RESEARCH

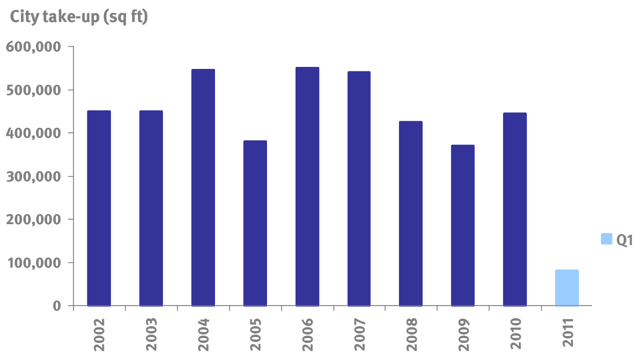
CARDIFF OFFICES

Market update Q1 2011

Knight Frank

Key highlights

- Following a strong finish to 2010, Q1 2011 take-up of 80,249 sq ft was 46% below the Q4 2010 total, with 70% of deals below 3,000 sq ft. However, compared with the same quarter last year, Q1 take-up was down just 1%.
- Q1's largest deal was Hugh James' acquisition of 20,000 sq ft at Fusion Point. The occupier signed a 15 year lease with a three year break option to coincide with a potential relocation to a larger, consolidated premises elsewhere in the city.
- Out-of-town, Elinea took 10,000 sq ft at Fairway House, St. Mellons, while a series of lettings took place at the former ITV studios at Culverhouse Cross, totalling 14,188 sq ft.

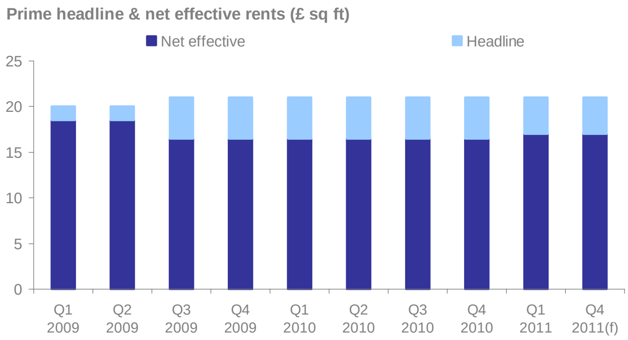


Source: Knight Frank Research

NB: Includes Cardiff Bay area

Office gossip

- Despite a quiet Q1, 2011 is expected to result in c. 500,000 sq ft of take-up. This is due in large part to Admiral Insurance's anticipated c.205,000 sq ft pre-let at a site adjacent to St David's shopping centre. The scheme now just awaits full planning approval, which is expected in Q3.
- The completion of the Driscoll Buildings in the Capital Quarter is imminent. One confidential party is expressing strong interest in taking half of the 36,864 sq ft scheme.
- Hugh James has a requirement for up to 80,000 sq ft as they seek a new HQ. The law firm is understood to have a preference for a pre-let opportunity and it is anticipated that the deal will occur in 2011.



Source: Knight Frank Research

Looking ahead

- Headline rents should hold at £21.00 sq ft through 2011, although the steady erosion of Grade A supply is likely to prompt a hardening of incentives in the coming months.
- However, falling Grade A supply will be counterbalanced by rising availability of lower quality accommodation, as occupiers seek to upgrade their space following lease events.
- Rationalisation in the public sector may well push the vacancy rate upwards, as surplus space is released to the market.
- Given the overhang of Grade B supply, we expect landlords will increasingly consider capital expenditure – rather than further rent reduction - as a means to improve the 'lettability' of vacant premises.

Source: Knight Frank Research

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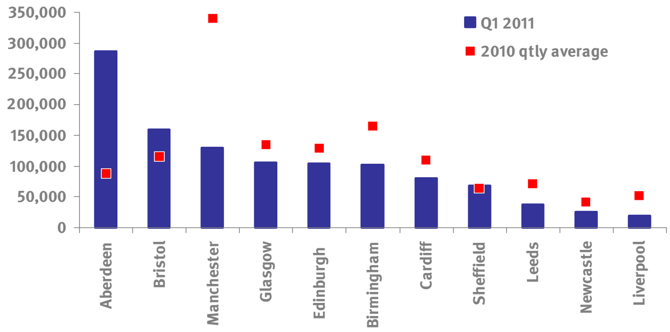
UK REGIONAL OFFICES ROUND-UP

Q1 2011

Occupier demand

- Following a robust 2010, most markets made a modest start to 2011. Q1 take-up fell short of the 2010 quarterly average in eight markets. This was most evident in Manchester, albeit 2010 was a remarkable year.
- The three exceptions were Sheffield, Bristol and Aberdeen, which all enjoyed more take-up in Q1 2011 compared with the 2010 average. Of these, Aberdeen stands out, with Q1 take-up of 287,000 sq ft exceeding its entire total for 2010.
- Despite the slow start to the year and ongoing concerns regarding public sector rationalisation, resilient take-up is expected in many markets in 2011, with Cardiff, Sheffield and Manchester expected to perform well.

City centre take-up, Q1 2011 vs 2010 quarterly average (sq ft)

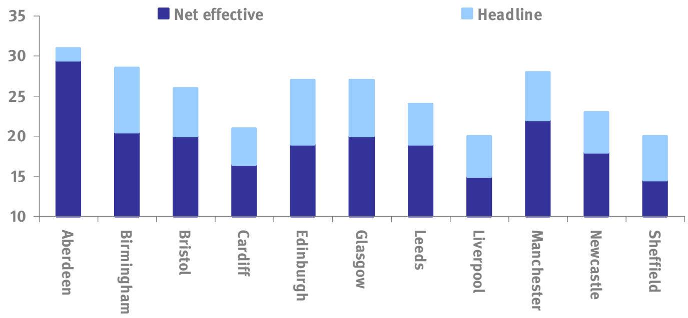


Source: Knight Frank Research

Supply and rents

- Speculative development activity remains limited, confined to only six of the 11 regional markets as at end Q1. Moreover, just two cities - Edinburgh and Bristol - have in excess of 100,000 sq ft underway.
- Many markets are heading towards a supply crunch, with Grade A availability down 31% year-on-year across all markets combined. The fall was 86% in Manchester, which has a very strong case for fresh development, finance permitting.
- Falling Grade A supply is starting to impact on pricing, albeit mostly in net effective terms so far. Incentives in Birmingham and Manchester hardened in Q1, with a further five markets forecast to follow suit during 2011. Aberdeen was the first market to see headline rents rise in 2011, rising from £30.00 per sq ft to £31.00 per sq ft during Q1.

Q1 2011 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Investment turnover for offices outside London and the South East was subdued in Q1. An analysis Property Data figures suggests c.£450m of turnover - in line with Q4 2010, but significantly down on Q1 2010.
- An ongoing shortage of buying opportunities for prime assets kept prime yields steady once again in Q1 2011. With the supply of prime stock likely to remain limited, pricing is expected to hold throughout 2011.
- In contrast, the supply of secondary stock is now increasing as banks are becoming more willing to offload property from their balance sheets. Consequently, secondary yields are expected to soften as more opportunities become available.
- Overseas investors remain largely absent from the regional office markets, save for several German Funds in search of large lot-sizes. However, this should change as overseas players seek higher yielding opportunities outside Central London.

Prime office yields

	2010			2011	Yield sentiment
	Q2	Q3	Q4	Q1	
Aberdeen	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Birmingham	5.75%	5.75%	5.75%	**5.75%**	◄ ►
Bristol	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Cardiff	6.25%	6.25%	6.25%	**6.25%**	◄ ►
Edinburgh	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Glasgow	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Leeds	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Liverpool	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Manchester	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Newcastle	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Sheffield	6.50%	6.50%	6.50%	**6.50%**	◄ ►