



LEEDS OFFICES

Market update Q1 2012

Knight Frank

Key Highlights

- Total take-up for Q1 was 155,847 sq ft, four times the level seen in Q1 2011, although the figure was skewed by a large owner-occupier deal in excess of 60,000 sq ft. Encouragingly, deals over 15,000 sq ft accounted for 15% of the total, with deals over 5,000 sq ft accounting for 42%, compared with last year which saw a high proportion of deals under 5,000 sq ft.
- The vacancy rate remained at around 10% - its level since Q3 last year – but the good news is that available space continues to fall, declining by 50,000 sq ft to 350,000 sq ft in Q1.
- In Q1, headline and net effective rents were £24.00 per sq ft and £19.00 per sq ft respectively. Prime rents have remained unchanged since their fall in early 2010 but may come under modest upward pressure by the year-end.

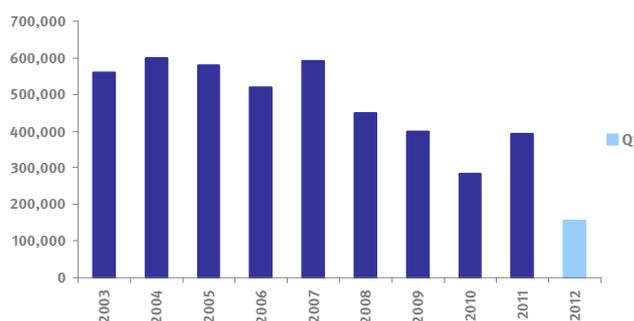
Office gossip

- The largest deal of Q1 was the purchase of 63,552 sq ft at 2&3 Victoria Place by the Medical Protection Society for occupation. Other key deals included Gratterpalm's acquisition of 18,871 sq ft at Number 1 Leeds, Dickinson Dees' acquisition of 17,030 sq ft at Whitehall Riverside and QBE Insurance taking 6,350 sq ft at 10 South Parade at a headline rent of £25.00 per sq ft. Only two suites remain at 10 South Parade which has been one of the most successful speculative developments of recent years.
- Wilton's other speculative development in the city at 2 Bond Court is now complete, with a pre-let of the top floor extending to 2,500 sq ft to Liberty Mutual.
- A solid level of named enquiries continues, including CapGemini (15,000 sq ft), GDF (40,000 sq ft) and DAC Beachcroft (35,000-40,000 sq ft). Indeed, total active demand for office space rose by 30,000 sq ft to 380,000 sq ft.

Looking ahead

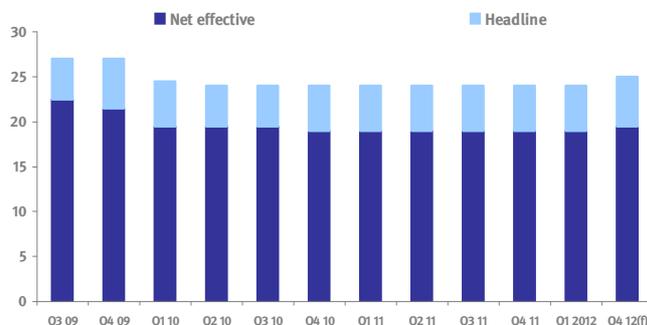
- While market conditions generally remain tough, rents have held firm and sentiment is at least showing some tentative signs of improvement.
- Indeed, there is now a steady level of enquiries in excess of 10,000 sq ft which has not been seen for some time. As a result, the supply of Grade A stock is expected to continue to diminish and one or two pre-lets may be announced by the end of the year.
- No significant changes in rental levels are expected, although a hardening in incentives as supply falls may exert modest upward pressure on net effectives.

City take-up (sq ft)



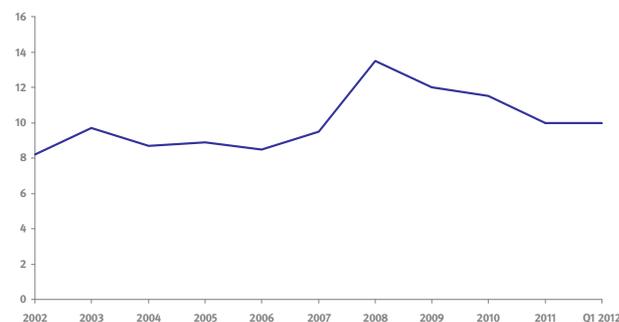
Source: Knight Frank Research

Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Vacancy rate (%)



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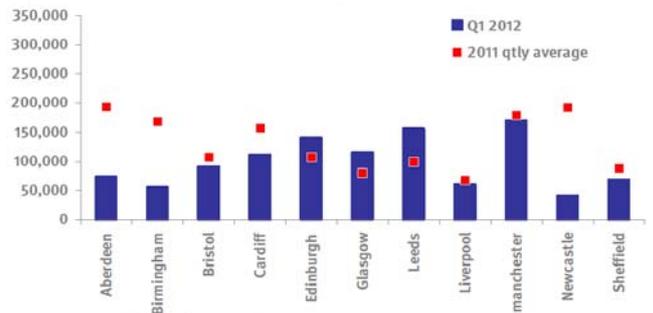
UK REGIONAL OFFICES ROUND-UP

Q1 2012

Occupier demand

- Following a weak 2011, most markets made a modest start to 2012. Q1 take-up fell short of the 2011 quarterly average in eight markets. This was most evident in Aberdeen and Birmingham.
- The three exceptions were Leeds, Glasgow and Edinburgh, which all enjoyed more take-up in Q1 2012 compared with the 2011 quarterly average. Of these, Leeds stands out, with Q1 take-up of 155,847 sq ft being the highest level of take-up recorded in Leeds since 2010.
- Take-up in Glasgow and Edinburgh was consistent with the same period last year, suggesting that occupier sentiment has remained relatively robust.

City centre take-up, Q1 2012 vs 2011 quarterly average (sq ft)

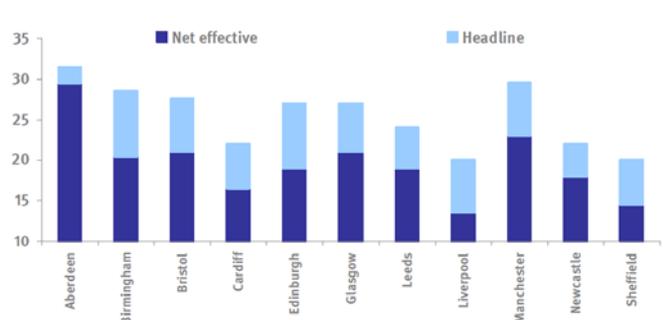


Source: Knight Frank Research

Supply and rents

- Speculative development activity remains limited, confined to only five of the 11 regional markets as at the end of Q1 – while Manchester was the only city to see a development in excess of 200,000 sq ft get underway.
- Many markets are still facing a supply crunch, with Grade A availability down 20% year-on-year across all markets combined. One striking trend has been that Aberdeen has reported nil Grade A in-town availability in Q1.
- Falling Grade A supply is starting to impact on pricing. In terms of rental growth, Manchester outperformed the other regional markets, seeing headline rents increase by 7% y-o-y, rising from £28.00 per sq ft to £30.00 per sq ft during Q1, with net effective rents recovering to their mid-2009 level of £23.50 per sq ft.

Q1 2012 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Transactional activity in Q1 2012 amounted to £390m outside London and the South East, a decline of 30% on Q4 2011. Investor sentiment remains fragile and polarized but has not worsened in 2012.
- Prime office yields were largely stable across 10 of the 11 regional office markets, with the exception of Birmingham where yields moved out by 25bps.
- With an ongoing shortage of buying opportunities for prime assets, pricing is expected to hold throughout 2012.
- Interest in the regional office investment market continues to be focused on prime property, particularly from institutional investors. The secondary market is somewhat more challenging and is mostly confined to short income on business parks.

Prime office yields

	2011			2012	Yield sentiment
	Q2	Q3	Q4	Q1	
Aberdeen	6.00%	6.00%	6.25%	6.25%	◀ ▶
Birmingham	5.75%	5.75%	6.00%	6.25%	◀ ▶
Bristol	6.00%	6.00%	6.25%	6.25%	◀ ▶
Cardiff	6.25%	6.25%	6.25%	6.25%	◀ ▶
Edinburgh	6.00%	6.00%	6.25%	6.25%	◀ ▶
Glasgow	6.00%	6.00%	6.25%	6.25%	◀ ▶
Leeds	6.25%	6.25%	6.25%	6.25%	◀ ▶
Liverpool	6.75%	6.75%	7.00%	7.00%	◀ ▶
Manchester	6.00%	6.00%	6.00%	6.00%	◀ ▶
Newcastle	6.50%	6.50%	6.50%	6.50%	◀ ▶
Sheffield	6.75%	6.75%	7.00%	7.00%	◀ ▶

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