



Cleaver House

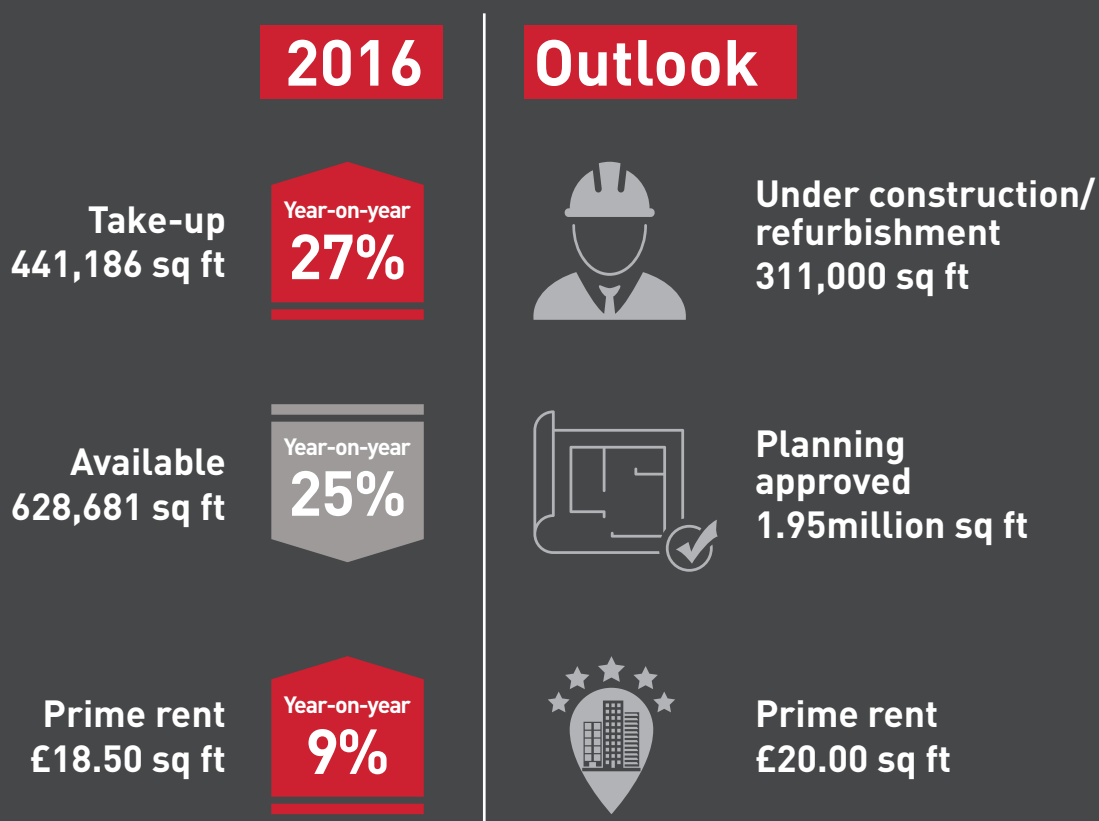
Belfast

Office Market Report 2017

Highlights

- The Belfast office market showed resilience to last summer's Brexit vote with consistent performance over the two halves of 2016.
- Notable transactions in 2016 included Pearson Management Services (15,396 sq ft), EY (17,454 sq ft), KPMG (39,374 sq ft) and Axiom Law (26,100 sq ft).
- Over 70% of take-up involved grade A space, compared to an average of 54% over the last ten years as a whole.
- Prime headline rents have been steadily increasing since 2011 and we forecast that the benchmark headline rent will be in excess of £20.00 per sq ft by year end.
- Currently there is limited supply of grade A stock, but new build developments and refurbishment projects during 2017 will relieve some pressure and present opportunities.

Key statistics at a glance



Belfast has experienced a period of economic resurgence over the past few years. The city is home to a young, educated population and offers some of the most cost-effective operating costs in the UK.

It has a world-class digital infrastructure and Northern Ireland has lower company taxation compared with other countries.

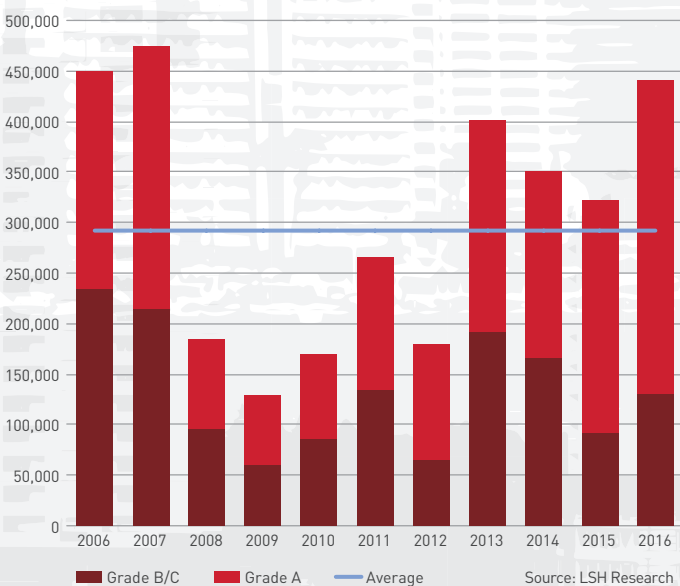
It had been proposed that the Northern Ireland corporation tax rate would be reduced from the UK rate of 20% to 12.5% from April 2018, but this is now contingent on the restoration of the power-sharing executive. If there is no favourable outcome of political negotiations, current indications are that there may be cuts to corporation tax rates in the UK which, in conjunction with the low operating costs in Belfast, will ensure the city continues to be an attractive location for business investment.

The Belfast office market has benefited from healthy employment growth in Northern Ireland, driving new requirements for space across the city. Of relevance to the office market, professional services and energy and utility companies both saw healthy employment growth during 2016, rising 3% and 6% respectively. It is notable that employment in the technology, media and telecoms (TMT) sector remained stable suggesting that employment growth is not the only factor driving requirements, with these occupiers also seeking better quality and more flexible accommodation.

Demand

The appeal of Belfast as a business setting is reflected in the recent pattern of office take-up in the city. Market activity, both in terms of the number of deals and space let, has been buoyant since 2013 and returned to pre-recession levels in 2016. Take-up in 2016 was the best performance since 2007.

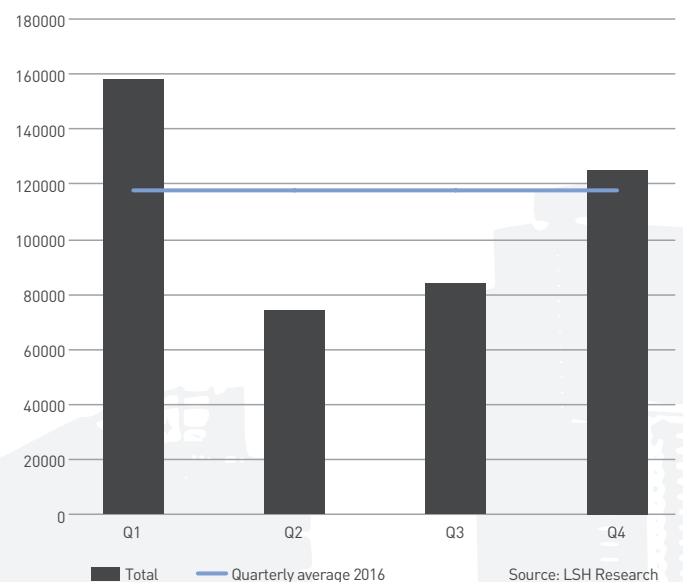
Belfast take-up (sq ft)



At 441,186 sq ft, take-up in Belfast in 2016 was similar to pre-recession levels, considerably higher than the 10-year average (2007-2016) and 27% higher than the 2015 level.

Most notable during 2016 was the significant increase in demand for prime grade A space, which alone accounted for 70% of total annual take-up, compared to the 10-year average of 54%. Belfast is continuing to be an attractive location for Foreign Direct Investment and high quality tenants. These occupiers seek accommodation which not only represents their company's status, but also provides their employees with a satisfactory and responsive work environment.

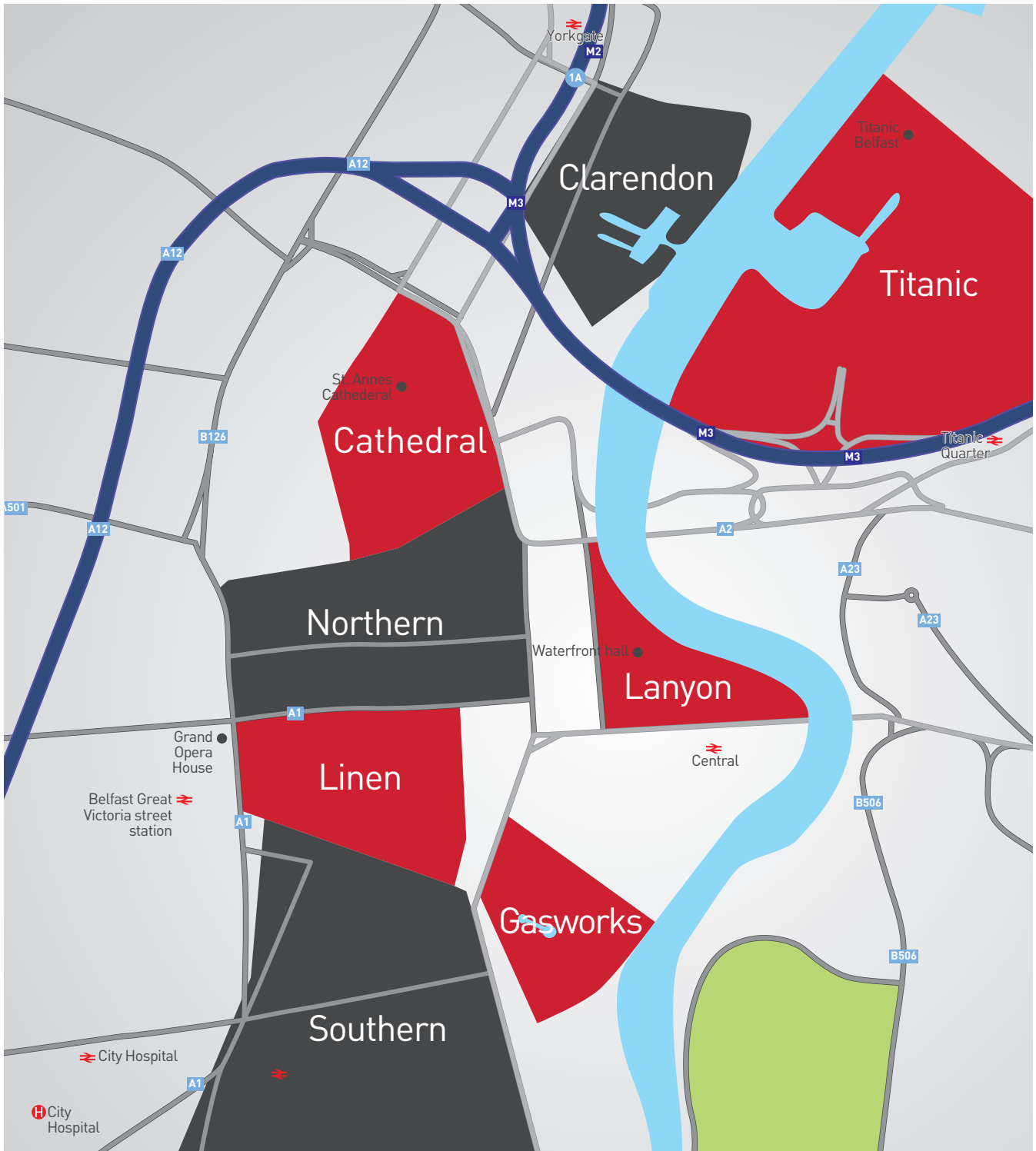
Belfast quarterly take-up 2016 (sq ft)



2016 was characterised by significant political events, both with the domestic decision to leave the European Union and internationally with the election of Donald Trump as the new President of the USA. Despite the uncertainty created by these events, the economy and the office market has not suffered the catastrophic effects that some had expected and has demonstrated resilience.

However, closer inspection of take-up during the course of the year reveals that market activity slowed in the run-up to and immediate aftermath of the vote (Q3 2016). Nonetheless, reflecting a return to 'business as usual', activity recovered during the latter part of the year, with take-up in the second half of 2016 being broadly in line with the first half at 232,198 sq ft and 208,988 sq ft respectively.

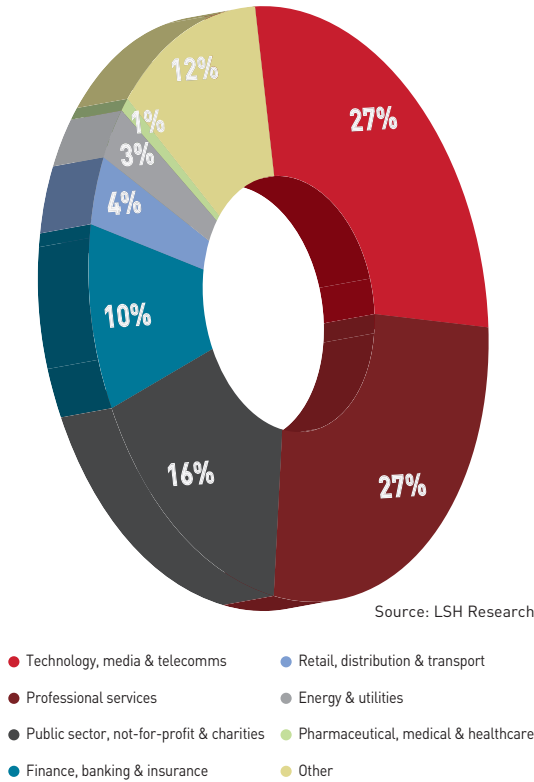
Belfast office districts



AREA	TOTAL (SQ FT)	GRADE A TAKE-UP	PRIME RENT (PER SQ FT)	AVAILABLE (SQ FT)
CATHEDRAL QUARTER	48,610	25%	£13.00 - £15.00	226,750
CLARENDON QUAY	35,179	50%	£18.00 - £20.00	61,869
GASWORKS	7,855	0%	£15.00 - £16.00	9,317
LANYON QUAY	43,464	100%	£18.00 - £20.00	66,237
LINEN QUARTER	215,624	87%	£18.00 - £20.00	202,094
NORTHERN QUARTER	41,970	45%	£16.00 - £18.00	286,403
SOUTHERN QUARTER	5,503	0%	£14.00 - £16.00	52,988
TITANIC QUARTER	25,500	61%	£16.00 - £18.00	7,500

During 2016 the delivery of new build stock boosted grade A take-up. Prime grade A space accounted for the largest proportions of take-up across the majority of occupier types.

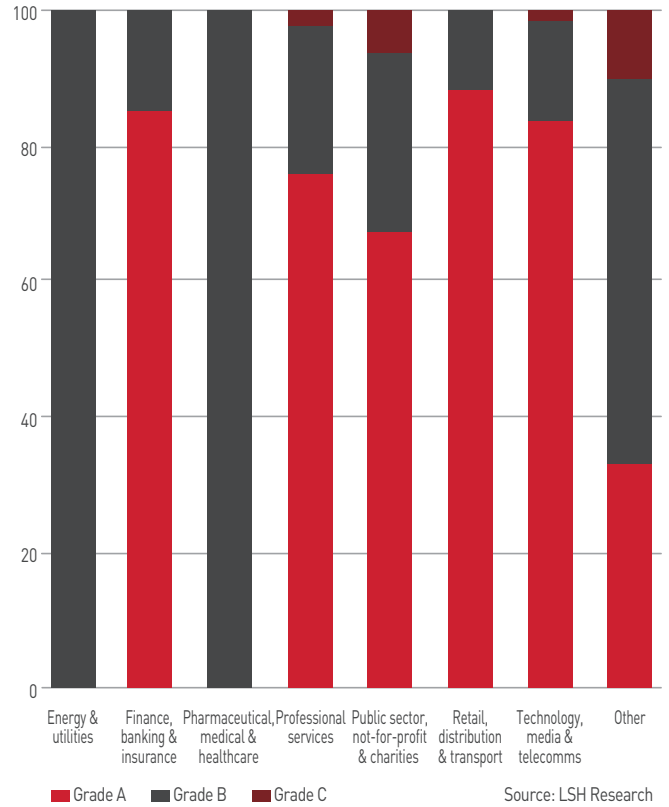
Take-up by occupier type 2016 (%)



During 2016 the delivery of new build stock boosted grade A take-up. Prime grade A space accounted for the largest proportions of take-up across the majority of tenant types.

Take-up amongst energy and utilities, and pharmaceutical, medical and healthcare occupiers was exclusively grade B space.

Grade take-up by occupier type 2016 (%)



Key deals, 2016

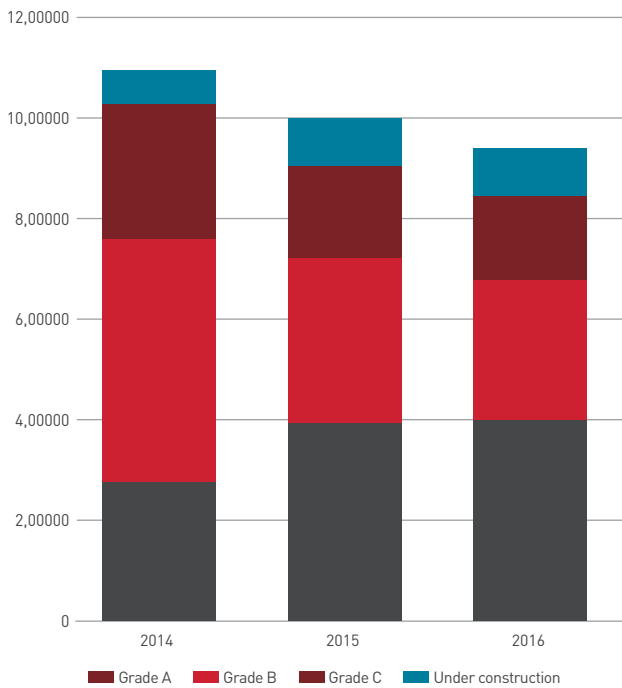
PROPERTY	SIZE (SQ FT)	OCCUPIER	OCCUPIER TYPE	QUARTER
ADELAIDE EXCHANGE	26,000	LIBERTY IT	TECHNOLOGY, MEDIA & TELECOMS	Q1 2016
CLEAVER HOUSE	22,727	DSD	PUBLIC SECTOR, NOT-FOR-PROFIT AND CHARITIES	Q1 2016
BEDFORD HOUSE	17,454	EY	PROFESSIONAL SERVICES	Q2, Q4 2016
MILLENNIUM HOUSE	15,396	PEARSON MANAGEMENT	TECHNOLOGY, MEDIA & TELECOMS	Q3 2016
LINCOLN BUILDING	17,400	REGUS	SERVICED OFFICE PROVIDER	Q3 2016
SOLOIST BUILDING	39,374	KPMG	PROFESSIONAL SERVICES	Q4 2016
LINCOLN BUILDING	26,100	AXIOM	PROFESSIONAL SERVICES	Q4 2016

SOURCE: LSH Research

Supply and development

Current supply levels in Belfast are limited with 843,789 sq ft of space available, a reduction from 903,799 sq ft in 2015 and considerably lower than the peak of over one million sq ft in 2014. Based on average annual take-up, current supply stands at 2.9 years across all grades and 2.4 years for specifically grade A space.

Belfast availability (sq ft)



Source: LSH Research

The decrease in availability is due to above average levels of take-up in 2015 and 2016, specifically grade A space, and a time-lag before space currently under development is complete. Of the available space, around a fifth is grade C and therefore requires extensive refurbishment before occupation.

The recent rise in demand has led to a boost in new build construction and redevelopment. Much of this is due to complete during 2017, including over 215,000 sq ft of refurbishments of sub-standard space.

Belfast has seen a revival of development activity in the last three years. As well as offices, there has been significant development of hotels and purpose built student accommodation. Ground was also broken on the development at the former Maysfield site which will house owner-occupiers Concentrix and Allstate in two purpose built office developments.

There is 96,000 sq ft of office space under construction and a further 215,000 sq ft under redevelopment. With only a small proportion pre-let there are opportunities forthcoming at City Quays 2, Chichester House (formerly Londonderry House), Flax House, River House and The Weaving Works.

One notable new build office development earmarked to commence in 2017 is McAleer and Rushe's c.215,000 sq ft Bedford Square scheme. Despite a healthy pipeline with 1.95 million sq ft of approved office space and 915,000 sq ft with planning applications pending, there is no indication that further speculative development will come forward in 2017.

2016 Refurbishment projects

Due to the lack of new grade A office accommodation there has been and will continue to be refurbishment of grade B/C stock. Refurbishment projects in 2016 included:

Cleaver House



6 upper floors | 28,000 sq ft
5 floors pre-let to government tenant

Lincoln Building



Entire building | 61,268 sq ft
Tenants include: Axiom Law & Regus

Rental values and investment

Belfast's prime headline rent has increased steadily over the past five years. Having stood at £12.00 per sq ft in 2011, the prime rent has risen by over 50% to stand at £18.50 per sq ft at the end of 2016.

At the end of 2016 there were a small number of deals, for example Bedford House, which achieved a headline rent of £20.00 per sq ft and above. These buildings were in excess of the benchmark rent because of the limited availability of large prime grade A floorplates and the high quality refurbishments

Meanwhile, as a consequence of the pressure on grade A space, grade B rents have increased to between £13.50 – £15.00 per sq ft.

The office investment market has been relatively subdued during 2016 although notable deals did occur. The North and Waterside Towers at Clarendon Dock were purchased for £4.25m and equated to a net yield of 6.69%. Unit 3 Channel Wharf was purchased for £875,000 and a net yield of 10.14%. Sentiment indicates that prime yields in the market stand at circa 6.25%.

Office accommodation grades

GRADE A	GRADE B	GRADE C
NEW BUILD OR RECENTLY REDEVELOPED TO HIGH STANDARD	FINISHED AND MAINTAINED TO A GOOD STANDARD	OLDER PROPERTIES IN NEED OF REDEVELOPMENT
COMMAND HIGHEST RENTS	AVERAGE MARKET RENTS	USUALLY MARKETED FOR REDEVELOPMENT

Linenhall Street



3 floors | 23,266 sq ft

Tenants include: British Irish Secretariat, Puppet Labs & Shopkeep

Outlook

With continued demand for prime/good quality refurbished stock during 2017 we forecast that by the end of 2017 prime grade A rents will benchmark at £20.00 per sq ft.

As 2016 closed there remained healthy demand and sizeable unsatisfied requirements for office space in Belfast, and over the next year we expect demand for Belfast office space, particularly prime grade A space, to continue to increase. The limited supply of grade A stock will create opportunities for speculative development and refurbishment of second-hand buildings.

The completion of new build stock later this year will see the arrival of large high quality floorplates, which should be attractive to local and foreign investors. Prospects will be further boosted by the news that HMRC plan to establish one of its first new UK regional centres in Belfast city centre in coming years. It is anticipated that the hub will be based in a new, purpose-built office to accommodate up to 1,700 employees.

As a city with low operating costs and a highly skilled and educated population, Belfast provides opportunities for inward investors. With limited supply of grade A stock, current market conditions have created an opening for landlords with vacant sub-standard stock to redevelop and/or refurbish.

Similarly to a trend observed in 2015, we expect that some of the sub-standard office space on the market may be changed in use to hotel developments or purpose built student accommodation. The booming tourist industry and the impending influx of students to the new Ulster University campus has caused a surge in development in these areas.

In addition to providing new tenants with high-quality offices of a suitable floorplate, consideration also needs to be given to contemporary working patterns, employee demands for more choice in their working environment, the trend for co-working and the complex space needs that our clients may have. Moving away from the focus on square footage and grade, contemporary offices should provide modern, collaborative and technologically capable employee space.

The importance of a positive employee experience cannot be underestimated, with the work environment a significant component of this and recently companies are re-designing their workplaces in response to the trend set by influential companies such as Google and Apple. The office is the primary building block of the modern workplace and Belfast has much to offer for investors and occupiers over the coming years.

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