



COMMERCIAL EDGE

LEEDS
2018

Carter Jonas

YORKSHIRE HAD ABOVE AVERAGE EMPLOYMENT GROWTH IN 2017, AND IS EXPECTED TO WITNESS FURTHER EMPLOYMENT IMPROVEMENT OF OVER TWICE THE NATIONAL RATE IN 2018. THIS REFLECTS THE INCREASING RESILIENCE OF THE REGION, WITH THE MANUFACTURING SECTOR, FOR INSTANCE, BEING ONE OF THE FASTEST GROWING ACROSS THE UK.

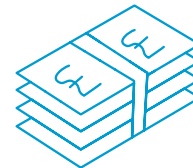
Leeds had even stronger employment growth in 2017 at 1.6%, driven by a rate of economic output above the national level. The next five years are expected to see a continuation of this healthy economic picture for Leeds, which may result in just under 17,000 new jobs being created by 2022.

The economic success of Leeds has been driven by a variety of factors, including the increasing influence of the Northern Powerhouse and investments associated with this initiative. The increased attractiveness of the city for the financial and professional services sector has also boosted the local economy, with Leeds being identified as the largest centre in England outside of London for financial and business services, as well as digital, creative, publishing and broadcasting services. The result has been significant economic growth for the city.

Growth is expected to continue in the financial and business services sectors of the Leeds economy, as well as the digital and creative sector, manufacturing and retail services. Increased employment growth is also anticipated in the healthcare, housing, construction and social enterprise sectors. In fact, across the wider sub-region, service sector and manufacturing confidence has improved with expectations of increased turnover and profits, as reported in the latest West and North Yorkshire Chamber of Commerce Economic Survey.

The strength of the retail and leisure sectors in Leeds has been reinforced by the above average growth in consumer expenditure seen in Leeds over 2017 (+2.3%). Growth is forecast to be lower across 2018, at 0.9%, although still in-line with the national level.

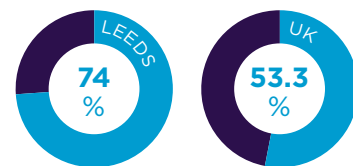
FOCUS ON INVESTMENT



36TH
FASTEST GROWTH
CITY RANKING
(UK 2018)

£51,980
GROSS VALUE
ADDED (GVA)
PER WORKER
(UK £61,444
Yorks. & Humb. £51,551)

74%
ULTRAFAST
BROADBAND
COVERAGE
(UK 53.3%)



44.2%
BUSINESS
SURVIVAL
RATES
(% after 5 years)
(England 44%)



Investment levels in Leeds have, overall, been lower in 2017 than for 2016. However, this is primarily a reflection of lack of suitable investment stock rather than a lack of demand.

The office sector, for example, saw investment levels of just under £100m in 2017, down from £147m in 2016 (Source: *Property Data*). This was partly due to landlords retaining assets to benefit from income levels, with the result that yields have reduced from 5.25% at the start of 2017 to 5.0% by the end of the year.

In contrast, the industrial sector has been slightly more active in

terms of investment volumes.

These have risen to almost £70m across 2017. A strong influence on this were two deals of over £9m each – Connex 45 and Maple & Confederation Park. Industrial yields are now lying at 5.5%.

Shortages of good quality investment stock are likely to continue across 2018, and there will be significant interest in the limited number of good quality investment opportunities that are likely to arise. However, careful consideration of the upside and downside risks for all property acquisitions will become increasingly important in 2018.

Figure 1 GVA

Source: Experian

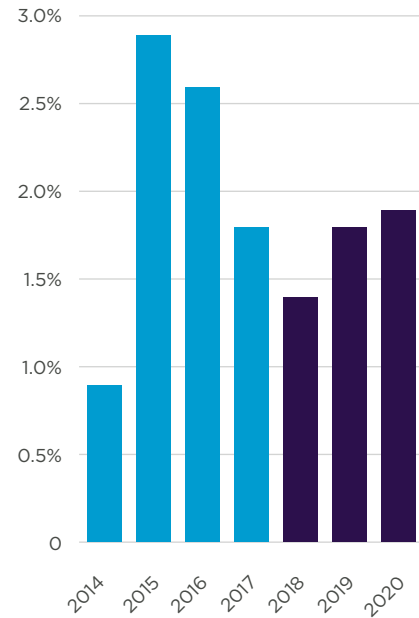
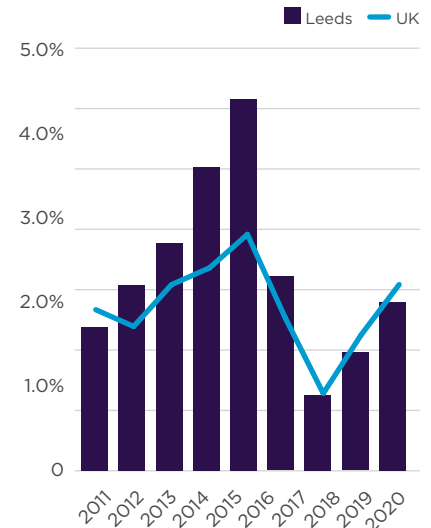


Figure 2 Consumer Expenditure

Source: Experian



BALANCING THE STATS

Three dimensions of a 'balanced city' are outlined below. Comparing Leeds performance to the national average allows us to consider the affluence of the city.

ECONOMICS

GVA GROWTH 2017



1.8%
LEEDS

1.7%
NATIONAL

EMPLOYMENT GROWTH 2017



1.6%
LEEDS

1.3%
NATIONAL

BUSINESS SURVIVAL RATES (% AFTER 5 YEARS)



44.2%
LEEDS

44.0%
NATIONAL

INCOME PER HEAD



£16,626
LEEDS

£18,793
NATIONAL

EDUCATION GVA OUTPUT (% ECONOMY)



1.8%
LEEDS

0.6%
NATIONAL

HOUSE AFFORDABILITY RATIO



6.5
LEEDS

11.9
NATIONAL

PROPERTY

OFFICE SUPPLY/DEMAND RATIO (YRS SUPPLY)



3.0
LEEDS

5.2
NATIONAL

INDUSTRIAL SUPPLY/DEMAND RATIO (YRS SUPPLY)



2.7
LEEDS

13.9
NATIONAL

RETAIL SPEND PER SQ FT



£9,710
LEEDS

£10,739
NATIONAL

5+ A*-C GCSEs ACHIEVED



54.8%
LEEDS

57.8%
NATIONAL

LONG-TERM UNEMPLOYED (2016 - %, 1 YEAR+)



4.9%
LEEDS

3.7%
NATIONAL

LIFE EXPECTANCY (YEARS)

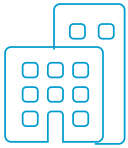


80.2
LEEDS

81.3
NATIONAL

PROSPERITY

OFFICE MARKET



£30.00
OFFICE
RENTS
(psf) Q4 2017



OFFICE
TAKE-UP



OFFICE
SUPPLY
(End 2017)

+1.6%
EMPLOYMENT
GROWTH 2017

+1.8%
ECONOMIC
CHANGE 2017



2017 has been a stand-out year in terms of office activity in Leeds. Office take-up across Leeds recorded over 1m sq ft, a record-breaking figure. Government and public sector activity comprised a significant proportion of demand, but the professional and financial services and TMT sectors were also significant.

The first half of 2018 should continue as 2017 finished, but the latter part of the year is anticipated to be challenging. This is not because of lack of demand but the availability of space. This may result in take-up struggling to hit the ten year average of 809,000 sq ft (491,000 sq ft within the city centre and 318,000 sq ft in the out-of-town markets).

As availability of Grade A space continues to rapidly diminish, and in the absence of any further development starts scheduled for H1 2018, the refurbished building sector will be significant for the office

market. These buildings tend to have smaller footprints, however, so office take-up is likely to be dominated by volumes of smaller deals rather than the bigger corporate-led transactions of 20,000 sq ft+ which have been evident in recent years. The vibrancy of the region's office markets is reflective of a number of landmark deals in 2017, including the Government Property Unit taking 378,000 sq ft at Wellington Place and Leeds Building Society acquiring 80,000 sq ft at Sovereign House in Leeds City Centre.

With the absence of any new Grade A development, headline rents are likely to stagnate at the current peak of £30.00 per sq ft. We anticipate that rents for repositioned buildings will continue to grow and consequently the current gap between the refurbished buildings and new build rents will narrow. When it comes to out-of-town space, it's all about stock, or rather the lack of it. No one is on site building anything speculatively.

INDUSTRIAL MARKET



£6.25
INDUSTRIAL
RENTS
(psf) Q4 2017



INDUSTRIAL
TAKE-UP



INDUSTRIAL
SUPPLY
(End 2017)

+1.6%
EMPLOYMENT
GROWTH 2017

+1.8%
ECONOMIC
CHANGE 2017

Industrial take-up in 2017 was just under 1.4 million sq ft. This was broadly in-line with the 5-year average, although down on the 2016 level. One of the most significant deals from 2017 was Allied Glass leasing 190,000 sq ft at Wakefield Eurohub in January and more recently in 2018 Premier Farnell have agreed a pre-let of 360,000 sq ft at Logic Leeds.

There is an effective level of industrial availability in Leeds of just over 3.7 million sq ft. However, much of this is more secondary stock, with a relatively limited supply of new good quality space. Availability in the big shed market in particular is limited, both in terms of size and quality. Whilst there has been some variation between years in terms of the level of availability, the overall trend has been for a major fall in the amount of supply over this decade.

The lack of on-stream supply has increased pressure for design and build solutions in the Leeds area and across the wider Yorkshire market. The Leeds City Region Enterprise

Zone in the Aire Valley is targeting this market, with schemes such as Logic Leeds set to capitalise.

Realistically, prime rents are at the £6.25psf level, although higher rents have been achieved in particular circumstances. The likelihood is that rents will rise further across 2018 given the level of demand chasing limited good quality supply. A knock-on consequence is expected to be increased rental growth in the secondary market.

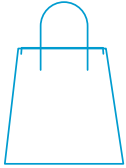
There is robust investor interest in the industrial sector, although this is hampered by a lack of suitable stock and opportunities. Aside from the larger Connex 45 and Maple & Confederation Park deals, there have been a range of smaller deals being acquired by a mix of interested parties, all adding to the downward pressure on yields.



REALISTICALLY, PRIME RENTS ARE AT THE £6.25PSF LEVEL, ALTHOUGH HIGHER RENTS HAVE BEEN ACHIEVED IN PARTICULAR CIRCUMSTANCES.

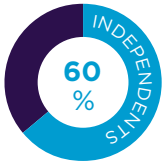


RETAIL MARKET



£250.00
PRIME RETAIL
RENTS
(psf) Q4 2017

60%
INDEPENDENTS



£9,710
RETAIL SPEND
POTENTIAL
(£psf)

+2.3%
CONSUMER
EXPENDITURE
2017

+1.8%
ECONOMIC
CHANGE
2017



The Leeds retail offer is recognised as one of the most active markets outside of London. The city has a reputation for high quality fashion and has a strong leisure and tourism sector. This is helped by the regional retail catchment, which draws in a large potential population, as well as a relatively young city population. In fact, Leeds is ranked fifth in the Harper Dennis Hobbs 2017 Vitality Index in terms of retail spend potential.

Even so, high-street operators are facing difficult conditions, reinforced by online competition. Lack of footfall in some locations is

impacting on turnover, and with many rent-free periods coming to an end it may have consequences for occupier profile and rents in less prime locations. Despite this, there is still relatively strong demand in certain sectors for prime locations, although with some caution about committing to long leases and with specific demand in terms of space requirements.

Prime rents are still holding at £250psf (ITZA). This is still below the pre-recession peak, but has been stable over the last few years. Prime yields stand at 4.75%, which has been steady over the last year. There is pressure for this to reduce due to the level of investor interest, although there is limited stock or opportunities to drive such change.



THE TRENDS

		PRIME RENT (END 2017)	CHANGE OVER 2017	FORECAST 2018	YIELD (END 2017)
VALUES	Office	£30.00psf	↑	↔	5.00%
	Industrial	£6.25psf	↑	↑	5.50%
	Retail	£250.00psf	↔	↔	4.75%
		2017 TAKE-UP (SQ FT)	CHANGE OVER 2017	CURRENT AVAILABILITY (SQ FT)	CHANGE OVER 2017
BUSINESS SPACE ACTIVITY	Office	1,336,540	↑	4,024,430	↑
	Industrial	1,366,900	↓	3,720,990	↑



FORECASTS

The ability for Leeds to compete against other metropolitan cities hangs on its digital connectivity, a key part of major occupational requirements. Creating the correct, well connected stock suited to corporate requirements in the South Bank development will go some way to attracting the next flagship letting. Local devolution and politics, however, remain an issue as Leeds seeks to stake its foothold in the Northern Powerhouse region.

Shortages will be a feature of many market places in 2018; a shortage of completed buildings in the occupational markets, a shortage of the 'right type' of investment stock and crucially to the effectiveness of the professional services industry, a shortage of the appropriately skilled labour force.

There is unlikely to be any significant new supply of buildings in Leeds in 2018 as developers remain hesitant in the face of speculative development opportunities. Those that commit to start and deliver the right product are likely to benefit from rising rents, especially in industrial, logistics and city centre offices.

There will remain a weight of capital chasing a limited number of good quality investment opportunities. However, there will be some caution in the early part of the year as buyers fear a fall in prices on secondary stock. The Bank of England Financial Stability Report indicates a concern that investors in general are not fully pricing risk into asset and stock acquisitions and real estates is included in this. Careful consideration of the upside and downside risks for all property acquisitions will become increasingly important in 2018.

38 OFFICES ACROSS THE COUNTRY, INCLUDING 13 IN CENTRAL LONDON



Bangor
Basingstoke
Bath
Birmingham
Boroughbridge
Cambridge South
Cambridge North
Cambridge Central
Edinburgh
Harrogate
Kendal
Leeds

Marlborough
Newbury
Northampton
Oxford
Peterborough
Shrewsbury
Suffolk
Taunton
Truro
Winchester
York

National HQ One Chapel Place
Barnes
Barnes Village
Fulham Bishop's Park
Fulham Parsons Green
Holland Park & Notting Hill
Hyde Park & Bayswater

Knightsbridge & Chelsea
Marylebone & Regent's Park
Mayfair & St James's
S. Kensington & Earl's Court
Wandsworth
Waterloo

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