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PRESS RELEASE

South East office take-up tops 3m sq ft in 2017 following strongest Q4 since 2007

Take up in the South East Office Market totalled 3.03m sq ft in 2017, in line with the 10-year average and boosted by the strongest Q4 since 2007 where take up reached 892,000 sq ft, according to BNP Paribas Real Estate.

BNP Paribas Real Estate found that smaller transactions represented an increasing proportion of the market, with 54% of total take up now accounted for by transactions 5,000 to 20,000 sq ft. There were no lettings over 100,000 sq ft, with the largest transaction being ASOS taking 75,000 sq ft at Leavesden Park in Watford.

The serviced office sector was especially active over 2017, with the South East seeing a number of new entrants that had previously only considered Central London. Spaces have been joined by Work.Life, Central Working, Pure Offices and WeWork, with the majority of this activity focused in Reading and West London. This trend looks set to continue with a number of operators looking to establish additional centres in 2018.

Last year witnessed the speculative completion of 1.79m sq ft across 18 developments, with a bias to West London and the Thames Valley. BNP Paribas Real Estate indicated that 2018 will see a much reduced level of development activity with only nine schemes, totalling 498,000 sq ft, due to complete.

The delivery of this speculative development resulted in new headline rents being set over 2017, with Watford, Slough, Redhill, Hammersmith, St Albans, Hemel Hempstead, Reading, Maidenhead, Basingstoke, Uxbridge and Farnborough now ahead of their previous peaks.

Looking ahead, BNP Paribas Real Estate said levels of identified demand total 4.25m sq ft, with 625,000 sq ft currently under offer. Lettings of 5,000 to 20,000 sq ft are expected to continue to dominate take up, although there are also a number of significant corporate relocations on the cards with Sanofi, Novartis, Samsung, Virgin Media and PWC likely to go live early this year.

Ed Smith, Head of National Markets Office Agency at BNP Paribas Real Estate, commented: “Against the backdrop of uncertainty created by brexit it is encouraging to see the market perform in line with the 10-year average. The major corporate occupiers, with a few exceptions, continue to sit on their hands and it is the small to mid-sized companies that are getting on with life and committing to relocate to new offices.

“With 2017 being a record year for speculative completions it is not surprising to see fewer in 2018. With only two schemes scheduled to complete in 2019 there remain towns where further development would be welcomed by occupiers, especially in the North M25 market including Watford and St Albans. Identified demand at Q4 2017 is slightly down on previous quarters at 4.25m sq ft, primarily as a result of a strong level of take up during the quarter, and we would expect this to improve during Q1 as new requirements typically go live at the start of the year.”

Preliminary figures from BNP Paribas Real Estate indicate that South East office investment hit levels of £3.27bn in 2017, up 18% on 2016 and 36% on the 10-year average.

BNP Paribas Real Estate highlighted that investor demand in the South East is now global, with players from North America, Asia-Pacific and the Middle East active over the previous year. Demand was particularly strong within the business park sector, with TPG Real Estate acquiring the Arlington Portfolio for £450m and CPPIB purchasing a 50% stake in Milton Park,Didcot.

The strength of the South East market has attracted new entrants, with Frasers £900m acquisition of UK business parks, including key South East schemes at Farnborough Business Park and Winnersh Triangle, a key example of this.

UK local authorities were also particularly active in 2017, drawn to real estate as a means of boosting income and supported by long-term loans from the Public Works Loan Board. The majority of local authority activity was centred on stock within their own jurisdictions, with Woking Borough Council's acquisition of Dukes Court for £72.4m comprising the largest South East investment by a domestic investor in 2017.

Hugh White, Head of Office Investment at BNP Paribas Real Estate, said "The depth of appetite from Asian reits will continue to drive demand for large lot sizes and single ownership business parks will be the main beneficiaries of this demand.

"Income and best-in-class assets will continue to command a premium, and we envisage yields hardening in line with the performance of the major UK cities in Q4. Investors, meanwhile, remain cautious of short income – one to two year – refurbishment opportunities until the brexit negotiations become clearer. However, for the well-advised investor this could be the real "value-add" moment in the cycle."

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