



GLASGOW OFFICES

Market update Q1 2012

Knight Frank

Key highlights

- Following a weak finish to 2011, sentiment has been buoyed by a significant increase in activity in 2012. Q1 2012 take-up of 115,000 sq ft was 91% up on the Q4 2011 total and 8% up on the same quarter last year.
- Prime rents remained steady at £27.00 per sq ft, with net effective rents also unchanged at £21.00 per sq ft. We do not expect prime rents to increase during the course of 2012.
- The vacancy rate decreased marginally to 10.0% on a quarter-on-quarter basis. Grade A availability was significantly down at 360,000 sq ft, a fall of 26.5% on the preceding quarter.

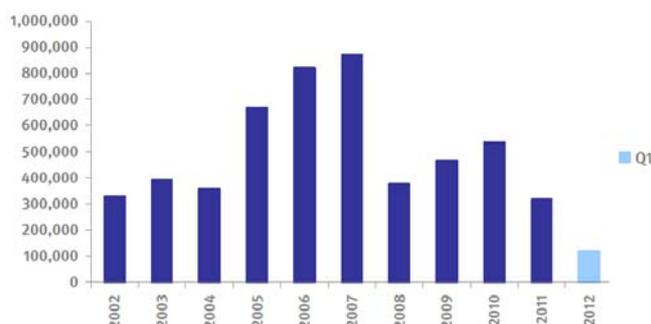
Office gossip

- Key deals in Q4 included HEROTsc's acquisition of 32,693 sq ft at 6 Atlantic Quay and JP Morgan's acquisition of 20,741 sq ft at 141 Bothwell Street.
- Notable requirement includes Scottish Power's search for 200,000 sq ft which Scottish Power is rumoured to be seeking for a developer to construct an office building in the former Elphinstone Place site for owner occupation. Moreover, Student Loans are also seeking 100,000 sq ft in the city centre.
- The AIB development of Sixty7, which is being marketed by Knight Frank, has now completed and it is expected that the property will be sold with vacant possession in the next 3 - 6 months.

Looking ahead

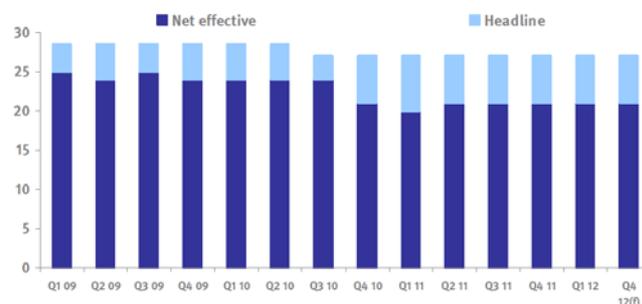
- St Vincent Plaza has received planning permission for a 170,000 sq ft scheme, which is due to start in spring 2012 and 110 Queen Street has planning for 145,000 sq ft, although with no start date as yet.
- The short term pipeline is very limited, although it is estimated that there is over 1 million sq ft of office space with planning consent, most of which is outside the traditional office core.
- The East End of Glasgow is expected to see regeneration benefits on the back of the Commonwealth Games in 2014, kickstarted by the by the completion of the East End Regeneration Route this year.

City take-up (sq ft)



Source: Knight Frank Research

Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Vacancy rate (%)



Source: Knight Frank Research

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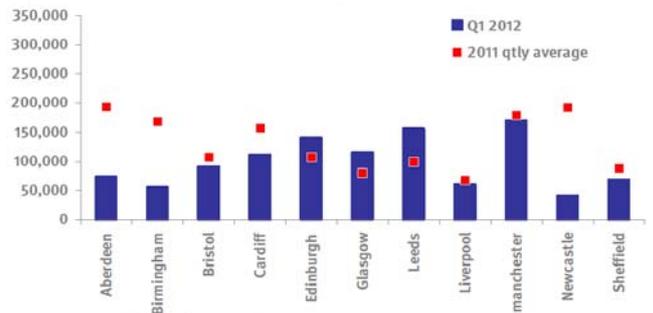
UK REGIONAL OFFICES ROUND-UP

Q1 2012

Occupier demand

- Following a weak 2011, most markets made a modest start to 2012. Q1 take-up fell short of the 2011 quarterly average in eight markets. This was most evident in Aberdeen and Birmingham.
- The three exceptions were Leeds, Glasgow and Edinburgh, which all enjoyed more take-up in Q1 2012 compared with the 2011 quarterly average. Of these, Leeds stands out, with Q1 take-up of 155,847 sq ft being the highest level of take-up recorded in Leeds since 2010.
- Take-up in Glasgow and Edinburgh was consistent with the same period last year, suggesting that occupier sentiment has remained relatively robust.

City centre take-up, Q1 2012 vs 2011 quarterly average (sq ft)

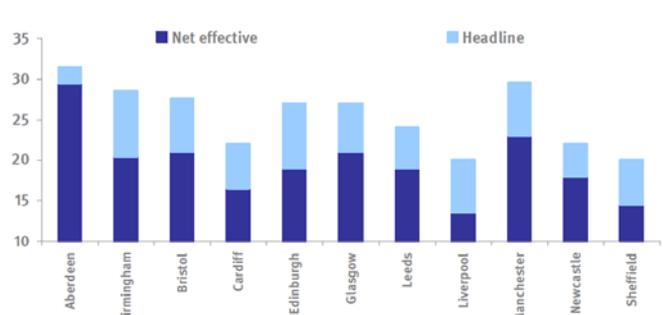


Source: Knight Frank Research

Supply and rents

- Speculative development activity remains limited, confined to only five of the 11 regional markets as at the end of Q1 – while Manchester was the only city to see a development in excess of 200,000 sq ft get underway.
- Many markets are still facing a supply crunch, with Grade A availability down 20% year-on-year across all markets combined. One striking trend has been that Aberdeen has reported nil Grade A in-town availability in Q1.
- Falling Grade A supply is starting to impact on pricing. In terms of rental growth, Manchester outperformed the other regional markets, seeing headline rents increase by 7% y-o-y, rising from £28.00 per sq ft to £30.00 per sq ft during Q1, with net effective rents recovering to their mid-2009 level of £23.50 per sq ft.

Q1 2012 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Transactional activity in Q1 2012 amounted to £390m outside London and the South East, a decline of 30% on Q4 2011. Investor sentiment remains fragile and polarized but has not worsened in 2012.
- Prime office yields were largely stable across 10 of the 11 regional office markets, with the exception of Birmingham where yields moved out by 25bps.
- With an ongoing shortage of buying opportunities for prime assets, pricing is expected to hold throughout 2012.
- Interest in the regional office investment market continues to be focused on prime property, particularly from institutional investors. The secondary market is somewhat more challenging and is mostly confined to short income on business parks.

Prime office yields

	2011			2012	Yield sentiment
	Q2	Q3	Q4	Q1	
Aberdeen	6.00%	6.00%	6.25%	6.25%	◀ ▶
Birmingham	5.75%	5.75%	6.00%	6.25%	◀ ▶
Bristol	6.00%	6.00%	6.25%	6.25%	◀ ▶
Cardiff	6.25%	6.25%	6.25%	6.25%	◀ ▶
Edinburgh	6.00%	6.00%	6.25%	6.25%	◀ ▶
Glasgow	6.00%	6.00%	6.25%	6.25%	◀ ▶
Leeds	6.25%	6.25%	6.25%	6.25%	◀ ▶
Liverpool	6.75%	6.75%	7.00%	7.00%	◀ ▶
Manchester	6.00%	6.00%	6.00%	6.00%	◀ ▶
Newcastle	6.50%	6.50%	6.50%	6.50%	◀ ▶
Sheffield	6.75%	6.75%	7.00%	7.00%	◀ ▶

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