

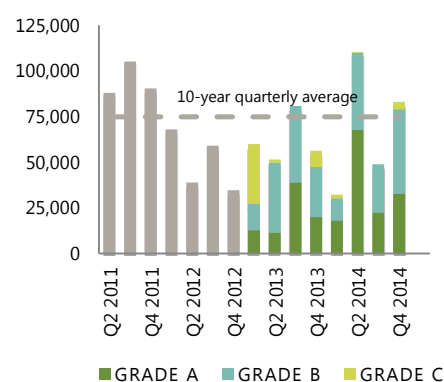
SHEFFIELD OFFICES

MARKET UPDATE H2 2014

Occupier market

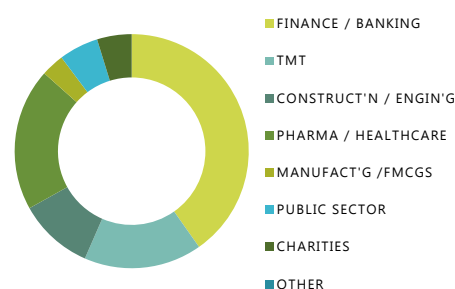
- Take-up in Sheffield rose to 275,000 sq ft in 2014, the third consecutive annual increase, a sign that market sentiment is steadily improving following a period of volatility.
- 2014's take-up represented an 11% increase on 2013 and a 37% increase on 2012.
- Supported by a late surge of activity in Q4, H2 saw 30 leasing transactions totalling 132,000 sq ft.
- 40% of take-up in H2 involved Grade A offices, while Grade B offices accounted for 55%.
- The Finance/Banking/Insurance sector dominated activity, accounting for 61% of the total take-up in H2. Other sectors that were active in the market included Pharmaceutical/Healthcare and Telecommunications, Media and Technology (TMT) which accounted for 30% and 25% respectively. This is similar to the trend seen in H1.
- The most notable deals took place in Q3, with Servelec occupying 20,705 sq ft at The Straddle, whilst Instant Offices leased 11,500 sq ft at North Bank. Other deals saw PwC occupy 7,000 sq ft at No. 1 St Paul's Place and 'Places for People' move into a 7,000 sq ft space on the top floor of Saville House.
- Active demand stands at 250,000 sq ft as of Q4, an increase of 11% from Q2, whilst the level of available Grade A offices fell by 15% in the same period.
- The diminishing availability of Grade A stock and the continued increase in demand is expected to create upward pressure on prime headline rents. However, it could also provide the right signals for developers looking to satisfy market requirements.
- In the meantime, the market will be looking closely at the development of No.3 St Paul's in the city centre which is currently under construction. This scheme is expected to provide a much-needed 76,000 sq ft of Grade A stock upon its completion in the second half of 2015.

FIGURE 1
Take-up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2
H2 2014 take-up by sector



Source: Knight Frank LLP

Agent's view

Improved market sentiment has translated through to increased levels of take-up in 2014. While this comes as a positive to the city, there is a concern that this could be blighted by the lack of new forthcoming developments. No.3 St Paul's, the only scheme under construction, will at the very least alleviate the shortages of Grade A stock in the short term and is likely to boost prime headline rents in 2015 from £20 to £22 per sq ft.

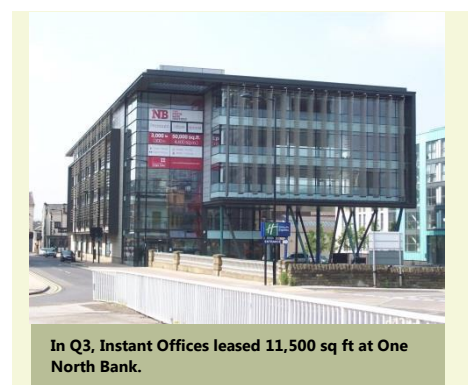
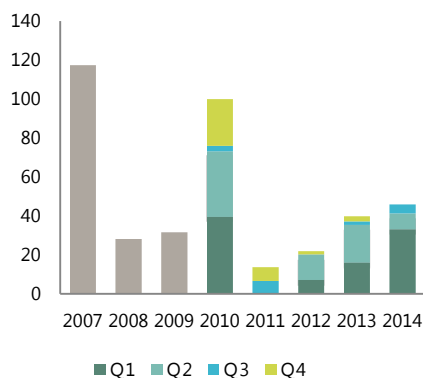


FIGURE 3
Sheffield offices investment turnover (£m)



Source: Knight Frank LLP, Property Data



This 57,000 sq ft scheme at St James House, was purchased in September 2014 by MCR property for £2.3m.

Investment market

- Investment volumes rose to £46m in 2014, a 15% increase on 2013. This represents the fourth consecutive annual increase in office investment, reflecting an improvement in investor confidence.
- A large proportion of total investment came in H1, following the purchase of Pomona Business Centre by American Realty Capital for £31.40m (reflecting a NIY of 8.22%). Similarly with previous years, activity in H2 was unable to match H1.
- Israeli company Delta Properties purchased Mayfield Court for £2.4m (reflecting a NIY of 16%) and MCR Property acquired St James House for £2.3m. These were the only two transactions in H2.
- No transactions were recorded during the fourth quarter, the first time this has occurred since Q4 2008.
- Nevertheless, activity is expected to rise once the supply of prime office stock begins to increase, with a number of UK institutions and overseas investors declaring strong willingness to enter the market should the right opportunity arise.
- After a period which saw yields harden by 100bps from 2013, Prime office yields remained at c.6.25 throughout 2014.

TABLE 1
Selected investment transactions in H2 2014

Date	Address	Purchaser / Vendor	Price	NIY
Sep 14	St James House, Vicar Lane	MCR Property / Unknown	£2.3m	8.22%
Jul 14	Mayfield Court, West Street	Delta Properties (Israel) / Charles Street Buildings	£2.4m	16%

Source: Knight Frank LLP



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