



SOUTH EAST OFFICES OCCUPIER & INVESTMENT MARKET REVIEW

DTRE RESEARCH REPORT
OCTOBER 2019

5 THINGS YOU NEED TO KNOW ABOUT SOUTH EAST OFFICES IN OCTOBER 2019

1

Occupier take-up to end Q3 has reached **2.3m sq ft**, down 15% on same period in 2018

2

Q3 saw just 685,000 sq ft of take-up, the worst quarterly performance in 3 years

3

Speculative development continues to be limited, with just **three new build buildings under construction**, although there are a number of comprehensive refurbishments underway

4

Investment volumes have totalled **£1.5bn across 72 deals by the end of Q3**, down 32% year-on-year

5

Goldman Sachs' £400m purchase of Croxley Park, Watford, is by far the biggest deal of the year so far.

OCCUPIER MARKET

The South East office market has seen 2.3m sq ft of take-up by end Q3, which is only down 15% on the same period last year, but it is hard to escape the reality that the Brexit induced slowdown engulfing the UK, has seen occupiers adopt a wait and see approach.

Of the 2.3m sq ft of take-up seen by end Q3, it has been the Thames Valley that has led the way, seeing nearly 64% of all demand this year, whilst the South M25 has already surpassed its total from the last two years.

OCCUPIERS ARE INCREASINGLY USING THEIR REAL ESTATE TO ATTRACT AND RETAIN EMPLOYEES

There continues to be healthy demand in the lower size ranges that underpin take-up, but deals north of 50,000 sq ft that inevitably help to push the take-up numbers up have been largely absent, with just two recorded so far this year.

The reasons for this have been two-fold. Firstly, occupiers are unwilling to take on the added risk of moving premises when the future of their businesses is more uncertain than it has been for some while. There is a list of examples of occupiers who have decided to roll over their lease at break or expiry this year, rather than take the plunge and move office.

Secondly, there has simply been the lack of available space of good quality or Grade A space in those larger size brackets, particularly in some of the key markets.

Whilst 245 Hammersmith Road (254,000 sq ft), The Lantern in Maidenhead (20,000 sq ft) and Wellington House in Wimbledon (30,000) all completed in the last quarter, there's now just three new build schemes underway, two on Green Park in Reading and a further development at Foundation Park in Maidenhead.

Although there are a number of comprehensive refurbishments underway including at Ditton Park, Earley East at Thames Valley Park and two buildings at Windsor One and Two, none of these complete until Q1 2020 at the earliest.

Moving forward through the remainder of the year and into 2020, and hopefully with a Brexit pathway outlined, we think demand across the South East market will return to close to its 5-year average.

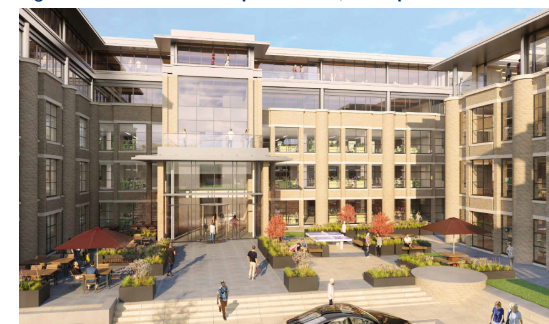
There'll be a number of occupier trends to look out for but the move by landlords to now create 'Cat A +' offering to fight off the rise of the serviced office provider will continue to take hold.

Occupiers are increasingly using their real estate to attract and retain employees, particularly in an era of ultra low unemployment across the South East, and therefore the quality of offering from landlords will need to improve in many instances if they are to attract tenants to their buildings.

Fig 1: DTRE are disposing of 79,000 sq ft at Spear Street Capital's Earley East, Thames Valley Park, Reading



Fig 2: Windsor One & Two provides 87,340 sq ft of Grade A



INVESTMENT MARKET

The South East office investment market has continued in its fragmented nature so far this year. There has been 72 deals to date totalling £1.5bn, but of those 72 deals there have been 58 different purchasers.

Fig 3: DTRE advised CLS on the purchase of the Portland Building, Crawley (pictured below)



Fig 4: DTRE advised KWE on the purchase of Ditton Park (pictured below)



Whilst Goldman Sachs' £400m purchase of Croxley Park from Columbia Threadneedle last month is the stand out deal of the year, there have been a diverse group of purchasers again this year. Private Equity, Council's, Prop Co's and Overseas Investors have all been active across the South East.

FTSE 250-listed CLS Holdings have been the most active purchaser snapping up four office buildings. Firstly, advised by DTRE, they bought Portland Building (£12m/7.35% NIY) and Gresham House (£4.55M/6.29%) in Crawley in Q2, whilst in Q3 they continued their spree by snapping up Pacific House in Reading (£14.9m/7.3%) and the Clockwork Building in Hammersmith (£29.8m/7.5%).

Outside of Goldman Sachs' purchase, Kennedy Wilson Europe (KWE) have been the biggest buyers so far this year. Advised by DTRE, KWE bought Ditton Park for £41.3m and just recently completed the purchase of The Heights in Weybridge, sold by M&G (£136m/7.06%). Other active buyers have been the Council's who have accounted for thirteen purchases this year (17%).

Once again it has been the funds that have been selling down their exposure to the South East office market, with Columbia Threadneedle selling Croxley Park, M&G selling five assets, Aviva selling seven and AberdeenStandard selling three. Those fund sales have accounted for 50% of the total volume traded to date.

Moving into the final months of the year we don't expect to see a deluge of sales hit the market, assuming a 'No Deal' Brexit is avoided and as a result we would anticipate final year numbers to be down c.20-30% on the 5-year annual average.

OPPORTUNITIES REMAIN IN TARGETING ASSETS IN UNDER-SUPPLIED TOWNS

But there remains significant opportunities in the market for those investors willing to be brave, although the obvious Brexit caveats are attached and stock selection continues to be as important as ever.

Opportunities remain in targeting assets in under-supplied towns such as Windsor, St Albans, Watford and Maidenhead, as well as some of the West London market such as Wimbledon and Richmond where new rental tones have now been established.

Another opportunity lies in the fact that with the funds largely absent from the market, then the sphere they normally play within has been left somewhat empty, with the result being that pricing has drifted.

Many of the deals this year have occurred at either end of the spectrum, long and strong income purchasers at c.5.5% or less. Or at the other end, opportunistic purchasers buying up less than 5 years income have accounted for 48 of the 72 deals to date and there remains an opportunity to fill the void left by the funds over the next 6-12 months.

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