M27 OFFICE TAKE UP SET TO OUTPERFORM 2012 LEVELS

Positively, take-up of office space in the M27 corridor could potentially outperform 2012, with new enquiry levels rising since the start of the year, according to new research from BNP Paribas Real Estate, the leading property adviser.

Director at BNP Paribas Real Estate’s Southampton office, Steve Williams, said: “Lease events will remain the major source of office demand this year, with companies reviewing the feasibility of upgrading space or staying put and negotiating favourable terms on existing premises.”

Last year, office investment in the region totalled £50.4m, which was similar in level to the £52.8m transacted in 2011. In terms of office take up, it reached 535,350 sq ft, down 45% on 2011 when it soared to 969,790 sq ft, but up 10% on 2009 and 40% on 2010 levels. Unlike 2011, when take-up was boosted by a number of sizeable owner-occupier purchases in the Portsmouth area, the market in 2012 was sustained by smaller transactions.

With no speculative completions last year, office availability fell in the region and at the end of the second half of 2012 it stood at 2.83m sq ft, down 13% on the 3.27m sq ft available in the same period the year before.

“Speculative development will not return to the market in 2013. Any new development will be subject to the signing of a pre-let deal. Given the cost differential between current headline rents and new build costs, this is unlikely to happen in the near term. With no speculative developments due to complete in 2013, M27 availability will continue to fall,” added Williams.

Looking ahead, investment market volumes are expected to remain subdued, due to the lack of prime stock available to buy. This may spark interest in better quality secondary stock from those investors looking to achieve growth opportunities in the regions. Any decision will be highly calibrated, with tenant security an important factor. Poorer quality second hand offices remain problematic for landlords, who are continuing to review alternative building uses.

In addition, M27 headline rents will plateau in 2013. Tenant incentives will remain important and in selective markets, tenants now typically expect to receive 12-18 months rent-free on a 10 year lease with a 5 year break. These incentives are increasingly given as a stepped rent over the five year term.
About BNP Paribas Real Estate

BNP Paribas Real Estate, leading international real estate provider, offers to its clients a comprehensive range of services that span the entire real estate lifecycle: property development, transaction, consulting, valuation, property management and investment management. BNP Paribas Real Estate has local expertise on a global scale through its presence in 36 countries with more than 180 offices and 3,400 employees (16 wholly owned subsidiaries and 20 by its Alliance network, that represents today more than 3,000 people). BNP Paribas Real Estate is a subsidiary of BNP Paribas. For more information: www.realestate.bnpparibas.com

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