RESEARCH

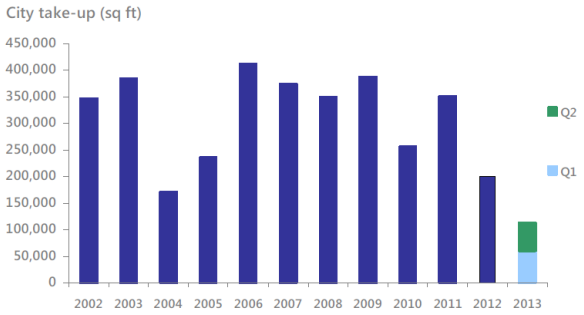
SHEFFIELD OFFICES

Market update Q2 2013

Knight Frank

Key highlights

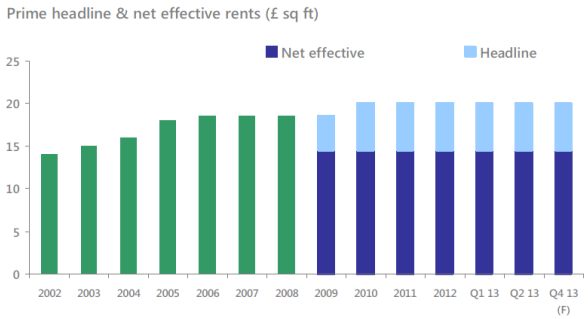
- Sheffield saw relatively healthy take-up of 53,067 sq ft in Q2 2013, 36% above the Q2 2012 figure. This took the total for the first half of 2013 to 113,052 sq ft, 5.7% higher than the first half of 2012.
- Prime headline rental levels remained stable at £20.00 per sq ft, with net effective rents remaining unchanged on a quarterly and annual basis at £14.50 per sq ft.
- Availability of Grade A space declined by 50,000 sq ft over the quarter to 350,000 sq ft. This means that availability is now 13% down on Q2 2012.



Source: Knight Frank Research

Office gossip

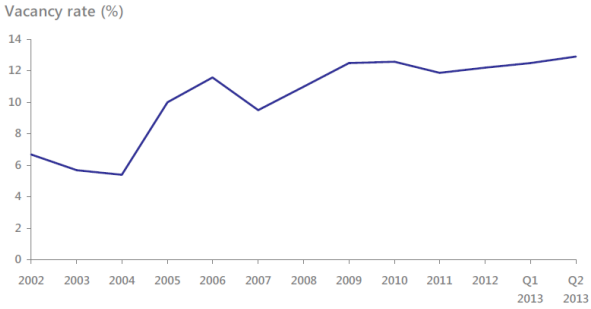
- Named active requirements totalled 210,000 sq ft in Q2, which is marginally up on previous quarter. While available space in prime locations remains limited, these active requirements are currently focusing on both existing stock as well as potential new build schemes.
- Q2 saw increasing market activity in the legal sector, with a number of local solicitors looking to expand. Freeth Cartwright, Best Solicitors and Lupton Fawcett are reported to have collectively taken approximately 14,000 sq ft in Q2.
- Fountain Precinct (100,000 sq ft) is still providing an attractive location for professional businesses and is now 97% let.



Source: Knight Frank Research

Looking ahead

- We expect levels of supply to continue to fall, as obsolete office blocks are sold to developers for conversion to student housing.
- Sheffield is set to benefit from the launch of the new SCR JESSICA fund, which will provide capital loans of up to £4.3m per project for new office and industrial development in the Sheffield city region. We believe this will boost prospects for speculative development in the long term.
- Prime headline rents should remain at £20.00 per sq ft until prime development sites in the city centre secure funding or a pre-let.



Source: Knight Frank Research

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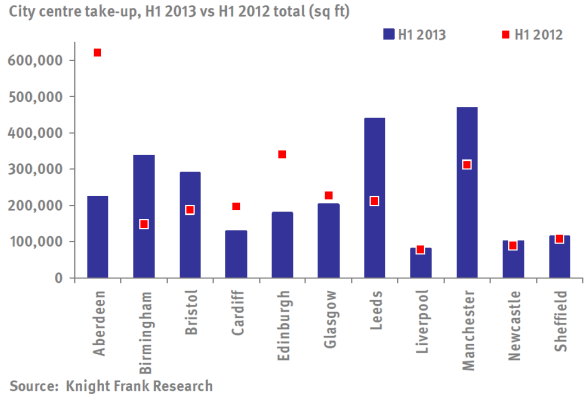
UK REGIONAL OFFICES ROUND-UP

Q2 2013

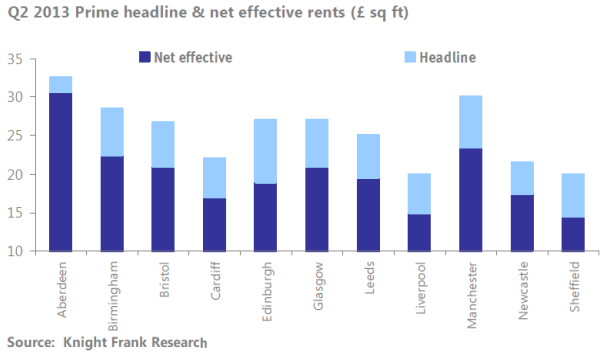
Occupier demand

- The regional office markets received a welcomed boost in Q2. Demand is relatively robust for the regions, with a growing list of sizeable requirements, mainly from corporate occupiers in the legal and financial sectors.
- The 11 markets combined recorded total take-up of 1,376,023 sq ft during Q2 – up 16% up on Q1 2013. Whilst overall total take-up for H1 2013 stands a modest 2% higher than H1 2012, this was largely due to Aberdeen's exceptional performance in 2012. Indeed, H1 2013 take-up in England's major regional markets has rebounded sharply from H1 2012, namely Birmingham (up 128%), Leeds (up 106%), Bristol (up 54%) and Manchester (up 51%).
- Whilst there was a healthy level of activity, similar to previous quarter, transactions continued to be predominantly characterised by smaller deals.



Supply and rents

- Availability of Grade A space slipped to 2,831,975 sq ft in Q2 2013 – 15% down on Q2 2012. This reflects the continuing erosion of Grade A space in most markets in the absence of new completions/development activity. A year-on-year double-digit fall was seen in Birmingham (-44%), Leeds (-32%), Glasgow (-17%), Manchester (-13%), Sheffield (-13%), Newcastle (-11%) and Liverpool (-10%), with the exception of Bristol (+31%) and Cardiff (+29%).
- There are signs that sentiment in the occupier market is improving. Headline rents and incentives have been largely stable, with only Aberdeen showing an increase in headline rents (from £31.50 to £32.50). While further significant growth in regional headline rents is unlikely over the remainder of 2013, net effective rents may harden as Grade A supply continues to decline.



Investment market

- Investment turnover for offices outside London and the South East was subdued in Q2. The latest figures from Property Data suggest c.£346m turnover, 42% down on Q1.
- Strong investor interest in prime office stock in the regions has been maintained, although a shortage of suitable product (prime and long-income assets) remains a major barrier to activity. In the secondary spectrum, investor interest is highly selective, confined to good quality secondary stock where there is potential to add value through asset management.
- Generally, prime yields were largely stable in the regional cities, albeit Q2 saw signs of improved sentiment for prime stock. Aberdeen, Birmingham, Bristol, Cardiff, Edinburgh, Glasgow and Leeds saw prime yields move in by 25bps.

Prime office yields

	2012		2013		Yield sentiment
	Q3	Q4	Q1	Q2	
Aberdeen	6.50%	6.50%	6.50%	**6.25%**	↘
Birmingham	6.50%	6.50%	6.25%	**6.00%**	↘
Bristol	6.50%	6.50%	6.50%	**6.25%**	↘
Cardiff	6.50%	6.50%	6.50%	**6.25%**	↘
Edinburgh	6.50%	6.50%	6.50%	**6.25%**	↘
Glasgow	6.50%	6.50%	6.50%	**6.25%**	↘
Leeds	6.50%	6.50%	6.50%	**6.25%**	↘
Liverpool	7.50%	7.50%	7.50%	**7.50%**	↘
Manchester	6.50%	6.50%	6.25%	**6.25%**	↘
Newcastle	6.75%	6.75%	7.00%	**7.00%**	↘
Sheffield	7.25%	7.25%	7.25%	**7.25%**	↘

Source: Knight Frank Research