RESEARCH

# NEWCASTLE OFFICES

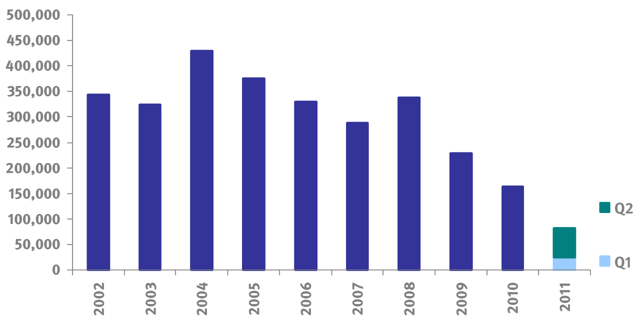
Market update Q2 2011

Knight Frank

## Key highlights

- City centre take-up totalled 56,181 sq ft in Q2, more than double Q1's subdued total of 24,866 sq ft. Take-up over the first half of 2011 is a marginal 3% higher than that seen over the first half of 2010.
- The vacancy rate for prime city centre space stood at 8% in Q2, unchanged on Q1 although marginally higher than the middle of last year.
- New and Grade A availability is gradually being eroded, standing at 362,467 sq ft at the end of Q2, down 13% on Q2 2010.
- Prime headline rents stood at £22.00 per sq ft in Q2, down from £23.00 per sq ft a year ago.

City centre take-up (sq ft)

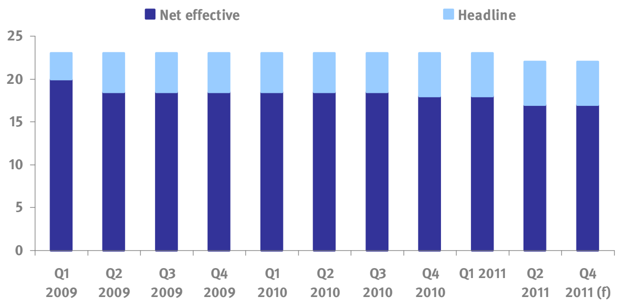



Source: Knight Frank Research

## Office gossip

- Notable transactions in Q2 included Scott Logic's lease at 1 Centre Parkway totalling 10,000 sq ft and Qubic Accountants' leasing of 8,500 sq ft at the 5th Floor, Central Square South, at an agreed headline rent of £19.50 per sq ft. In July, GVA also opened their new office in Central Square South.
- The majority of demand continues to emanate from occupiers looking for small offices ranging from 2,000 sq ft to 10,000 sq ft. Indeed, all transactions which competed in Q2 were sub 10,000 sq ft.
- Reflecting the satisfaction of several requirements in Q2, total active demand fell sharply to 134,300 sq ft by the end of the quarter.

Prime headline & net effective rents (£ sq ft)

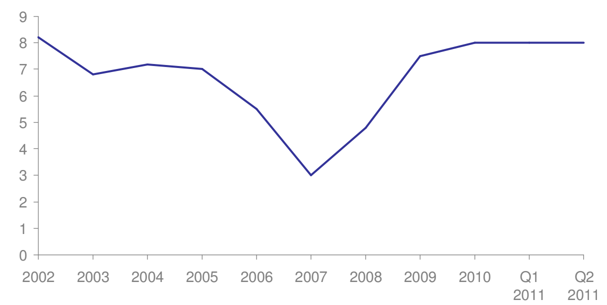



Source: Knight Frank Research

## Looking ahead

- The remainder of 2011 is expected to follow the pattern of 2010. No new development is taking place while demand from the public sector will be restrained given the austerity measures currently underway.
- Both headline and net effective rents are expected to remain broadly unchanged this year and incentives are also expected to remain at their current level.
- Given the current requirements are generally for smaller lot-sizes, we expect landlords to increasingly consider sub-dividing their properties into smaller units in order to meet the type of demand currently in the market.

Vacancy rate (%)




Source: Knight Frank Research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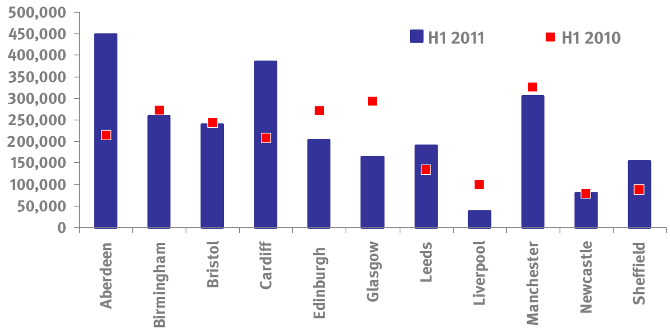
# UK REGIONAL OFFICES ROUND-UP

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)

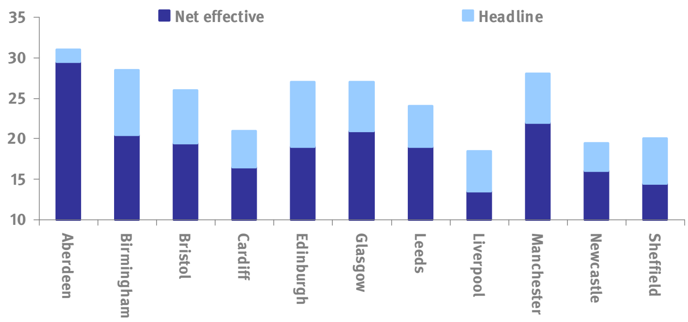



Source: Knight Frank Research

## 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%** | ◄ ► |