UK CITIES

MID YEAR REVIEW
H1 2022

CONTENTS

FOREWORD

Roll the clock back 12 months and Coronavirus was the greatest challenge to market confidence. This time around, the pandemic has seemingly slipped into accepted life and old foes have reappeared. Politics and the UK economy. The principal consideration at the mid-year point is the outlook for the UK economy. The Bank of England has warned the UK will fall into recession as it raised interest rates with the single biggest hike in 27 years. The economy is forecast to shrink in the last three months of 2022 and keep contracting until the end of 2023. Interest rates rose to 1.75% as the Bank battles to stem soaring prices, with inflation now set to hit over 13%.

On the occupier side, interest in the UK cities has held firm, especially for new and good quality space, in particular those offering a range of ESG led amenities and majoring in sustainability. This has meant that total take-up in H1 is well ahead of the equivalent period in 2021. Development continues to deliver high quality space into many markets, with net carbon zero at the forefront of this, widening the appeal of the UK cities to potential suitors. This 'place-making' investment will continue, albeit rising build costs is meaning that development appraisals are being scrutinised with greater vigour. Rental increases are required to reflect this and the enhanced specification requirements demanded by the occupier.

In tandem, investors have continued their pursuit of regional opportunities, buoyed principally in operation by the upward trajectory of market rents. Deal numbers have steadily risen in recent months and investment appetite toward 'the right opportunity' never really subsided. The high value sales completed in 2022 illustrate this. These 'big ticket' transactions have ensured that investment volumes at the half way point reached the highest total for four years.

The property market begins the second half of 2022 with momentum and potential headwinds. In the past, disruptive externalities have led to market apathy. Of course, examples of this will surface in H2 2022, but real estate remains forefront of an organisation's armoury in terms of brand, productivity and talent attraction. Similarly, the case for investment – value, return and security - remains compelling. Fundamentally, the UK cities' offer has not changed in 12 months, just perception. There are countless forecasts that point toward a 'bumpy ride'. How will the remainder of the year unfold? Experience shows that market disruption will always present opportunity.

- **DAVID PORTER**
  Partner
  UK Cities – Landlord & Occupier Strategies and Solutions

OCCUPIER SUMMARY

ABERDEEN – BIRMINGHAM – BRISTOL – CARDIFF – EDINBURGH – GLASGOW – LEEDS – MANCHESTER – NEWCASTLE - SHEFFIELD

Positive start to 2022

The results of the first six months of 2022 have provided further indication of a business return to the office. The combined total of occupier take-up across the major UK regional cities in the H1 period was 2.5m sq ft. This total represents an 18% increase when compared to the equivalent period in 2021 and is just short (7%) of the 10-year average for an H1 period. Notably, during the first six months of 2022, 559 deals have completed. This is 33% more than in H1 2021.

The strong start to the year meant that the rolling 12-month take-up total rose to 6m sq ft for the first time since 2019. This total is 3% above the 10-year average and is demonstrative of the greater positivity of business sentiment towards future headcount and revenue growth.

Supply tightening across the major markets

Over the past 12 months, the weighted market vacancy rate across the UK regional cities has registered a gradual increase from 7.2% as at H1 2021 to 8.3% as at H1 2022. Interestingly, the level of new and Grade A space has fallen by just 1% over the same period to sit just above 3m sq ft at the mid-year juncture.

Onward, the development pipeline is tight. As at mid-year, 5m sq ft of space was under construction across the major UK cities. Notably, just above 3.2m sq ft of this space is already let.

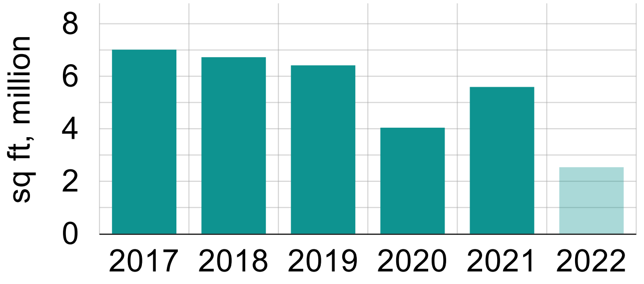
The dynamics of supply and demand now arguably support the case for speculative development. However, viability is entering the development narrative. The BCIS All Work Material Price Index has risen by 20% when compared to the equivalent period in 2021, the highest annual increase on record. Developers therefore will want to see consistent evidence of prime rental growth before plans are brought forward.

Best quality pushing headline rents

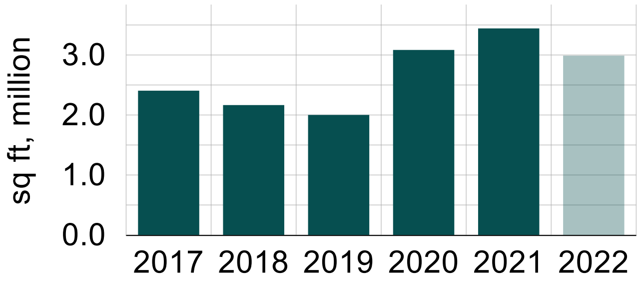
Headline rents across the main regional cities are continuing to grow. The UK cities rent index shows an increase of 3.3% over the past 12 months. If considered over a longer period, the same index identifies a 7% uplift since the onset of Covid, with eight of the ten major UK cities recording a rise in prime rent.

Bristol and Edinburgh have recorded the highest rises. Prime rents in both cities now exceed £40 per sq ft, with Bristol registering an increase of 13% over the past year and Edinburgh 7%.

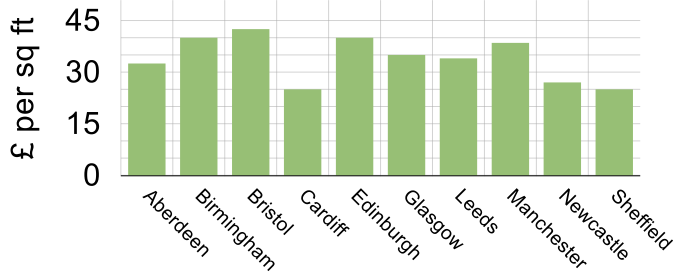
TAKEUP



SUPPLY



PRIME RENT



Source: Knight Frank
Current year statistics are representative of H1 2022

TAKEUP (H1 2022)
2.5M
SQ FT
18%▲(YOY)

GRADE A SUPPLY (Q2 2022)
3.1M
SQ FT
1%▼(YOY)

UNDER CONSTRUCTION (SPECULATIVE 2023 -2025)
3.2M
SQ FT
New & Refurb

RENT
+3.3%
PER SQ FT
▲

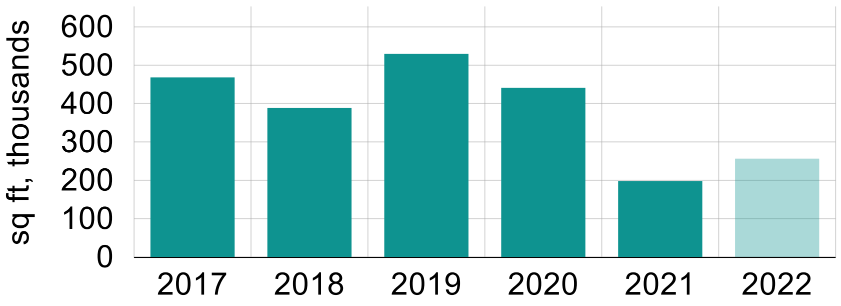
ABERDEEN

OCCUPIER MARKET PERFORMANCE

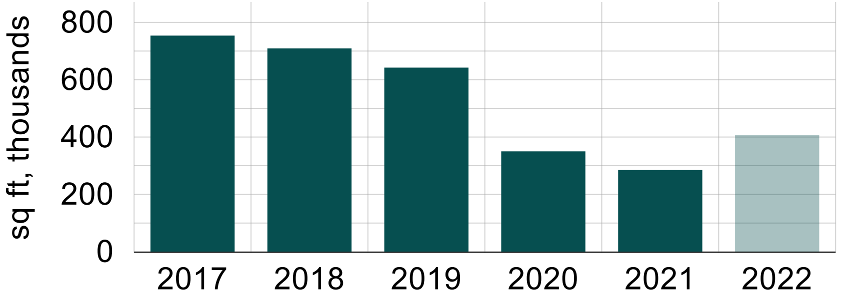
KEY TAKEAWAYS

- In 2022, Aberdeen registered the strongest H1 period in terms of occupier activity since 2015. In the first six months of the year, 37 deals have completed. This is the highest number for four years. Consequently, leasing volumes had reached 256,426 sq ft at the mid-year point. This represents a 361% increase in take-up figures when compared to H1 2021.
- The Energy & Utilities sector again was the most active occupier group, accounting for almost three quarters (73%) of take-up in H1. The largest deal to complete was Shell taking 100,312 sq ft of office space at the Silver Fin building. This deal alone accounted for 40% of total take-up in H1. Shell is moving more than 1,000 staff from its current base in Tullos, Aberdeen.
- Overall market vacancy remained relatively high at 24% by the close of H1 2022. This level however demonstrates a significant decrease when compared to the 30% recorded at H1 2021. Grade A availability for the Aberdeen market area was 407,500 sq ft at the close of H1 2022. This represents a rise when compared to the first quarter, and is 54% higher when compared to the same period in 2021.
- With overall vacancy still relatively high, development activity has remined limited. As of H1 2022 there are no office development projects under construction.
- Prime rent remained steady at £32.50 per sq ft, having remained at this level since Q2 2018.

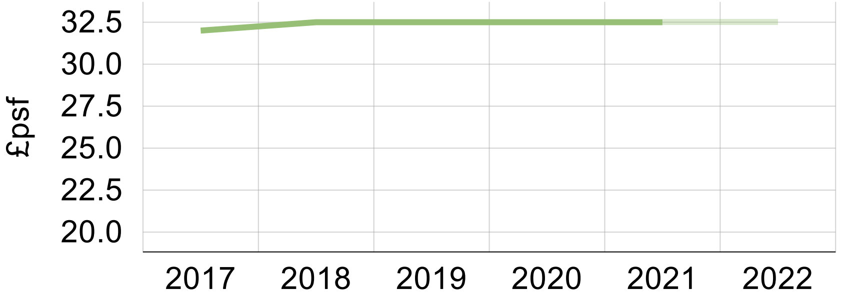
TAKEUP



GRADE A SUPPLY



PRIME RENT



Source: Knight Frank
Current year statistics are representative of H1 2022

TAKEUP (H1)
256,426
SQ FT
361%▲(YOY)

HEADLINE TRANSACTION
The Silver Fin Building
100,312 SQ FT
Shell

GRADE A SUPPLY (Q2)
407,500
SQ FT
54%▲(YOY)

UNDER CONSTRUCTION (SPECULATIVE 2023 – 2025)
-
SQ FT
New & Refurb

PRIME RENT (Q2 2022)
£32.50
PER SQ FT
-% (YOY)

BIRMINGHAM

OCCUPIER MARKET PERFORMANCE

KEY TAKEAWAYS

- Although occupier activity slowed in the second quarter, with 117,599 sq ft let, overall take-up in the first half of 2022 registered year-on-year improvement. At the mid-year juncture, city centre office take-up had reached 292,890 sq ft. This represents a 16% increase when compared to the equivalent period in 2021.

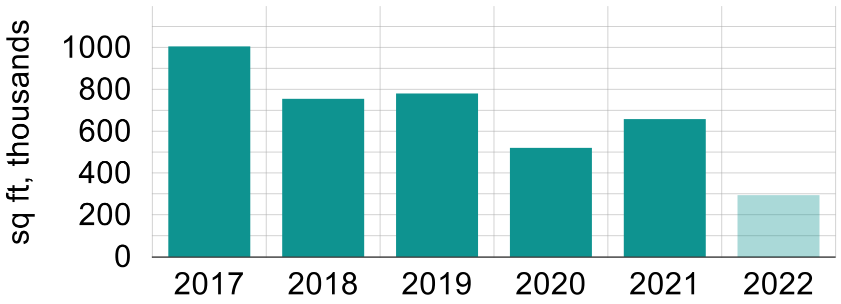
- Underpinning occupier demand in the first six months of the year has been Professional Services, with space let to firms from this sector accounting for 29% of total take-up in H1 2022. The completion of three key transactions at 103 Colmore Row to Professional Service firms supported the dominance of the sector in H1, with RSM, Arcadis and Browne Jacobson all taking a floor.

- The total market vacancy rate has registered a gradual decrease over the past 12 months. At H1 2022, it had dipped to 4.2%, a significant drop when compared to the 7% recorded at H1 2021. The level of Grade A space available for let has followed a similar path, registering a 47% decrease over the past 12 months. At 318,089 sq ft, the total at H1 2022 remains 5% above the long-term trend, however.

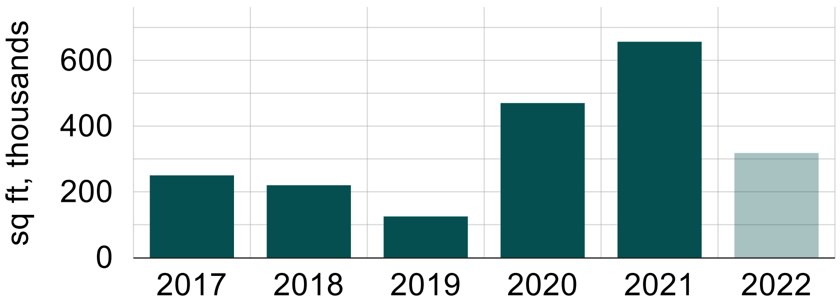
- As at H1 2022, approximately 575,000 sq ft of office space across six schemes was under construction in Birmingham's city centre. Of this, 505,000 sq ft is speculative. Interestingly, of this total 88% is due to reach practical completion before the end of 2022, meaning a short term rise in vacancy is expected by year-end.

- Birmingham is one of three major UK regional cities to register prime rents of £40 per sq ft or over. At mid-year, prime rents on city centre stock was £40 per sq ft. This represents a 7% year-on-year increase and is a record rent for the city.

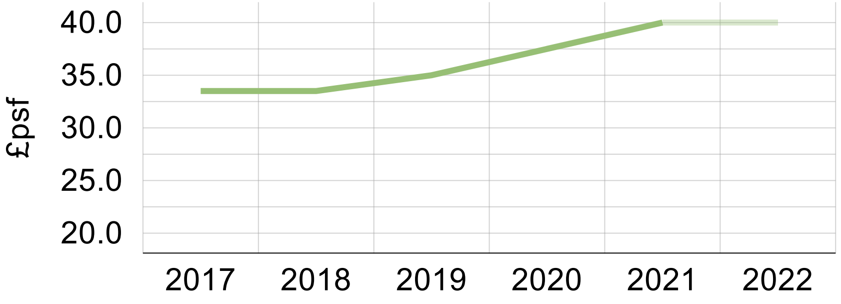
TAKEUP



GRADE A SUPPLY



PRIME RENT



Source: Knight Frank
Current year statistics are representative of H1 2022

TAKEUP (H1)
292,860
SQ FT
16% ▲ (YOY)

HEADLINE TRANSACTION
103 Colmore Row
12,132 SQ FT
RSM (10th)/Arcadis (16th)

GRADE A SUPPLY (Q2)
318,089
SQ FT
47% ▼ (YOY)

UNDER CONSTRUCTION (SPECULATIVE 2023 – 2025)
505,000
SQ FT
New & Refurb

PRIME RENT (Q2 2022)
£40.00
PER SQ FT
7% ▲ (YOY)

BRISTOL

OCCUPIER MARKET PERFORMANCE

KEY TAKEAWAYS

- Occupier activity in Bristol has proved brisk in the first half of 2022. Q1 2022 take-up of 234,275 sq ft was the highest level of Q1 take-up since 2004. With take-up for Q2 2022 at 143,609 sq ft, which is pretty much in line with the 5- and 10-year averages, this has contributed to H1 take-up standing at a very healthy 377,884 sq ft circa 90,000 sq ft ahead of a standard year.

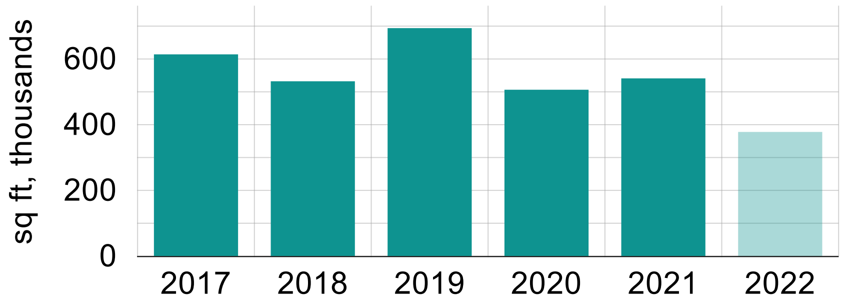
- The Technology, Media and Telecoms sector has been the main driving force over H1 with the largest deals in Q1 and Q2 both to companies from this fast-growing sector. The largest deal in Q1 and for the year so far was the letting of 54,767 sq ft to Payment Sense at EQ which is still under construction with completion in mid 2023. The largest deal of Q2 was the 24,375 sq ft letting to Pax8 at D2, The Distillery where they have taken the 5th, 4th and 3rd floors.

- Market vacancy has decreased very slightly from 5.8% to 5.7% over the past 12 months. New Grade A availability decreased more markedly to finalise at 55,216 sq ft at the end of Q2 2022. This is a reduction of 45% when compared to Q2 2021 and is 57% below the 10-year average for the city.

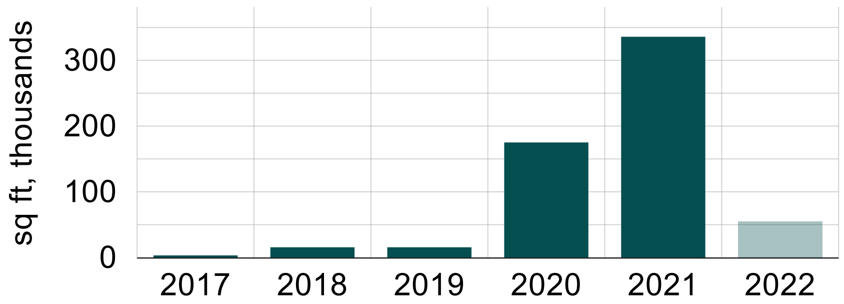
- Construction completions in 2022 are strictly limited with just Portwall Gate 33,000 sq ft and Halo, Finzels Reach 116,000 sq ft. Looking ahead to 2023 construction continues at EQ (185,000 sq ft), Assembly B&C (30,000 sq ft & 95,000 sq ft) and Welcome Building (212,000 sq ft).

- Bristol is one of the three major UK regional cities to achieve a prime rent of £40 per sq ft or over, recording £42.50 per sq ft in the first quarter of 2022. This represents an increase of 13% when compared to the equivalent point in 2021. In fact, this is the highest prime rent achieved by any regional UK city.

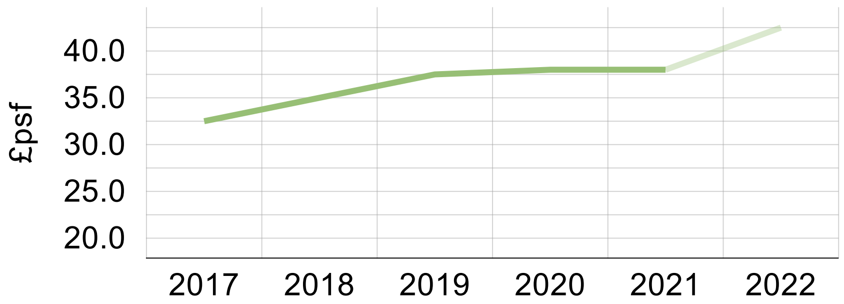
TAKEUP



GRADE A SUPPLY



PRIME RENT



Source: Knight Frank
Current year statistics are representative of H1 2022

TAKEUP (H1)
377,884
SQ FT
72%▲(YOY)

HEADLINE TRANSACTION
The EQ Building
54,767 SQ FT
Payment Sense

GRADE A SUPPLY (Q2)
55,216
SQ FT
45%▼(YOY)

UNDER CONSTRUCTION (SPECULATIVE 2023 – 2025)
688,302
SQ FT
New & Refurb

PRIME RENT (Q2 2022)
£42.50
PER SQ FT
13%▲(YOY)

CARDIFF

OCCUPIER MARKET PERFORMANCE

KEY TAKEAWAYS

- The first six months of 2022 have recorded good levels of activity, with the second quarter of 2022 following a strong Q1 take-up in Cardiff. A comparison of H1 2022 and H1 2021 reveals that leasing levels have increased by 134% over the period. At 214,708 sq ft, H1 2022 is the highest recorded figure for a H1 period since 2016. In fact, take-up in H1 2022 is just short (13%) of the annual total for 2021.

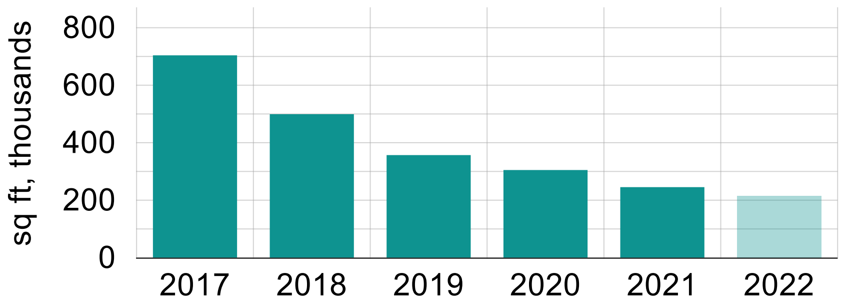
- The Technology, Media and Telecoms sector accounted for 50% of space let during the first half of 2022. Notably, this business group was responsible for two of three deals over 20,000 sq ft during the period. The headline deals underpinning this representation were the 65,092 sq ft letting to BT at 3 Capital Quarter in Q1 and entertainment provider Roku taking 25,845 sq ft at Fusion Point One in the second quarter. Importantly, Cardiff is home to a variety of office user sectors, providing a varied and diverse occupier pool.

- The total market vacancy rate increased marginally to 11.5% at H1 2022 from 11.3% in the respective period of the previous year, with new availability being balanced by H1 activity. Grade A availability registered a decrease of 16% year-on-year, falling to 314,519 sq ft at period end. Even so, the H1 2022 total remained 81% above the 10-year average for the city where take-up has historically been hampered by lack of supply of Grade A space.

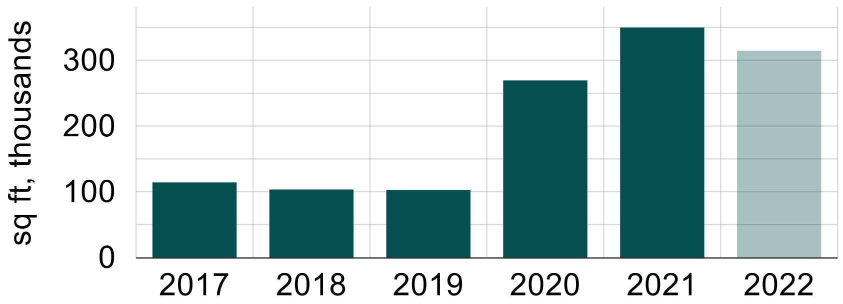
- Of 227,010 sq ft of office space under construction, just over half is speculative, with 107,010 sq ft available at 1 John Street, Callaghan Square. This is the only brand new office building coming to the market in 2023.

- The prime office rent remains at £25 per sq ft in Cardiff. At this level, Cardiff offers the best value of the major UK cities covered in this report. However, we expect this to increase for the first time in 6 years and currently forecast prime rent could reach £30 per sq ft by the end of the year due to major pre-let activity.

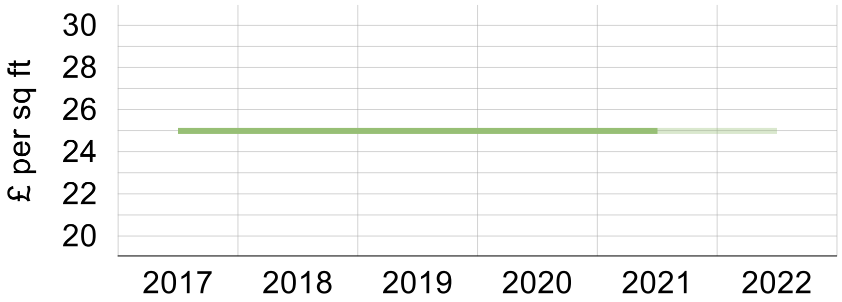
TAKEUP



GRADE A SUPPLY



PRIME RENT



Source: Knight Frank
Current year statistics are representative of H1 2022

TAKEUP (H1)
214,708
SQ FT
134% ▲ (YOY)

HEADLINE TRANSACTION
3 Capital Quarter
65,092 SQ FT
BT

GRADE A SUPPLY (Q2)
314,519
SQ FT
16% ▼ (YOY)

UNDER CONSTRUCTION (SPECULATIVE 2023 – 2025)
107,010
SQ FT
New & Refurb

PRIME RENT (Q2 2022)
£25.00
PER SQ FT
-% (YOY)

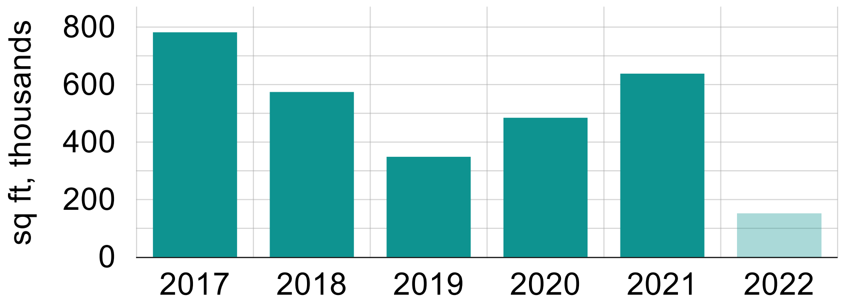
EDINBURGH

OCCUPIER MARKET PERFORMANCE

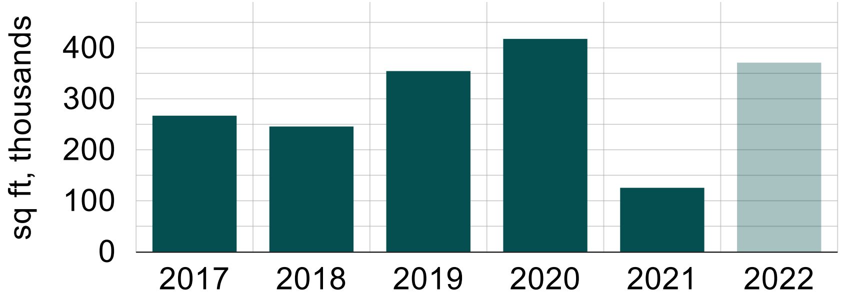
KEY TAKEAWAYS

- Edinburgh experienced a dip in occupier activity in Q2 with just over 50,000 sq ft leased. This meant that at mid-year, total take-up had reached 151,715 sq ft. Although this total is 38% less than in H1 2021, the H1 2022 figure is nearly double the amount recorded in H1 2020.
- Firms from the Technology, Media and Telecoms (TMT) sector continue to underpin demand in Edinburgh. During H1 2022, this business group accounted for 31% of take-up in the city centre. Professional Services has also been active, accounting for 26% of take-up in H1. Activity has been headed by law firms Shoosmiths and Dentons LLP taking 16,383 sq ft and 14,883 sq ft of space respectively at One Haymarket Square.
- The total market vacancy rate has increased over the past 12 months and stands at 8.7%, up from 4.8% at H1 2021. Grade A availability has shown a similar trend, having increased by 12% year-on-year. At 370,946 sq ft, Grade A supply is 18% above the 5-year average for the region.
- There is currently 390,000 sq ft of space under construction in the development pipeline for Edinburgh, all of which is leased. As such, market vacancy is likely to begin to show a decrease in the coming months. Furthermore, limited pipeline of new supply will create greater competition for existing best quality space.
- As one of only three major UK cities to do so, Edinburgh has achieved prime rents of a record £40 per sq ft. This is an increase of 7% from H1 2022 following steady long term growth, and is expected to reach £42 per sq ft by year-end.

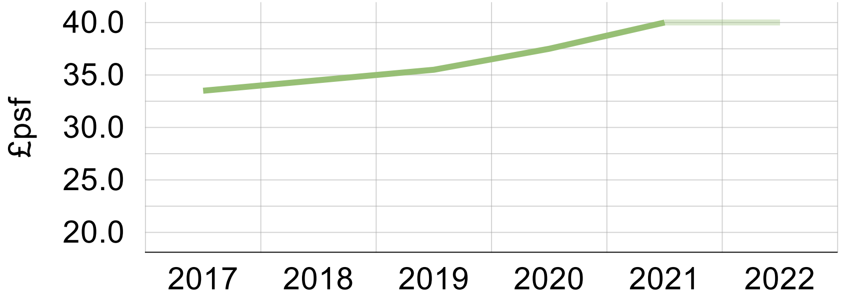
TAKEUP



GRADE A SUPPLY



PRIME RENT



Source: Knight Frank
Current year statistics are representative of H1 2022

TAKEUP (H1)
151,715
SQ FT
38% ▼ (YOY)

HEADLINE TRANSACTION
Haymarket One
16,383 SQ FT
Shoosmiths

GRADE A SUPPLY (Q2)
370,946
SQ FT
12% ▲ (YOY)

UNDER CONSTRUCTION (SPECULATIVE 2023 – 2025)
-
SQ FT
New & Refurb

PRIME RENT (Q2 2022)
£40.00
PER SQ FT
7% ▲ (YOY)

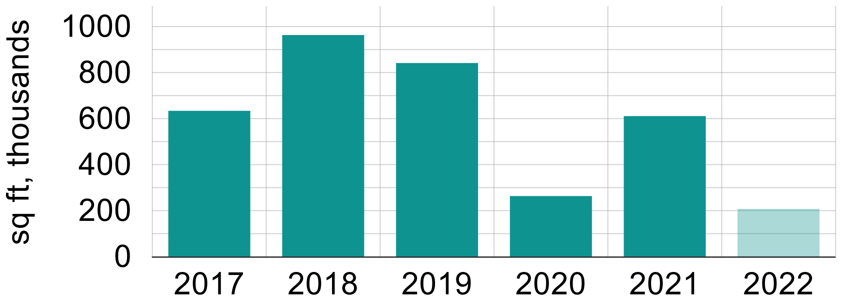
GLASGOW

OCCUPIER MARKET PERFORMANCE

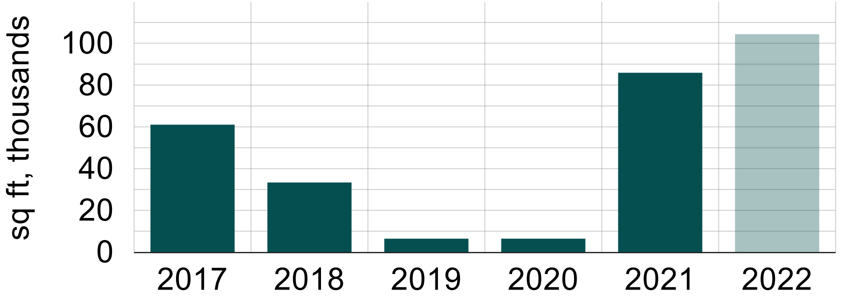
KEY TAKEAWAYS

- In contrast to other markets across the UK, occupier activity in Q2 registered improvement in Glasgow. Take-up reached 125,753 sq ft, 52% higher when compared to Q1 and the highest quarterly total for 12 months. Even so, total take-up at the mid-year point of 2022 finalised at 208,021 sq ft. This total is 25% less when compared to the same period in 2021.
- Underpinning activity in H1 2022 has been Professional Services firms. This business group has been responsible for 12 of 52 deals completed in Glasgow city centre and accounts for 21% of space let. The largest deal involving a Professional Services company was to law firm Burness Paul who took 14,812 sq ft at 2 Atlantic square.
- The largest transaction of the H1 period was OVO Energy taking up 33,906 sq ft at CADworks. This meant that Energy and Utilities accounted for 29% of space let in the second quarter.
- The total market vacancy rate is showing a gradual increase, reaching 8.7% as at the end of June 2022. This compares to 7.5% at the equivalent point in 2021. The rise is partly due to an increase in available Grade A space. The level of new Grade A supply available for lease has risen to 104,351 sq ft over the past 12 months, with space vacant at CADworks and 2 Atlantic Square.
- A total of 835,500 sq ft of office space was under construction at the mid-year point of 2022. Significantly, only 271,435 sq ft of this is speculative, meaning vacancy levels are unlikely to register any sharp increase.
- The prime office rent for Glasgow has remained steady at £35 per sq ft over the past 12 months. This follows an increase of 7.6% at the turn of the previous year.

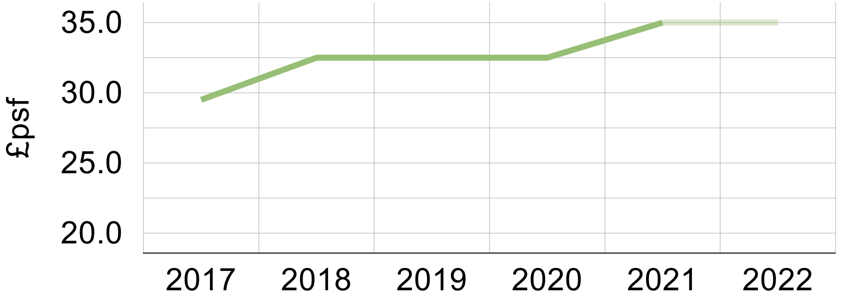
TAKEUP



GRADE A SUPPLY



PRIME RENT



Source: Knight Frank
Current year statistics are representative of H1 2022

TAKEUP (H1)
208,021
SQ FT
25%▼(YOY)

HEADLINE TRANSACTION
CADworks
33,905 SQ FT
OVO Energy

GRADE A SUPPLY (Q2)
104,351
SQ FT
1,520%▲(YOY)

UNDER CONSTRUCTION (SPECULATIVE 2023 – 2025)
271,435
SQ FT
New & Refurb

PRIME RENT (Q2 2022)
£35.00
PER SQ FT
-% (YOY)

LEEDS

OCCUPIER MARKET PERFORMANCE

KEY TAKEAWAYS

- At H1 2022, Leeds saw a reduction in occupier activity compared with H1 2021, with current levels of take-up 7% below the previous year at 252,323 sq ft. Despite experiencing a dip from H1 2021, activity levels are 58% above the equivalent period in 2020.

- Driving occupier demand in H1 2022 has been the Professional Services sector, accounting for 29% of all office space leased. Notable deals in this sector include law firms Wrigleys Solicitors LLP and Lupton Fawcett taking over 11,000 sq ft of space each at 3 Wellington Place and 2 The Embankment respectively.

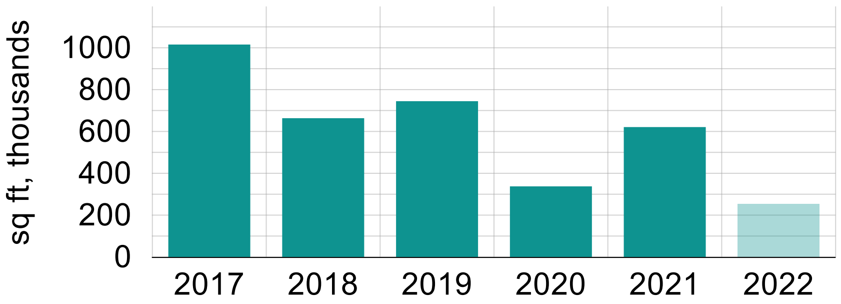
- However, the single largest transaction was derived from the next most active sector, namely the Public Sector and Not-for-Profit Organisations, with a substantial deal at 105 Albion Street, with the Department for Education taking 53,058 sq ft of space. Accounting for 91% of all deals in this sector, it has been a substantial driver of demand by the Public Sector and Not-for-Profit Organisations.

- Overall market vacancy has increased slightly over the past 12 months from 4.7% to 5.2% at H1 2022. Grade A availability has similarly demonstrated an increase, standing at 341,910 sq ft at Q2 2022, up from 270,678 sq ft at the respective period in the previous year. This is an increase in supply of 26% and is 31% above the long term average.

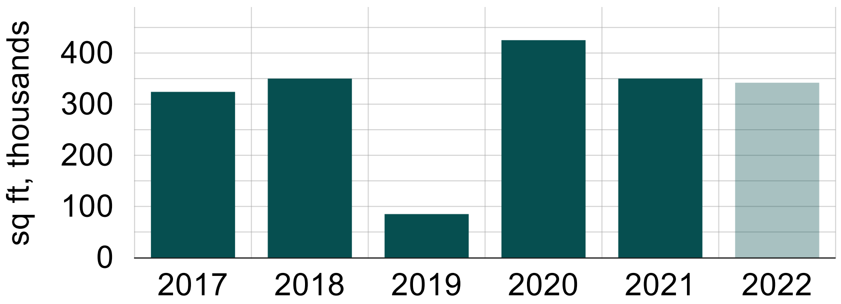
- Of a total of 822,962 sq ft of office stock under construction in Leeds, a majority of 711,369 sq ft is speculative, meaning there is likely to be an increase in the market vacancy rate in the coming six months. However, most of this speculative stock is due for completion in 2023 (513,176 sq ft), keeping said rise in vacancy minimal.

- Prime office rents in Leeds have remained stable over the last 24 months, standing at £34 per sq ft. It is expected, however, that rents will reach £36 per sq ft by the end of the year.

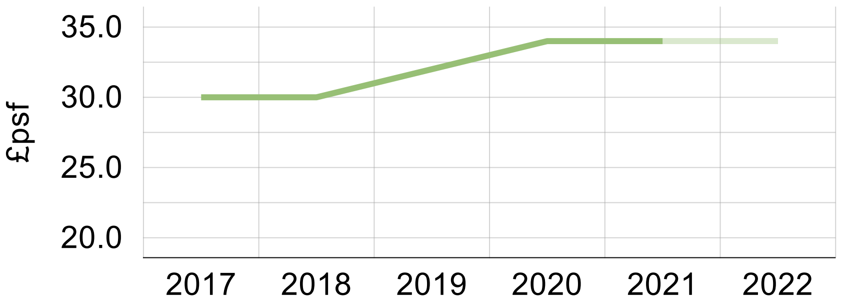
TAKEUP



GRADE A SUPPLY



PRIME RENT



Source: Knight Frank
Current year statistics are representative of H1 2022

TAKEUP (H1)
252,323
SQ FT
7%▼(YOY)

HEADLINE TRANSACTION
Wellington Place
11,743 SQ FT
Redmayne Bentley

GRADE A SUPPLY (Q2)
341,910
SQ FT
26%▲(YOY)

UNDER CONSTRUCTION (SPECULATIVE 2023 – 2025)
711,369
SQ FT
New & Refurb

PRIME RENT (Q2 2022)
£34.00
PER SQ FT
-%

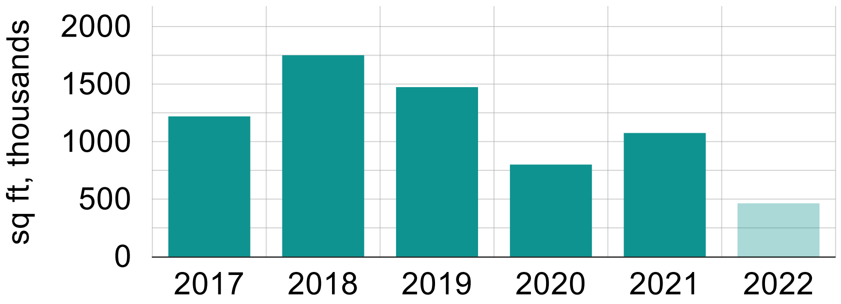
MANCHESTER

OCCUPIER MARKET PERFORMANCE

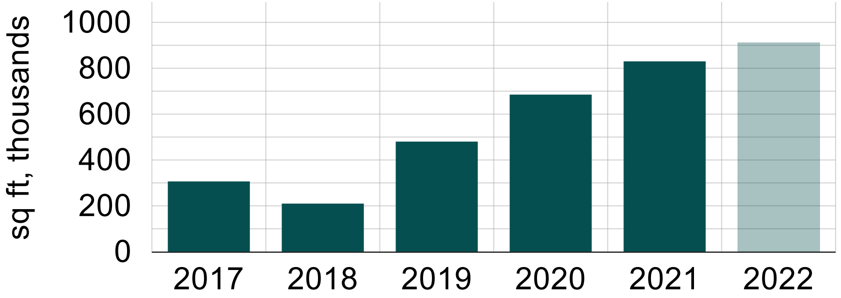
KEY TAKEAWAYS

- Occupier activity in Manchester increased by 23% during the second quarter of 2022, with 255,197 sq ft transacted. This meant that at mid-year, take-up had reached 461,960 sq ft. This total is just 2% shy of the H1 total of 2021 and is 21% ahead of H1 2020. Interestingly, 124 occupier deals completed in the first six months of 2022. This the highest total for three years and is on par with the total for H1 2019.
- With the largest deal of the year being the Government Property Agency taking 130,000 sq ft of space at 9a First Street, the Public Sector accounted for the highest percentage of take-up at H1 (30%). However, purely on a deal number basis, Professional Services firms were most active in H1 2022, accounting for 32 deals or 26% of activity.
- The total market vacancy rate increased over the past year from 12% at the mid-year point in 2021 to 14.4% at H1 2022. Grade A availability has followed a similar trend, registering an increase of 4% year-on-year.
- As at mid-year 2022, 772,569 of office space was under construction, of this total, 52% has already been pre-leased. Total Grade A supply has increased to 912,159 sq ft due to 470,000 sq ft of stock having been completed in the previous 12 months. With limited completions due later this year and 354,000 sq ft due to complete in 2023 the impact on the overall vacancy rate will be minimal.
- At present, there is a total of approximately 265,000 sq ft of new grade A space under offer to 14 different occupiers, all taking 10,000 sq ft or more. This should represent a buoyant second half of the year.
- Prime office rents have remained stable over the past 12 months at £38.50 per sq ft. Expectations are that £40 per sq ft or over will be achieved before year-end.

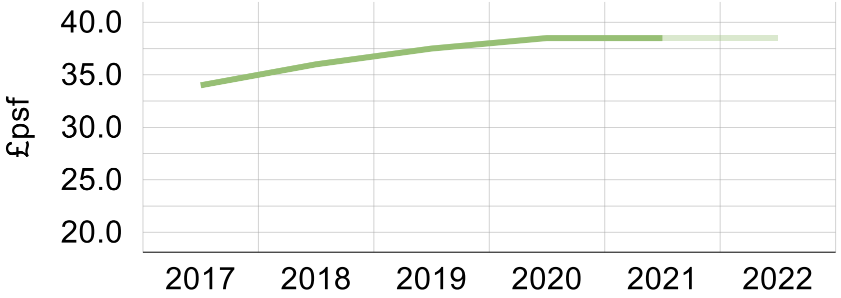
TAKEUP



GRADE A SUPPLY



PRIME RENT



Source: Knight Frank
Current year statistics are representative of H1 2022

TAKEUP (H1)
461,960
SQ FT
2% ▼ (YOY)

HEADLINE TRANSACTION
9a First Street
130,000 SQ FT
GPA

GRADE A SUPPLY (Q2)
912,159
SQ FT
4% ▲ (YOY)

UNDER CONSTRUCTION (SPECULATIVE 2023 – 2025)
373,369
SQ FT
New & Refurb

PRIME RENT (Q2 2022)
£38.50
PER SQ FT
-% (YOY)

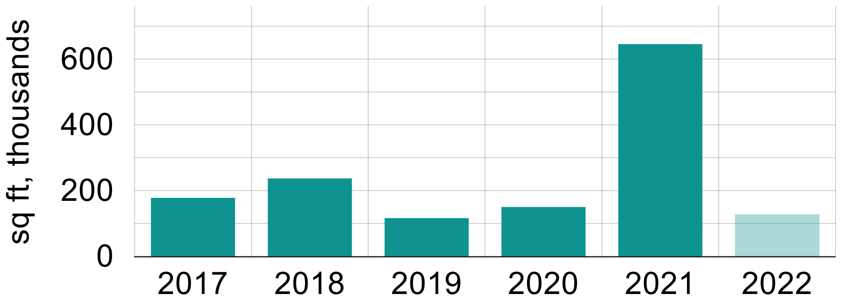
NEWCASTLE

OCCUPIER MARKET PERFORMANCE

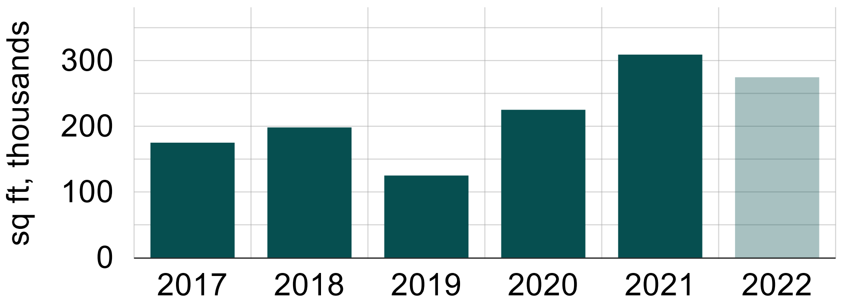
KEY TAKEAWAYS

- In terms of occupier activity, Newcastle has experienced a strong start to 2022. Leasing levels in Q1 and Q2 have been steady, with 77,412 sq ft and 49,808 sq ft let respectively. Consequently, total city centre take-up reached 127,220 sq ft at mid-year. This total represents a 49% increase when compared to H1 2021 and is the highest H1 total for 12 years.
- Underpinning occupier demand in the first six months of the year has been Professional Services, with space let to firms from this sector accounting for 49% of total take-up in H1 2022. The completion of two key transactions at The Lumen to law firms supported the dominance of the sector in H1, with Clifford Chance and Hay & Kilner both taking a floor.
- Overall market vacancy has registered a gradual increase over the past 12 months, rising from 6.9% to 9% over the period. Grade A availability has also edged upward. As at the close of H1 2022, 274,542 sq ft was recorded as available. This total is 16% higher when compared to the same period in 2021 and is 31% higher than the 10-year average.
- As at H1 2022, development activity remains limited, with 190,000 sq ft under construction across Bank House and One Strawberry Lane. Of this total, 74% or 140,000 sq ft is speculative, with 50,000 sq ft already leased at One Strawberry Lane.
- Prime office rents increased by 3.8% in Q2 2022 to £27.00 per sq ft.

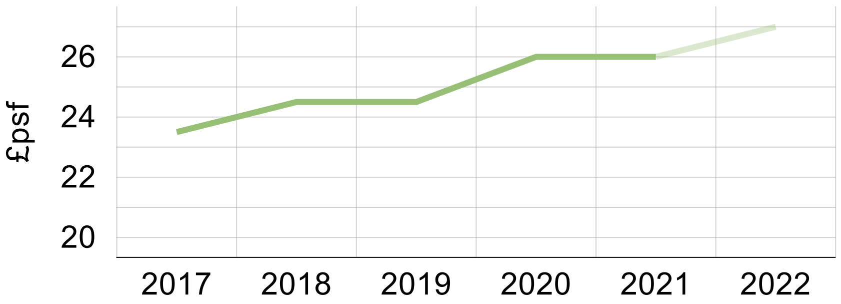
TAKEUP



GRADE A SUPPLY



PRIME RENT



Source: Knight Frank
Current year statistics are representative of H1 2022

TAKEUP (H1)
127,220
SQ FT
49% ▲ (YOY)

HEADLINE TRANSACTION
The Lumen
14,541 SQ FT
Hay & Kilner

GRADE A SUPPLY (Q2)
274,542
SQ FT
16% ▲ (YOY)

UNDER CONSTRUCTION (SPECULATIVE 2023 – 2025)
140,000
SQ FT
New & Refurb

PRIME RENT (Q2 2022)
£27.00
PER SQ FT
4% ▲ (YOY)

SHEFFIELD

OCCUPIER MARKET PERFORMANCE

KEY TAKEAWAYS

- Occupier activity in Sheffield has remained consistent in 2022, typically around or above the long-term quarterly average. This has meant that at mid-year, Sheffield has recorded take-up of 192,145 sq ft, 13% ahead when compared to H1 2021. Notably, the number of deals in H1 2022 is comparable to H1 2021, with 42 completed. This total is the highest for seven years.

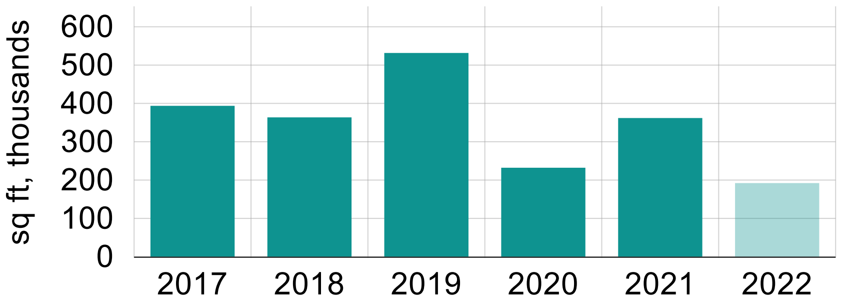
- Underpinning activity in Sheffield during H1 2022 has been Professional Services. Law firms have been the most active, with SSB Law taking 43,500 sq ft at 1 South Quay, Victoria Quay the largest deal in 2022.

- Total market vacancy has remained stable over the past 12 months at circa 6%. However, Grade A availability has registered a small decrease (4%) year-on-year, to finish the H1 period at 115,000 sq ft. This total is 38% below the 10-year average.

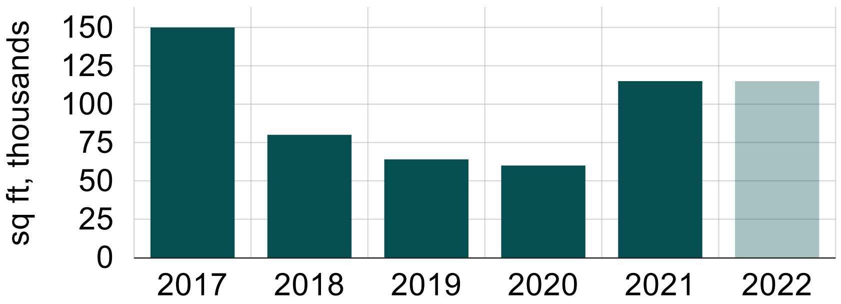
- As at H1 2022, there is a total of 361,621 sq ft under construction, all of which is speculative. With 100% of this total due to reach practical completion within the next 12 months, a short-term increase to the vacancy rate is expected.

- Prime rents remained at £25 per sq ft, having increased by 4% since 2017 year-end. An uplift to £27 per sq ft is anticipated to be achieved by year-end.

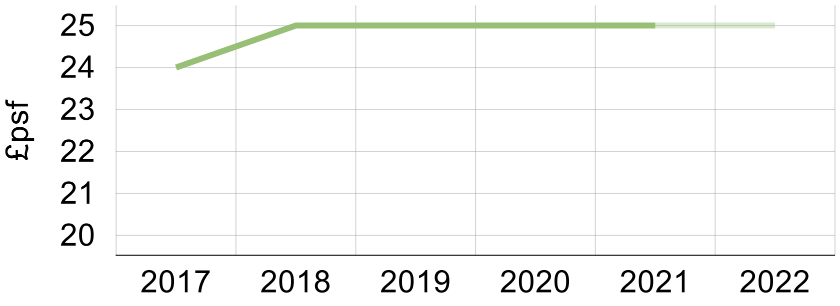
TAKEUP



GRADE A SUPPLY



PRIME RENT



Source: Knight Frank
Current year statistics are representative of H1 2022

TAKEUP (H1)
192,145
SQ FT
13% ▲ (YOY)

HEADLINE TRANSACTION
1 South Quay
43,500 SQ FT
SSB Law

GRADE A SUPPLY (Q2)
115,000
SQ FT
4% ▼ (YOY)

UNDER CONSTRUCTION (SPECULATIVE 2023 – 2025)
361,621
SQ FT
New & Refurb

PRIME RENT (Q2 2022)
£25.00
PER SQ FT
-% (YOY)

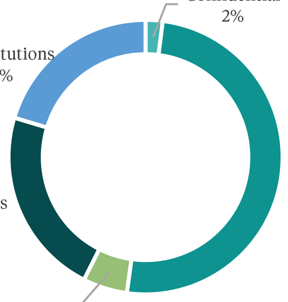
INVESTMENT SUMMARY

ABERDEEN – BIRMINGHAM – BRISTOL – CARDIFF – EDINBURGH – GLASGOW – LEEDS – MANCHESTER – NEWCASTLE - SHEFFIELD

H1 investment volumes highest for four years

Investment activity in the regional cities rose sharply in the second quarter of 2022, as a wave of international investment flowed into the UK regional cities. The arrival of overseas capital to the market – alongside the already active UK property companies - propelled investment turnover to £930m in Q2, the highest quarterly total for three years. Consequently, total office investment into the UK cities had reached £1.25bn at the mid-year point of 2022. This is the highest H1 total since 2018.

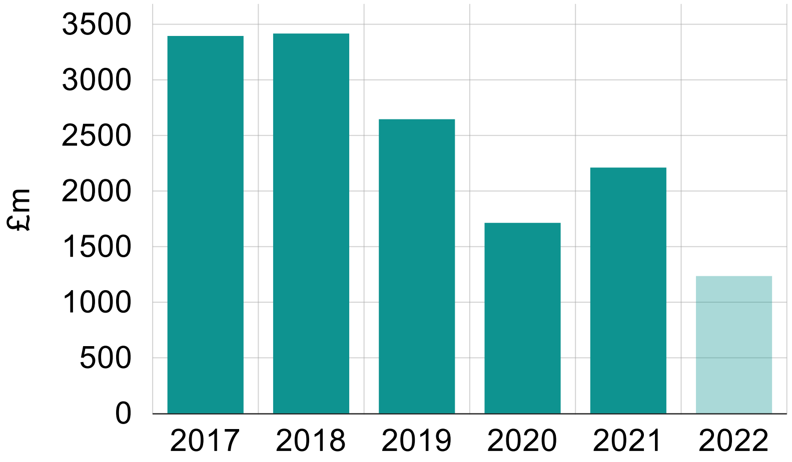
INVESTMENT BY INVESTOR TYPE (£M)



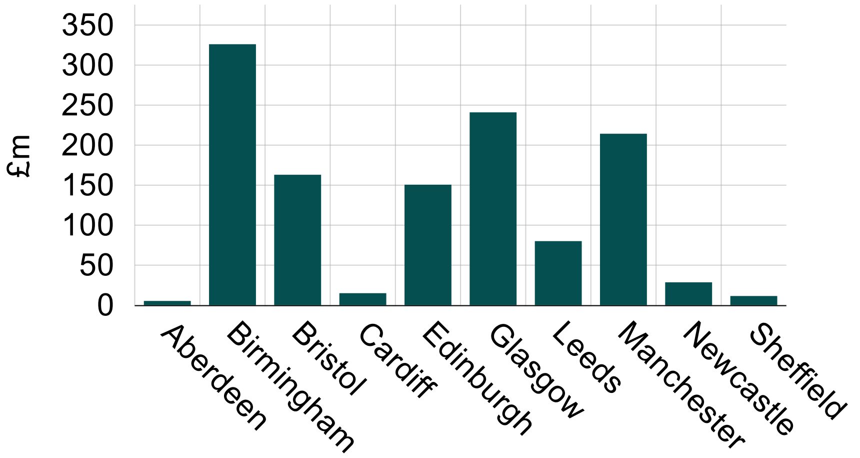
INVESTMENT VOLUMES
£1,235M
H1 2022
27%▲

KEY INVESTOR TYPE
Overseas
£610m (50%)
112%▲

ANNUAL INVESTMENT



INVESTMENT (H1)



Source: Knight Frank
Current year statistics are representative of H1 2022

High value deals underpinning performance

Several high value assets have exchanged hands during 2022, with six transactions above £50m completing in the first six months of the year. Notably, four of the six were bought by international buyers.

In Birmingham, Blackstone entered the UK's regional office market with the acquisition of the Colmore Building for £182m. The purchase of the 314,000 sq ft Colmore Building was on behalf of Blackstone European Property Income Fund, part of an expansion of Blackstone Real Estate's perpetual core-plus business, which has $116bn of assets under management globally. Most recently, CBRE Investment Management, on behalf of West Midlands Pension Fund, acquired 125 Colmore Row for £80m. The office building comprises 150,000 sq ft of Grade A space and is occupied by Lloyds TSB Bank Plc with a lease in place until 2030. Consequently, investment volumes had risen to £325m at the mid-year point, 29% of the regional market total and the strongest first six months of a year for Birmingham since 2017.

Similarly, in Edinburgh, Kennedy Wilson Europe acquired Waverleygate from PATRIZIA for £78m in Q1. The prime office building is 97% occupied by tenants including Amazon, Microsoft, H&M, the Scottish Government, and the NHS. More recently, Assura Aspire Ltd acquired the Gyle Square Office Building for £53.1m. The 152,000-square-foot building is let to the Scottish Ministers for NHS Scotland. At mid- year, investment volumes in Edinburgh had reached £150m, 38% higher when compared to H1 2021.

The largest investment deal of H1 2022 though was the acquisition of 177 Bothwell Street in Glasgow. The 315,000 sq ft office building is currently under construction and was bought by Pontegadea for £215m. As a result, investment volumes for 2022 in Glasgow were £241m as at the end of June. This is the highest H1 total since 2007 for the city.

The remaining transaction of over £50m was Orion Capital Managers acquiring a 50% interest in the 470,000 sq ft White Rose Office Park in Leeds, owned by specialist property investment company Munroe K for circa £55m.

INVESTMENT SUMMARY

ABERDEEN – BIRMINGHAM – BRISTOL – CARDIFF – EDINBURGH – GLASGOW – LEEDS – MANCHESTER – NEWCASTLE - SHEFFIELD

Prime pricing holding firm despite headwinds

Despite sentiment wavering on weakening economic forecasts, the weight of money targeting the regional markets has meant pricing has remained largely stable. The Knight Frank Investment Yield Guide indicates that yields for Major Regional City prime offices hardened by circa 25bps to 50bps over the past 12 months to 4.50% - 4.75%, whilst multi-let is 5.00%.

Across the major regional cities, a comparison of H1 2022 and H1 2021 indicated that inward yield shift was recorded in seven of the ten major cities featured in this report between these two dates. Aberdeen, Leeds, and Sheffield were the exceptions, albeit only Aberdeen has registered any softening.

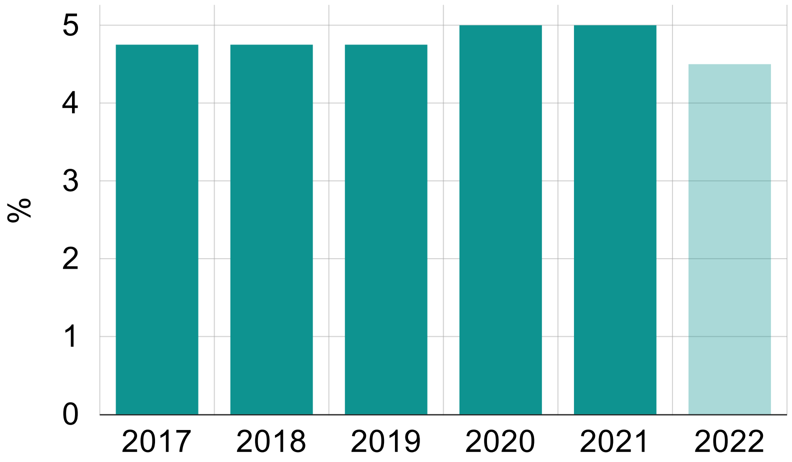
Higher cost of debt becoming a factor

The Bank of England raised the base interest rate to 1.75% in August, its sixth consecutive increase since December. Future rises are now also a matter of "when" not "if" - the BoE's own analysis suggesting that the rate will rise to 2% this year before hitting 2.75% in 2023. Previous rises have meant that the UK SONIA interest rate five-year swaps have hit their highest level on record in response, at 2.92% in July, although they have since seen some moderation. There remains a question of whether heightened cost of debt might have a (lagged) impact on yields, and this may lead to increasingly polarised performance of real estate. A higher cost of debt may also encourage a rotation towards equity-backed investment.

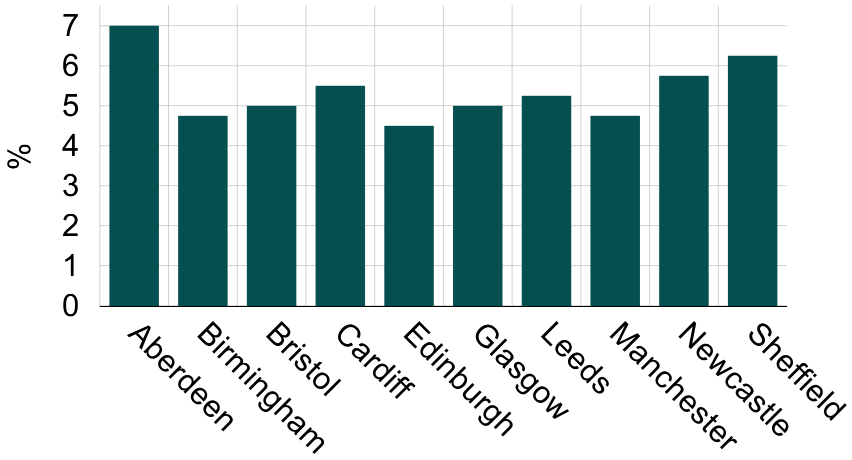
Tricky H2 2022 ahead?

Moving forward, the scarcity of prime assets is expected to keep prime yields under a degree of pressure in the second half of 2022. Sentiment is becoming more negative, however, with the risk perceived to be increasing because of the geopolitical landscape, interest rates and inflation and the worsening outlook for the UK economy. This will undoubtedly add pressure to balancing buyer and seller expectations. While the investment case for prime across the UK regions remains solid, the escalating cost of debt is likely to see core-plus buyers take an increasingly cautious approach to activity. This will inevitably influence secondary pricing going forward.

ANNUAL PRIME YIELD



PRIME YIELD (Q2)



Source: Knight Frank
Current year statistics are representative of H1 2022

PRIME YIELD (H1 2021)
5.00
- bps

PRIME YIELD (H1 2022)
4.50
50 bps ▲

CITY	Q3 2021	Q4 2021	Q1 2022	Q2 2022
ABERDEEN	6.50	7.00	7.00	7.00
BIRMINGHAM	4.75	4.75	4.75	4.75
BRISTOL	5.25	5.25	5.00	5.00
CARDIFF	5.75	5.75	5.50	5.50
EDINBURGH	4.50	4.50	4.50	4.50
GLASGOW	5.25	5.25	5.00	5.00
LEEDS	5.25	5.25	5.00	5.25
MANCHESTER	4.75	4.75	4.75	4.75
NEWCASTLE	6.00	6.00	6.00	5.75
SHEFFIELD	6.25	6.25	6.25	6.25

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Knight Frank Research Reports are available at knightfrank.com/research

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