Lambert Smith Hampton

FAST FORWARD

HOW COVID-19 IS SET TO ACCELERATE CHANGE

THAMES VALLEY & SOUTH EAST

OFFICE MARKET REPORT 2020

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WELCOME

I'm delighted to welcome you to LSH's South East and Thames Valley office report 2020.

Within the space of a few weeks, efforts to contain a pandemic and the ensuing lockdown are set to fast-forward change in the South East office market.

The compiling of this very report serves as useful yardstick. The fact many of my colleagues have worked gallantly together to produce it, without so much as touching an office, proves working from home en masse can be done. Yet, it has also proven far more challenging to undertake without the office environment, and all the benefits this entails.

As we enter a severe lockdown-induced recession, our clients' immediate challenge is to secure the future of their business and reoccupy their existing buildings. Understandably, take-up for Q2 will be extremely subdued. While Q3 is also likely to fall short of trend, recovery in the economy in Q4 should allow companies to make longer term decisions, boosting activity.

But make no mistake, change is afoot, and many requirements stand to be reconsidered in the wake of this experience. Promoting flexibility is a must, but ensuring productivity will be key to decision-making. Homeworking will increase, but the office environment will continue to be an important factor in retaining and recruiting talented staff.

The South East market is well-placed to deal with and adapt to accelerated change. Grade A space remains tight while development in the pipeline is lower than ever before. It also stands to benefit from any potential fallout from Central London, where high property costs and commuting concerns could be to the South East's gain.

The market will have its challenges, not least the amount of grey space that might emerge. However, the availability of good quality fitted space, given likely restrictions on capital expenditure, could also be appealing to many occupiers and encourage relocations.

We are working hard with our clients to adapt to the changing world on both an immediate and longer term perspective. I'm excited by the challenge and encouraged by the speed that investors have shown in coming back into the market.

We have a strong team covering the entire south east market and would be delighted to assist as we traverse the challenges and opportunities that lie ahead.

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Back to contents

TRUSTING IN CHANGE

With circa eight million UK office workers staying at home amid the COVID-19 lockdown, the very notion of the office has been shaken to the core. After the crisis has passed, what could this experience mean for future demand in the South East?

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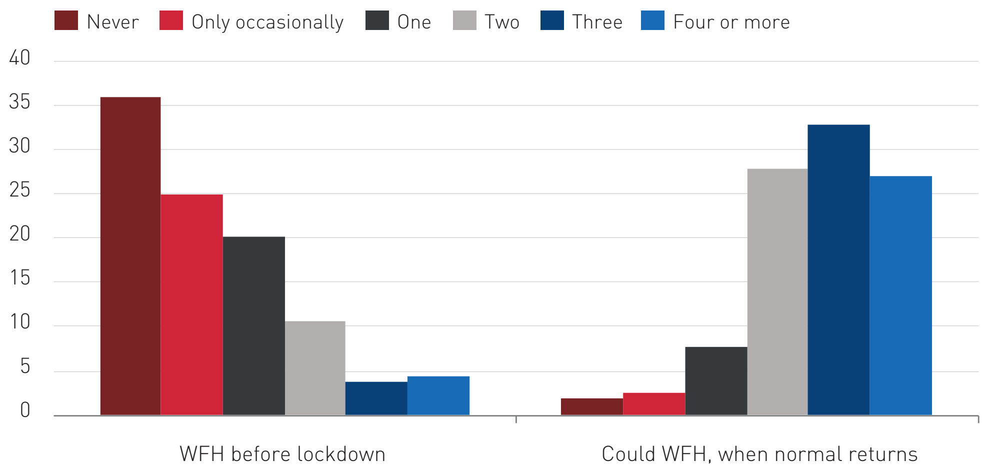
WORKING FROM HOME WORKED

In May, at the height of the lockdown, LSH's nationwide survey of over 600 office workers revealed that the majority feel able to work from home far more than they had done. Having experienced weeks of remote-working, 88% of respondents stated that they could work at least two days per week at home without any impact on their productivity or mental wellbeing.

But, while the wants of employees are important, trust from employers is key to the accelerated adoption of agile working; trust in the available technology, and trust that productivity is not affected. Crucially, the forced 'WFH' experiment will convince many employers that more agile working practices can work, and will fast-forward structural changes in office demand across the South East.

DAYS PER WEEK WORKING FROM HOME (%)



Source: LSH Research

BUT THE OFFICE REMAINS VITAL

While staff may feel they do not need to be in the office as much as they were, this hardly spells the 'end of the office'. Indeed, in our survey, a lack of social interaction was overwhelmingly cited as the main disadvantage of working from home, accounting for a substantial 61% of responses. Moreover, in the short-term, with the UK in the midst of a severe recession, many workers fearing for their jobs may feel an instinctive need to be in the office, and to be 'visible', as much as possible.

The office remains vital. It is a place where staff can learn from their colleagues, it is where ideas are born and turned into action, it is where a company projects its culture. Video conferencing platforms such as Zoom and Teams were widely embraced during the lockdown, but, for many, these tools simply cannot replace genuine social interaction.

JUMP AT THE COST SAVING?

To many financial directors, saving on property costs is a tempting upside to expanded home-working, particularly in light of the financial struggles businesses now face to get through this crisis. Taking Reading as an example, LSH's Total Office Cost survey (TOCS) indicates that the saving secured through a 50% reduction in prime office space for 200 staff amounts to £4.1m over five years. In the City, this saving rises to £6.2m. Hardly small beer.

However, the opportunity to save on property costs could be a false economy if not considered holistically. Office space as a proportion of total costs has fallen sharply over the past few decades - a generation ago offices were equivalent to circa 30% of salary costs, today it is typically under 10%. Thus, cost savings through scrimping on space could be dwarfed by the cost of failing to attract the best talent.

AN OPPORTUNITY TO DRIVE QUALITY

The quality of the office working environment is increasingly viewed as a key weapon in the 'war for talent'.

On taking a new lease, an alternative approach to reducing space and simply saving cost is to rethink the allocation of space between types of working environments. Space previously taken by rows of desks could be refitted to various collaborative working environments, perhaps devoted for knowledge sharing or informal meetings, each with their own character and purpose. In effect, conventionally leased offices may come to more closely resemble the layouts employed in co-working model.

FROM HOT-DESKING TO DEDICATED SHARED DESKS?

But, reallocating space means existing desk provision will need to be used more flexibly, with greater sharing between users. At the current time at least, fears of infection mean conventional hot-desking is unlikely to carry much appeal. One alternative involves the wholesale rotation of sub-teams, perhaps from week to week. This, admittedly more rigid, approach would allow the sharing of a dedicated single desks between assigned users, with deep cleans performed between rotations.

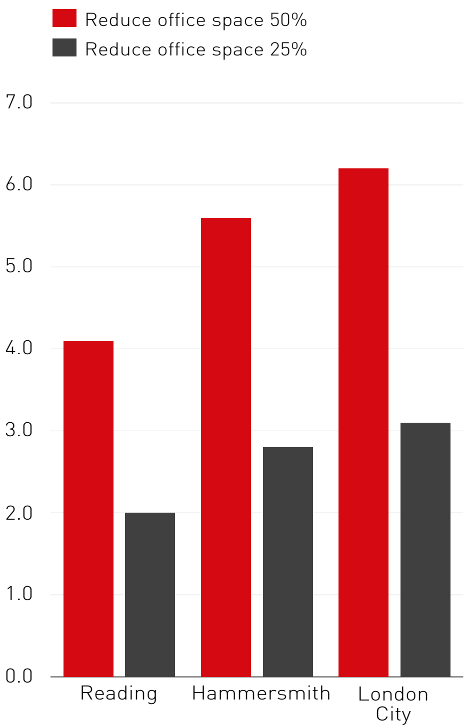
PRIMED TO BENEFIT?

Even if a wave of businesses look to offload space across the UK, the South East is potentially well-placed to benefit. The commuting hassle and cost associated with working in Central London could see a raft of occupiers in the capital look to decentralise their footprint, in the process allowing for satellite options that are more closely located to existing staff's homes.

While serviced office operators have undoubtedly been dealt a huge blow by the lockdown, the South East appears to be a massive opportunity area for the further rollout of serviced offices. Commuter hubs feeding Central London may serve as key stepping stones between home-working and the office HQ, and locations such as Croydon, Watford, Reading and Chelmsford are perhaps some of the best-placed to benefit.

On the back of the crisis, the new-found trust that many employers now have in greater agile working is sure to drive accelerated change. Landlords in the South East region that can embrace and adjust to the 'new normal' will prosper, and those that do not risk being left behind.

FIVE YEAR COST SAVINGS FOR OFFICE HOSTING 200 STAFF* (£M)



Source: LSH Research
*Figures based on prime, new-build office and use density of one workspace per 100 sq ft

Back to contents

Back to contents

REGIONAL INSIGHT

Back to contents

OCCUPIER MARKET OVERVIEW

FAST FORWARD

Just as momentum was building in the wake of last December's decisive election result, drastic measures to contain a global pandemic delivered a hammer blow to demand. But, the ensuing lockdown will do more than simply push activity to a temporary lull, it will fast-forward structural changes that were already in train.

CURTAILED BY COVID-19

Despite now seeming relatively inconsequential compared with COVID-19, Brexit was the main source of business anxiety and indecision in 2019. Yet, considering all the uncertainty it caused, 2019 was a very respectable year of activity across the South East. Take-up across the 25 key markets reached 4.0m sq ft, 10% below 2018's total and only 6% short of the ten-year annual average.

On face value, 2020 got off to a decent start. Even though the impacts from COVID-19 were felt well before the end of Q1, take-up for the quarter amounted to 927,000 sq ft, 15% above the same quarter in 2019. However, several markets really drove activity; L'Oréal's 110,000 sq ft pre-let at Gateway Central, White City was the region's largest deal since Q4 2018, while Milton Keynes, Uxbridge and Basingstoke were the only markets to record stand-out levels of take-up in Q1.

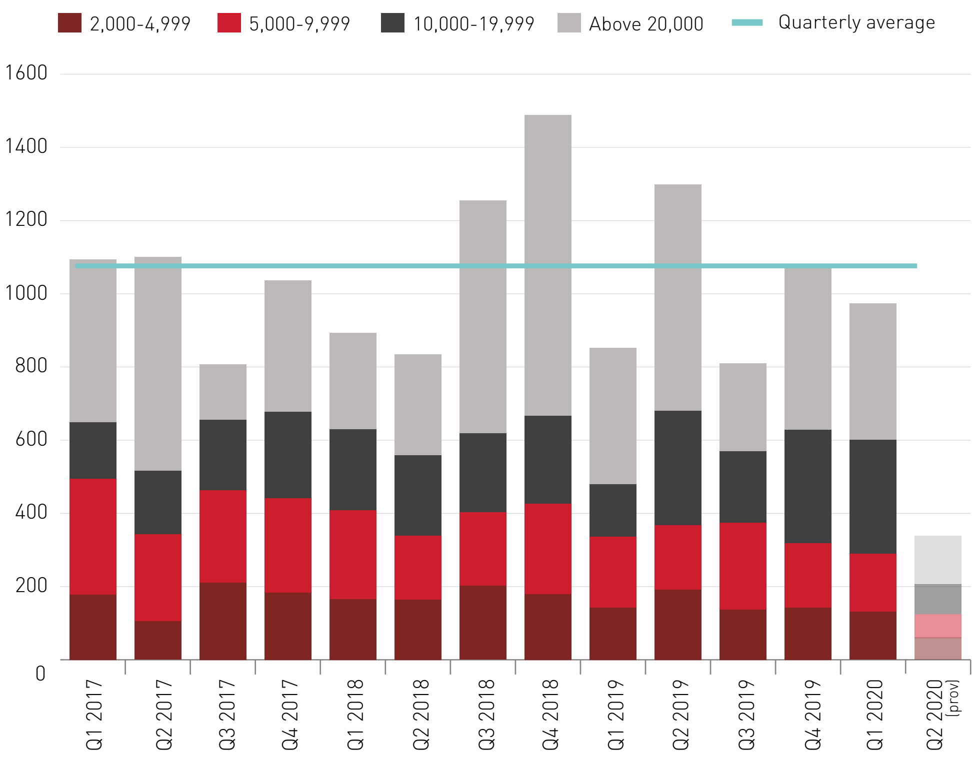
LIFE AFTER LOCKDOWN

The immediate fallout from the lockdown will be clearly reflected in Q2 take-up, which, estimated at circa 335,000 sq ft for the 25 markets, is comfortably the lowest for a single quarter on record. Understandably, practical limitations saw a large number of live deals immediately placed on hold, while new requirements to the market have been stifled by other, more pressing occupier priorities around efforts to ensure business continuity.

Nevertheless, activity did not completely grind to a halt amid the lockdown. Several key deals completed during Q2, demonstrating occupiers' willingness to see through the near-term challenges and plan for the long-term. The pharmaceuticals sector was notable in this regard, with 'lockdown deals' including Eli Lilly in Bracknell (37,675 sq ft) and Amgen in Cambridge (35,000 sq ft).

The acid test for the market's resilience lies not in Q2, but later in the year. Positively, our analysis of live requirements across the region on the eve of the lockdown shows that the majority of deals are delayed, rather than dead altogether, which should result in anticipated Q2 take-up being offset into the second half of the year.

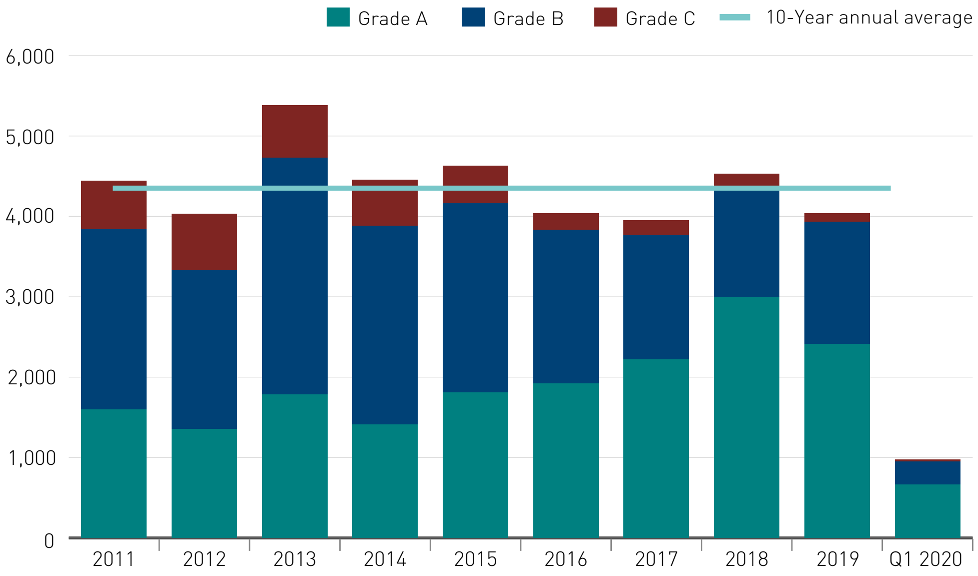
TAKE-UP BY SIZE (000 SQ FT)



Source: LSH Research

Back to contents

TAKE-UP BY GRADE (000 SQ FT)



Source: LSH Research

That said, the economic impact of the lockdown will undeniably put some businesses under financial strain, while the expansion plans of many others will be suspended, in the process weighing on this year's annual take-up. In a bid to reduce cost, another consequence of financial strain could be an increase in unwanted tenant space, or 'grey space', released into the market.

LONG-TERM UPSIDES?

The fallout from COVID-19 is certain to accelerate change in market demand, although this is difficult to quantify at this stage. The experience of lockdown, which saw circa 8 million UK office workers operate from home, is set to mark a key inflection point in how occupiers view their office needs.

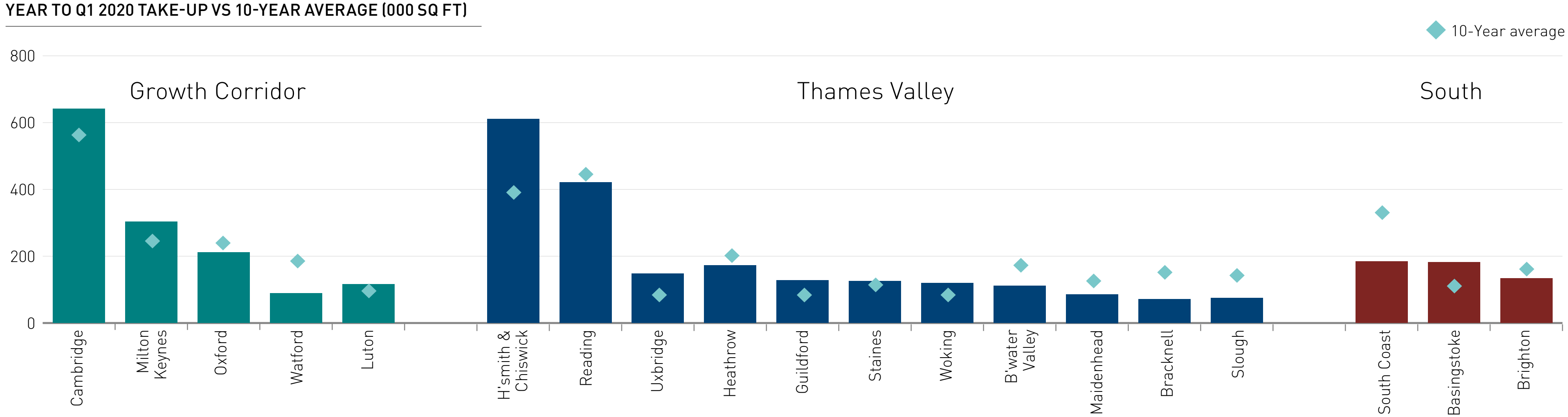
For many occupiers, upcoming lease events will be an opportunity to re-evaluate property needs, and we can expect many new requirements to be driven by a greater emphasis on agile working. For others, shelved expansion plans will see occupiers opt to remain in situ at their current premises, with hopes of driving more favourable terms.

The other unknown quantity is how the South East markets themselves stand to be affected by the 'new normal' relative to elsewhere in the UK, particularly Central London. Debate surrounds whether the markets of the South East could benefit significantly from less London-centric occupier strategies. If businesses respond to their employees' heightened apathy towards commuting into the capital, this could foster a more multi-centred approach to office-locating among larger employers.

STRENGTH IN DIVERSITY

With some sectors more acutely exposed to the economic disruption, the diverse

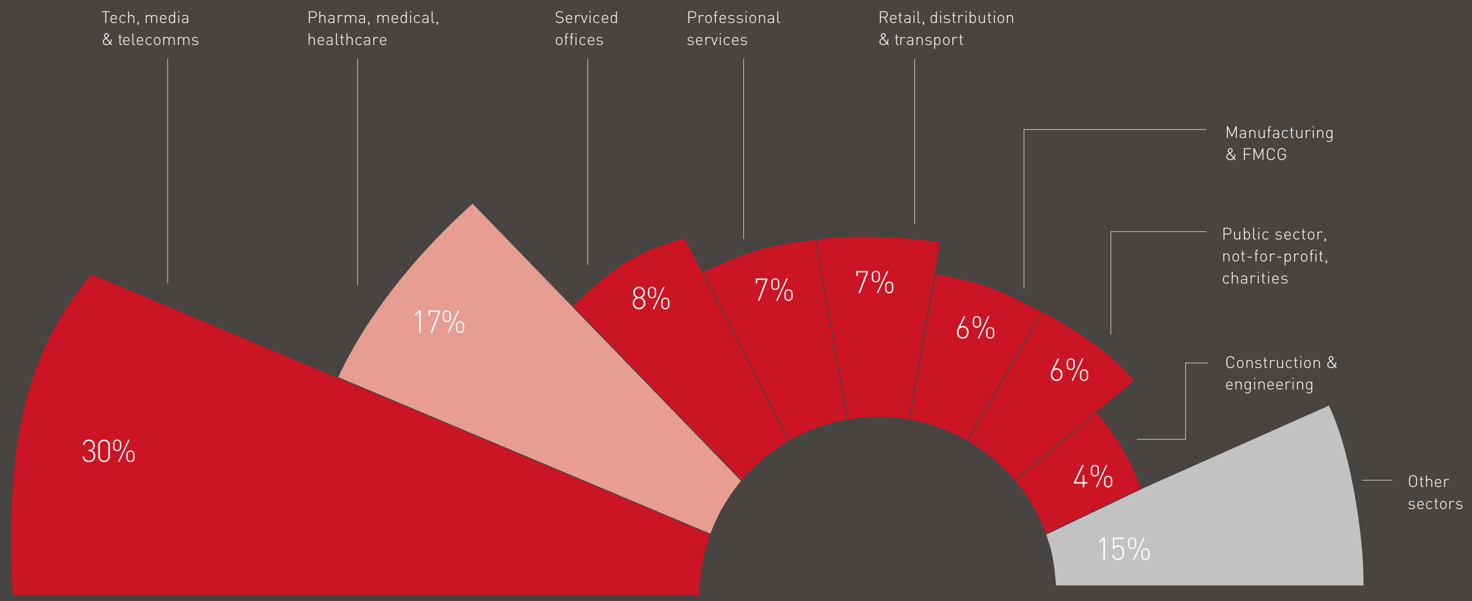
YEAR TO Q1 2020 TAKE-UP VS 10-YEAR AVERAGE (000 SQ FT)



Source: LSH Research

Back to contents

SOUTH EAST TAKE-UP BY SECTOR (YEAR TO Q1 2020) %



Source: LSH Research

make-up of demand characteristic of South East offices is a particular strength at this challenging time.

The Technology, Media and Communications (TMT) sector, which is likely to be one of the more resilient parts of the economy, has accounted for almost a third of take-up since 2018, head and shoulders above the next most active sources of demand. Notably, Pharmaceuticals, Medical and Healthcare was also very active over the 12 months to Q1 2020, accounting for a record 17% of take-up over the period.

Debate now surrounds the sustainability of serviced offices in the wake of COVID-19. Serviced office operators accounted for 8% of take-up over the 12 month period, down from a 12% share the previous year but nonetheless the third most active 'sector' of the market. While, there are severe near-term challenges to overcome stemming from the lockdown and social distancing measures, accelerated demand for greater flexibility should play into the hands of the serviced office model in the years ahead.

SUPPLY TICKS UP

Overall supply ticked up across the South East following seven successive years of contraction. At the end of Q1, total supply across the 25 markets amounted to 13.6m sq ft, up 7% from the cycle low recorded in Q1 2019 and broadly back in line with 2017's level. This reflects a number of factors, in part below par take-up in 2019 but mostly a pick-up in the delivery of new and newly refurbished buildings to the market.

While levels of grade A space vary markedly between locations, the overall quantum of available grade A space has increased to its highest absolute level in this cycle. Notably, the share of grade A space as a proportion of total supply has also increased to account for more than half (52%) of total supply for the first time this cycle, rising from a 25% share a decade ago.

SUPPLY IN PERSPECTIVE

Prior to COVID-19, the improving supply position would be nothing other than a positive step for the region. However, now, with the economy in severe recession and the market on the brink of accelerated structural change in the nature of demand, many landlords will understandably be extremely wary of letting risks.

But some comfort should be drawn from a comparison with previous downturns. At the height of the global financial crisis in 2009, total supply across the South East was 62% higher than the current level, and in the aftermath of the dot com crash in 2003, it was 30% higher than it is today and heavily comprised of grade A space.

TIGHTEST IN THE GROWTH CORRIDOR

There are of course marked variations in supply between markets. The Growth Corridor remains home to the South East's tightest markets, with availability equivalent to barely one year of average take-up in Watford and Cambridge. Elsewhere, Brighton also faces acute pressures with two years of supply, much of which is under construction and not immediately available.

Supply is generally more ample in the Thames Valley markets, with Staines being the only market to have below three years of supply. While some of the Thames Valley markets have levels of supply comparable with previous downturns, it is nuanced in certain respects. Reading and Guildford, for example, have availability equivalent to over four years of average take-up, yet choice in their respective town centre markets is limited compared with out-of town.

Other locations have benefitted significantly from healthy and improving choice in the market. Over the past 12 months, the likes of Uxbridge, Staines and Basingstoke have all attracted strong levels of activity on the back of ample supply levels of grade A space.

FLATTENING THE CURVE

At the end of Q1 2020, just under 2m sq ft of speculative development was under construction across the South East. While development has picked up over the past 12 months, it remains below the levels last seen in 2015/16 and for additional historical context, it pales in comparison with the 6m sq ft that was underway on the eve of the dot com crash in 2001.

Development is also relatively sporadic. Of the 27 schemes progressing across the region, spec development is taking place within 11 of the 25 markets. It is also focused in the acutely supplied markets, with Cambridge, Brighton and Watford collectively home to 38% of the total floorspace. Indeed, Cambridge is home to the largest quantum of development, with 394,000 sq ft underway in five schemes.

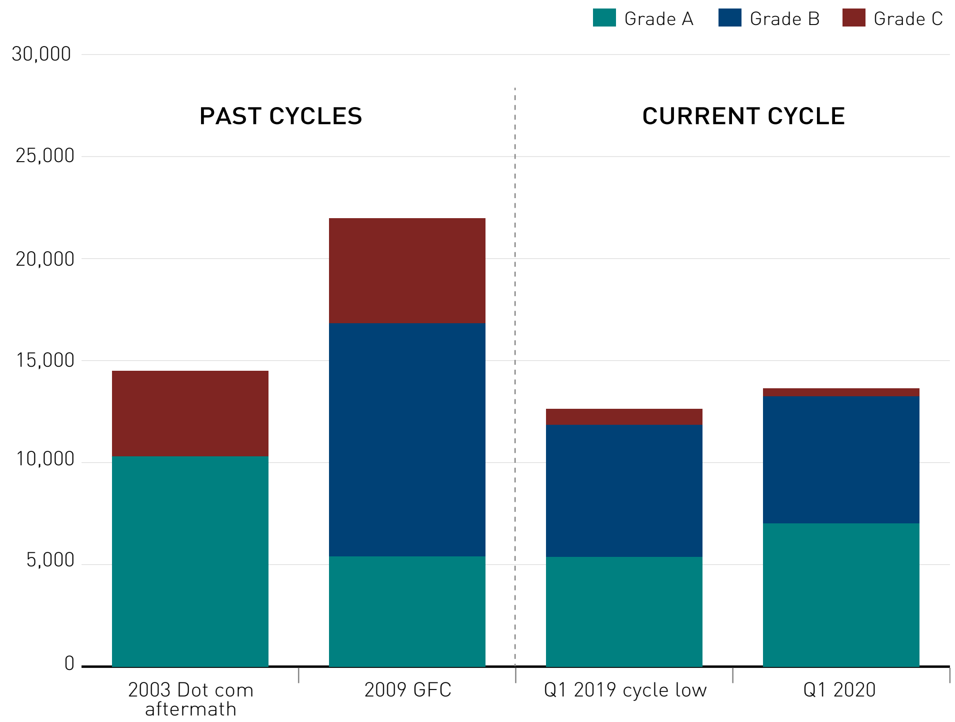
Alongside relatively limited development, the increased cost of development finance in the wake of the crisis is set to curb the progress of a host of schemes in the pipeline. This should keep a tight lid on new supply entering the markets at a time potentially subdued activity.

PUTTING THE BRAKES ON

The economic fallout from the lockdown is set to weigh on rental growth prospects across the region, certainly over the remainder of 2020. In Q1, before the crisis surfaced, prime headline rents ticked up in a flurry of markets on the back of deals for new and refurbished product, including Bracknell (where rents finally surpassed the previous high in 2001), Basingstoke, Guildford, Slough and Uxbridge.

Significant disruption to occupier demand in the weeks since then has seen the pendulum swing sharply in favour of tenants. However, relatively tight levels

SOUTH EAST OFFICES AVAILABILITY (000 SQ FT)



Source: LSH Research

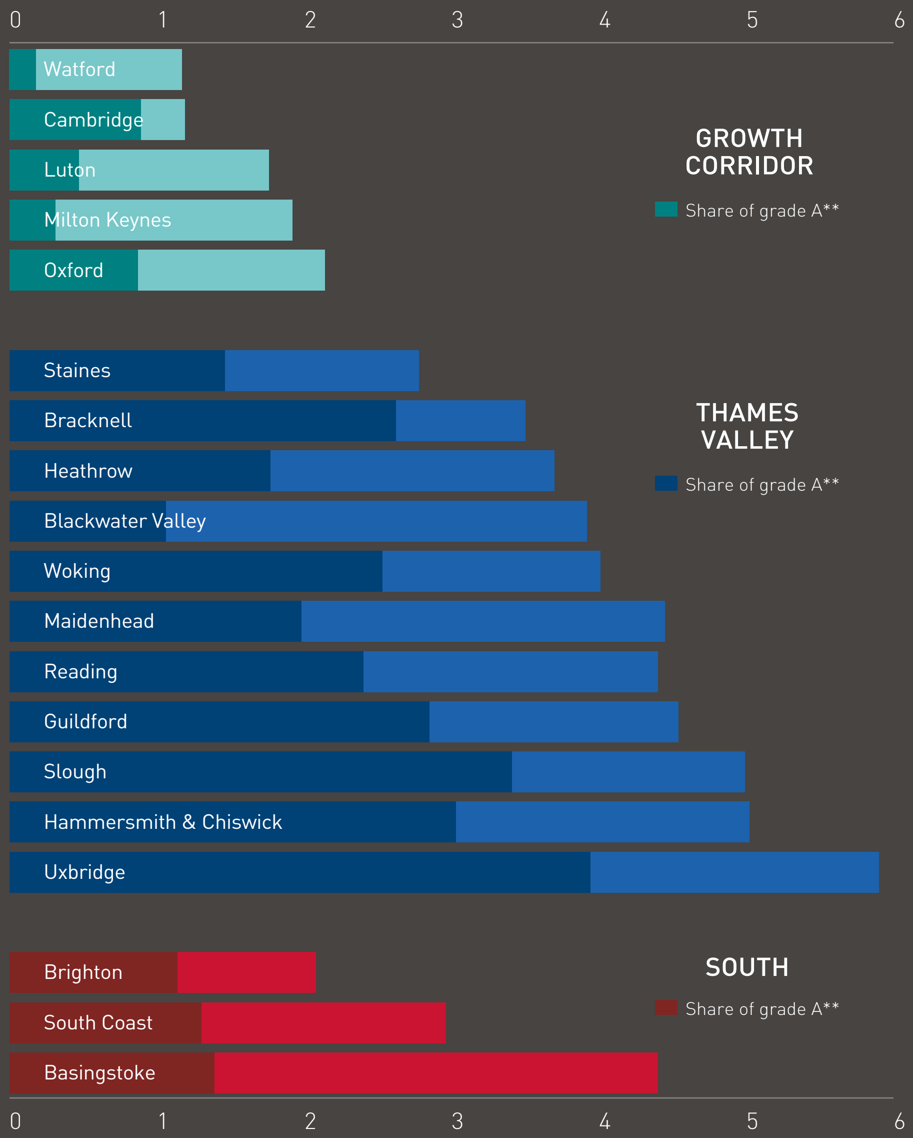
KEY DEALS AGREED DURING LOCKDOWN

Month	Property	Size (sq ft)	Occupier	Rent (per sq ft)
June	The Charter Building, Uxbridge*	8,800	Validity	£32.50
May	210 Winnersh Triangle, Reading	31,743	Hewlett Packard	£28.50
May	Birchwood Building, Leatherhead*	16,500	Hyundai	£26.50
May	Kings House, Hammersmith*	6,500	Alvogen	£56.00
April	Fusion, Solent Business Park*	12,050	Microchip	£18.75
April	The Future Works, Slough	9,544	ByBox	£28.75
April	Cambridge Science Park	35,000	Amgen	£34.00
March	8 Arlington Square West, Bracknell	37,675	Eli Lilly	£29.50

Source: LSH Research *LSH advised

Back to contents

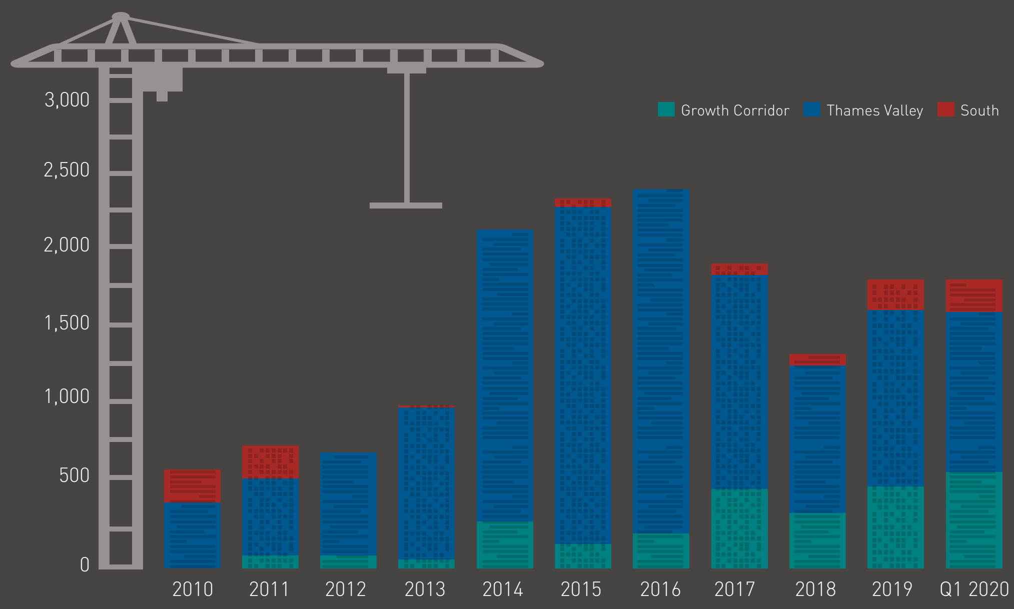
AVAILABILITY AS YEARS OF SUPPLY*



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

* *Grade A includes speculative space completing in next 12 months.

SPECULATIVE DEVELOPMENT UNDER CONSTRUCTION (000 SQ FT)



Source: LSH Research

of new and grade A supply are expected to mitigate against falling headline rents in the majority of markets, with landlord concessions largely manifesting themselves through increased incentive packages and delays to lease start dates.

Indeed, several markets are expected to record growth in prime headline rents in spite of the crisis. The tightly supplied markets of Cambridge and Oxford are two notable examples, with the latter expected to record step-change growth of 19% before the end of the year, reflecting anticipated deals at newly delivered space in the city centre.

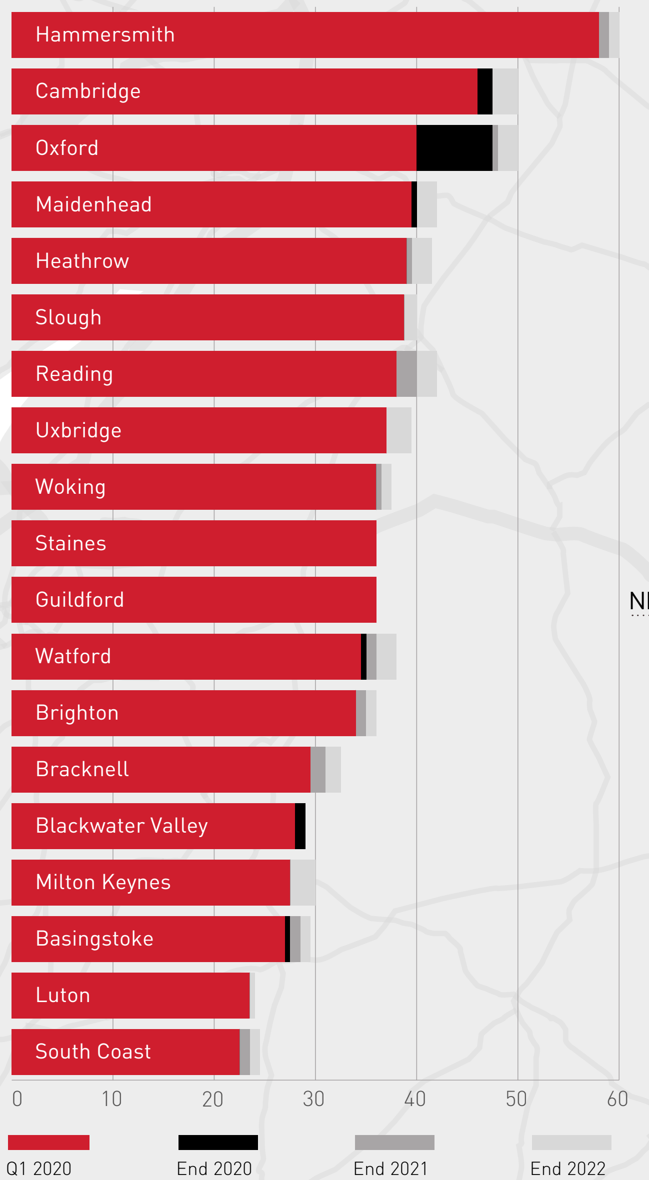
GREY SPACE IS THE GREY AREA

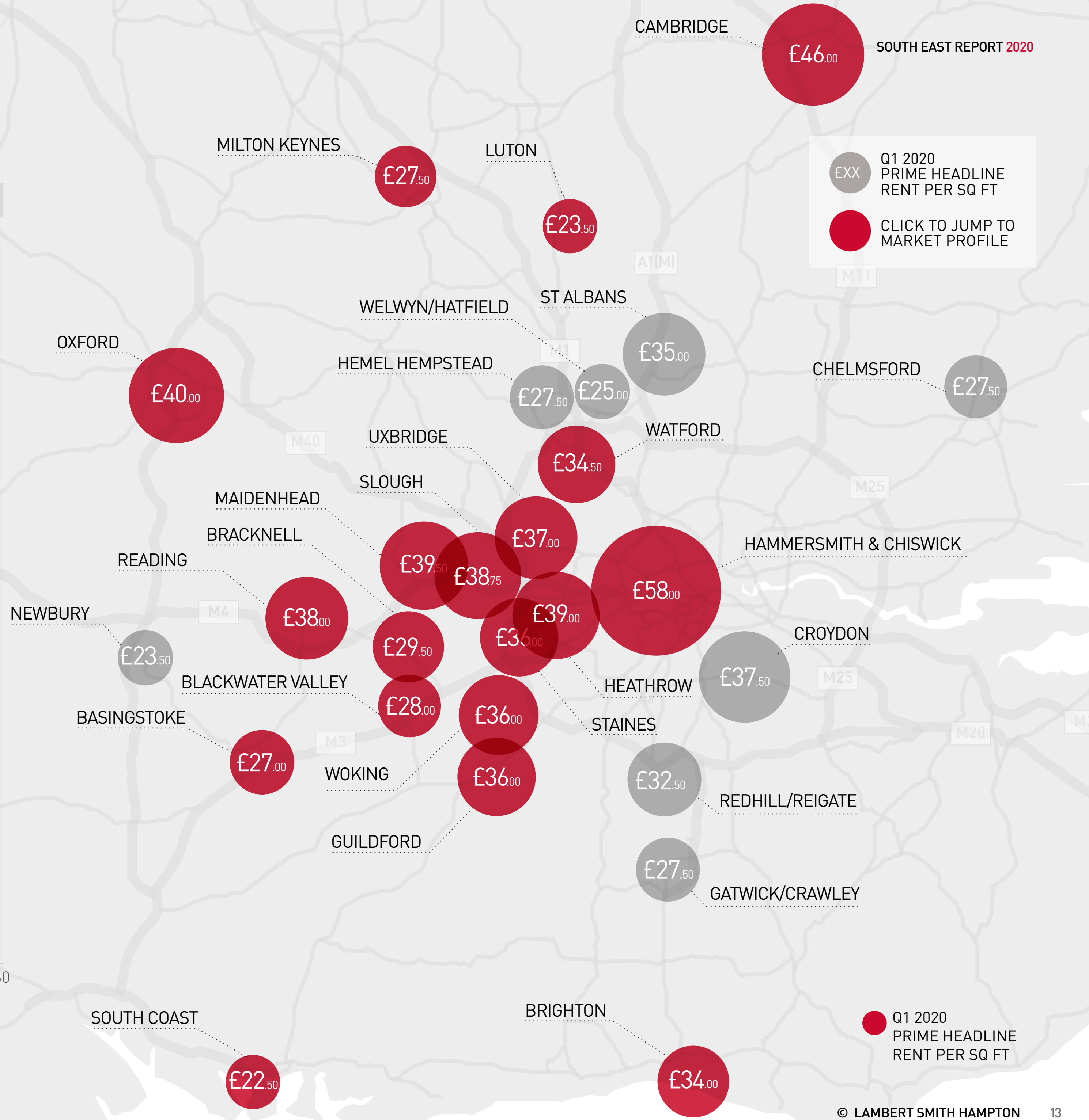
The largest area of risk to rental levels is for second-hand stock, although the degree of impact in any market depends on existing supply levels and the pace of economic recovery.

Potential job losses and a focus on costs in the short term alongside accelerated change in demand for more flexible, smaller premises could drive an increase in unwanted grey space released to the market. To protect value, landlords will have to invest in their assets to meet changing occupier demand and consider working more closely than ever before with the customers of their leased buildings.

Back to contents

PRIME HEADLINE RENTS AND FORECASTS (£ PER SQ FT)





Back to contents

TRIGGERS AND DRIVERS 2019/20

TRACKING DEMAND

What motivated companies to acquire new office space in the South East over the past 12 months, and what influenced their choices of property? Our analysis of transactional activity above 5,000 sq ft shows that expansion was the main trigger of demand, indicating that many occupiers remained in growth mode despite wider economic uncertainty.

TRIGGERS – WHAT IS PROMPTING RELOCATION?

Expansions were the main trigger of office relocations in the year to Q1 2020, accounting for 50% of transactions. This was up from 39% in the previous 12 months, and indicates that many companies continued to pursue growth plans last year, despite uncertainty around Brexit. Undoubtedly, the impact of the COVID-19 pandemic will see some companies put expansion plans on hold, and the structure of demand may be much-changed in the year ahead.

Notable expansions in the last twelve months included major deals such as Apple in Cambridge (79,000 sq ft) and TSYS in Milton Keynes (58,000 sq ft). The growth of serviced office operators was another important source of activity, with brands such as Fora, Mindspace and BE Offices expanding their presence in the South East.

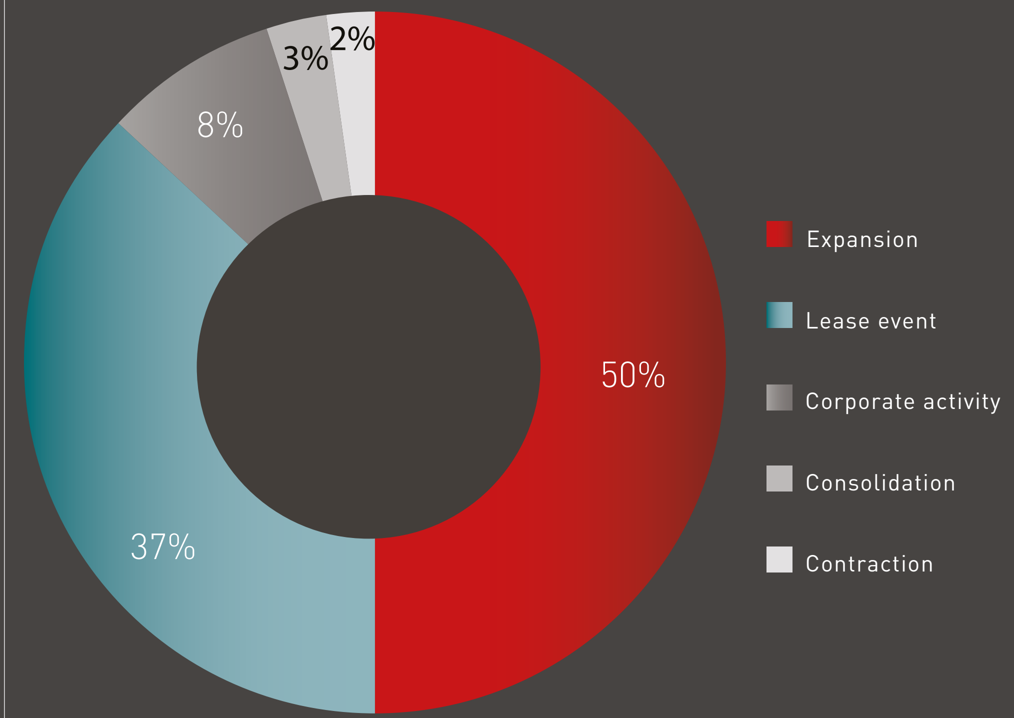
Lease events accounted for 37% of transactions, down from 44% in the previous year. Nonetheless, this included the South East's largest deal of 2019, namely L'Oréal's 110,000 sq ft pre-let at White City Place in the Hammersmith & Chiswick market. Corporate activity accounted for 8% of deals, down from 14% in the previous year; while consolidations and contractions collectively represented just 5% of all deals.

DRIVERS – WHAT DETERMINES END CHOICE?

Location remained the primary consideration in occupiers' office choices in the year to Q1 2020, being the main driver in 57% of deals. Location was a particularly important factor in cities with established knowledge industry clusters, illustrating the draw of these markets to high-tech companies. Most strikingly, 83% of deals in Cambridge were driven by location.

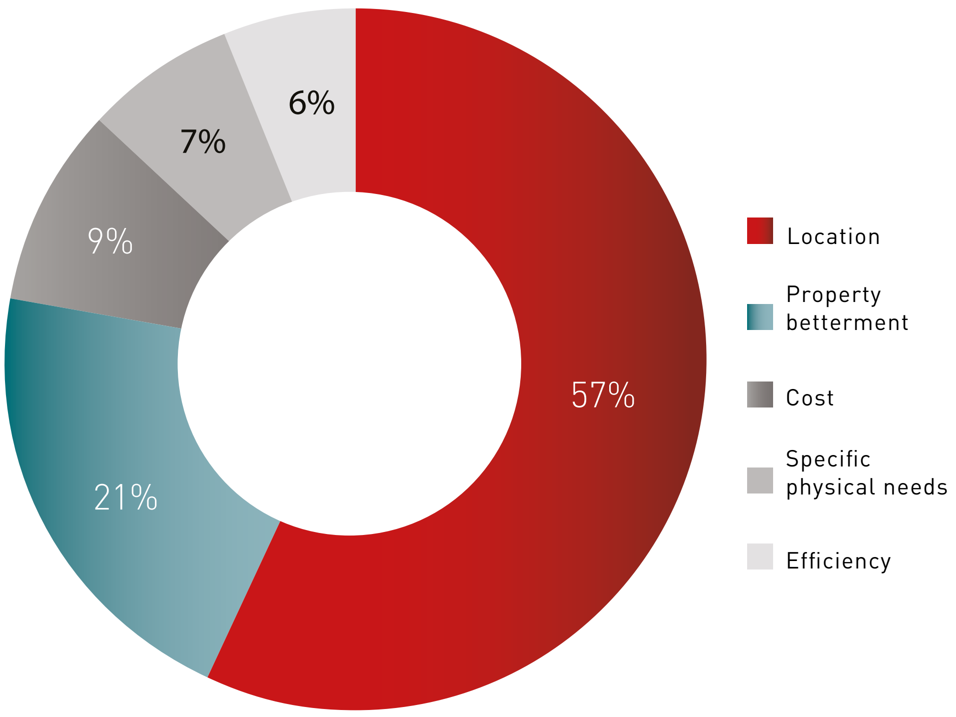
Property betterment accounted for 21% of deals, which was down on the previous year despite including L'Oréal's White City Place deal. Notably, property betterment was a much more important driver of decisions in the Greater London markets of Hammersmith & Chiswick and Uxbridge than elsewhere.

PRIMARY TRIGGERS – YEAR TO Q1 2020 (%)



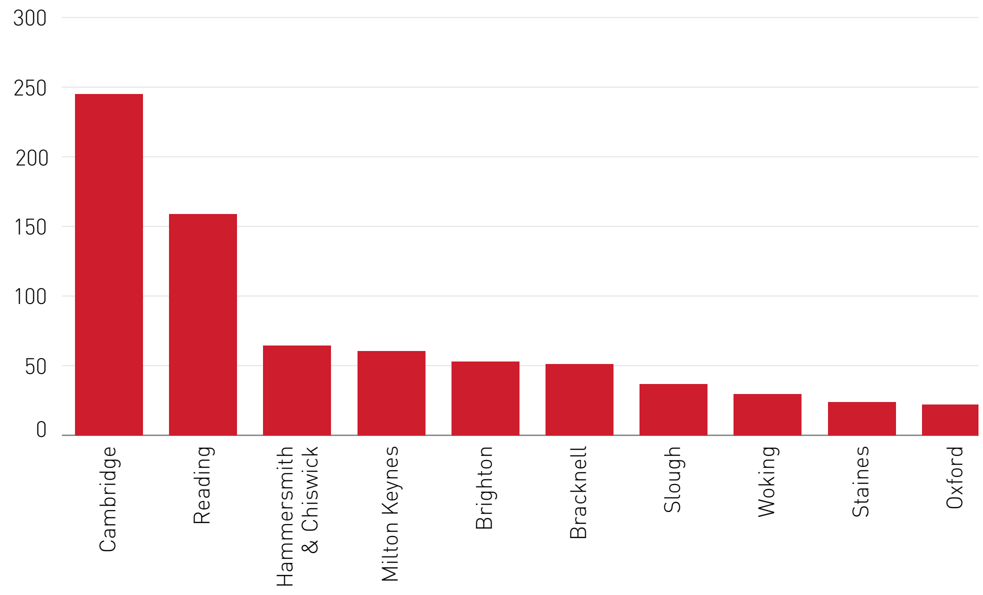
Source: LSH Research

PRIMARY DRIVERS – YEAR TO Q1 2020 (%)



Source: LSH Research

INWARD INVESTMENT - TOP TEN LOCATIONS (000 SQ FT)



Source: LSH Research

Cost was cited as the main driver in 9% of deals, which included several transactions involving public sector occupiers, as well as some where companies relocated to more affordable out of town office offices.

INWARD INVESTMENT – WHERE IS IN DEMAND?

Inward investment deals – those involving occupiers locating to new markets in which they were not previously present – represented 23% of all take-up over 5,000 sq ft in the year to Q1 2020.

Nearly half of all inward investment transactions came in just two markets; Cambridge (245,134 sq ft) and Reading (158,744 sq ft). Inward investment deals involving the technology, bioscience and serviced office sectors were a shared feature of both markets.

Hammersmith & Fulham was the third largest destination for inward investment, largely due to Li & Fung's acquisition of just over 50,000 sq ft in White City. The next most active market was Milton Keynes, albeit half of its inward investment came from public sector bodies relocating offices to the town.

Going forward, South East markets could benefit from a ripple of inward investment from occupiers relocating staff from Central London to satellite offices, as they seek to meet changed employee expectations following the pandemic.

Back to contents

EMBRACING CHANGE

Just as last December's election outcome was starting to bear fruit, a global pandemic swept all aside. While risks around the economy and a fast-forwarding of structural change will prompt a degree of repricing, the sector is both resilient and well-placed to adapt to changing demand.

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PROMISING START

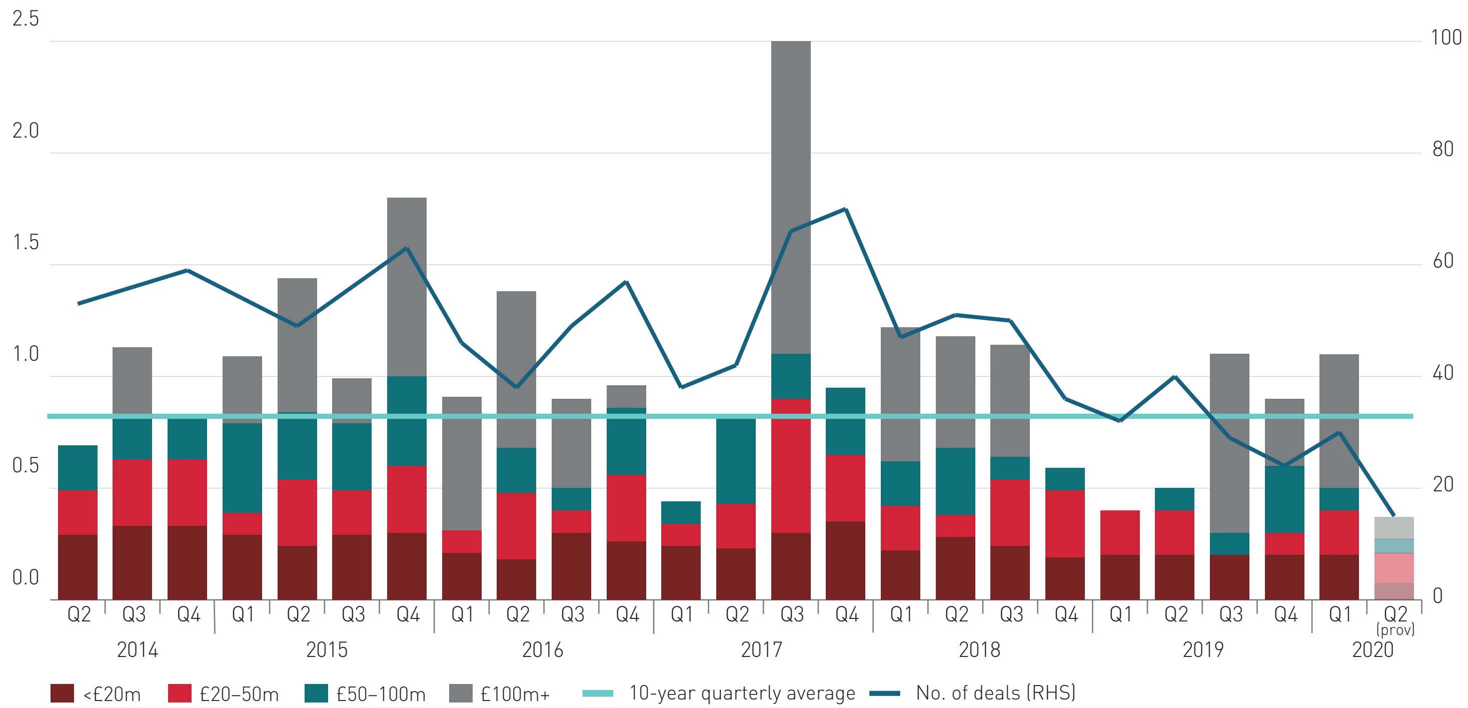
Investor sentiment turned positive at the beginning of the year, reflecting the clear cut election outcome and the improved certainty over Brexit. Even though drastic measures to contain COVID-19 impacted before the end of the quarter, total volume reached £1.06bn in Q1, 31% above the quarterly average and equivalent to 40% of 2019's entire volume.

Three of Q1's 31 deals were in excess of £100m, providing a notable boost to volume. These comprised Stanhope's £312m purchase of Building 7, Chiswick Park (5.50% NIY), Frasers Property Holdings' £135m purchase of 9-11 New Square, Bedfont Lakes, Heathrow and CapitaLand's £129m purchase of Arlington Business Park, Theale.

CURTAILED BY COVID

Just as momentum was starting to gather pace, the rapid unfolding of the crisis and the ensuing lockdown suddenly put investors onto the back foot. Indeed, faced with a sharp economic recession and accelerated structural change in the occupier markets,

SOUTH EAST OFFICE VOLUME BY LOT SIZE (£BN)



Source: LSH Research

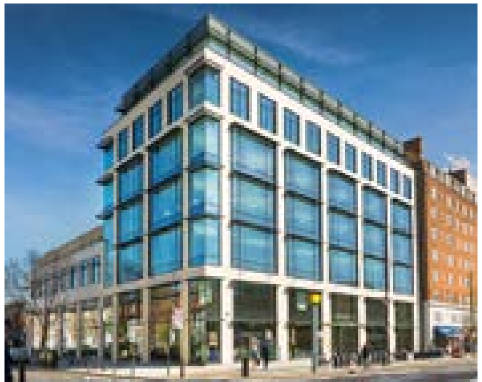
anxieties over Brexit now seem almost irrelevant by comparison.

But the market did not shut down completely, with close to £400m of assets changing hands in Q2. Notably, in June, Tristan and Alchemy exchanged contracts on Reading International Business Park for circa £120m, in excess of a 10% price adjustment from its pre-lockdown level. While close to £250m worth of deals fell through in the wake of the crisis (since mid-March), circa £150m worth of potential deals remain under offer at time of writing.

But perhaps the most telling impact from the lockdown during Q2 was the complete absence of product brought to the market. Many would-be sellers are understandably taking stock of the situation, holding off amid the current valuation uncertainty in the hope that values will hold up relatively well after the crisis has receded.

OVERSEAS INVESTORS DOMINATE

Overseas buyers have dominated by volume, behind 14 of the 20 largest deals over the 12 months to the end of Q1. The availability of large lot sizes in the form of business park assets and a perception of the market's relative value in a global context remains a key draw to South East offices, with Far Eastern and North American buyers being particularly acquisitive.



In September 2019, LSH acquired Kings House, Hammersmith on behalf of Catalyst Capital for £50m (6.00% NIY).

Domestic buyers have been quiet by comparison. The 12 month period only saw a handful of major deals to domestic buyers, the only two deals over £100m being Stanhope plc's £312m (5.3% NIY) purchase of Building 7, Chiswick Park from Blackstone in Q1 and Portsmouth City Council's £138m (7.0% NIY) purchase of Lakeside North from Northwood in Q3 2019.

Brexit uncertainty and a greater emphasis on the living sectors weighed heavily on institutional buying of South East offices, with volume of £301m over the 12 months to Q1 2020, the lowest annual total since the global crunch in 2009. While institutional appetite improved markedly in 2020, this has understandably been stymied by COVID-19.

LOCAL AUTHORITIES REMAINED BUSY

Local authorities were the second largest net buyers of South East offices over the year to Q1, with Portsmouth City Council's major acquisition being just one of 14 deals to council buyers. Local authorities have also been key to the activity during lockdown; Runneymede Council's £32.7m (5.37% NIY) purchase of Honeywell House, Bracknell was one of three local authority deals in Q2.

Local authority property investment has become increasingly controversial, reflected in a recent Treasury consultation document which seeks to prevent the use of PWLB funds for yield-seeking property investing. Should this proposal go through, it is likely to curb rather than halt this activity, as local authorities will utilise alternative sources of funding in a bid to generate income.

BUSINESS PARKS BITE BACK

Within the space of a few years, business parks have gone from somewhat maligned to in vogue. Boosted by a number of major deals, volume for out of town assets was almost twice that of town centre assets in the year to Q1 2020. While this has been partly dictated by availability of stock, there is a definite sense that, with the appropriate capex and asset management strategy in place, such assets can have a bright future.

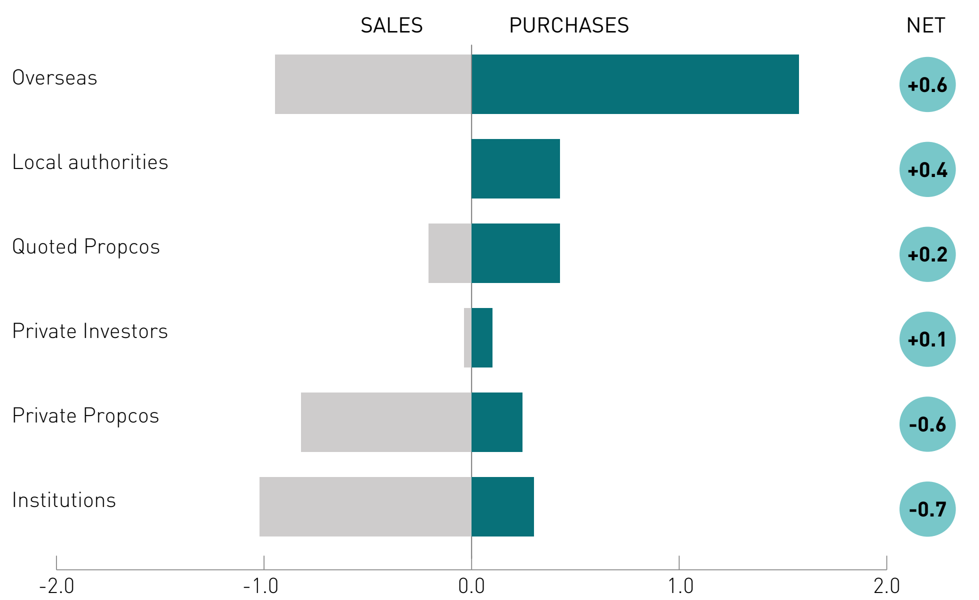
Out of town settings typically account for around half of annual take-up in the region, yet such assets command a notable discount to their town centre peers. Over the 12 months to Q1, the average transaction yield for out of town deals was 6.10%, 43bps softer than the average for town centre deals.

SECONDARY IN THE FIRING LINE

In spite of the recent challenges, pricing for the very best quality assets is expected to hold firm. Indeed, the extension of massive stimulus in the form of quantitative easing in the wake of the international lockdown, not only in the UK but internationally, will only fuel the global weight of money for a limited supply of long-income, secure product.

However, the crisis is set to drive a widening pricing divergence between prime and

VOLUME BY INVESTOR TYPE (£BN) – 12 MONTHS TO Q1 2020



Source: LSH Research

Back to contents

secondary assets and locations that are more or less exposed to occupier market risk. While we can expect a degree of repricing, its extent depends on how a range of factors play out over the coming months, not least the material uncertainty clause currently entered into office valuations.

DELAYED DISTRESS?

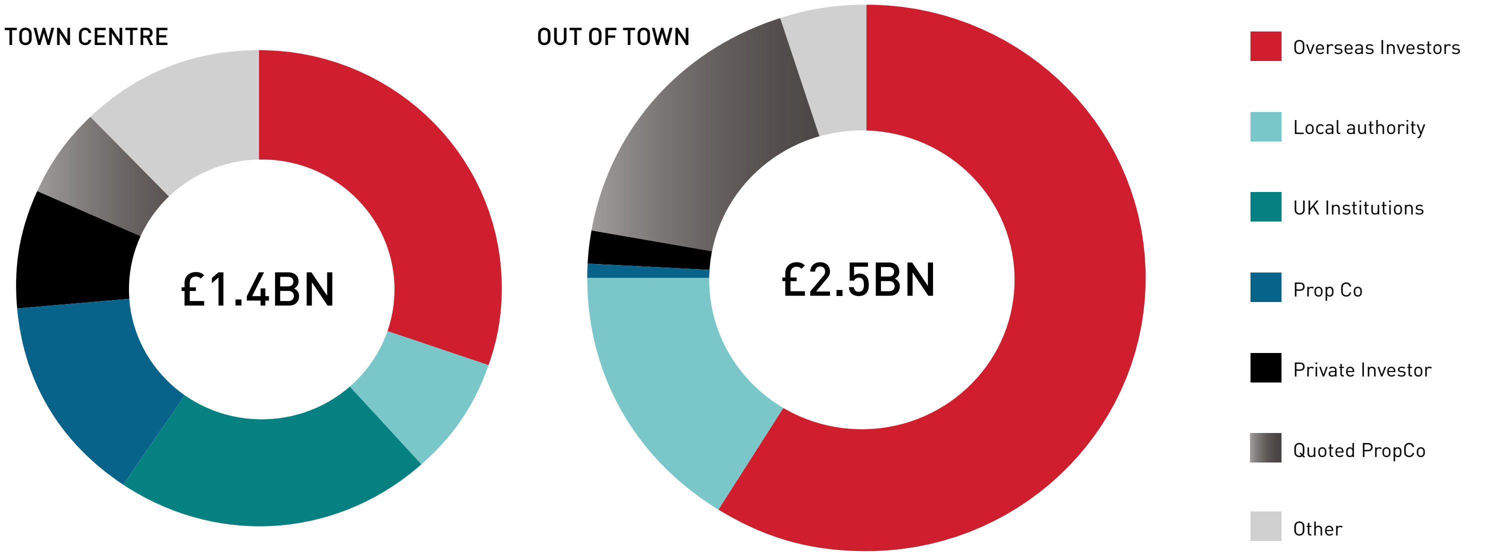
The immediate and crucial test for the market is the June rent collection date for the second quarter. Positively, in stark contrast with retail, initial evidence suggests the vast majority of office tenants in the region will pay their rent in full, but this is thanks in no small part to extensive government support to businesses in the form of interest free loans and the job retention scheme.

However, the gradual withdrawal of government support will put costs under the microscope, and property costs will inevitably be scrutinised in the wake of the mass remote-working experiment. But this could prove a double-edged sword; just as some landlords will brace themselves for increasing voids, many others will retain tenants they were expecting to lose.

BLOCKAGE TO LIQUIDITY

Many debt-reliant investors, both domestic and overseas, will also have their ambitions curtailed by lenders' more stringent terms - loan to values on South East offices have reduced by circa 10 to 15 bps in the short term and margins have ticked up. In a normal market, this would be expected to have a negative impact on pricing, playing into the hands of opportunity-seeking equity backed buyers.

BUYER SHARE OF VOLUME BY LOCATION TYPE - 12 MONTHS TO Q1 2020



Source: LSH Research

At present, material uncertainty clauses within valuations and a lack of comparable evidence are inhibiting liquidity in the market, contributing to a clear mismatch in vendors' and buyers' buying aspirations for secondary product. Later in the year, however, we can expect values to move accordingly and liquidity to improve, with stock at pricing levels that may prove attractive for equity-backed buyers.

EMBRACING CHANGE

Generally speaking, South East offices are relatively well-placed – both geographically and as a sector – to weather the current challenges. Tight levels of grade A supply in most markets and limited development should mitigate against rent and price falls for the best quality space. Business failures in the region could also be offset by a flow of

In October 2019, LSH advised the occupier on the sale and leaseback of Pinder House (18,140 sq ft), Milton Keynes to MKDP.

Back to contents

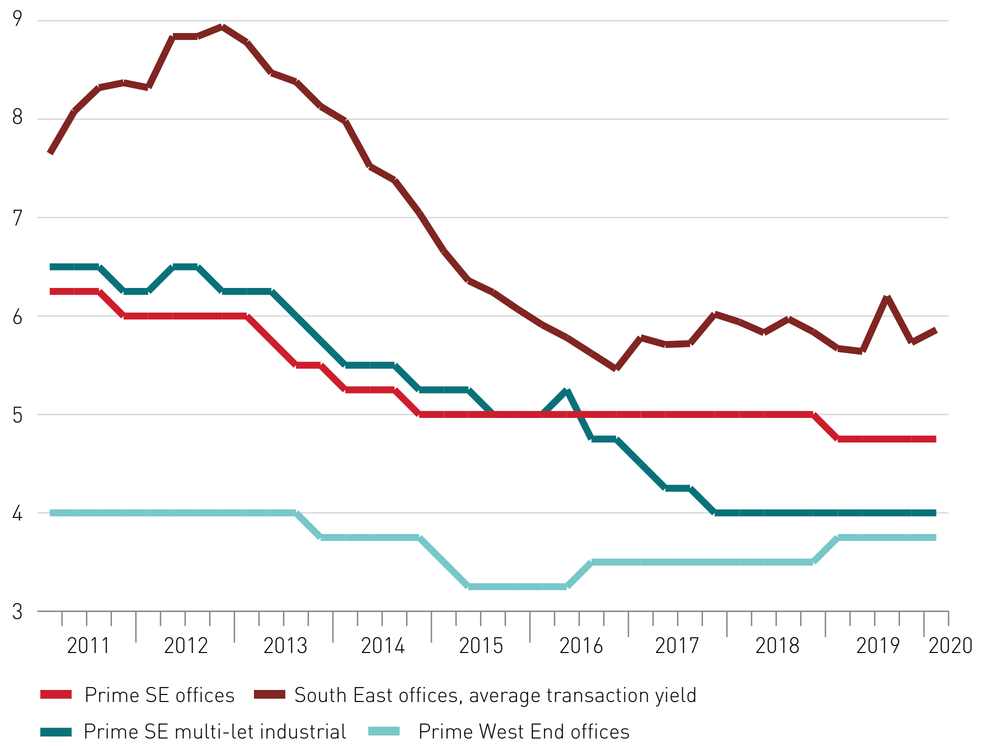
demand from London occupiers seeking a more decentralised approach to their location strategies.

There will no doubt be winners and losers, however. Markets that are subject to major infrastructure improvements and /or benefit from tight supply should be especially resilient, examples including Cambridge, Oxford, Watford, Milton Keynes and Brighton. Meanwhile, a fast-forwarding of structural change in occupier demand is likely to accelerate obsolescence for poorer quality assets, particularly in locations with high supply levels.

A key challenge for investors is to embrace this change and provide product that is better aligned with changing demand, including more flexible leases and ready-fitted product. Such product is arguably carries lower void risk and is better equipped to capture growth. At the same time, the challenge for the valuation community is to recognise this change and move on from conventional bias towards simply length of income and rent in dictating pricing.

In October 2019, acting on behalf of Kingsmoor, LSH sold 300 Capability Green, Luton to a private Middle Eastern Investor for £62.0m (6.26% NIY).

SOUTH EAST OFFICE YIELDS (%)



NOTABLE SOUTH EAST OFFICE TRANSACTIONS

Date	Property	Deal type	Purchaser	Size (sq ft)	WAULT	Price (£m)	NIY
Under Offer	4-5 Microsoft Office Campus, TVP	Full VP refurbishment	V7 & Beamont	155,565	N/A	£26.5	N/A
Exchanged	Reading International	Core plus refurbishment	Tristan & Alchemy	376,587	8.5	c. £120	6.35%
Apr-20	30 Station Road, Cambridge	Forward Funding	AVIVA	81,500	10	£63.0	4.85%
Mar-20	Honeywell House, Bracknell	Long income	Runnymede Borough Council	72,604	10.7	£32.8	5.37%
Mar-20	Liongate, Guildford	Permitted Development	BSD UK Construction	42,548	N/A	£10.2	N/A
Mar-20	Omnibus, Reigate	Multi-let high-yielding	Skelton Group	67,439	3	£15.2	9.19%
Mar-20	300 Capability Green, Luton	Ten year income	Middle Eastern Private	184,380	10	£62.0	6.25%
Dec-19	Trafalgar House, Winchester	Long index-linked income	LSHIM	15,758	18	£9.2	4.85%
Dec-19	Bruton Portfolio	Government let portfolio	Elite Partners Capital	223,080	8.8	£94.6	4.45%
Dec-19	Bruton Portfolio	Government let portfolio	Elite Partners Capital	223,080	8.8	£94.6	4.45%

*LSH advised

Back to contents

THE RIGHTS STUFF

Proposals to extend Permitted Development Rights could lead to a new wave of office-to-residential development in the South East. While office stock could be further eroded, this may ultimately help to fast-forward the rebalancing of markets towards higher quality space suited to post-pandemic demand.

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EXTENDING PDR

Large swathes of South East office space have been lost to residential conversions since 2013, when changes to Permitted Development Rights (PDR) made it possible for office buildings in England to be converted to residential use without needing planning permission.

The government's 'Planning for the Future' policy paper, released in March 2020, promised a consultation on a new PD right that would "allow vacant commercial buildings, industrial buildings and residential blocks to be demolished and replaced with well-designed new residential units which meet natural light standards."

This has raised questions of whether a fresh surge in office-to-residential development is imminent, or if the removal of yet more obsolete stock might actually spur new, higher quality office development.

RUSH TO RESI

The scale of office-to-residential conversions triggered by the 2013 wchanges to PD has massively exceeded the government's initial expectations. It was anticipated that there would be around 140 office-to-residential PDR applications per year across England; in reality, close to 16,000 applications were made between 2014 and 2019.

The high volume of PDR conversions has resulted in a significant erosion of office stock. A 2017 report by the British Council of Offices estimated that there had been an annual loss of 10.4 million sq ft across England since the introduction of office-to-residential PD. Based on prior approval statistics, and our analysis of PD-motivated investment purchases, the figure is estimated to have swelled by a further 35% in the years since BCO's publication.

Offices in the South East have been prime targets for residential conversions, with over 26% of all PDR applications coming in the region. The impact on office markets was illustrated by a detailed study conducted by LSH last year on behalf of Hertfordshire Local Enterprise Partnership (LEP), which found that the county had lost over 1.4m sq ft of office space to residential conversions via PDR approvals since 2013/14.

However, data from the Ministry of Housing, Communities & Local Government shows that the rate of office-to-residential PDR applications has slowed in recent years, after hitting a high in 2014. This suggests that, by now, developers have picked off much of the 'low hanging fruit' – obsolete offices in good residential locations that can be easily converted.

QUALITY CONCERNS

The quality of office-to-residential PDR conversions has attracted criticism, with some developers being accused of cramming

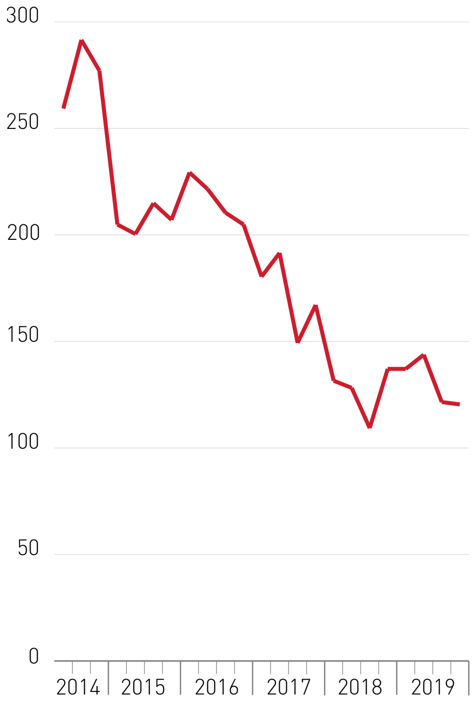
Dolphin Bridge House, Uxbridge, a Permitted Development conversion by Titan Property Developments

Back to contents

small flats with little or no natural light into inappropriately converted office blocks. As a result, banks have become increasingly reluctant to lend to home buyers wishing to purchase PDR conversions.

Importantly, the proposed new PD right may help to address concerns over quality, by allowing developers to demolish offices and build from scratch. This could provide the impetus for a new wave of better-quality residential development in South East towns, albeit probably not on the scale of the development spike seen post-2013, given that a large number of obsolete offices have already been redeveloped.

QUARTERLY OFFICE-TO-RESIDENTIAL PDR APPLICATIONS, SOUTH EAST



Source: MHCLG

Nonetheless, the proposed new PD right could help the fulfilment of aspirations for the development of large volumes of high-quality new housing in key growth areas such as the Oxford-Cambridge Arc.

TIGHTENING OFFICE SUPPLY

If there is a new wave of office-to-residential development, it is likely to lead to a further tightening of availability in South East office markets. LSH's study for Hertfordshire LEP showed that PDR conversions have already contributed to sharp falls in availability, with the county's vacancy rate dropping to 4.1%.

Office availability has become extremely acute in a number of towns that have been particularly attractive to residential developers. This has driven strong office rental growth in locations such as Watford, where prime rents are up by 60% since 2013, and St Albans, where rents have risen by 44%.

Further rental growth can be expected if additional office space is lost due to a new phase of PDR activity. Paradoxically, this means that policies designed to support residential development could also help to increase the viability of new, well-located office developments.

Garrard House, central Reading, a Permitted Development conversion by Titan Property Developments

RESHAPING OFFICE MARKETS

The proposed new PD right may thus ultimately help to reshape South East office markets by encouraging a further purge of lower quality and poorly located offices, but stimulating better quality developments in key business districts.

A new cycle of modern office development would provide much-needed space matching current market requirements. It may also be well-timed to meet changes in demand following the COVID-19 pandemic, should large companies decide to decentralise some of their office requirements from Central London to South East towns. Indeed, far from a being a threat to South East office locations, further extensions to PD rights could help to create leaner, higher quality markets.

FOCUS

PARK LIFE!

Business parks are reinventing themselves, attracting a wider range of occupiers and providing amenities with appeal to modern workforces. Shifting demand in the post-COVID-19 era may even provide a further boost to business park activity.

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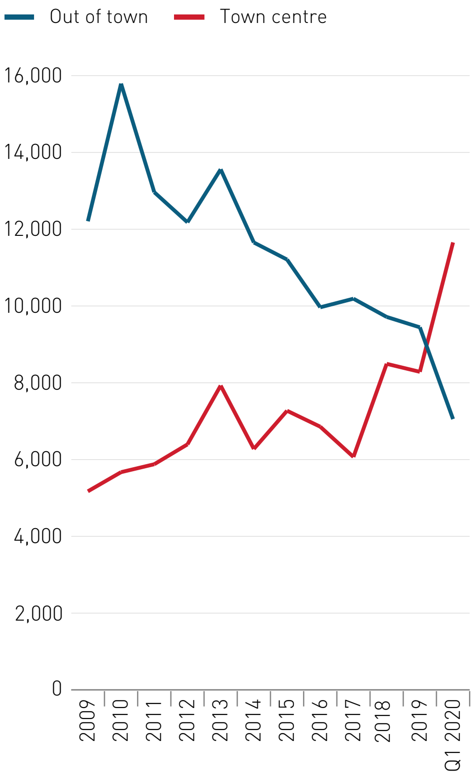
AVERAGE OCCUPIER TRANSACTION SIZE (SQ FT)



Source: LSH Research

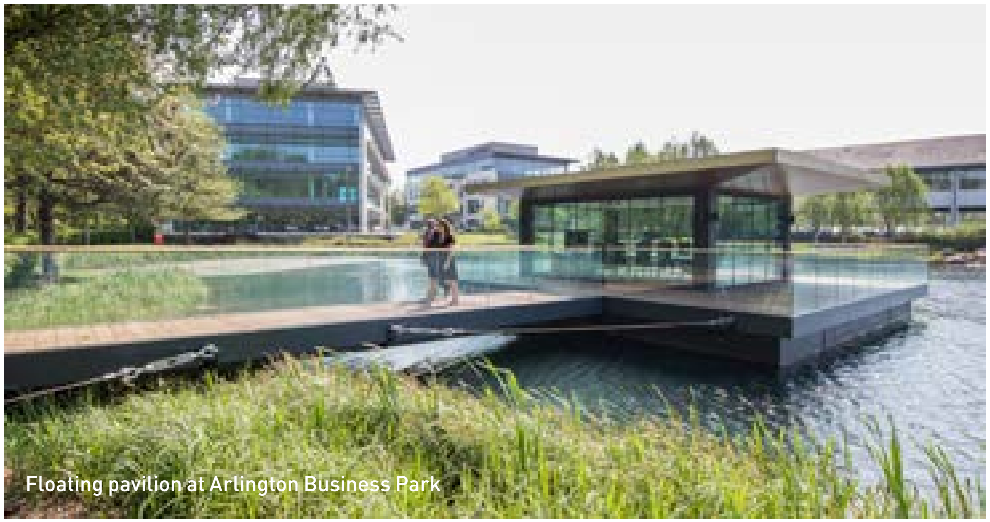
BACK IN BUSINESS

Business parks have risked being left behind in recent years, with investment and regeneration activity focused on town and city centres; and younger workforces increasingly favouring urban locations that provide easy access to leisure and retail amenities.

A number of major business park owners across the South East have recognised this shift in attention and have revitalised their parks via significant investments in the upgrading of facilities and amenities. This is helping to attract new demand, and shifting the dynamic between town centre and out of town locations.

The changing nature of demand is demonstrated by LSH data, which shows that the average deal size in South East out of town markets has progressively fallen in recent years, while it has risen in town centres. In Q1 2020, deals were, on average, larger in town centres than in out of town locations.

The traditional role of business parks, as locations primarily providing corporate headquarter buildings with large floor plates, is changing. Landlords are offering more varied accommodation suitable to a multitude of occupiers, ranging from large corporate buildings through to small, flexible incubator space.



Floating pavilion at Arlington Business Park

WELL WORKPLACES

As well as needing to provide a more flexible range of accommodation, successful business parks have had to improve on-site amenities so that they are attuned to the demands of millennial workers. Attractive amenities are needed if business parks are to compete successfully with city centre offices that have the advantage of leisure and entertainment facilities on their doorsteps.

Landlords able to offer high quality amenities such as gyms, cafés and crèches have been able to build on the existing strengths of business parks

– such as access to arterial routes, generous car parking ratios and pleasant, landscaped environments – to create attractive workplaces that support employee wellbeing.

REVITALISED PARKS

Chiswick Park was at the vanguard of the business park revolution, offering a true 'service' culture, and providing a quality and range of amenities that would be hard to find in many town centres. While it has taken some time for Chiswick Park's philosophy to ripple outwards, a growing number of South East business parks are now being transformed and repositioned through new investment, and the landlords of these parks are reaping the rewards.

Among the recent success stories are Oxford Business Park, which has seen the recent launch of amenities such as the Oxford Factory restaurant and the Oxford Works community hub; Arlington Business Park near Reading, where extensively upgraded facilities include a floating pavilion, café and gym; and Croxley Park, Watford, where the centrepiece of recent improvements is The Hive, an impressive amenity building that features a gym, café and flexible event space.

FLEXIBILITY IS KEY

Recent improvements to Oxford Business Park and Arlington Business Park have challenged the misconception that landlords need 100% ownership of a park in order to control its strategy and to make the introduction of amenity and community infrastructure viable. In both cases, landlords recognised that investment was required for the greater good of the parks.

Landlords' willingness to listen to the requirements of occupiers and adapt accordingly is crucial. This may include being flexible over lease structures; considering occupiers with lower covenant strengths; or being prepared to offer Cat B solutions. A key concept is that while business parks can provide large headquarter buildings for blue chip occupiers, they can also be incubation centres for smaller, more nimble occupiers that have the potential to grow with the support of a trusted landlord team.

POST-PANDEMIC DEMAND

Hanging over everything is the question of what impact COVID-19 will have on the future of office workplaces. In the short term, at least, business parks may have an advantage over city centre offices, as it will be easier and safer for their workforces to return from lockdown, as they are generally less reliant on public transport and thus at lower risk of infection.

It should also be easier to maintain social distancing on business parks, as they provide more controllable, lower density environments than busy city centres. The ability to drive or cycle to a working environment that offers plenty of open space could have great appeal in the post-pandemic world. Business park landlords able to respond quickly to changing demand should be well placed to prosper.

The Oxford Factory, Oxford Business Park, opened in November 2019 and has transformed the amenity offering on the Park.

CASE STUDY: OXFORD BUSINESS PARK

A recent influx of investment from TPG has given the Arlington team the firepower to reposition Oxford Business Park into a true urban business park, as the only managed commercial business location within the Oxford ring road. New amenities include the Oxford Factory restaurant; the Oxford Works co-working and seminar centre; and the Market Place, a landscaped 'piazza'.

These have been crucial in attracting a number of high-tech occupiers, who would have otherwise sought space in the city centre. Over the past 18 months, deals have been struck with Oxbotica, Animal Dynamics, Perspecum Diagnostics and Ultromics.

The quality of refurbished buildings has also been a key factor in drawing occupiers. The newly-refurbished Building 5520 has set a new benchmark for quality in the Oxford market, and prime rents for Oxford Business Park are now at £31.00 per sq ft.

Back to contents

MARKET INSIGHT

CAMBRIDGE

FIRST TO FIFTY

Cambridge is reaping the benefits of its world-class reputation, attracting a host of global giants in science and technology. With supply failing to keep up with demand, prime rents have increased sharply over recent years.

TOP PERFORMER

2019 was a stellar year, with annual take-up climbing to its highest level since 2013. Headline deals included Apple's 79,500 sq ft pre-let at Brookgate's 30 Station Road and AstraZeneca's 50,000 sq ft letting at Eastbrook House, while, out-of town, DisplayLink pre-let 61,000 sq ft at 22 Cambridge Science Park. Alongside the larger transactions, activity was also strong in the core 3,000 sq ft to 15,000 sq ft range.

Recent transactions have demonstrated Cambridge's appeal to international science and tech occupiers – Apple joins Microsoft, Amazon and Samsung at CB1. Given the nature of its occupier base, Cambridge should prove relatively resilient to any longer-term fallout from COVID-19. This resilience has already been clearly demonstrated, with Amgen taking 35,000 sq ft at Cambridge Science Park during the early part of lockdown, the region's second largest deal during Q2.

A TIGHT MARKET

Cambridge is one of the region's most tightly supplied markets, with total availability equivalent to little more than a year of average take-up. Although grade A space dominates supply, there are only several options in excess of 20,000 sq ft, the largest being The Works, Sawston (53,000 sq ft). Consequently, pre-lets have been key to satisfying larger requirements, both in the city centre and in the prime parks to the north of the city.

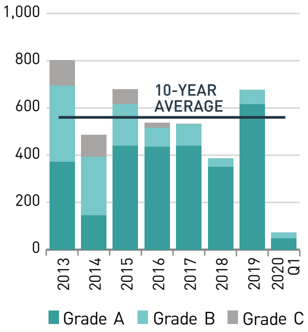
There is circa 550,000 sq ft of new-build development progressing in the market, albeit 30% is already committed via pre-lets. The two major spec schemes under construction comprise One and Two Cambridge Science Park (200,000 sq ft) and One Cambridge Square, Cambridge North (94,000 sq ft).

FIRST TO FIFTY

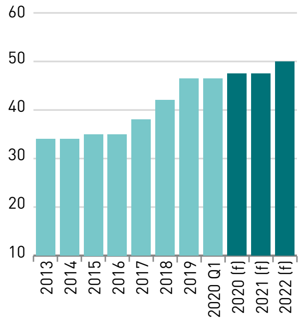
Cambridge's world renowned knowledge cluster has helped to drive strong inward investment and rental growth in the past few years, with growth in 2019 alone of 11%.

While prime headline rents are benchmarked at £46.00 per sq ft, Cambridge is also the first UK market outside Greater London to achieve a headline rent of £50.00 per sq ft following Brewin Dolphin's recent sub-letting at the top floor of 50/60 Station Road.

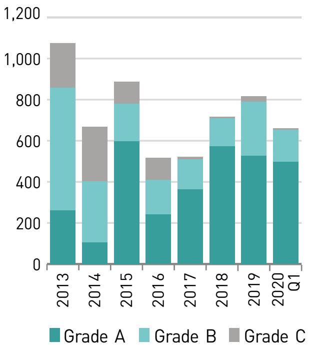
TAKE-UP (000 SQ FT)



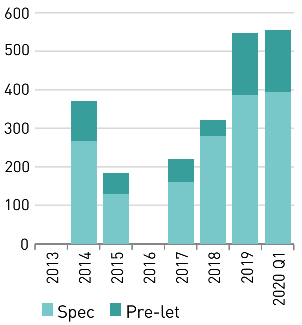
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

+14%

YEARS OF SUPPLY

1.2

GRADE A SHARE OF SUPPLY

75%

PRIME YIELD

4.75%

Q1 2020 HEADLINE RENT (PER SQ FT)

£46.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q4	30 Station Road	79,000	Apple	£43.00
2019 Q2	50/60 Station Road	48,000	Wework	£42.00
2019 Q2	Gonville Building, Chesterford Research Park	41,000	Lonza Group AG	£22.00
2019 Q4	140 Cambridge Science Park	25,899	Feature Space	£32.50
2019 Q2	50/60 Station Road	21,388	Amazon	£41.50

Source: LSH Research

Back to contents Back to map

LUTON

AVIATION SECTOR HITS TURBULENCE

Luton's out-of-town office market has seen strong take-up over the last year. However, the town's reliance on airport-related demand leaves it highly exposed to one of the sectors hardest hit by COVID-19.

OUT OF TOWN DOMINATES

Luton is now effectively an out-of-town office market, with much of its town centre stock either reaching obsolescence or being converted to residential use. Town centre activity is dominated by the public sector, and recent transactions have included HM Courts and Tribunal Service's acquisition of 13,000 sq ft at Arndale House.

In the out-of-town market, Capability Green and Butterfield Business Park have both seen healthy levels of leasing activity over the last year. Capability Green is firmly established as Luton's premier office destination and arguably offers the best travel connections and value for money of any business park in the Northern M25 region.

Airport-related activity has been strong over the last 18 months, with EasyJet taking 26,000 sq ft at 500 Capability Green and London Luton Airport Authority leasing 12,000 sq ft at the newly refurbished Percival House. However, the aviation industry has been severely affected by COVID-19, and this may have a significant knock-on impact on future office demand.

NEW DEVELOPMENT STALLED

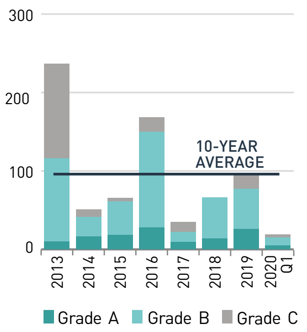
Percival House, the former headquarters of the collapsed airline Monarch, has been comprehensively refurbished. The leasing of the 36,000 sq ft building got off to a strong start, but may now falter due to the current market uncertainty.

EasyJet unveiled proposals for a new 140,000 sq ft headquarters in February 2020, having acquired two adjacent sites near the airport. EasyJet had been preparing a planning application for the project, but it may now be postponed due to COVID-19-related uncertainty. No other significant sites are currently under construction in Luton, and no speculative development is expected to come through in the short-to-medium term.

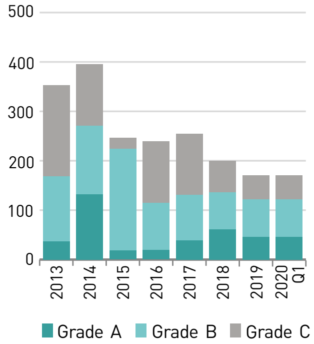
RENTS TO REMAIN STABLE

Prime headline rents rose from £22.25 to £23.50 per sq ft in 2019, with the highest rents being achieved at Capability Green. However, the release of approximately 70,000 sq ft of office space in this location will shift the supply/demand balance, and rental levels are expected to remain static in 2020. Rent free periods of 12 months are typical for five year leases, but these could increase to 18 months by the year-end.

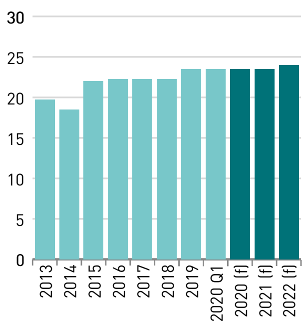
TAKE-UP (000 SQ FT)



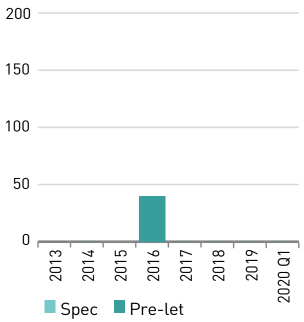
AVAILABILITY (000 SQ FT)



PRIME HEADLINE RENT (£ PER SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE
+33%

YEARS OF SUPPLY
1.8

GRADE A SHARE OF SUPPLY
27%

PRIME YIELD
5.50%

Q1 2020 HEADLINE RENT (PER SQ FT)
£23.50

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q2	500 Capability Green	26,351	Easyjet	£23.50
2019 Q4	Arndale House	12,800	Luton County Court	£12.50
2019 Q4	Infinity House, Prospect Way	12,155	London Luton Airport	£22.50
2019 Q4	270 The Village Butterfield	9,265	Foxley Kingham	Freehold sale
2019 Q4	Mulberry House, Capability Green	5,514	Lumesse Holdings Limited	£22.50

Source: LSH Research

MILTON KEYNES

HITTING THE MK

The Milton Keynes market had an impressive start to 2020. However, Q1 may be the high point, with activity likely to be more muted over the rest of the year due to a lack of new speculative development and the impact of COVID-19.

XERO THE HERO

Leasing activity reached 138,000 sq ft in Q1; equivalent to more than 50% of average annual take-up. The market was boosted by online accounting software company Xero's lease of 55,000 sq ft at 100 Avebury Boulevard, MK's largest deal in five years.

The out of town market was dominant in 2019, accounting for 80% of total take-up. Existing businesses continue to show strong demand for out of town grade B offices with good parking provision, while new market entrants are more focused on central Milton Keynes.

There were a large number of active requirements in the Milton Keynes market in Q1, but some of these have been paused due to COVID-19 and, as a result, take-up may be muted over the rest of 2020.

SUPPLY CONSTRAINED

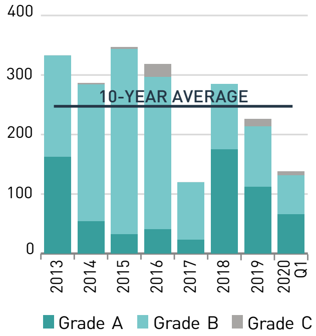
Grade B out of town availability stands at 150,000 sq ft, which is not enough to satisfy a year's demand. Grade A out of town supply is even more limited at 40,000 sq ft, with no new space in the pipeline. The limited availability of out of town offices may force more occupiers to consider central locations, and there are a number of refurbished grade B+ options in the town centre.

The speculative 100 Avebury Boulevard development is now fully let, proving the strength of demand for new grade A offices in central Milton Keynes, However, no similar speculative projects are currently under construction. The next major speculative development could be Sterling Ventures' New City Place project; while the site has seen several years of inactivity, the developer is understood to be close to securing funding for a 250,000 sq ft office scheme.

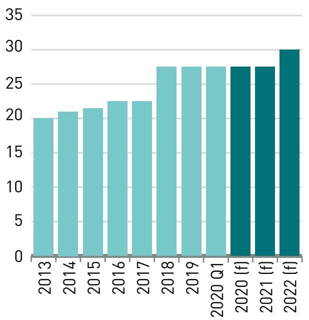
RENTS TO HOLD STEADY

Prime headline rents currently stand at £27.50 per sq ft. Short term rental growth prospects are likely to be constrained by the lack of new grade A development and the impact of COVID-19. Over the longer term, the £30 per sq ft barrier could easily be broken if new speculative development were to come forward in central Milton Keynes.

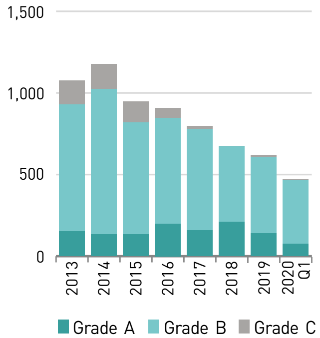
TAKE-UP (000 SQ FT)



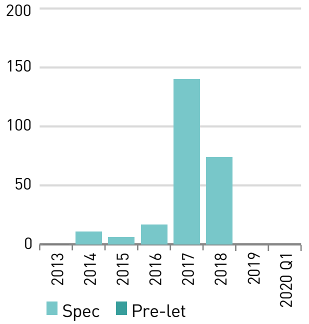
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE
+23%

YEARS OF SUPPLY
1.9

GRADE A SHARE OF SUPPLY
16%

PRIME YIELD
5.25%

Q1 2020 HEADLINE RENT (PER SQ FT)
£27.50

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q2	Burystead Court, Caldecotte	57,741	TSYS	£27.00
2020 Q1	100 Avebury Boulevard	55,918	Xero	£27.00
2019 Q4	Phoenix House, Elder Gate	20,569	Network Rail	£18.50
2019 Q2	K2, Kents Hill Business Park	20,482	Grand Union Housing	£17.50
2020 Q1	Exchange House	12,795	Eiffage Kier JV	£21.50

Source: LSH Research

Back to contents Back to map

OXFORD

OXFORD IN THE KNOW

Office rents have continued to hit new highs, driven by strong demand from knowledge-based industries and the limited availability of stock, especially in Oxford city centre.

TAKE-UP CONSTRAINED

Take-up reached 201,000 sq ft in 2019, down 31% on 2018. Activity was held back by restricted supply, rather than a lack of demand, as rising prime rents demonstrated occupiers' continued appetite for high quality space. Science and technology companies were the main drivers of demand, accounting for 83% of annual take-up.

With availability acutely constrained in the city centre, 87% of 2019's take-up was in non-central locations. Demand was primarily focused on hubs such as Oxford Business Park, Oxford Science Park, Milton Park and Harwell Campus. Arlington's investment in refurbishments and new amenities at Oxford Business Park led to successful lettings, with approximately 80,000 sq ft of deals in 2019 and Q1 2020.

NEW SUPPLY ON TRACK

The most significant new development under construction is the Bellhouse Building (30,000 sq ft), which is the third part of the Magdalen Centre at Oxford Science Park. On its completion, the Magdalen Centre will comprise 100,000 sq ft, making it one of the largest innovation centres in the UK. In addition, planning permission has been granted for the development of two office and laboratory buildings totalling 168,000 sq ft at Plot 16, Oxford Science Park.

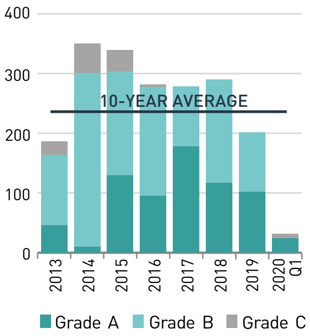
Elsewhere, Arlington is currently undertaking a comprehensive refurbishment of the 18,000 sq ft Building 3500 at Oxford Business Park. The current phase of the refurbishment of the Runway Buildings at Harwell Campus is also progressing and proving successful with over 50% pre-let or under offer.

RENTS TO HIT NEW HIGHS

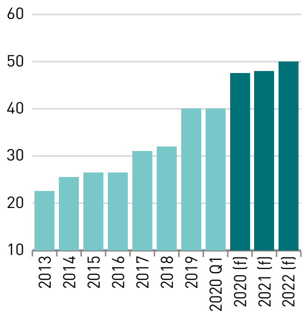
City centre prime rents are now established at £40.00 per sq ft, but deals under offer indicate that rental growth is imminent. An under offer deal at the Jam Factory redevelopment is expected to drive a step change in prime office rents up to £47.50 per sq ft by the year-end.

Demand from science and technology occupiers has also driven rental growth in the out of town market, with OSI's leasing of the 28,000 sq ft secondhand Sherard Building at Oxford Science Park establishing out of town headline rents at £35.00 per sq ft.

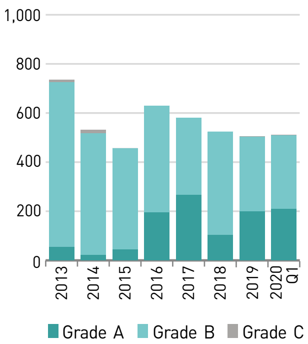
TAKE-UP (000 SQ FT)



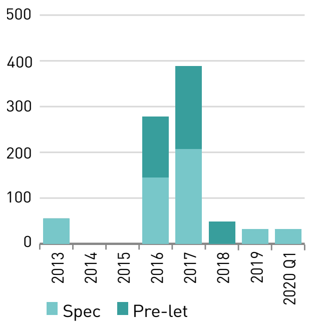
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE
-10%

YEARS OF SUPPLY
2.1

GRADE A SHARE OF SUPPLY
41%

PRIME YIELD
5.00%

Q1 2020 HEADLINE RENT (PER SQ FT)
£40.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q4	Sherard Building, Oxford Science Park	28,167	OSI	£35.00
2019 Q3	Gemini, 5520 Oxford Business Park	24,110	Perspectum Diagnostics	£30.00
2019 Q3	142 Park Drive, Milton Park	22,000	Johnson Mathey	£27.00
2019 Q2	King Charles House	15,350	Osler Diagnostics	£35.00
2020 Q1	141 Milton Park	13,857	Wave Optics	£31.50

Source: LSH Research

WATFORD

SUPPLY TO THE RESCUE

Activity has been held back by a severe lack of supply. Positively, this is set to change over the next 12 months, with a much-needed injection of grade A space being crucial to attracting the sort of large occupiers Watford has seen in previous years.

POOR TAKE-UP

2019 was memorable for the wrong reasons, with take-up of 56,000 sq ft the lowest annual total on record. Of 2019's ten deals, the largest was Finest Dental's 17,076 sq ft lease at Egale 2, 78 St Albans Road. The one other grade A deal above 5,000 sq ft was Agco Finance Limited's lease at Building 7, Croxley Business Park. Activity has remained muted in 2020, although take-up was boosted by PWC's 28,000 sq ft 15-year lease at newly-refurbished 40 Clarendon Road.

PROMISE IN THE PIPELINE

Watford is the region's tightest supplied market, with availability equivalent to only 1.2 years of average annual take-up. Only two buildings currently offer in excess of 20,000 sq ft, while immediately available grade A supply in the town centre is restricted to a single building, the balance of 40 Clarendon Road (19,000 sq ft).

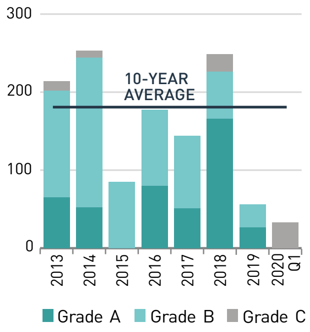
Developers are responding, with the potential for 780,000 sq ft to be delivered by 2024. In town, Clarendon Road is a key focus, with major refurbishments of 38 (Edward Hyde Building) and 49 (GNR8) to see 77,500 sq ft of grade A supply injected into the market in 2020, while TJX Europe's 53 Clarendon Road (105,000 sq ft) is on site and set for delivery in 2022. Out of town, 1 Croxley Park (84,000 sq ft) is due to complete in Q3 2021.

RENTS ON THE RISE

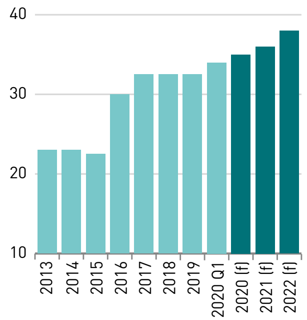
Notwithstanding the impact of COVID-19, the fundamentals of the Watford market are a perfect recipe for rental growth. The delivery of high quality supply should stimulate a revival of large deals, with Watford's accessibility to London helping to attract big-name occupiers such as TJX, ASOS and PWC in recent years.

Constrained supply has fuelled strong rental growth, while incentive packages are relatively tight. Prime headline rents climbed to a new high of £34.00 per sq ft in Q1 2020, with prime out of town locations commanding circa £31.00 to £32.50 per sq ft. The delivery of pipeline developments is expected to drive prime rents up to £38.00 per sq ft by 2022.

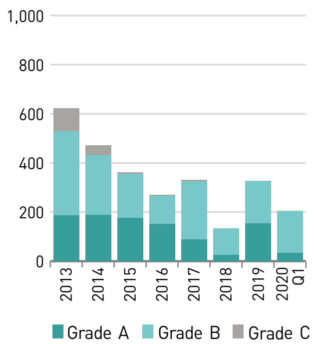
TAKE-UP (000 SQ FT)



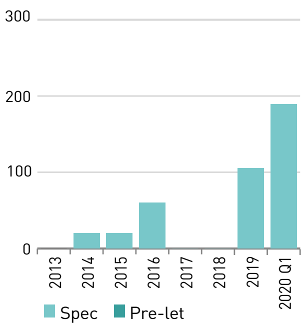
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

-52%

YEARS OF SUPPLY

1.2

GRADE A SHARE OF SUPPLY

15%

PRIME YIELD

5.25%

Q1 2020 HEADLINE RENT (PER SQ FT)

£34.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2020 Q1	40 Clarendon Road	28,448	PWC	£36.50
2019 Q4	Egale 2, 78 St Albans Road	17,076	Finest Dental	£31.00
2019 Q3	Building 7, Croxley Park	7,375	Agco Finance Limited	£22.50
2019 Q2	St Andrews, The Belfry	7,258	Confidential	£25.00
2020 Q1	Oak House	4,750	Centrose	£28.00

Source: LSH Research

Back to contents Back to map

BLACKWATER VALLEY

RAPID ASCENT

The newly refurbished Ascent buildings have helped to re-energise the market, with the provision of much-needed high quality supply attracting strong demand and pushing prime headline rents close to £30 per sq ft. However, further development will be needed if headlines are to surpass this level.

GOOD PROSPECTS

Notwithstanding recent disruption from the lockdown, 2020 got off to a promising start. Q1 take-up of 48,771 sq ft was underpinned by Gama Aviation's 20,000 sq ft lease at Farnborough Business Park and Elanco's 17,500 sq ft lease at Form 2, Hook. Meanwhile 90,000 sq ft is under offer across six deals at the Ascent buildings, Farnborough Aerospace Centre (FAC), including Philips (37,500 sq ft) and Infor (25,000 sq ft).

The market also performed reasonably well in 2019, with annual take-up improving by 20% on 2018's level. The largest transactions included Discover Financial at Ascent (43,000 sq ft), Harrington Carmichael at Watchmoor Park (15,000 sq ft) and Airbus at Cody Technology Park (14,000 sq ft). Notably, the respective town centres accounted for only 7.2% of the 2019 take-up, reflecting the ongoing dominance of the area's business parks.

TIGHTER THAN IT LOOKS

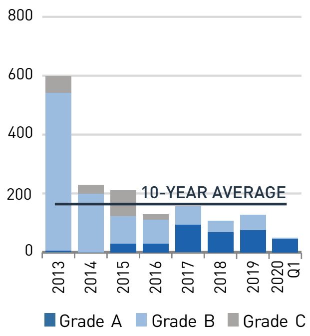
Standing at 650,769 sq ft, total availability as at the end of Q1 2020 is equivalent to around four years of supply based on average annual take-up. However, some 30% of current supply is unlikely to be refurbished for continued office use, so the 'real' total is much lower.

The only sizeable town centre option is Briarcliff Parc, Farnborough (45,145 sq ft). At Farnborough Business Park, there are no plans as yet to bring forward anything on a speculative basis, although Frasers has consent for its Pinehurst 4 scheme (79,479 sq ft), which is being offered on a pre-let basis.

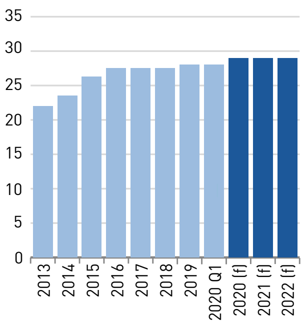
RENTS TO EDGE UP

Discover Financial's acquisition at Ascent has pushed prime headline rents up to a new high of £28.00 per sq ft. This is expected to edge up to £29.00 per sq ft over the course of 2020 as further deals are agreed at FAC. That said, the fallout from the lockdown could prompt more generous incentive packages. Any pre-let at Pinehurst 4 would need to attract a headline rent in excess of £30.00 per sq ft.

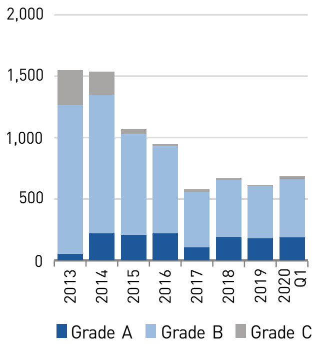
TAKE-UP (000 SQ FT)



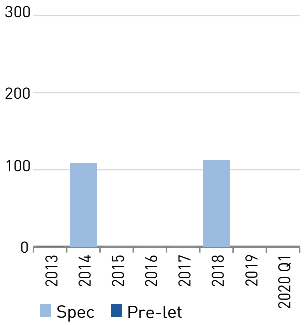
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

-36%

YEARS OF SUPPLY

3.9

GRADE A SHARE OF SUPPLY

27%

PRIME YIELD

5.50%

Q1 2020 HEADLINE RENT (PER SQ FT)

£28.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q1	Ascent 3, FAC	43,000	Discover Financial	£28.00
2020 Q1	25 Templer Avenue	20,027	Gama Aviation	£23.00
2020 Q1	Form 2, Hook	17,500	Elanco	£17.50
2019 Q4	2 Watchmoor Park	15,000	Harrington Carmichael	Confidential
2019 Q4	250 Fowler Avenue, Farnborough BP	9,488	Exclaimer	£26.50

Source: LSH Research

BRACKNELL

BACKING BRACKNELL

The arrival of the Lexicon centre in 2017 has boosted confidence in the town. After a decade-long development hiatus, growing confidence has seen the return of refurbishment activity, driving rental growth for prime space.

LOCKDOWN DEAL

Amid the initial part of the lockdown, Bracknell was home to one of the UK's few prominent occupier deals. In late March, Eli Lilly acquired the whole of 8 Arlington Square West (37,675), the town's largest letting since 2013. It followed a comprehensive refurbishment of the building by CCLA and Fiducia Property Asset Management, which completed in November 2019.

While the deal was held up as a sign of 'business as usual' in the office market, Eli Lilly had already committed to cease operations at their current UK Research centre, in Erl Wood, Surrey. Indeed, the first four weeks of lockdown saw a number of live deals put on hold.

REFURBS RETURN

At 540,000 sq ft, total supply is equivalent to 3.8 years of average take-up. However, this pales in comparison with the town's predicament six years ago, when supply levels were more than twice what they are currently. Grade A space makes up broadly half of total supply.

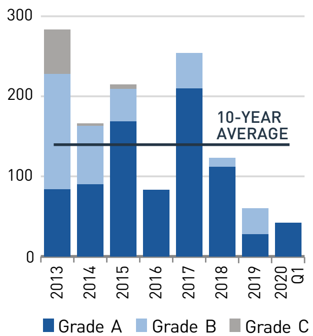
Improving confidence has been reflected in growing appetite for refurbishments. In addition to 8 Arlington Square West, Patrizia launched London House (14,330 sq ft) in October 2019. Presently, 7 Arlington Square West (66,600 sq ft) is undergoing refurbishment and will complete Q3 2020, while 4 Arlington Square (74,000 sq ft) is being marketed for pre-let.

RECIPE FOR RENTAL GROWTH

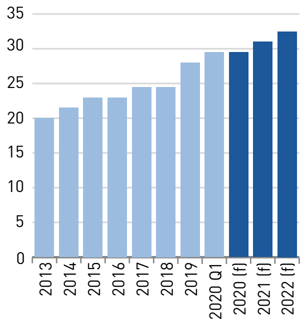
The completion of The Lexicon in September 2017, alongside greater demand for amenity generally, has shifted the focus of activity to the town centre. Eli Lilly's acquisition is a case in point, with Arlington Square's proximity to amenities and the quality of the building's specification helping to drive rents to a new high of £29.50 per sq ft.

While the coronavirus casts a great deal of uncertainty, improving fundamentals in the market and Bracknell's relative value compared with other towns are expected to drive growth in prime rents over the next few years. By the end of 2022, prime rents are expected to move up to £32.50 per sq ft, as the planned refurbishments let up.

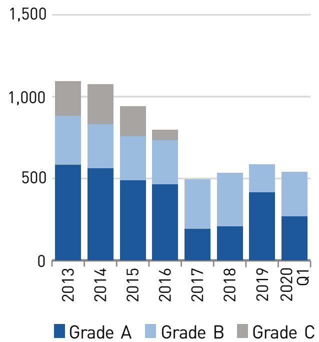
TAKE-UP (000 SQ FT)



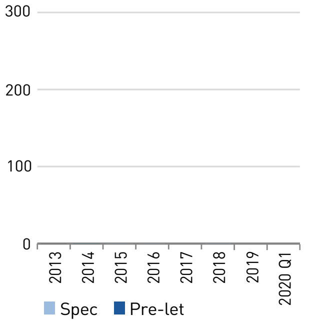
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE
-53%

YEARS OF SUPPLY
3.8

GRADE A SHARE OF SUPPLY
50%

PRIME YIELD
5.25%

Q1 2020 HEADLINE RENT (PER SQ FT)
£29.50

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2020 Q1	8 Arlington Square, West	37,675	Eli Lilly	£29.50
2019 Q4	Capitol	7,837	Perforce	£25.50
2019 Q3	Bridge House	6,715	swissQprint	£13.50
2020 Q1	One Station Square	5,508	Connect 44	£27.00
2019 Q2	Columbia	4,560	Reliance	£23.50

Source: LSH Research

Back to contents
Back to map

GUILDFORD

GAME ON

Guildford enjoyed a strong year in 2019, with activity reflecting the exciting growth of the games industry cluster in the town. However, with grade A space being relatively plentiful, prime headline rents are likely remain stable over the medium term.

STRONG PERFORMER

Guildford was one of the region's best performing markets in 2019, with annual take-up standing 50% ahead of its annual average. Demand from the gaming industry remains prominent, as key transactions included EA Games' 22,000 sq ft lease at Onslow House, and Wargaming's 12,000 sq ft at Guildford Business Park.

Q1 2020 has been quieter. Wargaming continued its rapid expansion by taking a further 13,000 sq ft at 2 Guildford Business Park, making it the second largest games occupier in Guildford after EA Games. More recently, the lockdown has curtailed activity as elsewhere, with one deal of circa 20,000 sq ft at Cathedral Square being pulled and others put on hold.

SUPPLY STABLE

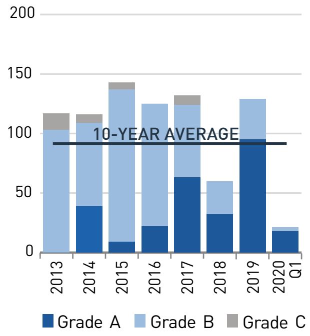
At 386,484 sq ft, total availability is broadly stable from its level 12 months ago but equivalent to over four years of supply. There is a good range of grade A options in the town, including Riverworks (32,243 sq ft), 3 London Square (35,528 sq ft) and 255 High Street (42,300 sq ft). Notably, Guildford Borough Council's VP sale of Liongate in Q1 saw 42,000 sq ft leave the market in Q1, with the building to be converted to residential.

The only scheme currently on site is Crossweys House, a 14,820 sq ft refurbishment by DTZ IM. In terms of pipeline, Europa and Ediston are ready to commence the refurbishment of 3000 Cathedral Square which will deliver 44,000 sq ft in mid-2021, while M&G is considering refurbishment options for One Onslow Street (60,000 sq ft) following Sanofi's vacation of the building earlier this year.

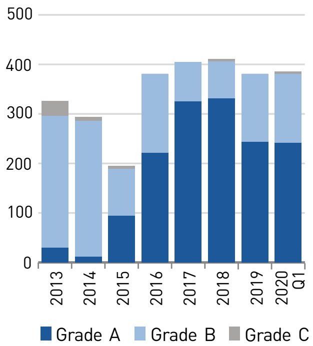
HEADLINES TO HOLD

Guildford's top achieved headline rent was recently confirmed by Wargaming's lease at 2 Guildford Business Park, agreed at £36.00 per sq ft. Reflecting a good range of choice in the market and uncertainty over the COVID-19 pandemic, prime headline rents are likely to stabilise at this level over the next two to three years. That said, while headlines are expected to hold, a softening of demand could translate into more generous incentive packages.

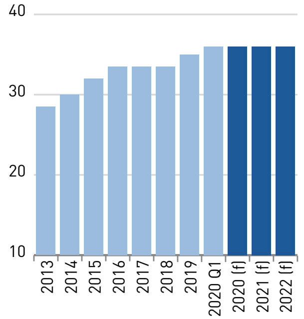
TAKE-UP (000 SQ FT)



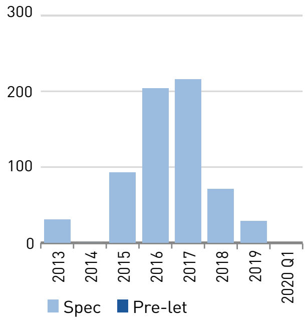
AVAILABILITY (000 SQ FT)



PRIME HEADLINE RENT (£ PER SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

+51%

YEARS OF SUPPLY

4.5

GRADE A SHARE OF SUPPLY

63%

PRIME YIELD

5.00%

Q1 2020 HEADLINE RENT (PER SQ FT)

£36.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q2	Onslow House - 1st	22,000	EA Games	£33.50
2019 Q4	2000 Cathedral Square	19,228	Gateley	£32.00
2019 Q2	2 London Square	14,500	Grenke	£34.00
2020 Q1	2 Guildford Business Park (Part 1st floor)	13,000	Wargaming	£36.00
2019 Q3	2 Guildford Business Park (3rd floor)	12,190	Wargaming	£36.00

Source: LSH Research

[Back to contents](#) [Back to map](#)

HAMMERSMITH & CHISWICK

WHITE CITY'S WORTH IT

White City is emerging as a fully-fledged destination in its own right, boosted by the completion of the second phase of Westfield. While the development pipeline has eased down, increased choice in and around the west London markets has seen headline rents plateau.

STRONG START TO 2020

The market has performed well over the past 12 months, although the emergence of White City as a new destination of choice has been a major source of take-up. White City was home to the South East's largest deal in Q1 2020, L'Oréal's 110,000 sq ft pre-let at The Gateway Central Building.

Q1 was also a busy quarter. In Hammersmith, another pharma company, Alvogen, took 6,000 sq ft at Kings House, while Red Bee and Discovery took a combined 33,000 sq ft on Chiswick Park. There continues to be a number of sizeable West London requirements in the market, with 57,000 sq ft rumoured to be under offer at AXA's Assembly scheme on Fulham Palace Road.

SHRINKING PIPELINE

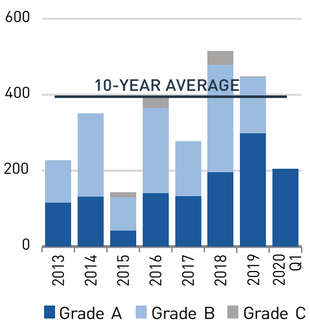
Availability has been on an upward trajectory over recent years and is now equivalent to five years of supply based on average take-up. However, supply has been skewed by the emergence of White City over recent years. Supply is falling in Hammersmith, although two key new-build options are Legal & General's 245 Hammersmith Road (189,000 sq ft remaining) and Assembly (66,500 sq ft remaining).

The pipeline is now comparatively limited. While Chiswick Park has been tremendously successful over the years, it is now fully built out. Hammersmith is also constrained, with the only spec completion due in 2020 being the refurbishment of The Refinery (120,000 sq ft). A further 130,000 sq ft will come forward at The Gateway Central Building, White City but with delivery scheduled for 2023.

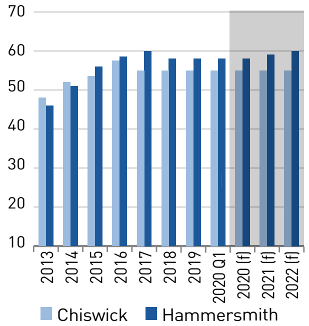
RENTS PLATEAU

Reflecting rising supply, prime headline rents in Hammersmith and surrounding areas have plateaued over the past 18 months. While grade B supply levels are not overly concerning, landlord competition for smaller occupiers has seen rent levels fall back from the high £40s to mid-£40s. Meanwhile, White City's once clear discount to the more mature Hammersmith and Chiswick Park rents has been cancelled out, with prime headlines in the mid-£50s per sq ft being the norm and a new record rent of £62.00 per sq ft set for the L'Oréal pre-let.

TAKE-UP (000 SQ FT)



PRIME HEADLINE RENT (£ PER SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

+56%

YEARS OF SUPPLY

5.0

GRADE A SHARE OF SUPPLY

60%

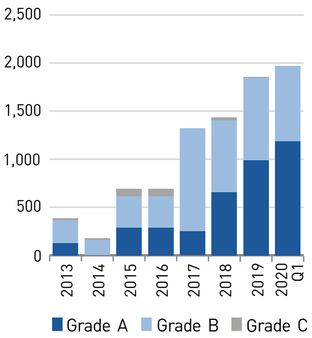
PRIME YIELD

4.75%

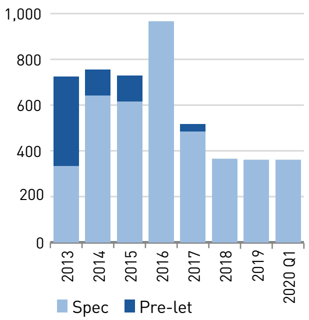
Q1 2020 HEADLINE RENT (PER SQ FT)

£58.00

AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2020 Q1	Gateway Central Building, White City	110,000	L'Oréal	£62.00
2020 Q1	Metro Building	35,000	Mindspace	£53.00
2019 Q4	Building 7, 566 Chiswick High Road	34,400	British American Tabacco Company	£55.00
2019 Q4	245 Hammersmith Road	28,200	Tata	£59.00
2019 Q4	245 Hammersmith Road	28,200	Hana	£55.00

Source: LSH Research

Back to contents Back to map

HEATHROW

AVIATION SECTOR GROUNDED

Proposals for a third runway at Heathrow Airport have helped to spur office development plans in recent times, but demand for space may now be undermined by COVID-19's impact on the aviation sector.

TAKE UP SUBDUED

Take-up has been subdued in recent quarters, and only one deal over 5,000 sq ft was completed in Q1 2020, with Dyer & Butler taking 14,000 sq ft at Eclipse House. Current requirements are focused on smaller offices of sub-10,000 sq ft, and all three of the deals expected to be completed in Q2 2020 are for 7,200 sq ft or less.

Airport-related activity has been affected by the devastating impact of COVID-19 on the travel industry. This has also cast doubt on the future of the third runway project at Heathrow Airport, which had been expected to provide a long-term boost to office demand. Originally slated for completion in 2026, the runway now appears unlikely to be built until the 2030s, with air passenger numbers not expected to recover to pre-crisis levels for several years.

AMPLE CHOICE

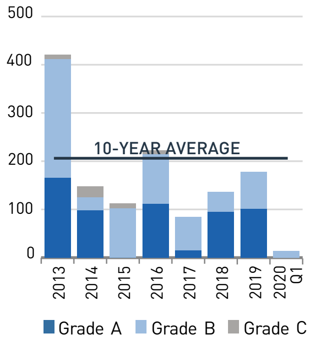
Just over 750,000 sq ft of office space is available, which is split fairly evenly between grade A and grade B stock. Large amounts of extensively refurbished grade A space are currently offered by The Bower, Stockley Park (99,000 sq ft), One Hyde Park Hayes (92,000 sq ft) and The Record Store at the Old Vinyl Factory regeneration project (65,000 sq ft).

A further 72,000 sq ft of offices will be delivered by The Union project at Stockley Park; this was due for completion in Q1 2021, but may now be delayed. Longer-term projects include WBC 5, the fifth part of World Business Centre complex on Bath Road, where a planning application has been submitted for a 190,000 sq ft office development; and the Cabinet Building at the Old Vinyl Factory, where 230,000 sq ft of office spaces are proposed.

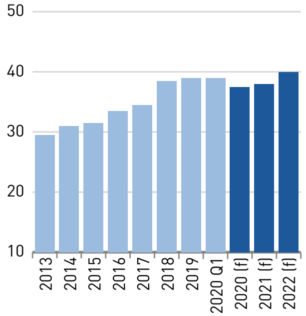
RENTS UNDER DOWNWARD PRESSURE

Prime headline rents stood at £39.00 per sq ft in Q1 2020 but are forecast to ease to £37.50 by the year-end. The aviation sector forms an important aspect of demand in the Heathrow market. Given the sector's direct exposure to the fallout from COVID-19, business cutbacks are expected to lead to an increase in grey space, potentially leading to further downward pressure on rental levels.

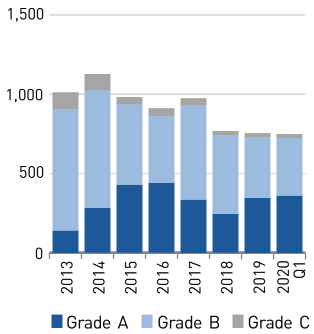
TAKE-UP (000 SQ FT)



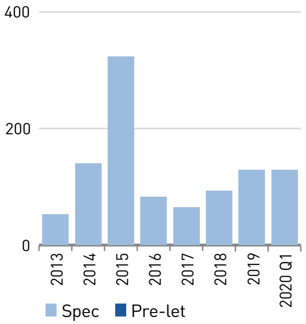
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

-15%

YEARS OF SUPPLY

3.7

GRADE A SHARE OF SUPPLY

48%

PRIME YIELD

5.25%

Q1 2020 HEADLINE RENT (PER SQ FT)

£39.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q4	2 New Square, Bedfont Lakes	44,253	McDermott Marine	£30.00
2019 Q2	5 The Square, Stockley Park	35,000	Canon	£35.50
2019 Q4	4 Longwalk, Stockley Park	25,128	IMG Studios	£38.50
2019 Q3	5 New Square, Bedfont Lakes	20,655	Merck Serono	£32.50
2020 Q1	Eclipse House	14,090	Dyer & Butler	£12.50

Source: LSH Research

MAIDENHEAD

ELIZABETH LINE AWAITED

Maidenhead remains dominated by its out of town market, although the upcoming opening of the Elizabeth Line is acting as the catalyst for increased town centre development.

STEADY TAKE-UP
ROBUST OUT OF TOWN MARKET

The Maidenhead market has seen robust levels of take-up in recent quarters, with notable deals including Socionext Europe at Building 3, Concorde Park (19,400 sq ft); Regus at Building 2, Concorde Park (17,000 sq ft); and LivaNova at Eurasia (9,560 sq ft). Activity has focused primarily on out of town locations, which account for the majority of Maidenhead's office stock.

The long-awaited arrival of the Elizabeth Line is much anticipated, and it should serve as a major demand driver in the coming years. Services stopping at Maidenhead are expected to commence in 2022, although this could be put back due to construction delays caused by COVID-19.

TIGHT IN THE TOWN

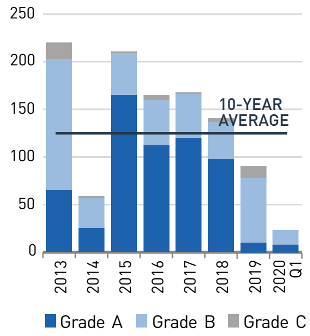
Availability stands at 566,000 sq ft, 70% of which is in out of town location such as Maidenhead Office Park and Foundation Park. There is a preponderance of grade B stock, which represents 53% of available space. Grade A town centre space is in particularly short supply, although The Lantern (19,000 sq ft) was completed in Q3 2019, making it the first speculative development to be brought to the town centre in three years. The only other town centre building currently offering a significant volume of grade A space is the refurbished Sygnus Court (22,000 sq ft).

Work has begun on The Landing, a major mixed-use regeneration project that will include office, residential, retail and leisure space near Maidenhead station. Alongside the proposed redevelopment of Statesman House and Braywick Gate, this points to a refocusing of commercial activity around the train station, encouraged by the forthcoming arrival of the Elizabeth Line.

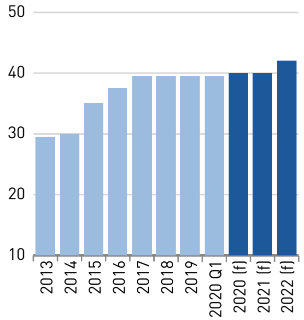
FLIRTING WITH FORTY

Prime headline rents in Maidenhead have remained at £39.50 per sq ft since 2017. Rents are not expected to change during 2020, but they are forecast to break the £40.00 barrier in the coming years, hitting £42.00 per sq ft by 2022.

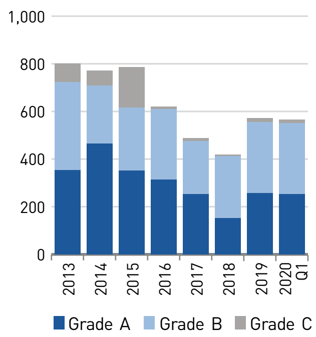
TAKE-UP (000 SQ FT)



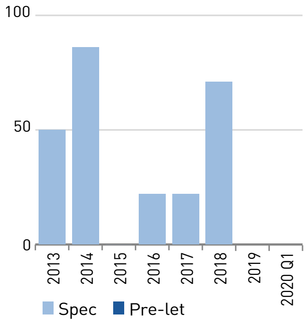
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

-32%

YEARS OF SUPPLY

4.5

GRADE A SHARE OF SUPPLY

45%

PRIME YIELD

5.00%

Q1 2020 HEADLINE RENT (PER SQ FT)

£39.50

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q4	Mallards Reach	17,500	Maersk	Confidential
2019 Q4	Concorde Park Building 2	16,800	Regus	£22.00
2020 Q1	Eurasia	9,560	Livanova	£26.50
2019 Q3	The Pearce Building	7,500	Squared Up	£37.50
2020 Q1	The Pearce Building	7,500	Zogenix	£37.50

Source: LSH Research

READING

HITTING FORTY

The key business parks have benefitted from landlord action to boost the quality of space and amenity offer. In town, Station Hill marks the next crucial phase in the town centre, and will cement Reading's reputation as a leading UK business centre.

LOCKDOWN REQUIREMENTS

Following a creditable year in 2019, 2020 began in subdued fashion with no deals in excess of 10,000 sq ft. Active demand had been robust in Q1 but dominated by sub-10,000 sq ft requirements, while fresh enquiries have started to appear after several weeks of lockdown, particularly from the tech sector.

The out of town market accounted for 73% of annual take-up in 2019, reversing the pattern seen in 2018. This switching in fortunes from one year to the next is something of a trend, with the pattern in 2019 linked to a lack of prime supply in the town centre alongside greater quality of choice at the key business parks.

CHOICE OUT OF TOWN

Supply has ticked up over the past 12 months to stand at circa 2m sq ft, of which 1.4m sq ft is located out of town. Arlington Business Park is a key focus of fresh supply, with refurbishments of Building 1330 (38,734 sq ft), 1220 (30,624 sq ft) and 1320 (20,404 sq ft, now let to Veritas). Mapletree's 400-450 Longwater Avenue, Green Park (233,988 sq ft) is due for delivery in November 2020.

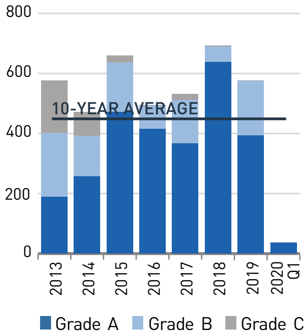
Supply is much tighter in the town centre. Recent completions include The Carbon Building (25,977 sq ft) and The Brick Works (18,860 sq ft), with the latter already securing tenants. One Station Hill represents the next major step forward in the town centre offer, with Lincoln MTG's 275,000 sq ft speculative scheme in planning and scheduled to begin construction in 2023.

HITTING FORTY

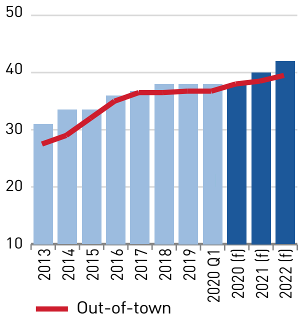
Demonstrating the value-add opportunity, Patron and APAM's capital investment in Arlington Park clearly paid off since its £75m acquisition in 2015. Headline rents climbed to £32.50 per sq ft here before being sold to CapitaLand for £129m in February 2020.

Prime headline rents stand at £38.00 per sq ft, unchanged since Ericsson's lease at Thames Tower in the town centre in Q1 2018. However, a pre-let on 400-450 Longwater Avenue or Station Hill would likely exceed this level, while Station Hill is expected to secure in excess of £40.00 per sq ft.

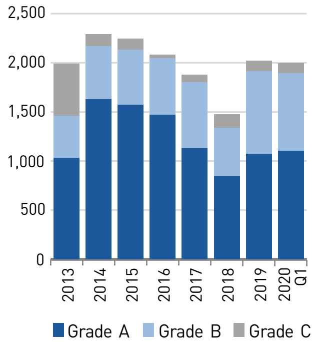
TAKE-UP (000 SQ FT)



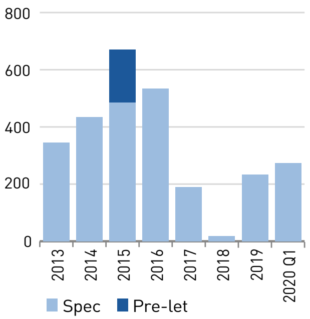
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE
-6%

YEARS OF SUPPLY
4.4

GRADE A SHARE OF SUPPLY
55%

PRIME YIELD
5.00%

Q1 2020 HEADLINE RENT (PER SQ FT)
£38.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q3	100 Berkshire Place	56,000	Arena Business Centre	Freehold sale
2019 Q4	Thames Tower	14,040	BMI Engineering	£33.50
2019 Q4	1320 Arlington Business Park	20,404	Veritas	£32.50
2019 Q4	The White Building	13,340	Barracuda	£35.50
2019 Q3	250 South Oak Way	11,939	Premier Pharmaceuticals	£35.75

Source: LSH Research

Back to contents
Back to map

SLOUGH

RENTS RISING, DESPITE MODEST TAKE UP

Slough remains an attractive business location, and is host to an array of global corporates. The forthcoming opening of the Elizabeth Line has encouraged development plans in the town centre, which may draw more major occupiers to the market.

SUBDUED TAKE-UP

The Slough market saw a relatively modest level of leasing activity in 2019, after take-up hit a decade-high in the previous year. Nonetheless, sizeable deals were completed, most notably Mattel's lease of the last remaining floor of the Porter Building (27,400 sq ft) in Q4.

2020 has also started slowly, although one stand-out deal saw the supply chain technology company ByBox take 9,500 sq ft of offices, plus a 5,000 sq ft private roof terrace, at AshbyCapital and U+I's The Future Works development. Slough remains the UK location of choice for many multinational companies, particularly from the TMT sector, and its attractiveness will be further boosted by the arrival of the Elizabeth Line, which is currently scheduled for 2022.

SUPPLY FOCUSED OUT OF TOWN

There is currently 733,000 sq ft of office space available in Slough, 64% of which is in out of town locations. Town centre availability is heavily weighted towards grade A space, reflecting the fact that much of the town's grade B space has either been refurbished or converted to alternative uses.

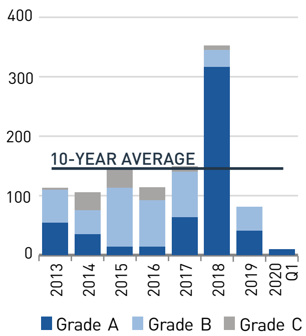
Buildings offering significant amounts of grade A space in the town centre include the newly-built The Future Works, where 74,000 sq ft remains available, and Landmark Place, which offers close to 35,000 sq ft of extensively refurbished offices. Out of town, there is approximately 200,000 sq ft available across five properties on Bath Road.

Future major developments in Slough may include the second and third phases of The Future Works, which are planned to provide an additional 250,000 sq ft of offices. Proposals were also submitted to the council in late 2019 for a 133,000 sq ft office building at Station Square, the site of the former Octagon Building.

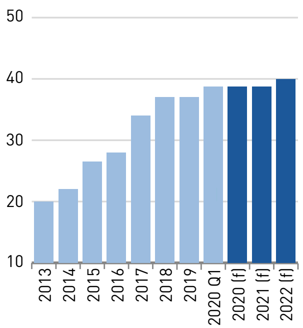
RENTS STILL RISING

Prime rents have almost doubled since 2013 and, although the pace of growth has slowed, there remains upward pressure on rents. Prime headline rents increased from £37.00 per sq ft to £38.75 over the last twelve months.

TAKE-UP (000 SQ FT)



PRIME HEADLINE RENT (£ PER SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

-48%

YEARS OF SUPPLY

5.0

GRADE A SHARE OF SUPPLY

68%

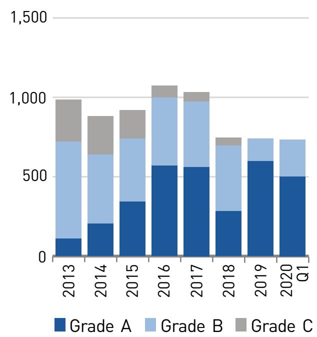
PRIME YIELD

5.00%

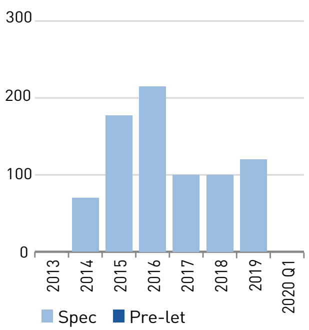
Q1 2020 HEADLINE RENT (PER SQ FT)

£38.75

AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q4	The Porter Building	27,400	Mattel	£34.00
2019 Q3	Phoenix 2, 63 Farnham Road	13,000	Confidential	Freehold sale
2020 Q1	The Future Works	9,544	ByBox	£38.75
2019 Q3	Manor House, Selfton Park	8,995	InPhase	£25.00
2019 Q3	The Priory	6,080	Vivax Metrotech	£22.00

Source: LSH Research

Back to contents
Back to map

STAINES

SPEC DEVELOPMENT RETURNS

Relatively subdued activity over the past few years reflects the increasing attraction of competing markets and a limited choice of quality options. That said, choice will be boosted by the commencement of the town's first speculative development in five years.

SLIM PICKINGS

While take-up in 2019 was ahead of the annual average, it was a relatively thin year. Of 2019's nine deals, Gartner's 46,000 sq ft pre-let on 1 Causeway Park dominated, with only one other transaction in excess of 20,000 sq ft. This theme has continued in 2020, with Q1's only deal being Clerical Medical's 16,974 sq ft letting at No1 London Road.

The subdued market of late partly stems from a lack of suitable options in the town centre and around the station. Staines is also suffering to a degree from the Crossrail effect, with some regional occupiers favouring quality options at locations on the new line, such as Maidenhead, Slough and Reading.

LIMITED QUALITY OPTIONS

Standing at 317,000 sq ft, availability has increased by 10% from its decade-low point in Q1 2019 and is equivalent to 2.8 years of supply based on average annual take-up. However, with the last remaining space at Strata now let, Lotus Park and Building 5, Pine Trees are the only remaining sizeable grade A options.

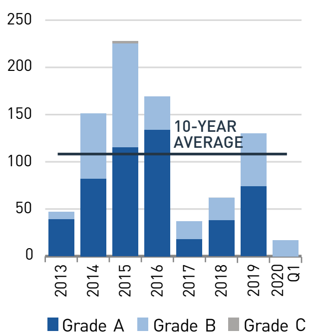
Gartner's pre-let has prompted XLB to speculatively build out the remaining site at Causeway Park. The 120,000 sq ft development is the first new-build grade A space to come forward since 2014/15. The next potential site to come forward is Berkeley Homes' Staines Central site, where there is outline permission for c.110,000 sq ft.

RENTS TO PLATEAU

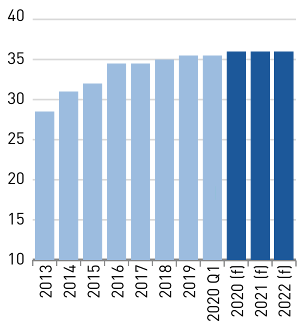
Prime headline rents have plateaued, with The Strata Building achieving the top rent for the town at £36.00 per sq ft. Competition to get the remaining grade A space let-up will keep quoting rents from rising further, and we expect headlines to remain at this level for the next two years or so.

Incentives on grade A space are also relatively generous, reflecting competition between buildings in the market and stock in other surrounding markets. Meanwhile, grade B space in the town remains at a significant discount to prime space, ranging between £25.00 to £30.00 per sq ft depending on the condition of the refurbishment.

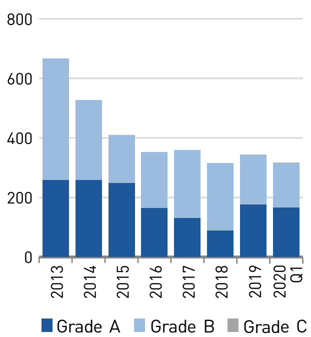
TAKE-UP (000 SQ FT)



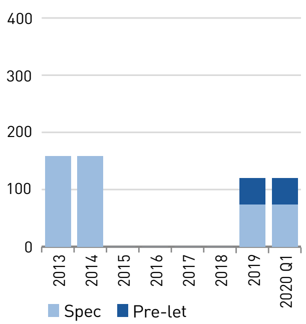
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

+11%

YEARS OF SUPPLY

2.8

GRADE A SHARE OF SUPPLY

52%

PRIME YIELD

5.00%

Q1 2020 HEADLINE RENT (PER SQ FT)

£36.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q3	Opus 1, The Causeway	46,000	Gartner	£33.00
2019 Q2	Bourne House	23,981	IFS Solicitors	£30.00
2020 Q1	No1 London Road	16,974	Synamedia	£32.00
2019 Q3	Hanover House, 1 Bridge Close	12,482	TBC	£25.00
2019 Q4	Waterfront House	7,785	RuPharma	£34.00

Source: LSH Research

Back to contents
Back to map

UXBRIDGE

COMPETITION SPURS ACTIVITY

Competition among landlords has stimulated a revival of activity. There is a growing presence of pharmaceutical and high tech businesses in Uxbridge and, with good value on offer, this will have a positive cumulative effect, attracting similar occupiers over the coming years.

UXBRIDGE UNLEASHED

Following several years of below par activity, take-up surged to a decade high of 172,000 sq ft in 2019. Alongside generous incentive packages, considerable landlord improvements to amenity levels have been key to attracting demand, reflected in a flurry of activity at the Charter Building and Uxbridge Business Park.

2020 started in impressive fashion, with several deals in excess of 10,000 sq ft in Q1. At the Charter building, Regeneron expanded their presence (11,053 sq ft) and Insight Direct took 18,201 sq ft while, out of town, Daiichi Sankyo took 10,705 sq ft at Building 4, Uxbridge Business Park. Immediately prior to the lockdown, there was a strong pipeline of requirements ranging from 15,000 to 30,000 sq ft, although many of these are now on hold.

OPTIONS APLENTY

Supply stands at a relatively ample 502,000 sq ft, and this partly reflects determined landlord action to boost the amenities on their assets and compete for occupiers. Two thirds of current supply is grade A, while 62% is located in-town, with some of the largest available options including the Charter Building (c.135,000 sq ft), Belmont (c.50,000 sq ft), and Buildings 4 (35,000 sq ft) and 5 (27,000 sq ft) Uxbridge Business Park.

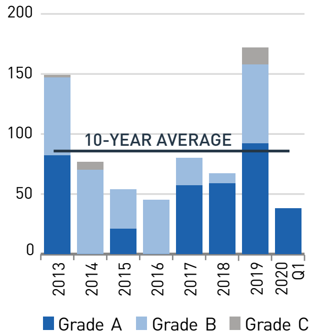
Given current supply, development appetite is limited compared with more tightly supplied locations. The only potential scheme currently is St Andrews Park, a mixed-use proposal which includes c.120,000 sq ft of office space, but this is unlikely to come forward in the near term.

LANDLORD GENEROSITY

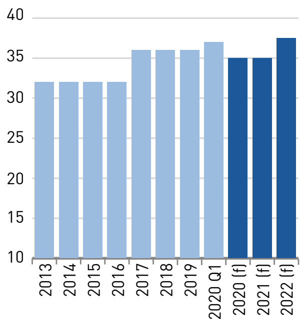
High supply has weighed on prime headline rents in the town centre, with downward pressure reflected in recent deals at Belmont and The Charter Building, achieved in the region of £32.00 per sq ft. In contrast, headline rents at Uxbridge Business Park have continued on an upwards trajectory, with recent deals achieving £37.00 per sq ft.

Given strong competition between available schemes, incentive packages are among the most generous of any market in the South East. Rent free packages in excess of 30 months free have become the norm.

TAKE-UP (000 SQ FT)



PRIME HEADLINE RENT (£ PER SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE
+74%

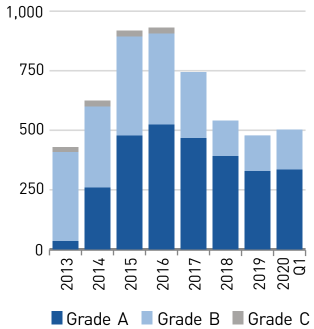
YEARS OF SUPPLY
5.9

GRADE A SHARE OF SUPPLY
67%

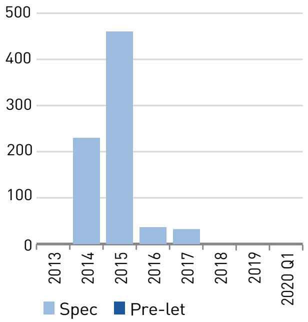
PRIME YIELD
5.50%

Q1 2020 HEADLINE RENT (PER SQ FT)
£37.00

AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q4	Building 4 Uxbridge Business Park	25,000	Xerox	£34.00
2019 Q4	The Charter Building	18,000	Insight Direct	£31.50
2020 Q1	Belmont	12,371	Fujistu	£32.00
2020 Q1	The Charter Building	11,053	Regeneron	£35.25
2020 Q1	Uxbridge Business Park	10,705	Daiichi Sankyo	£37.00

Source: LSH Research

WOKING

ASAHI BREWS A STORM

After a subdued 2019, Woking saw a flurry of activity in Q1 2020. Leasing activity focused on the town centre, with the out of town market continuing to contract due to office-to-residential conversions.

TOWN CENTRE MARKET DOMINATES

Office take-up in Woking was a modest 69,418 sq ft in 2019, some 20% below the 10-year average. However, Q1 2020 saw a surge in activity, with commitments made to 63,505 sq ft in six transactions. The largest deal saw Asahi, the Japanese brewing company, exchanging on the 32,346 sq ft Brook House, which is currently being refurbished by Unilever Pension Fund.

The town centre dominated Q1 activity, with 88% of total take-up. This reflects the limited availability of out of town space, which continues to diminish due to the conversion of offices to residential use. Cap Gemini had been considering relocating offices, seeking approximately 40,000 sq ft, but it has now decided to re-gear its existing lease at One Forge End with landlord LGIM.

LIMITED NEW DEVELOPMENT

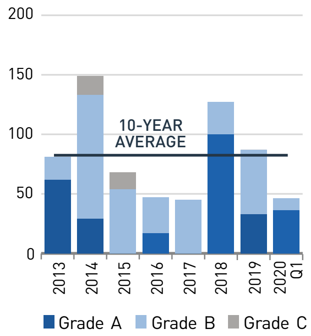
At the end of Q1 2020, availability stood at 340,644 sq ft, of which 93% is in the town centre. The only new speculative office development on site is Forge; a comprehensive re-modeling of the former SAB Miller headquarters by Mayfair Capital and V7, which will provide 73,476 sq ft of contemporary workspace. The project is now due for completion in Q4 2020.

LGIM is planning to refurbish the first and second floors of One Forge End, comprising 38,421 sq ft, which were formerly occupied by Asahi and McLaren. The start on site has been delayed, but the space is expected to be available in Q2 2021. Royal London's Space was completed in 2019, but still has 73,476 sq ft available having achieved one letting; to Astellas Pharma, on a floor of 12,750 sq ft.

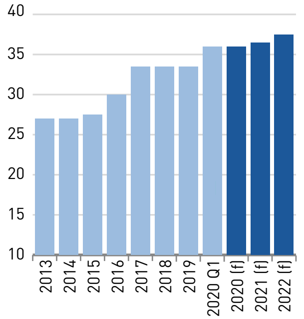
PRIME RENT HITS NEW HIGH

The prime headline rent rose from £35.00 to £36.00 per sq ft in Q1 on the back of Asahi's Brook House deal, which set a new benchmark for the town. Prime headlines rents are expected to remain steady over the current year, but growth to £37.50 per sq ft is anticipated over the next two years.

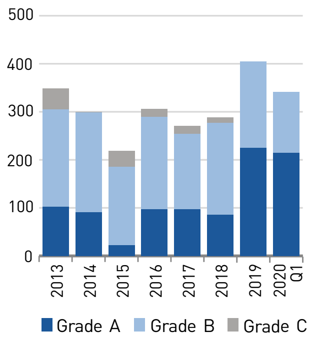
TAKE-UP (000 SQ FT)



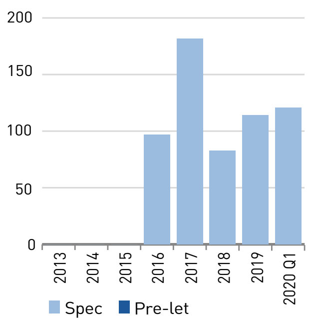
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

+41%

YEARS OF SUPPLY

4.0

GRADE A SHARE OF SUPPLY

63%

PRIME YIELD

5.00%

Q1 2020 HEADLINE RENT (PER SQ FT)

£36.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2020 Q1	Brook House	32,346	Asahi	£36.00
2020 Q1	Dukes Court	16,990	TGS	£29.50
2019 Q3	Space	12,750	Astellas	£35.00
2019 Q3	Dukes B4	9,764	CHS	£29.00
2019 Q4	St Andrews House	6,570	Travel Network	£25.25

Source: LSH Research

Back to contents Back to map

BASINGSTOKE

EZ STOKES A REVIVAL

Basingstoke is experiencing a revival, reflected in buoyant activity and big ticket deals over the past two years. While speculative development is yet to make a return, landlords are exploiting value-add refurbishment opportunities.

Positive momentum in the market from recent years was sustained into early 2020, with Q1 take-up reaching a commendable 77,500 sq ft. Penningtons Manches Cooper agreed to 16,000 sq ft at Matrix House, while RingGo and HID Global Wealth each took 15,000 sq ft at Frasers' newly refurbished Maplewood, Chineham Business Park. As elsewhere, the lockdown saw live deals put on hold, albeit this largely involved delays to completion dates.

The town centre is benefitting considerably from Basing View's Enterprise Zone status, with the UK's first "in town" business park being revamped by its owners Basingstoke & Deane Council, working alongside Muse Developments. Alongside the John Lewis store and Network Rail campus, the park has recently seen the addition of a new Village Hotel, all of which are boosting the attractiveness of the town centre to residents and businesses alike.

SUPPLY

The quality of the town's office offer is steadily improving. Sovereign Housing's Florence Building (61,500 sq ft) was delivered speculatively in 2018, while Sienna (45,000 sq ft) is under construction for Eli Lilly's new HQ. Up to 150,000 sq ft of additional pre-let opportunities are available, key consented examples including and Benchmark, (42,500 sq ft) and Neon (40,000 sq ft), both at Basing View.

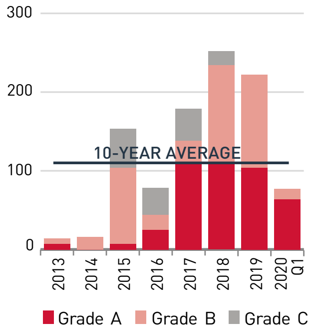
Refurbishment activity has been key to boosting grade A supply, with the recent letting success at Maplewood likely to encourage other landlords to follow suit. One such example is Squarestone's Mountbatten House, Basing View, where there is consent for a major phased refurbishment totalling 160,000 sq ft.

STILL GOOD VALUE

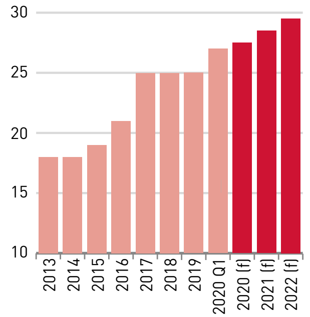
Basingstoke's recent revival has gone hand in hand with rising rental levels. A new prime headline rent of £26.90 per sq ft was set in Q1 2020, reflecting Penningtons Manches Cooper at Matrix House, while the refurbishment at Maplewood, Chineham Park has achieved £24.00 per sq ft.

While COVID-19 could put the brakes on rental growth in 2020, an increase in quality mixed-use development and improving fundamentals in the market point to continuing growth over the next two years. Despite this, prime headline rents of sub £30.00 still represent relative value compared with the region's other markets.

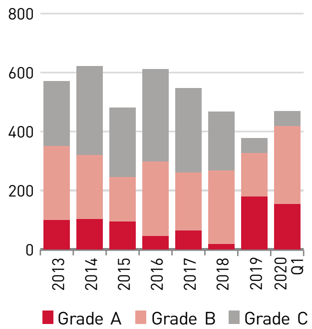
TAKE-UP (000 SQ FT)



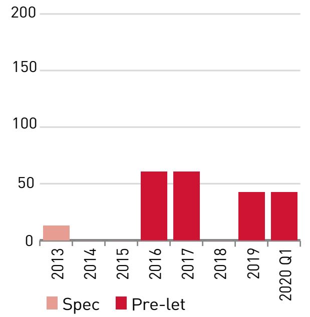
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

+66%

YEARS OF SUPPLY

4.4

GRADE A SHARE OF SUPPLY

32%

PRIME YIELD

5.25%

Q1 2020 HEADLINE RENT (PER SQ FT)

£27.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q4	Southern Cross	37,000	MOD	£12.50
2020 Q1	Midpoint	19,700	Motorola	£21.66
2020 Q1	Matrix House	16,000	Penningtons	£26.90
2020 Q1	Maplewood	15,070	RIngGo	£24.00
2020 Q1	Maplewood	15,069	HID Global	£24.00

Source: LSH Research

BRIGHTON

BRIGHT IN BRIGHTON

Take-up was off the pace in 2019, despite an increase in supply. Forthcoming new developments will add to occupier choice when activity returns later in 2020.

EMERGING TECH CLUSTER

Brighton has become an increasingly attractive office location, as a fashionable South Coast city with a large student population creating a pool of young, skilled talent. The technology and gaming sectors have been key drivers of recent market activity, led by companies such as Unity Software, which occupies the majority of the recently completed new-build Brinell Building.

Despite this, take-up was relatively subdued in 2019 at 133,600 sq ft, 15% below the ten-year average. It was also flattered by Plus X's 53,000 sq ft serviced office deal at Preston Barracks, which is currently nearing practical completion. TMT remains a key driver of demand, with BossAlien leasing three floors of the refurbished Queens Road Quadrant and Diversified taking 8,272 sq ft at the Brinell Building. However, Q1 2020 was very quiet, with less than 20,000 sq ft of take-up.

SUPPLY BOOST

Although availability increased in 2019, Brighton remains a highly constrained market with just 2.1 years of supply based on average take-up. Office development opportunities are restricted by the city's geography – hemmed in by the South Downs and the sea – while some grade B/C stock continues to disappear from the market for conversion to residential or student accommodation.

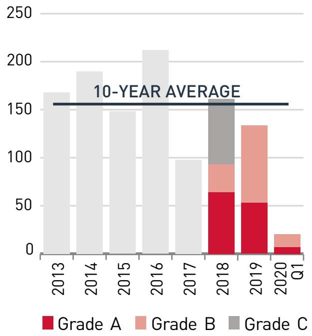
Underlining the supply/demand imbalance, the city's last two major office developments have all been fully let on completion, namely CityView, and the Brinell Building. This has helped to encourage further new development, and the volume of space under construction reached a new high for this cycle due to the commencement of works on the mixed-use Edward Street Quarter scheme, which includes 110,000 sq ft of offices.

There are also a number of pipeline developments with planning permission, including Moda Living and Apache Capital's mixed-use scheme near Hove station, which will include 50,000 sq ft of office and co-working space.

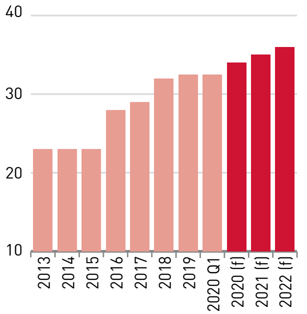
RENTS ON THE UP

Prime headline rents currently stand at £32.50 per sq ft, and are subject to upward pressure due to the restricted supply. Prime rents are forecast to reach £34.00 per sq ft by the year-end.

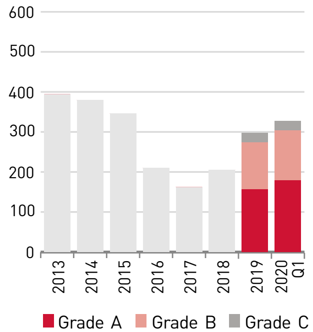
TAKE-UP (000 SQ FT)



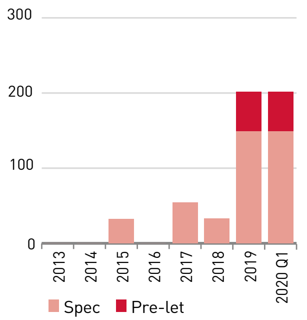
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

-42%

YEARS OF SUPPLY

2.0

GRADE A SHARE OF SUPPLY

57%

PRIME YIELD

4.75%

Q1 2020 HEADLINE RENT (PER SQ FT)

£32.50

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q4	Queens Road Quadrant	10,600	Octopus Energy	£30.00
2020 Q1	Lanchester House, Trafalgar Place	8,200	Avalara	£27.50
2020 Q1	Clarence Yard	7,304	Sumo Digital	£30.00
2020 Q1	110a Queens Road	4,300	Acquia	£27.50
2019 Q4	Jubilee House	3,600	Inspiring Learning	£27.50

Source: LSH Research

SOUTH COAST

TIDE SET TO TURN

In the absence of new-build development, speculative refurbishments have been key to driving market activity of late. While 2020 has started in subdued fashion, the talented labour pool and competitive rents bode well for inward investment prospects.

SUBDUED START

Totalling only 18,600 sq ft, Q1 take-up was the lowest quarterly figure in the past decade and comprised only three deals, the largest being IAC Accoustics' 8,500 sq ft acquisition of tertiary space at Omega Park, Chandlers Ford. Following a relatively busy year of take-up in 2019, Q1's poor figure partly reflected a drying up of enquiries in the latter half of last year.

Last December's decisive election result and the greater clarity around Brexit it afforded spurred a revival in business confidence, with enquiry levels bouncing back strongly in early Q1 2020. Understandably, active demand retreated amid the lockdown, although requirements are on hold, rather than scrapped.

REFURB REFRESHMENT

While overall supply has been relatively steady over the past few years, grade A choice has improved on the back of refurbishment activity. Recent examples such as Grosvenor House and Oceana House, Southampton have let-up very well, encouraging other landlords to follow suit. Brunswick Gate is set to return to the market following a refurbishment and is set to include an additional floor, taking it to in excess of 60,000 sq ft.

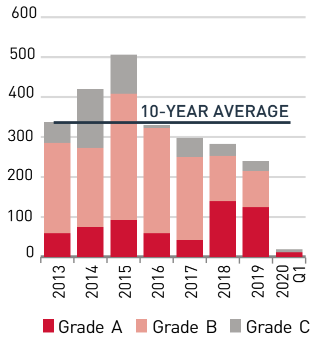
There are no new-build speculative developments currently under construction, although a number of consented pre-let opportunities are available. These include at Adanac Park, Southampton (35,000 sq ft), North Stoneham Park, Eastleigh (34,000 sq ft) The Green, Eastleigh (56,000 sq ft) and a site at Chilcomb Park, Winchester (90,000 sq ft).

COMPETITIVE RENTS

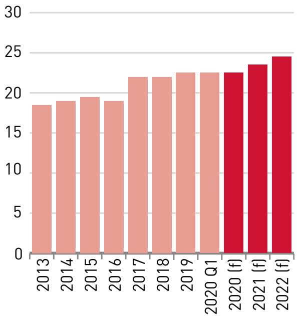
Southampton's two universities, talented labour pool and relatively cheap office rents compared with other regional centres bode well for its long-term demand prospects. Indeed, the past year has seen increasing enquiries from regional businesses looking to inwardly invest, examples including Starling Bank taking space at Town Quay and a major logistics firm seeking office space in the region.

Prime headline rents stand at a very competitive £22.50 per sq ft, and are likely to remain at this level throughout the year given the impact on demand from COVID-19. Beyond 2020, quality refurbishments with an emphasis on health and wellbeing could see prime rents push on to over £24.00 per sq ft.

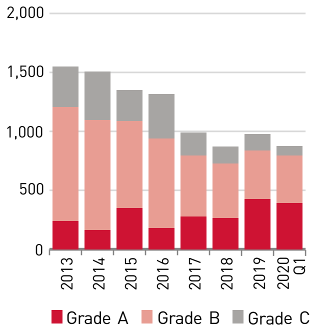
TAKE-UP (000 SQ FT)



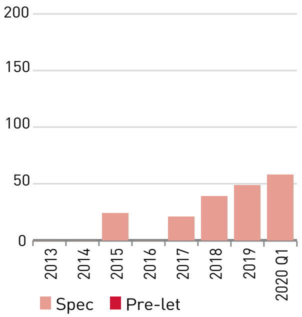
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

-45%

YEARS OF SUPPLY

3.0

GRADE A SHARE OF SUPPLY

44%

PRIME YIELD

5.25%

Q1 2020 HEADLINE RENT (PER SQ FT)

£22.50

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q3	2000 Lakeside Northharbour, Portsmouth	27,000	CheckaTrade	£20.00
2019 Q3	1000 Lakeside, Northharbour, Portsmouth	15,015	Babcock	£18.00
2019 Q4	Grosvenor House, Southampton	12,200	BE Offices	£21.00
2020 Q1	Mountbatten House, Southampton	7,210	Igloo Energy	£17.50
2019 Q3	Mountbatten House, Southampton	7,135	Benefex (assignment)	£17.50

Source: LSH Research

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