



CARDIFF OFFICES

Market update Q3 2012

Knight Frank

Key highlights

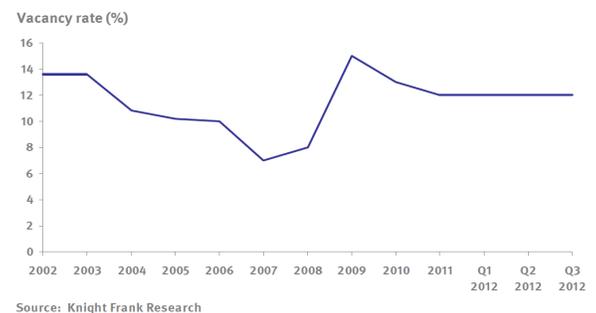
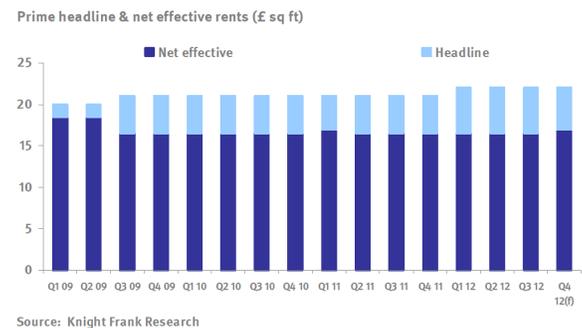
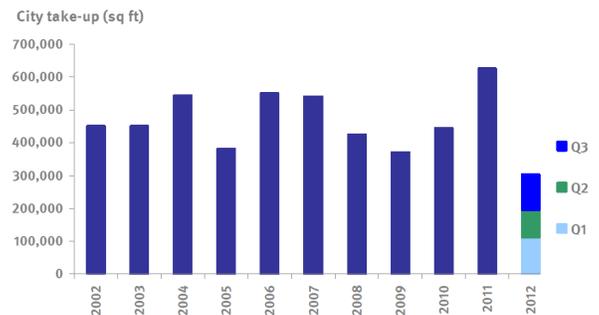
- Cardiff saw a respectable 100,115 sq ft of take-up in Q3, improving on Q2's relatively subdued activity. Of Q3's 21 deals, 17 were below 5,000 sq ft with 60% of the deals completed in the city centre. Take-up was shared equally between Grade B and Grade C accommodation.
- Q3's largest deal by a clear margin was JR Smart's sale of Ocean Park House. The 45,000 sq ft Grade C office building was purchased by ACT Training, a skills training provider to Welsh Government. The second largest deal was Save Britain Money Group's 8,687 sq ft lease at Trafalgar House for call centre use.
- Q3 also saw a notable investment deal, with Topland's purchase of Capital Tower, the tallest building in the city centre totalling 123,681 sq ft. The building is currently 90% let, with Admiral Insurance currently in occupation of 80,000 sq ft.

Office gossip

- Cardiff Council is understood to have shortlisted four sites for a new £100m+ indoor arena and convention centre. The suitability of the sites at Brains Brewery, Callaghan Square, Porth Teigr and Cardiff Waterside are currently being assessed.
- Active requirements in the city stand at a robust c. 300,000 sq ft, the largest of which comprises the BBC's potential relocation of its headquarters from north Cardiff. The broadcaster is expected to make a decision on whether or not to move from their Llandaff site in Q4.
- Geldards is the latest firm of solicitors to consider relocation. The firm is considering options to expand or relocate from their current 35,000 sq ft occupation of Dumries House in the city centre, with a lease event in 2014.

Looking ahead

- The level of enquiries has improved notably since the start of September, many of which are from occupiers looking for medium-sized units ranging from 5,000 to 10,000 sq ft. This bodes well for Q4 transactional activity and we now anticipate that take-up for the full year will be close to the long term average of c. 450,000 sq ft.
- In addition to JR Smart's 80,000 sq ft Number 1 Capital Quarter – which is currently under construction - the remaining pipeline is limited to the redevelopment of 18 Park Place which is due to deliver 10,604 sq ft of Grade A space over four floors before the year end.



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UK REGIONAL OFFICES ROUND-UP

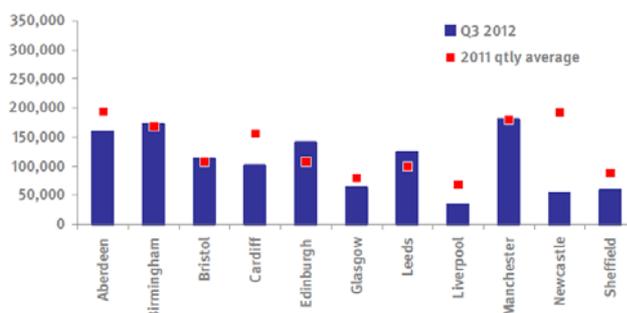
Q3 2012



Occupier demand

- Office take-up across the eleven regional cities continued to be subdued, totalling 1,195,011 sq ft during Q3 2012 - down 15% on Q3 2011 and also down 16% on Q2 2012. Take-up in the eleven cities combined for the first nine months of 2012 was 7% down on the same period in 2011.
- Similar to the previous quarter, a number of markets experienced lower take-up in Q3 2012 compared with the 2011 quarterly average. Take-up was strongest in Edinburgh and Leeds, with Birmingham, Bristol and Manchester also experiencing just above average activity during the quarter.
- Occupiers continued the 'fight to quality' in most markets. We have seen renewed requirements from professional services firms prompted by forthcoming lease expiries.

City centre take-up, Q3 2012 vs 2011 quarterly average (sq ft)

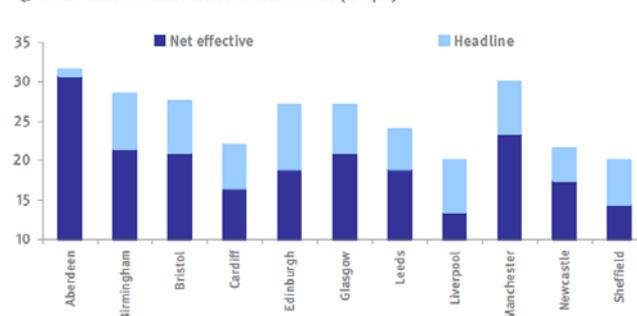


Source: Knight Frank Research

Supply and rents

- The limited amount of new space brought to the market in Q3 resulted in another fall in availability, with total new Grade A supply across the region amounting to 3,230,062 sq ft – 2.4% below the Q2 2012 total.
- While prime headline rents are unlikely to increase from their current levels before the year-end, we do anticipate rent free incentives will harden in 2013 as Grade A supply becomes even more restricted.
- Speculative development activity remains generally limited. At the end of Q3 2012, speculative development across the 11 cities combined was up 17% on Q2 2012 but down 12% on Q3 2011. Birmingham and Manchester are the only two cities which have in excess of 100,000 sq ft underway.

Q3 2012 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Q3 investment turnover was £477m outside London and the South East, an improvement on Q2 but nevertheless 45% below the 10-year quarterly average.
- The largest single transaction in Q3 was Union Investment's £60m purchase of 1 George Square in Glasgow, reflecting a net initial yield of c.6.25%.
- There remains sustained strong investor interest for prime office stocks. However, a major barrier to activity remains a lack of suitable product, namely prime, long-income assets.
- While Q2 brought a softening in prime office yields in the regions, prime yields were largely unchanged in Q3, with the exception of Liverpool which prime yields moving out by 25bps to stand at 7.50%. Yields on secondary assets remain vulnerable to a further outward shift.

Prime office yields

	2011	2012			Yield sentiment
	Q4	Q1	Q2	Q3	
Aberdeen	6.25%	6.25%	6.50%	6.50%	◀ ▲
Birmingham	6.00%	6.25%	6.50%	6.50%	◀ ▲
Bristol	6.25%	6.25%	6.50%	6.50%	◀ ▲
Cardiff	6.25%	6.25%	6.50%	6.50%	◀ ▲
Edinburgh	6.25%	6.25%	6.50%	6.50%	◀ ▲
Glasgow	6.25%	6.25%	6.50%	6.50%	◀ ▲
Leeds	6.25%	6.25%	6.50%	6.50%	◀ ▲
Liverpool	7.00%	7.00%	7.25%	7.50%	◀ ▲
Manchester	6.00%	6.00%	6.50%	6.50%	◀ ▲
Newcastle	6.50%	6.50%	6.75%	6.75%	◀ ▲
Sheffield	7.00%	7.00%	7.25%	7.25%	◀ ▲

Source: Knight Frank Research

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