THE UK 5

OFFICE MARKET SNAPSHOT, H1 2023

BIRMINGHAM | BRISTOL
GLASGOW | LEEDS
MANCHESTER

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DeVono

FOCUS ON THE REGIONS

LEVELLING UP?

Rebound, resurgence, recovery are all words that have been used in reference to the direction of travel for regional economies following the pandemic. In recent months much of the focus has come from the government and its much publicised 'levelling up' programme, aiming to tackle UK geographic inequality through economic and innovation initiatives. Whilst any level of investment is welcomed by each region, there is a greater drive from regional business, education, community, and political leaders to grasp opportunities borne out of the pandemic to drive through growth regardless.

One area of levelling up has come through greater devolution granted to city regions. This has seen new powers given and access to funding with which to unlock the economic potential of these areas. Birmingham and Manchester, being the most established of these new administrative bodies, are now starting to bear fruit with improvements to infrastructure, integrated travel networks and a boost in employment.

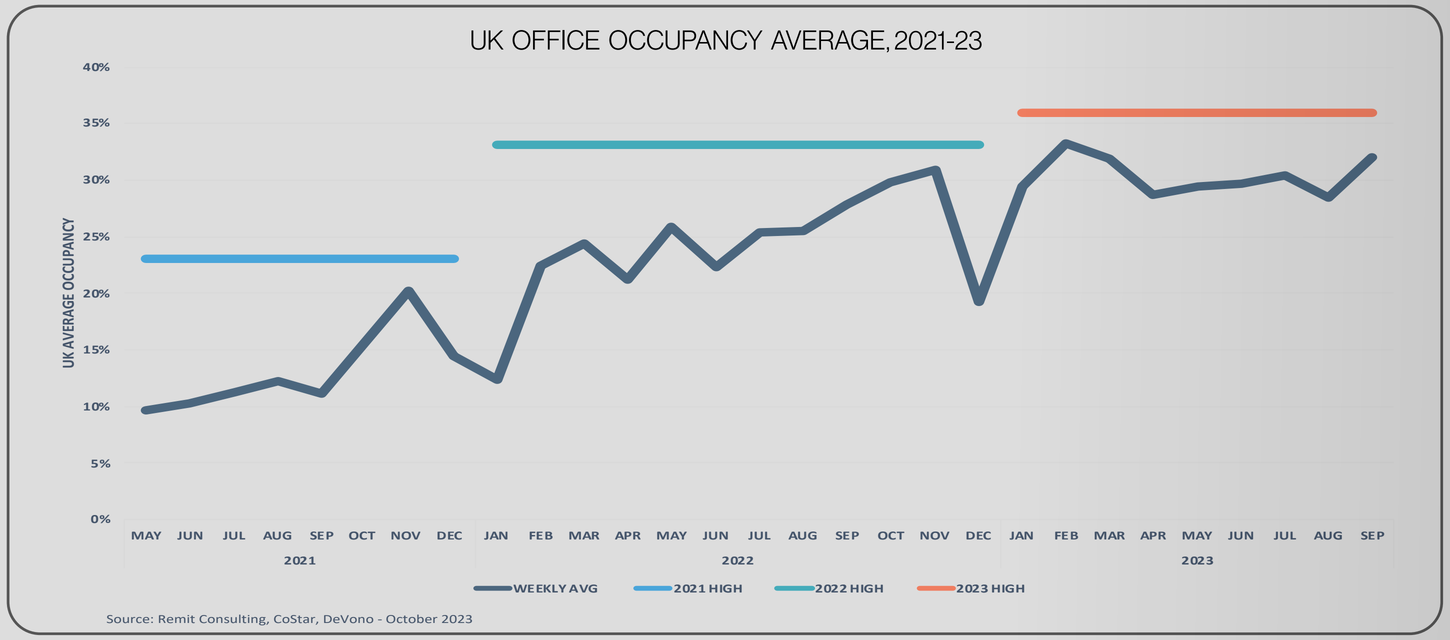
The government have also launched a set of new investment zones which they hope will drive through growth in research and industrial clusters, providing grants and tax breaks which in turn will stimulate investment from the private sector. However, some of the success of these initiatives was pinned to the completion of the High Speed 2 rail link from London through to Birmingham, Manchester, Leeds and Crewe. Whilst construction of the first phase of London to Birmingham is underway, the remainder had faced some significant scrutiny. Well, no more, Prime Minister Rishi Sunak has cancelled the route north of Birmingham, much to the disdain of regional leaders. Instead, the government proposes to spend £36 billion on a plethora of transport projects around the midlands, northwest, and the northeast of England.

The need to level up of the UKs economy, is something that all major political parties are agreed upon and will no doubt become a key battleground in any upcoming general election or even by-elections.

HAVE WE REACHED PEAK RETURN TO THE OFFICE?

The pace of the return to the office following the pandemic has been patchy at best, largely due to the variety of approaches to hybrid working taken by businesses, which for some have shifted over time too. Despite this, average office occupancy levels across the UK in 2023, according to data from Remit Consulting, have picked up somewhat in reaching a new high of 36% in April. Whilst this level did not hold for long, the average for 2023 (Jan-Aug) so far is up at 30%. Even during the summer period, occupancy rates held up by at least 5 percentage points compared to the same period in 2022. This prompts the question, have we now seen the peak in return, or is there still room for occupancy to rise further?

When looking at office occupancy around the UK it has been suggested that regional city office markets saw a faster and higher pace of return compared to that of London. According to a survey of 24,000 workers by real estate investor Regional REIT, office occupancy outside of London was back to 93% of pre-pandemic levels. Whilst this could account for



Source: Remit Consulting, CoStar, DeVono - October 2023

the uptick in tenant demand we have seen in markets such as Birmingham and Leeds, it doesn't for those markets that have seen more lethargic leasing. The rollercoaster return to the office for some businesses appears to be continuing. Headlines featuring the likes of Amazon, Google, Meta, Salesforce and even Zoom highlight the renewed call to get staff back into the office, citing collaboration and personal development as reasons. Whilst you would have expected many businesses, if not the largest corporates, to have homed in and finalised their hybrid working policies in 2022, it would seem not, or at least people aren't adhering to them. Extrapolate that out to smaller firms and you can see that the return to the office and its impact on real estate is still in its infancy.

WORKPLACE EVOLUTION

The rise in hybrid working arrangements is reshaping the demands of today's workplaces. As requirements evolve with greater emphasis on flexibility and rationalisation of space, leasing trends will shift focus more on location, quality, cost and type of space.

One such trend is a greater tenant appreciation for flexible office solutions. An uptick in existing and new flexible office providers setting up new centres in regional hubs is meaning an influx of options offering tenant's newfound flexibility and choice.

Brand new buildings have always attracted tenant interest for a variety of reasons. As businesses look to gain greater efficiencies in space and cost, and align their real estate footprint with operational, sustainability and wellbeing goals, the next generation of office buildings will garner a wider audience.

Attracting top talent is high up on business leaders' agendas, with being close to that talent having many benefits. The regional cities have a high density of students, office costs are lower than in London, access to low-cost housing is greater and commute times are often less, the combination of which presents an enticing offer for employees and employers. As such, demand for office space outside of London is expected to be buoyant as we head into 2024.

THE UK 5: OFFICE MARKET SNAPSHOT H1 2023

TENANT DEMAND IN THE REGIONS

Office leasing activity across the five largest office markets outside of London in the first half of 2023 has been a mixed bag. Wider economic uncertainties have filtered through to real estate decision making in some places more than others. Those cities that saw an uptick in leasing activity include Birmingham and Leeds, with the others experiencing a drop in activity compared to the same point in 2022. There are some trends that are the same across all markets (albeit to varying degrees), including pressure on rental growth, heightened demand for the best spaces and a greater swing towards flexible office solutions.

	OFFICE LEASING	AVAILABILITY	PRIME RENTS	INCENTIVES	FLEX PRICE
BIRMINGHAM	352K SQ FT UP 12% ON H1 '22	2.4M SQ FT 2 BULL RING SHOPPING CENTRES	£41 PER SQ FT	24 MONTHS ON A 10-YEAR TERM	£312 PER DESK AVERAGE RATE PER MONTH
BRISTOL	148K SQ FT UP 63% ON H1 '22	1.2M SQ FT 53 X BRISTOL CATHEDRALS	£42.5 PER SQ FT	18 MONTHS ON A 10-YEAR TERM	£300 PER DESK AVERAGE RATE PER MONTH
GLASGOW	172K SQ FT UP 34% ON H1 '22	2.8M SQ FT 12 SEC CENTRES	£36 PER SQ FT	24 MONTHS ON A 10-YEAR TERM	£262 PER DESK AVERAGE RATE PER MONTH
LEEDS	448K SQ FT UP 61% ON H1 '22	1.5M SQ FT 1½ TRINITY LEEDS SHOPPING CENTRES	£37 PER SQ FT	24 MONTHS ON A 10-YEAR TERM	£287 PER DESK AVERAGE RATE PER MONTH
MANCHESTER	440K SQ FT UP 12% ON H1 '22	3.3M SQ FT 6.5 X MANCHESTER TOWN HALLS	£40 PER SQ FT	28 MONTHS ON A 10-YEAR TERM	£375 PER DESK AVERAGE RATE PER MONTH

THE UK 5

BIRMINGHAM

OFFICE LEASING

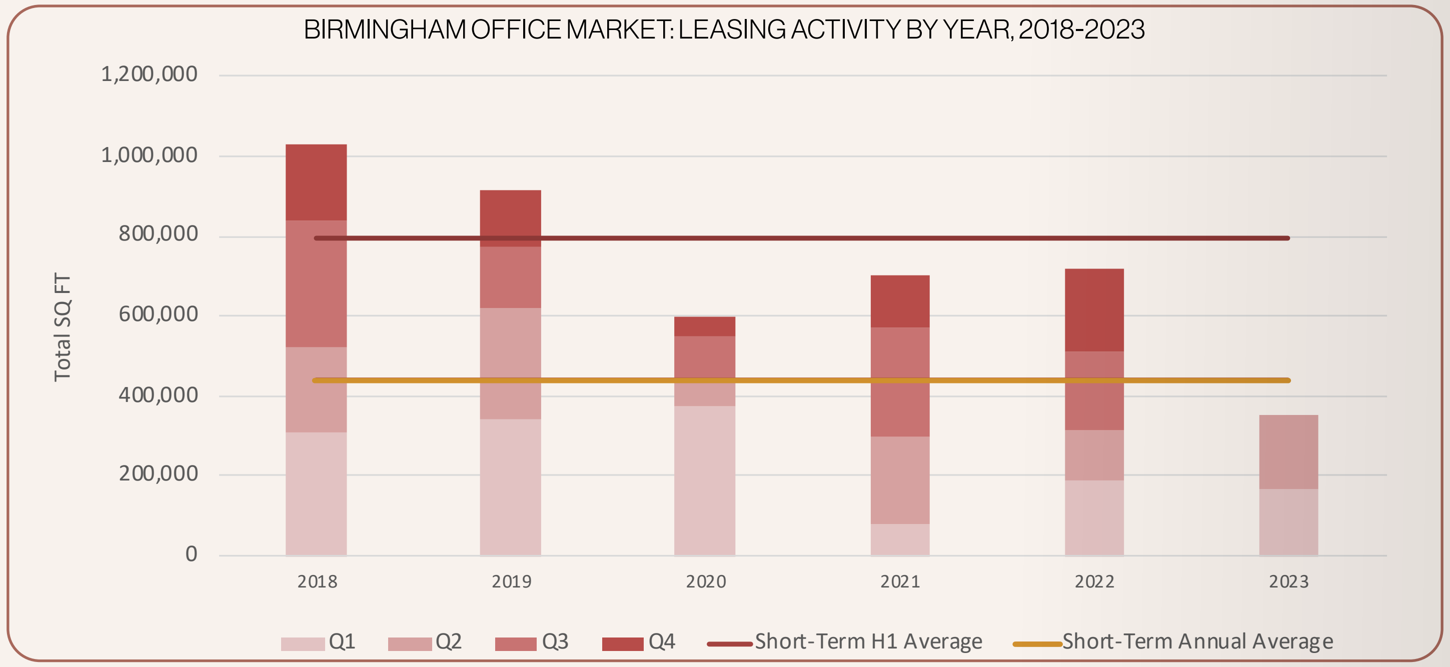
The total volume of space leased in H1 2023 stands at 352,085 sq ft, 12% above that recorded during the same period the previous year. This figure could suggest that we may see the year-end surpass that recorded in 2022, yet it is noteworthy that H1 2023's total is 22% lower than the long-term half yearly average, indicating that leasing has yet to return to pre-pandemic levels.

Leasing activity slowed in 2022 following relatively fast-paced growth between 2020 and 2021, largely due to a drop in the size of transactions. In the first half of 2023, our research shows that this trend has been countered by larger deals completing, increasing the average deal size by 41% on H1 2022.

We are yet to see any deals in excess of 100,000 sq ft in 2023, and there have been only three deals transacted between 25,000 and 50,000 sq ft, compared to just the one in H1 2022.

Take-up remains concentrated in the City Core in 2023 at 62% of space leased in H1. However, compared to the same period the previous year, we can see that firms are giving greater consideration to other locations. Edgbaston and the Jewellery Quarter both registered significant increases in leasing compared to H1 2022, with Edgbaston seeing the quantity of space leased nearly quadruple in H1 2023 vs H1 2022.

The uptick in leasing activity in 2023 has largely been due to activity from the Education sector, which saw 3 deals in excess of 20,000 sq ft, the largest being QA Higher Education's leasing of 45,046 sq ft at 44 Newhall Street, the largest in H1 2023. This building has also attracted serviced office operator Re-Defined who took 36,343 sq ft over the first three floors, and as a result the serviced office sector accounted for 15% of leasing in H1 2023, with the professional sector also commanding a significant share at 12%.



TRANSACTIONS H1'23

61

DOWN 21% ON H1'22

AVERAGE SIZE SQ FT

5,772

UP 41% ON H1'22

TOP SUBMARKET H1'23

CITY CORE

46% SHARE OF LEASING

TOP SECTOR H1'23

EDUCATION

30% SHARE OF ACTIVITY

OFFICE AVAILABILITY

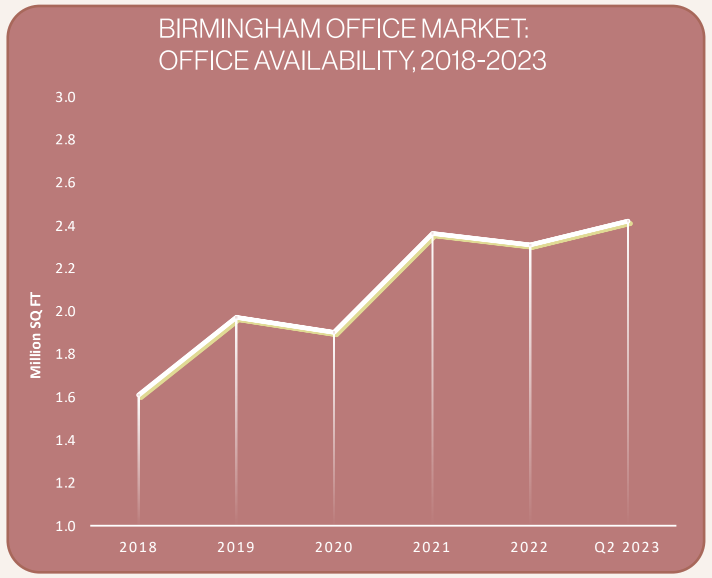
There was 2.4M sq ft of office space available across the Birmingham office market at the end of Q2 2023. This represents an increase of 5% on the previous quarter, having seen two consecutive quarters without any increases. The current volume is 19% above the short-term annual average.

The volume of Grade A space available across Birmingham has fluctuated significantly over the last 12 months, most notably falling 18% at the beginning of 2023 following a strong level of leasing in Q4.

Boosted by new stock additions in the past 6 months, the availability rate increased to 11% at the end of Q2 2023.

However, although the growth in available space from Q1 to Q2 only amounted to 1%, there is still a similar volume of Grade A space available as there was 12 months ago, with the current level constituting a negligible reduction of 0.3% on Q2 2022.

There is 404,222 sq ft of office space under construction. Buildings currently under construction include Arca and Three Chamberlain Square, the latter being part of the wider Paradise development.



TOTAL AVAILABILITY

2.4M SQ FT

UP 5% ON Q1'23

GRADE A SPACE

16%

OF TOTAL

DOWN 4% ON Q1'23

DEVELOPMENT

404K SQ FT

UNDER CONSTRUCTION

LARGEST AVAILABILITY

185K SQ FT

3 CHAMBERLAIN SQUARE

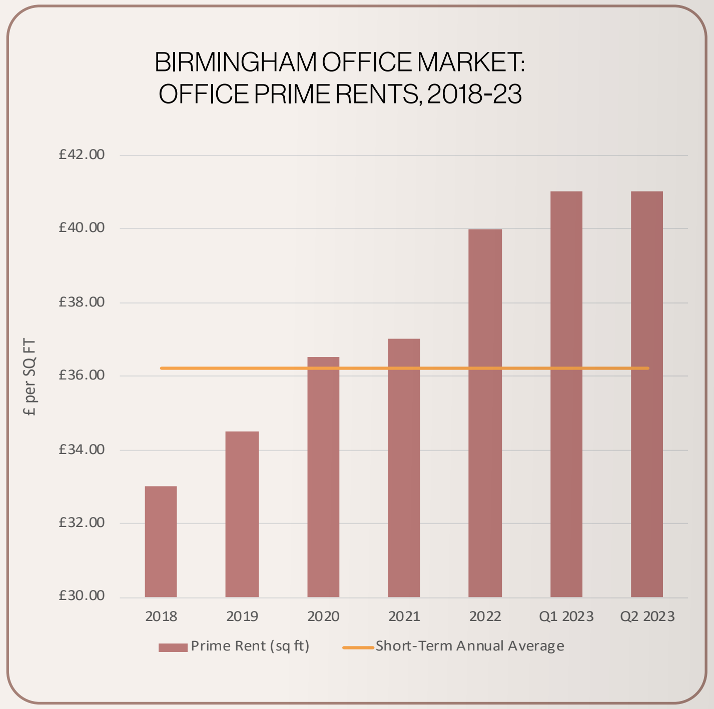
OFFICE RENTS

Prime office rents across Birmingham have remained stable so far in 2023 having increased 8% over the course of 2022, remaining at £41.00 per sq ft, a five-year high.

In terms of the average market rent that tenants in Birmingham are paying, there has been a more muted rise over the past 12 months of 4%, now at £27.19 per sq ft.

Despite new stock coming to the market in 2023, rents have not succumbed to any further upward pressure. Further new developments due to complete in 2024 could provide the momentum for further growth, especially if the pace of take-up continues.

Rent-free incentives continue to be pegged at a healthy level of 24 months for a 10-year lease, taking the net effective rent 20% below the prime rental level and providing some relief for occupiers.



FLEXIBLE OFFICE PRICING

Birmingham benefits from a diverse set of operators, with 12 providers having committed to new spaces in the city in the last five years, several of which have more than one centre. Cubo has been active having recently moved to the city, cumulatively taking 36,629 sq ft on the 3rd and 4th floors at 2 Chamberlain Square over the past two years, one of the best new office buildings that has been developed in Birmingham. In just a short space of time, Cubo now have centres in four out of the five regional cities in this report, highlighting the rapid growth of the regional flex market.

Considerable competition exists amongst providers present in the market, and following recent hikes in pricing average desk rates have remained high at £312.50 per desk per month with some spaces commanding up to £450.00 per desk per month.

A considerable part of what has attracted these more sizeable operators to Birmingham is the presence of smaller businesses that are more amenable to taking flexible spaces, with 18,394 businesses having been set up in 2020 alone according to Startups Magazine.

OUTLOOK

THE HIGH SPEED WINNER IS ... BIRMINGHAM

- The HS2 rail link to/from London will only run between the two cities with Rishi Sunak culling the route further north. The West Midlands Mayor did receive some additional funds after further negotiations. The hope is that the HS2 link will attract more professionals from London, boosting access to notable locations in Birmingham, including Aston University and Paradise Birmingham, which should provide greater opportunity for firms to attract from a wider talent pool. However, the line and the new Curzon Street station will not be ready until 2029 at the earliest.
- Attracting inward investment, businesses and creating new jobs was a key pillar of the re-election campaign of the Mayor of the West Midlands. Already foreign direct investment has increased by 28% from 2020, the fastest rate outside of London.

THE COMMONWEALTH GAMES GOLD

- The games have already resulted in £500 million of infrastructure investment being delivered, which property developers Mace believe will see around a further £1.5 billion being injected into the economy in the West Midlands as a result. Improvements made to multiple rail connections including University Station should increase the access to the University of Birmingham for prospective students and Birmingham's wider talent pool.
- Birmingham holds a young and highly skilled pool of talent with 64.4% of its population having been aged between 16 and 24 at the end of 2020.
- Since Birmingham's launch of its Clean Air Zone, data shows that pollution has dropped by 13% in the first six months of the charging. Whilst car movement remains restricted, it is hoped that it will pave the way for greater investment in sustainable travel and a better environment for residents.

THE BIRMINGHAM OFFICE MARKET OUTLOOK

- Tenant demand is expected to build upon its leasing momentum earlier in 2023.
- Growth in prime rents has been stimulated by the new generation of buildings in this market and sustained demand for this quality of space will likely keep pressure on rents.
- Developers in Birmingham are acutely aware of not just the growing glut of secondhand space but also the desire for more quality spaces. In the face of the glut of secondhand space and the desire for more quality spaces, several developments will provide a significant boost to Grade A availability.
- A greater range of flexible office solutions will open up the central office market to a wider range of occupiers, local, national and global.

ECONOMY

Birmingham's GVA is predicted to rise 1.1% by the end of 2023, making it the UK's third fastest growing economy

(Source: Irwin Mitchell UK City Tracker Report January 2023)

TRAVEL

HS2's deliverability given a red rating by the Infrastructure and Projects Authority (IPA) despite the Department for Transport's suggestion that it is on schedule

(Source: The Guardian, Department for Transport)

EDUCATION

Bruntwood SciTech and Aston University have agreed to support the physical growth of the university in Birmingham's Knowledge Quarter

(Source: Business Desk)

HOSPITALITY

Despite rail strikes earlier in the year sapping the profitability of Birmingham's hospitality firms, the new ApartHotel development is set to be delivered later in the year

(Source: BBC News, Built Environment Networking)

BRISTOL

OFFICE LEASING

Subdued tenant demand across the Bristol office market in the first half of the year (H1) has resulted in a drop in space leased, 63% down on the same period in 2022.

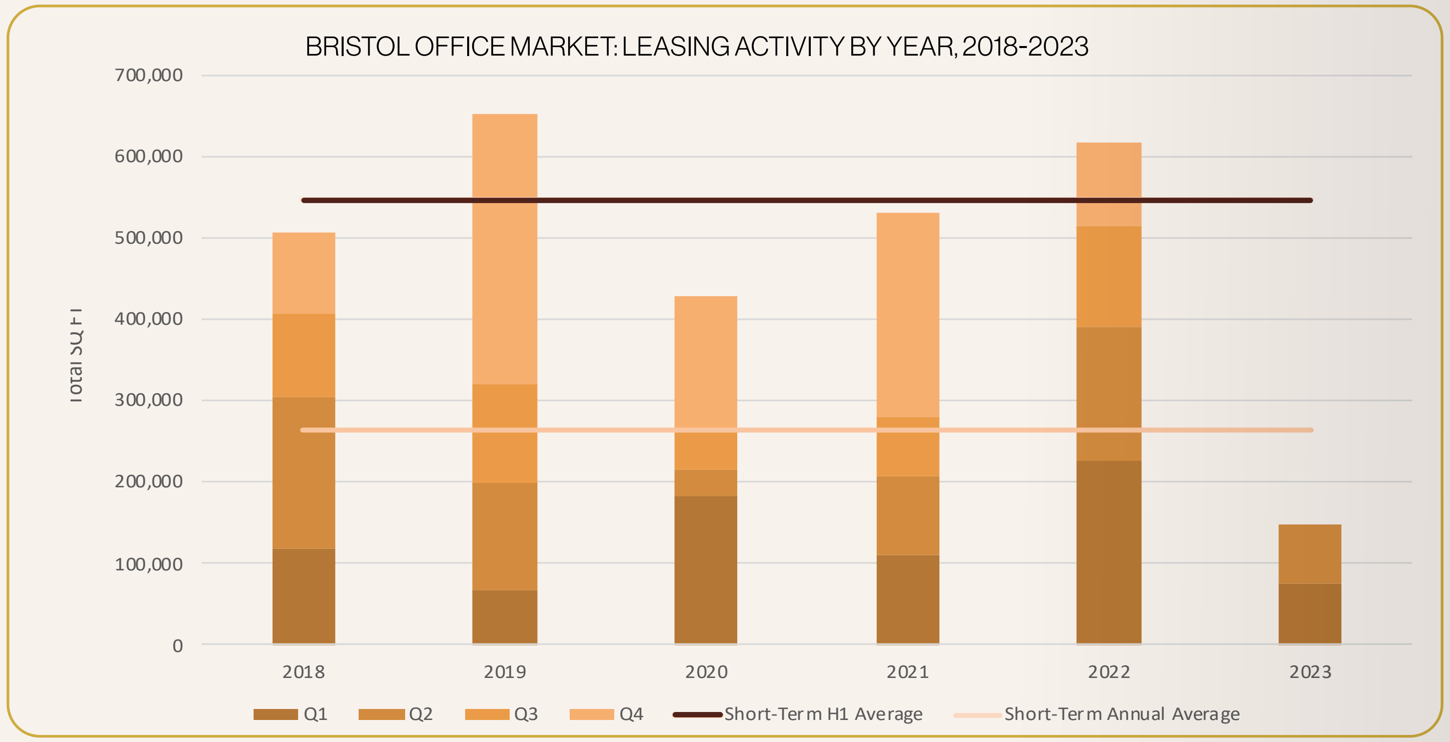
The noticeable decline in the volume of space leased in H1 2023 has been a result of both the number and the size of the deals transacted. The average deal size recorded in H1 2023 was only 3,229 sq ft, a drop of 49% compared to H1 2022, with the largest deal being just 11,371 sq ft.

Leasing activity across Bristol in H1 2023 has been driven by the Professional sector, accounting for 26% of the space leased over this period. However, on closer analysis the Professional sector has taken fewer spaces in Q2 2023, 57% less than in Q1. This has meant that its share of leasing has actually contracted over Q2 to 16%, down from the 34% recorded the previous quarter.

On the other hand, the Corporate sector is seeing a greater number of businesses leasing office space across the city than previously, with the number leasing in H1 2023 having increased by 200% compared to the number recorded in H1 2022.

Firms leasing space are making more of a long-term commitment, with the average lease length now standing at 7.4 years, a 7% increase on that recorded in H1 2022.

While the Eastern Fringe continues to command the largest share of leasing at 50%, it does represent the lowest H1 total recorded by the submarket in the last ten years, giving way amidst renewed interest in the City Core which has seen two consecutive quarters of positive leasing growth.



OFFICE AVAILABILITY

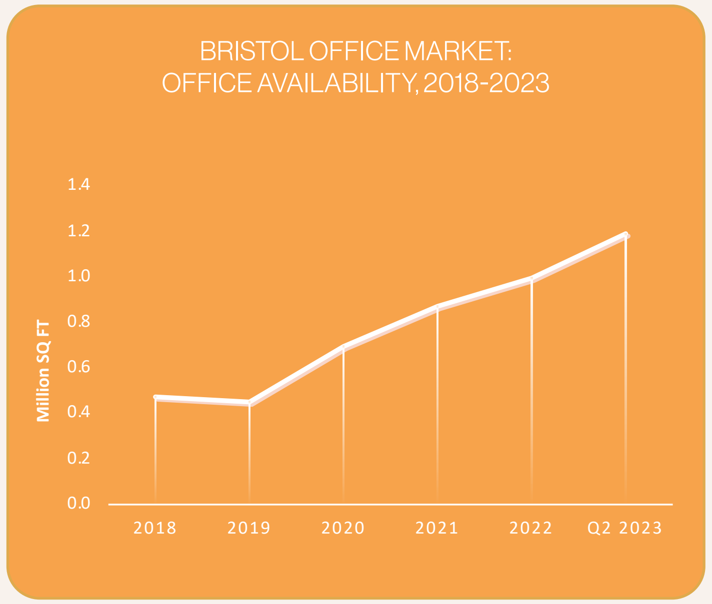
Office availability across the Bristol office market had been on an uphill trajectory from 2012, continuing to climb until the end of 2022, when the level declined by 7% in Q4 of that year. This was to be a brief hiatus in the series, with availability levels continuing to rise throughout 2023.

At 1.2 million sq ft, office availability is now at a new high level, an increase of 71% on the short-term annual average.

Much of the available space is of a Grade A standard, 39% of the total. In fact, this is the highest proportion recorded in Bristol since Q1 2021 and the greatest proportion of total available space out of all the key regional cities. The volume of Grade A space has increased by 69% over the past 12 months.

There is 420,410 sq ft under construction which will feed into the burgeoning pot of available office space, especially the circa. 213,000 sq ft that is due over the remainder of 2023, suggesting we could see that high peak passed once again.

Bristol is set to benefit from a number of new buildings and significant refurbishments being delivered in 2023, including the new BREEAM accredited EQ development and the newly refurbished Beacon Tower.



TRANSACTIONS H1'23
46
DOWN 28% ON H1'22

AVERAGE SIZE SQ FT
3,229
UP 49% ON H1'22

TOP SUBMARKET H1'23
CITY CORE
43% SHARE OF LEASING

TOP SECTOR H1'23
PROFESSIONAL
26% SHARE OF ACTIVITY

TOTAL AVAILABILITY
1.2M SQ FT
UP 4% ON Q1'23

GRADE A SPACE
39%
OF TOTAL
UP 0.3% ON Q1'23

DEVELOPMENT
420K SQ FT
UNDER CONSTRUCTION

LARGEST AVAILABILITY
97K SQ FT
THE CRESCENT CENTRE, TEMPLE

OFFICE RENTS

Our research shows that prime rents in Bristol tend to hold their level for extended periods before a sharp increase, the most recent of which was in Q1 2022. Prime rents increased by 12% to £42.50 per sq ft, a significant high for Bristol, but also in comparison to the rents in other regional cities. Since then, prime rents have remained at this level for five consecutive quarters, suggesting it may not be long before we see rental pressure ramp up again.

The very best-in-class spaces, like in all other office markets, are pivotal to upward rental momentum. Whilst there are a number of new developments set to complete by the end of the year, the heightened competition amongst Grade A spaces means that any new spaces coming to the office market are likely to dampen any further growth prospects in 2023.

However, looking at the longer term we can see that no new additions to the stock are set to be delivered until 2025, and so 2024 may be the year in which we see prime rents edge up again.

In addition to the prime rental level being the highest out of the regional cities, the rent-free incentives offered are the lowest at 18 months on a 10-year lease. As such, occupiers in Bristol are currently paying a net-effective rent of £36.13 per sq ft.

BRISTOL OFFICE MARKET:
OFFICE PRIME RENTS, 2018-23

FLEXIBLE OFFICE PRICING

The serviced office sector has been something of a late comer to the Bristol office market, with the first concerted push from providers to gain a foothold in the city coming in 2019 when 8 providers took new spaces in the city.

The growth spurt in 2019 was fleeting and since then leasing activity has been somewhat sporadic, with only two providers having taken space in 2022, both of which had an existing presence in Bristol. That being said, there were new provider deals recorded in 2023.

Although competition between providers is not as intense as in other markets, desk rates have remained at the reasonable level of £300.00 per desk per month (pdpm).

Furthermore, those occupiers attracted to serviced office spaces in the city will find that there are options in the latest developments, with Desklodge having taken spaces over several floors at Beacon Tower on Colston Street which is currently under renovation.

OUTLOOK

PLATFORM FOR FUTURE TALENT.

- Bristol is home to several renowned universities and higher education institutions, with the University of Bristol (UoB) achieving 9th in the UK's top 10 universities in 2021. However, the UoB's Temple Quarter campus faces a further two-year delay and is now scheduled for a 2025 completion due to issues stemming from Brexit and the pandemic. When completed, it will serve 3,000 students and 800 staff, with facilities for its digital futures, quantum technology and inclusive economy programmes.
- The University of the West of England opened its latest building in 2021, housing the School of Engineering. This development allows the university to accommodate more engineering students which is important in satisfying the new demand for engineers in Bristol.

BUILDING A SUSTAINABLE BRISTOL

- The city hopes to achieve net-zero in little under 8 years through its planning regime and (re)development of commercial properties. The recently completed Halo building, located in Finzels Reach, provides 116,000 sq ft of office space and has earned the BREEAM Outstanding accreditation, with the best score for a development outside of London.
- The push for higher quality and sustainable development is the result of local government vision rather than any specific central government planning framework, with these types of developments not only catering for the more discerning tenants but also showcasing regional office markets at their best.

THE BRISTOL OFFICE MARKET OUTLOOK

- Businesses in and around Bristol appear to have been more measured with real estate decisions, resulting in a low level of transactions. Expectations are high that pent-up demand will come through in 2024 with the market being well placed to meet an uptick in leasing.
- The high prime rent level is expected to remain at the current £42.50 per sq ft for the remainder of the year and well into 2024. Pressure to rise further will intensify should demand for Grade A space increase at pace.
- Flexible office offerings provide a space for all budgets, with increased competition dampening any price rises for this type of space. However, the leasing of the best buildings in the city and provision of greater amenities, combined with inflationary pressures will likely lead to an uplift in asking prices in 2024.

ECONOMY

While over 60,000 people were classed as "economically inactive" by the ONS in March, the city is projected to see employment growth of 1.6% at the end of the year

(Source: ONS, CEBR)

TRAVEL

Bristol to open the new Portway Park and Ride station to enhance access to the centre as well as upgrades to Temple Meads station as part of the wider redevelopment

(Source: Department for Transport, Bristol Live)

EDUCATION

At the end of 2022 Weston College implemented a new digital learning facility at its Colston Avenue centre, with the goal of teaching digital skills that will be useful for local tech businesses

(Source: Business Live)

HOSPITALITY

Whapping Wharf is being developed to provide new retail space equating to two storeys and ten storeys of residential space

(Source: BBC News)

THE UK 5

GLASGOW

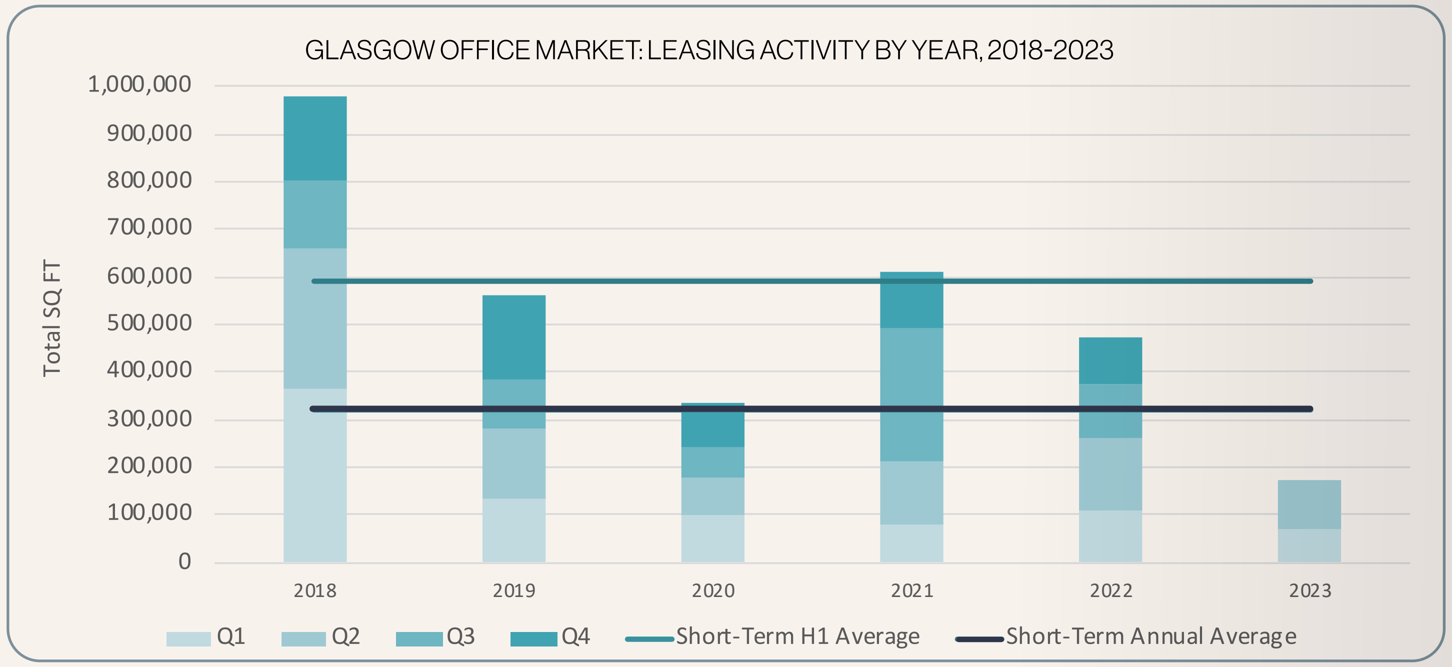
OFFICE LEASING

Office leasing across the Glasgow office market accelerated in Q2 2023 (up 41% on Q1), bringing the total for H1 2023 to 171,842 sq ft. Conversely this figure constitutes a slower start to leasing when compared to H1 2022, down 34%.

The cumulative drop for H1 2023 is not the result of a loss of tenant demand, as we saw a similar number of deals transacted in H1 2023 as we did in the same period in 2022. Instead, rationalisation of office footprints has meant businesses are taking less space, as a consequence of hybrid working practices. The average deal size was 2,604 sq ft in H1 2023, a decrease of 35% on H1 2022.

Whilst Glasgow's firms have taken a new approach when it comes to space requirements, their preference location-wise seems unchanged going into 2023. Take-up continues to be almost entirely confined to the City Core in the first half of 2023 at 87% of total take-up with firms largely eschewing other submarkets, especially the Pacific Quay submarket which failed to record any deals.

One major contributor to the take-up in the City Core was the Government sector, which had been relatively inactive for much of 2022 post-COP26. Specifically, this sector was responsible for the largest deal of 2023 so far in the form of Transport Scotland's leasing of 20,526 sq ft at 50 George Square. Nevertheless, the most active sector in 2023 so far has been the Technology sector which accounted for 22% of total leasing having already registered take-up of 32,156 sq ft, only 3% below the sector's year-end total in 2022.



TRANSACTIONS H1'23
65
NO CHANGE ON H1'22

AVERAGE SIZE SQ FT
2,630
UP 34 % ON H1'22

TOP SUBMARKET H1'23
CITY CORE
69 % SHARE OF LEASING

TOP SECTOR H1'23
TECHNOLOGY
22 % SHARE OF ACTIVITY

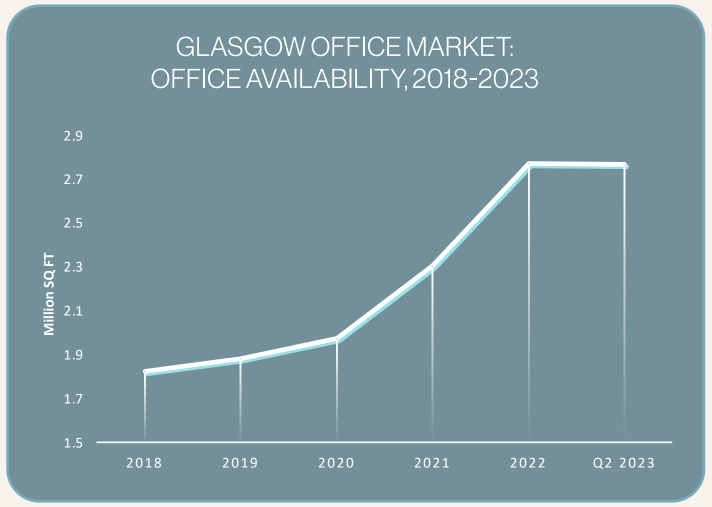
OFFICE AVAILABILITY

Like most other office markets across the UK, Glasgow's office availability has been on an upward trend for the past five years. However, momentum has slowed and in Q2 2023 the level plateaued, falling by a marginal 0.2% on the previous quarter. Whilst this could indicate a slowdown, the total quantity of space available is up 29% on the short-term annual average.

While there are a variety of options available for occupiers in the city, in terms of the availability of best-in-class spaces we are seeing the quantity of available office space being squeezed, dropping significantly over 2023 by 18% on Q4 2022.

The squeeze on Grade A options could be exacerbated further as there are no new office developments under construction, with only speedy significant office refurbishments likely to feed demand over the next 18 months.

The manner in which availability has plateaued in 2023 and the quantity of Grade A space available has reduced suggests that the market is starting to feel the effect of the lack of new developments that have been delivered over 2022/23. Given that there is no active development, it is likely we will see this stabilisation shift to a decline as we move into the rest of 2023 and the year beyond.



TOTAL AVAILABILITY
2.8M SQ FT
UP 3% ON Q1'23

GRADE A SPACE
23%
OF TOTAL
DOWN 1% ON Q1'23

DEVELOPMENT
NO ACTIVITY
UNDER CONSTRUCTION

LARGEST AVAILABILITY
168K SQ FT
120 BOTHWELL STREET

OFFICE RENTS

Prior to the pandemic, prime rental movement had seen consistent annual growth, however since 2021 prime rents remained stable at £35.00 per sq ft until Q4 2022. That levelling of rental growth has returned with prime rents remaining at £36.00 per sq ft throughout 2023, so far.

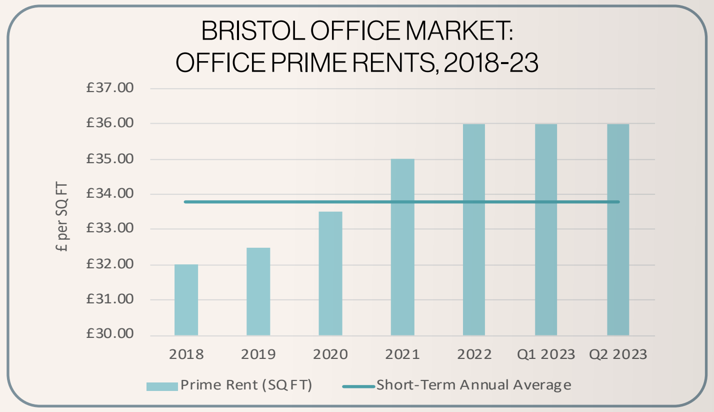
Despite this, it is likely that we will see some upward movement in rents over the next 12-18 months, given that there are no new office spaces that are under construction and only significant refurbishments which could quickly deliver new supply of Grade A.

The rent-free periods on offer across Glasgow vary quite considerably in terms of duration, coming in at between 21 and 24 months on a 10-year lease. This range still constitutes a beneficial level for occupiers, with even those prime spaces offering rent-frees at the lower end presenting a considerable opportunity for cost-savings, at a net-effective rent amounting to £28.80 per sq ft. This is 18% below current prime rental levels and is the lowest net-effective rent registered by a regional city.

FLEXIBLE OFFICE PRICING

Of the five regional cities in this report, Glasgow has the lowest desk rates, an average of £262.50 per desk per month (pdpm). While the lower quality spaces command a similar price to other cities, the best quality spaces are currently offered at £350.00 pdpm.

The desk rates across Glasgow have remained comparatively low despite a degree of provider lethargy in obtaining new spaces, with WIZU Workspace having



been the only active provider securing space in 2022 and 2023. This suggests that the few providers in the city are currently keeping desk rates low so as to attract users and more firmly establish themselves in the market.

For firms looking to meet ESG goals at a lower cost, Glasgow's office market represents a significant opportunity to occupy spaces in good-quality sustainable buildings, with the BREEAM accredited 2 West Regent Street now containing a significant serviced offering.

The rise of landlord serviced office spaces will also gain pace, an example of this being AM Alpha, owner of the recently completed 200 Broomielaw who is working on providing four ground floor spaces on flexible terms.

Given the value for money with serviced office solutions in Glasgow, coupled with the wider adoption of hybrid working it is no surprise that significant increases in enquiries for flex spaces have been reported over the past couple of years. As more businesses confirm their future workplace strategies, we expect more businesses to look to the flex office market for their next office.

OUTLOOK

LEVELLING UP IN GLASGOW

- The "levelling up" agenda for Glasgow is very much locally faced, with the leader of the Glasgow City Council Susan Aitken making it clear in 2021 that she aims to facilitate levelling up through providing greater rail connectivity to a greater number of less accessible areas of Glasgow, putting all Glasgow's regions on an equal footing.
- Glasgow's bounce back from the pandemic came in the form of the City Centre Recovery Plan, accessing funds from both the Scottish and UK governments in a bid to increase footfall and development opportunities.

IMPROVING EDUCATION OPPORTUNITIES

- Glasgow's Met Tower is set to be converted into a Technology Hub with work beginning in 2022 and looking to complete in 2024. Considering that 5.7% of all jobs in Glasgow in 2020 were in the information and communication sector, the hub should serve to strengthen the technology offering of the city given its provision of space for start-ups and its close proximity to local universities.

DELIVERING NEW STOCK

- Plans have been green-lit for a phase 2 of the Carrick Square development with a 14 storey office building, to join its phase 1 neighbour. The building has been designed to meet the highest sustainability standards with the design brief emphasising that the development will be part of an effort to increase the available stock of Grade A in the city centre for the purpose of meeting the renewed demand.

THE GLASGOW OFFFICE MARKET OUTLOOK

- The fine balance between encouraging workers to collaborate within an office space and enabling employees to work flexibly is something firms have been attempting to navigate through their workplace strategies. To facilitate this we expect business to demand more from their spaces and look towards the new and refurbished spaces available.
- As business optimism is expected to return in 2024, this is anticipated to translate into heightened leasing activity which will put pressure on the level of Grade A space available. However, the squeezed volume of space will prompt some businesses to secure space early and warrant a greater level of pre-letting activity in 2024.

ECONOMY

Glasgow has been agreed as an investment zone, one of the first outside of England, with the economy set to grow to £23.5bn by the end of the year

(Source: DHLUC, Irwin Mitchell)

TRAVEL

Glasgow has been made a low emission zone, with a fine being enforced for those driving vehicles that do not meet emissions specifications

(Source: BBC News)

(Source: BBC News)

EDUCATION

The growth of Glasgow's education sector is expected to stall somewhat given reports that £46m that was supposed to be allocated by the government to colleges and universities is now being withdrawn

(Source: BBC News)

HOSPITALITY

The "Golden Z", the area made up of Argyle, Buchanan and Sauchiehall streets, is being redeveloped to provide more residential property and amenities

(Source: Insider.co.uk)

LEEDS

OFFICE LEASING

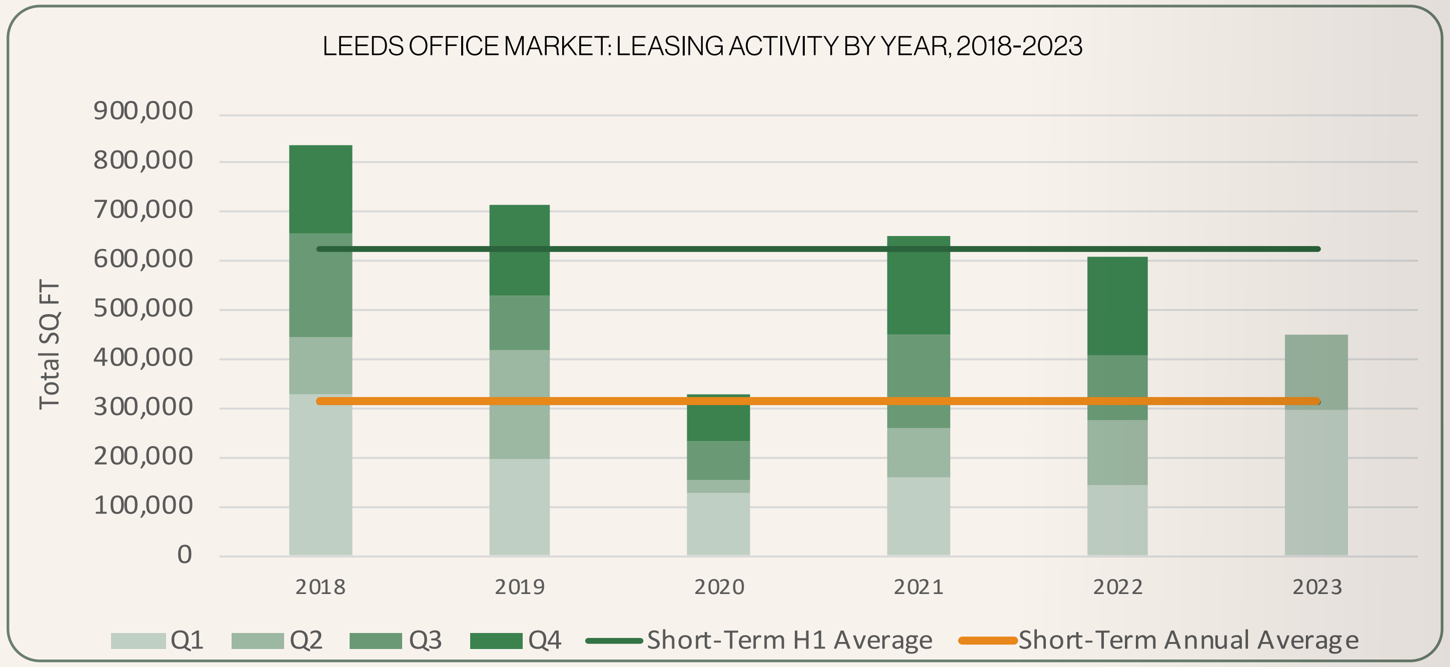
Office leasing across Leeds in the first half of 2023 (H1 2023) has had a renaissance, with 448,335 sq ft let. This represents an increase of 61% on the same period in 2022, and just 27% below that recorded for the whole of 2022.

A major contributor to leasing activity has been the Lloyds Bank transaction for 138,513 sq ft at 11-12 Wellington Place. The size of this deal means that the Financial sector accounted for the most space leased in H1 2023. Excluding the Lloyds deal, the Professional sector has been the greatest contributor to leasing activity with 16 deals completed.

Although take-up in Leeds has remained concentrated in the city core, for the last three quarters its share of leasing has reduced, down from 95% in Q3 2022 to 66% in Q1 2023, indicating that firms are becoming more exploratory in their office searches.

The number of businesses leasing space in H1 2023 has been exceptional, up 15% on the long-term half yearly average of 61 deals transacted. The latest uptick suggests we could see a post-pandemic high in activity by the end of the year.

The increase in the number of businesses leasing space has seen firms taking spaces for longer, countering wider trends of shortening lease lengths with the average lease length being 8 years – the highest level in a decade.



TRANSACTIONS H1'23
61
UP 17% ON H1'22

AVERAGE SIZE SQ FT
7,350
UP 37% ON H1'22

TOP SUBMARKET H1'23
CITY CORE
74% SHARE OF LEASING

TOP SECTOR H1'23
FINANCIAL
35% SHARE OF ACTIVITY

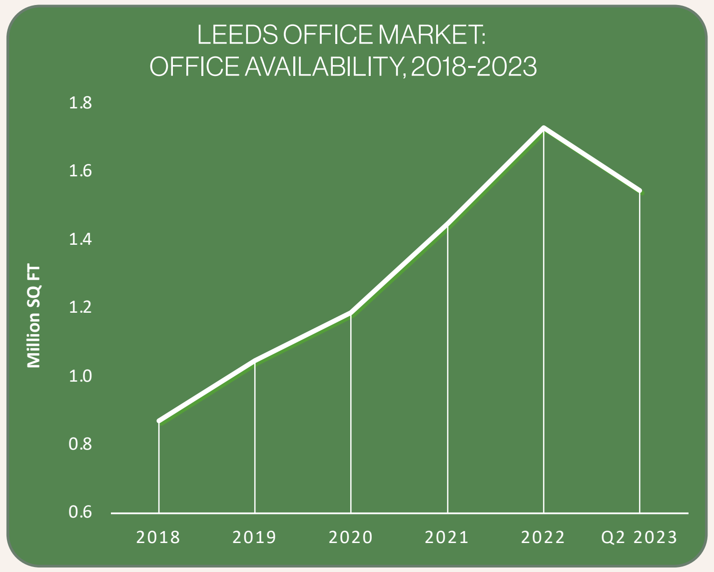
OFFICE AVAILABILITY

Office availability across the Leeds office market has been climbing quarter-on-quarter for the past two years, peaking at 1.7 million sq ft in Q4 2022. Since this point our research shows that availability has dropped by 11%, now standing at 1.5 million sq ft, which while lower than the Q4 peak is still in excess of the short-term annual average by 23%.

The reduction in office availability in 2023 has stemmed from the glut of secondhand space being marketed. The quantity of Grade A space available only reduced 9% over this period, and as such the share of Grade A available equates to 31%.

Grade A availability increased markedly over Q2, recovering to 13% in excess of the Q4 2022 level and recording a new high of 543,808 sq ft. Considering that new developments are due to complete in the latter part of 2023, equating to a net addition of 139,328 sq ft, we are likely to see a further high in the availability of Grade A space over the remainder of the year.

At the moment, the only office space under construction in Leeds is the City Square House development on Wellington Street, which will amount to 137,793 sq ft of new space and is set to be delivered in 2024.

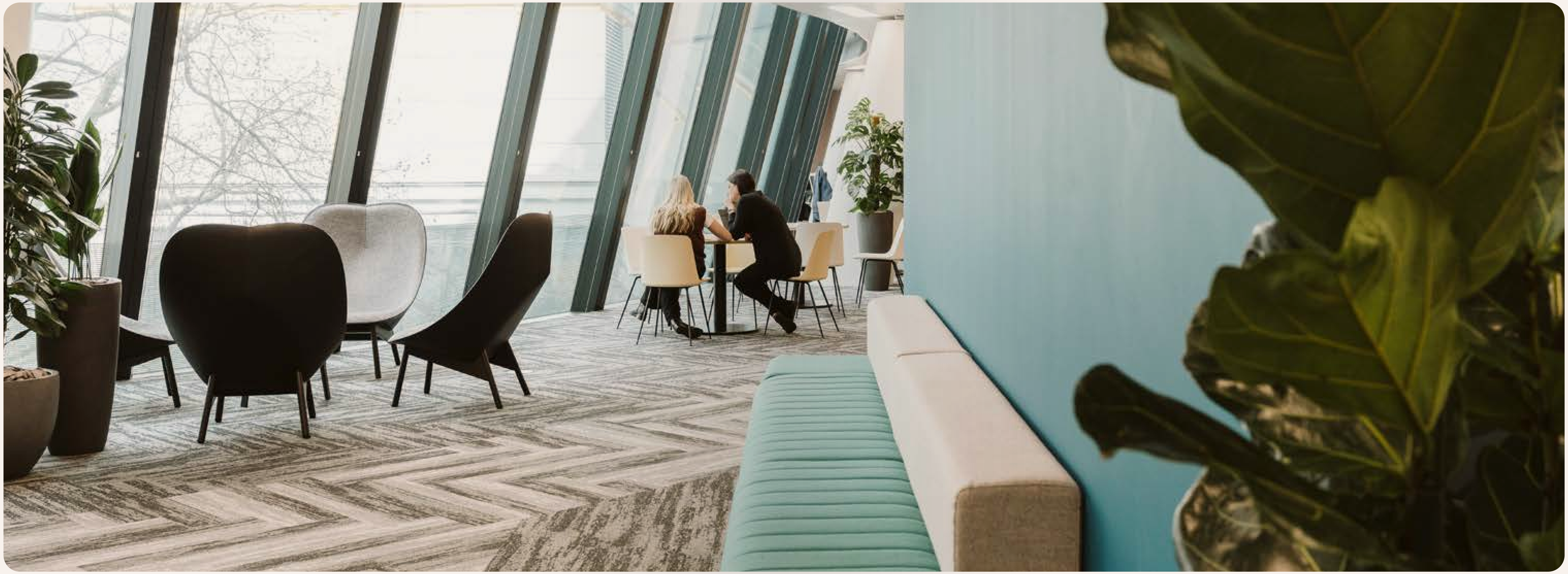


TOTAL AVAILABILITY
1.5M SQ FT
UP 10% ON Q1'23

GRADE A SPACE
35%
OF TOTAL
UP 12% ON Q1'23

DEVELOPMENT
138K SQ FT
UNDER CONSTRUCTION

LARGEST AVAILABILITY
120K SQ FT
WEST ONE,
WELLINGTONSTREET



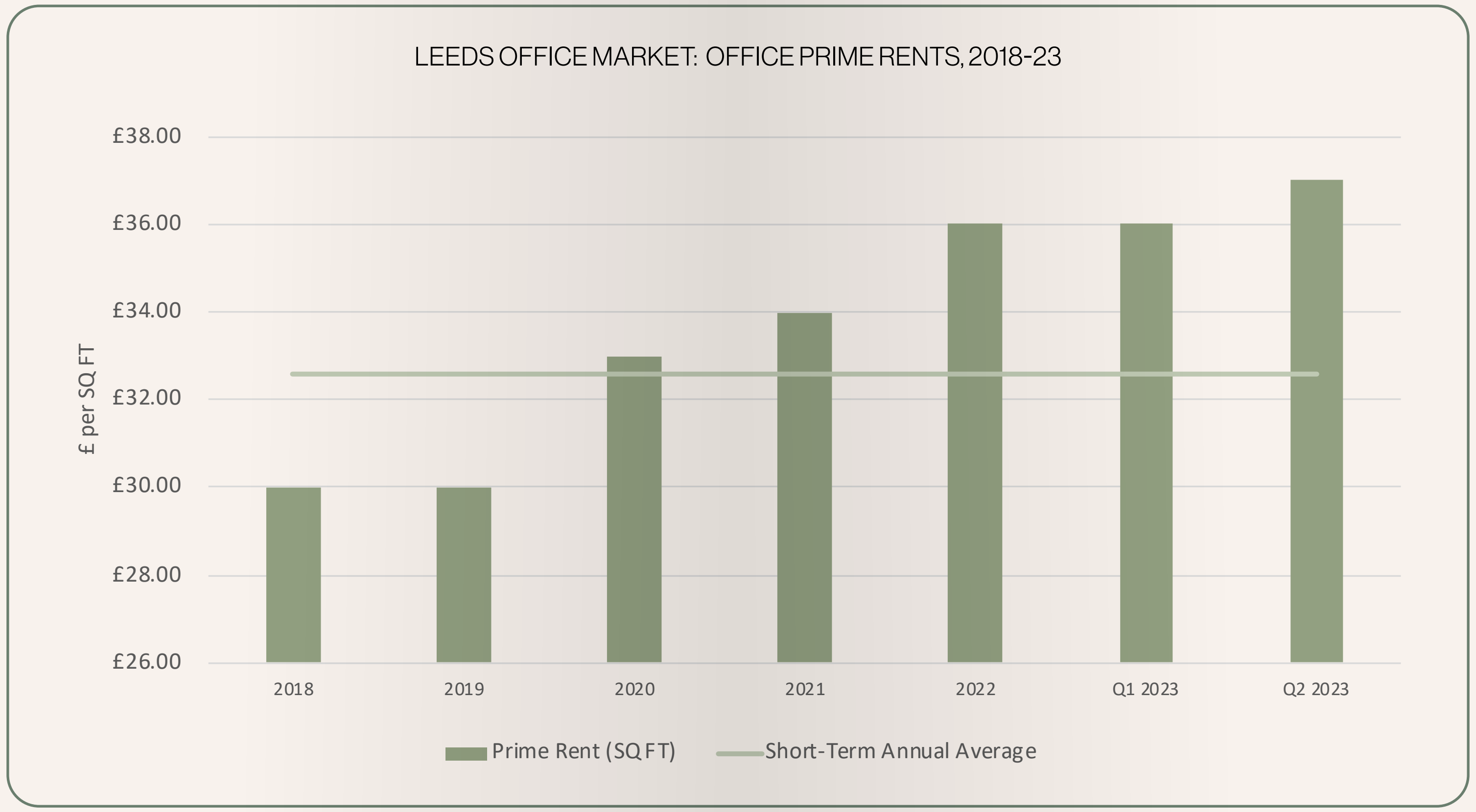
OFFICE RENTS

The Leeds office market stood out from its regional peers in Q2 2023 as it led the charge on prime rental growth, increasing 3% on the previous quarter to £37.00 per sq ft.

Following a period which saw rents plateau at £34.00 per sq ft for a year, the current headline rent is 13% above the short-term annual average, reflecting the intensity of prime rental growth.

With a number of new developments expected to complete over the next six months, the added competition could dampen any expectations of further rental growth, however, buoyed by prime rent levels in other regional markets landlords could set their expectations a little higher as we head into 2024.

Rent-frees remain at 24 months on a 10-year lease, and as such while there are still savings to be made, the net-effective rent is beginning to creep upwards, now at £29.60 per sq ft.



FLEXIBLE OFFICE PRICING

Since 2019, circa 107,000 sq ft of office space has been leased by serviced office providers. However, it was 2021, the point at which leasing activity picked up pace, when 81,689 sq ft was transacted across 5 deals.

That previous growth surge has not continued in 2022 or even H1 2023, with five consecutive quarters of no new leasing deals by providers.

There is a good range of providers now operating across Leeds, including Instant, Cubo, and WIZU Workspace. However, as the market matures and with very little leasing activity for new centres, there is likely to be a squeeze on availability. Whilst the more well-appointed centres will continue to gain interest and command higher prices, the older centres could struggle amidst the competition.

Desk rates are currently pegged at an average of £287.50 per desk per month, with the upper end of pricing at £400 per desk per month, the latter pricing making Leeds the 3rd most expensive regional city after Manchester and Birmingham.

OUTLOOK

GROWTH PLANS DERAILED

- The scrapping of the HS2 rail line north of Birmingham will be a major blow to growth plans for the Leeds region. It was not just the link to London, but that improvement to the link to Manchester which is being abandoned, a significant blow. According to the government, funding will now be diverted to improve the 'northern network'. Until it comes to fruition, business leaders will remain dismayed at the recent announcement, especially considering Leeds' City Councillor James Lewis had previously indicated that HS2 was set to create 160,000 new jobs and lead to a GVA of £200bn to the economy.
- Maybe the additional funds will drive forward Leeds council plans to develop a new West Yorkshire Transit System, to be completed before the scheduled 2040.

FUELLING BUSINESS GROWTH

- Two business sectors that are expected to provide a shot in the arm of the local economy in 2023-24 are life sciences and technology.
- Leeds has seen the growth of a life sciences sector centred around the Temple district. Investment by Labcorp Drug development at a space in Draper's Yard, which was spurred by its involvement with vaccine provision during the pandemic, is hoped to kickstart Leeds' life sciences offerings as a new contender within the national life sciences sector.
- The technology sector currently employs around 53,000 workers in Leeds and with a growing investment in technology by businesses of all sizes it is expected that the city will see an ecosystem grow around it as a result, not least of all as a result of Channel 4's opening of its new HQ in the centre and a number of government departments opening up as well.

RETAINING GRADUATES

- 56% of graduates choose to stay in the city following the conclusion of their courses at Leeds' higher education providers.
- Talent attraction is to be strengthened by ongoing developments such as Leeds Trinity University's Strategic Plan for 2021-2026, focusing on improving student experience and delivering career-focused courses.
- The University Centre Leeds has recently been recognised in the Educate North awards for its provision of apprenticeships to those in the surrounding area.
- Several sectors appear to be taking advantage of the high number of graduates that are graduating from these universities, with 5.1% of all jobs in Leeds in 2020 having been in the technology sector and 10.8%
- having been in the professional, scientific, and technical sector.

THE LEEDS OFFFICE MARKET OUTLOOK

- Leeds leasing has been buoyant in 2023 so far, and bucked the wider regional malaise. The optimism is expected to continue and drive tenant demand as we head into 2024.
- Certain sectors are expected to thrive as competition with their London counterparts increases, one sector being Legal. Hybrid working within the legal sector, brought on by the pandemic, has proved successful and is expected to be a core part of people's working style. So much so, regional markets outside of London, including Leeds, are now capitalising on attracting legal talent from London. However, for this growth to continue, Leeds' legal sector will need to double down on its commitment to remote and hybrid working. A necessary component of this will be to invest to a greater degree in LegalTech, giving people the tools to work from anywhere, securely.
- This has not gone unnoticed by the local authority, with Leeds City Council's Innovation@Leeds programme hoping to ride the wave of greater investment into LegalTech applications by connecting budding tech entrepreneurs with law firms that seek to digitalise their practices.
- Secondhand space remains the majority space quality in the Leeds office market, with there being little sign that this is set to change dramatically.
- Landlords are likely to take the opportunity to refurbish their ageing stock in accordance with EPC guidelines and net zero goals.
- A drive towards the best and more sustainable spaces could lead to a further hike in prime rents in 2023 as demand erodes any new space coming through. Add a little inflationary pressure into the mix and landlord expectations for nudging rents higher could come to fruition. The increased attention that flexible office solutions are receiving has indeed driven the latest cohort to expand into the city, not least of all from new entrants. We expect more to come through in 2024 as Leeds becomes a major target for growth.

ECONOMY

Although Leeds is encompassed in the wider West Yorkshire Investment Zone, it is still expected to be the fastest growing economy in the next two years, growing by 2.1% per year

(Source: Yorkshire Post, EY)

TRAVEL

The newly operational Leeds College of Building University Centre has seen its first class graduate, with the hope being that the centre will continue to generate talent for the local civil engineering sector

(Source: South Leeds Life)

EDUCATION

The growth of Glasgow's education sector is expected to stall somewhat given reports that £46m that was supposed to be allocated by the government to colleges and universities is now being withdrawn

(Source: BBC News)

HOSPITALITY

Plans to refurbish the Cosmopolitan Hotel, one of Leeds' flagship offerings, have been approved, expanding to a total of 108 rooms in addition to new restaurant space

(Source: Insider Media Limited)

THE UK 5

MANCHESTER

OFFICE LEASING

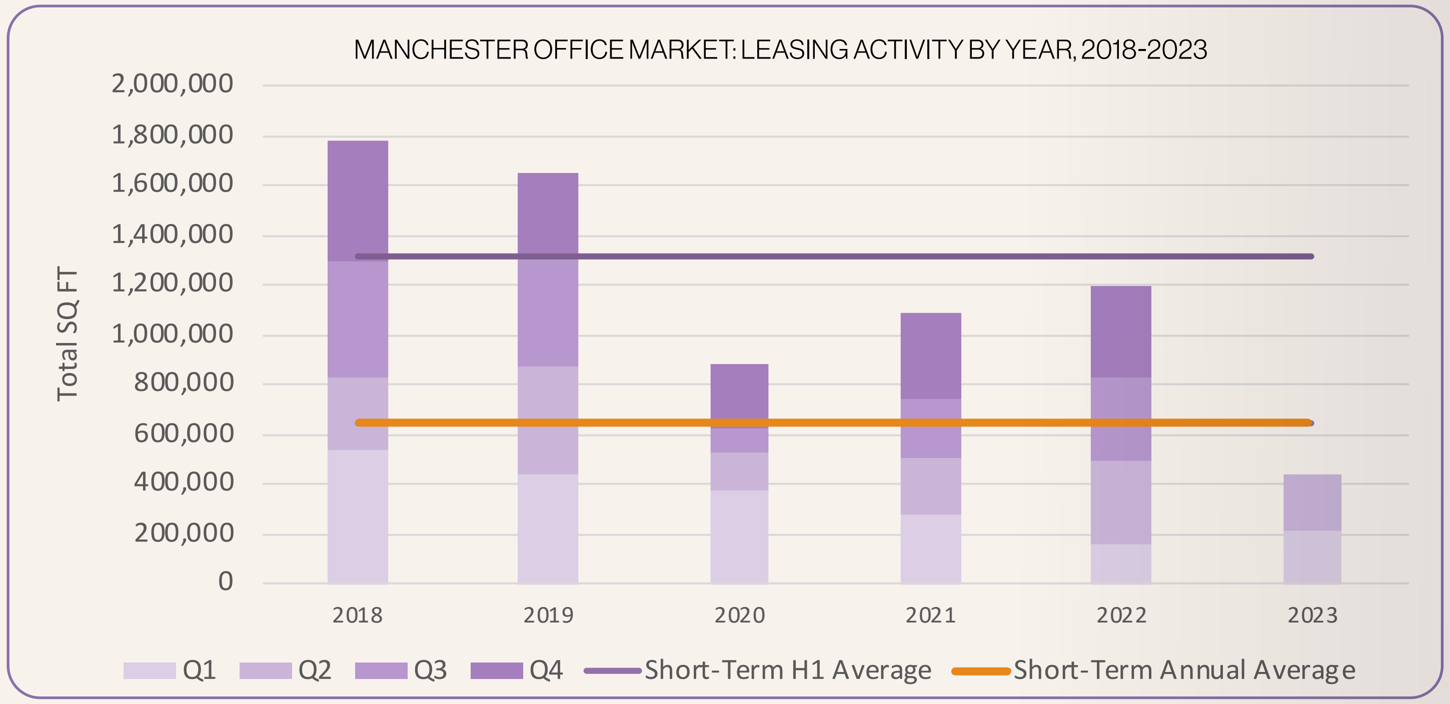
The volume of space leased in the first half (H1) of 2023 was 439,578 sq ft, the lowest H1 total since 2012. Despite a slight uptick in space taken in Q2 2023, take-up at the end of H1 was 12% below that recorded at the same point in 2022.

The dip in leasing activity was the result of fewer transactions, a drop in deal size and Q2 having been the fourth consecutive quarter without any mega deals (100,000 sq ft+).

DeVono research shows that leasing in the traditional City Core has fallen for three consecutive quarters. Attracted to other submarkets, H1 2023 leasing activity across the Northern Fringe submarket has seen a post-pandemic high, 26% above the short-term H1 average. Piccadilly submarket activity has peaked with take-up the largest since 2020.

The Technology sector has recorded the largest share of leasing activity in H1 2023 at 20%, taking space in multiple submarkets around the city. This volume of space leased represents a post-pandemic high for H1.

The number of technology businesses (9) leasing space in H1 2023 increased 80% on H1 2022 volume. Alongside this rise, the amount of space taken also increased, with the average tech deal size having doubled compared to the first half of 2022, fuelled primarily by two deals over 20,000 sq ft.



TRANSACTIONS H1'23
77
DOWN 9% ON H1'22

AVERAGE SIZE SQ FT
5,709
DOWN 2% ON H1'22

TOP SUBMARKET H1'23
CITY CORE
51% SHARE OF LEASING

TOP SECTOR H1'23
TECHNOLOGY
20% SHARE OF ACTIVITY

OFFICE AVAILABILITY

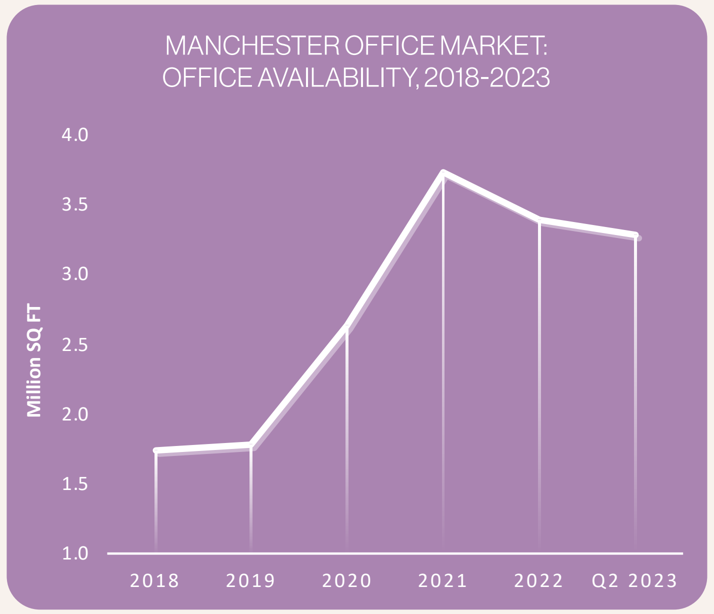
Office availability across Manchester hit its peak at the end of 2021, at 3.7 million sq ft. Our analysis shows that availability reduced over five consecutive quarters, with Q2 2023 halting the decline. Experiencing a slight uplift of 6% on the previous quarter, availability across the city at the end of Q2 2023 stood at 3.3 million sq ft total.

While levels are down from the recent peak, availability remains at a relatively high level compared to previous years, 24% above the short-term annual average.

Tenant demand for the best-in-class office spaces is continuing to apply pressure to the level of Grade A availability, which has been declining since Q4 2021.

Despite the reduction in available Grade A stock, the Manchester office market still constitutes a good option for occupiers that are looking to secure a high-quality office and meet ESG goals, given that this market commands the largest volume of available Grade A space out of the key regional cities at 751,983 sq ft as of the end of Q2 2023.

Availability levels, including Grade A, are likely to rise in the short-term as we progress through the remainder of 2023 and head into 2024 as circa 350,000 sq ft is due to be completed over the next six months.



TOTAL AVAILABILITY
3.3M SQ FT
UP 6% ON Q1'23

GRADE A SPACE
25%
OF TOTAL
NO CHANGE ON Q1'23

DEVELOPMENT
915K SQ FT
UNDER CONSTRUCTION

LARGEST AVAILABILITY
195K SQ FT
4 ANGEL SQUARE

OFFICE RENTS

The prime office rent level across Manchester continues to be pegged at £40.00 per sq ft, having seen a 4% increase at the start of 2023. Whilst this is marginally below the prime rents recorded in other regional cities, we have seen certain spaces commanding rents in excess of this, specifically, the short-term let of 15,500 sq ft at the Bonded Warehouse on Lower Byrom Street where the level was reported to be at £61.00 per sq ft.

Prime rents are now firmly at a new level, far higher than the long-term average, 14% higher than the £35.10 per sq ft level.

Factoring in the rent-free incentive of 26 months on a nominal 10-year lease, the net-effective rent of £31.33 per sq ft highlights the relative attractiveness of Grade A spaces to businesses with active requirements.

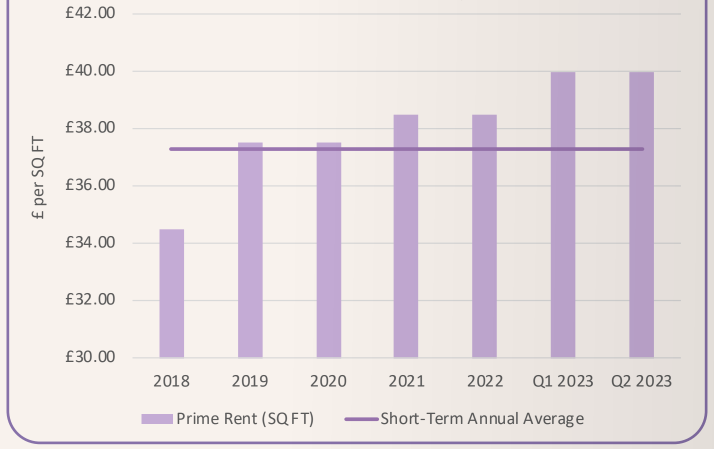
Opportunities can still be sought at other price levels with the market average standing at £27.95 per sq ft, although this has also increased over the last year, up 3% in 12 months.

Considering the drop in leasing so far in H1 2023 compared to the previous year and upcoming development pipeline due before the end of the year, it is likely the upward pressure on prime rents will remain subdued as we enter the new year.

FLEXIBLE OFFICE PRICING

Manchester has developed a flourishing flexible office market, with an annual average of 5 new office spaces having been leased by serviced office providers over the past five years. The recent deals across Manchester represent a diversity in providers and thus flex solutions.

MANCHESTER OFFICE MARKET: OFFICE PRIME RENTS, 2018-23



We have identified 18 different providers taking space since 2018, both old and new: WeWork, Orega and X+Why to name a few.

Once starved of flexible office solutions, regional office markets such as Manchester are flourishing thanks to landlords and developers meeting provider demand, delivering the opportunity to secure buildings that are well located and rich in amenities which represent the best-in-class.

The competition between providers is expected to simmer further across Manchester's flexible office market, which has meant that desk rate growth has remained at bay. Given that much of the flex office stock across Manchester is of a high quality, pricing reflects this. Manchester not only commands the highest starting desk rates of any key regional office market at £250.00 per desk per month (pdpm), but some providers in the market are charging as high as £500.00 pdpm for the very best spaces. This is 31% higher than the average high desk rate recorded in the other key regional cities.

OUTLOOK

THE HS2 SERVICE TO MANCHESTER IS NOW CANCELLED

- The government decision to scrap the HS2 link from London to Manchester has come as a serious blow to business and political leaders. Whilst promises have been made to redirect funding into local transport network, rail and road, it will be small comfort to those who were expecting wider regeneration as a result of HS2.
- It is expected that pressure will be maintained on the government to stick to funding promises and to deliver regional schemes, with progress largely being made through a greater collaboration with local authorities and businesses and not through national government.

BUILDING A REBOUND

- The refurbishment of the Town Hall is expected to be completed in 2024, creating 115 jobs in the process and an additional 30 apprenticeships.
- New large-scale construction projects are also set to bolster the economy, including the Speakers House in Deansgate where 135,000 sq ft has been approved. This should contribute to the roster of a new generation of sustainable office buildings that businesses will be looking for to meet their corporate ESG goals.

STRONG SUPPLY OF TALENT

- Manchester continues to be one of the largest student communities in the UK with 104,000 students enrolled in one of the five universities, and a further 20 universities (400,000 students) within an hour's drive of Greater Manchester.
- In September 2022, the University of Manchester's (UoM) Engineering Campus Development (MECD) opened with the capacity to house around 8,000 students and members of staff, making it the largest hub for engineering anywhere in the UK.
- The UoM also has plans for the development of ID Manchester, a new innovation district. The district will allow for a greater connection between the university's students and local businesses, thereby allowing firms access to the best talent and providing an easier transition for the students into employment.

THE MANCHESTER OFFICE MARKET OUTLOOK

- Tenant demand has not lived up to pre-pandemic levels so far in 2023, and so the short-term outlook remains subdued as we head into 2024. However, demand is pent-up and will yield at some point and the market will be ready when it does. The hiatus in leasing activity comes at a time when development of new stock continues, the volume of which will meet demand.
- Given that there is a relatively full pipeline of new stock being developed, it seems reasonable to expect that prime rents will remain at the current level for 2023 and much of 2024.
- Availability, specifically secondhand, is expected to rise as businesses upgrade to newer spaces, however developers will eye the opportunity to refurbish spaces, not only meeting their own net-zero targets but also deliver spaces to the market in a quicker timeframe to competing new-builds.

ECONOMY

Manchester continues to attract interest from overseas, second only to London in terms of Foreign Direct Investment, with the FinTech sector set to add another £1bn to the region by the end of Q4 2023

(Source: EY, UKTN)

TRAVEL

Further additions are being made to the Manchester College campus, with 63,000 sq ft of additional space having been approved to cater to the business and professional services provision

(Source: North West Place)

EDUCATION

Further additions are being made to the Manchester College campus, with 63,000 sq ft of additional space having been approved to cater to the business and professional services provision

(Source: North West Place)

HOSPITALITY

As of April, Manchester has operated a £1 tax on tourists staying in Manchester, with the hope that this will amount to an additional £3m in tax revenue each year

(Source: The Guardian)

CHECK OUT OUR OTHER INSIGHTS!

DEVONO PUBLICATIONS

THE CHANGING FACE OF FINANCIAL WORKPLACES

The financial sector is the single biggest occupier sector of office space across central London and in 2022 it reclaimed its crown as the leading business sector leasing office space across central London.

THE CHANGING FACE OF MEDIA WORKPLACES

Demand for office space in London by the Media Sector has started to return following reduced leasing activity during the 'pandemic years'.

STAYING ONE STEP AHEAD OF YOUR RENT REVIEW

As operational expenditure comes under greater scrutiny, the last thing a business wants is a hefty rent increase. This report gives an introduction into the rent-review process, what to expect and a do's and don't list with steps that can be taken in advance of your landlord's proposal.

THE CHARITY WORKPLACE: RISING TO THE CHALLENGE

The Charity sector has been under immense pressure over the past few years. The demand for services offered have increased exponentially, whilst funding has reduced, and operational costs have soared.

THE OCCUPIER: INFLATED PRESSURE ON TENANT

Our comprehensive analysis of the London Office Market, with stats and trends for the first half of 2023. Includes feature articles covering a range of topics from Green Leases, serviced office contract renewals through to neurodiversity in workplace design.

THE CHANGING FACE OF THE LEGAL WORKPLACES - LONDON 2023

This edition of the legal sector report has two parts, leasing office trends in 2022 and 2023 and the results from our annual survey of legal practitioners.

ABOUT DeVono

DeVono is the UK's leading occupier-only advisory firm. We specialise in advising businesses of all sizes and sectors, on commercial real estate solutions that best support their wider business objectives.

A significant part of our role is helping our clients to understand and define their occupational requirements. We take into account key factors including talent challenges, headcount forecasts, occupational priorities and cost considerations, to help craft a brief that is not only fit for purpose today but will also deliver a sustainable occupational footprint moving forward.

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