SOUTH EAST OFFICE INVESTMENT CONTINUES TO GROW AS LOCAL AUTHORITIES STEP UP THEIR INVESTMENT

Following a strong Q1 2018, investment activity in the South East remains strong, with volumes totalling £610m for Q2, figures from BNP Paribas Real Estate have revealed.

Local Authority activity continues to account for a significant proportion of South East total investment, amounting to 29.5% of investment for the quarter. The largest transaction of the quarter involved the sale of the Pinetrees office complex in Staines, Surrey, to Runnymede Borough Council for £80.7m. BNP Paribas Real Estate advised vendor Aberdeen Standard Investments. However, Institutions and Funds remain the main drivers of South East investment, accounting for £270m of investment over Q2 and just short of £500m for H1 2018 in total.

According to BNP Paribas Real Estate, prime South East yields continue to offer relative value at 5% Net Initial Yield (NIY) when compared to the ‘Big Six’ cities with Birmingham, Edinburgh and Manchester prime yields standing at 4.75%. As such, the adviser said it expects further yield compression for prime assets in South East town centres. However, it also found that a two-tier market is becoming increasingly prevalent with yields on well-let stock compressing and part-let or short income yields softening.

BNP Paribas Real Estate highlighted that investors are cautious about letting risk unless the building is prime and well-located, with evidence of some sellers pulling assets from the market, such as Edward Hyde Building, Watford and Baskerville House, Birmingham.

Hugh White, Head of Office Investment at BNP Paribas Real Estate, states: “We remain convinced that well-selected assets with partial vacancy or short leases remain the ‘opportunity’ in the current climate for intelligent property investors. The yield compression in well-let assets is driven by a desperation for income aided by gearing rather than a purchase supported by market fundamentals.”

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.

With 5,100 employees, BNP Paribas Real Estate supports owners, leaseholders, investors and communities in their projects thanks to its local expertise across 36 countries (15 through its facilities and 21 through its Alliance network) in Europe, the Middle-East and Asia. BNP Paribas Real Estate generated €811m revenues in 2017. In 2017 BNP Paribas Real Estate continued its growth through the acquisition of Strutt & Parker, one of the UK’s largest independent property partnerships. BNP Paribas Real Estate is part of the BNP Paribas Group.

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