



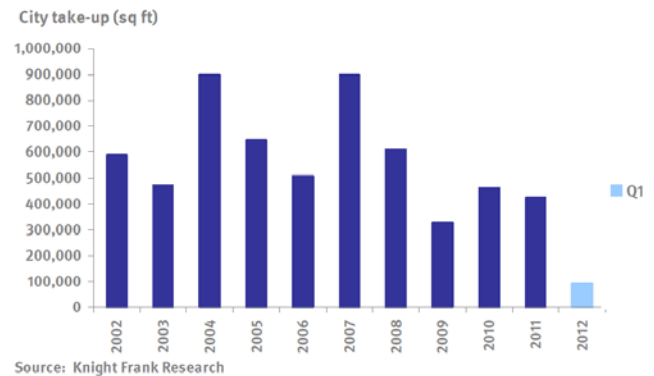
BRISTOL OFFICES

Market update Q1 2012

Knight Frank

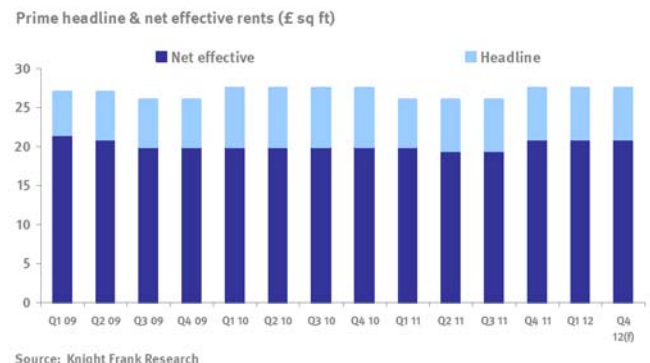
Key highlights

- Following a strong finish to 2011, Q1 2012 lost momentum in terms of activity. Take-up of 91,506 sq ft was indeed 20% down on the preceding quarter and 43% down on the same time last year.
- Prime headline rents have held steady at £27.50 per sq ft over the quarter, with net effective rents also remaining unchanged at £21.00 per sq ft.
- The availability of Grade A space increased by 8% during Q1, with the completion of 2, College Square to stand at 250,520 sq ft. The availability of second-hand accommodation – predominantly poor quality space – also grew by 5%.



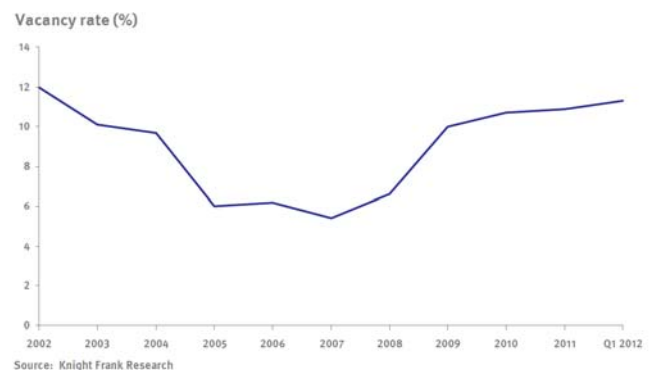
Office gossip

- In contrast to an increase in enquiry levels and improved market sentiment, Q1's largest deal was Ernst & Young's 8,223 sq ft acquisition of further space within The Paragon.
- Other deals included Indicia Limited's acquisition of 7,934 sq ft at 40 Queen Square and Friends Life's acquisition of 7,578 sq ft of additional space at The Core.
- Out-of-town, the Q1 take up of 104,205 sq ft was dominated by Babcock Nuclear Services' long anticipated acquisition of 2610, The Quadrant, Aztec West (40,760 sq ft).



Looking ahead

- Developers remain cautious, with very restricted speculative development anticipated in 2012. The exception to this is at One Victoria Street where PRUPIM/Cubex Land have recently gained consent for the substantial re-modelling and extension of the building to provide 47,000 sq ft. Commencement of works is expected in July with completion of this scheme anticipated in summer 2013.
- We expect take-up levels in 2012 will be similar to 2011. Falling Grade A supply will be offset by rising availability of lower quality accommodation. Landlords are likely to toughen their position on prime stock if Grade A space continues to fall, which will then have a positive impact on net effective rental levels.



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UK REGIONAL OFFICES ROUND-UP

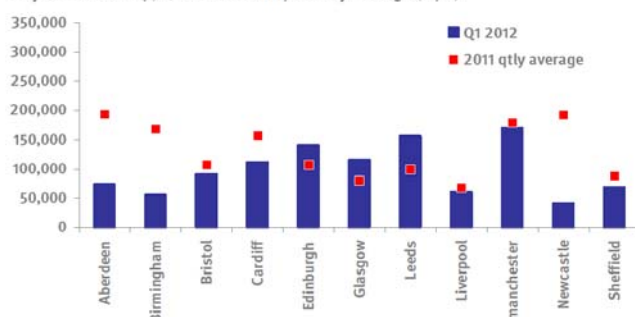
Q1 2012



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)

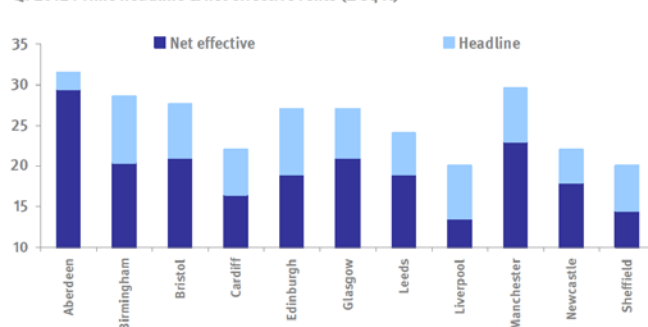


Source: Knight Frank Research

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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