RESEARCH

GLASGOW OFFICES

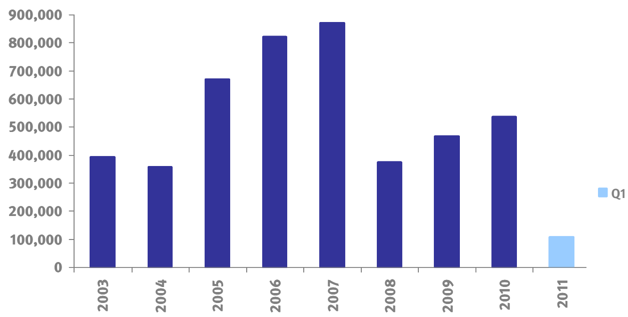
Market update Q1 2011

Knight Frank

Key highlights

- Headline rents remained at £27.00 per sq ft in Q1, although net effective rents fell from £21.00 to £20.00 over the quarter.
- Following a steady decline during the second half of last year, take-up rebounded in Q1 to reach 105,000 sq ft – 9% up on a year ago.
- As a result, the amount of new and Grade A available space fell to around 405,000 sq ft in Q1 – virtually half its level of a year earlier.
- Active named requirements stood at 412,000 sq ft in Q1 – up on the previous quarter but some 20% down on a year ago.

City centre take-up (sq ft)

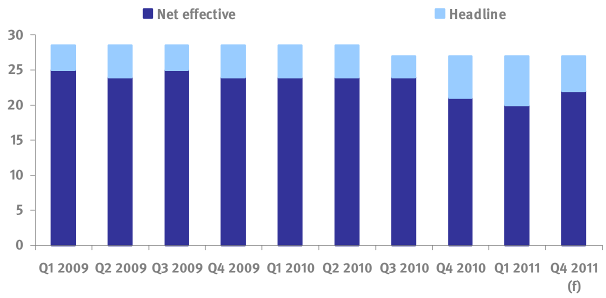


Source: Knight Frank Research

Office gossip

- Mercer has taken 34,000 sq ft at G1 Glasgow, leaving only half a floor available in the building.
- Other recent key leasing deals include 11,572 sq ft let to Digby Brown at 2 West Regent Street, 10,500 sq ft to Shepherd & Wedderburn at 191 West George Street and 11,618 sq ft to Ernst & Young IT Department at Pacific House, 70 Wellington Street.
- Tesco reportedly has a requirement for a site which could accommodate 75,000 sq ft of office space and is said to be considering Glasgow, Edinburgh and Newcastle.

Prime headline & net effective rents (£ sq ft)

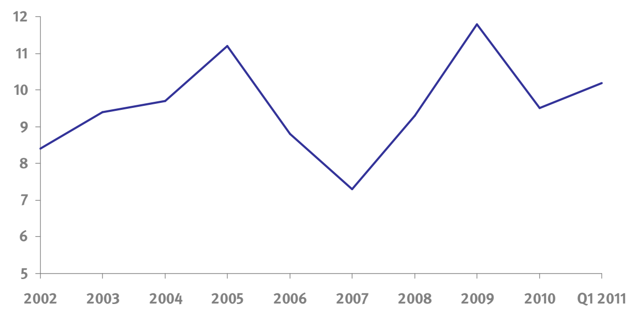


Source: Knight Frank Research

Looking ahead

- Whilst there is a degree of uncertainty as a result of the forthcoming Scottish election and the potential impact of public spending cuts, the tone of the market is one of cautious optimism given the emerging supply-demand imbalance.
- With the exception of the Copenhagen building, there are no significant buildings under construction, so the pipeline of new space will remain limited for the foreseeable future. This has created opportunities for good quality Grade B refurbishments and indeed a number of refurbishment projects are nearing completion.
- Headline rents should remain stable over the coming 6-12 months, However, with incentives expected to harden as 2011 progresses, net effective rents should recover to their previous levels by the year-end.

Vacancy rate (%)



Source: Knight Frank Research

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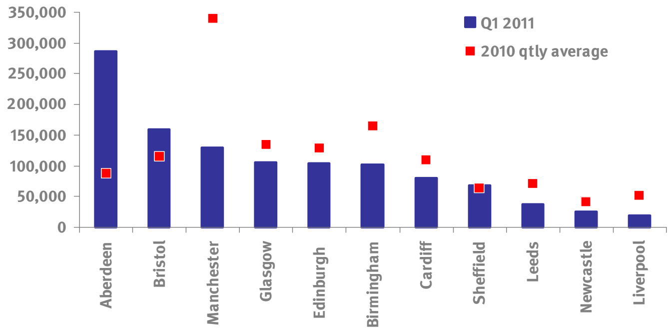
UK REGIONAL OFFICES ROUND-UP

Q1 2011

Occupier demand

- Following a robust 2010, most markets made a modest start to 2011. Q1 take-up fell short of the 2010 quarterly average in eight markets. This was most evident in Manchester, albeit 2010 was a remarkable year.
- The three exceptions were Sheffield, Bristol and Aberdeen, which all enjoyed more take-up in Q1 2011 compared with the 2010 average. Of these, Aberdeen stands out, with Q1 take-up of 287,000 sq ft exceeding its entire total for 2010.
- Despite the slow start to the year and ongoing concerns regarding public sector rationalisation, resilient take-up is expected in many markets in 2011, with Cardiff, Sheffield and Manchester expected to perform well.

City centre take-up, Q1 2011 vs 2010 quarterly average (sq ft)

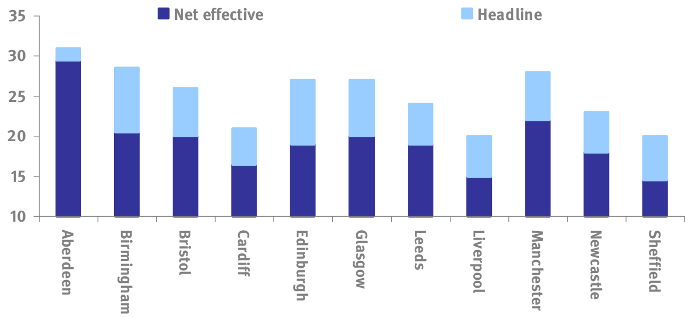


Source: Knight Frank Research

Supply and rents

- Speculative development activity remains limited, confined to only six of the 11 regional markets as at end Q1. Moreover, just two cities - Edinburgh and Bristol - have in excess of 100,000 sq ft underway.
- Many markets are heading towards a supply crunch, with Grade A availability down 31% year-on-year across all markets combined. The fall was 86% in Manchester, which has a very strong case for fresh development, finance permitting.
- Falling Grade A supply is starting to impact on pricing, albeit mostly in net effective terms so far. Incentives in Birmingham and Manchester hardened in Q1, with a further five markets forecast to follow suit during 2011. Aberdeen was the first market to see headline rents rise in 2011, rising from £30.00 per sq ft to £31.00 per sq ft during Q1.

Q1 2011 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Investment turnover for offices outside London and the South East was subdued in Q1. An analysis Property Data figures suggests c.£450m of turnover - in line with Q4 2010, but significantly down on Q1 2010.
- An ongoing shortage of buying opportunities for prime assets kept prime yields steady once again in Q1 2011. With the supply of prime stock likely to remain limited, pricing is expected to hold throughout 2011.
- In contrast, the supply of secondary stock is now increasing as banks are becoming more willing to offload property from their balance sheets. Consequently, secondary yields are expected to soften as more opportunities become available.
- Overseas investors remain largely absent from the regional office markets, save for several German Funds in search of large lot-sizes. However, this should change as overseas players seek higher yielding opportunities outside Central London.

Prime office yields

	2010			2011	Yield sentiment
	Q2	Q3	Q4	Q1	
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%	**6.00%**	◄ ►
Liverpool	6.50%	6.50%	6.50%	**6.50%**	◄ ►
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%	**6.50%**	◄ ►