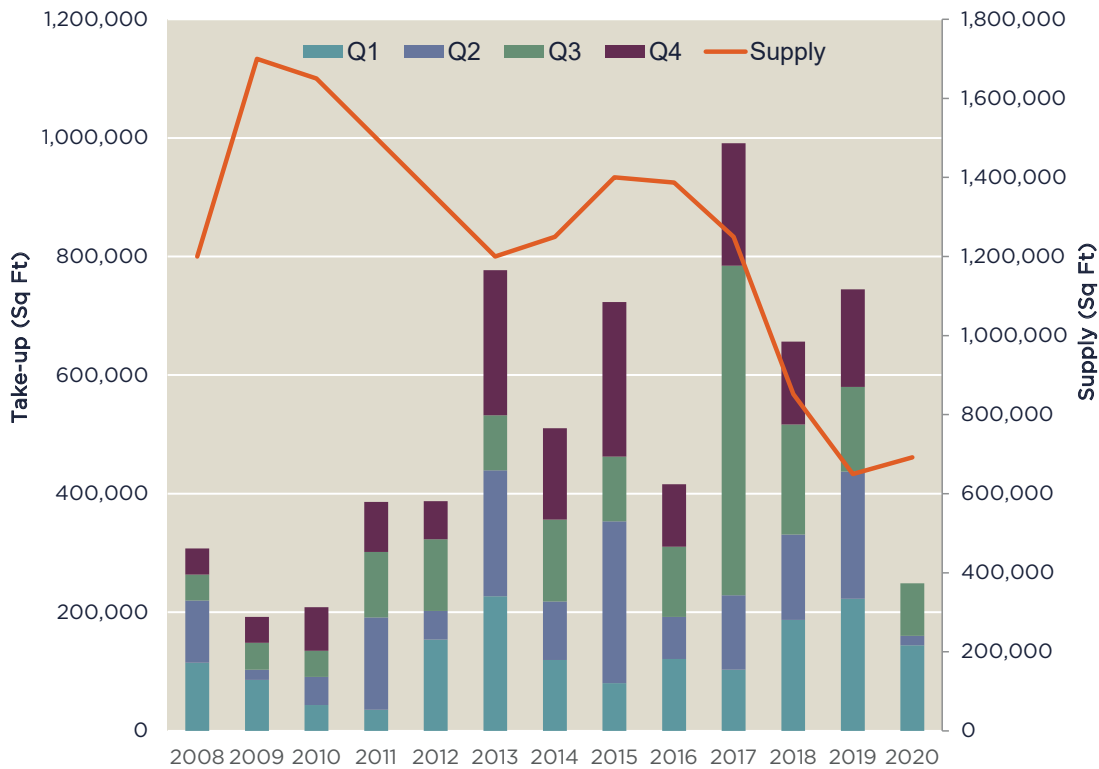


Leeds Offices



New build stock is at its lowest level on record. Refurbished space will provide an attractive option for tenants.



Source Savills Research

Leeds supply levels continue to remain low

Take-up reached 248,653 sq ft during the first three quarters of 2020 in the city centre, which is unsurprisingly, 57% down on the same period in 2019. It was positive to note that activity returned to the market in Q3 2020 where 89,000 sq ft was transacted as we emerged from the first lockdown. There were two deals over 20,000 sq ft in Q3 2020, the largest letting being Knights leasing 22,166 sq ft at Rushbond's Majestic scheme which achieved practical completion in November. Grade A space is the occupier preference and has accounted for 59% of take-up in the first three quarters of 2020.

Leeds supply currently stands at 629,000 sq ft and this has been gradually falling in recent years. Total supply has fallen by 51% since 2015 which is the second highest fall across the regional office market only behind Glasgow (61% fall). The supply constraints are evident in the Leeds office market, when using the five-year average take-up there is currently just over nine months worth of Grade A supply. The vacancy rate in Leeds currently stands at 5.6% which is significantly below the 10-year average of 10.2%.

The development pipeline is limited there are currently no new schemes under construction which will result in the supply constraints persisting in the short term. The two developments which are most likely to be speculatively

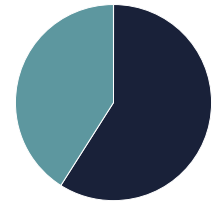
developed are MEPC's 11-12 Wellington Place (255,000 sq ft) and CEG's Globe Point (38,600 sq ft). The anticipated practical completion of both schemes is Q4 2022 and Q1 2022, respectively. There are two comprehensively refurbished schemes which are set to complete in 2021 being Tailors Corner which comprises 25,000 sq ft and 12 King Street totalling 53,000 sq ft.

Prime rents in Leeds currently stand at £32 per sq ft which represents a 6.7% growth from the end of 2019. There is further potential for premium rents to be achieved at the two aforementioned comprehensively refurbished schemes. Prime rents may increase to £33 per sq ft by the end of 2021 and a rent of £34 per sq ft may be achieved in 2022.

Office investment totalled £93 million reflecting an 84% decrease from Q1-Q3 2019. The largest deal recorded in Leeds was UKRO purchasing 3-4 The Embankment for £20.5 million reflecting a yield of 6.8%. It is worth noting however that 2019 was a bumper year for office investments in Leeds with investment volumes far in excess of the long term annual average of circa £190m per annum. We anticipate that final volumes for 2020 will be more in line with the long term average. The prime office yield in Leeds currently stands at 5.00%.

Take-up, supply and rental performance and investment

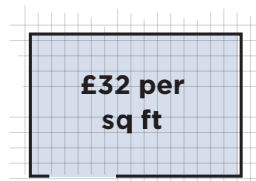
Key data points



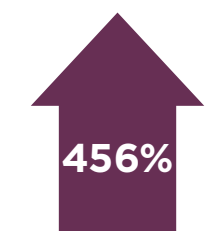
Grade A space accounted for 59% of Q1-Q3 take-up



Supply is currently 38% below the five-year annual average level



Top rents increased by 6.7% this year and are currently £32 per sq ft



Q3 take-up showed a significant uplift on Q2, increasing by over 450%

There is currently just over nine months of Grade A supply in the Leeds market when using the five-year average take-up illustrating the supply constraints present in the market.

Which sectors will recover the quickest post-Covid-19?

The region's economy is expected to accelerate by 8.3% over the next five years (5.7% over the last five), making Leeds one of the UK's fastest growing cities and a leading business location within Europe.

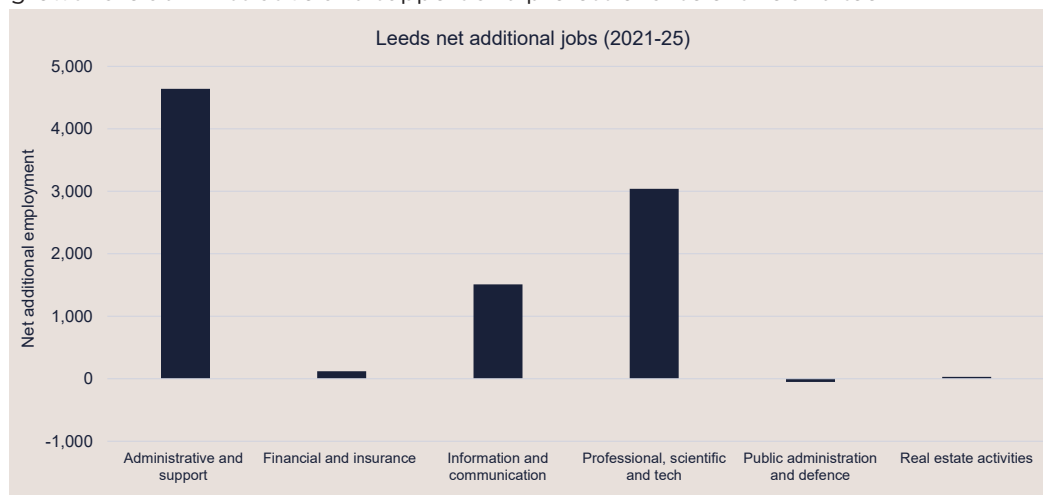
Private sector office-based employment within Leeds city region has grown by 15% over the last five years and is forecast to grow by a further 5.0% over the next five. The growth in the technology sector has been notable in Leeds. The 2020 rolling five-year average take-up from the sector (2015-2019) stands at 167,043 sq ft which represented a 73% growth in from the 2015 rolling five-year average take-up (2010-2014) of 96,646 sq ft underlining the increase in activity from the sector.

The highest level of take-up from the TMT sector was recorded in 2019 with 339,000 sq ft transacted. Furthermore, there were five lettings in 2019 from

the sector above 20,000 sq ft which was the highest volume from any business sector in the last 10 years. The demand from the sector is expected to continue with the sector forecast to create the highest level of net additional jobs up to 2025 from the traditional office-based business sectors which is highlighted in the chart below.

The public sector has continued to be active in 2020 accounting for 28% of take-up in the first three quarters of the year which is the highest proportion in the market. Leeds is well placed to benefit from any potential public sector relocations from central London. HMRC, NHS Digital and Channel 4 have all created new hubs in Leeds and the strong cluster of technology, health and creative professionals who work in Leeds may help in attracting footloose public sector organisations.

The business sectors which are expected to experience the strongest employment growth are administrative and support and professional scientific and tech



Key statistics

The tables below detail key statistics relating to the Leeds' office market

	Data (sq ft)	Year-on-year change
Q3 2020 supply	692,000	1%
Grade A supply	365,000	106%
Top rent (£ per sq ft)	£32	7%
Q1-Q3 2020 take-up	248,653	-57%
Q1-Q3 2020 Grade A take-up	147,482	-61%
Development pipeline (New space under construction)	0	-100%

Source: Savills Research

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