Q3 2019 BY NUMBERS & KEY INVESTMENT TRANSACTIONS

South East Office Quarterly Investment Volumes
Source: Gerald Eve

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<td>2,500</td>
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<td>250</td>
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£908m of south east offices transacted
5.00% prime net initial yields compressed over the quarter

26 deals completed throughout Q3 2019
34% of deals were completed by local authorities who were the most active purchaser*

£604m of south east offices are under offer

Institutions were the most active vendor accounting for £604m of all transactions

*excluding the sale of Croxley Park

Q3 key investment transactions

1. Burystead Court, Caldecotte Lake Business Park
   - Size: 57,741 sq ft
   - Price: £19.29m (£334 psf)
   - NIY: 5.93%
   - Purchaser: South Bucks DC

2. 300 Capability Green, Luton
   - Size: 181,750 sq ft
   - Price: £64.56m (£356 psf)
   - NIY: 2.50%
   - Purchaser: Goldman Sachs

3. Croxley Park, Watford
   - Size: 725,000 sq ft
   - Price: £400m (£552 psf)
   - NIY: 6.00%
   - Vendor: Private

4. Interface House, Royal Wootton Bassett
   - Size: 34,689 sq ft
   - Price: £14.69m (£195 psf)
   - NIY: 5.85%
   - Purchaser: Worthing Borough Council

5. Concorde Park, Maidenhead
   - Size: 71,360 sq ft
   - Price: £48.6m (£224 psf)
   - NIY: 4.03%
   - Purchaser: Circle Property

6. Onslow House, Guildford
   - Size: 69,221 sq ft
   - Price: £45m (£504 psf)
   - NIY: 5.85%
   - Vendor: Aberdeen Standard Investments

7. Clockwork Building, Hammersmith (exchanged)
   - Size: 39,626 sq ft
   - Price: £35m (£883 psf)
   - NIY: 6.38%
   - Vendor: Westbrook

8. Renaissance, Croydon
   - Size: 100,487 sq ft
   - Price: £58m (£577 psf)
   - NIY: 4.96%
   - Purchaser: Royal London

9. Watson House, Reigate
   - Size: 73,936 sq ft
   - Price: £27.18m (£368 psf)
   - NIY: 6.38%
   - Vendor: Private Overseas

10. Lakeside North Office Campus, Portsmouth
    - Size: 104,000 sq ft
    - Price: £13.63m (£232 psf)
    - NIY: 7.03%
    - Purchaser: Portsmouth Council
SOUTH EAST OFFICE INVESTMENT MARKET REVIEW – Q3 2019

Overview
The ongoing uncertainty surrounding Brexit continues to weigh on both the UK economy and the commercial property market. This impact has been particularly evident in the investment market and transaction volumes remain subdued, with the deployment of capital largely focused on core town centre assets providing secure income. Despite the delicate economic outlook, the labour market has remained robust, with the UK unemployment rate down to its lowest level since 1974, and real wage growth at an 11-year high. This has helped bolster the overall strength of the south east occupational market and continues to be key driver in investment performance.

Q3 was underpinned by several high-profile transactions which supported a consecutive positive quarterly increase in activity. The total transaction volume for the quarter was £908m, reflecting a 67% increase on Q2 2019.

Off-market and restricted marketing campaigns continued to characterise new investment opportunities in Q3. Significant off-market transactions included Columbia Threadneedle’s sale of Croxley Park for £400m to Goldman Sachs. This quarter also saw the sale by Northwood Investors (advised by Gerald Eve) of Lakeside North office campus for £138m to Portsmouth Council. Collectively these two deals accounted for 59% of the total volume this quarter.

Prime yields have come in to 5% as demand for core prime opportunities remains robust and the number of transactions that have occurred at or around this level has been elevated. This was evidenced by the M&G sale of Renaissance, Croydon to RLAM for £58m, reflecting a NIY of 4.96%. The yield spread between prime and secondary assets continued to widen, creating an attractive opportunity for private equity and propco investors to take advantage of pricing for good quality secondary assets.

The current south east office occupational market remains robust amid the challenging economic climate. Healthy levels of take-up have been focused on the submarkets offering new town centre Grade A space, depth in amenities and good connections to central London and the wider south east. A constrained development pipeline across the south east and the loss of grade B stock to residential has contributed towards a fall in vacancy rates.

ACTIVITY BY INVESTOR TYPE

Local Authorities
Ignoring the £400m sale of Croxley Park, local authorities re-established themselves as the most active investor this quarter, following a drop in activity in Q2. Local authorities accounted for £172m in investment transactions, with notable deals including Lakeside North office campus, Portsmouth (£138m) and Burystead Court, Milton Keynes (£19.29m). Whilst local authorities have refocused their investment criteria and are now mainly buying ‘in borough’, they remain competitive for lot sizes up to £20m offering security of income in excess of five years.

Institutions
UK institutions were net vendors this quarter as they experienced volatility from redemptions on their open-ended retail funds which in turn has placed increasing pressure on their liquidity positions. As a result, institutional activity remains low in the context of the five-year average as demand is selectively focused on prime town centre assets with secure income. Notable deals this quarter included the Columbia Threadneedle sale of Croxley Park to the institutional arm of Goldman Sachs for £400m and the M&G sale of Renaissance, Croydon to RLAM for £58m. Looking ahead to Q4 we anticipate institutional demand to be reserved as they become increasingly more selective in terms of security, liquidity and income.

Property Companies
Property companies established themselves as the most active investor in Q2 and have continued their activity into Q3, investing a total of £120m across seven deals. The robust fundamentals of the occupational market have favoured property companies and supported a move up the risk curve to target high yielding core-plus and value-add opportunities. Notable deals this quarter included the Columbia Threadneedle sale of Vantage, Brentford to Resolution for £28.35m and the LaSalle IM sale of Concorde Park, Maidenhead to Circle Property for £14.6m.
Overseas Investors
Overseas investors continue to be attracted to the UK market by a favourable exchange rate and their longer-term view on how Brexit volatility is distorting the current market. This has however not translated into transactions with only two investment acquisitions being recorded in Q3. More activity would have been expected but very few longer income opportunities have been brought to the market, and where they have, the local authorities have been more aggressive on pricing.

Private Equity
Following a positive return in Q2, appetite remained healthy from private equity investors in Q3, however limited asset management opportunities of scale has curtailed investment activity. A notable deal this quarter included the Palmer Capital and Wrenbridge sale of Colworth Park, Bedford to Angelo Gordon for £62.75m. We anticipate private equity investors to remain active over Q4 following the launch of several repositioning opportunities to the market.

Outlook and Market Insight
• At the end of Q3 c. £651 million of south east offices were under offer, across 34 deals.
• We anticipate investment volumes are likely to remain subdued until there is some clarity over Brexit.
• We expect private equity and propco investors to take advantage of pricing for secondary assets in good locations.
• Off-market deals are expected to underpin Q4 investment transactions, although strategies need to be reflective of the target investor audience.
• The underlying fundamentals in the occupational market are expected to continue to drive rental growth.
• Prime yields are likely to remain firm at 5.00%.
• We expect a softening in yields on secondary assets throughout 2019 which could create buying opportunities.
• Institutions will continue to buy selectively in core markets.
• Fluctuations in sterling will continue to make the UK attractive to overseas investors.

Q3 2019 key deals

<table>
<thead>
<tr>
<th>Property</th>
<th>Lettable area (sq ft)</th>
<th>Yield (NIY)</th>
<th>Sold Price</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renaissance, Croydon</td>
<td>100,487</td>
<td>4.96%</td>
<td>£58,000,000</td>
<td>£577</td>
</tr>
<tr>
<td>Croxley Park, Watford</td>
<td>725,000</td>
<td>2.50%</td>
<td>£400,000,000</td>
<td>£552</td>
</tr>
<tr>
<td>Lakeside North office campus, Portsmouth</td>
<td>594,000</td>
<td>7.03%</td>
<td>£138,000,000</td>
<td>£232</td>
</tr>
<tr>
<td>Concorde Park, Maidenhead</td>
<td>71,500</td>
<td>4.03%</td>
<td>£14,600,000</td>
<td>£204</td>
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<tr>
<td>Watson House, Reigate</td>
<td>73,936</td>
<td>6.14%</td>
<td>£27,180,000</td>
<td>£368</td>
</tr>
<tr>
<td>Burystead Court, Caldecotte Lake Business Park</td>
<td>57,741</td>
<td>5.66%</td>
<td>£19,290,000</td>
<td>£334</td>
</tr>
<tr>
<td>Interface House, Interface Park, Royal Wootton Bassett</td>
<td>34,689</td>
<td>5.93%</td>
<td>£6,750,000</td>
<td>£195</td>
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*Gerald Eve advised

Ones to watch

<table>
<thead>
<tr>
<th>Property</th>
<th>Lettable area (sq ft)</th>
<th>Asking Price</th>
<th>Vendor</th>
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<tr>
<td>Onslow House, Guildford</td>
<td>89,221</td>
<td>5.85%</td>
<td>£45,000,000</td>
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<td>181,750</td>
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<td>39,626</td>
<td>6.38%</td>
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Key deals, left to right: Concorde Park, Maidenhead & Renaissance, Croydon
Despite the headwinds of Brexit and the current political uncertainty, there is a strong appetite for well positioned assets in the south east. Lenders are attracted to assets with strong tenant covenants and whilst there is a preference for longer leases, multi-let buildings with diverse income streams are still well received by the market.

Loan pricing varies dependent upon loan-to-value ratios and interest cover. For longer lease profiles (over, say, 10 years), the insurance sector and mainstream banks are still offering very competitive pricing. For more active management properties, the property debt funds are still keen to deploy capital to strong sponsors with a demonstrable track record.

Gerald Eve Corporate Finance cover the whole of the debt market and can provide innovative solutions to your borrowing requirements.
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