KEY STATS AT A GLANCE
Leasing & Investment
LEASING
An in-depth overview
South East office take-up for 2018 totalled 3.42m sq ft, a 10-year high for the market, surpassing the previously held record of 3.33m sq ft reached in 2013 and 19% ahead of the 10-year average.

The second half of the year posted an especially strong performance, accounting for 63% of total take-up. In Q4, take-up totals reached 1.18m sq ft, the best performing quarter for five years, far ahead of the previous high in Q3 2018 of 980,497 sq ft.

This high performing year was driven by the return of larger transactions during H2, which had been absent from the market over the first half of the year and uncommon in 2017. 12 transactions over 50,000 sq ft were recorded in H2, of which four were in excess of 100,000 sq ft. In comparison, 2017 saw only four lettings in excess of 50,000 sq ft and none over 100,000 sq ft.

The final quarter of 2018 alone witnessed eight lettings in excess of 50,000 sq ft, with the largest deal of the quarter at 500 Brook Drive Green Park where Virgin Media agreed terms for 121,000 sq ft.

Other notable deals in Q4 included McLaren agreeing the lease of 64,210 sq ft at Victoria Gate, Woking, a deal brokered by BNP Paribas Real Estate on behalf of Aviva Investors. In addition, Starbucks acquired 54,000 sq ft at Building 7 Chiswick Park, and healthcare analytics company IQVIA leased 56,000 sq ft at No. 3 Forbury Place, Reading.

Although these larger deals provided a significant boost to take-up, the main volume of activity took place in the 5,000-20,000 sq ft bracket, accounting for 70.6% of transactions in 2018.

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The serviced office sector, which accounted for 10% of take-up in 2017, was increasingly active during 2018 with 19 new centres acquired. These sites totalled 512,000 sq ft and represented 15% of all take-up, with Spaces/Regus the most active operator accounting for nine deals.

This boost from the serviced office sector pushed Financial and Business Services sector take-up to just under 1.4m sq ft, the highest level recorded since 2008. Technology & Telecoms was the next key driver of take-up, accounting for 650,000 sq ft across 2018.

Looking ahead to 2019, there are only two significant developments due to complete in the first half of 2019; Royal London and Lamron Estates’ 80,000 sq ft Space in central Woking and Legal & General and Mitsubishi Estates’ 242,000 sq ft development, 245 Hammersmith. This follows Q4 2018 which saw no speculative development completions.

With vacancy rates across the region now at 9%, pipeline development extremely limited and a reduced number of active 50,000 sq ft+ requirements, this could mean that 2019 take-up levels fall back in-line with the 10-year average.

“2018 finished on a real high with the completion of some major lettings resulting in significantly improved take-up. That said, take-up has not been evenly spread across the region, with the Thames Valley and west London markets dominating. This was to be expected as we saw the majority of speculative development delivered here over the last three years.”

“These two submarkets have also witnessed a significant number of relocations from other submarkets as occupiers prioritise recruiting and retaining the best talent over property costs. It is clear that the Elizabeth Line is now starting to really influence occupiers’ property decisions.”

Ed Smith, Head of Office Agency at BNP Paribas Real Estate
INVESTMENT

An in-depth overview
Office investment activity in the South East for Q4 stood at £724m, representing a 5% increase on Q3. This led to total investment for 2018 reaching £2.8bn across 117 transactions, surpassing the 10-year average by 11%.

It does, however, represent a slower year for South East office investment, with the market missing out on those larger portfolio sales which boosted investment in 2017. Although a number of notable business park opportunities came to the market during 2018, including The Heights in Weybridge, international investors continued to be cautious due to political uncertainty.

This trend was not, however, isolated to the South East with total investment levels for both the UK and Central London also declining slightly on the previous year.

"The South East office investment market continues to be driven by UK Institutions for prime assets and UK Local Authorities & Middle Eastern Investors for cash on cash well-let assets, while US & Asian Investors’ appetite for single ownership business parks is on pause as they assess the current economic climate."

Hugh White, Head of National Office Investment

Notable transactions included the sale of Microsoft’s Campus, Reading, in a deal brokered by BNP Paribas Real Estate, for £100m to Valesco Group on behalf of Korean investors and the Equinox Portfolio purchased by ARES for £140m. In addition, Spelthorne Borough Council acquired Landid and Brockton’s South East Portfolio of
three offices across Reading, Slough and Uxbridge for £285m, while M&G Real Estate purchased St. Georges House, Wimbledon for £52.72m reflecting a yield of 4.36%.

Investment in the wider South East markets dominated, accounting for 61% of overall investment volumes, compared to transactions in those core Greater London markets which represented 39% of investment.

In terms of investor profile, Local Authorities have remained the single largest investor group in a continuation of the trend recorded in 2017, accounting for 33% of all South East investment in 2018. Local Authorities have tended to invest in single-let offices both in and out of town, as they look for secure rental income.

Prime yields in the South East now stand at 4.75% NIY, as predicted. As such, we expect demand to continue for prime assets in South East town centres, as investors are drawn to the relatively better value on offer when compared to London.

“The South East office market experienced a buoyant 2018, marked by a number of notable sales and increased activity from Local Authorities. The prime market has been characterised by a flight to lower risk assets in strong locations, as investors seek security. This has led to yields on well-let stock compressing.”

Conversely, yields on part-let or short lease assets are reversing. For that reason, we believe well-selected assets with these characteristics provide the opportunity for savvy investors.”

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South East Offices Review

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