

LEEDS OFFICES

MARKET UPDATE H2 2015

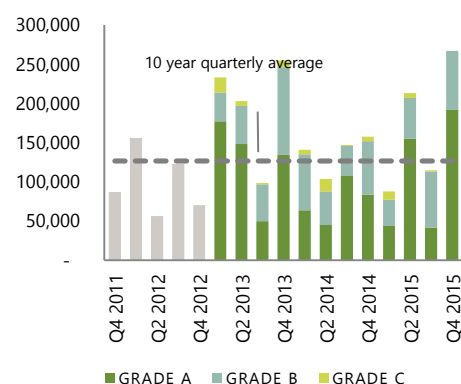
Occupier market

- The second half of 2015 saw particularly strong occupier demand in the city centre office market, with take-up in Q4 alone totalling 267,187 sq ft. This brings the half year total to 381,682 sq ft, and the full year total to 682,681 sq ft, which is the second highest on record since 2000. Annual take-up in 2015 was 24% above the previous year's 549,126 sq ft and 21% above the 5 year annual average of 563,992 sq ft.
- Two of the largest deals were Allied London's lettings to Sky at New Dock for 60,522 sq ft and 36,500 sq ft, totalling 97,022 sq ft. Other notable deals in this period included the 14,471 sq ft letting of F&C's 1 City Walk to patent attorneys Harrison Goddard Foote and a 13,000 sq ft letting to Leeds University at 21 Queen Street, previously home to Axa.
- Of the 89 leasing transactions in the second half of the year, 80% were below 5,000 sq ft, 10% were between 5,000-10,000 sq ft, and 10% were above 10,000 sq ft. However, the deal profile was less skewed in terms of size, with 34% of total take-up in the sub 5,000 sq ft bracket, 15% in the 5,000-10,000 sq ft bracket and 51% from deals over 10,000 sq ft.
- Occupier activity continued to be driven by the Technology, Media & Telecommunications (TMT) sector and professional services, which together accounted for almost two-thirds of total take-up in H2. We expect to see growth in the number of serviced office providers in the city as there are many new entrants currently looking to acquire space.
- Market sentiment is noticeably more positive, and this will help drive headline rents from their current level of £26.60 psf to £27.50 psf in 2016. During the second half of 2015, 40% of lettings were in the sub £15 psf bracket, 30% were between £15-20 psf and 30% were £20 psf plus.
- 2016 will see the completion of all five speculative office buildings in the city, including Rockspring's 6 Queen Street, which totals just over 71,000 sq ft. With MEPC's 6 Wellington Place virtually fully let prior to practical completion illustrates that there is strong demand for Grade A offices in the city.

Agent's view

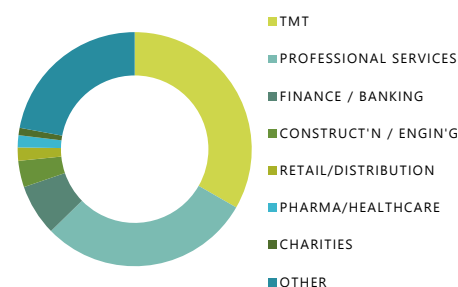
2015 was an excellent year for Leeds city centre offices and certainly finished on a high both in terms of take up but also perhaps more interestingly in volume terms, with 53 transactions recorded in the last quarter. Whilst there is the argument that new speculative Grade A offices are under-priced compared to Grade A refurbishments, which in the main have higher occupational costs due to service charges, we are seeing incentives harden across the board with 9-12 months more likely for a 5 year deal as opposed to 12-18 months this time last year. The January opening of the southern entrance to Leeds station is likely to have a significant positive impact on the connectivity between the two areas of the city and we would expect to see growth in rents for buildings in this location.

FIGURE 1
City centre take-up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2
H2 2015 take-up by sector



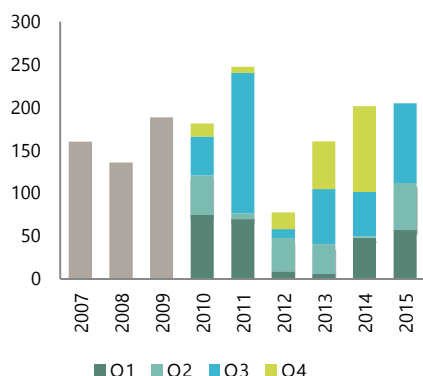
Source: Knight Frank LLP



1 City Walk - 14,471 sq ft letting to Harrison Goddard Foote

FIGURE 3

Leeds offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

Investment market

- Leeds office investment volumes in H2 2015 amounted to £92.72m, bringing the annual total to £204.91m, which is somewhat higher than 2014, and the highest on record since 2011.
- There were only three notable office investment transactions in the City Centre in H2, City Point being part of a portfolio acquired by Redefine International, Aviva/Igloo Fund's disposal of The Round Foundry to Hermes and Kames Capital's acquisition of 2 City Walk.
- H2 was one of the most exciting periods for the out of town office market for a number of years. Centurion Properties acquired Lawnswood Business Park for £17.25m and Legal & General acquired a 50% stake in Thorpe Park, a 200 acre mixed use development site.
- Knight Frank predicted in H1 that the yield compression seen over the preceding 12 months in the region would slow and despite the lack of Grade A transactions to evidence this, the general tone in the market place is proving that to be correct.
- Whilst Grade A prime City Centre offices are still highly sought after by institutional and overseas buyers, Landlords holding prime assets are confident about the occupational demand and therefore see their holdings as one to keep on the books and benefit from future rental growth.
- Prime office yields in Leeds remain at 5.25%, still offering a discount to other regional centres. Yields are expected to remain unchanged throughout 2016.

TABLE 1

Selected investment transactions/under-offer in H2 2015

| Date | Address | Purchaser / Vendor | Price | NIY |
|---------|------------------------|---|----------|-------|
| Sep 15 | City Point | Redefine International/Aegon UK Property Fund | £21.6 | NA |
| Aug 15 | The Round Foundry | Hermes/Igloo Regeneration Fund | £31.5m | 7.98% |
| Jul 15 | 2 City Walk | Kames Capital/Credit Suisse | £19.145m | 6.83% |
| July 15 | Lanswood Business Park | Centurian Properties Ltd/Canmoor Asset Management | £17.25m | 8.60% |

Source: Knight Frank LLP



Hermes acquired the Round Foundry for £31.5m NIY 7.98% from a joint venture between Igloo Regeneration and Aviva in August.



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