



LEEDS OFFICES

Market update Q1 2013

Knight Frank

Key Highlights

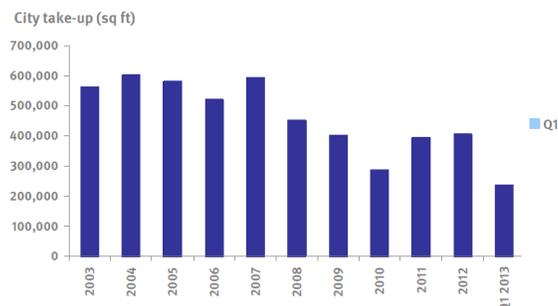
- Q1 was the best performing quarter since 2010, with take-up rebounding sharply to 235,001 sq ft, up 233% on the previous quarter and already in excess of 2012's H1 total. There were a total of 32 transactions completed in Q1, compared with the quarterly average of around 19 deals.
- Headline rents remained at £25.00 per sq ft in Q1 and net effective rents were also unchanged on Q4 at £19.00 per sq ft.
- The Q1 vacancy rate declined marginally to 9.0%, although the availability of Grade A space increased to 300,000 sq ft. Named active requirements also increased from 390,000 sq ft to 400,000 sq ft in Q1.

Office gossip

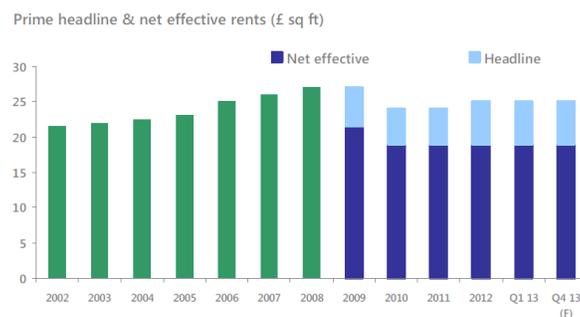
- There were two significant pre-lets including KPMG (61,250 sq ft) and Shulmans LLP (15,157 sq ft) whilst 71% of the lettings in Q1 comprised deals under 5,000 sq ft.
- Office market activity continues to remain focused on the city centre, notably good quality refurbished space in a central location close to the station.
- There are still a number of active requirements outstanding, notably Sky (55,000-70,000 sq ft), Walker Morris (60,000 sq ft), DAC Beachcroft (30,000 sq ft) and Squire Sanders (40,000 sq ft).

Looking ahead

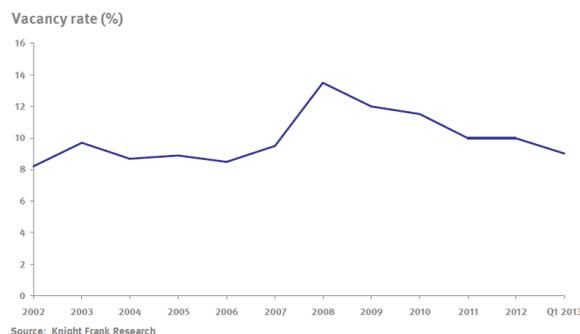
- There is now an acute shortage of Grade A offices in the city centre. The only speculative development is being undertaken by Formal Investments but this is now on hold.
- The only two Grade A buildings in the city centre which can satisfy the larger requirements are Broad Gate and City Exchange. Falling Grade A supply will continue to put upward pressure on prime headline rents and we anticipate that incentives will harden over the coming months.
- Indeed, we expect prime headline rents to remain at the £25.00 per sq ft level while net effective rents to increase to £19.50 per sq ft by the end of 2013.



Source: Knight Frank Research



Source: Knight Frank Research



Source: Knight Frank Research

Agency contact

Elizabeth Ridler, Partner, Leeds
+44 (0)113 297 2427
elizabeth.ridler@knightfrank.com

Edward Harrowsmith, Associate, Leeds
+44 (0)113 297 1954
edward.harrowsmith@knightfrank.com

Research contact

Anthea To, Associate, Commercial Research
+44 (0)20 7861 1236
anthea.to@knightfrank.com

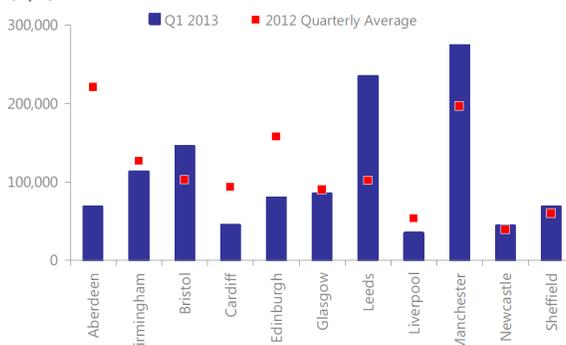
UK REGIONAL OFFICES ROUND-UP

Q1 2013

Occupier demand

- Following a strong final quarter in 2012, activity in the key regional office markets has been maintained in Q1 2013. A number of markets have performed well and saw Q1 take-up exceeding 2012's quarterly average including Bristol, Leeds, Manchester, Sheffield and Newcastle. The 11 markets combined recorded total take-up of 1.19m sq ft during Q1 - marginally down on Q4 2012 but up 9.8% on a year ago.
- In most markets, activity was predominantly characterised by a high number of small deals, typically for second-hand refurbished space.
- There is a healthy level of requirements in the regional office markets, with notable quarterly increases seen in Newcastle (+60%) and Aberdeen (+36%), although the majority are in the sub-5,000 sq ft bracket.

City centre take-up, Q1 2013 vs 2012 quarterly average total (sq ft)

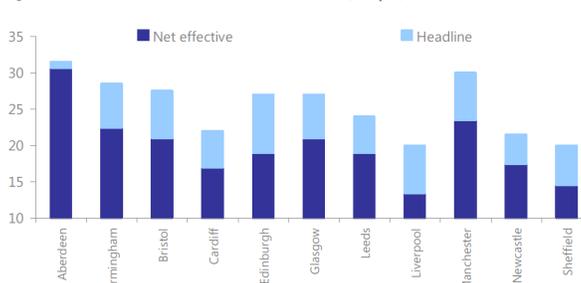


Source: Knight Frank Research

Supply and rents

- Q1 saw a marginal quarterly increase in Grade A supply up from 3,013,043 sq ft in Q4 2012 to 3,067,043 sq ft. However, the current level is 11% down on a year ago. The availability of Grade A space continues to be eroded in most markets in the absence of new completions. Year-on-year double-digit fall was recorded in Birmingham (-33%), Leeds (-14%), Glasgow (-13%), Manchester (-13%), Newcastle (-12%) and Liverpool (-10%).
- Headline rents and incentives have been fairly static over the quarter, although there has been an increase in the net effective rent in Birmingham (from £21.50 to £22.50) and Cardiff (from £16.50 to £17.0).

Q1 2013 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- According to Property Data, Q1 investment turnover was c.£600m outside London and the South East, an improvement on Q1 2012 but nevertheless 30% below the 10-year quarterly average.
- Whilst strong investor interest in prime office stock has been maintained, the availability of suitable product (prime and long-income assets) is the major barrier to activity. One interesting deal in Q1 was Gingko Tree's acquisition of a part share of One Angel Square in Manchester, although it remains to be seen as to whether this marks the start of more sustained interest from foreign investors in the UK regions.
- Prime regional office yields were largely unchanged in Q1, albeit there were some tentative signs of improved sentiment for prime stock. Indeed, Birmingham and Manchester both saw prime yields move in by 25bps to stand at 6.25%, whilst Newcastle was the only city to see prime yields soften Q1.

Prime office yields

	2012			2013	Yield sentiment
	Q2	Q3	Q4	Q1	
Aberdeen	6.50%	6.50%	6.50%	6.50%	◀ ▶
Birmingham	6.50%	6.50%	6.50%	6.25%	◀ ▼
Bristol	6.50%	6.50%	6.50%	6.50%	◀ ▶
Cardiff	6.50%	6.50%	6.50%	6.50%	◀ ▶
Edinburgh	6.50%	6.50%	6.50%	6.50%	◀ ▶
Glasgow	6.50%	6.50%	6.50%	6.50%	◀ ▶
Leeds	6.50%	6.50%	6.50%	6.50%	◀ ▶
Liverpool	7.25%	7.50%	7.50%	7.50%	◀ ▶
Manchester	6.50%	6.50%	6.50%	6.25%	◀ ▼
Newcastle	6.75%	6.75%	6.75%	7.00%	◀ ▲
Sheffield	7.25%	7.25%	7.25%	7.25%	◀ ▶

Source: Knight Frank Research

© Knight Frank LLP 2013

This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank LLP for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank Research. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.

www.knightfrank.com