



CARDIFF OFFICES

Market update Q1 2013

Knight Frank

Key highlights

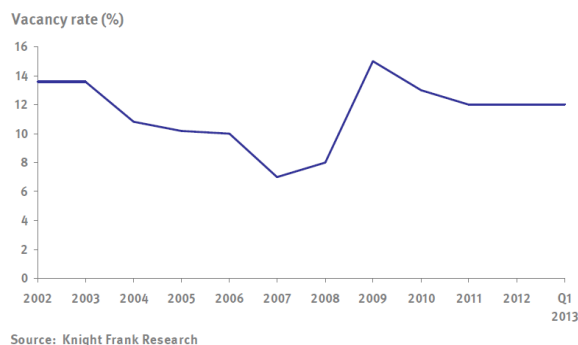
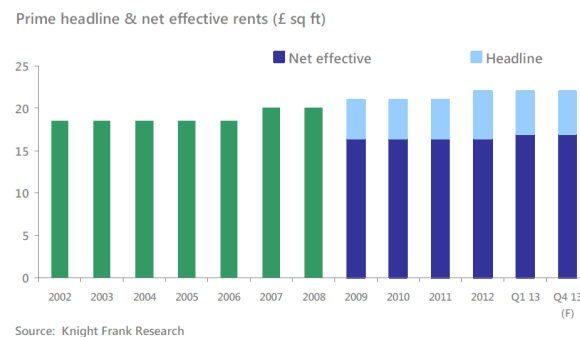
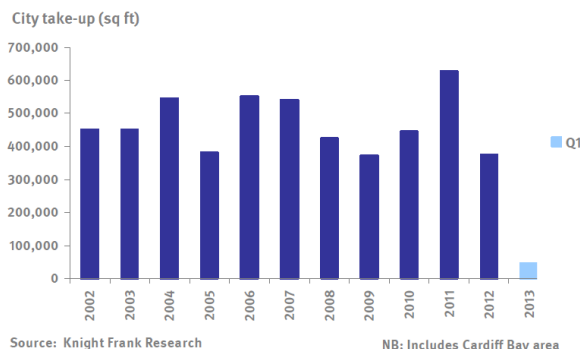
- The Cardiff office market had a disappointing first quarter, with Q1 take-up of 45,153 sq ft - 42% down on the previous quarter and 59% down on a year ago. This Q1 figure is the lowest quarterly total since Q1 2009.
- Q1 headline rents were unchanged at £22.00 per sq ft (Cardiff Bay) and £21.00 per sq ft (city centre) and have remained at this level since Q1 2012. Net effective rents showed some signs of improvement and have increased marginally to £17.00 per sq ft.
- The most significant transaction in Q1 was the Hugh James letting at Hodge House in the city centre. The legal firm took an additional 19,383 sq ft bringing their total occupation in the building to 69,000 sq ft.

Office gossip

- Active named requirements rose for the sixth successive quarter to reach 340,000 sq ft in Q1. BBC, L&G, Geldards and Morgan Cole are all considering relocations, whilst several 10,000 – 20,000 sq ft requirements are focusing on the remaining Grade A space.
- Handelsbanken, The Hospital Group and Welsh Power have committed to take space at 18 Park Place, a speculative Grade A redevelopment in the city centre.
- There were two prime land deals in Q1. The Welsh Government purchased 4.5 acres at Callaghan Square from MEPC with outline planning for 500,000 sq ft and detailed permission for a first phase of 900,000 sq ft. Local developer Rightacres purchased a prime 0.9 acre city centre site on Wood Street for over £2.5 million.

Looking ahead

- Due to the lack of availability of prime stock and the likelihood of this decreasing further, we expect to see a hardening of incentives whilst headline rents should remain static.
- The construction of the Welsh Government's centre for creative industries at Porth Teigr in Cardiff Bay is ahead of schedule. The six-storey building will deliver 40,000 sq ft in early 2014 and is set to become a hub for the creative sector.
- Number 1 Capital Quarter (80,000 sq ft), the major speculative scheme in the city, is expected to be delivered on schedule (Q1 2014), which will provide much needed Grade A space.



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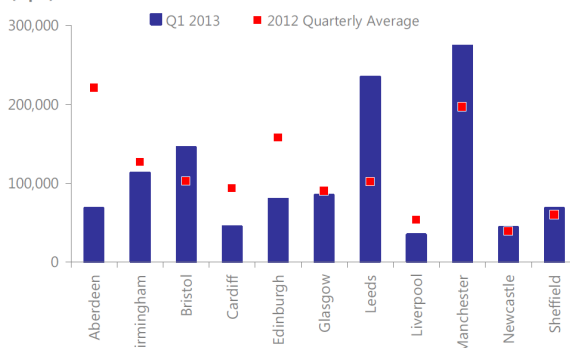
UK REGIONAL OFFICES ROUND-UP

Q1 2013

Occupier demand

- Following a strong final quarter in 2012, activity in the key regional office markets has been maintained in Q1 2013. A number of markets have performed well and saw Q1 take-up exceeding 2012's quarterly average including Bristol, Leeds, Manchester, Sheffield and Newcastle. The 11 markets combined recorded total take-up of 1.19m sq ft during Q1 - marginally down on Q4 2012 but up 9.8% on a year ago.
- In most markets, activity was predominantly characterised by a high number of small deals, typically for second-hand refurbished space.
- There is a healthy level of requirements in the regional office markets, with notable quarterly increases seen in Newcastle (+60%) and Aberdeen (+36%), although the majority are in the sub-5,000 sq ft bracket.

City centre take-up, Q1 2013 vs 2012 quarterly average total (sq ft)

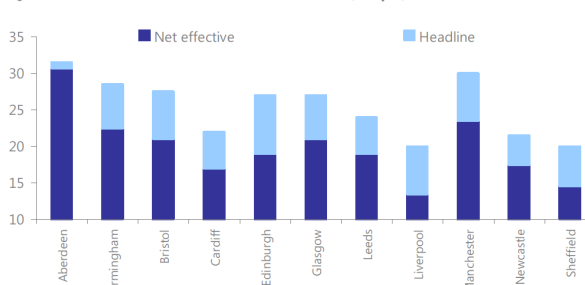


Source: Knight Frank Research

Supply and rents

- Q1 saw a marginal quarterly increase in Grade A supply up from 3,013,043 sq ft in Q4 2012 to 3,067,043 sq ft. However, the current level is 11% down on a year ago. The availability of Grade A space continues to be eroded in most markets in the absence of new completions. Year-on-year double-digit fall was recorded in Birmingham (-33%), Leeds (-14%), Glasgow (-13%), Manchester (-13%), Newcastle (-12%) and Liverpool (-10%).
- Headline rents and incentives have been fairly static over the quarter, although there has been an increase in the net effective rent in Birmingham (from £21.50 to £22.50) and Cardiff (from £16.50 to £17.0).

Q1 2013 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- According to Property Data, Q1 investment turnover was c.£600m outside London and the South East, an improvement on Q1 2012 but nevertheless 30% below the 10-year quarterly average.
- Whilst strong investor interest in prime office stock has been maintained, the availability of suitable product (prime and long-income assets) is the major barrier to activity. One interesting deal in Q1 was Gingko Tree's acquisition of a part share of One Angel Square in Manchester, although it remains to be seen as to whether this marks the start of more sustained interest from foreign investors in the UK regions.
- Prime regional office yields were largely unchanged in Q1, albeit there were some tentative signs of improved sentiment for prime stock. Indeed, Birmingham and Manchester both saw prime yields move in by 25bps to stand at 6.25%, whilst Newcastle was the only city to see prime yields soften Q1.

Prime office yields

| | 2012 | | | 2013 | Yield sentiment |
|------------|-------|-------|-------|-------|-----------------|
| | Q2 | Q3 | Q4 | Q1 | |
| Aberdeen | 6.50% | 6.50% | 6.50% | 6.50% | ◀ ▶ |
| Birmingham | 6.50% | 6.50% | 6.50% | 6.25% | ◀ ▼ |
| Bristol | 6.50% | 6.50% | 6.50% | 6.50% | ◀ ▶ |
| Cardiff | 6.50% | 6.50% | 6.50% | 6.50% | ◀ ▶ |
| Edinburgh | 6.50% | 6.50% | 6.50% | 6.50% | ◀ ▶ |
| Glasgow | 6.50% | 6.50% | 6.50% | 6.50% | ◀ ▶ |
| Leeds | 6.50% | 6.50% | 6.50% | 6.50% | ◀ ▶ |
| Liverpool | 7.25% | 7.50% | 7.50% | 7.50% | ◀ ▶ |
| Manchester | 6.50% | 6.50% | 6.50% | 6.25% | ◀ ▼ |
| Newcastle | 6.75% | 6.75% | 6.75% | 7.00% | ◀ ▲ |
| Sheffield | 7.25% | 7.25% | 7.25% | 7.25% | ◀ ▶ |

Source: Knight Frank Research

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