RESEARCH

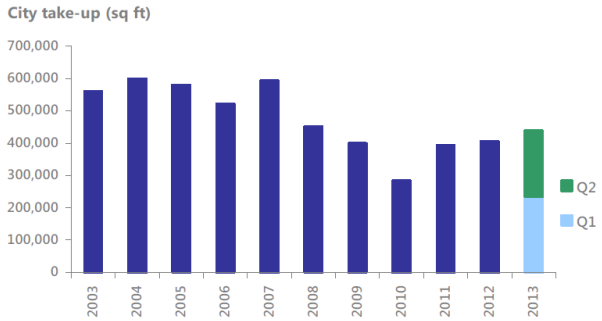
LEEDS OFFICES

Market update Q2 2013

Knight Frank

Key highlights

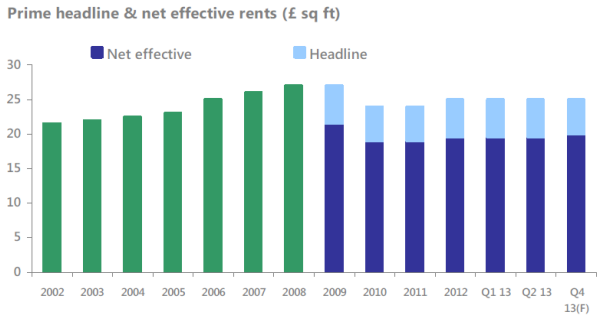
- Leeds' commendable level of activity in Q1 was followed by another strong quarter in Q2, with take-up of 203,000 sq ft. The total for H1 2013 stands at 438,000 sq ft, higher than any other regional market and a level which exceeds the city's annual total for each of the previous four years.
- Highcross's Broad Gate scheme secured two high profile lettings in Q2, including the largest deal the city has seen in a decade. First, Yorkshire Building Society leased 76,500 sq ft, then Cap Gemini agreed to 25,400 sq ft on the fifth floor.
- Elsewhere in Q2, QA and Masta Healthcare took space at Land Securities' City Exchange, totalling 20,000 sq ft.



Source: Knight Frank Research

Office gossip

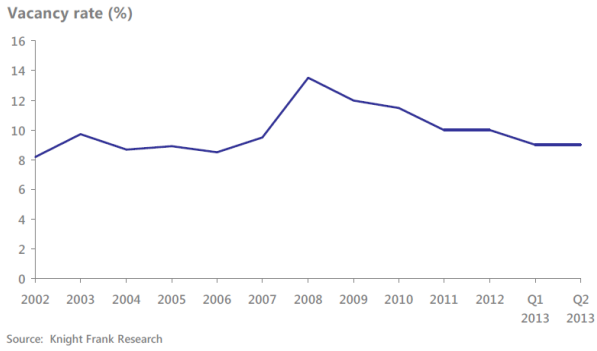
- The flurry of prominent deals in H1 2013 reflects the renewed confidence in the Leeds market, with major long-standing requirements among legal and financial occupiers coming to fruition.
- Although overall levels of demand have been dented by recent deals, active demand is relatively robust, standing at 350,000 sq ft. Notable outstanding requirements include Sky (55,000-70,000 sq ft), DAC Beachcroft (40,000 sq ft) and Squire Sanders (40,000 sq ft).
- Construction of KPMG and Shulmans' pre-lets have recently commenced on site, although there remains no speculative activity at present.



Source: Knight Frank Research

Looking ahead

- Q2's activity at Broad Gate has left the city centre with just one building which can satisfy the larger requirements, namely City Exchange. The lack of Grade A accommodation is expected to result in increased demand for good quality refurbishments in the prime core.
- With Grade A supply now standing at a mere 220,000 sq ft, the market is readjusting in favour the landlord. Although headline rents are expected to stay in the region of £25.00 per sq ft, net effectives will increase to circa £20.00 per sq ft by the end of 2013.
- The dynamics of supply and demand now arguably support the case for speculative development. However, developers will want to see clear evidence of prime rental growth before plans are seriously brought forward.



Source: Knight Frank Research

Agency contact

Elizabeth Ridler, Partner, Leeds
+44 (0)113 297 2427
elizabeth.ridler@knightfrank.com

Edward Harrowsmith, Associate, Leeds
+44 (0)113 297 1954
edward.harrowsmith@knightfrank.com

Research contact

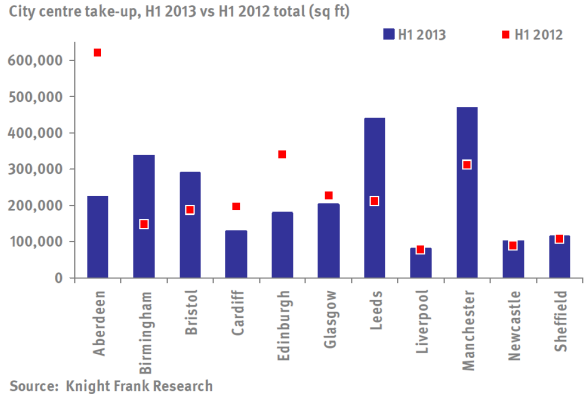
Oliver du Sautoy, Associate, Commercial Research
+44 (0)20 7861 1592
oliver.dusautoy@knightfrank.com

UK REGIONAL OFFICES ROUND-UP

Q2 2013

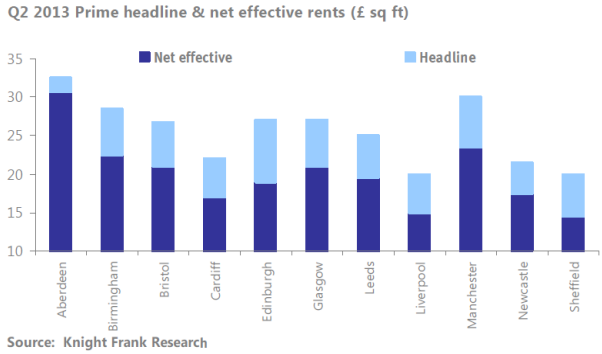
Occupier demand

- The regional office markets received a welcomed boost in Q2. Demand is relatively robust for the regions, with a growing list of sizeable requirements, mainly from corporate occupiers in the legal and financial sectors.
- The 11 markets combined recorded total take-up of 1,376,023 sq ft during Q2 – up 16% up on Q1 2013. Whilst overall total take-up for H1 2013 stands a modest 2% higher than H1 2012, this was largely due to Aberdeen's exceptional performance in 2012. Indeed, H1 2013 take-up in England's major regional markets has rebounded sharply from H1 2012, namely Birmingham (up 128%), Leeds (up 106%), Bristol (up 54%) and Manchester (up 51%).
- Whilst there was a healthy level of activity, similar to previous quarter, transactions continued to be predominantly characterised by smaller deals.



Supply and rents

- Availability of Grade A space slipped to 2,831,975 sq ft in Q2 2013 – 15% down on Q2 2012. This reflects the continuing erosion of Grade A space in most markets in the absence of new completions/development activity. A year-on-year double-digit fall was seen in Birmingham (-44%), Leeds (-32%), Glasgow (-17%), Manchester (-13%), Sheffield (-13%), Newcastle (-11%) and Liverpool (-10%), with the exception of Bristol (+31%) and Cardiff (+29%).
- There are signs that sentiment in the occupier market is improving. Headline rents and incentives have been largely stable, with only Aberdeen showing an increase in headline rents (from £31.50 to £32.50). While further significant growth in regional headline rents is unlikely over the remainder of 2013, net effective rents may harden as Grade A supply continues to decline.



Investment market

- Investment turnover for offices outside London and the South East was subdued in Q2. The latest figures from Property Data suggest c.£346m turnover, 42% down on Q1.
- Strong investor interest in prime office stock in the regions has been maintained, although a shortage of suitable product (prime and long-income assets) remains a major barrier to activity. In the secondary spectrum, investor interest is highly selective, confined to good quality secondary stock where there is potential to add value through asset management.
- Generally, prime yields were largely stable in the regional cities, albeit Q2 saw signs of improved sentiment for prime stock. Aberdeen, Birmingham, Bristol, Cardiff, Edinburgh, Glasgow and Leeds saw prime yields move in by 25bps.

Prime office yields

	2012		2013		Yield sentiment
	Q3	Q4	Q1	Q2	
Aberdeen	6.50%	6.50%	6.50%	**6.25%**	↘
Birmingham	6.50%	6.50%	6.25%	**6.00%**	↘
Bristol	6.50%	6.50%	6.50%	**6.25%**	↘
Cardiff	6.50%	6.50%	6.50%	**6.25%**	↘
Edinburgh	6.50%	6.50%	6.50%	**6.25%**	↘
Glasgow	6.50%	6.50%	6.50%	**6.25%**	↘
Leeds	6.50%	6.50%	6.50%	**6.25%**	↘
Liverpool	7.50%	7.50%	7.50%	**7.50%**	↘
Manchester	6.50%	6.50%	6.25%	**6.25%**	↘
Newcastle	6.75%	6.75%	7.00%	**7.00%**	↘
Sheffield	7.25%	7.25%	7.25%	**7.25%**	↘

Source: Knight Frank Research