NATIONAL OFFICE MARKET REVIEW

CBRE RESEARCH | H1 2015

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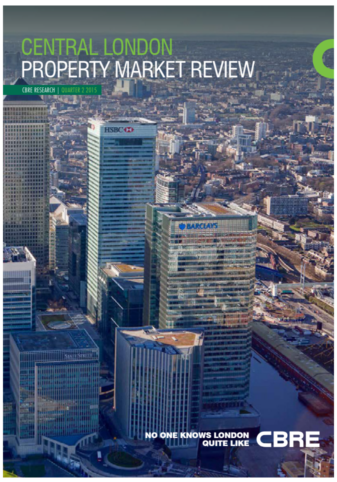
Central London Property Market Review



FOREWORD

The UK regional office markets have continued to build upon growth that firmly took hold in 2014. With economic growth in the second quarter accelerating once more, we are seeing the widespread benefits in the major city markets. Occupier demand has grown, and has resulted in take-up tracking above long run averages. This applies to the majority of markets, even those where the volume of deals has eased off a little, such as Bristol, after a record breaking end to last year.

In many of the core regional cities, pre-letting has returned in strength, with professional service firms in particular taking advantage of the new generation of office buildings that are about to emerge in cities such as Manchester, Leeds and Birmingham. And it is Birmingham which stands out as the lead city so far this year, with HSBC having signed a major pre-let for a new retail banking headquarters. Financial services in Birmingham are in rude health, with two major occupational deals over the course of the past three years (Deutsche Bank in 2013; HBSC in 2015). The city is also set to benefit from the delivery of a range of infrastructure and regeneration projects: from the Grand Central scheme above New Street Station (due to complete later this year), to the ambitious Paradise project feature on this issues' cover. New development is in turn driving headline rents to new highs in many markets.

The South East office markets have not seen the same acceleration as has been the case in the regional cities. It is not that the market is inactive, but more the case that larger floorplate deals are becoming scarcer. However, the economic fundamentals for business in the South East remain as strong as ever. Indeed the recommendation by the Airport Commission for a third runway at Heathrow, albeit to be decided upon by the Government, will be welcome to the many companies located with the Thames Valley.

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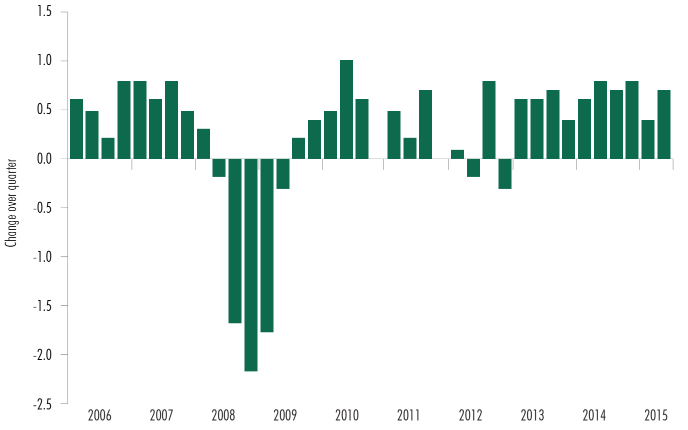
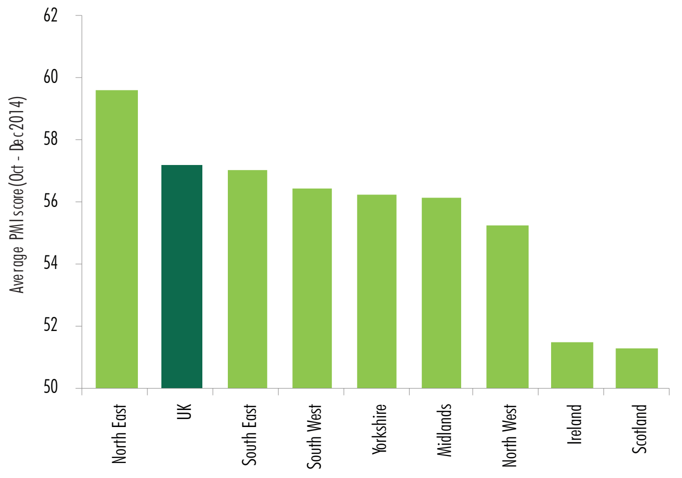
CHART 1: QUARTERLY UK GDP GROWTH



Source: Oxford Economics

CHART 2: REGIONAL PMI SCORES, Q2 2015



Source: ONS / Nomis

UK GDP growth reached 3.0% in 2014, the strongest annual increase recorded since 2007. In 2015 the outlook is also good. The first quarter was positive, albeit a little on the low side at 0.4% (but may be subject to upwards revision). The second quarter saw further improvement with growth of 0.7%. This marks the tenth consecutive quarter of growth and supports a solid UK economic outlook for the year. The Q1 data has seen a struggling manufacturing sector with weak growth of 0.1% q-on-q but strong activity in the services sector.

A positive set of economic factors are underpinning the current growth trajectory. The economy is enjoying a period of low inflation, (particularly owing to low oil prices), historic low interest rates and low unemployment. At the same time there are higher levels of employment and an improvement in household finances owing to low rates of inflation and an upturn in real wage growth. Consumer and business confidence is high. Low inflation will also be a benefit to investors, increasing real returns and real growth rates. It is rare to see such a combination of factors occurring at the same time in the UK.

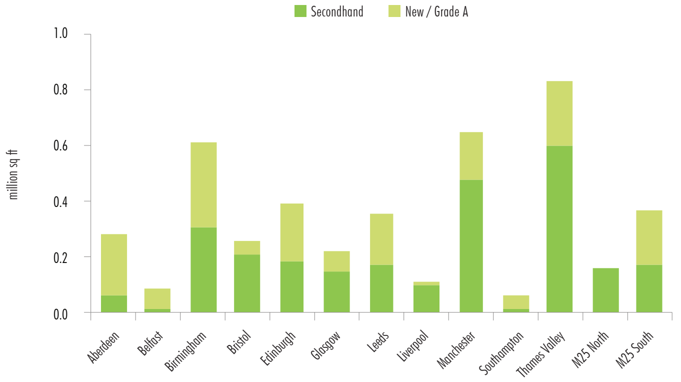
There is mounting speculation as to when interest rates in the UK might begin to rise. The base rate in the UK has been 0.5% since March 2009 with a move anticipated in the near term (but likely to follow some months after a US rate hike). CPI inflation remains low at 0% in June and below target but hides the bifurcation between goods (prices down by 2.0%) and services (prices up by 2.2%). The fall in the oil price at the back end of 2014 is still providing a downward fillip and the current strength of the pound will mean that the price of goods remain low.

The consensus forecast for growth remains positive, although may be moderating. Over the next two years annual GDP growth rates of between 2.3 – 2.5% are expected, although 2016 will be at the lower end of these rates: fiscal tightening will be greatest and inflation will be higher as last year's oil price falls reverse. In the forward looking Regional Purchasing Managers' Indices, scores have shifted from the high 50s / low 60s, down to the mid 50s over the last 12 months (any score over 50 is indicative of growth).

However, there are some downside risks to this growth outlook. The country may be post General Election, but following the Conservative win, more uncertainty beckons in the medium term in the shape of the looming referendum to decide EU membership in the UK. This new uncertainty could have a dampening effect on the economic activity – particularly if the referendum date is a long time coming. However, it is not a foregone conclusion that the economy will be adversely affected. With the exception of this risk factor, the other major risks are all international, notably the ongoing Greek crisis and the performance of other countries, be it the Eurozone such as Italy, France and Spain, or further afield such as the US, Japan or China.

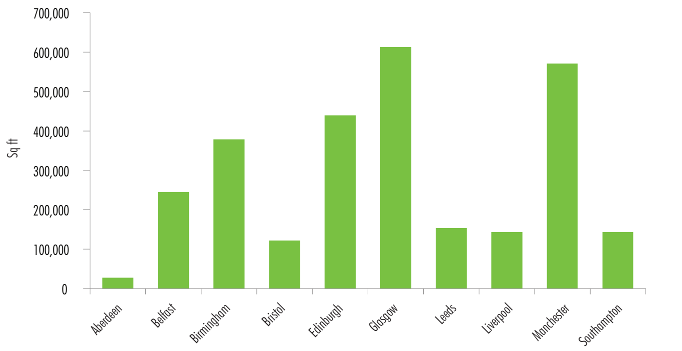
Low oil prices have had a positive effect on the economy in terms of the part they have played in lowering inflation and boosting consumer confidence. However, a low oil price is not great news for all, in particular for the local economy in Aberdeen. The city had become used to oil trading at well over $100 per barrel. However, since H2 2014 oil prices have been in steady decline, falling from $109.81 per barrel at the start of June 2014 to just $61.18 per barrel at the start of June 2015. The initial response from the energy sector has been to find ways of cutting costs: in some instances this has been wage cuts (of between 10 and 15%), whilst others have trimmed jobs. Prices are now thought to have stabilised and could go into reverse in 2016.

CHART 3: TAKE-UP BY CITY



Source: CBRE
Five year average not available for Belfast

CHART 4: NEW / EARLY MARKETED AVAILABILITY, REGIONAL CITIES



Source: CBRE

Strong economic growth and widespread business confidence in 2015 have led to sustained and strong levels of occupier take-up with most of the core regional markets (where there has been enough suitable office space to accommodate) either matching or exceeding long average take-up levels.

Whilst some markets saw a steady flow of deal activity taking place during the first half of the year, such as the South East and Bristol, there were a selection of stand-out cities, where transactional volumes were particularly high, notably Manchester, Birmingham, Leeds and Edinburgh.

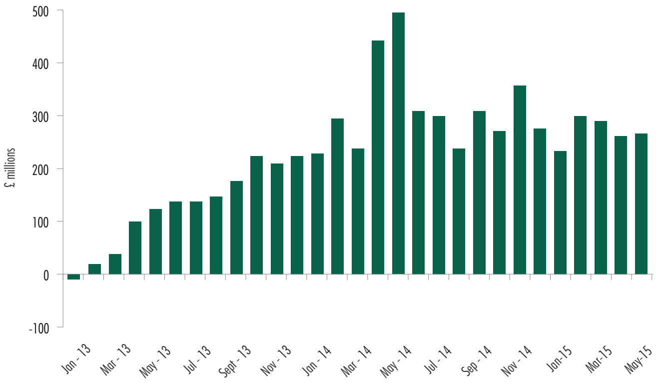
Across all markets, take-up volumes have been up due to improved demand across all size ranges. Professional service and business service firms have been the most active, along with the banking and finance sector, which has seen a spike in take-up levels in the first half of the year. Combined, these sectors accounted for 59% of total deal activity in H1 2015. The largest single deal concluded from amongst these sectors was the 212,000 sq ft pre-letting of two Arena Central in Birmingham by HSBC as the new HQ for its retail banking division.

In the biggest cities, pre-lettings are now emerging in strength. This has been led by the aforementioned 212,000 sq ft deal by HSBC in Birmingham. Other examples include PwC's pre-let of nearly 50,000 sq ft at No.1 Spinningfields, Manchester and the top three transactions of H1 in Leeds: Addleshaw Goddard (51,531 sq ft) at 3 Sovereign Square, PwC (49,650 sq ft) at Central Square, Wellington Street and Equifax (19,784 sq ft) at 6 Wellington Place. This increase in pre-letting activity will reduce the impact of new stock currently being built when it is completed and released into these markets.

There is new office development activity taking place or planned in the majority of markets. However, availability of Grade A stock is likely to remain an issue in certain locations due to the levels of occupier demand and the increased pre-letting activity being seen. Substantial new development is in progress (approximately 2.7m sq ft under construction) in the South East. Strong activity is also being seen in Birmingham, Manchester, Leeds and Edinburgh. In Edinburgh two new schemes are due to start on site in H2 2015: The Haymarket (91,000 sq ft) and The Registers (61,000 sq ft) in St Andrew Square. In markets such as Liverpool or Southampton, where rental levels are close to £20 per sq ft, we expect to see greater levels of refurbishment to cater for increased demand for Grade A space.

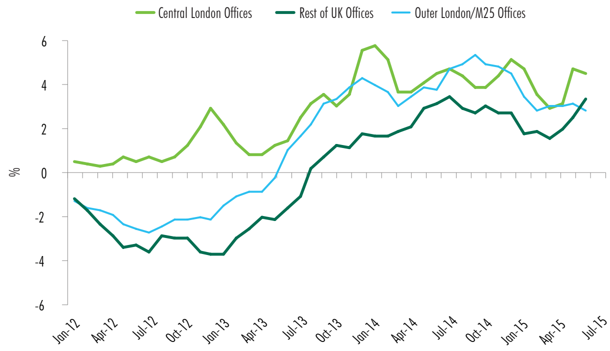
Secondhand office space is also being eroded, although not necessarily at any great speed in some markets. Reductions in secondhand supply have been driven by a lack of availability of prime Grade A space, increased occupational demand as well as conversion to alternative uses. In part this reflects the impact of the permitted development rights introduced across England, allowing change of use from office to residential. However, this policy change has also emerged at the same time as growing confidence amongst developers around other alternative uses such as hotels or student accommodation. The impact has not been uniform across the country though. Cities in the south, including Southampton and Bristol, as well as larger centres across the South East such as Croydon, have seen relatively more space shift to residential and other uses than cities in the north.

CHART 5: MONTHLY CASH INFLOWS INTO UK PROPERTY FUNDS



Source: Investment Association

CHART 6: ROLLING THREE-MONTH CAPITAL GROWTH RATES



Source: CBRE Monthly Index

Investor appetite for regional office markets was very strong in 2014 and has continued unabated in the first half of 2015. Investors are seeking good value in the regions. Analysis of deals recorded by Property Data shows there to have been approximately £2.02bn spent on offices around the UK in 2014, beyond London and the South East. The full year total in 2014 was around £3.9bn, which suggests we are on course for an equally strong if not stronger performance by the end of 2015. Investors are buying with the expectation of rental growth, which has emerged in many markets during 2015 (driven by higher demand levels from occupiers).

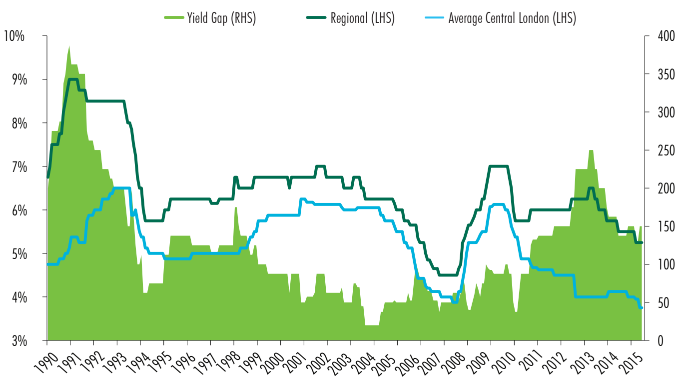
There is still a wide yield differential between London, the South East and many regional cities. However, in some core regional cities such as Manchester, Birmingham and Bristol this is now starting to narrow. The prime yields in these cities are converging in and around 5.00% or heading in that direction. There is still scope for further yield compression in the core cities but expected at a slower rate than we have seen over the past year as investors will be reluctant to pay unrealistic prices. There is greater yield differentiation to be found in non-core cities. Looking ahead, there will be more potential in locations with a strong economic outlook that have not yet seen strong capital value growth.

Stock is an issue in many markets. Most investment activity has occurred in the markets with suitable investable stock.
The development pipeline is starting to develop new stock, for example, the newly completed 66 Queen Square in Bristol, which was bought by Aviva for £32.7m in H1 reflecting 4.95%. As a result of yield compression and a scarcity of investable prime stock in the core locations, investors are now considering a wider number of regional markets. Next tier cities may have struggled to gain investment in the past but this is changing. Investors are considering these locations seriously in order to secure attractive discounts. However, stock selection will be key to driving performance. Buildings have to be well located, well let and of suitable quality.

Investor requirements range from those looking for prime stock that will retain value to others looking for stronger return and willing to take more risk. Increasingly institutional investors are moving up the risk curve to achieve desired returns through the acquisition of secondary stock suitable for refurbishment and re-positioning.

The largest transactions during the first half of the year have been concentrated within the UK's major city markets. Leading transactions include: German pension fund VGV acquisition of 7, 8 and 10 Brindleyplace in Birmingham (let to RBS) for £131m, reflecting a net initial yield of 5.75%, the sale of 3 Hardman Square in Manchester for £91.7m with net initial yield of 5.79% and the sale of Aurora, 120 Bothwell Street in Glasgow for £72.36m with net initial yield of 6.2%. The highest proportion of investment made in H1 has come from UK institutional funds but with good levels of overseas investment also.

CHART 7: EQUIVALENT YIELD SHIFT (THREE-MONTH ROLLING)

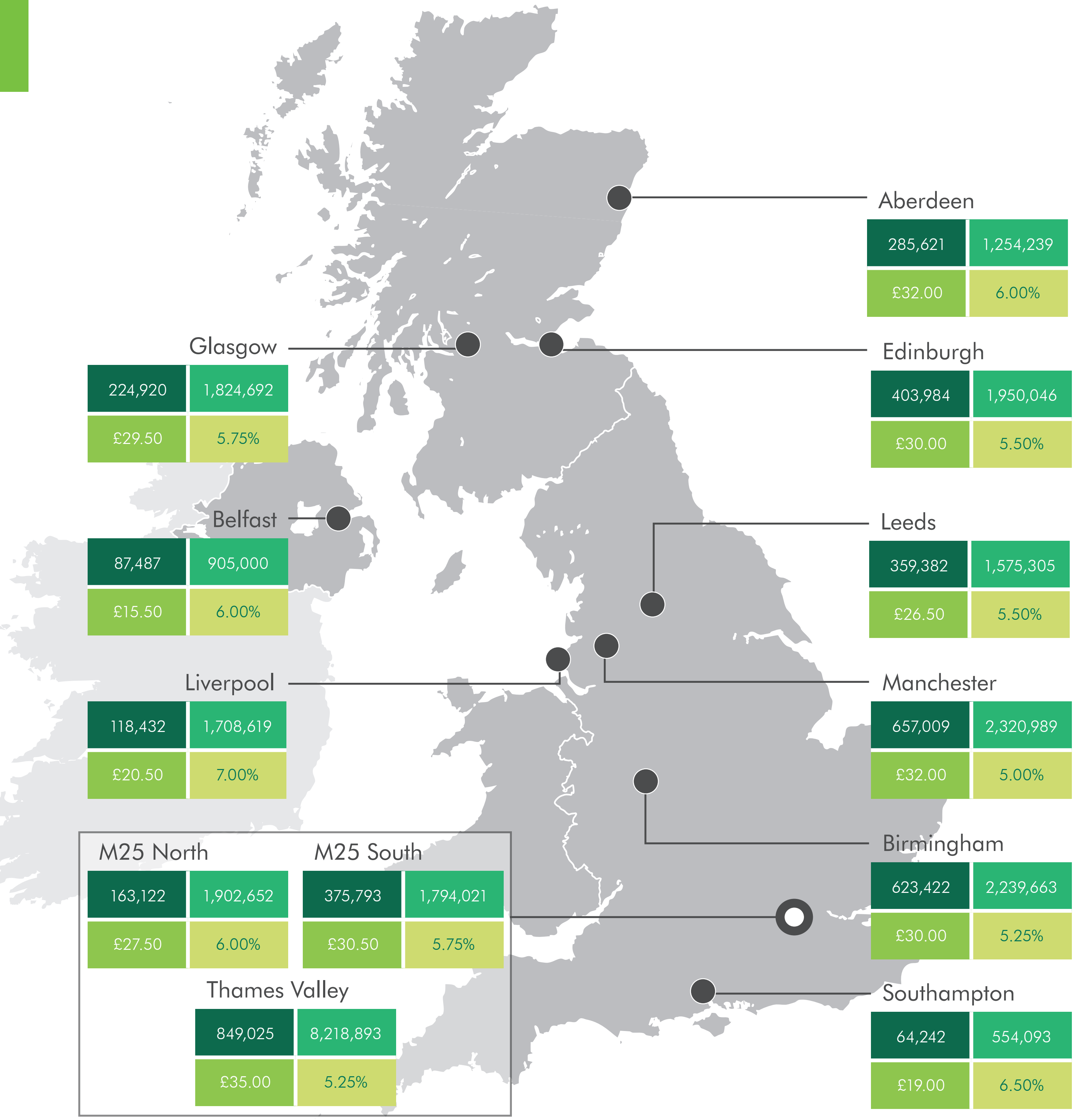


Source: CBRE Monthly Index

REGIONAL OFFICE MARKETS AT-A-GLANCE

Key:

Take-up H1 2015	Availability H1 2015	Prime Rent	Prime Yield



Market	Take-up H1 2015	Availability H1 2015	Prime Rent	Prime Yield
Aberdeen	285,621	1,254,239	£32.00	6.00%
Glasgow	224,920	1,824,692	£29.50	5.75%
Edinburgh	403,984	1,950,046	£30.00	5.50%
Belfast	87,487	905,000	£15.50	6.00%
Leeds	359,382	1,575,305	£26.50	5.50%
Liverpool	118,432	1,708,619	£20.50	7.00%
Manchester	657,009	2,320,989	£32.00	5.00%
Birmingham	623,422	2,239,663	£30.00	5.25%
M25 North	163,122	1,902,652	£27.50	6.00%
M25 South	375,793	1,794,021	£30.50	5.75%
Thames Valley	849,025	8,218,893	£35.00	5.25%
Southampton	64,242	554,093	£19.00	6.50%

NB: Some figures may not sum to total due to rounding.
NB: New take-up and availability figures include development within 12 months of completion.

THAMES VALLEY AND M25 OFFICES

Change from H1 2014

H1 2015	TAKE-UP	AVAILABILITY	PRIME RENT INDEX	PRIME YIELD
	16% ↑	-1% ↓	2.5% (YoY) ↑	5.25% ↓

H1 2015 overview

Take-up across the South East in H1 2015 is marginally up on both halves of 2014. A total of 1,387,940 sq ft of office space transacted (in deals over 10,000 sq ft). Although virtually on a par with the five year average, this level of take-up is not reflective of the strong set of economic and sentiment indicators currently prevailing in the UK.

Since the global financial crisis, take-up levels in the South East have settled to a 'new normal', which is lower than previous historic levels. For example, the current five year annual average take-up level is nearly a third lower than the annual average of the previous five year block.

The average deal size (in units over 10,000 sq ft) is now 21,589 sq ft, 15% below the 10 year average of 25,447 sq ft. This is a significant contributing factor to the 'new normal' of lower take-up. Larger occupier transactions at or above the 50,000 sq ft threshold are becoming rarer (only 50 transactions in the years 2010 to 2014 compared to 76 in the five preceding years). An underlying reason for this is that occupiers are using their workspace more efficiently, thus needing less floorspace.

Supply levels remain tight, but there is substantial new development in progress (approximately 2.7m sq ft under construction).

Where supply is particularly tight, we have seen a number of 'hot spots' where rental jumps have occurred as opposed to incremental increases.

H2 2015 outlook

At the mid-year point we predict take-up levels could be 20% higher than those achieved in 2014. This follows a stronger first half performance and with nearly one million sq ft of office space known to be under offer. Additionally, named demand has increased significantly and currently stands at approximately 6.5m sq ft.

The economic fundamentals that underpin the property market remain sound in the UK, with a positive GDP outlook, low inflation, low interest rates, higher employment and strong business confidence. Whilst these factors have not caused a significant uplift in transaction volumes in H1, we do expect the conclusion of one or two larger transactions.

When do we anticipate a return to historic deal levels in the South East office market? It is unclear at present. In the recovery period to date the regions have outperformed the South East markets (excluding London) in terms of take-up against historic levels. Although the UK remains in a very favourable fiscal climate there will be growing uncertainty in 2016 and possibly into 2017 around the potential result and impact of the UK EU referendum.

We are witnessing a marked increase in interest in the West London market from occupiers facing affordability or supply issues in Central London. This is stimulating interest in markets from West London across to Stratford and Croydon.

TABLE 1: TOP DEALS, H1 2015

Address	Location	Size (sq ft)	Rent (£ per sq ft)	Lease term	Rent free	Tenant	Business sector
Leonardo Building, Crawley	M25 South	109,685	£23.00	16.42	18	Virgin Atlantic	Consumer
Tamesis, The Glanty, Egham	Thames Valley	107,000	£32.50	15	n/a	Gartner Group UK Limited	Creative Industries
Ascot House, Maidenhead	Thames Valley	51,000	£22.00	11	15	Acenden	Banking & Finance
Velocity V2, Weybridge	M25 South	48,007	£31.00	15	Confidential	LG Electronics UK Limited	Consumer
Lovett House, Staines	Thames Valley	44,475	£22.40	3 years	n/a	Gartner Group UK Limited	Creative Industries
Canvas, Abingdon	Thames Valley	43,534	n/a	Freehold	n/a	Smeg (UK) Limited	Manufacturing Industrial & Energy
Point, Maidenhead	Thames Valley	40,895	£33.96	10	21	Maersk Line UK Limited	Manufacturing Industrial & Energy

TABLE 2: KEY DEVELOPMENT SCHEMES UNDER CONSTRUCTION

Site	Developer	Target completion	Total size	Comments
B7, Chiswick Park	Blackstone / Stanhope	Q3 2015	334,000	Final building in the landmark business park
No. 1 Forbury Place, Reading	M&G Real Estate / Bell Hammer	Q3 2015	185,000	First phase being developed speculatively; Second phase available for pre-let.
12 Hammersmith Grove	Development Securities / Aberdeen	Q1 2016	165,000	Second phase now underway following success at neighbouring building
The Foundry, Hammersmith	AXA / Bell Hammer	Q4 2016	110,000	Back to frame re-development
The Charter Building, Uxbridge	Brockton Capital / Landid	Q4 2016	224,000	Extensive redevelopment
The Bower, Stockley Park	Rockspring / Clearbell / Exton Estates	Q4 2016	145,000	Back to frame redevelopment

For more details on office development across the South East please refer to CBRE's report The UK Is Building available to download from www.cbre.co.uk/research.

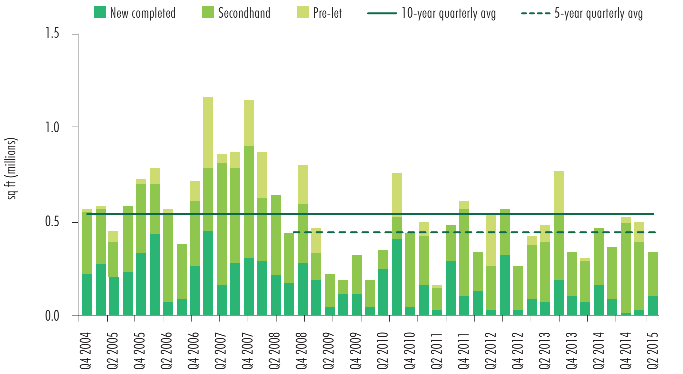
There was a total of 849,025 sq ft acquired for occupation across the Thames Valley region during H1 2015. This was 7% below the average half yearly rate for the last five years but encouragingly was 8% higher than the 788,183 sq ft recorded in the second half of 2014. Market sentiment remains sound with a number of requirements circulating that we expect to lead to an active second half of the year in 2015. There was also a little under 534,788 sq ft under offer at the mid-point of 2015.

The Airport Commission's recent recommendation of a third runway at Heathrow, although not necessarily boosting office demand in the short term, will at least help to sustain existing long term demand in the Thames Valley area.

The largest deal to sign in H1 was at Egham, where Gartner Group took 107,000 sq ft at Tamesis, The Glanty in Staines. In terms of numbers of deals, Reading and Bracknell have proved the most popular locations in H1. Having suffered a disappointing 2014, Maidenhead has bounced back. Acenden acquired 51,000 sq ft at Ascot House on Maidenhead Office Park. Maersk have taken 40,000 sq ft at Point, where there is a further 27,000 sq ft under offer.

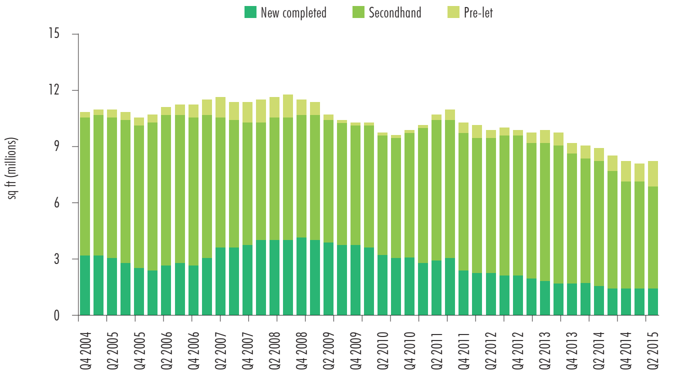
Availability levels have changed very little over the past year. Total availability at the end of H1 stood at 8,218,893 sq ft, 8% lower than the five year average. A lack of new stock is stimulating further rental growth across the majority of the region. Significant increases in prime rents across the region have been seen between the end of 2014 and mid- 2015, particularly in Maidenhead and Hammersmith. In the case of Maidenhead, prime rents at £35.00 per sq ft are back to record levels. Large rental increases have been seen in some areas. From 2014 year-end Maidenhead and Hammersmith have seen increases of 13% and 5% respectively. There has also been significant reductions in incentives on prime property in a number of locations.

CHART 8: TAKE-UP



Source: CBRE Research

CHART 9: AVAILABILITY



Source: CBRE Research

TABLE 3: KEY THAMES VALLEY PRIME RENTS

Market	Prime rent (£ per sq ft)	Next 12 months	Rent free (months)
Hammersmith	£52.50	▲	15
Chiswick	£49.50	▲	15
Staines	£33.00	▲	21
Reading IT	£33.50	▲	20
Reading OOT	£30.00	▲	26
Uxbridge	£33.00	▲	21
Maidenhead IT	£35.00	▶	24
Maidenhead OOT	£26.50	▶	26
Slough	£27.00	▲	26
Bracknell	£23.50	▲	26

NB: Prime rents defined as notional Grade A, 10,000 sq ft letting on a 10 year term.

M25 NORTH OFFICES

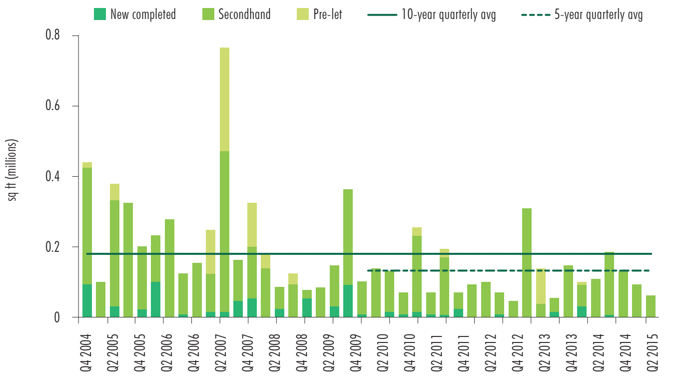
Of the three main regions within the South East office market, the M25 North has always seen more limited transaction activity on units over 10,000 sq ft. In the first half of 2015 this low level of activity has been particularly acute, with only nine occupational deals, totalling 163,162sq ft. Although this is around 30,000 sq ft up on the level recorded in the second half of last year it is still 22% lower than the five year average. A third of all space taken in H1 was taken by the public sector.

The largest three transactions in H1 were: Hertfordshire County Council acquiring the freehold of Abel Smith House in Stevenage and occupying 29,000 sq ft In addition to Milton Keynes Council securing 25,000 sq ft at MK Central and Office Depot acquiring 18,000 sq ft at CBXII in Milton Keynes. H2 2015 is expected to see a significant improvement in terms of take-up with several larger transactions due to complete in a variety of locations. From a relatively average start, the M25 North sector could see a strong finish.

One remarkable transformation for the region has been the rapid decline in availability since the end of 2012. The early phases of this was driven by deal activity eroding supply levels, but more recently the withdrawal of space from office use for redevelopment to other uses, has assisted in the reduction of secondhand supply. This has all taken place during a period where there has been no development activity to replenish stock levels. Due to this there are now signs of potential speculative development in stronger locations in this sub-market.

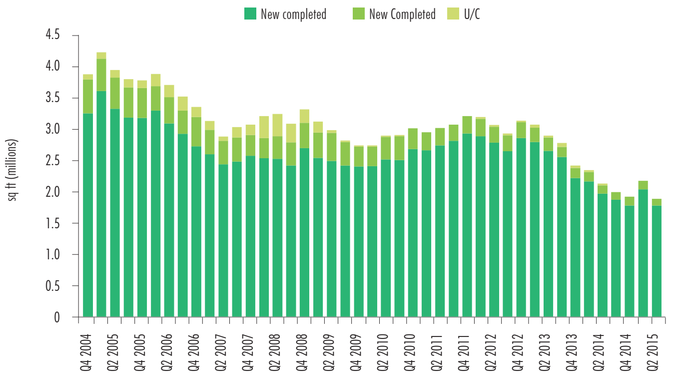
With supply levels tightening in certain locations we have seen rental growth in some hot spots. We have seen prime rents increase by £3.50 per sq ft in St Albans since H2 2014 and it is entirely possible we will see rental growth in other markets in the region before year-end. Particular hotspots, where rental growth might occur include Watford and Hemel Hempstead.

CHART 10: TAKE-UP



Source: CBRE Research

CHART 11: AVAILABILITY



Source: CBRE Research

TABLE 4: KEY M25 NORTH PRIME RENTS

Market	Prime rent (£ per sq ft)	Next 12 months	Rent free (months)
St Albans	£27.50	▲	18
Chelmsford	£23.50	▶	24
Watford	£23.50	▲	21
Milton Keynes	£22.50	▶	21
Hemel Hempstead	£21.50	▲	24

NB: Prime rents defined as notional Grade A, 10,000 sq ft letting on a 10 year term.

M25 SOUTH OFFICES

Overall take-up in M25 South region in the first half of 2015 totalled 375,793 sq ft, a huge increase on the 166,662 sq ft recorded in the second half of 2014 and 37% above the five year average in this region. The largest two deals in H1 2015 were: Virgin Atlantic (109,685 sq ft) at Leonardo Building, Crawley Business Quarter and LG Electronics UK (48,007 sq ft) at Velocity V2, Weybridge.

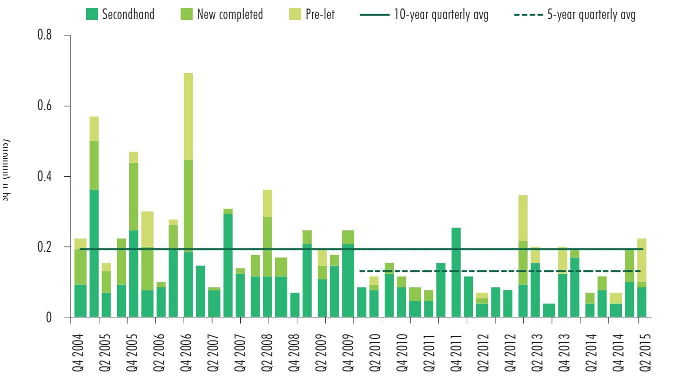
Deals were distributed across most of the major South M25 towns, although Weybridge, Crawley, Croydon and Guildford recorded the highest levels of take-up activity.

At the half year point there was also almost 151,103 sq ft of space under offer, including almost 62,000 sq ft at the newly completed Interchange scheme at Station Road, Croydon. At this level it looks certain that take-up levels in the region during 2015 will exceed the 2014 level.

The region has also seen a sharp decline in availability in the past few years, in part due to the withdrawal of space for alternative uses, including, but not exclusively, residential. The total level of availability is 20% below the five year average. It is also the lowest level recorded since Q4 2000. There are some markets, notably Croydon, where a significant amount of effectively obsolete office stock has been withdrawn from office use to take advantage on the current permitted development rights for change of use to residential.

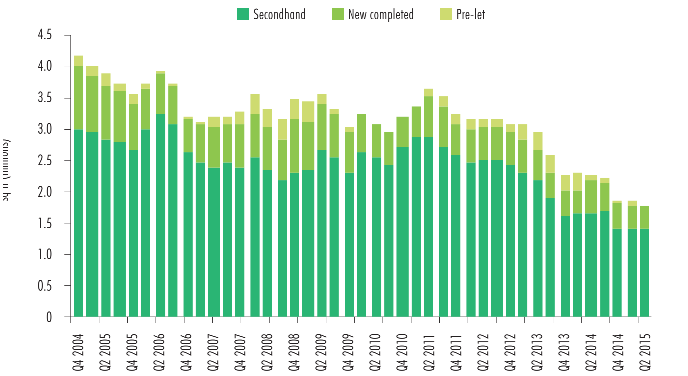
There have been some significant rental increases in the region from the end of 2014 to the mid-point of 2015. The biggest increases have been seen in Leatherhead and Weybridge, where prime rents have jumped by £3.00 and £2.50 a sq ft respectively. Wimbledon and Woking have also seen a sizeable increase in prime rents by £2.00 per sq ft.

CHART 12: TAKE-UP



Source: CBRE Research

CHART 13: AVAILABILITY



Source: CBRE Research

TABLE 5: KEY M25 SOUTH PRIME RENTS

Market	Prime rent (£ per sq ft)	Next 12 months	Rent free (months)
Wimbledon	£42.50	▲	15
Weybridge	£34.00	►	21
Woking	£29.00	►	21
Leatherhead	£28.00	►	24
Croydon	£29.00	▲	21
Redhill/Reigate	£25.00	►	24
Crawley	£23.50	▲	21

NB: Prime rents defined as notional Grade A, 10,000 sq ft letting on a 10 year term.

SOUTH EAST OFFICES OCCUPIER MARKET

Tenant view

Positive sentiment in the wider UK economy, and forecasts predicting sustained growth have yet to translate into growth in occupier take-up. This is evidenced by take up figures remaining relatively constant since 2013.

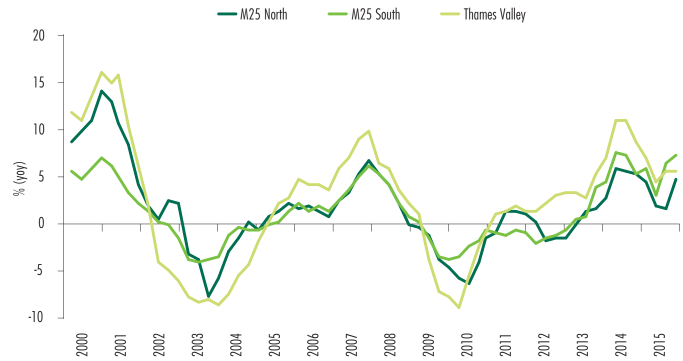
As noted earlier in our introduction, there has been a significant reduction in the number of larger transactions (over 50,000 sq ft) in recent years. Larger corporate occupiers have been concerned about international financial risks, which are as important to them as the UK economic outlook. The focus for many has therefore been to maximise the efficiency of their office space. However, there are now signs in the market that larger corporate requirements will return, and this is likely to be evidenced in the next six months. If so, we would expect take up figures to start rising again.

In the meantime, the effect of UK economic growth over the past two years is continuing to drive smaller requirements (under 20,000 sq ft). Activity in this sector is very strong. Grade A stock levels are now noticeably low in some markets, resulting in rental growth.

Rent reviews

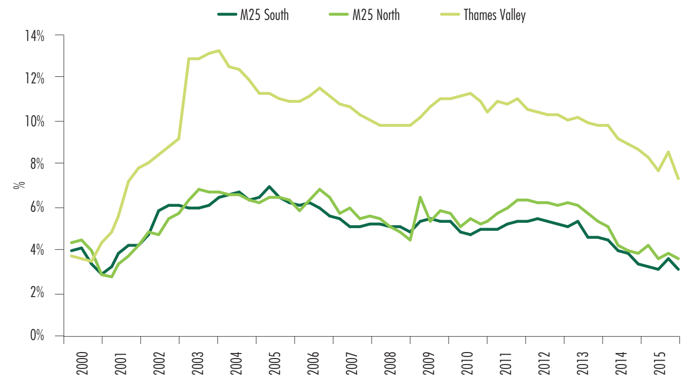
With vacancy rates falling during 2014, rental growth has spread across the South East region. Based on CBRE's prime rent survey, growth rates have been particularly high during the past year. This has been especially evident in the Thames Valley, where the annual growth rate reached a high of 11.4%. Recently the pace of rental growth has eased a little, but here remain hotspots across the region, which outpace these averages. Indeed CBRE's five year rental growth trend and forecast now shows rents pushing ahead of the 2009 peak, with much stronger momentum expected for rents in Outer London. Indeed we expect further rent reviews to be triggered given the degree of growth that has been experienced for properties where leases where signed in 2010. As ever, specific property and locational factors will come into play.

CHART 14: CBRE PRIME RENT INDEX



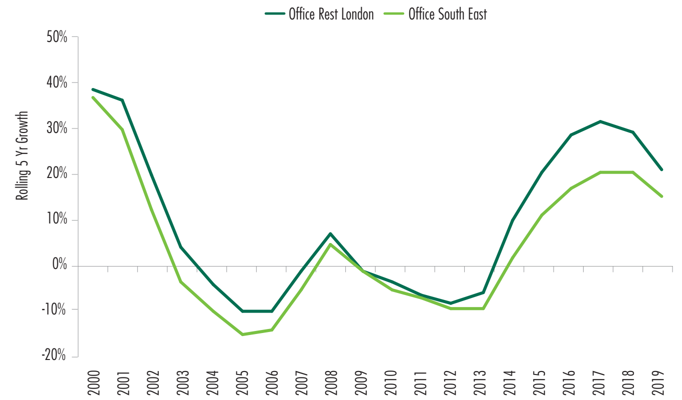
Source: CBRE

CHART 15: THAMES VALLEY AND M25 VACANCY RATES



Source: CBRE

CHART 16: RENT REVIEWS – FIVE YEAR RENTAL GROWTH RATE



Source: CBRE

A note on vacancy rates: At Q1 2014 figures were readjusted back to 2000, to incorporate the latest stock data released in 2012 by the Valuation Office Agency.

South East Offices Investment Market

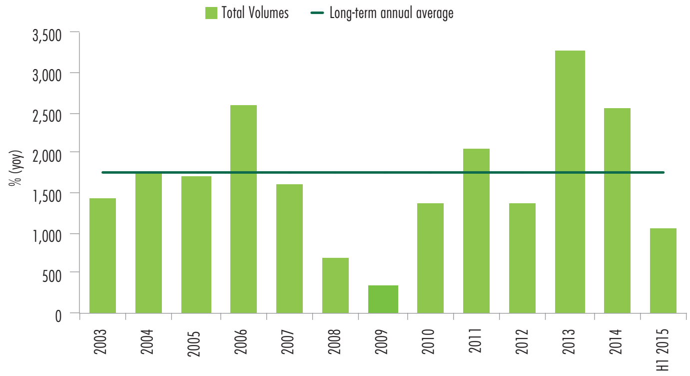
Total South East office investment turnover for H1 2015 totalled £1.60bn in 52 transactions, equating to an average lot size of £30.8m. In comparison to H1 2014, the like-for-like comparison was £976m in 47 transactions (average lot size £20.8m). There has clearly been a significantly greater overall volume, which driven by a comparable number of total transactions, has led to a higher average deal size this year. This improvement has been as a direct result of the primary trend for 2015: an amelioration of larger lot sizes. In part, this activity has been driven by a strong investor focus on West London, with Hammersmith being the preferred sub-market. In H1 2015, there have been ten deals in excess of £50m, representing £946m and 59% of total transactions for the period.

The second trend of note has been one of the catalysts for vendors offering larger lot sizes to the market. Historic Central London investors are moving to more peripheral sub-markets in order to find the same return profiles they have been accustomed to. These buyers, overweight in cash, have changed their geographic focus. The resulting knock-on effect has seen more traditional South East investors choosing to target more regional opportunities.

Furthering the market contraction of recent years, while the prime end remains tight, the greatest yield movement we have seen in H1 has been in the good secondary market. Yields in this space came in by 50 bps points through H1 2015. Institutional money continues to compete for higher risk assets, requiring greater asset management and capital expenditure. The consistently positive sentiment underpins a further £698m of stock currently either exchanged or under offer in 25 deals.

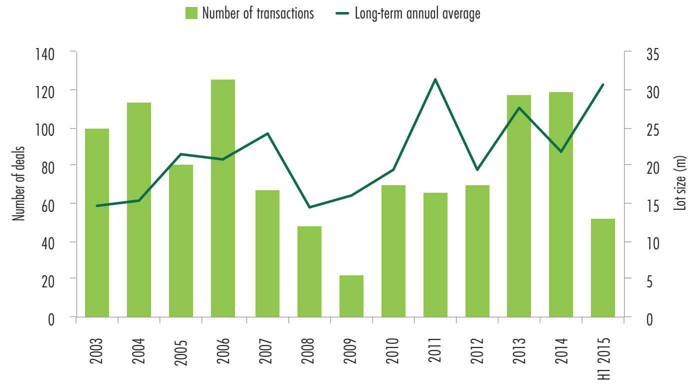
The outlook post general election has further served to support confidence in the UK economy. Despite its repricing, property remains attractive relative to competing asset classes.

CHART 17: SOUTH EAST OFFICES INVESTMENT VOLUMES



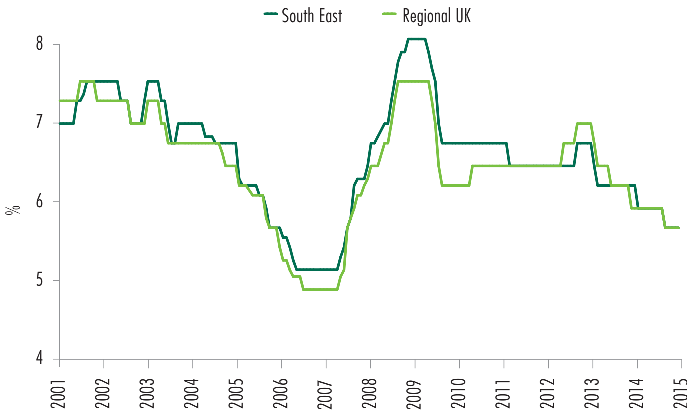
Source: CBRE

CHART 18: SOUTH EAST AVERAGE LOT SIZE AND NUMBER OF DEALS



Source: CBRE

CHART 19: SOUTH EAST PRIME YIELD



Source: CBRE, Based on IPD definitions

TABLE 6: TAKE-UP AND SUPPLY SUMMARY: THAMES VALLEY AND M25

*Figures may not correlate to those within report due to rounding. *Only units greater than 10,000 sq ft are monitored.		Availability (sq ft) H1 2015	Availability (sq ft) H2 2014	Take-up (sq ft) H1 2015	Take-up (sq ft) H2 2014
Thames Valley	New or U/C	2.79m	2.52m	0.23m	0.14m
	Secondhand	5.42m	5.81m	0.61m	0.76m
	TOTAL	8.21m	8.33m	0.84m	0.90m
M25 North	New or U/C	0.11m	0.14m	0.00m	0.00m
	Second-hand	1.78m	1.79m	0.16m	0.13m
	TOTAL	1.89m	1.93m	0.16m	0.13m
M25 South	New or U/C	0.37m	0.47m	0.20m	0.06m
	Secondhand	1.42m	1.35m	0.16m	0.10m
	TOTAL	1.79m	1.82m	0.36m	0.17m

Source: CBRE

Definitions

Prime Rent – defined as notional Grade A, 10,000 sq ft letting on a ten year term.

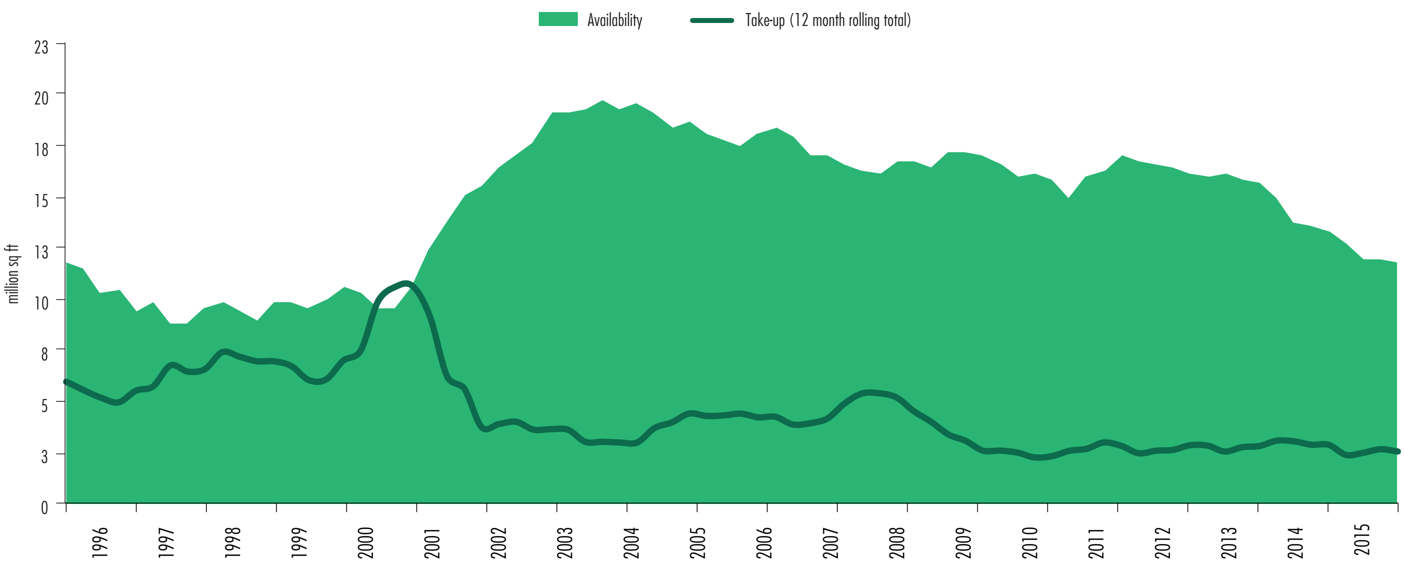
Early Marketed – space currently under construction or undergoing major refurbishment being pre-marketed and within 12 months of completion.

Newly Completed – accommodation in a newly completed scheme, never having been occupied previously.

Second Hand Modern – space built post 2000.

Second Hand Other – space built pre 2000.

CHART 20: THAMES VALLEY AND M25 MARKET BALANCE



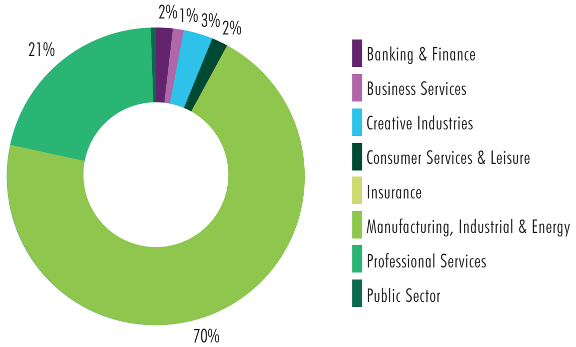
Building 7, Chiswick Park – 334,000 sq ft, Blackstone/Stanhope

ABERDEEN OFFICES

Change from end 2014

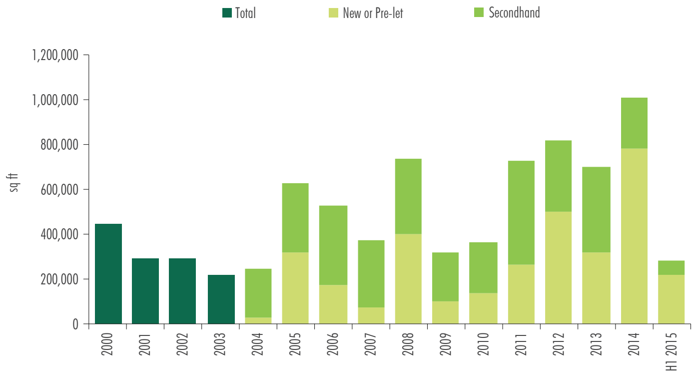
H1 2015	TAKE-UP -63%	AVAILABILITY 35%	RENTS £32.00	PRIME YIELDS 6.00%

CHART 21: TAKE-UP BY BUSINESS SECTOR, H1 2015



Source: CBRE

CHART 22: TAKE-UP



Source: CBRE

Demand

Demand for office space in Aberdeen has historically mirrored the price of Brent Crude oil. The city has therefore witnessed exceptionally strong levels of office space demand in recent years given the high oil price. However, since H2 2014 oil prices have been in steady decline, falling from $109 per barrel at the start of June 2014 to just $61 per barrel at the start of June 2015. Consequently we are now beginning to witness weaker demand from office occupiers and institutional investors with a reduction in new larger requirements.

Nevertheless there have been three large pre-let transactions in H1, all in out of town locations: Anderson Anderson & Brown and LR Senergy committed to 45,000 sq ft and 100,000 sq ft respectively at Prime Four Business Park and KCA Deutag acquired 70,000 sq ft at City South.

The weakening in enquiry levels has not yet fed through into take-up figures. In H1 2015 take-up totalled 289,994 sq ft. This was slightly higher than the same period a year ago, however significantly down from the 800,000 sq ft total in H2 2014.

Given the current climate, the majority of transactions have been in the sub 10,000 sq ft size band which accounted for ten out of the eleven deals recorded in Q2 2015.

In terms of future requirements, although occupier demand has been impacted, a number of large takeovers/mergers are being completed plus a number of companies are on the acquisition trail for new assets which will result in an increase in market activity. Additionally a number of the professional firms with lease events coming up are looking to upgrade from older office stock to new Grade A space.

Supply

Availability is currently very high, standing at 1.2m sq ft at the end of H1. The majority (69%) of this is Grade B and C stock. There is now 390,627 sq ft of office space which is either newly completed or under construction. The largest office available is Building Three, Aberdeen International Business Park (77,059 sq ft). Developers of some sites with office consent are now looking at alternative uses such as hotel or student accommodation. Occupiers are also releasing surplus space to the market on short to medium term basis.

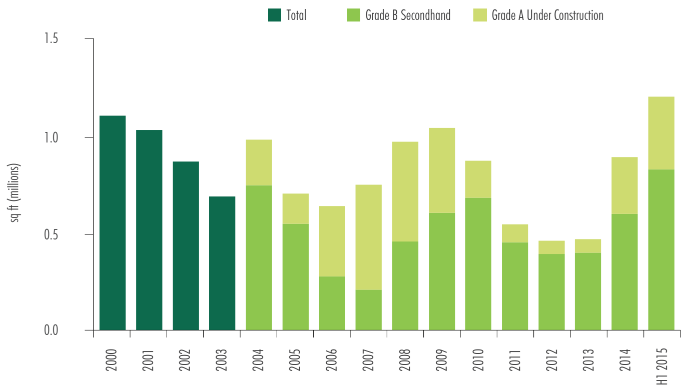
Rents

Prime rents have remained stable at £32.00 per sq ft. Despite the current energy sector climate headline rents may potentially increase with the pending completion of city centre speculative developments. However, we envisage incentive packages will increase due to increased supply levels. Secondary rents are likely to be put under more pressure as landlords compete over fewer requirements.

TABLE 7: MARKET SUMMARY

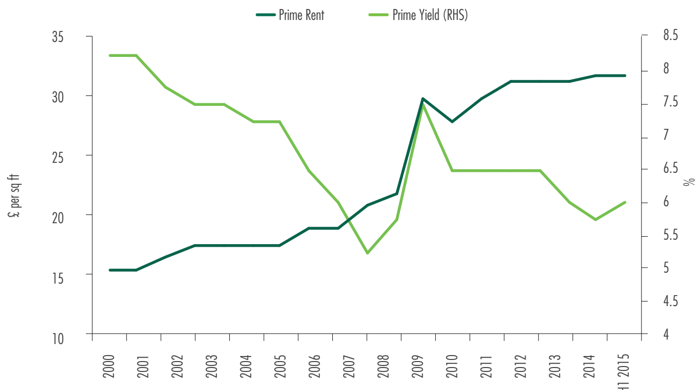
	H2 2014	H1 2015
Take-up	793,489 sq ft	285,621 sq ft
Long-term half yearly average take-up	277,008 sq ft	315,908 sq ft
Availability	930,318 sq ft	1,254,239 sq ft
Prime Rent (per sq ft)	£32.00	£32.00
Investment Transactions	£408m	£23.5m
Prime Yield	5.75%	6.00%

CHART 23: AVAILABILITY*



Source: CBRE

CHART 24: PRIME RENTS AND YIELDS



Source: CBRE

Investment

In contrast to the second half of 2014, investment volumes in H1 2015 have been low, with a total of just £23.5m of stock transacting. This compares to £408m in H2 2014.

In H1 there was only one forward commitment transaction – a new 70,000 sq ft pre-let office which will be completed in Q2 next year. The deal price was £23.5m and reflected a yield of 6.03%. The building was purchased by a private family trust.

A stronger second half year is expected, however, with the prospect of two deals which are currently under offer and due to complete in H2.

Activity and interest is quieter on the whole in 2015 than 2014. Investor sentiment has weakened on the back of the downturn in the oil and gas industry. Institutional demand in particular has faded as oil prices have fallen. However, pricing has held up well even though there are less buyers looking at the market. Assuming deals under offer conclude, pricing will have moved out by circa 25 basis points against 2014 pricing. Some assets are being withheld from the market until sentiment improves.

As pricing has softened and less institutional buyers have shown interest in the market, alternative private investors and family offices have taken the opportunity to capitalise on this.

The secondary market is currently stagnant as the current occupational market has not filtered through to price expectations. This will remain the same until either; green shoots start to appear in the oil and gas occupational market or price expectations lower in line with the occupational market.

The Aberdeen market still produces good long term income product to strong covenants at attractive pricing in comparison to other parts of the UK.

Ultimately the outlook will depend upon how long the price remains close to the $50-60 per barrel level. In the short term some exploration activities may be curtailed, but Aberdeen remains an important global centre of excellence for the oil and energy sector, with work extending well beyond the confines of the UK Continental Shelf.

Aberdeen International Business Park

*In preparing this report we have undertaken a review of availability across Aberdeen and in particular changes during the latter part of Q4 2014. This process has identified additional space that was effectively available at the end of 2014 which could have been accounted for in H2 of that year. We have therefore adjusted our 2014 historic figures to reflect this additional information and ensure that there is a consistent relationship between H2 2014 and H1 2015 data.

“Despite the reduction in oil price, it is positive to note three large headquarter pre-lets completed in Aberdeen in H1 totalling 215,000 sq ft. Nevertheless the majority of new letting activity and requirements have been focused in the sub 10,000 sq ft size bracket.”

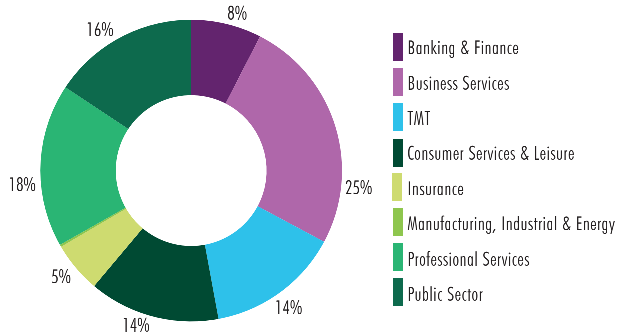
Derren Mcrae,
Managing Director

EDINBURGH OFFICES

Change from end 2014

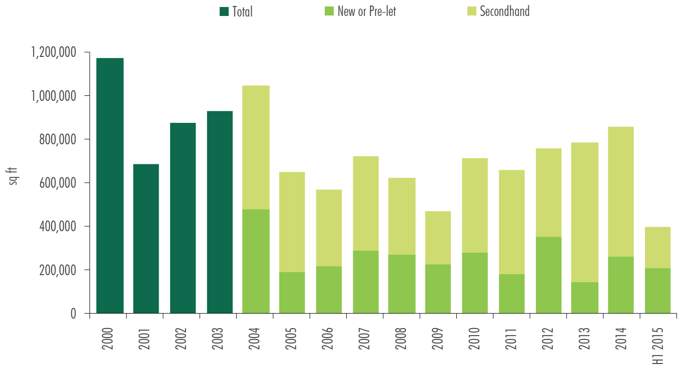
H1 2015	TAKE-UP	AVAILABILITY	RENTS	PRIME YIELDS
	-2%	-5%	£30.00	5.5%

CHART 25: TAKE-UP BY BUSINESS SECTOR, H1 2015



Source: CBRE

CHART 26: TAKE-UP



Source: CBRE

Demand

There is healthy occupier demand for office space in Edinburgh on paper with a number of new requirements being circulated. However, this has yet to translate into a significant 'lift off' in transaction volumes. A total of 403,984 sq ft was taken up in the first half of 2015, marginally higher than the five year H1 average and virtually level with the previous three half years. These levels may be partly attributable to the lack of available stock and high rents required for the new buildings. We are also seeing more re-gears than usual which could be as a result of the same drivers.

Known demand in the market for varying volumes of space includes KPMG, Amazon, Nucleus Financial, Edinburgh University, Brodies and CMS.

Some of this demand may convert into re-gears as opposed to office moves as many potential movers are in acceptable existing accommodation and their requirements are driven by a break or expiry opportunity rather than expansion. EY identified The Haymarket as the preferred option for their 35,000 sq ft requirement, but is yet to enter into legal proceedings. The financial sector remains healthy in various guises and the tech sector continues to be a source of requirements of various sizes. However, the depth of demand remains fragile.

Supply

Total office availability at the end of H1 2015 was 1,950,046 sq ft, almost unchanged from the level recorded at the end of 2014. The current level is 25% below the five year average. Of the total available space for occupation just 418,238 sq ft is newly completed which equates to less than half the ten year average level.

With the current supply shortage and increasing weight of occupier demand, confidence amongst developers is growing. wo new schemes are due to start on site in H2 2015: The Haymarket (91,000 sq ft) and The Registers (61,000 sq ft) in St Andrew Square following Quartermile 4. It is unlikely anything else will move off the blocks until one of these pre-lets. However Moorfield at Quartermile are sufficiently confident that they are considering moving Quartermile 3 (76,000 sq ft) forward this year.

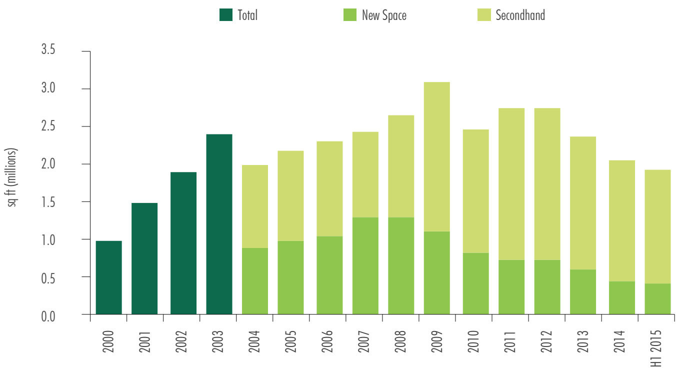
Rents

Prime rents in Edinburgh increased to £30.00 per sq ft in H1 2015. There is an upward pressure on rents and the next pre-let is likely to set a new benchmark in the market. Any occupier wishing to pre-let the best space in the city is likely to have to pay over £32.00 per sq ft. Rental levels are expected to keep rising over the next 24 months at least, across all levels, including Grade B space. Incentive packages for the best space are now dipping below 12 months per five year term certain for the first time in this cycle.

TABLE 8: MARKET SUMMARY

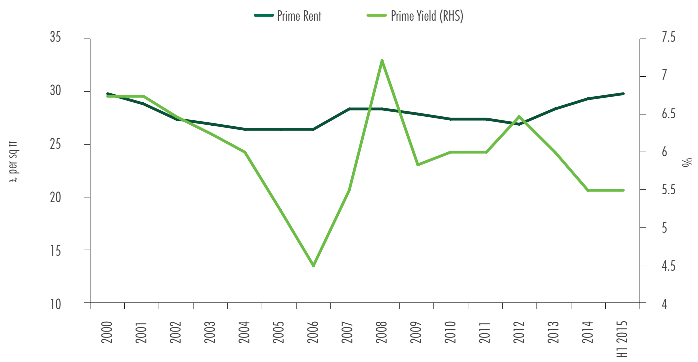
	H2 2014	H1 2015
Take-up	412,879 sq ft	403,984 sq ft
Long-term half yearly avg take-up	344,691 sq ft	344,585 sq ft
Availability	2,053,523 sq ft	1,950,046 sq ft
Prime rent (per sq ft)	£29.50	£30.00
Investment transactions	£125m	£135m
Prime yield	5.75%	5.50%

CHART 27: AVAILABILITY



Source: CBRE

CHART 28: PRIME RENTS AND YIELDS



Source: CBRE

Investment

There has been a healthy level of investment activity so far in 2015. In the first six months, £138m was transacted across eight deals. This included the sale of Tanfield for £56m, Quay 2, Fountainbridge for £24.5m and The Gemini Building, St Andrew Square for £19.6m. Demand has mainly come from institutional investors including Rockspring, Knight Frank Investors and Kames Capital.

Prime yields for offices in Edinburgh have moved in from 5.75% at the end of 2014 to 5.50% at the mid-point of 2015. This level means that Edinburgh, as with the other major Scottish cities, is trading at a discount, not just to London and the South East, but also to certain other regional centres, notably Birmingham, Bristol and Manchester. This has, in part, been caused by recent political uncertainties linked to last year's Scottish independence referendum and the recent UK General Election.

The market has not been tested by a truly prime city centre asset to properly establish prime yields and the level of demand from UK and overseas investors. It is, however, widely accepted that yields have been trending stronger throughout the year, with this direction of travel likely to continue into the second half of 2015.

Looking forward, the outlook for office investment in Edinburgh looks positive. A combination of tight supply of occupational stock, most notably in the Grade A sector, continued healthy demand from occupiers and positive rental growth forecasts have generated strong market fundamentals for the city. As a result we expect to see continued robust levels of demand from UK and overseas investors, particularly for prime, best in class assets. In addition, there remains a focus on value add / core plus opportunities where assets can be refurbished or re-let.

Quartermile 4, Edinburgh

> "In Spring 2014, Moorfield made what was then seen as the brave call, to speculatively develop Quartermile 4. The reward has come this year – the largest true pre-letting of a speculative office in over a decade. Supply in the City is at a critical level and occupiers know their only choice is to move quickly and aggressively. FanDuel did that and the deal concluded six weeks after agreeing terms."

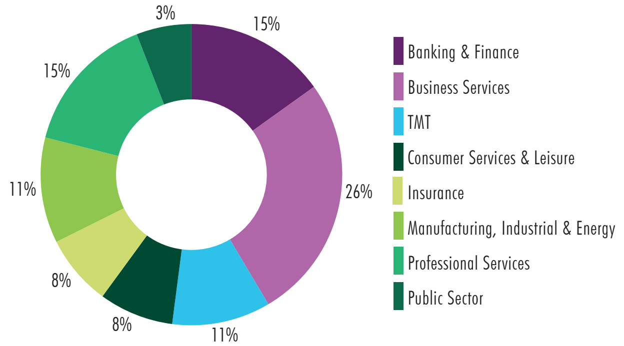
Stewart Taylor,
Senior Director

GLASGOW OFFICES

Change from end 2014

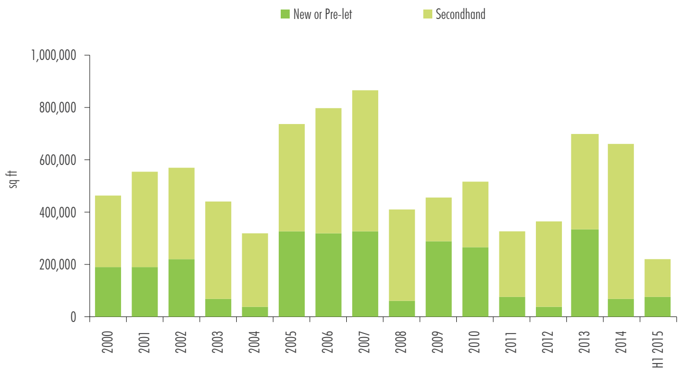
H1 2015	TAKE-UP -42%	AVAILABILITY -5%	RENTS £29.50	PRIME YIELDS 5.75%

CHART 29: TAKE-UP BY BUSINESS SECTOR, H1 2015



Source: CBRE

CHART 30: TAKE-UP



Source: CBRE

Demand

Occupier demand within Glasgow remains at an all time high with active requirements exceeding 800,000 sq ft. The market recovery is being driven by a combination of improved economic conditions and an unusually high proportion of indigenous companies with forthcoming lease expiries and break options.

Despite strong demand in the market, take-up during H1 was subdued at just under 225,000 sq ft, representing a 24% reduction on the long term half yearly average. The below trend take-up figures are a reflection of the time taken to get deals over the line rather than a reduction in occupier demand or confidence. The largest deal during Q2 was the letting of 27,522 sq ft to Teleperformance at Cuprum, with the only other deal above 10,000 sq ft being to Arup (12,603 sq ft) at 1 West Regent Street.

With the exception of these two deals all other transactions were in units of sub 5,000 sq ft.

Supply

Despite the delivery of 470,000 sq ft of new Grade A space to the market, total supply at the end of Q2, 2015 stood at just 1.82m sq ft, down 21% since the same quarter one year ago, but 3% below the level recorded at the end of 2014. The new speculative schemes are progressing well and both 110 Queen Street and 1 West Regent Street having already let a significant amount of space. It is widely anticipated that St Vincent Plaza will follow suit as a number of occupiers are showing interest at present.

There are a number of development sites with existing planning consent. However, even with a tightening of prime Grade A availability anticipated, there have been no site starts in the city. The demand for space in the medium term is more likely to be met through the delivery of a number of refurbishments including 6 Atlantic Quay (78,459 sq ft).

Rents

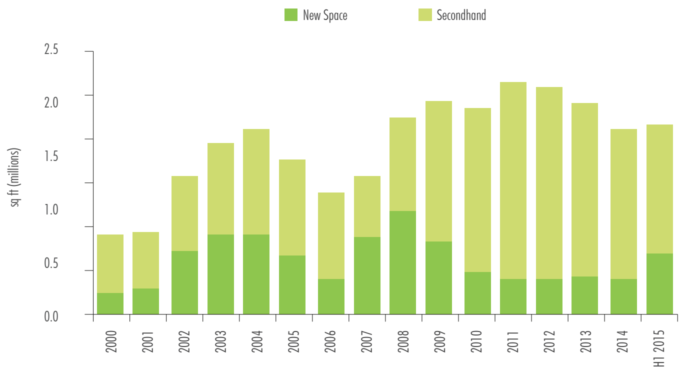
Prime rents now stand at £29.50 per sq ft but are likely to break the £30.00 per sq ft barrier shortly. The level of incentives being offered to tenants is sharply reducing as occupiers begin to compete for space. This is particularly pronounced in the prime Grade A market but is increasingly a feature of the Grade B market where quoting rents are being rebased to their pre-recession levels.

The outlook is very positive with take-up anticipated to reach near record levels by the year end.

TABLE 9: MARKET SUMMARY

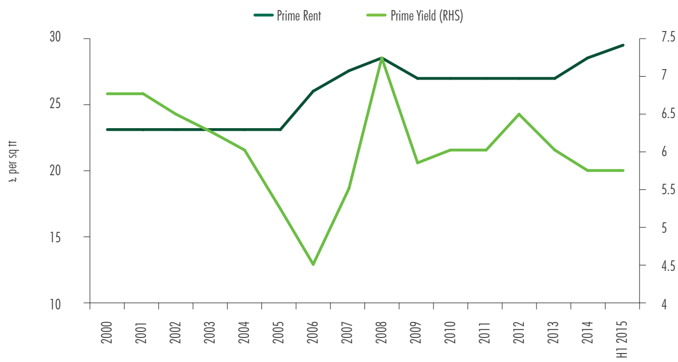
	H2 2014	H1 2015
Take-up	385,925 sq ft	224,920 sq ft
Long-term half yearly avg take-up	264,949 sq ft	295,754 sq ft
Availability	1,777,816 sq ft	1,860,617 sq ft
Prime rent (per sq ft)	£28.50	£29.50
Investment transactions	£140m	£119m
Prime yield	5.75%	5.75%

CHART 31: AVAILABILITY



Source: CBRE

CHART 32: PRIME RENTS AND YIELDS



Source: CBRE

Investment

Investor activity in Glasgow in H1 2015 has been hampered by a lack of product and a slowdown around the General Election in May. Transaction volumes totalled £119m and are dominated by the sales of Aurora, 120 Bothwell Street for £72.36m/6.2% and 150 St Vincent Street for £14.75m/6.6%.

There is not enough prime, new build stock coming to the market in Glasgow to satisfy investor demand. Other than the sale of 110 Queen Street in 2014, we have not seen a truly, new build Grade A office offered to the market in 2015 although sentiment would dictate that prime yields are at 5.50%, which is softer than in Manchester and Birmingham. We foresee this yield level continuing for the remainder of 2015.

Activity since May has picked up considerably with six assets coming to the market totalling £136m, the largest being the offering of M&G's 1-3 Atlantic Quay seeking £62.5m/8.30%. The property is currently under offer. The type of product being offered has tended to be multi-let secondary office buildings, typically older than 10 years and therefore has attracted value add type buyers including private equity with local asset management teams.

150 St Vincent Street

Active investors have included Benson Elliot, Ambassador Group, Northwood, and Rockspring. This stock has tended to attract yields in the 7-8% category.

Looking ahead we expect to see a continuation of the value add, asset management stock type investor demand. There might be one or two new office developments offered later in the year as completions occur which will attract the UK and overseas institutional market in the £50m plus lot size category.

In the remainder of 2015, prime yields at 5.50% are unlikely to move unless a landmark deal proves otherwise. Secondary yields will probably harden to the low 7's. There is certainly a slight narrowing of the yield gap between prime and secondary.

> "The unprecedented level of occupier demand in Glasgow is rapidly eroding the availability of large floor plates options within prime Grade A buildings. This is forcing an increasing number of occupiers to fast track their requirements to ensure that they can secure suitable accommodation. This increased market activity is driving rental growth although it has not yet encouraged any new speculative development in the City."

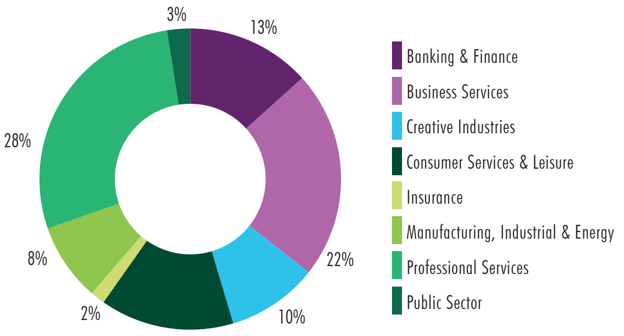
Audrey Dobson,
Senior Director

MANCHESTER OFFICES

Change from end 2014

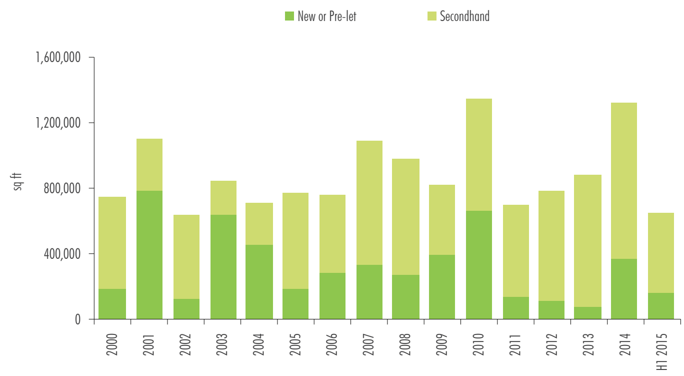
H1 2015	TAKE-UP	AVAILABILITY	PRIME RENTS	PRIME YIELDS
	20% ↑	0% →	£32.00 ↑	5.0% ↓

CHART 33: TAKE-UP BY BUSINESS SECTOR, H1 2015



Source: CBRE

CHART 34: TAKE-UP



Source: CBRE

Demand

Strong demand has characterised the Manchester office market in the first half of 2015. A total of 657,009 sq ft of office floor-space was acquired for occupation in 145 transactions. This is a very healthy total, only circa 130,000 sq ft adrift of the exceptional level recorded in the same period last year. Compared to the historic levels, it is 30% higher than the five half yearly average and 41% above the ten half yearly average.

Healthy demand is partly being driven by a combination of north shoring as well as a gravitation towards the city centre for greater access to skilled workforce, amenity and transport. It is expected that both north shoring of certain departments (due to cheaper occupational costs) by London occupiers, and also regional occupiers migrating closer to city centres (to attract talent and for access to a larger, skilled workforce) will continue. Freshfields, who have taken an initial 42,739 sq ft at Arndale House in Manchester city centre will expand to 100,000 sq ft next year and Talk Talk will be taking 100,000 sq ft at Soapworks in Salford Quays.

There is a number of large active requirements at present including the aforementioned Freshfields (100,000 sq ft), Addleshaw Goddard (55,000 sq ft), Squire Patton Boggs (30,000 sq ft) and Irwin Mitchell (30,000 sq ft). Others that are close to making a decision include Egencia (15,000 sq ft) and Aldermore Bank.

Supply

Total availability in the city centre has remained stable at 2.32m sq ft. This is almost the exact same level as it was 12 months ago. Given the volume of space due to be delivered in 2016 and 2017 (2016 - 440,000 sq ft, 2017 - 574,000 sq ft) any further developments are likely be pre-let driven. Having said that, it is not expected this space will create an oversupply of Grade A space. If anything it will only just address predicted demand. Of the space being delivered, circa 140,000 sq ft is already taken, with a further 46,000 sq ft under offer, and active requirements of circa 300,000 sq ft targeting this space.

In addition to new build supply, there is a limited amount of refurbished stock about to come to the market with schemes including Hanover Building, Royal Exchange, and 30 Brown Street although we believe there is a clear gap in the market for further refurbishment projects to come forward.

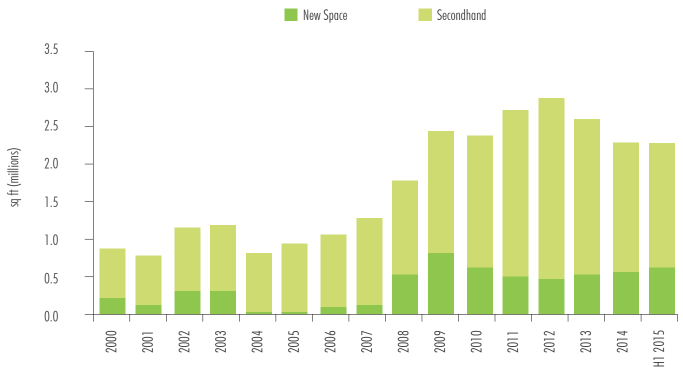
Rents

Prime rents hit £32.50 per sq ft last year and we are now seeing this level achieved more consistently. We expect prime rents to reach £34.00 per sq ft in isolated cases by the end of 2015. Incentives are now more deal specific. The pace of change of standard incentives is slowing although there is more differentiation between the most and least generous packages offered.

TABLE 10: MARKET SUMMARY

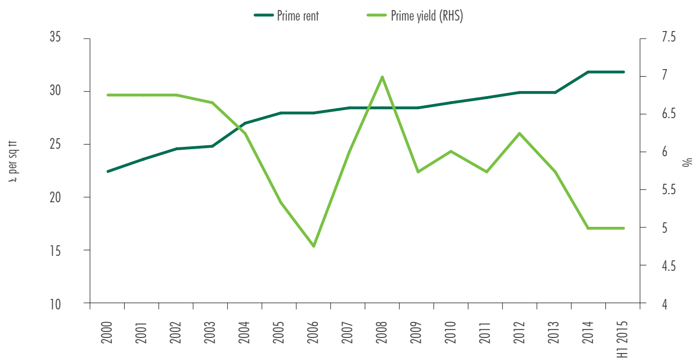
	H2 2014	H1 2015
Take-up	542,985 sq ft	657,009 sq ft
Long-term half yearly avg take-up	505,243 sq ft	536,998 sq ft
Availability	2,327,552 sq ft	2,320,989 sq ft
Prime rent (per sq ft)	£32.00	£32.00
Investment transactions	£224m	£243m
Prime yield	5.0%	5.0%

CHART 35: AVAILABILITY



Source: CBRE

CHART 36: PRIME RENTS AND YIELDS



Source: CBRE

Investment

Manchester has remained the focal point for investment into regional office markets in H1 2015. Demand continues to build. The prime market has been led by UK institutions and overseas investors – particularly from Germany. Wider geographies such as China, South America and the Middle East are also actively looking for exposure in Manchester but have not been successful to date. Typically some of the potential new overseas investors have not been able to respond quickly enough to compete with UK based investors in the market or there has been a lack of suitable available stock that would fit their requirements. Many Chinese investors, for example, are looking for large lot sizes and long term income certainty.

Although the total volume recorded in H1 has not been that strong, there are significant deals currently under offer and in the pipeline that will slip into the second half of the year. Deals currently under offer heading into H2 2015 are in excess of £300m including two major off market transactions.

Whilst the yield differential between Manchester and the South East has narrowed quite significantly there remains significant investor demand for exposure in Manchester.

Two St. Peter's Square

The strong occupational market and clear evidence of rental growth have been significant factors in this continued investor demand. Investors are looking at long term rental performance in Manchester and consider it a hedge against the volatility that sometimes can be seen in London and the South East. Investor requirements range from those looking for prime stock that will retain value to others looking for stronger return and willing to take more risk. Increasingly institutional investors are moving up the risk curve to achieve desired returns through the acquisition of secondary stock suitable for refurbishment and re-positioning.

Prime yields have moved in from 5.50% at the end of H1 2014 to now stand at 5.00% and we anticipate evidence at 4.75% during H2 2015.

"Exceptional occupier demand, coupled with a diminishing supply of both Grade A and good quality refurbished product has resulted in the noticeable increase in headline rents across the market, which is anticipated to continue throughout the rest of the year."

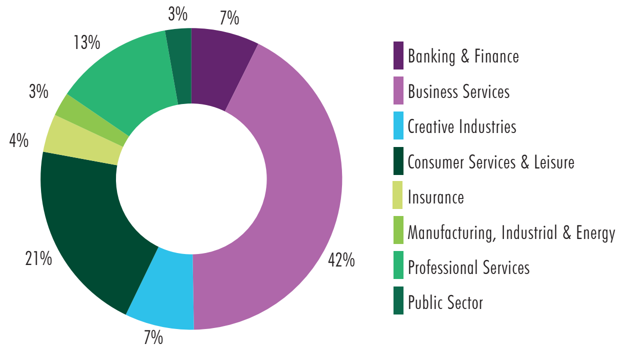
Neil Mort,
Director

LIVERPOOL OFFICES

Change from end 2014

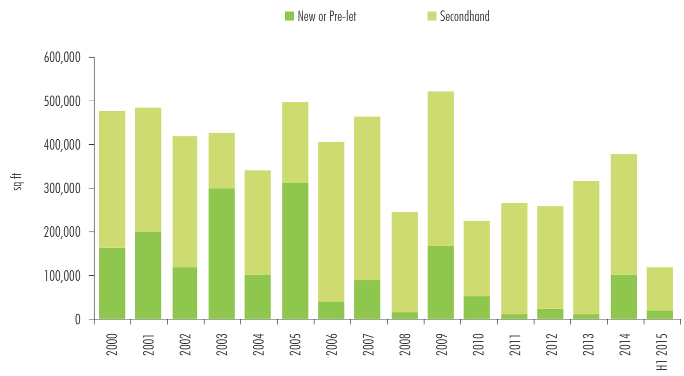
H1 2015	TAKE-UP 2% ↑	AVAILABILITY -1% ↓	PRIME RENTS £20.50 ↑	PRIME YIELDS 7.0% ↓

CHART 37: TAKE-UP BY BUSINESS SECTOR, H1 2015



Source: CBRE

CHART 38: TAKE-UP



Source: CBRE

Demand

Occupier demand in Liverpool has remained steady during the first half of 2015. Take-up volumes totalled 118,432 sq ft, which was approximately equitable with levels recorded in the second half of 2014. However, this level was less than half the take-up volume witnessed in the first half of 2014. Therefore much stronger transactional volumes will be required in the second half of 2015 if the year-end total is to approach last year's level.

The vast majority of occupier demand is from local occupiers in the sub-5,000 sq ft market, which accounted for 74 out of 79 transactions. This part of the market has also included a number of new start-ups and new entrants to the market, whose preference is for the flexible office space that is increasingly being offered by landlords in Liverpool.

The largest three deals in H1 2015 have been: SDV (8,396 sq ft) at No 1 Tithebarn, The Auto Network (6,350 sq ft) at 20 Chapel Street and Bosch Security Systems (5,719 sq ft) at The Plaza, Old Hall Street.

Looking ahead into 2015, we expect to see an ongoing steady level of occupier demand. Liverpool is attracting interest from occupiers displaced from other locations in the North West. For instance those who had been looking for opportunities in Warrington, where there is a dearth of supply, have begun to consider Liverpool as a natural alternative.

Supply

Office supply in Liverpool has been falling and now stands at 1.7m sq ft. Supply levels have been eroded by a combination of steady take-up during the year and the growth in demand from local developers for redundant office buildings that can be redeveloped into alternative uses such as student accommodation or more regular residential.

Supply levels are dominated by second hand space which accounts for over 1.2m sq ft. The level of Grade A stock, in comparison is very small. However, it is now increasing. Of particular note are two large early marketed buildings: the comprehensive refurbishments of the Watson Building and The Department (both on Renshaw Street) which will deliver 149,000 sq ft.

Rents

With steady occupier demand in Liverpool, we have not seen pressure on headline rents in the first half of 2015. Prime rents remain unchanged at £20.50 per sq ft, as evidenced at 1 Mann Island. However, this includes a large rent free period. Rents remain someway below the £22 per sq ft peak that was achieved in 2007 and 2008.

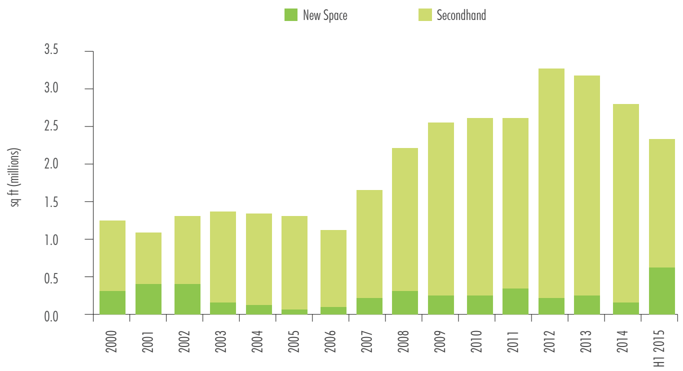
Investment

Following a relatively low level of investment activity in Liverpool in 2014 compared to the UK's first tier regional cities, purchasing activity in the central business district has picked up strongly within the first six months of 2015. New entrants have entered the market,

TABLE 11: MARKET SUMMARY

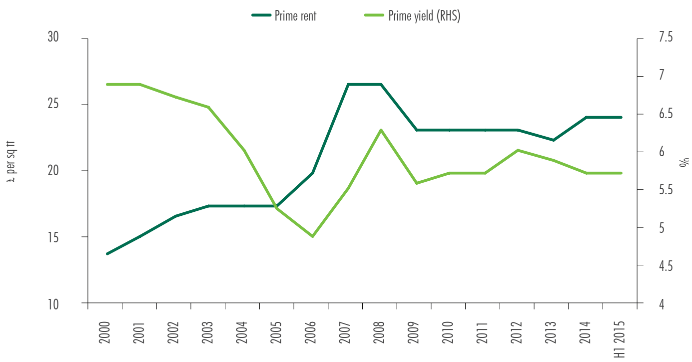
	H2 2014	H1 2015
Take-up	120,307 sq ft	118,432 sq ft
Long-term half yearly avg take-up	138,179 sq ft	114,831 sq ft
Availability	2.28m sq ft	1.7m sq ft
Prime rent (per sq ft)	£20.50	£20.50
Prime yield	7.0%	7.0%

CHART 39: AVAILABILITY



Source: CBRE

CHART 40: PRIME RENTS AND YIELDS



Source: CBRE

mainly overseas and private equity investors. This is also coupled with institutional demand.

With current levels of demand, the prospects for the remainder of 2015 and first half of 2016 looks better than it has in a number of years. The yield differential between Liverpool, the South East and other regional markets (in particular with Manchester) is having a positive impact on investor demand. The strong investment market in Manchester in particular has made Liverpool very attractive to investors (coupled with the strong leasing activity witnessed in 2014). The Liverpool market is now on the radar of a number of investors, impressed by potential income returns.

There has been an uptick in the number of commercial office buildings transacted in Liverpool city centre in the first half of 2015 (at least five). It is also understood that City Square is currently under offer at circa £31m and that there are further buildings of investable quality coming to the market in H2 2015.

The pricing of properties in Liverpool is looking appealing, particularly given the sharp inward yield movement in the larger regional centres.

5 Princes Dock, Liverpool

Occupationally, Liverpool remains steady in the first half of 2015, but business confidence is improving. Nevertheless we still expect a yield gap to be maintained with larger regional cities such as Manchester, which will reassure the more cautious investors.

Current prime office yields in Liverpool remain at 7.0%. As well as prime buildings, certain secondary assets which can be properly asset managed have been sought. Secondary assets with alternative use are also in demand. Looking ahead there is scope for yield compression in both prime and secondary assets.

> “The first half of 2015 was an unexpectedly sluggish start to the year. Following two successive years of 25% compounded growth in take-up, we fully expected a lively start to the year which did not materialise. However, the transaction to Seadrill at the end of 2014 has proven to be the tip of the iceberg in terms of large corporates looking at ‘north-shoring’ or ‘near-shoring’ back office functions into Liverpool and we are talking to a number of parties for sizeable requirements which should have a significant effect on the take up figures for the remainder of the year.”

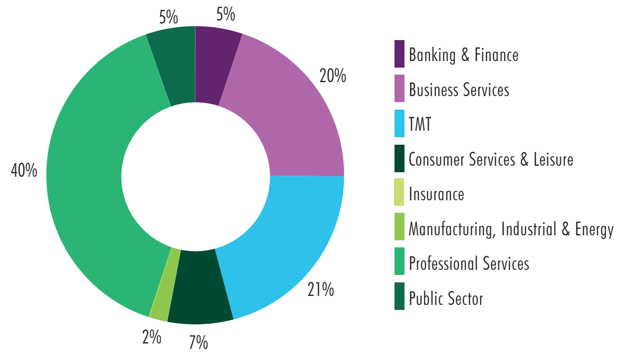
Neil Kirkham
Associate Director

LEEDS OFFICES

Change from end 2014

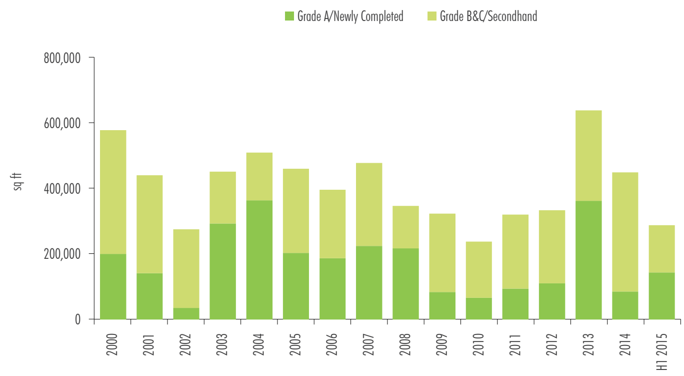
H1 2015 | TAKE-UP 15% ↑ | AVAILABILITY 10% ↑ | PRIME RENTS £26.50 ↑ | PRIME YIELDS 5.50% ↓

CHART 41: TAKE-UP BY BUSINESS SECTOR, H1 2015



Source: CBRE

CHART 42: TAKE-UP



Source: CBRE / Leeds Office Agents Forum

Demand

Take-up in Leeds over the past two years has been very strong; with a record level in 2013 and another above trend performance in 2014. The strong demand levels show no sign of abating at present. Over the first half of 2015 a total of 359,382 sq ft was acquired for occupation. This is 61% higher than the long term half year average of 223,207 sq ft. The three most significant deals have been Addleshaw Goddard (51,531 sq ft) at 3 Sovereign Square, PwC (49,650 sq ft) at Central Square, Wellington Street and Equifax (19,784 sq ft) at 6 Wellington Place. Demand has come from a handful of occupiers seeking larger units of space, but in the main from those seeking space in the sub 5,000 sq ft category. Out of a total of 69 transactions, 58 were for space below 5,000 sq ft.

The three aforementioned key deals were all pre-lets. It is anticipated that pre-lets will continue to assist take-up figures in the city centre as the existing grade A stock diminishes further. At present demand is originating from existing Leeds companies looking to co-locate and upgrade their accommodation with limited new entrants being seen. This could change in H2 as there are a number of unnamed agent led requirements for occupiers not presently in Leeds.

We expect the recent run of strong occupier demand to continue into the second half of 2015, with a number of known requirements and forthcoming lease expiries in the market such as Sky. Employment growth forecasts are another positive sign for office space demand in Leeds. Employment in the city is projected to grow significantly with a 0.74% increase by 2019. This puts it ahead of European cities such as Amsterdam, Brussels and Frankfurt. It is also the cheapest of the big 6 cities in terms of headline rents and therefore represents an opportunity for occupiers to save money.

Supply

Supply constraints in the Leeds market are now being dealt with. There are five buildings currently on site at Wellington Place (No6 & No5), 3 Sovereign Square, 6 Queen Street and Central Square. These buildings total some 540,000 sq ft of which 170,000 sq ft is let or under offer presently. There is also one significant refurbishment due to complete in 2015 at East Parade which will add a further 45,000 sq ft of space to the market. 2016 will see 1 The Embankment (former KPMG building) refurbished and City House will follow.

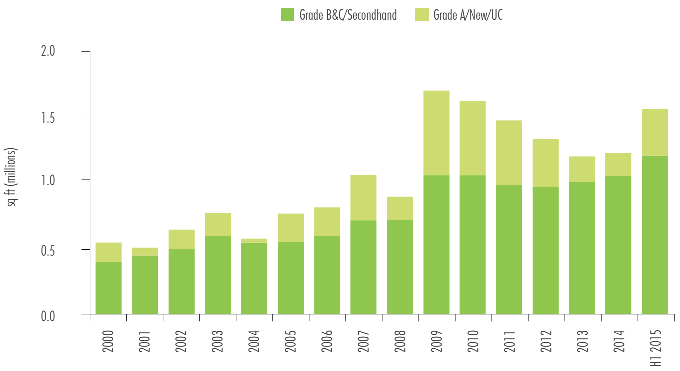
Rents

Prime rents are now £26.50 per sq ft and quoting rents on the speculative schemes are £27.50 to £28.00 per sq ft. We are therefore likely to see the current headline exceeded again by the end of 2015. Incentives remain unchanged.

TABLE 12: MARKET SUMMARY

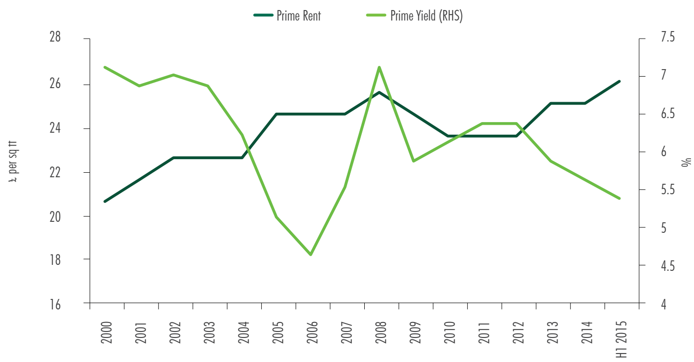
	H2 2014	H1 2015
Take-up	304,389 sq ft	348,737 sq ft
Long-term half yearly avg take-up	238,362 sq ft	233,207 sq ft
Availability	1,240,001 sq ft	1,575,305 sq ft
Prime rent (per sq ft)	£25.50	£26.50
Investment transactions	£102m	£80.5m
Prime yield	5.75%	5.50%

CHART 43: AVAILABILITY



Source: CBRE

CHART 44: PRIME RENTS AND YIELDS



Source: CBRE

Investment

The Leeds office investment market remains buoyant, driven by a progressive local economy and solid occupier demand. Rental growth prospects continue to attract investors with headline rents at £26.50 per sq ft, still below Manchester (£32.00 per sq ft) and Birmingham (£30.00 per sq ft), despite gradual increments.

Interest from both UK funds and UK property companies with overseas equity providers is strong. We are also seeing a number of high net worth local and overseas buyers starting to acquire older office buildings for residential conversion. At the smaller end of the market a number of local investors are starting to come back into the market for sub £3m assets.

The yield differential between London, the South East, Manchester and Birmingham is now starting to narrow and we are still seeing investors targeting Manchester and Birmingham ahead of Leeds. Stock levels in the market continue to be limited. H1 deals totalled £80.5m with the most notable deals being the sale of the The Mint, comprising 117,500 sq ft let to Asda and Dart Group sold to Oxlo / Patron Capital for £30.8m (7.46%), the sale of the multi-let 2 City Walk comprising 64,000 sq ft to Kames for £19.4m (6.75%) and the sale of 15/16 Park Row comprising 26,000 sq ft let to the University of Law for a further 14 years to F&C REIT for £9.3m (5.48%).

One Aire Street, Leeds

Looking ahead to the second half of 2015, we see a picture of strong demand for prime assets with good interest from UK funds and UK property companies. However this will be checked to some extend by limited supply. Many investors will be looking for value add opportunities but could be constrained, both by a limited supply level and by pricing aspirations of some vendors.

Prime yields have moved inwards and now stand at 5.50% although there is limited evidence in the market to support this at present. Given the current level of demand and supply dynamics it is likely that the prime yield will move towards 5.25% by the end of the year.

> “The city centre market continues to be driven by pre-let activity with Addleshaw Goddard, PwC and Equifax committing to a total of 122,000 sq ft or 50% of the Q2 2015 take-up. Strip out the larger activity and the deal profile is dominated by the sub 5,000 sq ft sector which accounted for 85% of the transactions in Q2 albeit most seeking value. Leeds remains very competitive in terms of overall occupational costs, availability of a broad spectrum of stock and the cost of living which will make it attractive to companies looking to North Shore.”

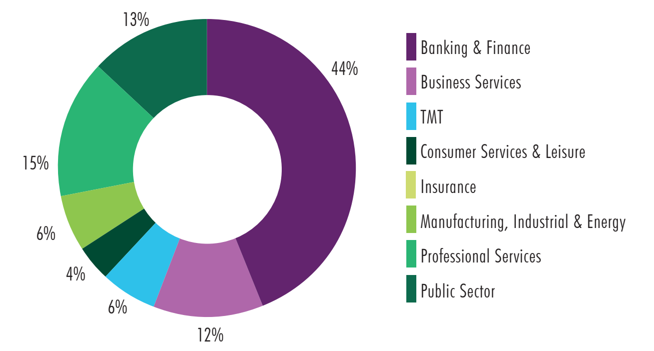
Jonathan Shires,
Senior Director

BIRMINGHAM OFFICES

Change from end 2014

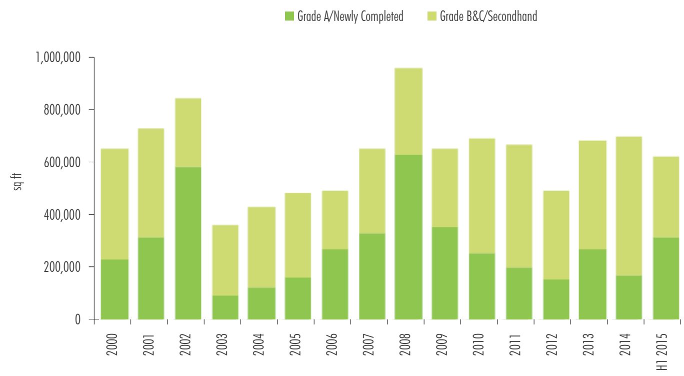
H1 2015	TAKE-UP	AVAILABILITY	RENTS	PRIME YIELDS
	26% ↑	4% ↑	£30.00 ↑	5.25% ↓

CHART 45: TAKE-UP BY BUSINESS SECTOR, H1 2015



Source: CBRE

CHART 46: TAKE-UP



Source: CBRE / Birmingham Office Market Forum

Demand

A total of 503,213 sq ft of office take-up in just the second quarter of 2015 represents a record high for a single quarter of take-up in Birmingham city centre. The quarter has surpassed the previous high achieved in Q2 2002. Overall, during the first half of 2015, a total of 623,422 sq ft has been acquired by occupiers, already 89% of the total posted during the whole of 2014.

Take-up has improved materially compared to H1 2014 boosted with the 212,000 sq ft pre-letting of 2 Arena Central by HSBC as the new HQ for its retail banking division. This cements the city's growing importance as a centre for financial services, building on the expansion by Deutsche Bank two years ago. Elsewhere, Birmingham City University committed to a new building at Eastside Locks, comprising 46,000 sq ft.

However, underlying take-up has improved significantly compared to the first half of 2014. Excluding the HSBC deals, this half's total shows that take-up on smaller units has almost doubled compared to the first half of last year. 2015 is set to be an exceptionally strong year for Birmingham, with some major requirements on the cusp of being transacted. There are also a number of unnamed requirements being circulated for large 50,000 sq ft + units. Generally there is a flight to quality from many occupiers currently seeking space, but always with an eye on costs.

Supply

Grade A ready to occupy space stands at 297,000 sq ft, a mere 13% of total available stock, now standing at 2.24m sq ft. Looking ahead, the next development cycle is well underway. Paradise is the only scheme with clear commitment to construction, although we anticipate at least three 100,000 sq ft + refurbishments to begin shortly: 55 Colmore Row, Temple Court and 2 Cornwall Street.

The major completion by the end of 2015, will be Brockton Capital's transformation of The Mailbox. This will deliver 50,000 sq ft of office space on a single floor, within a new, vibrant, mixed use environment. The retail offer in Birmingham will also be enhanced with the opening of a new flagship John Lewis store in September and the completion of works at New Street Station. The experience of arriving by train in the city will be transformed. Longer term, preparations for the arrival of HS2 are gaining momentum, and will further help expand the CBD.

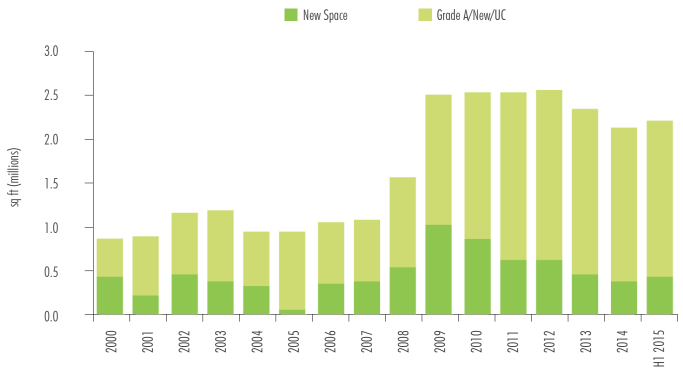
Rents

There is now clear evidence of Grade A deals at £30.00 per sq ft in Central Birmingham, and we expect further upward pressure on headline rents. The next round of pre-lets are expected to lead this process, but these deals will reflect the escalating costs of delivering high quality office space on constrained city centre sites. Better quality Grade B rents are also benefiting from reduced stock and occupiers flight to quality.

TABLE 13: MARKET SUMMARY

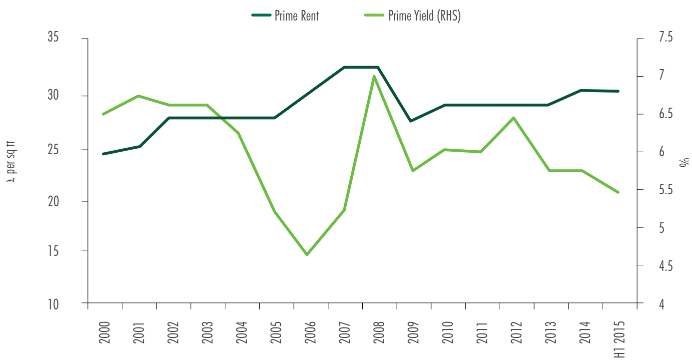
	H2 2014	H1 2015
Take-up	494,240 sq ft	623,422 sq ft
Long-term half yearly avg take-up	324,339 sq ft	324,339 sq ft
Availability	2,157,919 sq ft	2,239,663 sq ft
Prime rent (per sq ft)	£30.00	£30.00
Investment transactions	£264m	£226m
Prime yield	5.75%	5.25%

CHART 47: AVAILABILITY



Source: CBRE

CHART 48: PRIME RENTS AND YIELDS



Source: CBRE

Investment

2015 is set to mark the start of an exciting new chapter in Birmingham's property market. With record take-up in H1, critically low levels of Grade A supply, and over £1.4bn of infrastructure projects due to complete before the end of the year, the city is unsurprisingly a key target for investors.

Following on from a strong 2014, in which £630m was transacted in the CBD across 17 deals, investment volumes are likely to exceed this figures in 2015. In H1 £226m was traded in five deals and there is currently over £500m either under offer or on the market. With a handful of high profile sales being lined up for September, transaction volumes could feasibly reach £1bn in 2015.

The largest deal of the year so far saw German pension fund VGV acquire 7, 8 & 10 Brindleyplace (let to RBS) for £131m, reflecting a NIY of 5.75%. This was the fund's first acquisition in the UK outside of London. This transaction also illustrates the increasing average lot size for transactions within the city and in particular confidence in £100m plus assets.

There is still a general shortage of investment stock in the city, partly due to the lack of any significant office development in recent years, which has starved the market of new stock.

Arena Central, Birmingham

However, with a number of exciting new schemes now underway, 2015 will mark the start of the next wave of major pre-lets within the city and provide the market with some much needed prime investment stock.

With investor demand far outstripping supply, yields remain under firm pressure. Prime yields are currently at 5.25%, against an historic low of 4.3%, recorded in 2006. Importantly, Birmingham is the only major regional city in the UK where prime rents have not yet reached the levels achieved at the peak of the last market cycle in 2007. The rental growth that is still to be realised will therefore justify further yield compression in the short to medium term.

Finally, Birmingham has more capital committed to inward investment and infrastructure projects than any other European city, including the £650m transformation of New Street Station, which will double its capacity and include Grand Central, a new shopping centre anchored by a flagship 250,000 sq ft John Lewis department store. The impact of these projects is already being seen across both occupier and investor markets, contributing to a very positive outlook for the city's property market.

> “The city is benefiting from increased occupier confidence and the buzz of new development now on site. Delivery of new infrastructure in the form of an entirely redeveloped New Street Station, incorporating 60 new retail units in Grand Central and anchored by the largest John Lewis store outside London, will be a game changer.”

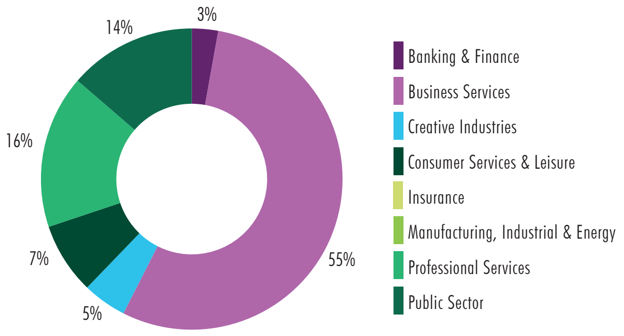
Ashley Hancox,
Executive Director

BRISTOL OFFICES

Change from end 2014

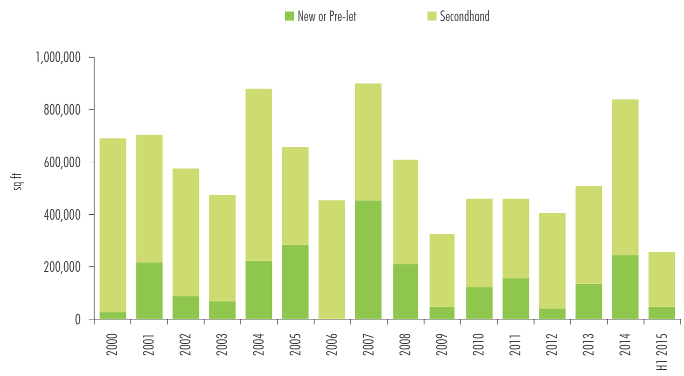
H1 2015 | TAKE-UP -52% ↓ | AVAILABILITY -6% ↓ | RENTS £28.50 ↑ | PRIME YIELDS 5.00% ↓

CHART 49: TAKE-UP BY BUSINESS SECTOR, H1 2015



Source: CBRE

CHART 50: TAKE-UP



Source: CBRE / Bristol Office Forum

Demand

The first half of 2015 has seen a steady level of demand for office space in Bristol. However actual take up volumes have been subdued, owing partly to a lack of suitable available product. Total take-up in the first half of 2015 in Bristol city centre was 261,482 sq ft. This is a little below the half yearly average over the past five years and below the 2014 H1 level.

There is approximately 100,000 sq ft currently under offer in the market (at the end of H1 2015). Current larger demand in Bristol includes: Arup, EDF, Foot Anstey, Babcock and AXA although there are no enquiries over 100,000 sq ft. Taking into account this level and the length of time for deals to transact, we anticipate end year take-up volumes will be around the five year average.

Certainly take-up volumes are unlikely to approach the 2014 level; the strongest year of take-up for Bristol since 2007. In total there were 18 transactions over 10,000 sq ft in 2014. In contrast to this, in H1 2015 there have been only five. The largest deal last year comprised 69,700 sq ft, whereas the largest deal so far in 2015 has been just 12,764 sq ft to Desklodge Ltd.

Supply

Availability of city centre stock continues to decrease. At the end of H1 2015 there was 1.2m sq ft of available supply, a small decrease of 6% from the end of 2014. This level is 33% below the five year quarterly average. Speculative development has reached completion at 2 Glass Wharf and 66 Queen Square. However, deals in both developments mean that these two schemes will only release 75,500 sq ft to the market. The next phase of development has commenced at Aspire which will provide 200,000 sq ft of grade A offices in 2017. In addition, there is a refurbishment of Narrow Quay, Prince Street due to complete in 2015, delivering 27,400 sq ft.

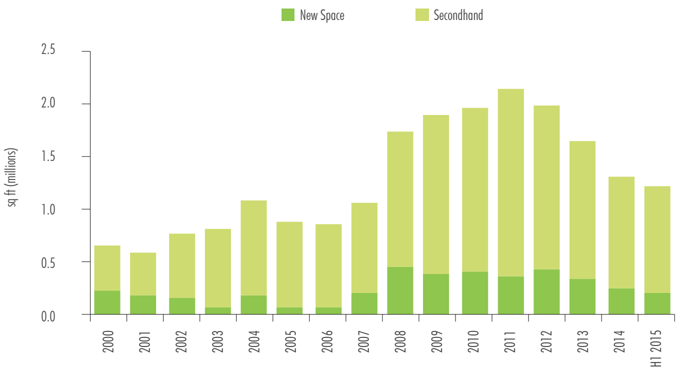
Newly completed or under construction space is in relatively short supply in Bristol city centre. There was just 359,280 sq ft (in eleven buildings) at the end of H1. The largest immediately available newly completed scheme is Templeback 1 offering 42,873 sq ft.

Of the older space available, only 34% of it is considered to be of 'modern secondhand' quality, of which there are just ten buildings offering space of 10,000 sq ft or more.

TABLE 14: MARKET SUMMARY

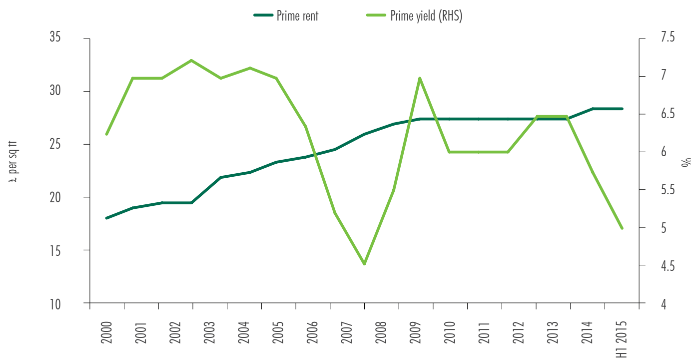
	City Centre	Out of Town
Take-up H1 2015	261,482 sq ft	133,081 sq ft
Annual average take-up	540,513 sq ft	285,456 sq ft
Availability	1.41m sq ft	0.89m sq ft
Prime rent (per sq ft)	£28.50	£21.50
Investment volume (city wide)	£180m	
Prime yield	5.00%	5.75%

CHART 51: AVAILABILITY



Source: CBRE

CHART 52: PRIME RENTS AND YIELDS



Source: CBRE

Rents

Prime rents at mid-2015 were £28.50 per sq ft. They are expected to increase in the short to medium term as existing stock diminishes. The secondhand market has been impacted by the change of use of over 1,000,000 sq ft of offices to residential, which has forced applicants to consider more expensive options. Incentives are only half what they were six months ago.

Investment

The city centre and out of town investment markets have continued to be strong in the first half of the year with around £180m transacted compared to a total of £186m last year. There is widespread interest in both the prime end of the market and the secondary market with active management opportunities. Interest is from both UK institutions and foreign investors, particularly American money looking at assets with active management potential. The largest deal this year was the purchase of Templeback for £58.3m (£469 per sq ft) at a yield of 5.35% by Orchard Street. The building totals 124,198 sq ft and 34% of the income has a rental guarantee for two years and the remaining 66% of the income is multi-let with an average weighted unexpired lease term (AWULT) of four years.

Another significant office deal was the sale of the newly completed 66 Queen Square, which was bought by Aviva for £32.7m reflecting 4.95%. The majority of the income is secured on a pre-let to KPMG for 15 years at a rent of £28.50 per sq ft. 1 Linear Park at Temple Quay, which totals 51,622 sq ft and has an AWULT of 4.6 years and an average rent of £21.86 per sq ft, sold to EPIC for £18.5m, which reflects an initial yield of 6.1%.

In the out of town market the RAC Building at Almondsbury, which totals 65,547 sq ft and is let at £19.75 with annual RPI increases with a cap and collar of 2-4%, was sold to Blackrock for £24.2m which reflects an initial yield of 5%.

Good secondary assets have also sold well in Bristol, exemplified by the sale of 10-22 Victoria Street a 47,031 sq ft office building with an AWULT of five years which sold for £12.65m, to Northwood which reflects a net initial yield of 6.7%. With the lack of development in the marketplace, investors are forced to look at the secondary market which is having a significant impact on driving yields lower in this sector. We see this continuing especially as rental growth prospects in this market are looking good.

Bristol & Bath Science Park

"The Bristol office market has had a resurgence over the last few months with supply falling and demand remaining constant as occupiers show cautious confidence."

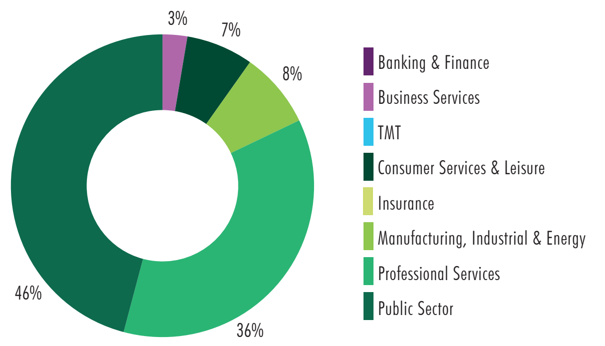
Phil Morton,
Senior Director

SOUTHAMPTON OFFICES

Change from end 2014

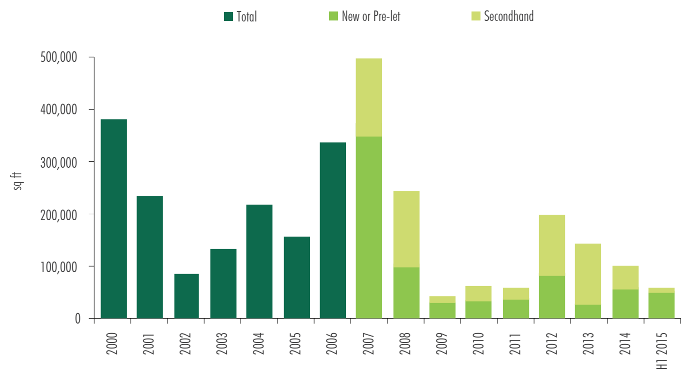
H1 2015	TAKE-UP -17% ↓	AVAILABILITY - 5% ↓	RENTS £19.00 ↑	PRIME YIELDS 6.5% →

CHART 53: TAKE-UP BY BUSINESS SECTOR, H1 2015



Source: CBRE

CHART 54: TAKE-UP



Source: CBRE

Demand

Occupier demand across the M27 region has now begun to firmly respond to the strengthening economic position in the South Central Region. In the M27 corridor as a whole, there has been approximately 200,000 sq ft of take-up in the first half of 2015, a marked improvement on the second half of 2014. Last year's total was boosted by the 70,000 sq ft deal to HSBC at Solent Business Park; so in the absence of such a large deal, this increase is even more impressive.

Within Southampton itself, take-up in the first half has reached 64,242 sq ft. Demand from occupiers continues to be focused upon better quality space, with Grade A deals forming the lion's share of take-up so far this year. Whilst demand has improved in the city centre, out-of-town markets are more active.

Professional services and the public sector have dominated leasing activity in Southampton itself. In the former group, deals to PwC at Oceana House and law firm BLM at Charlotte Place contributed to a market share of over one-third. Meanwhile, Southampton University's acquisition of 23,190 sq ft at 1 Guildhall Square and a deal to the British Transport Police deal at Grenville House led to a market share from the public sector of almost 50%.

Supply

Ready-to-occupy available space in the city centre currently stands at 554,093 sq ft. This is down 5% on the position at the end of 2014 and some 20% lower than the supply peak in 2010, when supply levels were almost 700,000 sq ft.

Despite deals on Grade A space, further releases to the market this month, have meant that supply totals have remained relatively stable.

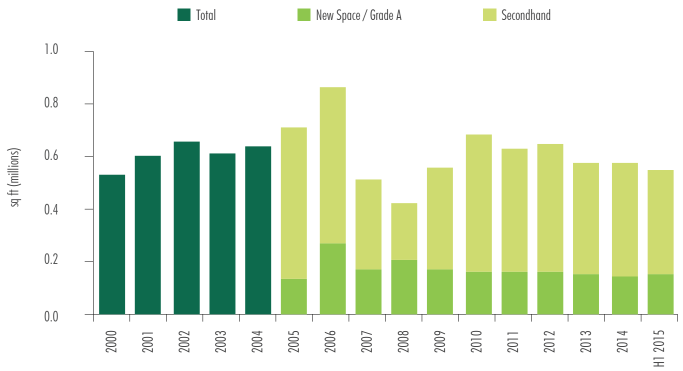
However, within the secondhand market, supply has been reducing at a much faster pace: down 9% since the end of 2014 and down 25% since the supply peak. Redundant secondhand space continues to be sold for alternative uses, in particular residential. Data from the Department of Communities & Local Government shows that Southampton is one of the hotspots, outside London, for office to residential conversion under the temporary permitted development rights introduced in May 2013.

With reducing levels of secondhand space and no development of new build stock, landlords are increasingly considering undertaking good quality office refurbishments: Mountbatten House and 2 Grosvenor Square are two examples of this response.

TABLE 15: MARKET SUMMARY

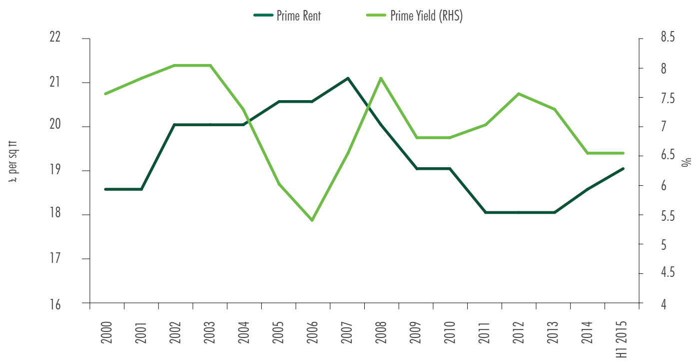
	H2 2014	H1 2015
Take-up	77,822 sq ft	64,242 sq ft
Long-term half yearly avg take-up	54,749 sq ft	54,749 sq ft
Availability	580,791 sq ft	554,093 sq ft
Prime rent (per sq ft)	£18.50	£19.00
Prime yield	6.5%	6.5%

CHART 55: AVAILABILITY



Source: CBRE

CHART 56: PRIME RENTS AND YIELDS



Source: CBRE

Rents

With the growth in demand for Grade A space, prime rents have now moved up from their post-recession low of £18.00 per sq ft, to now stand at £19.00 per sq ft. Nevertheless, prime rental levels continue to remain some distance away from the levels required to kick start a high quality, new build office development.

Investment

Across the South Central region there continues to be high levels of demand for most types of office investment. Nevertheless, stock remains limited, and increasingly properties are being sold with significant competition. A more bullish attitude from investors towards the end of the first half of the year, is resulting in signs of yields coming in.

The region is benefiting from investors looking beyond the confines of the traditional M25 and Thames Valley markets, seeking opportunities in the area's key cities of Southampton, Portsmouth and Bournemouth. With growing confidence from occupiers in the region, and no new build office development currently taking place, high quality investment opportunities are increasingly being sought out.

Forum One, Southampton

A wide range of investors are active in the South Central region, with overseas investors being the one major investment group that is largely absent from the local market.

Alongside the inward movement of yields on prime stock in the region, we are also seeing a growing appetite amongst buyers for well-let secondary stock.

Prime yields for offices in the Southampton area have now begun to respond to the weight of money targeting the region. In the short term, yields have remained stable at around 6.5%. However, with deals due to conclude into the second half of 2015, it is expected that yields will fall further and begin to converge with yields being achieved elsewhere in the UK's regional centres.

> "With new construction of offices unlikely in the short to medium term the market will be characterised by refurbishments delivering the better quality space the market sorely needs."

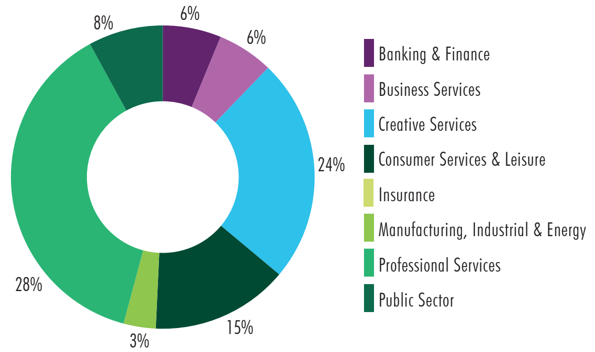
James Brounger,
Managing Director

BELFAST OFFICES

Change from end 2014

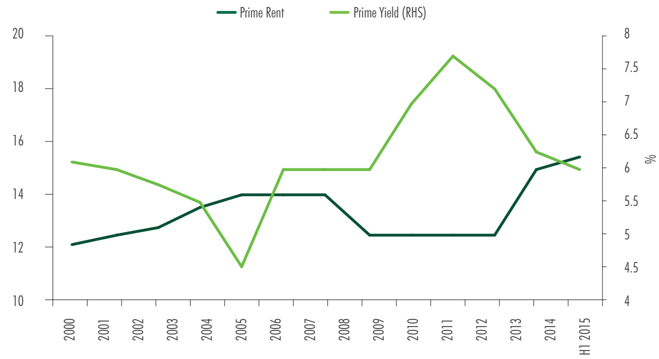
H1 2015	TAKE-UP -65% ↓	AVAILABILITY -6.5% ↓	PRIME RENT £15.50 PER SQ FT ↑	PRIME YIELDS 6.0% ↓

CHART 57: TAKE-UP BY BUSINESS SECTOR, H1 2015



Source: CBRE

CHART 58: PRIME OFFICE RENTS AND YIELDS



Source: CBRE

Demand

After a very strong H2 2014, the first half of 2015 has had a quiet start with take-up of just 87,487 sq ft signed for in 22 transactions. Whilst this represents a third of H2 2014 total it should be noted that approximately 70% of take-up in 2014 was completed in the second half of the year. Demand for office space in Belfast remains high and we expect the second half of the year to be much stronger.

Highlights in the first half include deals to Rapid 7, PwC, Chain Reaction Cycles, Finepoint Films, Aviva, Loud Mouth Media and Brook Street. Jobs announcements continued at pace with Invest NI confirming it has secured almost £448m of investment by businesses in the Belfast City Council area and that 5,544 new jobs were promoted in 2014/15.

Supply

There was approximately 905,000 sq ft of available accommodation in Belfast at the end of H1 2015, down by 63,000 sq ft over six months. The amount of Grade A space continues to decrease with approximately 220,000 sq ft now available. The Grade A space that is available is fragmented across multiple buildings restricting choice for larger requirements. City Quays 1 has now been completed with 28,000 sq ft pre-let and a further 15,000 sq ft in solicitors hands. Belfast Harbour Commissioners also intend to start on site in Q3 2015 on City Quays 2 which will deliver a further 96,000 sq ft of Grade A office space to the market early in 2017. Meanwhile McAleer & Rushe have submitted an application for approximately 200,000 sq ft at Bedford Square over two new buildings, the first a 165,000 sq ft tower and the second 35,000 sq ft of new space at the Ewart Building behind the existing façade.

Refurbishment of existing space will also play an important role in delivering much needed quality stock to the market. Buildings such as Arnott House on Bridge Street have been refurbished and partially let to Rapid 7. The former Ireland Brothers Building is currently being refurbished to provide Grade A accommodation likely to appeal to the creative industries. The building is to be launched to the market later this year with delivery in H1 2016.

Rents

Headline rents at the end of H1 2015 stood at £15.50 per sq ft and we expect rents to continue to increase over the remainder of the year driven by high demand and the dwindling supply of quality accommodation. Belfast still remains a competitive location compared to Dublin and every other major UK city.

Investment

The first half of 2015 witnessed circa £142.5m transacted across all sectors of the commercial property market in Northern Ireland. In addition more than £90m of transactions are in legals at present and with several significant assets being prepared for sale; accordingly the second half of the year should be even stronger than the first.

Offices are very much at the top of the sector list for local, national and foreign investors in the province, who are attracted by the relatively higher yields on offer coupled with very affordable market rents. Office activity in Northern Ireland during the first half of the year continues to be very Belfast centric. Causeway Exchange and Oxford House, both city centre government tenanted buildings where purchased by The Department for Finance & Personnel for a combined price of £17m in February, reflecting a blended NIY of circa 8%. The Department for Finance & Personnel also acquired another government tenanted building, Clare House in the Harbour Estate. The sale achieved a price of £8m, reflecting 8.3% for circa 4.5 years certain income.

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Phase One of the £500m Paradise redevelopment in the centre of Birmingham is bringing forward over 350,000 sq ft of speculative offices in two buildings set around an enhanced Chamberlain Square.