



# COMMERCIAL EDGE UPDATE

**LEEDS**

2018

Carter Jonas

**LEEDS HAS A HIGHLY DIVERSE ECONOMIC BASE, WITH A STRONG PRESENCE IN FINANCIAL AND PROFESSIONAL SERVICES. THE CITY HAS ALSO DEVELOPED A STRONG PRESENCE ACROSS THE “KNOWLEDGE” SECTORS. THE LEEDS ECONOMY IS FORECAST TO GROW BY 1.5% PA OVER THE NEXT FIVE YEARS, IN LINE WITH THE UK AVERAGE.**

Leeds has seen healthy population growth over the last five years, estimated at nearly 30,000, representing a growth rate of 0.8% pa. This rate of growth is expected to moderate to 0.5% pa over the next five years, but will still mean an additional 20,000 people living in the city.

The city has a strong higher education sector, including The University of Leeds, Leeds Beckett and Leeds Trinity. The sector is seeing high levels of investment, and the city has an excellent student retention rate.

Leeds forms part of the wider Leeds City Region, which includes major centres such as Bradford, Wakefield, Kirklees and York, and is home to more than 3 million people. It is also a central part of the “Northern Powerhouse” initiative.

There are major investments in the pipeline to improve road and rail capacity and these will boost productivity in the region and promote growth. These include wider national and regional projects like the Northern Hub and HS2 along with additional investment associated with the Leeds City Region Growth Deal, which has already seen over £1bn of investment in the wider region.

The UK has seen a remarkable rate of job creation over the current economic cycle, and Leeds has mirrored this trend. Employment has grown at an estimated rate of 1.2% pa over the last five years (Experian), a net additional 28,500 jobs. This has not been shared equally across the economy, with particularly strong growth in the computing & information, media and transport sectors, contrasting with a fall in public sector administration jobs.

Over the next five years, employment growth will slow to a projected 0.7% pa, but should still exceed the UK average (0.5% pa).

**FOCUS ON INVESTMENT**



**1.4%**  
2017 ECONOMIC GROWTH

**1.2% PA**  
EMPLOYMENT GROWTH  
(last 5 years)

**£333 MILLION**  
COMMERCIAL PROPERTY TRANSACTIONS  
(H1 2018)

**5.0%**  
PRIME OFFICE YIELD

*Source: Experian, Property Data, Carter Jonas*



**Investment activity in the Leeds market has continued apace, following on from a strong 2017. Total commercial property investment volumes have exceeded £330 million in the first half of 2018, including more than £265 million in the office sector.**

The headline deals were the West Midland Pension Fund acquiring City Point for £26 million, whilst Brocton Capital acquired the Pinnacle, a mixed use block for £65 million. Other key transactions have included:

- Mayfair Capital’s acquisition of 6 Queen Street for £37.2 million at a yield of 5.4%
- The sale of Lateral Leeds, a multi-let office building in Leeds city centre, to a Middle Eastern investor for £24 million, reflecting a net yield of 7.99%



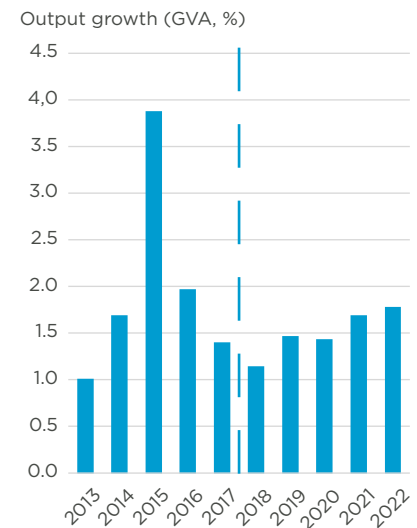
## OVERSEAS INVESTORS ARE BECOMING MORE FAMILIAR WITH THE UK’S REGIONAL OFFICE MARKETS

Overseas investors are becoming more familiar with the UK’s regional office markets, and accounted for nearly 30% of deals in Leeds in the first half of 2018, compared with just 13% over the last five years.

The 139,079 sq ft One Sovereign square is currently being marketed for £48.9 million, emphasising that the investment market is set to continue at a high level for the rest of the year.

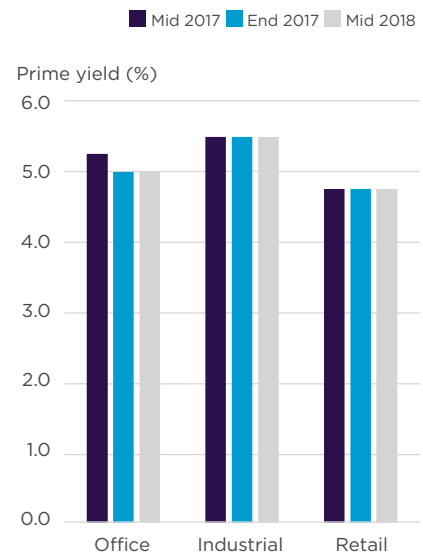
Prime yields were unchanged during the first half of the year, with prime city centre office yields at 5.0%, industrial at 5.5% and retail at 4.75%. We do not anticipate any significant yield movement in the second half of 2018.

**Figure 1 Total Output Growth**



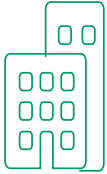
Source: Experian

**Figure 2 Prime Yields**



Source: Carter Jonas

# OFFICE MARKET



**£30.00 PSF**  
PRIME CITY CENTRE OFFICE RENT

**£23.50 PSF**  
PRIME OUT OF TOWN OFFICE RENT

**2017 was a record year for the Leeds market, with take-up in excess of 1 million sq ft. Encouragingly, 2018 has also started strongly with take-up totalling 589,000 sq ft, well ahead of both the 320,000 sq ft let in the first half of 2017 and the six-monthly average over the last five years of circa 500,000 sq ft.**

The out-of-town market has seen a strong start to 2018, buoyed by a number of transactions in excess of 10,000 sq ft, including Perform Group leasing 39,422 sq ft at White Rose Office Park and Lowell leasing 16,617 sq ft at Leeds Valley Park. The city centre market has also been buoyant with Walker Morris (76,000 sq ft), Dart Group (48,000 sq ft), Ministry of Justice (25,938 sq ft) and Investec (20,712 sq ft) providing some of the lettings worthy of note. Flexible workspace providers Regus and Gilbanks also took space, as the market improves its flexible workspace offer, good news for the city's important tech sector.

We believe there is further opportunity for the serviced office / flexible workspace sector to scale up in the city, as this has increasingly been happening outside of London and the South East. However, a lack of available stock is now starting to hold transactions back.

The occupier profile within the city continues to become more diverse and Leeds has benefitted from high growth industries including healthcare and medical technologies, Edtech and game development. Businesses also continue to move their headquarters out of London into the regional cities. This has

been demonstrated by Channel 4, with Leeds on a shortlist of three to accommodate their new HQ. The city is also shortlisted to host the channel's creative hubs.

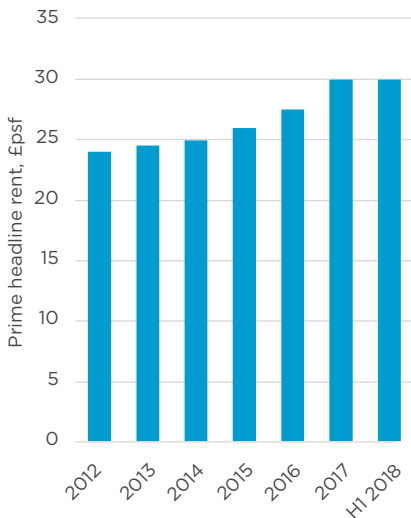
The lack of grade A stock is a key issue for the market, and supply in the city centre will remain highly constrained over the next 12-24 months. The refurbishment of the iconic Majestic by local developer Rushbond will bring forward 65,000 sq ft of refurbished space towards the end of 2019, which will help a little. With quality supply so low, 2019 could see a return to significant speculative development, and we understand that MEPC is about to commence construction of 4 Wellington Place. The city has several potential schemes that could provide a large amount of city centre space in the medium term, although some will undoubtedly require a prelet.

The prime city centre headline rent has remained at £30 psf during the first half of the year, although this marks a rise of 9% compared with the maximum of £27.50 psf seen 18 months ago. There is typically a rent-free incentive of 18 months on a 10-year lease.

Given the relatively strong rental growth over the last two to three years, we do not expect any further rental growth this year. However, with quality space in such short supply, further growth is possible next year and it will be interesting to see if the Majestic refurbishment manages to exceed the current prime rent.

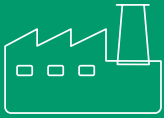
With diminishing supply, headline rents for the out-of-town market have risen to £23.50 psf (as achieved at Kirkstall Forge), narrowing the margin with the city centre market.

**Figure 3**  
Prime city centre office rents



Source: Carter Jonas

## INDUSTRIAL MARKET



**£6.25 PSF**  
PRIME  
INDUSTRIAL  
RENT

**3.1M SQ FT**  
AVAILABLE  
INDUSTRIAL  
SPACE

**654,000 SQ FT**  
INDUSTRIAL  
TAKE-UP  
(H1 2018)

**With the relentless shift of retail sales online, retailers continue to adapt their logistics models to manage the increase in demand and changing distribution patterns. This is fuelling demand in Leeds and in the wider West Yorkshire market, and as take-up continues apace the region is now experiencing a shortage of prime distribution units.**

There is now a very limited supply, relatively few suitable sites are available, and developers remain cautious about building speculatively. However, we are starting to see the return of some schemes, such as Trilogy at junction 45 of the M1, where three speculative units totalling 100,000 sq ft (developed by Muse and purchased by Leeds City Council) have recently been completed. Also, Caddick Construction is developing a site at Cross Green for property specialist Towngate, close to junction 45 of the M1 motorway. Phase 1, comprises TL1 (55,000 sq ft) and TL2 (62,500 sq ft).

With so little space available, the design and build route remains an attractive option for occupiers. A recent notable example is the 361,000 sq ft unit at Logic Leeds being built for technology distributor Premier Farnell. This is the largest ever warehouse development in the Leeds market.

Further afield, the North East has seen a particularly strong start to the year with a pre-let of 1.5 million sq ft announced at Symmetry Park, Darlington to a confidential occupier. The unit will comprise a state of the art fulfilment centre that will occupy 40 acres, leaving the remaining 37 acres to be brought forward to provide further design and build opportunities.

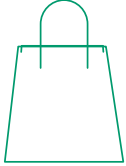
Due to the lack of speculative development, the focus of occupiers has had to turn to existing stock. The largest deal in the Yorkshire region was the letting of Sheffield 615 to Clipper Logistics who leased 615,000 sq ft.

Another example of occupiers turning their focus to existing stock in the absence of any new build opportunities is the letting of Axis 62 located near Junction 31 of the M62, which comprises a 215,000 sq ft warehouse, formerly let to Poundworld. The unit was let in July 2018 to Panther Warehousing for a 10-year term, anecdotally at a higher rent per sq ft than Poundworld were paying of £4.25 per sq ft.

Prime headline rents for the small-medium size shed market remain at £6.25 psf, with rent free incentives typically 18 months on a 10-year lease



## RETAIL MARKET



**£250 PSF**  
PRIME ZONE A  
RETAIL RENT

**1.2%**  
2018 PROJECTED  
CONSUMER  
EXPENDITURE  
GROWTH  
(EXPERIAN)

**Leeds has a high quality retail offer, which has been significantly enhanced in recent years by the 120-store Trinity Leeds shopping centre, opened in 2013. The city centre market remains healthy, with low overall void rates and a good level of enquiries, although there are still question marks over the success of the Victoria Gate shopping development, which is targeting high-end retailers.**

Occupier demand remains selective, with many retailers focusing on larger stores in key locations. New Look, H&M and Zara are all closing stores of up to 7,000 sq ft in favour of 40,000 sq ft premises in locations including Leeds.

So far, 2018 has been a challenging year for the high street, with the continued migration of market share online and subdued consumer spending. This has happened at a time when costs have been rising as a result of the National Living Wage, Sterling's

devaluation, as well as the high burden of business rates. Profitability therefore remains a challenge for all retailers, as rising costs and online-retailing continues to impact margins. In general, it is the discount operators who are willing to take large amounts of space and Aldi, Lidl, B&M and Primark are all continuing with their UK expansion plans.

At the same time, the food and beverage sector, which has been an important growth area over the last five years, has seen a reduction in demand, with concerns over market saturation. A number of national operators have halted their expansion programmes and some are even exiting units, with a notable switch in consumer demand towards more unique leisure and dining experiences. This is being reflected in an increased demand from independent operators. The prime zone A rent in Leeds remains at approximately £250 psf.



# PROPERTY MARKET TRENDS

		PRIME RENT (MID-2018)	CHANGE OVER H1 2018	FORECAST NEXT 12 MONTHS	PRIME YIELD (MID-2018)
VALUES	Office	£30.00 psf	↔	↑	5.0%
	Industrial	£6.25 psf	↔	↔	5.5%
	Retail	£250 psf ZA	↓	↔	4.75%
		H1 2018 TAKE-UP (SQ FT)	TAKE-UP COMPARED WITH 5-YR AVERAGE	CURRENT AVAILABILITY (SQ FT)	CHANGE OVER H1 2018
BUSINESS SPACE ACTIVITY	Office	589,000	Above average	2.4 million sq ft	↓
	Industrial	654,000	In line with average	3.1 million sq ft	↓
		TOTAL TRANSACTIONED, H1 2018	6-MONTHLY AVERAGE (LAST 5 YEARS)	OVERSEAS INVESTORS %, H1 2018	OVERSEAS INVESTORS %, LAST 5 YEARS
INVESTMENT MARKET ACTIVITY		£333 million	£187 million pa	29%	13%

## OUTLOOK

- The city's retail market should continue to prove resilient in the face of the severe challenges facing the UK's high streets, owing to the high quality and scale of its offer, strong retail catchment, and thriving student population. Demand and supply appear well balanced in the prime pitches, and this will help to maintain prime rents at around their current levels.
- The city centre is suffering from a shortage of quality office

supply, and with little space under construction this is likely to persist. However, this could well prompt further speculative development next year. Whilst the second half of this year will probably see a hiatus in rental growth, we may well see current prime rental values exceeded next year.

- Supply shortages will continue to be the key feature of the distribution market. With the ongoing transformation of the retail

distribution sector, demand is likely to remain strong and design and build will be the preferred route.

- Leeds has significant potential for growth, with the HS2 station bringing a high speed rail connection into the city centre in the longer term. There is significant potential for the development of well-located, high-quality office schemes with large floorplates that are demanded by corporate occupiers.

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