RESEARCH

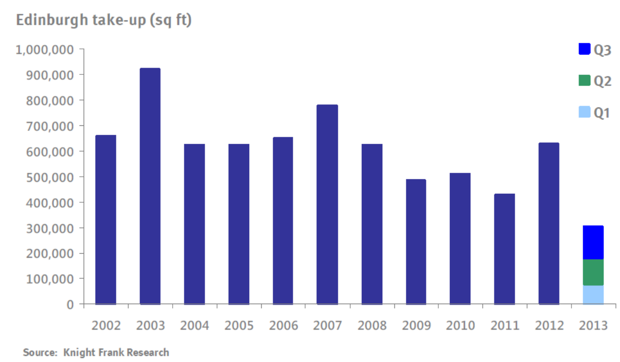
EDINBURGH OFFICES

Market update Q3 2013

Knight Frank

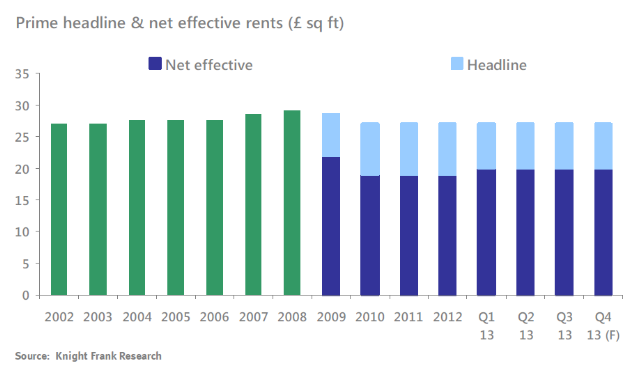
Key highlights

- Take-up in the Edinburgh office market saw a marked increase in Q3 to reach 122,472 sq ft, up 22% on the previous quarter. There continues to be healthy demand from the financial and TMT sectors.
- Prime headline rents remained unchanged at £27.00 per sq ft and are expected to remain strong until the year-end.
- As was the case in Q2, the vacancy rate was unchanged at 7.25%. The availability of Grade A space was stable at 251,431 sq ft, with no major speculative developments or refurbishments commencing in Q3.



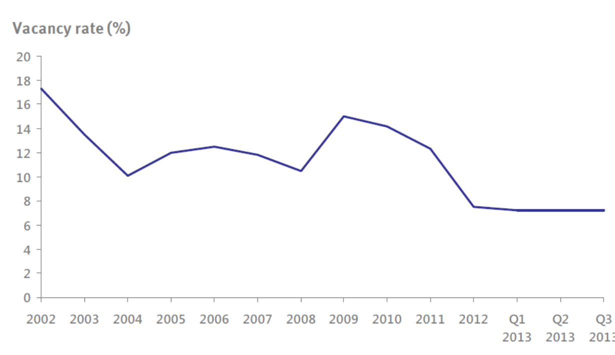
Office gossip

- The Edinburgh out-of-town market saw a significant improvement in demand, with several large deals in Edinburgh Park. Sainsbury's Bank let 83,000 sq ft at 3 Lochside Avenue, Edinburgh Park, while pension and benefit firm JLT 35,000 sq ft at neighbouring 7 Lochside Avenue, Edinburgh Park.
- Although city centre leasing activity has taken a backseat to the out-of-town market, several large deals were completed in Q3. The most notable was Bank of New York Mellon's consolidation into one building at Capital House where it leased an additional 54,000 sq ft.
- There have been an increased number of requirements for small Grade A suites, suggesting greater confidence amongst SMEs to take space.



Looking ahead

- Consistently strong quarterly take-up figures, coupled with an increase of Grade A space requirements, point towards a forthcoming shortage of Grade A space in the next two to three years.
- Supply constraints, largely resulting from limited refurbishment activity due to student accommodation/residential conversion and subdued development, suggests that vacancy rates will edge down in the first half of 2014.
- Landlords with poorer quality existing space should consider undertaking good quality refurbishment in order to take full advantage of the upward shift in occupier demand and diminishing supply.



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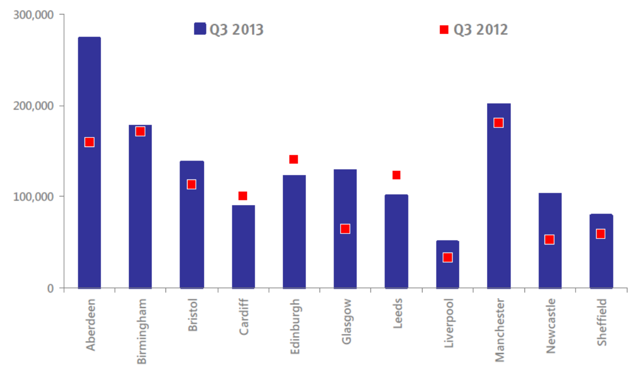
UK REGIONAL OFFICES ROUND-UP

Q3 2013

Occupier demand

- Sentiment and demand continued to improve in the regional office markets in Q3, with occupier demand remaining relatively robust. Indeed, there is a healthy list of sizeable requirements, mainly from occupiers in the legal and financial sectors.
- The 11 markets combined recorded total take-up of 1,461,951 sq ft during Q3. Whilst this represents a modest increase of 6% on Q2 2013, it is 22% above the overall total take-up recorded for the same period, with strong performance and double digit increases seen in Glasgow (+100%), Newcastle (+95%), Aberdeen (+71%), Liverpool (+52%), Sheffield (+34%), Bristol (+22%) and Manchester (+11%).
- However, there was a healthy level of activity, transactions continued to be predominantly characterised by smaller deals.

City centre take-up, Q3 2013 vs Q3 2012 total (sq ft)

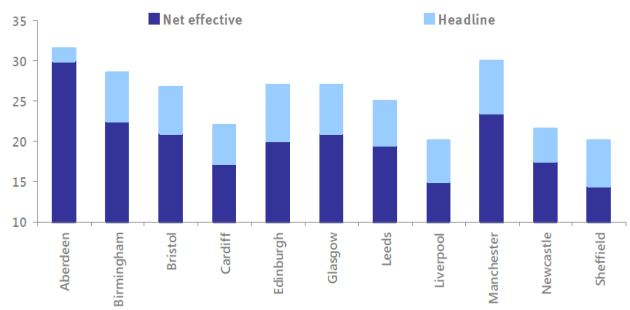


Source: Knight Frank Research

Supply and rents

- Q3 saw a marginal quarterly decrease in Grade A supply, which slipped from 3,225,544 sq ft in Q2 to 3,069,805 sq ft in Q3. This reflects the continuing erosion of Grade A space in the absence of new completions/development activity. Quarter-on-quarter double-digit falls were seen in Cardiff (-19%), Birmingham (-17%), and Newcastle (-10%). Only two cities experienced a quarterly increase in supply, namely Aberdeen (+45%) and Glasgow (+4%).
- Whilst occupier sentiment is improving, headline rents have been largely stable, with only Aberdeen projected to see an increase in headline rents by the year-end. While growth in regional headline rents is unlikely over the remainder of 2013, net effective rents may edge up as Grade A supply continues to decline.

Q3 2013 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Q3 saw a buoyant level of investment activity. According to the latest figures from Property Data, investment turnover for offices outside London and the South East was c. £870m, up 82% on a year ago.
- Whilst investor demand for prime office assets in the regions has remained strong, most regional office markets have started to, and are likely to continue to, suffer from a shortage of available stock (prime and long-income assets). Since prime buying opportunities are limited, increasing interest is being seen in good quality secondary assets which offer sound fundamentals, with prospects for active management.
- Prime yields in the regional cities generally hardened during Q3, with Aberdeen, Bristol, Edinburgh, Glasgow, Liverpool, Manchester and Newcastle seeing prime yields move in by 25 bps. Birmingham and Cardiff were the exceptions, with prime yields remaining stable in Q3.

Prime office yields

	2012	2013			Yield sentiment
	Q4	Q1	Q2	Q3	
Aberdeen	6.50%	6.50%	6.25%	**6.00%**	→↘
Birmingham	6.50%	6.25%	6.00%	**6.00%**	→↘
Bristol	6.50%	6.50%	6.25%	**6.00%**	→↘
Cardiff	6.50%	6.50%	6.25%	**6.25%**	→↘
Edinburgh	6.50%	6.50%	6.25%	**6.00%**	→↘
Glasgow	6.50%	6.50%	6.25%	**6.00%**	→↘
Leeds	6.50%	6.50%	6.25%	**6.15%**	→↘
Liverpool	7.50%	7.50%	7.50%	**7.25%**	→↘
Manchester	6.50%	6.25%	6.25%	**6.00%**	→↘
Newcastle	6.75%	7.00%	7.00%	**6.75%**	→↘
Sheffield	7.25%	7.25%	7.25%	**6.75%**	→↘

Source: Knight Frank Research