

The Big Nine

Quarterly review of the regional office occupier markets

Q2 2012



Kings Orchard, Bristol

Summary

Business confidence has continued to affect activity in Q2 and this is reflected in below average take-up in most cities. In many cases enquiry levels are holding up, but there is a healthy supply of good space in the market and little pressure on occupiers to commit. With known requirements and the Bank's renewed quantitative easing programme, we anticipate improved activity in the second half of the year but the Eurozone issues continue to provide the greatest risks to confidence.

Carl Potter, National Head of Offices

- City centre and out-of-town take-up in the nine GVA regional office centres recorded take-up of 1,487,000 sq ft in Q2, 6% below the quarterly average
- The city centre market made up 59% of this total, with 882,000 sq ft of deals, over a quarter of which was in Edinburgh
- The out-of-town market recorded take-up of 604,000 sq ft, 6% above the quarterly average

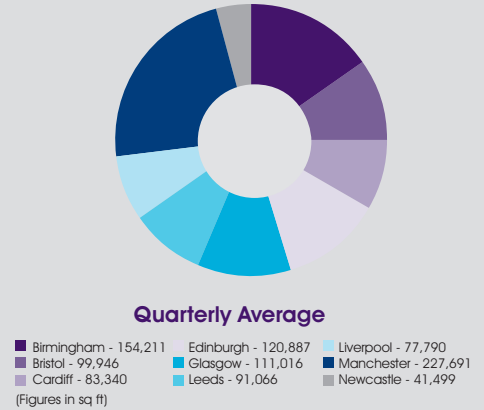
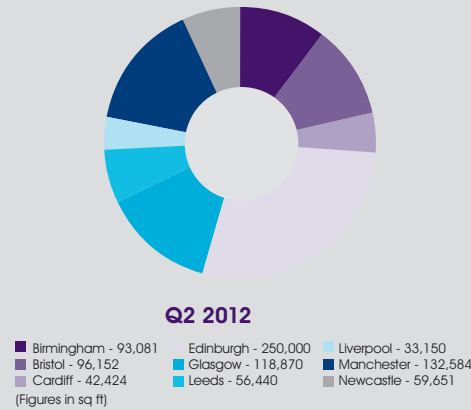
The Big Nine

Regional office market review

City Centre

- City centre take-up totalled 882,000 sq ft in Q2, 12% below the quarterly average
- Edinburgh recorded twice its average take-up including the largest deal, 80,000 sq ft at Exchange Square 1 to BlackRock
- Elsewhere take-up was just above or similar to average in Bristol, Glasgow and Newcastle but significantly below average in other cities

Figure 1 City centre take up



Uncertainty holds back latent demand

Economic uncertainty following the decline in economic growth and events in the Eurozone is continuing to impact on business confidence. This is reflected in take-up levels in Q2, with activity in a number of cities considerably down at the half year stage.

In many cases enquiry levels are holding up and there are a large number of latent requirements in the regional office market but companies are not committing.

Take-up in many cities is dominated by much smaller transactions with +50% of take-up of grade B quality - coupled with fewer large grade A deals. There is currently a healthy supply of good space in the market and little pressure on occupiers to commit. Landlords are keen to re-let or re-gear and offer increasing flexibility on lease terms and tenant only break options.

Latent demand is building but this is unlikely to be documented until confidence improves.

In Glasgow we expect a few large requirements to commit over Q3 and

there are a number of leading solicitors actively searching for space.

The core demand in Birmingham is professional and business services with large requirements from Legal and General and solicitors Shoosmiths and DWF.

The major requirement in Manchester is over 150,000 sq ft for BUPA, due to vacate their Salford premises in 2015. In Liverpool a number of the requirements we reported in Q1 are still active, such as 60,000 to 70,000 sq ft for Direct Line and 50,000 to 80,000 sq ft for Sony.

Our Edinburgh office has recently highlighted a tipping point when grade A supply will not satisfy demand. Current low levels of development combined with the development time lag, anticipated increase in lease events and a return to confidence will determine the exact timing. However the high level of take-up in Edinburgh including the 80,000 sq ft letting of Exchange Place 1 to Blackrock emphasises the concern over the supply of quality stock in the city.

Whilst lease events will provide a foundation to occupier moves, cost efficiencies are at the forefront of business decisions, and some will see this as an opportunity to downsize.

General trends continue such as the preference for occupiers to relocate to city centres as deals remain favourable to occupiers. In addition they provide the public transport infrastructure for staff, and support the increasing sustainability and CSR agenda.

We anticipate improved activity in the second half of the year, with the continuance of the Bank of England's quantitative easing and as a result of known requirements, lease events and occupiers looking to take advantage of a subdued market. However, the Eurozone issues continue to provide the greatest risks to confidence.

Top 5 city centre deals (Q2 2012)

City/property	Occupier	Sq ft
Edinburgh – Exchange Place 1	BlackRock	80,000
Edinburgh – Quartermile One	Skyscanner	27,122
Bristol – 53 - 55 Queen Charlotte St	Foscombe	23,077
Manchester – Riverside	Money Plus Group	21,500
Bristol – Trelawney House, Surrey St	Bristol Rental Properties	20,785

Rents and forecasts

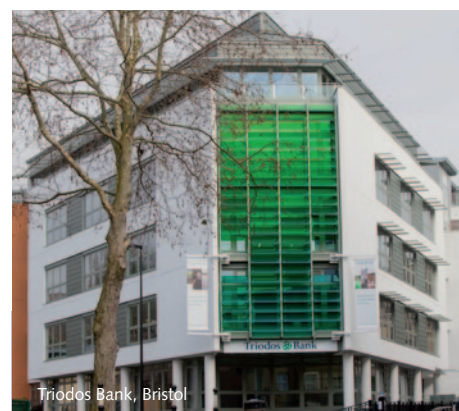
Headline rents have remained mainly stable over the last year. Cardiff and Manchester have seen headline rent increases but rent free periods have also increased, reducing the net effective rent. There is unlikely to be any significant rental growth or pressure on incentives this year. There is a significant price difference in prime rents in Cardiff, Liverpool and Newcastle compared to the 'Big Six'.

City centre headline rents Q2 2012 (\$psf)

Location	Rents (£)	Rent free (mths on 10 yr term) (£)	Net effective rent*	Net effective rent Q4 2011
Glasgow	28.50	24	23.51	23.51
Manchester	29.50	30	22.86	24.34
Birmingham	27.50	36	19.94	19.94
Bristol	27.50	36	19.94	19.94
Leeds	25.00	30	19.38	19.38
Edinburgh	25.50	36	18.49	18.49
Cardiff	22.50	30	16.31	17.05
Newcastle	20.00	24	16.50	16.50
Liverpool	21.00	36	15.23	15.23

*including rent free period less three month fit-out

Last year average regional office rents declined by -1.5%. Our rental growth forecasts indicate that there will be a modest fall of -0.6% in 2012, followed by a modest rise of 0.3% in 2013. This improvement should continue with 1.4% growth in 2014 rising to 2.5% in 2016, although remaining below current and expected inflationary levels.



Triodos Bank, Bristol

In focus: Bristol

Market movement:

The most active sectors in the Bristol city centre market are financial and business services, in particular solicitors and accountants and the media sector, which are generally smaller occupiers attracted to the Temple Quarter Enterprise Zone. Out-of-town, the occupier range is broader with Defence and Aerospace and Research & Development often linked to the resident Universities.

Many of the active enquiries in the market are existing local and regional occupiers with lease ends or break clauses approaching. Many are considering trading up in terms of quality, albeit in some cases down in terms of size, to take advantage of the attractive rent free packages.

Outlook:

There is a lack of brand new Grade A accommodation in the city centre now available for immediate occupation which currently stands at around 295,000 sq ft, some of which is already in solicitor's hands. With no new speculative development underway, it is likely that this total supply will significantly diminish over the next 12 months.

We also anticipate that as the supply of immediately available new Grade A accommodation reduces, so too will the level of incentives being granted and the prospects for increased lease lengths also improves.

Ben O'Connor, Associate - Bristol

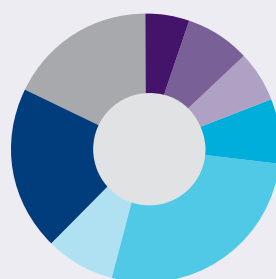
Out-of-town

- Take-up in the out-of-town markets was 604,000 sq ft in Q2, 6% above the quarterly average
- Leeds, Manchester and Newcastle all recorded over 100,000 sq ft of deals.
- The largest deal was in Leeds, a 50,000 sq ft letting to Leeds City College at The Printworks
- Headline rents vary between £14 psf in Liverpool and £21.50 psf in Bristol

Top 5 out-of-town deals (Q2 2012)

City / Property	Tenant	Sq ft
Leeds – The Printworks	Leeds City College	50,000
Newcastle – Hawthorne, Jarrow	South Tyneside Council	36,754
Bristol – Hillside Court, Chipping Sodbury	Jelf Group	24,350
Glasgow – Trilogy 1, Eurocentral	Morgan Sindall	14,847
Leeds – WIRA business park	Gamestech / Danoptra	14,305

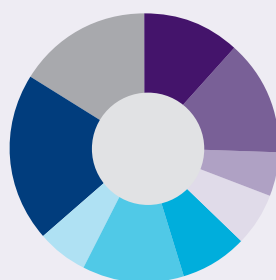
Figure 2
Out-of-town take-up



Q2 2012

■ Birmingham - 32,691	■ Edinburgh - 0	■ Liverpool - 50,126
■ Bristol - 46,894	■ Glasgow - 47,297	■ Manchester - 120,133
■ Cardiff - 37,069	■ Leeds - 164,398	■ Newcastle - 105,560

(Figures in sq ft)



Quarterly Average

■ Birmingham - 67,594	■ Edinburgh - 36,291	■ Liverpool - 35,856
■ Bristol - 78,335	■ Glasgow - 46,452	■ Manchester - 115,966
■ Cardiff - 30,858	■ Leeds - 70,343	■ Newcastle - 90,809

(Figures in sq ft)

London West End

10 Stratton Street
London W1J 8JR

London City

80 Cheapside
London EC2V 6EE

Belfast

Rose Building Third Floor
16 Howard Street
Belfast BT1 6PA

Birmingham

3 Brindleyplace
Birmingham B1 2JB

Bristol

St Catherine's Court
Berkeley Place
Bristol BS8 1BQ

Cardiff

One Kingsway
Cardiff CF10 3AN

Edinburgh

Quayside House
127 Fountainbridge
Edinburgh EH3 9QG

Glasgow

206 St Vincent Street
Glasgow G2 5SG

Leeds

City Point First Floor
29 King Street
Leeds LS1 2HL

Liverpool

Mercury Court
Tithebarn Street
Liverpool L2 2QP

Manchester

81 Fountain Street
Manchester M2 2EE

Newcastle

Central Square
Forth Street
Newcastle upon Tyne NE1 3PJ

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