



The Bower

INSIGHT

South East offices

Key towns update of activity

Q3 2021

AVISON
YOUNG

Q3 Overview

Welcome to Avison Young's South East Quarter 3 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. Quarter 3 saw the much anticipated *Freedom Day* arrive when many of the restrictions put in place to combat Covid 19 fell away. This has seen an increase in the numbers returning to the office, injecting some much-needed impetus into the market.

While many occupiers are still operating at substantially below pre-covid levels, Q3 saw the highest take-up 2 years, with 571,410 sq ft transacted, a 21% increase on Q2 2021.

In fact, 2021 has already surpassed 2020 levels, and with a quarter left to run in the year, and a number of deals under offer or in legals, we expect to see a robust end to the year.

The out-of-town market continues to show significant strength, accounting for 72% of activity during the quarter, compared to a five-year average of 53%. This continues to be a trend worth monitoring, with landlord investment in amenities over a number of years coinciding with a rethink of the business park market as a result of Covid.

The strengthening occupational demand has seen investor appetite increase, with transaction volumes 7% up on quarter 3 2020 despite still being 28% down on the five-year average. Demand for Life Sciences stock in the Ox-Cam corridor sees no sign of abating. In fact, Cambridge alone accounted for 38% of investment across the South East during the quarter. Institutional Investors and Property Companies continue to be net-sellers and accounted for 80% of the sales during the quarter.

Similar to the occupier market, investment activity has already surpassed 2020 levels, and with a quarter remaining and a number of transactions under offer, 2021 will likely exceed the five-year average, highlighting the increased confidence and value in the South East office 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



The business park is back with a bang with out-of-town take-up accounting for 72% of letting activity so far this year driven by Cambridge, Oxford and Reading. This could be argued to be a result of Covid and as a result of the significant new developments and investment in amenities on offer at the South East's major business parks. Science, Media and Technology occupiers were the most active occupiers of the quarter with 60% of take-up recorded. The total take-up for 2020 has already been passed and as we enter traditionally the most active quarter of the year the recovery post Covid continues as occupancy levels slowly pick up. We anticipate a healthy level of activity to the end the year.

Occupational Market Data

TAKE-UP ACROSS SE 10 IN Q3

571,410 sq ft

Increase of **87.6%** compared to Q3 2020

20.6% increase compared to Q2 2021

Grade A – 407,030 sq ft

Grade B – 164,380 sq ft



Town centre

110,610 sq ft



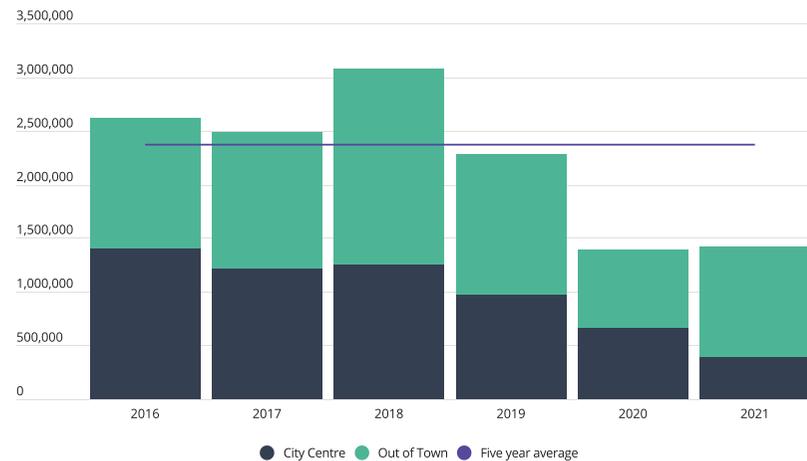
Out of town

460,800 sq ft

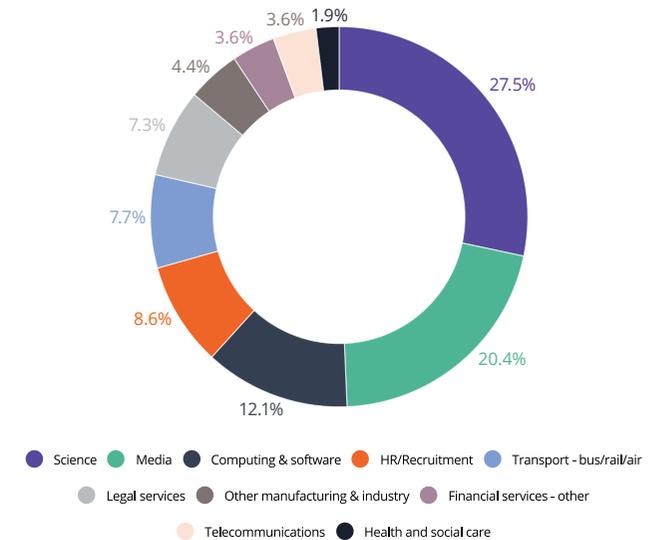
HEADLINE RENTS AVERAGE

£36.50 per sq ft

TEN TOWNS TOTAL TAKE-UP (SQ FT)



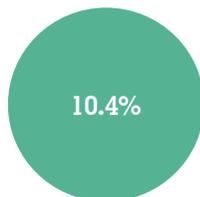
TEN MOST ACTIVE OCCUPIERS IN 2021



Q3 2021 VACANCY RATE SE 10

Grade A

Total



KEY SOUTH EAST OFFICE OCCUPATIONAL TRANSACTIONS IN Q3 2021



Canon

150,000 sq ft

The Bower, Stockley Park. Relocation.



Roku

116,630 sq ft

Building 2, Cambridge Science Park. Pre-let at a rent of £37.25 per sq ft on a 10 year lease.



London South Bank University

56,000 sq ft

Electric House, Croydon. Acquisition on confidential terms.



Intersystems

48,000 sq ft

One Victoria Street, Windsor, on a 15 year lease with a break in year 10 at a rent of £43.00 per sq ft.



NHS

32,000 sq ft

Epsom Gateway, Epsom. Acquisition on a 10 year lease at a rent of £21.50 per sq ft.

Varsity Corridor

CAMBRIDGE

The Cambridge office market continues to thrive as a result of increasing demand from the life science and technology sectors. Cambridge Science Park saw the three largest lettings of the quarter. US digital media company Roku took 116,630 sq ft at Building 2; meaning that both new buildings developed by TusPark are let to rapidly expanding single occupiers within weeks of practical completion. Elsewhere on the park, US cancer technology company Endomag committed to 330 Cambridge Science Park, and Microsoft acquired 36,450 sq ft at 198 Cambridge Science Park.

The limited new stock coming to the market is likely to act as a break on take-up heading into 2022, with supply of Grade A space now below 5%. As a result, we are seeing significant investment activity on value-add buildings with redevelopment potential although clearly there will be a time lag before much of this stock comes online.

KEY SECTOR ACTIVITY

Sector	Take-up sq ft	%
Media	116,630	55.1
Science	43,463	20.5
Computing & software	36,446	17.2

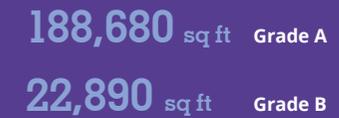
VACANCY RATES Q3 2021



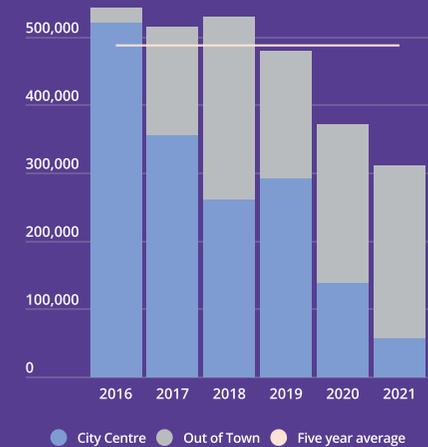
HEADLINE RENT



QUARTER 3 TAKE-UP



ANNUAL TAKE-UP



MILTON KEYNES

Milton Keynes had an unexciting Q3 with only 30,000 sq ft of take-up recorded; one of which was a back to work agency supported by a government contract.

Post-summer, we are seeing a material increase in enquiries and inspections which bodes well for an active final quarter and beginning of 2022. Having said that take-up for 2021 is likely to fall some way short of the five-year average despite being an increase on the low levels of 2020.

KEY SECTOR ACTIVITY

Sector	Take-up sq ft	%
Transport – bus/rail/air	18,810	62.2
HR/Recruitment	7,433	24.6
Insurance, pensions & asset man	4,000	13.2

VACANCY RATES Q3 2021

Grade A

1.9%

Total

5.7%

HEADLINE RENT



Town centre
£27.50 per sq ft



Out of town
£21.50 per sq ft

QUARTER 3 TAKE-UP



Town centre
11,430 sq ft



Out of town
18,810 sq ft

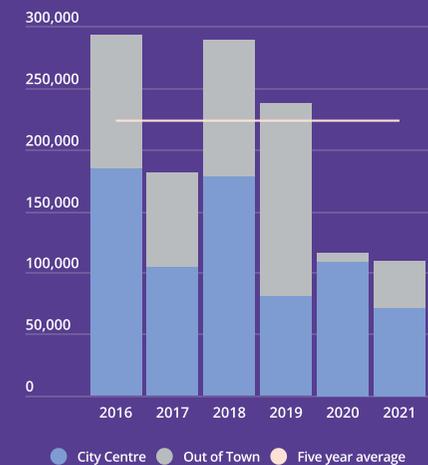
0 sq ft

Grade A

30,240 sq ft

Grade B

ANNUAL TAKE-UP



OXFORD

During Q3, Oxford saw 70,000 sq ft transacted, which means that take-up is already just 5,000 sq ft short of the five-year average – with a quarter left to run.

Almost 70% (48,000 sq ft) of activity occurred at Oxford Business Park; Building 3500 has been fully let to Exact Science on completion of its comprehensive refurbishment at a rent of £38.50 per sq ft. Exact also took a further 13,000 sq ft on a sublease from OSI at the Sherard Building in a deal that included bespoke fitted labs. There were no deals larger than 5,000 sq ft in the town centre during the quarter, a result of the continuing lack of availability.

While just outside of our market boundary, it is worth noting the 31,000 sq ft letting of Zeus at Harwell Campus to Vaccitech, a biopharmaceutical company responsible for the technology behind the Oxford/AstraZeneca vaccine.

Magdalen College have sold a 40% stake of The Oxford Science Park to the Singaporean sovereign Wealth Fund GIC for c.£160m. This will create a partnership aimed at funding a major development programme, starting with Plot 16. Magdalen bought M&G out of their 50% stake in 2016 for just £18.1m, a tenth of the value paid by GIC. This highlights quite vividly the effect of the life sciences and technology boom in Oxford and the soaring demand for lab and office space.

The immediate pipeline consists of the refurbishment of Building 1, Oxford Technology Park which is due to PC next quarter, bringing 23,000 sq ft of Grade A flexible office space to the market which can be adapted to labs or for R&D. This will be followed by Trinity House at Oxford Business Park at the beginning of 2022, delivering a further 26,000 sq ft of Grade A office space.

KEY SECTOR ACTIVITY

Sector	Take-up sq ft	%
Science	57,038	82.9
Legal services	11,763	17.1

VACANCY RATES Q3 2021

Grade A



3.8%

Total



6.8%

HEADLINE RENT



Town centre
£46.75 per sq ft



Out of town
£35.00 per sq ft

QUARTER 3 TAKE-UP



Town centre
0 sq ft

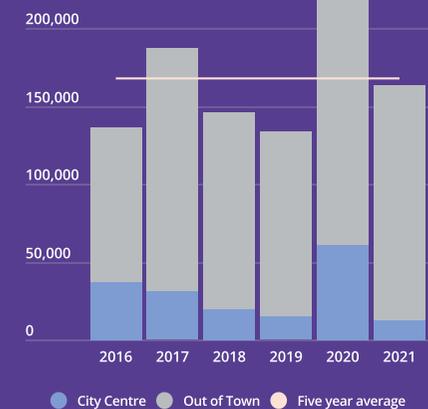


Out of town
68,800 sq ft

57,040 sq ft Grade A

11,760 sq ft Grade B

ANNUAL TAKE-UP



M3/M4 Towns

BASINGSTOKE

Three deals completed during the quarter, totalling 27,700 sq ft – a vast improvement on the previous year’s quarter, when Basingstoke saw no deals. The largest transaction this quarter was Penningtons Manches Cooper LLP expanding within Matrix House for the second time this year, taking an additional 12,000 sq ft.

Take-up during 2021 has already surpassed the total for 2020 by 26%. While there are a number of deals under offer, we would expect to see the market fall short of the five-year annual average.

KEY SECTOR ACTIVITY

Sector	Take-up sq ft	%
Legal services	12,258	44.2
Computing & software	8,750	32.0
Health & social care	6,695	24.2

VACANCY RATES Q3 2021

Grade A



3.0%

Total



6.4%

HEADLINE RENT



Town centre
£27.00 per sq ft



Out of town
£24.00 per sq ft

QUARTER 3 TAKE-UP



Town centre
12,260 sq ft

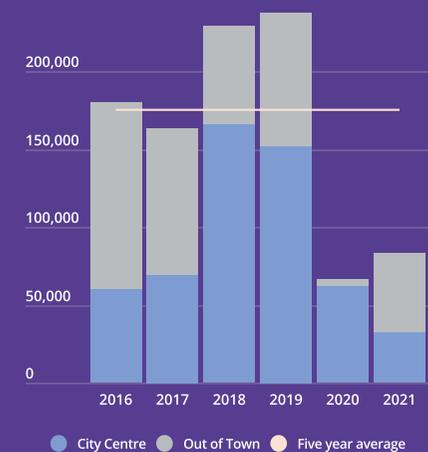


Out of town
15,450 sq ft

12,260 sq ft Grade A

15,450 sq ft Grade B

ANNUAL TAKE-UP



READING

After a strong H1, in which 270,000 sq ft was transacted, Reading saw a moderate level of activity during Q3. 40,000 sq ft was leased during the quarter with the largest deal being Evertz Microsystems' acquisition of 17,000 sq ft at 260 Winnersh Triangle, and there was significant activity at the smaller end of the market.

There is increasing optimism around the market. The activity seen during H1 was 15% above the five-year average, and the out-of-town market continues to show strength, accounting for 70% of activity of the year so far. Much of this can be accounted for by Three and Amazon's commitments to Green Park, which totalled 166,000 sq ft.

We are seeing a significant increase in demand for Cat A+ space in the market. Examples include Market Cast taking a 6,000 sq ft Cat A+ floor at Phoenix in July and Global Radio letting 5,500 sq ft of 'Capsule' fitted space in Apex Plaza last quarter. This has prompted a number of local landlords to diversify their offer to market, in order to attract occupiers.

KEY SECTOR ACTIVITY

Sector	Take-up sq ft	%
Telecommunications	20,683	49.2
Computing & software	16,562	39.4
Legal services	3,600	8.6

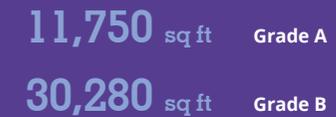
VACANCY RATES Q3 2021



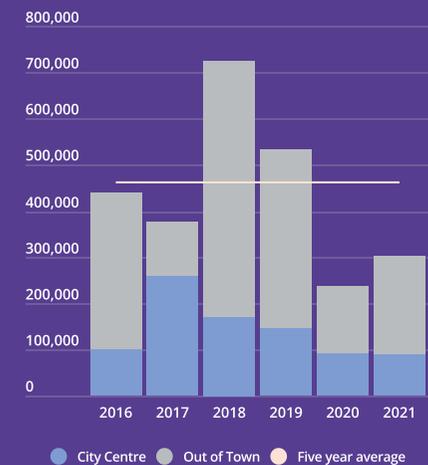
HEADLINE RENT



QUARTER 3 TAKE-UP



ANNUAL TAKE-UP



MAIDENHEAD

July saw the largest deal in four years as TTI committed to Clearbell Capital's 22,000 sq ft 22 Market Street within 12 months of launch – with Avison young advising Clearbell.

TTI were attracted by the increase in connectivity that will stem from the Elizabeth Line and the regeneration of the town centre. After limited activity in recent years, and indeed some high profile departures, the deal has been a fillip for the market. We are seeing a number of smaller deals under offer, including one deal that will be a record rent for the town – £40+ per sq ft at The Lantern.



KEY SECTOR ACTIVITY

Sector	Take-up sq ft	%
HR/Recruitment	21,852	82.5
Other manufacturing & industry	4,100	15.5

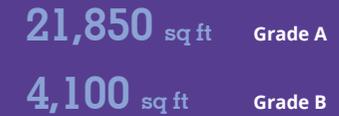
VACANCY RATES Q3 2021



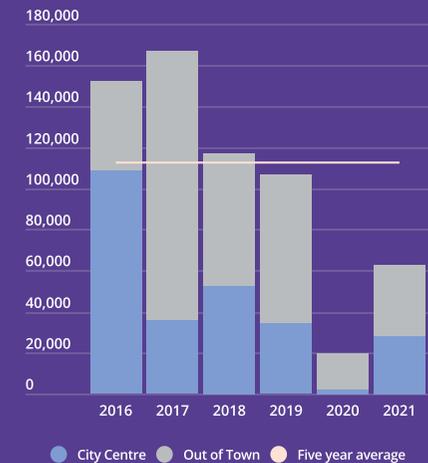
HEADLINE RENT



QUARTER 3 TAKE-UP



ANNUAL TAKE-UP



SLOUGH

After a very slow start to the year, 50,000 sq ft transacted during Q3 – with Lonza’s commitment to 45,000 sq ft at 234 Bath Road being the notable deal. We have now seen 75,000 sq ft transact across the year, significantly ahead of last year’s total of 26,000 sq ft and matching that of 2019 with a quarter left to go. With a number of deals under offer, we expect to see more deals complete by the end of the year.

The newly refurbished and extended 217 Bath Road completed in September, adding 80,000 sq ft of new Grade A space to the market at a quoting rent of £40 per sq ft. The speculative pipeline has now dried up. The big news in Slough is that AEW’s 1m sq ft Bath Road Central office campus is under offer for around £420m to a Data Centre provider. AEW first bought the site from Segro in 2015 for £325m before undertaking a full asset management programme.

KEY SECTOR ACTIVITY

Sector	Take-up sq ft	%
Science	45,000	90.5
Transport – bus/rail/air	4,750	9.5

VACANCY RATES Q3 2021



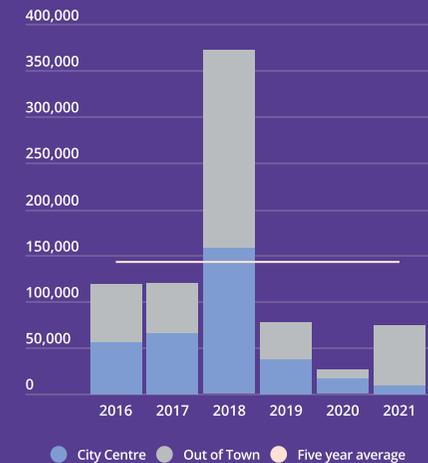
HEADLINE RENT



QUARTER 3 TAKE-UP



ANNUAL TAKE-UP



M25 Towns

CRAWLEY

The ongoing effects of the pandemic on Gatwick Airport are continuing to have an impact on office demand in Crawley. The only deal in Q3 was a further expansion of marine surveyors Shearwater on the ground floor of 2 City Place.

The volume of commercial flights globally is now tracking 38% higher than this time year, despite being 21% below the equivalent in 2019. This recovery – whilst it will take time – will undoubtedly be good news for the market in the long run.

The Create Building, which has been developed by Crawley Borough Council includes their new Town Hall and 77,000 sq ft of speculative grade A offices. The building is the latest and only town centre development, and the council are looking achieve rents in the region of mid-£30 per sq ft, some £7-£8 above current prime rents. This rent target is a reflection of escalating construction costs.

In contrast to Crawley's challenging office market, the logistics market continues apace. In the last 18 months over 300,000 sq ft of offices have been sold for redevelopment to industrial and logistics use.

KEY SECTOR ACTIVITY

Sector	Take-up sq ft	%
Engineering consultancy	8,450	100

VACANCY RATES Q3 2021

Grade A



4.8%

Total



11.9%

HEADLINE RENT



Town centre
£27.50 per sq ft



Out of town
£27.50 per sq ft

QUARTER 3 TAKE-UP



Town centre
0 sq ft



Out of town
8,450 sq ft

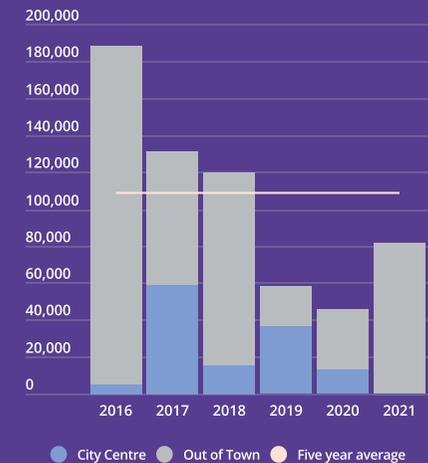
0 sq ft

Grade A

8,450 sq ft

Grade B

ANNUAL TAKE-UP



GUILDFORD WOKING & WEYBRIDGE

The three markets of Guildford, Woking and Weybridge have reported another good quarter with a total take-up of 80,000 sq ft. This is almost six times the figure reported in Q3 2020 and 45% up on Q3 2019.

In addition, there is a reported further 40,000 sq ft currently under offer in Woking alone, along with a number of deals under offer within the Guildford market. We anticipate that these transactions will complete in Q4 boosting take-up levels for the year, and potentially bringing in line with the five-year average.

Guildford was again the most active market with regard to number of transactions – with 5 deals over 5,000 sq ft at an average deal size of 7,300 sq ft. Weybridge reported the second highest take-up of with two transactions at The Heights as Royal Caribbean and Mondi both committed to the area. Despite little activity during Q3 in Working, there is significant occupier demand particularly at Mayfair Capital and V7's the Forge as confidence returns to the market.

KEY SECTOR ACTIVITY

Sector	Take-up sq ft	%
Other manufacturing & industry	21,099	26.9
Transport – bus/rail/air	20,598	26.3
HR/Recruitment	12,469	15.9

VACANCY RATES Q3 2021

Grade A



7.6%

Total



12.9%

HEADLINE RENT



Town centre
£36.50 per sq ft



Out of town
£36.50 per sq ft

QUARTER 3 TAKE-UP



Town centre
12,880 sq ft

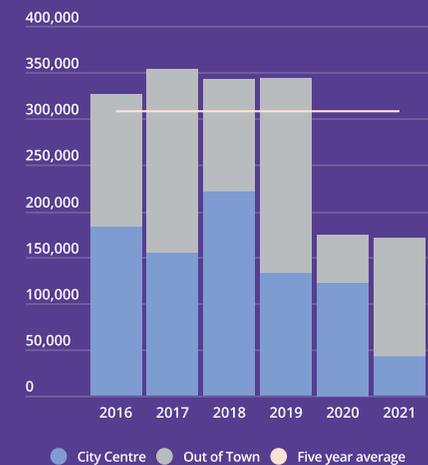


Out of town
65,420 sq ft

42,180 sq ft Grade A

36,120 sq ft Grade B

ANNUAL TAKE-UP



WATFORD

Q3 saw Watford's most active quarter of the year so far, with 28,500 sq ft across three lettings, with an average deal size of 9,500 sq ft. While this represents a decline of 33% on the figure recorded in Q3 2020 it is an increase on Q2 2021 by five-fold. The largest transaction of the quarter was a 20,000 sq ft acquisition by the ENRA Group at The Hyde Building – this sets a new headline rent for Watford of £37.00 per sq ft.

There is a further 80,000 sq ft under offer on a pre-let at 1 Croxley Park which should complete in 2021. The market has been hamstrung in recent years by a lack of good quality available supply. Whilst vacancy is now relatively high – at 9% from a low of 3% in Q4 2019 – we are likely to see more liquidity in the market, with demand strong for grade A stock. Further development planned at Regal London's 37-39 Clarendon Road due to start on site in 2022 and to complete in 2023 will likely see strong interest and put upwards pressure on rental levels in the market.

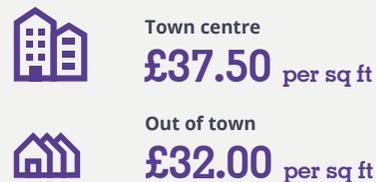
KEY SECTOR ACTIVITY

Sector	Take-up sq ft	%
Financial services – other	19,633	68.6
HR/Recruitment	5,091	17.8
Health and social care	3,900	13.6

VACANCY RATES Q3 2021



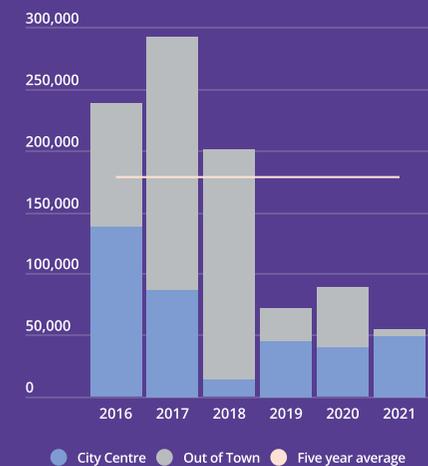
HEADLINE RENT



QUARTER 3 TAKE-UP



ANNUAL TAKE-UP



Investment Market Update



JAMES MCFEELY
Director South East Office Investment

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Office occupancy rates have seen a significant increase in Q3 which has translated into improved investor confidence. As we see more employees returning to the office in Q4 and into 2022 with most companies now implementing a hybrid working model we expect further investors to return to the market in search of increased returns.

Q3 2021 SE RESEARCH

The return to the office and an associated uptick in occupier activity has seen a cautious uplift in investor confidence. Despite this, Q3 saw just over £605m of offices traded which while 7% up on Q3 2020, was 27% down on the five-year quarterly average.

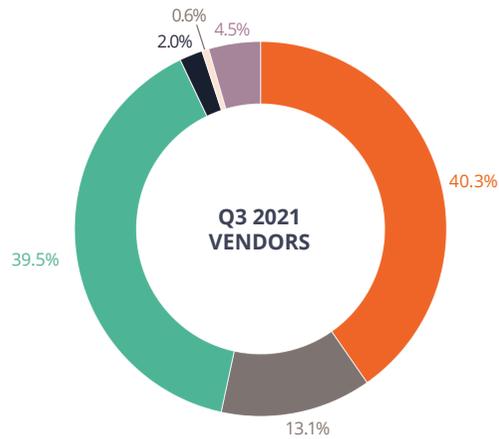
During the quarter 31 deals transacted, with three major transactions accounting for over 45% of the quarterly volume. These included Blackstone's purchase of Cambridge International Tech Park for £135m, Brydell's acquisition of Castle Park Cambridge for £65.5m and British Land's investment in Peterhouse Technology Park for £81.25m – £18.85m ahead of quoting price!

Cambridge was by far the most active market in Q3 with more than £230m of transactions recorded as investors continue to seek investment into the life sciences market.

A further theme for the quarter was the significant increase in residential development sales following the changes to Permitted Development rights on buildings over 1,500 sq m that came into force on the 1st August. During the quarter, Avison Young tracked 390,000 sq ft of offices which transacted destined for conversion to residential uses. We expect this trend to continue into Q4 as final approvals are granted for those applications submitted in July prior to changes.

The most active vendors continue to be the funds and property companies, accounting for around 80% of the market with property companies, funds and private equity each accounting for approximately 25% of purchases. The most active purchasers of the quarter were M7/Kamco, Kennedy Wilson and British land, all of whom acquired 2 assets each in the South East.

Investment Market Data

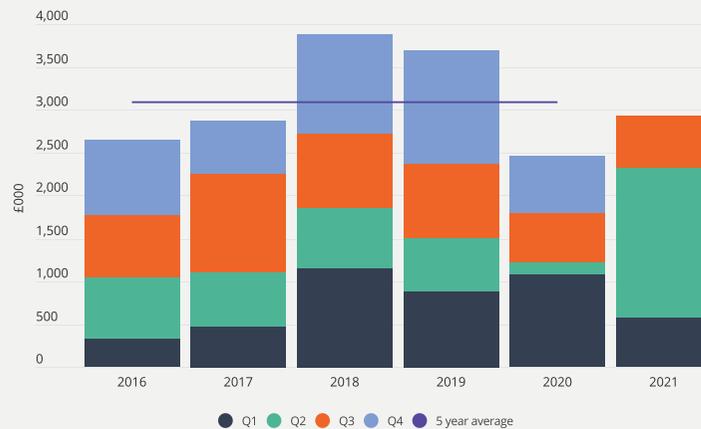


- Council
- PD/Resi
- Property Company
- Fund
- Overseas
- Private Equity
- Private
- Other
- Owner Occupier

KEY Q3 TRANSACTIONS

Property	Location	Size	Price	Purchaser	Vendor
Cambridge International Tech Park	Cambridge	15 acres	£135m	Blackstone	Abstract Securities
Hertz House	Uxbridge	69,293 sq ft	£18.6m – 9.00%	Eagle Street	NFU Mutual
Peterhouse Technology Park	Cambridge	139,281 sq ft	£81.25 – 4.15%	British Land	LaSalle IM
Wexham Springs	Slough	101,000 sq ft	£31.15m	Kennedy Wilson	Cromwell Property
Janus House	Basildon	116,989 sq ft	£27.8m – 6.22%	M7/ Kamco	Maya Capital

AVERAGE TRANSACTION VOLUMES



£605 million
5.50%

Q3 2021
Prime Yield

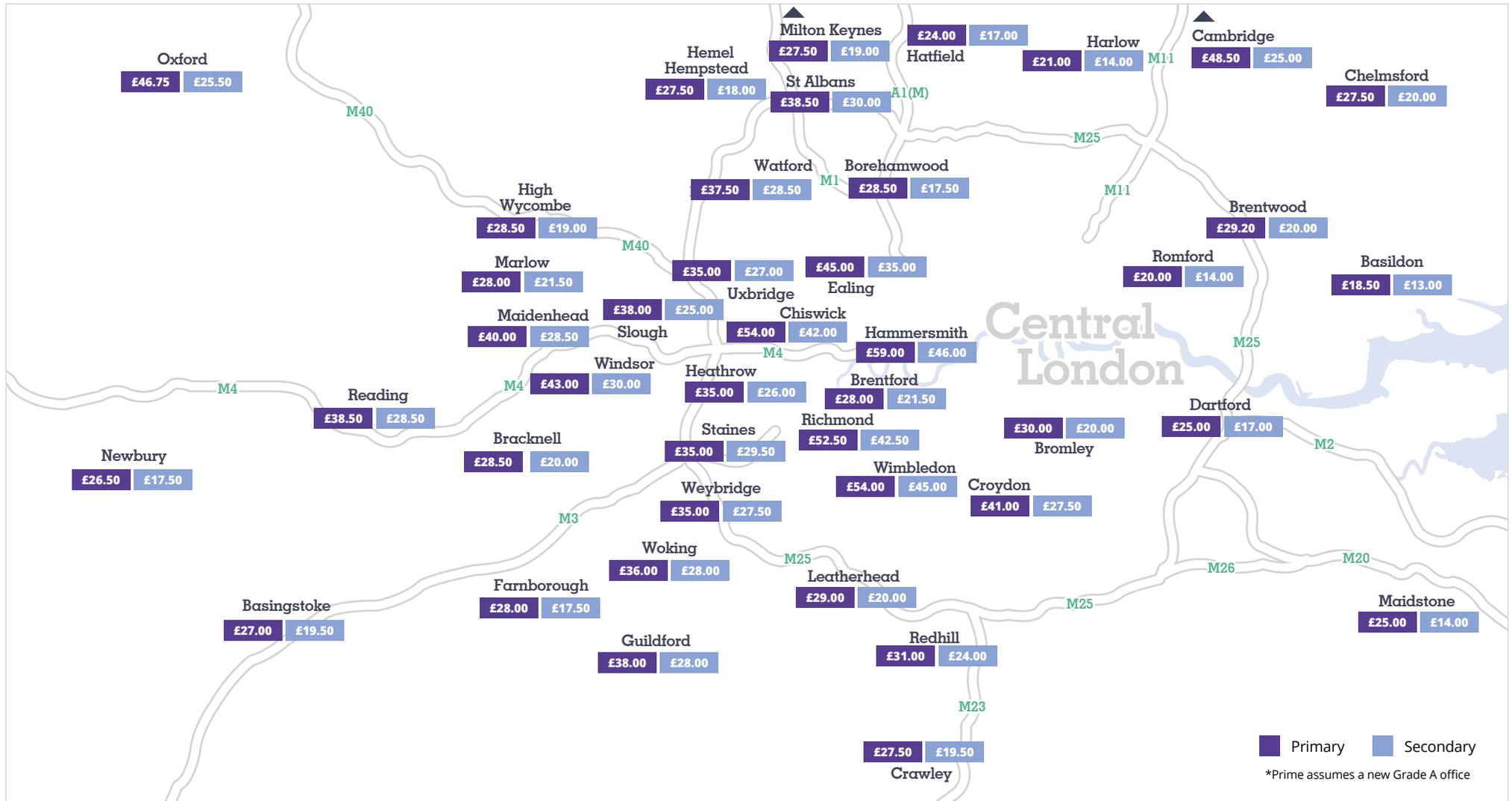
Compared to:

Previous quarter – Q2 2021 **£1,740 million**

A year ago – Q3 2020 **£567 million**

Q3 five-year quarterly average **£837 million**

Prime and Secondary Rents Q3 2021



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