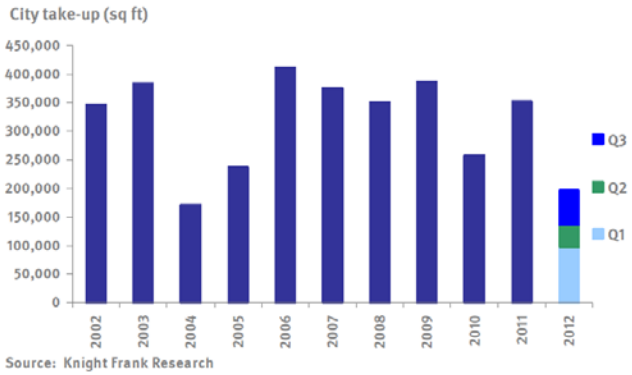
SHEFFIELD OFFICES

Market update Q3 2012

Knight Frank

Key highlights

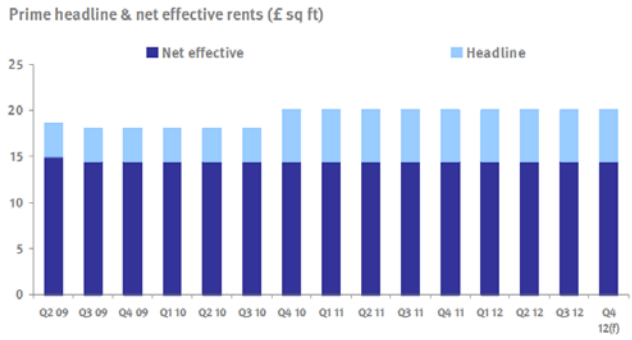
- Sheffield saw take-up of 59,000 sq ft in Q3, a notable improvement on Q2's 39,000 sq ft but nonetheless relatively lacklustre. As with Q2, the quarter's larger transactions took place in Sheffield's out-of-town market, with the city centre accounting for just 18% of take-up.
- Q3's three stand-out deals all took place at Atlas Business Park. Firth Rixon leased approximately 10,000 sq ft at the Centre Court building. Skills for Justice and Amey secured approximately 12,000 sq ft and 6,000 sq ft respectively at Distington House.



Source: Knight Frank Research

Office gossip

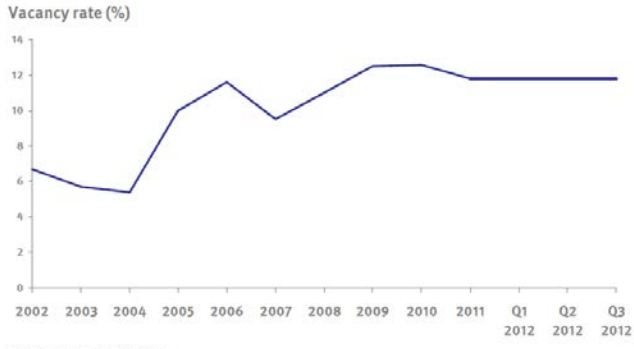
- While there remain a number of key requirements for Grade A space in the city centre - ranging between 10,000 sq ft to 50,000 sq ft - it now looks like none will bear fruit until some way into 2013.
- Positively, the arrival of Q4 coincided with a flurry of small to medium-sized requirements. This interest is largely focused on good quality secondhand space in the city centre.
- A number of planning proposals are in the pipeline which may see the conversion of a number of well-located but tired city centre office buildings to student accommodation.



Source: Knight Frank Research

Looking ahead

- It looks increasingly likely that the larger deals in the pipeline will now be signed in 2013. While take-up for 2012 as a whole is expected to end up some way below the annual average of 350,000 sq ft, these requirements should ensure more robust take-up next year.
- Prime headline rents should remain at £20.00 per sq ft until prime development sites in the city centre secure a pre-let, namely Site 3, St Paul's Place in the Heart of the City and Digital Campus.
- Development is required in the prime central area, as there are some high profile occupiers who are frustrated because of a lack of Grade A accommodation in prime city centre locations.



Source: Knight Frank Research

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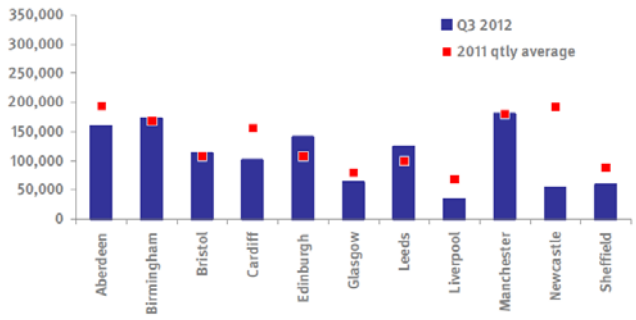
UK REGIONAL OFFICES ROUND-UP

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.

City centre take-up, Q3 2012 vs 2011 quarterly average (sq ft)

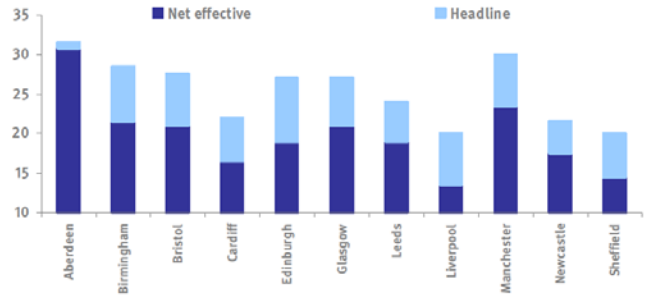


Source: Knight Frank Research

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.

Q3 2012 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

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

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