



SHEFFIELD OFFICES

Market update Q4 2011

Knight Frank

Key highlights

- Despite a relatively small number of deals, Sheffield saw a respectable 90,357 sq ft of take-up in Q4. This lifted total take-up for 2011 as a whole up to 351,672 sq ft, 37% higher than the 2010 total and 8% higher than the 10-year annual average.
- In contrast with Q3, the vast majority of the space leased in Q4 occurred in the city centre. Plusnet's lease of 52,916 sq ft at The Balance, Trippet Lane accounted for well over half of Q4 take-up and was Sheffield's biggest deal in 2011. The internet provider is expected to move to the premises in March, once refurbishment is completed.
- Q4's second largest deal comprised OCLC's 10,800 sq ft lease at floors 8 and 9 within Tiger Development's Citygate scheme, in the Moorfoot area of the city.

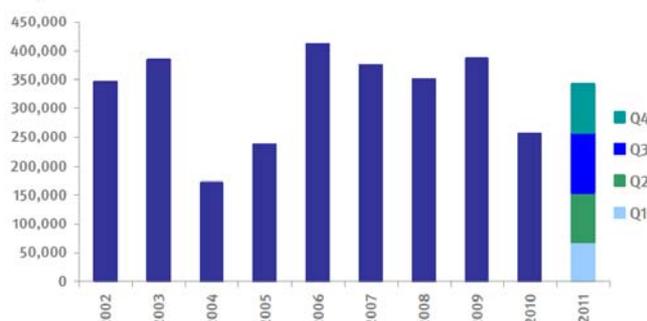
Office gossip

- The two deals referenced above brought the amount of available Grade A space in the city centre down to c.400,000 sq ft, 18% below its peak level in Q1 2010.
- Prime headline quoting rents for existing Grade A space stand at £15.00 per sq ft, reflected at Northbank at the Riverside and Citygate at St. Mary's Gate. £20.00 per sq ft is achievable in the prime city centre location, such as Ventana House, but no space remains available.
- Milton House, Charter Row will shortly undergo refurbishment. We expect this will prove popular with occupiers in search of good quality space at affordable rents.

Looking ahead

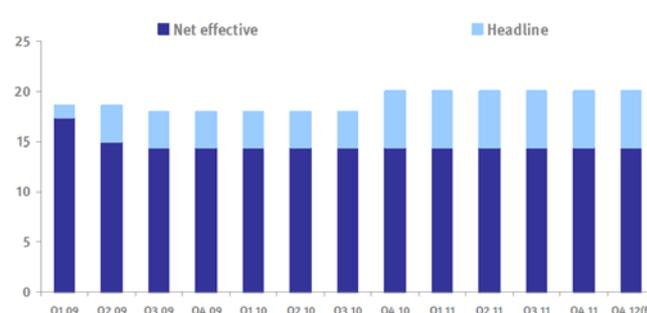
- We expect take-up in 2012 to be broadly in line with 2011, with market churn accounting for the majority of activity. Beyond 2012, we are quietly confident that we will see one or two major requirements come to fruition.
- Until the final phases of prime developments such as St Paul's Place and Digital Campus come forward, it is unlikely that we will see headline rents achieving in excess of £20.00 per sq ft over the coming 12 months.
- For existing built Grade A space in the city centre, deals of around £15.00 per sq ft will be more typical in 2012. However, incentive packages are likely to harden as the supply of this existing Grade A reduces.

City take-up (sq ft)



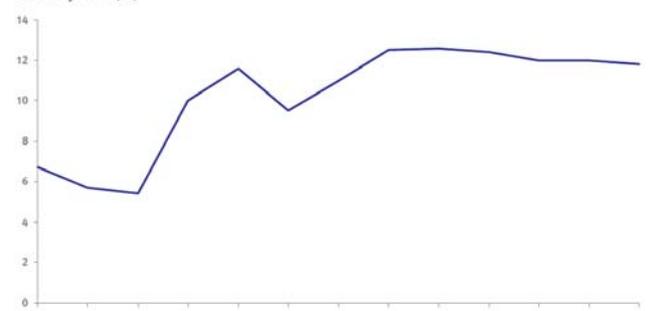
Source: Knight Frank Research

Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Vacancy rate (%)



Source: Knight Frank Research

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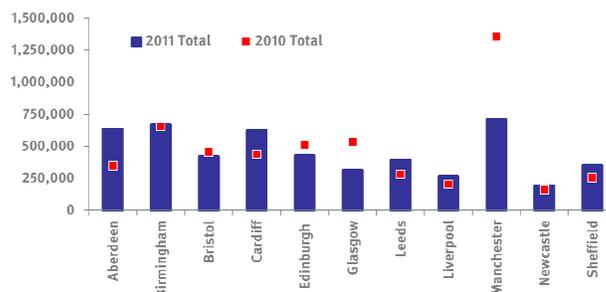
UK REGIONAL OFFICES ROUND-UP

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)

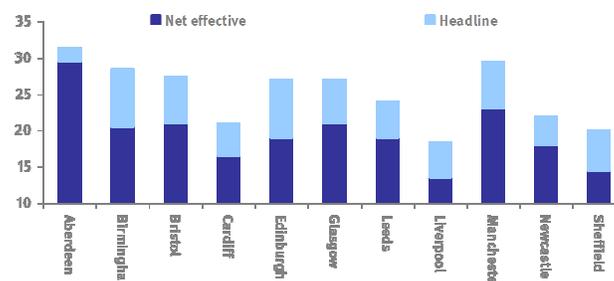


Source: Knight Frank Research

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%	◀ ▶

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