

# Inform

Office Agency

Town Centre House

## Leeds Office Market Review of 2009

### Positive End to a Subdued Year

#### Demand

An encouraging final quarter's take-up and improving market sentiment means that there are grounds for cautious optimism looking ahead. Q4 witnessed the best City Centre take-up of the year which, at circa 139,000sq ft, was approximately 40% up on Q3. However, despite this late rally, year end take-up for 2009 stood approx. 30% down on the 10 year average and 9% down on 2008's figures.

Out of town, market activity was even more severely hit with total year-end take-up amounting to about 60% of the long-term average. The market was characterised by fewer deals – the City Centre saw 82 transactions which is 15% down on 2008 - as economic uncertainty and the capital cost of relocating caused many companies to shelve relocation or expansion plans. The largest letting of the year was recorded in Q4 when Yorkshire Water signed for circa 57,000 sq ft at Livingstone House, Clarence Dock. The public sector was also particularly active and accounted for several large lettings (see Table).

Typically, however (and in common with 2007 & 8) the market was dominated by smaller lettings with roughly three quarters of all City Centre deals being for lettings under 5,000 sq ft.

#### Key Office Transactions Table

Occupier	Area sq ft	Address
Yorkshire Water	56,683	Livingstone House Clarence Dock, LS10
Trillium	37,120*	1 Leeds City Office Park, LS11
Crown Prosecution Service	29,030	Jefferson House, Park Place, LS1
Lowell Group	20,000	3 Apex View, The Interchange, LS11
Natural England	15,000	25 Queen Street, LS1
Zolfo Cooper	7,050**	Toronto Square, Infirmary Street, LS1

\* Two separate deals of c. 18,500 sq ft during 2009.

\*\* New highest prime rent in Leeds of £27 per sq ft

Demand was relatively healthy for smaller suites of Grade A product where there was a much greater range of choice and level of lease flexibility on offer in a sector of the market traditionally reserved for larger requirements on longer, unbroken leases. The year also saw a significant proportion of tenants with lease events undertaking searches primarily to leverage more favourable lease terms from their existing landlord.



EG Award winners  
for the fifth consecutive year

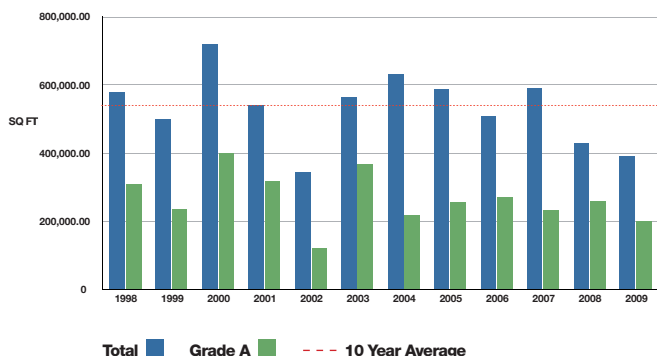


## Supply - Limited Grade A product in prime core

In the City Centre, overall supply increased during the course of the year due to business insolvencies, companies downsizing their accommodation and several significant completions of Grade A buildings including Broadgate and Toronto Square.

Ready to occupy Grade A supply now stands at approaching 36 months average take up. However, barring a significant level of tenanted space being brought to the market, supply should pretty much peak at this level as there is little further product on the immediate horizon resulting from a lack of developer appetite to build. Crucially, less than a third of this is in prime areas.

## Leeds city centre offices: annual take-up



## Rents - Top Rent £27 psf

There has undoubtedly been downward pressure on rents throughout the year and in particular for Grade B specification buildings and those in fringe locations in response to weak tenant demand and stiff competition.

Whilst some landlords have been openly reducing quoting rents, those on the best space have resisted rental discounts preferring increased incentives and lease flexibility to attract tenants

The highest headline rent paid during the year was £27 psf by Zolfo Cooper who took the top floor at Toronto Square in Q3 and this stood out in a year of relatively few deals. However, we do not believe that this points to prime rental growth since net effective rents reflect the increased incentive packages underpinning headline figures.

Whilst generous incentives have been the norm it is difficult to apply a general rule of thumb since the terms offered are extremely building, lease length and tenant covenant specific.

## 2009 Snap Shot

- **City Centre Take Up:** 389,344 sq ft (10 Year Ave: 541,000)
- **Out of Town Take Up:** 244,500 sq ft (10 Year Ave: 407,000)
- **Grade A Supply:** c. 36 months Ave. take-up
- **Top Rent:** £27.00 psf
- **Transaction Size:** 74% deals < 5,000 sq ft

## Outlook

- Tenant Market to Continue
- Weak demand for second-hand/fringe buildings
- Improving prospects for prime stock
- New supply limited to 10 South Parade (40,000 sq ft)

Looking ahead, we believe that once again the market will be dominated by smaller deals and that generous incentives will continue to be the norm. The forthcoming election will also probably signal diminishing future public sector take-up and this is a real concern.

Therefore, the outlook for 2010 is challenging with the wider economic climate probably leading to further tenanted space coming to the market as occupiers seek to off load surplus accommodation and reduce overheads. However, whilst some re-locations will remain 'on-hold' due to economic uncertainty, we envisage others actively seeking to secure the best space while market conditions continue to favour the acquiring tenant. There remains a window of opportunity in the next 6 months or so for tenants to negotiate favourable terms on new accommodation whilst they have the luxury of choice and healthy landlord competition.

For those second-hand buildings in fringe locations, 2010 promises to be another difficult year with further downward pressure on rents and increasing incentives likely to apply.

However, those landlords holding the best stock within the prime core of the city should fare better. Here, the supply of Grade A stock is relatively limited and with the current lack of developer appetite to build without a significant pre-let, demand will slowly erode this stock leading to improving prospects for the best space during the latter part of 2010 and into 2011. This should allow headline rents to be maintained and incentive levels to be slowly reduced.

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