



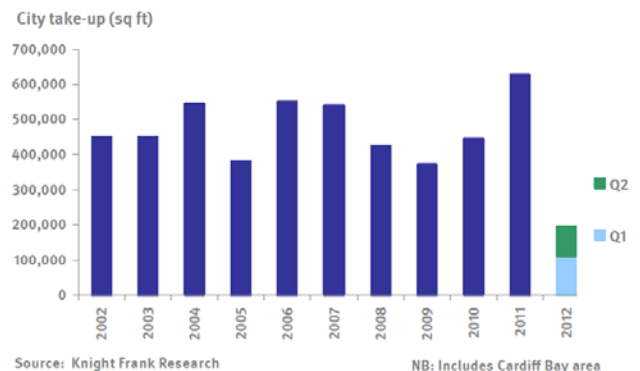
# CARDIFF OFFICES

Market update Q2 2012

**Knight Frank**

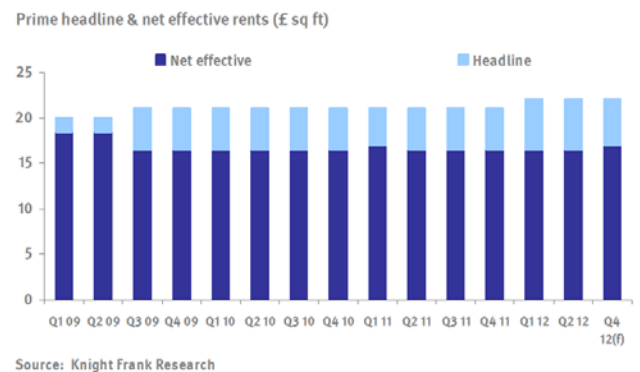
## Key highlights

- Following a solid performance in Q1, Q2 activity dipped to 84,806 sq ft, 25% below the 10-year quarterly average.
- Of the 31 deals recorded in Q2, 28 were below 5,000 sq ft with the majority of transacted stock comprising Grade B accommodation. Q2's biggest deals were both on Grade B stock - Bridgend College leased 13,334 sq ft at Penarth Road in the city centre while Scottish & Southern leased 8,500 sq ft as they expand at Eastern Business Park, St Mellons.
- The largest Grade A deal in Q2 was 4,340 sq ft at 1 Kingsway in the city centre where Jones Lang Lasalle took a lease of a refurbished ground floor suite.



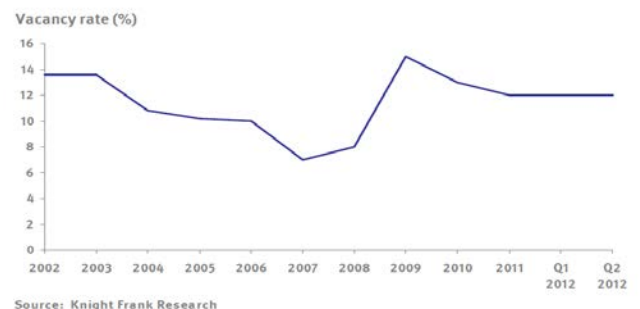
## Office gossip

- Construction has commenced on Admiral Insurance's new headquarters building on Wood Street, adjacent to St Davids Shopping Centre. The development will bring a new addition to the skyline in the coming months, with completion of the 200,000 sq ft building scheduled for 2014.
- There are several major requirements in the city, including the BBC (140,000 sq ft) and two solicitors; Hugh James (80,000 sq ft) and Morgan Cole (35,000 sq ft). The solicitors' moves have been triggered by lease events in 2014.
- The Welsh Government and Cardiff Council are understood to be discussing options to bring much needed Grade A stock to the market to attract inward investment to the city by potentially taking an overriding lease to enable development.



## Looking ahead

- While recent transactions have focused on smaller Grade B stock, there was a notable increase in medium-sized (5,000 – 10,000 sq ft) requirements in the final weeks of Q2. This may impact positively on take-up figures later this year and we now anticipate take-up for the full year of 2012 to be in line with the 10-year annual average of 450,000 sq ft p.a.
- JR Smart's Number 1 Capital Quarter (78,000 sq ft) remains the only notable speculative development on site. With Grade A space in short supply, the building looks well timed to take advantage of a lack of high quality accommodation when it completes.



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# UK REGIONAL OFFICES ROUND-UP

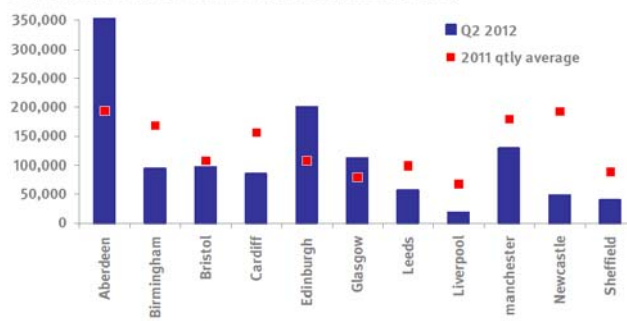
Q2 2012



## Occupier demand

- Total Q2 take up in the eleven cities combined was 1,423,646 sq ft, 32% up on Q1. However, Q2 was somewhat skewed by Aberdeen's record take-up level of 547,926 sq ft.
- Given the economic backdrop, it is unsurprising that most markets experienced lower take-up in Q2 2012 compared with the 2011 quarterly average. The three exceptions are Aberdeen, Edinburgh and Glasgow, which all experienced above average activity during the quarter.
- Despite the challenging economic environment, occupier demand has held up better than expected. Demand is anticipated to remain at current levels over the summer, although a number of active requirements provide a source of optimism.

City centre take-up, Q2 2012 vs 2011 quarterly average (sq ft)

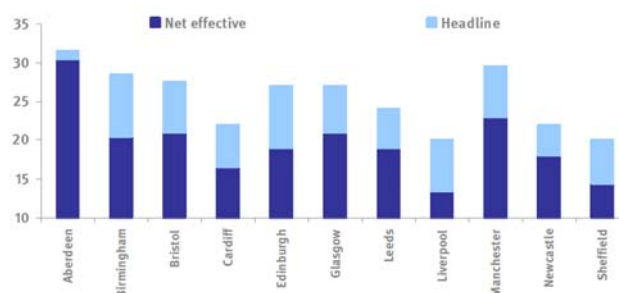


Source: Knight Frank Research

## Supply and rents

- The lack of new development has meant that Grade A supply has continued to fall in most regional centres.
- The on-going lack of debt funding is still hampering new development, while more secondary property is becoming available. Speculative development activity remains limited, confined to only four of the 11 regional markets as at the end of Q2. Moreover, only two cities, namely Birmingham and Manchester, have in excess of 100,000 sq ft underway.
- Nevertheless, prime rents were broadly stable during Q2 and vary between £20.00 per sq ft in Sheffield and £31.50 in Aberdeen. Looking forward, prime office rents in most regional cities are not expected to change significantly for the rest of the year, although upwards pressure on net effective rents may be seen in some areas.

Q2 2012 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 Q2. The latest figures from Property Data suggest c.£374m turnover, 4% down on Q1.
- Investor demand is still very much focussed on prime property. However, we believe that both prime and secondary pricing has softened, with the yield gap increasing as prices for secondary product continue to soften faster than those for prime stock.
- The prevailing uncertainty in the Euro zone and its impact on the UK economy has resulted in weak demand for secondary property.
- According to the latest Knight Frank ROMP Confidence Index, a majority of our agents are expecting to see little change to investor sentiment in the prime office market, with the outlook remaining generally cautious.

Prime office yields

|            | 2011  |       | 2012  |       | Yield sentiment |
|------------|-------|-------|-------|-------|-----------------|
|            | Q3    | Q4    | Q1    | Q2    |                 |
| Aberdeen   | 6.00% | 6.25% | 6.25% | 6.50% | ◀ ▲             |
| Birmingham | 5.75% | 6.00% | 6.25% | 6.50% | ◀ ▲             |
| Bristol    | 6.00% | 6.25% | 6.25% | 6.50% | ◀ ▲             |
| Cardiff    | 6.25% | 6.25% | 6.25% | 6.50% | ◀ ▲             |
| Edinburgh  | 6.00% | 6.25% | 6.25% | 6.50% | ◀ ▲             |
| Glasgow    | 6.00% | 6.25% | 6.25% | 6.50% | ◀ ▲             |
| Leeds      | 6.25% | 6.25% | 6.25% | 6.50% | ◀ ▲             |
| Liverpool  | 6.75% | 7.00% | 7.00% | 7.25% | ◀ ▲             |
| Manchester | 6.00% | 6.00% | 6.00% | 6.50% | ◀ ▲             |
| Newcastle  | 6.50% | 6.50% | 6.50% | 6.75% | ◀ ▲             |
| Sheffield  | 6.75% | 7.00% | 7.00% | 7.25% | ◀ ▲             |

Source: Knight Frank Research

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