RESEARCH

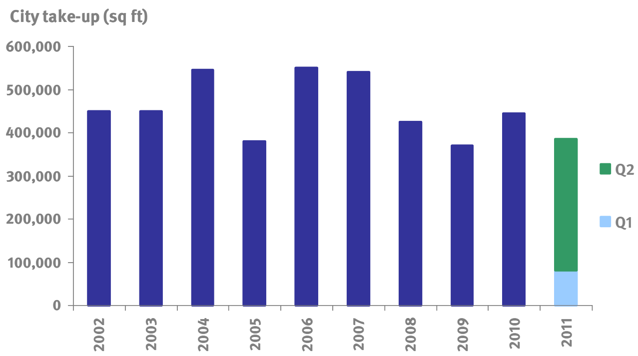
CARDIFF OFFICES

Market update Q2 2011

Knight Frank

Key highlights

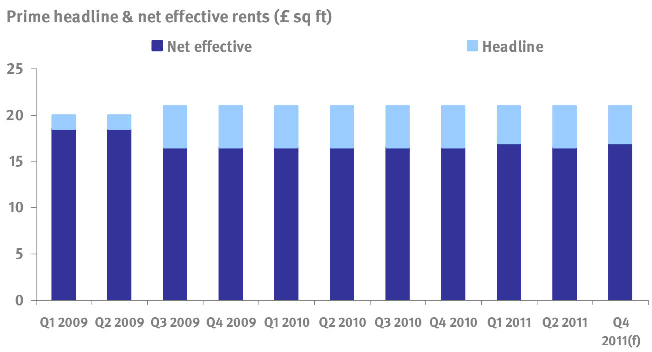
- Take-up in Cardiff was an impressive 304,282 sq ft in Q2, driven by the largest pre-let ever seen in the city. Advised by Knight Frank, Admiral Insurance agreed to a 200,000 sq ft HQ building, which will be located adjacent to St David's Shopping Centre, with completion scheduled in 2014.
- The deal pushed take-up for the first half of the year to 384,531 sq ft, just 12% short of the entire annual total for 2010.
- Other notable deals in Q2 included The Listening Company's 46,320 sq ft lease at Hodge House and Brewin Dolphin's 6,500 sq ft lease at Number 5 Callaghan Square, which sees the building now 94% let.
- Take-up of existing space brought about a fall in the vacancy rate, reducing from 13.0% in Q1 to 12.0% in Q2.



Source: Knight Frank Research NB: Includes Cardiff Bay area

Office gossip

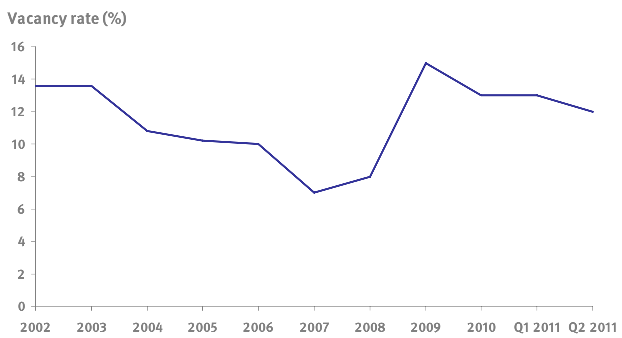
- At the end of Q2, active named demand stood at 132,000 sq ft, down from 350,000 sq ft a year ago and largely reflecting the successful conclusion of the Admiral Insurance deal.
- Solicitor firms Hugh James and Morgan Cole are actively seeking 60,000 sq ft and 30,000 sq ft in Cardiff respectively, although a lack of suitable Grade A space is hampering any deal.
- However, JR Smart is expected to reach practical completion on the Driscoll Buildings imminently, with half of the 37,000 sq ft scheme already under offer. The developer has also formally announced plans to proceed speculatively on Number One Capital Quarter, with construction of the 78,000 sq ft scheme expected to commence in August.



Source: Knight Frank Research

Looking ahead

- Thanks in large part to Admiral Insurance's pre-let, total take-up in 2011 is likely to eclipse the high of 2006.
- Headline rents are expected to stay at £21.00 sq ft for the remainder of the year. However, the diminishing supply of Grade A space means occupiers should start to see less generous incentives being offered. Indeed, we expect net effective rents to rise from around £16.50 per sq ft to £17.00 per sq ft by the end of the year.
- The market is likely to see an increasing surplus of secondary stock as more occupiers upgrade their existing accommodation with demand focused on Grade A space.



Source: Knight Frank Research

Agency contact

Matt Phillips, Partner, Cardiff
+44 (0)29 2044 0122
matt.phillips@knightfrank.com

Research contact

Oliver du Sautoy, Associate, Commercial Research
+44 (0)20 7861 1592
oliver.dusautoy@knightfrank.com

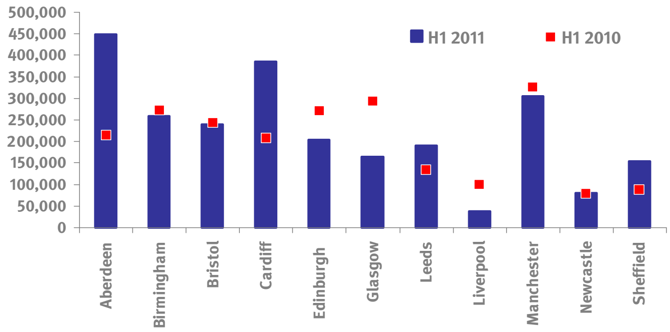
UK REGIONAL OFFICES ROUND-UP

Q2 2011

Occupier demand

- Across the eleven markets combined, total take-up for the first half of 2011 stands 11% higher than H1 2011. However, if Admiral Insurance's 200,000 sq ft pre-let in Cardiff is excluded, take-up is almost identical.
- H1 2011 take-up in Birmingham, Bristol, Manchester and Newcastle was remarkably consistent with the equivalent period last year, suggesting occupier sentiment has remained relatively robust.
- Buoyancy of the North Sea oil sector continues to fuel strong demand in Aberdeen, with H1 2011 take-up more than twice that seen in H1 2010. In contrast, Edinburgh and Glasgow have seen less transactional activity on last year, while activity remains extremely subdued in Liverpool.

City centre take-up, H1 2011 vs H1 2010 (sq ft)

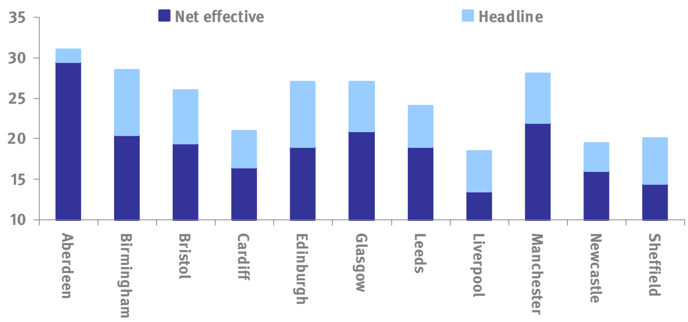


Source: Knight Frank Research

Supply and rents

- The commencement of Two Snowhill in Birmingham is the first major speculative development to progress across the 11 cities in almost a year. However, most of Hines' 305,000 sq ft scheme is pre-let, and this is likely to provide the only means through which large developments will move forward in these markets over the next 12 months.
- Supply continues to ebb away in the absence of new development completions. At the end of Q2 2011, Grade A supply across the 11 cities combined was down 25% on Q2 2010, with the largest falls seen in Aberdeen (-89%), Edinburgh (-47%) and Sheffield (-35%).
- Headline rents slipped in Liverpool and Newcastle to £18.50 and £19.50 in Q2. However, more generally, incentive levels are either hardening or expected to harden across the regional centres, in reflection of this steady erosion of Grade A supply.

Q2 2011 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Investors' aversion to secondary assets and a shortage of available prime stock has stymied activity in the first half of 2011. Latest figures from Property Data reveal that H1 2011 turnover was c.£716m outside London and the South East, down 52% on H1 2010.
- Investment demand is becoming increasingly polarised according to perceived strengths of each occupier market. When prime office stock becomes available in Birmingham, Manchester and Bristol, aggressive bidding is ensuing. Elsewhere, however, investors are more cautious and need to see clear value. Consequently, prime yields softened by 25bps in Liverpool, Leeds and Sheffield in Q2.
- The secondary investment market remains problematic. Yields are likely to soften given an anticipated increase of stock to the market as lenders become more willing to offload properties and crystallise their losses.

Prime office yields

	2010		2011		Yield sentiment
	Q3	Q4	Q1	Q2	
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%	**6.25%**	◄ ►
Liverpool	6.50%	6.50%	6.50%	**6.75%**	◄ ►
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%	**6.75%**	◄ ►