RESEARCH

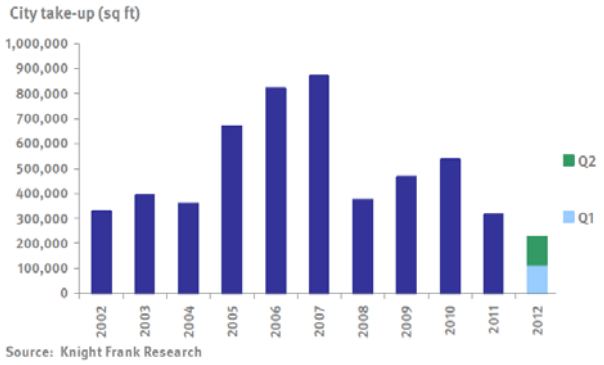
GLASGOW OFFICES

Market update Q2 2012

Knight Frank

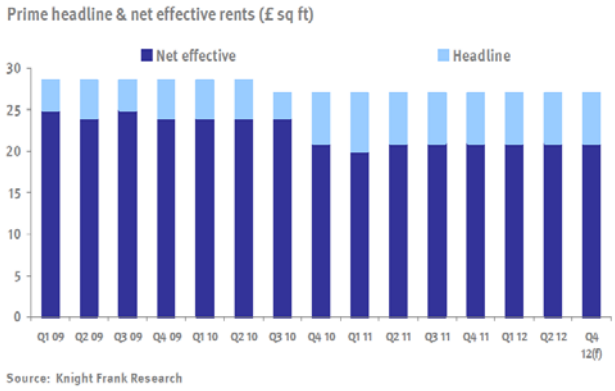
Key highlights

- So far this year, the market has seen a modest level of activity. Q2 take-up amounted to 112,000 sq ft, which was broadly similar to Q1, although most of it related to Grade B space. On an annual basis, Q2 take-up was up 89%.
- Prime rents were unchanged in Q2, with the headline figure still at £27.00 per sq ft and net effective rents at £21.00 per sq ft. Limited further movement in rents is expected for the rest of this year.
- The vacancy rate remained at 10% in Q2, while Grade A availability was also unchanged at 360,000 sq ft. However, on the supply side, the market is in a much better place than a year ago.



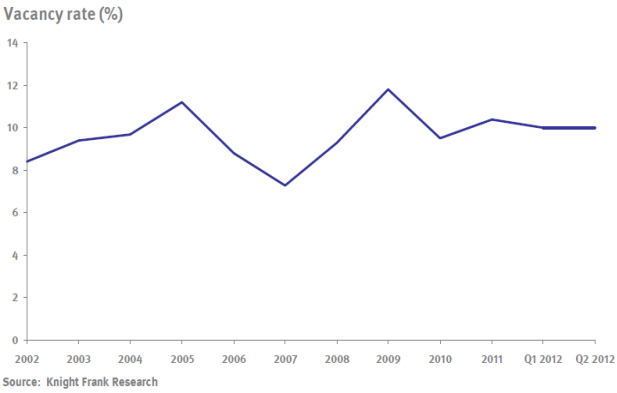
Office gossip

- Q2 saw no Grade A office take-up in the city centre, with most lettings being in the Grade B market.
- Key deals to note include the letting of 15,000 sq ft at the Guild Hall, 57 Queen Street to Clydesdale Bank, at an initial rental of £16.00 per sq ft.
- Smart Metering Systems acquired c. 8,500 sq ft in 48 St Vincent Street at an initial rental of £18.50 per sq ft.
- Scotcall Debt Recovery Services Limited acquired 9,500 sq ft in Spectrum, 55 Blythswood Street at a rent of £19.50 per sq ft.
- 26 Blythswood Square, which extends to 12,940 sq ft, was sold to a private pension trust for c. £1.35m.



Looking ahead

- The outlook for the Glasgow office market for the remainder of this year looks more positive than the last six months, with a number of requirements expected to result in new acquisitions by the end of this year.
- A number of legal firms have requirements for the city centre, including Harper MacLeod, Brodies, Irwin Mitchell and HBJ Gateley Wareing. All these firms are expected to do deals this year.
- With regard to the development pipeline, there are no indications that construction will begin on any buildings this year which will complete in 2013/2014 – thereby supporting current values.



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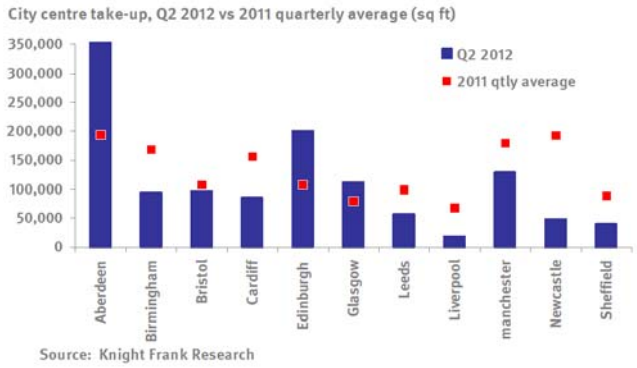
UK REGIONAL OFFICES ROUND-UP

Q2 2012

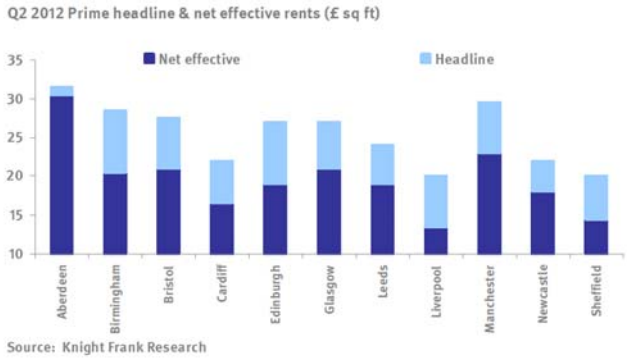
Occupier demand

- Total Q2 take up in the eleven cities combined was 1,423,646 sq ft, 32% up on Q1. However, Q2 was somewhat skewed by Aberdeen's record take-up level of 547,926 sq ft.
- Given the economic backdrop, it is unsurprising that most markets experienced lower take-up in Q2 2012 compared with the 2011 quarterly average. The three exceptions are Aberdeen, Edinburgh and Glasgow, which all experienced above average activity during the quarter.
- Despite the challenging economic environment, occupier demand has held up better than expected. Demand is anticipated to remain at current levels over the summer, although a number of active requirements provide a source of optimism.



Supply and rents

- The lack of new development has meant that Grade A supply has continued to fall in most regional centres.
- The on-going lack of debt funding is still hampering new development, while more secondary property is becoming available. Speculative development activity remains limited, confined to only four of the 11 regional markets as at the end of Q2. Moreover, only two cities, namely Birmingham and Manchester, have in excess of 100,000 sq ft underway.
- Nevertheless, prime rents were broadly stable during Q2 and vary between £20.00 per sq ft in Sheffield and £31.50 in Aberdeen. Looking forward, prime office rents in most regional cities are not expected to change significantly for the rest of the year, although upwards pressure on net effective rents may be seen in some areas.



Investment market

- Investment turnover for offices outside London and the South East was subdued in Q2. The latest figures from Property Data suggest c.£374m turnover, 4% down on Q1.
- Investor demand is still very much focussed on prime property. However, we believe that both prime and secondary pricing has softened, with the yield gap increasing as prices for secondary product continue to soften faster than those for prime stock.
- The prevailing uncertainty in the Euro zone and its impact on the UK economy has resulted in weak demand for secondary property.
- According to the latest Knight Frank ROMP Confidence Index, a majority of our agents are expecting to see little change to investor sentiment in the prime office market, with the outlook remaining generally cautious.

Prime office yields

	2011		2012		Yield sentiment
	Q3	Q4	Q1	Q2	
Aberdeen	6.00%	6.25%	6.25%	**6.50%**	◄ ▲
Birmingham	5.75%	6.00%	6.25%	**6.50%**	◄ ▲
Bristol	6.00%	6.25%	6.25%	**6.50%**	◄ ▲
Cardiff	6.25%	6.25%	6.25%	**6.50%**	◄ ▲
Edinburgh	6.00%	6.25%	6.25%	**6.50%**	◄ ▲
Glasgow	6.00%	6.25%	6.25%	**6.50%**	◄ ▲
Leeds	6.25%	6.25%	6.25%	**6.50%**	◄ ▲
Liverpool	6.75%	7.00%	7.00%	**7.25%**	◄ ▲
Manchester	6.00%	6.00%	6.00%	**6.50%**	◄ ▲
Newcastle	6.50%	6.50%	6.50%	**6.75%**	◄ ▲
Sheffield	6.75%	7.00%	7.00%	**7.25%**	◄ ▲

Source: Knight Frank Research