RESEARCH

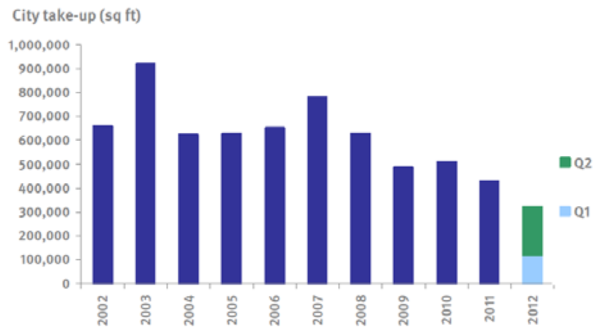
EDINBURGH OFFICES

Market update Q2 2012

Knight Frank

Key highlights

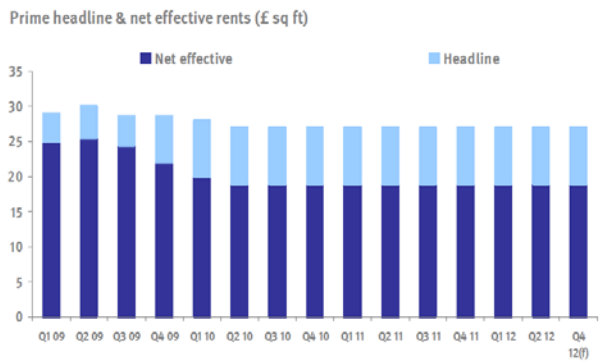
- Edinburgh city centre had a strong Q2 for deals and take-up amounted to 200,000 sq ft – 43% up over the quarter and double the level seen in Q2 last year.
- Net effective and headline rents remained unchanged at £19.00 and £27.00 per sq ft respectively.
- Availability of grade A space declined by 40,000 sq ft over the quarter to 260,000 sq ft. This means that availability is now more than 70% down on Q4 2009.
- The vacancy rate declined to 8% over the quarter – giving a much different backdrop to the market compared with the 2009 high of 15%.



Source: Knight Frank Research

Office gossip

- Key deals which concluded in Q2 included Blackrock's acquisition of c. 80,000 sq ft of Grade A space in SWIP's Exchange Place development, leaving only 18,000 sq ft of vacant space in Exchange Place 1.
- Exchange Place 3 is now 100% let after the letting to Alexander Forbes Healthcare who acquired c. 6,000 sq ft. Exchange Place 2 will soon be 100% leased once the letting of c. 16,000 sq ft to i2 serviced offices is completed.
- Other deals of note include Skyscanner's acquisition of c. 27,000 sq ft and Investec's acquisition of c. 10,000 sq ft in Aviva's Quartermile 1 building.
- Key requirements in the market include Grant Thornton, who are seeking c. 10,000 sq ft and the NHS who are under offer on Westport 102 for c. 36,000 sq ft.



Source: Knight Frank Research

Looking ahead

- Ediston Properties recently started the speculative development of 145 Morrison Street, comprising 26,400 sq ft of Grade A offices, which will complete in Q2 2013. The development is in close proximity to the EICC and Atria Development and provides floor plates from 4,600 sq ft up to 5,555 sq ft.
- Looking forward, city centre stock is diminishing which will have a positive impact on headline and net effective rental levels, as well as incentives. With no new build expected to complete in 2014 and beyond, Edinburgh will see a shortage of new stock. This should result in pre-letting activity in locations such as Quartermile, Haymarket and Fountainbridge.

Source: Knight Frank Research

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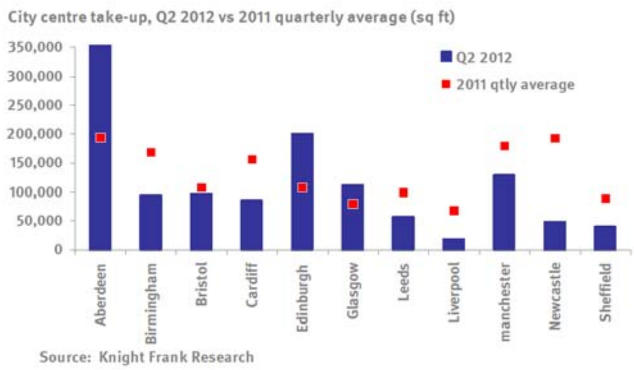
UK REGIONAL OFFICES ROUND-UP

Q2 2012

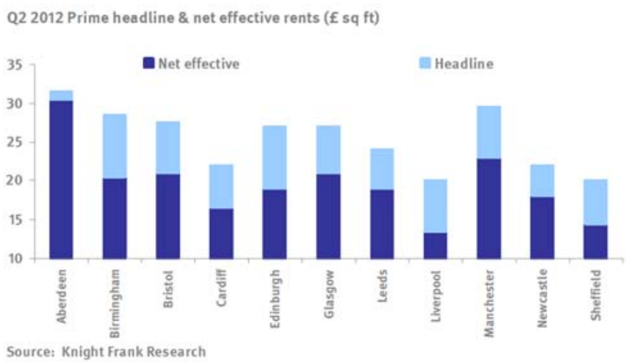
Occupier demand

- Total Q2 take up in the eleven cities combined was 1,423,646 sq ft, 32% up on Q1. However, Q2 was somewhat skewed by Aberdeen's record take-up level of 547,926 sq ft.
- Given the economic backdrop, it is unsurprising that most markets experienced lower take-up in Q2 2012 compared with the 2011 quarterly average. The three exceptions are Aberdeen, Edinburgh and Glasgow, which all experienced above average activity during the quarter.
- Despite the challenging economic environment, occupier demand has held up better than expected. Demand is anticipated to remain at current levels over the summer, although a number of active requirements provide a source of optimism.



Supply and rents

- The lack of new development has meant that Grade A supply has continued to fall in most regional centres.
- The on-going lack of debt funding is still hampering new development, while more secondary property is becoming available. Speculative development activity remains limited, confined to only four of the 11 regional markets as at the end of Q2. Moreover, only two cities, namely Birmingham and Manchester, have in excess of 100,000 sq ft underway.
- Nevertheless, prime rents were broadly stable during Q2 and vary between £20.00 per sq ft in Sheffield and £31.50 in Aberdeen. Looking forward, prime office rents in most regional cities are not expected to change significantly for the rest of the year, although upwards pressure on net effective rents may be seen in some areas.



Investment market

- Investment turnover for offices outside London and the South East was subdued in Q2. The latest figures from Property Data suggest c.£374m turnover, 4% down on Q1.
- Investor demand is still very much focussed on prime property. However, we believe that both prime and secondary pricing has softened, with the yield gap increasing as prices for secondary product continue to soften faster than those for prime stock.
- The prevailing uncertainty in the Euro zone and its impact on the UK economy has resulted in weak demand for secondary property.
- According to the latest Knight Frank ROMP Confidence Index, a majority of our agents are expecting to see little change to investor sentiment in the prime office market, with the outlook remaining generally cautious.

Prime office yields

	2011		2012		Yield sentiment
	Q3	Q4	Q1	Q2	
Aberdeen	6.00%	6.25%	6.25%	6.50%	◄ ▲
Birmingham	5.75%	6.00%	6.25%	6.50%	◄ ▲
Bristol	6.00%	6.25%	6.25%	6.50%	◄ ▲
Cardiff	6.25%	6.25%	6.25%	6.50%	◄ ▲
Edinburgh	6.00%	6.25%	6.25%	6.50%	◄ ▲
Glasgow	6.00%	6.25%	6.25%	6.50%	◄ ▲
Leeds	6.25%	6.25%	6.25%	6.50%	◄ ▲
Liverpool	6.75%	7.00%	7.00%	7.25%	◄ ▲
Manchester	6.00%	6.00%	6.00%	6.50%	◄ ▲
Newcastle	6.50%	6.50%	6.50%	6.75%	◄ ▲
Sheffield	6.75%	7.00%	7.00%	7.25%	◄ ▲

Source: Knight Frank Research