RESEARCH

NEWCASTLE OFFICES

Market update Q4 2011

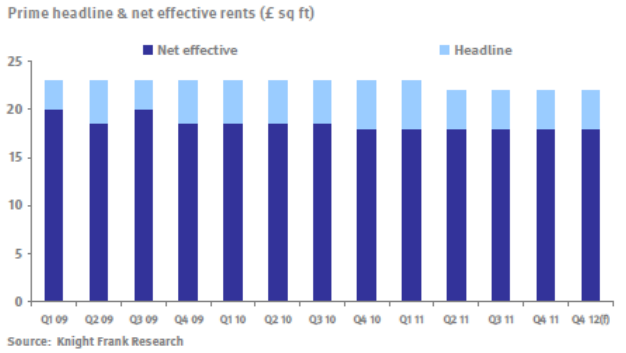
Knight Frank

Key Highlights

- Activity slowed in Q4, with city centre take-up amounting to 23,362 sq ft, 73% down on the level recorded in Q3. However, total take-up for 2011 is significantly higher than that for 2010 and is up on the same period in 2009.
- Prime headline rents held steady at £22.00 per sq ft in Q4, unchanged since a fall in Q2 2011. Net effective rents also held firm in Q4 at £18.00 per sq ft.
- The Q4 vacancy rate was unchanged at 8%, while the availability of Grade A space remained at around 307,406 sq ft.

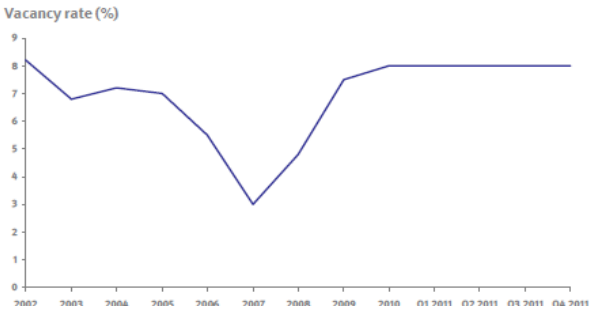
Office gossip

- New named active requirements in the city centre declined to 62,500 sq ft in Q4, 72% down from Q3. Demand is expected to remain predominantly focused on new and high quality secondhand space as discounted rental levels are still widely available.
- The majority of Q4 deals were under 10,000 sq ft. Key transactions include JHC Partners leased St Nicholas Buildings (6,791sq ft) at £15.50psf, Avanta Estates leased No1 Queens Lane (5,426 sft) at £16.00 psf.
- The best rent achieved in Q4 2011 was on ASP Shipping's acquisition of 2,540 sq ft at Quayside House on Newcastle Quayside at £17.00 psf.



Looking ahead

- There is currently just over 300,000 sq ft of Grade A stock available and Wellbar Central is the only new scheme that can provide large floor plates.
- Nonetheless, the city centre market continues to be challenging with most enquiries looking for space of less than 10,000 sq ft.
- Rents are expected to remain broadly unchanged for the first half of 2012 and incentives are largely expected to remain at current levels.



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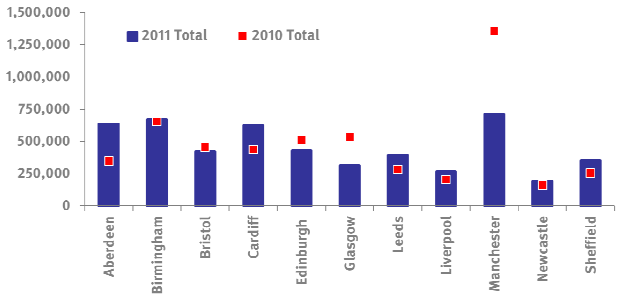
UK REGIONAL OFFICES ROUND-UP

Q4 2011

Occupier demand

- There was a clear slowdown towards the year-end, with Q4 2011 quarterly take-up down 15% on Q3, however, 2011 as a whole was just marginally worse than 2010.
- Across the 11 cities, annual take-up for 2011 totalled 5,015,938 sq ft - only 4% down on 2010. Most markets enjoyed stronger 2011 take-up compared with 2010 including Aberdeen, Birmingham, Cardiff, Leeds, Liverpool, Newcastle and Sheffield. In contrast, Bristol, Edinburgh, Glasgow and Manchester recorded annual falls in take-up activity.
- Occupiers remain cautious, with the majority continuing to assess the impact of current economic conditions on their businesses. Activity remains focused at the smaller end of the market.

City centre take-up, 2011 total vs 2010 total (sq ft)

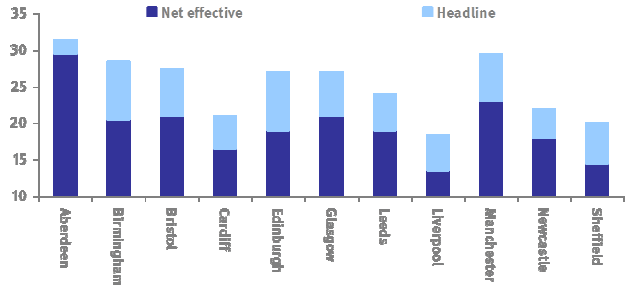


Source: Knight Frank Research

Supply and rents

- The volume of speculative development activity is limited, confined to just four of the 11 cities at the end of Q4. Manchester has the highest amount of development underway (207,500 sq ft).
- As a result, Grade A supply remains ever more constrained. At the end of Q4 2011, total Grade A supply across the 11 cities was down 9.3% on Q3 2011 and down 26.3% on 2010 and.
- Prime net effective rents held up reasonably well throughout 2011, the one exception being Manchester, where net effectives declined by 2% on Q3. In terms of rental growth, Bristol outperformed the other regional markets, seeing headline rents increase to £27.00 per sq ft, with net effective rents recovering to their mid-2009 level of £21.00 per sq ft.

Q4 2011 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Transactional activity in Q4 amounted to £561m outside London and the South East, an improvement on Q3 but nevertheless 30% below the 10-year quarterly average. With a modest final quarter, the 2011 total sales value of £1,774m falls behind the 2010 value by 29%.
- Interest in the regional office investment market continues to be focused on prime property, for which there is a healthy level of demand, particularly from institutional investors. In the secondary market meanwhile, the challenging occupier markets and lack of available debt for purchasers continue to exert downward pressure on values.
- Overall investor sentiment was more cautious towards the year-end. Regional office yields softened marginally in a number of markets on 7 of the 11 regional offices during Q4 2011 except Cardiff, Leeds, Manchester and Newcastle where yields were unchanged.

Prime office yields

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