RESEARCH

BIRMINGHAM OFFICES

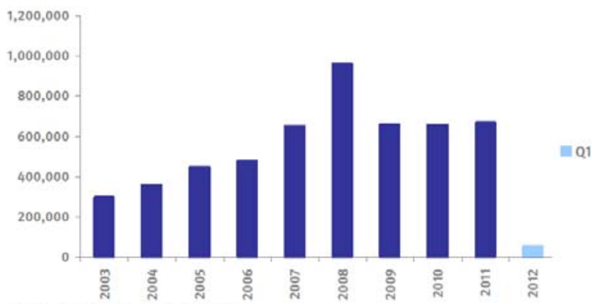
Market update Q1 2012

Knight Frank

Key highlights

- Following 2011's relatively strong performance, activity in Birmingham City Centre was remarkably subdued in the first quarter of 2012. Q1 office take-up totalled 54,573 sq ft, 62% below the long-term quarterly average.
- However, with a respectable 28 deals, it was the absence of any larger transactions which lay behind Q1's underperformance. The largest deal was Inspired Gaming's lease of 7,963 sq ft at Aqua House, Lionel Street.
- In contrast with the norm, Grade A space accounted for very little of Q1's activity. Of the 28 deals, just three were for Grade A space, the largest of which was Smith & Williamson's 3,900 sq ft lease at 9 Colmore Row.

City take-up (sq ft)

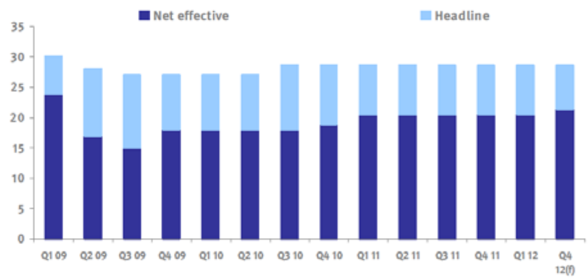


Source: Knight Frank Research / BOMF

Office gossip

- Q1's two largest deals - to Inspired Gaming and Codemasters (5,050 sq ft) - reflect positively on Birmingham's attractiveness to the gaming and media sectors, which now have a strong foothold in the market. This will only strengthen, with Microsoft looking to commit further to the city and new tax relief for the games and animations industries announced in the budget.
- The Tribunals Service is understood to be considering Centre City as their preferred destination (20,000 – 30,000 sq ft), while Westinghouse has shortlisted three buildings in respect of their 15,000 sq ft requirement.
- Hines and Moorfield recently announced plans to revamp Five Brindleyplace, following the expiry of BT's 15 year lease at the 134,000 sq ft building.
- We understand that The Binding Site have interest in some of their residual space at Calthorpe House.

Prime headline & net effective rents (£ sq ft)

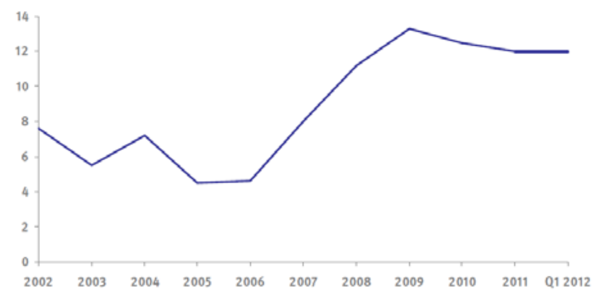


Source: Knight Frank Research

Looking ahead

- We expect Q2 take-up to show a marked improvement on Q1, with the recovery strengthening further in the second half of 2012.
- With finance remaining restricted, speculative development activity will remain subdued during 2012. However, the proposed refurbishment on Five Brindleyplace suggests that some confidence is returning.
- Grade A supply has fallen by 20% over the last 12 months to stand at c.650,000 sq ft. While this is a significant reduction, headline rents will remain at their level of £28.50 per sq ft until much more is absorbed. However, we do anticipate a moderate hardening in rent free incentives later in the year.

Vacancy rate (%)



Source: Knight Frank Research / BOMF

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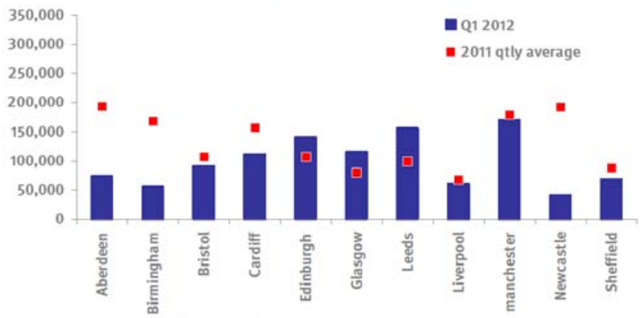
UK REGIONAL OFFICES ROUND-UP

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)

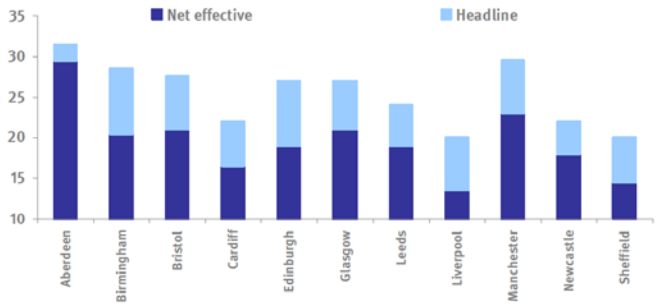


Source: Knight Frank Research

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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