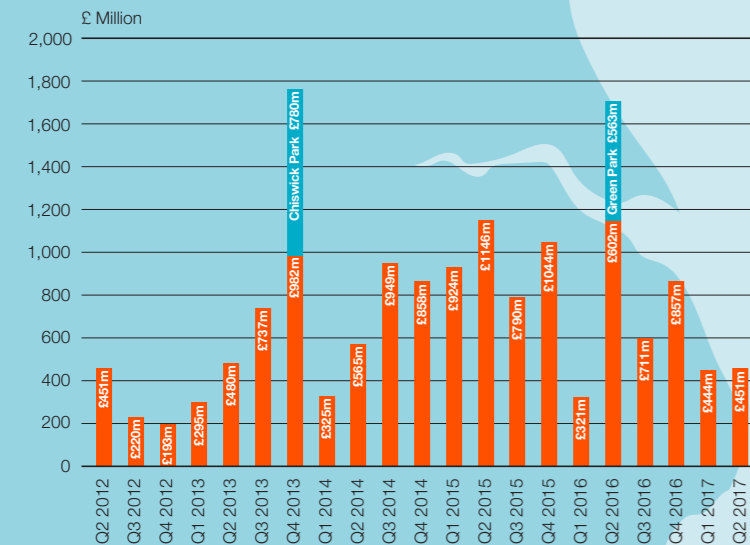


Quarterly Transaction Volumes Q2 2012 - Q2 2017

Source: Gerald Eve



Q2 2017 by Numbers

£451m
of South East office transacted in Q2 across 28 separate transactions.

£830m
of South East offices are currently under offer or exchanged.

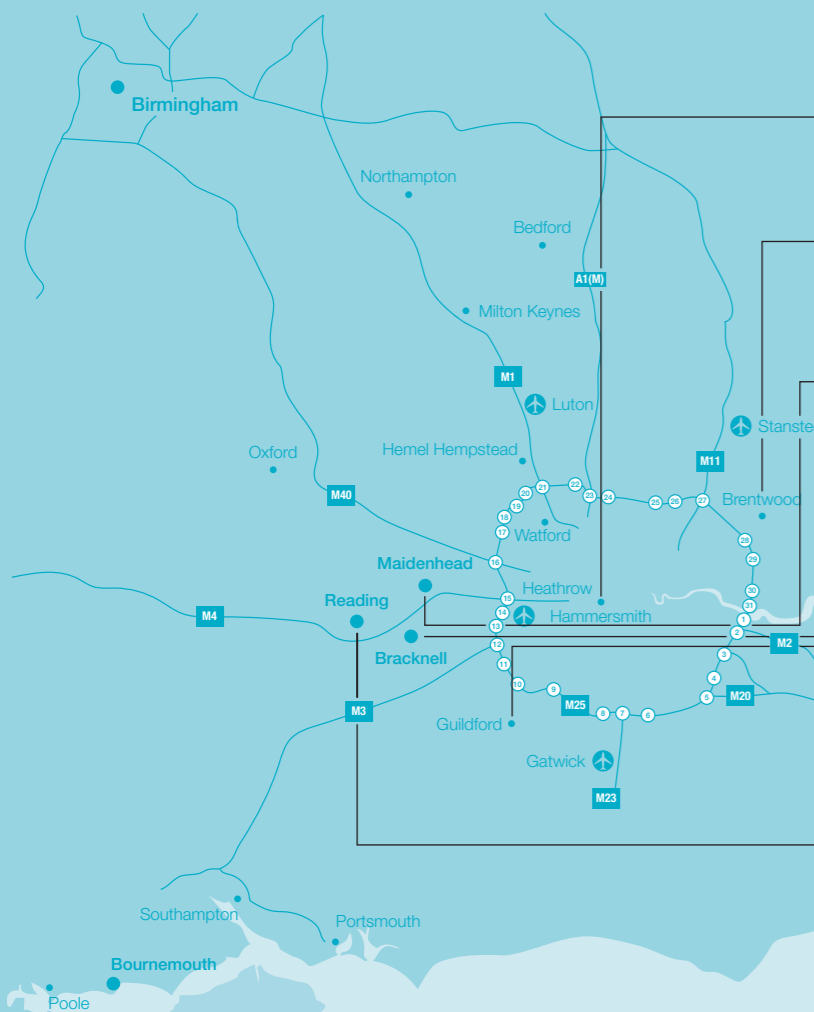
64%
of transactions traded at sub 6.00% NIY.

16.1m
was the average deal size for Q2, 17% smaller than Q1, as 22 of 28 transactions were sub-£20m.

32%
of acquisitions were transacted by overseas investors who were the most acquisitive investor type throughout Q2.

44%
of sales marketed throughout Q2 were launched by private equity funds.

Q2 2017 Key Investment Transactions



	Shortlands, Hammersmith Size: 181,419 sq ft Purchase price: £60,000,000 Yield:
	Academy Place, Brentwood* Size: 46,006 sq ft Purchase price: £12,000,000 Yield: 7.03%
	Circa, The Ring, Bracknell* Size: 25,970 sq ft Quoting price: £5,050,000 Yield: 13.43%
	Abbott House, Maidenhead Size: 76,629 sq ft Purchase price: £35,360,000 Yield: 5.56%
	Hays House, Guildford Size: 18,250 sq ft Purchase price: £9,848,000 Yield: 4.95%
	Winnersh Triangle, Reading Size: 1,303,000 sq ft Quoting price: £350,000,000 Yield: 6.59%
	Abbey Gate, Reading Size: 57,297 sq ft Quoting price: £14,940,000 Yield: 7.75%

* Gerald Eve advised on transaction

Q2 South East Office Investment Market Commentary

Transaction volumes for Q2 2017 were £451m, marginally ahead of Q1 volumes (£444m). Q2 2017 saw the lowest second quarter transaction volumes in the last five years and represents just over a quarter of the transaction volumes recorded in Q2 2016 (£1.7bn). Even though Q2 2017 volumes were lower compared to Q2 2016, the number of transactions remained the same, with 29 deals completed. This was also an increase on Q1, which only saw 23 deals complete. This meant that the average deal size for Q2 was £16.1m, 17% lower than the Q1 2017 (£19.3m) and less than half the size of the average transaction recorded in Q2 2016 (£40m).

The high number of transactions throughout Q2 highlights that buoyant demand for South East office remains, especially for sub-£20m lot sizes which accounted for 22 of the 28 transactions throughout the quarter. There were only three transactions over £50m during Q2, the largest being Tilad's acquisition of Queen Caroline Street, Hammersmith for c.£78m. Despite the lack of larger deals in Q2 there is currently in excess of £800m of South East office transactions under offer and a similar amount either on or coming to the market. The General Election in June may be partly to blame for the slowdown in the progress of some of the larger deals but we expect transaction volumes to increase significantly in the second half of 2017. We expect the majority of disposals to be driven by private equity funds and institutions looking to sell secondary assets.



Yields

Average prime South East office yields are currently 5.25%, however Q2 has seen downward pressure on prime yields, mainly due to the increased demand from institutions. This has led to premium prices being achieved significantly ahead of quoting for core assets. This was evidenced by Threadneedle's acquisition of Hays House in Guildford for £9.848m, reflecting a net initial yield of 4.95% and a 21% premium to the quoting price. Any pricing discount as a result of the 2016 referendum has been eroded and pricing in certain core markets, such as Guildford and the West London markets, is now stronger. This was reflected in Q2 as 63% of transactions were traded at a yield of sub-6.00% NIY.



Outlook

Whilst the election produced another unexpected result in terms of the Conservatives weakened position, we believe the outlook for the South East office market remains positive. A number of markets have extremely low levels of availability and this will continue to drive rents where there is competition for space. This growth should lead to a number of core markets breaking headline rents of £40 psf in the near term.

Q2 2017 key deals

Property	Letting Area (sq ft)	Current AWULT to breaks	Current AWULT to expires	Sold Price			Vendor	Purchaser
				Yield (NIY)	Price	Price (£ psf)		
Shortlands, Hammersmith	181,419	-	-		£60,000,000	£331	Aviva	Romulus Construction
Abbott House, Maidenhead	76,629	-	8.5 yrs	5.56%	£35,360,000	£461	AXA Investment Managers	Private Middle Eastern
Hays House, Guildford	18,250	4.1 yrs	9.1 yrs	4.95%	£9,848,000	£540	Barings	Threadneedle
Academy Place, Brentwood*	46,006	6.2 yrs	8.2 yrs	7.03%	£12,000,000	£261	Northwood	Threadneedle
Circa, The Ring, Bracknell*	25,970	1.5 yrs	1.5 yrs	13.43%	£5,050,000	£194	Canada Life	Stonegate Homes Ltd

* Gerald Eve advised on transaction

Ones to watch

Property	Letting Area (sq ft)	Current AWULT to breaks	Current AWULT to expires	Quoting Price			Vendor	Purchaser
				Yield (NIY)	Price	Price (£ psf)		
Abbey Gate, Reading	57,297	3.8 yrs	5.2 yrs	7.75%	£14,940,000	£261	Aviva	Under Offer
Winnersh Triangle, Reading	1,303,000	4.3 yrs	7.2 yrs	6.59%	£350,000,000	£269	Oaktree + Patrizia	Under Offer



Clockwise from top left: Academy Place (Brentwood), Winnersh Triangle (Reading), Abbey Gate (Reading)

Q2 2017 South East Office Themes



Developers

Developers were behind overseas and institutional investors in terms of transaction volumes and acquired £70.6m of South East offices, representing 15% of quarterly transaction volumes. Offices offering short income with prior approval for permitted development (PD) usually lead to highly competitive bidding, as a number of new investors and developers are entering the PD market.

We are also seeing a number of assets acquired over the last two years being resold with permitted development and planning for additional massing. Permitted development continues to decrease stock in many of the South East markets, which is helping to reposition over-supplied office markets and aiding rental growth in the majority of the Greater London markets such as Watford, St Albans and Borehamwood.



Local Authorities

Local authority investment has decreased in Q2, accounting for only 3% of transaction volumes. This was due to the general election, which meant that many local authorities had to pause their acquisition strategies during the run up and immediate aftermath of the election date.

We are aware that local authorities currently have over £100m of offices under offer off-market and we expect that councils will remain one of the top purchasers of South East offices throughout the second half of 2017.



Institutions

Even though institutions have been the largest seller of South East offices throughout the last 12 months, Q2 has seen institutional investment return to the South East Office market, with 29% of acquisitions across seven separate deals during the quarter. Institutional demand is being driven by retail funds that are in some instances holding in excess of 20% of their assets as cash.

Institutions are tending to focus on good quality, town centre, multi-let offices in core South East markets. Thredneedle have been particularly active during Q2 and have either acquired or are under offer on over £54m of South East offices. Standard Life and BMO are also looking to increase exposure to core South East office investments. Notable institutional transactions in Q2 include M&G's acquisition of Lucidus, Watford for £16.5m; CCLA's acquisition of Compass & Alexandra House, Crawley for £10.15m and Threadneedle's acquisition of Academy Place, Brentwood for £12m.

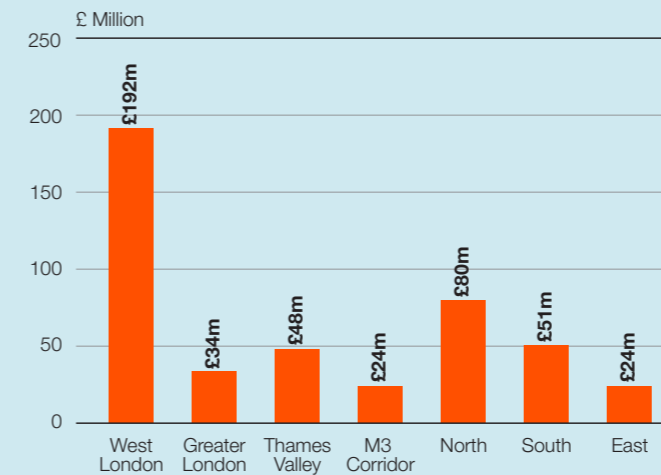


Overseas Investors

Overseas investors remain active in the South East office market and were the largest purchaser in Q2, accounting for 32% of all acquisitions. The market has seen a number of new entrants attracted by the higher yields outside of Central London, and the favourable exchange rate given the weak pound. Overseas investor demand tends to focus on single let secure income assets typically in excess of £20m. Overseas purchasers accounted for three of the five largest acquisitions throughout Q2, which included Abbot House in Maidenhead acquired by a private Middle Eastern investor for £35.36m, and BAE in Christchurch acquired by clients of Trinova for £24.2m.

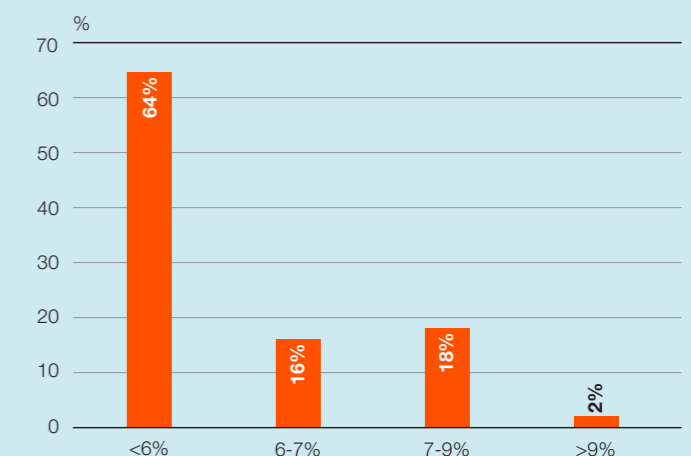
Transaction by Sub-region Q2 2017

Source: Gerald Eve



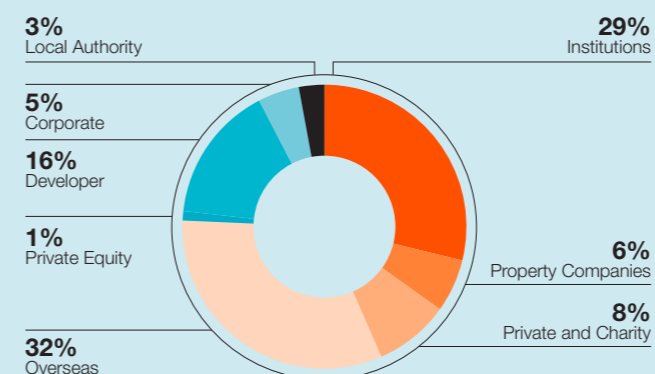
Net Initial Yield by Investment Volume Q2 2017

Source: Gerald Eve



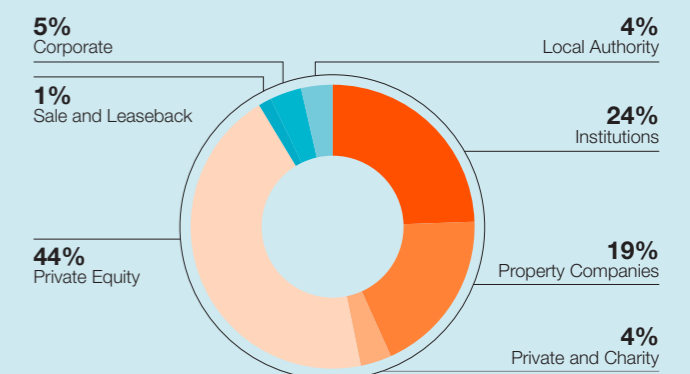
Purchasers by Investor Type Q2 2017

Source: Gerald Eve



Vendors by Investor Type Q2 2017

Source: Gerald Eve



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