



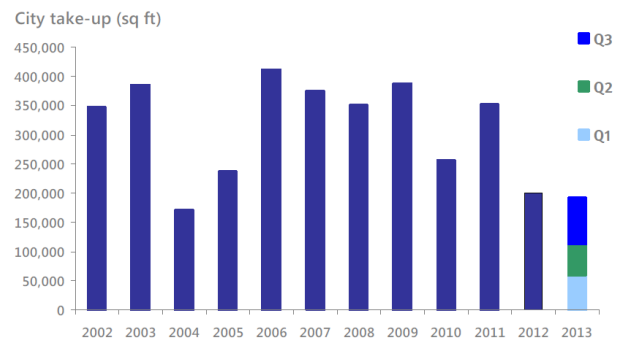
SHEFFIELD OFFICES

Market update Q3 2013

Knight Frank

Key highlights

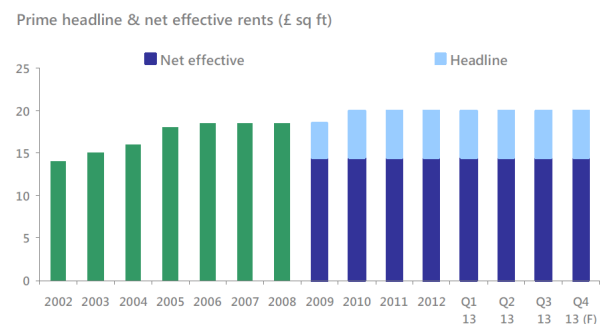
- Sheffield saw healthy take-up of 79,136 sq ft in Q3 2013, 49% above the Q2 figure and up 34% on a year ago. This took the total for 2013 so far to 192,188 sq ft, 16% higher than the first nine months of 2012.
- Key deal in Q3 included Bluestone Credit Management acquiring 15,000 sq ft in Derwent House opposite to St Paul's Place in the city centre.
- Availability of Grade A space declined by 25,000 sq ft over the quarter to 350,000 sq ft. This means that availability is now 12.5% down on Q3 2012. Currently, 70% of the available office supply is of lower quality.



Source: Knight Frank Research

Office gossip

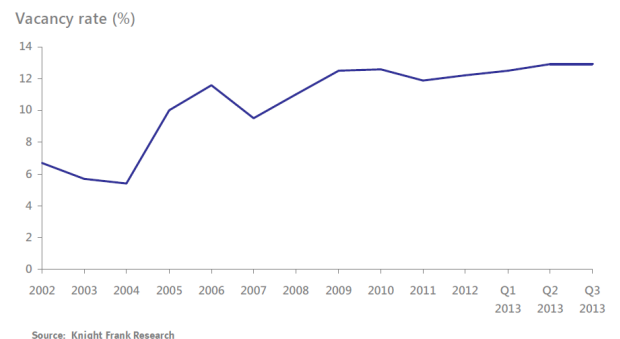
- Named active requirements totalled 225,000 sq ft in Q3, which is marginally up on previous quarter. While available space in prime locations remains limited, these active requirements are currently focusing on both existing stock as well as potential new build schemes.
- Sentiments have improved and we are seeing increased activity, with particular interest in the city centre market.
- The owners of The Balance on Trippet Lane have recently refurbished the sixth floor, creating a series of small, well-appointed suites.



Source: Knight Frank Research

Looking ahead

- 3 St Paul's Place has secured planning permission for its final phase of development which is expected to start on site by Q1 2014 and this will deliver 80,000 sq ft of prime Grade A offices to the market.
- We expect levels of supply to continue to fall, as obsolete office blocks are sold to developers for conversion to student housing.
- Sheffield is set to benefit from the launch of the new SCR JESSICA fund, which will provide capital loans of up to £4.3m per project for new office and industrial development in the Sheffield city region. We believe this will boost prospects for speculative development in the long term.



Source: Knight Frank Research

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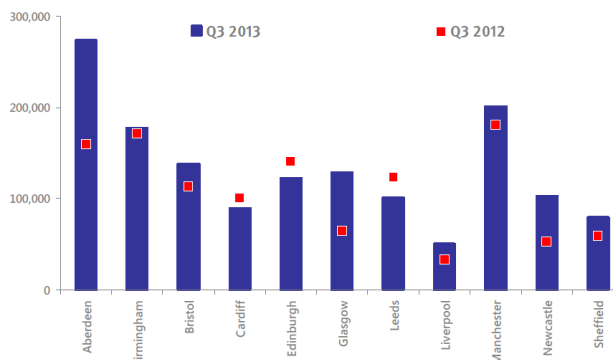
UK REGIONAL OFFICES ROUND-UP

Q3 2013

Occupier demand

- Sentiment and demand continued to improve in the regional office markets in Q3, with occupier demand remaining relatively robust. Indeed, there is a healthy list of sizeable requirements, mainly from occupiers in the legal and financial sectors.
- The 11 markets combined recorded total take-up of 1,461,951 sq ft during Q3. Whilst this represents a modest increase of 6% on Q2 2013, it is 22% above the overall total take-up recorded for the same period, with strong performance and double digit increases seen in Glasgow (+100%), Newcastle (+95%), Aberdeen (+71%), Liverpool (+52%), Sheffield (+34%), Bristol (+22%) and Manchester (+11%).
- However, there was a healthy level of activity, transactions continued to be predominantly characterised by smaller deals.

City centre take-up, Q3 2013 vs Q3 2012 total (sq ft)

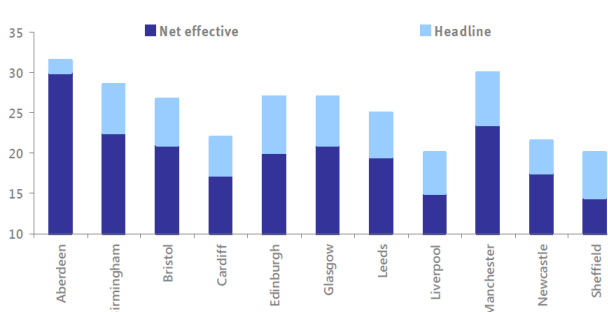


Source: Knight Frank Research

Supply and rents

- Q3 saw a marginal quarterly decrease in Grade A supply, which slipped from 3,225,544 sq ft in Q2 to 3,069,805 sq ft in Q3. This reflects the continuing erosion of Grade A space in the absence of new completions/development activity. Quarter-on-quarter double-digit falls were seen in Cardiff (-19%), Birmingham (-17%), and Newcastle (-10%). Only two cities experienced a quarterly increase in supply, namely Aberdeen (+45%) and Glasgow (+4%).
- Whilst occupier sentiment is improving, headline rents have been largely stable, with only Aberdeen projected to see an increase in headline rents by the year-end. While growth in regional headline rents is unlikely over the remainder of 2013, net effective rents may edge up as Grade A supply continues to decline.

Q3 2013 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Q3 saw a buoyant level of investment activity. According to the latest figures from Property Data, investment turnover for offices outside London and the South East was c. £870m, up 82% on a year ago.
- Whilst investor demand for prime office assets in the regions has remained strong, most regional office markets have started to, and are likely to continue to, suffer from a shortage of available stock (prime and long-income assets). Since prime buying opportunities are limited, increasing interest is being seen in good quality secondary assets which offer sound fundamentals, with prospects for active management.
- Prime yields in the regional cities generally hardened during Q3, with Aberdeen, Bristol, Edinburgh, Glasgow, Liverpool, Manchester and Newcastle seeing prime yields move in by 25 bps. Birmingham and Cardiff were the exceptions, with prime yields remaining stable in Q3.

Prime office yields

	2012	2013			Yield sentiment
	Q4	Q1	Q2	Q3	
Aberdeen	6.50%	6.50%	6.25%	6.00%	→↘
Birmingham	6.50%	6.25%	6.00%	6.00%	→↘
Bristol	6.50%	6.50%	6.25%	6.00%	→↘
Cardiff	6.50%	6.50%	6.25%	6.25%	→↘
Edinburgh	6.50%	6.50%	6.25%	6.00%	→↘
Glasgow	6.50%	6.50%	6.25%	6.00%	→↘
Leeds	6.50%	6.50%	6.25%	6.15%	→↘
Liverpool	7.50%	7.50%	7.50%	7.25%	→↘
Manchester	6.50%	6.25%	6.25%	6.00%	→↘
Newcastle	6.75%	7.00%	7.00%	6.75%	→↘
Sheffield	7.25%	7.25%	7.25%	6.75%	→↘

Source: Knight Frank Research

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