



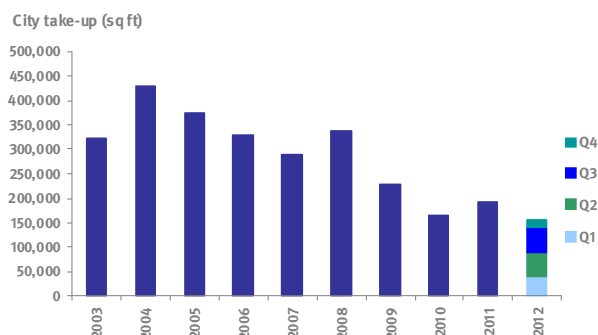
NEWCASTLE OFFICES

Market update Q4 2012

Knight Frank

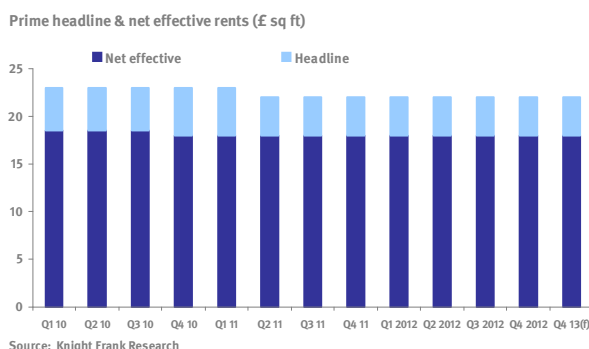
Key highlights

- Q4 2012 saw a sharp reduction in take-up in the city centre to just 15,494 sq ft, with only six deals completed and an average size of letting at 2,580 sq ft. Take-up for 2012 as a whole amounted to 156,329 sq ft – some 18.5% down on 2011.
- The availability of Grade A space was virtually unchanged on Q3 at just under 260,000 sq ft. However, on a positive note, active named requirements rose to 152,220 sq ft – the highest since Q1.
- Prime rents were also unchanged in Q4, with the headline figure standing at £21.50 per sq ft and the net effective rent at £17.50 per sq ft.



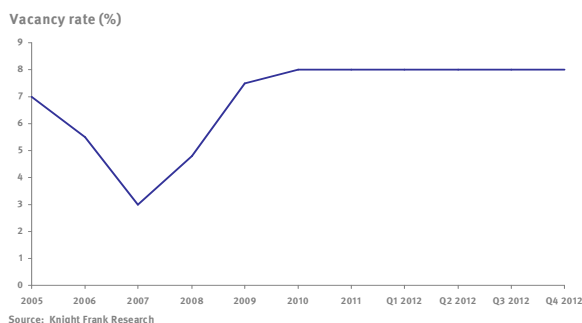
Office gossip

- The largest city centre letting of Q4 was 4,306 sq ft to Rathbone Brothers PLC at Earl Grey House on Grey Street at a rent of £16.50 per sq ft. Details of the incentive package remain confidential.
- The largest letting in the Tyneside out-of-town market was 29,400 sq ft at Partnership House, where Amec has taken a new lease at an undisclosed rent.
- Other notable out-of-town lettings included Creating Careers Limited at Quorum Business Park (10,500 sq ft) and Doosan at Mayflower House on Team Valley (14,500 sq ft).
- The sale of Baron House opposite Central Station remains the largest city centre deal this year, selling for £4.5m. Secondary market sales have been more prevalent, albeit at heavily discounted prices.



Looking ahead

- Prime rents are being supported by a declining supply of good quality space, although growth is unlikely in the short term.
- Investment pricing for prime stock continues to hold firm, but continues to drift out on assets which are secondary in terms of quality, location or lease length.
- There are signs of increasing interest in Newcastle and the wider north east area from companies in the re-shoring sector, helped by the cost effective space and more flights between Newcastle and Aberdeen.



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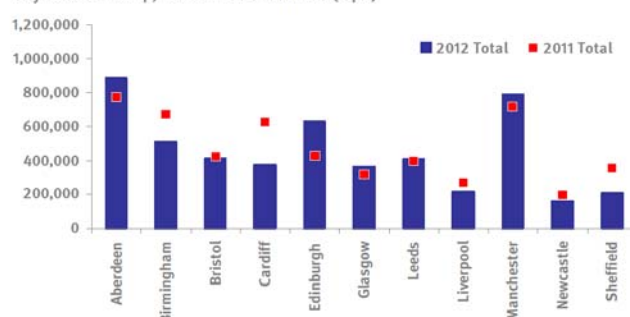
UK REGIONAL OFFICES ROUND-UP

Q4 2012

Occupier demand

- Take-up in the key regional office markets was generally resilient in Q4 2012. Across the 11 markets combined, total quarterly take-up of 1.22m sq ft was up 2% on Q3, although, 2012 as a whole was marginally lower than 2011.
- Annual take-up for 2012 totalled 4,930,430 sq ft - some 4% down on 2011 and 11% down on the 10-year annual average. A number of markets enjoyed stronger 2012 take-up compared with 2011 including Edinburgh (+47%), Glasgow (+15%), Aberdeen (+14%), Manchester (+10%) and Leeds (+3%).
- Transactions completed in 2012 comprised predominantly secondary space and relatively small lot sizes. However, the 'fight to quality' in most markets continued and we have seen renewed requirements from professional services firms prompted by forthcoming lease expiries.

City centre take-up, 2012 total vs 2011 total (sq ft)

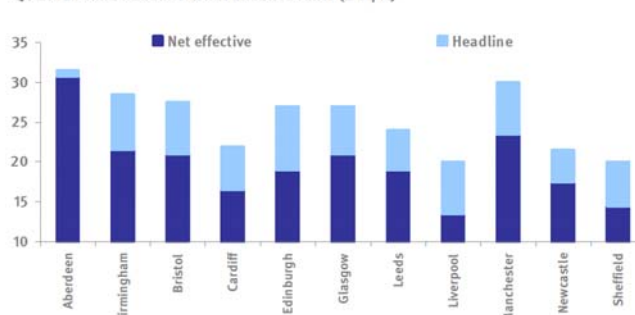


Source: Knight Frank Research

Supply and rents

- While the speculative development pipeline remains generally limited, Q4 saw another quarterly increase from Q3's 661,431 sq ft to 734,545 sq ft. Despite the improved speculative activity, general sentiment remains cautious and developers will demand a significant pre-let before any large new-build scheme can progress.
- Supply continues on a downward trend in the absence of new completions. At the end of Q4 2012, Grade A supply across the 11 cities combined was down 18% on Q4 2011, with the largest falls seen in Edinburgh (-38%), Glasgow (-36%), Leeds (-30%) and Birmingham (-27%).
- Headline rents remained stable in Q4. However, more generally, incentive packages are either hardening or expected to harden across the regional cities, as a result of this steady erosion of Grade A supply.

Q4 2012 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- The latest figures from Property Data reveal that Q4 investment turnover was c.£550m outside London and the South East, an improvement on Q3 but nevertheless 36% below the 10-year quarterly average.
- There remains strong investor interest in prime office stock, although a shortage of suitable product, namely prime and long-income assets, remains a major barrier to activity. In the secondary spectrum, investor interest is highly selective, confined to good quality secondary stock where there is potential to add value through asset management.
- Generally, prime yields were unchanged in the regional cities in Q4 albeit this is based largely on sentiment. Secondary office yields are under pressure and sentiments remains cautious.

Prime office yields

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

Source: Knight Frank Research

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