OUTLOOK

- Cardiff take-up for 2011 is on track to exceed its average of 500,000 sq ft pa, following the pre-let of 202,000 sq ft to Admiral Insurance.
- Grade A space will remain scarce in the near term. There is now only 7,300 sq ft available in the city centre and 46,000 sq ft in the Bay.
- Polarisation in secondary rents will continue as grade A supply constraints boost demand for better quality second hand space, while rents for poorer quality space will remain in single figures.
- The release of public sector space has been less than first anticipated, with only 37,000 sq ft hitting the market in H1 2011, although with lease breaks and expiries this may increase.
- Headline rents are expected to plateaux at £21.00 per sq ft this year, although incentive levels are likely to reduce.
- Investor demand in Cardiff for office buildings with secure long-term income streams, RPI rent reviews and strong covenants remain unlikely to be satisfied.

INVESTMENT

- The lack of office deals completed in H1 2011 implies that the Cardiff investment market is currently inactive, which is not the case.
- Investments let on long leases to strong covenants remain the most attractive to investors.
- For example, in May 2011, British Steel Pension Fund paid £45.9 million for Cardiff Bay’s new media village, Porth Teigr, in a deal reflecting a yield of 4.85%. The scheme (which on completion will comprise of offices and production facilities) is let to the Welsh Assembly Government for 25 years, with an underlease to the BBC.
- The funding of the new Admiral Insurance building is currently under offer, with exchange expected imminently. It is rumoured that a major institution will be paying above vendor Stofords’ quoted price of £55.5 million, which would reflect an NIY of 6.0%.
- Despite the lack of transactional evidence, it is apparent that aggressive yields can be achieved for the right stock.
- The investment transaction level is expected to pick-up in the latter half of 2011, with 5 Callaghan Square recently coming onto the market at a quoting price of £14.25 million, which reflects a yield of 7.0%. While at Cardiff Gate Business Park, Copse Walk has now been re-priced to £4.1 million, which reflects a NIY of 10.3%.

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THE OCCUPIER MARKET

• At 372,500 sq ft, Cardiff H1 2011 take-up was 79% higher than the 208,000 sq ft reached in H1 2010.
• The surge in take-up was due to developer Stoford completing its 202,000 sq ft Admiral Insurance pre-let. The deal was brokered last summer, but subject to receipt of planning consent which was finally granted this June.
• The second noteworthy deal of H1 2011 was the 46,300 sq ft letting to The Listening Company (TLC) at Hodge House. Not only did it help boost take-up, but will also result in the creation of up to 600 new jobs for the city, when Serco (the new owner of TLC) opens its new call centre this summer.
• Overall the occupier market continues to conform to trend, with take-up driven primarily by deals of sub 5,000 sq ft, but boosted periodically by one or two sizeable transactions.
• Law firm Hugh James’ search for 60,000 sq ft is the city’s biggest requirement. Legal & General is also rumoured to be imminently launching a 50,000 sq ft Cardiff requirement.
• At the end of H1 2011, Cardiff availability reached 1.5 million sq ft, which was similar in level to H1 2010.
• The fast diminishing supply of available grade A space will remain problematic in the short to midterm, as the development pipeline remains stagnant. The only speculative scheme likely to get underway this year is JR Smart’s proposed 77,700 sq ft HQ building at Capital Quarter.

RENTS

• Headline rents have held firm at £21.00 per sq ft since Q4 2009, when two separate 19,000 sq ft deals to Gambit Corporate Finance and M&A Solicitors completed at Aviva’s Cardiff Bay development, 3 Assembly Square.
• Newly refurbished city centre space at Helmont House has recently commanded rents of £17.00 per sq ft, with the building’s top floor achieving £20.00 per sq ft. MEPC’s Callaghan Square development has recently secured rents of around £20.00 per sq ft.
• Incentives continue to underpin the steady prime rental level. On a 10 year lease, a tenant can now reasonably expect to secure up to 24 months rent-free.

H1 2011 top market deals

<table>
<thead>
<tr>
<th>Address</th>
<th>Size (sq ft)</th>
<th>Tenant/Purchaser</th>
<th>LH/FH</th>
<th>Rent (per sq ft)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Former David Street Carpark</td>
<td>202,000 (pre-let)</td>
<td>Admiral Insurance</td>
<td>25 year lease with inflation linked 5-yearly uplifts</td>
<td>£16.75</td>
</tr>
<tr>
<td>Hodge House, Guildhall Place</td>
<td>46,300</td>
<td>The Listening Company (Serco)</td>
<td>15 year lease</td>
<td>Stepped rising to £12.50</td>
</tr>
<tr>
<td>Fusion Point 2, Dumballs Road</td>
<td>18,800</td>
<td>Involegal</td>
<td>15 year lease, break after 3.5 years</td>
<td>£16.50</td>
</tr>
<tr>
<td>Fairway House, Fortran Road, St Mellons</td>
<td>11,000</td>
<td>eLINIA</td>
<td>Confidential</td>
<td>£16.50</td>
</tr>
</tbody>
</table>