
Leeds

UK Cities 2024 Insights

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Occupier

Take-up

Take-up at the highest for four years.

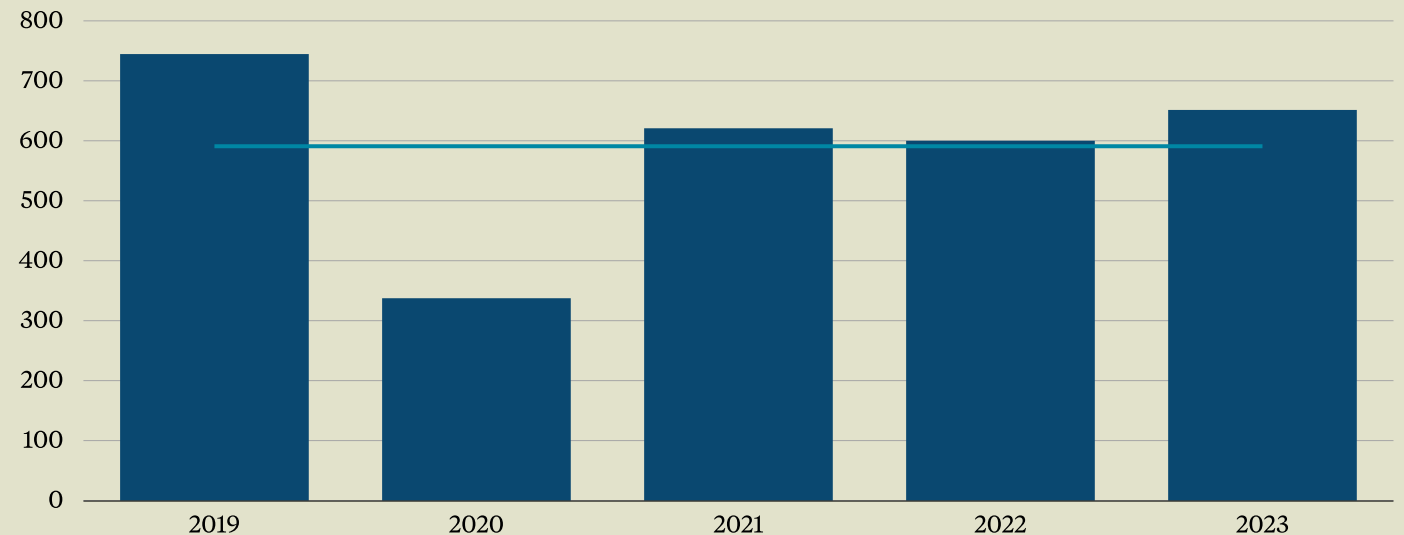
Key Takeaways

- Leeds experienced strong occupier demand in 2023, with the city registering the highest level of annual take-up since 2019. Total take-up during the year was at 651,461 sq ft, 10% above the 5-year annual average and a 9% year-on-year increase.
- During 2023, the number of deals rose slightly from the previous year to 127 completed, 17% above the 5-year annual average.
- With above average levels of take-up in 2023, demand for best-quality space was strong, accounting for 74% of annual take-up.

Leeds Take-up

sq ft, 000s

■ Take-up — 5-Yr Annual Average



Source: Knight Frank Research, Macrobond

Take-up by Sector

Banking and Professional Services lead the way.

Key Takeaways

- Occupier demand in 2023 was underpinned by the Finance, Banking and Insurance, and Professional Services sectors, accounting for 30% and 28% of total take-up respectively.
- The largest letting of the year was to Lloyds Banking Group, who took 124,400 sq ft of grade A space at 11 & 12 Wellington Place in Q1. This was the largest occupier deal to be completed across all of the major UK regional cities in 2023.

Take-up by Sector 2023

%



Source: Knight Frank Research

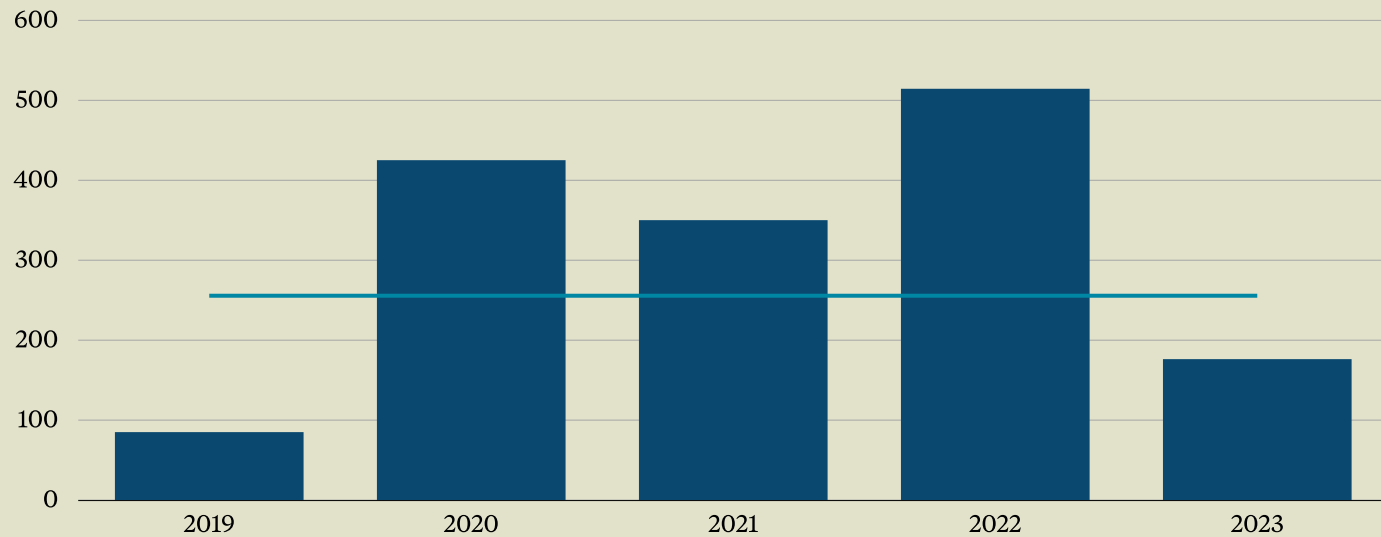
Availability

Availability dips to four year low.

Leeds Grade A Supply

sq ft, 000s

■ Grade A Availability — 5-Yr Average



Source: Knight Frank Research, Macrobond

Key Takeaways

- The availability of grade A space stood at 176,286 sq ft at 2023 year-end, 66% less than the previous year and 34% below the 10-year average for Leeds.
- The level of grade A supply at the end of 2023 is the lowest since 2019, illustrating the ongoing supply squeeze in the office market.

Development

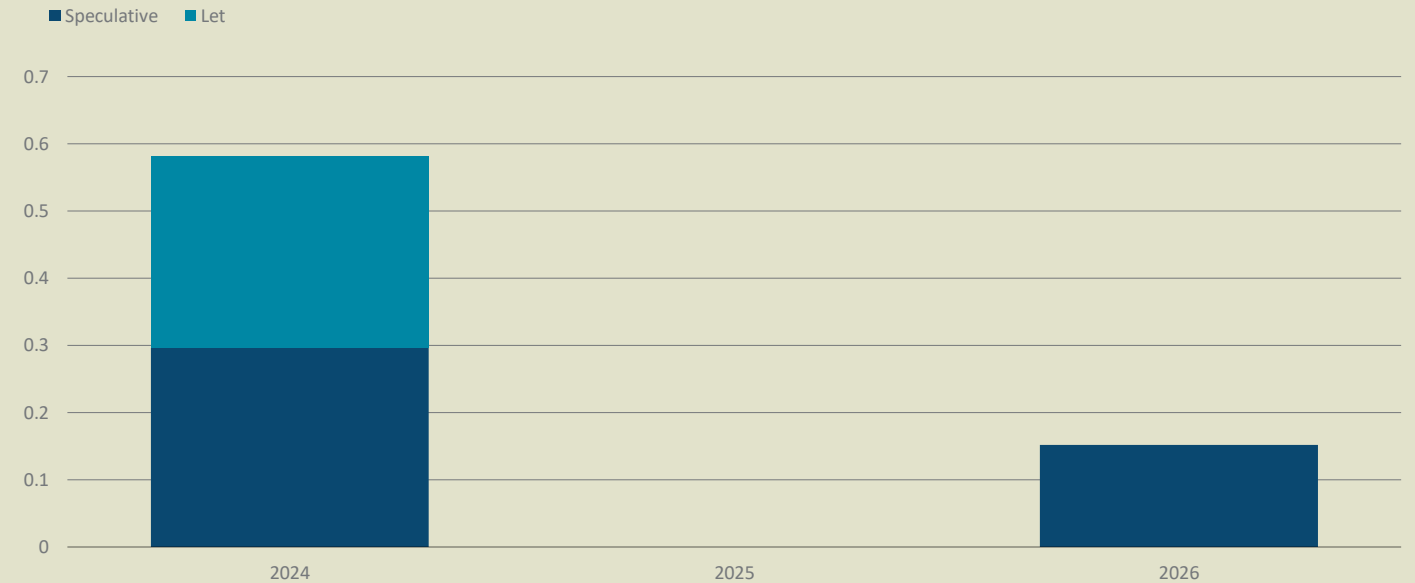
Development pipeline limited.

Key Takeaways

- At year-end, 581,984 sq ft of office stock was under construction with delivery due in 2024.
- Of this, 295,939 sq ft is speculative. Comprising of five schemes, 232,688 sq ft is new build, whilst the remaining 63,251 sq ft is undergoing comprehensive refurbishment.
- Most of the speculative space is expected to complete in H1 2024.

Development Pipeline (U/C)

sq ft, millions



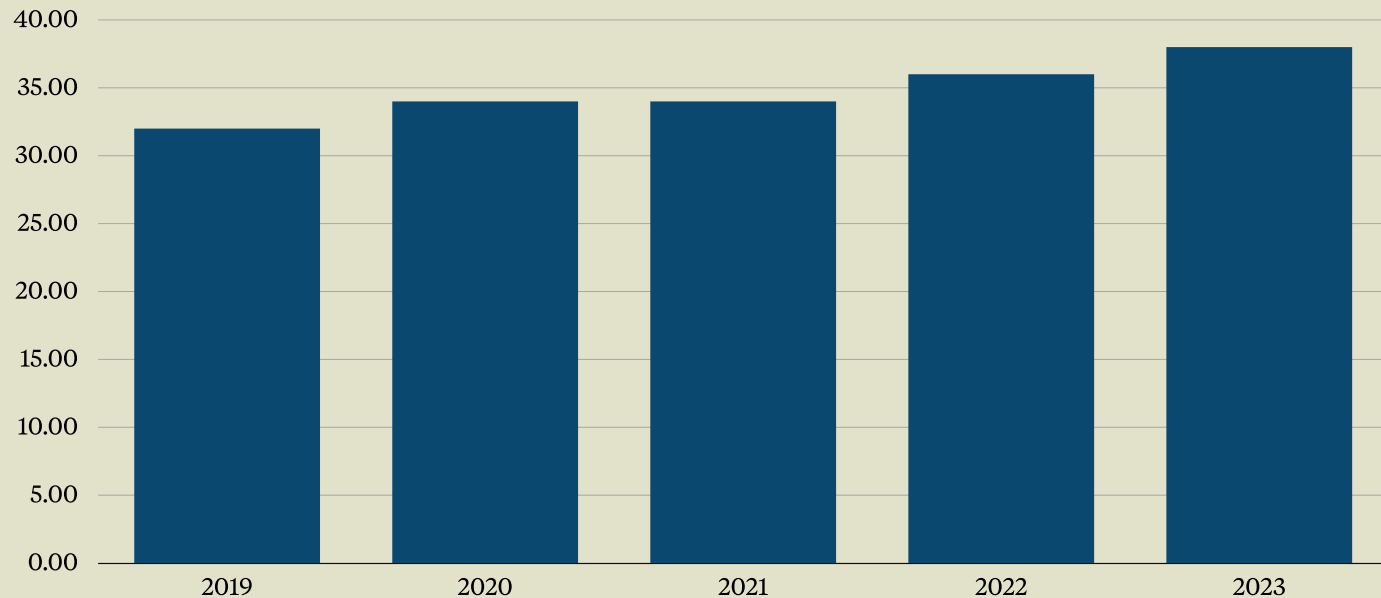
Source: Knight Frank Research

Prime Rent

Rents rise to new records.

Leeds Prime Rent

£ per sq ft



Source: Knight Frank Research, Macrobond

Key Takeaways

- The prime rent in Leeds rose to £38.00 per sq ft in 2023, an increase of 6% over the past 12 months.
- Notably, prime office rents have risen by 19% since the onset of the Covid pandemic, the second largest increase seen across the 'Big Six' regional cities.
- With strong occupier demand and supply-squeezed market, forecasts indicate that prime rents will reach £40.00 per sq ft by the end of 2024.



Market Sentiment

- Even with the backdrop of Macro uncertainty and local 'issues', the UK office market is active albeit market polarisation is widening.
- Longer-term signs of recovery and evolution in requirements of occupiers are being monitored, but currently demand is being driven by actioning lease events.



Future Demand

- Sectors that are currently seeing the most activity are Finance, Banking and Insurance, and Professional Services, and it is envisaged that this will continue in 2024.
- Serviced office providers are also active and accounted for 8% of take-up across the UK Cities in 2023. This is the highest representation for 5 years.



Trending

- There is a longer time lag between occupiers being out in the market inspecting options ahead of completing deals.
- Pre-letting activity or leasing during construction is having a greater impact on the market. This will support the viability of some development schemes moving forward.



Rents, Incentives etc

- The pursuit of 'best in class' means record rents are being recorded in many of the leading UK markets.
- Incentives have also remained stable with between 9-12 months on a 5-year term certain and 18-24 months on a 10-year term certain.

Investment

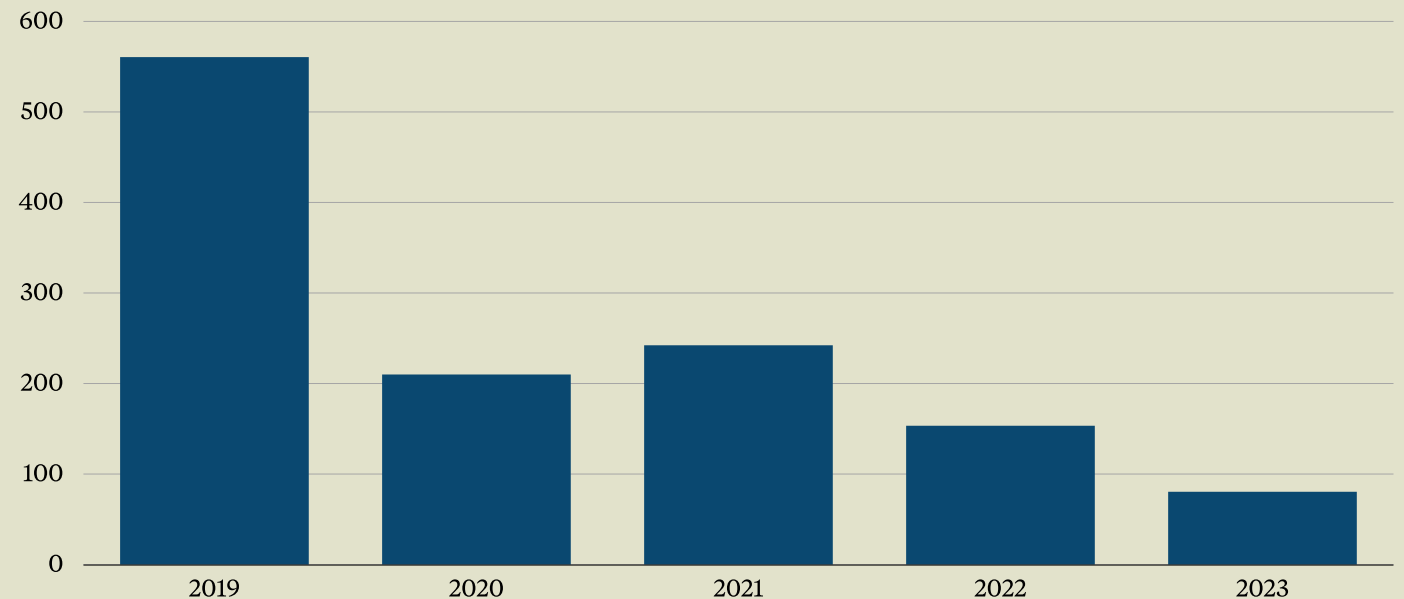
Caution leads to investor inertia.

Key Takeaways

- Owing to macroeconomic and geopolitical instability, investment volumes were subdued in 2023, finalising at £80.4m, 65% short of the 10-year annual average.
- The largest investment transaction was the sale of the BT Building, One Sovereign Square to Citi Private Bank for £38.5m at a NIY of 7.00%. The building also has 12 years unexpired on the lease, let to its namesake, BT Group.
- Overseas investors accounted for the greatest share of annual investment turnover, at 56%, owing largely to the above deal, and with capital coming from both the Middle East and South Africa.

Leeds Annual Investment

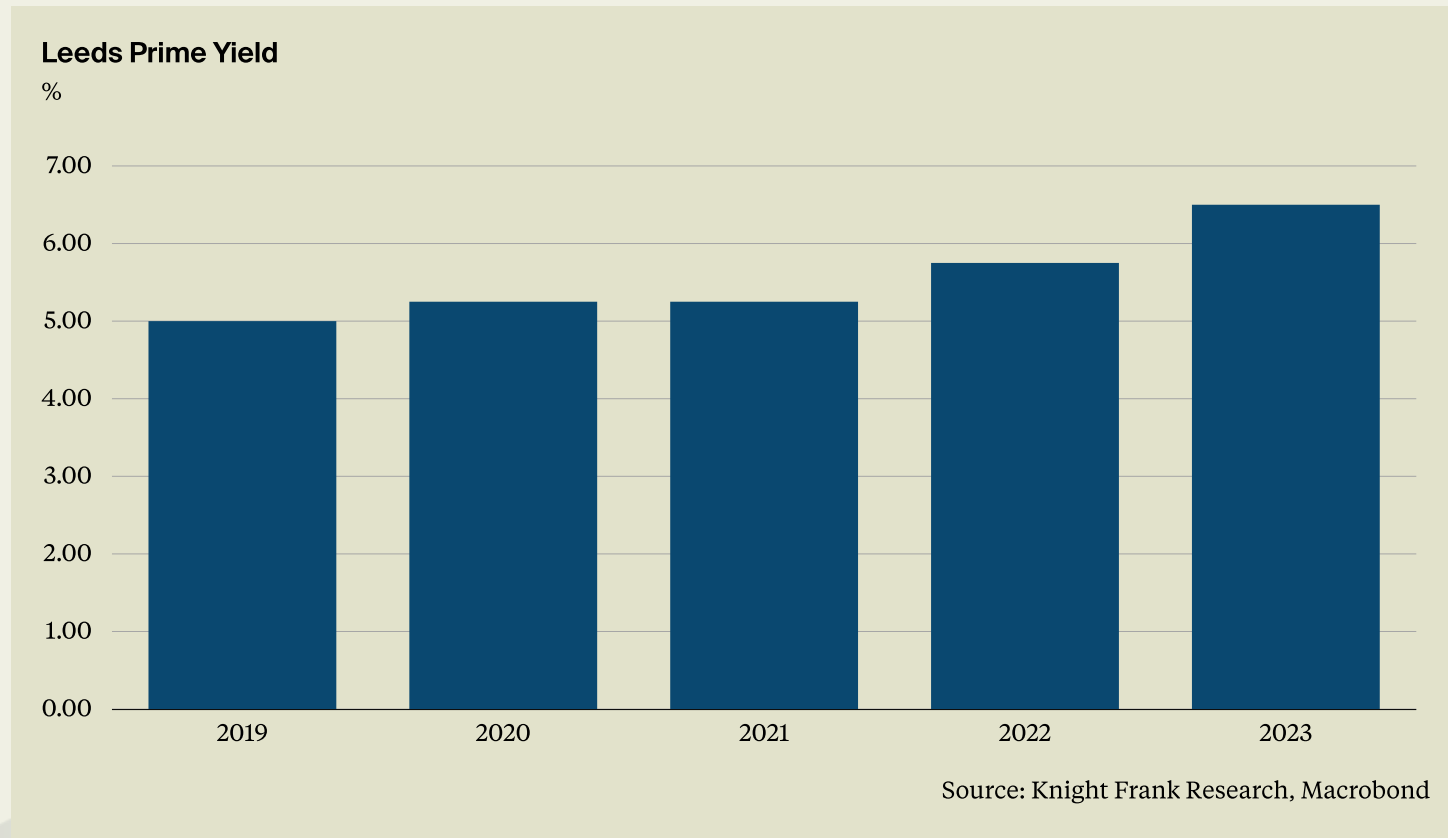
£m



Source: Knight Frank Research, Macrobond

Investment Pricing and Outlook

Yields move out by 75bps.



Key Takeaways

- Prime office yields currently stand at 6.50% assuming a minimum term of 10 years, rack rented and with open market reviews. This has softened by 75 bps from the previous year.
- Out-of-town yields typically stand at 7.75%, depending on the age and quality of the asset.
- The strong occupier market will mean that investors remain largely bullish on Leeds offices. With prime office yields unlikely to soften further, although secondary yields are more difficult to predict, it appears they have reached a level at which investors are more comfortable to deploy capital, all of which is hoped to foster market activity in 2024.



Market Sentiment

- Many investors remain “off” offices.
- The outlook feels positive given the last interest rate decision and the current downward direction of inflation.
- Some pricing discovery is being accepted.
- Opportunities are likely to arise for investors in 2024.



Who's Buying, Who's Selling

- Core plus investors are looking at core and value add looking at core plus.
- Traditional property companies are active, with overseas buyer interest growing.
- Limited institutional appetite.



Opportunities

- Investing in the main regional cities at yields in the 6's presents value.
- Core plus with strong credentials is an opportunity.
- Development is a challenge given build costs and yield levels.



Pricing

- Opportunistic buyers are taking advantage of lack of competition and high returns on good quality assets are being achieved.
- Prime office yields have moved out by 75bps on average over the past 12 months.

Questions?

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