

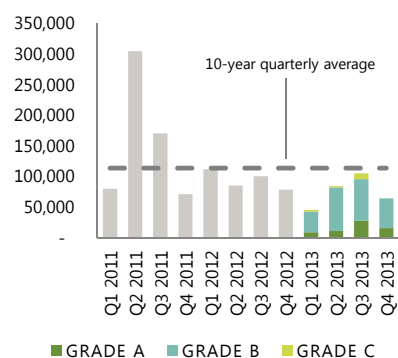
CARDIFF OFFICES

MARKET UPDATE H2 2013

Occupier market

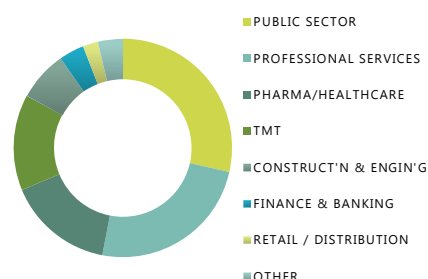
- Following an encouraging Q3, Q4 take up was a disappointing 64,162 sq ft, providing a 2013 total of 298,478 sq ft. However, these take-up figures should be read in the context of significant transactions scheduled to complete in early 2014.
- Occupier activity in H2 2013 has been driven by the public sector, professional services and education sectors, which accounted for 49% of the total take-up.
- In 2013, the Cardiff office market was dominated by relatively small Grade B transactions - 74% of take-up was Grade B space and 60% was located in the city centre. Some 73% of deals completed were within the sub-3,000 sq ft bracket.
- The two largest lettings of 2013 both completed in H1 in the city centre. Hugh James took a further 19,383 sq ft at Hodge House and the University of South Wales acquired 21,958 sq ft at Atlantic House West.
- The headline lettings of H2 both took place at 3 Assembly Square in Cardiff Bay. ITV Broadcasting (10,819 sq ft) and the Welsh Governments Life Science Hub (12,489 sq ft) both paid a headline figure of £22 per sq ft.
- Grade A supply remains at historically low levels, with availability standing at only 27,000 sq ft in the city centre and less than 40,000 sq ft in Cardiff Bay. However, city centre Grade A supply will be boosted by the completion of Number 1 Capital Quarter (79,500 sq ft), currently being developed by JR Smart and recently purchased by the Welsh Government.
- Cardiff Council's planned redevelopment of Central Square is a major development, with the first speculative phase of 140,000 sq ft of Grade A offices expected on site in 2014.
- The Welsh Government's creative industry centre at Porth Teigr is close to completion. Located adjacent to BBC Wales's Roath Lock Studios, the 31,500 sq ft building is attracting significant occupier interest from creative sector occupiers.
- The BBC Wales relocation is a major office requirement in the city, with three sites shortlisted in the city centre and Cardiff Bay for its new headquarters. Other major requirements include L&G, Geldards, Morgan Cole and Finance Wales.

FIGURE 1
Take-up by grade (sq ft)



Source: Knight Frank Research

FIGURE 2
Cardiff H2 2013 take-up by sector



Source: Knight Frank Research

Agent's view

The Welsh Government's plan for Callaghan Square is still to be confirmed but detailed planning permission is in place for a first phase comprising 90,000 sq ft of offices on the eastern edge of the site. A planning application has been submitted on behalf of JR Smart for Number 2 Capital Quarter, an 80,000 sq ft office development adjacent to the building currently being completed for Welsh Government. Along with Central Square, these new city centre developments will provide an opportunity to increase headline rents from their current level of £22.00 per sq ft.

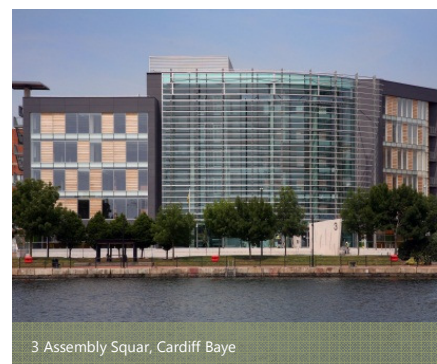
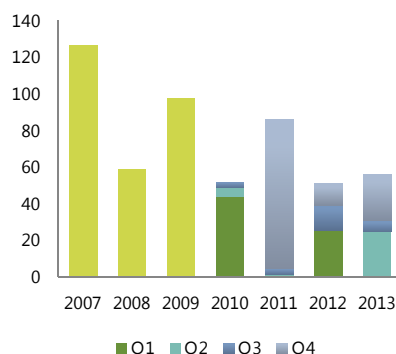


FIGURE 3
Cardiff office investment turnover (£m)



Source: Knight Frank Research, Property Data



Investment market

- In the last six months we have witnessed an increased level of appetite from a broad spectrum of investors for prime and good secondary office investments in Cardiff.
- This interest has come from traditional institutional investors and also from an increasing number of opportunity funds and overseas investors who are being priced out of Central London and the South East.
- With a relatively short supply of suitable product, this has had a positive impact on pricing.
- Knight Frank have been marketing three notable office investments in Cardiff, namely Fusion Point 2, Willcox House and Crickhowell House which are all under offer to either institutional or overseas investors. After completion, these transactions will provide further evidence on pricing.
- The most notable transaction in H2 was the sale of Hodge House. It is a landmark, Grade II listed building comprising 143,343 sq ft with retail & leisure on the ground floor and six upper floors occupied as offices by Hugh James solicitors and Serco. Legal & General, advised by Knight Frank, purchased Hodge House from Aberdeen Asset Management for £18.86m, reflecting a NIY of 9.00%.

TABLE 1
Selected investment transaction in H2 2013

Date	Address	Purchaser / Vendor	Price	NIY(%)
Dec 2013	Hodge House, 114-116 St Mary Street	Legal & General / Aberdeen Asset Management	£18.86m	9.00
Nov 2013	Marland House, Central Square	LaSalle Investment Management	£5m	16.40
Jul 2013	Golafe House, 98-101 St Mary Street	John Lewis Pension Fund	£4.42m	14.0

Source: Knight Frank Research, Property Data

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