RESEARCH

2011

# SHEFFIELD

Market activity report

**Knight Frank**

## HIGHLIGHTS

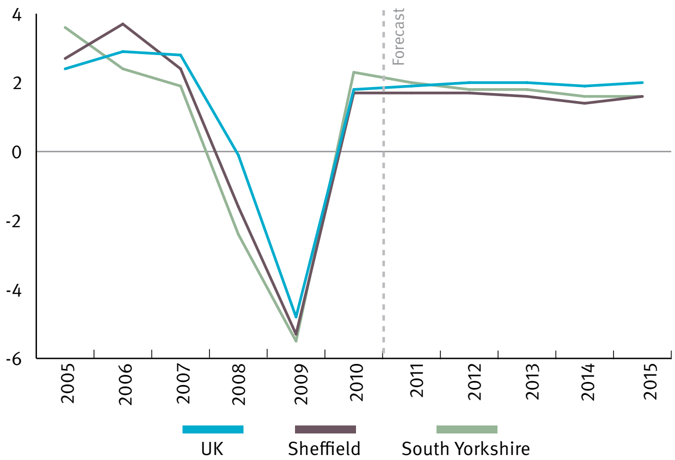
- Office market activity in Sheffield city centre has rebounded, with a high frequency of small to medium sized deals taking place and further improvement anticipated in 2011 and 2012. A headline rent of £20.00 per sq ft was achieved in 2010, a new record high for the city.
- 2010 saw a clear revival in demand for large-scale logistics space in South Yorkshire, culminating in over 1.7m sq ft of take-up in the second half of the year alone.
- Investor demand remains cautious among institutional buyers. However, where pricing is sensible, appetite exists for good quality secondary assets with active management potential.
- The residential land market saw a number of notable deals in 2010. However, developer interest is highly selective, confined to the very best sites at prime locations geared to lower density housing.

## Economic overview

**Sheffield is the main commercial centre in South Yorkshire, a city revitalised by regeneration initiatives in recent years. Despite a marked reorientation of its economy towards the service sector, the city retains a strong industrial base, dominated by the steel and engineering industries. The recent recession has impacted Sheffield, with the city's relative exposure to the public sector likely to dampen the economic recovery in the medium-term.**

According to Experian's latest forecast, South Yorkshire's economic recovery is set to marginally lag the UK over the medium-term, with growth of 1.8% p.a. over the next five years, compared with 2.0% p.a. for the UK as a whole. However, the region's manufacturing sector is forecast to outperform, with growth of 2.4% p.a. compared with 2.0% for the UK. Nevertheless, the region's core strengths; quality of labour supply and competitive rental levels, underpinned by Sheffield's two central universities, bodes well for longer term growth prospects.

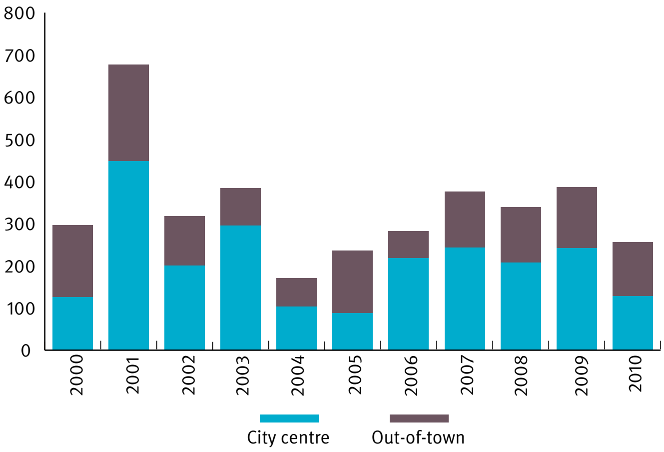
Figure 1
**Economic growth**
%




Source: Experian

KENNEDYS' DEAL AT VENTANA HOUSE SET A RECORD HEADLINE RENT FOR THE SHEFFIELD MARKET OF £20.00 PER SQ FT.

Figure 2
**Office take-up**
**000's sq ft**




Source: Knight Frank Research

## Offices

**With just under 10m sq ft of office stock, Sheffield is the principal office market in South Yorkshire. During the last decade, Sheffield has benefitted from concerted regeneration and development, transforming both the public realm and the quality of offer in and around the city centre.**

Outside the inner ring road lies Sheffield's out-of-town office market, which is focused around two areas. One is located to the south west of the city centre, close to the residential suburbs and Peak District National Park, and the other is around the Meadowhall / M1 corridor, to the north of the city, with demand predominantly from regional-based service sector companies.

### Sheffield city centre

Take-up in Sheffield city centre was a modest 127,977 sq ft in 2010. Although this is 38% below the ten year annual average, it largely reflected an absence of any major transactions during the year. The market was relatively active, however, with steady take-up of Grade A space seen at prime locations in the city core. Peripheral buildings located along the inner ring road have fared less well though.

2010's largest transaction comprised Kennedys Solicitor's 16,700 sq ft acquisition at Ventana House, in the heart of the city centre. The company is a notable newcomer to the Sheffield market, with 70 staff employed at their new premises. Significantly, the deal set a record headline rent for the Sheffield market at £20.00 per sq ft, underlining the robust demand evident for the very best city centre accommodation. Sheffield was also one of only three of the UK's 11 key regional markets to see prime headline rents rise in 2010.

Sheer Challenge's Crown House was the sole city centre completion in 2010.

Healthy demand has also been seen for good quality refurbished space in prime locations. At Fountain Precinct, for example, a flurry of small transactions totalling 22,500 sq ft occurred last year following refurbishment of the reception area. Affordable rental levels for this type of accommodation at circa £10.00 per sq ft are proving attractive to local occupiers, with Fountain Precinct already 80% occupied.

Reflecting a lack of development activity, Grade A supply in the city centre reduced by 20% in 2010 to stand at 285,000 sq ft, much of which is located on the city centre periphery. Crown House provided the sole completion in the city centre in 2010. The 50,150 sq ft scheme, developed by Sheer Challenge, is located in West Bar and is thus well positioned to capture demand from professional and legal occupiers in the area.

Given the prevailing economic conditions, no additional schemes are currently being considered within the city centre. Even if difficulties with obtaining development finance are taken out of the equation, this position is unlikely to change in the short-term until more of the existing Grade A supply is absorbed.

Table 1

**Key city centre transactions**

| Address | Occupier | Size | Rent (per sq ft) | Date |
|---|---|---|---|---|
| Velocity House | Capita Symonds | 15,000 | £15.00 | Jan 10 |
| 1st Floor, Fountain Precinct | Sheffield City Council | 8,750 | £10.00 | Jan 10 |
| 3rd and 4th Floor, Ventana House | Kennedys | 16,700 | £20.00 | Jul 10 |

## Knight Frank view

- We expect take-up to increase from their recent levels. Current active demand within the city centre is reasonably robust, at circa 140,000 sq ft, while up to 80,000 sq ft is likely to transact in the first half of 2011.
- While terms remain generous, rent free incentives are expected to harden on prime buildings as the available supply of Grade A space steadily diminishes.
- However, we expect continued downward pressure in the Grade B market, due to a relative lack of take-up and increasing supply generated by market churn.

HEALTHY DEMAND HAS ALSO BEEN SEEN FOR GOOD QUALITY REFURBISHED SPACE IN PRIME LOCATIONS.

## Sheffield out-of-town

Out-of-town office take-up in 2010 was closely in line with the city centre level, at 127,690 sq ft, and just 2% below the annual average. Of the notable deals in 2010, Kier's 8,000 sq ft acquisition at Unit 6, Smithy Wood for an agreed headline rent of £12.50 per sq ft reflects the current rental tone for prime out-of-town accommodation.

Transactions have ranged between 2,000 sq ft to 10,000 sq ft, with demand focused on Grade A offices with good parking availability. Given the current funding climate, occupiers have increasingly entered into leases, as opposed to freehold purchases. Where sales have occurred, capital values range from £100 to £125 per sq ft.

Total out-of-town supply stands at circa 450,000 sq ft, and is characterised by smaller pavilion units focused at Sheffield Business Park in Meadowhall, Smithy Wood and Thorncliffe Park. Several large buildings are also available, however, including Saville House (108,000 sq ft), the former Abbey National building at Carbrook (35,770 sq ft), Distington House, Don Valley (30,000 sq ft) and Atlas House, Attercliffe Common (35,000 sq ft).

With no speculative development underway, the supply of Grade A accommodation is steadily diminishing. However, two major developments are proposed in the out-of-town market, which will offer prime development opportunities to both existing regional occupiers and inward investors.

The established Sheffield Business Park, located off Sheffield Parkway (Junction 33 M1) has already attracted significant occupiers including HSBC, South Yorkshire Police and Siemens. Here, developers have recently launched the second phase of 60 acres to the market, which can deliver a further 600,000 sq ft of commercial development.

The second major scheme is British Land's Meadowhall Metropolitan, adjacent to the Meadowhall Shopping Centre complex at Junction 34 of the M1. This 62 acre site can deliver up to 1.2m sq ft of commercial development alongside residential.

## Knight Frank view

- With the supply of Grade A accommodation diminishing and the focus of demand on high quality space, we foresee a gradual strengthening of rents and sale prices 12 months from now.
- Enquiry levels are improving, particularly for units of 2,000 sq ft to 10,000 sq ft, which bodes well for take-up in 2011.
- Appetite for freehold purchase has improved somewhat compared with a year ago, albeit this is subject to funding conditions improving.

Table 2
**Key out-of-town transactions in 2010**

| Address | Occupier | Size | Rent (per sq ft) | Date |
|---|---|---|---|---|
| Unit 3, Smithy Wood | 5M Publishing | 6,000 | £122.50* | Apr 10 |
| Unit 11, Europa Green, Sheffield Business Park | Pope Anderson | 8,592 | £15.25 (stepped rent) | Aug 10 |
| Unit 6, Smithy Wood | Kier | 8,000 | £12.50 | Oct 10 |

* Freehold purchase


In April 2010, 5M Publishing acquired 6,000 sq ft at Unit 3, Smithy Wood.

## Barnsley, Rotherham and Doncaster

Sheffield may provide the focus of office stock and activity in South Yorkshire, but the wider region is also served by a number of successful out-of-town developments with ready access to the regional motorway network.

Barnsley's out-of-town offer is predominantly focused along junctions 36 and 37 of the M1 motorway. Its strategic location between South Yorkshire and West Yorkshire is a key strength, being just a 15 minute drive from Wakefield. Capitol Park and Gateway Plaza are two notable recent developments.

The Doncaster office market is orientated with the M18 near Junction 3, close to the town centre. Here, the Lakeside complex provides some 325,000 sq ft of modern office space, and is home to a diverse range of occupiers, including both small businesses and larger call centre operations.

Around Rotherham, the focus of modern space extends between Junctions 33 and 34 of the M1. The area generally provides pavilion style accommodation in low density small business parks, with unit sizes ranging between 1,000 and 10,000 sq ft. Key examples include Magna 34, Fullerton and Phoenix Riverside, just outside the town centre.

Although a number of notable developments have completed in each of the above town centres in recent years, a significant proportion of the existing town centre stock in Doncaster, Rotherham and Barnsley is either outmoded 1960s buildings or converted Victorian residential housing.

### Recent Activity

**Doncaster:** Onecall Insurance leased the Saturn building at Firstpoint totalling 20,000 sq ft, while Recycoal took 2,800 sq ft at Spinner Point, Lakeside Boulevard. In the town centre, Keeble Hawson took 9,000 sq ft in Lazarus House at a rent of £12.00 per sq ft.

**Barnsley:** In the town centre, the council recently purchased the 96,000 sq ft office element of Gateway Plaza for circa £20m. Out-of-town, Knight Frank recently leased 4,000 sq ft at One Capitol Court, Capitol Park to Finance Yorkshire at a headline rent of £15.00 per sq ft.

**Rotherham:** A significant market development in 2010 was the Council's pre-letting of Riverside House, a 180,000 sq ft headquarters building from Evans of Leeds. The scheme recently started on site and is due to complete in early 2012.

Table 3
**Prime headline office rents in South Yorkshire (Q4 2010)**

| | £ per sq ft |
|---|---|
| Sheffield city centre | 20.00 |
| Sheffied out-of-town | 12.50 |
| Rotherham | 12.50 |
| Barnsley | 15.00 |
| Doncaster | 14.00 |

## South Yorkshire industrial market

**A combination of strategic location, ample labour supply and transport connectivity have made the South Yorkshire region into one of the UK's key hubs for logistics operations. Despite significant restructuring of the economy, Sheffield also retains its position as a key centre for UK manufacturing, with a move towards spin-offs of the steel industry, such as the manufacture of specialist components and steel ware.**

In 2007, the M1 and M18 corridor benefitted from significant speculative development of large-scale distribution space, but this left the market heavily oversupplied during recession. However, following three years of subdued market conditions, 2010 saw a clear revival in demand for big sheds, culminating in over 1.7m sq ft of take-up in the second half of the year alone.

2010's largest deal was in Barnsley, where ASOS leased Prologis' Crossflow 530, a cross-docked facility totalling 530,000 sq ft. Doncaster was particularly active last year, with three transactions totalling circa 1m sq ft. Of these, the largest comprised Amazon's 412,000 sq ft lease of the Vulcan building at First Point.

Despite strong recent take-up, there remains over 2m sq ft of new, large-scale distribution space available. Indeed, with landlords having to compete aggressively to attract tenants, much of the revival in activity is owed to the generous lease terms and incentives available to prospective tenants. Typical headline rents are £4.25 to £4.50 per sq ft, with incentives of circa 18 months per five year term certain being granted.

Small to medium-sized stock also saw healthy levels of take-up throughout 2010, again focused along the M1 and M18 corridors. The majority of transactions are now leasehold, with typical terms comprising a ten year lease with a five year break for good quality existing stock.

Table 3
**Key industrial transactions in 2010**

| Address | Occupier | Size | Rent (per sq ft) | Date |
|---|---|---|---|---|
| Crossflow 530, Barnsley | ASOS | 530,000 | stepped rent | Jun 10 |
| Hurricane, Redhouse, Doncaster | Asda | 260,000 | £4.25 | Aug 10 |
| Vulcan, First Point Doncaster | Amazon | 412,000 | £4.00 | Aug 10 |
| Quattro, West Moor Park, Doncaster | Scotts Miracle Grow | 160,000 | £4.30 | Sep 10 |
| Aspect, West Moor Park, Doncaster | Next | 120,000 | £4.30 | Dec 10 |

Headline rents in this size category have stabilised at circa £4.50 to £5.00 per sq ft for prime accommodation (10,000 sq ft to 20,000 sq ft). However, rent free incentives have increased to circa nine months on a five year term certain, increasing from three to six months seen more typically at the height of the market.

### Knight Frank view

- The large scale distribution market will remain buoyant in 2011, as occupiers continue to take advantage of relatively attractive terms on offer as landlords compete to fill their voids.
- In contrast, the supply of good quality small to medium-sized stock is fast diminishing along the M1 corridor. With an absence of speculative development, we expect incentives to begin hardening in this sector of the market before year end.
- While design and build opportunities are being considered, the rent levels and capital values required to ensure scheme viability are significantly higher compared with existing stock. We are therefore likely to see a two tier market for the next 18 months, until the gap between costs for existing space and design and build opportunities is reigned in.

SMALL TO MEDIUM-SIZED STOCK ALSO SAW HEALTHY LEVELS OF TAKE-UP THROUGHOUT 2010.

Acting on behalf of ASOS, Knight Frank acquired Crossflow 530 in Barnsley, totalling 530,000 sq ft.

## Investment

**2010 witnessed a notable improvement in South Yorkshire investment activity, with the number of recorded transactions increasing by 45% on 2009. However, 2010 investment turnover in the South Yorkshire region was dwarfed by £751m of turnover seen in 2009 (Figure 3), a year which saw London and Stamford's £587m purchase of a 50% share in Meadowhall shopping centre, one of the largest investment deals to occur in the UK that year.**

Institutional investment in the UK regions continues to target prime assets, focused on the key fundamentals of sound location, building quality and security of income. In Sheffield city centre, notable examples include F&C REIT's £13.0m purchase of Concept House (NIY 6.75%) and Canada Life's recent £24.0m purchase of No.1 St Paul's Place (NIY 6.60%), occupied by DLA Piper.

However, the majority of transactional activity in the region remains driven by private investors and property companies. Demand for prime and good quality secondary property remains resilient, especially where capital values are within the bidding power of individual cash rich investors.

Long income generating assets are attracting significant interest, particularly where the property is leased to a strong tenant. For example, in June 2010, Knight Frank marketed a site in Sheffield let to Veolia Waste Management for a further 26 years. With over 10 offers received, bidding was aggressive and the property ultimately sold reflecting a net initial yield of 4.98%.

The rebound in pricing for prime assets has not extended to secondary and tertiary assets. The disparity in pricing has now widened, reflecting investor caution concerning the strength of economic recovery and occupier market performance.


In Q1 2010, F&C REIT purchased Concept House for £13.0m, reflecting an initial yield of 6.75%. Knight Frank acted for the vendor, Irish Life.

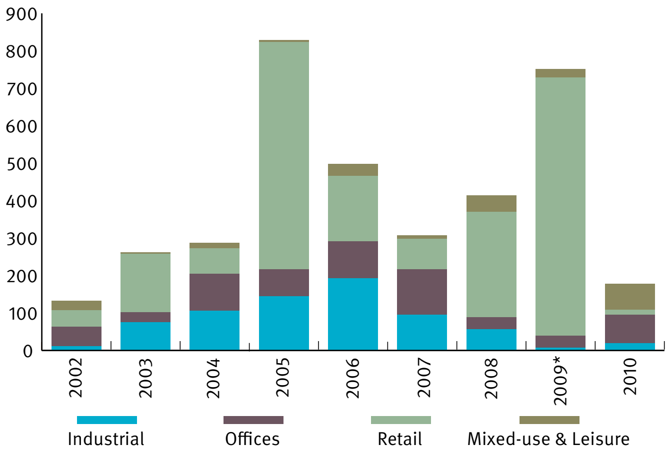
Appetite for good quality secondary is nevertheless reasonable among those investors who are willing to actively manage such assets. For example, in July 2010, a private investor purchased the Aldham Industrial Estate in Barnsley from DTZ Investment Management, reflecting a net initial yield of 10.0%. Although the property had a number of vacant units and associated non-recoverable costs, Knight Frank (acting jointly) subsequently secured new tenants on four units following refurbishment of the estate, helping to improve the income return.

DEMAND FOR PRIME AND GOOD QUALITY SECONDARY PROPERTY REMAINS RESILIENT.

### Knight Frank view

- There is life in the South Yorkshire investment market. However, there is no substitute for strong local market knowledge. Investors need to undertake thorough pre-bid due diligence on covenant, location, rental and capital values.
- As banks continue to actively take control of under-performing properties, secondary stock levels are likely to increase during the year and into 2012. This will present value-add opportunities for those investors with the appetite for active management.

Figure 3
**South Yorkshire investment volumes**
£m




Source: Knight Frank Research
*includes £587m Meadowhall purchase

## Residential development

**The residential land market in South Yorkshire finally came to life during 2010, following two years of relative inactivity. However, a clear two tier market for residential development land has come into existence, with the market for smaller sites remaining very subdued, but returning, albeit selectively, for larger sites geared to lower density housing.**

A number of notable land deals occurred during the course of 2010, driven by new requirements among the larger regional and national house-builders to address their shortfalls and secure future income streams. The market revival has been very selective, however, restricted to larger sites of over 40 units which provide low density, traditional detached and semi-detached housing. House-builders are predominantly interested in a limited supply of 'oven-ready' sites with little or no up-front infrastructure costs.

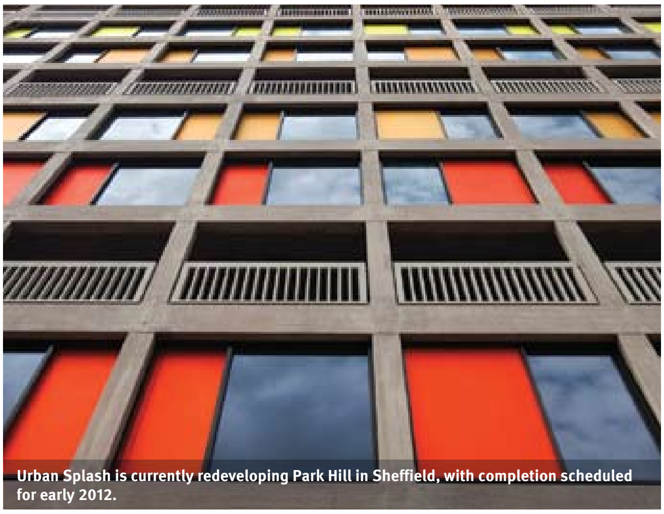
While residential land values across South Yorkshire are generally around 60% below peak, values on larger sites in traditional proven residential locations have rebounded. In general, land values for this type residential opportunity vary from £800,000 per acre for prime sites to between £300,00 to £450,000 for secondary sites. House builders are avoiding many tertiary and peripheral sites due to low sales rates and selling prices.

Due to the overheating of the residential market in 2007, numerous opportunities continue to exist for smaller sites capable of up to circa 30 units. However, the ongoing shortage of development finance continues to restrict their development at all but the very best postcodes. Consequently, smaller, locally facing house builders who traditionally operate in this part of the market remain inactive.

The city centre phenomenon seen in the UK's regional centres came to an abrupt end with the onset of the credit crunch, and thousands of units in the development pipeline remain on hold. Only those schemes that were past the point of no return have been completed, in some cases by the funding partner. On a more positive note, unusually in the current market, Urban Splash are progressing with their 900 unit redevelopment of Park Hill in Sheffield, with the first release planned for later this year.

### Knight Frank view

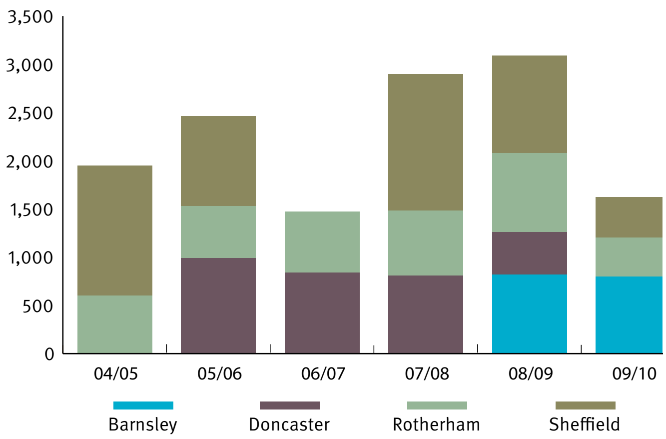
- Oven-ready sites with land consent in good locations will continue to generate strong interest from the major regional and national residential developers.
- The smaller infill sites and smaller residential schemes will continue to be unattractive to the market until banks begin to provide development finance.
- Positively, the recent downturn has led to many onerous Section 106 obligations being renegotiated, which will help to improve land values and saleability of sites.



Urban Splash is currently redeveloping Park Hill in Sheffield, with completion scheduled for early 2012.

A NUMBER OF NOTABLE LAND DEALS OCCURRED IN SOUTH YORKSHIRE DURING THE COURSE OF 2010.

Figure 4
**Residential completions**
Units




Source: Communities and Local Government

RESEARCH

**Americas**
USA
Bermuda
Brazil
Canada
Caribbean
Chile

**Australasia**
Australia
New Zealand

**Europe**
UK
Austria
Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
Monaco
Poland
Portugal
Romania
Russia
Spain
Switzerland
The Netherlands
Ukraine

**Africa**
Botswana
Kenya
Malawi
Nigeria
South Africa
Tanzania
Uganda
Zambia
Zimbabwe

**Asia**
Cambodia
China
Hong Kong
India
Indonesia
Macau
Malaysia
Singapore
South Korea
Thailand
Vietnam

**The Gulf**
Bahrain
Abu Dhabi, UAE

**Commercial Research**
**Oliver du Sautoy** Associate
+44 (0) 20 7861 1592
oliver.dusautoy@knightfrank.com

**Agency and Development**
**Stephen Hodgson** Senior Partner
+44 (0)114 241 3907
stephen.hodgson@knightfrank.com

**Tim Bottrill** Partner
+44 (0) 114 241 3904
tim.bottrill@knightfrank.com

**Peter Whiteley** Partner
+44 (0) 114 241 3903
peter.whiteley@knightfrank.com

**Rebecca Schofield** Associate
+44 (0) 114 272 9750
rebecca.schofield@knightfrank.com

**Investment**
**Henrie Westlake** Partner
+44 (0) 113 297 2413
henrie.westlake@knightfrank.com

**Andrew Harrison** Surveyor
+44 (0) 114 272 9750
andrew.j.harrison@knightfrank.com

**Residential Development**
**Tearle Phelan** Partner
+44 (0) 114 272 9750
tearle.phelan@knightfrank.com

**Professional**
**Jeremy Wilson** Partner
+44 (0) 114 272 9750
jeremy.wilson@knightfrank.com

**Nick Wales** Partner
+44 (0) 114 272 9750
nick.wales@knightfrank.com

**Building Surveying**
**Jonathan Ingleby** Partner
+44 (0) 114 241 3911
jonathan.ingleby@knightfrank.com

**Retail & Leisure**
**Alex Munro** Partner
+44 (0)113 297 2425
alex.munro@knightfrank.com

**Planning**
**Sophie Taylor** Associate
+44 (0)113 297 2408
sophie.taylor@knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

Knight Frank Reports are also available at **www.KnightFrank.com**



Newmark
Knight Frank
Global