



# SHEFFIELD OFFICES

Market update Q1 2012

**Knight Frank**

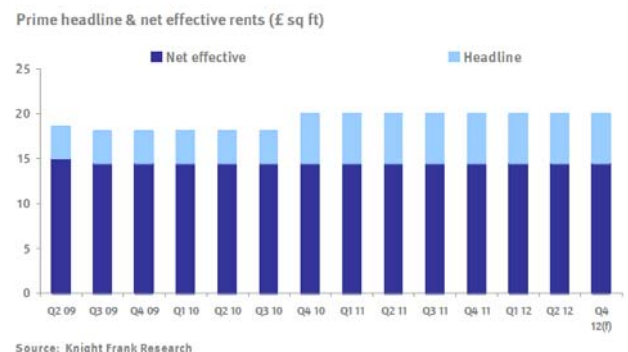
## Key highlights

- Transactional activity was limited to just 39,000 sq ft in Q2, down considerably on the Q1 total and less than half the long-term quarterly average.
- City centre take-up was limited to just 6,500 sq ft in Q2, made up of three small deals involving secondhand space.
- In contrast with Q1, the majority of take-up took place in Sheffield's out-of-town market. The largest deal of Q2 took place at Sheffield Business Park saw Stanley Tools leased 11,000 sq ft of Grade A space at 3 Europa Court.



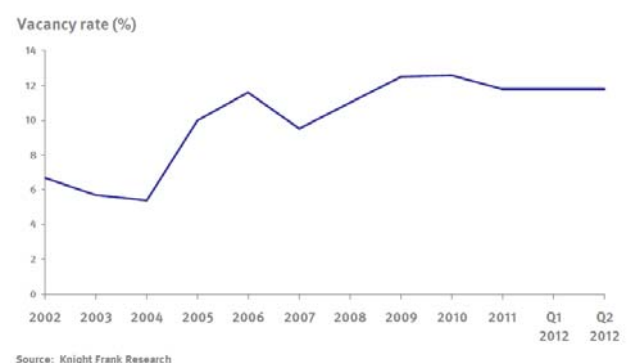
## Office gossip

- There remain several key requirements for Grade A space in the city centre - ranging between 10,000 sq ft to 50,000 sq ft. While we expect at least one of these to bear fruit in 2012, the rest are likely to follow in 2013.
- While the leasing market has been subdued, activity within serviced office accommodation has been more buoyant. In addition to the flexibility this affords small enterprises, anecdotal evidence suggests the main draw is that all costs related to taking the space are fixed into one price
- A number of planning proposals are in the pipeline which will see the conversion of a number of well-located but tired city centre office buildings converted to student accommodation. In the absence of any development, this should result in a light fall in the vacancy rate.



## Looking ahead

- Following a very quiet first half of 2012, we anticipate take-up to improve in the latter part the year. However, we now forecast that the full year total for 2012 will be below the annual average level of c.350,000 sq ft.
- Prime headline rents will remain at £20.00 per sq ft until prime development sites in the city centre secure a pre-let, namely Site 3, St Paul's Place in the Heart of the City and Digital Campus.
- Moves are afoot to pump-prime one of the city centre major development schemes. There are some high profile occupiers who are essentially staying put because of a lack of Grade A accommodation in prime city centre locations.



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# UK REGIONAL OFFICES ROUND-UP

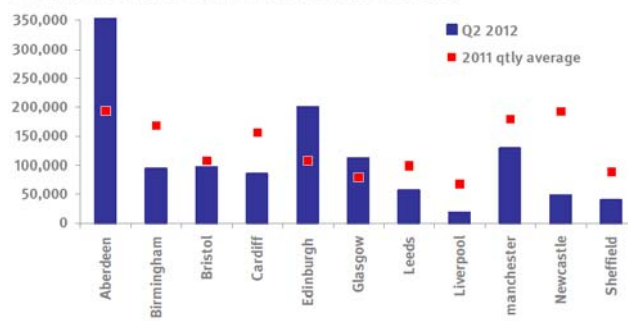
Q2 2012



## Occupier demand

- Total Q2 take up in the eleven cities combined was 1,423,646 sq ft, 32% up on Q1. However, Q2 was somewhat skewed by Aberdeen's record take-up level of 547,926 sq ft.
- Given the economic backdrop, it is unsurprising that most markets experienced lower take-up in Q2 2012 compared with the 2011 quarterly average. The three exceptions are Aberdeen, Edinburgh and Glasgow, which all experienced above average activity during the quarter.
- Despite the challenging economic environment, occupier demand has held up better than expected. Demand is anticipated to remain at current levels over the summer, although a number of active requirements provide a source of optimism.

City centre take-up, Q2 2012 vs 2011 quarterly average (sq ft)

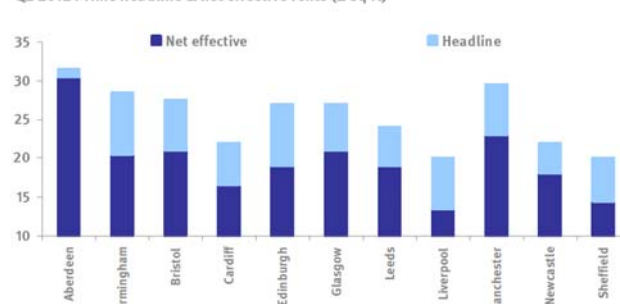


Source: Knight Frank Research

## Supply and rents

- The lack of new development has meant that Grade A supply has continued to fall in most regional centres.
- The on-going lack of debt funding is still hampering new development, while more secondary property is becoming available. Speculative development activity remains limited, confined to only four of the 11 regional markets as at the end of Q2. Moreover, only two cities, namely Birmingham and Manchester, have in excess of 100,000 sq ft underway.
- Nevertheless, prime rents were broadly stable during Q2 and vary between £20.00 per sq ft in Sheffield and £31.50 in Aberdeen. Looking forward, prime office rents in most regional cities are not expected to change significantly for the rest of the year, although upwards pressure on net effective rents may be seen in some areas.

Q2 2012 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 Q2. The latest figures from Property Data suggest c.£374m turnover, 4% down on Q1.
- Investor demand is still very much focussed on prime property. However, we believe that both prime and secondary pricing has softened, with the yield gap increasing as prices for secondary product continue to soften faster than those for prime stock.
- The prevailing uncertainty in the Euro zone and its impact on the UK economy has resulted in weak demand for secondary property.
- According to the latest Knight Frank ROMP Confidence Index, a majority of our agents are expecting to see little change to investor sentiment in the prime office market, with the outlook remaining generally cautious.

Prime office yields

	2011		2012		Yield sentiment
	Q3	Q4	Q1	Q2	
Aberdeen	6.00%	6.25%	6.25%	6.50%	◀ ▲
Birmingham	5.75%	6.00%	6.25%	6.50%	◀ ▲
Bristol	6.00%	6.25%	6.25%	6.50%	◀ ▲
Cardiff	6.25%	6.25%	6.25%	6.50%	◀ ▲
Edinburgh	6.00%	6.25%	6.25%	6.50%	◀ ▲
Glasgow	6.00%	6.25%	6.25%	6.50%	◀ ▲
Leeds	6.25%	6.25%	6.25%	6.50%	◀ ▲
Liverpool	6.75%	7.00%	7.00%	7.25%	◀ ▲
Manchester	6.00%	6.00%	6.00%	6.50%	◀ ▲
Newcastle	6.50%	6.50%	6.50%	6.75%	◀ ▲
Sheffield	6.75%	7.00%	7.00%	7.25%	◀ ▲

Source: Knight Frank Research

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