Battle for the Lyons share

Taken from *Property Week*
20 February 2004

Bradford and Leeds are fighting to secure the government office requirements that are expected to result from the Lyons review.

By Natalie Stevenson

The Bradford and Leeds office markets have always been united by a lack of stock, but now they have something else in common: the wooing of government requirements.

With office schemes in the pipeline for Leeds, and Bradford's local authority getting its act together, the two cities are in competition to land the civil service's relocations from London that result from Sir Michael Lyons' review of central government office locations.

Last year Bradford Metropolitan Borough Council decided to parcel up several properties and rationalise its estate by forming a partnership with a developer-investor. It's the first deal of its kind, and it is now crucial to Bradford's chances of attracting government offices.

The shortlist of three, Land Securities Trillium, Mapeley and Carillion, will be reduced to one with a decision expected in May. The landmark partnership has had the shortlisted candidates buzzing with activity to woo the council.

'We are gearing up significantly in terms of our team in Bradford and lining up partners,' says Carillion business development director Oliver Jones. 'With over 4,500 assets, this deal is mind-blowing.'

The specifics of the partnership are still on the drawing board. 'Carillion and the other shortlisted developers will compete over our specific approaches but there are three general elements to the scheme,' confides Jones. 'Bradford's own income-generating property assets will have a sale-and-leaseback or sale option; there will be a property strategy to free up some of Bradford Council's property; and there will be a redevelopment of specific buildings. This will change the way that local authorities work.'

This will have massive implications for Bradford, as it coincides with the new city centre masterplan, designed by architect Will Alsop and produced by Bradford's urban regeneration company.

Linda Carmichael, asset management director in charge of the project at Bradford council, says: 'Once we select a private partner, we can improve and upgrade our whole estate.'

The outsourcing deal and the masterplan will transform not just the council's offices, but Bradford itself. This is a change that is sorely needed. It is assumed that the increase in office space, put at 16% before demolitions begin according to the council, will lead to an increase in business-related visits. On top of this, it is predicted that a proposed conference centre will attract a further 140,625 visitors a year if it operates at only 75% of the efficiency of the Birmingham NEC.

Bradford council estimates the total benefit from the increase in business visitors to be worth between £22m and £38m a year. The greatest economic impact will come from the £131m Broadway retail development, which is expected to reverse the trend among Bradford residents to shop in other towns by pulling in trendy retailers, not to mention attracting shoppers and businesses to relocate in Bradford.

Deal double

In the last 12 months there have only been two big office deals in Bradford, but they were both the results of long-standing public-sector requirements. The Inland Revenue took 45,000 sq ft (4,180 sq m) at £14.75/sq ft (£158.77 sq m) at Number 1 Interchange, and the Department for Work and Pensions took 30,000 sq ft (2,787 sq m) at Land Securities Trillium's Midland Mills.

Bradford has a history of landing public sector requirements, and with rents below £15/sq ft (£161.46/sq m) it would seem a more natural choice for the government than Leeds, where rents exceed £19/sq ft (£204.52/sq m). However, Bradford's dearth of new office developments will hamper its chances of reaping the benefits from the Lyons review.

To attract the attention of the big government requirements, Bradford has to be more than a bit of rough – it has to have the work done, get a cash injection and really sell itself.

'Bradford council needs to be more proactive,' argues GVA Grimley partner Ian Elsworth. 'They can parcel up sites, but the big issue is that there is no office stock. Contrast that with the fact that Leeds council is one of the best and you have a problem.'

But at the beginning of the year, Bradford ranked among the best cities in a government review into the best areas for public sector office relocations that preceded the Lyons Report. This encouragement, coupled with the portfolio sale and masterplan, signals a change in attitudes in the city.

With Bradford's urban regeneration company only set up within the last year, there is the opportunity to do more asset management. The new masterplan designed by Alsop Architects will radically reshape the centre, hopefully providing a better base to encourage speculative development.

"This will change the way local authorities work "

Oliver Jones
Carillion

In comparison, Leeds is, naturally, one step ahead in terms of development coming through and, after years of design-and-build schedules, speculative schemes are beginning to unfold in the city centre. Simons Estates' 63,585 sq ft (5,907 sq m) 1 City Walk, has been bought by Isis Property for £18.3m.

Other schemes are also going ahead, anchored by prelets, and are putting more grade-A space on site. HGB Properties' four-storey, 93,000 sq ft (8,640 sq m) Lateral, on the site that it bought from Simons Estates, will be complete in the autumn.

HBG regional manager Ian Pennington says: 'This will be the only significant amount of office space, apart from Brewery Wharf, to come on line this year. There are really two areas in Leeds which attract big occupiers: the west end and the south bank.'

And there is no better example of the south's prominence than Bridgewater Place. The biggest news to have hit the Leeds office market this year was the Eversheds prelet at what will be the city's tallest tower. With the prelet and funding secured (see Bridgewater feature, p91) it will provide 225,000 sq ft (20,903 sq m) by January 2006.

These schemes, along with the 107,000 sq ft (9,941 sq m) Brewery Wharf, 69,000 sq ft (6,410 sq m) Leeds Office Park, 378,000 sq ft (35,117 sq m) City One, are making the area south of the river and railway station hard to ignore.

'Until a few years ago, the station was a barrier to expanding the core,' explains DTZ associate director Roddy Morrison. 'But now schemes like Bridgewater are making the south bank a good location.'

Braver development

Northern chairman for the British Council for Offices, Andrew Latchmore, says: 'Bradford has lower rental values, and it is difficult to build new buildings if that's the rent they attract. In comparison, the area south of the river in Leeds has the edge and perhaps the Lyons review will show its quality. There is room for braver development in Leeds though, and the lack of speculative development may hamper its chances of landing short-term government requirements that are not prepared to wait.'

CB Richard Ellis director Guy Gilfillan says Leeds' office core has gone from 'wild west to west end' over the past decade. The offices spanning out from St Paul's Square are established homes for law firms and financial services. Today, south Leeds is the territory waiting to be colonised by eager legal occupiers. 'The big issue is still the Lyons Review though,' adds Gilfillan. 'And the government is already a major occupier in Leeds.'

Legal firms may well be joined by more public sector requirements. The Office of the Deputy Prime Minister (ODPM) has a 150,000 sq ft (13,935 sq m) requirement for the Department of Transport and has shortlisted two schemes.

The first is Town Centre Securities' initially speculative £44m Whitehall Riverside scheme, which has secured a 32,000 sq ft (2,973 sq m) prelet by investment analysis company Russell Melon CAPS. Town Centre Securities will begin work on the 128,000 sq ft (11,896 sq m) office building in May, which will be the first scheme under way this year.

The other scheme shortlisted by the ODPM is Hermes' Wellington Place, which has a potential 2.4m sq ft (222,965 sq m) of mixed-use space to be developed in a series of phases.

Hermes Property Asset Management director Quentin Burgess says: 'We have been working closely with the council and other interested stakeholders to move to the next phase in masterplanning, and we await the decision of the ODPM regarding the location of its Leeds requirement.'

The shortlist for Leeds City Council's 350,000 sq ft (32,515 sq m) Criterion Place has also gone from six to two unknown developers; all parties are proposing mixed-use schemes. But it is still early days for this scheme, and until a developer is chosen, the proportion of offices will remain unknown.

As in other regional cities, the future for offices in Leeds' south bank is literally mixed. Developer Rushbond is on site to develop the 500,000 sq ft (46,451 sq m) mixed-use waterfront scheme Brewery Wharf. This will include 130,000 sq ft (12,077 sq m) of offices, 370 flats and a 248-bed Jury's Doyle Hotel.

Tower Works is also looking for a developer, after receiving consent earlier this year. The 2.83 acre (1.145 ha) mixed-use scheme includes 35,500 sq ft (3,251 sq m) of offices and is being sold by the Leeds Tower Company and Petros Textiles (1969).

The flexibility of floorplates and the regenerative mixed-use elements of proposed schemes south of the river should also tick a few governmental boxes. But King Sturge partner Richard Thornton argues that occupiers must wait in Leeds, just as they will have to wait for grade-A stock in Bradford: 'Last year there was a shortage of supply and this year there is a shortage, but next year the problem will be resolved.'

Those Leeds agents and occupiers who have been complaining that developers should get on and speculatively develop more schemes have got what they wanted. Come 2005, the real fight for requirements will commence.