



CARDIFF OFFICES

Market update Q4 2012

Knight Frank

Key highlights

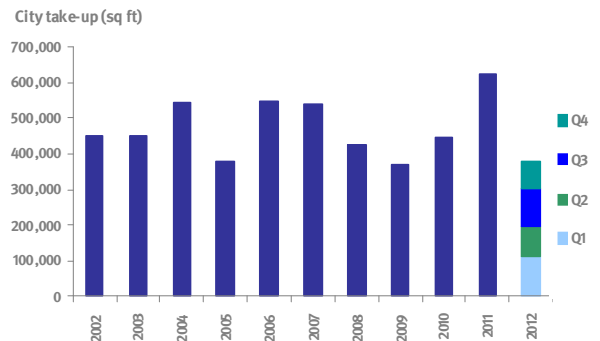
- Total take-up in Cardiff for 2012 as a whole amounted to 374,839 sq ft, 17% down on the long term average. Q4 was the quietest quarter of the year, with take-up of 78,301 sq ft. Grade A space accounted for 54% of the Q4 total, while Grade B offices accounted for 30%.
- Rents remained static over the quarter, with prime headline rents at £22.00 per sq ft in Cardiff Bay and £21.00 per sq ft in the city centre. Due to the lack of availability and the likelihood of this decreasing further in Q1/Q2 we expect to see a further hardening of incentives.
- The largest transaction in Q4 was the letting of the remaining 12,767 sq ft at Fusion Point II to Involegal (Hugh James Solicitors). Other significant deals included Zurich Insurance's relocation from Fusion Point to two new city centre premises at 3 Callaghan Square (7,333 sq ft) and 6 Park Street (8,190 sq ft).

Office gossip

- The speculative redevelopment of 18 Park Place in the city centre is close to completion and has had some early success, with deals on the ground, first and second floors already agreed and due to complete early in 2013.
- Active named requirements rose for the fifth successive quarter to reach 320,000 sq ft in Q4, with the BBC still to make a decision on its 140,000 sq ft relocation. L&G has a requirement to potentially relocate 50,000 sq ft in the city centre, while the possible relocations of solicitors Morgan Cole (35,000 sq ft) and Geldards (40,000 sq ft) remain live.

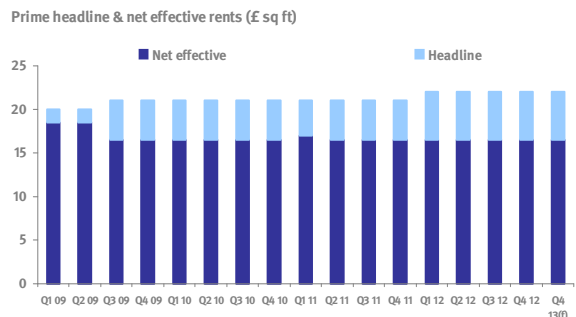
Looking ahead

- Construction has started on the centre for creative industries at Porth Teigr in Cardiff Bay. The six-storey building is scheduled to deliver 40,000 sq ft in early 2014 and is set to become a hub for the creative sector.
- Work on Number 1 Capital Quarter (80,000 sq ft), the major speculative scheme in the city, is progressing well. The frame is complete and, with the cladding being erected in Q1, occupiers will soon be able to see the city's newest Grade A building taking shape.
- The availability of Grade A space is becoming a real issue for occupiers. With less than 150,000 sq ft available in total (city centre, Cardiff Bay and out-of-town), occupiers aiming to secure new space in 2013 will need to act fast to secure premium space. Supply is very tight in the city centre in particular, with less than 50,000 sq ft currently available.

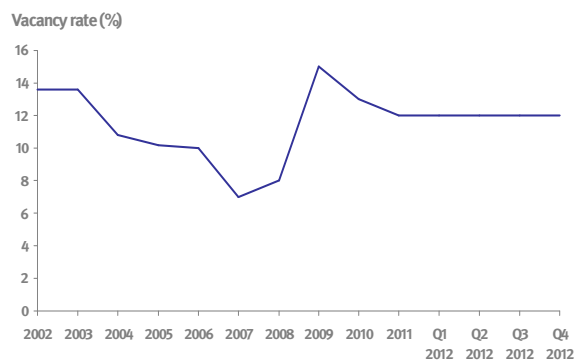


Source: Knight Frank Research

NB: Includes Cardiff Bay area



Source: Knight Frank Research



Source: Knight Frank Research

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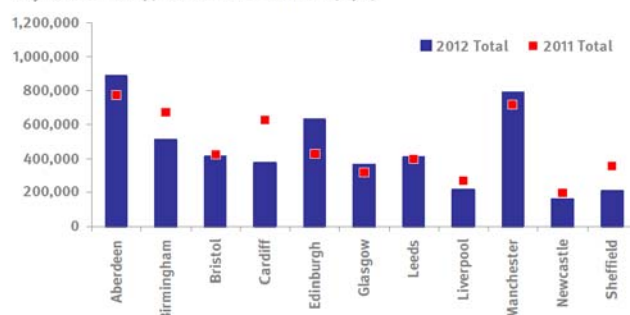
UK REGIONAL OFFICES ROUND-UP

Q4 2012

Occupier demand

- Take-up in the key regional office markets was generally resilient in Q4 2012. Across the 11 markets combined, total quarterly take-up of 1.22m sq ft was up 2% on Q3, although, 2012 as a whole was marginally lower than 2011.
- Annual take-up for 2012 totalled 4,930,430 sq ft - some 4% down on 2011 and 11% down on the 10-year annual average. A number of markets enjoyed stronger 2012 take-up compared with 2011 including Edinburgh (+47%), Glasgow (+15%), Aberdeen (+14%), Manchester (+10%) and Leeds (+3%).
- Transactions completed in 2012 comprised predominantly secondary space and relatively small lot sizes. However, the 'fight to quality' in most markets continued and we have seen renewed requirements from professional services firms prompted by forthcoming lease expiries.

City centre take-up, 2012 total vs 2011 total (sq ft)

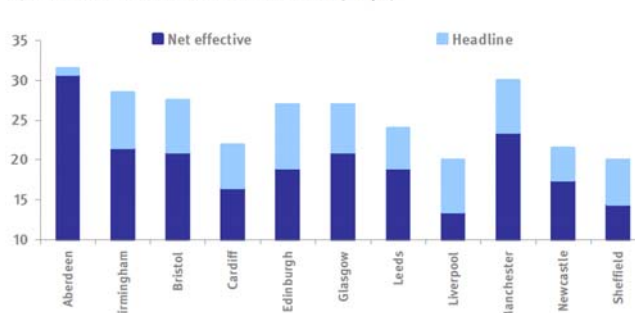


Source: Knight Frank Research

Supply and rents

- While the speculative development pipeline remains generally limited, Q4 saw another quarterly increase from Q3's 661,431 sq ft to 734,545 sq ft. Despite the improved speculative activity, general sentiment remains cautious and developers will demand a significant pre-let before any large new-build scheme can progress.
- Supply continues on a downward trend in the absence of new completions. At the end of Q4 2012, Grade A supply across the 11 cities combined was down 18% on Q4 2011, with the largest falls seen in Edinburgh (-38%), Glasgow (-36%), Leeds (-30%) and Birmingham (-27%).
- Headline rents remained stable in Q4. However, more generally, incentive packages are either hardening or expected to harden across the regional cities, as a result of this steady erosion of Grade A supply.

Q4 2012 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- The latest figures from Property Data reveal that Q4 investment turnover was c.£550m outside London and the South East, an improvement on Q3 but nevertheless 36% below the 10-year quarterly average.
- There remains strong investor interest in prime office stock, although a shortage of suitable product, namely prime and long-income assets, remains a major barrier to activity. In the secondary spectrum, investor interest is highly selective, confined to good quality secondary stock where there is potential to add value through asset management.
- Generally, prime yields were unchanged in the regional cities in Q4 albeit this is based largely on sentiment. Secondary office yields are under pressure and sentiments remains cautious.

Prime office yields

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

Source: Knight Frank Research

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