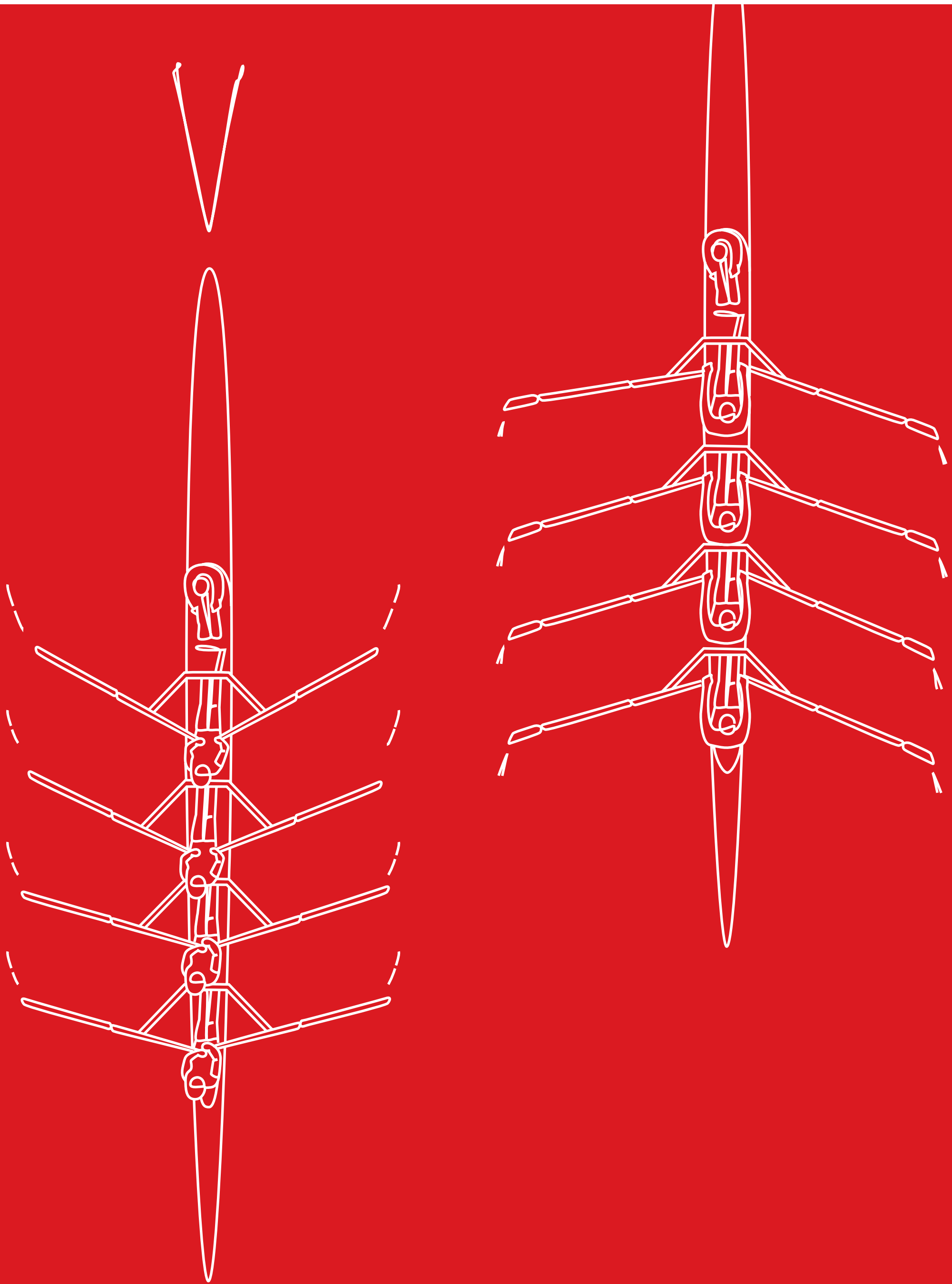

Thames Valley Office Market Report 2015

Inside this report:

- Expansion continues to trigger corporate relocation
- Optimisation of office supply
- Occupier trends and how landlords can respond
- Heathrow critical to health of Thames Valley office market

Lambert Smith Hampton

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Activating the office

Enabled by the adoption of wireless technology, ‘agile working’ is transforming the way occupiers utilise office space.

There are several forces driving this latest evolution; the need to use space more efficiently, an increasing attention on staff wellbeing and the strategic use of business space to communicate company values. In short, a varied and stimulating working environment with access to amenities can add value to a business.

Using space more efficiently

The density of the typical office has increased from $15m^2$ per person to $10m^2$ per person in a decade as occupiers strive to reduce property costs. Lambert Smith Hampton’s research shows that while the UK’s overall stock of office space has barely changed since the recession, the number of people employed in office-type work has increased. In seeking to achieve ‘spaceless growth’, businesses are placing increasing importance on the quality, rather than the quantity, of space that they occupy.

Attention on wellbeing

With the era of a ‘job for life’ largely consigned to history, employers recognise that staff wellbeing plays a vital role in attracting and retaining talent, as well as enhancing productivity. Offering choice is key and the best employers are investing heavily to position their premises as both living and working environments which can be enjoyed by an increasingly diverse and sophisticated workforce.

Conveying brand identity with space design

In today’s world, businesses have to work ever harder to differentiate themselves from their competitors, leading to careful use of fit out design to give a sense of kudos to their staff and visiting clients. As working practices become more agile, the office is likely to service increasingly as a focal point for the face-to-face interaction between staff and clients, intensifying this trend further still.

Brunel House, Reading. Planned category A fit out due for completion in 2015

Inspired, Bracknell. Costa branded coffee shop

How can landlords best respond to maximise long-term asset value?

As the economic recovery gains real traction, with development and refurbishment making a meaningful return, landlords need to carefully consider these trends. They must act as a creator of experience, rather than just a provider of space, in order to compete successfully for tenants.

1 Enhanced amenity

Within a multi-tenanted environment, allocating space for shared amenities enhances the building as a lifestyle experience to prospective occupiers. These may be freely available, paid for via the service charge or provided as part of the tenant mix. Or, non-office tenants can be accepted onto the rent roll to provide a service.

Typical modern office amenities include:

- **Convenience** – bike storage and ramps, shower facilities, concierge services, dry cleaning, car valeting and crèches
- **Lifestyle** – cafés, restaurants, retail units and gyms
- **Diversity** – multi-faith prayer rooms
- **Connectivity** – urban centres and transport hubs

2 High quality shared spaces

Landlords need to move away from simply maximising a building's net lettable area towards enhancing its appeal to achieve a higher rent and stronger tenant covenants, more than offsetting the revenue lost by sacrificing space.

Popular space improvements include impressive receptions, atria with wow factor, flexible seating areas, on-demand space, leisure/lunch spaces, real or virtual garden roof terraces, state of the art conferencing facilities and break out areas.

3 Flexibility and adaptability

Typical lease terms have reduced over the past two decades and offices need to be flexible and adaptable in order to cater for high churn and a wide range of requirements, from traditional administration type occupiers through to media and creative companies who often experience rapid growth.

Landlords need to provide space that makes a fit-out as straightforward as possible and can allow for a wide variety of approaches, bearing in mind that occupiers tend to want to be on one floor, or on as few floors as possible to minimise communication and collaboration barriers. Typically, this takes the form of large floor plates where natural light can penetrate throughout and where the effectiveness of ventilation systems is not compromised by adding partitioning. Developers of new build offices should seek to add additional capacity in the service risers and install metering and controls on a floor by floor basis.

4 Sustainability credentials

Occupier attention is starting to focus on how the sustainable credentials of a building can improve staff well-being, demonstrate the organisation's commitment to the environment and save costs, with some occupiers prepared to pay a premium rent as a result.

Landlords should consider carbon neutrality, the provision of natural light, on-site power generation from renewable energy sources such as solar panelling, and grey water recycling, where possible 'rubber stamping' the sustainability credential of the building through recognised awards, such as BREEAM.

Landlords need to be more responsive and reposition existing buildings as suitable for the needs of modern occupiers in order for them to compete with new buildings in development. In the Thames Valley, there is increasing evidence that landlords have a progressive attitude, hence the region's attractiveness to occupiers at the cutting edge of the market.

Expansion continues to trigger corporate relocation

Lambert Smith Hampton provides an in-depth analysis of the influencers of corporate activity in the Thames Valley throughout 2014 and early 2015. Influencing factors are split into two groups – **triggers** and **drivers**. A trigger is the issue that initially prompts the occupier to acquire new offices and a driver is the factor that influences the final acquisition decision.

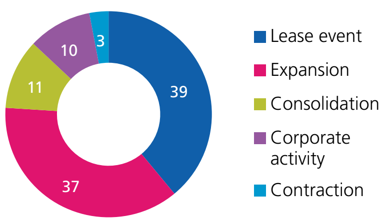
Triggers

In 2014/2015, the primary triggers were lease events at 39% (41% in 2013/14), followed very closely by expansion at 37% (32% in 2013/14). To put this into context, in 2011/2012, the overwhelming influencing factor was a lease event at 73%. The market seems to have settled into a more positive dynamic between lease events and corporate expansion.

Two other points of note are a 5% increase in business expansion and a decrease of 8% for corporate activity (mergers and acquisitions).

Triggers:	2012/13	2013/14	2014/15
Lease event	43%	41%	39%
Corporate activity	12%	18%	10%
Consolidation	9%	8%	11%
Expansion	34%	32%	37%
Contraction	2%	1%	3%

Triggers by percentage



Expansion continues to be a key trigger for corporate relocation

As evidenced in 2011/2012, during weaker economic conditions, lease events are the dominant driver influencing occupational activity, with occupiers only considering relocation when faced with a lease break or expiry. However, our analysis of the 2014/15 transaction data demonstrates the continuation of a trend that started life in 2012/13; that it is now the norm for corporate occupiers to be as influenced by business expansion as they are by lease events. Expansion is now at its highest level since our research began, at just 2% less than lease events.

Good examples of corporate occupier expansion are those of Babcock (10,363 sq ft at Phoenix, Reading) and Huntswood (10,303 sq ft at Abbey Gardens, Reading), neither of whom were influenced by lease events. Huntswood's expansion requirement was particularly acute and sudden, to the degree that they expanded in Abbey Gardens despite having re-geared their lease just months before, thus reducing their ability to use a lease event to negotiate the best terms.

Drivers

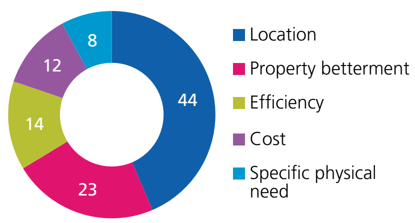
Location continued to be the stand-out primary factor driving final acquisition decisions at 44%. Property betterment remained the secondary driver (23%), with cost becoming less influential at 12% (14% in 2013/14).

A focus on providing a modern work space is making cost less important

Whilst occupiers continue to be focused on achieving the right location and quality of working environment for their staff, they are becoming less focused on cost, no doubt in part due to the improving economy. An example of this is Direct Wines – whilst cost was a factor in them choosing One Waterside Drive over Goodman's Lakeview buildings on Arlington Business Park, it was very much secondary to location and property betterment/consolidation.

Direct Wines relocated from offices within a warehouse to the business park within a few hundred metres of their original location. They seriously considered a town centre location due to the work/life benefits it brings, however their customers' convenience came first, hence the choice of a location with easy access to a motorway junction.

Drivers by percentage



Physical office needs and building efficiency

Relocations driven in part by a specific physical need (such as Wincor Nixdorf's move to the self-contained One Bracknell Boulevard) accounted for just 8% of all moves. Efficiency (*i.e.* a desire to move into a modern workplace) rose to 14% of deals in the period, up from 5% two years previous.

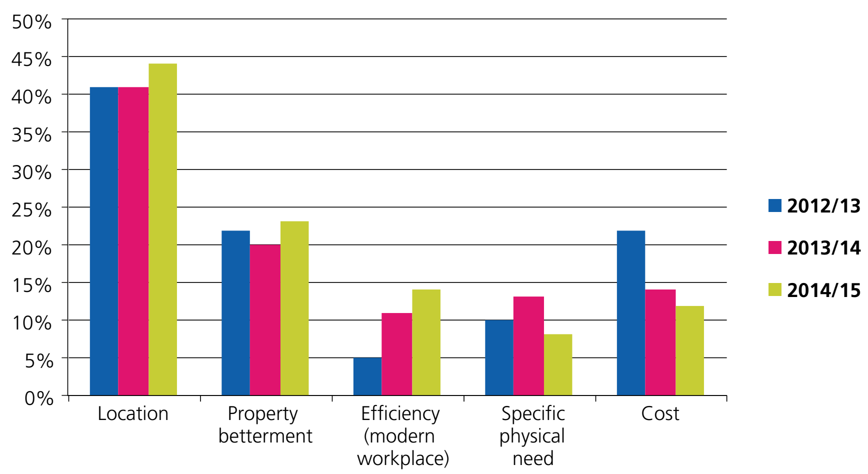
Stabilising corporate confidence

The regional and wider economy continues to recover from recession and is showing positive signs of growth. As a result, occupiers continue to consider their corporate real estate activity carefully but do so with continued positive motivation such as expansion and property betterment.

The need and desire to acquire office accommodation continues to be balanced against the significant capital expenditure required to relocate and occupiers are intelligently using modern workplace efficiencies to minimise relocation costs.

Drivers:	2012/13	2013/14	2014/15
Location	41%	41%	44%
Property betterment	22%	20%	23%
Efficiency (modern workplace)	5%	11%	14%
Specific physical need	10%	13%	8%
Cost	22%	14%	12%

Drivers



Lambert Smith Hampton

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Thames Valley Office Market Statistics July 2015

Contents

Occupational overview

Lambert Smith Hampton continually monitors the Thames Valley total office stock of circa 65 million square feet, allowing us to understand, explain and forecast trends.

Q1 2014 availability stood at 9.929m sq ft, representing an overall vacancy rate of 15.27%. This is similar to 2014, with the supply total being bolstered by new speculative development entering the chain.

Office take-up decreased by 725,132 sq ft (29.5%) in 2014, compared to the year before, and take-up over 5,000 sq ft totalled 1.73m sq ft, compared to 2.46m sq ft in 2013. The first two quarters of 2014 were particularly weak, however, there was a very marked improvement in Q3 and Q4.

2014 enquiry levels showed a 5% improvement on 2013, totalling 459 (compared with 437 in 2013), and this trend has continued into Q1 2015, when there were 122 new enquiries, compared to just 89 in the same quarter the year before.

An analysis of all 2014 office deals over 5,000 sq ft illustrated that the main triggers for a move were lease events 39% (2013 – 41%), expansion 37% (2013 – 32%) and consolidation 11% (2013 – 8%). The key drivers were location 44% (2013 – 41%) and property betterment 23% (2013 – 20%).

Occupiers continue to seek high quality offices configured over as few floors as possible, suitable for creating a modern workplace (open-plan, meeting rooms, break out areas and few individual offices).

There has been a marked increase in the proportion of grade A office supply, up from 27% to 43% of the total at the end of Q1 2015. This is a result of new developments becoming available.

Quality Grade B supply has been substantially removed from the supply chain and is not being replaced as we have a growing economy. This polarisation of office supply into new grade A space means that occupiers (who are increasingly demanding quality, as evidenced by betterment statistic), will have to focus upon acquiring new speculative stock priced off contemporary [higher cost] appraisals. This will drive rental growth over the next two years, in turn, stimulating further speculative development and refurbishment.

Occupiers will be faced with patchy office supply; in some locations the quality they seek will be thin on the ground, whilst rents for the quality options will be increasing. This matrix is perhaps a call for action rather than a policy of 'wait and see' in terms of their relocation strategy.

Finally, it seems that the Thames Valley's improving transport infrastructure boosts are to be capped off by the Davies Commission's recommendation that the UK's south east airport expansion should be delivered at Heathrow. These will be a major boost to the region and its office market.

So, what are they key occupational trends for the Thames Valley office market and what do they mean for the future?

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Executive summary

- The occupational market in the Blackwater Valley has staged something of a recovery over the past three years, with combined take up of just under 1m sq ft for the period 2012/14.
- Whilst 58% of activity was focused in 2013, the years either side have seen a marked improvement from the trough of 2009. Take up in 2014 was 175,500 sq ft and evidence from Q1 suggests that the rest of 2015 should also see healthy levels of activity.
- Supply fell to 1.4m sq ft at the end of Q1 2015 and whilst the overall availability rate in the Blackwater Valley remains one of the highest amongst the Thames Valley markets, standing at 17.2%, the level of available stock has reduced by almost 34% from the peak levels recorded in 2010/11.
- Grade A supply has been boosted by two new buildings – Pinehurst I and II – at Farnborough Business Park, with two further buildings at the site available on a pre-let basis. In total, there is potential for 261,500 sq ft of additional space at the park, with 108,200 sq ft of speculative space due to complete in mid 2015.
- Prime headline rents have grown by 17.5% since the end of 2012, now back to their previous peak level of £23.50 per sq ft. Further growth is expected throughout 2015, pushing values to new peak level of £25.00 per sq ft.

Demand

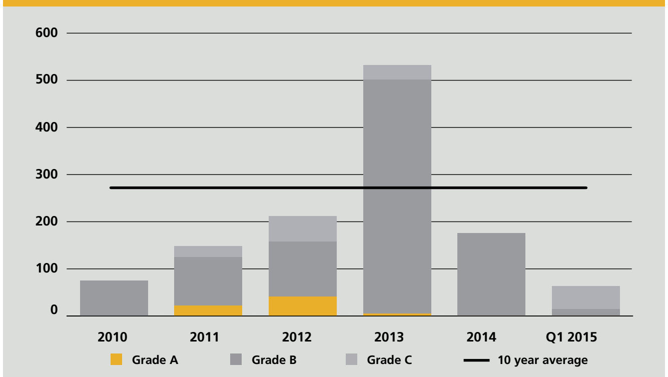
Take up in the Blackwater Valley fell back from the 532,500 sq ft seen in 2013, registering 175,500 sq ft for the calendar year 2014. Activity was heavily biased towards the second half of the year, with 77% of lettings being completed in this period. All transactions were for second hand space.

The largest transaction in 2014 was a 29,100 sq ft letting to Sita UK at CSC's Royal Pavilion, Aldershot. Lettings at this office campus accounted for 67,122 sq ft – 38% of the year's activity.

Other key transactions that contributed to the year's activity were Fluor taking 28,340 sq ft at Geneva House, Farnborough, and international pharmaceutical group BTG taking the last remaining 15,993 sq ft at Lakeview on SEGRO's Watchmoor Park, Camberley.

The momentum seen at the end of 2014 has continued into 2015, with 63,300 sq ft of take up recorded already, although the largest transaction was the acquisition of 31,980 sq ft Pembroke House in Camberley by Signature Group for redevelopment as a 60,000 sq ft care home.

Take-up 000 sq ft



Supply

Availability continues to reduce, falling to 1.4m sq ft by the end of Q1 2015, with current supply some 39% below the peak level of 2.3m sq ft recorded at the end of Q1 2012. Whilst improved demand over the past few years has been the main impetus behind tightening supply, office stock has been eroded further due to buildings increasingly being sold for alternative uses.

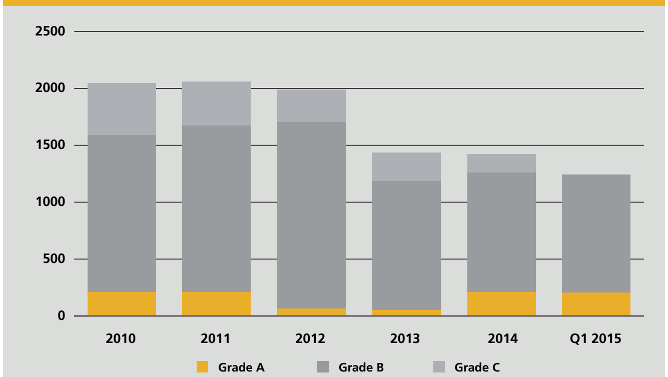
Second hand space remains the most significant element of supply, accounting for 85% of overall availability. This is dominated by three buildings/campuses each offering more than 100,000 sq ft of space. Between them, these three sites offer a total of 527,900 sq ft of space, representing 39% of overall stock on the market.

The largest campus site currently on the market is Sun Park, Fleet, which offers 280,000 sq ft across three buildings and has expansion land to the south of the main campus that has recently been granted planning permission for residential use.

The most significant grade A supply becoming available is at Farnborough Business Park, where 108,200 sq ft of speculative development is nearing completion. Pinehurst I and II comprise two buildings of 48,600 sq ft and 59,600 sq ft, with completion expected in mid-2015. This is in addition to existing grade A space free at Watchmoor Park, Camberley, Bartley Wood Business Park, Hook, and One, Fleet.

The overall availability rate has fallen to 17.2% and whilst this represents one of the highest availability rates amongst the major Thames Valley markets, it is significantly below the peak level of 25.9% recorded in 2010/11. Based on the 10-year average level of take up for the Blackwater Valley market, current availability represents 5 years' supply of space.

Availability 000 sq ft



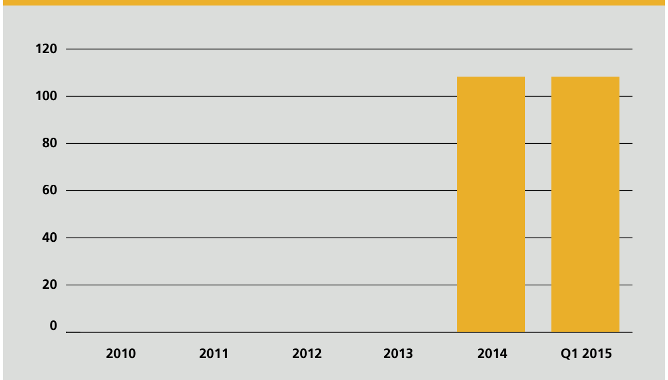
New development

Farnborough Business Park is the premier office location in the Blackwater Valley and XLB and Harbert Management Corporation are undertaking speculative development there. However, it has only limited availability and opportunities for further development are restricted.

The construction of Pinehurst I and II will be complete in July 2015 and in addition to the 108,200 sq ft under construction, planning has been granted for two further buildings (Pinehurst III and IV), providing the potential for an additional 153,300 sq ft of space on a pre-let basis.

Refurbished older buildings, both in town and out of town, are holding their advantage over newer stock, with occupiers attracted by their competitive rents and high car parking ratios.

Under construction 000 sq ft

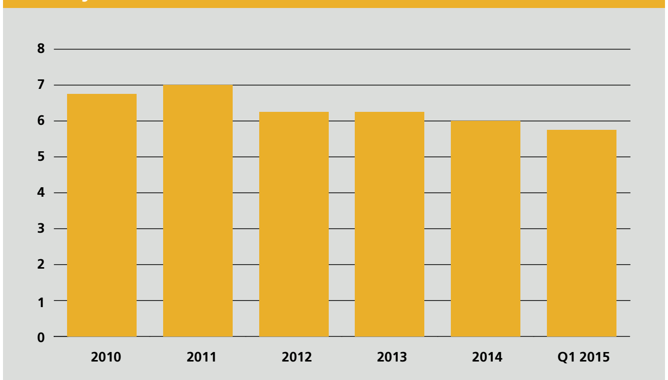


Market rental values and yields

Prime headline rents are now back to the peak level of £23.50 per sq ft, last achieved in 2001/02. Growth in rents of 6.8% over 2014 has reinforced the improving confidence seen in the market.

Rental values on second hand space have remained under pressure and are likely to do so until availability reduces. This is likely to happen over the next few years due to an increasing amount of office stock being lost to alternative use.

Prime yields %

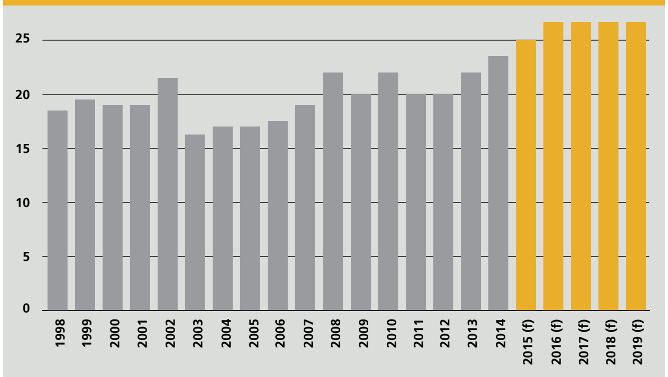


Forecast

A buoyant occupier market and improving supply conditions have resulted in prime rents in the Blackwater Valley reaching their previous peak level. Further growth is expected by the end of 2015, with rental values reaching a new peak of £25.00 per sq ft.

Prime rents have already increased by 17.5% over the past two years and if £25.00 per sq ft is achieved by the end of 2015, the overall growth since 2012 will be 25%, equating to an annualised growth rate of 7.7%.

Prime headline rental values forecast £ sq ft



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Executive summary

- Bracknell offers great value compared with other Thames Valley locations, providing quality grade A buildings able to accommodate large corporate occupiers, with prime headline rents of £22.50 per sq ft.
- Take up fell back in 2014 from its peak the previous year but demand for floor space in the area remains strong. Total activity in 2014 was 135,000 sq ft, with grade A space accounting for 64% of this. The largest transaction during the year was a 42,540 sq ft letting to Avnet at Capitol.
- 2015 has started positively, with take up of 42,540 sq ft seen in the first quarter, 49,000 sq ft in Q2 and 60,000 sq ft under offer, pointing towards an outstanding 2015.
- Supply in Bracknell is down to 1.0m sq ft, the lowest level since 2008, with grade A space accounting for 50% of total supply. While total second hand space stands at 531,300 sq ft, almost 50% of this is poorer quality second hand space.
- Bracknell town centre's regeneration is well under way, with completion expected in 2017/18. The scheme will provide 580,000 sq ft of new retail and leisure floor space and is already over 60% pre let.

Demand

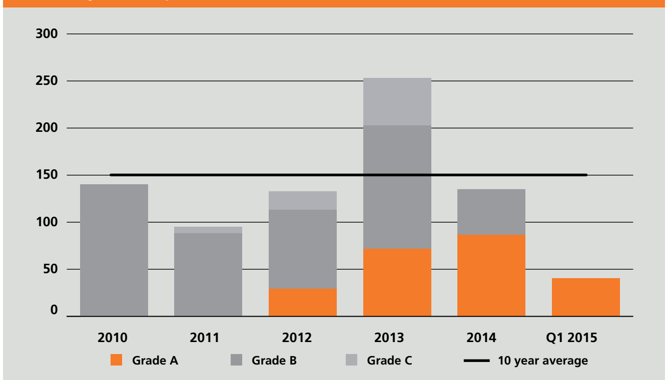
Activity in Bracknell approached the 10 year average in 2014, with take up of 135,000 sq ft. Grade A space dominated this, accounting for 64% of the total.

The most significant transaction during the year was the 42,540 sq ft letting to Avnet at Blackrock's Capitol building in Q2 2014. Avnet was offered favourable terms to become the first major tenant at the 180,000 sq ft building. The only other transaction above 10,000 sq ft during the year was a 20,935 sq ft letting to Wincor Nixdorf at One Bracknell Boulevard.

2015 has started on a positive note, with 40,500 sq ft of take up recorded in Q1. Kronos and Hitachi Data Systems have since acquired 48,800 sq ft in Q2 and a further 60,000 sq ft is under offer.

Commercial Estates Group achieved full occupancy at its Reflex scheme on Cain Road following lettings of 26,460 sq ft in the six months to the end of March 2015, in addition to 70,000 sq ft let to Honda in 2013. The building has subsequently been sold to CLS Holdings for £21.8m.

Take-up 000 sq ft



Supply

Availability in Bracknell is at its lowest level in six years, with total stock in the market standing at 1m sq ft at the end of March 2015 – 22% below the peak recorded at the end of 2011.

Grade A supply has gradually been eroded since 2008, although it still accounts for 50% of total supply. The remaining supply consists of a large proportion of space at the poorer quality end of the scale (241,700 sq ft), which represents 47% of second hand supply.

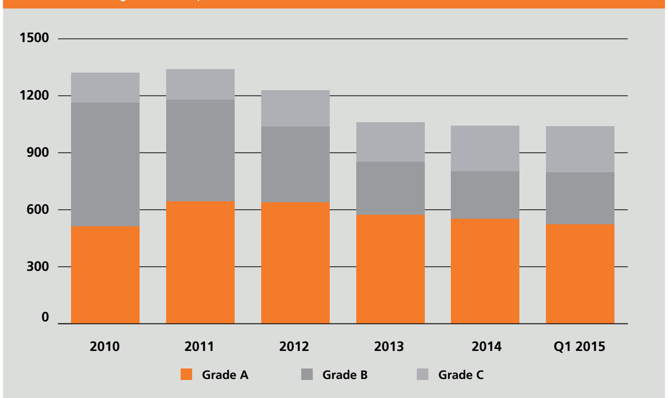
The majority of grade A space is in three buildings – Capitol, where 86,977 sq ft remains available (but a significant proportion is under offer) and also Hines and Oaktree's Maxis 1 and 2, where a further 184,400 sq ft remains on the market. These three buildings alone account for almost 60% of grade A space.

Grade A supply will reduce significantly in Q2, with all of the 60,000 sq ft currently under offer being grade A stock.

The availability rate in Bracknell fell to 23.9% at the end of March 2015, down from 30.8% at the end of 2011. If poorer quality second hand space is excluded from the calculation, then the availability rate reduces to 18.3%.

The supply of grade A accommodation represents 3.9 years' supply of stock based upon 2013's take up levels, although overall availability represents 7.7 years' supply based on 2014's.

Availability 000 sq ft

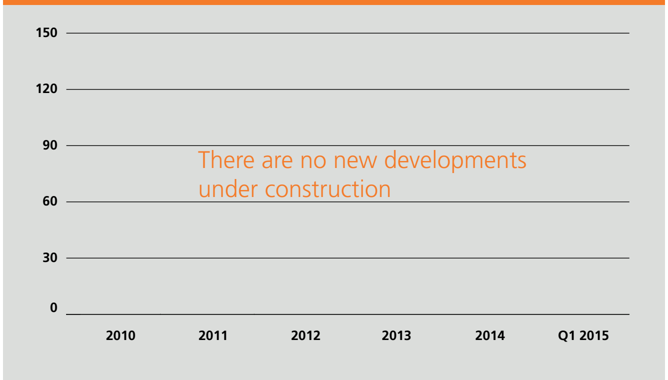


New development

The Bracknell Regeneration Partnership is a joint venture between Legal & General Property and Schroders Property. The town centre's regeneration commenced in April 2015 (expected completion 2017–18), with the laying of foundations for a 585,000 sq ft retail and leisure complex along the site which used to be the Broadway and Crossway area.

There are no new office schemes scheduled for development over the next 12–18 months, although a number of vacated buildings may be refurbished. 50,000 sq ft Worldwide House is currently being refurbished and work on 72,000 sq ft Greenwood House is due to complete in the second half of 2015.

Under construction 000 sq ft



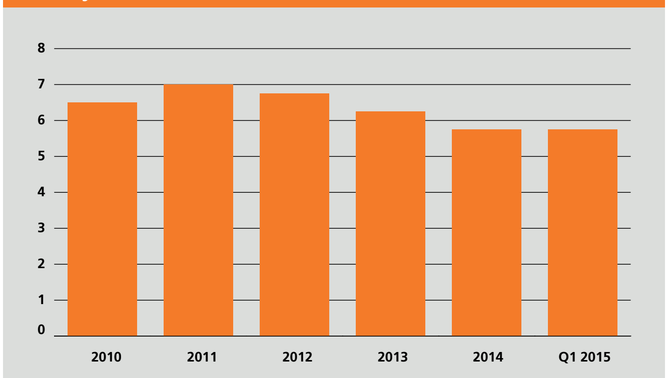
Market rental values and yields

Prime headline rental values have grown for the first time in four years, moving up from £20.00 per sq ft to £21.50 per sq ft at the end of 2014. Further advancement was made in the early part of 2015 on the back of strong occupier demand.

Prime rents stood at £22.50 per sq ft at the end of Q1 2015, with values having grown by 12.5% over the past 15 months. Further signs of improving market conditions can be seen with the easing in tenant incentives over the past 12 months.

Prime investment yields have moved in by a further 25 basis points over the past 12 months, reducing to 5.75% as at the end of Q1 2015. Bracknell prime yields are now back to the level last seen in 2005/06, some 50 basis points above the previous low point.

Prime yields %



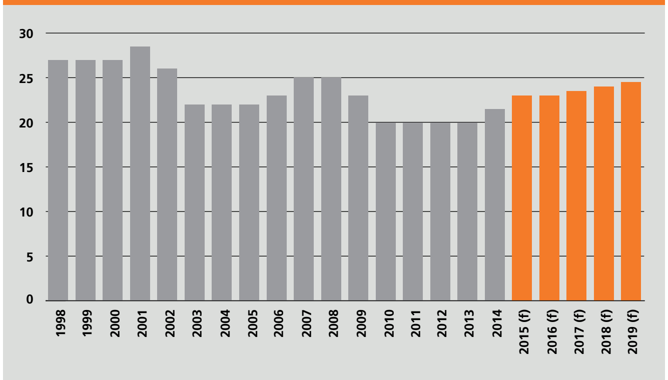
Forecast

The strong growth that has been recorded on prime headline rents in Bracknell is expected to continue through to the end of 2015, with values ending the year at £23.00 per sq ft. This brings the overall growth in rents over the period 2013/15 to 15.0%.

We expect the pace of growth to ease over the next few years as rents move back towards their highest level since 2007, ending the forecast period at £24.50 per sq ft.

Prime rents are forecast to grow by 2.6% per annum over the five year period, illustrative of the good value that prime rents in Bracknell represent compared to other Thames Valley locations, such as Reading and Maidenhead.

Prime headline rental values forecast £ sq ft



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Executive summary

- Take up in 2014 reached its highest level since 2007 at 101,900 sq ft, dominated by a 40,200 sq ft letting to the Highways Agency which relocated its regional HQ to Guildford from Dorking.
- Grade A take up was focused on the only available new building – Standard Life / Bell Hammer's 31 Chertsey Street – which is now 83% let following its launch in Q3 2014.
- The supply of space in Guildford has continued to tighten and is now at a 10 year low – 227,000 sq ft. Second hand space accounts for 100% of the overall figure, with no grade A space available.
- There is one new scheme under construction – Station View, where 16,000 sq ft will be completed by the end of 2016. However, with a number of significant lease events on the horizon in the latter part of 2015 and 2016, supply will be increased substantially by high quality refurbished space. The other new scheme most likely to be developed is at Walnut Tree Park (36,400 sq ft across two buildings).
- Prime headline rents have continued to rise over the past 12 months and are now over £30.00 per sq ft, a level last obtained at the peak of the market in 1990/91. Out of town rents have also strengthened due to the tight market conditions, rising to £27.50 per sq ft.

Demand

Take up in the Guildford market recorded its highest level of activity since 2007 last year, with total transactions of 101,900 sq ft, 13% ahead of the 10 year average for the town.

Activity was dominated by a 40,200 sq ft letting to the Highways Agency in Q3 2014, with the Government office relocating from Dorking to Aviva Investors' Bridge House in the town centre. Aviva refurbished the offices and the Highways Agency took occupation in Q1 2015.

Grade A take up accounted for 38% of the year's activity, with two lettings at the refurbished building at 31 Chertsey Street making up 25,020 sq ft of this. The largest letting at the building was a 14,973 sq ft letting to solicitors Pennington Manches. A further 10,046 sq ft was let to accounting firm, BDO.

Take up in Q1 2015 slowed and there were no lettings of above 5,000 sq ft. Current interest indicates that activity will improve over the remainder of the year. There are a number of requirements in the market across a range of sectors, with the most significant demand targeting floor space outside of the town centre.

Supply

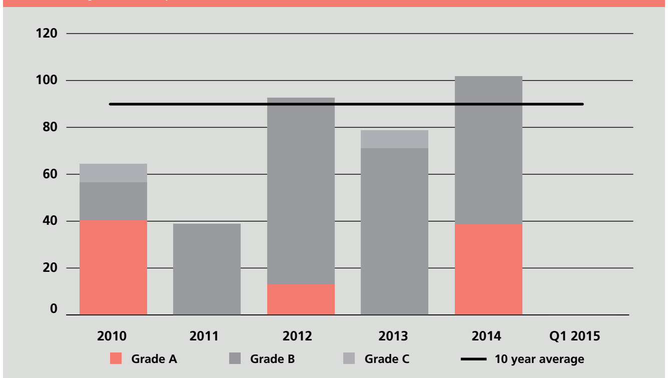
Availability fell to its lowest level in 10 years – 254,800 sq ft at the end of Q1 2015. This is 29% below the peak level of supply recorded at the end of 2011.

The main focus of supply is in the out of town market, which provides 73% of overall available stock and is the main source of larger buildings. There are three buildings of above 30,000 sq ft, totalling 135,100 sq ft on the market, the largest of which is 53,320 sq ft Building 3 at Guildford Business Park.

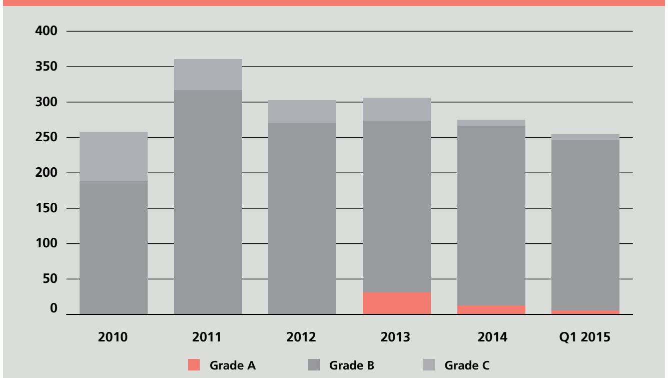
Availability remains very tight in the town centre, with just over 70,000 sq ft on the market at the end of March 2015 and only two buildings providing more than 10,000 sq ft of space. The overall availability rate in Guildford has moved below 8.0% for the first time since 2010, falling to 7.5%.

The current supply equates to 2.5 years' supply of stock based on 2014 take up. Supply will continue to fall in 2015, with approximately 70,000 sq ft under offer in Q2 2015. There is zero months' supply of grade A space.

Take-up 000 sq ft



Availability 000 sq ft



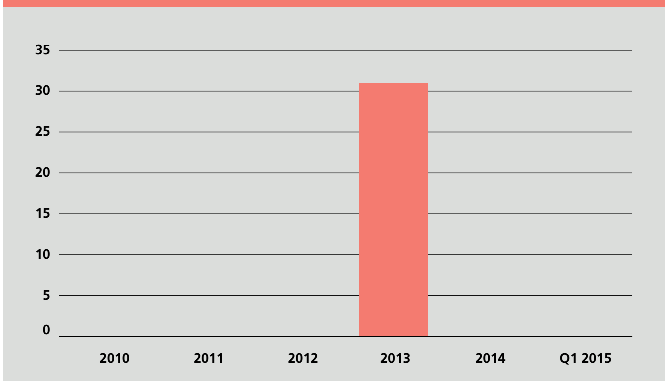
New development

Opportunities to provide new space in the Guildford market will generally come from the refurbishment of existing buildings, with approximately 170,000 sq ft likely to come to the market in 2016/17 in this way.

There are plans to speculatively commence construction of 36,400 sq ft at Walnut Tree Park in Q3 2015. The scheme has detailed planning permission for two buildings, with completion due for Q3 2016.

Opportunities to develop new space in the town centre remain limited as the two largest sites with consent have been sold for residential use.

Under construction 000 sq ft



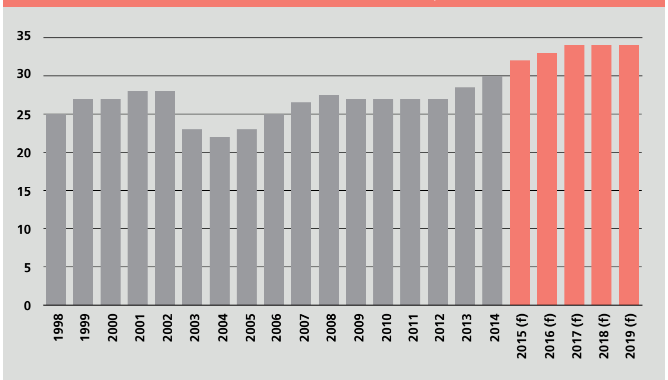
Forecast

With prime rents returning to their previous peak level of £30.00 per sq ft at the end of 2014, the market looks set for further growth over the next 12 months and is likely to achieve a new peak of £32.00 per sq ft by the end of 2015.

Further growth in 2016/17 is expected to drive prime rents to £34.00 per sq ft as the market continues to benefit from healthy level of demand.

The overall growth in prime rents over the next five years is expected to average 2.5% per annum, with the majority of upward movement seen in the early part of the forecast period.

Prime headline rental values forecast £ sq ft



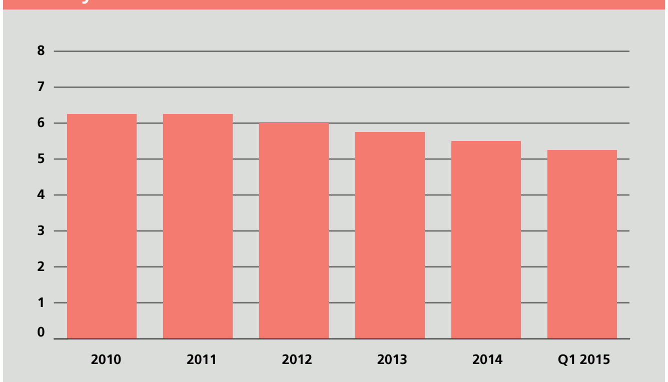
Market rental values and yields

Prime headline rents in Guildford increased to £30.00 per sq ft at the end of 2014, equating to growth of 5.3% over the year. They are now back to their previous peak level, recorded in 1990/91.

Out of town, prime rents have remained at £27.50 per sq ft, with a lack of grade A space holding back any advancement. Any new development in the out of town market is likely to test this level.

Tenant incentives are still a feature of the market, although there is a general reduction in the terms available to occupiers as the supply of space tightens.

Prime yields %



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Executive summary

- Take up slowed to 123,700 sq ft in 2014, following a record 2013. The two largest lettings were to pharmaceutical companies, with the most significant deal being a 97,720 sq ft letting to Gilead at 2 Roundwood Avenue. The investment was later sold to TIAA Henderson for £46m.
- 2015 has started steadily with 45,800 sq ft of letting activity, the largest transaction being United Airlines' acquisition of 21,000 sq ft at the World Business Centre on the airport perimeter.
- The most significant development activity is at Stockley Park, where Clearbell, Rockspring and Exton are undertaking a 'back to frame' refurbishment of The Bower, 4 Roundwood Avenue. This scheme will provide 140,000 sq ft of grade A space when completed in early 2016.
- Total supply is now down to 1.1m sq ft of space, representing 14.3% of total built stock in the Heathrow market. Second hand supply continues to dominate, accounting for almost two thirds of stock on the market, with the main focus being in locations surrounding the airport.
- Prime rental values returned to £31.00 per sq ft for the first time since 2002, with further growth anticipated as more grade A accommodation is brought to the market. Given current expectations, prime rents are expected to reach £35.00 per sq ft by 2018/19.

Demand

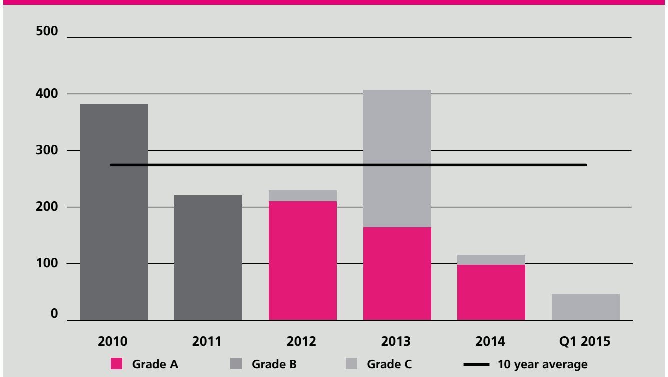
Take up slowed in 2014, following the record level of activity recorded in the previous year. Total activity was 123,700 sq ft, with 85% occurring in the final quarter.

The two largest transactions during the year were to pharmaceutical companies – 97,720 sq ft to US biopharmaceutical company Gilead at 2 Roundwood Avenue, Stockley Park, and 10,700 sq ft to Alexion Pharma at 3 Furzeground Way, Stockley Park. Other than these two transactions, activity was focused towards aviation related companies.

Take up in Q1 2015 remained broadly in line with trend levels of activity for the Heathrow market, with 45,800 sq ft completed. The main focus of activity was at The Old Vinyl Factory, Hayes, where three transactions totalling 24,830 sq ft were completed.

The largest transaction in Q1 2015 was a 21,000 sq ft letting to United Airlines at 1 World Business Centre, close to the perimeter of the airport. Q2 has been a similarly quiet quarter, where the only notable transaction has been Suntory taking the remaining 10,700 sq ft of vacant space at 2 Longwalk, the building it already occupies on Stockley Park.

Take-up 000 sq ft



Supply

Availability has remained at 1.1m sq ft over the past 18 months, with good quality second hand space continuing to dominate supply and accounting for 65% of the overall total. The main availability at the airport is in two buildings, Point West and the Compass Centre, with each building offering in excess of 54,000 sq ft.

Grade A supply will be boosted by the commencement of the 'back to frame' refurbishment of Clearbell, Rockspring and Exton's The Bower at 4 Roundwood Avenue, Stockley Park, which will provide 140,000 sq ft of space when completed in early 2016.

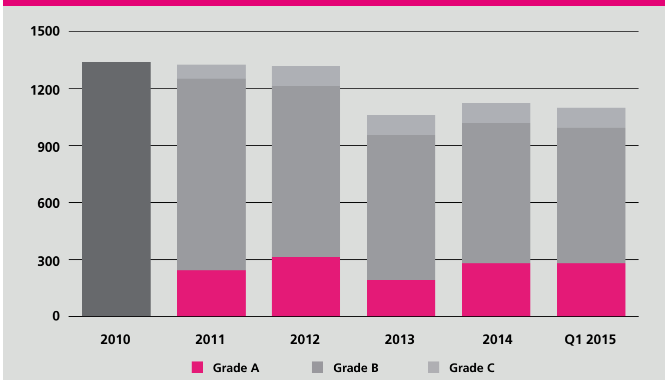
This new scheme maintains the focus of grade A supply at Stockley Park, which accounts for 87% of all grade A stock. Aside from this, the only grade A supply in the Heathrow area is at Quartet, Bath Road, where 36,030 sq ft is available in two buildings.

The overall availability rate has fallen to its lowest level in two years, standing at 14.3% compared to the peak level of 17.4% at the end of 2010. Excluding poorer quality second hand space and current grade A stock under construction from supply, the availability rate reduces to 11.1%.

At the two main business park locations, Bedfont Lakes remains fully let and availability at Stockley Park is estimated to be close to 9.0%.

Based on the 10 year average level of take up, the current availability represents 4.6 years' supply of stock, with grade A space representing just over 12 months' supply of stock.

Availability 000 sq ft

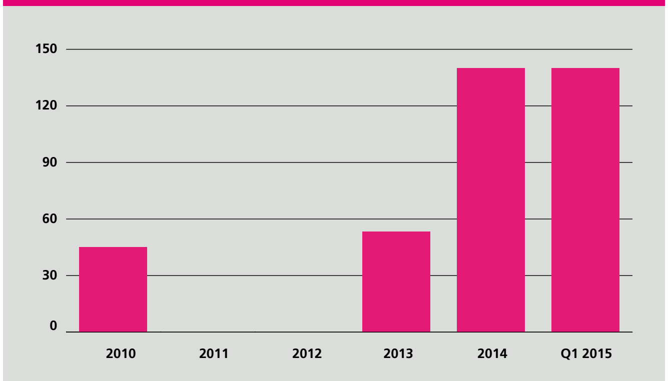


New development

The main focus of potential development activity is at Stockley Park, where phase three of the scheme offers the opportunity for a further 440,000 sq ft of development.

In addition to this, there are several new development and refurbishment projects about to start on site.

Under construction 000 sq ft

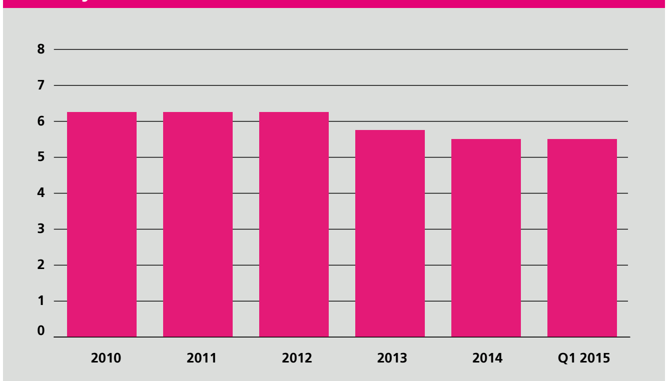


Market rental values and yields

Prime headline rents rose to £31.00 per sq ft at the end of 2014, demonstrating growth of 5.1% over the year and they have been maintained at this level into the first quarter of 2015. Rents were last at this level in 2002, and further growth is expected throughout 2015.

This increase in prime rents has also started to filter through to the secondary market, with rental values along the Bath Road now in excess of £27.00 per sq ft, based on the recent letting to United Airlines at the World Business Centre. Growth in the secondary market represents 19.6% over the past 15 months.

Prime yields %



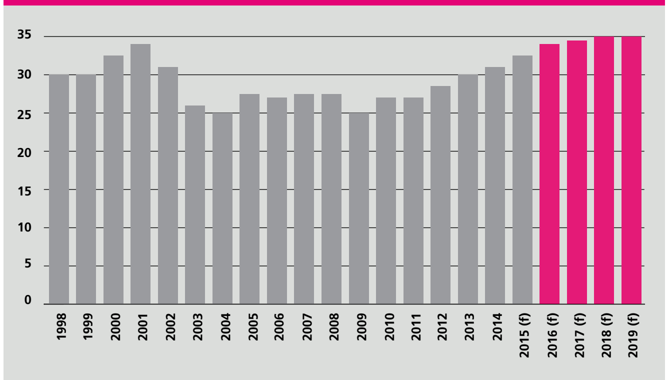
Forecast

Prime headline rents are expected to continue to advance over the next few years, returning to their previous peak level of £34.00 per sq ft by 2016.

With demand expected to remain strong around the Heathrow area, prime rental values are expected to achieve new rental highs of £35.00 per sq ft by 2018/19, although this may be conservative given the current demand for floor space.

Over the full forecast period, rental values will have increased by 12.9% from their end of 2014 level, equating to 2.5% per annum.

Prime headline rental values forecast £ sq ft



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Executive summary

- The low level of activity recorded in 2014 and early 2015 has been redeemed by two major lettings (91,000 sq ft combined) that exchanged during Q2. As a result, the full year's take up is expected to exceed the 10-year average figure once again.
- The most significant transaction, which completed in April 2015, was the 41,000 sq ft letting to Maersk at Kames Capital's 'Point'. The building was finished in early 2014 and this first letting has pushed prime rents back to the previous peak level seen in 2001.
- Supply has moved above 800,000 sq ft once again, only marginally below the peak level seen in early 2013.
- Grade A space continues to account for a significant element of supply, with Tor and Point providing 145,000 sq ft of space.
- Overall grade A supply stood at 436,000 sq ft at the end of Q1 2015, with 53% of this space in the town centre. The overall availability rate stands at 17.6%, although this reduces to 15% if poorer quality second hand space is excluded from the calculation.
- The arrival of Crossrail in 2019 will further build on Maidenhead's excellent transport links and the local authority is actively planning for the significant impact on the town's future.

Demand

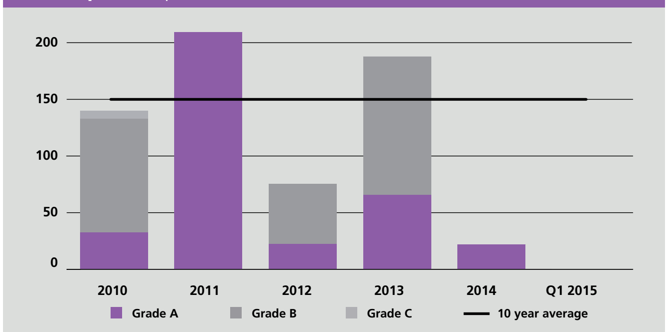
The occupational market in Maidenhead slowed significantly in 2014, with only one transaction above 5,000 sq ft – a 21,800 sq ft letting at Sygnus Court to accounting software group Concur Technologies in the final quarter of the year. The property was subsequently sold, with Clearbell Capital paying £9.1m to M&G Real Estate, reflecting a net initial yield of 6.50%.

Q1 2015 saw no transactions above 5,000 sq ft completing, however two sizable transactions were under offer at the end of the quarter.

The largest of the two transactions is an anticipated 50,000 sq ft letting to Irish mortgage group, Acenden, at Maidenhead Office Park, a move that was prompted by the group's desire to consolidate into one building from its offices in High Wycombe and Reading. In addition, 41,000 sq ft has been let to shipping group Maersk at Kames Capital's Point following its relocation to Maidenhead from Aldgate.

The market for smaller lettings, below the 5,000 sq ft threshold, has remained buoyant throughout the past 15 months, with several transactions completing in Q1 2015 and a steady level of activity in the previous year.

Take-up 000 sq ft



Supply

Availability has moved above 800,000 sq ft for the first time in 10 years, due to the release of second hand buildings onto the market in Q1 2015. Grade A supply has reduced as demand moves towards the better quality space on the market.

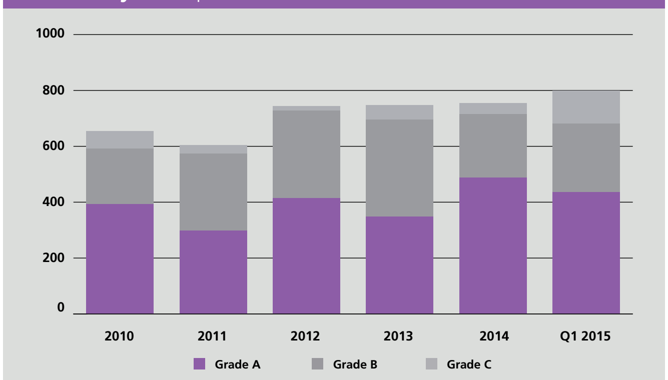
Grade A supply totals 435,900 sq ft, accounting for 54% of overall availability. In addition, 86,000 sq ft of grade A space is under construction across two buildings – 50,000 sq ft at TIAA Henderson's mixed use scheme at Kidwell Park Drive and Mercer Real Estates' 36,100 sq ft ID Maidenhead on Vanwall Business Park.

Supply continues to be biased towards the out of town market, with 513,500 sq ft availability counting for 64% of overall supply, showing a 50:50 split between second hand and grade A space.

Town centre availability now stands at 231,800 sq ft, with 80% of space in grade A stock, the majority of which is in two new buildings – Tor Maidenhead, which completed in late 2013 and provides 66,700 sq ft adjacent to the A4, and a short distance away, Point, which completed in 2014 and provides 78,300 sq ft (41,000 sq ft of which was let early in Q2 2015).

The current availability rate has moved back to above 17.0% at the end of Q1 2015 and is now at its highest rate since Q1 2013, when it peaked at 17.9%. The current level represents 5.3 years' supply based on the long run level of take up for the Maidenhead market, with grade A supply standing at 2.9 years' based on the trend level of activity.

Availability 000 sq ft



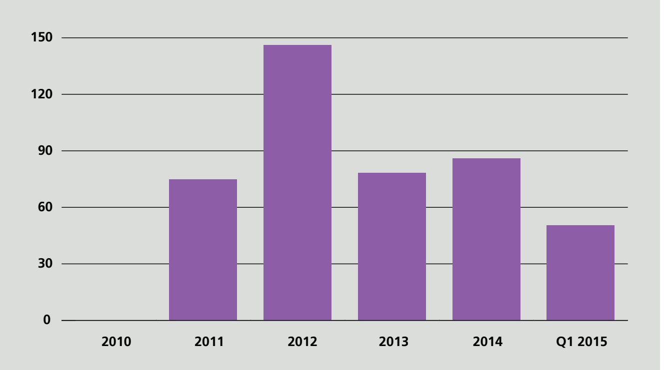
New development

A major new regeneration project in Maidenhead is London & Aberdeen's The Landing, which is currently seeking consent for a mixed-use scheme in the Broadway Opportunity Area in the town centre, including 262,000 sq ft of office, 158,000 sq ft of residential and 46,000 sq ft of leisure space.

Several other smaller refurbishments are also in the pipeline, for example, Sapphire Court (10,500 sq ft) and Sybase Court (32,000 sq ft).

A number of smaller buildings are being lost to alternative uses, the latest being the 8,000 sq ft Shelley House, which has been converted and extended to provide 14 residential units.

Under construction 000 sq ft



Market rental values and yields

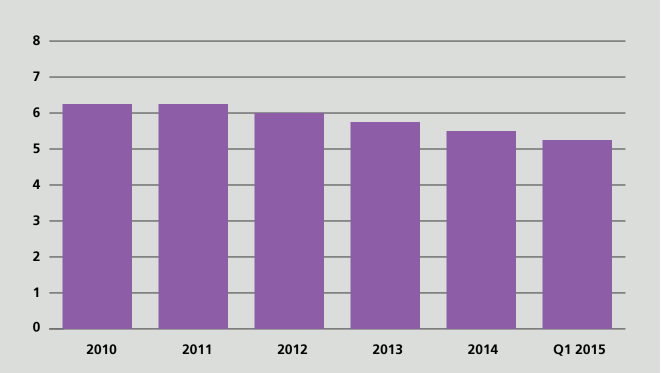
Prime rents edged up to £30.00 per sq ft in 2014, the first upward movement in four years, and remained at this level through to the end of Q1 2015. The letting at Point saw headline rents pushed to £35.00 per sq ft, with Maersk agreeing this level on the top two floors of the building.

While incentives were agreed on the Maersk letting, in general, the level of tenant incentives has reduced over the past 12 months.

Prime investment yields have continued to harden over the past 12 months, with investor appetite for the Maidenhead area pushing up activity levels.

The largest transaction over the past year was Legal & General's purchase of the £90.2m Grenfell Island site. This property consists of 112,000 sq ft of offices, with the purchase price reflecting a net initial yield of 5.90%.

Prime yields %



Forecast

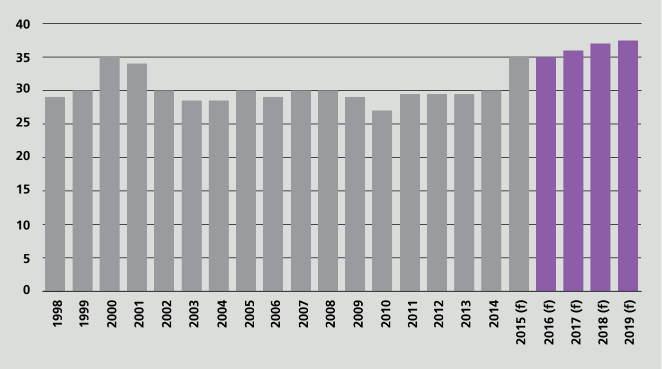
The first letting at Point provided the momentum to push the headline rental level back to £35.00 per sq ft for the first time since 2000/01. With rents stabilising at this level until the end of 2015, the growth for the year is expected to be 16.7%.

Whilst rents are likely to remain at this level in 2016, further growth is expected over the latter stages of the forecast period, with values expected to reach £37.50 per sq ft by the end of 2019.

The overall growth in rents is expected to average 4.6% per annum, although a significant element of this growth has already been achieved.

The main momentum for rents is expected to be the opening of Crossrail at Maidenhead, which will impact growth in the latter stage of the forecast period.

Prime headline rental values forecast £ sq ft



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Executive summary

- Take up remained below the 10 year average in 2014, with only 23,100 sq ft of lettings recorded. The most significant deal was a 12,635 sq ft letting to Gradweb at Newbury House.
- Q1 2015 take up of 12,040 sq ft was generated by only one transaction, but the current level of enquiries suggests that activity levels will move ahead of the long run average for the first time in five years.
- The only grade A opportunity recorded in Q1, 11,300 sq ft in Rannoch House, has since been let in Q2 to Ericsson.
- Availability has increased slightly to 147,100 sq ft, although the total stock on the market still represents just 3.7% of overall built stock in the town. The availability rate still represents one of the lowest levels amongst the Thames Valley markets.
- Prime headline rents increased for the second year in succession, rising to £17.50 per sq ft, bringing overall growth in rents over the past two years to 9.4%. Rents are expected to remain at that level until 2017/18, when a further increase to £18.00 per sq ft is expected.

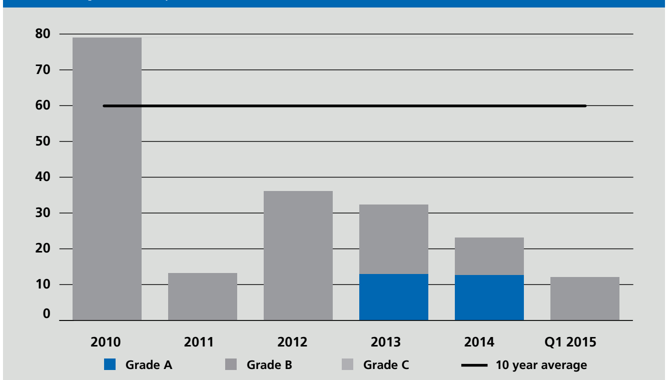
Demand

The Newbury office market has continued to suffer from a lack of occupational demand, particularly from occupiers with requirements of more than 5,000 sq ft. Total activity in 2014 was 23,100 sq ft, with the most significant transaction being a 12,635 sq ft letting to Gradweb at Newbury House.

Take up fell short of the 10 year average level for the fourth successive year, although 2015 is expected to break this trend with 12,040 sq ft of lettings already recorded. The only transaction of the year to date has been the letting of Strawberry Hill House to Northcross & St Mary's Surgeries.

There were several medium sized occupier requirements for space in the Newbury area that have been satisfied in Q2, including Aricent and Ericsson.

Take-up 000 sq ft



Supply

Newbury has always had a relatively low level of supply compared to other markets in the Thames Valley and although there has been an upward movement in supply over the past few months, the overall availability rate remains at 3.7%.

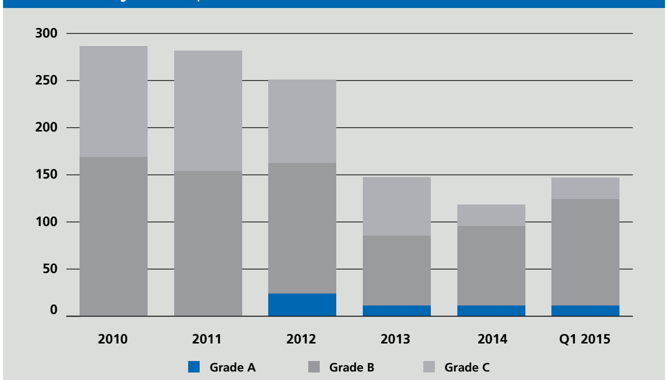
Total supply was 147,100 sq ft at the end of Q1 2015, down from 286,800 sq ft at the end of 2010. This 50% reduction in availability is due to a mixture of occupational take up, office to residential conversion and the re-occupation of space by Vodafone.

Second hand space dominates availability, accounting for 92% of the overall total, with only one grade A building – 11,300 sq ft Rannoch House, and this has since been let in Q2.

There has been a general erosion of poorer quality second hand space over the past few years to alternative uses, with the most recent example being Quadrant House, purchased for residential conversion under permitted development rights.

Based upon last year's take up level, the current level of availability represents 6.4 years' supply of stock, although this figure reduces to 2.5 years' supply when compared to long run average take up. Grade A availability represents just six months' supply based upon the poor levels of take up recorded in 2014.

Availability 000 sq ft



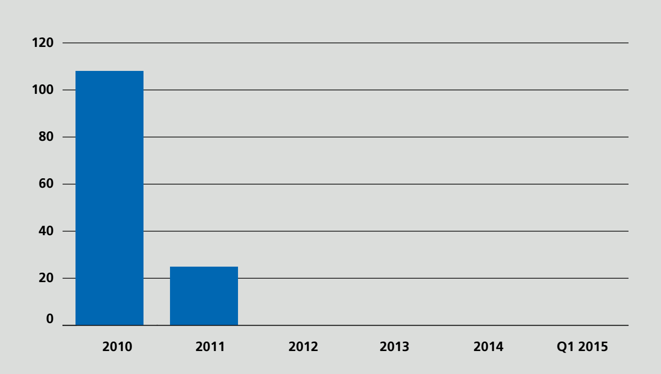
New development

There is still little evidence of speculative office development returning to the Newbury market, with any new opportunities limited to pre let schemes.

The primary pre let opportunity in the area exists at Newbury Business Park, with Swan House offering a 21,000 sq ft design and build opportunity to potential occupiers.

Most other opportunities for creating grade A space would rely upon the refurbishment of existing buildings, although no projects are scheduled at present.

Under construction 000 sq ft



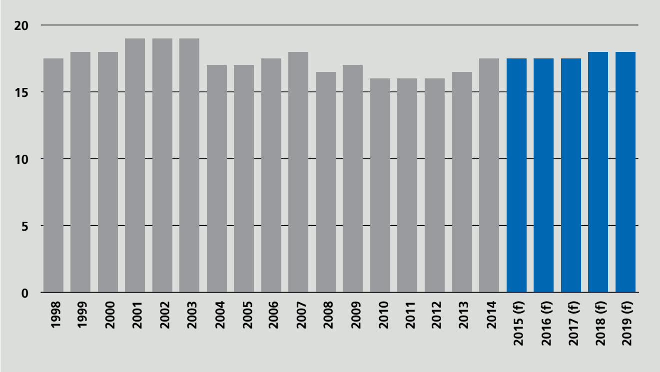
Forecast

Rents are expected to stabilise at £17.50 per sq ft for the next few years, with little evidence at the current time that occupational demand will increase significantly.

Further growth is expected in 2018, when prime headline rents are forecast to reach £18.00 per sq ft.

Over the five year forecast period, prime rents are expected to grow by 2.9%, equating to 0.6% per annum.

Prime headline rental values forecast £ sq ft



Market rental values and yields

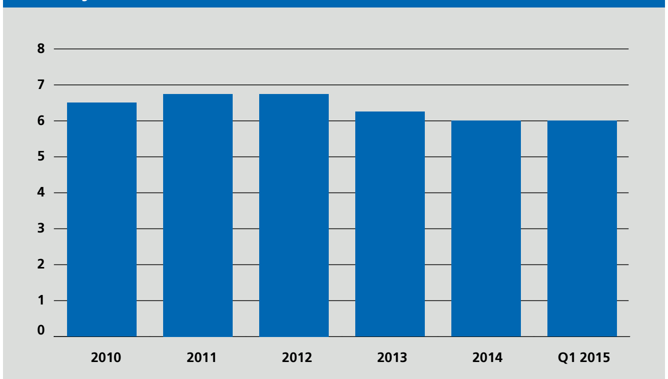
Prime headline rents moved up by 6.1% to £17.50 per sq ft, bringing the overall growth in rents over the past two years to 9.4%. Prime rents remain 7.9% below their 2003 peak level of £19.00 per sq ft.

Tenant incentives have remained relatively stable, although there are signs that they are reducing, with 9–12 months' rent-free periods available on five year lease terms.

Prime investment yields have moved in by 25 basis points over the past 12 months and now stand at 6.00%, only 25 basis points above the previous low point in yields.

There is limited evidence of transactions over the past 12 months, with the primary focus being the purchase of office buildings for conversion to residential. The latest example of this was the sale of Access House by McKay Securities, with the building selling for £1.7m, or £100 per sq ft, capital value.

Prime yields %



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Executive summary

- The past nine months have seen a dramatic turnaround in the level of occupational activity in the Oxford office market. The second half of 2014 and the first quarter of 2015 have seen a total of 330,000 sq ft of floor space acquired.
- Take up in 2014 was 300,700 sq ft, the highest level of activity seen since 2003, with two large freehold/leasehold transactions dominating activity – the sale of a 72,000 sq ft hybrid office/laboratory building, Windrush Court, Cowley, to Oxford BioMedica, and Smeg's long leasehold acquisition of the 43,200 sq ft Canvas building at Abingdon Business Park (which had previously been on the market for over ten years).
- Several transactions in Q1 2015 pushed take up to 46,500 sq ft, the largest of which was a 19,395 sq ft letting to Isis Innovation at Buxton Court, Botley, at a rent of £19.00 per sq ft (quoting rents in Botley have since been pushed to £21.50 per sq ft).
- Following the acquisition of the two large freeholds in the latter months of 2014, supply is down 31% since the end of 2013, standing at 442,100 sq ft – less than two years' supply. Grade A space represents only 7.5% of overall supply, with the majority of existing grade A space having gone under offer following the end of quarter date.
- Prime headline rents have continued to set new records, rising to £26.50 in Q2 2015.

Demand

After a very slow start to 2014, the second half of the year saw take up in the Oxford office market jump to its highest level on record since 2003, with 300,700 sq ft of transactions. More than 90% of the year's activity was completed in Q3 and Q4.

Activity was boosted by two of the largest transactions to happen in the Oxford area since the economic downturn, with Oxford BioMedica purchasing the freehold of the 72,000 sq ft (net 50,000 sq ft) Windrush Court, Cowley, and Smeg's long leasehold acquisition of 43,500 sq ft Canvas building at Abingdon Business Park.

The start of 2015 has seen the buoyant market continue, with 46,500 sq ft of take up recorded. The majority of this has come from two transactions, the largest being a 19,395 sq ft letting to Isis Innovation at Buxton Court.

Importantly, in December 2014, MEPC let 27,588 sq ft at 102 Park Drive, one of the two speculatively developed buildings available, to Ipsen at a headline rent of £25.00 per sq ft.

Since the end of Q1 2015, there has been a strong level of interest in the better quality buildings still on the market, with most of the remaining grade A space available on the market, at MEPC's buildings 101/102 Milton Park, either being let or with deals in solicitors' hands.

Supply

The supply of floor space in Oxford has continued to tighten over the past 12 months, with the sale of the two major freehold/long leasehold interests reducing availability by 115,500 sq ft. Total availability at the end of Q1 2015 stood at 442,100 sq ft, 31% below the end of 2013 level.

The out of town market continues to account for the majority of current availability, representing almost 80% of total stock on the market. Across the market as a whole, approximately 75% of stock is in buildings of less than 20,000 sq ft.

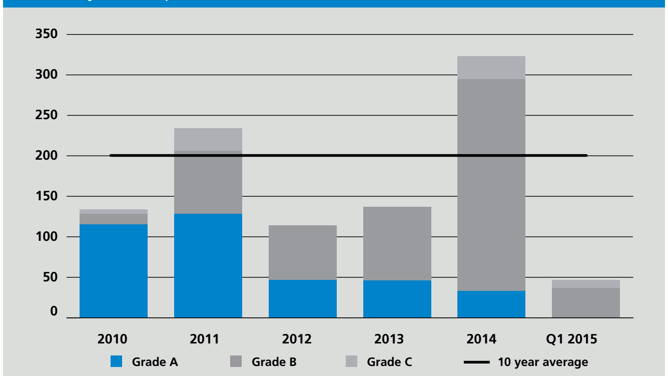
City centre supply remains very tight, with only 24,000 sq ft of second hand space on the market at the end of Q1 2015 and very little prospect of more space becoming available.

Grade A supply is concentrated at Milton Park, with 19,000 sq ft remaining at 101 Park Drive, although this space is currently under offer.

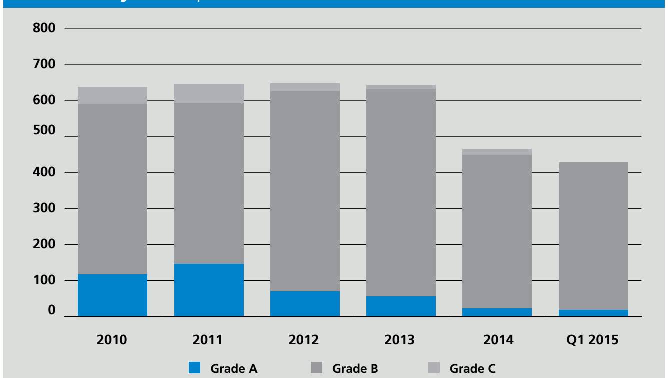
The overall availability rate in Oxford has fallen to 6.3% of built office stock, down from 9.0% at the end of 2013 and significantly below the peak of 11.2% in 2008.

Based on the take up levels recorded in 2014, the current supply figure represents 1.5 years' supply of stock. This figure reduces significantly when considering just grade A accommodation, with just over one month's supply of space.

Take-up 000 sq ft



Availability 000 sq ft



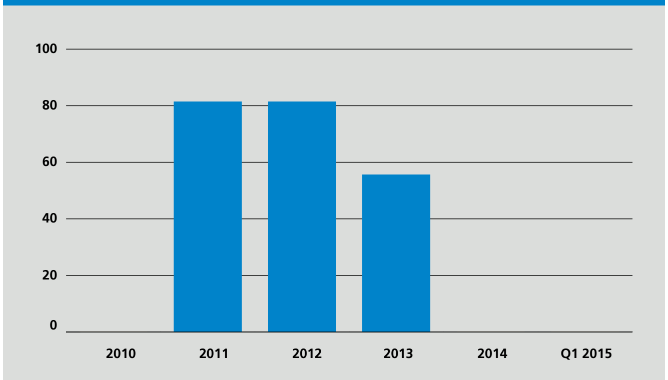
New development

There are currently no new buildings under construction in the Oxford area, with most opportunities restricted to pre lets at Oxford Business Park, Oxford Science Park, Milton Park and Harwell Campus.

Legal & General is currently refurbishing 18,000 sq ft at 4050 Chancellor Court, Oxford Business Park, and will be looking to market the refurbished space at circa £24.00 per sq ft. In addition, Henderson will be starting a full refurbishment of Building One, Abingdon Business Park.

The city centre market continues to offer only limited opportunities for new schemes, with a tight planning regime limiting building stock.

Under construction 000 sq ft



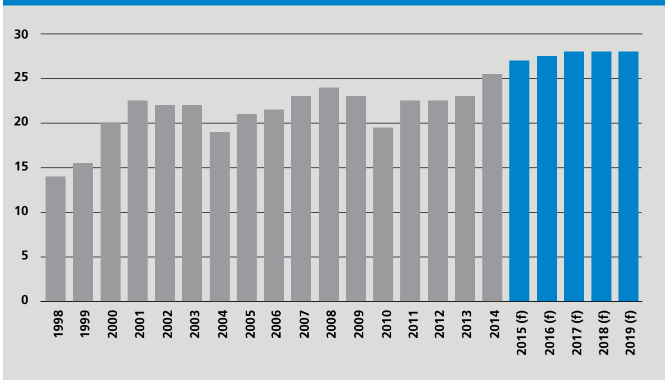
Forecast

With new record prime rents being set in the Oxford market over the past two years and the amount of choice for occupiers reducing, 2015 will see a further upward movement in rents to around £27.00 per sq ft.

A further growth in the prime rental level is expected in 2016/17, with rents rising to £28.00 per sq ft.

Prime rents are forecast to grow by 1.9% per annum over the next five years from their Q1 2015 level, having already appreciated by 35.6% (or 6.3% per annum) since 2010.

Prime headline rental values forecast £ sq ft



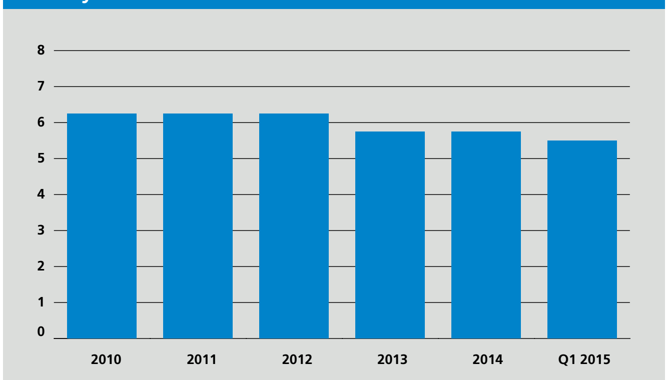
Market rental values and yields

Prime headline rents have increased by 17.8% to £26.50 per sq ft over the past 15 months, with this current level representing a new record for the Oxford market.

New buildings at Milton Park have provided the best opportunity to test the level of prime rents and further advancement is expected over the next 12–18 months, with only pre lets providing opportunity for new accommodation.

Tenant incentives remain a visible feature, although the size of them has continued to diminish and rents on good quality second hand space have improved significantly as supply conditions have tightened.

Prime yields %



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Executive summary

- The Reading office market is expected to benefit from the joint effects of the electrification of the railway service into Paddington in 2016 and the opening of Crossrail in 2018/19. Reduced travel times into Central London are expected to act as a major catalyst in improved demand for office space, particularly in locations close to the railway station.
- Take up was ahead of the long run average for the Reading market for the third successive year in 2014 with activity of 372,200 sq ft and Q1 2015 continued this trend. Activity has been focused towards grade A space, accounting for 67% of the year's take up, with the largest deal in 2014 being PepsiCo's letting of 104,900 sq ft at the newly refurbished 450 South Oak Way.
- We expect migration from London to start as a small proportion of take up, but this will build, particularly as we draw nearer to Crossrail's arrival and the start of the Western Access to Heathrow Rail link.
- Grade A supply has been boosted by the commencement of a number of developments in the town centre, such as the 185,940 sq ft 1 Forbury Place, due to complete in mid 2015, and Thames Tower providing a further 191,102 sq ft in the latter stages of 2016. Additional new space will be provided at M&G's R+ (105,000 sq ft), Boultbee Brooks' King's House (90,000 sq ft) and a smaller refurbishment at 9–27 Greyfriars Road (38,500 sq ft). This is a total grade A supply chain of over 600,000 sq ft.
- Overall supply remains high, with the availability rate at 25.0% at the end of Q1 2015 and grade A space accounting for 78% of overall stock on the market.
- Prime town centre headline rents continue to set new record levels, reaching £33.50 per sq ft at the end of 2014, with out of town prime values at £33.00 per sq ft. Prime rents are set to advance further over the next few years, if the expected increase in demand materialises.

Demand

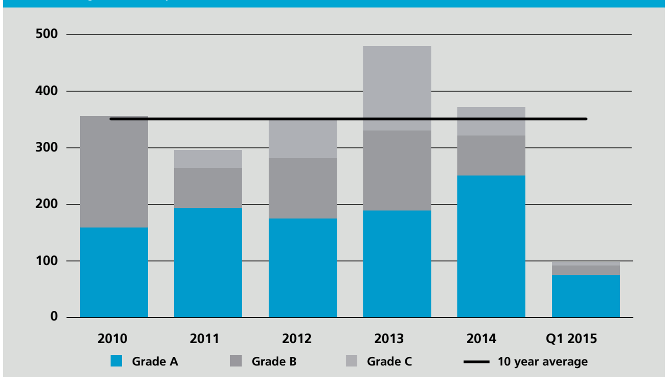
Take up continued at or above the trend for the third successive year in 2014, with total activity of 372,200 sq ft. As with most other Thames Valley markets, take up was biased towards the second half of the year which accounted for 76% of the year's activity.

The largest transaction in the year was a 104,900 sq ft letting at 450 South Oak Way to PepsiCo. The US drinks giant is due to move to its current premises at Green Park from Arlington Business Park, Theale, in the second half of 2015. This one transaction accounted for 36% of the year's total activity in the out of town market.

The town centre market activity level fell after a strong year in 2013, with an overall take up of 77,400 sq ft. The largest transaction in the town centre in 2014 was a 20,500 sq ft letting to pensions consulting group Xafinity at the recently refurbished Phoenix on Tudor Road.

Q1 2015 has seen a respectable level of activity, with 97,500 sq ft of lettings. The town centre market has accounted for 72% of this. The most significant transaction in the first quarter was the 27,500 sq ft letting to Capita of M&G's Reading Bridge House.

Take-up 000 sq ft



Supply

Supply in Reading has been increasing over the past few years, driven by development in the town centre. At the end of Q1 2015, total availability was 2.4m sq ft, up from 1.9m sq ft at the end of 2013.

A surge in speculative development activity in Reading town centre has seen supply increase to 1.2m sq ft, with 1.1m sq ft of this being grade A stock. More than 50% of this supply is still under construction.

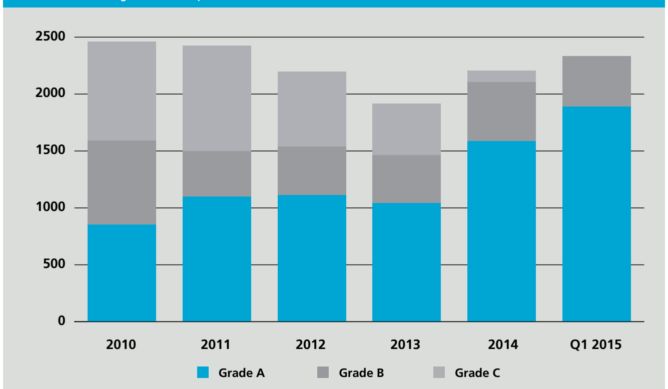
The out of town market also remains heavily biased towards grade A stock, which accounts for 69% of total supply. Green Park accounts for almost 39% of out of town stock – all grade A.

Grade A supply represents 78% of overall availability in Reading, with a 60:40 split between the town centre and out of town markets and the town centre market is now rivalling the out of town market in being able to offer buildings with larger floor plates to occupiers.

The overall availability rate in the Reading market stood at 25.0% at the end of Q1 2015 – almost 19% for the town centre and in excess of 35% out of town.

Based on letting market trends during 2014, current availability represents 6.5 years' supply of stock in total and 5.1 years' stock of grade A space.

Availability 000 sq ft

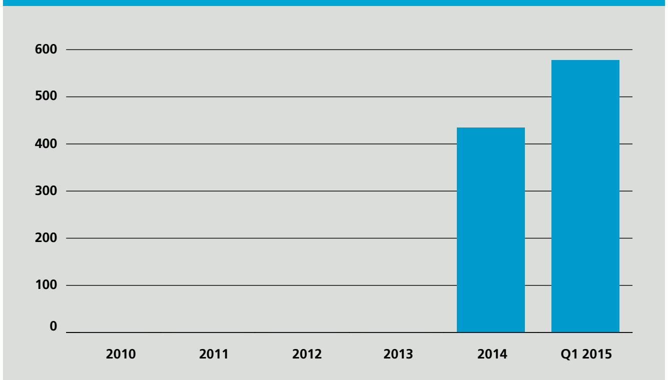


New development

Following the success of One Valpy, Landid and Brockton Capital are on site at Thames Tower where four new floors are being added to create an office building of 191,105 sq ft in late 2016.

Illustrating its commitment to the town as an office location, M&G has 105,000 sq ft of town centre office space under construction at R+, opposite Reading railway station. Also close to the station, 38,750 sq ft is being refurbished at 9–27 Greyfriars Road and Boultbee Brooks' 90,000 sq ft King's House will be available in Q3 2016.

Under construction 000 sq ft



Market rental values and yields

Prime headline rents in the town centre market have set a new tone, achieving £33.50 per sq ft by the end of 2014. Out of town rents have reached £33.00 per sq ft evidenced by a letting to Dialog at Green Park.

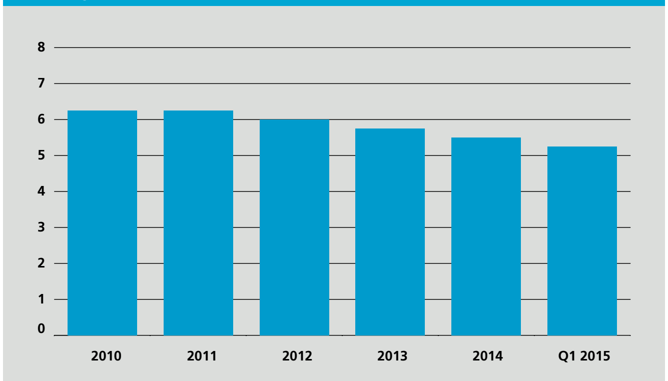
Rental values in Reading are expected to be pushed to a new level as the impact of infrastructure improvements and reduced travel times act as a draw to occupiers and increase demand for floor space.

The potential growth in occupational demand for office space in Reading has prompted investors to view Reading more favourably and prime yields have shifted by 25 basis points over the past 12 months, ending Q1 2015 at 5.25%.

The largest investment transaction in 2014 was M&G's purchase of One Reading Central for £94.5m in the final quarter of the year, with the price reflecting a net initial yield of 6.31%.

More recently, L&G has bought Apex Plaza (221,231 sq ft) in Reading for approximately £91.5m and close to 5.5% yield.

Prime yields %

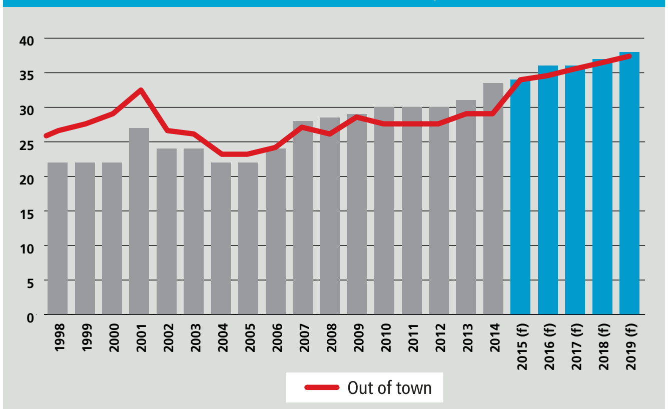


Forecast

A series of new rental highs has been set over the past two years and a value of £36.00 per sq ft is expected by the end of 2016.

Over the full forecast period, prime rents in the town centre market are expected to reach £39.50 per sq ft, which represents annualised growth of 2.5% per annum, whilst out of town rents will reach £38.50 per sq ft, reflecting annualised growth of 2.4% per annum from the 2014 year end level.

Prime headline rental values forecast £ sq ft



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Executive summary

- Although take up in Slough was slow during 2014, occupational demand has improved and is expected to provide the impetus for a significant boost to activity in 2015/16.
- The keynote letting at The Urban Building that completed in Q2 2015 may signal the change in fortunes for the Slough market that has been anticipated since the announcement of Crossrail.
- Supply of office space in Slough has been transformed over the past few years, with a gradual erosion of second hand space due to permitted development and an increase in grade A supply. In addition to 137,200 sq ft of grade A stock, primarily focused at The Urban Building (98,700 sq ft), there are more new and refurbishment schemes in the pipeline.
- The largest of these currently under construction is 25 Windsor Road, which will provide 105,000 sq ft of grade A space close to the new Crossrail station. Another 70,700 sq ft is under construction at SEGRO's 234 Bath Road, with practical completion expected in Q2 2016.
- Further grade A supply is expected to be brought forward at One Brunel Way, where Brockton Capital and Landid Property have bought a long leasehold interest and intend to develop 110,000 sq ft of new space.
- Prime headline rental values have begun to reflect improved prospects for Slough, rising by 32.5% over the past 12 months to £26.50 per sq ft, the highest level since 2008. The opening of Crossrail in 2019 is expected to see rents rise further to over £30.00 per sq ft.

Demand

Office take up in Slough has been below the trend level for the fourth successive year, with activity in 2014 of 89,600 sq ft, in keeping with the circa 90,000 sq ft per annum in each of the last three years.

The largest single transaction in 2014 was a 34,790 sq ft letting to outsourcing company Arvato Bertelsmann at Phoenix 1, Farnham Road. Arvato currently acts as an outsourcing partner for Slough Borough Council on a number of transactional and corporate services and had previously occupied 10,000 sq ft within the building.

Q1 2015 has seen activity maintained at a similar level to the past four years, with 23,000 sq ft of take up recorded, the largest transaction being a 12,600 sq ft short term letting at Langley Business Centre to Morrison Utility Services.

Q2 started strongly with lettings to KP Foods and ZTE. A number of larger transactions were in progress at the end of the quarter, signalling that take up for the year as a whole will exceed previous levels of activity.

In addition to this expected improvement in take up, several larger Slough specific occupational requirements have begun to emerge, illustrating the improving image of the town.

Supply

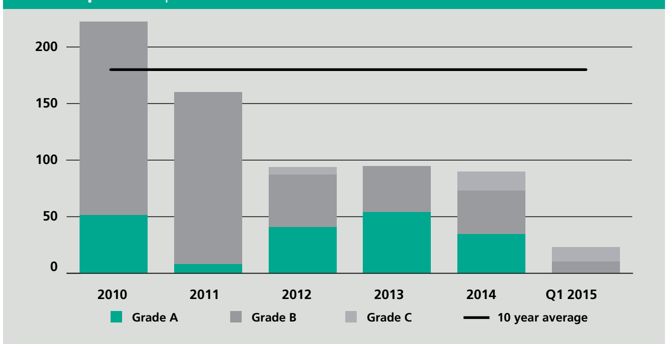
Office supply in Slough has gradually eroded as the amount of second hand space has reduced, falling from 1.1m sq ft in 2012 to 578,600 sq ft at the end of Q1 2015. Overall supply stands at 881,500 sq ft, with 38% (337,400 sq ft) of space being grade A.

The largest existing grade A building on the market is the 98,700 sq ft The Urban Building, which secured its first letting in Q2 2015. Further prominent grade A space is due to start at SEGRO's 234 Bath Road, where 70,700 sq ft of new built space is to be provided, and at XLB / Lumina Capital's extensive refurbishment and extension of the former Fujitsu head office building, 25 Windsor Road (105,000 sq ft).

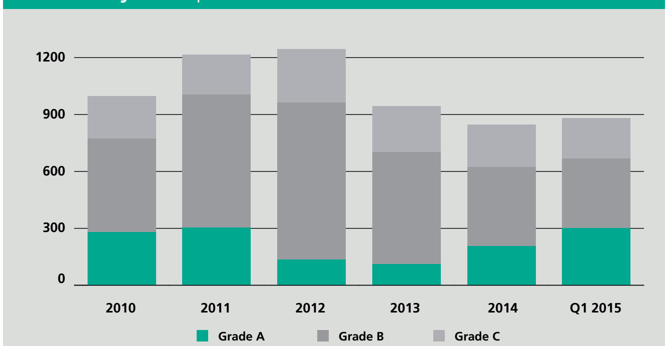
60% of supply is focused outside the town centre and 37% of this is grade B1 secondary stock.

The overall availability rate in Slough is 24.7%, although this reduces to 18.7% when poorer quality second hand space is excluded. At current levels of availability, there is 4.9 years' supply based on historic trend levels of take up, with grade A availability providing 1.7 years' supply.

Take-up 000 sq ft



Availability 000 sq ft



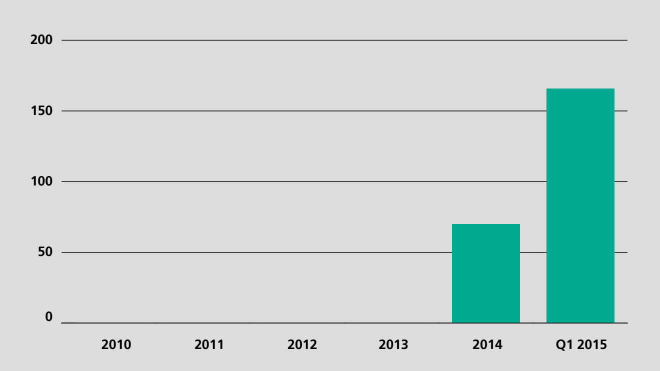
New development

With both the 25 Windsor Road town centre scheme and the out of town development at 234 Bath Road due to complete in 2016, the Slough market will have a healthy supply of grade A stock with which to meet growing demand.

In addition to the two speculative schemes currently under construction, a further 110,000 sq ft is being proposed at One Brunel Way, where Brockton Capital and Landid Property have teamed up with Hermes Property Unit Trust to redevelop the site adjacent to the proposed Slough Crossrail station.

The next stage of the £450m regeneration project may involve the delivery of a Brunel Place office scheme (350,000 sq ft). Development Securities has already been selected as the development partner but investment funding is still required.

Under construction 000 sq ft



Market rental values and yields

Prime headline rents in the town centre have begun to reflect Slough's improved prospects, having increased by 32.5% over the past 12 months to £26.50 per sq ft at the end of Q2 2015.

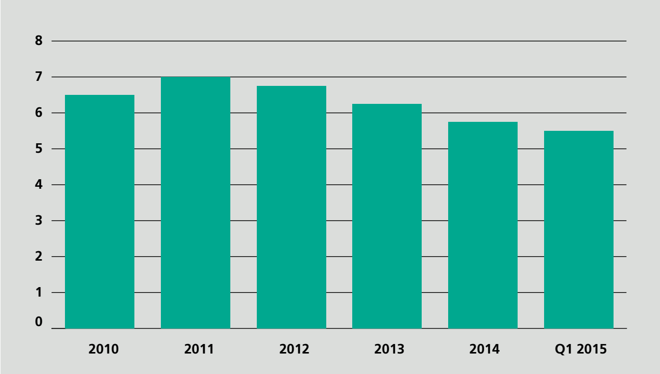
The out of town market has also seen a benefit, albeit to a lesser extent, with prime rents rising to £20.00 per sq ft.

Incentive packages and flexible leases are still a feature of the market, although terms are expected to come under pressure during 2015 as supply diminishes.

Prime investment yields are back to 5.50%, having come in by 50 basis points over the past 12 months. Investors are showing renewed interest in Slough as a location, with the opening of Crossrail providing the main focus for improved prospects.

There has been limited investment activity in Slough over the past 12 months, with the two primary investment transactions being Threadneedle Property's purchase of Phoenix 1 and 2 for £8.5m, reflecting a net initial yield of 9.60%, and Brockton Capital and Landid Property's purchase of 25 Windsor Road for £10.6m. However, Langley has just seen Waterside Court exchange at £1.95m to AEW.

Prime yields %



Forecast

The opening of Crossrail will provide a major boost to the Slough market and with occupier demand beginning to reflect the benefits that this will bring to the town, rental values have begun to rise accordingly.

Whilst headline rents are expected to remain at £26.50 per ft until the end of 2015, further growth is anticipated in 2016. An increase of 9.4% is expected to take prime headline values to £29.00 per sq ft, a level not seen in Slough since 2000/01.

Further growth in rents through to the end of the forecast period is expected to take the prime rental level to a new peak for the Slough market, with values exceeding £30.00 per sq ft by the end of 2019.

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Executive summary

- Take up recovered from three years of below trend activity in 2014, with transactions totalling 146,800 sq ft. The year was dominated by the letting of Rockspring and Exton Estates' 63,725 sq ft building, Flow, which was taken in its entirety by VMware.
- This letting at Flow set a new rental tone for the Staines market and prime rents have now shifted up to £31.00 per sq ft, representing 8.8% growth from the end of 2013. Prime rents are now only 8.8% below their previous peak of £34.00 per sq ft, set in 2000/01.
- Availability has remained high in Staines, largely due to the delivery of a number of new/refurbished schemes onto the market. Whilst total supply stands at 523,900 sq ft, almost half of this is grade A space.
- The next major development to test the market is the completion of Bellhammer and LaSalle Investment Management's 89,200 sq ft Strata at 1 Bridge Street, which was completed at the start of 2015.
- Further new development is available at Staines Central, which could provide up to 212,000 sq ft in three buildings, with the largest being 111,500 sq ft. This scheme is unlikely to commence unless a pre let is secured.

Demand

In 2014, take up in the Staines market moved above the trend level for the first time since 2010, with overall transactions during the year totalling 146,800 sq ft. Activity was heavily skewed towards the second half of the year, with the highlight being the 63,725 sq ft letting of Rockspring and Exton Estates' Flow building to cloud computing group VMware in Q3.

Additional grade A space was let at 2 Pine Trees, where Ingram Micro took the 10,480 sq ft first floor of the 21,585 sq ft building. Further space remains available at the park, with 58,800 sq ft in the new 5 Pine Trees and a further 10,490 sq ft on the ground floor of Building 2.

The start of 2015 has been slow, with only one transaction above 5,000 sq ft completing – the letting of 9,700 sq ft to Baxter Healthcare at 20 Kingston Road. An increase in transactions is expected in the second half of 2015 as several large requirements remain unsatisfied. Indeed, in Q2, it has been announced that Gartner has agreed to take a new 107,000 sq ft pre-let next to its existing building at Royal London Asset Management's Tamesis building.

Staines remains a location of choice for many occupiers looking to come to the eastern Thames Valley as it is the nearest town centre location to Heathrow and has good access to the M25, M3 and M4.

Supply

Availability in Staines has remained relatively high over the past three years, primarily due to the large number of new schemes that have come to the market. Of the total 523,900 sq ft of supply available at the end of Q1 2015, 49% of space, 256,400 sq ft, is grade A stock, all of which has been completed within the last 12–15 months.

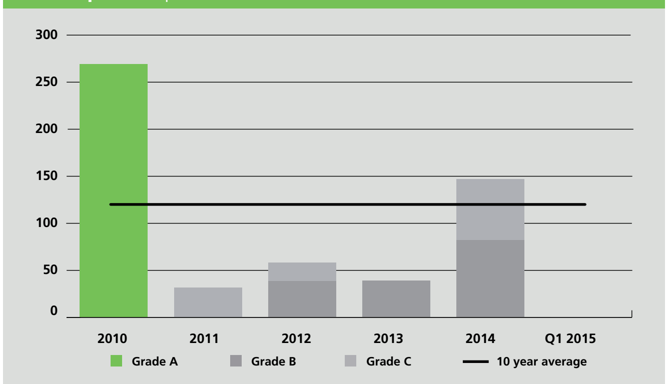
The highlight of the year so far is the completion of the refurbishment of LaSalle Investment Management and Bellhammer's 89,200 sq ft Strata at 1 Bridge Street. This follows the completion of 69,200 sq ft Building 3 at L&G's Lotus Park in the latter months of 2014.

Second hand supply has remained relatively stable, with the majority of activity focused on grade A stock. The two most significant buildings are Hawthorn House, which provides 47,170 sq ft of accommodation, and 45,140 sq ft Lovett House. Both buildings are located just off or near to primary business location, The Causeway.

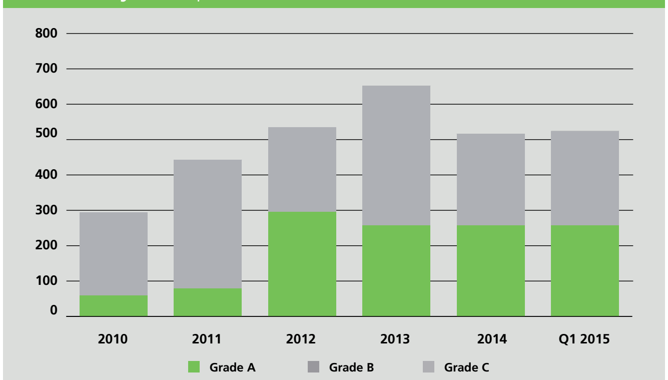
The overall availability rate has remained high, standing at 17.0% of built stock, with all accommodation either grade A or good quality second hand space.

Based on last year's improved take up levels, the dynamic supply figure has reduced to 3.6 years'. Grade A supply represents just 1.7 years' supply based on the above average take up level in 2014.

Take-up 000 sq ft



Availability 000 sq ft



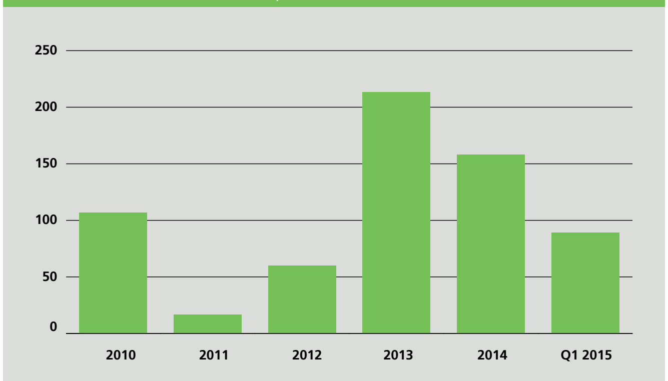
New development

Following the delivery of approximately 300,000 sq ft of new space onto the market over the past two years, the opportunity for further speculative development remains limited. Just over 70% of recently completed space remains available at the end of Q1 2015.

Staines Central remains the most significant development opportunity in the Staines area, although it is unlikely that the scheme will commence until pre lets have been secured. The scheme could provide 212,000 sq ft of office space in three buildings – the initial phase is for the construction of 111,500 sq ft building with two further blocks of 60,000 sq ft and 40,000 sq ft.

Further development opportunities exist at Hunter and aIMCo's Opus, where planning has been granted but additional new built space will only be available on a pre-let basis.

Under construction 000 sq ft

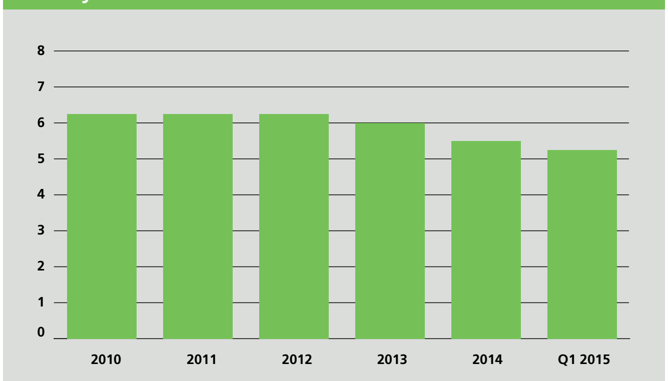


Market rental values and yields

Prime headline rents moved up to £31.00 per sq ft at the end of 2014, demonstrating growth of 8.8% over the year. This increase has taken the Staines prime office rental level to within 8.8% of its previous peak of £34.00 per sq ft, recorded in 2000/01.

Tenant incentives have reduced as occupiers have strived to secure the best space on the market. The typical rent free period for a 10 year term is now down to 12 months and continued strong demand for space is expected to reduce this figure further.

Prime yields %



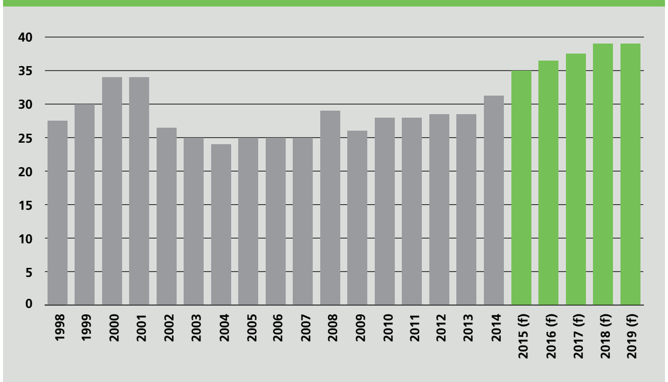
Forecast

With rents moving to £31.00 per sq ft at the end of 2014, a significant threshold for the Staines market has been breached. Prime rents are expected to grow by 12.9% in 2015, establishing a new rental peak for the market at £35.00 per sq ft.

Further advancements in prime rents are expected over the forecast period, with £39.00 per sq ft anticipated by the end of 2018.

The overall growth in rents between the end of 2014 and 2019 will be 25.8%, equating to an increase of 4.7% per annum from the current level.

Prime headline rental values forecast £ sq ft



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Executive summary

- The occupational market in Uxbridge continues to be held back by a lack of good quality accommodation. Take up in 2014 remained below the long run trend level of activity for the town, with 61,900 sq ft of activity recorded.
- The major leasing events during the year were at Mercer Real Estate Partners' Harman House, where almost 42,000 sq ft of space was let in two transactions. The building is now almost fully let, with only 12,570 sq ft still available.
- The supply level in Uxbridge is one of the lowest amongst the main Thames Valley locations, with the availability rate standing at 6.9%. Whilst the majority of built stock is in second hand space, the commencement of a 230,000 sq ft 'back to frame' refurbishment and extension of Charter Place in Uxbridge town centre will provide the market with much needed grade A supply.
- Further options for new development are available at Aviva Investors' Belmont, also in the town centre. This new build scheme has been granted planning permission for the provision of 124,400 sq ft of office space.
- Prime office rents in Uxbridge have remained at £32.00 per sq ft and the marketing of Charter Place will test this level.

Demand

Activity in the Uxbridge market has continued to underperform the 10 year average for the town since 2009, with 2014 seeing take up down to 61,900 sq ft, almost 60% down on the previous year's figure. This low level of activity has largely been due to the lack of good quality stock that is ready for occupation.

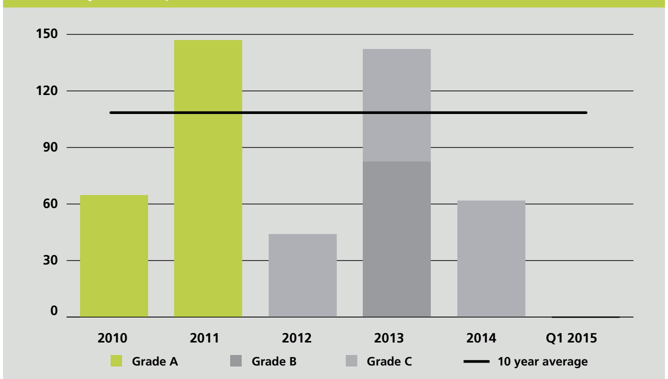
Take up was focused at either end of the year, with 22,170 sq ft of lettings in the first quarter. The largest transaction in the year was a 28,000 sq ft letting to financial services company, Pepper Group at Mercer Real Estate Partners' Harman House on George Street.

The only other transaction above 10,000 sq ft during the year was also at Harman House – a 13,990 sq ft letting to food company General Mills. Harman House is now close to being fully let, with only 12,570 sq ft available on the ground and second floors.

No lettings above 5,000 sq ft completed in Q1 2015, however, Uxbridge remains a key location for major corporate occupiers within the Thames Valley, with easy access to Heathrow and a direct tube link to Central London. Delivery of new stock into the market would facilitate further lettings.

In Q2 2015, two lettings; 20,966 sq ft at Waterside House to Markerstudy Ltd and 10,453 sq ft to HMRC at Valiant House, will improve take up figures for 2015.

Take-up 000 sq ft



Supply

Availability has been boosted over the past 18 months and work is expected to complete on 230,000 sq ft Charter Place in Uxbridge town centre in early 2016, with the building being taken 'back to frame' and extended by 75,000 sq ft.

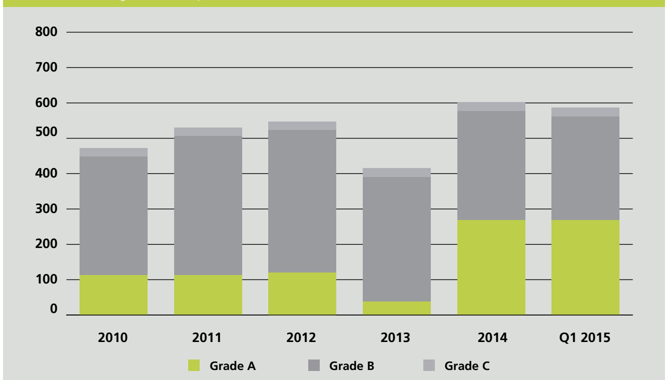
Overall availability in Uxbridge stands at 586,300 sq ft, with 54% of stock in second hand space. The principal second hand space is out of town at Symphony House (30,700 sq ft) and Swan House, Hillingdon (20,230 sq ft).

Grade A availability is largely accounted for by Charter Place, but in addition, there is a further 11,500 sq ft at Parkview on Oxford Road.

The overall availability rate at the end of Q1 2015 stands at 6.9% of built office stock, with Uxbridge having one of the lowest availability rates amongst the main Thames Valley locations.

Current availability represents 3.4 years' supply based on the 10-year average take up figure for the town. Grade A availability represents just 1.5 years' supply of stock, although a significant amount of grade A construction has only just begun.

Availability 000 sq ft



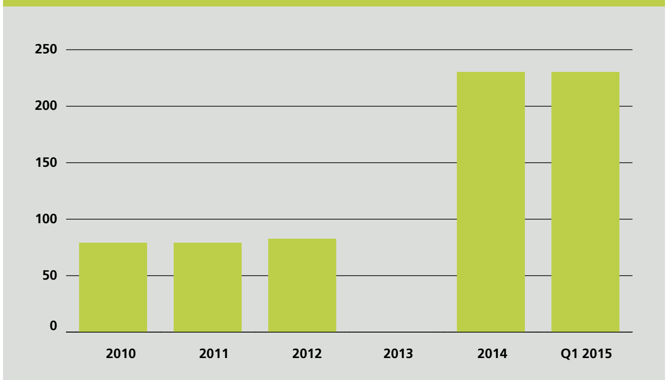
New development

The lack of ready to occupy grade A accommodation in Uxbridge has held back activity in the market.

Aviva Investors has secured detailed planning consent for the construction of 124,400 sq ft of new space at Belmont Road in Uxbridge town centre. Work has yet to start on the site but it will provide one of the largest new build schemes in recent years when construction commences.

Goodman has obtained outline planning for the construction of two buildings at Uxbridge Business Park. These two buildings will add a further 105,000 sq ft space at the park, with the largest, Building Four, providing 77,400 sq ft of accommodation.

Under construction 000 sq ft

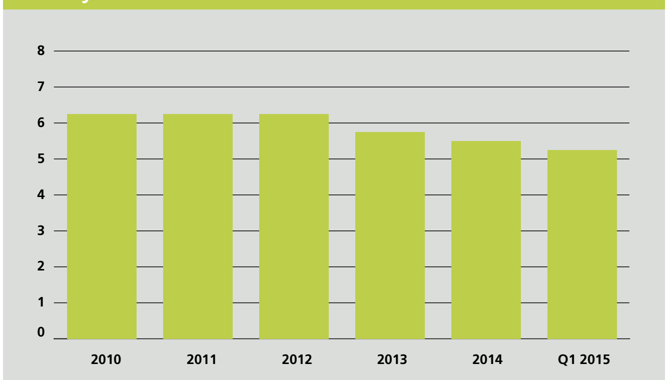


Market rental values and yields

Prime rents have remained at £32.00 per sq ft since the letting to Nexen Petroleum at Stanza, with any improvement to the rental level unable to be proved on existing space on the market. The launch of Charter Place is expected to test the current market, although this is not expected to happen until 2016.

Whilst the grade A rental level has not moved on due to a lack of stock, good grade B rents have improved, with various lettings at Harman House taking levels up to £27.50 per sq ft.

Prime yields %



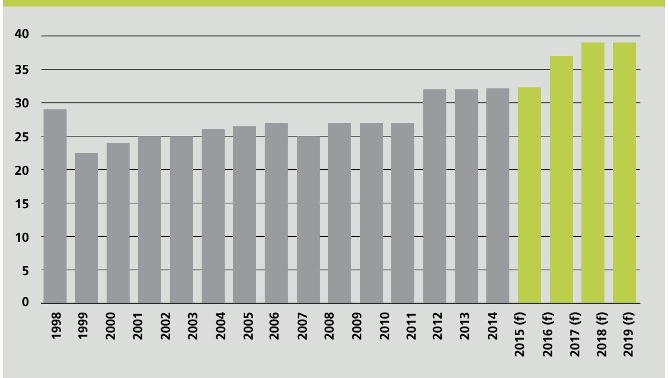
Forecast

Prime rents are expected to remain at £32.00 per sq ft for 2015, followed by a significant jump in 2016-2018.

The completion of work at Charter Place is expected to be the next major test of rental levels for the Uxbridge market, with £35.00 per sq ft anticipated in 2016.

By the end of the forecast period in 2018, prime rents are expected to have reached £39.00 per sq ft, equating to annualised growth of 4.0% per annum from the current rental level of £32.00 per sq ft.

Prime headline rental values forecast £ sq ft



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Investment overview

Consistent exceptional demand for Thames Valley offices throughout the past 12 months has resulted in a significant increase in transactional activity and pricing.

Activity

An impressive £1.92bn was transacted in the 12 months up to June 2015, up from £1.395bn in the preceding 12 months and over five times more than the cycle low of 2009 at £352m. There has also been a commensurate increase in deals, from 88 to 113 transactions.

Despite media attention around the uncertainty of the election, activity has been relatively consistent throughout the past 12 months as investors have focused on the bigger picture. Indeed, of the past four quarters, Q2 2015 recorded the highest volume of activity, with £572m of assets changing hands. Admittedly, this has been skewed by two very large deals; M&G's recent £167m purchase of The Square, Bedfont Lakes, Heathrow, and L&G's £91.5m purchase of Apex Plaza in Reading

We have seen continued growth in buying activity at business park locations. Out of town volume surpassed £1bn, increased by 42% from the previous year and accounted for 53% of total volume. Investment activity has now spread to all of the recognised centres in both in and out of town locations, the latter having been shunned only two or three years ago.

Buyers and sellers

UK institutions have further increased their dominance in buying activity over the past 12 months, accounting for 63% of volume, up from 42% the previous year. However, with a modest 35% of the number of deals recorded, the focus of institutions is largely on securing larger lot sizes, enabling better, quicker placement of capital. We consider this to remain a key trend whilst pricing continues to appeal in contrast to the low yields available in Central London.

There has been a marked downward shift in overseas activity. Over the past 12 months, overseas buyers have accounted for just 17% of volume, down from 43% the previous year. The higher returns previously available have been eroded as the institutions have stepped into the market. However, overseas buyers are still in the market – its attractive dynamics have altered their entry parameters and we have seen them become more active for smaller lot sizes.

Meanwhile, property companies continue to provide a smaller lot size turnover in the market. Typically, they operate at a sub-institutional level as they look to replace dwindling grade A stock. These buyers accounted for 26% of transactions (albeit just 9% by value), reflecting their focus on the smaller end of the market.

Given their dominance, institutions were understandably also the biggest sellers in the Thames Valley, responsible for 46% of total sales by volume, but were nevertheless huge net investors to the tune of £320m.

Surprisingly, institutional sales reflected a 50:50 split between town centre and out of town located properties. However, if you remove assets over £60m, this quickly reverts to a trend of continuing to sell out of town assets.

Property companies continue to be key net sellers in the Thames Valley market, disposing of circa £500 million worth of property. With stock in short supply and heightened interest in secondary opportunities, property companies are evidently capitalising on strong demand and rising prices by opting to sell, or in some instances recycle, equity.

Pricing and outlook

The delivery of speculative development has generated headline rental growth and this is forecast to continue, given the imbalance of good quality supply against robust occupier demand. This has allowed buyers to push acquisition assumptions and drive IRR projections.

Ultimately, this has led to further inward yield shift with prime grade A offices now achieving yields of 5.25% and continuing to harden further. This has driven total returns in the region, establishing the Thames Valley as an outstanding performer in terms of the core property sectors around the UK, on a par with central London in 2014.

Our research shows that 36% of transactions revealed an AWULT in excess of five years – accounting for 60% by value, leading to an average lot size of £27.65m. The properties securing longer terms are premium buildings, either single let or with large floor plates, where it is easier for corporate occupiers to make longer term business decisions.

That said, investors' appetite for risk has improved markedly. 40 of last year's 113 deals were bought with less than three years income or vacant possession. While some of these will be subject to change of use to residential, the majority have been bought with a view to upgrading and refurbishment, reflecting improving confidence in the occupier market.

A reduction in good Grade B space, coupled with a strong first six months of letting activity, suggests that we will see sustained demand for recognised centres, especially where infrastructure developments are influencing take up.

We forecast yields continuing to harden for both prime and good secondary assets and we expect to see increased demand in towns with compelling dynamics, such as Woking and Slough.

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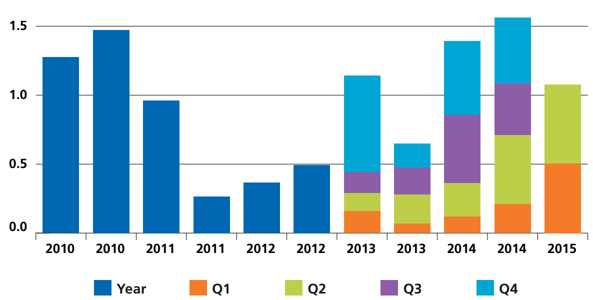
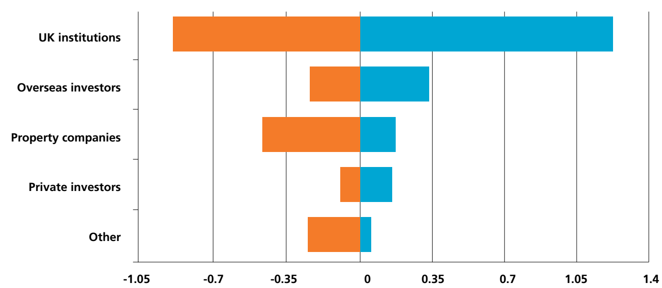
Investment volume £bn



Activity by investor, Q3 14 to Q2 15 £bn



Optimisation of office supply

Lambert Smith Hampton regularly reports on the total supply dynamic of the Thames Valley office market via this annual report and our quarterly market pulse updates. Here, we take a more forensic look into the latest trends and their causes.

Overall total supply

Overall office supply in the Thames Valley began to fall in 2012, with a drop of 6% followed in 2013 by an accelerated reduction of 13%, whilst in 2014 the level of supply flat lined. The reason for supply not falling in 2014 was twofold; firstly, slower take-up seen throughout the year, and secondly, new supply coming to the market from speculative development.

Grade A office supply increased from 27% to 45% of the total

There had been a steady fall in grade A office supply through 2012 to the end of 2014, but new speculative developments have triggered a significant increase in 2015, from 2.74m sq ft across the Thames Valley to 4.3m sq ft at the end of Q1 2015. This has caused a shift in office supply, with grade A increasing from a 27% share of the total (2014), to a 43% share at the end of 2015.

Grade B office supply has fallen by over 1m sq ft (17%) since 2012

An on-going reduction in grade B office supply in the Thames Valley since 2012, from 5.66m sq ft to 4.64m sq ft at the end of Q1 2015, represents a fall of 17%.

It is noticeable that grade B take up accelerated between 2012/2013 but then fell, from 2013, much more sharply, than other categories of supply – why?

Grade B supply is fed mainly by existing occupiers shedding unwanted office space. In an economy with a growing GDP, most businesses are growing, not contracting. As a consequence, occupiers will generally not be releasing quality grade B offices, and therefore, as quality stock is taken up, it is not being replaced.

Quality offices have been stripped out of grade B supply category

Occupier office demand is focused upon quality offices – grade A and high-end grade B. A strong take up of grade B offices in 2012/13 saw a significant fall in the quality end of the spectrum within this category. In essence, most of the quality grade B stock has been stripped out of the supply chain.

Occupiers are now struggling to find offices that meet their quality standards within the current grade B category of supply.

Occupiers are increasingly focusing on grade A offices

The graph below illustrates how grade A stock has increased due to new speculative development. As occupiers continue to seek quality offices, they will increasingly be focused upon grade A supply as grade B supply will no longer offer them adequate quality options.

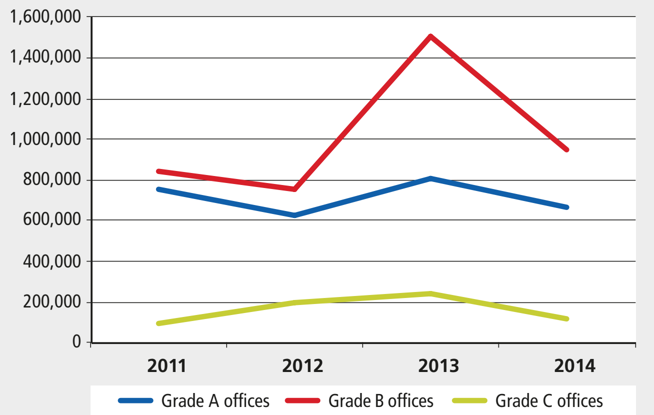
Will the consequence of this structural supply shift be increasing rents?

Occupiers will have little option but to acquire grade A offices that will be mostly newly refurbished or developed buildings, delivered via financial appraisals demanding higher rents to be viable. This is why rents will rise in the Thames Valley over the next few years – so long as demand for offices remains unchecked.

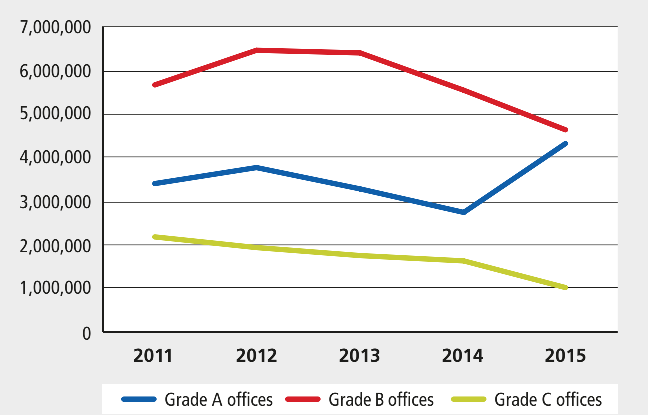
For occupiers to delay an office move/acquisition in this rising market will expose them to the risk of encountering fewer options and higher costs for relocation in the future.

From an investor/developer point of view, the argument for new speculative development in the right locations has grown louder as occupier take up is focusing increasingly on new grade A offices.

Thames Valley office take up by category sq ft



Thames Valley office supply by category sq ft



Heathrow Airports Limited

Heathrow – critical decision

Heathrow Airport is of critical importance to the health of the Thames Valley economy and as the Thames Valley is the UK's economic powerhouse outside of London, contributing £30bn GVA to the wider UK economy, it is of critical importance to the UK as a whole.

Many in the Thames Valley, and beyond, view the idea of not using Heathrow Airport to increase the south east's air traffic capacity, and in so doing, undermining its veracity, being as surreal as the Mad Hatter's tea party in Alice in Wonderland. Lambert Smith Hampton takes a look at the different options available and gives our view on the economic impact they would have.

In its interim report, published in December 2013, The Davies Commission identified a need for one net additional runway in London and the south east and shortlisted for detailed appraisal and public consultation three proposals to deliver this capacity:

- a proposal from Gatwick Airport Ltd for an additional runway to the south of the existing runway at Gatwick Airport
- a proposal from Heathrow Airport Ltd for an additional runway to the north west of the existing northern runway at Heathrow Airport
- a proposal from Heathrow Hub Ltd for an extension to the existing northern runway at Heathrow Airport to operate as two separate runways

With 80% of the country's long haul routes and almost 65% of its airfreight travelling through Heathrow Airport, Lambert Smith Hampton believes that it is crucial to the success of UK businesses. Not only does it connect businesses to emerging regional markets, but it's also Britain's link to trade opportunities in Europe, Asia and America.

A three-runway Heathrow would provide up to 740,000 flights a year. That's enough for Heathrow to compete on an equal footing with Paris, Frankfurt and Amsterdam. It also provides sufficient hub-airport capacity until at least 2040.

Heathrow's economic importance to the Thames Valley is illustrated by the fact that 202 of the UK's top 300 companies have headquarters within a 25 mile radius of Heathrow. This is compared to seven for Stansted and two for the Thames Estuary.

A commitment to Heathrow would provide long term security for property occupiers, owners and developers in the area, prompting renewed investment and encouraging firms to expand their footprint in and around the Heathrow market.

This positive impact would apply to the markets immediately surrounding the airport, as well as those to the west and east of Heathrow. For example, more planes would mean more cargo passing through the airport. This would drive demand for new warehousing to be built in the on and off-airport markets.

In the way that many companies from the USA set up their European headquarters in the

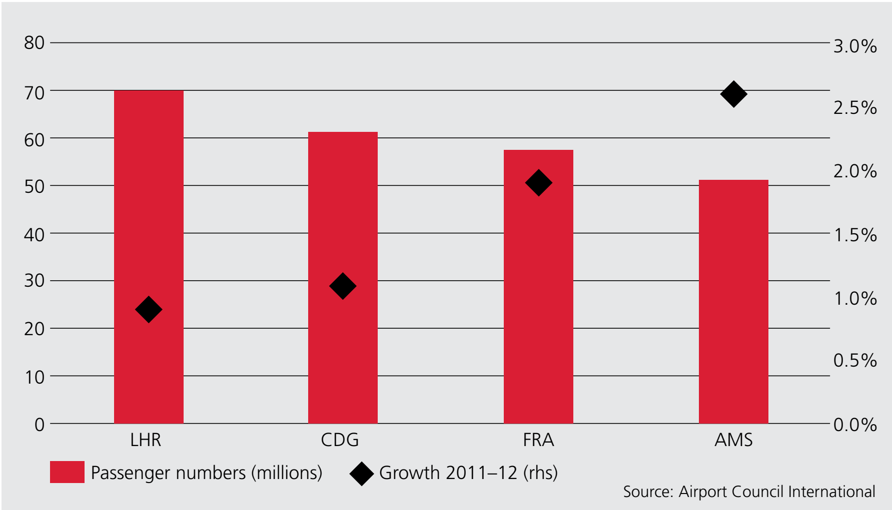
Heathrow expansion is the only sensible option

A commitment to Heathrow will provide long term security for property occupiers, owners and developers

The negative effects from closing Heathrow would extend throughout the Thames Valley

"Heathrow is the reason we are where we are, along with the rest of the high-tech industry in the Thames Valley. If you think about all the companies in the IT industry between west London and Bristol, there is one reason for their location…"
Chris Parker, Microsoft senior director of Law and Corporate Affairs

LHR is Europe's number one airport, but is constrained



Source: Airport Council International

markets close to Heathrow during the 1980s and 1990s, we would expect an expansion in demand for commercial property from companies based in those countries with new connections enabled by a Heathrow expansion. This includes countries like Mexico, Brazil and Indonesia, where there are currently very few direct flights, but which have real potential for new trading links with the UK.

There are concerns as to whether a newly expanded Gatwick would work well as a second hub airport for London. A recent Parsons Brinckerhoff study states: "Two hubs in one city is not a viable option…Therefore we conclude that Gatwick expansion would be sub-optimal and that investment in capacity at Heathrow would be more beneficial." Other reports have stated the same. The case against a dual-hub strategy is overwhelming and it should therefore be viewed as a) unlikely and b) the wrong option from a connectivity point of view.

If the Government is unwilling to expand at Heathrow, Gatwick will benefit from a spill-over in flights. Airline surveys demonstrate that Gatwick is seen as the only real alternative to Heathrow for long-haul routes, so there is potential that Gatwick could attract more business passengers in the future. However, airlines have consistently shown a preference for Heathrow, and if not Heathrow, then a hub airport elsewhere in Europe over Gatwick.

The Airports Commission's consultation on its assessment of three proposals for additional runway capacity in the south east received over 50,000 responses from a broad cross section of individuals and organisations.

The commission's official recommendation was made in July 2015, wholeheartedly in favour of expansion at Heathrow.

This is just the first step though, as John Crickland, Director General of CBI explains: *"The Government must commit to the decision now and get the diggers in the ground at Heathrow… it simply isn't an optional 'nice to do'.*

"Each day the Government delays taking the decision, the UK loses out as our competitors reap the rewards and strengthen their trade links."

A commitment to Heathrow would provide long term security for property occupiers, owners and developers in the area, prompting renewed investment and encouraging firms to expand their footprint in and around the Heathrow market.

£140bn economic growth

70,000 new jobs

About us

At Lambert Smith Hampton, our clients mean a lot to us. Our success and reputation depends on how we contribute to their success and reputation. So why do our clients choose us? There are many reasons, but chief amongst them is that we're unashamedly and single-mindedly focused on the UK and Ireland. This means that we're on the ground, in the thick of it, at the heart of things. **It sounds like hard work. It is. But that's how success happens.**

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Due to space constraints within the report, it has not been possible to include both imperial and metric measurements.

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