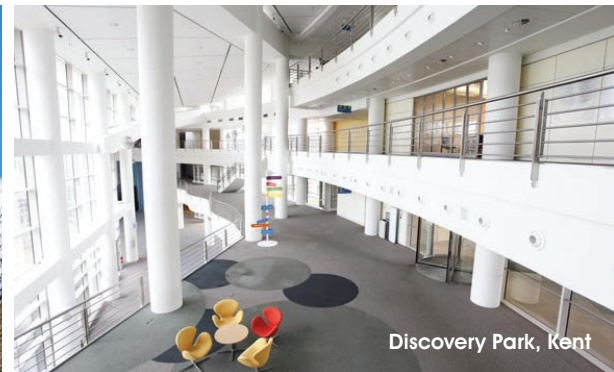


Business Parks Review

Spring 2013



Summary

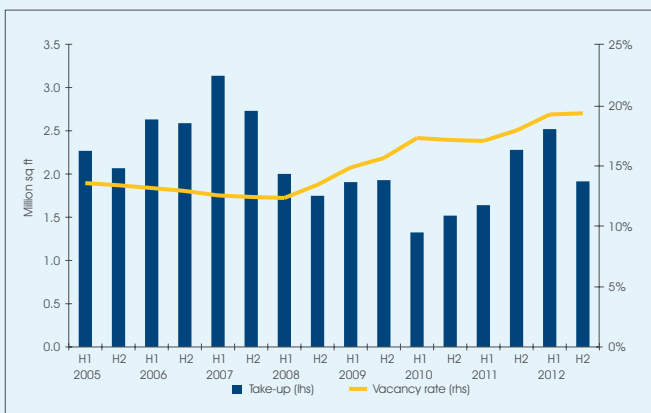
- Business park office take-up during the second half of 2012 recorded a total of 1.91 million sq ft, in line with the five-year six-monthly average but down on the previous six month's figure of 2.5m sq ft. Activity was strongest and above average in the South East, Midlands and the North West.
- Overall availability has risen significantly over recent years but is now starting to plateau. It amounted to 18.5 million sq ft at the end of 2012, a 0.7% increase on the first six months of the year.
- The vacancy rate has increased marginally to 19.3% but there are considerable regional variations. Vacancy rates are falling in prime locations, such as the M42 and South Manchester, but are increasing in other regions.
- With the high vacancy rate, there are only a handful of units under construction across the UK's business parks, amounting to 470,000 sq ft, 90% of which is pre-let.
- Freehold sales to existing occupiers have increased as landlords look to reduce the risk of void costs and unviable refurbishment costs. Landlords are also reducing risk by offering more flexibility on shorter lease terms in order to retain tenants.
- We predict that the move towards freehold sales to owner occupiers will continue but that price levels will likely now stabilise.
- A further shift towards alternative uses will also continue, particularly for land, but building demolition is on the cards in some areas and will continue to be so particularly where higher value alternative uses can be brought forward.

Business Parks Review

Take-up

A total of 1.91m sq ft of take-up was recorded on business parks in H2 2012, in line with the five-year six-monthly average but was down on the previous six months (2.5m sq ft).

All regions – take-up and availability



While business park activity in H2 2012 was down on the previous six months, overall take-up in 2012 was the highest in five years. There remains a contrast in regional activity as the South East, Midlands and North West all recorded above average take-up in the second half of 2012, while activity elsewhere was below average.

2012 saw a marked increase in demand for Birmingham's out of town market. M42 business parks have seen an increase in take-up from the automotive and aviation sectors, while the technology, information, IT, media and design sectors continue to provide the predominant mix of occupier take-up. The largest deal in H2 was at Birmingham Business Park: the sale of land to AEC to develop a new office and research facility totalling 250,000 sq ft, of which 125,000 sq ft will be of an office nature.

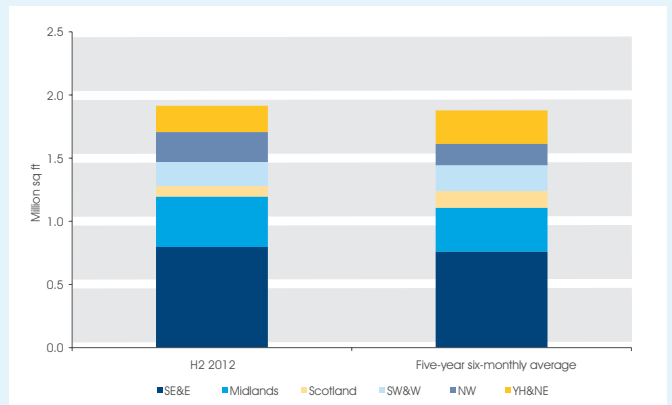
The two largest deals in the South East are relocations to existing buildings. Huwai is moving from its current base in Basingstoke to 139,000 sq ft at Green Park, Reading on a 10 year lease, while IMG Worldwide took 115,000 sq ft at Stockley Park near Heathrow on a 15-year lease.

There have been an increased number of freehold requirements and sales on business parks in recent months as landlords look to reduce risk by offloading void costs and unviable refurbishment costs. Freehold sales still make up a small proportion of transactions but they are increasing and occupiers are taking advantage of favourable values.



Gallions Wexham Springs, Berkshire

Take-up by region H2 2012



For example, in the North West, Blemain Group have bought the freehold of a 50,000 sq ft building they occupy at Cheadle Royal Business Park. There were also a number of lettings at Birchwood Business Park, Warrington, the largest of which was a 35,000 sq ft pre-let deal to 'Your Housing'. Elsewhere in the region, Mersey Care NHS Trust took 34,000 sq ft at Kings Business Park at the beginning of this year and Costain continues to have a requirement for a design and build option of 60,000 sq ft for HQ or regional consolidation.

The most significant activity in the South West took place in Swindon, including Smiths News plc taking 27,700 sq ft at Kembury Park and Broadcom taking 11,700 sq ft at Edison Park. In the North East there were two 10,000 sq ft lettings on the largest business parks – to Duco on Cobalt and to Creating Careers at Quorum, while in Yorkshire, Yorkshire Direct Group took 21,000 sq ft on Doncaster Lakeside Business Park.

New supply

The amount of office space under construction on UK business parks has fallen to a handful of schemes.

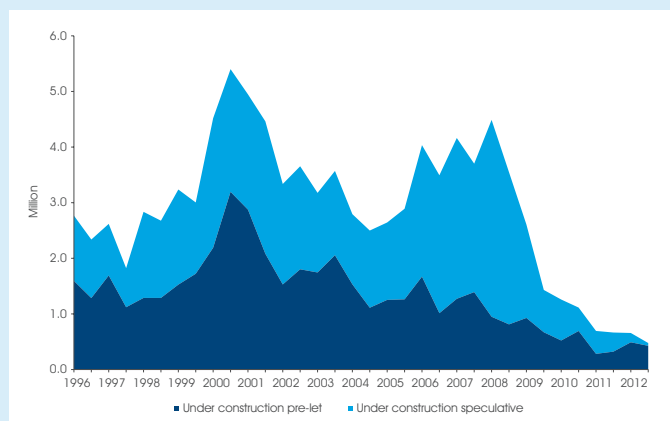
Construction activity continues at a very low level and is down to a handful of schemes across the country. This amounted to 470,000 sq ft at the end of December, 90% of which is pre-let. This amount is down from 650,000 sq ft in the previous two surveys and 4 million sq ft at the height of the development boom in 2008.

However in the South East, Blackstone has recently announced that it will begin speculative development on the 334,000 sq ft final office building at Chiswick Park, while the 215,000 sq ft pre-let to Aker will soon complete. In Reading, the substantial speculative refurbishment of the 50,000 sq ft E2 building at IQ Winnersh has recently completed.

In the North West social housing provider 'Your Housing Group' has taken a pre-let of 35,000 sq ft HQ at MEPC Birchwood Park, with construction to start this spring and Phonak is constructing 45,000 sq ft at Warrington Centre Park.

In the Midlands work will start on AEC's 250,000 sq ft design and manufacturing facility at Birmingham Business Park this summer. In Glasgow, the first phase of the publicly funded 65,000 sq ft development at Clyde Gateway is now complete.

All regions – construction activity



Speculative development activity will not increase over the next year or two as a result of high vacancy rates, constrained development finance and the impact of rental and capital values on viability. However this is less of a concern for the larger developers in areas of the country where the economy is more buoyant and pre-let or pre-sale deals can be struck on decent covenants and longer term leases.

Hence overall the levels of development activity will increase, albeit this will partially be for hybrid / research / office buildings rather than pure offices, and the levels of development will be low risk pre-sales or pre-funded pre-lets.

Availability

Overall availability has risen significantly over recent years but is starting to plateau, amounting to 18.5 million sq ft at the end of 2012, a 0.7% increase on the previous six months. The vacancy rate has also increased marginally to 19.3% but vacancy rates have improved in some regions. In particular the NE figures are affected specifically by Cobalt Park and Quorum and in Scotland by Maxim and EcoCampus.

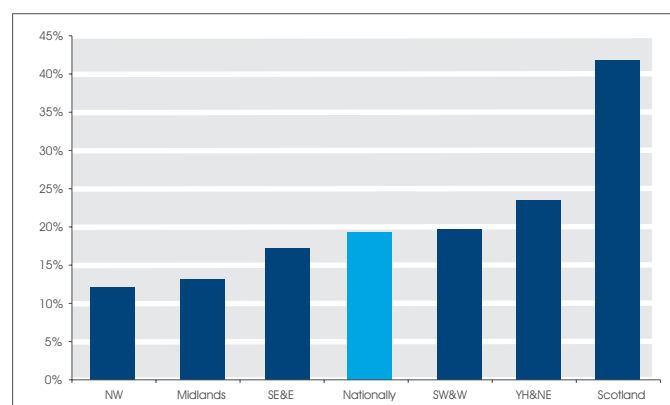
Availability continues to vary considerably across the regions. The strong level of take-up in the Midlands over the past six months and lack of new stock coming to the market means there has been a fall in availability. This tightening of supply has caused vacancy rates to fall from 16% to 13% over the past year. Similarly in the North West, the vacancy rate has fallen from 14% to 12% in two years.

The vacancy rate in the South West, Yorkshire & the Humber and North East has also edged down over the past six months, having seen significant rises over the last five years. Vacancy rates continue

to go up in the South East and with Scotland seeing an increase in availability, a reduction in empty property rates exemption from 50% to 10% in April, is an added concern.

Whereas availability on business parks has shown a sharp rise in recent years, there is a significant amount of first generation (late 1980s) space that may be coming to the end of its life cycle. Some of this potentially obsolete space is unlikely to be considered by occupiers. On the other hand as there has been little development over the last few years, the number of larger quality buildings is reducing in prime locations.

Regional vacancy rates

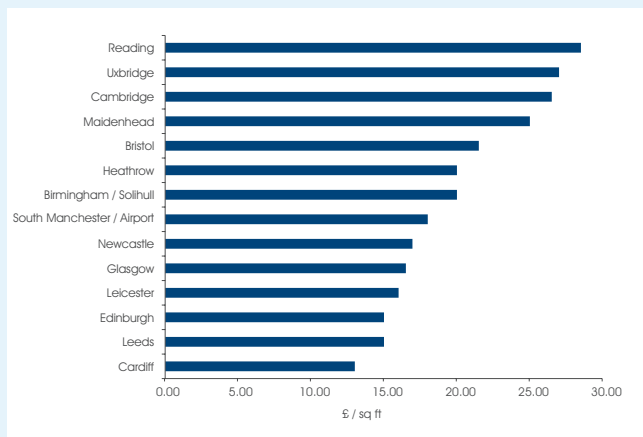


Rents

According to the GVA out-of-town rental growth index prime rents have remained broadly stable over 2012.

The South East and East have seen modest growth of 1.2%, the Midlands have seen little movement at -0.5%, while South West and Wales has fallen -5.7%. There has been no change in the North East and Yorkshire & the Humber following significant falls the previous year. While rents and incentives have stabilised, in many instances net effective rents are being quoted to generate interest.

Prime out-of-town office rents by location December 2012



According to figures from IPD, average business park rents remain under pressure. The annual IPD results show average rents falling modestly over recent years and this is likely to continue this year with a fall of -2.3%. The forecast is for a gradual increase of 1.4% pa growth from next year to about 2.6% pa by 2016. This reflects the high availability of space on a number of business parks but as demand increases and absorbs some of this space, we will begin to see stronger rental growth and improved development viability.

Recent performance and forecasts for Business Parks – (%)

	2010	2011	2012	2013	2014	2015	2016	2017
Rental value growth	-2.1	-1.6	-1.1	-2.3	1.4	2.1	2.5	2.6
Capital value growth	-0.2	-6.2	-10.6	-3.1	-1.0	0.8	1.1	1.0
Total return	7.0	0.8	-3.8	4.1	6.5	8.4	8.7	8.5
Equivalent yield	9.2	9.6	10.4	10.4	10.4	10.4	10.4	10.4

Source: IPD, REFL, GVA



Discovery Park, Kent

Investment market outlook

Following increases in 2010 and 2011, business park total returns were -3.8% in 2012. This has been driven by an upward movement in average equivalent yields (from 9.6% in 2011 to 10.4% in 2012), with the modest falls in rental values adding to the overall decline. Capital values are currently 46% below their 2007 peak.

We expect demand for well located prime assets to remain steady in 2013 and prime yields should remain at broadly current levels. There is also demand for secondary property in prime locations. However we expect to see some further upward movement of yields on secondary property, where shorter leases and weaker covenant strengths increase the risk of voids.

We forecast a positive total return of 4% in 2013. Returns should rise further to 8-9% pa from 2015 as rental growth begins to feed back in across a broader section of the market.

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