RESEARCH

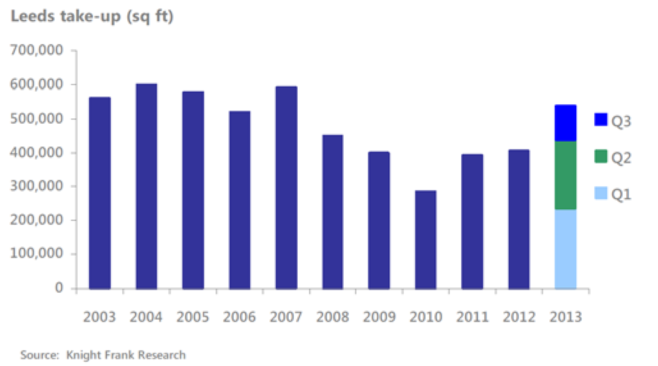
LEEDS OFFICES

Market update Q3 2013

Knight Frank

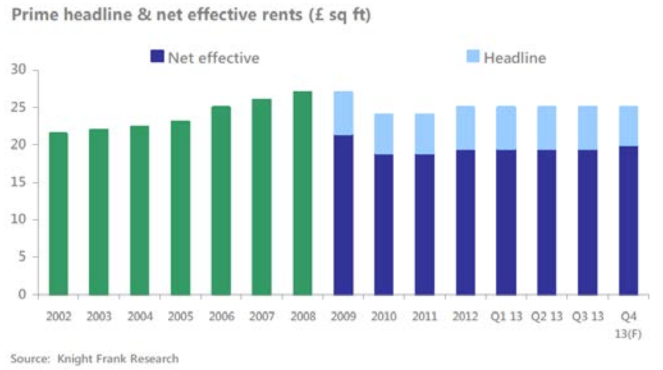
Key highlights

- While Leeds continues to have a commendable year, occupier activity in Q3 was significantly restrained compared to Q1 and Q2, with take-up of only 101,100 sq ft. However, with c. 539,000 sq ft leased this year to date, 2013 take-up is markedly above the five-year annual average of 386,000 sq ft and is forecast to exceed the 2004 record of 600,000 sq ft.
- Active demand is relatively robust and steady, standing at 325,000 sq ft. Notable outstanding requirements include Sky (60,000 sq ft), who are rumoured to be considering both Wellington Place and 6 Queen Street for their future relocation.
- Vacancy rates have remained stable throughout 2013, holding at 9%.



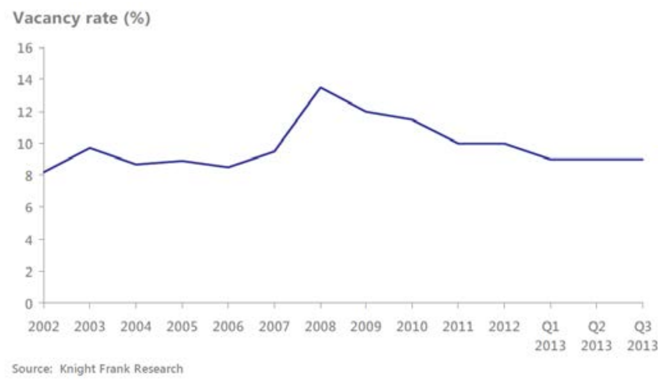
Office gossip

- Occupier activity has slowed considerably since the first half of this year, with only 23 deals transacted. The Leeds office market was largely dominated by small transactions under 5,000 sq ft in Q3, which accounted for 74% of total deals.
- Although Q3 saw subdued occupier activity, positive market sentiment along with a solid level of new enquiries should contribute to a strong final quarter. Several major pre-let deals are in discussion, potentially totalling more than 170,000 sq ft.
- The largest deal of the quarter saw the NHS Leadership Academy let 22,510 sq ft by way of a short-term lease at 3 The Embankment.



Looking ahead

- With supply constrained due to a lack of speculative development and refurbishment, rental incentives are beginning to edge in. A rent-free period of 12-15 months is becoming the norm on five year leases.
- The lack of quality prime stock will continue to contribute to increased activity in the secondary market through to the end of the year.
- The dynamics of supply and demand now arguably support the case for speculative development. However, developers will want to see clear evidence of prime rental growth before plans are seriously brought forward.



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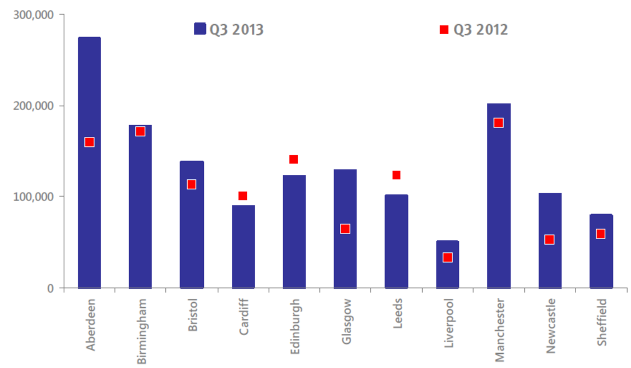
UK REGIONAL OFFICES ROUND-UP

Q3 2013

Occupier demand

- Sentiment and demand continued to improve in the regional office markets in Q3, with occupier demand remaining relatively robust. Indeed, there is a healthy list of sizeable requirements, mainly from occupiers in the legal and financial sectors.
- The 11 markets combined recorded total take-up of 1,461,951 sq ft during Q3. Whilst this represents a modest increase of 6% on Q2 2013, it is 22% above the overall total take-up recorded for the same period, with strong performance and double digit increases seen in Glasgow (+100%), Newcastle (+95%), Aberdeen (+71%), Liverpool (+52%), Sheffield (+34%), Bristol (+22%) and Manchester (+11%).
- However, there was a healthy level of activity, transactions continued to be predominantly characterised by smaller deals.

City centre take-up, Q3 2013 vs Q3 2012 total (sq ft)

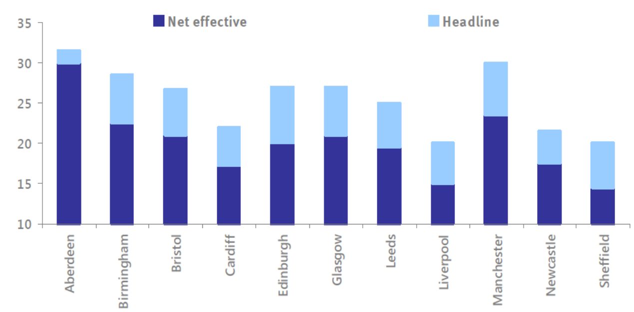


Source: Knight Frank Research

Supply and rents

- Q3 saw a marginal quarterly decrease in Grade A supply, which slipped from 3,225,544 sq ft in Q2 to 3,069,805 sq ft in Q3. This reflects the continuing erosion of Grade A space in the absence of new completions/development activity. Quarter-on-quarter double-digit falls were seen in Cardiff (-19%), Birmingham (-17%), and Newcastle (-10%). Only two cities experienced a quarterly increase in supply, namely Aberdeen (+45%) and Glasgow (+4%).
- Whilst occupier sentiment is improving, headline rents have been largely stable, with only Aberdeen projected to see an increase in headline rents by the year-end. While growth in regional headline rents is unlikely over the remainder of 2013, net effective rents may edge up as Grade A supply continues to decline.

Q3 2013 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Q3 saw a buoyant level of investment activity. According to the latest figures from Property Data, investment turnover for offices outside London and the South East was c. £870m, up 82% on a year ago.
- Whilst investor demand for prime office assets in the regions has remained strong, most regional office markets have started to, and are likely to continue to, suffer from a shortage of available stock (prime and long-income assets). Since prime buying opportunities are limited, increasing interest is being seen in good quality secondary assets which offer sound fundamentals, with prospects for active management.
- Prime yields in the regional cities generally hardened during Q3, with Aberdeen, Bristol, Edinburgh, Glasgow, Liverpool, Manchester and Newcastle seeing prime yields move in by 25 bps. Birmingham and Cardiff were the exceptions, with prime yields remaining stable in Q3.

Prime office yields

	2012	2013			Yield sentiment
	Q4	Q1	Q2	Q3	
Aberdeen	6.50%	6.50%	6.25%	**6.00%**	→↘
Birmingham	6.50%	6.25%	6.00%	**6.00%**	→↘
Bristol	6.50%	6.50%	6.25%	**6.00%**	→↘
Cardiff	6.50%	6.50%	6.25%	**6.25%**	→↘
Edinburgh	6.50%	6.50%	6.25%	**6.00%**	→↘
Glasgow	6.50%	6.50%	6.25%	**6.00%**	→↘
Leeds	6.50%	6.50%	6.25%	**6.15%**	→↘
Liverpool	7.50%	7.50%	7.50%	**7.25%**	→↘
Manchester	6.50%	6.25%	6.25%	**6.00%**	→↘
Newcastle	6.75%	7.00%	7.00%	**6.75%**	→↘
Sheffield	7.25%	7.25%	7.25%	**6.75%**	→↘

Source: Knight Frank Research

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