

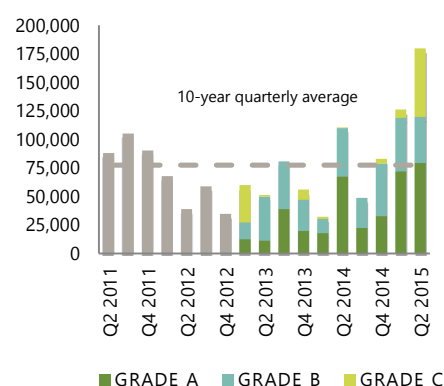
SHEFFIELD OFFICES

MARKET UPDATE H1 2015

Occupier market

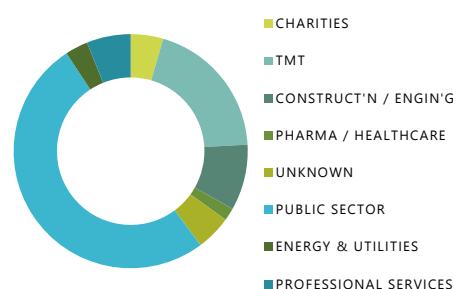
- The occupier market activity reached a new high in H1, as take-up totalled 306,000 sq ft, the highest H1 recorded in Sheffield. This figure exceeds the total take-up for 2014, placing Sheffield on course for a record year.
- Both Q1 and Q2 set new quarterly records for take-up, with figures of 126,000 sq ft and 179,000 sq ft respectively.
- Nearly 50% of take-up in H1 involved new and high quality office premises, increasing the pressure on Grade A supply. However, as the development of 3 St Paul's nears completion (December 2015), the city centre will benefit from 76,000 sq ft of Grade A space, providing a prime opportunity in the heart of the city to potential occupiers. In addition, the ongoing refurbishment of Milton House will provide another 35,000 sq ft of office space on completion (due Q1 2016).
- Deals in H1 were largely driven by the Public Sector and the Technology, Media and Telecoms (TMT) industry, which collectively accounted for nearly 70% of total take-up. The two main universities in Sheffield were among the most active occupiers, with the University of Sheffield purchasing 65,500 sq ft at V2 Velocity in March 2015, while Sheffield Hallam University secured 50,218 sq ft at Fitzalan Square.
- However, it is possible that much of the demand in H1 may have been satisfied, which might explain why active requirements have decreased by 25% on H2 2014. As a result, activity may ease in the second half of the year.
- Current market sentiment suggests that prime headline rents could rise for the first time in five years, from £20 per sq ft to £22 per sq ft, by the end of 2015, potentially faster than all other regional cities. Nevertheless, Sheffield still offers occupiers one of the most cost-effective business locations across the UK's regional cities.
- With a record year for take-up in prospect, it will be interesting to see if the steady rise in activity encourages developers to adopt a more proactive stance in this buoyant market.

FIGURE 1
Take-up by grade (sq ft)



Source: Knight Frank LLP

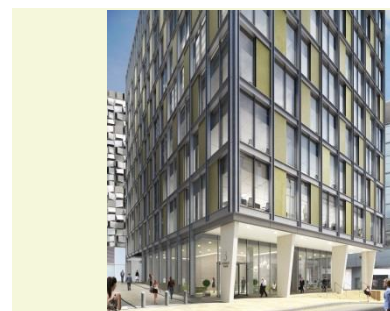
FIGURE 2
H1 2015 take-up by sector



Source: Knight Frank LLP

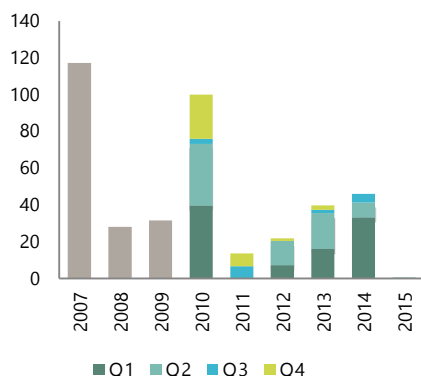
Agent's view

Sheffield's office market has continued to impress over the last two years, and we expect this new-found interest to continue over the course of 2015. While there has been a reduction in the level of Grade A stock available, the development of 3 St Paul's and the refurbishment of Milton House, which are due to be completed in Q4 2015 and Q1 2016 respectively, could alleviate some of the short term supply pressure. The possibility of a record year for take-up will undoubtedly improve the perception of the city, and could hopefully provide the right signal for developers to undertake projects in the city.



3 St Paul's (76,000 sq ft), currently under construction, is due to be completed by Q3 2015.

FIGURE 3
Sheffield offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

Investment market

- In contrast to the occupier market, Sheffield's investment market was relatively inactive in H1, with transaction volumes amounting to just £0.5m. This provides little comparison to previous H1 results, which have seen an average of £34m of investment between 2010-2014.
- One of the deals involved the purchase of Milton House by Westfield Health in March 2015 for an undisclosed fee, which remained confidential at the time of writing. The other investment deal saw a private investor purchase 3 Carbrook Triangle for £0.5m in April, reflecting a net initial yield of 6.9%.
- The market is currently characterised by a lack of quality office stock being brought to market, which has severely limited buying opportunities. The development at 3 St Paul's which is due to be completed in late 2015 could generate fierce competition, as investors look to take advantage of the first new office development since the recession in 2008.
- In Q1 2015, planning permission was granted for 'Sheffield's Chinatown' – an 80,000 sq ft mixed development thought to be largely backed by Chinese investors. While this scheme is not centred on offices, it is expected that it will attract significant attention from the far-east which will benefit Sheffield's occupier and investment market. This scheme is expected to be completed in 2018.
- At 6.75%, prime office yields in Sheffield continue to be the highest among other regional centres. The city therefore offers an attractive option for investors looking for higher returns. However, with only limited opportunities to acquire office assets, entry into the Sheffield market is somewhat difficult.
- The anticipated interest in 3 St Paul's will provide a good indication as to where market sentiment is and how it could evolve. However, it is difficult to predict how the market will fare over the coming months, given the current lack of activity.

TABLE 1

Selected investment transactions in H1 2015

Date	Address	Purchaser / Vendor	Price	NIY
Apr 15	3 Carbrook Triangle	Private Investor / Private Investor	£0.51m	6.9%

Source: Knight Frank LLP



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