RESEARCH

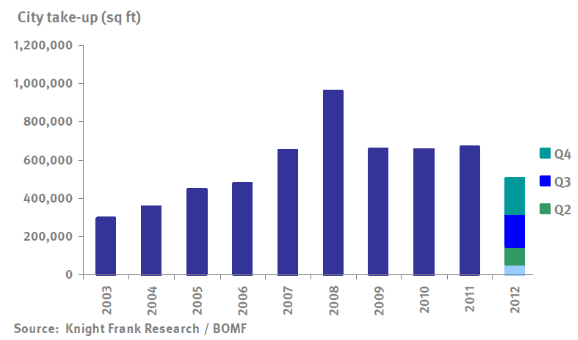
BIRMINGHAM OFFICES

Market update Q4 2012

Knight Frank

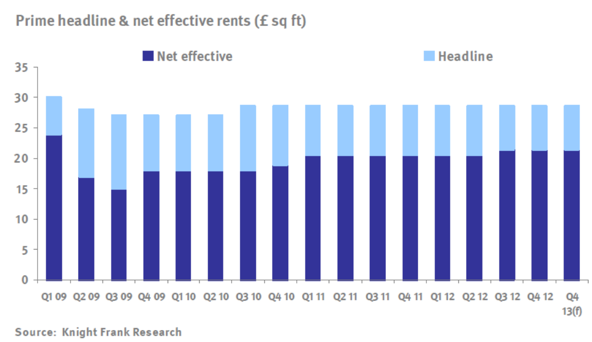
Key highlights

- Q4 continued the momentum from Q3 and saw further improvement in activity following a subdued first half of 2012. Q4 take-up was 186,441 sq ft and nearly 9% up on Q3. However, the full-year total amounted to 505,146 sq ft, some 25% down on 2011.
- Prime headline rents remained unchanged on Q3 at £28.50 per sq ft and net effective rents were also stable at £21.50 per sq ft.
- The vacancy rate has fallen to stand at 11.5% at the end of Q4, down from 12.0% in Q4 2011.
- Availability also continues to decline albeit marginally, with the amount of available new and Grade A space falling to 330,710 sq ft - down by 3.4% on Q3.



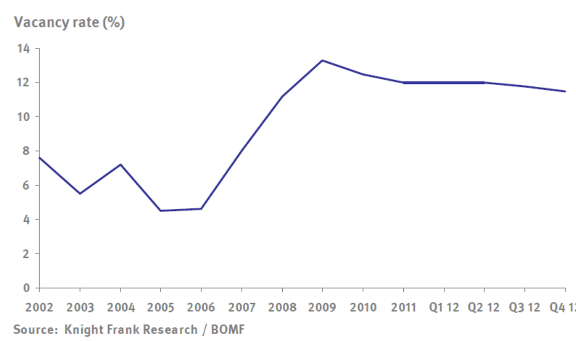
Office gossip

- A number of deals are anticipated to take place including Connect PR who are making a decision on their 20,000 -30, 000 sq ft requirement. Deutsche Bank is also expected to complete a move from 1 Brindley Place to 5 Brindley Place.
- Active requirements totalled around 400,000 sq ft in Q4. Axa is looking to relocate around 15,000 sq ft within the city centre. Aviva, is also looking for around 20,000 sq ft.
- Marsh Insurance are expected to complete their 20k sq ft deal in Colmore Plaza in Q1 2013.



Looking ahead

- Grade A supply, including that under construction, remains at just over 500,000 sq ft, with no other speculative development progressing. Forecast for 2013 seem to indicate that take-up should exceed the level seen in 2012, with a number of early conversations already taking place with occupiers.
- 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.



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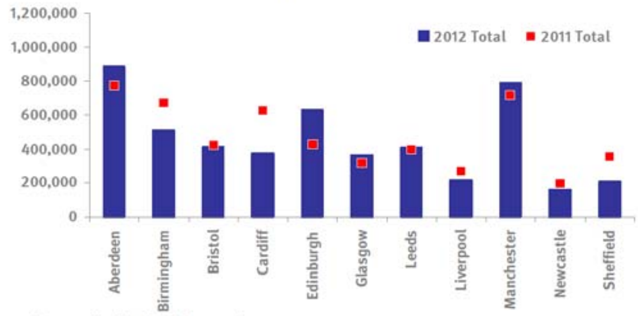
UK REGIONAL OFFICES ROUND-UP

Q4 2012

Occupier demand

- Take-up in the key regional office markets was generally resilient in Q4 2012. Across the 11 markets combined, total quarterly take-up of 1.22m sq ft was up 2% on Q3, although, 2012 as a whole was marginally lower than 2011.
- Annual take-up for 2012 totalled 4,930,430 sq ft - some 4% down on 2011 and 11% down on the 10-year annual average. A number of markets enjoyed stronger 2012 take-up compared with 2011 including Edinburgh (+47%), Glasgow (+15%), Aberdeen (+14%), Manchester (+10%) and Leeds (+3%).
- Transactions completed in 2012 comprised predominantly secondary space and relatively small lot sizes. However, the 'fight to quality' in most markets continued and we have seen renewed requirements from professional services firms prompted by forthcoming lease expiries.

City centre take-up, 2012 total vs 2011 total (sq ft)

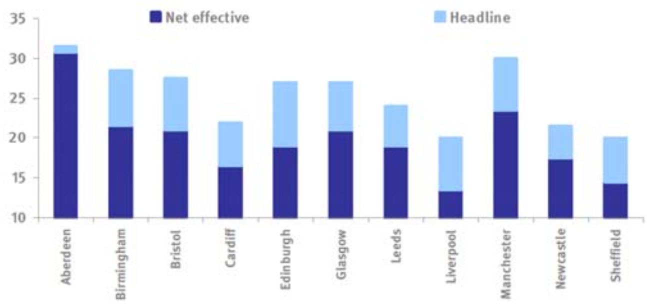


Source: Knight Frank Research

Supply and rents

- While the speculative development pipeline remains generally limited, Q4 saw another quarterly increase from Q3's 661,431 sq ft to 734,545 sq ft. Despite the improved speculative activity, general sentiment remains cautious and developers will demand a significant pre-let before any large new-build scheme can progress.
- Supply continues on a downward trend in the absence of new completions. At the end of Q4 2012, Grade A supply across the 11 cities combined was down 18% on Q4 2011, with the largest falls seen in Edinburgh (-38%), Glasgow (-36%), Leeds (-30%) and Birmingham (-27%).
- Headline rents remained stable in Q4. However, more generally, incentive packages are either hardening or expected to harden across the regional cities, as a result of this steady erosion of Grade A supply.

Q4 2012 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- The latest figures from Property Data reveal that Q4 investment turnover was c.£550m outside London and the South East, an improvement on Q3 but nevertheless 36% below the 10-year quarterly average.
- There remains strong investor interest in prime office stock, although a shortage of suitable product, namely prime and long-income assets, remains a major barrier to activity. In the secondary spectrum, investor interest is highly selective, confined to good quality secondary stock where there is potential to add value through asset management.
- Generally, prime yields were unchanged in the regional cities in Q4 albeit this is based largely on sentiment. Secondary office yields are under pressure and sentiments remains cautious.

Prime office yields

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

Source: Knight Frank Research