Department, Liverpool



**CHARLES TOOGOOD**Principal
National Head of Offices

City centre office construction is at its highest level since 2007, standing at more than 5.3 million sq ft. However pre-let activity accounts for half of this total, with more than 1.5 million sq ft being developed for the Government Property Agency

Encouraging start to the year for occupier demand

Take-up across the 'Big Nine' office markets amounted to 2 million sq ft during the first quarter of 2019, 4% down on the ten year quarterly average. Given that Q1 is traditionally the quietest quarter and in light of the political uncertainty, this is an encouraging start to the year.

Overall the out-of-town market performed better than the city centres when compared to the long term average but there was a wide variation in performance across the cities. The strongest take-up in the city centre markets were boosted by key deals such as the Commonwealth Games (72,260 sq ft) in Birmingham and Link Asset Services (71,300 sq ft) in Leeds. Similarly the deal to the Church of Scientology (48,600 sq ft) ensured almost double the average take-up in the Edinburgh out-of-town market.

Sectoral activity was dominated by the private sector: professional, financial and consumer services, while for the first time in two years there has been very little activity by the public sector.

The two key deals to Eversheds Sutherland in Manchester and Irwin Mitchell in Birmingham meant that legal services dominated the professional services sector, with engineering and property companies accounting for the majority of remaining activity, which is in line with long term trends. The strong level of take-up in the co-working sector has continued with four deals all over 20,000 sq ft. While the TMT sector was slightly down on average, over half the activity was in the computing and software sub-sector.

In terms of the deal sizes there was much more activity in the 25,000 sq ft to 50,000 sq ft size band than is usual (see chart). However deals above 50,000 sq ft were fewer and there were none above 100,000 sq ft. The spread of activity in all size bands below 25,000 sq ft was fairly similar to trend.

City centre office construction is at its highest level since 2007, standing at more than 5 million sq ft (see chart). However pre-let activity accounts for half of this total, with more than 1.5 million sq ft being developed for the Government Property Agency. With 40% of speculative space being built in Manchester, followed by 20% in Birmingham, supply in other city centres remains tight, and the overall level of speculative development is at a sustainable level.

This year will mark the completion of a number of office developments which will contribute significantly to impressive city centre place making schemes such as Chamberlain Square in Birmingham; The Lumen, part of the Newcastle Helix science / tech regeneration area and Capital Quarter in Cardiff, all areas that will retain talent and promote growth in knowledge economy employment.

With the steady level of take-up and relative caution amongst occupiers there has been no movement in headline rents during Q1, although a number of cities are expecting rental growth this year. According to MSCI monthly index regional office rental growth over the 3 months to March amounted to 0.9% and 2.2% over the last 12 months.

TOTAL FOR Q1

2 million sq ft▼ **4%** DOWN ON THE 10 YEAR QUARTERLY AVERAGECity Centre
1.15 million sq ftOut-of-town
860,056 sq ft

UNDER CONSTRUCTION

5.3 million sq ft

SKEWED TOWARDS

MANCHESTER
40%BIRMINGHAM
20%

HEADLINE RENTS AVERAGE

£30.33 ACROSS ALL 9 CITIES

City centre

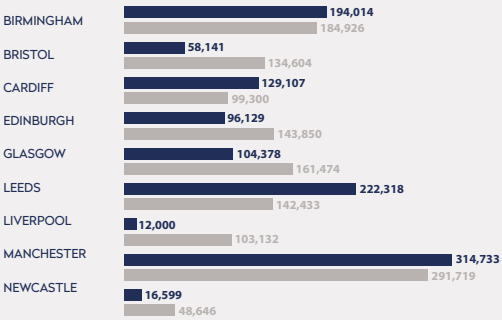
TOTAL TAKE UP IN Q1

1,147,419 sq ft

▼ 12%

compared to the ten year quarterly average

TAKE UP (SQ FT)



■ Q1 2019 ■ 10 year quarterly average

HEADLINE RENTS (£PSF)

Location	Rents (£)	Rent free (mths on 10 yr term)	Net effective rent*(£)	Net effective rent (£) Q1 2018
Edinburgh	35.00	18	30.63	29.75
Bristol	35.00	18	30.63	28.44
Manchester	35.00	24	28.88	27.64
Glasgow	32.50	16	28.98	26.25
Birmingham	33.00	24	27.23	27.23
Cardiff	27.00	12	24.98	24.05
Leeds	30.00	24	24.75	24.75
Newcastle	24.00	18	21.00	20.56
Liverpool	21.50	24	17.74	17.74
Average	30.33	19.78	26.09	25.16

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

Out-of-town

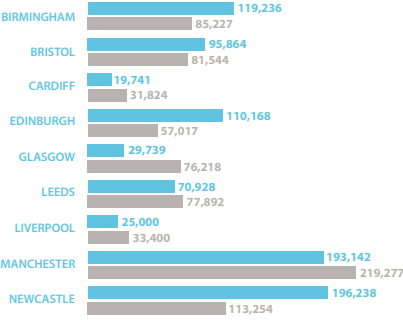
TOTAL TAKE UP IN Q1

860,056 sq ft

▲ 11%

compared to the ten year quarterly average

TAKE UP (SQ FT)

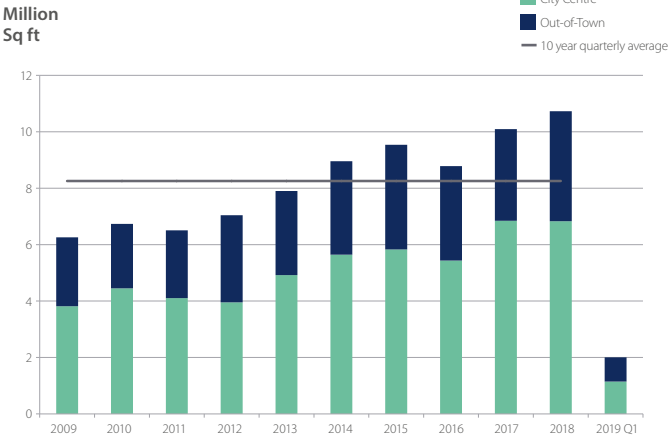


■ Q1 2019 ■ 10 year quarterly average

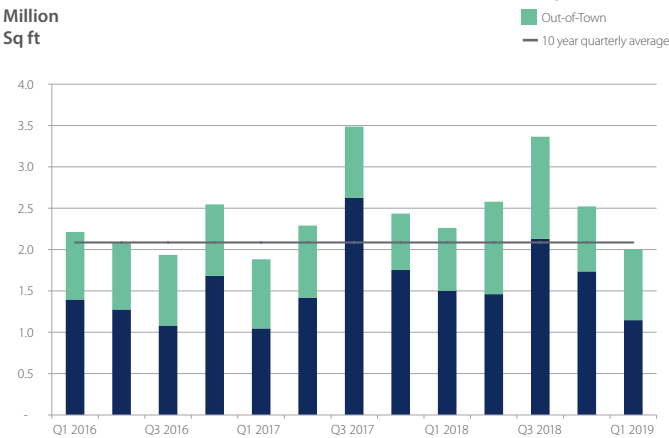
HEADLINE RENTS (£PSF)

Location	Rents (£)
Birmingham (Solihull)	25.00
Leeds	24.75
Bristol	23.50
Manchester (South)	22.00
Edinburgh	22.00
Newcastle	16.95
Glasgow	16.50
Cardiff	15.00
Liverpool	14.00
Average	19.97

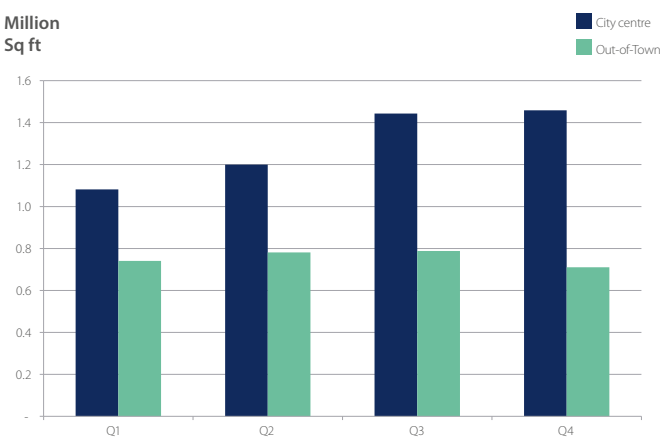
TAKE-UP



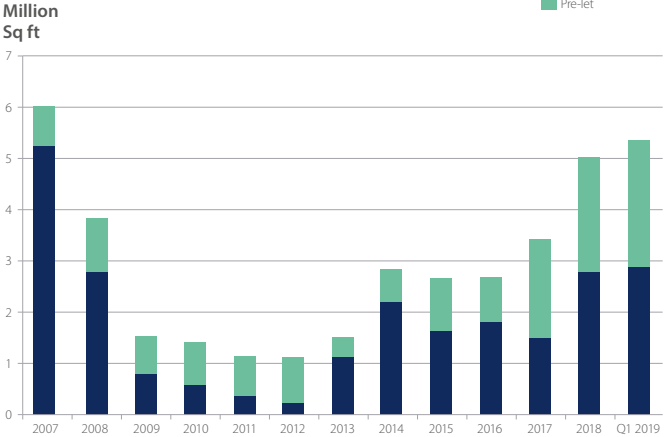
QUARTERLY TAKE-UP



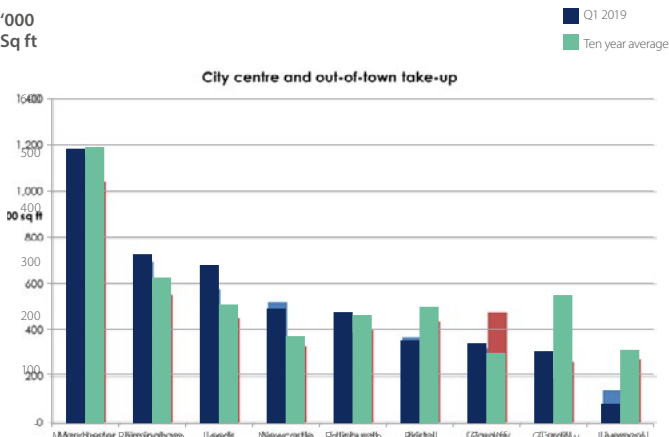
AVERAGE TAKE UP BY QUARTER 2009 - 2018



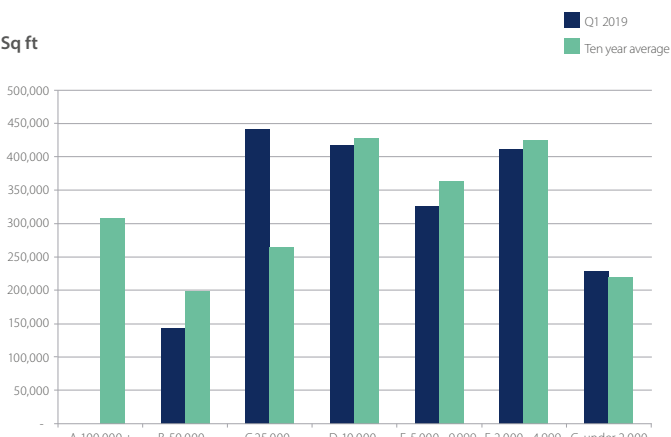
OFFICES UNDER CONSTRUCTION



CC AND OOT TAKE-UP



TAKE UP BY SIZE BAND



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Birmingham

It has been a very encouraging start to the year across the Birmingham office market. Two large deals in the city centre brought the quarterly total to 194,000 sq ft, which is the strongest start to the year since 2016. With the Commonwealth Games coming to the city in 2022, the organisation has sub-let 72,000 sq ft from Deutsche Bank at One Brindleyplace and lawyers Irwin Mitchell took 46,750 sq ft at the now fully let Colmore Building.

There are a handful of sizeable requirements in the pipeline for the city centre this year including co-working deals which we anticipate will exceed 150,000 sq ft. Headline rents have remained stable in Q1 but we expect them to increase this year.

Grade A supply is at the lowest level since 2005, which bodes well for two speculative developments that complete later this year at 2 Chamberlain Square (167,000 sq ft) and Three Snowhill (410,000 sq ft).

Demand has also been strong in the out-of-town market, with more than 100,000 sq ft let for the third quarter in succession, led by serviced office provider MSO taking 27,000 sq ft at Birmingham Business Park, their third centre in Solihull. This was one of a handful of deals on the business park including 12,000 sq ft to engineering consultancy IPS.

KEY DEALS - Q1 2019

Property	CC / OOT	Sq ft	Occupier
One Brindleyplace	CC	72,261	Commonwealth Games
The Colmore Building	CC	46,750	Irwin Mitchell
Birmingham Business Park	OOT	27,764	MSO
Fore Business Park	OOT	25,820	UTC
Eagle 2, Coventry Road, Solihull	OOT	13,300	Perfect Homes

KEY SECTOR ACTIVITY FOR 12 MONTHS TO Q1 2019



Serviced offices
14%

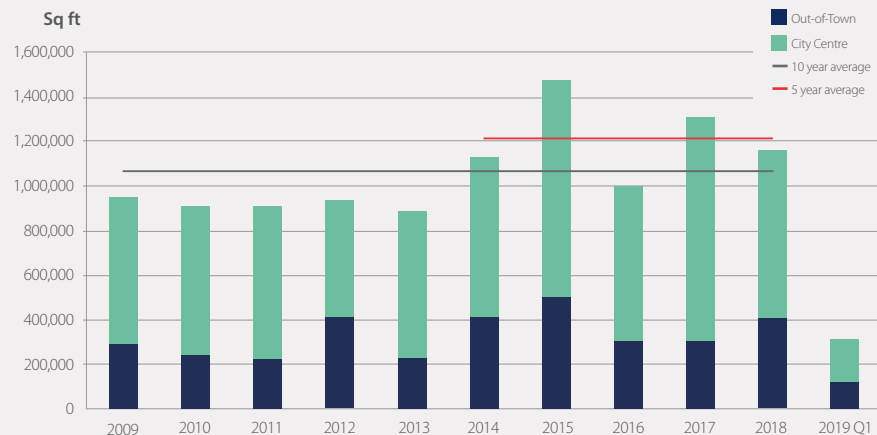


Education
12%



Consumer services
10%

TAKE-UP



TAKE-UP



City Centre
194,014 sq ft



Out-of-town
119,236 sq ft

HEADLINE RENT

City Centre
£33 per sq ft

Out-of-town
£25 per sq ft

UNDER CONSTRUCTION



1.2 million sq ft

51% prelet

PRIME YIELD

4.75%



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Bristol

A slow start to the year in the city centre market has been partly offset by above average out-of-town demand in Bristol, where the three largest deals were all at Aztec West Business Park. These were led by 40,000 sq ft to wealth management company St James Place Partnership, with two further 13,000 sq ft transactions including to engineering company Integral and a further deal to a confidential occupier, which set a new record rent for the out of town market at £23.50 psf.

The stand out deal in Bristol city centre was to tax specialists Forest Brown who took 23,000 sq ft at Templeback, while all other deals were below 5,000 sq ft. In a significant boost to the city's media sector, Channel 4 are lined up to take 3,000 sq ft for a hub that will host its drama output.

There is currently 290,000 sq ft of speculative space under construction in Bristol. The first of three buildings is underway (200,000 sq ft) at the Assembly, Temple Quarter which is due to complete in 2020, where 17,000 sq ft is understood to be under offer to Ashfords Solicitors. Additionally Royal London's 93,000 sq ft Distillery development is also proceeding and the 115,000 sq ft 3 Glass Wharf, fully let to HMRC, is nearing completion.

In terms of existing stock there is also a limited supply, however 70,000 sq ft of space at 2 Trinity Quay is undergoing comprehensive refurbishment and is expected to provide the largest space to come to the market in 2019.

KEY DEALS - Q1 2019

Property	CC / OOT	Sq ft	Occupier
2610 Aztec West	OOT	40,760	St James Place Partnership
Templeback	CC	23,207	Forrest Brown
730 Aztec West	OOT	13,408	Integral
600 Aztec West	OOT	12,760	Confidential
3a Yeo Bank, Clevedon	OOT	8,683	Society of Endocrinology

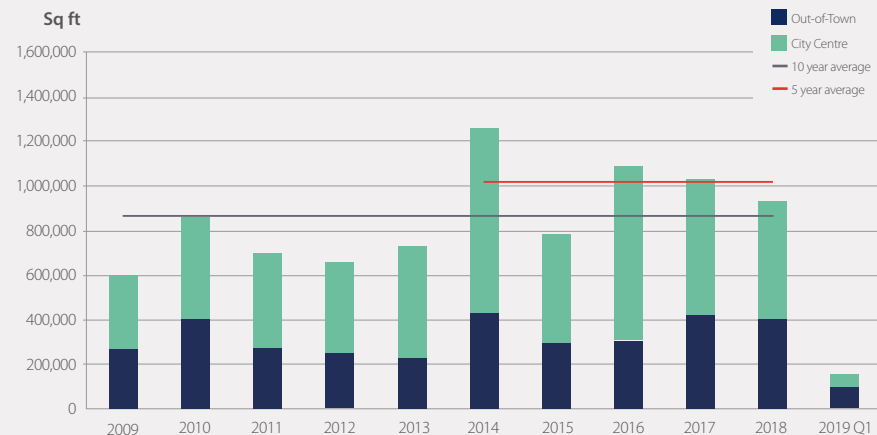
KEY SECTOR ACTIVITY FOR 12 MONTHS TO Q1 2019

Education
18%

Insurance & asset
management
14%

Serviced offices
9%

TAKE-UP



TAKE-UP



City Centre
58,141 sq ft



Out-of-town
95,864 sq ft

HEADLINE RENT

City Centre
£35 per sq ft

Out-of-town
£23.50 per sq ft

UNDER CONSTRUCTION



408,000 sq ft
32% prelet

PRIME YIELD

4.75%



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Cardiff

Take-up in the city centre market was well above average during Q1, amounting to 129,000 sq ft, 30% above the quarterly average. This is thanks to two key lettings at 97,000 sq ft 4 Capital Quarter, which soon completes.

Developer JR Smart has recently signed 39,700 sq ft to Sky UK and 18,900 sq ft to mortgage provider Optimum Credit. This follows 30,500 sq ft to lawyers Geldards in Q4 last year. It has been a successful few months for the developer after the completion of 3 Capital Quarter last year, where Admiral (70,000 sq ft) and Which? (11,500 sq ft) signed deals.

Elsewhere in the city centre market there were a handful of other medium sized deals including 9,300 sq ft to marketing company Incopro at The Hayes and 8,700 sq ft to Mott MacDonald at 2 Callaghan Square. The key out-of-town deal was 11,500 sq ft to Cardiff Metropolitan University at Alexandra House.

There have been a number of significant completions over the past 18 months at Central Square and Capital Quarter but most of this has now been let, leaving the city centre again with a low level of grade A availability.

KEY DEALS - Q1 2019

Property	CC / OOT	Sq ft	Occupier
4 Capital Quarter	CC	39,714	Sky
4 Capital Quarter	CC	18,915	Optimum Credit
Alexandra House	OOT	11,461	Cardiff Met
Unit 2, 9/11 The Hayes	CC	9,326	Incopro
2 Callaghan Square	CC	8,712	Mott Macdonald

KEY SECTOR ACTIVITY FOR 12 MONTHS TO Q1 2019



Health and social care
22%

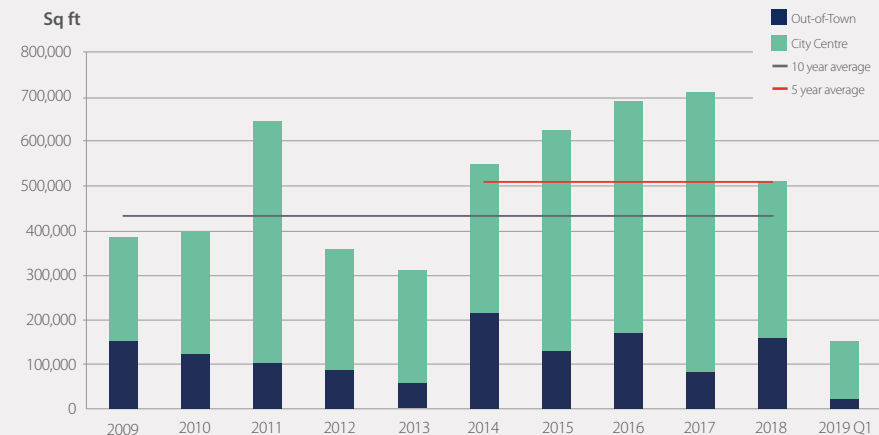


Insurance & asset management
19%



Media
14%

TAKE-UP



TAKE-UP



City Centre
129,107 sq ft



Out-of-town
19,741 sq ft

HEADLINE RENT

City Centre
£27 per sq ft

Out-of-town
£15 per sq ft

UNDER CONSTRUCTION



367,000 sq ft
98% prelet

PRIME YIELD
5.5%



Edinburgh

The Edinburgh office market has made the strongest start to the year since 2016. Two of the largest deals were freehold purchases out-of-town with 49,000 sq ft to the Church of Scientology at Westfield House and 12,000 sq ft to a private catering company at South Gyle Business Park.

In the city centre the key deal of the quarter was Amazon's acquisition of 31,000 sq ft in Exchange Crescent. Otherwise there was a high concentration of sub 5,000 sq ft deals and contrary to the growing trend in other cities there is no evidence here that smaller occupiers are favouring more flexible co-working deals. Tech firms have been particularly active in this size bracket, accounting for 33% of all take-up. However, this may be about to change as there are significant deals under offer for providers of co-working space.

The level of overall availability in the city centre amounts to 448,000 sq ft, well below a year's supply based on the recent past demand. With the low level of available stock and over 100 Edinburgh based businesses with lease events over the next 18 months, we expect some keen competition for space. On a positive note for supply, M&G Real Estate has instructed Qmile Group to build its mixed-use Haymarket scheme, which includes 350,000 sq ft of office space.

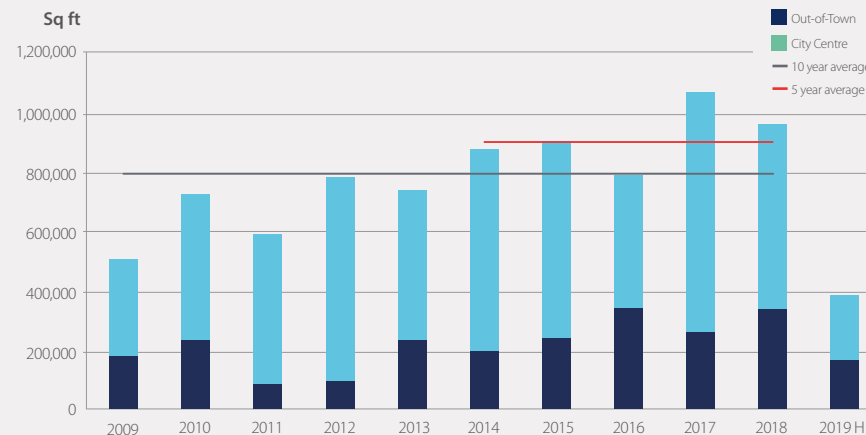
KEY DEALS - Q1 2019

Property	CC / OOT	Sq ft	Occupier
Westfield House	OOT	48,614	Church of Scientology
Exchange Crescent	CC	31,364	Amazon
34 South Gyle Business Park	OOT	12,197	Sime Hospitality
Quartermile 2	CC	10,122	Epic Games
Causewayside House	OOT	10,000	Age Concern Scotland

KEY SECTOR ACTIVITY FOR 12 MONTHS TO Q1 2019



TAKE-UP



TAKE-UP



City Centre
96,129 sq ft



Out-of-town
110,168 sq ft

HEADLINE RENT

City Centre
£35 per sq ft

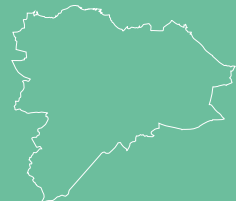
Out-of-town
£22 per sq ft

UNDER CONSTRUCTION



372,100 sq ft
86%
prelet

PRIME YIELD
4.75%



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Glasgow

Following the extraordinary level of activity during 2018, Glasgow city centre take up for Q1 totalled 104,378 sq ft. The largest letting of the quarter was to Gamma Telecoms who took 15,744 sq ft at the now fully let 2 West Regent Street.

There were two other deals over 5,000 sq ft - Glasgow University secured 9,700 sq ft at Tay House on Bath Street and Startline Motor Finance acquired 7,500 sq ft at Skypark One in the out-of-town market. However, and interestingly given recent Brexit uncertainty, small to medium sized businesses displayed greater levels of activity, as lettings below 5,000 sq ft were higher this quarter (by number of deals and total take-up) than in any quarter during the past 10 years. This is perhaps mirroring the trend of new starts and rapid growth incubator companies permeating Glasgow's diverse economy.

Despite the lower than expected Q1 take-up there is a significant number of large letting and pre-letting enquiries looking at the refurbishment and development pipeline encouraging cautious optimism in the occupier market, as occupiers look to secure the best opportunities ahead of anticipated rental increases.

KEY DEALS - Q1 2019

Property	CC / OOT	Sq ft	Occupier
2 West Regent Street	CC	15,744	Gamma Telecoms
Tay House, 300 Bath Street	CC	9,791	Glasgow University
Skypark, 18 Elliot Place	OOT	7,481	Startline Motor Finance
310 St Vincent Street	CC	4,574	Onscale
The Reel House	CC	4,197	Lithe IT

KEY SECTOR ACTIVITY FOR 12 MONTHS TO Q1 2019



Banks & building societies
51%

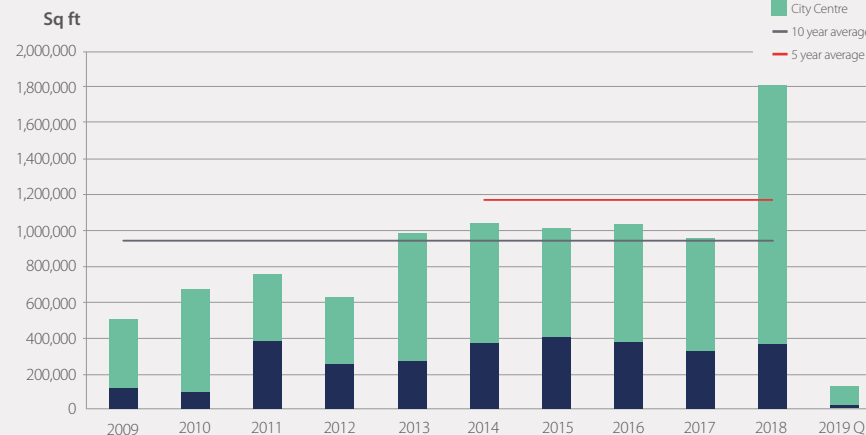


Central Government
9%



Computing
6%

TAKE-UP



TAKE-UP



City Centre
104,378 sq ft



Out-of-town
29,739 sq ft

HEADLINE RENT

City Centre **£32.50 per sq ft** Out-of-town **£16.50 per sq ft**

UNDER CONSTRUCTION



678,000 sq ft
44% prelet

PRIME YIELD
5%



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Leeds

The first quarter has been the strongest in the Leeds city centre market for over a year with 222,000 sq ft take-up, 56% above the 10 year average. This has been led by the 71,000 sq ft letting at M&G's Central Square to Link Asset Services, a share registry and financial services provider.

This deal was supported by five transactions above 10,000 sq ft, the largest of which was 20,700 sq ft to WYG plc at 3 Sovereign Square as well as Unite Union (12,800 sq ft) and Opera North (11,000 sq ft). There were two further 5,000 sq ft deals to engineering companies BAM Nuttall and Buro Happold. Out-of-town activity was more subdued but there was also a greater than average level of take-up for deals below 5,000 sq ft across both markets.

There is a high profile deal in the pipeline to Channel 4, which is expected to lease three floors of the 66,000 sq ft Majestic, the former cinema located opposite the train station. Along with 34 Boar Lane (46,000 sq ft) this is currently undergoing a major refurbishment in the city centre.

The speculative 4 Wellington Place (155,000 sq ft) is also under construction in the city centre and due for completion by the end of 2020.

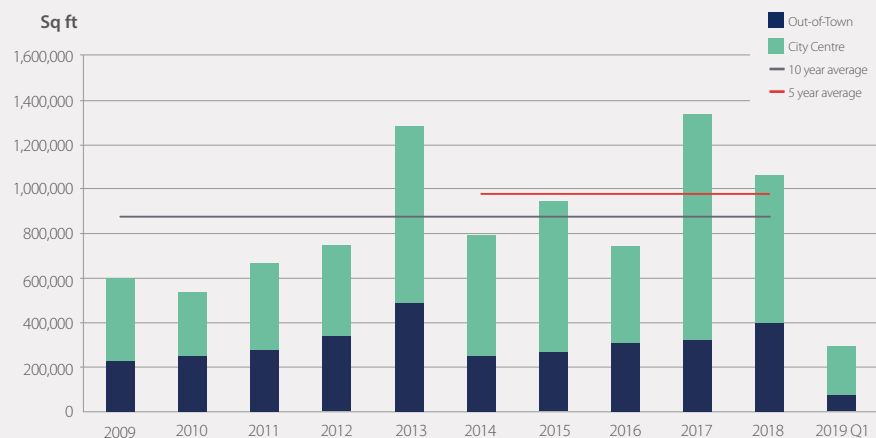
KEY DEALS - Q1 2019

Property	CC / OOT	Sq ft	Occupier
Central Square	CC	71,288	Link Asset Services
3 Sovereign Square	CC	20,701	WYG Plc
Building 3, Central Park	CC	12,891	RH Smith & Sons
Quayside House, Granary Wharf	CC	12,791	Unite
Broad Gate	CC	12,558	Hays

KEY SECTOR ACTIVITY FOR 12 MONTHS TO Q1 2019



TAKE-UP



TAKE-UP



City Centre
222,318 sq ft



Out-of-town
70,928 sq ft

HEADLINE RENT

City Centre
£30 per sq ft

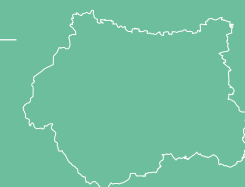
Out-of-town
£24.75 per sq ft

UNDER CONSTRUCTION



645,000 sq ft
59%
prelet

PRIME YIELD
4.75%



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Liverpool

Activity in the Liverpool market has been strong for the past two years, headlined by deals to the GPA (270,000 sq ft) and the Royal College of Physicians (80,000 sq ft). Whilst Q1 activity has been slow the next two quarters are expected to be much stronger due to a number of large deals currently in solicitors' hands.

These include Sony at the Echo Building (50,000 sq ft), Park Foods at 20 Chapel Street (26,000 sq ft), Onward Housing at Watson Building (20,000 sq ft) and Global University Systems at the Department (18,000 sq ft). There are also a number of other large requirements in the market which include Bibby Line Group (20,000 sq ft), Plus Dane Housing (20,000 sq ft) and the Instant Group; all of whom should take space by the end of the year.

Supply is at an all time low with less than one year's supply of good quality refurbished space and no grade A stock in the city centre. 50% of the 160,000 sq ft at the Spine in Paddington Village developed by Liverpool City Council remains available and is due for completion in September 2020. Headline rents remain at £21.50 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
4 St Pauls Square	CC	19,625	Avenue HQ
Royal Liver Building	CC	18,453	Sport Pesa
Royal Liver Building	CC	13,037	Grant Thornton
The Plaza	CC	10,572	Arup

KEY SECTOR ACTIVITY FOR 12 MONTHS TO Q1 2019



Consumer services
27%

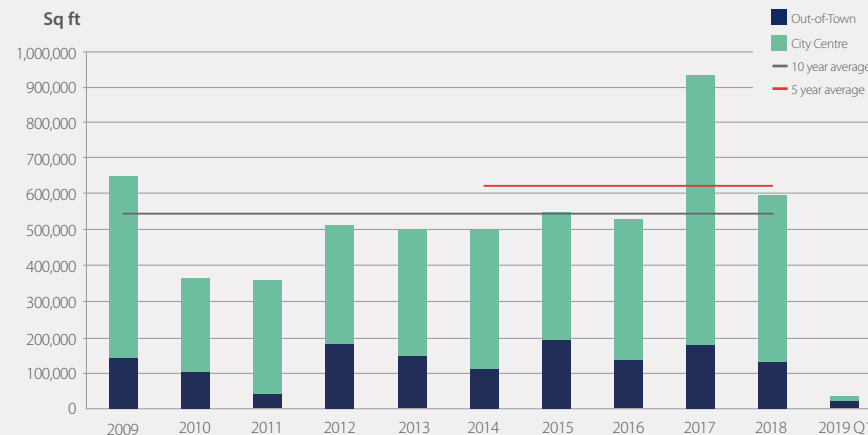


Accountancy
21%



HR/Recruitment
11%

TAKE-UP



TAKE-UP



City Centre
12,000 sq ft



Out-of-town
25,000 sq ft

HEADLINE RENT

City Centre

£21.50 per sq ft

Out-of-town

£14 per sq ft

UNDER CONSTRUCTION



160,000 sq ft
50%
prelet

PRIME YIELD

5.75%



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Manchester

It has been another strong quarter of activity across all the Manchester office markets, totalling over 500,000 sq ft of take-up. It is testament to the recent strength of the Manchester market that this is actually the lowest quarterly total since the end of 2017.

This quarter saw a broad spread of activity across a number of sectors including professional, financial, TMT and utilities. Lawyers Eversheds Sutherland represented the largest deal, a 47,500 sq ft pre-let at Two New Bailey. There were also a large number of medium sized deals in the city centre which included co-working company Huckletree (25,800 sq ft) at the Express Building, the General Medical Council (22,000 sq ft) at 3 Hardman Square and Moneysupermarket (22,700 sq ft) at 1 Spinningfields. In terms of future demand, the headline requirement is to BT, which it has recently increased to 150,000 sq ft.

The out-of-town market was led by two utilities companies Smart DCC and Landis & Gyr. There were also a number of deals to tech companies such as Capgemini, Playdemic and Cetus Solutions.

On the supply side, MEPC has plans for a further 200,000 sq ft speculative office development at 4 Angel Square at its NOMA scheme. Of the 1.4 million sq ft of space under construction 453,000 sq ft completes this year, of which 339,000 remains available.

KEY DEALS - Q1 2019

Property	CC / OOT	Sq ft	Occupier
Two New Bailey Square	CC	47,465	Eversheds Sutherland
Brabazon House	OOT	33,591	Smart DCC
Express Building	CC	25,800	Huckletree
1 Spinningfields	CC	22,684	Moneysupermarket
3 Hardman Square	CC	22,032	General Medical Council

KEY SECTOR ACTIVITY FOR 12 MONTHS TO Q1 2019



Consumer services
28%

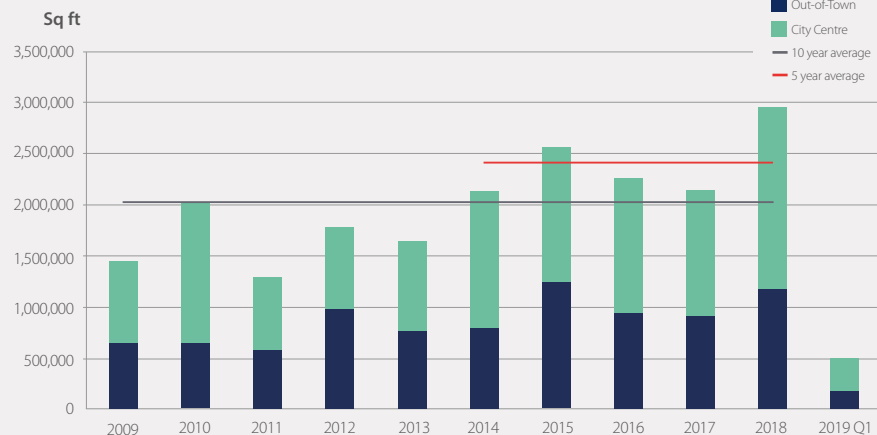


Serviced offices
10%



Insurance & asset
management
9%

TAKE-UP



TAKE-UP



City Centre
314,733 sq ft



Out-of-town
193,142 sq ft

HEADLINE RENT

City Centre
£35 per sq ft

Out-of-town
£22 per sq ft

UNDER CONSTRUCTION



City Centre
1.4 million sq ft
22%
prelet



PRIME YIELD
4.75%

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Newcastle

Total take-up during the first quarter of the year in Newcastle was a third above the long term quarterly average, the majority of which was out-of-town. Two of the largest deals were to co-working providers, Bizspace who took 37,000 sq ft at Amber Court, near Newcastle Business Park and 21,800 sq ft at Mistrall House, Silverlink Business Park. Otherwise activity was dominated by a handful of business services and property companies. Activity is looking positive for the rest of the year as agents are reporting a number of 10,000 sq ft requirements.

Construction is progressing well at the 100,000 sq ft Lumen, with completion on schedule for the end of the year. This is part of the Newcastle Helix mixed use regeneration scheme for scientific research and technology employment, a joint venture between the city council, Newcastle University and Legal and General.

A planning application has also recently been submitted for 120,000 sq ft Bank House on Pilgrim Street, with an ambition to start on site within 12 months. Newcastle City Council are also understood to be looking to appoint a developer for the second phase of the mixed use Stephenson Quarter, which follows The Rocket, the 35,000 sq ft office element of phase one.

KEY DEALS - Q1 2019

Property	CC / OOT	Sq ft	Occupier
Amber Court	OOT	37,000	Biz Space
River Wear Commissioners, Sunderland	OOT	36,602	Adavo Group
Mistrall House, Silverlink	OOT	21,816	Serviced office provider
The Lightbox, Quorum Business Park	OOT	11,465	Utility Alliance
Maingate Exchange	OOT	9,200	Churchills

KEY SECTOR ACTIVITY FOR 12 MONTHS TO Q1 2019



Consumer services
20%

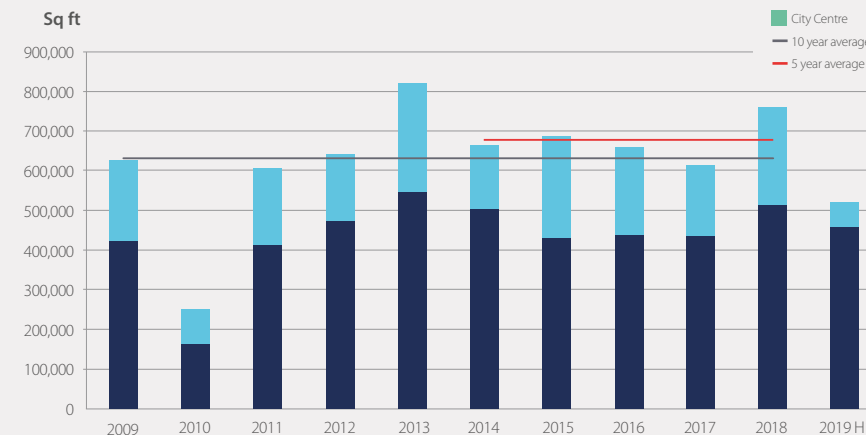


Business services
19%



Central Government
16%

TAKE-UP



TAKE-UP



City Centre
16,599 sq ft



Out-of-town
196,238 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%



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Principal, Investment

“

Following the decision to extend the Brexit deadline to October caution will remain but Q2 is expected to show a marked improvement on Q1, with select institutional investment and overseas investors expected to take advantage of the continuing favourable exchange rate.

Investment volumes hit by Brexit uncertainty

As widely anticipated, investment volumes across the Big Nine cities were subdued for the first quarter of the year. The downturn in sentiment that was apparent at the end of last year has translated into materially reduced activity in the market during the first quarter.

The total volume of office investment across the Big Nine cities during Q1 amounted to £244m, which compares to the 10 year quarterly average of £543m. The low levels of activity in part reflects the flurry of transactions in Q4, however volumes are still 70% down on the same period last year as investors took a 'wait-and-see' approach in light of the Brexit uncertainty.

There does however remain an underlying strength of demand and a significant level of capital is still being allocated to UK real estate with keen interest on long income deals with 10 year plus leases. The shortage of prime stock is an on-going issue and these properties are highly contested. There is limited distress in the market with vendor pricing expectations holding firm and it is this delta of price expectation, more prevalent outside the prime market that has contributed to the low level of transactions.

The completion of a handful of medium-sized city centre deals indicates that there is a weight of money for the right opportunity. In Edinburgh Hyundai Asset Management completed the largest deal of the quarter, purchasing offices in Gyle Square for £52m. This deal, along with the purchase of Moorfield's 2 Atlantic Quay in Glasgow to Corum XL for £22.3m, lifted overseas investment to 40% of transaction volumes. Conversely there was a notable absence from institutional investors.

In the out-of-town market the key transactions were the sale of Paradigm at Thorpe Park in Leeds for £10.2 million, acquired by Leeds City Council. The private investor market for deals below £10 million is also still active; for example the purchase of Poseidon House in Cheadle, South Manchester for £7 million.

Capital values are holding up for 'grade A' space with prime yields broadly stable, although there is little evidence to support this. The outlook for the secondary market is likely to be weaker in most locations and the view is that secondary pricing is softening, although again this is more sentiment driven with limited transactional evidence.

Secondary assets where demand has remained resilient generally offer good potential to increase value through asset management initiatives. This is demonstrated by the sale of Hadrian House in Newcastle city centre, a 61,000 sq ft 35% vacant office building requiring capex, which sold for £4.5m without guarantees.

We expect the 2019 volume for office investment activity across the 'Big Nine' to fall from the strong levels of the past four years. Following the decision to extend the Brexit deadline to October caution will remain but Q2 is expected to show a marked improvement on Q1, with select institutional investment and overseas investors expected to take advantage of the continuing favourable exchange rate.

TOTAL FOR Q1

£244 million**▼ 55%**

DOWN ON THE 10 YEAR QUARTERLY AVERAGE

VOLUMES BY CITY



EDINBURGH

£74m

BIRMINGHAM

£63m

GLASGOW

£44m

VOLUMES BY INVESTOR TYPE

OVERSEAS
INVESTOR**39%**UK
INSTITUTION**20%**UK PROPERTY
COMPANY**16%**

PRIME YIELD

4.75%

PREVIOUS PEAK (2007)

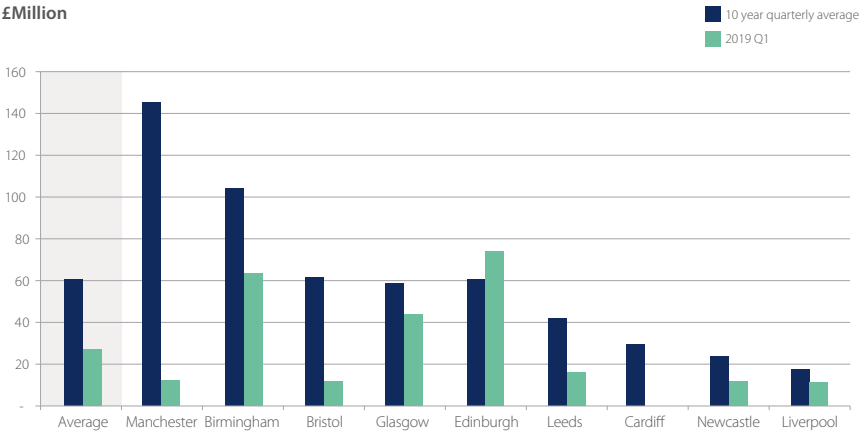
4.5%

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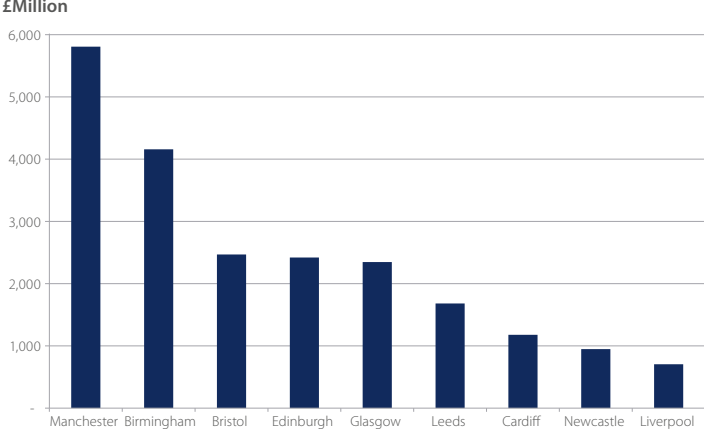
TOTAL INVESTMENT VOLUMES IN Q1 2019



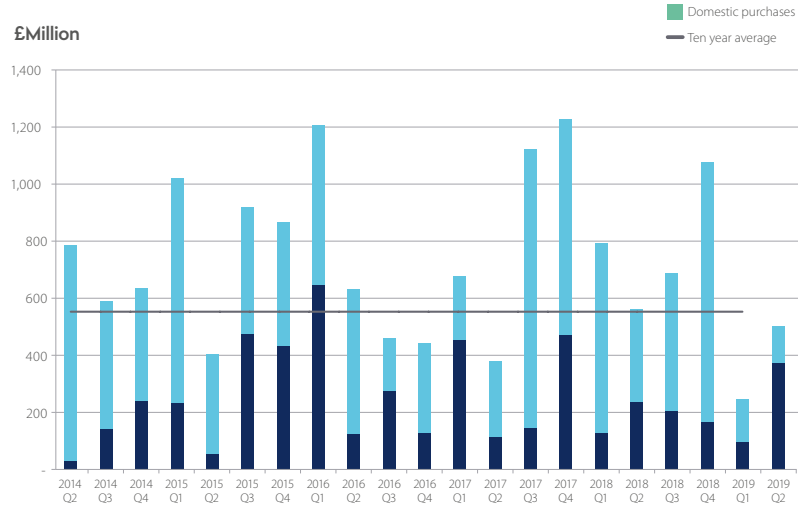
BIG NINE INVESTMENT VOLUMES (£MILLION)



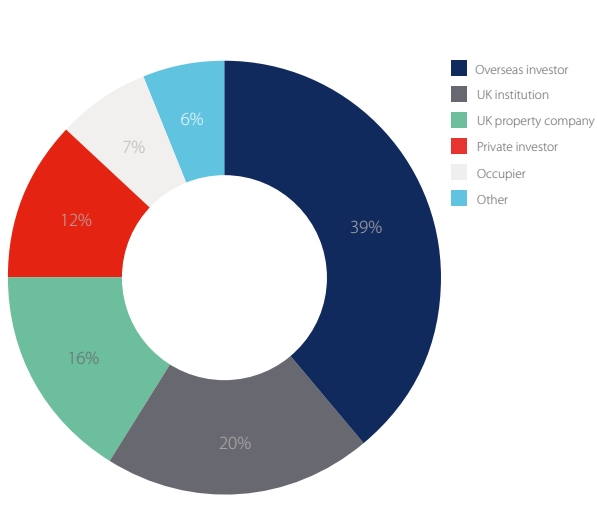
INVESTMENT VOLUMES 2009 TO 2018



INVESTMENT TRANSACTIONS



INVESTMENT VOLUMES BY INVESTOR TYPE - Q1 2019



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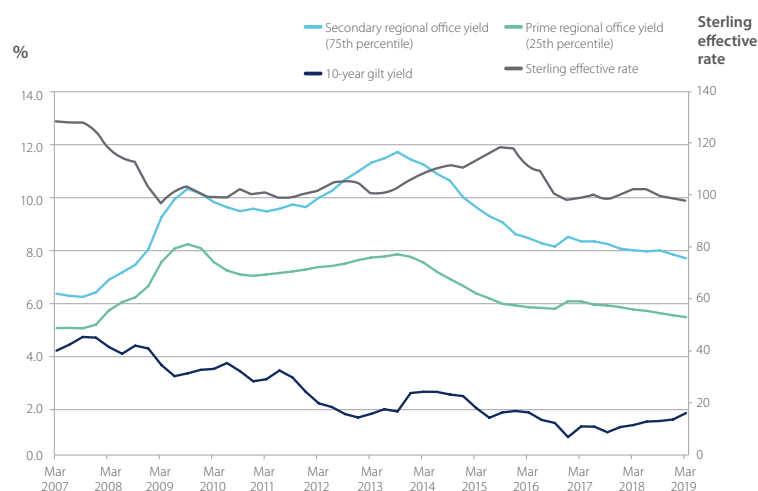
There does however remain an underlying strength of demand and a significant level of capital is still being allocated to UK real estate

Occupier market		Occupier data		Occupier charts		Investment market		Investment data		Investment data		Outlook		Contact			
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PRIME CITY CENTRE YIELDS

Location	Q4 2018	Q1 2019	Trend for last 12 months	Peak (2007)
Birmingham	4.75	4.75	→	4.5
Bristol	4.75	4.75	↓	5
Cardiff	5.50	5.50	→	5
Edinburgh	4.75	4.75	↓	4.75
Glasgow	5.00	5.00	↓	4.75
Leeds	4.75	4.75	↓	4.75
Liverpool	5.75	5.75	↓	5.5
Manchester	4.75	4.75	→	4.5
Newcastle	5.75	6.00	↑	5.25

REGIONAL OFFICE YIELDS VS 10 YEAR GILTS



AVERAGE BIG NINE PRIME YIELD



TOP FIVE DEALS – Q1 2019

Date	Property	City	Purchaser	Vendor	Price (£m)	NIY (%)
Mar-19	Gyle Square	Edinburgh	Hyundai Asset Management	Greenridge Regional UK	55.20	5.00
Feb-19	2 Brindleyplace	Birmingham	NFU Mutual Insurance	HansaInvest GmbH	29.25	6.50
Mar-19	2 Atlantic Quay	Glasgow	Corum Asset Management	Moorfield REF III LP	22.25	6.25
Feb-19	Norfolk House	Birmingham	Regional REIT Ltd	Smallbrook Queensway Ltd	20.00	7.92
Feb-19	22 Haymarket Yards	Edinburgh	BP Pension Fund	Aviva Investors	18.95	6.47

“

In the out-of-town market the key transactions were the sale of Paradigm at Thorpe Park in Leeds for £10.2 million, acquired by Leeds City Council. The private investor market for deals below £10 million is also still active; for example the purchase of Poseidon House in Cheadle, South Manchester for £7 million.

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Outlook

As suspected the UK government has prolonged the date to leave the EU until October. The drawn-out process has left the UK in a prolonged period of uncertainty, now beyond the 'official' exit date. We expect occupier and investor sentiment to remain more cautious than a scenario where a solution was reached, at least until some clarity on the direction of Brexit emerges later in the year.

In spite of this, occupier agents have reported some significant deals in the pipeline for the rest of this year, such as the 150,000 sq ft BT requirement in Manchester, some large pre-letting enquiries at developments in Glasgow, a number of 10,000 sq ft requirements in Newcastle and Liverpool and some large co-working deals in Birmingham and Edinburgh.

With 112,000 sq ft co-working deals transacted during the first quarter and the known deals in the pipeline, 2019 is on course to achieve more than 500,000 sq ft of activity, similar to the last two years.

The indications so far this year are for continued rental growth for prime space, particularly in those larger regional cities where prime space is still scarce. Average annual regional office rental growth was 2.2% to March 2019. We forecast growth of approximately 1% pa for the next two years.

There remains a significant weight of global money ready to invest in the UK property market. According to INREV's Investment Intentions Survey 2019, there is €72.4 billion of capital intended to be spent on global real estate with the UK in second position, behind Germany, for investment in Europe.

Brexit will undoubtedly play a large role in short-term investment decisions; however investors will not shy away from a transparent and liquid market, particularly for long-term investments. The key question many investors will be contemplating is not whether to invest in the UK but when to invest.

The Colmore Building, Birmingham



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