SOUTH EAST OFFICE TAKE-UP CONTINUES TO RISE AS CENTRAL LONDON OCCUPIERS EYE RELOCATION

- Investment to total £3bn by year end, with overseas investors spending £800m – up 49% year on year

The South East office market has seen continuous demand throughout 2015 with over 3.2m sq ft of lettings to date, up 13% over the same period last year, according to research from BNP Paribas Real Estate.

The rise was driven in part by occupiers, including Maersk, EDF Energy and Time Inc, moving functions out of Central London to escape the capital’s higher occupancy costs, with the trend set to continue in 2016.

Simon Fitch, Director of South East Agency at BNP Paribas Real Estate, said: “It’s been another positive year with increased levels of take-up across the board. With further deals in the pipeline, we anticipate take-up levels to be pushed closer towards the 3.6m sq ft mark by the end of the year.

“What bodes well for the South East market is the increasing number of Central London occupiers looking at more cost-effective locations. This will be a key feature of the 2016 letting market as occupational costs between London and the South East widen even further.”

The increase in take-up volume has been buoyed by an increase in larger deal sizes, with a 15% increase year-on-year on deals over 40,000 sq ft. In line with this, there has also been a 7% rise in the number of deals sub 20,000 sq ft, with more than 80% of deals this year falling under this size band.

The market saw rental growth rise to 8.3% in the year to end October 2015, second only to the City and West end office markets, with prime rents in Staines returning to £33 psf, Reading to £34 psf and Maidenhead to £33.50 psf, levels not reached since the early 2000s.

The leading property adviser’s report illustrates that investment volumes in the South East will hit £3bn by the year end, with UK institutions accounting for over one-third of volume transacted to date. The sector has also seen an increase in interest from overseas investors with nearly £800m spent in the region this year, up 49% year-on-year.
Investor confidence in the South East market has been exemplified over the last few weeks with notable deals from Harbert and Ho Bee, which purchased offices in West Malling and Croydon at values close to £100m. So far this year 10% of all deals have been of values at or above £50m, up from a five-year average of 4%.

Hugh White, Head of National Investment at BNP Paribas Real Estate, said: “It has been debt-led, opportunistic investors which have been driving the out of town and business park market. However, with yields having come in over H2 2015, investors are pricing in rental growth as the way to meet returns, rather than the simple cash-on-cash play that existed at the beginning of the year.

“Looking forward to 2016, as the retail fund money flows have stabilised and in turn the prime end of the market has taken a pause for breath, we anticipate a narrowing of the spread between prime and secondary with prime pricing remaining broadly level but secondary compressing.”

Robert Taylor, Associate Director of Research, said: “The fundamentals for investing remain strong. With the South East set to be the best performing region outside of London and strong economic indicators pointing to continued occupational demand, allied to a continued loss of stock through Permitted Development and a subdued development response, then the prospects for further rental growth are clear.”

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