

Greater London & South East Offices Market Watch

January 2016

The market returns to pre-recessionary levels as take-up surpasses 4 million sq ft.

Snapshot of deals, supply and rents

■ The M25 office market returned to pre-recessionary levels in 2015 as take-up reached 4.25 million sq ft which is the highest recorded figure since 2007. The Western Sector was the strongest performer in the M25 market during 2015, 1.91 million sq ft was transacted, which accounted for 44% of total take-up. Given the current demand in the market and the economic conditions we expect take-up to reach 4.5 million sq ft for 2016.

■ Betterment was a key theme last year as 62% of space transacted was for grade A space. Improving economic conditions combined with a reduction in grade B and C office space, due to permitted development rights, has meant that most occupiers are focused on grade A space.

■ During 2015 there were eight deals over 50,000 sq ft, the largest of which was SSE's acquisition of 185,940 sq ft at 1 Forbury Place, Reading. Reading was the strongest performer in the South East market, reinforcing its dominance as the leading market in this region. Other notable deals were Virgin Atlantic leasing 110,545 sq ft at Abstract Securities' speculatively developed Leonardo Building in Crawley. The increase in the number of larger deals is reflective of headcount growth amongst corporate occupiers, whilst also allowing for planned growth.

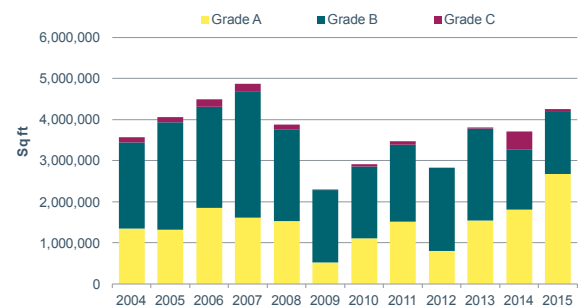
■ Total supply currently stands

at 18.34 million sq ft, which is a 7% decrease from 2014, the main reason for this is the impact of permitted development rights. We estimate that approximately one million sq ft of office space has been converted to residential uses since 2014. Grade A supply is currently 3.74 million sq ft, which is a 5% decrease from 2014. Building 7, Chiswick Park is the largest grade A building on the market where 292,604 sq ft is available.

■ There is approximately 1.93 million sq ft due to achieve practical completion in 2016 across 25 buildings. The largest building expected to complete in 2016 is The Charter Building in Uxbridge where 230,000 sq ft will be available. The Western Sector will account for 67% (1,268,875 sq ft) of new development expected to achieve practical completion in 2016.

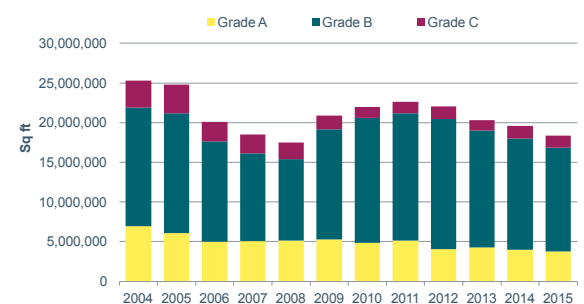
■ Interestingly this year the highest rent achieved was not at Chiswick Park; Unibet signed a pre-let agreement at Pinnacle House, Wimbledon for 42,410 sq ft at £54 per sq ft. This is the highest rent achieved in Wimbledon and highlights the rents occupiers are prepared to pay to secure grade A space in tightly supplied markets. The recent Danone deal at Building 7, Chiswick Park set a new rental tone for the park achieving £52.50 per sq ft. In core markets we expect rental growth to continue in 2016 most notably in Croydon, Reading and Slough.

GRAPH 1
Take-up by grade



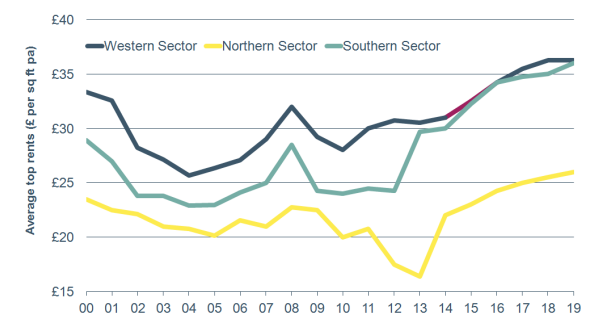
Source: Savills Research

GRAPH 2
Availability by grade



Source: Savills Research

GRAPH 3
Average top rental forecasts



Source: Savills Research

Key Occupier Data (over 5,000 sq ft)

Supply (over 5,000 sq ft)

Current:
18.3m sq ft

Grade A:
3.7m sq ft (20%)

Take-Up (over 5,000 sq ft)

2015:
4.2m sq ft (3.6m in 2014)

Q1- 1.0m sq ft

Q2- 0.865m sq ft

Q3- 1.5m sq ft

Q4- 0.857m sq ft

Five year average annual take-up:

3.3m sq ft

Key Investment Data

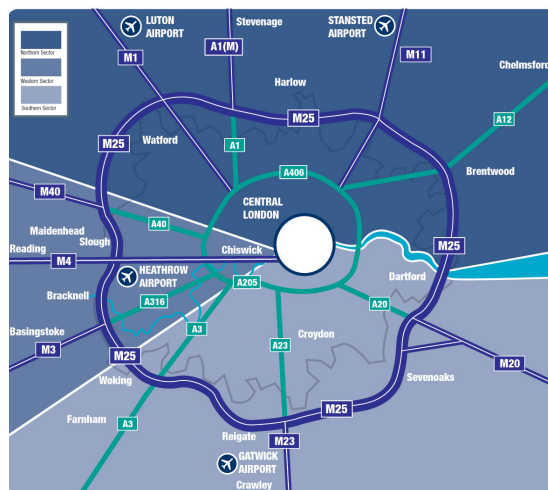
M25 yields:
5% prime; 8.25% secondary

Definitions & statistical notes

Property criteria	Transactions and supply recorded for units in excess of 5,000 sq ft
Grade A	All new development (including speculative schemes reaching practical completion within six months, plus major refurbishments)
Grade B	Space previously occupied, completed or refurbished in the last 10 years
Grade C	Space previously occupied, completed or refurbishment more than 10 years ago

MAP 1

Savills M25 market area



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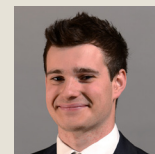
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