

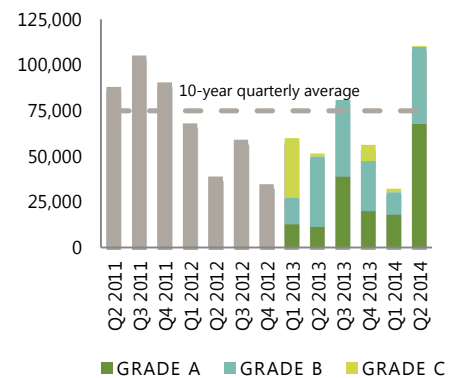
SHEFFIELD OFFICES

MARKET UPDATE H1 2014

Occupier market

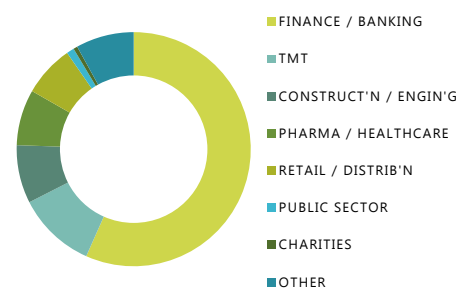
- Take-up in Sheffield was strong in Q2, following a prolonged period of subdued activity. Q2 take-up amounted to 110,000 sq ft, a significant improvement over Q1's 32,000 sq ft and its strongest quarterly total since Q3 2010.
- Of the 30 deals in H1, ten involved Grade A space. The largest was a financial services company's freehold purchase of Milton House (40,000 sq ft) in the city centre in Q2.
- Other than the above, there were two deals above 10,000 sq ft while the vast majority of deals were below 5,000 sq ft. 60% of take-up in H1 was made up of Grade A accommodation, while Grade B accounted for 38% of take-up.
- Active demand remains relatively strong, standing at 225,000 sq ft in Q2. This is in line with Q1 and slightly above its level at the same point last year.
- Finance/Banking/Insurance dominated activity in H1, accounting for 57% of total take-up. This was followed by Telecommunications, Media and Technology (TMT) and Construction/Engineering which accounted for 11% and 8% of activity respectively.
- Generally in H1 the larger deals took place in the city centre. While 58% of H1 take-up was in the city centre, the out-of-town market saw a larger number of deals – 19 deals compared with 11 deals in town.
- The market has witnessed the loss of lower quality office floorspace to alternative uses, particularly the student housing sector.
- Improving occupier demand and an absence of new completions are leading to a shortage of available modern accommodation. Available Grade A supply currently stands at 295,000 sq ft, down from 340,000 sq ft at the end of last year.
- Significantly, Sheffield now has a scheme under construction on a speculative basis for the first time since 2008. Works have commenced on the 70,000 sq ft scheme at 3 St Paul's Place, developed by CTP with completion expected in November 2015.
- Moreover, 80,000 sq ft of Grade A accommodation will be released to the market at Velocity as the current occupier is expected to vacate the building.

FIGURE 1
Take-up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2
H1 2014 take-up by sector



Source: Knight Frank LLP

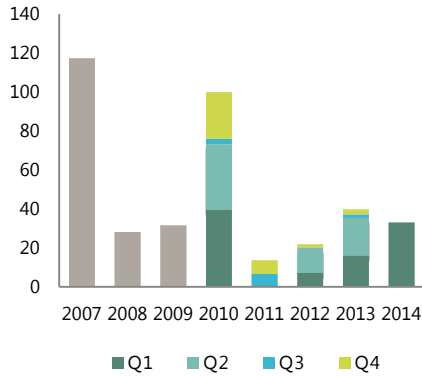
Agent's view

Prime Grade A headline rents, currently standing at £20.00 per sq ft, are expected to remain broadly flat during the next 12 to 18 months as demand remains broadly in balance with supply.

However, we expect prime headline rents to rise from late 2015. This will be reflected by the completion and subsequent occupation of the new building currently progressing in the core of the city centre.



FIGURE 3
Sheffield offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

Investment market

- UK investors have become more active outside of London in 2014. This reflects the fact that investor confidence is improving for the UK regional markets. Consequently, many investors are willing to take on more risk and seek perceived better value in the regional office markets.
- Following limited investment activity in 2013, Sheffield saw £33 million of turnover in H1. However, all of the activity took place in the first quarter and this was dominated by one large transaction - American Realty Capital's purchase of Pomona Business Centre for £31.40m, reflecting a net initial yield of 8.22% in March 2014.
- No transactions were recorded during the second quarter. This is mainly due to a shortage of prime office stock rather than investor interest, which remains relatively strong for Sheffield and the UK's regional markets more generally.
- The UK funds and increasingly also overseas investors were the most active buyers in H1. They are expected to show the strong interest over the next few years, particularly as the supply of buying opportunities rises.
- Improving market fundamentals and stronger investor demand have led to yield compression over the last 12 months. Yields hardened by 100 bps over the last year, pushing Sheffield's prime office yield down to 6.25% at the end of H1. It is expected that prime yields will remain at c.6.25% in the near future.

TABLE 1

Selected investment transactions in H1 2014

| Date | Address | Purchaser / Vendor | Price | NIY(%) |
|--------|---------------------------------------|--|---------|--------|
| Mar 14 | Pomona Business Centre | American Realty Capital / Hudson Advisors UK Ltd | £31.40m | 8.22 |
| Mar 14 | Europa Court, Sheffield Business Park | Undisclosed / Undisclosed | £1.60m | 15.00 |
| May 14 | The Mount, Glossop Road | Private investor / Receiver | n/a | 12.00 |

Source: Knight Frank LLP



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