



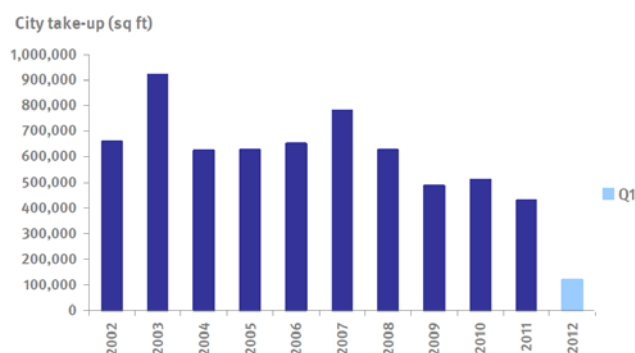
# EDINBURGH OFFICES

Market update Q1 2012

**Knight Frank**

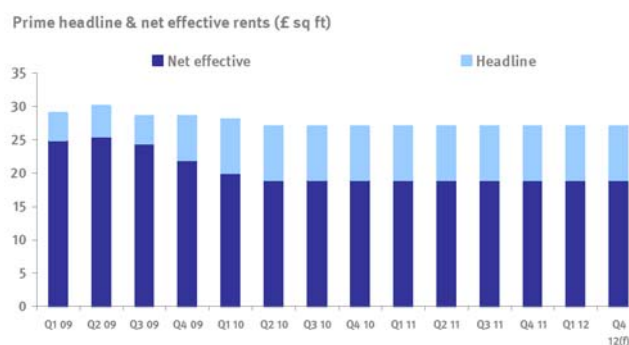
## Key highlights

- City centre take-up in Q1 amounted to 140,000 sq ft, well up on Q4 2011. Despite the continued difficult economic backdrop, it was an encouraging start to the year with take-up recording a 15% year-on-year increase and ahead of the long-term average.
- As at Q1 2012, prime headline rental levels have stabilised at £27.00 per sq ft, with net effective rents remaining unchanged on a quarterly and annual basis at £19.00 per sq ft.
- In line with improved take-up, new and Grade A city availability fell slightly in Q1 to 300,000 sq ft. Similarly, vacancy rates have been on a downward trend, falling to 9.0% during the same period.



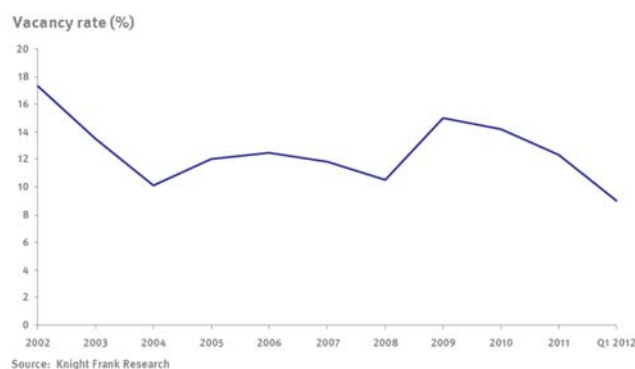
## Office gossip

- Brewin Dolphin have acquired 50,000 sq ft in Atria 1 at an initial rent in excess of £30.00 per sq ft.
- Other key requirements expected to conclude in 2012 include Blackrock (90,000 sq ft), Cairn Energy (40,000 sq ft), Skyscanner (25,000 sq ft), Investec (10,000 sq ft) and NHS Education for Scotland (36,000 sq ft).
- It has been reported that the remaining vacant space in Exchange Place 2 & 3 is under offer which will then see both buildings fully let.
- Construction on the extension to the Edinburgh International Conference centre is continuing apace and is expected to complete in Spring 2013.



## Looking ahead

- Whilst the economic backdrop for the UK remains uncertain, the 2012 outlook for the Edinburgh office market is not expected to be significantly different to 2011.
- No speculative development is expected to emerge during 2012, although this may change during the 2<sup>nd</sup> half of the year. Nevertheless, Grade A availability is likely to continue falling. We anticipate rental levels to gradually increase and incentive packages to harden as supply levels diminish.
- The steadily falling level of supply will continue to support values, with market intelligence suggesting a large number of lease expiries in 2012/13, which may result in many office occupiers seeking to move in to higher quality space.



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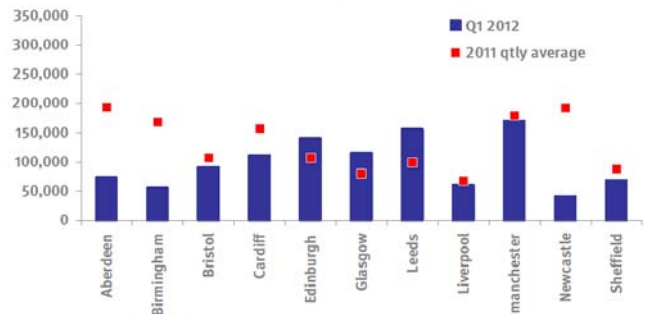
# UK REGIONAL OFFICES ROUND-UP

Q1 2012

## Occupier demand

- Following a weak 2011, most markets made a modest start to 2012. Q1 take-up fell short of the 2011 quarterly average in eight markets. This was most evident in Aberdeen and Birmingham.
- The three exceptions were Leeds, Glasgow and Edinburgh, which all enjoyed more take-up in Q1 2012 compared with the 2011 quarterly average. Of these, Leeds stands out, with Q1 take-up of 155,847 sq ft being the highest level of take-up recorded in Leeds since 2010.
- Take-up in Glasgow and Edinburgh was consistent with the same period last year, suggesting that occupier sentiment has remained relatively robust.

City centre take-up, Q1 2012 vs 2011 quarterly average (sq ft)

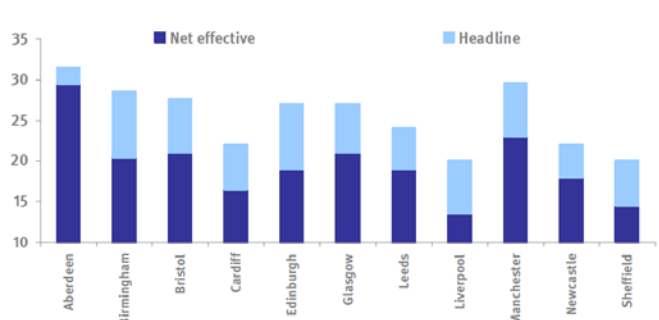


Source: Knight Frank Research

## Supply and rents

- Speculative development activity remains limited, confined to only five of the 11 regional markets as at the end of Q1 – while Manchester was the only city to see a development in excess of 200,000 sq ft get underway.
- Many markets are still facing a supply crunch, with Grade A availability down 20% year-on-year across all markets combined. One striking trend has been that Aberdeen has reported nil Grade A in-town availability in Q1.
- Falling Grade A supply is starting to impact on pricing. In terms of rental growth, Manchester outperformed the other regional markets, seeing headline rents increase by 7% y-o-y, rising from £28.00 per sq ft to £30.00 per sq ft during Q1, with net effective rents recovering to their mid-2009 level of £23.50 per sq ft.

Q1 2012 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

## Investment market

- Transactional activity in Q1 2012 amounted to £390m outside London and the South East, a decline of 30% on Q4 2011. Investor sentiment remains fragile and polarized but has not worsened in 2012.
- Prime office yields were largely stable across 10 of the 11 regional office markets, with the exception of Birmingham where yields moved out by 25bps.
- With an ongoing shortage of buying opportunities for prime assets, pricing is expected to hold throughout 2012.
- Interest in the regional office investment market continues to be focused on prime property, particularly from institutional investors. The secondary market is somewhat more challenging and is mostly confined to short income on business parks.

Prime office yields

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

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