

Bradford City Centre Market Activity Report 2006

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Executive summary

- Bradford is undergoing a transformation. A major city centre regeneration programme is being co-ordinated by Bradford Centre Regeneration, working with Bradford Council, Yorkshire Forward, English Partnerships and private sector partners and, as a result, a number of major developments are already underway. Current projects include the £300m Broadway scheme, which is set to revitalise the city's retail core, and a new urban village is planned for the city's historic canalside.
- The office market in Bradford is also changing. The completion in January 2005 of No. 1 The Interchange represented the biggest single office investment in the city centre for over ten years. Setting a new headline rent for the city, this development highlighted the strong demand for good quality space in Bradford city centre and the continuation of development activity is projected to translate into further improvement in rental levels.
- Investment in Bradford has gathered momentum over the last two years and is particularly evident in the residential sector where it has been significant in bringing the city living phenomenon to Bradford. The residential market benefits from its affordability when compared to other locations across Yorkshire and this, combined with the heritage of areas such as Little Germany, provides a unique opportunity for further investment and value creation.

Regeneration Masterplan

Bradford is centrally located within the Northern Way, the £100 million growth fund set up by the ODPM to help drive forward the economy of the North. Acknowledging the region's potential, Bradford Centre Regeneration was established in February 2003. They then commissioned Alsop Architects to prepare a Masterplan for Bradford city centre with the aim of creating a framework for a sustainable regeneration strategy.

The Alsop Masterplan looks to transform the central area into a leading city living market "where people are justifiably proud of where they live, learn, work and play". The regeneration process is aimed at encouraging investor confidence and developing and diversifying the economy of the city centre.

There is already evidence of significant development activity within the city being driven by the private sector, particularly residential, although commercial activity is also increasing.



Alsop Architects have prepared a Masterplan for Bradford city centre

Economic overview

Bradford is situated between Leeds and Manchester at the midpoint of the M62 and in the heart of the Yorkshire & Humber region. At one time the city was one of the world's leading centres within the wool and textile industries, with which some still associate it. In reality, however, Bradford's economy has undergone significant re-structuring since the 19th century, and currently some of its fastest growing employment sectors are within the professional services industries.

Around 16% of Bradford's population works in financial and business services and in particular the city is a key location for banking with an above GB average of 4% working in this sector. Key employers in this sector include Abbey, Bradford & Bingley and the Yorkshire Building Society, whose head office is located in the city. Other major employers include the catalogue companies Grattan and Empire Stores, Morrisons and the Inland Revenue. The latter is representative of the city's many public sector services that in total account for 30% of local area employment.

Bradford is forecast to see a population increase of over 40,000 in the next decade and, within that, FBS employment is also expected to grow rapidly – by 8.8% over the period to 2009. This compares positively to the much lower rate of just 5.0% for the wider region and forecast growth of 7.7% nationally.

Accordingly to Experian Business Strategies, the Yorkshire & Humber region is forecast to see GDP growth of an average 1.7% p.a. for the next five years. This reflects a projected period of economic out-performance in comparison to the rest of the UK, which is set to experience economic growth of 1.6% p.a. during the same period.

Office market

The average level of take-up in Bradford over the last five years is around 150,000 sq ft per annum. Only one large space transaction has been recorded since 2000, when in October 2004 Wm Morrison Supermarkets concluded a pre-sale of 323,000 sq ft just outside the city centre at Gain Lane. In the summer of 2003 The Department for Work & Pensions took 30,000 sq ft at Midland Mills and the Inland Revenue pre-let 45,000 sq ft at No. 1 The Interchange. These represent the only other deals over 30,000 sq ft recorded in the last five years, highlighting that transactions tend to be comparatively small.

This is indicative of the very restricted supply of modern accommodation within the city centre, as historically Bradford has suffered from a lack of quality office space being brought to the market. When new accommodation has been brought forward, it has been acquired relatively quickly. Over 90% of office take-up during the last five years has been either pre-let or good quality space, reinforcing demand for quality accommodation within the centre. However, delivery of such space has been relatively infrequent and in 2004 no take-up of Grade A office accommodation was recorded. There is clear evidence, however, that when new modern office accommodation has been brought to the market it has taken up fairly aggressively.

In January 2005 No. 1 The Interchange was completed and represented the biggest single office investment in the city centre for over ten years. This £12.5m development by Leeds-based Landmark Development Projects comprises 60,000 sq ft of office space, 45,000 sq ft of which was pre-let to the Inland Revenue. The subsequent acquisition of 4,100 sq ft by the Consulting Consortium, who chose this as the location for their first office outside London, was agreed at £15.25 psf and represented a new headline rent for Bradford.

However, prime new-build space in the market is limited to the remaining 10,000 sq ft at No. 1 The Interchange. Although current availability is estimated at around 500,000 sq ft, which is in line with the city's five year average, this is virtually all secondhand space.

The only new city centre space currently under construction, at Shire House on Harris Street, is just over 20,000 sq ft and unlikely to come to the market until early 2006, with potential for a further 8,700 sq ft in the commercial section of Eastbrook Hall, a development principally comprising 69 apartments. Currently there is planning consent for less than 400,000 sq ft of office accommodation within the city centre and in the main this is likely to be brought to the market in relatively small tranches; for example, the Broadway development is expected to deliver around 48,600 sq ft of office space.

Knight Frank's View

- There has been a lack of office transactions due to minimal development over recent years. Therefore speculative development is required in order to raise the city's profile in both a regional and national context.
- There is evidence that a robust level of demand already exists for space in Bradford not only from smaller occupiers but also from companies looking to relocate back office functions and from public sector bodies. Indeed, there is a specific opportunity for Bradford through the Lyons relocation proposals and the city has already reached the shortlist stage for a number of key departments.
- Consequently, if product is brought forward we would expect to witness an increase in requirements for the city and strong take-up levels. Furthermore, recent evidence demonstrates that new development has led to rental increases and thus the continuation of development activity is projected to translate into improving rental levels.



Bradway Shopping Centre

Retail & leisure markets

For a city of its size and catchment population, Bradford has historically been underprovided for in terms of retail offer, although this is shortly set to change with the introduction of the £300m Broadway Shopping Centre development.

Despite having experienced significant population growth in recent years, and with above average growth forecast for the coming five years, Bradford has struggled to attract many of the key national retailers normally found in a centre with such an extensive shopper population. Prime Zone A rents currently stand at around £140psf, but have been at this level for some years.

One of the issues for the retail sector in Bradford has been the diverse layout of the centre and, although many of the core shopping areas have been pedestrianised, Bradford has lacked a cohesive retail core. Prime is stretched between Broadway and up the hill to Darley Street, via Market Street and Kirkgate. Located in between is a very diverse mix of retailers, both national multiples and smaller independents.

However, a number of redevelopment and refurbishment projects have taken place in the city centre. Following the closure of the Rackhams department store in 1995, the building on Market Street was redeveloped into six units totalling around 45,000 sq ft and is home to occupiers such as Boots and Virgin. The Wool Exchange is a Grade 1 listed building which was refurbished by Eric Wright Group Ltd and now provides around 12,000 sq ft of retail floorspace, much of which is occupied by Waterstones.

The Kirkgate Centre, which fronts onto two of the city's main shopping streets (Kirkgate and Darley Street), has undergone a number of transformations since its origin as an Arndale Centre in the 1970s. Most recently, it was refurbished by owners Prudential in 2002 and has been the focus of much of the city centre's recent letting activity. At the close of 2004, New Look, MK One, JJB Sports and The Perfume Shop all acquired units in this centre.

In September 2005 the Rawson Market development opened, which is anchored by a 38,000 sq ft Wilkinsons. It also comprises a 15,000 sq ft unit let to Bargain Madness, four unit shops totalling 4,250 sq ft which are all either let or under offer, and the former Rawson Hotel which is expected to offer a ground floor leisure unit with residential above. It adjoins the new Market Pavilion which comprises nine kiosk units.

Broadway shopping centre

More change is set to come with the £300m development by Westfield of the Broadway scheme on a 16 acre site in the heart of the city centre. Although also incorporating offices, apartments, a food court and car parking, Phase One will introduce over 588,500 sq ft of new retail space, including Debenhams and BHS as anchors and providing the modern, high quality facilities which Bradford has previously lacked. Demolition has already started and the centre is scheduled to open in 2008.

The Broadway scheme will link through to existing provision on Darley Street and Kirkgate and will also extend the retail core out towards Forster Square station and the retail park which lies behind it, thereby providing a greater cohesion to the city's shopping provision. By finally bringing to the market the type of modern accommodation retailers require and unifying the key shopping locations, this development will attract shoppers back to Bradford city centre and is expected to initiate an uplift in prime retail rents. Current quoting Zone A rents for the new scheme are thought to be in the region of £165psf.

Retail warehousing

In contrast, Bradford has substantial retail warehouse provision, predominantly within or close to the outer ring road and in particular on the northern edge of the city centre.



The Wool Exchange, now home to Waterstones and Starbucks, is a Grade 1 listed building



The Leisure Exchange was bought by Rock Capital Group for over £40m in April 2004

The Forster Square retail park is the premier park in the Bradford area and is within walking distance of the city centre, just north of Forster Square station. Built in the late 1990s and at over 230,000 sq ft, it is home to a number of high street retailers such as Next, Boots and TK Maxx. Boots' acquisition of the unit at Forster Park set the city's top retail warehouse rent of £25psf in 2003. The most recent letting activity in Bradford's out of town market has also been here, with Outfit and Home Bargains both taking units of around 10,000 sq ft at the start of 2005.

Other key retail parks in this location are the Peel Centre and Manningham Lane Retail Park, though these offer more traditional retail warehouse provision, housing retailers such as Carpetright and B&Q. No further out of town retail development is currently in the pipeline, ensuring the focus remains on the city centre.

Knight Frank's View

- There is currently a lack of retail provision in the city centre considering the size and scope of Bradford's shopping catchment, although planned new development will help to address this.
- Bradford's retail warehouse offer is well established and new city centre development will ensure that the city's premier park is included within a cohesive retail core. An absence of out of town developments in the pipeline will maintain focus on the central shopping area.
- The Broadway scheme is already quoting prime Zone A rents which are believed to represent an uplift of 18% on current levels. Once the development has matured and the new expanded retail core has rebalanced, there is clearly potential for further rental improvement in the city centre.

Leisure

Bradford is increasingly successful at attracting people to its city centre leisure offer and as such has been the focus of a number of key leisure schemes and openings in recent years. The development of leisure "quarters" is retaining city centre professionals during the week and encouraging more evening trade, while substantial family provision has attracted people into the city for daytime or weekend visits.

The Leisure Exchange is the tenth largest leisure scheme in the UK. Developed by JJ Gallagher and purchased by Rock Capital Group in March this year, it comprises 205,000 sq ft of prime leisure accommodation. It is located on Vicar Lane just to the east of the site of the future Broadway scheme and is anchored by a multiplex cinema, a 42,500 sq ft Gala casino (the second largest in the country) and a 24 lane bowling alley. There are also a number of restaurant uses including Pizza Hut, Nando's and Frankie & Benny's.

The Centenary Square scheme, directly opposite City Hall, is the most recent leisure development in central Bradford. It comprises five units, all but one of which have been successfully let at rents of up to £21psf. Tenants include Wetherspoons (trading as Lloyds No. 1) and Chino Thai, and this scheme links the traditional retail core with the West End leisure quarter.

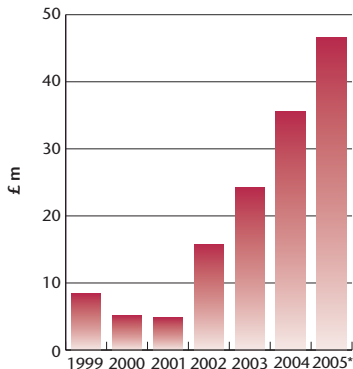
Bradford's West End is now a well established leisure destination, predominantly underpinned by its bar offer. Rents in this area, which includes the Windsor Baths scheme and Glydegate Square, have increased from the £11psf seen five years ago to around £15psf currently. There has been a recent consolidation and rebranding of some operators in this area, with key fascias now including Walkabout, Revolution, Livingstone's and Edwards.

In the pipeline is the former Odeon Building on Princess Way, a key city centre location adjacent to the Alhambra Theatre. Bradford Centre Regeneration (BCR) and the owners (Yorkshire Forward) are currently managing a design/developer competition. It is expected that a preferred developer will be appointed in Spring 2006. The developer will then be expected to undertake a comprehensive redevelopment, creating a mixed use scheme that is likely to consist of leisure, residential and offices.

Knight Frank's View

- Bradford's leisure offer is maturing and improving, with only one sector appearing to be slower to catch up. Other than local offer, there is a lack of restaurant provision in the city centre. Operators such as Chino Thai have identified this gap in the market, and we expect this lack of supply will be addressed in the next couple of years.
- This is particularly important given the anticipated increase in city centre residents, and could lead to more niche restaurant destinations being created in areas such as Little Germany and the redevelopment around Forster Square.

Figure 1
Bradford Investment Activity
1999 - 2005



Source: Knight Frank *to Q3 2005

Knight Frank's View

- Prime Bradford yields across all the main commercial sectors are forecast to harden further in Q4 2005, in line with the prospects for the national investment market as a whole.
- In terms of the Bradford office investment market, rental growth is crucial to its future success. Recent activity has demonstrated that rental improvement is achievable if appropriate development is brought forward.
- Therefore expectations for the scale of improvement in Bradford's prime office yields must be underpinned by the premise that good quality stock becomes available. Clearly, new development is vital to ensure that Bradford takes its position as one of the key markets in the West Yorkshire region.



Broadgate House on Manor Row,
a conversion into 89 residential units

Commercial investment market

Investment activity in Bradford equated to a turnover of around £46.5m of commercial property in the first half of 2005.

The largest deal in Bradford to Q3 2005 was the sale by developer JJ Gallagher of The Leisure Exchange. In April, Rock Capital Group bought the scheme for just over £40m. With tenants such as Cine UK and Hollywood Bowl producing a rental income of around £2.75m p.a., this reflected an initial yield of 6.65%.

The remaining transactions recorded were predominantly done at auction, and were relatively small retail or leisure lots averaging around £700,000. However, in some cases the prices paid were extremely keen. The sale of 33 Kirkgate, for example, which is currently occupied by the Newcastle Building Society, was sold at an estimated initial yield of just 5.1%. This reflects the national trend of highly competitive investment in commercial property by private investors seeking better returns than have recently been achieved in competing asset classes such as equities and gilts.

The Leisure Exchange deal has ensured that by Q3 2005 investment activity had already outstripped that achieved in any year since 1999. Since 2001, the annual value of deals done in Bradford has grown steadily, with a total of £35.5m transacted in 2004. This comprised of 16 individual deals, most of which were relatively small. The largest deals last year were in the office market, with Peat & Jardine House bought by Dawnay Day Properties at a value of £5.025m and representing an initial yield of 7%, and Broadway House purchased for £3.7m by the Dundas II Fund at an initial yield of 7.3%.

City living in Bradford

Bradford city centre has witnessed the beginning of a transformation over the last two years as the city living concept has rapidly developed. Residential development has brought new life to formerly redundant areas of the city, such as Little Germany and has been pioneered by schemes such as Silens Works and Behrens Warehouse. Little Germany continues to be the premier location for residential development along with the Manor Row Corridor.

The residential investment activity seen to date, alongside various public sector initiatives, is acting as a catalyst for change within the city's housing market.

To date, the growth of residential development in Bradford city centre has not been as significant as that seen in other centres across the north. However over the last 18 months the growth in Bradford's service industry has meant that there has been a noticeably higher demand from young professionals creating opportunities for the city living lifestyle.

Since 2003 there have been 522 apartment completions in Bradford City Centre. Due to the limited availability of apartment stock city centre sales did not really take off until 2003 when development schemes commenced construction and since then, apartment prices have increased from £65,000 (Q2 2003) to their current average of £142,000 (Q2 2005), inflation of 118%.

This is much stronger than the 35% inflation seen over the same period in the wider Bradford housing market over the period and is indicative of strong pent up demand for city centre stock.

Average city centre sales rates now currently stand at approximately £190 sq ft, although rates of up to £230 sq ft has been reported in premier schemes.

Supply

Historic completions demonstrate that "city living" development in Bradford did not have any impact until 2003/2004 when the first schemes began to complete. During this period a total of 251 units were constructionally completed and since then developer activity has continued with 271 units completing in 2004 / 2005.



Gate Haus, Bradford

Table 1 – City centre completions and planning pipeline

Completions 2001 / 2002	27
Completions 2002 / 2003	20
Completions 2003 / 2004	251
Completions 2004 / 2005	271
Under construction	433
Units with planning but not commenced	1,453
Schemes with planning but not commenced	32
Units awaiting determination	224
Schemes awaiting determination	10

Source: Bradford City Council

The majority of these recent developments have been in Manor Row, part of the central shopping district and Little Germany. Key schemes have included the Reading Rooms, a development of 24 apartments by Ham Holdings, the Stonegate House development comprising 67, units and the Broadgate House conversion into 89 units.

Little Germany lies within a conservation area and is heavily promoted as Bradford's urban village and has been the focus of much regeneration activity. Property in the area comprises mainly former warehouses; four buildings have now been converted and a further seven are under construction, when completed there will be a total of 455 units in the area. A number of vacant properties remain and the area continues to have significant development potential.

The residential element of Bradford's city centre is experiencing a radical transformation at present and there remains potential for further major change. The central areas potential could be enormous: with developers finding it increasingly hard to locate inner city development sites in other cities, they are being forced to look at alternative areas. Bradford provides a unique opportunity to develop many of its historic buildings, which currently stand empty, providing a similar picture to that of Manchester around ten years ago.

The development pipeline recognises the area's potential with 433 units currently under construction with the two largest schemes being the Gate Haus scheme comprising 133 units and Eastbrook Hall, a development of 69 apartments. A further 1,453 units have planning permission and are awaiting construction to commence, the most significant projects are the Asquith Properties schemes, comprising 200 units and the Broadway retail scheme which will include 181 units. Applications have also recently been approved for the mixed-use Highpoint scheme incorporating 96 apartments, and the Beehive Mills development on Thornton Road which, comprising over 500 units is one of the largest developments with planning permission in the Bradford area. The new Canalside urban village proposals are, when finalised, expected to form the largest new scheme seen in the city to date.

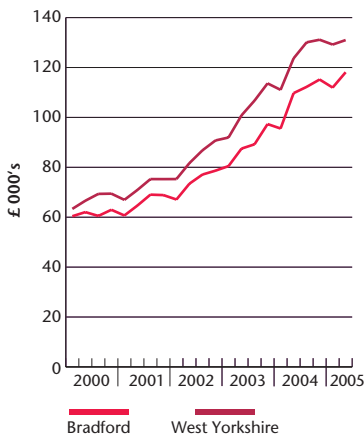
Student accommodation development activity has been subdued and no major schemes completed in the year to April 2005, partially due to the high percentage of students that attend the Bradford University from West Yorkshire and also due to the high number of units (890) constructed over the previous three years, these included the popular Wardley House development comprising 218 student bed spaces which opened in September 2003. These development levels are however relatively low considering Bradford has Yorkshire's third highest student population after Leeds and Sheffield at over 24,500.

Demand

Who lives in city living? Our research has indicated that there are certain characteristics of city living occupiers. The vast majority of residents are in the 20 – 39 age groups. The 20 – 29 age group is particularly dominant and accounts for a high percentage of rented accommodation, whilst the 30 – 39 age groups tend to account for those in owner occupation. In analysing the population profile of Bradford, this is particularly significant.

Bradford's projected demographic indicates that the population is expected to grow considerably over the next decade. Forecasts indicate an increase in the Bradford population of 41,800, a total change of 8.6%, over double that anticipated in West Yorkshire and seven times the average expected across the UK.

Figure 2
Bradford and West Yorkshire house prices 2000 – 2005



Source: Land Registry



Eastbrook Hall, a development including 69 apartments



Typical interior at the Reading Room development, Little Germany

Knight Frank’s View

- Bradford city centre is poised to capitalise upon the regeneration initiatives currently proposed. There are a number of schemes in the pipeline which will greatly improve the city’s retail and leisure offer and will assist in providing an infrastructure suitable to the city living dweller by providing a vibrant community to which potential purchasers will aspire. Phase one of the Gate Haus scheme is already underway.
- The new mixed-use schemes that are proposed within the City will capitalise on the current shortage of supply, the market is not flooded with new city centre development build and therefore investors and owner occupiers are likely to recognise properties in new developments coming to the market as an opportunity. Bradford has already started attracting attention from investors across the UK who are looking to capitalise on the city’s potential.
- In addition, the city benefits from the heritage associated with the Little Germany area which provides a unique opportunity for residential development. This, alongside the apartment markets affordability when compared to other locations across West Yorkshire, adds to the location’s value creation potential.

Table 2: Population forecasts 2005 – 2015

	Bradford		West Yorkshire		UK	
	Change	% change	change	% change	change	% change
0-19	5,600	4.06%	-23,600	-4.31%	-1,200,163	-8.20%
20-29	11,200	16.12%	42,400	14.65%	300,304	4.08%
30-39	6,400	9.26%	-15,300	-5.01%	-1,432,520	-16.38%
40-49	1,500	2.29%	3,800	1.29%	-3,983	-0.05%
50-59	5,000	9.03%	16,200	6.31%	792,615	10.44%
60-69	8,600	21.83%	35,100	18.51%	1,205,176	20.63%
70+	3,500	7.13%	21,700	9.56%	1,070,851	15.45%
Total	41,800	8.60%	80,300	3.81%	732,280	1.23%

Source: ODPM

The highest population increases are predicted in the 60 – 69 age group and, importantly for the city living market, within the 20 – 29 age groups who will account for 11,200 population increase (a 16% change). There is also a high increase in the number of 30 – 39 year olds who will account for 6,400 new residents, an increase of 9.26% compared to the West Yorkshire and UK forecast which shows a decline in this sector of 5% and 16% respectively.

These estimates are indicative of future strong demand for housing of which a significant focus could be in the city centre market.

So where will these people live? In line with population growth there is a significant increase in households; Bradford needs 15,000 new properties to accommodate this new population growth. When compared to other similar local authority areas, this amounts to a 7.4% increase in housing, higher than the 6% average for West Yorkshire.

In addition to the need to house new population, there will also be additional housing demand created from changing household formation patterns. The UK average household size is anticipated to decline by 3.5% over the decade, increasing household requirement further still.



Little Germany, Bradford

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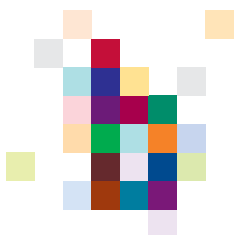
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BRADFORD
CENTRE REGENERATION
one landscape many views

