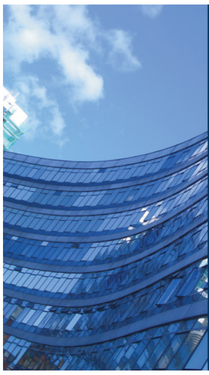

# MARKETBEAT

## UNITED KINGDOM OFFICE SNAPSHOT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

CUSHMAN & WAKEFIELD®
Global Real Estate Solutions

Q3 2011

## OVERVIEW

London continues to lead the way in terms of occupier activity, with the West End again the more active submarket. Key regional markets have largely remained stable over the quarter, although there are increasing signs of optimism in some South East markets, notably in the Thames Valley. Rental growth was seen in only a small number of submarkets over the year however, most notably in the West End.

## OCCUPIER FOCUS

Rental growth in the West End is largely driven by a lack of suitable supply rather than rising demand and overall take up levels in both the City and West End are down when compared to the same period last year. Subdued take up levels are also occurring across the wider UK market, although within the Thames Valley there are some significant active requirements that are being driven by growth rather than consolidation.

Supply levels have continued to fall further within the West End, adding to the pressure on rental levels. In the City, supply levels are higher, with the development pipeline showing a marginal rise. With rental pressure increasing in the Thames Valley there are currently a number of speculative schemes of over 20,000sq.ft underway.

## INVESTMENT FOCUS

Investment activity within the UK's regional markets has been quiet, with very little prime stock on the market but a reasonable level of secondary stock available. Central London has seen steady demand and while sentiment is more cautious, volumes have largely held up over the quarter. A notable deal over the period was Redevco selling their offices at 1 Connaught Place in the West End for circa £22.5m. In terms of yields, despite the continuing lack of supply there is no real pressure on regional yields, although yields in the Thames Valley have hardened to 6.25% in Reading while more secondary markets have seen outward movements.

## OUTLOOK

The office market in the UK is largely stable, with pockets of weakness but also some of slowly rising activity. However, this has to be tempered with an uncertain economic outlook and transactions taking time to conclude. What is more, some occupiers with lease events may choose to stay in situ rather than incur the costs associated with moving. Supply will continue to dictate areas of rental pressure, focussed on London's West End, while the City market is likely to see rents mark time and incentive packages possibly increase for average or secondary space unless demand improves.

### MARKET OUTLOOK

| | | |
|---|---|---|
| PRIME RENTS: | Pressure in select areas such as the West End of London and the Thames Valley. | ↗ |
| PRIME YIELDS: | Now stable but the scarcity of quality stock in some submarkets may see yields harden. | → |
| SUPPLY: | Limited speculative development will see overall availability fall further. | ↘ |
| DEMAND: | Mixed occupier demand, generally slow but some areas of growth. | → |

### PRIME OFFICE RENTS – Sep 2011

| | Prime Rent £ sq.ft/yr | € sq.m/yr | US$ sq.ft/yr | Compound(p.a) % Growth 5yr | 1yr |
|---|---|---|---|---|---|
| London | | | | | |
| City | 55.00 | 687 | 85.7 | 0.0 | 0.0 |
| West End | 102.50 | 1,281 | 159.7 | 1.5 | 13.9 |
| Manchester | 28.50 | 356 | 44.4 | 0.0 | 0.0 |
| Birmingham | 28.50 | 356 | 44.4 | -1.0 | 1.8 |
| Bristol | 28.50 | 356 | 44.4 | 2.2 | 3.6 |
| Leeds | 25.00 | 312 | 38.9 | 0.0 | -3.8 |
| Newcastle | 22.00 | 275 | 34.3 | 1.9 | 0.0 |
| Reading | 30.50 | 381 | 47.5 | 4.5 | 7.0 |
| Cardiff | 21.00 | 262 | 32.7 | 2.0 | 0.0 |
| Edinburgh | 27.00 | 337 | 42.1 | 0.0 | 0.0 |
| Glasgow | 29.00 | 362 | 45.2 | 3.0 | 0.0 |

### PRIME OFFICE YIELDS (Net) – Sep 2011

| | Prime Yield (%) Current Quarter | Last Quarter | Last Year | 10 year High | Low |
|---|---|---|---|---|---|
| London | | | | | |
| City | 5.00 | 5.00 | 5.00 | 6.50 | 4.25 |
| West End | 4.00 | 4.00 | 4.00 | 6.00 | 3.50 |
| Manchester | 6.00 | 6.00 | 6.00 | 7.25 | 4.50 |
| Birmingham | 6.00 | 6.00 | 6.00 | 7.25 | 4.50 |
| Bristol | 6.25 | 6.25 | 6.25 | 7.50 | 4.50 |
| Leeds | 7.00 | 6.50 | 6.50 | 7.50 | 4.75 |
| Newcastle | 7.00 | 6.75 | 6.50 | 7.75 | 4.75 |
| Reading | 6.25 | 6.25 | 6.50 | 7.75 | 5.00 |
| Cardiff | 7.00 | 7.00 | 6.75 | 8.00 | 5.00 |
| Edinburgh | 6.00 | 6.00 | 6.00 | 7.25 | 4.50 |
| Glasgow | 6.00 | 6.00 | 6.00 | 7.25 | 4.50 |

With respect to the yield data provided, in light of the lack of recent comparable market evidence in many area of Europe and the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

*Source: Cushman & Wakefield LLP. 2011*

**For further information, please contact our Research Department:**

Cushman & Wakefield LLP
43-45 Portman Square
London W1A 3BG

www.cushmanwakefield.com