



LIVERPOOL COMMERCIAL
OFFICE MARKET REVIEW **2010**



Welcome

Professional Liverpool and Liverpool Vision welcome you to the Liverpool Commercial Office Market Review 2010, designed to provide you with an insight into what's happening in Liverpool's commercial property market.

Our report has been specifically created to support and inform developers, investors and occupiers through the provision of a comprehensive, quality-assured data set that is sourced through the collaborative efforts of our property professionals.

It will come as no surprise to say that 2010 was a challenging year. The prevailing economic conditions have affected take-up across the UK and Liverpool was no exception. While take-up was down on 2009, there were some encouraging signs, particularly amongst the city's indigenous corporate sector and creative industries, as lettings continued to grow.

2011 will see the completion of the next major city centre office development of 109,000 sq ft at St Paul's Square. We look forward to the coming year with renewed optimism

We hope you enjoy reading this year's review and would welcome any feedback you may have to improve future issues.



MAX STEINBERG
Chief Executive,
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Summary

Combining the Central Business District (CBD) and the out-of-town markets reveals total Liverpool office market take-up in 2010 of 393,441 sq ft.

Total Central Business District office take-up in 2010 was 207,515 sq ft.

Grassroots demand showed signs of recovery. In 2010 take-up by occupiers of suites less than 40,000 sq ft in the Central Business District was up by 30.3 per cent compared with 2009.

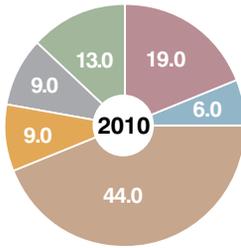
The creative, media and digital sectors continued to grow rapidly. In the Central Business District the sector out-performed its best year yet, Liverpool's year as European Capital of Culture in 2008. Combining the out-of-town, city fringe and CBD markets shows total take-up from the creative industries of 46,349 sq ft, up 8.9 per cent compared to 2009.

The creative industries are now responsible for 12 per cent of total take-up across all Liverpool's office markets. One in every eight sq ft of floor space let is to this sector.

2010 saw Liverpool's indigenous corporate sector return to the city centre occupational market, buoyed by exports and by the gentle recovery in the UK manufacturing sector. In total the corporate sector accounted for 92,958 sq ft or 44 per cent of take-up.

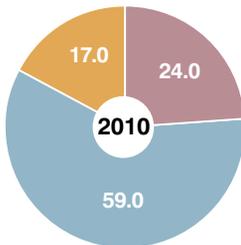
A total of 173,178 sq ft of Grade A office space is empty and ready for occupation in Liverpool's CBD. This is consistent with gradual reductions from 221,944 sq ft in 2008.

The supply of Grade A office space in the city fringe and out-of-town markets is falling. A total of 392,497 sq ft of Grade A office space is available and ready for occupation in the out-of-town and city fringe markets, representing 32.3 per cent of supply, a sharp drop from 2009.



TAKE-UP BY OCCUPIER SECTOR (%)

PROFESSIONAL	37,979 sq ft
PUBLIC SECTOR	12,780 sq ft
FINANCIAL/BANKING	18,919 sq ft
CREATIVE/IT/MEDIA	18,396 sq ft
TRAINING	26,483 sq ft
OTHER	92,958 sq ft
TOTAL TAKE-UP	207,515 sq ft



TAKE-UP BY GRADE (%)

A	49,034 sq ft
B	122,170 sq ft
C	36,311 sq ft

Take-up in the Central Business District for 2010

Total Central Business District (CBD) office take-up in 2010 was 207,515 sq ft, down from 519,274 sq ft in 2009.

The 2009 figure – higher than any year since 2005 and the city’s best year ever – was an anomaly, as we indicated last year, and makes a poor basis for comparison.

This is because two exceptionally large and long-anticipated deals finally completed in 2009, producing a one-off 360,000 sq ft distortion in short-term trend figures.

A safer basis for comparison is to exclude both of these 2009 deals and to reflect instead on the trends revealed by underlying demand from the wider pool of CBD occupiers.

In 2009 we reported underlying demand of 159,274 sq ft. The 2010 total of 207,515 sq ft represents a significant improvement albeit from a low starting point.

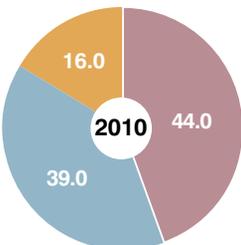
As well as growing, the underlying market has returned to a more normal and encouraging mix of occupier types than we reported in 2009, with both local corporate occupiers and the steadily expanding creative, media and digital sector showing strong signs of growth.

OFFICE TAKE-UP OVERALL

Combining the Central Business District and the out-of-town markets reveals total Liverpool office market take-up in 2010 of 393,441 sq ft. The annual average since 2007 is 625,995 sq ft.

These figures reflect an almost total dearth of transactions in excess of 30,000 sq ft in the Central Business District or out of town.

Take-up for 2010 in the City Fringe



TAKE-UP BY GRADE (%)

A	23,957 sq ft
B	21,060 sq ft
C	8,722 sq ft

Total city fringe office take-up in 2010 was 53,846 sq ft, down from 70,695 sq ft in 2009.

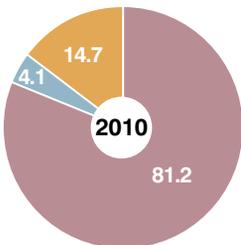
The network of historic terraces and modern conversions close to the city centre continues to prove attractive to creative, media and information technology sector.

However, take-up in 2010 appears to have been influenced by the availability of affordable office space in the Central Business District. As a result, creative industry occupiers accounted for 10,622 sq ft (20 per cent of take-up) compared to 24,016 sq ft (34 per cent) in 2009.

The market for newly-built Grade A office space remains – proportionately – stronger here than in the city centre, and grew yet more dominant in 2010.

We calculate that 44 per cent of take up (23,957 sq ft) was for Grade A buildings – a substantial increase in floorspace reported in 2009 (15,233 sq ft). This compares with Grade A availability in the city fringe of 90,713 sq ft.

Take-up Out-of-Town



TAKE-UP GRADE (%)

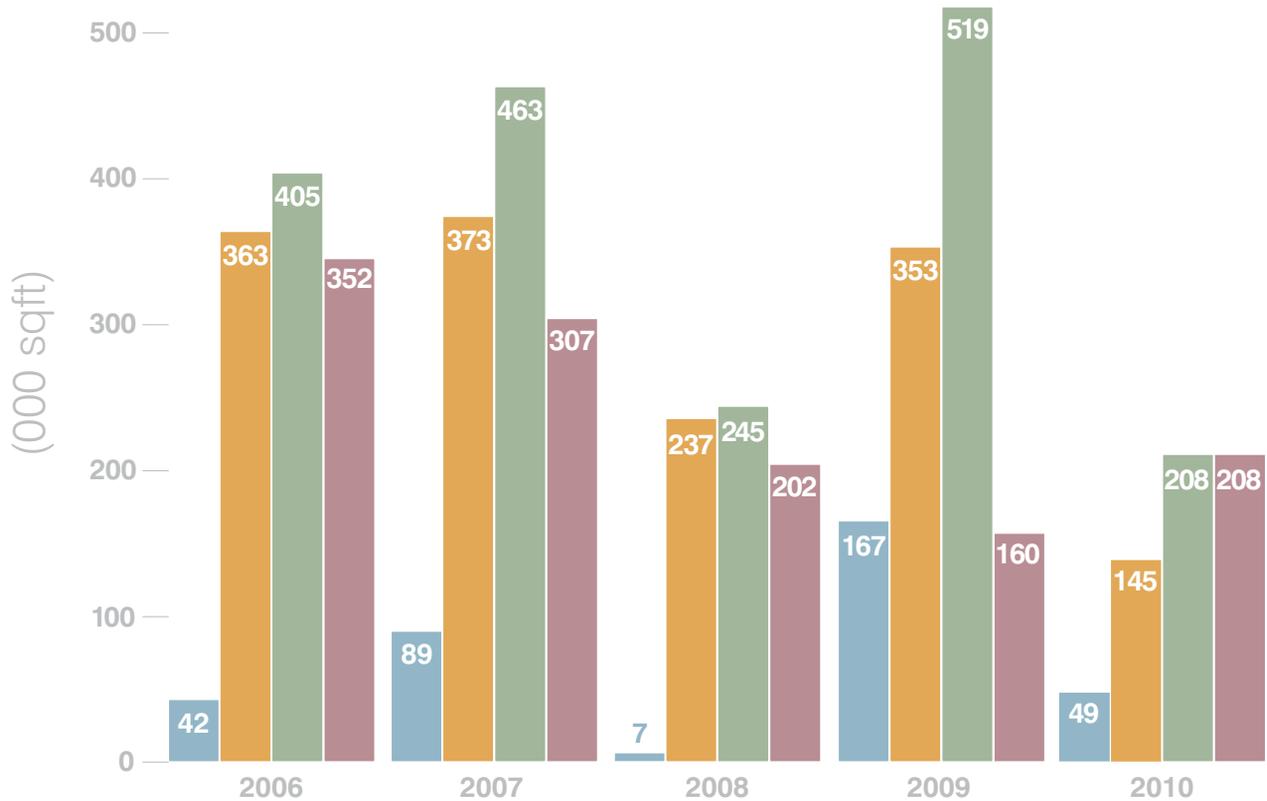
A	107,246 sq ft
B	5,354 sq ft
C	19,480 sq ft

Liverpool’s out of town office markets remained stable in 2010. Office take-up in the business parks of North and South Liverpool, Wavertree and Knowsley totalled 132,080 sq ft in 2010, barely changed from 131,220 sq ft in 2009.

Some sub-markets staged modest recoveries in 2010. The core Liverpool out-of-town markets of South Liverpool and Wavertree saw take-up rise from 70,961 sq ft to 93,987 sq ft as occupiers

took advantage of their relative strength to upgrade their offices.

Knowsley’s business parks endured a disappointing year; with take-up slumping from 56,899 sq ft to 28,165 sq ft. Analysis of supply in Knowsley suggests a shortage of appealing opportunities may have depressed demand from occupiers.



City Centre office take up and underlying demand (2006–2010)

● NEW SPACE ● SECOND HAND SPACE ● TOTAL ● UNDERLYING DEMAND



EXCHANGE FLAGS



CHURCH HOUSE, HANOVER ST

Take-up trends in the Central Business District

Total office take-up in the Central Business District amounted to 207,515 sq ft, less than half the 519,274 sq ft reported in 2009.

As we warned last year, headline figures continue to paint a misleading picture. In 2009 take-up was inflated by two unusually large deals. Demand for Grade A space was distorted by a 140,000 sq ft pre-letting to Merseytravel, whilst the take-up of second-hand space was unusually strong thanks to a 220,000 sq ft letting to the UK Borders Agency at The Capital.

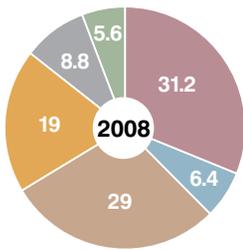
Both deals masked a dramatic fall in the number of transactions during 2009 as a consequence of the UK's continuing recession. Excluding those deals, take-up in 2009 was 159,274 sq ft. In contrast, 2010's take-up of 207,515 sq ft represents a real improvement (up 30.3 per cent).

Analysis of underlying demand for 2007 and 2008 reveals the trend. By excluding all deals over 40,000 sq ft we can show that in 2008 underlying demand was 202,831 sq ft and in 2007 totalled 306,875 sq ft.

These figures suggest that Liverpool's property market reached its lowest point in 2009, and has begun a gentle recovery.

It should be noted that Liverpool's indigenous corporate sector has played a powerful role in the CBD property market – a noteworthy trend, reflected in the 44 per cent take-up recorded in our analysis as 'other'. The creative, media and digital sectors have also grown fast, accounting for 8.9 per cent of CBD take-up, higher even than 2008 when Liverpool was European Capital of Culture.

This might be explained by several occupiers choosing the CBD in preference to the city fringe (the traditional home for creative industries), as they take advantage of market conditions in 2009 and 2010.



DEALS BY SECTOR (%)

- PROFESSIONAL 20 transactions totalling 76,450 sq ft
- PUBLIC SECTOR 2 transactions totalling 15,774 sq ft
- FINANCIAL/BANKING 9 transactions totalling 46,737 sq ft
- CREATIVE/IT/MEDIA 11 transactions totalling 21,463 sq ft
- TRAINING 6 transactions totalling 13,749 sq ft
- OTHER 18 transactions totalling 71,116 sq ft

TOTAL TAKE-UP 66 transactions totalling 245,289 sq ft



Take-up by sector in CBD

CREATIVE AND MEDIA OCCUPIERS

Liverpool's creative, media and digital sector demonstrated its capacity for growth in 2010, cementing the city's reputation as one of the UK's cultural capitals.

Gross take-up surged sharply compared with 2009, with take-up in the Central Business District rising from 14,532 sq ft to 18,396 sq ft.

Expressed as a proportion of CBD take-up, creative industries performance was even more impressive, rising from 2.8 per cent of CBD take-up to 8.9 per cent in 2010. This narrowly out-performs the best year for Liverpool's creative businesses (8.8 per cent in 2008, the year in which Liverpool was European Capital of Culture) and shows floor space take-up at its second highest level (also 2008, total 21,463 sq ft).

Creative industries' take-up in the city fringe and out-of-town market remained stable, accounting for 13.5 per cent of the South Liverpool market, and 20 per cent in the city fringe. Total take-up by creative industries outside the Central Business District was 27,953 sq ft, very close to the 28,794 sq ft we reported in 2009, and representing 20.2 per cent of total take-up.

The city fringe and out-of-town markets have always been popular with creative, media and information technology occupiers. In 2009, total creative industries take-up in these markets totaled 28,794 sq ft. This represents 14.3 per cent of take-up in the combined city fringe and out-of-town markets – a drop on the 20 per cent we recorded in 2008.

Combining the out-of-town, city fringe and CBD markets shows total take-up from the creative industries of 46,349 sq ft, up 8.9 per cent compared to 2009. The creative industries are now responsible for 12 per cent of total take-up across all Liverpool's office markets. One in every eight sq ft of floor space let is to this sector.

CORPORATE

2010 saw Liverpool's indigenous corporate sector return to the city centre occupational market, buoyed by exports and by a gentle recovery in the UK manufacturing sector. Two major food industry occupiers – Billington's and Princes – accounted for 22,878 sq ft or 11

per cent of CBD take-up. Shipping, transport and insurance have always been important in Liverpool's economy and in 2010 contributed take-up of 15,931 sq ft.

In total the corporate sector – recorded as 'other' on our tables – accounted for 92,958 sq ft or 44 per cent of take-up. Historic analysis is not easy because corporate occupiers have not always dominated the 'other' category in the way they did in 2010. A medium-term average is therefore likely to overstate the role of corporate occupiers in the recent past – and to understate the extent of their re-appearance in the market in 2010. However, with that caveat, comparison with the five-year average for 'other' occupiers of 63,254 sq ft suggests what an increasing contribution the corporate sector is now making to Liverpool's CBD economy.

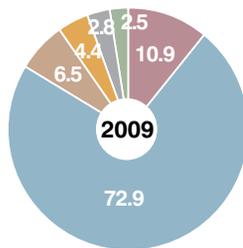
PROFESSIONAL AND FINANCIAL SECTOR

Professional and financial services occupiers withdrew from the Liverpool city centre office market in September 2008 at the time of the Lehman Brothers collapse, and have not returned since. The combined total of professional and financial deals accounted for 27.4 per cent of floorspace take-up in 2010, up from 15.2 per cent in 2009. The total floor space take-up by the professional and financial sectors in the Central Business District fell from a combined total of 79,395 sq ft in 2009 to 56,898 sq ft in 2010.

PUBLIC SECTOR

Thanks to relocation decisions taken before the recession, 2009 was an exceptional year for the public sector's contribution to Liverpool Central Business District office take-up. Deals totalling 378,348 sq ft were agreed during 2009 amounting to 72.9 per cent of total CBD take-up. In contrast 2010 saw public sector take-up of 12,780 sq ft (5.7 per cent) representing a return to the performance in 2008 (15,773 sq ft amounting to 6.4 per cent)

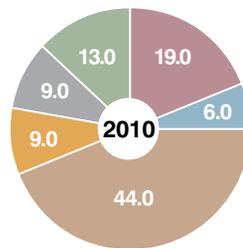
Analysis of public sector take-up over the five years 2006-2010 suggests average public sector take-up in the Central Business District is 27.5 per cent, a little down on the five-year average reported last year (30.1 per cent) as a result of 2010's modest performance.



DEALS BY SECTOR (%)

- PROFESSIONAL 12 transactions totalling 56,315 sq ft
- PUBLIC SECTOR 7 transactions totalling 378,348 sq ft
- FINANCIAL/BANKING 8 transactions totalling 23,080 sq ft
- CREATIVE/IT/MEDIA 6 transactions totalling 14,532 sq ft
- TRAINING 6 transactions totalling 13,074 sq ft
- OTHER 10 transactions totalling 33,925 sq ft

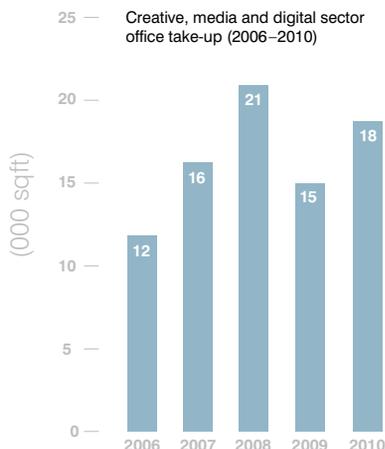
TOTAL TAKE-UP 49 transactions totalling 519,274 sq ft



DEALS BY SECTOR (%)

- PROFESSIONAL 18 transactions totalling 37,979 sq ft
- PUBLIC SECTOR 3 transactions totalling 12,780 sq ft
- FINANCIAL/BANKING 5 transactions totalling 18,919 sq ft
- CREATIVE/IT/MEDIA 6 transactions totalling 18,396 sq ft
- TRAINING 6 transactions totalling 26,483 sq ft
- OTHER 10 transactions totalling 92,958 sq ft

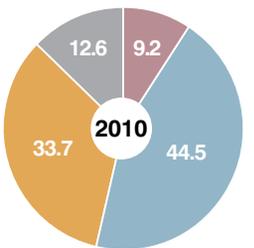
TOTAL TAKE-UP 56 transactions totalling 207,515 sq ft





ONE DERBY SQUARE

Supply: City Centre



AVAILABILITY BY GRADE (%)

● A = 173,178 sq ft
 ● B = 841,221 sq ft
 ● C = 637,247 sq ft
 ● D = 238,024 sq ft
TOTAL 1,889,670 sq ft

At November 2010 a total of 7.05m sq ft of office space of all ages and types was recorded in the Central Business District. This compares with 7.1m in 2009, and has remained virtually unchanged since the first census in 2005. Of this total our census shows 1.89m sq ft available and ready for occupation, also virtually unchanged since the 1.85m sq ft recorded in 2009.

A fall in the supply of vacant Grade A office space marks the only substantial movement in office supply in Liverpool's Central Business District.

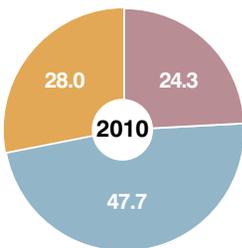
A total of 173,178 sq ft of Grade A office space is empty and ready for occupation in Liverpool's CBD. This is consistent with the trend which is showing gradual reductions from the 221,944 sq ft in 2008. With little new office space under construction, and time-lags in the delivery of existing projects, the limited supply of new office

space can be expected to shrink even further.

If Grade D office space (for which there is effectively no market) is excluded from our analysis then the "wide" measure of the CBD vacancy rate is 23.4 per cent.

Alternatively, the "narrow" measure of the CBD vacancy rate (which also excludes Grade C and Grade D office stock) produces a vacancy rate of 14.4 per cent. This reflects a gentle upward trend, rising from 13.5 per cent in 2009 and 12.6 per cent in 2008.

Vacant Grade A stock accounts for 10.5 per cent of all vacant office space in the Central Business District on our "wide" measure (2009: 10.12 per cent, 2008: 13.0 per cent). On the narrow measure it represents 17.1 per cent, down from 19.6 per cent in 2009.



CITY FRINGE BY GRADE (%)

● A = 90,713 sq ft
 ● B = 177,593 sq ft
 ● C = 104,036 sq ft
TOTAL 372,342 sq ft

Supply: City Fringe and Out-of-Town

A modest increase in the supply of out-of-town office space suggests that the business parks of North and South Liverpool, Wavertree and Knowsley are continuing to experience difficult trading.

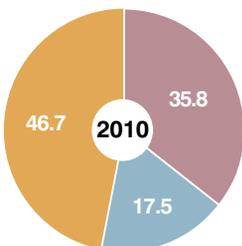
This year's census of office availability suggests that 842,466 sq ft of office space was available and ready for occupation in November 2010. This is 17.3 per cent up on the 719,180 sq ft of recorded in November 2009, a little lower than the 759,200 sq ft we reported in November 2008.

In addition a total of 372,342 sq ft was available in the city fringe, compared with 326,665 sq ft in 2009, an increase of 14 per cent, marginally lower than the other out-of-town markets.

The explanation for the increase in supply lies in the completion of new developments.

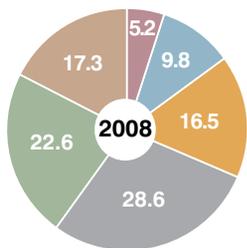
Grade A office space plays a more significant role in the out-of-town markets than it does in the Central Business District. This is particularly true in South Liverpool, where 81.5 per cent of available floor space (224,463 sq ft) was categorised as Grade A.

We calculate that 392,497 sq ft of Grade A office space is available and ready for occupation in the out-of-town and city fringe markets, representing 32.3 per cent of supply, a sharp drop from 44.8 per cent in 2009 and the first fall below 40 per cent the office availability census has reported.



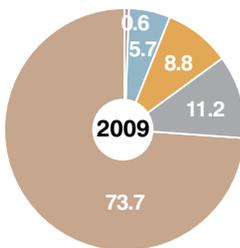
OUT-OF-TOWN BY GRADE (%)

● A = 301,784 sq ft
 ● B = 147,479 sq ft
 ● C = 393,203 sq ft
TOTAL 842,466 sq ft



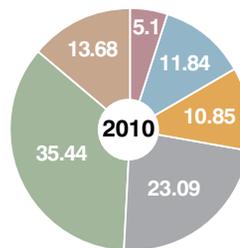
DEALS BY SIZE (%)

0 - 1,000	24 transactions totalling 12,640 sq ft
1,000 - 2,500	16 transactions totalling 24,173 sq ft
2,500 - 5,000	11 transactions totalling 40,410 sq ft
5,000 - 10,000	10 transactions totalling 70,268 sq ft
10,000 - 20,000	4 transactions totalling 55,340 sq ft
20,000+	1 transactions totalling 42,458 sq ft
TOTAL	66 transactions totalling 245,289 sq ft



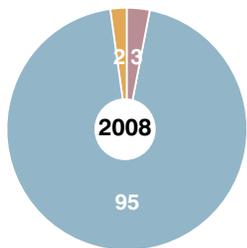
DEALS BY SIZE (%)

0 - 1,000	8 transactions totalling 2,986 sq ft
1,000 - 2,500	17 transactions totalling 29,774 sq ft
2,500 - 5,000	13 transactions totalling 45,425 sq ft
5,000 - 10,000	8 transactions totalling 58,356 sq ft
10,000 - 20,000	0 transactions totalling 0.00 sq ft
20,000+	3 transactions totalling 382,773 sq ft
TOTAL	49 transactions totalling 519,274 sq ft



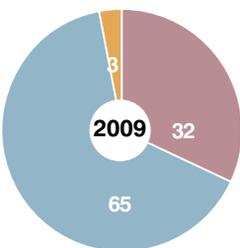
DEALS BY SIZE (%)

0 - 1,000	20 transactions totalling 10,584 sq ft
1,000 - 2,500	16 transactions totalling 24,572 sq ft
2,500 - 5,000	7 transactions totalling 22,517 sq ft
5,000 - 10,000	8 transactions totalling 47,909 sq ft
10,000 - 20,000	6 transactions totalling 73,543 sq ft
20,000+	1 transactions totalling 28,390 sq ft
TOTAL	56 transactions totalling 207,515 sq ft



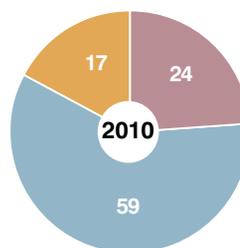
DEALS BY GRADE (%)

A = 1 transactions totalling 7,729 sq ft
B = 64 transactions totalling 232,548 sq ft
C = 1 transactions totalling 5,012 sq ft
TOTAL 66 transactions totalling 245,289 sq ft



DEALS BY GRADE (%)

A = 6 transactions totalling 166,772 sq ft
B = 37 transactions totalling 338,869 sq ft
C = 6 transactions totalling 13,633 sq ft
TOTAL 49 transactions totalling 519,274 sq ft



DEALS BY GRADE (%)

A = 4 transactions totalling 49,034 sq ft
B = 23 transactions totalling 122,170 sq ft
C = 29 transactions totalling 36,311 sq ft
TOTAL 56 transactions totalling 207,515 sq ft

Take-up by grade of office

Ten years of refurbishment and new building has improved Liverpool city centre's office stock – and nowhere is this more in evidence than in the take-up of Grade B space. Defined as any office building over five years old, the Grade B stock now includes many recently built properties. Simultaneously, the severe slow down in new building projects has diminished the choice available to occupiers many of whom have responded by opting to move to Grade B buildings.

The consequence has been a medium-term trend towards Grade B office space which in 2010 accounted for 122,170 sq ft (59 per cent of CBD take-up). This is lower than in recent years. In 2008 in the Central Business District lettings of Grade B office space accounted for 95 per cent of all floor space let; in 2009 the proportion was 65.3 per cent amounting to 338,869 sq ft.

The differential performance is, in part, accounted for by the very different occupiers active in 2010 compared to 2009. But it also

reflects the revival of Grade C space, which has itself improved in quality as the refurbishments of the last decade trickle through the office hierarchy. In 2010, 17 per cent of all CBD take-up (33,031 sq ft) was in Grade C space, compared with just 2.6 per cent (13,633 sq ft) in 2009. Of these trends in 2010 there was a substantial surge in take-up of Grade B office space improvements in the city centre's Grade B office stock

Whilst tenant's preference for good quality refurbished buildings or modern buildings of 5-10 years is a strong as ever, deals agreed in 2009 saw newly-built Grade A space return to favour.

Grade A accommodation accounted for 25 per cent of take-up in the Central Business District in 2010, a fall from 32.1 per cent of deals in 2009. Take-up of Grade A space has fluctuated wildly in what is largely a supply-led market, accounting for an insignificant 3 per cent in 2008 and just 19 per cent in 2007.

Take-up by size of occupier

2010 marked the first signs of a return of the middle market in the Central Business District. In 2010 there were six deals above 10,000 sq ft, up on the three deals recorded in 2009. It is unwise to assume too much from a small sample, but these figures suggest the first signs of a recovery to performance before September 2008 (2008 saw 5 deals, 2007 saw 10). The vast majority of city centre deals are for small suites. Our figures show that 65 per cent of all transactions were for suites under 2,500 sq ft.

Note on Terminology

For the purposes of this research, Grade A space was defined as office space completed since 1st January 2005; Grade B space as office space completed before 1st January 2005 or other accommodation recently refurbished or due to be refurbished during 2010; Grade C as un-refurbished but ready for occupation in 2009 or 2010. Grade D is office space which could not be occupied without substantial refurbishment, and that no plans exist for such refurbishment.

Accreditation

This document has been provided from data compiled by members of the Property Group of Professional Liverpool in conjunction with Liverpool Vision. Our special thanks go to these companies included as follows:

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