



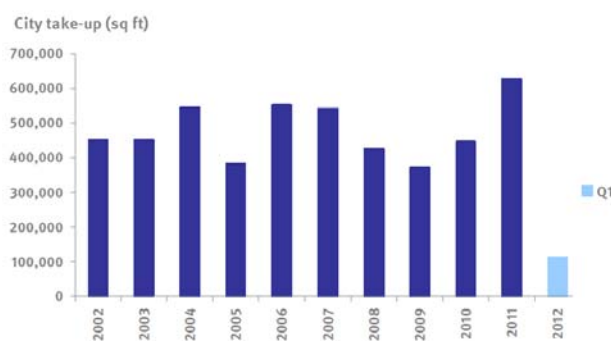
CARDIFF OFFICES

Market update Q1 2012

Knight Frank

Key highlights

- Able & Imray's 2,856 sq ft acquisition at 3 Assembly Square, Cardiff Waterside stole the headlines in Q1 2012. The deal set a new record headline rent for the city of £22.00 per sq ft, eclipsing the previous record of £21.00 per sq ft set in 2009.
- Q1 activity was relatively robust, with 111,617 sq ft of take-up across 23 deals, the majority of which were below 5,000 sq ft. Grade A space also featured prominently in the quarter, accounting for 40% of all the space transacted.
- Q1's biggest deal, by a clear margin, was a confidential letting of 26,378 sq ft to a call centre occupier at Discovery House in the Cardiff Waterside Estate, Cardiff Bay.

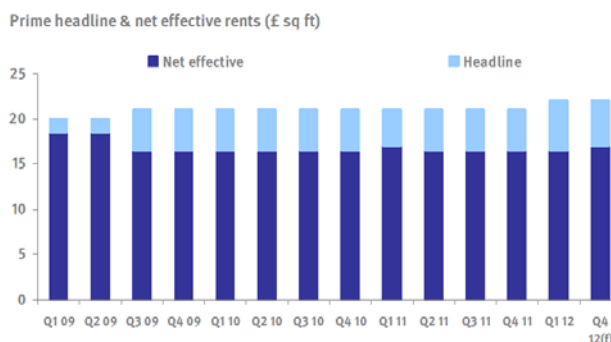


Source: Knight Frank Research

NB: Includes Cardiff Bay area

Office gossip

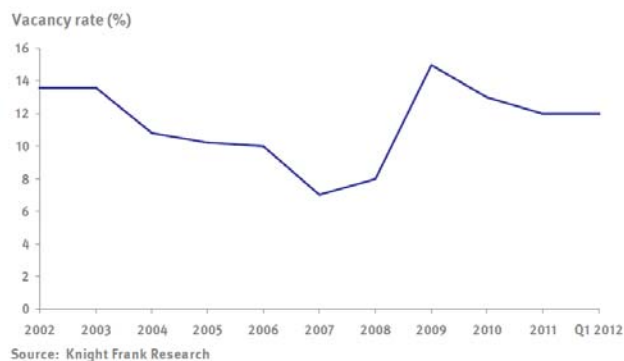
- As the deal at Discovery House demonstrates, the call centre market has been a particularly active sector over the last 12 months, with other notable occupations by Serco (46,320 sq ft at Hodge House) and Conduit (35,500 sq ft at Fusion Point).
- Notable named requirements in the city include the BBC (140,000 sq ft), Hugh James (80,000 sq ft) and Morgan Cole (35,000 sq ft).
- Work is about to commence for Admiral Insurance's new headquarters building on Wood Street. At 12 storeys high, the 200,000 sq ft building will be a significant new addition to the city centre skyline, with completion scheduled in 2014.



Source: Knight Frank Research

Looking ahead

- We do not expect any speculative office developments to commence in 2012, with JR Smart's Number 1 Capital Quarter (78,000 sq ft) currently the only speculative scheme on site.
- Consequently, Grade A supply is likely to continue to diminish at a steady rate over the next 12 months, which should lead to a tightening of incentive packages and, therefore, an increase in net effective rents on prime stock.
- With a lack of new build supply on the market, there are opportunities for landlords to upgrade existing stock via refurbishment and capitalise on the growing unsatisfied demand for Grade A space.



Source: Knight Frank Research

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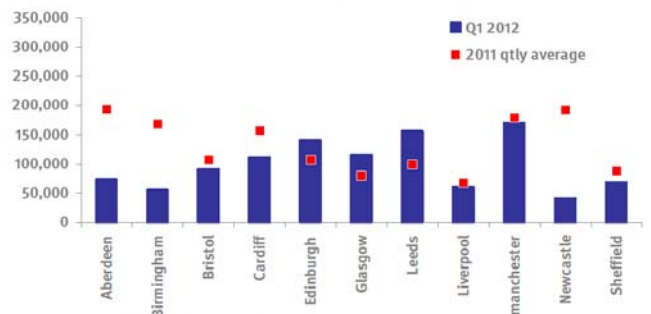
UK REGIONAL OFFICES ROUND-UP

Q1 2012

Occupier demand

- Following a weak 2011, most markets made a modest start to 2012. Q1 take-up fell short of the 2011 quarterly average in eight markets. This was most evident in Aberdeen and Birmingham.
- The three exceptions were Leeds, Glasgow and Edinburgh, which all enjoyed more take-up in Q1 2012 compared with the 2011 quarterly average. Of these, Leeds stands out, with Q1 take-up of 155,847 sq ft being the highest level of take-up recorded in Leeds since 2010.
- Take-up in Glasgow and Edinburgh was consistent with the same period last year, suggesting that occupier sentiment has remained relatively robust.

City centre take-up, Q1 2012 vs 2011 quarterly average (sq ft)

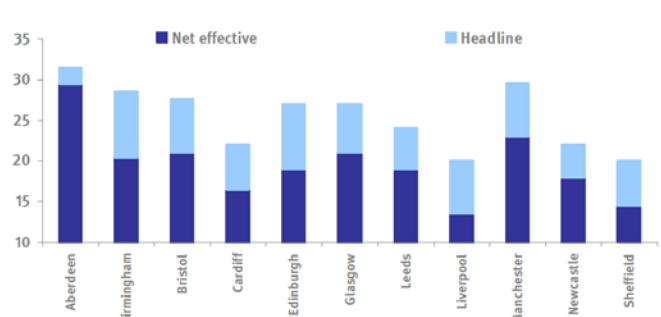


Source: Knight Frank Research

Supply and rents

- Speculative development activity remains limited, confined to only five of the 11 regional markets as at the end of Q1 – while Manchester was the only city to see a development in excess of 200,000 sq ft get underway.
- Many markets are still facing a supply crunch, with Grade A availability down 20% year-on-year across all markets combined. One striking trend has been that Aberdeen has reported nil Grade A in-town availability in Q1.
- Falling Grade A supply is starting to impact on pricing. In terms of rental growth, Manchester outperformed the other regional markets, seeing headline rents increase by 7% y-o-y, rising from £28.00 per sq ft to £30.00 per sq ft during Q1, with net effective rents recovering to their mid-2009 level of £23.50 per sq ft.

Q1 2012 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Transactional activity in Q1 2012 amounted to £390m outside London and the South East, a decline of 30% on Q4 2011. Investor sentiment remains fragile and polarized but has not worsened in 2012.
- Prime office yields were largely stable across 10 of the 11 regional office markets, with the exception of Birmingham where yields moved out by 25bps.
- With an ongoing shortage of buying opportunities for prime assets, pricing is expected to hold throughout 2012.
- Interest in the regional office investment market continues to be focused on prime property, particularly from institutional investors. The secondary market is somewhat more challenging and is mostly confined to short income on business parks.

Prime office yields

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

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