SOUTH EAST OFFICES
OCCUPIER & INVESTMENT MARKET REVIEW

DTRE RESEARCH REPORT
JULY 2021

DTRE | RESEARCH

5 THINGS YOU NEED TO KNOW ABOUT SOUTH EAST OFFICES IN JULY 2021

1

Occupier take-up in the first six months of 2021 has reached **2.1m sq ft, up 59% on the same period in 2020**

2

Q2 (April to end June) saw **1.25 million sq ft of lettings, the best quarter in the last 6 years**

3

Investment volumes have totalled £2.1bn, up 50% year-on-year

4

Pricing for life science and long dated income has hardened. Yields elsewhere remain volatile

5

ESG and future-proofing have moved to the top of both occupiers and investors check-list

OCCUPIER MARKET

The South East office market has returned well from a chaotic 2020, with take-up to end June 2021 reaching 2.1 million sq ft, up 59% on the same period in 2020. Despite the well touted 'death of the office' demand in Q2 has reached close to 1.25 million sq ft, the best quarter in the last 6 years.

Q2 2021 has seen the largest level of demand witnessed across the South East since Q3 of 2015. This performance has been driven in large part by Unilever's decision to locate their new campus style HQ in Kingston-Upon-Thames, which was approved by Kingston Borough Council in May.

We also saw sizeable deals in Windsor, where InterContinental Hotels Group signed for 57,400 sq ft of space at BAPF and Canmoor's Windsor One (DTRE advised the landlord) and Reading where Amazon signed for 48,800 sq ft of space at 400 Brook Drive on Green Park.

Q2 2021 HAS SEEN THE LARGEST LEVEL OF DEMAND WITNESSED ACROSS THE SOUTH EAST SINCE Q3 OF 2015

Overall we have seen six deals over 50,000 sq ft so far this year, which not only has in large part driven the take-up numbers but is also encouraging in suggesting corporate occupiers continue to see the office and the idea of the office as a must have as part of their strategies.

Occupier demand continues to be focused on Grade A offices, which has accounted for 61% of all the take-up seen this year and it is a trend which will not be going away anytime soon.

The continuing drive to quality has been a theme for a while now, but like many things, Covid-19 has accelerated that shift.

ESG and staff wellbeing have moved up the corporate agenda, but the key driver for occupiers looking at relocating, as the 'return to the office' now becomes more of a reality, is the retention and recruitment of staff, as it has been for some time.

This ability to attract and retain staff has seen occupiers continuing to move into the London suburbs, away from the M3 and M4 locations. With such an example this year, aside from Unilver's move to leafy Kingston-Upon-Thames, being Pladis moving to Chiswick Park from Hayes.

This desire to secure the best space, along with a reducing level of supply, has seen rent rally, with record headline rents being achieved in four towns, according to DTRE research.

Firstly, InterContinental Hotels are paying £43 per sq ft at Windsor One, and L&G secured a new record rent of £37 per sq ft at their Hyde development to ENRA Group on Clarendon Road, Watford. Other record rents have been set in the commuter towns of Bromley and Chelmsford.

Moving through the remainder of 2021 we expect to see a continuation of the themes that are already at play, along with increased activity from smaller, more dynamic occupiers, as the return to the office becomes a reality. However, the lack of any real new or meaningful development continues to mean occupier choices are very limited.

Fig 1: Q2 2021 saw 1.25 million sq ft of lettings to take the H1'21 total to 2.1m sq ft

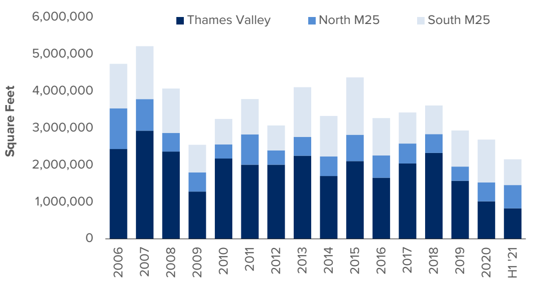

Fig 2: InterContinental Hotels Group took a 57,387 sq ft pre-let at BAPF and Canmoor's Windsor One development

INVESTMENT MARKET

The South East investment market has seen £2.1 billion of deals done so far this year, up 50% year-on-year, albeit when removing the £714m TPG/ Arlington Portfolio year-on-year numbers remain relatively flat.

The key trend driving the South East market so far this year has been the weight of capital targeting the life sciences sector, with a particular focus on the Oxford to Cambridge Arc.

Morgan Stanley purchased 101 Cambridge Science Park for £50.1m, a yield of 123 basis points lower than quote, whilst Kadans, advised by DTRE, acquired the Sherard Building, Oxford Science Park for £25.5m reflecting a 3.62% net initial yield.

THERE HAS BEEN A POLARISATION IN THE SOUTH EAST INVESTMENT MARKET...LONG DATED INCOME IS BACK TO PRE-COVID LEVELS

In addition, the recent disposal of 214 – 240 Cambridge Science Park attracted significant investor attention, with Brockton Everlast acquiring the 5 buildings for £99m / 4.2% NIY, 37% ahead of the quote price.

Elsewhere there has been a polarisation of investor appetite in the market, with a significant uptick in investor appetite for long-dated, secure income, which has resulted in pricing for this type of product trading back at pre-Covid levels.

Two exampes include, Cew Capital purchased 25 Kew Foot Road for £7,78m/4.53%, which is let to Secretary of State for with a unexpired lease of 10 years and Sidra Capital purchased Countryside House in Brentwood, with a WAULT of 15.2 years to Countryside Properties for £19.3m/5.85%.

Conversely, we have seen that for properties with vacancy, upcoming vacancy and capital expenditure risk pricing has continued to move out. Despite the healthy take up figures, demand is hard to predict and added to the rising cost and complexity of office refurbishment, these two factors have fuelled investors lethargy for risk. The institutional pool of buyers has not returned to the market and the value add investors can pick and choose their deals whilst many still wait for further price corrections in the office market.

Recent examples include Bedfont Lakes in Heathrow which sold for £102m/8.9% NIY having initially been quoted at £142m/6.75% NIY in October 2020. This represents a 28% discount on the original quoting price but there was greater vacancy and risk when sold 18 months later.

Moving into the remainder of 2021 we expect to see yields for prime, long let stock remain firm but yields for properties with vacancy and capex risk move out further. Investors continue to shy away from these assets because despite the increasing take up figures and occupiers flight to quality there is still uncertainty surrounding the office market as not all occupiers return to their pre-Covid routine.

Fig 3: Volumes have been boosted by the £714m sale of the Arlington/TPG Portfolio

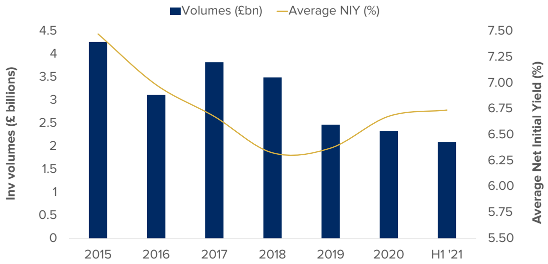

Fig 4: DTRE advised Kadans on the £25.5m/3.62% purchase of The Sherard Building, Oxford Science Park

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