Lambert Smith Hampton

UNDER PRESSURE

REGIONAL OFFICES
2022 REPORT

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Welcome to our 2022 Regional Office Market Report.

Just as the trauma of the pandemic was starting to fade, stakeholders across the office sector have been served with another set of pressures in the form of high inflation and rising finance costs.

While the financial market tumult admittedly came later in the year, the occupier market has performed reasonably well throughout 2022. Granted, take-up is only likely to match 2021's level, but the year has seen an improving depth to activity at the smaller to medium-sized end of the market.

The statistics also underline the importance of quality. The pandemic's legacy of massively increased hybrid working is pushing occupiers in ever greater numbers to exchange quantum for quality. The pressure to do so has also strengthened on the back of unprecedented rises in energy costs, with the business case for occupying environmentally efficient buildings now working alongside the increasingly accepted ethical case.

The focus on quality has been reflected emphatically in rental levels, with the delivery of best-in-class product driving a step-change in prime headline rents across a host of regional centres in 2022. On the flipside, growing aversion to poorer quality, or even frankly 'ordinary' space, points to accelerated rates of obsolescence.

So where is the quality space? Our research reveals that the availability of grade A space across the combined regional markets has moved to its highest level in a decade, boosted by a range of completions and soon-to-complete schemes across the core markets. Markets with a healthy choice of quality options will have the substance to drive activity in 2023.

However, the conveyor of new-builds and refurbishments is slowing markedly. High build costs and a sudden pricing correction have stymied developer appetite, meaning new construction starts will be few and far between in 2023. With an increasing focus on ESG credentials and staff wellbeing, occupiers may struggle to find a solution to match their ambitions in the near future.

While landlords find themselves under immediate pressure from pricing shifts, a window of opportunity is nonetheless opening up to reposition tired, existing buildings to the desired quality, in the process capturing substantially higher rents.

LSH has an experienced team across the UK that continues to outperform the competition in many areas. We provide a range of services from development consultancy, letting, building consultancy, rating, property management and capital markets.

There are some fantastic opportunities likely to emerge in 2023 and we'd be delighted to assist you with your requirements.

Please feel free to get in contact with myself or one of the team.

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AT YOUR SERVICE

After a tumultuous couple of years, the serviced office sector is on the rise again. It is both providing temporary solutions for occupiers still formulating post-COVID workplace strategies and offering products that will increasingly cater to businesses' longer term office needs

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THE RISE, FALL, AND RISE AGAIN

The serviced office sector has been on a rollercoaster ride over recent years. At its peak in 2019, it accounted for c. 10% of regional office take-up, and c. 20% in Central London. Activity in London, in particular, was fuelled by the rapid expansion of WeWork, but doubts over the sustainability of this firm's growth were already ringing alarm bells before the pandemic struck.

When the COVID lockdowns came, mass homeworking caused businesses' demand for serviced office space to temporarily collapse. This created enormous challenges for operators and their take-up of office space almost entirely dried up, accounting for only c. 1% of regional market activity in 2020.

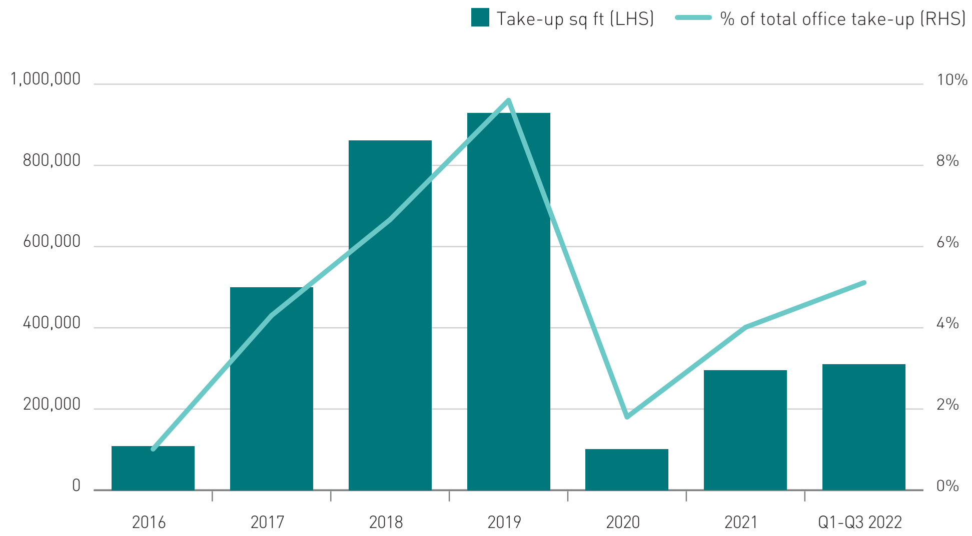
However, serviced office operators have since found their feet again, as moves to more flexible working practices have driven demand for serviced space. The success of existing high quality schemes has led to a new raft of requirements from both traditional heavyweights and emerging brands.

While take-up remains well short of the peak pre-pandemic years, it has recovered from 2020's nadir, to represent c. 5% of regional office demand over the last two years.

BACK TO THE BIG SIX

Post-pandemic, serviced office acquisitions have primarily focused on the larger city centre markets, with Manchester seeing a particularly strong resurgence in demand. Orega (26,000 sq ft at 1 Balloon Street) and Huckletree (11,373 sq ft at Express Building) have both recently expanded their presences in the city, while Gilbanks has made its Manchester debut at 11 York Street (21,778 sq ft). Other serviced office highlights during 2022 have included deals to Wizu Workspace (24,350 sq ft) in Glasgow; Runway East (16,442 sq ft) in Bristol; and 2-Work (13,551 sq ft) in Leeds.

REGIONAL SERVICED OFFICE OPERATORS TAKE-UP (SQ FT)



Source: : LSH Research
Aggregate take-up in the 20 markets covered by this report

However, recent take-up volumes underplay the level of demand in the market. In Bristol alone, LSH is aware of c. 400,000 sq ft of unsatisfied live requirements from serviced office operators.

IMPROVING OCCUPANCY

The recovery in serviced office provider take-up reflects strong occupancy levels and growing appetites to expand. High profile operators are reporting that occupancy rates are now close to or above pre-pandemic levels. WeWork has said that its global occupancy was 71% in Q3 2022, up from a low of 46% in Q4 2020, and matching pre-COVID levels. IWG has reported that UK occupancy was 69.9% in H1 2022, which is higher than it was in 2019.

However, performance varies widely across the sector, with many higher quality new products having occupancy rates of 90%+. In contrast, there is a significant volume of older serviced office space where occupancy rates are much lower.

Many older serviced offices now appear dated or obsolete as they fail to meet modern occupiers' expectations for high quality amenities, wellbeing features and ESG credentials. Considerable capital expenditure would be needed to bring such offices up to contemporary standards. Serviced office operators with modern, amenity-rich products thus have a huge competitive advantage, and are well positioned to benefit from the current flight to quality among occupiers.

MEETING POST-PANDEMIC DEMAND

The agility that serviced offices provide to occupiers has been a key advantage in the post-pandemic period. In an uncertain environment, occupiers have valued flexibility above almost anything else. The ability to expand, contract or terminate leases at relatively short notice has been highly beneficial to companies still developing their workplace strategies, and firms have been willing to pay a premium for this flexibility.

This has helped serviced offices to absorb demand from occupiers seeking short term options while they await greater clarity around business conditions and workplace policies. However, the sector is now also increasingly providing more permanent solutions for businesses seeking to implement hybrid working models mixing home and office work.

In a major coup for the sector, Currys made a permanent switch to serviced offices earlier this year to support a hybrid working policy. It vacated its head office, deciding instead to provide its 1,400-strong corporate workforce with WeWork passes. Currys is thought to be the first UK company of its size to move almost all of its office space to a serviced office provider, but it is unlikely to be the last.

Other large companies have been increasingly prepared to explore serviced office solutions in regional UK cities. These include Goldman Sachs, which has occupied 14,600 sq ft at WeWork's 55 Colmore Row in Birmingham.

This is indicative of a shift in the sector's demand profile. Historically, serviced offices were mainly the preserve of small companies and start-ups, predominately from the tech sector, but they are now increasingly attracting demand from larger companies, and from a wider range of sectors.

CHANGING PRODUCTS

As the demand profile changes, the products offered by serviced office providers are also evolving. Managed serviced offices, where the occupier has a self-contained suite that is not shared with other businesses, and which can be fitted with a company's own branding, are a growing feature of the market. These have particular appeal to larger companies and those seeking space on a longer-term basis, with 2-5 year deals being typical.

The rise of hybrid working has also caused the key features demanded by occupiers of serviced offices to change. Extra passes and memberships for staff, to allow the same space to be used by multiple different employees across the working week, are a key requirement. Other sought-after features that aid hybrid working include collaborative workspaces and soundproofed booths providing private spaces for phone and video calls.

The growing focus on amenities that support employee wellbeing is also creating opportunities for serviced office operators. The best-in-class serviced products now include a range of amenities such as cafes, bars and recreation areas. These can help to create a community feeling within the serviced office, giving it particular appeal to younger workers and encouraging

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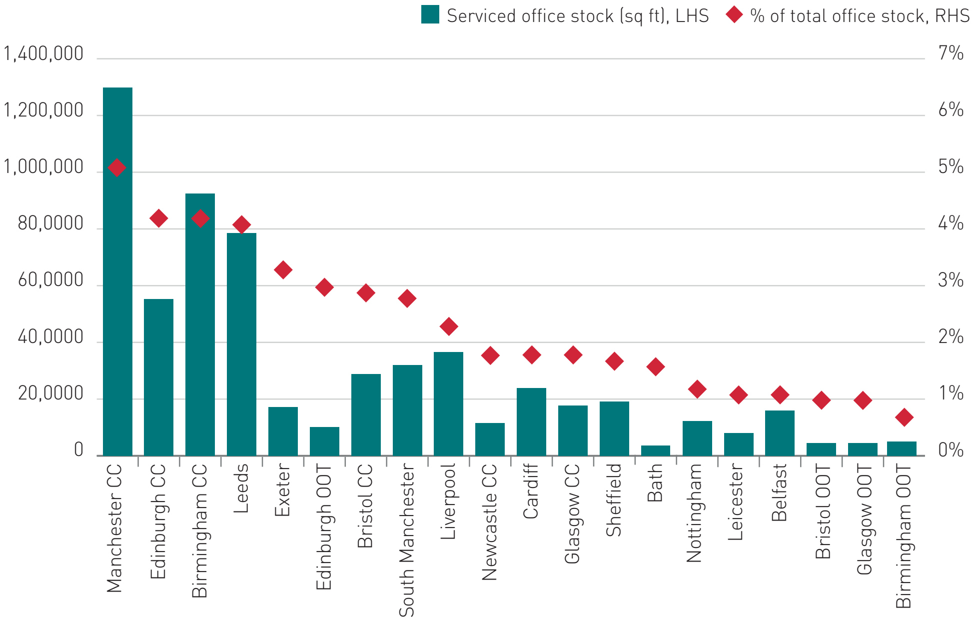
staff to spend more time in the office. The ability to share the cost of these amenities with other occupiers also adds to the attraction of serviced offices.

FUTURE GROWTH

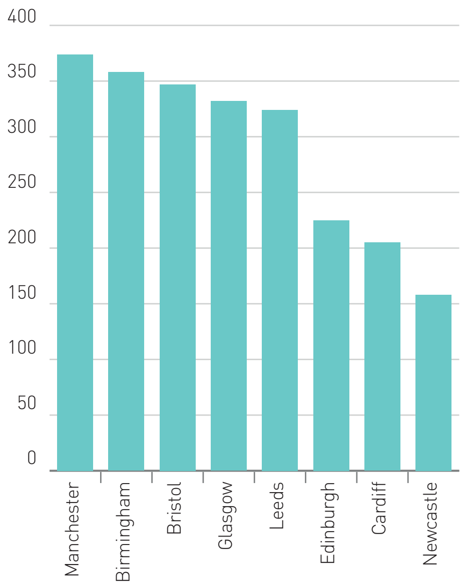
After the interruption of the COVID-19 pandemic, the serviced office sector is now primed for growth. Mordor Intelligence forecasts that the UK market will grow by 8% a year during 2022-27, but growth rates are likely to vary between regional cities. The larger, more sophisticated office markets are best placed to expand, as they have the critical mass to support more varied ranges of serviced office products.

REGIONAL SERVICED OFFICE STOCK (SQ FT)



Source: LSH Research

SERVICED OFFICE RATES (MEDIAN, £ PER PERSON PER MONTH)



Source: Rubberdesk, September 2022

Manchester is arguably the most mature market outside of London, commanding the highest rental levels and being the only major city where serviced offices account for more than 5% of stock. However, all of the Big Six markets have significant growth potential and those that currently appear to be relatively undersupplied, such as Bristol and Glasgow, are known to have multiple major serviced operators currently looking for space.

Within these cities, locations near to transport hubs will be the key hotspots. Contrary to expectations that suburban office markets might benefit most from the rise of hybrid working, anecdotal evidence suggests that serviced office operators are finding that the most sought-after locations are currently central areas where commuting times are minimised due to the proximity of major stations.

As new working models continue to evolve, occupiers are showing that they are prepared to pay more for high quality space that supports their changing requirements. Serviced offices can command additional premiums, as they remove from occupiers most of the capital expenditure and operating costs associated with conventional space.

Serviced offices thus have advantages for occupiers, operators and landlords alike, which may become increasingly clear as serviced products further align with hybrid and flexible working practices. As a result, an element of serviced or managed space may soon be seen as a key component of most large-scale office developments, providing high-value space that enhances the overall vitality of a building.

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GET BACK

Hybrid working is here to stay. While this has advantages for both employees and employers, a key challenge for occupiers is how to maximise the utilisation of office space across the working week.

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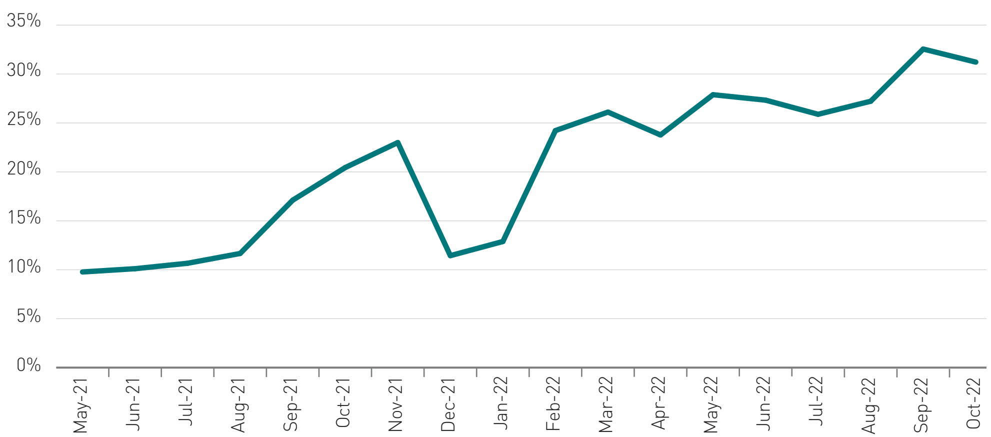
OFFICE ATTENDANCE IMPROVES

Data from Remit Consulting shows that there has been a gradual increase in office attendance since the easing of COVID restrictions in early 2022. In October, daily office occupancy averaged close to 30% nationally, after levels nearer to 25% had been the norm earlier in the year.

There was a noticeable uptick in office attendance after the end of the summer holidays, albeit it was not quite the widespread return to the office that some businesses had wanted. Occupancy rates have since appeared to stall in late October and early November, remaining stubbornly well below the 60-80% that had been typical prior to the pandemic.

AVERAGE OFFICE OCCCUPANCY (%)



Source: Remit Consulting. Excluding Bank Holidays and days affected by rail strikes

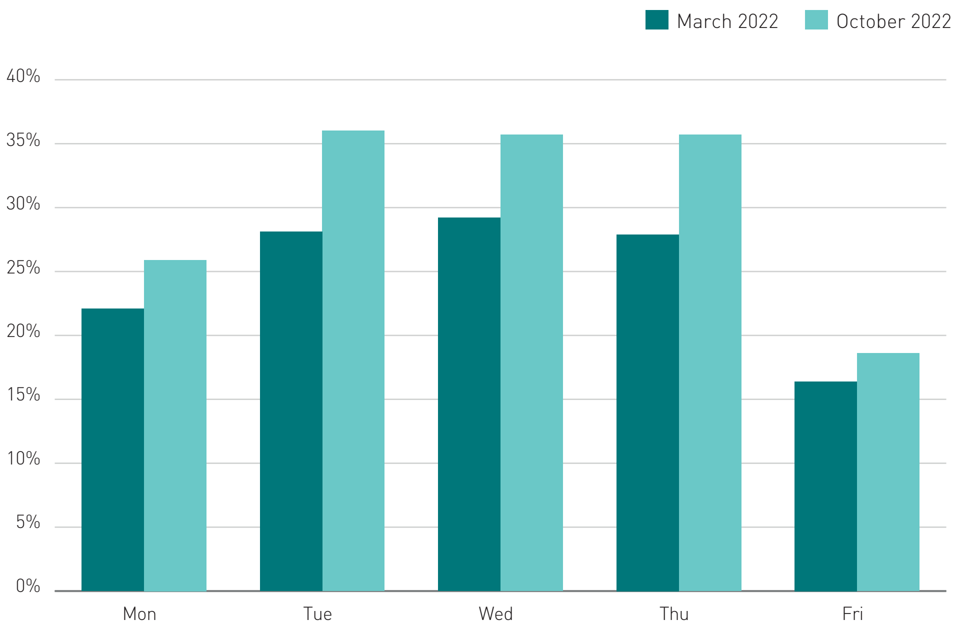
The Remit data highlights considerable intra-week variations in office attendance. In October, occupancy rates averaged 36% between Tuesday and Thursday (excluding days impacted by rail strikes). However, the days at either end of the week continued to see much lower attendance, with Monday averaging 26% and Friday at 19%. The latter has consistently been a laggard, with attendance on Fridays increasing at a slower rate than all other days of the week.

REGIONAL VARIATIONS

Alternative data from Google indicates that workplace attendance has been less severely affected by the pandemic in the UK's major regional cities compared with Central London. The Google data is not purely focused on offices, but it shows that workplace visits across the UK in October were around 20% lower than the pre-pandemic baseline. Major regional cities were a little below this, but workplace visits in Central London were still more than 30% down.

While there has been a narrowing of the difference between Central London and the regional cities this year, the shorter average commutes that workers have outside the capital appear to support higher levels of workplace attendance. However, the Google data shows only modest signs of improvement across the UK in recent months and, like Remit's office data, it suggests that the pandemic has engendered a permanent shift.

AVERAGE OFFICE OCCUPANCY BY DAY OF THE WEEK (%)



Source: Remit Consulting. Excluding Bank Holidays and days affected by rail strikes

BEATING THE MONDAY (AND FRIDAY) BLUES

Lower overall office attendance levels are not necessarily a bad thing for employers, partly because companies may be able to reduce occupational costs by downsizing office space. There is also a significant body of evidence to suggest that some homeworking may boost employee output. Studies conducted by Stanford University in the US during the pandemic found that around 60% of employees reported being more productive when working from home, and that post-pandemic working arrangements could provide a 5% productivity boost to the economy.

A bigger issue for employers could be the wide variations in office attendance across the week, with the much lower office occupancy on Monday and Friday potentially leaving companies with valuable office space that is only used at anywhere close its capacity on three days a week. At a time when heating and lighting space is increasingly costly, occupiers may feel that is a waste of an expensive asset. Generating value from office space on low attendance days, and encouraging workers into the office on these less popular days, could be key challenges for employers.

For some occupiers, a complete rethink of how office space is managed over the course of the week may be needed. This could mean closing or part-closing offices on quieter days, using serviced offices to supplement core offices on busier days, or even hiring out excess space to other organisations on low-use days.

Landlords may ultimately need to develop new flexible leasing models that reflect tenants' fluctuating space needs across the week. Serviced offices are particularly well placed to cater to occupiers that do not need full-time space, and an emerging trend within this sector is for offices to be 'timeshared' by two or more businesses that use them on different days of the week.

GETTING BACK

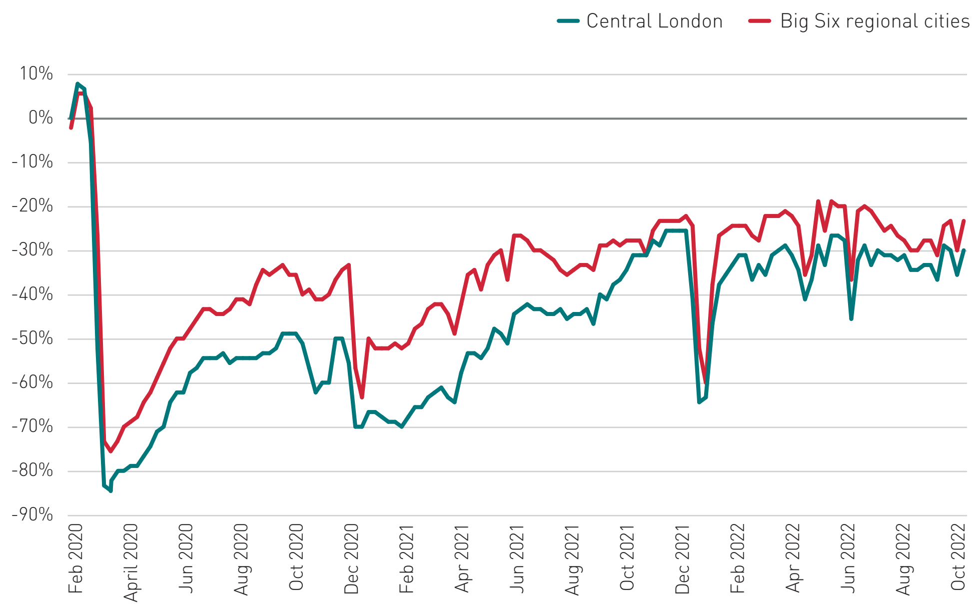
Major employers are taking widely different approaches to the return to the office. Some companies, such as Deloitte, have fully embraced flexible working, allowing UK staff to work from home whenever they want. In contrast, loud opponents of home working have included Elon Musk, who has demanded that Tesla and Twitter employees be in the office for at least 40 hours a week.

Most companies are navigating a middle ground where hybrid working has been adopted, but an increased level of office attendance is encouraged. An LSH survey conducted earlier this year found that nearly half of organisations felt that action needed to be taken to boost office attendance.

Considerable care needs to be taken over how this is achieved, as a growing number of high-profile global businesses are reported to have faced significant resistance when attempting to mandate fuller returns to the office. Recently, for example, a group of staff at Apple launched a petition in response to a memo from CEO Tim Cook saying that staff would have to come into the office for at least three days a week.

With employees now used to hybrid working and with a tight labour market making it easier for them to move to competitors offering more flexible working arrangements, a prescriptive approach to office attendance runs the risk of antagonising employees and making it harder to recruit and retain staff. This is unlikely to change unless a recession causes a dramatic shift in the labour market and turns it into an employer's market.

WORKPLACE VISITS VS PRE-PANDEMIC BASELINE (% CHANGE)



Source: Google Mobility

INCENTIVES AND ATTRACTIONS

Firms wishing to boost office attendance thus need to provide positive incentives that motivate workers to spend time in the office. The most direct approach could be financial incentives, with firms needing to recognise that travel to the office costs employees time and money, which they may be particularly reluctant to spend in the middle of a cost-of-living crisis. The expense and inconvenience of commuting, rather than the nature of office work itself, is often the biggest obstacle to office attendance. The idea of paying staff allowances to cover commuting costs, while not yet widespread, has gathered some momentum, with Bloomberg being an example of a major firm that has explored this approach.

More commonly, firms have attempted to encourage staff back to the office by offering incentives such as free breakfasts and lunches, complimentary gym passes and childcare facilities. These can help to both offset some of the costs associated with office attendance and support employee wellbeing. There is also the potential for enhanced versions of some incentives to be offered on Mondays and Fridays, to help draw people into the office on these quieter days.

Attractive and stimulating working environments may also be key to boosting office attendance. Research recently published by Brookfield found that staff are considerably more likely to prefer office work to home working when they have access to office spaces that are enriched by art, culture and wellness facilities, rather than more basic 'lean offices'. This is supporting the continued flight to quality currently being seen in office occupier markets.

Brookfield's research suggests that the social aspect of the office can be a key attraction, particularly for younger workers. Offices support face-to-face social and work interactions that simply aren't possible in the home. To take advantage of this, occupiers could look to reconfigure offices to provide a greater variety of collaborative working spaces, or to arrange regular social or team building events. Scheduling such events for Mondays or Fridays is one way of ensuring that offices are in use on these days.

RETHINKING OFFICES

Nearly all office occupiers will need to embrace hybrid working to some extent and adjust their office footprints to meet changed requirements. The unique feature of the post-pandemic period is that requirements are likely to vary across the week on a larger scale than has ever been seen before.

For occupiers in regional UK cities seeking to bring workers back to the office in greater numbers, commuting times may be a less significant obstacle than they are in London. To build on this advantage, firms will also need to provide attractive office environments that workers actively choose to come to in preference to the home.

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DEALING WITH THE ENERGY SHOCK

The war in Ukraine has propelled business considerations on energy costs to the top of the agenda. Darren Clarke and Stephen Clayton, within LSH's respective Property Management and ESG teams, reflect on how we are helping our clients to mitigate costs and take action on energy consumption.

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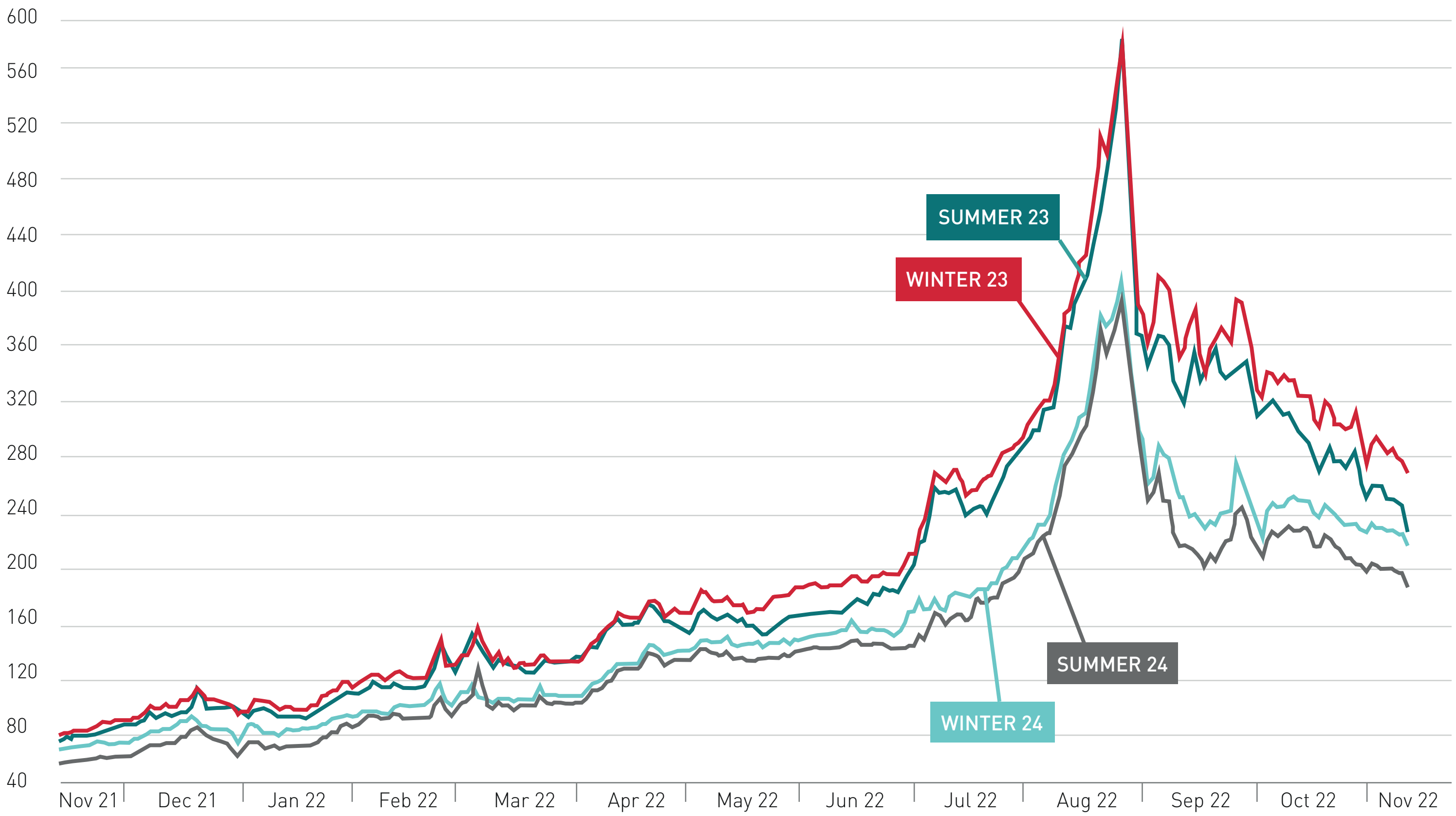
BUSINESSES REELING FROM ENERGY PRICE HIKES

On the heels of the pandemic, businesses up and down the country are now facing the challenges of a full-blown energy crisis. Energy is a complex and dynamic market with prices influenced by a variety factors. In this instance, geopolitics form the primary reason - Russia's invasion of Ukraine suddenly exposed the vulnerabilities of European energy security, with a halving of gas supplies into Europe pushing volatility and pricing to unprecedented levels. At the summer peak, the scramble to fill gas storages across continental Europe for the coming winter saw prices hit an all-time high of 830p/therm.

Almost overnight, the crisis has transformed office occupiers' considerations around energy costs and usage. Until recently, these considerations were typically ethical in nature, involving efforts to mitigate carbon emissions and demonstrate commitment to ESG goals. Now, with occupiers seeing up to a fivefold increase in their energy bills, the crisis poses a direct impact to the bottom line. It is also stoking inflation as many businesses have to pass these extra costs to their customers in order to remain profitable.

The issue was serious enough to have prompted major government intervention through the Energy Bill Relief Scheme, initially announced in September and subsequently modified.

UK WHOLESALE POWER – MARKET PRICE TRENDS (PRICE GBP MWH)



Source: Open Energy Market

While the package of support will help, it only shields businesses from the very worst of the volatility. According to LSH's recent Total Office Cost Survey (TOCS), even with the relief applied, energy costs now account for between 8% to 15% of total occupancy costs depending on the building, compared with a range of only 2% to 5% prior to the pandemic in 2019.

NEW CONTRACTS

In the wake of the crisis, suppliers are now focusing heavily on credit ratings as their customers struggle to pay bills. Limited risk appetite means suppliers are reluctant to issue long term contracts beyond a year or even refuse to offer contracts and renewals without sizeable security deposits or making contracts conditional upon direct debit arrangements.

Some suppliers have even exited the commercial market altogether, lowering the amount of choice business users have in the market. The managing agent market has tightened and availability of contracts into this key commercial sector have reduced with significant restrictions being placed on availability through the second half of 2022. This has resulted in managing agents having to consider alternative procurement strategies for client energy contracts, with suppliers seeking to transfer risk as a core consideration of these products.

TIMING IS EVERYTHING

The renewal date of contracts has dictated the position in which businesses find themselves when procuring energy through 2022. Historically, a large proportion of energy contract renewal dates fell on 1 October as a consequence of the date on which the sector was privatised. LSH's client group contract was fixed over the past two years with end users benefiting from competitive prices at a time of rising prices in the market. Unfortunately, having initially benefitted from the decision to fix for a longer term in 2020, as with many other businesses and managing agents, contract renewal came at a difficult and chaotic time for the market.

The options available have been extremely limited with contractual concessions outweighing the benefits associated with a fixed price/term contract. Certainty is a clear desire as is mitigation of risk, but at what price? And how does this impact on occupiers and investors, the latter of whom could be carrying all-inclusive service charge caps, conceived at a time prior to the energy crisis? Similarly, the financial impact on occupiers and the need to meet increasing energy recharges could impact the occupier covenant strength and hence value of an asset.

PRICING

Given the lack of availability of fixed term contracts through the summer months and with an impending renewal date of 1 October, our energy governance team, through dialogue with our clients and sector specialist advisors, opted for a flexible forward buying procurement framework to mitigate price increases.

The wholesale rate secured this winter on the new flex arrangement is now 100% committed for the period of the business Energy Bill Relief Scheme with a forward purchasing strategy actively in place for Summer 2023 and beyond. This strategy compares favourably with half-hourly deemed rates that have been seen through October and November of anything up to 130p/kWh and up to 110p/kWh for fixed rate options taken in late September/early October 2022 on 6 or 12 month contracts. This compares with our LSH group client's 2020 fixed rate of approximately 14p per unit for electricity. The same considerations apply for gas in terms of mitigation of risk and exposure to significantly increased costs.

CURRENT SCOPE OF GOVERNMENT SUPPORT

Under the new Chancellor, the Government recently announced some changes to the original basis of the business Energy Bill Relief Scheme. The maximum discount for those on a default or variable tariff will be 34.5p/kWh for electricity and 9.1p/kWh for gas if prices are secured above the threshold of £211/MWh for electricity and £75/MWh for gas. For fixed tariffs the discount is variable based on the wholesale price on the date the contract was secured. The relief scheme is running until April 2023 with the government reviewing if further ongoing support is required or affordable beyond this date.

FLEXING YOUR PROCUREMENT

To avoid being at the mercy of the wholesale markets at time of contract renewal, flexible procurement is a useful approach to spread energy cost risks, especially during times of high volatility. By buying little and often in advance over a longer period, there is a greater probability of avoiding extreme price peaks. As much as volatility in the market allows, this approach can deliver a competitive blended price comparable to the deemed or fixed market.

However, with the limited time to reduce exposure to markets, ensuring a robust forward buying strategy is in place is paramount. This also ensures that over time forward commitments and unit rates are secured to inform the service charge budgeting process linked to service charge year end dates. We are also carefully managing our usage forecasting to mitigate any over or undersupply clauses in the contact.

This above all points to suppliers outsourcing risk to the end user or intermediary, such as landlords/investors. We may see the unit rate fluctuate within the financial year which brings additional challenges into the budget process.

SUPPLY SECURITY

In addition to cost issues, this winter may see grid disruption across the country, should the UK suppliers fail to secure sufficient supply to meet demand. Lambert Smith Hampton has worked up contingency measures to mitigate the worst effects of possible power disruption, should the worst happen.

KEY RECOMMENDATIONS

Or mantra is that the cheapest kWh is the one you do not use. In addition to energy procurement matters, Lambert Smith Hampton's expert team of property managers actively engages with landlords and occupiers to help reduce energy use and mitigate risks.

- **MONITORING** – Implement energy monitoring for out of hours usage and demand management to further refine BMS, HVAC plant settings and timings.
- **EFFECTIVE DEAD BANDING** – Ensure temperature setpoints have enough dead banding so heating and cooling are not conflicting.
- **ENGAGE** – Engage with occupiers and appoint an energy champion to manage demised energy use, if controls are within their demise.
- **RESILIENCE TESTING** – testing of building resiliency measures by ensuring generators are operational and stockpiling generator fuel as appropriate and where the opportunity exists.
- **EXPLORING INVESTMENT** – provide proposals to bring forward CAPEX and OPEX energy savings projects, including both upgrades to plant and installation of on-site renewables, especially now that payback times are now 3-5 times quicker.
- **LOAD SHIFT** – establish ways to remove as much consumption as possible away from peak times, as this is the most likely time where grid instability will happen.
- **FORECASTING DEMAND** – Close monitoring and forecasting of forward energy requirements and any known variables that are likely to alter levels of consumption.
- **PARTNERING** – LSH is also introducing more extreme energy savings measures with our partners at 4D monitoring, FMs and M&E consultants as cost savings are now more incentivised than ever.

We are closely reviewing developments in the energy markets to provide long-term value for money to clients, whether investor or occupier.

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REGIONAL INSIGHT

OCCUPIER MARKET OVERVIEW

UNDER PRESSURE

Even if the pandemic is now firmly in the rearview mirror, its legacy on workspace decisions is being reflected in an increasingly pressured market. Occupiers are under pressure to reduce quantity for quality, while landlords need to respond or risk being left behind.

2022 BUSIER THAN 2021

At first glance, the post pandemic recovery in regional office take-up witnessed in 2021 was not further sustained into 2022. Including forecasts for the final quarter, take-up across the 20 key regional markets for 2022 is on course to reach circa 7.8m sq ft, marginally below last year's total and 15% below the 10-year annual average.

Positively, however, the regional markets have been a touch busier compared with 2021, indicative of further improvement in smaller, churn activity. The number of recorded deals over 2022 to Q3 averaged 516 per quarter, 8% above the average for 2021, a year that saw a flurry of major transactions including HMRC's colossal 463,000 sq ft pre-let at Pilgrim's Quarter, Newcastle.

Q3 WILL BE 2022'S BEST

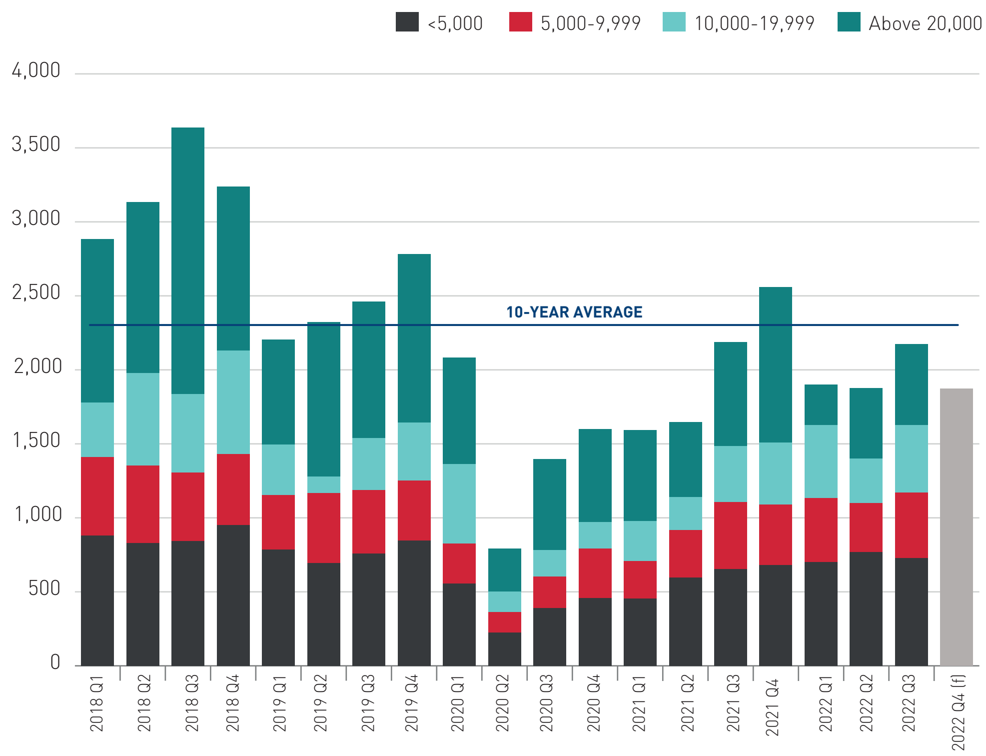
While the number of deals was remarkably consistent in 2022, with a swing of only 2% between the best and worst quarters, Q3 was comfortably 2022's strongest period for take-up. Across the 20 markets, take-up hit 2.1m ft in Q3, only 6% below the 10-year trend, with headline deals including Goldman Sachs' 110,000 sq ft lease at One Centenary Square, Birmingham, BT's 65,000 sq ft pre-let at Endeavour, Sheffield and Hill Dickinson's 53,300 sq ft lease at 1 St Paul's Square, Liverpool.

However, based on prevailing sentiment and the extent of deals under offer, Q3 is likely to prove 2022's high water mark. While some markets will finish the year on a strong note, overall Q4 take-up is forecast to slip back to levels seen earlier in the year. This partly reflects the more challenging economic environment alongside a limited number of larger deals in the pipeline.

SHIFTING TO SMALLER, BETTER SPACE

Activity over 2022 points to increasing occupier focus on quality over quantum in the wake of the pandemic. Historically, the 20,000 sq ft plus size-band has accounted for the largest proportion of take-up but, in 2022 to Q3, activity in the smallest sub-5,000 sq ft bracket took the largest share. This likely reflects smaller businesses' more nimble response to shifting post-pandemic working patterns compared with larger corporate occupiers.

TAKE-UP BY SIZE (000 SQ FT)



Source: LSH Research

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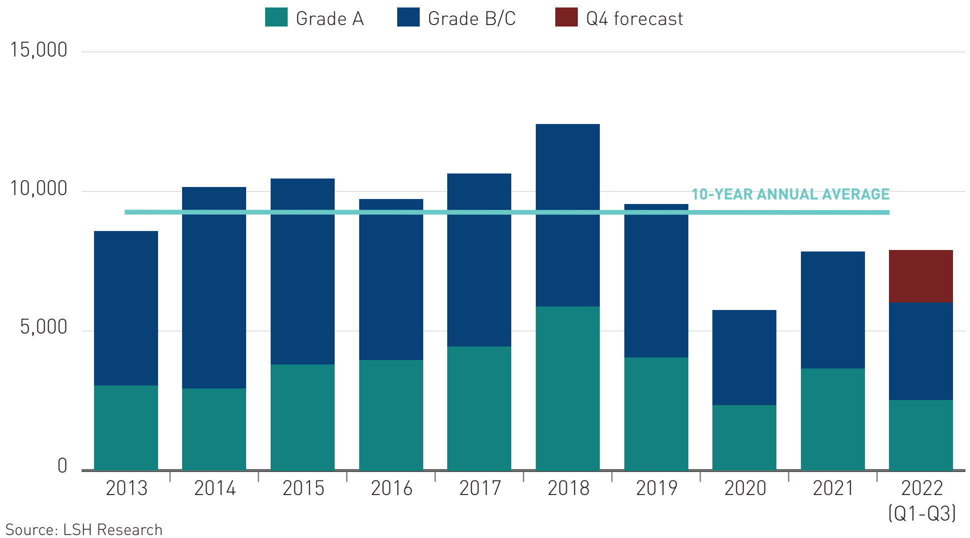
TAKE-UP BY GRADE (000 SQ FT)



Source: LSH Research

Evidence also points to a consolidatory shift in demand. While regional office take-up in the largest 20,000 sq ft plus bracket was a considerable 45% below the 10-year trend over 2022, the next largest 10,000-19,999 sq ft bracket was the most resilient of the four size-bands, with take-up 3% ahead of trend.

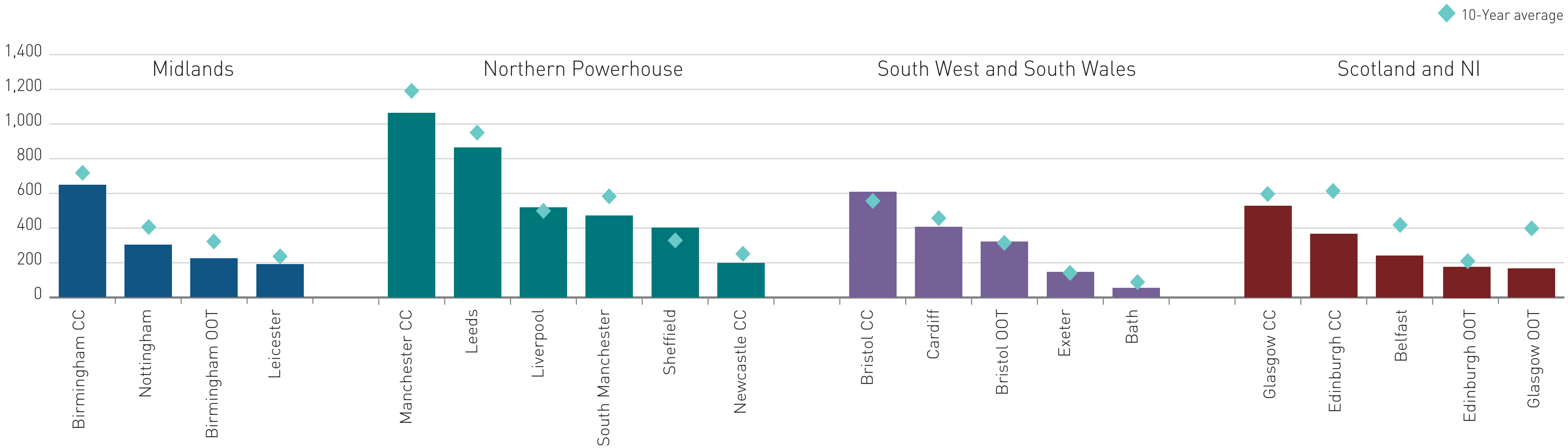
Demand also remains characterised by a greater emphasis on quality in the wake of pandemic. Grade A space accounted for 43% of 2022 YTD take-up, down from 2021's record 46% share but ahead of the 39% share from the past ten years overall. 2022's result is all the more notable given the relatively limited number of major corporate deals that typically drive grade A take-up.

SHEFFIELD SHINES WHILE BRISTOL GETS BUSY

Beneath the macro trend, some markets have performed significantly better than others in 2022. Five of the 20 key markets are set to see take-up in 2022 as a whole run ahead of their respective annual averages, namely Bristol city centre and out of town, Sheffield, Liverpool, and Exeter. On the flipside, Belfast, Bath and Glasgow out of town are expected to see take-up in 2022 down more than 40% below their respective annual trends.

Following a very subdued year in 2021, Sheffield is on course to be 2022's lead performer with take-up for the year forecast at 22% above the annual trend. While Sheffield has been boosted by BT's

FORECASTED 2022 TAKE-UP VS 10-YEAR AVERAGE (000 SQ FT)



Source: LSH Research

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pre-let in Q3, Bristol's strong year has been characterised by a healthy depth to activity, with the only deal of magnitude being Paymentsense's 54,767 sq ft acquisition at EQ, back in Q1.

TURNING PROFESSIONAL

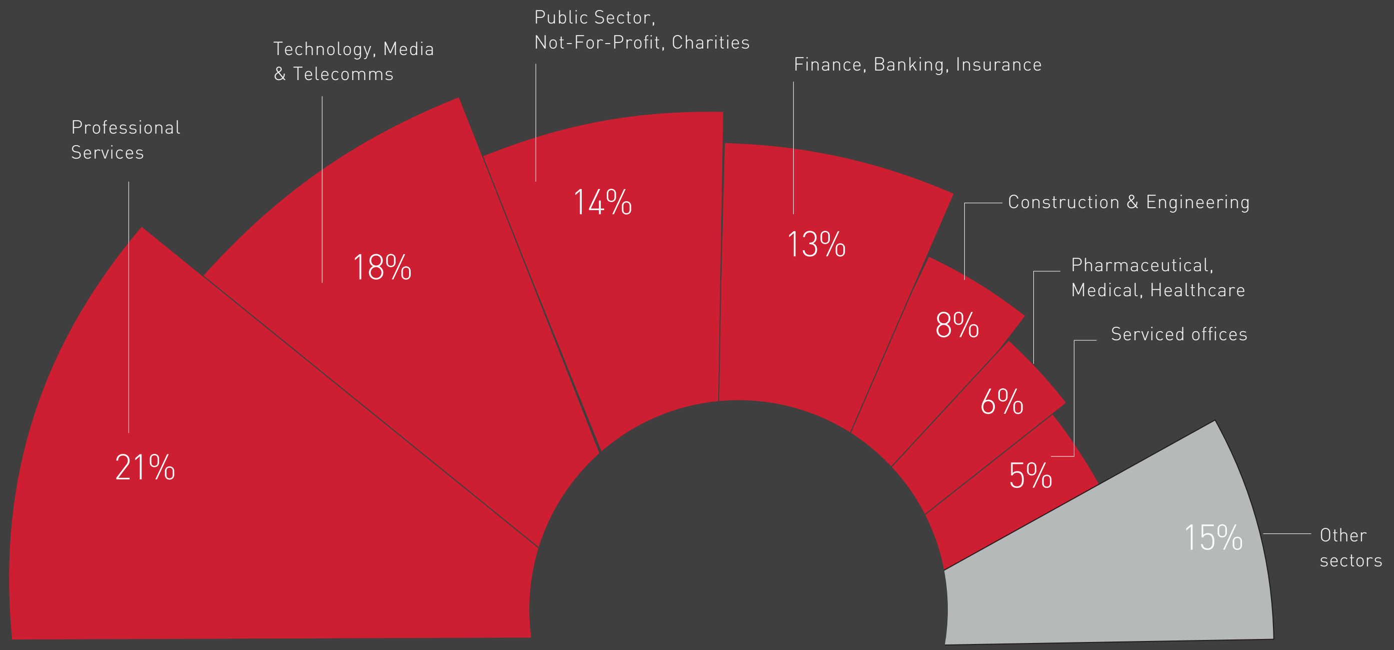
Professional Services has taken the largest share of regional take-up over 2022, accounting for 21% of the total and overtaking Technology, Media and Telecoms (TMT), which was last year's leading sector of demand. Notably, only two of the twenty largest deals in 2022 to date involved Professional Services occupiers, with this sector drawing its leading position from a proliferation of deals in the 10,000 to 19,999 sq ft range.

The reverse was true of the public sector, with much of its 14% share of the demand profile derived from larger deals. The GPA was behind several notable moves, with its 130,000 sq ft pre-let at 9 First Street, Manchester the largest regional office deal of the year. Meanwhile, reflecting a sharp rise in demand for flexible space, serviced office operators were active again in 2022, accounting for 5% of take-up and providing a significant tranche of active demand in a number of key regional markets.

CLIMBING SUPPLY

Overall supply across the 20 surveyed markets has picked up steadily in the wake of the pandemic, rising by 10% since the beginning of the year to its highest level since 2016. Despite the uptick, current supply across the key regional markets still stands 32% below its previous cycle peak in 2012. For context, this is in stark contrast with

TAKE-UP BY SECTOR (YEAR TO Q3 2022) %



Source: LSH Research

Central London, where total office supply soared by 70% in the wake of the pandemic and has remained stubbornly camped at a 20-year high over the past 18 months.

This contrasting pattern is explained by the fact that, unlike the regional markets, Central London has seen a substantial volume of second-hand space come back to the market since the pandemic. Furthermore, Central London supply remains swollen with grey space. While tenant space has increased in the regional markets since the pandemic, it only accounts for around 6% of overall supply, compared with 12% in Central London.

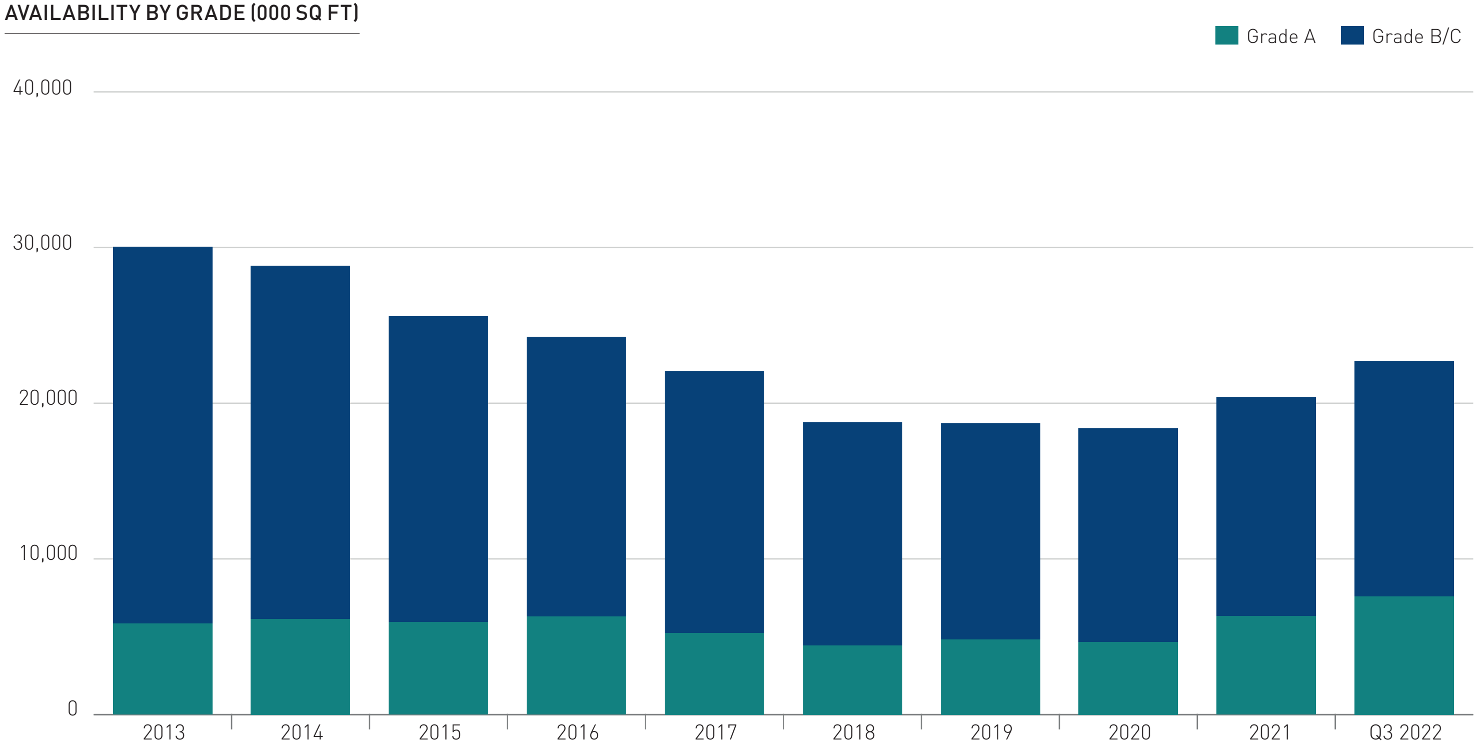
IMPROVING GRADE A SUPPLY

While the volume of grade B/C supply across the regional markets picked up for a second consecutive year in 2022, grade A space was the main driver of the overall increase. Availability of grade A space (which includes developments completing within six months) has increased by 19% since the beginning of the year to stand at an 11-year high of 7.4m sq ft.

Conventionally, growing levels of grade A space amidst a challenging economic environment would be a cause for concern. However, given occupiers are increasingly shunning poorer quality options and looking to upgrade, healthy choice of grade A supply will be key to underpinning activity in the coming years.

There are of course marked variations in supply levels between the regional markets. Of the main markets, Cardiff stands out with the most abundant supply, equivalent to 3.5 years of average annual take-up, while Bristol city centre and Edinburgh city centre are among the tightest regional markets, with supply equivalent to around 1.5 years of average take-up.

AVAILABILITY BY GRADE (000 SQ FT)



Source: LSH Research

Furthermore, the choice of grade A supply varies considerably between markets and, broadly speaking, the greatest choice is available in the UK's core city centre markets of Manchester and Birmingham. Proportionally, however, grade A space accounts for the largest share of total supply in Belfast (74%), Bristol city centre (55%) and Newcastle city centre (53%).

PIPELINE SET TO THIN

Traumatic as it was, the pandemic did not derail development appetite across the regional markets. Viewed overall, speculative development has remained relatively consistent over the past few years, with the current volume of space under construction falling by only 2% from the beginning of the year to stand at 3.9m sq ft.

While development is focused across several core city centre markets, at least one scheme is underway in 13 of the 20 locations. Manchester has the largest quantum of spec space in the pipeline, at 756,000 sq ft, while Birmingham has re-emerged as hotspot for development, with 675,000 sq ft underway (across six schemes) at the end of Q3, up 73% on last year's level.

However, speculative development is set to ease off significantly in 2023, perhaps falling to less than half the current level by year end. Many of the current schemes are scheduled to complete next year, while a cocktail of high build costs, costly development finance and economic caution generally weigh on appetite. As it stands, only a handful of speculative developments are deemed relatively certain to commence in 2023, comprising a single scheme in Bristol and Manchester and two schemes in Edinburgh.

PRIME RENTS KICK ON STRONG

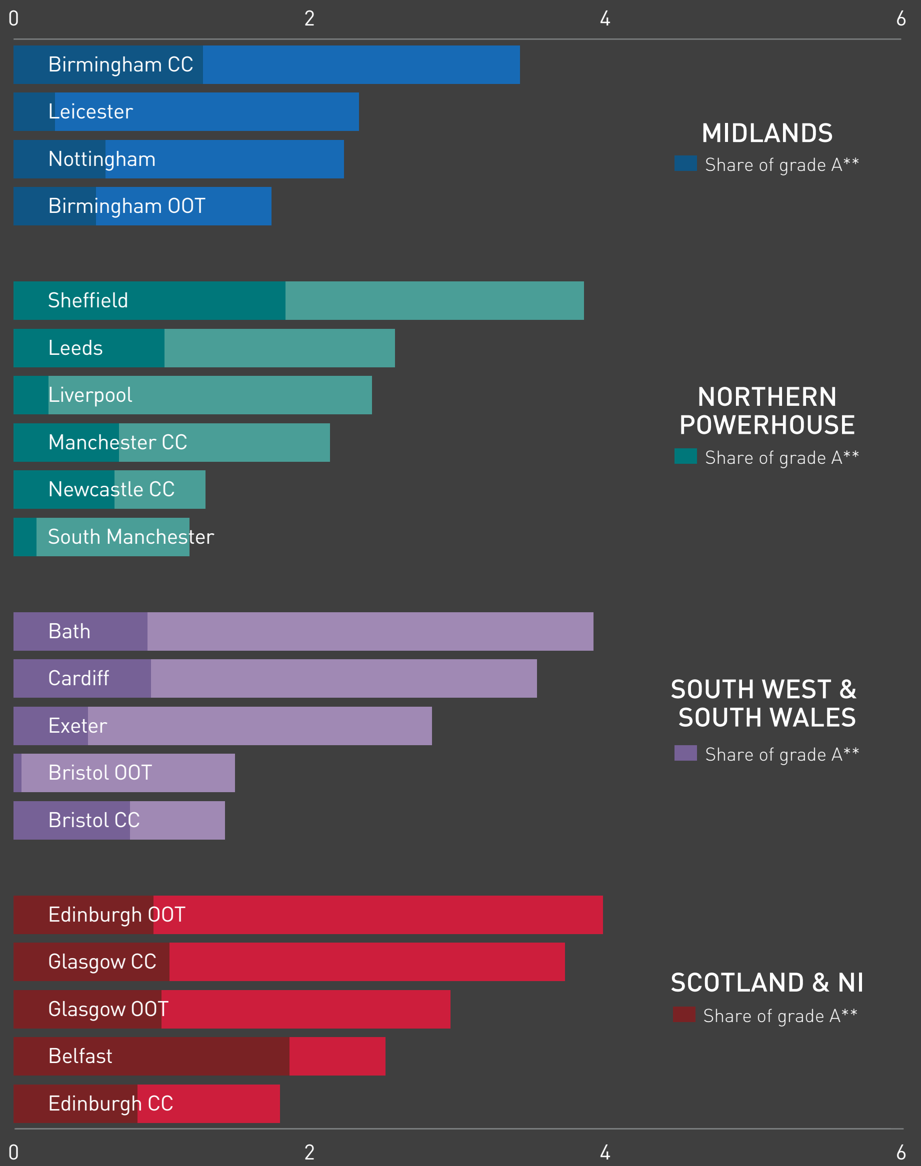
Across the 20 markets, prime headline rents are forecast to increase by an impressive 7.2% in 2022. The calculation, which reflects growth in the year to Q3 and the forecast for Q4, represents the strongest annual rate of growth in over 20 years. This is led emphatically by Cardiff, where annual growth of around 30% will be secured should PwC commit to One Central Quay. Moreover, prime rents in another five markets have seen a step change in tone, with the delivery of high quality product driving growth in excess of 10% in Liverpool, Leeds, Newcastle, Bristol and Bath.

The extent of rental growth says much about the evolution of market demand in the wake of the pandemic. Normally, challenging economic conditions are an anathema for rental growth but, in this instance, competing pressures relating to staff retention, high energy costs and commitments to ESG targets are pushing many occupiers to seek out and pay a premium for the very best quality space. Furthermore, even though 2023 is expected to be very challenging for the real economy, the continuation of this theme will continue to drive incremental growth in prime rents, with rental growth averaging 4% across the 20 markets.

STICK OR TWIST FOR LANDLORDS

While prime product is performing well, it is only one side of the coin. The markets are generally becoming ever more polarised, as increasing numbers of occupiers look to exchange quantity for quality. Rents for secondary buildings are coming under pressure in many locations, while there has also been widespread softening of rent free incentives as landlords compete ever harder to secure new tenants.

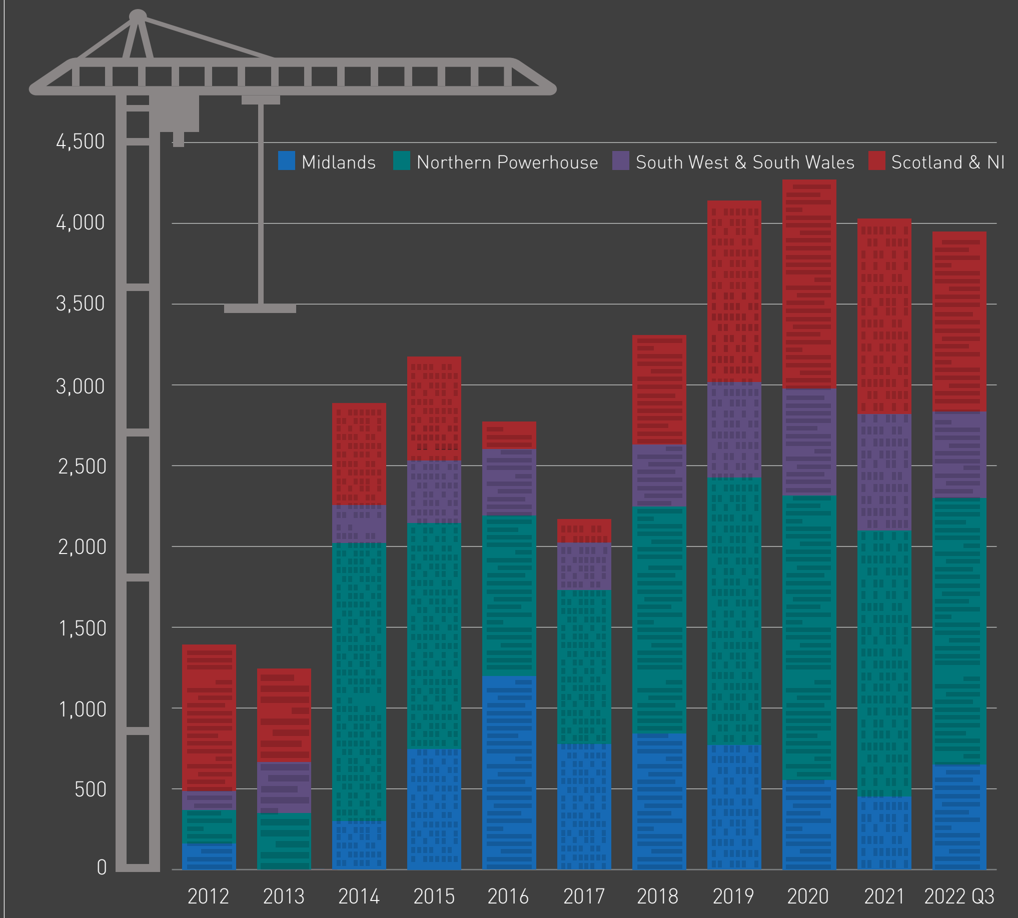
AVAILABILITY AS YEARS OF SUPPLY*



* Years of supply defined as current availability divided by 10-year average take-up.

* *Grade A includes speculative space completing in next 12 months.

SPECULATIVE DEVELOPMENT UNDER CONSTRUCTION (000 SQ FT))



Source: LSH Research

This groundswell of demand for quality is a both an opportunity and a dilemma for landlords of secondary buildings. Given the recent rapid escalation of finance and build costs, significant capital expenditure is now required to reposition existing buildings to be better aligned with shifting post-pandemic demand. Failing that, in an environment of accelerated obsolescence, disposing to the highest bidder may prove the better option than doing nothing at all.

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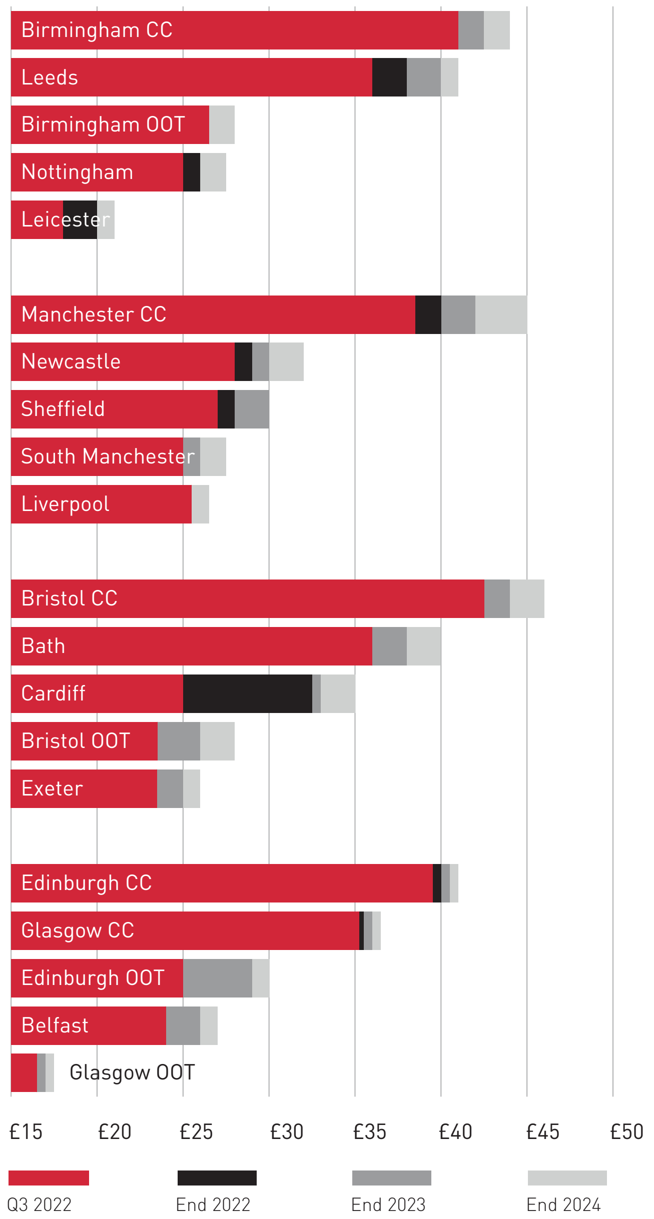
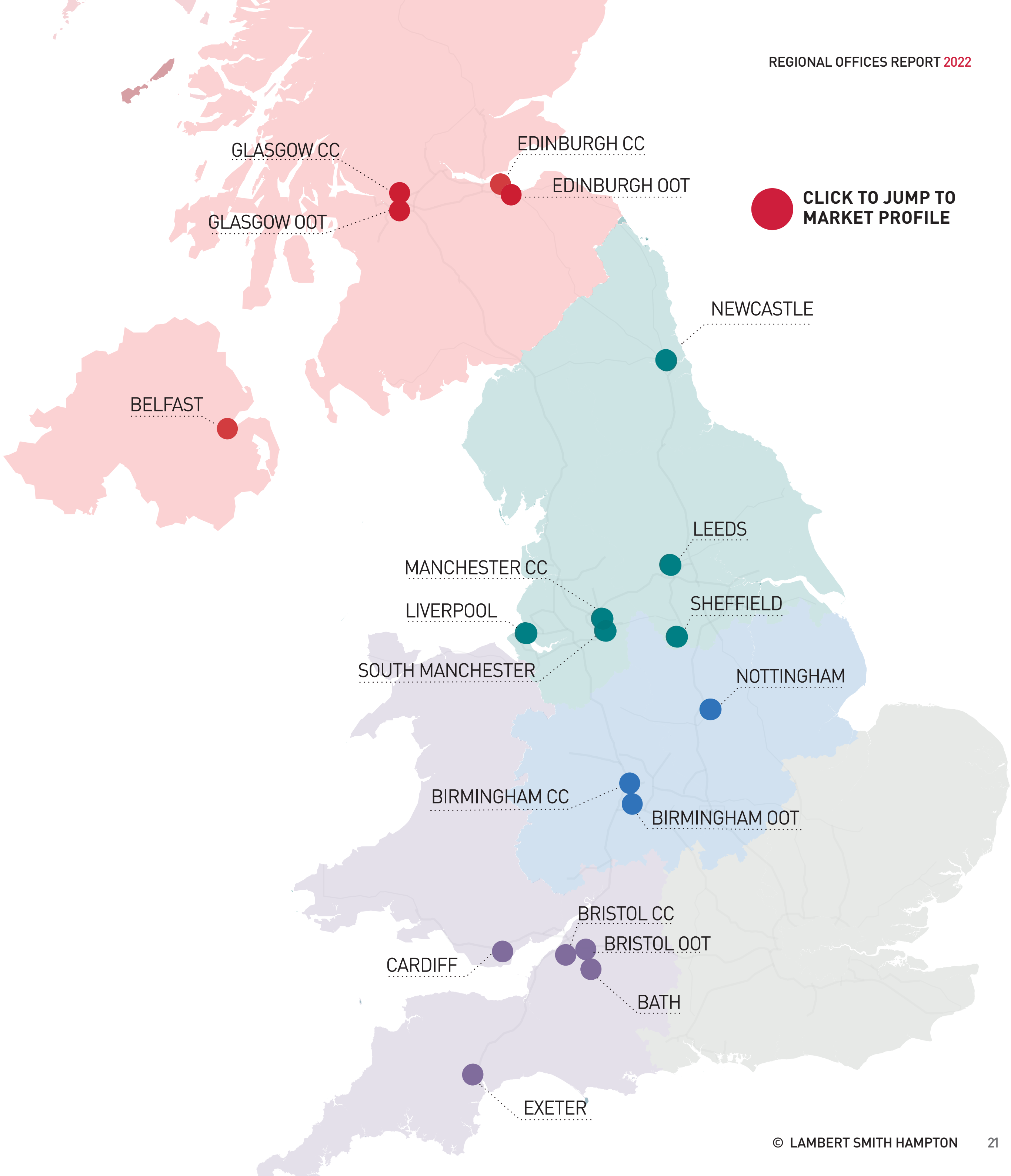
PRIME HEADLINE RENTS AND FORECASTS (£ PER SQ FT)





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PRICE RECALIBRATION

An already cautious investor stance towards the office sector in the wake of the pandemic has been turned upside down by the shifting financial climate over recent months. However, once pricing recalibrates, repositioning of existing assets to capture rental growth will be a key feature of the new cycle.

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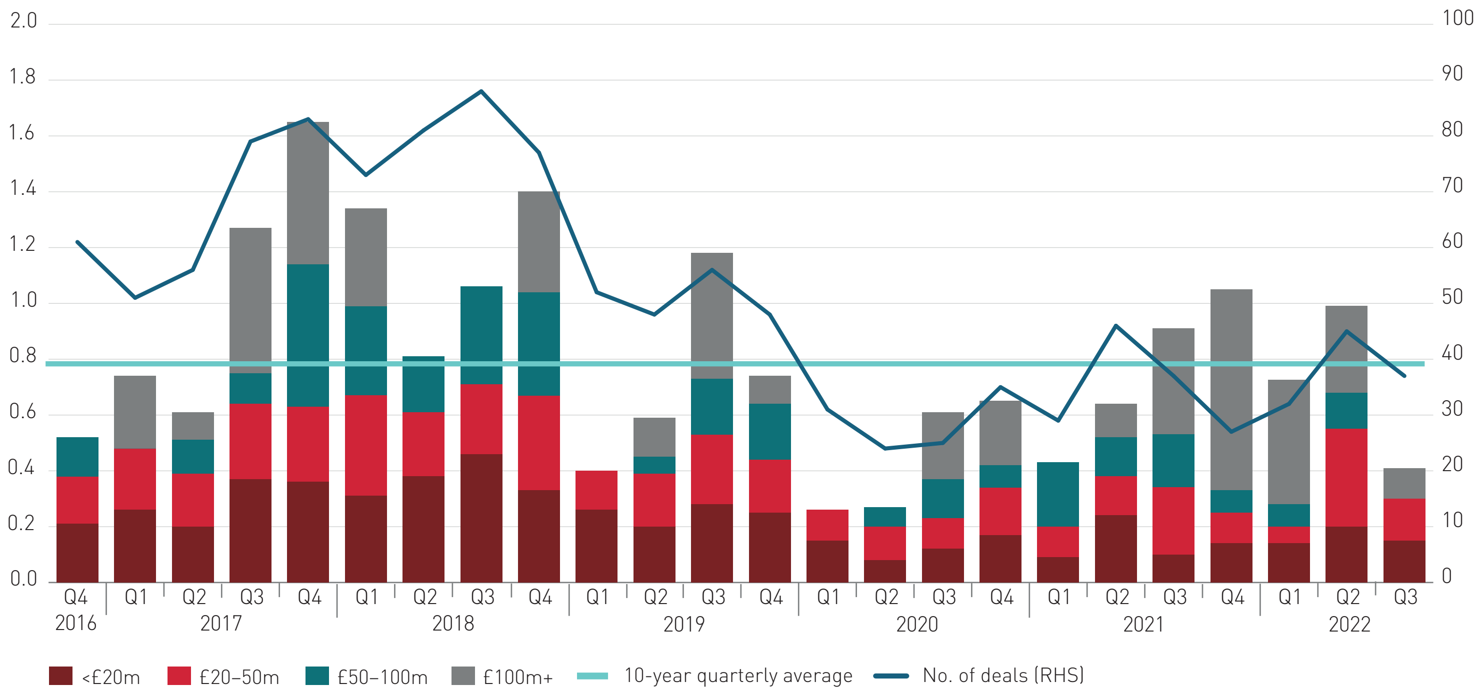
VOLUME CHOKED

Even before the Government's disastrous 'mini-budget' in late September, rocketing inflation and rising interest rates saw many investors move to the sidelines. This was clearly reflected in volume across the commercial property landscape and was especially true of regional offices. Following a decent, year-long run of above trend volume, only £390m of regional offices changed hands in Q3, tumbling by 60% from Q2's strong outturn and just half the 10-year quarterly trend level.

The hit to sentiment was clear to see at the larger end of the market - Q3 was home to just one transaction over £50m, Pension Insurance Corporation's £105m forward funding of No.9 First Street North in Manchester. Notably, the 130,000 sq ft best-in-class scheme is pre-let to the GPA, and reflected the importance of secure, government-backed income in making this deal possible.

However, from an activity perspective, the number of recorded deals in Q3 was actually broadly in line with the pattern seen over

REGIONAL OFFICE VOLUME BY LOT SIZE (£BN)



Source: LSH Research, PMA, Property Data

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the two years since the pandemic. Over half of Q3's deals were small lot-sizes of under £5m, with more resilient activity here explained by the greater liquidity and cash positions associated with buyers at this end of the market. That said, some of these smaller deals were purchased with vacant possession and may ultimately be redeveloped for alternative use.

PRIME PRICES PUNCTURED

A series of interest rate hikes and the uptick in both the cost of finance and gilt yields have forced significant price downgrades across the commercial property market. At the end of Q3, when the turmoil from the mini-budget was in play, sentiment implied that prime yields across the regional markets shifted by circa 50bps to 75bps from their Q2 positions.

The new prime minister's complete undoing of the mini-budget has brought calm back to the financial markets. This is reflected in bond pricing, with the 10-year gilt yield moving in by 125bps since spiking in September to circa 3.20%. However, for debt-reliant investors, lenders to the office sector are risk averse and the cost of finance remains stubbornly high. While five-year swap rates have come down, they remain well above 4%.

Given prevailing financial conditions and expectations of further rate rises to circa 4%, at time of writing, evidence suggests a further 50bps to 75bps softening of yields from Q3's level may be needed to attract buyers. In the case of the core markets of Manchester and Birmingham, for example, this would imply prime yields moving out to circa 5.75%.

PRICE CHIPPING

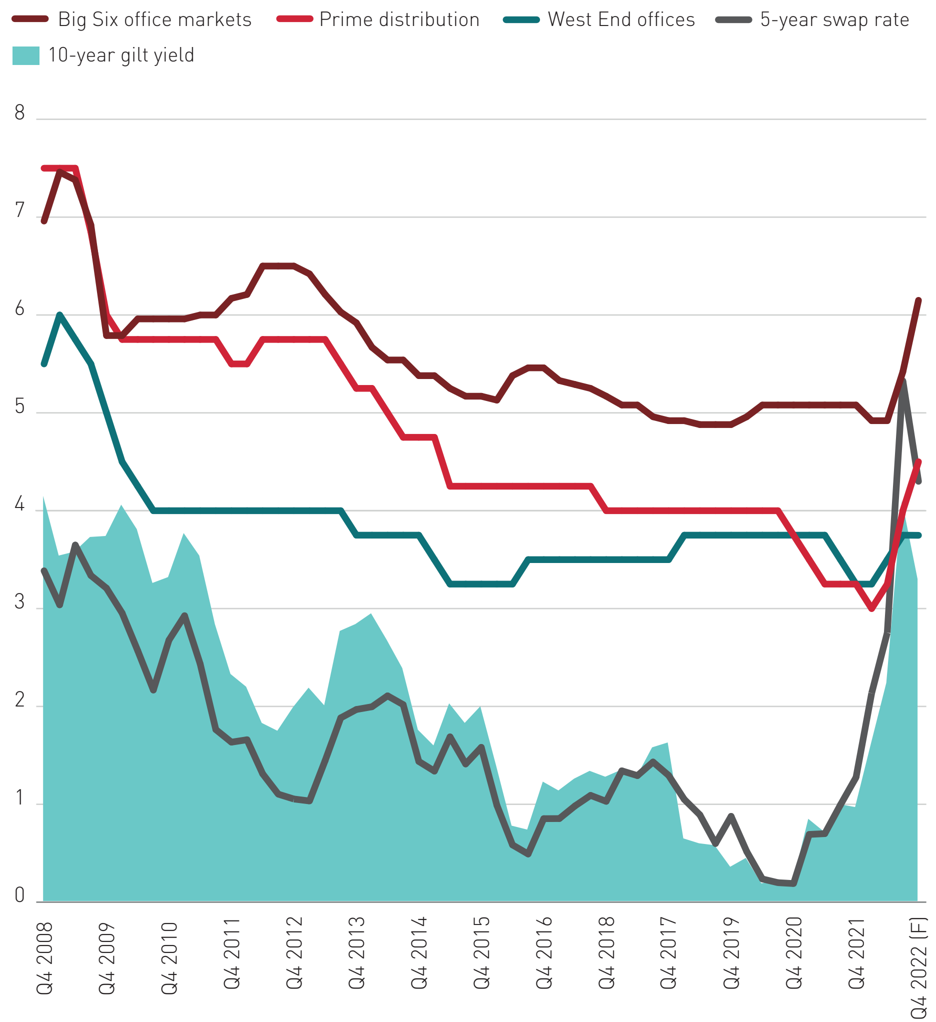
Admittedly, the above is somewhat academic given a lack of transactional evidence to confirm pricing for prime assets. However, there is sufficient evidence of price corrections across the wider market. Even prior to September's mini-budget, two of Q3's largest deals were understood to be sold for a price significantly below quoting. In Manchester, Abrdn sold Sunlight House for £43m to a JV between Kinrise RE and Karrev, having failed to sell the asset for £54m in 2019, while Kennedy Wilson sold Exchange Tower, Edinburgh to Cervidae for £20.7m (NIY 7.5%), approximately 15% below the asking price.

More recently, in November 2022, M7 Real Estate's long-mooted purchase of Bridgewater Place, Leeds was finally confirmed from Marick Real Estate. Originally set for purchase at £84.5m (NIY 6.50%) in November 2020, the price for the office component of this landmark tower is understood to have been renegotiated down to around £60m.

A DOSE OF DISTRESS

While investors' exposure to debt is nothing like it was at the time of the global financial crisis in 2008, the shifting financial conditions will put pressure on many

BIG SIX OFFICE MARKETS BLENDED PRIME YIELD (%)

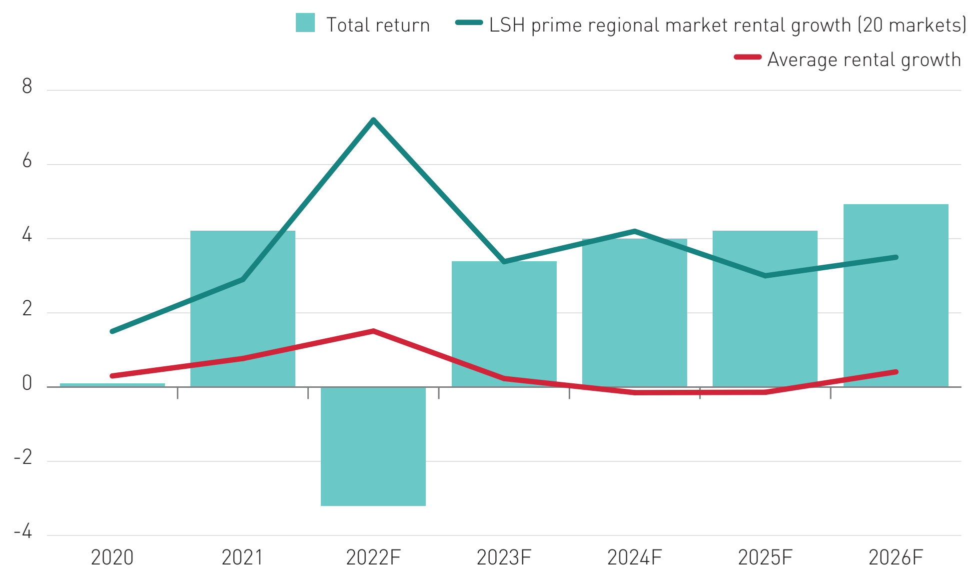


Source: LSH Research, FT.com

VOLUME BY INVESTOR TYPE (£M) – 12 MONTHS TO Q3 2022

Source: LSH Research, PMA, Property Data

TOTAL RETURN AND RENTAL GROWTH FORECAST (%)



Source: MSCI, RealFOR

investors to sell and recapitalise. The period from 2017 to 2018 was a remarkably busy time for the market and, given loans are typically agreed on five-year terms, many investors will need to sell to avoid more onerous finance costs. UK institutions in particular will be under pressure to sell in order to rebalance their exposure to property vis-à-vis other asset classes and manage redemption demands.

Indeed, a dose of distress is likely to provide the main impetus for activity over the next 12 months. As the time of writing, evidence from the initial weeks of Q4 points to a moribund quarter for volume. However, with many of the established domestic investors readying stock for sale, this could change rapidly, with many good quality well-let assets being sold off to buyers in a more advantageous financial position, driving volume in the process.

CHASING RENTAL GROWTH

Despite the challenging financial pressures, underlying conditions in the occupier markets provide some grounds for encouragement and will be key to attracting a fresh wave of buyers of regional offices. As the rest of this report demonstrates, rental growth has been remarkably strong at the quality end of the market, spanning not just the core Big Six regional cities but elsewhere too.

With yield-driven value growth off the agenda, exploiting growth opportunities will be key to driving returns over the coming years. Typically, economic recession is an anathema to rental growth but, given the stronger emphasis on exchanging quantity for quality in the wake of the pandemic, high quality grade A space will continue to command stronger rents despite the challenging economic landscape.

INCREASING BIFURCATION

By the same token, occupiers' increased focus on quality - with regard to layout, amenities, wellness and ESG credentials - is casting an ever-greater shadow over second-hand and even arguably 'ordinary' grade A space. This, alongside tightening energy regulation via MEES and the fact many landlords are committed to responsible investing, all points to increasing market bifurcation and accelerated rates of obsolescence for secondary assets.

Modelled off the MSCI benchmark, latest independent forecasts from RealFOR reveal modest returns for the regional offices segment over the coming years, averaging 4.2% p.a. over the period 2023 to 2026. However, for the reasons above, this 'average' captures a wide range in quality, with significant overperformance and underperformance around the base case due to contrasting rental growth prospects between prime and secondary product.

THE REPOSITIONING OPPORTUNITY

With a limited supply of best in class grade A options in many regional markets, occupiers' greater focus on quality presents investors with a host of opportunity to reposition existing assets to the required standards and capture

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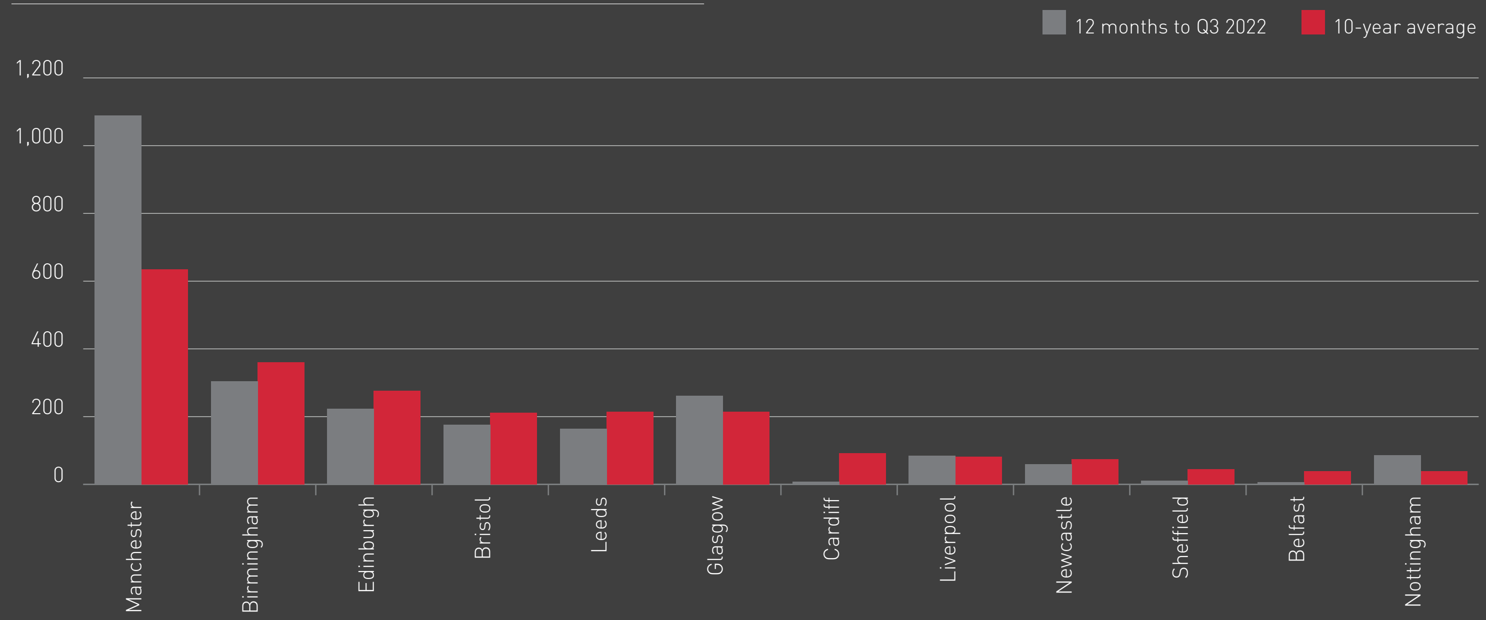
significant growth. Indeed, given the embodied carbon emissions associated with new builds, refurbishments are likely to increasingly be seen as the 'greener', more ethical choice for occupiers and investors alike.

However, in order to start capitalising on this opportunity, landlords will have to choose between either investing heavily in repositioning or selling out at significantly lower prices compared with pre-pandemic levels. In addition to higher borrowing costs, value-add investors have to account for high build costs which, according to the BCIS, shave surged by 25% over the past two years.

Anecdotal evidence in the regional centres also indicates that cap-ex costs for little more than a good quality refurbishment have moved to close to £200 per sq ft. As a result, we can expect value-add deals in 2023 to reflect low per sq ft capital values of £200 to £300 per sq ft, or worse perhaps lower still if there is distress.

SINGLE ASSET VOLUME IN KEY CENTRES, 12 MONTHS TO Q3 2022 (£M)



Source: LSH Research, PMA, Property Data

NOTABLE REGIONAL OFFICE TRANSACTIONS

DATE	PROPERTY	DEAL TYPE	PURCHASER / VENDOR	SIZE (SQ FT)	PRICE (£M)	NIY
Sep-22	No.9 First Street North, Manchester	Core, Govt income	Pension Insurance Corp / Ask Developments	131,000	£105.0m	N/A
Aug-22	Sunlight House, Manchester	Value add	Kinrise RE, Karrev / Abrdn	214,000	£43.0m	N/A
Sep-22	Babbage Centre, Runcorn	Sale & leaseback	Principal Global Investor / Geotronics	45,000	£41.6m	N/A
Jun-22	5 St Pauls Square, Liverpool	Core plus	Forma RE / Abrden	136,000	£35.00	6.50%
Aug-22	9 Colmore Row, Birmingham	Core plus	Birmingham Council / UKCP REIT	68,400	£26.5m	N/A
Oct-22	Edmund Gardens, Birmingham	Core plus	Hillview Real Estate, Shlomo / DTZ Investors	67,510	£21.0m	N/A
Sep-22	Exchange Tower, Edinburgh	Core plus	Cervidae / Kennedy Wilson	63,000	£20.7m	7.50%
Aug-22	225 Bath Street, Glasgow	Change of use	IQ Student / AEW UK REIT	87,800	£9.3m	N/A
Oct-22	Wellington Plaza, Leeds	Redevelopment	Asset Capital, Prescient Capital / L&G	21,000	£5.0m	N/A
Aug-22	240, Bristol Business Park	Core plus	Private / Overseas family trust	18,400	£4.9m	7.09%

Source: LSH Research

MARKET INSIGHT
MIDLANDS

BIRMINGHAM OUT OF TOWN

LACKING ON THE LARGE

While a lack of high quality options has stymied activity at the larger end of the market, tight supply has fuelled continuing rental growth.

TAKE-UP LEVELS UP

While take-up around the M42 corridor has been unspectacular in 2022, this is really due to a lack of larger deals - 2022 to Q3 saw only three transactions in excess of 10,000 sq ft, compared with six in 2021 as a whole.

This year's largest deal by a distance took place in Q1, with The Secretary for State for Levelling Up, Housing and Communities leasing 35,000 sq ft at 3010/3020 The Crescent, Birmingham Business Park (BPP). The largest of 2022's seven grade A deals came in Q3, with Tarmac Trading's 17,285 sq ft lease at T3 Trinity Park accounting for nearly half the quarter's total take-up.

Recent activity has been testament to the area's long-standing reputation in UK engineering and construction. In addition to the Tarmac deal, the past six months have seen moves from a variety of existing occupiers, including Enerveo, Stonebond, Hayfield Homes and DC Construction, among others.

QUALITY CHOICE LIMITED

Despite a slight uptick in supply in 2022, grade A options are extremely limited at present. The principal parks of BPP and Blythe Valley Park (BVP) are almost entirely let-up, with only a single grade A option presently available at each site totalling 13,400 sq ft and 14,700 sq ft respectively.

Total grade A supply of circa 180,000 sq ft is also dominated by a single building - Ingenuity House (114,000 sq ft), Birmingham Airport has lain vacant for some time and arguably requires repositioning to better allow for multiple occupancy.

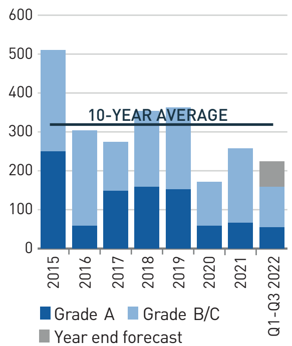
The market is relying on existing space and refurbishments to drive activity in the near term. Positively, following a planned refurbishment, 4520 Solihull Parkway, BPP will soon provide a much-needed injection of 60,000 sq ft of high quality space into one of the market's prime business locations.

GOOD GROWTH PROSPECTS

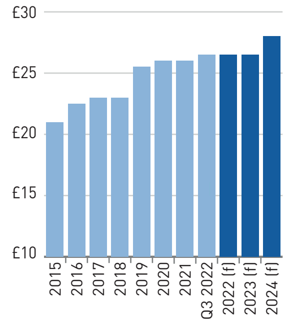
A lack of supply has continued to drive rental growth in spite of the wider challenges and economic headwinds, with a recent transaction at BVP establishing the prime headline rent at a new high of £26.50 per sq ft.

Longer term, there are exciting growth prospects for the market allied to infrastructure improvements. The new HS2 Interchange rail station near Solihull will help to both underpin existing local occupier demand and, in time, encourage new development and inward investment from further afield.

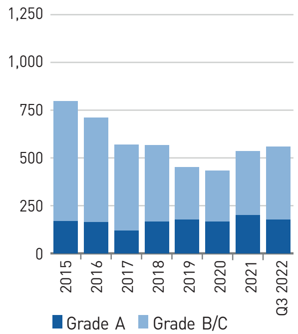
TAKE-UP (000 SQ FT)



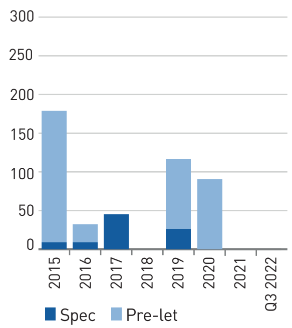
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

FORECAST 2022 TAKE-UP VS 10-YEAR AVERAGE

-30%

YEARS OF SUPPLY

1.7

GRADE A SHARE OF SUPPLY

32%

PRIME YIELD

6.25%

Q3 2022 HEADLINE RENT (PER SQ FT)

£26.50

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier
Q1 2022	3010 & 3020 The Crescent	37,509	Government
Q4 2021	2010 The Crescent, Birmingham Business Park	27,764	Citibase
Q3 2022	T3 Trinity Park	17,285	Tarmac Trading Ltd
Q1 2022	Building 300, Trinity Park	8,685	Boparan Restaurant Group
Q1 2022	2800 The Crescent	8,401	Align Technology

Source: LSH Research

BIRMINGHAM CITY CENTRE

QUALITY PREVAILS

Even if leasing activity has been a touch below par in 2022, a focus on new, high quality space has driven strong grade A take-up and pushed the city's prime headline rent through the £40 per sq ft barrier.

GOING FOR GOLD

While Birmingham hosted a tremendously successful Commonwealth Games over the summer, 2022 is shaping up to be solid if unspectacular year for take-up in the city centre. The number of deals over the course of 2022 to date has been relatively consistent, although take-up has fluctuated due to the presence, or otherwise, of especially large deals.

Q3 delivered the strongest quarter of 2022 to date, with take-up of 189,492 sq ft up 60% on Q2. This was essentially down to one major deal, Goldman Sach's 110,000 sq ft lease at One Centenary Way. The global banking behemoth is highly committed to Birmingham - this deal accompanied two smaller moves over the past 12 months into WeWork's 55 Colmore Row, totalling circa 14,600 sq ft.

However, Q3 was in some respects the weakest quarter of 2022 to date. The period saw only five deals above 5,000 sq ft, one fewer than Q2 and far removed from the 12 seen in Q1. Q3's only other deal above 10,000 sq ft was Facepunch Studios' 12,178 sq ft lease at 103 Colmore Row, a move that sees the well-known games developer relocate and upgrade from its admittedly less prestigious base in Walsall.

SERVICED OFFICES PERFORM

The busiest quarter from a deals perspective was Q1, a period that saw 32 separate transactions and marginally ahead of the 28 deals in each of the two subsequent quarters. Q1 also contained the two largest deals of the year to date behind Goldman Sachs, OPG's 27,132 sq ft lease at Victoria Square House and, notably, serviced office operator Cubo Work's 24,297 sq ft lease at Two Chamberlain Square.

Cubo Work's move is testament to the growth of occupier demand for flexible workspace. Birmingham city centre has seen a wave of deals to serviced office operators, with combined take-up amounting to 650,000 sq ft over the three years prior to the pandemic. While the lockdowns had immediate consequences for serviced office operators, the subsequent drive for greater flexibility has given ample justification for the influx. Fast forward to 2022, and it is widely acknowledged

MEPC's Two Chamberlain Square, Paradise, where serviced offices provider Cubo Works leased 24,297 sq ft in Q3 2022

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that much of the quality serviced office space in the city is now full, or close to full, in the process driving demand for further acquisitions.

FLIGHT TO QUALITY

While total take-up has underperformed the annual trend in recent years, grade A take-up has been very resilient. Grade A space accounted for a record 74% share of total take-up in 2021, while 2022 is on course to post a similar result. The focus on quality over quantum has emerged as a key theme, with several high quality developments providing ample opportunity for occupiers to upgrade into, examples including Two Chamberlain Square, 103 Colmore Row and One Centenary Way, which completes in Q4.

The market is moving to a point where large swathes of the recent completions are now spoken for. The most prominent exception is Three Snowhill, the UK's largest-ever speculative office development outside London, where 137,000 sq ft has remained available since BT took two-thirds of the building in 2020.

BIG FINISH TO 2022

In addition to One Centenary Way, where circa 100,000 sq ft remains available, a further three speculative schemes are expected to complete across the city centre by the end of 2022. To the west, CBRE GI has undertaken a comprehensive refurbishment of 10 Brindleyplace (213,000 sq ft), part of which will be managed by Spacemade as a flexible offering, while, to the north, Bruntwood is set to deliver Enterprise Wharf (120,000 sq ft) at the Innovation Birmingham Campus. The smallest of the three schemes is the most centrally located, namely Kinrise's Citadel (46,000 sq ft refurbishment), Corporation Street.

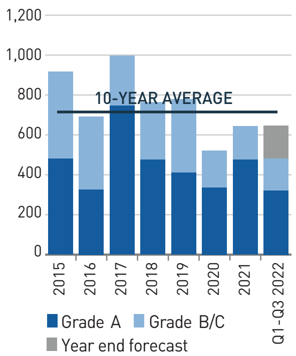
Beyond 2022, the pipeline appears somewhat thinner, with only two sizeable schemes currently underway and scheduled for the delivery in late 2023. The largest of these is No.4 New Garden Square (133,000 sq ft), part of a major mixed-use regeneration project by Calthorpe Estates along Hagley Road, just outside the city core.

LIFE BEGINS AT FORTY

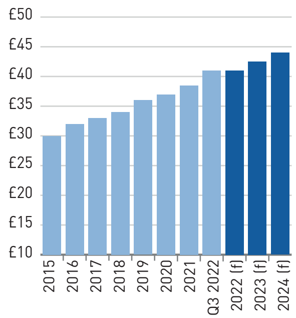
The delivery of best in class space into the market alongside strong demand for quality has provided a perfect storm for rental growth. Recent transactions in the latter part of 2022 at 103 Colmore Row have driven the city's prime headline rent to a new benchmark of £41.00 per sq ft, a rise of 6% since the beginning of the year.

While recession is likely to loom large, a continuing focus on quality and diminishing options at the newly delivered schemes is expected to drive further growth in the prime headline rent in 2023, with the benchmark forecast to reach £44.00 per sq ft by the end of 2024.

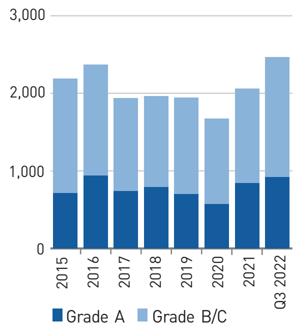
TAKE-UP (000 SQ FT)



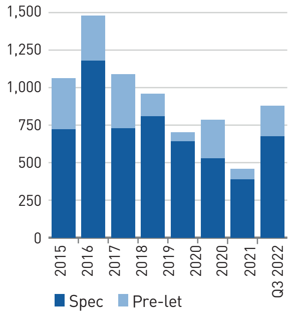
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

FORECAST 2022 TAKE-UP VS 10-YEAR AVERAGE

-10%

YEARS OF SUPPLY

3.4

GRADE A SHARE OF SUPPLY

37%

PRIME YIELD

5.25%

Q3 2022 HEADLINE RENT (PER SQ FT)

£41.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier
Q3 2022	One Centenary Way, Paradise - 8th to 12th floors	110,000	Goldman Sachs
Q1 2022	3rd Floor Victoria Sq House	27,132	OPG
Q1 2022	4th Floor, 2 Chamberlain Sq	24,297	Cubo Work
Q2 2022	4th floor, The Colmore Building	22,928	Department for Transport
Q3 2022	8th Floor, 103 Colmore Row, Birmingham	12,178	Facepunch

Source: LSH Research, BOAF

NOTTINGHAM

TIED UP IN NOTTS

Office market activity in Nottingham remains constrained by a lack of grade A city centre stock, and no new speculative developments are set to come though in the immediate term.

TAKE-UP DOWN, ACTIVITY UP

After a decent year in 2021, unspectacular take-up seen over 2022 largely reflects a lack of large deals. 2022 has been respectable from an activity perspective, reflecting an improving depth to the market in the wake of the pandemic. 2022 to date has seen 11 transactions in excess of 5,000 sq ft, ten of which took place in Q2. In contrast with 2021, where the majority of take-up and larger deals took place out of town, this year has seen a greater focus within the city centre.

The city centre was home to the largest deal in 2022 to date and all bar one of the transactions involving grade A space. Potter Clarkson's 16,100 sq ft lease at Chapel Quarter, Maid Marion Way was the largest YTD deal, while the only other transaction over 10,000 sq ft was Worldwide Clinical Trials' 10,785 sq ft lease at CEG's recently refurbished East West building, Tollhouse Hill. The larger end of the market has been quieter out of town, one of the few noteworthy moves being Gleeson's 5,148 sq ft lease at Oakwood Court, Sherwood Business Park.

SPECULATIVE DEVELOPMENT STALLS

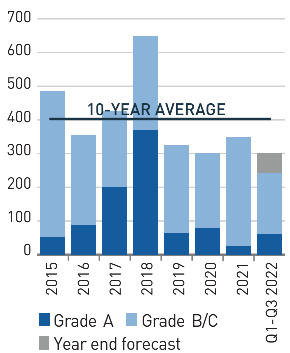
Nottingham's two most recent major office developments were both fully pre-let to single occupiers. This comprised HMRC's commitment to Unity Square (275,000 sq ft) in 2018 and Domestic & General's 51,300 sq ft commitment at 11 Station Street in 2021, the latter of which is under construction.

A number of significant office developments had been expected to materialise prior to the pandemic, although the future of these schemes is now uncertain. This comprised the second phase of Unity Square (206,000 sq ft) and several developments around the station, including Crocus Place (100,000 sq ft) and the Island Quarter in Beeston, where offices form part of a major mixed-use regeneration proposal at the site.

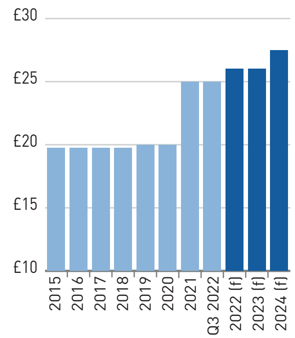
LIFE IN THE MID-TWENTIES

Prime headline rents have been stable at £25.00 per sq ft since that benchmark was struck in 2021 by Domestic & General's pre-let at 11 Station Street. The best achieved rental levels for quality refurbished space have stepped up from the low £20s to £24.50 per sq ft, evidenced by Worldwide Clinical Trials lease at the East West building. With limited quality options in the city centre to choose from, prime rents are expected to continue to edge up over the next few years.

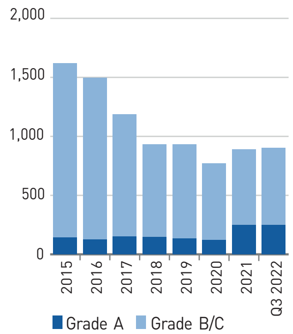
TAKE-UP (000 SQ FT)



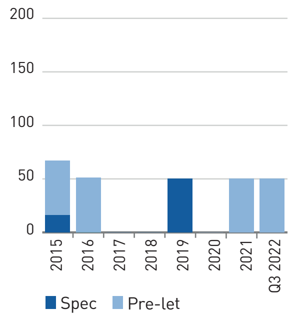
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

FORECAST 2022 TAKE-UP VS 10-YEAR AVERAGE

-25%

YEARS OF SUPPLY

2.2

GRADE A SHARE OF SUPPLY

28%

PRIME YIELD

6.75%

Q3 2022 HEADLINE RENT (PER SQ FT)

£25.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier
Q2 2022	Chapel Quarter, Maid Marian Way	16,100	Potter Clarkson LLP
Q2 2022	St Johns Academic Building, Peache Way	15,904	Redemption Pictures
Q2 2022	East West, Tollhouse Hill	10,785	Worldwide Clinical Trials
Q2 2022	Suite 1, Tollhouse Hill	5,300	Pick Everard
Q3 2022	1 Oakwood Court, Sherwood BPk	5,148	Gleeson Developments

Source: LSH Research

MARKET INSIGHT

NORTHERN POWERHOUSE

LIVERPOOL

FIRING UP

The Liverpool market has recovered well in the wake of the pandemic, with healthy levels of activity returning and prime rents stepping up.

BIG DEALS

As far as take-up is concerned, Liverpool is among the UK's better-performing regional markets in 2022. Take-up in the year to Q3 moved to 419,698 sq ft, with 2022 on track to surpass the annual average if Q4 delivers as expected.

While the frequency of transactions has been broadly consistent over the year, a flurry of nine deals over 10,000 sq ft spurred take-up after Q1. The city centre boasted two major deals; Firesprite's 50,000 sq ft lease at Cert Property's Duke and Parr development in Q2, followed more recently in Q3 by Hill Dickinson's 53,327 sq ft lease at 1 St Paul's Square, the city's largest deal in three years.

Activity has also been relatively robust out of town, home to around a third of the Liverpool region's YTD take-up. The year has seen four 10,000 sq ft plus transactions outside the city centre, the headline deal being The Mast Group's 27,212 sq ft lease at 2100 Daresbury Park, near Warrington.

SPINE TAPS INTO DEMAND

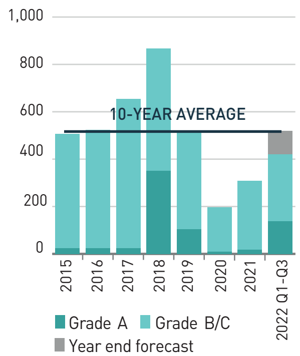
Total supply has been relatively stable over the past few years, currently standing at circa 1.2m for the wider market and equivalent to 2.4 years of average annual take-up. While Liverpool city centre has seen modest levels of new speculative development compared with other regional markets over the past decade, the picture has improved more recently with the delivery of The Spine (160,000 sq ft) in 2021, the majority of which is now let or under offer.

The next tranche of development tipped to come forward is Kier Property and CTP's Pall Mall scheme, comprising 400,000 sq ft across a trio of buildings. While the site is cleared, pre-lets are being sought to enable construction of the first building at the site, totalling 112,000 sq ft. Elsewhere, new build development is progressing in the Wirral, where completion of Building A2, Birkenhead (58,000 sq ft) is scheduled in 2023.

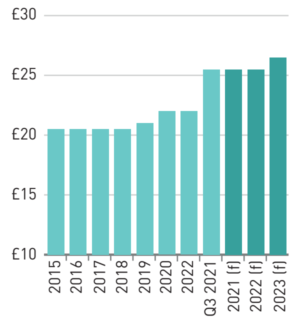
STEP CHANGE IN RENTS

Having long been starved of premium quality supply, its long-awaited arrival has helped to spur a step change in rents. Prime headline rents have jumped by over 10% in 2022 to stand at £25.50 per sq ft, as evidenced deals to MC Products Global (6,700 sq ft) and ISM Sport (2,600 sq ft) at the recently refurbished Royal Liver Building. Further rental growth is anticipated, albeit this is likely to rely on the delivery of new schemes into the city core.

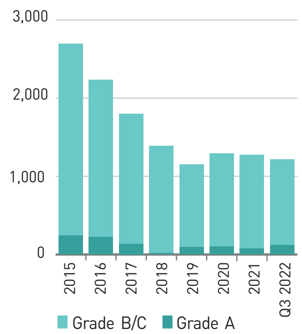
TAKE-UP (000 SQ FT)



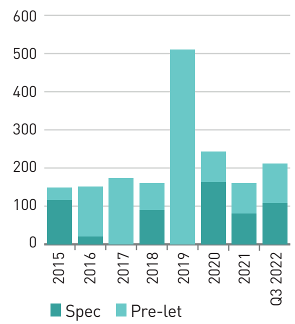
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

FORECAST 2022 TAKE-UP VS 10-YEAR AVERAGE

+3%

YEARS OF SUPPLY

2.4

GRADE A SHARE OF SUPPLY

10%

PRIME YIELD

6.50%

Q3 2022 HEADLINE RENT (PER SQ FT)

£25.50

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier
Q3 2022	1 St Paul's Square	53,327	Hill Dickinson
Q2 2022	91-105 Duke St	50,000	FireSprite
Q2 2022	The Watson Building	10,018	Reed in Partnership
Q3 2022	Royal Liver Building	8,715	Barnett Waddingham LLP
Q2 2022	Merchants Court	6,765	The Growth Company Limited

Source: LSH Research

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SOUTH MANCHESTER

BACK TO HEALTH

The market returned to life in Q3, with a number of larger deals showcasing the market's growing reputation as a science and technology hub.

BIG THIRD QUARTER

Take-up rebounded strongly in Q3 after a subdued first half of 2022. While the number of transactions was very consistent throughout the first three quarters of the year, the return of larger deals was key, putting 2022 take-up back on track to match 2021's level.

Nine of the ten largest deals in 2022 to date took place in Q3. The largest by a distance was Yourgene Health's 43,000 sq ft lease at Skelton House, Manchester Science Park, a move which saw the occupier both expand and consolidate into a single HQ within Bruntwood SciTech's network of specialist campuses.

The above deal was the only really sizeable transaction involving grade A space in 2022 to date. The larger grade A deals, all of which were refurbishments, ranged in the 5,000 sq ft to 10,000 sq ft bracket. Notable examples included Instant Offices' 7,400 sq ft lease at Adamson House, Towers Business Park, and Surfing Giant's 6,811 sq ft lease at Vertex, Altrincham.

STOCKING UP IN STOCKPORT

While supply is relatively tight, availability has ticked up by circa 30% since the beginning of the year to stand at just under 700,000 sq ft. The increase is due to second hand space coming back onto the market, one notable example comprising 5000 Lakeside (38,000 sq ft), Cheadle Royal Business Park.

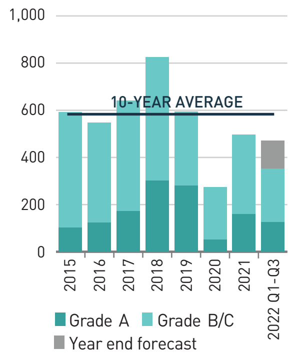
Available grade A space, meanwhile, remains limited to just a couple of options in Stockport. 28,000 sq ft remains available at Two Stockport Exchange, while in the town centre, Glenbrook recently delivered STOK (46,500 sq ft), a comprehensive redevelopment of the former M&S store.

Grade A supply will be boosted by two schemes that are currently under construction, with delivery in late 2023. Following success at previous phases, Muse Developments is on site at Three Stockport Exchange (64,000 sq ft), while in Altrincham, Bruntwood and Trafford Council are currently progressing Foundation (50,000 sq ft), a redevelopment of the former House of Fraser store.

RENTAL RECOVERY

In Q1 2022, HW Global's letting at Towers Business Park, Didsbury confirmed the prime headline rent at £25.00 per sq ft, a level last seen evidenced before the pandemic. As new supply is delivered, we expect pent-up demand for quality space to drive the prime headline rent towards £27.00 per sq ft over the next 18 months.

TAKE-UP (000 SQ FT)



PRIME HEADLINE RENT (£ PER SQ FT)

MARKET AT A GLANCE

FORECAST 2022 TAKE-UP VS 10-YEAR AVERAGE

-19%

YEARS OF SUPPLY

1.2

GRADE A SHARE OF SUPPLY

13%

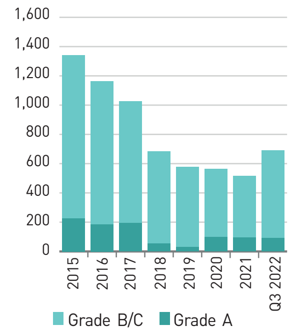
PRIME YIELD

6.50%

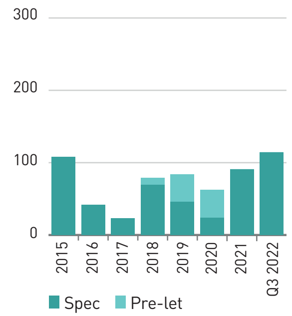
Q3 2022 HEADLINE RENT (PER SQ FT)

£25.00

AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier
Q3 2022	Skelton House	43,029	Yourgene Health PLC
Q3 2022	Mulberry House, Wythenshawe	18,852	NHS
Q3 2022	Glasshouse	8,339	Alkagen
Q3 2022	St Johns House	7,514	Social Money Ltd
Q3 2022	Adamson House - Towers	7,400	Instant OfficeGroup

Source: LSH Research, MOAF

LEEDS

QUALITY SPACE IN DEMAND

Take-up has fallen back in 2022 after the city was one of the best-performing regional office markets in 2021. However, a flight to quality among occupiers is supporting leasing activity in the city centre and providing confidence to landlords and developers.

TAKE-UP SLIPS BACK

Combined take-up for the Leeds city centre and out of town markets reached 618,884 sq ft across the first three quarters of the year, down 26% on the same period of last year. However, 2021 was boosted by a handful of very large transactions, and the number of deals completed in Q1-Q3 was actually higher in 2022 than 2021.

In the city centre, take-up for the first three quarters was down 15% at 407,886 sq ft. The biggest deal was the Department for Education's 53,058 sq ft freehold acquisition of 105 Albion Street but, aside from this, activity was restricted to sub-20,000 sq ft deals. The largest of these included Arden University's lease of 18,187 sq ft at 7 Park Square East, HG Construction's acquisition of 14,126 sq ft at Belgrave Hall, and flexible workspace operator 2-Work's lease of 13,551 sq ft at Bank House.

Sub-3,000 sq ft transactions have rebounded almost to pre-pandemic levels in the city centre, but requirements of 5,000 sq ft-plus are taking longer to materialise and to turn into deals. A flight to quality is evident, with occupiers committing to best-in-class space, and this is supporting rental growth.

The out of town market has been fairly subdued, with take-up over the first three quarters totalling 210,998 sq ft, down 52% on the same period of 2021. A lack of grade A availability has restricted activity, and only a handful of 10,000 sq ft-plus deals have been recorded. The largest of these saw Williams Lea take 16,617 sq ft at Leeds Valley Park.

NEW PROJECTS BOOST SUPPLY

Total availability across the Leeds city centre & out of town markets stood at 2.4m sq ft in Q3, a 19% increase since the end of 2021, with 72% of this being in the city centre. Grade B and C space accounts for the majority of supply both in and out of town, but there has been an uptick in grade A availability in the city centre as new development projects come through.

During 2022, the city centre has seen the delivery of 12 King Street (54,368 sq ft) and Globe Point (37,800 sq ft). Both have had recent lettings, with two floors leased at 12 King Street and one floor at Globe Point.

Two large schemes are expected to reach practical completion in 2023. 11 & 12 Wellington Place (244,879 sq ft) is due to be completed in Q2 and has seen some pre-let activity; while City Square House (137,793 sq ft) is due in Q4, with 83,012 sq ft already pre-let to DLA Piper. In addition, several comprehensive refurbishments are underway, with One Sovereign Quay (21,603 sq ft) and The Granary (19,129 sq ft) among those expected to be completed over the next 12 months.

Relatively little grey space has been released to the city centre market, but there remains a surfeit of lower quality available units, which will prove hard to let as occupiers gravitate to prime offices.

In the out of town market, availability stands at 603,000 sq ft, of which 112,000 sq ft is grade A space. A general absence of development has left occupiers with few high quality options in this market, and there are no speculative projects in the pipeline.

PRIME RENTAL GROWTH

Prime headline rents in the city centre have been boosted by strong occupier demand for the best quality space, rising from £34.00 to £36.00 per sq ft, with this level achieved at 12 King Street. Further growth is expected, with prime rents forecast to reach £40.00 per sq ft by the end of 2023.

In contrast, there has been little sign of rental growth for grade B stock, with occupier demand focused on better quality space. Out of town prime rents have also remained stable over the first three quarters of 2022, at £24.75 per sq ft.

Incentives have held steady over the past 12 months. Landlords may need to show increased flexibility to get deals over the line in the year ahead, but this will not impact headline rents.

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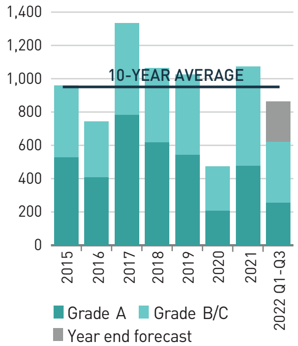
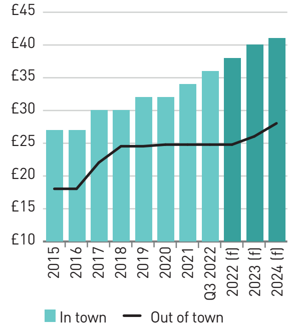
Opus North and Fiera Real Estate's 12 King Street completed during 2022 and has already secured Endless and Rothschilds as tenants.

TAKE-UP (000 SQ FT)



PRIME HEADLINE RENT (£ PER SQ FT)



MARKET AT A GLANCE

FORECAST 2022 TAKE-UP VS 10-YEAR AVERAGE
-9%

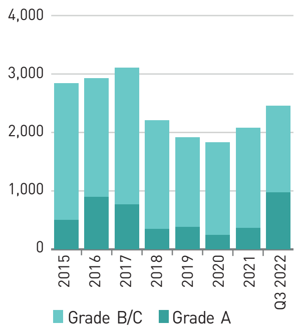
YEARS OF SUPPLY
2.6

GRADE A SHARE OF SUPPLY
40%

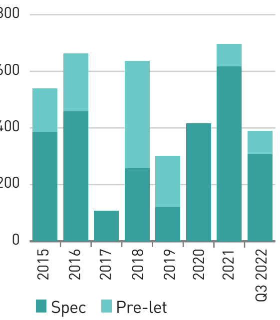
PRIME YIELD
6.00%

Q3 2022 HEADLINE RENT (PER SQ FT)
£36.00

AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier
Q2 2022	105 Albion Street	53,058	LocatED / Dept for Education
Q2 2022	7 Park Square East	18,187	Arden University
Q1 2022	3rd Floor Darwin, Leeds Valley Park	16,617	Williams Lea
Q3 2022	3rd floor, 6 Queen Street	14,207	Financial Conduct Authority
Q3 2022	Part 2nd floor, 6 Wellington Place	11,784	McKenzie Stuart

Source: LSH Research, LOAF

MANCHESTER CITY CENTRE

BACK IN THE BIG TIME

Demand for high quality space has been strong in 2022, with grade A space dominating take-up. Meanwhile, speculative development has rebounded and will be key to driving rental growth over the next two years

BIGGER DEALS RETURN IN Q3

Take-up improved markedly as the year progressed, with Q3's outturn of 326,000 sq ft the second strongest since the pandemic. While Q2 contained Manchester's only 50,000 sq ft-plus deal in 2022 to date, namely the GPA's pre-let commitment to a 130,000 sq ft civil service hub at No.9 First Street, Q3 saw a more concerted return of larger deals.

Eight of 2022's ten biggest transactions to date came in Q3, the largest of which were MMU's 36,116 sq ft lease at Bruntwood SciTech's Manchester Technology Centre and the GPA's 36,375 sq ft lease at 101 Barbirolli. The re-emergence of serviced office operators was a key feature of recent activity, with four deals to serviced offices providers totalling 75,000 sq ft in Q3. The largest of these was Orega's 26,000 sq ft acquisition at 1 Balloon Street, while Gilbanks' 11,373 sq ft lease at 11 York Street will be its first operation outside of Leeds.

With a healthy pipeline of space under offer, take-up in 2022 as a whole is well on track to surpass 1m sq ft, broadly in line with 2021's level but slightly below the annual average.

QUALITY OVER QUANTITY

At 596,000 sq ft, grade A take-up was remarkably strong in the first three quarters of 2022 and accounted for almost three quarters of total take-up. That said, despite the return of larger deals in Q3, take-up has been below average across the majority of size categories. The one notable exception, however, is the sub 5,000 sq ft category, where activity has run 18% ahead of trend in 2022 to date.

This reflects the coincidence of two trends. First, it indicates that smaller/SME-sized occupiers have been able to react relatively quickly to the change in working circumstances posed by the pandemic and, second, it reflects a number of occupiers downsizing from their previous footprint in a bid to exchange quantity for quality.

SUPPLY SHOOTS UP

Availability has increased by 21% since the end of 2021 to stand at circa 2.7m, its highest level since 2013 and equating to 2.1 years of average take-up. While this partly reflects increased tenant space and a growing trend towards downsizing space requirements among existing occupiers upon lease events, the increase in specifically grade A supply is more pronounced, rising by 36% over the year.

A number of completed schemes such as 100 Embankment (166,000 sq ft), The Lincoln (102,000 sq ft) and Landmark (180,000 sq ft) provide plenty of grade A options for occupiers, the latter having already attracted a number of corporate occupiers, including Grant Thornton, Allianz and HSBC.

While 2022 has seen the completion of several major pre-let developments, speculative completions have been extremely thin in 2022. Allied London's Transmission development (64,000 sq ft), situated adjacent to WPP's newly delivered premises Globe House, is the only speculative completion of note over 2022 to date.

CRANES COME BACK

At the end of Q3 there was circa 756,000 sq ft of speculative development under construction across seven schemes. Two are due for delivery in 2023, namely MEPC's 4 Angel Square (200,000 sq ft) in the NOMA district and The English Cities Fund's Eden building (115,000 sq ft) in the New Bailey district. Notably, reflecting increased demand for strong environmental credentials, both schemes will boast operational net zero carbon.

The rest of the pipeline is scheduled for delivery over the course of 2024. Credit Suisse is bringing forward 70 Great Bridgewater Street (113,600 sq ft), a wholesale redevelopment of the former Eversheds office, with other schemes comprising St Michaels, Bootle Street (143,000 sq ft) and The Island, John Dalton Street (102,000 sq ft).

Looking further ahead, several sites have planning permission and may come forward in 2023 subject to economic conditions. These include 2 & 3 Angel Square (201,356 and 252,952 sq ft respectively) at NOMA, No 3 Circle Square (216,000 sq ft) and the 500,000 sq ft Electric Park development.

Elsewhere, at the major Mayfield mixed-use development, Mayfield Partnership recently agreed funding with LandSec to enable construction of two office buildings

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The GPA's 130,000 pre-let commitment at Ask's No.9 First Street was the largest transaction across the UK regional office markets in 2022.

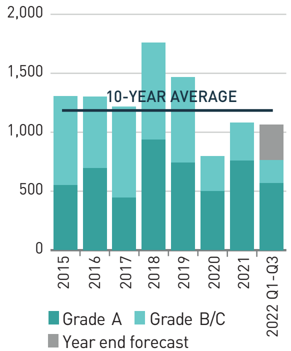
totalling 320,000 sq ft. The first of these, the Poulton building (76,000 sq ft), is expected to commence construction in early 2023.

HITTING FORTY

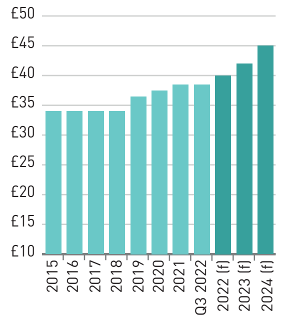
Manchester's prime headline rent has remained stable for well over a year at £38.50 per sq ft, a benchmark set by Grant Thornton's lease at Landmark in Q1 2021. However, there is space under offer that is expected to achieve a new benchmark of £40.00 per sq ft by the end of 2022.

While there is healthy choice of grade A space in the market, strong occupier demand for best in class space and a focus on quality over quantum is expected to drive rents forward over the next two years. As new developments are delivered, prime rents in the city are forecast to hit £45.00 per sq ft by the end of 2024.

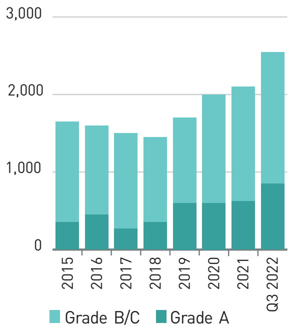
TAKE-UP (000 SQ FT)



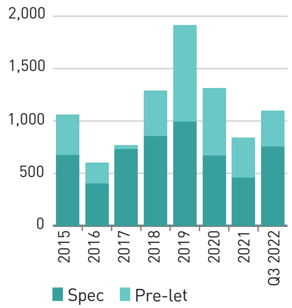
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

FORECAST 2022 TAKE-UP VS 10-YEAR AVERAGE
-11%

YEARS OF SUPPLY
2.1

GRADE A SHARE OF SUPPLY
33%

PRIME YIELD
5.25%

Q3 2022 HEADLINE RENT (PER SQ FT)
£38.50

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier
Q2 2022	No.9 First Street	130,000	GPA
Q3 2022	101 Barbirolli	36,375	GPA
Q2 2022	Manchester Technology Centre	36,116	MMU
Q2 2022	1 Balloon Street	26,000	Orega
Q3 2022	11 York Street, 1st and 2nd floors	21,778	Gilbanks

Source: LSH Research, MOAF

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NEWCASTLE

CITY CENTRE SPACE RISING

While take-up was inevitably down on 2021's exceptional volume, Newcastle continues to see healthy levels of activity, and there is optimism around the city's future investment prospects.

LAW FIRMS LEAD

Take-up in Newcastle city centre came to 149,240 sq ft over the first three quarters of 2022. While this was 18% up on the same period of 2021, the final quarter of last year was boosted by HMRC's vast 463,000 sq ft pre-let at Pilgrim's Quarter, one of the largest deals ever recorded in the UK regions. For this reason alone, annual take-up for 2022 will fall a long way short of 2021's total.

The largest deal of the year to date came in Q1, as law firm Clifford Chance took 15,182 sq ft at The Lumen. Another legal sector occupier, Hay & Kilner took 14,541 sq ft in the same building in Q2. Two major deals have also been completed at the new Bank House development, with law firm DAC Beachcroft leasing 14,542 sq ft, and financial service provider Lycetts taking 10,129 sq ft.

Newcastle's growing status as a tech hub has also supported leasing activity, with notable deals including Arctic Wolf's lease of 7,320 sq ft of grade A space at Earl Grey House.

PILGRIM'S PROGRESS

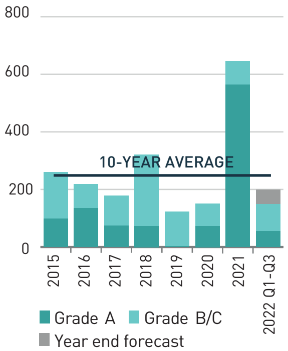
Prime grade A space remains in short supply in the city centre, but it is starting to increase as new developments come through. The Spark, part of the Newcastle Helix development, delivered 105,906 sq ft in Q1. Following the DAC Beachcroft and Lycetts deals, there is 96,607 sq ft available to pre-let at Bank House ahead of its completion in 2023. Further high quality space has been delivered through the refurbishment of Portland House (65,528 sq ft), while The Pattern Shop (32,367 sq ft) will bring additional refurbished space to the market in 2023.

The Saudi Arabian-led takeover of Newcastle United Football Club has generated a buzz in the city, and it may be the trigger for further investment and development. The Reuben Brothers, who own a 10% stake in the club, are major property owners in Newcastle and behind the Pilgrim Place project. This is ultimately expected to deliver over 400,000 sq ft of new offices, with the first phase being Bank House.

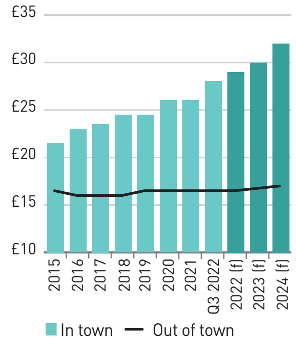
LANDLORDS FLEXIBLE

The development of higher quality space in Newcastle city centre is expected to drive headline rental values upwards over the next few years, from the current level of £28.00 per sq ft to c. £32.00 in 2024. More immediately, however, landlords have had to increase incentives due to an uncertain market backdrop, with some now offering rent-free periods of 18-22 months on 10-year leases.

TAKE-UP (000 SQ FT)



PRIME HEADLINE RENT (£ PER SQ FT)



MARKET AT A GLANCE

FORECAST 2022 TAKE-UP VS 10-YEAR AVERAGE

-21%

YEARS OF SUPPLY

1.3

GRADE A SHARE OF SUPPLY

53%

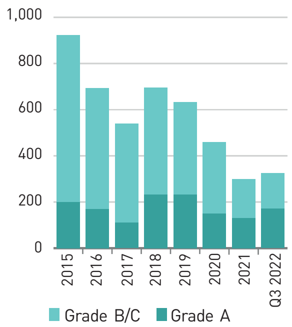
PRIME YIELD

6.25%

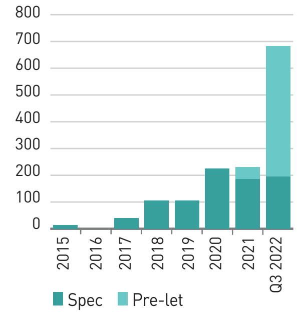
Q3 2022 HEADLINE RENT (PER SQ FT)

£28.00

AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier
Q1 2022	3rd the floor Lumen	15,182	Clifford Chance
Q3 2022	Bank House	14,542	DAC Beachcroft
Q2 2022	5th floor, The Lumen	14,451	Hay & Kilner
Q1 2022	Part 3rd Floor One Trinity Gardens	10360	Aecom
Q3 2022	Bank House	10129	Lycetts

Source: LSH Research

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SHEFFIELD

STEELED FOR GROWTH

Occupiers seeking high quality space in Sheffield have been frustrated by limited availability in recent years, but a greater volume of new grade A stock is starting to come to the market.

BOOSTED BY BT

The Sheffield market is on track to be the strongest performing regional market in 2022, with annual take-up forecast to be 20% above trend. Take-up received a major boost in Q3, with BT agreeing to pre-let 62,862 sq ft at Scarborough Group's Endeavour scheme at the Digital Campus. This was the UK's second biggest regional office deal in Q3 and provides a major vote of confidence in the Sheffield market.

The second largest deal of the year took place in Q1, namely SSB Law's 43,500 sq ft lease at 1 South Quay, Victoria Quay. The year's other sizeable transactions include deals to Lablogic at Europa Link (16,811 sq ft), Paces at Thorncliffe Hall (18,000 sq ft) and Steel City Interactive at Forge House (10,250 sq ft).

Meanwhile, sub-5,000 sq ft transactions, which account for the majority of deals in Sheffield, have rebounded back almost to pre-pandemic levels. Larger requirements of 10,000 sq ft-plus are thinner on the ground, albeit some deals of this size are under offer and expected be completed by Q1 2023.

PROMISING PIPELINE

Sheffield has seen a shortage of new build and refurbished grade A offices in recent years, but some better quality space has now come through at projects such as Pennine Five, the renovated former HSBC headquarters, which includes 230,000 sq ft across five buildings. The Department for Work and Pensions, Sheffield College and First Intuition have already taken space here, while a major coworking operator is rumoured to be under offer on more than 30,000 sq ft.

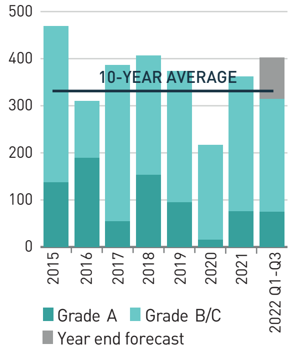
New speculative space is set to be delivered imminently at two projects being developed by Sheffield City Council in partnership with Queensberry. Isaacs Building at Heart of the City (39,000 sq ft) is due to reach practical completion in Q4 2022, with four floors under offer; while Elshaw House (71,420 sq ft) is expected in spring 2023.

Over the longer term, 650,000 sq ft of office space is planned within the mixed-use West Bar regeneration scheme. The first phase, including c. 120,000 sq ft of offices, is on site with completion expected in 2024.

RENTS TO RISE

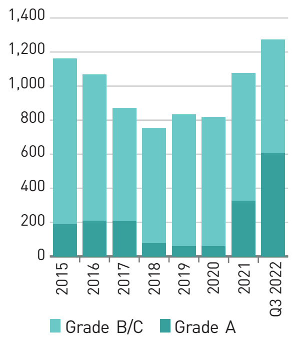
Prime headline rents have risen moderately to £27.00 per sq ft. Given healthy demand for grade A space, rents could be pushed higher in 2023 by the delivery of new high-quality developments, with £32.00 per sq ft forecast to be achieved.

TAKE-UP (000 SQ FT)

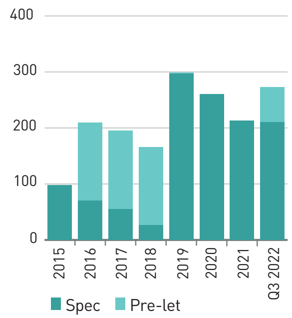


PRIME HEADLINE RENT (£ PER SQ FT)

AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

FORECAST 2022 TAKE-UP VS 10-YEAR AVERAGE
+22%

YEARS OF SUPPLY
3.9

GRADE A SHARE OF SUPPLY
48%

PRIME YIELD
6.75%

Q3 2022 HEADLINE RENT (PER SQ FT)
£27.00

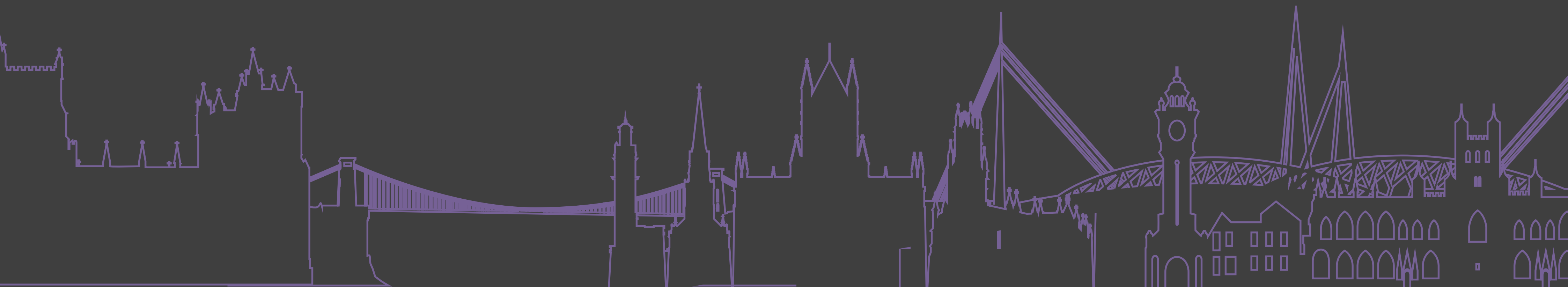
KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier
Q3 2022	Endeavour, Digital Campus	62,862	BT
Q1 2022	1 South Quay, Victoria Quay	43,500	SSB Law
Q2 2022	Thorncliffe Hall, Thorncliffe Park	18,000	Paces
Q1 2022	Europa Link - Unit 2	16,811	LabLogic
Q3 2022	Eagle Works	4,444	Four Communications Group Ltd

Source: LSH Research

MARKET INSIGHT

SOUTH WEST & WALES



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BRISTOL OUT OF TOWN

RELIANCE ON AZTEC

Fuelled by a marked improvement in larger requirements, the long-awaited delivery of high-quality space into Aztec West is set to drive a step change in rents over the next couple of years.

GO AZTEC WEST

Take-up in 2022 is firmly on course to hit its highest level for four years, with the 231,000 sq ft taken over the year to Q3 having already surpassed the annual total for 2021. While Q1 saw the strongest take-up of the three quarters, activity has been relatively consistent throughout the year.

Demand at the larger end of the market has improved in 2022, with seven deals above 10,000 sq ft seen already this year compared with only three in 2021. The largest deal in 2022 YTD was in Q3, when a confidential public sector organisation took 21,568 sq ft at The Pavilions. Aztec West has provided a major focus of activity, however, home to seven transactions, the largest being AE Technology's 20,819 sq ft lease at 2420 Aztec West.

ALL EYES ON AZTEC

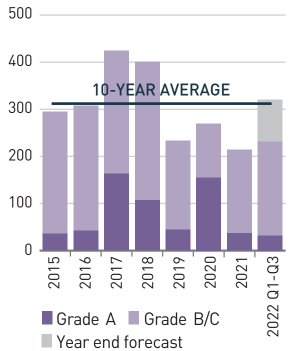
There is now an acute shortage of grade A space in the market. Only two options remain available, one at 730 Aztec West (10,000 sq ft) and the other at Bristol Science Park (6,576 sq ft). Meanwhile, the supply of grade B/C space has risen by 88,000 sq ft following the addition of Lake View in Q3. The largest available unit is 124,000 sq ft of grade B space at Enterprise Park.

A lack of prime headline rental growth over recent years has deterred landlords from speculative development. However, buoyed by resurgent activity at Aztec West, 2022 saw CEG commence a comprehensive refurbishment of Building 1000 Aztec West. The 80,000 sq ft development will boast an unrivalled level of specification compared with elsewhere in the market and provide a major impetus for activity.

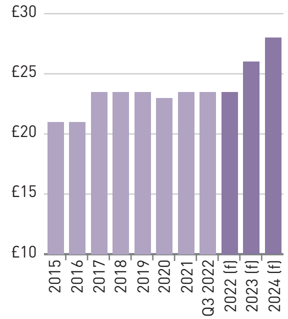
RENTAL GROWTH STIMULUS

The return of large, 30,000 sq ft requirements to the market and multiple lease expiries are expected to drive activity over the next couple of years. The delivery of Building 1000 Aztec West is set to drive prime rents up from the current level and, in the process, encourage other developers to follow suit. This is built into the forecast, which sees prime rents rising from £23.50 per sq ft to £28.00 by the end of 2024.

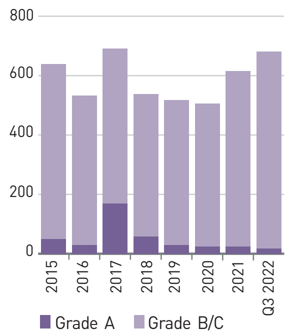
TAKE-UP (000 SQ FT)



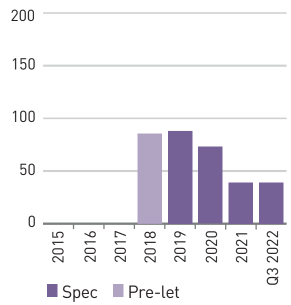
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

FORECAST 2022 TAKE-UP VS 10-YEAR AVERAGE

+2%

YEARS OF SUPPLY

2.2

GRADE A SHARE OF SUPPLY

2%

PRIME YIELD

6.75%

Q3 2022 HEADLINE RENT (PER SQ FT)

£23.50

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier
Q3 2022	Pavilions	21,568	Confidential (Gov)
Q2 2022	2420 Aztec West	20,819	AE Technology
Q1 2022	1st Flr, 740 Aztec West	19,333	Lysander Law
Q1 2022	1, Rivermead Court, Clevedon	18,705	Edwards Ltd
Q1 2022	720 Aztec West	8,333	Specsavers

Source: LSH Research

BRISTOL CITY CENTRE

BRISTLING WITH LIFE

Bristol has been very active in 2022, with strong demand pushing rents to the highest level among the Big Six UK office markets. This is encouraging developers, and multiple high quality speculative projects are coming through the development pipeline.

ABOVE-AVERAGE TAKE-UP

The Bristol city centre market continues to attract strong demand, with take-up of 509,000 sq ft recorded across the first three quarters of 2022, already surpassing the annual totals for each of the last two years. With leasing activity remaining brisk in Q4, take-up for the whole year is projected to be well above the 10-year average of 556,000 sq ft.

The year started particularly strongly, with Q1 take-up reaching 234,275 sq ft, boosted by two 20,000 sq ft-plus deals. The fintech company Paymentsense took 54,767 sq ft at CEG's speculative EQ development, while Deloitte leased 22,500 sq ft at Halo, Finzels Reach.

Subsequently, cloud technology company Pax8's lease of 24,375 sq ft at The Distillery was the largest deal of Q2, while the West of England Combined Authority's acquisition of 19,817 sq ft at 70 Redcliff Street was Q3's biggest transaction.

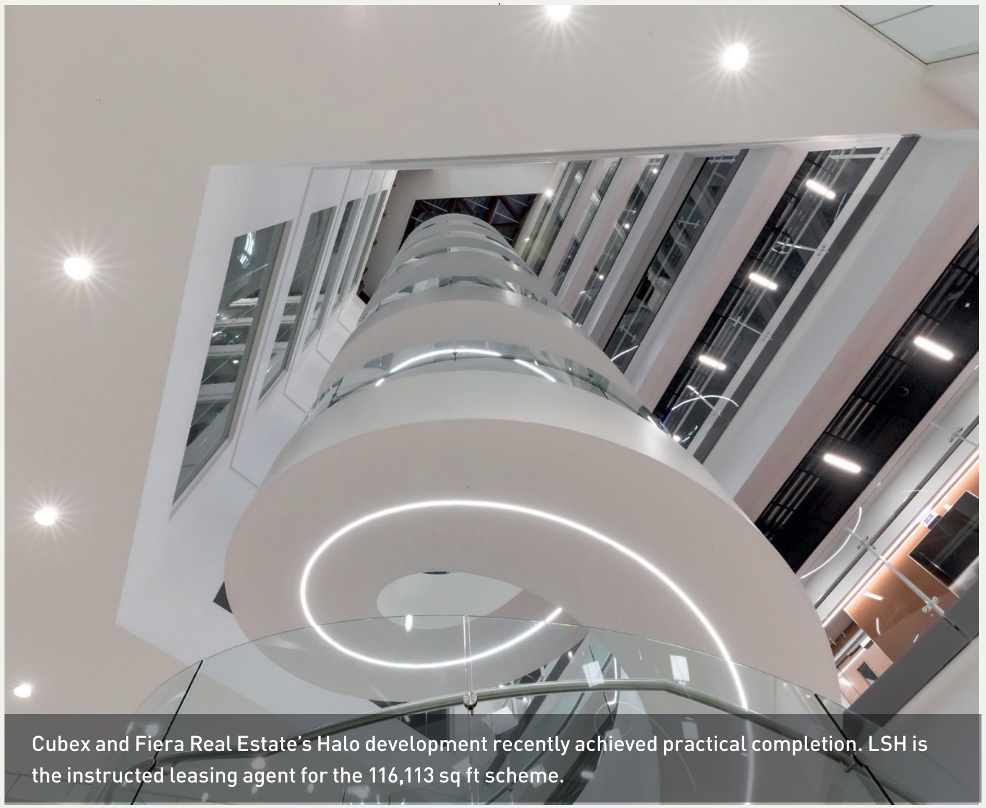
Demand has stemmed from a wide variety of sources, but the TMT sector has been particularly active, accounting for more than a third of take-up. The creative industries also continue to be key component of demand, with the film and TV production companies Offspring Films, Wildstar Films and Icon Films all taking office space in Bristol during 2022.

Major deals have been completed both by firms expanding and by those downsizing or reconfiguring requirements to reflect new working practices. Nearly 40% of take-up has been for by grade A space, with new developments providing occupiers with a range of high quality options in the city centre.

QUALITY SPACE COMING THROUGH

Availability has risen slightly to reach 794,000 sq ft in Q3, on the back of a steady stream of development activity. The most notable recent completions are Royal London's The Distillery (92,000 sq ft) and Nord's One Portwall Square (33,767 sq ft), both of which have secured multiple tenants and have limited space remaining available.

Practical completion has been reached at Cubex and Fiera Real Estate's Halo (116,113 sq ft), whilst several other new build schemes are set to arrive within the next 12 months. These



Cubex and Fiera Real Estate's Halo development recently achieved practical completion. LSH is the instructed leasing agent for the 116,113 sq ft scheme.

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include CEG's EQ (185,509 sq ft), Candour's The Welcome Building (206,742 sq ft), AXA and Bell Hammer's Assembly Buildings B and C (28,158 sq ft and 92,716 sq ft) and Umberslade's CARGO Work (20,270 sq ft).

Additionally, a number of comprehensive refurbishments are underway including V7's 100 Victoria Street, L&G's North Quay House and APAM's Apex, Temple Quay.

While this does mean that a large volume of space is likely to be delivered in 2023, most of these projects have been successful in securing good levels of pre-lets and there is strong interest in the remaining units.

The success of the new schemes has encouraged developers to explore further opportunities and several speculative projects are planned at city centre sites, including Soapworks, One Passage Street, Station Approach and Redcliffe Wharf.

Landlords are increasingly prepared to fit out space to attract tenants. While this had previously been largely restricted to smaller sub-3,000 sq ft suites, landlords have begun to offer some larger fitted suites.

RENTS HIT NEW HIGHS

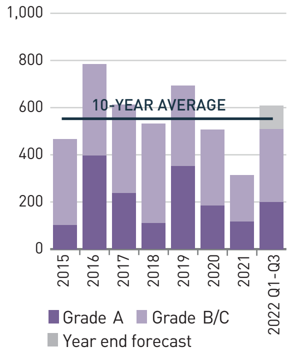
Prime rents have increased sharply over the last 12 months, from £38.00 per sq ft to £42.50 per sq ft, the highest level of any of the Big Six UK office markets. This rental level is now well established, having been achieved by Paymentsense's deal at EQ, as well as lettings to Clarke Willmott at Assembly Building C (15,624 sq ft) and HLK at One Portwall Square (12,592 sq ft).

Rents for high quality refurbished space have also risen strongly, with 10 Victoria Street achieving £38.00 per sq ft and Dock House attaining £36.00 per sq ft. Refurbished grade B space is performing well and achieving c. £30.00 per sq ft.

Rents for low quality space are in the low to mid £20s per sq ft. However, availability at the cheaper end of the market is limited as much of the city's poorest space has been removed from the market through changes of use, and tenant demand has increasingly gravitated towards higher quality space.

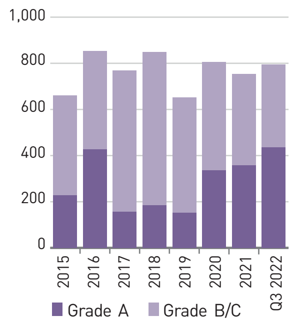
Incentives have remained stable over the last year. For both grade A and B space, rent-free periods are c.1.5-2 months per year term certain.

TAKE-UP (000 SQ FT)

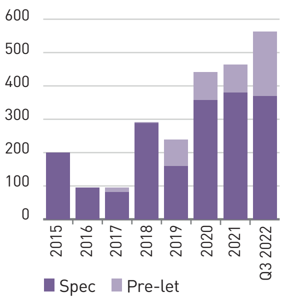


PRIME HEADLINE RENT (£ PER SQ FT)

AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

FORECAST 2022 TAKE-UP VS 10-YEAR AVERAGE

+10%

YEARS OF SUPPLY

1.4

GRADE A SHARE OF SUPPLY

55%

PRIME YIELD

5.25%

Q3 2022 HEADLINE RENT (PER SQ FT)

£42.50

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier
Q1 2022	EQ	54,767	Paymentsense
Q2 2022	Distillery	24,375	Pax8
Q1 2022	Halo	22,500	Deloitte
Q3 2022	70 Redcliff Street	19,817	WECA
Q1 2022	1st + Pt 2nd Flrs, No2 The Distillery	15,978	Institute of Physics

Source: LSH Research

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BATH

QUALITY SUPPLY BOOST

Lack of high quality supply in Bath has restricted activity, although new schemes have now arrived to meet otherwise healthy demand.

SLOW GOING

Having been one of more resilient markets in the wake of the pandemic, annual take-up in 2022 is on course to hit its lowest total in well over a decade, with just 39,000 sq ft of transactions in the year to Q3.

Notably, 2022's limited number of deals centred around the delivery of the first new-build development in 25 years, Bath City Council's No1 Bath Quays. This saw leases of 9,546 sq ft and 5,866 sq ft going to Altus and Fidelius, respectively. CBRE IM's comprehensive refurbishment of Royal Mead was home to the year's second largest deal, with 6,842 sq ft taken by SmartBear. These schemes, together with the arrival Newark Works, will be key drivers of take-up moving forward into 2023.

NEWARK WORKS JOINS THE FOLD

Grade A availability has received a further boost during Q3 with arrival of TCN's Newark Works (35,411 sq ft), situated on the south bank of the Avon. The scheme is designed to cater for SME demand and, with the arrival of the bridge connecting both Newark Works and No1 Bath Quays to the city centre in December, is expected to let-up well.

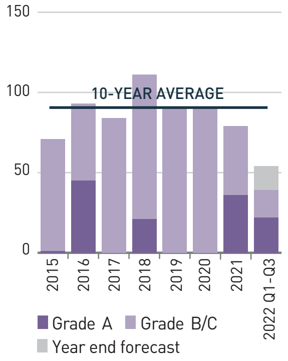
Elsewhere, Plymouth House coming to market means a full refurbishment of the building is expected, adding to the choice of high quality options in the town's core, while a refurbishment project at Pinesgate will join a wealth of supply further away from the centre.

Overall supply has ballooned from a very tight level two years ago to a ten-year high of 357,000 sq ft, of which a fair portion is second hand space. In light of the changing dynamics, the developers of the Roseberry Place (50,000 sq ft) scheme are likely to seek approval for change of use to residential accommodation.

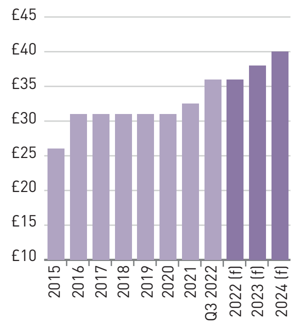
DIVERGENCE

The injection of new build space into the market after a long absence of development has helped to fuel strong rental growth. Headline rents of £36.00 per sq ft achieved at Royal Mead and No1 Bath Quays lead the way towards expectations of £40.00 per sq ft by 2024. Landlords are also presiding over tight incentive packages, with rent frees of circa one month per year certain for prime space.

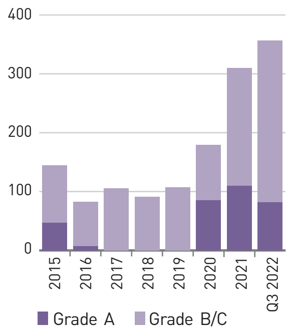
TAKE-UP (000 SQ FT)



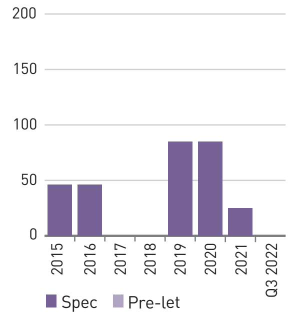
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

FORECAST 2022 TAKE-UP VS 10-YEAR AVERAGE
-41%

YEARS OF SUPPLY
3.9

GRADE A SHARE OF SUPPLY
23%

PRIME YIELD
6.00%

Q3 2022 HEADLINE RENT (PER SQ FT)
£36.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier
Q3 2022	No1 Bath Quays	9,546	Altus
Q3 2022	Royal Mead	6,842	SmartBear
Q3 2022	No1 Bath Quays	5,866	Fidelius

Source: LSH Research

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CARDIFF

BACK IN BUSINESS

Demand is coming back after several quiet years, but an excess of lower quality space remains a challenge for the market.

BT CALLS IN

The Cardiff market has gathered momentum, with take-up of 327,000 sq ft across the first three quarters of 2022 comfortably surpassing the annual totals for the last two years. The standout deal saw BT acquire 65,092 sq ft at 3 Capital Quarter in Q1, as part of its five-year workplace transformation programme, which will see it improve and consolidate its footprint in 30 UK locations.

There have been a handful of other large deals, including Roku's lease of 25,845 sq ft at Fusion Point One, but occupier demand remains mainly focused on smaller sub-5,000 sq ft suites. Some larger requirements are starting to come through, but these are generally making slow progress.

PwC has signed to take 10,000 sq ft of short-term space, but its longer-term plans are focused on One Central Quay, where it is under offer on 60,000 sq ft with the rent rumoured to be in the early £30s per sq ft. With the deal due to be completed by the year-end, this should provide a late boost to 2022 take-up, and it will kick-start the redevelopment of the former Brains brewery site.

SUPPLY REMAINS HIGH

Availability remains high at 1.6m sq ft, with nearly three-quarters of this being grade B/C space. Wales does not have the same permitted development rights as England, which has meant that Cardiff has not seen office-to-residential conversions on the same scale as many English cities, leaving it with an excess of poorer quality space.

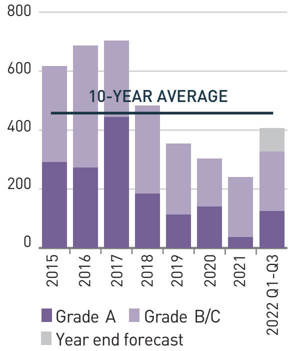
There are several key buildings in the pipeline, including Create Real Estate's comprehensively refurbished Coal House (30,000 sq ft) which will be launched to the market in Q4. In addition, PwC's pre-let at One Central Quay will trigger the development of 140,000 sq ft of new build offices as part of Rightacres' wider Central Quay regeneration scheme.

HITTING THE THIRTIES

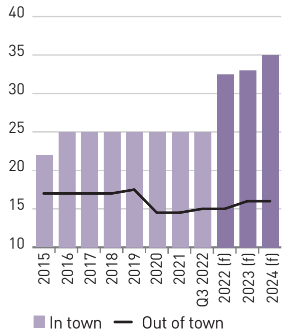
Prime headline rents have remained stable at £25.00 per sq ft, but are expected to push past the £30.00 mark by the year-end on the back of the PwC deal. This will break rental records for Cardiff by a significant margin, and may pave the way for further rental growth over the coming years.

Rents for better quality grade B space have risen close to grade A rents, to stand in the low-£20s per sq ft. However, there has been no improvement for lower quality grade B offices, with rents stuck in the late teens.

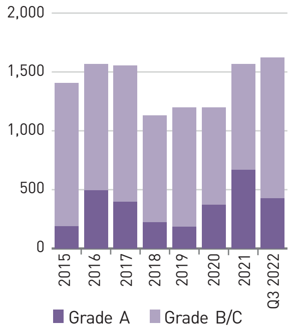
TAKE-UP (000 SQ FT)



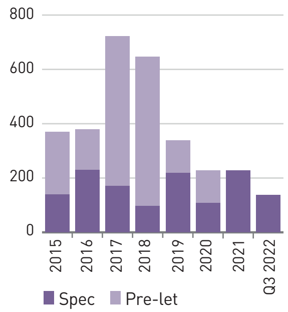
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

FORECAST 2022 TAKE-UP VS 10-YEAR AVERAGE
-11%

YEARS OF SUPPLY
3.5

GRADE A SHARE OF SUPPLY
26%

PRIME YIELD
6.25%

Q3 2022 HEADLINE RENT (PER SQ FT)
£25.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier
Q1 2022	3 Capital Quarter	65,092	BT
Q3 2022	Global Link, Dunleavy Drive, Celtic Gateway Business Park	28,123	S+P Capital Investments Ltd
Q2 2022	3rd Floor and Part 1st Floor, Fusion Point One	25,845	Roku Europe Limited
Q1 2022	One Central Square	12,187	Carlyle Trust Ltd
Q3 2022	First Floor, One Kingsway, Cardiff,	10,211	Price Waterhouse Coopers

Source: LSH Research

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EXETER

CONSTRAINED CITY CENTRE

While ongoing demand for high quality space is underpinning continuing rental growth, potential activity is arguably being restricted by supply constraints in the city centre.

DEMAND CONSTRAINED

Despite the absence of large-scale deals, take-up over the year to Q3 was a healthy 121,369 sq ft. By the year end, with expectations that a further 25,000 sq ft of deals will be done in Q4, take-up for the year as a whole is on track to surpass the 10-year average.

Jurassic Fibre was behind 2022's largest deal to date, with the broadband provider taking 21,824 sq ft at Milford House during Q3. The year's only other deal above 10,000 sq ft took place in Q1, where Coaching Focus leased 13,096 sq ft at Belvedere House. Ironically, both deals spared an otherwise subdued quarter, with the strongest and busiest quarter of the year by far being Q2, when 28 of the year's 39 YTD deals took place.

Reflecting a dearth of city centre options, 87% of YTD take-up took place in edge of town / out of town locations. Despite weak activity in Q3, recent months have seen a significant uptick in enquiries driven by large lease events. Notably, however, many occupiers in the sub-2,000 sq ft category are transitioning into serviced office space.

TOO RISKY FOR SPEC

Overall supply has increased steadily over recent years, moving to a nine-year high of 403,570 sq ft at the end of Q3. However, circa 80% of this space is located on the outskirts of Exeter, where demand is considerably weaker compared with city centre space.

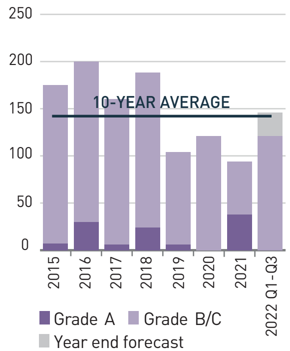
In the past year, the completion of Longbrook House has gone some way to easing the situation, providing a further 50,000 sq ft of grade A space into the city centre. Two potential refurbishments are also on the horizon, namely Manor Court (16,000 sq ft) and Brook House (15,000 sq ft).

UPWARD PRESSURE

Castleforge's completion of Broadwalk House drove the prime headline rent up to £23.50 per sq ft, a level now also being quoted by the recently completed Longbrook House. Tight supply will inevitably generate further growth, with rents predicted to reach £26.00 per sq ft by 2024.

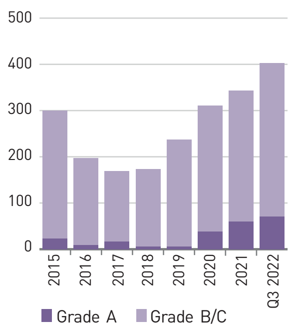
With a lack of speculative development and healthy demand for quality space, net effective rents have been maintained, with 9 to 12 months rent free per five-year term certain being the standard incentive package.

TAKE-UP (000 SQ FT)

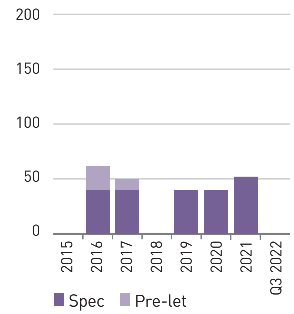


PRIME HEADLINE RENT (£ PER SQ FT)

AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

FORECAST 2022 TAKE-UP VS 10-YEAR AVERAGE
+3%

YEARS OF SUPPLY
2.8

GRADE A SHARE OF SUPPLY
18%

PRIME YIELD
6.50%

Q3 2022 HEADLINE RENT (PER SQ FT)
£23.50

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier
Q3 2022	Milford House, Pynes Hill	21,824	Jurassic Fibre Ltd
Q1 2022	Belvedere House, Pynes Hill	13,096	Coaching Focus
Q1 2022	Ada House, Pynes Hill	1,867	Neal Bertram Legal Services
Q2 2022	1st floor, Powderham House, Park Five	1,621	Restart Consulting
Q2 2022	4 Oaktree Place, Matford	1,250	TL

Source: LSH Research

MARKET INSIGHT

SCOTLAND AND NORTHERN IRELAND

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BELFAST

CAUTIOUS OPTIMISM

Improving demand and a range of new-build offices to choose from point to a continuing recovery of take-up in 2023, albeit landlords are having to compete to win over tenants.

TAKING STOCK

After an extremely subdued Q1, take-up improved significantly in each of the two subsequent quarters, hitting 99,500 sq ft in Q3. The market remains positive in terms of client requirements, albeit many companies are simply taking time to reassess their post-pandemic workspace needs. Notable active requirements in the market include ASOS, Just Group and Peak6.

The largest deal of the year saw serviced office provider BE Offices take 40,000 sq ft at the iconic Custom House building, which is now being fitted out before its planned opening in January 2023. As companies take stock of their workspace needs, the flexibility associated with the Serviced Offices option has become increasingly appealing to many office occupiers. Other prominent deals included an inward investment move from a confidential TMT occupier at City Quays 3 (27,500 sq ft) and the Planning Appeals Commission's 14,200 sq ft lease at 92 Ann Street.

NEW BUILD INFLUX

Supply has grown on the back of a wave of development completions, notable examples including The Ewart (215,000 sq ft, of which 80,000 sq ft pre-let to Deloitte), City Quays 3 (181,169 sq ft), The Paper Exchange (155,153 sq ft) and Olympic House, Titanic Quarter (150,000 sq ft). Notable space at The Ewart and City Quays 3 has already been taken, although The Paper Exchange and Olympic House remain entirely vacant at the time of writing.

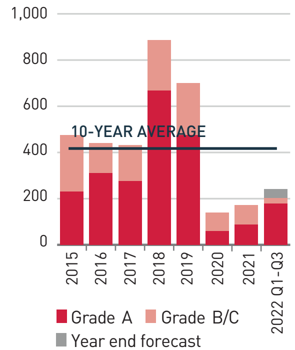
While supply has shot up, Belfast was until recently one of the most tightly supplied UK regional markets. Moreover, current total supply of circa 1m sq ft equates to 2.5 years of average annual take-up, which is broadly in line with if not tighter than most other UK regional centres. The bigger issue is the significant choice of specifically grade A space in the market, and landlords are having to incentivise space more aggressively to attract tenants.

COMPETITIVE STREAK

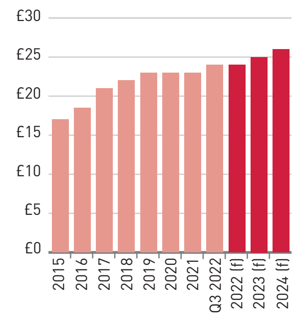
New builds are commanding the current top headline rent of £24.00 per sq ft albeit incentive packages are offered. While rental growth is expected to gradually continue as current supply becomes occupied and with no new speculative schemes scheduled to start on site in the coming months, we anticipate incentive packages to gradually become less tenant favorable.

The Belfast Office market also has the added benefit of having low occupational costs relative to comparative UK cities. This, paired with the large talent pool coming out of local universities, retains Belfast's position as an attractive location for office occupiers.

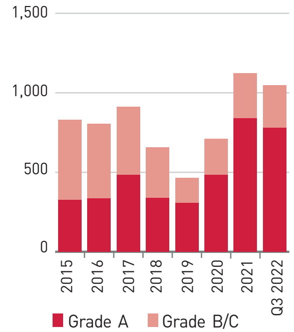
TAKE-UP (000 SQ FT)



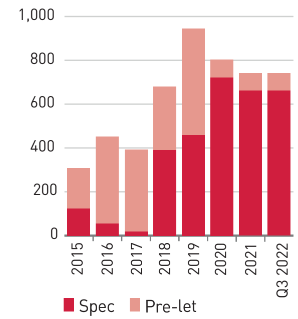
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

FORECAST 2022 TAKE-UP VS 10-YEAR AVERAGE
-42%

YEARS OF SUPPLY
2.5

GRADE A SHARE OF SUPPLY
74%

PRIME YIELD
6.50%

Q3 2022 HEADLINE RENT (PER SQ FT)
£24.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier
Q2 2022	Custom House	40,084	BeSpoke
Q3 2022	8th & 9th Floors, City Quays 3	27,570	Confidential
Q3 2022	3rd Floor, AIB Building	15,000	Department of Justice
Q1 2022	14th Floor, The Ewart	11,250	AXA
Q2 2022	Part 3rd Floor, McAuley House	8,200	Daily Pay

Source: LSH Research

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GLASGOW EDGE / OUT OF TOWN

BETTER TIMES AHEAD

Glasgow out of town has struggled in 2022, but there are signs of improving activity over the years ahead, with new Magenta development set to reinvigorate the market.

TOUGH GOING

Following resilient take-up after the pandemic, 2022 is expected to be one of the weakest on record for Glasgow's out of town market. Take-up for the year to Q3 stands at only 129,000 sq ft, with expectations of another subdued outturn in Q4 pointing to full-year take-up at only a third of the annual trend amount.

Maxim Park has underpinned much of 2022's limited activity to date, home to three of the six deals above 5,000 sq ft. This office park, situated between Scotland's two largest cities, boasted the largest deal of 2022, namely Linear UK Group's 15,089 sq ft lease at Building 7 in Q1. This is a boost for an office park that has struggled to attract tenants since its completion in 2010.

Smaller unit demand has fared somewhat better, with half of 2022's deals to date being below 1,000 sq ft. The construction & engineering sector has been notably active too, by itself accounting for 25% of take-up across 11 deals.

MAJESTIC MAGENTA

While supply has fallen by 13% since the beginning of 2022, there remains a persistent overhang of supply and weak demand, especially to the east of the city. For example, City Park has over 100,000 sq ft of office space available but has seen no deals this year, while Maxim Park continues to struggle.

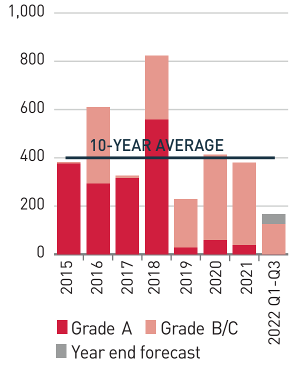
The long absence of speculative development underlines the significant caution towards this market among developers. The only new build completion in recent years comprises EastWorks (32,000 sq ft), a repurposed former disused purifier site in Dalmarnock, but it remains entirely vacant.

With delivery targeted in 2024, the council-led scheme at Magenta, Clyde Gateway should provide a key stimulus to activity and, it is hoped, instill confidence in other investors to follow suit. Totalling 100,000 sq ft across two buildings, development of the first phase of this new business park is expected to commence in Q2 2023.

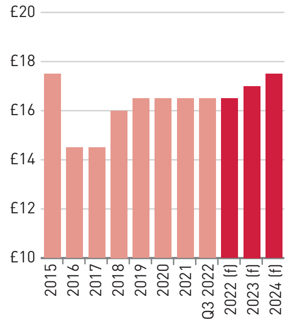
SLOW AND STEADY

Glasgow's out of town prime headline rent stands at £16.50 per sq ft, the lowest of all the key regional markets. Increased interest from tenants seeking opportunities outside the city centre will fuel gradual increases in rental rates over the next few years. By 2024, prime headline rents are expected to recover back to £17.50 per sq ft, after which the delivery of Magenta will likely provide a much stronger increase.

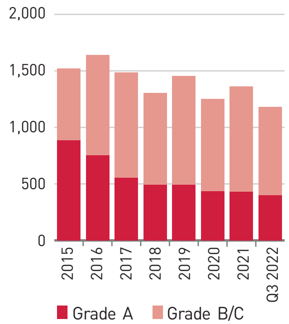
TAKE-UP (000 SQ FT)



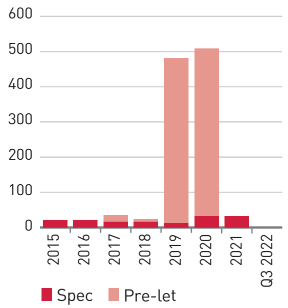
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

FORECAST 2022 TAKE-UP VS 10-YEAR AVERAGE

-58%

YEARS OF SUPPLY

3.0

GRADE A SHARE OF SUPPLY

34%

PRIME YIELD

7.25%

Q3 2022 HEADLINE RENT (PER SQ FT)

£16.50

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier
Q1 2022	2nd Floor, Maxim 7, Eurocentral	15,089	Linear UK Group Limited
Q3 2022	Melisa House, Govan	9,617	Vailant Group
Q1 2022	City Park, Alexandra Parade	6,449	SWECO
Q3 2022	Ground Floor, Carnbroe House, SBP	6,186	Focus Group
Q1 2022	1st floor Pavilion 4 Glasgow Business Park	5,636	Glasgow City Council

Source: LSH Research

GLASGOW CITY CENTRE

MARKET MOVING SLOWLY

Glasgow remains an occupier's market, with demand moving slowly and supply still relatively high. However, new developments completed over the last 12 months have attracted healthy interest from firms seeking high quality centrally-located space.

STEADY TAKE-UP

Office take-up in Glasgow city centre was 419,000 sq ft across the first three quarters of 2022, slightly up on the same period of 2021, but still below the long-term average. The professional services sector has been the main driver of demand this year, but occupiers from other sectors including manufacturing and energy have also been active.

The largest deal of 2022 to date saw OVO Energy lease 33,905 sq ft at Cadworks in Q2. There have been two additional 20,000 sq ft-plus deals, with the serviced office operator Wizu Workspace acquiring 24,350 sq ft at 2 West Regent Street and financial services company Evelyn Partners taking 29,683 sq ft at 177 Bothwell Street.

Only 28% of take-up in the first three quarters of the year was for grade A space, but this belies a focus on better quality offices, with newly completed schemes such as 2 Atlantic Square, Cadworks and 177 Bothwell Street letting up well. Noteworthy grade A transactions have included deals to Burness Paull (14,814 sq ft) and BDO (8,078 sq ft) at 2 Atlantic Square; and to EDF (9,670 sq ft) at 6 Atlantic Quay.

New requirements are proving slow to come through, but some occupiers who paused relocation plans during the pandemic are now back in the market. However, many of these have reduced their search parameters to reflect changed needs.

Occupier demand is increasingly oriented towards offices with strong ESG credentials that are suited to post-pandemic working. The number of companies seeking fitted and furnished space has also risen, while serviced offices continue to attract growing interest, due to the flexibility that they offer.

LIMITED PIPELINE

Total availability stands at c. 2.3m sq ft, but only 28% of this is grade A space. While availability levels have remained relatively stable in central locations, the pandemic caused an increase in supply in more peripheral areas. The east of the city centre, in particular, now has a large volume of available space.

Cadworks (94,431 sq ft), 2 Atlantic Square (96,650 sq ft), and 177 Bothwell Street (305,000 sq ft) have all been completed over the last 12 months. Each of these has attracted occupier interest, with multiple floors either being under offer or pre-let during construction.

The development pipeline for the next two years is dominated by refurbishment schemes. These include the rebranded Lucent at 50 Bothwell Street (87,872 sq ft), where work is underway and due to be completed next year. Other buildings subject to major refurbishment plans include Aurora, 120 Bothwell Street (175,000 sq ft) and the Met Tower, 60 North Hanover Street (173,000 sq ft).

These projects will be needed to fill the supply gap, as no major new build speculative projects are likely to be completed for several years. Glasgow's next large-scale new scheme will be CEG's The Grid (285,000 sq ft), which is expected to start on site in late 2022 and be completed in 2025.

In addition, a new 270,000 sq ft office building at Argyle Street is due for completion in 2023, but this is entirely pre-let to JP Morgan.

Landlords have had to adjust their products to suit occupiers demanding more flexible, all-inclusive spaces and leases. An increased number of fully fitted and furnished offices are being offered, and several deals have been completed in a new breed of Category A Plus fitted offices, providing high end space on flexible lease arrangements.

MODERATE RENTAL MOVEMENT

Prime rents have risen slightly to £35.50 per sq ft, from £35.25 a year ago. Deals at recently completed buildings have supported this rental

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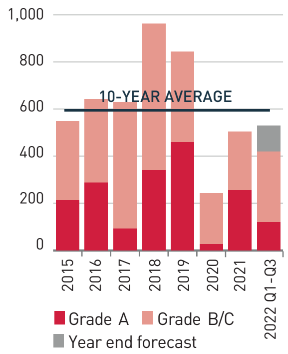
level, which was most recently achieved by Evelyn Partners' lease at 177 Bothwell Street in Q3.

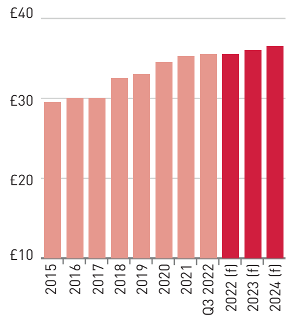
Incentives have remained stable, with rent-free periods of 20-24 months typical for 10-year leases. However, incentives are expected to be reduced at best-in-class buildings as grade A supply diminishes due to limited new development. With occupiers seeking high quality space likely to have increasingly restricted options, steady growth in prime headline rents is also forecast over the next few years.

2 West Regent Street, where LSH recently acquired space on behalf of Nationwide

TAKE-UP (000 SQ FT)



PRIME HEADLINE RENT (£ PER SQ FT)



MARKET AT A GLANCE

FORECAST 2022 TAKE-UP VS 10-YEAR AVERAGE

-12%

YEARS OF SUPPLY

3.7

GRADE A SHARE OF SUPPLY

28%

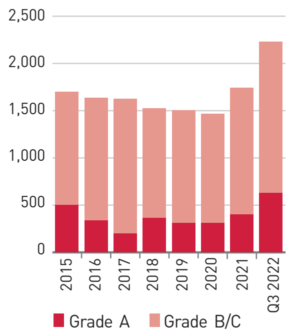
PRIME YIELD

5.75%

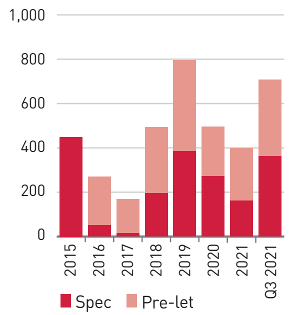
Q3 2022 HEADLINE RENT (PER SQ FT)

£35.50

AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier
Q2 2022	Cadworks	33,905	OVO Energy
Q3 2022	177 Bothwell Street	29,683	Evelyn Partners
Q2 2022	2 West Regent Street	24,350	Wizu Workspace
Q1 2022	4th Floor, 2 Atlantic Square	14,814	Burness Paull
Q3 2022	6 Atlantic Quay, Robertson Street	9,670	EDF

Source: LSH Research

EDINBURGH CITY CENTRE

FOCUS ON QUALITY

While 2022 has seen relatively subdued take-up, this is reflection of an extreme lack of new grade A supply in the city centre, rather an absence of demand. Projects that have come to the market in recent years have been quickly let, but there is now very little new space in the immediate development pipeline.

PENT-UP DEMAND

Take-up in Edinburgh city centre over the first three quarters of 2022 was 268,000 sq ft, 27% down on the same period of 2021. The lower level of activity is mainly due to a relative absence of large-scale transactions, with only five deals over 10,000 sq ft recorded in the year to date. There remains plenty of demand for high quality city centre space, but a lack of development activity has left occupiers with limited options.

The largest deal so far in 2022 saw law firm Anderson Strathern take 21,446 sq ft at BAM's Capital Square in Q3. Stantec (9,241 sq ft) and Mazars (8,247 sq ft) also completed deals at this building during the same quarter, demonstrating the strength of demand for the best quality space in the market.

Professional services have been a key source of demand, accounting for 38% of take-up in Q1-Q3. Within this sector, law firms have been particularly active, completing the three largest deals. In addition to the Anderson Strathern deal at Capital Square, Shoosmiths (16,383 sq ft) and Dentons (14,962 sq ft) both agreed to take space at 1 Haymarket Square.

Other major deals saw Trustpilot take 10,515 sq ft at 20 George Street in Q1, while battery technology developer Dukosi leased 12,066 sq ft at 1-7 Exchange Crescent in Q2, and energy technology company Enoda acquired 8,464 sq ft at Quartermile 3 in Q3.

Following the pandemic, there is a significant amount of pent-up demand for high quality space with strong ESG credentials. City centre locations with access to local amenities and transport connections are the main focus of demand as firms seek to encourage employees back to the office. The flight to quality has seen grade A space account for 64% of take-up in the year to date, and the limited amount of newly developed space on the market has been snapped up quickly by occupiers.

26 St Andrew Square, a 6,000 sq ft fully refurbished townhouse which LSH acquired for Kaplan International in Q3 2022.

With several transactions in the hands of solicitors, a strong end to the year is expected. However, 2023 may start slowly as some occupiers are now delaying decisions due to uncertainty around the outlook for the economy and interest rates.

SCARCE NEW BUILD SUPPLY

Availability has risen by 7% since the end of 2021, to stand at c. 1.1m sq ft, partly due to a significant volume of grey space coming back to the market. However, the supply of new build grade A space in the city centre is almost non-existent, with the last remaining floor at Capital Square, comprising 9,241 sq ft, being the only available unit.

The 350,000 sq ft Haymarket scheme, which is still under construction, is now fully pre-let to a range of occupiers including Baillie Gifford, Shepperd & Wedderburn, Dentons and Capricorn Energy. The only other recent major completion, 2 Freer Street (59,350 sq ft), was fully pre-let to FanDuel in Q4 2021. Pockets of second hand grade A space are available, but the choice is limited.

The Network, an 83,428 sq ft building in the New Town Quarter development, is the only new build speculative project currently scheduled, but this is not due for completion until 2024.

In the absence of new build schemes, there is the opportunity for major refurbishments to fill the supply gap over the next couple of years. New Clarendon House (34,382 sq ft) is the only refurbishment project due for completion in 2023, but 30 Semple Street (56,000 sq ft) and Edinburgh One (85,000 sq ft) are expected in 2024.

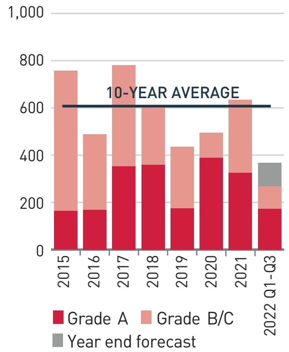
RENTS MOVE UP

Lettings at the Haymarket have driven strong prime rental growth over the last year, with headline rents standing at £39.50 per sq ft in Q3 2022, up from £37.00 per sq ft a year earlier. Rents of £40.00 per sq ft are now being quoted for the best quality space in Edinburgh.

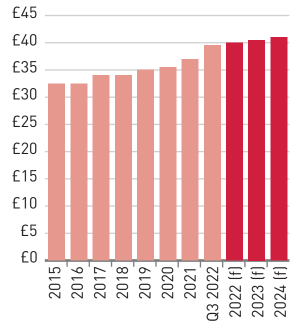
With office supply remaining constricted across the entire city centre, rental growth has been seen across all grades. Rents for well-located grade B offices have received a particular boost, as they have absorbed demand from occupiers unable to secure grade A space.

Incentives have remained broadly stable, with rent-free periods of 15-18 months typical for a 10-year lease.

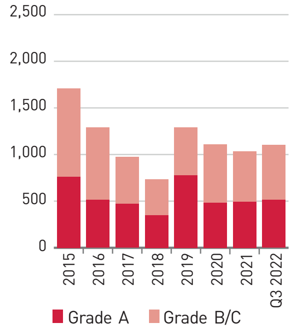
TAKE-UP (000 SQ FT)



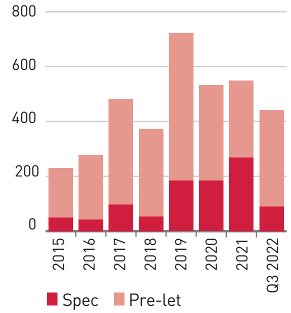
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

FORECAST 2022 TAKE-UP VS 10-YEAR AVERAGE

-40%

YEARS OF SUPPLY

1.8

GRADE A SHARE OF SUPPLY

46%

PRIME YIELD

5.25%

Q3 2022 HEADLINE RENT (PER SQ FT)

£39.50

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier
Q3 2022	Capital Square	21,446	Anderson Strathern LLP
Q1 2022	Haymarket Square	16,383	Shoosmiths LLP
Q1 2022	Haymarket Square	14,962	Dentons UK and Middle East LLP
Q2 2022	1-7 Exchange Crescent	12,066	Dukosi
Q1 2022	10 George Street	10,515	Trustpilot Ltd

Source: LSH Research

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EDINBURGH OUT OF TOWN

ON THE UP

Given the cost constraints in the city centre, the welcome arrival of grade A supply into the out of town market promises to stimulate activity and rental growth over the next few years.

IMPROVING ACTIVITY

After a poor two-year run, activity in the out of town market improved considerably in 2022, with take-up moving closer to trend. YTD take-up of 131,000 sq ft was spread relatively evenly across the year, bolstered in Q3 by Ooni Pizza Ovens' lease of 17,962 sq ft at the refurbished Lomond House. The market will continue to benefit in the short term from Mercer and Menzies Aviation who have active requirements to right size in view of their forthcoming lease events.

Reflecting limited choice, take-up has been dominated by grade B space, with the largest of 2022's only two grade A deals to date being Quorum Cyber's 6,490 sq ft lease at CEG's Verdant, South Gyle. Despite this, occupiers are increasingly likely to consider West Edinburgh, especially when weighing up the substantial rental discount compared with the city centre.

QUALITY SUPPLY GAINS

While total supply has been relatively stable over 2022, it remains elevated, standing at 853,000 sq ft and equivalent to well over three years of average take-up. However, grade A space accounts for only 15% of current supply and only recently received a major boost with the delivery of Parabola's 1 New Park Square (85,000 sq ft), a high quality operational net zero carbon development

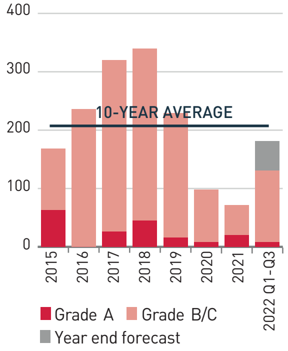
The above scheme forms just part of the planned West Town Edinburgh mixed-use development, an area which spans 205 acres to the west of the city centre. This area promises long-term momentum and evolution of Edinburgh's office offer. Other than this, refurbishments are likely to play a key role in boosting quality supply in the near term with forthcoming projects including Shelborn's Edinburgh Green and Ambassador's Broadway 2 in South Gyle,

MOVING TO THIRTY

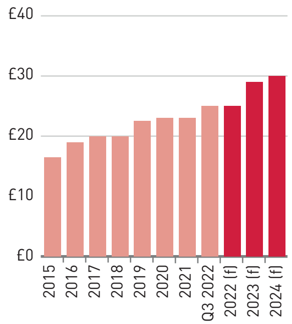
While availability is on the high side, the imbalance of demand and supply in the city centre is expected to continue to drive occupiers out-of-town, supporting the medium to long-term prospects for this market.

As a consequence, and with relatively limited choice of grade A space to choose from, significant rental growth is projected over the next couple of years. The current prime rent of £25.00 per sq ft achieved for the best newly refurbished space is expected to rise to £30.00 by 2024, the level targeted by 1 New Park Square.

TAKE-UP (000 SQ FT)



PRIME HEADLINE RENT (£ PER SQ FT)



MARKET AT A GLANCE

FORECAST 2022 TAKE-UP VS 10-YEAR AVERAGE

-16%

YEARS OF SUPPLY

4.0

GRADE A SHARE OF SUPPLY

24%

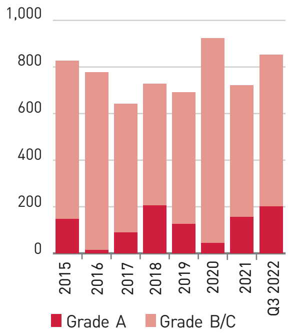
PRIME YIELD

6.75%

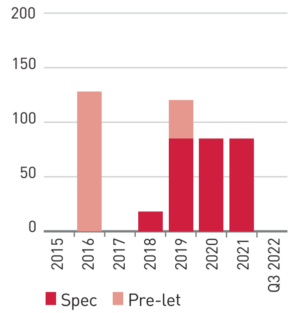
Q3 2022 HEADLINE RENT (PER SQ FT)

£25.00

AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier
Q3 2022	Lomond House, 10 Lochside Place	17,962	Ooni
Q1 2022	Charles Darwin House, Edinburgh Technopole	15,641	Roslin Cells
Q2 2022	1-3 Lochside Crescent	15,007	Aegon Asset Management
Q3 2022	2 Wester Shawfair, Shawfair Park	10,173	Roslin CT
Q2 2022	Verdant	6,490	Quorum Cyber

Source: LSH Research

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