



Building 3,500 Oxford Business Park

INSIGHT

South East offices

Key towns update of activity

Q2 2021

AVISON
YOUNG

Q2 Overview

Welcome to Avison Young's South East Q2 2021 update which focuses on 10 key markets, made up of in town and out of town markets, covering the whole of the south east geographical area. Whilst the office sector has continued to be under Covid 19 restrictions with the government advice to work from home where possible, take-up has continued to steadily increase quarter on quarter as the relaxation of restrictions comes closer.

Take-up increased in quarter 2 with 435,320 sq ft recorded, a 10.2% increase on quarter 1 2021 which was only marginally down on quarter 4 2020 showing the increase in activity from the low of quarter 2 2020 when the UK first entered lockdown. In a clear demonstration of how far the market has come in the last 12 months this quarter saw almost double the activity of quarter 2 2020. Against the backdrop of "work from home" restrictions this clearly demonstrates that the office is still vital for many businesses. A number of transactions that were put on hold such as IHG's acquisition of 57,400 sq ft at Windsor Dials finally completed at a record rent for the Thames Valley of £43 per sq ft. As government guidance changes during quarter 3 we expect take-up to continue to rise during the second half of the year. Rents across the market have remained stable particularly for prime offices, secondary rents are beginning to soften in markets with an oversupply but not significantly.

The uptick in the occupational market has led to investor confidence rising with a number of large transactions taking place, the most notable being Brookfield Asset Management's purchase of the Arlington Business Park portfolio for £714 million. There were 3 other transactions over £100m - Kennedy Wilson's £177.5 million purchase of One Embassy Gardens, Sixth Street and Henley Investments' £101 million purchase of Bedfont Lakes and Global Net Lease's purchase of the McLaren HQ in Woking for £170 million. Overseas buyers were the most active on the acquisition front accounting for 54% of purchases. They were also the biggest vendors with 42% of sales followed by the continued sales from Funds which accounted for 26% of the market.

This update looks at which sectors have been most active on the occupational and investment side, the latest vacancy rates and comments on the key transactions, that have taken place. We have also included key transactions across the South East, some of which fall outside our 10 barometer towns.



PIERS LEIGH
Principal, South East Offices

// **Take-up has continued to rise this quarter; enquiry volumes are picking up and the 5,000 -30,000 sq ft size range has finally started to show signs of life. With the summer holidays coinciding with the lifting of restrictions on office use we anticipate quarter 3 to be one of steady of improvement rather than a rapid bounce back, but quarter 4 should be the best of the year and possibly for 2 years. The return to the office for many can't come soon enough. However, all businesses are going to have to face the challenge of how to encourage some staff back and how to get the best use of the office for the whole of the working week as many occupiers are planning on a hybrid mix at least for the short term.**

Occupational Market Data

TAKE UP ACROSS SE 10 IN Q2

435,320 sq ft

Increase of **93.5%** compared to Q2 2020

10.2% increase compared to Q1 2021

Grade A - 226,120 sq ft

Grade B - 209,200 sq ft



Town centre

119,100 sq ft



Out of town

316,220 sq ft

HEADLINE RENTS AVERAGE

£36.50 per sq ft

Q2 2021 VACANCY RATE SE 10

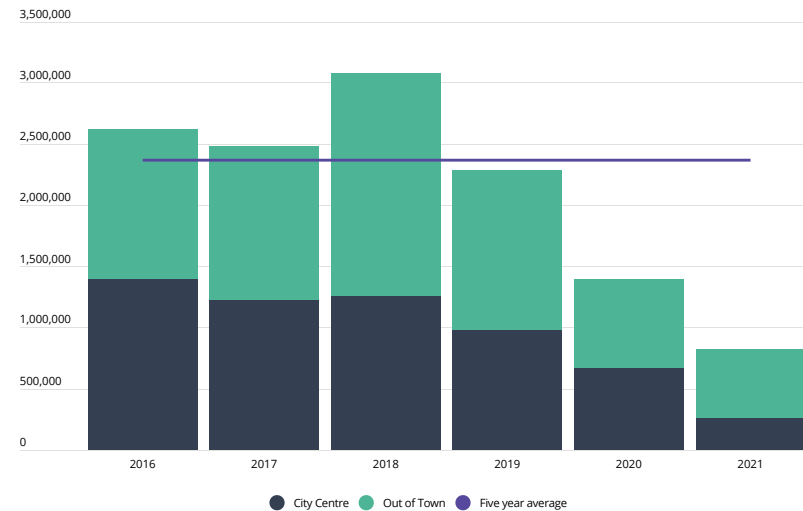
Grade A

6.5%

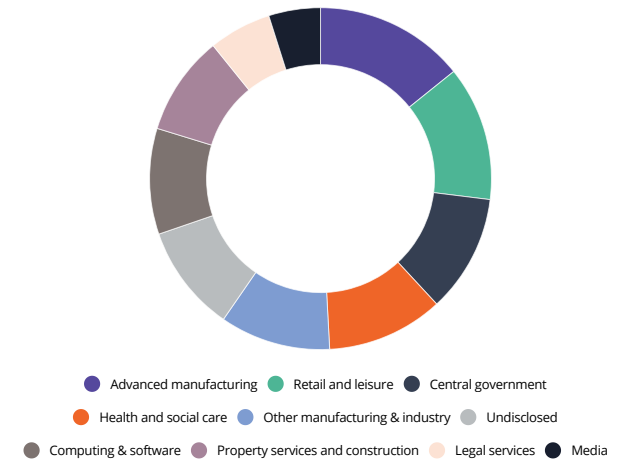
Total

10.9%

TEN TOWNS TOTAL TAKE-UP (SQ FT)



TEN MOST ACTIVE OCCUPIERS IN 2021



KEY SOUTH EAST OFFICE OCCUPATIONAL TRANSACTIONS IN Q2 2021



ITV

120,000 sq ft

Broadcast House, White City on a sub-lease from BBC on confidential terms.



IHG

57,387 sq ft

Windsor Dials, Windsor, on a 15-year lease at a rent of £43.00 per sq ft with 38 months' rent free.



Amazon

48,744 sq ft

400 Brook Drive, Reading. Relocation on confidential terms.



Rentokil Initial

46,000 sq ft

Compass House, Crawley, on a 10 year lease at a rent of £16.00 per sq ft.



Siemens

29,831 sq ft

Pinehurst, Farnborough on a 10 year term with a rent of £27.00 per sq ft.

Varsity Corridor

CAMBRIDGE

Quarter 2 has been relatively quiet for Cambridge in terms of completed deals, with only 38,000 sq ft transacted across 5 lettings. Nevertheless, the unstoppable dynamism of the market continues as over 200,000 sq ft is rumoured to be under offer including one party expanding from 30,000 sq ft to 118,000 sq ft.

The market continues to suffer from a general lack of supply particularly for well-located good quality offices. However, not all office buildings in the wider Cambridge market attract equal interest and the vacancy level overall has crept up to 10.4% of the total stock.



KEY SECTOR ACTIVITY

Sector	Take up sq ft	%
Computing & Software	20,420	53%
Property Services & Construction	6,720	18%
Education & Training	6,000	16%

VACANCY RATES Q2 2021

Grade A



4.9%

Total



10.4%

HEADLINE RENT



Town centre
£48.50 per sq ft



Out of town
£36.00 per sq ft

QUARTER 2 TAKE UP



Town centre
31,590 sq ft

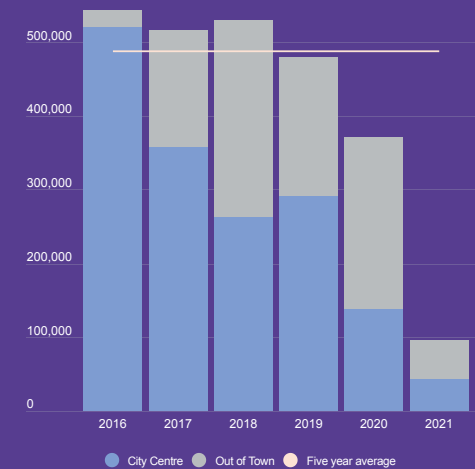


Out of town
6,720 sq ft

25,270 sq ft Grade A

13,150 sq ft Grade B

ANNUAL TAKE UP



MILTON KEYNES

The long awaited letting in Phoenix House to the DWP on 30,000 sq ft is the largest letting of the year so far in Milton Keynes. CEG's strategy to comprehensively refurbish Norfolk and Ashton House with a contemporary exposed services specification has paid off with Optical Express expanding into an 8,500 sq ft eye clinic and Canal & River Trust taking 3,800 sq ft. Several tenants have taken fitted suites at a rental premium and the building is almost full. The demand for fitted space is further evidenced by the fact that IWG's Spaces in 100 Avebury Boulevard is back to pre-Covid occupancy levels.

Overall rents are being maintained in the town centre but have fallen by an average of 25% in out of town locations on secondary stock.



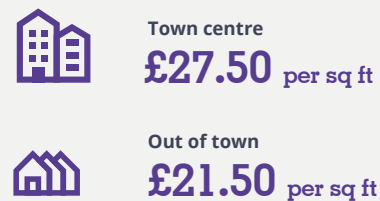
KEY SECTOR ACTIVITY

Sector	Take up sq ft	%
Central Government	26,769	48%
Property Services & Construction	19,347	32%
Health & Social Care	8,500	14%

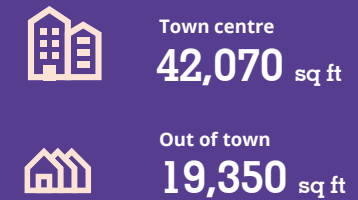
VACANCY RATES Q2 2021



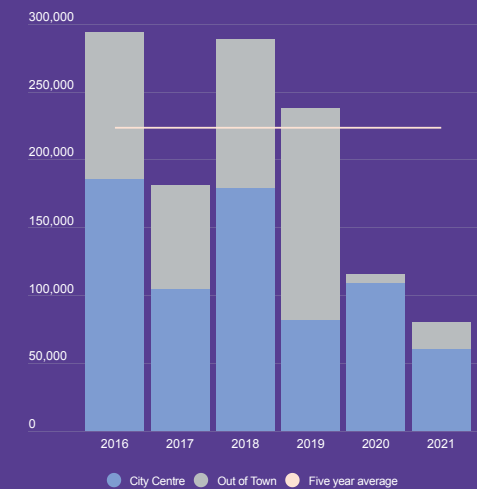
HEADLINE RENT



QUARTER 2 TAKE UP



ANNUAL TAKE UP



OXFORD

As anticipated last quarter, we have seen an improvement in take-up in quarter 2 with just under 80,000 sq ft transacting. The most noteworthy transaction was Oxford Biodynamics taking 25,000 sq ft at Oxford Business Park, who are understood to be paying a rent of £33.50 per sq ft for a ten year lease. This brings the total take-up so far this year to 85,000 sq ft, which is down 14% on H1 2020 but double the pre-Covid levels of H1 2019 and in-line with the 5 year average. There is still a strong pipeline of around 40,000 sq ft under offer which is close to completing, so quarter 3 is likely to be another good quarter.

In terms of availability, Building One at Oxford Technology Park is due to complete this Summer which will deliver 35,000 sq ft of flexible office, lab and R&D space in order to accommodate the burgeoning demand from the Life Sciences sector. There has been little change to availability this quarter, the lack of Grade A stock especially in the town centre will keep an upward pressure on rents and leave occupiers wanting to be in Oxford little choice other than the out of town business parks.



KEY SECTOR ACTIVITY

Sector	Take up sq ft	%
Health & Social Care	33,774	42%
Legal Services	11,700	15%
Media	4,612	6%

VACANCY RATES Q2 2021

Grade A



2.9%

Total



6.3%

HEADLINE RENT



Town centre
£46.75 per sq ft



Out of town
£35.00 per sq ft

QUARTER 2 TAKE UP



Town centre

0 sq ft



Out of town

79,640 sq ft

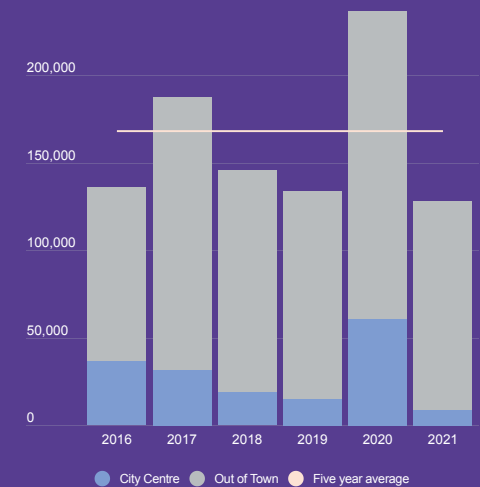
70,640 sq ft

Grade A

8,890 sq ft

Grade B

ANNUAL TAKE UP



M3/M4 Towns

BASINGSTOKE

Basingstoke has just recorded its best quarter since the pandemic began, with a combined take-up of 34,000 sq ft across 4 lettings. This represents a 46% increase from Q1 2021 however, it is still 50% down from quarter 1 2020. One of the lettings which completed in quarter 2 was DWP's 13,000 sq ft acquisition of Centenary House continuing their acquisition spree in 2021. This acquisition was part of the Governments 'Restart' Scheme to retrain those who have lost their jobs due to the economic consequences of the Pandemic.

Basingstoke's vacancy has remained stable over the past couple of years although there is still a restricted supply of Grade A office space.



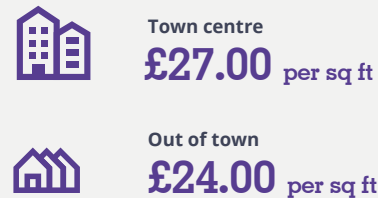
KEY SECTOR ACTIVITY

Sector	Take up sq ft	%
Central Government	13,076	39%
Other Manufacturing & Industry	7,266	22%

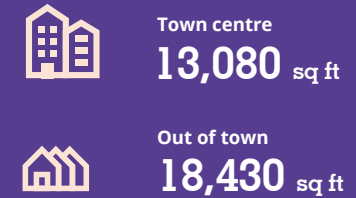
VACANCY RATES Q2 2021



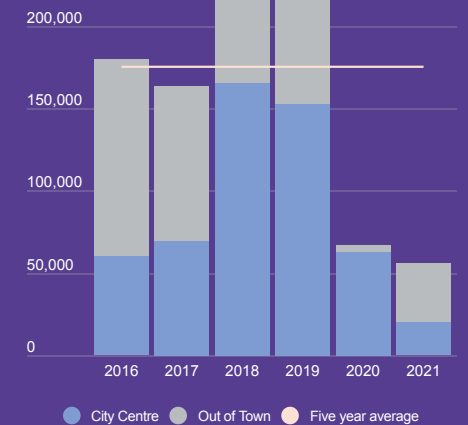
HEADLINE RENT



QUARTER 2 TAKE UP



ANNUAL TAKE UP



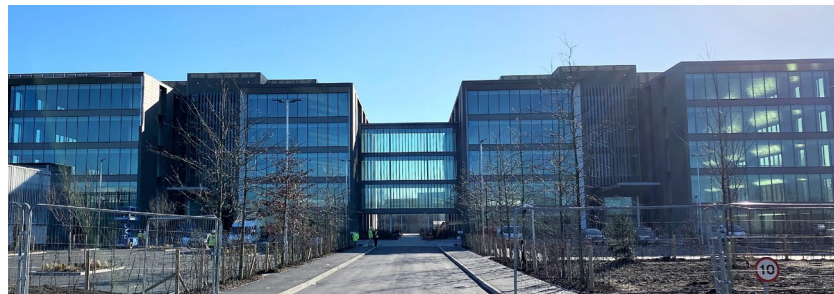
READING

Reading has had another good quarter compared to last year, with 79,000 sq ft of take-up, following hot on the heels of the 190,000 sq ft that completed in Q1. The majority of this take-up is due to Amazon leasing approximately 50,000 sq ft at 400 Brook Drive, Green Park, which has been fully refurbished following its surrender by Veritas. Green Park has landed the three largest Thames Valley deals in the last five years, with lettings to Three in January of 119,000 sq ft, Virgin signing 123,000 sq ft in December 2018 and Thales taking 111,000 sq ft in 2016.

Total take-up in H1 this year comes to approximately 270,000 sq ft which has already exceeded the 240,000 sq ft that transacted during the whole of last year and is 15% above the 5 yearly average but down 25% on H1 2019.

The flight to quality is continuing with almost all of the recorded deals this quarter being for Grade A space.

Rents for Grade A offices are holding up but occupiers are able to secure attractive incentives. This is likely to continue whilst supply remains good. Secondary stock is likely to see continued downward pressure on rents.



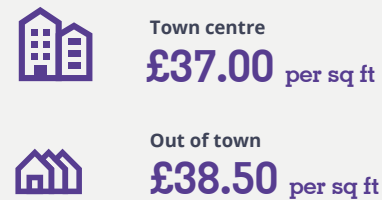
KEY SECTOR ACTIVITY

Sector	Take up sq ft	%
Retail & Leisure	48,744	67%
Media	14,301	20%
Advanced Manufacturing	8,465	12%

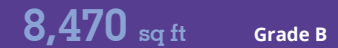
VACANCY RATES Q2 2021



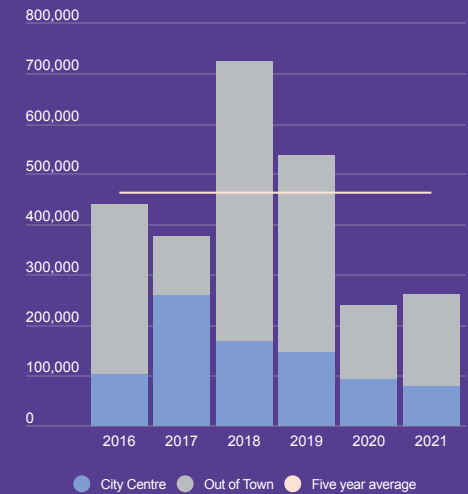
HEADLINE RENT



QUARTER 2 TAKE UP



ANNUAL TAKE UP



MAIDENHEAD

For too many quarters we have reported limited letting activity in Maidenhead, despite the positive outlook in respect of the town centre regeneration and forthcoming opening of the Elizabeth Line. However, Q2 has seen an improvement with two lettings at Foundation Park, including one on fitted space at a premium rent, one at Quantum and one at Switchback Office Park; all outside the town centre but all at healthy rents. The very positive news for the town centre is that 4 deals are under offer totalling over 35,000 sq ft; at rents in the mid-£30 per sq ft range. To see this improvement in the market whilst we are still in the grip of Covid restrictions for offices is very encouraging and might indicate that Maidenhead has finally turned a corner.



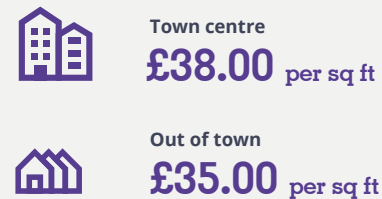
KEY SECTOR ACTIVITY

Sector	Take up sq ft	%
Computing & Software	12,705	48%
Accountancy & Consulting	8,521	32%
Advertising, Marketing & PR	3,400	13%

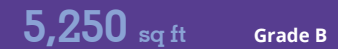
VACANCY RATES Q2 2021



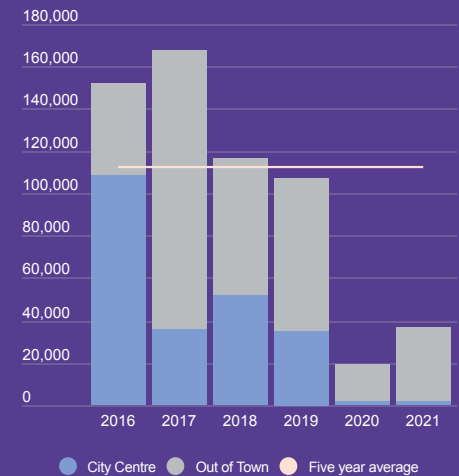
HEADLINE RENT



QUARTER 2 TAKE UP



ANNUAL TAKE UP



SLOUGH

The Slough market is seeing an increase in activity this year with Q2 delivering two more deals over 5,000 sq ft. The total take-up so far this year is now 24,000 sq ft, almost the same level as the whole of 2020 which was 26,000 sq ft.

Groupe SEB took 14,000 sq ft at Botanica, Ditton Park and are relocating from Windsor. Jabra have leased 5,300 sq ft at The Curve in Langley. They had been under offer on 10,000 sq ft at the Urban Building last year but pulled out due to Covid 19.

Availability has remained static at historically low levels, with the vacancy rate almost at its lowest since the Global Financial Crisis. A further 80,000 sq ft of Grade A space is due to be delivered this summer at 217 Bath Road which has undergone an extension and full refurbishment.



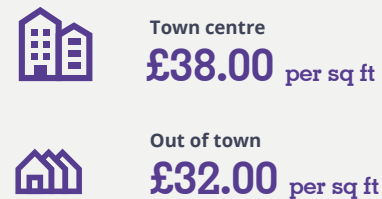
KEY SECTOR ACTIVITY

Sector	Take up sq ft	%
Other Manufacturing & Industry	14,057	73%
Computing & Software	5,300	27%

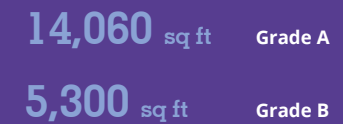
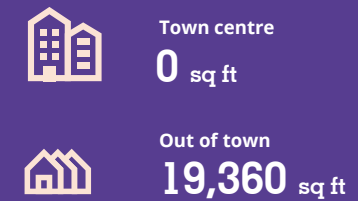
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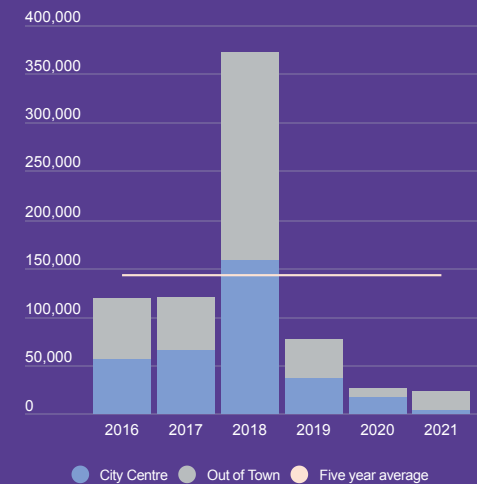
HEADLINE RENT



QUARTER 2 TAKE UP



ANNUAL TAKE UP



M25 Towns

CRAWLEY

It has been another disappointingly poor quarter of office take-up in Gatwick's office market. The positive news was that Rentokil Initial expanded into the whole of Compass House and the previous tenant on the ground floor (SPX Technologies) stayed at Manor Royal by moving into Manhattan House. In the town centre, construction continues apace on the Council's new Town Hall; which will see them occupy 40,000 sq ft in the building with 77,000 sq ft available to let – practical completion is expected in Q2 2022.



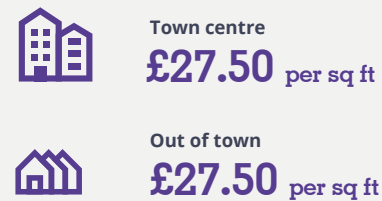
KEY SECTOR ACTIVITY

Sector	Take up sq ft	%
Advanced Manufacturing	46,000	91%
Transport - Bus/Rail/Air	4,331	9%

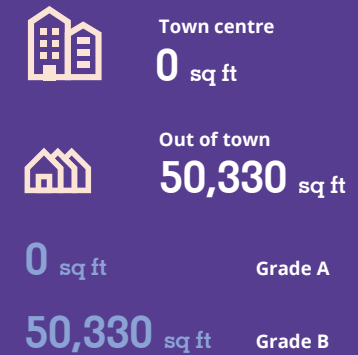
VACANCY RATES Q2 2021



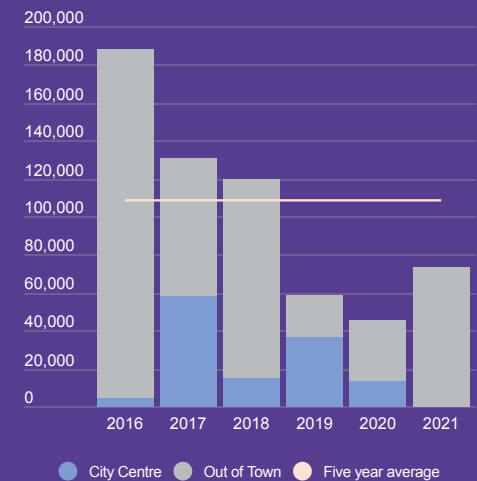
HEADLINE RENT



QUARTER 2 TAKE UP



ANNUAL TAKE UP



GUILDFORD WOKING & WEYBRIDGE

These three sub-markets have outperformed the previous quarter, with the combined figure of 48,000 sq ft of take-up across 5 lettings. Guildford recorded 4 deals this quarter most notably at 255 High Street and 74 North Street. Of note, given the increasing demand for fitted space was that 74 North street offered partially fitted accommodation.

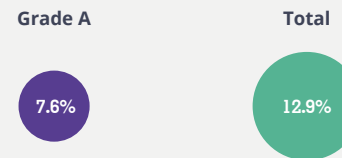
Weybridge also recorded another letting of 13,000 sq ft at Building 5 The Heights, which still has 23,000 sq ft remaining with 23,000 sq ft let in the previous two quarters. Woking has started the year slowly with only one single recorded letting of 5,400 in the first half of 2021. This is an interesting comparison from 2020, as Woking was the significant contributor in 2020 with 62% of the total take-up recorded across these towns. However, we anticipate that as the market becomes more active as the year goes on and with a healthy level of Grade A stock Woking could have strong finish to the year.

These three markets have stable and healthy levels of supply of both Grade A and B offices. In conjunction with their location, we believe they are well positioned for the continued recovery in take-up once all Covid restrictions on offices are lifted.

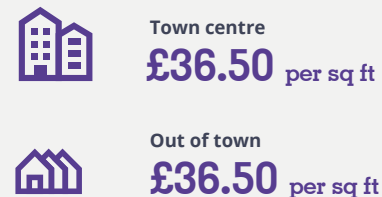
KEY SECTOR ACTIVITY

Sector	Take up sq ft	%
Other Manufacturing & Industry	13,185	28%
Legal Services	11,000	23%
Property Services & Construction	10,053	21%

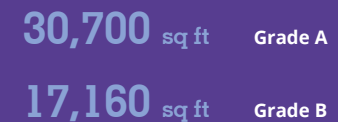
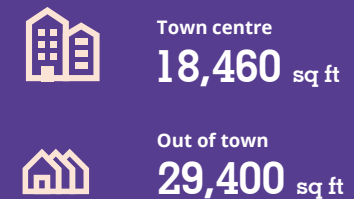
VACANCY RATES Q2 2021



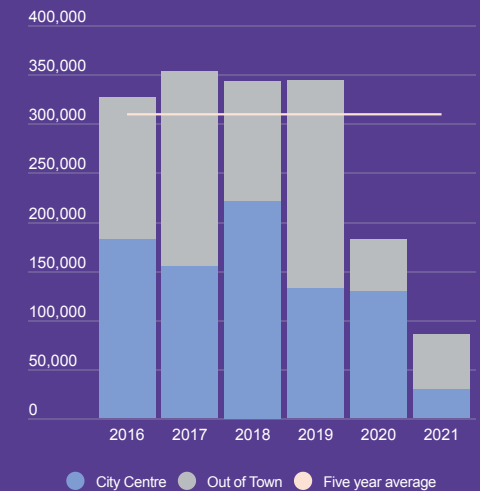
HEADLINE RENT



QUARTER 2 TAKE UP



ANNUAL TAKE UP



WATFORD

Watford has suffered a quiet quarter following on from a subdued quarter 1, with only one recorded letting greater than 5,000 sq ft. Despite this lack of committed activity, there is currently 100,000 sq ft under offer between 1 Croxley Park and The Hyde building. These deals alone would take the annual take-up to be circa. 125,000 sq ft on the year, which will be the highest figure since 2018.

Q2's take-up was just a quarter of the figure recorded in Q1. However by comparison no deals were recorded in Q2 2020.

Another reason to be optimistic about the Watford market is there is a healthy pipeline of quality Grade A office space due to come to the market with the refurbishment at 54 Clarendon Road which shall bring 50,000 sq ft of Grade A prime office stock. Watford is well positioned for the future due to its connectivity and proximity to London, especially if companies are to adopt the 'Hub and Spoke' model, which has been much publicised but has not materialised yet in the South East market as a whole.



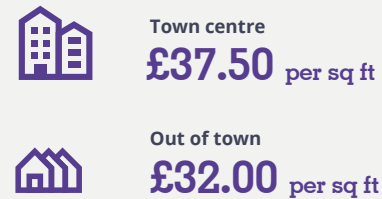
KEY SECTOR ACTIVITY

Sector	Take up sq ft	%
Other Manufacturing & Industry	5,403	100%

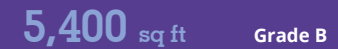
VACANCY RATES Q2 2021



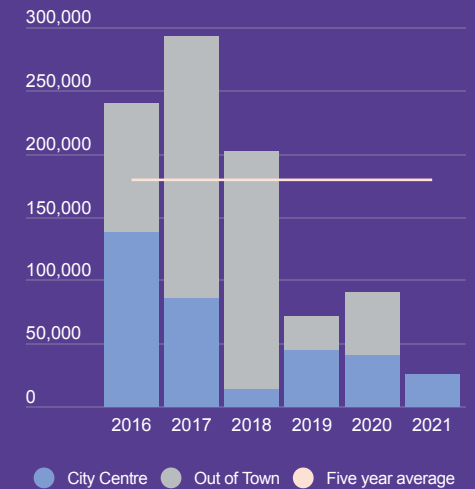
HEADLINE RENT



QUARTER 2 TAKE UP



ANNUAL TAKE UP



Investment Market Update



JAMES MCFEELY
Director, South East Office Investment

//
Freedom Day is expected to bring a gradual but marked increase in return to the office for employees, we have already seen an increase in occupational demand as companies assess their next move. Investors who have previously discounted the office sector should really begin to re-focus their attention.

Q2 2021 SE RESEARCH

The second quarter of 2021 has seen a vast improvement in South East transactional volumes and occupational sentiment. Total South East office transactions for H1 are now £2.319bn or almost equivalent to the whole of 2020 (£2.465bn). Prime yields have held steady at 5.50%.

The standout purchase of the quarter is Brookfields Purchase of the Arlington Atom Portfolio for £714m. Whilst this does skew the figures somewhat, it is a substantial investment and vote of confidence in the life sciences and office markets in our region.

A number of funds have still been under pressure in the sector and have continued with their disinvestment in the sector due in part to continued redemptions. Overall Funds accounted for 27.9% of all sales. This has provided opportunities to both Overseas, Private Equity investors and Property Companies who you will see below are by far the three largest groups between whom they have invested £1.575bn.

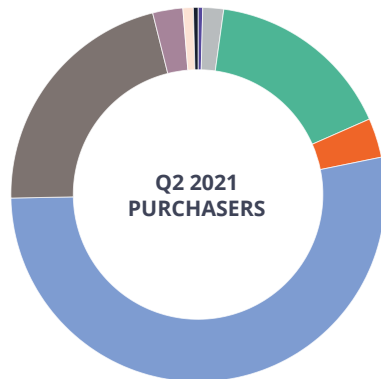
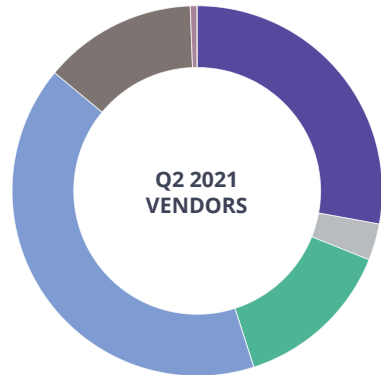
We are still seeing strong demand for longer income assets let to good quality tenants and we expect this to continue into Q3. However, investors should note our agency team have really noticed an uptick in office requirements in the last quarter. This will filter into higher take-up figures in Q3 and Q4 2021 so we firmly believe throughout 2021 the buyer pool will continue to grow as they look for more positive returns.

With 'Freedom Day' on the 19th July employees will begin to return to the office in greater numbers. As this shift happens it is anticipated early investors will benefit from further yield compression as we move through the cycle, particularly at the shorter income end of the market.

The one shift that has been negative for Q2 and beyond is a change to Government Planning policy and the loss of Permitted Development Rights for larger assets over 1,500 sq m. In our view this has come at the wrong point in the market where there are still a number of buildings that would better suit conversion than to remain as offices in an era where ESG is a huge priority for many investors. PD rights could previously underpin an assets purchase, its loss could have a detrimental effect on some office assets value.

Overall, Q2 has seen a dramatic improvement in investment volume and we expect greater depth in the market throughout the coming year.

Investment Market Data

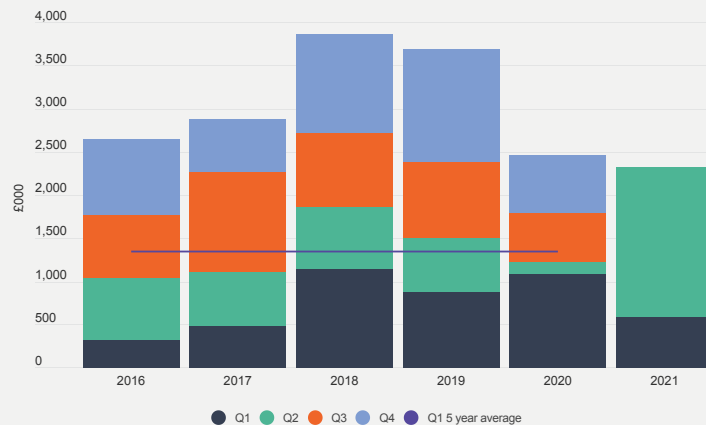


- Fund
- Private Equity
- Property company
- Council
- Overseas
- Occupier
- Other
- Private

KEY Q2 TRANSACTIONS

Property	Location	Size (sq ft)	Price	Purchaser	Vendor
Centrium (CT2 & CT3)	St Albans	47,102	£18.09m – 6.50%	Trinova	Nuveen
Capitol Building	Bracknell	172,997	£44m – 7.65%	Kennedy Wilson	Blackrock
Enterprise House	Egham	39,589	£18m – 6.51%	Overseas	Columbia Threadneedle
Pearce Building, West Street	Maidenhead	52,151	£26.025m – 6.86%	M&G	Nuveen
Sherard Building	Oxford Science Park	27,996	£25.5m – 3.62%	Kadans Science Partner	McAleer & Rushe

AVERAGE TRANSACTION VOLUMES



£1,740 million

Q2 2021

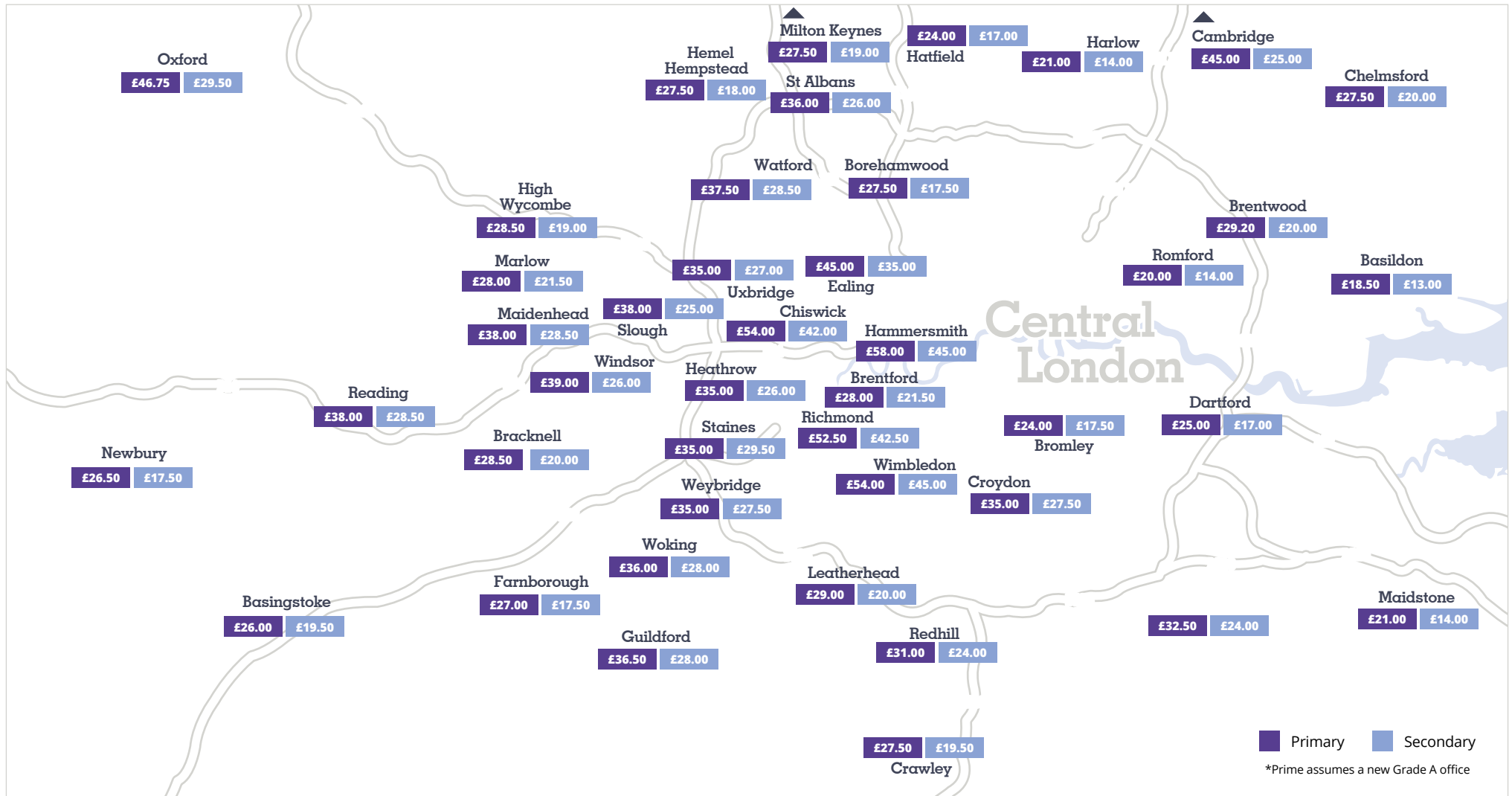
Compared to:

Previous quarter – Q1 2021 **£579 million**

A year ago – Q2 2020 **£144 million**

Q2 Five year quarterly average **£564 million**

Prime and Secondary Rents Q2 2021



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