Snapshot of deals, supply and rents

Take-up in Q3 reached 755,640 sq ft and there is 335,991 sq ft currently under offer. Total take-up for the year is 2.69 million sq ft. After a strong first half of the year performance, we still expect 2016 total take-up to exceed the five year average of 3.6 million sq ft. Contrary to the norm, the Southern Sector accounted for the highest amount of leasing activity rather than the Western Sector in Q3 with 315,349 sq ft transacted. This was driven by strong activity in Croydon.

There have been several sizeable lettings in the market this quarter, the largest being HMRC acquiring 185,000 sq ft at Ruskin Square in Croydon. This resulted in a record rent being achieved for the Croydon market. Oaktree Capital Management and Patrizia were justified in speculatively developing 1030 Eskdale Road at Winnersh Triangle as Beckton Dickinson leased 44,557 sq ft. The pharmaceutical company paid a rent of £33.50 per sq ft which is this cycle’s highest rent for the Reading out of town market since 2001. There are currently large requirements in the market from Hilton, INC Research, EY, Virgin Media and FM Global Insurance who are all individually searching for in excess of 50,000 sq ft in the South East.

The manufacturing and industry business sector has been the most active in the South East office market in 2016 accounting for 25% of all space transacted this year. The pharmaceutical industry which is part of this business sector has been notably active in the market. The sector combined has acquired 282,000 sq ft this year so far. Notable deals include Bayer acquiring 80,000 sq ft at Green Park in Reading and Smith & Nephew leasing 60,000 sq ft at Croxley Green Business Park in Watford. The highly skilled specialist workforce that reside in the South East has attracted international pharmaceutical companies to locate their headquarters in the region.

Total supply currently stands at 16.3 million sq ft which is a 4% fall from 2015. The vacancy rate is 7.7% which is the lowest since 2001. This can be attributed to a reduction in grade B space from change to other uses and the current occupier preference for grade A space. 64% of space transacted this year has been grade A. Developers have responded to the occupier demand for grade A space, as 3.2 million sq ft is currently under construction across 31 separate schemes.

Rental growth is expected to continue across the core markets in the South East as the new speculative stock will set new rental tones accordingly. All-time record and the highest rents for this cycle are expected to be achieved in Reading, Chiswick and Slough by the end of 2016. Average top rents are set to increase by 2.5% per annum across each geographical sector.
Key Occupier Data (over 5,000 sq ft)

Supply (over 5,000 sq ft)
Current: 16.3m sq ft

Grade A:
6.2m sq ft (38%)

Take-Up (over 5,000 sq ft)
2016 Q3: 735,640 sq ft
2015 Q3: 1,567,708 sq ft
2014 Q3: 757,381 sq ft

2016 YTD: 2.69 million sq ft

Long term average annual take-up:
3.7m sq ft

Five year average annual take-up:
3.6m sq ft

Definitions & statistical notes

<table>
<thead>
<tr>
<th>Property criteria</th>
<th>Transactions and supply recorded for units in excess of 5,000 sq ft</th>
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</thead>
<tbody>
<tr>
<td>Grade A</td>
<td>All new development (including speculative schemes reaching practical completion within six months, plus major refurbishments)</td>
</tr>
<tr>
<td>Grade B</td>
<td>Space previously occupied, completed or refurbished in the last 10 years</td>
</tr>
<tr>
<td>Grade C</td>
<td>Space previously occupied, completed or refurbished more than 10 years</td>
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Map 1: Savills M25 market area