



BIRMINGHAM OFFICES

Market update Q3 2012

Knight Frank

Key highlights

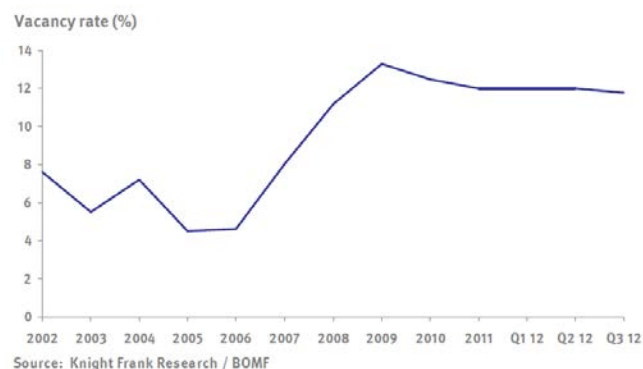
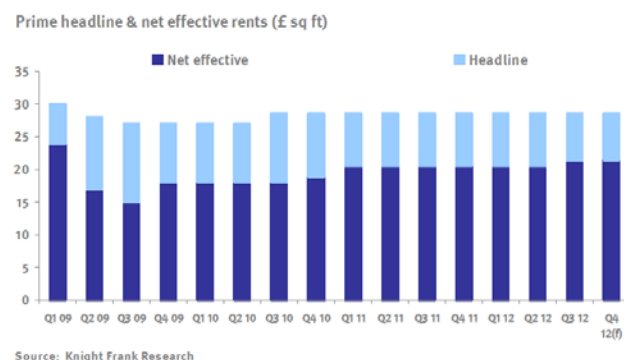
- Q3 saw a marked improvement in activity following a subdued first half of 2012. Q3 take-up was 172,000 sq ft, the highest of any quarter so far this year and almost double Q2's level.
- The majority of Q3's 41 deals were below 5,000 sq ft, with only seven in excess of 10,000 sq ft. Q3's largest deal was BFP Training & Consultancy's lease of 21,000 sq ft at Nurton Development's 2 Colmore Square, closely followed by Mott McDonald's lease of 19,000 sq ft at 35 Newhall Street.
- While the two largest deals above involved Grade A space, Grade B deals accounted for the lion's share of transactions and take-up in the quarter. Of these, the largest saw Westinghouse Rail lease 15,150 sq ft at Maple House.

Office gossip

- We anticipate another buoyant quarter in Q4, backed by a number of notable deals in the pipeline. The Ministry of Justice is presently under offer at Centre City (30,000 sq ft), as is Marsh, who is under offer for one floor at Colmore Plaza (c. 23,000 sq ft). DWF Solicitors are also likely to secure 20,000 sq ft at 1 Snowhill in Q4.
- Total active demand recovered by 25% in Q3 to stand at 325,500 sq ft, its highest level since Q3 2011.
- The limited amount of space brought to the market in Q3 prompted another fall in availability. The vacancy rate now stands at 11.8%, its lowest level in three years.

Looking ahead

- Despite the improvement in activity in Q3 and a relatively positive outlook for Q4, the subdued first half of the year will weigh down on total take-up for 2012. Knight Frank forecast total take-up of c.475,000 sq ft for 2012, the lowest annual total since 2006.
- While prime headline rents are unlikely to increase from their current level of £28.50 per sq ft before the year-end, we do anticipate rent free incentives to harden in 2013 as Grade A supply becomes more limited.
- The development pipeline is relatively limited, with no additional schemes set to come forward in near future following the completion of 2 Snowhill by the year-end.



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UK REGIONAL OFFICES ROUND-UP

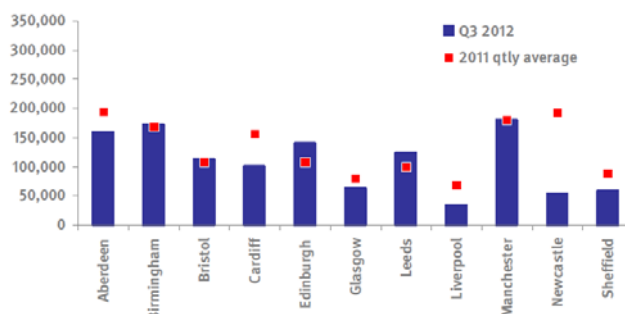
Q3 2012



Occupier demand

- Office take-up across the eleven regional cities continued to be subdued, totalling 1,195,011 sq ft during Q3 2012 - down 15% on Q3 2011 and also down 16% on Q2 2012. Take-up in the eleven cities combined for the first nine months of 2012 was 7% down on the same period in 2011.
- Similar to the previous quarter, a number of markets experienced lower take-up in Q3 2012 compared with the 2011 quarterly average. Take-up was strongest in Edinburgh and Leeds, with Birmingham, Bristol and Manchester also experiencing just above average activity during the quarter.
- Occupiers continued the 'fight to quality' in most markets. We have seen renewed requirements from professional services firms prompted by forthcoming lease expiries.

City centre take-up, Q3 2012 vs 2011 quarterly average (sq ft)

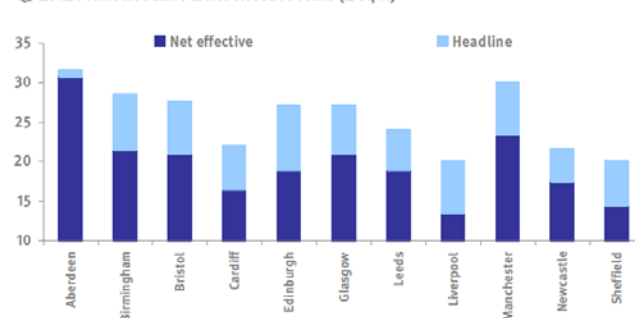


Source: Knight Frank Research

Supply and rents

- The limited amount of new space brought to the market in Q3 resulted in another fall in availability, with total new Grade A supply across the region amounting to 3,230,062 sq ft – 2.4% below the Q2 2012 total.
- While prime headline rents are unlikely to increase from their current levels before the year-end, we do anticipate rent free incentives will harden in 2013 as Grade A supply becomes even more restricted.
- Speculative development activity remains generally limited. At the end of Q3 2012, speculative development across the 11 cities combined was up 17% on Q2 2012 but down 12% on Q3 2011. Birmingham and Manchester are the only two cities which have in excess of 100,000 sq ft underway.

Q3 2012 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Q3 investment turnover was £477m outside London and the South East, an improvement on Q2 but nevertheless 45% below the 10-year quarterly average.
- The largest single transaction in Q3 was Union Investment's £60m purchase of 1 George Square in Glasgow, reflecting a net initial yield of c.6.25%.
- There remains sustained strong investor interest for prime office stocks. However, a major barrier to activity remains a lack of suitable product, namely prime, long-income assets.
- While Q2 brought a softening in prime office yields in the regions, prime yields were largely unchanged in Q3, with the exception of Liverpool which prime yields moving out by 25bps to stand at 7.50%. Yields on secondary assets remain vulnerable to a further outward shift.

Prime office yields

	2011	2012			Yield sentiment
	Q4	Q1	Q2	Q3	
Aberdeen	6.25%	6.25%	6.50%	6.50%	◀ ▲
Birmingham	6.00%	6.25%	6.50%	6.50%	◀ ▲
Bristol	6.25%	6.25%	6.50%	6.50%	◀ ▲
Cardiff	6.25%	6.25%	6.50%	6.50%	◀ ▲
Edinburgh	6.25%	6.25%	6.50%	6.50%	◀ ▲
Glasgow	6.25%	6.25%	6.50%	6.50%	◀ ▲
Leeds	6.25%	6.25%	6.50%	6.50%	◀ ▲
Liverpool	7.00%	7.00%	7.25%	7.50%	◀ ▲
Manchester	6.00%	6.00%	6.50%	6.50%	◀ ▲
Newcastle	6.50%	6.50%	6.75%	6.75%	◀ ▲
Sheffield	7.00%	7.00%	7.25%	7.25%	◀ ▲

Source: Knight Frank Research

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