REGIONAL OFFICE MARKET REPORT 2016/17

Lambert Smith Hampton

NORTHERN POWERHOUSE

Lambert Smith Hampton

WELCOME

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It's been a tumultuous few months for the Government's Northern Powerhouse initiative following the UK's decision to leave the European Union. Yet, as I reflect on everything that has happened since launching our inaugural Northern Powerhouse Office Market Report in November 2015, I am reminded of the progress we've made; not just as a business, but as a collective region.

In December 2015, Sky launched its brand new 62,000 sq ft world-class technology hub at Leeds Dock, creating up to 400 new technology jobs in the city. Then in June 2016, the Government announced its plans to create three civil service super-hubs in Manchester, Leeds and Liverpool totalling 1.8m sq ft. Shortly thereafter, Peel Group submitted plans for the next phase of development at MediaCityUK, which will see it expand by 2.3m sq ft and retain its status as the UK's fastest-growing hub for the creative and digital industries. There is little doubt in my mind that the momentum of the Northern Powerhouse initiative helped bring these projects forward.

City Regions have also been galvanised. Manchester and Liverpool are on the verge of electing their own metro mayors which, in turn, will lead to the devolution of millions of pounds of public spending and a raft of new powers, and stakeholder groups such Business North and the Northern Powerhouse Partnership have been established, providing a unified voice for regional businesses and communities alike.

As a regional stakeholder, we have always maintained that transport improvements will be central to the economic growth of the North – expanding commuter access across the region and unlocking employment land will provide businesses with greater access to skilled employees and open up further opportunities for organic growth and inward investment, particularly as the cost of living in London becomes ever-more challenging.

In his final Budget as Chancellor, George Osborne committed £60m for the development of an improved East-West rail link named Northern Powerhouse Rail, which aims to reduce journey times between Leeds and Manchester from 50 minutes to about 30 minutes. He also promised £75m to develop plans for an 18-mile road tunnel under the Peak District to speed up journey times between Manchester and Sheffield.

Despite initial doubts surrounding the newly-elected Prime Minster's commitment to the initiative, Theresa May has insisted the "whole machinery of government" is behind the Northern Powerhouse and we hope that this level of investment and enthusiasm carries through under her leadership. Although, quite how this sits alongside her National Industrial Strategy remains to be seen.

To summarise, we, as Northerners, will be much more in charge of our own destiny – by harnessing the leadership and skills that we have at our disposal, we need to take full advantage of the opportunity before us to ensure that momentum does not wane.

If you would like any guidance or further information in respect of any of the Northern Powerhouse's office markets, please contact our team of experts – we'd be delighted to help.

CONTENTS

THE RISE OF COWORKING

As computer technology becomes faster and more mobile, the way people want to work is changing, and more rapidly than ever before.

The desire to be in the right city and the right location is still as important as ever, but there is now a growing emphasis on being in the right environment – one which is relaxed and relaxing, inspires and nurtures, and fosters a supportive community. Cue the rise of coworking.

Coworking is defined as 'the use of an office or other working environment by people who are self employed or working for different employers, typically to share equipment, ideas and knowledge'. Businesses and individuals typically commit to flexible memberships rather than licences or short-term leases, in return for access to a workstation with a personal mailbox, storage and landline services, as well as meeting room hire, catering facilities and often a calendar of networking events, for a specified amount of time.

In the seven years since it was officially launched, the number of people using the coworking model has grown to more than 100,000 and estimates suggest that by 2018, one million people will adopt the same working practices.

COWORKING ACROSS THE NORTHERN POWERHOUSE

While coworking evolved from micro businesses using it as a way to manage property costs in London, it is becoming increasingly popular across the core cities of the Northern Powerhouse, albeit largely in the form of more traditional serviced offices, incubation centres or small office suites offered on inclusive 'easy in/easy out' licences.

One operator to fully embrace the coworking ethos in the North is pay-per-minute work, meeting, social and event space concept Ziferblat, who recently announced it was adding to its award-winning Edge Street facility in Manchester's Northern Quarter with the acquisition of 6,000 sq ft at MediaCityUK's the Tomorrow Building (see right).

In London and the South East, demand is high and coworking spaces are limited. While there are currently less than twenty schemes offering coworking spaces across the Northern Powerhouse, there is a growing desire among investors and developers to create more.

XYZ, Manchester

Allied London was the first to send a message that it is not just the micro business that would benefit from this modern approach. It initially experimented with the concept at the old Granada Studios before investing in its 160,000 sq ft XYZ scheme. Designed with coworking and interaction at its core, this was created to disrupt the financial district of Manchester and has successfully done so, with demand far outstripping supply.

MediaCityUK, Salford

Originally intended to be an incubator and short-term space for freelancers and small businesses working on fixed/flexible contracts, The Greenhouse has now evolved exponentially. Due to the level of demand for space, it is now complemented by the Tomorrow Building, a speculative new build offering a range of coworking spaces.

Windmill Green, Manchester

This brand new scheme is being developed in response to the success of Manchester's other initial coworking schemes – and with a firm belief that not only is the way people work changing, but also amenities and workspace should be high quality and convenient for users. Coworking is integral to the design and overall concept.

The Shed, Manchester

Manchester Metropolitan University has established a space not just for its own students, but for use by the wider digital sector too. People from a range of different disciplines and backgrounds are using it and are working together for mutual effect. Those running it say that demand is so high they could fill it three times over.

THE EVOLUTION OF COWORKING

Despite its infancy, a clear model of success is already emerging for coworking space. The more central to a scheme coworking and the concept of community are, the greater the likelihood of success.

It is no longer sufficient to offer a presentable and functional workspace, those embracing coworking want an 'experience'. Developers need to look to the leisure industry for inspiration to provide an appealing ambiance and a concept that fits with their business and personal values.

Like any other businessperson, coworking space users want high quality leisure facilities and amenities. They should not simply be available nearby, but integrated within the scheme and convenient for users.

Most importantly though, coworking space should offer the promise of collaboration. Users want a ready-made business community that is supportive and inclusive. Privacy is a major issue for coworking space users, as there is a very real possibility that users could find themselves working alongside competitors. This potential drawback must be outweighed by the prospect of a wealth of other people's different experiences to draw upon.

COMMUNICATIVE BUT NOT DISRUPTIVE

While the concept of collaboration and interaction between business space users is appealing, the relaxed coworking environment, which encourages communication, also relies heavily on users being respectful of others' space and being communicative but not disruptive, a fine line to tread. Some developers are subsequently responding to this by introducing vetting procedures for space users.

There will always be a diverse range of occupiers, those who embrace the coworking ethos, and those who are more traditional. At present the 'traditionalists' are in the majority, but micro businesses (the greatest users of coworking space) are increasing in number and now equate to 96% of companies in the UK.

Other coworking schemes across the Northern Powerhouse include:

- Launch 22, Liverpool
- coWorkz, Liverpool
- One Aire Street, Leeds
- The Beacon, Newcastle
- Union Street, Sheffield
- Duke Studios, Leeds

CHALLENGES FOR THE PROPERTY INDUSTRY

Workplaces are evolving as the workforce becomes more agile – open plan has replaced cellular and mobile working is now standard practice. As the next generation – who have never experienced the 'traditional' way of working – enter the workplace, the flexibility and mobility that coworking offers will become the norm.

However, like the private rented sector model, coworking is still an emerging form of asset class and one which the property industry is not yet geared up for. Traditional leasing structures do not currently permit businesses to 'share' occupation of their premises with other businesses outside of their own corporate structures, unless prior written consent is obtained from the landlord.

Fundability is also an issue for investors and developers, who typically insist on institutional leases to determine the viability of a scheme before bringing it forward.

In order to remain current, competitive and meet the burgeoning demand, the property industry must acknowledge the importance of this growing trend and react faster than ever before, otherwise owners of buildings that are unable to offer the benefits modern businesses expect will quickly find themselves struggling to compete.

Leeds Dock, Leeds

Allied London has taken the principles of success from its XYZ building and reapplied them to the waterside Leeds Dock building, evolving its own coworking space model.

Image courtesy of G Gardner.

TIRED OF LONDON?

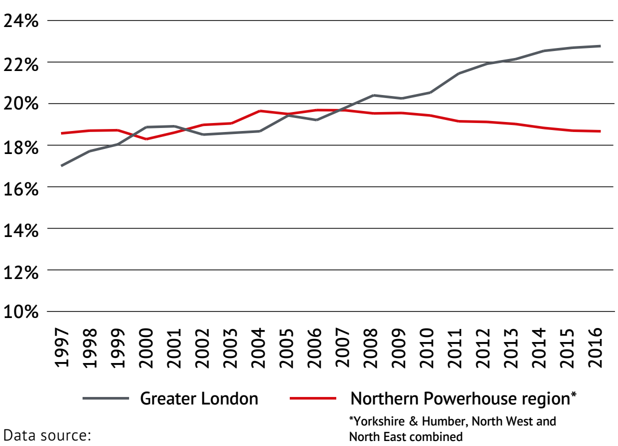
As the cost of living in London becomes ever more challenging, businesses in the capital are starting to fear its long-term impact on the supply of talent. Alongside the political will to drive growth in the Northern Powerhouse, the evolution of 'North-Shoring' among major occupiers may itself play an important role in rebalancing the UK economy.

Freshfields acquired 80,000 sq ft at Muse Developments' One New Bailey

TIME TO REBALANCE

While London remains an undisputed global hub for talent and culture, the capital is facing acute and growing cost pressures, both for its resident population and businesses alike. These pressures partly reflect the unbalanced trajectory of the UK economy over recent decades; as London's share of UK economic output has increased, the three regions which comprise the Northern Powerhouse have lost ground.

Share of UK output: London vs Northern Powerhouse



Data source:
Office for National Statistics / Experian

But is the capital becoming a victim of its own success? In April 2016, London First reported that London's housing crisis is a serious threat to its global competitiveness. It warned that, unless the issue is addressed, by 2040 only financial sector workers would be able to afford to rent a flat in inner London, choking off the supply of talent in an array of other key sectors.

However, this London-centric view overlooks the potential of the Northern Powerhouse in both helping the UK to compete on the world stage and rebalancing the UK economy. Crucially, the political will to tackle the imbalance is gathering momentum and, with sustained investment in transport infrastructure, the draw to occupiers to the region is only going to increase.

THE CASE FOR RELOCATION

Historically, the business case for 'North-Shoring' from London was centred around cutting costs. But forward thinking businesses are now also considering relocation for the sake of their existing and future staff. The Northern Powerhouse region has seen a number of high profile inward investment moves over the past few years, including Freshfields and Ford Credit in Manchester, and Sky's Academy in Leeds to name but a few.

Alongside the private sector, the Government itself has an important role to play, as it seeks to rationalise the civil service estate and spread vital Whitehall functions into the UK's other core cities. In its first wave of 'hubs', the Government Property Unit (GPU) is seeking to find space in the Northern Powerhouse cities of Manchester, Leeds and Liverpool totalling 1.8m sq ft. This is in addition to the 77,800 sq ft the Department for Work and Pensions is understood to be on the verge of taking at Two St Peter's Square in Manchester.

Opposite here we examine the financial case for both businesses and staff.

THE BUSINESS PERSPECTIVE

Office space in Central London has always commanded a premium over elsewhere, although this has become more substantial on the back of strong rental growth in recent years.

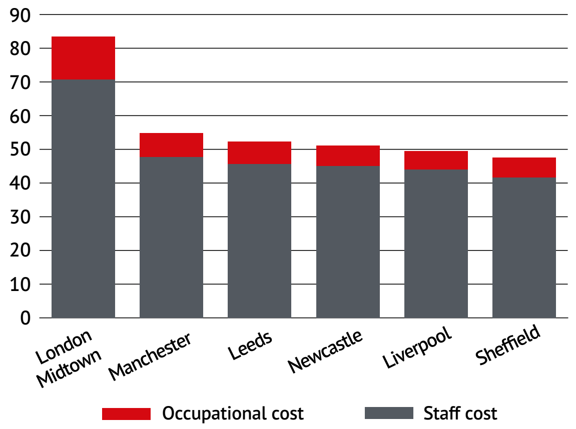
The cost differential is set to widen further from April 2017 when the next business rates revaluation takes effect. Its impact will be felt most acutely within London's emerging districts, where a steep rise in business rates liabilities is expected to add over 10% to total property costs.

Significant as property costs are to a business, as a general rule, staff costs in a brand new building typically account for around three quarters of a business' expenditure.

Considered overall, the total cost of a single office workstation (i.e. staff and property) in a brand new building within London's Midtown costs £83,000 per annum, compared with £52,000 per annum in Leeds.

For a new-build office totalling 50,000 sq ft with 500 staff, the above equates to an annual cost of £25m in Leeds. Over a period of five years, the effective 'saving' from being located in Leeds as opposed to London's Midtown amounts to almost £70m.

Office cost per workstation (£000s per annum)



Data source: Lambert Smith Hampton / Office for National Statistics

THE STAFF PERSPECTIVE

London-based office workers may command markedly higher salaries than their regional counterparts but, for the majority, this is more than offset by the eye-watering cost of housing, whether to purchase or rent.

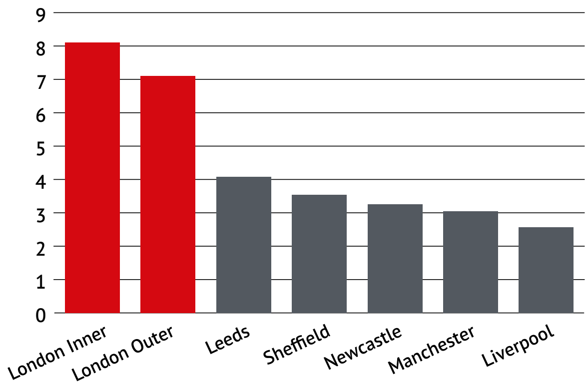
The current average cost of a house in London's inner boroughs stands at well over eight times the average combined salary of a cohabiting couple. In contrast, housing costs in Leeds, which are the 'least affordable' of the major cities in the Northern Powerhouse, stand at only four times combined salary.

The average couple also needs to save for eight years to afford a deposit in London, rising from 3.8 years in 2007. This is almost twice as long as it takes in most other parts of the UK.

Owning a home outright in the capital is therefore becoming a distant prospect for many London professionals, including those on higher salaries. Many opt to commute, but this is expensive and time-consuming.

In fact, statistics from ONS reveal that a record number of people in their 20s and 30s are leaving the capital for elsewhere in the UK, rising 4% in 2015 to stand at 283,000.

Average house price to dual income* ratio



*Dual income expressed as 1.75 times average mean salary

Data source: Office for National Statistics / Land Registry

THE IMPORTANCE OF RETAINING TALENT

From a purely financial perspective, the case for relocating from London to the cities of the Northern Powerhouse is clear for both businesses and employees. But there are of course other important factors businesses will have to consider beyond cost, including availability and suitability of local talent, transport connectivity, the cultural fit of the organisation with the location and, of course, logistical risks to the business surrounding a move.

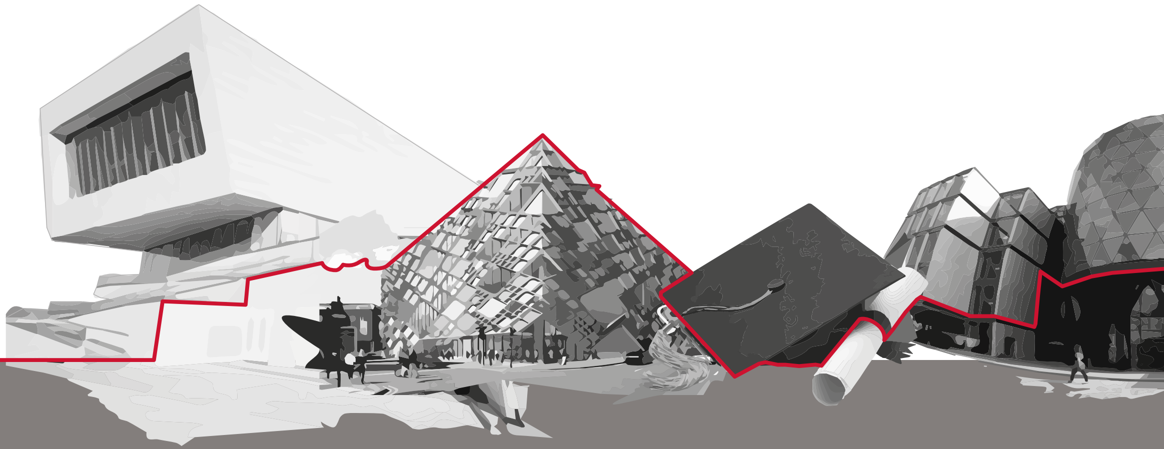
Moving forward, local policy makers, investors and developers have a key role to promote inward investment moves into the Northern Powerhouse. Development sites should be identified and considered to suit the needs of both existing occupiers and potential in-movers, alongside practical advice to identify the right solutions and mitigate the risk.

Ultimately, sustained inward investment in the region will depend on attracting and retaining a highly skilled workforce. While the Northern Powerhouse is home to several renowned universities, a key challenge will be to retain its talented graduates and stem the 'braindrain' into London.

Ironically, as the cost barriers of London become more widely understood by the region's ambitious young professionals, businesses may increasingly target them.

Graduate retention within UK region (%)

Data source: HESA



TURNING RHETORIC INTO REALITY

With the formation of pan-regional stakeholder groups such as Business North and the Northern Powerhouse Partnership, the business voice of the North of England has never been more focused.

Leveraging this enthusiasm alongside the wider political agenda will be crucial in making the Northern Powerhouse a success.

We invited senior representatives from both groups to provide their views on what they believe the key to the North of England reaching its full economic potential is:

Chris Hearld

Chair of Business North and of KPMG in the North

In order to boost the economy of the North, driving out productivity deficits, for the good of the whole country our big cities must be better connected, so they can operate more like a single economy. The skills issue needs to be addressed as well but reversing the legacy of underinvestment in transport infrastructure is, for me, the initial priority.

The key is connecting the ambition with the reality of funding. Without planned funding lines committed over time, the necessary investment will be merely a wish rather than a goal.

This is a challenge for the holders of the public purse but also for business – it is incumbent upon business to consistently make the case for transport that can enable the region's employers and entrepreneurs to run more efficient and higher growth businesses, exploiting a more flexible market for their products and services and, critically, tapping into a larger talent pool.

This is why Business North has been formed; to enable business to speak with one voice to provide ideas, challenge and support for the Government's Northern Powerhouse and wider regional growth agenda.

Its first formal action is a Call for Evidence to ensure business views are shared with Transport for the North on the opportunities presented by infrastructural improvements. The deadline is 2 December 2016 and the briefing is available at businessnorth.org.

Nick Roberts
Chief Executive Officer, UK & Europe
Atkins

"The key to delivering the Northern Powerhouse is simply to be clear on what we are trying to achieve and what success looks like.

It's widely acknowledged that increased productivity and getting more people into work is at the top of the list. But I believe success also means attracting double the amount of foreign and private investment in the region, increasing spending on research, and providing and retaining a higher level of skills and education in the region.

In terms of some very practical outcomes, reducing the travel time between core cities, enhancing digital connectivity and modernising the region's housing and infrastructure will also make a huge difference. This won't be easy and will require significant political will and collaboration, a commitment from the business community and an ambitious industrial strategy.

Steve Gillingham
Director
Mace Group

"Devolution is often talked about in terms of alignment with local priorities, but these need to fit within a national industrial strategy. The North has unique expertise that is not easily found in other areas of the country, for example the depth of professional services experience found in Leeds or the media and arts expertise in Manchester. It is a perfect opportunity for regions to work together with a strong unified voice to champion these areas that are flourishing to the Government.

The recent Farmer Review has challenged both employers and the Government to reform construction so it is fit to meet the challenges of delivering the major infrastructure schemes that this country badly needs. The National Needs Assessment predicts the size of the challenge as a requirement for 400,000 new jobs in construction and engineering in 20 years. It is an immense challenge. Small steps like re-purposing the CITB and the new apprenticeship levy move us in the right direction, but need to be built upon effectively and rapidly.

The Northern Powerhouse will highlight the skills shortage, but it also needs to be the catalyst for investment in up-skilling for the future.

UNLOCKING THE NORTHERN POWERHOUSE

In a survey conducted by Lambert Smith Hampton (LSH) in October 2016, occupiers, investors and developers of commercial property across the UK overwhelmingly called for a review in government policy, which focuses on improving transport links across the Northern Powerhouse region in order to improve its attractiveness as a potential business location.

A REGION LET DOWN BY UNDER-INVESTMENT

LSH's sentiment survey sought the views of the property industry on the Northern Powerhouse compared with London and the South East. Its findings were largely positive, with 38% believing the North of England to be a hive of opportunity, albeit one that respondents feel has been let down by under investment from the Government.

A further 43% said it was a region which is growing in potential but will never truly compete with London and the South East. Interestingly, just 1% believed it to be a financial drain on the UK economy.

LOWER COSTS A KEY DRIVER FOR RELOCATIONS

When asked about the benefits of locating a business in the North of England, respondents were unanimous in their reply that the region's lower property, staff and living costs were the primary drivers behind any potential move (see 'Tired of London?' on page six).

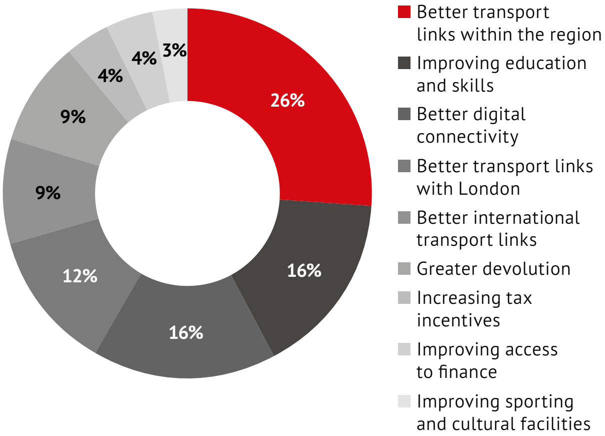
However, the historical perception from those outside the region of it being "the frozen North" was seen as the biggest deterrent to would-be inward investors, followed closely by its poor transport links.

GOVERNMENT MUST PRIORITISE HS3 OVER HS2

When asked what aspects the Government should focus on to make the North of England a more attractive business location, unsurprisingly better transport links within the region topped the list, followed by improving education and skills. Interestingly, greater devolution and improving transport links with London were seen as two of the least important priorities.

Data source: Lambert Smith Hampton

What should the Government focus on to make the North a more attractive business location?



Data source: Lambert Smith Hampton

THE IMPACT OF IMPROVING INTER-REGIONAL CONNECTIVITY

The poor transport links across the North of England currently constrain the movement of labour between city regions, narrowing the labour pool and constraining regional growth (see figure 1).

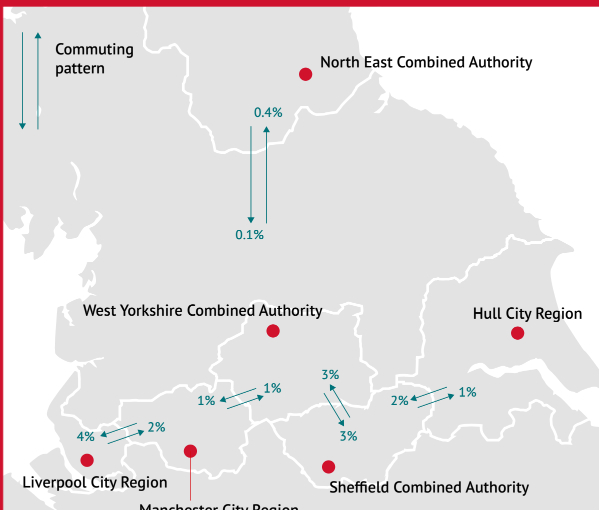


Figure 1

Data source: Centre for Cities

Reducing travel times and encouraging a greater mobility of workers across city regions could lead to a significant improvement in regional productivity (see figure 2).

City	Increase in population (m)	% increase in productivity
Leeds	3.3	7%
Liverpool	6.2	14%
Manchester	4.4	10%
Newcastle	0.7	1%
Sheffield	3.8	9%

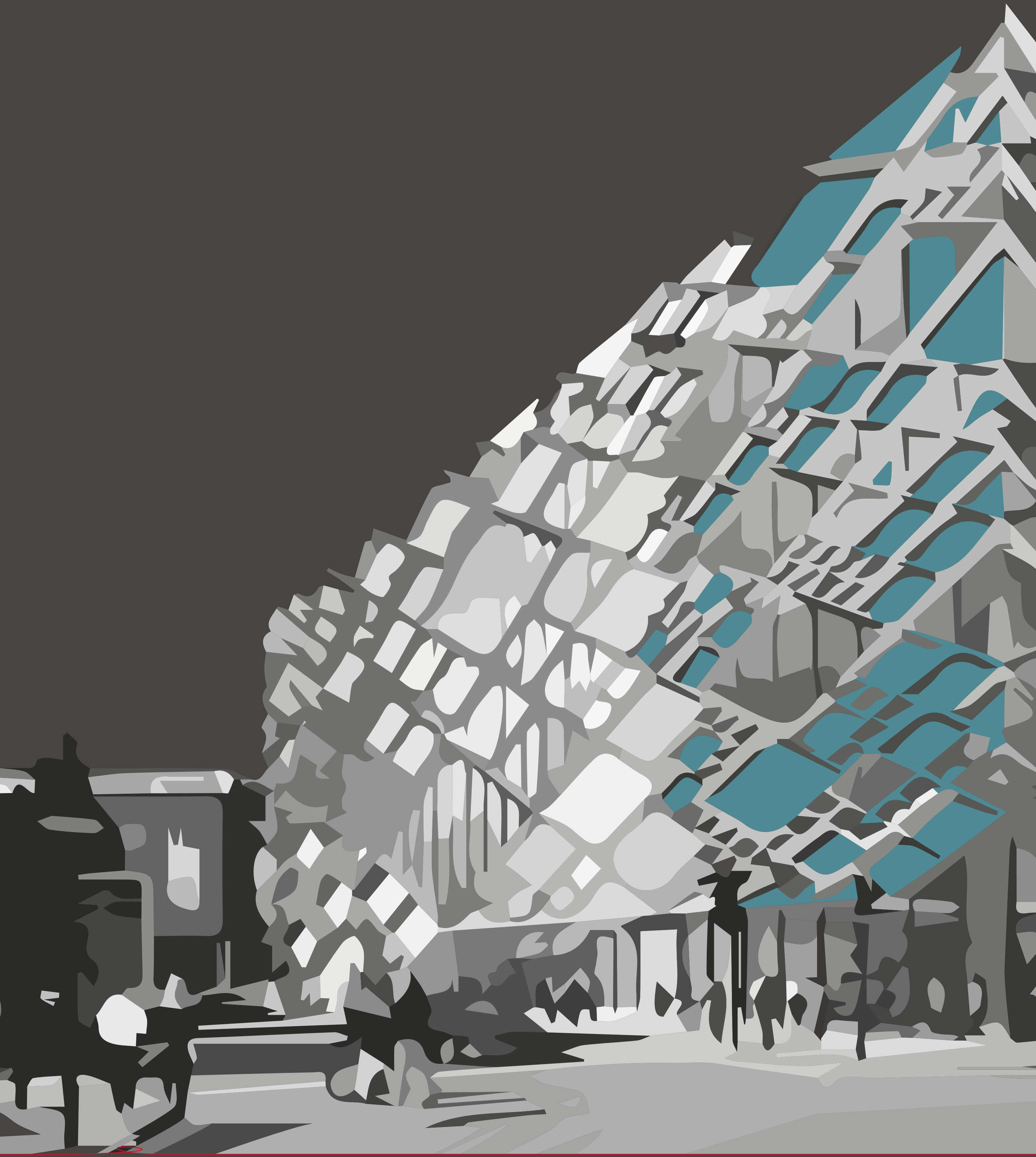
Data source: CBI and McKinsey

Figure 2

Commenting on the findings, Richard Corby, Director of Agency and Real Estate Advisory at LSH's Leeds office, said:

> It's encouraging to see that so many individuals outside the North of England believe in the region's long-term potential. However, there is clearly a mismatch between what the Government is proposing and what potential inward investors want.
>
> In particular, there were strenuous calls from respondents to scrap HS2 in favour of Northern Powerhouse Rail, mostly due to spiralling project costs and its 17-year delivery timescale, but not least because it will potentially drain the North of England of human resources. Even more interesting was the fact that respondents believed greater devolution should be less of a priority; rather worrying when you consider this is the primary delivery method of the Government's reforms for driving local growth and rebalancing the economy!
>
> There are countless groups of regional stakeholders promoting what the North of England has to offer, and that's no bad thing, but if we are to genuinely capitalise on the raft of potential relocations out of London perhaps the Government should listen to what those businesses actually want?

Richard Corby
Director of Agency and Real Estate Advisory
LSH Leeds



REGIONAL INSIGHT

OCCUPIER OVERVIEW

A snapshot of the Northern Powerhouse

2016: A SOLID, IF UNSPECTACULAR, YEAR

- 2016 has been something of a 'Goldilocks year' for occupier activity - not too hot, not too cold. For the Northern Powerhouse markets combined, take-up is on course to finish closely in line with the 10-year annual average of 4.1m sq ft. While this represents a 20% decrease on 2015's high, it was always going to be a hard act to follow.
- Alongside a spike in lease event activity, 2015 reflected confidence among occupiers to commit to relocations, having finally shrugged off the effects of the last recession. The fall in take-up year-on-year has also reflected fewer large headline deals to corporate occupiers; 2016 is expected to see six deals above 50,000 sq ft, half that of 2015.
- Despite the uncertainty generated by last summer's Referendum result, it did not have an immediate impact on activity the region. On the contrary, Q3 saw both a higher number of deals and take-up than each of the preceding two quarters. Having been notably absent in the first half of 2016, Q3 also saw the first of 2016's major deals come through, such as Freshfields, Manchester (81,300 sq ft) , HSBC, Sheffield (140,000 sq ft) and LJMU, Liverpool (63,600 sq ft).

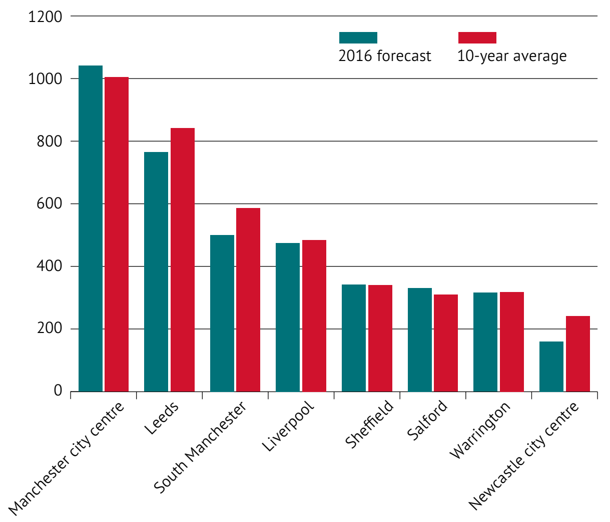
ONLY NEWCASTLE LOOKS SET TO DISAPPOINT

- 2016's solid year for the region as a whole is applicable to the majority of the markets. Take-up in Manchester city centre is on track to break 1m sq ft for a third successive year, forecast at 4% above the annual average, while nearby Salford is set to be the region's lead performer, with take-up forecast to exceed the average by 7%.
- Conversely, activity in Leeds and Newcastle is expected to fall short of par in 2016. While the underperformance is relatively modest in Leeds, down 9% from the annual average, Newcastle city centre is expected to see a marked underperformance in 2016, 33% below the 10-year annual average.

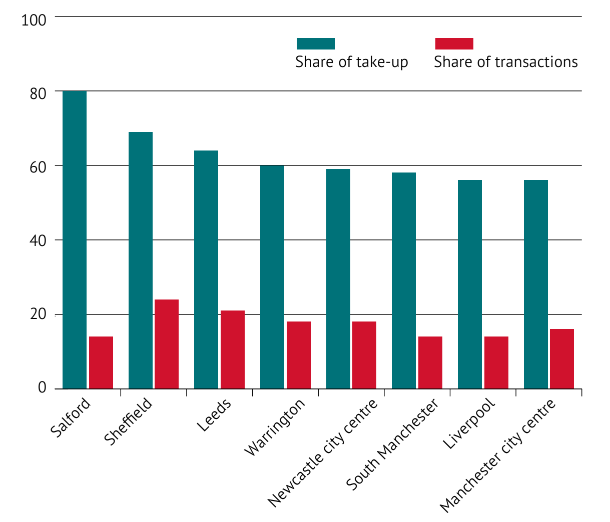
SUPPLY IN THE REGION SLIPS TO FOUR-YEAR LOW

- Overall supply has fallen steadily over the past four years, standing 20% below its 2012 peak. This reflects a sustained period of strong take-up, a relatively modest development cycle and significant quantum of space lost to alternative uses.
- However, with new-build development increasingly coming through, the rate of decline in overall supply has eased significantly, falling only 2% during 2016. Overall grade A supply has increased by 33% since the end of 2015 to stand at 3.2m sq ft, a figure which includes development scheduled to complete within 12 months.

Forecast 2016 take-up vs 10-year average (000 sq ft)



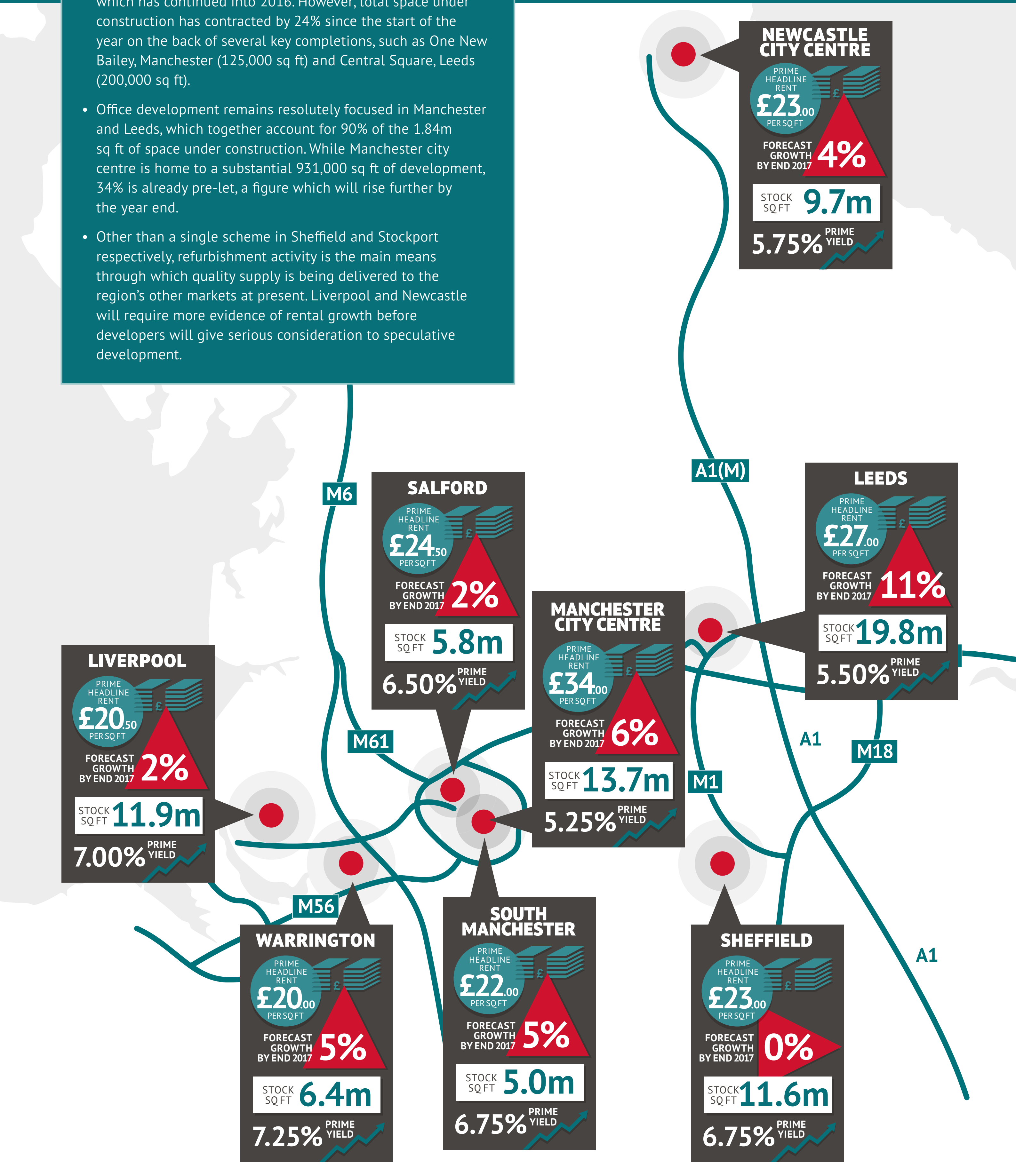
Activity over 5,000 sq ft (%)



Data source: Lambert Smith Hampton

MANCHESTER AND LEEDS DOMINATE DEVELOPMENT

- Development activity made a meaningful return to the Northern Powerhouse office markets during 2015, a theme which has continued into 2016. However, total space under construction has contracted by 24% since the start of the year on the back of several key completions, such as One New Bailey, Manchester (125,000 sq ft) and Central Square, Leeds (200,000 sq ft).
- Office development remains resolutely focused in Manchester and Leeds, which together account for 90% of the 1.84m sq ft of space under construction. While Manchester city centre is home to a substantial 931,000 sq ft of development, 34% is already pre-let, a figure which will rise further by the year end.
- Other than a single scheme in Sheffield and Stockport respectively, refurbishment activity is the main means through which quality supply is being delivered to the region's other markets at present. Liverpool and Newcastle will require more evidence of rental growth before developers will give serious consideration to speculative development.



OCCUPIER OVERVIEW

CONTINUED

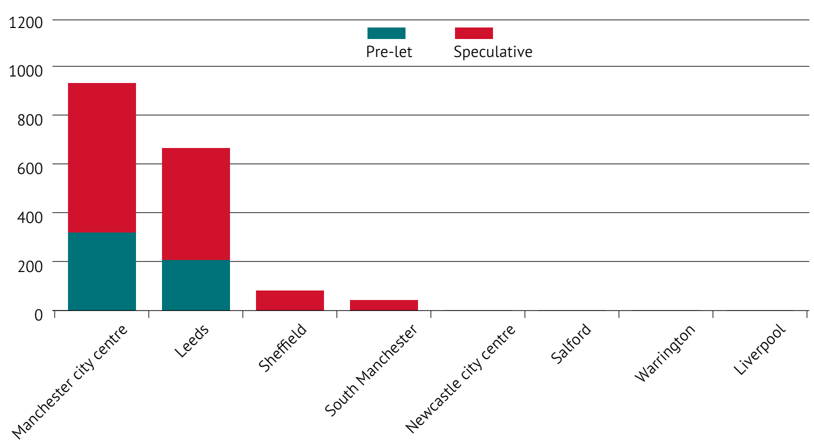
A MIXED PATTERN FOR GRADE A SUPPLY

- There is nonetheless a notable variation in levels of grade A supply between the markets. In Manchester city centre, grade A space accounts for 48% of total supply, although this is expected to contract rapidly in view of deals in the pipeline, Additionally, in Leeds, grade A space also accounts for a sizeable 30% of total supply.
- In sharp contrast, the region's smaller markets continue to endure an acute shortage of quality supply. While a lack of grade A space is not of particular concern in Warrington, given the relatively modern nature of its stock, it is a notable issue in Liverpool and Newcastle, where the shortage of quality space in the core areas is arguably acting as a constraint on activity.

THE NORTHERN POWERHOUSE IS WELL-POSITIONED

- Notwithstanding the initial shock, post-Referendum sentiment is generally one of 'business as usual' in the occupier markets. However, it is early days and only time will tell how and to what extent demand will be impacted over the next 12 months. As things stand, it is safe to say that 2017 is more likely to resemble 2016's activity than 2015's.
- That said, there is a great deal to be positive about, and this partly explains expectations of continued rental growth. The region will be buoyed in 2017 by the Government's commitment to three civil service 'super hubs' in Leeds, Manchester and Liverpool, which is set to drive 1.8m sq ft of activity alone. 2017 is also a more active year for lease events in many markets than 2016, which should support market movements.
- The Northern Powerhouse is extremely well-positioned for inward investment. Despite the compelling financial advantages the markets offer compared with Central London, 2016 was a very quiet year for 'North-Shoring'. However, as the effects of the business rates revaluation filter through on property costs in the capital, it is only a matter of time before cost-conscious corporate occupiers give serious consideration to the region.

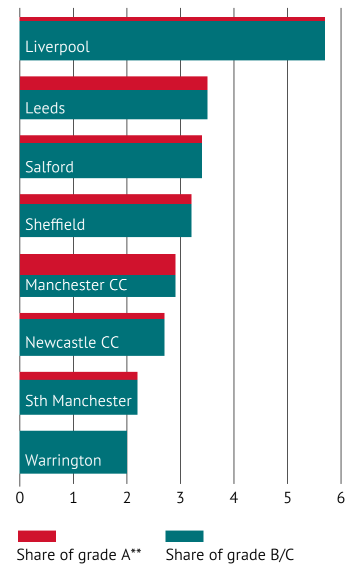
Under construction (000 sq ft)



RENTAL GROWTH EXPECTED DESPITE UNCERTAINTY

- Prime headline rental growth was restricted to only two markets in 2016. Reflecting tight grade A supply, Newcastle's prime headline rent increased 4.5% during 2016 to a new high of £23.00 per sq ft, while Warrington, the most affordable of the Northern Powerhouse markets, saw prime headline rents increase 2.6% to a new high of £20.00 per sq ft.
- Despite greater uncertainty in the outlook post-Referendum, with the exception of Sheffield, all markets are forecast to record an increase in their respective prime headline rents during the course of 2017. Leeds and Manchester are forecast to see the strongest level of rental growth, at 11.9% and 5.9% respectively, as newly delivered space is steadily absorbed.

Availability as years of supply*



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

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

TRIGGERS AND DRIVERS

What motivates companies to acquire new office space across the core cities of the Northern Powerhouse and what influences their choice of property?

TRIGGERS – WHAT IS PROMPTING RELOCATION?

Following on from 2015, the majority of occupiers are still basing their office moves around lease events (expiries and breaks), which account for 44% of all relocations during the last 12 months.

Expansion and corporate activity together account for a further 48% of all moves, which suggests that firms are being more proactive when deciding to relocate. We anticipate this pattern will continue into 2017 although the uncertainty surrounding 'Brexit' may cause some companies to hold off making a decision until they need to do so.

Occupiers such as SkyBet (Wellington Place, Leeds) and AJ Bell (Exchange Quay, Manchester) are prime examples of moves triggered by expansion, while Freshfields cited its acquisition of 80,000 sq ft of office space at One New Bailey in Manchester as giving it the flexibility to adapt the amount of space that it occupies, up or down, to reflect the evolving needs of its clients and its business.

Consolidation and contraction remain stable from 2015 at 7% and 1% respectively.

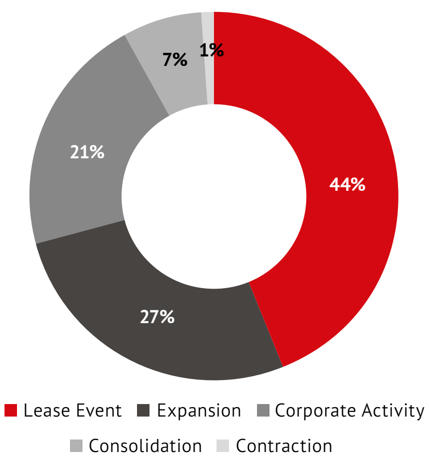
DRIVERS – WHAT DETERMINES END CHOICE?

Unsurprisingly, location remains the main driver for end building choice once an occupier has made the decision to move, accounting for 41% of all transactions, as evidenced by call centre operator Convergys' relocation from Quorum Business Park in Longbenton to The Rocket, Stephenson Quarter in Newcastle city centre.

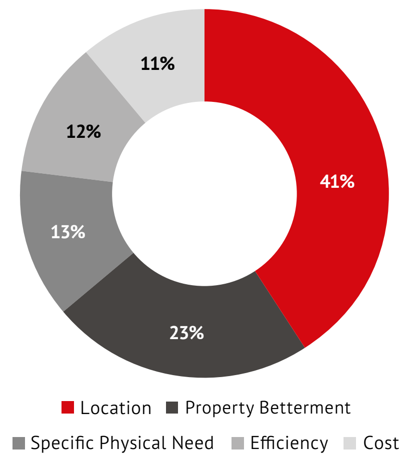
Interestingly, the impact of cost has fallen year-on-year and has now become the least important factor, at just 11%. While this is partly due to improving market confidence, we are seeing a shift in attitudes whereby corporate occupiers are now assessing the value of their assets, not just in terms of cost, but also efficiency and amenity, in order to deliver spaces which can inspire, motivate and aid staff retention (see 'The rise of coworking' on page four). This is reflected in the figures as property betterment and accounts for 23% of all transactions.

PwC's relocation from Benson House in Leeds, where it had been located for over 20 years, to Central Square is a prime example of relocation for property betterment, with the new space reported to have set the standard for all other UK PwC offices in the future.

Office move triggers over 5,000 sq ft (past 12 months)



Office choice drivers over 5,000 sq ft (past 12 months)



Data source: Lambert Smith Hampton

INVESTMENT MARKET OVERVIEW

Recent political events, from the EU Referendum and more recently, the US Election, have put a degree of uncertainty into the investment market. Defensive strategies are an inevitable consequence with a flight to quality, the side effect of which is that the disparity between prime and secondary assets usually grows wider. Investors with more of an appetite for risk may therefore reap the best rewards.

MARKET HIT BY REFERENDUM UNCERTAINTY

On face value, Q3 2016 investment volume was robust in the aftermath of the Referendum. Across the five principal cities of the Northern Powerhouse combined, £310m of office assets changed hands, identical with Q3 2015 and 31% ahead of the five-year quarterly average.

However, 52% of Q3 volume was accounted for by a single major deal which had been in the pipeline several months prior to the Referendum. German investor Deka Immobilien's £164m purchase of One St Peter's Square in Manchester from its developer Argent was the fourth largest lot-size office deal on record in the region.

The above transaction was also one of only nine deals in Q3, a clear indication of how activity has been affected in the wake of the Referendum result. This is the lowest number of deals in a single quarter for over three years and down markedly from the 27 deals seen in Q1 2016.

INSTITUTIONS GO QUIET, BOTH BUYING AND SELLING

2016 marked a step change in the behaviour of institutional buyers. Having been the main driver of activity in the region during the boom of 2014/15, it slowed in 2016 and – for the first time in three years – Q3 2016 lacked a single purchase from an institutional buyer.

A number of funds are nonetheless active in the region with cash to deploy. However, uncertainty around the Referendum result has prompted a flight to quality assets, with regard to security of income, void risk and covenant strength. With such stock in short supply, these buyers are likely to be left on the sidelines, at least in the short-term.

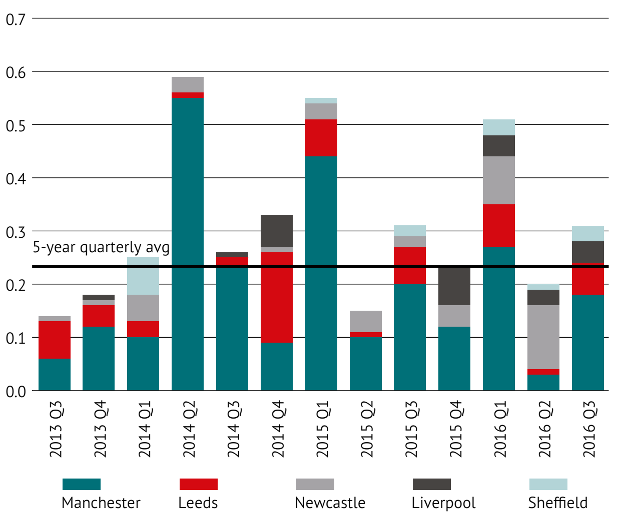
Meanwhile, pressure to sell among the major retail funds has eased. Swift action to temporarily suspend trading post-Referendum proved effective in restoring stability, containing redemption levels. The majority of office disposals have been selectively chosen out of Central London, but the Northern Powerhouse cities have seen sales to a lesser extent.

OTHER INVESTORS MOVE INTO THE FRAY

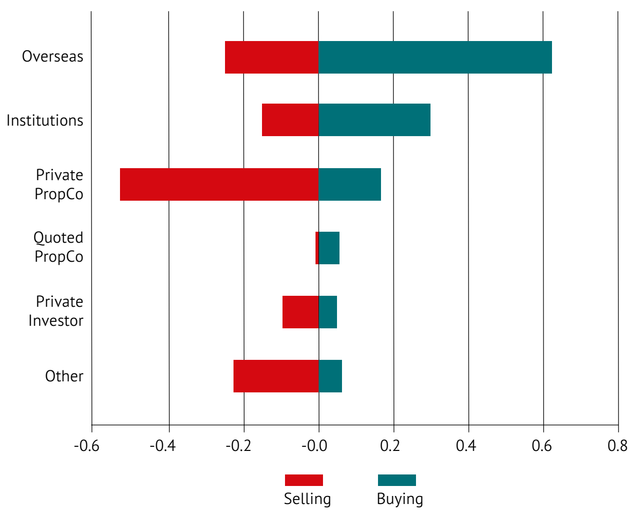
While institutional investors became relatively quiet in 2016, overseas buyers have significantly ramped up their exposure to UK regional offices. Overseas investment in the region's five principal cities combined stands at £544m in 2016 to date, a record annual total with Q4 yet to be accounted.

Overseas activity has also extended beyond the traditional confines of Manchester and Leeds. Among Q3's largest deals were the purchase of Skyways House, Liverpool (£32.0m / 7.00% NIY) by a private Middle Eastern investor, and the purchase of Vulcan House, Sheffield (£31.0m / 6.50% NIY) by Spanish investor Trinova Real Estate.

Office investment volume (£bn)



Office investment by type (12 months to date, £bn)



There is much to suggest that overseas interest will continue in the region. Alongside doubts over the outlook for Central London's occupier market, the sharp devaluation of sterling post-Referendum is an obvious additional draw to those investors who can offset the perceived risks of Brexit against their increased buying power.

2016 has also seen the emphatic arrival of local authorities to the UK property market. Indeed, Q3's second largest deal was Leeds City Council's £43.7m forward purchase of 3 Sovereign Square, Leeds from Kier and Bruntwood (c.5.4% NIY). With growing pressure on budgets and interest rates at an all-time low, councils are now acquiring commercial property to make their balance sheets work harder and we expect this trend to increasingly manifest itself in the region.

PRIME YIELDS HAVE SOFTENED, BUT EVIDENCE IS MIXED

General market sentiment indicates that pricing for prime, well-let office assets has softened in the wake of the Leave vote, with prime yields edging out by a quarter of a percentage point in each of the key cities of the Northern Powerhouse. However, evidence is patchy and, in some cases, even conflicting.

Deka Immobilien's purchase of One St Peter's Square is useful evidence as to how prices for prime stock have softened, at least in Manchester. Having been close to being agreed at 4.9% NIY prior to the Referendum, Deka Immobilien bought the asset in August 2016 at a price reflecting 5.25% NIY.

In contrast, in Newcastle, bidding around one specific asset indicates that pricing for prime offices has held firm either side of the Referendum. At the time of writing, Sandgate House was reportedly under offer at 5.75% NIY, which is in line with the pre-Referendum level for prime stock.

THE INVESTMENT FUNDAMENTALS REMAIN ROBUST

The investment market fundamentals suggest that defensive assets will hold their value moving forward. While UK gilt yields have edged up during Q4, the gap between 10-year gilts and regional office yields remains substantial. Bond rates would need to rise significantly further to materially impact on pricing, an unlikely scenario in the current economic environment.

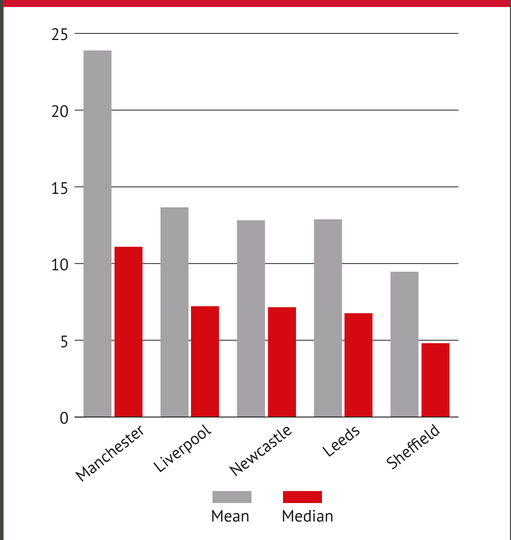
Additionally, if increased business uncertainty around the Referendum does weigh on occupier demand in the region, grade A supply is broadly in check to help mitigate falls in rental levels. Investors can also take confidence from the region's diverse nature of occupier demand. The financial sector, widely seen as being the most exposed sector to Brexit, is not the dominant driver of demand in any of the five principal Northern Powerhouse markets.

SECONDARY MARKET REMAINS AN AREA OF OPPORTUNITY

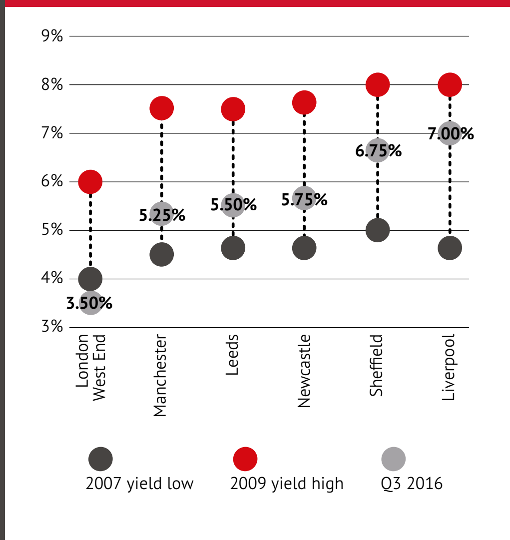
If occupier demand is affected, logic dictates that secondary stock is the more exposed to a price correction. However, with much negativity around the economic outlook, there is a possibility that investors may price in too much risk around secondary assets.

Asset management plays may provide among the best opportunities for those investors willing to take on risk. Cost conscious occupiers can provide a ready market for refurbished stock, which is a more affordable proposition than new-build grade A space. If rental growth continues in spite of Brexit, investors with detailed knowledge of the local markets will be well-placed to capitalise.

Average lot size by location (2006 to 2016, £m)



Comparison of prime office yields



Data source: Lambert Smith Hampton

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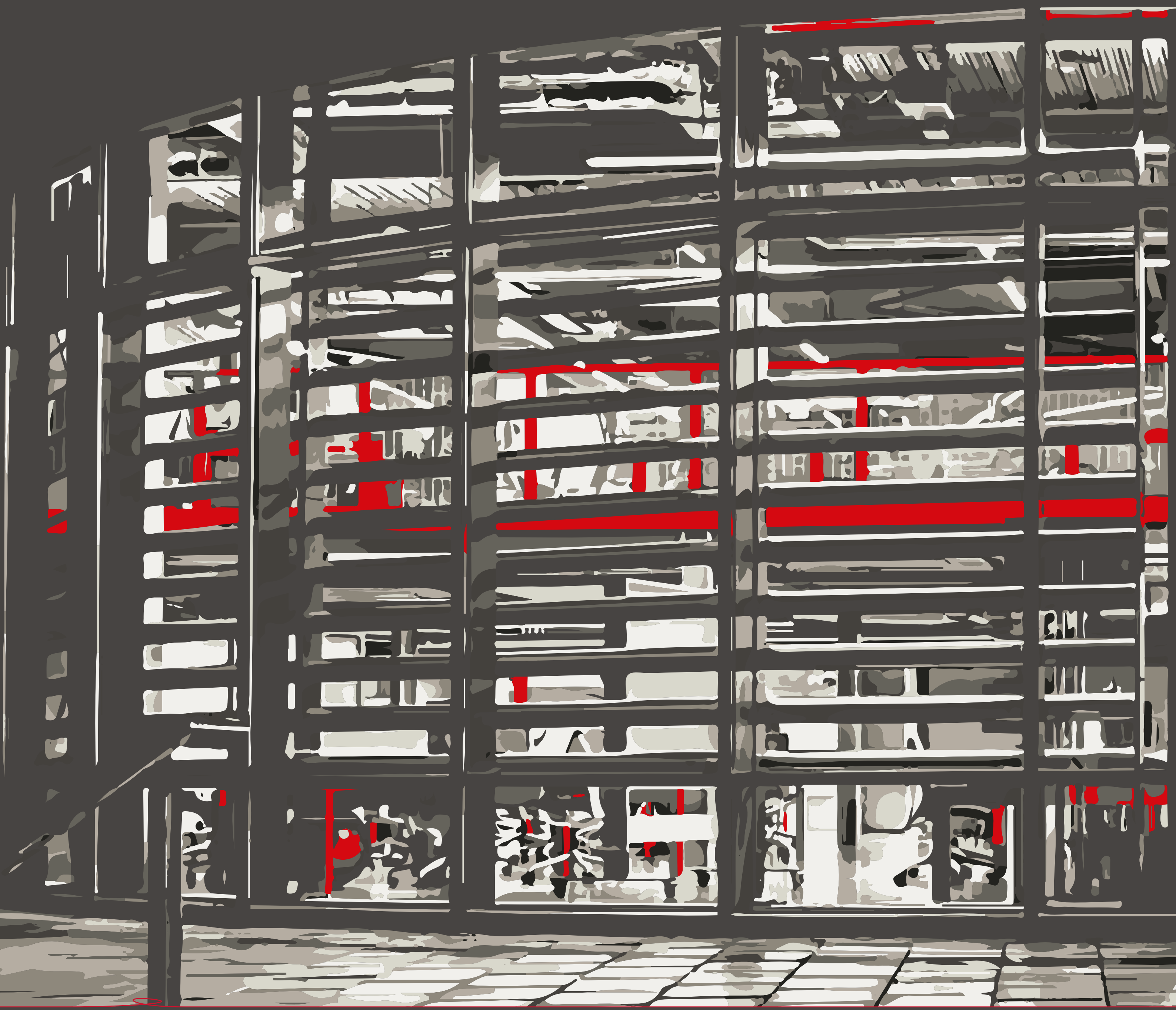
Leeds Dock courtesy of Jonathan Walls



MARKET INSIGHT

LEEDS

Highlights

- **City centre take-up has been subdued in 2016, reflecting a quiet period for lease event activity.**
- **Overall supply is stable, although a flurry of new developments has seen grade A supply rise 77% year-on-year.**
- **A recovery in lease event activity and a major government requirement bodes well for strong take-up in 2017.**
- **The take-up of new-build space is expected to elevate headline rents to a new high of £30.00 by the end of 2017.**

Demand

After a strong Q1, take-up in Leeds has been relatively subdued. This is primarily due to structural rather than economic or Referendum-related uncertainty, with 2016 being a quiet period for lease event activity compared with recent years.

However, with robust activity seen out-of-town, the city centre bore the brunt of this. Out-of town take-up in 2016 to date stands at 290,000 sq ft, putting it ahead of 2015's annual total already, and firmly on course to surpass the annual average of 330,000 sq ft.

In a break with tradition, both of Leeds' two largest deals in 2016 have been out-of-town, namely Zenith's pre-let of 45,071 sq ft at Building 1 Kirkstall Forge in Q1 and Lowell's lease of 46,000 sq ft at Darwin House, Leeds Valley Park in Q3.

In contrast, city centre take-up in 2016 to date, at 320,000 sq ft, is down significantly on 2015 with regard to both the volume and number of transactions. 2016's largest city centre deals were SkyBet's lease at 6 Wellington Place (39,600 sq ft) followed by RSM's lease at Central Square (25,539 sq ft), both in Q1.

Notably, TMT occupiers have taken the leading share of activity over the past 12 months. While Sky's acquisition of 97,000 sq ft at Leeds Dock and XYZ in Q4 2015 has been key to this, the sector is now an important source of demand alongside legal and professional services.

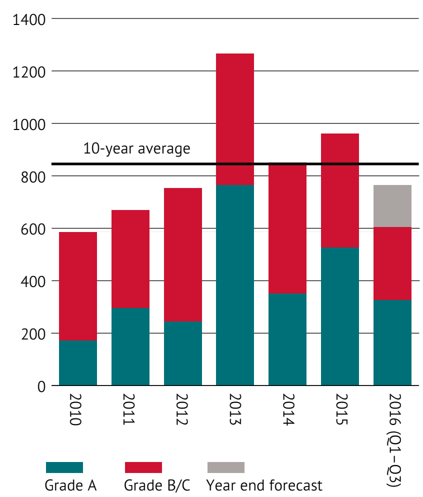
Current supply

Overall supply has been relatively stable throughout the past year, standing at 2.9m sq ft across the city centre and out-of-town markets combined. While the underlying share of grade A supply has increased sharply, this has been offset by the loss of obsolete stock for alternative uses, in particular residential.

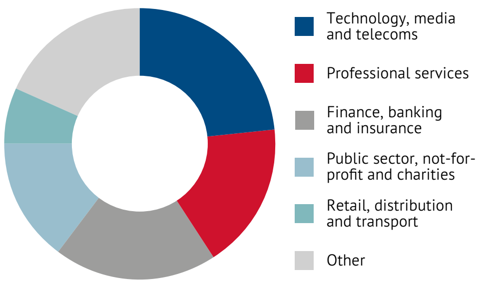
Reflecting a flurry of recent completions, grade A supply has increased by 77% year-on-year to 892,000 sq ft. This includes Central Square (200,000 sq ft), 5 Wellington Place (74,000 sq ft), 6 Queen Street (68,000 sq ft) and 3 Sovereign Square (94,000 sq ft) which collectively offer 300,000 sq ft, net of pre-committed space.

New development is also progressing out-of-town, a market hitherto starved of grade A space. Paradigm at Thorpe Park (31,650 sq ft) and Kirkstall Forge (54,550 sq ft net of pre-let) will complete in Q4 2016 and Q3 2017 respectively.

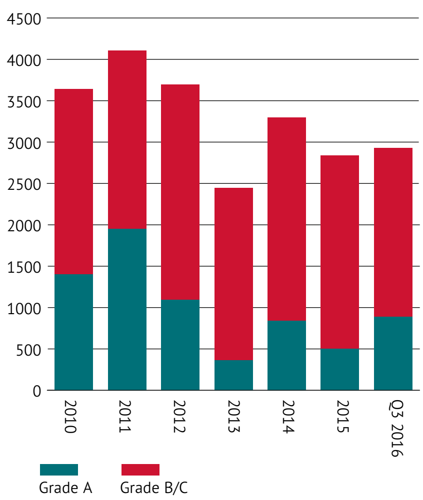
Leeds take-up (000 sq ft)



Leeds take-up by sector (past 12 months)



Leeds availability (000 sq ft)



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Forecast 2016 take-up vs 10-year average	Years of supply	Years of grade A supply	Q3 2016 headline rent (per sq ft)	Prime yield
-9%	3.5	2.3	£27.00	5.50%

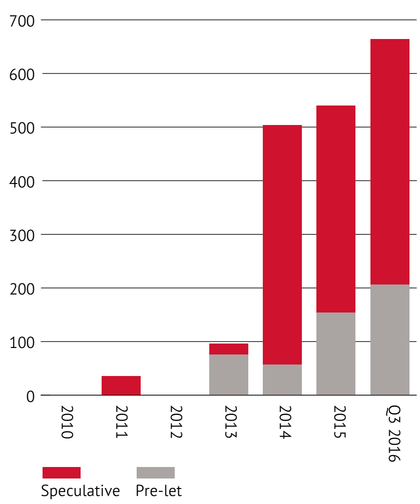
Development prospects

Despite the shock of the Referendum result, the Leeds market received a vote of confidence in Q3 2016 with two additional developments commencing on site in the city centre; MEPC's No.3 Wellington Place (111,400 sq ft) and Bruntwood's back-to-frame refurbishment of Platform (119,210 sq ft) above Leeds Station. Both schemes will complete in the latter half of 2017.

On face value, the level of grade A supply within the city centre may appear troubling given the subdued pattern of recent take-up and potential post-Referendum uncertainty. However, lease event activity will rebound in 2017/18 with over 1.2m sq ft of events (including 24 in excess of 10,000 sq ft), which should support healthy take-up of grade A space.

The pace of development is also starting to slow, with nothing else in the pipeline on a speculative basis. However, the market is anticipating a major pre-let commitment from the public sector during 2017, with the Government Property Unit evaluating site options for a consolidated regional operation named 'The Hub' of up to 450,000 sq ft.

Leeds under construction (000 sq ft)



Market rental values and yields

Prime headline rents in the city centre stood unchanged during 2016, having climbed to a new high of £27.00 per sq ft during latter 2015. While grade A rental levels in the out-of-town markets show wide variation between locations, the prime rent stands at £18.00 per sq ft. However, it is anticipated to show significant growth once new space is taken at Kirkstall Forge and Thorpe Park. Incentives across the city have generally reduced as the supply and demand dynamic moves in favour of landlords, however where headline rents are being pushed, in some instances the incentive packages that sit behind those deals tend to be more generous.

In the investment market, Leeds has seen a number of notable office assets change hands during 2016, including St Paul's House, Park Square (£23.7m / 6.0% NIY) and No.1 Leeds (£37.0m / 6.5% NIY). Also, representing a clear vote of confidence in the city, Leeds City Council agreed to purchase 3 Sovereign Square (£43.75m / circa 5.4% NIY) just a week after the Referendum result. Despite the terms of this deal, sentiment indicates that Leeds' prime yield has softened 25 bps since spring 2016 to stand at 5.50% at the end of Q3.

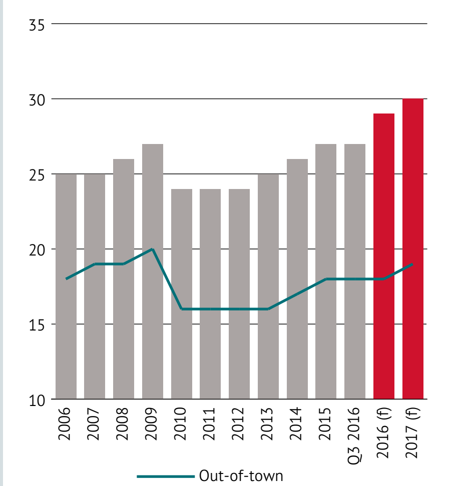
Forecast

While take-up is set to improve in Q4, particularly in the city centre, activity for 2016 as a whole is on course to fall circa 10% short of the 10-year annual average, at approximately 750,000 sq ft. While uncertainty around Brexit does pose a risk to occupier confidence moving forward, the spike in lease events will help to underpin activity into 2017.

Prime headline rents are expected to increase in both the city centre and out-of-town markets over the next 12 to 18 months. In the city centre, the availability of brand new space is expected to elevate the prime headline rent to a new high of £30.00 per sq ft by the end of 2017.

2017 ▲ £30.00 per sq ft

Leeds prime rental values forecast (£ sq ft)



Data source: Lambert Smith Hampton

LIVERPOOL

Highlights

- **Take-up was boosted in Q3 2016 with Liverpool John Moores University leasing 63,611 sq ft at Exchange Station, Liverpool's largest deal since Q1 2014.**
- **There is only one new-build scheme in the pipeline, with the potential to provide circa 80,000 sq ft.**
- **While new-build speculative development remains challenging off current rental levels, an array of refurbishments are bringing quality supply to the market.**
- **The level of office space lost to alternative uses is a concern, with fewer options available for larger requirements.**

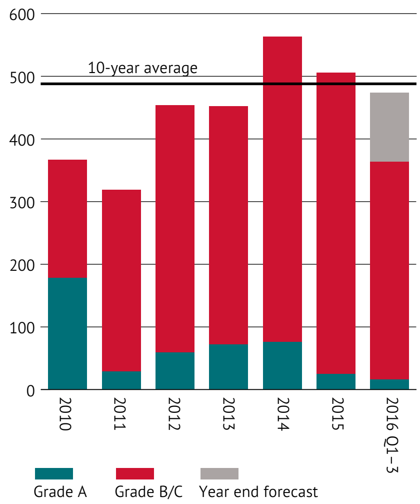
Demand

Set against the slowing of the wider UK office market, Liverpool has performed relatively well in 2016. Take-up in the first three quarters of 2016 totalled 364,668 sq ft, down only 3% on the same period of 2015 and in line with the 10-year average for the period.

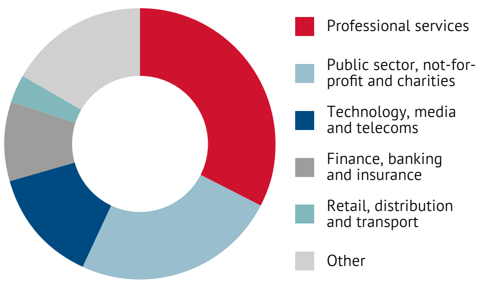
Take-up was boosted in Q3 by Liverpool John Moores University's lease of 63,611 sq ft at Exchange Station, which sees it relocate 400 staff from three office sites in the city. This was the largest deal in Liverpool since Q1 2014, and transacted shortly after Commercial Estates Group and Anglo Scandinavian Estates acquired the scheme in March, before beginning a £7m phased refurbishment.

While there are currently no major active requirements from inward investors, there remains reasonable churn in the market. For example, professional insurance broker Griffiths & Armour is said to have a requirement in the city centre for 19,000 sq ft, as it seeks to relocate from its current premises.

Liverpool take-up (000 sq ft)



Liverpool take-up by sector (past 12 months)



Current supply

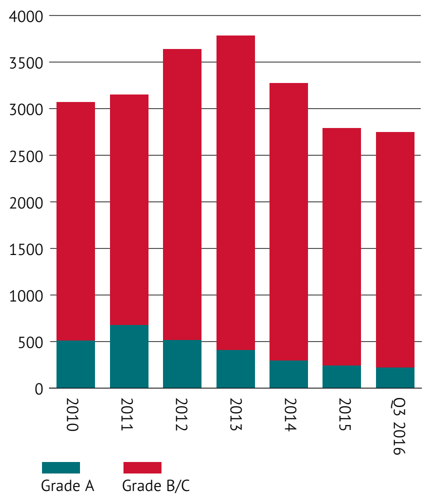
Since the beginning of the year, availability has reduced slightly to stand at 2.8m sq ft across both the city centre and out-of-town markets combined. However, this is equivalent to 5.7 years of supply, the highest of any Northern Powerhouse market.

While supply as a whole is relatively elevated, grade A availability is tight, standing at only 210,000 sq ft across the market as a whole. Moreover, in the heart of the city centre, grade A supply is confined to a single building, 4 St Paul's Square. While 50,000 sq ft was available here at the end of Q3, much of this is expected to be absorbed in the coming months.

Development in Liverpool over recent years has been limited to refurbishments. Having completed at the end of 2015, The Tempest is now fully let and largely comprised of occupiers in the TMT sector. 2015's two other completions, The Watson Building and The Department, still have 75,000 sq ft and 38,000 sq ft available respectively.

2016 to date has seen over 300,000 sq ft of office space lost to residential and hotel uses. In addition, Shelborn Asset Management is also considering converting the India Building to alternative use, having purchased the asset at the end of 2015. While this activity is helping to cleanse the market of obsolete stock, it fails to address the growing need for good quality supply to satisfy demand.

Liverpool availability (000 sq ft)



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Forecast 2016 take-up vs 10-year average	Years of supply	Years of grade A supply	Q3 2016 headline rent (per sq ft)	Prime yield
-2%	5.7	3.1	£20.50	7.00%

Development prospects

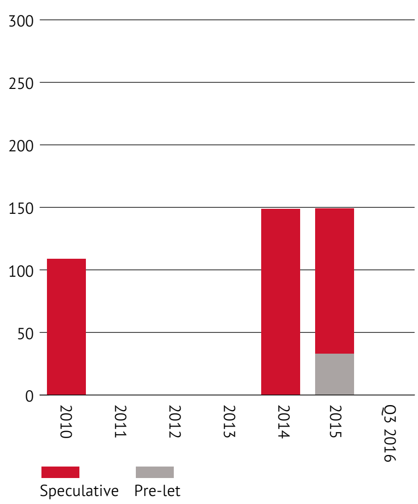
Following on from the successful refurbishment at Exchange Station, Commercial Estates Group and Anglo Scandinavian Estates are set to create new suites for smaller businesses. The work, forming part of a wider £7m makeover project, has now begun transforming part of the building's ground floor into suites ranging from 900 sq ft to 3,000 sq ft.

The only new-build office scheme with planning permission is William Jessop House in Princes Dock, which has the potential to provide circa 80,000 sq ft. This is part of Peel Land & Property's wider 60-hectare mixed-use development proposal, Liverpool Waters. However, it is unlikely to be delivered without securing a pre-let.

First discussed back in 2005, the office-led development Pall Mall Exchange has recently resurfaced. The Council bought the site earlier this year and is currently seeking a development partner for the scheme which could provide 400,000 sq ft of office accommodation.

Other exciting developments in Liverpool should help to boost the office market indirectly. The Knowledge Quarter is strengthening the city's status a science and research location, which upon completion of the new hospital, will be one of the UK's largest academic and clinical campuses. The Royal College of Physicians has recently confirmed it will be taking 70,000 sq ft of accommodation across two phases in the Paddington area of Liverpool.

Liverpool under construction (000 sq ft)



Market rental values and yields

Liverpool's prime headline rent remains unchanged since 2012, at £20.50 per sq ft. Despite a clear lack of quality stock available in the city centre, the prevailing rental level remains a barrier to speculative development. For a scheme to be feasible a developer would need to see rents of at least £22.00 to £23.00 per sq ft.

In the investment market, a number of key properties changed hands during 2016 to date. Canmoor Asset Management acquired 20 Chapel Street for £20m from Rumford Investments, and out-of-town, Palmer Capital purchased the Skyways campus in Speke for £32m (NIY 7.00%). While there is a lack of evidence, sentiment indicates that prime office yields moved out 25 bps in the past 12 months to stand at 7.00% at the end of Q3.

Forecast

There is potential for the prime headline rent to increase to £21.00 per sq ft during 2017 as grade A tightens further and space continues to be lost to alternative uses. This is still below the level for speculative development to be viable, however, meaning the delivery of new product largely depends on a pre-let being in place.

Take-up across Liverpool is expected to reach circa 475,000 sq ft in 2016, which is closely in line with the ten-year average but 6% down on 2015's total. Positively, following the Government's announcement in June, the market is set to be boosted in 2017 by the plan for Liverpool to be one of the three civil service 'super-hubs' in the region, with a requirement of 200,000-250,000 sq ft for HMRC in the city.

2017 ▲ £21.00 per sq ft

Liverpool prime rental values forecast (£ sq ft)

Data source: Lambert Smith Hampton

MANCHESTER CITY CENTRE

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Highlights

- **Several major deals in the latter half of the year have boosted take-up, with activity in 2016 as a whole set to outperform the 10-year annual average.**
- **SME occupiers form a key part of the demand profile, helping to revitalise areas beyond the city core.**
- **While several new-build developments and refurbishment completions have driven a sharp rise in grade A supply, much of this will be absorbed over the next 12 months.**
- **As grade A space is steadily taken-up, the prime headline rent is expected to rise by 6% to £36.00 per sq ft by the end of 2017.**

Demand

Manchester city centre is on course to see another strong year of take-up, with activity up to Q3 2016 at 681,000 sq ft.

Take-up will be boosted further in Q4 with DWP set to acquire 77,800 sq ft at Two St Peter's Square and Swinton Insurance leasing 101 Embankment in its entirety. At 165,000 sq ft, this will be the city's largest deal in over a decade.

Aside from the headline deals, the smaller end of the market continues to enjoy consistently robust levels of activity. Over the past 12 months, deals of below 5,000 sq ft have accounted for 86% of total transactions and a 44% share of take-up.

The occupier base is steadily evolving, manifesting itself in positive changes to the city centre market. Alongside the more traditional occupiers such as professional services, the creative and technology sectors continue to have a marked influence on the market.

A growing abundance of smaller, forward-thinking occupiers are questioning the conventional requirement for space. Once down at heel parts of the city, such as the Portland Street Corridor and the Northern Quarter are now in vogue, with more emphasis on originality and flexibility of space over quality.

The rapid growth in entrepreneurial/micro business is driving demand for flexible, collaborative workspace. Coworking providers are responding to this trend – WeWork is currently seeking out three locations in the city totalling 70,000 sq ft and, in Q3, Headspace leased 11,400 sq ft at 2 Mount Street in the Civic District.

Current supply

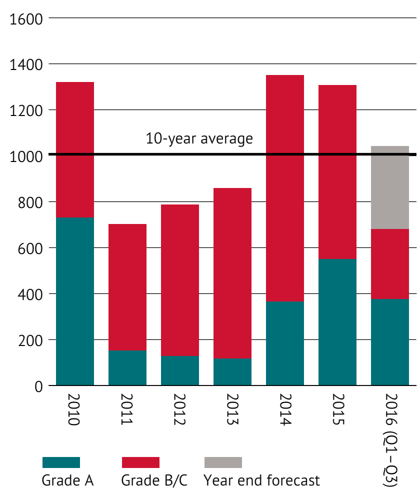
Total availability has been broadly stable, rising by only 3% in 2016, although the underlying nature of supply has changed significantly. While the supply of secondhand space has declined by 21% during 2016 alone, this has been offset by a sharp rise of grade A space.

However, the 50% increase in grade A supply during 2016 largely reflects refurbishment completions and development in the pipeline. Of the 1.35m sq ft of grade A supply, only 260,000 sq ft is both new and available for immediate occupation, with the sole new-build completion in 2016 to date comprising One New Bailey (where 40,000 sq ft is available).

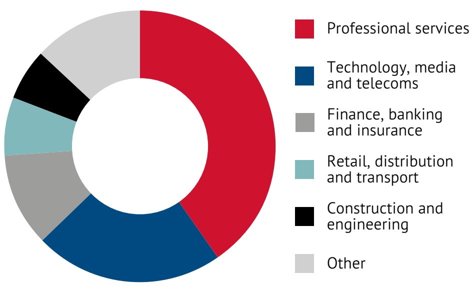
The development pipeline is relatively substantial, with 941,000 sq ft scheduled to complete by Q3 2017. However, of the five schemes presently under construction, 34% is already committed, a clear demonstration of the strength of appetite for high quality stock.

Furthermore, availability in the pipeline is expected to drop by a further 40% by Q1 2017 on the back of deals to DWP and Swinton Insurance, among others. Accordingly, this leaves No.1 Spinningfields (267,000 sq ft) as the scheme with the highest availability (190,000 sq ft), although this is rumoured to have strong interest.

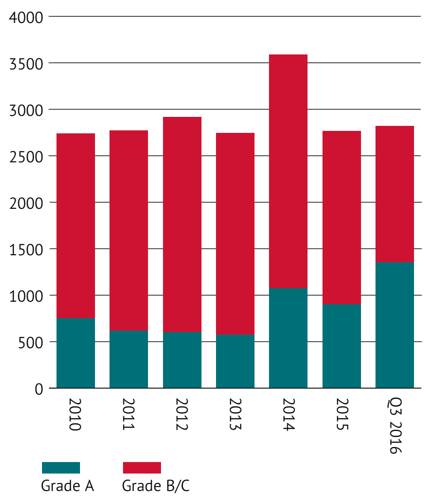
Manchester CC take-up (000 sq ft)



Manchester CC take-up by sector (past 12 mths)



Manchester CC availability (000 sq ft)



Forecast 2016 take-up vs 10-year average	Years of supply	Years of grade A supply	Q3 2016 headline rent (per sq ft)	Prime yield
+4%	2.8	3.7	£34.00	5.25%

Development prospects

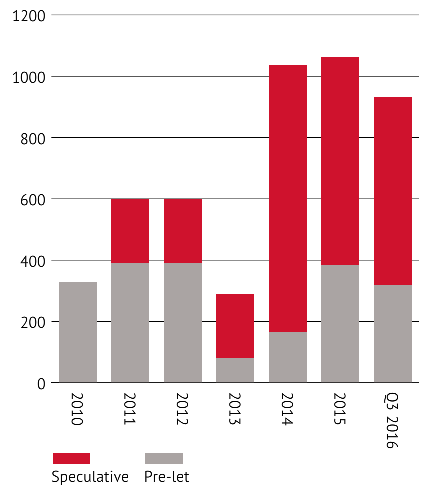
With the new-build space set to be absorbed steadily during 2017, there remains scope for more development to come forward. Indeed, expectations of an increase in 'North-Shoring' and governmental relocations over the next 18 months imply that more space will be required to meet this demand.

There are two additional schemes in the pipeline which are expected to progress during 2017. In Q4 2016, demolition works began at 125 Deansgate and The Landmark, where developments of 114,000 sq ft and 180,000 are proposed, with completion scheduled in 2018.

Landlords are also capitalising on the squeeze in good-quality, secondhand space by moving into refurbishment. Seven refurbishment projects totalling circa 230,000 sq ft are being delivered in 2016, with a further 13 projects planned for the following three years.

While appearing substantial, the refurbishment proposals are wide-ranging, in terms of location, timing and floorplate sizes, meaning occupiers are only likely to have a handful of truly comparable options available. There is therefore additional scope for refurbishment, particularly for more cost sensitive SME occupiers in the emerging areas of the city such as the Northern Quarter, Portland Street Corridor and the more 'cultural areas'.

Manchester CC under construction (000 sq ft)



Market rental values and yields

Prime headline rents in the Manchester city core have stood unchanged for the past 12 months at £34.00 per sq ft. That said, the highest rent paid during 2016 has been at £33.50 per sq ft, which is arguably a truer reflection of the current situation. While there is more choice available, Manchester is still a landlords' market, and rent free incentives have tightened further during 2016, to stand at circa six months for a five-year term.

In the investment market, Deka Immobilien's £164m purchase of One St Peter's Square in Q3 2016 was among the biggest deals ever seen in Manchester, and is part of a clear trend of growing overseas interest in large lot-sizes. Reflecting 5.25% NIY, the deal indicates that pricing for prime stock has softened in the wake of the Referendum, with prime yields in the city standing at circa 4.75% earlier in the year.

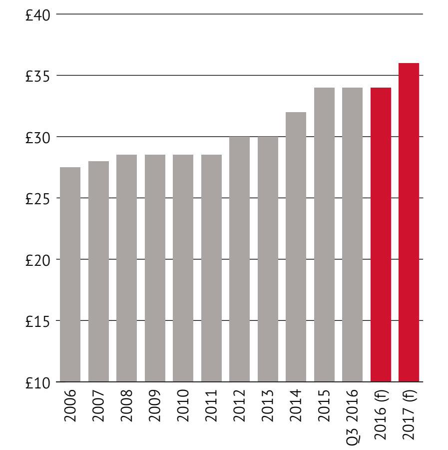
Forecast

Take-up in 2016 as whole is forecast to surpass 1m sq ft, outperforming the annual average. While the outlook for 2017 is inevitably more uncertain, reflecting the outlook for the economy around Brexit, the prime headline rent is nonetheless forecast to climb to £36.00 per sq ft, as new-build supply is increasingly absorbed.

As arguably the best alternative to London in terms of the sophistication and quality of its workforce, Manchester has massive potential to benefit from inward investment over the next few years. Cost pressures in Central London are expected to spur demand for 'North-Shoring', while the city is also well-placed to capture overseas occupiers looking for a regional or European base.

2017 ▲ £36.00 per sq ft

Manchester CC prime rental values forecast (£ sq ft)



Data source: Lambert Smith Hampton

NEWCASTLE

Highlights

- **2016 take-up has been constrained by a lack of quality supply, while conversions to student accommodation are removing some secondary and obsolete stock from the market.**
- **Newcastle's prime headline rent increased by 5% in 2016 to a new high of £23.00 per sq ft.**
- **Recent speculative development completions in the city centre have now been taken-up, leaving only 10,977 sq ft of new-build space available at The Jesmond on the outskirts of the city centre.**
- **No schemes are under construction but two major developments are proposed which could bring much-needed space forward, including 200,000 sq ft at Science Central, a joint venture between Legal & General and Newcastle City Council.**

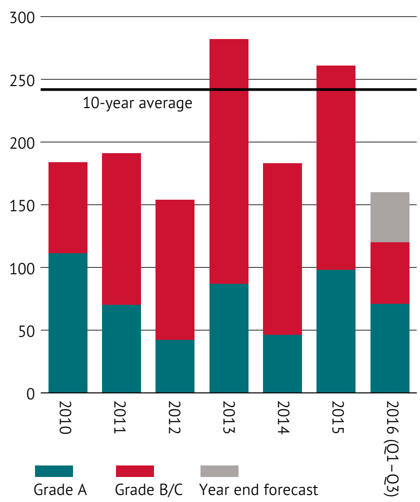
Demand

On face value, activity in Newcastle city centre during the first three quarters of 2016 has been disappointing; take-up of 120,167 sq ft is more than 40% down on the equivalent period of 2015. However, the fundamentals of the market remain positive for investors and developers, with tight supply, steady demand and rental growth firmly on the agenda.

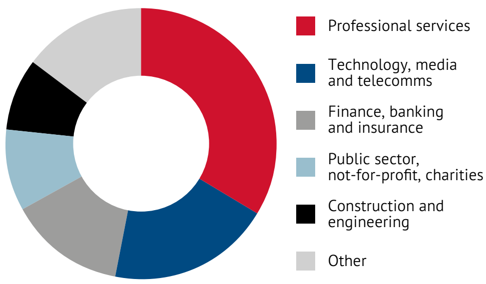
2016's headline deals to date have been the let-up of new-build developments, underlining the success of investors' speculation in the market. In Q1, Convergys leased The Rocket, Stephenson Quarter in its entirety (35,000 sq ft) while, in Q3, Zerolight leased 14,920 sq ft at Live Works.

While activity is down in the city centre, take-up in the out-of-town market has already surpassed the 10-year annual average during the first three quarters of 2016, at 412,533 sq ft. This was boosted by the letting of 47,583 sq ft to Sitel at Q4 Quorum.

Newcastle city centre take-up (000 sq ft)



Newcastle take-up by sector (past 12 months)



Current supply

Since the beginning of 2016, availability in Newcastle city centre has fallen by 26% to stand at 658,222 sq ft at the end of Q3. Based on the 10-year average take-up, this equates to 2.7 years of supply – one of the lowest of the Northern Powerhouse markets.

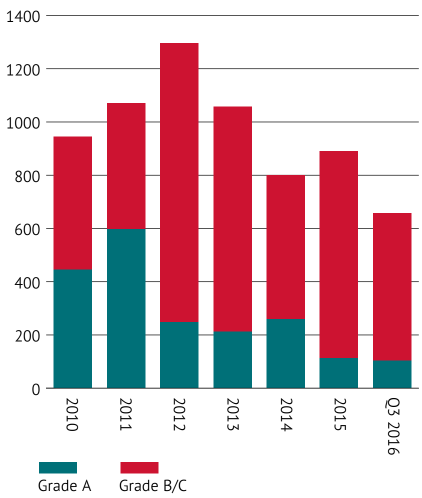
At only 103,840 sq ft, supply of grade A space in the city centre is now critically low and has arguably been a constraint on activity during 2016. This is spread across six properties, with the largest floor plate of 13,569 sq ft available at Central Square South, which is currently being refurbished.

There is now no new-build space available in the city centre following the lettings of the last two new developments, except for 10,977 sq ft on the outskirts at The Jesmond. With a number of requirements in the pipeline, occupiers may find themselves frustrated at the lack of suitable accommodation in 2017.

Unlike the city centre, healthy supply in the out-of-town market has facilitated buoyant levels of activity in 2016. Quorum and Cobalt Business Parks have been letting-up at a steady rate and, together, have circa 500,000 sq ft of grade A space available.

While there are more options for lower grade accommodation, permitted development rights have continued to erode older stock, predominantly for conversion to student accommodation. However, as with the general trend seen across the UK, the rate has been slowing as the number of opportunities have diminished.

Newcastle city centre availability (000 sq ft)



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Forecast 2016 take-up vs 10-year average	Years of supply	Years of grade A supply	Q3 2016 headline rent (per sq ft)	Prime yield
-33%	2.7	1.4	£23.00	5.75%

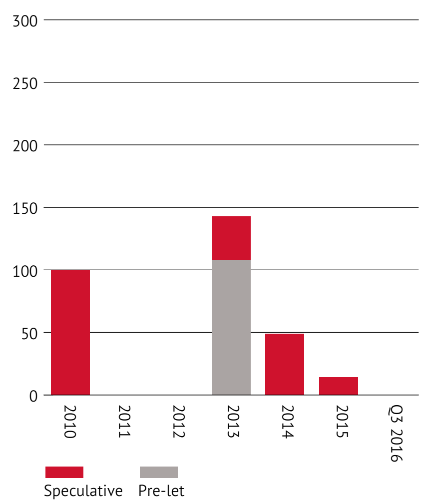
Development prospects

There are no developments currently underway in Newcastle but the conditions are ripe for speculative starts. While there are a handful of proposed opportunities in the pipeline, none are yet to commence.

Proposed construction at the Science Central development, a joint venture between Legal & General and Newcastle City Council with planning permission, has the potential to provide up to 200,000 sq ft of office space. Alongside this, Marrico's Strawberry Place site is another proposed development in the offing, which could include 100,000 sq ft of offices but is yet to obtain planning permission.

With the above proposals yet to come forward, refurbished stock is providing a key short-term solution to meet demand for good quality space. Central Square South is currently being refurbished by Standard Life and will provide 50,000 sq ft at the start of 2017. Notably, a letting of 7,000 sq ft has already been agreed at the building and the remaining space is expected to let-up rapidly.

Newcastle under construction (000 sq ft)



Market rental values and yields

Newcastle's prime headline rent has increased by 5% during 2016 to stand at £23.00 per sq ft. This was confirmed by DAC Beachcroft's 4,507 sq ft letting at Wellbar Central in Q2.

Incentives have hardened since 2015, falling from 12 months' rent free per five-year term to around nine months. The ongoing position on supply suggests there is scope for incentives to tighten further.

The investment market has been active during 2016, with over £200m of office assets changing hands in the city, almost double the 10-year average. Moreover, recent evidence from bidding at the sale of Sandgate House indicates that prime office yields hardened back to their pre-Referendum level during Q3 to stand at circa 5.75%.

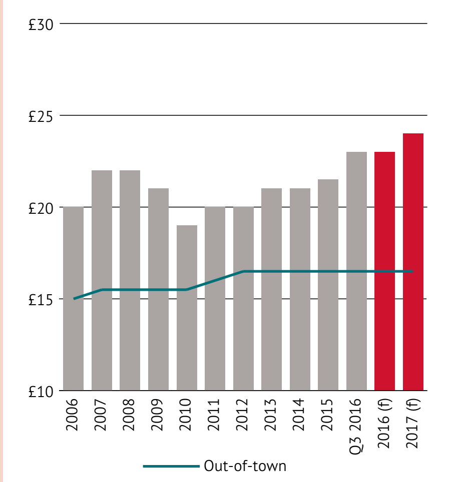
Forecast

Despite a steady level of active demand and a rebound post-Referendum, Q4 take-up is expected to bring the 2016 total to circa 160,000 sq ft for the city centre, 33% below the 10-year average.

As the availability of quality space continues to tighten, a lack of options for occupiers is likely to push up prime headline rents further, to £24.00 per sq ft during 2017, while out-of-town rents are set to remain stable at £16.50 per sq ft. Without any new developments currently underway, activity will continue to be constrained.

2017 ▲ £24.00 per sq ft

Newcastle prime rental values forecast (£ sq ft)



Data source: Lambert Smith Hampton

SALFORD

Highlights

- **Salford has been the lead performing market within the Northern Powerhouse in 2016, with take-up significantly above trend.**
- **There remains a robust level of good quality supply to meet the needs of occupiers, providing little incentive to bring development forward.**
- **Prime headline rents are expected to remain broadly stable during 2017, at £25.00 sq ft.**
- **The growing trend towards coworking is expected to be a notable feature of activity during 2017.**

Demand

While take-up will fall far short of the record level set in 2015, Salford nonetheless enjoyed another strong year of activity in 2016. Take-up in the first three quarters of 2016 was 280,719 sq ft, down 46% on the equivalent period in 2015 but 20% above the 10-year annual average. On this basis, Salford is the top performing market in the Northern Powerhouse, relative to trend, with other markets falling short of their 10-year annual average.

While 2015's record performance was underpinned by several major deals to BUPA, TalkTalk and UK Border Agency, totalling circa 300,000 sq ft, 2016 to date has seen only one major deal. In Q3, AJ Bell leased 93,756 sq ft at Exchange Quay, the only transaction in excess of 20,000 sq ft during 2016.

However, demonstrating the improving depth of market activity, 2016 has seen a higher number of transactions than 2015, up 20% over the period up to the end of Q3.

There are no major requirements in the market to speak of currently, as there is a good level of stock available to satisfy new demand. For example, since its launch in September 2016, the speculatively built Tomorrow Building already has two floors under offer. Ziferblat is taking 6,000 sq ft on the ground floor for their coworking space.

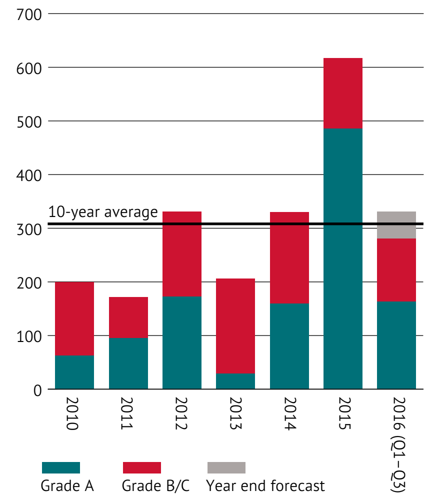
Current supply

Availability has been broadly stable during 2016, rising by 3% since the beginning of the year to stand at 1.1m sq ft. This is equivalent to 3.4 years of supply based on average annual take-up over the past decade.

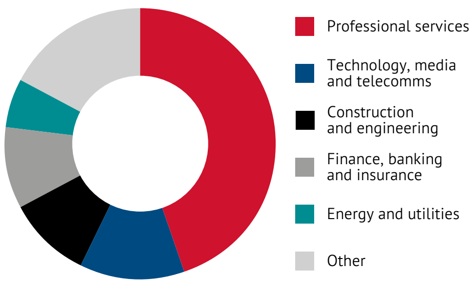
Despite the modest rise in total supply, availability of grade A space reduced by 26% during 2016 to only 189,000 sq ft, albeit this was due in large part to AJ Bell's lease at Exchange Quay. Grade A supply appears limited set against grade A take-up, especially that seen in 2015, although it is arguably a more sensible level relative to current demand.

With no new developments currently underway, grade A supply is expected to continue to reduce. The Orange Building and the Tomorrow Building are home to the largest amount of grade A availability at 80,200 sq ft and 67,236 sq ft respectively. In terms of floor plates, the largest is 16,000 sq ft at the Orange Building.

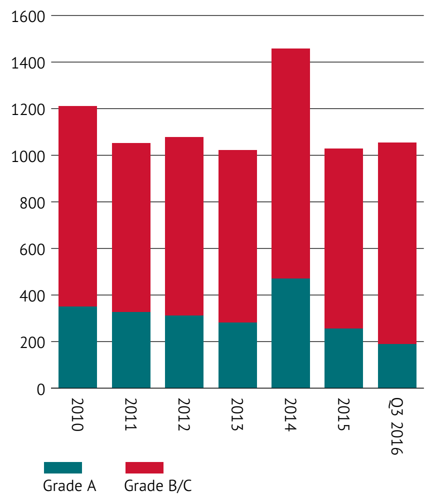
Salford take-up (000 sq ft)



Salford take-up by sector (past 12 months)



Salford availability (000 sq ft)



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Forecast 2016 take-up vs 10-year average	Years of supply	Years of grade A supply	Q3 2016 headline rent (per sq ft)	Prime yield
+7%	3.4	1.1	£24.50	6.50%

Development prospects

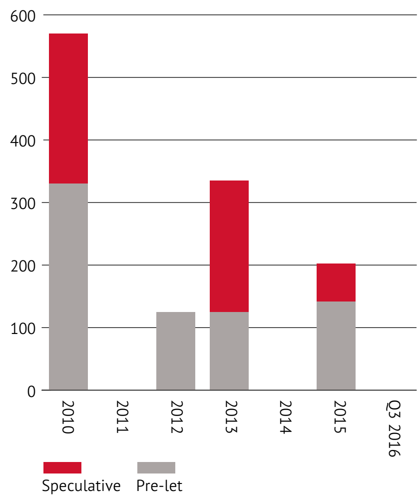
Following the autumn completion of the Tomorrow Building, there are currently no developments underway in the market. Given the level of quality supply in the market, any new developments are unlikely to be delivered without pre-lets.

However, there is increasing talk around the potential commencement of the third phase of the Soapworks. Owned by the Peel Group, the scheme has the potential to deliver 170,000 sq ft.

The market has seen a number of refurbishments, but has largely been from grade C up to grade B. The one key exception was at Hunter Real Estate Investment Managers' 'Exchange Quay', which has undergone a £10m investment programme to create grade A standard office space, including an extensive remodelling of the public realm which completed in January 2016. The scheme has been a success with a total of 134,642 sq ft let during 2016 to date.

Longer term, MediaCityUK has the potential to expand by a further 1.6m sq ft, but there are constraints relating to the decommissioning of the industrial gas works which sits opposite.

Salford under construction (000 sq ft)



Market rental values and yields

Prime headline rents have remained stable since 2015, standing at £24.50 per sq ft. That said, the highest rent achieved so far this year has been Sony's lease of 4,388 sq ft Blue Tower, MediaCity at a headline of £22.00 per sq ft.

Should a deal take place at the Orange Building in the near future, there is real potential to match the current headline of £24.50 per sq ft. Given there is plenty of supply, incentives have been unchanged over the last 12 months, ranging from 12 to 18 months on a ten year lease.

Prime yields have softened by 25 bps during 2016 to stand at 6.50% at the end of Q3. Two deals transacted in Salford this year, the largest of which was Picton Property's £17.6m acquisition of Metro, Trafford Road (NIY 6.2%).

Forecast

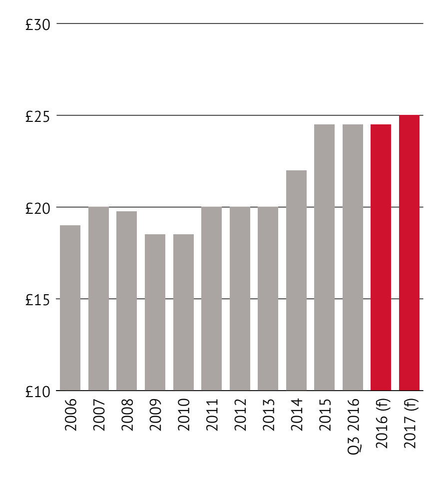
The final quarter of the year is expected to take the annual total for 2016 to circa 330,000 sq ft, 7% above the 10-year average. Given the absence of big-ticket deals, this is very positive and underlines the importance of smaller occupiers in this market.

Salford's prime headline rent is expected to edge up from its current level of £24.50 per sq ft to £25.00 per sq ft during 2017. While there is a lack of new space in the pipeline, there is relatively ample choice of existing grade A space, meaning headline rents are unlikely to extend beyond this level.

More space in Salford is expected to be taken up by coworking businesses. The area has already seen an increase in these tenants, given its reputation as a media hub; it is an attractive location for small start-up occupiers.

2017 ▲ £25.00 per sq ft

Salford prime rental values forecast (£ sq ft)



Data source: Lambert Smith Hampton

SHEFFIELD

Highlights

- **HSBC's substantial pre-let in Q3 2016 has boosted take-up in an otherwise subdued year.**
- **Activity has been more resilient out-of-town, with smaller occupiers attracted to freehold ownership.**
- **Sheffield's prime headline rent stands at £23.00 per sq ft, a level confirmed by Arup's Q1 letting at 3 St Paul's Place.**
- **Extending to 80,000 sq ft, the delivery of Acero House in 2017 will be an attractive proposition for inward investors.**

Demand

Following an outstanding year in 2015, from a transactions point of view, the market has been relatively subdued throughout 2016. However, take-up was boosted significantly in Q3 by HSBC's 140,000 sq ft pre-let at the former Grosvenor Hotel site, the largest deal in the city in over a decade.

Despite the magnitude of HSBC's pre-let, the number of larger deals is notably down on 2015. 2016's only other deal above 10,000 sq ft was Arup's 15,986 sq ft pre-let of the upper two floors at 3 St Paul's Place in Q1. 2016's largest out-of-town deal was S4S UK's lease of 8,700 sq ft at NG Bailey's former offices on Rutland Road.

The smaller end of the market has also been relatively subdued. Up to Q3, 2016 has seen 29 transactions of below 5,000 sq ft compared with 61 in 2015 as a whole. This partly reflects a growing lack of choice for SME's in the city centre, with the out-of-town market accounting for three quarters of this activity in 2016 to date.

Much of the above has also been through owner-occupier deals, with small businesses taking advantage of attractive capital values and easy access to finance to acquire space on a freehold basis.

Current supply

Total availability contracted by a further 6% during 2016 to stand at 1.1m sq ft. Set against the 10-year average take-up, this equates to 3.2 years of supply, putting Sheffield closely in line with the UK office market average.

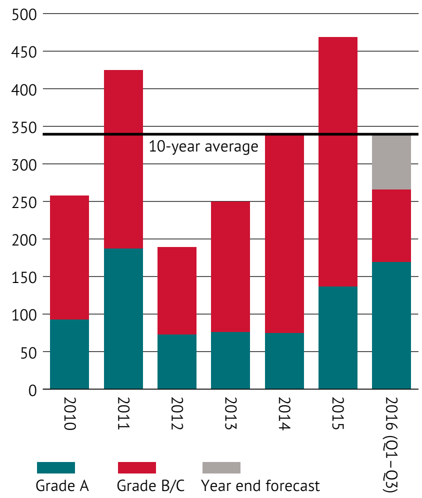
Secondhand supply is down significantly from its peak level at the height of the recession. Circa half a million sq ft has left the market for alternative uses in the past two years, in particular to student accommodation, with recent examples including Furnival House (120,000 sq ft) and Porterbrook House (42,000 sq ft).

Pressure from alternative uses has thus far been a positive for the market, improving the vitality of the city while tackling a high level of obsolescence which had started to blight the city centre.

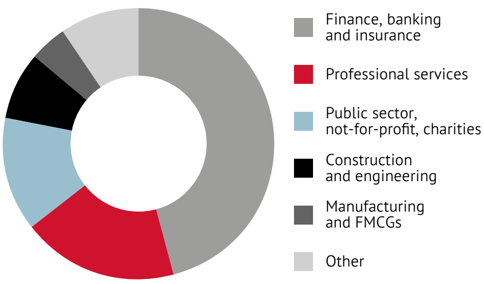
While development has made a welcome return over the past 18 months, the total supply of grade A space remains relatively constrained. Q4 2015 saw the completion of 3 St Paul's Place (76,000 sq ft); Sheffield's first speculative development completion since Velocity in 2008.

3 St Paul's Place is one of only three available grade A buildings in the city centre capable of accommodating larger requirements, the others being CityGate (52,000 sq ft) and The Gateway (20,000 sq ft). Notably, of the 60,000 sq ft available at 3 St Paul's Place, one floor is understood to be under offer.

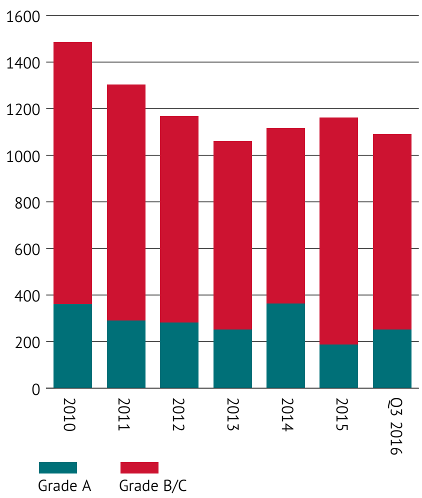
Sheffield take-up (000 sq ft)



Sheffield take-up by sector (past 12 months)



Sheffield availability (000 sq ft)



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Forecast 2016 take-up vs 10-year average	Years of supply	Years of grade A supply	Q3 2016 headline rent (per sq ft)	Prime yield
+0%	3.2	1.8	£23.00	6.75%

Development prospects

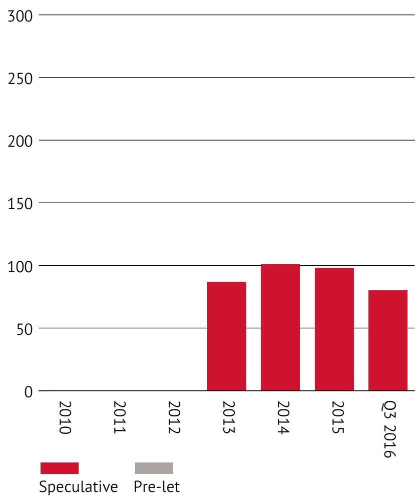
Scarborough Group's Acero Works is currently under construction and forms part of the second phase of the Digital Campus. With delivery scheduled for summer 2017, the scheme is included within grade A supply and will provide the city centre with an additional 80,000 sq ft of high quality space.

This second phase of Digital Campus also includes plans for a smaller building adjacent to Acero Works called Vidrio House, totalling 48,000 sq ft. At the present time Scarborough Group is understood to be seeking a pre-let before taking the development forward.

HSBC's major pre-let commitment is expected to commence construction early in 2017, with completion and occupation scheduled for spring 2019. As well as securing the bank's ongoing commitment to Sheffield, the development will also pave the way for the start of the long-awaited Sheffield Retail Quarter project.

Other schemes in the pipeline are limited to good quality refurbishments in the city centre. Westfield Health is refurbishing 20,000 sq ft at Westfield House (formerly Milton House), following its purchase and subsequent occupation of the 80,000 sq ft building, while Scotts Developments is undertaking a 40,000 sq ft refurbishment at Steel City House. Both will be ready for occupation in summer 2017.

Sheffield under construction (000 sq ft)



Market rental values and yields

Arup's pre-let at 3 St Paul's Place confirmed prime headline rents in Sheffield city centre at £23.00 per sq ft. Acero Works is being marketed at a quoting rent of £23.50 per sq ft, although it remains to be seen whether this will be achieved given the majority of 3 St Paul's Place is still available.

While prime rental growth has been relatively gradual, rental levels for good quality secondhand space have increased sharply on the back falling supply. Refurbishments such as Fountain Precinct and The Balance have proven successful, driving rents forward. Steel City House is available at a quoting rent of £16.50 per sq ft, whereas comparable space was achieving circa £11.00 per sq ft several years ago.

Current sentiment indicates that prime office yields in Sheffield stand at circa 6.75%, which represents a substantial discount to the larger northern cities of Manchester and Leeds. Despite the shock of June's Referendum result, Sheffield saw one sizeable transaction in Q3. Spanish investor Trinova Real Estate purchased Vulcan House, 6 Millsands for £31.0m, reflecting 6.8% NIY.

Forecast

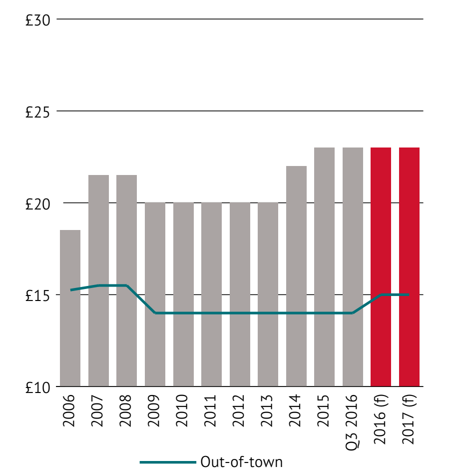
Despite the scale of HSBC's pre-let, take-up for 2016 as a whole is set to be closely in line with the annual average, at circa 340,000 sq ft.

The subdued year was largely expected, given that a flurry of key requirements bore fruit in 2015, while a softening of new requirements during 2016 is at least partly down to the uncertainty surrounding the Referendum. This is expected to recover in 2017 as occupiers adjust to the new status quo, translating into a more robust take-up.

The completion of Acero Works in 2017 will provide another key boost to Sheffield's office offer. Offering large floorplates and located close to the rail station, the building is expected to become an attractive proposition to inward investors and other regional occupiers, with the Sheffield market competitively priced against competing centres.

2017 ▶ £23.00 per sq ft

Sheffield prime rental values forecast (£ sq ft)



Data source: Lambert Smith Hampton

SOUTH MANCHESTER

Highlights

- **Despite below trend take-up in 2016, which is largely due to an absence of large deals, the market is seeing consistent churn.**
- **Demand has been notably focused on grade A space, where take-up in 2016 to Q3 has already surpassed the annual total seen in 2014 and 2015.**
- **Speculative development currently under construction is confined to a single 42,000 sq ft scheme in Stockport.**
- **As quality of supply tightens, prime headline rents are expected to reach £23.00 per sq ft by the end of 2017.**

Demand

Activity in the South Manchester office market has been below trend during the first three quarters of the year. Take-up totalled 361,316 sq ft, almost 20% down on the same period of 2015 and the 10-year average. However, this reflects an absence of big-ticket deals, with large corporate occupiers refraining from making decisions on relocation.

Despite this, there has been a high level of demand for quality space. In the first three quarters of 2016, grade A take-up has already surpassed both 2014 and 2015's annual total. This was boosted by several deals at Didsbury Point, totalling 44,949 sq ft, the largest of which was Southway Housing Trust's 20,000 sq ft purpose build acquisition at Two Didsbury Point. This concentration of activity reflects the improvement in the local vicinity and the lack of quality supply elsewhere in the market.

The largest deal of 2016 to date was Styles & Wood's lease of 26,530 sq ft at Cavendish House in Q1, a move which sees it expand its space by more than a quarter. The occupier opted to stay in close proximity to Altrincham given its access to the M56 corridor and M60 network.

While there has been no inward investment since 2015, there are a number of major requirements from resident occupiers. Royal London is seeking 130,000-150,000 sq ft driven by a need to expand, while other notable requirements include The Hut Group (75,000 sq ft), Virgin Media (100,000 sq ft) and an unidentified tech company looking for over 100,000 sq ft.

Current supply

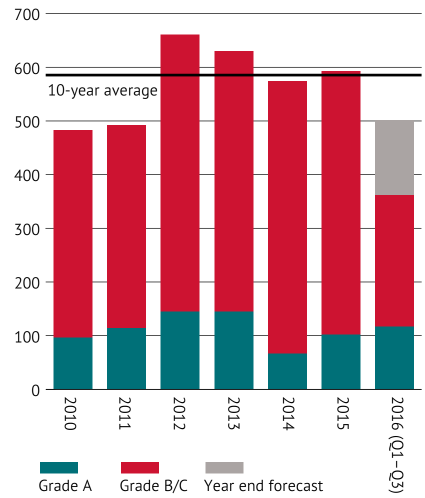
Office supply in South Manchester has continued to fall since peaking in 2012. During the year, availability has fallen 5% to stand at 1.3m sq ft at the end of Q3, its lowest amount on record. Based on the 10-year average take-up, this equates to 2.2 years of supply, the second lowest level out of the Northern Powerhouse markets, behind Warrington.

Grade A availability fell by a further 8% over 2016 to stand at only 208,444 sq ft. Available supply is concentrated at the Airport, with relatively limited choice at the market's other prime areas of Didsbury and Cheadle Royal.

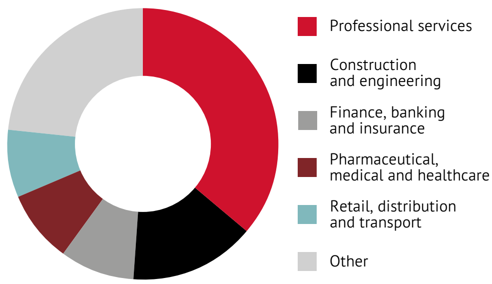
Off-campus space (owned by private investors) is geared to smaller requirements, while on-campus (owned by the Airport) is suited to larger corporate occupiers. Trident, Manchester Airport is the best performing grade A building in 2016. The building has let-up steadily during 2016 and should be fully let by the year end, just 12 months after launch.

The largest floor plates available are 15,166 sq ft at Altitude, Atlas Business Park and 13,300 sq ft at Dakota House, Concord Business Park. Only one corporate office is available outside the Airport location, namely 3400, Cheadle Royal (36,479 sq ft).

South Manchester take-up (000 sq ft)



South Manchester take-up by sector (past 12 months)



South Manchester availability (000 sq ft)

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Forecast 2016 take-up vs 10-year average	Years of supply	Years of grade A supply	Q3 2016 headline rent (per sq ft)	Prime yield
-15%	2.2	1.9	£22.00	7.00%

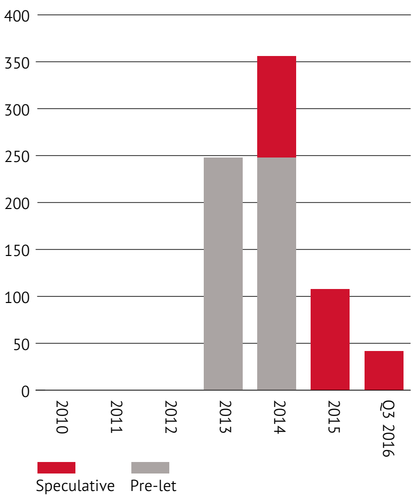
Development prospects

The market has seen very little development in recent years and is currently limited to a single scheme. As part of the wider regeneration of Stockport town centre, Stockport Exchange is an office-led development funded by the Council. 42,000 sq ft of speculative office space is currently under construction and due for completion by the end of the year. Further office space is set to be delivered on a phased basis up to 2020, with planning permission to provide up to 370,000 sq ft.

Meanwhile, at Airport City, there are still no signs of speculative development coming forward. The £800m joint venture between Manchester Airports Group and BCEG has the potential to deliver 1.2m sq ft of office space but, while there have been ongoing talks with occupiers, pre-lets would need to be agreed to activate development.

With the current lack of new space coming forward, landlords have been refurbishing buildings to a high standard. At the Airport, 4M is the next planned refurbishment, with 42,000 sq ft scheduled for delivery in late 2017.

South Manchester under construction (000 sq ft)



Market rental values and yields

The prime headline rent has remained stable during 2016, standing at £22.00 per sq ft at the end of Q3. By the end of the year we expect a rent of £24.00 per sq ft to be achieved by a 4,000 sq ft deal under offer at Tower Business Park, albeit this is not reflective of the whole market.

While the lack of movement in rents over the year defies the underlying growth of the market, it is reflected by the significant reduction in incentives. In many instances, incentives have halved over the course of the last 12 months, highlighting the tightening of supply.

In the investment market, prime office yields have softened by 25 bps over the last 12 months to stand at 7.00%. The most significant investment deal was Kennedy Wilson Europe's £82m (6.20% NIY) purchase of Towers Business Park in Didsbury in Q2 from Lone Star.

Forecast

Take-up in the final quarter of the year is expected to bring the 2016 total to circa 500,000 sq ft, 15% below the 10-year average. The prime headline rent is expected to reach £22.50 per sq ft by the end of the year and rise to £23.00 per sq ft during the course of 2017.

South Manchester is not an established market for investors, despite its excellent transport links, consistent occupier activity and discount to Manchester city centre. However, the area has significant potential for inward investment and, once it comes forward, Airport City will be transformative for the market.

2017 ▲ £23.00 per sq ft

South Manchester prime rental values forecast (£ sq ft)

Data source: Lambert Smith Hampton

WARRINGTON

Highlights

- **Take-up has been robust during 2016, with healthy churn but nothing in the way of large deals.**
- **In recent years, the delivery of quality supply has predominantly come via the refurbishment of existing space.**
- **The prime headline rent is expected to rise from £20.00 per sq ft to £21.00 per sq ft by the end of 2017 as newly refurbished space lets-up.**
- **Time Square, Warrington is a prominent, mixed-use development which, in 2019, will see the Council move into new offices totalling 100,000 sq ft.**

Demand

The Warrington market has seen robust levels of activity during in 2016 to date but, much like 2015, the year has lacked notably large deals which supported impressive take-up in 2013 and 2014. However, there remains a healthy depth to the market, with 92 deals from the first three quarters of 2016, already ahead of the total recorded in 2014.

In 2016 up to Q3, the market has seen only four deals in excess of 10,000 sq ft. The two largest deals took place at the same location, with Oak Tyres and Kingdom Security leasing 14,550 sq ft and 12,500 sq ft at two separate buildings within Woodlands Business Park.

Meanwhile, activity in the smaller size category has been healthy, with a significant number of deals ranging from circa 4,000 sq ft to 10,000 sq ft accounting for the majority share of 2016's take-up. While the nuclear sector dominates the market, occupiers in the construction and engineering, and TMT sectors also formed a key part of the demand.

Reflecting an absence of new-build and refurbished grade A stock, 2016 has seen only two deals involving grade A space. In Q2, Bellway Homes leased the last remaining suite at 304 Bridgewater Place (9,000 sq ft), while Chancerygate occupied 3,368 sq ft at 601 Birchwood One Business Park, having bought the whole building as an investment.

Current supply

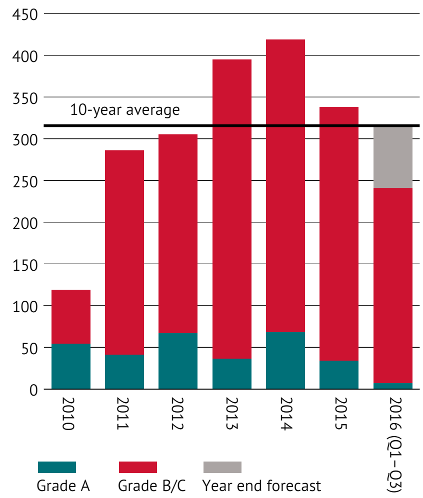
With a total office stock of circa 6.3m sq ft, Warrington's office market is relatively sizeable and is dominated by business park and out-of-town product. Much of this is relatively modern, with the largest, premier locations in Birchwood and Daresbury, both of which benefit from excellent road connections via the M62 and M56 respectively.

Availability has fallen 11% since the start of the year to stand 622,000 sq ft at the end of Q3 2016. While the vacancy rate remains relatively elevated, at circa 10%, current availability is equivalent to only 2 years of supply based on average take-up, the lowest of the Northern Powerhouse locations.

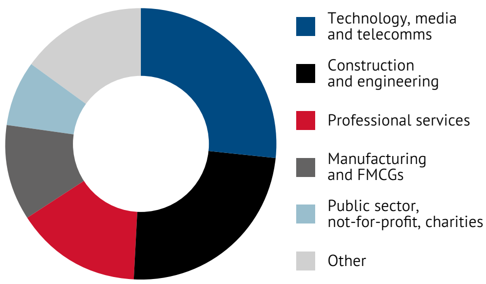
At the time of writing, there is zero grade A space available in the market. However, as much of the existing stock is already relatively modern, occupiers are generally content to relocate locally into refurbished space. Indeed, over the past five years, 65% of deals at Birchwood Business Park have been to occupiers already resident on the park.

The past 12 months have seen two speculative development completions; Iliad Group's start-up scheme at the Stadium Quarter (37,500 sq ft) and Daresbury SIC's Sci-Tech Daresbury (48,000 sq ft and 10,000 sq ft). That said, neither scheme is particularly relevant to mainstream office demand.

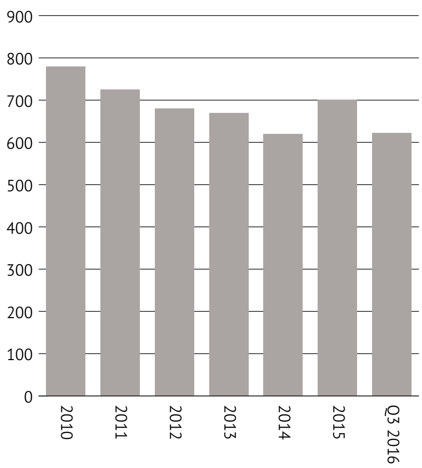
Warrington take-up (000 sq ft)



Warrington take-up by sector (past 12 months)



Warrington availability (000 sq ft)



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Forecast 2016 take-up vs 10-year average	Years of supply	Years of grade A supply	Q3 2016 headline rent (per sq ft)	Prime yield
-1%	2.0	0.0	£20.00	7.25%

Development prospects

Pre-lets and purpose built agreements remain the most likely route to new development at the current time. However, there are signs that developers are giving greater thought to speculative development than was the case in recent years.

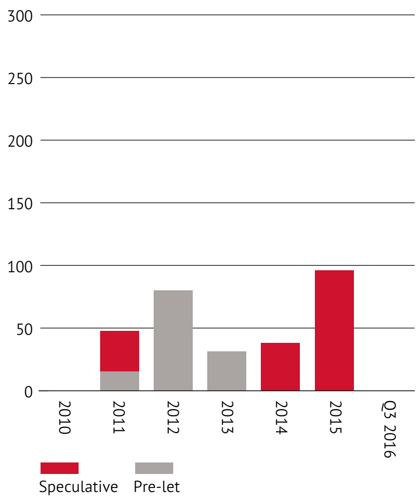
There is a substantial amount of development land across the Warrington market with permission in place, enough to double the existing level of stock from its current level. This includes additional land at Birchwood Business Park, Daresbury Park and Omega North/South, among others.

While new-build speculative development is relatively unlikely during 2017, there are a number of refurbishments in the pipeline, as landlords seek to manage their existing assets.

Having successfully undertaken two refurbishments in 2014 and 2015, Oaktree Capital Management and Patrizia are understood to be progressing their next project at Birchwood Park in early 2017, the refurbishment of 106 Dalton Avenue (45,000 sq ft). Elsewhere in Birchwood, Gladstone Investment Holdings has committed to refurbish Stanford House (54,000 sq ft) once TalkTalk vacate the building in spring 2017.

The largest project set to come forward in the pipeline is Time Square, Warrington town centre. Muse Developments is working in partnership with the Council to deliver a major mixed-used scheme costing £107m. With completion scheduled for 2019, a key part of the proposal will see Warrington Council occupy circa 100,000 sq ft of brand new office space.

Warrington under construction (000 sq ft)



Market rental values and yields

The prime headline rent has edged up by 2.6% during 2016 to reach a new high of £20.00 per sq ft. This level was confirmed in Q2 by Bellway Home's lease at 304 Bridgwater Place.

However, space which has been refurbished to a reasonable standard is available from as little as £15.00 per sq ft at Birchwood Business Park and nearby surrounding areas, maintaining the area's attractive pricing for back office and call centre operations.

Aside from several small lot-size transactions, the investment market has seen little activity during 2016. The largest deal in recent years was Oaktree Capital Management and Patrizia's £430m portfolio purchase of Birchwood Park in 2014, including business parks in Basingstoke and Glasgow. While evidence is limited, sentiment in the market indicates that prime yields stand at circa 7.25%, representing a significant discount to the other markets in the region.

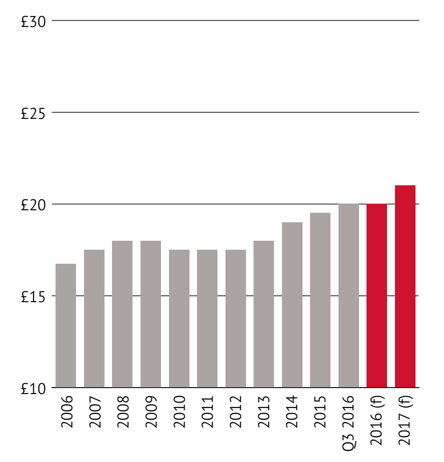
Forecast

While there are no major inward investment requirements at present, Warrington is well-placed to benefit in the medium to long-term from its location within the Cheshire Science Corridor Enterprise Zone, which was established in April 2016. The area already is already home to an internationally recognised cluster of occupiers in the nuclear industry, and achieving Enterprise Zone status is a major boon for future prospects.

Reflecting an almost complete absence of prime space, headline rents are expected to climb again in 2017 to reach circa £21.00 per sq ft. However, with new-build speculative development unlikely, this will be reflected by one of several high quality refurbishments in the pipeline.

2017 ▲ £21.00 per sq ft

Warrington prime rental values forecast (£ sq ft)



Data source: Lambert Smith Hampton

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