



The Compass Centre

INSIGHT

South East offices

Key towns update of activity

Q4 2021

AVISON
YOUNG

Q4 Overview

Welcome to Avison Young's South East Quarter 4 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. The final quarter was the second most active of the year, with take-up totalling 499,790 sq ft, 22% up on the corresponding quarter in 2020, despite being 13% down on Q3. This could partially be accounted for by early-October optimism giving way to Omicron related reticence during December. This creates an element of latent demand which will fall into early 2022.

As a whole, 1.9 million sq ft was transacted during the year, 28% up on 2020 levels but 20% down on the five-year average. This was driven by out-of-town activity, which saw twice the level of lettings as that of the city-centre market, with new developments in Reading and Cambridge attracting occupiers committing to 100,000 sq ft deals.

The lack of a quantum of good quality development pipeline looks to be a barrier for increased market activity during 2022. As we hopefully put Covid behind us and occupiers look for best in class accommodation to attract their staff back to the office, the cautious approach adopted by investors and developers over the last 5 years means that quality accommodation and choice for occupiers will be limited. In certain hot markets, like Cambridge and Oxford, this will lead to further rental uplift and the potential for more pre-let activity. In other markets, a lack of options will lead to occupiers potentially looking elsewhere.

As ever, there is significant pressure for conversion of poorer quality space to alternative uses, particularly within the M25. However, the changes to Permitted Development Rights to Residential introduced earlier in the year, coupled with increased industrial land values and the incredibly strong rental and capital value growth in the market has shifted the balance of power to industrial and logistics from residential. This is pressure that is exacerbated even further by the push towards decarbonisation, and the changes to Minimum Efficiency Energy Standards, which are likely to create a significant need for capital expenditure for c.90% of the built environment before 2030.

The residual value opportunity, increasing occupier confidence and the sector now looking relatively good value compared to other use classes has buoyed investor activity. Investment volumes during Q4 were the highest recorded in the last ten years, at £1.34 billion across 36 deals. This helped total investment volumes for the year total £4.3 billion.

Key deals include Segro's £425m purchase of the Bath Road office complex for mixed use development of data centres, life science and industrial and Prologis's purchase of the Compass Centre Heathrow for £102m to redevelop for Industrial. The investment market is usually more dynamic than the occupational market and is therefore more responsive to changes in sentiment. As occupiers return to the office, this will hopefully lead to further investment and speculative development during 2022 and 2023.

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



Despite the headwinds presented by the Covid pandemic, 2021 saw take-up improve by 28%. With prime rents in areas of low supply increasing, and with occupiers looking for better quality accommodation to attract their staff back to the office, the outlook for 2022 looks positive. Against this backdrop, the investment market has bounced back strongly, and we expect more of the same in 2022 with the market offering comparative value for money compared to other asset classes.

Occupational Market Data

TAKE-UP ACROSS SE 10 IN Q4

499,789 sq ft

Increase of **22.5%** compared to Q4 2020

12.6% increase compared to Q3 2021

Grade A – 253,665 sq ft

Grade B – 246,124 sq ft



Town centre

110,610 sq ft



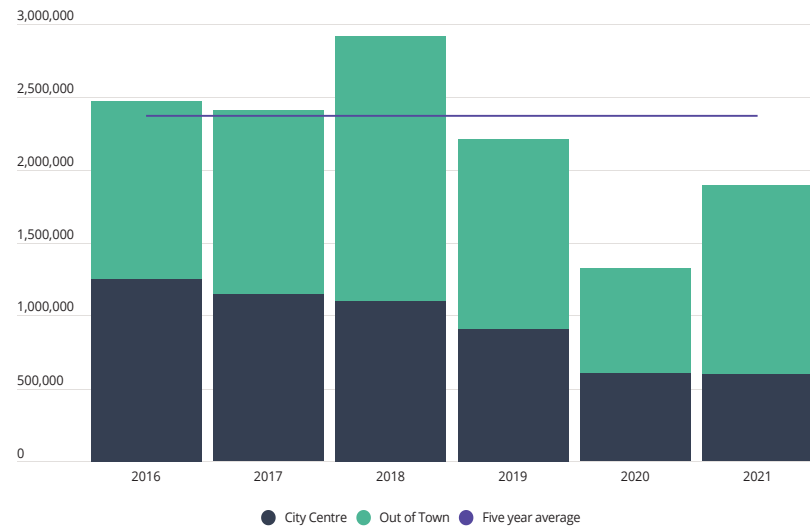
Out of town

460,800 sq ft

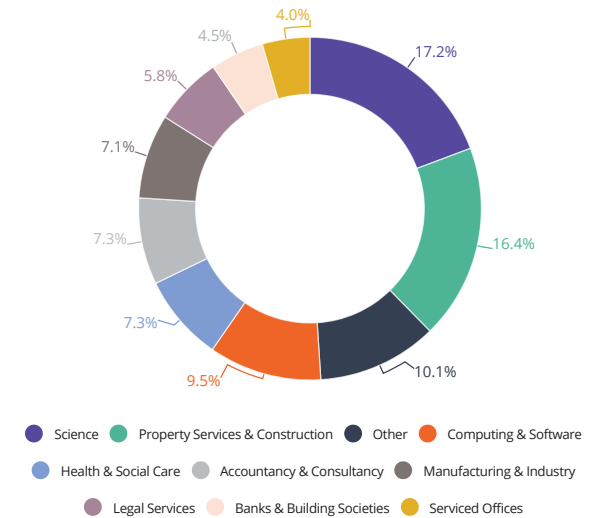
HEADLINE RENTS AVERAGE

£36.50 per sq ft

TEN TOWNS TOTAL TAKE-UP (SQ FT)



TEN MOST ACTIVE OCCUPIERS IN 2021



Q4 2021 VACANCY RATE SE 10

Grade A

Total

6.0%

10.2%

KEY SOUTH EAST OFFICE OCCUPATIONAL TRANSACTIONS IN Q4 2021

SKANSKA

Skanska

67,000 sq ft

The ASOS Building, Leavesden, on a 10 year lease with a break in year 5 at a rent of £26.50 per sq ft.

InstantOffices

Instant Offices

36,800 sq ft

Queen House Square, Brighton, on a 10 year lease at a rent of £28.50 per sq ft.

Richmond, The American International University in London

Richmond, The American International University

36,000 sq ft

1st Floor of Building 12, Chiswick Park.

AON

AON

35,000 sq ft

Eastwood House, Chelmsford, on a 3 year term with 3 months rent free period at a rent of £23.50 per sq ft.

Astroscale

Astroscale

30,000 sq ft

Zeus, Harwell Campus, on a 10 year lease.

Varsity Corridor

CAMBRIDGE

Quarter 4 was steady, if unexciting, in Cambridge, especially in comparison to Quarter 4 2020 when Mathsworks signed the biggest letting of the year on the Science Park just days before Christmas.

During the final quarter, nine lettings completed totalling 129,000 sq ft. The largest deal was Bicycletx Limited taking 45,000 sq ft at The Portway Building at Granta Park, at a rent of £46.50 per sq ft - the highest rent of the year. Cambridge Medical Robotics' acquisition of 28,000 sq ft on the Science Park was the second largest transaction of the quarter and whilst there were no 'trophy deals', take-up for the quarter was still 29% of the annual take-up of 441,900 sq ft.

Most of the lettings in the last quarter were out of town on the business and research parks where supply levels are higher than the constrained town centre, following a similar trend to 2021.

Looking forward, Cambridge is one of the world's leading locations for scientific research; occupiers will continue to seek the best offices and laboratories with limited regard to cost. Challenges will remain with regard to the limited development pipeline and low levels of supply.

KEY SECTOR ACTIVITY

Sector	Take-up sq ft	%
Science	69,583	53.6
Health & Social Care	28,000	33.1
Computing & software	15,600	12.0

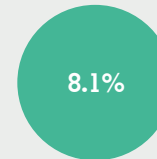
VACANCY RATES Q4 2021

Grade A



2.5%

Total



8.1%

HEADLINE RENT



Town centre
£48.50 per sq ft



Out of town
£36.00 per sq ft

QUARTER 4 TAKE-UP



Town centre
28,150 sq ft

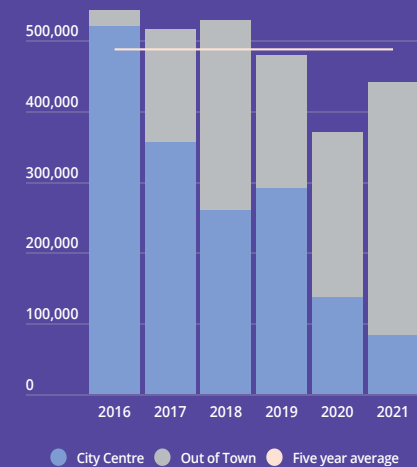


Out of town
101,780 sq ft

94,130 sq ft Grade A

35,800 sq ft Grade B

ANNUAL TAKE-UP



MILTON KEYNES

Milton Keynes had an uneventful 2021 although the back end of the year saw the long awaited letting of 22,000 sq ft to Allianz at Witan Gate House just before Christmas. There were just two other significant office lettings, both out of town in Knowlhill, each circa 6,000 sq ft but one at £16 per sq ft and one at £26 per sq ft; demonstrating the surfeit of secondary offices and the bifurcation of the market.

Take-up for the year was 147,300 sq ft, which is 35% down on the 5 year annual average of 223,000 sq ft but up by 21% on 2020's full year figures.

Prospects for the town are positive with the opening of Santander's new 400,000 sq ft HQ in 2022; an important event for the town and the South East as a whole. The overall vacancy rate stands at 5.34% with a low level of Grade A vacancy at 1.65% which is likely to result in upward pressure on rent when demand returns.

KEY SECTOR ACTIVITY

Sector	Take-up sq ft	%
Banks & Building soc.	22,369	59.9
Accountancy & Consult.	6,641	17.8
Other	6,388	17.1

VACANCY RATES Q4 2021

Grade A



1.7%

Total



5.3%

HEADLINE RENT



Town centre
£27.50 per sq ft



Out of town
£22.00 per sq ft

QUARTER 4 TAKE-UP



Town centre
24,300 sq ft

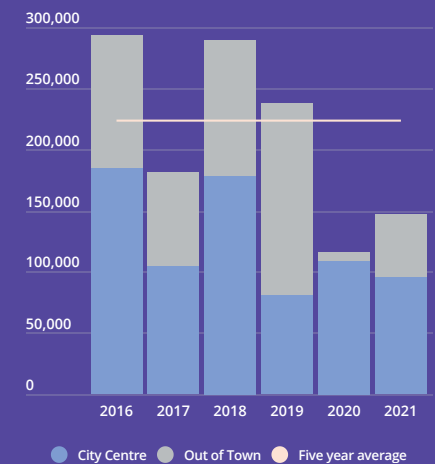


Out of town
13,030 sq ft

22,370 sq ft Grade A

14,960 sq ft Grade B

ANNUAL TAKE-UP



OXFORD

The final quarter the year saw a healthy 38,000 sq ft transact, bringing take-up for the year to 210,000 sq ft, which is well above the 5 year average of 168,000 sq ft, but down 12% on what was a very active 2020. The very strong demand for lab space, has left very little Grade A lab and office space available in or out of town this year. New available space represents just 0.2% of stock, with the Grade A vacancy rate at 3.5% - of which over a third is second-hand space.

Demand for new space is high, and it can't be built fast enough. 50,000 sq ft of refurbished offices and labs will come to the market in the first quarter of 2022 at Harwell and Quad 2 with another 38,000 sq ft following shortly afterwards. This supply will be quickly absorbed by existing demand. Oxford Science Park has just started construction on Building A of Plot 16, scheduled to deliver 88,000 sq ft of lab capable office space in Q1 2023. However, the short term development pipeline will soon run dry. Rents are continuing to rise on the best office and lab space due to the supply/demand imbalance.

KEY SECTOR ACTIVITY

Sector	Take-up sq ft	%
Other	21,718	57.0
Science	16,417	43.0

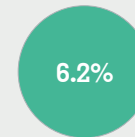
VACANCY RATES Q4 2021

Grade A



3.5%

Total



6.2%

HEADLINE RENT



Town centre

£46.75 per sq ft

Out of town

£35.00 per sq ft

QUARTER 4 TAKE-UP



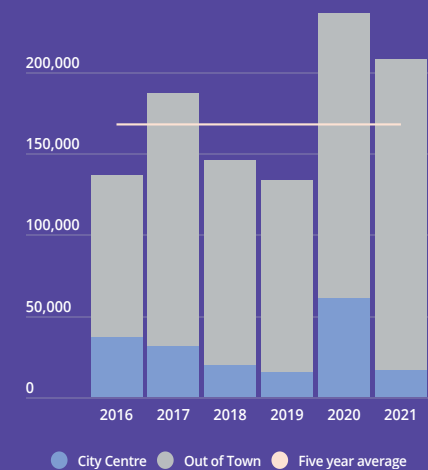
Town centre

3,680 sq ft

Out of town

34,460 sq ft**10,630** sq ft Grade A**11,760** sq ft Grade B

ANNUAL TAKE-UP



M3/M4 Towns

BASINGSTOKE

Basingstoke had a quiet quarter 4, with only one transaction of 6,300 sq ft recorded at 2 Elmwood, Chineham Park. During the course of the year, just 90,000 sq ft was transacted, which while 26% up on 2020, represents just half of the five-year average. However, in a show of diversity, the 11 transactions were across eight different tenant sectors. Positively, there is 50,000 sq ft under offer going into Q1 2022.

KEY SECTOR ACTIVITY

Sector	Take-up sq ft	%
Advertising, Marketing & PR	6,290	100

VACANCY RATES Q4 2021

Grade A



2.8%

Total



6.2%

HEADLINE RENT



Town centre
£27.00 per sq ft



Out of town
£24.00 per sq ft

QUARTER 4 TAKE-UP



Town centre
0 sq ft



Out of town
6,290 sq ft

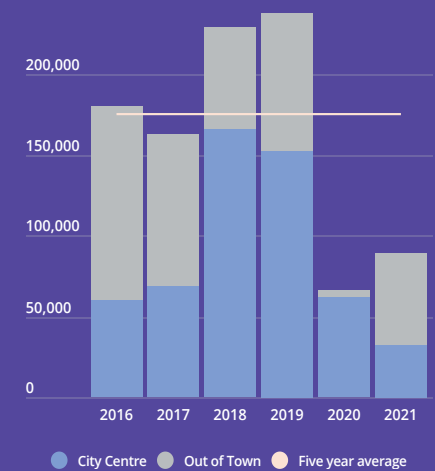
0 sq ft

Grade A

6,290 sq ft

Grade B

ANNUAL TAKE-UP



READING

The final quarter of the year has been comparatively slow compared to the previous quarters. The first half of the year showed strong demand with 270,000 sq ft transacting, 15% above the 5 yearly average. The second half by contrast recorded just 75,000 sq ft, placing 2021 25% below the 5 yearly average but up 32% on 2020. The slowdown in the final quarter can partly be explained by the emergence of the Omicron variant undermining confidence in the market.

Town centre take-up in 2021 was up slightly on last year at 126,000 sq ft. Three's 117,000 sq ft deal at Green Park contributed to just over half of this year's out of town take-up, somewhat skewing the averages.

Supply has increased from 15.4% to 17.5% year on year, however the majority of this increase is new Grade A space that has been delivered during the year as opposed to grey space released by tenants looking to free up surplus space, which had been the concern early on in the pandemic. Supply is set to increase when Reading International completes in Q1/2 2022, delivering a further 180,000 sq ft of Grade A space. Town centre availability has remained low, increasing from 5.3% to 6.2% year on year. Out of town, supply is higher at 11.3% (from 10.1% YoY) however nearly half of the availability is Grade B stock.

KEY SECTOR ACTIVITY

Sector	Take-up sq ft	%
Accountancy & Consult.	25,299	62.0
Property Services & Con.	10,508	25.7
Computing & Software	5,003	12.3

VACANCY RATES Q4 2021

Grade A

12.2%

Total

17.6%

HEADLINE RENT



Town centre
£38.00 per sq ft



Out of town
£38.50 per sq ft



Town centre
35,810 sq ft

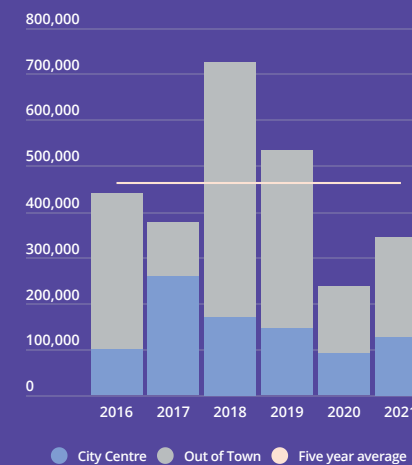


Out of town
5,000 sq ft

35,810 sq ft Grade A

5,000 sq ft Grade B

ANNUAL TAKE-UP



MAIDENHEAD

Q4 saw just three deals in Maidenhead, all sub-5,000 sq ft and all in the town centre. The most significant deal was the letting of part of the top floor in Berwick Hill's Lantern at a record rent of £41 per sq ft for the town, breaching the £40 per sq ft mark for the first time.

Take-up for the year is just over 72,500 sq ft, which whilst modest for the town in terms of long-term average, is a huge improvement over 2020 which saw under 20,000 sq ft let. The highlight of the year was Clearbell's letting, advised by Avison Young, of 22 Market Street to TTI relocating from Marlow.

We believe that prospects for the town are positive with the opening of the Elizabeth Line and Areli's regeneration of the town centre around the Nicholson Quarter and The Landing nearby. Early 2022 will see a substantial pre-let signing at Foundation Park as Ultra Electronics commit to a new 56,000 sq ft building.

KEY SECTOR ACTIVITY

Sector	Take-up sq ft	%
Accountancy & Consult.	4,366	44.1
Transport - Bus/Rail/Air	3,033	30.6
Advertising & PR	2,500	25.3

VACANCY RATES Q4 2021

Grade A

5.7%

Total

8.2%

HEADLINE RENT



Town centre
£41.00 per sq ft



Out of town
£35.00 per sq ft

QUARTER 4 TAKE-UP



Town centre
9,900 sq ft



Out of town
0 sq ft

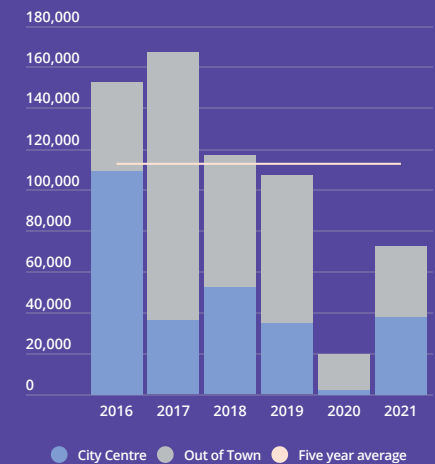
9,900 sq ft

Grade A

0 sq ft

Grade B

ANNUAL TAKE-UP



SLOUGH

Slough saw just 12,000 sq ft during the final quarter, including Fujitsu taking 5,300 sq ft of space at the Urban Building. This brings total take-up for 2021 to approximately 86,000 sq ft, just ahead of 2019's 76,500 sq ft and three times more than that seen during 2020. Slough's deal of the year goes to Lonza taking 45,300 sq ft at 234 Bath Road during Q3. Over 85% of the transactions in 2021 were for Grade A space, highlighting the trend of occupiers prioritising good quality office environments witnessed throughout our ten barometer towns.

Total supply has increased by 2.2% over the past year, which is due to the completion of 50 Windsor Road and 217 Bath Road. The development pipeline is now dry for the time being, with Segro in the process of seeking planning consent for their 280,000 sq ft scheme at 183-187 Liverpool Road which will cater for SMEs.

Segro have also secured AEW's Bath Road Central portfolio of nearly 1 million sq ft of offices for £425m in order to reposition the buildings for the booming industrial, data centre, and life science sectors. This deal represents the largest single office complex deal of 2021. The scheme had been under offer to Equinix at £420m before falling through in November.



KEY SECTOR ACTIVITY

Sector	Take-up sq ft	%
Utilities	6,822	56.3
Computing & Software	5,300	43.7

VACANCY RATES Q4 2021

Grade A

10.9%

Total

13.6%

HEADLINE RENT



Town centre
£38.00 per sq ft



Out of town
£32.00 per sq ft

QUARTER 4 TAKE-UP



Town centre
5,300 sq ft



Out of town
6,820 sq ft

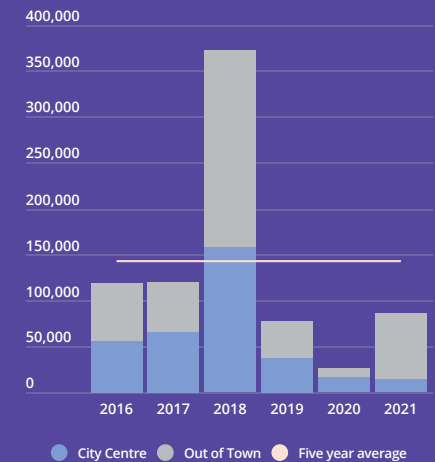
5,300 sq ft

Grade A

6,820 sq ft

Grade B

ANNUAL TAKE-UP



M25 Towns

CRAWLEY

Q4 saw just two deals across Crawley; the recruitment agency Barrington James expanding in Galleria which is perhaps a good omen for the local economy, and the other on grade B offices at Manor Royal.

The town centre is a classic example of a number of South East towns in that it exhibits the negative spiral of limited demand and limited supply. Occupiers looking to upgrade their working environments to attract and retain the best staff can't find what they are looking for locally and unwilling to commit to a pre-letting premium in a market of limited speculative supply, go elsewhere. Crawley Borough Council's new Town Hall on The Boulevard which includes 77,000 sq ft of new offices will bring a healthy addition of good quality supply to the market.

KEY SECTOR ACTIVITY

Sector	Take-up sq ft	%
HR/Recruitment	11,600	53.0
Property Services & Con.	4,331	19.8
Health & Social Care	3,962	18.1

VACANCY RATES Q4 2021

Grade A



4.7%

Total



11.3%

HEADLINE RENT



Town centre
£30.00 per sq ft



Out of town
£27.50 per sq ft

QUARTER 4 TAKE-UP



Town centre
4,400 sq ft



Out of town
17,490 sq ft

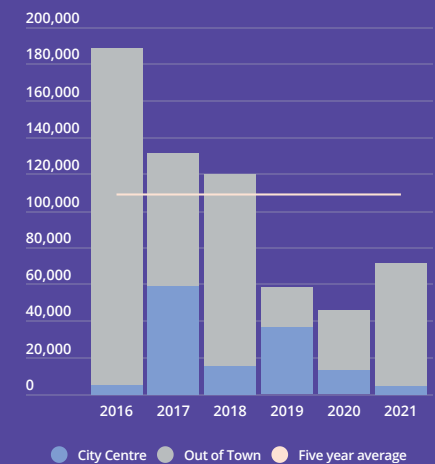
4,330 sq ft

Grade A

17,560 sq ft

Grade B

ANNUAL TAKE-UP



GUILDFORD WOKING & WEYBRIDGE

These three towns have finished the year strongly with a flurry of transactions totalling 116,800 sq ft. The 13 deals transacted during the final quarter of the year saw Q4 2021 levels 52% higher than the corresponding quarter in 2020. Total take up for the year was 287,500 sq ft which was a 39% increase on 2020 but still below the 5 year average of 308,000 sq ft and pre-pandemic levels – the final quarter made up over 40% of the total for the year. Take up between the in town and out of town markets remained balanced reflecting the balanced level of supply between in and out of town space.

It is evident that there is a flight to quality within these markets, with 67% of take up being at Grade A offices including at The Forge and Space both in Woking town centre. The Forge saw three transactions totalling 26,000 sq ft, which are the first deals within the building since it was launched. Space in Woking recorded its first letting in 2 years with ID Business Solutions taking 19,500 sq ft on the 6th and 7th floors. Avison Young represented Hitachi Energy on their acquisition at Dukes Court, which totalled 4,000 sq ft.

Supply levels remain relatively healthy with total vacancy at 12.3% and Grade A vacancy just below 7%.

KEY SECTOR ACTIVITY

Sector	Take-up sq ft	%
Other	22,178	19.0
Legal Services	20,172	17.3
Serviced Offices	19,783	16.9

VACANCY RATES Q4 2021

Grade A

7.0%

Total

12.3%

HEADLINE RENT



Town centre
£38.00 per sq ft



Out of town
£38.00 per sq ft

QUARTER 4 TAKE-UP



Town centre
97,010 sq ft

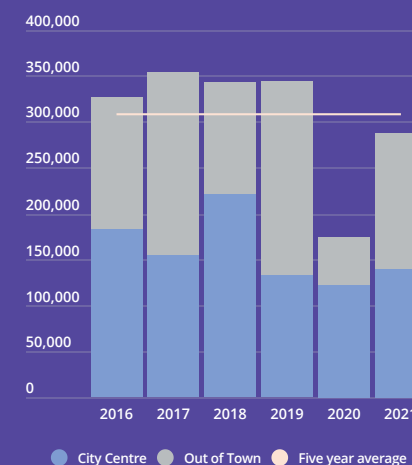


Out of town
19,780 sq ft

93,570 sq ft Grade A

23,220 sq ft Grade B

ANNUAL TAKE-UP



WATFORD

Watford saw plenty of activity during the final quarter after a slow first half of the year. Six transactions were recorded in Q4 2021 totalling 86,600 sq ft, representing 61% of the full year take up of 141,130 sq ft. This was 50% up on 2020's take up figures but still below the five-year average of 179,000 sq ft. Nevertheless, Skanska's acquisition of 67,000 sq ft from ASOS at Leavesden was the largest deal for over 2 years.

Town centre take up for the year was just over 50,000 sq ft which is 66% up on 2020, but only 36% of the year's take-up. Good quality new supply being developed during 2022 will be a healthy addition to the market.

KEY SECTOR ACTIVITY

Sector	Take-up sq ft	%
Property Services & Con.	67,000	77.4
Other Manufacturing	19,594	22.6

VACANCY RATES Q4 2021

Grade A

5.1%

Total

7.8%

HEADLINE RENT



Town centre
£37.50 per sq ft



Out of town
£32.00 per sq ft

QUARTER 4 TAKE-UP



Town centre
1,520 sq ft



Out of town
85,070 sq ft

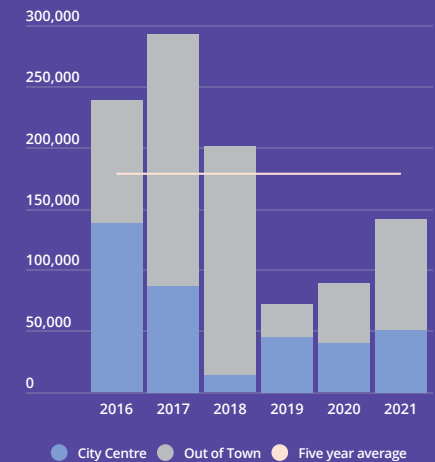
0 sq ft

Grade A

86,590 sq ft

Grade B

ANNUAL TAKE-UP



Investment Market Update



JAMES MCFEELY

Director South East Office Investment



After the best quarter in years there is little doubt the office sector offers investors some of the best opportunities for investment returns and growth in 2022.

Q4 2021 SE RESEARCH

Quarter 4 of 2021 saw a significant uptick in volumes with investors returning to the market in force. This was driven by returning occupier confidence and the market looking relatively good value compared to other sectors. The final quarter of the year saw £1.34 billion of transactions across 36 deals making it the largest final quarter in the last decade; 45% up on the 5-year average and 99% up on the same period last year. The quarter was underpinned by several large transactions, including the largest national office deal of 2021 with Segro's £425m acquisition of the Bath Road office complex from AEW in December. The 39-acre site was purchased for alternative uses with Segro reported to be planning a mixed-use development to include Data Centres, Life Sciences and Industrial space. The deal represents an example of secondary offices being repositioned for alternative uses, as was also evident with Prologis's purchase of The Compass Centre Heathrow for £102m in December.

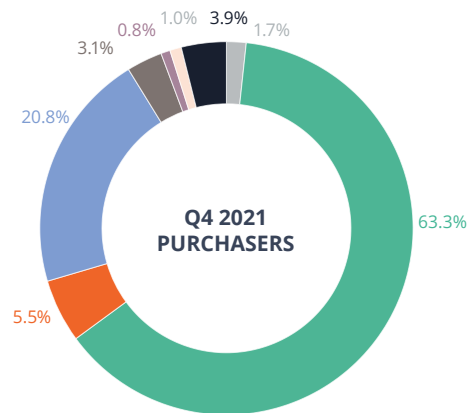
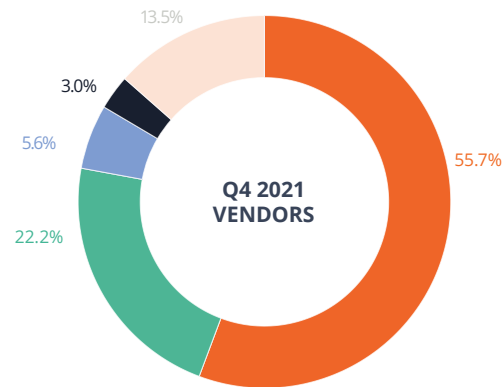
Funds/Institutions remained the most active vendors in Q4 representing 55.7% of all sales with property companies making a significant return to the market accounting for over 60% of purchases.

In all, 2021 saw record volumes in the South East office market with a total of £4.3 billion transacted, a 72% increase on 2020 with an average lot size of £33.5m; up 20% on 2020 and 58% on 2019.

The out-of-town office markets remained the most buoyant in 2021, accounting for approximately 75% of transactions. Unsurprisingly, the most active markets were Oxford and Cambridge, which contributed £890m of transactions between them. 2021 was the year of Life Sciences with approximately £950m attributed to the sector centred around Oxford and Cambridge, with fierce competition for prime assets and pricing significantly ahead of quote, with the likes of Oxford Innovation Park achieving 125% over its £20m guide.

2021 has seen a noticeable and growing gap between the primary and secondary markets with demand for prime stock remaining resilient. In contrast, secondary stock has struggled with the continued uncertainty over office occupation, the inflation of build costs and increasing ESG pressures. This was evidenced on a number of deals in Q4 including Eton House Richmond, Fusion 1,2,3 Fareham and Central Court Orpington which all traded significantly below quote.

Investment Market Data

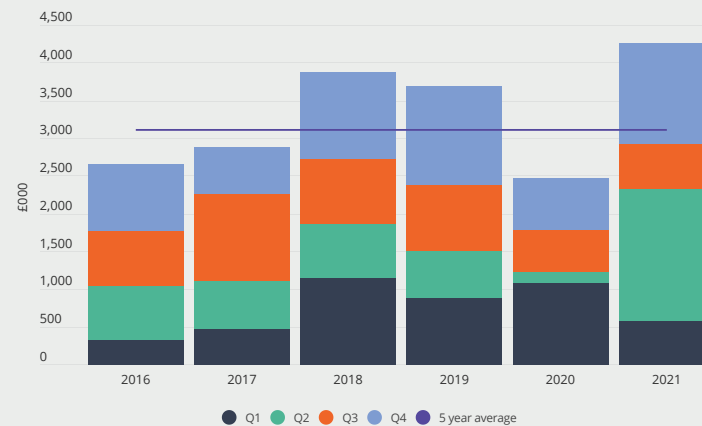


Council PD/Resi Property Company Fund Overseas
 Private Equity Private Other Owner Occupier

KEY Q4 TRANSACTIONS

Property	Location	Size	Price	Purchaser	Vendor
Bath Road Office Complex	Slough	958,000 sq ft	£425m – 4.60%	Sergo	AEW
The Compass Centre	Heathrow	203,000 sq ft	£102m – 5.50%	Prologis	Arora Holdings Ltd
Oxford Innovation Park	Oxford	139,281 sq ft	£45m – 1.07%	EITM	Charterhouse
Forum Solent Business Park	Fareham	101,000 sq ft	£61.3m – 6.30%	Kennedy Wilson	Tristan Alchemy
Cathedral Square	Guildford	118,194 sq ft	£57.75m – 5.83%	CIM Group	Ediston/Europa

AVERAGE TRANSACTION VOLUMES



£1,336 million
5.50%

Q4 2021
Prime Yield

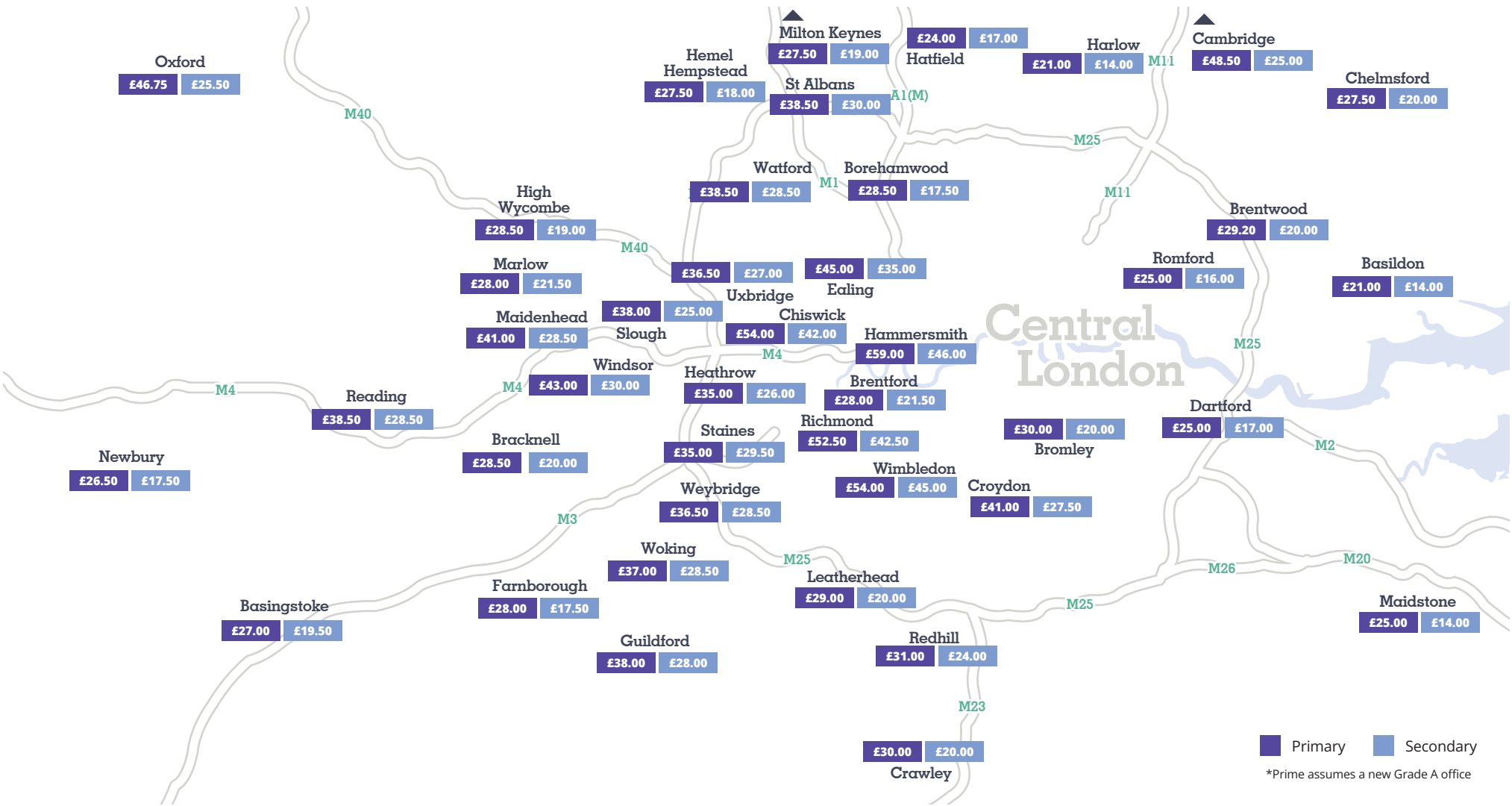
Compared to:

Previous quarter – Q2 2021 **£605 million**

A year ago – Q3 2020 **£671 million**

Q3 five-year quarterly average **£922 million**

Prime and Secondary Rents Q4 2021



Primary Secondary
*Prime assumes a new Grade A office

South East Offices Team



PIERS LEIGH

Principal

+44 (0)20 7046 6521

+44 (0)7967 726 301

piers.leigh@avisonyoung.com



ANGUS MALCOLMSON

Director

+44 (0)20 7911 2763

+44 (0)7836 627 477

angus.malcolmson@avisonyoung.com



JAMES MCFEELY

Director

+44 (0)20 7911 2750

+44 (0)7825 113 276

james.mcfeely@avisonyoung.com



CHRIS MCGEE

Associate Director

+44 (0)20 7046 2197

+44 (0)7962 336 076

chris.mcgee@avisonyoung.com



MAT ROGERS

Associate Director

+44 (0)20 7911 2726

+44 (0)7940 706 011

mathew.rogers@avisonyoung.com



DAN O'SULLIVAN

Surveyor

+44 (0)20 7911 2208

+44 (0)7557 487 329

daniel.o'sullivan@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. ©2022 Avison Young Created: 02/22 Ref: 12465

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](https://twitter.com/AYUKviews)