RESEARCH

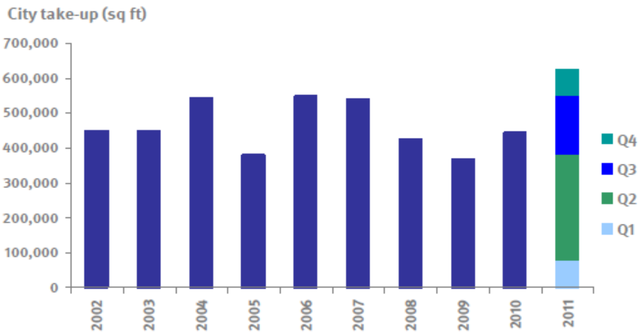
CARDIFF OFFICES

Market update Q4 2011

Knight Frank

Key highlights

- While Cardiff saw relatively subdued take-up of 70,711 sq ft in Q4, the total for 2011 as a whole reached a high of 639,755 sq ft.
- Admiral's 200,000 sq ft pre-let at Bridge Street in Q2 was obviously key to last year's impressive performance. However, if this is discounted, 2011 still saw a respectable 444,320 sq ft of take-up, set against a long term average of c. 500,000 sq ft.
- Q4's largest deal saw Regus committing to 10 year lease on the 15th floor Brunel House, totalling 14,575 sq ft, which will replace their existing operation at Haywood House North. Out-of town, the largest deal in Q4 was First Rand Bank's lease of 12,980 sq ft at Lambourne House, Llanishen.

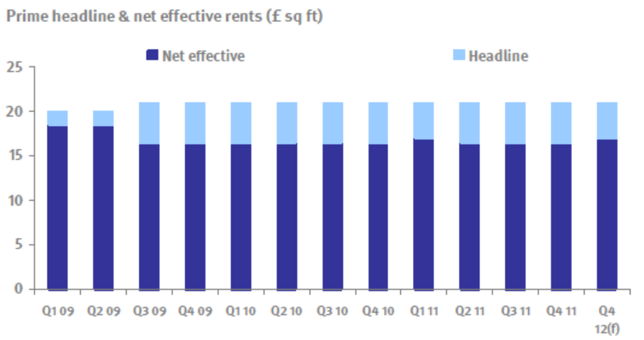


Source: Knight Frank Research

NB: Includes Cardiff Bay area

Office gossip

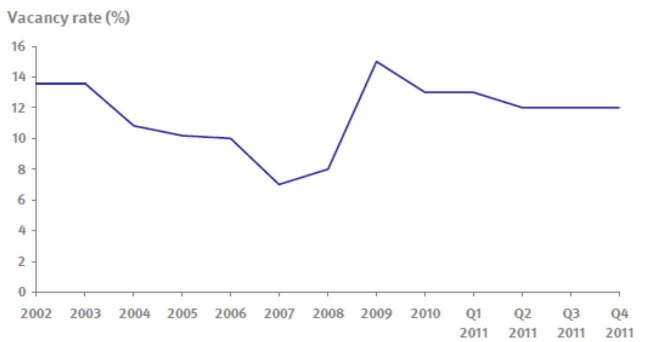
- Availability of Grade A space is becoming very limited, particularly in the city centre where Deloitte was forced into Fusion Point for the 9,000 sq ft expansion of their current headquarters at Callaghan Square.
- Cardiff Council is reported to be close to announcing an in principle agreement with two major employers in Cardiff to relocate to offices in Central Square, the first phase of its CBD redevelopment totalling over 200,000 sq ft.
- Demand remains patchy with the majority of activity in the sub 3,000 sq ft bracket. However there are several larger active requirements, including Morgan Cole (35,000 sq ft) and Hugh James (70,000 sq ft), both of whom are likely to commit in 2012 before their options become too limited.



Source: Knight Frank Research

Looking ahead

- While total availability will remain relatively stable over the next 12 months, the underlying share of Grade A space will decrease, as occupiers look to capitalise on market conditions and upgrade to better quality premsies.
- We are unlikely to see any improvement on the current prime headline rent of £21.00 sq ft over the next 12 months. However, the increasing lack of Grade A space is expected to lead to a slight hardening of incentive packages over the course of 2012.
- Detail remains limited surrounding the Welsh Government's decision to award Enterprise Zone (EZ) status to Cardiff's CBD which could extend south to include Cardiff Bay. The Council is likely to use EZ status to focus development in the central area.



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

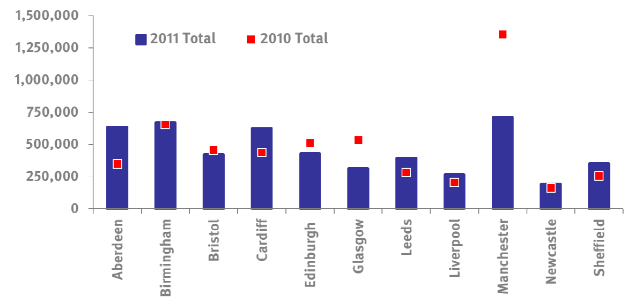
UK REGIONAL OFFICES ROUND-UP

Q4 2011

Occupier demand

- There was a clear slowdown towards the year-end, with Q4 2011 quarterly take-up down 15% on Q3, however, 2011 as a whole was just marginally worse than 2010.
- Across the 11 cities, annual take-up for 2011 totalled 5,015,938 sq ft - only 4% down on 2010. Most markets enjoyed stronger 2011 take-up compared with 2010 including Aberdeen, Birmingham, Cardiff, Leeds, Liverpool, Newcastle and Sheffield. In contrast, Bristol, Edinburgh, Glasgow and Manchester recorded annual falls in take-up activity.
- Occupiers remain cautious, with the majority continuing to assess the impact of current economic conditions on their businesses. Activity remains focused at the smaller end of the market.

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

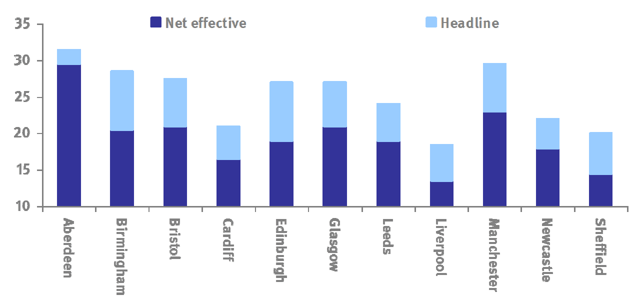


Source: Knight Frank Research

Supply and rents

- The volume of speculative development activity is limited, confined to just four of the 11 cities at the end of Q4. Manchester has the highest amount of development underway (207,500 sq ft).
- As a result, Grade A supply remains ever more constrained. At the end of Q4 2011, total Grade A supply across the 11 cities was down 9.3% on Q3 2011 and down 26.3% on 2010 and.
- Prime net effective rents held up reasonably well throughout 2011, the one exception being Manchester, where net effectives declined by 2% on Q3. In terms of rental growth, Bristol outperformed the other regional markets, seeing headline rents increase to £27.00 per sq ft, with net effective rents recovering to their mid-2009 level of £21.00 per sq ft.

Q4 2011 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Transactional activity in Q4 amounted to £561m outside London and the South East, an improvement on Q3 but nevertheless 30% below the 10-year quarterly average. With a modest final quarter, the 2011 total sales value of £1,774m falls behind the 2010 value by 29%.
- Interest in the regional office investment market continues to be focused on prime property, for which there is a healthy level of demand, particularly from institutional investors. In the secondary market meanwhile, the challenging occupier markets and lack of available debt for purchasers continue to exert downward pressure on values.
- Overall investor sentiment was more cautious towards the year-end. Regional office yields softened marginally in a number of markets on 7 of the 11 regional offices during Q4 2011 except Cardiff, Leeds, Manchester and Newcastle where yields were unchanged.

Prime office yields

	2011				Yield sentiment
	Q1	Q2	Q3	Q4	
Aberdeen	6.00%	6.00%	6.00%	**6.25%**	◄ ►
Birmingham	5.75%	5.75%	5.75%	**6.00%**	◄ ►
Bristol	6.00%	6.00%	6.00%	**6.25%**	◄ ►
Cardiff	6.25%	6.25%	6.25%	**6.25%**	◄ ►
Edinburgh	6.00%	6.00%	6.00%	**6.25%**	◄ ►
Glasgow	6.00%	6.00%	6.00%	**6.25%**	◄ ►
Leeds	6.00%	6.25%	6.25%	**6.25%**	◄ ►
Liverpool	6.50%	6.75%	6.75%	**7.00%**	◄ ►
Manchester	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Newcastle	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Sheffield	6.50%	6.75%	6.75%	**7.00%**	◄ ►