

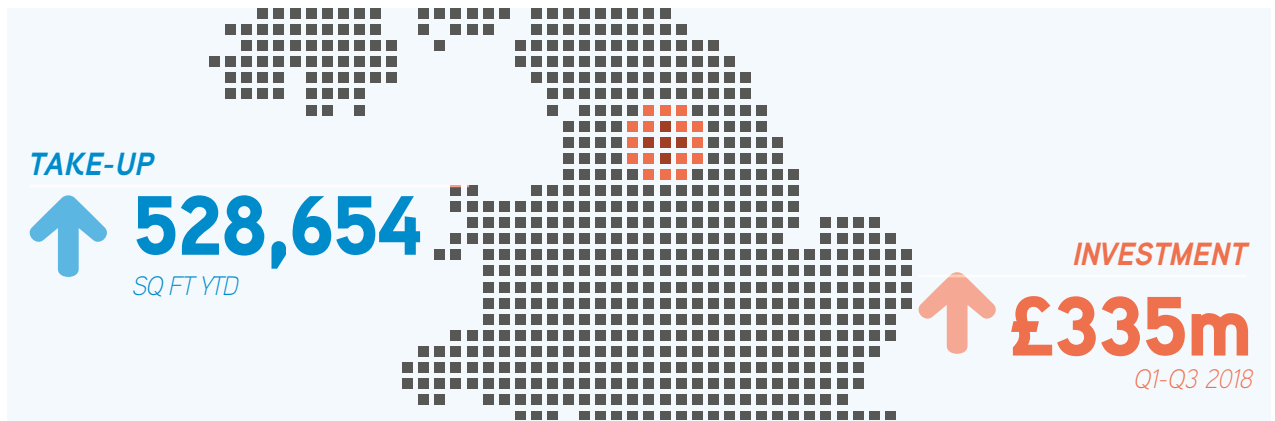


UNITED KINGDOM

LEEDS OFFICES

QUARTER 3 | 2018





TAKE-UP

Leeds city centre saw strong levels of demand in Q3 2018, with take-up at 191,464 sq ft. Similar levels of take-up were seen in the beginning of 2018 in Q1 with overall year-to-date leasing activity standing at 528,654 sq ft. We expect the strong level of demand to continue through to the end of the year, with year-end take-up to stand at c. 700,000 sq ft, exceeding the 5-year average.

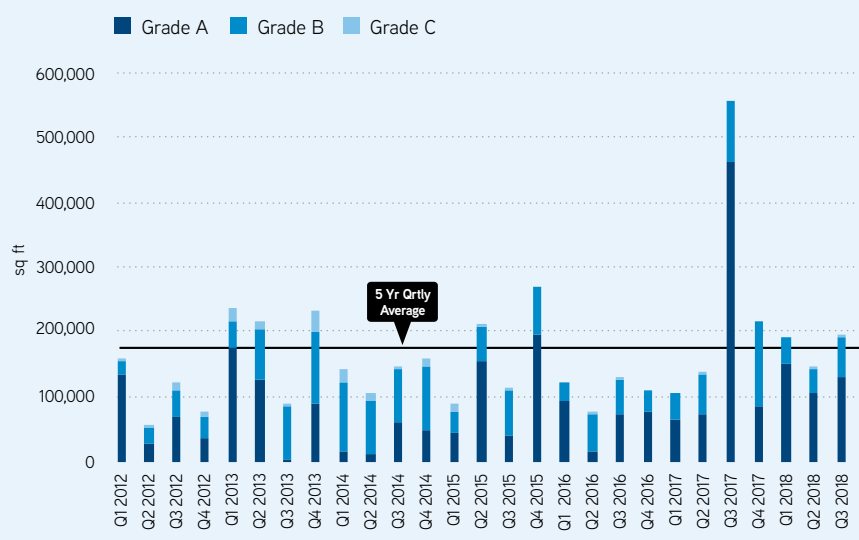
There was a 23% increase in Grade A transactions this quarter, totalling 129,884 sq ft. The largest Grade A deal was HMRC taking 60,000 sq ft at 3 Wellington Place. The second largest Grade A deal was also for space in 3 Wellington Place, with accountancy firm Mazars leasing 13,000 sq ft. The average Grade A deal size for this quarter equated to 7,640 sq ft. Also, of note is the deal that saw BUPA take 23,700 sq ft at Kirkstall Forge, the recently launched Grade A out-of-town offering from CEG.

Take-up by size band analysis shows deals over 25K are responsible for the greatest proportion of take-up this quarter; however, as this is solely

comprised of the 60,000 sq ft HMRC deal, this skews the analysis to the largest deal size. Deals in the 10K-25K size band comprise 20% of total take-up, along with those in the smaller deal sizes of 0-3K (see **Figure 2**). The average deal size of transactions in the 10K-25K size band is 12,612 sq ft, this includes the Mazars deal at 3 Wellington Place. Transactions in the 0-3K also comprise the largest percentage number of deals (62%), totalling 24 out of 39 deals this quarter.

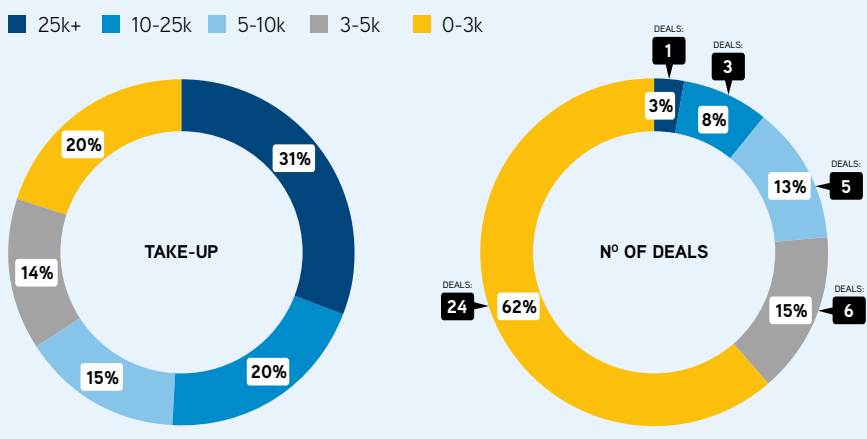
Aside from the government sector (HMRC, 3 Wellington Place), which dominates our take-up analysis (see **Figure 3**), the most active were media & technology occupiers. Leeds is renowned for its growing strength in the TMT sector and this has been reinforced with the sector accounting for 26% of total take-up, comprising of 13 out of 39 deals. The largest media & technology deal saw Infinity Works lease 12,642 sq ft at Apsley House. Media & technology occupiers took c. 30,000 sq ft more space in Q3 2018 compared to Q2 2018 (see **Figure 3**), a trend we expect to continue.

FIGURE 1: LEEDS CITY CENTRE QUARTERLY TAKE-UP
 By Grade
 (Q1 2012-Q3 2018)



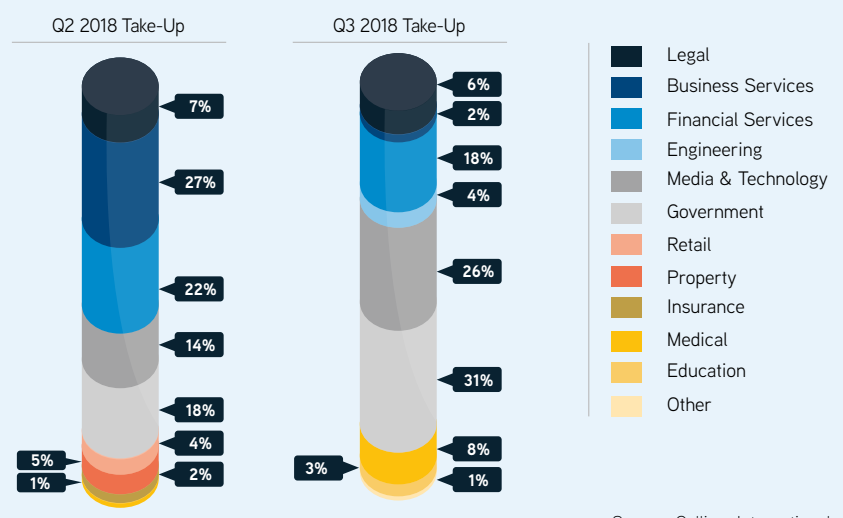
Source: Colliers International

FIGURE 2: Q3 2018 TAKE-UP
 By Size Band



Source: Colliers International

FIGURE 3: TAKE-UP
 By Business Type



Source: Colliers International

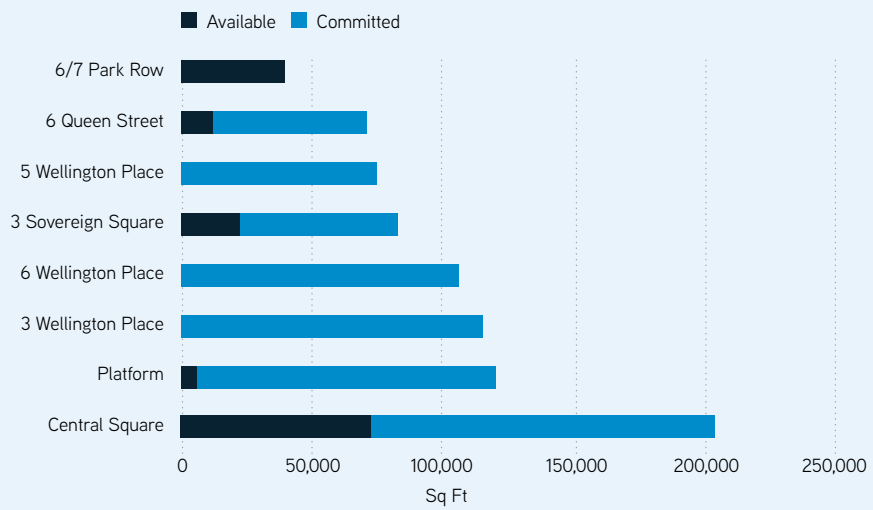


SUPPLY

Leeds city centre saw a number of new Grade A buildings come to the market in 2016/2017. Central Square is the only new Grade A building with more than 50,000 sq ft ready to occupy; whereas, CBRE GI's Grade A refurbishment at 6/7 Park Row has a little over 40,000 sq ft of space ready to let (see **Figure 4**).

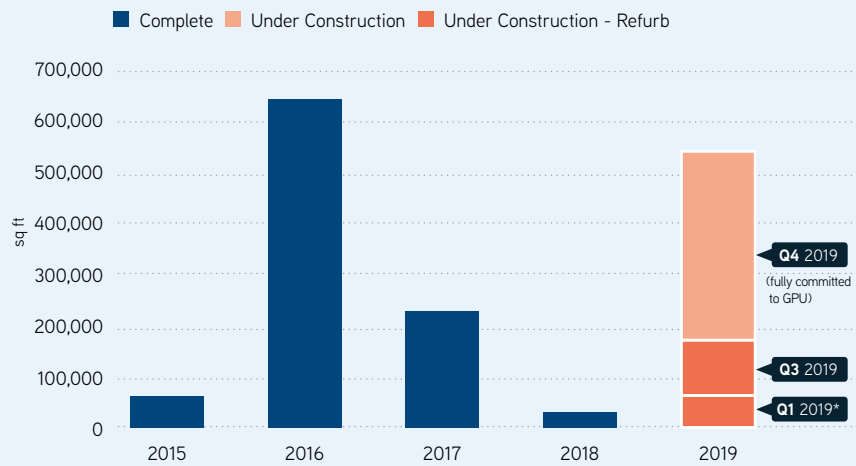
Overall supply continues to fall, despite a slight increase this quarter in Grade B availability. The trend of declining Grade A availability continues, with Grade A vacancy representing 2.0% of the total city centre office market. The overall city centre office vacancy is 8.3% (see **Figure 6**).

FIGURE 4: CITY CENTRE OFFICE COMPLETIONS (SQ FT)



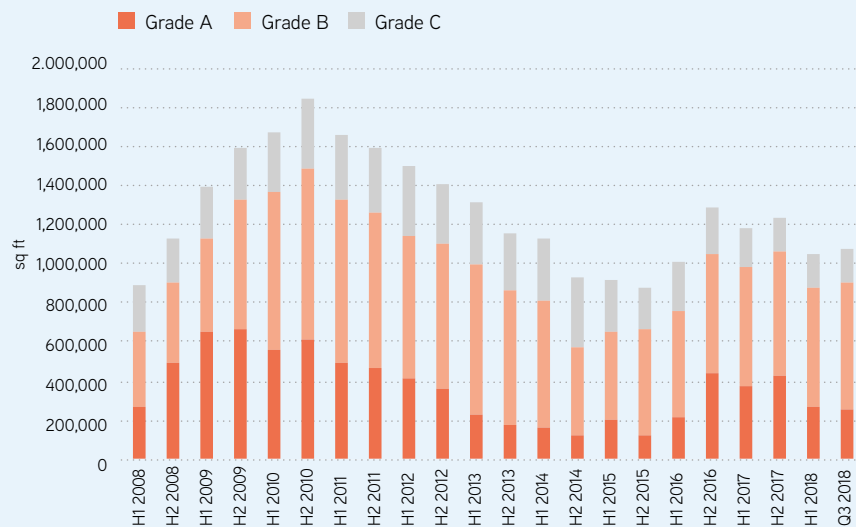
Source: Colliers International

FIGURE 5: LEEDS DEVELOPMENT PIPELINE (2015-2019)



Source: Colliers International
 *61,000 sq ft committed to Walker Morris

FIGURE 6: LEEDS CITY CENTRE AVAILABILITY By Grade (H1 2008-Q3 2018)



Source: Colliers International

RENTS

Headline rents in the city centre remain at £30 psf, with Grade B rents at £22 psf (see **Figure 7**). We have started to see minor uplifts in Grade A rents on

smaller deals. As demand for Grade A space continues to increase in the city centre, we expect prime rents to rise.

INVESTMENT

Leeds city centre continues to see strong investment activity throughout the first three quarters of this year. Investment volumes in the first half of 2018 were at an all time high. Transaction volumes for Q1-Q3 reached £335 million, the highest for seven years.

The most notable transaction this quarter was Artmax Properties'

purchase of 1 Sovereign Street for £50 million from Gatehouse Bank, on a yield of 5.42%. The second largest investment deal saw Abu Dhabi Islamic Bank purchase Lateral for £24 million on a yield of 7.99%. Whilst investment activity has been strong so far this year, an air of caution is envisaged as the approach of Brexit moves closer.

OUTLOOK

There are a number of schemes in the future pipeline, which will deliver large scaled mixed-use development and much needed regeneration to key city centre brownfield sites.

The positive momentum has continued in Q3 and, given the number of active occupier requirements, the Leeds office market looks set for another outstanding year-end performance. Leeds continues to grow in strength this year as an investment hotspot, with £335million invested in the first three quarters of 2018.

We expect Leeds to continue to attract further investment. Leeds remains

attractive to occupiers as the cost of real estate and employment give it a competitive edge over other major regional cities. The recent announcement that Leeds has been selected for the new Headquarters of Channel 4, beating bids from Greater Manchester and Birmingham, reinforces the attraction of the city amongst the 'Big 9' regional markets. The move will boost employment within the region and will also attract further investment and development as the most recent high profile example of 'north shoring'. As a result of ongoing demand and declining supply, we expect prime office rents to increase.

FIGURE 7: **LEEDS CITY CENTRE RENTS**
(1995-2020)

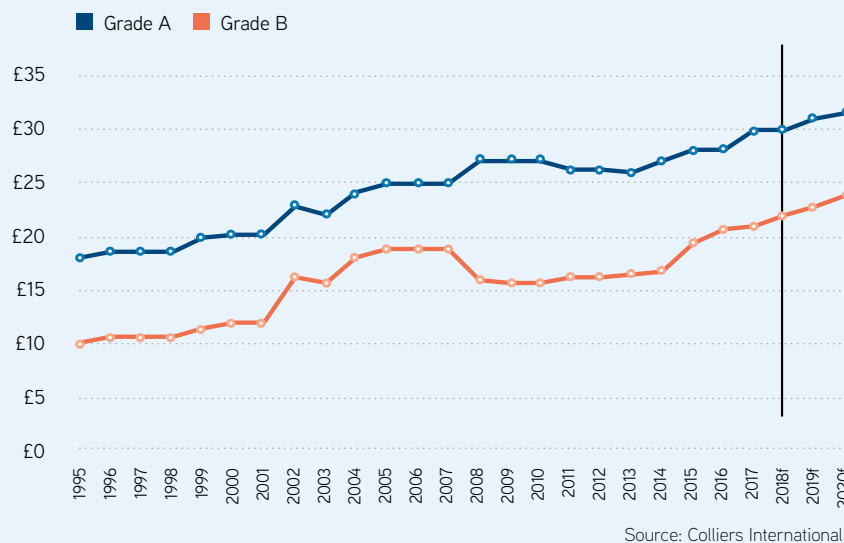
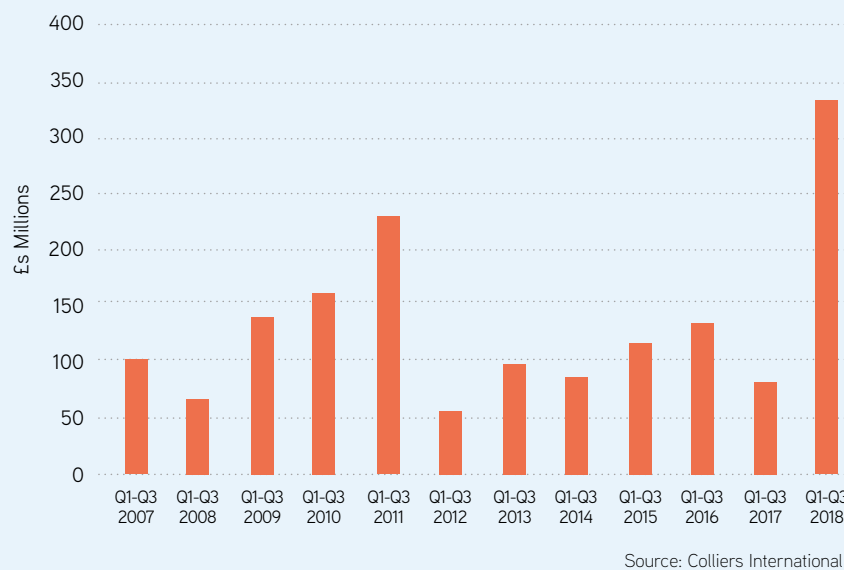


FIGURE 8: **LEEDS OFFICE INVESTMENT**
(Q1 2007-Q3 2018)



The Leeds office market looks set for another outstanding year-end performance.



FOR MORE INFORMATION

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