RESEARCH

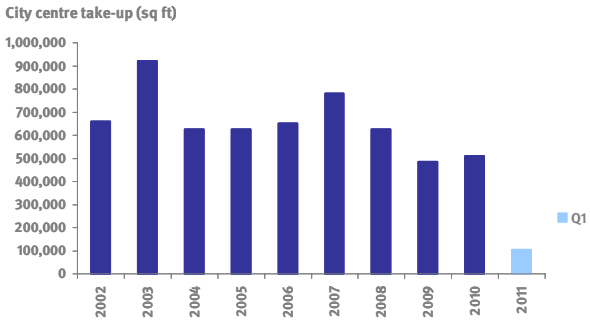
EDINBURGH OFFICES

Market update Q1 2011

Knight Frank

Key highlights

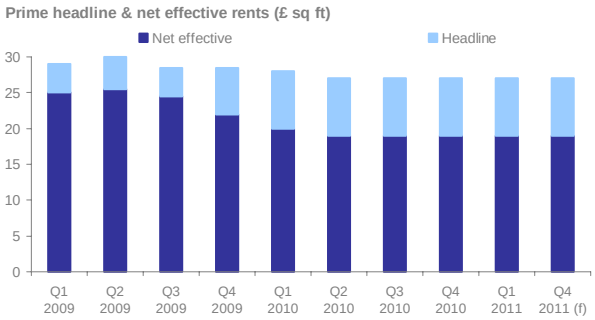
- Q1 take-up amounted to 104,000 sq ft, marginally up on Q4 2010. The office market continues to be slow moving, with Grade A requirements being particularly slow to convert to actual deals.
- Prime headline rents have stabilised at £27.00 per sq ft and net effective rents are stable at £19.00 per sq ft – down from £25.50 in mid-2009.
- The steady decline in the vacancy rate seen during 2010 has continued in to this year to reach 13% in Q1.
- The availability of new and Grade A space stood at just under 500,000 sq ft in Q1 , down from 550,000 sq ft in Q4 and over 40% down on a year ago.



Source: Knight Frank Research

Office gossip

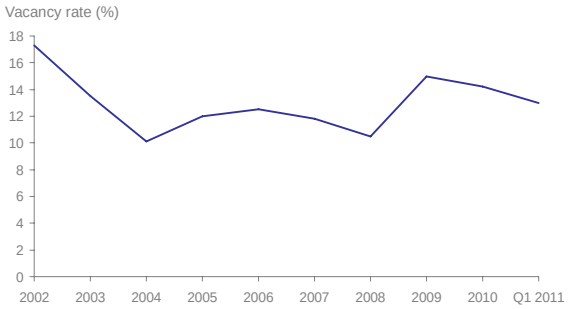
- Occupier demand is somewhat tentative and is currently coming mainly from the financial sector.
- Key requirements in the market place include Brewin Dolphin, which is seeking 40,000 sq ft of Grade A space, relocating from traditional townhouse buildings.
- In addition, there are a number of requirements from the fund managers, with Quilter, Edinburgh Partners, Rensberg Shepherds and Dunedin Capital all seeking modern, open plan space in the city centre.



Source: Knight Frank Research

Looking ahead

- Whilst the Edinburgh office market is slow moving, the lack of new stock coming through over the next 18 months may give rise to a supply-demand imbalance emerge.
- As a result, we expect incentives to gradually harden over the rest of this year, with likely upward pressure on net effective rents
- The development of 190,000 sq ft in the Exchange District will be the only building to offer modern Grade A office space. It is likely the building will achieve pre-lets as occupiers consider lease expiries in 2013, when completion is expected, to ensure they can secure new office premises without compromising occupational requirements.



Source: Knight Frank Research

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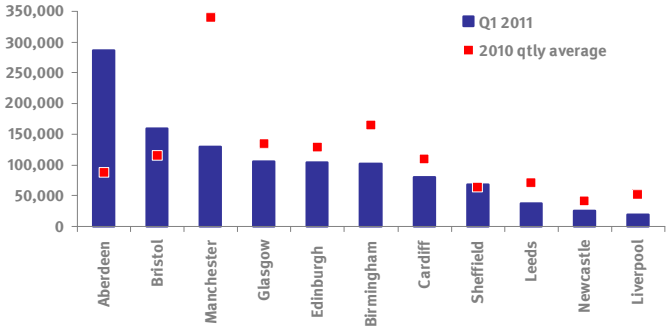
UK REGIONAL OFFICES ROUND-UP

Q1 2011

Occupier demand

- Following a robust 2010, most markets made a modest start to 2011. Q1 take-up fell short of the 2010 quarterly average in eight markets. This was most evident in Manchester, albeit 2010 was a remarkable year.
- The three exceptions were Sheffield, Bristol and Aberdeen, which all enjoyed more take-up in Q1 2011 compared with the 2010 average. Of these, Aberdeen stands out, with Q1 take-up of 287,000 sq ft exceeding its entire total for 2010.
- Despite the slow start to the year and ongoing concerns regarding public sector rationalisation, resilient take-up is expected in many markets in 2011, with Cardiff, Sheffield and Manchester expected to perform well.

City centre take-up, Q1 2011 vs 2010 quarterly average (sq ft)

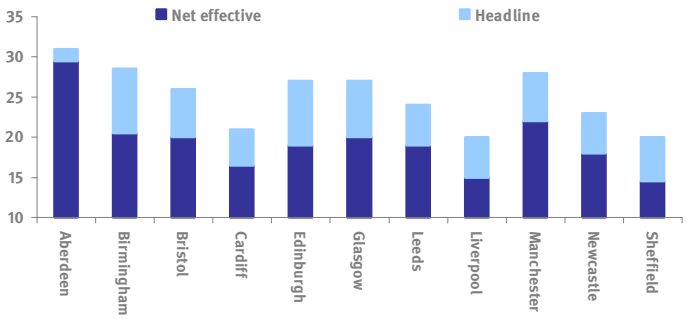


Source: Knight Frank Research

Supply and rents

- Speculative development activity remains limited, confined to only six of the 11 regional markets as at end Q1. Moreover, just two cities - Edinburgh and Bristol - have in excess of 100,000 sq ft underway.
- Many markets are heading towards a supply crunch, with Grade A availability down 31% year-on-year across all markets combined. The fall was 86% in Manchester, which has a very strong case for fresh development, finance permitting.
- Falling Grade A supply is starting to impact on pricing, albeit mostly in net effective terms so far. Incentives in Birmingham and Manchester hardened in Q1, with a further five markets forecast to follow suit during 2011. Aberdeen was the first market to see headline rents rise in 2011, rising from £30.00 per sq ft to £31.00 per sq ft during Q1.

Q1 2011 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Investment turnover for offices outside London and the South East was subdued in Q1. An analysis Property Data figures suggests c.£450m of turnover - in line with Q4 2010, but significantly down on Q1 2010.
- An ongoing shortage of buying opportunities for prime assets kept prime yields steady once again in Q1 2011. With the supply of prime stock likely to remain limited, pricing is expected to hold throughout 2011.
- In contrast, the supply of secondary stock is now increasing as banks are becoming more willing to offload property from their balance sheets. Consequently, secondary yields are expected to soften as more opportunities become available.
- Overseas investors remain largely absent from the regional office markets, save for several German Funds in search of large lot-sizes. However, this should change as overseas players seek higher yielding opportunities outside Central London.

Prime office yields

	2010			2011	Yield sentiment
	Q2	Q3	Q4	Q1	
Aberdeen	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Birmingham	5.75%	5.75%	5.75%	**5.75%**	◄ ►
Bristol	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Cardiff	6.25%	6.25%	6.25%	**6.25%**	◄ ►
Edinburgh	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Glasgow	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Leeds	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Liverpool	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Manchester	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Newcastle	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Sheffield	6.50%	6.50%	6.50%	**6.50%**	◄ ►