RESEARCH

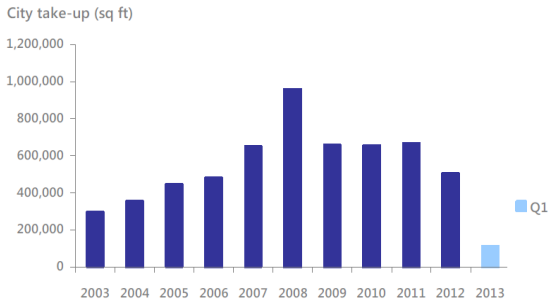
BIRMINGHAM OFFICES

Market update Q1 2013

Knight Frank

Key highlights

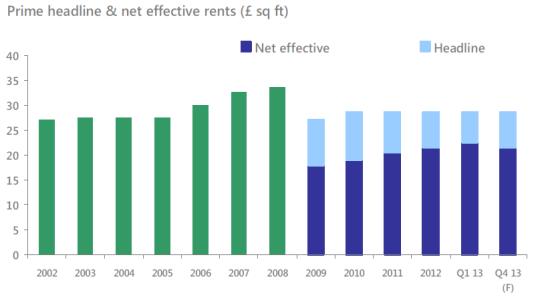
- Take-up in Birmingham city centre amounted to 113,326 sq ft in Q1. Although this was c.40% down on each of the previous two quarters, it was 108% higher than the Q1 2012 total.
- Q1 take-up comprised 26 deals, six of which involved Grade A space.
- The biggest deal in Q1 saw Marsh acquire 11,000 sq ft at Carlyle's Colmore Plaza. The insurance broker also paid the highest headline rent of any deal in Q1, at £27.50 per sq ft.
- Q1 also saw Amber Real Estate purchase 1 Colmore Row for £10m. The buyer is set to take two floors for its own occupation, leaving one floor available to lease in the building.



Source: Knight Frank Research / BOMF

Office gossip

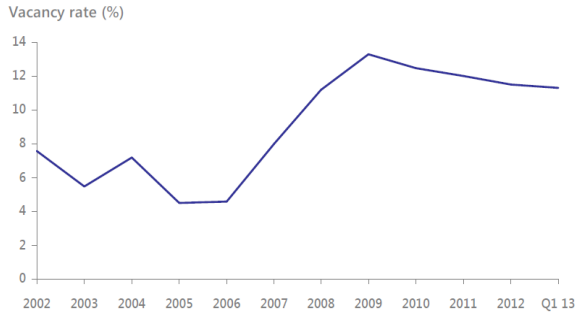
- There is a genuine sense that market activity is picking up. A flurry of key requirements is expected to transact in Q2 and Q3 2013 - such as DAC Beechcroft (50,000 sq ft) and AXA (18,000 sq ft) - while enquiry levels among smaller businesses showed significant improvement in Q1.
- Q1 saw the completion of Hine's 2 Snowhill development, where 120,000 sq ft is available in addition to Wragge & Co's 285,000 sq ft pre-let. However, while a total of 530,000 sq ft of Grade A space is available, the amount is nonetheless 15% down on the same period last year.
- The only other development presently underway is the 133,000 sq ft refurbishment of 5 Brindleyplace, a joint venture between Hines & Moorfield, which is scheduled to complete in Q3 2013.



Source: Knight Frank Research

Looking ahead

- The improving sentiment seen among occupiers bodes well for levels of take-up in 2013. Knight Frank forecasts that take-up will comfortably exceed 600,000 sq ft this year, its highest level since 2008.
- While the anticpated rise in activity will continue to put upward pressure on net effective rental levels, prime headline rents are not expected to surpass £28.50 per sq ft this year.
- However, in the absence of significant development activity, the decreasing choice of offices offering floorplates in excess of 15,000 sq ft may well put upward pressure on headline rents during 2014.



Source: Knight Frank Research / BOMF

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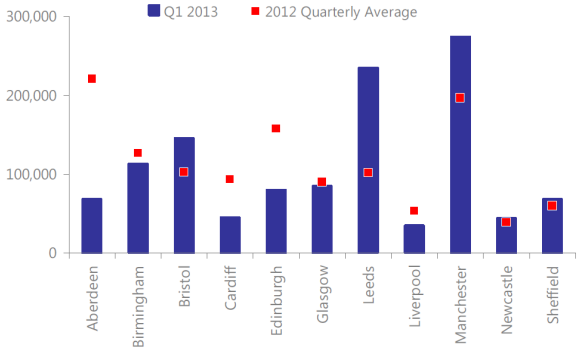
UK REGIONAL OFFICES ROUND-UP

Q1 2013

Occupier demand

- Following a strong final quarter in 2012, activity in the key regional office markets has been maintained in Q1 2013. A number of markets have performed well and saw Q1 take-up exceeding 2012's quarterly average including Bristol, Leeds, Manchester, Sheffield and Newcastle. The 11 markets combined recorded total take-up of 1.19m sq ft during Q1 - marginally down on Q4 2012 but up 9.8% on a year ago.
- In most markets, activity was predominantly characterised by a high number of small deals, typically for second-hand refurbished space.
- There is a healthy level of requirements in the regional office markets, with notable quarterly increases seen in Newcastle (+60%) and Aberdeen (+36%), although the majority are in the sub-5,000 sq ft bracket.

City centre take-up, Q1 2013 vs 2012 quarterly average total (sq ft)

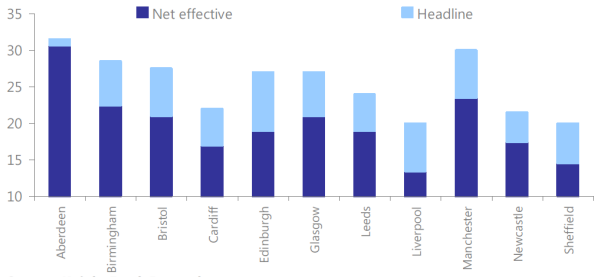


Source: Knight Frank Research

Supply and rents

- Q1 saw a marginal quarterly increase in Grade A supply up from 3,013,043 sq ft in Q4 2012 to 3,067,043 sq ft. However, the current level is 11% down on a year ago. The availability of Grade A space continues to be eroded in most markets in the absence of new completions. Year-on-year double-digit fall was recorded in Birmingham (-33%), Leeds (-14%), Glasgow (-13%), Manchester (-13%), Newcastle (-12%) and Liverpool (-10%).
- Headline rents and incentives have been fairly static over the quarter, although there has been an increase in the net effective rent in Birmingham (from £21.50 to £22.50) and Cardiff (from £16.50 to £17.0).

Q1 2013 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- According to Property Data, Q1 investment turnover was c.£600m outside London and the South East, an improvement on Q1 2012 but nevertheless 30% below the 10-year quarterly average.
- Whilst strong investor interest in prime office stock has been maintained, the availability of suitable product (prime and long-income assets) is the major barrier to activity. One interesting deal in Q1 was Gingko Tree's acquisition of a part share of One Angel Square in Manchester, although it remains to be seen as to whether this marks the start of more sustained interest from foreign investors in the UK regions.
- Prime regional office yields were largely unchanged in Q1, albeit there were some tentative signs of improved sentiment for prime stock. Indeed, Birmingham and Manchester both saw prime yields move in by 25bps to stand at 6.25%, whilst Newcastle was the only city to see prime yields soften Q1.

Prime office yields

	2012			2013	Yield sentiment
	Q2	Q3	Q4	Q1	
Aberdeen	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Birmingham	6.50%	6.50%	6.50%	**6.25%**	◄ ▼
Bristol	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Cardiff	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Edinburgh	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Glasgow	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Leeds	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Liverpool	7.25%	7.50%	7.50%	**7.50%**	◄ ►
Manchester	6.50%	6.50%	6.50%	**6.25%**	◄ ▼
Newcastle	6.75%	6.75%	6.75%	**7.00%**	◄ ▲
Sheffield	7.25%	7.25%	7.25%	**7.25%**	◄ ►

Source: Knight Frank Research