



UNITED KINGDOM

# SOUTH EAST OFFICES

QUARTER 2 | 2019



Q2 19 TOTAL TAKE-UP

662,198

SQ FT

5YR QTRLY AVG

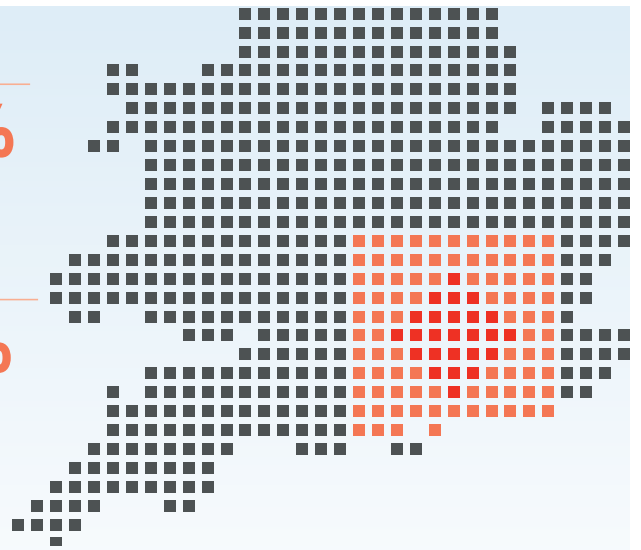
↓ -19%

Q-O-Q

↓ -18%

Y-O-Y

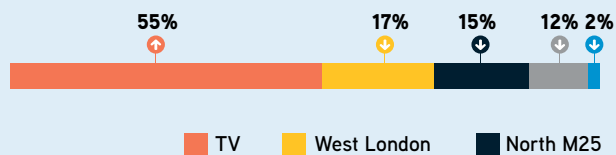
↓ -14%



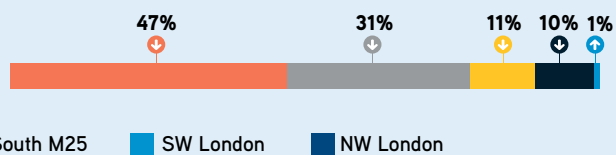
## MARKET HIGHLIGHTS

- Q2 2019 take-up levels (662,198 sq ft) were more subdued than Q1 levels. Leasing activating was significantly below the 5-year quarterly average of 818,255 sq ft, as well as down year-on-year.
- Demand for 10,000 - 20,000 sq ft improved as the number of transactions increased from eight deals in Q1 2019 to 14 deals in Q2. Six of the 14 deals in this size band were for units between 18,000 - 20,000 sq ft. The largest deals between 10,000 - 20,000 sq ft included Merck Serono leasing 20,000 sq ft at 5 New Square, Heathrow and Select Car Leasing (19,650 sq ft) at Pacific House, Reading.
- There were eight deals in the 20,000 - 50,000 sq ft size bands, some of which are amongst the three largest deals in Q2; TSYS Managed Systems (58,000 sq ft) at Burystead Court, Milton Keynes Li & Fung Europe (50,400 sq ft) at WestWorks, White City and Gartner leased 46,000 sq ft at One Causeway, Staines. The pre-let to Gartner triggered AIMCo's and XLB's scheme, which will now deliver 120,000 sq ft in 2021.
- The tech & media sector surpassed manufacturing this quarter as the most active occupiers across the South East accounting for 26% and 21% of total take-up respectively. The largest tech & media deals include Gartner, who leased 46,000 sq ft at One Causeway and GTT Communications (25,264 sq ft) at Park One - St James House, Bracknell. The largest manufacturing deals include, TSYS Managed Systems who leased 58,000 sq ft at Burystead Court, Milton Keynes, the Canon deal at Stockley Park (mentioned above) and finally 32,312 sq ft at The Gate, Cowley Business Park, Uxbridge was leased to drinks manufacturer, Monster Energy.
- The serviced office sector saw no additional take-up this quarter, which is the first time since Q1 2018; we are aware of approximately 82,000 sq ft under offer to three different flexible office providers.
- Occupiers across the South East and West London continue to seek the best space available that offers both amenities and good connectivity. This has certainly been demonstrated with the office developments in White City, which have attracted significant occupiers over other West London locations and are now close to being fully let since launching the scheme in 2016.
- 58% of total take-up was for Grade A space, which comprised 20 deals, totalling 381,041 sq ft.
- Supply levels in the South East continue to be eroded as vacancy levels are now just 7.71% down from 9.39% in Q2 2018.
- There was more than 750,000 sq ft of known demand in Q2, which are expected to complete this year and we anticipate pre-commitments will become more prevalent.
- The majority of landlords are being very proactive and actively engaging their tenants directly to build stronger relationships in order to retain existing tenants.
- Tightening supply dynamics in the South East is keeping headline rents strong. Some key centres have witnessed annual rental increases include Bracknell (14%), Ealing (10%), Stockley Park (10%) and Brighton (7%).

### Q2 2019 % TAKE-UP BY MARKET



### Q2 2019 % AVAILABILITY BY MARKET



### QUARTERLY VACANCY % AND TRENDS



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

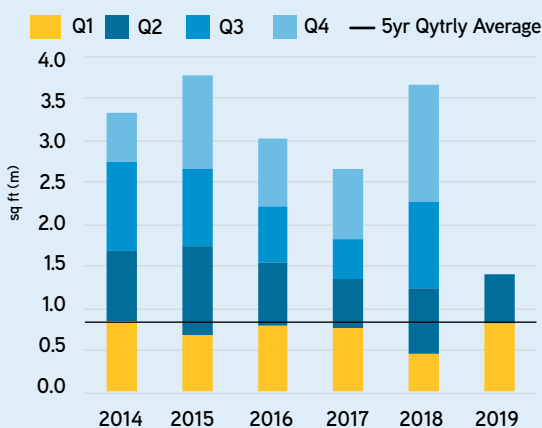


FIGURE 2: TOTAL ANNUAL % TAKE-UP AND NUMBER OF DEALS

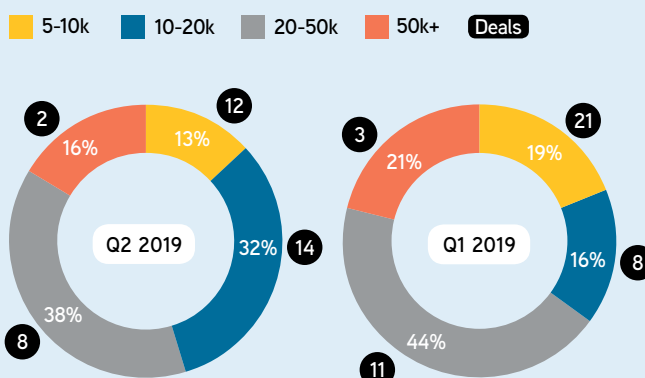


FIGURE 3: % TAKE-UP BY BUSINESS TYPE

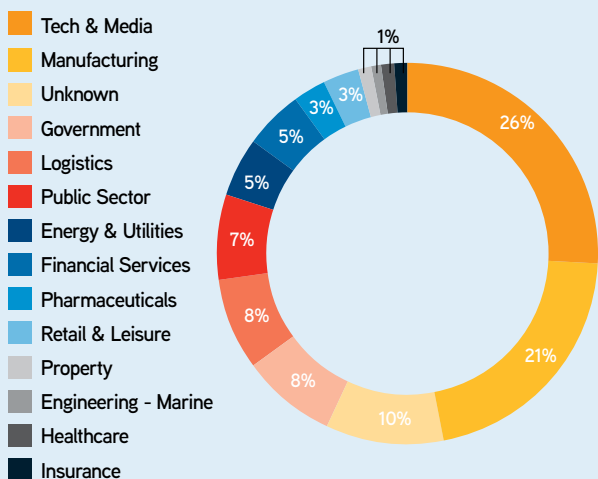


FIGURE 4: GRADE A TAKE-UP

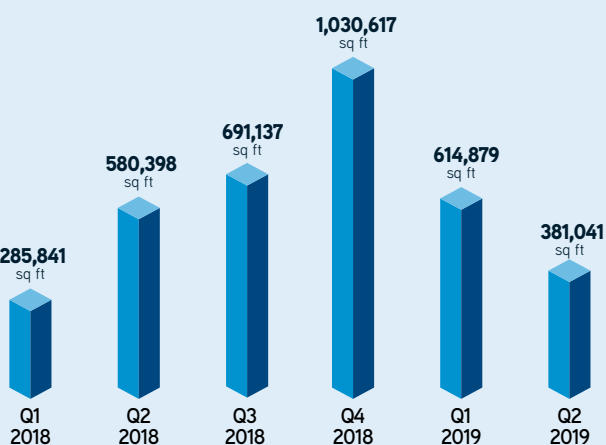
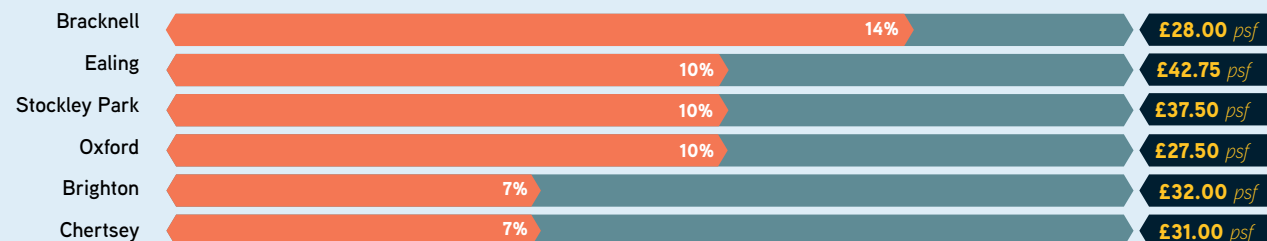


FIGURE 5: SOUTH EAST ANNUAL RENTAL GROWTH BY TOWN





One Causeway Park, Staines

## TOWN FOCUS

# STAINES

Staines is a well-established South East office centre located within the Thames Valley. It benefits from excellent motorway connections, located within the western boundary of the M25 and only six miles from Heathrow. Staines railway station provides a direct rail service to London Waterloo, with a fastest journey time of approximately 35 minutes.

Due to its strategic location, Staines has attracted significant corporate businesses into the town including; VMWare, Wood Group Kenny, Ricoh, Enterprise Cars, Bupa, British Gas, Future Electronics, ServiceNow and Gartner.

In 2014 and 2015 there was a significant increase in availability with the delivery of three new schemes, 5 Pinetrees (58,779 sq ft), 3 Lotus Park (66,920 sq ft) and Strata (89,000 sq ft), all of which completed within 12 months of each other. While this increased availability in the short-term, it had an upward effect on rents with new levels being set. For example, ServiceNow leased 58,000 sq ft at Strata for £34.00 per sq ft and Mallinckrodt Pharmaceuticals took 20,000 sq ft at 3 Lotus Park for £34.50 per sq ft.

Take-up in 2016 and 2017 was somewhat subdued and below the 5-year annual average of 88,300 sq ft; however, it's been a very strong start to the year in 2019 with take-up for H1 already at 107,041 sq ft. Key lettings include IFS leasing the whole of Bourne House (26,500 sq ft) and Ricoh relocating to 3 Lotus Park (10,800 sq ft). In a real positive for Staines, Tenable Securities have moved from Stockley Park to lease the top floor of 5 Pinetrees, a setting a new record rent of £35.50 per sq ft.

Current Grade A availability now stands at 132,230 sq ft, less than two years' supply and with only London & Marlborough's scheme Riverside House (23,722 sq ft) due to reach completion in 2019, supply levels will remain low in the immediate future. However, with the recent Gartner pre-let (46,000 sq ft) at One Causeway Park, this will bring forward the remaining 74,000 sq ft within this exciting new development, which further reinforce rents in Staines.

# CENTRALLY LOCATED



EXCELLENT TRANSPORT CONNECTIONS

MAJOR CORPORATE OCCUPIERS

Gartner

British Gas

enterprise

RICOH

vmware

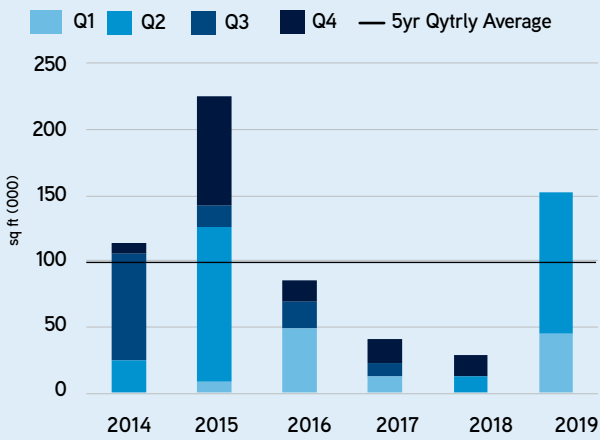
WOOD GROUP

Bupa

FUTURE ELECTRONICS

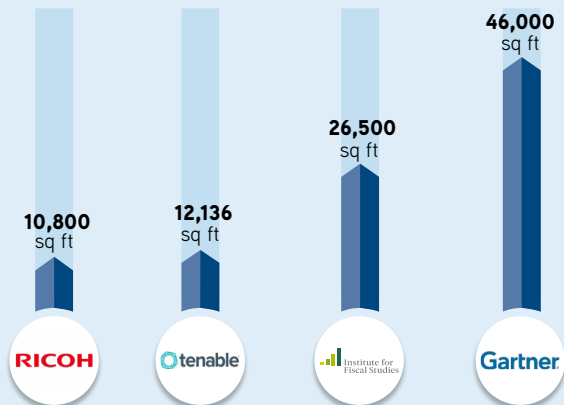
servicenow

## STAINES TAKE-UP



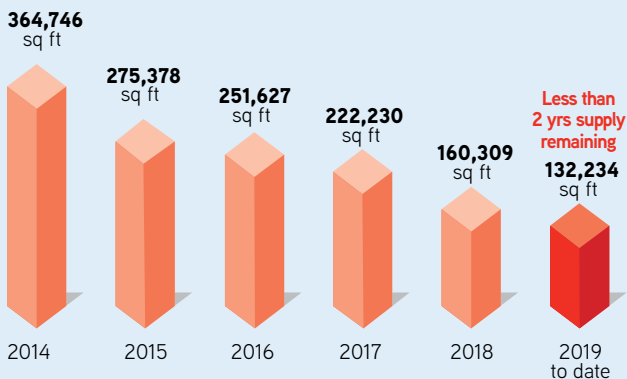
Source: Colliers International

## KEY DEALS IN 2019



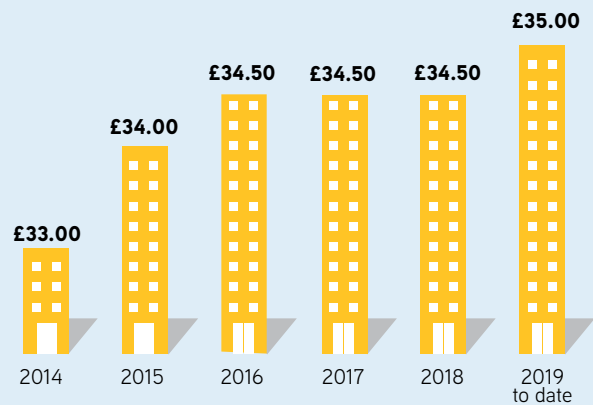
Source: Colliers International

## STAINES ANNUAL AVAILABILITY



Source: Colliers International

## STAINES PRIME RENTS



Source: Colliers International

## INVESTMENT COMMENTARY

Q2 2019 witnessed an increase in investor activity following a subdued start to the year where only £333 million was transacted in Q1, the 5-year average is £638 million. This increase in transaction volumes was a result of vendors seeking to take advantage of the period before the Brexit deadline.

South East offices continue to offer competitive returns when compared to Central London and the industrial market. However, there remains a gap in pricing aspirations between vendors and purchasers, which needs to close to improve liquidity.

Q2 2019 witnessed 35 transactions totalling investment volumes of approximately £495 million. This is 30% down on Q2 2018 investment volumes, which saw 37 South East office transactions totalling investment volumes of £713 million.

At the half year point £828 million has been transacted, which is 51% down on H1 2018 when £1.677 billion of investment volumes had transacted.

The key trends of Q2 2019 were:

- Long income opportunities with guaranteed rental performance through indexation remain keenly sought after
- Multi-let town centre offices also remain top of investors' shopping lists
- Sub £10 million lot sizes continue to trade well with property companies becoming more prevalent buyers
- Financial institutions continuing to chase liquidity have been active sellers but largely absent on acquisitions

- Private equity buyers have returned to the market, accounting for the greatest number of transactions and volumes in the quarter
- Spring elections subdued spending for many councils who remain active but on a selective basis with increasing preference for in borough assets
- There was a new entrant to the market with an industrial logistics REIT acquiring vacant offices for industrial development

Of the £495 million transacted approximately 44% was accounted for across five transactions as identified below:

- Angelo Gordon acquired Colworth Park, Bedford for £62.75 million
- Prologis acquired 1-3 Ironbridge, Stockley Park for £56 million
- Kennedy Wilson acquired Ditton Park, Langley for £41.3 million
- Europa Capital acquired One Eton Street, Richmond for £34.5 million
- BA Pension Fund acquired Windsor Dials, Windsor for in excess of £24 million

There remains a diverse group of buyers with the largest market share attributed to private equity at 23%, along with councils (20%), residential developers (14%), property companies (11%), private investors (11%), financial institutions (9%), owner occupiers (6%), overseas investors (3%) and an industrial developer (3%) who all invested in the second quarter of 2019.

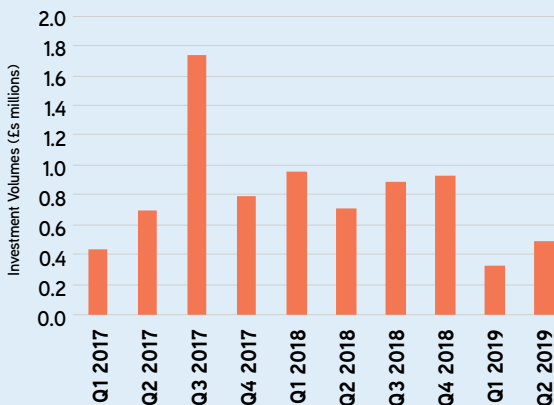
Notable, by their muted activity, were the financial institutions who are gradually decreasing their buying market share as evidenced by Q4 2018 (19%), Q1 2019 (15%) and Q2 2019 (9%).



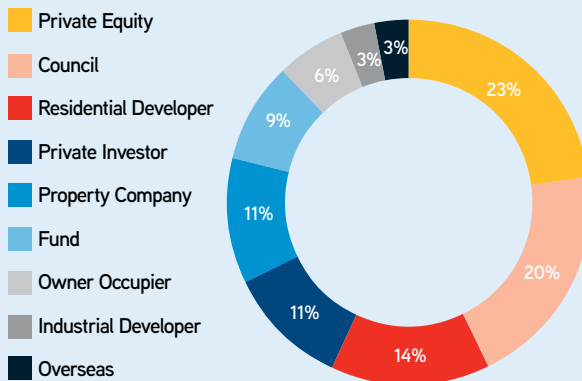
*Q2 2019 witnessed an increase in investor activity following a subdued start to the year*



### INVESTMENT VOLUMES BY QUARTER



### INVESTMENT MARKET SHARE BY NUMBER OF TRANSACTIONS



### Q2 2019 INVESTMENT HIGHLIGHTS

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

**COLWORTH PARK, BEDFORD**

- Size: 319,789 sq ft
- Term: 13.4 years
- Price: £62,750,000
- Net Initial Yield: 5.91%
- Purchaser: Angelo Gordon

**1-3 IRONBRIDGE, STOCKLEY PARK**

- Size: 305,000 sq ft
- Term: 0 years
- Price: £56,000,000
- Net Initial Yield: N/A
- Purchaser: Prologis

**DITTON PARK, LANGLEY**

- Size: 194,565 sq ft
- Term: 1.5 years
- Price: £41,300,000
- Net Initial Yield: N/A
- Purchaser: Kennedy Wilson

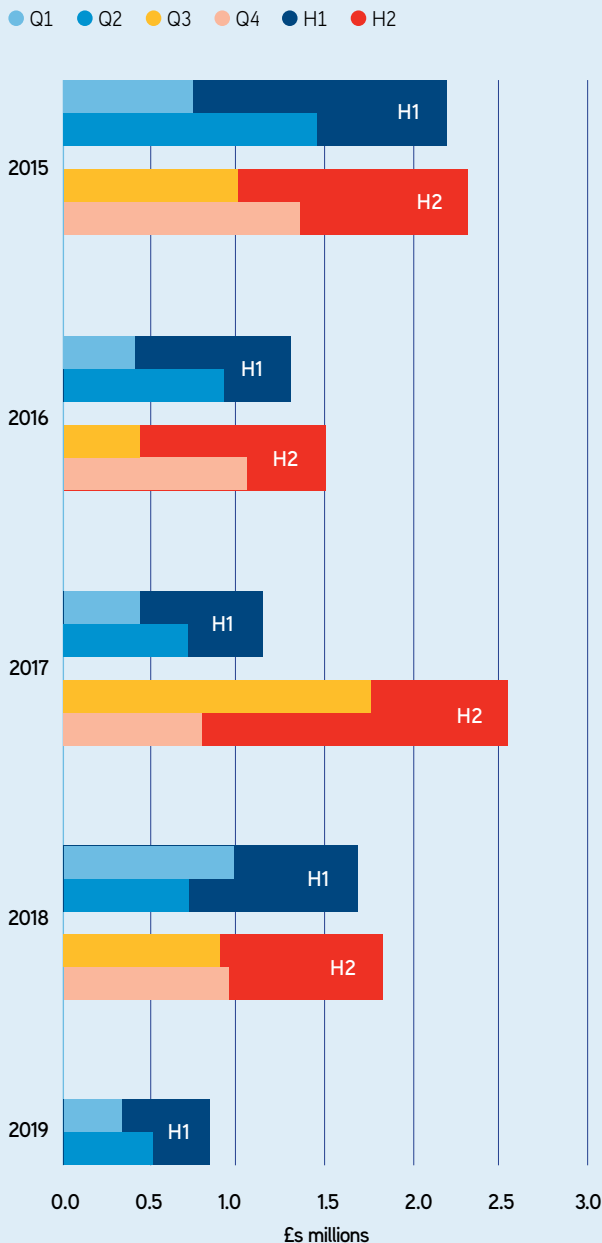
**ONE ETON STREET, RICHMOND**

- Size: 48,300 sq ft
- Term: 7.16 years
- Price: £34,500,000
- Net Initial Yield: 5.41%
- Purchaser: Europa Capital

**WINDSOR DIALS, WINDSOR**

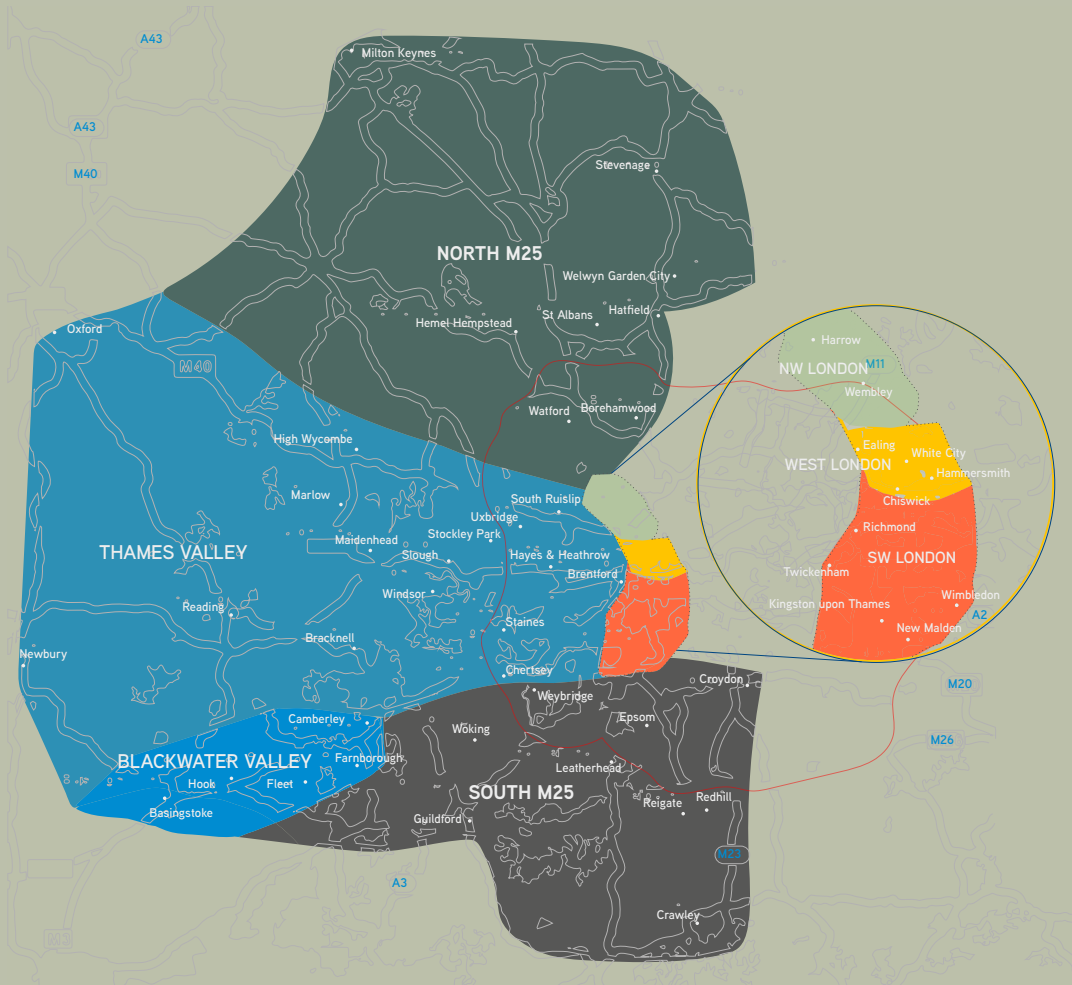
- Size: 68,669 sq ft
- Term: 0 years
- Price: £24,000,000+
- Net Initial Yield: N/A
- Purchaser: BA Pension Fund

### INVESTMENT VOLUMES/COMPARISON BY QUARTER/HALF YEAR



# 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.



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