



UNITED KINGDOM

# SOUTH EAST OFFICES

QUARTER 1 | 2019



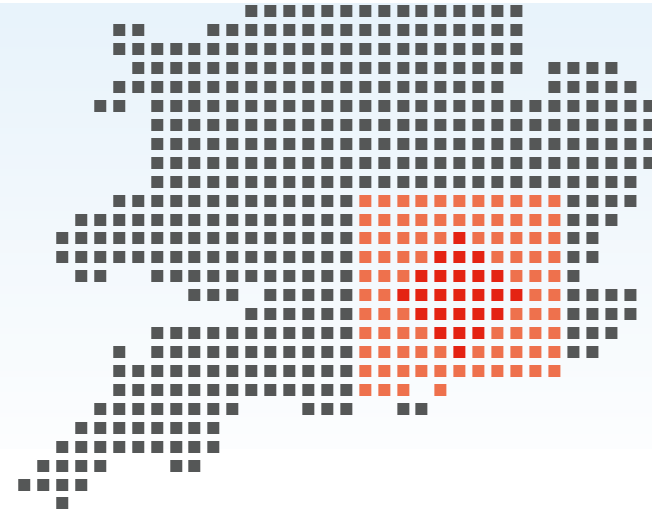
Q1 19 TOTAL TAKE-UP

806,179

SQ FT

5YR QTRLY AVG

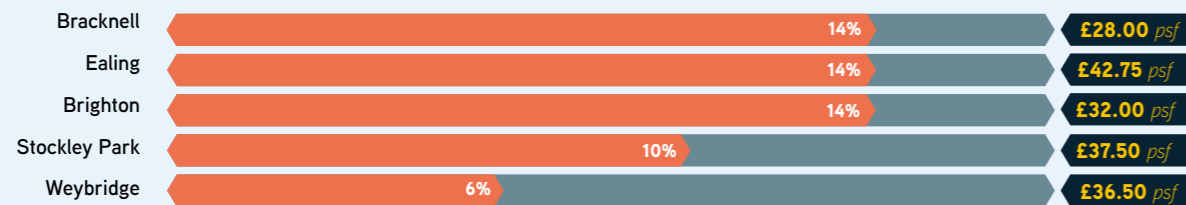
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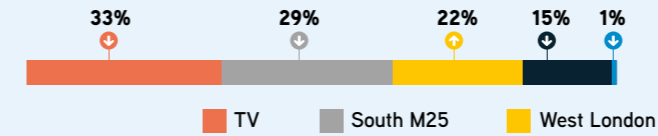
## MARKET HIGHLIGHTS

- Q1 2019 continued on a high note from Q4 2018, with take-up levels at 806,179 sq ft (see **Figure 1**). First quarter take-up levels were up significantly year on year and only marginally below the 5-year average of 827,176 sq ft.
- Demand for larger floor plates continued in Q1 2019, with 544,153 sq ft leased for space greater than 20,000 sq ft in 15 deals, which accounts for 67% of total take-up. Amongst the largest deals this quarter, Sovereign Housing Association leased the entirety of the Florence Building in Basingstoke (61,000 sq ft), which will see some staff moving from Newbury. The second largest deal saw Bottomline Technologies' acquisition of Hive 3 in Reading, whilst Starbucks took 54,000 sq ft in Building 7, Chiswick Park.
- Buoyant take-up for office space between 5,000 sq ft to 10,000 sq ft continued with 153,972 sq ft in 21 deals (see **Figure 2**).
- Tech & Media were the most active occupiers across the South East accounting for 21% of total take-up. The largest tech & media deal this quarter was the acquisition of Hive 3 (58,000 sq ft) by Bottomline Technologies. Two lettings to the London Borough of Hammersmith & Fulham (71,000 sq ft total) and the Sovereign Housing Association deal (61,000 sq ft) contributed to the Government being the second most active occupier with business services the third most active (99,054 sq ft) (see **Figure 3**).
- Although the serviced office sector was the fourth most active across the South East (57,500 sq ft), serviced office take-up has slowed since the end of 2018. Regus and Spaces were the only serviced operators taking space in Q1. Anecdotal evidence indicates that leasing activity in the flexible office sector will continue to slow for the rest of this year (see **Figure 4**).
- We continue to see occupiers seeking the best space available across the South East with 76% of total take-up being for prime locations. Strong Grade A demand was buoyed by 28 deals equalling 614,879 sq ft. Grade A take-up was 115% higher than in Q1 2018 (see **Figure 5**).
- Supply levels in the South East continue to be eroded with vacancy levels now at 7.8% compared with 8.6% in Q1 2018. With very few new build office spaces coming through to the market, those occupiers looking for space will need to consider pre-committing to space in buildings yet to be built.
- Tightening supply dynamics in the South East will continue to push rents on for best in class space. Key centres that have seen strong annual rental increases include Bracknell (14%), Stockley Park (10%) and Weybridge (6%) (see **Figure 6**).

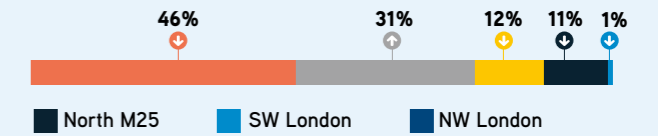
FIGURE 6: SOUTH EAST ANNUAL RENTAL GROWTH BY TOWN



Q1 2019 % TAKE-UP BY MARKET



Q1 2019 % AVAILABILITY BY MARKET



QUARTERLY VACANCY % AND TRENDS

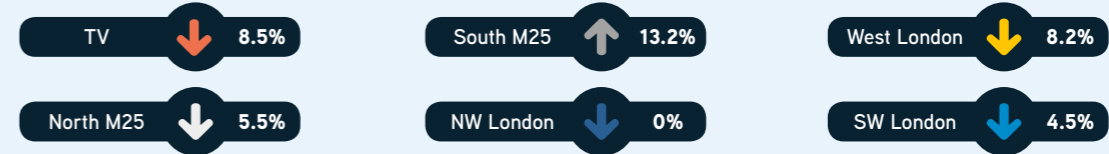


FIGURE 1: SOUTH EAST ANNUAL OFFICE TAKE-UP BY QUARTERS

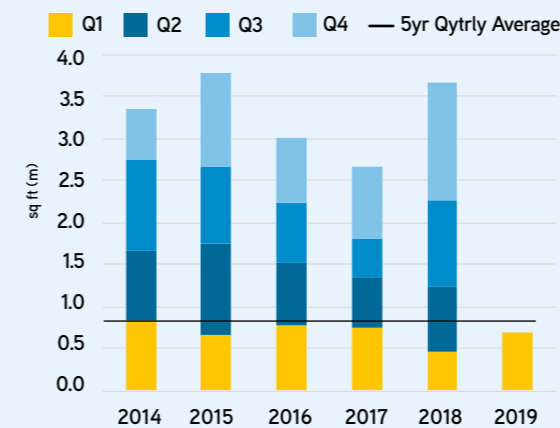


FIGURE 2: % TAKE-UP AND NUMBER OF DEALS

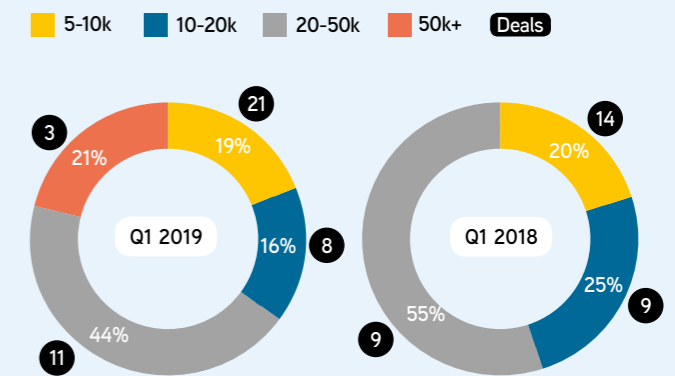


FIGURE 3: Q1 2019 % TAKE-UP BY BUSINESS TYPE

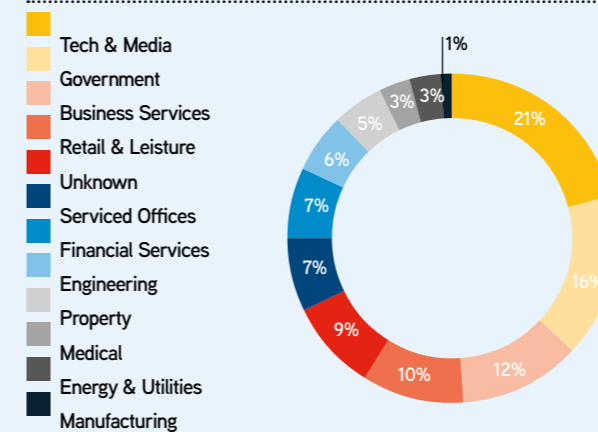


FIGURE 4: SOUTH EAST SERVICED OFFICE TAKE-UP

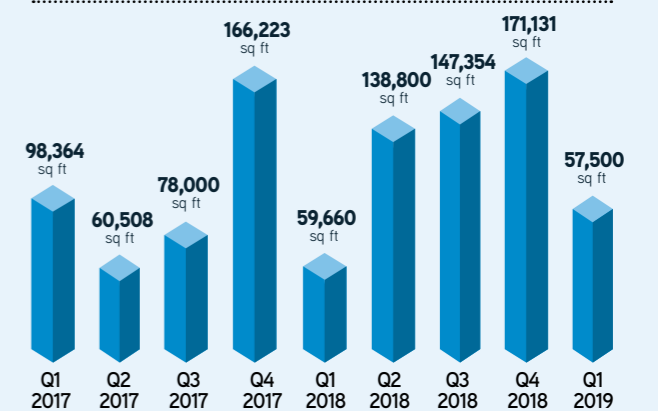
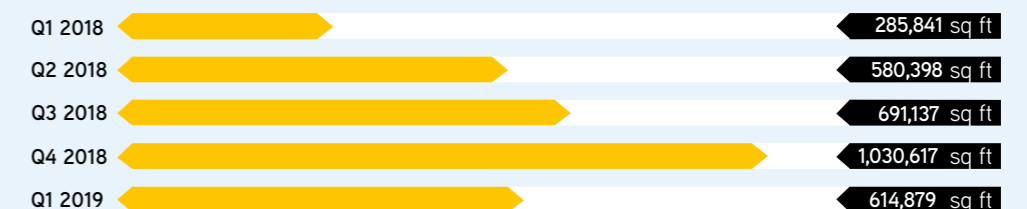


FIGURE 5: GRADE A TAKE-UP (SQ FT)





Urban Building, Slough



## TOWN FOCUS SLOUGH

Slough is the UK's 3rd most productive town, with an economy worth approximately £9 billion. 4,600 businesses are located in Slough, including the highest concentration of global corporate headquarters' outside London including McAfee, O2 Telefonica, Reckitt Benckiser, UCB, Lonza, Black & Decker, Fiat, Orange and HTC. In terms of a location for 'start-ups', Slough is ranked as 7th in the UK.

The council led "Heart of Slough" town centre regeneration scheme is changing the future outlook for Slough. The Curve, which is Slough's new library and cultural centre is already open and there are plans for two major hotels and a mixed-use development on the former Thames Valley University site, which will create 1,400 homes, 45,000 sq ft of retail & leisure space and 250,000 sq ft of office space. This, coupled with the imminent arrival of the Elizabeth Line, has led to significant private and institutional investment recently delivering much needed Grade A product in 25 Windsor Road (110,000 sq ft), The Porter Building (100,500 sq ft) and Future Works (100,000 sq ft).

In 2018, take-up reached 350,694 sq ft, almost double the 5-year average of 168,200 sq ft. which reconfirms Slough as a major office hub in the Thames Valley. The largest transaction was Slough Borough Council's purchase of

25 Windsor Road 110,000 sq ft for their own occupation. Elsewhere Landid & Brockton also had success with lettings to Spaces (31,700 sq ft) and Orange (22,000 sq ft), joining Fiserv at the Porter Building – only 27,400 sq ft remains available.

At Bath Road Central, Stanley Black & Decker upgraded their offices on the estate with the letting of 270 Bath Road (45,000 sq ft) and AEW welcomed their first tenant to 234 Bath Road with Indivior leasing 20,912 sq ft on the ground floor.

As a result of the latest high profile Grade A transactions, prime rents in Slough have grown from £28.50 per sq ft in 2016 to £36.00 per sq ft today - a 26% increase.

77% of take-up for 2018 was on Grade A space, which highlights the wider market trend of occupiers seeking best in class office space for their employees.

With named demand of over 125,000 sq ft focused on Slough only and expected to transact in 2019, we expect take-up to be above the 5-year average and the rejuvenation of Slough to continue.

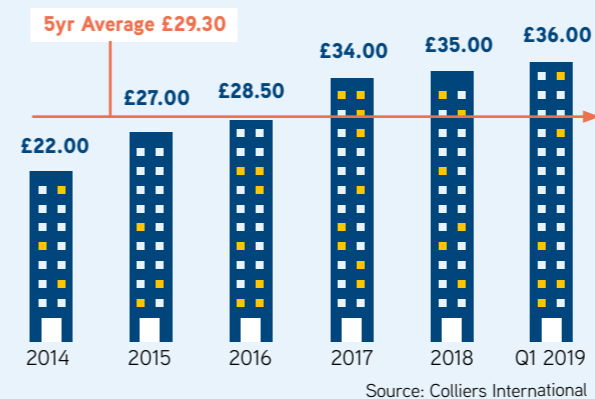
## CONNECTIVITY



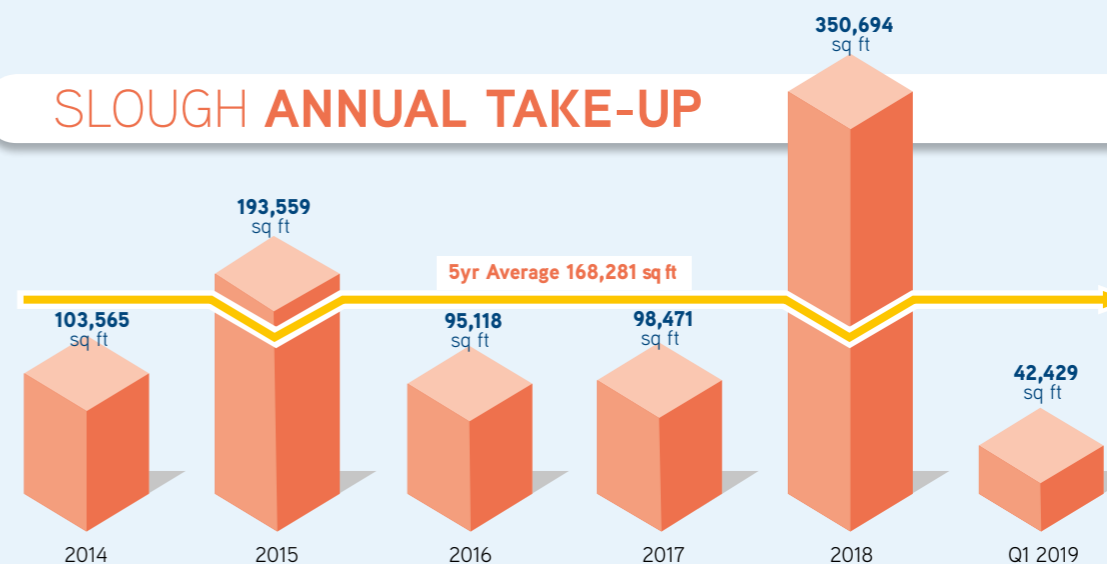
HIGHEST CONCENTRATION OF GLOBAL CORPORATE HQs OUTSIDE LONDON



## ANNUAL PRIME RENTS



## SLOUGH ANNUAL TAKE-UP



# INVESTMENT COMMENTARY

With the continued uncertainty in the UK political environment and lack of any clear decision over our exit from Europe, it will come as no surprise that Q1 2019 saw a significant reduction in investment activity in South East offices.

The quarter witnessed 27 transactions totalling approximately £333 million, which was a notable decrease when compared to Q1 2018, which saw 42 South East office transactions totalling £964 million.

The key trends for Q1 2019 were:

- Very few openly marketed office assets for sale
- Prime net initial yields remain resilient at 5.00%
- Defensive town centre and long income office opportunities remain keenly sought after
- Limited investor depth given the 'wait and see' approach of many investors
- Councils continue to invest with borrowings from the Public Works Loan Board, although this has slowed as many have now fulfilled their strategy and are preoccupied with local Spring elections. The majority are now investing only within their borough.

- Smaller lot sizes have traded well
- Limited distress in the market with prices holding firm
- NFU Mutual's acquisition of Victory House, Brighton for £36.1 million
- L&G's acquisition of The Florence Building, Basingstoke for £29 million
- Woking Borough Council's acquisition of Midas House, Woking for £23.95 million
- An owner occupier acquiring Building 3 The Hive, Theale for £16 million

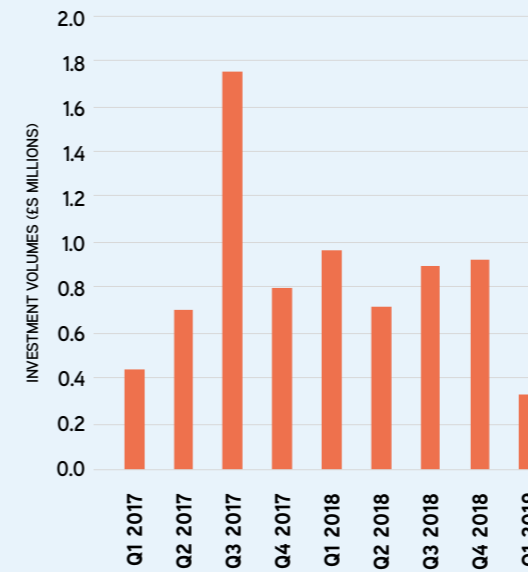
Of the £333 million transacted, in the quarter, approximately one third was accounted for across four transactions as identified below;

There remains a diverse group of buyers including councils who jointly accounted for the greatest number of total transactions at 22% along with property companies (22%), financial institutions (15%), overseas investors (15%), private investors (11%), owner occupiers (11%) and undisclosed (4%) who all invested in the first quarter.

Notable by their absence were the private equity buyers who are struggling to find assets that can meet their return criteria in the current market.

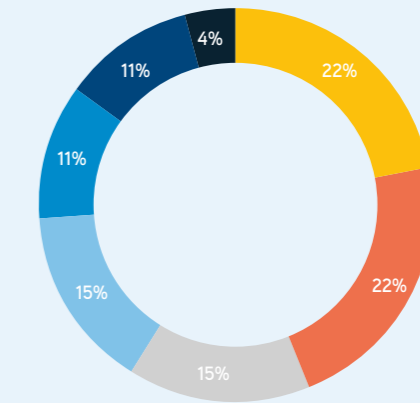
“ Prime net initial yields remain resilient at 5.00% ”

## INVESTMENT VOLUMES BY QUARTER



## Q1 2019 INVESTMENT MARKET SHARE BY NUMBER OF TRANSACTIONS

- Council
- Propco
- Fund
- Overseas
- Private Investor
- Owner Occupier
- Undisclosed



## Q1 2019 SE INVESTMENT HIGHLIGHTS

- Size (sq ft)
- Term Certain
- Price
- Net Initial Yield
- Purchaser



### VICTORY HOUSE, BRIGHTON

- 84,988
- 7.7 years
- £36,100,000
- 4.88%
- NFU Mutual



### FLORENCE BUILDING, BASINGSTOKE

- 61,000
- 20 years
- £29,050,000
- 4.25%
- L&G



### MIDAS HOUSE, WOKING

- 56,205
- £23,950,000
- 5.50%
- Woking Borough Council



### THETA, CAMBERLEY

- 51,575
- 10.2 years to expiry, 4.4 years to break
- £13,400,000
- 7.80%
- Surrey Heath Borough Council



### 2 CITY PARK, HOVE

- 67,296
- 7.5 years to expiry, 4.5 years to break
- £21,750,000
- 5.95%
- West Sussex County Council

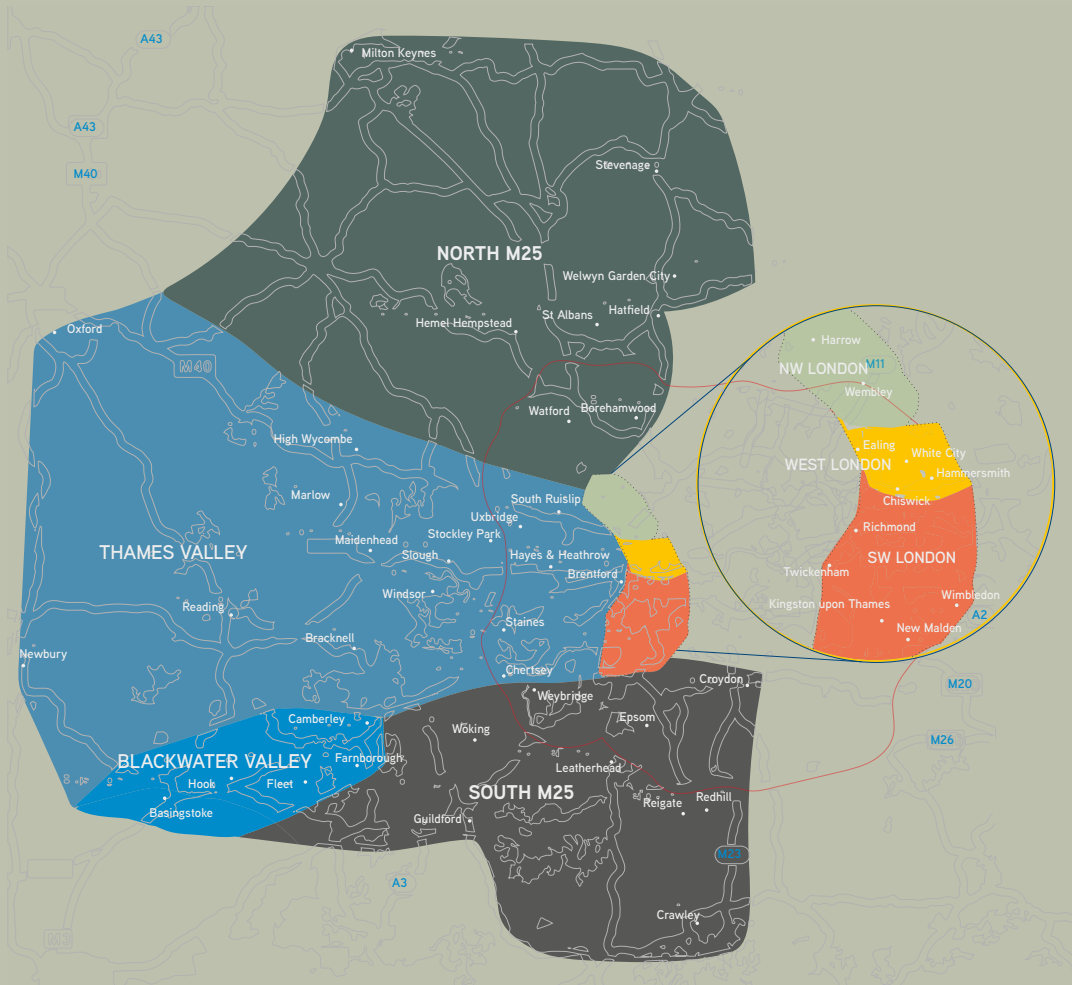


### SITA HOUSE, MAIDENHEAD

- 26,501
- 11.5 years
- £12,600,000
- 4.75%
- Royal London

# METHODOLOGY AND CHANGES TO STATISTICAL ANALYSIS

Colliers International South East Offices has changed our geographic boundaries to separate out NW London, West London and SW London. The map below provides a detailed representation of the towns and cities included in these groupings.



## FOR MORE INFORMATION

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