



# The Northern Powerhouse

## Office Market Report 2015/16

### Inside this report:

- A CEO's view
- Rebalancing the UK through transport connectivity
- The workforce for success: creative, modern and agile
- Challenging London's competitiveness
- A world-class knowledge hub
- Spotlight on Technology, Media and Telecommunications (TMT)
- The compelling case for development

**Lambert  
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# The Northern Powerhouse: A generation-defining opportunity

It was in the spring of 2014, during a trip to Manchester, that the Chancellor of the Exchequer first announced the country's need for a "Northern Powerhouse".

Recognising the economic dominance of London and the South East, and the significant untapped potential across the North of England, George Osborne set in motion a process that has the potential to completely transform the region.



"The Northern Powerhouse is a fantastic initiative that has finally come of age. However, pace of change is critical to its success."

David Topham, Chief Executive of CTP

"The Northern Powerhouse initiative is one of the greatest opportunities that the region has ever seen and is one that businesses, local enterprise partnerships and the wider community need to be at the heart of."

Ian Morrison, PwC's Yorkshire and North East Regional Leader

## A partnership approach

Historically, the Northern Powerhouse region has performed below the UK's average for Gross Value Added (GVA) growth. In 2013, it accounted for 13.3% of the total UK economy. In comparison, London contributed 24.5%.

But, with the implementation of a coherent strategy by the Government – working in partnership with the private sector – the opportunities for the region in terms of encouraging and attracting new investment and boosting productivity are potentially limitless.

## Building new confidence

Narrowing the infrastructure investment gap, which currently sees the South East enjoy up to 10 times more funding than the North of the country, will be a critical first step in building a new confidence in the region.

Already, the Government has made strides in this direction by approving the upgrade of the TransPennine Express Railway, which will see capacity increased between Manchester, Leeds and York and journey times reduced by 20%.

"The Northern Powerhouse can only be a good thing, but it needs to be backed up by meaningful investment and real powers."

Chris Perkins, Head of Business Space at M&G Real Estate

## Supporting UK growth objectives

Connecting the region, both locally and nationally, must remain a priority in the coming years if the Northern Powerhouse is to reach its full potential and properly support the UK's growth objectives.

Strong leadership will be a major catalyst for change and, as the region benefits from increased devolution and the introduction of metro mayors, we must also see initiative and direction from the region's businesses that have the primary objective of turning the Northern Powerhouse rhetoric into reality. This is where Lambert Smith Hampton's (LSH) role is critical.

## Transforming the office market

As business confidence grows and the job market continues to thrive as a result of focused investment, so too will the demand for office space.

LSH is the only commercial property consultancy with a footprint spanning all five of the core Northern Powerhouse cities.

Drawing together the knowledge and experience gained from our unique position and our market leading research, this report sets out our thoughts on the key drivers of growth across the Northern Powerhouse and is intended to inform decision making on every aspect of the property lifecycle.

## A CEO's view...

In the first of our articles exploring different aspects of the Northern Powerhouse, Owen Michaelson, CEO of Harworth Estates, provides his five-point plan for success.



### Northern Powerhouse – is it 'all in a name'?

I certainly hope not! Many northern economies, such as Sheffield, Leeds and Doncaster, are not performing to their full potential and still require government support. What does this mean?

From our perspective as a regional regeneration company, it means that the Government and the new minister appointed for the programme, James Wharton MP, are actively supporting the unlocking of development through improved infrastructure and spending across the northern corridor (Liverpool to Hull), while maintaining a stable regulatory framework. This will provide surety to investors while encouraging further commercial and residential development.

At present, not enough houses are being built, new build commercial space is scarce and our companies are not as productive as they could be while we await the delivery of essential infrastructure. This challenge must be met head on, while not forgetting that we are in an era of dwindling public spending and the emphasis – quite rightly – is on 'bang for buck'.

**To deliver the Northern Powerhouse initiative, the Government should focus on five key areas:**

### 1. Planning

A squeeze on local government expenditure has led to a reduction in the capacity of local planning authorities, slowing planning application decisions. We do not believe that a fundamental planning reform is needed. However, a consistent and stable approach is, including how local planning authorities are funded. Now that we have our National Planning Policy Framework, we should stick to these principles, rather than reinventing the wheel every five years.

### 2. Infrastructure

We welcome both the continuation of the National Infrastructure Plan to support pan-regional projects and the proposed expansion of powers and monies to city regions through 'devolution deals', and look forward to seeing these support local projects.

### 3. Housing

We need to house the Northern Powerhouse! Any measures to stimulate purchaser demand in the North of England, such as the Government's Right to Buy and Right to Build schemes, would be welcomed. The key emphasis is on retaining incentives for the long term, rather than chopping and changing at regular intervals, which does little for market confidence. The recent announcement of a housing taskforce to drive efforts to increase the supply of housing is a welcome start.

### 4. Transport

Delivery of HS3 is the big priority in the North, not HS2. Sheffield to Liverpool trains take nearly two hours for a 62 mile journey. This continues to harm economic competitiveness and trading possibilities.

I think the Government will run out of money, heart or time before HS1, HS2 and HS3 are all complete. Phase two of HS2 ought to be put on hold in favour of a focus on HS3 in order to deliver a stronger, quicker economic uplift for the region. When both HS1 and HS3 are complete, HS2 could then be built to join the two powerhouses of the North and South.

### 5. Energy

There are numerous opportunities for low-carbon innovations across the region, yet these are affected by the lack of a clear national energy policy. This was emphasised by recent fundamental changes in incentives for onshore wind and solar schemes that were made without notice or consultation, leading to a rush in planning applications, a rise in investor frustration and a legal challenge to the review process. A stable incentive scheme would be beneficial, compared with a continual change of the guard.

I believe that businesses in the North have the ability and skill to become more productive and competitive. The Northern Powerhouse initiative can create the necessary conditions to give them the best possible chance of success and, in return, business leaders need to support it in what they do and say. That's what I'll be doing.

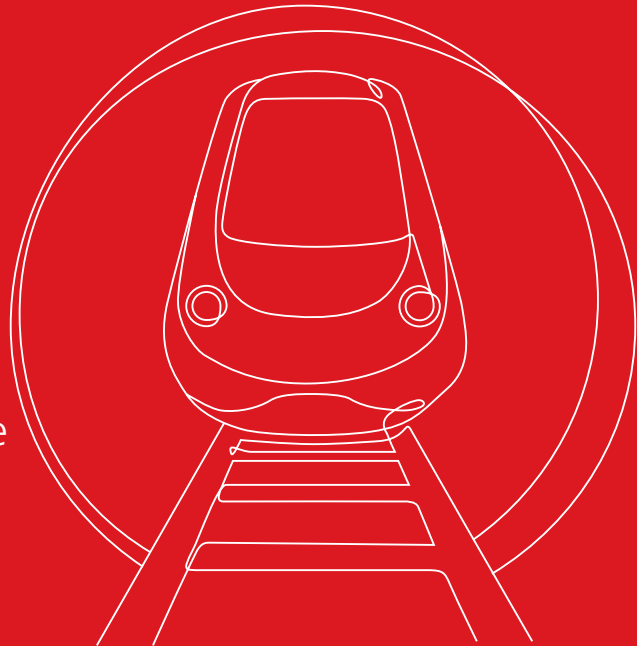


Owen Michaelson  
Chief Executive Officer  
Harworth Group plc  
[www.harworthgroup.com](http://www.harworthgroup.com)

Josh Levy, LSH Office Agency, Manchester

# Rebalancing the UK through transport connectivity

Enhancing connectivity through investment in major rail infrastructure is pivotal to boosting productivity in the Northern Powerhouse and rebalancing the UK's economy.



'Connectivity' is an ambiguous term and has different implications according to circumstance. It is more than just transport links – if executed successfully, it will mobilise people in every aspect of their lives... tourism, variety of goods, quality of life, business efficiency and productivity should all flourish as a result.

## Critical underinvestment

Transport is the most vital part of 'connectivity'. It is the intricate and vast network that links every aspect of the Northern Powerhouse together. This makes it the biggest challenge.

To put this into context, the cities of Liverpool, Leeds, Manchester, Newcastle and Sheffield have a combined area of 580 square miles – about the size of Greater London. However, people are much more spread out across the northern cities, with a population of approximately 7,758 people per square mile covering a distance of 217 linear miles (east to west), as opposed to 14,003 people per square mile in Greater London covering a distance of just 45 linear miles.

The widespread urbanisation of the northern cities has led to a need for increased urban infrastructure. Yet, at half the 'per head' spend of London (see chart on page 5) and below the national average, there has been a critical underinvestment in northern transport.

## An ailing rail network

Strategic improvements in the motorway network, through the introduction of Smart Motorways, are already underway, and will help reduce road congestion and improve access to the region's nine ports and five international airports, enabling the Northern Powerhouse to compete on a global stage.

"Tackling the region's transport system will enable it to fulfil its economic potential, collaborate as one region and therefore help it compete on a national and global stage."

Jonathan House, Partner and PwC's Local Government Leader in the North

However, the region's local and national rail links, which are arguably one of the most significant constraints on its connectivity, are deemed less of a priority.

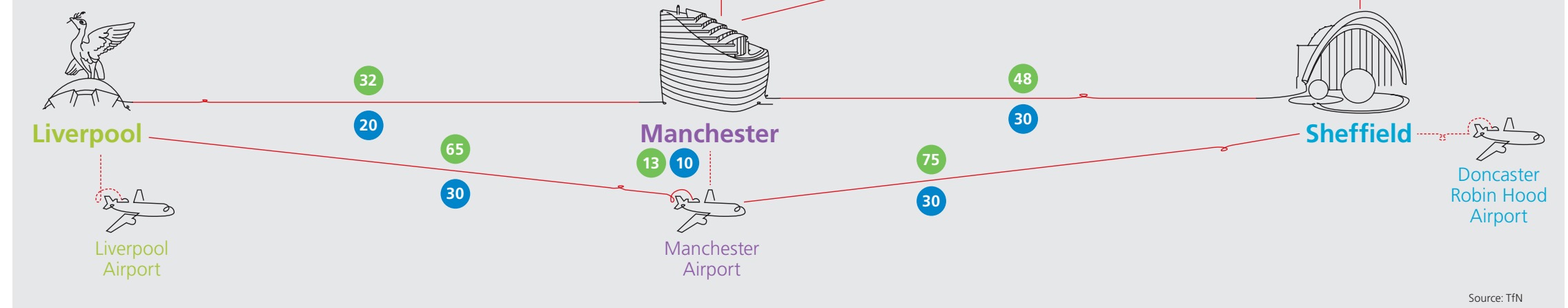
Many rail services in the region are outdated, as is the infrastructure. It currently takes half an hour longer to travel the 147 mile journey from Manchester to Newcastle than it does to travel the 165 miles from Manchester to London. But it's not just lengthy journey times that deter would-be passengers, repeated overcrowding and infrequent services are both common complaints of the region's ailing rail network.

News that the planned electrification of the TransPennine Railway between Manchester and Leeds is to be resumed is a vital step in the right direction; however, works are not due to be completed until 2022. More importantly, the second phase of HS2 – which connects Manchester to Liverpool, and Manchester to Leeds and Sheffield – is not scheduled for completion until 2032! One has to ask whether the magnitude of the transport challenge has been overlooked, or is it that commitment to the region is yet to be fully realised?

## What does success look like?

The Randstad is a megalopolis in the Netherlands and consists of the four largest Dutch cities of Amsterdam, Rotterdam, The Hague and Utrecht. It has a population of almost 8 million and covers an area of approximately 3,199 square miles.

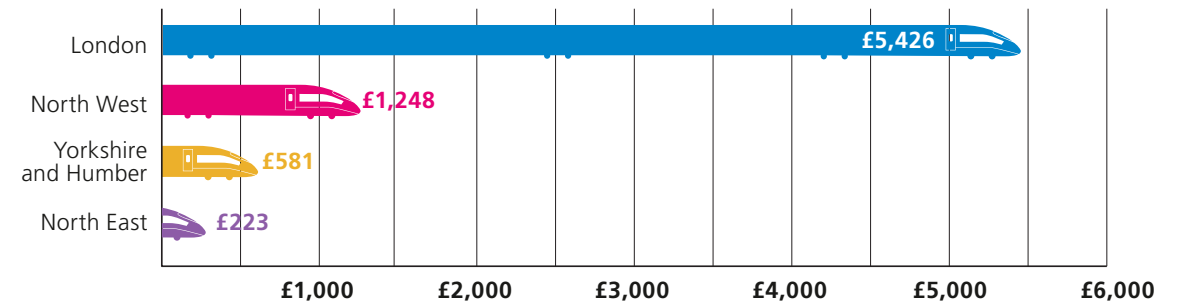
### Journey times by rail – current and aspirational



Source: TfN

### Infrastructure investment per capita on regionally allocated pipeline projects

Source: HM Treasury 2014



The cities are linked by an extensive road network, and fast and frequent rail services supported by local rail, tram and bus connections. The region is also home to Schiphol Airport – one of Europe's major airports, and the Port of Rotterdam – Europe's largest seaport.

The Randstad generates around half of the Netherlands' GDP (£210 billion in 2011). Source: Eurostat.

## A holistic approach is required

Transport for the North's (TfN) ambitious strategy for transforming the northern economy by significantly enhancing connectivity between the city regions is welcomed. However, budgets will only stretch so far and

projects must be aligned and prioritised in order of their long-term socio-economic benefits if the Northern Powerhouse is to become a powerful counterweight to London and schemes such as Crossrail.

We now urge stakeholders in the Northern Powerhouse city regions to further harness the opportunities that decentralisation offers by coming together to agree the region's key infrastructure projects in a holistic manner, and avoid the piecemeal approach that has been the case for so long.

For us, a key component of that process means promoting the delivery of HS3 ahead of HS2.

"Connectivity is a current weakness but it is being addressed with major investment."

Tim Newns, Chief Executive, MIDAS



# The workforce for success: creative, modern and agile

Nick Coote, Director of Office Agency at LSH, takes a look at the key underlying forces that have been transforming our economy and culture, having a visible impact upon office space demand and use.



## A fundamental shift is underway

A creative class is creating a forceful change agenda. As hypothesised by Richard Florida in his influential book “The Rise of the Creative Class”, Florida’s widely accepted premise is that, through all the social changes caused by technology and globalisation, an even deeper force has been at work – the rise of creativity as a fundamental economic driver.

We are seeing the rise of a new social class as a result. Spanning science and technology, arts, media and culture, traditional knowledge workers and the professions, this new class is a significant part of the modern workforce.



The Hepworth, Wakefield (AC Manley / Shutterstock.com)



XYZ Building, Manchester

## A new workforce with new expectations

Building better, more vibrant locations, Florida argues, is not about attracting companies with handouts and tax breaks, but rather, building a ‘people climate’. In this context, openness to all kinds of people, regardless of their gender, race, nationality or sexual orientation, is an economic necessity.

The talented are favouring cities over suburbs and the urban centres are challenging the suburban out-of-city locations for talent and high-tech industry.

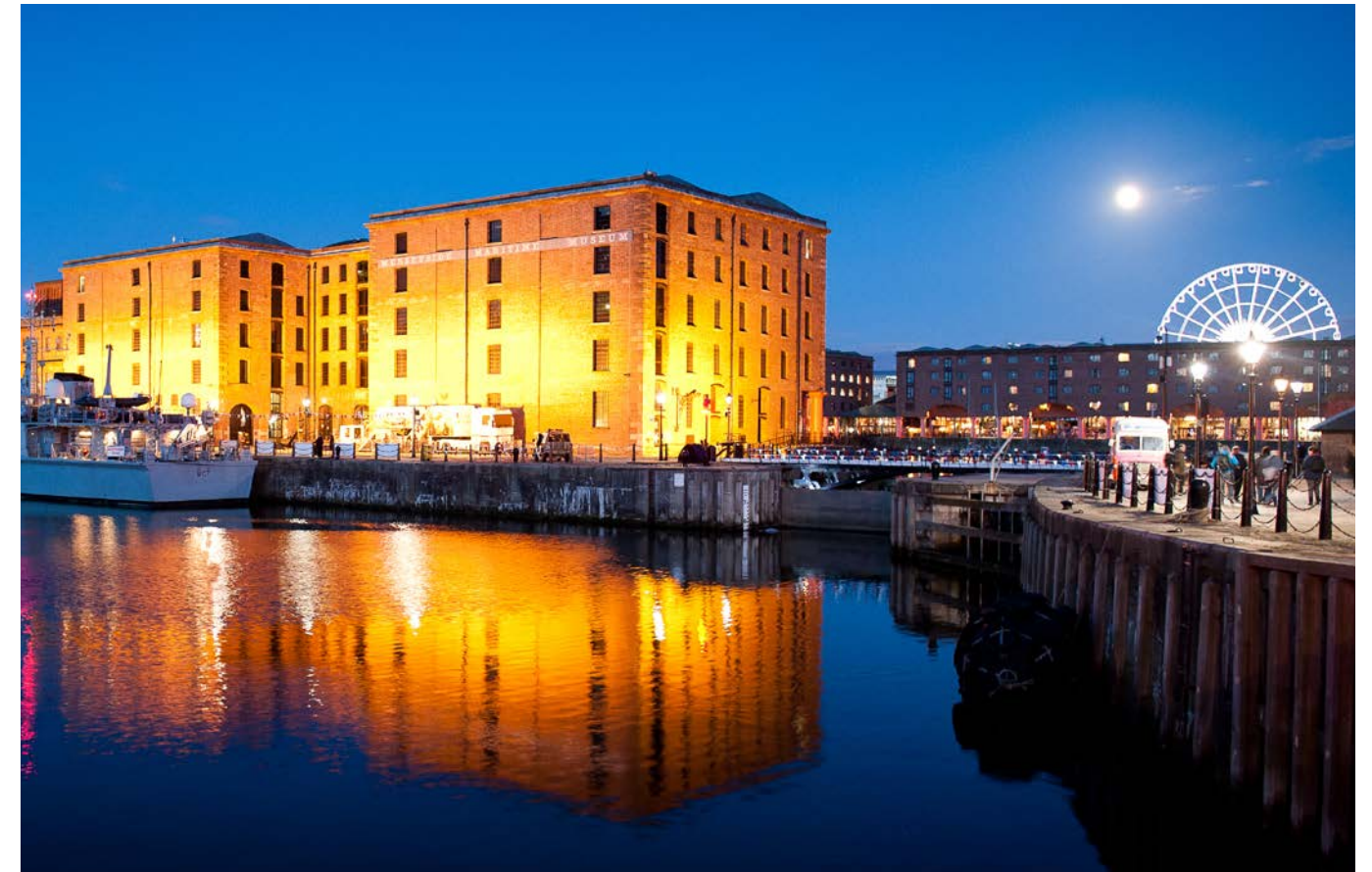
This dynamic can be seen in action as Silicon Valley in California loses traction against the urban centre of San Francisco. Similarly, here in the UK, the Thames Valley (renowned as the UK’s Silicon Valley) is losing traction to London, which, in recent years, has attracted ‘new’ technology giants such as Google, Amazon, LinkedIn and Facebook.

“In a modern, knowledge-based economy, city size matters like never before. In the nineteenth and twentieth centuries, a factory would be located where you could find raw materials, power and cheap labour.

Today, in a services based economy, what investors are looking for is not a river to dam, but access to a deep pool of human capital. There is a powerful correlation between the size of a city and the productivity of its inhabitants.

The top 600 cities in the world contain just 20% of global population but create 60% of global GDP”

George Osborne, Chancellor of the Exchequer



Albert Docks, Liverpool

## A new workforce requires a new workplace

The dawning of this new creative age has led to more respect for life/work balances and sustainability. Businesses must seek to maximise their ability to hire and retain the best talent, so if the people are urbanising, then so too will the businesses. They are seeking to maximise the productivity of their workforce and the leading mantra in this regard is ‘flexibility, communication, collaboration’.

Today’s ‘modern workplace’ is open plan, with few private offices, incorporating flexible meeting rooms and breakout areas. The preference is for everybody to be on one floor, or as few floors as possible, to engender communication and collaboration, with as few physical barriers as possible.

## A new, agile, way of working

The ‘modern workplace’ is the operational office platform – how that platform is utilised brings us to the concept of ‘agile working’. This involves empowering employees to work where, how and when they choose, in order to maximise their productivity and deliver the greatest value to the business.

## What does this mean for the Northern Powerhouse?

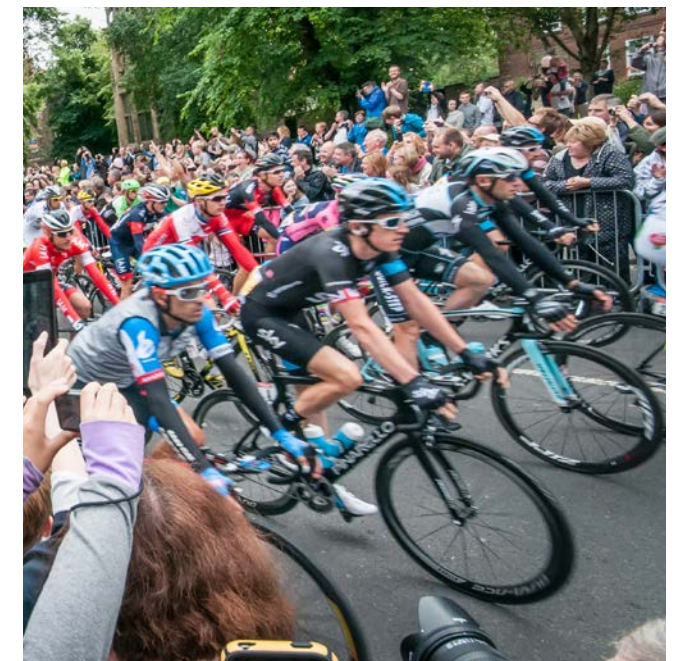
To succeed in this ever-changing world, the Northern Powerhouse must compete in the global market by offering a credible, creative, knowledge-based economy that can challenge other major cities in Europe and beyond as a place to locate, live, work and succeed.

It has many of the ingredients needed to create a vibrant location to attract the creative talent; from world-class arts and culture, to the latest music arenas and sporting facilities. In addition, it offers substantial cost advantages over London and the South East.

The Northern Powerhouse is a ‘whole greater than the sum of its parts’ concept and both the challenges and benefits of connecting its cities politically, culturally and physically are clear.

“Cities are central to innovation and new technology. They act as giant petri dishes, where creative types and entrepreneurs rub up against each other, combining and recombining to spark new ideas, new inventions, new businesses and new industries.”

Richard Florida, Wall Street Journal  
*The Joys of Urban Tech*



Tour de France Grand Depart



# Challenging London's competitiveness



In a bid to counter the rising expense of London, for both businesses and their staff alike, occupiers will increasingly seek new ways to reduce cost and continue to attract young talent. The Northern Powerhouse is perfectly poised as the alternative solution.

## Rising costs

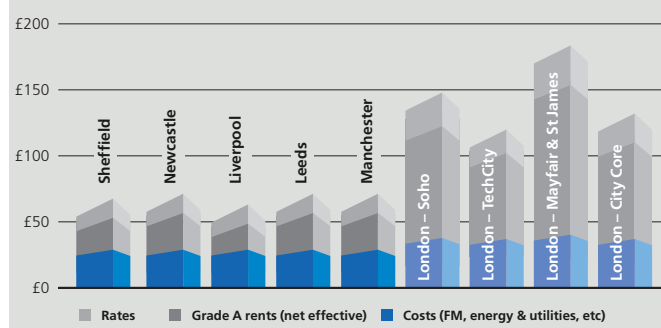
It is a well-known fact among office occupiers that property costs are the second largest overhead after staff salaries and that the London office market is one of the most expensive in the world.

Businesses in the capital are coming under increasing pressure to reduce their operating costs. In London's most expensive district of Mayfair, the average annual cost of occupying grade A office space (including rates, service charge and utilities) stands at circa £185 per sq ft, well over three times the level of the key cities of the Northern Powerhouse.

But perhaps more significantly, many of London's emerging or 'hip' office districts, such as TechCity, Soho and South Bank, have also become very expensive in comparison to the Northern Powerhouse markets.

Businesses in these locations will bear the brunt of the business rates revaluation when it comes into force in April 2017, with soaring rental costs over recent years predicted to lead to a sharp rise in the rates payable of between 32% and 82%. The Northern Powerhouse markets will suffer to a lesser extent, with the rates payable predicted to increase between 4% and 64%.

## Occupational costs as at April 2015 (£ per sq ft)

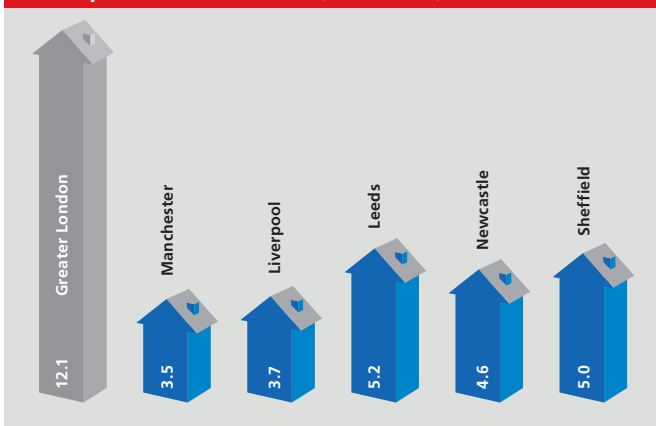


Source: ACTIUM, LSH

"We're seeing a growing number of people in their 30s, who moved to London as graduates, becoming increasingly frustrated with London's rising costs of living and poor work-life balance. These individuals are now looking to relocate back to their home towns in search of a better quality of life from which to raise a family."

Tom Bloxham MBE, Founder of Urban Splash

## House price to income ratio (2014/2015)



Source: ONS 2014, Land Registry 2015, LSH

The cost of living in the capital is also becoming increasingly unaffordable, particularly for young aspiring professionals with dreams of owning their own home. While staff working in London's West End can expect to earn, on average, over 50% more than their northern counterparts, the gulf in average housing costs relative to income is much more stark.

In London, the average Greater London house price stands at an astonishing 12.1 times average income. Of the Northern Powerhouse cities, Leeds is the 'least affordable', at 5.2 times the average income.

All of these factors make the Northern Powerhouse a compelling option for companies considering moving operations out of London.

## The evolution of northshoring

The concept of moving jobs to the regions, known as a 'northshoring' or 'nearshoring' is not a new one. It is a strategy employed by many legal firms and IT companies, who have been relocating their back-office functions out of the more expensive South East for many years. The Lyon's Review in 2004 also recommended the significant relocation of civil servants from London and the South East into the UK's other major cities. With its comparatively lower occupancy, labour and housing costs, vibrant cultural and sporting scene, not to mention the high quality of its talent pool, it is understandable to see why.

However, the Northern Powerhouse's long-term prospects as a genuine alternative to London will depend, by and large, on its ability to tempt growth industries away from their traditional heartland in addition to just back-office functions.

Moves like the BBC's, which has seen it relocate 2,500 staff from across five departments to MediaCity in Salford since 2011, has paved the way for others to follow by stimulating investor confidence. However, transport infrastructure projects and the development pipeline must be accelerated before the North can realistically accommodate any increased migration.



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# Northern Powerhouse Office Market Statistics 2015/16

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## Occupational overview

**Viewed together, the eight core office markets of the Northern Powerhouse have enjoyed a strong first three quarters of 2015. Confidence has been key. More occupiers are pressing ahead with long-planned relocations, investing in the future of their business through upgrading or expansion of their accommodation.**

Manchester has undoubtedly led the charge. On the back of a strong 2014, the market is on course to see record annual take-up in 2015. But the picture is positive across all markets – Leeds and Sheffield have enjoyed an exceptional year, with Liverpool being the only market predicted to see activity fall short of its annual average in 2015, albeit only marginally.

The best performing cities are benefitting from strong demand, both in the traditionally dominant sectors of Financial and Professional Services, alongside emerging sectors, such as TMT. Smaller and medium-sized businesses are also much more active, with the number of transactions increasing markedly year-on-year in Liverpool, Warrington and South Manchester, despite the volume of take-up being broadly average.

The rebound in occupier demand and consequent erosion of available supply has

not gone unnoticed by developers – none of the eight markets have much in excess of two years readily available grade A space. Yet, even factoring current speculative development into the equation, there is still a compelling case for further development, particularly considering the forthcoming spike in lease event activity which is broadly characteristic of all the city centre markets.

The growing imbalance of supply relative to demand is providing the necessary ingredients for meaningful rental growth. While Manchester and, to some extent, Leeds have led the charge – with rental growth in place for 12 months or more – 2015 has brought increasing evidence that growth is spreading to the other markets of the Northern Powerhouse. This will be key to ensuring new build space is viable and, therefore, deliverable.

Of course, the majority of occupiers are less content to pay the higher rents that new build space commands. However, this presents a growing opportunity for landlords and developers to embark on good quality refurbishments. Alongside attracting blue chip inward investors from London and internationally, this is an essential step towards reinvigorating all the markets of the Northern Powerhouse region over the medium-term.

**For more information, please contact:**

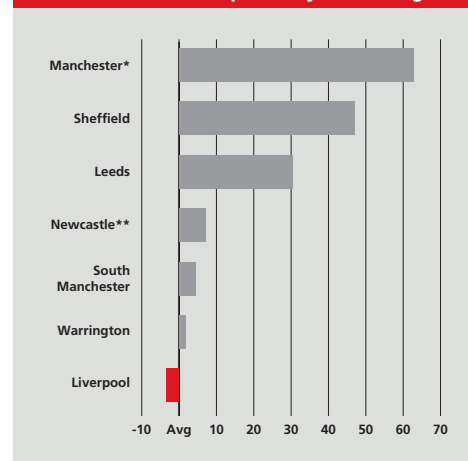


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## 2015 forecast take-up vs 10 year average (%)

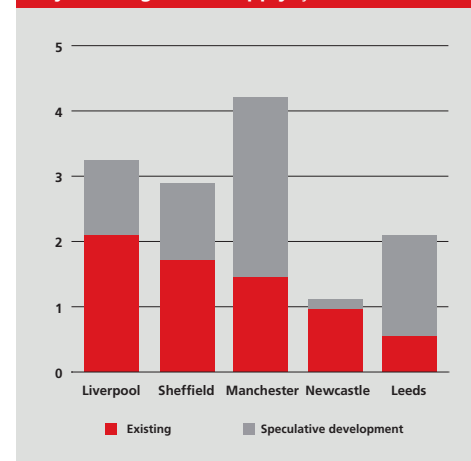


Source: LSH

\* inc. Salford Quays

\*\* city centre

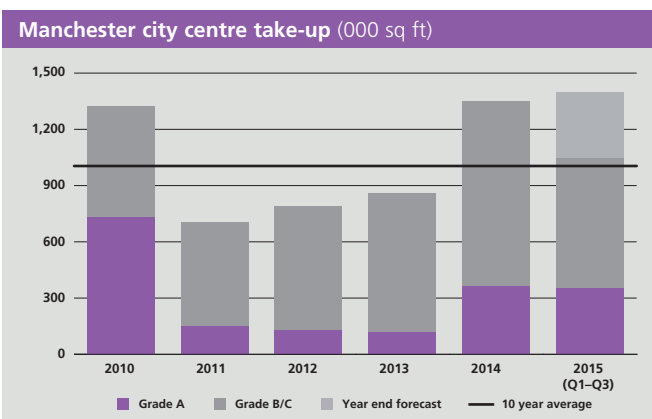
## City centre grade A supply (years)



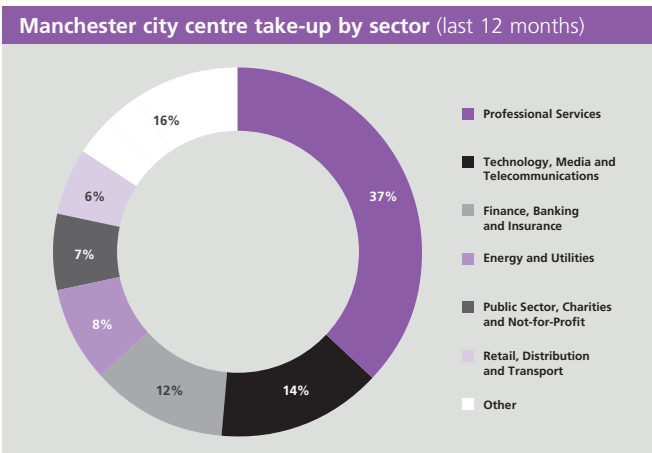
Source: LSH

## Manchester city centre key highlights

- Manchester city centre is experiencing exceptional demand, with 2015 take-up forecast to reach its highest annual total on record.
- The city centre market is evolving, with corporate occupiers and investors moving into emerging areas beyond the traditional core.
- The strength of occupier demand in the city centre is providing scope for more development and refurbishment activity.
- This demand has put upward pressure on rental levels across all sectors of the market, with prime headline rents reaching £34.00 per sq ft in Q4 2015.



Source: LSH



Source: LSH

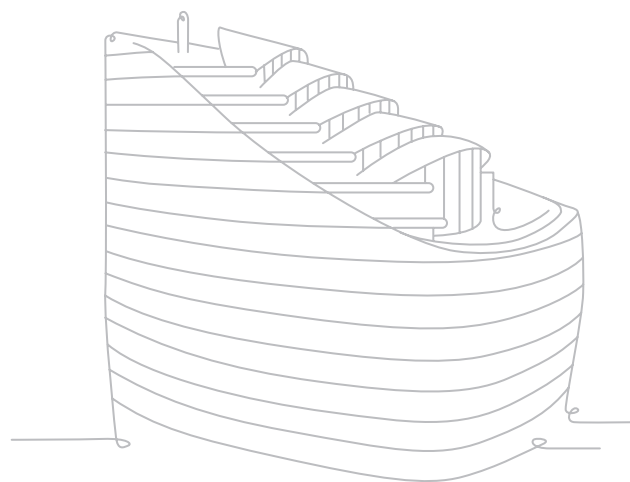
## Demand

Manchester city centre is the most active UK office market outside Central London, with consistently strong take-up over the past two years. Take-up in 2015 as a whole is forecast to surpass 2014's high to reach 1.4m sq ft – a new annual record – and is 45% above the ten-year annual average.

Pre-let activity has featured prominently in 2015. 230,000 sq ft has been pre-committed in the year to date, with all but one of the five schemes in the pipeline securing a pre-let. This includes the city's largest deal of the year; Freshfields Bruckhaus Deringer's acquisition of 85,000 sq ft at One New Bailey.

While large deals have driven take-up, equally positive is the depth of activity in the market, with many smaller businesses opting to upgrade their space. This reflects the growing confidence to plan for the future and secure the best quality space available, prompting rental growth across the market. Indeed, of the 225 deals seen in the first nine months of 2015, almost 60% have achieved headline rents in excess of £15.00 per sq ft, compared with 51% in 2014.

The expansion of the city centre's residential offer is also shaping the character of the market. For example, the northern edge of the city centre and the border with Salford are no longer seen as peripheral. Corporate occupiers and developers are viewing the location in a much more positive light, as evidenced by recent and current developments, such as Middlewood Locks, Embankment and One New Bailey.



Similarly, within the space of two years, the Northern Quarter has transformed from a relatively low value location to an established part of the city's office market. The area has become recognised as Manchester's cluster for TMT occupiers, attracting institutional investors and recording strong rental growth. In its wake, the Portland Street corridor is now benefitting from strong demand from occupiers in search of more cost effective options. However, this area is now seeing consistent rental growth.

Levels of active demand remain robust, with new requirements replacing those recently satisfied. Corporate-level requirements stand at circa 400,000 sq ft, with key examples including Irwin Mitchell (circa 50,000 sq ft), Weightmans (50,000 sq ft), and two significant in-movers to the city; Money Supermarket (up to 80,000 sq ft) and Hewlett Packard (80,000 sq ft).

These examples demonstrate Manchester's growing potential as a key destination for so-called northshoring. The city is well-placed for significant inward investment, given its existing critical mass as a major commercial centre, its skilled labour force and the relative cost advantages compared with London.

## Supply

Overall supply in the city centre stands at just less than 3m sq ft, with the amount of available grade B/C space falling by 20% during the course of 2015.

The available supply of ready-built grade A space stands at 400,000 sq ft, equivalent to only 1.3 years' supply based on average take-up. However, much of this comprises smaller suites or space fragmented across multiple floors, with One St Peter's Square (147,000 sq ft) arguably the city's sole building capable of accommodating large corporate-type requirements.

Manchester is a leading focus of development within the UK's regional office markets. There are five schemes underway, totalling almost 1.1m sq ft, with the majority scheduled to complete either in late 2016 or 2017. Tellingly, 365,000 sq ft is pre-committed, with Allied London's 160,000 sq ft XYZ building now fully let 12 months prior to its scheduled completion.

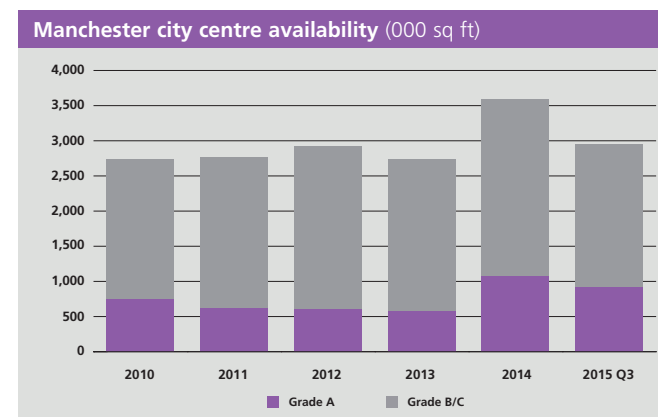
Excluding pre-let space, current development equates to a further 2.3 years' grade A supply. While this seems relatively elevated, there is scope for additional developments to come forward, as strong demand and a high volume of lease event activity bodes well for grade A take-up over the next three years.

The refurbishment market is less advanced, despite a marked undersupply of good quality grade B space offering large floorplates. However, developer confidence in this part of the market has been boosted, as shown by the significant letting success at 55 Spring Gardens prior to completion. A number of landlords are now expected to respond to the gap in the market, with several schemes across the city centre being readied to commence in 2016.

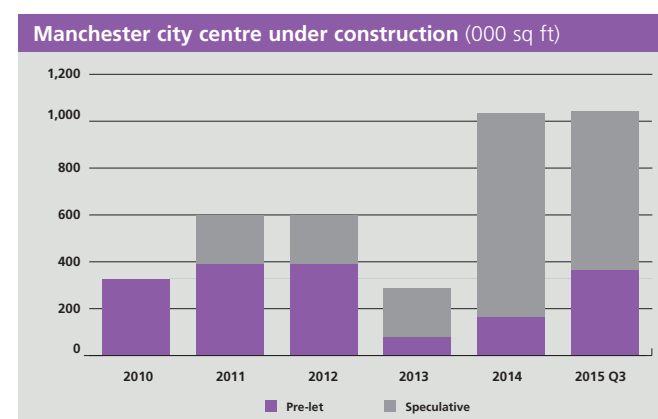
## Rents and forecast

Manchester is one of the few regional office markets outside of London and the South East to have benefitted from meaningful rental growth over the past two years. Prime headline rents stood at £32.00 per sq ft at the end of Q3 2015, although a headline rent of £34.00 per sq ft is known to have been achieved in Q4 2015 in a deal at Chancery Place.

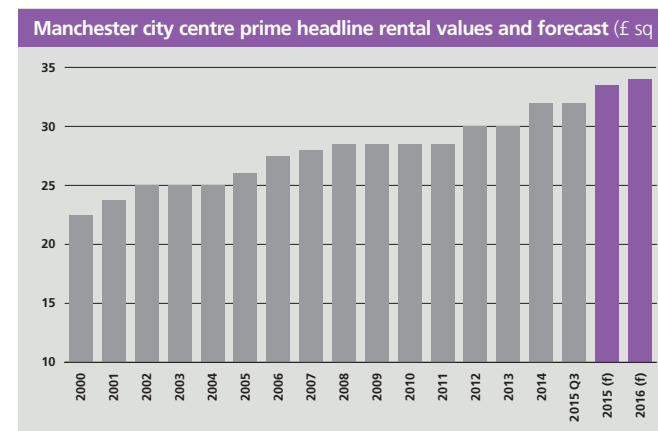
Over the next 12 months, headlines of £33.00 to £34.00 will become more commonplace as new-build grade A supply diminishes. Rent free packages are also broadly back in line with their pre-recession level, albeit there is differentiation in packages between buildings. Incentive packages are expected to harden further for good quality grade B space, reflecting a growing lack of choice in particular locations.



Source: LSH



Source: LSH



Source: LSH

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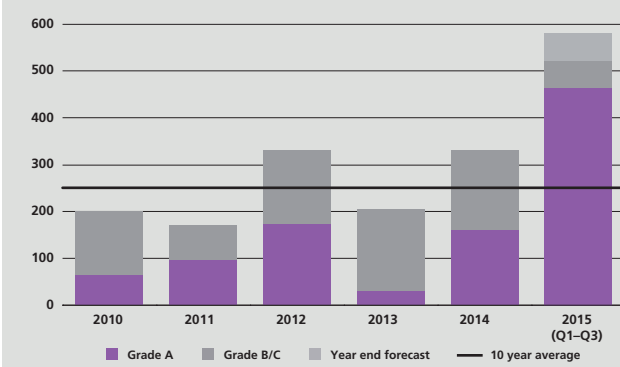


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## Salford key highlights

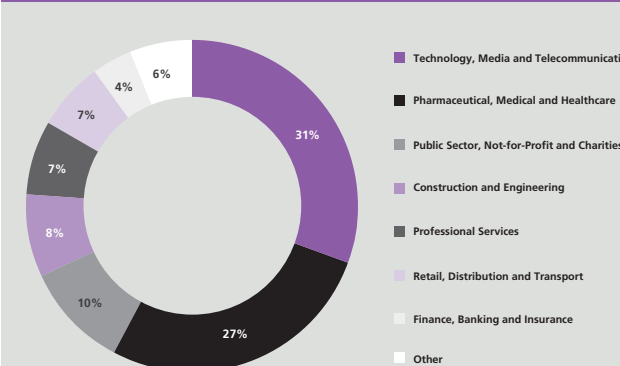
- **Salford has seen exceptional take-up in 2015, driven by a number of large inward investment moves to Salford Quays.**
- **MediaCity is an emerging UK hub for media and creative occupiers and is helping to re-establish Salford Quays as a high quality alternative to the city centre market.**
- **While current development is confined to a single scheme, MediaCity has long-term potential to more than double in size.**
- **Prime headline rents increased to a new high of £24.50 per sq ft in Q3 2015. Further growth in the short term is likely to rely on a pre-let being secured.**

### Salford take-up (000 sq ft)



Source: LSH

### Salford take-up by sector (last 12 months)



Source: LSH

## Demand

2015 has been a stand-out year for the Salford office market, with 520,000 sq ft of space acquired in the first three quarters of the year – more than twice the ten-year annual average with one quarter still to be accounted for. Despite the substantial rise in take-up year-on-year, the number of transactions in 2015 is likely to be broadly in line with 2014's total of 53 deals.

Over 80% of activity in 2015 has taken place within five buildings. In Q1, BUPA agreed to pre-let 142,000 sq ft at Harbour City, a move which will see the healthcare provider consolidate its existing Salford operations into a single building. The first half of the year also saw two prominent deals at the Soapworks, a joint venture development by Carlyle, Nikal and Abstract within the former Colgate and Palmolive factory buildings; in Q1, the UK Border Agency leased 54,000 sq ft, followed by TalkTalk's lease of 106,000 sq ft in Q2.

In Q3 2015, BAM Properties and Hamburg Sud leased 18,304 sq ft and 18,256 sq ft respectively at the Metro Building, which is now fully let, while SAGE expanded and took 27,700 sq ft at Exchange Quay. The only large deal in the Trafford area in 2015 was Travel Counsellors' lease of 28,500 sq ft at Venus, Trafford Centre.

The Salford Quays area has benefitted from substantial inward investment in recent years, with MediaCity – a development by Peel Group – fast becoming a leading UK hub for media and creative industries. The development, which is anchored by the BBC following its partial relocation from London to a 330,000 sq ft purpose built premises in 2011, is also home to ITV, which occupies 62,500 sq ft at the Orange Tower and over 100 small to medium sized occupiers located in the Blue Tower, White Tower, The Pie Factory, The Greenhouse, and the Landing. The Coronation Street set and studios have also recently relocated here.

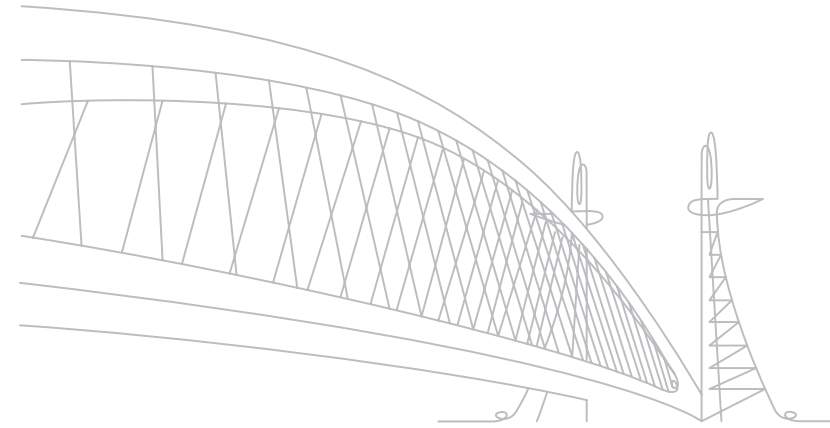
MediaCity has seen relatively limited activity this year, with the only significant deal being Ericsson's 16,040 sq ft lease at the 12th floor of Orange Tower in Q3 2015. Positively, however, the BBC has announced plans to relocate a further 1,000 staff to MediaCity over the next five years as it seeks to reduce costs, which bodes well for the future of the area.

## Supply

Overall availability has fallen by 25% during 2015 to stand at 1.1m sq ft across Salford Quays and Trafford combined, reflecting both strong take-up and an absence of any development completions during the year. More significantly, existing grade A space has contracted by 58% during 2015 to leave under 200,000 sq ft available within seven buildings.

The majority of remaining grade A space is within MediaCity, which largely comprises 80,000 sq ft at Orange Tower, 17,000 sq ft at Blue Tower and a further 67,000 sq ft elsewhere within the scheme. The Broadway, located within Salford Quays and adjacent to MediaCity, offers a further 24,400 sq ft. There is no grade A space available in the Exchange Quay or Trafford area.

While there is a similarly limited amount of grade B space available, this will increase sharply in 2017/18 when BUPA vacates its existing premises across several sites, including 70,000 sq ft at The Anchorage.



Exchange Quay has seen great success since ownership changed in 2014. It is hoped that the recently enhanced level of amenity and transport connectivity to the site will help to revitalise the 1990s-built scheme, through quality refurbishments and potentially change of use to residential via Permitted Development Rights.

There is a limited amount of new space immediately in the pipeline, with one speculative development currently underway at MediaCity. Peel Group's Tomorrow Building is a 10-storey tower, which consists of 60,000 sq ft of grade A office space alongside a hotel, with completion scheduled in Q1 2017.

The most likely scheme to come forward over the next 12 months is the third phase of the Soapworks, Salford Quays. While this has the potential to deliver an additional 170,000 sq ft, its owner, Peel Group, is understood to be holding out for a pre-let.

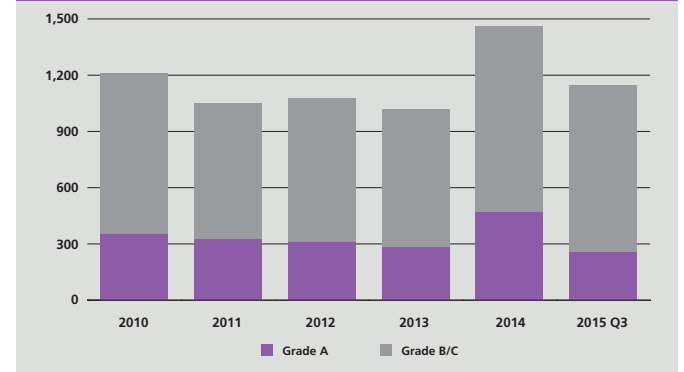
MediaCity has long-term potential to expand by a further 1.6m sq ft, with a large amount of land adjacent to the existing built stock. However, its development first necessitates full decommissioning of the industrial gas works which presently occupies the site opposite. It is therefore difficult to see more space being delivered here over the short to medium-term.

## Rents and forecast

Prime headline rents have increased markedly over the past two years, having been relatively flat for well over a decade. Growth is being driven by transactions within MediaCity, with the recent rise to £24.50 per sq ft in Q3 2015 reflecting Ericsson's lease at the Orange Building. However, rental levels for grade A space vary significantly at the scheme, with the recent transactions at the Soapworks reflecting headline rents of circa £16.75 per sq ft.

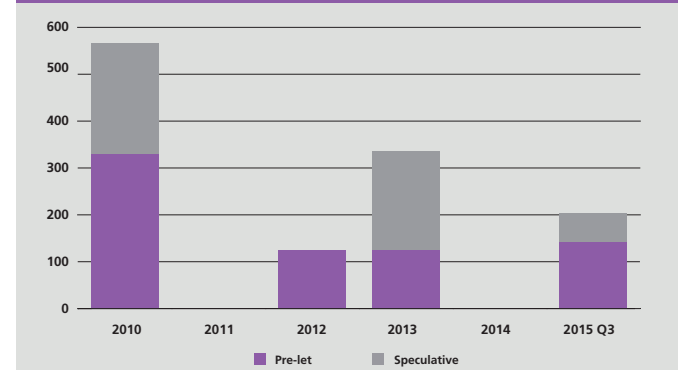
Given the recent rate of rental growth, it is difficult to see this being sustained in the short-term. The more likely scenario is that the frequency of transactions achieving headline rents in the order of £24.00 per sq ft will increase over the next 18 months.

### Salford availability (000 sq ft)



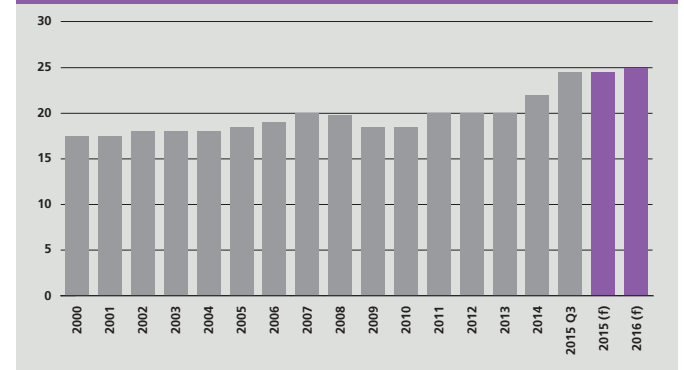
Source: LSH

### Salford under construction (000 sq ft)



Source: LSH

### Salford prime headline rental values and forecast (£ sq ft)



Source: LSH

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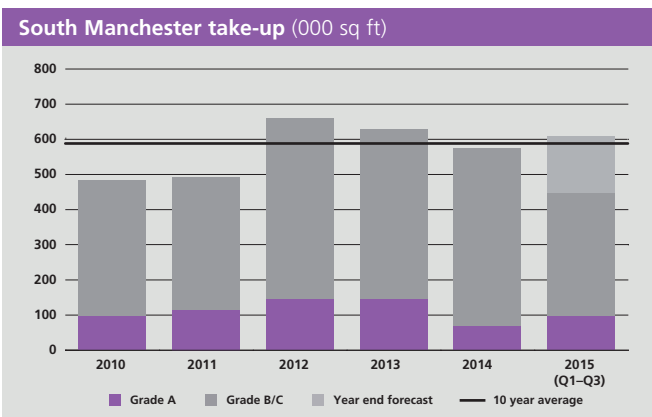


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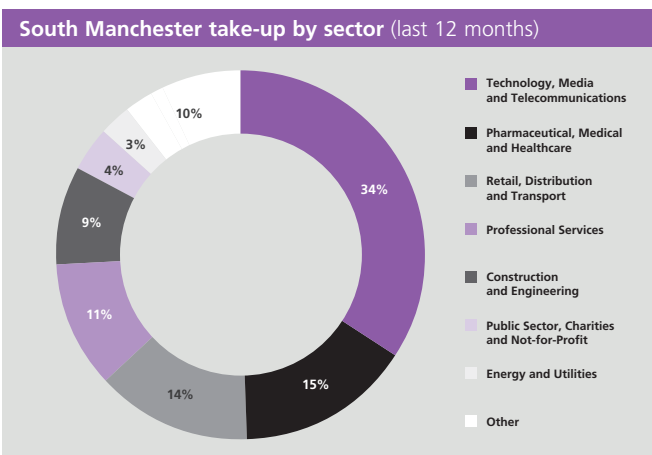


## South Manchester key highlights

- The volume of office take-up in 2015 is on target to exceed 2014's level, while the number of transactions is likely to double.
- This is due to a surge in demand from small and medium sized occupiers looking to relocate to secure future growth.
- Airport City will be a major boost for the Greater Manchester region, with substantial inward investment from China set to kick-start its development.
- South Manchester has benefitted from meaningful rental growth over the past two years, although further growth is likely to be dependent on pre-let activity.



Source: LSH



Source: LSH

## Demand

South Manchester's office market has benefitted from consistent levels of activity over the past four years, with 2012 its strongest year of take-up post financial crisis – a year in which many of the UK's other regional office markets fared poorly. Total take-up for 2015 is forecast to exceed 600,000 sq ft, which is ahead of 2014's level and the annual average.

Notably, however, the number of transactions in 2015 is on course to be twice that of last year, with 182 deals seen in the first three quarters of 2015 compared with 114 throughout the whole of 2014. This is a clear indication that confidence has improved markedly among smaller to medium-sized occupiers, reflected in their commitment to plan ahead and embark upon relocations.

The occupier base across South Manchester is diverse, with demand seen from a range of sectors and a lower prominence of occupiers in the Financial and Professional Services sectors relative to the city centre market. Over the past 12 months, TMT has taken the leading share of activity, accounting for 35% of take-up and an even larger proportion of transactions, with deals including Sky UK, Cisco and Avecto.

Despite active levels of demand, grade A space has accounted for only a small proportion of take-up. In the first three quarters of 2015, South Manchester has seen 97,000 sq ft of office space let across nine transactions. Only two exceeded 10,000 sq ft, with the year's headline deal being Syngenta's decision to lease 32,320 sq ft at Crescent House, Towers, Didsbury. This was a notable inward investment, demonstrating the growing appeal of the region to international businesses.

The largest deals in 2015 have been in grade B-rated buildings, arguably reflecting a lack of choice in the grade A sector. Up to Q3, there were five transactions in excess of 20,000 sq ft, the largest of which was Quindell's 38,000 sq ft lease of Trident 3, Manchester Business Park.

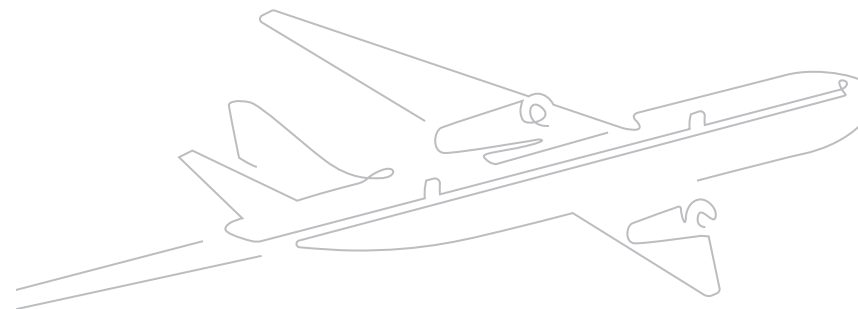
There are several high profile requirements actively looking at the South Manchester market, amounting to just under 200,000 sq ft of potential take-up, such as the Hut Group.

## Supply

With an estimated 6m sq ft of stock, the South Manchester market covers a large geographical area and broadly follows the stretch of the M6 and M56 to the south of the city. Much of the space is located within campus-type environments, with the prime locations comprising Manchester Airport, Cheadle Royal and Towers, Didsbury.

Availability across South Manchester has diminished steadily over the past three years, falling from a peak of just under 2m sq ft in 2012 to 1.3m sq ft as at Q3 2015. This positive trend reflects the limited delivery of new build supply alongside take-up from new entrants to the market that are either relocating to or investing in the region for the first time.

A relatively small proportion of current availability is of grade A quality. At the end of Q3 2015, 226,000 sq ft was available within 11 buildings. Moreover, only four of these buildings have in excess of 20,000 sq ft available, the largest of which are Cheadle Royal (43,343 sq ft) and Oceanic House (44,720 sq ft).



There has been very little speculative development activity over the past five years, with the only exception comprising Muse Development's Stockport Exchange (42,500 sq ft) in Stockport town centre. The majority of recent development has been purpose built, including Waters Corporation's 218,500 sq ft HQ in Wilmslow and Cheshire Data Systems' 30,000 sq ft campus at Kings Reach Business Park, Stockport.

There is nothing immediately in the pipeline to address the increasing lack of choice for high quality space. The sole building currently under construction is at Manchester Science Park, where the Manchester Science Park Partnership is speculatively developing its 'Heart of the Park' innovation centre (64,000 sq ft).

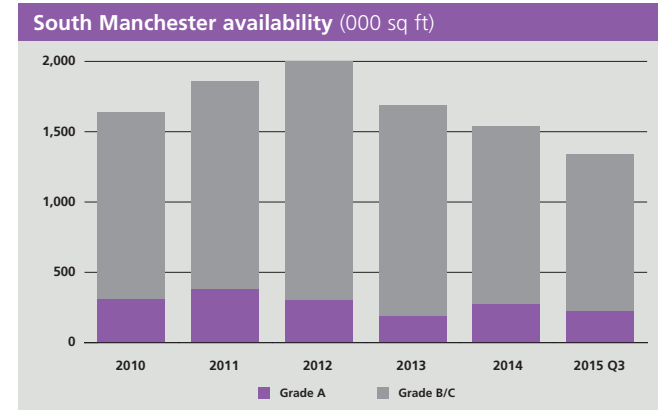
Airport City, the £800m joint venture between Manchester Airports Group and BCEG, is unquestionably the most exciting project due to come forward in the South Manchester area. The planned development is situated within Manchester's Enterprise Zone and has the potential to deliver 1.2m sq ft of office space, alongside other uses.

The immediate prospects for the project were given a major boost in autumn 2015, with the announcement that the Chinese Government will invest £130m in a 500,000 sq ft 'China Cluster' at the site. It will establish a vital base of Far Eastern business in the UK and it is expected to spur significant inward investment into the region.

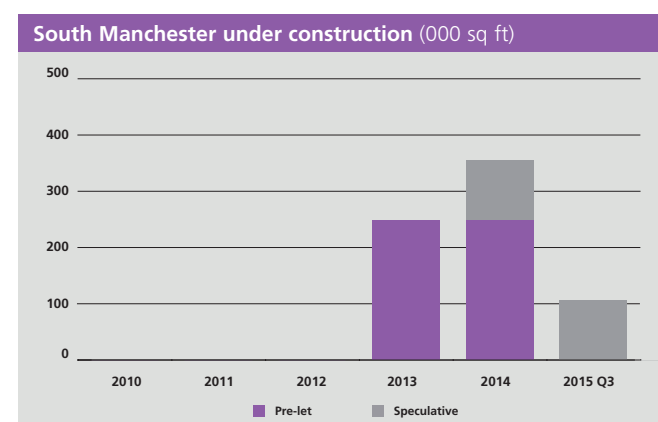
## Rents and forecast

The steady erosion of grade A space has helped to fuel rental growth. Prime headline rents have increased by 13% over the past two years to reach £22.00 per sq ft, with the latest rise in Q3 2015 reflecting Syngenta's lease of Crescent House, Towers, Didsbury. There are also sound prospects for further rental growth over the next two years, perhaps achieving in the order of £25.00 per sq ft, albeit this is likely to be reliant on a pre-let being secured in one of the prime locations, such as Airport City.

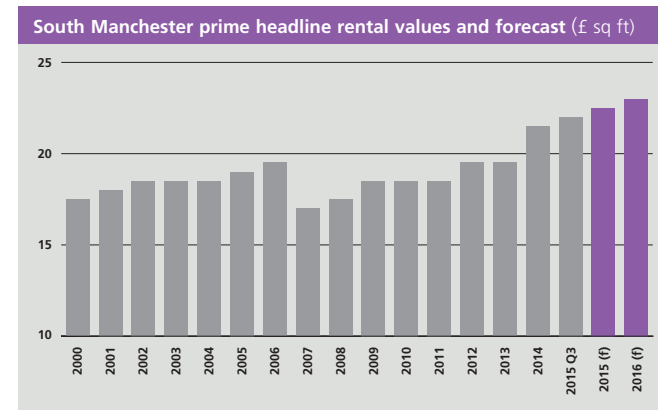
While grade B space is more abundant, the very best second-hand space commands headline rents of around £16.00 per sq ft. This points to an opportunity among landlords to reposition second-hand buildings through refurbishments.



Source: LSH



Source: LSH



Source: LSH

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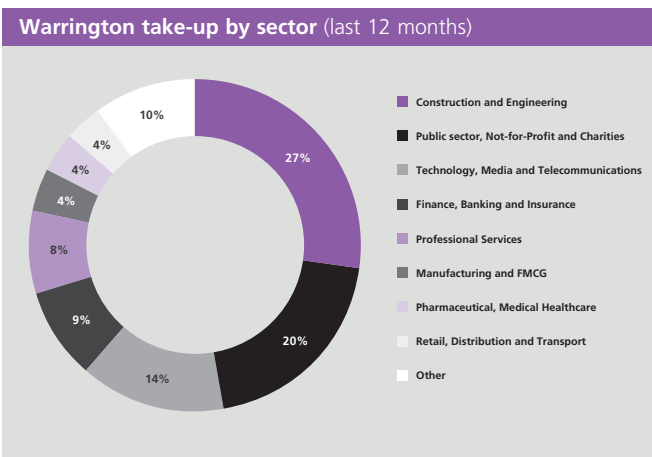
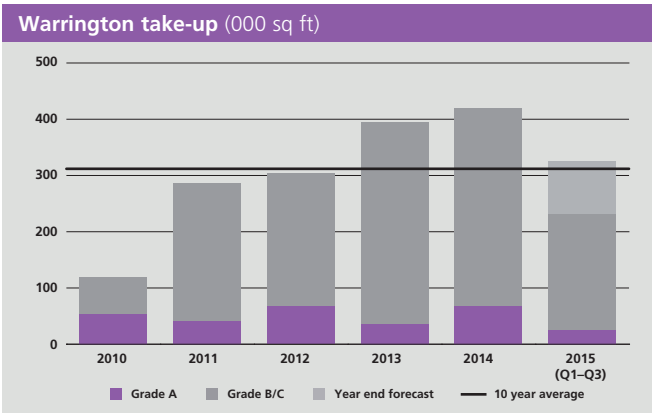


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## Warrington key highlights

- Warrington has witnessed consistently robust levels of take-up over the past five years, with the 2015 forecast running in line with the ten-year annual average.
- There is no grade A space currently available in the market, with larger transactions tending to be pre-let driven.
- While there are no new developments in the pipeline, there are sites available in Birchwood which are capable of accommodating large corporate requirements.
- Growth in prime headline rents is dependent on the delivery of new grade A stock, which is most likely via pre-let arrangement.



## Demand

Warrington is the UK's leading location for nuclear engineering and expertise, with a number of major occupiers in the market. Construction and engineering firms are also prominent, with recent deals to AMEC, Redrow, Atkins and Laing O'Rourke, among others. In addition, Warrington's relatively inexpensive labour and property costs have also made it a key UK location for call centre operations, albeit activity in this sector has been negligible over the past 12 months.

Warrington has seen robust levels of office activity over the last five years. 2015 is forecast to see take-up of circa 320,000 sq ft following a near-record take-up of 420,000 sq ft in 2014. While this is a tangible fall on last year, it is nevertheless marginally ahead of the ten-year annual average.

2014's strong performance was boosted by a flurry of large transactions, with 11 deals in excess of 10,000 sq ft accounting for 60% of annual take-up. This has been less apparent in 2015, with only three deals above 10,000 sq ft in the year up to Q3, accounting for 22% of take-up.

However, the depth of market activity has strengthened significantly from 2014. 105 transactions have been recorded during the first three quarters of 2015, far ahead of the 88 deals seen during 2014 as a whole. This high level of churn among small and medium-sized occupiers is indicative of renewed confidence among businesses to commit to higher quality and/or larger premises in the market.

Birchwood is a key focus of activity, attracting large private sector occupiers and responsible for a significant share of Warrington's take-up. Birchwood Park was home to Warrington's largest deal up to Q3 2015, namely AMEC's lease of 25,527 sq ft at Washington House. Birchwood also saw two significant transactions in 2014; AMA Nuclear's lease of 51,673 sq ft at Allday House, Birchwood Park, and New Balance's 30,666 sq ft acquisition at Appleton House, Birchwood Point Business Park, for its UK headquarters.



## Supply

Warrington's office market is smaller in scale to neighbouring Manchester and Liverpool, but it is nevertheless relatively sizeable, with a total office stock of circa 5.7m sq ft. It is essentially an out-of-town market, with the vast majority of modern stock situated in purpose built business parks in Birchwood, Daresbury and Centre Park, all of which benefit from excellent road connections via the M62 and M56 respectively.

Total availability as at Q3 2015 was just under 700,000 sq ft, equating to a relatively elevated vacancy rate of 12%. Movement within the market remained on a local level, with occupiers simply relocating to higher quality offices – freeing up space that requires refurbishment.

Grade A space is limited, with larger requirements in this market tending to be purpose built. However, speculative refurbishments of secondary buildings have been undertaken successfully in recent years. Recent examples from 2014 include 401 Faraday Street, Birchwood, which is now occupied by URS and Hyder Consulting, and the aforementioned Allday House, which was refurbished by Pin Property and pre-let to AMA prior to completing.

There is currently very little available standing stock which is capable of accommodating large requirements, with one 25,000 sq ft floorplate of reasonable quality available in Washington House. Other than this, TalkTalk's relocation out of Warrington, expected in 2017, will lead to circa 50,000 sq ft coming back onto the market, but this is some way off and is likely to leave larger requirements frustrated in the meantime.

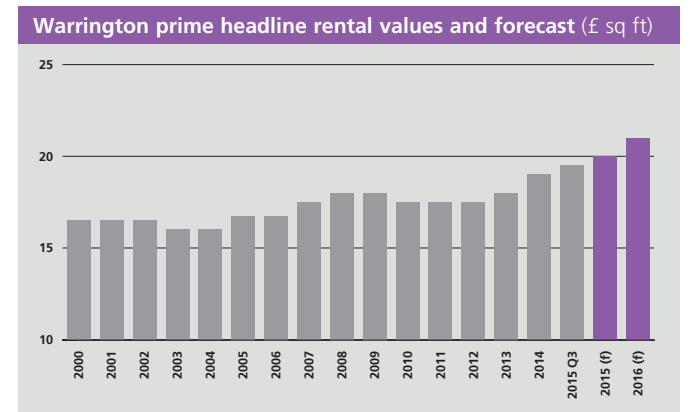
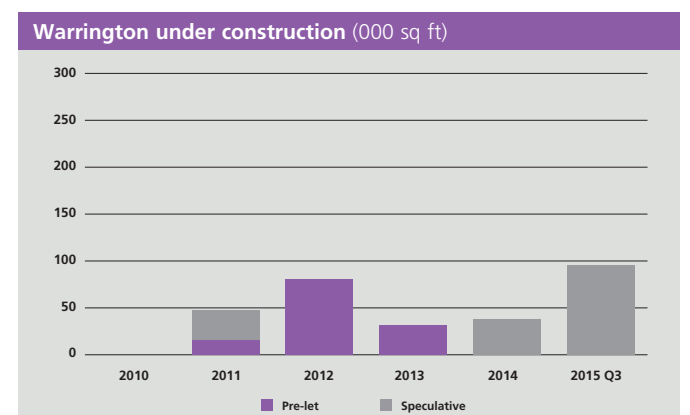
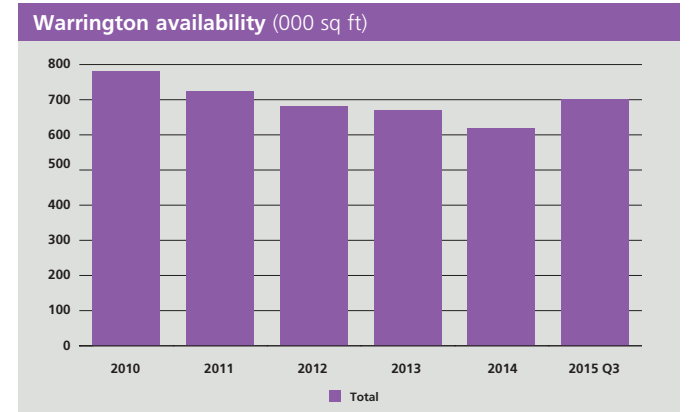
There is a limited amount of speculative development taking place, with two schemes set to complete in 2016. However, the nature of the developments mean that neither of the schemes are particularly relevant to mainstream office demand. These are Iliad Group's start-up scheme at Stadium Quarter (37,500 sq ft) and Daresbury SIC's Sci-Tech Daresbury (48,000 sq ft and 10,000 sq ft).

No corporate orientated new build space is expected to be brought forward speculatively over the next 12 months, and any deals which do take place are much more likely to manifest themselves via a pre-let purpose built arrangement. There is a substantial amount of development land across the market with permission in place for office development, including plots at Birchwood Business Park, Daresbury Park and Omega North/South among others.

## Rents and forecast

While there is little recent grade A evidence, transactions from 2014 indicate that prime headline rents stand at £19.50 per sq ft. Warrington's prime location, Bridgewater Place in Birchwood Business Park, achieved headlines of £19.00 per sq ft, reflecting two lettings at Building 305 to AREVA and the Ministry of Justice.

Prime headline rents are forecast to increase to in excess of £20.00 per sq ft, but this is dependent on a pre-let being secured. Headline rents for good quality refurbished space in the prime locations are in the order of £15.00 per sq ft, reflected by AMA Nuclear's letting of the entirety of Allday House in Birchwood Park at £14.50 per sq ft.



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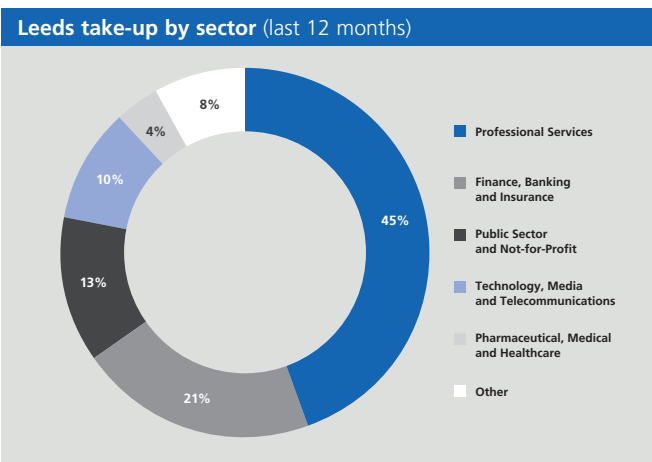
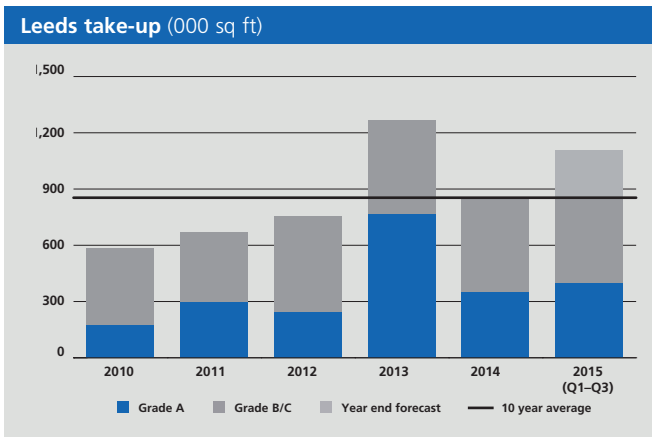
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## Leeds key highlights

- Take-up in 2015 is forecast to be 30% above the ten-year annual average, with active demand in the city centre up 10% on 12 months ago.
- Robust take-up over the medium-term is expected, supported by circa 1.8m sq ft of lease events in the city centre between 2016 and 2018.
- Development comprises five schemes within the city centre, with no additional schemes expected in the near future.
- Prime headline rents and incentives are back to their peak from the previous cycle, with further growth forecast over the next two years.



## Demand

Demand in the Leeds office market is buoyant, particularly within the city centre. Take-up across both the city centre (650,000 sq ft) and out-of-town (450,000 sq ft) markets is forecast to reach circa 1.1m sq ft in 2015, 30% above the ten-year average.

This robust activity has been boosted by notable pre-let deals, including PwC's 49,650 sq ft at Central Square, Addleshaw Goddard's 51,500 sq ft at 3 Sovereign Square, and Squire Patton Boggs and Equifax's 32,000 sq ft and 20,000 sq ft respectively at Wellington Place – all of which are under construction.

Market activity is almost entirely driven by churn among occupiers with an existing presence in the city. Small and medium-sized businesses are key; over the past 12 months, units of below 5,000 sq ft have accounted for two thirds of transactions for grade A space, rising to 85% across all grades.

The majority of large corporate deals in the latest cycle have involved the consolidation of organisations' existing footprints. This reflects a requirement among key employers in the city to upgrade their accommodation, while ensuring greater efficiency in its use through the adoption of more agile working practices.

Leeds' long-standing reputation as a key regional centre for legal and accountancy services continues and has been reflected in recent activity, with companies in Professional, Financial and Legal services collectively accounting for over two thirds of take-up over the past 12 months.

However, the TMT sector is becoming an increasingly important part of the city's demand profile. At the start of Q4 2015, Sky UK agreed to a new 70,000 sq ft academy at Allied London's Leeds Dock, cementing the area as a hub for Leeds' emerging tech sector and generating up to 400 new highly skilled jobs.

Prospects for the market remain encouraging over the short to medium-term. Despite several key requirements being satisfied through the course of 2015, active demand in the city centre has increased by circa 10% year-on-year to stand at just over 500,000 sq ft, which bodes well for activity in 2016.

The market is also approaching a spike in lease event driven demand. 1.8m sq ft of lease events are scheduled between 2016 and 2018, with activity peaking towards the end of this period.

## Supply

In the city centre, new build availability has fallen significantly as the market has recovered and is now equivalent to less than six months' supply. However, over the past 12 months, developers have responded to the increasingly compelling dynamics, with current speculative development in the city centre equating to a further two years' grade A supply.

There are presently five buildings under construction totalling 533,260 sq ft, all of which are in the city centre. These are: 6 Queen Street; Central Square; 3 Sovereign Square; No.5 Wellington Place; and No.6 Wellington Place.

Of these schemes, 154,000 sq ft is pre-committed and only MEPC's No.6 Wellington Place is due to complete before the year end, with the remainder scheduled to be delivered from mid-2016 onwards. Despite the upcoming spike in lease events, no additional



development starts within the city centre are anticipated in the meantime. However, building refurbishments continue to provide much needed grade A space in the market, with 6 East Parade (45,000 sq ft) and Concordia Works (13,922 sq ft) both due for completion in 2016.

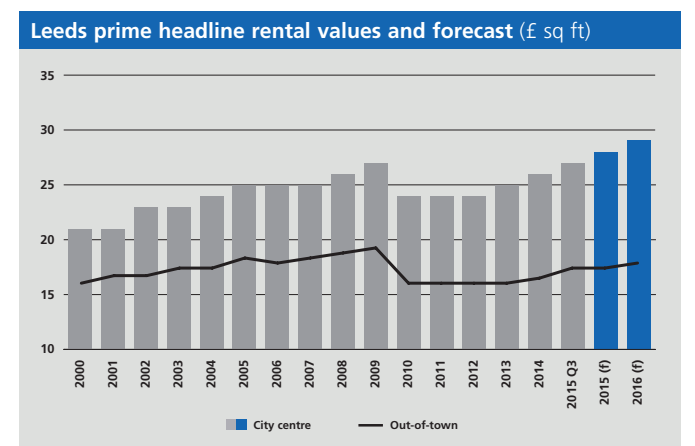
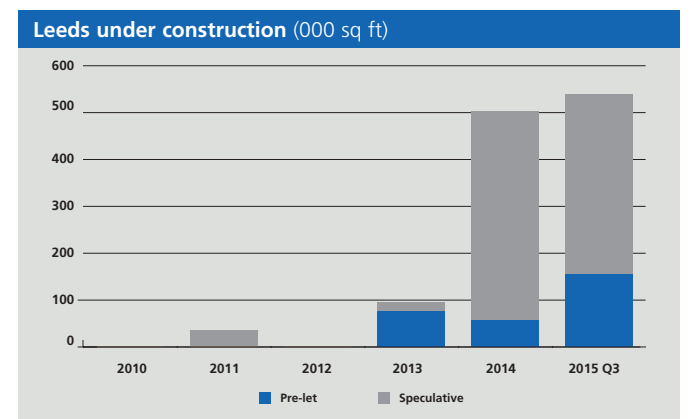
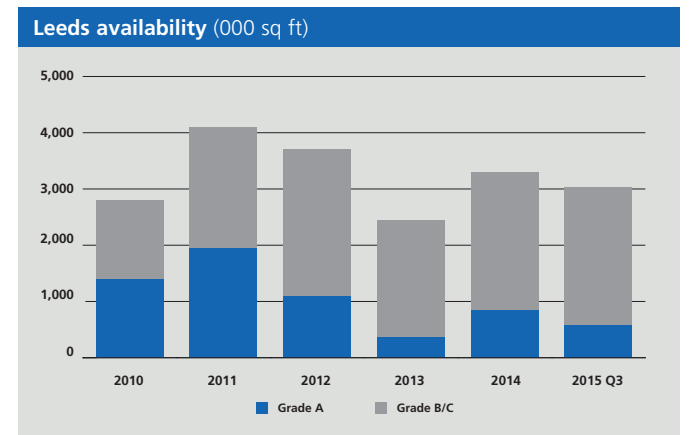
The next development to come forward in Leeds is within the out-of-town market, which is also suffering from a shortage of grade A space in the wake of record take-up in 2013. In partnership with Legal & General, Scarborough Development Group is expected to commence development of a 'medi-tech' building at Thorpe Park in early 2016, capitalising on the city's renowned expertise in medical sciences and linked to the university.

The nature of grade A space, both existing and in the pipeline, is more readily suited to the larger corporate requirements, offering floorplates in the region of 20,000 sq ft. A key opportunity in the market is to reposition and upgrade second-hand buildings which would appeal to a wider share of requirements, offering flexibility in sizing at more economical terms. This is best illustrated by LSH's own relocation to the remodeled 9 Bond Court (5,770 sq ft), as well as deals at Formal Investments' 21 Queen Street to AXA (6,820 sq ft) and Leeds Buildings Society's decision to acquire space at Land Securities' City Exchange (16,641 sq ft).

## Rents and forecast

Prime headline rents in the city centre have recovered progressively over the past three years, reflecting the absorption of existing grade A supply and recovery of occupier demand. Headline rents stand at £27.00 per sq ft – an increase of 4% from the start of 2015 and equal with the previous peak.

The prevailing conditions in the occupier market point to continued, steady growth over the next two years, with headline rents forecast to reach £29.50 per sq ft by the end of 2017, as the schemes in the pipeline let up. Moreover, incentive packages have rapidly returned to pre-recession levels over the past 18 months, with ten-year leases typically carrying 12 to 18 month rent free periods, down from 36 months at the height of the recession.



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## Liverpool key highlights

- **Liverpool is on course to achieve a good level of take-up in 2015, albeit falling short of 2014's strong performance.**
- **Recent speculative development has been via comprehensive refurbishment rather than new build schemes.**
- **Prime headline rents in Liverpool city centre are still yet to recover to pre-recession levels but have remained steady at £20.50 per sq ft during 2015. Further growth hinges on the delivery of new development.**
- **A number of significant investment opportunities have recently been offered for sale, which will establish the market sentiment.**

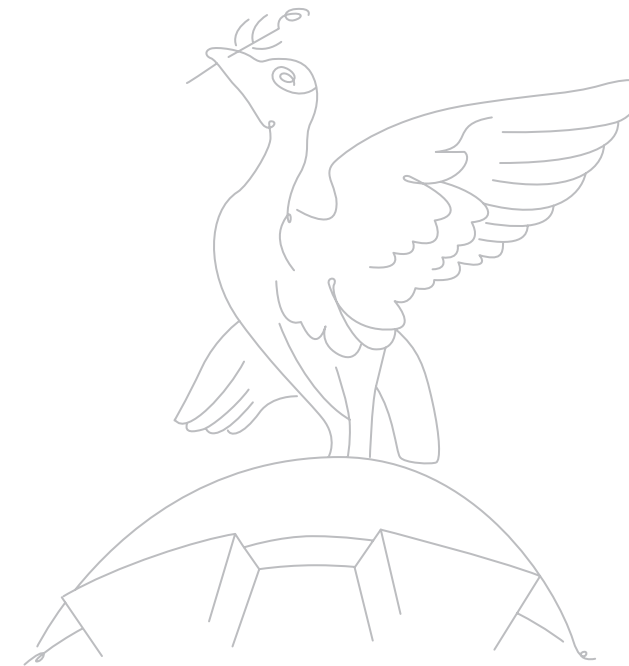
## Demand

Liverpool has seen a relatively steady take-up of 364,000 sq ft over the first three quarters of 2015. While the year as a whole is not expected to surpass 2014's five-year high of 563,034 sq ft, activity in 2015 is forecast to be closely in line with the ten-year annual average.

Encouragingly, 2015 has seen a number of pre-lets within speculative refurbishments. Most recently, in Q3, NHS Clinical Commissioning Group signed a 10-year lease of 33,400 sq ft at The Department, which forms part of the Central Village scheme. This office relocation from Arthouse Square is Liverpool's largest deal of 2015 to date and the city's largest pre-let in five years.

Other key deals in Q3 included Carpenters Solicitors' 19,000 sq ft lease of No 1 Tithebarn and Mann Island Finance's acquisition of 11,000 sq ft of grade A space at 5 St Paul's. With the exception of these deals and a handful of others, the majority of Liverpool's take-up has been for smaller units; with over 80% of deals over the past 12 months for less than 5,000 sq ft.

While the city core and fringe market has not performed as strongly as in 2014, activity out-of-town has already surpassed the 2014 total in the first three quarters of 2015 alone. Encompassing South Liverpool, Wavertree, Knowsley and North Liverpool, take-up to Q3 2015 totalled 133,000 sq ft, almost double that in 2014. A key deal was Balfour Beatty's 14,506 sq ft lease of grade A space at Alaska House in Atlantic Park.



Development elsewhere in the market is confined to a single scheme. In Wavertree, Capital & Centric has refurbished The Bunker Building, which was the former Littlewoods complex, bringing 15,000 sq ft of office space marketed as 'funky and cool' to the out-of-town area.

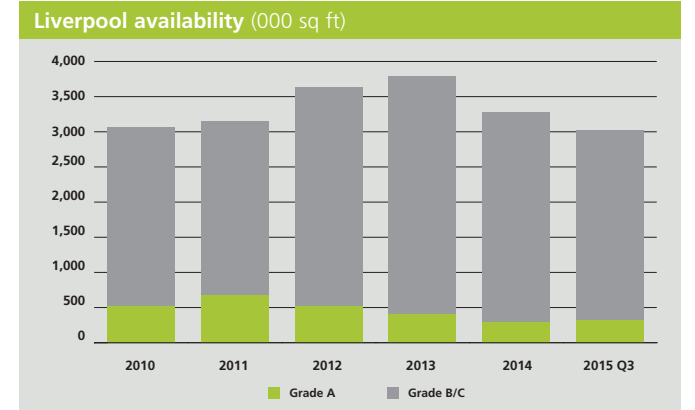
In terms of the development pipeline, Peel Group has recently received planning consent for No 5 Princes Dock, a new build scheme which could supply 81,000 sq ft of grade A space at Liverpool Waters.

The extension of Permitted Development Rights has also removed a number of vacant office buildings from the market, including the 22,900 sq ft Vortex House, which will be converted into a studio school. This has resulted in the loss of one of the out-of-town market's largest floorplates.

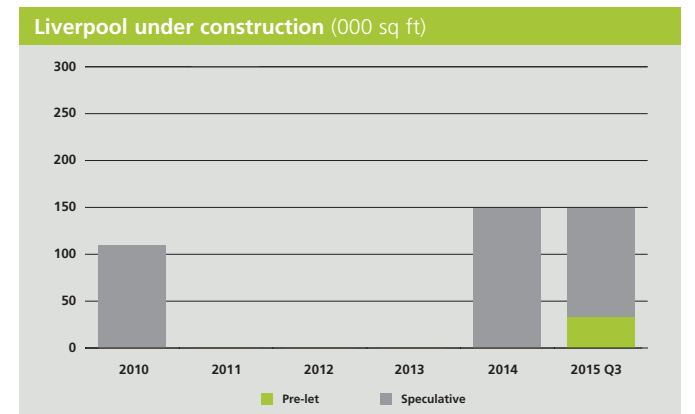
## Rents and forecast

Prime headline rents stand at £20.50 per sq ft in Liverpool city centre, having remained steady since the end of 2014. In contrast with the other major northern office markets, prime rents are yet to recover to their pre-recession level, when Liverpool reached £22.00 per sq ft. Until brand new stock is added to the market, we do not expect to see prime rents increase in the short-term.

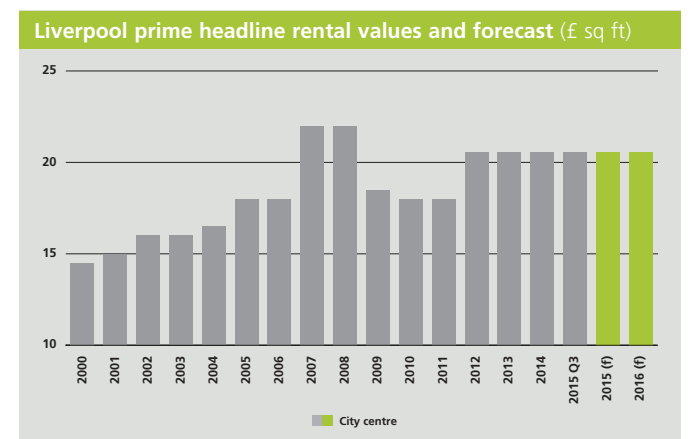
In addition, current incentive packages remain relatively high compared with other major northern markets, typically including a range of rent free periods of between two and three years based on a 10 year lease. Further rental growth, in both headline and net effective terms, will be key to boosting viability and securing new supply to the market.



Source: Property Group of Professional Liverpool, LSH



Source: LSH

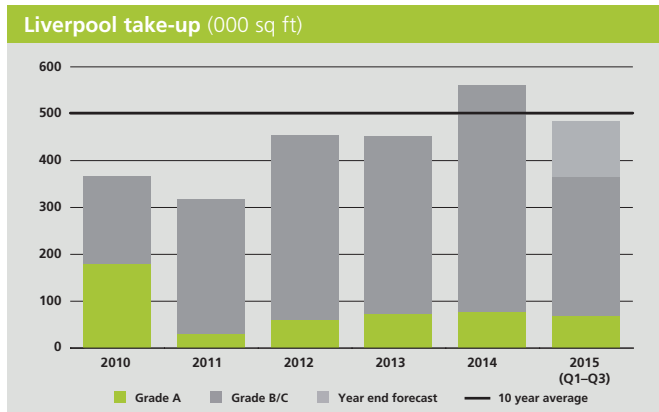


Source: LSH

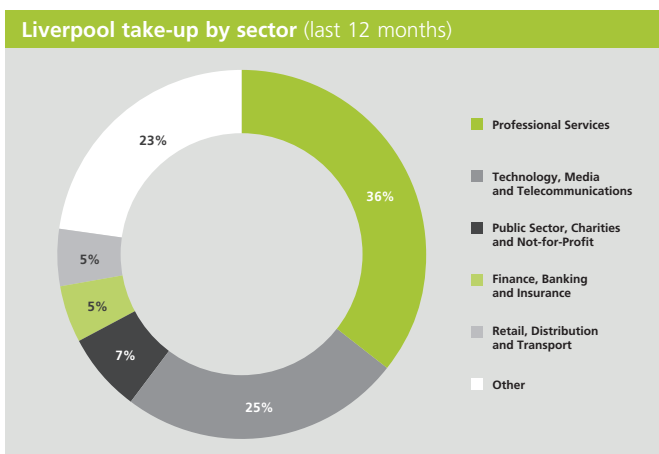
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Source: Property Group of Professional Liverpool, LSH



Source: Property Group of Professional Liverpool, LSH

## Newcastle key highlights

- **Newcastle city centre is on course for a very strong year of take-up in 2015, forecast to be 40% above the annual average.**
- **Available grade A space is scarce, especially for large floorplates in the city centre.**
- **Robust unsatisfied demand and a lack of space in the pipeline provide a compelling case for further speculative development.**
- **Prime headline rents climbed to a new high of £21.50 per sq ft in 2015, with another rise anticipated as newly delivered space is taken.**

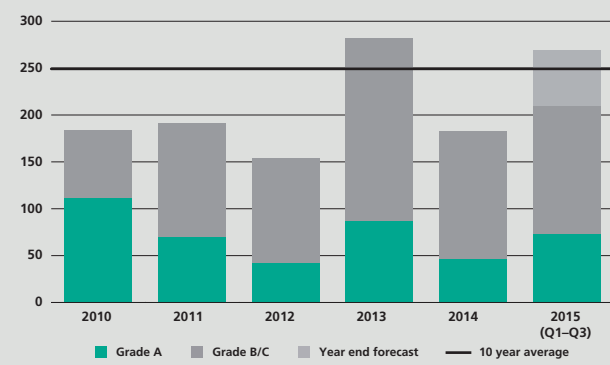
## Demand

Occupier activity in Newcastle city centre has been strong in 2015, boosted by an impressive third quarter, with take-up reaching 107,819 sq ft; the strongest for over five years. With positive momentum continuing into the final quarter, take-up in 2015 is forecast to reach approximately 270,000 sq ft; 40% above the ten-year annual average and close to reaching 2013's record performance.

A number of prominent deals in the city centre have boosted activity. In Q3, Ubisoft signed a lease of 17,000 sq ft at Haymarket Hub, while the largest deal of the year to date was iParadigms' 19,904 sq ft lease at Wellbar Central in Q1. Both buildings were grade A quality, bringing the total grade A take-up for the first three quarters of the year to 85,739 sq ft – the highest recorded for this period since 2010.

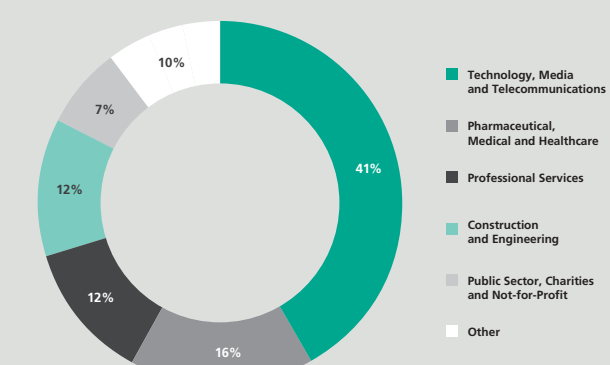
The out-of-town market had a strong start to 2015 and take-up is expected to reach almost 530,000 sq ft by the end of the year – over 40% above the ten-year average. A recent key deal in the out-of-town market was Greggs' 30,742 sq ft commitment at Quorum for its new headquarters. Cobalt Business Park – Newcastle's other quality out-of-town location – has also recorded healthy activity over the last two years. This is largely on the back of existing tenants requiring additional space, as confidence in the economy has improved. One recent key example is Accenture, which acquired an additional 57,095 sq ft at the business park in Q3.

Newcastle city centre take-up (000 sq ft)

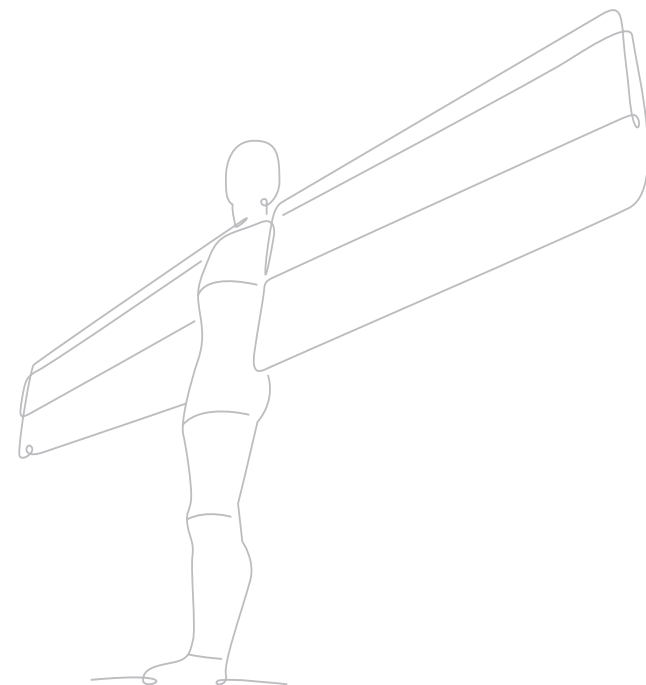


Source: LSH

Newcastle take-up by sector (last 12 months)



Source: LSH



Despite these key lettings, a feature of the Newcastle market is small deals, with almost 70% of lettings over the past 12 months being for less than 5,000 sq ft, increasing to 80% focusing on the city centre. In terms of tenant type, demand has largely been from the TMT sector, which comprised 40% of the total take-up. Pharmaceutical, Medical and Healthcare has also been an important sector, accounting for 16% of total take-up.

Active demand in the city centre has crept up year-on-year. We are aware of approximately 200,000 sq ft of requirements across 11 major occupiers, from a range of sectors. Four of these require space in excess of 20,000 sq ft, and a further four require 10,000 sq ft plus, with the majority looking for grade A space.

## Supply

Available supply of grade A space has become extremely tight in the city centre, while a lack of development in the pipeline will continue to keep options limited for prospective occupiers. Based on average take-up, this equates to just one year's supply – the lowest of all the key centres in the Northern Powerhouse. Furthermore, of the 107,000 sq ft of available grade A space, the majority comprises single floorplates of less than 10,000 sq ft. Baltimore House is an example of grade A space on the market comprising of 19,254 sq ft, but this is split over three floors.

Developed by Clouston Group, The Rocket in Stevenson Quarter was completed in Q3, delivering 35,000 sq ft of grade A space in the city centre. Due to the strong interest it has received, we are confident that the building will secure a tenant in Q4 or during early 2016.

The completion of The Rocket has left Live Works as the only building currently under construction in the city centre, providing 14,320 sq ft of small suites. Meanwhile, out-of-town, MK Partnership is bringing forward the The Jesmond, located north of the city centre, which will add a further 10,977 sq ft by the end of the year.

The supply and demand fundamentals provide a compelling case for the delivery of additional grade A space in the city centre. Over the past two years, new office development has been stymied by a very buoyant student accommodation market, with potential sites losing out to higher bids for this use. However, with the student accommodation market approaching saturation, we are confident that office development will re-emerge as the most viable option in the city.

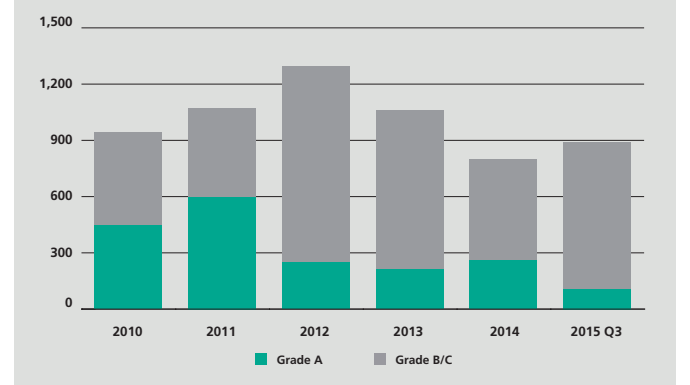
Encouragingly, the recent sale of 70,000 sq ft Riverview, which was originally to be developed into a hotel, is now planned to be split into refurbished offices as well as a hotel, due to the more attractive financial proposition of a smaller hotel and a partial office refurbishment.

## Rents and forecast

Prime headline rents in the city centre have gradually recovered; standing at £21.50 at the end of Q3, which was first achieved by iParadigms' lease at Wellbar Central in Q1. We expect this level to be surpassed again in the near future, to approximately £23.00 per sq ft, as The Rocket secures its first tenant. However, with no new large-scale product in the pipeline, headline rents are unlikely to rise beyond this level over the short to medium-term.

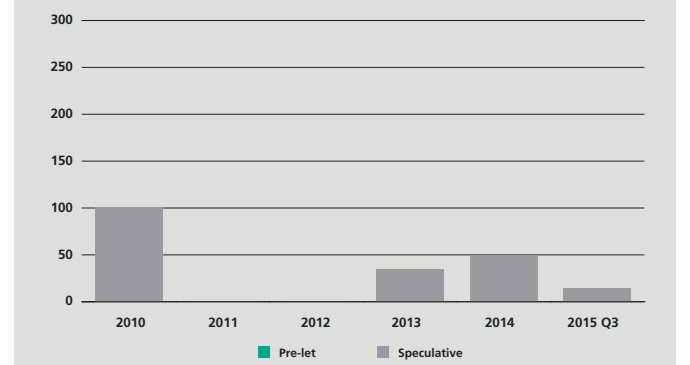
Indeed, further rises in rents are more likely to be seen through the hardening of incentives. Currently, incentive packages for a five year lease of grade A space typically offer nine months rent free, which has hardened from the 12 months seen over the past two years. With the delivery of new-build schemes at least two years away, we expect terms to continue to harden, as the supply of grade A space reduces further.

Newcastle city centre availability (000 sq ft)



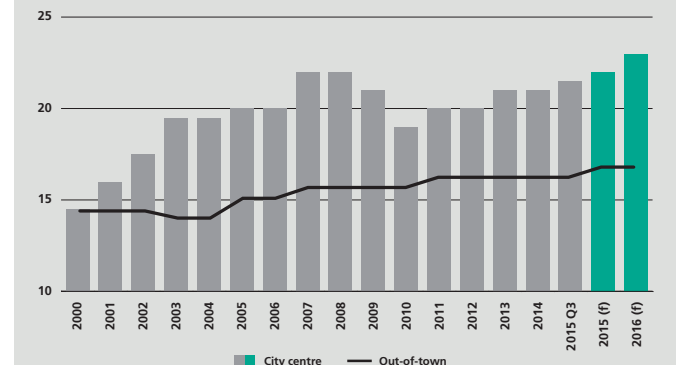
Source: LSH

Newcastle under construction (000 sq ft)



Source: LSH

Newcastle prime headline rental values and forecast (£ sq ft)



Source: LSH

For more information, please contact:



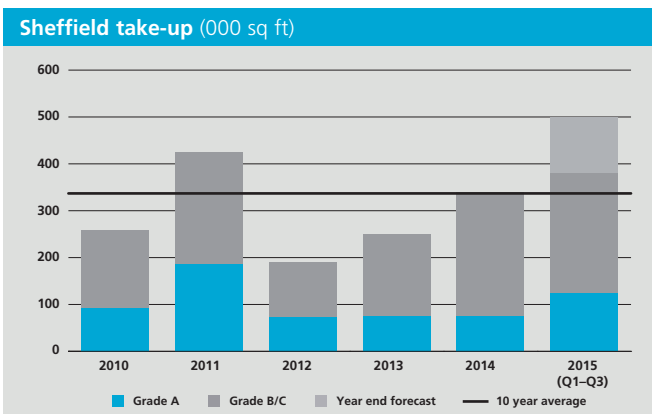
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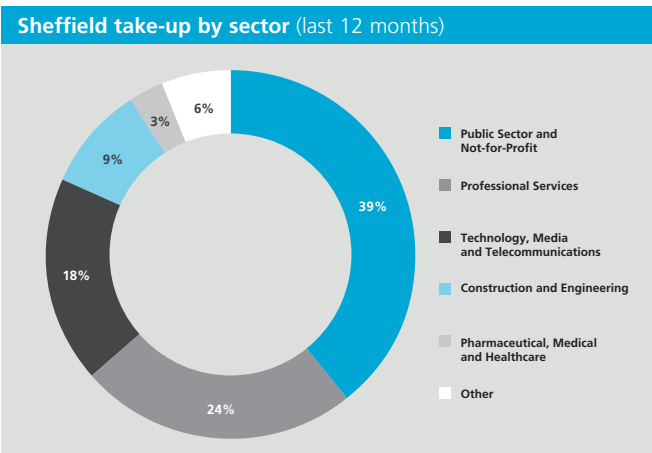


## Sheffield key highlights

- **Sheffield is on course for near-record office take-up in 2015, largely driven by its two universities.**
- **Grade A space is in short supply; however, 200,000 sq ft is due to be bought to the market in 2016.**
- **Prime headline rents climbed to a new high of £23.00 per sq ft in 2015 and are expected to remain at this level over the short to medium-term.**
- **Sheffield retains its status as one of the UK's most competitively priced business locations.**



Source: LSH

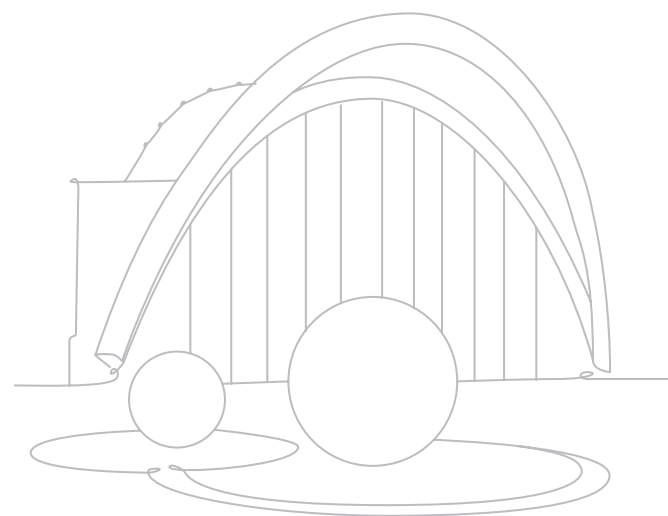


Source: LSH

## Demand

Sheffield's office market saw an impressive take-up of 380,000 sq ft over the first three quarters of 2015, already comfortably ahead of the long-term annual average. Take-up is forecast to exceed 500,000 sq ft by the end of the year, making 2015 the strongest annual performance since before the recession.

The take-up volume has been skewed by three transactions involving the city's two main educational institutions. In the first half of 2015, Sheffield Hallam University acquired over 50,000 sq ft at The Old Post Office, 5 Fitzalan Square for The Sheffield Institute of Art (SIA), as well as a further 20,000 sq ft of space at Furnival Street. The University of Sheffield has also been active and acquired approximately 65,500 sq ft at V2 Velocity for The University of Sheffield International College.



Public Sector bodies have taken the leading share of recent demand, accounting for 40% of take-up over the past 12 months. Professional Services also make up an important part of demand, with prominent grade A deals in 2015 including Wake Smith at Velocity (13,000 sq ft) and XLN at One North Bank (14,000 sq ft).

Reflecting the city's occupier base, the vast majority of transactions in the market involve relatively small deals to already-resident occupiers. The number of deals in excess of 10,000 sq ft has accounted for only 10% of transactions over the past 12 months, with an average deal size of approximately 3,000 sq ft over the period. This is a familiar pattern for the city, with only 7% of deals in 2014 transacted being over 10,000 sq ft.

Current active demand has softened following the satisfaction of a number of key requirements during 2015. Aside from several requirements in the 10,000 to 20,000 sq ft range, current demand comprises smaller occupiers in search of good quality second-hand space.

## Supply

Total availability in the Sheffield market – including both its city centre and out-of-town locations – stands at just under 800,000 sq ft, equating to 2.5 years' supply based on average annual take-up.

The extension of Permitted Development Rights has also impacted positively on the city, removing obsolete office buildings from the market, while improving the image and diversity of the city centre.

The successful lettings at Velocity and One North Bank have restricted the availability of ready-to-occupy grade A space to a handful of buildings in the city centre.

Positively, however, there are a number of schemes which will radically enhance the offer in the city centre. 3 St Paul's Place – a 76,000 sq ft landmark scheme by CTP and Development Securities plc – is approaching completion, with delivery expected in early 2016. The scheme will cement the St Paul's Place area as Sheffield's prime business location, complimented by high quality retail and leisure amenities.

While availability of second-hand space is relatively high in the out-of-town market, grade A and good quality grade B space has also become relatively constrained in these locations.

The next phase of speculative development at the Digital Campus is expected to start on site in the first half of 2016. Scarborough Group's scheme will see the development of Acero Works and Vidrio House totalling 128,000 sq ft, with the former offering a maximum floorplate of 13,670 sq ft – the only grade A floorplate in the city centre over 10,000 sq ft. The buildings may compete for larger requirements from outside the region, while establishing the district as Sheffield's hub for creative occupiers.

There are also several other city centre refurbishments in the pipeline. Milton House is due to complete in July 2016 (30,000 sq ft), while Steel City House (66,000 sq ft) will come forward in 2016, bringing much needed good quality space to the market.

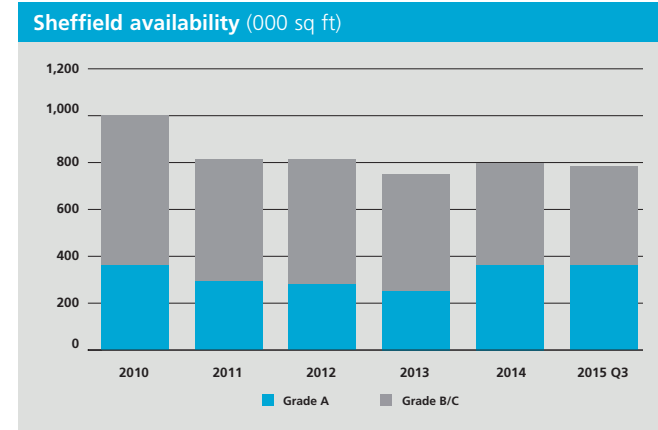
Out-of-town, the Olympic Legacy Park, on the site of the former Don Valley Stadium, is a new scheme which will offer an office element of approximately 30,000 sq ft, with delivery expected in 2017. It will also boast the Advanced Wellbeing Research Centre (AWRC), an academy, University Technical College, and a number of sporting facilities, further enhancing Sheffield's reputation as a centre for research and innovation.

Planning consent is in place for phase 2 of development at Sheffield Business Park at Europa Link, off the Sheffield Parkway, which will provide office space on a design and build basis to those with specific requirements for out-of-town office space.

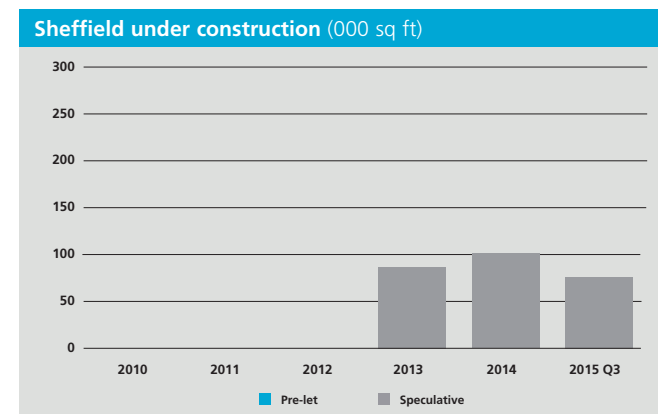
## Rents and forecast

Prime headline rents in the city centre have increased steadily over the past two years, rising to a new high of £23.00 per sq ft, as a result of Arup's acquisition of 15,986 sq ft over the top two floors at 3 St Paul's Place. The improving market has led to a hardening of incentive packages which, for the most desirable space, stand at around six to nine months rent free on a five year-term.

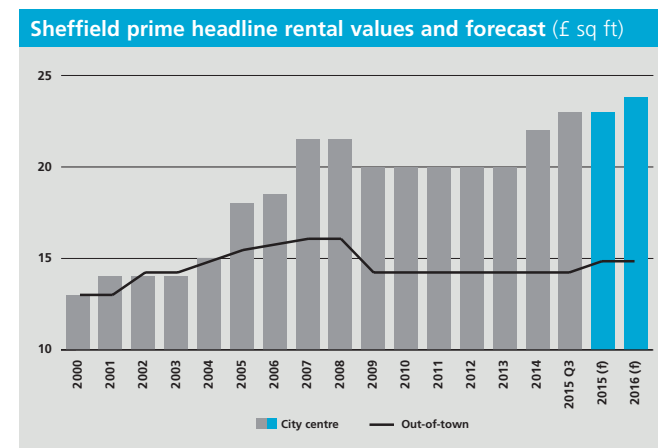
While the expansion of the development pipeline will give incumbent occupiers more choice in the market, it is likely to curtail further rental growth over the next two years. However, well-located grade B space is likely to benefit from a value increase, as more economical options become increasingly limited.



Source: LSH



Source: LSH



Source: LSH

For more information, please contact:



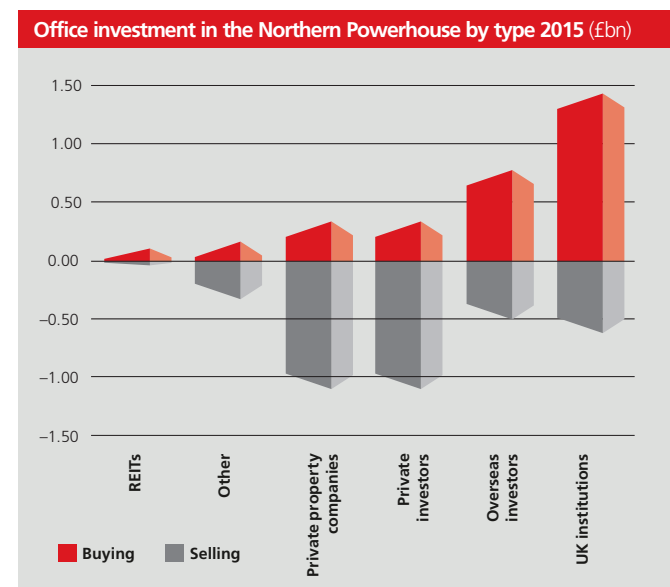
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## Investment overview

Manchester has led the revival of investment in the UK regional office markets, but with pricing in the city approaching record levels, is now the time for investors to consider other major centres in the Northern Powerhouse?



Source: LSH

Investor appetite in the UK's regional office markets has made an emphatic return over the past 18 months, initially driven by the attractive price discount to London, but more recently by improving fundamentals in the occupier markets.

For the five core cities in aggregate, 2014 was a record year for the Northern Powerhouse. Driven by a resurgence of demand from institutional investors, £1.42bn of office assets changed hands; marginally ahead of the previous high in 2007. Moreover, with volume of just over £1bn in Q1 to Q3 this year, 2015 will run very close to – if not surpass – 2014's record.

## Diverging perceptions

As the largest office market of the Northern Powerhouse, Manchester has understandably taken the leading share of office investment volume, which has expanded in the recent surge in market appetite. Since 2014, Greater Manchester has accounted for 71% of volume across the five core cities combined, compared with 50% over the past decade. In part, this has been driven by a number of major deals which have boosted volume, such as the joint venture purchase of MediaCity in Salford between Peel Group and Legal & General for £251.5m and M&G Real Estate's £91.7m purchase of 3 Hardman Square in Manchester.

However, evidence on pricing suggests that investors' perceptions of the five core cities have diverged in the years following the financial crisis. Prime office yields in Manchester and Leeds have moved in by over 200 basis points since the market nadir of 2009, with a further quarter point shift in Q3 2015, taking yields to within striking distance of their 2007 all-time lows. Meanwhile, pricing has not hardened to anything like the same extent in Liverpool and Sheffield, with prime yields standing at circa 200 basis points softer than their 2007 lows.

This divergence is largely linked to investors' perceptions on future rental growth, with Manchester and Leeds being the only markets to have seen meaningful growth post-recession. In contrast, Liverpool, Sheffield and Newcastle are yet to see market-wide recovery in net effective rents since the downturn,

while its occupier markets are perceived to be relatively exposed, despite improving activity.

The bulk of investment has been led by the UK institutions, whose appetite to acquire has only been tempered by a lack of stock. The re-emergence of overseas investors has been predominantly focused on Manchester, particularly among the German funds, a prime example of which was Deutsche Asset & Wealth's £100m forward funding of Two St Peter's Square in Q3.

## Searching for value

At the prime end of the market, the substantial differential in pricing compared with Manchester is now attracting yield-seeking investors to Liverpool, Newcastle and Sheffield. This was evidenced by the recent sale of Ventana House in Sheffield for £14m.

The strong weight of money in the market for prime offices and the hunt for value will therefore boost investment in these three cities, all of which arguably have more scope for yield compression than Manchester, where yields currently stand at 4.75%. While prime stock is in extremely short supply in these cities, evidence of price-hardening may tempt more prospective vendors into the market.

A full return to activity in Liverpool, Newcastle and Sheffield arguably depends upon investors embracing good quality secondary stock and, in particular, asset management opportunities to drive value and return.

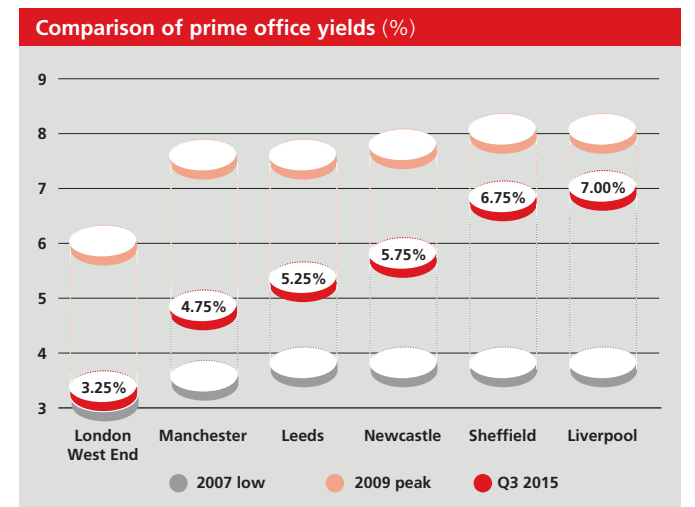
While occupier activity has picked-up significantly from the recession, investors need to be convinced of the rental growth prospects. With existing grade A supply under pressure, none more so than in Newcastle, and expectations of rental growth over the next two years, now might be the perfect opportunity to acquire in this part of the market.

## An effective collective

While anecdotally, institutional investors are well aware of the Northern Powerhouse growth initiative, the general feedback is there needs to be physical evidence in core areas such as transport infrastructure. These are long-term objectives which do not necessarily sit side-by-side with the usual five-year exit strategies for investors. Ultimately, the vision for the Northern Powerhouse will reach well beyond this timeframe.

The premise of significant investment in the regions through the Northern Powerhouse should create an intensified opportunity for growth. The key will be to embrace the Northern Powerhouse vision and identify where significant expenditure will see disproportional benefit to property performance. At the moment, mapping those areas in the short, medium and long-term is challenging until the concept becomes a reality with tangible results.

What is clear, is that the momentum behind the Northern Powerhouse is gathering pace. While Manchester is the dominant force at present, closer linkages between the five core cities will provide a catalyst for further growth. There is some way to go in creating an effective collective, but the scope of opportunity for investors in the formation of the Northern Powerhouse cannot be under-estimated in the long-term.



Source: LSH

“For Scarborough Group International (SGI), the concept of the Northern Powerhouse is no longer an abstract idea – it has developed into something tangible.

We are fortunate to have been operating in China for some 13 years and along the way we have established excellent business partnerships. We are proud that we are now able to work with our Chinese partners, bringing them into the UK to invest in our great Northern cities to accelerate our Northern Powerhouse projects. The support of the UK government has also proved invaluable in helping us to foster closer global business links with China and has resulted in recently securing funding from Hualing Industry & Trade Group for our £1.2 billion major regeneration projects across Manchester, Leeds and Sheffield.

Our philosophy to ‘think local act global’ sends a strong message to investors and it is this attitude that the region must adopt if it is to thrive in an increasingly ‘small’ globalised business world.”

Simon McCabe,  
Managing Director at Scarborough Group International

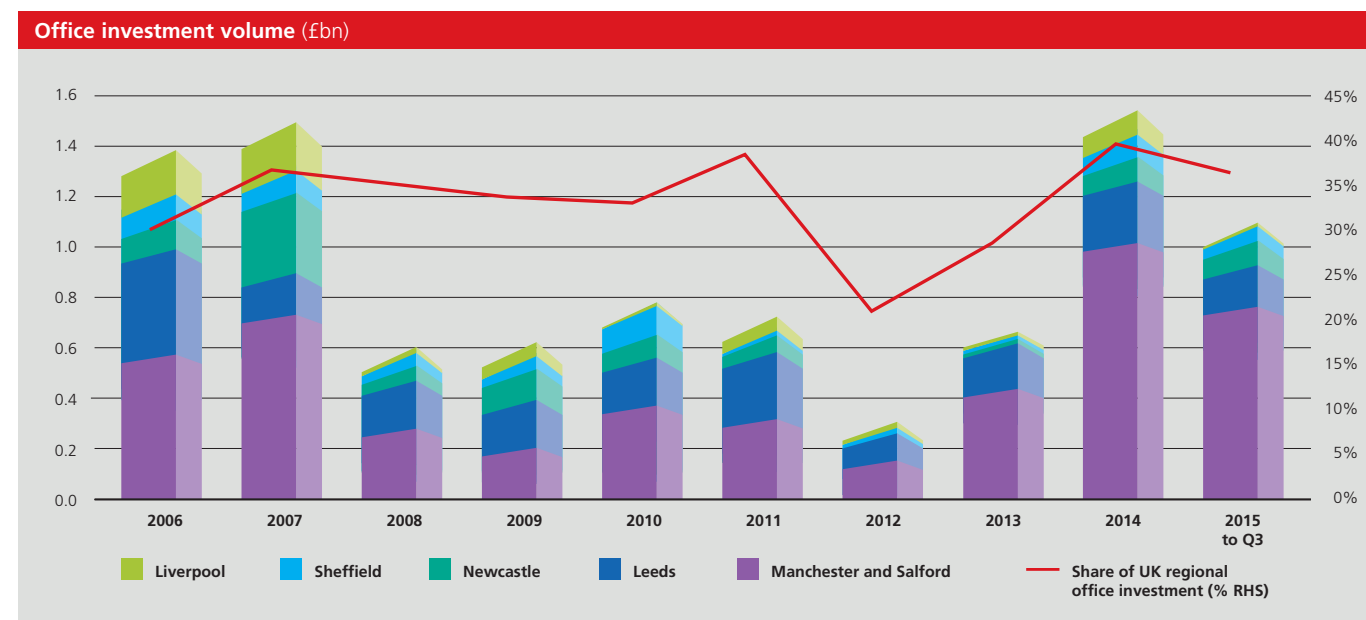
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Source: LSH

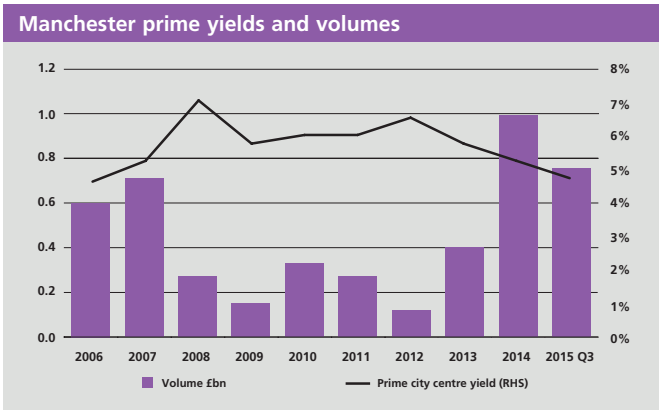


# Investment market snapshots

## Manchester

Manchester has been at the forefront of investment in the UK's regional office markets, with volume far outstripping that of competing markets. In 2015 to Q3, £731m of office assets changed hands in Manchester and Salford, including notably major lot size deals to overseas buyers, such as Deutsche Asset & Wealth's £100m forward funding of Two St Peter's Square.

Prime yields in Manchester moved in by 25 basis points in Q3 2015, to stand at 4.75%; keener than any other regional office market. The city is also an increasingly desirable location for asset management plays, through repositioning secondary buildings in emerging areas of the market.

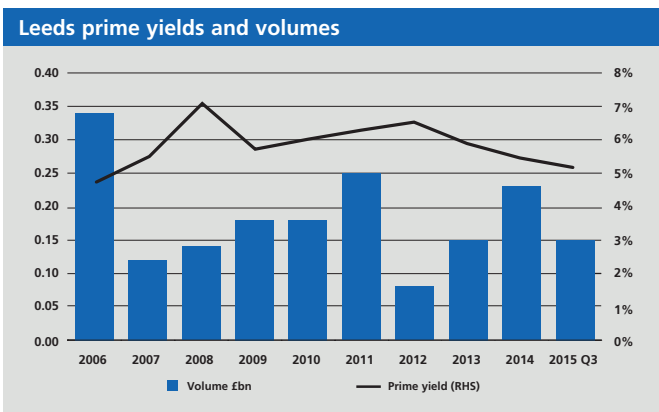


Source: LSH

## Leeds

Sentiment indicates that prime office yields in Leeds stand at circa 5.25% as at the end of Q3 2015; a discount of 25 to 50 basis points to the major regional centres of Birmingham and Manchester.

With strong demand for Leeds offices among institutional investors, limited availability of good quality stock is arguably the main barrier to activity. Investment volume in 2015 to Q3 stands at £148m, with the most prominent deal comprising Hermes REIM's £31.5m purchase of the Round Foundry from Igloo, reflecting 7.98% net initial yield.

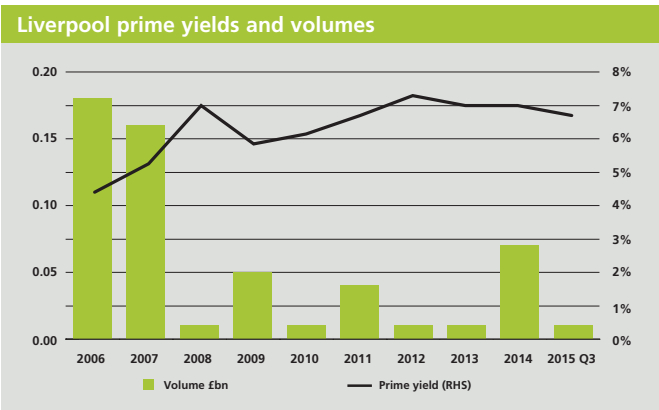


Source: LSH

## Liverpool

While 2015 has seen limited activity, a number of significant properties are now on the market. Green Property's India Building is available, while Downing has three properties for sale; namely The Port of Liverpool, Graeme House and Federation House.

Prime yields currently stand at 7.00%, which is the highest among the core Northern Powerhouse city centres, and still a substantial distance from the all time low of 4.75% in 2007. As investors increasingly search for value, the relative discount Liverpool now demonstrates to Leeds and Manchester is likely attract more interest to the city.

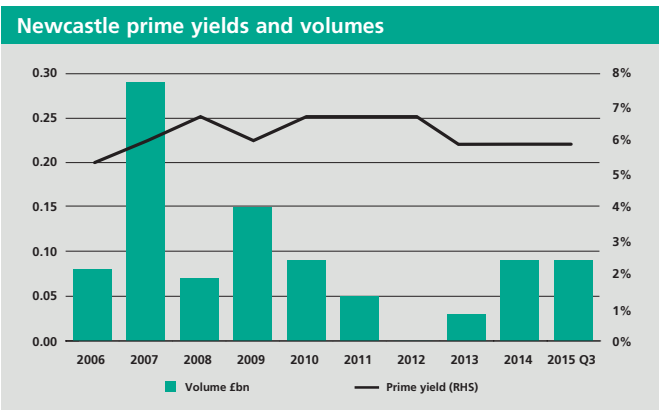


Source: LSH

## Newcastle

At the end of Q3 2015, prime office yields in Newcastle stood at circa 5.75%; a notable discount to Manchester and Leeds. While yields have hardened significantly over the past two years, at the peak of the market Newcastle achieved 4.75%.

Investor sentiment remains positive, with office investment volume in the first three quarters of 2015 currently standing at £90m; already surpassing 2014's total. The largest deal in 2015 up to Q3 was Aubrey Weiss' £22.6m acquisition of Cobalt 9a from Merchant Place Finance, reflecting a net initial yield of 8.82%.

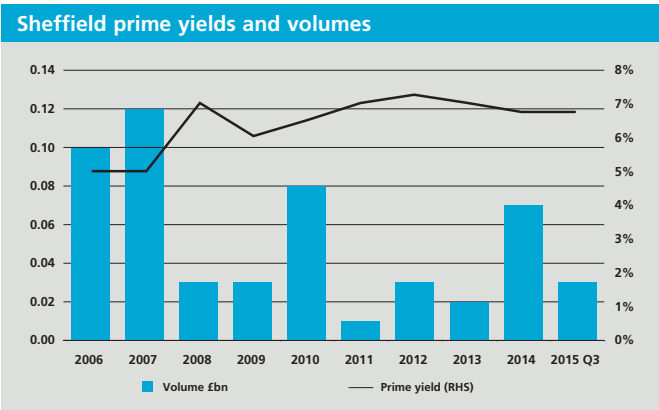


Source: LSH

## Sheffield

As one of the smaller markets of the core Northern Powerhouse cities, buying opportunities in Sheffield are relatively limited. Indeed, until recently, prime office yields in Sheffield have been entirely guided by sentiment, with the market seeing a limited number of small lot-size deals for secondary assets.

However, this position changed in Q3 2015, with Kames Capital's £14m purchase of Ventana House, reflecting a net initial yield of 6.99%. This has provided a useful guide to pricing in the city, confirming prime yields at circa 6.75%. This represents a substantial discount to Leeds and Manchester, and we anticipate strong investor interest when new schemes are delivered to the market.



Source: LSH

# Expansion has a strong influence on corporate relocation

LSH provides an in depth analysis of corporate activity across the eight core office markets of the Northern Powerhouse during the past 12 months. The contributing factors to companies deciding to relocate are split into triggers and drivers; the former being the issue that initially prompts an occupier to acquire new offices, the latter is the factor that influences the final decision.



## Triggers

In 2014/15, the primary triggers were lease events at 33%, followed very closely by corporate activity at 31% and expansion at 30%. While it would be expected that lease events and corporate activity are major influences on an office move, it is interesting to note that expansion has had a significant impact on the market in the past 12 months, which demonstrates increasing activity and market confidence in this sector after many years of stagnation and uncertainty. This is highlighted further by the fact that contraction only accounted for 2% of office moves, while consolidation accounted for 4%.

## Drivers

As expected, location is the primary driver for occupiers. However, it is worth noting that property betterment accounted for 26% of the market when acquiring a property, thus illustrating that confidence is returning and businesses are looking to upgrade and improve their working space. Interestingly, cost only accounted for 14%; a further sign of improving market conditions, as occupiers are looking at other factors rather than just the total occupational costs of their office premises. The other drivers are specific physical need at 13% and efficiency at 7%.

## The requirement for property betterment

While cost is becoming less influential on businesses decisions about where to relocate to, occupiers are focusing more on modern workspace, offering a better working environment for staff and providing a more client-facing office space. Although a sign of an improving economy, it also reflects changing working practices and the need for more flexible workspace. A prime example of property betterment being the main driver of an office relocation is NCC Group's acquisition of 60,246 sq ft of grade A space at the XYZ Building in Spinningfields, Manchester, with location being the secondary factor.

## Expansion is key to office relocation

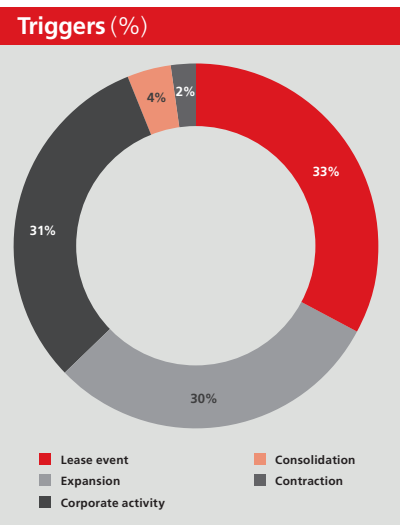
As market conditions improve, it would be expected that expansion would have an increasing influence on corporate relocation but, at 30%, it may come as a surprise that the effect is so great. Lease events are always going to have an impact as occupiers have breaks or lease expiries which trigger the need or want to find new premises, but research shows that expansion and corporate activity also have a similar influence on the market. Good examples include Wake Smith's acquisition of 14,000 sq ft of space (from 6,215 sq ft at 6 Campo Lane) at Velocity, V1, Sheffield, and iParadigms' acquisition of 19,904 sq ft in Wellbar Central in Newcastle. It is also worth noting that, while the main driver behind the moves was property betterment, corporate activity was cited as the secondary trigger to expansion, rather than a lease event.

## The influence of building efficiency and specific office needs

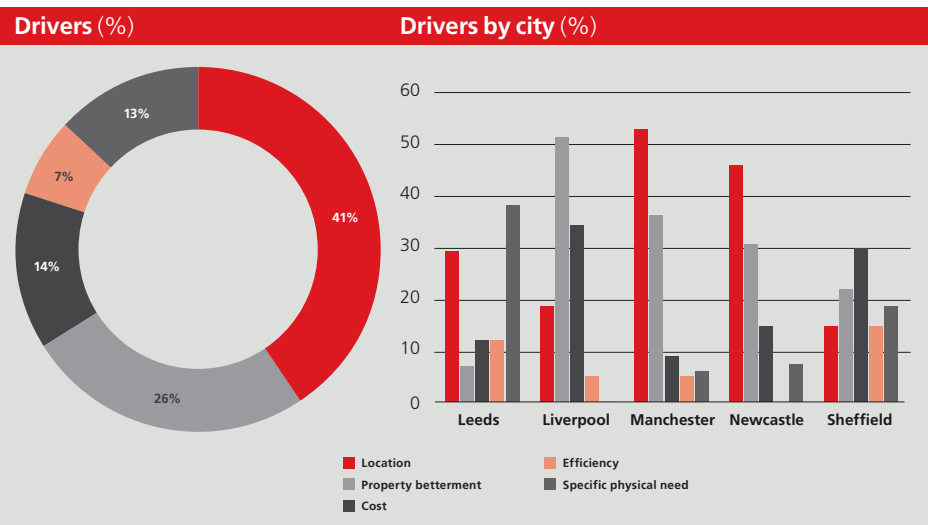
Specific physical need (13%) and efficiency (7%), while not the primary drivers, still have a notable impact on corporate relocation. Leeds Building Society's acquisition of 16,641 sq ft at City Exchange is an example of where physical office need had a large influence on the choice of premises, as expansion space was needed close to their existing office at 105 Albion Street. Efficiency (i.e. a desire to move to a modern workplace) has less of an influence and is usually a secondary, rather than primary, driver.

## Corporate confidence is returning

As the wider economy is improving, the impact on the office market is clear to see: as corporate confidence is slowly returning, office take-up is increasing and there are signs of growth. Speculative development is going to be key across all of the major office locations, as is the trend of businesses being influenced by property betterment, with companies realising that a good working environment is key to attracting, and keeping, good quality staff.



Source: LSH



Source: LSH

Nick Coote, LSH Office Agency, Northern Powerhouse

# The Northern Powerhouse: a world-class knowledge hub

Knowledge Intensive Business Services (KIBS) clusters – such as Technology, Media and Telecommunications (TMT), Science, Technology, Engineering and Mathematics (STEM) and Advanced Manufacturing – represent a significant proportion of the Northern Powerhouse economy and have a vital role to play in driving its future growth. But they mustn't be viewed in isolation...

The Northern Powerhouse's track record in fostering high-tech, high-growth KIBS clusters, the likes of which we have seen at MediaCity in Salford and the Advanced Manufacturing Park in Rotherham, is a source of competitive advantage and must be driven forward.

Positively, the Government has already committed almost £400m to several world-class science and innovation developments, which will provide a catalyst for further economic growth.

The National Graphene Institute at the University of Manchester was officially opened in March 2015 and will be joined by the Sir Henry Royce Institute for Materials Research and Innovation, which will also have satellite sites in Leeds, London, Cambridge, Oxford and Sheffield. The Hartree Centre at Sci-Tech Daresbury will also receive investment to expand its high performance computing capability, and plans have also been lodged to build a £15m Sensor City behind Liverpool Lime Street Station in the city's Knowledge Quarter.

In addition, the Northern Powerhouse is home to seven of the UK's 24 research intensive, world-class universities that make up the Russell Group – as illustrated on the map.

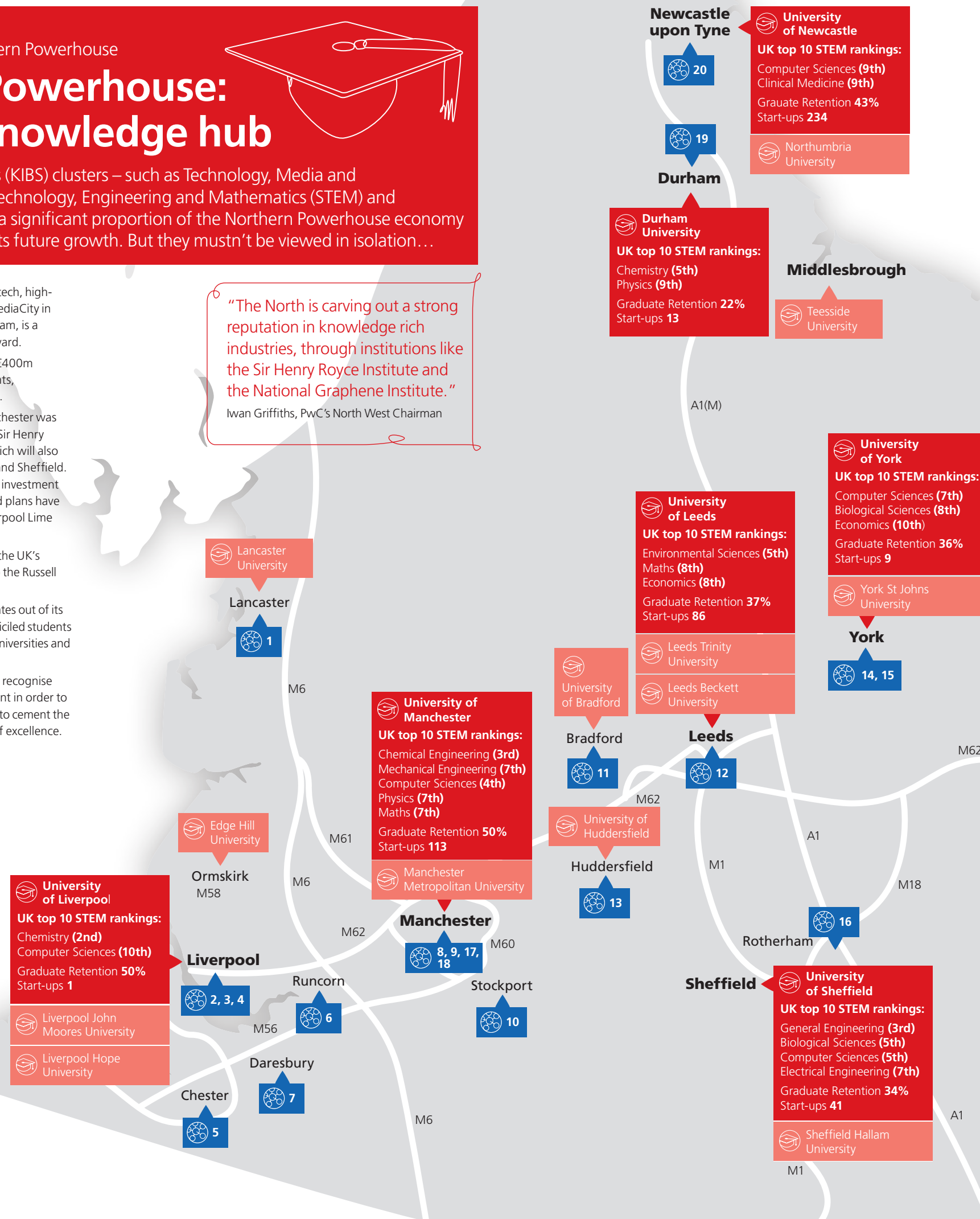
Yet, on a regional basis, there is a net flow of young graduates out of its best universities; with an average retention rate of UK domiciled students of 40%, compared with 68% across London's combined universities and a UK average of 47%.

Universities, politicians and regional stakeholders need to recognise the importance of retaining more of the region's best talent in order to avoid hindering the development of the skills base needed to cement the Northern Powerhouse's position as a KIBS global centre of excellence.

"The North is carving out a strong reputation in knowledge rich industries, through institutions like the Sir Henry Royce Institute and the National Graphene Institute."

Iwan Griffiths, PwC's North West Chairman

Source: HESA, UKSPA, LSH



## Science Parks

- 1 Lancaster Science Park
- 2 Liverpool Innovation Park
- 3 Liverpool Science Park
- 4 Mersey Bio Incubator
- 5 Thornton Science Park
- 6 The Heath Business & Technical Park
- 7 Sci-Tech Daresbury
- 8 Hexagon Tower
- 9 Manchester Science Partnerships
- 10 Stockport Business & Innovation Centre
- 11 Listerhills Science Park
- 12 Leeds Innovation Centre
- 13 3M Buckley Innovation Centre
- 14 National Agri-Food Innovation Campus
- 15 York Science Park
- 16 The University of Sheffield AMRC
- 17 National Graphene Institute, Manchester
- 18 Innospace
- 19 North East Technology Park
- 20 Newcastle Science Central

UKSPA  
BUILDING TECHNOLOGY BUSINESS

Lambert Smith Hampton is a member of the UK Science Park Association

Whichever northern city a company chooses to locate in, they can be assured of access to both world-class research, and a large and skilled workforce.

Tim Newns, Chief Executive, MIDAS



# The compelling case for development

A new, much-needed office development cycle is underway in the Northern Powerhouse, with cranes visible across the skylines of each of the five major centres. With occupier demand restored and levels of new-build supply under pressure, the case for further development remains compelling.

## A new cycle underway

While every city has its own specific market demand-supply dynamics, one theme common to all is that occupier demand has improved significantly over the past two years, reflecting a greater confidence among businesses to invest in the future and commit to relocation.

With development activity at a virtual standstill for four years after the financial crisis, the glut of new-build supply which once overhung the Northern Powerhouse markets has steadily eroded. Grade A availability across the five city centres combined has reduced by 68% since 2010, most notably in Leeds, where it is down by 80%.

Viewed in relation to average demand over the past decade, existing grade A supply in each of the cities is now constrained in prime locations, particularly in Leeds and Manchester, where less than one year's worth of built grade A supply remains.

While developers and financiers are more cautious than in the previous cycle, the growing shortage of supply has put development firmly back on the agenda. At present, there is circa 1.5m sq ft of speculative development within 15 schemes progressing across the five city centres, of which 15% is pre-committed. The majority of the activity is focused on Manchester, which accounts for 60% of the total floor space development underway.

## Current dynamics

With clear signs that a new cycle of office development is underway in the Northern Powerhouse, what are the prospects for further development over the next few years?

Factoring in current speculative development gives no cause for alarm – although it equates to a minimum of two extra years of grade A supply in all cities, bar Newcastle, the majority is not scheduled to complete until 2016. Furthermore, the markets are in the midst of a spike in lease events, which will continue to encourage above-average rates of grade A take-up over the next two years.

While the extension of Permitted Development Rights has its critics, change of use from offices to alternative uses has arguably had the positive effect of cleansing the markets of undesirable stock and boosting the vitality of the city centres.

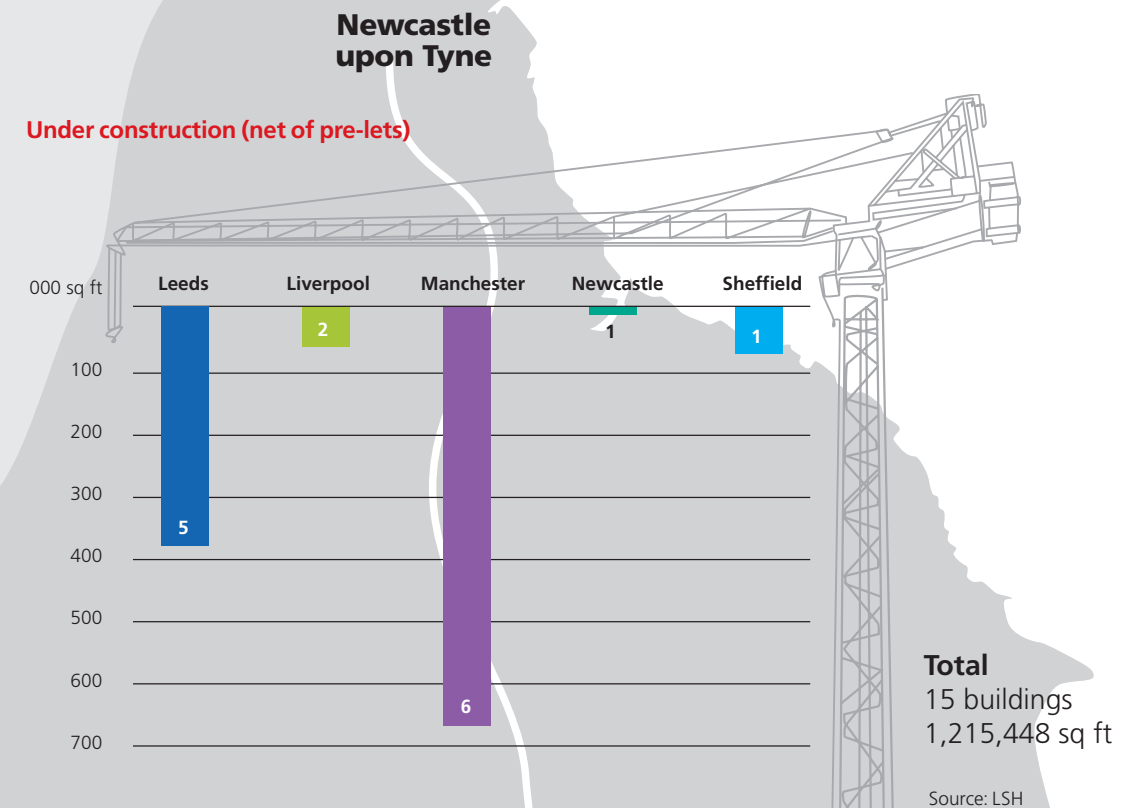
The shortage of prime investment stock within the five city centres, combined with a hardening of yields, is likely to drive more appetite among the funds to 'chase value' by taking on development risk. While evidence confirms that the demand and supply dynamics are favourable, other key factors are important in securing further developments in the coming years.

## The development cocktail

To ensure the success of any development, it is vitally important to have a full understanding of the local market dynamics. Development needs to be suited to the requirements in the market, in terms of size, configuration and the timing of its delivery.

While large grade A deals are those that grab the headlines, well-located buildings, which have been refurbished and repositioned to provide high quality grade B accommodation, have proved the most appealing to occupier requirements of below 5,000 sq ft. These dominate the Northern Powerhouse city centre markets in terms of the share of deals, if not the volume of space acquired.

Continuing rental growth remains crucial to ensuring scheme viability in the coming years. While headline rents across all cities within the Northern Powerhouse are now back to, or above, their pre-recession level (with the exception of Liverpool), growth has lagged inflation over the period. Moreover, the net effective rents, fundamental to any viability assessment, are now recovering across the northern markets, making development increasingly viable in all locations. With latest BCIS forecasts for build costs to increase by 3 to 4% over the coming years, it is important that rental and yield growth can at least match this.



“The success of the Northern Powerhouse relies upon the entire region operating as a single entity; each city needs to focus on its individual strengths and what makes it unique rather than competing among one another.”

Tom Bloxham MBE,  
Founder of Urban Splash



### Central Square, Leeds

Developer: Roydhouse Properties and M&G Real Estate  
Size (sq ft): 216,916  
Rent (per sq ft): £27.00  
Practical Completion: Q2 2016



### The Department, Central Village, Liverpool

Developer: MPM Limited  
Size (sq ft): 75,000  
Rent (per sq ft): £15.00  
Practical Completion: Q4 2015



### XYZ Building, Spinningfields Manchester

Developer: Allied London  
Size (sq ft): 160,000  
Rent (per sq ft): £32.00  
Practical Completion: Q2 2016



### The Rocket, Stephenson Newcastle upon Tyne

Developer: Clouston Group  
Size (sq ft): 35,000  
Rent (per sq ft): £22.00  
Practical Completion: Q3 2015



### 3 St Paul's Place, Sheffield

Developer: CTP and Development Securities  
Size (sq ft): 76,228  
Rent (per sq ft): £23.00  
Practical Completion: Q1 2016



Tom Shelton and Tom Burlaga, LSH Office Agency, Sheffield

# Clustering: spotlight TMT

The core cities of the Northern Powerhouse each have ambitions to build a thriving cluster of firms in the technology and creative industries. If they are to rival the critical mass of London and the world's other leading centres, they need to be better connected and promoted as a whole network of clusters.



Technology, Media and Telecommunications (TMT) is a key growth sector of the UK economy. In broad terms, it involves the creation and delivery of content and includes a diverse range of occupations; from software development to advertising, film and fashion. Following the tech bubble of 2000, TMT's latest boom has been driven by the exponential growth in the ownership of mobile devices and increased data storage available to consumers.

The sector's geography is very unbalanced – of the 1.5 million people employed in it, 45% are located within Greater London and the South East. The global growth of TMT is a key opportunity for the core cities of the Northern Powerhouse to capture a share of this market, going some way towards rebalancing the UK economy's north-south divide.

## Key Northern Powerhouse clusters

The core cities are each home to important clusters of TMT occupiers. As well as stimulating growth and employment, the sector is also helping to invigorate these cities, with its characteristically young, skilled and urban workers choosing to live within, and in turn, shape the cultural identity of the city centres.

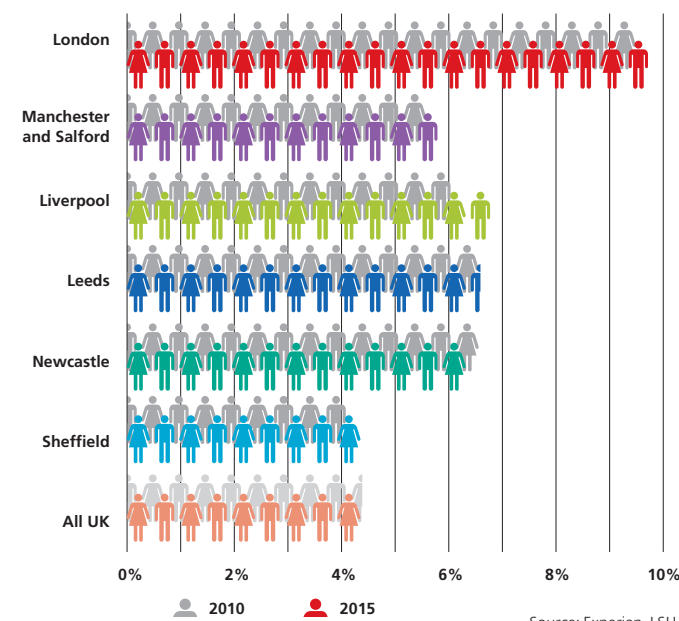
## Accommodating TMT occupiers

Fledgling TMT occupiers typically require sub-2,000 sq ft of 'funky', rather than traditional, corporate space, often on the fringe of city locations due to the lower costs and flexible lease terms on offer.

As these companies grow, they look to more conventional office deals and migrate to better space. Landlords are becoming increasingly aware of this requirement and are encouraging the formation of clusters by improving space or terms to retain these growing firms.

As costs continue to soar in London, this is the key opportunity for the core cities within the Northern Powerhouse to attract the larger creative occupiers to the area.

## Share of employment in TMT (%)



Source: Experian, LSH

## Taking TMT to the next level

LSH supports the Policy Exchange's recent assertion that policy makers should promote a 'cluster of clusters' to compete on the world stage for inward investment. Talent clusters, such as TMT, are crucial to the long-term success of the Northern Powerhouse economy. The challenge for the Northern Powerhouse is to up its game by improving accessibility and attracting skilled workers in order to compete on a global and national stage.

## Manchester

Manchester is already second only to London as a TMT hub and a City Council-led digital strategy sets out a vision to make it one of the world's leading digital cities by 2020. The city has two main clusters: the Northern Quarter and MediaCity in Salford Quays. It also has a unique centre, The Sharp Project, in a less traditional location on the outskirts.

Major occupiers, including the BBC and ITV, have relocated to MediaCity, while Peel has recently developed the 'Pie Factory' in order to capitalise on the gap in the market for small creative occupiers who need less space on a flexible basis.

The city is also soon to become the home of Tech North, a government-backed organisation that will promote the interests of digital and tech start-ups in the North of England, similar to the Tech City initiative in London.



MediaCity, Salford Quays

## Sheffield

Sheffield is home to an important cluster of companies within the digital sector, with Scarborough Group's Digital Campus being the chosen location for major occupiers. The Sheaf Valley Quarter is an extremely popular area for creative occupiers and the proposed new speculative development at Digital Campus is expected to establish it further as a key TMT area for the city.

The masterplan for Sheffield centres on making the Sheaf Valley its focus of innovation, learning and development by linking in with occupiers in the neighbouring Cultural Industries Quarter (CIQ).



Ventana House, Digital Campus

## Leeds

Holbeck Urban Village, particularly with the refurbishment and development of the Round Foundry Media Centre, is a popular location with creative occupiers. In addition, the redeveloped Leeds Dock is an emerging hub with digital companies, with Google's Digital Garage and the Sky Academy locating to the area.

Leeds also has the Airedale Digital Corridor, home to a cluster of digital and electronic firms. Leeds' future digital plan is based around a 'city regional' approach, incorporating other cities, such as York, Bradford and Wakefield.



Holbeck Urban Village

## Liverpool

The Baltic Triangle and Ropewalk areas of the city are the growing digital and creative clusters within Liverpool. Liverpool Innovation Park (LIP) is home to many of the city's creative occupiers, as smaller TMT businesses are given the flexibility and feel part of the creative business community.



Baltic Triangle

## Newcastle

Tech Triangle around Park Lane, Westgate Road and Neville Street, immediately to the north of the train station, is the main focal point in the city for smaller TMT occupiers. There isn't yet a notable cluster of larger creative occupiers, as is the case with other cities in the Northern Powerhouse.



Westgate Road and Neville Street



## About us

We are a commercial property consultancy working with investors, developers and occupiers in both the public and private sectors across the UK and Ireland.

Amazon to Zurich: we have partnerships with the complete A to Z of the best organisations in Britain and Ireland.

Transport to telecoms: we have experience of an extremely wide range of sectors.

Capital markets to construction consultancy: we serve an incredibly diverse range of commercial property disciplines.

We value lateral thinking and celebrate enterprise, with a focus on delivering more for our clients. By looking beyond the obvious, we consistently generate impressive results.

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<b>Birmingham</b> Tel: +44 (0)121 236 2066	<b>Fareham</b> Tel: +44 (0)1489 579579	<b>Luton</b> Tel: +44 (0)1582 450444	<b>Oxford</b> Tel: +44 (0)1865 200244
<b>Bristol</b> Tel: +44 (0)117 926 6666	<b>Galway</b> Tel: +353 (0)91 865 333	<b>Maidenhead</b> Tel: +44 (0)1628 676001	<b>Reading</b> Tel: +44 (0)118 959 8855
<b>Cambridge</b> Tel: +44 (0)1223 276336	<b>Glasgow</b> Tel: +44 (0)141 226 6777	<b>Manchester</b> Tel: +44 (0)161 228 6411 Tel: +44 (0)161 833 1197	<b>St Albans</b> Tel: +44 (0)1727 834234
<b>Cardiff</b> Tel: +44 (0)29 2049 0499	<b>Guildford</b> Tel: +44 (0)1483 538181	<b>Milton Keynes</b> Tel: +44 (0)1908 604630	<b>Sheffield</b> Tel: +44 (0)114 275 3752
<b>Chelmsford</b> Tel: +44 (0)1245 215521	<b>Leeds</b> Tel: +44 (0)113 245 9393 Tel: +44 (0)113 245 8454	<b>Newcastle upon Tyne</b> Tel: +44 (0)191 232 6291	<b>Solent</b> Tel: +44 (0)2380 461 630
<b>Dublin</b> Tel: +353 (0)1 673 1400	<b>Leicester</b> Tel: +44 (0)116 255 2694	<b>Northampton</b> Tel: +44 (0)1604 664366	<b>Southampton</b> Tel: +44 (0)23 8033 0041
<b>Edinburgh</b> Tel: +44 (0)131 226 0333	<b>Liverpool</b> Tel: +44 (0)151 236 8454		<b>Swansea</b> Tel: +44 (0)1792 702800

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Due to space constraints within the report, it has not been possible to include both imperial and metric measurements.

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