



BIRMINGHAM OFFICES

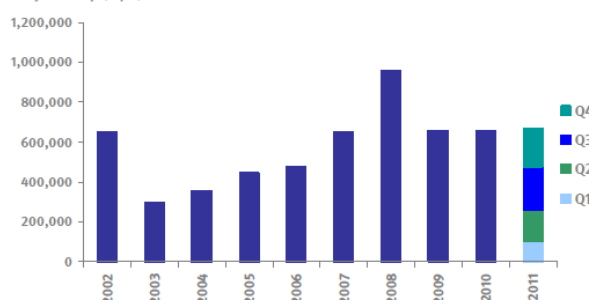
Market update Q4 2011

Knight Frank

Key highlights

- Birmingham City centre saw robust Q4 take-up of 189,806 sq ft, taking the total for 2011 as a whole up to 669,798 sq ft. This is closely in line with the 10-year annual average and is also - by a narrow margin - second only to 2008 over the period.
- Of Q4's 40 deals, three exceeded 20,000 sq ft, with the largest comprising the Law Society's 57,291 sq ft lease at The Cube. Knight Frank acted for the tenant. Activity nevertheless remains focused at the smaller end of the market, with an average deal size of 4,745 sq ft in Q4 and 4,784 sq ft for 2011 as a whole.
- In contrast with Q3, Q4 activity was dominated by New and Grade A space which collectively accounted for over 70% of total take-up.

City take-up (sq ft)

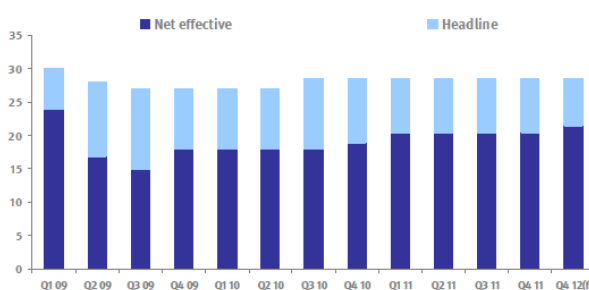


Source: Knight Frank Research / BOMF

Office gossip

- Q4 saw c.200,000 sq ft of new enquiries enter the market. Shoosmiths are understood to be reviewing their needs, with a possible 50,000 sq ft requirement, while Robert Half Ltd is presiding over a relocation from Bank House. Several banks are also actively considering locating back office functions in the city.
- Represented by Knight Frank, Abstract Land recently gained planning for the £22.5m redevelopment of 55 Colmore Row. Office space will be increased by 9% from its current level to provide 153,000 sq ft.
- Chartis, Mersk and Marsdon Group are yet to finalise their position, although we expect this to change during Q1. The Tribunals Service is also reviewing its occupational strategy and is actively considering other options, with a decision expected in Q1.

Prime headline & net effective rents (£/sq ft)

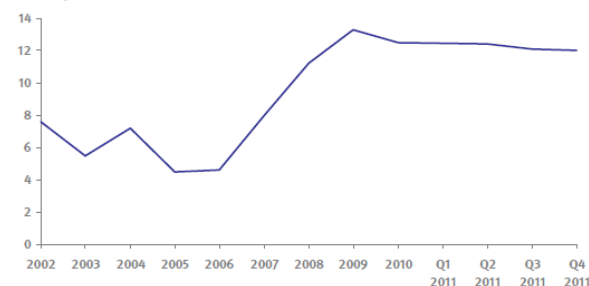


Source: Knight Frank Research

Looking ahead

- Total 2011 take-up points to a resilience in the Birmingham market, particularly given the negative sentiment over the UK economy. We anticipate similar levels of activity in 2012, albeit predominantly driven by churn among existing occupiers.
- Headline rents are likely to remain at their current level of £28.50 per sq ft over the course of 2012. However, the reduction in Grade A supply - amounting to over 200,000 sq ft during 2011 - should lead to a hardening of incentive packages, and we expect this trend to become clearer in 2012.
- Speculative development activity will remain subdued during 2012, with many major schemes requiring at least a part pre-let before moving forward.

Vacancy rate (%)



Source: Knight Frank Research / BOMF

Agency contact

Jamie Phillips, Associate, Birmingham
+44 (0)121 233 6403
jamie.phillips@knightfrank.com

Research contact

Oliver du Sautoy, Associate, Commercial Research
+44 (0)20 7861 1592
oliver.dusautoy@knightfrank.com



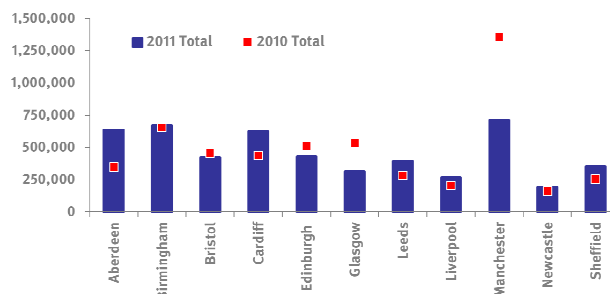
UK REGIONAL OFFICES ROUND-UP

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)

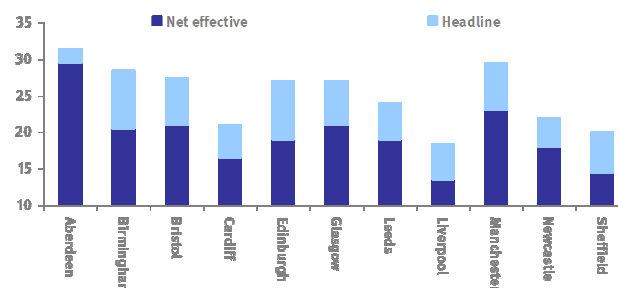


Source: Knight Frank Research

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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