

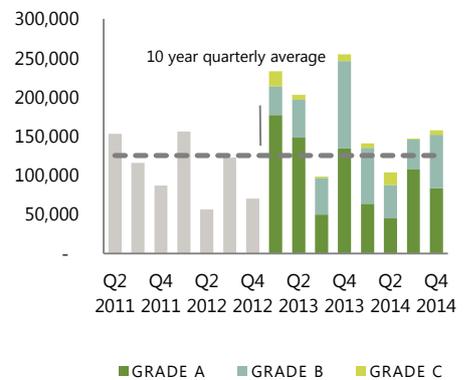
LEEDS OFFICES

MARKET UPDATE H2 2014

Occupier market

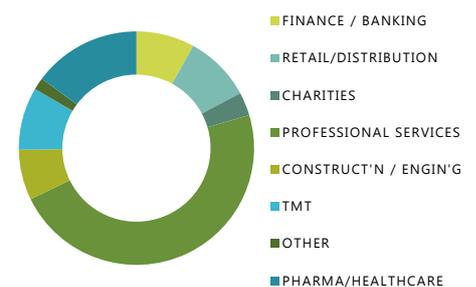
- H2 saw take-up reach a significant 353,338 sq ft, unable to surpass activity in H2 2013, but up 25% on H1 2014.
- The Professional Services sector was a significant contributor to take-up in H2 2014, representing 44% of the total.
- Grade A Space accounted for 63% of total take-up in H2, supported by the of developments of St Pauls House and Minerva which will help alleviate the shortage of Grade A space. The Grade B market experienced a mixed H2, with relatively weak take-up in Q3, although it picked up in Q4.
- Driven by strong activity in Q3 and Q4, Leeds saw both quarters surpass the 10-year quarterly average with 147,051 sq ft and 157,568 respectively.
- A total of 36 leasing transactions were completed in Q4, of which 78% were below 5,000 sq ft, whilst only 8% involved deals over 10,000 sq ft.
- Highlights of Q4 included deals involving DAC Beachcroft at Boulton Brooks' ongoing refurbishment of St Paul's House, totalling 24,800 sq ft at £23 per sq ft. Other important activity included Evans letting 4,282 sq ft of their recent renovation of Minerva to UBS and BNP Paribas, at a rent reportedly in the region of £25 per sq ft.
- Rents also improved in Q4 due to the letting of 8,117 sq ft at NFU's One Whitehall Riverside to Handlesbanken at a headline rent of £26.00 per sq ft.
- While the market was awaiting confirmation of the pre-let of Central Square to PWC (anticipated to be circa 50,000 sq ft), MEPC announced the pre-let of 32,382 sq ft to Squire Patton Bogs at 6 Wellington Place for an undisclosed headline rent, believed to be around £25 per sq ft.
- With a number of speculative developments (Rocksprings' 69,955 sq ft at 6 Queen St and Bruntwood and Kier's 93,236 sq ft at 3 Sovereign Square) scheduled for completion in mid-2016, Grade A supply is expected to diminish in 2015. Upon completion, the market should be capable of absorbing the spike in availability in 2016. An oversupply issue is not anticipated.
- In the meantime, as development accelerates, prime office headline rents are expected to increase from £25 to £27.50 per sq ft by the end of 2015.

FIGURE 1
City centre take-up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2
H2 2014 take-up by sector



Source: Knight Frank LLP

Agent's view

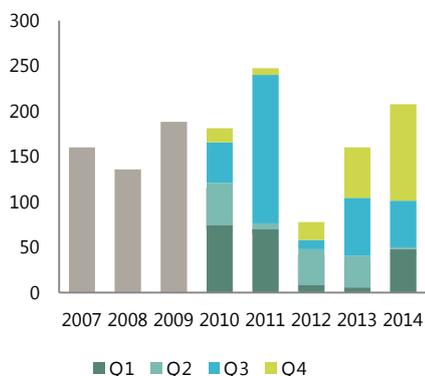
While Grade A supply continues to diminish in 2015, recently completed developments and further proposed schemes will ensure that the rate of decline is kept to a minimum. Market sentiment is positive and we expect the level of take-up, particularly in the first half of the year, to be consistent with the levels experienced at the end of 2014. Effects from the squeeze on Grade A space will be reflected in incremental increases in headline rents, forecast to reach £27.50 per sq ft by the end of 2015. The hardening of incentives will ultimately improve net effectives and we can expect Leeds to be given a boost as speculative developments come into fruition.



Rocksprings' 69,955 sq ft Grade A "BREEAM Excellent" development at 6 Queen Street is scheduled for completion by 2016.

FIGURE 3

Leeds offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

Investment market

- Investment volumes in H2 were around three times the levels seen in H1 in what turned out to be an exceptional final six months of 2014.
- Investment in H2 totalled £157m, up 32% on H2 2013, hugely driven by a surge of activity in Q4.
- The most significant deal in H2 involved the purchase of an undeveloped site (6 Queen Street) by Rockspring Hanover Property Unit Trust in a deal worth £30m. Other deals worth mentioning include the acquisition of Leeds Valley Park for £21.4m by a Private investor at a yield of 7.34%, and the purchase of Yorkshire house by FORE Partnership for £17m which was finalised in October 2014.
- While demand has remained strong, there is a slight concern that a few cases of overly-ambitious asking prices are having a detrimental effect on the market.
- Following the hardening in prime office yields experienced at the end 2013, yields were stable at 5.75% throughout 2014.
- The long list of speculative developments scheduled to take place this year means that the UK's third largest city will provide an increasing number of good investment opportunities.

TABLE 1

Selected investment transactions/under-offer in H2 2014

Date	Address	Purchaser / Vendor	Price	NIY
Dec 14	Wellington Street	Ardstone UK / Aviva Life & Pensions UK	£8.44m	7.57%
Dec 14	Thorpe Park, 3200	Tosca Commercial PF / Topland Group PLC	£5.7m	8.6%
Dec 14	Queen Street, 6	Rockspring Hanover PUT / CDP Ltd	£30m	N/A
Dec 14	Thorpe Park, 2180	Private Investor /	£6.27m	6.25%
Dec 14	Manor House, Cardinal House	Custodian REIT PLC / Undisclosed	£3.8m	8.43%
Nov 14	Centre 27, Birstall	Aew UK Core Property Fund / LaSalle Investment Management	£2.9m	11.4%
Oct 14	The Embankment, No.1	Patrizia Immobilien AG / ReAssure Ltd	£10.05m	9.92%
Oct 14	Yorkshire House, Greek Street	FORE partnership / APIA Regional Office Fund	£17m	N/A

Source: Knight Frank LLP



Yorkshire House was purchased by FORE Partnership for £17m in Q4 2014.



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