RESEARCH

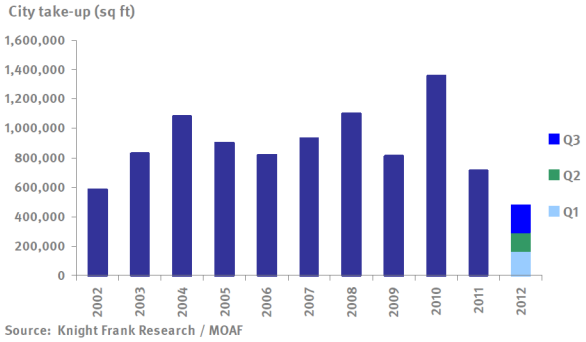
MANCHESTER OFFICES

Market update Q3 2012

Knight Frank

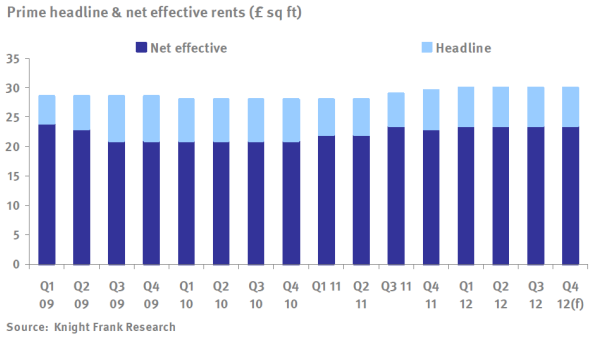
Key highlights

- Take-up was a respectable 179,930 sq ft in Q3, the highest quarterly total in 2012 so far. Positively, total take-up for the first three quarters in 2012 combined is also 10% above the equivalent period of 2011.
- Activity was again heavily focused on second-hand accommodation. Following no Grade A deals in Q2, just four of Q3's 57 deals involved new-build Grade A space.
- Average transaction size in the quarter amounted to 3,080 sq ft, with only two deals in excess of 20,000 sq ft. These comprised i2's lease of 22,066 sq ft at 3 Hardman Square and Futureworks' 24,000 sq ft lease at Bruntwood's Aldine House, Riverside.



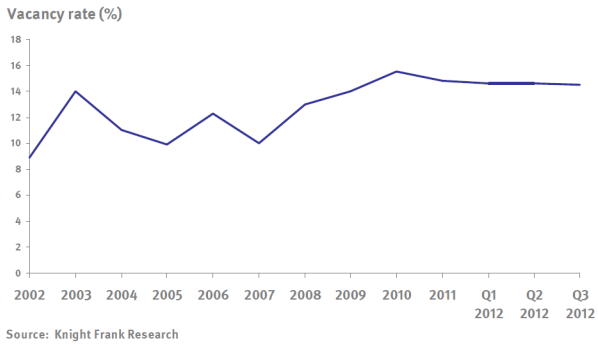
Office gossip

- Active requirements increased to c.520,000 sq ft during Q3, improving by 30% on a year ago.
- The most intriguing market development in Q3 was the announcement of 'Project Digital', a US technology consortium which is seeking occupation of 20 Grade A office buildings, all networked with cutting edge technology.
- Manchester's largest active requirement is from BUPA, which is looking to consolidate its occupation into c.160,000 sq ft. The healthcare provider is understood to have shortlisted a number of design and build options, including First Street and NOMA. Meanwhile Traveljigsaw are believed to be seeking 50,000 sq ft of secondary space in the city centre.



Looking ahead

- The distinct lack of Grade A transactions over the past six months is more due to the lack of demand for the best quality space as opposed to restricted level of supply. However, with no new development scheduled for completion during 2013, this lack of real supply of Grade A is set to continue.
- Headline rents are unlikely to show any growth in the short term and should remain steady at £30.00 per sq ft into 2013. However, incentives will harden next year as Grade A space ebbs away.



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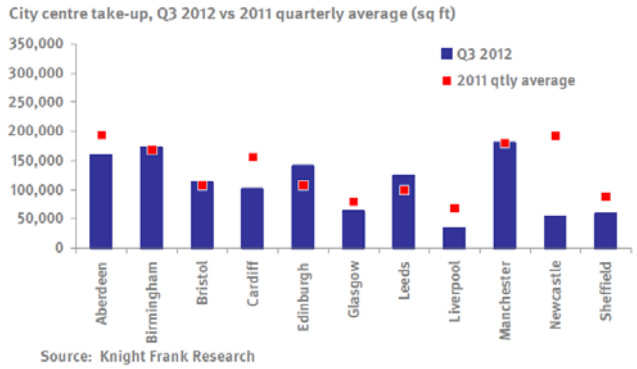
UK REGIONAL OFFICES ROUND-UP

Q3 2012

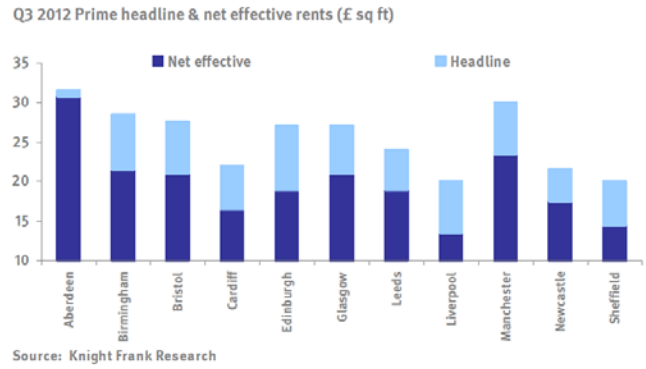
Occupier demand

- Office take-up across the eleven regional cities continued to be subdued, totalling 1,195,011 sq ft during Q3 2012 - down 15% on Q3 2011 and also down 16% on Q2 2012. Take-up in the eleven cities combined for the first nine months of 2012 was 7% down on the same period in 2011.
- Similar to the previous quarter, a number of markets experienced lower take-up in Q3 2012 compared with the 2011 quarterly average. Take-up was strongest in Edinburgh and Leeds, with Birmingham, Bristol and Manchester also experiencing just above average activity during the quarter.
- Occupiers continued the 'fight to quality' in most markets. We have seen renewed requirements from professional services firms prompted by forthcoming lease expiries.



Supply and rents

- The limited amount of new space brought to the market in Q3 resulted in another fall in availability, with total new Grade A supply across the region amounting to 3,230,062 sq ft – 2.4% below the Q2 2012 total.
- While prime headline rents are unlikely to increase from their current levels before the year-end, we do anticipate rent free incentives will harden in 2013 as Grade A supply becomes even more restricted.
- Speculative development activity remains generally limited. At the end of Q3 2012, speculative development across the 11 cities combined was up 17% on Q2 2012 but down 12% on Q3 2011. Birmingham and Manchester are the only two cities which have in excess of 100,000 sq ft underway.



Investment market

- Q3 investment turnover was £477m outside London and the South East, an improvement on Q2 but nevertheless 45% below the 10-year quarterly average.
- The largest single transaction in Q3 was Union Investment's £60m purchase of 1 George Square in Glasgow, reflecting a net initial yield of c.6.25%.
- There remains sustained strong investor interest for prime office stocks. However, a major barrier to activity remains a lack of suitable product, namely prime, long-income assets.
- While Q2 brought a softening in prime office yields in the regions, prime yields were largely unchanged in Q3, with the exception of Liverpool which prime yields moving out by 25bps to stand at 7.50%. Yields on secondary assets remain vulnerable to a further outward shift.

Prime office yields

	2011	2012			Yield sentiment
	Q4	Q1	Q2	Q3	
Aberdeen	6.25%	6.25%	6.50%	**6.50%**	◄ ▲
Birmingham	6.00%	6.25%	6.50%	**6.50%**	◄ ▲
Bristol	6.25%	6.25%	6.50%	**6.50%**	◄ ▲
Cardiff	6.25%	6.25%	6.50%	**6.50%**	◄ ▲
Edinburgh	6.25%	6.25%	6.50%	**6.50%**	◄ ▲
Glasgow	6.25%	6.25%	6.50%	**6.50%**	◄ ▲
Leeds	6.25%	6.25%	6.50%	**6.50%**	◄ ▲
Liverpool	7.00%	7.00%	7.25%	**7.50%**	◄ ▲
Manchester	6.00%	6.00%	6.50%	**6.50%**	◄ ▲
Newcastle	6.50%	6.50%	6.75%	**6.75%**	◄ ▲
Sheffield	7.00%	7.00%	7.25%	**7.25%**	◄ ▲

Source: Knight Frank Research