

RESEARCH

The Big Nine

Quarterly update of regional office activity

Q4 2019

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TOP PERFORMERS

BRISTOL

Occupier market

Q4 activity was headlined by BT agreeing a pre-let of 200,000 sq ft at 1 Assembly. This lifted Bristol city centre take-up to 332,000 sq ft, more than double the quarterly average.

BIRMINGHAM

Investment market

Birmingham accounted for almost a third of all Big Nine investment volumes during Q4, following two key deals: the sale of the mixed-use Mailbox to M7 Real Estate and the £61 million sale of 45 Church Street to Royal London Asset Management.



Cadworks, Cadogan Street, Glasgow, which will provide 94,500 sq ft of sustainable workspace.

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Newcastle



CHARLES TOOGOOD

Principal and Managing Director,
National Offices Team



It was a record year of activity in the flexible workspace sector, accounting for 14% of take-up and the third year of strong demand in succession

Above average take-up in an uncertain year

Total take-up across the Big Nine office markets amounted to 8.8 million sq ft in 2019, 3% above the ten year average. This is down from the record levels of the past two years which both saw 10 million sq ft of activity, but is comparable to 2016, a year that was similarly dominated by political uncertainty.

The regional markets continued to attract large headline deals in 2019. JP Morgan Chase agreed the largest deal of the year, a 272,800 sq ft pre-sale in Glasgow and similar to the Government's rationalisation of the past two years, the BT hub consolidation programme is providing the most recent boost to the Big Nine markets. BT Group signed the first of 13 hub relocation transactions, taking 200,000 sq ft at 1 Assembly in Bristol during Q4 and has recently committed to the first major deal of 2020, taking 283,000 sq ft at Three Snowhill in Birmingham.

In 2019 Manchester led the way, with more than 2 million sq ft of take-up across all markets for the sixth year in succession (see chart overleaf). Birmingham, Glasgow and Leeds all saw in excess of 1 million sq ft of activity, with the majority of cities achieving just over, or close to, the long-term average. The strongest relative activity was in the city centres during 2019, 7% above the long term average.

It was a record year of activity in the flexible workspace sector, accounting for 14% of take-up (see chart overleaf) and the third year of strong demand in succession. Much of this activity however was in the first half of the year, with the largest deals to WeWork, Spaces and Instant Offices Group. As was evident from the second half of the year, activity has begun to plateau in this sector.

The IT & software sector also saw a record level of take-up following the letting of 203,000 sq ft to Sage Plc in Newcastle earlier in the year, along with a large concentration of deals in Manchester and Glasgow. Whilst there was little activity in the Government sector we are expecting a number of deals to sign this year for the next phase of its hub programme. Similarly we expect a number of the remaining BT hub requirements to be secured.

The supply position has remained relatively constant over the past two years. There is 5.8 million sq ft of space under construction across the Big Nine, 56% of which is already pre-let. This leaves 2.6 million sq ft of speculative grade A space available. Adding in the 1.1 million sq ft of current grade A availability, this equates to 1.8 years' supply based on past average take-up rates. The chart overleaf shows how the supply / demand balance varies across the cities, with Manchester having the most years' worth of supply.

The last three years have seen a significant increase in the number of substantial pre-let deals of more than 100,000 sq ft. 2020 will see the completion of more than 1 million sq ft of developments from the first phase of the Government programme and the arrival of thousands of government employees to these brand new hubs, further enhancing the vibrancy of the Big Nine city centres.

TOTAL TAKE-UP IN Q4

2.2 million sq ft

▲ **4.5%** UP ON THE 10 YEAR QUARTERLY AVERAGE



City Centre

1.51 million sq ft



Out-of-town

707,549 sq ft

UNDER CONSTRUCTION

5.8 million sq ft

SKewed TOWARDS



MANCHESTER

25%



GLASGOW

20%



BIRMINGHAM

17%

HEADLINE RENTS AVERAGE

£31.00 psf ACROSS ALL NINE CITIES

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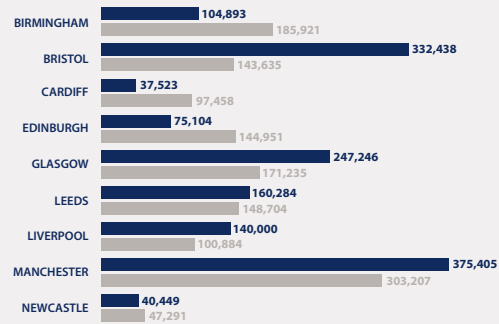
Newcastle

City centre

TOTAL TAKE UP IN Q4

1,513,412 sq ft | **▲ +13%** compared to the ten year quarterly average

TAKE UP (SQ FT)



■ Q4 2019 ■ 10 year quarterly average

TOP FIVE DEALS

City	Property	Occupier	Sq ft
Bristol	1 Assembly	BT	200,742
Manchester	2 New Bailey Square	BLM	70,782
Glasgow	177 Bothwell Street	Opus	64,586
Liverpool	91-105 Duke Street	CERT	57,214
Glasgow	177 Bothwell Street	CYBG (Virgin Money)	48,704

HEADLINE RENTS (£PSF)

Location	Rent (£) Q4 2019	Rent free (mths on 10 yr term)	Net effective rent*(£)	Net effective rent (£) Q4 2018
Edinburgh	36.00	15	32.40	30.63
Bristol	35.00	18	30.63	30.63
Manchester	36.50	24	30.11	28.88
Glasgow	32.50	15	29.25	28.44
Birmingham	34.50	24	28.46	27.23
Cardiff	27.00	12	24.98	24.98
Leeds	30.00	24	24.75	24.75
Newcastle	26.00	18	22.75	21.00
Liverpool	21.50	24	17.74	17.74
Average	31.00	19.33	26.78	26.03

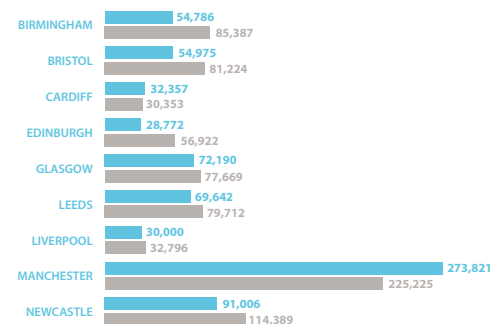
*including rent free period less three month fit-out.

Out-of-town

TOTAL TAKE UP IN Q4

707,549 sq ft | **▼ -10%** compared to the ten year quarterly average

TAKE UP (SQ FT)



■ Q4 2019 ■ 10 year quarterly average

TOP FIVE DEALS

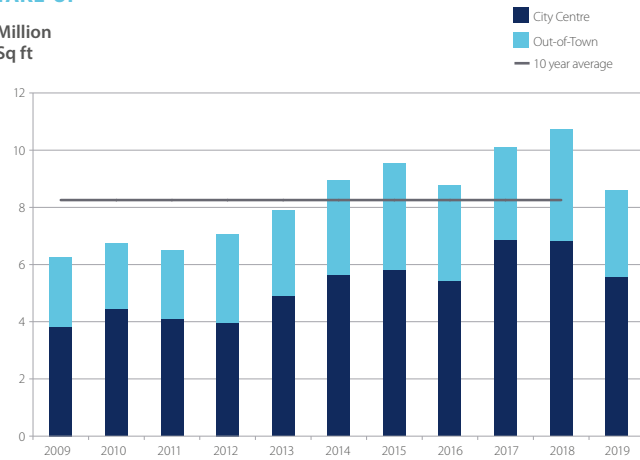
City	Property	Occupier	Sq ft
Manchester	No 6 Booths Park, Knutsford	Portswigger Ltd	62,000
Manchester	2 Stockport Exchange	BASF	21,434
Manchester	Adamson House, Pomona	BES Utilities	21,400
Manchester	Dakota	Rubix	20,134
Birmingham	Blythe Valley Park, Solihull	Confidential	17,101

HEADLINE RENTS (£PSF)

Location	Rent (£) Q4 2019	Rent (£) Q4 2018
Birmingham	25.00	25.00
Leeds	24.75	22.50
Manchester	24.00	22.00
Bristol	23.50	22.50
Edinburgh	22.00	22.00
Newcastle	16.95	16.95
Glasgow	16.50	16.50
Cardiff	15.00	15.00
Liverpool	14.00	14.00
Average	20.19	19.61

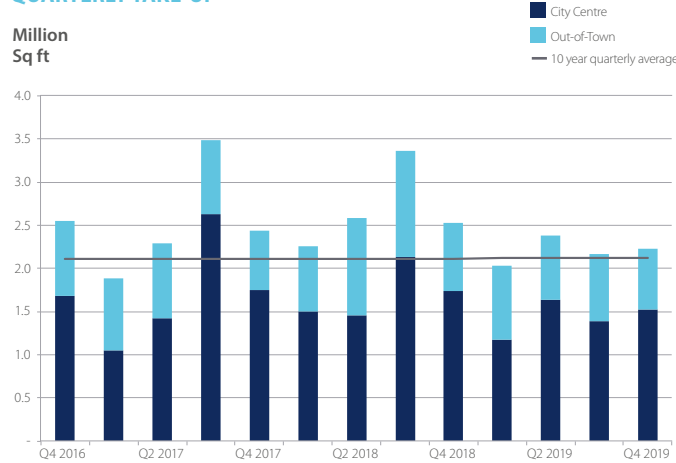
TAKE-UP

Million Sq ft



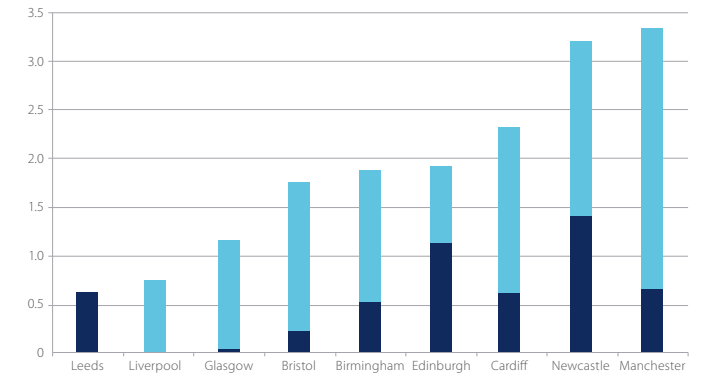
QUARTERLY TAKE-UP

Million Sq ft

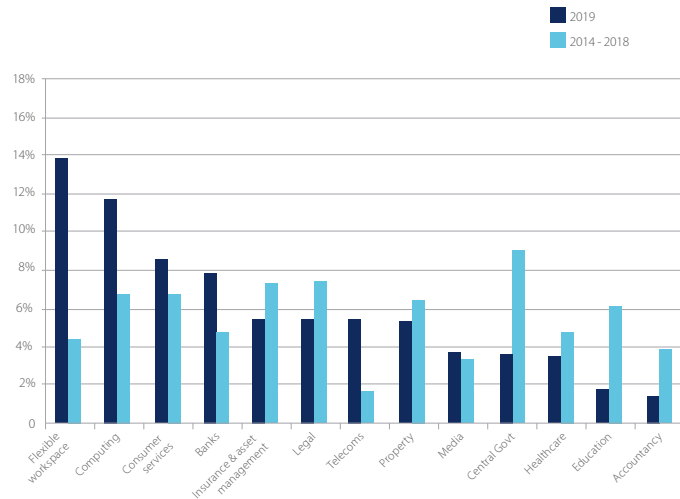


GRADE A OFFICE SUPPLY/DEMAND RATIO (YEARS' SUPPLY)

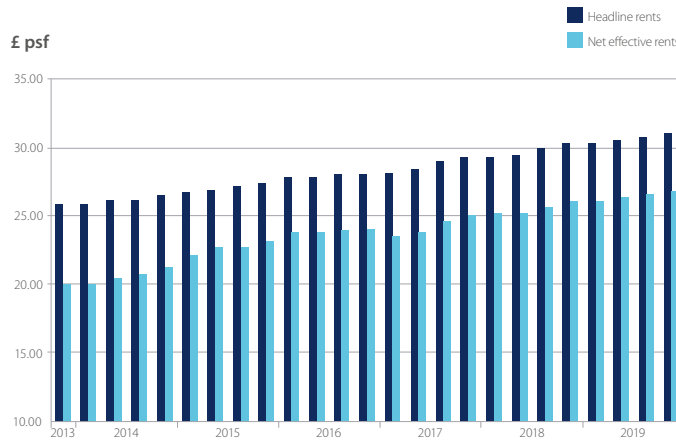
Years' supply - current availability
Years' supply - spec under construction



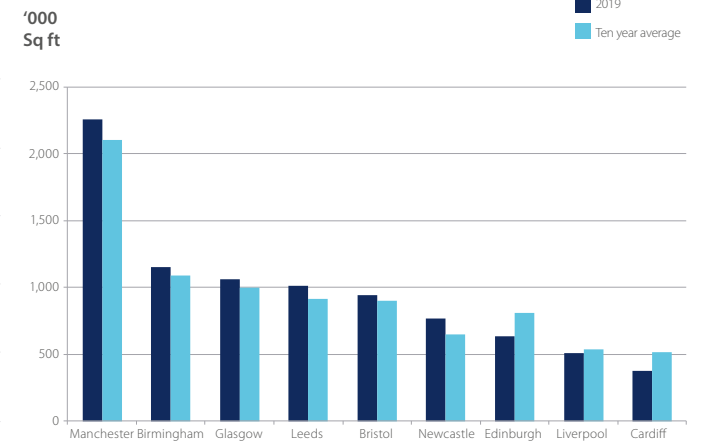
TAKE-UP BY KEY SECTORS



HEADLINE RENTS



CC AND OOT TAKE-UP



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Birmingham

Birmingham city centre office take-up reached 780,000 sq ft in 2019, outperforming 2018's total take-up of 755,000 sq ft and exceeding the ten year average by 5%. Demand for large-scale office accommodation continues to be a theme in Birmingham, with BT Group signing the first major deal of 2020 and the largest ever in the Birmingham market, taking 283,000 sq ft at Three Snowhill.

In Q4, the professional services sector achieved the highest take-up, due solely to the largest deal of the quarter, the 40,000 sq ft acquisition by lawyer DLA Piper at Two Chamberlain Square. The utilities sector achieved the second highest at 23,000 sq ft, from two deals to Npower and Glide. Activity during the rest of 2019 was dominated by 111,000 sq ft to the Secretary of State (GPA) at Platform 21 and by three WeWork transactions totalling 230,000 sq ft.

Following the DLA Piper deal, there is still 127,000 sq ft of speculative office space due to complete at Two Chamberlain Square, with a further 315,000 sq ft being developed across Birmingham. In addition to this, 240,000 sq ft of pre-let space will be completed at Three Arena Central in Q1 2020 with the sole tenants, the Government Property Agency, expected to move in later this year.

The out-of-town market achieved 369,000 sq ft of take-up in 2019, 8% up on the 10-year average, bringing the total figure for Birmingham to 1.1 million sq ft. Birmingham Business Park has contributed a third of the out-of-town activity in 18 deals.

KEY DEALS - Q4 2019

Property	CC / OOT	Sq ft	Occupier
2 Chamberlain Square	CC	40,277	DLA
Blythe Valley Park	OOT	17,101	Confidential
125 Colmore Row	CC	15,608	Npower
Birmingham Business Park	OOT	8,325	Vaisala
Alpha Tower	CC	7,102	Glide

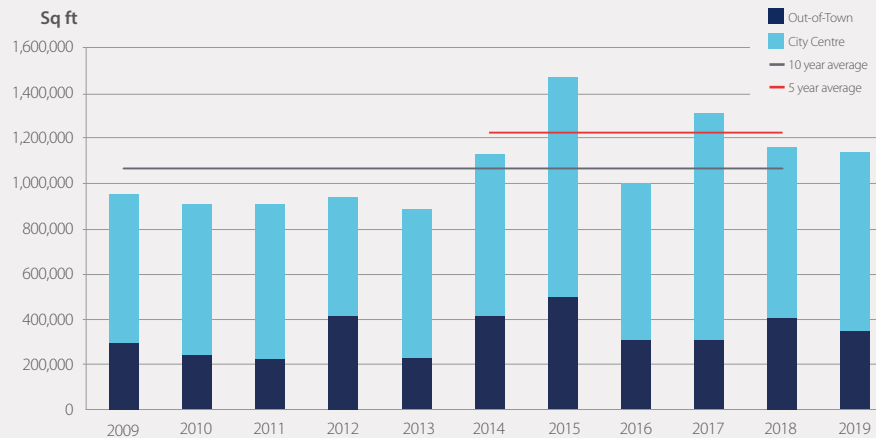
KEY SECTOR ACTIVITY FOR 2019

 Flexible workspace **30%**

 Advanced manufacturing **16%**

 Central government **14%**

TAKE-UP



Q4 TAKE-UP



City Centre
104,893 sq ft



Out-of-town
54,786 sq ft

HEADLINE RENT

City Centre
£34.50 per sq ft

Out-of-town
£25 per sq ft

UNDER CONSTRUCTION



1 million sq ft
56%
prelet

PRIME YIELD

5.00%



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Bristol had its strongest quarter in five years in Q4, bringing 2019 take-up comfortably above the 10 year annual average. The city centre market, with 12 of the biggest deals in Bristol, more than made up for sluggish activity out-of-town. Spearheading Bristol's performance was BT who took 200,742 sq ft in an 11 storey pre-let on the Assembly scheme that will complete this year.

The next biggest deal of Q4 was to the serviced offices firm Instant Group who acquired the first three floors at Temple Point (32,872 sq ft) on behalf of BT. This deal, along with the BT pre-let deal, means that the flexible workspace sector and TMT & creative sectors have been the standout performers of the year. Headline rents remain at £35 per sq ft although £37.50 per sq ft was achieved on a single letting of 3,800 sq ft at 22-24 Queen Square, and we are expecting rental growth during 2020.

Similar to other regional markets, Bristol has a limited amount of readily available office stock. There has however been some development activity including the speculative 93,000 sq ft Distillery at Glassfields, which is currently under construction. In addition, there is the 110,000 sq ft Halo at Finzels Reach being built by developers Cubex and the 34,000 sq ft 1 Portwall Square by Nord Development, both of which are also on site. It should also be noted that a rising number of Bristol landlords are delivering Cat A+ fitted out space, which is a trend we expect to continue.

KEY DEALS - Q4 2019

Property	CC / OOT	Sq ft	Occupier
1 Assembly	CC	200,742	BT
Temple Point	CC	32,872	Instant Group
10 Templeback	CC	13,002	Bishop Fleming
101 Victoria Street	CC	12,053	Runway East
Brook House, Fox Den Road	OOT	11,175	ETS

KEY SECTOR ACTIVITY 2019



Telecommunications
31%

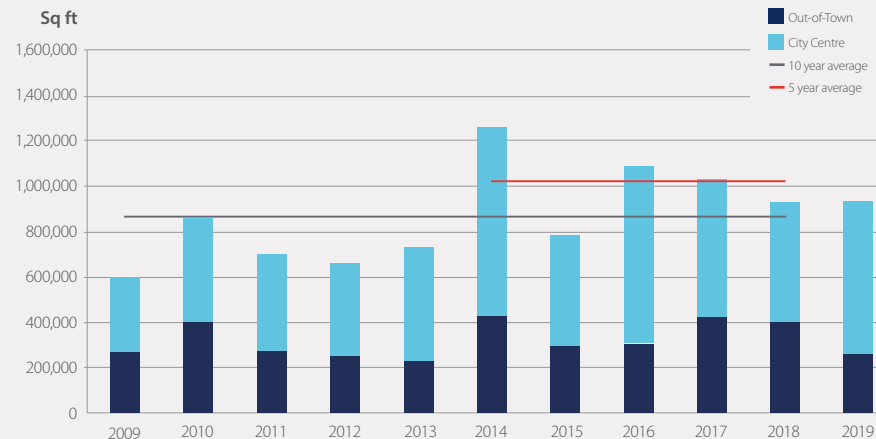


Flexible workspace
18%



Insurance & asset management
14%

TAKE-UP



Q4 TAKE-UP



City Centre

332,438 sq ft



Out-of-town

54,975 sq ft

HEADLINE RENT

City Centre

£35 per sq ft

Out-of-town

£23.50 per sq ft

UNDER CONSTRUCTION



437,000 sq ft

48% prelet

PRIME YIELD

5.00%



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Take-up in the Cardiff office market was subdued in 2019, totalling 357,000 sq ft, well below the ten year average and the exceptional levels of activity seen in recent years. The largest deals were at the newly completed 4 Capital Quarter earlier in the year; 37,000 sq ft to Sky and 19,000 sq ft to Optimum Credit. Over the year as a whole, the TMT & creative and financial services sectors accounted for a third of activity each.

The key deals during Q4 were in the out-of-town market at Cardiff Edge, 9,000 sq ft to government department Defra and 6,500 sq ft to Sure Chill Ltd. In Cardiff Bay there was an 8,000 sq ft deal to business services provider Relx.

Very low levels of grade A availability have contributed to Cardiff reporting its lowest take-up in five years. However supply will increase substantially as work has commenced on the first phase of the Central Quay masterplan, the 220,000 sq ft Ledger building as well as JR Smart's development at John Street. There will also be further development at Central Square. These large scale developments tend to attract strong anchor tenants who want to stake their claim in the city.

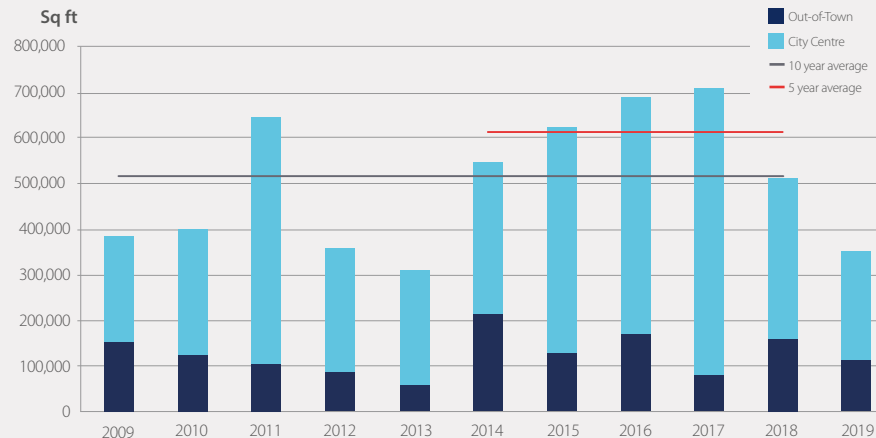
KEY DEALS - Q4 2019

Property	CC / OOT	Sq ft	Occupier
Cromlin West, Cardiff Edge	OOT	9,066	DEFRA
Global Reach	CC	7,806	Relx
Innovation House, Cardiff Edge	OOT	6,491	Sure Chill Ltd
One Kingsway	CC	4,821	SA Global
Boston Buildings	CC	4,650	Private Individual

KEY SECTOR ACTIVITY FOR 2019



TAKE-UP



Q4 TAKE-UP



City Centre
37,523 sq ft



Out-of-town
32,357 sq ft

HEADLINE RENT

City Centre
£27 per sq ft

Out-of-town
£15 per sq ft

UNDER CONSTRUCTION



599,000 sq ft
45% prelet

PRIME YIELD
5.75%



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Edinburgh had a subdued final quarter with a low level of take-up activity in both the city centre and out-of-town markets. While this completed a below par year for the city centre we did see a significant level of re-gears. Out-of-town take-up for the year was 262,907 sq ft, comfortably above the 10 year average.

Helping to achieve this out-of-town success was the biggest deal of the quarter which saw Keysight Technologies UK Ltd taking 11,849 sq ft at 12 Lochside Place. The next four biggest deals were all in the city centre with all key deals being in either the TMT & creative or professional services sectors. One of these was Huawei taking 9,361 sq ft at 2 Semple Street that along with the Keysight Technologies UK Ltd deal reflects the strength of the tech sector in Edinburgh.

There is currently a distinct lack of grade A office supply in Edinburgh and as a consequence there is strong pre-letting amongst new developments. Looking forward to 2020 however, we expect many smaller space occupiers will opt for re-gears instead of relocating while those with larger space requirements will focus on pre-lets and set their searches further down the development pipeline.

Schemes that are particularly of interest include M&G and QMile Group's 'The Haymarket' (380,000 sq ft) and Vastint's 'New Fountainbridge' (60,000 sq ft) both of which are in the city centre. Additionally, Parabola has started construction on a speculative 85,000 sq ft office building on Edinburgh Park while CEG's refurbishment of the 68,000 sq ft Haston House in West Edinburgh will commence in Q1 2020.

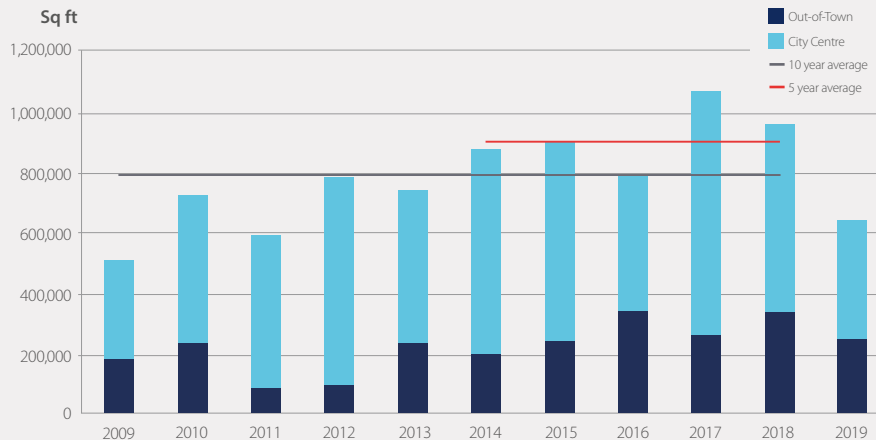
KEY DEALS - Q4 2019

Property	CC / OOT	Sq ft	Occupier
12 Lochside Place	OOT	11,849	Keysight Technologies UK Ltd
2 Semple Street	CC	9,361	Huawei
Princes Exchange	CC	7,739	Turcan Connell
6 Randolph Crescent	CC	5,468	WGD Ltd
Orchard Brae House	CC	5,000	Seebyte

KEY SECTOR ACTIVITY FOR 2019



TAKE-UP



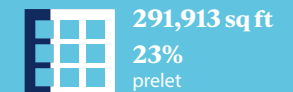
Q4 TAKE-UP



HEADLINE RENT



UNDER CONSTRUCTION



PRIME YIELD
5.00%



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Glasgow had a highly impressive end to the year, following a very strong third quarter, which pushed total take-up for 2019 well above the ten year annual average. City centre take-up was particularly strong in Q4 2019, with six of the seven biggest deals taking place here, as opposed to out-of-town. The largest deal was Opus taking 64,586 sq ft at 177 Bothwell Street, followed by CYBG (Virgin Money) taking 48,704 sq ft.

The latter deal is representative of the key role of financial services in Glasgow, which accounted for 37% of total 2019 take-up. Crucial to this was JP Morgan Chase being granted permission in Q3 for a 272,800 sq ft headquarters at One Central, Argyle Street. The third biggest quarterly deal was computing & software firm CGI taking 30,190 sq ft at 151 West George Street, which also highlights the importance of the TMT & creative sector that was the other stand-out performer last year. We expect such strong performance in Glasgow to continue in 2020, with demand coming from both the private and public sectors.

In terms of supply, there are still low levels of speculative office development with more than two-thirds of schemes under construction being pre-let. The speculative space under construction includes Cadworks on Cadogan Street, which will provide 94,500 sq ft of sustainable workspace once completed, as well as 97,000 sq ft at the speculative 2 Atlantic Square.

Overall, Glasgow had a highly successful Q4 and 2019 in general, with all signs indicating the city can expect a strong 2020 too.

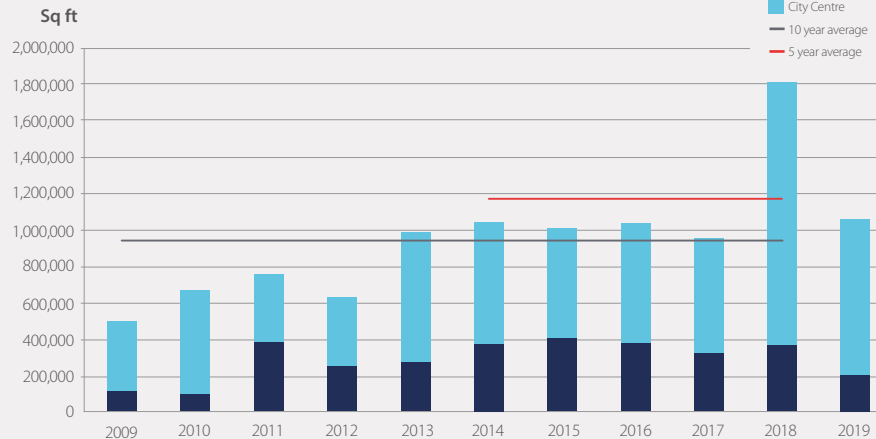
KEY DEALS - Q4 2019

Property	CC / OOT	Sq ft	Occupier
177 Bothwell Street	CC	64,586	Opus
177 Bothwell Street	CC	48,704	CYBG (Virgin Money)
151 West George Street	CC	30,190	CGI
One Rutherglen Links	OOT	15,751	Clear Business
191 West George Street	CC	15,011	RSA

KEY SECTOR ACTIVITY FOR 2019



TAKE-UP



Q4 TAKE-UP



City Centre
247,246 sq ft



Out-of-town
72,190 sq ft

HEADLINE RENT

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

UNDER CONSTRUCTION



1.15 million sq ft

77%
prelet

PRIME YIELD
5.00%



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Total take-up across the Leeds office market during 2019 amounted to 1 million sq ft for the third year in succession, and was 10% above the ten year average. A strong performance in the city centre market more than compensated for subdued activity out-of-town.

During Q4 the media sector provided the headline deals, as Sky, which already has a strong presence in the city, agreed to take 31,175 sq ft at 26 Whitehall Road and Channel 4 took 25,926 sq ft at the refurbished former Majestic cinema. Elsewhere Progeny Group Ltd agreed a 14,000 sq ft deal at 33 Wellington Street and there were three medium-sized deals at 1 Whitehall Riverside. Activity during Q4 in the out-of-town market was led by two c.10,000 sq ft deals at Thorpe Park to food companies Birds Eye and Quorn.

Requirements in the office market indicate that demand will be robust for the first half of 2020. There are a handful of 30-40,000 sq ft requirements and possibly further activity from the Government Property Agency. HMRC's new offices at 378,000 sq ft 7&8 Wellington Place will open this year with thousands of new employees moving to the city.

With pre-letting currently the only new build option available for future occupiers, this provides a significant opportunity for developers and investors in 2020. As a result, we expect further growth in prime rents this year, from £30 psf, with quoting rents at Majestic currently £34 psf.

KEY DEALS - Q4 2019

Property	CC / OOT	Sq ft	Occupier
26 Whitehall Road	CC	31,175	Sky
Majestic	CC	25,926	C4
33 Wellington Street	CC	13,982	Progeny Group Ltd
Thorpe Park	OOT	10,580	Quorn
Thorpe Park	OOT	10,402	Birds Eye

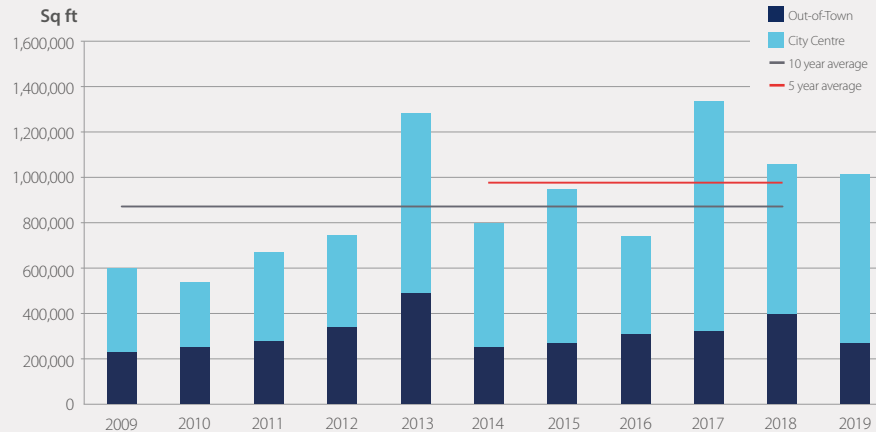
KEY SECTOR ACTIVITY FOR 2019

 Consumer services **26%**

 Insurance & asset management **14%**

 Computing **14%**

TAKE-UP



Q4 TAKE-UP



City Centre
160,284 sq ft



Out-of-town
69,642 sq ft

HEADLINE RENT

City Centre
£30 per sq ft

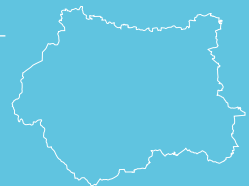
Out-of-town
£24.75 per sq ft

UNDER CONSTRUCTION



512,000 sq ft
100%
prelet

PRIME YIELD
5.00%



Liverpool

Liverpool had a strong end to the year, with H2 take-up far exceeding that achieved in H1 2019. This was primarily due to a number of large transactions during Q3 & Q4 which included the sale of 91-105 Duke Street to CERT who will retain the 57,000 sq ft office space, Instant Offices taking 40,000 sq ft at The Plaza and The Disclosure & Barring Service taking 18,500 sq ft at No1 Tithebarn. This surge in city centre activity meant total take-up recovered to 510,000 sq ft, although this was still 5% below the 10-year average.

There are currently a number of live requirements in the Liverpool market, the most notable of which is BT's reported search for 100,000 sq ft of space in order to develop their regional hub scheme. This deal is expected to achieve a record rent for the city.

There is considerable investment fuelling the development pipeline in Liverpool's Knowledge Quarter with joint ventures between Liverpool City Council and the Universities. The largest of these currently under construction is the 160,000 sq ft biotech innovation hub, The Spine, due to complete in the autumn.

Considerable office developments are also in the pipeline at Liverpool Waters (No5 Princes Dock) and Pall Mall. These schemes are still yet to commence construction, but stand to provide significant office and mixed-used space to help expand the CBD, although both will require significant pre-letting commitments. Given the current lack of Grade A stock, large occupiers seeking to relocate are now in a pre-let driven market.

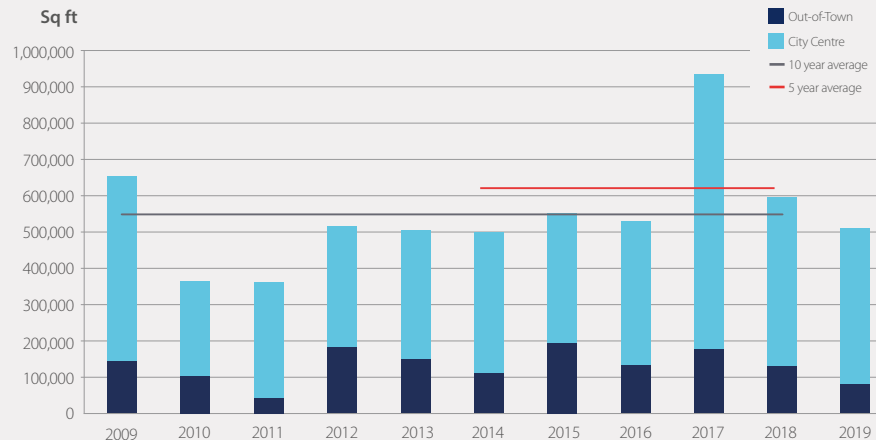
KEY RECENT DEALS

Property	CC / OOT	Sq ft	Occupier
91-105 Duke Street	CC	57,214	CERT
The Plaza	CC	40,000	Instant Offices
No 1 Tithebarn	CC	18,473	Disclosure & Barring Services
Watson Building	CC	20,036	Onward Housing
Walker House	CC	10,040	Bibby Line Group

KEY SECTOR ACTIVITY FOR 2019



TAKE-UP



Q4 TAKE-UP



City Centre
140,000 sq ft



Out-of-town
30,000 sq ft

HEADLINE RENT

City Centre

£21.50 per sq ft

Out-of-town

£14 per sq ft

UNDER CONSTRUCTION



160,000 sq ft

44%
prelet

PRIME YIELD

6.00%



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Manchester

Take-up in the Manchester office market has exceeded 2 million sq ft for the sixth year in succession, totalling 2.36 million sq ft, 12% above the ten year average. City centre activity was dominant during 2019, achieving 1.4 million sq ft, only surpassed by last year's record 1.7 million sq ft.

The legal services sector led activity during the final quarter with the largest deal of 70,800 sq ft to BLM at 2 New Bailey. Further deals taking brand new space include 11,590 sq ft to Willis Towers Watson at No 8 First street and 10,200 sq ft to Mills & Reeve at Circle Square. In the out-of-town market the stand-out deal was to web security company Portswigger, who took 62,000 sq ft at Booths Park in Knutsford.

Occupiers have an extensive choice of speculative space coming to the market this year, with more than 500,000 sq ft completing in 2020. Speculative schemes include 100 Embankment, 2 New Bailey and Circle Square, as part of the regeneration of the former BBC site at Oxford Road. Further schemes under construction have already seen high profile office commitments, such as Booking.com.

Indications are that the magnitude of office transactions in the Manchester market is expected to continue next year with requirements such as the second phase of the government hub relocation and BT which is rumoured to have chosen New Bailey for its 200,000 sq ft requirement as part of its national consolidation programme.

With prime rents at £36.50 psf and asking rents near £38 psf for the remaining space in One Spinningfields, we expect further rental growth, underpinned by the strength of demand and the quality of product.

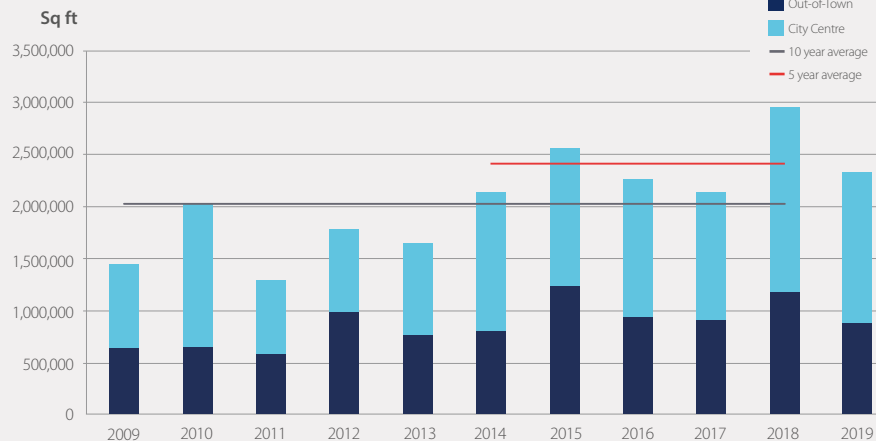
KEY DEALS - Q4 2019

Property	CC / OOT	Sq ft	Occupier
2 New Bailey Square	CC	70,782	BLM
No 6 Booths Park, Knutsford	OOT	62,000	Portswigger Ltd
Heron House	CC	43,590	Northern Lights
Circle Square	CC	28,518	HPE
2 Stockport Exchange	OOT	21,434	BASF

KEY SECTOR ACTIVITY FOR 2019



TAKE-UP



Q4 TAKE-UP



City Centre
375,405 sq ft



Out-of-town
273,821 sq ft

HEADLINE RENT

City Centre
£36.50 per sq ft

Out-of-town
£24 per sq ft

UNDER CONSTRUCTION



1.48 million sq ft

44% prelet

PRIME YIELD

5.00%



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Outlook

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Birmingham

Bristol

Cardiff

Edinburgh

Glasgow

Leeds

Liverpool

Manchester

Newcastle

Newcastle

Total take-up in Newcastle amounted to 768,000 sq ft during 2019, 19% above the ten year average, boosted by Sage Plc's 203,000 sq ft deal at Cobalt Business Park in the summer. Q4 activity was again dominated by the out-of-town market, with key deals including 16,361 sq ft to Connect Health at Quorum Business Park and 12,614 sq ft to lawyers Gordon Brown at Fifth Avenue Business Park.

In terms of future demand, we are aware of more than 150,000 sq ft of office requirements from occupiers looking for 25,000 sq ft plus of space. This is in addition to on-going discussions for a 270,000 sq ft Government hub.

This potential demand bodes well for city centre developments currently under construction. The Lumen office building (106,000 sq ft) will complete early this year and the next phase of the scheme, 107,000 sq ft The Spark will complete in 2021. Also in Newcastle the first phase of the long awaited East Pilgrim Street regeneration area, which includes the 120,000 sq ft Bank House office scheme by Taras Properties, will start on site soon.

These schemes will offer significantly more choice to office occupiers, providing opportunities for northshoring and inward investment companies to the city centre. Prime rents have increased from £24 psf last year to £26 psf.

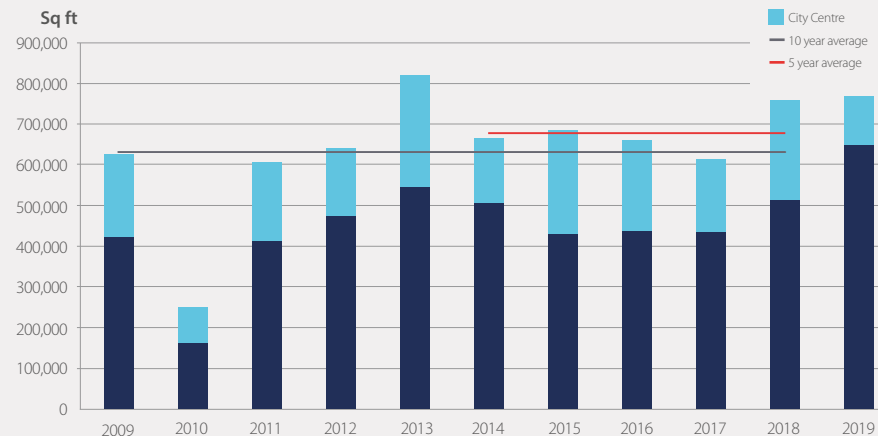
KEY DEALS - Q4 2019

Property	CC / OOT	Sq ft	Occupier
The Lightbox, Quorum	OOT	16,361	Connect Health
Broadacre House	CC	14,638	Step Change
Fifth Avenue Business Park, Team Valley	OOT	12,614	Gordon Brown
Hylton Park, Sunderland	OOT	9,345	The Green Energy Advice Bureau
Trainer House	OOT	7,758	North East Learning Trust

KEY SECTOR ACTIVITY FOR 2019



TAKE-UP



Q4 TAKE-UP



City Centre
40,449 sq ft



Out-of-town
91,006 sq ft

HEADLINE RENT

City Centre
£26 per sq ft

Out-of-town
£16.95 per sq ft

UNDER CONSTRUCTION



213,000 sq ft
0% prelet

PRIME YIELD
6.00%



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Regional Investment**Activity during the year was headlined by the two £200 million plus deals in Leeds to Legal and General**

Uncertainty in 2019 leads to some pent-up demand for 2020

Investment volumes across the Big Nine cities totalled **£559 million** during the final quarter of 2019, **2% down on the ten year average**. This brings the total for the year to **£2.55 billion**, down from the exceptional levels of activity of the past two years but up **12% on the ten year average**.

Activity during the year was headlined by the two £200 million plus deals in Leeds to Legal and General. These 'bond' type deals to government tenants on long leases have partially masked the underlying lower level of transactions this year, which was widely expected given the political uncertainty.

For the year as a whole Birmingham, Edinburgh and Leeds led the activity, all transacting between £500 and £600 million. In the next grouping there was more than £200 million of deals in both Bristol and Glasgow.

Overseas investment accounted for 38% of volumes during the year, just above the long term average. Overseas demand is particularly strong for properties offering long leases, preferably with fixed or indexed reviews and has benefitted from a weak Sterling, a relative absence of institutional competition and a willingness from banks to lend. With the pound likely to remain relatively suppressed, we expect interest to continue from overseas buyers, who are increasingly finding value outside London.

Aside from Legal and General many UK Institutional investors have been quiet in 2019, holding above average cash balances in fear of early redemption and being forced to sell under distress. However, in Q4 two of the largest deals were to UK institutions as Royal London Asset Management bought 45 Church Street in Birmingham for £61 million and Aviva Investors purchased 40 Spring Gardens in Manchester for £55 million.

There is a large weight of money that will drive institutional investors to return to the market particularly as sentiment improves.

The key deal in Q4 was the sale of the mixed-use Mailbox in Birmingham by Brockton Capital to M7 Real Estate. The final quarter of the year also saw the second largest out-of-town transaction of the year, the sale of eight buildings at Quorum Business Park in Newcastle for £32 million to Shelbourn Asset Management.

The average of prime yields across the Big Nine ended the year at 5.31%, which compares to a cyclical low of 5.08% at the end of 2018. According to the MSCI monthly index the average equivalent yield for all regional offices has shown little movement since March, remaining around 7% (7.00% in December), down from 7.12% a year ago.

There is sufficient pent-up demand to suggest that the first half of 2020 will see increased activity from investors, including the institutions before activity slows ahead of the Brexit deadline at the end of the year. The search for income has become increasingly challenging, and we expect investors to continue bidding aggressively for assets that offer long-term secure income with strong covenants – although the supply of such opportunities continues to diminish.

TOTAL FOR Q4

£559 million▼ **2%**

DOWN ON THE 10 YEAR QUARTERLY AVERAGE

VOLUMES BY CITY



BIRMINGHAM

£172m

MANCHESTER

£105m

BRISTOL

£92m

VOLUMES BY INVESTOR TYPE

OVERSEAS
INVESTOR**27%**UK PROPERTY
COMPANY**29%**UK
INSTITUTION**30%**

PRIME YIELD

5.00%

PREVIOUS PEAK (2007)

4.50%

TOTAL INVESTMENT VOLUMES IN Q4 2019

£559 million

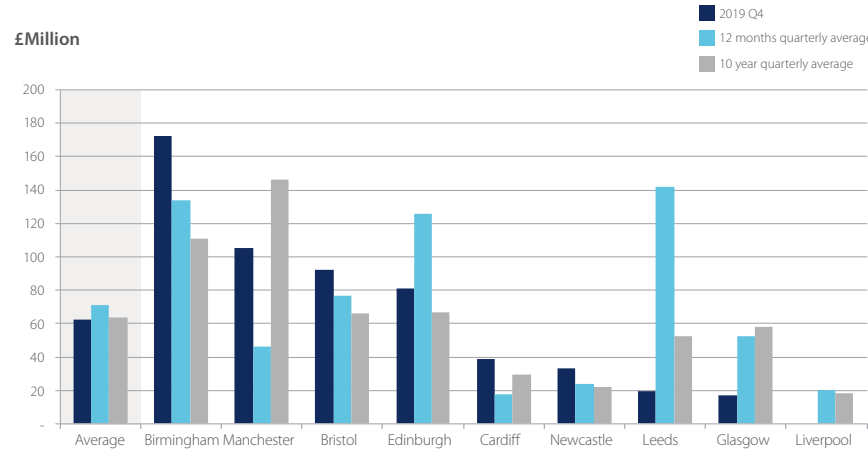
Compared to:

£1,084m (previous quarter – Q3 2019)

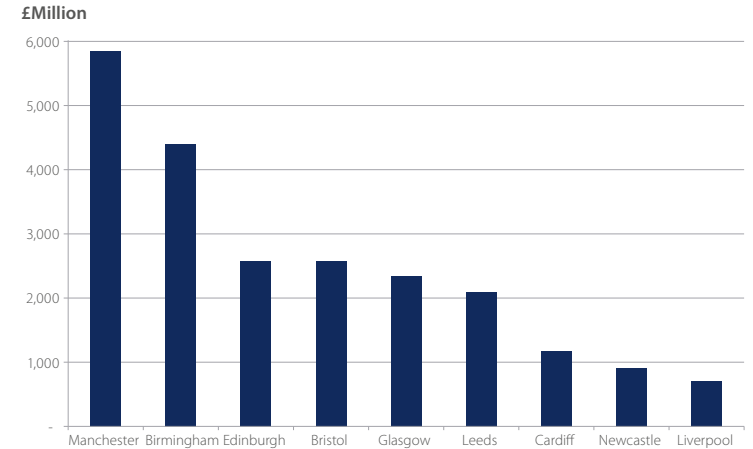
£1,078m (a year ago – Q4 2018)

£571m (ten year quarterly average)

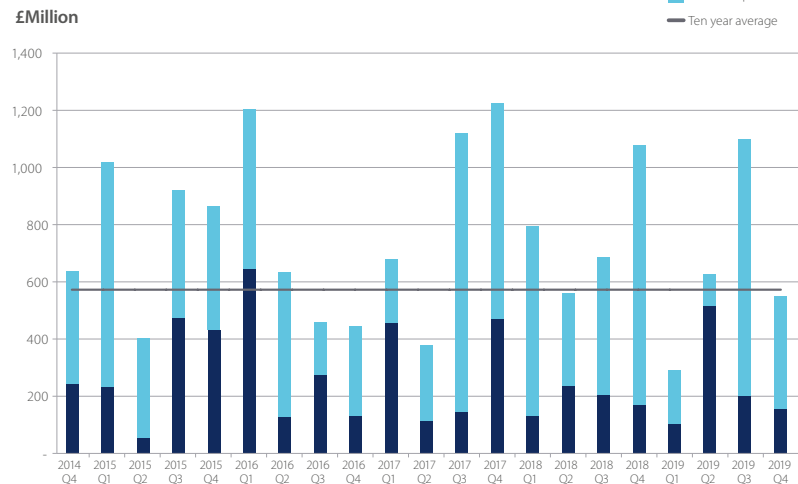
INVESTMENT VOLUMES



INVESTMENT VOLUMES 2010 TO 2019



INVESTMENT VOLUMES



TOP FIVE DEALS – Q4 2019

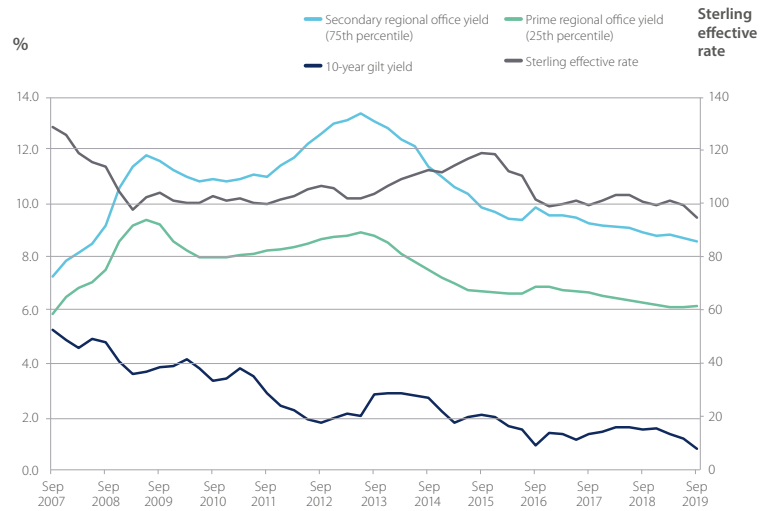
Date	Property	City	Purchaser	Vendor	Price (£m)	NIY (%)
Dec-19	Mailbox, Commercial St	Birmingham	M7 Real Estate	Brockton Capital LLP	189*	6.50
Nov-19	Church Street, 45	Birmingham	Royal London Asset Man	Aberdeen Standard Invest	61	5.32
Nov-19	Spring Gardens, 40	Manchester	Aviva Investors	Impax Asset Management	55	5.61
Oct-19	Dundas Street, 113	Edinburgh	Orion Capital Managers	Royal Bank of Scotland	36	5.10
Oct-19	Quorum Business Park	Newcastle	Shelborn Asset Management	Cerberus Capital Man	32	7.6 (NOI)

* Mixed use

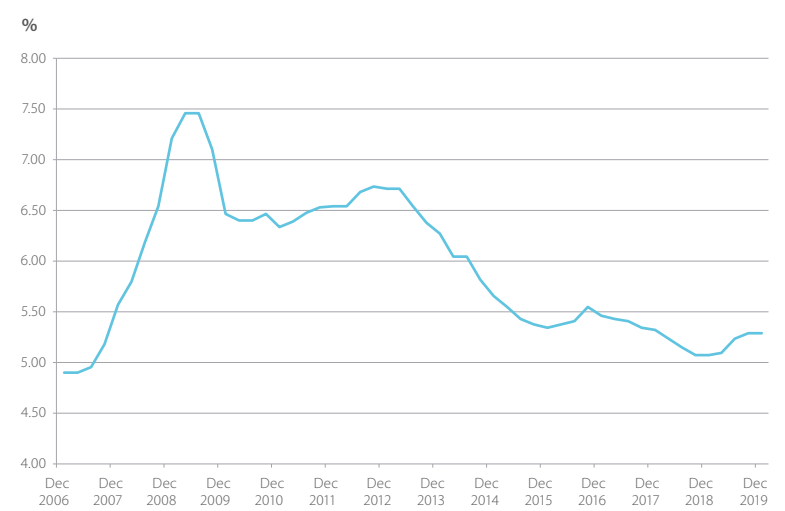
PRIME CITY CENTRE YIELDS

Location	Q3 2019	Q4 2019	Trend for last 12 months	Peak (2007)
Birmingham	5.00	5.00	↑	4.50
Bristol	5.00	5.00	↑	5.00
Cardiff	5.75	5.75	↑	5.00
Edinburgh	5.00	5.00	↑	4.75
Glasgow	5.00	5.00	→	4.75
Leeds	5.00	5.00	↑	4.75
Liverpool	6.00	6.00	↑	5.50
Manchester	5.00	5.00	↑	4.50
Newcastle	6.00	6.00	↑	5.25

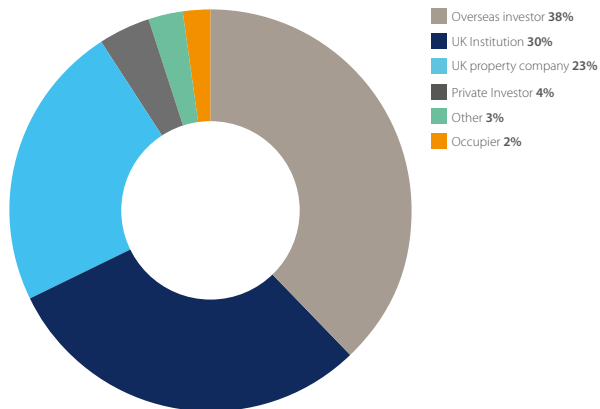
REGIONAL OFFICE YIELDS VS 10 YEAR GILTS



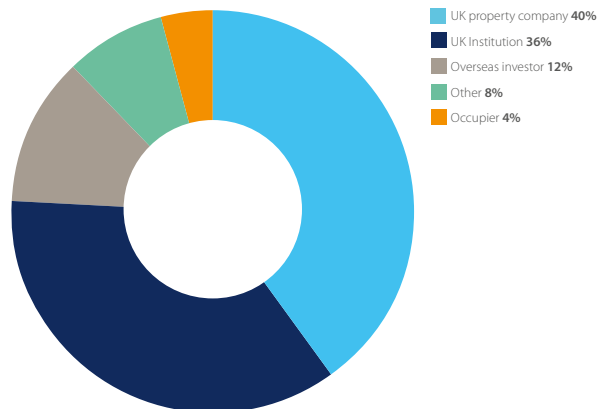
AVERAGE BIG NINE PRIME YIELD



INVESTOR VOLUMES BY PURCHASER TYPE 2019



INVESTOR VOLUMES BY VENDOR TYPE 2019



“

Aside from Legal and General many UK Institutional investors have been quiet in 2019, holding above average cash balances in fear of early redemption and being forced to sell under distress

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Outlook

We continue to maintain the assumption that an “orderly” departure from the EU will be the eventual Brexit outcome and that the UK will gain similar access to the single market as it does currently.

In light of the election our forecast of 1.1% GDP growth in 2020 is unlikely to change materially, but we expect a short term boost to economic activity at least in the first half of the year. An improvement in sentiment and transactional activity is therefore to be expected. However it is unlikely to be long before fresh uncertainty builds around the Brexit negotiations.

Across the Big Nine there are a number of large requirements for phase two of the Government Property Agency’s relocation and further deals are expected this year. Also following two 200,000 sq ft plus relocations that BT agreed in Bristol and Birmingham, there are 11 further known requirements, some of them across the Big Nine.

We expect the flexible workspace sector to continue growing but with a change in focus as co-working type environments reach a plateau. In mature markets such as Manchester, enterprise agreements from more substantial businesses are expected to drive the sector and fill empty space. We expect to see both established landlords and flexible workspace operators offering a range of managed agreements to occupiers who are seeking both flexibility and cost certainty.

A lack of readily available office stock has driven rental growth in recent years and we expect this to continue. Where shortages of grade A stock are acute in cities such as Leeds and Edinburgh, this is providing opportunities for the refurbishment market, and is also prompting a tightening of secondary supply. This is also supporting increased out-of-town take-up activity and in turn has led to some development and refurbishment.

We expect a return to form for the Manchester investment market, with many investments earmarked for sale in 2020. Political uncertainty has caused a stand-off between buyers and sellers, keeping investment volumes at a very low level.

The likely volatility of sterling throughout 2020 will have a large bearing on the level of overseas investment activity across the UK. Despite uncertainty over Brexit, the UK remains a safe haven to many investors given its transparency, liquidity and governance.



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

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