RESEARCH

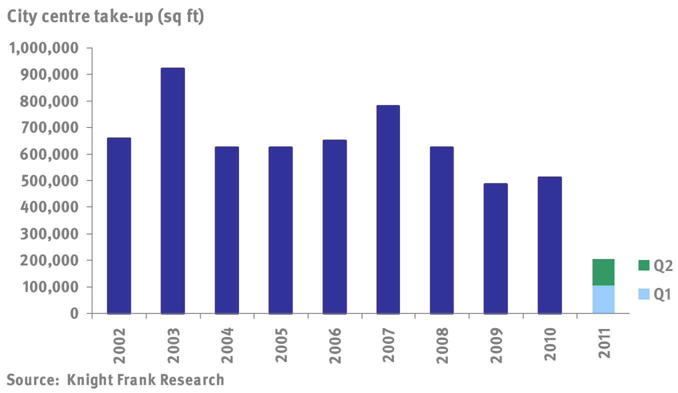
EDINBURGH OFFICES

Market update Q2 2011

Knight Frank

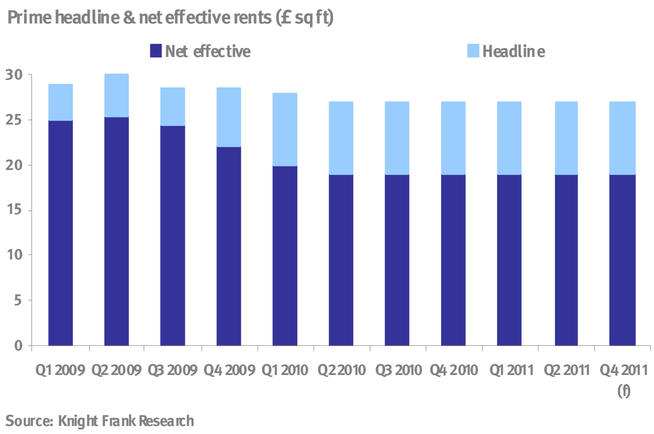
Key highlights

- Activity continues at a moderate pace, with Q2 take-up reaching 100,000 sq ft, marginally down on Q1. However, demand appears to be strong, with active named requirements of 310,000 sq ft in Q2.
- Prime headline rents remained unchanged on Q1 at £27.00 per sq ft and net effective rents were also stable at £19.00 per sq ft – down from £25.50 in mid-2009.
- The vacancy rate has fallen to stand at 12.5% at the end of Q2, down from 14.5% in Q2 2010.
- Availability also continues to decline, with the amount of available new and Grade A space falling to 440,000 sq ft - down by nearly 50% on June 2010.



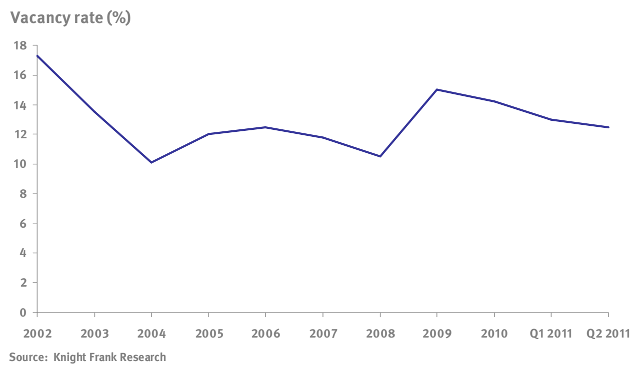
Office gossip

- Amazon has acquired 58,000 sq ft at Waverley Gate, Waterloo Place. The building also has 10,000 sq ft under offer to a gym operator and a further 6,000 sq ft under offer to a government department.
- Given that the landlord had circa 180,000 sq ft to let in mid-2010, leasing on this development has progressed very quickly, although this is due largely to the revised quoting rents of £16 to £19 per sq ft.
- Standard Life are rumoured to be under offer on Ten George Street for circa 20,000 sq ft.



Looking ahead

- The speculative development of Site HI is progressing rapidly. The scheme, which is being undertaken by the City of Edinburgh Council, is likely to attract pre-let interest.
- No other speculative development is progressing and availability is therefore expected to continue to fall, which should lead to a hardening of incentives and upward pressure on net effective rents.
- However, with a degree of uncertainty and caution still surrounding the market, headline rents are expected to remain unchanged.



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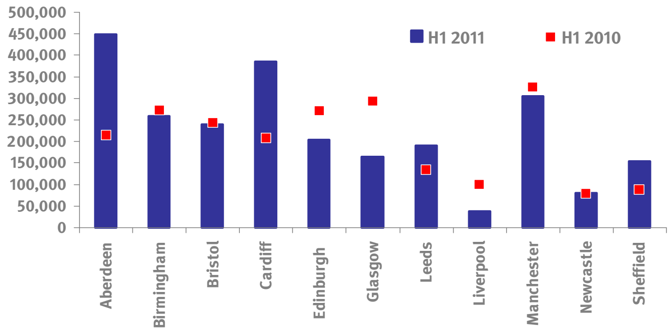
UK REGIONAL OFFICES ROUND-UP

Q2 2011

Occupier demand

- Across the eleven markets combined, total take-up for the first half of 2011 stands 11% higher than H1 2011. However, if Admiral Insurance's 200,000 sq ft pre-let in Cardiff is excluded, take-up is almost identical.
- H1 2011 take-up in Birmingham, Bristol, Manchester and Newcastle was remarkably consistent with the equivalent period last year, suggesting occupier sentiment has remained relatively robust.
- Buoyancy of the North Sea oil sector continues to fuel strong demand in Aberdeen, with H1 2011 take-up more than twice that seen in H1 2010. In contrast, Edinburgh and Glasgow have seen less transactional activity on last year, while activity remains extremely subdued in Liverpool.

City centre take-up, H1 2011 vs H1 2010 (sq ft)

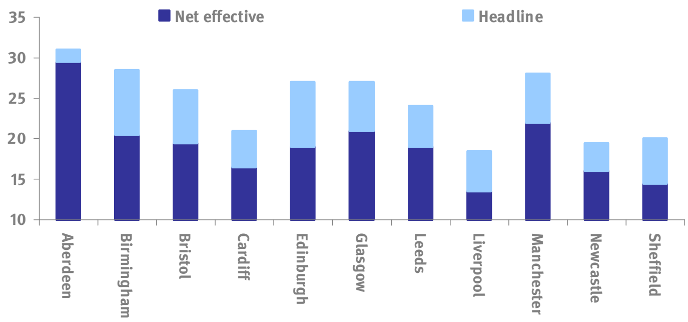


Source: Knight Frank Research

Supply and rents

- The commencement of Two Snowhill in Birmingham is the first major speculative development to progress across the 11 cities in almost a year. However, most of Hines' 305,000 sq ft scheme is pre-let, and this is likely to provide the only means through which large developments will move forward in these markets over the next 12 months.
- Supply continues to ebb away in the absence of new development completions. At the end of Q2 2011, Grade A supply across the 11 cities combined was down 25% on Q2 2010, with the largest falls seen in Aberdeen (-89%), Edinburgh (-47%) and Sheffield (-35%).
- Headline rents slipped in Liverpool and Newcastle to £18.50 and £19.50 in Q2. However, more generally, incentive levels are either hardening or expected to harden across the regional centres, in reflection of this steady erosion of Grade A supply.

Q2 2011 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Investors' aversion to secondary assets and a shortage of available prime stock has stymied activity in the first half of 2011. Latest figures from Property Data reveal that H1 2011 turnover was c.£716m outside London and the South East, down 52% on H1 2010.
- Investment demand is becoming increasingly polarised according to perceived strengths of each occupier market. When prime office stock becomes available in Birmingham, Manchester and Bristol, aggressive bidding is ensuing. Elsewhere, however, investors are more cautious and need to see clear value. Consequently, prime yields softened by 25bps in Liverpool, Leeds and Sheffield in Q2.
- The secondary investment market remains problematic. Yields are likely to soften given an anticipated increase of stock to the market as lenders become more willing to offload properties and crystallise their losses.

Prime office yields

	2010		2011		Yield sentiment
	Q3	Q4	Q1	Q2	
Aberdeen	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Birmingham	5.75%	5.75%	5.75%	**5.75%**	◄ ►
Bristol	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Cardiff	6.25%	6.25%	6.25%	**6.25%**	◄ ►
Edinburgh	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Glasgow	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Leeds	6.00%	6.00%	6.00%	**6.25%**	◄ ►
Liverpool	6.50%	6.50%	6.50%	**6.75%**	◄ ►
Manchester	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Newcastle	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Sheffield	6.50%	6.50%	6.50%	**6.75%**	◄ ►