RESEARCH

LEEDS OFFICES

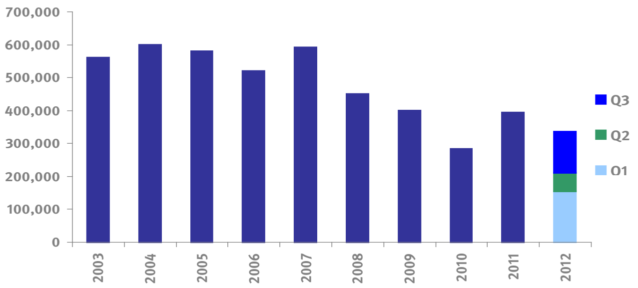
Market update Q3 2012

Knight Frank

Key Highlights

- Q3 take-up amounted to 123,000 sq ft, double that of Q2, with some 22 transactions being concluded.
- Availability has continued to fall, declining to 300,000 sq ft in Q3, although the vacancy rate is still hovering around the 10% mark. A supply shortage has prompted the start of some speculative development in Q3.
- Prime rents were unchanged in Q3, with net effectives at £19.00 and headline rents at £24.00 per sq.ft.

City take-up (sq ft)

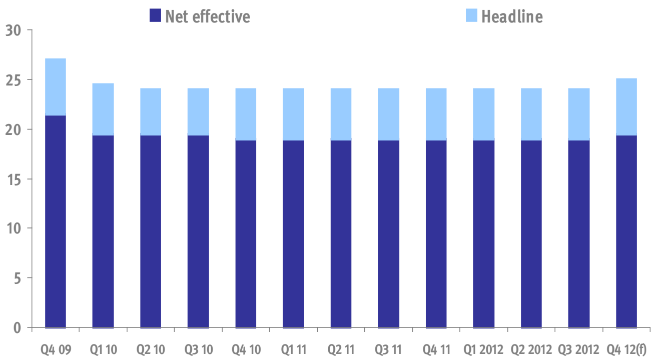


Source: Knight Frank Research

Office gossip

- While the Q3 take-up figures are a welcome piece of news, the figures are slightly distorted by two lettings totalling 65,000 sq ft at IVG's Number 1 Leeds, to The Yorkshire Post and Gaz de France. These deals make this building the most successful office property in Leeds over the last 18 months, with only one floor of 15,000 sq ft remaining to let.
- An analysis of the other transactions shows that 77% are under 5,000 sq ft , which reflects the general trend towards smaller deals over the last couple of years.
- Active named requirements declined in Q3 but nonetheless remained at a healthy 390,000 sq ft. The key active requirements are currently being driven by legal firms such as Squire Sanders, Shulmans and Walker Morris, all of whom are considering whether to relocate by way of a pre-let or re-gear. A number of deals are expected to be signed by the end of the year.

Prime headline & net effective rents (£ sq ft)

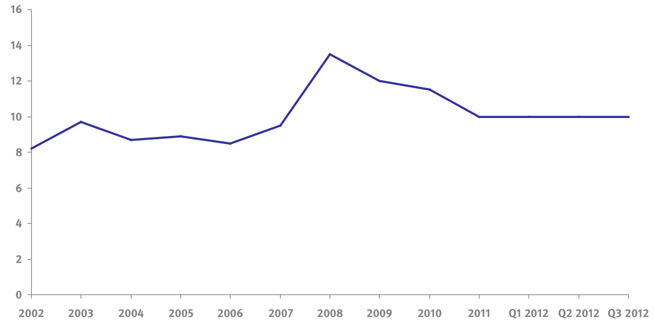


Source: Knight Frank Research

Looking ahead

- With the success at Number 1 Leeds, the city is running out of Grade A stock particularly in the central core where there is under 100,000 sq ft presently available.
- On the back of this shortage and live requirements for in excess of 350,000 sq ft, Formal Investments have commenced the refurbishment of 21 Queen Street where two new floors are being added. This will create a new high quality refurbished office of 37,471 sq ft, which is scheduled for completion in Q2 2013.
- Prime rental levels may come under upward pressure, with net effective rents and headline rents potentially edging up to £19.50 and 25.00 per sq ft respectively by the year-end.

Vacancy rate (%)



Source: Knight Frank Research

Agency contact

Elizabeth Ridler, Partner, Leeds
+44 (0)113 297 2427
elizabeth.ridler@knightfrank.com

Edward Harrowsmith, Surveyor, Leeds
+44 (0)113 297 1954
edward.harrowsmith@knightfrank.com

Research contact

Darren Yates, Partner, Commercial Research
+44 (0)20 7861 1246
darren.yates@knightfrank.com

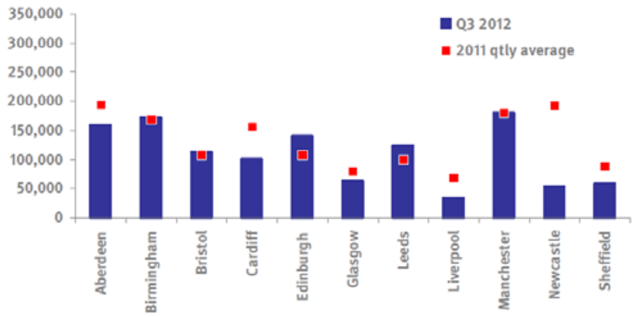
UK REGIONAL OFFICES ROUND-UP

Q3 2012

Occupier demand

- Office take-up across the eleven regional cities continued to be subdued, totalling 1,195,011 sq ft during Q3 2012 - down 15% on Q3 2011 and also down 16% on Q2 2012. Take-up in the eleven cities combined for the first nine months of 2012 was 7% down on the same period in 2011.
- Similar to the previous quarter, a number of markets experienced lower take-up in Q3 2012 compared with the 2011 quarterly average. Take-up was strongest in Edinburgh and Leeds, with Birmingham, Bristol and Manchester also experiencing just above average activity during the quarter.
- Occupiers continued the ‘fight to quality’ in most markets. We have seen renewed requirements from professional services firms prompted by forthcoming lease expiries.

City centre take-up, Q3 2012 vs 2011 quarterly average (sq ft)

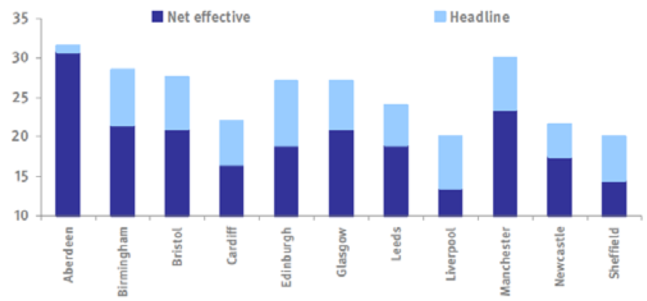


Source: Knight Frank Research

Supply and rents

- The limited amount of new space brought to the market in Q3 resulted in another fall in availability, with total new Grade A supply across the region amounting to 3,230,062 sq ft – 2.4% below the Q2 2012 total.
- While prime headline rents are unlikely to increase from their current levels before the year-end, we do anticipate rent free incentives will harden in 2013 as Grade A supply becomes even more restricted.
- Speculative development activity remains generally limited. At the end of Q3 2012, speculative development across the 11 cities combined was up 17% on Q2 2012 but down 12% on Q3 2011. Birmingham and Manchester are the only two cities which have in excess of 100,000 sq ft underway.

Q3 2012 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Q3 investment turnover was £477m outside London and the South East, an improvement on Q2 but nevertheless 45% below the 10-year quarterly average.
- The largest single transaction in Q3 was Union Investment’s £60m purchase of 1 George Square in Glasgow, reflecting a net initial yield of c.6.25%.
- There remains sustained strong investor interest for prime office stocks. However, a major barrier to activity remains a lack of suitable product, namely prime, long-income assets.
- While Q2 brought a softening in prime office yields in the regions, prime yields were largely unchanged in Q3, with the exception of Liverpool which prime yields moving out by 25bps to stand at 7.50%. Yields on secondary assets remain vulnerable to a further outward shift.

Prime office yields

	2011	2012			Yield sentiment
	Q4	Q1	Q2	Q3	
Aberdeen	6.25%	6.25%	6.50%	6.50%	◄ ▲
Birmingham	6.00%	6.25%	6.50%	6.50%	◄ ▲
Bristol	6.25%	6.25%	6.50%	6.50%	◄ ▲
Cardiff	6.25%	6.25%	6.50%	6.50%	◄ ▲
Edinburgh	6.25%	6.25%	6.50%	6.50%	◄ ▲
Glasgow	6.25%	6.25%	6.50%	6.50%	◄ ▲
Leeds	6.25%	6.25%	6.50%	6.50%	◄ ▲
Liverpool	7.00%	7.00%	7.25%	7.50%	◄ ▲
Manchester	6.00%	6.00%	6.50%	6.50%	◄ ▲
Newcastle	6.50%	6.50%	6.75%	6.75%	◄ ▲
Sheffield	7.00%	7.00%	7.25%	7.25%	◄ ▲

Source: Knight Frank Research