The South East office market has seen over 840,000 sq ft transacted in the first three months of 2016, which is in-line with average performance for the first three months of a year.

The Thames Valley, once again, led the way in terms of take-up, with approximately 600,000 sq ft transacted. Thales and Bayer accounted for nearly one-third of the volume when taking 111,064 sq ft and 80,000 sq ft, respectively, at Green Park in Reading. The Thames Valley has accounted for over 70% of the space transacted so far this year.

The South and North M25 regions have started the year slowly, with the South M25 recording it’s weakest quarter since 2012. The lack of new product, with speculative development almost exclusively being focussed on the Thames Valley, has impeded demand in these areas but this is being addressed with new schemes coming online.

The amount of speculative development entering the market this year is now at c.2.3m sq ft. 28 speculative development/comprehensive refurbishment schemes are currently under construction or have completed this year and it is now not just the Thames Valley that is receiving developers attention with schemes at Ruskin Square in Croydon, Prospero in Redhill as well as refurbishments in Woking, Dorking, Hemel Hempstead and Crawley all underway.

Overall supply has fallen, but with new developments now feeding into the market the proportion of Grade A space is on the rise. Although with many occupiers now very much taking a ‘wait and see’ approach prior to the EU Referendum then we are unlikely to see much of this new space swallowed up until later in the year.

The amount of new, Grade A, speculative product entering the market in the core locations such as Reading and Hammersmith does mean that at the top end of the market at least, we expect to see restrained growth in headline rents.

Permitted Development has helped remove the overhang of obsolete stock from many locations and has acted as a catalyst for market activity and rental growth in many locations across the South East. We are forecasting sustained rental growth for secondary type buildings across many of the South East towns.
The South East investment market finished 2015 with a flourish, with over £1.4bn transacted in the final quarter alone as the demand for South East offices hotted up with investors targeting secure income, on well-let buildings in prime locations. AEW Europe’s deal to purchase 972,300 sq ft on the Bath Road from SEGRO for £325m, perhaps the best example of this.

The biggest deal of the year so far was Palm Capital’s purchase of 420 Thames Valley Park for £25.45m at 6.55% net initial yield. But apart from that deal, which was in conjunction with another purchase in Swindon, there has been little to report in the South East investment market.

As often can be the case, statistics tell a slightly different story to current market sentiment, due to their historic nature. South East offices have remained on the radar for investors in 2016 although the limited number of transactions so far this year might imply otherwise. Looking ahead into Q2 we anticipate this downward trend in investment volumes to reverse even against the backdrop of the EU Referendum.

The investor groups who had been active in the South East office market in 2015 broadly fell into 3 categories; UK Institutions, US Private Equity and Overseas High Net Worth (HNW) investors. Since the end of 2015 the UK Institutions have ‘paused for breath’ after a very active 18 month period while the US Private Equity hurdle rates have risen slightly. These investors, however, have been replaced by Overseas HNW’s who are seeking well let property against which they can generate attractive cash on cash returns.

As the current period of low debt shows no signs of abating, we anticipate the investors, who are mainly from the Middle East, to continue to drive the well let market particularly in respect of Out-of-Town assets. As these deals complete transaction volumes will completing, or bids being called on a number of sizeable

The end of Q1 also saw contracts exchanging, but not yet completing, or bids being called on a number of sizeable assets. As these deals complete transaction volumes will pick up again.

2016 got off to a steady start with take-up in line with average Q1 levels in recent years. Numbers were buoyed by the Green Park deals failing to complete at the end of last year otherwise the level would have been disappointing

On the plus side, Q1 has seen a surge in occupier demand suggesting Q3 and Q4 take-up will at least be in line with last year. We’ve seen some major occupiers enter the market with new requirements and EY, Virgin Media, HMRC and L’Oreal have all been active. That said, demand is still being largely driven by consolidation or simply upgrading properties with like-for-like amounts of space. Expanding occupiers are still something of a rarity.

Another positive is the rental growth story which is showing no sign of slowing down. Of the locations we cover in the South East, 72% of markets saw prime rental levels increase in 2015. A number of locations showed very substantial levels of growth.

The much talked about supply shortages have been well and truly addressed in a lot of core locations. The market is therefore finely balanced. From a landlord’s point of view, you would hope that a slowdown in take-up wouldn’t necessarily translate into rental falls. Rents in the South East have long been far lower than they should be and hopefully the rental growth story in recent years has finally convinced landlords that for right product, occupiers are not as rent sensitive as previously thought.

In a market that lacks a little bit of depth, it remains key to have the best buildings in the best locations or at least have something that allows you to differentiate yourself from the competition.

My markets to watch are nothing new. We’ll see rental growth in core markets like Reading whilst Slough will continue to improve, albeit off a lower base. The likes of Stockley Park and Uxbridge will be interesting locations to watch with a lot of space hitting the market in 2016/2017. The market I think will be most interesting is Croydon. I’ve acted for 100,000 sq ft of relocating Central London occupiers to Croydon in the last 12 months. With Westfield finally coming forward and Ruskin Square realy taking shape, Croydon will finally be seen as a viable, cost saving location for occupiers particularly south of the river.
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