



LIVERPOOL COMMERCIAL OFFICE MARKET REVIEW 2007



LIVERPOOL
VISION
THE CITY CENTRE REGENERATION COMPANY





COMMERCIAL DISTRICT

SUMMARY



- Total city centre office take-up in 2007 was 462,875 sq ft, a 14 per cent increase on 2006, despite growing economic turbulence.
- Combining the Central Business District, Liverpool Midtown and the Out-of-Town markets shows a total Liverpool office market take-up in 2007 of 846,195 sq ft, making it one of the largest and most active regional markets in the UK.
- Liverpool is now attracting financial institutions and corporate decision makers: 2007 was the year in which it decisively established that it is not a “branch office” economy.
- The financial services sector has grown rapidly, its share of take-up in the Central Business District growing by 39 per cent since 2005. Financial services now accounts for 17 per cent of all office space let or sold in the Central Business District.
- The private sector continues to dominate the office market, accounting for 68 per cent of all take up in the Central Business District.
- Public sector requirements accounted for 32 per cent of take-up in the Central Business District thanks, largely, to a single substantial letting to the Ministry of Defence.
- New development and quality refurbishment is replacing a large overhang of older unrefurbished office space.
- Prime investment yields have continued to harden to 4.6 per cent at the beginning of the year as institutional investors competed with private buyers for city centre office properties before moving out in the second half of 2007 to 5.6 per cent.
- Creative industries – including cultural, media and IT firms – account for 14 per cent of all the floorspace let in Liverpool’s office sector.



EXCHANGE FLAGS

Horton House, Exchange Flags

OFFICE TAKE-UP FOR 2007 IN THE CENTRAL BUSINESS DISTRICT



Central Business District (CBD) take-up of 462,875 sq ft during 2007 represents a substantial increase on 2006 making it one of the three busiest years in the Liverpool city centre office market (beaten only by 2001 and 2005).

Once again, the financial services sector proved to be among the fastest-growing sectors in the CBD: although its growth as a proportion of total lettings in 2007 appears modest (up to 15.2 per cent from 14.1 per cent in 2006), the increase in the total number and size of deals is far more dramatic and marks a real change in the nature of the Liverpool economy.

A medium-term analysis reveals that which an annual audit tends to conceal: in 2005 financial services accounted for a little under 50,620 sq ft of new lettings, rising to 56,952 sq ft in 2006, but in 2007 it surged to 70,446 sq ft representing a 39 per cent increase in just 24 months, or an impressive 142 per cent increase if the timeline is stretched back to 2004. Moreover, lettings to the financial services sector are increasingly to financial decision-makers rather than to back-office operations.

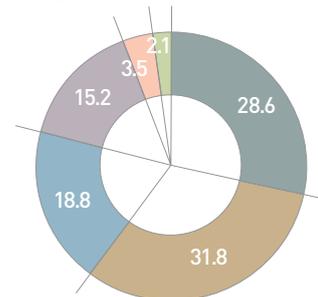
Lettings to HBOS and Allied Irish Bank at St Paul's Square (11,430 sq ft and 6,638 sq ft, respectively), and to Panmure Gordon at 20 Chapel Street (6,338 sq ft) indicate the trend towards corporate banking and structured lending and away from Merseyside's traditional reliance on occupational demand from retail banking.

Demand from both professional firms (chiefly lawyers) and from the public sector (particularly, in 2007, the Ministry of Defence) appears to have settled into an established pattern as the modern Liverpool office market matures. Professionals accounted for 28.6 per cent of floorspace let in 2007 (28.3 per cent in 2006) and the public sector for 31.8 per cent (31 per cent in 2006).

A continued shortage of newly-built office space inevitably meant that 81 per cent of the space let was in older buildings, and no less than 48 per cent in buildings dating from before 1939. The displacement of demand from new grade A offices to grade B offices has, however, prompted landlords to invest in substantial refurbishments which has helped to improve the quality of Liverpool's office stock.

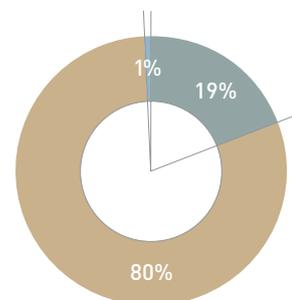
If unrefurbished grade C space (for which the market is negligible) is excluded, total office availability in the Central Business District is 12.1 per cent of the total office stock.

2007



TAKE UP BY OCCUPIER SECTOR (%)

PROFESSIONAL	132,302 sq ft
PUBLIC SECTOR	147,043 sq ft
OTHER	87,042 sq ft
FINANCIAL/BANKING	70,446 sq ft
CREATIVE/IT/MEDIA	16,125 sq ft
TRAINING	9,917 sq ft
TOTAL TAKEUP	462,875 sq ft



TAKE UP BY GRADE

A	89,698 sq ft
B	370,527 sq ft
C	2,650 sq ft



VANILLA FACTORY

OFFICE TAKE-UP FOR 2007 IN LIVERPOOL MIDTOWN



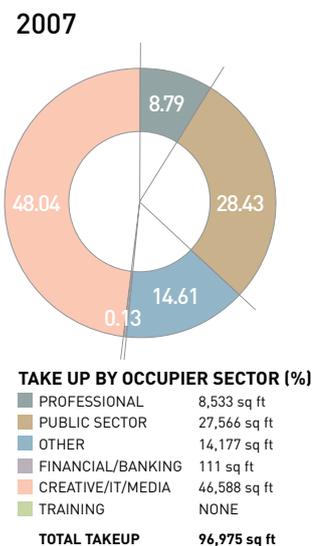
Research has for the first time revealed the extent of an active, but hitherto overlooked market: Liverpool Midtown. Stretching from the Ropewalks to the Georgian terraces of Rodney Street out through the University “knowledge corridor” to Wavertree Technology Park, this city fringe market has now established its own clear client groups, predominantly in the cultural industries and small-scale public sector occupiers. Total floorspace take-up in 2007 was 96,975 sq ft, of which 64,809 sq ft was in the Wavertree area.

This emerging market area has a distinct character: it has an urban feel, proximity to the CBD and a mix of accommodation from town house to modern refurbishments like the Vanilla Factory (in the Ropewalks) to B1 low-rise at Wavertree.

A scattering of professional firms mix with a large preponderance of occupiers in the creative/media and IT sectors. These creative industries claimed 64.5 per cent of the total occupancy during 2007 in the Wavertree area and 48 per cent over the entire Midtown market.

The public sector accounted for 28 per cent of the floorspace let or sold in the Liverpool Midtown market in 2007, making it the second largest occupational category.

We will continue to monitor the progress of this market in future reports.





ESTUARY BUSINESS PARK

OFFICE TAKE-UP FOR 2007 IN THE OUT OF TOWN MARKET



In the wider Liverpool Out-of-Town market, embracing the business parks of South Liverpool, Knowsley and Sefton, total office take-up was 286,345 sq ft.

Combining these geographically dispersed areas into a single market makes sense because occupiers seeking Out-of-Town accommodation will, typically, choose between them without discrimination on the grounds of location. However, the South Liverpool sub-market centred on Speke-Garston and Liverpool John Lennon Airport is already developing its own identity and it is to be hoped that the North Liverpool equivalent will follow suit as the area becomes the focus for regeneration efforts.

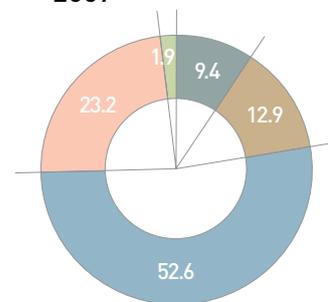
The largest sub-market is to be found among Knowsley's business parks, generating take-up in 2007 of 182,675 sq ft. South Liverpool contributed take-up of 93,285 sq ft.

The occupational balance of this market – like Midtown, but unlike the Central Business District – is heavily tipped towards creative/media and IT occupiers.

Creative/media and IT accounted for 23.2 per cent of floorspace occupied in 2007 throughout the Out-of-Town market. Professionals accounted for 9.4 per cent (largely at Knowsley's Paramount Business Park), and the public sector 12.9 per cent (largely thanks to a single letting to the Knowsley Housing Trust).

This market is characterised by limited but continuing public sector support and is still, to some extent, demand-led. We will endeavour to provide regular updates on the Liverpool Out-of-Town market as it develops.

2007



TAKE UP BY OCCUPIER SECTOR (%)

PROFESSIONAL	26,882 sq ft
PUBLIC SECTOR	37,018 sq ft
OTHER	150,815 sq ft
FINANCIAL/BANKING	NONE
CREATIVE/IT/MEDIA	66,441 sq ft
TRAINING	5,189 sq ft
TOTAL TAKEUP	286,345 sq ft

OFFICE TAKE-UP OVERALL



Combining the Central Business District, Liverpool Midtown and the Out-of-Town markets the total Liverpool office market take-up in 2007 was 846,195 sq ft, making it one of the largest and most active in the UK.



THE CAPITAL BUILDING RECEPTION

OFFICE SUPPLY AND NEW DEVELOPMENTS



During 2008 133,000 sq ft of grade A office will be completed, 47 per cent of which has been pre-let. In addition construction of three new Central Business District's office developments will commence with a combined total floorspace of 283,108 sq ft .

A unique census of office availability in the Liverpool CBD conducted for this report has established that total floorspace available and ready for occupation in Liverpool's Central-Business District was (at October 2007) 1.46m sq ft, representing 20.7 per cent of total stock of 7.088m sq ft.

Yet the global figure belies the more complex structure of the city's office market. Nearly half of the available space (609,608 sq ft) was to be found in grade C office space and just 15 per cent by office buildings developed since 1999.

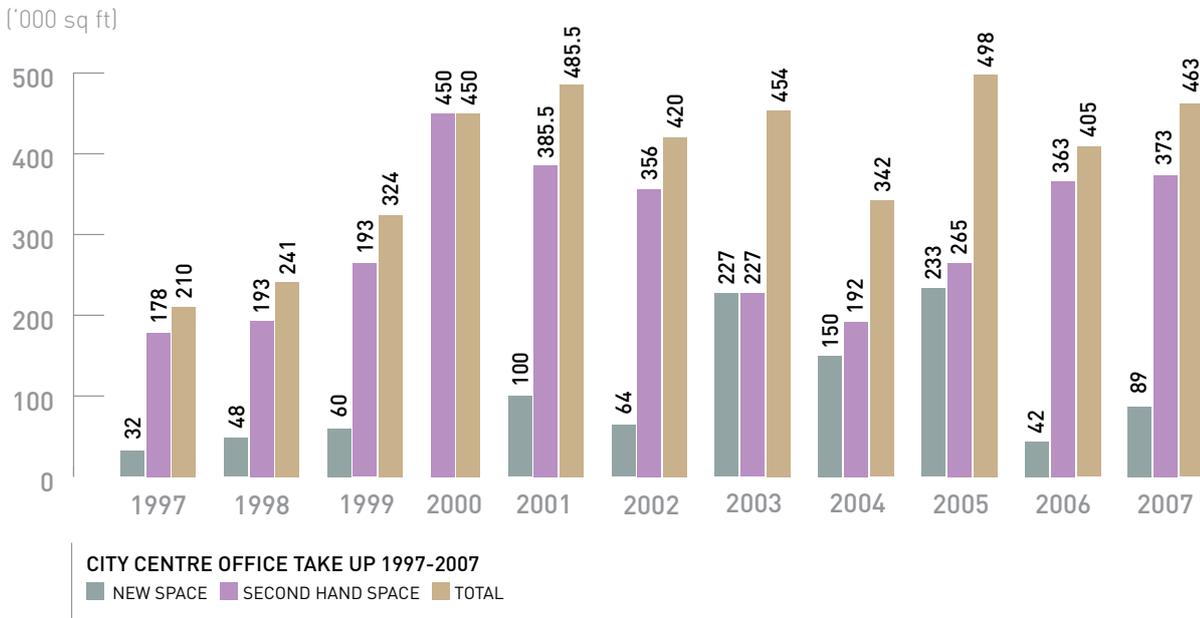
The disconnection between the demand for Liverpool office space and its supply has never been more starkly demonstrated than in 2007. Whilst grade C office space account for lettings of just 2,650 sq ft (0.6 per cent of take-up), it accounted for 41.6 per cent of the office space available to let.

Take-up of grade C space in 2007 was particularly low, but it conforms to a medium-term trend. Whilst in 2004 and 2005 it accounted for around one-sixth of total Liverpool take-up, its share halved to 7.4 per cent in 2006 – and has dwindled to barely measurable size in 2007 as occupiers upgrade their expectations about central Liverpool office accommodation. These figures would seem to indicate that there may, effectively, no longer be any market for much grade C space – and if it is discounted total availability in the Central Business District drops to 12.1 per cent.



THE PLAZA

OFFICE TAKE-UP TRENDS



Since the turn of the Millennium, stability has been one of the hallmarks of the Liverpool CBD office market. 2007 saw take-up of 463,000 sq ft comfortably above the 5-year average of 432,000 sq ft, but well within the normal range of fluctuations which, since 1999, has seen the performance gap between the best and worst years settle at around 170,000 sq ft.

The city's five year average – a measure which evens-out short-term fluctuations – provides the most reliable guide. In 2005 we reported a 5-yearly average of 439,000 sq ft last year we reported 423,000 sq ft, placing this year's 432,000 sq ft firmly on the trend line.

Inevitably the development cycle explains the most substantial variations in take-up. In particular, a shortage of newly completed grade A space saw demand diverted into quality refurbished grade B space. 2007 ended with barely 90,000 sq ft of new grade A office space available, a low figure by the standards of both 2003 and 2005.

During the last two years development has been limited: a total of 150,000 sq ft of new grade A office space was completed in 2006 and 130,000 sq ft in 2007. The commencement of 3 schemes in 2008 for completion in 2009 will open the way to rising take-up as occupiers whose demand has been diverted into the grade B market return to the market for newly completed grade A office space.

There was 152,700 sq ft of grade A office space ready for occupation at the time of the October 2007 property census – 130,000 sq ft at 20 Chapel St, 6,000 sq ft at City Square, 8,500 sq ft at 101 Old Hall St with the remainder in Temple Square and Princes Dock.

Take-up of freehold, as opposed to leasehold, offices varied, area by area. Whilst the CBD and Wavertree saw exclusively leasehold transactions, in the out-of-town markets of Knowsley and South Liverpool 39 per cent of all take-up was the result of freehold purchases.



20 CHAPEL STREET FOYER

RENTAL TRENDS

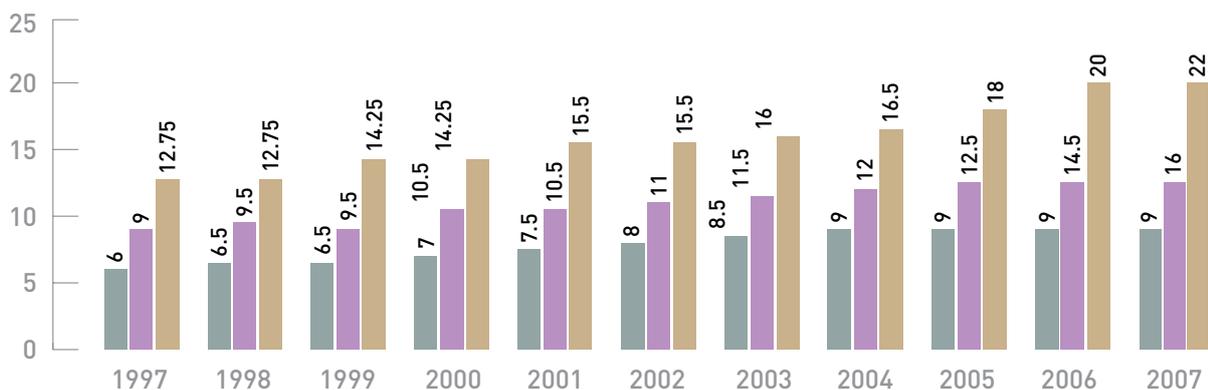


Central Business District rents have risen steadily for the last ten years with sustained growth since 2000.

Rents for the best grade A office space have now reached £22 a sq ft, representing growth of one third since 2004.

Whilst grade B rents have risen at a similar pace to £16 a sq ft, grade C rents have stagnated thanks to poor demand for often poor-quality accommodation in a city in which occupiers are increasingly discerning about the quality of their office space.

(£ sq ft)



CITY CENTRE RENTS 1997-2007

TAKE-UP BY GRADE OF OFFICE

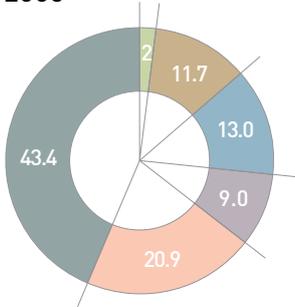


The continued limited supply of newly-built office space in the CBD once again forced occupiers, landlords and developers to turn to good quality second hand space.

Lettings in grade B office space amounted to 80 per cent (370,527 sq ft) of the total office floorspace let. This represents a repeat of performance in 2006 (82 per cent) and confirms the dramatic shift since 2005 when grade B space absorbed just 35 per cent of floorspace.

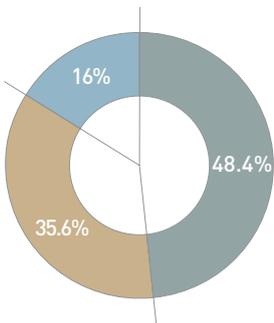
Where landlords and developers have invested in improved facilities Liverpool's fine heritage of older and period buildings continues to play a central role in supporting a diverse economic base. Pre-war buildings scooped 47.9 per cent of all lettings in 2007, a dramatic increase for 30.3 per cent in 2006 and a testament to the high demand for good quality refurbishments.

2005



DEALS BY SIZE (%)

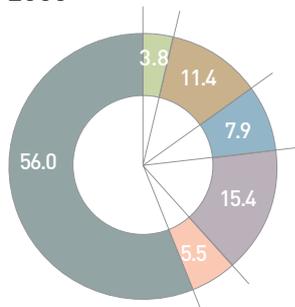
0-1,000	12 transactions totalling 9,882 sq ft
1,000-2,500	39 transactions totalling 58,318 sq ft
2,500-5,000	18 transactions totalling 64,668 sq ft
5,000-10,000	6 transactions totalling 45,084 sq ft
10,000-20,000	8 transactions totalling 104,018 sq ft
20,000+	4 transactions totalling 216,421 sq ft
TOTAL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



DEALS BY GRADE

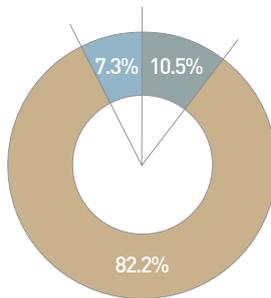
A	10 transactions totalling 241,052 sq ft
B	59 transactions totalling 177,575 sq ft
C	18 transactions totalling 79,764 sq ft
TOTAL	86 transactions totalling 498,391 sq ft

2006



DEALS BY SIZE (%)

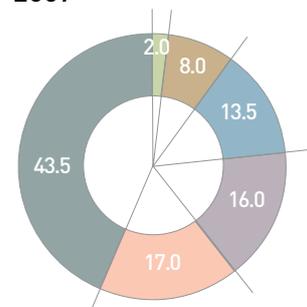
0-1,000	27 transactions totalling 15,745 sq ft
1,000-2,500	32 transactions totalling 46,134 sq ft
2,500-5,000	9 transactions totalling 32,028 sq ft
5,000-10,000	8 transactions totalling 62,481 sq ft
10,000-20,000	2 transactions totalling 22,151 sq ft
20,000+	7 transactions totalling 226,745 sq ft
TOTAL	86 transactions totalling 405,284 sq ft



DEALS BY GRADE

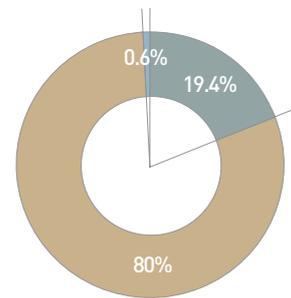
A	2 transactions totalling 42,452 sq ft
B	71 transactions totalling 333,026 sq ft
C	12 transactions totalling 29,806 sq ft
TOTAL	85 transactions totalling 405,284 sq ft

2007



DEALS BY SIZE (%)

0-1,000	15 transactions totalling 9,355 sq ft
1,000-2,500	24 transactions totalling 39,435 sq ft
2,500-5,000	18 transactions totalling 62,459 sq ft
5,000-10,000	12 transactions totalling 73,444 sq ft
10,000-20,000	6 transactions totalling 76,828 sq ft
20,000+	5 transactions totalling 201,354 sq ft
TOTAL	86 transactions totalling 462,875 sq ft



DEALS BY GRADE

A	9 transactions totalling 89,698 sq ft
B	70 transactions totalling 370,527 sq ft
C	1 transactions totalling 2,650 sq ft
TOTAL	80 transactions totalling 462,875 sq ft

TAKE-UP BY SECTOR



HORTON HOUSE RECEPTION

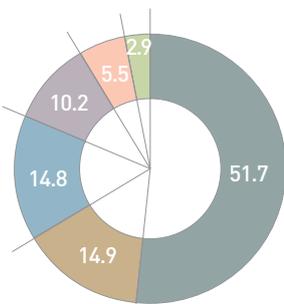
TAKE-UP BY THE PROFESSIONAL AND FINANCIAL SECTOR

Deals completed during 2007 show an increasingly large number of lettings to professionals and a diminished reliance on call-centres and back office operations. This is particularly marked in the financial services sector, where the trend has been apparent since 2005. The year saw lettings to Bank of Ireland, HBOS, Allied Irish Bank and others, which pointed to the increasing importance of Liverpool as a regional financial services sector.

TAKE-UP BY THE PUBLIC SECTOR

The public sector remains responsible for a steady third of the occupational market, typically concentrated into a handful of large deals. Whilst in 2006 it was the Home Office that set the pace, in 2007 it was the Ministry of Defence. A 71,000 sq ft letting to the MOD accounted for almost half of the 147,043 sq ft let to the public sector during 2007.

2005



DEALS BY SECTOR (%)

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

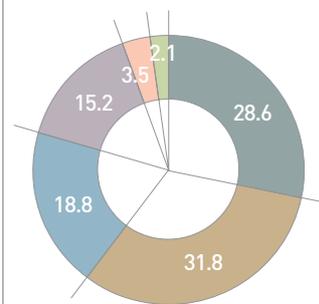
2006



DEALS BY SECTOR (%)

PROFESSIONAL	27 transactions totalling 125,740 sq ft
PUBLIC SECTOR	5 transactions totalling 84,862 sq ft
OTHER	24 transactions totalling 115,099 sq ft
FINANCIAL/BANKING	10 transactions totalling 56,952 sq ft
CREATIVE/IT/MEDIA	12 transactions totalling 11,992 sq ft
TRAINING	8 transactions totalling 10,639 sq ft
TOTAL TAKEUP	86 transactions totalling 405,284 sq ft

2007



DEALS BY SECTOR (%)

PROFESSIONAL	28 transactions totalling 132,302 sq ft
PUBLIC SECTOR	11 transactions totalling 147,043 sq ft
OTHER	17 transactions totalling 87,042 sq ft
FINANCIAL/BANKING	13 transactions totalling 70,446 sq ft
CREATIVE/IT/MEDIA	6 transactions totalling 16,125 sq ft
TRAINING	5 transactions totalling 9,917 sq ft
TOTAL TAKEUP	80 transactions totalling 462,875 sq ft

CREATIVE AND MEDIA OCCUPIERS



THE MATCHWORKS

Liverpool's designation as European Capital of Culture 2008 makes this an appropriate moment to examine in more detail the extent of office occupation by the cultural, creative and media sector.

New analysis, conducted for the first time in 2007, shows that take-up from a broad spectrum of creative industries accounts for one in every five sq ft of office floorspace let in the city's wider office market.

Since 2004, analysis of take-up in the Central Business District has revealed a relatively stable volume of lettings (around 25,000 sq ft) but a small and declining proportion of take-up, ranging from 7.5 per cent in 2004 to 3.5 per cent in 2007 (16,125 sq ft).

However, unique research into occupational trends in Liverpool's Out-of-Town (South Liverpool, Knowsley, Sefton) and city fringe markets (Hope Street, Rodney Street, Ropewalks and Wavertree - for convenience summed up as Liverpool Midtown) tells a different story.

Total creative/media industries take-up in the Liverpool Out-of-Town market in 2007 amounted to 66,441 sq ft (23.2 per cent of take-up).

In the Liverpool Midtown market the dominance of creative/media industries was even more marked: 46,588 sq ft was let to creative, media and IT occupiers amounting to 48 per cent of total take-up.

Combining Liverpool Midtown, Out-of-Town and Central Business District take-up figures shows that in 2007 the creative/media industries let or bought a further 129,154 sq ft of office floorspace, 15.2 per cent of all floorspace occupied during the year, or about one in seven of every sq ft of floorspace let in the city.

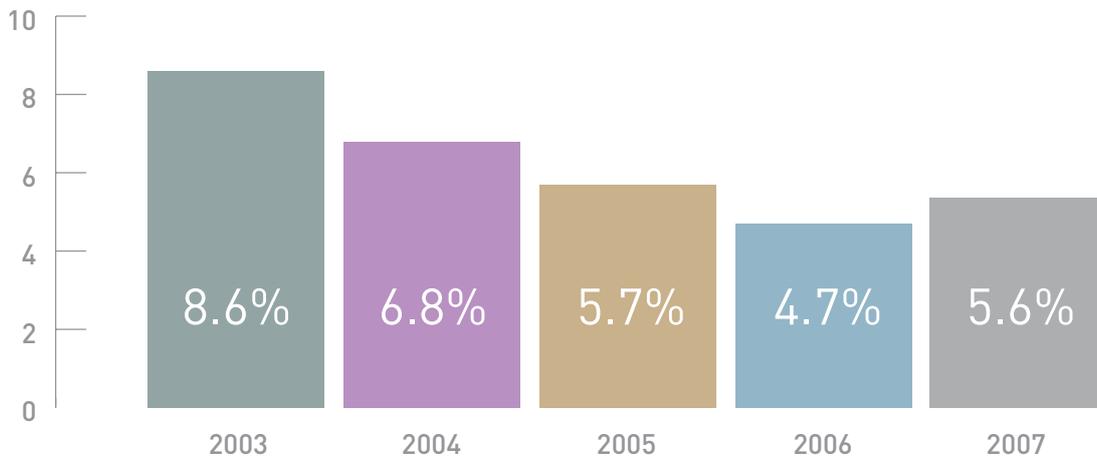
INVESTMENT MARKET

The development of an active institutional office investment market has been one of the defining features of the last three years of growth in Liverpool's office sector. Inevitably this means the city is now subject to the same trends – up and down – as the rest of the UK commercial property investment scene.

Yields moved out in 2007, the keenest being the 4.6 per cent net initial yield recorded in January 2007 at City Square, Liverpool, sold for £49m to London Capital. Two public sector tenants made this an unusually appealing transaction.

Thereafter yields hovered between 5 and 6 per cent, depending on the quality of the tenants and, as the year progressed, the confidence of the investment markets. The total volume of institutional transactions was comfortably above £200m.

MERSEYSIDE PROPERTY INVESTMENT YIELDS 2003-2007



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.

For the purposes of this research, grade A space was defined as office space completed since 2000; grade B space as accommodation recently refurbished or due to be refurbished within 2008; grade C as unrefurbished but ready for occupation in 2008.



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