



NEWCASTLE OFFICES

Market update Q1 2011

Knight Frank

Key highlights

- City centre take-up in Q1 was just under 25,000 sq ft – lower than the rather weak final quarter of 2010 but nonetheless up on Q1 last year.
- Prime headline rents were £23.00 per sq ft in Q1 – unchanged throughout the recession. However, net effective rents stood at £18.00 per sq ft – down from £20.00 in 2009.
- The vacancy rate for prime city centre space stood at 8% in Q1 – unchanged on Q4 and only marginally higher than the middle of last year.
- New and Grade A availability edged down to 385,400 sq ft in Q1.

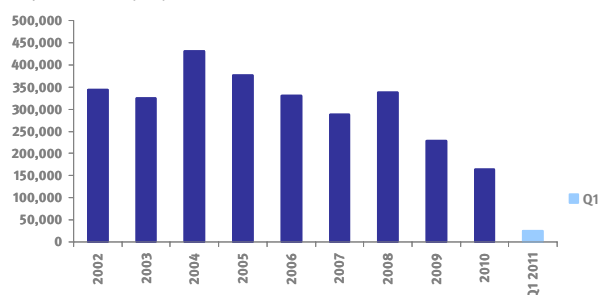
Office gossip

- The majority of demand is still emanating from occupiers looking for small offices from 2,000 to 10,000 sq ft, although Q1 has seen a rise in the overall number of enquiries and several large footloose requirements have emerged.
- Indeed, the amount of active named requirements rose sharply in Q1 to reach over 400,000 sq ft.
- The out-of-town market has been more active than the city centre, although availability is generally higher than in the CBD and some very generous incentives are on offer.

Looking ahead

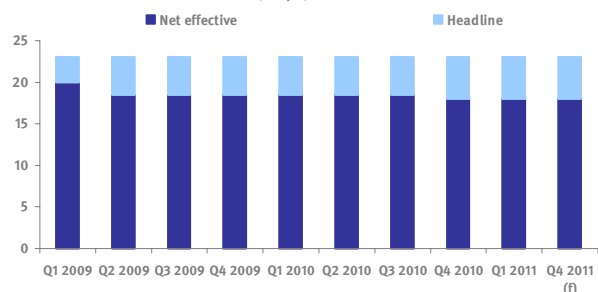
- Newcastle has a heavy dependence on public sector employment, but cuts may in fact provide greater opportunities for the private sector to fill roles previously occupied by public bodies.
- However, the remainder of 2011 is expected to see similar trends to 2010. No new development is taking place, with the exception of the Stephenson Quarter's first phase on which construction is scheduled to commence before the end of this year. The 100,000 sq ft Downing Plaza scheme is scheduled to open in late 2011 and is 100% pre-let to Newcastle Business School.
- Both headline and net effective rents are expected to remain broadly unchanged during this year.

City centre take-up (sq ft)



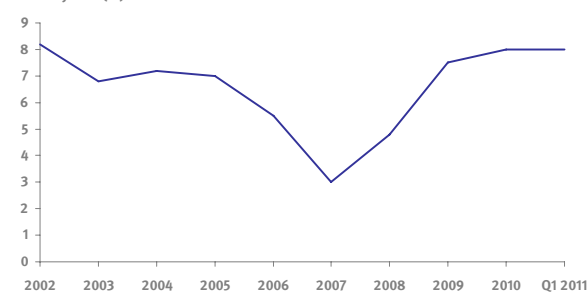
Source: Knight Frank Research

Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Vacancy rate (%)



Source: Knight Frank Research

Agency contact

Patrick Matheson, Associate, Newcastle Commercial
+44 (0)191 221 2211
patrick.matheson@knightfrank.com

Research contact

Darren Yates, Partner, Commercial Research
+44 (0)20 7861 1246
darren.yates@knightfrank.com



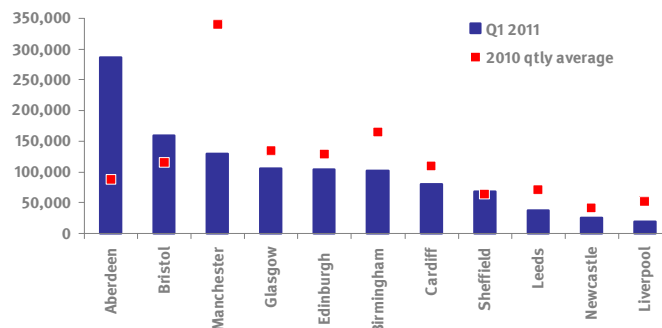
UK REGIONAL OFFICES ROUND-UP

Q1 2011

Occupier demand

- Following a robust 2010, most markets made a modest start to 2011. Q1 take-up fell short of the 2010 quarterly average in eight markets. This was most evident in Manchester, albeit 2010 was a remarkable year.
- The three exceptions were Sheffield, Bristol and Aberdeen, which all enjoyed more take-up in Q1 2011 compared with the 2010 average. Of these, Aberdeen stands out, with Q1 take-up of 287,000 sq ft exceeding its entire total for 2010.
- Despite the slow start to the year and ongoing concerns regarding public sector rationalisation, resilient take-up is expected in many markets in 2011, with Cardiff, Sheffield and Manchester expected to perform well.

City centre take-up, Q1 2011 vs 2010 quarterly average (sq ft)

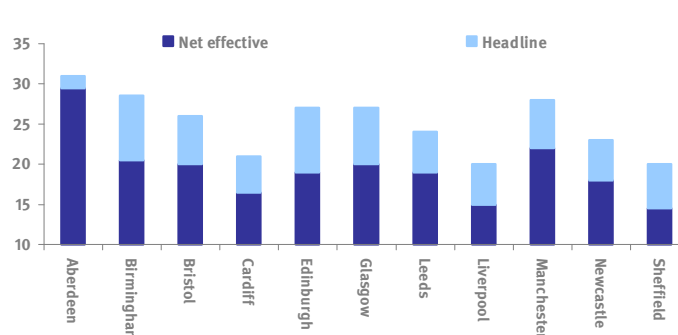


Source: Knight Frank Research

Supply and rents

- Speculative development activity remains limited, confined to only six of the 11 regional markets as at end Q1. Moreover, just two cities - Edinburgh and Bristol - have in excess of 100,000 sq ft underway.
- Many markets are heading towards a supply crunch, with Grade A availability down 31% year-on-year across all markets combined. The fall was 86% in Manchester, which has a very strong case for fresh development, finance permitting.
- Falling Grade A supply is starting to impact on pricing, albeit mostly in net effective terms so far. Incentives in Birmingham and Manchester hardened in Q1, with a further five markets forecast to follow suit during 2011. Aberdeen was the first market to see headline rents rise in 2011, rising from £30.00 per sq ft to £31.00 per sq ft during Q1.

Q1 2011 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 Q1. An analysis Property Data figures suggests c.£450m of turnover - in line with Q4 2010, but significantly down on Q1 2010.
- An ongoing shortage of buying opportunities for prime assets kept prime yields steady once again in Q1 2011. With the supply of prime stock likely to remain limited, pricing is expected to hold throughout 2011.
- In contrast, the supply of secondary stock is now increasing as banks are becoming more willing to offload property from their balance sheets. Consequently, secondary yields are expected to soften as more opportunities become available.
- Overseas investors remain largely absent from the regional office markets, save for several German Funds in search of large lot-sizes. However, this should change as overseas players seek higher yielding opportunities outside Central London.

Prime office yields

	2010			2011	Yield sentiment
	Q2	Q3	Q4	Q1	
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%	6.00%	◀ ▶
Liverpool	6.50%	6.50%	6.50%	6.50%	◀ ▶
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%	6.50%	◀ ▶

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