

REGIONAL OFFICES

OCCUPIER & INVESTMENT MARKET SUMMARY Q1 2016

Economy

The first estimate of Q1 2016 GDP growth was 0.4% quarter-on-quarter, down on the Q4 2015 figure of 0.6%. Nonetheless, the consensus outlook for 2016 has remained unchanged with latest Treasury survey of independent forecasts predicting growth of 2.0% for this year. The factors that will slow growth continue to build however, not least from the UK vote of EU membership to be held in June.

Occupier markets

Take-up across the ten regional cities monitored in ROMP amounted to 1.5m sq ft in Q1 2016, 12% less than in the final quarter of 2015. Despite the fall, the first quarter total was 7% above the 10-year quarterly average.

The highest take-up of Q1 was in Glasgow. A total of 291,200 sq ft was let during the quarter, more than double the 10-year average for the city. Supporting the rise in take-up was the 154,814 sq ft pre-let to Morgan Stanley at Bothwell Exchange. The deal represents the largest transaction in the city for three years. Construction of the first phase of the HFD Group development – which will house the US Bank – is underway with completion expected in Q4 2017.

Similarly, the pre-let of 90,000 sq ft at One Chamberlain Square to PWC meant that

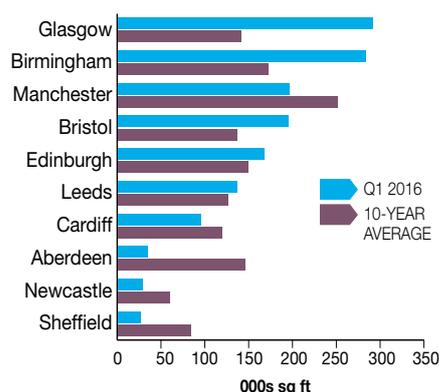
quarterly take-up in Birmingham rose to 284,000 sq ft, a quarter-on quarter increase of 34%. One Chamberlain Square is one of two office buildings that form the first phase of the Paradise redevelopment. Construction is due to begin in Q2 2016 with PWC expected to take occupation in 2019.

The highest quarterly take-up increase, however, was in Bristol with a total of 195,000 sq ft acquired during the quarter. The letting of 81,000 sq ft at Bridgewater House to EDF Energy was the largest deal of the quarter. This helped support a quarterly take-up total 43% above the 10-year average.

On the supply side, overall Grade A availability fell by 9% in Q1 to reach 2.2m sq ft. This total is 22% below the 5-year average of 2.8m sq ft. When considered on an individual city basis, nine of the ten major regional cities were below their respective 5-year average for supply at Q1.

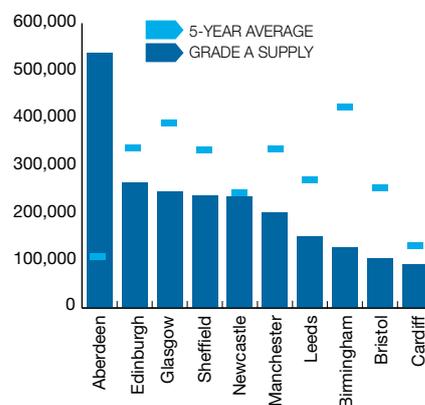
With supply tightening, the case for new development has continued to strengthen. At Q1, the combined regional total of space under construction stood at 4.8m sq ft. Manchester accounted for the highest percentage of new development across the major regional cities, 22%. A total of 1.1m sq ft was under construction in the city at the close of Q1, of which 650,000 sq ft is speculative.

FIGURE 1
Q1 2016 take-up vs 10-year average



Source: Knight Frank Research

FIGURE 2
Grade A supply (sq ft)

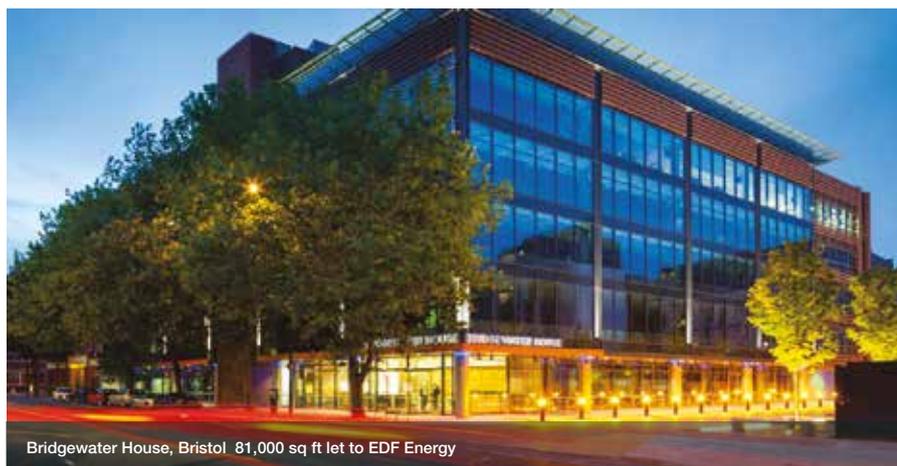


Source: Knight Frank Research

FIGURE 3
Prime rents and forecast (per sq ft)

	Q1 2016	End 2016 F
Aberdeen	£32.00	£30.00
Birmingham	£31.50	£32.50
Bristol	£28.50	£30.00
Cardiff	£22.00	£25.00
Edinburgh	£32.50	£33.00
Glasgow	£29.50	£30.00
Leeds	£26.50	£27.00
Manchester	£32.00	£33.00
Newcastle	£22.00	£23.00
Sheffield	£23.00	£23.00

Source: Knight Frank Research



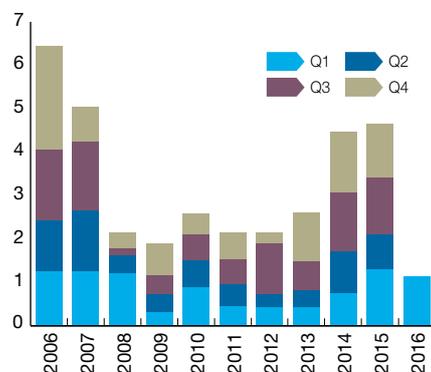
Bridgewater House, Bristol 81,000 sq ft let to EDF Energy

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FIGURE 4

Regional office investment volumes (£bn)



Source: Property Data

FIGURE 5

Prime yields (%)

Reflects 10 year income

	Q4 2015	Q1 2016	Yield sentiment
Aberdeen	6.25	6.50	▲
Birmingham	5.00	5.00	◀▶
Bristol	5.25	5.25	▲
Cardiff	5.75	5.75	◀▶
Edinburgh	5.25	5.25	▲
Glasgow	5.25	5.50	◀▶
Leeds	5.25	5.25	◀▶
Manchester	5.00	5.00	◀▶
Newcastle	6.00	6.00	◀▶
Sheffield	6.50	6.50	◀▶

Source: Knight Frank Research



Atria, Edinburgh sold to DEKA Immobilien for £105m

Investment activity

Investment volumes fell by 7% quarter-on-quarter with £1.1bn of sales recorded in Q1 2016. Nonetheless, the first quarter total was 43% above the 10-year average and represents the third quarter in succession where total investment sales have exceeded £1bn.

The acquisition of Atria by DEKA Immobilien for £105m meant that Edinburgh accounted for the largest proportion of turnover in Q1. This was one of two sales over £50m during the first quarter with the purchase of the Quatermile 4 building by Triuva for £68m also completing. As a consequence, total investment in Edinburgh reached £252m, the highest quarterly total on record for the city.

The largest transaction of Q1 however, was the £115m sale of 3 & 4 Piccadilly Place in Manchester to Ares Management. Acquired from Carlyle Group, the purchase of the 300,000 sq ft mixed use scheme is the first investment sale exceeding £100m in Manchester since Q3 2014. The sale supported a quarterly turnover increase of 94% with total investment sales amounting to £242m in Q1.

Across the ten major regional cities, five transactions over £50m were recorded in the first quarter which compares to the 10-year quarterly average of three. Most significantly, all of the first quarter sales above this threshold were purchased by overseas buyers. This meant that foreign investors accounted for 62% of turnover in Q1, the highest percentage for 10 years. With the value of sterling falling in Q1, we anticipate that foreign buyers will continue to represent a high percentage of demand in the coming months.

Despite some investor anxiety ahead of the forthcoming EU referendum, pricing held firm during the quarter across the regional cities. The exception was Aberdeen where volatility in the Oil and Gas sector continues to undermine market confidence. In Q1, prime yields moved out by a further 25bps from 6.25% to 6.50%. This is the highest level in Aberdeen for three years.

Major regional office investment deals in Q1 2016

Date	Street	Purchaser	Vendor	Price £m	Yield %
Mar-16	Piccadilly Place, 3 & 4, Manchester	Ares Management LLC	Carlyle Group	£115	6.05
Feb-16	Atria, Morrison Street, Edinburgh	DEKA Immobilien	City of Edinburgh Council	£105	N/A
Mar-16	XYZ, Spinningfields, Manchester	Union Investment RE	Allied London Properties	£85	4.80
Mar-16	Paradise Circus, Phase 1, Birmingham	CPPIB	Hermes REIM	£75	N/A
Mar-16	Quatermile, 4, Edinburgh	TRIUVA	M&G Real Estate	£68	5.25

Source: Knight Frank Research

Please refer to our bi-annual reports for more detailed accounts of the city markets <http://www.knightfrank.co.uk/research/ROMP/>



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