

LIVERPOOL CITY CENTRE  
Commercial Office Market Review 2005





## SUMMARY

Liverpool's office market is changing beyond recognition, with newly-built offices, increasing demand from professional and financial sector tenants, and rising grade A rents setting the tone:

- Total city centre office take-up reached a record high of 498,391 in 2005, with a strong second half performance.
- Liverpool now has one of the largest city centre office markets in the UK.
- 62 per cent of office space take-up in 2005 was from professional and financial occupiers - professionals, accounting for 51.7 per cent of floorspace let, are easily the largest occupational sector.
- Grade A office rents at £18 per sq ft and Grade B rents at £14 per sq ft show a 50% growth over the last 10 years.
- Nearly half the floor-space let in 2005 was in newly-built grade A offices.
- The private sector accounted for 85.1 per cent of all Liverpool office take-up in 2005 - easily outstripping the public sector with just 14.9 per cent.
- Prime office investment yields hardening dramatically to around 5.5 per cent.





## OFFICE TAKE-UP FOR 2005

Total office take-up of 498,391 sq ft in 2005 sets a new record for Liverpool. It is now one of the largest regional office markets in the UK.

Take-up in 2005 beats the previous record: 485,500 sq ft was let in 2001. The five-year average is 430,000 sq ft.

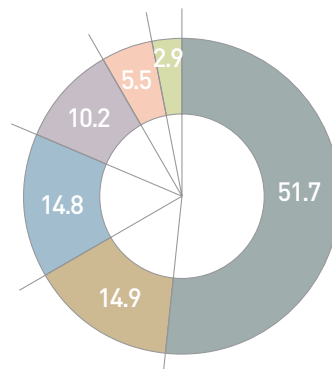
A surge in demand from Liverpool's indigenous professional services sector is largely responsible. Professionals accounted for around 30 per cent of take-up in recent years, but grew to 51.7 per cent in 2005, mainly due to the largest single letting in Liverpool for over 30 years.

Growing demand from the financial services sector, which now accounts for 10.2 per cent of all take-up, has also contributed to what amounts to little less than a revolution in the city centre office scene.

Economic growth in the city, the changing requirements of occupiers, limited availability of good second-hand space and the impact of Grosvenor's retail redevelopment of the Paradise Street area – which has encouraged a number of office occupiers to find new premises elsewhere – have all played a part in the record level of transactions.

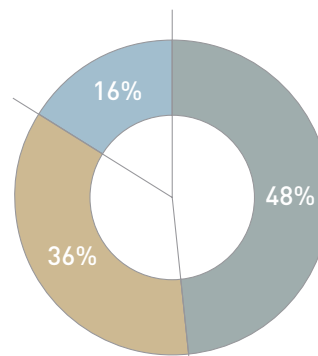
The change in the make-up of the city's office market since 2000 is striking. The proportion of Liverpool floorspace let to public sector occupiers in 2005 is, at 14.9 per cent, low by recent local historical standards. As recently as 2003 the public sector accounted for 25.4 per cent of take-up. Public sector take-up in the city now compares well with the national average of around 15 per cent of the UK office market.

However, even if the public sector is no longer the mainstay of the Liverpool office market its importance – especially in emerging areas of the central business district and in city-fringe locations – should not be underestimated. The city was identified in the Sir Michael Lyons review of the civil service as suitable for the relocation of government agencies and departments from London and the South East.



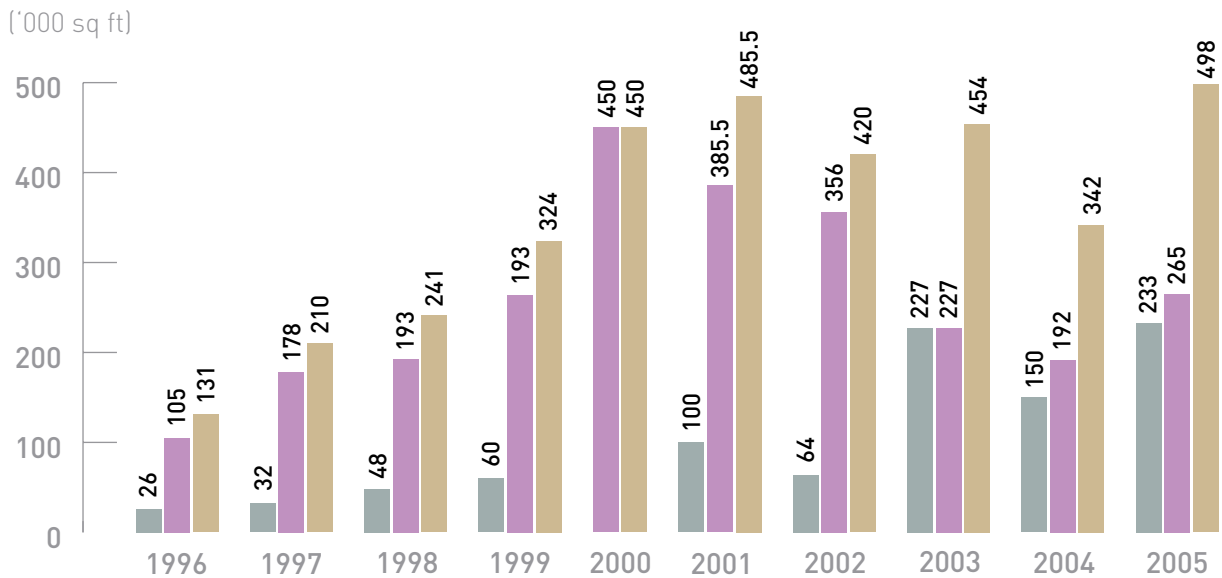
**TAKE UP BY OCCUPIER SECTOR (%)**

- PROFESSIONAL 257,470 sqft
- PUBLIC SECTOR 74,348 sqft
- OTHER 73,673 sqft
- FINANCIAL/BANKING 50,620 sqft
- CREATIVE/IT/MEDIA 27,630 sqft
- TRAINING 14,650 sqft
- TOTAL TAKEUP 498,391 sqft**



**TAKE UP BY GRADE (sqft)**

- A = 241,052
- B = 177,575
- C = 79,764



**CITY CENTRE OFFICE TAKE UP 1996-2005**  
 ■ NEW SPACE ■ SECOND HAND SPACE ■ TOTAL

## OFFICE TAKE-UP TRENDS

The first years of the new century show Liverpool’s office market changing gear. Steady growth in take-up during the late 1990s was followed by a sharp acceleration after 2002, culminating in the record take-up for 2005.

Total annual office take-up since 2000 has fluctuated within a relatively narrow range, hovering at around 430,000 sq ft. This followed five years of steady, if less dramatic, improvement in the late 1990s when take-up grew from 131,000 sq ft in 1996 to 324,000 sq ft in 1999. Since 2002 an increased flow of speculative development has allowed the market to grow. Take-up of new space reached 241,052 sq ft in 2005, a figure only rivalled by take-up of 227,000 sq ft in 2003.

Today take-up is dominated by new and existing grade A office space, accounting for about half of all floorspace let in 2005. This marks a major break with the past. In the last ten years the take-up of new space has been more erratic as a consequence of fluctuations in supply: barely one-fifth of office space was let in new or existing grade A offices in 1996, a proportion that remained unchanged until 2002.

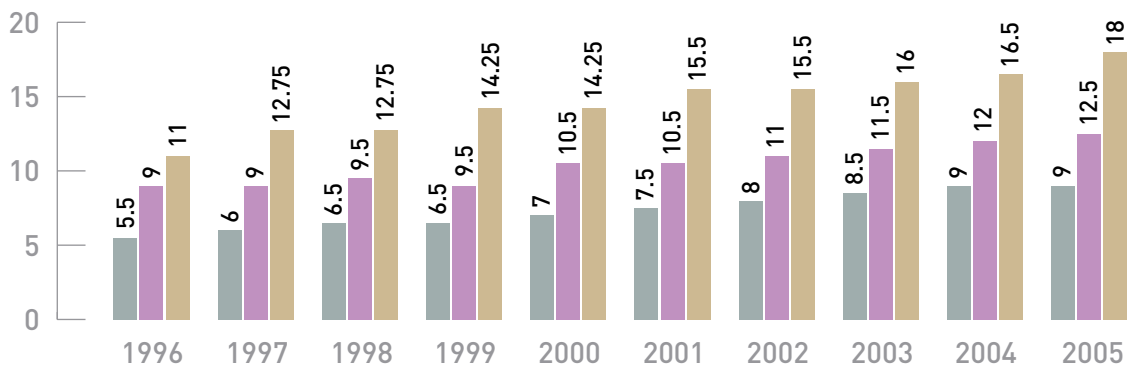


## RENTAL TRENDS

Top office rents in Liverpool are growing fast with prime rental growth easily outpacing that for Grade B or Grade C space. It wasn't until the early years of this century that a wave of new development allowed rental growth to accelerate. Grade A office space in the city now commands a rent of around £18 per sq ft, with grade B space settling between £12.50 and £14.50 per sq ft. Developers are already preparing for further growth: quoting rents at or beyond £20 per sq ft are now being promoted, opening up the prospect of new benchmark rents in 2006. Rents for both grade A and grade B space have grown by 50 per cent since 1996.

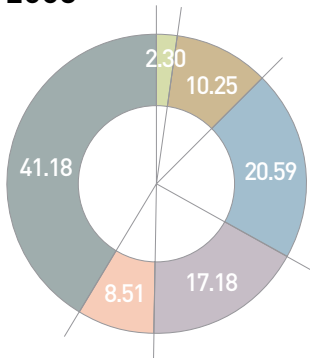
Rents have climbed steadily since 1996 when the headline figure was just £11 per sq ft, but generally stagnated in the 1990s when limited new development put a break on rental growth. Liverpool's prime city centre office rents are now ahead of or comparable with those in some regional centres, but behind others including Manchester and Leeds. For the time being this gives Liverpool a competitive advantage. The gap, however, is beginning to narrow.

(£ sq ft)



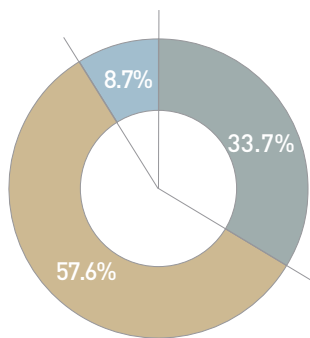
**CITY CENTRE RENTS 1996-2005**  
 ■ GRADE C ■ GRADE B ■ GRADE A

### 2003



**DEALS BY SIZE (%)**

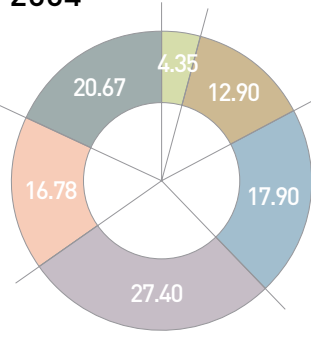
0-1,000	15 transactions totalling 10,008 sqft
1,000-2,500	26 transactions totalling 44,523 sqft
2,500-5,000	26 transactions totalling 89,468 sqft
5,000-10,000	10 transactions totalling 74,651 sqft
10,000-20,000	3 transactions totalling 36,981 sqft
20,000+	2 transactions totalling 178,950 sqft
<b>TOTAL</b>	<b>82 transactions totalling 434,581 sqft</b>



**DEALS BY GRADE**

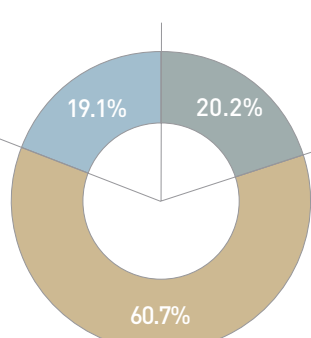
A	12 transactions totalling 146,303 sqft
B	52 transactions totalling 250,359 sqft
C	18 transactions totalling 434,581 sqft
<b>TOTAL</b>	<b>82 transactions totalling 434,581 sqft</b>

### 2004



**DEALS BY SIZE (%)**

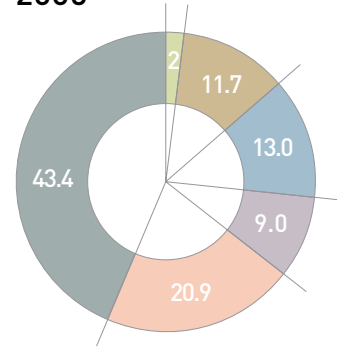
0-1,000	21 transactions totalling 14,605 sqft
1,000-2,500	26 transactions totalling 43,270 sqft
2,500-5,000	20 transactions totalling 69,329 sqft
5,000-10,000	13 transactions totalling 91,890 sqft
10,000-20,000	4 transactions totalling 56,272 sqft
20,000+	2 transactions totalling 60,025 sqft
<b>TOTAL</b>	<b>86 transactions totalling 335,392 sqft</b>



**DEALS BY GRADE**

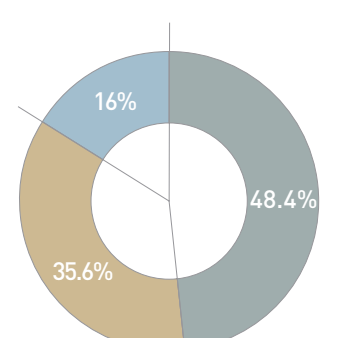
A	9 transactions totalling 67,741 sqft
B	48 transactions totalling 203,504 sqft
C	29 transactions totalling 64,147 sqft
<b>TOTAL</b>	<b>86 transactions totalling 335,392 sqft</b>

### 2005



**DEALS BY SIZE (%)**

0-1,000	12 transactions totalling 9,882 sqft
1,000-2,500	39 transactions totalling 58,318 sqft
2,500-5,000	18 transactions totalling 64,668 sqft
5,000-10,000	6 transactions totalling 45,084 sqft
10,000-20,000	8 transactions totalling 104,018 sqft
20,000+	4 transactions totalling 216,421 sqft
<b>TOTAL</b>	<b>86 transactions totalling 498,391 sqft</b>



**DEALS BY GRADE**

A	10 transactions totalling 241,052 sqft
B	59 transactions totalling 177,575 sqft
C	18 transactions totalling 79,764 sqft
<b>TOTAL</b>	<b>86 transactions totalling 498,391 sqft</b>

## TAKE-UP BY TYPE OF OFFICE

The city's fine heritage of older and period buildings continue to play a strong role although lettings for newly-built modern space is the key characteristic of today's Liverpool office market. This is in part due to the fact that many of the quality older buildings are virtually full. In 2005 48.4 per cent of all office deals in the city centre saw tenants move into new or existing grade A office buildings. Secondary space accounts for a further 35.6 per cent.

In 2004 new space accounted for 20 per cent of the market (assessed as a proportion of sq ft let) and in 2003 just 15 per cent. The trend points to a growing appetite for newly-built offices, an appetite fuelled in part by a shortage of good second-hand stock and by a constellation of changing occupier requirements.

Office lettings in grade A space remain, consistent with the experience of most provincial markets, few in number, if relatively large in size: in 2003 total grade A take-up was accounted for by twelve deals; in 2004 by just nine and in 2005 by ten. The vast majority of transactions are accounted for by occupiers with requirements of under 5,000 sq ft. The proportion of floorspace absorbed by these occupiers - roughly one third of total floorspace let - has remained constant for several years.



## TAKE-UP BY SECTOR

Liverpool's office market is currently dominated by professional services occupiers. Today the professional and financial services sector dominate an occupational market in which the private sector is king. This reflects a longer-term trend showing the strength of indigenous demand from the cities lawyers, accountants and financiers.

In 2005, 61.8 per cent of the total office floorspace let was to the professional and financial services sector.

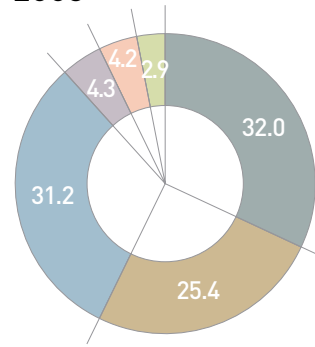
Medium-term trends confirm the dominance of the professional sector. In 2004 the combined professional and financial services sector accounted for 36 per cent of the take up of office space, the public sector 22 per cent. In 2003 the figures were 37 per cent and 25 per cent respectively.

This growth has been almost entirely attributable to professionals, who accounted for 28 per cent of floorspace let in 2004, a figure that ballooned to 51.7 per cent in 2005. Take-up from the financial services sector has grown rapidly, albeit on a smaller scale – from 4.2 per cent of floorspace let in 2003, to 8.7 per cent of floorspace let in 2004 and to 10.2 per cent in 2005.

The creative and media industries absorbed just 5.5 per cent of the city's total office take-up in 2005, compared to 7.5 per cent in 2004 and 4.2 per cent in 2003. Despite its relatively modest contribution to the overall figure, the statistic belies its growing significance in micro-markets on the city fringe such as the Ropewalks, Hope Street and Rodney Street.

The city's rapidly growing indigenous private sector market should not disguise the continuing importance of the public sector which still accounts for 14.9 per cent of take-up, down from 22.2 per cent in 2004 and 25.4 per cent in 2003. However, the public sector still accounts for many of the largest individual transactions.

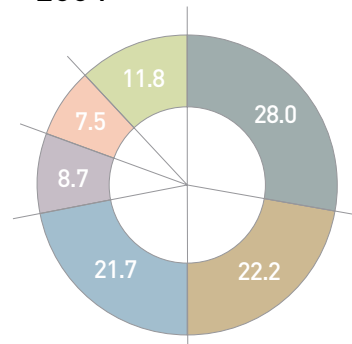
### 2003



#### DEALS BY SECTOR (%)

PROFESSIONAL	17 transactions totalling 138,878 sqft
PUBLIC SECTOR	5 transactions totalling 110,467 sqft
OTHER	41 transactions totalling 135,786 sqft
FINANCIAL/BANKING	7 transactions totalling 18,750 sqft
CREATIVE/IT/MEDIA	4 transactions totalling 18,300 sqft
TRAINING	8 transactions totalling 12,400 sqft
<b>TOTAL TAKEUP</b>	<b>82 transactions totalling 434,581 sqft</b>

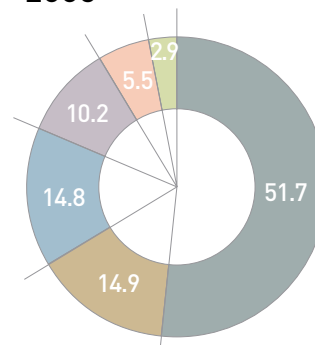
### 2004



#### DEALS BY SECTOR (%)

PROFESSIONAL	18 transactions totalling 94,072 sqft
PUBLIC SECTOR	9 transactions totalling 74,553 sqft
OTHER	28 transactions totalling 72,716 sqft
FINANCIAL/BANKING	4 transactions totalling 29,088 sqft
CREATIVE/IT/MEDIA	10 transactions totalling 25,250 sqft
TRAINING	17 transactions totalling 39,712 sqft
<b>TOTAL TAKEUP</b>	<b>86 transactions totalling 335,392 sqft</b>

### 2005



#### DEALS BY SECTOR (%)

PROFESSIONAL	38 transactions totalling 257,470 sqft
PUBLIC SECTOR	10 transactions totalling 74,348 sqft
OTHER	19 transactions totalling 73,673 sqft
FINANCIAL/BANKING	7 transactions totalling 50,620 sqft
CREATIVE/IT/MEDIA	7 transactions totalling 27,630 sqft
TRAINING	6 transactions totalling 14,650 sqft
<b>TOTAL TAKEUP</b>	<b>87 transactions totalling 498,391 sqft</b>



# CURRENT AVAILABILITY

Limited supply of grade A office stock is likely to mean sustained pressure on rents and more pre-let deals. The supply of existing office space 15 years old or less is just 67,534 sq ft. Based on an analysis of the take-up of Grade A space for 2005, this would suggest that there could be a shortage of available stock.

Upon closer analysis, steady supply of new development and refurbishments will ease fears of under-supply. Rumford's 150,000 sq ft Unity scheme is due for completion in July 2006, and a 131,000 sq ft second phase at English Cities Fund's St Paul's Square, is planned to commence in early summer 2006, for completion at the end of 2007. These will provide short-term relief. Plans for a 1.5 million sq ft office redevelopment on the 15 acre Pall Mall site behind Mercury Court offer a medium - long term solution. The supply of grade B space is more generous - but still far from excessive. Around 285,000 sq ft of grade B space is estimated to be currently available. The annual take-up of grade B space in 2003 was 250,000 sq ft, and 205,000 sq ft in 2004, the market remains challenging, although schemes such as Bruntwood's The Plaza should help provide a steady supply. Many disused pre-war office buildings which once acted as a drag on the market have been converted for residential purposes and in itself, this has provided an incentive for developers to turn their attention to refurbished former institutional owned buildings.

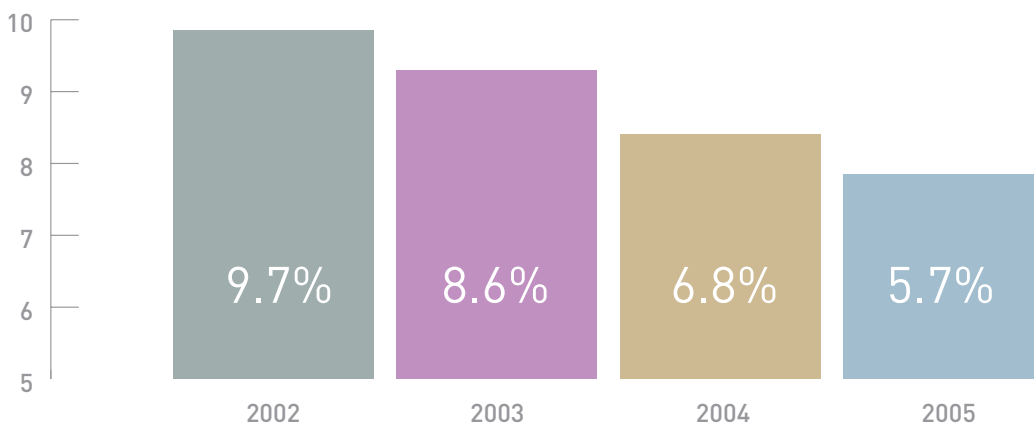
# INVESTMENT

Office yields have hardened dramatically, and lot sizes ballooned, as the prospects of accelerated rental growth grab investor's attention. In the last four years a growing supply of larger-lot new and refurbished office space has helped to push yields out to prime figures of around 5.7 per cent - down from initial yields averaging 9.75 per cent in 2002.

The city is now attracting interest from foreign and London-based institutional investors and property companies, as well as the local buyers who've dominated the market until now. A deal agreed in the last quarter of 2005 is likely to set the terms of trade for 2006 in terms of both lot size and yield. In October English Cities Fund agreed to sell the 131,000 sq ft first phase of their St. Paul's Square development to private investors following a pre-let to law firm Hill Dickinson. The price is understood to be close to £45 million reflecting a net yield of 5.5 per cent. The sale follows 18 months when interest in the Liverpool office market among foreign and UK investors grew rapidly.

The first sign that the market was maturing came in January 2004 with the sale to Pacific Group, on behalf of a syndicate of private European investors, of the 350,000 sq ft India Buildings, Water Street. A price of £40 million, reflecting a net initial yield of 7.5 per cent, was understood to have been agreed.

MERSEYSIDE PROPERTY INVESTMENT YIELDS 2002-2005



# SOURCES

Statistics are based on original research by the Merseyside Property Forum supported by Liverpool Vision with the co-operation of Irving Rice, Hitchcock Wright & Partners, Keppie Massie and Mason Owen & Partners. All figures relate to the central business district.



**LIVERPOOL VISION, THE OBSERVATORY, 1 OLD HAYMARKET, LIVERPOOL L1 6EN**  
**T: 0151 707 8007 E: regenerate@liverpoolvision.co.uk www.liverpoolvision.co.uk**

Written by David Thame. Designed and produced by Alexander MacGregor Ltd.