RESEARCH

GLASGOW OFFICES

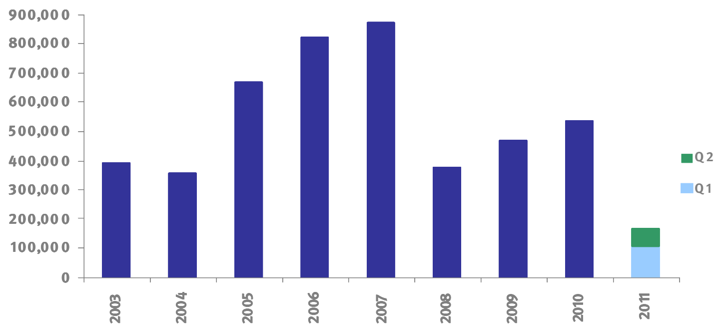
Market update Q2 2011

Knight Frank

Key highlights

- Q2 was a very quiet quarter in terms of take-up, which amounted to just 59,200 sq ft, compared with over 100,000 sq ft in Q1.
- Headline rents remained at £27.00 per sq ft in Q2, a level unchanged since Q3 2010. However, net effective rents rose from £20.00 to £21.00 per sq ft during the quarter on the back of a hardening in incentives.
- While the vacancy rate edged up to 10.5% and availability of Grade A space rose to 458,000 sq ft, active named requirements rose sharply in Q2 by over 50% to reach 633,000 sq ft – albeit remain 20% down on a year ago.

City centre take-up (sq ft)

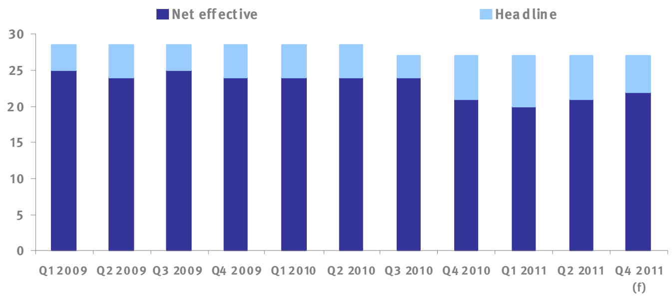


Source: Knight Frank Research

Office gossip

- Despite the low level of take-up in Q2, there remain a number of sizeable requirements in the market which are yet to be satisfied, including Morgan Stanley (18,000 - 50,000 sq ft), NHS (28,000 sq ft), JP Morgan (30,000 sq ft), Hilton Reservations (25,000 sq ft) and CoStar (15,000 - 20,000 sq ft).
- In addition, Scottish Power has a potential 250,000 sq ft requirement which will involve the consolidation of various sites in the city.
- The largest deal of Q2 was the letting of 20,347 sq ft to Barclays at Tay House, 300 Bath Street.

Prime headline & net effective rents (£ sq ft)

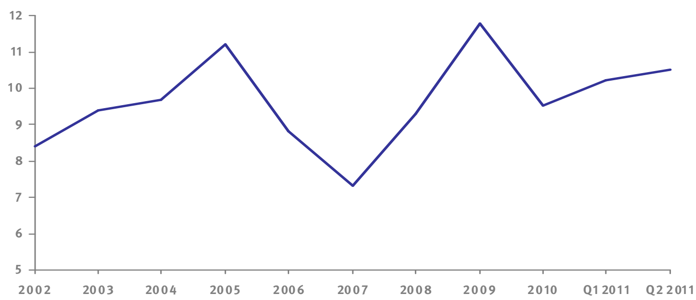


Source: Knight Frank Research

Looking ahead

- Given the number of unsatisfied large requirements, Grade A supply will continue to fall and, with no new schemes on site, occupiers will be forced to look at slightly cheaper good quality refurbishments such as The Grosvenor Building (58,000 sq ft) and Kintyre House (25,000 sq ft).
- Only one scheme - the 65,000 sq ft Copenhagen building on Hope Street - is yet to complete. BAM Properties are revising their planning application for 110 Queen Street which will provide approximately 150,000 - 200,000 sq ft of new space.
- Headline rents are expected to remain stable but net effective rents will come under further upward pressure as the year progresses, given the diminishing supply of Grade A space.

Vacancy rate (%)



Source: Knight Frank Research

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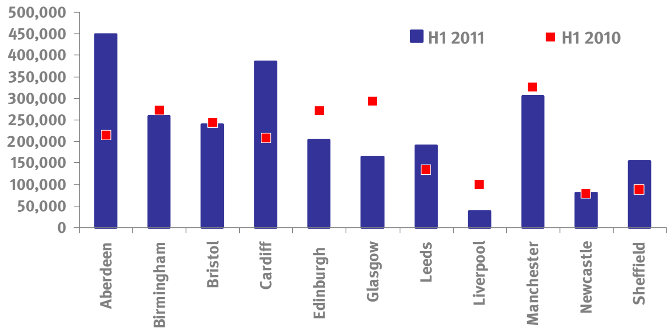
UK REGIONAL OFFICES ROUND-UP

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)

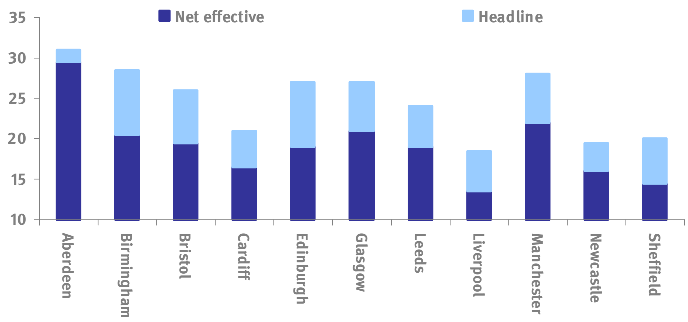


Source: Knight Frank Research

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%**	◄ ►