



INSIGHT

South East offices

Key towns update of activity

Q1 2021

AVISON
YOUNG

Q1 overview

Welcome to Avison Young's South East Q1 2021 update and year-end review 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.

Despite the entire quarter being under lockdown restrictions to combat Covid 19 some markets have enjoyed healthy levels of take up. This has been largely due to a return of larger lettings such as Three taking 117,000 sq ft at Green Park in Reading. With lockdown restrictions easing and occupiers focusing on the return to the office we expect take-up levels across the market to gradually increase during the year.

Overall, Quarter 1 take-up of 388,300 sq ft was down just 2.6% on quarter 4 2020 which was the second strongest quarter of last year. However, this was 16% down on quarter 1 2020 which had been largely unaffected by the pandemic with marked confidence up on the back of the decisive general election result and a clearer direction around Brexit. The out of town market saw the largest take-up bolstered by the Three letting in Reading. With other larger transactions taking place in the wider South East market, such as Unilever committing to an Agreement to Lease on a new 275,000 sq ft HQ in Kingston, confidence is beginning to return to the market albeit the majority of transactions are still being done on sub-10,000 sq ft space. The Department of Work and Pensions has been the most active occupier across the South East having transacted on 6 deals totalling 147,643 sq ft. Within our 10 towns they have completed 3 transactions totalling 63,770 sq ft equating to 16.4% of the overall take-up.

This update looks at which sectors have been most active, 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



Despite the lockdown restrictions that have been in place during Quarter 1, the year has started off relatively well overall. Reading has been the star performer this quarter with 80% of last year's take-up being recorded so far. This was largely driven by the 117,000 sq ft Three transaction at Green Park.

Occupational Market Data

TAKE UP ACROSS SE 10 IN Q1

388,300 sq ft

Down compared to Q1 2020 by **16.0%**

2.6% down compared to Q4 2020



Town centre

147,760 sq ft



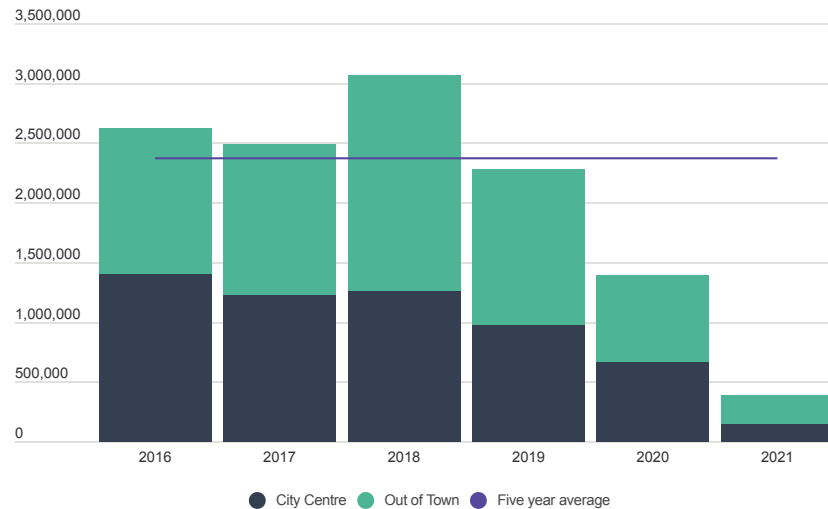
Out of town

240,580 sq ft

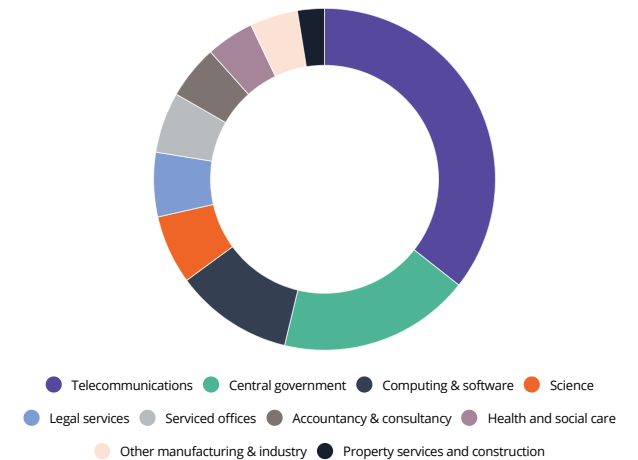
HEADLINE RENTS AVERAGE

£36.50 per sq ft

TEN TOWNS TOTAL TAKE-UP (SQ FT)



TEN MOST ACTIVE OCCUPIERS IN 2021



Q1 2021 VACANCY RATE SE 10

Grade A

5.8%

Total

10.3%

KEY SOUTH EAST OFFICE OCCUPATIONAL TRANSACTIONS IN Q1 2021



Three

117,000 sq ft

450 Longwater Avenue, Green Park, Reading at £38.50 per sq ft.



Department for Work & Pensions

Department for Work & Pensions

32,890 sq ft

Kennet Place, Reading on a 5 year lease with a break in year 3 at a rent of £29.00 per sq ft.



Global Banking School

68,760 sq ft

Greenford Square on a 15-year lease with a break in year 10 at a rent of £19.25 per sq ft.



Department for Work & Pensions

Department for Work & Pensions

1&3 Hammersmith Broadway on a 5 year lease with a break in year 3 at a rent of £39.50 per sq ft.



PVH Corp

50,000 sq ft

One Wood Crescent in White City.



Yoooserv

20,000 sq ft

Building 5, The Heights, Weybridge on a 5 year lease.



Department for Work & Pensions

Department for Work & Pensions

17,000 sq ft

Egale 2, Watford at £32.00 per sq ft.

Varsity corridor

CAMBRIDGE

Cambridge has seen another pandemic-defying quarter of office take-up with 9 lettings accounting for 60,000 sq ft of take-up, the largest of which was to Bromium UK at the new redevelopment, The Old Swiss, just to the south of the train station.

It is testament to the unique combination of good quality office space and the highly skilled workforce demographic of Cambridge which has seen demand being largely unaffected by the pandemic and stands Cambridge apart from the rest of the South East market. Occupiers are aware of the limited availability of office space and rarely have the luxury of choice which has led to continued rental growth despite the prevailing economic conditions. In addition to this the market is dominated by tech and bio-med companies and supporting operations which have been largely unaffected by the pandemic.

There is further positive news in terms of some larger requirements in the market which we are confident will feed through into take-up later this year.



KEY SECTOR ACTIVITY

Sector	Take up sq ft	%
Science	18,601	32%
Computing & Software	12,560	22%
Telecommunications	7,933	14%

VACANCY RATES Q1 2021

Grade A



3.9%

Total



9.3%

HEADLINE RENT



Town centre
£48.50 per sq ft



Out of town
£36.00 per sq ft

QUARTER 1 TAKE UP



Town centre
12,560 sq ft

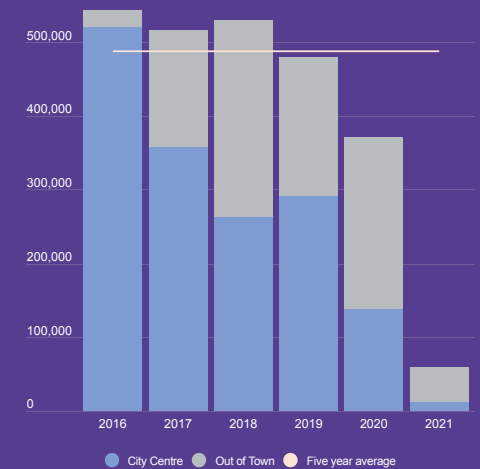


Out of town
45,730 sq ft

35,040 sq ft Grade A

23,250 sq ft Grade B

ANNUAL TAKE UP



MILTON KEYNES

The largest letting in Quarter 1 was the letting of 13,500 sq ft in Norfolk House to IT Consultancy Blue Cube. Interestingly against the current market trend, the company doubled their office footprint. The landlord CEG completed the tenant's fit out works offering a Cat A+ package and charged an additional rent for it which we feel is an indicator of a growing trend towards fitted space.

Milton Keynes is in the fortunate position of seeing several occupiers expanding, including Santander, whose new HQ with a running track on the roof will see them expanding from 300,000 sq ft to 470,000 sq ft when they take occupation in Autumn 2022.

The DWP acquisition of 28,000 sq ft in Phoenix House remains unsigned but will be a welcome boost for Quarter 2 take-up.



KEY SECTOR ACTIVITY

Sector	Take up sq ft	%
Computing & Software	13,500	74%
Property Services & Construction	4,805	26%

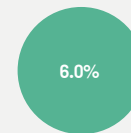
VACANCY RATES Q1 2021

Grade A



2.0%

Total



6.0%

HEADLINE RENT



Town centre
£27.50 per sq ft



Out of town
£21.50 per sq ft

QUARTER 1 TAKE UP



Town centre
18,310 sq ft



Out of town
0 sq ft

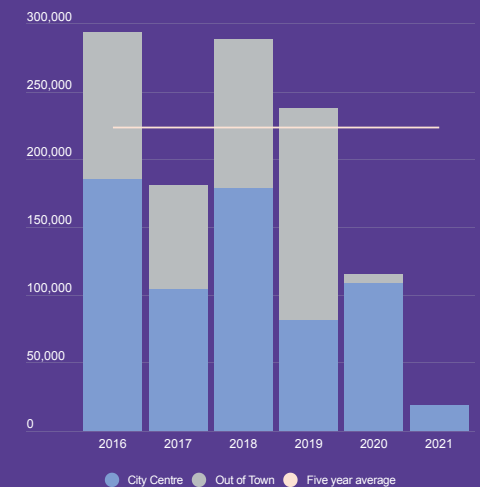
0 sq ft

Grade A

18,310 sq ft

Grade B

ANNUAL TAKE UP



OXFORD

2021 has started well for Oxford, although with just a single letting of 4,300 sq ft to Grant Thornton you wouldn't necessarily know it. There are a healthy number of deals that are currently under offer which indicates that the next quarter should be a good one. However, the current low supply of Grade A space, especially in the town centre is expected to have a detrimental impact on overall take-up this year and will keep an upward pressure on rents.

In what is a significant boost to the town, Oxford North has been given the green light by Oxford City Council. Thomas White Oxford, the development company of St John's College submitted plans for a new 64 acre Life Sciences district including 936,500 sq ft of labs and offices along with 450 new homes. The first phase will consist of 140,000 sq ft of labs and office space in three buildings. Construction of Plot 16 at Oxford Science Park is due to start in the Autumn and will deliver a further 168,000 sq ft of office and lab space when it completes in Q4 2022. Despite the significant medium term pipeline, the next 12-18 months is looking very dry indeed and the already low vacancy rate will likely be depleted further.



KEY SECTOR ACTIVITY

Sector	Take up sq ft	%
Accountancy & Consultancy	4,280	100%

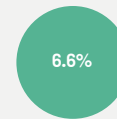
VACANCY RATES Q1 2021

Grade A



3.0%

Total



6.6%

HEADLINE RENT



Town centre

£46.75 per sq ft



Out of town

£35.00 per sq ft

QUARTER 1 TAKE UP



Town centre

0 sq ft



Out of town

4,280 sq ft

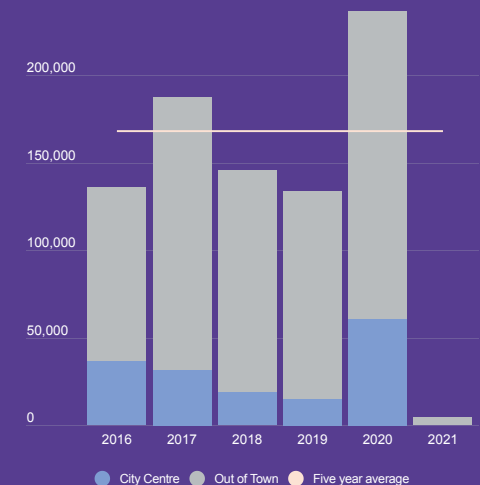
0 sq ft

Grade A

4,280 sq ft

Grade B

ANNUAL TAKE UP



M3/M4 towns

BASINGSTOKE

Take-up in Basingstoke increased by 82% from the previous quarter. Despite this increase, take-up is still down 67% on the corresponding Quarter 1 2020. There are signs of a resurgence within the market, with 35,000 sq ft currently under offer although activity is still relatively subdued.

Vacancy rates have remained stable throughout this quarter, although the limited supply of quality stock has declined with a simultaneous increase in Grade B stock. In 2020 there were 5 recorded lettings within the Basingstoke market averaging 13,285 sq ft; already in 2021 there have been 3 lettings with an average deal size of 6,935 sq ft. We are seeing a drift in occupiers seeking less but better quality space to incentivise their employees to return to the office while also adapting to accommodate home working when all Covid restrictions are lifted. While it may be too early to tell if this finding is an anomaly, we will have to be patient to see if this trend continues into 2021 and beyond.



KEY SECTOR ACTIVITY

Sector	Take up sq ft	%
Legal Services	7,349	35%
Other Manufacturing & Industry	7,200	35%
Distribution	6,252	30%

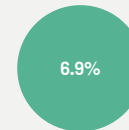
VACANCY RATES Q1 2021

Grade A



2.9%

Total



6.9%

HEADLINE RENT



Town centre
£27.00 per sq ft



Out of town
£24.00 per sq ft

QUARTER 1 TAKE UP



Town centre
7,350 sq ft

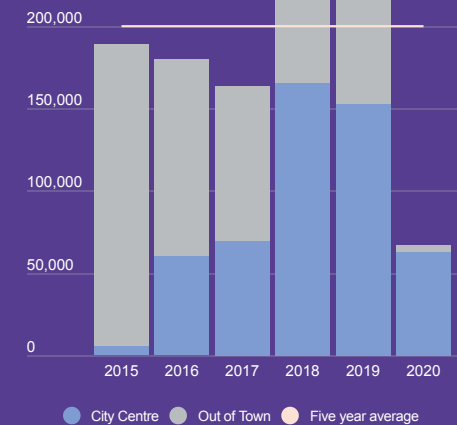


Out of town
13,450 sq ft

14,550 sq ft Grade A

6,250 sq ft Grade B

ANNUAL TAKE UP



READING

Reading has had a busy start to the year, with 190,000 sq ft of take-up already this quarter. This represents almost 80% of last year's total take-up when just 240,000 sq ft was transacted. The largest deal in Reading, and indeed the South East, was Three's acquisition of 117,000 sq ft at 450 Longwater Avenue, Green Park. The move is a consolidation of both their Maidenhead office, and the 84,000 sq ft Great Brighams Mead, which they will now vacate. Three has announced its intention to adopt a hybrid work strategy so that the office is used as a hub to support partial home-working. We expect this model to become more widespread as occupiers start to re-occupy offices in the coming months. It could be an excellent year for Maple Tree if they manage to bring Amazon to Green Park as well, we understand negotiations are at an advanced stage.

The town centre had an excellent quarter, with 10 deals totalling 73,000 sq ft, which is already 47% of the 5 year annual average for town centre take-up. The largest deal in-town was to the Department of Work and Pensions who have leased 32,900 sq ft at Kennet Place.

We are seeing significant demand for plug & play space, as landlords look to reduce capital expenditure, with landlords much more accommodating in the current market. This is also having an effect on lease flexibility. Of the town centre lettings during the quarter, around half agreed a 10 year lease with a break typically in year 5 the remainder agreed a 5 year lease with a break in the 3rd year.

During the quarter, we saw planning permission granted for the Station Hill regeneration scheme, with work on the 276,000 sq ft One Station Hill due to start next quarter for PC in 2024.

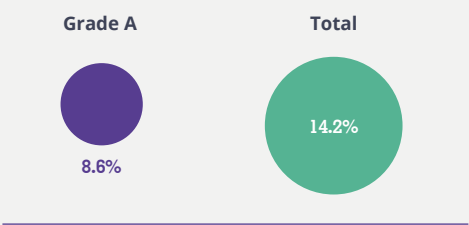
Rents for Grade A space are holding up but incentives tend to be on the generous side. This is likely to continue whilst supply remains good. Secondary stock is likely to see continued downward pressure on rents.



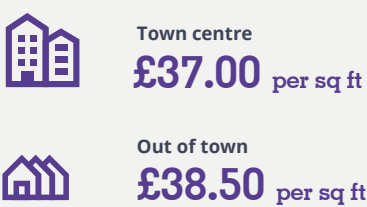
KEY SECTOR ACTIVITY

Sector	Take up sq ft	%
Telecommunications	117,000	62%
Central Government	32,887	17%
Legal Services	13,929	7%

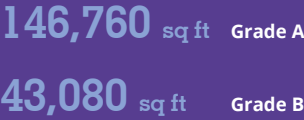
VACANCY RATES Q1 2021



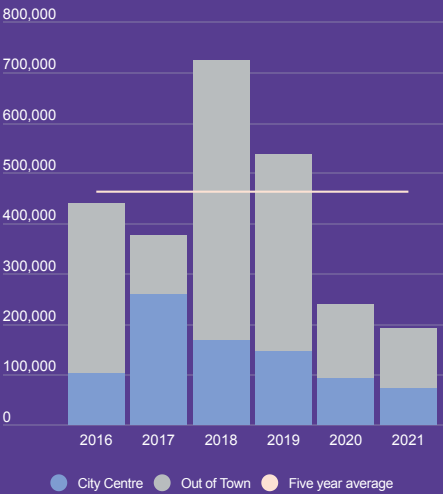
HEADLINE RENT



QUARTER 1 TAKE UP



ANNUAL TAKE UP



MAIDENHEAD

Maidenhead continues to suffer with low levels of demand and consequently take-up, despite a relatively healthy supply of good quality office space. With demand returning in other parts of the Thames Valley, we expect activity to increase in Maidenhead over the year. However, this quarter there was only a small letting of 3,200 sq ft to Johnson Control/ Hitachi at Foundation Park for fitted space while existing occupier Dynatrace expanded into a further 8,500 sq ft in Quantum.

Maidenhead is due to see the departure of two of its largest occupiers in Three and Johnson & Johnson this year. Nevertheless, the outlook is still relatively positive with the long-awaited opening of the Elizabeth Line and the redevelopment of the town centre around Nicholson Quarter.



KEY SECTOR ACTIVITY

Sector	Take up sq ft	%
Computing & Software	7,035	69%
Other Manufacturing & Industry	3,200	31%

VACANCY RATES Q1 2021

Grade A

7.6%

Total

10.2%

HEADLINE RENT



Town centre
£38.00 per sq ft



Out of town
£35.00 per sq ft

QUARTER 1 TAKE UP



Town centre
0 sq ft



Out of town
10,240 sq ft

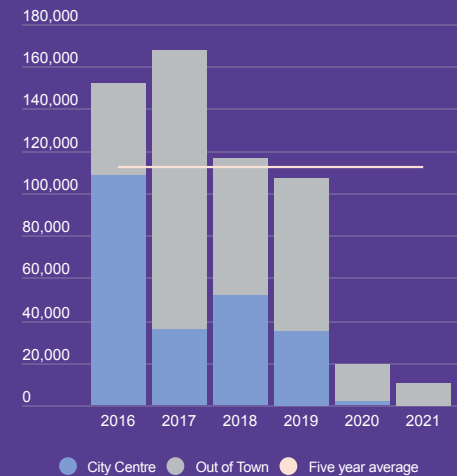
7,040 sq ft

Grade A

3,200 sq ft

Grade B

ANNUAL TAKE UP



SLOUGH

Slough, like Maidenhead, is still experiencing low levels of demand; the main deal this quarter was a 4,800 sq ft letting to Community Health and Eyecare Ltd at Beechwood House. However, the number of active requirements has been gradually increasing, indicating that green shoots in the market are starting to appear as workers look to get back to the office.

The lack of development activity has kept availability at historically low levels, with the vacancy rate of 11.4% almost at its lowest since the financial crisis, despite being higher than other South East markets. 24,000 sq ft of Grade A offices is now available at the recently refurbished 50 Windsor Road, while 80,000 sq ft of Grade A space is coming online in July at 217 Bath Road.

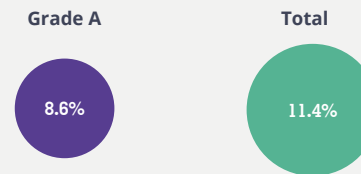
Planning consent was granted in March for Ashby Capital and U+I's No1 and No3 The Future Works, which will comprise of 260,000 sq ft of office space over both buildings that will be available by way of pre-let, joining the 120,000 sq ft 210 Bath Road which is also available to pre-let



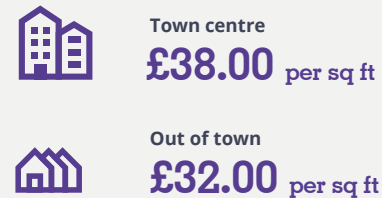
KEY SECTOR ACTIVITY

Sector	Take up sq ft	%
Health & Social Care	4,790	100%

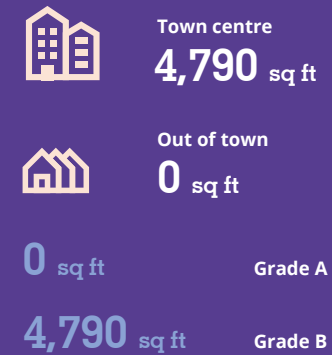
VACANCY RATES Q1 2021



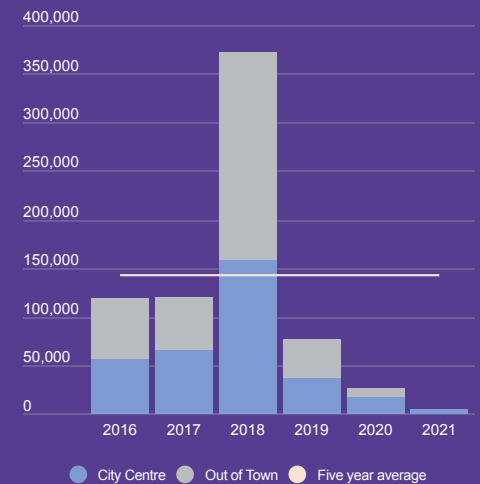
HEADLINE RENT



QUARTER 1 TAKE UP



ANNUAL TAKE UP



M25 towns

CRAWLEY

The largest letting of the quarter was to the Department of Work & Pensions, who took space at Spectrum House, beside Gatwick Airport – the department's second major letting in two years. Elsewhere, SPX Flow downsized, taking a small 4,136 sq ft suite across the Ground floor of Manhattan House on Manor Royal.

The market activity has focused on Manor Royal where the trend of office buildings being sold as warehouse development sites continues with the sale of the former 147,000 sq ft Virgin Atlantic HQ to Arcus Developments. This follows on from the sale of Churchill Court and the former Virgin Atlantic flight training centre. The positive is that the repurposing of older office space to industrial is reducing the oversupply.



KEY SECTOR ACTIVITY

Sector	Take up sq ft	%
Central Government	13,800	60%
Science	4,136	18%

VACANCY RATES Q1 2021

Grade A

5.2%

Total

11.9%

HEADLINE RENT



Town centre
£27.50 per sq ft



Out of town
£27.50 per sq ft

QUARTER 1 TAKE UP



Town centre

0 sq ft



Out of town

22,890 sq ft

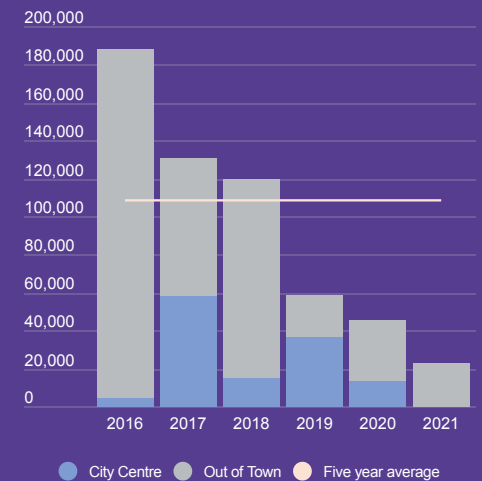
0 sq ft

Grade A

22,890 sq ft

Grade B

ANNUAL TAKE UP



GUILDFORD WOKING & WEYBRIDGE

These towns started 2021 in the same fashion as they concluded 2020, with subdued levels of take-up. The largest deal within these three markets was recorded in Weybridge at Building 5 The Heights with a 20,000 sq ft letting to a serviced office provider. This was a welcome pick up for Weybridge after a 2020 in which it saw no activity whatsoever. Supply in Weybridge also declined as the Dakota Building was sold to Surrey County Council who will occupy the first and second floors as part of their relocation from County Hall in Kingston, which also included the purchase of the Canon Building in Reigate in 2020.

Both Guildford and Woking had a poor Quarter 1 with a combined take-up of 18,360 sq ft across 4 lettings. However, there has been a slow increase in requirements which will hopefully transition to take-up later in the year.

Overall, the take-up across these three towns declined by 56% from the promising quarter 1 2020 figure and by 39% from quarter 4 2020. Supply within these towns remains healthy and there is a reasonable amount of quality space available across all three markets. Therefore, we anticipate that as requirements continue to increase the take-up will pick up later in the year.

KEY SECTOR ACTIVITY

Sector	Take up sq ft	%
Serviced Offices	20,000	52%
Health & Social Care	6,988	18%
Financial Services - Other	5,400	14%

VACANCY RATES Q1 2021

Grade A

8.0%

Total

13.6%

HEADLINE RENT



Town centre
£36.50 per sq ft



Out of town
£36.50 per sq ft

QUARTER 1 TAKE UP



Town centre
11,370 sq ft

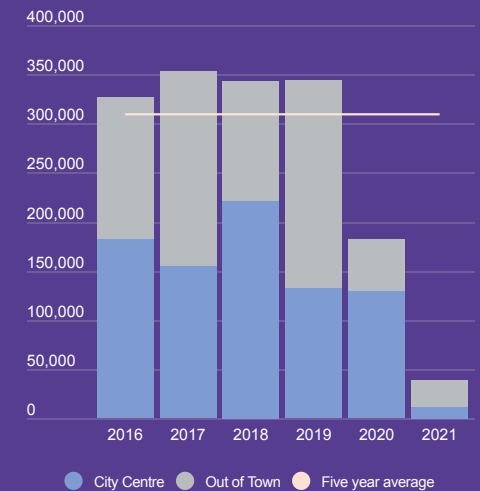


Out of town
26,990 sq ft

25,970 sq ft Grade A

12,390 sq ft Grade B

ANNUAL TAKE UP



WATFORD

Watford has had a reasonable start to 2021 with take-up increasing from quarter 4 2020 by 42%, however this is still 41% down from quarter 1 last year. The take-up figures for the quarter were dominated by a letting to the Department for Work and Pensions at Egale 2.

84,000 sq ft of Grade A office space was delivered to the market during the quarter, when Building 1 Croxley Park completed in March. The building is currently under offer in its entirety to a private equity firm. This highlights Watford's desirability due to its connectivity and proximity to London. Therefore, we anticipate that Watford will surpass its take-up figures for the previous 2 years and possibly even out-perform the 5-year average.

There is still a limited supply of quality space within the Town Centre. However, Avison Young announced the refurbishment and extension plans for 54 Clarendon Road which will provide just under 50,000 sq ft of Grade A office space within the Town Centre on behalf of Canada Life. The property is due to be Watford's first WELL certified building and is targeting a BREEAM Outstanding certification. The building combines wellbeing, sustainability, and technology to meet the needs of the modern workplace.



KEY SECTOR ACTIVITY

Sector	Take up sq ft	%
Central Government	17,079	83%

VACANCY RATES Q1 2021

Grade A

7.3%

Total

10.6%

HEADLINE RENT



Town centre
£37.50 per sq ft



Out of town
£32.00 per sq ft

QUARTER 1 TAKE UP



Town centre
20,510 sq ft

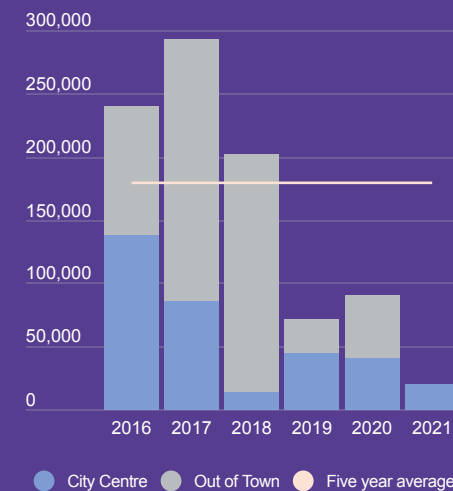


Out of town
0 sq ft

20,510 sq ft Grade A

0 sq ft Grade B

ANNUAL TAKE UP



Investment market update



JAMES MCFEELY

Director, South East Office Investment

//

Unsurprisingly nine months of Covid restrictions impacting on occupiers ability to physically occupy their offices has dragged heavily on Q1 2021 investment volumes. Just £579m traded in Q1 substantially below the upbeat start to 2020 (£1,083bn) and 26% down on the five year average (£783m).

Q1 2021 SE RESEARCH

Many investors were glad to see the last of 2020, looking ahead to 2021 with greater optimism. The good news is that Covid infection rates are falling, and the UK vaccination program is moving quickly, with over 34m people having received their first dose. The Government has set out a clear road map to exit the third full lock down. These factors bring optimism and a weight of capital principally from overseas investors and private equity who sense that new opportunities will emerge.

Q1 2020 saw £579m of South East office transactions across 25 deals, not surprisingly a fall of 41% on Q1 2020 and 26% down on the 5 year average of £783m.

Prime yields remain stable at 5.75% with investment supply restricted and lockdowns easing we may see yield compression over the year especially as office occupiers make an anticipated return. As we head into Q2, 2021 has seen just £272m of SE office stock launched into the market although we are anticipating Q2 will be a busy quarter as the market moves towards the economy fully opening up once more.

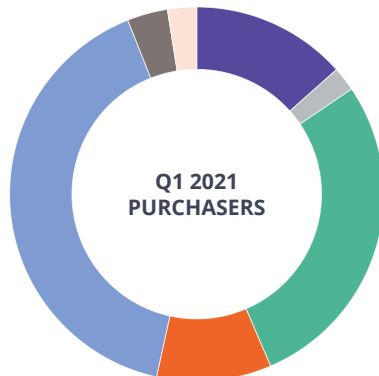
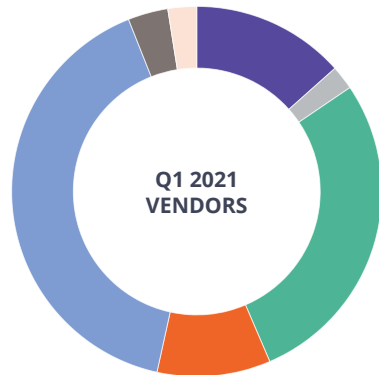
One clear theme we have seen has been the resurgence of Out of Town investment which accounted for the majority of transactions during Q1. Perhaps this is because these larger lots are favoured by overseas investors or possibly because they envisage that a Covid legacy will be the returning popularity of the business park.

FORECAST TRENDS 2021:

- Demands to continue for long income.
- 'Return to Office' agenda to fuel investor confidence throughout 2021.
- Out of Town offices will continue to be in favour.
- Some price softening expected on secondary assets with alternative uses such as industrial becoming a key driver of value for more secondary office locations.
- UK institutions to continue being the largest vendors.
- Continued appetite from both Overseas and Private Equity seeking opportunities and value.
- Investor activity to remain high in core locations with robust occupational fundamentals i.e. Oxford, Cambridge and Reading.

Prime yield: 5.75%

Investment market data

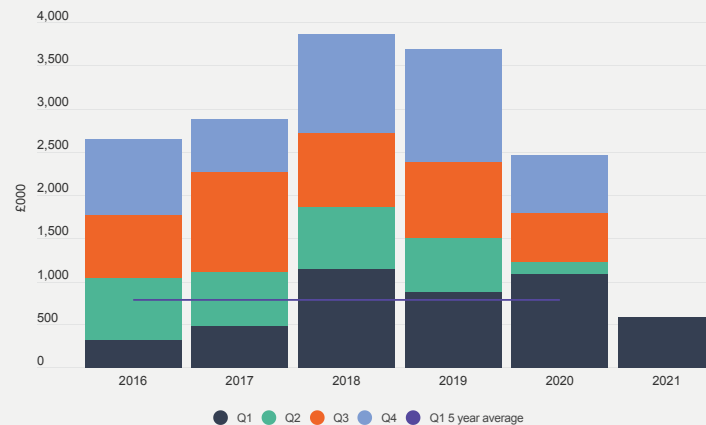


● Fund
 ● Private Equity
 ● Property company
 ● Council
 ● Overseas
 ● Occupier
 ● Other
 ● Private

KEY Q1 TRANSACTIONS

Property	Location	Size (sq ft)	Price	Purchaser	Vendor
The Point	Maidenhead	78,265	£38.85m - 6.25%	Corum	Aegon UK
Maidenhead	Southampton	105,110	£17.5m - 7.63%	Castleforge	PFC Property
Meadows Business Park, 260 & 270 Bartley Wood Business Park	Hook/Camberley	270,000	Confidential Quoting -£35.8m	Patron/XLB	Aventicum/ Seven Capital
Amadeus Building	Heathrow	31,695	£15.60m - 4.08%	Charitable Foundation	Delta Properties
Wavendon Business Park	Milton Keynes	147,874	£24.3m - 9.81%	Colmore Capital	M&G
Florey & John Eccles House	Oxford	44,587	£16.7m - 6.08%	Clearbell Capital	Orchard Street IM
Onslow House	Guildford	90,000	£38.24m - 6.88%	Corum	Aberdeen Standard

AVERAGE TRANSACTION VOLUMES



£579 million

Q1 2021

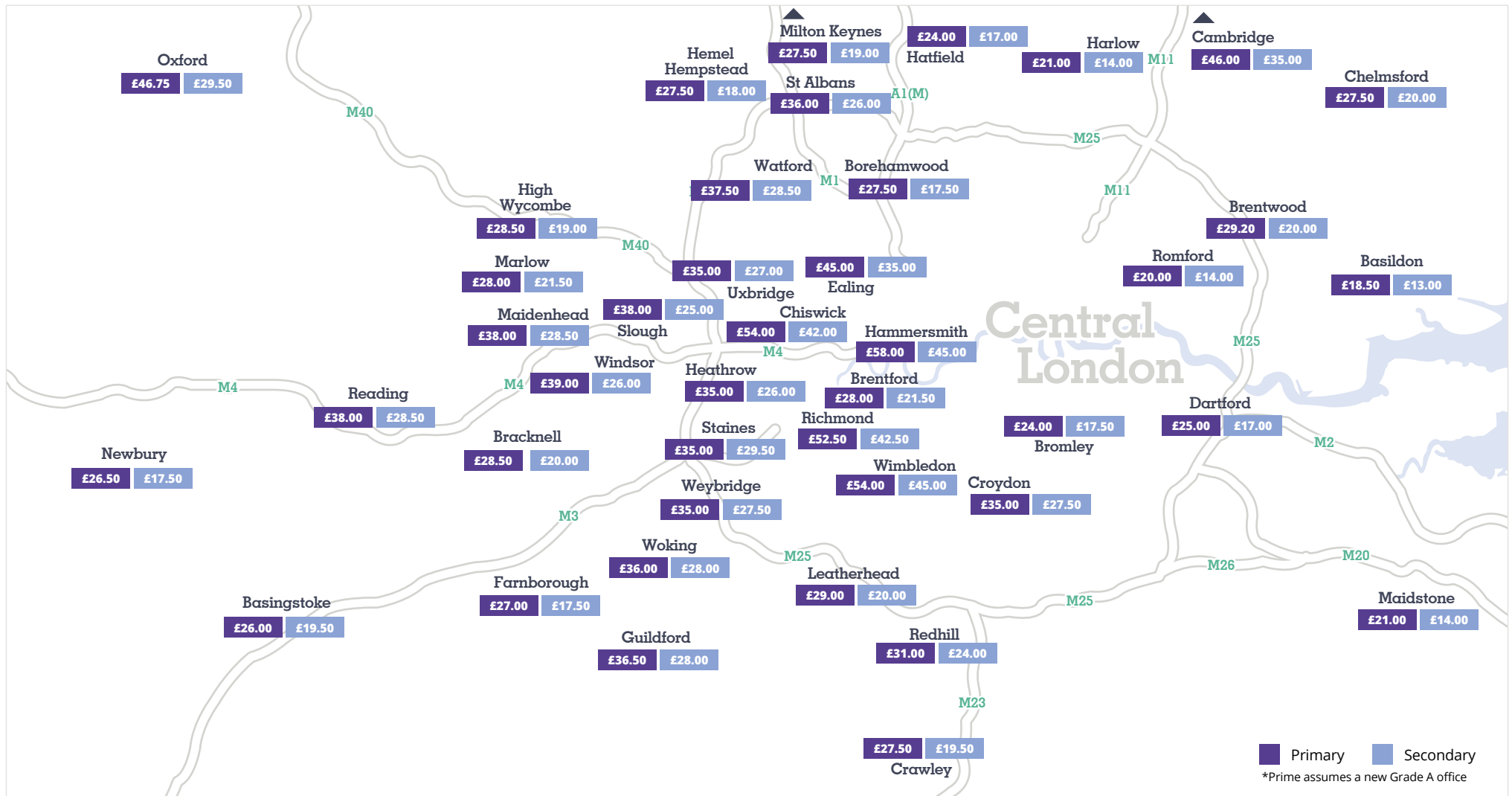
Compared to:

Previous quarter - Q4 2020 **£671 million**

A year ago - Q1 2020 **£1,083 million**

Q1 Five year quarterly average **£783 million**

Prime and secondary rents Q1 2021



South East Offices Team



PIERS LEIGH

Principal

+44 (0)20 7046 6521

piers.leigh@avisonyoung.com



ANGUS MALCOLMSON

Director

+44 (0)20 7911 2763

angus.malcolmson@avisonyoung.com



JAMES MCFEELY

Director

+44 (0)20 7911 2750

james.mcfeely@avisonyoung.com



CHRIS MCGEE

Associate Director

+44 (0)20 7046 2197

chris.mcgee@avisonyoung.com



MAT ROGERS

Associate Director

+44 (0)20 7911 2726

mathew.rogers@avisonyoung.com



DAN O'SULLIVAN

Surveyor

+44 (0)20 7911 2208

daniel.o'sullivan@avisonyoung.com



SAM SMITH

Surveyor

+44 (0)20 7911 2262

sam.smith@avisonyoung.com

Should you wish to discuss any details
within this update please get in touch.

Piers Leigh

Principal, Office Agency & Investment

piers.leigh@avisonyoung.com

020 7046 6521

Visit us online

avisonyoung.co.uk/research

Avison Young is the trading name of Avison Young (UK) Limited. ©2021 Avison Young Created: 05/21 Ref: 12292

This report has been prepared by Avison Young for general information purposes only. Whilst Avison Young endeavours to ensure that the information in this report is correct it does not warrant completeness or accuracy. You should not rely on it without seeking professional advice. Avison Young assumes no responsibility for errors or omissions in this publication or other documents which are referenced by or linked to this report. To the maximum extent permitted by law and without limitation Avison Young excludes all representations, warranties and conditions relating to this report and the use of this report. All intellectual property rights are reserved and prior written permission is required from Avison Young to reproduce material contained in this report.

 @AYUKviews