SOUTH EAST OFFICES REVIEW

Q2 2018

Leasing

- South East leasing activity has continued solidly in Q2, with volumes totalling 631,789 sq ft, in line with the level recorded in Q1.
- This brings total take-up for H1 2018 to 1,259,751 sq ft, 13.0% down on the same period in 2017 but just 4.7% below the 10-year H1 average (2008-17).
- The co-working and serviced office sector, is showing increasing signs of filtering out into the wider South East market. Over 230,000 sq ft of take-up over H1 2018 was driven by such firms.

Investment

- Investment volumes totalled £610m for Q2. This brings total investment for H1 2018 to £1.39bn across 63 transactions, 12% higher than the same period in 2017.
- Over H1 2018, just nine sales were transacted over £50m, with 66.7% of transactions occurring in the sub £20m size band.
- Prime South East yields continue to offer value at 5.00% Net Initial Yield (NIY) relative to the Big 6 cities with Birmingham, Edinburgh and Manchester prime yields standing at 4.75%.

H1 2018 take-up figures reached

1.26M (SQ FT)

42.0% of take-up over H1 2018 was focussed in the M4 Corridor

42.0%

Co-working and Serviced office operators drove 0.23m sq ft take-up over H1 2018

0.23M (SQ FT)

Q2 2018 South East office investment volumes reached

£610M

Investment volumes for H1 2018 were 12.0% higher than the same period in 2017

12.0%

At Q2 2018 prime yields in the South East remain at

5.00%

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LEASING

South East leasing activity has continued solidly in Q2, with volumes totalling 631,789 sq ft, in line with the level recorded in Q1. This brings total take-up for H1 2018 to 1,259,751 sq ft, 13.0% down on the same period in 2017 but just 4.7% below the 10-year H1 average (2008-17).

The co-working and serviced office sector, which has boomed in Central London in recent years, is showing increasing signs of filtering out into the wider South East market. Over 230,000 sq ft of take-up over H1 2018 was driven by such firms, with the most recent large-scale letting seeing Regus brand Spaces acquiring 39,000 sq ft at the newly completed Woking One. Landlords Wrenbridge and Palmer Capital were advised by BNP Paribas Real Estate.

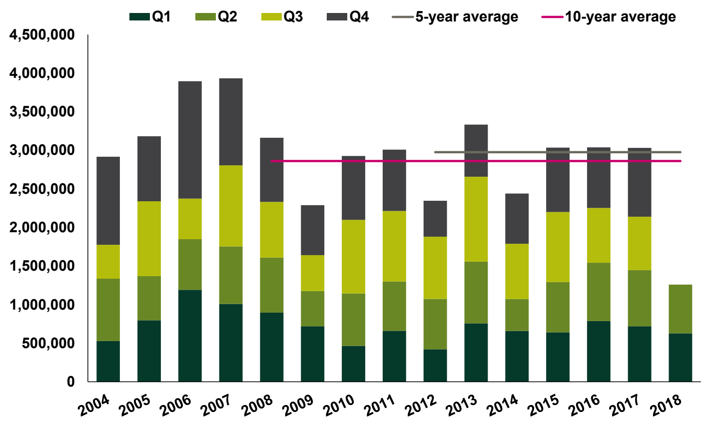
The M4 Corridor, and in particular the Reading submarket, has dominated demand over H1 2018, accounting for 42.0% of demand. Demand within the West London centres had fallen behind over the first six months of the year, however looking ahead Q3 has already seen a significant amount of activity with the agreement of the 212,000 sq ft Publicis deal at 2 Television Centre, White City.

In terms of development, H1 2018 has recorded the completion of 460,500 sq ft. Many of these schemes had already received high occupier interest, testament to occupiers' continued appetite for high quality space in core locations. Of the developments to complete over H1 2018, 51.3% was let or under offer prior to the scheme's completion. Looking ahead, 466,000 sq ft is currently under construction and due for completion across 2018-2019.

The delivery of new stock has prompted rental growth within a few submarkets across H1 2018. Prime rental levels in Reading, for example, are now at £38.00 psf, up from £36.75 psf at Q4 2017, whilst in Woking prime rents have reached £32.00 psf, up from £30.00 psf. Across the 21 submarkets covered by BNP Paribas Real Estate, the average rental growth recorded from Q2 2008 to Q2 2018 has been a substantial 21.5%. This is illustrative of the recovery and structural change these markets are undergoing due to new demand drivers and infrastructure investment.

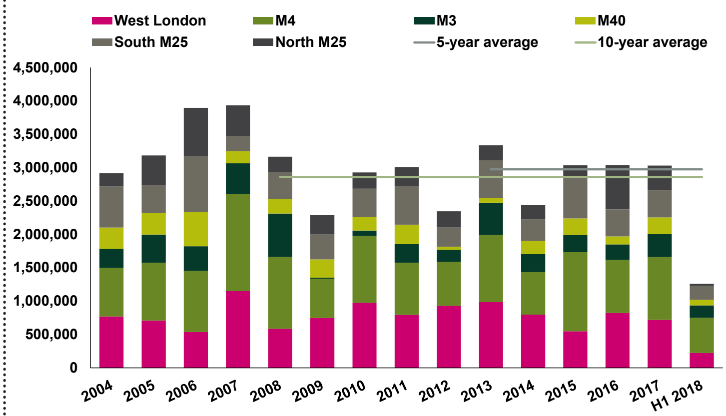
Identified demand has risen further over Q2 to stand at 4.85m sq ft, up from 4.60m sq ft at end-Q1 2018. Of this, c. 625,000 sq ft is currently under offer, pointing to a solid second half of the year for the region.

SOUTH EAST TAKE-UP (SQ FT)



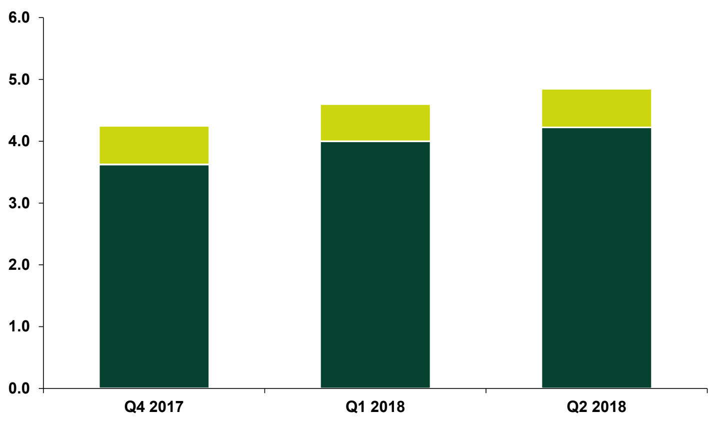
Source: BNPPRE

SOUTH EAST TAKE-UP BY MARKET AREA (SQ FT)



Source: BNPPRE

SOUTH EAST IDENTIFIED DEMAND & UNDER OFFER (MILLION SQ FT)



Source: BNPPRE

INVESTMENT

Following a strong Q1 2018, investment activity in the South East remains healthy, with volumes totalling £610m for Q2. This brings total investment volumes for H1 2018 to £1.39bn across 63 transactions, 12% higher than the same period in 2017.

Over H1 2018, just nine sales were transacted over £50m, with 66.7% of this activity occurring in the sub £20m size band. The largest transaction of Q2 2018 involved the sale of the Pinetrees office complex in Staines to Runnymede Borough Council for £80.7m. BNP Paribas Real Estate advised vendor Aberdeen Standard Investments. Runnymede Borough Council were in fact active across a a handful of other investment transactions across the quarter, acquiring office buildings in Slough, Maidenhead and Milton Keynes.

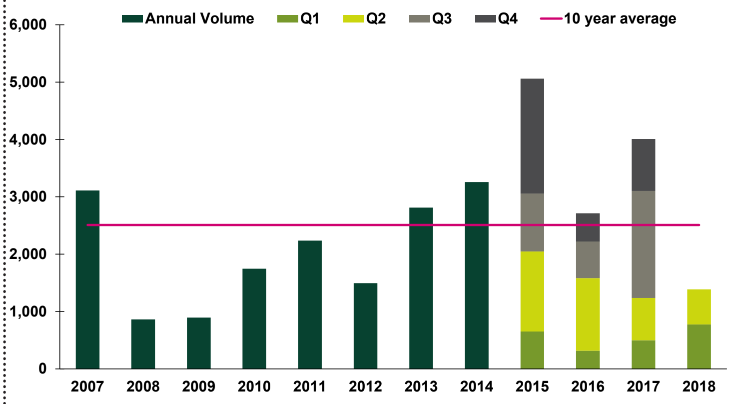
Local Authority activity continues to account for a significant proportion of South East investment, amounting to 29.5% of investment for the quarter. Institutions and Funds, however, remain the main drivers of South East investment, accounting for £270m investment over Q2 and almost £500m for H1 2018 in total. In Q2, one such transaction comprised Aberdeen's acquisition of The White Building, Reading for £51m.

Activity over H1 2018 has been strongly focussed on town centre assets. Sales on more centrally located stock amounted to £1.1bn, compared to just £290m for out of town assets. This differs to 2017 when the region's out of town business parks garnered high investor interest with, among others, Frasers Centrepoint's acquisition of a number of core South East business parks and TPG Real Estate's purchase of the Arlington Portfolio for £450m.

Prime South East yields continue to offer value at 5.00% Net Initial Yield (NIY) relative to the Big 6 cities with Birmingham, Edinburgh and Manchester prime yields standing at 4.75%. Further yield compression is expected for prime assets in South East town centres. However, a two tier market is becoming increasingly prevalent with yields on well-let stock compressing and part-let or short income yields softening.

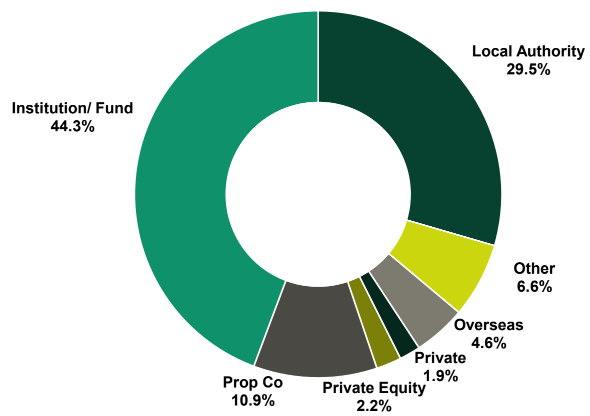
Based on the June 2018 UK Monthly Index from MSCI, the South East office markets have continued to produce favourable returns when compared to both London and the All Office average. The Outer South East remains an outperformer, registering total returns of 12.6% (June-June), against the All Office average of 8.3%.

SOUTH EAST OFFICES INVESTMENT VOLUMES (£m)



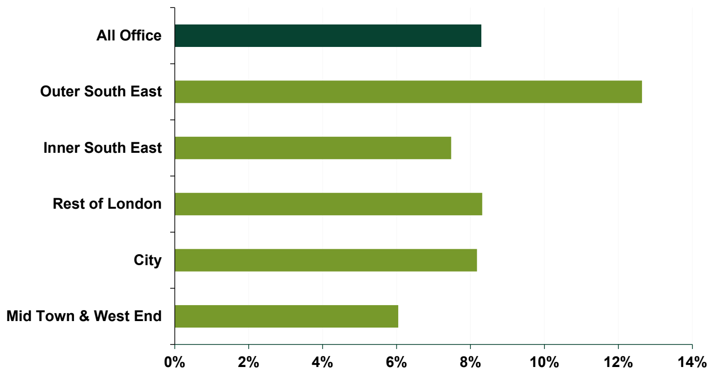
Source: BNPPRE/ Property Data

SOUTH EAST OFFICES INVESTOR PROFILE Q2 2018 (%)



Source: BNPPRE/ Property Data

MSCI TOTAL RETURNS (JUNE 17 - JUNE 18)



Source: MSCI

6 BUSINESS LINES in Europe

A 360° vision

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* November 2017
** Coverage In Transaction, Valuation & Consulting

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