SUMMARY

- Leeds has strengthened its position as one of the key regional cities in recent years, with rapid infrastructure investment, including plans for HS2.

- Take up in Leeds’ city centre market came to 121,178 sq ft during Q1 2016, 51% up on the first quarter in 2015. This was driven by the 39,605 sq ft letting of the 2nd & 3rd floors, at No 6 Wellington Place to Hestview Ltd (Sky Bet).

- Continued demand for office space in Leeds has led to rents for refurbished space rising to £26 per sq ft, only £1 lower than those for new build Grade A offices.

- Leeds saw £348m of investment during 2015, the highest level recorded since 2006.

- Key deals include Legal and General Capital taking a 50% stake in Thorpe Park Business Park for £162m, which is set to expand over the next five years.

- Investment in Q1 2016 has started positively, with £49m being transacted. The key deal was EPIC UK Ltd’s £23.7m purchase of St Paul’s House, Park Square representing a 6% yield.

“Leeds will start to see a step change in the quality and variety of space available to occupiers this year” Paul Fairhurst, Director, Office Agency, Leeds
Leeds has strengthened its position as one of the key regional cities in recent years, with rapid infrastructure investment, including plans for HS2, the 3,000 capacity First Direct Arena (area 2) which opened in 2013 and the hugely successful Trinity Shopping Centre (area 3), which opened the same year.

Leeds has bounced back well post-recession with 19,000 net office based jobs being created over the past five years, with over 10,000 of these coming from the professional, scientific and tech sectors.

This represents growth of 12.4%, faster than the UK average of 10.9% and more than double the rate of office based employment growth for the Yorkshire region.

We estimate that over the course of the next five years, Leeds’ office based employment is forecast to grow by nearly 10,000 employees, in line with the UK average of 5.4%.

This impressive growth in Leeds is attributable to a number of factors, including strong professional and financial services sectors as well as the strengthening digital and healthcare sectors, local enterprise partnership incentives and improved amenity offering and infrastructure links.

There has also been a shifting of the traditional core over the last few years and recent years have seen some banking and insurance firms move eastwards to the retail district (area 3).

Demand for office space in Leeds has been strong, with 2015 take-up in the city centre reaching 680,100 sq ft, 25% up on the previous year.

2016 has started off as another strong year with take-up reaching 121,178 sq ft during Q1 2016, 51% up on the first quarter in 2015. This was driven by the 39,605 sq ft pre-letting at No 6 Wellington Place to Hestview Ltd (Sky Bet) as well as the 25,000 sq ft letting to RSM at Central Square.

The continued strong take-up within the Leeds office market has been a catalyst for many developers to start speculatively building new space over the last 12 months and with 47% of space coming out of the ground in 2016 already pre-let, this should pave the way for future development within the city.

During 2015, office construction

Occupational market

- Leeds has strengthened its position as one of the key regional cities in recent years, with rapid infrastructure investment, including plans for HS2, the 3,000 capacity First Direct Arena (area 2) which opened in 2013 and the hugely successful Trinity Shopping Centre (area 3), which opened the same year.
- Leeds station has also recently benefitted from the £20m development of the southern entrance, providing a direct link to Holbeck village and the South Bank. This will enhance journey times for around a fifth of the station’s 100,000 daily users, and could save passengers up to an hour of travel time each week. Despite Leeds’ rejected plans for a trolley bus network, the Department for Transport (DfT) said its £173m contribution towards this, will be used on other public transport schemes in the city.
- Victoria Gate (area 3), the £165m retail development is also set to complete this Autumn and will provide 575,000 sq ft of floorspace. The retail hub will be anchored by John Lewis, who are set to recruit 550 new staff for the store, the largest outside London.
- Leeds has bounced back well post-recession with 19,000 net office based jobs being created over the past five years, with over 10,000 of these coming from the professional, scientific and tech sectors.
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- There has also been a shifting of the traditional core over the last few years and recent years have seen some banking and insurance firms move eastwards to the retail district (area 3).
- Demand for office space in Leeds has been strong, with 2015 take-up in the city centre reaching 680,100 sq ft, 25% up on the previous year.
- 2016 has started off as another strong year with take-up reaching 121,178 sq ft during Q1 2016, 51% up on the first quarter in 2015. This was driven by the 39,605 sq ft pre-letting at No 6 Wellington Place to Hestview Ltd (Sky Bet) as well as the 25,000 sq ft letting to RSM at Central Square.
- The continued strong take-up within the Leeds office market has been a catalyst for many developers to start speculatively building new space over the last 12 months and with 47% of space coming out of the ground in 2016 already pre-let, this should pave the way for future development within the city.
- During 2015, office construction

During 2015, office construction
increased by 425,000 sq ft on 2014 and more than 689,000 sq ft of office space is now under construction in the city ($56,000,000 sq ft completing in 2016).

Low availability of grade-A stock has been an on-going theme for Leeds. However, with five city centre schemes - 5 and 6 Wellington Place, Central Square, 3 Sovereign Square and 6 Queens Street- all reaching completion this year, Leeds has upped its offering.

However, with 47% of 2016 completions already pre-let, there is still only just over one year’s worth of Grade A supply coming into the figures. While supply is looking more healthy, it is imperative that schemes continue to be brought to the market to ensure there is an ongoing secure supply of space to satisfy demand.

Going forward, Leeds will see a step change in the quality and variety of space available to occupiers this year, and this is already attracting significant interest from a wide range of occupiers.

For example, M&G’s 220,000 sq ft Central Square scheme is due to complete this summer and has already seen a significant pre-let to PwC. MEPC’s Wellington Place has also seen several pre-lets including Squire Patton Boggs and Equifax, while Bridges Ventures’ 6 East Parade has just signed Dentsu Aegis.

However, it’s not just the city’s office core that’s seen strong take-up. Last year, Sky announced it was taking 60,000 sq ft at Allied London’s Leeds Dock scheme (area 4) to house a new technology facility. With Sky in place, this area is likely to attract a number of occupiers that will want to be associated with Sky, and we expect to see a cluster start to form there.

To assure that this cluster becomes a hub, Allied London is backing a new pilot initiative christened ‘London to Leeds’, which will see start-ups from London brought to Leeds Dock for a tour of the site in the hope that they might take spaces in the scheme. Indeed, the city has already seen over 7,000 new businesses registered in Leeds in 2015, the third highest concentration in the UK outside London and we expect this trend to continue.

Looking at key sectors, take-up in the TMT sector (technology, media and telecoms) made up 22% of take-up in 2015 (7% in 2014) and we expect this sector to continue to grow. In fact, there has been a lot of interest from digital start-ups coming out of ‘The Calls’, the historic area of the city, with South Bank (area 4) being a natural place for them to cluster. Holbeck Village (area 6) has also seen a number of small start-ups within the creative sectors move to the area in recent years.

Meanwhile, Vastint has acquired the Carlsberg Tetley site in their only investment outside of London, as well as Burberry announcing the relocation of its manufacturing facilities to Holbeck Village (area 6), in an initial investment worth over £50m.

Initial plans include the potential restoration of Temple Works as part of a potential future phase. This has put Holbeck firmly on the map. Looking forward, the HS2 station will also be located in the South Bank/Holbeck area.

Continued demand for office space in Leeds has led to rents for refurbished space rising to £26 per sq ft, this is only £1 lower than those for new build Grade A offices.

With a number of major office refurbishments taking place including Concordia Works and 6 East Parade, we expect companies seeking to occupy high quality offices in the city during 2016 to consider these refurbished options as an alternative to new developments coming on stream.

Rents for new build Grade A space in Leeds currently stand at £27 per sq ft, with average rents across all offices in the city rising 4% in 2015.

The professional, insurance and financial services sectors, which have historically taken space both north and south of the station, have set a new rental high of £27 per sq ft on the Central Square Development. PwC have taken 50,000 sq ft in 2015 and RSM have taken 25,000 sq ft in Q1 2016.

Leeds has seen the second highest volume of new development starts in the UK regions. With much of this development due to come to the market this year, we expect to see a step change in rents and the gap between new build and refurbished rents will widen once more.

**Outlook**

Occupier demand should continue to be solid throughout the rest of the year.

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GRAPH 1

**Leeds take-up remains strong in Q1 2016**

![Graph 1](savills.co.uk/research)

**Graph source:** Savills Research

GRAPH 2

**TMT made up 22% of take-up in 2015**

![Graph 2](savills.co.uk/research)

**Graph source:** Savills Research
as Leeds’ economy continues on its upward trajectory and we expect the year end figures to reach average levels.

■ For schemes reaching practical completion in the latter half of this year, rents are likely to come in at circa £27-£28 per sq ft, with rents expected to break the £30 per sq ft barrier by 2019.

■ Looking forward over the next 10 years, Leeds’ TMT sector is set to see employment growth in line with the UK average (10.3%), with administration and professional jobs forecast to be the largest contributors over the next 10 years and are set to provide an additional 8,000 employees each.

■ This growth is likely to start coming from companies starting to relocate their back office functions to Leeds. This ‘northshoring effect’, will see firms move out of London to capitalise on the relatively lower property costs and higher quality of life which Leeds can offer in comparison to London and other big cities, bringing increased inward investment to the region.

■ With London rents continuing to increase at speed, the differentiation between London and Leeds’ rents is the largest it has been over the last twenty years.

■ Indeed, the city’s attractiveness is evident with over 500,000 sq ft of named occupier enquiries identified in excess of 20,000 sq ft, much of which is from the professional sector and financial services sector. It’s also expected that more than 600,000 sq ft of lease events will occur between 2016 - 2018.

■ With this in mind, going forward, Leeds needs to continue to develop the office space it requires in order to attract further inward investment and remain a key UK office market.

### Investment Market

■ With the EU Referendum just around the corner and lots of discussion around Brexit, many investors are adopting a ‘wait and see’ approach, in particular the UK institutional market who normally drive the regional office investment market.

■ This inertia from UK Funds and general lack of impetus to invest is being reflected on Leeds’ prime equivalent yields, which stood at 5% at the end 2015, but moved out to 5.25% in Q1 2016, mainly on the back of less positive sentiment rather than transactional evidence.

■ We believe that, if available, prime 15 year stock, in Leeds, would achieve c.5.25% which provides a buying opportunity while the market is in a state of flux surrounding the EU and Brexit.

■ Leeds saw £323 million of office investment during 2015, the highest level recorded since 2006. Key deals included Legal & General Capital taking a 50% stake in Thorpe Park Business Park for £162 million which is set to expand over the next 5 years.

■ In-town office investment totalled c.£150 million in 2015 which was

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**Expert view**

Paul Fairhurst, director of Office Agency in Leeds, gives his view on the market

Sky’s continued expansion into Leeds is testament to Leeds’ ability to provide skilled employees and high quality urban environments where talent wants to live and work.

As Matt Grest, Head of Technology at Sky explained “Leeds is thriving with a burgeoning technology sector and we are confident our new hub can make a huge contribution to the city.”

The growth of our tech sector has added a welcome further dimension to Leeds’ well established financial and professional services and healthcare sectors. Human capital is the most important resource for the tech enabled sector and Leeds is a place where people like to live and work.

It has history, creativity, tourist attractions on the doorstep and a lively mixed use city centre with a strong retail offer. Although rents are rising, the city is still great value compared to the likes of Manchester, (£34 per sq ft) Birmingham (£32.50 per sq ft), Bristol (£28.50 per sq ft) and Edinburgh (£32.50), with a top Grade A rent of £27 per sq ft per annum.

The quality of developments available compete favourably with the best in the UK, offering a variety of styles and specification.

On the face of it, supply is plentiful with some 689,000 sq ft on site and due to complete over 2016/2017 although c.300,000 sq ft of this has already been pre-let and with average annual take-up of c.560,000 sq ft, there is still room for further development.
slightly below average. Investment in Q1 2016 has started positively, with £49 million being transacted.

- Located in the traditional office district (area 5), the key deal was Epic UK Limited’s £23.7 million purchase of St Paul’s House, Park Square, representing a 6% net initial yield.

- Within the Arena district (area 2), the key deal was the sale of the Yorkshire Bank Headquarters to an overseas investor for £16 million reflecting a net initial yield of 7%.

- During 2015, UK institutions (57%) were by far the most active investor type in Leeds accounting for £186 million out of the total £323 million invested in offices. Overseas investors accounted for c.19% of total investments whilst for Q1 2016 this figure was 32%.

- The £49 million of investment deals transacted in Q1 2016 were made up of five deals, giving an average lot size of c.£10 million.

- At the time of writing there are also four significant office investments in solicitors’ hands totalling £113 million giving an average lot size of £28.25 million.

- Of this figure, we understand that c.90% of the buildings are under offer to overseas investors.

This is quite an important reflection of the market which demonstrates where the UK institutions have temporarily stepped away from the markets, overseas capital is focusing more seriously on regional office investment.

As more institutional prime stock is developed out such as Central Square, Wellington Place and City Square House, this increased critical mass will widen the investment appeal to more overseas investment capital and UK funds after the dust has settled following the EU Referendum.

### Headline statistics for the Leeds office market

<table>
<thead>
<tr>
<th>Headline statistics</th>
<th>Take-up: City Centre (sq ft)</th>
<th>Take-up: Out of Town (sq ft)</th>
<th>Top rents (£ per sq ft)</th>
<th>Prime yield (%)</th>
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</thead>
<tbody>
<tr>
<td>Full year 2015</td>
<td>680,100</td>
<td>268,041</td>
<td>£27</td>
<td>5%</td>
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<tr>
<td>Q1 2016</td>
<td>121,178</td>
<td>141,719</td>
<td>£27</td>
<td>5.25%</td>
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<tr>
<td>End of year outlook</td>
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### Definitions & statistical notes

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<th>Transactions and supply recorded for units in excess of 1,000 sq ft</th>
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<tr>
<td>Top rent</td>
<td>Highest rent achieved in one or more transactions in the given period</td>
</tr>
<tr>
<td>Grade A</td>
<td>New development (including speculative schemes reaching practical completion within six months, plus major refurbishments)</td>
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<tr>
<td>Grade B</td>
<td>Space previously occupied, completed or refurbished in the last 10 years</td>
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<td>Grade C</td>
<td>Space previously occupied, completed or refurbishment more than 10 years ago</td>
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