OUTLOOK

- Conditions in the Leeds office market will continue to improve as market confidence is restored.
- Leeds city centre (CC) 2013 take-up will easily outperform 2012 and for the first time in six years will be on a par with pre-recessionary levels.
- 2013 Leeds out of town (OOT) take-up is expected to reach 440,000 sq ft, well ahead of last year’s level.
- Grade A availability will further deplete, which could see landlord incentive levels start to fall next year.
- If evidence of a sustainable recovery persists, business confidence will rise and companies will once again consider pre-letting space.
- If pre-let deals remain absent, it is likely that we will see more building refurbishments getting underway in 2014. These will provide much needed grade A space.
- Total investment in Leeds offices has already surpassed the 2012 level, reflecting investor appetite for quality regional assets.
- In Sheffield, we predict next year will be the turning point for the market, as the speculative development of 3 St Paul’s Place helps to re-ignite the market and revive activity.
- This year the market has improved, with 2013 Sheffield take-up easily on course to outperform 2012.
- With the absence of any new completions, availability levels will continue to fall.

INVESTMENT

- Q1-Q3 2013 Leeds office investment totalled £120.9m, double the £60.2m transacted between Q1-Q3 2012.
- This upturn in activity reflects the growing investor appetite for good quality, secure regional assets offering attractive yields.
- This is reflected in British Steel Pension Fund’s £25.2m deal with Muse, to forward fund KPMG’s new 61,000 sq ft Leeds headquarters building at 1 Sovereign Square in a deal reflecting a yield of 6.45%. Construction has commenced with completion due autumn 2015.
- Elsewhere in the market, M&G has bought Toronto Square for £29m, which reflects a 7% yield. The 88,200 sq ft building, completed in 2010, offers grade A space and benefits from a BREEAM excellent rating.
- A second scheme also underway is MEPC’s 10 Wellington Place, where a 35,000 sq ft brand new office building is currently being developed; almost half of which is pre-let to law firm Shulmanns.
- More activity at Wellington Place could ensue, with MEPC recently securing planning consent for office Buildings 5 & 6, which respectively comprise 105,500 sq ft and 144,000 sq ft. The developer is reported to be in talks to secure pre-lets, although has not ruled out proceeding speculatively.
- In Sheffield, total office investment between Q1-Q3 2013 reached £21.3m, which is on a par with 2012.
- These figures disguise the renewed positivity in the market, with CTP’s decision to speculative develop 76,000 sq ft at 3 St Paul’s Place. This will be Sheffield’s first major office development in more than five years and on completion will supply the market with much needed grade A office space.

Key investment transactions, Q2 & Q3 2013

<table>
<thead>
<tr>
<th>Date</th>
<th>Address</th>
<th>Size (sq ft)</th>
<th>Purchaser</th>
<th>Vendor</th>
<th>Price</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug 13</td>
<td>Toronto Square, Leeds</td>
<td>88,200</td>
<td>M&amp;G Property Portfolio</td>
<td>Highcross</td>
<td>£29m</td>
<td>7%</td>
</tr>
<tr>
<td>May 13</td>
<td>1 Sovereign Square, Leeds</td>
<td>61,000</td>
<td>British Steel Pension Fund</td>
<td>Muse Developments</td>
<td>£25.2m</td>
<td>6.45%</td>
</tr>
<tr>
<td>Sep 13</td>
<td>Direct Line House, 28-36 The Headrow</td>
<td>114,000</td>
<td>Direct Line Insurance (Receivers)</td>
<td>KPMG (Receivers)</td>
<td>£16.3m</td>
<td>11.9%</td>
</tr>
<tr>
<td>Aug 13</td>
<td>9 Bond Court, Leeds</td>
<td>68,000</td>
<td>Bishopsgate LT PFLUT</td>
<td>F&amp;C Reit Asset Management</td>
<td>£12.4m</td>
<td>8.7%</td>
</tr>
<tr>
<td>Apr 13</td>
<td>Aspect Court, Pond Hill, Sheffield</td>
<td>57,000</td>
<td>Delta Properties (Israel)</td>
<td>Receiver</td>
<td>£3.1m</td>
<td>16%</td>
</tr>
</tbody>
</table>

Source: Property Data, BNP Paribas Real Estate
THE OCCUPIER MARKET

- Total Leeds take-up between Q1-Q3 2013 reached 829,000 sq ft, up 36% on the equivalent period a year earlier.
- This rise has been driven by strong transactional activity in the CC, with three exceptional deals over 60,000 sq ft completed this year. In 2012 there was just one deal of this magnitude.
- Whilst it has been a positive year for the Leeds office market, the pick-up in market activity levels should not be over exaggerated.
- Market confidence is certainly rising, but there is a degree of caution overhanging the recovery.
- Developers still won’t commit to speculatively developing a new building without signing a significant pre-let, instead preferring the less risky option of speculative refurbishment.
- Evans Property Group took the latter option when it went onsite on its £5m speculative refurbishment of Minerva House on East Parade. On completion next March, the building will provide refurbished grade A accommodation.
- OOT there has been further activity at Thorpe Park, with owner Scarborough Developments recently granted full planning consent to extend Thorpe Park to include 1.1m sq ft of new offices and 400,000 sq ft of retail and leisure space. It is hoped that the bolstered amenities will appeal to new occupiers. The plans are now subject to Secretary of state approval.
- Sheffield has also seen a pick-up in transactional activity, with Q1-Q3 2013 total Sheffield take-up reaching 192,188 sq ft, up 19% on the equivalent period a year earlier.
- The absence of prime office space has meant smaller grade B and C deals are sustaining the market.
- This has resulted in the Sheffield supply level falling 13% over the last year, with Q3 2013 availability now at 1.4m sq ft.

RENTS

- At £25.00 per sq ft Leeds headline rent remains unchanged.
- Favourable incentives continue to be offered to attract tenants; but with anticipated rising competition for premium grade A space, we may soon start to see levels reduce.
- With the continuing under supply of prime space in the Sheffield CBD unsurprisingly, Sheffield headline rent is unchanged at £19.50 per sq ft.
- Tenant incentives remain important, with Sheffield occupiers typically negotiating between 18 and 24 months rent-free on a 10-year term.

Q2 & Q3 2013 top market deals

<table>
<thead>
<tr>
<th>Address</th>
<th>Size (sq ft)</th>
<th>CC/OOT</th>
<th>Tenant/Purchaser</th>
<th>LH/FH</th>
<th>Rent (psf)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broad Gate, 1 The Headrow</td>
<td>76,413</td>
<td>CC</td>
<td>Yorkshire Building Society</td>
<td>25 years, 10 years term certain</td>
<td>£22.50</td>
</tr>
<tr>
<td>Broad Gate, 1 The Headrow</td>
<td>25,389</td>
<td>CC</td>
<td>CapGemini Financial Services</td>
<td>10 year lease</td>
<td>£22.00</td>
</tr>
<tr>
<td>3 The Embankment</td>
<td>22,510</td>
<td>CC</td>
<td>NHS Leadership Academy</td>
<td>5 year lease, breaks years 2 &amp; 3</td>
<td>£19.50</td>
</tr>
<tr>
<td>2200 Thorpe Park</td>
<td>18,269</td>
<td>OOT</td>
<td>Age Partnership</td>
<td>10 year lease, 5 year break</td>
<td>£12.75</td>
</tr>
<tr>
<td>Flockton Building, The Mount</td>
<td>15,000</td>
<td>OOT</td>
<td>Sheffield Children’s NHS Foundation Trust Assignment expiring Aug 2018</td>
<td>Peppercorn rent</td>
<td></td>
</tr>
<tr>
<td>Derwent House, Arundel Gate</td>
<td>15,000</td>
<td>CC</td>
<td>Bluestone Credit Management</td>
<td>Undisclosed</td>
<td></td>
</tr>
</tbody>
</table>

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