Lambert Smith Hampton

FLEX APPEAL

THAMES VALLEY & SOUTH EAST

OFFICE MARKET REPORT 2019

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WELCOME

The office is changing at a rapid pace.

Refurbishments and new buildings that were delivered just several years ago are already having to adapt to keep up with technological developments and increasing occupier demands on quality, character and amenity. The way occupiers are choosing to consume space is also changing. The growing flex market is challenging the status quo, with landlords of more conventional offerings needing to adapt and provide a greater customer experience in order to stay ahead.

Positively, we continue to see significant infrastructure investment in the South East. The impact of The Elizabeth Line is already paving the way for inward investment, while a third runway at Heathrow and the development of the Oxford-Cambridge Arc will provide a further catalyst for activity in the years ahead.

Despite the uncertain political backdrop, overall the South East office market has performed well in the last year, from both an occupational and capital markets point of view. We have seen a number of large international businesses commit long-term to the region, a trend we expect to continue.

Occupier choice is starting to reduce in a host of key markets across the region, yet beyond a select number of locations we have seen very little new development in the current cycle. Even if we see average levels of take-up, the next year could be more challenging for occupiers that aspire to be in specific locations.

It's exciting to see more and more occupiers give close consideration to the space they use and, on behalf of our clients, we're striving to adapt to the challenges and opportunities this presents. We cover the market in more detail than our competitors and have the expert local knowledge to assist you in your decision making. Please get in touch with any member of the team for further guidance.

We hope you enjoy the report.

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FOCUS

ALL ABOARD THE ARC

The Oxford-Cambridge Arc is poised to become an increasingly important engine for growth and innovation within the UK economy.

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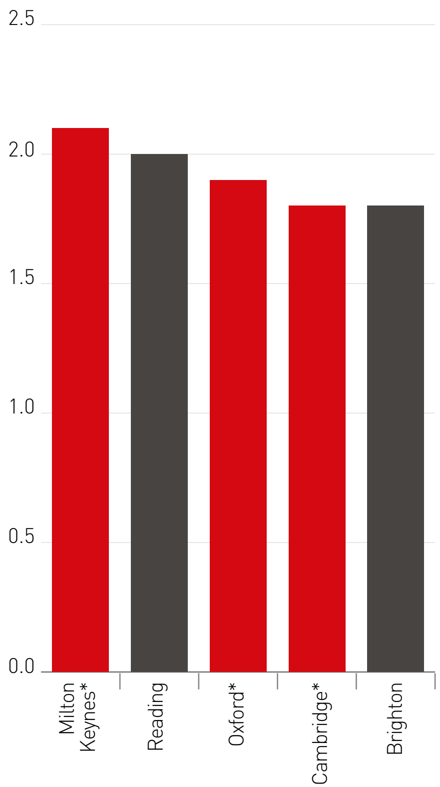
UK'S FASTEST GROWING ECONOMIES - Q4 2020 FORECAST (ANNUAL GVA GROWTH, %)



*Arc location
Source: Irwin Mitchell/Centre for Economics and Business Research

CENTRES OF INNOVATION

The Oxford-Cambridge Arc is a broad swathe of England stretching from Oxfordshire to Cambridgeshire, via Milton Keynes. It is home to 3.7 million people, and supports over two million jobs.

The Arc is already home to some of the UK's most innovative and productive cities. Oxford, Cambridge and Milton Keynes have consistently been ranked among the fastest growing economies in the country in recent years.

However, the Arc's economy is constrained by poor east-west transport connectivity. At present, this prevents it from functioning as a single economic region.

THE KNOWLEDGE ECONOMY

The National Infrastructure Commission (NIC) has identified the future success of the Arc as a national priority. It argues that a joined-up plan is needed for new jobs, homes and infrastructure.

This would help the region to exploit the economic benefits of its world-renowned education and research facilities. The region boasts two of the top-ranked universities globally in Oxford and Cambridge, as well as internationally recognised research centres such as Harwell and Culham in the 'Science Vale' of South Oxfordshire.

The focus on knowledge-based sectors is reflected in industry clusters across the region. These include technology and biosciences in Cambridge; high performance technology and financial services in Milton Keynes; motorsport and high performance engineering in Northamptonshire; and high-tech engineering and biosciences in Oxford and the Science Vale.

NEW HOMES, NEW WORKPLACES

The NIC suggests that up to one million new homes will be needed across the Arc by 2050. This ambition will require significant investment in new infrastructure, as well as commercial property development to support new jobs.

Cambridge Econometrics has modelled a 'transformational growth' scenario in which large-scale new housing development is supplemented by radical levels of transport infrastructure investment. Under this

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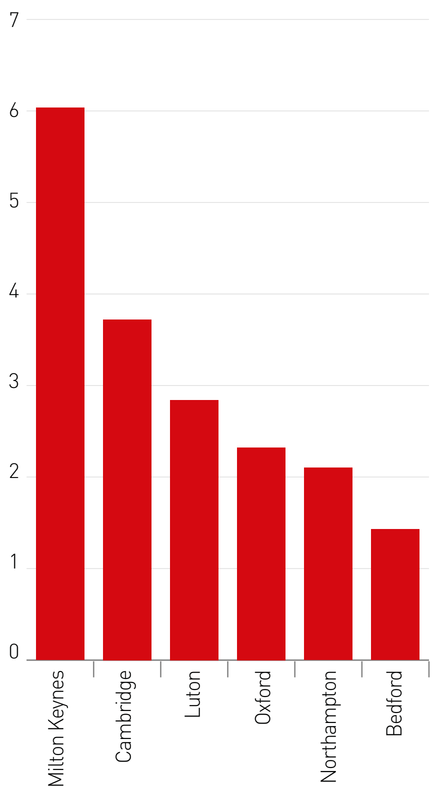
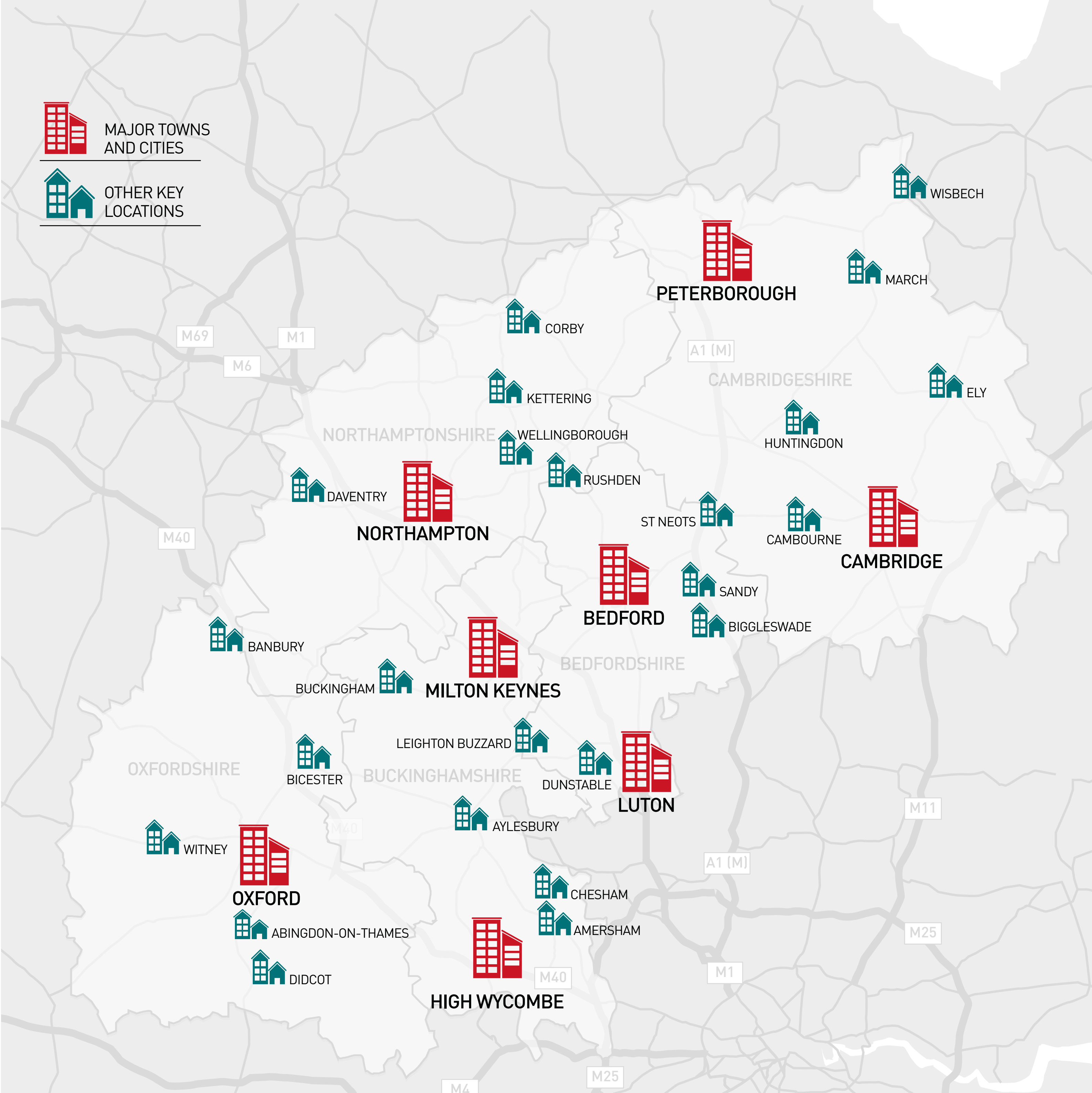
scenario, close to 950,000 new jobs could be created in the Arc by 2050.

To support this level of jobs growth, the amount of commercial floor space across the region would need to increase by more than 50%. The Arc's largest cities would each require millions of square feet of new office space.

ADDITIONAL OFFICE SPACE REQUIRED BY 2050 – TRANSFORMATIONAL GROWTH SCENARIO (MILLION SQ FT)



Source: LSH Research



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CONNECTING THE ARC

The transformational growth envisioned for the Arc will only be achieved if transport links across the region are significantly upgraded.

While the Arc is crossed by multiple road and rail corridors running north-south to London, east-west connections are much less well developed. There is, for example, no direct rail connection between Oxford and Cambridge. By lengthening journey times, this lack of transport infrastructure restricts the viability of commuter travel between the region's towns.

Two major transport projects are gaining traction as part of an effort to reconnect the region. The East West Rail project will resurrect the 'Varsity Line' connecting Oxford and Cambridge, which was last operated in the late 1960s. The Oxford to Cambridge Expressway will provide a dual carriageway route between Oxford and Cambridge, via Milton Keynes.

UNLOCKING GROWTH

The new east-west road and rail links will to help drive economic growth, as well as unlocking new locations for residential and commercial property development. Thousands of workers will be put within easier reach of high quality jobs such as those found on the region's science parks.

Locations that are currently poorly connected will become commutable, increasing their viability for new development. New or upgraded train stations and key road junctions will act as beacons for developers.

The improved east-west connectivity and commutability is crucial to the success of the Arc. It is necessary to ensure that the potential one million new homes do not just become part of an outer commuter belt to London, but that they are part of a distinct, integrated economic region.

FUTURE HOTSPOTS

The government has recently begun an analysis that will explore potential locations for new and expanded settlements in the Oxford-Cambridge Arc. Proximity to new and existing transport corridors will be a key factor guiding their location choices.

Oxford and Cambridge themselves may be among the least viable locations for new large-scale development, due to high land prices, limited land availability and the presence of green belt around both cities.

In contrast, Milton Keynes will be highly receptive to new development, benefiting from a central location within the Arc, a greater supply of affordable, developable land and a local council that already has substantial expansion plans. The NIC suggests that Milton Keynes has the potential to double in size to become a city of over 500,000 people.

Milton Keynes is also expected to be the biggest single focus for employment growth and commercial property development. Under Cambridge Econometrics' transformational growth scenario, 136,000 new jobs would be

EAST WEST RAIL

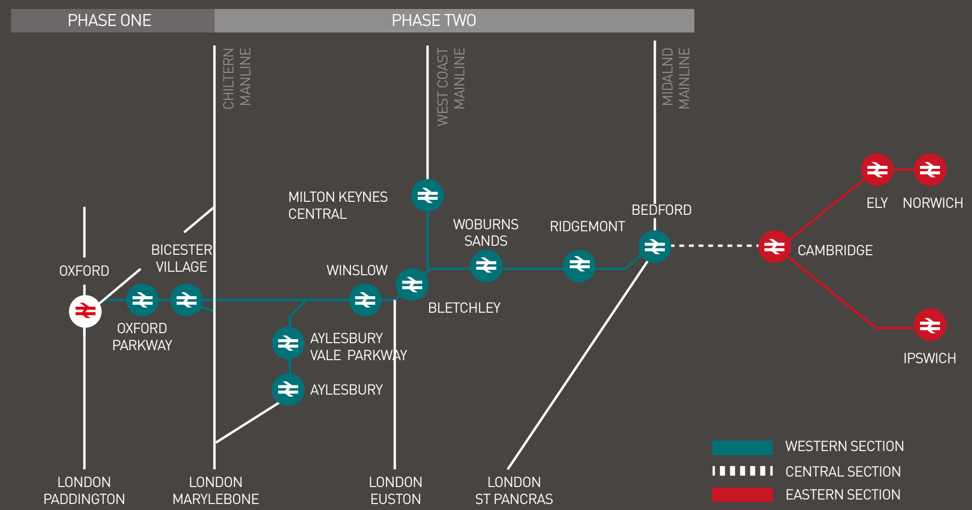
The East West Rail scheme will re-establish a rail link between Oxford and Cambridge, with onward connections to East Anglia. The route falls into three distinct sections.

Phase 1 of the Western section (Oxford-Bicester) was opened in 2016.

Enabling works for Phase 2 of the Western section (Bicester-Bedford and Milton Keynes-Aylesbury) are underway. This phase will upgrade and reconstruct existing and mothballed lines. Major works are scheduled to start later in 2019, with services due to commence from the end of 2023.

A public consultation on route options for the Central section (Bedford-Cambridge) was held in January-March 2019. This phase will require the construction of a new line and new stations. A preferred route is expected to be announced later in 2019, and the aim is for services to start in the mid 2020s.

A detailed study is underway exploring options for the Eastern section (Cambridge-Norwich and Cambridge-Ipswich). This will look at ways of enhancing existing services, which may involve the construction of a new Cambridge South station at Addenbrooke's.



created in Milton Keynes by 2050, more than in any other local authority in the Arc. This level of employment growth would require the volume of office and industrial floor space to increase by well over 60%.

Other development hotspots may include Bedford, which will benefit from a central geographical position and improved transport links. Other towns in the sights of developers may include locations along the existing A1/East Main Line corridor such as Sandy, Biggleswade and St Neots, as well as locations on the Bletchley-Bicester and Milton Keynes-Bedford corridors.

ARC OF VISION

Much of the initial focus of plans for the Arc has been on the need for new housing, but the commercial property sector will have an important role to play in driving economic growth. High quality workplaces will be needed to support the knowledge-based industries that are the region's key economic assets.

The plans for the Oxford-Cambridge Arc are ambitious, and will require a concerted collaboration between the government, its local partners and the private sector, as well as full engagement with local communities.

An integrated approach is required to the delivery of new jobs, homes, workplaces and infrastructure. With this, the Arc has the potential to become an economic growth corridor of international importance over the coming decades.

OXFORD TO CAMBRIDGE EXPRESSWAY

The Oxford to Cambridge Expressway will provide an improved road link between Oxford, Milton Keynes and Cambridge.

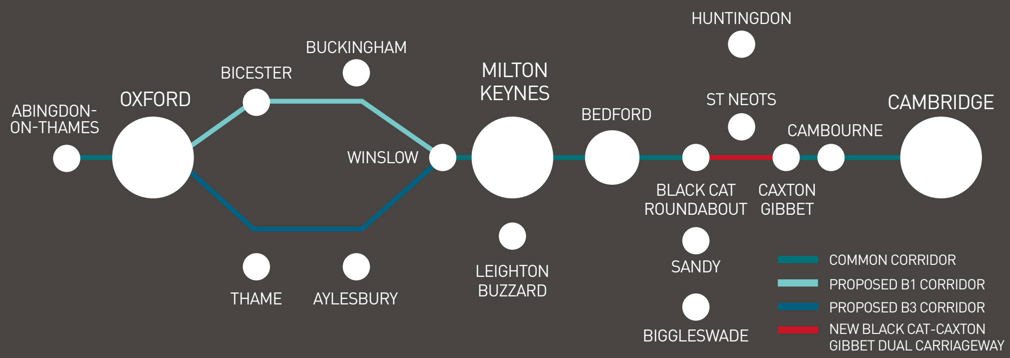
The preferred corridor for the route was announced in September 2018. This option, Corridor B, runs closest to the route of the East West Rail project.

The existing route between Cambridge and Milton Keynes is largely of Expressway standard, aside from a 10-mile single carriageway stretch between Black Cat and Caxton Gibbet, near St Neots. A preferred route for a replacement road has been announced. A public consultation on this will take place in 2019, with works expected to start in 2021/22.

A wholly new section of road will be built between the M1 at Milton Keynes and the M40 at Oxford. Three sub-options were identified for this section. Of these, corridor B2 has been rejected on environmental grounds, leaving B1 and B3 currently under consideration.

A consultation on detailed route options will begin in Autumn 2019, with an announcement on the preferred route expected in Autumn 2020. The road is scheduled to open in 2030.

PREFERRED CORRIDOR (B)



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FOCUS

LET'S FLEX

The meteoric rise of demand from serviced office operators has attracted much attention over the past 18 months. While the trend reflects deep structural changes in how occupiers will increasingly use workspace, this is just the beginning.

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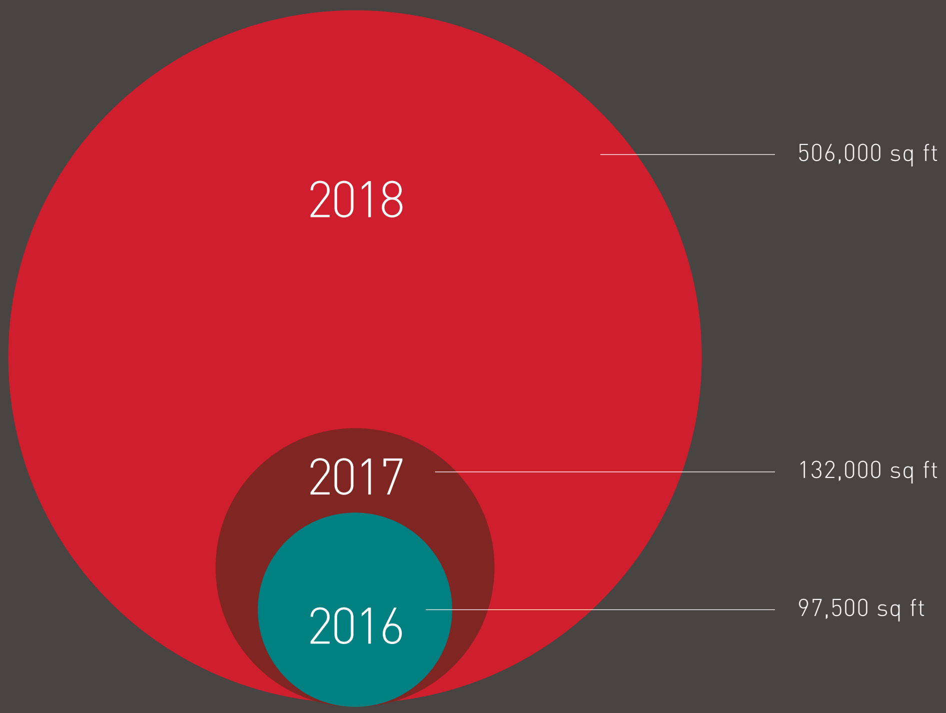
SERVICED OFFICE TAKE-UP IN THE SOUTH EAST



RIPPLING OUT

Having taken hold in Central London, the emphatic growth in demand from serviced office providers has rippled into the South East and other core cities across the UK. Across the South East's 25 key surveyed markets, take-up from serviced office providers amounted to over half a million sq ft in 2018, a fourfold increase on 2017's level. If considered as a sector, serviced office providers were the second most acquisitive sector in the South East behind TMT, something that would have been hard to imagine only five years ago.

THE THEORY BIT

Much is made of the increasing impact of the millennial workforce in driving change, but technology is ultimately the great enabler of this shift in demand towards 'flex space', a term encompassing conventional serviced offices, co-working environments and managed space.

While technology's role in facilitating more agile working practices is important, the main driver of change is the role the internet plays in doing business. The internet has substantially reduced the cost of undertaking business, in the process fostering the explosive growth of smaller, more specialised companies and eroding the traditional benefits of scale. All this is highly conducive to the use of more flexible, open workspace environments and the human desire to interact with others.

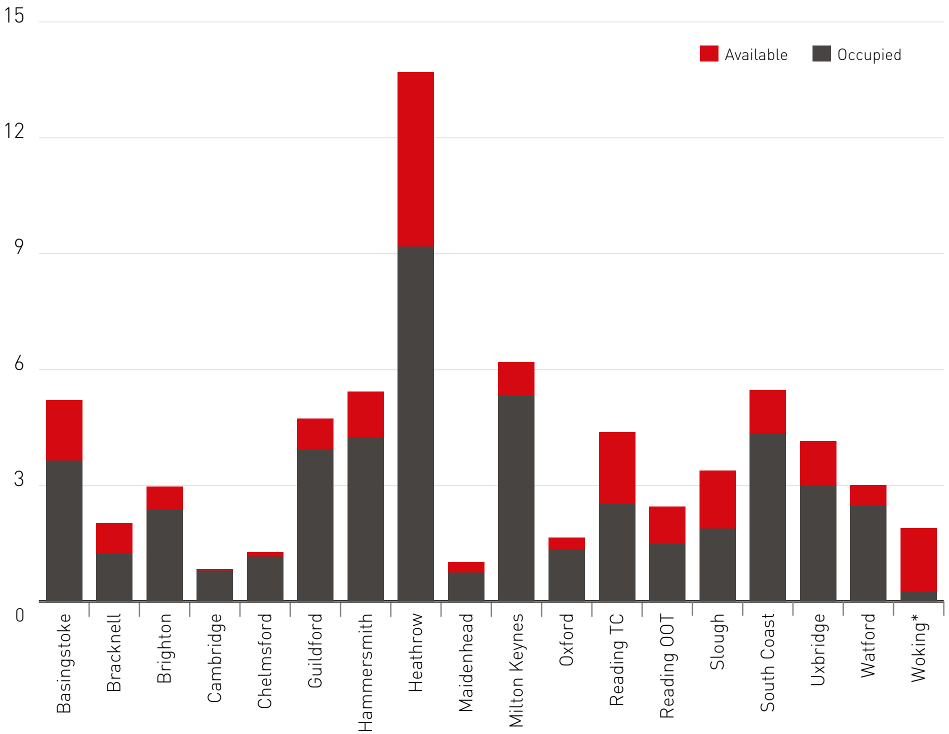
BUT WHY NOW?

On a more practical level, serviced offices also stand to gain from larger occupiers seeking to avoid the administrative burden of newly effective accounting standards, namely IFRS 16, which requires leases over 12 months to be treated as a liability on businesses' balance sheets. This, alongside other obligations such as dilapidations and longer lease requirements goes some way to offsetting the higher costs associated with flexible space over the conventional route.

All the above factors do not, however, properly account for the substantial impact made by serviced office operators on the South East office market during 2018. What we are witnessing is more akin to a 'space race', a rush for market share from operators and

SPACES AT THE CHARTER BUILDING, UXBRIDGE

SERVICED OFFICES AS A SHARE OF OFFICE STOCK (%)



Analysis reflects position as at end April 2019. *Includes Spaces's new operation which opened in May 2019

their respective investors who have bought into expectations of massive growth in occupiers' use of flex space in years to come. IWG, through their Regus and Spaces brands, led the way in 2018, with 298,000 sq ft of take-up in nine separate markets.

THE CURRENT STATE OF PLAY

Despite the rush in 2018, there is arguably limited evidence of a clear undersupply within the existing stock of flexible office operations. Our analysis across the key markets of the South East reveals that flexible offices account for around 4% of total office stock and currently show an overall occupancy rate at a relatively modest 74%, leaving close to 17,000 desks currently available. Inevitably, however, this will include flexible offerings which vary significantly in type, quality and cost.

DELVING DEEPER

While no two markets are the same, the amount of flexible offices as a proportion of prevailing office stock varies enormously between locations. This variation should be an important factor to both landlords considering more flexible leasing offers and serviced office operators seeking to exploit gaps in the market.

To illustrate, flexible offices make up less than 2% of stock in the relatively tight markets of Oxford and Cambridge, while both also boast a high overall occupancy rate, indicating that a flexible office foothold in these markets is more than justifiable. At the other end of the scale, Heathrow's stock of flexible offices represents a substantial 13% share of stock. Given the occupancy rate here is below 70%, it raises questions over whether there is a ceiling of flexible offices provision beyond which occupancy rates start to suffer.

JUST THE BEGINNING

The analysis marks the start of a regular assessment of trends and performance in the flexible market across the South East, and firmer conclusions will be drawn out over time. However, with more flexible office requirements active in the market, 2018 was no flash in the pan. The tides of structural change will see more and more occupiers, particularly at the smaller end of the market, turn to flexible offerings.

Landlords with more conventional offerings cannot afford to stand and watch. As the quality of flexible offerings increases, in terms of design, appeal and amenity offer, landlords will have to adapt both the quality and flexibility of their own offer if they are to compete with the very best occupiers at the smaller end of the market. This has already started – watch this space.

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FOCUS

GET SMART!

Smart technologies are redefining the workplace. They are changing the ways that users interact with office buildings, and fostering increasingly innovative, creative and productive working environments.

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WORK SMARTER

Smart offices use technology enabled by the Internet of Things (IoT) to gather data on a building's performance or usage. Sensors, smartphones or wearable devices may collect data monitoring environmental factors such as temperature, light, air quality and noise, as well as data on employees' usage of the building.

The data collected can deliver building managers with actionable insights on how to improve a building's performance, or it may feed through to automated systems controlling the office environment. With smart technology continually evolving, it is being used to support an increasingly wide range of applications, providing multiple benefits to building owners, investors, occupiers and employees.

SMART IS SUSTAINABLE

Firms' sustainability strategies have been a major driver of the rollout of smart technology. By providing more efficient controls over energy usage, it can deliver significant reductions in energy consumption. It is no coincidence that some of the smartest office buildings in the world are also rated by BREEAM as among the greenest.

Smart systems allow lighting, heating, air conditioning and ventilation to be monitored and adjusted according to a building's usage and occupation. Energy wastage can be minimised by turning off heating and lighting when an office is unoccupied. Intelligent building facades may also be used to control the heat and light entering the building in response to changing weather conditions.

The next generation of energy efficient smart buildings have their own sources of power generation and some are even able to generate more energy than they consume, with surplus energy going back to the grid.

WORKPLACE WELLBEING

Smart technology is increasingly recognised as having an important role to play in promoting health and wellbeing. It can help to create environments that support alert, energised workforces.

Sensors can monitor air and water quality, light, temperature and noise levels. Issues known to affect workers' concentration levels such as poor air quality or a lack of natural light can thus be detected and fixed.

More advanced smart office technology can also make use of data from wearable biometric devices monitoring the health and comfort of workers. Ambient conditions can be adjusted when workers show signs of discomfort, or an individual's immediate working environment can be changed according to their personal preferences.

ENABLING AGILE WORKING

Smart technology is providing occupiers with a better understanding of who uses the office at any given time, how they work and with whom they collaborate. These insights can enable increasingly agile, flexible working.

Some of the newest generation of smart buildings have fewer desks than workers. Instead, employees may reserve a workspace using an app, with a choice of spaces depending on whether they would prefer a collaborative workspace, private meeting area or a quiet space.

Smart systems may thus facilitate a move away from the convention of employees 'owning' a desk, which then goes unused for periods when they are out of the office. Flexible workspaces can be used more efficiently and may be continually adapted to changing employee demand and new work styles.

IMPROVING WORKPLACE EXPERIENCES

As well as enabling desk and room bookings, workplace apps can also be used to order food and drink, book gym sessions or reserve parking spaces. They may allow employees to control ambient settings, as well as providing new ways of connecting and collaborating with colleagues.

Workplace apps are thus developing as important interfaces between employees and office buildings, giving individuals greater control over their office experience. This will help to align the modern office with the expectations of a younger workforce for whom smart technology already plays an integral part of their lifestyles outside of work.

THE BENEFITS OF BEING SMART

The advantages that smart offices offer in terms of sustainability, employee wellbeing, agile working and workplace experience, combine to produce significant improvements in productivity and cost savings.

Smart offices also aid talent attraction and retention, by creating spaces in which people want to work, while appealing to workers' environmental values. Modern, sustainable offices can help to reinforce a company's brand values and define a progressive, forward-thinking corporate culture.

GETTING SMARTER

LSH is enabling clients in the South East office market to benefit from smart technology. Working with our partners, 4D Monitoring, sensor technology has been installed in properties managed by LSH across the region.

The system, which uses small sensors about the size of scrabble tiles, sends real time data back to an online portal. It is very effective in identifying energy wastage and can help users to anticipate potential issues before they escalate into major problems.

The technology has resulted in reductions in energy usage of over 20% in many cases, saving thousands of pounds in energy costs.

SMART FUTURES

Truly smart offices, with fully automated smart technology embedded into every aspect of the building's design, remain a rarity. Many of the most innovative smart buildings in the world are in Europe or North America, but smart technology of growing sophistication is making its way into the UK. This will continue as smart systems are increasingly integrated into new build offices.

Smart offices are still at a nascent stage of their development, and the full capabilities of the technology may only be realised over the coming decades. Smart offices will be a key part of our future smart cities.

CAPITAL PARK, CAMBRIDGE. SMART TECHNOLOGY ENABLED LSH TO ACHIEVE A 27.2% REDUCTION IN GAS CONSUMPTION, SAVING OVER 54 TONNES OF CO2E

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REGIONAL INSIGHT

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OCCUPIER MARKET OVERVIEW

FLEX APPEAL

Amid a decent year of activity for the South East, structural change in the office market was also clear to see. Serviced office providers are arriving in force, responding to growing occupier demands for quality, amenity and flexibility and pressuring landlords to challenge the status quo.

TAKE-UP IMPROVES IN 2018

Considering sustained uncertainty around Brexit and signs of slowing growth in the wider economy, 2018 was a commendable year for take-up across the South East market. Totalling 4.6m sq ft across 25 key markets, take-up in 2018 as a whole was 3% above the ten-year annual average, and followed two successive years of under par activity in 2016 and 2017.

A striking feature of recent activity has been the prominence of grade A space, underlining the importance of quality in driving occupier demand. Grade A take-up hit a 17-year high of 3m sq ft in 2018, and accounted for a record 66% share of total take-up for the year.

2018's apparent resilience owed much to a tremendous final quarter. Underpinned by a flurry of major deals, take-up in Q4 2018 surged to 1.7m sq ft, its highest level since Q3 2015 and among the strongest quarters on record. The period saw five deals above 50,000 sq ft, the largest being ASOS at Leavesden Park, Watford (125,000 sq ft) and Virgin Media (120,000 sq ft) at Green Park, Reading.

MARKET REMAINS BUSY IN 2019

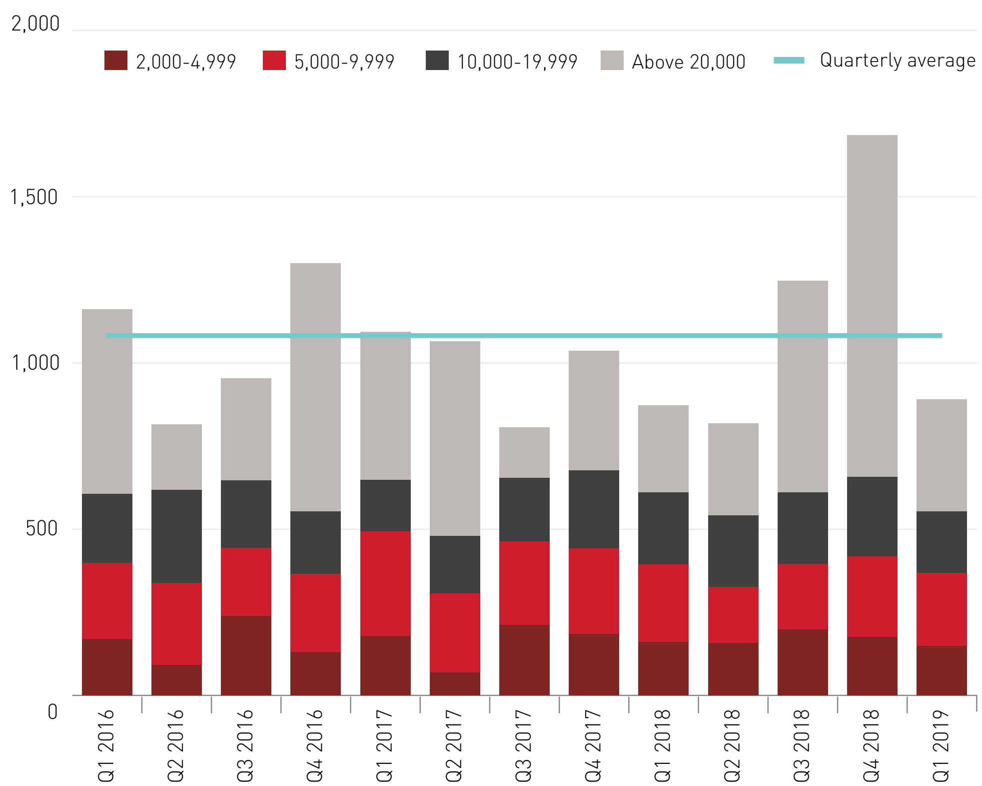
Whilst the first months of 2019 have not come close to Q4 2018 for take-up, the market was nonetheless relatively busy. Across the 25 markets, take-up of 890,000 sq ft in Q1 was 20% below the ten year trend level but marginally above the same period in 2018. Moreover, evidence suggests that caution around Brexit was more acutely felt at the larger, corporate end of the market, with the number of deals holding up reasonably well.

The initial months of 2019 have nonetheless continued to see consistent and robust levels of demand at the smaller end of the market. We will need to see international businesses committing to the South East with more large scale transactions if 2018's take-up is to be repeated and, positively, there are a number of larger pre let discussions currently underway.

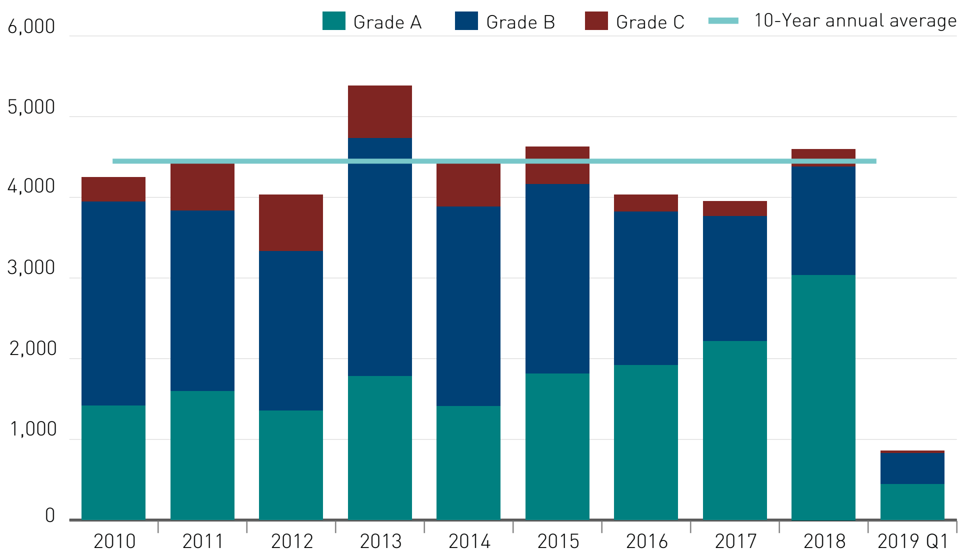
SEVERAL MARKETS DRIVE PERFORMANCE

The Thames Valley, the largest of the three sub-regions, has performed well against trend, with take-up over the 12 months to Q1

TAKE-UP BY SIZE (000 SQ FT)



TAKE-UP BY GRADE (000 SQ FT)



2018 standing at 2.5m sq ft and 8% above the ten-year annual average. This was largely down to a stellar year of activity in Reading and Slough, where the delivery of significant levels of grade A supply and strong inward investment demand have helped to drive larger deals.

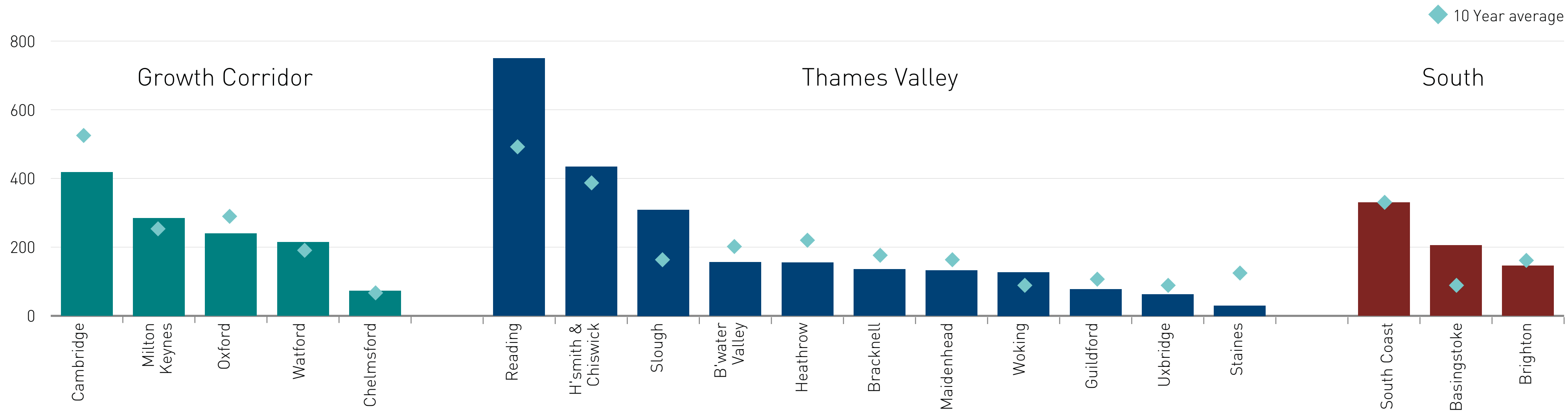
The strongest performing sub-region over the year to end Q1 was the South, where combined take-up across the three markets was 17% above the average. Basingstoke was the stand-out performer against trend, not only in the South sub-region but for the entire South East, with take-up over the past 12 months at more than twice its annual average and boosted by several large lettings.

The Growth Corridor was the only sub-region to see take-up over the past 12 months fall short of its trend level. Collectively, total take-up across its eight markets was 23% below its annual average. The main drag on the sub-region was from Oxford and Cambridge, where take-up was 21% and 18% below trend on the back of notable supply constraints.

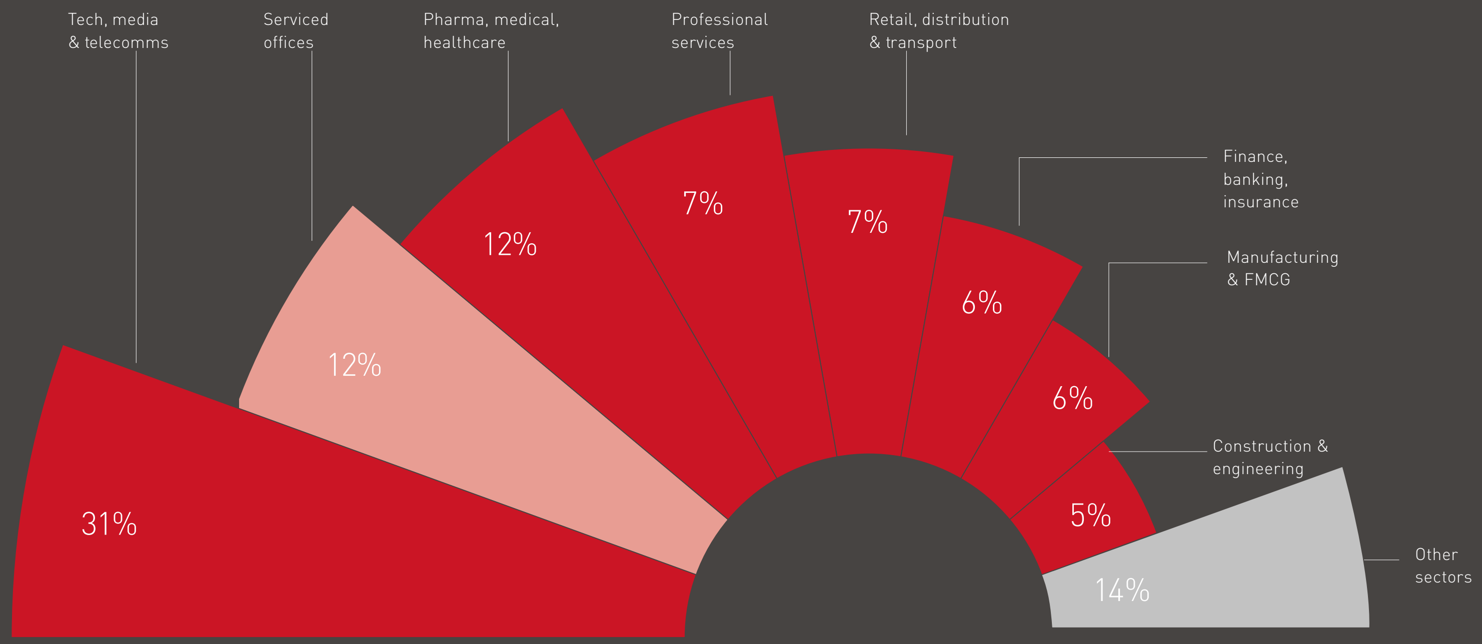
EMPHATIC ARRIVAL OF SERVICED OFFICES

The Technology, Media and Communications (TMT) sector continues to provide a major source of demand across the South East region. Since the beginning of 2018, it has accounted for almost a third of take-up, head and shoulders above the next most active sources, namely Pharmaceuticals, Medical and Healthcare (12%) and Professional Services (10%).

12 MONTH TAKE-UP VS 10-YEAR AVERAGE



SOUTH EAST TAKE-UP BY SECTOR (2018 AND Q1 2019) %



Source: LSH Research

Whilst TMT remains the cornerstone of demand in the South East, the rapid growth in activity among flexible office providers has been the most striking trend in the market and indicative of clear structural shifts in occupier demand and a race for market share among operators.

Rising from a negligible position just three years ago, take-up from serviced office providers amounted to over 500,000 sq ft over the past 12 months, equivalent to a record 12% share of total activity and rising from 7% in the previous year. IWG's Spaces was behind the three largest serviced office deals, with substantial acquisitions in Milton Keynes, Heathrow and Hammersmith.

SUPPLY FALLS AS QUALITY IMPROVES

For a seventh successive year, overall supply contracted across the South East, reflecting a combination of forces, namely robust levels of occupier demand, pressure from alternative uses and an absence of a widespread development boom in this cycle.

Across all 25 markets combined, total supply ebbed to a new all-time low of 12.2m sq ft at the end of Q1 2019, down 9% year-on-year, and equivalent to 2.7 years of supply based on average annual take-up. However, reflecting a subdued quarter for take-up, overall supply was virtually unchanged during Q1.

While levels of grade A space vary markedly between locations, the overall quantum of available grade A space has been remarkably stable at circa 5m sq ft over the past three years. Consequently, grade A's share of total supply has steadily increased, rising from 25% a decade ago to 45% currently. The improving quality of supply is helping to meet occupier needs far better than it once did. Crucially, occupiers are willing to pay for the privilege, as evidenced by rising rental levels.

ACUTE SUPPLY IN THE GROWTH CORRIDOR

There are of course marked variations in supply levels across the 25 markets. The Growth Corridor is home to some of the South East's tightest markets, led by Watford, where availability is equivalent to less than 12 months' worth of average take-up. Oxford and Cambridge are also highly constrained, albeit Cambridge is currently home to a better grade A offer than Oxford, particularly out of town. Elsewhere, Brighton also faces acute pressures with less than two years of supply, some of which is under construction and therefore not immediately available.

In general terms, supply more evenly balanced across the Thames Valley markets. Although Slough and Uxbridge have significant supply levels relative to prevailing take-up, availability has contracted significantly over the past year, while both stand to benefit from inward investment stimulated by the pending arrival of the

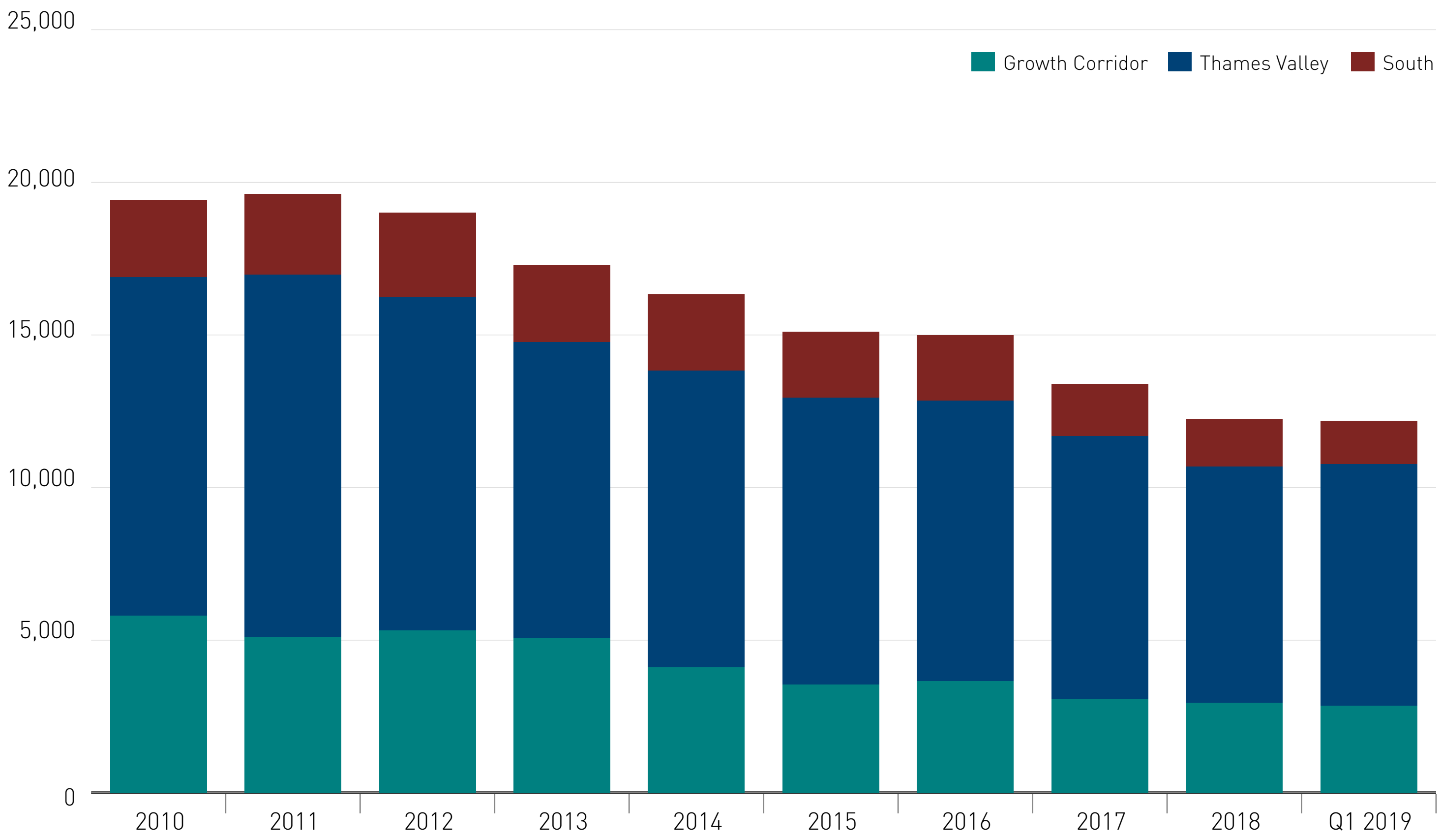
Elizabeth Line. Testament to strong occupier activity, availability in Reading is equivalent to just three years of supply despite being a major focus of speculative development in the South East over the past few years.

DEVELOPMENT PICKS UP IN Q1

A mixture of developer caution around Brexit and increasing fund interest in alternative property sectors has weighed on levels of speculative development across the region in recent years. While speculative development picked up by 28% in Q1 2019 to stand at 1.6m sq ft, it remains some way short of the peak in 2015/16 and far removed from the boom seen at the turn of the century.

28 spec schemes are currently progressing across the 25 markets, comprising a mixture of new builds and extensive refurbishments. Hammersmith is home to the largest quantum of development, with 342,000 sq ft underway in two schemes, the largest of which is 245 Hammersmith (242,000 sq ft) and is scheduled to complete imminently. Elsewhere, developers appear to be responding to the acute supply pressures evident elsewhere in the South East, with Reading, Brighton and Watford both seeing new development starts in Q1 2019.

AVAILABILITY (000 SQ FT)



SEVERAL MARKETS DRIVE RENTAL GROWTH

Generally speaking, ongoing healthy appetite for grade A space continues to be reflected in upward movements in prime headline rents. While 2016 marked the peak rate of growth, with rents across the markets rising by an average of 7.6% that year, the past 12 months have nonetheless seen inflation-beating growth of 3.9%.

That said, the average growth for the region has largely been fuelled by steep rises in a small group of markets. Milton Keynes was the standout market over the year, with rents rising by 22% following lettings at 100 Avebury Boulevard. Four other locations saw prime headline rents increase by in excess of 10%, namely Bracknell (+15%), Chelmsford (+15%), Oxford (+13%) and Heathrow (+13%). Typically, these step changes in rental tones reflect the delivery of best in class space into the market where there was little to speak of previously.

BRIGHTON AND WATFORD TO OUTPERFORM

Despite the economic uncertainty swirling through the markets, existing and pipeline supply is sufficiently in check to support further, albeit modest, growth in prime headline rents across the vast majority of South East locations. Over the period to

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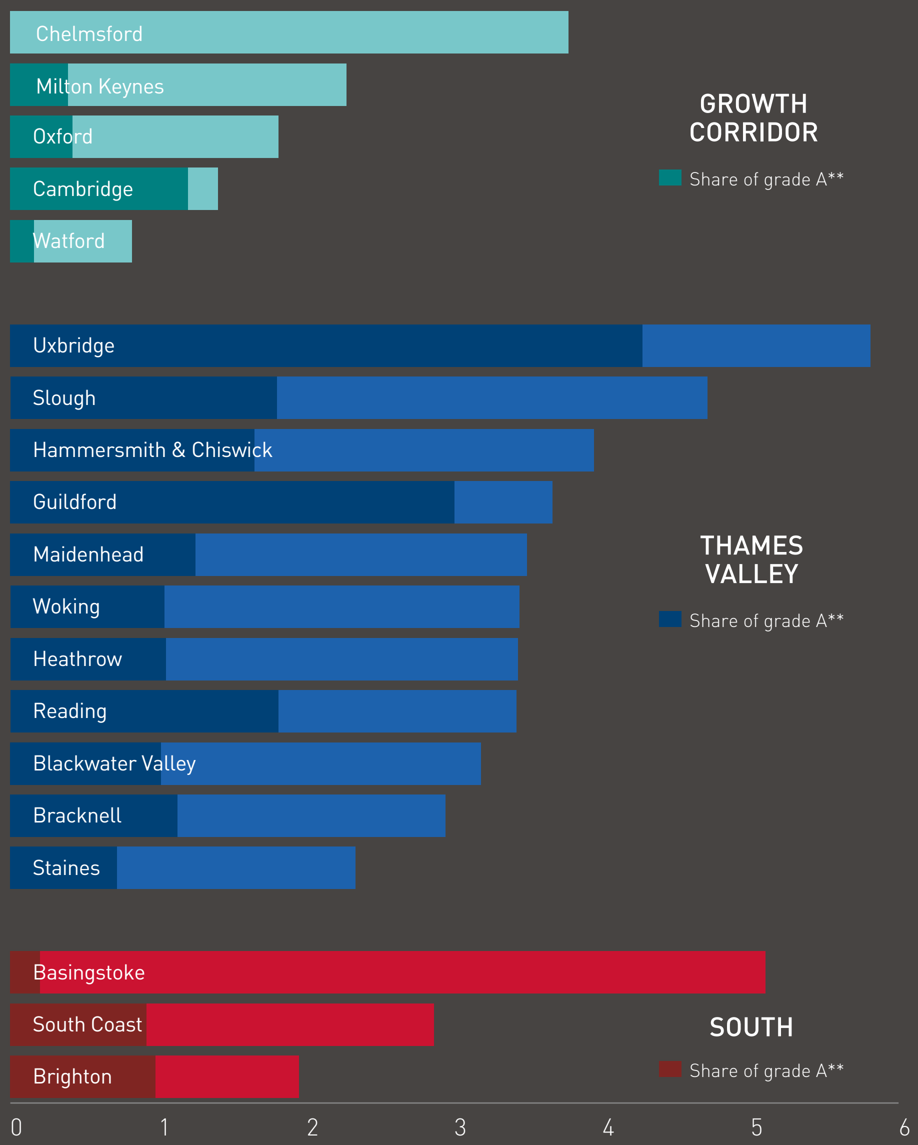
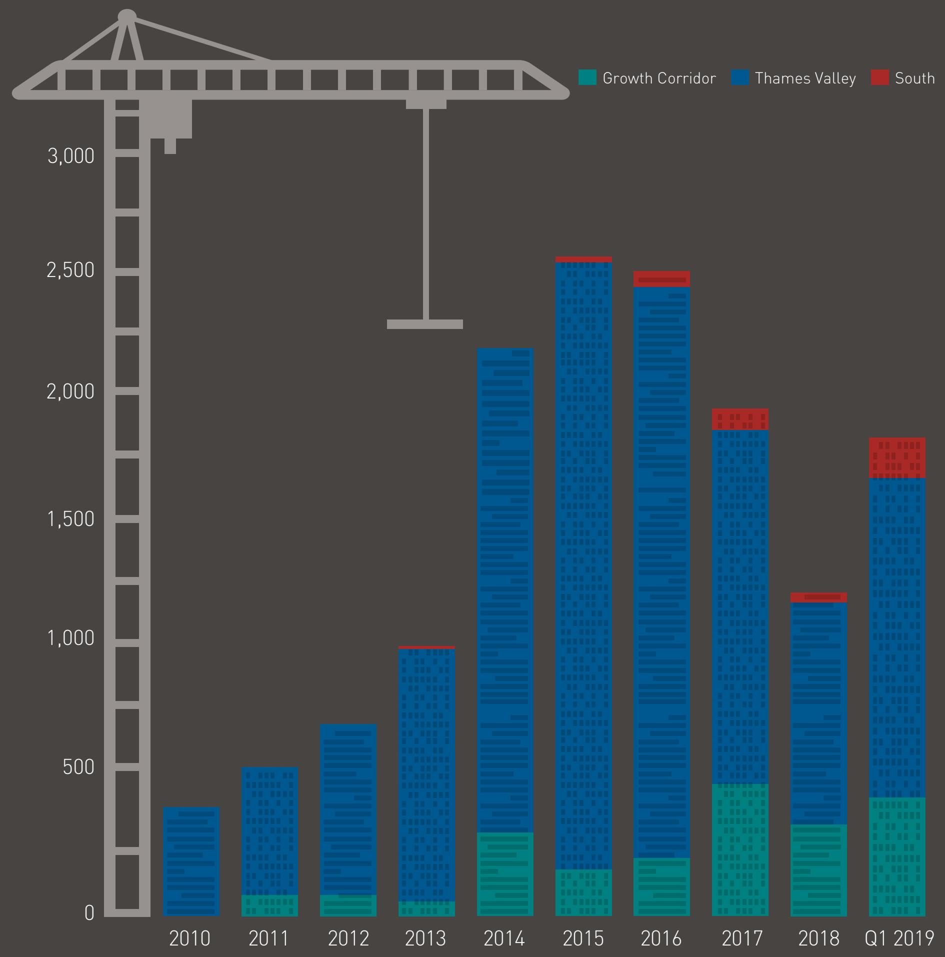
AVAILABILITY AS YEARS OF SUPPLY*



* 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

2021, average rents across the key markets are projected to increase by circa 2% p.a.

In view of the attractive supply and demand dynamics, Watford and Brighton are forecast to lead growth in prime headline rents over the next few years, in each case seeing average annual growth of 5.2% p.a. to 2021. New build stock is coming forward in both of these markets and we expect this product to set new benchmarks in prime headline rents.

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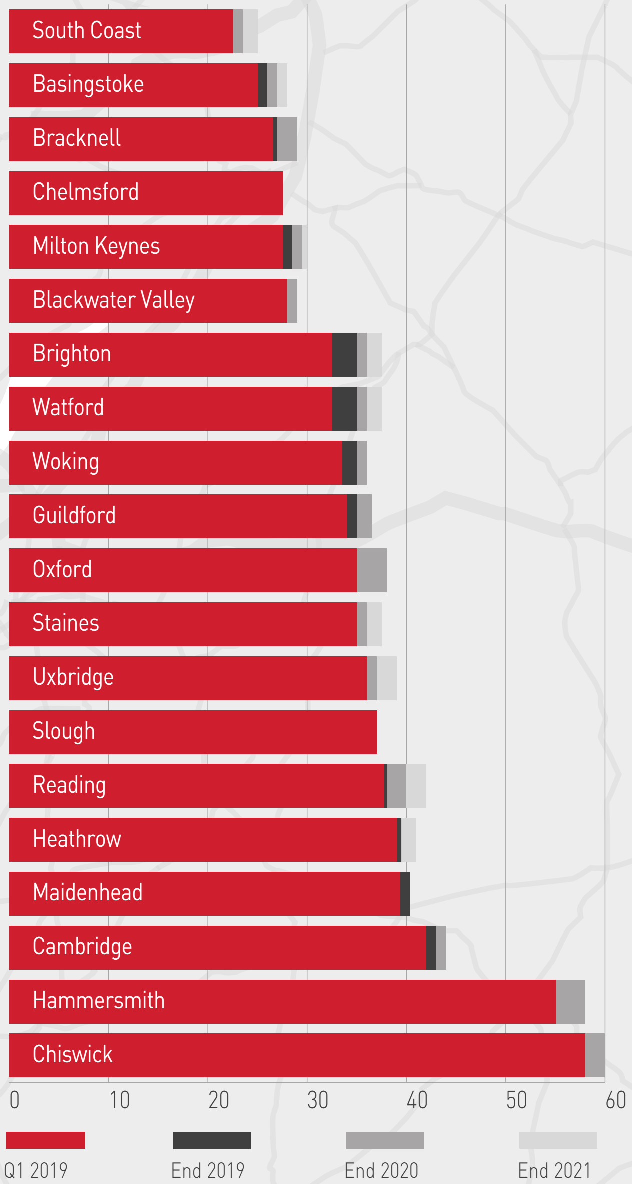
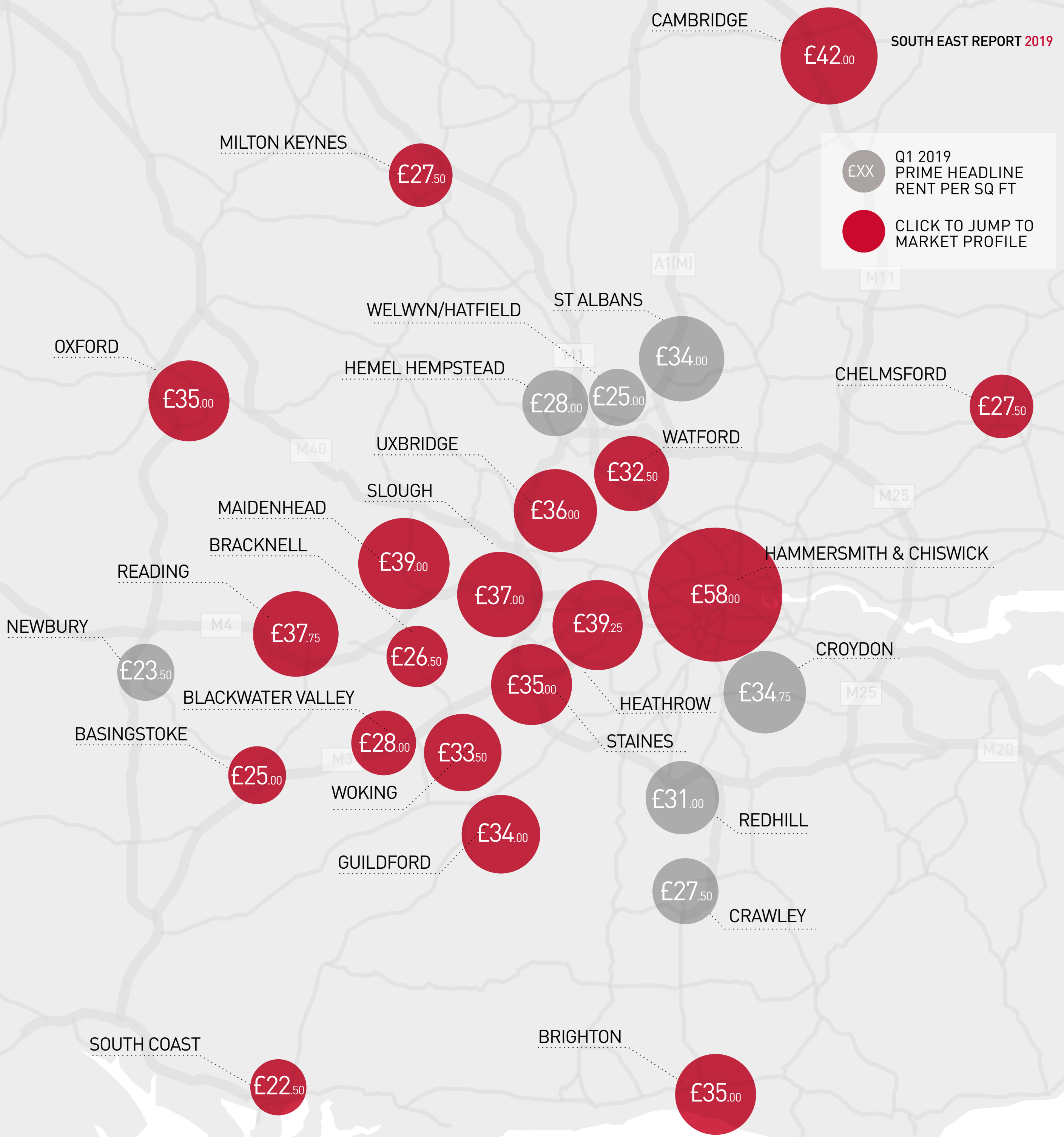
PRIME HEADLINE RENTS AND FORECASTS (£ PER SQ FT)





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TRIGGERS AND DRIVERS 2018/19

TRACKING DEMAND

What motivated companies to acquire new office space in the South East in 2018, and what influenced their choices of property? Our analysis of transactional activity above 5,000 sq ft shows that expansion was a major driver of demand, indicating that many occupiers remained in growth mode despite wider economic uncertainty.

TRIGGERS – WHAT IS PROMPTING RELOCATION?

Lease events were the primary trigger of office relocations in 2018, accounting for 44% of transactions. This was closely followed by expansions, with 39%, including the region's largest deal of the year which saw ASOS take 125,000 sq ft at Leavesden Park, near Watford.

Expansions' market share was moderately up on recent years, suggesting that corporate growth plans remained largely unaffected despite the uncertainty posed by Brexit. Their share was also boosted by the continued growth of the serviced office sector, with brands such as Regus, Spaces, Fora and Orega expanding their presence in the South East.

Corporate activity accounted for 14% of deals, including a number of large transactions that saw companies merging and consolidating existing offices. The largest such deal saw Sanofi take 71,000 sq ft at Four10, Reading, in order to merge its Guildford and Maidenhead offices.

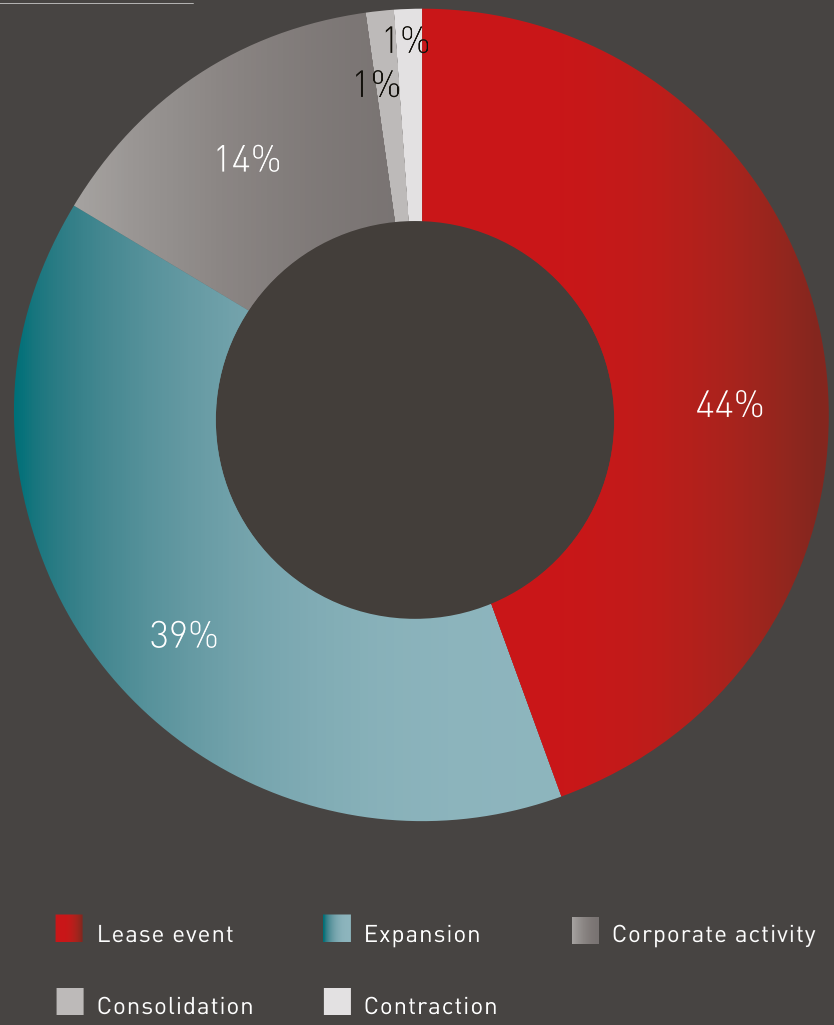
DRIVERS – WHAT DETERMINES END CHOICE?

Location was the primary consideration in occupiers' office choices, being the main driver in 57% of deals. The importance of location was particularly pronounced for TMT occupiers, for whom it was the key driver in 67% of transactions. This was reflected in continued demand for space in established tech hubs such as Reading and Cambridge.

While location was the main driver of demand, workspace improvement also played a significant role, being the key driver in 26% of deals. These included several deals in which companies upgraded to new flagship offices. For example, KPMG agreed a 45,478 sq ft deal that will see it relocate its Reading office to the newly-built 2 Forbury Place, while Carl Zeiss decided to relocate its Cambridge offices to 43,332 sq ft of new high quality space at Cambourne Business Park.

Cost was cited as the main driver in 12% of deals, with most of these involving

PRIMARY TRIGGERS 2018 (%)



Source: LSH Research

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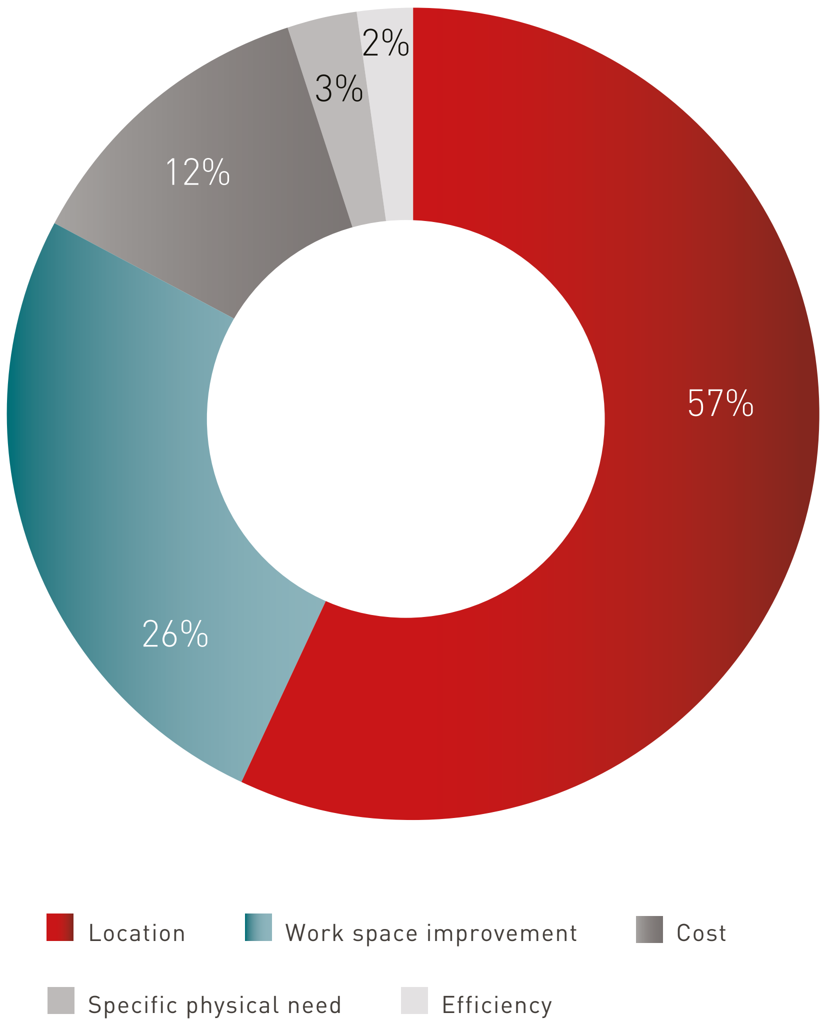
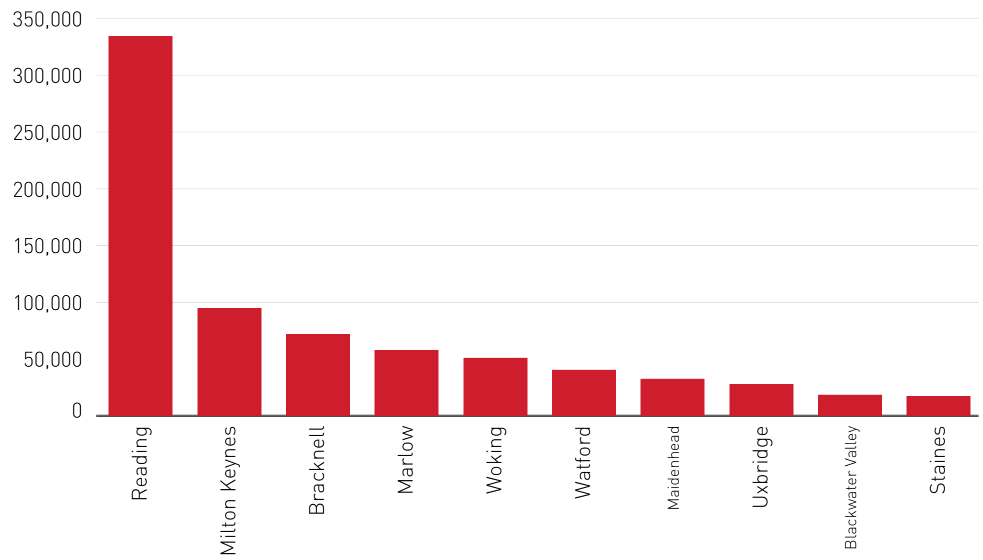
PRIMARY DRIVERS 2018 (%)



INWARD INVESTMENT - TOP TEN LOCATIONS 2018 (SQ FT)



companies relocating to more affordable out-of-town office space. Specific physical need was the driver in 3% of deals, most of which saw pharmaceutical, medical and healthcare occupiers take high specification space.

INWARD INVESTMENT – WHERE IS IN DEMAND?

Inward investment deals – those involving occupiers locating to new markets in which they were not previously present – represented 20% of all transactions over 5,000 sq ft in 2018.

Reading was by far the biggest attractor of inward investment, which accounted for 334,559 sq ft of occupier transactions. This was more than half of the town's total take-up and it represented 42% of inward investment across the whole of the South East. The largest deal in Reading saw Virgin Media take 120,000 sq ft for a new UK headquarters at Green Park. Other major entrants to the Reading market included Sanofi, Ericsson and Fora.

The next largest destination for inward investment was Milton Keynes, with approximately 95,000 sq ft of space acquired. Reflecting Milton Keynes' broad occupier appeal, this was spread across a range of occupiers from the serviced office, TMT, energy and financial sectors.

Bracknell also saw significant inward investment, primarily from TMT occupiers. Unusually, Marlow was the fourth largest recipient of inward investment, with Globeside Business Park attracting international pharmaceutical occupiers. Woking completed the top five locations, boosted by Spaces' entry to the market at Spaces One.

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INVESTMENT MARKET REVIEW

MIND THE GAP

Following six years of impressive volumes, investment in South East offices slowed markedly since the latter part of 2018. Whilst there remains a significant depth of demand, current uncertainty has exacerbated the stand-off between buyers and sellers over pricing levels.


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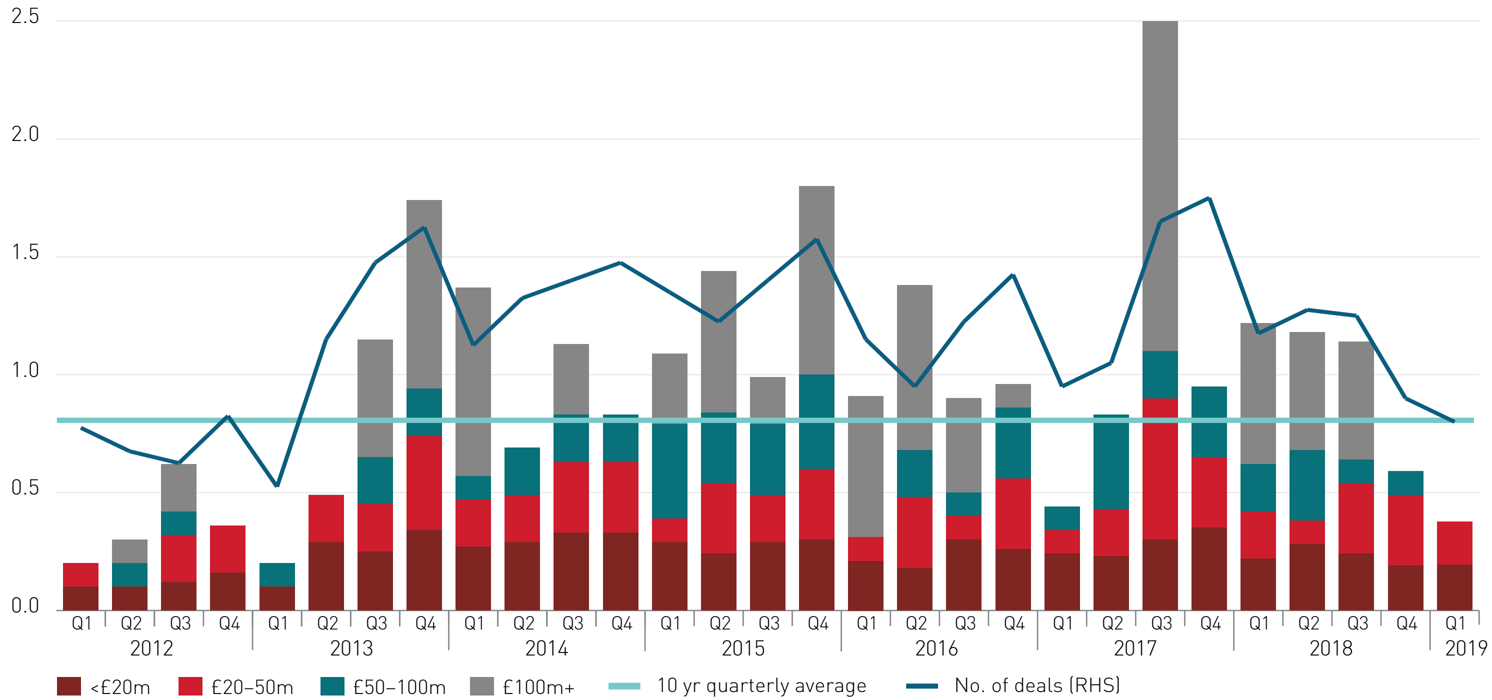
BREXIT BITES

South East offices was among the most actively traded property sectors against trend levels in 2018, with total volume of £4.1bn standing 24% above its annual average. However, over the past two quarters a climate of caution in the run-up to the planned Brexit date in March has weighed on buyer appetite, not only for South East offices but across the core sectors of offices, retail and industrial. South East office volume of £377m in Q1 was the lowest quarterly total since Q1 2013 and was down 69% on the same period in 2018.

LARGER END MOST AFFECTED

The Brexit impasse was most clearly evident around big ticket lot-sizes, with an absence of any deals in excess of £100m over the past two quarters. Furthermore, Q1's largest office deal was a residential play via permitted development, namely Liaspace's £42.9m purchase of The Old School House, Hammersmith from Threadneedle. However, activity at the smaller end of the market has been more resilient, indicative of ongoing

SOUTH EAST OFFICE VOLUME BY LOT SIZE (BN)



Source: LSH Research

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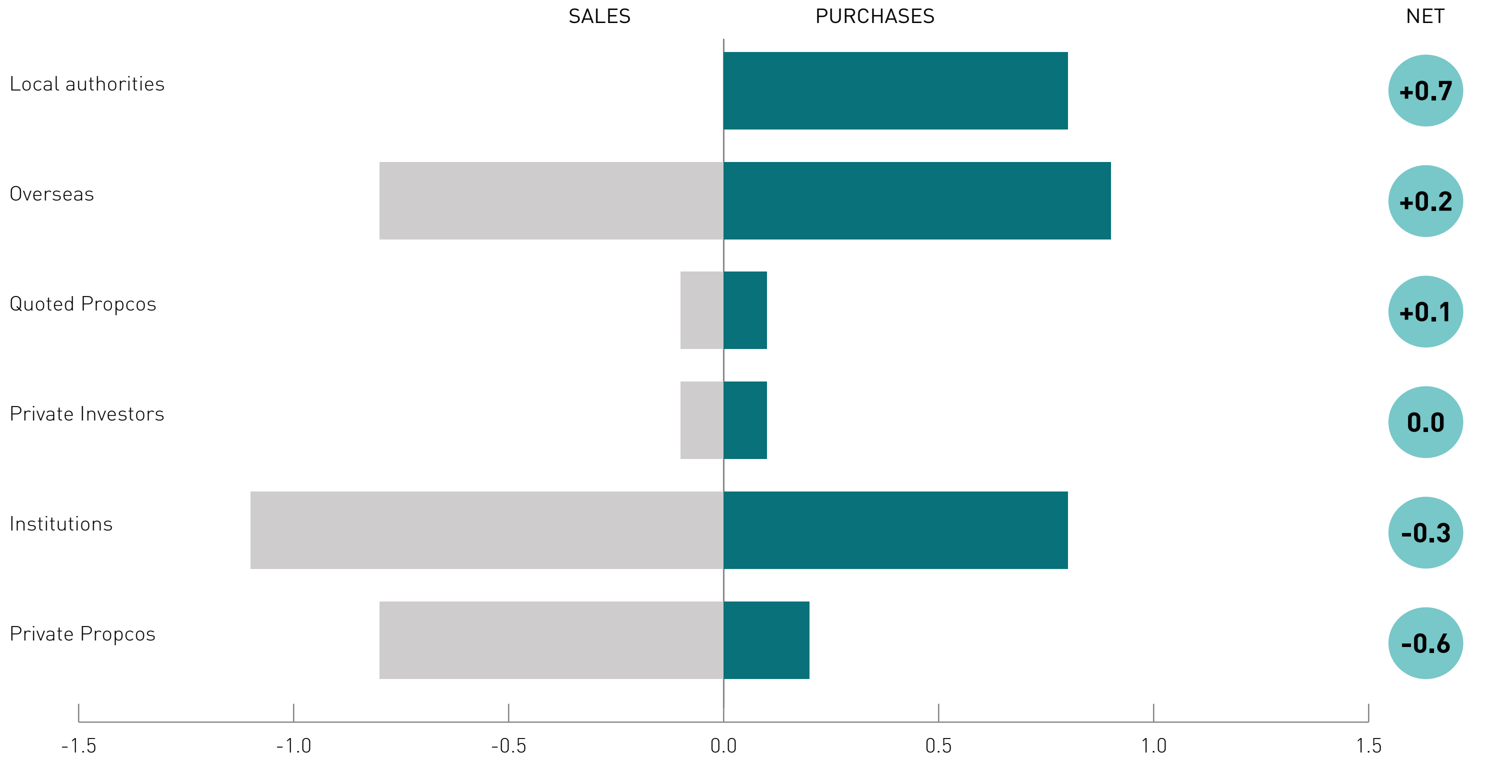
SOUTH EAST OFFICE VOLUME BY INVESTOR (£BN, LAST 12 MONTHS)



depth to market demand. If transactions above £50m are excluded from the analysis, Q1 volume was only 13% below average and comprised a respectable 32 deals.

MIND THE GAP

While a lack of stock partly explained Q1's subdued volume, the main issue stems from the disparity between vendors' and buyers' pricing expectations. Perceived risks to the economy and occupier markets around Brexit have exacerbated this stand-off, as prospective buyers seek to factor a greater degree of risk into pricing than current valuations demonstrate. Meanwhile, with limited distress to speak of, potential vendors are simply opting to hold.

In view of the perceived risks, however, the prime end of the market continues to see very strong demand and a willingness to pay handsomely for defensive product. This was clearly demonstrated in Q1 by St James's Place PF's £39.0m (4.75% NIY) acquisition of the Brinell Building, Brighton from McAleer & Rushe. The deal reflects the strength of appetite for product that is deemed to 'tick all the boxes', characterised by high end specification, town centre location and strong growth fundamentals in the occupier market.

INSTITUTIONS REGAIN MARKET SHARE

The South East office market has broad appeal, reflected in the increasingly diverse sources of equity across the investor types. While overseas investors have taken the commanding share of volume over recent years, investment has become more balanced across the investor types over the past year.

Overseas investors have remained the largest buyer of South East offices, acquiring £924m over the last 12 months. However, this was down 62% on the previous 12 months and 23% below the ten-year annual average, mirroring the lack of large deals. The largest deal to an overseas buyer was ARES Management's £140m purchase of the AEW's South East Portfolio comprising 12 assets in Q3 2018.

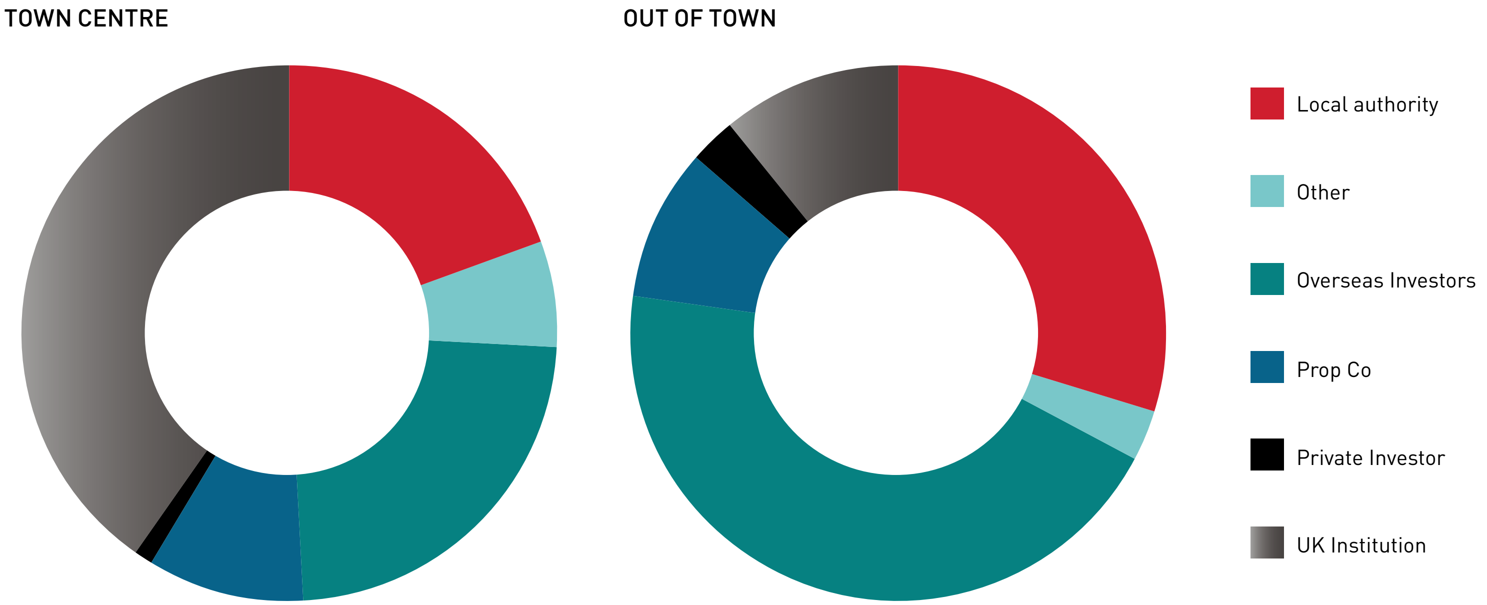
In September 2018, LSH advised Mayfair Capital on their acquisition of AB Inbev House, Woking from Prudential Assurance for £16.9m, reflecting £275 per sq ft.

Meanwhile, investment from institutions has increased, with acquisitions totalling £831m over the last 12 months, up 13% on the previous year. Institutions also accounted for 25% of total volume, doubling their share of volume from the preceding year. Demand remains very much focused on quality multi-let town centre stock, or the region's very best business parks.

WHERE NEXT FOR LOCAL AUTHORITIES?

Local authorities have emerged as a key player in the UK investment market over the past three years, and South East offices have provided one of their major hunting grounds alongside UK shopping centres. Local authorities were in fact the largest net buyers of South East offices over the last 12 months. With acquisitions totalling £760m across 28 assets, local authorities accounted for 22% of total volume.

BUYER SHARE OF VOLUME BY LOCATION TYPE - LAST 12 MONTHS



Source: LSH Research

Debate surrounds the sustainability of local authorities as a source of investment demand. While two recent CIPFA publications highlight a number of pitfalls and risks to property investing, they are in no way binding and local authorities will continue to deploy strategies to address the funding gap in their budgets. The main risk to demand is arguably political in nature, with individual decisions in each local authority depending on changes in policy following recent local elections.

UPWARD PRESSURE ON PRIME

The prime end of the South East market still continues to offer relative value compared with to other sectors, such as Central London offices and South East industrials. Arguably, as a result of this, South East offices was the only key segment of the property market to witness a hardening of prime yields in Q1. This was confirmed by the recent purchase of the Brinell Building, Brighton, which indicated that prime yields hardened by 25bps to 4.75%, the first inward movement in over four years. That said, given the acute pressures on supply, Brighton is in an elite group of South East locations and recent yield compression was not a theme to the South East market as a whole.

SEEKING VALUE

Demand for quality stock and a search for stronger returns has stimulated the market for obsolete, part-vacant properties. One successful example was Clearbell Capital's speculative refurbishment of Voyager Place, Maidenhead. Having acquired the asset in Q4 2015 for £14.55, Clearbell refurbished and let the building to FM Global, and recently disposed of the asset for £31.1m (5.25% NIY). Another example was Mayfair Capital Thematic Growth Fund's £16.9m (£275 per sq ft) acquisition of AB InBev House, Woking. Following the tenant's exit from the building upon lease expiry, the building is undergoing a 65,577 sq ft speculative refurbishment.

In markets associated with tight supply and decent growth prospects, we expect demand for value-add opportunities to remain a key feature of the office market over the next 12 to 18 months. This will also be supported by a growing sense that residential plays via permitted development may have peaked; the lowest hanging fruit has already been picked and there are growing concerns over the resale values of PD conversions in the current market.

In November 2018, Buckinghamshire County Council purchased Voyager Place, Maidenhead from Clearbell Capital for £31.1m reflecting 5.25% NIY. LSH advised for the vendor.

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QUIET SUMMER, BIG YEAR END

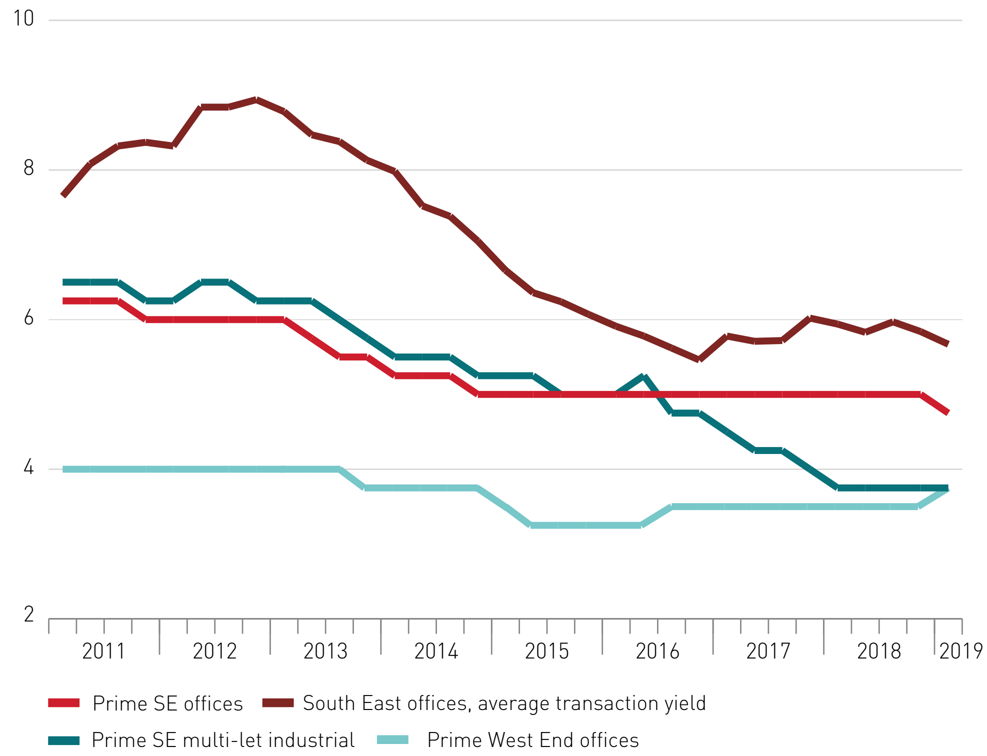
It was hoped that Q1 would be an isolated weak quarter as greater clarity of Brexit would have emerged. However, while the UK did not crash out of the EU, the Brexit extension means that uncertainty is likely to continue to hang over the wider investment market for at least the next two quarters, potentially weighing on South East office volume in the process.

That said, there are a number of sizeable assets available in the South East which have the potential to restore volume closer to trend levels over the summer period. While buyer interest is in the offing, these transactions depend on a convergence of pricing aspirations between buyers and sellers.

The fundamentals of the South East office market are generally robust. Assuming some sort of clarity around Brexit does materialise, an uncertain summer is expected to be followed by a strong release of pent up demand and significant trading activity later in the year. Markets with tight levels of grade A supply and / or benefitting from major infrastructure and regeneration projects stand to see the strongest interest.

In April 2019, South Cambridgeshire District Council purchased 140 Cambridge Science Park from Mayfair Capital for £13.0m, reflecting 5.60% NIY. LSH advised the vendor.

SOUTH EAST OFFICE YIELDS (%)



NOTABLE SOUTH EAST OFFICE TRANSACTIONS

Month	Property	Price (£m)	Net Initial Yield	Size (sq ft)	Purchaser	Vendor
Feb-19	Falconry Court, Epping *	£10.56	4.43%	32,680	Hermes	Mantle Estates
Jun-18	VW Financial HQ, Milton Keynes	£50.15	4.83%	101,236	Runnymede Borough Council	UK & European Investments
Nov-18	Voyager Place, Maidenhead*	£31.09	5.25%	55,577	Buckinghamshire County Council	Clearbell
Aug-18	TOR, Maidenhead	£35.40	5.70%	68,065	M&G	Rockspring and BlackRock
Dec-18	Caversham Bridge House, Reading*	£9.20	5.10%	24,038	Mansfield District Council	British Steel Pension Fund
Sep-18	Microsoft Office Campus, Reading	£100.00	6.31%	246,138	Valesco Group and AIP AM	Mapeley Estates
Mar-19	Fonteyn House, Reigate	£8.50	5.68%	30,000	Overseas Private Investor	British Steel Pension Fund
Aug-18	Quadrangle, Redhill	£21.05	5.46%	48,157	Mole Valley District Council	LaSalle IM
Mar-19	Victory House, Brighton	£36.50	4.83%	87,652	NFU Mutual	Schroder Real Estate
Mar-19	Brinell Building, Brighton	£39.00	4.75%	65,253	Orchard Street	McAleer & Rushe

*LSH advised

MARKET INSIGHT

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SUPPLY CONSTRAINTS WEIGH ON TAKE-UP

While Cambridge remains a highly dynamic market, severe supply constraints have weighed on take-up over the past 18 months. In the town centre, there is very little space available or in the pipeline. However, the city's status as a global hub of research and innovation, particularly in the areas of artificial intelligence and life sciences, will continue to attract occupiers.

DEALS IN THE PIPELINE

Take-up was below par in 2018 and into Q1 2019, particularly in Cambridge town centre where only 5,478 sq ft was taken up in Q4 2018. This was due to both a lack of existing supply and to the imminent completion of Brookgate/Aviva's 50/60 Station Road (160,000 sq ft), which will culminate in a string of leasing deals upon delivery in May 2019.

The largest deal in Q1 2019 was Displaylink's 62,000 sq ft lease at 22 Cambridge Science Park, which is due to complete in Q2 2019. Demand remains strong among TMT and life sciences occupiers across the city, as well as business services in the town centre.

LACK OF SUPPLY

Following the completion of 50/60 Station Road, Brookgate/Aviva will turn its attention to the next phase of development of CB1, namely 30 Station Road. However, it is likely to be another two to three years before it can be delivered. Tight supply has put strong upward pressure on rental levels, with prime headline rents increasing by 10% over the past 18 months to £42.00 per sq ft.

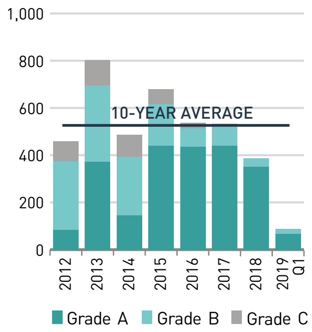
Out of town, The Works (62,000 sq ft) will be the first building to complete on the new 260,000 sq ft business park Unity Campus. Already part pre-let, the building is due to complete in Q3 2019. 25 Cambridge Science Park (40,000 sq ft) is due to complete in Q2 2019.

FUTURE SUPPLY

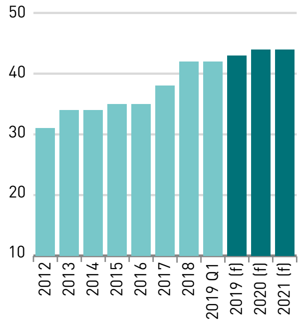
Due to spatial constraints, Cambridge's future growth and development cannot merely rely on town centre activity. Development continues out of the centre, including Cambridge Science Park where Trinity College and TusPark are redeveloping 350,000 sq ft across five new buildings.

Cambridge is on an exciting journey of growth. With vital improvements to infrastructure, such as the opening of Cambridge North station in 2017 and the ongoing improvements to the A14, the next piece of the jigsaw could be the proposed £4bn Cambridgeshire Autonomous Metro system linking outlying areas to the City centre and existing transport hubs.

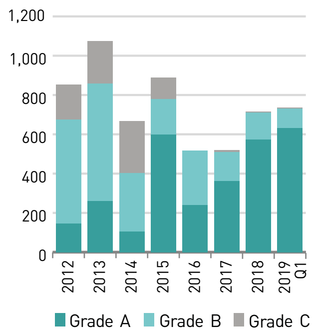
TAKE-UP (000 SQ FT)



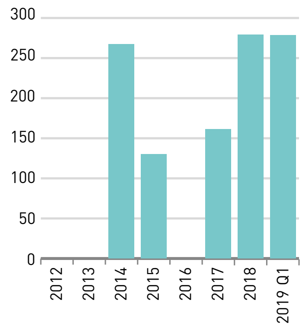
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

-21%

YEARS OF SUPPLY

1.4

GRADE A SHARE OF SUPPLY

86%

PRIME YIELD

4.75%

Q1 2019 HEADLINE RENT (PER SQ FT)

£42.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q1	22 Cambridge Science Park	62,000	DisplayLink	£33.75
2018 Q3	Building 1030 Cambourne Business Park	43,332	Carls Zeiss	£22.50
2018 Q3	72 Hills Road	25,469	Prowler.io	£34.00
2018 Q2	Building 2010 Cambourne Business Park	21,971	MediaTek	£22.50
2018 Q3	Maurice Wilkes Bdg, St Johns Innovation Park	12,195	PWC	£31.75

Source: LSH Research

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CHELMSFORD

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RECORD RENT SET IN Q1

The last few years for the Chelmsford market have been characterised by steady take-up of refurbished grade B buildings. However, activity is arguably being fundamentally constrained by a long running absence of new or grade A space and, with little in the pipeline, there is a growing risk that prospective occupiers will start to look elsewhere.

SUBDUED TAKE-UP

Take-up was unspectacular in 2018 reflecting a lack of grade A deals and an absence of deals in excess of 10,000 sq ft. Occupiers continue to fall into Chelmsford's established sectors of professional services, finance and banking and the public sector, although two TMT occupiers took space in 2018.

While take-up remained moderate in Q1 2019, there were some significant deals, the largest being Plexus Law's lease of 6,800 sq ft at the newly refurbished Hyatt Place. Meanwhile, Atkins acquired 4,411 sq ft at Amlin House, in a deal that set a new prime headline rent for Chelmsford of £27.50 per sq ft. There are several active requirements in the market, with the majority falling into the 5,000 to 10,000 sq ft bracket. This aligns well with the majority of available city centre space and should translate into steady take-up for the remainder of the year.

SUPPLY STILL SOME WAY OFF

Chelmsford has not had any new speculative development delivered to the market for several years. However, with the new rental tone in the market, some existing buildings would benefit from repositioning through refurbishment.

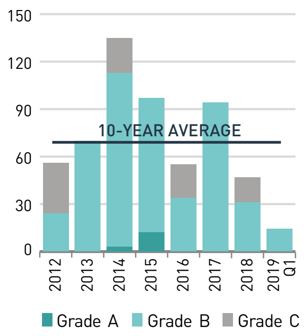
While there is a reasonable supply of grade B and C space, this could be gradually eroded through conversion to other uses. A recent example of this trend is Central House, a former office building of 15,000 sq ft which is being redeveloped into apartments. Areas of strategic land are still some way off coming forward, with significant infrastructure works required to enable further development.

RENTS TO REMAIN STEADY

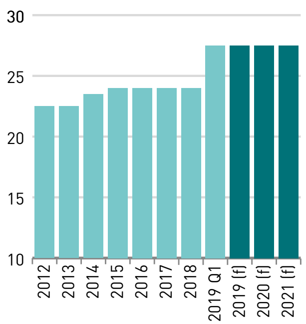
Prime headline rents have risen in Chelmsford, but opportunities for further increases are restricted by the lack of quality supply coming to the market.

Although the town is well connected to London and nearby motorways, its performance is muted compared to other nearby locations. Plans to build a further 9,000 homes in Chelmsford by 2036 could provide the residential boost the town needs and help to attract a new wave of occupiers in the future.

TAKE-UP (000 SQ FT)



PRIME HEADLINE RENT (£ PER SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE
-16%

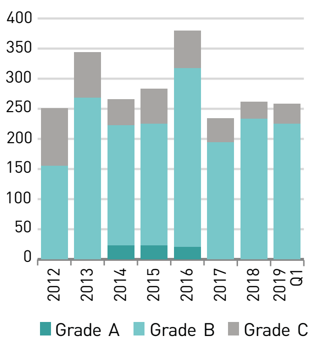
YEARS OF SUPPLY
3.8

GRADE A SHARE OF SUPPLY
0%

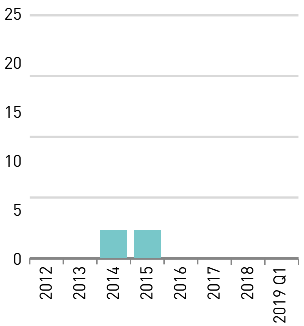
PRIME YIELD
5.25%

Q1 2019 HEADLINE RENT (PER SQ FT)
£27.50

AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2018 Q3	Stapleford House	9,625	Provide Community Interest Company	£24.00
2018 Q4	Hamilton Centre	8,328	Maitland Group	£17.00
2018 Q4	115 New London Road	7,740	Blesma	Freehold
2019 Q1	Hyatt Place	6,800	Plexus Law	£19.25
2019 Q1	Amlin House	4,411	Atkins	£27.50

Source: LSH Research

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QUALITY SPACE IN HIGH DEMAND

Milton Keynes is one of the most active markets in the South East, with increasing rents, strong demand and a welcome return of development. With the town set to benefit from key transport infrastructure improvements, the fundamentals for continuing rental growth and inward investment are in place over the short and medium term, both in town and out of town.

A WAVE OF ACTIVITY

After a subdued 2017, occupiers sprung to action in 2018, enticed by the arrival of new supply to the market. 2018's largest deal saw the serviced office operator Spaces pre-let 47,000 sq ft at 100 Avebury Boulevard, while Shoosmiths pre-let 19,800 sq ft at the same building. The latter deal set a new prime headline rent of £27.50 per sq ft, a substantial 22% above the previous level.

Deals from the likes of Unisys, Technip and T-Systems highlight the growing demand from the TMT sector in Milton Keynes. The city is also attracting demand from London, demonstrated by Goldman Sachs' lease of Wentworth House (21,000 sq ft) at Caldecotte Lake Business Park, its first UK office outside the capital.

DEMAND FOR QUALITY

AW James' 140,000 sq ft development at 100 Avebury Boulevard marks the encouraging return of speculative development to the Milton Keynes market. Already 50% pre-let, the building is scheduled to complete towards the end of 2019.

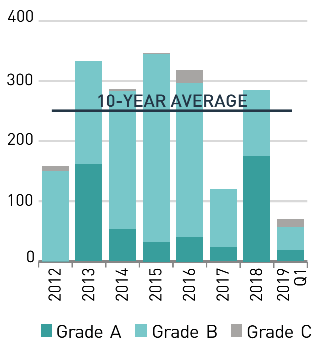
Although availability has fallen in the last five years, there remains a reasonable level of grade B supply. This contrasts with a lack of grade A space, which is in strong demand from corporate occupiers, and there remains a need for further grade A development. The lack of grade A space, combined with a significant rental discount offered by grade B+ offices, is expected to result in the improved take-up of good quality refurbished product.

PROMISING FUTURE

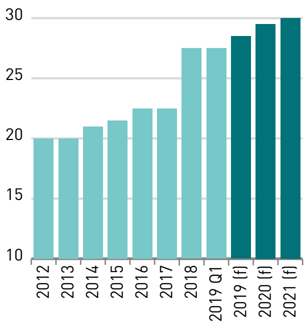
Strong economic and demographic growth, and high levels of residential development, will continue to support Milton Keynes' status as one of the UK's fastest growing urban areas. It will also be one of the main beneficiaries of the infrastructure plans for the Oxford-Cambridge Arc, with increasing east-west connectivity opening the town up to an even wider pool of talent.

As 2019 progresses, increasing numbers of large businesses will recognise the area's potential and rents are expected to rise further, particularly as Milton Keynes continues to represent relatively good value compared with other South East markets.

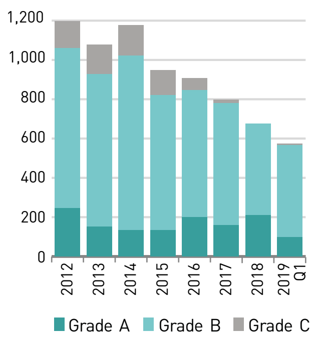
TAKE-UP (000 SQ FT)



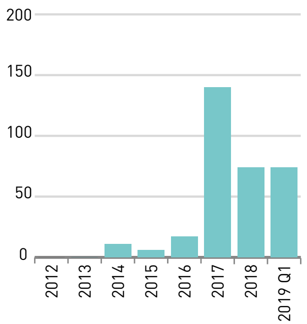
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

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

YEARS OF SUPPLY
2.3

GRADE A SHARE OF SUPPLY
17%

PRIME YIELD
5.25%

Q1 2019 HEADLINE RENT (PER SQ FT)
£27.50

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2018 Q4	100 Avebury Boulevard	47,595	Spaces	£25.00
2018 Q3	4, Wentworth House	21,146	Goldman Sachs	£22.00
2018 Q4	100 Avebury Bouveland	19,800	Shoosmiths	£27.50
2018 Q4	The Pinnacle, Midsummer Boulevard	19,500	Technip	£21.50
2019 Q1	Keen House, Wavendon Business Park	18,866	Unisys	£21.50

Source: LSH Research

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BLINDING WITH SCIENCE

The Oxfordshire market continues at a steady pace, with strong and consistent activity from the science and technology sectors leading to a reduction of grade A supply. Occupiers are now vying for remaining space, which will lead to further rental growth in 2020 when development picks up across the area.

SCIENTIFIC LEAP

Take-up in 2018 was in line with levels seen over the past five years. While 2019 has started slowly, with no deals above 5,000 sq ft in Q1, a healthy pipeline of space under offer will put H1 take-up to a respectable level. In 2018, science and technology occupiers accounted for 72% of deals.

Demand is being boosted by spin-out companies from the University and commercialisation vehicles such as Oxford Sciences Innovation. The speculative development of 61,000 sq ft at the Schrodinger Building at Oxford Science Park has been a success with the building fully let to various occupiers and achieving a new prime rent of £35.00 per sq ft.

ALL IN PLANNING

Oxford is one of the South East's tightest markets and grade A supply is under particular pressure. Arlington continue to progress with a programme of speculative refurbishment at Oxford Business Park, with significant space going under offer underlining the pent up demand for quality space.

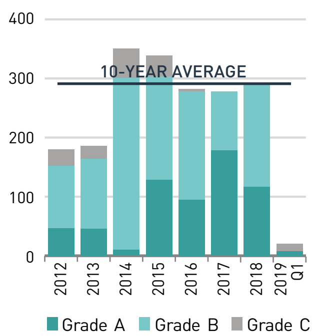
Elsewhere, further development will begin at the end of 2019 and into 2020, but much is still in the planning phase. This includes the next phase at Harwell Campus, one of the UK's largest science parks, which has the potential to deliver up to 750,000 sq ft over the next decade.

INFRASTRUCTURE BOOST

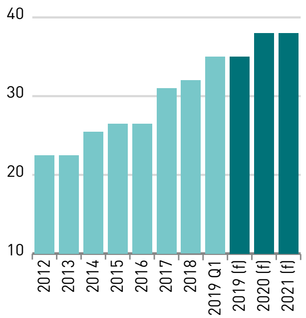
Rents have increased sharply over the past 18 months, with the current prime headline rent standing at £35.00 per sq ft. However, we expect rents to remain stable until further grade A space is delivered in 2020, as some occupiers may opt to hold out for higher quality space.

While promising, the impact of future infrastructure improvements along the Oxbridge corridor will take some time to feed into the market. However, the reopening of the Cowley Branch Line linking Oxford Station to Oxford Science Park and Oxford Business Park may begin in the next two years, which would have a real positive medium-term impact on the local area.

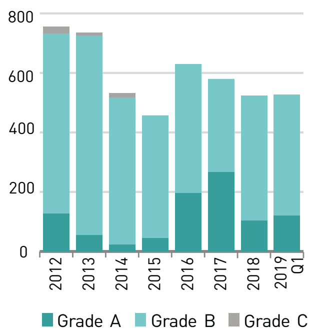
TAKE-UP (000 SQ FT)



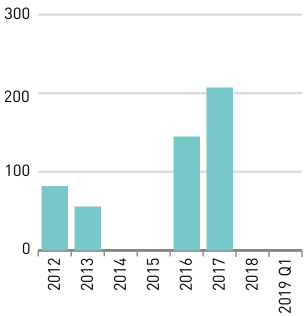
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE
-18%

YEARS OF SUPPLY
1.8

GRADE A SHARE OF SUPPLY
23%

PRIME YIELD
5.00%

Q1 2019 HEADLINE RENT (PER SQ FT)
£35.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2018 Q2	Building one, Abingdon Business Park	28,600	Gigaclear	£20.75
2018 Q2	Spires House, Oxford Business Park	25,887	Jazz Pharmaceuticals	£21.50
2018 Q2	Linacre House, Jordan Hill Business Park	19,000	Oxford Nanoimaging	£16.50
2018 Q1	Second Floor, Schrodinger Building	17,255	OSI	£32.00
2018 Q4	142 Park Drive East	18,759	RM	Confidential

Source: LSH Research

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WATFORD

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OUT OF TOWN DRIVES TAKE-UP

2018 was a strong year for Watford, stimulated by the delivery of much-needed quality supply to the market. However, much of this space has now been taken and, with prime rents up significantly from several years ago, developers have been spurred into bringing new schemes forward.

OUT OF TOWN ACTION

Watford's in town market saw relatively little activity in 2018 due to a lack of available space. Take-up was headlined by out of town lettings such as those involving Spaces and Corona Energy at Building 2, Croxley Park, as well as ASOS' lease of the remainder of Leavesden Park (125,000 sq ft).

Overall, Croxley Park performed well in 2018. Occupiers continue to be drawn by its strong connectivity, attractive amenities and good quality space. In Q1 2019, Watford Borough Council acquired the 750,000 sq ft business park on a 40-year lease from Columbia Threadneedle. This deal is the first of its kind for a local authority and will see the council take over the park's management, with the option to buy the freehold for a nominal amount at the end of the lease.

SPADES IN THE GROUND

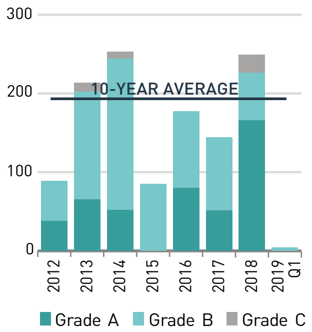
Watford is the South East's most constrained office market, with only 0.8 years of supply avaiable. There are pockets of construction in the town centre that could ease supply constraints. The refurbishment of 50,000 sq ft at 40 Clarendon Road should complete in Q3 2019, closely followed by 55,000 sq ft at 38 Clarendon Road in 2020.

On the back of lettings at Croxley Park, Columbia Threadneedle and Bell Hammer are expected to speculatively build the 85,000 sq ft Building 1. Work on site is due to start in the second half of 2019 with completion scheduled for end-2020. Looking further ahead, Seven Capital has consent for 100,000 sq ft of offices at 53 Clarendon Road, and there is potential for a mixed-use development at 37 Clarendon Road.

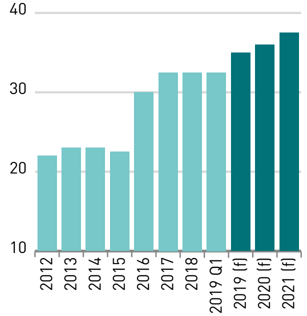
CLIMBING RENTS

The supply of new grade A space in Watford town centre is expected to push prime headline rents to £35.00 per sq ft by the end of 2019. Occupiers continue to be attracted by Watford's connectivity, location, as well as improvements at Intu Watford and increasing residential development. As such, we expect rents to continue to rise.

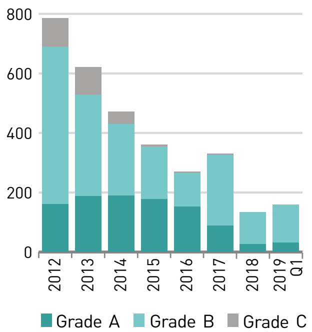
TAKE-UP (000 SQ FT)



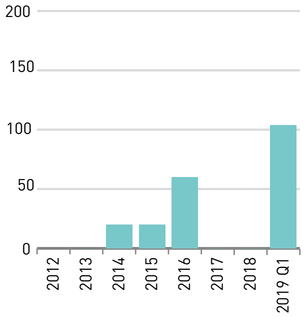
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

+12%

YEARS OF SUPPLY

0.8

GRADE A SHARE OF SUPPLY

20%

PRIME YIELD

5.25%

Q1 2019 HEADLINE RENT (PER SQ FT)

£32.50

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2018 Q4	Buildings 100 & 200, Leavesden Park	125,000	ASOS	Confidential
2018 Q4	Building 2, Croxley Park	20,700	Spaces	£32.00
2018 Q2	Building 7, Croxley Park	6,222	Starleaf	£28.50
2018 Q4	6 Hercules Way, Leavesden Park	9,584	Mane Contract Services	£21.50
2018 Q2	Building 4, Croxley Park	7,375	Yopa	£28.50

Source: LSH Research

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BLACKWATER VALLEY

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FLYING START TO 2019

The Blackwater Valley market made a strong start to 2019, with a flurry of transactions including the first deal at the newly refurbished Ascent buildings at Farnborough Aerospace Centre. As 2019 continues, we expect consistent take-up as a broad range of tenants remain attracted by the delivery of quality space, good connectivity and improving amenities.

STRONG TAKE-UP IN Q1

Take-up of 64,000 sq ft in Q1 2019 compares with 107,000 sq ft of take-up during the whole of 2018. Q1 was buoyed by Discover Financial Services' 43,000 sq ft deal at Ascent 3 at Farnborough Aerospace Centre, the largest seen in the Blackwater Valley since 2017.

Canmoor and Hermes' refurbishment of the four rebranded Ascent buildings during 2018 has repositioned Farnborough Aerospace Centre as a more popular option. Space is under offer at Ascent 4, while Ascent 1 will soon complete. Availability at the more established Farnborough Business Park is tight, which is pushing occupiers to look elsewhere.

DIVERSE AVAILABILITY

Total supply amounts to circa 650,000 sq ft and has been broadly stable at this level over the past two years. With circa 60,000 sq ft of fitted space currently available in Farnborough, and both Ascent 1 (69,000 sq ft) and 2 Watchmoor Park (30,000 sq ft) coming to the market this year, there are a good number of quality options available to occupiers.

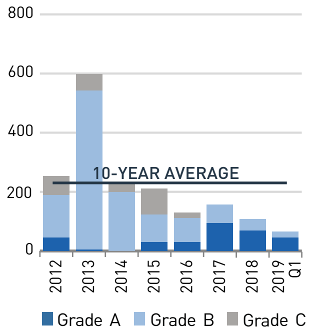
There is a steady trickle of requirements from a broad mix of tenants, particularly those in the aerospace, defence and technology industries seeking units ranging from 10,000-20,000 sq ft. As refurbished buildings come to the market during 2019, rents are predicted to rise further, topping the current prime headline rent of £27.50 per sq ft achieved at Farnborough Business Park.

MORE TO FOLLOW

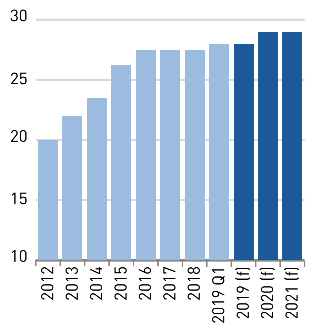
Farnborough Business Park is yet to confirm any further speculative development at the Pinehurst scheme, which could push rents up even further. As Farnborough Airport increases its capacity for charter flights, demand in the area could spur additional development.

The Farnborough International Exhibition and Conference Centre opened in 2018, the closest major exhibition centre to London, and has so far been well utilised. Regeneration plans for Farnborough town centre are progressing, with St Modwen's Kingsmead Square development having recently gained planning consent. These factors all point to a consistent level of demand during the coming year.

TAKE-UP (000 SQ FT)



PRIME HEADLINE RENT (£ PER SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

-23%

YEARS OF SUPPLY

3.2

GRADE A SHARE OF SUPPLY

32%

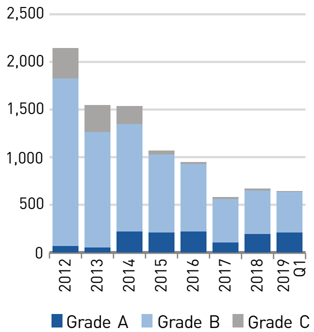
PRIME YIELD

5.50%

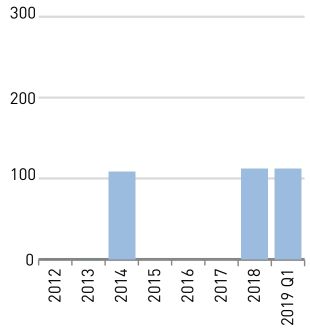
Q1 2019 HEADLINE RENT (PER SQ FT)

£28.00

AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q1	Ascent 3, Farnborough Aerospace Centre	43,000	Discover Financial	£28.00
2018 Q2	10 Watchmoor Park	22,500	Jenoptik	£22.00
2018 Q2	Pinehurst II	14,410	INC Research	£27.00
2019 Q1	Cody Technology Park - A3	14,034	Airbus Aerospace & Defence Ltd	£17.00
2018 Q4	10 Watchmoor Park	11,953	Jenoptik	£22.00

Source: LSH Research

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BRACK IN FASHION

The opening of the Lexicon Shopping and Leisure Centre has transformed the appeal of Bracknell town centre, although a lack of good quality space has held back larger occupiers from moving in. Prime space will remain the focus of demand in 2019, but additional new supply will be needed if Bracknell is to attract fresh inward investment.

STRONG END TO 2018

While take-up in 2018 underperformed recent trends, the vast majority of take-up was grade A space. 2018 take-up was just half that of 2017, due partly to a lack of large prime schemes in the market, such as Maxis and Greenwood House, which drove strong activity that year.

2018's largest deal by far was Audatex's freehold acquisition of Worldwide House (49,801 sq ft). Of 2018's 13 deals, ten were to businesses in the TMT sector, including Quest Software's lease of 3 Arlington Square (13,000 sq ft) at £23.50 per sq ft. All other deals were under 10,000 sq ft, as were all deals in Q1 2019.

GRADE A ERODES AWAY

Supply has almost halved over the past five years. Only 197,000 sq ft of grade A space remains and there has been no new development since 2009. However, the refurbishment of 2 The Arena will complete in Q3 2019 followed by the completion of the refurbished 3 The Arena in 2020.

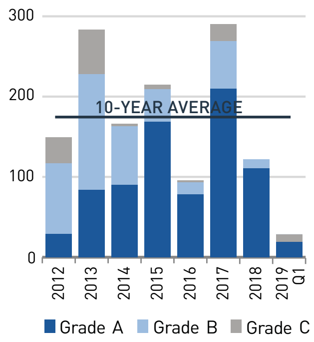
Despite a steady level of conversion to residential, there is still considerable grade B supply. We can expect more conversions in the coming year, although an Article 4 Direction restricts change of use in certain business areas.

RISING RENTS

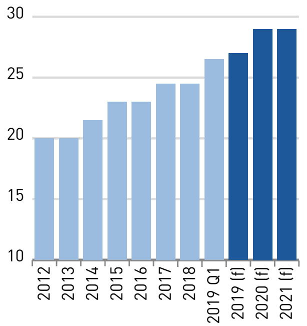
The town continues to offer good value compared with other towns in the Thames Valley, and this has been a strong draw in recent years. While the new Lexicon shopping centre has transformed the town's appeal, new prime supply will need to come forward if Bracknell is to realise its potential for inward investment.

In Q4 2018, a new headline rent of £26.50 per sq ft was paid by Skillsoft at 5 Arlington Square. This level could rise again to £27.00 per sq ft by the end of 2019 once 2 The Arena completes. However, unless more prime space arrives in the next few years, further rental growth will be constrained.

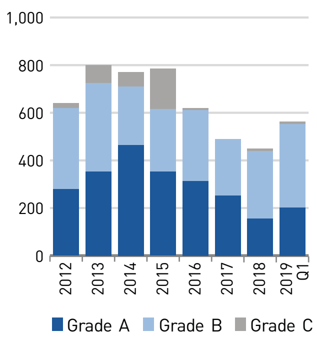
TAKE-UP (000 SQ FT)



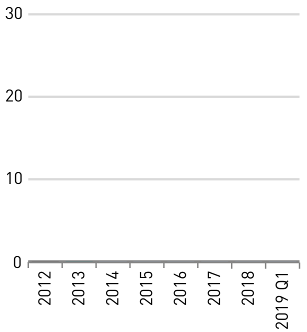
PRIME HEADLINE RENT (£ PER SQ FT)



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

2.9

GRADE A SHARE OF SUPPLY

38%

PRIME YIELD

5.25%

Q1 2019 HEADLINE RENT (PER SQ FT)

£26.50

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2018 Q4	Worldwide House	49,801	Audatex	Freehold sale
2018 Q2	Inspired	9,086	Norbain Holdings Ltd	£18.50
2018 Q4	5 Arlington Square	8,100	Skillsoft	£26.50
2019 Q1	Origin	7,603	Work & Pensions	£20.50
2019 Q1	One Station Square	7,187	Suse Software Solutions	£24.50

Source: LSH Research

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A MARKET IN TRANSITION

Guildford's office market is going through significant structural change. The loss of two key long standing occupiers, Sanofi and Ericsson to Reading, led to reduced activity during 2018. However, SMEs in the technology sector are prospering and will be the driver of future activity. In particular, Guildford's strong gaming cluster has a number of active requirements which will impact positively on take-up in 2019.

FILLING THE VOID

2018 was a subdued year for Guildford with take-up standing at little over half its annual average level. While Q1 2019 saw take-up of only 21,000 sq ft, a further 60,000 sq ft is currently under offer and we expect take-up for the first half of 2019 to surpass the total for the whole of 2018.

The challenge for Guildford is to replace the departing corporates. This now includes Honeywell, which is leaving 46,000 sq ft at Liongate to consolidate with its Bracknell operation. Overall, the three large outgoing occupiers see circa 200,000 sq ft of additional supply being released to the market. Key to filling this space will be the expected activity from the technology sector, particularly the fast-growing gaming companies.

GRADE A CHOICE

At 316,000 sq ft grade A supply is relatively plentiful vis-à-vis other South East markets. This includes two new buildings set for imminent completion in the town centre, namely 255 High Street (42,000 sq ft) and Riverworks (29,000 sq ft). Both will offer contemporary exposed services design that should appeal to technology companies.

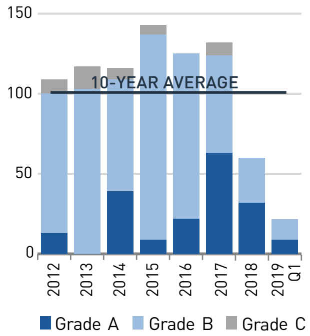
Amenity offering is becoming increasingly important and Cathedral Square has attracted a number of tenants by leading in this area, to include a lifestyle manager. While Guildford is yet to lose much office space to other uses, it seems likely that part of the space that is currently being released to the market will be converted to residential.

THE UNIVERSITY'S ATTRACTION

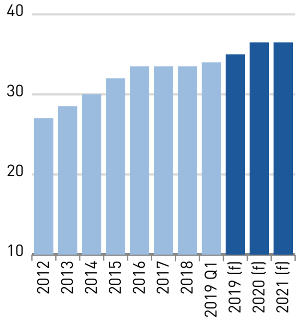
The University of Surrey continues to be a catalyst for growth in Guildford's technology sector. An example is the University's cutting edge 5G Innovation Centre which has attracted the attention of technology occupiers.

Despite significant supply across the town, prime headline rents are still moving upwards and £35.00 per sq ft is expected as a new high by the end of Q2 2019. Hopes rest on technology occupiers being attracted to Guildford's prime space.

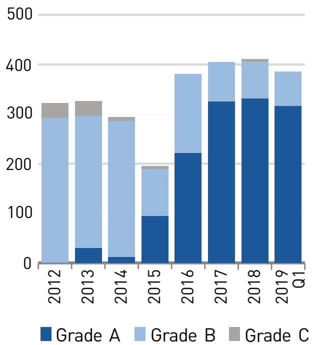
TAKE-UP (000 SQ FT)



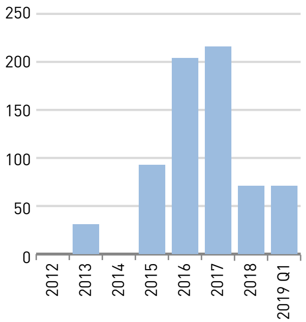
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

-27%

YEARS OF SUPPLY

3.7

GRADE A SHARE OF SUPPLY

82%

PRIME YIELD

5.00%

Q1 2019 HEADLINE RENT (PER SQ FT)

£34.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2018 Q4	2 Guildford Business Park	24,537	IWG	£33.50
2018 Q2	1 Occam Ct SRP	18,663	Prime Vigilence	£26.50
2019 Q1	Cathedral Square - B2000	5,816	InfoVista	£33.50
2019 Q1	20 Nugent Road	5,748	Eseye	£26.50
2019 Q1	Ashbourne House	4,962	Bessler Hendrie	£29.50

Source: LSH Research

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HAMMERSMITH & CHISWICK

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WHITE CITY PROVIDES COMPETITION

Chiswick remains a popular location, while the appeal of Hammersmith has gradually grown to match it over the last five years. Hammersmith's superb location between Heathrow and the Central London is now coupled with a growing mix of retail, food and beverage operators. However, growing competition from nearby White City and the conclusion of sizeable developments could hold back rental growth.

EMERGING APPEAL

At 516,000 sq ft, take-up across Hammersmith and Chiswick was strong in 2018 and significantly ahead of trend. As well as large corporates, small businesses are increasingly attracted to the area, drawn by a range of small, character-led developments that offer unique studio and workspace.

In the last three years, activity in Hammersmith has outperformed Chiswick due to a greater choice in market. However, there is now a third area influencing occupiers: White City. Occupiers that might previously have looked at Hammersmith and Chiswick are being drawn to this new destination, and, with further development on the way, its influence is set to increase in 2019.

CURRENT CONSTRUCTION

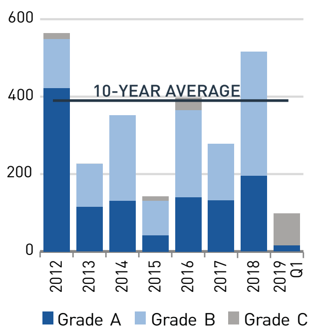
Two major developments will complete in Hammersmith in 2019; 245 Hammersmith Road, which will deliver 242,000 sq ft of office space along with retail units and a new public plaza, and One Lyric Square, which will deliver 100,000 sq ft of office space. A smaller development soon to complete is 100 Bollo Lane (20,000 sq ft).

These developments will offer the grade A space that occupiers demand, but once they are let-up there is no further space in the pipeline. There are several large lease events coming up over the next two to three years, and supply could be squeezed once again despite a flurry of development completions in recent years.

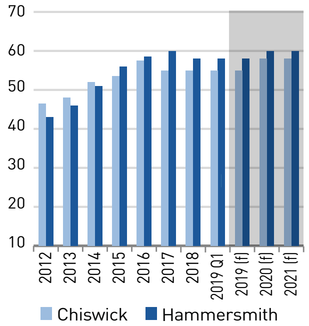
RENTAL GROWTH WILL REMAIN STEADY

Prime headline rents have been stable in Hammersmith and Chiswick, approaching the £60.00 per sq ft mark. The plateauing in rents is possibly due to the nearby competition offered by White City, which has seen significant rental growth in the last two years. However, as supply diminishes we expect the prime headline rent to increase from 2020.

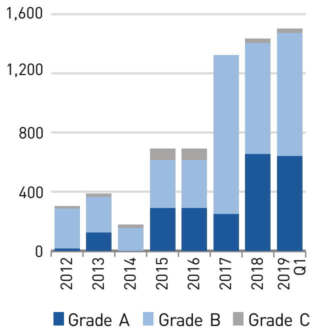
TAKE-UP (000 SQ FT)



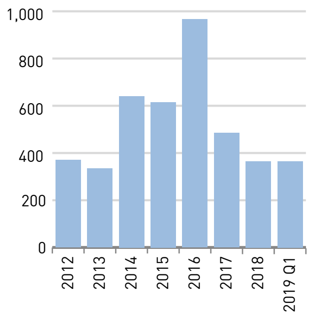
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

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

YEARS OF SUPPLY
3.9

GRADE A SHARE OF SUPPLY
42%

PRIME YIELD
4.75%

Q1 2019 HEADLINE RENT (PER SQ FT)
£58.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2018 Q3	Building 7, Chiswick Park	84,274	Pernod Ricard	£47.50
2018 Q4	Building 7, Chiswick Park	50,155	Starbucks Coffee	£40.55
2018 Q4	77 Fulham Palace Rd	46,077	Spaces	£54.50
2019 Q1	3 Shortlands	40,000	Hammersmith & Fulham BC	£45.00
2018 Q2	1 Lyric Square	38,500	The Office Group	£56.63

Source: LSH Research

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HEATHROW


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SERVICED OFFICES LAND AT HEATHROW

Take-up has been steady if unspectacular in Heathrow through 2018 and into 2019. Sentiment has improved, however, with circa 70,000 sq ft of interest that should feed into the remainder of the year. Heathrow is also benefitting materially from the better provision of parking, tempting occupiers from nearby town centres which suffer from limited parking options.

SERVICED OFFICES MOVE IN

Two major refurbishments recently completed at Stockley Park and are now partly let; 4 Longwalk saw Coats (10,000 sq ft), Orega (24,000 sq ft) and IMG (25,000 sq ft) take space, while IWG's serviced office operation Spaces leased 45,000 sq ft at The Bower, 4 Roundwood Avenue.

The arrival of Orega and Spaces reflects the growth of serviced offices in the wider office market, and also the international connectivity associated with Heathrow. The Heathrow market retains the interest of international businesses as the direct importance of the airport has come through even more strongly in the last couple of years.

LIMITED SUPPLY

Aside from the two major refurbishments at Stockley Park, there has been little new construction at Heathrow and availability is steadily reducing. Grade A supply is currently at its lowest level in five years.

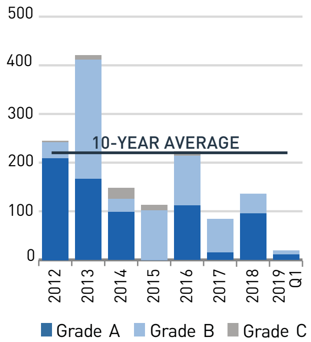
Current development activity is confined to a single scheme, the refurbishment of Building 1 at Hyde Park Hayes (92,000 sq ft) which is due to complete in Q4 2019. By the end of 2019 we expect several more buildings to undergo substantial refurbishment at Stockley Park.

FUTURE RENTAL GROWTH

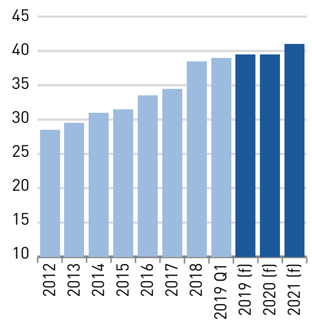
Prime headline rents have been steadily increasing over recent years to reach £39.25 per sq ft, putting Heathrow on a similar cost footing to nearby town centres. Although rents are yet to hit £40.00 per sq ft, this level could be breached later in 2019.

Going forward, conversations surrounding the third runway at Heathrow will impact occupiers looking for long-term leases, though perhaps not in 2019 as planning and potential construction are still a long way off. It is likely to have more of an impact on decision-making from 2020 onwards.

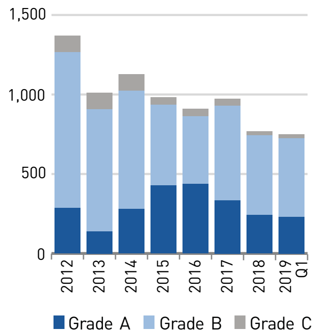
TAKE-UP (000 SQ FT)



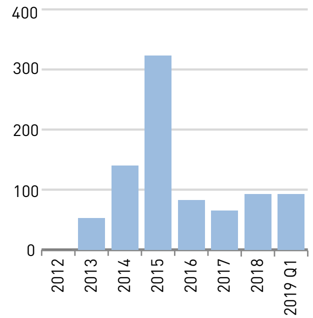
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

-29%

YEARS OF SUPPLY

3.4

GRADE A SHARE OF SUPPLY

31%

PRIME YIELD

5.00%

Q1 2019 HEADLINE RENT (PER SQ FT)

£39.25

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2018 Q4	The Bower, 4 Roundwood Avenue	45,824	IWG t/a Spaces	Confidential
2018 Q3	4 Longwalk, Stockley Park	25,128	IMG	£38.50
2018 Q4	4 Longwalk, Stockley Park	24,000	Orega	Confidential
2018 Q3	4 The Square, Stockley Park	13,532	Hikvision	£33.00
2019 Q1	4 Longwalk, Stockley Park	10,818	Coats	£39.00

Source: LSH Research

MAIDENHEAD

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CENTRAL SUPPLY CONSTRAINTS DRIVE OUT OF TOWN ACTIVITY

Maidenhead will benefit hugely from the forthcoming arrival of the Elizabeth Line. However, grade A supply in the town centre remains constrained, increasing recent take-up out of town. Positively, alongside regeneration, developers and landlords are identifying further opportunities to boost town centre office supply through a combination of redevelopment and refurbishment.

STEADY TAKE-UP

Take-up in 2018 was equally split between the in town and out of town markets. The largest deals were in town, such as Seqiris' lease at Market House (25,000 sq ft), and coupled with a steady number of smaller deals occurring out of town.

The last two speculative office developments in the town centre in recent years, the Point and the Pearce Building, are nearing full capacity, leaving a finite supply of existing grade A space.

LIMITED SPACE

Despite its popularity Maidenhead town centre is constrained by a lack of office development. By the end of 2018, total availability dipped to its lowest point in a decade. The only new scheme currently underway is Lantern (19,000 sq ft), whose imminent completion will help to address several occupier requirements.

Other existing office sites are earmarked for refurbishment or redevelopment, albeit some are awaiting planning approval. In the short-term, good quality grade B space could benefit from strong rental growth due to the lack of grade A space.

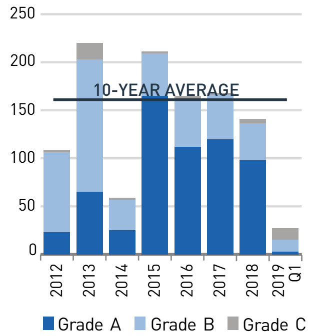
Out of town, JP Morgan Asset Management has started construction of an additional 65,000 sq ft of grade A offices at Foundation Park. In addition, Kennedy Wilson is repositioning The Link in Maidenhead Office Park, formerly known as Eton House, comprising 69,000 sq ft of grade A offices.

TOWN CENTRE REGENERATION

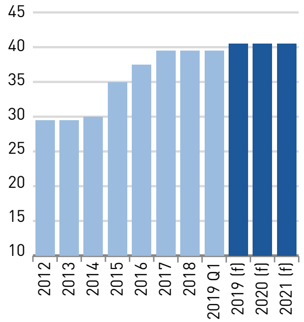
The regeneration of Maidenhead town centre has now started. In 2018, planning permission was granted for the Landing, a mixed-use scheme to include office accommodation. The redevelopment of York Road has also been given the green light, which will bring further residential, retail and leisure space.

Along with increased car parking, the various town centre improvements and the arrival of the Elizabeth Line will further increase Maidenhead's appeal. While still at £39.50 per sq ft, prime headline rents are likely to rise following the completion of Lantern.

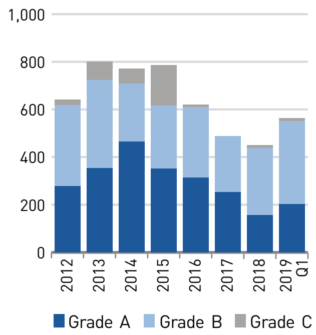
TAKE-UP (000 SQ FT)



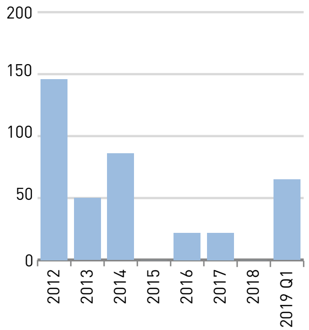
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

-18%

YEARS OF SUPPLY

3.5

GRADE A SHARE OF SUPPLY

36%

PRIME YIELD

5.00%

Q1 2019 HEADLINE RENT (PER SQ FT)

£39.50

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2018 Q3	Market House, Maidenhead	25,446	Seqirus	£31.50
2019 Q1	Clyde House	12,000	MyworkSpot	Confidential
2018 Q2	4 Foundation Park	11,000	Polycom	£27.50
2018 Q4	Aurora	10,922	Barloworld	£28.75
2018 Q3	ID	8,200	Talend	£31.50

Source: LSH Research

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READING

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CALLING LONDON

The Reading market continues to be buoyed by the pending arrival of The Elizabeth Line, as well as the town centre's £895m new station concourse. Take-up in 2018 was significantly ahead of the ten-year average, spurred by a flurry of inward investment lettings. As supply has been steadily absorbed, we expect further rental growth on the back of continuing strong demand.

EATING UP SUPPLY

Both the in town and out of town markets performed well in 2018. Circa 600,000 sq ft of new town centre supply has entered the market over the course of the last three years, yet very little of this space remains. Town centre take-up did not continue at quite the same pace in Q1 2019, however the out of town market more than made up for this.

Strong take-up out of town proves that, despite the availability of large floor plates in the town centre, there is demand for the car-borne business park locations. Since the start of 2018, Arlington Business Park has seen 20 deals totalling 220,000 sq ft, secured on the back of improved amenities such as a gym, café and outdoor events.

CONSTRUCTION WILL MEET DEMAND

Grade A supply has almost halved since 2014. The town centre has also seen significant conversion of grade B and C space to other uses such as residential. However, there is more development on the way. Lincoln MGT will bring forward the long-anticipated development of Station Hill which includes a substantial new supply of offices as part of the £750 million mixed-use scheme.

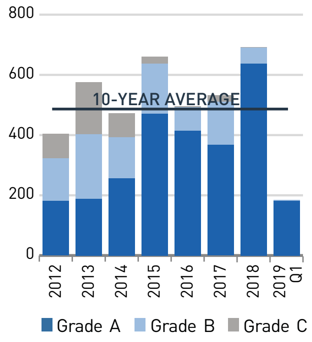
Reading's out of town market was home to the largest speculative development commencement in Q1 2019. At Green Park, construction of 235,000 sq ft of offices has started at 400 and 450 Longwater Avenue, to be delivered by early 2021.

RAIL ATTRACTIONS

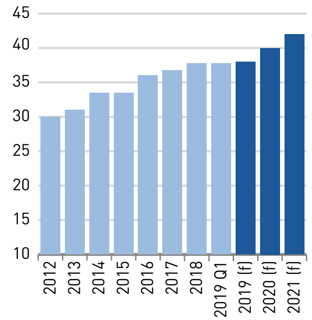
Elizabeth Line aside, the Reading area has further infrastructure improvements ahead. Reading Green Park station is arriving in early 2020, as well as the smart motorway on the M4. The Western Rail link is also on the horizon, linking Reading to Heathrow.

Prime headline rents have risen steadily in recent years to reach £37.75 per sq ft. We expect this growth to continue, breaking through £40.00 per sq ft in 2020. While we are yet to see a significant inward migration of London occupiers to Reading, the eventual arrival of Elizabeth Line could spur the arrival of a wave of occupiers from the capital.

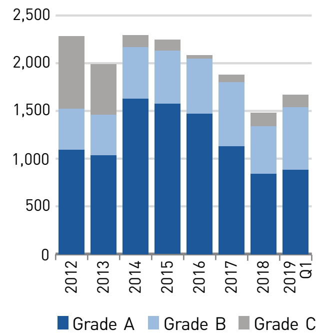
TAKE-UP (000 SQ FT)



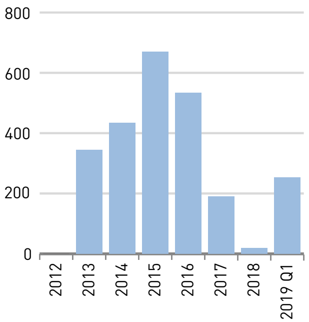
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

+54%

YEARS OF SUPPLY

3.4

GRADE A SHARE OF SUPPLY

53%

PRIME YIELD

5.00%

Q1 2019 HEADLINE RENT (PER SQ FT)

£37.75

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2018 Q4	500 Brook Drive	120,000	Virgin Media	£27.50
2018 Q3	Four10, Thames Valley Park	71,400	Sanofi	£31.00
2019 Q1	Hive 3	58,117	Bottomline Technologies	Freehold sale
2018 Q4	Three Forbury Place	55,725	IQVIA	Confidential
2018 Q3	2 Forbury Place	45,478	KMPG	£37.50

Source: LSH Research

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SLOUGH


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TAKE-UP SURGES TO DECADE-HIGH

Slough is the closest Thames Valley market to London and the pending arrival of the Elizabeth Line has already driven investment in the town centre and stimulated interest from new occupiers. Slough Borough Council is leading a major regeneration plan that includes a mix of new retail, residential, offices and hotels.

PROXIMITY TO LONDON

Take-up in 2018 amounted to 320,000 sq ft across 12 deals, making it the best year for the town in the past decade. The co-working sector saw a number of deals totalling circa 65,000 sq ft, including Spaces and Central Working, which signals a real change in the market. Slough continues to boast more headquarter buildings than any other UK location outside London and those that have lease expiries tend to stay, as demonstrated by Stanley Black and Decker's lease of 270 Bath Road (49,000 sq ft) in 2018.

Out of town, the market has been slower due to a lack of grade A space. The market has been greatly improved by the rebrand of Bath Road by AEW, which acquired the portfolio in 2016. However, positive sentiment in the out of town market has been proved by Iris Software leasing 32,000 sq ft at Heathrow Approach.

BETTER BALANCE

Having suffered from a severe overhang of supply a decade ago, current availability is now more balanced relative to demand. In 2018 alone, supply contracted by 30% to stand at its current level of circa 750,000 sq ft.

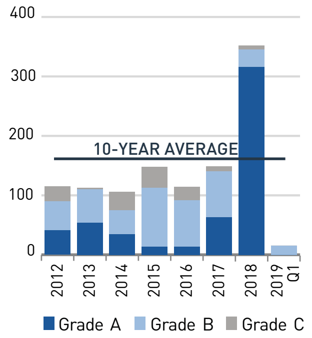
There is still availability at Future Works in the town centre, although we expect this to be leased relatively quickly in light of strong grade A demand. There is further planning to build another 200,000-plus sq ft of offices at the scheme. Current construction is limited to 210 Bath Road, which will deliver 120,000 sq ft in Q4 2019.

SURGING RENTAL GROWTH

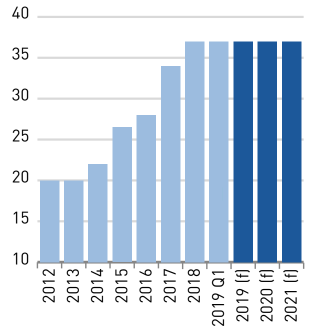
Since 2014, prime headline rents have shot up by 50% from a relatively low base to reach £37.00 per sq ft. Elizabeth Line has certainly provided the impetus, with Slough experiencing one of the fastest rental increases in the Thames Valley.

The next stages of the town centre regeneration include plans for the former Thames Valley University (TVU) site and the imminent build of the new dual brand Marriott Group Hotel scheme (Moxy & Residence Inns).

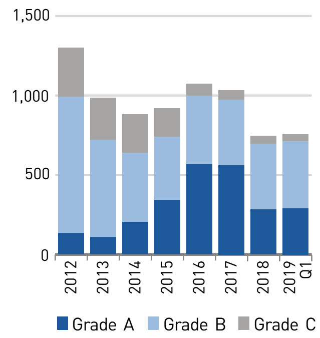
TAKE-UP (000 SQ FT)



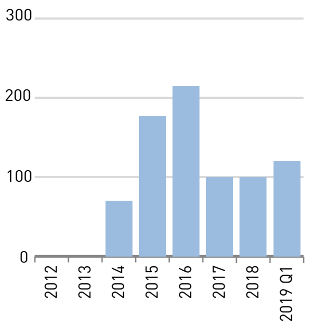
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE
+92%

YEARS OF SUPPLY
4.7

GRADE A SHARE OF SUPPLY
38%

PRIME YIELD
5.00%

Q1 2019 HEADLINE RENT (PER SQ FT)
£37.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2018 Q3	25 Windsor Road	111,000	Slough Borough Council	Confidential
2018 Q4	Heathrow Approach	32,000	Iris Software	£29.00
2018 Q2	The Porter Building	30,000	Spaces	£34.75
2018 Q3	The Porter Building	22,099	Orange Business Services	£36.00
2018 Q4	The Porter Building	4,800	Yitu	£37.00

Source: LSH Research

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STAINES

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LIMITED CHOICE OF GRADE A OPTIONS

Staines has endured two successive years of subdued take-up, reflecting a combination of stiff competition from neighbouring Thames Valley markets and a limited choice of sizeable grade A options. Development prospects are limited currently, with the office pipeline confined to elements of the Staines Central and Charter Square mixed-use schemes.

A BETTER YEAR IN PROSPECT

At 62,000 sq ft, total take-up in 2018 was only half its annual average level and far removed 2015/16, where strong activity was spurred by the delivery of several new schemes to the market. The largest deal in 2018 was Hitachi Capital's lease at 5 Pinetrees (15,500 sq ft), while the final floor at M&G's Strata building was taken by ServiceNow in Q4 2018 (10,400 sq ft).

2019 has started in more promising fashion. In Q1 2019, a further 27,000 sq ft of grade A space was taken across two transactions at 5 Pinetrees while a number of deals are in solicitors' hands. However, with little available by way of larger options, take-up in 2019 is likely to fall short of the annual trend level again.

SUPPLY AT RECORD LOW

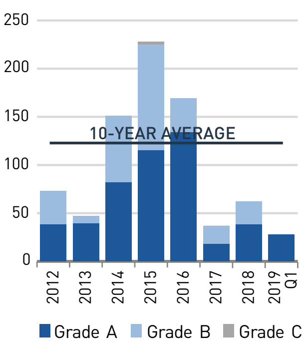
Total availability has edged down to a decade low of only 288,000 sq ft but is equivalent to a reasonable 2.3 years of supply based on average take-up rates. The drop in supply reflects both an absence of newly delivered space alongside the removal of several buildings from the market for conversion to residential.

Demand has not yet reached a level that will spark new development. However, London Square has announced its intention to include an element of commercial space in its mixed-use city centre scheme Charter Square. Construction has begun and phase two gained planning approval in 2018. The development will replace old office space with a mix of residential, retail and office space centred around a new public square.

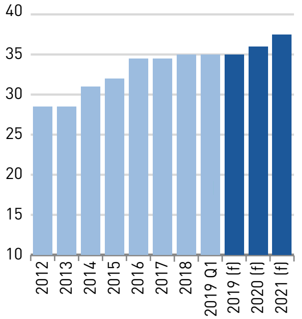
FUTURE

Staines is competing with other Thames Valley areas that have seen stronger activity in recent years. Prime headline rents have the potential to edge higher from their current level of £35.50 per sq ft as the last remnants of grade A supply are taken up. However, rents will not move on significantly until new space is delivered to the market.

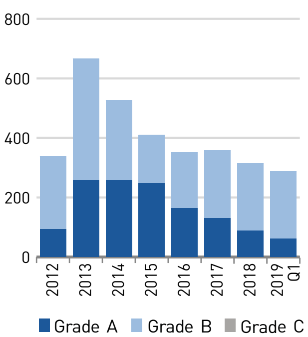
TAKE-UP (000 SQ FT)



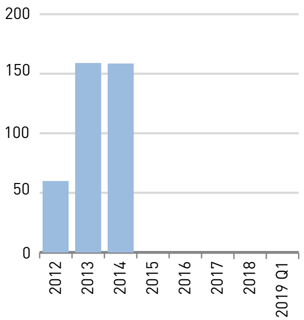
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

-76%

YEARS OF SUPPLY

2.3

GRADE A SHARE OF SUPPLY

31%

PRIME YIELD

5.00%

Q1 2019 HEADLINE RENT (PER SQ FT)

£35.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2018 Q3	Belmont	26,333	Orega	£32.00
2019 Q1	5 Pinetrees	15,500	Hitachi Capital	£34.00
2019 Q1	5 Pinetrees	12,137	Tenable Network Security	£35.50
2018 Q4	Strata	10,400	Service Now	£35.00
2018 Q4	Swan House	3,922	Boon Building	£24.50

Source: LSH Research

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UXBRIDGE

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LANDLORDS BOOST AMENITY OFFERINGS

Despite the delivery of The Charter Building and Belmont in 2017, the Uxbridge market has been challenged by a lack of big ticket deals over the past five years. With significant grade A space remaining available, landlords have had to adopt creative approaches in order to compete for occupier demand.

SERVICED OFFICES MOVE IN

At 60,000 sq ft, take-up of grade A space was robust in 2018, following a similar year of activity in 2017. Although there was no grade A take-up in Q1 2019, several requirements are circling the area that could bring 2019 levels up to that of 2018 in the coming months.

The Uxbridge market continues to be dominated by occupiers in the pharmaceutical, TMT and retail sectors. However, new to the area are a number of serviced office operators. In 2018, Orega acquired 26,000 sq ft at Belmont and, in Q1 2019, Citibase took 23,550 sq ft at The Atrium.

SUPPLY REMAINS STEADY

Uxbridge has seen little by way of development over the past two years, but, given the average level of take-up over the last ten years there is enough existing supply to satisfy demand. Uxbridge is one of the South East's more amply supplied markets, with total availability equivalent to almost six years of supply.

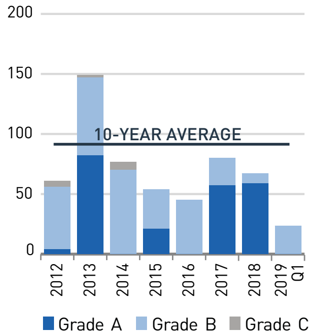
390,000 sq ft of grade A space is currently available, including significant tranches of space at The Charter Building and Belmont. Both grade A and B+ space is available at Uxbridge Business Park and Cowley Business Park. As a result, we do not anticipate further development to come forward in the near future.

RENTS TO REMAIN STABLE

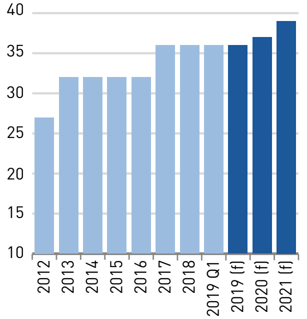
Due to current high levels of availability, landlords are introducing further amenities to attract occupiers. For example, Uxbridge Business Park is introducing football pitches and netball courts into its amenity offer while concierge services are offered at both of the town centre options. Landlords are now considering providing fitted space in order to appeal to a wider pool of potential occupiers.

The current prime headline rent of £36.00 per sq ft is unlikely to be surpassed in 2019, but we expect rents to move upwards from 2020 onwards as supply reduces.

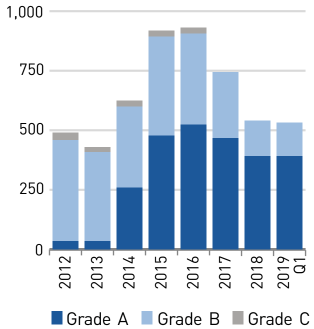
TAKE-UP (000 SQ FT)



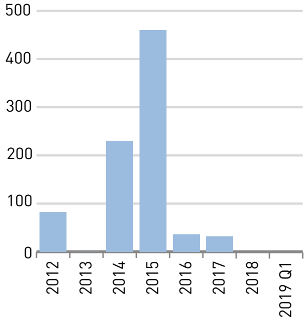
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

-31%

YEARS OF SUPPLY

5.8

GRADE A SHARE OF SUPPLY

73%

PRIME YIELD

5.50%

Q1 2019 HEADLINE RENT (PER SQ FT)

£36.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2018 Q3	Belmont	26,333	Orega	£32.00
2019 Q1	The Atrium	23,550	Citibase	£28.50
2018 Q4	4 Uxbridge Business Park	5,000	Lifescan	£35.00
2018 Q3	Charter Building	4,700	Parkside Recruitment	£36.00
2018 Q4	Harman House	3,249	Mitsubishi Electric	£30.00

Source: LSH Research

WOKING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TRANSFORMING THE TOWN CENTRE

Woking is in the midst of significant urban regeneration. Woking Borough Council is investing heavily in the town's offering and infrastructure, enhancing the town's status as a destination to live and work.

TWO DEALS DRIVE 2018 TAKE-UP

Woking had a good year in 2018 compared with prior years, albeit take-up was dominated by two large deals at newly refurbished offices: IWG at Woking One (35,000 sq ft) and McLaren Technology Group at Victoria Gate (64,000 sq ft). McLaren continues to expand rapidly and is moving some of its admin and non-development activity to Woking town centre.

The McLaren deal is a key step towards replacing the town centre's previous large employer, SABMilller, which vacated 120,000 sq ft when it was acquired by AB Inbev in 2016. While the first quarter of 2019 has seen limited activity, deals that are under offer amount to circa 40,000 sq ft, including a 12,000 sq ft floor at Royal London and LAMRON Estates' Space building.

LIMITED GRADE A

Total supply has been broadly stable at circa 300,000 sq ft over the past few years, with current availability equating to 3.4 years of supply based on average rates of take-up. There is currently a high level of grade B supply, but limited ready to occupy grade A supply.

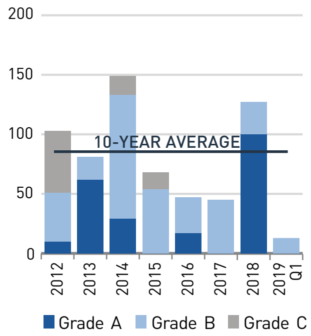
The town centre has two office schemes in the pipeline. The aforementioned Space (82,000 sq ft) is due to complete Q2 2019, while Forge (74,000 sq ft) will be delivered in Q3 2020. One floor is already under offer at Space, highlighting the appetite for new grade A supply as it becomes available.

REVITALISED TOWN CENTRE

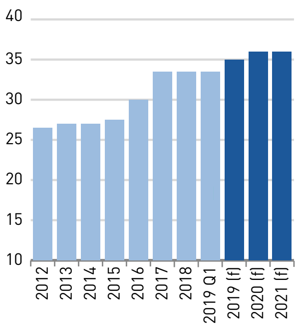
Woking Bough Council is currently spearheading major redevelopment with the aim of boosting the attractiveness and growth prospects in the town centre. Anchored by Marks & Spencer and a Hilton Hotel, the major retail and residential scheme Victoria Square will be completed in 2020. Alongside this, the council is putting significant capital into improving the public realm.

The new development could provide the draw the town needs to attract further occupiers of the scale of McLaren, including occupiers from London who recognise the town's fast connection to Waterloo.

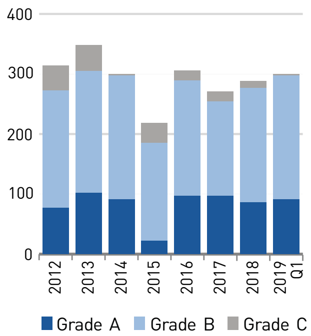
TAKE-UP (000 SQ FT)



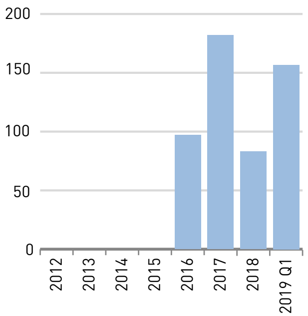
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

+46%

YEARS OF SUPPLY

3.4

GRADE A SHARE OF SUPPLY

30%

PRIME YIELD

5.00%

Q1 2019 HEADLINE RENT (PER SQ FT)

£33.50

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2018 Q4	Victoria Gate	64,210	McLaren Technology Group	£33.00
2018 Q2	Woking One	35,885	IWG	£32.00
2018 Q4	Orion Gate	8,103	AI Corporation	£27.00
2019 Q1	Export House	6,256	Wood Group	£22.50
2019 Q1	Export House	6,256	Trafalgar Group	£22.50

Source: LSH Research

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ENTERPRISE ZONE DRIVES FRESH IMPETUS

The Basingstoke market presents a large opportunity and in 2018 it leapt to life. Basingstoke and Deane Borough Council is driving revitalisation following the approval of Basing View to Enterprise Zone status. A wave of construction in 2016 and 2017 led to strong take-up in 2018 that is set to continue.

A NEW LEASE OF LIFE

The Basingstoke market largely revolves around Basing View, the 65-acre business park owned by the council that is being redeveloped by Muse Developments. In 2015, the park gained Enterprise Zone status and, since 2017, any business expanding in the defined area has benefitted from incentives including business rates relief of up to £55,000 p.a. for five years.

The news stimulated a wave of action. In January 2019 Sovereign Housing Association signed a pre-let of the whole 61,415 sq ft at The Florence Building on Basing View, which was the first new speculative office development in Basingstoke for 15 years. It completed in July 2018.

CONSTRUCTION CONTINUES

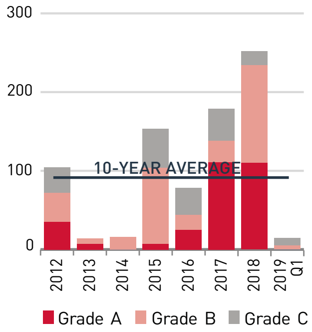
In March 2018 Basingstoke and Dean Council agreed to forward fund the development of a new 45,000 sq ft headquarters building at Basing View for pharmaceutical company Eli Lilly through the 'Invest to Grow Fund'. The company will move from its current 11-acre campus on Priestley Road. The deal was the first pre-let deal on the M3 corridor for seven years.

Muse Developments also has outline planning permission to develop 40,000 sq ft of space at Loddon Parade. Overall, the company plans to develop 700,000 sq ft at Basing View over the next 15 years, which will double the 4,000 jobs currently on the business park.

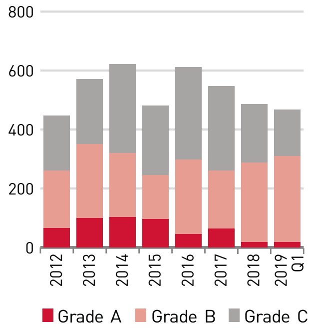
ACTION IN THE PIPELINE

As well as continued development at Basing View, there are signs of refurbishment around Basingstoke that suggest the market could see much more activity in coming years. Mountbatten House, known as the 'Hanging Gardens of Basingstoke' was acquired by Squarestone Growth in Q1 2019, and will be transformed into 155,000 sq ft of new offices.

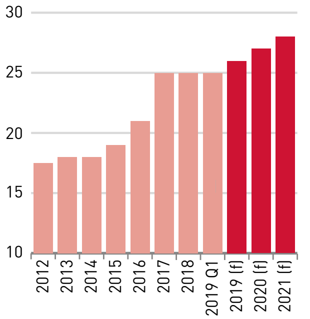
TAKE-UP (000 SQ FT)



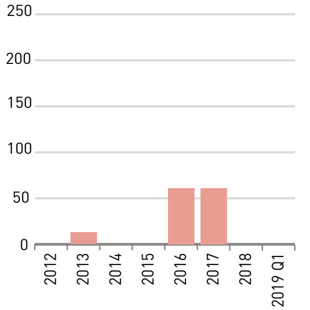
AVAILABILITY (000 SQ FT)



PRIME HEADLINE RENT (£ PER SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 5-YEAR AVERAGE

+125%

YEARS OF SUPPLY

5.1

GRADE A SHARE OF SUPPLY

4%

PRIME YIELD

5.25%

Q1 2019 PRIME HEADLINE RENT (PER SQ FT)

£25.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q1	The Florence Building, Basing View	61,415	Sovereign Housing Association	£27.50
2018 Q2	Chineham Gate, Chineham Park	49,255	Vyaire Medical Products	£20.80
2018 Q4	2 Redwood, Chineham Park	48,000	CenturyLink	Confidential
2019 Q1	Quantum House, Basing View	37,580	Arena Business Centre	£1.5m (F'hold purchase)
2018 Q3	Viable Business Park	32,700	Vision RT Ltd	£11.25

Source: LSH Research

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LIKING IT BY THE SEASIDE

Trendy Brighton is a key growth hotspot for businesses in digital and creative industries. Despite a number of schemes having come forward, the market remains characterised by a severe lack of supply. Consequently, Brighton is forecast to see the strongest rental growth of the key South East markets over the next two years.

COMPETITION FOR GRADE A

At 152,000 sq ft, total take-up in 2018 was closely in line with the ten-year average and a significant improvement on 2017's level. Space taken was of mixed quality, however, as occupiers that would otherwise have opted for grade A space were pushed towards grade B due to a lack of options.

Grade A space is typically taken up rapidly as soon as it becomes available. For example, McAleer & Rushe's (65,000 sq ft) Brinell Building development on Station Road was already entirely let-up prior to its scheduled completion in Q2 2019, with the largest deal being Unity Technologies' 37,000 sq ft pre-let in Q4 2018.

SPADES IN THE GROUND

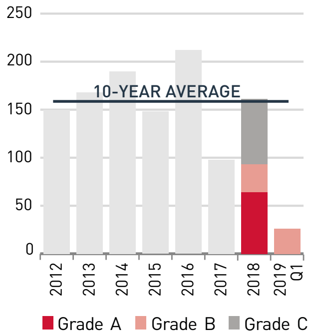
Brighton is a tight market with less than two years of supply available. At only 46,000 sq ft, grade A space is entirely comprised of developments, the largest of which, Circus Street (29,716 sq ft), completes in March 2020. The largest scheme underway is First Base and Patron Capital's Edward Street Quarter mixed-use scheme which includes 110,000 sq ft of office space. While the development will not be delivered until 2021, we expect much of the space to be taken up prior to its completion.

Brighton's geography puts real constraints on its development potential and we are unlikely to see land being released for further development in the short term. Constraints in the city core have arguably driven the expansion of the traditional prime office area to include the area to the far side of the Royal Pavilion.

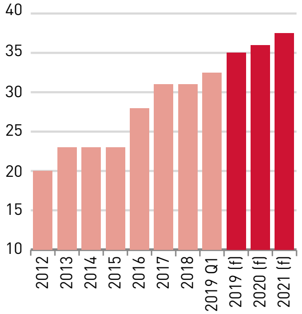
PRIME ON THE MOVE

Pent up demand for limited grade A space has driven a sharp upward step in rents, with prime headline rents rising by 10% during 2018 to £32.00 per sq ft. Rents are expected to increase strongly, albeit, depending on how the Edward Street Quarter performs. Overall, while the Brighton market is likely to stay busy and dynamic, ongoing constraints on prime space may limit its growth potential.

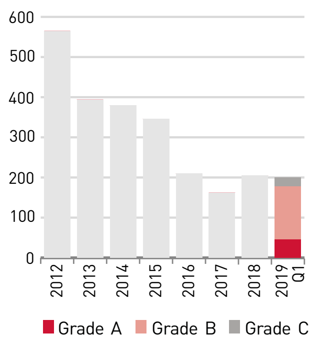
TAKE-UP (000 SQ FT)



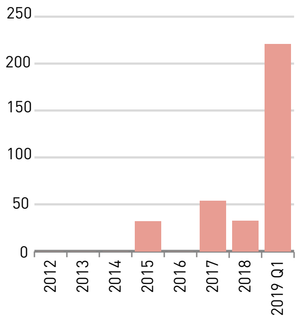
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 5-YEAR AVERAGE
-8%

YEARS OF SUPPLY
1.9

GRADE A SHARE OF SUPPLY
50%

PRIME YIELD
4.75%

Q1 2019 PRIME HEADLINE RENT (PER SQ FT)
£32.00

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2018 Q4	Brinell Building	37,398	Unity Technologies	£32.00
2018 Q3	Brinell Building	18,514	Dehns	£32.00
2018 Q2	Sussex House	12,233	Confidential	£20.00
2018 Q2	Sussex House	9,600	Confidential	£20.00
2019 Q1	Brinell Building	8,272	Diversified	£32.00

Source: LSH Research

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DEVELOPERS RESPOND TO SUPPLY SHORTAGES

The South Coast market is characterised by new build development sites coming through as existing supply continues to fall. Most development will still be on a pre-let basis due to caution, but prime rents are rising as existing supply comes under pressure.

A SPREAD OF ACTIVITY

Amid a steady year for take-up across the South Coast in 2018, Portsmouth performed strongly, boosted by a flurry of deals at Lakeside North Harbour Business Park following a refurbishment program and enhanced amenity provision.

The past 18 months have seen increased activity from serviced office providers, including Regus's 50,000 sq ft acquisition and BizSpace's 30,000 sq ft development at Solent Business Park. In Southampton city centre alone, three new coworking facilities will open in 2019.

SPADES IN THE GROUND

In Southampton, supply has fallen as offices have been converted. However, a planning application has been submitted for the mixed-use Nelson Gate scheme in the Station Quarter which could deliver the first speculative office space in a decade totalling 40,000 sq ft.

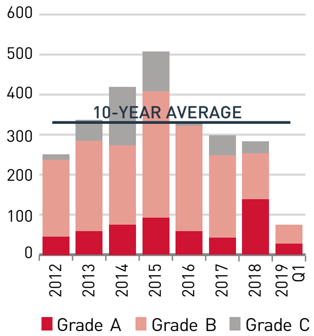
Out of town, there has been new office development in locations such as at Southampton Science Park and Chilcomb Park in Winchester. Planning permission has been given for 30,000 sq ft of offices at North Stoneham Park in Eastleigh, as well as for a 55,000 sq ft office at Leigh Road, Eastleigh.

In Winchester, a significant amount of office space has been converted to other uses, which has created a supply shortage in the city centre, forcing occupiers to look elsewhere. However, in recognition of the lack of supply, the council is now preparing a planning application for Station Approach, a regeneration scheme that will include 100,000 sq ft of office space.

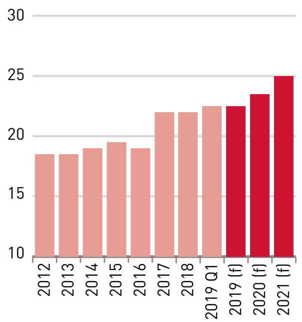
RENTS ON THE RISE

Portsmouth's Lakeside North Harbour now has the highest headline rents of anywhere along the M27 corridor, at £22.50 per sq ft. However, landlords in Southampton are quoting headline asking rents of up to£24.50 per sq ft, as they continue to improve space.

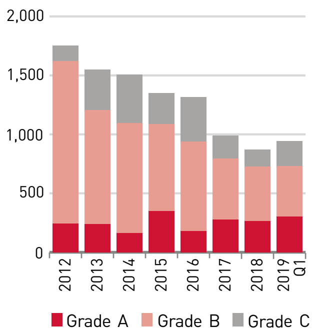
TAKE-UP (000 SQ FT)



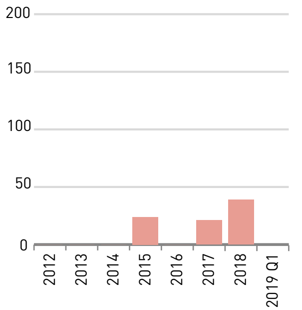
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 5-YEAR AVERAGE

0%

YEARS OF SUPPLY

2.9

GRADE A SHARE OF SUPPLY

32%

PRIME YIELD

5.25%

Q1 2019 PRIME HEADLINE RENT (PER SQ FT)

£22.50

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2018 Q2	Lakeside North Harbour	36,000	Checkatrade	£18.00
2019 Q1	1550 Parkway, Solent BP	18,123	Freehold Sale	£165.00*
2018 Q3	Building 3000C, Solent BP	17,759	Lockheed Martin UK Limited	£14.29
2018 Q3	Building 3000C, Solent BP	17,685	NATS	£17.00
2018 Q4	Forum 5, Solent BP	17,290	Specsavers	£17.50

*Price per Sq ft
Source: LSH Research

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