NATIONAL OFFICE MARKET REPORT 2016

Lambert Smith Hampton

REBALANCE

WELCOME

TONY FISHER
National Head of Office Agency
tfisher@lsh.co.uk
+44 (0)20 7198 2250

2015 will go down in history as an outstanding year for the UK office sector. The majority of markets saw above-trend rates of activity and rental growth was a familiar story across many parts of the country.

2016 has seen fresh challenges, chief among them being June's Referendum on the UK's membership of the European Union. We need to remember that this vote comes at a time when the underlying fundamentals in the occupier markets are generally positive and should therefore not allow ourselves to be consumed by its resulting negativity!

With one quarter of 2016 statistics to reflect on already, the picture in the occupier markets appears mixed. Central London seems to have moved into a more downbeat pattern, with take-up significantly down, both year-on-year and against trend. But this stands in stark contrast to the UK's other key markets, with impressive levels of activity seen in the Big Six markets and the Thames Valley region.

How the investor community reacts to the outcome of the Referendum will have an important bearing on the occupier markets. A vote for 'Bremain' will reassure the investment market on pricing, unleashing capital to be deployed towards delivering much-needed grade A space. In contrast, a vote to leave would admittedly be unsettling and is sure to dampen development appetite for a time.

The Referendum is not the only show in town though! There are other important factors at play which also have the potential to change the dynamics within the markets.

By the year end, a new Permitted Development Right is expected to come into being, which will allow offices to be demolished to make way for residential use. Will that help or hinder the markets?

Then, we have the high cost of London, a challenge not only for occupiers, but increasingly their staff as well. With the case for relocation looking increasingly compelling, could the UK's main regional centres be on the cusp of a wave of inward investment?

We are only part way through the cycle and there remains considerable opportunity for growth in the occupier markets. To take advantage of these, it is arguably more important than ever to have a forensic knowledge of local market dynamics.

These are undoubtedly fascinating times for the office sector and I hope this research will offer you useful insight as you traverse the market during 2016.

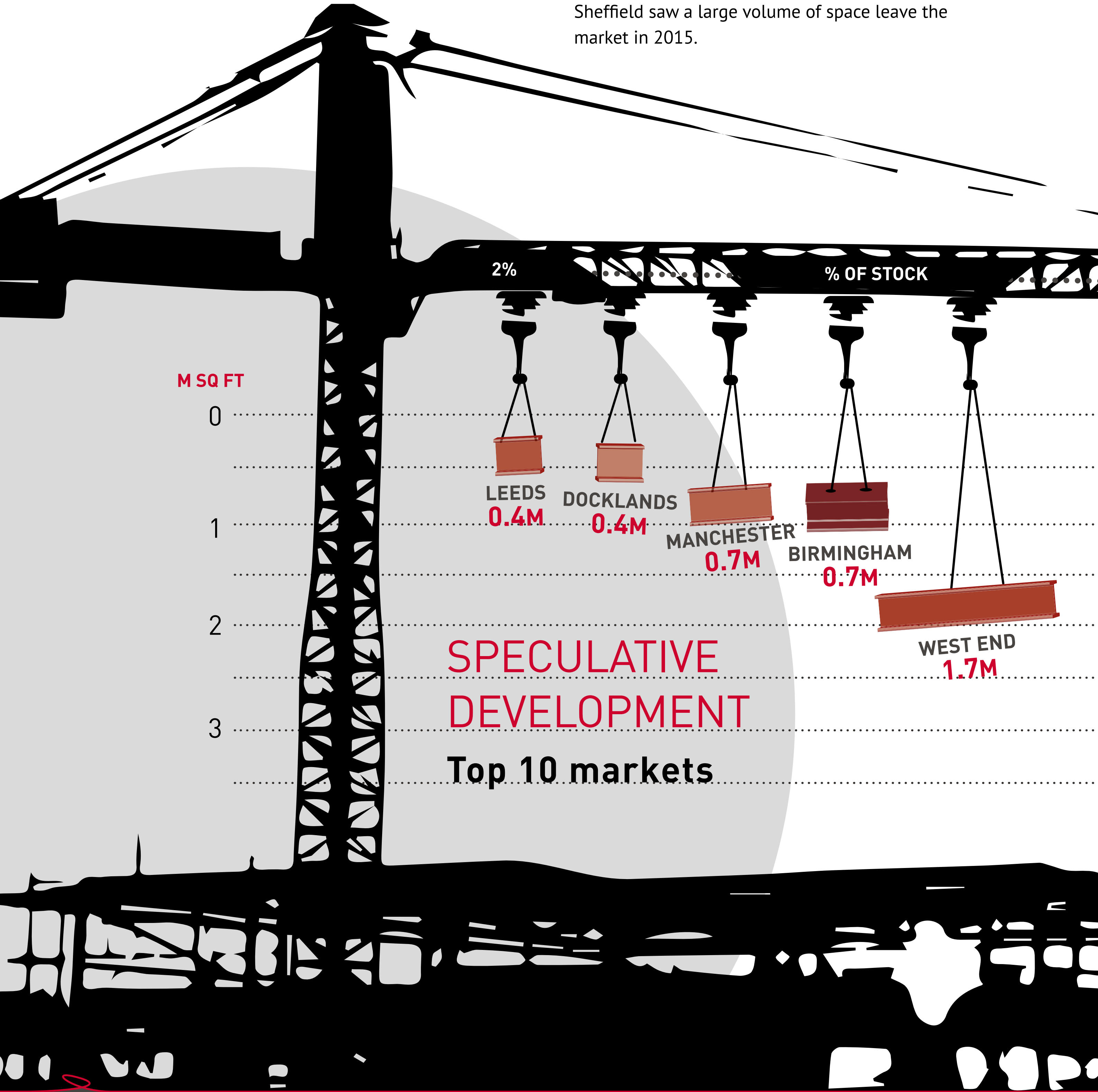
2015 EXECUTIVE SUMMARY

2015 WAS AN OUTSTANDING YEAR FOR THE UK OFFICE MARKET

- While the latter half of the year brought a slowing in the pace of UK economic growth and increasing concerns over the global economic outlook, 2015 was an outstanding year for the UK office sector, for both occupier and investment market activity.
- In the occupier markets, UK-wide office take-up totalled 30.9m sq ft in 2015, its highest annual total since 2001 and eclipsing 2014's high by 4%. This strength of activity reflected the ongoing confidence among occupiers to expand headcount and upgrade their accommodation, not only in London but across the UK.
- Central London recorded impressive take-up of 14.4m sq ft in 2015; down only 2% on 2014's high and 16% above the ten-year average. Midtown was the strongest performing sub-market in 2015, with take-up rising 50% above 2014's level.
- But it was the Big Six markets that stole the show. 2015 was a record year of activity for the six cities combined, boosted by a clear revival in the out-of-town markets. Edinburgh, Birmingham and Manchester all witnessed exceptional take-up, with Bristol being the only market to have a subdued year.
- 2015 was also a much more positive year for the Thames Valley region. Following a disappointing 2014, take-up in the Thames Valley rebounded by 18% year-on-year. Reading was the standout performer, with take-up 49% ahead of its annual average.
- The positive momentum seen within the core cities over the past two years has also spread to many of the UK's other key regional markets. The majority of the Mid Eight locations, in particular Belfast, Cambridge, Sheffield and the South Coast, saw take-up significantly ahead of average.

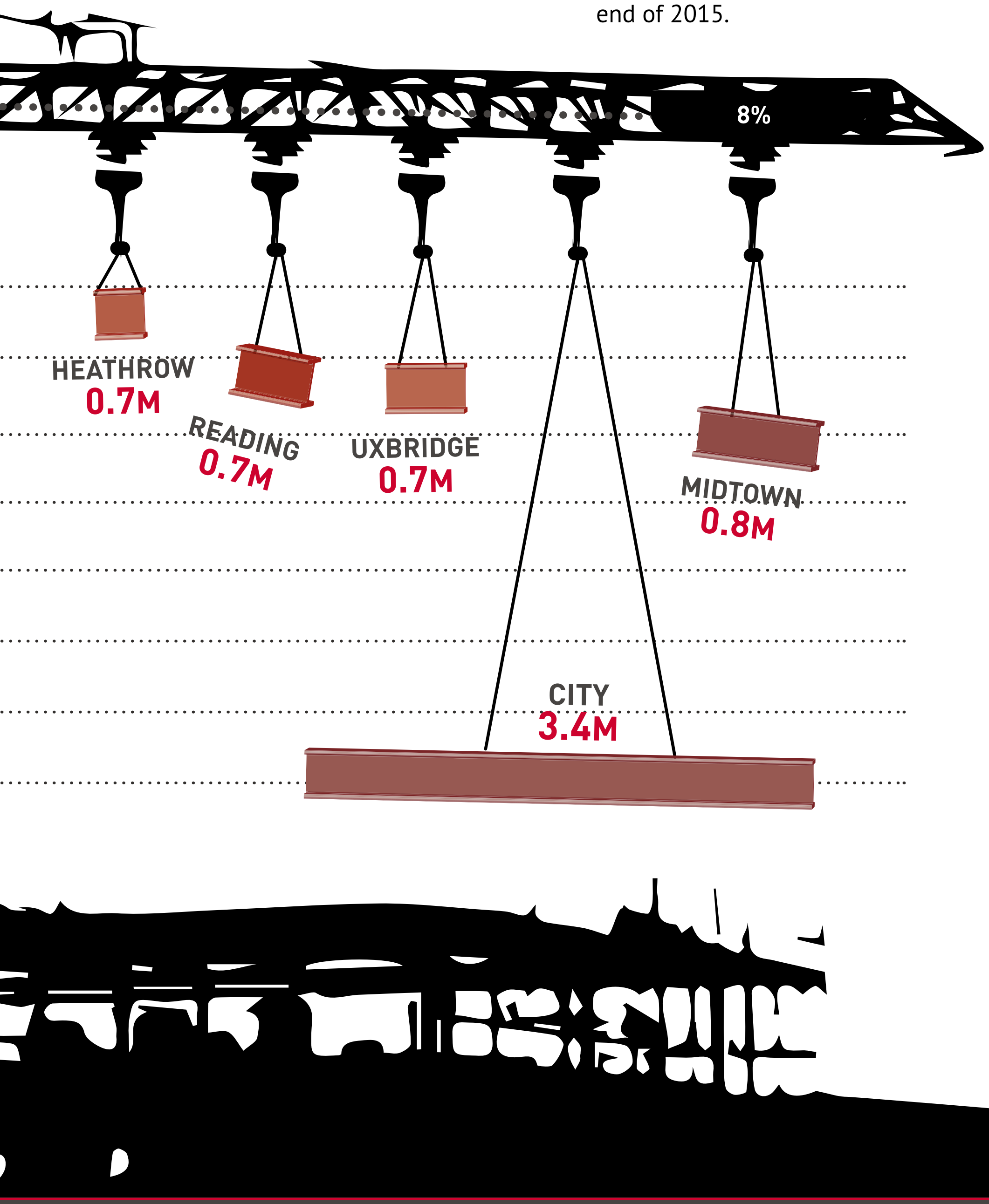
UK OFFICE AVAILABILITY FALLS TO ITS LOWEST LEVEL SINCE 2007

- Despite a return of development, availability continues to reduce, reflecting both healthy net absorption and pressure for alternative uses. UK-wide supply edged down by 5% during 2015, its sixth consecutive year-on-year fall, to stand at 53.9m sq ft at the end of year.
- This fall in availability was partly driven by the regions outside of London, where supply declined by 7% over 2015. In contrast, availability in Central London increased by 4% during 2015 to stand at 11.5m sq ft, reflecting speculative development.
- Office space lost to alternative uses totalled approximately 3.7m sq ft across 36 locations assessed outside London, down 28% from 2014's high of 5.1m sq ft. Whereas Bristol was a particular focus of conversions in 2014, Newcastle and Sheffield saw a large volume of space leave the market in 2015.



SPECULATIVE DEVELOPMENT IS ON THE UP

- Across the UK, 11.3m sq ft of speculative development was under construction at the end of 2015, up 19% on a year previously. Central London was again the focus of development activity, home to almost 60% of the UK total and up 25% year-on-year. Developer confidence in the regions has also been sustained, albeit largely focused in the core cities of Birmingham and the key Northern Powerhouse cities of Manchester and Leeds, alongside several locations within the Thames Valley.



HEADLINE RENTS INCREASED IN TWO THIRDS OF THE UK MARKETS

- The UK office sector is now firmly in the midst of a rental growth cycle, reflecting tight supply and robust demand for grade A space. Prime headline rents increased in the majority of UK markets during 2015, with growth evident within all of each of the UK regions, albeit to varying degrees.
- Across 50 UK markets, average rental growth amounted to 6% in 2015, eclipsing the 4% growth seen in 2014. For the second year in succession, Slough saw the strongest increase, rising by 25% to stand at £27.50 per sq ft at the end of 2015.

INVESTMENT VOLUME HIGHEST SINCE 2007

- 2015 was another remarkable year for investment in UK offices, with £26.1bn of assets changing hands. 2015's volume narrowly surpassed 2014's high by 2% and was 32% above the ten-year average.
- Central London offices witnessed a 4% fall in investment year-on-year in 2015, while the South East recorded its strongest year on record. Driven by strong institutional demand, the office market across the rest of the UK also saw buoyant activity with volume in 2015 of 35% above the ten-year average.

2016 BRINGS A MARKED CHANGE IN INVESTMENT APPETITE

- The start of 2016 has brought a clear change in the picture from 2015. Q1 saw a marked slow-down in transactional activity, with investment of £4.5bn, the lowest quarterly total since Q2 2013. It was nevertheless 9% above the ten-year average volume for the first quarter.
- While volume was not expected to be sustained at the levels seen during 2014/15, the slowdown is undoubtedly also linked to caution around the outcome of June's referendum on the UK's membership of the EU.
- With the City occupier market being arguably the most exposed to a potential 'Brexit', it was telling that Central London was the focus of the slow-down, where Q1 volume was 31% below the ten-year average.

OUTLOOK

The slowdown in global growth and uncertainty around the Referendum has clouded a broadly positive economic environment for the UK's office markets. Services will continue to drive economic growth, with rising private sector employment and ongoing lease events supporting market activity.

UNCERTAINTY TO WEIGH MOST ON CENTRAL LONDON

Despite June's Referendum, many of the UK's key markets have recorded an uptick in requirements following an initially slow start to the year. While we do not expect UK-wide occupier market activity in 2016 to match 2015's outstanding performance, take-up is nevertheless expected to be the order of 27m sq ft in 2016, circa 10% ahead of the annual average.

We anticipate the core regional markets to perform relatively well in 2016, although we are less confident about the prospects for activity in Central London, where take-up in Q1 2016 was notably below trend. The best performing markets in 2016 will experience a combination of a spike in lease events alongside the delivery of the new-build space.

Over 2015, strong levels of take-up were seen in markets where new supply had been delivered, a trend which will continue during 2016. While an absence of ready-built grade A space may prompt an increase in pre-letting, the majority of occupiers seeking a relocation will simply defer their decision until stock becomes available.

AVAILABILITY TO FALL FURTHER

While the fuller return of speculative development is helping to replenish grade A supply in a number of markets, UK-wide availability will edge down further in 2016. By the year end, total availability is expected to drop below 50m sq ft for the time since 2007, reflecting steady net absorption and the continuing withdrawal of obsolete space for alternative uses.

Across the country as a whole, levels of speculative development are expected to hold relatively steady during 2016, as new commencements keep pace with completions. The current sharp fall in confidence around prime residential values should boost development interest in parts of the capital, while many regional markets are well placed to see one or two schemes commence construction, particularly those yet to see any development in this cycle.

The trend for development to be focused within town centres and around transport interchanges will continue to characterise this development cycle. This will often take the form of back-to-frame refurbishments as developers seek to exploit the existing car parking ratios of buildings.

Compared with the spike in activity seen during 2013 and 2014, the amount of space being lost from the market for alternative uses is expected to remain relatively limited in 2016. However, the anticipated announcement of a new Permitted Development right later in the year - allowing offices to be demolished for residential use - could spark a fresh wave of activity in 2017.

RENTAL GROWTH CYCLE IS IN FULL SWING

The current cycle is now in full swing, with 2015 marking a second successive year of nation-wide rental growth. Barring a shock to demand, for example, through a severe economic reaction to a possible 'Brexit', rental growth is expected to continue on its upward trajectory generally across the UK.

Lambert Smith Hampton's office agency network is forecasting prime headline growth in 30 of the UK's 50 main markets in 2015. That said, the pace of average rental growth is expected to ease from 2015's strong level as the demand-supply equation becomes more evenly balanced in an increasing number of markets.

However, evidence suggests pricing is approaching a peak in Central London. Following a period of exceptional growth, prime headline rents in the majority of sub-markets are expected to be flat during 2016. The 2017 business rates revaluation will put further pressure on occupier costs, potentially impacting on the rental levels landlords are expecting, while giving added impetus for occupiers to decentralise to other markets outside the capital.

INVESTMENT MARKET BRACES ITSELF FOR REFERENDUM

Volume is likely to remain relatively subdued in the run-up to June's Referendum, as investors opt to sit on their hands and await its outcome. If the electorate votes to remain within the EU, there is confidence that the market will rebound in the latter half of 2016, as pent-up demand is released back into the market and liquidity is restored.

If, on the other hand, 'Brexit' does become a reality, the long-term consequences for the investment market can only be speculated until the terms of the UK's new relationship with the EU are made clear. What is certain is that the UK property market's attractive fundamentals of liquidity, legal framework and transparency will remain in place, regardless of whether the UK is in or out of the EU.

In the short-term, a 'Brexit' is likely to extend the period of investor uncertainty, keeping activity subdued and potentially impacting on pricing. However, any weakening in the value of sterling resulting from a vote to leave may be an attractive prospect to some opportunistic overseas investors.

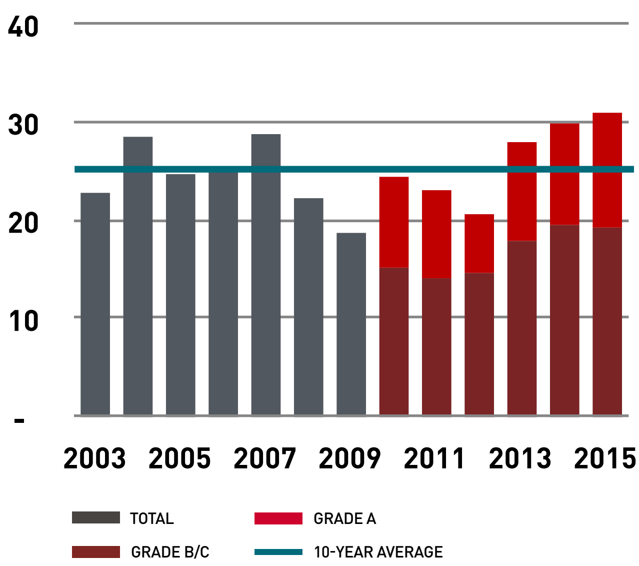
Aside from the current uncertainty, the underlying occupier market fundamentals are generally very positive. With income becoming increasingly key to driving returns, appetite for prime, long-income assets will remain strong, particularly in the regional markets where grade A space is in short supply.

There is also a real window of opportunity to reposition assets in tightly supplied markets through good quality refurbishments. However, for asset management approaches to be successful, it will require a granular understanding of the local market to identify the best opportunities.

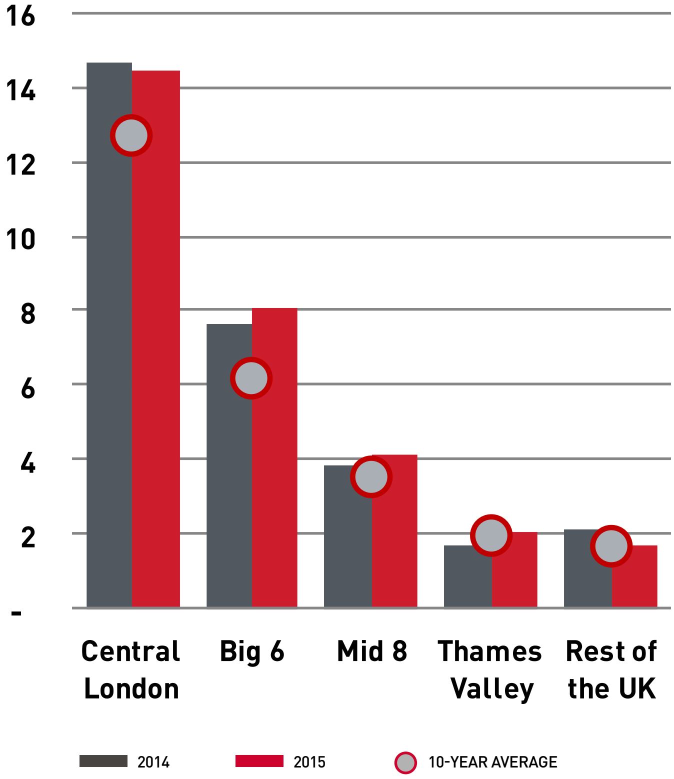
NATIONAL OCCUPIER MARKET OVERVIEW

Overall, 2015 was an outstanding year of activity for the UK office markets. Nationwide office take-up reached 30.9m sq ft, up 4% on 2014's impressive total and the highest annual total in 14 years. Meanwhile, despite a marked rise in speculative development, total supply reduced by 5% in 2015 to stand at its lowest level since 2007.

UK TAKE-UP (M SQ FT)



TAKE-UP (M SQ FT)



DEMAND

UK take-up broke the 30m sq ft barrier in 2015 to reach its highest annual total since 2001. Nationwide, activity was 23% above the ten-year average, with the UK regions outside the capital seeing the strongest performance relative to trend at 30% above the ten-year average.

In line with previous years, the first quarter of 2015 was relatively quiet in comparison to the preceding quarters. However, this was followed by very strong activity in Q2 2015, which proved to be the busiest quarter of the year.

Central London activity fell slightly short of 2014's level

Central London recorded impressive take-up of 14.4m sq ft in 2015. While performing 16% above the ten-year average, it was 2% down on the high of 2014. Of the five key sub-markets, Midtown enjoyed the strongest performance relative to trend, with take-up reaching 2.1m sq ft, 48% above the ten-year average. In relative terms, South Bank saw the weakest activity, with take-up falling marginally short of the ten-year average.

A big year for the Big Six

Collectively, the Big Six markets had their strongest year of activity on record in 2015. Take-up was 8.1m sq ft, up 5% on the previous high a year earlier in 2014. Indeed, Bristol was the only Big Six market to see relatively subdued activity in the year, with exceptional take-up seen in Edinburgh, Birmingham and Manchester.

2015's impressive year was also boosted by a notable revival in the Big Six out-of-town markets, most clearly evident in Birmingham. Collectively, take-up in the out-of-town markets increased by 11% year-on-year, while the city centres saw a smaller increase of 2%.

BIG SIX

BIRMINGHAM	GLASGOW
BRISTOL	LEEDS
EDINBURGH	MANCHESTER

The positive momentum in the core regional centres has also spread into the second tier regional markets. In 2015, the Mid Eight markets collectively saw take-up increase 20% year-on-year, while all markets except Liverpool performed above their ten-year averages. Cambridge was a standout performer with take-up 40% above its ten-year average.

MID EIGHT

BELFAST **NEWCASTLE**
CAMBRIDGE **NOTTINGHAM**
CARDIFF **SHEFFIELD**
LIVERPOOL **SOUTH COAST**

The Midlands region sees the strongest activity

Of our seven regions, the Midlands recorded the strongest level of take-up relative to trend in 2015, recording an impressive 2.7m sq ft of take-up in the year, 44% above the ten-year average. The region was also home to 2015's largest deal outside London, HSBC's 210,000 sq ft pre-let of 2 Arena Central, Birmingham.

The Thames Valley market rebounded from a relatively subdued year in 2014, with take-up breaking the 2m sq ft once again. While activity was up 18% year-on-year, in contrast with other regions, it was on par with its ten-year average. Reading was the Thames Valley's star performer in 2015, with take-up 49% above its ten-year average and 60% above 2014.

The East was the only region to perform below trend. While take-up in 2015 was only 2% below the ten-year average, it was 16% down on 2014. Five of the seven markets had a disappointing year, with Milton Keynes and Cambridge being the clear exceptions, performing well above trend.

SUPPLY

Reflecting a strong year of activity for UK markets overall, available office supply reduced by 5% during 2015 to stand at 53.9m sq ft at the end of the year, its lowest since 2007. This fall in availability was partly driven by the regions outside London, where supply declined by 7% over 2015.

In contrast, availability in Central London increased by 4% during 2015 to stand at 11.5m sq ft, its first year-on-year rise since 2012. While supply in the capital is almost 20% below its ten-year average level, the increase reflects a level of speculative development activity which is keeping pace with demand.

Set against a sharp fall in 2014, total supply in the Big Six fell by a relatively modest 5% during 2015. Again, this reflects the steady increase of speculative development taking place in the majority of the six cities. The Mid Eight collectively saw availability reduce by a more significant 12% during 2015, reflecting a combination of healthy take-up and a more limited development response compared with the Big Six markets thus far.

The fall in UK-wide availability was also largely experienced in the second-hand segment of the market, with grade B/C supply falling by 7% during 2015. In contrast, grade A supply fell by only 1%. While this indicates that development is keeping pace with UK-wide demand for grade A space, construction activity is heavily focused in Central London and the core regional markets.

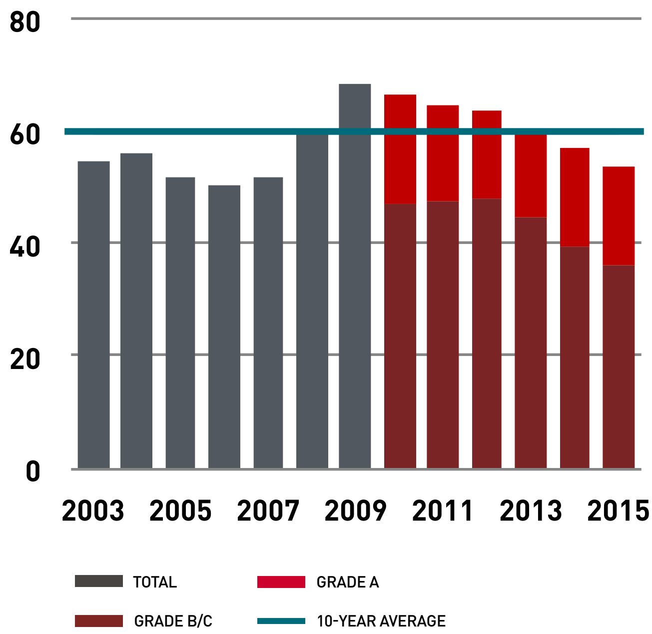
In addition to market absorption, second-hand stock continues to fall due to competition for alternative uses, particularly residential. That said, evidence suggests that the amount of office space lost through Permitted Development Rights actually slowed year-on-year; across 36 locations assessed outside London, approximately 3.7m sq ft of office space left the market for alternative uses during 2015, down 28% from 2014's high of 5.1m sq ft.

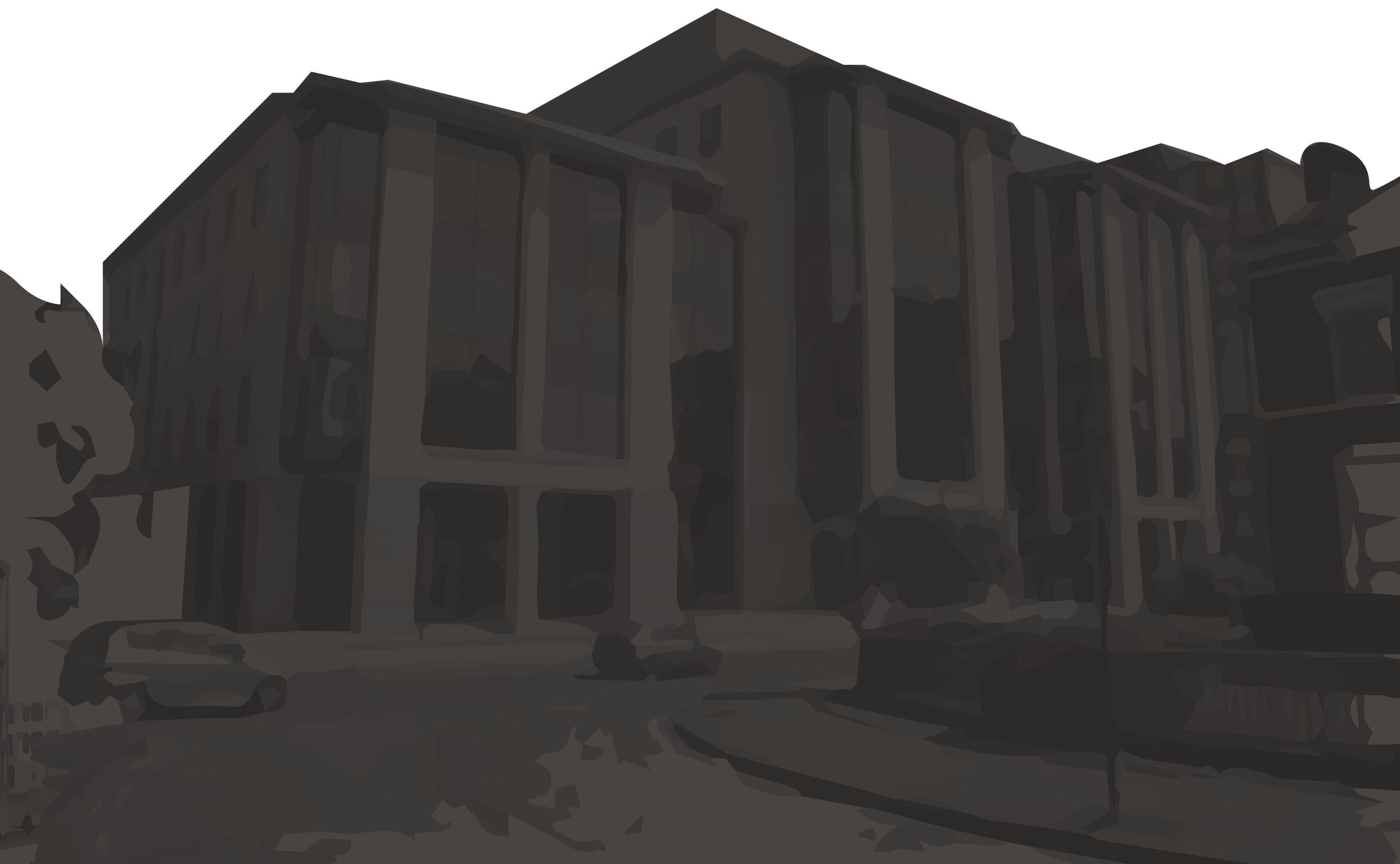
Speculative development rose 19% year-on-year
At the end of 2015, 11.3m sq ft of speculative development was under construction across the UK markets. Central London was again the focus of development activity, home to almost 60% of the total volume. Compared to the same period last year, speculative development is up 25% in the capital and up 6% in the regions.

Outside London, Birmingham has recently emerged as a focus of activity, with a substantial 1m sq ft underway across nine schemes, of which 340,000 sq ft is pre-let. Meanwhile, speculative development activity continues apace in the key Northern Powerhouse cities of Manchester and Leeds, amounting to 658,000 sq ft and 386,000 sq ft respectively.

Of the five market groupings, the Thames Valley saw the largest increase in speculative development in 2015, increasing 32% year-on-year and predominantly focused in Reading, Uxbridge and Heathrow. Meanwhile, in the Mid Eight locations, speculative development fell by 37% year-on-year, albeit off a relatively low base.

UK AVAILABILITY (M SQ FT)





YEARS OF SUPPLY

The level of availability has been expressed as years of supply based on the ten-year average take-up for each market covered in the report.

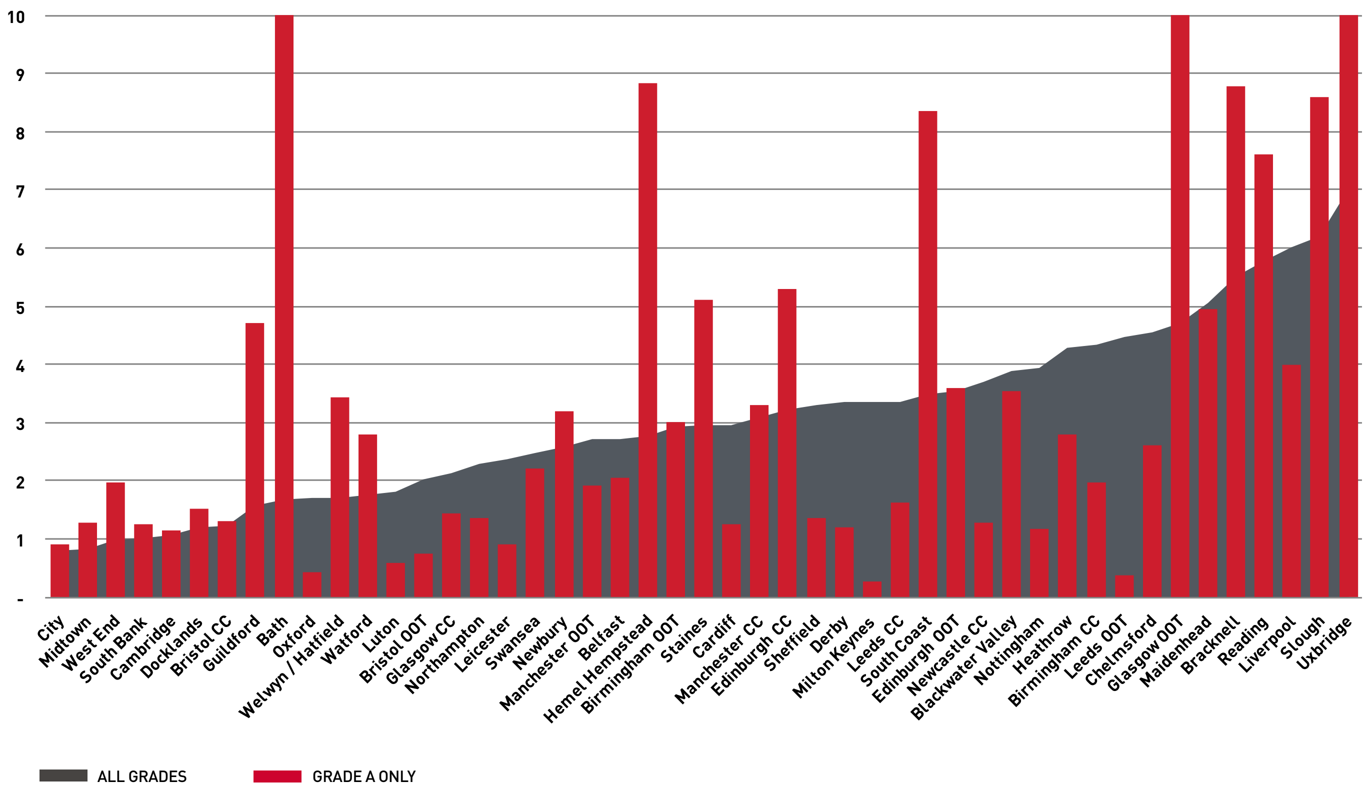
Unsurprisingly, Central London markets are among the most tightly supplied based on average take-up. Of these, the City has the lowest years of supply at 0.8 years. Beyond London, the South West and Wales region is the tightest supplied market with availability equivalent to 2.0 years of supply. This is largely driven by Bristol City Centre which has only 1.2 years of supply.

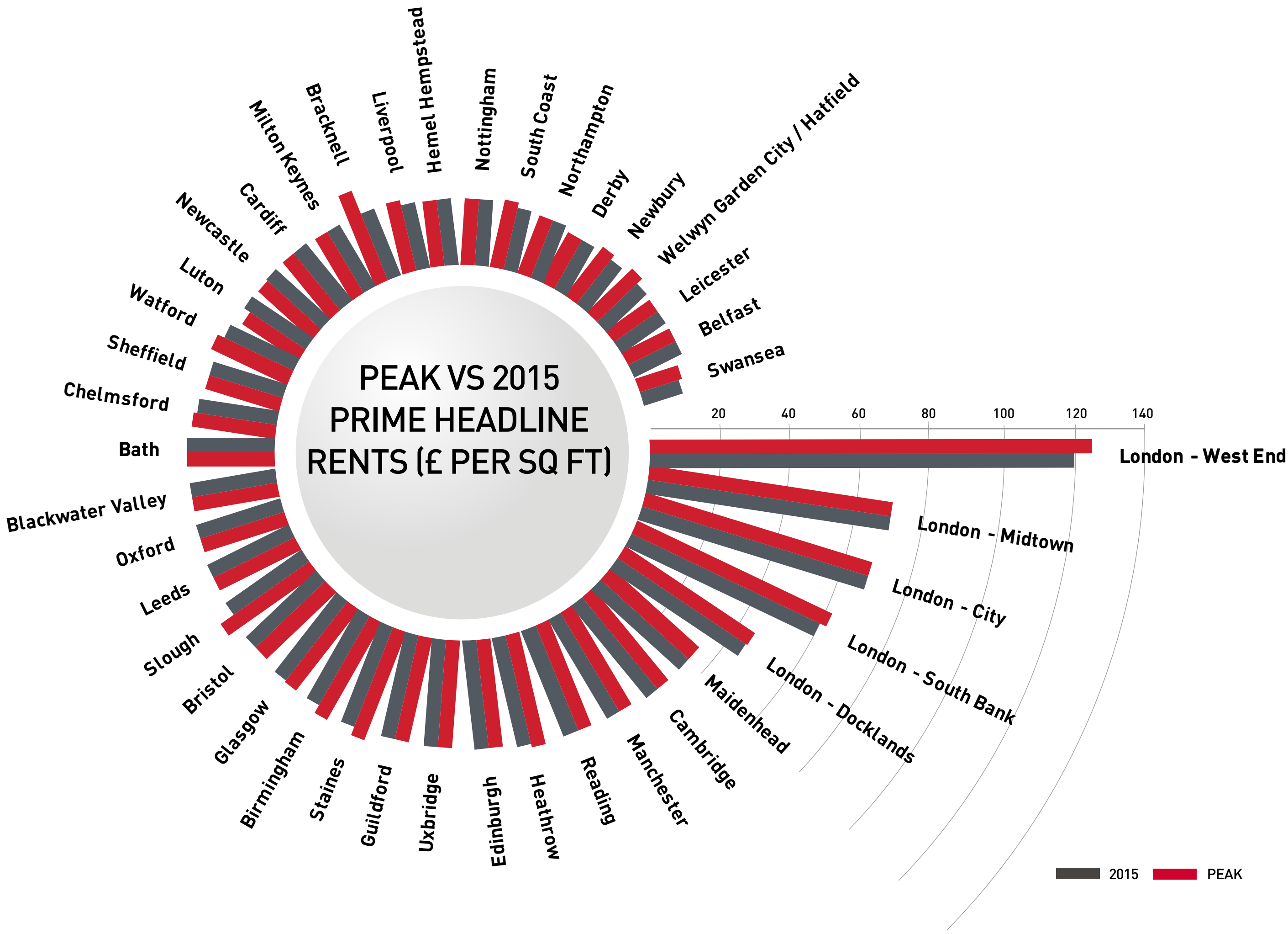
Elsewhere outside London, Cambridge has the lowest level of supply at 1.1 years. However, in terms of grade A supply, specifically Milton Keynes has the tightest level of quality space relative to demand, standing at 0.3 years.

The South East region has the highest level of availability relative to demand, equivalent to 4.2 years of supply. This result has been partly skewed by Uxbridge, where substantial development has pushed availability to an equivalent of 7.0 years of supply. Notably, however, Staines was in a similar position 12 months previously, although new developments in that market were readily taken up during 2015.

For each market, the volume of available office stock has been expressed in terms of the ten-year average take-up, to give the 'years of supply'. This has been calculated for total supply and also grade A supply.

YEARS OF SUPPLY



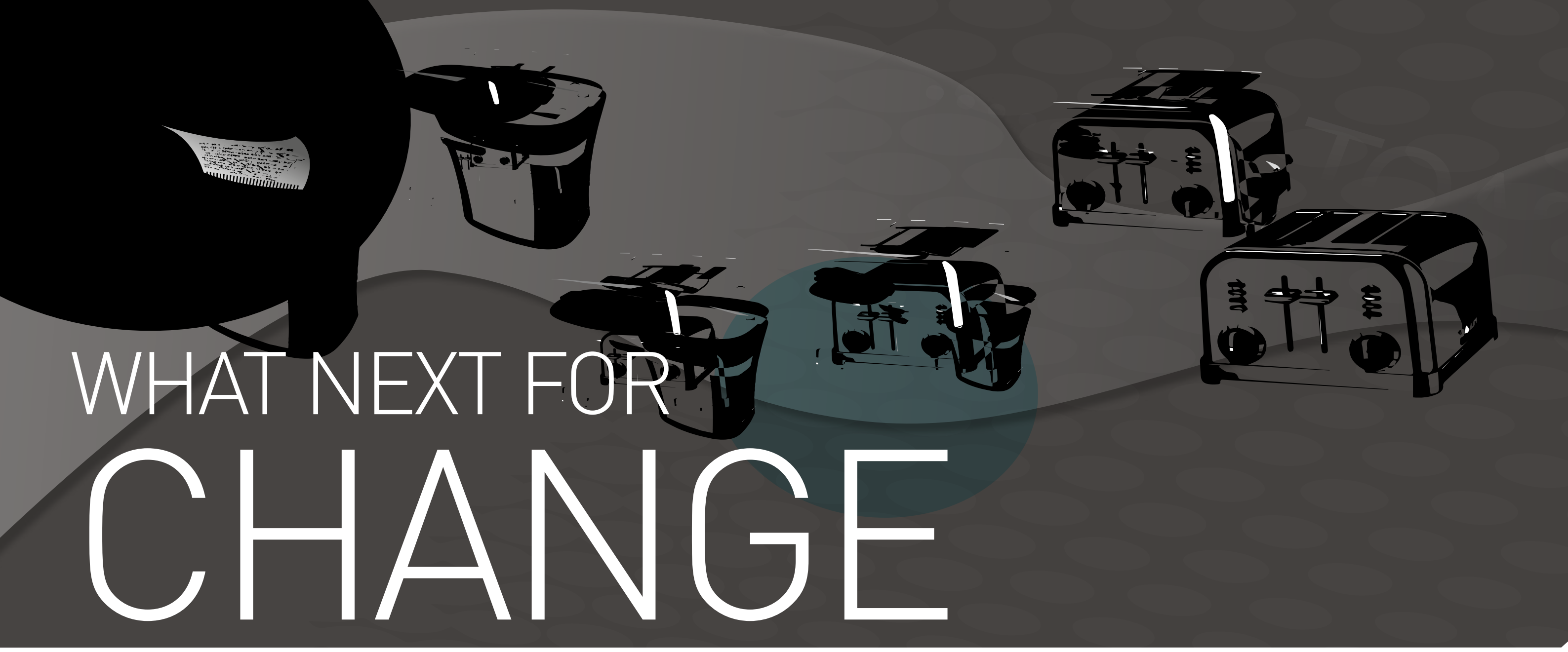


RENTS

The UK office sector is firmly in the midst of a rental growth cycle, a trend which is now familiar to markets stretching the length and breadth of the country. Reflecting robust confidence among occupiers and continuing pressure on supply levels, prime headline rents increased in two thirds of the markets during 2015. Average prime rents across the UK as a whole also increased by 6% in 2015 and eclipsed the 4% growth seen in 2014.

Repeating the feat of 2014, Slough was again home to the strongest increase in prime headline rents of any UK market in 2015, rising by 25% to stand at £27.50 per sq ft. Elsewhere, other markets to record strong rental growth in 2015 included Bath (24%), Belfast (17%) and Maidenhead (17%).

The outlook remains one of continuing growth in prime headline rents over 2016. Lambert Smith Hampton's office agency network forecasts prime headline rents to increase in 60% of the UK markets throughout the course of 2016.



WHAT NEXT FOR CHANGE OF USE?

Many of the UK's regional office markets have seen a significant volume of stock leave the market for alternative use in recent years, predominantly to the residential sector. But, with Permitted Development Rights (PDR) allowing change of use to residential recently made permanent, could the policy hinder, rather than help, the UK's markets?

Despite ongoing pressure on the UK's housing supply, our analysis reveals that at the national level, the rate of office conversion to other uses has eased. Across 36 locations assessed outside London, approximately 3.7m sq ft of office space left the market for alternative uses during 2015, down 28% from 2014's high of 5.1m sq ft.

So how is the overall slowdown explained? Since the inception of the PDR in May 2013, the best readily available opportunities (i.e. buildings which were either entirely vacant or poorly occupied in strong residential markets) were readily seized upon. As time has passed, subsequent opportunities have increasingly been dependent on lease events, slowing levels of activity.

Indeed, 2015's losses were not entirely driven by permitted development. Newcastle and Sheffield both saw significant sq ft leave the market in 2015 but this was driven by other alternative uses, namely hotels and student accommodation. Office space was also lost in markets outside England which are not even subject to the legislation, with over 200,000 sq ft lost in Glasgow, Edinburgh and Cardiff combined.

More recently, uncertainty over whether the legislation would be extended beyond its May 2016 deadline has impacted on decisions to seek conversion to residential via this route. However, in March 2016, weeks before the provision was due to expire, the Government published a long-awaited amendment to put the PDR on a permanent footing, a decision which may unleash fresh impetus among landlords and developers to seek conversion.

To date, the relaxed planning rules have been broadly positive on both sides of the equation, promoting much-needed housing supply while also helping to 'cleanse' many markets of obsolete office space. But, with occupier demand recovering and vacancy levels falling in recent years, the question is now turning to whether the policy will start to have a negative impact on the office market.

PERMITTED DEVELOPMENT – OFFICES TO RESIDENTIAL

In May 2013, the government introduced a Permitted Development Right allowing offices to be converted to residential without planning permission. Instead, the applicant need only provide prior notification. The legislation is only applicable in England, with 'exemption zones' applied within 17 local authority areas, the largest of which are within several central and inner London boroughs.

In March 2016, the legislation was amended to make the Right permanent, albeit with a requirement for review at least every five years. The exemption zones will remain in place until May 2019. A separate PDR allowing offices to be demolished for residential will also be put into place. Its precise timing is subject to when the next changes to the General Permitted Development Order are made, but should be in force before year end.

IS DECLINING OFFICE STOCK A CAUSE FOR CONCERN?

Following decade after decade of increases, analysis of development trends in the current cycle indicates that the overall footprint of UK office stock is starting to contract. While levels of office development have marginally exceeded space lost to other uses over the past two years, a significant proportion of this is via redevelopment of sites or buildings previously used for offices, translating into a net loss.

For 36 regional markets combined, we estimate office stock has reduced by circa 3% since the start of 2014. However, losses have been much more significant in a number of locations where strong competition exists for other uses, with Bristol, Newcastle and the principle towns of Hertfordshire seeing stock reduce by circa 8% over the period.

Evidence of falling stock also seems at odds with rising employment in office-based sectors, which stands at a record 11m of the UK workforce. For the time-being, however, office space is likely to continue its steady decline, reflecting more efficient use of space through higher workspace densities and more flexible working patterns. Thus, falling stock *per se* is to be expected and is not by itself the main source of concern.

COULD CHANGE OF USE GO TOO FAR?

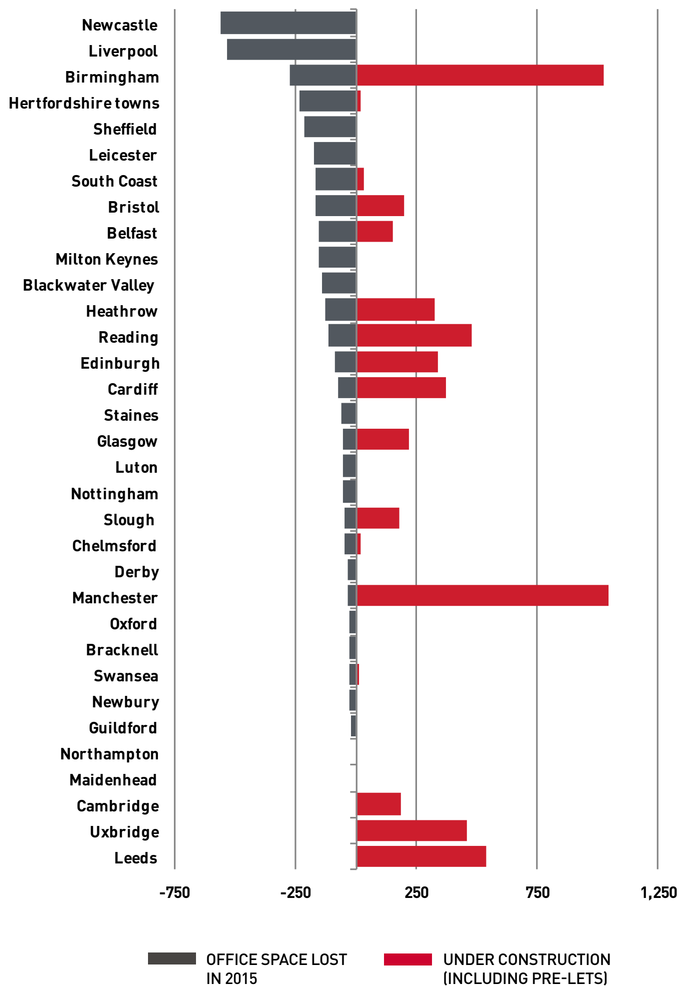
The main concern surrounding the newfound permanency of the PDR is that well-occupied, economical space also begins to be lost to higher value uses. Secondary quality space plays an important role in supporting small and fledgling businesses and, while this stock may be replaced with new-build elsewhere, it would be likely to be too expensive for this type of occupier.

This could also be compounded by the anticipated provision of a separate PDR which will allow offices to be demolished and replaced with residential space on a volume-for-volume basis. This is sure to stimulate interest in a wave of additional conversions on buildings that were hitherto deemed physically or aesthetically unsuitable for residential use.

Another concern surrounds its impact on the form and function of the urban environment. The extent to which land use policy has been relaxed means that offices and residential buildings could be unwittingly intermingled with each other. Consequently, over time, traditional office cores could become dispersed and fragmented, affecting their critical mass as centres of commerce.

Quite rightly, the Government is targeting changes in the planning system to help address the acute shortages in housing supply. But, for the long-term prosperity of local economies, it is just as important that planning policy protects, rather than undermines, the established office cores across the UK's major towns and cities.

2015 SUPPLY LOST VS PIPELINE (000 SQ FT)



REBALANCING THE UK OFFICE MARKET

As the cost of living in London becomes ever higher for its resident workforce, businesses in the capital are starting to fear its long-term impact on their supply of talent. With the political will to drive growth in the UK's other major cities, office occupiers may themselves play an important role in rebalancing the UK's economy over the next decade.

TIRED OF LONDON?

It was in the late 18th century that Dr Johnson famously said "To be tired of London is to be tired of life". Over 200 years on, while London remains a magnet for talent and cultural diversity, one wonders whether everyone in the capital shares this sentiment. With millions of young professionals feeling the pinch of high housing costs or long, crowded commutes into work, does the solution for a better lifestyle lie elsewhere in the UK?

These growing pressures reflect the increasingly unbalanced trajectory of the UK economy, both sectorally and geographically. As manufacturing has steadily declined, in its wake the services sector has become completely dominant, making up 80% of the UK economy, compared with 46% in 1950. At the same time, London has emerged as an undisputed global hub for advanced services, with its primacy within the UK economy becoming ever more entrenched.

TIME TO REBALANCE?

Is London becoming a victim of its own success? The pressures London faces are certainly high on the political, and increasingly, the business agenda. In April 2016, business group London First reported that London's housing crisis is a serious threat to London's global competitiveness. It warned that unless the issue is addressed, by 2040, only financial sector workers would be able to afford to rent a flat in inner London, choking off the supply of talent in an array of other key sectors.

Yet, this London-centric view overlooks the important role the UK's key regional cities will have in helping the UK to compete on the world stage, while counterbalancing London's dominance. Crucially, the political will to tackle the imbalance is gathering momentum. With sustained investment in transport infrastructure and devolution of powers, key initiatives such as the Northern Powerhouse and Midlands Engine will help to unleash the potential in the UK's other metropolitan areas.

THE CASE FOR RELOCATION

Historically, the business case for outward movement from London was centred almost entirely on saving costs. But, while cost advantages are perhaps as attractive now as they have ever been, forward thinking businesses may also consider relocation for the sake of their existing and future staff. Here we assess the case for relocation, from both the business and the staff perspective.

THE BUSINESS PERSPECTIVE

Occupier costs

Office space within Central London's core markets has always commanded a significant cost premium over elsewhere in the UK. However, more recently, this premium has become substantial on the back of strong rental growth throughout the capital.

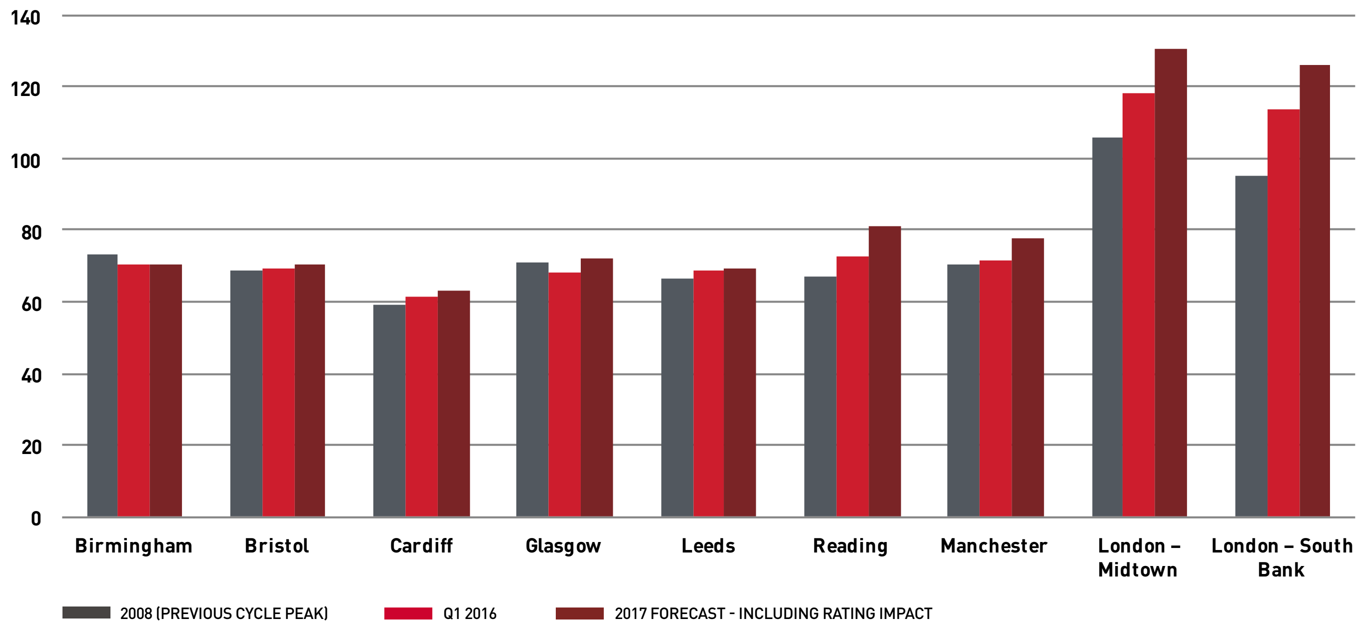
The current cost of occupying a new-build office development in London's Midtown - including net effective rent, business rates and all day-to-day running costs - is approximately £120 per sq ft per annum, almost double the cost of an equivalent building in the UK's other core regional markets.

But, with regard to the relative opportunity in the UK regions, arguably more fundamental is the disappearance of the parity in costs between key regional centres and London's fringe markets. Areas such as Tech City, South Bank and Clerkenwell have seen exceptional rental growth in recent years, reflecting the increasingly footloose nature of traditional central London occupiers, the rapid expansion of the technology and media sector and the 'game-changing' effect of major infrastructure investments, such as Crossrail.

By comparison, rental growth has been relatively muted in the UK's core cities. Despite a welcome return to growth in the last two years or so, generally, net effective rents in these cities stand lower in real terms today than they were at the peak of the last cycle in 2008.

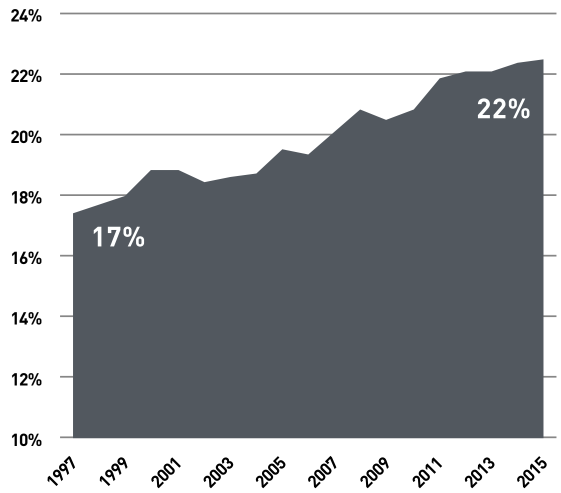
> In May 2016, Lambert Smith Hampton publishes the 19th edition of the Total Office Costs Survey (TOCS), providing occupiers with an invaluable benchmark on office costs in over 50 UK locations.

TOTAL OCCUPIER COSTS (£ PER SQ FT)



SOURCE: LAMBERT SMITH HAMPTON

LONDON'S SHARE OF TOTAL MARKET OUTPUT



SOURCE: OFFICE FOR NATIONAL STATISTICS

This cost differential is also set to widen further from 2017, reflecting the effect of the 2015 ratings revaluation. Its impact will be felt most acutely within London's emerging districts, where a steep rise in business rates liabilities is expected to add over circa 10% to total property costs. Meanwhile, for the majority of the UK's core cities, limited rental movement since the last antecedent date in 2008 means that the increase in rates liabilities will be at worst marginal.

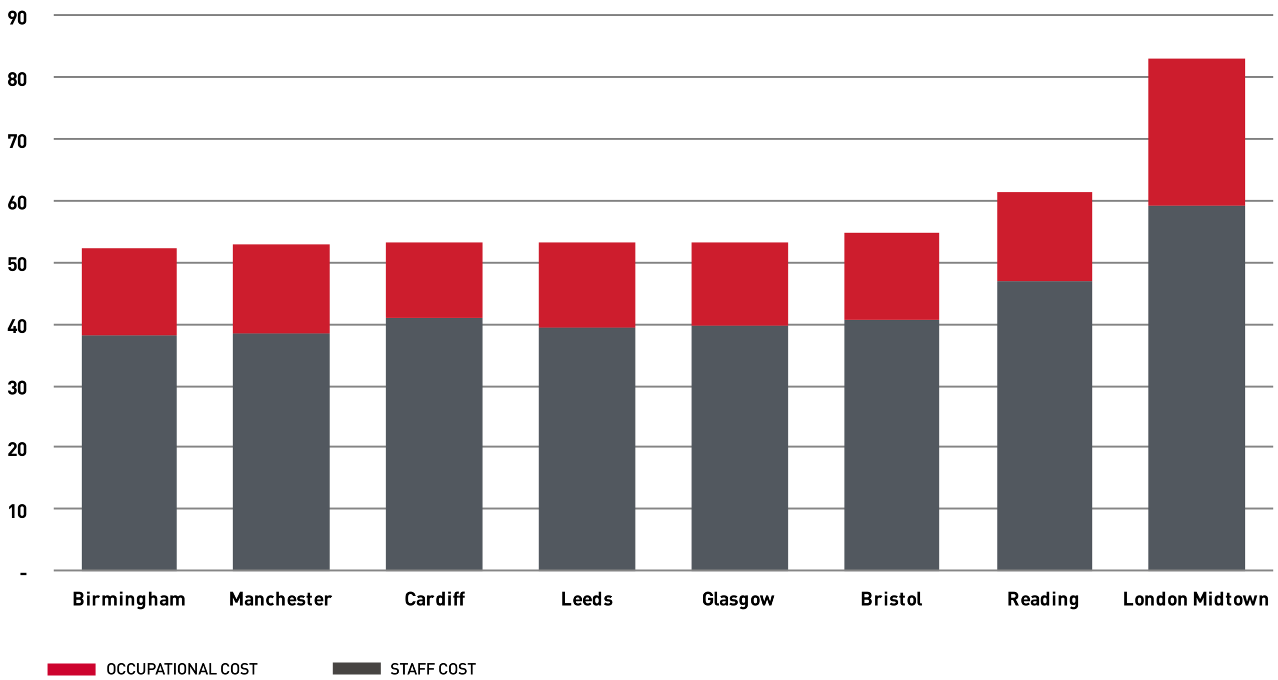
Staff costs

Significant as occupier costs are to a business, they pale in comparison with staff costs. Inevitably the extent of the difference varies according to location and the quality of the office space but, as a general rule, staff costs in a brand new building usually account for around three quarters of a business' expenditure. Consequently, this is typically the most important cost factor to a prospective occupier.

Our analysis reveals that, for key regional cities such as Bristol, Manchester and Birmingham, current staff costs (based on average local salaries in the upper quartile of earners), together with prevailing occupier costs for a new-build office, amount to an overall annual cost of just over £50,000 per workstation. Measured on the same basis, a workstation in Midtown carries an annual cost of well over £80,000.

Viewed in less abstract terms, and taking Bristol as the example, the current overall cost of a new-build office of 50,000 sq ft stand at £27m (based in standard density of 100 sq ft per workstation) including staff costs. Over a period of five years, the effective 'saving' from being located in Bristol instead of being located in London's Midtown amounts to a sizeable £68m.

TOTAL COSTS PER WORKSTATION (£000S, PER ANNUM)



SOURCE: LAMBERT SMITH HAMPTON, OFFICE FOR NATIONAL STATISTICS

THE STAFF PERSPECTIVE

While compelling, the economic case for relocation from London has long been in existence. But there is an additional, and growing, case to relocate, based on the staff perspective. In addition to other strategies aimed at improving work-life balance, such as flexible or remote working, relocation may be a progressive approach to securing local talent while offering existing staff a preferable lifestyle.

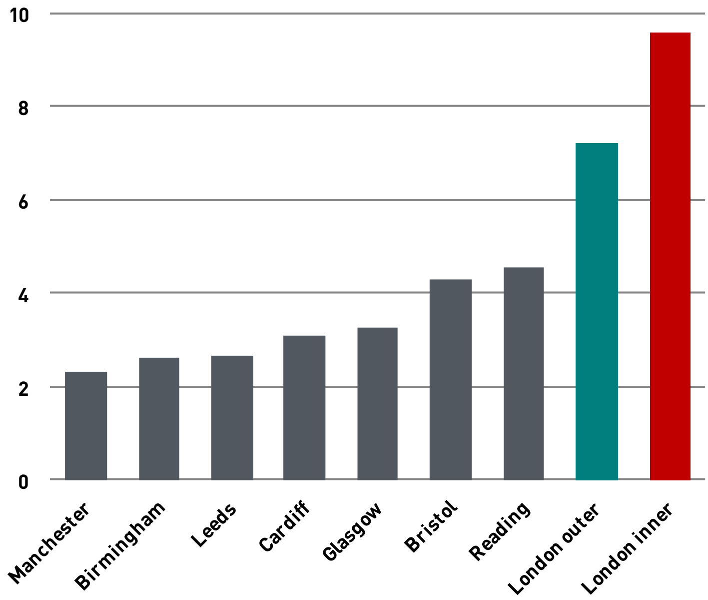
Horrifying housing costs

London-based office workers may command markedly higher salaries than their regional counterparts, but for the majority, this is more than offset by the eye-watering cost of housing, whether purchasing or renting. Indeed, in today's market, the average cost of a house in London's inner boroughs stands at almost ten times the average combined salary of a cohabiting couple.

Furthermore, alongside the difficulties associated with affordability is the time required to become a homeowner. Recent research by Lambert Smith Hampton's sister company, Hampton's International, found that an average couple needs to save for eight years to afford a deposit in London, rising from 3.8 years in 2007. This is at least three times as long as it takes in the UK's other regions, where the time to save for a deposit has remained relatively unchanged over the last decade.

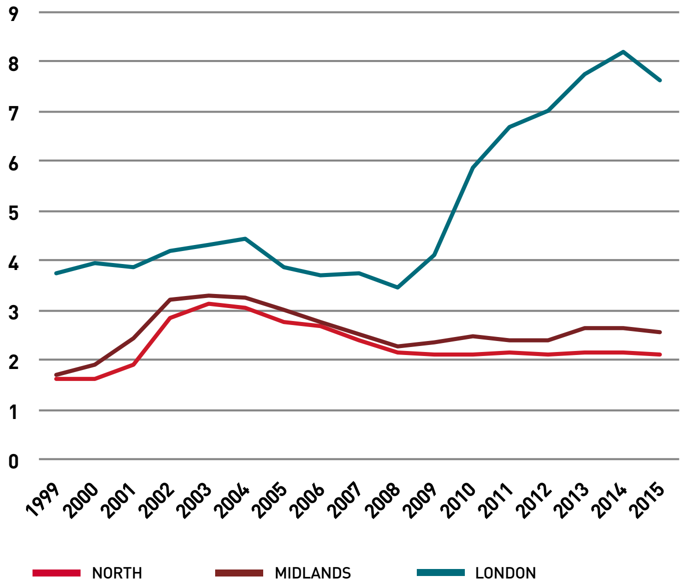
Owning a home outright in the capital is therefore becoming a distant prospect for many London professionals, even those earning decent salaries. The length of time associated with 'getting on the ladder' also has implications for young families, who often have to settle for cramped conditions at an age when their own parents would have moved into a larger family house.

HOUSE PRICE TO DUAL INCOME RATIO



SOURCE: OFFICE FOR NATIONAL STATISTICS, LAND REGISTRY, LAMBERT SMITH HAMPTON

TIME TO SAVE FOR DEPOSITS (YEARS)



SOURCE: HAMPTONS INTERNATIONAL

Notable transactions
to inward investors in 2015

Freshfields

MANCHESTER – ONE NEW BAILEY
80,000 SQ FT

FordCredit

MANCHESTER – FIVE STREET
45,000 SQ FT

ALERTLOGIC
Security. Compliance. Cloud.

CARDIFF – NO.1 CAPITAL QUARTER
20,000 SQ FT

Cheap house, long commute

In search of value, whether buying or renting, the only viable option for many is to move into the further reaches of the capital's transport catchment. This is already clearly reflected in commuting statistics. According to recent analysis by the TUC, the number of people who live in the South East region and commute for over two hours per day has more than doubled over the past decade.

While some commuters into London may be perfectly content to live further afield, for many, the expense and experience of commuting is an unwanted struggle, which may only be partially alleviated by remote working practices. In contrast, rather than settling for long commutes, by choosing core cities, workers can afford to live much more centrally if desired, allowing more choice in the mode of commute (i.e. walk, cycle) and at less cost.

So where is the evidence that London workers may indeed be 'tired of London'? According to Hampton Internationals' research on migration through house purchasing, between 2014 and 2015 there was a staggering 58% increase in the number of buyers moving out of London to one of the UK's largest 20 cities.

Given the high relative cost of housing in London, perhaps such an increase is hardly surprising. For those who already own a home in the capital, the temptation to 'cash in' and 'trade up' to a much larger house for the same value elsewhere in the country is incredibly appealing and, for many, is stifled only by employment ties with London.

According to a recent UK survey by Yorkshire Building Society, people aged between 18 and 40 rank getting on the property ladder as more important in life than marriage, children or advancing in their career. Overall, a quarter of the sample showed owning a property as the most important life milestone, a figure which increased to three in 10 among those aged 35 to 40.

THE OTHER CONSIDERATIONS

The economic case for locating in the UK's key regional cities appears compelling, both from a business, and increasingly workers, perspective. However, while the UK's regional markets enjoyed a stellar year of activity in 2015, with the possible exception of Birmingham and Manchester, the extent of inward investment moves – from either London or overseas – has actually been relatively modest over the past year.

Deutsche Bank

BIRMINGHAM – FIVE BRINDLEYPLACE
134,000 SQ FT

HSBC

BIRMINGHAM – 2 ARENA CENTRAL
212,000 SQ FT

sky ACADEMY

LEEDS DOCK– XYZ BUILDING
90,000 SQ FT

So what is missing? Clearly, there is more to setting up in the UK's core cities than simply operating costs, and here we list the main principle considerations business have to face.

i) Costs and practicalities

The cost saving may be clear over the medium to long term, but the investment required to engineer a move to different premises in a new city can be prohibitive in the short term. Moreover, the relocation of existing staff typically requires that salaries are maintained at the same level, offsetting the cost benefits to a varying degree, depending on levels of local recruitment.

ii) Access to the right talent

London is unrivalled for the depth and breadth of its skills base. Consequently there may be a limited supply of potential employees with the requisite skills or desired level of experience, particularly in areas of specialist expertise. This partly explains why traditional 'back-office' relocations have typically involved business support functions, such as human resources and IT.

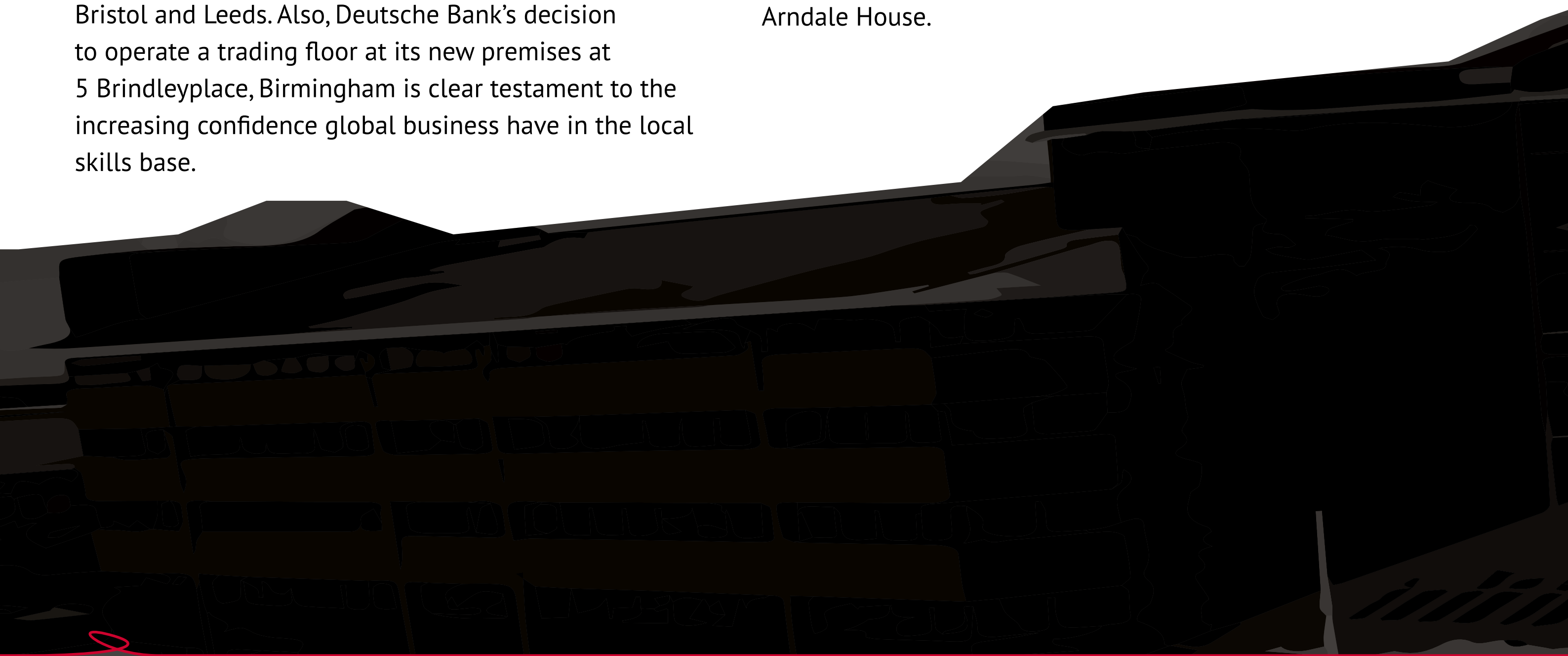
However, regional office markets are becoming increasingly diverse with, for example, growing concentrations of businesses in growth sectors, such as technology and media, in cities such as Manchester, Bristol and Leeds. Also, Deutsche Bank's decision to operate a trading floor at its new premises at 5 Brindleyplace, Birmingham is clear testament to the increasing confidence global business have in the local skills base.

iii) The cultural fit

For some London-based businesses engaged in relatively niche sectors, the idea of operating in other areas beyond the capital is simply inconceivable. This is not so much arrogance, but due rather to a lack of those social networks within niche sectors that add to the vitality or 'buzz' of the business environment. However, the cultural standing of the UK's core cities has improved markedly over the past decade. With strong growth in small and medium enterprises, Manchester is arguably at the forefront of this revival, but other cities are following in its wake.

iv) Staff upheaval

Of all the key considerations, the largest barrier to a relocation is linked to staff upheaval. While staff may welcome the lifestyle afforded by moving to another city, many may be tied by family commitments, such as the schooling of their children. One means to counter this is to take a gradual approach to a relocation, initially through setting up a smaller satellite operation, with a view to expanding into much larger premises in three to five years, allowing the staff the time to plan ahead. Freshfield's recent 80,000 sq ft pre-let commitment to One New Bailey, Manchester is one such example, having been initiated by a 40,000 sq ft temporary lease at Arndale House.



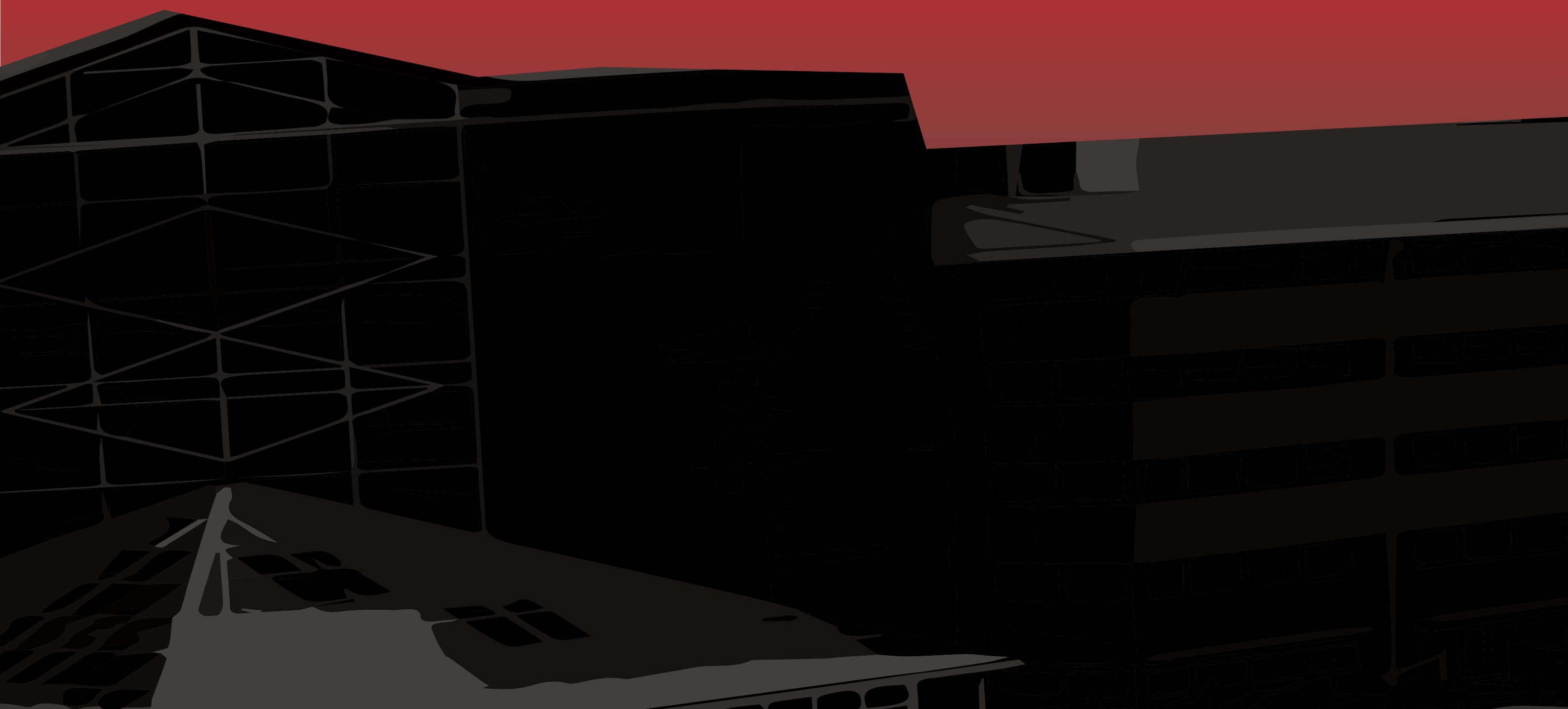
THE CUSP OF A WAVE?

As the physical manifestation of the UK's dominant services sector, office market trends over the coming decade will reflect the success, or otherwise, of the political will to redress the geographically unbalanced nature of economic growth. This will be both 'bottom-up', in the form of harnessing a growing local base of small and medium enterprises, and 'bottom-down', where larger office occupiers in London take the bold decision to operate in some capacity within the UK's core regional cities.

The compelling case in terms of the cost advantages compared with London, both for businesses and staff alike, indicates that we may be on the cusp of wave of inward investment moves into the UK's core regional cities. Far from being a threat to London's primacy, this represents an opportunity to vent some of the pressure which is building within the capital, reflected by both high occupier and housing costs.

Alongside publically funded infrastructure investment, investors and developers will play an important role in turning the opportunity into a reality. New schemes in the core regional cities should be considered to suit the needs of both existing occupiers as well as be targeted at progressive occupiers in the capital who may benefit from relocation, but require the practical advice to identify the right solution and mitigate the risk.

In today's knowledge economy, ensuring talent is in place is fundamental to the long term success of rebalancing. Most of the UK's core cities already boast renowned universities, but the difficulty is keeping graduates retained within the region and stemming the 'brain drain' into London. Ironically, as the cost barriers of London become more widely understood by ambitious young professionals, businesses may increasingly come to them.



The prevailing economic situation remains broadly supportive for the UK's office markets, as the services sector continues to drive growth and create employment. However, there are more clouds on the horizon now compared with last year, chief of which is June's Referendum on UK membership of the European Union.

ECONOMIC CONTEXT

Despite slowing from 2014's level, the UK economy recorded respectable growth of 2.3% in 2015, a rate only bettered by Spain and USA among the world's advanced economies. Growth is being driven by consumer spending, supported by low oil prices and rising real wages. However, the global outlook has been mixed, with gradual improvement in the US and the Eurozone tempered by a slowdown in China and increased volatility in the financial markets.

The outlook for 2016 mirrors the picture from last year. Consumption and services will continue to underpin growth, within an environment of low inflation and static interest rates. However, the International Monetary Fund recently downgraded its UK growth forecast for 2016 from 2.2% to 1.9%, citing an increased drag on growth from fiscal consolidation and uncertainty around the June's Referendum on its membership with the European Union,

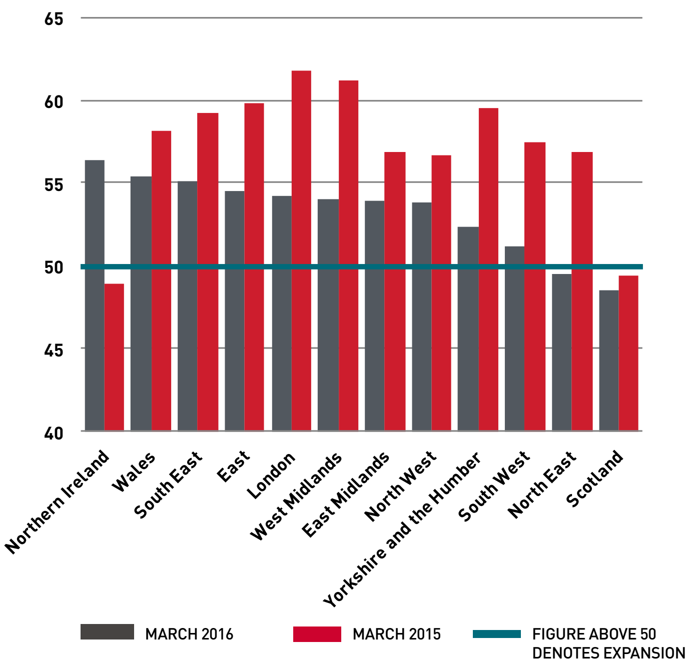
This pattern is also reflected at the regional perspective. Markit's latest Purchasing Manager Index survey, which is a useful leading indicator of growth prospects, reveals that businesses remain in expansion mode across most parts of the country. However, the balance has softened from 12 months ago, reflecting an easing down in sentiment. Northern Ireland is the clear exception, boasting the strongest positive survey balance of growth of any UK region, having been negative 12 months ago.

SOURCE: LA

EMPLOYMENT CONTINUES TO CREEP HIGHER

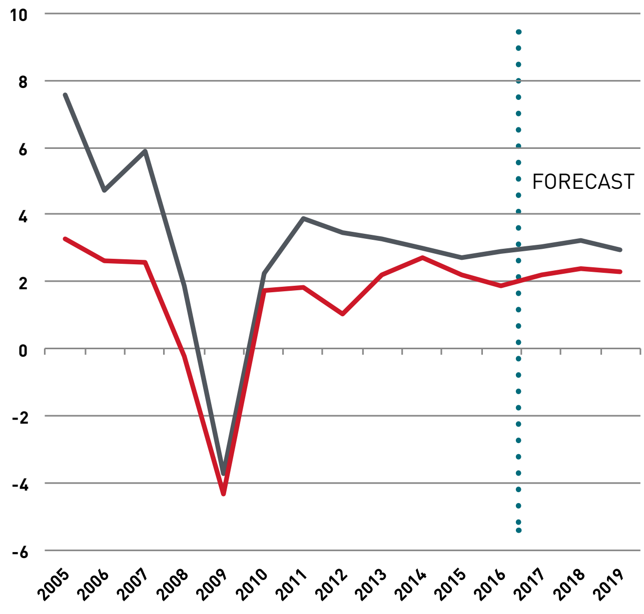
The UK's record on job creation is the envy of many of the world's advanced economies. At 5.1%, the unemployment rate is its lowest in a decade, and three quarters of the working age population is employed, the joint highest since current records began. However, while the UK workforce continues to expand, the rate of growth has slowed over the past year as the economic cycle has matured.

REGIONAL PMI INDICATOR



SOURCE: MARKIT

UK ECONOMIC GROWTH (% PER ANNUM)



SOURCE: OFFICE FOR NATIONAL STATISTICS, EXPERIAN

Employment in sectors associated with office-based activity slowed to 0.6% during 2015, down from 3.8% in 2014. However, the slowdown has been driven by falling employment in the public sector, with strong rates of growth continuing to be seen in professional and technical occupations.

While ongoing growth in office-based sectors bodes well for activity in the office market, it needs to be considered alongside changing working practices. Driven by technological advances in communications, many large corporates are seeking to increase space efficiencies and agile working, meaning that increasing staff headcounts do not translate directly into demand for space.

COUNTDOWN TO THE REFERENDUM

Unsurprisingly, the chief downside risk to the forecast is that the UK votes to leave the EU in June's Referendum. Indeed, the Monetary Policy Committee recently warned that uncertainty in the run-up to the vote is already weighing down on certain areas of the economy, most notably levels of capital expenditure, as businesses postpone decisions until the outcome is known.

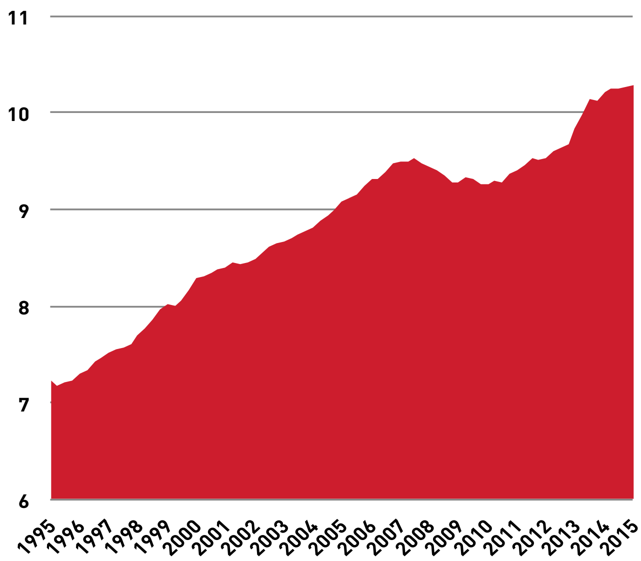
Both the latest polls and the bookmakers indicate that the UK will vote to remain within the EU. Should this be the case, the UK economy would be expected to rebound in the second half of the year, offsetting the impact from the run-up to June's vote. However, should 'Brexit' be a reality, the uncertainty seen in the run-up would effectively be extended, and is almost certain to cause a degree of short term economic disruption.

Less clear is just how disruptive a vote for 'Brexit' would be in the aftermath. There is a degree of consensus that sterling would depreciate as international confidence in the UK economy was dented, potentially causing inflationary pressures through the higher cost of imports. Despite this negative sentiment, however, only the most bearish of commentators expect the UK economy to enter recession.

The longer term impact on the UK economy from being outside the EU is partly dependent on the terms of its new relationship with the bloc, which would have to be negotiated for a period of up to two years. Given the wide range of possible scenarios, the long term impact – whether positive or negative – can only be speculated at this stage.

With regard to particular parts of the economy, the UK financial sector is arguably the most exposed to a potential 'Brexit'. As a huge net-exporter of financial services to the EU, the sector relies on so-called passporting rights, which allow both domestic and non-European institutions to sell into the rest of the EU. While losing these trading rights could have far reaching implications for the City, its possibility is a matter of concern.

OFFICE-TYPE EMPLOYMENT (MILLIONS)



SOURCE: OFFICE FOR NATIONAL STATISTICS

2015 marked another record year for investment into the UK commercial property market, with offices leading the way among the core sectors. However, with uncertainty over June's referendum appearing to impact on recent activity, what are the prospects for the year ahead?

THE OFFICE INVESTMENT MARKET

Charlie Lake
clake@lsh.co.uk
+44 (0)20 7198 2227

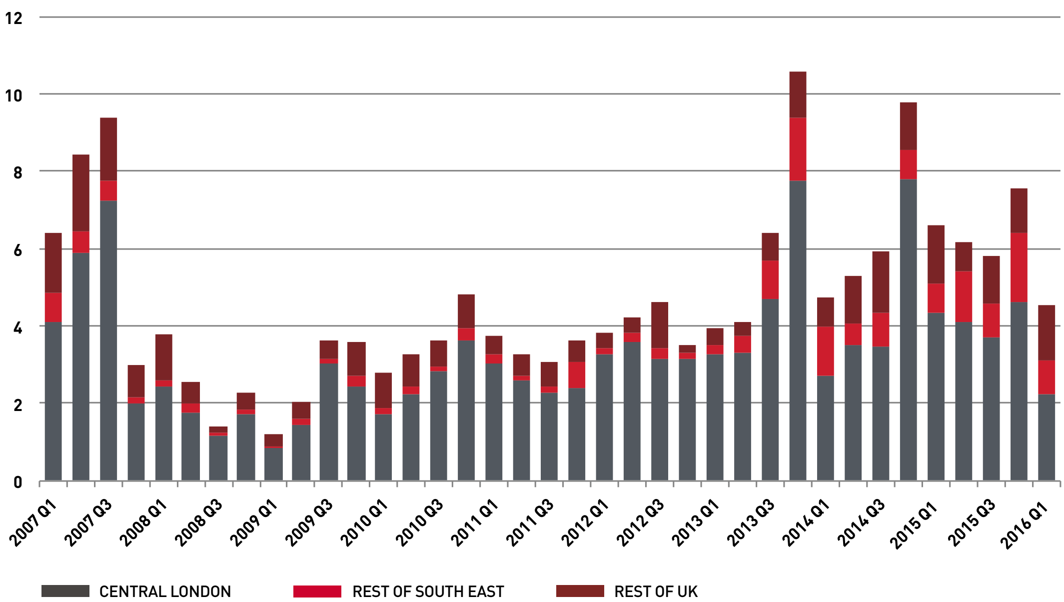
Nick Lloyd
nlloyd@lsh.co.uk
+44 (0)20 7198 2221

2015: AN OUTSTANDING YEAR REVIEWED

£26.1bn was invested in UK offices during 2015, the highest annual total in eight years. While investment in alternative assets was instrumental to 2015's record annual volume in commercial property, offices was the only core sector where 2015 volume surpassed 2014's level, albeit by a marginal 2%.

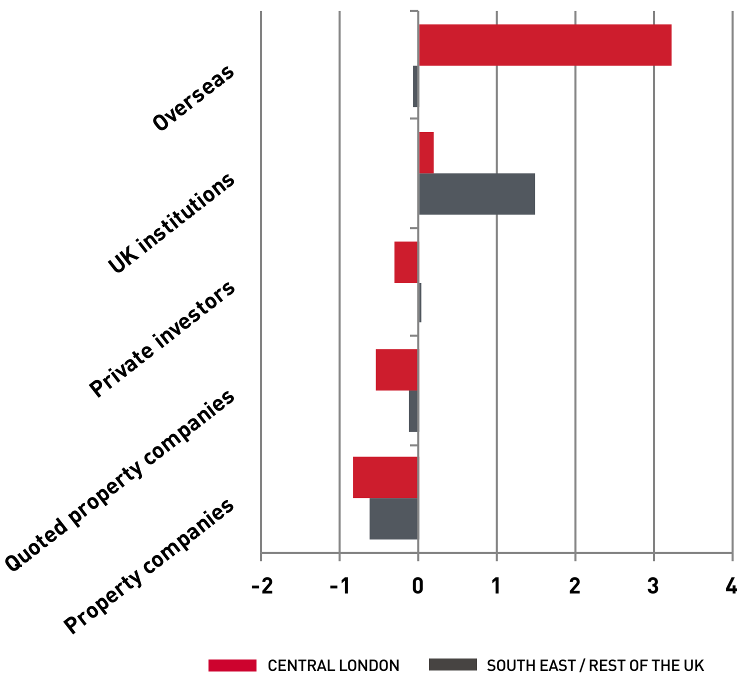
Central London volume in 2015 was strong but failed to match the high of 2014, falling 4% short of the previous year. While its dominance of UK volume continued in typical fashion, accounting for 64% of the year's total UK activity, its share was below the long term annual average of 68%.

OFFICE INVESTMENT VOLUME (£BN)



SOURCE: LSH RESEARCH, PROPERTY DATA, PROPERTY ARCHIVE

2015 NET INVESTMENT IN UK OFFICES BY TYPE (£BN)



SOURCE: LSH RESEARCH, PROPERTY DATA, PROPERTY ARCHIVE

Overseas buyers are now hugely influential to Central London activity, accounting for almost 70% of volume in 2015, compared with circa 40% a decade ago. For a second year running, Far Eastern buyers accounted for the leading share of overseas investment into the capital, marginally ahead of North American buyers.

Meanwhile, reflecting a surge in demand among institutional investors, 2015 was a record year for South East offices. £3.4bn of assets changed hands, up 50% on 2014 and almost twice the ten-year average. The year's headline deal was AEW Europe's £325m (5.6% NIY) acquisition of SEGRO's portfolio along Bath Road, Slough in Q4 2015.

With a volume of £4.7bn, Rest of UK offices also enjoyed strong levels of activity in 2015, the highest annual total since 2007 and 35% above the ten-year average. UK institutions dominated buying activity outside the capital during 2015, purchasing £3.6bn of assets, and were net buyers to the tune of £1.5bn. Manchester and Birmingham provided a focus of this activity, with a volume of £0.8bn and £0.6bn respectively, largely reflecting the greater availability of suitable stock.

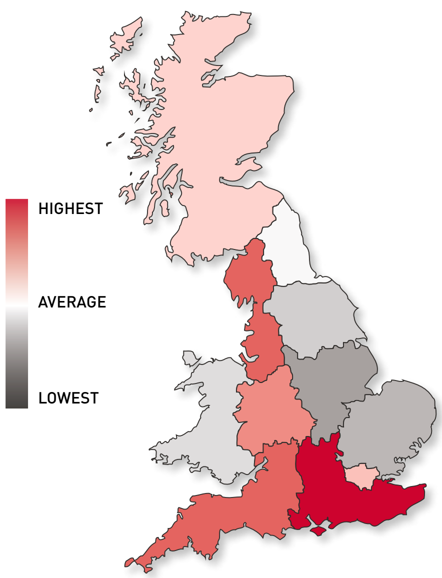
2016: OFFICE VOLUME LANDS WITH A BUMP IN Q1

The start of 2016 has brought a notable downward shift in activity. Q1 2016 saw a total UK office volume of £4.5bn, the lowest since Q2 2013 and 5% below the ten-year quarterly average. That said, it was 9% above the ten-year average for the first quarter, which tends to be the most subdued period in any given year.

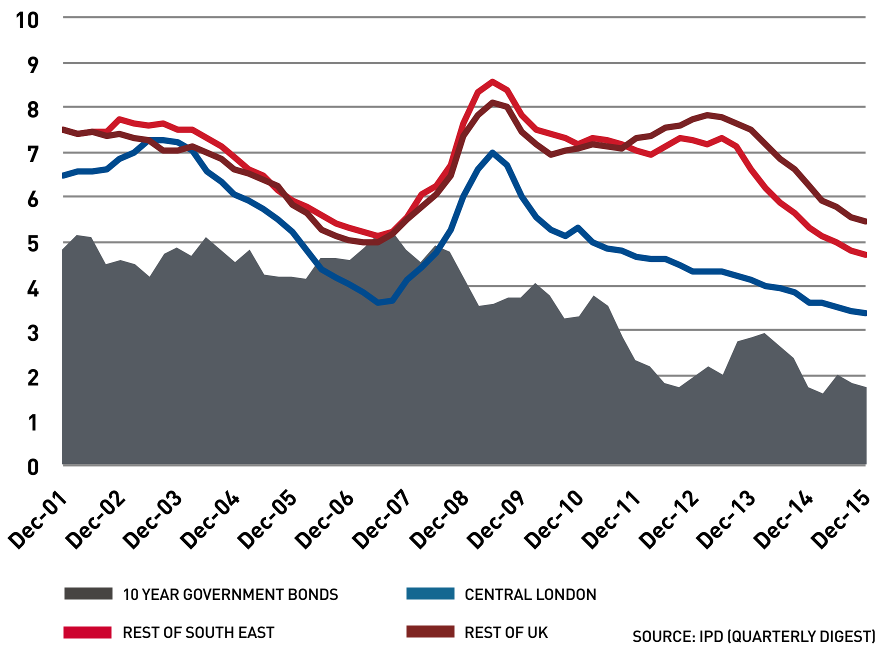
In the face of June's upcoming Referendum, Q1's volume appears surprisingly resilient. Regardless of the approaching vote, the levels of activity witnessed in 2014 and 2015 were not expected to be sustained indefinitely, reflecting the gradual return of the market to more 'normal' conditions. This is also supported by similar trends outside the UK, with investment in EMEA having also dipped notably in Q1.

The recent shift in appetite has been most clear among UK institutions. Despite being marginal net buyers in Q1, almost 80% of volume was in January, immediately prior to February's announcement of the Referendum date. This, together with anecdotal evidence on sentiment, demonstrates that many institutional investors have opted to sit on the sidelines and await the outcome of June's vote, none more so than retail funds.

2015 VOLUME VS 10-YEAR AVERAGE (%)



OFFICE YIELDS AND 10 YEAR GOVERNMENT BONDS (%)



SOURCE: IPD (QUARTERLY DIGEST)

CENTRAL LONDON TAKES THE BRUNT OF Q1'S FALL

Notably, Q1's fall in UK-wide activity was largely down to a particularly subdued quarter in Central London. £2.2bn of assets changed hands, the lowest quarterly total since Q4 2011 and 31% below the ten-year average.

Moreover, with volume in the capital supported by a number of major lot-sizes, most notably to Chinese investors, the downturn was largely due to a low number of deals, indicating that the depth of the market has thinned significantly compared with 2015.

Activity in the rest of the UK appeared to hold up very well in Q1. Rest of South East offices saw £0.9bn of office assets change hands, 74% ahead of the ten-year quarterly average. However, as above, the market was relatively thin, with volume largely accounted for by two major purchases at the International Quarter, Stratford, by Deutsche Asset & Wealth and Legal & General Property totalling 616m.

In contrast, the Rest of UK Offices segment remained buoyant, recording both strong volume and an ongoing depth to the market activity. Q1's volume of £1.4bn was one of the strongest quarters on record and, notably, headline deals were dominated by overseas investors from Europe and America. Examples include Ares Management's £115m purchase of 3&4 Piccadilly Place, Manchester, and DEKA Immobilien's £105m purchase of Atria, Edinburgh.

Yield profiles

	Prime		IPD	
	Q1 2016	Y-on-Y (bps)	Mar-16	Y-on-Y (bps)
West End	3.25%	▼ 25	2.98%	▼ 92
City	4.00%	▼ 25	3.33%	▼ 82
South East	5.00%	► 00	4.68%	▼ 90
Rest of UK	4.75%	▼ 50	5.51%	▼ 93

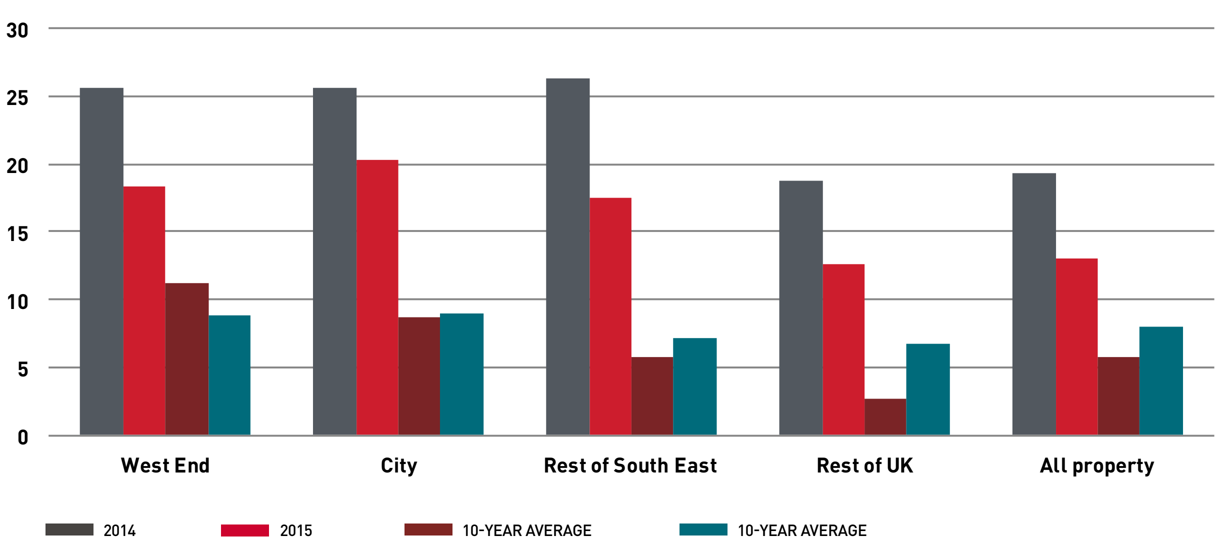
SOURCE: LAMBERT SMITH HAMPTON, IPD (MONTHLY DIGEST)

OFFICE SECTOR INVESTMENT PERFORMANCE

Following two years of exceptional capital growth, the investment market is steadily moving back to core fundamentals of income-driven performance. According to Investment Property Databank, the All UK Office total return was 17.6% in 2015, an extremely strong performance relative to other non-property assets, but nevertheless an easing down from the 22.3% return of 2014. Of all the key segments, the City showed strongest returns in 2015 at 20.3%.

Pricing is now stabilising across most of the key sectors, most notably at the prime end of the market, where it has stood unchanged since the Autumn of 2015. With yield movement steadily leaving the equation, total returns are easing down to modest, but nonetheless respectable, levels against their historic trend.

TOTAL RETURN BY OFFICE LOCATION (%)



SOURCE: IPD (QUARTERLY DIGEST)

INVESTMENT MARKET OUTLOOK

COUNTDOWN TO THE REFERENDUM

While the market remains active, as expected, June's referendum has put a share of the buyer pool into pause mode. However, if the electorate votes to remain in the EU, there is confidence that the market will rebound immediately afterwards as pent-up demand is released back into the market and liquidity is restored.

Evidence from the latest polls suggests that the UK will vote narrowly to remain in the EU, but the outcome is far from certain. A vote for a 'Brexit' will put the UK economy into uncharted waters, making it difficult to speculate over the long-term consequences for the market.

In the short-term, a vote to leave is likely to extend the period of investor uncertainty, keeping activity subdued and potentially impacting on pricing. However, the attractive fundamentals of the UK property market, such as its size, legal framework and transparency, have existed long before the EU, and will remain regardless of whether the UK finds itself in or out of it.

Ultimately, the long term impact on the investment market is dependent on how the economy and the occupier markets react. Given that the financial services sector is widely seen as the most exposed to a 'Brexit', it is logical to assume that office assets in the Square Mile may be most at risk.

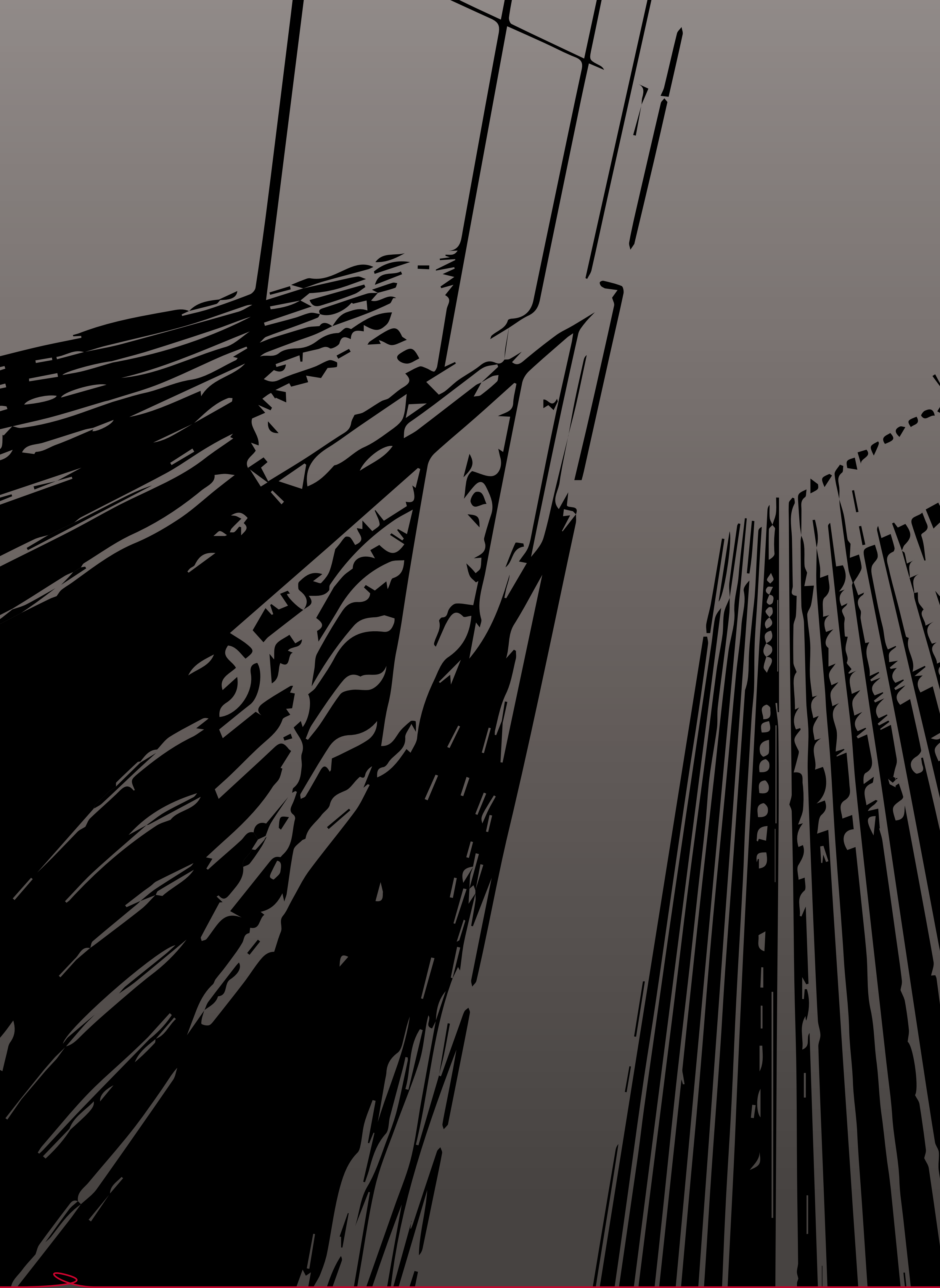
THE FUNDAMENTALS ARE POSITIVE

Aside from this current uncertainty, the underlying occupier market fundamentals are generally very positive. Rental growth is underway within many UK markets and capturing this will be the key to outperformance in this stage of the cycle.

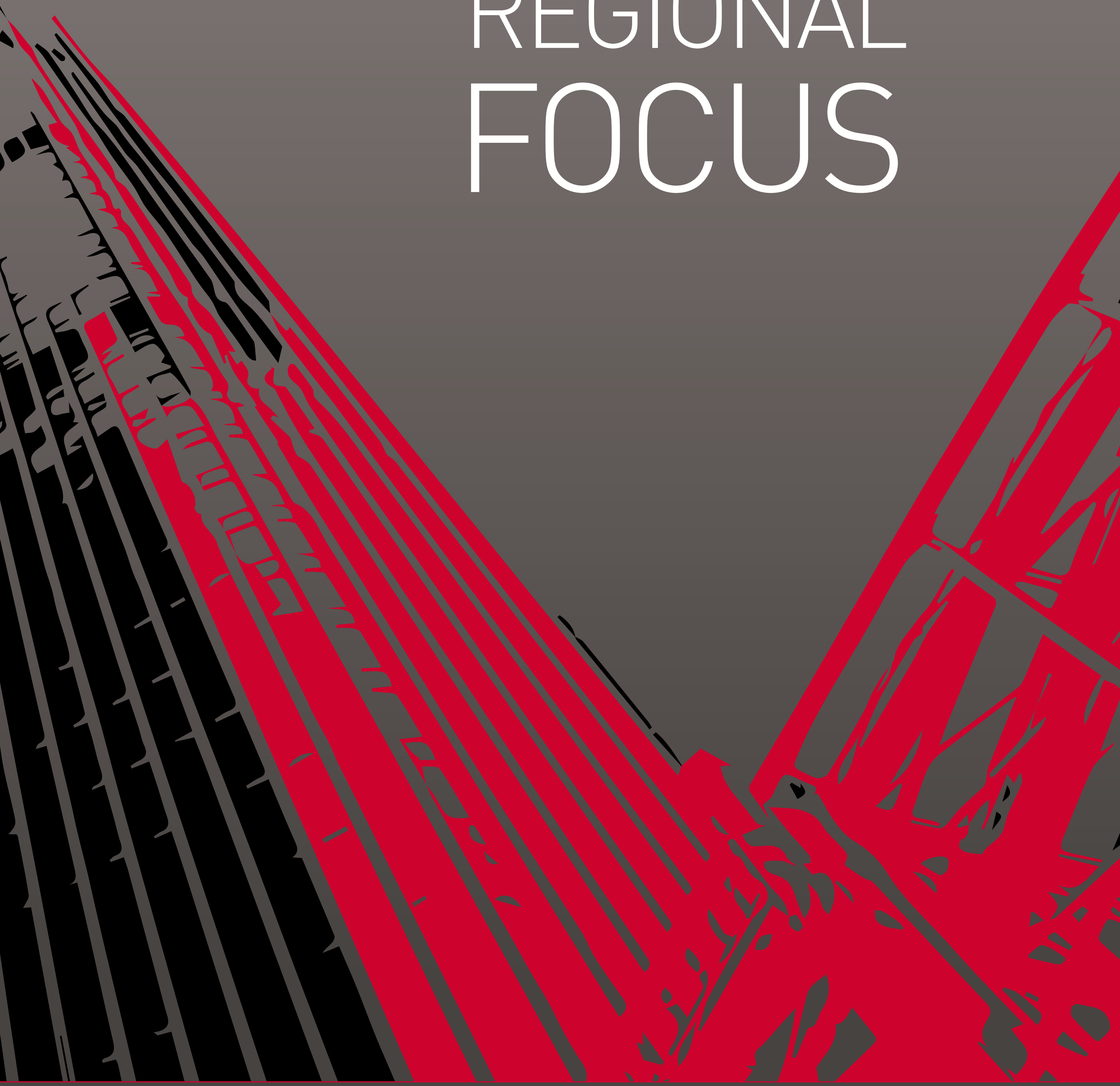
With income growth becoming increasingly key to driving returns, appetite for prime, long-term income assets will remain strong, particularly in the regional markets where grade A space is in short supply. Whether this demand translates into further yield compression post-Referendum is debatable, but it should help to preserve pricing at current levels.

Alongside the institutions, the strength of overseas investment now being seen in the UK's regional centres continues to underline the perceived value these markets are seen to offer compared with Central London. However, with yields in the UK's core regional cities standing close to their 2007 lows, there is a growing case for investing in the next tier of the urban hierarchy.

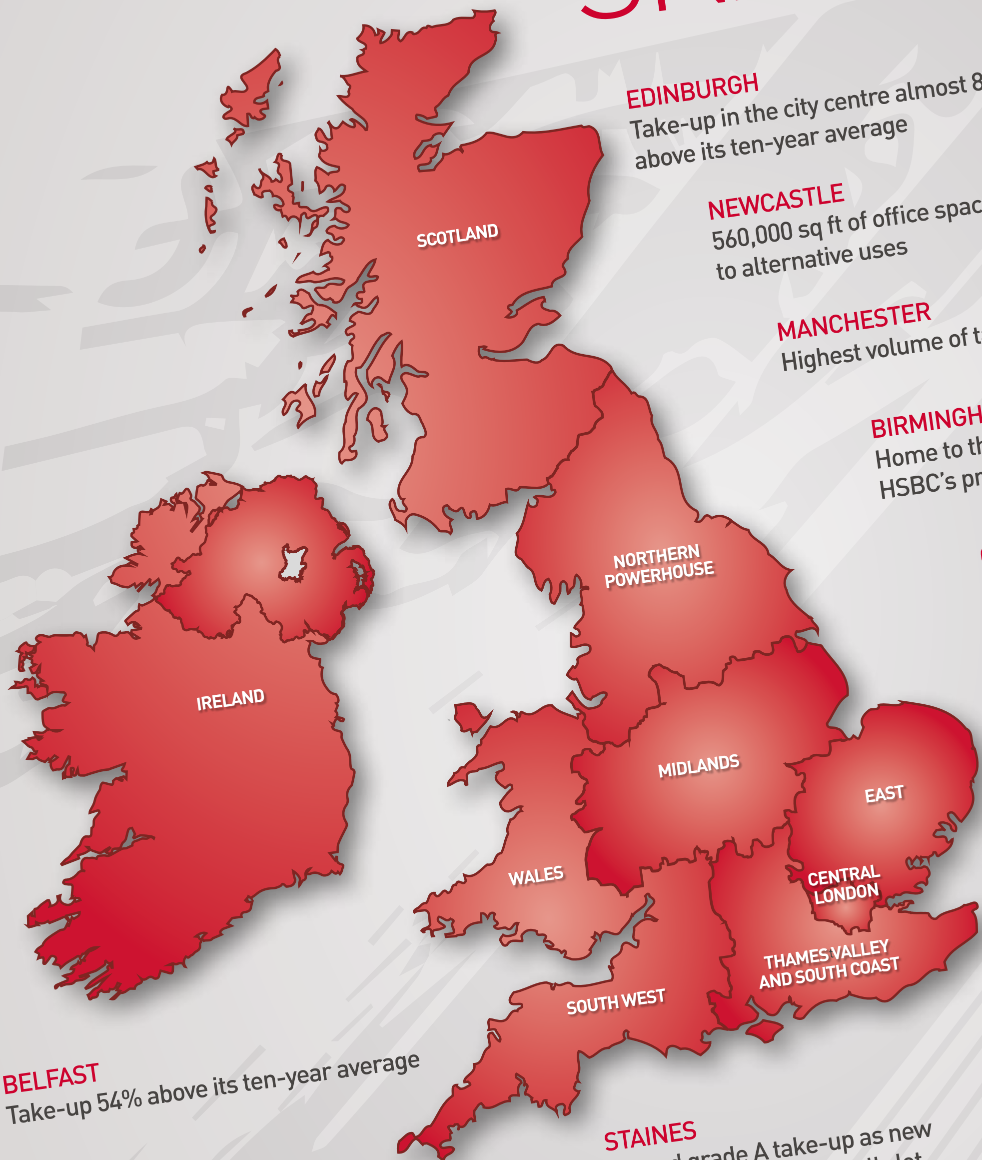
With grade A space in short supply, there is a real window of opportunity to reposition assets in growth markets through good quality refurbishment, especially within the UK's regional markets. But, for asset management approaches to be successful, it will require a granular understanding of the local market to identify the best opportunities.



REGIONAL
FOCUS



THE SNAPSHOT



EDINBURGH
Take-up in the city centre almost 80% above its ten-year average

NEWCASTLE
560,000 sq ft of office space lost to alternative uses

MANCHESTER
Highest volume of take-up outside London

BIRMINGHAM
Home to the largest deal outside London, HSBC's pre-let of 2 Arena Central

CAMBRIDGE
The most tightly supplied market with 1.1 years of supply

MILTON KEYNES
Strongest year of take-up since 2000

READING
0.5m sq of speculative development underway

MIDTOWN
Strongest activity of the London submarkets relative to trend

WEST END
Commands the highest prime rent at £120 sq ft

BELFAST
Take-up 54% above its ten-year average

CARDIFF
BBC Wales pre-let 150,000 sq ft at Central Square in for its new headquarters

BATH
Prime headline rental growth of 24%

STAINES
Record grade A take-up as new developments successfully let

SLOUGH
2015's strongest rent increase, rising 25%

SOUTH COAST
Take-up 31% above its ten-year average

Lambert Smith Hampton

CENTRAL LONDON

David Earle
+44 (0)20 7198 2270
dearle@lsh.co.uk
City Core
Canary Wharf
Docklands

Toby Chapman
+44 (0)20 7198 2333
tchapman@lsh.co.uk
Euston/King's Cross
Clerkenwell/Farringdon
Midtown/Covent Garden
Tech Belt

James Couse
+44 (0)20 7955 8416
jcouse@lsh.co.uk
South Bank

Glyn Lloyd
+44 (0)20 7198 2273
glloyd@lsh.co.uk
Knightsbridge/Belgravia
Mayfair
Noho/Fitzrovia
North of Oxford Street
Paddington/Marylebone
Soho
Victoria

CENTRAL LONDON

DEMAND

Activity in Central London was buoyant in 2015. Take-up was 14.4m sq ft, marginally down on 2014's 14-year high and 13% above the ten-year average. The majority of the sub-markets also recorded above average activity, the one exception being South Bank, where take-up was 1% short of its average.

Midtown was the strongest performing sub-market in 2015. Take-up was 2.1m sq ft, up 48% year-on-year and 26% above the ten-year average. One of the headline deals in Midtown was Universal Music's 176,300 sq ft pre-let at Four Pancras Square.

At 5.9m sq ft, take-up in the City was down 5% on the record annual high of 2014. For the twelfth consecutive year, the City attracted the largest share of Central London take-up, accounting for 42% of activity in 2015.

Despite a strong final quarter, South Bank was the weakest performing sub-market. Take-up was 0.9m sq ft in 2015, 32% down year-on-year. Activity picked up in the final quarter of 2015, although boosted by one prominent deal, namely Bouygues' lease of 143,700 sq ft at Becket House.

SUPPLY

Availability increased by 5% during 2015 to stand at 11.5m sq ft, its first annual increase since 2011. Despite the rise, this is equivalent to only 2.1 years of supply based on ten-year average take-up.

Given strong demand, 2015's rise in supply reflects a continuation of high levels of speculative development in the capital, which increased by 25% year-on-year to stand at 8.9m sq ft, 3.0m sq ft of which is due to complete in 2016. Moreover, despite the elevated development activity, grade A space is equivalent to only 1.3 years of supply.

The West End saw the largest increase in availability, rising 13% during 2015 and driven by a wave of development. The City is home to the majority of development, with 4.7m sq ft speculatively under construction. Despite this, the City was the one sub-market to see a reduction in availability, falling 5% to stand at 4.1m sq ft.

At 867,000 sq ft, London's largest development is Brookfield Property Partners' 100 Bishopsgate, EC3, which is due for completion in 2018. With the impending arrival of the Elizabeth Line, development has also increased sharply in traditionally fringe areas, such as north of Oxford Street in the West End, and similarly, in parts of Midtown due to increased connectivity.

RENTAL GROWTH

All the sub-markets recorded growth in prime headline rents during 2015. Docklands and Midtown recorded the largest rental growth, rising by 13% and 12% respectively, while the West End recorded the lowest growth, rising 4% from £115.00 per sq ft to £120.00 per sq ft.

We expect prime rental growth to peak across the capital during 2016 as the delivery of significant new space to the market, fears over a possible Brexit and the anticipated sharp rises in business rates from 2017 combine to instil greater sensitivity to property costs.

£85.00
2015
PRIME RENT
10%
Y-O-Y
2016
FORECAST

NOHO/FITZROVIA

Demand has remained buoyant as rising rents in nearby Mayfair and Soho force occupiers to seek cost-effective alternatives.

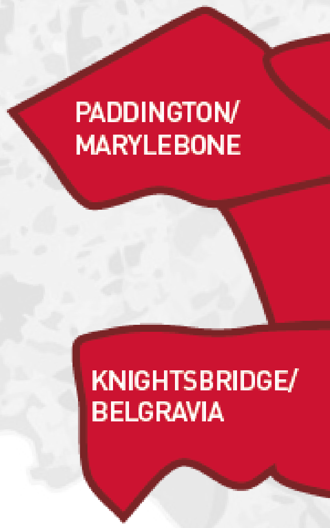
Supply of large units is limited; however, Exemplar's 180,000 sq ft development at Fitzroy Place has attracted Estée Lauder, paying a rent in excess of £80.00 per sq ft.

£90.00
2015
PRIME RENT
0%
Y-O-Y
2016
FORECAST

NORTH OF OXFORD STREET

Demand remains subdued, reflective of a combination of prime rental levels hitting £90.00 per sq ft and limited development.

1 Welbeck Street will deliver 53,800 sq ft at quoting rents in excess of £90.00 per sq ft on the best space, and potential will arise on the Howard de Walden Estate.



£67.50
2015
PRIME RENT
16%
Y-O-Y
2016
FORECAST

PADDINGTON/ MARYLEBONE

2016 has been kick-started with WeWork's 108,576 sq ft lease at 2 Eastbourne Terrace, a clear sign that SMEs are a significant part of this sub-market.

Paddington will continue to prosper, with large corporates which require ready access to Heathrow.

Reflecting continued investment in the area, British Land is set to deliver 150,000 sq ft at 4 Kingdom Street in Q1 2017.

£120.00
2015
PRIME RENT
4%
Y-O-Y
2016
FORECAST

MAYFAIR

Notable developments include 80,000 sq ft 1 New Burlington Place and British Land delivering 78,000 sq ft at Clarges Street.

The uncertainty arising from the Brexit Referendum has impacted demand from the financial sector.

In addition, the business rates revaluation in April 2017 may have a significant impact as Mayfair has the highest rental levels across central London.

£75.00
2015
PRIME RENT
25%
Y-O-Y
2016
FORECAST

EUSTON/KING'S CROSS

Very tight supply is limiting take-up, with a pipeline of just 200,000 sq ft coming to the market during 2016.

However, the year has got off to a strong start with Q1's headline deal seeing Brait (formerly New Look) acquire 150,000 sq ft at Building R7 within the Argent Scheme.

£67.50
2015
PRIME RENT
29%
Y-O-Y
2016
FORECAST

CLERKENWELL/ FARRINGDON

The arrival of the Elizabeth Line at Farringdon in 2018 continues to attract significant numbers of TMT and creative businesses to the area.

Prime headline rents increased by almost 30% during 2015 and are expected to edge-up further over 2016.

£70.00
2015
PRIME RENT
12%
Y-O-Y
2016
FORECAST

MIDTOWN

In terms of activity, Midtown was 2015's standout performer of the five main London sub-markets.

The year also saw a new record rent of £85.00 per sq ft achieved at Zebulon's One Strand, WC2.

However, with substantial rental growth since the last valuation in 2008, occupiers may be subject to strong rises in business rates in the near future, potentially impacting on rental levels.

£70.00
2015
PRIME RENT
17%
Y-O-Y
2016
FORECAST

CITY CORE

Overall, the City performed 14% above its ten-year average take-up in 2015.

Supply is edging higher as new completions are delivered to the market and other schemes are made available, such as Angel Court (295,000 sq ft), which is due to complete in Q4 2016.

Given the City's huge trade surplus with the rest of the EU, this is arguably the most exposed UK market to a possible Brexit, which could have the effect of arresting active demand among international financial occupiers.

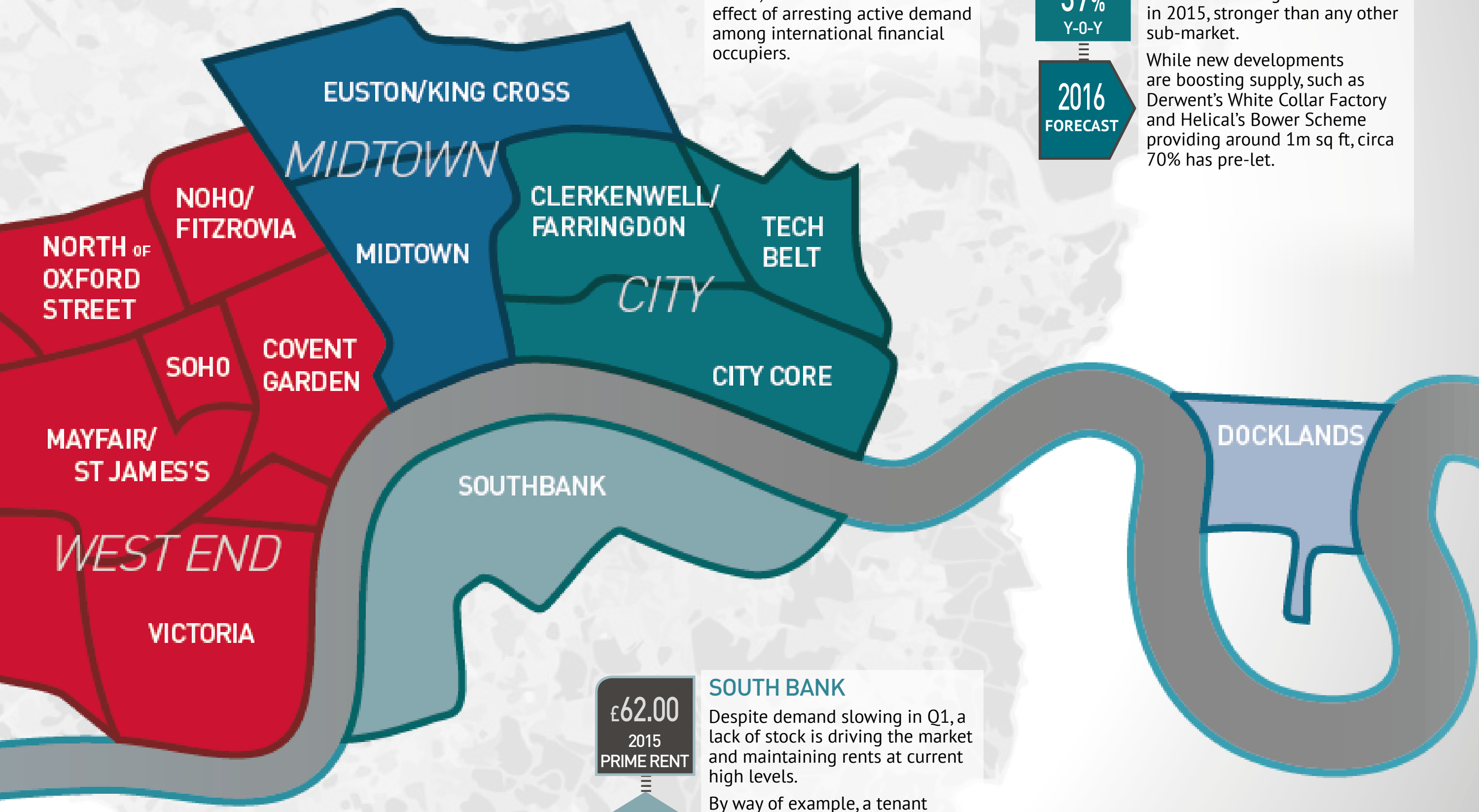
£65.00
2015
PRIME RENT
37%
Y-O-Y
2016
FORECAST

TECH BELT

2016 has started strongly, with the largest deal comprising AECOM's 87,000 sq ft let at Aldgate Tower, E1.

The Tech belt recorded prime headline rental growth of 37% in 2015, stronger than any other sub-market.

While new developments are boosting supply, such as Derwent's White Collar Factory and Helical's Bower Scheme providing around 1m sq ft, circa 70% has pre-let.



£62.00
2015
PRIME RENT
11%
Y-O-Y
2016
FORECAST

SOUTH BANK

Despite demand slowing in Q1, a lack of stock is driving the market and maintaining rents at current high levels.

By way of example, a tenant occupying 6,400 sq ft on the 28th floor of The Shard is currently seeking £100 per sq ft on a sub-lease.

Rents will remain high while the supply of new stock continues at these all-time low levels.

£80.00
2015
PRIME RENT
10%
Y-O-Y
2016
FORECAST

VICTORIA

Demand remains high from corporate occupiers as Land Securities continues its investment to reposition Victoria as a core sub-market of Central London.

Supply has spiked in Q1 2016 as circa 280,000 sq ft is being delivered at Nova South by Land Securities. A further 140,000 sq ft will be delivered in Q3 2016 at Nova North.

It will be interesting to see how the increased level of supply from these developments will be absorbed.

£45.00
2015
PRIME RENT
13%
Y-O-Y
2016
FORECAST

DOCKLANDS

2015 take-up was up 15% on 2014 and 4% above the ten-year average.

2016 is off to a solid start, with activity in Q1 standing above the ten-year average, albeit boosted by Thomson Reuters' lease of 315,000 sq ft at 5 Canada Square.

Canary Wharf continues to boast the cheapest total occupancy cost of all Central London office districts.

SOURCE FOR ALL DATA: LAMBERT SMITH HAMPTON

Lambert Smith Hampton

THAMES VALLEY AND SOUTH COAST

Tom Fletcher
+44 (0)118 959 8855
tfletcher@lsh.co.uk
Bracknell
Reading

Paul Dowson
+44 (0)1483 446 703
pdowson@lsh.co.uk
Blackwater Valley
Guildford

Cliff Jackson
+44 (0)1628 678 183
cjackson@lsh.co.uk
Maidenhead

Kevin Wood
+44 (0)1865 200 244
kwood@lsh.co.uk
Oxford

Andy Hodgkinson
+44 (0)1489 579 579
ahodgkinson@lsh.co.uk
Southampton
Portsmouth

Jon Rea-Palmer
+44 (0)20 7198 2255
jreapalmer@lsh.co.uk
Heathrow
Uxbridge
Staines

Caroline Waldron
+44 (0)1628 678 184
cwaldron@lsh.co.uk
Slough

Jonathan Scott
+44 (0)20 7198 2015
jscott@lsh.co.uk
South East

Nick Coote
+44 (0)118 960 6912
ncoote@lsh.co.uk
Thames Valley

THAMES VALLEY AND SOUTH COAST

DEMAND

Following a relatively subdued 2014, the South East's twelve markets combined recorded take-up of 2.5m sq ft in 2015, rebounding 25% year-on-year and standing 4% above the ten-year annual average. Notably, Q3 2015 was by far the most active quarter, accounting for four of 2015's five largest deals and 40% of the year's total take-up.

With take-up of 559,000 sq ft, Reading accounted for a quarter of the region's take-up in 2015, with activity 49% above its ten-year average. This was boosted by SSE's substantial 190,000 sq ft lease of M&G's One Forbury Place. Elsewhere, Staines and the South Coast markets also demonstrated strong activity in 2015 relative to trend.

Maidenhead saw the largest rebound in activity year-on-year, with take-up in 2015 reaching 185,000 sq ft, compared with only 22,000 sq ft in 2014. Ascenden's 51,000 sq ft letting at Ascot House was the town's largest deal.

Conversely, with take-up of 80,000 sq ft, Heathrow had its weakest year on record in 2015. Nearby, Uxbridge had the lowest activity of the 12 markets, both year-on-year and against its ten-year annual average, down 38%.

SUPPLY

Overall availability across the South East markets fell 8% during 2015 to stand at 9.9m sq ft, its lowest level since 2001. However, reflecting increased development activity, grade A supply increased by 14% year-on-year. This has pushed grade A availability in the region up to the equivalent of 5.6 years of supply.

Oxford and Guildford are the most tightly supplied markets, with availability across all grades equivalent to only 18 months of remaining supply. Availability of specifically grade A space is extremely restricted in Oxford, equivalent to only 0.4 years of supply.

1.6m sq ft of speculative space is currently under construction, within seven of the 12 markets. Reading is the principal focus, with 0.5m sq ft under construction/refurbishment across six schemes, the largest of which is Landid & Brockton's 190,000 sq ft redevelopment of Thames Tower, Station Road.

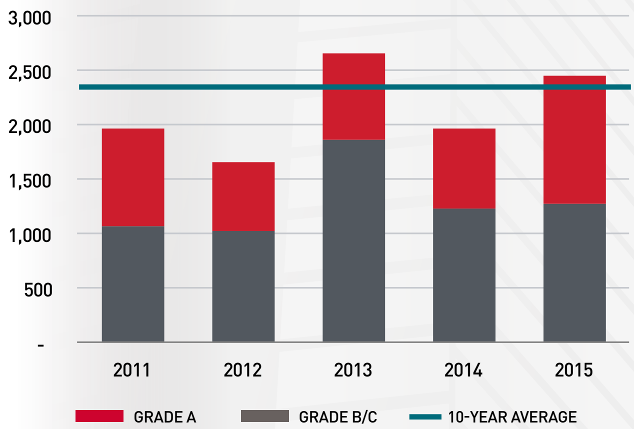
Uxbridge has also attracted substantial development, with four buildings totalling 460,000 sq ft due to complete in 2016. As a consequence, availability has spiked and is equivalent to seven years of supply. Staines was in a similar position 12 months previously, although new developments were readily taken up during 2015.

RENTAL GROWTH

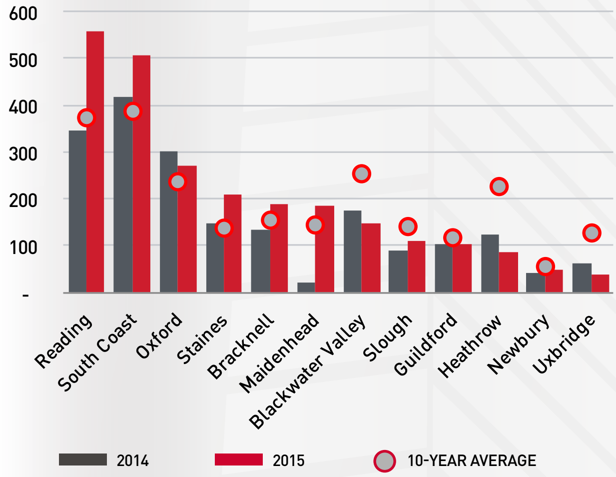
2015 saw prime headline rental growth in eight of the 12 markets. Slough recorded the strongest growth of any UK market during 2015, with prime headline rents rising by 25% from £22.00 per sq ft to stand at £27.50 per sq ft.

The outlook remains one of continuing growth in prime headline rents over 2016 as they are forecast to increase in seven markets over the course of the year.

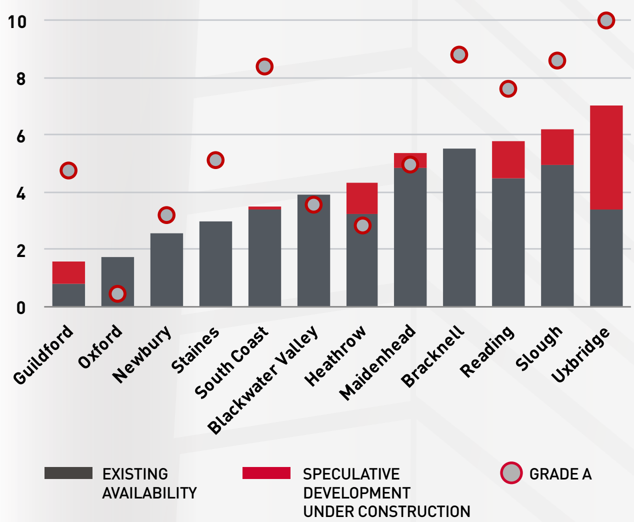
REGIONAL TAKE-UP (000 SQ FT)



TAKE-UP BY TOWN/CITY (000 SQ FT)



YEARS OF SUPPLY



1 BLACKWATER VALLEY

£26.00 2015 PRIME RENT
11% Y-O-Y
2016 FORECAST

Following a poor year in 2015, take-up was again subdued in Q1 2016.

The loss of office space to alternative use is impacting on supply as obtainable rents are often not at a level high enough to justify re-investment for office use.

With the exception of Farnborough Business Park, new speculative development is unlikely for the next few years.

2 HEATHROW

£33.00 2015 PRIME RENT
6% Y-O-Y
2016 FORECAST

Following a disappointing year in 2015, take-up in Q1 2016 picked-up significantly to reach 68,027 sq ft, over four times the volume recorded in Q4 2015.

Active demand also increased, albeit largely due to one large new requirement of 180,000 sq ft.

Two developments are due to complete in Q3 2016; The Bower, 4 Roundwood Avenue (144,238 sq ft) and 4 Longwalk (104,000 sq ft), the arrival of which will reinforce Stockley Park's status as a premier business location.

3 MAIDENHEAD

£35.00 2015 PRIME RENT
17% Y-O-Y
2016 FORECAST

Demand was initially subdued at the start of 2016, reflecting the satisfaction of several notable enquiries in 2015, but is now improving.

Two prominent developments completed in Q1 2016, namely The Pearce Building (50,000 sq ft) and Centris (30,000 sq ft), while Aurora (22,000 sq ft) is due to commence refurbishment in H1 2016.

In preparation for the Elizabeth Line, the town centre is also set to benefit from several major regeneration projects.

4 OXFORD

£26.50 2015 PRIME RENT
4% Y-O-Y
2016 FORECAST

A marked increase in demand has been noted since the start of 2016 and expansion and the requirement for better quality offices has been a factor.

There has been a clear rise in rents and hardening of incentives across the board, especially for refurbished buildings.

The purchase of the Oxpens site by Oxford City Council and Nuffield College should prove to be the catalyst for commercial regeneration in the city centre.

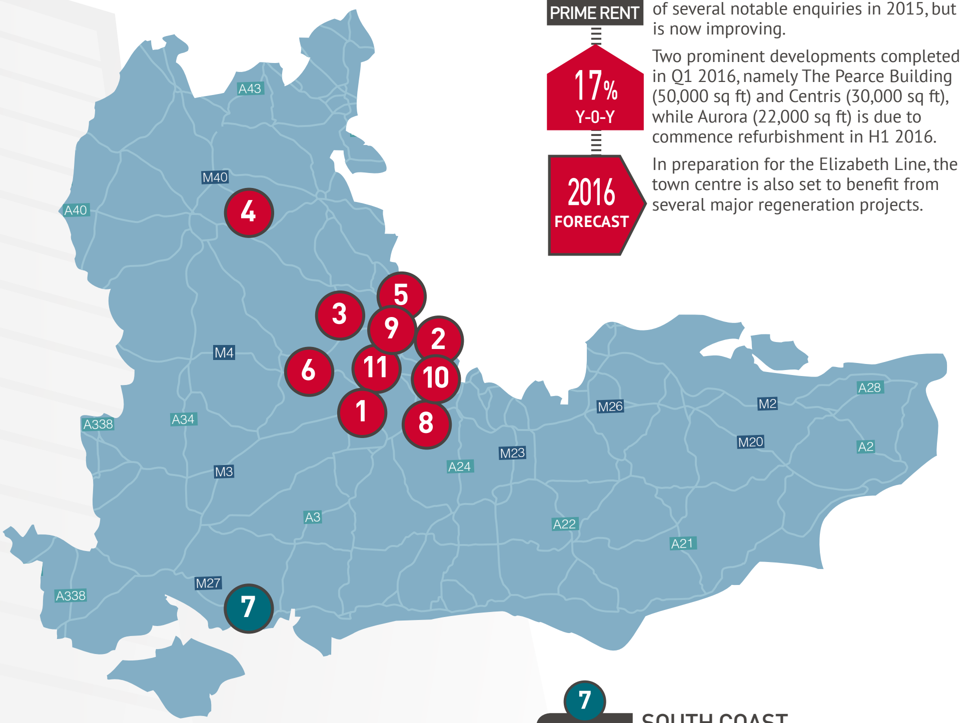
5 UXBRIDGE

£32.00 2015 PRIME RENT
0% Y-O-Y
2016 FORECAST

2015 was a quiet year for Uxbridge, while Q1 2016 saw a single deal, namely London Square's lease of 16,868 sq ft at Aviva's One York Road.

Significant new development should revive take-up, however, with over 500,000 sq ft of new space scheduled for delivery over the next 12-18 months.

Of the four schemes, the largest is Brockton and Landid's 230,000 sq ft back-to-frame refurbishment of Charter Place.



6 READING

£33.50 2015 PRIME RENT
0% Y-O-Y
2016 FORECAST

On the back of a stellar year in 2015, enquiry levels in Q1 2016 increased year-on-year with signs that corporate occupier activity is being driven by growth and the relocation of staff from London.

Major deals in Q1 saw Thales (111,000 sq ft) and Bayer (80,000 sq ft) complete their leasehold acquisitions at Green Park.

New supply is back to 600,000 sq ft following M&G's decision to speculatively develop 2 Forbury Place (190,000 sq ft). Headline rents are expected to rise to in excess of £35.00 per sq ft in 2016.

7 SOUTH COAST

£19.50 2015 PRIME RENT
3% Y-O-Y
2016 FORECAST

Following an outstanding year in 2015, where take-up was 31% above its ten-year average, transactional activity was relatively subdued in Q1 2016.

Southampton recorded take-up in line with the long term average, albeit underpinned by Utilita Energy's sizeable 54,000 sq ft lease at Hutwood Court, while Portsmouth experienced very little activity.

The only speculative development currently underway on the South Coast comprises a single scheme of 30,600 sq ft at Southampton Science Park, due for completion in Q3 this year.

In Portsmouth and Southampton, office conversions for alternative uses, including both residential and student accommodation, continue to impact on city centre supply.

8 GUILDFORD

£31.50 2015 PRIME RENT
3% Y-O-Y
2016 FORECAST

Take-up in 2015 was closely in line with 2014, but still 11% below the ten-year average. The sweet spot of occupier demand is for sub-10,000 sq ft buildings, with larger requirements mainly resolved through lease re-gears.

96,125 sq ft of speculative development is underway, and a further 190,000 sq ft is in the pipeline to start 2016/17, largely comprising refurbishments. However, core town centre opportunities remain very limited.

9 SLOUGH

£27.50 2015 PRIME RENT
25% Y-O-Y
2016 FORECAST

Take-up in 2015 was up 21% on 2014's total, although activity fell some way short of the ten-year average.

Despite strong growth in prime headline rents during the past two years, Slough has one of the highest years of supply of any UK market.

The commencement of construction of the Porter Building (115,000 sq ft) will increase supply further, taking the development pipeline to almost 300,000 sq ft.

10 STAINES

£31.50 2015 PRIME RENT
2% Y-O-Y
2016 FORECAST

Staines saw a record annual level grade A take-up during 2015, as new developments over the past 18 months successfully let-up.

2016 has also started exceptionally well, with Q1 take-up of 102,314 sq ft equivalent to nearly half of 2015's annual take-up.

As a result, total supply fell by 20% in Q1, with grade A supply now standing at 154,400 sq ft and accounted for by only three buildings.

11 BRACKNELL

£23.00 2015 PRIME RENT
7% Y-O-Y
2016 FORECAST

Enquiry levels were up in the first quarter of 2016, although the level of transactions was down on the end of 2015.

Despite the slow start, prime headline rents are forecast to increase to £24.00 per sq ft by the end of the year.

Capitol is now close to being fully let and occupier interest in Maxis is building momentum. However, newly available Worldwide House and Greenwood House have pushed supply back up to over 900,000 sq ft.

SOURCE FOR ALL DATA: LAMBERT SMITH HAMPTON

Lambert Smith Hampton

SOUTH WEST AND WALES

Peter Musgrove
+44 (0)117 914 2013
pmusgrove@lsh.co.uk
Bristol
Bath
Exeter

Kate Simpson
+44 (0)29 2052 3005
kesimpson@lsh.co.uk
Cardiff

Tom Rees
+44 (0)1792 487 248
trees@lsh.co.uk
Swansea

SOUTH WEST AND WALES

DEMAND

2015 was a year of contrasting fortunes for the South West and Wales markets. For the four centres combined, take-up was down by 23% year-on-year but nevertheless 3% above its ten-year annual average.

Reflecting an acute lack of grade A supply, Bristol saw relatively subdued activity in 2015. The city centre and out-of-town markets saw take-up fall by 44% and 31% respectively on 2014's buoyant level, while activity also underperformed the annual average, albeit to a lesser degree.

It was a similar pattern for nearby Bath where, despite a number of prominent active requirements, a lack of occupier choice has stymied activity. Here, take-up reached 70,000 sq ft in 2015, 26% below 2014's total and 19% below the ten-year annual average.

Cardiff was the region's clear exception. Take-up was 617,000 sq ft in 2015, marginally ahead of 2014 and 30% above the ten-year average. The Welsh capital was also home to the region's three largest deals of 2015, the largest being BBC Wales' 150,000 sq ft pre-let of its new headquarters in Central Square.

SUPPLY

Availability reduced in all five markets during 2015, collectively falling by 11%. Notably, Cardiff accounted for almost a half of the region's total annual fall, with supply in the city centre down 20% on the back of strong activity.

Based on average take-up, availability in the five markets combined is equivalent to 2.0 years' supply, the lowest of any region. With 1.2 years across all grades, Bristol city centre has the lowest of supply of any market in the region. The Bristol out-of-town market has the lowest years' supply of specifically grade A space, equivalent to 0.8 years.

Speculative development is taking place within each of the four centres, amounting to 401,000 sq ft. A single scheme in Bristol city centre totalling 200,000 sq ft accounts for around half of this; Commercial Estates Group's £100m Aspire development, which will be delivered in 2017.

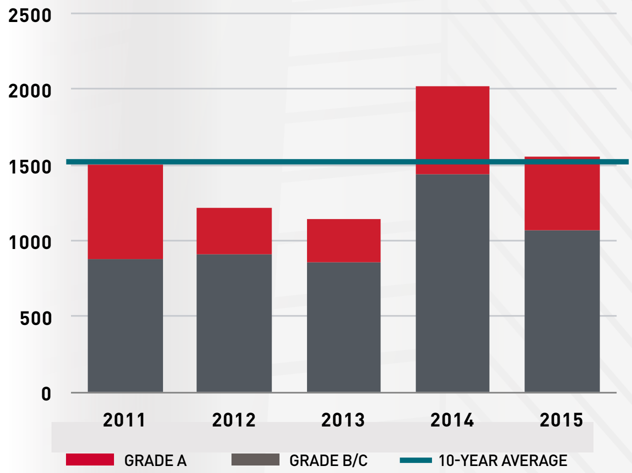
In Bath, the city's entire sum of grade A supply is made up by a single development of 46,800 sq ft, namely 20 Manvers Street. Cardiff had the most development underway during 2015; 220,000 sq ft within One Central Square and No.2 Capital Quarter.

RENTAL GROWTH

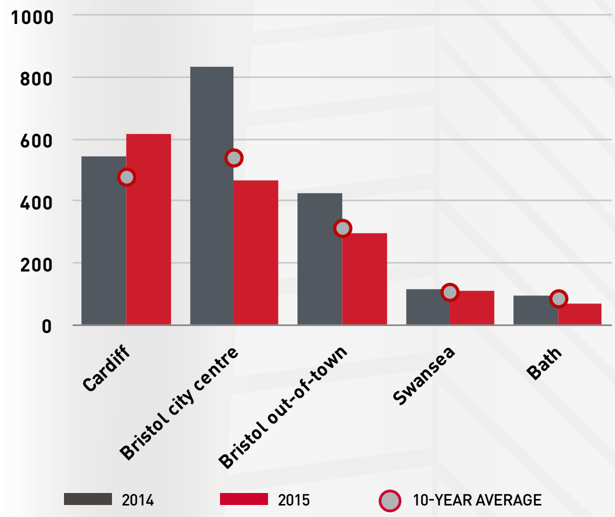
Prime headline rents were stable in four of the five markets during 2015, with Bath as the clear exception. The prime headline rent in the city increased by 23% during 2015, rising from £21.00 per sq ft to £26.00 sq ft.

Looking ahead, Cardiff and Bristol are both forecast to achieve new headline rents during 2016, due to the scarcity of existing grade A space and expectations that the delivery of new developments will drive up prime rents.

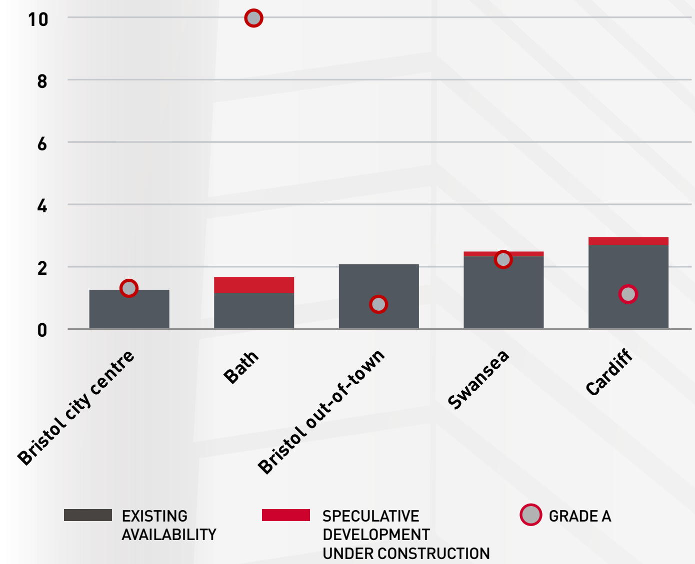
REGIONAL TAKE-UP (000 SQ FT)



TAKE-UP BY TOWN/CITY (000 SQ FT)



YEARS OF SUPPLY



Lambert Smith Hampton

1
£13.50
2015
PRIME RENT
0%
Y-0-Y
2016
FORECAST

SWANSEA

Following a robust year in 2015, 2016 got off to a solid start with Q1 take-up 24% above the quarterly average. The University of Wales Trinity St David has acquired land and buildings in Swansea which is set to revitalise the landscape in SA1 Waterfront, a fringe of the city centre area of regeneration.

Smaller speculative office developments may arise should grant assistance become available.

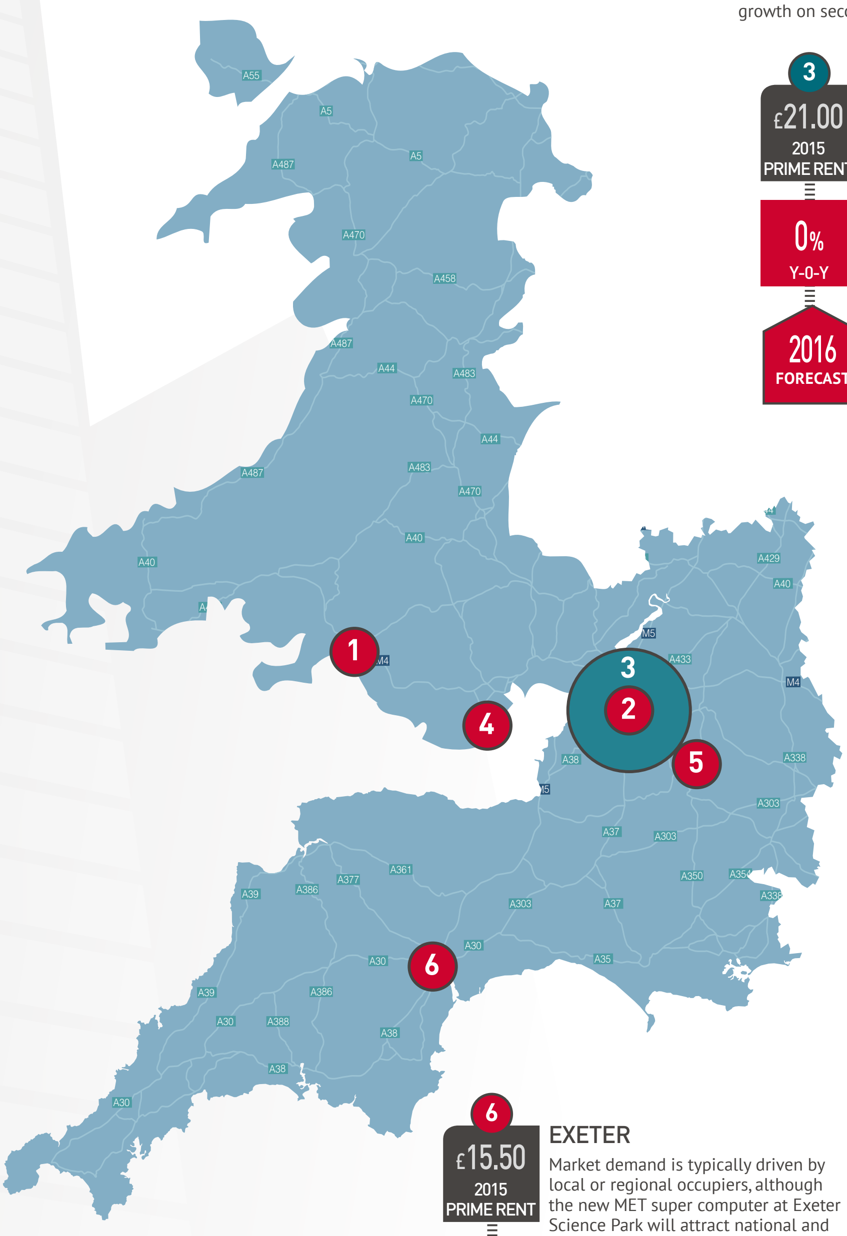
2
£28.00
2015
PRIME RENT
0%
Y-0-Y
2016
FORECAST

BRISTOL CITY CENTRE

After a poor year in 2015, take-up in Q1 2016 rebounded to 2014 levels. The quarter saw almost 200,000 sq ft of activity, albeit boosted by EDF's 81,202 sq ft lease at Bridgewater House and Fraser Nash's 27,000 sq ft lease at Narrow Quay House.

Office conversion to alternative uses, combined with no new-build activity, continues to put pressure on supply.

Two new speculative schemes, namely Aspire (200,000 sq ft) and Aurora (90,000 sq ft) will help to partly address this, with ongoing supply constraints in the meantime driving strong rental growth on secondary stock.



3
£21.00
2015
PRIME RENT
0%
Y-0-Y
2016
FORECAST

BRISTOL OUT-OF-TOWN

After a slow end to 2015, the start of 2016 has seen steady demand for office space in the prime locations.

While supply in the prime areas is reducing, there is still a high level of obsolete stock in the secondary areas. Potential change of use for some of the more fringe estates will be positive for the market, reducing obsolete stock which continues to depress rental levels. The main question in the market is speculation about demand from Hinckley Point, which has yet to appear.

4
£22.00
2015
PRIME RENT
0%
Y-0-Y
2016
FORECAST

CARDIFF

Following a very strong end to 2015, demand was initially slow in 2016 but is now starting to improve with larger requirements coming into the market.

There are a number of office schemes currently under construction and rents are finally starting to creep above the static £22.00 per sq ft headline rent seen over the past few years. 2016 will see a number of key tenants occupy new-build grade A space, such as One Central Square and No 2 Capital Quarter.

5
£26.00
2015
PRIME RENT
24%
Y-0-Y
2016
FORECAST

BATH

Following on from a quiet year in 2015, take-up remained subdued in Q1 2016. However, a number of larger enquires in the market are currently frustrated by the lack of good quality stock.

The market is set to remain under supplied, with the refurbishment of 20 Manvers Street (45,136 sq ft) being the only scheme to be delivered in 2016.

While the council's comprehensive redevelopment plans at Bath Quays will help to meet demand in the future, the lack of supply in the meantime will continue to put upward pressure on rents for secondary product.

6
£15.50
2015
PRIME RENT
0%
Y-0-Y
2016
FORECAST

EXETER

Market demand is typically driven by local or regional occupiers, although the new MET super computer at Exeter Science Park will attract national and even international interest.

Supply continues to reduce, with no new development and several conversions to residential in the city centre.

Increasing demand, especially out-of-town, will continue to drive the market and prompt rental growth, with a return to speculative development expected in early 2017.

NB: Exeter not included in South West and Wales

SOURCE FOR ALL DATA: LAMBERT SMITH HAMPTON

Lambert Smith Hampton

EAST

Ian Leather
+44 (0)1604 664 399
ileather@lsh.co.uk
Milton Keynes
Luton

Nick Thompson
+44 (0)1223 814 261
nthompson@lsh.co.uk
Cambridge

Ian Partridge
+44 (0)1727 834 234
ipartridge@lsh.co.uk
Hemel Hempstead
Welwyn/Hatfield
Watford

Paul Bullock
+44 (0)1245 215 521
pbullock@lsh.co.uk
Chelmsford

EAST

DEMAND

In sum, the seven East markets had a solid, if unspectacular, year in 2015. Total take-up was marginally below the ten-year annual average, albeit this was supported by strong activity in Cambridge and Milton Keynes. Elsewhere, activity was relatively subdued, notably in the Hertfordshire markets.

Cambridge was 2015's standout performer, with take-up of 680,000 sq ft, up 40% both year-on-year and against its ten-year annual average. The city was also home to the region's largest deal, Illumina's 155,000 sq ft lease at Granta Park for its European headquarters.

Similarly, with take-up of 359,677 sq ft, Milton Keynes recorded its strongest year since 2000, equating to almost 30% above its ten-year annual average.

In contrast, despite robust demand in Hemel Hempstead, a lack of choice prompted its lowest annual take-up on record in 2015. Similarly, Watford and Welwyn / Hatfield also saw disappointing activity, with take-up in 2015 at approximately half their respective annual averages.

SUPPLY

Evidence suggests that take-up is being constrained by a lack of supply in the East region. Collectively, the markets saw availability reduce by almost 30% during 2015, the sharpest fall of any region.

Furthermore, available supply in the region as a whole is equivalent to only two years average take-up, one of the lowest of all the regions. Despite this, developers are yet to respond in a meaningful way – speculative development is accounted for by two schemes amounting to 173,000 sq ft.

The majority of markets saw a reduction in supply, the only exception being Chelmsford where availability increased by 5% during 2015. Welwyn and Hatfield witnessed the most significant fall in availability, with supply falling by 65% in 2015 to only 146,000 sq ft, equivalent to 1.7 years of average annual take-up.

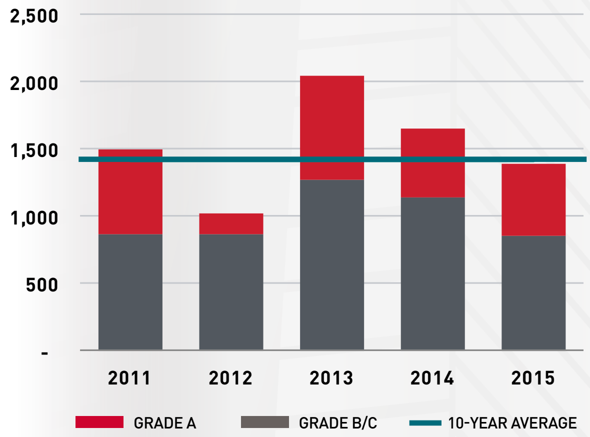
The larger of the two in progress in the East region is in Cambridge, where 130,000 sq ft is under construction at Brookgate's Station Square, due for completion in Q3 2016. Despite this, Cambridge has the equivalent of only 1.1 years of available supply, the UK's tightest market behind London's City.

RENTAL GROWTH

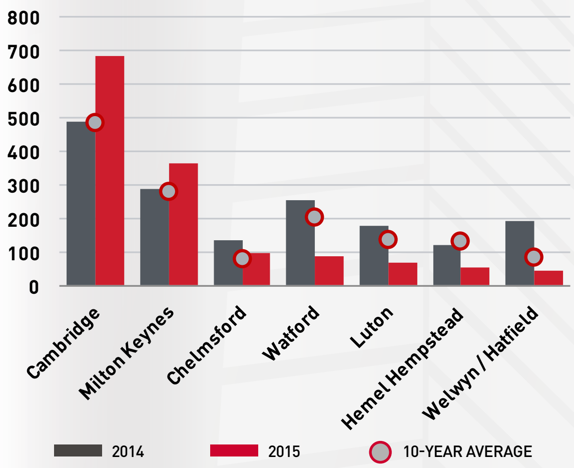
Five markets recorded an increase in prime headline rents during 2015. Luton saw the strongest movement, with OAG Aviation Group Ltd's lease at 1 Capability Green achieving a record rent of £22.00 per sq ft, an increase of 11% on the market's prime rent in 2014.

The restricted supply in the region is expected to foster further rental growth. Prime headline rents are forecast to increase in six of the seven markets over the course of 2016. Luton is the only market where we do not foresee upward movement, as a new record rent has recently been achieved.

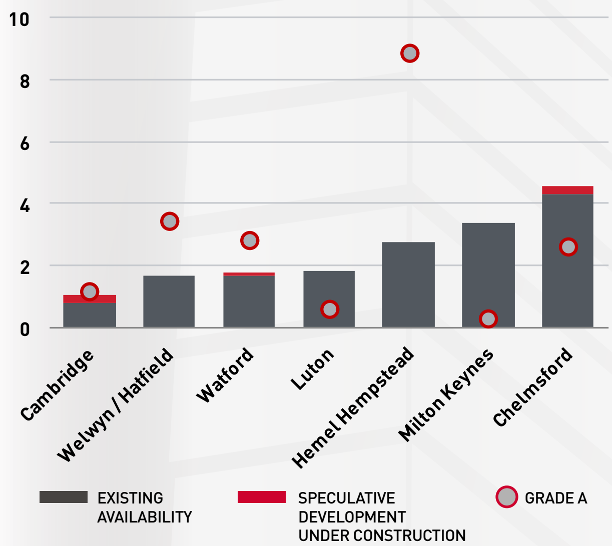
REGIONAL TAKE-UP (000 SQ FT)



TAKE-UP BY TOWN/CITY (000 SQ FT)



YEARS OF SUPPLY



2 WATFORD

£23.00
2015 PRIME RENT
0% Y-O-Y
2016 FORECAST

Following subdued take-up in 2015, 2016 started strongly with a key deal in Q1, comprising Smith & Nephew's 60,171 sq ft lease of Building 5 Croxley Business Park. However, the town's two principle business locations are acutely under-supplied.

In town, TH Real Estate's 17,000 sq ft refurbishment of 45 Clarendon Road is one of the only sizeable units available while, out-of-town, availability is now very low at Croxley Business Park.

Positively, planning permission has been granted here for two new buildings of 60,000 sq ft and 90,000 sq ft respectively which, in time, will provide larger occupiers with an option out-of-town.

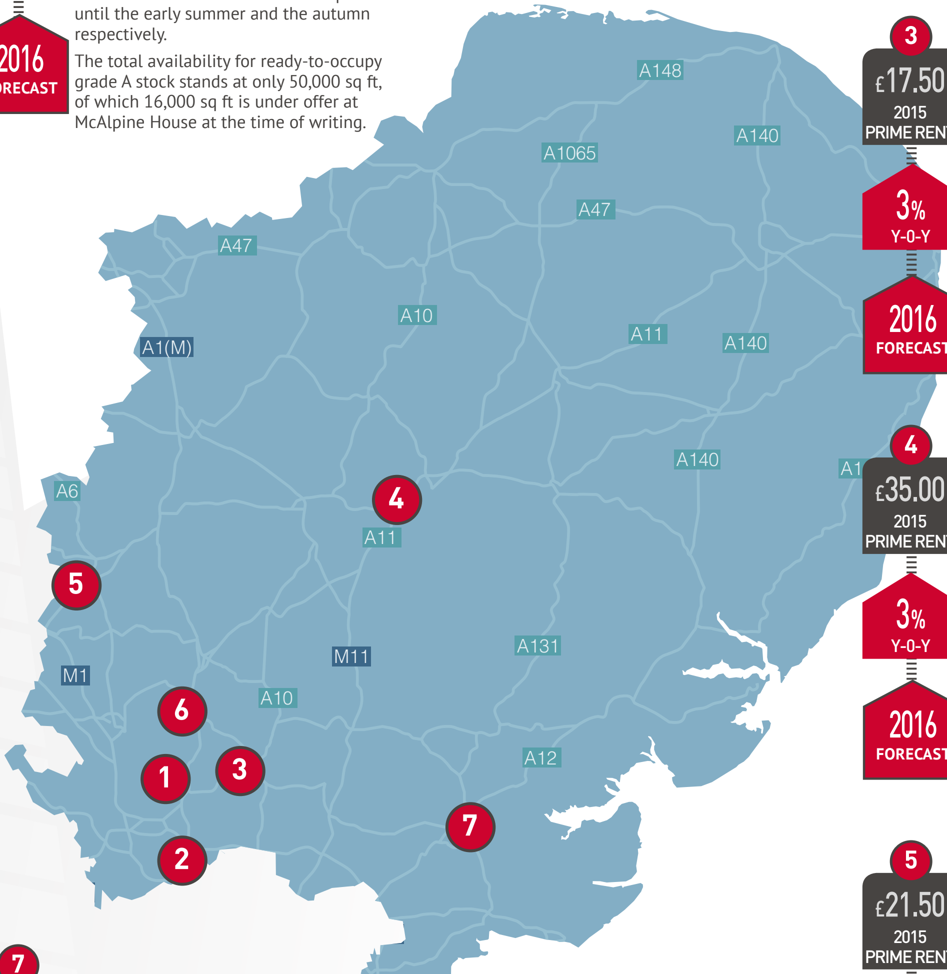
1 HEMEL HEMPSTEAD

£20.00
2015 PRIME RENT
0% Y-O-Y
2016 FORECAST

At face value, office take-up in Hemel was poor in 2015, standing well below the five and ten-year annual average.

While availability of grade A space appears high, standing at 236,000 sq ft at the end of 2015, this mainly comprises Westside and Breakspear Park, both of which are undergoing a full refurbishment and will not be completed until the early summer and the autumn respectively.

The total availability for ready-to-occupy grade A stock stands at only 50,000 sq ft, of which 16,000 sq ft is under offer at McAlpine House at the time of writing.



3 WELWYN / HATFIELD

£17.50
2015 PRIME RENT
3% Y-O-Y
2016 FORECAST

Supply in Welwyn Garden City and Hatfield plummeted by over 65% during 2015, reflecting a combination of net absorption and space being lost to alternative uses.

While Welwyn Garden City still has close to 140,000 sq ft of good quality space available, supply in Hatfield is virtually nonexistent, with no grade A options in excess of 5,000 sq ft.

The most significant deal in recent times was Continental Data's lease of 19,140 sq ft at Albany Place, Welwyn Garden City, at the quoting rent of £17.50 per sq ft.

4 CAMBRIDGE

£35.00
2015 PRIME RENT
3% Y-O-Y
2016 FORECAST

Considering the stellar level of take-up in 2015, 2016 got off to a relatively slow start with activity in Q1 falling short of the quarterly average. Total supply currently stands at around 560,000 sq ft, with grade A space accounting for over a third of the total.

In town, availability stands at 148,000 sq ft, albeit half of this is made up of One Station Square. Demand for grade A space will continue to remain strong, driving prime headline rents up further from their current level of £35.00 per sq ft. Despite buoyant conditions in the local economy, the lack of supply may restrict activity in 2016.

5 MILTON KEYNES

£21.50
2015 PRIME RENT
2% Y-O-Y
2016 FORECAST

Occupier demand has reduced somewhat, following a year of robust take-up in 2015. Supply in the centre has improved, with a number of buildings being recycled through significant investment and rebranding.

The commencement of a new development for Grant Thornton, which will deliver 40,000 sq ft of stock into the market is very positive and should trigger additional development of new grade A stock. Rents have increased over the last 18 months and we see this trend continuing, particularly in the centre, where the supply of grade A stock remains restricted.

7 CHELMSFORD / CENTRAL ESSEX

£24.00
2015 PRIME RENT
2% Y-O-Y
2016 FORECAST

Demand remains relatively buoyant in the central Essex area and supply is expected to reduce as good quality space is steadily absorbed.

With the last speculative office development delivered almost ten years ago, current dynamics in the market may tempt developers to commence the new cycle as prime rents push towards £26.00 per sq ft.

The impending arrival of Crossrail will see demand increase for locations in central Essex, in particular Brentwood, which currently has no sizeable options available.

6 LUTON

£22.00
2015 PRIME RENT
11% Y-O-Y
2016 FORECAST

Occupier demand is relatively subdued and grade A supply limited to out-of-town business parks, such as Capability Green and Butterfield. Randstad's lease of 28,000 sq ft at Building 450, Capability Green in Q1 2016 was a notable recent transaction, achieving a headline rent £19.25 per sq ft on a seven year term certain.

At £22.00 per sq ft, prime headline rents recently surpassed their previous high, but remain competitive in comparison to neighbouring centres. However, this level means new-build supply will need to be secured by pre-lets rather than speculative development.

SOURCE FOR ALL DATA: LAMBERT SMITH HAMPTON

Lambert Smith Hampton

MIDLANDS

Alex Tross
+44 (0)121 237 2307
atross@lsh.co.uk
Birmingham

Jane Taylor
+44 (0)116 204 5976
jtaylor@lsh.co.uk
Leicester

Phil Quiggin
+44 (0)115 976 6603
pquiggin@lsh.co.uk
Nottingham
Derby

Ian Leather
+44 (0)1604 662 550
ileather@lsh.co.uk
Northampton

CENTRAL LONDON
THAMES VALLEY AND SOUTH COAST
SOUTH WEST AND WALES
EAST
MIDLANDS
NORTHERN POWERHOUSE
SCOTLAND AND IRELAND

MIDLANDS

DEMAND

In aggregate, take-up in the six Midlands markets was an impressive 2.7m sq ft in 2015, its highest annual total since 2000. It was also 44% above its ten-year annual average, which is ahead of any other UK region.

Birmingham had an outstanding year in 2015, both in the city centre and out-of-town, with take-up of 970,000 sq ft and 500,000 sq ft respectively. The city was also home to the largest deal outside the capital, HSBC's 210,000 sq ft pre-let of 2 Arena Central, a relocation of its UK headquarters from Canary Wharf.

Birmingham's status as a major commercial centre has been enhanced through major rail infrastructure projects. The Grand Central development and Government commitment to HS2 will undoubtedly boost the city's prospects for inward investment over the next decade.

While Birmingham stole the headlines, all Midlands markets bar Northampton saw above average activity in 2015. Four of the six markets also saw take-up increase year-on-year, and while activity in Leicester was down slightly on the high of 2014, it was nevertheless nearly twice its ten-year average.

SUPPLY

Collectively, the six markets saw an 8% reduction in available supply during 2015. Derby saw the strongest fall in availability, down 31% year-on-year and this was largely applicable to the city centre. Relative to average take-up, availability in the region is equivalent to 3.5 years' supply. On this basis, Northampton has the lowest overall supply of the six markets, equivalent to only 2.3 years' average take-up.

Grade A supply is particularly acute in several Midlands markets, reflecting an absence of speculative development in the current cycle. Northampton has only 25,000 sq ft of grade A space available, which has arguably acted as a constraint on recent take-up, while Leicester's grade A supply is equivalent to less than a year of average take-up.

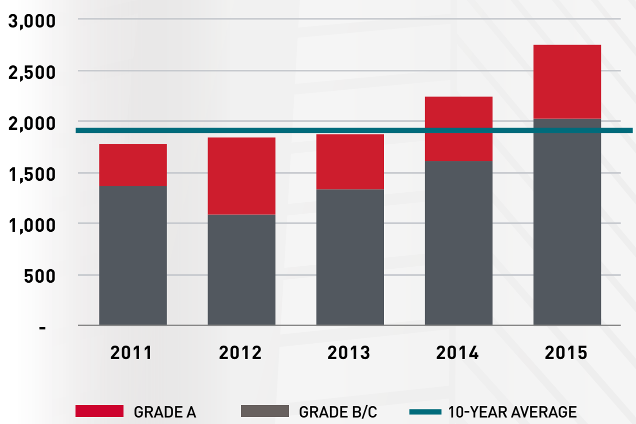
Birmingham is the sole focus of development activity in the region, with a substantial 1.1m sq ft of development underway, of which 0.8m sq ft is speculative. However, only 347,000 sq ft of this is scheduled to complete in 2016, with the remainder from 2018.

RENTAL GROWTH

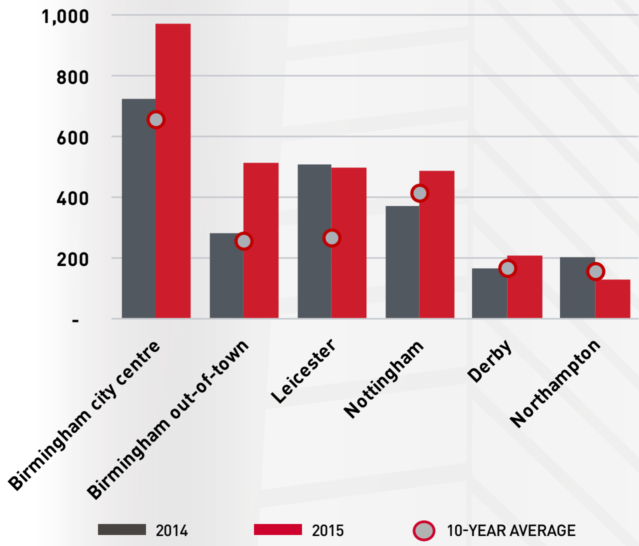
Birmingham and Leicester both recorded an increase in prime headline rents during 2015, increasing 9% and 3% respectively. With the exception of Birmingham, headline rents have recovered to new highs in all markets.

Leicester and Birmingham are both forecast to see further growth in prime rents during 2016. Elsewhere, they are forecast to remain stable and are likely to remain so until new-build space is delivered to the market.

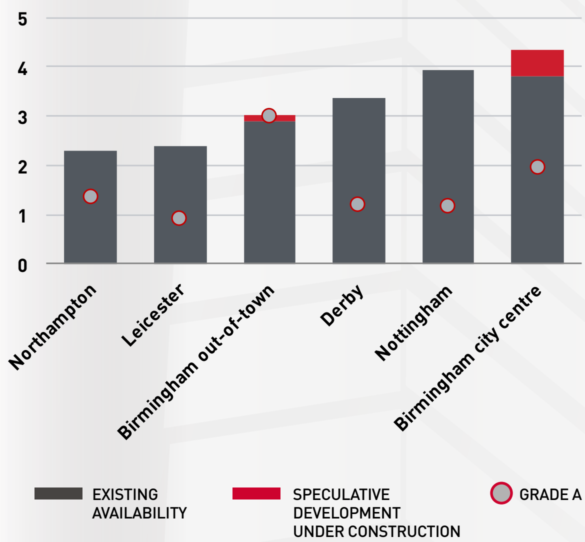
REGIONAL TAKE-UP (000 SQ FT)



TAKE-UP BY TOWN/CITY (000 SQ FT)



YEARS OF SUPPLY



1

£17.50
2015
PRIME RENT

0%
Y-O-Y

2016
FORECAST

DERBY

For some time now, a severe lack of grade A supply in both the city centre and out-of-town areas has constrained activity, a situation again reflected in a take-up of only 15,000 sq ft in Q1 2016.

The supply position has also been compounded by a significant loss of larger office buildings through permitted development rights. Pride Park, Derby's premier business park, is technically full.

Speculative refurbishment and new-build development is needed to boost levels of high quality office accommodation, both in the city and out-of-town.

2

£19.75
2015
PRIME RENT

0%
Y-O-Y

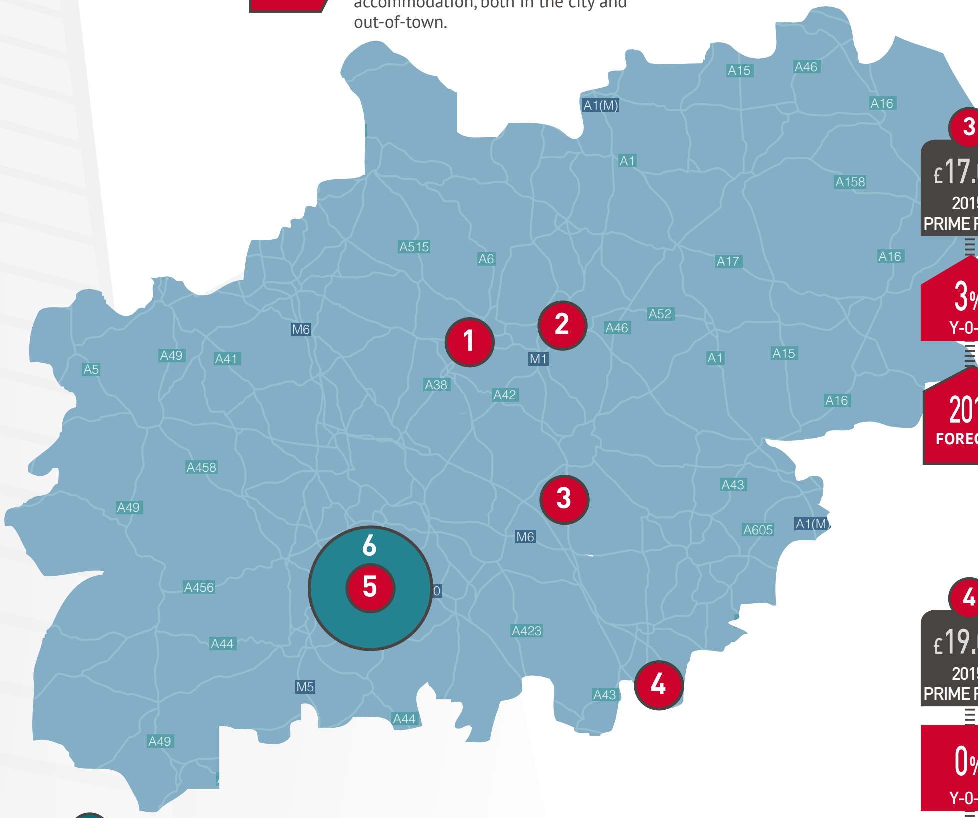
2016
FORECAST

NOTTINGHAM

Take-up was lower than expected in Q1 2016, and down significantly on the high of Q4 2015. This stems from an acute shortage of good quality space, with no new grade A space brought to the market in Q1.

37 Park Row, Nottingham, is now fully occupied following refurbishment, with Thompsons Solicitors taking the last 6,000 sq ft.

The case for speculative development has never been stronger, with a number of requirements for high quality office accommodation in the city centre.



3

£17.00
2015
PRIME RENT

3%
Y-O-Y

2016
FORECAST

LEICESTER

While demand remains steady for prime out-of-town locations and good quality space within the city, occupiers are becoming more exacting in their specific requirements.

Grade A supply, in both city and out-of-town markets, is extremely tight, forcing occupiers to consider grade B opportunities. Two key inward investment deals in 2015, totalling over 90,000 sq ft, mark a sea change in attitude to the city, with Leicester now becoming a serious contender for footloose relocations.

2016 will see a continued shortage of grade A space and an increasing role for the city council to enable challenging city centre sites for development.

4

£19.00
2015
PRIME RENT

0%
Y-O-Y

2016
FORECAST

NORTHAMPTON

There is a robust level of active demand for good quality space which largely remains unsatisfied due to constrained supply.

Indeed, the subdued take-up in 2015 largely reflected a lack of good quality options for occupiers. The prospects in 2016 now appear much more positive.

Long-awaited lettings to Allied Irish Bank, Tollers LLP and Howes Percival Solicitors have now completed, while two major pre-let deals are currently in legals which will trigger the next wave of new build. In addition, a number of existing buildings are being refurbished, albeit not enough to alleviate current pent-up demand.

6

£21.00
2015
PRIME RENT

5%
Y-O-Y

2016
FORECAST

BIRMINGHAM OUT-OF-TOWN

2016 is on course to match the impressive level of take-up seen in 2015, with a number of significant deals set to complete. Q1's headline deal saw utility business Xoserve take 46,000 sq ft at British Airways Pension Trustees' Landsdowne Gate, at a headline rent of £22.00 per sq ft.

Supply is dominated by pre-let opportunities, with limited options to secure better quality refurbished space. Meanwhile, record rents are expected to be set on Birmingham Business Park, Blythe Valley Business Park and in Solihull town centre during 2016.

5

£30.00
2015
PRIME RENT

9%
Y-O-Y

2016
FORECAST

BIRMINGHAM CITY CENTRE

Despite exceptional take-up in 2015, demand remains robust, with additional notable requirements coming to the market in Q1.

Crucially, a number of new buildings and refurbishments are becoming available which will provide much-needed supply to the market of grade A and grade B+ standard.

In Q1, law firm Pinsent Masons confirmed a 40,000 sq ft move to IM Properties' 55 Colmore Row, at a headline rent of £30.00 per sq ft. Headline rents will continue to rise, as occupier confidence increases and their focus shifts from survival to growth.

SOURCE FOR ALL DATA: LAMBERT SMITH HAMPTON

Lambert Smith Hampton

NORTHERN POWERHOUSE

Josh Levy
+44 (0)161 242 7061
jlevy@lsh.co.uk
Manchester

Adam Varley
+44 (0)113 887 6706
avarley@lsh.co.uk
Leeds

Neil Osborne
+44 (0)191 338 8306
nosborne@lsh.co.uk
Newcastle

Robert Diggle
+44 (0)151 243 1108
rdiggle@lsh.co.uk
Liverpool

Tom Shelton
+44 (0)114 270 2705
tshelton@lsh.co.uk
Sheffield

NORTHERN POWERHOUSE

DEMAND

2015 was an outstanding year for the core Northern Powerhouse markets. Take-up across the five cities combined reached a record annual total of 5.4m sq ft, eclipsing 2014's level by 13% and standing 30% above the ten-year average.

Manchester provided a major focus of activity, accounting for almost half of the region's combined take-up. While activity in the city centre was marginally short of 2014's record, the out-of-town take-up rebounded by 44% on 2014 and almost matched activity seen in the city centre.

Leeds saw contrasting fortunes in 2015. While activity in the city centre was second only to 2013's record annual total, take-up in its out-of-town market was its lowest in six years, and the only location in the Northern Powerhouse region to see take-up in 2015 fall short of its annual average.

Elsewhere in 2015, Sheffield had its highest level of take-up since the recession, with activity 34% above the annual average, while Newcastle city centre was 9% above the ten-year average. Liverpool had the weakest year-on-year performance, with take-up down 10% on 2014.

SUPPLY

Despite strong occupier activity, overall availability in the Northern Powerhouse fell by a relatively modest 9% in 2015. Availability equates to 3.6 years of supply across all grades based on average take-up, one of the highest levels of the seven regions.

This partly reflects a marked rise in speculative development, with 1.0m sq ft underway in the Northern Powerhouse region, of which close to 600,000 sq ft is scheduled to complete during 2016 and therefore included in the supply figures.

As the region's largest market, Manchester is understandably the focus of development activity. 1.0m sq ft is currently under construction, of which 385,000 sq ft is pre-let. Totalling 267,000 sq ft, 1 Spinningfields is the largest scheme underway, and is set to complete in 2017.

While Sheffield, Liverpool and Newcastle have each seen a degree of grade A space delivered during 2015, Leeds city centre is the only other location where development is underway. 540,000 sq ft is under construction within five schemes, 30% of which is pre-let.

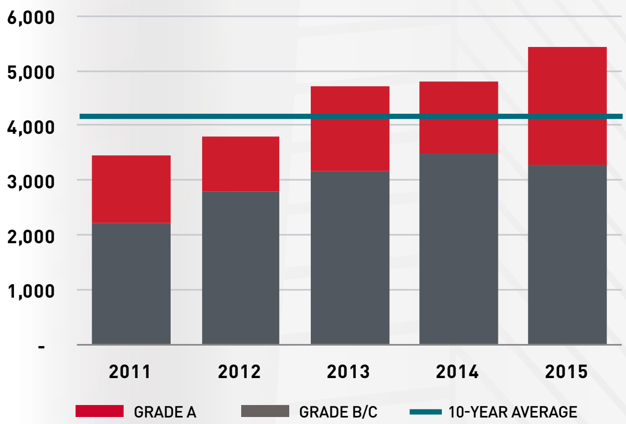
Despite this, Leeds city centre saw the strongest year-on-year decline in availability of any market in the region, falling 22% in 2015. In contrast, availability edged up in both Newcastle and Sheffield, although grade A supply remains tight, equivalent to 1.3 years in both markets.

RENTAL GROWTH

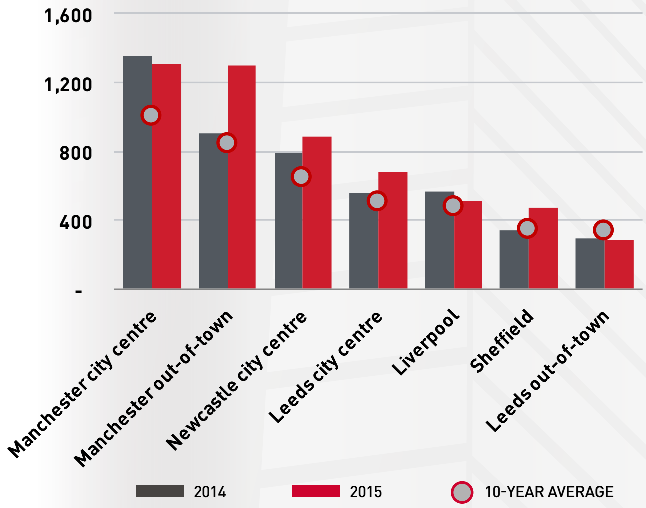
A cocktail of tight grade A supply and robust occupier demand prompted further rental growth in the region during 2015. With the exception of Liverpool, all of the cities recorded headline prime rental growth. Manchester has the highest prime rent of the markets, at £34.00 per sq ft, although Leeds out-of-town saw the strongest growth in 2015, rising by 9%.

As new-build grade A supply diminishes, prime headline rents are forecast to rise further in Leeds, Manchester and Newcastle over the coming year.

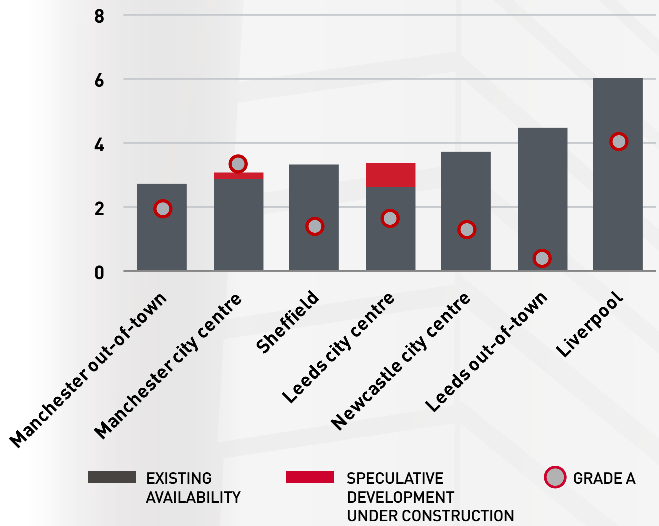
REGIONAL TAKE-UP (000 SQ FT)



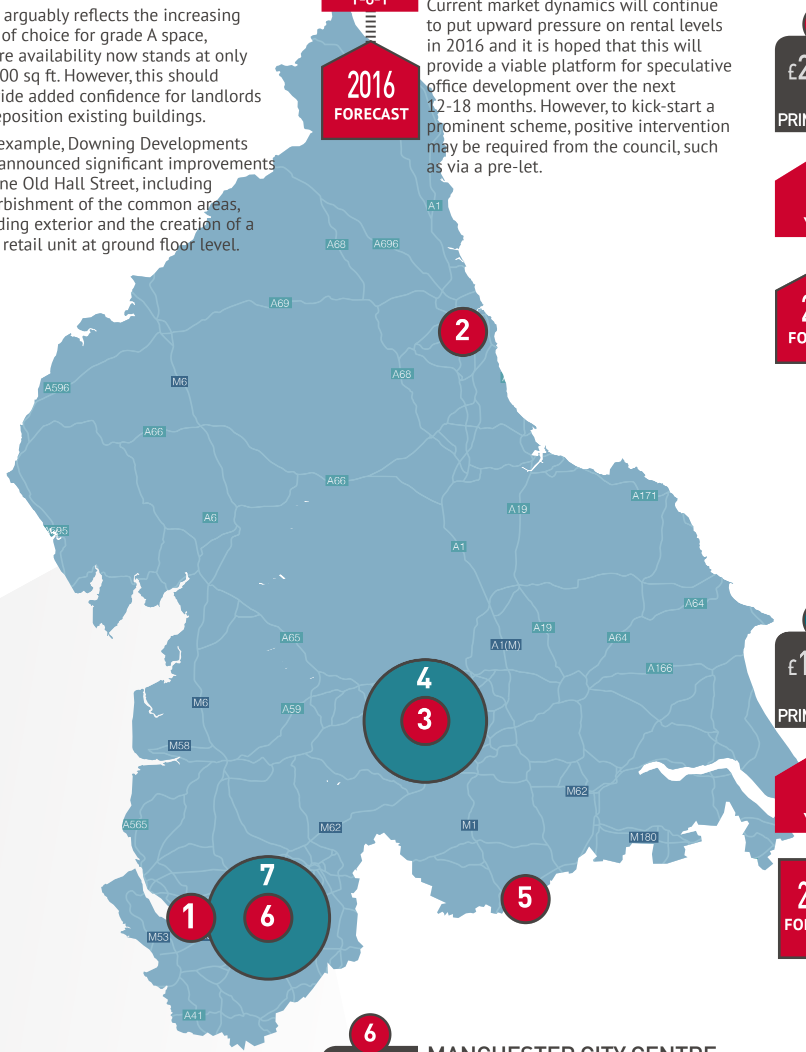
TAKE-UP BY TOWN/CITY (000 SQ FT)



YEARS OF SUPPLY



Lambert Smith Hampton



1
£20.50
2015 PRIME RENT
0% Y-0-Y
2016 FORECAST

LIVERPOOL

The first part of 2016 has seen a perceptible rise in demand for grade B+ and grade B space.

This arguably reflects the increasing lack of choice for grade A space, where availability now stands at only 92,000 sq ft. However, this should provide added confidence for landlords to reposition existing buildings.

For example, Downing Developments has announced significant improvements to One Old Hall Street, including refurbishment of the common areas, building exterior and the creation of a new retail unit at ground floor level.

2
£22.00
2015 PRIME RENT
2% Y-0-Y
2016 FORECAST

NEWCASTLE

Following a stellar year in 2015, activity was not sustained in Q1 2016, falling 50% short of the quarterly average.

Supply continues to diminish, while there is no new development in the pipeline to follow the recent completion of the Rocket, Stephenson's Quarter.

Current market dynamics will continue to put upward pressure on rental levels in 2016 and it is hoped that this will provide a viable platform for speculative office development over the next 12-18 months. However, to kick-start a prominent scheme, positive intervention may be required from the council, such as via a pre-let.

3
£27.00
2015 PRIME RENT
4% Y-0-Y
2016 FORECAST

LEEDS CITY CENTRE

Demand has remained resilient in Q1, with the SME sector accounting for the majority of enquiries. The growing number of 'north-shoring' requirements, have also provided a significant boost to active demand.

The availability of grade A space is at an all time low, meaning that occupiers with immediate, large requirements have limited options at present.

2016 will see the practical completion of four speculative office developments in the city centre, providing just over 250,000 sq ft of much needed available space.

With demand outstripping current supply, the challenge for the market will be to continue to address this imbalance with further development starts. With premium quality space in short supply, prime headline rents are expected to reach a new peak of £30.00 per sq ft over the next 18 to 24 months.

4
£18.00
2015 PRIME RENT
9% Y-0-Y
2016 FORECAST

LEEDS OUT-OF-TOWN

The out-of-town office market continues to lag behind the city centres, in terms of development starts, take-up and rental growth. However, 2016 has seen signs of life returning to the out-of-town market, with Zenith pre-letting circa 45,000 sq ft at CEG's Kirkstall Forge development.

In addition, construction has commenced at Thorpe Park with the speculative development of Paradigm (31,650 sq ft).

Rents have also recovered from extremely depressed levels to around £18.00 per sq ft, which is helping to make new developments viable once more.

7
£22.00
2015 PRIME RENT
0% Y-0-Y
2016 FORECAST

MANCHESTER OUT-OF-TOWN

Following a strong performance in 2015, corporate occupier demand remained buoyant at the beginning of 2016, mainly driven by regional consolidation or betterment. Smaller occupiers were also active, predominantly in the fringe town centre locations.

South Manchester, Salford Quays and Warrington still suffer from limited grade A supply. Investor demand in South Manchester has improved in the last 12 months, while the commencement of works on-site for Airport City will help to enhance the reputation of the South Manchester market.

A major development scheme is likely to come forward this year, and, while there is hope that it will progress speculatively, it is more likely to be via a pre-let.

6
£34.00
2015 PRIME RENT
6% Y-0-Y
2016 FORECAST

MANCHESTER CITY CENTRE

On the back of another robust year of take-up in 2015, demand has remained consistently strong in the first quarter of 2016, with occupiers taking less time to commit to new space. Views on rental levels are also more relaxed as occupiers strive to take space of greater quality and are limited to a handful of opportunities in any given size/rent or location bracket.

Grade A supply is reducing more quickly than expected, applying pressure on additional new build developments to come forward. Scarborough Group is currently preparing to speculatively develop over 100,000 sq ft at Middlewood Locks, which is reinforcing the appetite and confidence of developers in the city.

A number of high-quality refurbishments are expected, with many assets purchased in 2015 looking to achieve rental growth through value-add strategies.

5
£23.00
2015 PRIME RENT
5% Y-0-Y
2016 FORECAST

SHEFFIELD

Following a strong year of activity in 2015, take-up in the first quarter of 2016 was notably subdued. The Sheffield market is dominated by small transactions, with almost 80% of 2015's transactions being below 5,000 sq ft.

The recent completion of 3 St Paul's Place brings 76,000 sq ft of much needed grade A space to the market. Following growth in 2015, prime headline rents are expected to remain stable over the coming year.

However, good quality grade B space is likely to see growth, reflecting a strong demand and a shortage of options in the market.

SOURCE FOR ALL DATA: LAMBERT SMITH HAMPTON

SCOTLAND AND IRELAND

Aasia Mohammad
+44 (0)141 226 6786
amohammad@lsh.co.uk
Glasgow

Ian Davidson
+44 (0)131 226 0328
idavidson@lsh.co.uk
Edinburgh

Greg Henry
+44 (0)28 9026 9265
ghenry@lsh.co.uk
Belfast

Joe O'Donoghue
+353 1 673 1425
jodonoghue@lsh.ie
Dublin

SCOTLAND AND IRELAND

DEMAND

Viewed in aggregate, 2015 was a record year of occupier activity for the three principal centres of Scotland and Northern Ireland. Take-up for the year was 2.8m sq ft, up 5% up on 2014's strong total and 35% above the ten-year annual average.

The record year was partly driven by Edinburgh city centre, where take-up of 1.1m sq ft was 42% above 2014 and a substantial 78% above the ten-year average. The majority of markets saw 2015 take-up exceed their annual average, the sole exception being Glasgow city centre, where activity was marginally below trend.

Belfast also had a stellar year in 2015, with take-up 54% ahead of its ten-year annual average. Of the three centres, Belfast was also home to the largest transaction of 2015, namely Belfast City Council's decision to build a new 100,000 sq ft office complex on the site of Clarendon House, which it acquired for £27.4m.

SUPPLY

While availability across the three centres combined remained broadly steady during 2015, there were notable differences between the markets. Availability in Belfast and Edinburgh fell by 19% and 13% respectively during 2015, while Glasgow's availability increased by 11% over the period.

Glasgow's increase reflected a significant volume of second-hand space being brought back to the market, with grade A availability falling 27% in 2015. Grade A supply in the city centre more than halved, with a flurry of deals at recent developments such as One West Regent Street and St Vincent Plaza.

Based on average take-up, availability across the markets is equivalent to just over three years of supply. Supply is tightest in Glasgow city centre, standing at 2.1 years' across all grades and 1.4 years' for specifically grade A space. Conversely, Glasgow's out-of-town market has the largest volume of supply relative to demand, standing at 4.7 years'.

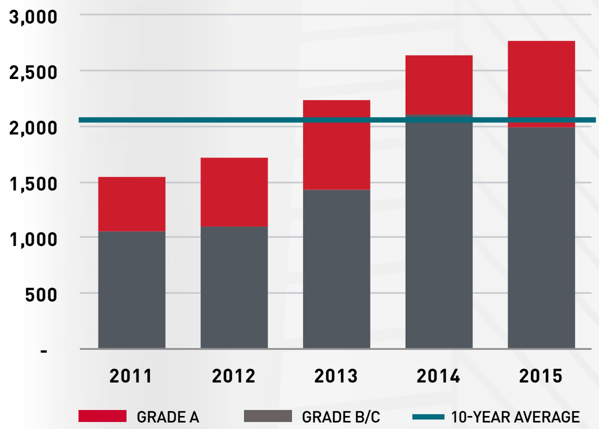
At the end of 2015, just over 1m sq ft of development was underway in the three cities, circa 40% of which was pre-let. Edinburgh city centre is the main focus, with 644,641 sq ft space due to complete by the end of 2016, dominated by Tiger Developments' Haymarket scheme, comprising 404,041 sq ft.

RENTAL GROWTH

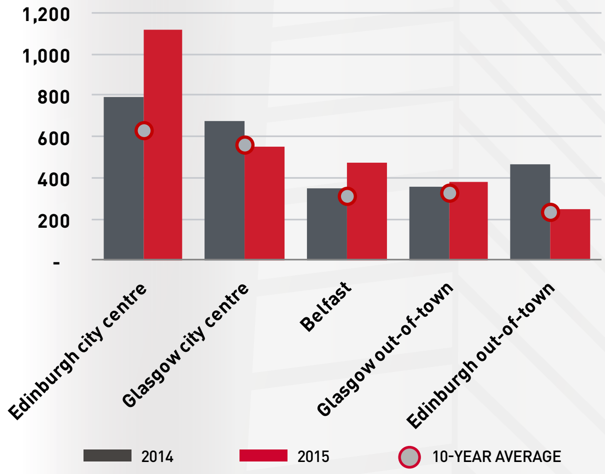
2015 saw prime headline rents increase in all of the markets except Glasgow and Edinburgh. Belfast saw the strongest uplift, climbing 17% from £14.50 per sq ft to £17.00 per sq ft at the end of 2015. Edinburgh city centre commands the highest prime rent at £32.50per sq ft, but was stable during 2015.

The outlook for rental growth in 2016 is positive, with new prime headline rents forecast to be achieved in each of the three city centre markets.

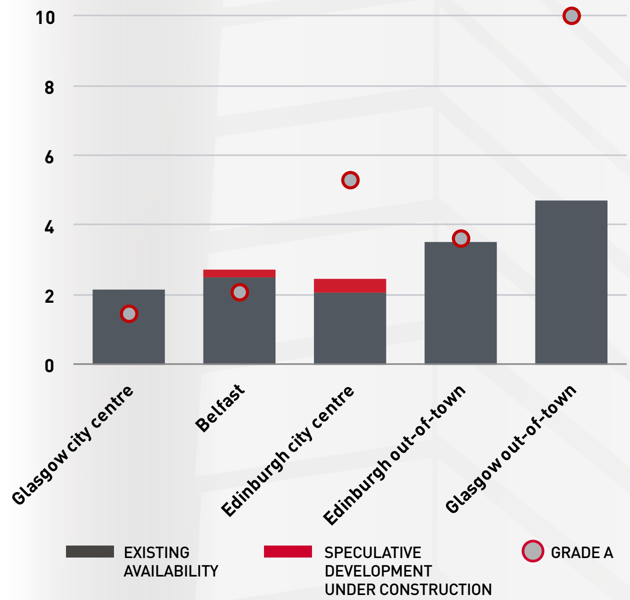
REGIONAL TAKE-UP (000 SQ FT)



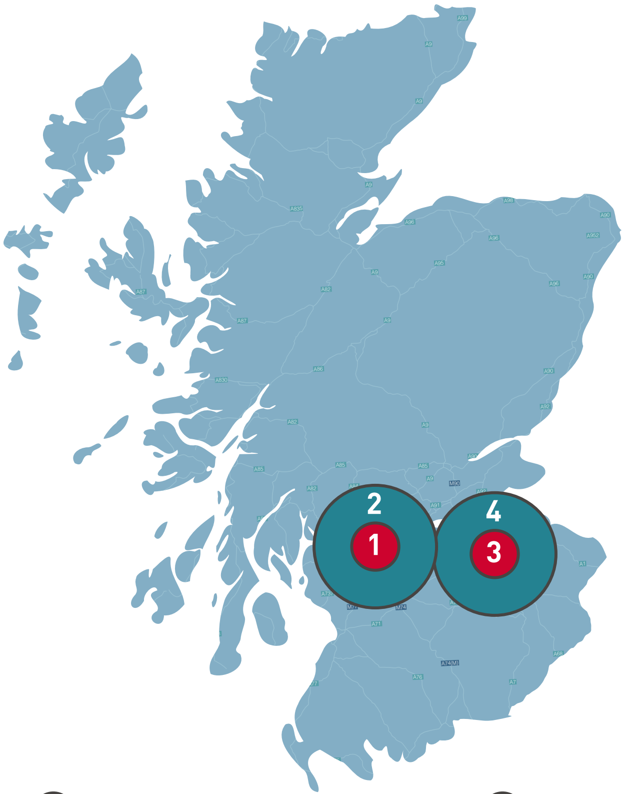
TAKE-UP BY TOWN/CITY (000 SQ FT)



YEARS OF SUPPLY



Lambert Smith Hampton



1 GLASGOW CITY CENTRE

£29.50
2015 PRIME RENT

0%
Y-O-Y

2016 FORECAST

There is in excess of 600,000 sq ft of requirements currently live in the Glasgow market, including lease events. Several key requirements are likely to be satisfied as the year progresses, reducing the grade A supply further.

Following confirmation of Morgan Stanley's 150,000 sq ft pre-let at Bothwell Exchange, HFD Property Group has announced plans to speculatively develop a 215,000 sq ft 10-storey tower at the site. However, with delivery several years away, increasing development interest is expected for grade B refurbishments. It is in this part of the market where headline rental growth is likely to be strongest, while incentives will continue to harden for prime space.

2 GLASGOW OUT-OF-TOWN

£17.50
2015 PRIME RENT

0%
Y-O-Y

2016 FORECAST

Following a robust level of take-up in 2015, demand has been sustained into 2016 with a number of requirements arising in the first quarter. The EcoCampus, extending to 225,000 sq ft, is currently under offer in its entirety.

A substantial 1.8m sq ft of supply remains available, although much of this is of lower-end specification. Grade A space is confined to the major business parks, equating to circa 1m sq ft. Rents and incentives here will remain highly competitive as landlords strive to let space, especially to larger occupiers.

3 EDINBURGH CITY CENTRE

£32.50
2015 PRIME RENT

0%
Y-O-Y

2016 FORECAST

Following an outstanding year in 2015, momentum continues into 2016 with grade A demand outweighing existing supply. That said, three developments are currently under construction, of which circa 470,000 sq ft is available to pre-let. Cirrus Logic has concluded on 70,000 sq ft at Quartermile 4 and, coupled with the deal to FanDuel at the end of 2015, this has resulted in the entire building being pre-let.

The pipeline of new accommodation is limited and, with a number of office buildings having recently been bought for alternative development, stock levels have fallen considerably. Supply will continue to be an issue, with a diminishing number of opportunities for occupiers seeking a large footprint.

4 EDINBURGH OUT-OF-TOWN

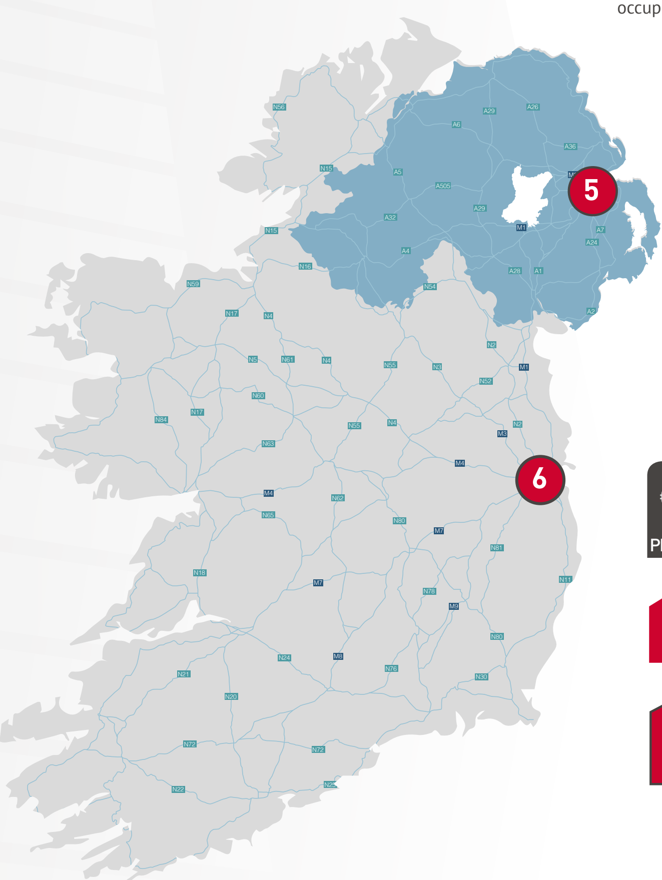
£19.00
2015 PRIME RENT

15%
Y-O-Y

2016 FORECAST

The level of take-up in 2015 was steady in the out-of-town market. Moving into the beginning of 2016, grade A demand continues to outweigh current supply. Strong take-up has recently been witnessed at Edinburgh Park, with 85,000 sq ft acquired by JP Morgan Chase and 31,000 sq ft to HSBC.

Availability is falling as demand has been strong against a backdrop of limited development. Supply will continue to be an issue with a diminishing number of opportunities for occupiers seeking a large footprint.



5 BELFAST

£17.00
2015 PRIME RENT

17%
Y-O-Y

2016 FORECAST

On the back of an impressive 2015, current requirements stand in excess of 500,000 sq ft. A number of office renovation projects are currently underway, providing much needed grade A accommodation to the market.

Several developments are planned to commence in 2016, with rents now making development feasible for the first time. Prime rents are expected to reach at least £18.50 per sq ft by the end of 2016.

The devolution of corporation tax powers - which is expected to lead to a reduction to 12.5% by April 2018 – may provide a huge additional stimulus to the market, boosting footloose occupier demand and, in turn, encouraging further property development.

6 DUBLIN

€50.00
2015 PRIME RENT

18%
Y-O-Y

2016 FORECAST

The market has benefitted from strong growth in professional and financial services over the past two years, which is putting supply under pressure. As demand continues to outweigh current supply, occupiers are increasingly having to lease space at dual locations. Dublin 2 and Dublin 4 remain the location of choice, although we have noticed a pick-up of enquiries in the western suburbs.

There is approximately 3m sq ft of office space under construction, almost a third of which is pre-let. However, the lead in time of this new supply is challenging to some occupiers with more urgent needs. For example, HSE is in advanced talks to secure the Bank of Ireland's former 150,000 sq ft HQ on Baggot St, which is being refurbished to grade A specification with a quoting rent of €60.00 per sq ft.

NB: Dublin not included in Scotland and Ireland statistics

SOURCE FOR ALL DATA: LAMBERT SMITH HAMPTON

Tony Fisher
National Head of Office Agency
tfisher@lsh.co.uk
+44 (0)20 7198 2250

Nick Lloyd
National Head of Capital Markets
nlloyd@lsh.co.uk
+44 (0)20 7198 2221

Charlie Lake
Director, Capital Markets
clake@lsh.co.uk
+44 (0)20 7198 2227

Oliver du Sautoy
Head of Research
odusautoy@lsh.co.uk
+44 (0)20 7198 2193

Isabel Watterson
Research Analyst
iwatterson@lsh.co.uk
+44 (0)20 7198 2258

Lambert Smith Hampton