RESEARCH

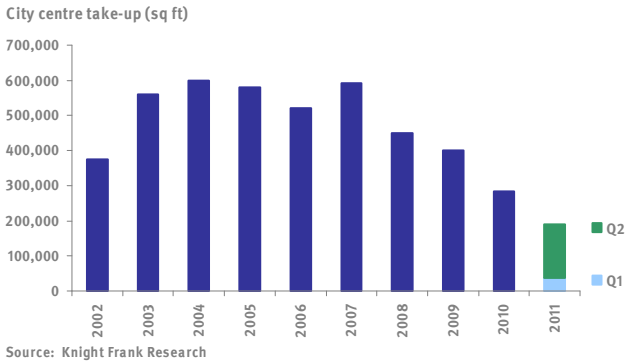
# LEEDS OFFICES

Market update Q2 2011

**Knight Frank**

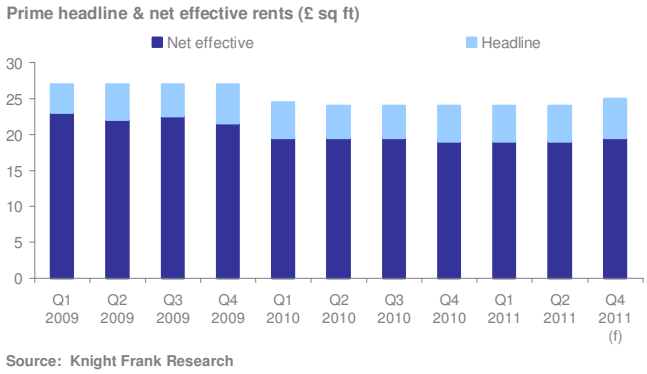
## Key highlights

- Leeds city centre saw healthy take-up of 153,000 sq ft in Q2 2011. The substantial improvement in Q2 has brought the H1 2011 total to 190,000 sq ft - 42% up on H1 2010 total.
- Q2 take-up was driven by a few large transactions. Asda took 38,039 sq ft at The Mint, Redmayne Bentley took 13,930 sq ft at 9 Bond Court while Clarion Solicitors took a 15,000 sq ft pre-let at Elizabeth House.
- The availability of new and Grade A space remained at a robust 550,000 sq ft in Q2.
- Prime headline rents have stabilised at £24.00 per sq ft and net effective rents are stable at £19.00 per sq ft.



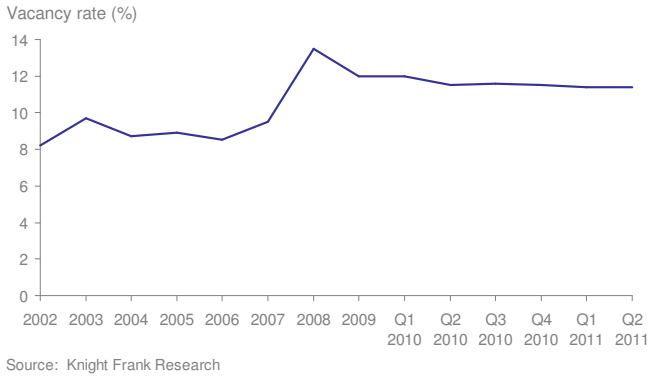

## Office gossip

- Active named requirements for city centre office accommodation totalled 500,000 sq ft in Q2 2011. Some recently announced large requirements include the Leeds Building College (80,000 sq ft), Shulmans (20,000 sq ft) and a confidential requirement of 120,000 sq ft. Following their 7,000 sq ft acquisition, the Medical Protection Society have a requirement for a further 50-60,000 sq ft in an existing building.
- The pre-let market is gathering momentum with major occupiers such as Walker Morris (100,000 sq ft) and KPMG (60,000 sq ft) who Knight Frank act for, looking to commit to a potential site over the next 6-12 months.




## Looking ahead

- City centre take up is estimated to reach 350,000 sq ft at the end of 2011 which will be a modest improvement on 2010's 280,000 sq ft.
- While the market remains generally challenging, occupier confidence has bounced back and is expected to continue despite the slow start and concerns about public spending cuts. We expect to see a healthy level of take up in Q3.
- Availability is expected to increase due to public sector consolidation, although much of this will be lower grade stock which is unlikely to have any significant impact on prime rents.





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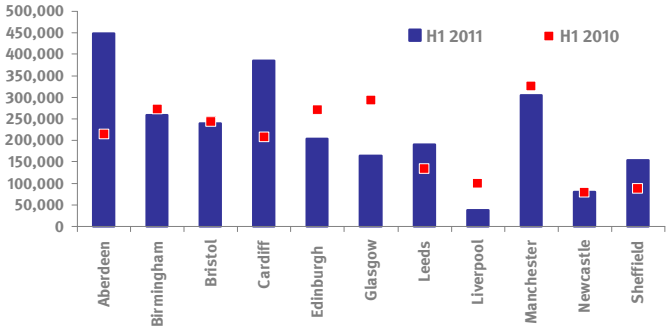
# UK REGIONAL OFFICES ROUND-UP

Q2 2011

## Occupier demand

- Across the eleven markets combined, total take-up for the first half of 2011 stands 11% higher than H1 2011. However, if Admiral Insurance's 200,000 sq ft pre-let in Cardiff is excluded, take-up is almost identical.
- H1 2011 take-up in Birmingham, Bristol, Manchester and Newcastle was remarkably consistent with the equivalent period last year, suggesting occupier sentiment has remained relatively robust.
- Buoyancy of the North Sea oil sector continues to fuel strong demand in Aberdeen, with H1 2011 take-up more than twice that seen in H1 2010. In contrast, Edinburgh and Glasgow have seen less transactional activity on last year, while activity remains extremely subdued in Liverpool.

City centre take-up, H1 2011 vs H1 2010 (sq ft)

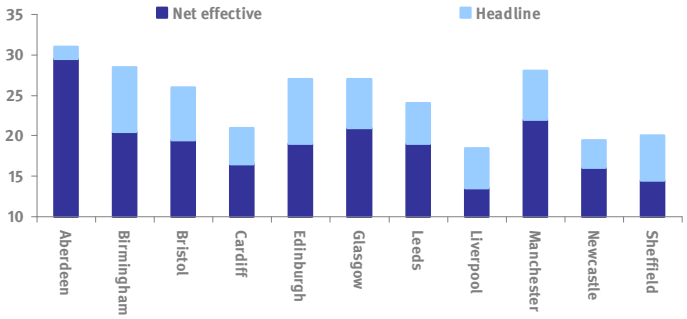



Source: Knight Frank Research

## Supply and rents

- The commencement of Two Snowhill in Birmingham is the first major speculative development to progress across the 11 cities in almost a year. However, most of Hines' 305,000 sq ft scheme is pre-let, and this is likely to provide the only means through which large developments will move forward in these markets over the next 12 months.
- Supply continues to ebb away in the absence of new development completions. At the end of Q2 2011, Grade A supply across the 11 cities combined was down 25% on Q2 2010, with the largest falls seen in Aberdeen (-89%), Edinburgh (-47%) and Sheffield (-35%).
- Headline rents slipped in Liverpool and Newcastle to £18.50 and £19.50 in Q2. However, more generally, incentive levels are either hardening or expected to harden across the regional centres, in reflection of this steady erosion of Grade A supply.

Q2 2011 Prime headline & net effective rents (£ sq ft)




Source: Knight Frank Research

## Investment market

- Investors' aversion to secondary assets and a shortage of available prime stock has stymied activity in the first half of 2011. Latest figures from Property Data reveal that H1 2011 turnover was c.£716m outside London and the South East, down 52% on H1 2010.
- Investment demand is becoming increasingly polarised according to perceived strengths of each occupier market. When prime office stock becomes available in Birmingham, Manchester and Bristol, aggressive bidding is ensuing. Elsewhere, however, investors are more cautious and need to see clear value. Consequently, prime yields softened by 25bps in Liverpool, Leeds and Sheffield in Q2.
- The secondary investment market remains problematic. Yields are likely to soften given an anticipated increase of stock to the market as lenders become more willing to offload properties and crystallise their losses.

Prime office yields

| | 2010 | | 2011 | | Yield sentiment |
|---|---|---|---|---|---|
| | Q3 | Q4 | Q1 | Q2 | |
| Aberdeen | 6.00% | 6.00% | 6.00% | **6.00%** | ◄ ► |
| Birmingham | 5.75% | 5.75% | 5.75% | **5.75%** | ◄ ► |
| Bristol | 6.00% | 6.00% | 6.00% | **6.00%** | ◄ ► |
| Cardiff | 6.25% | 6.25% | 6.25% | **6.25%** | ◄ ► |
| Edinburgh | 6.00% | 6.00% | 6.00% | **6.00%** | ◄ ► |
| Glasgow | 6.00% | 6.00% | 6.00% | **6.00%** | ◄ ► |
| Leeds | 6.00% | 6.00% | 6.00% | **6.25%** | ◄ ► |
| Liverpool | 6.50% | 6.50% | 6.50% | **6.75%** | ◄ ► |
| Manchester | 6.00% | 6.00% | 6.00% | **6.00%** | ◄ ► |
| Newcastle | 6.50% | 6.50% | 6.50% | **6.50%** | ◄ ► |
| Sheffield | 6.50% | 6.50% | 6.50% | **6.75%** | ◄ ► |