SUPPLY

- 2016 saw 581,663 sq ft of additional Grade A space entering the Leeds market, including: 6 Queen Street (Marshalls CDP/Rockspring Property Investment); Central Square (M&G and Marico); 3 Sovereign Square (Kier and Bruntwood) and 6 Wellington Place (the Canadian Pension Plan and MEPC). Of the five new build schemes in the city centre that completed last year, over 50% of the space is now let, with other space under offer and more currently being negotiated. A number of refurbishments are also underway, looking to satisfy the large number of requirements in the city.

- Following the considerable amount of office space delivered in 2016, Grade A availability in Leeds city centre presently stands at 438,348 sq ft, representing 37% of all the existing office supply. The largest contiguous Grade A office suite available for immediate occupation is 25,454 sq ft at Central Square, with 13,000 sq ft available at 5 Wellington Place. The city centre will benefit from the delivery of a further 272,148 sq ft of Grade A office space before the end of Q1 2018, with three schemes under construction. MEPC’s Wellington Place will see No.3 delivered in Q1 2018 which will see 111,419 sq ft of new build office space replenish dwindling supply at the development. Supply will be bolstered earlier by Bruntwood’s refurbishment of City House, now re-branded Platform which will deliver 120,000 sq ft during Q3, with 10,000 sq ft already committed to. Finally, CBRE is now on-site with its refurbishment of 6/7 Park Row, providing 40,729 sq ft in Q4 2017.

- Longer term, Caddick Developments has secured planning at Quarry Hill for a mixed-use scheme which will include 107,643 sq ft of offices. The historic Majestic building will now undergo an impressive refurbishment to deliver 65,000 sq ft of office space after planners approved developer Rushbond’s designs. MEPC’s proposal for a further 377,000 sq ft in the delivery of 7 & 8 Wellington Place has been recommended for approval as the developer hopes to secure the major Government GPU requirement. The much anticipated regeneration of Leeds’ South Bank is progressing across numerous sites as CEG has unveiled plans for a mixed-use development which will incorporate up to 300,000 sq ft of office space. Vastint is also understood to be in pre-application discussions with the council in respect of its much anticipated development of the 21.75 acre former Tetley Brewery site purchased in Q4 2015.
TAKE-UP

The Leeds city centre office take-up in 2016 amounted to 430,014 sq ft in 115 deals, including 109,682 sq ft in the final quarter. The 2016 transactional activity was 27% lower than the 2015 total (680,105 sq ft) and 13% below the 10-year average (494,581 sq ft). However, the average deal size was on a par with the last two years at c.4,057 sq ft. Grade A take-up in 2016 equated to 61% of all transactions, which indicates strong demand for prime, centrally located office accommodation, with M&G’s Central Square and MEPC’s Wellington Place enjoying healthy take-up in 2016, which they will hope to continue into the new year.

The more subdued transactional activity in 2016 was partially due to occupiers being more cautious following the EU Referendum and a notable reduction of lease events throughout the year. A number of larger deals, that were anticipated to complete in the final quarter, slipped into 2017. There is over 500,000 sq ft of live requirements for Grade A office space in central Leeds, including demand from HMRC and the GPhC, as well as an increased number of upcoming lease expiries, all of which are expected to boost Leeds take-up in 2017.

The largest of the 30 city centre transactions to complete in the final quarter was the freehold acquisition of 22,685 sq ft at 1 Victoria Place by Medical Protection Society. The firm, which also owns the neighbouring 2 and 3 Victoria Place, will bring its total floor space across the three buildings to 70,000 sq ft. In early 2016, Sky Betting & Gambling acquired 39,605 sq ft at the new 6 Wellington Place in addition to its existing three floors at No 2 Wellington Place. The accountancy firm, RSM, also pre-let 25,000 sq ft at flagship Central Square, where the firm will move to from the two offices it currently occupies in Whitehall Quay and Wellington Street.

The legal sector continued to generate demand for office space in Leeds, representing 19% of the total take-up in 2016, while business services accounted for 11%. Leeds also attracted interest from 24 media & tech occupiers, equating 16% of demand. While Leeds continues to have its established financial, professional and healthcare base, the media & tech sector has grown over the last five years by 2.8% and is expected to be boosted further in the coming years.

Fig. 3: Leeds City Core Take-up by Grade

Fig. 4: Top 2016 Deals in Central Leeds

<table>
<thead>
<tr>
<th>ADDRESS</th>
<th>SIZE (SQ FT)</th>
<th>TENANT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2nd &amp; 3rd Floor, No 6 Wellington Place, Leeds</td>
<td>39,605</td>
<td>Hestview Limited (Sky Bet)</td>
</tr>
<tr>
<td>5th Floor, Central Square, Leeds</td>
<td>25,539</td>
<td>RSM</td>
</tr>
<tr>
<td>Whitehall II 5th and 6th Floors</td>
<td>23,762</td>
<td>The Department of Health</td>
</tr>
<tr>
<td>1 Victoria Place, Leeds</td>
<td>23,686</td>
<td>Medical Protection Society</td>
</tr>
<tr>
<td>Suite D14, D16, D17, D18 &amp; D20, Josephs Well, Hanover Way, Leeds</td>
<td>14,743</td>
<td>Plexus Law</td>
</tr>
<tr>
<td>4th &amp; 5th Floors, 6 East Parade</td>
<td>13,880</td>
<td>Dentsu Aegis Network</td>
</tr>
<tr>
<td>5th Floor, No 5 Wellington Place, Leeds</td>
<td>12,969</td>
<td>Ward Hadaway</td>
</tr>
<tr>
<td>Part 6th Floor, Central Square</td>
<td>12,735</td>
<td>BDO</td>
</tr>
<tr>
<td>Broad Gate, The Headrow</td>
<td>12,305</td>
<td>KPMG</td>
</tr>
<tr>
<td>2nd Floor, City Point</td>
<td>11,146</td>
<td>Blacks Solicitors LLP</td>
</tr>
<tr>
<td>Broad Gate, The Headrow</td>
<td>10,814</td>
<td>Life Search</td>
</tr>
</tbody>
</table>

Source: Colliers International
RENTS

- Leeds office prime rents for new Grade A space reached £27.50 psf as BDO secured 12,755 sq ft at Central Square and we anticipate a further uplift as the remaining Grade A space is committed to by occupiers currently negotiating terms. Incentive packages have returned to pre-recession levels, with ten-year leases now typically commanding 15 to 18 month rent free periods, down from 15 to 36 months at the height of the recession.

INVESTMENT

- Despite economic uncertainties surrounding the EU Referendum, the central Leeds office investment market remained buoyant throughout 2016. There were 14 separate investment office deals last year totalling £153 million, which is above both five and 10-year average. In a significant vote of confidence, Leeds City Council purchased 3 Sovereign Square for £43.75 million from Bruntwood Estates and Kier Property. The office building is Addleshaw Goddard’s new headquarters in Leeds city centre, where the firm moved to after practical completion at the end of 2016. The deal is part of the council’s approach to act as catalyst in Leeds’ economic growth by investing in development and regeneration projects.

- Credit Suisse, which is already an active investor in Leeds, owning Princes Exchange and recently selling No. 1 Park Lane and 2 City Walk, also purchased No.1 Leeds for £37.17 million in 2016.
OUTLOOK

The Leeds office market looks set to strengthen throughout 2017 and bounce back from a subdued 2016, which was undoubtedly overshadowed by domestic and global political events.

An increased number of upcoming occupier lease events, combined with existing property requirements, notably GPU ‘hub’ and HMRC, provide promising indicators for the year ahead.

‘North-shoring’ continues to be a hot topic for companies as they seek to identify cost-saving opportunities in relocating back-office functions. It is likely that Leeds could benefit from this initiative as its cost and quality of real estate and employment remains highly competitive against competing locations.

Supply of Grade A central office space will be replenished throughout the next 12 months as three schemes look set to conclude and will hope to capitalise on increasing occupier demand for prime accommodation. In addition, exciting new developments across the city are now beginning to move forward as developers finalise scheme designs and planning.

With prime headline rents forecast to increase towards £30 psf, Leeds will remain attractive to investors despite current macro political and economical uncertainty.

Fig 7: Leeds Office Investment Volumes

FOR MORE INFORMATION

Offices
Roddy Morrison
+44 113 200 1810
roddy.morrison@colliers.com

Oliver Stainsby
+44 113 200 1811
oliver.stainsby@colliers.com

Dominic Towler
+44 113 200 1813
dominic.towler@colliers.com

Research & Forecasting
Bo Glowacz
+44 20 7487 6902
bo.glowacz@colliers.com

Colliers International
50 George Street
London W1U 7GA

This report gives information based primarily on Colliers International data, which may be helpful in anticipating trends in the property sector. However, its warranty is given as to the accuracy of, and no liability for negligence is accepted in relation to, the forecasts, figures or conclusions contained in this report and they must not be relied on for investment or any other purposes. This report does not constitute and must not be treated as investment or valuation advice or an offer to buy or sell property. (February 2017) © 2017 Colliers International.

Colliers International is the licensed trading name of Colliers International Property Advisers UK LLP which is a limited liability partnership registered in England and Wales with registered number OC385143. Our registered office is at 50 George Street, London W1U 7GA. T: 020 3054 4800

Source: Property Data