RESEARCH

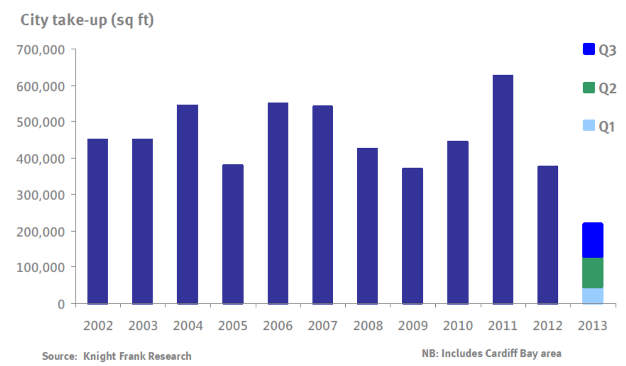
CARDIFF OFFICES

Market update Q3 2013

Knight Frank

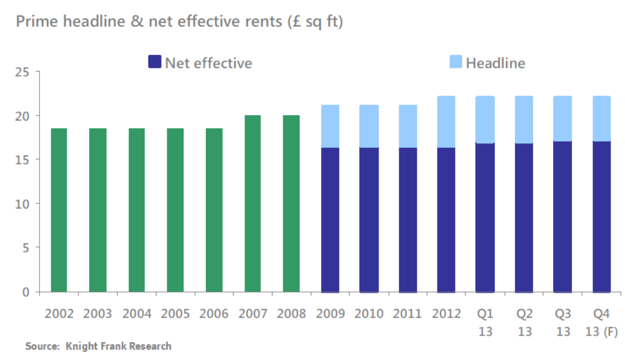
Key highlights

- The Cardiff market continued to see a pick-up in occupier demand. Third quarter take-up was 104,947 sq ft – 24% up on the previous quarter and bringing the year to date total to 234,316 sq ft.
- The most significant lettings in Q3 were both at 3 Assembly Square, Cardiff Waterside, where ITV Broadcasting and the Welsh Government's Life Science Hub took 10,819 sq ft and 12,489 sq ft respectively.
- Cardiff Council has announced plans for a major mixed use development immediately north of Central Railway Station, following the acquisition of the buildings and sites around the existing bus station. The first phase will be a Grade A office scheme of 130,000 sq ft, planned for delivery in 2015.



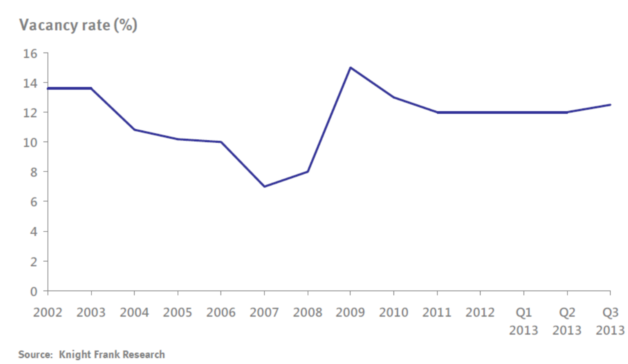
Office gossip

- Headline rents have been firmly established at £22.00 per sq ft in Cardiff Bay and £21.00 per sq ft in the city centre. However, net effective rents edged up to £17.25, as availability in the city centre remains very limited.
- Total active named demand remained at 350,000 sq ft in Q3 including BBC, Legal & General, Geldards, Morgan Cole, The AA, HSBC and Finance Wales.
- In terms of current availability, Grade A stock remains in very short supply, with only 21,000 sq ft available in the city centre (until completion of 80,000 sq ft at Number 1 Capital Quarter in March 2015) and less than 40,000 sq ft in Cardiff Bay.



Looking ahead

- With improving economic conditions, we expect overall demand from occupiers to continue to increase, beyond the 350,000 sq ft of active requirements already identified in the market.
- There is a pipeline of new Grade A office space in the form of three new schemes (Number 2 Capital Quarter, Phase 1 Callaghan Square and Phase 1 Central Square), which could come on to the market within the next three years, providing 310,000 sq ft in the city centre.
- We expect to see a reduction of incentives offered to tenants on prime space, which will improve 'net effective' rental levels, but it will be new schemes coming through that will have the opportunity to test headline rents.



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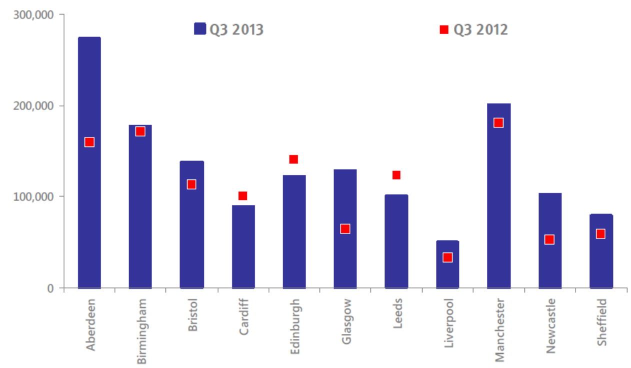
UK REGIONAL OFFICES ROUND-UP

Q3 2013

Occupier demand

- Sentiment and demand continued to improve in the regional office markets in Q3, with occupier demand remaining relatively robust. Indeed, there is a healthy list of sizeable requirements, mainly from occupiers in the legal and financial sectors.
- The 11 markets combined recorded total take-up of 1,461,951 sq ft during Q3. Whilst this represents a modest increase of 6% on Q2 2013, it is 22% above the overall total take-up recorded for the same period, with strong performance and double digit increases seen in Glasgow (+100%), Newcastle (+95%), Aberdeen (+71%), Liverpool (+52%), Sheffield (+34%), Bristol (+22%) and Manchester (+11%).
- However, there was a healthy level of activity, transactions continued to be predominantly characterised by smaller deals.

City centre take-up, Q3 2013 vs Q3 2012 total (sq ft)

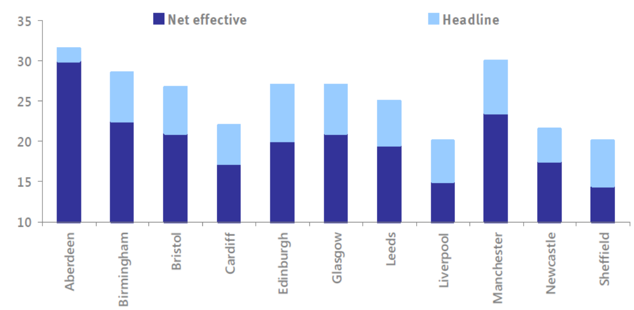


Source: Knight Frank Research

Supply and rents

- Q3 saw a marginal quarterly decrease in Grade A supply, which slipped from 3,225,544 sq ft in Q2 to 3,069,805 sq ft in Q3. This reflects the continuing erosion of Grade A space in the absence of new completions/development activity. Quarter-on-quarter double-digit falls were seen in Cardiff (-19%), Birmingham (-17%), and Newcastle (-10%). Only two cities experienced a quarterly increase in supply, namely Aberdeen (+45%) and Glasgow (+4%).
- Whilst occupier sentiment is improving, headline rents have been largely stable, with only Aberdeen projected to see an increase in headline rents by the year-end. While growth in regional headline rents is unlikely over the remainder of 2013, net effective rents may edge up as Grade A supply continues to decline.

Q3 2013 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Q3 saw a buoyant level of investment activity. According to the latest figures from Property Data, investment turnover for offices outside London and the South East was c. £870m, up 82% on a year ago.
- Whilst investor demand for prime office assets in the regions has remained strong, most regional office markets have started to, and are likely to continue to, suffer from a shortage of available stock (prime and long-income assets). Since prime buying opportunities are limited, increasing interest is being seen in good quality secondary assets which offer sound fundamentals, with prospects for active management.
- Prime yields in the regional cities generally hardened during Q3, with Aberdeen, Bristol, Edinburgh, Glasgow, Liverpool, Manchester and Newcastle seeing prime yields move in by 25 bps. Birmingham and Cardiff were the exceptions, with prime yields remaining stable in Q3.

Prime office yields

	2012	2013			Yield sentiment
	Q4	Q1	Q2	Q3	
Aberdeen	6.50%	6.50%	6.25%	**6.00%**	→↘
Birmingham	6.50%	6.25%	6.00%	**6.00%**	→↘
Bristol	6.50%	6.50%	6.25%	**6.00%**	→↘
Cardiff	6.50%	6.50%	6.25%	**6.25%**	→↘
Edinburgh	6.50%	6.50%	6.25%	**6.00%**	→↘
Glasgow	6.50%	6.50%	6.25%	**6.00%**	→↘
Leeds	6.50%	6.50%	6.25%	**6.15%**	→↘
Liverpool	7.50%	7.50%	7.50%	**7.25%**	→↘
Manchester	6.50%	6.25%	6.25%	**6.00%**	→↘
Newcastle	6.75%	7.00%	7.00%	**6.75%**	→↘
Sheffield	7.25%	7.25%	7.25%	**6.75%**	→↘

Source: Knight Frank Research