Leeds Office Survey

Summer 2011

With no speculative developments, the city should start to see a significant change of fortunes for landlords.

Bruntwood have redesigned their City House scheme above Leeds railway Station.

- Political and economic uncertainty has weighed heavily on the Leeds office market over the last two years. Following a difficult 2009, there were no signs of a reprise in 2010.
- While there is no immediate prospect of a return to normal levels of take-up, we expect that the key driver of the market in 2011 and beyond will be the fact that there are now no planned development completions in the immediate future.
- Going forward, it is difficult to ignore the impact of the Public sector spending review on any predictions of office take-up as we go through 2011 and beyond.
- However, market sentiment remains relatively positive, with nearly 500,000 sq ft of requirements (51%) being in the Professional sector.
- Supply has now started to decrease, with current Grade A supply now standing at 40% of total supply, compared to 51% in 2009. The vacancy rate has now reached single figures at 9.5% (down from 14.1% at the end of 2009). This will be good news for those landlords who have space that is ready for occupation.
- Top rents grew by 4% in the first quarter of 2011, with a deal of 2,580 sq ft signing at 10 South Parade at £28 per sq ft.
- There was little transactional activity in the first half of 2011 but there are a number of significant office investments which are currently being marketed.
- With restricted supply, we believe prime yields are around 6.00% - 6.25%, an improvement of circa 100 basis points since mid-2009, with potential to harden further.

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Leeds Office Market

- Political and economic uncertainty has weighed heavily on the Leeds office market over the last two years. Following a difficult 2009, there were no signs of a reprise in 2010. Take-up for 2010 totalled 272,998 sq ft, the worst take-up figures since our records began and 39% down on the long term average. Only 38% was Grade A. Occupier confidence had been hard hit by the recession and from a landlord's point of view 2010 was a tough year. There has been heavy competition for the comparatively few requirements which placed downward pressure on headline and net-effective rents.

- The drop in take-up in 2010 was largely due to the lack of larger requirements in the market. There were only three deals over 10,000 sq ft in 2010. 2009 and 2010 saw an above average proportion of deals in the sub-5,000 sq ft bracket, reflecting a bias towards the smaller end of the market. These factors would undoubtedly have had an impact on end of year figures.

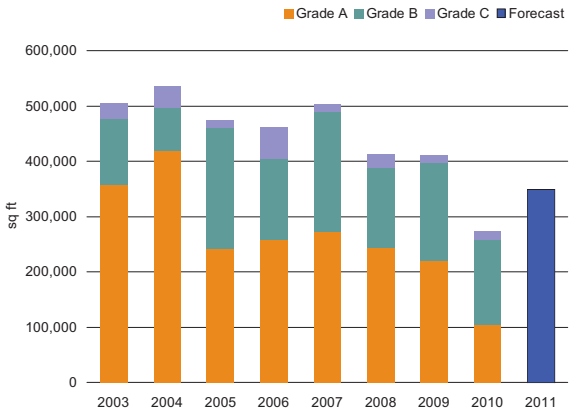
- As we go through 2011, the first quarter has seen two deals over 10,000 sq ft with ASDA taking 38,000 sq ft at the Mint close to their existing headquarters at Holbeck, and Redmayne Bentley taking 14,000 sq ft at Bond Court.

- There is still a certain degree of caution in the occupier markets for the year ahead. However, market sentiment remains relatively positive, with a number of new requirements coming to the market as well as some older requirements, including KPMG and Walker Morris, being reactivated. Nearly 500,000 sq ft of requirements (51%) are in the Professional sector. With this rise in requirements experienced during 2011, we expect the end year figures will see a marked increase on 2010. With half year figures reaching c.150,000 sq ft, we predict end year figures will reach c.350,000 sq ft.

- It is difficult to ignore the impact of the Public sector spending review on any predictions of office take-up as we go through 2011 and beyond. The region's exposure to the Public sector is relatively large and consequently this is likely to impact on demand. However, there are still currently around 200,000 sq ft of Public sector requirements circulating the market. Even if these requirements do tail off due to the predicted cuts, the strength of the private sector should help to mitigate any adverse impacts.

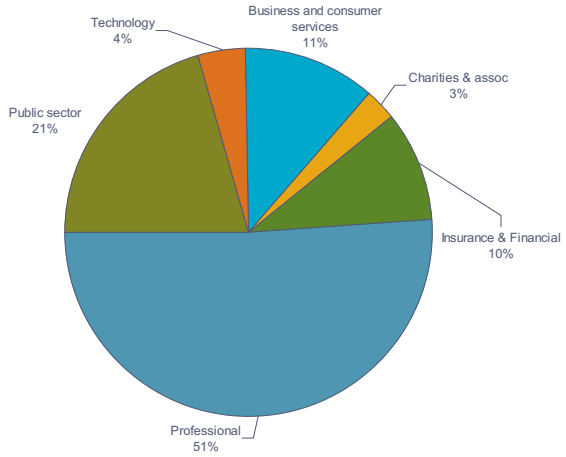
- Positive figures from the latest quarterly employee data from Oxford Economics suggests job growth across 8 of the UK's 12 regions - with Yorkshire and Humber experiencing the most notable growth (27,000 jobs). This is primarily led by the Personal Services and the Retailing and Distribution sector. However, Yorkshire forward suggests that the Digital and New Media sector, which brings over £5bn to the region every year and employs over 123,000 people, will be an important growth sector going forward.

Take-up was subdued in 2010.



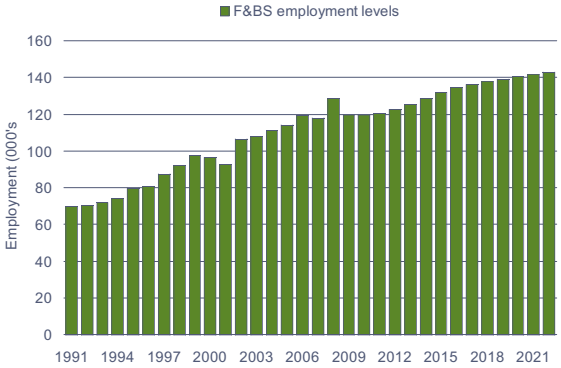
Source: Savills *2011 end year forecast*

Live requirements by business sector.



Source: Savills

Employment levels to return to pre-recession levels by 2013.



Source: Oxford Economics

Leeds Office Market

- Supply has now started to decrease, with current Grade A supply now standing at 40% of total supply, compared to 51% in 2009. The vacancy rate has now reached single figures at 9.5% (down from 14.1% at the end of 2009). This will be good news for those landlords who have space that is ready for occupation, but not such good news for tenants looking for space in the city or indeed for the city's competitiveness for inward investors.

- Is the outlook bright for the second half of 2011 and beyond? While there is no immediate prospect of a return to normal levels of take-up, we expect that the key driver of the market in 2011 and beyond will be the fact that there are now no planned development completions in the immediate future. We expect that City House will be the next quality refurbishment to start in Leeds in early 2012. Lack of supply will drive the pre-let market, with occupiers unable to find existing stock to fit their requirement.

- Top rents grew by 4% in the first quarter of 2011, with a deal of 2,580 sq ft signing at 10 South Parade at £28 per sq ft. With no speculative developments showing any signs of commencing on site, the city will quickly see a significant change of fortunes for landlords. However, it will become increasingly important for landlords to ensure their land is "oven ready" and funds in place to enable them to compete effectively in the pre-let market.

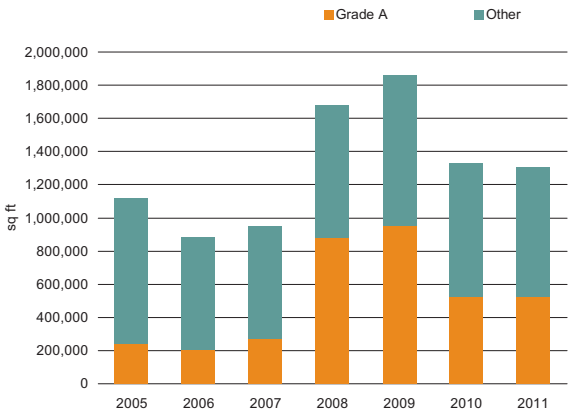
- The market for office investments is somewhat polarised, with strong demand for prime well let and well located offices with asset management opportunities from mainly institutional investors and more recently cash rich propco's and opportunity funds.

- This is being fuelled further by a scarcity of stock which may result in higher prices being paid for this type of product as demand outstrips supply and the criteria for asset selection become less strict. It is important to note, however, that there is still a significant risk premium between the prime end of the market and secondary/tertiary assets which may be compromised in terms of location, quality of covenant or poor specification.

- It is envisaged that increasing prices for prime assets will encourage more property to come to the market in the latter part of 2011, including property that previously failed to sell. Conversely we anticipate secondary pricing will come under increasing downward pressure as more secondary assets are released to the market by the likes of NAMA and large UK banks.

- There was little transactional activity in the first half of 2011, but there are a number of significant office investments which are currently being marketed such as Lateral on Sweet Street and The Bourse on Boar Lane. With restricted supply, we believe prime yields are around 6.00% - 6.25%, with potential to harden further.

Supply has continued to fall.



Source: Savills *2011 to June*

Rents increased by 4% in the first quarter.

Source: Savills **2011-2015 forecast*

Yield hardening slowed in 2010.

Source: Savills **2011 to June*

Survey area & key contacts

Please note: we only monitor space over 1,000 sq ft.

Grade A - New developments (including speculative schemes reaching practical completion within the next 6 months.
Grade B - Space previously occupied, completed or refurbished in the last 10 years.
Grade C - Space previously occupied, completed or refurbished later than 10 years.

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