RESEARCH

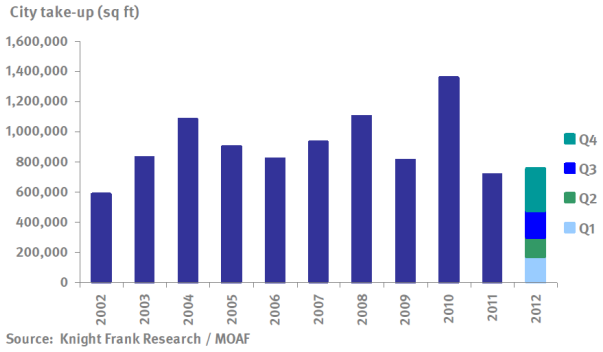
MANCHESTER OFFICES

Market update Q4 2012

Knight Frank

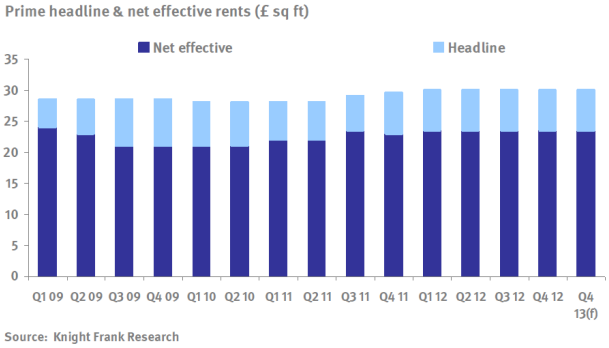
Key highlights

- Manchester enjoyed a strong finish to the year, with total take up for the final quarter being just under 297,311, taking the annual total to 788,265 sq ft. This comfortably exceeds the 2011 figure of 714,314 sq ft by 8.5%, but is 20% below the ten-year annual average.
- Headline rents remained steady at £30.00 per sq ft, and net effective rents were unchanged at £23.50 per sq ft.
- The availability of grade A space declined by 50,000 sq ft over the quarter to 370,000 sq ft. This means that availability is now more than 12% down on Q3 2011.



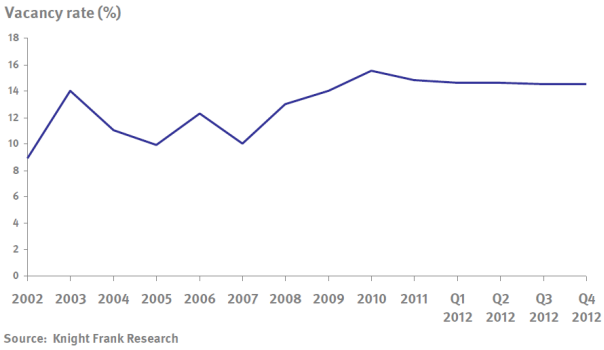
Office gossip

- Active requirements increased to c.700,000 sq ft during Q4, improving by 64% on a year ago.
- Key requirements in the market include Barclays, who are seeking c. 250,000 sq ft, Keogh's who is seeking around 90,000 sq ft to relocate from Bolton and Squire Sanders is also looking for 30,000 sq ft in the city.
- Notable transactions during Q4 include deals to HSB at Chancery Place, Engenica at Piccadilly Place as well as GVA's move to Norfolk House.
- Pressure on the supply of Grade A accommodation has increased following the letting of approximately 50,000 sq ft of Grade A space during Q4.



Looking ahead

- Looking forward, the supply of city centre stock is diminishing which will have a positive impact on headline and net effective rental levels.
- The continued erosion of Grade A stock is forcing any requirements of meaningful size to consider design & build pre-let. Due to the funding climate, appetite for speculative development remains thin and construction of new space in the city will be led by pre-letting activity.
- Headline rents are unlikely to see significant growth in the short term and should remain steady at £30.00 per sq ft in the first half of 2013. However, incentives will continue to harden later this year as Grade A space ebbs away.



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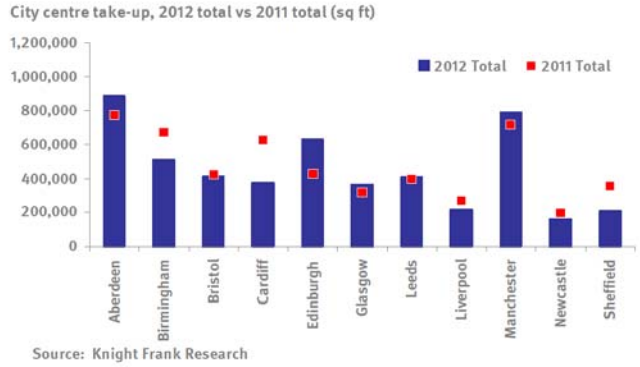
UK REGIONAL OFFICES ROUND-UP

Q4 2012

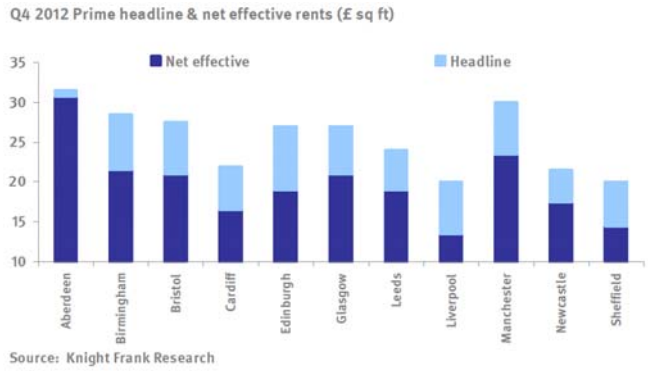
Occupier demand

- Take-up in the key regional office markets was generally resilient in Q4 2012. Across the 11 markets combined, total quarterly take-up of 1.22m sq ft was up 2% on Q3, although, 2012 as a whole was marginally lower than 2011.
- Annual take-up for 2012 totalled 4,930,430 sq ft - some 4% down on 2011 and 11% down on the 10-year annual average. A number of markets enjoyed stronger 2012 take-up compared with 2011 including Edinburgh (+47%), Glasgow (+15%), Aberdeen (+14%), Manchester (+10%) and Leeds (+3%).
- Transactions completed in 2012 comprised predominantly secondary space and relatively small lot sizes. However, the 'fight to quality' in most markets continued and we have seen renewed requirements from professional services firms prompted by forthcoming lease expiries.



Supply and rents

- While the speculative development pipeline remains generally limited, Q4 saw another quarterly increase from Q3's 661,431 sq ft to 734,545 sq ft. Despite the improved speculative activity, general sentiment remains cautious and developers will demand a significant pre-let before any large new-build scheme can progress.
- Supply continues on a downward trend in the absence of new completions. At the end of Q4 2012, Grade A supply across the 11 cities combined was down 18% on Q4 2011, with the largest falls seen in Edinburgh (-38%), Glasgow (-36%), Leeds (-30%) and Birmingham (-27%).
- Headline rents remained stable in Q4. However, more generally, incentive packages are either hardening or expected to harden across the regional cities, as a result of this steady erosion of Grade A supply.



Investment market

- The latest figures from Property Data reveal that Q4 investment turnover was c.£550m outside London and the South East, an improvement on Q3 but nevertheless 36% below the 10-year quarterly average.
- There remains strong investor interest in prime office stock, although a shortage of suitable product, namely 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 unchanged in the regional cities in Q4 albeit this is based largely on sentiment. Secondary office yields are under pressure and sentiments remains cautious.

Prime office yields

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

Source: Knight Frank Research