# OFFICE MARKET REPORT 2017

Lambert Smith Hampton

# THAMES VALLEY

Lambert Smith Hampton

# WELCOME

NICK COOTE
Head of Thames Valley
Lambert Smith Hampton

A shock referendum fallout. The triggering of Article 50 to start our exit of the European Union. A change of leader. An election. A minority government. 12 months of uncertainty, surprises and upheavals at home, not to mention abroad.

Within this context, the Thames Valley office market has remained remarkably resilient in both the occupational and investment markets.

However, there are some fundamental changes to occupier demand that we must heed and react to.

Never has it been more critical to analyse markets in forensic detail and accurately predict the future. This report contains an overview on the market, granular information on each location within the Thames Valley, along with our insight on where the region is winning and how to capitalise on this to ensure future success – I hope you find it useful.

If you would like any guidance or further information, please contact our team of experts – we'd be delighted to help.

Best wishes and good luck for an outstanding 2017/2018.

## CONTENTS

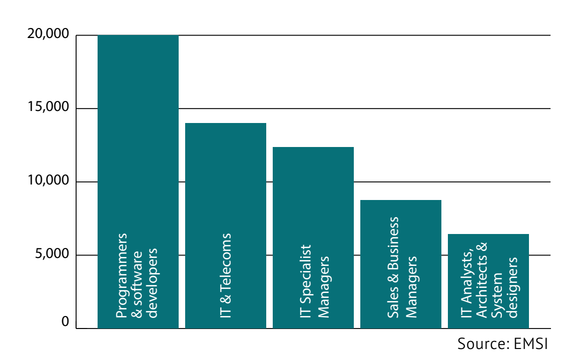
# THE RISE OF THE TECH SECTOR

The Thames Valley boasts a tech sector that is not only 135% above the national average in terms of the number of jobs within it, it is growing at almost twice the national average rate.

| Jobs (2016) 135% above UK average | % Change (2015-2016) UK: +4.2% | Avg. Wages Per Job (2016) UK: £41,343 |
|---|---|---|
| **168,804** | **+7.5%** | **£45,525** |

Source: EMSI

**Occupations employed by these industries 2016**




Source: EMSI

The region has long been home to major technology multi-nationals. Microsoft, Oracle, Dell and Cisco have all established European centres here, making the region the Silicon Valley of the UK. Now, in addition, platforms such as ConnectTVT have re-energised the start-up innovation layer at the other end of the scale and are driving collaboration between corporates, creating a burgeoning eco-system.

The Tech Nation Report 2017 placed Reading second only to London in terms of digital economies, at £12.5 bn, responsible for 45,269 jobs.

Thames Valley digital business turnover is growing. The Tech Nation Report reveals that Reading's digital sector has grown by 57% in the period 2011-2015, meanwhile Oxford's has increased by 43% – a far higher pace than the wider economy. The Tech Nation Report also showed that 77% of businesses are optimistic about the region's prospects for digital growth.

## READING

| | | |
|---|---|---|
| **£12.5 billion** Digital Tech Turnover (million) | **45,269** Number of Digital Jobs | **£5.5 billion** Digital GVA |
| **18%** High Growth Firms | **605** Startup Births | **53,255** Average Advertised Digital Salary |

## OXFORD

| | | |
|---|---|---|
| **78%** Tech Sector Growth Potential | **26,367** Number of Digital Jobs | **£1.1 billion** Digital GVA |
| **18%** High Growth Firms | **232** Startup Births | **47,795** Average Advertised Digital Salary |

Source: Tech Nation Report 2017

## GRASS ROOTS START-UPS

There's a burgeoning start-up scene across the digital tech eco-system which is driving change at the grass roots level. This is particularly evident in the increase in co-working spaces across the region, responding to the demand for collaborative work spaces. Digital business concentration for Reading is 7.26 (very high). In Oxford this figure is 1.53 (high). For both Reading and Oxford, the proportion of digital tech businesses classified as high growth is 18.2%. With the UK lagging behind the US and other leading economies in the relative proportion of start-ups to scale-ups, this shows that the Thames Valley as a region offers the environment for businesses to transition into this next phase of growth – from accessing talent and developing scale-up leadership to finance and infrastructure access.

Now two years since its inception, GROW@GreenPark is a tech cluster and co-working space with more than 300 members. Alongside start-ups, it is home to predictive analytics success, Black Swan, and is attracting other fast-growth businesses looking to expand outside of London. Work.Life launched its first non- London space earlier this year in Reading's transformed White Building. Slough's accelerator, The Bakery, is working to bring corporates and start-ups together and Maidenhead has welcomed co-working spaces, The Workary and MyWorkSpot. Oxford's PowWow, Wheelhouse and the POD run alongside a cluster of thriving tech accelerators – Oxford Hub, FAB Accelerator and The Hill – shaping the next generation of tech firms coming through.

## LOCATION OF CHOICE FOR SCALE-UPS

Alongside the start-up scene, a new brand of tech businesses are scaling-up and very much investing in the Thames Valley. The success story of Fairsail, recently acquired by Sage UK, to become Sage People is a case in point. In the last three years, the business went from 15 to 140 employees, £1m to £10m revenue and one of the largest ISV's operating on the Salesforce platform. As the inaugural tenant at the new Thames Valley Science Park, Sage People has made its commitment to the region clear.

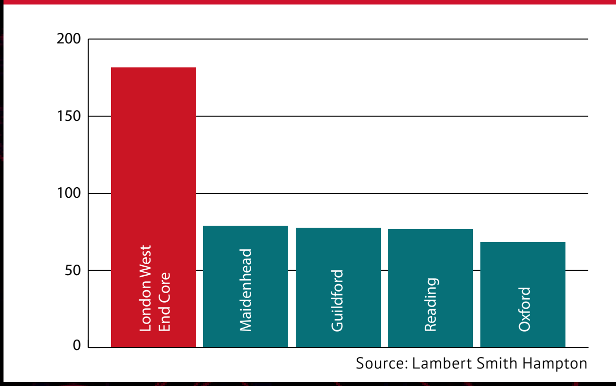
Oxford Sciences Innovation (OSI) last year launched an unprecedented 24 high-tech firms, raising £52.6m in seed

# IN THE THAMES VALLEY

## The benefits of the Thames Valley as a tech location

The benefits of being located in the Thames Valley are clear. Occupiers benefit from close proximity to London, while occupancy costs are far more affordable than the capital. Ready access to Heathrow airport also makes the region it an ideal base for multi-national organisations.

**Total office costs comparison 2017** (£ per sq ft per annum)




Source: Lambert Smith Hampton


stage funding. Of these, 21 were spin-outs from the university, including OxStem, Mind Foundry and EnzBond.

We're also seeing digital tech companies attract investment into the region; SafeToNet, the cyber security company, secured funding of £3 million to enable it to scale.

## TECH COMPANIES VENTURING INTO THE CENTRE

The region's tech companies have traditionally been located at out of town business and science parks. Harwell Science & Innovation Campus, Oxford Science Park and Reading's Green Park are home to a number of multi-nationals, as is the Thames Valley Business Park. Guildford's Surrey Research Park helps young technology-based businesses find their feet in a commercial environment and recruit the best of talent while providing access to the excellent resources from within the university.

Increasingly nowadays, a new pillar of fast-growth, usually US –based business, specifically seek out town-centre locations. Global tech scale-up Carbon Black recently moved to Reading's The White Building in the town centre as the base from which to drive its UK expansion. Cloud Factory, which recently announced a $7.30 million Series B funding round, will be joining them in the building's Work.Life space.

### What does the mean for landlords?

With a new breed of innovative, flexible and tech-driven businesses, we need to be more creative about work and office space. The one size fits all model is becoming obsolete in the day of the distributed, hyper-connected team.

# PERSONALITY
## IS THE KEY TO SECURING OCCUPIERS

**Lambert Smith Hampton's Tom Fletcher explores how giving an office building an individual personality is key to securing occupiers...**

Gone are the days when delivering a standard office building into the market is enough. Occupiers expect more, or even if they don't initially, when they see a building that stands out from the crowd, they will invariably then ignore those that don't.

Companies expect their workplaces to act as an extension of their brand and company ethos and, in an age when attracting the best talent is paramount, particularly those coveted Millennials, their work space needs to have this demographic firmly in mind. They are also seeking to enrich and empower their staff to maximise their productivity and limit staff turnover.

Whilst the likes of Derwent have been pushing the boundaries for years in London, the regional market has only witnessed a sprinkling of differentiated office buildings in the last five years and it has only been in the last two to three years that the number and quality of these differentiated products have risen.

Some people think that differentiation means exposed services – it doesn't. Differentiation is about offering something more or something different. Exposed service design has proven to be highly successful at the likes of The White Building and Thames Tower in Reading, however, it isn't right for every building, location or market. That doesn't mean you can't differentiate in other ways.

Landid and Brockton's One Valpy brought the concierge reception to Reading courtesy of Portico, a high quality tailored guest service provider.

Boultbee Brooks and CBRE Global Investors' The White Building has a business lounge with meeting pod, self service iPad coffee tap, co-working space and communal open air roof terrace.

Thames Tower has taken it to another level with their 4,000 sq ft rooftop lounge, terrace and garden called Roost, providing breakout space for occupiers and a communal bar and café, including an in-house barista. The building's ground floor has 8,000 sq ft of retail space let to Pret and Kupp. Both Roost and The White Building's communal roof terrace have both been designed as collaborative working spaces and double up as internal and external client events space, illustrating that this event space can be used to attract prospective tenants into buildings.

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This trend is not just limited to Reading. The Landid/Brockton partnership (responsible for the ground-breaking Thames Tower) has taken the ethos to The Charter Building (ready to occupy), Uxbridge, and The Porter Building, Slough (nearly complete). U & I Group is doing so at Future Works, Slough (complete in 2018).

Future Works and The Porter Building are providing onsite ground floor cafes, despite their town centre locations. Their belief is that this will encourage a community hub as well as an office hub. Both buildings have roof terraces – with an impressive garden in situ at Futureworks, designed to cultivate happiness at work. All other mod cons are included, such as a concierge service and showers.

The Charter Building is in talks with a market leading co-working brand in order to kick start the community concept, and has its own concierge desk away from the normal reception to create a hotel lobby area.

The White Building, Reading | CBREI/Boultbee Brooks

Voyager Place and Concorde Park, Maidenhead, are out-of-town locations. To celebrate this whilst improving connectivity and the work/life balance, Voyager Place has provided branded bikes with which to travel to the station and town centre and Concorde Park has signed terms with an entrepreneurial food truck company to ensure great variety and quality of food.

Ediston Real Estate/Europa Capital's Cathedral Square, Guildford, will have a new cafe/lounge area, branded electric bikes, shower rooms, drying room and lockers, bike maintenance area, concierge service and branded shuttle bus to the station.

Bracknell's Lightbox has an ipad controlled self-service coffee tap in its break-out area, along with table football and bikes.Plans for highly differentiated offices are also in the pipeline in Oxford.

Whilst there is a cry that much of this 'fluffy stuff' is merely a marketing tool with limited real life usefulness, we know that demand for non-traditional office specifications is truly changing. A great example being that at R+, the landlord is responding to specific occupier requests by installing hairdryers, hair straighteners, ironing boards and irons into its shower and locker facilities. Additionally, R+ has plans for a business lounge in the reception with a Sonos wireless music system, a cafe and co-working/serviced office amenity on the ground floor, and bespoke furniture on the numerous roof terraces.

Amenity-rich, customer-focused, creative communities are replacing the standard office building and those that understand and implement this way of thinking will reap the benefits.

## DIFFERENTIATION IN ACTION


The White Building, Reading | CBREI/Boultbee Brooks

Thames Tower, Reading | Brockton Capital/Landid

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# MEES REGULATIONS: THE CLOCK IS TICKING

From 1 April 2018, the Minimum Energy Efficiency Standards set out under the Energy Efficiency Regulations 2015 (The 'MEES Regulations') will make it unlawful for landlords in England and Wales to let a building which fails to meet the minimum required EPC rating of E.

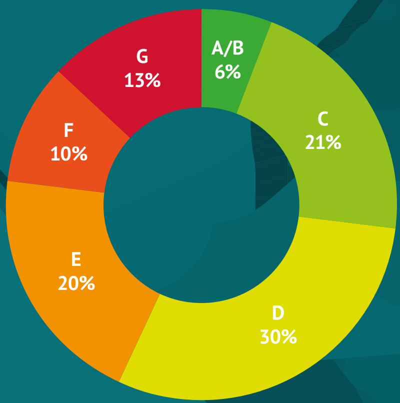
EPCs were introduced in 2008 and apply to the majority of privately rented commercial properties. While there are certain exemptions, unless landlords take due steps to prove and register these, those with a property failing to meet the E rating, are likely to find themselves unable to let their property or, if they let them, liable for penalties of up to £150,000 and for the infringement to be made public.

Initially, the MEES Regulations will only apply to the granting of new leases and lease renewals, but from 1 April 2023, they will extend to all active leases, making it unlawful for landlords to allow a letting to continue where the subject building has an EPC rating worse than E, unless they register an exemption.

## HOW MANY PROPERTIES ARE AT RISK?

Nearly a quarter (23%) of UK office buildings currently have an EPC rating of F or G, according to figures from the Green Construction Board. While many Landlords are taking action on these properties prior to 1 April 2018, many are failing to recognise that buildings currently rated D and E risk being caught by the MEES Regulations as detailed below. These buildings account for a further 50% of all offices in the UK with a registered EPC.

**Proportion of EPC ratings for UK offices** (%)



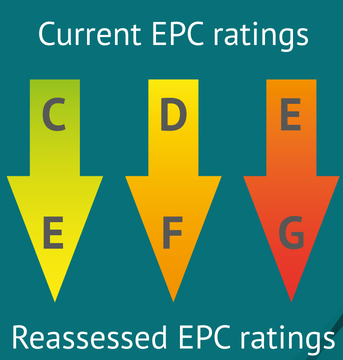

Source: Green Construction Board

## WHY LANDLORDS SHOULD BE CONCERNED

EPCs were first required in 2008 upon a property being constructed, sold or let and are valid for up to 10-years. At that time, these were a simple requirement before a property could be transacted, as opposed to having any significant further use or implication. As such, the accuracy with which the early EPCs were prepared is subject to significant scrutiny.

In addition, through cyclical revisions of the Building Regulations, the measure of energy efficiency has markedly changed in the last 10 years and it is now far more difficult for a property to gain a good EPC rating.

With the above two factors taken into account, there is a high risk that many Landlords have D and E rated properties which, on reassessment today, would in fact be Fs and Gs and thus fall foul of the MEES Regulations in April 2018.




## A TENANT'S ADVANTAGE?

Compounding the above effect is the increasing abundance of well-advised tenants savvy to the potentially huge benefit of being able to evidence that their leased property has an F or G rating.

First, let's take a look at dilapidations. For a tenant faced with a hefty dilapidations claim, a potential means of mitigating that claim would be to argue that works required to comply with the MEES Regulations are far greater than any repair works it is liable for under the dilapidations claim. Whilst this argument would not run for a D or E rated property, if that tenant had had a new EPC carried out immediately prior to lease expiry showing that the rating had dropped to an F, they could have a very strong position and the landlord would potentially be left with their property:

1. In disrepair
2. With no dilapidations settlement funds
3. In an unlettable condition unless they upgrade it to comply with the regulations.

Rent reviews, lease breaks and lease renewals are further potentially contentious areas. Landlords holding rented property with a lease event post-1 April 2018 should be wary of well-advised tenants who may seek to run a similar argument to the dilapidations example above, demonstrating that the property would be unletable were they to end their lease, and using that evidenced assertion to bargain with the landlord for substantially favourable lease terms, or alternatively seeking to force their landlords to improve the subject building to comply and then seeking to claim a rent free period or reduction to compensate for the disruption.

## WHAT ACTION CAN LANDLORDS TAKE?

With over 70% of registered office properties carrying a D rating or below, and the significant liability that landlords face if they fail to comply with the standards, it is vital that landlords take the initiative with their tenants. The respective positions will vary massively according to whether it is the landlord approaching their tenant about the Regulations or vice versa.

It also must be noted that the risk potential of a property can only be judged individually, taking into account the validity of the existing EPC, the risk profile of the property failing the MEES Regulations, if re-assessed, the ability to recoup upgrade costs from the tenant, and the applicable exemptions (if any).

It should also be expressly noted that a blanket policy of having new EPCs carried out across property portfolios will inevitably prove very costly, where existing compliant properties will be needlessly downgraded as opposed to more refined strategies being put in place.

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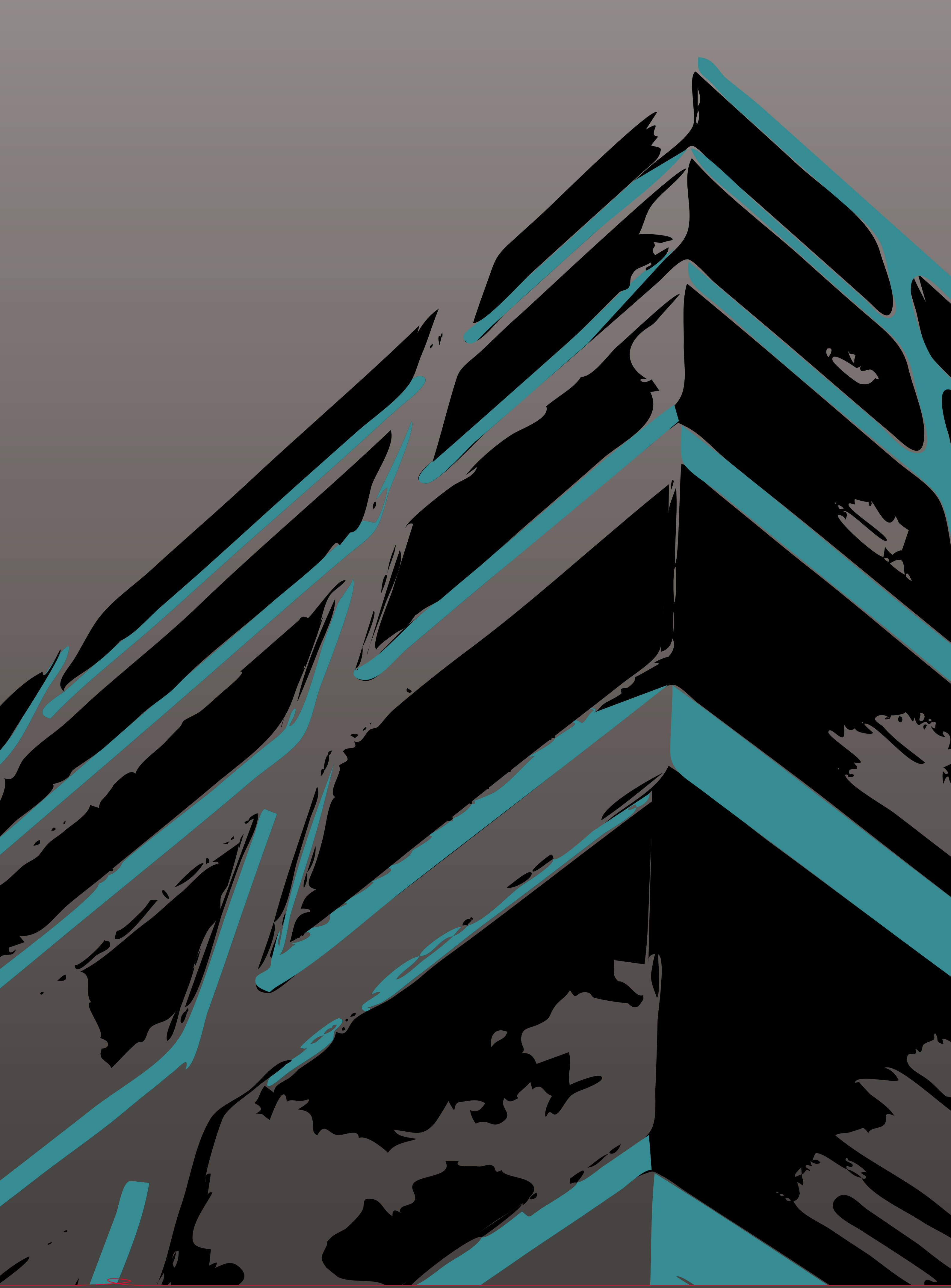


# REGIONAL INSIGHT

# OCCUPIER MARKET OVERVIEW

A snapshot of the Thames Valley region at a glance...

### TAKE-UP BELOW PAR IN MOST THAMES VALLEY MARKETS

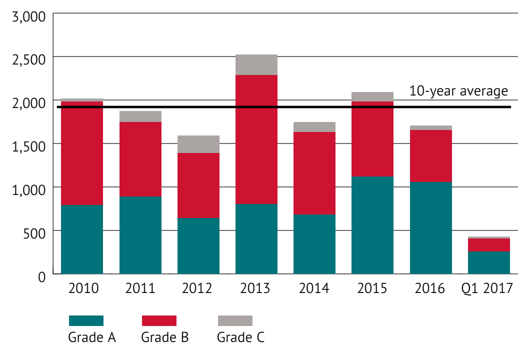
At 1,702m sq ft, 2016 take-up across the Thames Valley was 19% below 2015's total and 13% below the 10-year average. 2014 and 2015 both included peak quarters of over 700,000 sq ft and 800,000 sq ft respectively, whereas 2016 saw four average or under-par quarters.

This was partly driven by referendum uncertainty, particularly in Q3 2016. However, there are some longer-term trends in action too.

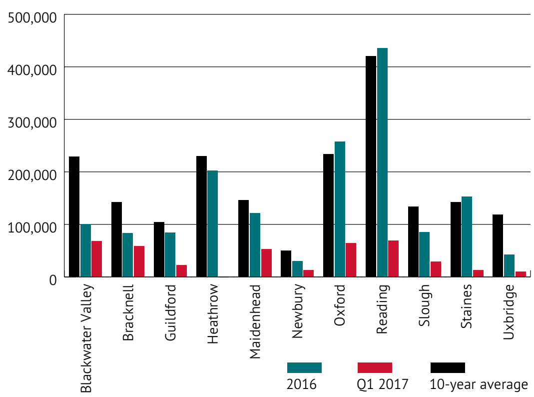
Grade C take-up is now almost non-existent and the proportion of grade A take-up has increased from 32% of the total in 2013 to 60% in Q1 2017. This is reflective of an increase in grade A space available and a desire from occupiers to provide high quality working environments for their staff.

Oxford, Reading and Staines all out-performed their long-term averages in 2016, however, Oxford is the only market to have performed strongly in both 2016 and Q1 2017. Despite a poor year in 2016, Bracknell has had a very strong start to 2017, transacting over 40% of its annual average in just one quarter.

**Thames Valley take-up (000 sq ft)**



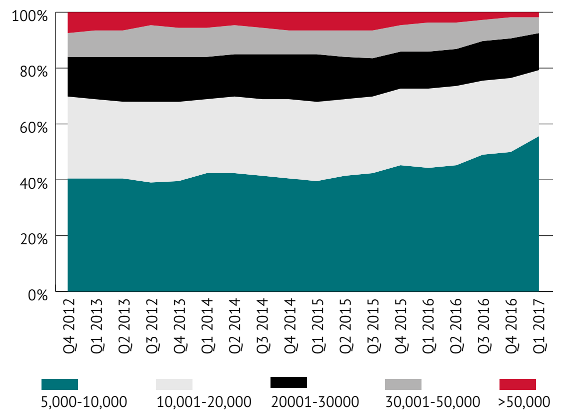

**Thames Valley take-up against 10-year average (sq ft)**



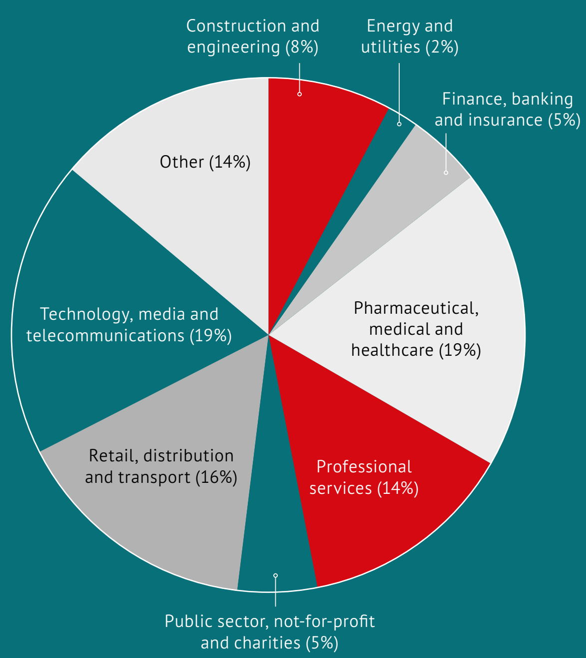

### STEP-CHANGE REDUCTION IN LARGE REQUIREMENTS

A notable trend has been a step-change in the size of space sought since 2015. With an increase in occupiers looking for small and flexible space (up from 40% to 50% for 5,000 – 10,000 sq ft requirements) and a fall of 61% in the number of 30,000 sq ft plus enquiries, this is having a demonstrable impact on the market.

**New enquiries by size, rolling four-quarter average (sq ft)**




**Thames Valley take-up by sector (2016 plus Q1 2017)**



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## AVERAGE TRANSACTION SIZE IS FALLING

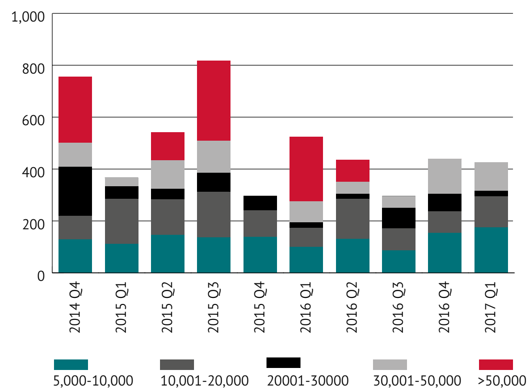
Looking at transactions, we can see that enquiry levels have been a good barometer for a real change in the market. This is a trend that began well before the referendum uncertainty and is reflective of a desire for large organisations to consolidate, create shared work spaces and save costs, and a momentum in the growth of SMEs, particularly in the TMT and pharmaceutical sectors.

Average transaction sizes (over 5,000 sq ft) have fallen since early 2015 – we are now seeing a lack of peak quarters caused by major sporadic deals of over 100,000 sq ft. Instead, the average quarterly total has flattened and is moving consistently downwards. Looking at the rolling quarterly average transaction size, it has fallen steadily - by 25% from 16,900 sq ft in Q3 2015 to 12,700 sq ft in Q1 2017.

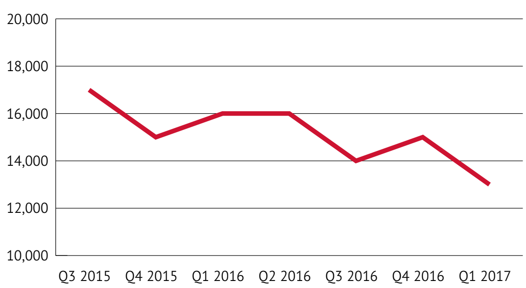
Particularly prevalent in the markets of Reading, Slough, Blackwater Valley, Uxbridge and Woking, and to a lesser extent Guildford and Newbury, this trend is set to continue for H1 and probably throughout 2017 and 2018, with few large requirements in the market.

With an increase in demand coming from SME's and start-ups, those buildings that can provide inspirational work spaces with flexible terms to support growth will reap the benefit.

### Thames Valley transactions by size band




### Thames Valley average transaction size (four quarter average) (sq ft)




## SUPPLY CONTINUES ITS LONG-TERM FALL

Total supply in the Thames Valley has fallen consistently from 2011 to stand at 8.8m sq ft at the end of Q1 2017 – 4.5 years' supply.

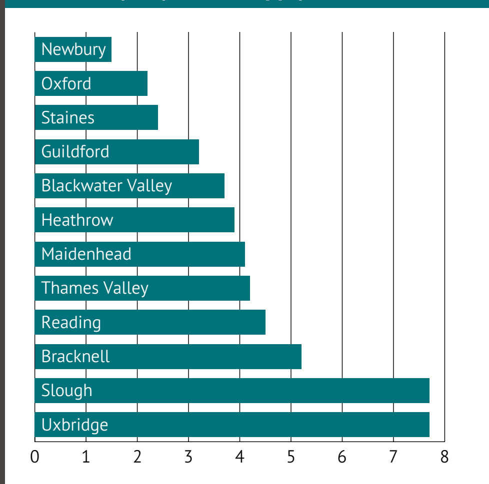
Grade C space has been almost entirely taken out of the market, while the share of supply made up of grade B space has fallen from 57% in 2012 to 45% in 2017. These falls have been hastened by buildings leaving the market for conversion to residential, along with development increasing the amount of grade A space available.

Newbury has the lowest availability rate of the Thames Valley, at only 2%. With the electrification of the train line to London, a significant residential development programme and a consistent level of demand, most of the fundamentals are in place to stimulate speculative development. However, speculative office development in the Thames Valley would need to command rents of £30.00 per sq ft to be viable on paper. As a result, some locations, Newbury being a prime example with rents of £24.00 per sq ft, may be overlooked.

At 30%, Slough has the highest availability rate of the region. Already consistently high in the past, this has been increased by investors' desire to provide office space ahead of Crossrail coming to the town in 2019 and rental increases to £39.00 per sq ft. It is likely that take-up will increase over the next three years due to the new availability of high quality stock situated next to an Elizabeth Line station.

Reading has experienced over 1m sq ft of development over the past two years. The majority of this has taken place near to the railway station, again, in anticipation of Crossrail improving connectivity to London.

### Availability as years of supply*




* Years of supply defined as current availability divided by 10-year average take-up

Data source: Lambert Smith Hampton

# OCCUPIER MARKET OVERVIEW
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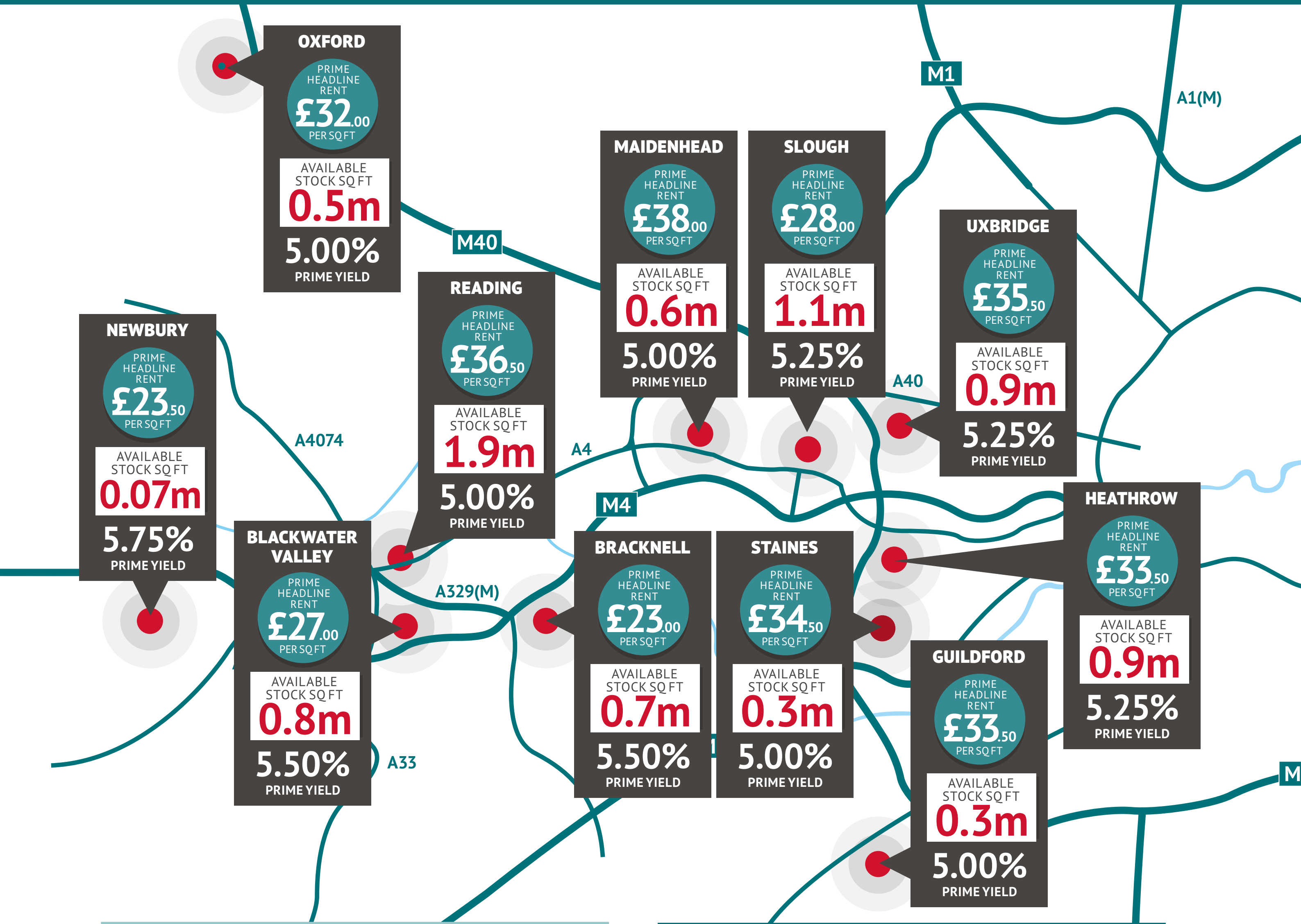
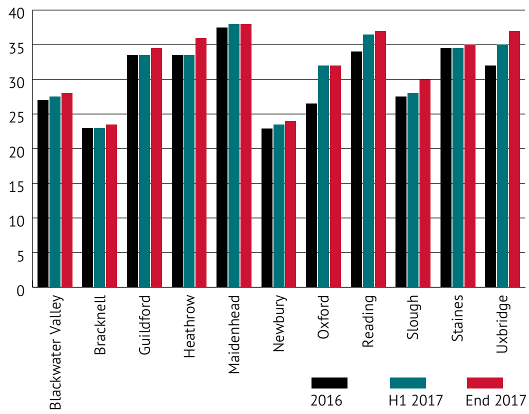



## STRONG RENTAL PERFORMANCE ACROSS THE REGION

Rents have either been static or increased in every market in the Thames Valley between 2016 and H1 2017. Maidenhead and Oxford are not expecting any further increases in H2 2017, however prime rents in all other Thames Valley markets are expected to rise during this time.




## OUTLOOK

Take-up is likely to remain under pressure during 2017 and 2018 due to on-going political and economic uncertainty on a macro-economic scale, alongside a lack of big lease events across the market and a desire from occupiers to consolidate and use space more efficiently.

However, there is a notable increase in demand from small and growing companies that can fill the void left by a fall in large requirements. Those buildings that are suitable for multi-let occupation and those landlords who are prepared to be flexible with lease terms to support company plans for growth will be able to out-perform the rest of the market.

In the longer term, Crossrail should provide a boost to Thames Valley take-up. At present, Reading town centre has access to a working population of 2.4m within a one hour public transport commute. This will increase to over 6m when Crossrail is running, having a significant impact on the attractiveness of Reading, Maidenhead and Slough, particularly to occupiers. In effect, these towns will become sub-markets of London.

# TRIGGERS AND DRIVERS

## WHAT MOTIVATES COMPANIES TO ACQUIRE NEW OFFICE SPACE IN THE THAMES VALLEY AND WHAT INFLUENCES THEIR CHOICE OF PROPERTY?

### TRIGGERS – WHAT IS PROMPTING RELOCATION?

#### LEASE EVENTS

The trend from 2012 to 2016 had been an increase in expansion and corporate activity as the trigger for an office move within the Thames Valley, at the expense of the more traditional reason, lease events. This was due to economic confidence and firms being more proactive in deciding when to move according to business needs, rather than being directed by lease events. Corporate activity moved from being the trigger in 57% of moves to 65% and lease events fell from 43% to 35%.

There has been a notable reversal in this trend over the past 12 months, albeit with corporate activity still being the main trigger, moving from triggering 65% of office moves in 2015/2016 to 59% in 2016/2017.

#### EXPANSION AND CORPORATE ACTIVITY

Economic and political uncertainty and a general desire among corporates to delay moving-related decisions are responsible for this. Despite a change in trend, the Thames Valley is still host to a thriving business community. To put it into context, 92 transactions of over 5,000 sq ft took place in the Thames Valley in the year 2016/2017. 48% of these were due to expansion – 100% of all transactions of over 20,000 sq ft.

These were INC Research taking 48,829 sq ft at Pinehurst I, Blackwater Valley, The University of Surrey's acquisition of 46,000 sq ft at 30 Priestley Road, Guildford, Fluor taking 29,210 sq ft at Pinehurst II, Blackwater valley and Alnylam taking 21,000 sq ft at Braywick Gate, Maidenhead.

### DRIVERS – WHAT DETERMINES END CHOICE?

#### LOCATION AND WORK SPACE IMPROVEMENT

Location remains the most important factor in determining which building companies decide to move to. As the primary driver, it has increased to 50%, 13% up on the previous year and the highest seen since 2011.

Inversely, cost has maintained its trend of becoming less and less important – falling to being the driver in only 6% of moves, down from 22% in 2012/13. Occupier focus is very much on providing the best working environment to enable staff recruitment and retention and cost is becoming less of an issue in their decision making.

A notable change is the reduction in efficiency being the driver – from 16% in 2015/16 to only 1% in the past 12 months. There are two reasons for this.

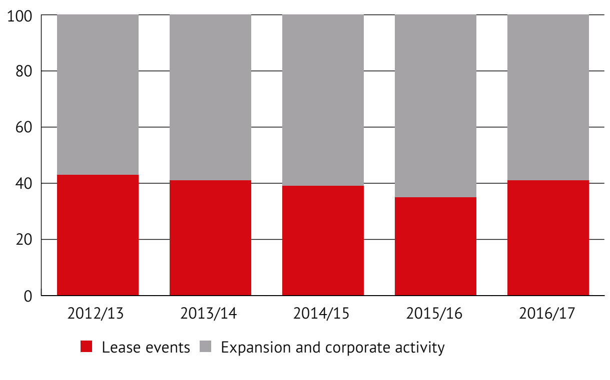
#### PROPERTY ATTRIBUTE, EFFICIENCY AND COST

Firstly, permitted development rights have eroded the majority of grade C properties from the market, and those buildings that are left are relatively efficient. Therefore, the differential between buildings is much smaller and efficiency is no longer such a concern.

Secondly, efficiency is a function of cost, and the prioritisation of people above all else has taken precedence here too.

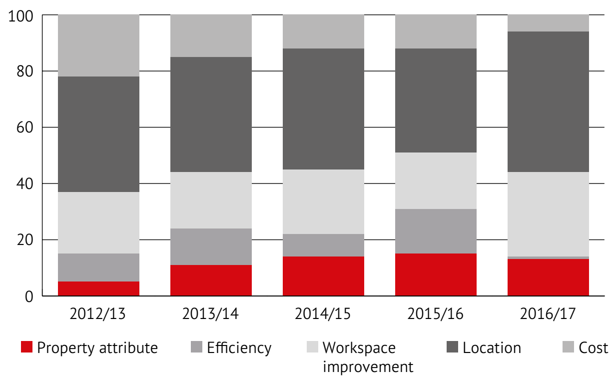
The largest transactions driven by location were Thales' 111,064 sq ft letting at Green Park, Reading, the University of Surrey's acquisition of 30 Priestley Road, Surrey Business Park, and Rank Leisure's 39,000 sq ft letting at TOR, Maidenhead. At the other end of the scale, all of the transactions driven by cost were under 10,000 sq ft.

**Office move triggers – trend over time**




Source: Lambert Smith Hampton

**Office choice drivers – trend over time**




Source: Lambert Smith Hampton

# INVESTMENT MARKET OVERVIEW

## ACTIVITY

Investment volume totalled £1.26bn over the 12 months to the end of June 2017, a 43% decrease on the £2.2bn invested in the preceding 12 months, but encouragingly, the market saw a slight increase in the number of transactions from 85 to 86.

The market performed well in the second half of 2016, recording volume of £949m, which exceeded the total of £870m for H2 2015, when the investment market was still deemed to be in the upwards part of the cycle. Although activity in H1 2017 has been muted, sentiment wasn't overly affected by the short build up to the recent general election, which had very little impact on investment supply or demand.

Supply has been limited as investors are electing to hold stock due to a lack of opportunities to re-invest their equity and the combined round costs of trading. There has been a lack of big ticket deals but the bidding environment has been competitive so far in 2017. Recent weeks have seen an increased number of lots come to the market and coupled with a breadth of demand and further activity off-market, there are encouraging signs for volumes to catch up in the remainder of the year.

Out of town volume surpassed town centres for the fourth year in a row, with business parks attracting 61% of total activity, yet again driven by more supply of out-of-town investment stock. Notably, both town centre and out of town locations recorded an inward yield shift; hardening from 6.93% to 6.52% and 7.43% to 7.36% respectively. This reflects the continued trend of increasing demand for town centre locations but also sustained demand for income in the out-of-town market.

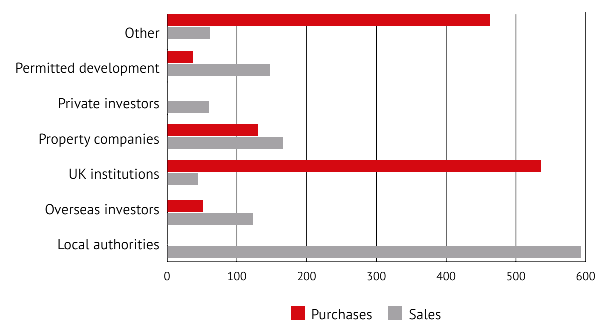
## BUYER AND SELLER PROFILES

Local authorities were by far the largest investor in the Thames Valley over the last 12 months, with their access to cheap funding allowing them to outbid other debt-backed buyers of long income. Total local authority investment was £594m, with Spelthorne Council accounting for £394m, invested entirely within their own borough and predominantly comprising the £360m BP Sunbury Campus.

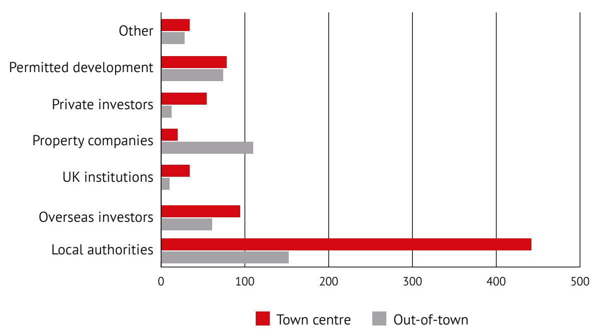
Of significant surprise, institutional buyers only purchased four office assets in the Thames Valley in the last 12 months, amounting to a total of £43.39m. They were, however, the biggest sellers in the market, disposing of £531m across 42 transactions. While there are now a number of UK institutional funds with requirements for town centre offices in the Thames Valley, they have been able to capture demand for long income and permitted development by selling suitable assets in out-of- town and secondary locations. Residential developers have continued to outbid commercial property companies on a number of these assets and accounted for £147.7m of total investment.

The overseas market made up the second highest volume by investor type, despite investing a significantly reduced volume of £191.8m in stark contrast to the £901m invested last year. Despite the weakening of the pound, there were a number of instances where they were outbid by local authorities. There have also been a number of larger sales in the market, notably the Arlington Portfolio (£500m),Winnersh Triangle (£325m) and Farnborough Business Park (£175m), which have yet to complete and would typically attract overseas interest. We anticipate these transactions to conclude in H2 of 2017, which will significantly increase the calendar year volumes.

**Thames Valley investor volumes 2016–2017 (£m)**




**Thames Valley investor volumes by location 2016–2017 (£m)**




Data: all graphs in Investment Market Overview calculated using July to June figures

## PRICING

Pricing between prime and secondary assets has begun to polarise once again. While the prime end of the market has witnessed an inward yield shift, with a sub-5% yield paid for a multi-let office in the Thames Valley for the first time this cycle, the average transaction yield for offices with less than five years' income has softened by 68 basis points from 7.22% to 7.90%.

Investors are discounting more heavily for occupational risk and are more cautious on their rental growth forecasts.

Investors are focused on those towns that have the ability to deliver a genuine rent reversion and have constrained occupational supply to support further growth, which we have identified as Guildford and Oxford.

Prime yields have shifted inwards over the last 12 months, with the majority of markets remaining stable to stand at 5.00%. The demand for income is reflected in the average transaction WAULT having increased to 5.97 years from 4.16 years only 12 months ago. This is being driven by a depth of demand from local authorities and overseas money.

## OUTLOOK

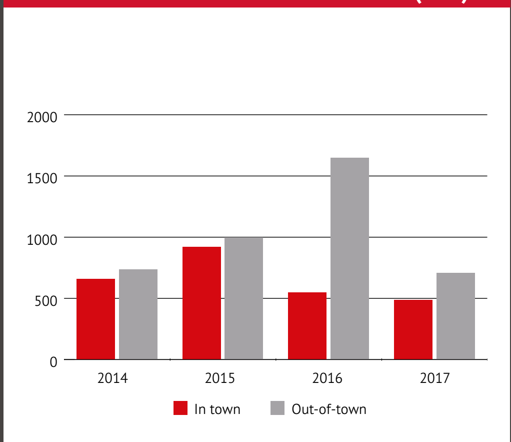
Although there was a noticeable impact on demand and pricing immediately after the EU referendum, Q4 2016 saw a rebound to normal transaction levels. Despite uncertainty over Brexit negotiations and the general election, there remains a considerable weight of demand with very little stock to fulfil it.

As the UK has posted positive economic data, especially in the services sector, investors have regained confidence in the office market. A number of institutions have been bidding keenly having received in flows in the first half of 2017 and we expect to see more activity from these parties in the second half of the year.

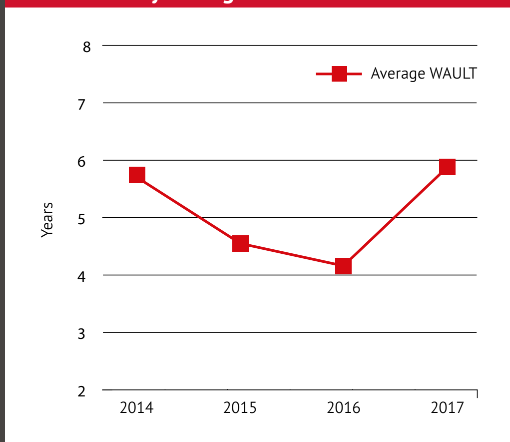
Local authority buyers, with the benefit of low cost debt, will remain a dominant force in the market for long-term secure income, competing with overseas money as the pound remains weak. Many local authorities have issued Article 4 Directions to prevent further conversion of office stock to residential use without planning permission to ensure the economic vitality of their town centres is maintained. Outside of these areas, the trend of permitted development is expected to continue.

There are a number of key speculative office developments in the Thames Valley that are near to being, or have recently been, completed, which will likely see those towns hitting record rents. As these buildings let, there is an expectation that they will be brought to the investment market and drive the next wave of activity. The imminent arrival of Crossrail to some of the key town centres will further enhance the Thames Valley's appeal and, as such, the fundamentals for investment remain strong.

**Town centre vs out-of-town investment (£bn)**




**Thames Valley average WAULT**




Data source: Lambert Smith Hampton

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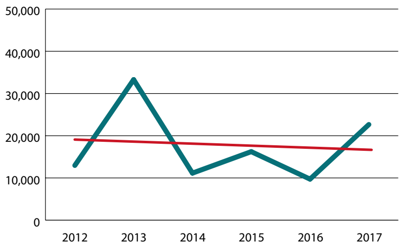
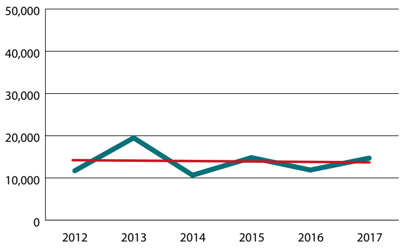
# THAMES VALLEY AVERAGE TRANSACTION SIZE BY MARKET 2012–2017

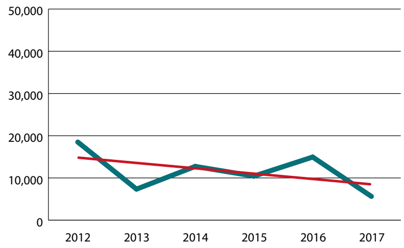
### Blackwater Valley (000 sq ft)



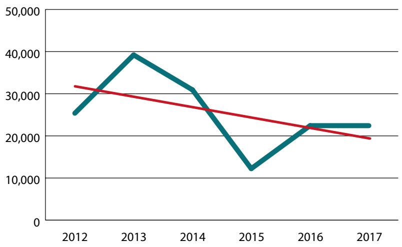

### Bracknell (000 sq ft)



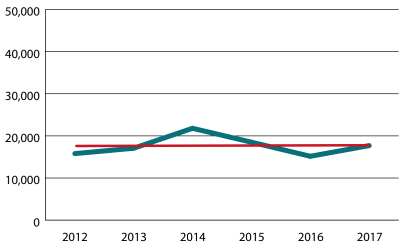

### Guildford (000 sq ft)



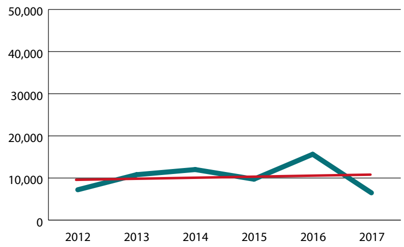

### Heathrow (000 sq ft)



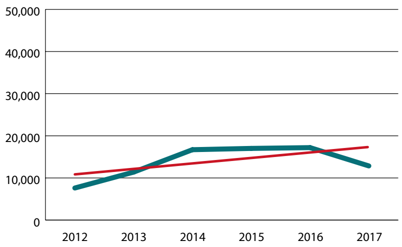

### Maidenhead (000 sq ft)



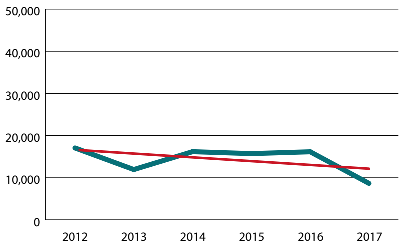

### Newbury (000 sq ft)



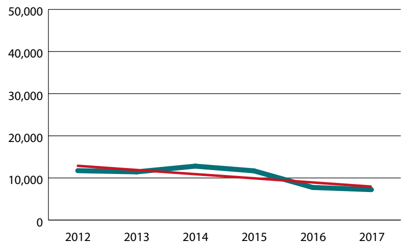

### Oxford (000 sq ft)



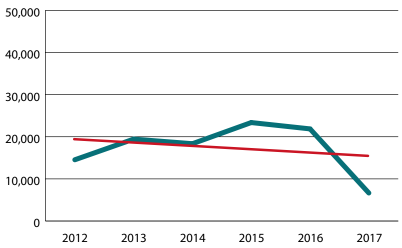

### Reading town centre (000 sq ft)



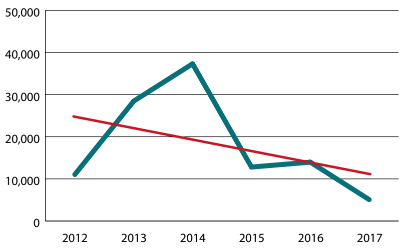

### Slough (000 sq ft)




### Staines (000 sq ft)




### Uxbridge (000 sq ft)




Average transaction sizes have fallen for the Thames Valley as a whole in recent years.

Here we examine how average transaction sizes are changing in each micro-location to make up the overall regional trend.

Average transaction size

Long term trend

Data source: Lambert Smith Hampton

FORENSIC
# INSIGHT

# BLACKWATER VALLEY

## Highlights

- **Following a weak 2016, with take-up of only 44% of the 10-year average, 2017 has started strongly, with 2/3 of the total take-up seen in the whole of 2016 taking place in just one quarter.**
- **Blackwater Valley supply has fallen markedly, from 2.0m sq ft in 2014 to 498,000 sq ft in 2017 (adjusted for space thought to be leaving the market for residential use).**
- **184,000 sq ft of grade A space will become available after refurbishments in 2017/18 at Farnborough Aerospace Centre.**
- **With no rental increase in the last 12 months, Blackwater Valley still offers the best value per sq ft in the Thames Valley. It also has the largest differential between grade A and grade B space at £27.00 per sq ft and £17.50 per sq ft respectively.**

## Demand

At 100,000 sq ft, take-up in the Blackwater Valley in 2016 was 44% of the 10-year average and the lowest seen since 2010.

Two transactions provided almost half of this take-up – a letting to Fluor of the balance of Pinehurst II (29,000 sq ft) and 17,000 sq ft to NHS Surrey and Borders Partnership NHS Foundation Trust at Theta, Frimley.

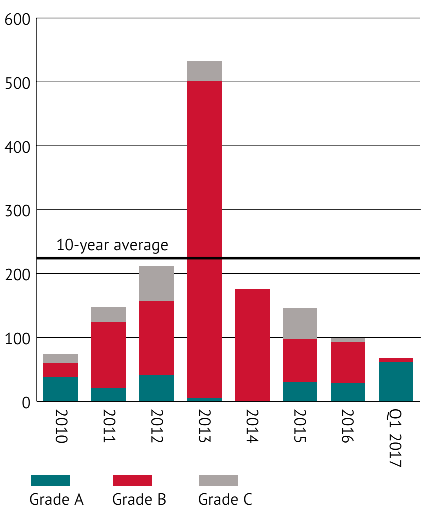
Demand was subdued across all sizes, but particularly for large requirements. The average transaction size for the last three years is 14,685 sq ft and of the 33 qualifying transactions that have taken place, over half of these have been for sub 10,000 sq ft units.

2017 started off more positively, with 2/3 of the amount of take-up seen in the whole of 2016 taking place in just one quarter. INC Research took 49,000 sq ft at Pinehurst II and The Buy to Let Business Ltd took 13,000 sq ft at Watchmoor Park.

Fluor has been in the market again in Q2, taking 30,879 sq ft of grade A space at Brennan House, Farnborough Aerospace Centre.

There has been a marked increase in the proportion of take-up that is grade A – from 0% in 2014 to 91% in Q1 2017. This has mainly due to the availability of grade A supply in recent years and the trend towards occupiers seeking better quality offices whilst occupying at a higher density.

**Blackwater Valley take-up** (000 sq ft)

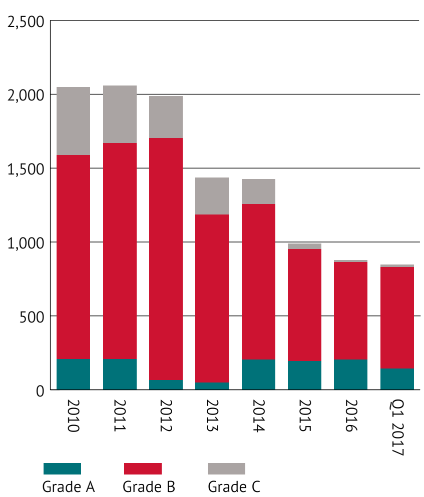



## Supply

Blackwater Valley supply has fallen markedly, from 2.0m sq ft in 2014 to just 848,000 sq ft (availability rate 11%) in 2017. However, of the 684,000 sq ft grade B space formally available, 280,000 sq ft Sun Park and 70,000 sq ft M3HQ are unlikely to be let as offices. This leaves a supply total of just 498,000 sq ft – less than a quarter of that available in 2014.

Given that the majority of current demand is for grade A space, it is concerning that this has reduced by 30% since 2014 to only 144,000 sq ft. With Pinehurst I and II now fully let, the only available grade A space is 49,000 sq ft at Watchmoor Park.

**Blackwater Valley availability** (000 sq ft)

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| 12 month take-up vs 10-year average | Years of supply | Grade A share of supply | Q2 2017 prime headline rent (per sq ft) | Prime yield |
|---|---|---|---|---|
| -56% | 3.7 | 17% | £27.00 | 5.50% |

## Development and refurbishment

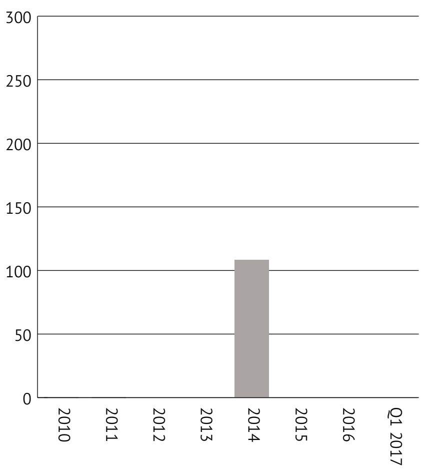
Hermes is planning refurbishments of three buildings at Farnborough Aerospace Centre to provide 184,000 sq ft of grade A space in 2017/2018.

The former Zurich House, 64,000 sq ft, will be a light touch refurbishment available later this year. Warwick House, 73,000 sq ft, and York House, 47,000 sq ft, will follow in 2018.

These will allow Hermes to improve the standard of the park and deliver much needed grade A space to the market.

Planning consent exists to develop 140,000 sq ft at Pinehurst III and IV at Farnborough Business Park. However, no speculative contruction is planned at present.

**Blackwater Valley under construction** (000 sq ft)




## Rental values and yields

Following a sustained increase in prime rents from £20.00 per sq ft in 2012 to £27.00 per sq ft in 2016, Blackwater Valley still offers the best value per sq ft in the Thames Valley. This level was demonstrated by INC's letting of Pinehurst I at a headline rent of £27.00 per sq ft. Although Fluor's letting at Pinehurst was at £27.50 per sq ft, this was skewed upward as it was a short term lease with an 18 month break.

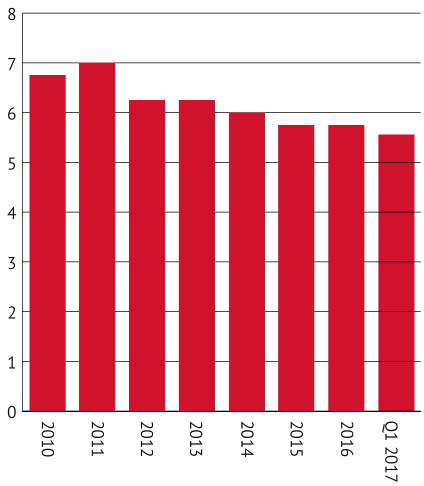
Farnborough Business Park, with its edge of town location and amenity offering, provides the prime rents for the region and other centre prime rents are lower, such as £24.50 per sq ft at Farnborough Aerospace Centre and Watchmoor Park.

There is a significant differential between grade A and B rents, for example, good quality grade B space is available at Linea, Fleet, for £17.50 per sq ft.

The total value of investment transactions in the Blackwater Valley over the last 12 months was £38.94m across seven transactions. There have been no particular transactions of note, with the majority of activity from residential developers converting office buildings under permitted development rights. We estimate these purchasers accounted for five out of seven transactions and 79% of total volume.

Having completed recent lettings, XLB and Harbert Management Corporation currently have Farnborough Business Park in the market for sale, which will significantly boost next year's total. An improving occupational market at the prime end and demand for income has caused a contraction in prime yields by 25 basis points to 5.50%.

**Blackwater Valley prime yields** (%)



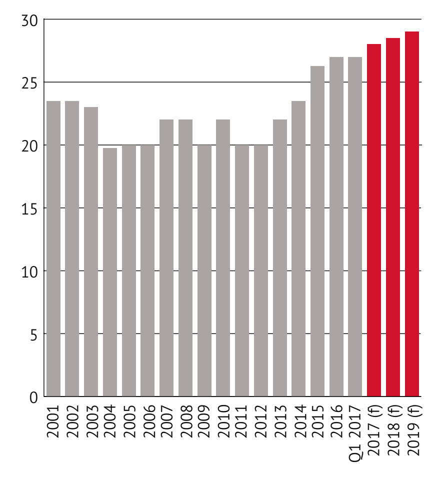

## Outlook

2017 has started well with a very positive Q1, and 30,879 sq ft letting in Q2. However, there are a few significant requirements at present and, whilst take-up should return to the 10-year average, M2 likely to be dominated by smaller transactions.

Given the market dynamics, there is justification for rents to increase although, in practice, the stock is not currently available. However, we expect increases as new stock comes to the market in late 2017, 2018 and 2019.

**2017 ▲ £28.00 per sq ft**

**Blackwater Valley prime rental values forecast** (£ sq ft)




Data source: Lambert Smith Hampton

BRACKNELL

## Highlights

- **At 83,000 sq ft, take-up in 2016 was 42% below the 10-year average in Bracknell, however, 2017 has started strongly with 59,000 sq ft taking place in Q1 alone and a further 20,000 sq ft is expected in Q2.**
- **Despite a continual fall in supply since 2011, Bracknell still has one of the highest availability rates in the Thames Valley at 17%.**
- **There are no office development nor refurbishment schemes planned in Bracknell at present, however, this may change if the council is successful in stopping conversion to residential use.**
- **Prime rents have risen from £20.00 per sq ft in 2013 to £23.00 per sq ft in H1 2017, still well below 2001's peak of £28.50.**

## Demand

Take-up in Bracknell in 2016 was 83,000 sq ft, a fall of 55% from 2015's total and 42% below the 10-year average. As seen in some other Thames Valley markets, Brexit-related uncertainty had an impact.

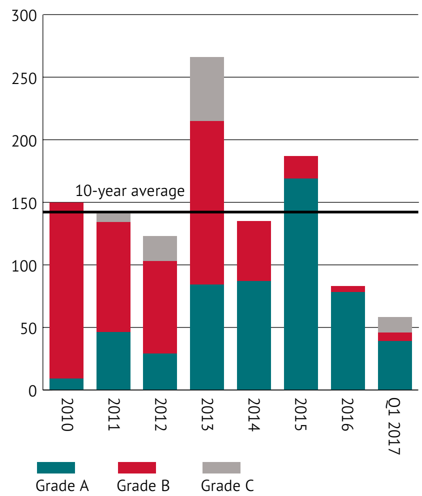
However, four lettings of over 10,000 sq ft occurred, namely – Cadence took 22,292 sq ft at Maxis 1, Snow Software took 13,110 sq ft at Capitol, Pharmiweb Solutions took 12,693 sq ft at One Station Square and Arbor Networks took 11,162 sq ft at Arlington Square.

2017 has started very positively, with 59,000 sq ft of transactions taking place in Q1 alone, including Allegis Group's acquisition of 30,000 sq ft at Maxis 2.

There is a reasonable churn in 5,000 – 10,000 sq ft lettings and, in Q2, there is approximately 20,000 sq ft under offer with a further 160,000 sq ft of active enquiries for the town.

The value for money that Bracknell offers relative to other Thames Valley centres has attracted inward investment, such as Towelrads from Maidenhead, Mitie from Reading, A&O Networks from Uxbridge and Jakks Pacific from Ascot.

**Bracknell take-up** (000 sq ft)




## Supply

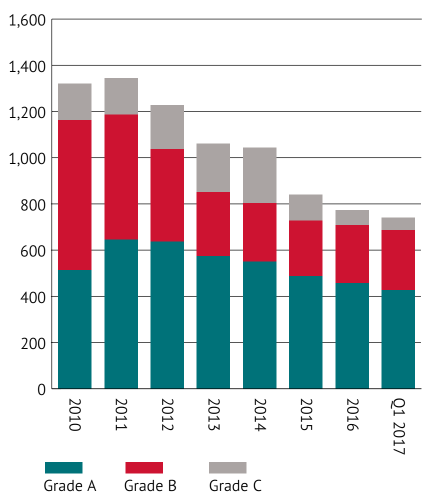
Supply has fallen consistently since 2011, with total availability down from 1.37m sq ft in 2011 to 739,000 sq ft in 2017. Grade B and C are both being eroded by permitted development. Despite this, Bracknell still has one of the highest availability rates in the Thames Valley at 17%.

Two Bracknell Boulevard (38,000 of 50,000 sq ft was vacant), Century Court (22,000 of 35,000 sq ft was vacant) and Octagon House (16,000 sq ft) were all sold for residential development in 2016. Aspect (73,000 sq ft) and One Thames Valley (75,000 sq ft) are on the market to be sold with a focus on permitted development in 2017.

Bracknell Forest Council has, however, proposed to make Article 4 Directions for the Southern and Western Business Areas and the Eastern Business Area in Bracknell to halt permitted development and protect employment zones, which may have an effect on proposed sales if successful.

In terms of new supply, The Lightbox, formerly Viewpoint 1, came to market in Q1 2017 and provides 34,000 sq ft of exposed service office space over three floors, including a ground floor that provides smaller suites of 1,000 – 4,000 sq ft.

**Bracknell availability** (000 sq ft)

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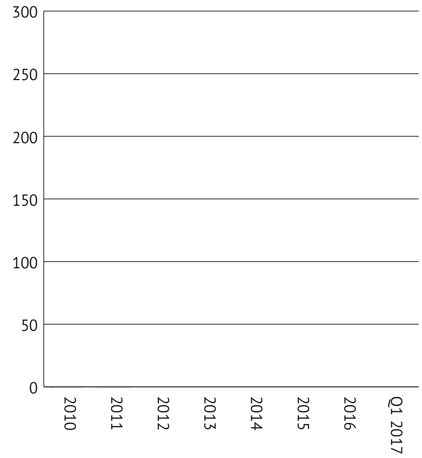
| 12 month take-up vs 10-year average | Years of supply | Grade A share of supply | Q2 2017 prime headline rent (per sq ft) | Prime yield |
|---|---|---|---|---|
| -42% | 5.2 | 58% | £23.00 | 5.50% |

## Development and refurbishment

There is no new office development planned in Bracknell in 2017. Despite the imminent completion of The Lexicon Shopping and Leisure development, which is expected to have an impact on perception of the town and its amenity offer and the lowest level of supply see since 2011, investors and developers are still tentative about the prospects of the office market.

At present, no refurbishment schemes are planned either. However, if Bracknell Forest Council is successful in its application for an Article 4 Direction, buildings earmarked for conversion to residential may instead be refurbished for office occupation, particularly if this results in lower capital values being accepted.

**Bracknell under construction** (000 sq ft)




## Rental values and yields

Prime rents have risen from £20.00 per sq ft in 2013 to £23.00 per sq ft in H1 2017, still well below 2001's peak of £28.50.

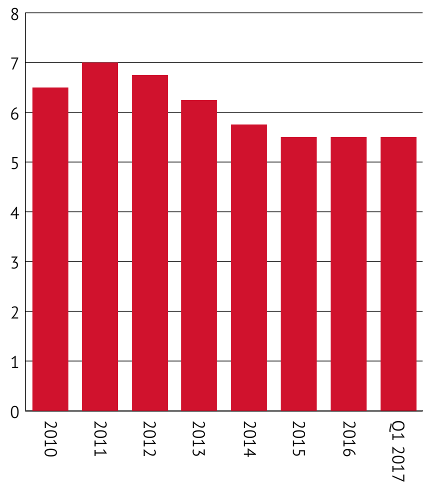
One Station Square is the first exposed services design office building in Bracknell town centre. As a result of its differentiated offering, which includes electric car charging points and excecutive showers, 12,500 sq ft was let to Pharmiweb Solutions in Q4 2016 at a record rent for the building of £22.50 per sq ft. This was followed by a letting to PharmOlam, also at £22.50 per sq ft. The remaining seventh floor is available at a quoting rent of £25.00 per sq ft.

Grade B rents offer a significant differential, with space available at £18.00.

Prime yields in Bracknell remain unchanged at 5.50% as the town recorded a high level of investment activity for yet another year. Total volume was £98.75m across 11 transactions, seven of which were for conversion to residential use. The commercial-led deals of note were the sales of the two Cable & Wireless buildings at Waterside Park. These were purchased by Palmer Capital, which paid £35.2m, reflecting 5.65% for 22.5 years income and the Daily Mail Pension Fund, which paid £9.06m, reflecting 35% for 21.5 years income.

There is a relatively large volume of stock on the market, which should ensure this year's performance exceeds the last. Number 1 Arlington Square is currently on the market while numbers 2 and 3 Arlington Square are available as part of The Arlington Portfolio, which remains under offer. This is in addition to two significant permitted development opportunities on the Wokingham Road.

**Bracknell prime yields** (%)




## Outlook

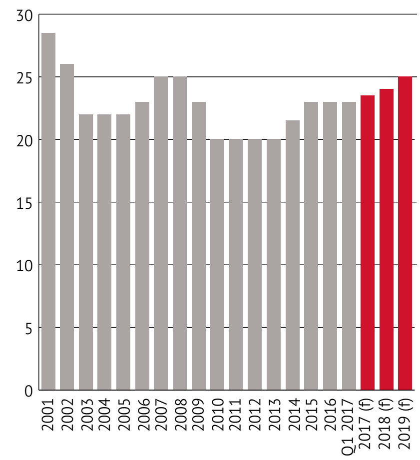
In addition to a very strong H1, there are several significant requirements in the market that are likely to transact in 2017. Panasonic will seek to relocate to 30,000 – 50,000 sq ft once its HQ at Park One is sold, Romans is looking for 30,000 sq ft and Bracknell Forest Homes 15,000 sq ft.

The council's application for the Article 4 Direction will impact on the level of supply leaving the market if successful. However, it is likely that supply will continue its long-term fall irrespective of the decision.

We expect rents to remain steady initially and then rise slowly as confidence returns post the Brexit decision and investors and occupiers start to appreciate the benefits of The Lexicon town centre redevelopment.

**2017 ▲ £23.50 per sq ft**

**Bracknell prime rental values forecast** (£ sq ft)




Data source: Lambert Smith Hampton

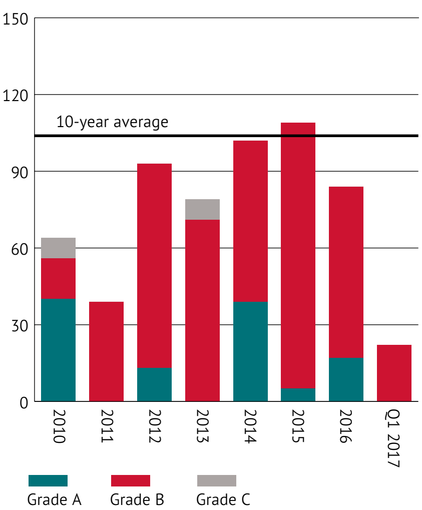
# GUILDFORD

## Highlights

- **Following a poor 2016 in which take-up was 19% below the long-term average, 2017 has started more positively with 22,000 sq ft transacting in Q1 and 18,500 sq ft under offer in Q2.**
- **Availability increased to 337,000 sq ft in 2017, however, core town centre supply is falling, with only 35,000 sq ft immediately available.**
- **There has been a large increase in space under construction up from 96,000 sq ft in 2016 to 213,000 sq ft in 2017.**
- **Prime rents in Guildford increased steadily from £27.00 per sq ft in 2012 to £33.50 in 2016 and quoting rents are now £35.00 per sq ft for new grade A stock.**

## Demand

**Guildford take-up** (000 sq ft)




2016's take-up was 84,000 sq ft, 19% below the 10-year average and the lowest seen since 2013. There has been a higher number of transactions in 2017, with Q1 take-up of 22,000 sq ft (four lettings of 5,000 – 7,000 sq ft) and a further 18,500 sq ft of office space either let or under offer in Q2. The 2017 half year take-up figures are therefore predicted at 41,020 sq ft.

Notably, although there was an increase to over 200,000 sq ft of available grade A space in 2016, over 148,000 sq ft of this is under refurbishment and will not be ready for occupation until late 2017, therefore immediate take-up remained in favour of grade B, making up 80% of the total.

Some larger occupiers in Guildford have been consolidating their space needs. For example, EA Sports re-geared its lease at Onslow House, reducing its office space from 90,000 sq ft to 55,000 sq ft. Elsewhere, BOC is thought to be interested in reducing its occupational space from 90,000 sq ft to circa 30,000 sq ft.

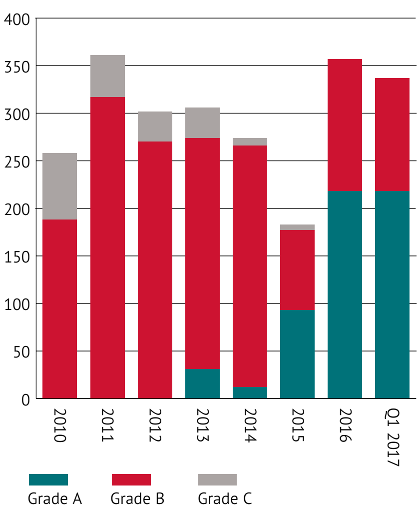
There were only two transactions of over 10,000 sq ft in 2016 – The University of Surrey bought the 46,000 sq ft freehold of 30 Priestley Road, Surrey Research Park and Enstar took 17,458 sq ft at 3 Guildford Business Park.

Whilst the bulk of take up in 2016 was out of town, 76% of the predicted H1 2017 take up will be in the town centre. Availability of new supply arriving in the town centre, and the more general trend of urbanisation, is the main reason for this.

There is an increased reliance on the SME companies for new demand as most of the larger corporates are focused on working more efficiently and reducing the space they occupy. However, Guildford has a wide base of these SME occupiers, with an increasing tech sector. This mixed economic base provides stability and will maintain activity in the market, despite a lack of larger requirements.

## Supply

**Guildford availability** (000 sq ft)




Guildford office supply has increased from 260,000 sq ft in 2010 to 337,000 sq ft in 2017. However, not only is this the third lowest availability rate in the Thames Valley at 10%, the figures are distorted by two large out of town centre refurbishments which are under construction.

Town centre supply is falling due to space quickly letting and immediately available core town centre grade A availability could shortly be limited to only 22,000 sq ft at Onslow House and 12,500 sq ft at Tempus House. There is 43,000 sq ft of completed 'town centre' space available at London Square, but this is not in the core.

New supply is generally being delivered by refurbishment of existing buildings, with the proportion of grade A space increasing from 0% in 2011 to 65% in 2017. Lately, some grade B space has also been removed for alternative uses and supply has fallen to 119,000 sq ft.

Key strategic sites, such as Guildford Plaza and the Station View, have been sold for retirement and residential use.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| 12 month take-up vs 10-year average | Years of supply | Grade A share of supply | Q2 2017 prime headline rent (per sq ft) | Prime yield |
|---|---|---|---|---|
| -19% | 3.2 | 65% | £33.50 | 5.00% |

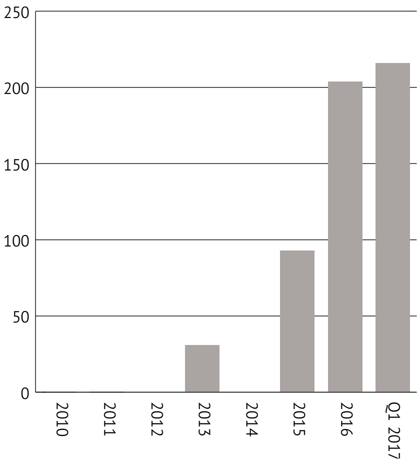
## Development and refurbishment

At 213,000 sq ft, there is large increase in space under construction in Guildford from the 96,000 sq ft seen in 2015. A significant proportion of this new total will be delivered by refurbishment at Cathedral Square, which will provide 73,000 sq ft, due in August 2017, and Two Guildford Business Park, which will provide a further 75,000 sq ft in March 2018.

New/refurbished town centre space has attracted good interest and, in the main, is under offer or, in the case of Pannell House, let (to Semafone) ahead of completion.

The town centre pipeline of new supply is expected to include the development of 29,000 sq ft at Pembroke House and 40,000 sq ft at Connaught House. Both office schemes are due to commence in H2 2017.

**Guildford under construction** (000 sq ft)



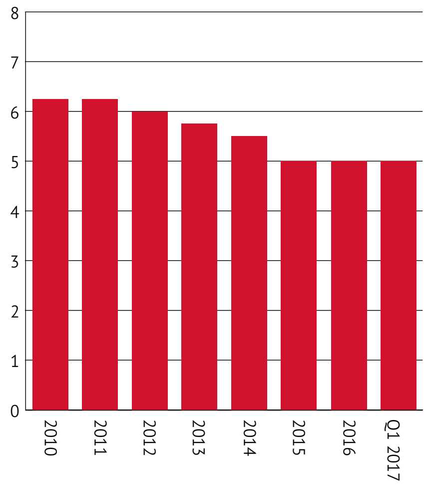

## Rental values and yields

Prime rents in Guildford increased steadily from £27.00 per sq ft in 2012 to £33.50 in 2016 and quoting rents are now £35.00 per sq ft for new grade A stock.

Strong office values in Guildford have held off a significant influx of permitted development conversions, with prime yields in the town unchanged at 5.00%. This is despite some downward pressure, which saw Guildford Borough Council pay £22.65m, reflecting 5.10%, for 12 years income to local law firm, Stevens & Bolton, at Wey House. The other significant transaction of the last 12 months was Columbia Threadneedle's £9.848m purchase of Hays House. The yield of 4.95% reflects not only the reversionary nature of the passing rents in the building but also the anticipation of yet further rental growth.

Surrey University completed the only significant out of town purchase, buying the long leasehold of 30 Priest Avenue on Surrey Research Park. This vacant possession purchase for continued use as offices is a further demonstration of confidence in the market.

**Guildford prime yields** (%)




## Outlook

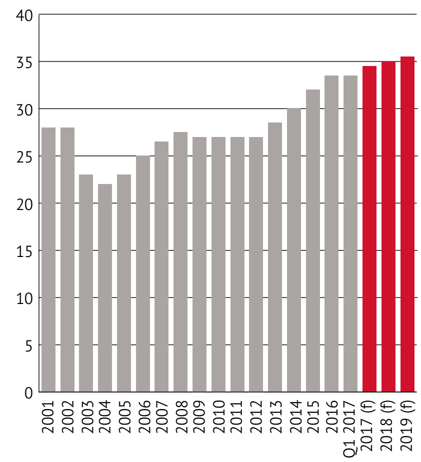
With 46,000 sq ft currently under offer, 2017 take-up is likely to exceed that seen in 2016.

With demand focused on high-spec interior refurbished and new buildings in the town centre, and buildings letting as they come to market, the fundamentals are in place for more town centre development and refurbishment over the next few years.

As supply increases, we expect to see the speed of rental growth subside and rents to stabilise over the next two years.

**2017 ▲ £34.50 per sq ft**

**Guildford prime rental values forecast** (£ sq ft)




Data source: Lambert Smith Hampton

# HEATHROW

## Highlights

- **Heathrow's 2016 take-up was 202,000 sq ft, the highest seen since 2013 and more than double 2015's total.**
- **Heathrow supply has been eroding steadily since 2014, down to 905,000 sq ft in Q1 2017 as a result of a large amount of grade B space leaving the market for use as residential, hotels and serviced accommodation.**
- **Following on from 240,000 sq ft of space completing in 2016, no development is currently in progress. However, a 280,000 sq ft office development scheme has been given outline planning permission at The Cabinet Building.**
- **Prime rents moved to £33.50 per sq ft in 2017, up from £25.00 per sq ft in 2009. It is expected that £37.00 per sq ft will be achieved by the end of 2017.**

## Demand

At 202,000 sq ft, 2016's Heathrow take-up was the highest seen since 2013 (and more than double 2015's total), albeit still below the long-term average of 230,000 sq ft.

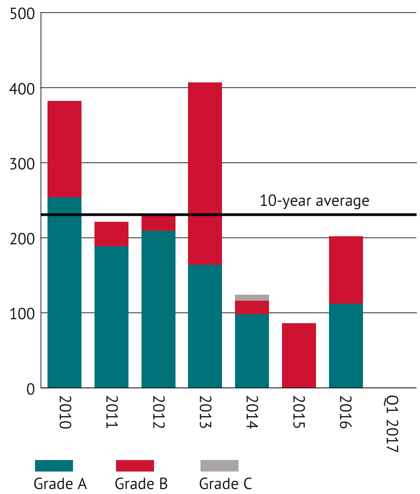
Key transactions were MSC Cruise Management's 46,000 sq ft letting at 5 Roundwood Avenue and Volga Dynepr's letting at 3 Roundwood Avenue – both grade B space at Stockley Park. In addition, Amadeus took an 85,000 sq ft pre-let for 4 World Business Centre overlooking the airport on the A4 Bath Road.

Occupiers choose Heathrow for its airport transport link, proximity to the M25 and ease with which to get to central London by road or rail. Whilst 2016 transactions focus on the travel sector in sub-sectors such as logistics, forward ticket sales, travel retail, and cruise management, Stockley Park is renowned as a global business park and existing occupiers cover a wide range of sectors with UK or European HQ's located there.

No transactions occurred in Q1 2017, however, Birds Eye has taken 36,000 sq ft at 1 New Square, Bedfont Lakes on the south side of Heathrow Airport and Verifone has taken 20,000 sq ft at 3 Roundwood Avenue in Stockley Park in Q2.

The major requirement in the market is for 100,000 sq ft – 125,000 sq ft on behalf of Canon, which is a regional requirement butis likely to remain in Heathrow.

**Heathrow take-up** (000 sq ft)



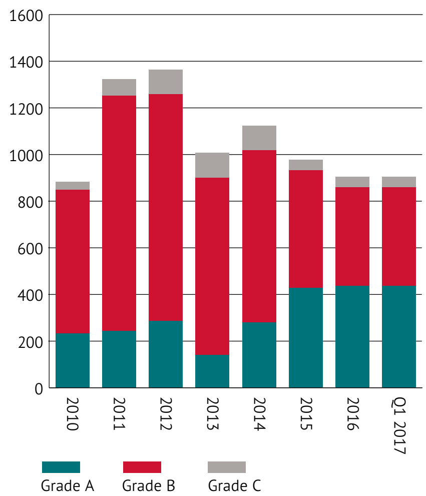

## Supply

Heathrow supply has been eroding steadily since 2014, down to 905,000 sq ft in Q1 2017. Over the past three years, grade A and C space available has remained stable and the fall in supply is due to a reduction in grade B space.

This has been removed from the market, particularly on Bath Road, for use as residential accommodation, hotels or serviced accommodation.

Current grade A space available is 140,000 sq ft at The Bower and 100,000 sq ft at 4 Longwalk.

**Heathrow availability** (000 sq ft)





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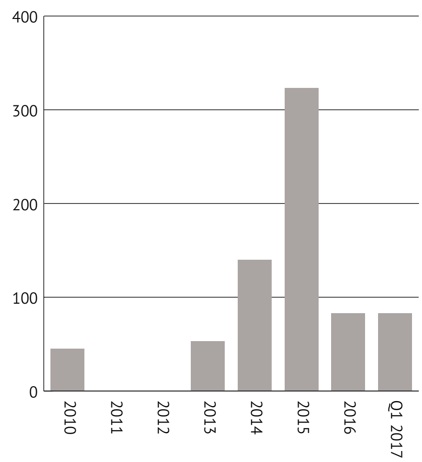
| 12 month take-up vs 10-year average | Years of supply | Grade A share of supply | Q2 2017 prime headline rent (per sq ft) | Prime yield |
|---|---|---|---|---|
| **-12%** | **3.9** | **48%** | **£33.50** | **5.25%** |

## Development and refurbishment

The Old Vinyl Factory, Hayes, is an ongoing brownfield regeneration which is being transformed with a mix of new residential and commercial accommodation radiating out from Hayes and Harlington Station. The scheme has outline planning permission for 280,000 sq ft of office space in The Cabinet Building on the old EMI Records site. Previous converted buildings, such as The Shipping Building and The Record Store, have let well - offering new accommodation at discounted rents compared with other Heathrow sub-locations.

240,000 sq ft of new space practically completed in 2016 at 4 Longwalk and The Bower and their letting success will probably determine when the next wave of development commences. At present, there is no speculative development on site in the Heathrow market.

**Heathrow under construction** (000 sq ft)




## Rental values and yields

Rents have risen steadily from £25.00 per sq ft in 2009 to £33.50 per sq ft in 2016. This is demonstrated by K2 Medical's letting of 8,000 sq ft at 1 Roundwood Avenue, Stockley Park at £33.50 per sq ft on a 10-year lease.

Quoting rents at 1 Roundwood Avenue are now £35.00 per sq ft and even higher at 4 Longwalk and The Bower, where a value of £39.50 per sq ft is being quoted and £37.00 per sq ft is expected to be achieved in 2017.

The investment market in Heathrow witnessed relatively low volumes compared to recent years, recording £43.6m over three transactions. The largest was Standard Life's sale of 2 Longwalk Avenue on Stockley Park, purchased by an American high net worth investor for £23.75m, reflecting 5.97% for 8.5 years income. MHA Associates made the second largest acquisition, purchasing three office buildings at Status Park for £13.3m from M&G for conversion to residential use.

Two significant transactions could have buoyed the figure greatly – the £45m forward funding opportunity of Amadeus' Building 4 at the World Business Centre, which remains in the market, and GSK's £90m sale and leaseback of their Stockley Park West Campus, which was withdrawn. Prime yields remain unchanged at 5.25%.

**Heathrow prime yields** (%)


## Outlook

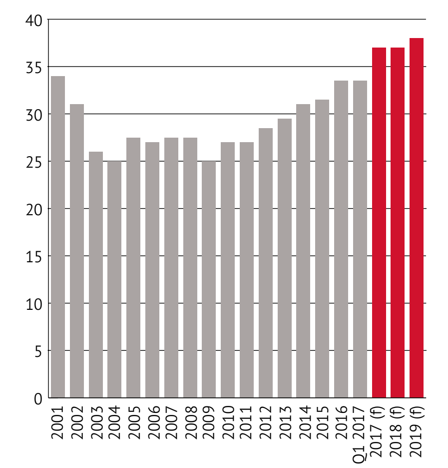
With rents only £1.00 per sq ft more than in Staines, but with better transport links, Heathrow is well-positioned to see an increase in take-up in the future. Whilst there are already good transport links, with the Heathrow Express offering a 15 minute service into London Paddington, the introduction of Crossrail to nearby Hayes and Harlington station from 2019 is already on occupiers' radars.

In addition, although the third runway at Heathrow Airport is 20 years away from completion, the Government's decision to go ahead will improve and safeguard the perception of the area as a business location and will continue to drive demand in the future.

With churn space likely to come back to the market, particularly at Stockley Park, additional development in the short-term is unlikely, at least until a major portion of the two new builds are occupied.

**2017 ▲ £37.00 per sq ft**

**Heathrow prime rental values forecast** (£ sq ft)




Data source: Lambert Smith Hampton

MAIDENHEAD

## Highlights

- **2016's take-up fell 55,000 sq ft short of 2015's total and was 11% below the long-term average. There was a notable a reduction in large requirements, with most below 15,000 sq ft.**
- **At 595,000 sq ft, office supply in Maidenhead has remained consistent since 2010, however, this belies an underlying acute shortage of grade A space in the town centre.**
- **No new builds will be completed in Maidenhead in 2017, however, back-to-frame refurbishment will provide 57,000 sq ft at Voyager Place and 22,000 sq ft at Aurora.**
- **Maidenhead rents have increased by 27% in just three years to £38.00 sq ft and are set to increase further with the provision of new grade A space and the arrival of The Elizabeth Line in 2019.**

## Demand

2016's take-up of 130,000 sq ft fell well short of 2015's impressive total of 185,000 sq ft and was 11% below the long-term average of 146,000 sq ft.

A Christmas exchange rescued the total from being an even lower figure, with 45,000 sq ft being let at TOR to Rank Leisure. Other notable transactions within the year were Alnylam (relocating from Uxbridge) taking 22,900 sq ft at Braywick Gate, Informatica (existing occupier in the town) taking 17,000 sq ft at Building 4, Foundation Park and Blackberry (relocating from Slough) acquiring offices of 16,500 sq ft at The Pearce Building.

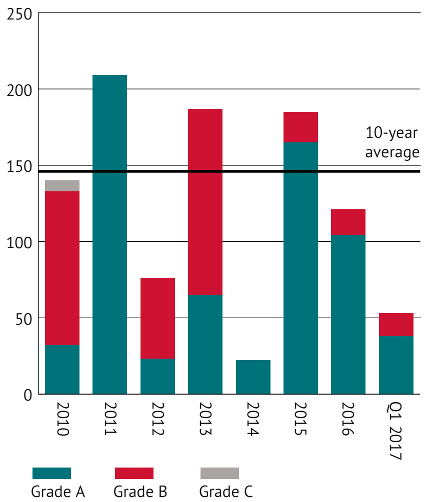
As with other areas in the Thames Valley, we have seen a notable reduction in large requirements, with typical requirements during H1 2016 reducing to below 15,000 sq ft.

Lease flexibility and ability to adapt to occupier requirements helped to secure these smaller tenants, for example La-Z-Boy and Profitero, which both completed 3,500 sq ft deals at 6 Bell Street.

2017 has started positively, with SDL International committing to 32,000 sq ft at Centris on Vanwall Business Park and Marlow based Squared Up committing to a floor in the Pearce Building at a headline rent reported to be £38.00 per sq ft. The quoting rent for the remaining space has increased to £39.50 per sq ft – one of the highest in the Thames Valley.

Maidenhead is expected to be a winner in the context of Crossrail stimulated demand in the future, particularly in the town centre or where out of town locations have good connectivity to the rail station.

**Maidenhead take-up** (000 sq ft)



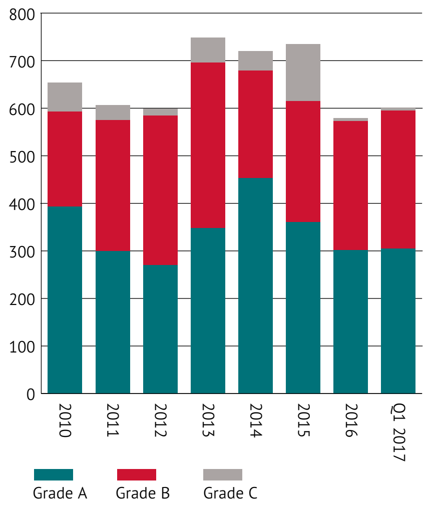

## Supply

At 595,000 sq ft, office supply in Maidenhead has remained consistent since 2010. Grade C space has been virtually eliminated from the market and grade A and B account for approximately 50% each.

The stats bely an underlying issue – in the town centre, there is an acute shortage of grade A space available. There are 10 buildings that are no longer able to offer leases of longer than five years as they are constrained by landlord's expectations of redevelopment potential, linked to lease breaks and expiries.

Only TOR (27,000 sq ft), Pearce (20,000 sq ft) and 6 Bell Street (3,500 sq ft) are able to offer longer leases with mid-term flexibility. Out of town, three new entries to the market place include Voyager Place (57,000 sq ft), Concorde Park (52,000 sq ft) and Aurora (22,000 sq ft).

**Maidenhead availability** (000 sq ft)





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| 12 month take-up vs 10-year average | Years of supply | Grade A share of supply | Q2 2017 prime headline rent (per sq ft) | Prime yield |
|---|---|---|---|---|
| -17% | 4.1 | 51% | £38.00 | 5.00% |

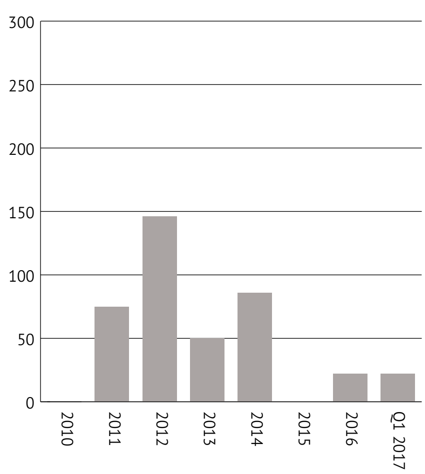
## Development and refurbishment

Aurora will provide 22,000 sq ft of out-of-town space when construction completes at the end of Q2 2017.

Voyager Place has undergone a complete refurbishment and now provides 57,000 sq ft of space.

One new development is due to commence in the town centre in 2017 – with Berwick Hill developing an office scheme called Lantern, comprising 18,618 sq ft at Castle Hill.

**Maidenhead under construction** (000 sq ft)




## Rental values and yields

Following a prolonged period of static values, the town has seen office rents increase by 27% in just three years to £38.00 per sq ft.

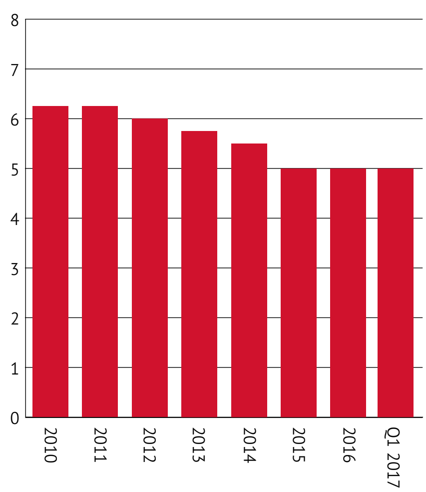
This uplift in rents has been brought about by an availability of new grade A space and the eagerly awaited Crossrail Elizabeth Line.

Lease terms below 10,000 sq ft continue to reflect 10 years with flexibility at year five. Incentives remain an important feature, dependent on size and tenant, with a typical format of 12 months' rent free for a five year lease and 18 to 21 months' plus for 10 year term certain.

Investment volume in Maidenhead fell below £100m for the first time in four years. £81.5m was transacted across six deals, showing great resilience and continued demand from a wide range of investors. The largest transaction saw AXA take a profit on the sale of Abbott House on Vanwall Business Park, selling out at £35,000,000, reflecting a yield of 5.62% for 8.5 years income. In the town centre, Royal London saw off fierce competition to purchase Braywick Gate, a multi-let office located adjacent to the train station, for £19m, reflecting a net initial yield of 5.90%.

In view of these transactions, prime yields remain unchanged at 5.00%, with investors continuing to be drawn by the arrival of Crossrail.

**Maidenhead prime yields** (%)




## Outlook

With a scarcity of large transactions following a strong Q1, we would expect the annual take-up figure to be similar to that seen in 2016.

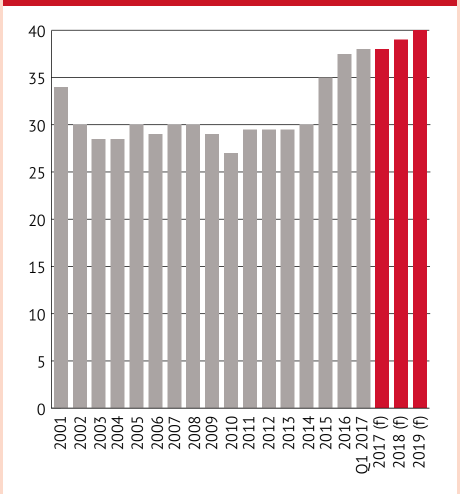
The Royal Borough has now partnered up with private developers/investor, Countryside, to begin the process of developing the key regeneration sites in the town centre.

Transport infrastructure events such as the 'Elizabeth' Line and Western Rail Access to Heathrow will continue to stimulate occupier and investor demand.

We anticipate continuing upward pressure on town centre rents, towards £40.00 per sq ft by 2019.

**2017 ▶ £38.00 per sq ft**

**Maidenhead prime rental values forecast** (£ sq ft)




Data source: Lambert Smith Hampton

NEWBURY

## Highlights

- **With one transaction supplying 77% of the 2016 take-up of 30,000 sq ft, the total was 40% below the long-term average and Newbury's lowest since 2011.**
- **Newbury has the lowest availability rate in the Thames Valley at only 2%. Three buildings provide the vast majority of the 76,000 sq ft availability, which is all grade A space.**
- **No development had been seen in Newbury since 2011 due to a perceived lack of demand. Speculative development that occurred in 2016 was fully let by Q1 2017, potentially raising the possibility of more development in the near future.**
- **After a long period of poor rental performance, Newbury rents have increased by 31% to £23.50. Cirrus Logic, which took space at 3 The Sector was happy to pay this to secure the high quality space.**

## Demand

At 30,000 sq ft, 2016 take-up for units above 5,000 sq ft was 38% below that seen in the previous year. Standing 40% below the long-term average, this was Newbury's lowest take-up since 2011.

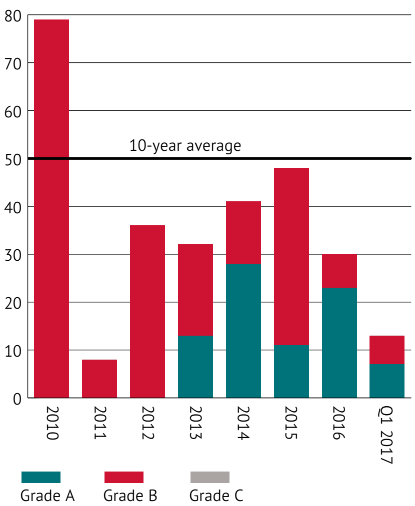
77% of this take-up was provided by one transaction - Cirrus Logic's letting of 23,000 sq ft at 3 The Sector, Newbury Business Park.

2017 has started much more positively, with Edward Life Sciences taking 6,500 sq ft at 3 The Sector and Gekko taking 6,075 sq ft at Thames Court.

As with many other areas in the Thames Valley, Newbury is aligning itself to a change in the occupier market. The majority of demand is generated by SMEs wishing to provide staff with an inspirational working environment in high quality offices. Most of these are existing Newbury occupiers from the pharmaceutical, tech and digital marketing sectors looking for space in which to expand.

There is a particular demand for exposed service design, with both Cirrus Logic and Edward Life Sciences choosing the only stock available that offered this.

**Newbury take-up** (000 sq ft)




## Current supply

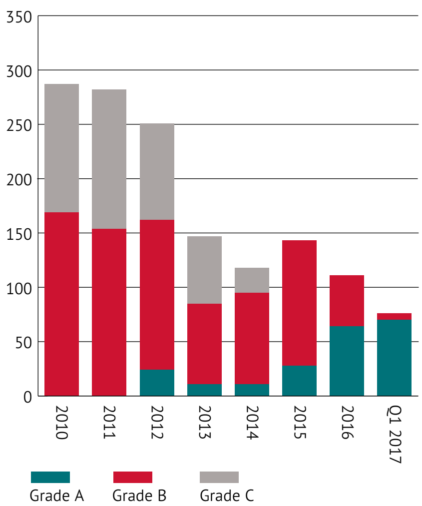
Newbury supply has fallen steadily and now stands at 76,000 sq ft – a decrease of 74% from 2010.

At only 2%, Newbury has the lowest availability rate of any of the Thames Valley markets, driven by a lack of development and conversion of grade B space to residential use.

The vast majority of the 76,000 sq ft currently available is provided by just three buildings – 28,000 sq ft at Rivergate, 23,000 sq ft at 4 The Sector and 13,000 sq ft at Lomond House – all of which is grade A space.

Only 6,000 sq ft of grade B is available, in Sherwood House, and likely to be of interest to residential developers. However, those occupiers moving into grade A space will be releasing more grade B, for example, approximately 16,000 sq ft is likely to become available at Derby House and 6,000 sq ft at Benyon House this year.

**Newbury availability** (000 sq ft)

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| 12 month take-up vs 10-year average | Years of supply | Grade A share of supply | Q2 2017 prime headline rent (per sq ft) | Prime yield |
|---|---|---|---|---|
| -41% | 1.5 | 92% | £23.50 | 5.75% |

## Development and refurbishment

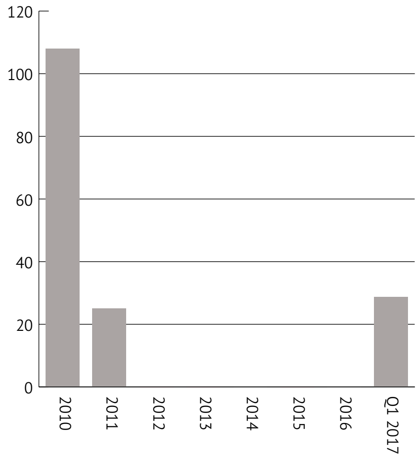
There has been no office construction in Newbury since 2011, as investors have been cautious about a perceived lack of demand. Rental values have been subdued due to a lack of quality grade A stock. Recent refurbishment has delivered significantly higher rents off the subdued base.

However, in 2016, speculative development returned to the market, with 28,000 sq ft of exposed services design offices constructed at 3 The Sector. This space was fully let by Q1 2017.

Work is currently underway at 4 The Sector, with completion of 28,697 sq ft expected by the end of H1.

Rivergate is undergoing refurbishment including a new reception, showers and a communal business lounge. Lomond House is also undergoing refurbishment to grade A specification, expected to complete in Q3.

**Newbury under construction** (000 sq ft)




## Rental values and yields

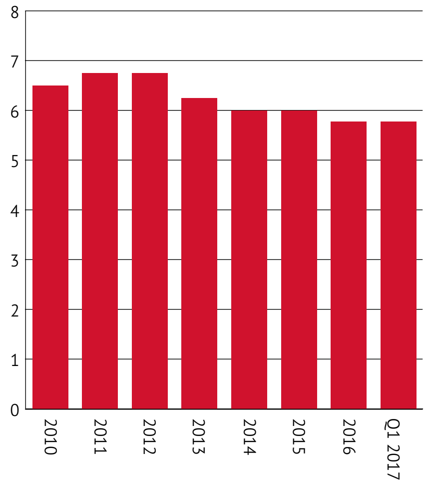
The current demand of Newbury occupiers is focused on flexibility and quality in their work places and they are prepared to pay for premium space.

Following 13 years of headline prime rents remaining close to £17.00/£17.50 per sq ft, they increased by 31% to a new high of £23.50 per sq ft at the end of 2016. In this transaction, the landlord, Vengrove, set the price for extremely high quality build incorporating exposed service design at 3 The Sector and the occupier, Cirrus Logic, was happy to pay this level to secure the space.

Incentives have reduced as supply has tightened, from 12-15 months to 9-12 months on a five year term certain.

Prime yields in Newbury remain stable at 5.75%. There were only two transactions of note in the last 12 months. Kiln House was purchased by a private investor for £3.95m with five years' income to Hitachi Capital at a yield of 5.10% with underlying value in the residential use. Overbridge Square was purchased by a private overseas investor for £8.1m, reflecting a capital value of £121.00 per sq ft.

**Newbury prime yields** (%)




## Outlook

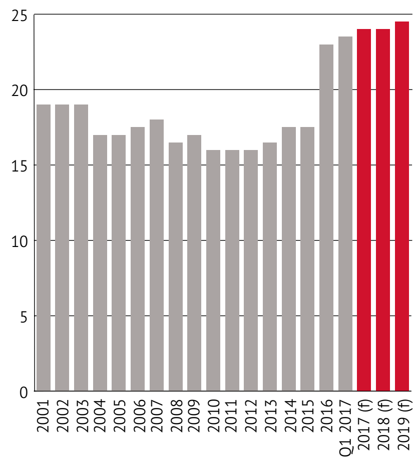
2017 take-up is likely to have surpassed that seen in 2016 by the end of H1.

We anticipate that supply will continue to fall throughout 2017, particularly as take-up has been strong in H1.

Rental values will increase to £24.00 by the end of the year as a result of a lack of supply and an increase in the quality of available offices.

**2017 ▲ £24.00 per sq ft**

**Newbury prime rental values forecast** (£ sq ft)




Data source: Lambert Smith Hampton

# OXFORD & SOUTH OXFORDSHIRE

## Highlights

- **Oxford and South Oxfordshire was the only Thames Valley market to perform above the long-term average for take-up in 2016 and Q1 2017. This was driven by out-of-town transactions and its expanding science and technology sector.**
- **At 7%, Oxford and South Oxfordshire has the second lowest availability rate in the Thames Valley. There is a particular shortage of town centre space, with no new supply expected here.**
- **195,000 sq ft of construction is taking place out-of-town, on dedicated science and technology parks.**
- **Town centre rents are moving from £27.50 per sq ft to £30.00 per sq ft in response to the dearth of supply. Quoting rent on out-of-town space under construction is £32.00 per sq ft.**

## Demand

Take-up remained solid at 258,000 sq ft across Oxford and South Oxfordshire in 2016, just 5% below the previous year's total of 272,000 sq ft and 10% above the 10-year average of 234,000 sq ft.

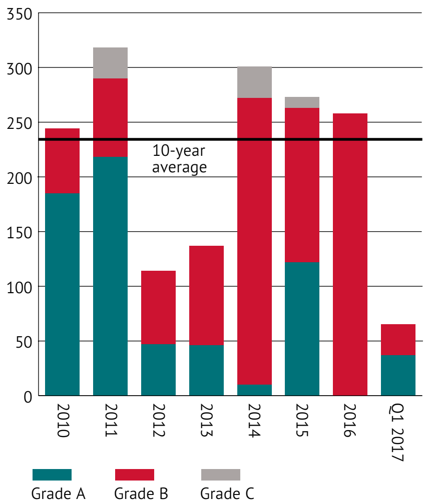
2016's major transactions (both out-of-town) were a 45,000 sq ft pre-let to AC Nielsen by Goodman at Oxford Business Park and a 42,000 sq ft pre-let to a confidential occupier, by MEPC at Milton Park.

2017 has started strongly, with PsiOxus Therapeutics taking 23,000 sq f at Abingdon Science Park and NDA taking 14,000 sq ft at Harwell Campus.

Q2 take-up should exceed 150,000 sq ft, taking the total to over 200,000 sq ft. This exceptional demand is testament to the robust investment in the knowledge economy of Oxford and South Oxfordshire.

Oxford city centre demand is restricted due to a dearth of availability. Therefore, the out-of-town market is driving demand, with an increasing number of local occupiers in the science and professional services sectors expanding within the region.

**Oxford take-up** (000 sq ft)




PsiOxus Therapeutics is a prime example of this, expanding from a 2,500 sq ft unit to a new 23,000 sq ft office HQ and laboratory facility in Abingdon.

Until now, the majority of transactions have been completed by home-grown occupiers from within the region, with very few relocations from outside of Oxfordshire. This, alongside the ever expanding science and research and development sector has, to an extent, insulated the Oxford market from the EU referendum uncertainty that has affected demand in many of the other Thames Valley markets.

## Supply

At 505,000 sq ft, supply is 8% down on 2016's three-year-high level of 548,000 sq ft. However, it remains significantly higher than it was in 2014 (464,000 sq ft) and 2015 (398,000 sq ft).

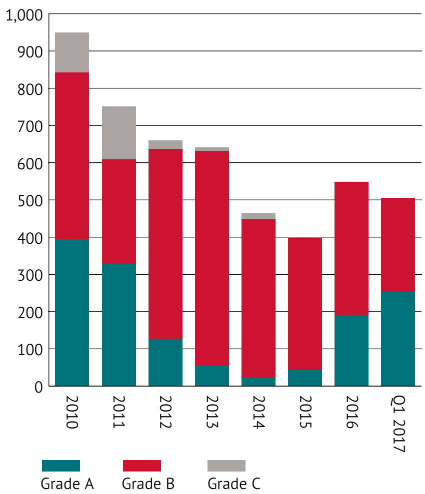
This is being driven by the speculative development of new space on the three main science Parks; Harwell Campus, Milton Park and Oxford Science Park. It is anticipated that over 75% of this space will be let ahead of practical completion.

At 7%, Oxford and South Oxfordshire has the second lowest availability rate across the Thames Valley, falling slightly from 8% in 2016 and sitting well below the 11% – 14% consistently seen between 2005 and 2011.

Sustained development has markedly increased the proportion of grade A space available, from 11.05% in 2015 to 34.86% in 2016 and 50.10% at the end of Q1 2017. Given that most take-up of this space is being generated by existing Oxfordshire occupiers, their moves are leading to a healthy churn of grade B space too. Grade C space has been eroded from the market in its entirety.

There will be no new supply coming to the city centre market. No new development can occur in the short to medium term and any existing space vacated is let almost immediately.

**Oxford availability** (000 sq ft)





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| 12 month take-up vs 10-year average | Years of supply | Grade A share of supply | Q2 2017 prime headline rent (per sq ft) | Prime yield |
|---|---|---|---|---|
| 10% | 2.2 | 50% | £32.00 | 5.00% |

## Development and refurbishment

Construction of new office space in Oxford and South Oxfordshire is dominated by out-of-town new builds at Milton Park (110,000 sq ft), Oxford Science Park (60,000 sq ft) and Harwell (25,000 sq ft).

Notably, all new development is catering for the scientific sector, with the potential to incorporate laboratory or research facilities if necessary.

In terms of the supply pipeline out-of-town, Harwell and Milton Park and Oxford Science Park all have land available and will continue to develop steadily as long as the demand remains there.

## Rental values and yields

2017 has seen rents of £27.50 per sq ft achieved in the town centre, with Prime Research taking 5,000 sq ft at 58-60 St Aldates. This space is attracting premium rents due to its exposed services design.

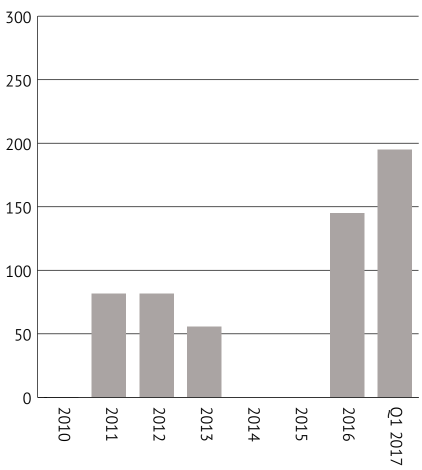
The space currently under construction at Harwell and Milton Park is quoting rents of £32.00 per sq ft and space at Harwell is partly under offer at this level.

Contrary to other areas of the Thames Valley market, incentives are hardening and there has been no increase in flexibility or reduction in length of lease terms, driven in the main by the lack of supply.

Investment volume over the last 12 months in Oxford and South Oxfordshire totalled £65.25m across six transactions. The stand out deal was Sutton Borough Council's £29.9m purchase of Oxfam House on Oxford Business Park, reflecting a net initial yield of 5.28%, which is a marketing leading price for 8.5 years income in an out of town location. Prime yields can therefore be considered to have shifted inwards by 25 basis points to 5.00%.

A large portion of Oxford Business Park, comprising the remaining holdings of the original developer, Goodman, was placed on the market during Q4 2016 as part of the Arlington Portfolio but did not sell. The other transaction of note saw Vantage Asset Management purchase 58-60 St Aldates in Oxford City Centre in the aftermath of the referendum, paying £9.5m, which reflected a 6.90% net initial yield.

**Oxford under construction** (000 sq ft)




**Oxford prime yields** (%)


## Outlook

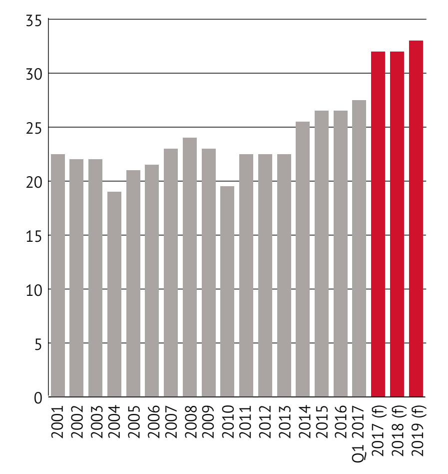
Attracting major new tenants needs to be the focus of landlords to ensure the Oxford and South Oxfordshire market future growth. The science and innovation sector is leading the way, with Harwell and Milton Park generating high levels of interest in new and pre-let accommodation.

Availability is unlikely to increase significantly, given the latent demand that exists. 75% of the space currently under construction will be let by the time it is completed, for example, 30% is already under offer at Harwell and 25% at Milton Park.

Rents are likely to increase significantly in 2017, with space at Harwell Campus already under offer at £32.00 per sq ft.

**2017 ▶ £32.00 per sq ft**

**Oxford prime rental values forecast** (£ sq ft)




Data source: Lambert Smith Hampton

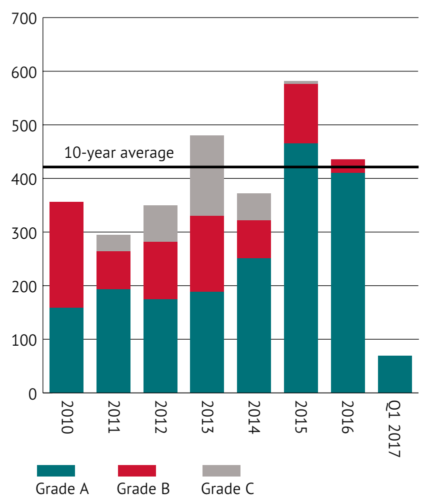
READING

## Highlights

- **Reading take-up returned to the long-term average following 2016's outstanding total. 94% of let space was grade A and Reading provided 25% of all Thames Valley take-up.**
- **With 1,895,654 available and several schemes completing, Reading has the second highest availability rate in the Thames Valley, however, this still represents a fall from over 2m sq ft at the start of 2016.**
- **Following 615,000 sq ft being brought to the market in 2016, Summer 2017 will see the completion of a further 190,000 sq ft new space at 2 Forbury Place.**
- **Quality grade A space is attracting rents of £36.50 per sq ft in the town centre and £35.50 per sq ft out of town.**

## Demand

**Reading take-up** (000 sq ft)




Take-up in 2016 was 436,279 sq ft, returning to the 10-year average following 2015's outstanding total of 581,639 sq ft (dominated by SSE's 186,000 sq ft acquisition of 1 Forbury Place). Notably, Reading provided a quarter of the Thames Valley take-up for the year.

Grade A space accounted for 94% of all take-up in 2016 and 100% Q1 2017, reflecting occupiers' desire to provide optimum space for their employees alongside a continuing erosion of grade B space from the market.

Further demonstrating that companies are focused on providing differentiated environments, 40% of all take-up in the town centre was for space with exposed service design. In fact, occupiers chose to sign agreement for leases on this style of space at The White Building, Forbury Works and Thames Tower prior to practical completion, rather than take readily available 'traditional' space.

Following a disappointing 2016 in the town centre, 2017 has started strongly, with 43,474 sq ft of take-up in Q1, compared with 7,008 sq ft in Q1 2016.

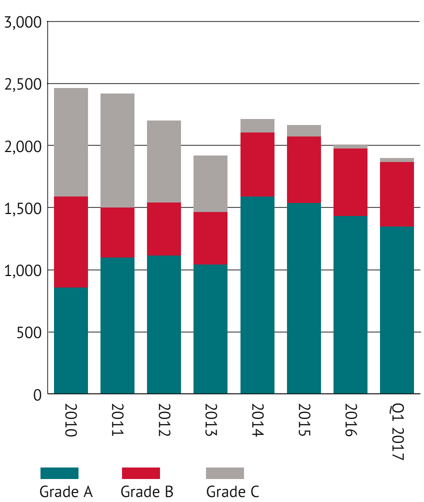
This is dominated by lettings close to the station, namely Austin Fraser (14,040 sq ft) and HSBC (9,500 sq ft) at Thames Tower, Macquarie Bank (12,567 sq ft) at R+ and Gryphon Group Holdings' (7,347 sq ft) at Forbury Works .

With take-up of 337,306 sq ft, the out-of-town market had its strongest year since 2007. This included two major deals at Green Park to Thales (111,000 sq ft) and Bayer (79,000 sq ft), and Beckton Dickinson's lease of 45,000 sq ft at Winnersh Triangle, all inward investment transactions.

A significant quantum of deals have completed or are under offer in the town centre and out-of-town in Q2. These include Spaces taking 41,000 sq ft at 9 Greyfriars, BDO taking 14,000 sq ft at Thames Tower, Workday and ROC Search taking 13,400 sq ft each at The White Building (which was 70% let/under offer within five months of practical completion) and Nokia Siemens taking 32,000 sq ft at The Hive on Arlington Business Park. We anticipate Greater Reading take-up to be approximately 160,000 sq ft, of which 120,000 sq ft will be town centre transactions.

## Supply

**Reading availability** (000 sq ft)




At 19%, Reading has the second highest availability rate in the Thames Valley, with 615,000 sq ft of new supply hitting the town centre market in 2016. However, total availability has actually fallen from 2,198,464 sq ft in Q1 2016 to 1,895,654 sq ft in Q1 2017.

This is due to notable demand paired with approximately 200,000 sq ft leaving the market for alternative uses.

At 897,465 sq ft, out-of-town has the lowest supply since 2007, with grade A space comprising 50% of the total.

90% of space in the town centre is grade A. Current available space includes Thames Tower (163,000 sq ft), Greyfriars (39,000 sq ft – under offer), R+ (89,000 sq ft) and The White Building (31,000 sq ft) in the town centre and Four10, Thames Valley Business Park, (71,000 sq ft), 400 South Oak Way, Green Park, (19,500 sq ft) and 1030 Winnersh Triangle (16,000 sq ft) out-of-town.

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| 12 month take-up vs 10-year average | Years of supply | Grade A share of supply | Q2 2017 prime headline rent (per sq ft) | Prime yield |
|---|---|---|---|---|
| 4% | 4.5 | 71% | £36.50 | 5.00% |

## Development and refurbishment

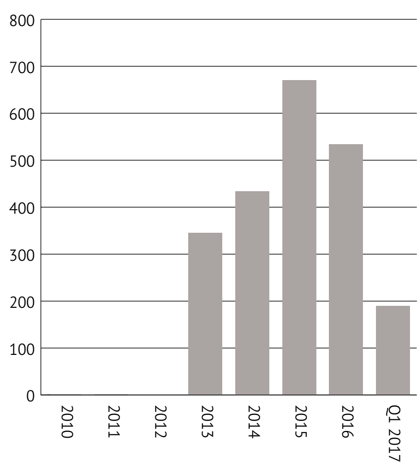
2 Forbury Place is the only new building under construction and will provide 190,000 sq ft when completed in summer 2017.

Significant refurbishment projects include 37,000 sq ft Hive 2 and 58,000 sq ft Hive 3, both due for completion by the end of Q2.

Stanhope and Benson Elliot's Station Hill site, which comprises approximately 930,000 sq ft of office space, 150,000 sq ft retail space and 300 residential units, is for sale. It is hoped that a sale may trigger the development of this site within three to four years.

Mapletree is considering speculative development of offices at Green Park, however, it is understood that Brexit-related uncertainty has delayed this decision.

**Reading under construction** (000 sq ft)




## Rental values and yields

At the end of 2016, a town centre rent of £34.00 per sq ft was agreed with Gately PLC on the 7,235 sq ft top floor suite of The Blade. By the end of Q1 2017, this had increased to £36.50 per sq ft when Austin Fraser signed a 10 year lease for its 14,010 sq ft acquisition of the 11th floor of Thames Tower.

Out-of-town, a similar pattern was seen, with end-2016 prime rents standing at £35.00 per sq ft and moving to £35.50 per sq ft in Q1 2017.

The sale of Green Park in Q2 2016 saw Reading account for one the largest transactions of the year across the whole of the UK at £536m. Since this time, activity has been notably more muted with six transactions totalling £67.5m.

Notable deals include Topland's purchase of Reading Bridge House for £35m, which was a discount of over 10% from the pre-referendum quote price and reflected a yield of 7.87%. Reading Borough Council was active within the town centre, buying 160-163 Friar Street and Adelphi House, also on Friar Street, which were predominantly or entirely let to the Government respectively.

Prime yields remain stable at 5.00% with no movement for the last two years. They are forecast to remain stable.

**Reading prime yields** (%)


## Outlook

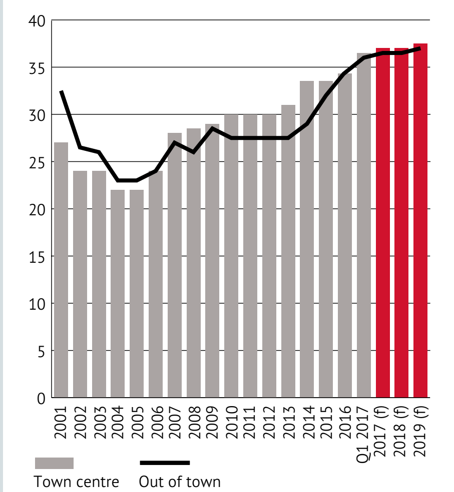
We expect a consistent churn of sub-20,000 sq ft lettings in 2017 resulting in a total of higher than the average annual take-up. Demand will be dominated by tech, financial and pharmaceutical occupiers and the vast majority of take-up will be focused on amenity-rich grade A space.

Much of the demand in seen Reading recently has been in 5–20,000 sq ft requirements, however, we have seen

Given the significant increase in rents seen from the end of 2016, we can expect them to steady, increasing to £37.50 per sq ft by the end of 2019.

**2017 ▲ £37.00 per sq ft**

**Reading prime rental values forecast** (£ sq ft)




Data source: Lambert Smith Hampton

# SLOUGH

## Highlights

- **Slough's 2016 take-up of 85,000 sq ft was below the long-term average for the sixth consecutive year and the lowest recorded since 2011.**
- **Slough has the highest availability rate in the Thames Valley (30%), however, the forthcoming Crossrail link is encouraging yet further development.**
- **There is 295,000 sq ft of newly completed space across three buildings, all of which has an emphasis on amenity and an aspirational work-lifestyle to attract occupiers. A further 100,000 sq ft is due to complete in Q1 2018.**
- **Slough prime rents have increased by 43% over the past four years, to £28.00 per sq ft in 2017 and developers are expecting new space to let for £30.00 per sq ft by the end of the year.**

## Demand

At 85,000 sq ft, take-up in 2016 fell by 38% from 2015's total. This was below the long-term average for the sixth consecutive year (41% below) and the lowest take-up recorded since 2011.

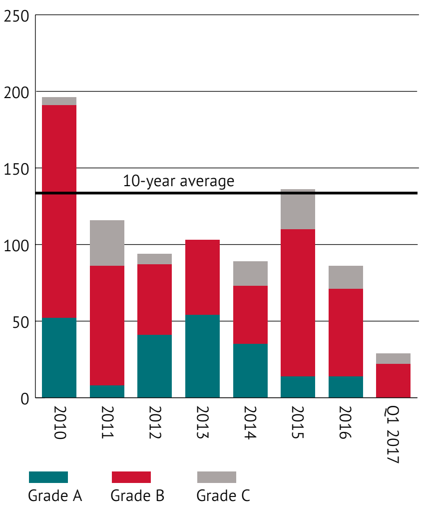
Key 2016 transactions included Servier leasing 12,000 sq ft at Sefton Park, DX Group leasing 11,000 sq ft at Ditton Park, MyCom Osi leasing 8,500 sq ft at The Urban Building and Build a Bear HQ taking 6,500 sq ft at Aquasulis.

Slough has a very different take-up profile to other centres in the Thames Valley. The difference between Slough's grade A take up of 16% and the wider Thames Valley average of 62% doesn't reflect a fundamental difference of behaviour by Slough occupiers, but rather, illustrates a lack of grade A opportunities.

Slough has the highest proportion of grade C take-up, at 18% –set against a regional average of 2%. This anomaly is a function of occupiers acquiring grade C properties in the absence of better alternatives and being prepared to invest in these buildings to provide occupational solutions. A notable example of this is the freehold sale of 11,073 sq ft Technology House in Langley.

The Urban Building continues to be the key driver of take-up in 2017, with 20,000 sq ft currently under offer to an indigenous Slough based tech company.

**Slough take-up** (000 sq ft)

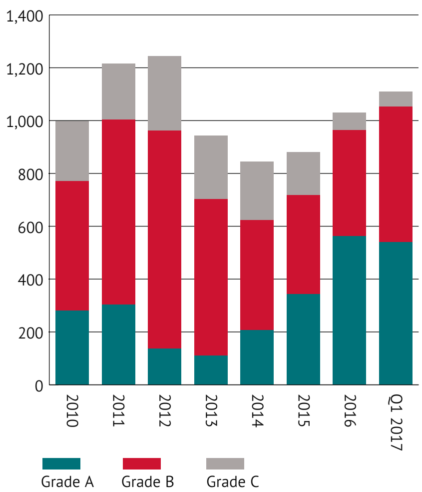



## Supply

Slough has continued to enjoy substantial investor confidence in its long-term resilience and occupier appeal as an office location. There are now four grade A office schemes available or close to completion.

The supply of offices has risen from 850,000 sq ft in 2014 to 1,110,000 sq ft in 2017, with some 50% offering grade A accommodation, reflecting a wave of long-awaited development.

**Slough availability** (000 sq ft)

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| 12 month take-up vs 10-year average | Years of supply | Grade A share of supply | Q2 2017 prime headline rent (per sq ft) | Prime yield |
|---|---|---|---|---|
| -41% | 7.7 | 49% | £28.00 | 5.25% |

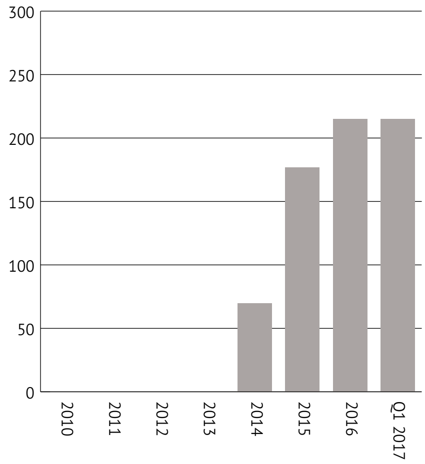
## Development and refurbishment

Newly completed schemes include 115,000 sq ft at The Porter Building, 110,000 sq ft at 25 Windsor Road and 70,000 sq ft on the Bath Road. All three landlords, Landid/Brockton, XLB/LRE and AEW, are placing a emphasis on providing building amenity and an aspirational work-lifestyle to attract occupiers.

Construction has also started at U&I's Future Works (formerly Brunel Place), which will offer 100,000 sq ft of space due to complete in Q1 2018. The new building will be arranged over nine stories with typical floor plates of approximately 15,000 sq ft.

The former Thames Valley University site is set to be developed by the Slough Borough Council as a major office, retail and residential scheme.

**Slough under construction** (000 sq ft)




## Rental values and yields

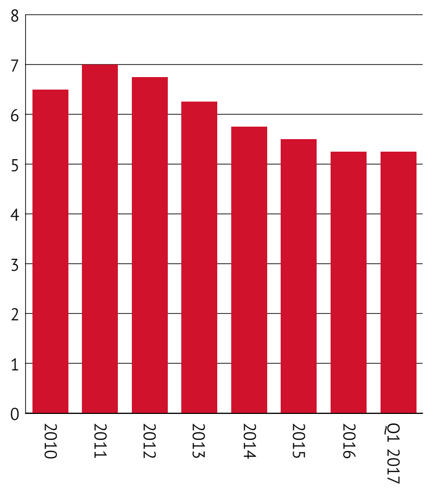
Slough prime rents have increased by 43% over the past four years, from £20.00 per sq ft in 2013 to £28.00 in 2017, achieved by LaSalle Investment Management on a 5,000 sq ft letting to Movil Analytics at The Switch.

Developers are now expecting to secure prime rents exceeding £30.00 per sq ft on the new grade A space and we predict further growth over the next few years as Slough's improved proximity to Heathrow and London becomes a reality.

Investment volume over the last 12 months in Slough totalled £19.7m over three transactions. KA Investments demonstrated the continued confidence investors have in Slough with its £12m purchase of Thames Central, a nine storey office in the town centre in need of ongoing asset management. Out-of-town, Seven Capital acquired 227 Bath Road from M&G for £6m with one years' income remaining - a further vote of confidence in the occupational market.

The preceding 12 months saw an unprecedented level of activity with AEW's purchase of the Bath Road frontage and Ashby Capital's forward funding of 2 Brunel Place. Despite a fall in investment volumes this year, prime yields remain unchanged at 5.25%.

**Slough prime yields** (%)




## Outlook

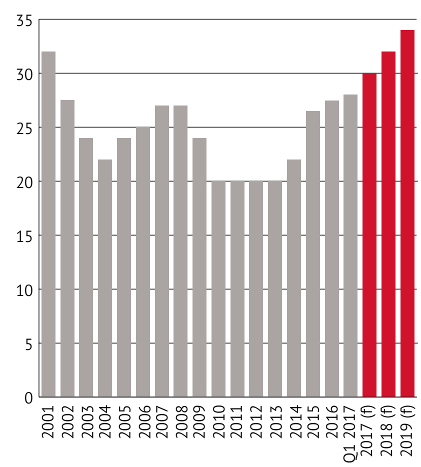
Slough's proximity to Heathrow and Central London is the key to its future success. Crossrail will deliver journey times of 32 minutes to Bond Street and 39 minutes to the City (Liverpool Street) in 2019. The Western Rail Access to Heathrow will link Heathrow to Slough in six minutes in 2022.

We expect to see a reversal of the current low-level of take-up as occupiers are attracted to transformational speculative grade A developments.

This increase in quality office stock is likely to see prime rents rise to £30.00 per sq ft by end of 2017 and then to £34.00 per sq ft in 2019.

**2017 ▲ £30.00 per sq ft**

**Slough prime rental values forecast** (£ sq ft)




Data source: Lambert Smith Hampton

BLACKWATER VALLEY | BRACKNELL | GUILDFORD | HEATHROW | MAIDENHEAD | NEWBURY | OXFORD | READING | SLOUGH | STAINES | UXBRIDGE

# STAINES

## Highlights

- **At 153,000 sq ft, Staines 2016 take-up fell 27% from the 210,000 sq ft high seen in the previous year, however, it remained healthily above the 10-year average of 142,000 sq ft.**
- **Staines supply has fallen by over 50% to 344,000 sq ft at the end of Q1 2017, bringing it into line with the mode average availability rate for the Thames Valley at 11%.**
- **Staines Central has secured outline planning permission but no start date has been confirmed. Thameside House could provide a 35,000 sq ft refurbishment opportunity for a private rented scheme and an 85,000 sq ft office scheme.**
- **Both grade A and B rents are increasing, with quoting rents at £36.00 sq ft per for grade A space, with grade B space under offer at £32.00 per sq ft.**

## Demand

At 153,000 sq ft, Staines 2016 take-up fell 27% from the 210,000 sq ft high seen in the previous year, however, it remained above the 10-year average of 142,000 sq ft.

Grade A take-up has increased steadily year-on-year, from 39,000 sq ft in 2013 to 127,000 sq ft in 2016, providing 83% of the total. This is the result of a wave of three years of development that saw grade A space enter the market at Flow, 5 Pine Trees, 3 Lotus Park and Strata.

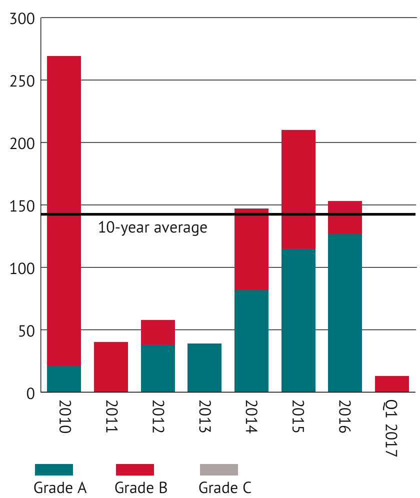
In addition, occupiers are actively choosing grade A space over B as there is a relatively small differential in rental terms. This is demonstrated by the most significant transaction of the year – Service Now's letting of 58,000 sq ft at Strata was on a 10 year lease with a 24 month rent free period at £34.00 per sq ft.

Other significant lettings were Enterprise Cars' 33,251 sq ft lease at 203 London Road and Mallinckrodt Pharmaceutical's 20,387 sq ft lease at 3 Lotus Park.

2017 has started quietly, with only 13,000 sq ft of grade B space transacting in Q1 and there are limited new enquiries in the Staines market at present.

With a 50/50 split of transactions generated from within the region and by inward investment and a talented labour pool in Staines' key sectors (software and pharmaceutical), Staines has a stable potential pipeline of demand. However, it is competing with neighbouring Heathrow, Uxbridge and Slough for 10,000 sq ft + occupiers, which all have arguably better transport links to London.

**Staines take-up** (000 sq ft)

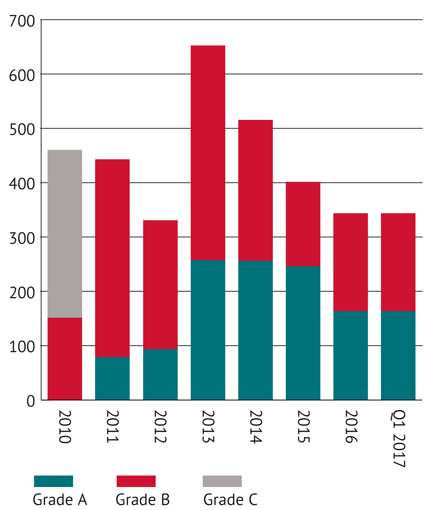



## Supply

As space built in 2013 has been let, Staines supply has fallen by over 50% to 344,000 sq ft at the end of Q1 2017. During this time, the availability rate has fallen from 21% to 11%, which is still the mode average for the Thames Valley as a whole.

Town centre grade A availability consists of space at 5 Pine Trees – 54,175 sq ft, Strata – 31,025 sq ft and 3 Lotus Park – 48,815 sq ft. Out of town space is available at Hawthorn House – 40,000 sq ft and 203 London Road – 13,637 sq ft. Grade B space is only available in small suites in the town centre.

**Staines availability** (000 sq ft)





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| 12 month take-up vs 10-year average | Years of supply | Grade A share of supply | Q2 2017 prime headline rent (per sq ft) | Prime yield |
|---|---|---|---|---|
| 8% | 2.4 | 47% | £34.50 | 5.00% |

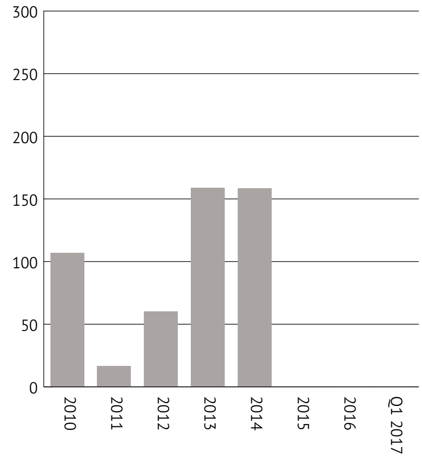
## Development and refurbishment

Following the peak of construction seen in 2013/14, when a plethora of schemes completed, there has been no further office development in Staines.

Outline planning consent has been secured to develop 275,000 sq ft of space at Staines Central that will provide residential and office accommodation.

Thamside House could provide a refurbishment opportunity of 35,000 sq ft, likely to hit the market in late 2018, however, there is a chance it may be changed to residential use.

**Staines under construction** (000 sq ft)



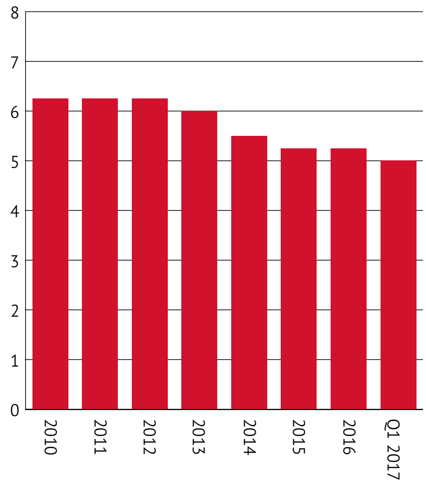

## Rental values and yields

Rents are being driven up due to falling supply, particularly in the town centre. Service Now took its lease at Strata at £34.00 per sq ft, and Mallinckrodt Pharmaceutical took accommodation at 3 Lotus Park at £34.50 per sq ft.

Grade B rents are also increasing, with Mallard Court under offer at £30.00 per sq ft and Magna House at £32.00 per sq ft.

Despite a relatively quiet 12 months for investment activity, prime yields in Staines have shifted inwards by 25 basis points to 5.00% driven by the only transaction in the town. The local authority, Runnymede Borough Council, purchased Hitachi House, located just of the Causeway, paying £10,100,000 which reflected a net initial yield of 5.05%.

**Staines prime yields** (%)



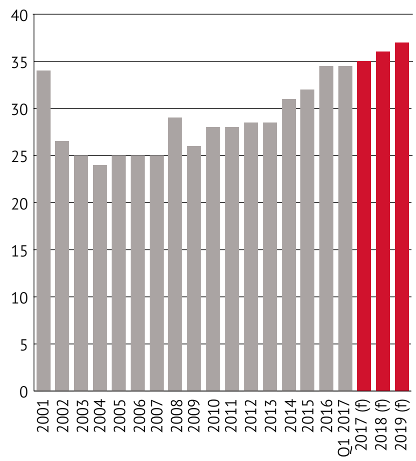

## Outlook

With an expected take-up of circa 15,000 sq ft in H1 and no major requirements at present, take-up for 2017 as a whole is likely to be considerably lower than in previous years.

As there is only two years' supply in Staines, depending on take-up over the next two to three years, developers maybe building again, particularly in view of sustained rental growth.

**2017 ▲ £35.00 per sq ft**

**Staines prime rental values forecast** (£ sq ft)




Data source: Lambert Smith Hampton

BLACKWATER VALLEY
BRACKNELL
GUILDFORD
HEATHROW
MAIDENHEAD
NEWBURY
OXFORD
READING
SLOUGH
STAINES
UXBRIDGE

# UXBRIDGE

## Highlights

- **Uxbridge take-up in 2016 was just over a third of the long-term average at 42,000 sq ft and was made up exclusively of grade B lettings.**
- **A development boom over the past 3 – 4 years has provided significant new space to the Uxbridge market, with 58% of stock being grade A. This is likely to fall again as space is let.**
- **No development or refurbishment is currently in progress, however, with Verifone vacating 35,000 sq ft Symphony House in Q4, this is likely to be fully refurbished as office space.**
- **After three years of no change, new grade A space in The Charter Building created a headline rent increase of 10% to £35.00 per sq ft.**

## Demand

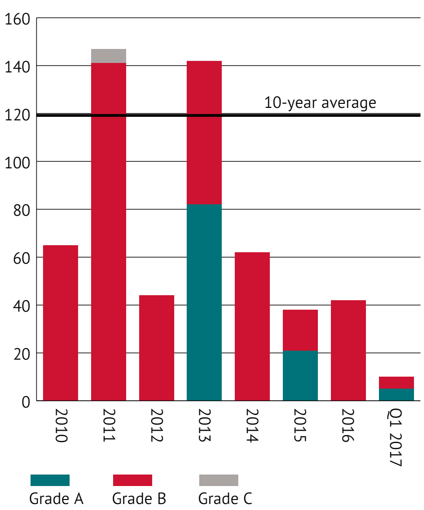
Although Uxbridge take-up in 2016 was just over a third of the long-term average at 42,000 sq ft, it was 10% above the 38,000 sq ft seen in 2015 and comfortably above the five-year average (excluding 2013's distorting figure).

Take-up was exclusively grade B, made up of three lettings: London Square's lease of 18,868 sq ft at One York Road, Jato Dynamics' lease of 16,277 sq ft at Hunton House and Vivreau's lease of 8,781 sq ft at Beaufort House. There was very little grade A physically completed until later in 2016 and occupiers chose to move to grade B, rather than wait.

10,161 sq ft transacted in Q1 2017 across two lettings, both in the town centre and there are two further lettings, at the Chester Building  and Belmont, thought to be close to competion.

In line with other Thames Valley markets, we are seeing a reduction in transaction sizes and a desire for more flexible lease terms, such as three year break clauses on smaller deals.

**Uxbridge take-up** (000 sq ft)




## Supply

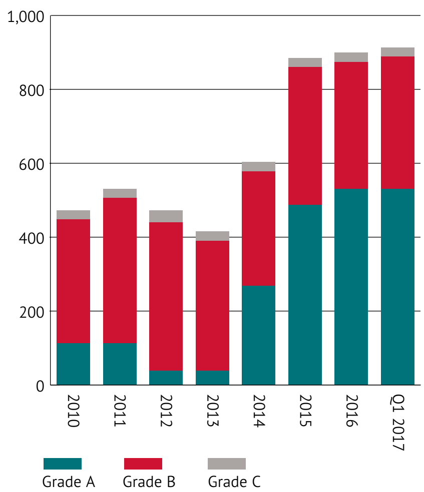
Following the considerable, development-driven, increase in availability seen between 2013 and 2015, availability has remained high, rising marginally further to stand at 913,000 sq ft in Q1 2017. This represents an availability rate of 11%, the modal average for the region.

There is a plethora of grade A space available (58% of stock), such as 230,000 sq ft at The Charter Building, 120,000 sq ft at Belmont and 100,000 sq ft in two buildings at Uxbridge Business Park.

Grade B space is located in one-off floors within competing multi-let town centre buildings or at perceived less desirable out-of-town locations, such as Cowley Business Park or Widewater Place in Denham.

There is a limited number of enquiries for Uxbridge and the new grade A schemes will target the out-of-town fringe occupiers to upgrade to new accommodation that is better located. With no more grade A pipeline in the short-term, the town centre grade A space will start to erode.

**Uxbridge availability** (000 sq ft)





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| 12 month take-up vs 10-year average | Years of supply | Grade A share of supply | Q2 2017 prime headline rent (per sq ft) | Prime yield |
|---|---|---|---|---|
| -65% | 7.7 | 58% | £35.00 | 5.25% |

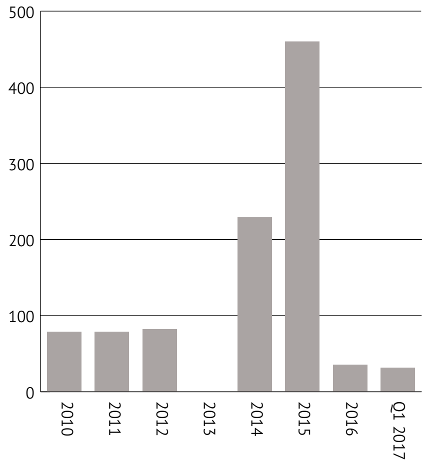
## Development and refurbishment

Following the wave of development seen over the past few years, there is no office space currently under construction.

A mixed development scheme at St Andrew's has outline planning permission for 200,000 sq ft. The residential stage is likely to complete in 2019, however there is no start date for office development as yet.

There are no refurbishments in progress at present. Verifone is due to vacate Symphony House, Cowley Business Park in Q4 this year, having agreed terms to move to Stockley Park, Heathrow. It is likely that this will be fully refurbished to provide a further 35,000 sq ft of good grade B space.

**Uxbridge under construction** (000 sq ft)




## Rental values and yields

Prime rents had remained static at £32.00 per sq ft between 2013 and 2016 as the only grade A space let had been refurbished and there was no product to test the market.

The first 'new' grade A space was let at the start of 2017, at The Charter Building, with Jazz Networks taking 5,000 sq ft at £35.00 per sq ft. This represents an uplift of almost 10%.

Tenant incentives remain a feature of the Uxbridge market, with a typical 24 month rent free period on grade B space and 18 months on grade A for a 10-year term.

Prime yields remain unchanged at 5.25% following a relatively subdued year for office investment in Uxbridge. There was a total of four transactions, all of which were below £10m. The largest building to change hands was Parkview, part of the £400m Alecta Portfolio, which was bought by Goldman Sachs. Despite significant amounts of speculative development, investors continued to take on void risk in the town, demonstrating confidence in the strength of the occupier market.

**Uxbridge prime yields** (%)


## Outlook

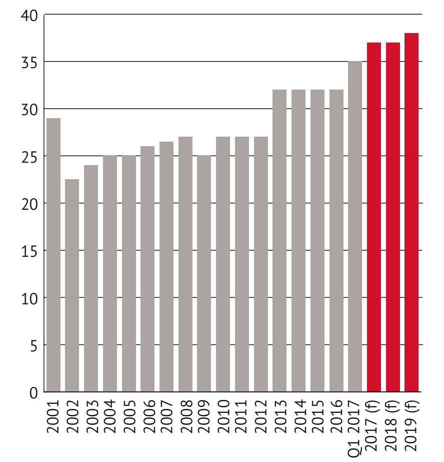
There are rumoured to be a number of sizeable requirements in the market. These may happen in 2017, which would lead to a sharp uptick in take-up.

Uxbridge remains a key West M25 town and its proximity to the M25/M40 and Heathrow Airport will continue to encourage multi-national corporates to locate in the town.

With quoting rents now at £37.50 per sq ft for prime space, it is likely that we will see rents increase even further this year. However, given the amount of stock available, it is likely to stay steady at £37.00 per sq ft for the foreseeable future.

**2017 ▲ £37.00 per sq ft**

**Uxbridge prime rental values forecast** (£ sq ft)




Data source: Lambert Smith Hampton

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