Economy

The first measure of the UK economy following the EU referendum has delivered positive results. UK GDP growth in Q3 was 0.5%, coming in ahead of expectations and exceeding the 0.3% figure for the Eurozone. As a result, the IMF upgraded its UK GDP forecast for 2016 to 1.8% - the strongest rate of growth the IMF is predicting for a G7 nation.

Occupier markets

Take-up across the ten regional cities monitored in ROMP amounted to 1.2m sq ft in Q3, 18% less than in the second quarter of 2016. Nonetheless, total take-up for 2016 has now reached 4.1m sq ft, on par with the 10-year average for the Q1-Q3 period.

The highest take-up of Q3 was in Manchester. Total take-up for the quarter was 263,000 sq ft, 5% above the 10-year quarterly average. The 81,000 sq ft letting to law firm Freshfields at One New Bailey was the largest transaction of the quarter. Notably, this is one of only two lettings complete above 30,000 sq ft in the city during 2016. This compares to ten in 2015.

The second largest transaction of Q3 was in Cardiff where car finance firm Motonovo took 71,000 sq ft at One Central Square. The building forms part of the regeneration scheme immediately in front of Cardiff Central Train Station. Total take-up in Cardiff for 2016 has now reached 478,500 sq ft, 37% above the 10-year average for the period.

Notably, Cardiff is one of only three regional cities where take-up is ahead of the equivalent measure for 2015. On the supply side, overall Grade A availability fell by a further 3% in Q3 to reach 2.1m sq ft. This total is 20% below the 5-year average of 2.6m sq ft. The lowest Grade A availability was in Bristol with only 75,000 sq ft being marketed at Q3. This is the lowest level of Grade A availability on record for the city. The highest level of availability at Q3 was in Aberdeen. A total of 621,000 sq ft was on the market at the end of Q3, a level three times higher than the average for the city.

Total of space under construction in the regions in Q3 stood at 4.3m sq ft of which, 2.8m sq ft is speculative build. Manchester had the highest amount of office development underway with 1.1m sq ft registered as under construction.

During Q3, four of the ten regional cities recorded an increase in prime rents. Both Birmingham and Newcastle increased by £1 per sq ft to reach £32.50 and £23.00 per sq ft respectively. Similarly, prime rents in Edinburgh and Glasgow moved up to £33.50 and £30.00 per sq ft. Notably, six of the ten regional markets have registered a rental increase in 2016.
Investment activity

Office investment volumes recorded across the ten major regional cities increased by 48% in Q3 with total sales reaching £476m. This meant that regional office sales for 2016 increased to £2.1bn, 31% above the 10-year average for a Q1 to Q3 period.

With two transactions over £50m completing in Q3, the total above this threshold for 2016 reached nine. This compares to eleven recorded at the same point in 2015. Notably, overseas money accounts for the majority of the larger purchasers in 2016. Foreign buyers account for 48% of total regional office investment and seven of nine acquisitions above £50m.

The largest investment deal of Q3 was the £164m acquisition of 1 St Peters Square in Manchester by DEKA Immobilien. This represents the second major regional purchase of 2016 for the German investor following the £105m purchase of Atria in Edinburgh in Q1. At the Q3 mark, Manchester accounts for the highest amount of office investment across the ten major regional cities, 26%.

The £63m sale of Waverley Place, Edinburgh to TRIUVA was the second largest deal of Q3. This meant that office investment increased to £402m for 2016, already above the full-year 2015 total. Notably, the German investor has completed three purchases in Edinburgh during 2016 representing 36% of total office investment in the city.

Pricing held firm in the majority across the regional cities during Q3 2016. The exception was in Birmingham where prime yields moved out by 25bps from 5.00% to 5.25%. In particular, the lower value of sterling since the EU Referendum has support demand. This has meant that where prime opportunities have come to market, bidding has been aggressive. Furthermore, low bond yields continue to encourage investors toward commercial property in order to generate income.

### Major regional office investment deals in Q3 2016

<table>
<thead>
<tr>
<th>Date</th>
<th>Street</th>
<th>Purchaser</th>
<th>Vendor</th>
<th>Price £m</th>
<th>Yield %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3 2016</td>
<td>1 St Peters Square, 1. Manchester</td>
<td>DEKA Immobilien</td>
<td>Argent Developments</td>
<td>164.00</td>
<td>5.25</td>
</tr>
<tr>
<td>Q3 2016</td>
<td>Waterloo Place, 2-4. Edinburgh</td>
<td>TRIUVA</td>
<td>M&amp;G Real Estate</td>
<td>63.00</td>
<td>5.69</td>
</tr>
<tr>
<td>Q3 2016</td>
<td>Sovereign Square, 3. Leeds</td>
<td>Leeds City Council</td>
<td>Brunwood Estates Ltd</td>
<td>43.75</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>Q3 2016</td>
<td>Velocity Village, Sheffield</td>
<td>Europa Capital</td>
<td>Lone Star</td>
<td>37.50</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>Q3 2016</td>
<td>J2 Riverside Exchange, Sheffield</td>
<td>Trinova Real Estate Spain</td>
<td>Bartuc Ltd</td>
<td>30.95</td>
<td>6.78</td>
</tr>
</tbody>
</table>

Source: Knight Frank Research