

# OfficeMarket

Ninth Annual Report Belfast 1999



*Belfast*  
City

... an opportunity for you



**VALUATION & LANDS**  
AGENCY

This is the ninth annual report on the Belfast Office Market produced jointly by the Valuation and Lands Agency and the University of Ulster.

The intention is to identify and highlight certain key facts about the market in a bid to reveal its dynamics. It seeks to provide an impartial commentary which, as long as it is treated with an appropriate degree of caution, should give guidance to both current and potential investors in the Belfast Office Market.



BT's Riverside Tower at Lanyon Place

# Market Commentary



River House, High Street

Investment sales, the River Lagan, Call Centres and IT is where Belfast's @..... as speculation rises on developments.

This bye line best paraphrases this year's market commentary.

Dublin based Finbrook's disposal of its new development at May's Meadow occupied by Abbey National, contains nearly all these ingredients. This sale of the bank's new Call Centre and Software Facility, at this Laganside location also set a new record low office investment yield for the city. The 6.3% obtained was off a rent of £11.75/ft<sup>2</sup> on a 25 year term with 5 year reviews. The purchaser was a local charity.

Other sales totalling £32M and involving 29,500m<sup>2</sup> of space have also been transacted. These have centred on familiar local landmarks such as Dial House, Ferguson Royston House, Centre House, Bulloch House, The Design Centre, Oxford House and Gloucester House.

On the occupier front Tesco, Telecom Eireann and Prudential (a Call Centre) have all taken space on Laganside at Clarendon Dock. There are also strong indications that Regus will open its first Belfast serviced office

facility at the same location. Nearby, US insurance company, All State have taken the entire Design Centre, now rebadged as 39 Corporation Street. This comfort cooled Software Facility, complete with raised computer floor and category 2 lighting set the new rental standard for this year. At £12/ft<sup>2</sup> on a 10 year term this 3,500m<sup>2</sup> refurbishment scheme has performed well for developer Dunloe-Ewart Plc.

Apart from Abbey National and Prudential (highlighted above) 2 other well known names have set up Call Centre operations in the city centre. This has seen the BBC and British Airways open facilities at Blackstaff House and the Fountain Centre respectively. There is now much expectation in the market that others will follow. The city's relatively untapped, young well educated labour pool plus its superior telecoms infrastructure are seen to underwrite this optimism. So too has a recently published survey by consultants Mital Research. Its UK and Ireland Call Centre Location Study 1999 ranked Belfast as the best call centre location overall across a range of measures.

The period's single largest 'take up' of space has seen BT become owner occupier of 14,875m<sup>2</sup> of Grade A space. Its Riverside Tower is beside

the Hilton Hotel on Laganside's premier location at Lanyon Place. The various facilities vacated as part of this rationalisation are currently being 'digested' by the market. This includes Wellington Buildings (c1,700m<sup>2</sup>) and Dial House (6,100m<sup>2</sup>) which is rebranded as Capital House. These are being refurbished by their respective developer landlords McAleer and Rushe and Deramore Developments.

McAleer and Rushe have also been prominent for their commencement of Millennium House in Great Victoria Street. This is one of 2 such major 'spec' schemes of c14,000m<sup>2</sup> that are underway. The other scheme at 9 Lanyon Place is being developed by Dunloe-Ewart.

These 2 major schemes are a practical illustration of an all round feeling of increased optimism in the market. The expectation is that a further record rent may not be far off. Advancing site values are adding to the speculation albeit there is strong competing demand coming from the residential sector for apartment developments.

The optimistic outlook is further underlined by the responses received from our survey of local market agents.



Clarendon Dock

### Survey of Local Market Agents

#### 5 Year Space Demand

- 27% of those surveyed saw the 5 year demand for office space at between 500-750K ft<sup>2</sup>.
- 46% indicated a level of 750K-1M ft<sup>2</sup> of space.
- 27% of respondents predicated demand in excess of 1M ft<sup>2</sup>.

#### Level of Enquiries

91% of repondees stated enquiries had increased year on year with only 9% citing a decrease.

#### Stock Availability Matching Demand

Again 91% indicated a belief that the level of enquiries was greater than the level of stock currently available to service it.

#### Exhaustion of Current Supply/Stock

A spread of opinions was received depending upon the quality of the space. 64% saw Grade A Stock being taken up within 1 to 2 years. Whereas the outlook for older stock was for up to 3 or more years.

#### View of the Office Investment Market

91% of those surveyed viewed the investment market as buoyant with 9% seeing it as steady. 100% indicated that demand had increased year on year.

### Yields

A period of hardening yields during the year was the opinion of 73% of respondees while 27% felt that yields remained unchanged/steady.

### Rental Growth

100% of those surveyed indicated an optimistic outlook for future rental growth in the office sector.

Investment Property Databank VLA once again commissioned Investment Property Databank (IPD) to track the local investment property market relative to the rest of the UK.

The IPD research indicates total returns on Belfast offices advancing to 17.5% for the year. This outperformed the UK standard by some 6% on the year.

Last year confirmed rental growth coupled with the benefit of a favourable decline in equivalent yields.

IPD also further underlined the continuity of Belfast's long term record of total returns, since 1980. This has outperformed the UK office average by 6.5% per annum.

In a British Isle's context only Dublin offices outperform Belfast in terms of total returns. Dublin showed a decline in yields coupled with a growth in rentals of 19%, driven

by a boom in the economy. This delivered total returns of 43% for the Republic of Ireland's capital city.

Relatively low volatility of returns is another feature particular to the Belfast Office Sector highlighted by IPD. Investors in Belfast Property therefore have not run additional risks in order to secure superior returns.

### Belfast's Office Stock

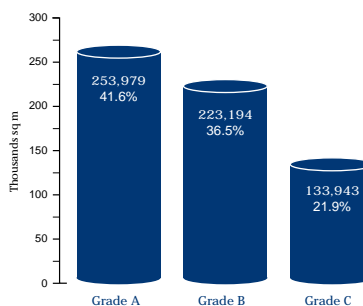
The total amount of office space covered by this report is 611,000m<sup>2</sup>, up 7% from last year.

Figure 1  
Total stock by Unit Size

Range	Units of Occupation	Size (m <sup>2</sup> )	1999%	1998%
Up to 500m <sup>2</sup>	1,020	153,998	25	28
500 - 2000m <sup>2</sup>	173	162,629	27	27
2000 - 5000m <sup>2</sup>	35	102,588	17	17
5000m <sup>2</sup>	23	191,901	31	28

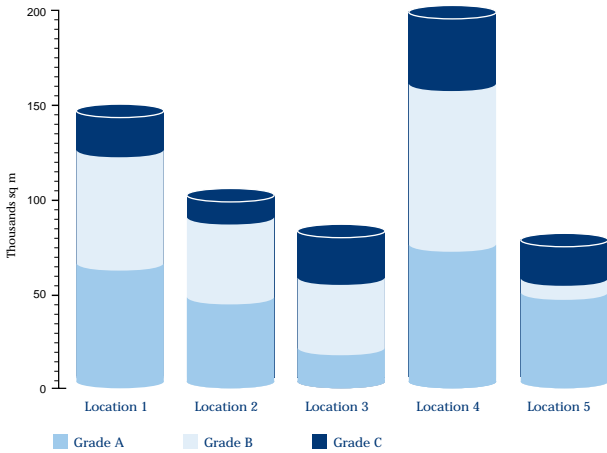
Small units predominate with almost 82% of the total of 1,251 units under 500m<sup>2</sup>. The actual average unit size is 488m<sup>2</sup>. The 23 largest units account for 31% of the total space.

Figure 2  
Belfast Office Stock by Quality (m<sup>2</sup>).



The % of Grade A stock now stands at 41% compared to 18% in 1991.

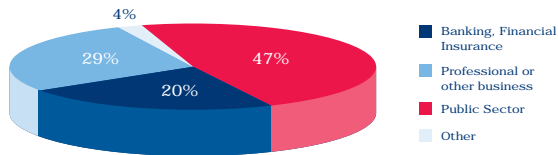
**Figure 3**  
Stock by Quality and Location (m<sup>2</sup>).



The City Hall (to the South and West including Great Victoria Street) is the traditional prime pitch and makes up 44% of total space. It now accounts for around 45% of Grade A stock which is a decline from 53% last time. By contrast Laganside has more than doubled its amount of Grade A provision and now represents about 19% of the total 'quality' space. This 'tension' is set to continue in the interim as large 'spec' development is underway in both locations at "Millennium House" and "9 Lanyon Place" respectively.

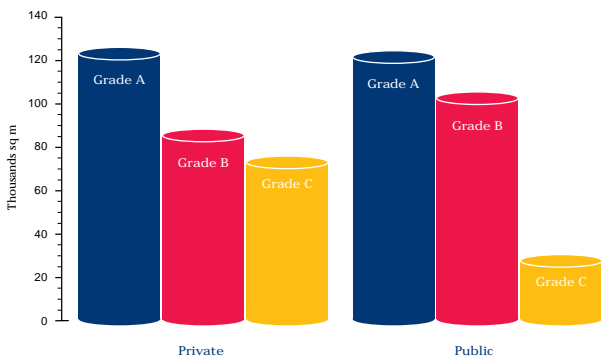
It has been very much 'as you were' for Northside/Cathedral Quarter and the Remaining Central Core with the status quo maintained in terms of grade breakdown.

**Figure 4**  
Occupied Stock by User (%)

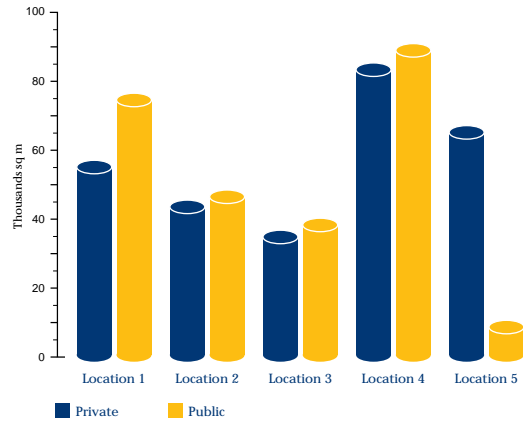


The private sector share of all space has moved 2% on last year and now stands at 53% of an increased base.

**Figure 5**  
Private/Public occupied Stock by Quality (m<sup>2</sup>)



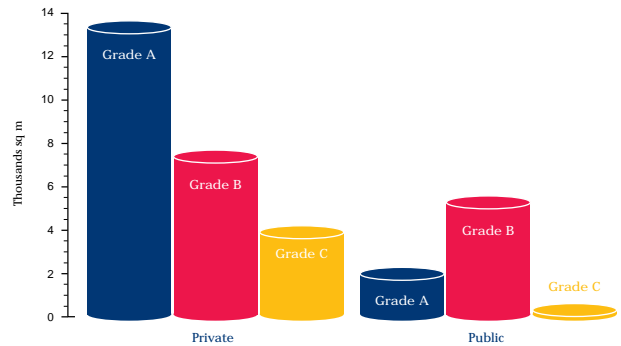
**Figure 6**  
Private/Public - occupied stock by Location (m<sup>2</sup>)



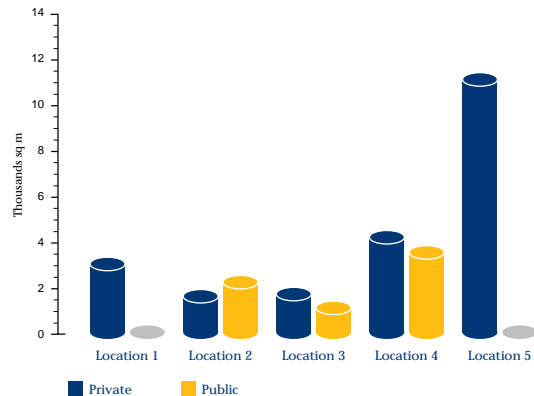
The 'Private Sector' is the majority occupier of space with c.53% of the total. This compounds last year's position and confirms an ongoing trend.

The comparison for occupation of Grade A stock mirrors the same theme. Here the private quota has moved from a minority 48% share last time to now clear 50% of the quality stock.

**Figure 7**  
Private/Public take up by Quality (m<sup>2</sup>)



**Figure 8**  
Private/Public take up by Location (m<sup>2</sup>)



Private sector take up at 77% of the total consolidates the trend towards the private sector as the majority occupier of space.

The total take up this year is up by over 80% at almost 31,500m<sup>2</sup>. Over 48% of this space is of Grade A quality with Grade B property not far behind at just under 40% of the years total. The City Hall (South and West including Great Victoria Street) and Laganside were the 2 popular areas this year accounting for almost 50% of the total take up. It is also worth noting that this was entirely of a private sector nature.



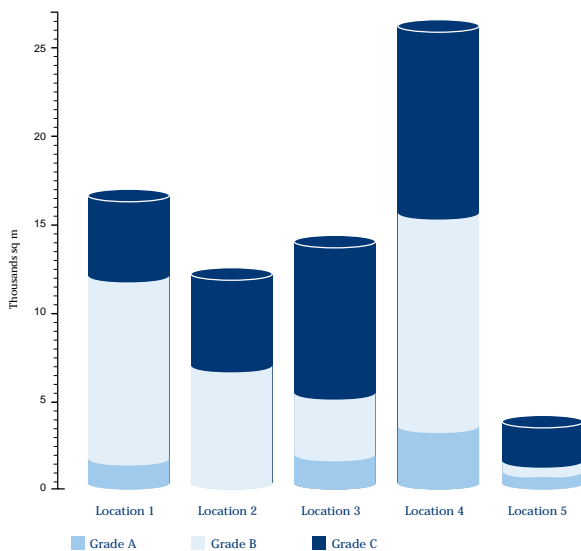
Cusp's Beacon House at Clarendon Dock - Prudential's new Call Centre

Figure 9  
Vacant stock by size

Range	Units of Occupation	Size (m <sup>2</sup> )	%
Up to 500	292	36,548	50
500 - 2000	29	26,231	36
2000 - 5000	2	4,922	6.7
5000	1	5,383	7.3

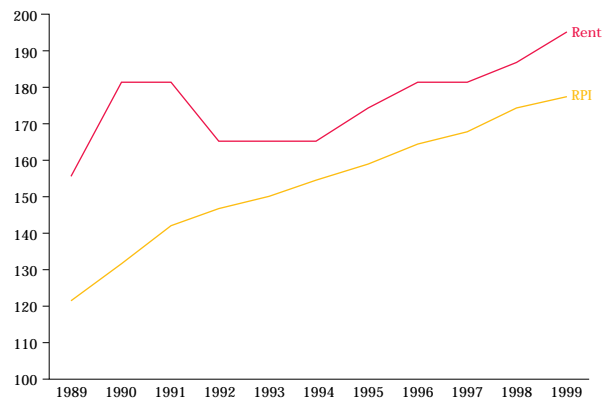
The overall vacancy rate has fallen to just under 12% with the unit figure also down by some 4,500m<sup>2</sup>. The underlying picture is a dynamic one with an average change of 4,625m<sup>2</sup> over the 4 unit size ranges measured.

Figure 10  
Vacant stock by Quality and Location (m<sup>2</sup>)



Vacant Grade A space is down by half in area terms and at 6,900m<sup>2</sup> is less than 10% of the total vacant stock. This contrasts with an almost doubling of Grade B space in the area at City Hall (South and West) to almost 10,500m<sup>2</sup>.

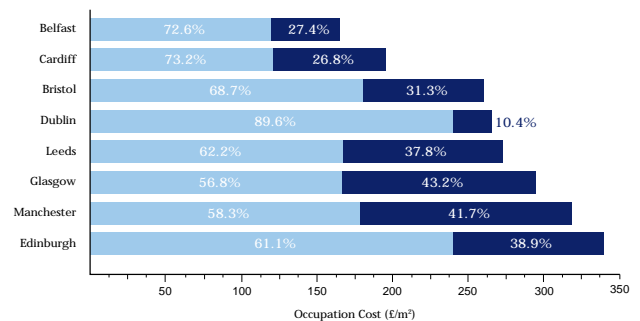
Figure 11  
Rental Growth Index



#### Comparative Occupation Costs

A comparative analysis of office occupational costs between Belfast and 7 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 1,000m<sup>2</sup> self contained unit with a high standard of specification. Occupational costs in Belfast continue to exhibit a favourable differential compared to the other cities surveyed. This gives Belfast a clear and competitive advantage in this respect.

Figure 12  
Comparative Occupation Costs (£/m<sup>2</sup>)



#### A Global Comparison

On a global platform, a recent survey of World Office Rents ranks Belfast as the 8th least expensive city location in terms of relative occupation costs. The survey also indicated Belfast to have the lowest property cost of any major, English speaking European city. The survey was published by Richard Ellis St Quentin/Insignia and covered 45 cities in Europe, North America, Asia and Australia.



## Geographical Area

- Location 1  
The area to the south and west of the City Hall
- Location 2  
The area around Great Victoria Street
- Location 3  
That part of the 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

### Acknowledgements

The occupancy survey was carried out by Ciara Mulholland of UUI.

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

The purpose of this report is to provide general information on the Belfast office market. While every care has been taken in the assembly, analysis and interpretation of data we do not guarantee its accuracy or completeness. No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this report can be accepted by the authors, publishers, or copyright owners.

### 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.

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