

West Yorkshire's office market: trends, barriers and potential

This article reports research on the office market in metropolitan West Yorkshire, highlighting and explaining the dominance of Leeds but also identifying the likely future trends in supply and demand and making recommendations relating to the barriers to development and to realising future potential.



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In 2005, the West Yorkshire Economic Partnership commissioned research about the office market in the main urban areas of the five local authority districts of West Yorkshire: Bradford, Halifax, Huddersfield, Leeds and Wakefield.

The aims were as follows:

- to establish the economic trends that are driving the demand for office space in different parts of West Yorkshire and identify the different roles that each of the five centres play in the market;
- to identify trends in supply and demand in the main towns and cities including town and city centres and out-of-town office parks; and
- to identify areas of market failure, barriers to investment and appropriate intervention measures.

The research team interviewed economic development officers, planners, property agents and developers and some office occupiers. They also used a computer model of the West Yorkshire economy to explore possible future supply and demand conditions, depending on different economic scenarios and interventions.

A conceptual model of the office property market was used as a starting point for the model and also for the whole approach to the research (Figure 1).

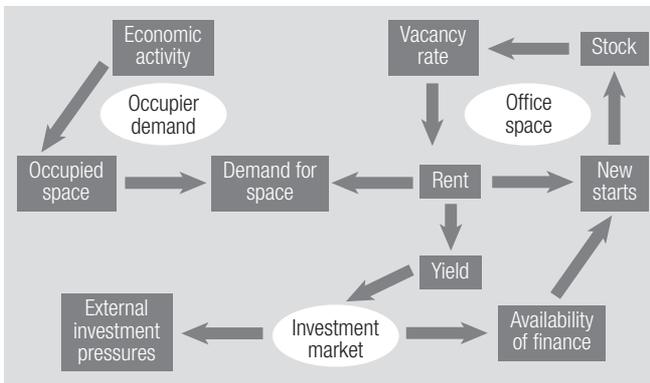


Figure 1: A conceptual model of the office property market

Overall, the research concluded that the dominance of Leeds is strong and likely to continue. Other markets in West Yorkshire have some strengths and there are several ways in which the public sector, in partnership with the private sector, could enhance the quality of the office stock and also improve the efficiency of the market.

Drivers of demand for offices

The West Yorkshire economy has moved increasingly away from manufacturing and towards services (Table 1). In the Leeds City Region (consisting of the five West Yorkshire local authority districts and five more neighbouring local authority districts as well: York, Harrogate, Craven, Barnsley and Selby), more than 98 per cent of the 4,129 businesses established between 1998 and 2003 were in financial and business services (FBS).

JOB LOSSES	Mining: 4,400 Manufacturing: 48,000 full-time
JOB CREATION	Office-based services: 50,500 full-time 20,500 part-time
LOCAL ECONOMIC GROWTH	Total: 42%; Office-based sectors: 73%

Table 1: Economic transformation, West Yorkshire, 1991-2004

Leeds, office capital of the region

Leeds, the principal office centre within the region, has nearly half the floorspace of the five West Yorkshire districts and more than twice as much office floorspace as Bradford (Table 2).

From 1998 to 2004, there was a 24 per cent increase in office space within Yorkshire and the Humber — in line with the figure for England and Wales as a whole. Leeds topped the regional table in terms of square metres of new stock added over this time period, not just in the West Yorkshire table. Take-up was also greatest in Leeds.

DISTRICT	1998 FLOORSPACE	2004 FLOORSPACE	1998-2004	%
Leeds	1,543	1,838	295	19.1
Bradford	735	848	113	15.4
Kirklees	343	407	64	18.7
Wakefield	281	366	85	30.2
Calderdale	309	350	41	13.3
Total	3,211	3,809	598	18.6

Table 2: Office floorspace in West Yorkshire ('000s of square metres)

	1991	1996	2001	2004	91-04	%
FULL-TIME						
Bradford	25,149	26,687	31,575	32,589	7,440	29.6
Calderdale	11,207	14,290	16,627	14,938	3,731	33.3
Kirklees	12,171	11,839	17,207	15,917	3,746	30.8
Leeds	57,776	64,920	84,481	90,314	32,538	56.3
Wakefield	14,477	16,126	16,887	17,538	3,061	21.1
West Yorkshire	120,780	133,862	166,777	171,296	50,516	41.8
rest of the city region	31,349	32,097	38,145	41,805	10,456	33.4
PART-TIME						
Bradford	8,244	9,578	9,742	8,497	253	3
Calderdale	3,060	3,950	4,381	6,126	3,066	100
Kirklees	5,397	6,113	7,987	8,208	2,811	52
Leeds	17,376	20,969	25,204	27,823	10,447	60
Wakefield	3,206	5,570	6,575	7,097	3,891	121
West Yorkshire	37,283	46,180	53,889	57,751	20,468	55
rest of the city region	8,956	11,215	16,205	18,193	9,237	103

Table 3: Full- and part-time employees in FBS by district, West Yorkshire, 1991-2004

Table 3 gives an indication of the demand for office space by showing the growth in the numbers of employees in the office-based sectors known as FBS.

How can the relative market strength of Leeds be explained? There are various explanations including the following.

- *Accessibility to the sub-region and beyond:* access to a large and skilled labour supply, and to a wide customer and client base for centrally-located businesses.
- *Agglomeration:* Leeds has benefited over the past 10-15 years from trends in merger, acquisition and the consolidation of existing operations (Unsworth and Henderson, 2004). Key sectors where such change has occurred include the banking and insurance sector and legal services.
- *Critical mass:* some office-based firms, especially those providing support services to other businesses, seek a location at the heart of the region's economic activity.
- *Clustering:* certain office-based sectors choose to locate close to similar firms. This may be for networking reasons and the interchange of ideas or it may simply be that their locational choice is based on the same or similar criteria to those of their competitors and that those criteria include a central location due to its proximity or easy access to clients.

Leeds is also the principal location for business parks. Several developments have taken place around the south and east of the city, mainly in close proximity to motorway junctions. Business parks and city centre office locations are considered to be largely complementary. An out-of-town/edge-of-town location is particularly attractive for some types of business activities such as construction firms' offices or the Arla Food's Offices (Figure 2); central areas are favoured by others such as lawyers' offices or the energis offices (Figure 3). The range of business types currently found in both central locations and business parks is relatively small.



Figure 2. Arla Foods' offices at Leeds Valley Park, a business park south-east of Leeds



Figure 3. Offices south of Leeds' the traditional office core

Property investment

Grade A office property is the office space that is most appealing both to occupiers and investors. It is the most impressive accommodation: relatively large with high-quality construction and above-average architectural design, configuration, and layout. Typically there are modern mechanical systems, sprinklers, heat and smoke detectors, and alarms, good amenities, and in some areas and property types, good adjacent parking. The property is in excellent condition and is less than 10 years old or has an effective age of less than 10 years. Grade A space commands the highest rents. This definition has been adapted from <https://www.pwcreval.com/survey/institutional.asp>.

There is a perception that developers in Leeds deliberately control the flow of new Grade A accommodation onto the market in order to ensure that supply does not outstrip demand and cause a fall in rents. Whilst this makes good business sense for an investor, it does limit the choice of quality stock available to potential occupiers.

Within West Yorkshire, the interest of national investors is largely restricted to developments in and around Leeds city centre. Here, there is a sense that investment prospects have improved over recent years as there is strong tenant demand, a shortage of good quality investment stock, high land values and upward pressure on rents due to a perennial shortage of Grade A floorspace. Away from Leeds, it is more difficult to attract funding and most developments are funded by local or regional investors.

Beyond Leeds

The volume of development is more muted outside Leeds district. The office stock in the smaller towns and cities is typified by a mix of older purpose-built offices, conversions from either residential

or industrial premises and then some 1970s and early 1980s developments. This stock is often unsuitable for modern office working practices, except in the case of recent developments such as Dean Clough at Halifax (a converted carpet mill) (Figure 4) and the Media Centre at Huddersfield (Figure 5).



Figure 4. Dean Clough, a re-used carpet mill in Halifax



Figure 5. The Media Centre, small, serviced office suites in Huddersfield

In the wider West Yorkshire area, there are few business parks with a strong office content. Lowfields, between Halifax and the M62 in Calderdale, has attracted a good range of occupiers to this rare example of a sizable out-of-town, greenfield site with good access.

With excellent motorway access, business parks around Wakefield are dominated by distribution 'sheds' and relatively few office users have been attracted, though the choice of Paragon Business Park for Nationwide's 300-job call centre is a notable success of 2006.

But with Leeds only a few miles up the road and rents (which form a relatively small element of costs) not much higher, the more footloose occupiers tend to choose Leeds in preference to Wakefield. However, Wakefield has the advantage of both lower road congestion and a shorter rail journey time to London on the main line.

In Halifax, Bradford, Huddersfield and Wakefield, demand is mainly from within the local area or at most from the sub-region. Many local firms have a fairly fixed catchment for business in market areas that are not growing dramatically, so their own services do not grow at a rapid pace. Thus, these businesses do not generate significant additional office-space requirements.

There are a small number of large offices, such as the Halifax Building Society in Halifax and the Yorkshire Building Society on the edge of Bradford. The public sector — both local authorities and local offices of national departments — account for a relatively high proportion of office occupancy.

The smaller markets are caught in a bind: it is hard for developers to produce good quality speculative space when prospective rents are relatively low (and land prices are pushed up by competition from residential development), yet unless there is some good quality space ready for occupation, organisations will be deterred.

Occasional speculative developments do let, though there are few recent examples other than No.1 The Interchange in Bradford (Figure 6), which has attracted a mix of private and public sector tenants. Where new, small scale office units have been provided they have invariably been occupied, usually by newly-formed local businesses.



Figure 6. No.1 Interchange and Abbey offices in central Bradford

Future office demand and supply

As far as future demand is concerned, Experian's work for Yorkshire Forward (Experian, 2004) suggests that:

- output from the office-based sectors is likely to continue to grow at a faster rate than the economy as a whole;
- this growth will be driven by the 'banking and insurance' and 'other business' services sectors; and
- output from the public administration and defence sector will decline over the twelve years to 2012.

Half of the growth in service sector output in West Yorkshire is forecast to take place within Leeds.

Most office take-up will be accounted for by the private sector, but some public sector jobs may be relocated following the Lyons Review. It is considered that Leeds is a more likely destination than elsewhere in the sub-region because of the existing critical mass of decentralised government activities, good accessibility to London, the size of the workforce and the fact that there is a large stock of good quality office accommodation.

In tune with this demand outlook, future supply will be greatest in Leeds. Over 1.76 million square metres of additional floorspace is proposed within Leeds. In Bradford, proposals total around 215,000 square metres and elsewhere, there are few major proposals for office development.

Regeneration schemes within Kirklees (Huddersfield) and Calderdale (Halifax) will result in some conversion of historic buildings to office floorspace as part of mixed use developments. In Wakefield, there are two principal proposals

for the development of the Westgate (railway station) and Waterfront sites. These have a combined office floorspace of over 49,000 square metres.

Developments at railway stations are expected to be particularly attractive in future, as companies seek to avoid the negative effects of road congestion. Huddersfield in particular has the advantage of being easily accessible to both Leeds and Manchester.

Efficient and effective property markets: barriers and potential solutions

Below are the main recommendations to flow from consideration of the evidence of the operation of the West Yorkshire office market.

There is currently no single source of information on the availability of office space across West Yorkshire, let alone the City Region. Companies seeking new premises would benefit from a consolidated on-line land and property register which would direct them to the relevant agents.

- Planning policies for office development must provide the clarity that investors and developers require, whilst also meeting both the specific needs of local businesses and organisations, and the wider employment needs of their area.
- Leeds' expanded city centre is a strong market but continual effort must be made to raise the standard of workforce skills and the numbers of well-qualified people, to provide good and affordable residential areas, good transport links and a high quality public realm.
- Whilst vacancy rates within most districts are in the range 9-12 per cent of total office stock, this stock is invariably some of the more difficult to let, either because of its condition or location. When such poor property is taken out of the system (as has happened following demolition of substantial amounts of space in Bradford), the low figures can no longer be used as evidence in negotiations to put downward pressure on rents for better space. It would help any office market suffering from low rental levels to have some of the lowest grade stock removed from the inventory — by conversion to other uses.
- There is a demand for owner-occupied premises for professional firms, yet this demand is not being effectively met, mainly because land and property owners are reluctant to surrender their interest in the property.
- As business park premises age, landlords and the planning authorities need to consider how they can maintain the relative attractiveness of business parks and secure their role as prime office sites within the urban areas.
- The Office of the Deputy Prime Minister (ODPM) manual on *Employment Land Reviews* sets out an approach for local authorities to follow when reviewing the adequacy of employment land provision within their area. A consistent approach to carrying out these Reviews will provide the basis of a city region-wide understanding of the office property market.
- There are instances where sites for office development have been slow in coming forward, due to fragmented ownership or similar complications. There has already been some success following public sector site assembly and there will undoubtedly be further benefits to be gained from either the local authorities or Yorkshire Forward facilitating site assembly for refurbishment and/or redevelopment.
- Constraints on parking for both employees and visiting clients can be seen as a negative factor that may deter some from locating within town and city centres. Policies to curtail the use of private cars within town and city centres must be complemented by policies that deliver alternative forms of transport and do not reduce levels of accessibility.
- The proliferation of letting boards in some of the major office areas can help create a feeling that the area is in decline. Whilst the agents may be keen to advertise their portfolio of available properties, a surfeit of boards can be detrimental in terms of the image of an area that they portray. Local authorities should consider the merits of a policy of taking down letting boards that have been up for more than a set period of time.
- There are several major urban renaissance schemes within West Yorkshire (part of Yorkshire Forward's region-wide Renaissance Towns initiative) which have the important aim of improving town and city centre environments. Developing and fostering a sense of local identity that is perhaps based upon a centre's architectural wealth and historic connections can be a plus factor for many companies. It may serve to retain indigenous firms and attract footloose companies that are looking for somewhere that combines character with a positive outlook to economic development. Urban renaissance work cannot guarantee success but it is a *sine qua non* in the competition for occupiers and visitors.
- Consultations with local agents and economic development officers have highlighted the value of niche markets within some parts of West Yorkshire. These often have special requirements, in terms of accommodation or other property-related requirements. Local economic development teams, through their linkages with the businesses within their area, should identify potential niche markets and any special requirements.
- Whilst the choice of location for local authority office stock is often driven by consideration of service delivery, there are a considerable number of 'back office' jobs in most authorities that do not necessarily need to be located in any particular place. When leases on local authority-occupied offices are up for renewal, consideration should be given to the wider office property market within the locality, and the impact that the local authority's choices can have upon the markets.

References

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