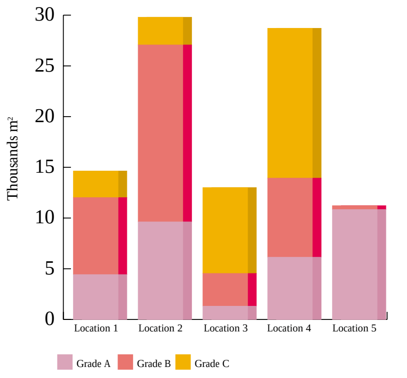
Figure 9
Vacant Stock by Size

Range	Units	Size m²
UP TO 500	320	42162
500 2000	33	29699
2000-5000	3	7255
5000+	3	18247

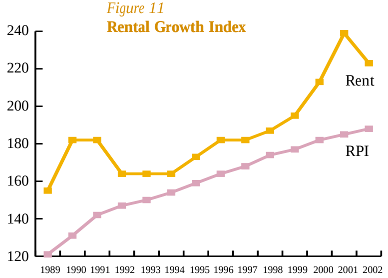
The total number of vacant units has increased by 75 on last year but this is not surprising considering the amount of refurbishment programmes that are on going. The majority of the vacant space is within the smallest unit range with the least amount of vacant space located within the 2000-5000m2 range.

Figure 10
Vacant Stock by Quality and Location (m²)



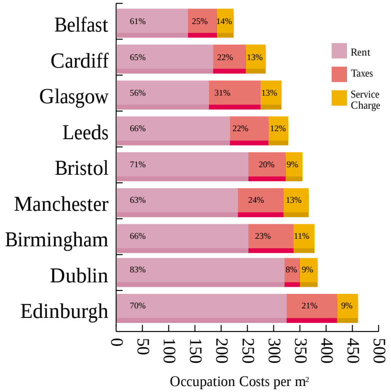
Total vacant space has increased by 5% on last year with the largest amount of unoccupied space being situated in location 2 which is around the Great Victoria street area. This equates to 31% of total vacant space. Grade B quality office space has the highest proportion of unoccupied floorspace at 37% of the total vacant.

Figure 11
Rental Growth Index



Rental levels have fluctuated over the period of the report due to the effects of September 11th. They had reached an all time high of £167/m2 at one stage but stabilised over the period to a level of £135/m2. The above index represents the stabilised figure attributable to the latter part of the reporting period.

Figure 12
Comparative Occupation Costs (£/m²)



A comparative analysis of office occupational costs between Belfast and 6 other regional centres in GB and Ireland is set out in Figure 12. The figures are based on an estimated rent and local tax cost for a vacant 1000m2 self contained unit with a high standard of specification. Occupational costs in Belfast continue to exhibit a favourable differential compared to other cities surveyed. Belfast still holds a clear advantage over other regional centres.

Geographical Area

Location 1
The area to the south and west of City Hall

Location 2
The area around Great Victoria Street

Location 3
That part of Northside area bounded by Royal Avenue and the Dunbar Link

Location 4
The remaining central core

Location 5
Laganside between Clarendon Dock and the Gasworks

OFFICES
The office stock information is derived from the VLA database. Only those properties used wholly or mainly as offices have been included although this does embrace banks and post offices.

QUALITY
Grade "A" – top quality space with a high standard of specification. Usually of recent construction but occasionally an older building extensively modernised.

Grade "B" - good practical space probably built or converted during the 1970s. Basic standard of finish and appearance but functional and adaptable.

Grade "C" – older stock offering basic accommodation only. Probably built pre 1940 with a tendency for services and finish to be outdated. Limited potential for upgrading.

TAKEUP
Figures relating to new build and refurbished property are those where there was a firm commitment to take space during the survey period.

FLOOR AREAS
All floor areas included in this report are net internal areas and exclude stairs, halls, toilets and other common parts. All areas are expressed in square metres.

USER CLASSES
As part of the updating of the initial base data the office stock has been divided into four categories of occupation:-

1 Banking, financial and insurance

2 Professional and other business user

3 The public sector

4 Other

Acknowledgements:
We are most grateful for the co-operation of the following: Investment Property Databank, Colliers CRE, Kenneth Crothers, Insignia Richard Ellis, Lambert Smith Hampton, Lisney, McCombe Pierce, Mckibbin Commercial, O'Connor Kennedy Turtle, Osborne King, The Whelan Partnership, Brown McConnell Clark, Frazer Kidd, Ardmore Commercial, Morrow & Co, Alex Kinnaird & Son, McConnell Martin, Myles Danker

INVESTMENT BELFAST

We would also like to acknowledge the support and assistance given by Investment Belfast in the design and production of this report.

Prepared by the Valuation & Lands Agency and
Dr Jasmine Cheung Lim of the School of the Built Environment, University of Ulster

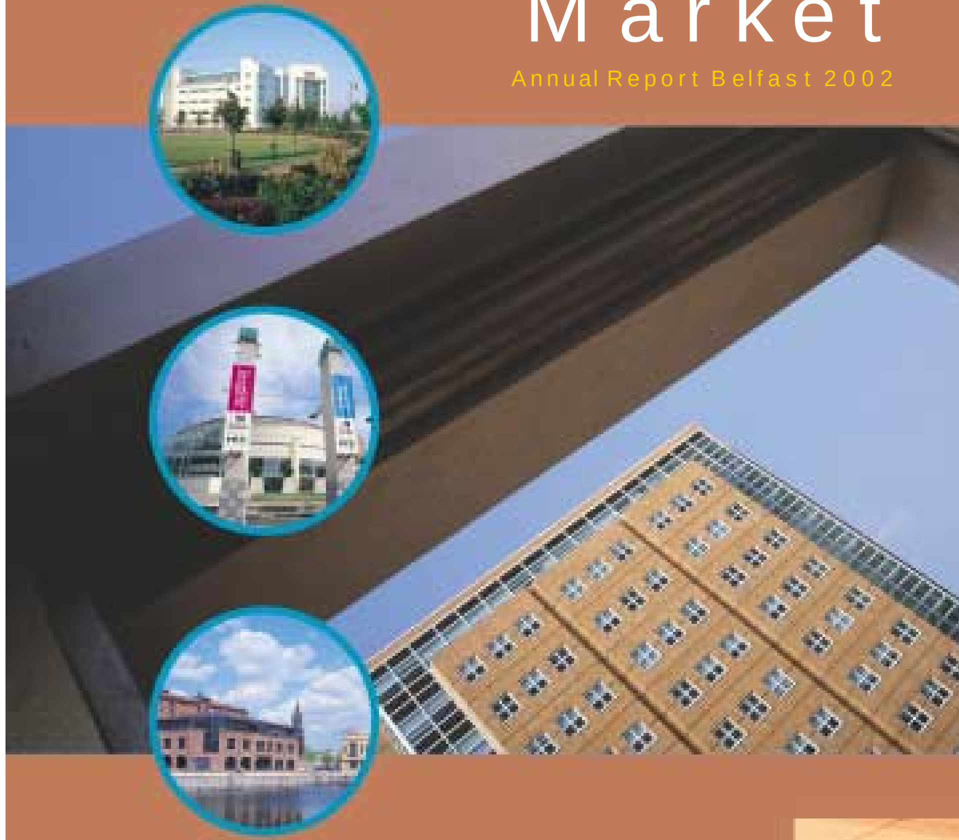
Further information:
Valuation and Lands Agency Tel: +44 (0) 2890 250700
Email: susan.henderson@dfpni.gov.uk
Internet: http://vla.nics.gov.uk/

Photography supplied by Laganside Corporation and Belfast City Council

Belfast City
. . . our city your future

Office Market

Annual Report Belfast 2002



VALUATION & LANDS AGENCY

Market Commentary

Our last report in 1999 was able to recognise that the prolonged recession of the 1990's, during which very little development took place, had passed and that a crop of new office developments were under construction or planned for the City. These were to include a number of schemes in the area between the City Centre and the new office locations at Laganside and the City Link Office Park on the former Boxmore site at Durham Street.

In 1999 the optimism in this sector of the property market was being fuelled by the promise of political stability in Northern Ireland and interest from a number of international companies prepared to consider locating in Belfast. At that time Belfast had been ranked the seventh most competitive location in Europe in terms of occupational and staffing costs.

In 2000 the Belfast market had a record level of take-up with a number of commentators recording unprecedented activity in terms of both new development activity and accommodation take-up. Some 75,000 sq.m. of office accommodation was agreed for letting with, somewhat unusually for the City, 80% being taken by the private sector. Of note were the lettings of 6225 sq.m. to Price Waterhouse Coopers at Mays Meadow, 7400 sq.m. at Nine Lanyon Place to Fujitsu at a headline rent of £145 psm and at Capital House in Belfast City Centre some 5575 sq.m. was let at £129 per sq.m. to Prudential (1858 sq.m.), Pivitol Corporation (930 sq.m.) and Phone.com (2780 sq.m.).

In 2001/2002, the office market was characterised by uncertainty following a downturn in the US economy and the events of September 11th in New York. Without the inward investment demand that had been the catalyst for growth since 1999, take-up of office accommodation fell to around 24,000 sq.m. or about half the figure recorded for the previous year. Public sector requirements were again to make a significant contribution to market activity. Of note were the lettings of 6500 sq.m. at Nine Lanyon Place to Northbrook Technology at a headline rent of £167 per sq.m. with a public sector tenant taking an assignment of their lease of 3250 sq.m. at Corporation Street.

Also at Millennium House in Great Victoria Street public sector tenants leased 3250 sq.m., and at Danesfort House, Stranmillis Road, the Ulster Bank leased 5100 sq.m.. Northern Ireland has a good reputation with call centre operators and has attracted investment from the Prudential, BBC, British Airways and Abbey National. The Halifax opened its largest UK call centre extending to some 13,900 sq.m. in Belfast in 2001.

In 2002 the absence of private sector or inward investment demand for bulk space has resulted in a further softening of the market. There is at present 56000 sq.m. of good quality new vacant space available to let in a market where demand is falling. With a number of further developments either under construction or planned, the prospect of supply and demand imbalance and its impact on rental levels is becoming increasingly likely.

Over the period of this Report, rents have achieved headline rates of £150 - £167 per sq.m. setting a new record for Belfast. Lettings at these levels have required significant Landlord incentives and full analysis will produce a rental figure significantly lower than those quoted. Prime rents in the City Centre currently stand around £110 per sq. m. rising to £135 per sq.m. for air-conditioned space.

Prime offices in Belfast are producing returns in the range 6% - 7.5% reflecting confidence in the Belfast office market. Northern Ireland investors funded by local banks are undertaking the majority of transactions. Given the present slowdown in rental growth it is anticipated that they will become more discerning in their choice of investments.

The uncertainty as to the future direction of the Belfast office market is evidenced in the returns made by our private sector colleagues in a survey carried out to gauge their views. In dealing with questions relating to demand for office space most reported that enquiries had decreased and that future demand would be likely to come from growth in private and public sector employment in Northern Ireland and the relocation or centralisation of Government offices. Most believed that future annual demand would be in excess of 70,000 m². and that, in paradox, take-up of the present supply of vacant office space would take three years or longer.

In relation to the investment market the agents were split 50/50 between a buoyant and steady market. In fact, just under half felt that the demand for office investments in the last year had increased with one third believing there had been no change. Two thirds of the agents expected to obtain yields of between 6.1 – 6.5 % for top quality office investments with 40% of them considering that there had been a hardening of these yields over the last year. Over half of those surveyed felt that institutional interest in the local investment market had decreased in the last year with the remainder seeing no change. Outlook for rental growth over the next few years is marginally optimistic.

Belfast's Office Stock

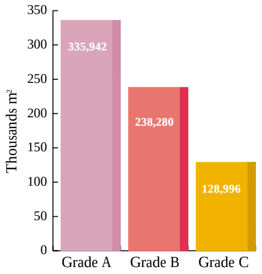
The total amount of space covered by this report is just over 703,000 m². The total number of units is 1373.

Figure 1
Total Stock by Unit Size

Range	Units of OCC	Size (000m2)	2002 %	2001 %
Up to 500m2	1113	173181	25	24
500-2000	193	185524	26	26
2000-5000	39	114172	16	17
5000+	28	230341	33	33

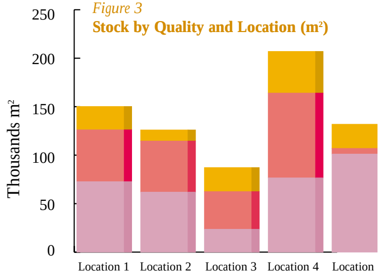
Small units predominate with 81% of the total 1373 units less than 500m². The average unit size is 513m². The 28 largest units account for 33% of the total space.

Figure 2
Belfast Office Stock by Quality (m²)



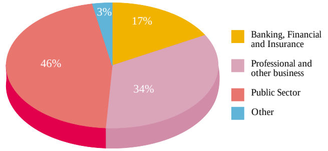
The percentage of Grade A stock now stands at 48% of total stock. Compared with 1992 when the percentage of Grade A stock accounted for only 25% of total stock.

Figure 3
Stock by Quality and Location (m²)



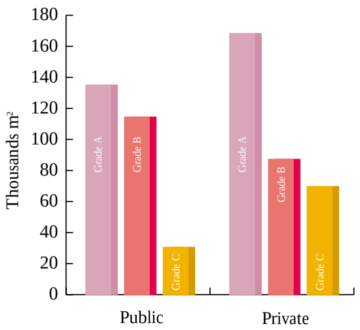
The ranking of grade A stock has changed over the past years. The majority of Grade A stock is now located in the waterfront areas with 30% of all grade A stock now located there. Whilst 23% of grade A is located in the remaining central core and only 22% within the traditional business district. Several projects are, however, ongoing in this locality such as the up grade of Causeway House and the rebuilding of Bulloch House and Commercial Union Building.

Figure 4
Occupied Stock by User



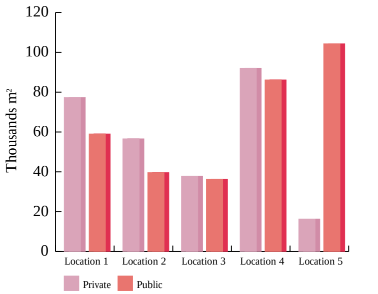
The public sector now hold a greater share of office space than last year. The share is now 46% against 44% held last year. Ten years ago the balance was in still favour of the private sector who held 50% of the space as opposed to 48% held by the public sector.

Figure 5
Private/Public Occupied Stock by Quality (m²)



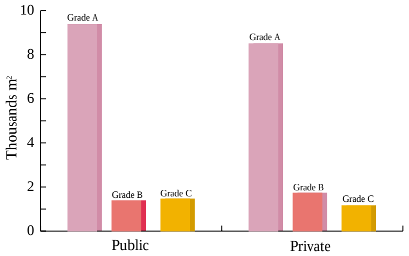
The private sector occupies 56% of all grade A space whereas the public sector hold the majority share of grade B space which equates to 56% of all occupied space.

Figure 6
Private/Public Occupied Stock by Location (m²)



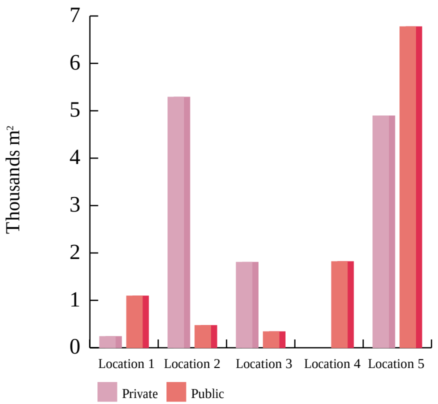
The more significant changes have taken place in locations 1 and 5. There has been a decline in the stock occupied by both sectors in the area south and west of the City Hall. Whilst there have been increases in both sectors in the Laganside and former Gasworks areas.

Figure 7
Private/Public Take Up by Quality (m²)



These figures represent known take up within the specified localities of the report. Where it is known agreed future occupation is also included.

Figure 8
Private/Public Take Up by Location (m²)



For the period of this report take up amounts to just under 24000m2 as opposed to almost 75000m2 last year. This represents a decrease of 68%. This decline was due to the lack of confidence in firms carrying out property deals in the wake of September 11th disaster. All agents reported a decline in the demand which obviously then affected the total take up figures for the year.