RESEARCH

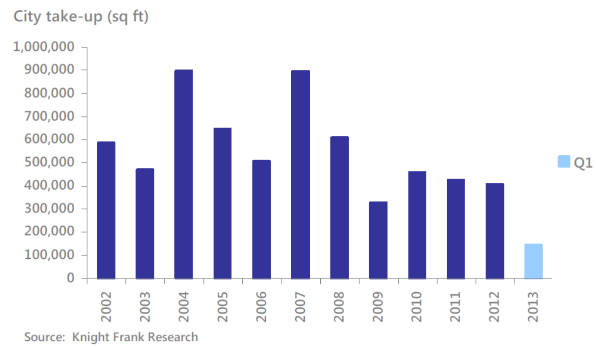
BRISTOL OFFICES

Market update Q1 2013

Knight Frank

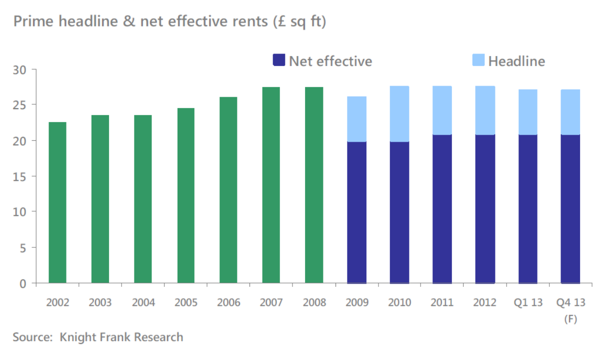
Key highlights

- Activity picked up in Q1, with take-up amounting to 145,555 sq ft, up 34% on the previous quarter and also up almost 60% on a year ago, albeit the figure was mainly due to Bristol City Council's acquisition of 100 Temple Street (140,000 sq ft). It was nevertheless a promising start to the year given the uncertain economic backdrop.
- Headlines rents saw a softening to £27.00 per sq ft during Q1, as landlords have focussed on reducing voids. Net effective rents have, however, remained steady at £21.00 per sq ft.
- On a positive note, the vacancy rate continued to edge down to 11.3%, while the availability of new space remained unchanged in the quarter, at 330,710 sq ft.



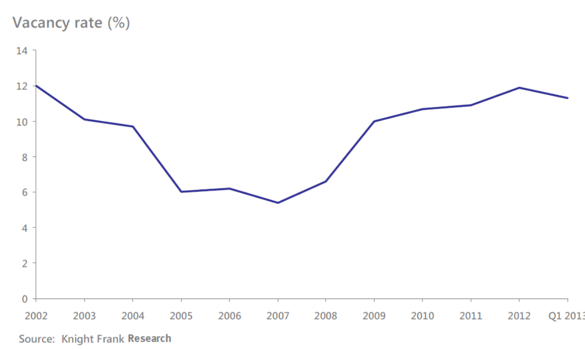
Office gossip

- Active demand decreased marginally during Q1 to stand at a healthy 482,000 sq ft, 34% higher than Q1 2012. Bristol continues to attract the financial services companies and legal practices from London and the regions who are loooking to expand their operations.
- The market is watching closely for the much-expected start on site of two schemes, namely Skanska's 66 Queen Square (61,000 sq ft) development and Salmon Harvester's 2 Glass Wharf (92,000 sq ft). These schemes follow PRUPIM's One Victoria Street (47,000 sq ft) which will be the only scheme to complete in 2013.
- Digital TV Labs and MWB Exchange are reported to have taken 7,600 sq ft and 5,000 sq ft respectively at F&C REIT's Castlemead at Cabot Circus in Bristol.



Looking ahead

- There is currently a heathly level of requirements, suggesting that take-up figures in the first half of 2013 might be favourable if current active demand translates into actual take-up in Q2.
- Demand has continued to polarise between prime and secondary space, and we believe this will remain the case throughout 2013.
- Headline rents are expected to remain at their current level of £27.00 per sq ft, while the reduction in supply will lead to a slight hardening in incentive packages as the year progresses.



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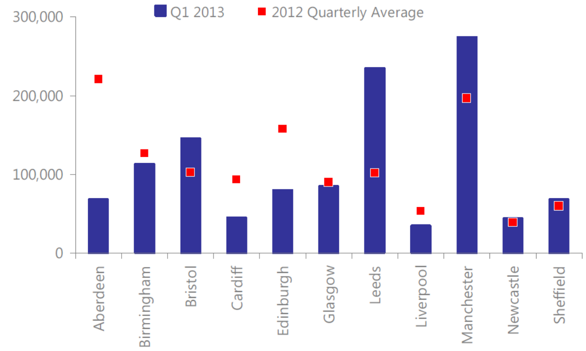
UK REGIONAL OFFICES ROUND-UP

Q1 2013

Occupier demand

- Following a strong final quarter in 2012, activity in the key regional office markets has been maintained in Q1 2013. A number of markets have performed well and saw Q1 take-up exceeding 2012's quarterly average including Bristol, Leeds, Manchester, Sheffield and Newcastle. The 11 markets combined recorded total take-up of 1.19m sq ft during Q1 - marginally down on Q4 2012 but up 9.8% on a year ago.
- In most markets, activity was predominantly characterised by a high number of small deals, typically for second-hand refurbished space.
- There is a healthy level of requirements in the regional office markets, with notable quarterly increases seen in Newcastle (+60%) and Aberdeen (+36%), although the majority are in the sub-5,000 sq ft bracket.

City centre take-up, Q1 2013 vs 2012 quarterly average total (sq ft)

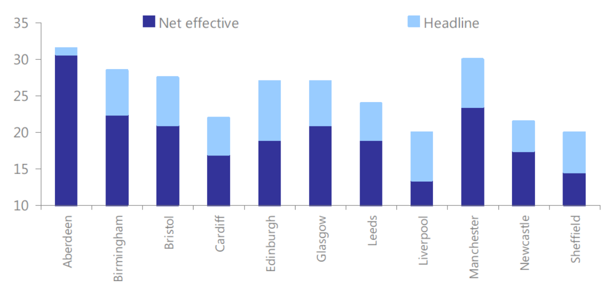


Source: Knight Frank Research

Supply and rents

- Q1 saw a marginal quarterly increase in Grade A supply up from 3,013,043 sq ft in Q4 2012 to 3,067,043 sq ft. However, the current level is 11% down on a year ago. The availability of Grade A space continues to be eroded in most markets in the absence of new completions. Year-on-year double-digit fall was recorded in Birmingham (-33%), Leeds (-14%), Glasgow (-13%), Manchester (-13%), Newcastle (-12%) and Liverpool (-10%).
- Headline rents and incentives have been fairly static over the quarter, although there has been an increase in the net effective rent in Birmingham (from £21.50 to £22.50) and Cardiff (from £16.50 to £17.0).

Q1 2013 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- According to Property Data, Q1 investment turnover was c.£600m outside London and the South East, an improvement on Q1 2012 but nevertheless 30% below the 10-year quarterly average.
- Whilst strong investor interest in prime office stock has been maintained, the availability of suitable product (prime and long-income assets) is the major barrier to activity. One interesting deal in Q1 was Gingko Tree's acquisition of a part share of One Angel Square in Manchester, although it remains to be seen as to whether this marks the start of more sustained interest from foreign investors in the UK regions.
- Prime regional office yields were largely unchanged in Q1, albeit there were some tentative signs of improved sentiment for prime stock. Indeed, Birmingham and Manchester both saw prime yields move in by 25bps to stand at 6.25%, whilst Newcastle was the only city to see prime yields soften Q1.

Prime office yields

	2012			2013	Yield sentiment
	Q2	Q3	Q4	Q1	
Aberdeen	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Birmingham	6.50%	6.50%	6.50%	**6.25%**	◄ ▼
Bristol	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Cardiff	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Edinburgh	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Glasgow	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Leeds	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Liverpool	7.25%	7.50%	7.50%	**7.50%**	◄ ►
Manchester	6.50%	6.50%	6.50%	**6.25%**	◄ ▼
Newcastle	6.75%	6.75%	6.75%	**7.00%**	◄ ▲
Sheffield	7.25%	7.25%	7.25%	**7.25%**	◄ ►

Source: Knight Frank Research