

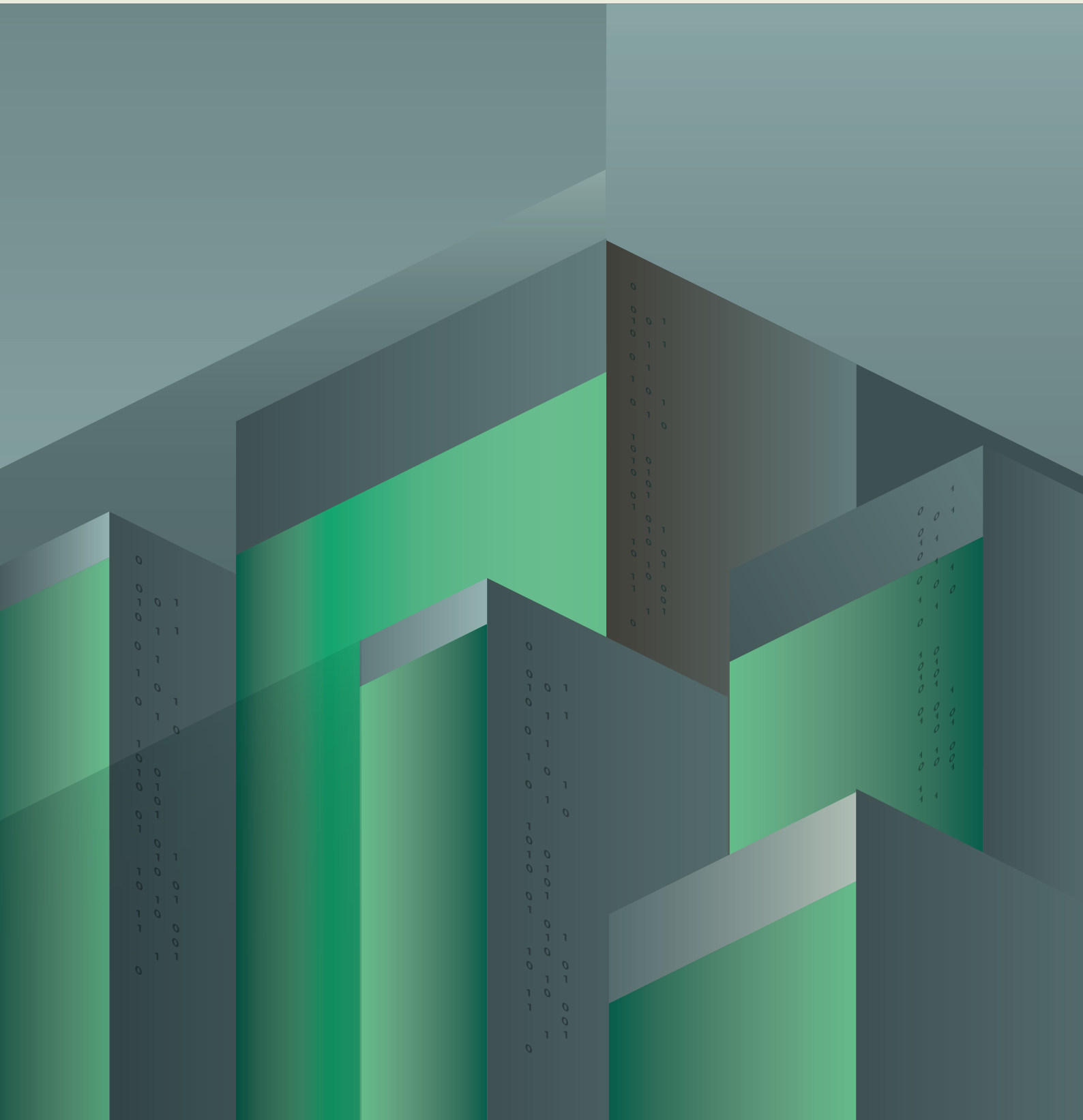
# UK Cities



Q3 2023

UK CITIES QUARTERLY OFFICE MARKET REPORT

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## FOREWORD



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Whilst the challenges to market interest remain significant, the third quarter of 2023 did provide some reasons for optimism.

Occupational markets are active. The collective take-up total for the UK Cities shows a 27% quarter-on-quarter increase, with deal numbers 3% above the 5-year quarterly average. Individually, 7 of 10 cities registered a quarterly rise, and when analysed over the year-to-date, 6 of 10 demonstrate a higher deal count compared to 2022.

### **So, what is supporting this level of activity?**

Foremost, occupiers are engaging with the market well ahead of lease events to secure the 'right space'. Expectations on

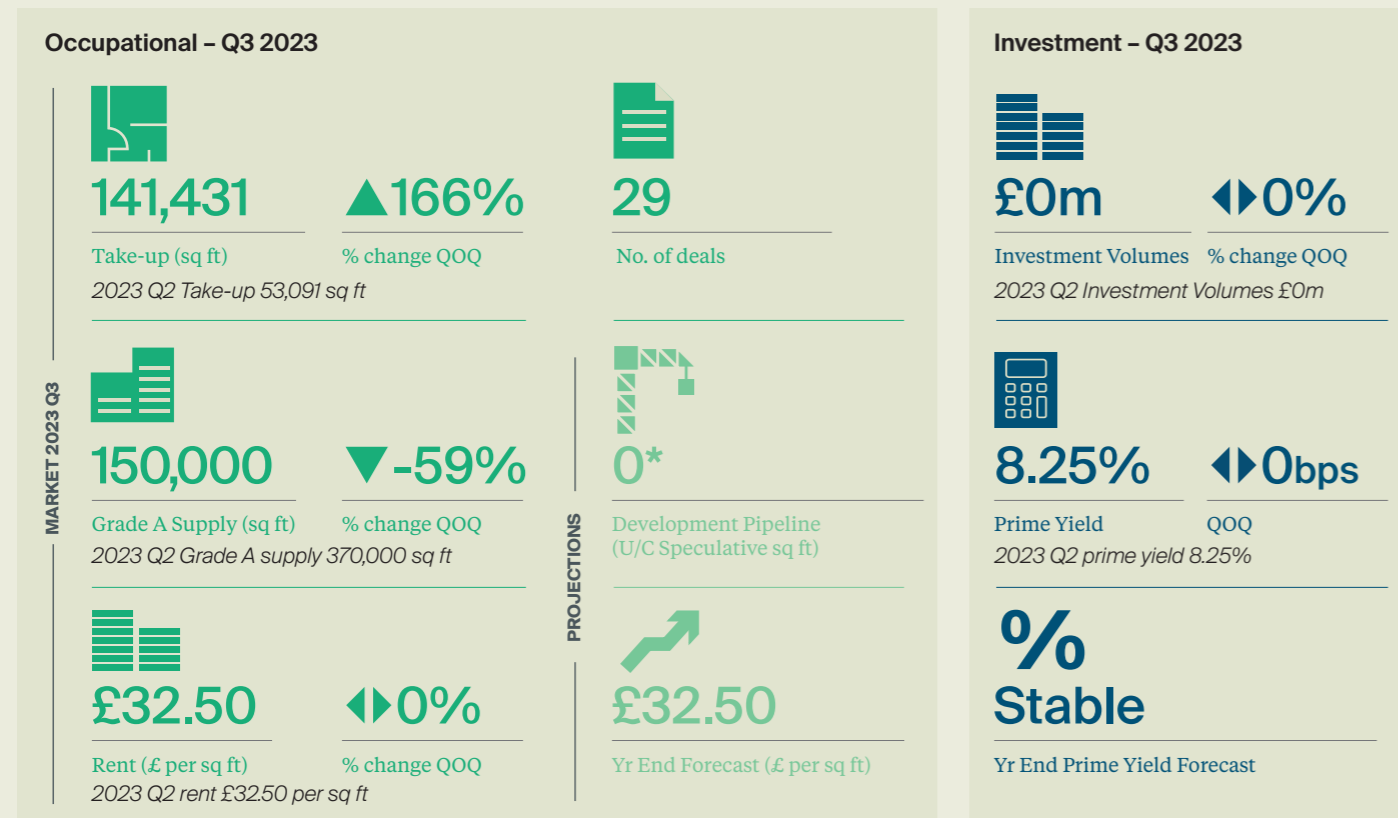
future supply – or lack of – are proving an incentive for earlier action, with vacancy at the prime end of the market low and future development constrained by high costs and softer market rates. This competitive pressure is pushing prime rents upward, with 7 of 10 markets recording an uplift in 2023.

In contrast, high borrowing costs and the gap between purchaser and vendor expectations continue to prove a hurdle to investor activity. Investment volumes are around 60% less compared to the same period in 2022. However, with the upward trajectory of interest rates seemingly ending and forecasters suggesting cuts in 2024, this could serve to settle pricing and unlock active capital in the market moving forward.

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# Aberdeen

Occupier activity improved in Q3, with take-up above trend. Supply for best quality continues to fall.



\*inclusive of new builds and comprehensive refurbishments

## DEMAND

- Occupier take-up in the third quarter reached 141,431 sq ft, 48% above the 5-year quarterly average.
- Year-to-date, take-up has reached 248,500 sq ft, 18% below the total recorded at the equivalent juncture in 2022.
- In Q3 2023, three significant lettings above 20,000 sq ft supported the quarterly rise, with IWG, Troubadour Management and Odfjell Technology all completing transactions.
- The Energy and Utilities sector continues to dominate activity, accounting for 39% of space leased and 11 out of 29 transactions during the quarter.
- Prime rent remained stable at £32.50 per sq ft.

## SUPPLY

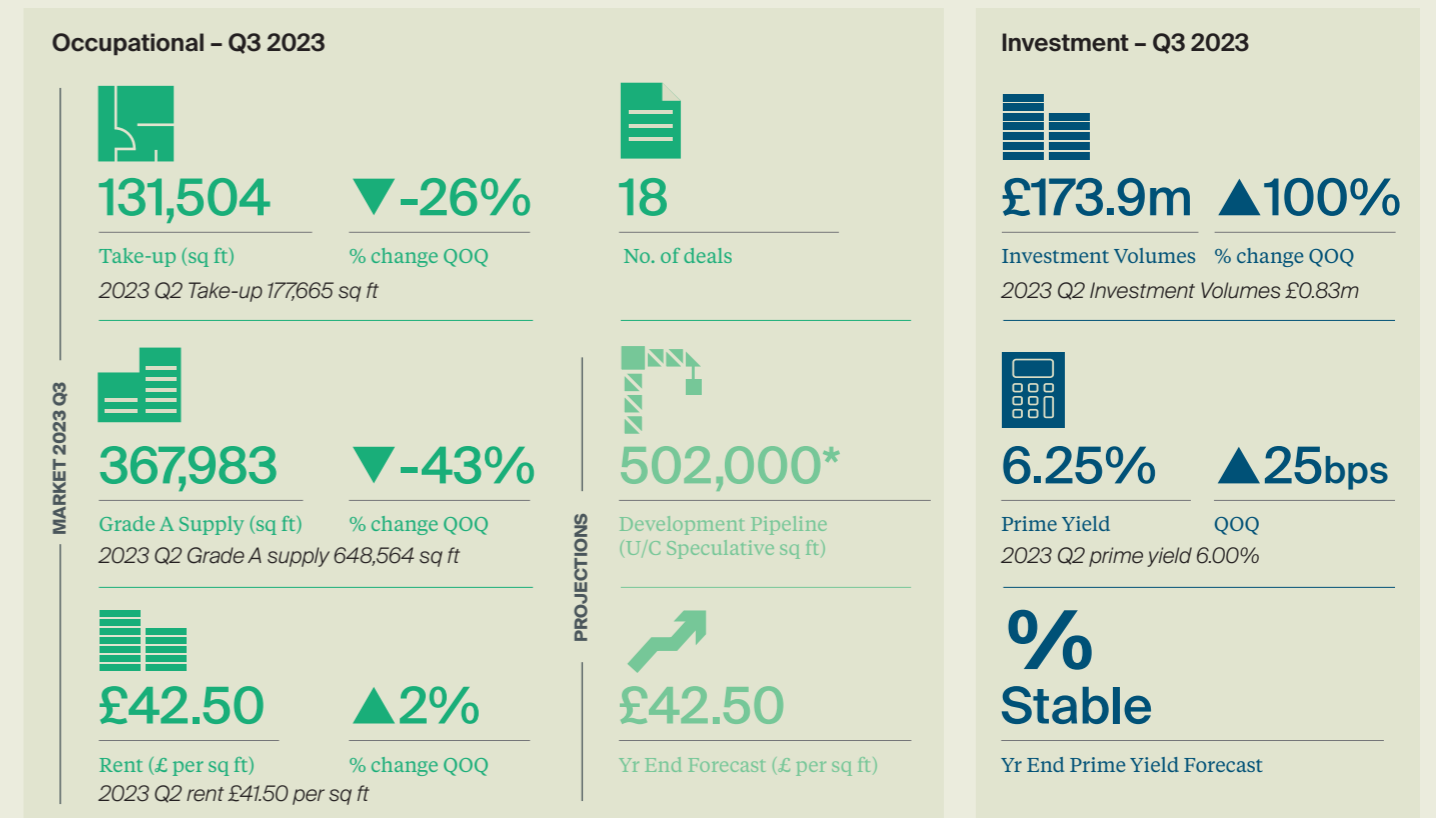
- Grade A availability decreased by 59% during Q3 to finish at 150,000 sq ft by quarter end. This total is 66% below the 10-year average.
- The total market vacancy rate remained at 24%, albeit the majority of this space is Grade B.
- Construction activity remains muted, with no significant development schemes under construction as of Q3 2023.

## INVESTMENT

- There were no significant investment transactions during Q3 2023.
- Prime office yield remained stable at 8.25%.

# Birmingham

Although take-up in Q3 was below the 10-yr average, the total for the year-to-date is consistent with the same period in 2022.



\*inclusive of new builds and comprehensive refurbishments

## DEMAND

- Take-up in Q3 2023 was 131,504 sq ft across 18 deals. This total is 26% less than in Q2 and is 22% below the 5-year quarterly average.
- Year-to-date, occupier take-up has risen to 462,700 sq ft. This total is marginally less (4%) than recorded during the same period in 2022.
- Activity in Q3 was underpinned by the finance, banking and insurance sectors, which accounted for 56% of total space leased.
- The largest transaction of Q3 was the 60,000 sq ft letting to Lloyds Bank at 6 Brindleyplace.
- Prime rent increased to £42.50 per sq ft during the third quarter, reflecting an increase of 6% compared to Q3 2022.

## SUPPLY

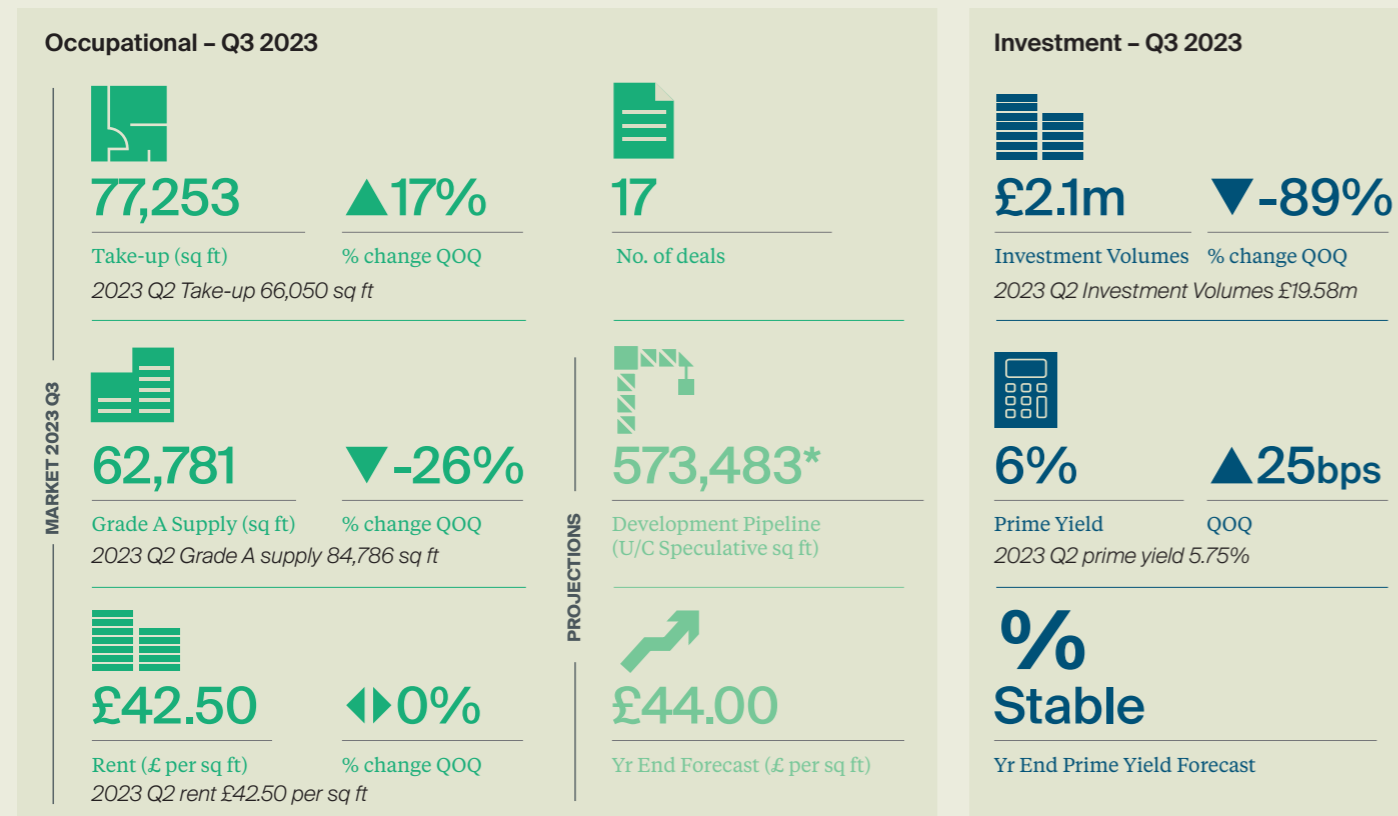
- Grade A availability fell by 43% quarter-on-quarter to 367,983 sq ft. Despite the decrease, the Q3 total is 9% above the 5-year quarterly average.
- The total market vacancy rate fell to 3% in Q3 2023.
- As of Q3 2023, 502,000 sq ft of speculative space was under construction in Birmingham's city centre.

## INVESTMENT

- Investment volumes were £132m, the highest total since Q2 2022.
- Supporting volumes in Q3 was the £125m sale of BrindleyPlace to Praxis and Veld Capital.
- Prime yields softened by 25bps to 6.25% in Q3.

# Bristol

A supply and demand imbalance continues to support the prospect of rental growth. Availability remains tight, but development is set to come through over the next 24 months.



\*inclusive of new builds and comprehensive refurbishments

## DEMAND

- Occupier activity picked up in Q3 2023, with take-up reaching 77,253 sq ft, reflecting a 17% increase quarter-on-quarter.
- Despite the rise, leasing volumes for 2023 year-to-date are 50% lower when compared to the same period of 2022.
- The largest leasing deal of Q3 2023 was Professional Services firm Evelyn Partners, taking 27,406 sq ft at EQ.
- Consequently, the Professional Services sector accounted for 63% of space let in Q3 2023 and almost half of all leasing transactions.
- Rents remained stable in Q3 2023 at £42.50 per sq ft.

## SUPPLY

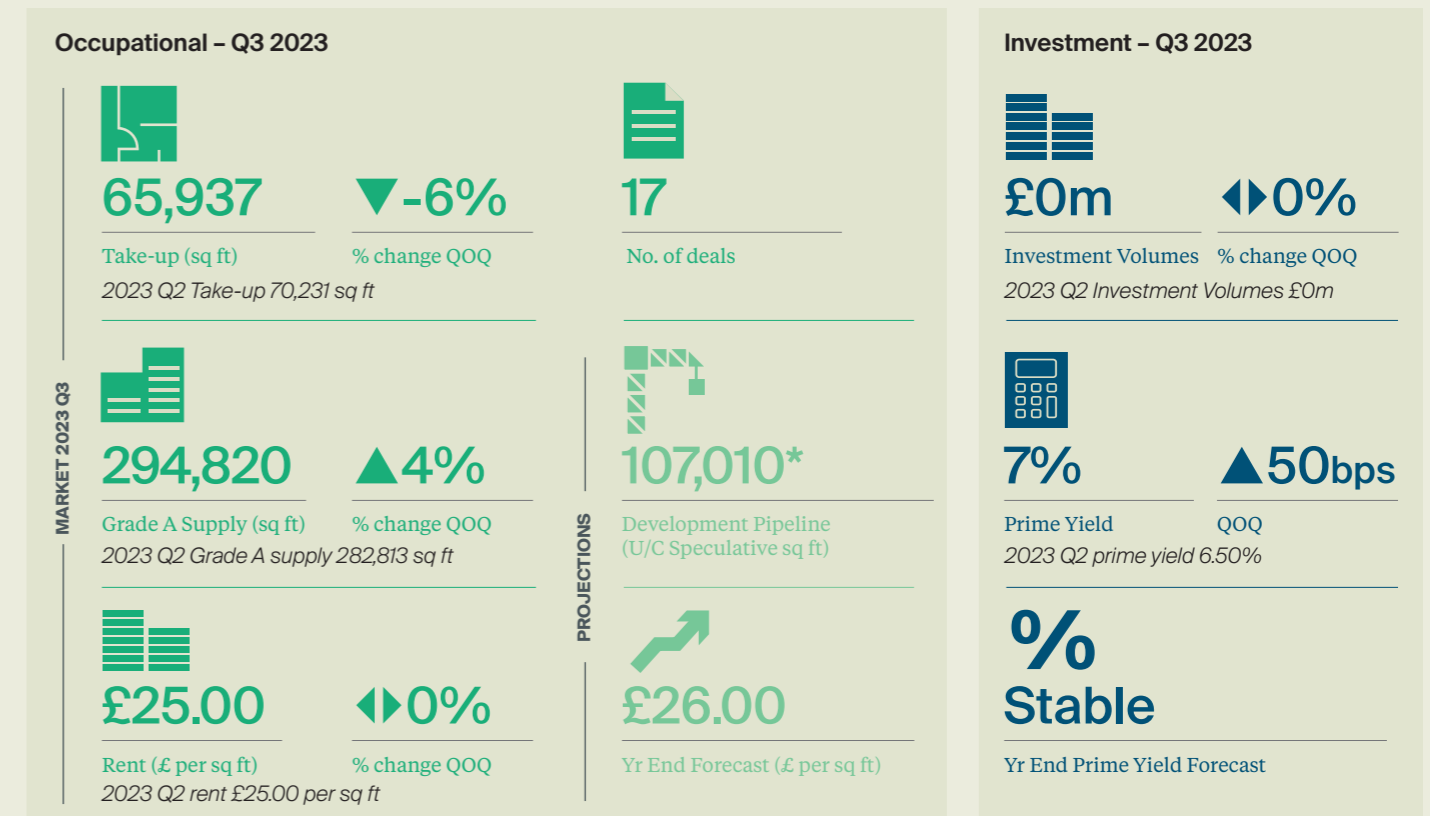
- Grade A availability dipped to 62,781 sq ft, a figure 11% below the 5-year quarterly average.
- The total market vacancy rate stood at 7.3% in Q3, marginally higher when compared to Q2 2023.
- As of Q3 2023, 717,500 sq ft of office space was under construction. Of this, 573,483 sq ft is speculative, with more than half expected to reach practical completion before year-end.

## INVESTMENT

- Investment activity was subdued in Q3 2023, with volumes totalling £2.1m.
- Prime office yields softened by 25bps to 6%, a 50bps outward movement from 5.5% in Q3 last year.

# Cardiff

Occupier activity remained slow in Q3, albeit deal numbers remain in line with the long-term average. Supply edged upward, but remains below Q3 2022.



\*inclusive of new builds and comprehensive refurbishments

## DEMAND

- Occupier take-up fell marginally to 65,937 sq ft, 6% below the total for Q2 2023.
- Year-to-date, 214,500 sq ft has been let. This total is 34% below the equivalent period in 2022.
- During Q3 2023, there were 2 freehold sales. Kocaer acquired 3 Alexandra Gate, and Zing Energy acquired the former RVS Building at Cardiff Gate.
- Professional Services and TMT account for close to half of take-up during 2023.
- Prime rent remained stable at £25 per sq ft.

## SUPPLY

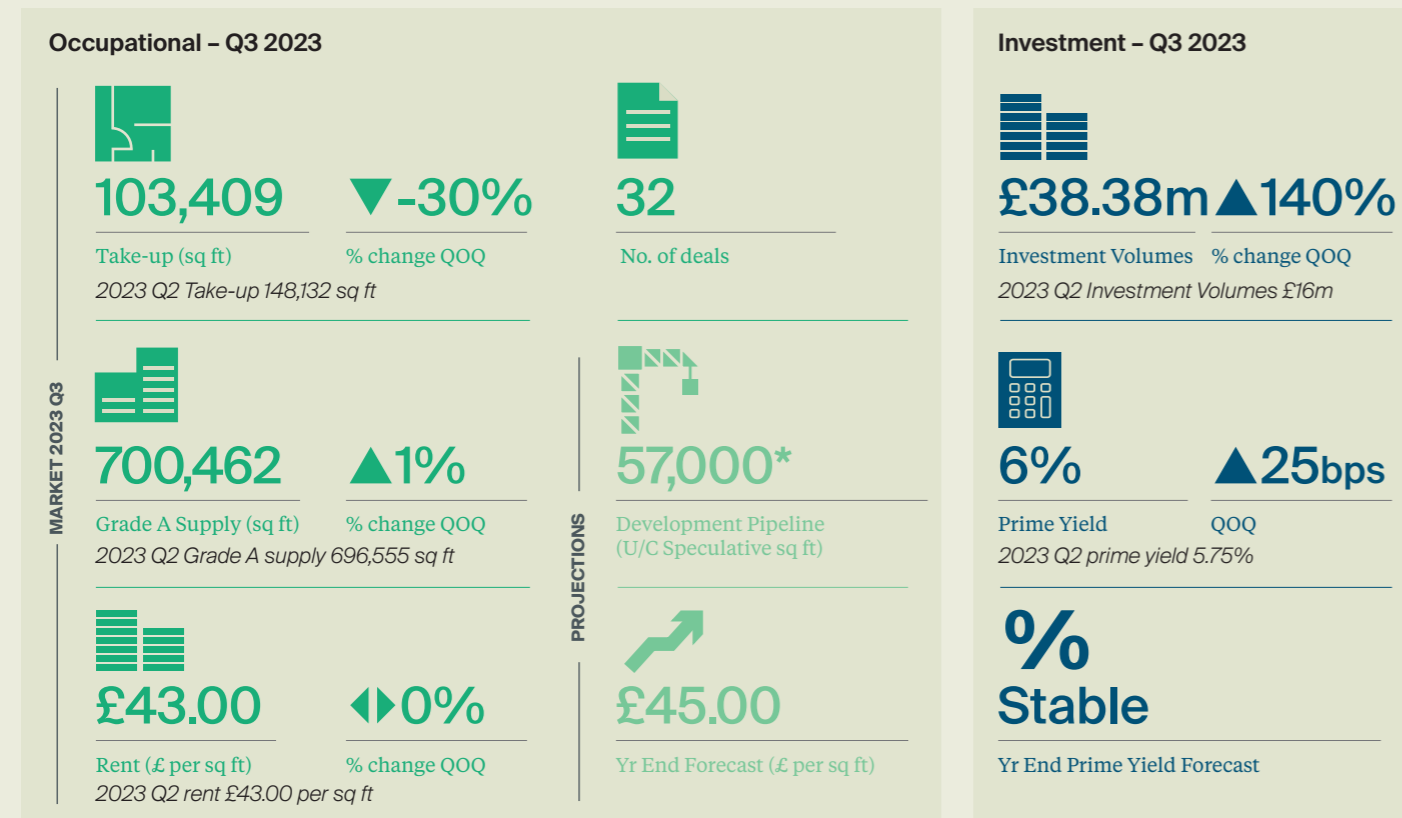
- Grade A availability stood at 294,820 sq ft at the end of Q3. This is 4% above Q2 2023 and 20% above the 5-year quarterly average.
- The development pipeline in Cardiff's city centre is limited, with 107,010 sq ft of one speculative scheme due to be completed in 2025, namely 1 John Street, Callaghan Square.

## INVESTMENT

- There were no significant office investment transactions in Q3 2023.
- Prime yields moved out to 7% in Q3, a 25bps increase.

# Edinburgh

Although occupier activity paused in Q3, take-up for the year is above the equivalent period in 2022. Investors continue to target Edinburgh, with market dynamics supporting projections of rental growth.



\*inclusive of new builds and comprehensive refurbishments

## DEMAND

- Take-up during Q3 was 103,409 sq ft, 16% below the 5-year quarterly average.
- Total take-up in 2023 increased to 342,413 sq ft, 25% higher when compared to the equivalent period in 2022.
- The largest lettings in Edinburgh city centre were for grade A space. Energy and utility firm Enoda took 14,641 sq ft at Quatermile 3, whilst Lothian Pension Fund took 10,236 sq ft at 9 Haymarket Square.
- The Energy and Utilities sector accounted for the largest percentage of occupier demand at 26% in Q3. However, the TMT sector accounted for the most completed deals, with 6 out of 30.
- Prime rent remained at £43 per sq ft, reflecting an 8% increase compared with Q3 2022.

## SUPPLY

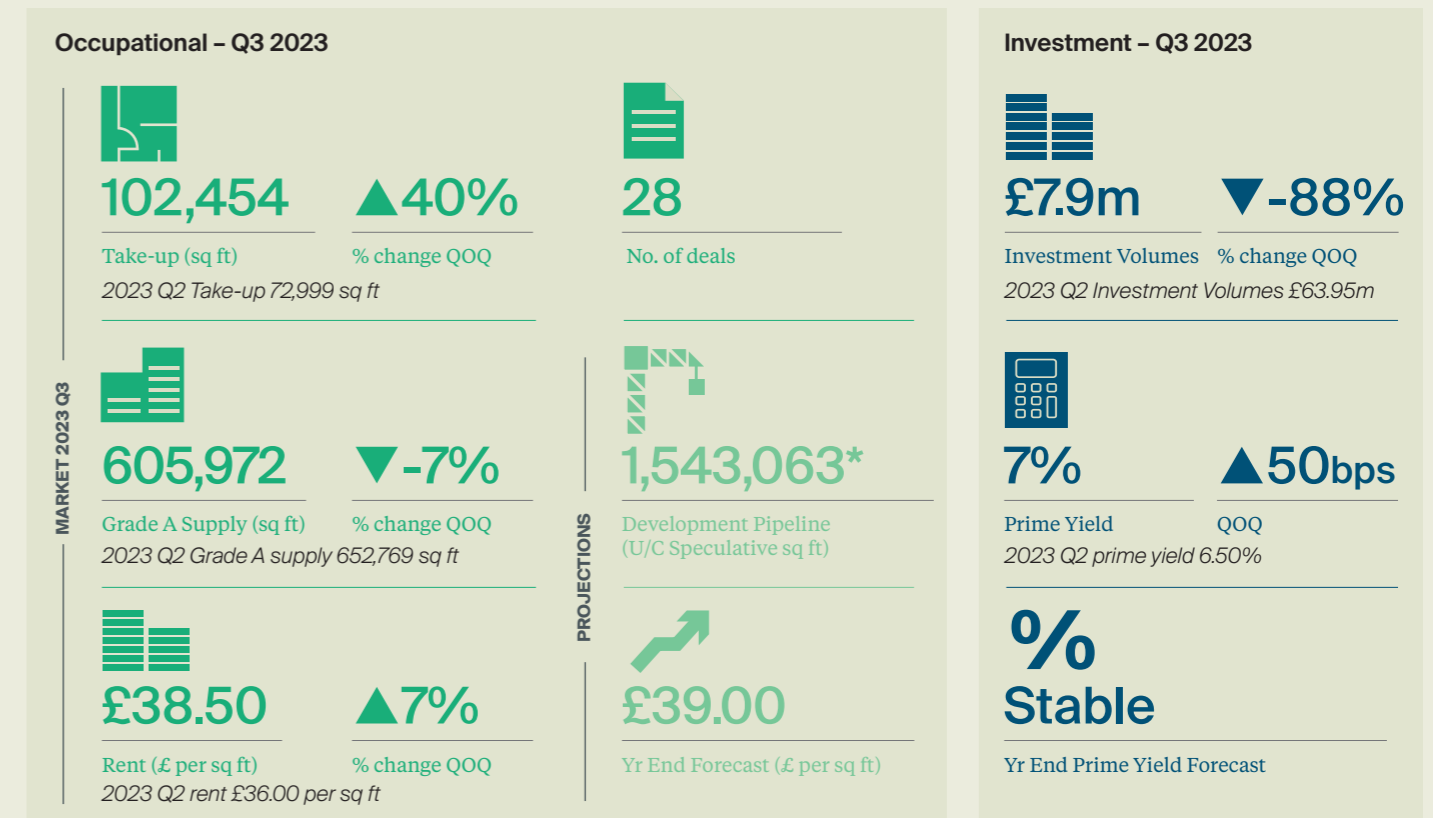
- Grade A availability remained stable quarter-on-quarter, albeit 54% higher than the start of the year.
- Overall market vacancy stood at 10.6%, reflecting a rise from 10.2% recorded in Q2 2023 and 8.22% a year ago.
- As of Q3 2023, 337,000 sq ft of office space was under construction, of which 57,000 sq ft is speculative.

## INVESTMENT

- Investment volumes reached £38m in Q3, meaning the total for 2023 increased to £181m. This is the highest total of the 'Big Six'.
- Prime yields moved out by 25bps to 6% in Q3.

# Glasgow

Take-up improved quarter-on-quarter, but remains down when compared across the year. The high cost of debt and a shortage of sellers meant investment activity remains limited.



\*inclusive of new builds and comprehensive refurbishments

## DEMAND

- Occupier take-up increased by 40% quarter-on-quarter, with 102,454 sq ft leased.
- Consequently, take-up for 2023 rose to 237,100 sq ft. This total is 22% less compared to the equivalent period in 2022.
- The uplift in Q3 2023 was bolstered by the 27,831 sq ft letting at 50 Bothwell Street to professional services firm Pinsent Masons.
- Consequently, the professional services sector accounted for nearly half of occupier demand in Q3 and a third of the deals completed.
- Prime office rents rose 7% from £36 to £38.50 during the quarter.

## SUPPLY

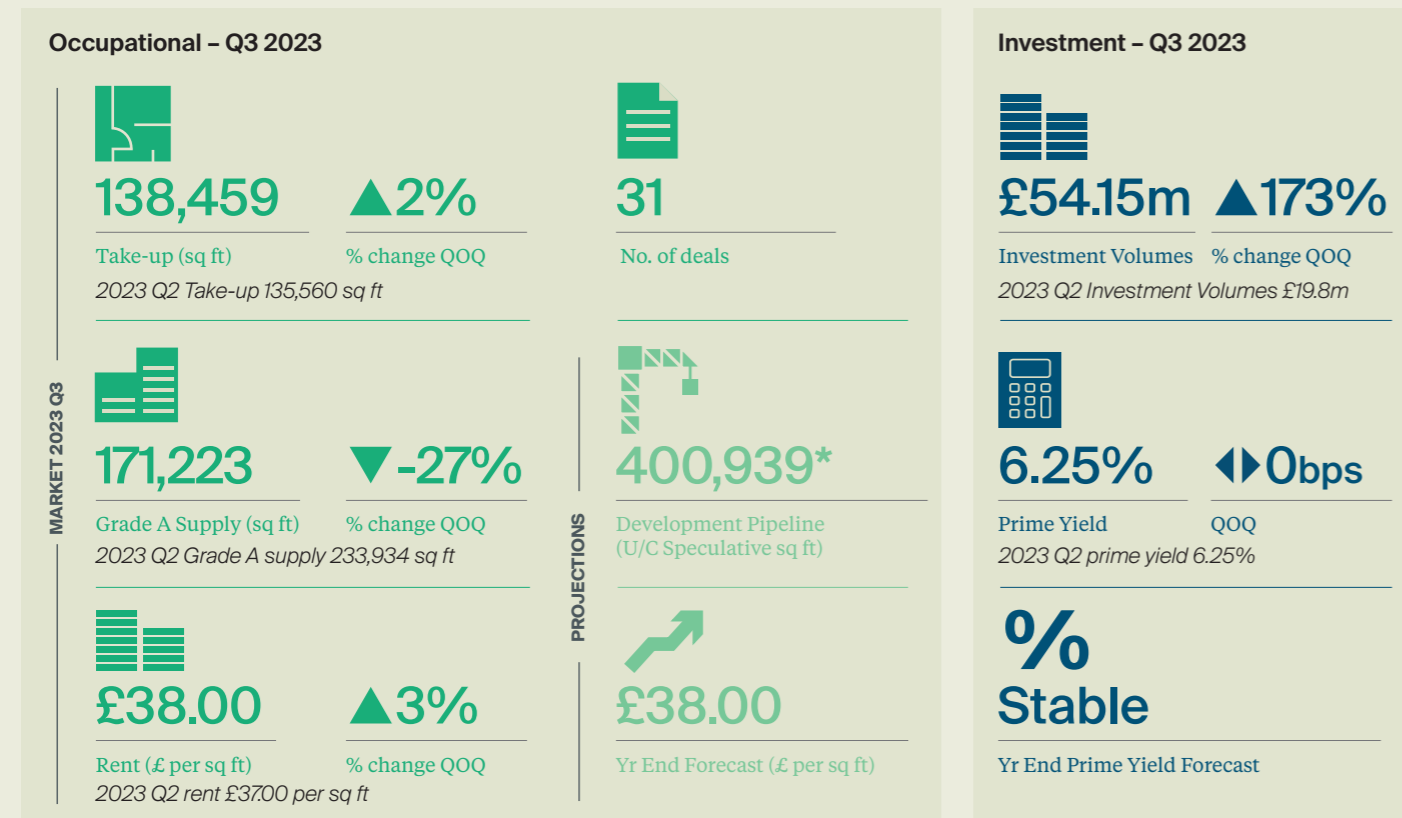
- Grade A availability was 605,972 sq ft at the end of the third quarter, 7% lower than in Q2 2023.
- The total market vacancy rate remained stable during the quarter at 8.65% and only marginally above the 7.84% recorded in Q3 2022.
- As of Q3, 1.85m sq ft of office stock was under construction in Glasgow's city centre, of which the majority (1.54m) is speculative.

## INVESTMENT

- Investment activity in Q3 was subdued, with volumes reaching £7.92m.
- Prime yields softened by 50bps during Q3 to 7%. This reflects an outward movement of 125bps year-on-year.

# Leeds

Occupier take-up in 2023 remains ahead of the equivalent period in 2022. Demand for best-in-class is supporting upward pressure on rents.



\*inclusive of new builds and comprehensive refurbishments

## DEMAND

- Occupier demand remained consistent, with take-up reaching 136,915 sq ft.
- Consequently, take-up for the year increased to 539,189 sq ft, 38% higher than in the same period of 2022.
- The largest occupier deal of the quarter was the 27,470 sq ft letting at 4 Wellington Place to legal firm Irwin Mitchell.
- The professional services sector underpinned occupier activity in Q3, accounting for 59% of space leased and 13 out of 31 deals.
- Prime office rents in Leeds rose to £38 per sq ft in Q3.

## SUPPLY

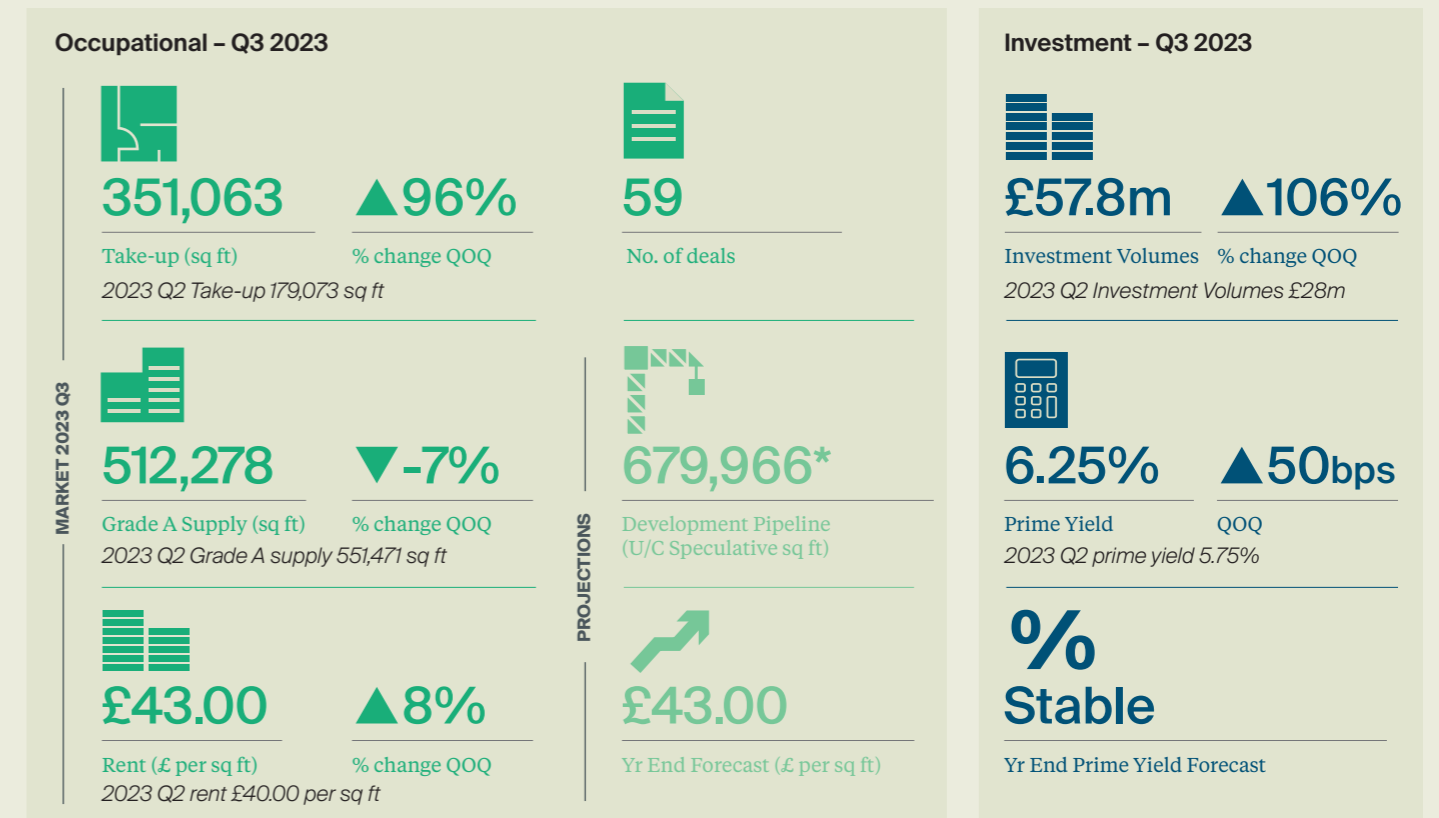
- Grade A availability currently stands at 171,223 sq ft, 27% below the previous quarter and 36% below the 10-year average.
- Overall market vacancy was 5.53% at Q3 2023, a decrease from 6.3% the previous quarter.
- There is currently nearly 687,000 sq ft of office space under construction in Leeds' city centre. Of this total, just over 400,000 sq ft is speculative, with the majority expected to complete by the end of the year. This means there is likely to be a short-term rise in the vacancy rate in Q4 2023.

## INVESTMENT

- Investment volumes increased to £54.1m in Q3, with the sale of the BT building at One Sovereign Street to CitiBank for £38.5m supporting the rise.
- Prime yields moved out by 25bps to 6.5% during Q3 and are now 75bps softer when compared to the same period in 2022.

# Manchester

Occupier activity increased during Q3, with take-up above the quarterly average. Availability is now the lowest for three years, an imbalance that will fuel rental growth.



\*inclusive of new builds and comprehensive refurbishments

## DEMAND

- Occupier activity improved in Q3, with quarterly take-up over 350,000 sq ft, 21% above the 5-year average and the highest quarterly total of 2023.
- Year-to-date, take-up has reached 741,500 sq ft, 6% below the same period in 2022.
- During the third quarter, there were 9 lettings over 10,000 sq ft, the highest total above this threshold in 2023.
- Arden University took 42,944 sq ft at Two Hardman Street, the largest occupier transaction to complete.
- Prime rent in Manchester increased by 8% to £43 per sq ft.

## SUPPLY

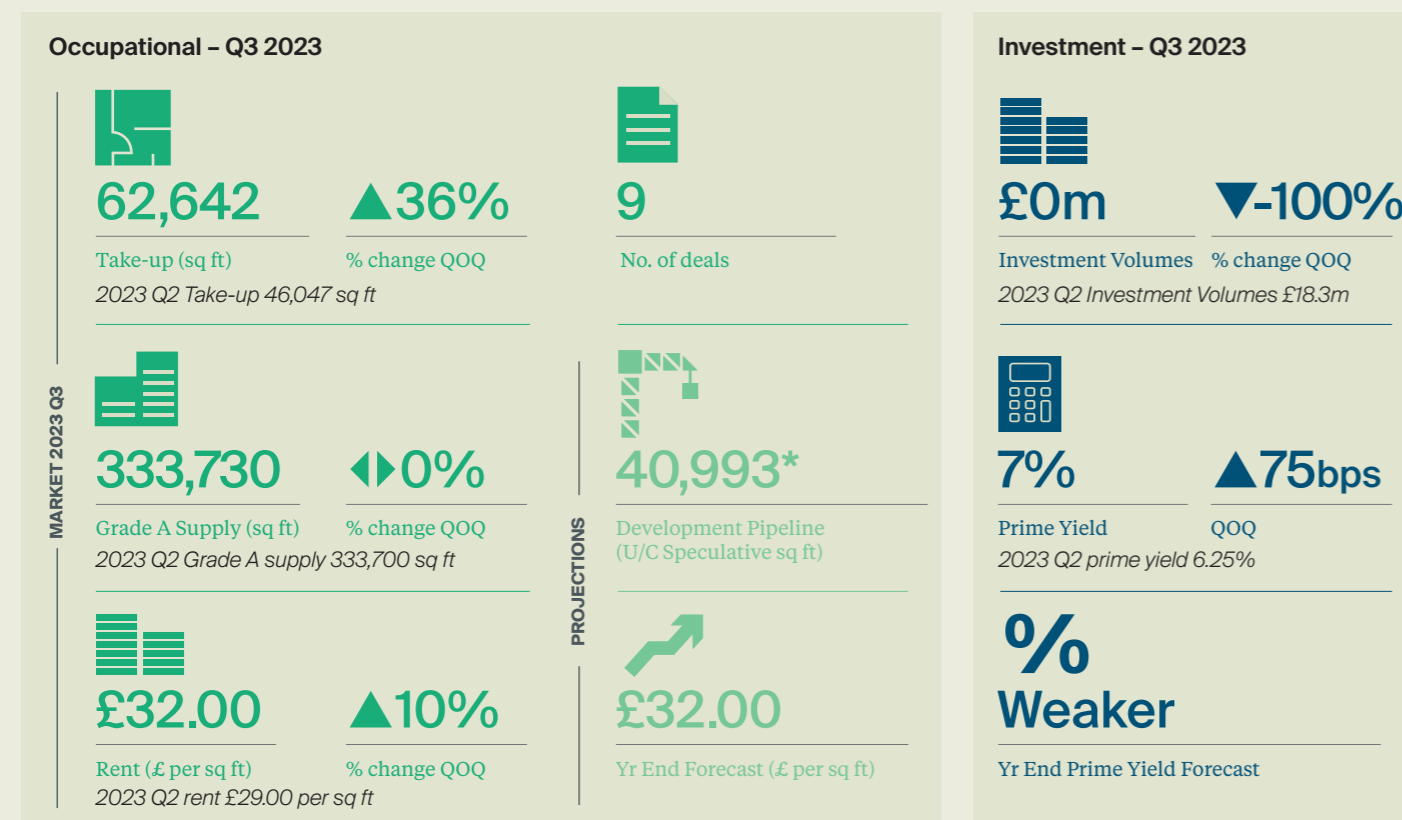
- Grade A availability fell by 7% to 512,278 sq ft in Q3. Despite the dip, this total is 22% above the 10-year quarterly average.
- Grade A space makes up a small proportion of availability, with the Grade A vacancy rate at 2.8%, falling from 3.1% in Q2 2023.
- Close to 1m sq ft of office space is under construction in Manchester's city centre. Of this, 659,946 sq ft is speculative, with delivery expected from mid-2024 onwards.

## INVESTMENT

- Investment volumes in Q3 were £57.8m across four deals. Consequently, volumes for the year to date increased to £106m, well below the £438m recorded in the equivalent period in 2022.
- Prime office yields increased from 5.75% to 6.25% during Q3.

# Newcastle

Office take-up in the city centre increased in Q3, although stayed broadly consistent with the long-term average. Prime rents have registered an increase, demonstrating competition for the best quality space.



\*inclusive of new builds and comprehensive refurbishments

## DEMAND

- Occupier take-up increased by 36% quarter-on-quarter to 62,642 sq ft. This total is 3% above the 10-year quarterly average.
- With 9 months passed, total take-up has reached 148,900 sq ft. This total is 7% below the equivalent period in 2022.
- Two lettings to serviced office operators over 20,000 sq ft bolstered take-up during Q3. Orega took 21,693 sq ft at St James Gate, and Cubo took 20,358 sq ft at Bank House. These two deals were the largest recorded in the city centre since Q4 2021.
- Prime office rents increased by 10% to £32 in Q3 2023.

## SUPPLY

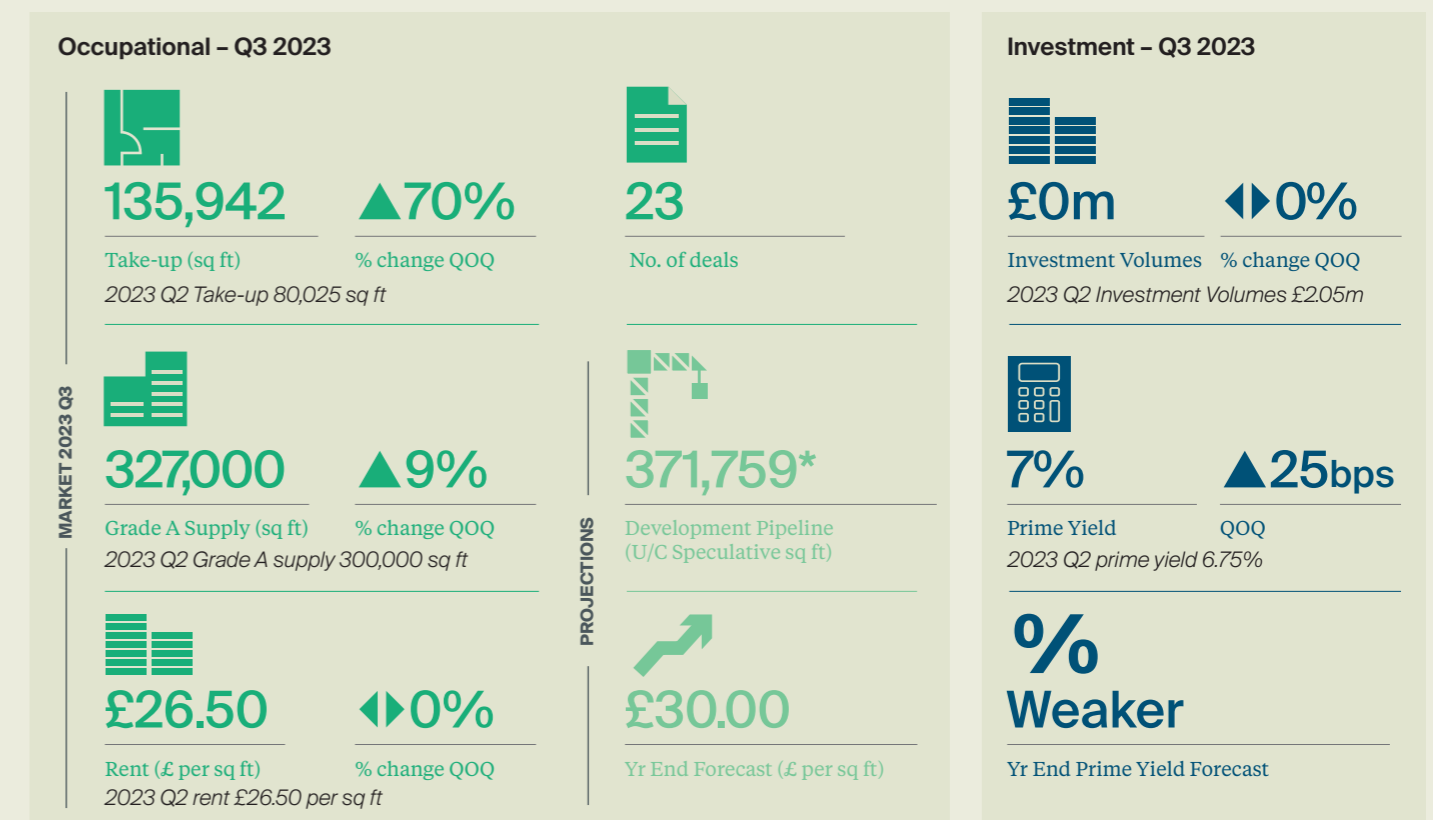
- Grade A availability remained stable at 333,730 sq ft quarter-on-quarter, albeit the Q3 total was 42% above the 5-year quarterly average.
- Total market vacancy was 9%, slightly lower when compared to the market in Q3 2022.
- The development pipeline in Newcastle is limited, with 40,993 sq ft of space under construction across two schemes, all of which is speculative. Both schemes are due to be completed by year-end.

## INVESTMENT

- There were no significant office investment transactions in Q3 2023.
- Prime office yields increased to 7% in Q3, reflecting a 75bps year-on-year rise.

# Sheffield

With several key transactions completing, take-up registered a sharp increase in Q3. The completion of several development schemes has pushed up availability in 2023.



\*inclusive of new builds and comprehensive refurbishments

## DEMAND

- Occupier activity in Sheffield increased in Q3, with take-up rising by 70% to 136,000 sq ft.
- Year-to-date, occupier take-up has reached 273,900 sq ft. This total is 10% higher compared to the same period in 2022.
- This rise in Q3 was underpinned by the 65,000 sq ft letting at Endeavour to BT.
- The TMT sector dominated occupier activity in Sheffield, accounting for 64% of total space leased.
- Prime rent remained unchanged at £26.50 per sq ft.

## SUPPLY

- Grade A availability stood at 333,730 sq ft at the end of Q3 2023, reflecting a 9% increase over the quarter.
- The total market vacancy rate rose slightly from 6.5% last quarter to 6.75% in Q3.
- In Q3 2023, 371,759 sq ft of office stock was under construction, which is speculative. Most of this total is expected to reach practical completion by 2023 year-end.

## INVESTMENT

- There were no significant investment transactions in Q3 2023.
- Prime office yields softened by 25 bps to 7% and could see further outward movement by year-end.

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