1 Angel Square, Manchester

INSIGHT

The Big Nine

Quarterly update of regional office activity

Q4 2021

AVISON YOUNG

CHARLES TOOGOOD
Principal and Managing Director, National Offices Team

> "The second half of the year saw significant demand for grade A space, as some occupiers reduce their space requirements but commit to upgrading the quality of their accommodation

Occupier market in brief

Q4 BIG NINE ACTIVITY REACHES THE HIGHEST LEVEL IN THREE YEARS

Office demand across the Big Nine returned to 'normal' levels of activity during the second half of 2021, as occupiers able to take a long-term view on their occupational strategies, do so. The focus during the latter part of the year was very much on prime and new build accommodation. A strong finish to the year brought total take-up for 2021 to 8.1 million sq ft, 5% down on the ten-year average but 42% up on 2020.

Q4 take-up was the highest quarterly total for more than three years, led by the second largest ever deal across the Big Nine - HM Revenue and Customs (HMRC) took 463,000 sq ft at Pilgrim's Quarter in Newcastle city centre. There were several other large lettings across the cities, with commitments from Roku (115,000 sq ft) in Manchester and Fanduel (58,000 sq ft) in Edinburgh and we saw the highest number of lettings over 10,000 sq ft since the end of 2018.

The second half of the year saw significant demand for grade A space, as some occupiers reduce their space requirements but commit to upgrading the quality of their accommodation. This means that new or refurbished space is in high demand, which has led to asking rents for prime space breaching £40 psf in some cities. However, we are seeing a two-tier market develop, as vacancy rates on secondary stock increases.

This year has seen a return to activity for most key sectors, in particular professional and business services and the public sector. The TMT sector has also performed well, driven largely by IT and software. Financial services is the only sector where activity has been noticeably subdued.

As far as individual cities are concerned, most have achieved activity close to the ten-year average, with Newcastle being the stand-out performer, not only because of the HMRC deal but also large lettings to Just Eat (217,000 sq ft) and Home Group (70,000 sq ft) earlier in the year. Leeds also performed strongly with a number of significant deals throughout the year.

The level of CAT A+ provision from landlords continues to increase throughout the Big Nine markets. Landlords are looking to reduce voids and rent-free inducements and increase the potential for occupier retention at a time when flexibility around spatial requirements is clouded by uncertainty. There is also a growing trend towards greater customer care, collaboration space and wellbeing facilities.

With occupiers downsizing their requirements and some releasing 'grey' space, availability across the Big Nine city centres continues to follow its upward trajectory. However, with the increased demand over the past two quarters, it has begun to taper and now sits at 11.9 million sq ft, much closer to its cyclical low of 8.1 million sq ft in Q1 2020 than the 18.3 million sq ft on the market during the aftermath of the GFC in 2013. Current availability accounts for 2 years' supply based on past take-up rates.

With an increase in space coming to the market, a greater number of landlords are undertaking refurbishments to meet occupiers' need for quality buildings and the desire to meet their carbon reduction commitments. Others will be looking at repositioning offices to other uses such as residential and education, brought about by increasing obsolesce.

There has been a consistent level of development across the Big Nine over the past few years at between 5 and 6 million sq ft. However, with fewer recent starts and a number of completions at the end of last year, this figure has fallen to 4 million sq ft, of which half remains available. Some cities will see a development lag and refurbishments will fill the gap to satisfy the demand for quality space.

Demand for the best space continues to put pressure on headline rents, which currently sit at an average of £32.67 psf, a 2.3% increase over the past 12 months. According to the MSCI monthly index, average rents for UK standard offices outside London and the South East have also increased by 1.6% over the same period.

Most cities are forecast to experience strong economic and employment growth during 2022. When coupled with an early withdrawal on Plan B Covid restrictions and pent-up demand evident in the markets, we expect the positive sentiment generated over the past six months to continue.

TOTAL TAKE-UP IN Q3

2,659,954 sq ft

▲ 24%

UP ON THE 10 YEAR QUARTERLY AVERAGE

City Centre	Out-of-town
1,885,302 sq ft	774,652 sq ft

UNDER CONSTRUCTION

4 million sq ft

SKEWED TOWARDS

GLASGOW	BRISTOL	LEEDS
24%	16%	15%

HEADLINE RENTS AVERAGE

£32.67 psf

Across all nine cities

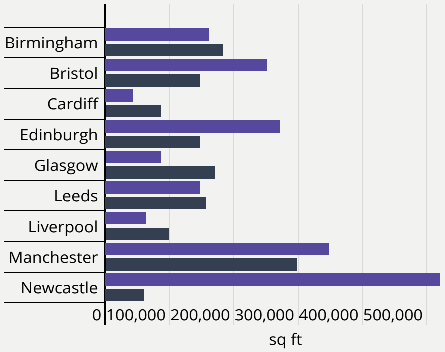
Occupier data

City Centre

TOTAL TAKE UP IN Q4

1,885,302 sq ft △ **40%** compared to the ten year quarterly average

TAKE UP (SQ FT)



TOP FIVE DEALS

City	Property	Occupier	Sq ft
Newcastle	Pilgrim's Quarter, New Bridge Street	HCHLG/ HMRC	462,847
Manchester	Circle Square	Roku	115,066
Bristol	1, Trinity Quay	University of Bristol	74,373
Edinburgh	2 Freer Street	FanDuel	58,870
Glasgow	177 Bothwell Street	Transport Scotland	48,870

HEADLINE RENTS (£PSF)

Location	Rent (£) Q4 2021	Rent free (months on ten year term)	Net effective rent* (£)	Net effective rent (£) Q4 2020
Bristol	38.50	21	32.73	30.18
Manchester	38.50	24	31.76	31.12
Edinburgh	38.00	15	34.20	33.30
Birmingham	37.50	24	30.94	30.53
Glasgow	34.50	15	31.05	31.05
Leeds	34.00	24	28.05	26.40
Newcastle	26.00	18	22.75	22.75
Cardiff	25.00	18	21.88	21.88
Liverpool	22.00	27	17.60	18.15
Average	**32.67**	**20.67**	**27.88**	**27.26**

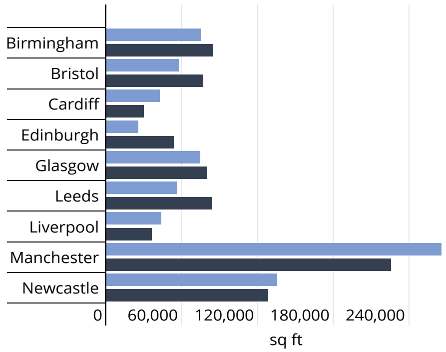
*including rent free period less three month fit-out.

Out-of-town

TOTAL TAKE UP IN Q4

774,652 sq ft ▽ **-3%** compared to the ten year quarterly average

TAKE UP (SQ FT)



TOP FIVE DEALS

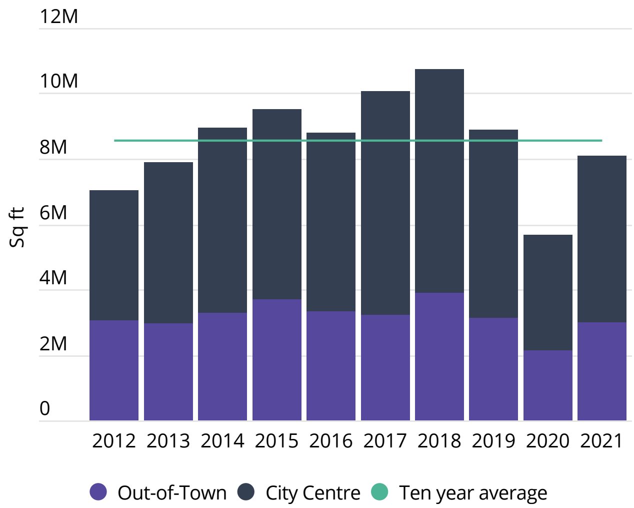
City	Property	Occupier	Sq ft
Newcastle	The Solar Building	Energy Compare	36,823
Glasgow	Enterprise & Innovation Hub	PRA Group	27,830
Birmingham	2010 The Crescent	Citibase	27,764
Manchester	2 Stockport Exchange	O'Neill Patient	22,836
Manchester	Unit 2 Brightgate Way	OOOOO Video Commerce	19,490

HEADLINE RENTS (£PSF)

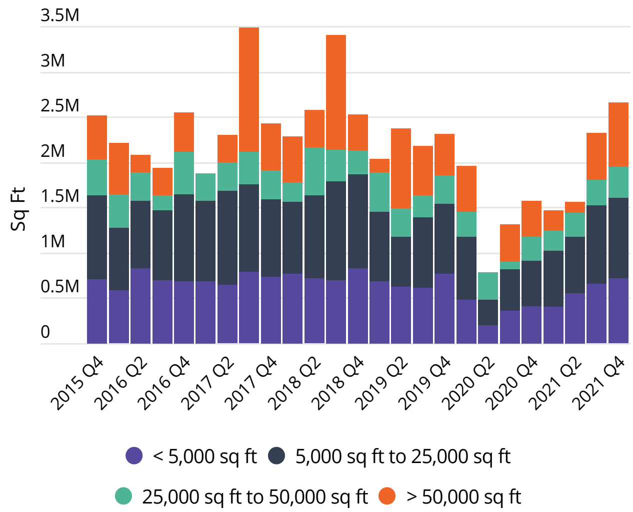
Location	Rent (£psf) Q4 2021	Rent (£psf) Q4 2020
Birmingham	26.00	26.00
Leeds	24.75	24.75
Manchester	24.00	24.00
Edinburgh	24.00	22.50
Bristol	23.50	23.50
Newcastle	16.95	16.95
Glasgow	16.50	16.50
Cardiff	15.50	15.50
Liverpool	14.00	14.00
Average	**20.58**	**20.41**

Occupier charts

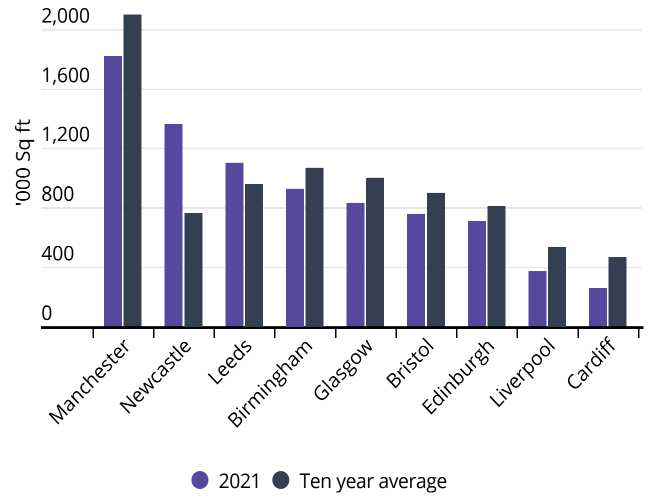
ANNUAL TAKE UP



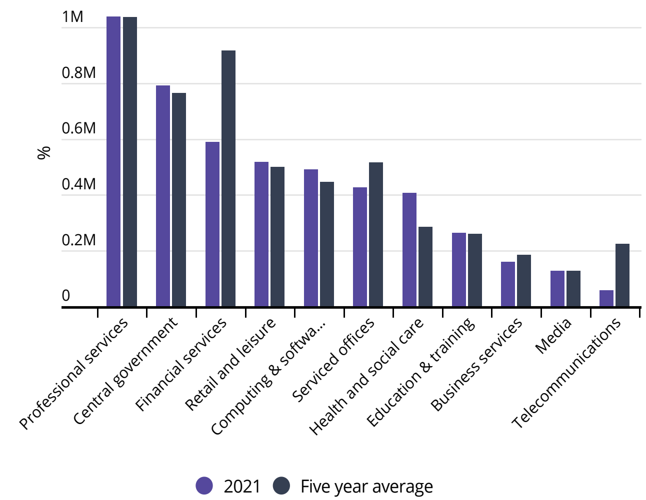
QUARTERLY TAKE-UP BY DEAL SIZE



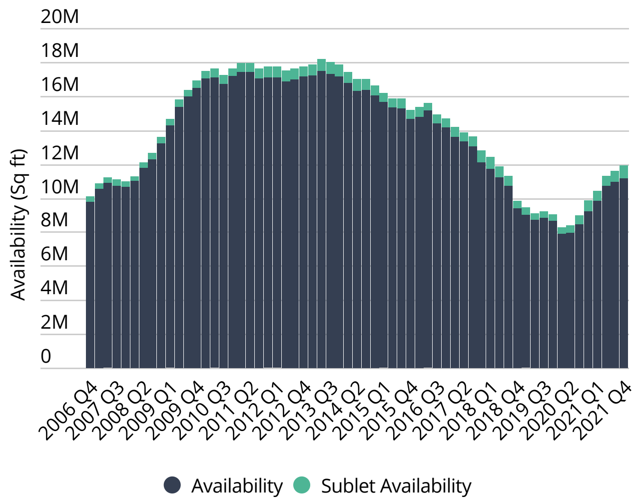
CC AND OOT TAKE-UP



AVERAGE QUARTLERY TAKE-UP BY SECTORS



BIG NINE CITY CENTRE AVAILABILITY



MARK WILLIAMS
Principal and Managing Director,
Regional Investment

"Well-located, good quality assets with a strong tenant base continue to receive good levels of interest, particularly those that meet net zero carbon commitments and fulfil expectations for positive rental growth

Investment market in brief

DOMESTIC INVESTMENT DOMINATES AS UK INSTITUTIONS RETURN

Sentiment in the regional office investment market remains upbeat. Volumes for the Big Nine office markets recovered to £2.6 billion during 2021, 8% up on the ten-year average and compares to £1.7 billion in 2020.

Well-located, good quality assets with a strong tenant base continue to receive good levels of interest, particularly those that meet net zero carbon investment criteria and fulfil expectations for positive rental growth.

This is highlighted by the main deals signed during Q4. While the number of deals slowed towards the end of the year, the figures were boosted by the largest deal of the year: owner occupier NatWest bought £292 million One Hardman Boulevard, Manchester.

Activity from UK institutions has been subdued since Covid but Q4 saw the strongest activity for two years headlined by two grade A deals: Canada Assurance bought two buildings in Birkenhead for £75 million and CBRE Global Investors purchased Exchange Place One in Edinburgh for £58.5 million. We expect to see further activity from funds in the year ahead.

Against recent performance, domestic investment has dominated the market this year, accounting for 72% of activity. UK property companies have been the most acquisitive, accounting for 43% of total volumes. In Q4 Land Securities Group PLC paid £425 million (£49 million for the office element) for a 75% stake in MediaCity, the media, digital and tech hub in Salford.

Volumes have been led by Manchester at £860 million, its highest total since 2018 and a third of the Big Nine market. Birmingham and Bristol accounted for volumes of £325 million and £367 million as a number of high-profile assets were traded, such as Assembly and Temple Quay House in Bristol and Colmore Gate in Birmingham.

Prime yields for most cities have stayed the same over the quarter, at an average of 5.36%, which compares to 5.33% 12 months ago. According to the MSCI monthly index, average equivalent yields for all regional offices reached a cyclical low prior to the pandemic of 6.9% in January 2020 and moved out to 7.5% by the end of the year. However there has been no movement over the past 12 months.

With demand focused on the best quality assets and secondary property not trading as strongly as pre-pandemic, the yield gap between prime and secondary property continues to widen. According to the MSCI quarterly index, it was 279 basis points at the end of September, compared to 228 at the end of 2019.

TOTAL FOR Q4

£626 million

▲ 3%

UP ON THE 10 YEAR QUARTERLY AVERAGE

VOLUMES BY CITY

MANCHESTER	LIVERPOOL	EDINBURGH
£360m	£113m	£78m

VOLUMES BY INVESTOR TYPE

FINANCIAL INSTITUTION	UK INSTITUTION	UK PROPERTY COMPANY
47%	22%	19%

PRIME YIELD	PREVIOUS PEAK (2007)
4.75%	4.50%

Investment data

TOTAL INVESTMENT VOLUMES

Q4 2021 **£626 million**

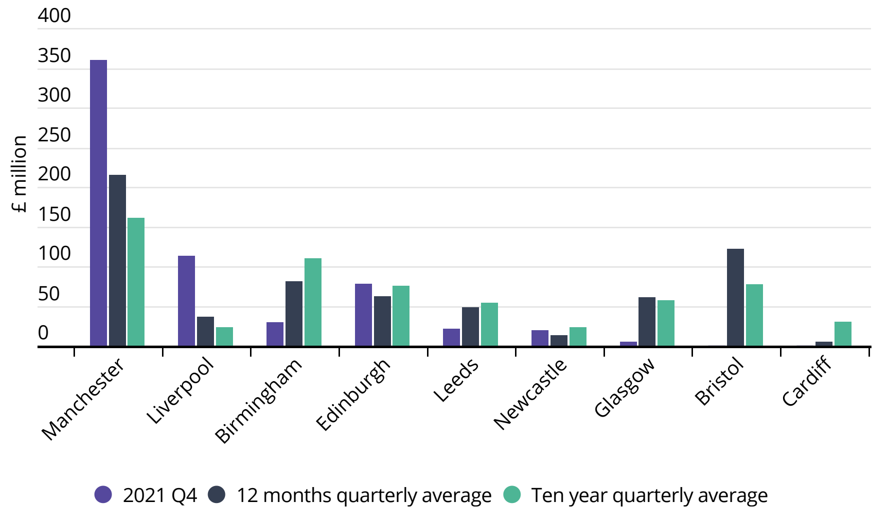
Compared to:

£820m
(previous quarter – Q3 2021)

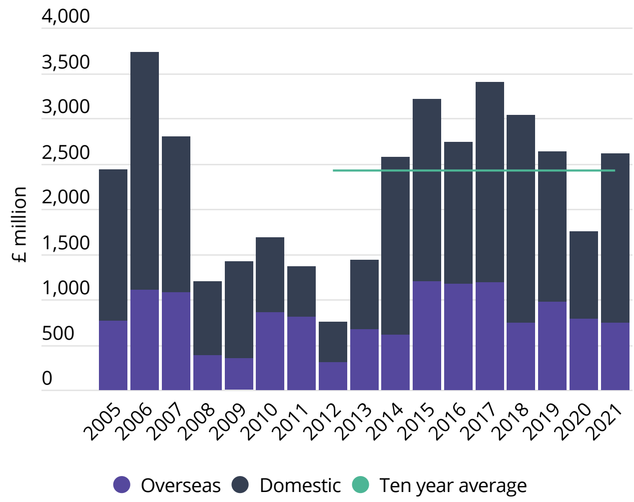
£828m
(a year ago – Q4 2020)

£606m
(ten year quarterly average)

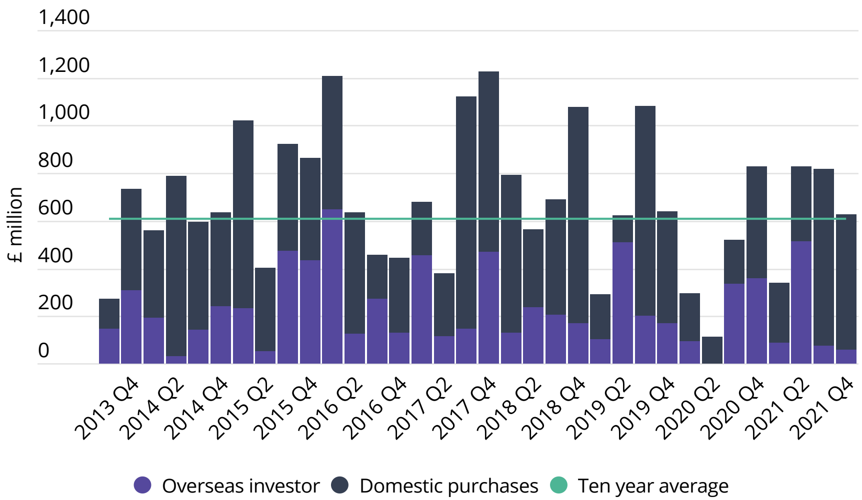
INVESTMENT VOLUMES BY CITY



ANNUAL INVESTMENT VOLUMES



INVESTMENT VOLUMES BY QUARTER



TOP FIVE DEALS – Q4 2021

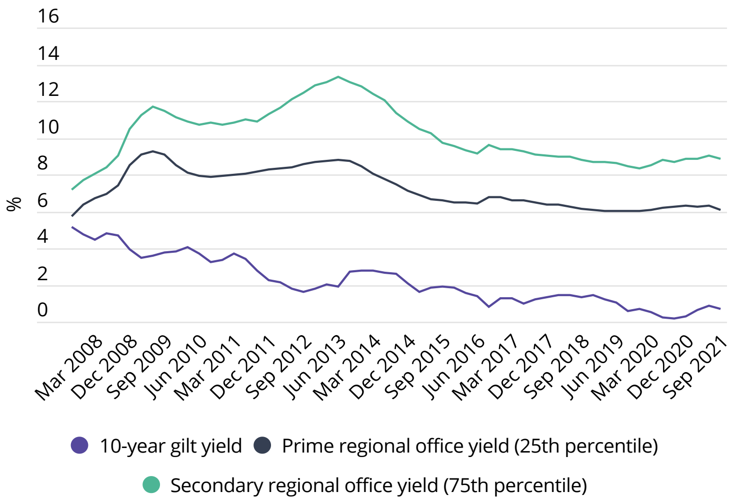
Date	Property	City	Purchaser	Vendor	Price (£m)	NIY (%)
Dec-21	One Hardman Boulevard	Manchester	NatWest	Pension Protection Fund	292	N/A
Oct-21	Town centre (phase 1)	Liverpool	Canada Life Assurance	Muse Developments Ltd	75	N/A
Dec-21	Exchange Place 1	Edinburgh	CBRE UK Property PAIF	GLL Real Estate Partners	59	5.00
Nov-21	MediaCity UK	Manchester	Landsec Plc	Legal & General Property	49 (element)	5.80
Nov-21	Skyways House, Speke	Liverpool	Corum Asset Management	Fiera Real Estate	38	6.50

Investment data

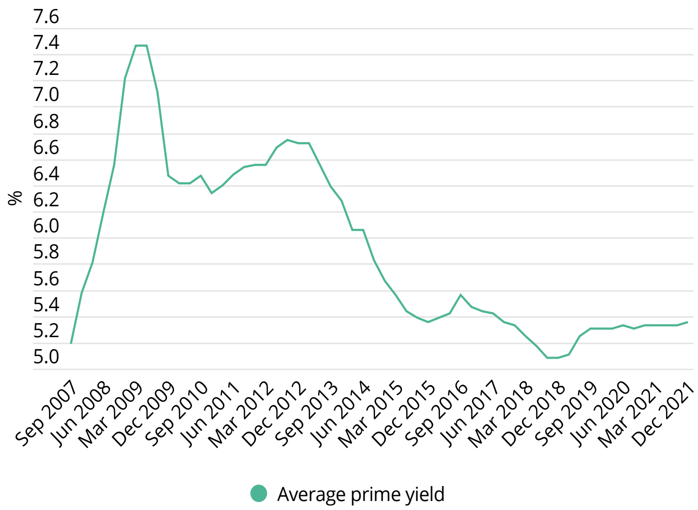
PRIME CITY CENTRE YIELDS

Location	Q4 2021	Q3 2021	2007 peak
Birmingham	5.00	5.00	4.50
Bristol	5.00	5.00	5.00
Cardiff	5.75	5.75	5.00
Edinburgh	4.75	4.75	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	6.50	6.25	5.25

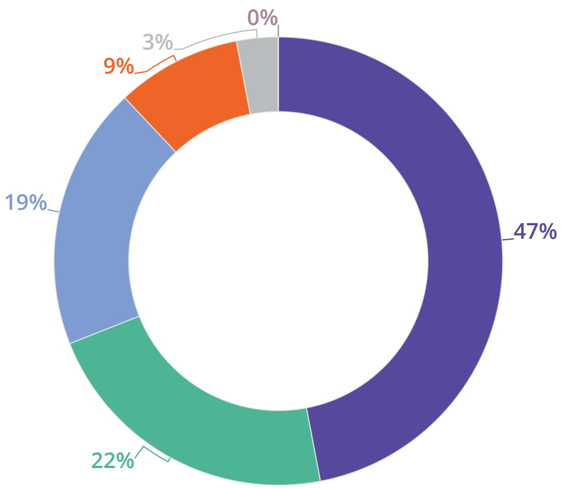
REGIONAL OFFICE YIELDS VS 10 YEAR GILTS



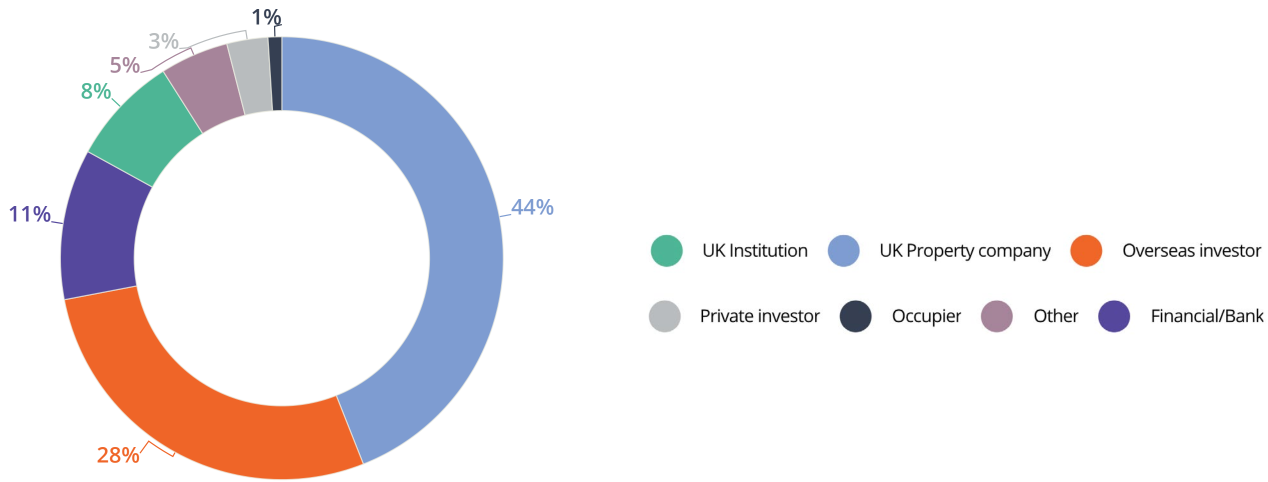
AVERAGE PRIME YIELD



INVESTOR VOLUMES BY PURCHASER TYPE: Q4 2021



INVESTOR VOLUMES BY PURCHASER TYPE: 2021



Birmingham

There was a significant improvement in office activity in Birmingham city centre last year, compared to 2020, amounting to 657,000 sq ft. Take-up was led by grade A deals to professional firms such as Arup and Atkins and co-working operators.

During Q4 there was continued demand for quality space from professional firms. The largest letting was at the recently completed 103 Colmore Row - 32,900 sq ft to lawyers Shoosmiths, who will be joined by financial adviser Grant Thornton (12,146 sq ft) and Knight Frank (4,300 sq ft). These follow Tilney Smith Williamson's deal in the previous quarter.

2021 also saw the return to activity from co-working operators such as IWG and X+why. As they look to capitalise on occupiers' increased desire for flexibility, there are also increasing examples of Cat A+ fit-outs from landlords looking to mitigate void periods and attract occupiers uncertain of their short-medium term requirements.

We are seeing some grey space released to the market, although the increase in vacancy rate remains measured in Birmingham, having increased from 7.4% at the beginning of the pandemic to 8.2% by the end of December.

With tenant requirements focused on 'less but better' space, we will likely see more activity on new and refurbished accommodation – with potential for upward pressure on rents for the best space. There is a healthy supply of new space coming forward – including further availability at the recently completed 103 Colmore Row (228,000 sq ft) and developments due to complete at the end of this year: 1 Centenary Way (280,000 sq ft) and CBREGi's major refurbishment of 8/10 Brindleyplace (213,000 sq ft), alongside 120,000 sq ft at Scitech's Enterprise Wharf.

There was also an improvement in activity out-of-town, which amounted to 268,000 sq ft and was dominated by professional and business services activity. There were a number of deals at Birmingham Business Park, including the Q4 letting to Citibase (27,764 sq ft) and Rivus (11,700 sq ft) earlier in the year. The largest deal of 2021 was 32,848 sq ft to facilities manager Mitie at Trinity Park, where there have been several other deals.

TOP FIVE DEALS Q4

Property	CC / OOT	Sq ft	Occupier
103 Colmore Row	CC	32,900	Shoosmiths
2010 The Crescent, Birmingham	OOT	27,764	Citibase
2 Colmore Square	CC	13,825	Prequin
103 Colmore Row	CC	12,146	Grant Thornton
5 Quinton Business Park	OOT	10,296	Advanced Genomics Ltd

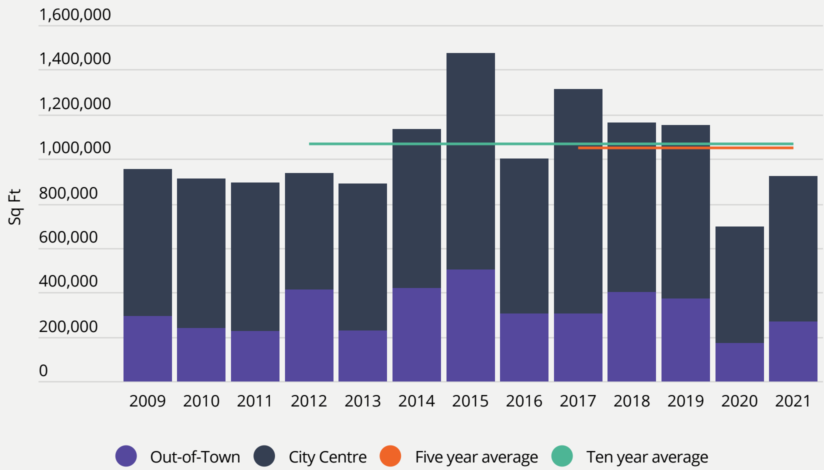
KEY SECTOR ACTIVITY: 2021

Flexible workspace **22%**

Engineering **17%**

Central government **11%**

TAKE-UP



Q4 TAKE-UP

City Centre
160,498 sq ft

Out-of-town
74,619 sq ft

HEADLINE RENT

City Centre
£37.50 per sq ft

Out-of-town
£26 per sq ft

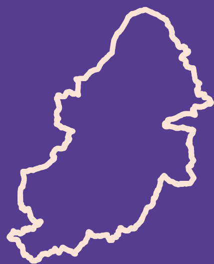
UNDER CONSTRUCTION

493,000 sq ft

14%
prelet

PRIME YIELD

5%



Bristol

Bristol city centre has seen the strongest office activity of the year in the final quarter, with a number of large deals agreed. This brings the total for 2021 to 540,910 sq ft, 9% below the ten-year average.

There were four deals agreed in the city centre greater than 20,000 sq ft, the largest of which was 74,500 sq ft to the University of Bristol at Trinity Quay and included Arup taking 27,377 sq ft at CEG's speculative development, EQ. As occupiers are looking for quality space to attract staff and meet ESG requirements, expectations are that prime rents will soon breach £40 psf.

Several financial and professional services firms are favouring hybrid working and downsizing their spatial requirements, with banks and lawyers most notable. For example, Lloyds and NatWest are both reducing their footprint in the city, as part of a long-running rationalisation.

Encouragingly the upward movement in availability has paused in Bristol, at 778,000 sq ft, down slightly on Q3 and compares to the 10-year average of 1.1 million sq ft. Where space is coming back to market, there is an opportunity for landlords to improve accommodation, particularly to satisfy occupiers' ESG agendas.

With the current demand for quality space, there is continued development appetite with several schemes onsite, including CEG's 184,000 sq ft EQ, the 207,000 sq ft Wellcome building and the next phase of Assembly, Assembly B&C (120,000 sq ft). Also, 1 Portwall Square, Halo at Finzels Reach and the refurbishment of Tower House all complete this year.

Activity in the out-of-town market has been more subdued, adding a further 215,000 sq ft of take-up in 2021, led by circa 30,000 sq ft deals to NNB Generation (who are building Hinkey Point C) and the Nuclear Decommissioning Authority.

TOP FIVE DEALS Q4

Property	CC / OOT	Sq ft	Occupier
1, Trinity Quay	CC	74,373	University of Bristol
St James House, Moon Street	CC	32,731	BIMM
EQ	CC	27,377	Arup
Bridgewater House	CC	20,951	RPC
Programme	CC	16,465	Immersive Labs

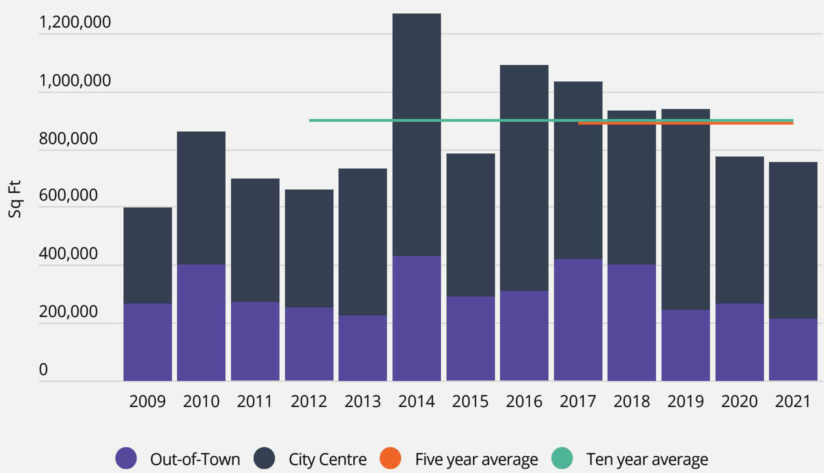
KEY SECTOR ACTIVITY: 2021

Education & Training
25%

Media
15%

Central Government
10%

TAKE-UP



Q4 TAKE-UP

City Centre
249,944 sq ft

Out-of-town
57,924 sq ft

HEADLINE RENT

City Centre
£38.50 per sq ft

Out-of-town
£23.50 per sq ft

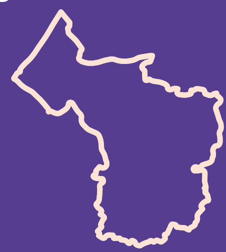
UNDER CONSTRUCTION

655,000 sq ft

17%
prelet

PRIME YIELD

5%



Cardiff

There has been a significant improvement in the number of lettings in the Cardiff market during the second half of the year, albeit dominated by sub-5,000 sq ft activity.

The key activity came from the health and public sectors, which included two of the largest deals to the Department for Work and Pensions (13,200 sq ft) and GenMed Limited (12,300 sq ft). Both of these were in the out-of-town market which unusually matched the city centre for take-up, also accounting for the largest deal of the year to Euroclad (15,200 sq ft) at St Mellons Business Park.

The number of enquiries has been increasing and we expect to see some larger transactions this year. We are aware of a handful of requirements between 20,000 sq ft and 70,000 sq ft from existing Cardiff occupiers with forthcoming lease events, as well as several to Welsh NHS organisations along the M4 corridor.

Availability has increased from 400,000 sq ft at the start of the pandemic to 630,000 sq ft in December, which compares to the ten-year average of 560,000 sq ft. Occupiers continue to downsize their requirements and a handful are returning surplus 'grey' space back to market, including Hugh James Solicitors, Centrica British Gas and more recently Admiral.

In terms of new development, JR Smart is expected to complete its 109,000 sq ft John Street office at Callaghan Square next year. To the south of Central train station, work has started at Rightacres' 60,000 sq ft Brewhouse, its latest development at Central Quay, the former Brains brewery site. A sizeable pre-let will be required before the neighbouring 220,000 sq ft Ledger Building gets underway on the site.

There has been no movement on headline rents over the past few years which remain at £25 psf, with rent free periods at 18 months on a ten-year term.

TOP FIVE DEALS Q4

Property	CC / OOT	Sq ft	Occupier
Severnside House	OOT	15,244	Euroclad
Golden Gate, Ty Glas Avenue	OOT	8,024	Montessori School
Capital Tower, Greyfriars Road	CC	5,500	Capital on Tap
Atlantic House	CC	4,264	Henry Schein
40 /41 The Parade	CC	3,835	Castle School

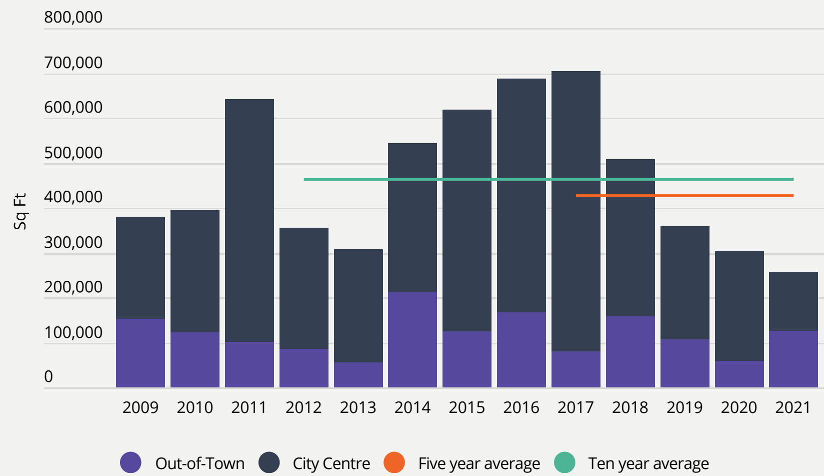
KEY SECTOR ACTIVITY: 2021

Health & social care
38%

Central Government
20%

Other manufacturing
16%

TAKE-UP



Q4 TAKE-UP

City Centre
41,837 sq ft

Out-of-town
42,092 sq ft

HEADLINE RENT

City Centre
£25 per sq ft

Out-of-town
£15.50 per sq ft

UNDER CONSTRUCTION

227,000 sq ft

53%
prelet

PRIME YIELD

5.75%

Edinburgh

A handful of large city centre lettings in Q4 have brought a strong finish to the year in Edinburgh city centre, with take-up totalling 610,050 sq ft for 2021, 3% above the ten-year average.

Similar to other cities, as occupiers favour quality space, the largest deals were all in new build space. The headline letting was from tech company Fanduel, who took 59,870 sq ft at the recently completed 2 Freer Street. In addition, there were three deals agreed at the speculative development, 1 Haymarket Square: oil and gas company Cairn Energy have taken 32,766 sq ft and will be joined by UK lawyers Shepherd and Wedderburn (29,461 sq ft) and Deloitte (16,383 sq ft). With such strong demand the tone for prime headline rents has increased to £38 psf though penthouse space will attract a premium above this.

Grade A accommodation will continue to be sought after. With 2 Freer Street and 1 New Haymarket Square let or under offer, the only other new build in the city is 80,000 sq ft of offices proposed at Ediston's mixed use 'New Town Quarter' where demolition works have started.

This bodes well for the comprehensive refurbishments underway, that will partly fulfil occupier demand for quality space. These include 50,000 sq ft Excel House, Semple Street, 80,000 sq ft 60 Morrison Street, 24-25 St Andrew Square and 116 Clarendon House. Contrary to most Big Nine cities, the vacancy rate in Edinburgh city centre has changed very little since the pandemic, sitting at 6.5%.

Unlike the city centre, the out-of-town market has been quiet in 2021, with take-up amounting to 95,000 sq ft. However, given the lack of larger, grade A space in the city centre, a number of developers have been refurbishing and redeveloping stock ready for the next wave of demand, given lack of choice in Central Edinburgh. This includes Knight's 4-5 Lochside Avenue; CEG's Verdant; VRS2's 1 Lochside Avenue and CCLA's Leven House. Parabola are also due to complete 1 New Park Square (80,000 sq ft) during 2022. We expect some occupiers will consider West Edinburgh to fulfil their space needs and ESG commitments.

TOP FIVE DEALS Q4

Property	CC / OOT	Sq ft	Occupier
2 Freer Street	CC	58,870	FanDuel
1 Haymarket Square	CC	32,766	Cairn Energy Plc
1 Haymarket Square	CC	29,461	Shepherd & Wedderburn
1 Haymarket Square	CC	16,383	Deloitte LLP
Quartermile 3	CC	14,641	ESRI (UK) Limited

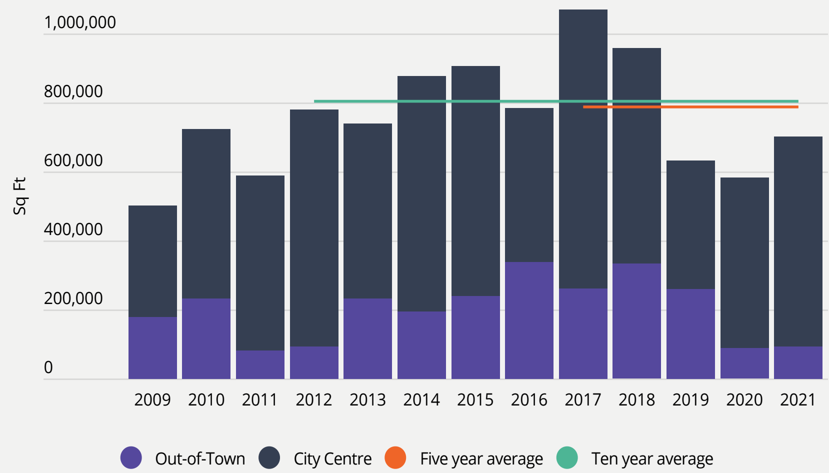
KEY SECTOR ACTIVITY: 2021

IT & software
26%

Central government
19%

Legal services
8%

TAKE-UP



Q4 TAKE-UP

City Centre
270,811 sq ft

Out-of-town
25,378 sq ft

HEADLINE RENT

City Centre
£38 per sq ft

Out-of-town
£24 per sq ft

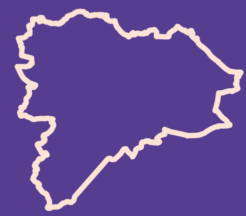
UNDER CONSTRUCTION

470,000 sq ft

76%
prelet

PRIME YIELD

4.75%



Glasgow

The 2021 Glasgow office market has been defined by the strength of activity during Q3, satisfying much of the pent-up demand created during the pandemic. The key deals were all agreed on new development space, led by the largest deal of the year, a 75,000 sq ft pre-let to the Student Loans Company at Drum's Buchanan Wharf.

Activity in Q4 was led by a further grade A letting - 48,870 sq ft to Transport Scotland at 177 Bothwell Street. This brought the city centre total for the year to 543,000 sq ft, which was 20% below the ten-year average but a significant improvement compared to 2020.

Sentiment remains positive with a robust level of new enquiries in the market and COP 26 has galvanised occupier strategies to meet net carbon zero commitments. With an increase in space coming to market, landlords with properties that possess the key fundamentals are looking to reposition space to meet these changing occupier requirements. This will suit buildings that are well located, close to public transport and offering large flexible floorplates and overall building quality. We expect space considered less suitable for offices will be repositioned for other uses, such as residential and education.

The vacancy rate in Glasgow city centre is 10%, which sits between the cyclical low of 6.7% two years ago and a high of 13% in 2016. However, there remains a lack of available grade A stock across all Glasgow markets. The two landmark developments that have recently completed, Cadworks and 2 Atlantic Square, plus 177 Bothwell Street due to complete in Q1 2022, have circa 190,000 sq ft remaining of new grade A accommodation.

We expect a lag post Covid to the next development completions but refurbishments such as 6 Atlantic Quay, 200 Broomielaw and the next phase of Onyx are expected to satisfy occupiers' needs for quality space. In the meantime, plans are underway for the next wave of development as CEG secured the Grid Development site to deliver circa 280,000 sq ft of offices and Clearbell secured the 150 St Vincent Street redevelopment opportunity.

TOP FIVE DEALS Q4

Property	CC / OOT	Sq ft	Occupier
177 Bothwell Street	CC	48,870	Transport Scotland
Enterprise & Innovation Hub	OOT	27,830	PRA Group
Lumina, Hillington	OOT	8,956	NHS 24
The Doges, Templeton on the Green	OOT	6,667	The Wise Group
5 Seaward Place, Centurion Business Park	OOT	5,287	KC Group Shipping Limited

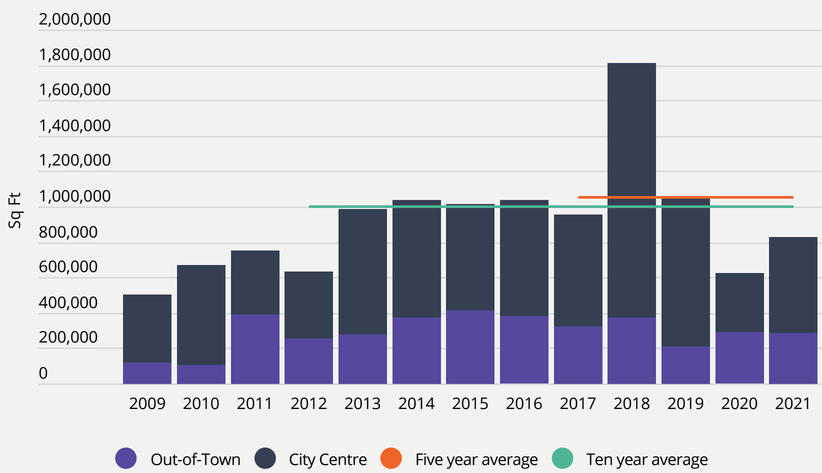
KEY SECTOR ACTIVITY: 2021

Banks & building soc **19%**

Health & social care **10%**

Financial services **9%**

TAKE-UP



Q4 TAKE-UP

City Centre **86,264 sq ft**

Out-of-town **74,265 sq ft**

HEADLINE RENT

City Centre **£34.50 per sq ft**

Out-of-town **£16.50 per sq ft**

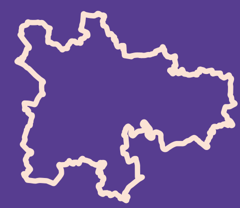
UNDER CONSTRUCTION

995,000 sq ft

96% prelet

PRIME YIELD

5%



Leeds

Annual office occupier activity in Leeds has reached its highest level since 2017 with demand from financial, professional and business services firms – including large lettings to Lowell Group, DLA Piper and Labcorp. Strong activity during Q4 brought the total for the year to 600,655 sq ft in the city centre and 496,217 sq ft out-of-town, 3% down and 49% up on respective ten-year averages.

During Q4 there were 11 deals over 5,000 sq ft in the city centre, headlined by three circa 20,000 sq ft lettings, including two at Wellington Place to engineering consultancy WSP and Cubo, the largest co-working deal since Covid. Tenant demand is evolving, and we are starting to see a significant differentiation between tenants' needs with an increase in requirements for fitted and serviced space.

With occupiers downsizing their spatial requirements and releasing 'grey' space, there has been an increase in city centre availability levels from 840,000 sq ft at the beginning of 2021 to over 1.1 million sq ft going into 2022. However, this compares to 1.7 million sq ft in 2016.

With increasing demand for quality space and its limited availability, a new development cycle is underway. There is new supply coming through at 11 and 12 Wellington Place (244,000 sq ft) and 37,800 sq ft at Globe Point, Temple, which all complete this year. City Square House (138,000 sq ft) and two buildings at Vastint's Tetley site (147,000 sq ft and 63,000 sq ft) are also under construction.

Further grade A space due to come online during the course of the year will be through refurbishments including 54,368 sq ft 12 King Street and 48,371 sq ft Whitehall Quay II, while 25,000 sq ft at Tailors Corner has recently completed.

TOP FIVE DEALS Q4

Property	CC / OOT	Sq ft	Occupier
6 Wellington Place	CC	19,821	Cubo
3 Wellington Place	CC	19,417	WSP
1 LCOP	CC	19,174	Conduent Ltd
1 Munroe Court,	OOT	12,415	NHS Shared Business serv.
No 1 Whitehall Riverside	CC	7,495	Weightmans

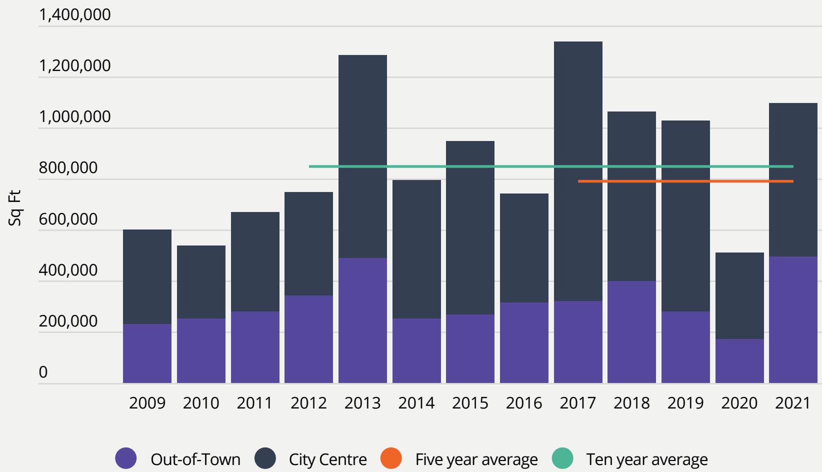
KEY SECTOR ACTIVITY: 2021

Financial services **20%**

Legal services **13%**

Flexible workspace **11%**

TAKE-UP



Q4 TAKE-UP

City Centre
146,503 sq ft

Out-of-town
56,336 sq ft

HEADLINE RENT

City Centre
£34 per sq ft

Out-of-town
£24.75 per sq ft

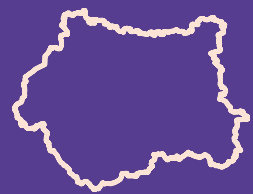
UNDER CONSTRUCTION

630,721 sq ft

13%
prelet

PRIME YIELD

5.25%



Liverpool

Occupier demand in Liverpool has improved during H2 with take-up for the half year at the highest level since the onset of Covid.

There were a handful of 10,000 sq ft plus deals throughout 2021, with the largest in the city centre being 20,020 sq ft to the Department for Work and Pensions. There were a couple of large deals completed during Q4 which included a 14,856 sq ft letting to Santander at Alaska House, Atlantic Park and a 14,875 sq ft letting at No1 Tithebarn to High Street Solicitors. There continues to be robust demand at the smaller end of the market (sub 5,000 sq ft), which forms the majority of activity in the city; and there is increasing demand for flexi and fitted space as occupiers look to mitigate capital expenditure.

There is a healthy amount of high-profile demand coming from quasi-office occupiers. The Pandemic Institute committed to the city during 2021, while the Royal College of Physicians moved into The Spine during the year. Further office and lab space at Paddington Village is earmarked at Number 4, Number 6, Plot 5 and The Hill.

Demand and enquiry levels are now as strong as they were pre-pandemic – with several notable occupiers such as DWP, Royal Liverpool Hospital and Firesprite all looking to commit to space during 2022.

Pre-letting activity would likely be required to underpin any new development in the city which is potentially at either Princes Dock (Liverpool Waters) or Pall Mall Gardens. These would be the first new buildings in the commercial district since 2011. Elsewhere, Kinrise are looking to comprehensively refurbish and reposition the 140,000 sq ft Martin’s Bank for office use, which is scheduled for completion in late 2024.

The lack of construction activity in Liverpool over the past decade is reflected in the vacancy rate, which remains at an historically low level. Although the current rate of 4.9% has increased from a cyclical low of 3.7% last year, it compares favourably to a high of 18% in 2014.

A lack of good quality supply has put upward pressure on rents, with any pre-letting activity likely to set a new rental tone for the city. Headline rents remain at £22 psf in the city centre and £14 psf out-of-town.

TOP FIVE DEALS Q4

Property	CC / OOT	Sq ft	Occupier
Alaska House, Atlantic Park	OOT	14,856	Santander
No 1 Tithebarn	CC	14,875	High Street Solicitors
The Spine	CC	11,550	Clatterbridge Cancer
Aviation House	OOT	5,686	Pinnacle Group
Exchange Station	CC	5,454	Irvings

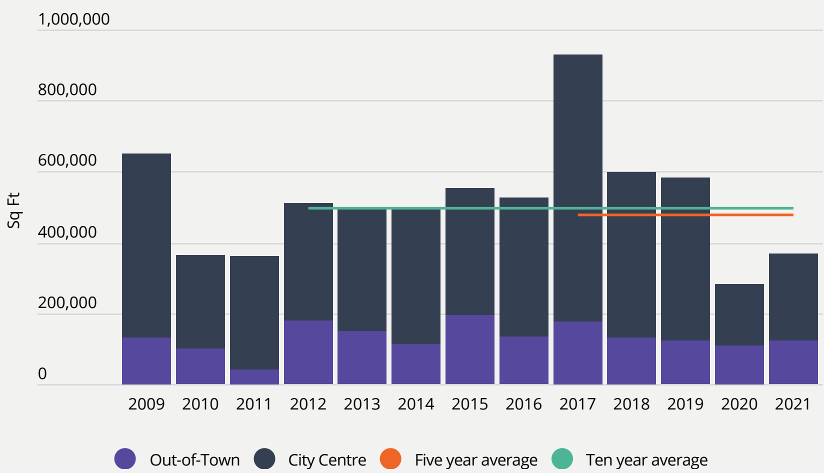
KEY SECTOR ACTIVITY: 2021

Legal services
34%

Health & social care
26%

Bank & building soc
13%

TAKE-UP



Q4 TAKE-UP

City Centre
63,185 sq ft

Out-of-town
43,200 sq ft

HEADLINE RENT

City Centre
£22 per sq ft

Out-of-town
£14 per sq ft

UNDER CONSTRUCTION

0 sq ft

0%
prelet

PRIME YIELD

6%

Manchester

A strong end to the year saw office take-up in Manchester city centre reach its highest quarterly total since Covid and surpass 1 million sq ft for 2021. This is just 11% down on the ten-year average and a significant improvement on the 2020 figure.

Similar to other cities, there has been a healthy proportion of grade A take-up. Of particular interest is the growing tech sector, which saw the largest deals of the year. Roku and Cloud Imperium both committed to the city and are due to occupy grade A space during the course of 2022. Roku's acquisition of 115,000 sq ft at Circle Square is its first in the UK and they will be joined by Octopus Energy (38,114 sq ft) and GPC Computer Software Ltd (Uber) (19,084 sq ft).

Demand for flexible offices is likely to increase over the year, with new entrants Hana and Huckletree relatively new to the market. Landlords are also evolving their space to create a more diverse offer. For example, Bruntwood and CEG are promoting plug and play / let ready space to drive interest, by offering minimal cap ex input and shortening delivery times whilst mitigating voids and rent-free inducements. This type of offer also increases the potential for occupier retention and growth in the longer term. The city is also seeing several landlords invested in the ground floor offering – in the form of cafes, collaboration space and wellbeing facilities.

Occupiers are looking for less but better space and demand levels remain relatively robust, which will help underpin prime rental growth at the top end of the market. Many office developments completed at the end of the year, including the Lincoln Building, 11 York Street, Circle Square and Enterprise city. However, there are still some comprehensive refurbishments set to get underway, such as the 300,000 sq ft Societe.

Overall, the market has more available space than at any point over the last five years, which will create a greater divide between prime and secondary property. However the vacancy rate has stabilised over the past quarter at 11.2%, having increased from 6.7% pre-Covid.

There has also been a strong level of activity out-of-town, with Q4 achieving the highest level of take-up in 3 years, across both south Manchester and Salford Quays / Old Trafford markets. The largest deals were 22,836 sq ft at Stockport Exchange to lawyers O'Neill Patient, a letting to OOOOO Video Commerce (19,490 sq ft) at Trafford Park and expansion by Tech Mahindra at The Vic by a further 16,220 sq ft.

TOP FIVE DEALS Q4

Property	CC / OOT	Sq ft	Occupier
Circle Square	CC	115,066	Roku
Circle Square	CC	38,114	Octopus Energy
2 Stockport Exchange	OOT	22,836	O'Neill Patient
Unit 2 Brightgate Way	OOT	19,490	OOOOO Video Commerce
Circle Square	CC	19,084	GPC Computer Software Ltd (Uber)

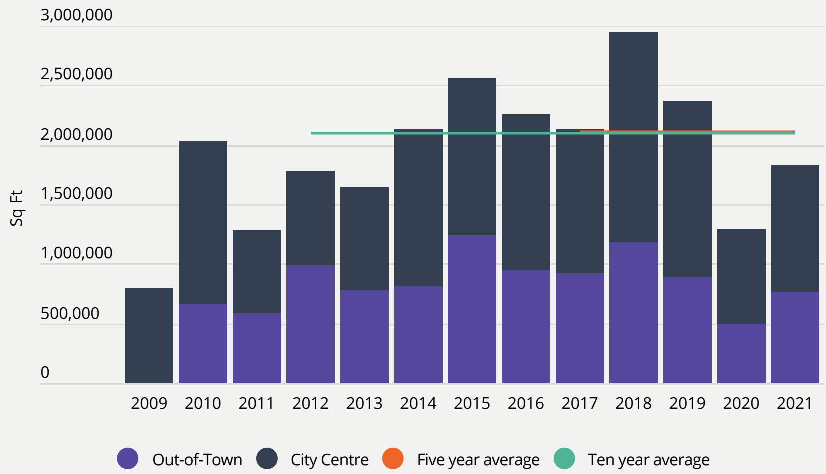
KEY SECTOR ACTIVITY: 2021

IT & software
14%

Other manafacturing
13%

Retail & leisure
10%

TAKE-UP



Q3 TAKE-UP

City Centre
347,111 sq ft

Out-of-town
265,391 sq ft

HEADLINE RENT

City Centre
£38.50 per sq ft

Out-of-town
£24 per sq ft

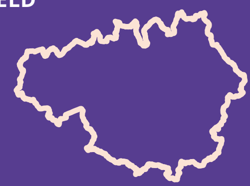
UNDER CONSTRUCTION

373,000 sq ft

47%
prelet

PRIME YIELD

5%



Newcastle

The Newcastle office market recorded by far its strongest take-up on record during 2021, following two exceptional lettings. In Q4 HM Revenue and Customs (HMRC) agreed to take 463,000 sq ft at Pilgrim's Quarter, the second largest ever deal across the Big Nine. During Q3 inward mover Just Eat, the online food delivery service, took 217,339 sq ft at the former EE contact centre at Rainton Bridge. In total, city centre and out-of-town take-up for the year amounted to a staggering 1.36 million sq ft, set against a ten-year average of 760,000 sq ft.

The market will continue to be supported by a number of growing businesses that have committed to the city. These include Monster Labs, Thoughtworks and Verisure, the latter going from 6 staff to 400 – with expectations for further growth. Amongst the increasing number of inward investment deals in the city, Debit Finance also took 13,334 sq ft at Central Square South. There are also several well-advanced requirements in the pipeline that ensures sentiment remains positive for this year.

Several occupier moves are considering carbon reduction commitments, driving high demand for new or refurbished space. Consequently, there continues to be considerable interest in the new space in the city centre. The majority of the remaining three floors at the Lumen are currently under offer and Womble Bond Dickinson (47,500 sq ft) are due to move this year into the recently completed Spark.

Bank House, the first phase of Pilgrim Quarter is under development, and while not due to complete until 2023, is attracting significant interest. Where there is a supply of second-hand space available, landlords are looking to refurbish to a much higher standard, particularly as there is limited supply of flex workspace in the city. For example, Schroders are fitting out Earl Grey House to a Cat A+ finish to attract occupiers. The limited availability of top-quality space is driving rental levels.

TOP FIVE DEALS Q4

Property	CC / OOT	Sq ft	Occupier
Pilgrim's Quarter, New Bridge Street	CC	462,847	HCHLG/HMRC
The Solar Building, Doxford	OOT	36,823	Energy Compare
The Spire, Pilgrim Street	CC	18,881	Instant Offices Ltd
Sunderland Software Centre	OOT	18,000	DWP
The Lumen, Newcastle Helix	CC	14,549	Scott Logic

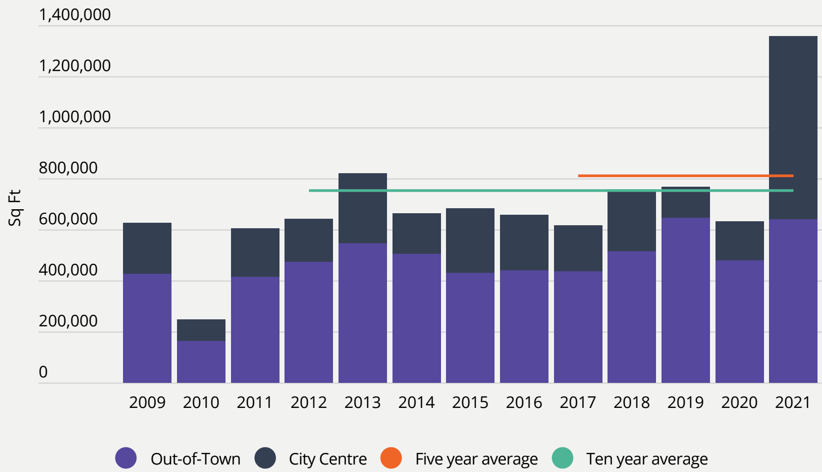
KEY SECTOR ACTIVITY: 2021

Central government **48%**

Retail & leisure **26%**

Legal services **5%**

TAKE-UP



Q4 TAKE-UP

City Centre
519,119 sq ft

Out-of-town
135,447 sq ft

HEADLINE RENT

City Centre
£26 per sq ft

Out-of-town
£16.95 per sq ft

UNDER CONSTRUCTION

190,000 sq ft

37%
prelet

PRIME YIELD

6.5%

Lease Advisory

Stuart Powlesland
Director, Lease Consultancy
stuart.powlesland@avisonyoung.com
0117 988 5208

Munish Vaswani
Associate Sustainability Consultant
munish.vaswani@avisonyoung.com
020 7911 2061

Over the last 12 months, there has been a noticeable increase in awareness around EPCs and MEES (Minimum Energy Efficiency Standards) for both landlords and occupiers, especially as part of the lease renewal negotiations, with many corporate occupiers and businesses starting to take government messaging seriously.

We have also seen increasing awareness around ESG (Environmental Social and Governance), with targets being implemented at board level and accelerated by the impact of Covid. Landlords are responding by making provisions to ensure the future proofing of their real estate assets and investment strategy.

There will be changes in the minimum EPC band requirements as a result of the MEES regulations which will impact on lease renewals.

CURRENT SITUATION

There continues to be uncertainty about the MEES regulations and the impact on commercial leases, including lease renewals. Current regulations have proven to be open to interpretation, leading to confusion about the government's overall MEES and EPC legislation. As a result, the overall limited impact of EPCs and MEES has not had ensured stringent compliance, with tenants, in particular, not rising to the challenge.

GOVERNMENT MESSAGING

Following the government's White Paper released in December 2020, it is clear that the trajectory is targeting EPC B by 2030. Government was reassured in its consultation paper that this was achievable and its proposed framework being: –

Date	Item	EPC Minimum requirement rate
April 2023	On-going Leases	E
April 2025	Compliance Window	EPC Required on all let
April 2027	All leases	C
April 2030	All leases	B

In the near future, it would be prudent to focus on the April 2023 MEES regulations milestone, when landlords must not continue to let a non-domestic property which is already let, if that property has an EPC rating of band F or G.

THE CONSEQUENTIAL IMPACT ON LEASE EVENTS

Avison Young have been scenario planning with a number of organisations on the consequential impact of implementing a coherent EPC strategy for lease events for both landlords and occupiers. Whilst one size doesn't fit all, a decision tree can assist in responding to EPC issues. The following issues should be considered as part of any scenario planning exercise:

1. The consideration of the lease term on lease renewals, ahead of any future and present lease renewal, and the interrelationship with the EPC expirations.
2. Understanding the impacts on lease renewals for leases both protected and unprotected.
3. The modelling, the cost and the extent of implementing improvements to comply with the various categories of EPCs, in particular, to achieve a B rating by 2030.
4. What actions are required to ensure that all leases have an EPC by 2025 at a C rating.
5. Who should be doing the EPC improvement works, whether this is a landlord responsibility as set out by the legislation, or tenant obligation as set out in the lease or "agreement for lease" on any future lease renewal and possibly a mixture of both.
6. The disruption to the tenant's business of any improvement works undertaken.
7. The impact of the tenant's fit out on the EPC rating.
8. The impact on future breaks and rent reviews.
9. Tightening of the lease obligations regarding compliance with the relevant EPC legislation and in particular, to tenant's fit out.
10. The parties' overall aspirations to comply with improvements to sustainability and compliance with an ESG policy.

As well as organisations working internally to develop their own EPC policies on lease renewals, there will also need to be a wider engagement. This includes:-

- landlords and tenants having detailed discussions regarding any improvement plans and ensuring the lease drafting is compliant.
- sharing of experience and knowledge from within the industry.
- consideration of the potential legal scenarios, which could evolve as a result of parties avoiding compliance.

Perceptually, EPCs have to date been seen as a landlord problem, whereas the issue is one for both landlords and tenants to consider collectively. Occupiers can no longer continue to avoid the impact, especially in their approach to fitting out and alterations to premises.

TENANT FIT OUT

A clear concern is the impact of tenants' fit out on EPC ratings. Government, even in its subsequent consultation paper released in June 2021, was challenged by the issue and subsequently recognised by their statement "Under a tightened EPC B trajectory, tenants would need to increase investments to meet this higher standard which they are obliged to do". There has been limited discussion concerning the potential workaround solutions, to improve the EPC consideration for tenants' fit out works. However, this is an overall issue that needs to be tackled either at lease commencement or to coincide with the tenant proposing to undertake works.

There are a number of associated considerations relating to tenant fit out. The simplest step would be to amend the alteration clause obligations, to ensure tenants remain compliant with current EPC ratings. The more difficult position rests with the tenant in the need to ensure fit out proposals are compliant and potentially achieve a B rating.

THE WAY FORWARD

Organisations may still wish to see government's final implementation plan, although to delay consideration especially ahead of a lease renewal, for either the landlord or tenant may be a costly mistake. Both landlords and occupiers need to start thinking about the consequences of implementing an overall plan of action to future proof assets and meet government's trajectory.

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