

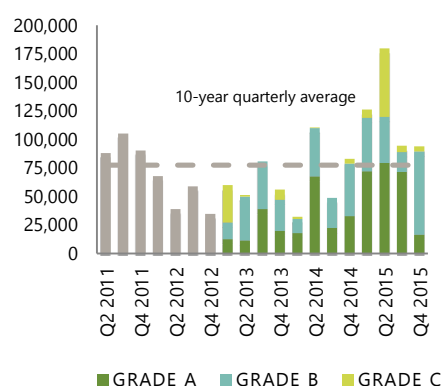
SHEFFIELD OFFICES

MARKET UPDATE H2 2015

Occupier market

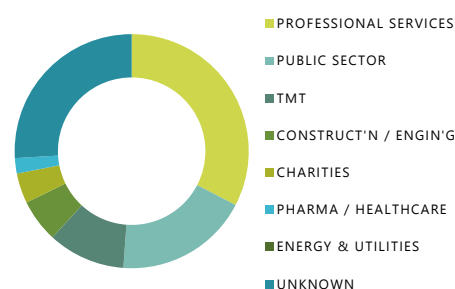
- Occupier take-up in the second half of the year reached 188,506 sq ft. This followed an exceptionally strong first half, bringing total office take-up for the whole of 2015 to 494,283 sq ft. This is 80% higher than the previous year and 57% above the five year annual average; it is also the highest level of annual take-up on record since 2002, when the data series first began.
- Leasing transactions in H2 2015 were boosted by the University of Sheffield's acquisition at Cathedral Court of c. 10,000 sq ft of retail ground floor space and 30,000 sq ft of office accommodation above, for their own occupation. Other notable deals include solicitors Wake Smith's occupation of c.12,500 sq ft in the Velocity Building, Fragomen's completion on 12,000 sq ft of office accommodation at Saville House and XLC Telecom's lease of an additional 14,000 sq ft at Northbank in July 2015.
- Overall, deals were largely driven by the Professional services, which accounted for almost a third of total space transacted in H2. The Public sector and companies in the Technology, Media and Telecoms (TMT) sector were responsible for a further 18% and 11%, respectively, of total take-up in H2 2015.
- The majority of take-up in H2 was Grade B quality, reflecting the lack of available Grade A space. However, the completion of 3 St Paul's in December 2015 has brought an additional 76,000 sq ft of Grade A space to the city centre.
- With the completion of 3 St Paul's Place, headline rents in the prime city centre area have now moved up to £23.00 per sq ft.
- Supply is set to be boosted in 2016. Major schemes planned for 2016 include the redevelopment of Milton House, comprising c. 40,000 sq ft of Grade A space, and work is also due to commence onsite for Steel City House in the city centre, a scheme totalling 66,000 sq ft, and due for completion in Q4 2016.
- In addition to the above, a further development at the Digital Campus is planned for later in 2017, will bring an additional 80,000 sq ft of Grade A offices to the Sheffield office market.

FIGURE 1
Take-up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2
H2 2015 take-up by sector



Source: Knight Frank LLP

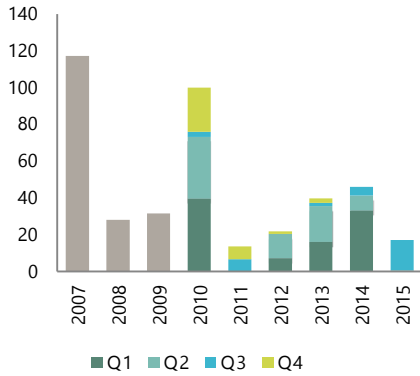
Agent's view

A fantastic end to a great year in 2015 with the highest office take up for some considerable time in Sheffield. When looked at in detail a number of transactions from both Universities have taken a large amount of office stock out of circulation. However even stripping out these deals the take up for 2015 has been a great success, with over 350,000 sq ft of take-up – and with Knight Frank on the majority of the transactions. One concern is the lack of available Grade A stock moving forward; however the number of developments currently underway will help address these issues moving forwards.



XLC Telecom moved into Northbank in October 2014 and secured an additional 14,000 sq ft of city centre office space in July 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 H2, with transaction volumes amounting to just £16.53m. This brings the total for 2015 to £17.04m, compared with £66.58m in 2014. This is the lowest investment volume on record since 2011.
- While investor demand exists, the market continues to be characterised by a lack of quality office stock being brought to market, which has severely limited buying opportunities.
- There were just two deals in H2. Kames Capital purchased Ventana House at the Digital Campus for £14m from Scarborough Group International in August, at a net initial yield of 6.99%. The other deal saw Tyzack House at Broadfields Business Park purchased for £2.53m by a private investor in September, at a net initial yield of 8.64%.
- With prime office yields at 6.50%, Sheffield continues to offer an attractive option relative to other regional cities for investors looking for higher returns. However, with only limited opportunities to acquire office assets, entry into the Sheffield market is somewhat difficult.
- 2016 is expected to show a marked improvement in investment volumes. The development at 3 St Paul’s which is due to be completed in early 2016 could generate fierce competition, as investors look to take advantage of the last remaining office in this high profile location.

TABLE 1
Selected investment transactions in H2 2015

Date	Address	Purchaser / Vendor	Price	NIY
Sep-15	Tyzack House, Broadfields Business Park	Private Investor / Broadfields Park Ltd	£2.52m	8.64%
Aug-15	Ventana House, Digital Campus	Kames Capital/Scarborough Group International	£14.00m	6.99%

Source: Knight Frank LLP



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