

Derby city centre market activity report 2008

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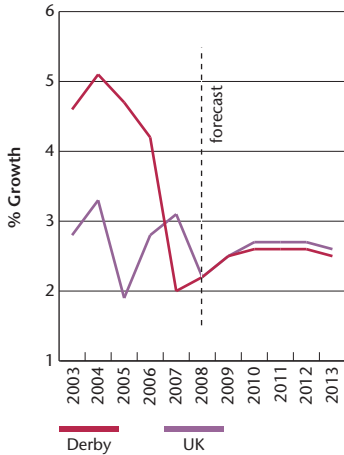


Cathedral Green depicting proposed footbridge

Executive summary

- Over the last decade Derby's economy has grown at a faster rate than any other city in England, with employment growth ranked in the top five of the UK's cities. Building on this recent success, a Masterplan is in place which will guide over £2bn of investment into the city centre over the next 15 years.
- Since opening in 2007, Westfield Derby has repositioned Derby as a major retail destination in the East Midlands. The city's enhanced retail and leisure offer will be bolstered by major mixed-use schemes and complemented by improvements to the Cathedral Quarter area.
- With Pride Park approaching completion, the healthy demand for office space evident in Derby will be refocused on the city centre, with a number of key schemes expected to complete over the next 18 months and provision for 1.4m sq ft of space in the Masterplan.
- Strong house price growth and 5,000 new units proposed indicates the confidence in the city's residential market. Major new schemes, such as in Castleward, will support the anticipated economic growth and increase the provision of new family-sized accommodation.

Figure 1

Output trends and forecasts

Source: Experian Business Strategies

Economic overview

With a population of 235,000, Derby is an historic cathedral city located at the heart of the country which benefits from strategic transport access to the railway and motorway network. The city is a leader in high-technology engineering, home to world renowned names such as Rolls Royce and Toyota, while great strides have also been made to diversify the city's economy, with high profile services companies such as Egg locating to the city. Derby has been identified as one of the UK's economic hotspots, growing at a faster rate than any other city in England over the last ten years and ranked in the top five UK cities for employment growth.

The foundations for the impressive levels of inward investment and economic growth over the last decade have been laid outside the city centre, at Pride Park. More recently, attention has turned towards the city centre. In January 2005, Derby Cityscape launched a Masterplan which will guide £2bn of investment into the area over the next 15 years. Redevelopment of the city centre is already underway with the recent opening of Westfield Derby shopping centre, which promises to be a key catalyst for its renaissance. In three years, Derby Cityscape, working in close collaboration with Derby City Council, East Midlands Development Agency and English Partnerships, has already secured £620m of investment into the city centre.

In terms of the outlook for Derby's economy, latest forecasts from Experian Business Strategies indicate that output growth is expected to be a robust 2.5% p.a. over the next five years and, although muted compared with recent years, is nevertheless in line with that of the UK. Financial and business services (FBS) is projected to be a key sector over the period, with FBS output growth of 4.1% p.a. and FBS employment growth of 1.0% p.a.

The Derby Cityscape Masterplan

The Derby Cityscape Masterplan presents a clear vision for the renaissance of the city centre in the 21st century. It envisages the delivery of over 5,000 new homes, 1.4m sq ft of office space, substantial improvements to the provision of culture, leisure and tourism facilities and, in addition to Westfield Derby, retail within major mixed-use projects and improvements to support the niche retail sector in the Cathedral Quarter. Significant investment will also be channelled into the city's transport infrastructure, with a new bus station opening in 2009 and an enhancement to the concourse area at the rail station.

Twelve priority projects are identified which provide the focus of development and investment opportunities over a 15 year period. Each area has its own set of opportunities but, in terms of scale, the Castleward area is the most impressive. This 39 acre swathe of land between Westfield Derby and the railway station will provide the main focus for the expansion of the city centre and anticipated growth in population, comprising a new urban village with 2,500 homes and over 900,000 sq ft of office space. The relocation of the city's hospital from the area to a brand new 'super hospital' outside the city centre will facilitate the progression of development proposals.

As well as guiding the transformation of the built environment, £100m has been earmarked by Derby City Council to improve the quality of the public realm. New and upgraded footbridges will span the River Derwent and the inner ring road, improving connectivity between areas and linking proposed developments within the city centre, while seven new and improved public spaces are planned, including the imminent opening of a new £3.8m park and iconic footbridge at Cathedral Green. A recently launched consultative initiative, 'Transforming Streets and Squares' in the city centre, aims to raise the quality of public spaces that connect the Cathedral Quarter with Derby's world heritage site, the Riverlights scheme and Westfield Derby.



Westfield Derby shopping centre completed in October 2007.



City Gate House, developed by Cedar House Investments, is expected to complete in 2009.

Knight Frank's view

- Supply of good quality office space in the city centre has been long overdue and new office developments are certain to bring a new headline rent for the city centre. With Pride Park approaching completion, the healthy demand for office space evident in Derby will be refocused on the city centre.
- Provided that the sizeable office pipeline is phased appropriately and a range of floorplate sizes are offered which accommodate a range business types, the city centre market should capitalise further on Derby's strategic transport links.

Offices

Having long been under-served with quality office accommodation, the city centre office market will be transformed over the next few years, with the Masterplan proposing circa 1.4m sq ft of new offices including the delivery of several schemes over the next 12 to 18 months. Recent developments such as Pride Park have established Derby as a key business location in the East Midlands region although arguably to the detriment of the city centre market, as occupiers have opted to relocate from the city centre in search of more modern premises. However, with such developments nearing completion, the focus of new opportunities has shifted back firmly to the city centre.

The most recent office development in the city centre occurred in the early 1990s, as is reflected by the city's current top rents of £12.50 per sq ft. In the absence of new stock rental growth has been negligible and compares to typical rents of £14.50 per sq ft at Pride Park. Availability is dominated by large poor quality accommodation and its secondary nature has constrained the level of demand, with a modest 40,000 sq ft of take-up in 2007. After a 17 year wait, however, the proposed transformation will begin in earnest this year and, significantly, asking rents on the new schemes are likely to be around £17.50 per sq ft, a marked improvement on current levels and demonstrative of Derby's strategic location.

Three schemes are coming forward within the Cathedral Quarter area. Cedar House Investments, who have been particularly active at Pride Park, are developing City Gate House on Cathedral Road, which offers 60,000 sq ft of Grade A office accommodation with complementary retail and leisure units. Completion of this scheme is expected in 2009. Nearby, Bolsterstone are developing Central Square, a £12m landmark 50,000 sq ft office block offering units from 2,500 sq ft upwards. Site preparation is already underway and completion is also expected next year. Further small-scale space will be delivered at St George's, Bold Lane, part of the first phase of a prominent mixed-use development by Blueprint, a joint venture between Morley, East Midlands Development Agency and English Partnerships.

Elsewhere, office development across the centre is anticipated within major mixed-use schemes. Wilson Bowden await permission for Number 1 Cathedral Green, a £30m riverside development on Full Street, which, together with up to 125 apartments and four restaurants, will comprise 95,000 sq ft of office space. The scheme proposes the demolition of the former police station and conversion of the Grade II former magistrates' court, and will complete in 2010. Up to 160,000 sq ft of office space is proposed at Riverlights with partial delivery of the office content anticipated in 2010 and an additional 90,000 sq ft is proposed within the Development Brief at North Riverside.

Looking further ahead, however, the transformation of the city centre's office market will be secured over the next 15 years with the realisation of in excess of an additional one million sq ft of space proposed within the Masterplan. This supply is focused in three areas to the east of the city centre. The Castleward development brief proposes up to 900,000 sq ft of office space, with 250,000 sq ft in the North Castleward area and 250,000 sq ft at Station Gateway. There is therefore ample potential for sustained inward investment into Derby city centre over the next decade.



Wilson Bowden's Number 1 Cathedral Green will deliver 95,000 sq ft of Grade A office space.

Table 1

Key Derby city centre office schemes in the pipeline

Scheme Name	Developer	Size sq ft	Status	Estimated Completion
City Gate House	Cedar House Investments	60,000	On site	2009
One Cathedral Road	Bolsterstone plc	50,000	Planning granted	2009
No 1 Cathedral Green	Wilson Bowden	95,000	Application	2010
St George's, Bold Lane	Blueprint	40,000	Application	2010
Riverlights	Derby Riverlights Ltd	160,000	On site	From 2010
North Riverside	TO BE APPOINTED	90,000	Pre-planning	From 2011
North Castleward	TO BE APPOINTED	250,000	Pre-planning	From 2011

Source: Derby Cityscape



The QUAD will open in summer 2008.

“Westfield Derby shopping centre has repositioned the city as a major retail destination in the East Midlands.”

Knight Frank's view

- Westfield Derby should establish Derby as a magnet for mainstream and emerging retailers who previously may not have considered locating in the city. As the centre matures and Derby's retail offer re-adjusts, the city will strengthen its dominant position within the primary catchment area over the coming years and reduce spending leakage to other centres in the East Midlands.
- Significant leisure schemes both underway and proposed within the Masterplan will augment and complement the improved retail sector, bringing the city's leisure offer to a level more in line with its population and catchment.

Retail and leisure

Since opening in October 2007, Westfield Derby shopping centre has repositioned the city as a major retail destination in the East Midlands. The one million sq ft centre, developed by Westfield and Hermes, involved a £340m extension and refurbishment of the former Eagle Shopping Centre and represented the largest single retail-led development to complete in the UK last year. It has proved a success, providing over 150 new shops, around 100 of which have been taken by retailers new to the city, and an impressive 98% of new units let prior to opening. More significantly, the development promises to be an important catalyst in securing the long-term regeneration of the city centre.

Westfield Derby has brought about both a readjustment in the location of the prime retail pitch and a new headline retail rent for the city at £175 per sq ft Zone A, up from £150 per sq ft Zone A prior to the centre's opening. Initially, it has impacted adversely on footfall levels in the traditional prime retail parades of East Street, St Peters Street and Albion Street as key multiples have opted to relocate into it. Encouragingly, however, budget fashion retailer Primark has already agreed to take one unit following the relocation of Marks & Spencer into the new centre, indicating that the adjacent areas will recover following a period of readjustment, which is expected to be around 18 months.

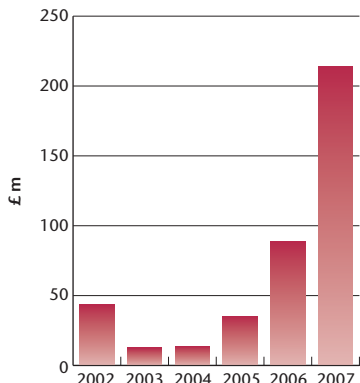
It is important that adjacent retail areas in the city centre complement each other, an issue which is carefully considered in the city's regeneration strategy. The Cathedral Quarter is an important focus for niche independent retailers, and the area recently achieved status as a Business Improvement District (BID). Here, business rates paid by occupiers are used directly to fund improvements to enhance the character of the area, as agreed through the BID strategy. Despite the presence of the new Westfield Derby shopping centre to the south, confidence in the area was recently demonstrated with the leasehold acquisition of a unit by Bang & Olufsen on Queen Street in late 2007.

An enhanced leisure offer and reinforcement of cultural assets will also be key to the regeneration, bringing vitality to the city centre and boosting tourism. Consequently, leisure uses form an important aspect of mixed-use projects such as Full Street, Riverlights and the North Riverside, while the area around Sadler Gate and Friar Gate will provide a focus for the vibrant evening economy and key developments are already underway. Cinemas will return to the city centre imminently, with Cinema de Lux's first UK opening of a luxury 12 screen cinema on the upper floors of Westfield Derby, with a seating capacity of 2,500. A centre for visual arts and media in the city, known as the QUAD, will also open in the summer. The uniquely designed £10m development comprises two independent cinemas, an art gallery, artist studios and conference facilities.

According to a recent report by Laterooms.com, Derby is the ninth fastest growing UK destination for overnight stays, recording a 92% increase between 2006 and 2007. Yet, given its size and strategic location, Derby is currently underprovided with hotel accommodation, with the limited focus of accommodation near the railway station on the edge of the city centre. Rectifying the shortfall in both the quality and quantity of hotel accommodation is an important aspect of Derby's planned regeneration and a number of quality hotels are now targeting the city.

In April, Finesse will open Derby's first boutique hotel, The Cathedral Quarter Hotel on St Mary's Gate. The Grade II listed former police museum will provide 38 bedrooms, conference facilities, a 150 seat fine dining brasserie and cocktail bar. On King Street, McAleer and Rushe will develop a 226 bed three star Jury's Inn Hotel, an 11 storey landmark development with a basement casino and 89 apartments. Completion is scheduled for 2009. Holiday Inn and Hilton Hampton have also signed up for the two hotels planned within the Riverlights scheme, while the Masterplan makes provision for high quality hotel accommodation in the North Riverside and Castleward areas of the city centre.

Figure 2
Derby investment activity



Source: Knight Frank, Property Data

Investment market

Derby has witnessed a surge in investment activity for commercial property over the last two years. 2007 was an unprecedented year for the city with over £220m of transactions completed, more than a two fold increase on the level witnessed in the previous year. As well as a sustained increase in investment levels, the nature of investment in Derby is also changing, with a shift away from private purchases at auctions towards investment led by institutions and property companies.

Investment activity in 2007 focused on the retail sector and the majority was accounted for by a single transaction, ABP Investments and CPP's purchase of a 25% share of Westfield Derby for £150m, at an initial yield of 5.0%. Outside the city centre, BlackRock UK purchased Land Securities' Wyvern Retail Park for £40m at an initial yield of just 4.80%, in May 2007. The most significant transaction outside the retail sector was the £12.1m purchase of the Rolls Royce Centre by a private investor from LaSalle Investment Management at an initial yield of 5.1%.

All of the key investment transactions in 2007 occurred before the downturn in the wider UK property investment market, which began in the latter half of 2007. The low yields associated with the transactions listed above nevertheless reflect the demand for, and availability of, institutional quality assets in Derby. Although yields on prime assets have moved out by around 100 basis points (1.00%) across the UK more generally, transaction volumes are likely to remain strong in the city centre with the delivery of a host of new commercial schemes over the next decade.

Knight Frank's view

- The main impact of the squeeze in credit markets will be felt on properties which are secondary in nature, reflected by a stronger softening of yields. Assuming a relatively stable economy, the Knight Frank house view is that the investment market will stabilise in the latter half of 2008.
- With strong occupier demand for new commercial schemes in the pipeline, Derby is well positioned to weather the downturn. The city centre offers good prospects for rental growth, particularly in the office sector, and a healthy, although realistic, development pipeline.

Residential

Derby: The prosperous city



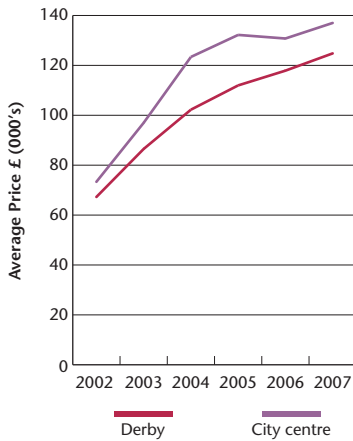
The Millhouse Apartments,
Derby City Centre

The city of Derby has established itself as one of the UK's economic growth hotspots, a view endorsed by the 'Centre for Cities 2008' report which ranked Derby among the top five UK cities for employment growth. Alongside this economic buoyancy, the city has recently received a significant £3.8m investment as part of the New Growth Point strategy, a national initiative that has identified particular locations where additional housing could be concentrated. Consequently, Derby could see at least 20% more housing over and above the 5,000 new homes under the Masterplan already been proposed.

While much of the local employment wealth has previously 'leaked' beyond Derby's city boundaries, regeneration plans are now in place to create a diverse selection of housing that will help retain wealth and attract a wider range of residents. A significant amount of emphasis is being placed on the provision of family-sized accommodation within central areas such as Castleward, and the inclusion of larger units is key to the retention of the city's wealth.

Supporting the economic growth in Derby is the city's proposals to make substantial improvement to the transport and pedestrian infrastructure across central areas, allowing residents to fully benefit from the range of amenities available. The £100m planned renovation of the central bus station will be symbolic in stating the council's commitment to infrastructure improvement and provide visual proof of regeneration within the city centre.

Figure 3
Average house prices



Source: Land Registry

Who lives in Derby?

Derby has quickly become a place for both young professionals and families. Living arrangements for local residents is expected to follow UK trends, with single person households becoming increasingly important for both young and old. The city offers its local population a number of benefits, the principal ones being its range of leisure and recreational amenities, such as its proximity to the Peak District National Park, as well as its economic growth and good employment opportunities. These attributes have been major 'pulls' into Derby and is supported by strong historic population growth.

Looking forward, the local population is expected to increase from its base level of 235,000 in 2006 to 239,000 in 2011; a growth of 1.7%. While the distribution of the population is evenly spread across all age categories, it is expected that over the next five years there will be a slight increase in the number of 25-34 year olds in the city. There is also evidence to suggest that the proportion of older residents will increase, most notably the 45-54 year olds, which implies a growing number of maturing families and 'empty nesters'.

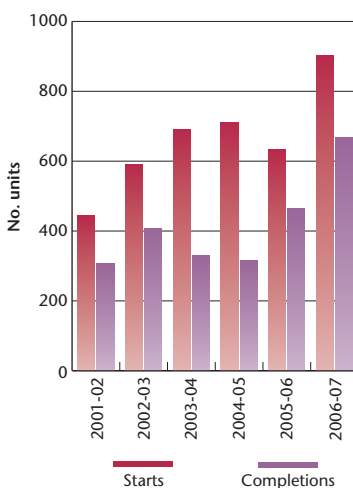
Price and sales performance

Demand for residential property in Derby city centre has been strong over the last five years with a price growth of 86.8%, marginally outperforming Derby (85.6%) and surpassing national house price growth of 65.6% in this period. Although prices started from a low base, this growth demonstrates a strong market that is likely to be maintained given the investment being channelled across twelve regeneration areas of the city centre.

New development across central areas is likely to see a keen uptake from occupiers and investors, particularly when considering the high-quality proposals that are coming forward, many of which are incorporating eco-friendly features and good design. A recent example of this is Millhouse apartments, a £5m luxury development of 24 units completed by Radleigh Homes in 2005. This award winning scheme was praised by Derby City Council for its design excellence and showcases the commitment of the city's regeneration plans to provide quality new build housing.

Despite the UK housing market entering a cooler phase, transaction volumes in Derby are likely to be maintained through its regeneration plans. Over the coming years, a new supply of over 5,000 high-quality units, both apartments and family houses, will be brought to the market – encouraging new occupier and investor buyers and bolstering the long-term retention of the local population

Figure 4
House building activity:
starts and completions



Source: Communities and Local Government

Table 2

Derby's 5 year housing supply

Residential	Estimated number of units
Dwellings under construction	917
Dwellings not yet started with permission	2500
City of Derby Local Plan Allocations	1525
Sites identified in Strategic Housing Land Assessment	446
Re-allocated sites	-200
Total 5 year supply	5,188

Source: Derby City Council (2008) Annual Monitoring Report 2007

“The last quarter of 2007 saw a great deal of development progress across the city centre.”

What does the future hold for Derby city centre?

Derby has the highest annual salary of any city in the East Midlands and we expect continued strong demand for high quality housing. According to the Council’s latest Annual Monitoring Report, recent house building activity has been strong in the city with approximately 765 completed units per annum over the last five years. Furthermore, pipeline data points to continued growth in housing supply with an even greater number of units either awaiting completion or approved (circa 5,000 through to 2012).

Specifically for the city centre, the number of residential completions have increased steadily from 34 units in 2004 (10% of total completions) to 205 units in 2007 (31% of total completions), signifying a greater emphasis on city centre schemes. The last quarter of 2007 saw a great deal of development progress across the city. As points of reference, the Stuart Street riverside scheme, the redevelopment of Gower Street and the £4.3m residential development of Rutland House and Churnet House has brought a combined total of 189 luxury one and two bedroom apartments into the heart of Derby – demonstrating the continuing availability of new high-quality products.

A review of planning data and regeneration plans both point to a projected increase in the amount of new residential development in Derby over the next 15 years. Although many of these units are still at the approval stage, schemes that represent significant future supply include;

North Riverside

North Riverside will be one of Derby’s first major mixed-use waterfront schemes, bringing an opportunity for residential, hotel and leisure development. In relation to new residential supply it will bring to the market approximately 390 units between 2009 and 2012. The regeneration of this prime city centre location seeks to be an exemplar for innovative design incorporating the UK Government’s recently introduced Code for Sustainable Homes. This scheme will form part of the wider redevelopment of Derby’s waterfront arena and thus will be an important catalyst for regeneration and new investment.



North Riverside Waterfront

Becket Well

Becket Well represents one of five key areas for regeneration across the city. Located in the heart of Derby with a site area of approximately 3 acres, Becket Well is currently proposed as a mixed-use scheme including retail, commercial and residential development. The site is of great strategic importance and has been identified by the Council as a key site for boosting Derby’s economic competitiveness.

Castleward

The proposed £300m regeneration of Castleward is a major future project for Derby and the first phase is scheduled to be delivered from 2010. The area will incorporate a new urban village with over 2,500 new apartments and family sized homes together with a mix of retail space. Ultimately, it provides the opportunity for the city centre to expand and support the anticipated economic and population growth.

Knight Frank’s view

- The residential market in Derby has enjoyed a high amount of occupier and investor interest over the last five years as demonstrated by its exceptional house price growth. Significant increases in the planning pipeline are indicative of the confidence in the local market. We feel current market performance will be maintained via the city’s strong economy and upward population growth.
- The ambition of local government to retain the population is likely to prevail, particularly when considering the proposed number of family-sized residential developments, its continued attraction as a top business location and its wide range of leisure opportunities. In light of this information, we believe that buyer appetite in Derby’s residential market will continue to rise, particularly for those schemes that surround the city centre.

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