



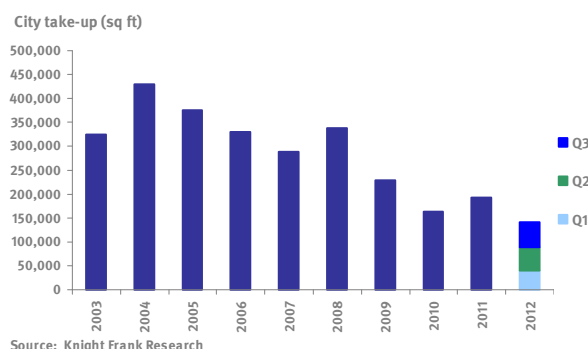
NEWCASTLE OFFICES

Market update Q3 2012

Knight Frank

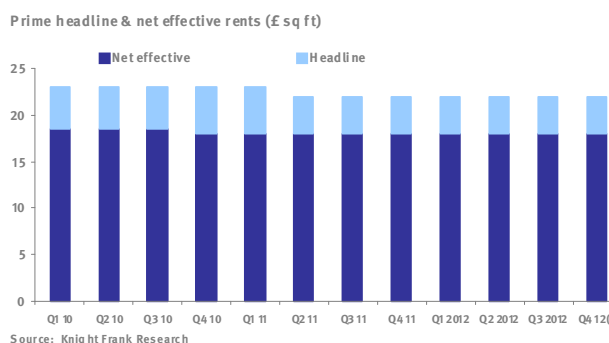
Key highlights

- In Q3, city centre take-up amounted to 52,729 sq ft, up on Q2 but some 40% lower than Q3 2011. Leasing deals have again been concentrated at the sub-5,000 sq ft end of the market. On a positive note, active named requirements increased on Q2 to 111,500 sq ft, although this is less than half the level seen at this point last year.
- The availability of Grade A space has now been falling steadily for over two years and reached 259,333 sq ft in Q3, compared with over 400,000 sq ft in early 2010. However, the vacancy rate was unchanged at 8%.
- Despite the continued decline in supply, prime headline rents remained unchanged at £21.50 per sq ft and net effective rents were also stable at £17.50 per sq ft.



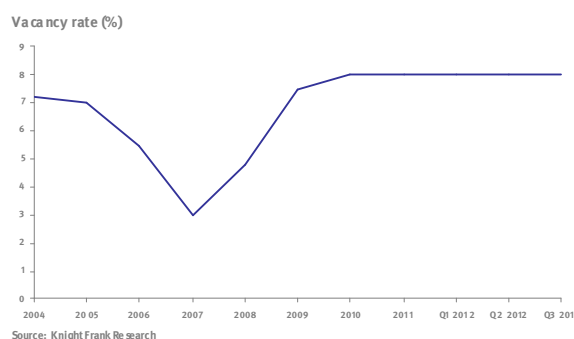
Office gossip

- The most significant letting in Newcastle city centre in Q3 was at Wellbar Central, where DAC Beachcroft has taken 11,354 sq ft on the 9th floor of the building. The firm has signed a 10-year lease, paying £21.50 per sq ft.
- The largest letting in Q3 was at Clavering Place, where Newcastle Business Village has signed up for 14,500 sq ft to run a serviced office centre. The only other letting above 5,000sq ft was at Gainsborough House where Manpower has taken a suite on the second floor (6,046sq ft) at a headline rent of £16.00 per sq ft.
- In the Tyneside out-of-town market take-up for the quarter was 77,000 sq ft, which is down 32,000 sq ft on Q2. The largest letting in the North East Region was at Lingfield Point, Darlington, where Amec has taken 48,000 sq ft.



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.
- Despite the recent increase in requirements – one or two of which may be sizeable – occupiers are cautious and activity is expected to remain muted in the run-up to the year-end.
- On the investment side, recent activity has been seen in the leisure and student accommodation sectors. However, the office market has been quiet, with little stock of any note currently on the market.



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UK REGIONAL OFFICES ROUND-UP

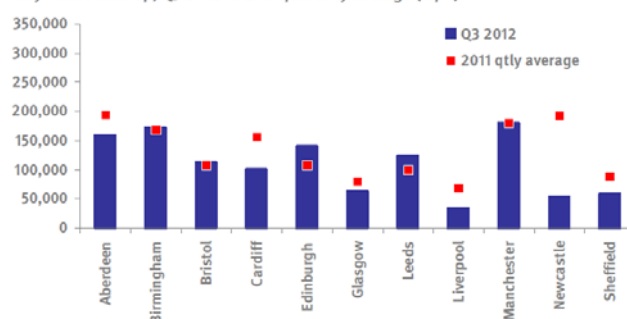
Q3 2012



Occupier demand

- Office take-up across the eleven regional cities continued to be subdued, totalling 1,195,011 sq ft during Q3 2012 - down 15% on Q3 2011 and also down 16% on Q2 2012. Take-up in the eleven cities combined for the first nine months of 2012 was 7% down on the same period in 2011.
- Similar to the previous quarter, a number of markets experienced lower take-up in Q3 2012 compared with the 2011 quarterly average. Take-up was strongest in Edinburgh and Leeds, with Birmingham, Bristol and Manchester also experiencing just above average activity during the quarter.
- Occupiers continued the 'fight to quality' in most markets. We have seen renewed requirements from professional services firms prompted by forthcoming lease expiries.

City centre take-up, Q3 2012 vs 2011 quarterly average (sq ft)

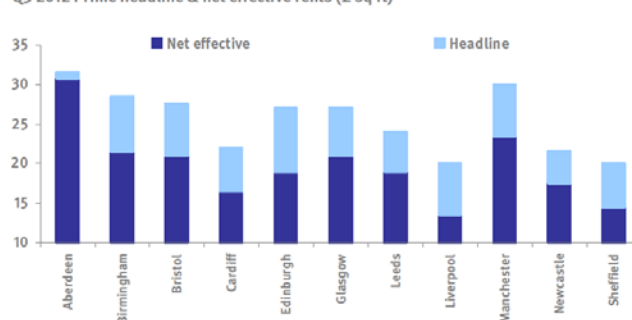


Source: Knight Frank Research

Supply and rents

- The limited amount of new space brought to the market in Q3 resulted in another fall in availability, with total new Grade A supply across the region amounting to 3,230,062 sq ft – 2.4% below the Q2 2012 total.
- While prime headline rents are unlikely to increase from their current levels before the year-end, we do anticipate rent free incentives will harden in 2013 as Grade A supply becomes even more restricted.
- Speculative development activity remains generally limited. At the end of Q3 2012, speculative development across the 11 cities combined was up 17% on Q2 2012 but down 12% on Q3 2011. Birmingham and Manchester are the only two cities which have in excess of 100,000 sq ft underway.

Q3 2012 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Q3 investment turnover was £477m outside London and the South East, an improvement on Q2 but nevertheless 45% below the 10-year quarterly average.
- The largest single transaction in Q3 was Union Investment's £60m purchase of 1 George Square in Glasgow, reflecting a net initial yield of c.6.25%.
- There remains sustained strong investor interest for prime office stocks. However, a major barrier to activity remains a lack of suitable product, namely prime, long-income assets.
- While Q2 brought a softening in prime office yields in the regions, prime yields were largely unchanged in Q3, with the exception of Liverpool which prime yields moving out by 25bps to stand at 7.50%. Yields on secondary assets remain vulnerable to a further outward shift.

Prime office yields

	2011	2012			Yield sentiment
	Q4	Q1	Q2	Q3	
Aberdeen	6.25%	6.25%	6.50%	6.50%	◀ ▲
Birmingham	6.00%	6.25%	6.50%	6.50%	◀ ▲
Bristol	6.25%	6.25%	6.50%	6.50%	◀ ▲
Cardiff	6.25%	6.25%	6.50%	6.50%	◀ ▲
Edinburgh	6.25%	6.25%	6.50%	6.50%	◀ ▲
Glasgow	6.25%	6.25%	6.50%	6.50%	◀ ▲
Leeds	6.25%	6.25%	6.50%	6.50%	◀ ▲
Liverpool	7.00%	7.00%	7.25%	7.50%	◀ ▲
Manchester	6.00%	6.00%	6.50%	6.50%	◀ ▲
Newcastle	6.50%	6.50%	6.75%	6.75%	◀ ▲
Sheffield	7.00%	7.00%	7.25%	7.25%	◀ ▲

Source: Knight Frank Research

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