

Inform

Office Agency

City Point, Leeds
Joint Leasing Agent – Sanderson Weatherall

Leeds Office Market Update Q3 2011

Demand and Take Up

The Leeds office market posted a relatively robust set of figures in Q3 with City centre take-up of 115,973 sq ft. Out of town demand remains patchy with recorded space taken reaching 62,450 sq ft.

These most recent figures mean that year to date take-up for the City centre totals 316,939 sq ft, which is 114,500 sq ft or 57% up on the comparative period last year.

Take up out of town has not fared as well and at the end of Q3 year to date take-up was 167,867 sq ft which is 32,283 sq ft or 16% down on last year's figures.

There was a welcome increase in city centre market activity during Q3 with a total of 37 deals done (Q2=29) and a larger number of transactions in the 4,000 – 10,000 sq ft bracket where activity has, in recent quarters, been relatively subdued.

One in three deals involved Grade A accommodation

Key Office Transactions

Occupier	Area sq ft	Address
Yorkshire Housing	26,485	Dysons Chambers, Lower Briggate (F/H)
Ingeus Group	12,000	The Gateway, Marsh Lane LS9
SRCL	10,232	Indigo, Thwaite Gate, Hunslet
Unilever plc	7,174	No.3 Leeds City Office Park

and despite a number of larger lettings, it is the smaller end of the market which continues to dominate with 89% of all deals being for <5,000 sq ft.

Looking ahead, there are a number of requirements from professional companies that are likely to be satisfied by the end of the year. There has also been an increase in pre-let driven enquiries from the professional sector and we expect to see a steadily increasing number of occupiers in the market to upgrade the quality of their accommodation, whilst market conditions remain in their favour.



EG Award Winners
for the seventh consecutive year





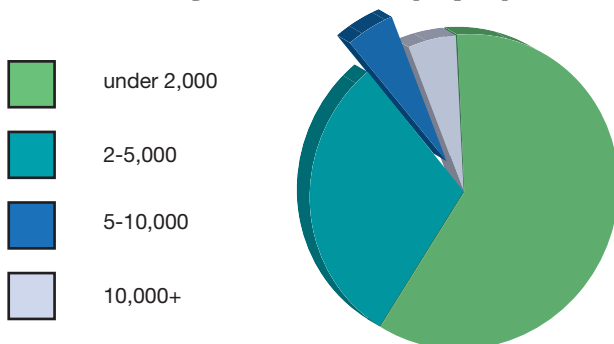
Supply

The standing stock of Grade A office space continues to steadily reduce and in the city centre now totals around 592,000 sq ft or circa 28 months average take-up. A fair proportion of this is 'grey' space, returned to the market by occupiers seeking to sub-let surplus accommodation. However, BT have recently withdrawn No.1 Sovereign Street (circa 133,000 sq ft) from the market and re-occupied.

Otherwise, there is little new Grade A supply "on site" and in the genuine prime central areas, there are a few options available to house significant office requirements.

As this remaining stock in the best locations is steadily eroded, those buildings occupying fringe locations will enjoy a window of opportunity within which to benefit, until such time as new developments come on stream. Occupiers with forthcoming lease events may well be forced into considering purely pre-let opportunities.

Leeds City Centre Take Up By Deal Size (sq ft)



Rents

Headline rents have remained static during the quarter with Grade A rents typically £24/£25 per sq ft

The highest rent in Q3 was £23.50 on a relatively small suite at Toronto Square. However, despite a good number of Grade A transactions, approximately only one in six of all deals were concluded at headline rents of £17.50 per sq ft and above.

Out of town, rental values remain under pressure, especially in deals at the smaller end where there is patchy demand and an over supply of product. There is however, little choice in relation to large Grade A buildings out of town which is mirrored by a lack of transactional activity in this sector of the market at present.

Tenant incentives remain generous and heavily building, covenant and lease length specific.

Q3 2011 Snap Shot

- **City centre take-up: 115,973 sq ft** (Q3 2010: 69,140 sq ft)
- **Out of town take-up: 62,450 sq ft** (Q3 2010: 65,014 sq ft)
- **Grade A supply: circa 28 months average take-up**
- **Prime rents: £25 per sq ft**
- **Transaction size: 89% of deals <5,000 sq ft**

Investment Comment

The market both nationally and within the regions continues to show steady improvement.

Market monitor property data, reports year to date investments in the office sector of c.£9.6bn. However this is less than the same period last year with activity remaining restrained by a lack of stock and available finance for larger transactions which are not ultra secure.

Q3 Leeds Office Investment Transactions

Address	Lot Size	Initial Yield	Purchaser
Park House*, Park Square	c£2.25m	6.63%	Stonebridge Projects (JV)
White Rose Office Park (50% Stake)	c.£130m	undisclosed	Orion Capital Partners
Lateral, City Walk	£24.3m	7.8%	RREEF

*transaction involving Sanderson Weatherall

Summary

Following a solid quarter's take-up in Q3, the outlook for the year is reasonably encouraging with city centre take-up forecast to be at or above 400,000 sq ft. Whilst this remains down on the long term average of circa 500,000 sq ft per annum, it represents a strong improvement on last year.

A steadily eroding stock of available Grade A buildings in prime areas and the raft of lease events between 2013 and 2017 affecting major Leeds office occupiers, means that the longer term prospects for both landlords and developers with holdings in the prime central area are reasonably promising.

However, restrictions on development finance and economic uncertainty within the Euro Zone and beyond, mean that development activity is unlikely to return without significant pre-lets in place.

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