

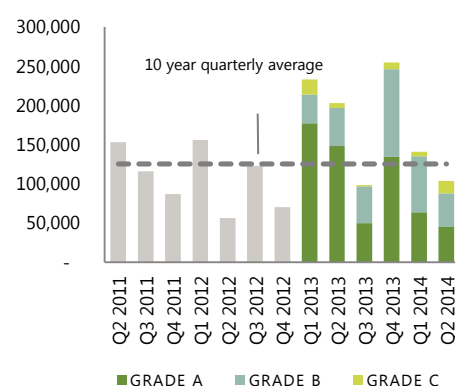
LEEDS OFFICES

MARKET UPDATE H1 2014

Occupier market

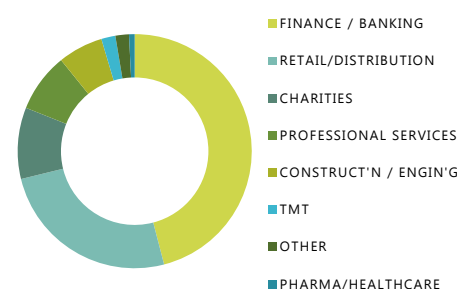
- Following a healthy 140,778 sq ft of take-up in Q1 2014, activity in the city centre was more modest in Q2, with take-up of 103,729 sq ft. While activity in H1 2014 as a whole was down 44% on the same period last year, the Leeds market was characterised by a number of major deals in 2013 which pushed take-up to a record annual total.
- A total of 23 transactions completed during Q2, 17% of which were lettings of over 10,000 sq ft and 26% were in lettings over 5,000 sq ft.
- Notable deals in Q2 included Sanef Operations Limited at Hermes St John's Centre (24,242 sq ft) which has resulted in the creation of 300 new jobs for the city, Ashcourt Rowan at Aegon's City Point (11,146 sq ft), Sticky Eyes at 100 Wellington Street (11,800 sq ft) and Call Credit Information Group at One Park Lane (10,240 sq ft).
- The occupier market was primarily driven by the Finance and Banking sector as well as Retail and Distribution firms, which in total accounted for more than 71% activity in H1 2014.
- A significant amount of pre-let activity took place during Q2 and we expect this trend to continue in Q3. PWC is reported to be close to signing a pre-let of approximately 50,000 sq ft at Roydhouse Properties' Central Square scheme, which will provide a total of 220,000 sq ft prime offices.
- The availability of Grade A space edged up to 251,256 sq ft during Q2. This includes Evans recent comprehensive refurbishment of Minerva has now completed and offers circa 26,000 sq ft of Grade A office space at a rent of £24.50 per sq ft.
- Evans is also currently on site at Capitol House, and will undertake a refurbishment totalling c. 20,000 sq ft with completion expected in Q3 2014.
- MEPC are on site with their next phase at Wellington Place, extending to 104,000 sq ft. The JV of Kier and Bruntwood together with MEPC are reported to be in discussions with Addleshaws, who are looking to relocate from their HQ on Sovereign Street for 50,000 sq ft.
- While rents have remained largely static, we anticipate the next phase of pre-lets to push headline rents upwards from £25.00 per sq ft to £26.00 per sq ft by the end of this year.

FIGURE 1
City centre take-up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2
H1 2014 take-up by sector



Source: Knight Frank LLP

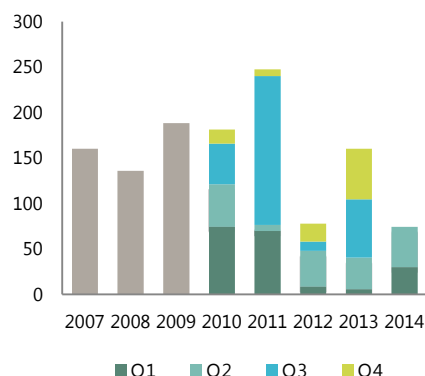
Agent's view

The dynamics of supply and demand now unquestionably support the case for speculative development. There is without doubt a window of opportunity to capitalise on the significant quantum of upcoming lease events, which could take out 50% of any scheme and also on the number of occupiers who are increasingly demanding a better product and are willing to pay for the benefit. With more cranes being visible in the city, we anticipate tenants to start 'voting with their feet' and show a strong preference for office accommodation located within short distance of the train station.

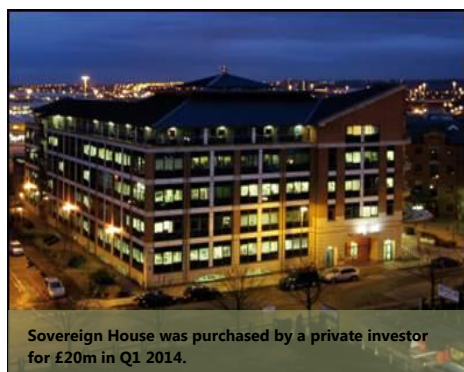


FIGURE 3

Leeds offices investment turnover (£m)



Source: Knight Frank LLP, Property Data



Investment market

- Improved office investment transactions in Q2 helped to drive H1 2014 investment volumes to a healthy £74.41m, 83% above the amount invested in H1 2013.
- The largest deal in H1 2014 was the acquisition of Sovereign House by a private overseas individual for £20.00m, reflecting an equivalent yield of 7.95%. Other notable deals included the acquisition of St Pauls House by Boulton for £11.70m and the acquisition of Kings Court by a private overseas consortium for £10.00m.
- Supply has remained stable albeit the high level of demand has created very aggressive bidding processes with most assets going through several rounds of bidding. Institutional and private equity remain the key purchasers in the market.
- Reflecting the considerable improvement in investor sentiment for regional office stock, yields for prime city centre stock hardened by 25bps during Q1 2014 to stand at 5.75% and remained unchanged in Q2.
- We expect well-let prime assets to continue to attract significant interest in a highly competitive investment market. With Grade A supply at circa 250,000 sq ft in the city centre, there are now forward funding opportunities in the city to provide much needed speculative development. Notable forward funding opportunities include: City Square House (Macleer & Rushe), a 170,000 sq ft proposal adjacent to Leeds City train station.

TABLE 1

Selected investment transactions/under-offer in H1 2014

Date	Address	Purchaser / Vendor	Price	NIY(%)
Feb 14	Sovereign House	Private Overseas Individual	£20.00m	7.95
Apr 14	St Pauls House	Boulton/Marcol	£11.70m	n/a
Jan 14	Kings Court	Private Overseas Consortium	£10.00m	8.00
June 14	Lisbon House, Wellington Street	Portman Estates/Bunbry Estates	£8.76m	5.58
June 14	6/7 Park Row	CBRE GI/TCS	£7.50m	7.94
June 14	Barclays House	Under offer to British Capital	£5.15m	n/a
May 14	St Albans Square	Levanter Properties Ltd/Mayfair Capital IM Ltd	£1.92m	11.40

Source: Knight Frank LLP



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