Leeds Offices Market Update

Q3 2016
Key data

Leeds City Centre Take-up
Q3: 125,321 sq ft
(Q3 2015: 112,103 sq ft)

Leeds Out of Town
Q3: 65,944 sq ft
(Q3 2015: 72,314 sq ft)

Grade A supply
c.24 months supply

Prime Rents
£27.00 psf

Prime Yields:
5.50%
Overview

The Leeds office market tabled total take-up of 191,265 sq ft in Q3 which was a positive outcome given the uncertainty created in Q’s 2 & 3 by the referendum and decision to Brexit.

Q3 Leeds City Centre take-up was 125,321 sq ft an increase of 52,218 sq ft (71%) on the preceding quarter as lettings to The Department of Health of 23,762 sq ft at Whitehall II and 12,969 sq ft to Ward Hadaway at the newly completed 5 Wellington Place helped swell the total amount of space transacted.

The Out of Town market saw the largest deal of the quarter as Lowell signed for 45,647 sq ft of expansion space at Leeds Valley Park although this letting masked what was otherwise a challenging period of activity as Out of Town transactions totalled just 65,944 sq ft in Q3. (Q2 2016: 76,026 sq ft).
Rents

Prime Leeds office rents stand at £27.00 per sq ft but due to increased demand for new-build, Grade A space there is upwards pressure and we expect to see a modest increase by the year-end.

Quoting rents are now typically £28.00 per sq ft on the best, new-build kit and £25.00 to £26.00 psf on the best quality refurbished city centre accommodation. There is a discount Out of Town, where new-build accommodation is attracting current quoting rents of between £22.00 & £24.00 per sq ft and on good quality refurbishments £18.00 per sq ft.

City Centre Take Up
Demand

Grade A lettings have dominated City centre occupier activity in recent years and despite the decision to Brexit occupier sentiment remains optimistic. Indeed, for new space there are active requirements totalling in excess of 750,000 sq ft including the Government “Hub”, a FTSE 100 occupier, local Financial institution and others from the Legal services and TMT sectors.

It is expected that several of these, including the largest being for the Government “Hub”, will sign at or around the year-end.

Key Transactions

<table>
<thead>
<tr>
<th>Occupier</th>
<th>Area sq ft</th>
<th>Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowell Group</td>
<td>45,647</td>
<td>Darwin House, Leeds Valley Park</td>
</tr>
<tr>
<td>The Dept. of Health</td>
<td>23,762</td>
<td>5th &amp; 6th floors, Whitehall II</td>
</tr>
<tr>
<td>Ward Hadaway</td>
<td>12,969</td>
<td>5th floor, 5 Wellington Place</td>
</tr>
<tr>
<td>KPMG</td>
<td>12,305</td>
<td>Broadgate, The Headrow</td>
</tr>
<tr>
<td>Life Search</td>
<td>10,814</td>
<td>Broadgate, The Headrow</td>
</tr>
</tbody>
</table>
Supply

Total Leeds office supply stands at approximately 1.2 m sq ft which reflects a vacancy rate of c. 10%.

The recent completion of the city centre buildings Central Square, 5 Wellington Place and 6 Queen Street has brought much needed Grade A built stock to the market. There are also further “Brexit busting” buildings on-site such as Platform a 115,000 sq ft refurbishment above Leeds railway station due to complete next year and 3 Wellington Place which will offer over 120,000 sq ft of new-build accommodation when it completes in 2018.

The lack of development in the Out of Town market is also now being addressed with Paradigm at Thorpe Park which is due to complete imminently and offers 32,000 sq ft and One Kirkstall Forge which will finish next year following partial pre-lets and currently has 54,000 sq ft remaining.

We view this new supply very positively in light of attracting footloose occupier requirements to the city.
Outlook

We anticipate a strong Q4 to round the year off as occupiers adopt a “business as usual” approach to Brexit and with at least a couple of significant lettings scheduled to sign at or around the year end.

Prime rents are expected to edge upwards reflecting the current demand for new-build, Grade A stock albeit Leeds will retain its competitive advantage price-wise versus most other principal regional cities.
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