

Spring 2016



OUR VIEW ON BUSINESS SPACE



Refocusing of our business around the 'Golden Triangle' of Cambridge-London-Oxford has received a further boost by the Centre for Cities report.

Property returns to be driven by rental growth in 2016

The property market continued to show good returns over 2015, with the total return for the calendar year coming in at 13.8% ahead of both the equity and gilt markets for the second successive year. The current year is expected to see performance slow, with the latest Consensus forecasts indicating returns of 8.2% and rental growth forecast to be the main impetus behind increasing capital values.

Property outperforms equities and gilts for second successive year

Whilst Central London offices have driven the market over the past few years, returns are slowing and our own research indicates that most Bidwells' office and industrial markets outside the capital are providing returns in excess of London offices – see Office and Industrial market overviews.

Centre for Cities report shows Bidwells' markets are fastest growing in UK

The refocusing of our business around the 'Golden Triangle' of Cambridge – London – Oxford has received a further boost by the recent Centre for Cities Report, which identifies Cambridge, Oxford, Milton Keynes and Norwich amongst the fastest growing cities in the UK.

Cambridge continues as the major focus for the UK's innovation sector, whilst London and Oxford are also centres for the new tech businesses that are beginning to act as a major driver to the UK's economic success.

UK economy remains steady in global turmoil

Despite the fears that are gripping the global economic outlook, the UK economy is faring well. We are wary that the threat of another 'financial crisis' will have a considerable impact on the UK's economic growth prospects, but last year's growth performance of 2.2% is expected to be repeated this year despite the uncertainty over Brexit. Our own research shows tenant demand remains robust, with prime office and industrial rents having grown by 9.5% and 5.6% respectively over the past 12 months, and further growth is forecast.

Investment market activity down on 2014 but still second highest total on record

Property investment slowed in the second half of 2015, resulting in a total commitment of £67.5bn for the year. This was below the previous year's figure of a record breaking £71.0bn. Whilst there was a late slowdown, the annual total still represents the second highest annual total on record.

Increasing level of interest from investors in 'alternative property'

Probably the most significant change in investment activity over 2015 was the increasing level of interest from investors in 'alternative' property (ie student accommodation, residential and hotels/leisure), where investment accounted for almost 40% of the annual total.

Total return 2015

13.8%

Total property investment 2015

£67.5bn

Economy grows by 2.2% in 2015 as services lead the way

The preliminary estimates for GDP growth in q4 2015 indicated that the economy grew at 2.2% in 2015, and whilst this is a slowing in activity from the robust growth seen in the previous year (2014 GDP growth of 2.9%) the final quarter showed some resilience to the turmoil in the stock market.

Preliminary estimates show that economy grew at trend levels in 2015

The service sector continued to be the most robust area of the economy, with Business services growing by 2.7% over the year.

Uncertainty to restrict growth in 2016

Recent concerns about the financial stability of banks within the Eurozone and the slowing of the Chinese economy has impacted on the global economic outlook. Whilst the UK economy has continued to be relatively stable, it is clear that these concerns and the threat of Brexit may have an effect on growth.

The global economy is expected to have grown by 2.4% in 2015 and is anticipated to gather momentum in 2016 due to a recovery in developed economies. Overall growth for 2016 is forecast to be 2.9%, with current consensus forecasts for the UK showing another year of trend growth at 2.2%.

Occupational markets buck the trend

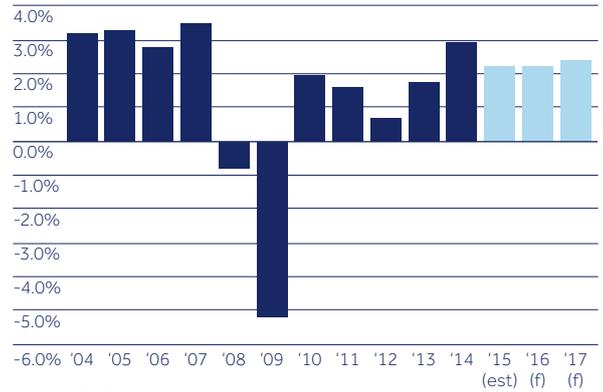
Despite the slowing in economic activity, the UK property market continued to buck the trend, with rental values growing by 4.2% in the 12 months to the end of January 2016 as measured by the IPD Monthly Index. The office sector continues to register the strongest growth, with rents up by 8.0%, although significantly the industrial sector saw rents up by 5.0%, the highest increase in 15 years. Retail rental growth remains subdued at 0.9%.

Property market remains relatively steady

Despite all of the volatility in the equities market, property maintained its long held view of being a more stable asset class, with total returns of 13.8% in the 12 months to the end of January 2016. The equities market, which is reeling from the global economic situation, moved into negative territory, with year on year returns at -4.6%, whilst the gilt market remained relatively flat, with returns of -0.4%.

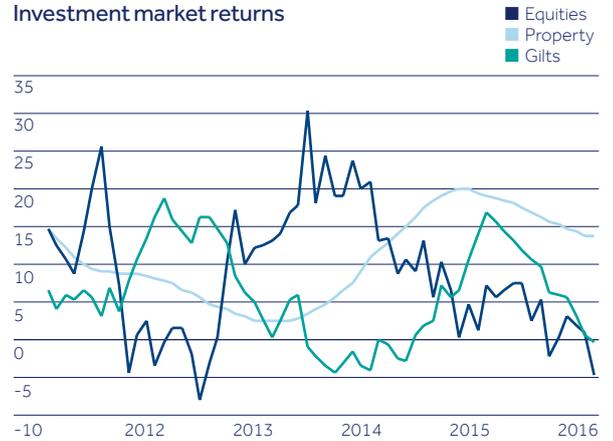
Property market bucks the trend as rental growth accelerates

GDP growth and forecast



Source: ONS and consensus forecasts

Investment market returns



Source: IPD

UK Economic growth forecast 2016

2.2%

UK rental values

4.2%

Office market overview

Prime headline rent

Prime office rents are up in most locations, with record highs set in Cambridge, Oxford and Milton Keynes

| Location | Prime headline rent (£psf 12/2015) |
|-------------------|------------------------------------|
| Cambridge | 35.00 ▶▶ |
| Cambridge Labs | 32.50 ▶▶ |
| London (West End) | 125.00 ▲ |
| Milton Keynes | 23.50 ▲ |
| Northampton | 16.00 ▲ |
| Norwich | 16.50 ▶▶ |
| Oxford | 26.50 ▶▶ |

Take up

Take up is down in most markets due largely to supply constraints

| Location | Take up (000's sq ft h2 2015) |
|-------------------|-------------------------------|
| Cambridge | 406.0 ▲ |
| Cambridge Labs | 206.2 ▼ |
| London (West End) | 2.3m ▲ |
| Milton Keynes | 160.6 ▼ |
| Northampton | 39.7 ▼ |
| Norwich | 76.9 ▼ |
| Oxford | 50.5 ▼ |

Demand

Demand is forecast to drive rental growth over the next 12 months with London, Oxford and Cambridge growing by 8%, 4.7% and 4.3% respectively

| Location | Demand (000's sq ft 12/2015) |
|-------------------|------------------------------|
| Cambridge | 1,432.3 ▼ |
| Cambridge Labs | 492.2 ▼ |
| London (West End) | N/A |
| Milton Keynes | 944.7 ▲ |
| Northampton | N/A |
| Norwich | 184.5 ▼ |
| Oxford | 183.0 |

Availability

Supply has continued to tighten, with only 600,000 sq ft of grade A space across Bidwells major locations (excluding London)

| Location | Availability (% total sq ft 12/2015) |
|-------------------|--------------------------------------|
| Cambridge | 10 ▲ |
| Cambridge Labs | 5 ▼ |
| London (West End) | 5 ▲ |
| Milton Keynes | 16 ▼ |
| Northampton | 13 ▲ |
| Norwich | 10 ▼ |
| Oxford | 9 ▼ |

Prime Yield

Prime office yields have hardened as rental growth has returned to provincial centres

| Location | Prime yield (% 12/2015) |
|-------------------|-------------------------|
| Cambridge | 5.0 ▼ |
| Cambridge Labs | 6.0 ▼ |
| London (West End) | 3.75 ▶▶ |
| Milton Keynes | 6.0 ▼ |
| Northampton | 7.0 ▼ |
| Norwich | 7.0 ▼ |
| Oxford | 5.75 ▼ |

Grade A total stock (end 2015)

2.8%

Location sheets can be viewed at www.bidwells.co.uk/research

Total returns (% 12/2015)

Increased returns through yield improvement and rental growth, with prime Oxford offices seeing total returns in excess of 30%

■ Rental growth %
■ Yield movement
■ Income return %



Industrial market overview

Prime Headline Rent

Prime industrial rents are up by 5.6% over the past 12 months, with rents in the secondary market up by 7.8%

| Location | Prime headline rent (£psf 12/2015) | |
|---------------|------------------------------------|----|
| Cambridge | 10.25 | ▲ |
| Milton Keynes | 7.0 | ▲ |
| Northampton | 6.0 | ▲ |
| Norwich | 5.75 | ▶◀ |
| Oxford | 9.0 | ▲ |

Take up

Occupiers looking for grade A space are being driven to 'build to suit' solutions

| Location | Take up (000's sq ft h2 2015) | |
|---------------|-------------------------------|---|
| Cambridge | 255.7 | ▲ |
| Milton Keynes | 673.7 | ▼ |
| Northampton | 371.5 | ▼ |
| Norwich | 102.4 | ▼ |
| Oxford | 49.3 | ▲ |

Demand

The demand for larger buildings (>50,000 sq ft) continues to dominate the market

| Location | Demand (000's sq ft 12/2015) | |
|---------------|------------------------------|----|
| Cambridge | 1,712.0 | ▲ |
| Milton Keynes | 5,988.9 | ▶◀ |
| Northampton | N/A | |
| Norwich | 559.0 | ▲ |
| Oxford | 882.4 | |

Availability

Supply is close to historic lows, and ready-to-occupy grade A space stands at 115,000 sq ft

| Location | Availability (% sq ft 12/2015) | |
|---------------|--------------------------------|---|
| Cambridge | 6 | ▲ |
| Milton Keynes | 4 | ▼ |
| Northampton | 5 | ▼ |
| Norwich | 8 | ▲ |
| Oxford | 4 | ▲ |

Prime Yield

Industrial remains the principal choice for many investors, and yields are close to historic lows

| Location | Prime yield (% 12/2015) | |
|---------------|-------------------------|----|
| Cambridge | 5.5 | ▶◀ |
| Milton Keynes | 5.75 | ▼ |
| Northampton | 5.75 | ▼ |
| Norwich | 6.5 | ▼ |
| Oxford | 5.5 | ▼ |

Secondary industrial rental value growth (end 2015)

7.8%

Total returns (% 12/2015)

Industrial sector returns rise to an average of 22.4% through yield compression and rental growth

■ Rental growth%
■ Yield movement
■ Income return%



*Total returns are based on movements in prime rental values and prime yields. Source: Bidwell Research

Bidwells

25 Old Burlington Street
London W1S 3AN

Saul Western

Partner, Investment Team

020 7297 6275

saul.western@bidwells.co.uk

Bidwells is a trading name of Bidwells LLP, a limited liability partnership, registered in England and Wales with number OC344553. Registered office: Bidwell House Trumpington Road Cambridge CB2 9LD.

© Copyright Bidwells LLP 2016. Before taking any action based on this document you should consult Bidwells LLP to ensure that it is appropriate to your circumstances. Bidwells LLP are in no way responsible for any views expressed within this document by third parties. We may hold your name on our database unless you instruct us otherwise. If you require this document in an alternative format please contact the Marketing Department on 01223 841841. Bidwells LLP is a limited liability partnership registered in England & Wales (registered number OC344553). Registered head office is Bidwell House, Trumpington Road, Cambridge CB2 9LD, where a list of members is available for inspection. Where used the term 'partner' refers to a member of Bidwells LLP or an employee who is a senior professional. It does not imply that Bidwells LLP is a general partnership under the Partnership Act 1890.