



NEWCASTLE OFFICES

Market update Q1 2012

Knight Frank

Key Highlights

- City Centre take-up bounced back in Q1 following a quiet end to last year, reaching 40,283 sq ft.
- Prime headline rents are at £21.50 per sq ft and net effective rents stand at £17.50 per sq ft.
- The Q1 vacancy rate was unchanged at 8%, while the availability of Grade A space declined to 294,000 sq ft.
- Some 13 office deals were completed in Q1, compared with 11 deals in Q4, although the average deal size remained limited at 3,098 sq ft.

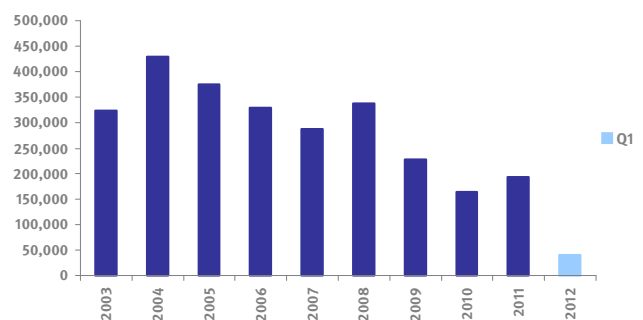
Office gossip

- Active named requirements rose sharply in Q1 to 206,500 sq ft, which includes some larger foot loose enquiries which are looking at Newcastle as part of a national search.
- Key deals in Q1 included the letting of 8,025 sq ft at Wellbar Central to Punter Southall and 5,306 sq ft at No2 Citygate to Ernst & Young at a rumoured £18.00 per sq ft.
- Other city centre lettings included Northumbria University's acquisition of 7,500 sq ft at 39 Highbridge Street and Simpson & Marwick Solicitors' 2,874 sq ft deal at Collingwood House, Collingwood Street, at a rent of £12.00 per sq ft. The British Transport Police also leased 2,800 sq ft at Hadrian House at a headline rent of £14.00 per sq ft.

Looking ahead

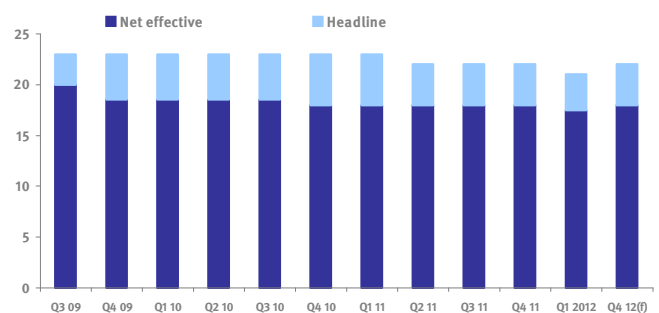
- 2012 has clearly started more positively, with both demand and take up increasing, although both remain below the long term average. Nonetheless, this must be seen against a very difficult 2011.
- However, a key test will be to see whether the increase in enquiries translates into actual lettings in Q2/Q3. This year is expected to be challenging, although the early relative increase in activity is a good sign.
- Occupier demand is expected to continue to focus on the smaller offices.
- The only office development scheduled to commence in 2012 is the first phase of Stephenson Quarter which includes 30,000sq ft of Grade A offices together with a Crowne Plaza Hotel and a multi storey car park.

City take-up (sq ft)



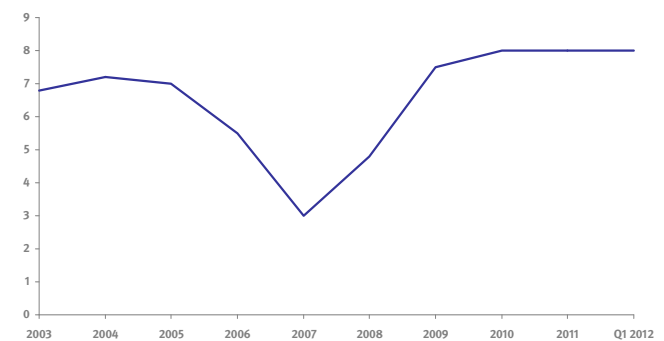
Source: Knight Frank Research

Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Vacancy rate (%)



Source: Knight Frank Research

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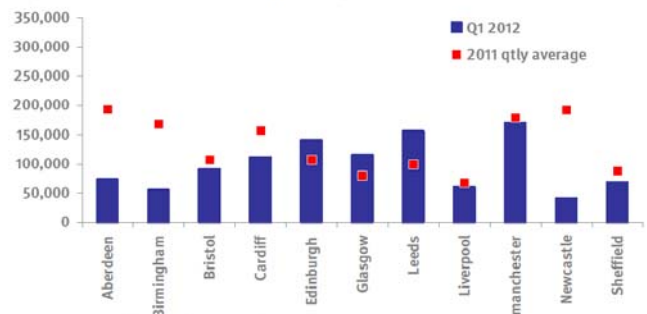
UK REGIONAL OFFICES ROUND-UP

Q1 2012

Occupier demand

- Following a weak 2011, most markets made a modest start to 2012. Q1 take-up fell short of the 2011 quarterly average in eight markets. This was most evident in Aberdeen and Birmingham.
- The three exceptions were Leeds, Glasgow and Edinburgh, which all enjoyed more take-up in Q1 2012 compared with the 2011 quarterly average. Of these, Leeds stands out, with Q1 take-up of 155,847 sq ft being the highest level of take-up recorded in Leeds since 2010.
- Take-up in Glasgow and Edinburgh was consistent with the same period last year, suggesting that occupier sentiment has remained relatively robust.

City centre take-up, Q1 2012 vs 2011 quarterly average (sq ft)

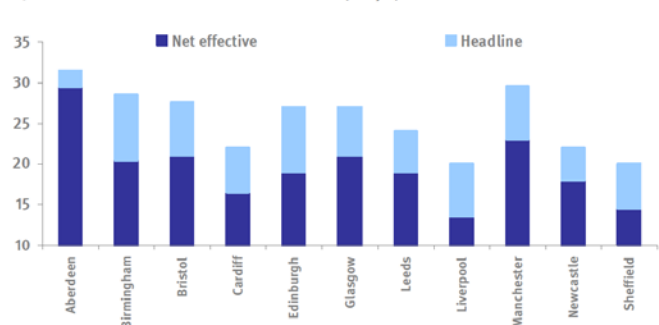


Source: Knight Frank Research

Supply and rents

- Speculative development activity remains limited, confined to only five of the 11 regional markets as at the end of Q1 – while Manchester was the only city to see a development in excess of 200,000 sq ft get underway.
- Many markets are still facing a supply crunch, with Grade A availability down 20% year-on-year across all markets combined. One striking trend has been that Aberdeen has reported nil Grade A in-town availability in Q1.
- Falling Grade A supply is starting to impact on pricing. In terms of rental growth, Manchester outperformed the other regional markets, seeing headline rents increase by 7% y-o-y, rising from £28.00 per sq ft to £30.00 per sq ft during Q1, with net effective rents recovering to their mid-2009 level of £23.50 per sq ft.

Q1 2012 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Transactional activity in Q1 2012 amounted to £390m outside London and the South East, a decline of 30% on Q4 2011. Investor sentiment remains fragile and polarized but has not worsened in 2012.
- Prime office yields were largely stable across 10 of the 11 regional office markets, with the exception of Birmingham where yields moved out by 25bps.
- With an ongoing shortage of buying opportunities for prime assets, pricing is expected to hold throughout 2012.
- Interest in the regional office investment market continues to be focused on prime property, particularly from institutional investors. The secondary market is somewhat more challenging and is mostly confined to short income on business parks.

Prime office yields

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

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