

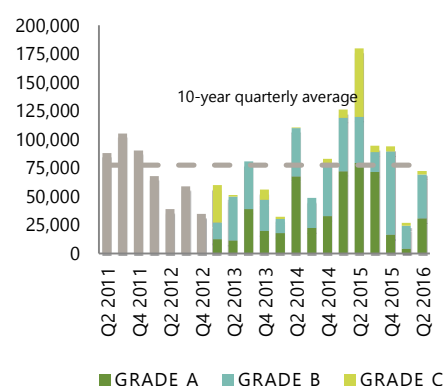
SHEFFIELD OFFICES

MARKET UPDATE H1 2016

Occupier market

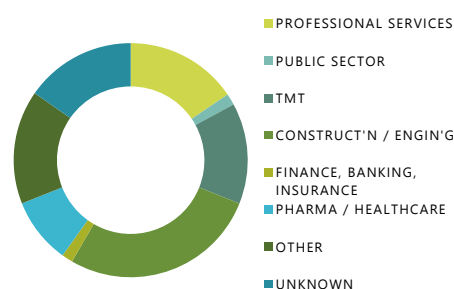
- Much of 2016 was clouded by the EU referendum, which brought some uncertainty across a number of commercial property sectors. In the case of Sheffield, activity in the occupier market diminished somewhat in comparison to previous periods.
- Take-up reached 99,480 sq ft in H1, which is down 47% on H2 2015 and more importantly represented the lowest half-year take-up since H2 2012.
- Ironically, activity recovered significantly in Q2 to broadly in line with the 10-year quarterly average, despite the risks which mounted as the EU referendum date (June 23rd 2016) drew closer. This sets up for an interesting Q3 and Q4, which could provide a better measure of occupier sentiment now that the decision to exit the EU is known.
- Firms within the construction and engineering sector were the most active in H1, accounting for 26% of total take up. This was primarily due to Arup's occupation at 3 St Paul's Place (16,000 sq ft).
- All but one deal in H1 involved Grade A and B offices, which provides some indication of the type of office space specification which may be driving occupier expansion / relocation plans.
- Evidently, this has led to diminishing available stock; however the lack of stock will be eased by the continued redevelopments of Milton House and Steel City House which will offer 30,000 and 67,000 sq ft respectively. The redevelopment of Milton House is expected to complete in H2 2016, while Steel City House is anticipated to complete by the end of H2 2017.
- In Q2 2016, construction begun on a new development at Digital Campus - Acero Works. This scheme will provide a new 80,000 sq ft office space facility over 6 floors and will be served with close proximity to Sheffield's railway station and bus interchange. This is expected to be released in H2 2017.
- With sentiment impacted by the EU referendum and the absence of new stock in H1, prime headline office rents remained at £23 per sq ft. However, as the market welcomes the arrival of new schemes, we expect prime headline office rents to rise to £24 per sq ft by the end of 2017.

FIGURE 1
Take-up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2
H1 2016 take-up by sector



Source: Knight Frank LLP

Agent's view

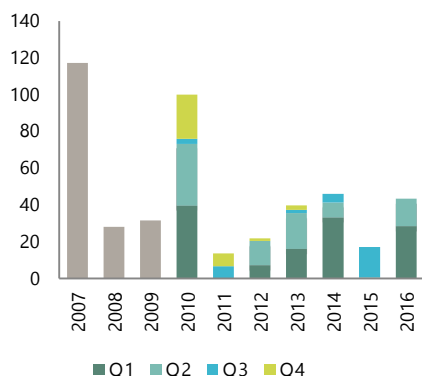
The run-up to the EU referendum in June 2016 had a profound impact on the occupier market in H1 and could to some extent explain why we saw the lowest take-up in almost 4 years. However, the rise in activity in Q2 despite the risks associated with the referendum does demonstrate that some occupiers were willing to go-forth with their space requirements. The market is still underpinned by a shortage of supply and while the 'Brexit' may lead to further uncertainty in the foreseeable future, we are confident that current appetite for new office space will be satisfied once the market welcomes Milton House and Steel City House.



Steel City House, a 67,000 sq ft office scheme is anticipated to complete by H2 2017.

FIGURE 3

Sheffield offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

Investment market

- As Knight Frank predicted, Sheffield's investment market showed a marked improvement in investment volumes in H1. A total of £43.26m worth of transactions across five deals were completed in H1, which already exceeds volumes in the entire 2015.
- This was boosted by the joint venture deal involving Arzan Wealth (Kuwait) & Sidra Capital (Saudi), which acquired Riverside East for £23.36m in January 2016. This stands as the largest deal in Sheffield in 2016 so far and marks only the first time in nearly two years in which a deal has exceeded £20m.
- Other deals which concluded in H1 include the deal which saw an institutional investor acquire 150 Arundel Gate for £8.7m and Regional REIT Ltd purchase Aspect Court for £6.3m reflecting a net initial yield of 7.85%.
- In addition, as the market continues to process the EU referendum result, there are further buying opportunities in Sheffield particularly for overseas investors as a result of the weakened pound environment. While vendors have in the past shown reluctance to dispose assets, the anticipated influx of overseas investors into the market may soften previous resistance.
- With investment sentiment on a national scale falling, investors will be on the search for high-yielding assets. This places the spotlight back on to Sheffield, where prime office yields remain at 6.50%, offering superior returns relative to other regional cities.
- As a result of the change in market dynamics, there is a possibility that by the end of the year, office investment could reach levels which mirror 2010 volumes.



In June 2016, Derwent House was acquired by an institutional investor for £8.7m.

TABLE 1

Selected investment transactions in H1 2016

Date	Address	Purchaser / Vendor	Price	NIY
Jun-16	Derwent House	Institutional Investor / N/A	£8.70m	N/A%
May-16	Aspect Court, Pond Hill	Regional REIT Ltd / Delta Properties (Israel)	£14.00m	6.99%
Mar-16	Sheffield Business Park	Infinity Investments / PITCH	£2.50m	8.50%
Jan-16	Riverside East, Millsands	Arzan Wealth (Kuwait), Sidra Capital (Saudi) / Caudwell Properties Ltd	£23.36m	6.73%

Source: Knight Frank LLP



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