RESEARCH

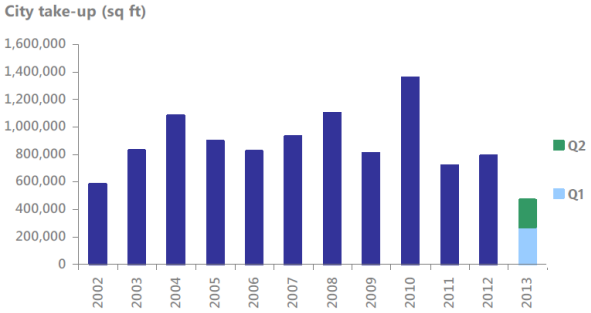
MANCHESTER OFFICES

Market update Q2 2013

Knight Frank

Key highlights

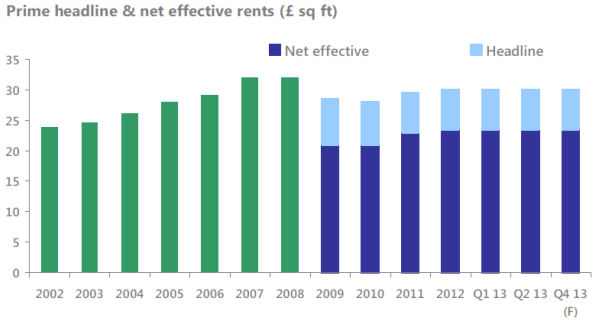
- While take-up was a respectable 194,235 in Q2, it was some way down on Q1's impressive 274,000 sq ft. Q2's figure nevertheless takes the total for the first half of 2013 to 468,235 sq ft, which is 51% above the total for H1 2012.
- Q2's key deals were BPP's lease of 19,000 sq ft at St James and Orega's lease at 76 King Street, which is the serviced office provider's second site within the city centre.
- Q2 also saw two notable investment deals. EPIC UK purchased 1 The Avenue, Spinningfields for £20m (6.5% NIY) from IM Properties while CBRE Global Investors' purchased 55 Spring Gardens for £11.6m (NIY 7.8%) with the transaction set to complete in December following its refurbishment.



Source: Knight Frank Research / MOAF

Office gossip

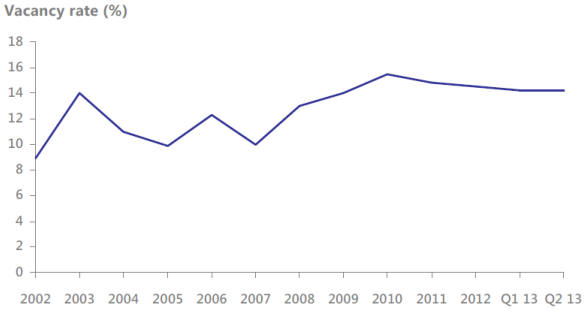
- Developers are now responding to the steady fall in Grade A supply and the brightening outlook for the occupier market. Total speculative development rose to 260,000 sq ft in Q2, with IVG commencing a back to frame refurbishment of 35 Fountain Street (51,000 sq ft).
- Elsewhere, Mosley Street Ventures recently submitted planning for a 180,000 sq ft scheme at 2 St. Peters Square, while Hines has entered into a joint venture with Manchester & Metropolitan Properties to develop Landmark, St Peter's Square, a 13 storey development of c. 150,000 sq ft.
- A number of large requirements remain unsatisfied in the marketplace. Active enquiries include Barclays, Pannone, Deans Court Chambers, and Ecclesiastical.



Source: Knight Frank Research

Looking ahead

- While Grade A supply has more than halved since the recession to stand at 350,000 sq ft, we are not expecting headline rents to rise from their current level of £30.00 per sq ft over the next 12 months.
- However, incentive levels may start to harden as the balance of the market shifts more towards the landlord.
- Evidence that developers are now readying major new-build schemes is encouraging. However, with the funding environment remaining cautious, schemes are unlikely to progress until at least part of the development is pre-let.



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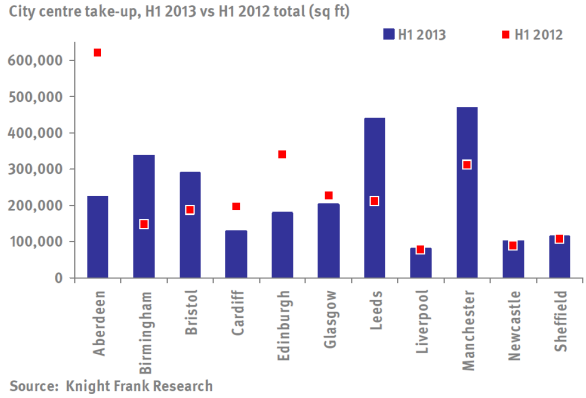
UK REGIONAL OFFICES ROUND-UP

Q2 2013

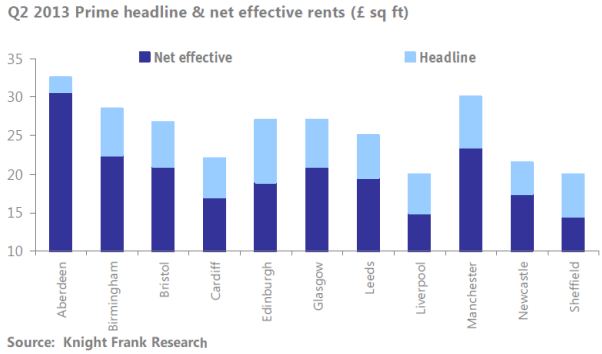
Occupier demand

- 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