RESEARCH

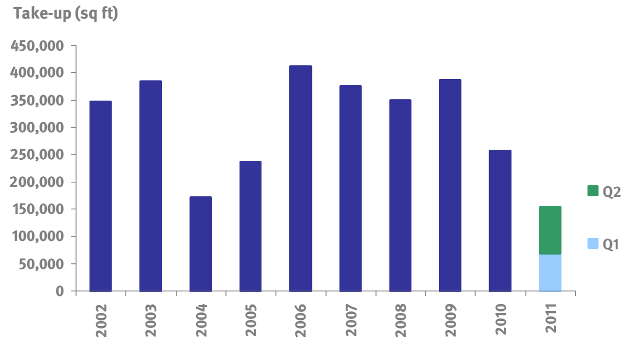
SHEFFIELD OFFICES

Market update Q2 2011

Knight Frank

Key highlights

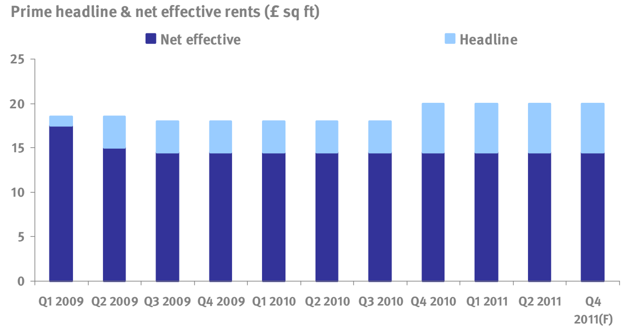
- Sheffield saw a relatively healthy 86,236 sq ft of take-up in Q2. This took the total for first half of 2011 to 154,340 sq ft, 77% higher than the first half of 2010.
- Sheffield Hallam provided the biggest deal in the quarter. The University agreed to 37,862 sq ft at Aspect Court as it seeks to expand its presence in the city centre.
- The one other Q2 deal in excess of 10,000 sq ft took place outside the city centre. Fulcrum Utility Services acquired 20,000 sq ft at Unit 2, Europa View, Sheffield Business Park as it opted to relocate its operation from Rotherham.



Source: Knight Frank Research

Office gossip

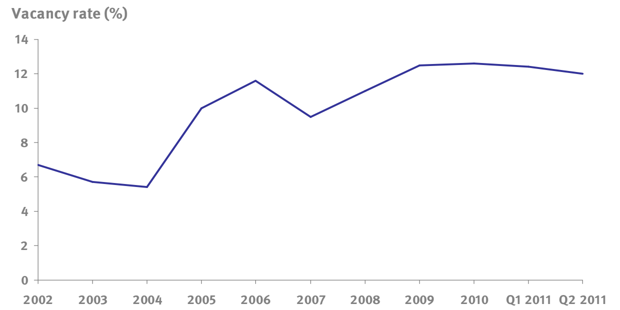
- Take-up for the remainder of 2011 is looking promising with a number of deals either already agreed or imminent in the initial part of Q3. South Yorkshire Police has committed to 35,000 sq ft at Carbrook House near Meadowhall, while OCLC will become the first tenant at Tiger Development's City Gate in the city centre, with a deal of c.11,000 sq ft likely to complete in Q3.
- Reflecting the satisfaction of a number of requirements, active demand slipped by 21% during Q2 to stand at 180,000 sq ft.
- PlusNet are in the market for up to 50,000 sq ft a potential relocation in the city centre.



Source: Knight Frank Research

Looking ahead

- Despite the ongoing debate about the effects of public sector cuts on office demand, judging by activity so far this year, 2011 is firmly on course to exceed the level of take-up seen in 2010,
- Headline rents are unlikely to show any growth beyond £20.00 per sq ft as the best located Grade A space in the city centre is now fully let. Of the Grade A space which remains, deals at around £15.00 per sq ft will be more typical over the next 12 months.
- Speculative development is unlikely to return to the city centre for the time being, although prime city centre sites are available to pre-let, including final phases at both St Pauls Place and Digital Campus.



Source: Knight Frank Research

Agency contacts

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

Tim Botrill, Partner, Sheffield
+44(0)114 272 3904
tim.botrill@knightfrank.com

Research contact

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

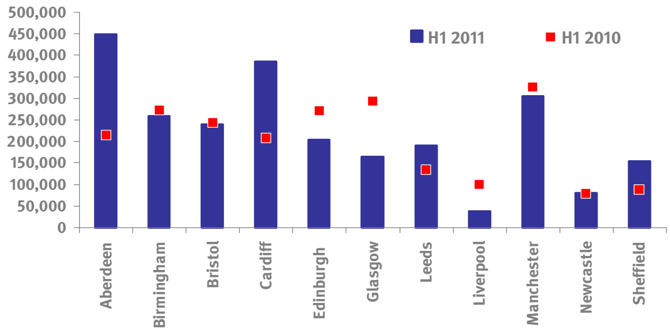
UK REGIONAL OFFICES ROUND-UP

Q2 2011

Occupier demand

- Across the eleven markets combined, total take-up for the first half of 2011 stands 11% higher than H1 2011. However, if Admiral Insurance's 200,000 sq ft pre-let in Cardiff is excluded, take-up is almost identical.
- H1 2011 take-up in Birmingham, Bristol, Manchester and Newcastle was remarkably consistent with the equivalent period last year, suggesting occupier sentiment has remained relatively robust.
- Buoyancy of the North Sea oil sector continues to fuel strong demand in Aberdeen, with H1 2011 take-up more than twice that seen in H1 2010. In contrast, Edinburgh and Glasgow have seen less transactional activity on last year, while activity remains extremely subdued in Liverpool.

City centre take-up, H1 2011 vs H1 2010 (sq ft)

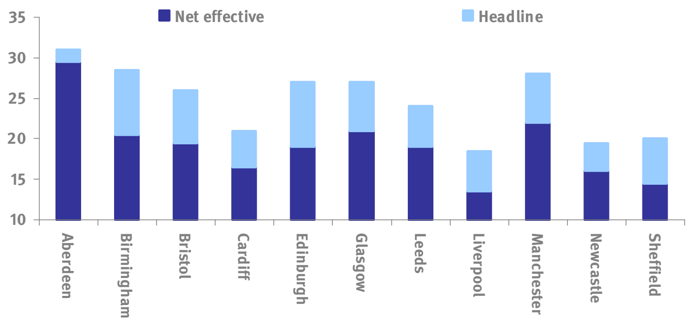


Source: Knight Frank Research

Supply and rents

- The commencement of Two Snowhill in Birmingham is the first major speculative development to progress across the 11 cities in almost a year. However, most of Hines' 305,000 sq ft scheme is pre-let, and this is likely to provide the only means through which large developments will move forward in these markets over the next 12 months.
- Supply continues to ebb away in the absence of new development completions. At the end of Q2 2011, Grade A supply across the 11 cities combined was down 25% on Q2 2010, with the largest falls seen in Aberdeen (-89%), Edinburgh (-47%) and Sheffield (-35%).
- Headline rents slipped in Liverpool and Newcastle to £18.50 and £19.50 in Q2. However, more generally, incentive levels are either hardening or expected to harden across the regional centres, in reflection of this steady erosion of Grade A supply.

Q2 2011 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Investors' aversion to secondary assets and a shortage of available prime stock has stymied activity in the first half of 2011. Latest figures from Property Data reveal that H1 2011 turnover was c.£716m outside London and the South East, down 52% on H1 2010.
- Investment demand is becoming increasingly polarised according to perceived strengths of each occupier market. When prime office stock becomes available in Birmingham, Manchester and Bristol, aggressive bidding is ensuing. Elsewhere, however, investors are more cautious and need to see clear value. Consequently, prime yields softened by 25bps in Liverpool, Leeds and Sheffield in Q2.
- The secondary investment market remains problematic. Yields are likely to soften given an anticipated increase of stock to the market as lenders become more willing to offload properties and crystallise their losses.

Prime office yields

	2010		2011		Yield sentiment
	Q3	Q4	Q1	Q2	
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%	**6.25%**	◄ ►
Liverpool	6.50%	6.50%	6.50%	**6.75%**	◄ ►
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%	**6.75%**	◄ ►