25,000 sq ft Hythe at Wirral Waters, developed by Peel L&P

RESEARCH

The Big Nine

Quarterly update of regional office activity

Q1 2021

AVISON YOUNG

CHARLES TOOGOOD

Principal and Managing Director, National Offices Team

> **"Sentiment is improving noticeably, enquiries are increasing and there is enough recent activity in both the occupier and investment markets to indicate that as restrictions ease, activity will increase throughout the year.**

Occupier market in brief

SLOW START BUT SENTIMENT AND ACTIVITY IMPROVING

A combination of lockdown and the traditionally slow start to the year has not surprisingly resulted in well below average take-up activity for the Big Nine office markets during Q1. However, sentiment is improving noticeably, enquiries are increasing and there is enough recent activity in both the occupier and investment markets to indicate that as restrictions ease, activity will increase throughout the year.

Total take-up during Q1 across the Big Nine cities amounted to 783,420 sq ft in the city centres and 676,126 sq ft out-of-town, 41% and 14% below respective ten-year averages.

Understandably, a number of markets have had a subdued start to the year but as well as the rising sentiment, there have been some pockets of robust performance within these poor figures. Leeds was the stand-out performer when compared to long term averages with the highest quarterly total for more than three years, boosted by two very large deals in both the city centre and out-of-town markets. Newcastle and Bristol were the top performing cities in 2020 and have continued this robust performance into 2021, while Manchester has again provided the largest take-up total.

Q1 has seen a return to activity from the public sector and for flexible workspace, two sectors which were very active pre-pandemic. There was also a relatively strong performance from professional and financial services, whereas activity was well down in the TMT & creative, consumer and other private services sectors.

The public sector has seen its strongest level of take-up in 12 months, on account of five deals across the cities to the Department for Work and Pensions and substantial deals to the NHS and Ministry of Justice in Manchester. This activity is expected to continue as the levelling up agenda gains momentum in the regions, with the GPA likely to commit to some substantial lettings this year. In addition there has been recent news of the BBC moving 400 jobs to the regional cities. remained static over the 12 months to February.

Covid has accelerated the appeal to occupiers for a wider range of flexible lease arrangements, whether that is short term leases or management agreements, with Cat A+ fit-out or 'plug and play' increasingly popular. With 'grey space' coming back to the market, occupiers are also picking up 'ready to go' space more easily, where they do not have to commit to the upfront capital cost of fit-out.

As fitted out space is becoming more popular, landlords and some flexible workspace providers are responding to this. We have seen the strongest flexible workspace take-up since Q4 2019, with Orega, INC Spaces and Instant Offices all acquiring space.

As occupiers look for solutions to bridge the divide between indefinite working from home and a total return to the office, the hybrid working model, a combination of home, the office and local flexible working, is gaining significant traction and having an effect on locational decisions. Consequently, we are continuing to see some occupiers seeking up to 20% to 30% less but better-quality space in response to the predicted demand for this increased flexibility. While some occupiers will take less space, some will take the same but use it very differently.

On the supply side, total availability across the Big Nine city centres remains at relatively low levels (see chart), having reached the lowest point in 15 years a year ago. Since then it has increased 25%, although the rate of increase slowed in the last quarter and is still just over half the level it was at its height in 2013. However, we expect availability to continue increasing in the short term, which will put pressure on secondary rents.

Despite significantly reduced demand, the strong appetite for good quality space continues to put upward pressure on headline rents, which have increased by 2.8% over the past year and by 1.7% pa on a net effective basis, with rent free periods moving out slightly. The MSCI monthly index shows that average rental growth for regional offices rents have remained static over the 12 months to February.

TOTAL TAKE-UP IN Q1

1,459,546 sq ft

▽ **31%**

DOWN ON THE 10 YEAR QUARTERLY AVERAGE

City Centre

783,420 sq ft

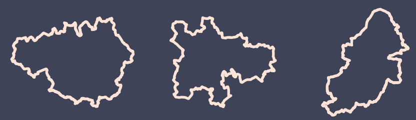
Out-of-town

676,126 sq ft

UNDER CONSTRUCTION

6.1 million sq ft

SKEWED TOWARDS



MANCHESTER	GLASGOW	BIRMINGHAM
26%	22%	14%

HEADLINE RENTS AVERAGE

£32.28 psf

Across all nine cities

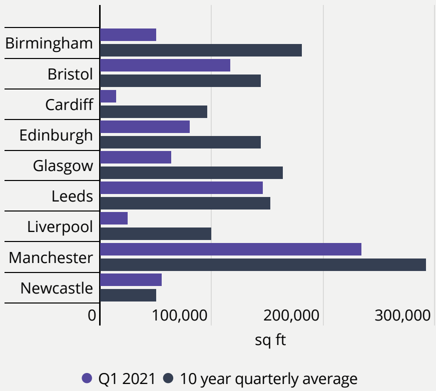
Occupier data

City Centre

TOTAL TAKE UP IN Q1

783,420 sq ft ▽ **41%** compared to the ten year quarterly average

TAKE UP (SQ FT)



TOP FIVE DEALS

City	Property	Occupier	Sq ft
Leeds	City Square House	DLA Piper UK LLP	83,012
Newcastle	The Spark	Womble Bond Dickinson	44,700
Glasgow	2 Cadogan Square	Multiplex Europe Ltd	34,052
Manchester	Arkwright House	Orega	29,864
Manchester	Redfern	Ministry of Justice	24,548

HEADLINE RENTS (£PSF)

Location	Rent (£) Q1 2021	Rent free (mths on 10 yr term)	Net effective rent*(£)	Net effective rent (£) Q1 2020
Edinburgh	37.00	15.00	33.30	33.30
Bristol	37.50	21.00	31.88	31.06
Manchester	38.50	26.00	31.12	30.11
Glasgow	34.50	15.00	31.05	31.05
Birmingham	37.00	24.00	30.53	28.46
Cardiff	25.00	18.00	21.88	21.88
Leeds	33.00	24.00	27.23	26.40
Newcastle	26.00	18.00	22.75	22.75
Liverpool	22.00	24.00	18.15	17.74
Average	**32.28**	**21.22**	**27.42**	**26.97**

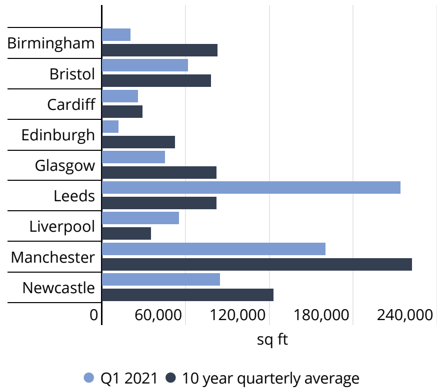
*including rent free period less three month fit-out.

Out-of-town

TOTAL TAKE UP IN Q1

676,126 sq ft ▽ **14%** compared to the ten year quarterly average

TAKE UP (SQ FT)



TOP FIVE DEALS

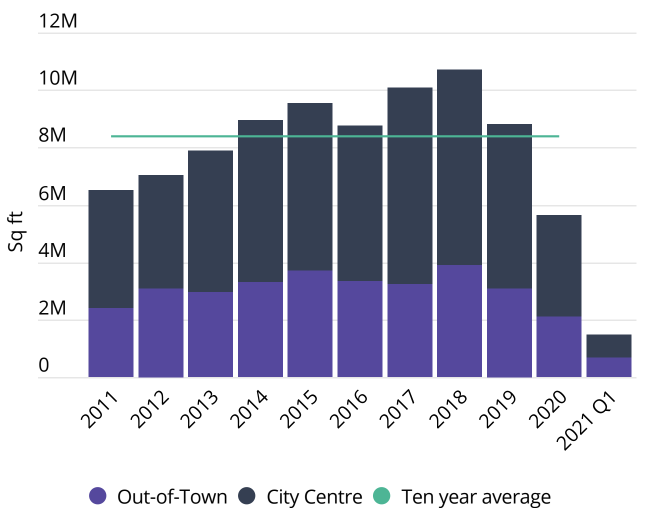
City	Property	Occupier	Sq ft
Leeds	B3, Thorpe Park	Lowell Group	133,118
Bristol	800 Aztec West	NNB Generation Ltd	32,007
Manchester	St James's House	NHS	30,240
Glasgow	Maxim 9, Maxim Park	LumiraDx	30,190
Newcastle	Parsons House, Washington	Private Individual	25,581

HEADLINE RENTS (£PSF)

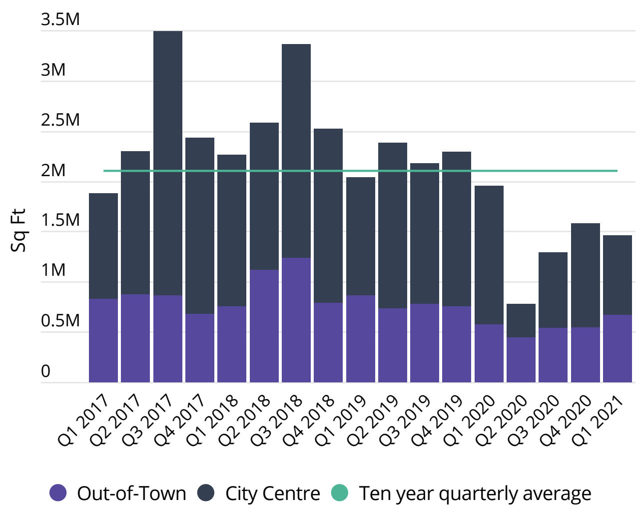
Location	Rent (£psf) Q1 2021	Rent (£psf) Q1 2020
Birmingham	26.00	26.00
Leeds	24.75	24.75
Manchester	24.00	24.00
Bristol	23.50	23.50
Edinburgh	24.00	22.00
Newcastle	16.95	16.95
Glasgow	16.50	16.50
Cardiff	15.50	15.00
Liverpool	14.00	14.00
Average	**20.58**	**20.30**

Occupier charts

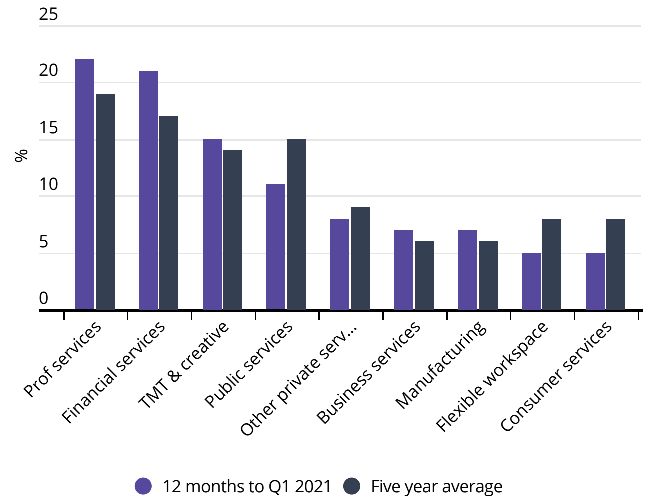
ANNUAL TAKE UP



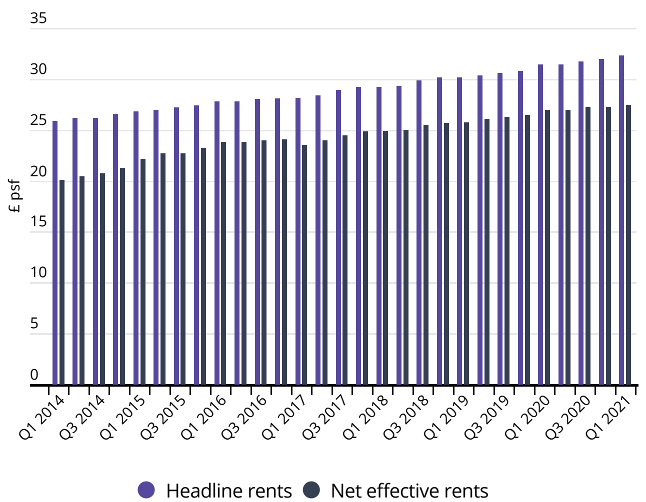
QUARTERLY TAKE-UP



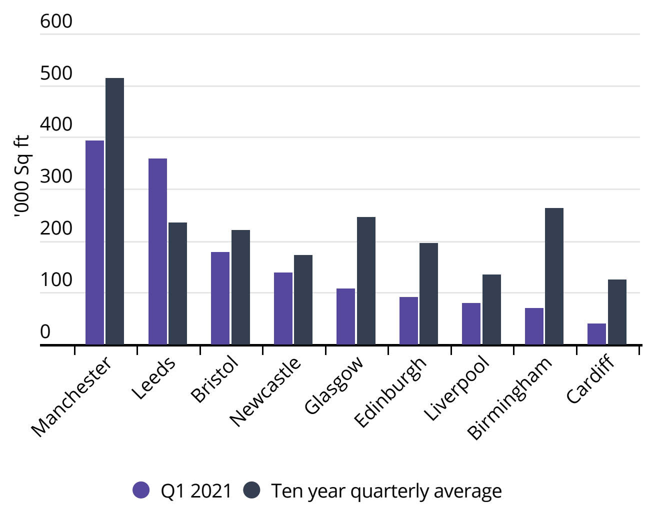
TAKE-UP BY KEY SECTORS



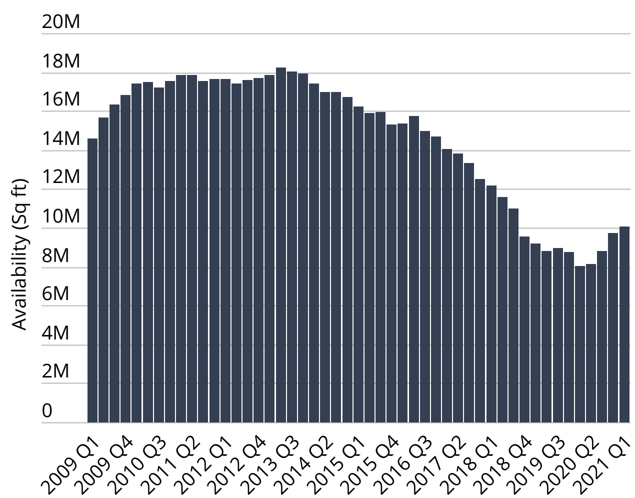
HEADLINE RENTS



CC AND OOT TAKE-UP



BIG NINE CITY CENTRE AVAILABILITY



MARK WILLIAMS
Principal and Managing Director,
Regional Investment

> "Following a strong finish to 2020, positive sentiment continues in the Big Nine office investment markets. Several large deals have completed since the start of the year and others are under offer.

Investment market in brief

INVESTMENT SENTIMENT MAINTAINED IN THE BIG NINE OFFICE MARKETS

Following a strong finish to 2020, positive sentiment continues in the Big Nine office investment markets. Several large deals have completed since the start of the year and others are under offer. While total volumes for Q1 amounted to £177 million, 69% down on the ten-year average, Q2 volumes have already surpassed this figure.

The key transactions during Q1 were in the Bristol market. Aberdeen Standard Investments bought Temple Quay House in the city centre from Alpha Real Capital for £75m. The government backed scheme transacted at a yield of 3.7%, a record for the regional markets. In February, Kuwait-based investor Kamco and M7 Real Estate also bought TSB's 64,000-sq-ft Bristol headquarters at Keypoint from a private Saudi trust for £20m.

Activity has also been strong in the Manchester market, with three transactions that fall into Q2 figures. 320,000-sq-ft 3-4 Piccadilly Place has been sold for £115 million to Longmead Capital, at a 6% yield, having fallen through last year at 5.5%. Similarly, Windmill Green did not sell last year but is now newly under offer, while 8 First Street has recently completed for a price of £87 million.

There are several other deals in the pipeline, such as M&G Real Estate 's Aurora, Barclays' offices in Glasgow, which is under offer.

Increasingly, investors are expecting a return to the office and there continues to be a weight of money and good demand for quality product. However, there is limited stock and some buyers are understandably cautious about the quality of covenants and length of leases. Office returns are attractive to potential investors when compared to both the industrial sector, which suffers from over competitiveness in finding investment opportunities and the risk associated with the structural change in the retail sector.

Pricing for prime stock has remained resilient over the past 12 months. The average of prime yields across the Big Nine is currently 5.33%, which compares to 5.31% a year ago and a cyclical low of 5.08% at the end of 2018. According to the MSCI monthly index, average equivalent yields for all regional offices have shown greater movement, from 7.03% a year ago to 7.59% at the end of February. We expect the yield gap between prime and secondary property to increase as occupiers and investors continue to favour grade A buildings.

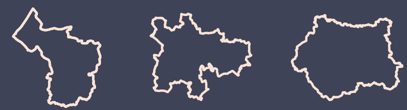
TOTAL FOR Q1

£177 million

▽ 69%

DOWN ON THE 10 YEAR QUARTERLY AVERAGE

VOLUMES BY CITY



BRISTOL	GLASGOW	LEEDS
£99m	£28m	£20m

VOLUMES BY INVESTOR TYPE

UK INSTITUTION	OVERSEAS INVESTOR	UK PROPERTY COMPANY
42%	27%	10%

PRIME YIELD	PREVIOUS PEAK (2007)
4.75%	4.50%

Investment data

TOTAL INVESTMENT VOLUMES

Q1 2021 **£177 million**

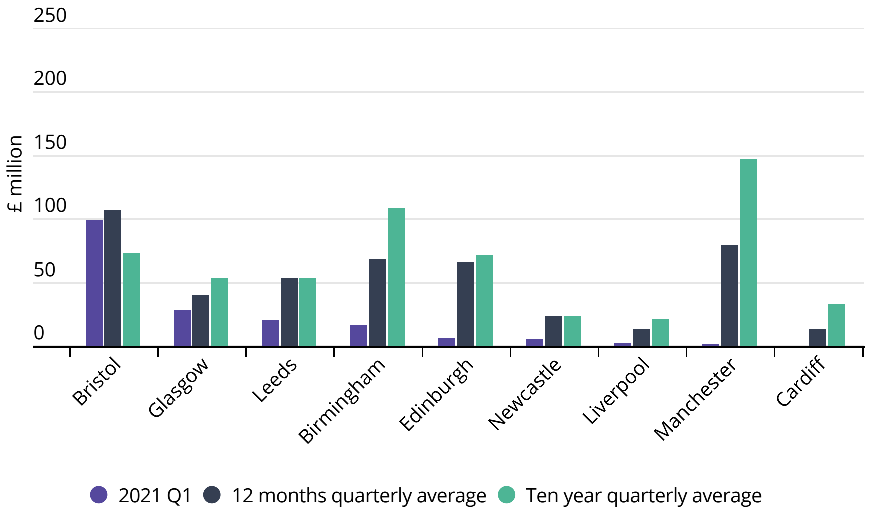
Compared to:

£828m
(previous quarter – Q4 2020)

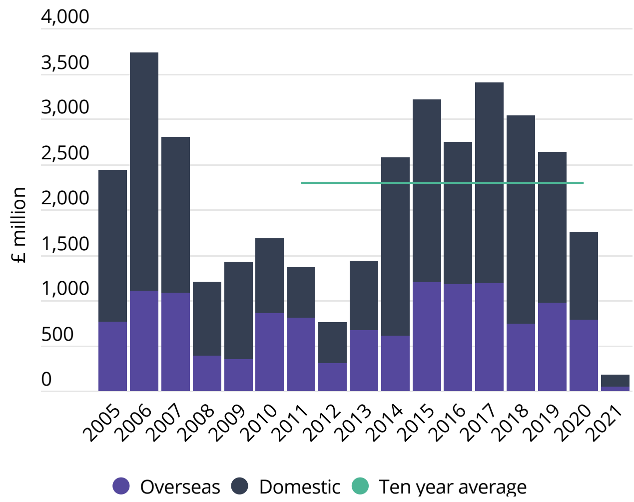
£292m
(a year ago – Q1 2020)

£572m
(ten year quarterly average)

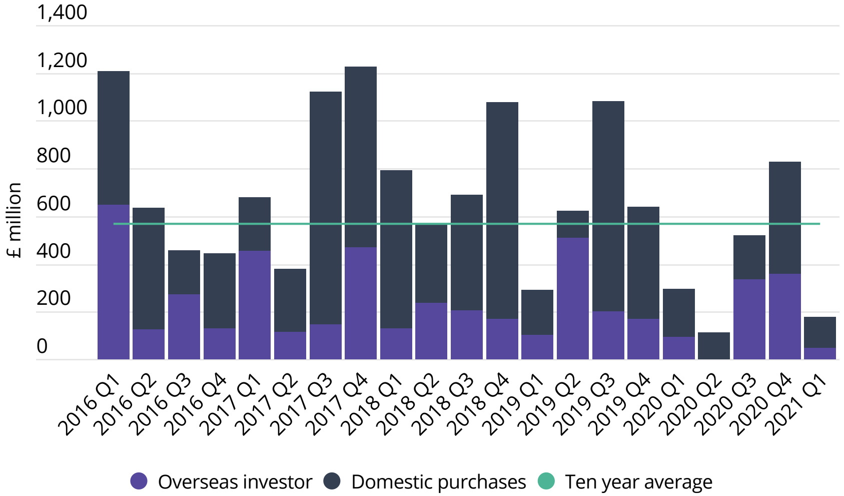
INVESTMENT VOLUMES BY CITY



ANNUAL INVESTMENT VOLUMES



INVESTMENT VOLUMES BY QUARTER



TOP FIVE DEALS – Q1 2021

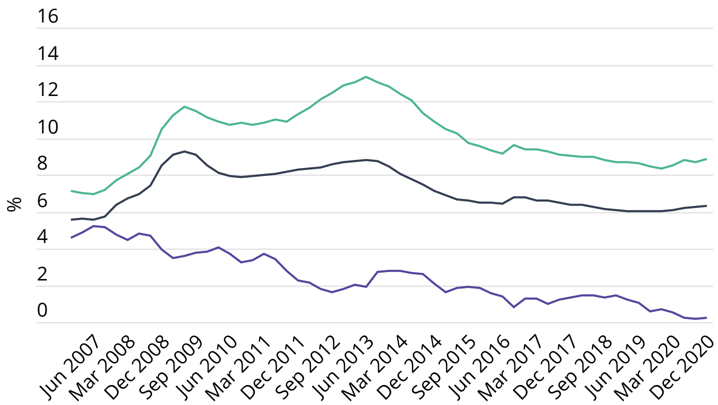
Date	Property	City	Purchaser	Vendor	Price (£m)	NIY (%)
Mar-21	Temple Quay House	Bristol	Aberdeen Standard	Alpha Real Capital	75	3.70
Mar-21	Argyle Street, 480	Glasgow	Trinova Real Estate LLP	Credit Suisse	28	7.10
Feb-21	Keypoint, Almondsbury	Bristol	KAMCO Investment Company / M7 Real Estate	Overseas investor	20	6.25
Mar-21	20 Merrion Way	Leeds	Private investor	Private Spanish investor	20	N/A
Jan-21	Homer Road, 41, Solihull	Birmingham	Private investor	AEW UK REIT Plc	11	5.95

Investment data

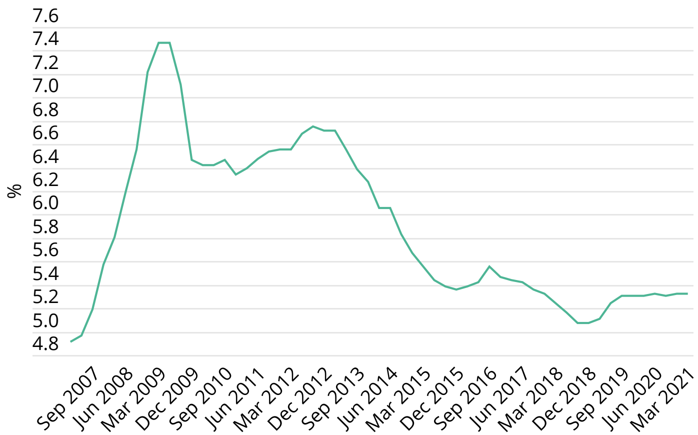
PRIME CITY CENTRE YIELDS

Location	Q1 2021	Q4 2020	2007 peak
Birmingham	5.00	5.00	4.50
Bristol	5.00	5.00	5.00
Cardiff	5.75	5.75	5.00
Edinburgh	4.75	4.75	4.75
Glasgow	5.00	5.00	4.75
Leeds	5.25	5.25	4.75
Liverpool	6.00	6.00	5.50
Manchester	5.00	5.00	4.50
Newcastle	6.25	6.25	5.25

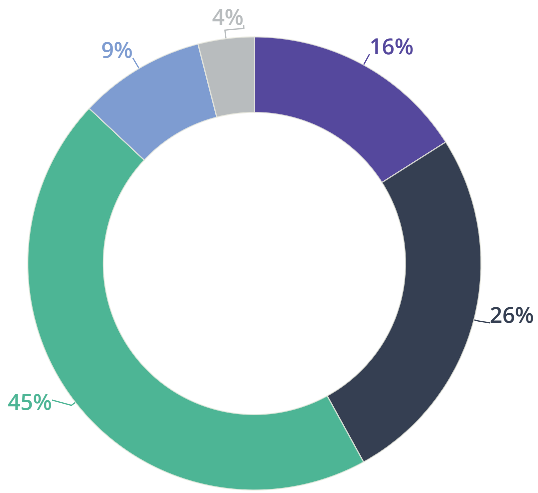
REGIONAL OFFICE YIELDS VS 10 YEAR GILTS



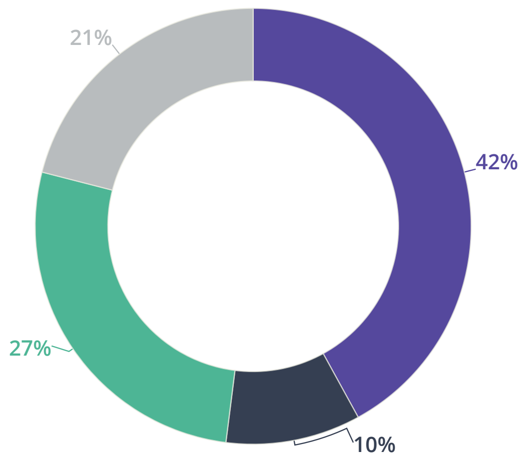
AVERAGE PRIME YIELD



INVESTOR VOLUMES BY PURCHASER TYPE: 12 MONTHS TO Q1 2021



INVESTOR VOLUMES BY PURCHASER TYPE: Q1 2021



Birmingham

Activity in the Birmingham office market is expected to pick up as the year progresses, following a quiet start to the year. Take-up amounted to 49,837 sq ft in the city centre and 20,326 sq ft out of town, 73% below the ten-year average.

In the city centre the largest deal was 16,499 sq ft to the Department for Work and Pensions at B1 Summerhill Road, which is an expansion following last summer's 49,000 sq ft transaction. This is one of several public sector deals lined up for the city coupled with the Levelling up agenda facilitating the movement of jobs from London. During the quarter there were a further 19 sub 5,000 sq ft transactions, including two circa 4,000 sq ft lettings to Clarke Willmott at 9 Colmore Row and Sandwell College at 13 Bennetts Hill.

A number of office schemes are under construction in Birmingham: 228,000 sq ft 103 Colmore Row is fully available and 40,000 sq ft STEAMhouse at Birmingham City University, with both due to complete this year. In addition, the speculative 280,000 sq ft 1 Centenary Way, Paradise and CBREGi's major refurbishment of 8/10 Brindleyplace (213,000 sq ft) are due for completion towards the end of 2022.

Further schemes well advanced in the pipeline include the next building at Paradise, 3 Chamberlain Square and Kier Property has gained detailed planning permission to increase the size of 5 Centenary Square to 200,000 sq ft, the next phase at its Arena Central development.

In the out-of-town market there were a handful of deals, led by Adecco's 9,114 sq ft letting at T3, Trinity Park, Solihull. There has been a recent improvement in enquiries to suggest that activity will increase this year as occupiers now have greater clarity following the loosening of restrictions. Headline rents are holding up but for sub 5,000 sq ft units where supply is greater, there is more pressure on rents.

TOP FIVE DEALS Q1

Property	CC / OOT	Sq ft	Occupier
B1 Summerhill Rd	CC	16,499	Department for Work & Pensions
T3, Trinity Park, Solihull	OOT	9,114	Adecco
13 Bennetts Hill	CC	4,579	Sandwell College
Fairway House, Vulcan Road, Solihull	OOT	4,550	Inspired Selections
9 Colmore Row	CC	4,226	Clarke Willmott

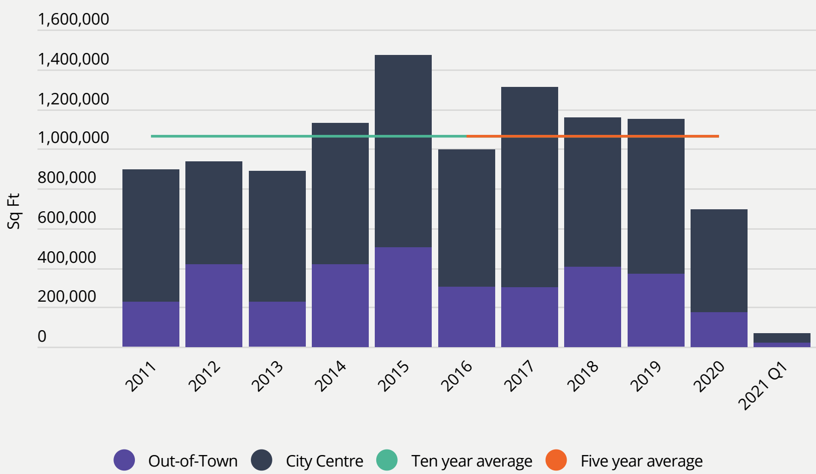
KEY SECTOR ACTIVITY: 12 MONTHS TO Q1 2021

Central goverment **29%**

Retail & Leisure **23%**

Insurance **10%**

TAKE-UP



Q1 TAKE-UP

City Centre
49,837 sq ft

Out-of-town
20,326 sq ft

HEADLINE RENT

City Centre
£37 per sq ft

Out-of-town
£26 per sq ft

UNDER CONSTRUCTION

761,000 sq ft

16%
prelet

PRIME YIELD

5%

Bristol

The Bristol office market has seen a robust start to the year given the current conditions, with take-up during Q1 totalling 116,457 sq ft in the city centre and 61,523 sq ft out-of-town, 20% below the ten-year average in both markets.

As with other Big Nine markets sentiment has improved in recent weeks, which is backed up by the expected deals in the pipeline and new schemes under construction. A new record headline rent has been agreed in the city centre as Huboo Technologies has acquired 19,000 sq ft on Corn Street at £40 psf, however we understand this included a furniture package. The largest city centre deal was 21,888 sq ft to the Department for Work and Pensions at 101 Victoria Street and there were two further deals over 10,000 sq ft to Pure Electric at Wapping Road and Access to Music at Programme.

The out-of-town market was dominated by the largest deal of the quarter, 32,000 sq ft to NNB Generation Ltd at Aztec 800 on Aztec West business park. There were also a handful of circa 5,000 sq ft deals, two of which were also at Aztec West, to Chadwick Business Centres and Candid.

The recent positive sentiment in the market is supported by the large development starts: CEG's 184,000 sq ft EQ development started on site at the end of last year and Tristan Capital/Candour are ready to break ground on the 207,000 sq ft Welcome Building at 4 Glass Wharf.

Additionally, the speculative 92,000 sq ft Distillery at Glassfields has recently completed and the 201,000 sq ft 1 Assembly (fully pre-let by BT) is due to complete in the summer. One Portwall Square and Halo at Finzels Reach will also be finished later in 2021, with space still available in both buildings.

TOP FIVE DEALS Q1

Property	CC / OOT	Sq ft	Occupier
800 Aztec West	OOT	32,007	NNB Generation Ltd
101 Victoria Street	CC	21,888	Department for Work & Pensions
41 Corn Street	CC	18,882	Huboo Technologies
10 Wapping Road	CC	15,190	Pure Electric
Programme	CC	10,300	Access To Music

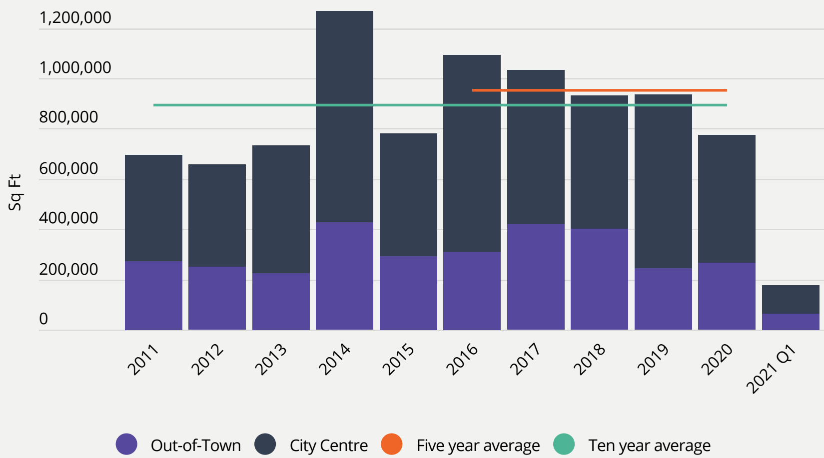
KEY SECTOR ACTIVITY: 12 MONTHS TO Q1 2021

Engineering consultancy **32%**

Central government **12%**

Legal services **9%**

TAKE-UP



Q1 TAKE-UP

City Centre
116,457 sq ft

Out-of-town
61,523 sq ft

HEADLINE RENT

City Centre
£37.50 per sq ft

Out-of-town
£23.50 per sq ft

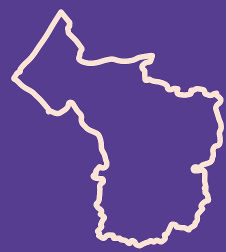
UNDER CONSTRUCTION

735,000 sq ft

38%
prelet

PRIME YIELD

5%



Cardiff

The Cardiff office market has seen a slow start to the year, recording 14,338 sq ft of take-up in the city centre and 25,543 sq ft out-of-town, 68% below the ten year quarterly average overall.

The out-of-town market witnessed the two largest deals of the quarter, led by 13,168 sq ft to the Department for Work and Pensions at Ty Bevan Llanishen, one of five transactions to the government department across the Big Nine cities this quarter. The next largest deal was also out-of-town, 5,780 sq ft to Shaw Health Care and there were also a handful of 2,000 sq ft to 3,000 sq ft deals across both markets.

In terms of future requirements, we are aware of a number of large (20,000 sq ft to 30,000 sq ft) indigenous occupiers with lease events in 2022, such as PwC, HSBC and Arup, that are weighing up their future space options.

Occupiers continue to downsize their requirements and a handful have returned 'grey' space to the market including 41,000 sq ft by British Gas, 30,000 sq ft by Hugh James Solicitors and 31,000 sq ft by First Source call centre.

As such, grade A supply has increased to just over 300,000 sq ft. In addition, 109,000 sq ft of new space will become available next year, with the completion of John Street development. We also expect Rightacres' to start on site in the summer at the Central Quay scheme, the former Brains brewery site, with the 60,000 sq ft Brewhouse.

TOP FIVE DEALS Q1

Property	CC / OOT	Sq ft	Occupier
Ty Bevan, Llanishen	OOT	13,168	Department for Work & Pensions
2 Links Court, St Mellons B/P	OOT	5,780	Shaw Heath Care
5-7 Cathedral Road	CC	3,336	Total Utility Connections
Unit 5, River Bridge Business Park	OOT	2,772	Charles James Interiors
The Warehouse, Wyndham Arcade	CC	2,557	S3 Advertising

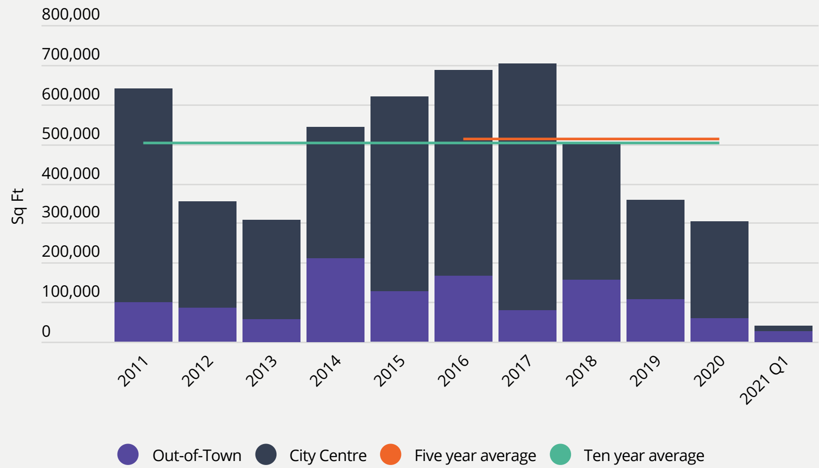
KEY SECTOR ACTIVITY: 12 MONTHS TO Q1 2021

Insurance
60%

Central goverment
10%

Property
8%

TAKE-UP



Q1 TAKE-UP

City Centre
14,338 sq ft

Out-of-town
25,543 sq ft

HEADLINE RENT

City Centre
£25 per sq ft

Out-of-town
£15.50 per sq ft

UNDER CONSTRUCTION

227,000 sq ft

53%
prelet

PRIME YIELD

5.75%

Edinburgh

The Edinburgh office market has seen a slow start to take-up activity during Q1. However, sentiment is upbeat with a number of occupiers initiating requirements for new space which should see activity pick up as the year progresses.

Q1 take-up amounted to 77,681 sq ft in the city centre and 11,275 sq ft in the out-of-town market, 46% and 78% below respective ten-year averages. In the city centre there were five deals more than 5,000 sq ft, the largest of which were to TMT and consumer services companies: Motorola at Caledonian Exchange (10,884 sq ft), Rockstar at Holyrood Park House (9,725 sq ft) and Trustpilot at 28 St Andrew Square (9,283 sq ft).

With 2 Freer Street (60,000 sq ft) and Capital Square (54,000 sq ft available) completing this quarter, the immediate supply position in the city centre appears relatively healthy. However, given the pent-up demand and limited supply of larger floorplates this position is likely to change quickly.

Beyond the existing supply, there is a limited development pipeline with only 190,000 sq ft of available space under construction and completing by the end of 2023. This includes 110,000 sq ft at Haymarket Square (M&G and QMile Group), while Ediston have now started works on their mixed-use development 'New Town Quarter' which includes a new 80,000 sq ft office.

Take-up in the out-of-town market has been limited over the past 12 months with the largest letting in Q1 at Alex House, Newbridge where housebuilder Dandara acquired 6,779 sq ft.

While only modest levels of grey space have entered the city centre market, the West Edinburgh business parks have seen a number of corporate occupiers release surplus accommodation following Covid. A two-tier market is developing with a handful of full building refurbishments underway and completing in the next 12 months and now a number of short-term sub-let opportunities are also available. There is some strong interest on the best quality refurbishments and a new headline rent of £25 psf is expected to be achieved later in the year. In addition, Parabola remain on track for completion of 1 New Park Square (80,000 sq ft) before the end of the year, which would be Edinburgh's first net zero carbon office building.

TOP FIVE DEALS Q1

Property	CC / OOT	Sq ft	Occupier
Caledonian Exchange	CC	10,884	Motorolla
Holyrood Park House	CC	9,725	Rockstar North Ltd
28 St Andrew Square	CC	9,283	Trustpilot
Capital House	CC	8,910	Scottish Ministers
Alexandra House, Newbridge	OOT	6,779	Dandarra

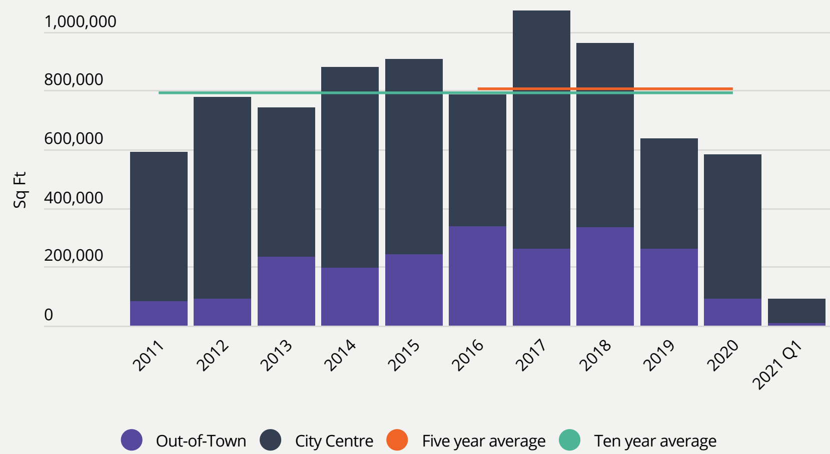
KEY SECTOR ACTIVITY: 12 MONTHS TO Q1 2021

Insurance **74%**

Engineering consultancy **5%**

Retail and leisure **5%**

TAKE-UP



Q1 TAKE-UP

City Centre **80,131 sq ft**

Out-of-town **11,275 sq ft**

HEADLINE RENT

City Centre **£37 per sq ft**

Out-of-town **£24 per sq ft**

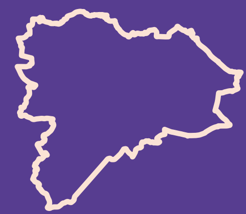
UNDER CONSTRUCTION

651,913 sq ft

53% prelet

PRIME YIELD

4.75%



Glasgow

The Glasgow office market is expected to improve significantly throughout the year and on the subdued Q1 take-up figures. These amounted to 63,388 sq ft in the city centre and 44,701 sq ft out-of-town, 61% and 46% down on their respective ten-year averages.

These figures were supported by two circa 30,000 sq ft key deals in both markets. LumiraDx has agreed a 30,190 sq ft expansion at Maxim Business Park and in the city centre, construction company Multiplex Europe Ltd has taken 34,052 sq ft at 2 Cadogan Square. This is a short-term deal at a nominal all-inclusive rent for use as a site office during the construction of JP Morgan's new building on Argyle Street.

While there has been subdued take-up during lockdown, occupier sentiment is building noticeably. There has been an acceleration in occupier requirements, including some large government enquiries which are expected to transact this year.

On a further positive note, the amount of grey space returning to the market has been limited. However, some pockets of high-quality space have returned to the market, some of which has already been earmarked by new occupiers.

We expect companies to continue to take less but better-quality space and there are a number of development schemes completing this year which have already received strong occupier interest. These include 94,500 sq ft Cadworks on Cadogan Street, 97,000 sq ft 2 Atlantic Square and the remaining floors at 177 Bothwell Street.

TOP FIVE DEALS Q1

Property	CC / OOT	Sq ft	Occupier
2 Cadogan Square	CC	34,052	Multiplex Europe Ltd
Maxim 9, Maxim Park	OOT	30,190	LumiraDx
206 St Vincent Street	CC	11,312	MDDUS
70 Hutcheson Street	CC	6,942	Cooper Marketing Ltd
28 Spiers Wharf	OOT	6,300	DSSR Limited

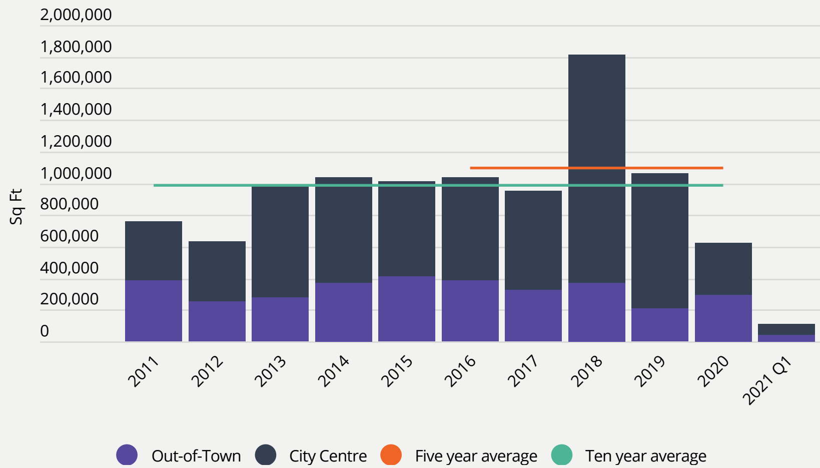
KEY SECTOR ACTIVITY: 12 MONTHS TO Q1 2021

Science
15%

Business services
14%

IT & software
11%

TAKE-UP



Q1 TAKE-UP

City Centre
63,388 sq ft

Out-of-town
44,701 sq ft

HEADLINE RENT

City Centre
£34.50 per sq ft

Out-of-town
£16.50 per sq ft

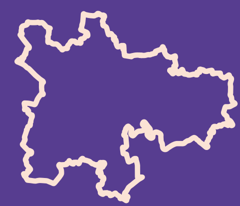
UNDER CONSTRUCTION

1.4 million sq ft

80%
prelet

PRIME YIELD

5%



Leeds

It has been an exceptional start to the year in the Leeds office market. Two large pre-let deals have been agreed during Q1 along with a number of other significant transactions, bringing take-up to 145,459 sq ft in the city centre and 213,722 sq ft out-of-town, 53% above the ten-year average overall. This is the highest quarterly total in Leeds in more than three years and the highest in the out-of-town market since we started recording the data in 2009.

In the city centre DLA Piper has agreed an 83,012 sq ft pre-let at City Square House on a 20-year lease; and in the out-of-town market Lowell Group has agreed a 15-year pre-let at 133,118 sq ft B3, Thorpe Park Business Park, where the company has committed to its pre-Covid requirement due to the security nature of the business. This demonstrates long term commitments to an office-based culture by these two parties for their respective locations.

There were several other significant deals in both markets, including three over 10,000 sq ft to flexible workspace providers, INC Spaces and 2 Work in the city centre and Instant Managed Offices out-of-town. Other key transactions included 11,700 sq ft to manufacturers Polypipe Ltd at 4 Victoria Place and marketing company Shark Ninja, also at Thorpe Park.

In terms of speculative development, 244,000 sq ft 11 and 12 Wellington Place and 37,800 sq ft Globe point at Temple are currently under construction in the city centre, with completion due at the end of 2022 and 2023 respectively. The relatively tight grade A supply, combined with recent demand and the current tendency for occupiers to seek higher quality space means headline rents have increased to £33 psf.

TOP FIVE DEALS Q1

Property	CC / OOT	Sq ft	Occupier
B3, Thorpe Park	OOT	133,118	Lowell Group
City Square House	CC	83,012	DLA Piper
Riverside Suite, 1 The Embankment	CC	18,879	INC Spaces
2180 Thorpe Park, Leeds	OOT	17,048	Shark Ninja
Bank House	CC	13,750	2 Work

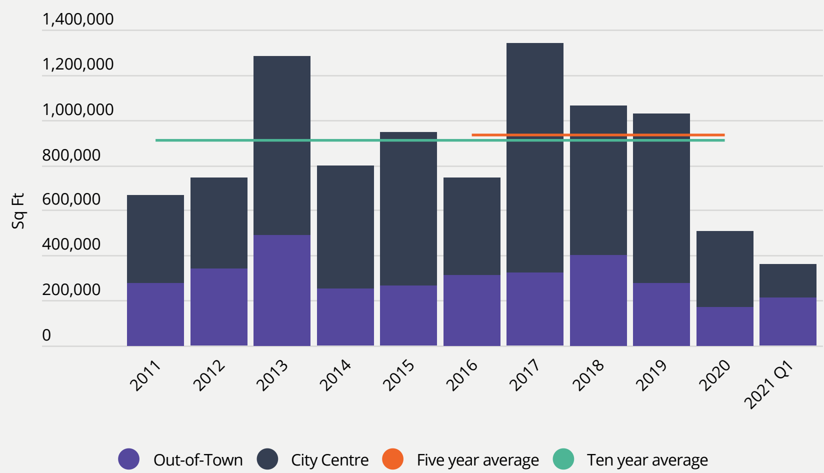
KEY SECTOR ACTIVITY: 12 MONTHS TO Q1 2021

Financial services - other **26%**

Legal services **22%**

Health & social care **13%**

TAKE-UP



Q1 TAKE-UP

City Centre
145,459 sq ft

Out-of-town
213,722 sq ft

HEADLINE RENT

City Centre
£33 per sq ft

Out-of-town
£24.75 per sq ft

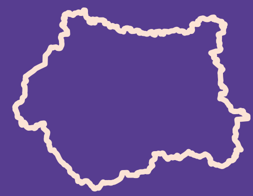
UNDER CONSTRUCTION

282,721 sq ft

0% prelet

PRIME YIELD

5.25%



Liverpool

Sentiment is improving in the Liverpool office market with enquiries and viewing activity increasing, following a subdued 12 months. However, this has not yet affected take-up figures for Q1, which amounted to 24,572 sq ft in the city centre, and 54,930 sq ft out-of-town, overall 41% below the ten-year quarterly average.

Key deals of the quarter included the Department for Work and Pensions taking 20,020 sq ft at 90 Duke Street and Instant Offices leasing 9,430 sq ft at Liverpool Innovation Park. There are also a number of active requirements in the market, the largest of which are a 30,000 sq ft requirement from the Royal Liverpool Hospital, 20-30,000 sq ft for computer gaming company Firesprite and 8,000 to 10,000 sq ft for Avalanche Studios. The majority of the live requirements are sub-10,000 sq ft, including a number of contract led enquiries, which are expected to transact later in the year.

Occupiers continue to undertake strategic reviews, and many are exercising breaks and regearing leases or downsizing to reduce occupational footprints, while procuring better quality space with more emphasis on health and wellbeing and amenities. However, the amount of 'grey space' returning to the market has so far been limited.

There has also been a significant increase in occupiers looking for fitted out space or where landlords and developers are able to procure CAT-B fit-out. In addition, there has been an increase in the demand for freeholds from developers and propcos, both in the city centre and the decentralised market. These are either being refurbished to accommodate this 'flight to quality' or converted to residential use.

The Spine at Paddington Village (160,000 sq ft), which is due for completion in Q2 has approximately half the space remaining available, and there are two grade A speculative schemes currently under construction on the Wirral. Peel are developing the Hythe at Wirral Waters (25,000 sq ft), which is expected to complete later this year and Building A2 in Birkenhead Town Centre (58,000 sq ft) is scheduled for completion in mid-2022.

TOP RECENT DEALS

Property	CC / OOT	Sq ft	Occupier
90 Duke Street	CC	20,020	Department for Work and Pensions
No 1 Tithebarn	CC	18,473	Disclosure & Barring Services
No 1 Tithebarn	CC	16,017	Carpenters
Liverpool Innovation Park	OOT	9,430	Instant Offices

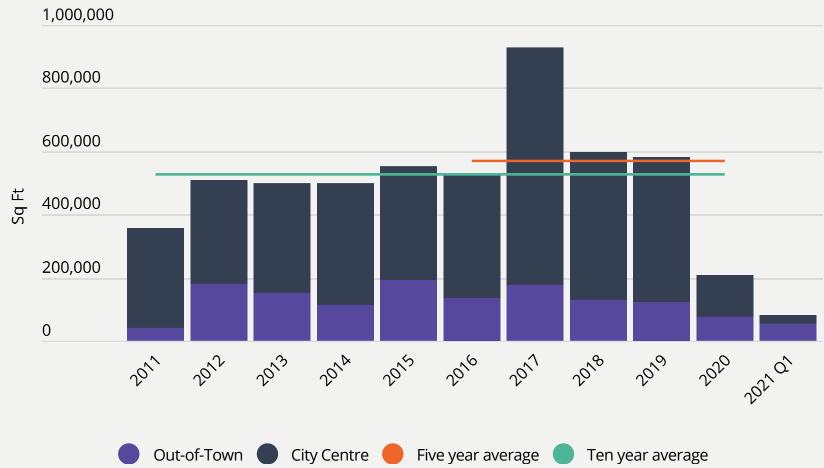
KEY SECTOR ACTIVITY 2020

Professional **56%**

TMT **17%**

Public sector **12%**

TAKE-UP



Q1 TAKE-UP

City Centre
24,572 sq ft

Out-of-town
54,930 sq ft

HEADLINE RENT

City Centre
£22 per sq ft

Out-of-town
£14 per sq ft

UNDER CONSTRUCTION

160,000 sq ft

44%
prelet

PRIME YIELD

6%

Manchester

There has been a robust start to the year in the Manchester office market, with Q1 achieving take-up of 234,258 sq ft in the city centre and 159,674 sq ft out-of-town. While these figures are 20% and 28% below their respective ten-year averages, Manchester still achieved the strongest take-up across the Big Nine cities.

Activity was dominated by public sector lettings, to the NHS at St James's House in Salford, the Ministry of Justice at the Redfern building in the NOMA district and the Department for Work and Pensions in Stretford. The largest flexible workspace deal was also in Manchester, where Orega took 29,864 sq ft at Arkwright House in the city centre. There were a further 20 deals more than 5,000 sq ft across all markets, the majority of which were to professional and financial services firms including lawyers Brabners and accountants Grant Thornton.

There remains a healthy level of demand within the market at all sizes and it is anticipated that this will increase as further government restrictions are lifted. Following strong public sector activity this quarter, there are a number of other Government requirements, including one for the Department for International Trade.

The market has not yet seen a large amount of 'grey space' come back and whilst this could still happen, we do not see it altering the supply and demand dynamic significantly. There continues to be upward pressure on rental values within the city with a relatively high average rent over the quarter and new record levels being set. We anticipate that there will continue to be a flight to quality as businesses use their workspace to encourage staff back to work and attract new talent.

On the supply side we have seen an increase in availability, which we expect to continue in the short term. However, the demand for grade A space bodes well for the speculative developments completing this year at Circle Square, the Lincoln Building and 11 York Street, with further space coming forward next year at Hermes' 198,000 sq ft 4 Angel Square.

Plans for further schemes are being actively progressed as some property companies reconsider residential use and there are several refurbishment projects underway. Plans are also in place to change the use of former department stores to mixed use schemes. AM Alpha has recently secured planning to repurpose the former Debenhams store, to include 300,000 sq ft of offices and Investec have lodged a planning application to redevelop the Kendal Milne building and adjoining Fraser Building, to incorporate 564,000 sq ft of office space.

TOP FIVE DEALS Q1

Property	CC / OOT	Sq ft	Occupier
St James's House	OOT	30,240	NHS
Arkwright House	CC	29,864	Orega
Redfern	CC	24,548	Ministry of Justice
100 Barbirolli	CC	20,239	Brabners
Arndale House, Stretford	OOT	14,908	Department for Work & Pensions

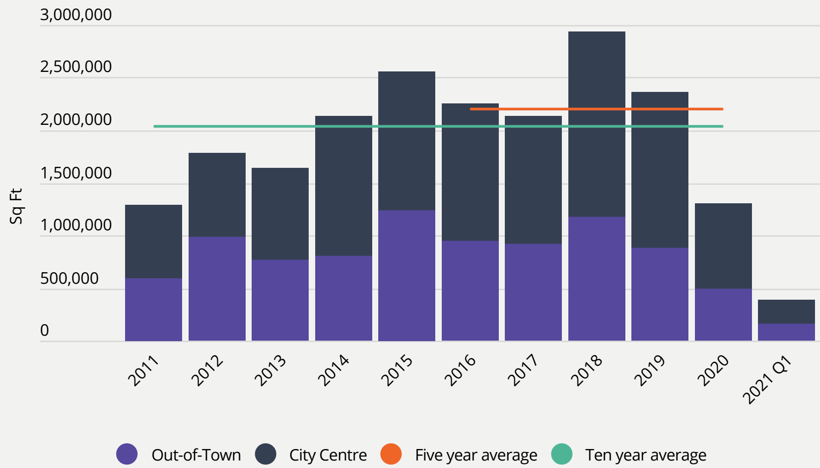
KEY SECTOR ACTIVITY: 12 MONTHS TO Q1 2021

Insurance 15%

Legal services 9%

Health & social care 8%

TAKE-UP



Q1 TAKE-UP

City Centre
234,258 sq ft

Out-of-town
159,674 sq ft

HEADLINE RENT

City Centre
£38.50 per sq ft

Out-of-town
£24 per sq ft

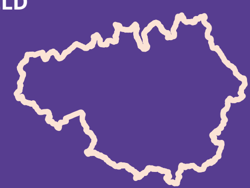
UNDER CONSTRUCTION

1.6 million sq ft

54% prelet

PRIME YIELD

5%



Newcastle

The robust level of take-up seen in Newcastle during 2020 has continued into Q1, particularly given the current circumstances. Take-up amounted to 54,980 sq ft in the city centre and 84,400 sq ft out-of-town; overall 19% below the ten-year average.

Activity in the city centre was boosted by the largest deal of the quarter, a 44,700 sq ft pre-let to lawyers Womble Bond Dickinson, who have taken the top five floors at The Spark, due for completion in 2022. This is the third largest deal in the city centre over the past ten years.

Other key deals were in the out-of-town market, including 25,581 sq ft to a private individual at Parsons House, Washington. There were four further deals greater than 5,000 sq ft, including 7,900 sq ft to flexible workspace provider Instant Offices Group at Kings Court, North Shields for the Department for Work and Pensions.

There are several new requirements in the market, which is promising for the second half of this year and a healthy number of lease events for 2022. Occupiers will be considering their options now that 40% of The Spark has been let and 120,000 sq ft Bank House on Pilgrim Street is not due to complete until 2023. Ask Real Estate's 70,000 sq ft One Strawberry Lane is also under construction but is fully let to the Home Group on a 30-year lease.

In addition, South Tyneside Council has been awarded £3 million from the government's Getting Building Fund to support a riverside office building: The Glassworks in Harton Quay, South Shields. The proposed building will provide 50,000 sq ft of Grade A office accommodation.

TOP FIVE DEALS Q1

Property	CC / OOT	Sq ft	Occupier
The Spark	CC	44,700	Womble Bond Dickinson
Parsons House, Washington	OOT	25,581	Private Individual
Barrat House, Scotswood Road, Newcastle	OOT	10,223	Green Energy
8 Cobalt Park	OOT	9,351	Wealthtek LLP
Kings Court	OOT	7,944	Instant Offices Group

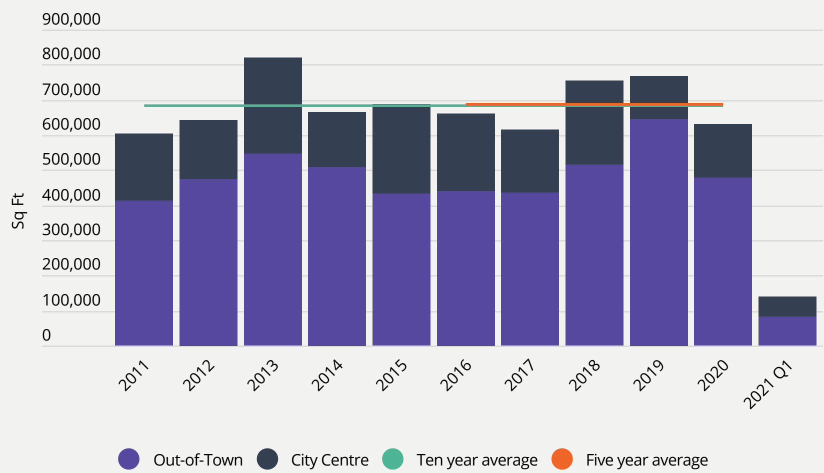
KEY SECTOR ACTIVITY: 12 MONTHS TO Q1 2021

Health & social care
23%

Utilities
21%

Business services
13%

TAKE-UP



Q1 TAKE-UP

City Centre
54,980 sq ft

Out-of-town
84,432 sq ft

HEADLINE RENT

City Centre
£26 per sq ft

Out-of-town
£16.95 per sq ft

UNDER CONSTRUCTION

297,000 sq ft

39%
prelet

PRIME YIELD

6.25%

Lease Advisory

Current challenges in the rent review market

The post pandemic office market is seeing increased challenges around rent reviews. Investors are acutely aware that the majority of regional markets were performing well pre-COVID and are yet to see a deluge of rental evidence to cut across this. As such, investors remain expectant to see returns on their portfolios even for post pandemic review dates.

The occupier of course sits in the polar opposite camp, being focussed on occupational cost mitigation, when office space is not being used and any certainty around 'return to office' is unknown. Occupiers are therefore looking to contest any increase in rents which will inevitably lead to a series of contentious reviews and expensive third-party arbitrations.

IS THERE A SOLUTION?

During the last office market decline which followed the 2008 GFC, the rent review was used as an opportunity to re-gear leases, with the investor willing to ease the occupier's pain with a mix of rent free, downsizing and swapping space around in return for longer term lease commitments.

Whilst there may still be similar appetite amongst investors, and these types of deals will occur, occupiers behave very differently today compared to a decade ago.

We now find that whatever the occupier sector, from government to corporate/ media/ tech or professional services, lease agility is key. This is not only because it provides an ability to upsize or downsize, but equally important is the opportunity to refresh and modernise space, with a view to attracting and retaining a high-quality workforce. Occupiers have one eye very much on the opportunity to upgrade to contemporary workspace to cater for the millennial and post millennial "tech" minded generation. Occupiers therefore want to retain flexibility to move, meaning the rent review is no longer an easy regear solution.

THE CO-WORKER COMPANY DYNAMIC

Whilst most co-working providers have had to catch their breath, in the bigger provincial cities, operators are clearly impacting the market. They are not only providing a real flexible solution for the discerning occupier, but also helping shape what contemporary space looks like. Co-working companies are also now keen to provide flexible solutions for the larger corporate, as seen with BT taking 80,000 sq ft of co-working space at 125 Deansgate from Spaces in central Manchester.

In the rent review world, there is a further dynamic of the co-worker that is now having a real impact on the rent review market, namely, to maintain rental growth. Some of the deals in this sector are at rents higher than a traditional occupier might be willing to pay, partly because landlords can seek a higher rent from what might be deemed the uncertain covenant strength of a co-working covenant, plus often the co-worker will outbid the market to secure "trophy" space. All sorts of technical rent review arguments then ensue relating to user clauses and alienation, but the reality is the market rent is being driven up, making the rent review in these difficult times for occupiers more challenging than in previous downturns.

IS THE MARKET BLACK AND WHITE?

The current rent review market will also be influenced by the trading of grey space, which can create a distortion to the rent review market. In normal circumstances the correct level of market rent is a rent paid by a "willing tenant" to a "willing landlord", but if the landlord is actually a tenant on a cost mitigation exercise, is this a "willing landlord" in the correct sense of the term? Again, this can cause some considerable debate and contention in the rent review world.

WE ARE UP FOR THE FIGHT

Whether an investor or occupier, the above issues and many more need to be carefully thought through and handled by the rent review professional, where it is imperative there is up to the moment technical and market intelligence. Avison Young have dedicated high level expertise covering the office market in each of the Big Nine cities.

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Should you wish to discuss any details within this update please get in touch

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