



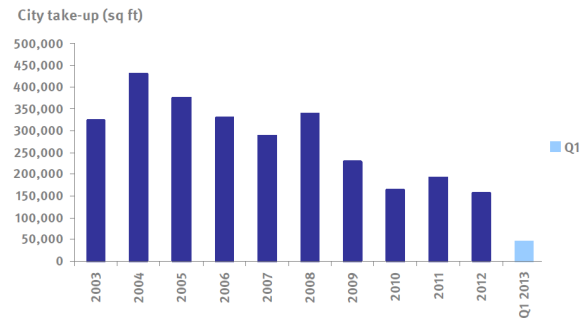
NEWCASTLE OFFICES

Market update Q1 2013

Knight Frank

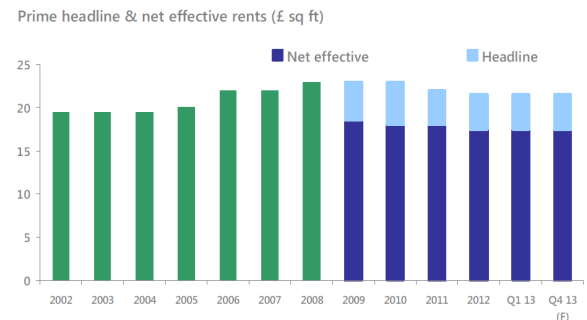
Key highlights

- Transactional activity in the city centre amounted to 44,124 sq ft in Q1, up considerably on the Q4 figure and 9.5% up on a year ago.
- The availability of Grade A space in the city centre was virtually unchanged on Q4 at just under 260,000 sq ft. Vacancy rates also remained static at 8.0%. However, on a positive note, active named requirements rose to 243,000 sq ft – the highest since Q1 2011.
- Prime rents were also unchanged in Q1, with the headline figure standing at £21.50 per sq ft and the net effective rent at £17.50 per sq ft.



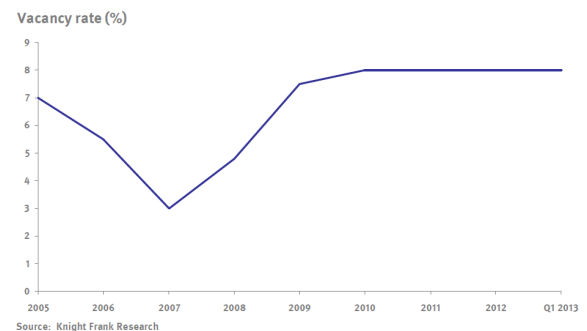
Office gossip

- The majority of requirements remain in the under 5,000 sq ft size bracket. The largest city centre deal was a freehold purchase by Solutions Recruitment of 112-118 Pilgrim Street at an undisclosed sum.
- Other notable lettings included Locus Plus at Commercial Union House (7,770 sq ft) and Roberston Groups' lease at their own Baltic Place scheme (7,590 sq ft). Out-of-town take-up was also up significantly, with 76,000sq ft of take-up at Quorum Business Park alone.
- The refurbishment of Pearl Assurance House has commenced which will bring 38,000sq ft of high quality refurbished accommodation to the market later this year.



Looking ahead

- While rental levels are unlikely to see any growth in the short term, values are at least being supported by a declining supply of good quality space.
- The vacancy rate is expected to remain broadly at its current level over the coming months. This is because there is limited funding available for speculative development and supply and demand are in relative equilibrium.
- On the investment side, very limited activity has been in the prime office market although there has been good demand. The majority of available property is in the out-of-town parks where values are largely depressed as a consequence of distressed selling and over-supply.



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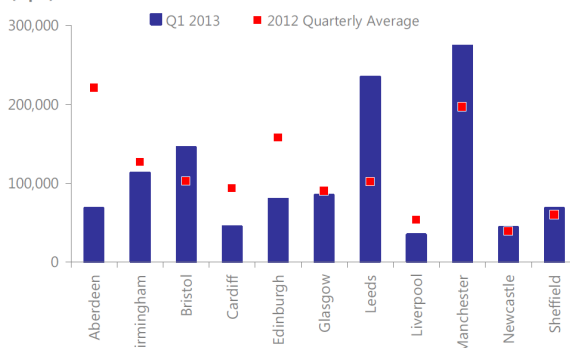
UK REGIONAL OFFICES ROUND-UP

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)

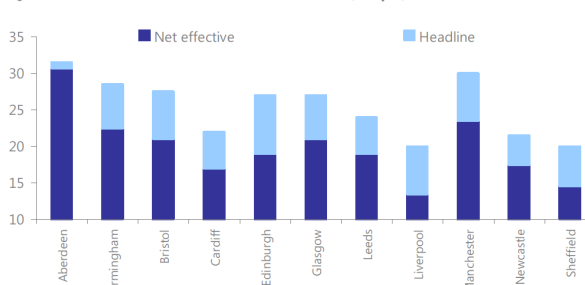


Source: Knight Frank Research

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

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