RESEARCH

MANCHESTER OFFICES

Market update Q1 2012

Knight Frank

Key highlights

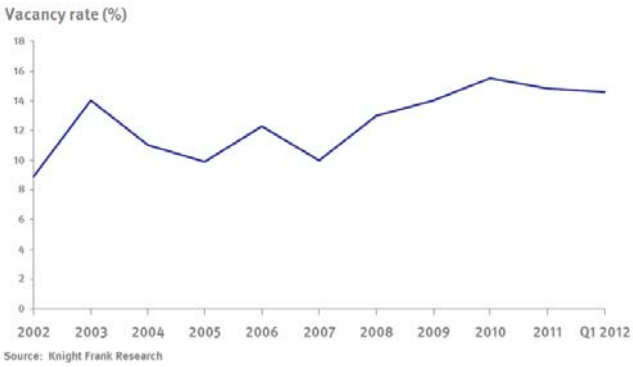
- Total office take-up in Manchester city centre was a solid if unspectacular 169,891 sq ft in Q1, down 34% on Q4 2011 but 34% up on 2011's Q1 total.
- QBE's lease of 6,820 sq ft at Chancery Place, Brown Street provided evidence that prime headline rents are continuing to recover. The insurance company reportedly agreed to a headline rent of £30.00 per sq ft.
- However, activity was focused once again on secondhand accommodation and, of the 61 transactions in Q1, the above deal was the only one to involve Grade A space. The two largest transactions in Q1 took place in City Tower, with Hays and Hempsons taking 17,884 sq ft and 13,324 sq ft respectively.

Office gossip

- GMPVF and Argent 's 1 St Peter's Square is now under construction following KPMG's 63,000 sq ft pre-let commitment in Q4 2011. Delivery of the 270,000 sq ft scheme is expected in 2014. Meanwhile, in Q1 Allied London announced that their 160,000 sq ft "I+" scheme, Spinningfields will go on-site in Janury 2013.
- Total named active demand edged up to 450,000 sq ft in Q1, with major requirements including BUPA (100,000 sq ft), Jacobs (80,000 sq ft) and Pannone (80,000 sq ft). The latter is understood to have identified several preferred options and may complete in Q2.
- A number of refurbishment projects were delivered in Q1, with the return of Arkwright House (55,000 sq ft) and Riverside (83,000 sq ft) to the market.

Looking ahead

- We expect prime headline rents to hold steady at £30.00 per sq ft over the coming 12 months, although rent free incentives will harden as Grade A supply falls. We are confident that 1 St Peter's Square will be capable of exceeding this level when it completes in 2014.
- The frequency and size of requirements in the market suggests that take-up in 2012 will be broadly in line with 2012's level, at around 600,000 sq ft.
- We expect the vacancy rate to remain broadly stable over the coming year. However, the underlying share of availability made up of Grade B space is likely to increase as occupiers upgrade their accomodation following lease events. Consequently, a further degree of softening may be seen in both rents and incentives on Grade B space over the next 12 months.



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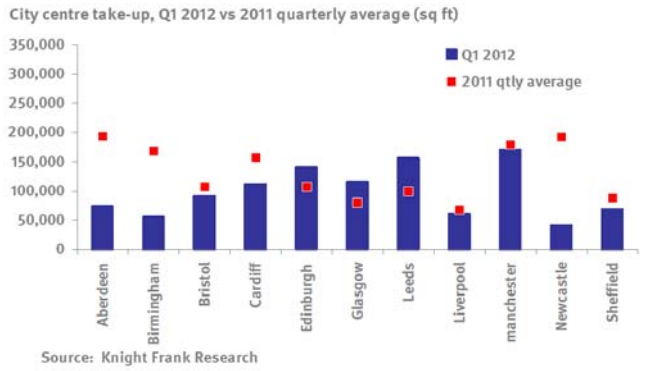
UK REGIONAL OFFICES ROUND-UP

Q1 2012

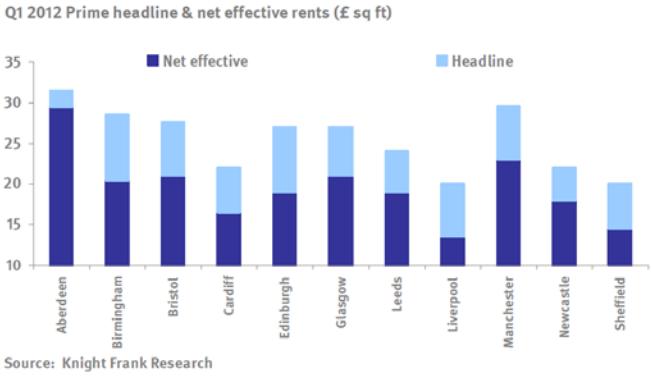
Occupier demand

- Following a weak 2011, most markets made a modest start to 2012. Q1 take-up fell short of the 2011 quarterly average in eight markets. This was most evident in Aberdeen and Birmingham.
- The three exceptions were Leeds, Glasgow and Edinburgh, which all enjoyed more take-up in Q1 2012 compared with the 2011 quarterly average. Of these, Leeds stands out, with Q1 take-up of 155,847 sq ft being the highest level of take-up recorded in Leeds since 2010.
- Take-up in Glasgow and Edinburgh was consistent with the same period last year, suggesting that occupier sentiment has remained relatively robust.



Supply and rents

- Speculative development activity remains limited, confined to only five of the 11 regional markets as at the end of Q1 – while Manchester was the only city to see a development in excess of 200,000 sq ft get underway.
- Many markets are still facing a supply crunch, with Grade A availability down 20% year-on-year across all markets combined. One striking trend has been that Aberdeen has reported nil Grade A in-town availability in Q1.
- Falling Grade A supply is starting to impact on pricing. In terms of rental growth, Manchester outperformed the other regional markets, seeing headline rents increase by 7% y-o-y, rising from £28.00 per sq ft to £30.00 per sq ft during Q1, with net effective rents recovering to their mid-2009 level of £23.50 per sq ft.



Investment market

- Transactional activity in Q1 2012 amounted to £390m outside London and the South East, a decline of 30% on Q4 2011. Investor sentiment remains fragile and polarized but has not worsened in 2012.
- Prime office yields were largely stable across 10 of the 11 regional office markets, with the exception of Birmingham where yields moved out by 25bps.
- With an ongoing shortage of buying opportunities for prime assets, pricing is expected to hold throughout 2012.
- Interest in the regional office investment market continues to be focused on prime property, particularly from institutional investors. The secondary market is somewhat more challenging and is mostly confined to short income on business parks.

Prime office yields

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