

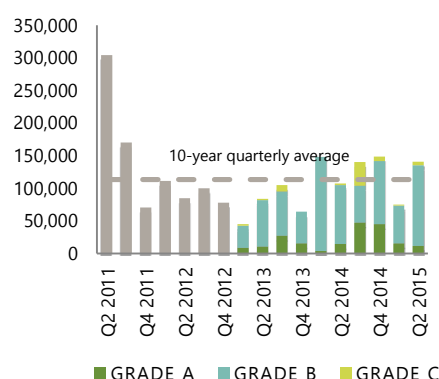
CARDIFF OFFICES

MARKET UPDATE H1 2015

Occupier market

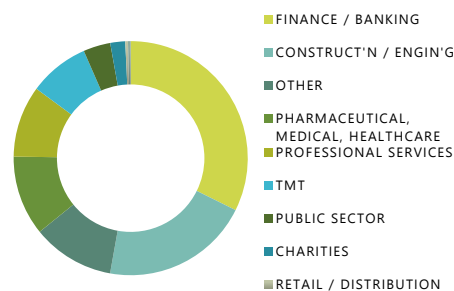
- The Cardiff office market bounced back strongly in Q2 following a disappointing first quarter, with Q2 take-up amounting to just over 141,000 sq ft.
- Take-up was dominated by city centre activity, with the financial, banking and insurance sector accounting for over 65,000 sq ft or 46% of the total.
- There were three significant leasing deals, all of which involved Knight Frank acting on behalf of the landlord.
- The AA relocated from St Patrick's House to take 15,720 sq ft of newly refurbished space at Capital Tower, the capital's tallest office building. The landlord Topland has started a major refurbishment of the building which includes the office floors, replacement of the lifts and extension of the main reception.
- Network Rail has completed on a lease of the 1st floor at Number 1 Capital Quarter from the Welsh Government. The lease is for ten years, with a five-year break and the rent achieved was £18.95 per sq ft.
- The largest deal of the quarter by some margin was Deloitte's lease at Six Park Street where the company has taken 24,500 sq ft adjacent to Central Station as part of its expansion in the city.
- Grade A supply in the city centre remains limited, to the remaining 21,296 sq ft at Number 1 Capital Quarter and 21,851 sq ft available in 2 Callaghan Square following Barclays' break option in September 2015.
- Overall grade A availability stood at 108,907 sq ft at the end of Q2, marginally up on Q1 but still significantly down on the market's low point in 2009/10. As a result, some occupiers who might potentially move have been forced to consider refurbishing their existing premises or look at pre-letting opportunities.
- Active requirements remain robust and in fact rose marginally in Q2 to 328,000 sq ft, over three times current Grade A availability, with additional requirements potentially emerging in the near future. The amount of Grade A stock is increasing and construction is already underway at One Central Square (135,000 sq ft) and Number 2 Capital Quarter (84,000 sq ft). Both are scheduled for completion in early 2016, while question marks remain on whether the Welsh Governments scheme at Callaghan Square will be speculatively started.

FIGURE 1
Take-up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2
H1 2015 take-up by sector



Source: Knight Frank LLP

Agent's view

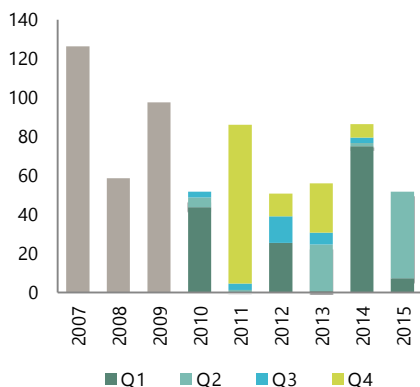
The occupier market remains buoyant, with demand generally in excess of supply. In particular, the new Central Square and Capital Quarter are attracting strong interest and the quality of these schemes may yet help to set new benchmark rental levels. Full-year take-up is expected to be fairly robust and will probably surpass the long term annual average of around 465,000 sq ft.



A number of lettings have been concluded at Number 1 Capital Quarter in recent months, the latest being Network Rail's ten-year commitment on the 1st floor.

FIGURE 3

Cardiff offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

Investment market

- In common with the other major regional markets, Cardiff continues to attract strong demand from investors.
- Cardiff and the region is particularly benefitting from the increased appetite for good secondary assets. Until recently, investor appetite focussed on long-let, good quality office stock in established locations.
- However, with a lack of available prime stock and the hardening of prime yields, investment demand for established, good quality secondary and shorter income prime stock has increased in the last 12 months. Prime yields stood at 5.75% in Q2.
- Cardiff is also witnessing a more diverse profile of buyers with an increasing number of overseas investors joining the traditional UK Institutions in targeting the major regional markets.
- In the last 12 months buyers originating from China, USA and Kuwait, have joined the likes of Legal & General, Mayfair Capital and Fidelity in making acquisitions in the Cardiff city region.
- While Cardiff has always generated strong interest, given its status as one of the major regional centres and a capital city in Europe, the rationale for investing in the city is particularly compelling at present.
- Investors are being increasingly attracted by the infrastructure improvements and the major developments/regeneration projects which are under way. The drive by the public sector to attract more occupiers and the attractive demand/supply dynamics will all have a positive impact on the Cardiff office market.
- This demand was particularly evident with the sale of Belmont House which attracted fierce bidding from a diverse range of investors, including Pension Funds, Opportunity Funds and Overseas Funds.



Belmont House which was bought by Knight Frank IM for £34.6m from Bishopgate LT PFUT.

TABLE 1

Selected investment transactions in H1 2015

Date	Address	Purchaser / Vendor	Price	NIY
June 15	Belmont House	Knight Frank IM/Bishopsgate LT PFUT	£34m	6.08%
June 15	Eastgate House, Newport Road	Maya Capital LLP/Undisclosed	£7.5m	10.0%
Mar 15	Fitzalan Place, 10	Maya Capital LLP/Hibi Investments	£6.75m	12.04%

Source: Knight Frank LLP



COMMERCIAL RESEARCH

Darren Yates, Partner
+44 20 7861 1246
darren.yates@knightfrank.com

CAPITAL MARKETS

Rob Jones, Partner
+44 29 2044 0128
rob.jones@knightfrank.com

LEASING

Mark Sutton, Partner
+44 29 2044 0135
mark.sutton@knightfrank.com