

Press release 2015



OFFICE MARKET UPDATE

The Derby office market is going through interesting times at the moment and in this review Tim Richardson of FHP Property Consultants in Derby looks at current trends and how the market may evolve in the City.

Over the last few years we have seen an increasing supply of outdated secondary office space within the City Centre which has proved difficult to let. Up until about 2008 these were achieving reasonable rents in the order of £7-£10 per ft² but over the last five years have really struggled to secure much interest at all and now with an improving residential sector we are seeing these being converted to apartments. These buildings are some of the most well known in the City, such as St Peters House comprising some 100,000ft² of office space, recently sold for conversion to 147 apartments, and the 35,000 sq ft Roman House on Friar Gate, a former City Council building, also being sold for conversion.

The Heritage Gate office complex, once in its heyday the place to be, faces an uncertain future, with only 20% occupancy and currently on the market. We anticipate that most of this will go for residential conversion. However, it is a good commercial location and it would be nice to think that at least some of it such as Norman House will remain as offices and be refurbished to provide the type of high spec accommodation that people now require.

This leaves very little good quality office accommodation in the City Centre. There is virtually nothing to buy freehold for small owner occupiers or pension funds, and no grade A space ready to move into. Friar Gate Square has been taken by the University of Derby for their Law School, and while some argue that this demonstrates that there is scant demand for City Centre offices, this is definitely not the case. Friar Gate

Square was initially intended to suit a single major occupier which didn't quite happen and although it could have been split for smaller suites, that sector of the market wasn't yet ready to pay £18.50 per ft² when you could still get perfectly good space at Pride Park for £10 per ft².

We continue to see an exodus from the City Centre to Pride Park, despite the best efforts of the City Council and others and it is not necessarily driven by desire for people to be on Pride Park, more due to the lack of suitable stock in the City Centre. From the businesses we talk to there is a strong appetite from local companies to move back into the Centre if only there were the right product there. This is in part borne out by the success of the Connect Derby Scheme which provides City Centre space such as Sadler Bridge Studios and the former Magistrates Court mainly aimed at smaller enterprises.

At the moment, well located refurbished space in suites of 1,000-5,000ft² certainly have an appeal and this can be accommodated in buildings such as Laurie House in the City Centre where our clients have refurbished the external and common parts to a very high standard and let one floor to Citibase. Additional refurbished space is available at a very competitive rent in the order of £8 per ft².

New build offices in the City are still proving challenging, partly due to land values, build costs and a reluctance from occupiers to pay the figure necessary to make such schemes viable. However, with rents on Pride Park and on good quality accommodation increasing then the gap between a new build rent and a well specified second hand rent is diminishing.

Of the proposed City centre new build development we have seen Friar Gate Square go to education use, and Central Square on Cathedral Road is under construction as student accommodation. Cedar House Investments' City Gate House also on Cathedral Road can provide up to 56,000ft² of offices and is ready for development.

Also in the City Centre, Wilson Bowden's Full Street development is under way with a Premier Inn and 46 apartments under construction and due to be completed by the end of the year. Adjacent to this they are able to build out brand new offices known as One Cathedral Green which will be able to accommodate suites available from circa 2,000ft².

We are able to offer new build offices on St Mary's Gate of 4,515ft², either on a design and build basis, or alternatively a land sale will be considered.

Whilst Derby is still very much a car based City, and availability of parking nearby is essential, the City Centre is the most sustainable location in terms of transport modes.

Pride Park as mentioned earlier continues to be popular and still has a reasonable availability of offices between the 1,000-10,000ft² size range, although if take-up continues in the way it has, then this stock will rapidly diminish and the final phases of schemes such as Pullman Business Park will come to an end leaving no new build available on Pride Park either. There are still development opportunities available such as The Point on Hudson Way, which can accommodate requirements for new build offices up to circa 40,000ft² with easy accessibility and a two minute walk to the railway station. We are seeing improvements in rental values

and capital values on Pride Park as the supply diminishes and the days when the tenant could take his pick of half a dozen properties and demand the best terms are now long gone.

We continue to see a higher level of enquiries for office space across the City both in the centre and out of town allied with increased confidence and there have been a number of key lettings to the professional services sector in the 1,000 -5,000ft² range.

The challenge moving forward is to make the jump between values for good second hand and brand new grade A space to make speculative new build viable and by the look of the market we are getting very close.

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Notes to Editors

FHP is a Midlands based commercial property consultancy with offices in Nottingham and Derby. Its 60 strong team offers a full range of professional and commercial property solutions for clients in the retail, leisure, office, industrial and investment markets.

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FHP has been involved in some of the largest commercial property deals and developments within the region and works with national operators including Intu Properties Plc, Clowes Developments (UK) Limited, Peel Property Holdings.

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