COUNTRY

Office Market Snapshot

Quarter | 2016

CUSHMAN & WAKEFIELD | Echinox

Overview

Q4 2015 GDP growth has been revised up to 0.6%, while there have also been upward revisions to growth in previous quarters, mainly due to a stronger than expected performance in the services sector. Full year growth for 2015 is now estimated to have been 2.3%. Downside risks remain, however, with concerns rising over global economic and financial uncertainty and the possibility of Brexit.

Stronger consumer spending in the short term

Household consumption increased by 2.8% in 2015, which is the strongest annual performance since 2007. Inflation is forecast to remain low at around 0.5% in 2016, due to low prices, the recent gas price cuts and weak core inflationary pressures. This, combined with low interest rates and an improving labour market will underpin further improvements in purchasing power and spending this year. Medium term prospects for spending are more subdued, however, due to government plans to reduce welfare spending by around £12bn by 2019, which is expected to more than offset the boost from the introduction of the national living wage.

Subdued outlook for investment and exports

Greater uncertainty, both at home and abroad, has weighed on business sentiment and recent surveys indicate that firms' are keeping investment plans on hold as they consider the implications of Brexit. Business investment fell by 2.0% in Q4 2015, while the forward looking services PMI indicator for Q1 was at its weakest level for 3 years. The business surveys also suggest that exporters are continuing to struggle, despite the sterling's recent depreciation.

No change in interest rates in 2016

The UK's economic fundamentals are strong and healthy labour market conditions should help sustain growth, but uncertainty regarding the EU referendum in June continues to cloud the short term outlook for the economy. The government plans to tighten fiscal policy significantly over the next 3 years, which will impact on sentiment and growth, particularly if monetary policy is tightened too aggressively. Consequently, market expectations for the timing of an interest rate hike have become increasingly dovish since the start of the year, with the first rise now expected in late 2018.

MARKET INDICATORS

Market Outlook

Prime Rents:	Rising further, although the rate of growth may slow, with rents already at record highs in some markets.	◥
Prime Yields:	Remaining under downward pressure across prime markets.	◢
Supply:	Development and refurbishment activity is improving, but high absorption is eroding supply levels.	◢
Demand:	Strengthening further in core and second tier markets.	◥

Prime Office rents – March 2016

LOCATION	GB£ SQ.FT YR	€ SQ.M YR	US$ SQ.FT YR	GROWTH % 1YR	GROWTH % 5YR CAGR
London (City)	70.00	1,013	104.2	11.1	4.9
London (West End)	125.00	1,809	186.1	4.2	6.2
Manchester	32.50	470	48.4	1.6	2.7
Birmingham	32.00	463	47.6	6.7	3.1
Bristol	28.50	412	42.4	0.0	1.1
Leeds	27.00	391	40.2	0.0	1.6
Newcastle	22.00	318	32.8	2.3	1.9
Reading	34.00	492	50.6	1.5	2.5
Cardiff	24.00	347	35.7	9.1	2.7
Edinburgh	32.50	470	48.4	8.3	3.4
Glasgow	29.50	427	43.9	0.0	0.7

Prime Office yields – March 2016

LOCATION (FIGURES ARE NET, %)	CURRENT Q	LAST Q	LAST Y	10 YEAR HIGH	10 YEAR LOW
London (City)	4.00	4.00	4.25	6.75	4.00
London (West End)	3.25	3.25	3.50	6.00	3.25
Manchester	5.00	5.00	5.00	7.25	4.75
Birmingham	5.00	5.00	5.25	7.00	4.75
Bristol	5.15	5.15	5.25	7.25	4.75
Leeds	5.00	5.00	5.35	7.50	4.75
Newcastle	5.75	5.75	5.75	7.50	5.00
Reading	4.90	4.90	5.00	7.50	4.90
Cardiff	5.50	5.50	5.75	8.00	5.00
Edinburgh	5.25	5.25	5.25	7.25	4.75
Glasgow	5.50	5.50	5.50	7.50	4.50

With respect to the yield data provided, in light of the lack of recent comparable market evidence in many areas of Europe and the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

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