



SHEFFIELD OFFICES

Market update Q1 2012

Knight Frank

Key highlights

- Sheffield saw take-up of 67,940 sq ft in Q1, 17% below the 10-year quarterly average. 10 of Q1's 12 deals took place within the city centre.
- The two largest transactions in Q1 were both freehold purchases for owner-occupation – Autism Plus purchased 22,000 sq ft at Old Brewery Riverside while Dutton International Recruitment purchased 15,000 sq ft at Portland House.
- The largest out-of-town deal in Q1 saw ESG acquire a further 6,750 sq ft of Grade A space at Building 12, Europa Court, Sheffield Business Park. The deal means that the company now occupies the whole building, totalling 20,000 sq ft.

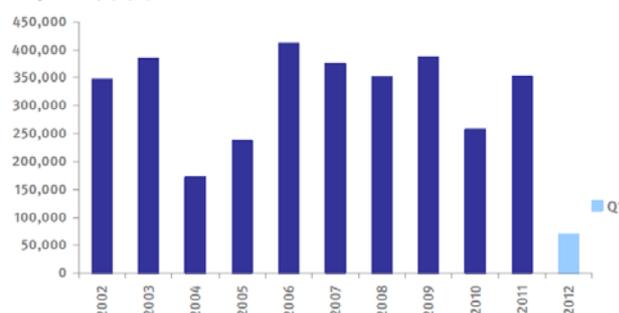
Office gossip

- There are several confidential requirements for Grade A space in the city centre - ranging between 10,000 sq ft to 50,000 sq ft – which are expected to move forward in Q2.
- Prime headline rents remained unchanged in Q1 2012 at £20.00 per sq ft. This level is likely to remain unchanged 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.
- Following a quiet six months for the out-of-town market, we anticipate a flurry of small to medium-sized deals in Q2, with activity focused within Sheffield Business Park and the Meadowhall Corridor area.

Looking ahead

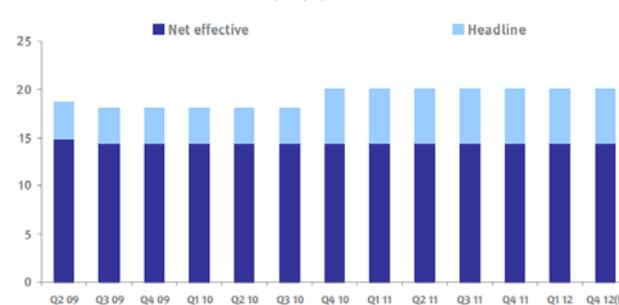
- Despite the subdued start to the year, we expect take-up in 2012 to be broadly in line with 2011, at circa 350,000 sq ft. Beyond 2012, we remain confident that we will see one or two major requirements come to fruition.
- With 390,000 sq ft of Grade A space remaining available, prospects for speculative development remain limited in the short term. That said, Grade A availability remains restricted in the prime core area of the city.
- Although headline rents are likely to remain broadly stable over the following 18 months, we expect rent free incentives to harden as the supply of Grade A space to gradually decreases.

City take-up (sq ft)



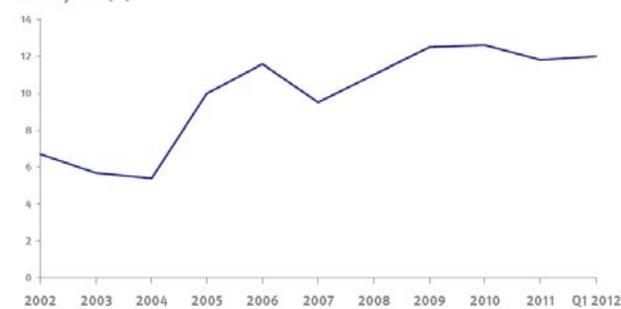
Source: Knight Frank Research

Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Vacancy rate (%)



Source: Knight Frank Research

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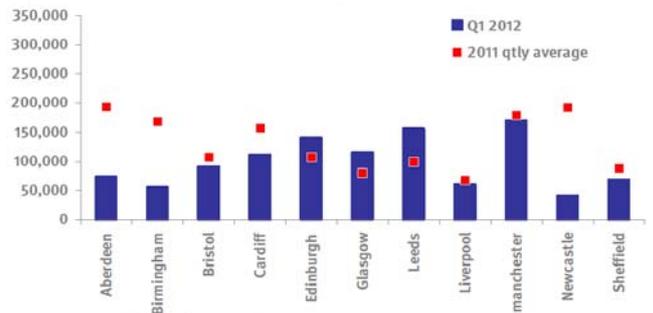
UK REGIONAL OFFICES ROUND-UP

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)

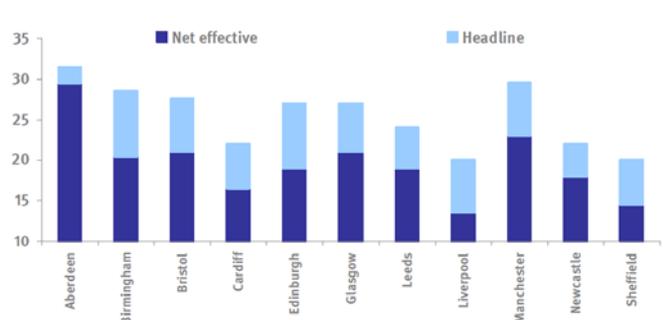


Source: Knight Frank Research

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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