RESEARCH

LEEDS OFFICES

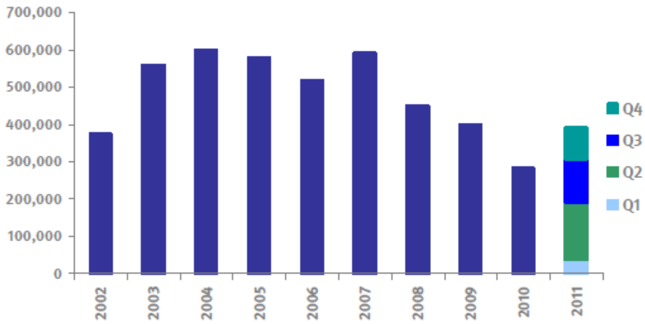
Market update Q4 2011

Knight Frank

Key Highlights

- Q4 was a quiet quarter in terms of take-up, which amounted to just 87,000 sq ft, compared with over 100,000 sq ft in Q3, bringing the annual total to 392,973 sq ft – 38% higher than the 2010 level.
- The vacancy rate has remained at 10% at the end of Q4. Prime headline rents also remained unchanged on Q3 at £24.00 per sq ft and net effective rents were also stable at £19.00 per sq ft.
- Availability continues to decline, with the amount of available new and Grade A space falling to 440,000 sq ft - down by 27% on June 2011.

City take-up (sq ft)

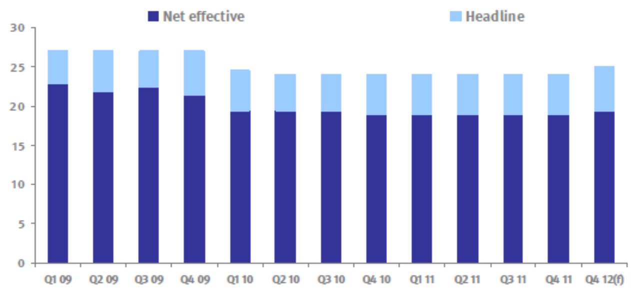


Source: Knight Frank Research

Office gossip

- Key deals in Q4 included Towry Law letting 10,944 sq ft at Toronto Square, BskyB leasing 10,235 sq ft at Wellington Place and Arinso UK leasing 5,314 sq ft at Riverside West. In addition, Q4 also witnessed the completion of the Grade A refurbishment of Elizabeth House.
- Named active requirements decreased to 350,000 sq ft in Q4, 12.5% down on Q3. This includes Gratterpalm's requirement for 15,000 sq ft, Elmwood Consulting's requirement for 12,000 sq ft and Squire Sanders' requirement of 40,000 sq ft for offices in Leeds.

Prime headline & net effective rents (£ sq ft)

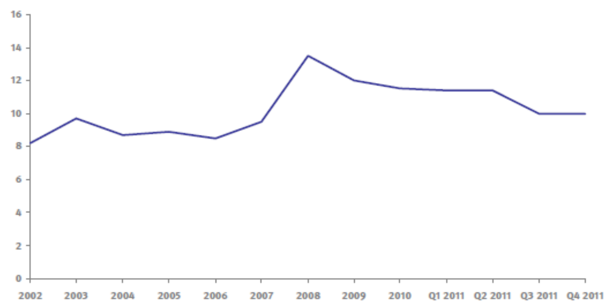


Source: Knight Frank Research

Looking ahead

- Occupier demand is expected to be somewhat tentative and will continue to be underpinned by lettings of under 5,000 sq ft. While headline rents should hold relatively stable during 2012, we expect that rents will reach £25.00 per sq ft by the end of 2012 with the decline of Grade A stock. This will ultimately bring about a hardening of incentives in the coming months.
- With the exception of Wilton Development's speculative refurbishment at 2 Bond Court – where 15,000 sq ft is scheduled to complete – the speculative development tap has been turned off. Having said that, there are a number of potential pre-lets (awaiting decisions from KPMG and Walker Morris within the coming months) which will bring development activity and investment confidence to the city.

Vacancy rate (%)



Source: Knight Frank Research

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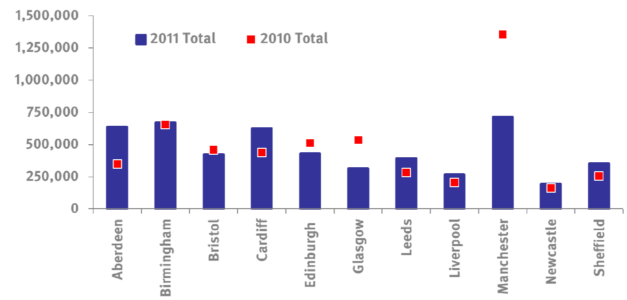
UK REGIONAL OFFICES ROUND-UP

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)

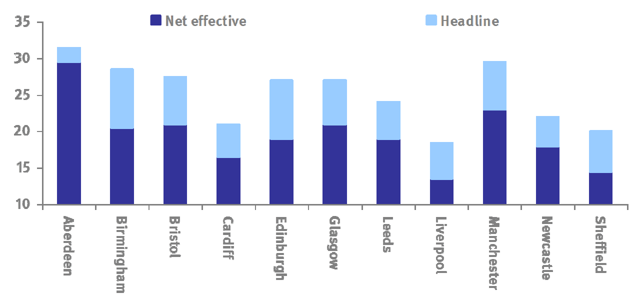


Source: Knight Frank Research

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%**	◄ ►