



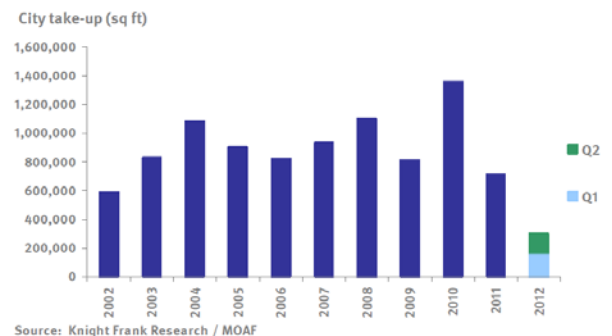
MANCHESTER OFFICES

Market update Q2 2012

Knight Frank

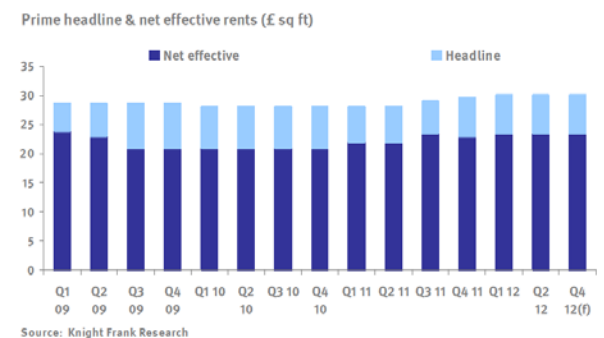
Key highlights

- Q2 was a very quiet quarter in terms of take-up, which amounted to just 128,408 sq ft, compared with 169,981 sq ft in Q1 2012 and 174,978 sq ft in Q2 2011.
- Headline rents remained at £30.00 per sq ft and net effective rents were also unchanged at £23.50 per sq ft in Q2.
- The amount of new and Grade A available space remained unchanged at 425,000 sq ft, but is 11% down on a year ago, with the vacancy rate also unchanged at 14.6%. The underlying share of availability comprising Grade B space is on the increase.



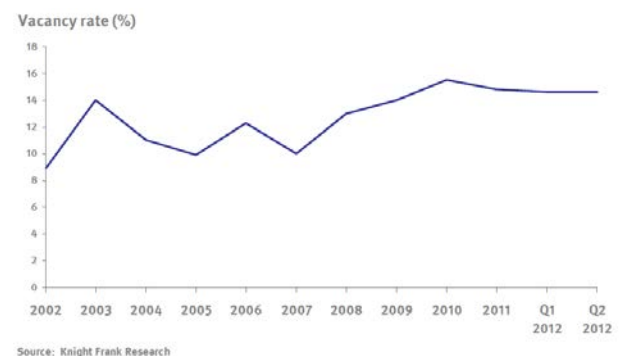
Office gossip

- Active named requirements stood at 450,000 sq ft in Q2 – no change on last quarter but some 13% up on a year ago.
- Despite an uncertain economic environment, enquiry levels have held up well. However, occupiers are taking longer to commit and activity was focused once again on second-hand accommodation.
- The largest transaction in Q2 took place at the recently refurbished Riverside development, with MoneyPlus Group taking 21,500 sq ft. Take up during Q2 was dominated by small lettings, with the majority of deals being sub 5,000 sq ft.



Looking ahead

- Take-up in 2012 is likely to be broadly in line with the level seen in 2011. We expect 2012 to finish substantially below the annual long-term average of 912,471 sq ft.
- Headline rents are unlikely to show any growth in the short term and should remain steady at £30.00 per sq ft at least until the end of this year.
- The redevelopment of 1 St Peters Square by GMPVF and Argent remains the only speculative office development currently underway. Speculative development is unlikely to return to the city centre for the foreseeable future.



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UK REGIONAL OFFICES ROUND-UP

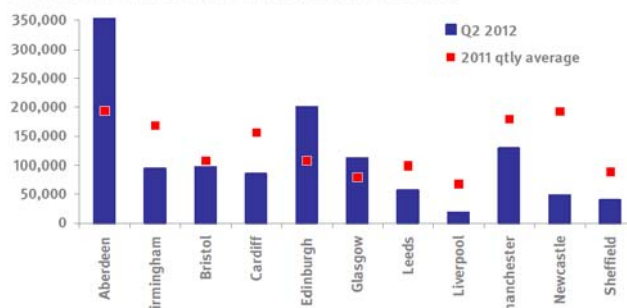
Q2 2012



Occupier demand

- Total Q2 take up in the eleven cities combined was 1,423,646 sq ft, 32% up on Q1. However, Q2 was somewhat skewed by Aberdeen's record take-up level of 547,926 sq ft.
- Given the economic backdrop, it is unsurprising that most markets experienced lower take-up in Q2 2012 compared with the 2011 quarterly average. The three exceptions are Aberdeen, Edinburgh and Glasgow, which all experienced above average activity during the quarter.
- Despite the challenging economic environment, occupier demand has held up better than expected. Demand is anticipated to remain at current levels over the summer, although a number of active requirements provide a source of optimism.

City centre take-up, Q2 2012 vs 2011 quarterly average (sq ft)

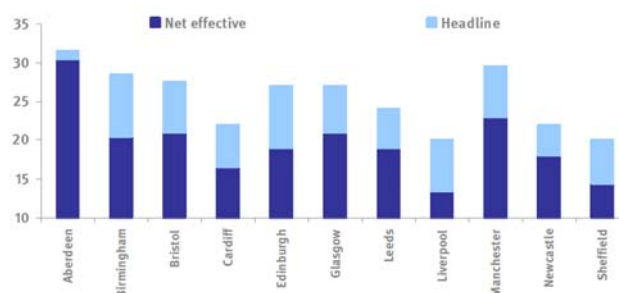


Source: Knight Frank Research

Supply and rents

- The lack of new development has meant that Grade A supply has continued to fall in most regional centres.
- The on-going lack of debt funding is still hampering new development, while more secondary property is becoming available. Speculative development activity remains limited, confined to only four of the 11 regional markets as at the end of Q2. Moreover, only two cities, namely Birmingham and Manchester, have in excess of 100,000 sq ft underway.
- Nevertheless, prime rents were broadly stable during Q2 and vary between £20.00 per sq ft in Sheffield and £31.50 in Aberdeen. Looking forward, prime office rents in most regional cities are not expected to change significantly for the rest of the year, although upwards pressure on net effective rents may be seen in some areas.

Q2 2012 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Investment turnover for offices outside London and the South East was subdued in Q2. The latest figures from Property Data suggest c.£374m turnover, 4% down on Q1.
- Investor demand is still very much focussed on prime property. However, we believe that both prime and secondary pricing has softened, with the yield gap increasing as prices for secondary product continue to soften faster than those for prime stock.
- The prevailing uncertainty in the Euro zone and its impact on the UK economy has resulted in weak demand for secondary property.
- According to the latest Knight Frank ROMP Confidence Index, a majority of our agents are expecting to see little change to investor sentiment in the prime office market, with the outlook remaining generally cautious.

Prime office yields

	2011		2012		Yield sentiment
	Q3	Q4	Q1	Q2	
Aberdeen	6.00%	6.25%	6.25%	6.50%	◀ ▲
Birmingham	5.75%	6.00%	6.25%	6.50%	◀ ▲
Bristol	6.00%	6.25%	6.25%	6.50%	◀ ▲
Cardiff	6.25%	6.25%	6.25%	6.50%	◀ ▲
Edinburgh	6.00%	6.25%	6.25%	6.50%	◀ ▲
Glasgow	6.00%	6.25%	6.25%	6.50%	◀ ▲
Leeds	6.25%	6.25%	6.25%	6.50%	◀ ▲
Liverpool	6.75%	7.00%	7.00%	7.25%	◀ ▲
Manchester	6.00%	6.00%	6.00%	6.50%	◀ ▲
Newcastle	6.50%	6.50%	6.50%	6.75%	◀ ▲
Sheffield	6.75%	7.00%	7.00%	7.25%	◀ ▲

Source: Knight Frank Research

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