
The Spark, Newcastle city centre

RESEARCH

The Big Nine

Quarterly update of regional office activity

Q3 2020

AVISON YOUNG

CHARLES TOOGOOD

Principal and Managing Director, National Offices Team

> "As a number of occupiers look to rationalise their portfolios, there appears to be a 'flight to quality', as businesses consider taking less but better-quality space. We believe that the office environment is expected to become less about process and more about collaboration and innovation.

Occupier market in brief

LARGE STRATEGIC DEALS LIFT A SUBDUED MARKET

The increase in government restrictions and renewed caution towards office occupation has impacted occupier demand across the Big Nine cities. Transactional activity for Q3 amounted to 766,960 sq ft in the city centre and 546,400 sq ft out-of-town. These figures remain well below the ten year quarterly average, by 42% and 30% respectively, although they are a noticeable improvement on the previous quarter.

The increase in take-up can largely be explained by some significant long-term commitments to the regional markets, with Baillie Gifford pre-letting 280,000 sq ft at M&G and QMile's 'The Haymarket' in Edinburgh and Babcock taking 132,000 sq ft Bristol Business Park. In addition, BT has recently agreed a 175,000 sq ft pre-let commitment to English Cities Fund's Four New Bailey in Manchester, which will fall into Q4 figures.

These impressive pre-let long lease commitments are encouraging – as are the large regional office investment deals, reported later in the report. However, take-up activity continues to be dominated by lease event driven sub 2,000 sq ft deals, which made up 57% of deals in Q3 compared to an average of 48% over the past ten years. There is still a lack of depth to the market with very few mid-range transactions.

Deferred Requirements

A number of these transactions have been put on hold during the current uncertainty as occupiers consider their business and occupational strategies. Some are postponing new deals in favour of short-term lease extensions and anecdotal evidence suggests many will reduce their space requirements by up to 30%. As a result, we are expecting a significant increase in grey space coming back to market over the next few months.

There was hope that with the easing of restrictions and children returning to school in September, that many of these initially deferred requirements would be revived, as more people returned to the office. However, with the renewed caution towards office occupation, these deferrals have been delayed into next year.

This is reflected in the Return to Office Sector Index of our UK Cities Recovery Index, which uses high frequency indicators of mobility, commuter and public transport usage and office occupancy to monitor the extent to which our Big Nine cities are seeing people return to work. The National Index fell from 100 (pre-Covid at the end of February) to a low of 26 in mid-April before making a steady recovery to 66 by mid-September. Since then it has largely flattened out but not declined, showing an element of resilience but still a long way to climb back to more 'normal' levels. The increase in restrictions in Manchester and Liverpool (at the time of writing) are likely to put a pause on the recovery at least for the time being.

Flex in flux

A sector that has been severely affected by Covid is flexible workspace. Following the rapid expansion over the past few years the sector was due for some consolidation before the pandemic, partly as a result of landlords becoming more sophisticated at providing flexible space directly but this has now been rapidly accelerated.

During the pandemic, the sector has suffered because of the current restrictions and the fact that at present, some occupiers are wary of sharing space with others. This has led to WeWork carrying out a process of rationalisation across its portfolio and looking to surrender some of its leases, while IWG is looking to put individual lease SPVs into administration. Going forward, there is still likely to be life in the sector, as occupiers crave flexibility and working practices change, but it is clear that the landscape is very different for the time being.

Rationalisation, collaboration, innovation

As a number of occupiers look to rationalise their portfolios, there appears to be a 'flight to quality', as businesses consider taking less but better-quality space. With the way we work so closely under the microscope over the last few months, we believe that the office environment is expected to become less about process and more about collaboration and innovation. This strategy supports a number of business objectives in the drive for more sustainable buildings, a greater emphasis on wellbeing and wellness in office design, as well as an improved image to attract both clients and the best talent.

TOTAL TAKE-UP IN Q3

1,313,298 sq ft

▽ 38%

DOWN ON THE 10 YEAR QUARTERLY AVERAGE

City Centre
766,960 sq ft

Out-of-town
546,338 sq ft

UNDER CONSTRUCTION

5.1 million sq ft

SKEWED TOWARDS

MANCHESTER	GLASGOW	BIRMINGHAM
27%	26%	15%

HEADLINE RENTS AVERAGE

£31.94 psf

Across all nine cities

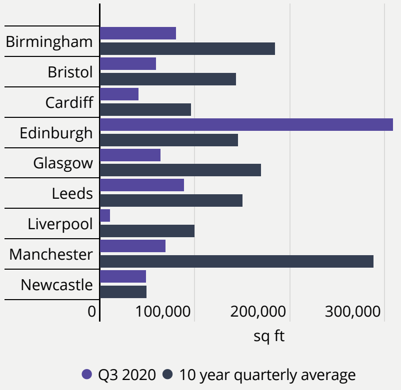
Occupier data

City centre

TOTAL TAKE UP IN Q3

766,960 sq ft | ▽ **42%** compared to the ten year quarterly average

TAKE UP (SQ FT)



TOP FIVE DEALS

City	Property	Occupier	Sq ft
Edinburgh	The Haymarket	280,000	Baillie Gifford
Newcastle	Pipewell Quays, Gateshead Quayside	30,000	Aspire Technology Solutions
Glasgow	310 St Vincent Street	28,388	Wescot Credit Services
Leeds	Majestic	22,166	Knights PLC
Leeds	2 Park Lane, Leeds	21,804	NHS

HEADLINE RENTS (£PSF)

Location	Rent (£) Q3 2020	Rent free (mths on 10 yr term)	Net effective rent*(£)	Net effective rent (£) Q3 2019
Edinburgh	37.00	15	33.30	32.40
Bristol	35.50	18	31.06	30.63
Glasgow	34.50	15	31.05	29.25
Birmingham	37.00	24	30.53	28.05
Manchester	36.50	24	30.11	30.11
Leeds	32.00	24	26.40	24.75
Cardiff	27.00	12	24.98	24.98
Newcastle	26.00	18	22.75	21.44
Liverpool	22.00	24	18.15	17.74
Average	**31.94**	**19.33**	**27.59**	**26.59**

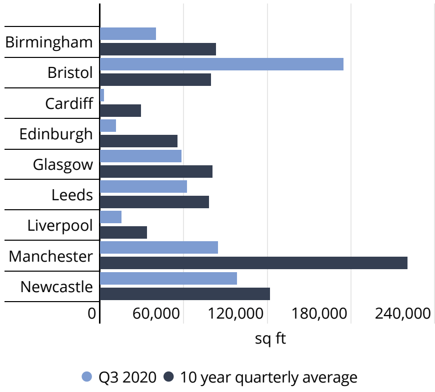
*including rent free period less three month fit-out.

Out-of-town

TOTAL TAKE UP IN Q3

546,338 sq ft | ▽ **30%** compared to the ten year quarterly average

TAKE UP (SQ FT)



TOP FIVE DEALS

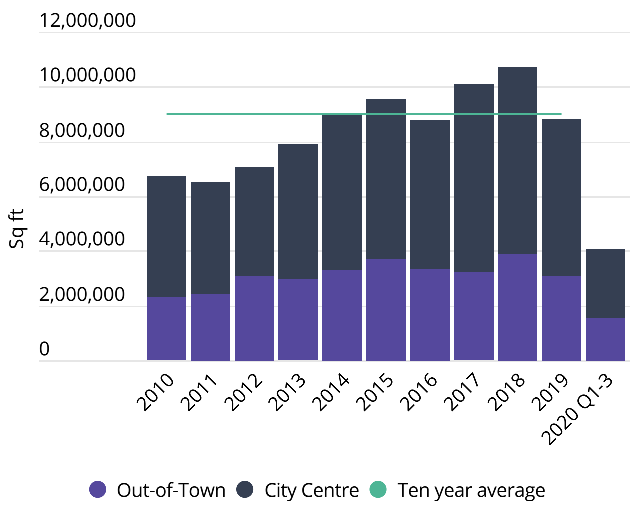
City	Property	Occupier	Sq ft
Bristol	100 Bristol Business Park	132,000	Babcock
Newcastle	Weymouth House, Newcastle Business Park	30,479	Green Energy Advice
Manchester	The Vic, MediaCityUK	23,580	Tech Mahindra
Glasgow	Lightyear, Glasgow Airport Business Park	22,369	Public Sector
Glasgow	Lumina Building, 40 Ainslie Road	13,711	NHS 24

HEADLINE RENTS (£PSF)

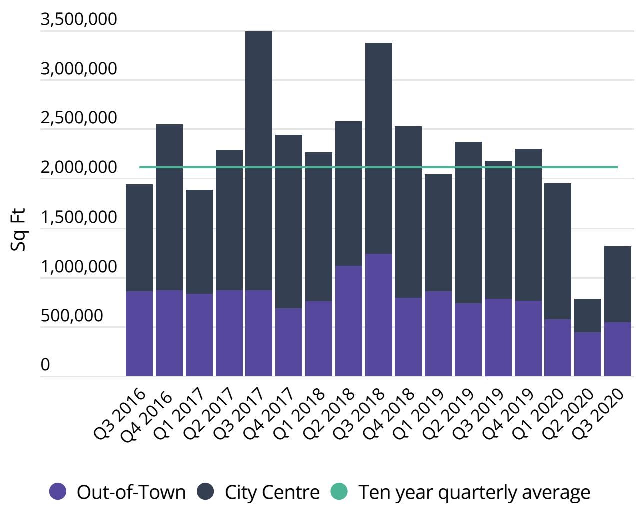
Location	Rent (£) Q3 2020	Rent (£) Q3 2019
Birmingham	26.00	25.00
Leeds	24.75	24.75
Manchester	24.00	24.00
Bristol	23.50	23.50
Edinburgh	22.50	22.00
Newcastle	16.95	16.95
Glasgow	16.50	16.50
Cardiff	15.00	15.00
Liverpool	14.00	14.00
Average	**20.36**	**20.19**

Occupier charts

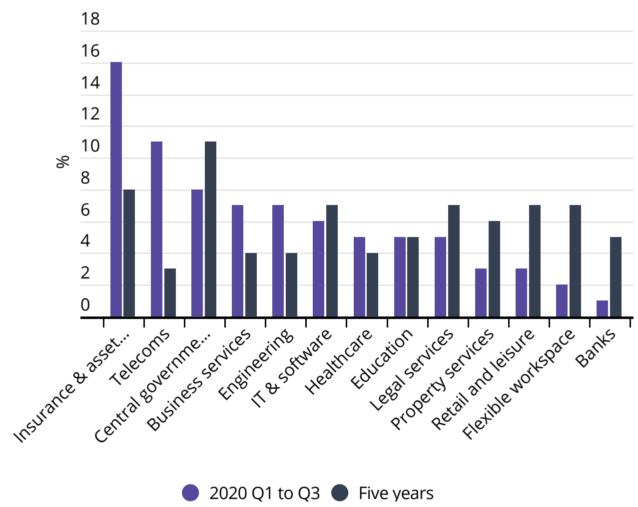
ANNUAL TAKE UP



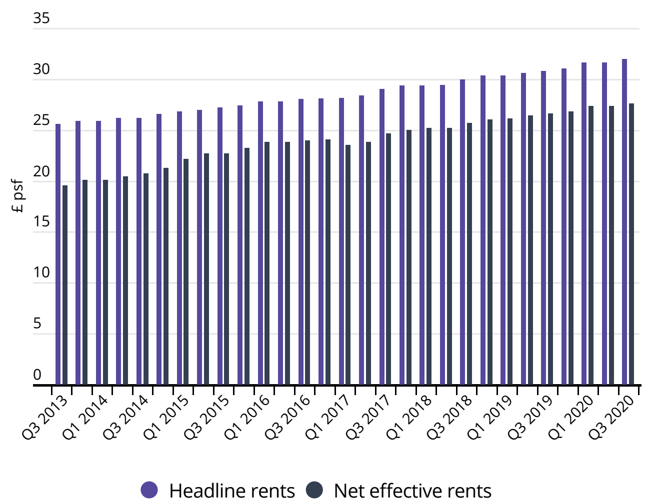
QUARTERLY TAKE-UP



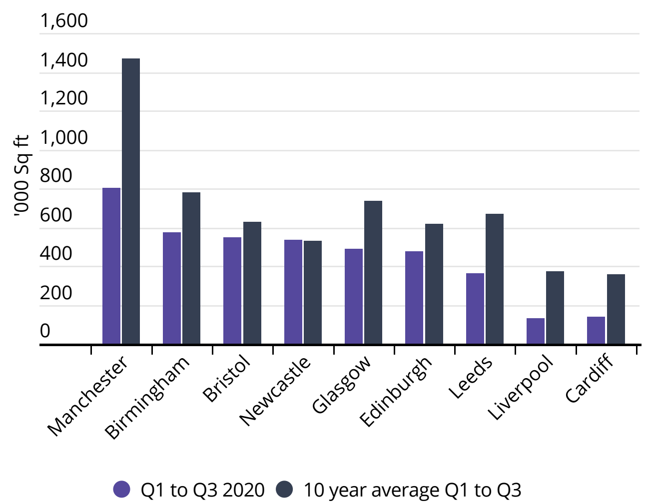
TAKE-UP BY KEY SECTORS



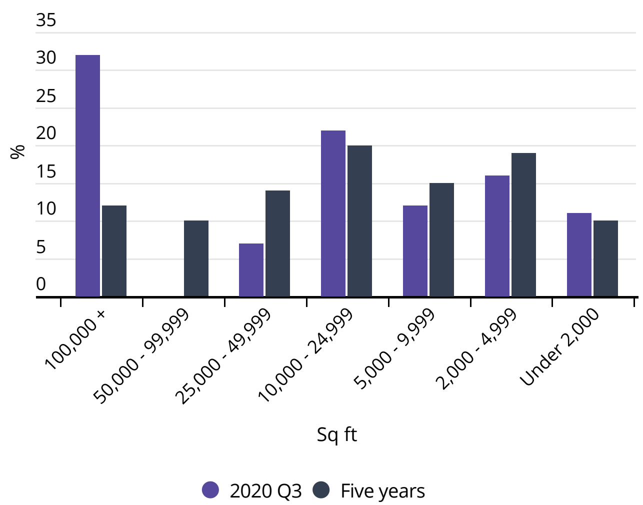
HEADLINE RENTS



CC AND OOT TAKE-UP



TAKE-UP BY SIZE BAND



MARK WILLIAMS
Principal and Managing Director, Regional Investment

"

Out-of-town investment has suited purchasers in the current climate, being more accessible and less dependent on public transport. However, city centre transactional activity picked up later in the quarter.

Investment market in brief

ROBUST Q3 ACTIVITY BUT SENTIMENT SOFTENING

Investment sentiment in the Big Nine office markets gathered some momentum over the summer, resulting in some significant transactions. Total Q3 volumes amounted to £485 million, 13% below the ten year quarterly average but a considerable improvement on the previous quarter. However, the increasing government restrictions in the past few weeks has slowed the momentum gained over the summer.

There were two deals over £100 million, £133.3 million sale of 1-3 Lochside Crescent on Edinburgh Park and the largest city centre deal at 55 Colmore Row, purchased by German investor, Union for £105 million. Further deals included £55 million sale of 100 Bristol Business Park and two large transactions in Glasgow city centre: 150 Broomielaw (£40 million) and 45-67 Queen Street (£30 million).

The strong out-of-town activity follows a handful of circa £20 million deals agreed during Q2, including 2620 Aztec West in Bristol and Cobalt Business Park in Newcastle. Out-of-town investment has suited purchasers in the current climate, being more accessible and less dependent on public transport. However, city centre transactional activity picked up later in the quarter.

Assisted by the two largest deals, overseas buyers have accounted for 66% of activity this quarter, followed by UK property companies (17%) and UK Institutions (16%). However, some of the domestic purchases are also supported by overseas capital.

Deals in the pipeline indicate a solid start to Q4 figures, such as transactions at Quartermile 3 in Edinburgh and 1 Colmore Square in Birmingham, which completed in October for £86.75 million to Oval RE at 6.2% NIY. However, while there remains a weight of money, sentiment has dipped and some investors have delayed acquisition strategies as they consider the prospect of a price correction, concerns around tenant default / rent collection and the increasing potential for restrictions in the rising second wave of Covid. There is an increased level of stock coming to the market, but buyers are being selective, and it will take time for deals to be agreed.

On the MSCI monthly index, regional office average equivalent yields stood at 7.03% at the beginning of the year, moving to 7.32% by the end of May but since have stabilised to 7.37% by the end of September. Evidence of yield movement on prime stock has been scarce, apart from two deals in Birmingham and Edinburgh where yields have moved in slightly.

TOTAL FOR Q3

£485 million

▽ 13%

DOWN ON THE 10 YEAR QUARTERLY AVERAGE

VOLUMES BY CITY

EDINBURGH	BIRMINGHAM	GLASGOW
£133m	£131m	£82m

VOLUMES BY INVESTOR TYPE

OVERSEAS INVESTOR	UK PROPERTY COMPANY	UK INSTITUTION
66%	17%	16%

PRIME YIELD	PREVIOUS PEAK (2007)
4.75%	4.50%

Investment data

TOTAL INVESTMENT VOLUMES

Q3 2020 **£485 million**

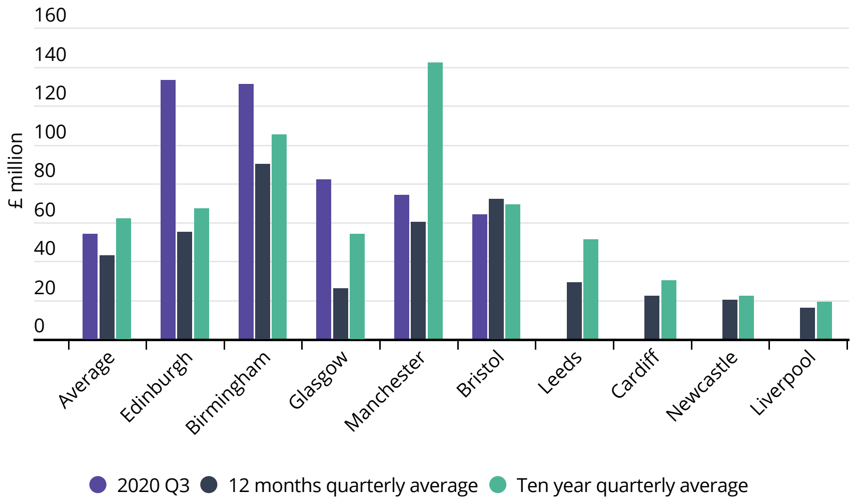
Compared to:

£151m
(previous quarter – Q2 2020)

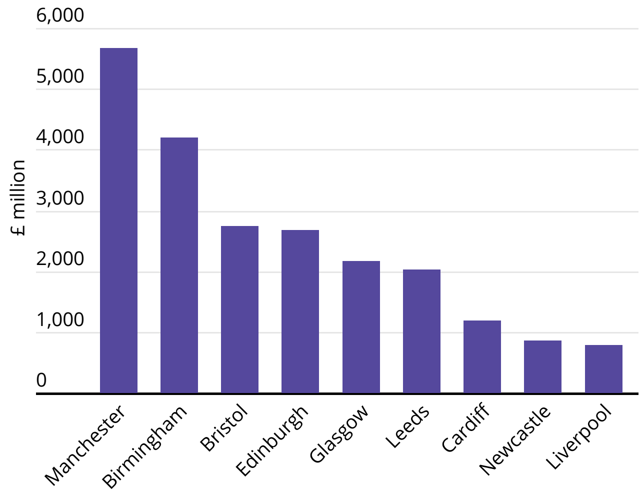
£1,084m
(a year ago – Q3 2019)

£559m
(ten year quarterly average)

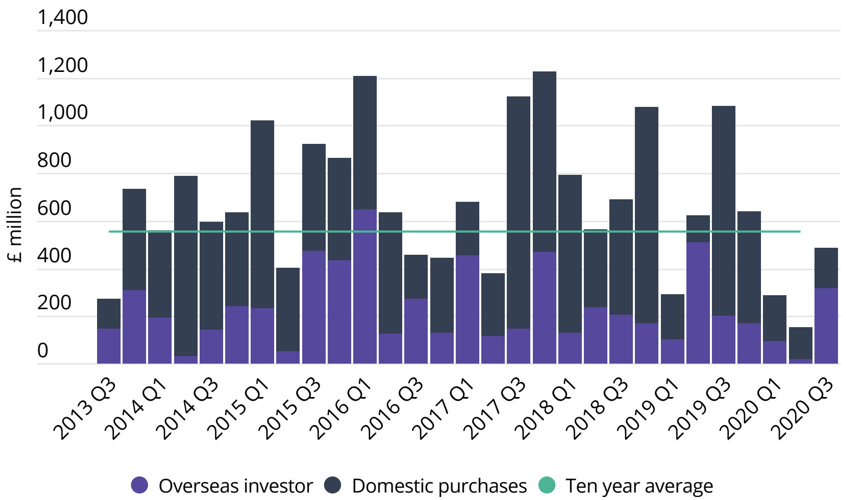
INVESTMENT VOLUMES BY CITY



TOTAL INVESTMENT VOLUMES BY CITY – TEN YEARS TO Q3 2020



INVESTMENT VOLUMES BY QUARTER



TOP FIVE DEALS – Q3 2020

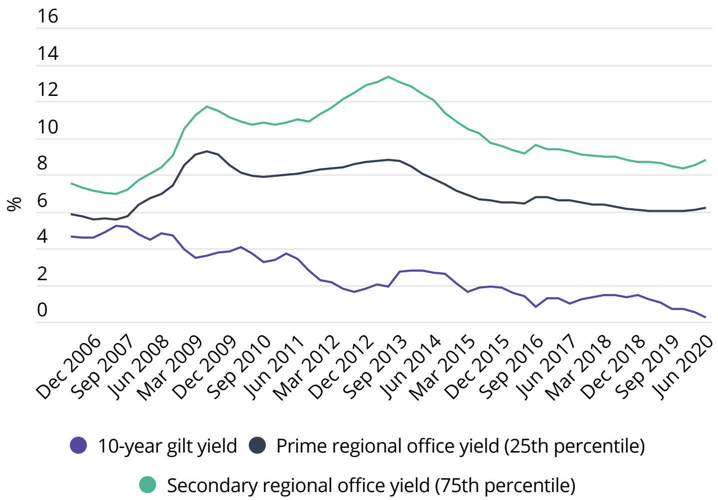
Date	Property	City	Purchaser	Vendor	Price (£m)	NIY (%)
Jul-20	Lochside Crescent, 1-3	Edinburgh	Hyundai Asset Management (Korean)	M&G Real Estate	133	5.10
Sep-20	55 Colmore Row	Birmingham	Union Investment	Nuveen Real Estate	105	4.85
Aug-20	Bristol Business Park	Bristol	Lime Property Fund	Abstract Securities Ltd	55	4.6
Sep-20	Broomielaw, 150	Glasgow	Elite Partners Capital (Singaporean)	Jersey based trust	40	7.66
Sep-20	Queen Street, 45-67	Glasgow	Maya Capital LLP	UK Value 2 Fund	30	9.5

Investment data

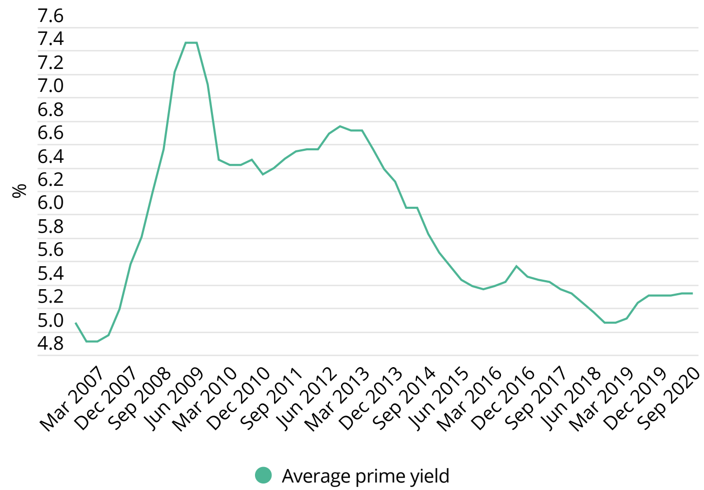
PRIME CITY CENTRE YIELDS

Location	Q2 2020	Q3 2020	Peak (2007)
Birmingham	5.00	5.00	4.50
Bristol	5.00	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	5.25	5.25	4.75
Liverpool	6.00	6.00	5.50
Manchester	5.00	5.00	4.50
Newcastle	6.00	6.00	5.25

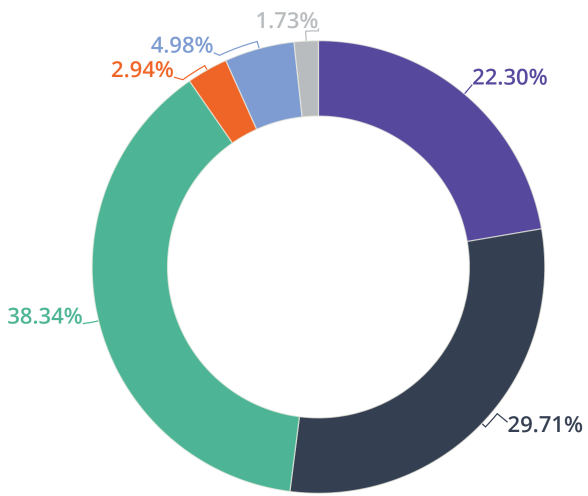
REGIONAL OFFICE YIELDS VS 10 YEAR GILTS



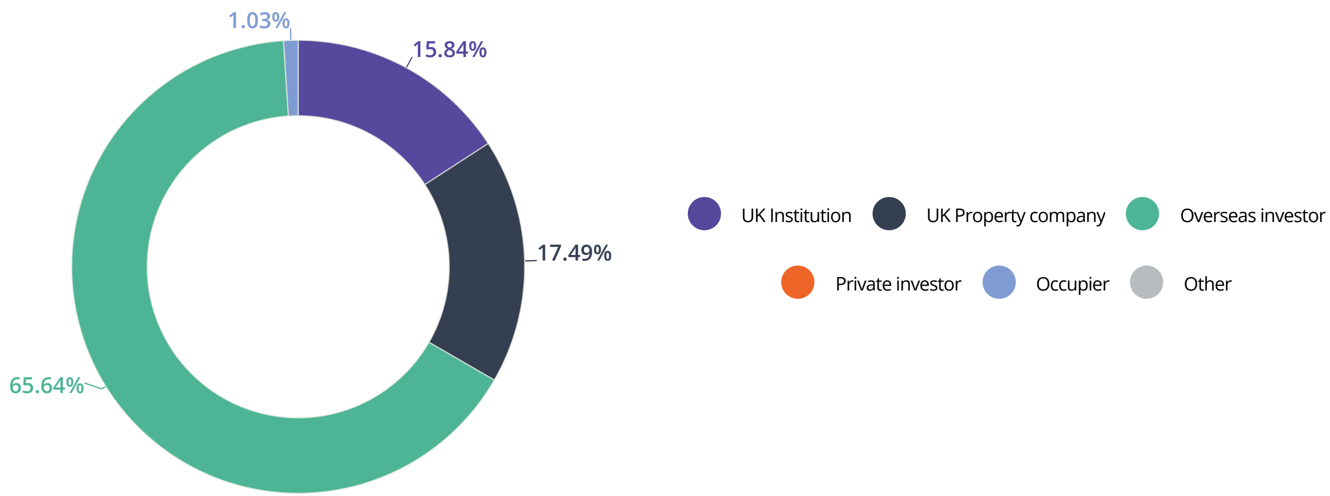
AVERAGE PRIME YIELD



INVESTOR VOLUMES BY PURCHASER TYPE 12 MONTHS TO Q3 2020



INVESTOR VOLUMES BY VENDOR TYPE Q3 2020



Birmingham

Transactional activity in Birmingham remained subdued during Q3, as take-up amounted to 79,800 sq ft in the city centre and 39,700 sq ft out-of-town. This is 55% below the ten year quarterly average but an improvement on the previous quarter.

The key activity in the city centre consisted of several medium sized professional and financial services deals. The largest was agreed with law firm Knights, which has taken 17,800 sq ft at the recently completed Two Chamberlain Square, Argent, CPP and Federated Hermes' Paradise development. This deal has increased the headline rent in the city centre from £34.50 to £37 psf, for what is the very best space in the city. Accountants Mazars have also taken 11,800 sq ft at the building, with both following DLA Piper's 40,280 sq ft transaction earlier in the year.

Transaction levels remain low as occupiers are uncertain over their medium to long term space requirements and continue to consider their business and occupational strategies. Anecdotal evidence suggests many will reduce their space requirements by up to 30% but are expected to take better quality space.

This bodes well for the 377,000 sq ft of immediately available grade A space in the city centre. Recently completed developments at 3 Snowhill and Two Chamberlain Square provide the most significant amounts of new space available in Birmingham. In addition, the two speculative buildings under construction at 103 Colmore Row (228,000 sq ft) and 1 Centenary Way, Paradise (280,000 sq ft) are both fully available but not due to complete until Summer 2021 and Winter 2022 respectively.

TOP FIVE DEALS

Property	CC / OOT	Sq ft	Occupier
Two Chamberlain Sq	CC	17,835	Knights
2 Snowhill	CC	12,613	Carter Jonas
Two Chamberlain Sq	CC	11,764	Mazars LLP
6210 Bishops Court, Birmingham Business Park	OOT	11,602	Colas
1 Colmore Square	CC	10,056	Isio - Part of KPMG

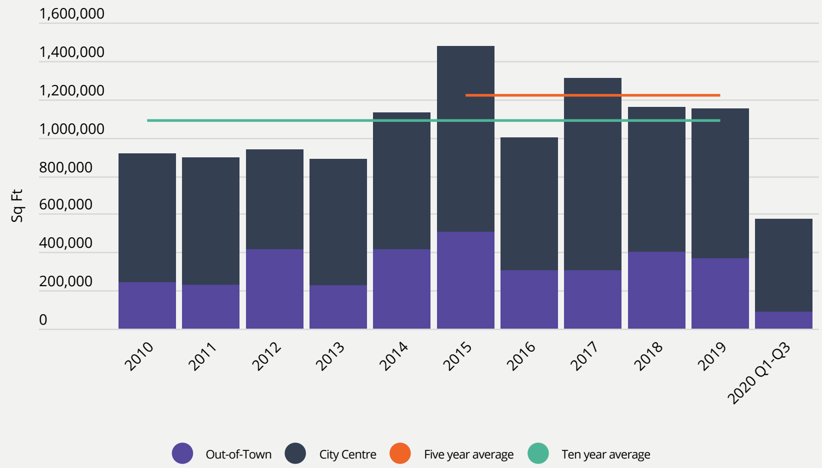
KEY SECTOR ACTIVITY FOR Q1-3 2020

Telecommunications **59%**

Central government **11%**

Property **9%**

TAKE-UP



Q3 TAKE-UP

City Centre
79,953 sq ft

Out-of-town
39,686 sq ft

HEADLINE RENT

City Centre
£37 per sq ft

Out-of-town
£26 per sq ft

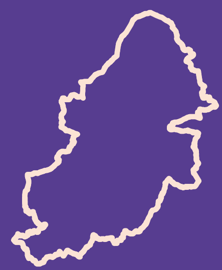
UNDER CONSTRUCTION

748,000 sq ft

32%
prelet

PRIME YIELD

5%



Bristol

Total take-up activity amounted to 233,000 sq ft in Bristol during Q3, 5% up on the ten year quarterly average. Key to this activity was the out-of-town market, dominated by a 132,000 sq ft off-market transaction to engineering company Babcock at Bristol Business Park. There were also a handful of sub 10,000 sq ft deals including two at Aztec West: 9,000 sq ft to lawyers Davies and Co and 4,200 sq ft to technology company Huawei. City centre activity was more subdued, which included 10,700 sq ft to Xledger at Tower Wharf and 7,000 sq ft to Gleeds at Aurora among the top deals.

Looking forward to the rest of the year, some sizeable transactions are still being agreed, as well as a letting of 37,000 sq ft signed at 2 Trinity Quay after the end of the quarter. In addition, we are aware of significant interest reported in the 83,000 sq ft Bridgewater House which is coming back to the market at the end of the year. There are also a number of active requirements, many of them either public sector, health or Covid-related.

However, post-Covid some occupiers are downsizing their requirements or postponing previously planned relocations in favour of short-term lease extensions. Stock levels are rising with more tenant space coming to the market, and availability is now at more normal levels following the past couple of years of record low city centre stock.

There are two speculative buildings under construction in Bristol: all 93,000 sq ft Distillery at Glassfields remains available and around a third of 110,000 sq ft Halo at Finzels Reach. They are due to complete this year and next year respectively.

As grade A transactions are scarce, there is little evidence to change the headline rent, which remains at £35.50 psf in the city centre and £23.50 out-of-town.

TOP FIVE DEALS

Property	CC / OOT	Sq ft	Occupier
100 Bristol Business Park	OOT	132,000	Babcock
Tower Wharf	CC	10,719	Xledger
250 Aztec West	OOT	9,418	Davies & Partners
New Filton House, Filton 20	OOT	9,100	Subsidiary of BAE
Aurora	CC	7,026	Gleeds

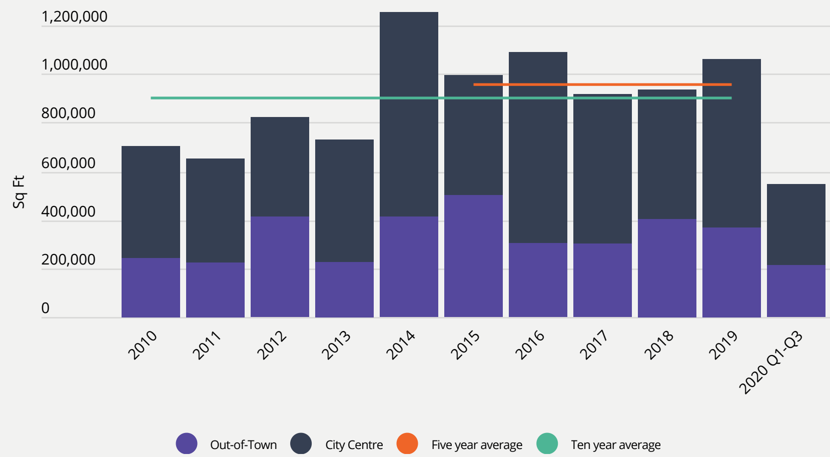
KEY SECTOR ACTIVITY FOR Q1-3 2020

Engineering consultancy **33%**

Legal services **25%**

Property **7%**

TAKE-UP



Q3 TAKE-UP

City Centre **58,833 sq ft**

Out-of-town **174,589 sq ft**

HEADLINE RENT

City Centre **£35.50 per sq ft**

Out-of-town **£23.50 per sq ft**

UNDER CONSTRUCTION

403,000 sq ft

68% prelet

PRIME YIELD

5%

Cardiff

Take-up in Cardiff amounted to 42,718 sq ft during Q3, the majority of which was in the city centre. This is up on the previous quarter but still two-thirds below the ten year quarterly average. The two largest deals were at the recently refurbished Hodge House, 7,200 sq ft to Intelligent Ultrasound and 6,580 sq ft to fintech company Currency Cloud, both at Hodge House.

On the supply side, the latest development by JR Smart is being built on John Street, Callaghan Square. It will provide 109,000 sq ft of Grade A office space and is due for completion next year. Also, the refurbishment of 65,000 sq ft Fusion Point One on Dumballs Road will complete later on this year.

In terms of future development, demolition works continue on Rightacres' 14-acre waterfront Central Quay scheme, the former Brains brewery site. The first project will be the Brewhouse, which will provide 54,000 sq ft of office space, with construction starting in Q4 2020 and completion expected at the end of 2022. A number of projects at the scheme already have detailed planning consent, with the 160,000 sq ft Ledger building, a multi-storey car park and the redevelopment of the listed Brewhouse building.

TOP FIVE DEALS

Property	CC / OOT	Sq ft	Occupier
Hodge House	CC	7,188	Intelligent Ultrasound
Hodge House	CC	6,587	Currency Cloud
30/31 Windsor Place	CC	5,798	Madison Securities Ltd
South Gate House	CC	4,259	Reed
14 Cathedral Road	CC	3,405	Hek Jones Solicitors

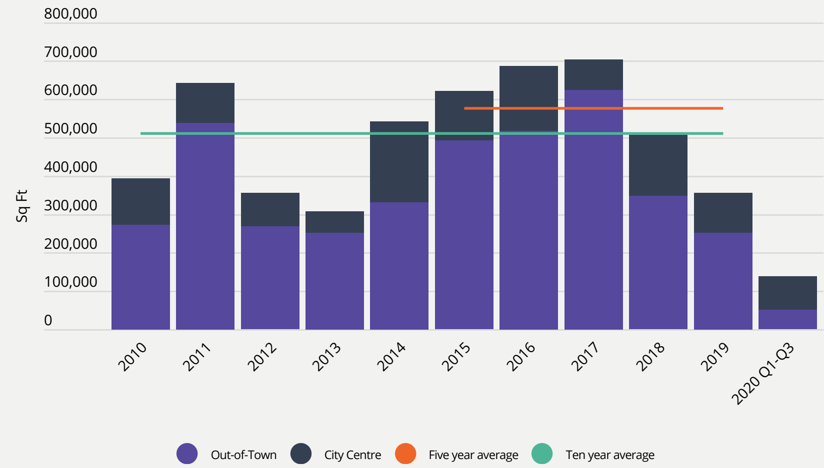
KEY SECTOR ACTIVITY FOR Q1-3 2020

Property
19%

Banks & building societies
17%

Health & social care
17%

TAKE-UP



Q3 TAKE-UP

City Centre
40,038 sq ft

Out-of-town
2,680 sq ft

HEADLINE RENT

City Centre
£27 per sq ft

Out-of-town
£15 per sq ft

UNDER CONSTRUCTION

109,000 sq ft

0%
prelet

PRIME YIELD

5.75%

Edinburgh

Baillie Gifford's 280,000 sq ft pre-let at M&G and QMile's 'The Haymarket', completed at the start of the quarter has provided a huge boost to the Edinburgh market and regional markets in general. The investment company has agreed a long term lease and is expecting to relocate during 2023.

The deal accounted for the majority of take-up in Edinburgh during Q3 which totalled 308,600 sq ft in the city centre and 11,600 sq ft out-of-town. Similar to other cities, smaller deals have dominated the rest of activity, while larger occupiers consider their occupational strategy. Flight to quality remains a key driver for relocating and we are aware of two larger deals under offer from occupiers moving from out-of-town to prime space in the city centre. There are also requirements for three public enquiries, looking to take about 10,000 sq ft each, which are expected to complete this year.

As many occupiers anticipate taking less space there is renewed interest in prime stock as the function of the workplace changes. There is also an increasing emphasis being placed on sustainability and wellness initiatives, both of which new stock is better placed to provide for.

With the recent pre-let to Baillie Gifford on the latter phase of the 'The Haymarket' (280,000 sq ft), phase one (110,000 sq ft) is fully available, under construction and due to complete in mid 2022. In addition, other city centre schemes are due to complete in the next few months, including Vastint's 2 Freer Street and the partially let Capital Square, a development by BAM, Hermes and Parlison.

In the West Edinburgh market Parabola's 85,000 sq ft 1 New Park Square on Edinburgh Park is due to complete next year, along with refurbishments at Knight's 4/5 Lochside Avenue (41,000 sq ft) and CEG's Verdant (68,000 sq ft available). RBS have also brought Drummond House (243,000 sq ft) to the market as a redevelopment opportunity.

TOP FIVE DEALS

Property	CC / OOT	Sq ft	Occupier
The Haymarket	CC	280,000	Baillie Gifford
40 Sciennes	CC	4,104	Mobile Testing Solutions Ltd
28-30 Charlotte Square	CC	3,761	People's Postcode Lottery
Ratho Park Two	OOT	2,873	Bruni Erben
Venue Studios	CC	2,840	SSP

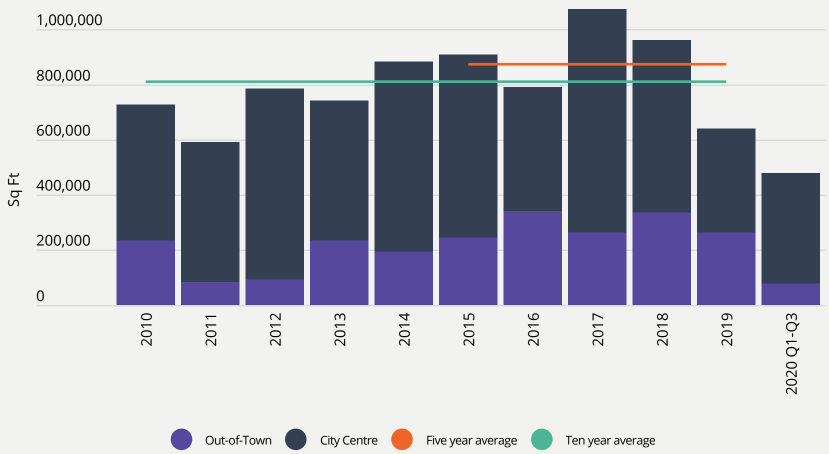
KEY SECTOR ACTIVITY FOR Q1-3 2020

Insurance **80%**

Computing & software **6%**

Utilities **5%**

TAKE-UP



Q3 TAKE-UP

City Centre
308,656 sq ft

Out-of-town
11,620 sq ft

HEADLINE RENT

City Centre
£37 per sq ft

Out-of-town
£22.50 per sq ft

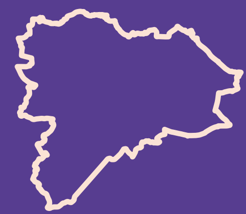
UNDER CONSTRUCTION

291,913 sq ft

23%
prelet

PRIME YIELD

4.75%



Glasgow

Q3 take-up activity in the Glasgow office market amounted to 63,852 sq ft in the city centre and 58,379 sq ft out-of-town. This brings total take-up to a similar level as Q2, around half the ten year quarterly average. This is not surprising given the tighter government restrictions for office occupation since lockdown in March.

There were two stand-out deals in the city centre, 28,388 sq ft to Westcot Credit Services, which is the expansion of an existing contract and a long-standing requirement to Chubb, which has taken 18,250 sq ft. This is less space than previously required but there is an option to expand to an additional floor. In the out-of-town market the public sector secured 22,400 sq ft at Glasgow Airport Business Park and NHS 24 has agreed a 13,700 sq ft deal at Lumina Building, Hillington Park.

We expect further re-gears, particularly for the public sector as capital budgets are under pressure and imaginative ways of leveraging capital from the private sector will need to be considered. From a property perspective we anticipate an increase in lease extensions and sale and leasebacks to help mitigate some occupiers' income shortfalls.

With a number of companies undertaking work space reviews due to Covid-19, we are expecting occupiers to focus on better-quality space, with some considering at least a 20% reduction in footprints, and others expanding to accommodate more social space for staff. These strategies fit well with the drive for more sustainable buildings and a greater emphasis on wellbeing and wellness in office design.

With no sign of any ability to return to the office indicated by the Scottish Government, we are also expecting some grey space to return to the market over the next few months. However, with limited stock and sustainable levels of occupational demand anticipated due to significant lease events over the next 12 months, we expect the headline rents and incentives to hold firm. Market fundamentals remain robust in Glasgow.

TOP FIVE DEALS

Property	CC / OOT	Sq ft	Occupier
310 St Vincent Street	CC	28,388	Wescot Credit Services
Lightyear, Glasgow Airport Business Park	OOT	22,369	Public Sector
Sentinel	CC	18,252	Chubb SE
Lumina Building, 40 Ainslie Road	OOT	13,711	NHS 24
Skypark 1, 8 Elliot Place	OOT	7,487	One Search Direct

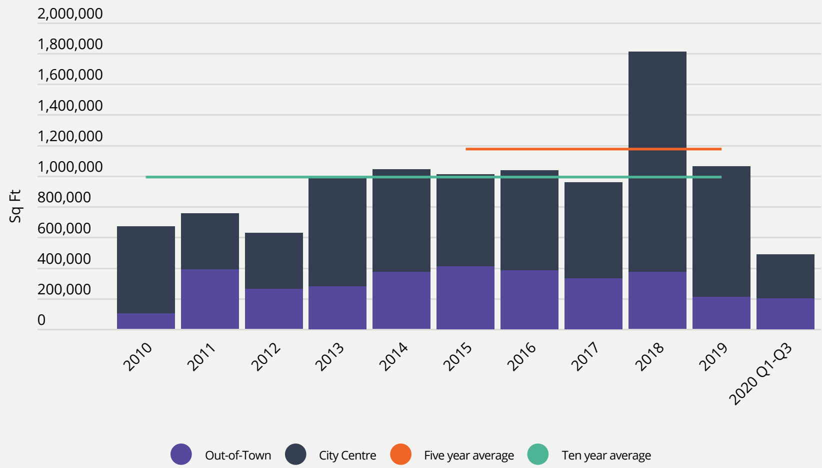
KEY SECTOR ACTIVITY FOR Q1-3 2020

Central government 28%

Business services 15%

Education & training 15%

TAKE-UP



Q3 TAKE-UP

City Centre
63,852 sq ft

Out-of-town
58,379 sq ft

HEADLINE RENT

City Centre
£34.50 per sq ft

Out-of-town
£16.50 per sq ft

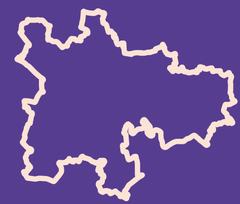
UNDER CONSTRUCTION

1.4 million sq ft

80%
prelet

PRIME YIELD

5%



Leeds

Q3 take-up in Leeds amounted to 88,800 sq ft in the city centre and 62,117 sq ft out-of-town, bringing the total to 34% below the ten year quarterly average. However, this is a significant improvement on Q2.

In the city centre there were two 22,000 sq ft deals that stood out. Legal and professional services business Knights have taken 22,100 sq ft at the newly refurbished former Majestic Cinema, where it will join Channel 4 at the beginning of next year. This is one of three regional office deals the firm have recently agreed, with the others in Birmingham and Nottingham. The NHS has also taken 21,800 sq ft at 2 Park Lane, on a seven-year lease.

In the out-of-town market there were two deals more than 5,000 sq ft: 13,100 sq ft to Carlsberg UK at Temple Point, Colton Mill and 8,800 sq ft to civil engineering company Colas at Landmark Court, Elland Road. Both have agreed ten-year leases.

There is 90,000 sq ft of immediately available grade A space in the city centre and no speculative space under construction. 134,000 sq ft 4 Wellington Place is due to complete this year but it is fully let to The Stars Group. This is a healthy supply situation given the expectation of grey space returning to the market and should help to maintain headline rents, which remain at £32 psf in the city centre and quoting rents were £34 psf on a recent confidential deal.

TOP FIVE DEALS

Property	CC / OOT	Sq ft	Occupier
Majestic	CC	22,166	Knights PLC
2 Park Lane, Leeds	CC	21,804	NHS
Temple Point, Colton Mill	OOT	13,134	Carlsberg UK
1 City Square	CC	9,921	Schroders
Gallery House	CC	8,850	Reed Recruitment

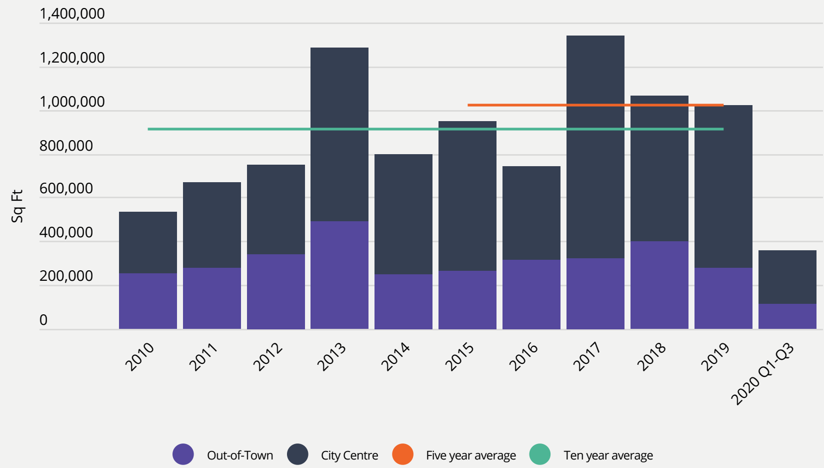
KEY SECTOR ACTIVITY FOR Q1-3 2020

Education & training **18%**

Insurance **17%**

Health & social care **14%**

TAKE-UP



Q3 TAKE-UP

City Centre
88,507 sq ft

Out-of-town
62,117 sq ft

HEADLINE RENT

City Centre
£32 per sq ft

Out-of-town
£24.75 per sq ft

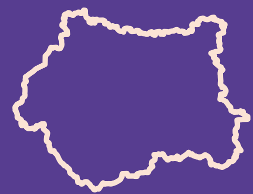
UNDER CONSTRUCTION

134,000 sq ft

100%
prelet

PRIME YIELD

5.25%



Liverpool

Subdued activity in the Liverpool market has continued into Q3, with take-up amounting to approximately 10,000 sq ft in the city centre and 15,000 sq ft in the out-of-town market.

There has been a handful of small lettings in the sub 2,500 sq ft category, whilst the majority of medium to large size occupiers are continuing to undertake strategic reviews of their occupational requirements, resulting in them either looking to downsize or putting these requirements on hold for the foreseeable future.

We would also anticipate that due to occupiers looking to reduce their overall occupational footprint that there will be large amounts of "grey space" returning to the market over the next 6 to 12 months.

There continues to be a huge amount of uncertainty in the occupational market which has resulted in a significant reduction in both demand and transactional activity. This is unlikely to change this year and may well extend into the early part of next year.

The out-of-town market which performed relatively well during Q2 has also seen a significant reduction in demand during Q3 with a large proportion of occupiers either putting their requirements on hold or looking to dispose of existing space.

TOP FIVE DEALS

Property	CC / OOT	Sq ft	Occupier
No 1 Tithebarn	CC	18,473	Disclosure & Barring Services
No 1 Tithebarn	CC	16,017	Carpenters
Atlantic Pavillion	CC	15,000	Dane Group
Edward Pavilion	CC	12,700	Taylor Wessing

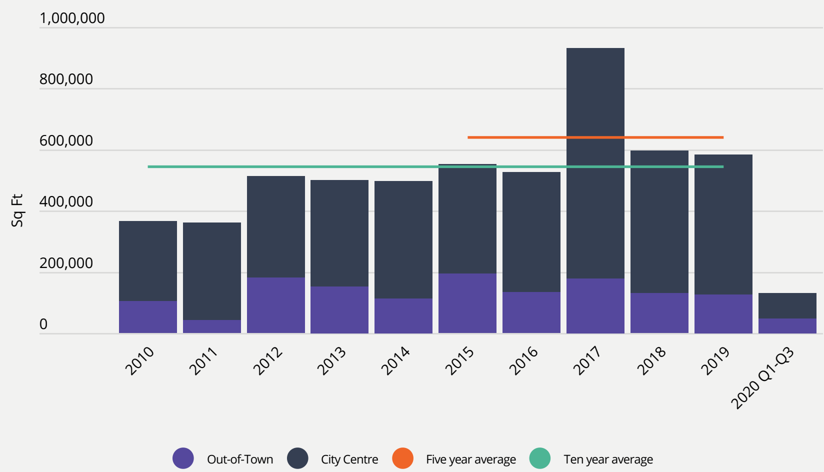
KEY SECTOR ACTIVITY FOR Q1-3 2020

Legal services **32%**

Banks & building societies **30%**

Central government **21%**

TAKE-UP



Q3 TAKE-UP

City Centre
10,000 sq ft

Out-of-town
15,000 sq ft

HEADLINE RENT

City Centre
£22 per sq ft

Out-of-town
£14 per sq ft

UNDER CONSTRUCTION

160,000 sq ft

44%
prelet

PRIME YIELD

6%

Manchester

Occupier demand in Manchester was very subdued during Q3. Take-up amounted to 69,100 sq ft in the city centre and 84,400 sq ft out-of-town, totalling 70% below the ten-year average. The patten of take-up has been similar to other cities with the bulk of deals below 5,000 sq ft.

However, in a boost of confidence to the market, two large deals have been agreed in the city centre that will fall into Q4 figures. BT has agreed to take a 175,000 sq ft pre-let at English Cities Fund's 293,000 sq ft Four New Bailey as its new Manchester hub and TradeMedia has taken 80,000 sq ft at Ask Developments First Street scheme.

The most significant deal of Q3 was in Salford Quays, 23,580 sq ft to IT company Tech Mahindra at The Vic in Media City. The largest deal in the city centre was 11,000 sq ft to the Spanish Consulate at The Chancery.

Many medium to large requirements are either on hold or progressing at a slow pace as occupiers review their space strategies in the current uncertainty; with some involving a reduction in space, such as BT's pre-let deal, reduced by 30% from 250,000 sq ft to 175,000 sq ft. At the beginning of September confidence was returning to the market but this was supressed following the Government's renewed restrictions and reticence for a return to the office.

Consequently, we do not expect a return to greater activity before next year, particularly given Manchester's tier 3 status. We are also detecting signs of an increase in the availability of existing space as occupiers are not renewing leases or are downsizing via a lease re-gear.

There is 1.3 million sq ft of space under construction in Manchester city centre, of which around half remains available. Of this Bruntwood Estates' No. 1 and No. 2 Circle Square is due to complete first.

Landlords are generally holding firm on rent levels, although they are prepared to offer increased incentives in order to commit occupiers. Headline rents remain at £36.50 psf in the city centre and £24 out-of-town.

TOP FIVE DEALS

Property	CC / OOT	Sq ft	Occupier
The Vic, MediaCityUK	OOT	23,580	Tech Mahindra
Laser House, Salford	OOT	11,726	Shencoh Associates
The Chancery, Spring Gardens	CC	11,001	Spanish Consulate
3 Hardman Square	CC	9,063	Isio
Chancery Place	CC	5,665	Palatine

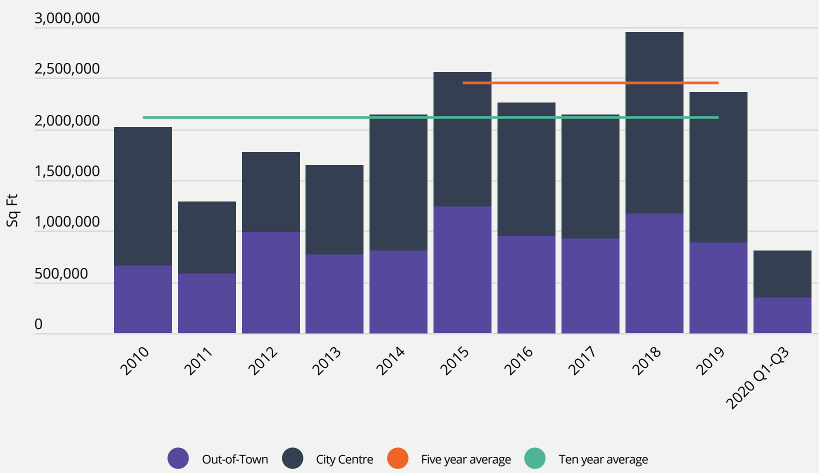
KEY SECTOR ACTIVITY FOR Q1-3 2020

Insurance 11%

Membership / regulatory 10%

Computing & software 10%

TAKE-UP



Q3 TAKE-UP

City Centre
69,106 sq ft

Out-of-town
84,446 sq ft

HEADLINE RENT

City Centre
£36.50 per sq ft

Out-of-town
£24 per sq ft

UNDER CONSTRUCTION

1.3 million sq ft

52%
prelet

PRIME YIELD

5%

Newcastle

It has been another strong quarter of activity in Newcastle, given the current economic conditions and the city remains on track to meet the ten year quarterly average. A number of key deals have signed this quarter bringing take-up to 48,000 sq ft in the city centre and 98,000 sq ft out-of-town.

In the city centre the largest deal was to Aspire Technology Solutions, who took 30,000 sq ft at Gateshead Quays. Otherwise the main activity was at the recently completed Lumen, where Newcastle Hospitals NHS Foundation Trust agreed an 11,000 sq ft deal and Savills have taken 3,000 sq ft. With Homes England agreeing a 19,300 sq ft deal in Q2 and the North East Combined Authority under offer, around half the space remains available.

New supply of office space in Newcastle city centre continues. Legal and General's 107,000 sq ft The Spark is part of the same scheme as The Lumen and is expected to complete at the beginning of 2022; and all is currently still available. Additionally, 120,000 sq ft Bank House has recently signed contracts with the building contractor, with construction expected to start next month.

The out-of-town market has recorded another strong quarter, led by a 30,000 sq ft transaction at Newcastle Business Park to Green Energy Advice and a handful of medium sized deals have signed, including those to ManData and Elavon at Quorum Business Park.

Headline rents remain at £26.00 psf in the city centre and £16.95 out-of-town.

TOP FIVE DEALS

Property	CC / OOT	Sq ft	Occupier
Weymouth House, Newcastle Business Park	OOT	30,479	Green Energy Advice
Pipewell Quays, Gateshead Quayside	CC	30,000	Aspire Technology Solutions
Q16, Quorum	OOT	11,254	Elavon
The Lumen, Newcastle Helix	CC	11,000	Newcastle Hospitals Trust
Merchant House, 12 Merchant Court	OOT	8,430	Consultiv Utilities Limited

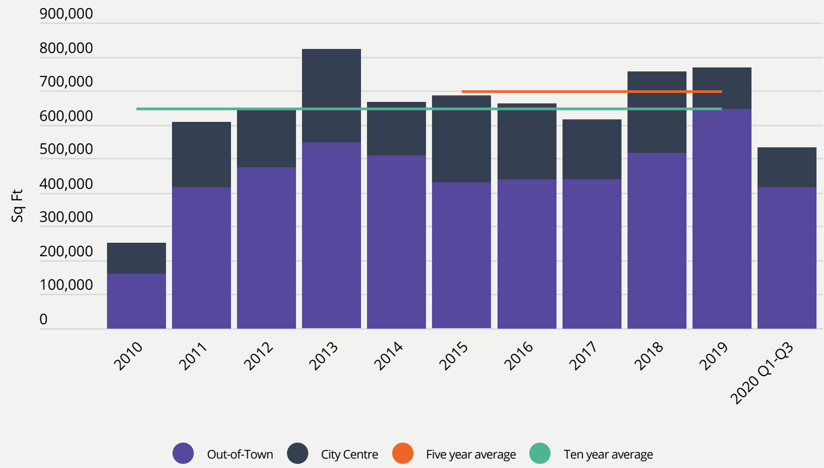
KEY SECTOR ACTIVITY FOR Q1-3 2020

Business services **27%**

Utilities **18%**

Health & social care **17%**

TAKE-UP



Q3 TAKE-UP

City Centre **48,015 sq ft**

Out-of-town **97,821 sq ft**

HEADLINE RENT

City Centre **£26 per sq ft**

Out-of-town **£16.95 per sq ft**

UNDER CONSTRUCTION

107,000 sq ft

0% prelet

PRIME YIELD

6%

Lease Advisory

The current landscape of the 54 Act Renewal Market

INTRODUCTION

In the Big Nine Q1 2020, the Lease Advisory commentary called "Covid-19: a conundrum for UK lease renewals" considered the lease renewal market being in "a state of limbo."

We are likely to be operating in this continued state of limbo for a further 6 to 12 months at least. The issues of tenants being unable to commit and landlords looking at rent certainty will be the common characteristics of the lease renewal market in the short term.

There are some pertinent issues that advisors are currently grappling to interpret, balanced with the potentially extended court timetable for determining the issues arising out of '54 Act, and the likely shenanigans to be determined at court. This, mixed with the changing landscape of the health and economic impacts of COVID-19, results in a difficult period for lease renewal negotiations to be taken forward and concluded.

THE CURRENT ISSUES

The pertinent issues currently being negotiated between the parties, relate in the main to the following:

1. Duration and lease break
2. Rent
3. Lease terms
4. Interim Rent

DURATION AND LEASE BREAKS (SECTION 31)

Duration is intrinsically interlinked with the breaks, which had become a real issue since the recession of the 1990s. The courts have provided some consideration, i.e. the terms of the current lease, the landlords' and tenants' aspirations, the duration in the marketplace and the rent to be assessed

Tenants will not be willing to commit to medium to long term leases. Tenants will need to rely on robust witness statements being operationally persuasive to achieve the increased level of lease flexibility. Landlords will not want to renew with tenants on potential flexible terms, as these will be long-lasting and the alternative use values (grounds of redevelopment) may be more favourable.

RENT (SECTION 34)

The rent considerations will be equally challenging. With no conventional marketplace and no comparable transactions during this period, it would be difficult to contemplate any valuation certainty.

The credibility of the expert evidence will be called into question by the courts (and ultimately the market). The experts will be scrutinised even more so than normal, as there will be a greater reliance on hearsay evidence or even looking to consider alternative valuation bases. Without transactional evidence, it is more likely that valuer's opinion will be relied upon, and therefore there is a greater need for valuers to be experienced and credible in providing opinions, which can be justified by market intelligence, experience and knowledge of similar circumstances.

It is likely there will be an increased number of determinations on rent at either court or PACT, with expert reports needing to be very persuasive and succinct under cross examination.

LEASE TERMS (SECTION 33)

An interesting development is the "Covid 19" or business interruption clauses, which offers at least a degree of rent relief for periods of lockdown. This will be a test for the lease renewal assumption of "reasonable modernisation". The main characteristic of the clauses relates to the definitions of what is a qualifying event; the triggers, the timing, the consequences and any disputed process.

INTERIM RENT

This will also be a difficult period for the assessment of the interim rent for leases holding over and the impact on the rental for the commencement date to reflect the different types of market and valuation uncertainty, for example the lockdown, post lockdown and the second lockdown.

The traditional understanding of the interim rent in essence is to be set at the same level as the agreed renewed rent unless:

(i) there is a delay between the service of the notice and the grant of the new tenancy and that it would be unjust for the tenant to have to pay the newly agreed or assessed rent for the entirety of the interim rent period; or

(ii) there is a difference between the original terms and the newly agreed terms and that it would be unjust (to one or other party) for the rent payable at the commencement of the new lease to be that payable while the old lease continued.

It is clear that the Covid 19 pandemic has created an exceptional period of market uncertainty and the consequences of this on the interim rent parameters. What is uncertain is how the courts will determine the impact of the different periods and consequences of lockdown.

LEASE CODE

This will also be interesting times for the rollout of the commercial code of leasing 2020, which was seeking to regularise in a more mandatory way the conduct of lease provisioning and negotiations generally. There are already a number of issues as a result of Covid undermining the recent arrival from the 1st September 2020.

CONCLUSION

As this is a dynamic market situation, there is a need for clients and advisors, lawyers and valuers, to be in sync and working together for any lease renewals, which are still outstanding and / or with immediate expiry dates. The experience and knowledge of valuers will be called on like never before by both landlords and tenants. There is also a risk that the less informed landlords or tenants will be exposed to unfavourable settlements and renewal rights.

Stuart Powlesland
Director, Lease Consultancy

stuart.powlesland@avisonyoung.com
0117 988 5208

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

Charles Toogood
Principal and Managing Director,
National Offices Team
charles.toogood@avisonyoung.com
0121 609 8448

Mark Williams
Principal and Managing Director,
Regional Investment
mark.williams@avisonyoung.com
0161 956 4144

Giles Tebbitts
Associate Director, Research
giles.tebbitts@avisonyoung.com
020 7911 2670

Visit us online
avisonyoung.co.uk/research

@AYUKviews