RESEARCH

BRISTOL OFFICES

Market update Q2 2012

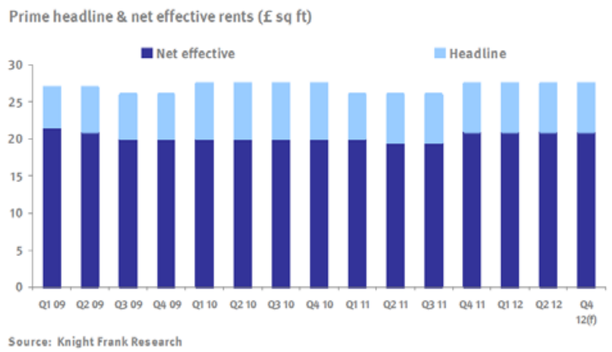
Knight Frank

Key highlights

- Bristol saw office take-up of 96,152 sq ft in Q2 2012, very much in line with the limited take-up seen in Q1 of just 91,500 sq ft. The year-to-date figure of 187,658 sq ft is down on the 240,335 sq ft recorded in the first six months of 2011.
- Headline rents remained steady at £27.50 per sq ft, and net effective rents unchanged at £21.00 per sq ft. Furthermore, deals in the pipeline point to no change in headline rents at £27.50 per sq ft before the year-end.
- The slowing of demand as well as the restricted take-up has led to an increase in the vacancy rate to 12.2%, despite a marginal fall in the availability of new space in the quarter, to 248,506 sq ft.

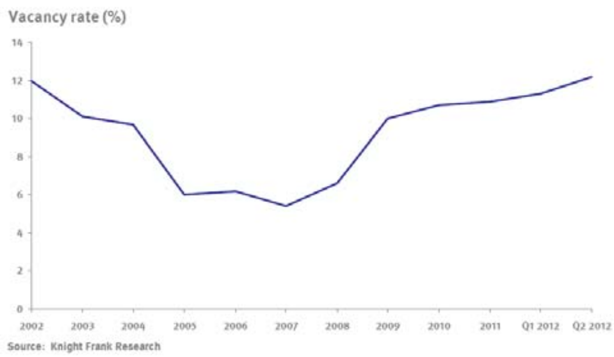
Office gossip

- Q2 activity was characterised by one or two larger deals on tertiary space rather a series of smaller transactions. The take up of prime space in Q2 was restricted to Towry's acquisition of 8,000 sq ft in Portwall Place.
- Active demand increased in Q2 and stands at a robust 431,000 sq ft. Key requirements include Canada Life (30,000 sq ft), Mapfre (40,000 sq ft), and Santander (9,000 sq ft).
- In the investment market, demand is still very much focused on the prime market. However, continued concerns over poor occupational demand and limited rental growth is detering investors. Against this trend, Universities Superannuation Scheme (advised by Knight Frank) sold No.1 The Square, Temple Quay to PRUPIM for £12.6m, reflecting a NIY of 7.61%.



Looking ahead

- Given the continued difficulties in obtaining funding, speculative development is likely to remain limited in 2012. Indeed, only PRUPIM have confirmed intentions to commence the speculative remodelling of 1 Victoria Street.
- Headline rents should hold at £27.50 sq ft through 2012, although the steady erosion of Grade A supply is likely to prompt a hardening of incentives in the coming months.
- With a degree of uncertainty and caution still surrounding the market, we anticipate occupiers will remain very cost-conscious and this is likely to lengthen the decision-making process when acquiring space.



Agency contact
Martin Booth, Partner, Bristol
+44 (0)117 917 4990
martin.booth@knightfrank.com

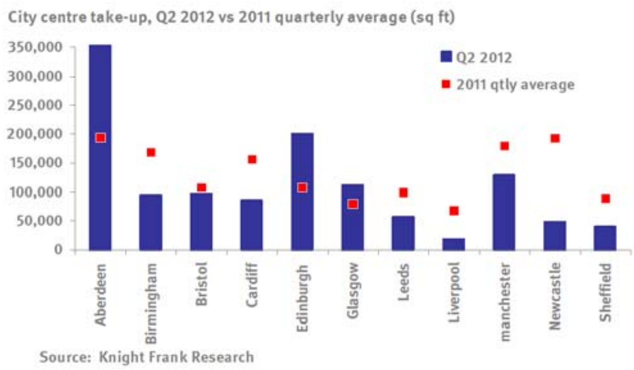
Research contact
Anthea To, Senior Analyst, Commercial Research
+44 (0)20 7861 1236
anthea.to@knightfrank.com

UK REGIONAL OFFICES ROUND-UP

Q2 2012

Occupier demand

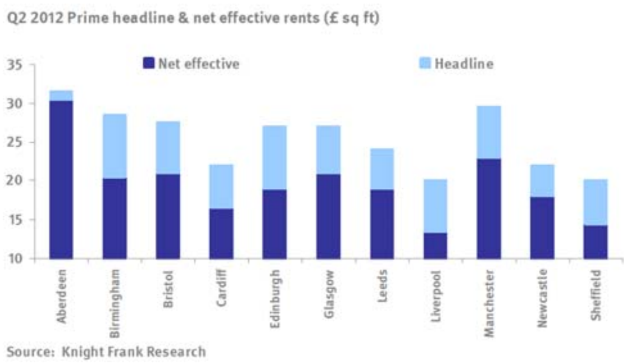
- Total Q2 take up in the eleven cities combined was 1,423,646 sq ft, 32% up on Q1. However, Q2 was somewhat skewed by Aberdeen's record take-up level of 547,926 sq ft.
- Given the economic backdrop, it is unsurprising that most markets experienced lower take-up in Q2 2012 compared with the 2011 quarterly average. The three exceptions are Aberdeen, Edinburgh and Glasgow, which all experienced above average activity during the quarter.
- Despite the challenging economic environment, occupier demand has held up better than expected. Demand is anticipated to remain at current levels over the summer, although a number of active requirements provide a source of optimism.



Source: Knight Frank Research

Supply and rents

- The lack of new development has meant that Grade A supply has continued to fall in most regional centres.
- The on-going lack of debt funding is still hampering new development, while more secondary property is becoming available. Speculative development activity remains limited, confined to only four of the 11 regional markets as at the end of Q2. Moreover, only two cities, namely Birmingham and Manchester, have in excess of 100,000 sq ft underway.
- Nevertheless, prime rents were broadly stable during Q2 and vary between £20.00 per sq ft in Sheffield and £31.50 in Aberdeen. Looking forward, prime office rents in most regional cities are not expected to change significantly for the rest of the year, although upwards pressure on net effective rents may be seen in some areas.



Source: Knight Frank Research

Investment market

- Investment turnover for offices outside London and the South East was subdued in Q2. The latest figures from Property Data suggest c.£374m turnover, 4% down on Q1.
- Investor demand is still very much focussed on prime property. However, we believe that both prime and secondary pricing has softened, with the yield gap increasing as prices for secondary product continue to soften faster than those for prime stock.
- The prevailing uncertainty in the Euro zone and its impact on the UK economy has resulted in weak demand for secondary property.
- According to the latest Knight Frank ROMP Confidence Index, a majority of our agents are expecting to see little change to investor sentiment in the prime office market, with the outlook remaining generally cautious.

Prime office yields

	2011		2012		Yield sentiment
	Q3	Q4	Q1	Q2	
Aberdeen	6.00%	6.25%	6.25%	6.50%	◄ ▲
Birmingham	5.75%	6.00%	6.25%	6.50%	◄ ▲
Bristol	6.00%	6.25%	6.25%	6.50%	◄ ▲
Cardiff	6.25%	6.25%	6.25%	6.50%	◄ ▲
Edinburgh	6.00%	6.25%	6.25%	6.50%	◄ ▲
Glasgow	6.00%	6.25%	6.25%	6.50%	◄ ▲
Leeds	6.25%	6.25%	6.25%	6.50%	◄ ▲
Liverpool	6.75%	7.00%	7.00%	7.25%	◄ ▲
Manchester	6.00%	6.00%	6.00%	6.50%	◄ ▲
Newcastle	6.50%	6.50%	6.50%	6.75%	◄ ▲
Sheffield	6.75%	7.00%	7.00%	7.25%	◄ ▲

Source: Knight Frank Research

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