RESEARCH

MANCHESTER OFFICES

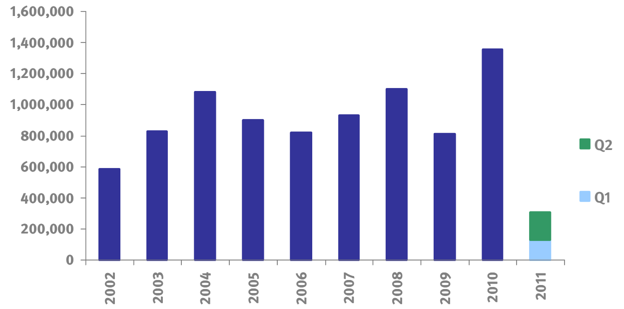
Market update Q2 2011

Knight Frank

Key highlights

- Q2 take-up in Manchester city centre amounted to 174,978 sq ft, a 36% improvement on Q1's subdued level. However, total take-up for the first half of 2011 is down 6% on the same period in 2010.
- As was the case in Q1, most of the space leased in Q2 comprised second-hand accommodation. The largest Grade A deal in Q2 was just 5,140 sq ft, comprising Shoosmith's lease at 3 Hardman Street, while the largest deal in the quarter was Linder Myers'48,000 sq ft freehold purchase of 55 Spring Gardens, which will be significantly refurbished prior to occupation.
- At the of end Q2, Grade A availability stood at c.475,000 sq ft, which is closely back into line with its level in Q2 2010.

City centre take-up (sq ft)

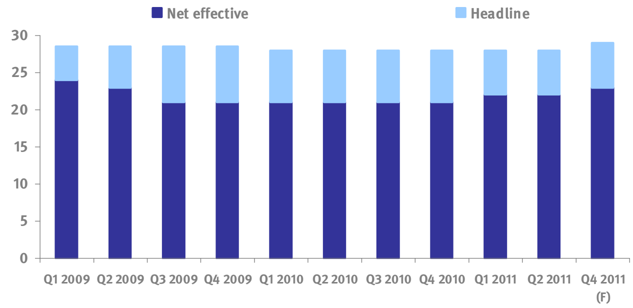


Source: Knight Frank Research / MOAF

Office gossip

- AEGIS is moving closer to agreeing terms for c. 40,000 sq ft at Bruntwood's City Tower, and we expect the deal to complete in Q3.
- Requirements edged down during Q2 to stand at c.400,000 sq ft. The main requirement likely to proceed in 2011 is from KPMG (55,000 sq ft), who recently shortlisted thee sites for a pre-let - 1 St Peters Square, The Embankment and Spinningfields. Significantly, the deal will kick-start new build activity in the city centre, with the possibility of surplus space being built speculatively.
- Two other key requirements are Pannone Solictors (80,000 sq ft) and Lloyds Banking Group (180,000 sq ft), although the latter is far from guaranteed at the present time.

Prime headline & net effective rents (£ sq ft)

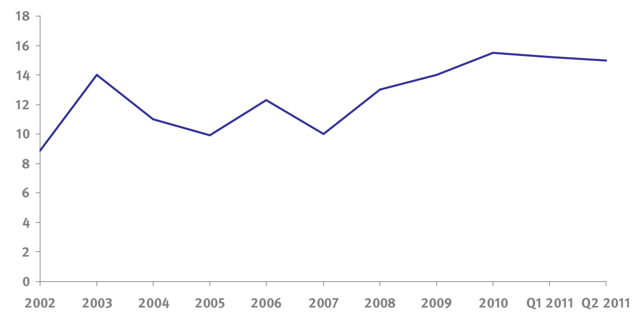


Source: Knight Frank Research

Looking ahead

- Take-up in 2011 will not reach the heights of 2010, although that was an exceptional year for the Manchester city centre market which included Co-op's 328,000 sq ft pre-let. We expect 2011 to finish slightly below the annual average of 850,000 sq ft.
- Co-op's development will provide a stimulus in the NOMA area, with the surrounding buildings and streets set for investment and improvement.
- The shortage of development in the city centre means that Grade A supply will diminish steadily, putting upward pressure on headline rents. Incentives are already hardening and we expect headline rents to start rising, potentially reaching £30.00 per sq ft by the middle of 2012.

Vacancy rate (%)



Source: Knight Frank Research

Agency contact
David Porter, Partner, Manchester
+44 (0)161 833 7725
david.porter@knightfrank.com

Research contact
Oliver du Sautoy, Associate, Commercial Research
+44 (0)20 7861 1592
oliver.dusautoy@knightfrank.com

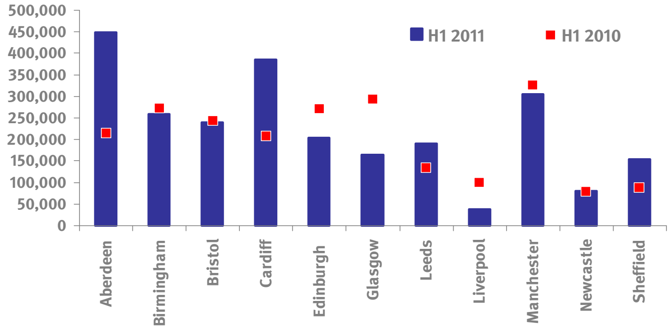
UK REGIONAL OFFICES ROUND-UP

Q2 2011

Occupier demand

- Across the eleven markets combined, total take-up for the first half of 2011 stands 11% higher than H1 2011. However, if Admiral Insurance's 200,000 sq ft pre-let in Cardiff is excluded, take-up is almost identical.
- H1 2011 take-up in Birmingham, Bristol, Manchester and Newcastle was remarkably consistent with the equivalent period last year, suggesting occupier sentiment has remained relatively robust.
- Buoyancy of the North Sea oil sector continues to fuel strong demand in Aberdeen, with H1 2011 take-up more than twice that seen in H1 2010. In contrast, Edinburgh and Glasgow have seen less transactional activity on last year, while activity remains extremely subdued in Liverpool.

City centre take-up, H1 2011 vs H1 2010 (sq ft)

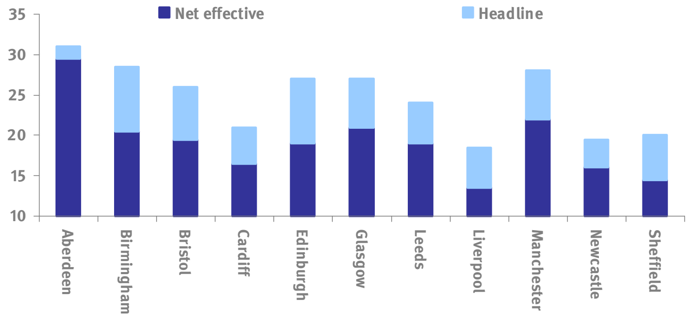


Source: Knight Frank Research

Supply and rents

- The commencement of Two Snowhill in Birmingham is the first major speculative development to progress across the 11 cities in almost a year. However, most of Hines' 305,000 sq ft scheme is pre-let, and this is likely to provide the only means through which large developments will move forward in these markets over the next 12 months.
- Supply continues to ebb away in the absence of new development completions. At the end of Q2 2011, Grade A supply across the 11 cities combined was down 25% on Q2 2010, with the largest falls seen in Aberdeen (-89%), Edinburgh (-47%) and Sheffield (-35%).
- Headline rents slipped in Liverpool and Newcastle to £18.50 and £19.50 in Q2. However, more generally, incentive levels are either hardening or expected to harden across the regional centres, in reflection of this steady erosion of Grade A supply.

Q2 2011 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Investors' aversion to secondary assets and a shortage of available prime stock has stymied activity in the first half of 2011. Latest figures from Property Data reveal that H1 2011 turnover was c.£716m outside London and the South East, down 52% on H1 2010.
- Investment demand is becoming increasingly polarised according to perceived strengths of each occupier market. When prime office stock becomes available in Birmingham, Manchester and Bristol, aggressive bidding is ensuing. Elsewhere, however, investors are more cautious and need to see clear value. Consequently, prime yields softened by 25bps in Liverpool, Leeds and Sheffield in Q2.
- The secondary investment market remains problematic. Yields are likely to soften given an anticipated increase of stock to the market as lenders become more willing to offload properties and crystallise their losses.

Prime office yields

	2010		2011		Yield sentiment
	Q3	Q4	Q1	Q2	
Aberdeen	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Birmingham	5.75%	5.75%	5.75%	**5.75%**	◄ ►
Bristol	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Cardiff	6.25%	6.25%	6.25%	**6.25%**	◄ ►
Edinburgh	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Glasgow	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Leeds	6.00%	6.00%	6.00%	**6.25%**	◄ ►
Liverpool	6.50%	6.50%	6.50%	**6.75%**	◄ ►
Manchester	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Newcastle	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Sheffield	6.50%	6.50%	6.50%	**6.75%**	◄ ►