



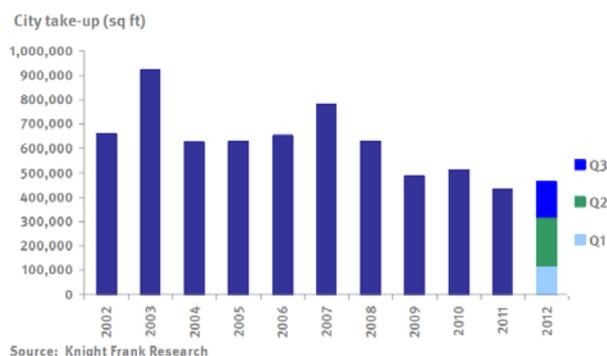
EDINBURGH OFFICES

Market update Q3 2012

Knight Frank

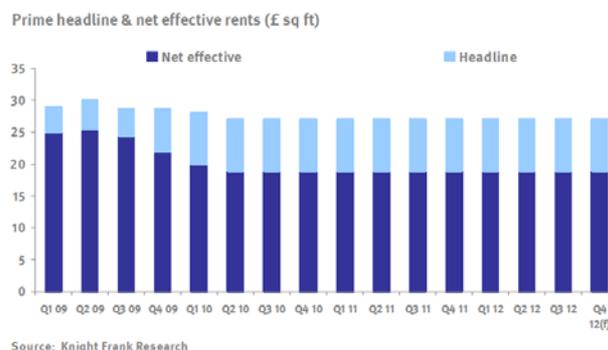
Key highlights

- Q3's 140,000 sq ft of take-up was down on the previous quarter's figure of 200,000 sq ft. However, the year-to-date figure of 480,000 sq ft is up on the 344,000 sq ft recorded in the first nine months of 2011.
- Headline rents remained steady at £27.00 per sq ft, and net effective rents were unchanged at £19.00 per sq ft.
- Availability of grade A space declined by 55,000 sq ft over the quarter to 205,000 sq ft. This means that availability is now more than 43% down on Q3 2011.
- Take-up of existing space brought about a fall in the vacancy rate, falling from 8.00% in Q2 to 7.50% in Q3.



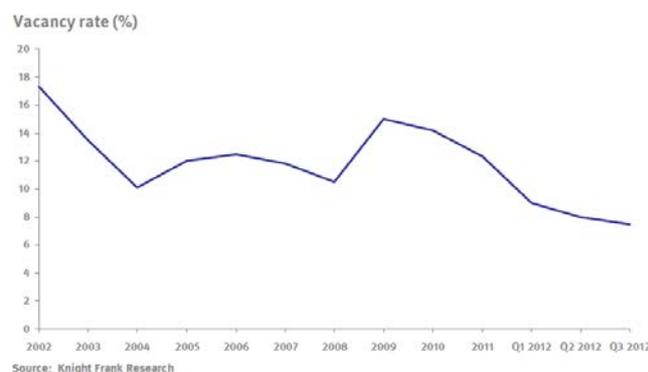
Office gossip

- Key deals which concluded in Q3 include NHS Education for Scotland acquiring 37,000 sq ft in Westport 102 and Grant Thornton acquiring c. 9,500 sq ft in Exchange Crescent.
- Exchange Place 2 is now 100% leased with the letting of c. 16,000 sq ft to i2 serviced offices.
- Other activities of note include Green Investment Bank have shortlisted a preferred option and are expected to go under offer shortly. Solicitors Semple Fraser has identified a preferred option and are rumoured to be under offer in Quartermile 1.



Looking ahead

- In addition to the speculative development of 145 Morrison Street being reported during the previous quarter, the Atria development continues to progress at pace and remains on track for construction to complete by the end of Q1 2013.
- Supply levels of Grade A office continue to erode and this is expected to continue over the next six months. In the medium term, this will have a positive impact on rental growth and should see incentive levels decrease.
- We expect developers to look at Edinburgh city centre with a view to considering the speculative development of Grade A offices in anticipation of the number of lease events due to take place between 2015-2017.



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UK REGIONAL OFFICES ROUND-UP

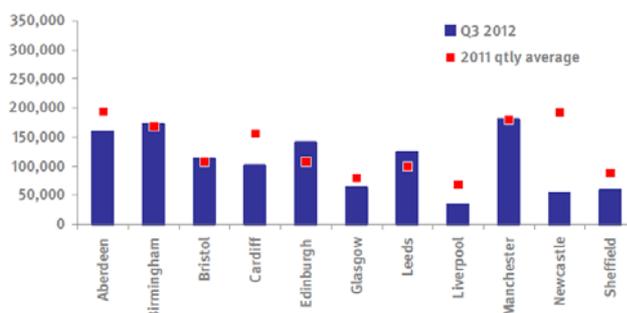
Q3 2012



Occupier demand

- Office take-up across the eleven regional cities continued to be subdued, totalling 1,195,011 sq ft during Q3 2012 - down 15% on Q3 2011 and also down 16% on Q2 2012. Take-up in the eleven cities combined for the first nine months of 2012 was 7% down on the same period in 2011.
- Similar to the previous quarter, a number of markets experienced lower take-up in Q3 2012 compared with the 2011 quarterly average. Take-up was strongest in Edinburgh and Leeds, with Birmingham, Bristol and Manchester also experiencing just above average activity during the quarter.
- Occupiers continued the 'fight to quality' in most markets. We have seen renewed requirements from professional services firms prompted by forthcoming lease expiries.

City centre take-up, Q3 2012 vs 2011 quarterly average (sq ft)

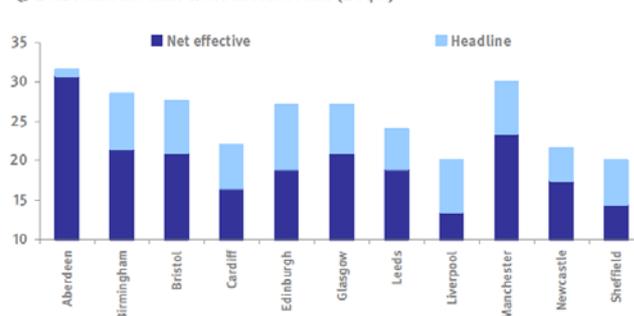


Source: Knight Frank Research

Supply and rents

- The limited amount of new space brought to the market in Q3 resulted in another fall in availability, with total new Grade A supply across the region amounting to 3,230,062 sq ft – 2.4% below the Q2 2012 total.
- While prime headline rents are unlikely to increase from their current levels before the year-end, we do anticipate rent free incentives will harden in 2013 as Grade A supply becomes even more restricted.
- Speculative development activity remains generally limited. At the end of Q3 2012, speculative development across the 11 cities combined was up 17% on Q2 2012 but down 12% on Q3 2011. Birmingham and Manchester are the only two cities which have in excess of 100,000 sq ft underway.

Q3 2012 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Q3 investment turnover was £477m outside London and the South East, an improvement on Q2 but nevertheless 45% below the 10-year quarterly average.
- The largest single transaction in Q3 was Union Investment's £60m purchase of 1 George Square in Glasgow, reflecting a net initial yield of c.6.25%.
- There remains sustained strong investor interest for prime office stocks. However, a major barrier to activity remains a lack of suitable product, namely prime, long-income assets.
- While Q2 brought a softening in prime office yields in the regions, prime yields were largely unchanged in Q3, with the exception of Liverpool which prime yields moving out by 25bps to stand at 7.50%. Yields on secondary assets remain vulnerable to a further outward shift.

Prime office yields

	2011	2012			Yield sentiment
	Q4	Q1	Q2	Q3	
Aberdeen	6.25%	6.25%	6.50%	6.50%	◀ ▲
Birmingham	6.00%	6.25%	6.50%	6.50%	◀ ▲
Bristol	6.25%	6.25%	6.50%	6.50%	◀ ▲
Cardiff	6.25%	6.25%	6.50%	6.50%	◀ ▲
Edinburgh	6.25%	6.25%	6.50%	6.50%	◀ ▲
Glasgow	6.25%	6.25%	6.50%	6.50%	◀ ▲
Leeds	6.25%	6.25%	6.50%	6.50%	◀ ▲
Liverpool	7.00%	7.00%	7.25%	7.50%	◀ ▲
Manchester	6.00%	6.00%	6.50%	6.50%	◀ ▲
Newcastle	6.50%	6.50%	6.75%	6.75%	◀ ▲
Sheffield	7.00%	7.00%	7.25%	7.25%	◀ ▲

Source: Knight Frank Research

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