RESEARCH

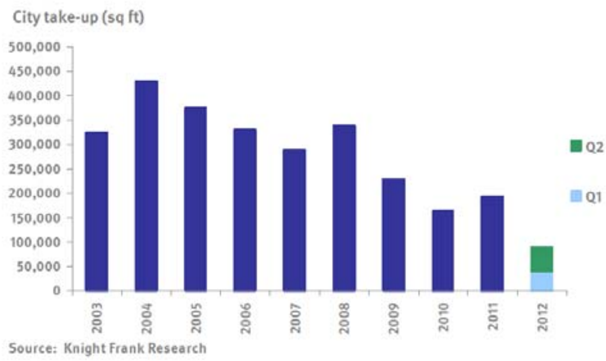
NEWCASTLE OFFICES

Market update Q2 2012

Knight Frank

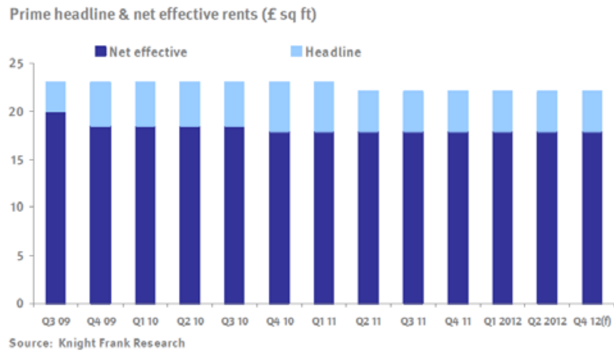
Key highlights

- Activity continues at a moderate pace, with city centre Q2 take-up reaching 47,833 sq ft, marginally up on Q1. However, the current level of take-up is still significantly lower than the long term average. Active named requirements for the city centre in Q2 were reported to be just 95,000 sq ft.
- Prime headline rents remained unchanged on Q1 at £21.50 per sq ft and net effective rents were also stable at £17.50 per sq ft – down from £23.00 in mid-2010.
- Availability continues to decline, with the amount of available new and Grade A space falling to 274,187 sq ft - down by 24% on June 2011, although the Q2 vacancy rate was unchanged at 8%.



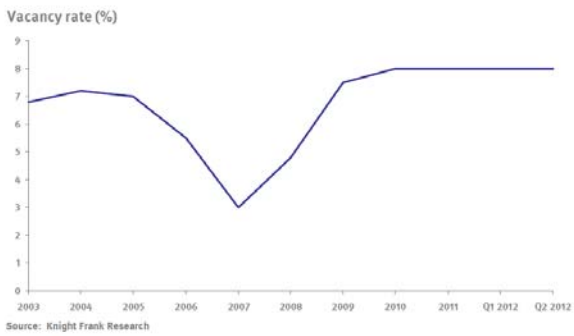
Office gossip

- Active named requirements declined sharply in Q2 to 95,000 sq ft, driven by the significant fall in larger foot loose enquiries. The average size of deal is estimated to be just 3,400 sq ft.
- There were a total of 14 deals completed in Q2 in the city centre. The largest deal was the letting of 8,461sq ft at St James Gate to Scott Logic. Other notable lettings included Technip Offshore's acquisition of 7,581sq ft at Baltic Place and Pertemps' 4,448 sq ft deal at No 2 Cathedral Square.
- Limited investment activity was reported in Q2, reflecting a combination of subdued investor sentiment and a shortage of buying opportunities.



Looking ahead

- Occupiers are expected to remain cautious about expansion, given the continuing concerns over the wider economy and the Eurozone crisis.
- With enquiry levels down significantly during Q2, we expect take-up to remain relatively thin in the next six months.
- With no funding currently available for speculative development, combined with weaker occupier demand and availability, the vacancy rate is expected to remain broadly at its current level over the coming months.



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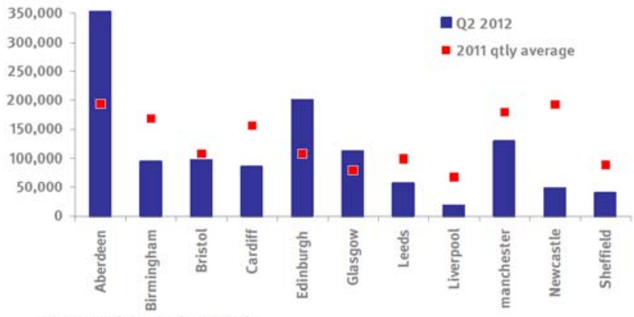
UK REGIONAL OFFICES ROUND-UP

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)

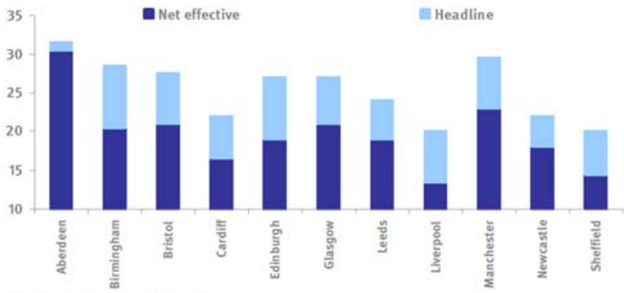


Source: Knight Frank Research

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