RESEARCH

SHEFFIELD OFFICES

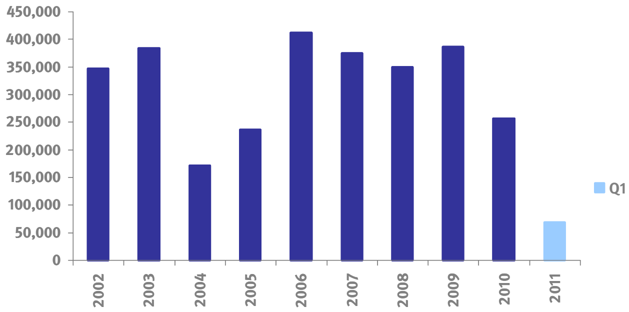
Market update Q1 2011

Knight Frank

Key highlights

- The Sheffield market made a solid start to 2011, with total office take-up of 68,104 sq ft in Q1, a 51% improvement on Q4 2010.
- Ventana House, located in the heart of the city centre, accounted for almost half of Q1 take-up alone. BSkyB acquired 23,577 sq ft over floors 1,2 and 3 (part), while the Coal Board Pension Trust and Michael Page took 5,773 s ft and 2,932 sq ft at the building respectively.
- Activity was quieter out-of-town, accounting for 24% of take-up in Q1 compared with closer to half of the total in 2010. Wassenburg’s 8,000 sq ft acquisition at Unit 2, Smithywood was the largest out-of-town transaction in the quarter.

Take-up (sq ft)

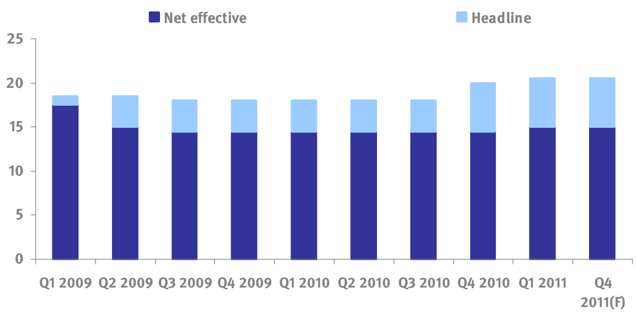


Source: Knight Frank Research

Office gossip

- Several notable deals are in the pipeline which should lead to an even stronger level of take-up in Q2, estimated at c.100,000 sq ft. Two key buildings are presently under, comprising Aspect Court (38,000 sq ft) in the city centre and Carbrook House (35,000 sq ft), out-of-town.
- A steady stream of new requirements have come to the market this year, with total active demand in excess of 200,000 sq ft, Two requirements are in excess of 25,000 sq ft while Plusnet are in the market for circa 40,000 sq ft.
- Following recent lettings at Ventana House (Digital Campus) and St Paul's Place, no Grade A space remains at these prime city centre locations.However, development oppertunities are available via pre-let arrangements.

Prime headline & net effective rents (£ sq ft)

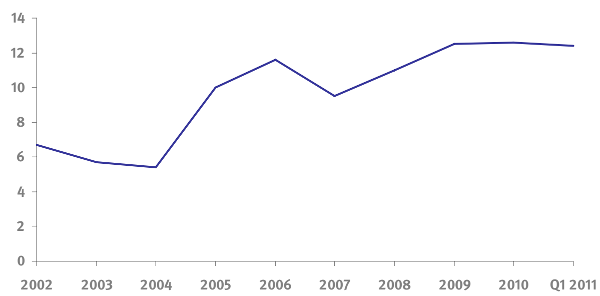


Source: Knight Frank Research

Looking ahead

- Despite ongoing pressure on the public sector, 2011 is shaping up to record stronger take-up in 2011 than 2010.
- Grade A supply will steadily diminish through 2011. Although headline rents are unlikely to rise again this year, incentives will harden which should lead to rising rents in net effective terms.
- However, we expect continued downward pressure on rents in the Grade B market, due to weak demand together with increasing supply generated by market churn and rationalisation in the public sector.

Vacancy rate (%)



Agency contacts

Tim Bottrill, Partner, Sheffield
+44 (0)114 272 9772
tim.bottrill@knightfrank.com

Peter Whiteley, Partner, Sheffield
+44(0)114 272 3903
peter.whiteley@knightfrank.com

Research contact

Oliver du Sautoy, Associate, Commercial Research
+44 (0)20 7861 1592
oliver.dusautoy@knightfrank.com

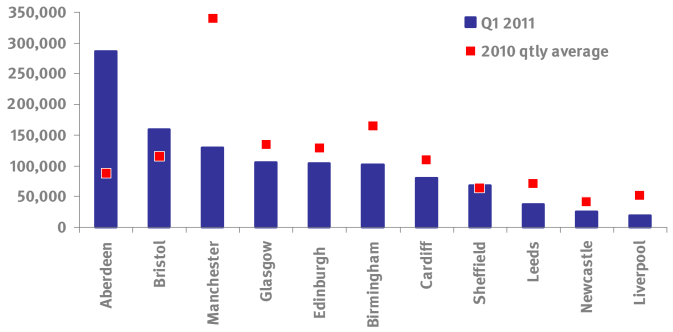
UK REGIONAL OFFICES ROUND-UP

Q1 2011

Occupier demand

- Following a robust 2010, most markets made a modest start to 2011. Q1 take-up fell short of the 2010 quarterly average in eight markets. This was most evident in Manchester, albeit 2010 was a remarkable year.
- The three exceptions were Sheffield, Bristol and Aberdeen, which all enjoyed more take-up in Q1 2011 compared with the 2010 average. Of these, Aberdeen stands out, with Q1 take-up of 287,000 sq ft exceeding its entire total for 2010.
- Despite the slow start to the year and ongoing concerns regarding public sector rationalisation, resilient take-up is expected in many markets in 2011, with Cardiff, Sheffield and Manchester expected to perform well.

City centre take-up, Q1 2011 vs 2010 quarterly average (sq ft)

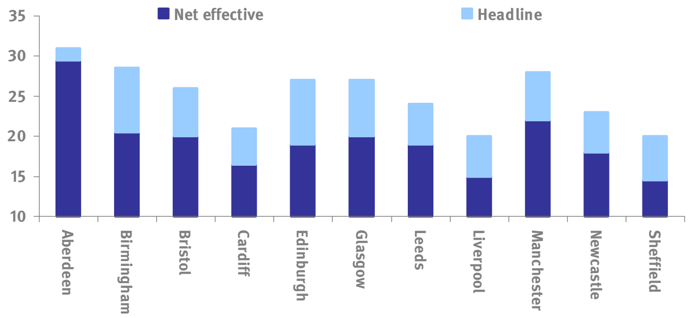


Source: Knight Frank Research

Supply and rents

- Speculative development activity remains limited, confined to only six of the 11 regional markets as at end Q1. Moreover, just two cities - Edinburgh and Bristol - have in excess of 100,000 sq ft underway.
- Many markets are heading towards a supply crunch, with Grade A availability down 31% year-on-year across all markets combined. The fall was 86% in Manchester, which has a very strong case for fresh development, finance permitting.
- Falling Grade A supply is starting to impact on pricing, albeit mostly in net effective terms so far. Incentives in Birmingham and Manchester hardened in Q1, with a further five markets forecast to follow suit during 2011. Aberdeen was the first market to see headline rents rise in 2011, rising from £30.00 per sq ft to £31.00 per sq ft during Q1.

Q1 2011 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Investment turnover for offices outside London and the South East was subdued in Q1. An analysis Property Data figures suggests c.£450m of turnover - in line with Q4 2010, but significantly down on Q1 2010.
- An ongoing shortage of buying opportunities for prime assets kept prime yields steady once again in Q1 2011. With the supply of prime stock likely to remain limited, pricing is expected to hold throughout 2011.
- In contrast, the supply of secondary stock is now increasing as banks are becoming more willing to offload property from their balance sheets. Consequently, secondary yields are expected to soften as more opportunities become available.
- Overseas investors remain largely absent from the regional office markets, save for several German Funds in search of large lot-sizes. However, this should change as overseas players seek higher yielding opportunities outside Central London.

Prime office yields

	2010			2011	Yield sentiment
	Q2	Q3	Q4	Q1	
Aberdeen	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Birmingham	5.75%	5.75%	5.75%	**5.75%**	◄ ►
Bristol	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Cardiff	6.25%	6.25%	6.25%	**6.25%**	◄ ►
Edinburgh	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Glasgow	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Leeds	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Liverpool	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Manchester	6.00%	6.00%	6.00%	**6.00%**	◄ ►
Newcastle	6.50%	6.50%	6.50%	**6.50%**	◄ ►
Sheffield	6.50%	6.50%	6.50%	**6.50%**	◄ ►