RESEARCH

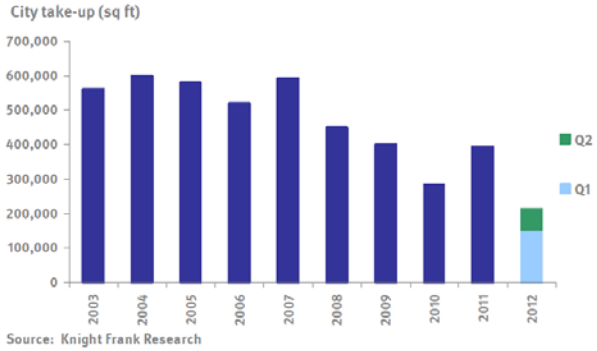
LEEDS OFFICES

Market update Q2 2012

Knight Frank

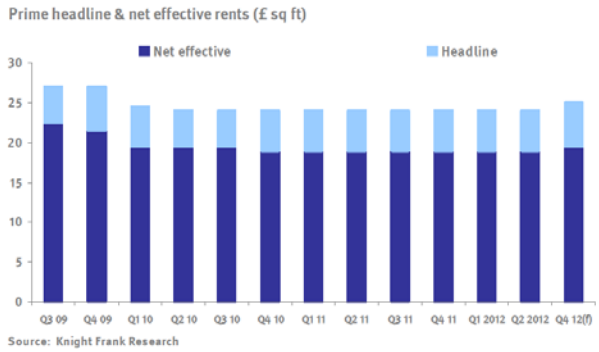
Key Highlights

- Activity slowed in Q2, with take-up amounting to 56,440 sq ft, 63% lower than the level recorded in Q1 2012. However, total take-up for the first half of the 2012 is better than the corresponding period in 2011 and is up significantly on the same period in 2009.
- The vacancy rate remained at around 10% - its level since Q3 2011 – but the good news is that available space continues to fall, declining by 25,000 sq ft to 325,000 sq ft in Q2.
- In Q2, headline and net effective rents were £24.00 per sq ft and £19.00 per sq ft respectively. Prime rents have remained unchanged since their fall in early 2010 but may come under modest upward pressure by the year-end.



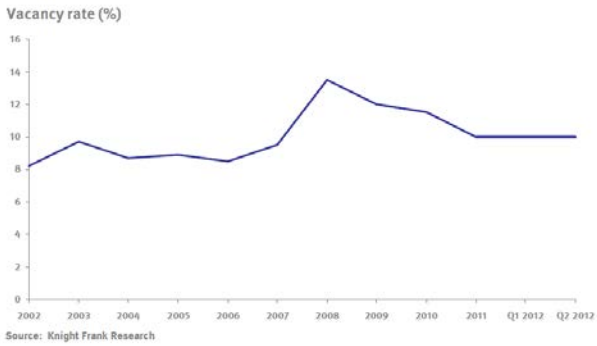
Office gossip

- A total of 19 leasing transactions were completed during Q2. The largest deal of the quarter was the leasing of 15,824 sq ft at Albion Court by Bracken at £13.25 per sq ft on a 10- year lease. This is the only transaction which was in excess of 6,000 sq ft.
- Active demand increased slightly in Q2 and stands at a robust 420,000 sq ft. A solid level of named enquiries continues, including CapGemini (15,000 sq ft), GDF (40,000 sq ft) and DAC Beachcroft (35,000-40,000 sq ft).
- While market conditions generally remain tough, occupier sentiment is at least showing some tentative signs of improvement.



Looking ahead

- No speculative development is progressing and availability is therefore expected to continue to fall, which should lead to a hardening of incentives in the short to medium term.
- Significant changes in rental levels are not expected, although modest upward pressure on net effectives may emerge as a result of falling supply.
- Demand is likely to be concentrated among SMEs, with transactions focused on the sub-10,000 sq ft bracket, much as it was in 2011.
- We expect to see a number of pre-lets to be agreed by the end of the year.



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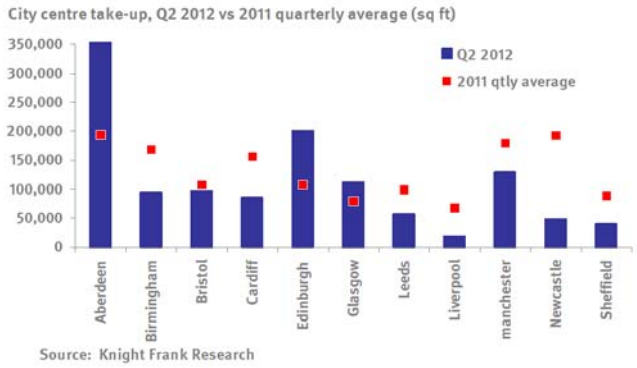
UK REGIONAL OFFICES ROUND-UP

Q2 2012

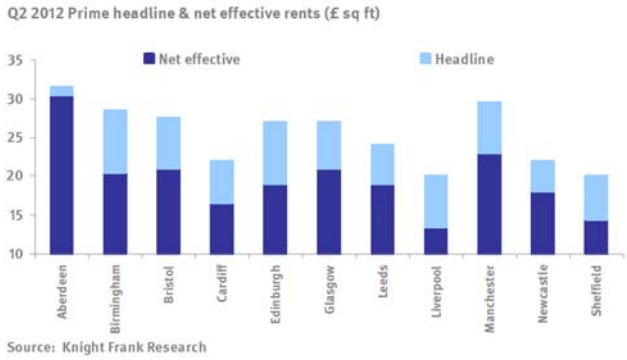
Occupier demand

- 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