

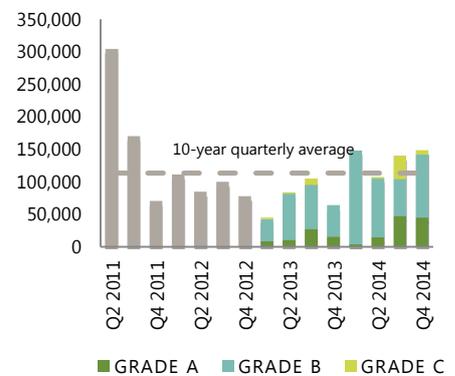
CARDIFF OFFICES

MARKET UPDATE H2 2014

Occupier market

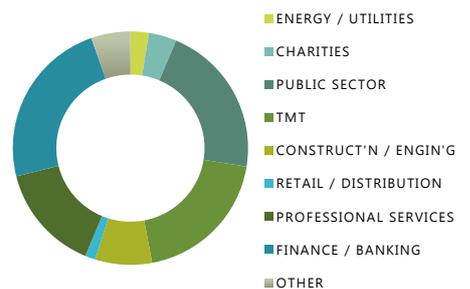
- Improved market sentiment continued to be reflected in take-up, which reached 544,000 sq ft in 2014, up 82% from 2013.
- A steady rate of take-up was maintained throughout the year, with all four quarters recording in excess of 100,000 sq ft.
- H2 saw a range of occupiers take space. The headline deals included Finance Wales's 22,324 sq ft lease at the newly built Number 1 Capital Quarters and Blake Morgan Solicitors' pre-let of 28,077 sq ft at One Central Square where the law firm is set to take occupation in January 2016.
- Whilst activity in Q4 (148,600 sq ft) edged Q3 (140,163 sq ft), both quarters saw take-up exceed the 10-year quarterly average.
- The availability of Grade A space declined by 23% from H1 to only 100,000 sq ft, continuing the downward trend of recent years. Current availability in the city centre is limited to 31,000 sq ft in Number 1 Capital Quarter, with 35,000 sq ft available at Cardiff Waterside in Cardiff Bay.
- It is the lack of availability of new schemes that has restricted occupier activity in the prime market. Potential movers seeking Grade A offices have been forced to consider refurbishing their existing premises or look at other locations.
- Despite the fall in demand, active requirements remain at 290,000 sq ft, nearly three times current Grade A availability. In addition, there are a number of notable agent-driven enquiries that may significantly boost this figure.
- Encouragingly, Grade A stock is expected to increase, with construction 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 late 2015, with lettings likely early in 2016. Reports suggest that the long awaited development at Callaghan Square (90,000 sq ft) could also be on site this year.
- Prime headline rents are forecast to increase to £23 per sq ft by the end of 2015 and £24 by 2016.

FIGURE 1
Take-up by grade (sq ft)



Source: Knight Frank LLP

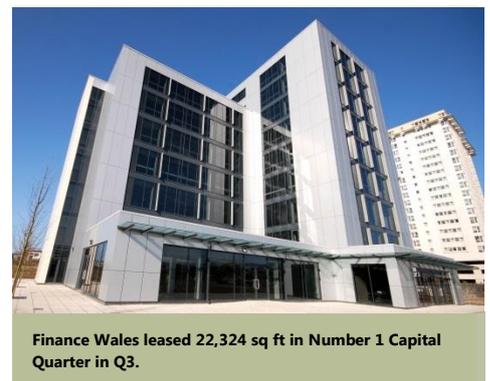
FIGURE 2
H2 2014 take-up by sector



Source: Knight Frank LLP

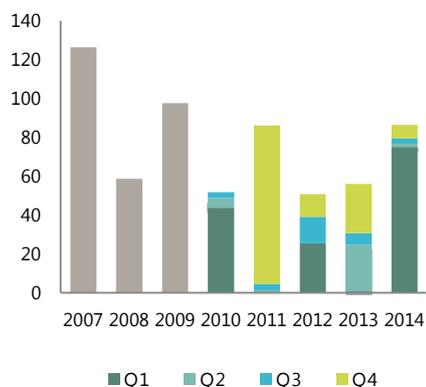
Agent's view

Cardiff has shown its ability to bounce back following relatively subdued occupier activity in 2013. Faced with falling Grade A supply, the development of One Central Square and Number 2 Capital Quarter will give a much needed boost to the market. It is expected that the release of these two schemes will help stimulate rental growth. We also expect to see a number of refurbishment schemes being brought forward as occupiers seek to upgrade their accommodation.



Finance Wales leased 22,324 sq ft in Number 1 Capital Quarter in Q3.

FIGURE 3
Cardiff offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

Investment market

- Investment volumes reached a respectable £87m in 2014, up 54% from 2013 despite fewer deals.
- While this marks the third consecutive annual increase, investment activity between H1 and H2 differed significantly.
- Investment volumes in H1 2014 reached £76.8m, while volumes in the final six months of 2014 totalled £9.74m, such was the vast change in activity over 2014.
- Q1 in particular experienced high levels of investment, accounting for 87% of the total investment in 2014, largely attributable to the large amounts of prime office stock in the market in Q1.
- Key deals in H2 involved F&C REIT Asset Management's purchase of Croescadarn Close for £2.8m at a yield of 12%, and Mayfair Capital's acquisition of Oakleigh House for £6.94m, at a yield of 7.75%.
- Prime yields remained at 5.9% for most of 2014, after it hardened by 10bps in Q1.
- Based on the transactions completed in 2014, there are signs that Cardiff is beginning to gain international acceptance, with an increasing number of overseas investors joining traditional UK institutions in targeting major regional centres. In the last 12 months, buyers originating from China, USA and Kuwait have joined UK institutions and property companies in the pursuit of new opportunities in Cardiff.
- While there is a lack of prime office stock available, the rise in demand for good quality secondary and shorter income prime stock is evidence that Cardiff, as a capital city in Europe, is an attractive destination for investors seeking higher returns. Coupled with the major regeneration projects which are already underway as well as the city's vision for the future, the market is expected to improve on H2 2014's "quiet winter".



In December 2014, Mayfair Capital purchased Oakleigh House for £6.94m from APIA Regional Office Fund.

TABLE 1
Selected investment transactions in H2 2014

Date	Address	Purchaser / Vendor	Price	NIY
Dec 14	Oakleigh House	Mayfair Capital/ APIA Regional Office Fund	£6.94m	7.75%
Jul 14	Croescadarn House	F&C REIT Asset Management / Undisclosed	£2.84m	12%

Source: Knight Frank LLP



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