RESEARCH

MANCHESTER OFFICES

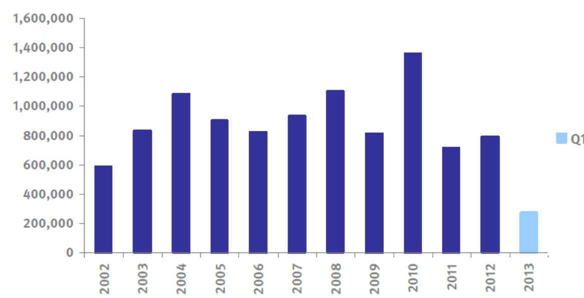
Market update Q1 2013

Knight Frank

Key highlights

- Take-up got off to a healthy start in 2013, amounting to 274,000 sq ft in Q1 – against a quarterly average of 197,066 sq ft for 2012, albeit down 7.8% on Q4 2012.
- Prime headline rents stood at £30.00 per sq ft, unchanged over the quarter and net effective rents were also unchanged at £23.50 per sq ft.
- The availability of grade A space remained at 370,000 sq ft over the quarter. This means that availability is now more than 13% down on Q1 2012.
- The vacancy rates has edged down to reach 11.2% in March. This compares favourably with other regional cities, some of which have vacancy rates of 12-16%.

City take-up (sq ft)

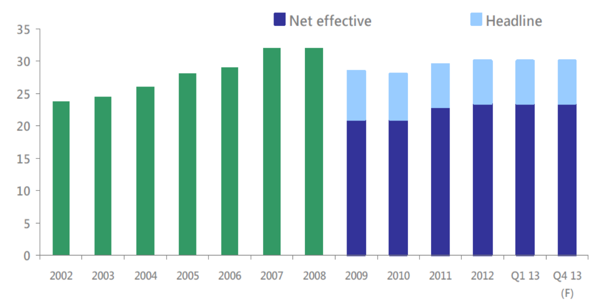


Source: Knight Frank Research / MOAF

Office gossip

- Active requirements also remained at c.700,000 sq ft during Q1, 55% up on a year ago. The market has seen 6 deals of over 10,000 sq ft so far in 2013 and the average deal size during the first quarter is just under 5,000 sq ft.
- Notable transactions during the first quarter included Travel Jigsaw taking 63,000 sq ft at Sunlight House, Worldpay's acquisition of 22,000 sq ft at 3 Hardman Square and DWF taking 15,000 sq ft at 201 Deansgate.
- In the investment market, it is reported that the Co-operative has sold its One Angel Square head office for £142m. RREEF Real Estate, has taken a 51% stake, with Gingko Tree Investment taking the remaining 49%.

Prime headline & net effective rents (£ sq ft)

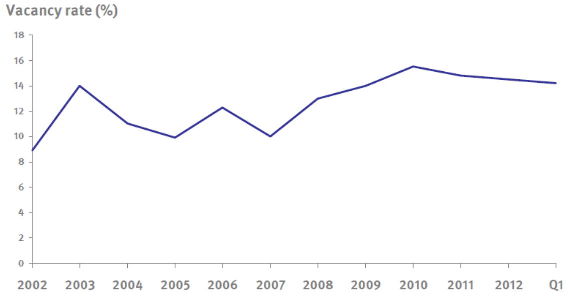


Source: Knight Frank Research

Looking ahead

- Due to the funding climate, appetite for speculative development remains thin and construction of new space in the city will be led by pre-letting activity.
- The continued erosion of Grade A stock is forcing any requirements of meaningful size to consider design & build pre-let.
- With the limited development pipeline, Grade A supply will continue to be steadily eroded. Consequently, there is potential that incentives on prime stock will harden throughout 2013.

Vacancy rate (%)



Source: Knight Frank Research

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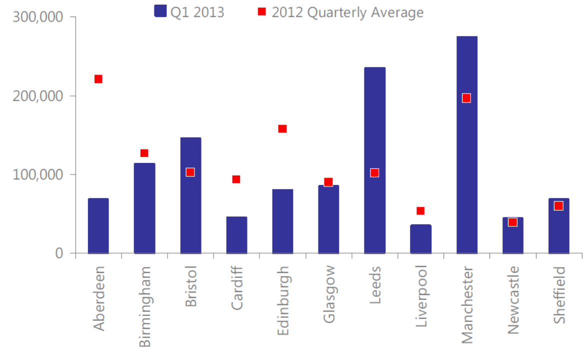
UK REGIONAL OFFICES ROUND-UP

Q1 2013

Occupier demand

- Following a strong final quarter in 2012, activity in the key regional office markets has been maintained in Q1 2013. A number of markets have performed well and saw Q1 take-up exceeding 2012's quarterly average including Bristol, Leeds, Manchester, Sheffield and Newcastle. The 11 markets combined recorded total take-up of 1.19m sq ft during Q1 - marginally down on Q4 2012 but up 9.8% on a year ago.
- In most markets, activity was predominantly characterised by a high number of small deals, typically for second-hand refurbished space.
- There is a healthy level of requirements in the regional office markets, with notable quarterly increases seen in Newcastle (+60%) and Aberdeen (+36%), although the majority are in the sub-5,000 sq ft bracket.

City centre take-up, Q1 2013 vs 2012 quarterly average total (sq ft)

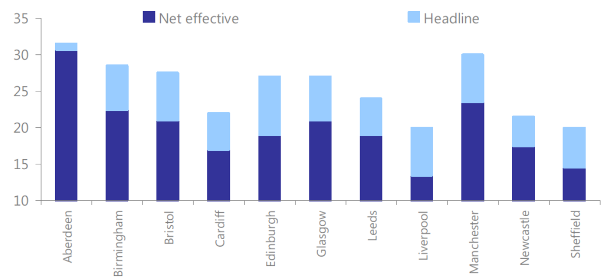


Source: Knight Frank Research

Supply and rents

- Q1 saw a marginal quarterly increase in Grade A supply up from 3,013,043 sq ft in Q4 2012 to 3,067,043 sq ft. However, the current level is 11% down on a year ago. The availability of Grade A space continues to be eroded in most markets in the absence of new completions. Year-on-year double-digit fall was recorded in Birmingham (-33%), Leeds (-14%), Glasgow (-13%), Manchester (-13%), Newcastle (-12%) and Liverpool (-10%).
- Headline rents and incentives have been fairly static over the quarter, although there has been an increase in the net effective rent in Birmingham (from £21.50 to £22.50) and Cardiff (from £16.50 to £17.0).

Q1 2013 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- According to Property Data, Q1 investment turnover was c.£600m outside London and the South East, an improvement on Q1 2012 but nevertheless 30% below the 10-year quarterly average.
- Whilst strong investor interest in prime office stock has been maintained, the availability of suitable product (prime and long-income assets) is the major barrier to activity. One interesting deal in Q1 was Gingko Tree's acquisition of a part share of One Angel Square in Manchester, although it remains to be seen as to whether this marks the start of more sustained interest from foreign investors in the UK regions.
- Prime regional office yields were largely unchanged in Q1, albeit there were some tentative signs of improved sentiment for prime stock. Indeed, Birmingham and Manchester both saw prime yields move in by 25bps to stand at 6.25%, whilst Newcastle was the only city to see prime yields soften Q1.

Prime office yields

	2012			2013	Yield sentiment
	Q2	Q3	Q4	Q1	
Aberdeen	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Birmingham	6.50%	6.50%	6.50%	**6.25%**	◄ ▼
Bristol	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Cardiff	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Edinburgh	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Glasgow	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Leeds	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Liverpool	7.25%	7.50%	7.50%	**7.50%**	◄ ►
Manchester	6.50%	6.50%	6.50%	**6.25%**	◄ ▼
Newcastle	6.75%	6.75%	6.75%	**7.00%**	◄ ▲
Sheffield	7.25%	7.25%	7.25%	**7.25%**	◄ ►

Source: Knight Frank Research