

Liverpool City Region

COMMERCIAL OFFICE MARKET REVIEW **2020**



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the Property Group of Professional Liverpool with
assistance from Liverpool BID Company

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INTRODUCTION

Welcome to the 16th edition of the review, providing an objective and independent assessment of Liverpool City Region's office market over the last calendar year.

When we reset the clock on January 1st in 2020 we had much to look forward to, however, as a result of the Covid-19 pandemic, what we have seen is many occupiers choosing to take stock of the market and delay their occupational strategy.

Throughout the year we did see occupiers make a move when they needed to, however this was usually down to imminent lease events, growth due to the pandemic or an inability to work from home.

Yet despite having specific pandemic related challenges, the market is still dealing with the fundamental issues of previous years; a severe lack of Grade A accommodation and limited good quality availability throughout all markets.

In the Commercial District, there is still no vacant Grade A new build office space with the only Grade A space in the City Centre coming forward within Paddington Village. We continue to see occupiers consider locations which previously would have been non-core in order to satisfy demand for high quality offerings in turn redefining city centre boundaries.

As promised in last year's report we have introduced Wirral and widened the scope of Sefton which now completes the aligning of this report with Liverpool City Region.

The pandemic has caused a time lag for future development, and this could mean that business growth is stifled in the short to medium term, as inward investment is impacted. We cannot quantify this in this report. We hope you find the review both useful and enlightening and we welcome any feedback.

Once again thanks go to the member property agents of Professional Liverpool, who help collate the data, and to the Liverpool BID Company for once again supporting the production and promotion of the report.



Andrew Byrne
Head of Property Group 2020
Professional Liverpool

In a year that has seen the way we work change, possibly forever, it is inevitable that one of the major ramifications would be seen in the office market moves.

Despite positivity moving forward, and evidence that Liverpool is able to bounce back from the impact of the global pandemic, this report needs to be read with context.

Uncertainty has filtered through many levels of business and questions still remain. How will the future world of work look? Will we need more office space or less in 2021 and beyond? Will Liverpool's economic recovery make it more attractive to inward investors? When will we start to see new trends emerge?

From where we stand in Spring 2021, we can speculate but we have no firm answers. We do know that the desire to rebuild and reinvigorate the city's economy is ingrained within the Liverpool City Region's business community, and that ongoing developments, like those within the Knowledge Quarter will help to showcase the city's excellent reputation in life sciences and health.

Yet many investors will sit on their hands, even if just in the short term, and that illustrates the work that needs to be done to make Liverpool recovery ready.

The need for Grade A office space within the Commercial District remains a significant threat to future growth, and with the SRF highlighting this core demand, there has to be a focus on this.

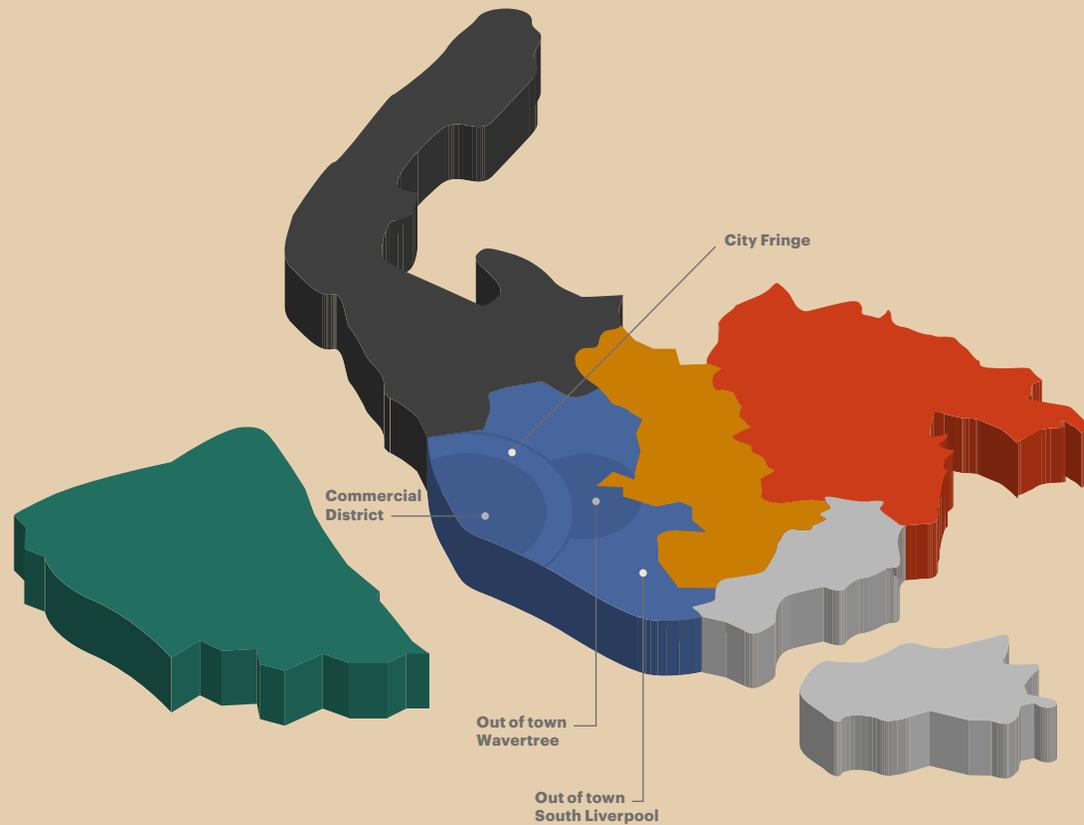
The message from Liverpool BID Company has to be to ensure the city is in the right place to attract investment, to support economic activity and be the voice of business. 2020 was a challenging year but the work to rebuild starts now.



Julie Johnson
Chair of Commercial District BID
BID Champion for the Corporate
Sector.

TERMINOLOGY

● Liverpool ● Sefton ● St Helens ● Wirral
 ● Halton ● Knowsley



Note of terminology

For the purposes of this research, Grade A space was defined as office space completed since 1st January 2016, Grade B space as office space completed before 1st January 2016, Grade B* space as office space specifications comparable to Grade A or other accommodation recently refurbished or due to be refurbished, Grade C as unrefurbished but ready for occupation. Grade D is office space which could not be occupied without substantial refurbishment and where no plans exist for such refurbishment.

The Commercial District focuses on the main office district around Old Hall St, Castle St, Tithebarn St, Dale St and Chapel St and includes the key waterfront office buildings between Albert Dock, Pier Head and Princes Dock. The City Fringe includes the remaining areas in the City Centre (L1, L2, L3) area, largely focused around Duke St, Renshaw St, Paddington Village and Mount Pleasant (Knowledge Quarter). The City Region analysis includes the key Out of Town office areas in Halton, Knowsley, Liverpool (North and South), Wavertree, Sefton, St Helens and The Wirral.

SUMMARY

Overall office take-up for the Liverpool City Region was

282,261 sq ft

in 2020, a decrease of 50.3% on the 2019's figure of 567,793 sq ft

The overall take-up in the city centre (Commercial District and City Fringe) accounted for

173,135 sq ft

which is down 56.8% when compared to 2019

Total office take-up in the Commercial District was

142,030 sq ft

which is down by 58.15% from 2019

The average size of deal in the Commercial District for 2020 was

1,964 sq ft

which is down from 4,040 sq ft in 2019

Supply now stands at a total of

519,994 sq ft

of office space within the Commercial District. An 8.7% increase from 2019, as some occupiers exercised lease events throughout the pandemic

As with 2019 Grade B/B* office space represents the mainstay of the Commercial District accounting for

100%

of transactions and total take-up

Take-up in the City Fringe area was

31,105 sq ft

in 2020 representing a 49.1% decrease from 2019

The Out of Town take-up was

109,126 sq ft

which is down by 58,213 sq ft from 167,339 sq ft in 2019, even allowing for the expansion of Sefton and inclusion of the Wirral.

TAKE-UP OVERVIEW

Overall office take-up for Liverpool City Region totalled 282,261 sq ft in 2020, a fall of 50.3% on the 2019 figure of 567,793 sq ft.

The combined figure includes the Commercial District, City Fringe and Out of Town markets including Knowsley, St Helens, South Liverpool, Wavertree, Sefton and Wirral. Take-up in the Liverpool City Region was more evenly split than in previous years as occupiers considered options in more suburban areas in light of the current climate.

2020's take-up was evenly distributed throughout the majority of the Out of Town markets with Halton and Sefton being the star performers. Poor performances in some markets can be attributed to the lack of sizeable, good quality stock. The Commercial District accounted for

50.3% of total take-up and 54.6% of the number of deals as flexible opportunities in the Out of Town markets were the focus of the occupiers since the outbreak of the pandemic. The expansion of the Out of Town markets has also played a hand in leveling up of take up.

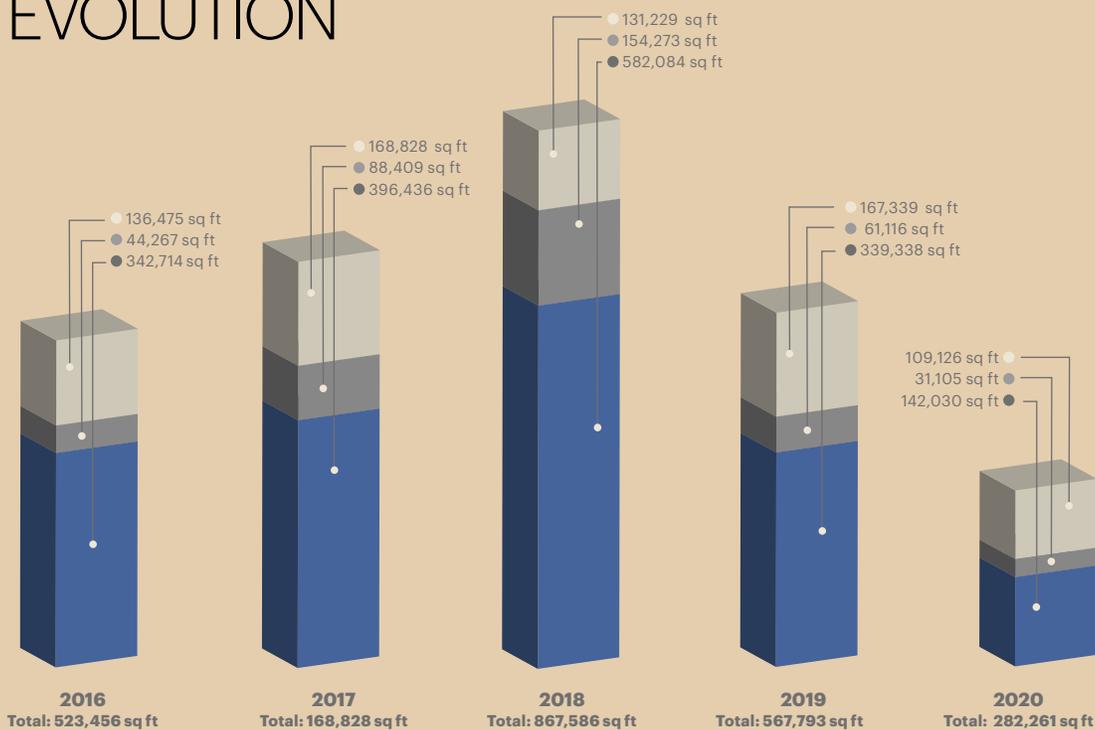
Overall and despite falling supply, the take-up levels for Liverpool City Region remain positive, with 130 deals recorded in 2020 (166 in 2019), confirming the continued confidence in the commercial property market, despite uncertainty throughout the year.

The five year comparison

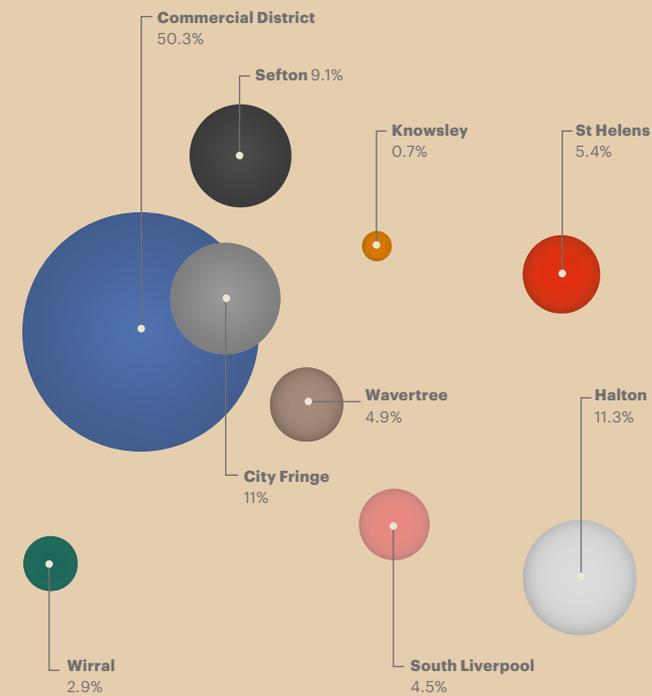
The combined office take-up in Liverpool City Region in 2015 was reported at a healthy level of 576,847 sq ft - take-up for 2020 represents a dramatical drop on this figure as the effects of the pandemic were felt across the market.

TAKE-UP EVOLUTION

● Commercial District ● City Fringe ● Out of town*



● Commercial District ● City Fringe ● South Liverpool ● Halton ● Knowsley ● Sefton ● St Helens ● Wavertree ● Wirral



TAKE-UP BY AREA IN 2020

COMMERCIAL DISTRICT TAKE-UP IN DETAIL

DEALS & SIZE

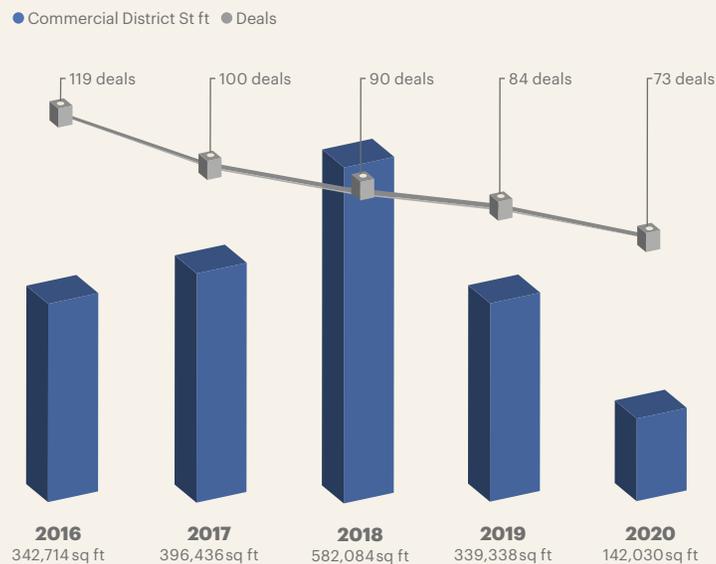
Total office take-up in the Commercial District in 2020 was 142,030 sq ft which is down by 58% from 2019, as larger occupiers withdrew from the market, signifying the lowest take-up on record for the Commercial District.

However, despite adverse market conditions the number of transactions in 2020 compared admirably with 2019 down from 84 to 73, the average size of deal in 2020 was also smaller at 1,964 sq ft – down from 4,040 sq ft. The fall in number of deals has been a trend over the past 5 years, coinciding with the rise of flexible offerings across the Commercial District, with many of the smaller occupiers seeking short term flexible offerings instead of traditional lettings as they establish their businesses.

The largest deal of 2020 in the Commercial District was to Plus Dane taking 17,695 sq ft within Atlantic Pavilion. The small office market (sub 1,000 sq ft) still represents an important category comprising 63% of all transactions, albeit this accounts for 16.8% of total take-up within the commercial district. Prior to COVID, the number of transactions was declining year on year, with the size of transaction growing year on year, suggesting a maturing market with sustained business growth. 2020 saw this part of the market stagnate beyond Q2, with only 2 transactions being over 10,000 sq ft thereafter.

The five year comparison

The overall take-up in 2015 for the Commercial District was 301,956 sq ft and take-up for 2020 represents a 52.5% decrease on this figure. In 2015 there were a total of 156 deals in the Commercial District at an average size of 1,936 sq ft; whilst 2020 recorded less deals at 73, the average was slightly higher than that of 2015 at 1,964 sq ft.

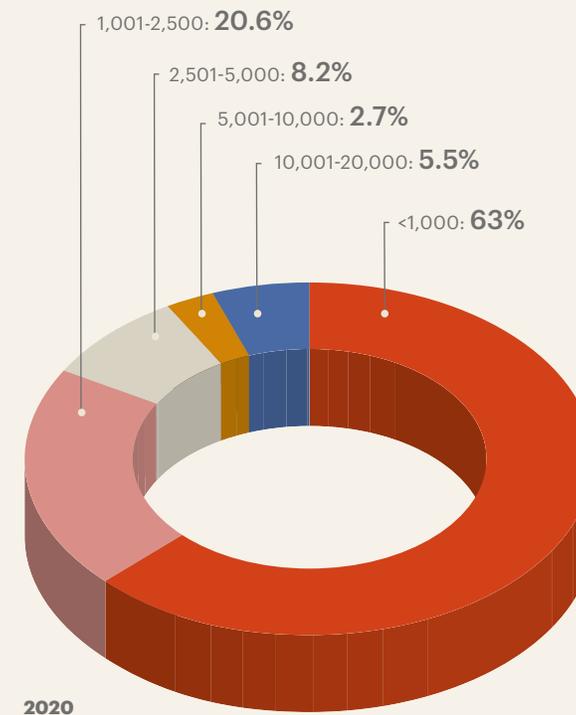


As with the last few years, smaller lettings have dominated the market in the Commercial District in 2020, with 63% of all lettings (46 deals in total) under 1,000 sq ft.

When combined with lettings below 2,500 sq ft, this represents 83.6% of all deals (73.5% in 2019) in the Commercial District. There were 6 transactions over 5,000 sq ft in 2020, six less than last year, mainly hampered by the emergence of the pandemic in March. There were no deals above 20,000 sq ft in 2020 compared to four in 2019 and three in 2018.

The unprecedented nature of how 2020 unfolded drove the market demand and led to many larger, less flexible occupiers assessing the landscape before committing to their next move, as the whole strategy as to how the office is set to be used is deliberated.

● <1,000 ● 1,001-2,500 ● 2,501-5,000 ● 5,001-10,000 ● 10,001-20,000 ● >20,000



TAKE-UP BY SIZE OF LETTING

The five year comparison

In 2015, 78% of deals were under 2,500 sq ft with a slightly higher return in 2020 at 83.5%. In 2015, there were 5 deals over 10,000 sq ft but this figure falls to 4 in 2020.

COMMERCIAL DISTRICT TAKE-UP IN DETAIL

GRADE AND SECTOR

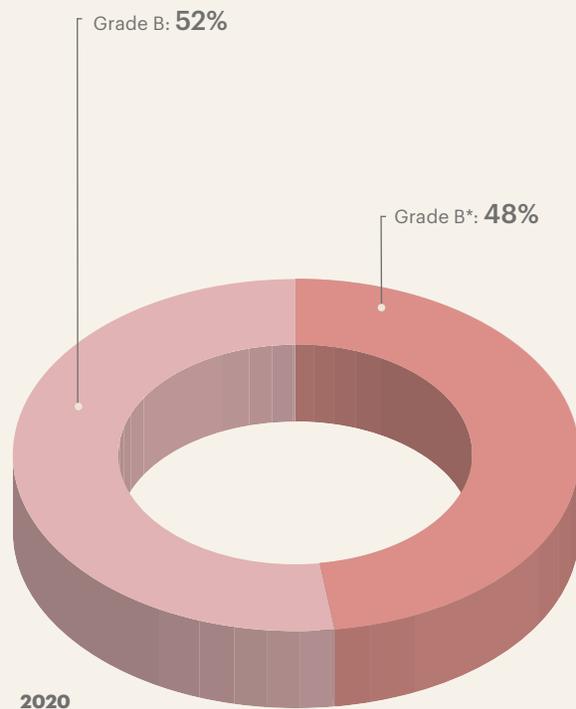
There were no Grade A deals in the Commercial District in 2020

As with previous years Grade B space accounted for the largest number of transactions with a total of 54 deals representing 76.06% of all deals (31.33% in 2019). The average size of deal in the sector was 1,344 sq ft which is a decrease from 2,006 sq ft in 2019.

However, unlike 2019 the most buoyant sector in terms of total amount of space taken was also Grade B. With the Grade B* (specification comparable to Grade A buildings), accounting for 17 transactions in 2020 (31 in 2019) at an average size of 4,084 sq ft (7,517 sq ft in 2019).

Once again, the report highlights that Grade B/B* office space represents the mainstay of the Commercial District accounting for 100% of transactions and total take-up.

● Grade A ● Grade B* ● Grade B ○ Grace C ● Grade D



2020

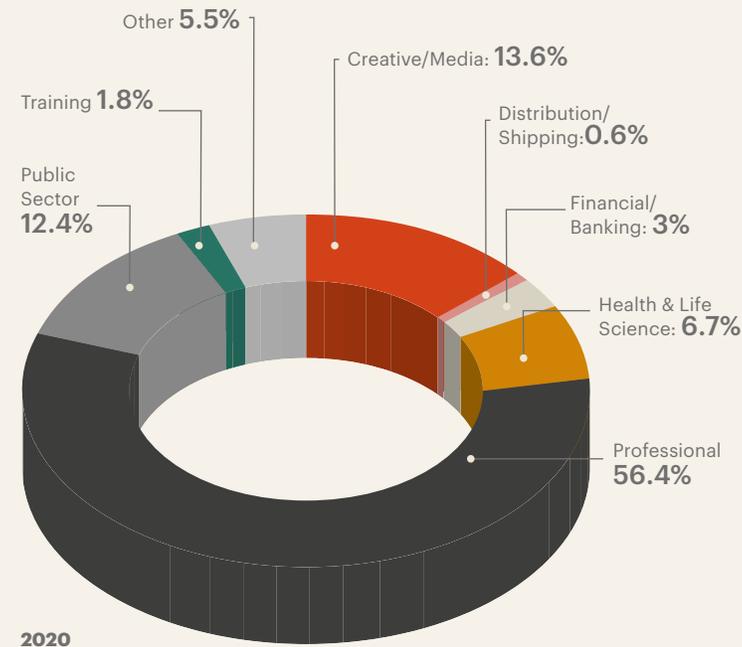
TAKE-UP BY SECTOR

When reviewing 2020 sector by sector the analysis continues to show a market dominated by a few sectors, with some continuing with low levels of activity in comparison to previous years.

The professional sector was the most active sector of the year once again accounting for 35 deals (35 deals in 2019) at an average of 2,311 sq ft per letting (4,042 sq ft in 2019).

The creative/IT/media sector was the second most active sector of 2020 with 16 deals, accounting for 13.59% of the annual take-up. However, the sectors deal average of 1,217 sq ft (5,189 sq ft 2019) with a number of the transactions falling within the sub 1,000 sq ft category.

● Creative/Media ● Distribution/Shipping ● Financial/Banking ● Health & Life Science ● Outsourcing/Call Centre ● Professional ● Public Sector ● Serviced Offices ● Training ● Other



2020

The five year comparison

In 2015 Distribution / Shipping and Outsourcing / Call Centres accounted for 15.22% (13 transactions). In 2020 these sectors accounted for 0.63% (1 transaction).

CITY FRINGE TAKE-UP IN DETAIL

GRADE AND SECTOR

The five year comparison

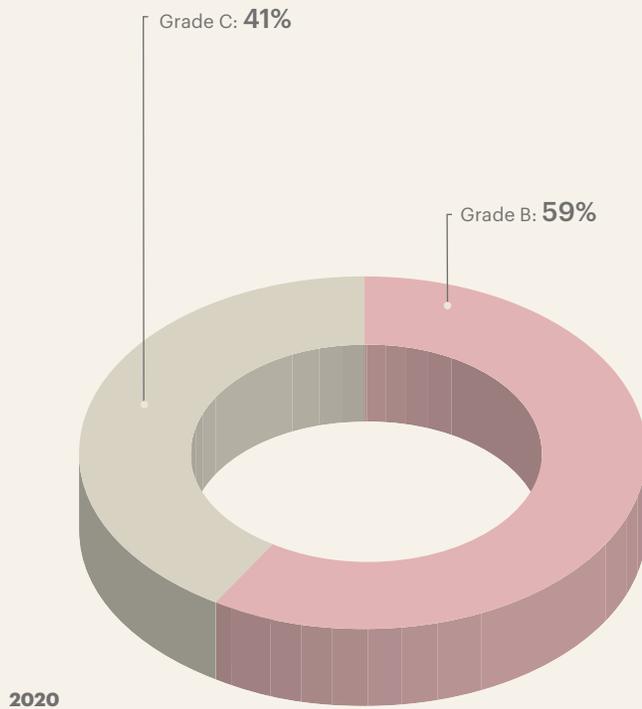
Take-up in the City Fringe in 2020 was nearly 62% lower than 2015 which was 81,067 sq ft.

Take-up in the City Fringe area was 31,105 sq ft in 2020 down 49.1% from 2019 and 79.8% from 2018.

There was a total of 12 transactions at an average of 2,592 sq ft in the City Fringe in 2020 with the largest deal to Venmore who took 12,746 sq ft, within Prospect House.

The 2020 City Fringe take-up figure reflects a considerable decrease on 2019, however, this is largely due to the pandemic and lack of good quality options following years of demand supply imbalance.

● Grade A ● Grade B* ● Grade B ○ Grace C ● Grade D

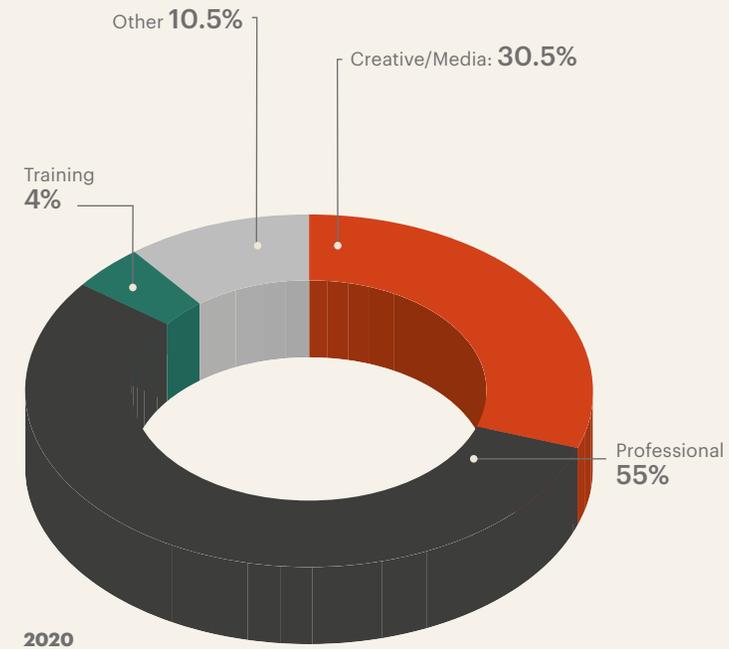


TAKE-UP BY SECTOR

2020 saw the city fringe dominated by the Professional sector. This was primarily due to Venmore's acquisition of Prospect House, 12,746 sq ft. In 2019 this sector only accounted for 23% of take-up, with a much more evenly spread of sector take-up.

This dominance covered up short comings in a variety of sectors, however considering the emergence of the pandemic, significant drop off in certain sectors was to be expected.

● Creative/Media ● Distribution/Shipping ○ Financial/Banking ● Health & Life Science ● Outsourcing/Call Centre ● Professional ● Public Sector ● Serviced Offices ● Training ● Other



OUT OF TOWN IN DETAIL

DISTRIBUTION AND SECTOR

Out of Town take-up in 2020 was 109,126 sq ft - below 2019 (167,339 sq ft), however noting for the first time we have merged Sefton's figures and included Wirral. Take-up highlights a positive year in most Out of Town locations, aside from Knowsley, where a severe lack of quality accommodation has led to occupiers considering alternative locations.

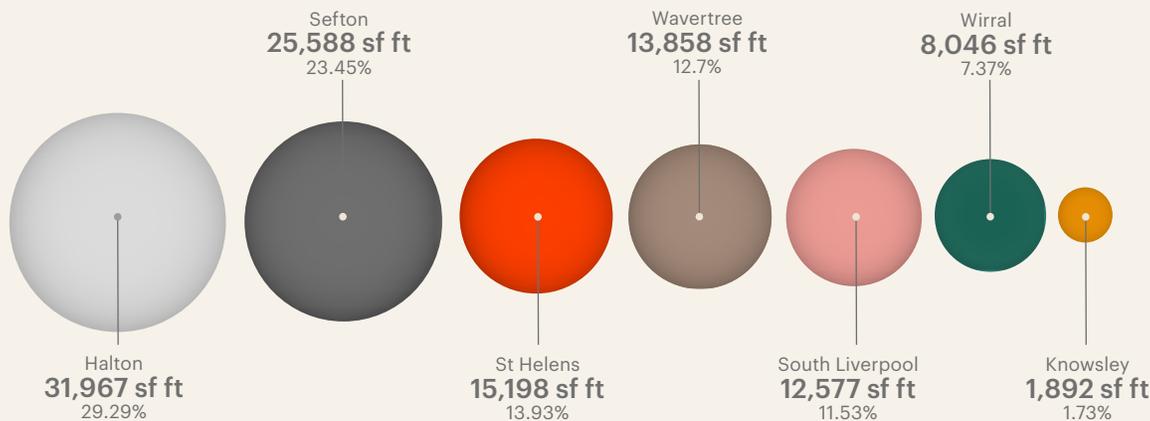
Grade B space accounted for all the transactions Out of Town.

The key transactions in the Out of Town market included the 19,600 sq ft letting to Greensil Capital at 1100 Daresbury, the 7,600 sq ft sale of SES House to a private individual at Southport Business Park and the 4,433 sq ft letting to Spa Medica at Liverpool Innovation Park.

In terms of number of transactions, Liverpool Innovation Park enjoyed a successful year with 8 deals over the 12-month period, totalling 8,335 sq ft.

The five year comparison

Take-up in the City Fringe in 2020 was nearly 62% lower than 2015 which was 81,067 sq ft.

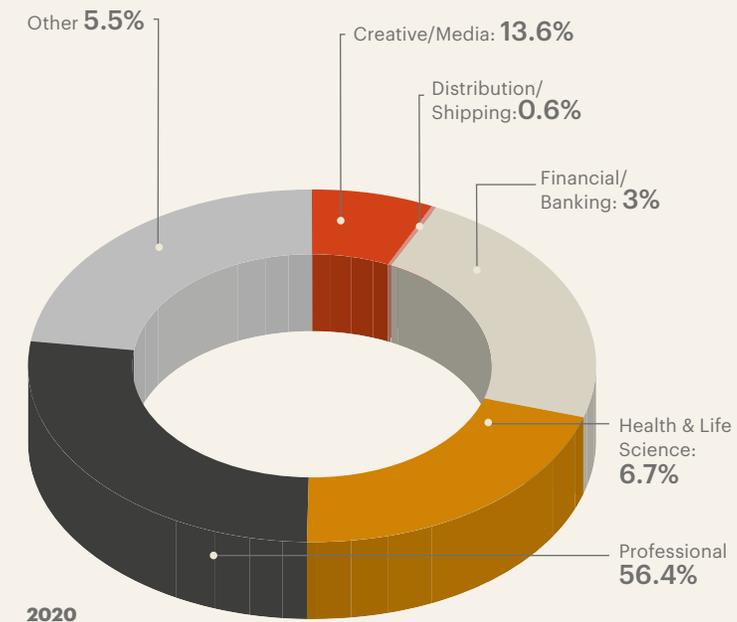


2020 saw the Professional Sector establish itself across the Out of Town markets with 24.9% of total take-up. This performance was driven by strong take-up for the sector within most areas.

Another sector which performed well in comparison to 2019, was Health & Life Sciences displaying a 10.23% increase, driven by a number of transactions across multiple locations. Some examples of these being Spa Medica at Liverpool Innovation Park and NHS Property Services at Burlington House.

TAKE-UP BY SECTOR

● Creative/Media ● Distribution/Shipping ○ Financial/Banking ● Health & Life Science ● Outsourcing/Call Centre ● Professional ● Public Sector ● Serviced Offices ● Training ● Other



SUPPLY ANALYSIS

Total office supply in Liverpool City Region is 6,676,947 sq ft. Within the Commercial District, it was 5,532,733 sq ft - a decrease of 5,007sq ft from 2019 and 105,384 sq ft in 2018. The office market remains tight with limited options, emphasising the urgent need for good quality development.

Supply of vacant stock increased with 495,206 sq ft of office space available within the Commercial District. In terms of space that is refurbished and ready to occupy (i.e. Grade A, Grade B* and Grade B) total vacant stock has increased by 40,801 sq ft since 2019 and is now 404,289 sq ft. This increase is partly due to refurbishments completing in 43 Castle Street (11,370 sq ft) and some occupiers handing back non core space throughout 2020.

It is important to note that 18% (24% in 2019, 41% in 2018) of available stock is currently in the un-refurbished Grade C and D categories. Grade B* stock at the end of 2020 was 228,061 sq ft, up from 214, 932 sq ft in 2019. We expect a flight to quality to emerge following the pandemic as occupiers seek better quality accommodation and therefore predict availability in such categories to continue to fall throughout 2021.

The Out of Town Market has seen supply increase by 19.75% to 1,144,214 sq ft, with an increase in availability driven by the inclusion of Wirral (+238,985 sq ft) and the expansion of Sefton (+62,691 sq ft).

Unlike the city centre, Grade A availability in the Out of Town market is increasing and stands at 107,371 sq ft - up 13% since 2019 - as Hythe at Wirral Waters comes to the market. This appeases short term demand, but the lack of a continued pipeline means more demand on Grade B office space, which stands at 716,134 sq ft, up from 518,858 sq ft in 2019.

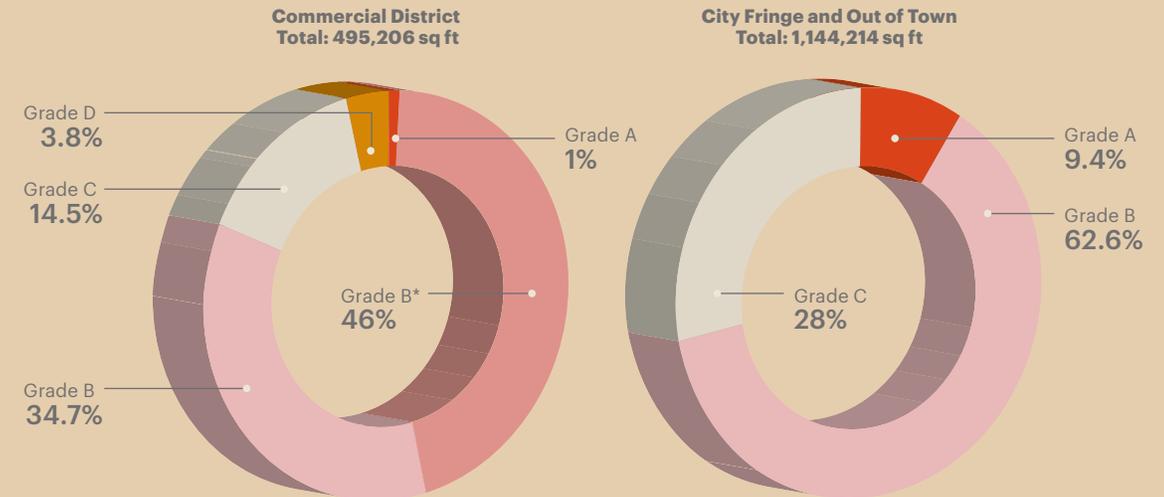
Grade C supply is focused around Sefton, Wavertree & Knowsley with 76% of total Grade C stock within these areas. The total Grade C availability across all markets is only a 5.7% increase from 2019. This will decrease over the coming years as developers look to reposition such assets.

The five year comparison

There was no Grade A space delivered in 2020. Many redevelopment opportunities are now close to drying up, with opportunities reducing by over 90% since 2015. Once again reiterating the need for development in the commercial district.

OFFICE SUPPLY BY GRADE

● Grade A ● Grade B* ● Grade B ● Grade C ● Grade D

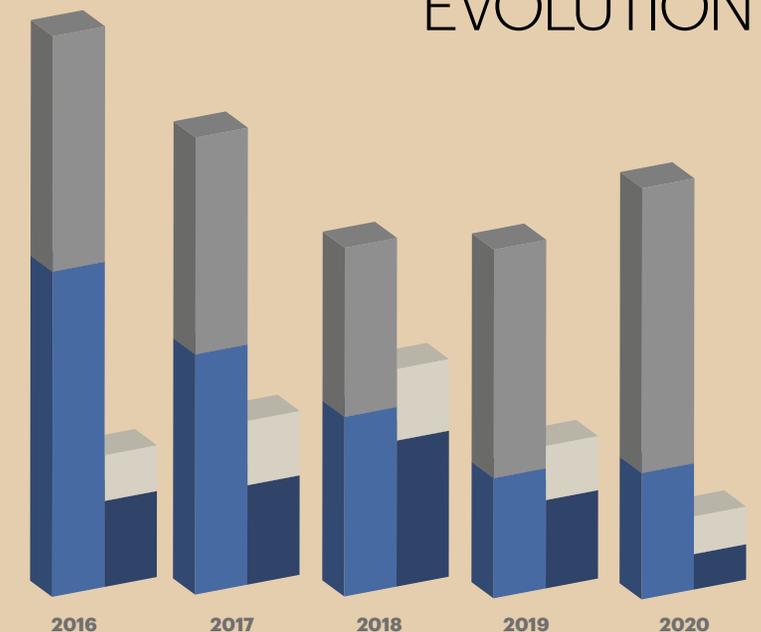


Supply: ● Commercial District ● City Fringe and Out of Town
Take-up: ● Commercial District ○ City Fringe and Out of Town

SUPPLY & TAKE-UP EVOLUTION

Year	Supply	
	Commercial District	City Fringe and Out of Town*
2016	1,293,985	942,532
2017	958,083	842,976
2018	958,083	676,551
2019	475,351	918,138
2020	495,206	1,144,214

Year	Take-up	
	Commercial District	City Fringe and Out
2016	342,714	180,742
2017	396,436	257,237
2018	582,084	285,502
2019	339,338	228,455
2020	142,030	140,231



RENTAL VALUES

Despite the contraction in take-up, occupiers have continued the flight to quality as many landlords continue to upgrade their offers across the region. As such this has led to expedient rental growth for the past few years across all grades of offices.

In recent years the lack of Grade A options has meant that the rest of the market has outperformed historic Grade A rents and 2020 was no different, with Liverpool's record rent being surpassed in The Royal Liver Building following a comprehensive repositioning. The highest rent achieved within the region now stands at £28.50 per sq ft.

This has again meant that the Grade B market has also seen continued increases; with this sector now achieving in excess of £17 per sq ft within the better-quality Grade B refurbishments.

The Out of Town market has seen increased demand throughout the pandemic and as such headline rents are increasing as vacancy levels reduce across all markets. Headline rents across the region are now quoting between £11 and £16 per sq ft.



Royal Liver Building ©McCoy Wynne



Atlantic Pavilion ©McCoy Wynne

BUILDING TRANSACTIONS

Much like the transactional market the investment market was nowhere near as buoyant as normal as many investors took stock. Prime Investment deal of the year went to 20 Chapel Street (£37.25m) reflecting a NIY (Net Initial Yield) of 6.75%.

As expected the market was quieter than normal in 2020, however it is expected that Liverpool will remain an attractive offer to investors when they return to the market and seek to benefit from more attractive yields than many other regional cities, alongside a buoyant rental offering.

Prime yields remain relatively stable in comparison to previous years, with limited options to test pricing on prime assets. It is expected that investment activity will increase in 2020 as investors look to reengage in the market and capitalise on opportunities.



20 Chapel Street

