DISSAPPOINTING SE OFFICES H1 2014 TAKE-UP BUT REASONS TO BE OPTIMISTIC

Fortunes in the South East office market continue to be mixed with improving levels of occupier demand set against disappointing levels of Q2 2014 take-up, according to new research by BNP Paribas Real Estate, the leading property adviser.

BNP Paribas Real Estate’s director of South East office agency, Simon Fitch, said: “Take-up levels continue to fall below expectations with Q2 2014 levels down 34% year-on-year and 1.3m sq ft transacted by the end of the quarter.”

“The lack of take-up can be attributed to both the absence of any deals over 50,000 sq ft and the length of time it is taking for deals to complete, which in a lot of cases, is considerable. There are a number of long standing enquiries which will translate into Q3 take-up, painting an improving picture. To add to this, the market is also seeing a range of major new requirements from the likes of Lidl (180,000 sq ft), Dixons Carphone (160,000 sq ft), Amadeus (100,000 sq ft) and TK Maxx (20,000 – 350,000 sq ft) who are all actively looking at relocation options.”

The West London sub markets continue to outperform all other areas in the South East. As a result, rents in West London have pushed on over the first half of 2014, with record rents for this cycle being set, or due to be, in Hammersmith (£50.00 per sq ft) and Richmond (£43.50 per sq ft).

Rental growth will also be seen in other locations with a new prime rent of £33.00 per sq ft being set in Staines following VM Ware’s recent letting at Flow and space currently under offer in Reading, St Albans and Crawley, which will see prime levels increase to £33.00, £25.00 and £24.00 per sq ft, respectively. With the general theme of a lack of Grade A stock across much of the South East, rental growth will continue for the remainder of 2014 and into 2015.

Commenting on the South East investment market, Hugh White, BNP Paribas Real Estate’s head of national investment, said: “As was the case throughout 2013, the market has been buoyant during the first half of 2014, with £523m transacted during Q2, bringing the half year total to £710m. Money has continued to flow out of London with investors keen to extract some value and with the current positive economic sentiment surrounding the UK; investors have been more prepared to venture out of central London and upwards on the risk curve.”

“The majority of investors have been UK based funds, although foreign investors are also now becoming increasingly active. Investor demand is currently outweighing supply and this is expected
to continue for the remainder of the year. Currently, prime assets coming up for sale are at a premium and are attracting significant interest and, as such, prime yields may harden further before the end of this year, towards 5.25%,” added White.

“Looking ahead, the outlook for South East offices remains positive, despite the subdued take-up numbers. With the current buoyant economic sentiment and employment on the rise, the occupational market will see an uptick in demand in the latter half of this year. We anticipate seeing the final year take-up numbers being roughly in-line with the five year average of c.3m sq ft,” concluded Fitch.

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About BNP Paribas Real Estate

BNP Paribas Real Estate, one of the leading international real estate providers, offers 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 38 countries with more than 180 offices and 3,700 employees (17 wholly owned and 21 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

Press contact:

Alex Shah, UK PR Manager – Tel: +44 (0) 207 338 4086 / alex.shah@bnpparibas.com