



GLASGOW OFFICES

Market update Q4 2011

Knight Frank

Key highlights

- Take-up in Q4 was a more muted 60,000 sq ft, but nonetheless took the full-year total to a creditable 360,000 sq ft. However, this still fell well short of the 2010 figure and, indeed, was more in line with pre-boom annual totals of the early 2000s. In terms of the city centre, the majority (c. 275,000 sq ft) of leasing deals were for Grade B space.
- Headline rents recorded no growth during 2011 and remained at £27.00 per sq ft at the year-end. However, following uplift in Q2, net effective rents ended the year 5% up at £21.00 per sq ft.
- Following some good progress in 2010, the vacancy rate edged up in 2011 and continues to hover around the 10.5% mark.

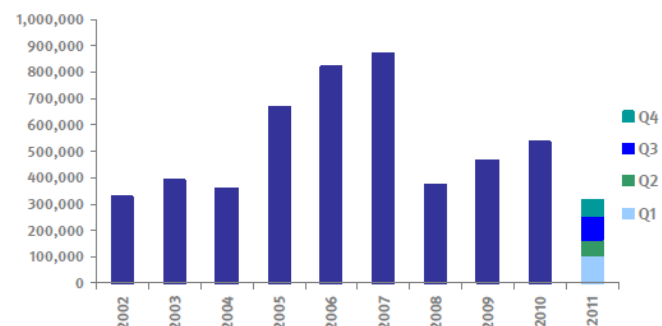
Office gossip

- Key deals in Q4 included Mercer's acquisition of 34,000 sq ft in G1, Barclays' acquisition of 20,000 sq ft in Tay House and Westcott Financial Services' acquisition of 11,700 sq ft at 38 Cadogan Street.
- Jacobs Engineering has committed to extend their lease on 80,000 sq ft at 95 Bothwell Street until 2017.
- Notable requirements include Hays Recruitment seeking 10,000 sq ft, Plexus seeking 15,000 sq ft, Cavanagh seeking 7,500 sq ft and Big Lottery Fund seeking 8,000 sq ft.

Looking ahead

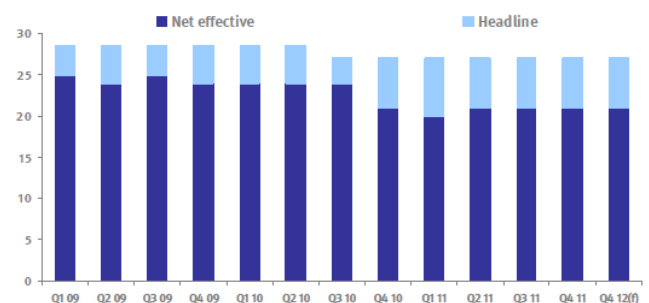
- Looking ahead, the tone of the Glasgow office market in 2012 is expected to be similar to 2011, although it is hoped that the level of take-up improves.
- The AIB development of SIXTY7, which is being marketed by Knight Frank, is close to completion. The building will provide 65,000 sq ft of high quality office accommodation spread over ten floors.
- The short term pipeline is very limited, although it is estimated that there over 1 million sq ft of office space with planning consent, most of which is outside the traditional office core.
- The East End of Glasgow is expected to see regeneration benefits on the back of the Commonwealth Games in 2014, kickstarted by the by the completion of the East End Regeneration Route this year.

City take-up (sq ft)



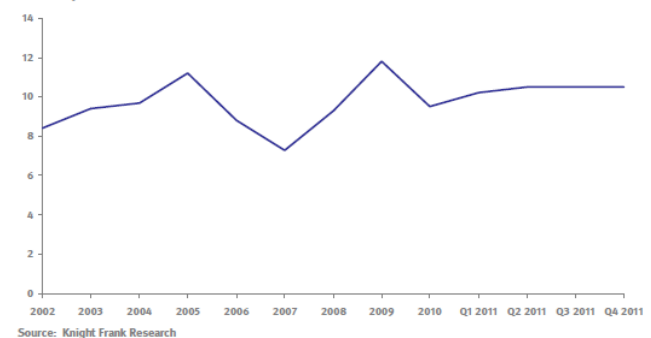
Source: Knight Frank Research

Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Vacancy rate (%)



Source: Knight Frank Research

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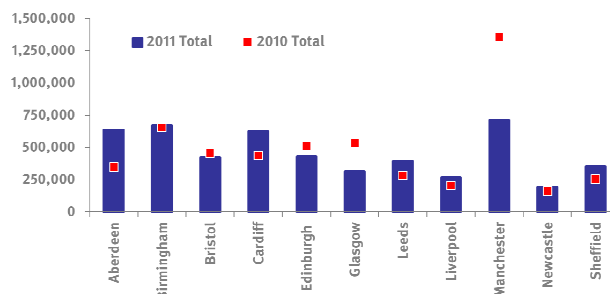
UK REGIONAL OFFICES ROUND-UP

Q4 2011

Occupier demand

- There was a clear slowdown towards the year-end, with Q4 2011 quarterly take-up down 15% on Q3, however, 2011 as a whole was just marginally worse than 2010.
- Across the 11 cities, annual take-up for 2011 totalled 5,015,938 sq ft - only 4% down on 2010. Most markets enjoyed stronger 2011 take-up compared with 2010 including Aberdeen, Birmingham, Cardiff, Leeds, Liverpool, Newcastle and Sheffield. In contrast, Bristol, Edinburgh, Glasgow and Manchester recorded annual falls in take-up activity.
- Occupiers remain cautious, with the majority continuing to assess the impact of current economic conditions on their businesses. Activity remains focused at the smaller end of the market.

City centre take-up, 2011 total vs 2010 total (sq ft)

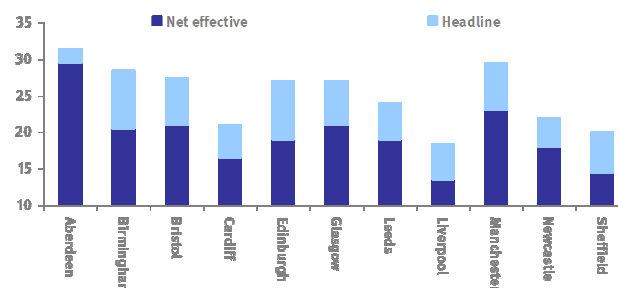


Source: Knight Frank Research

Supply and rents

- The volume of speculative development activity is limited, confined to just four of the 11 cities at the end of Q4. Manchester has the highest amount of development underway (207,500 sq ft).
- As a result, Grade A supply remains ever more constrained. At the end of Q4 2011, total Grade A supply across the 11 cities was down 9.3% on Q3 2011 and down 26.3% on 2010 and.
- Prime net effective rents held up reasonably well throughout 2011, the one exception being Manchester, where net effectives declined by 2% on Q3. In terms of rental growth, Bristol outperformed the other regional markets, seeing headline rents increase to £27.00 per sq ft, with net effective rents recovering to their mid-2009 level of £21.00 per sq ft.

Q4 2011 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Transactional activity in Q4 amounted to £561m outside London and the South East, an improvement on Q3 but nevertheless 30% below the 10-year quarterly average. With a modest final quarter, the 2011 total sales value of £1,774m falls behind the 2010 value by 29%.
- Interest in the regional office investment market continues to be focused on prime property, for which there is a healthy level of demand, particularly from institutional investors. In the secondary market meanwhile, the challenging occupier markets and lack of available debt for purchasers continue to exert downward pressure on values.
- Overall investor sentiment was more cautious towards the year-end. Regional office yields softened marginally in a number of markets on 7 of the 11 regional offices during Q4 2011 except Cardiff, Leeds, Manchester and Newcastle where yields were unchanged.

Prime office yields

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

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