

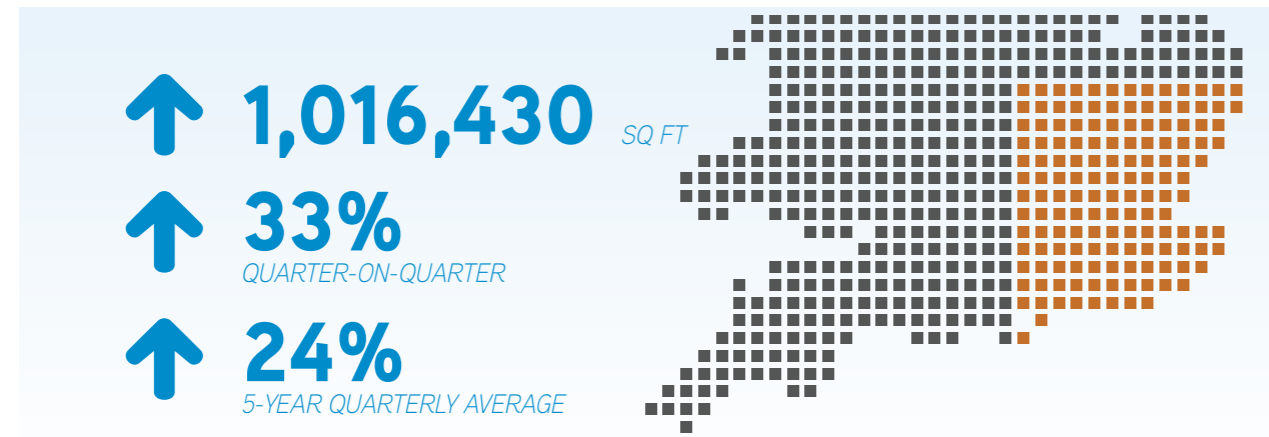
UNITED KINGDOM

SOUTH EAST OFFICES

QUARTER 3 | 2018



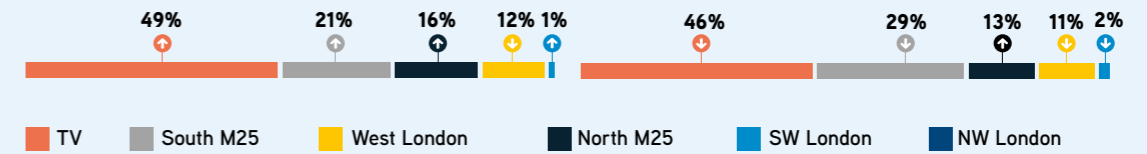
Q3 18 TOTAL TAKE-UP



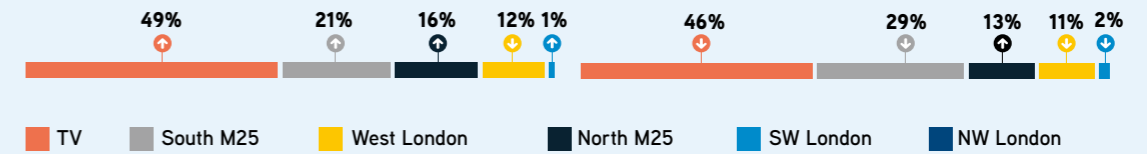
MARKET HIGHLIGHTS

- Despite a slow start in the beginning of the year, leasing activity across the South East has taken off with Q3 take-up levels exceeding 1,000,000 sq ft for the first time since Q3 2014.
- Quarterly take-up was up 24% above the 5yr quarterly average (819,881 sq ft). Demand in the first three quarters of the year is over 20% up on the same period last year.
- This quarter has witnessed a significant increase in larger transactions with take up in the 20,000 – 50,000 sq ft size band accounting for 36% of total take-up and those 50,000 sq ft plus comprised 31% of total take-up (see Figure 1).
- There were two major transactions that exceeded 100,000 sq this quarter; ASOS acquired an additional 120,000 sq ft at Leavesdon Park, Watford which is remainder of the former BT campus. The second largest deal was for 110,000 sq ft at 25 Windsor Road, Slough where Slough Borough Council acquired the freehold. The council intend to occupy c. 60,000 sq ft and will be seeking tenants for the remaining space. Other notable deals include Pernod Ricard who have now consolidated their London offices, leasing 85,000 sq ft at Blackstone's Building 7, Chiswick Park.
- 14 transactions made up the 20,000-50,000 sq ft size band, with the average deal size being 26,350 sq ft. The most prevalent transaction in this size band was Amicus Therapeutics leasing 38,000 sq ft of headquarters space at 1 Globeside in Marlow.
- In addition to the increase in demand for larger units this quarter, we continue to see occupiers seeking the very best space available. This is demonstrated in the graph (Figure 3) which shows a significant increase in Grade A take-up in the first three quarters of 2018.
- The flight to quality is further demonstrated by the recent pre-lettings in Brighton at The Brinell Building. This new development is the first speculative office scheme in Brighton since 2016. The project is now fully let ahead of its completion date next year and will see Brighton rents achieving a new high of £32.00 per sq ft.
- The serviced office operators remain prevalent across the South East, accounting for 147,354 sq ft this quarter. This is a 6% increase quarter on quarter and an impressive 100% increase year on year. Orega and Regus/Spaces were the most active serviced operators in the market with Orega taking 26,000 sq ft (Belmont, Uxbridge) and 21,000 sq ft (The Switch, Slough). Regus/Spaces have taken 27,000 sq ft (Churchill Ct, Crawley) and are under offer in several other locations which are likely to sign in Q4 2018 (see Figure 2).
- Supply in the market continues to be constrained as total availability stands at 10.4 million sq ft; this is down 8% quarter on quarter and 7% year on year. With over 350,000 sq ft under offer, we anticipate strong take up for Q4 2018.
- A genuine lack of Grade A supply and strong demand for quality space has seen many South East centres experiencing continued annual rental growth (see Figure 4).

% TAKE-UP BY MARKET



% AVAILABILITY BY MARKET



VACANCY % AND TRENDS

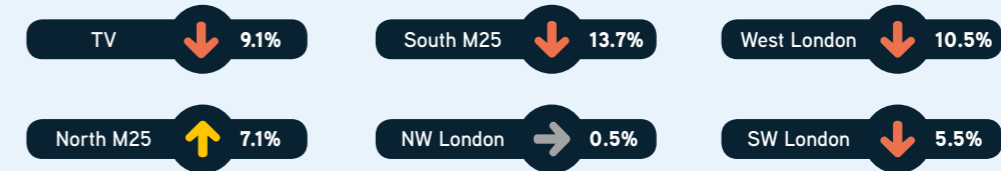


FIGURE 1: PERCENTAGE TAKE-UP BY SIZE BAND

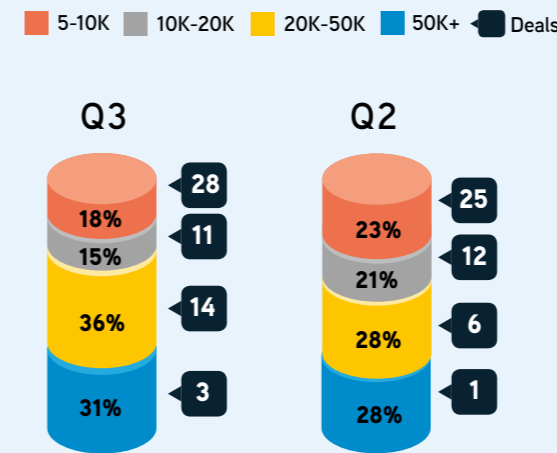


FIGURE 2: SERVICED OFFICE TAKE-UP (Q1 2017 - Q3 2018) SQ FT

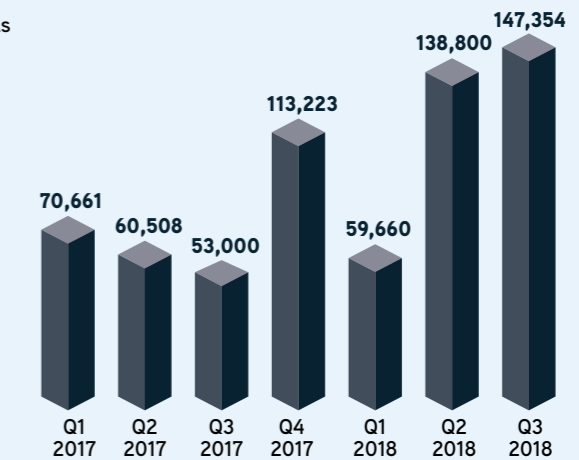


FIGURE 3: SOUTH EAST GRADE A - % OF TOTAL TAKE-UP (Q1-Q3 2018)

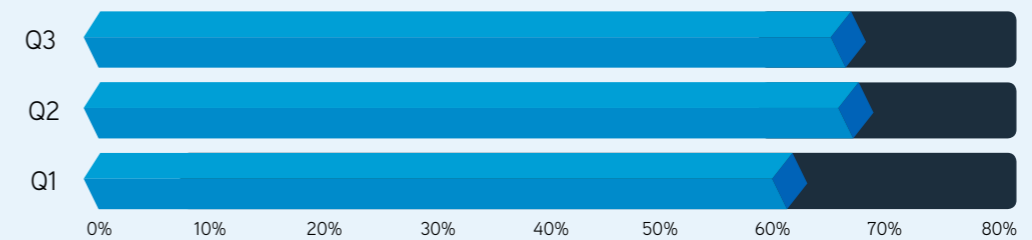
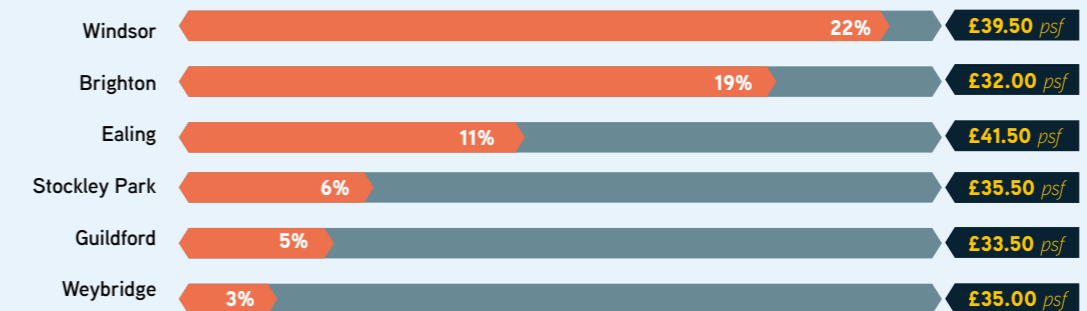


FIGURE 4: ANNUAL RENTAL GROWTH BY TOWN





Bourne Business Park, Weybridge



Weybridge Business Park, Weybridge

TOWN FOCUS WEYBRIDGE

Weybridge is an established office location in the South West M25. Located within 30 minutes of Central London and with good access to other Thames Valley hubs, the M25 and equidistant from Heathrow and Gatwick Airports, it benefits from an affluent and highly skilled catchment area.

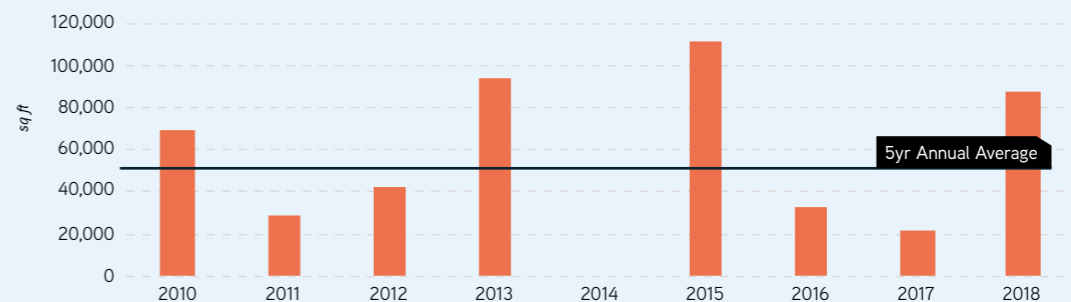
The Weybridge office market is polarised between the town centre, which is the natural location for small and medium sized businesses, and edge of town business parks notably The Heights, Weybridge Business Park, Bourne Business Park, Aviator Park and Velocity, which attract larger corporate occupiers being home to a number of UK and European headquarters including Sony, Toshiba, Procter & Gamble, LG Electronics, Samsung, Cargill and Royal Caribbean Cruises.

The development and refurbishment of many of these parks has seen total stock increase significantly in recent years, now standing at over 1.1 million sq ft. However, this is now being taken up at a steady rate and this increase in supply has

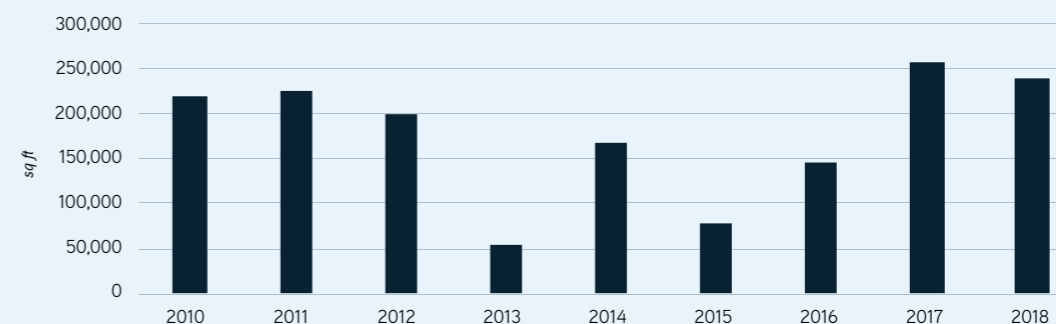
provided much needed Grade A stock in the area, which has driven headline rents by 23% since 2012, which now stand at £35.00 per sq ft.

2018 take-up to date in Weybridge is already in excess of 100,000 sq ft, which is a notable increase on 2017 and twice that of the 5-year annual average. This is largely down to transactions on the newly developed buildings at Bourne Business Park where deals include CHEP (14,631 sq ft), Devonshire Business Centres (24,774 sq ft), Mundays (13,675 sq ft) and Orica UK (7,294 sq ft). Elsewhere, Hexagon have expanded in nearby Cobham, leasing Cedar House (30,000 sq ft) and Toshiba have relocated into the town centre at Consort House (15,741 sq ft). Take up for the remainder of 2018 is expected to continue with further deals under offer at 5 The Heights with AXA/Swiftcover (19,000 sq ft) and Dairy Crest (20,000 sq ft).

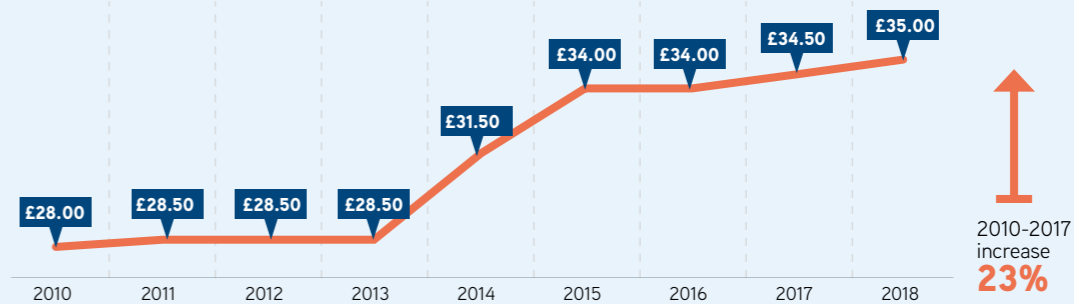
WEYBRIDGE ANNUAL TAKE-UP



WEYBRIDGE ANNUAL AVAILABILITY



WEYBRIDGE PRIME RENTS



ESTABLISHED SOUTH M25 TOWN WITH EXCELLENT ROAD & RAIL CONNECTIVITY

HOME TO A NUMBER OF UK & EUROPEAN HQS

- SONY
- TOSHIBA
- P&G (Procter & Gamble)
- ROYAL CARIBBEAN CRUISES LTD.
- SAMSUNG
- Cargill
- LG

PRIME RENT £35

INVESTMENT COMMENTARY

Q3 2018 witnessed 32 South East office transactions totalling approximately £860 million. This is a 25% increase on Q2 volumes, which saw 38 transactions totalling £690 million.

This is a notable reduction from Q3 2017, which witnessed 52 deals and £1.75 billion transacted; however, this was driven by the sale of two large portfolios.

The key trends for the third quarter were:

- A continued shortage of assets openly marketed for sale despite the significant weight of money still pursuing South East office investment opportunities
- Council's remain active with Spelthorne Borough Council spending £285 million on a portfolio of three prime South East offices
- Increased interest from overseas investors, particularly from Asia and the Middle East
- Reduced activity from funds and residential/PD developers
- Prime net initial yields remain resilient at 5%

Q3 was dominated by three large transactions which accounted for 58% of the total volume of all transactions in Q3. These included;

- Spelthorne Borough Council's acquisition of Thames Tower in Reading, the Porter Building in Slough and the Charter Building in Uxbridge from Brockton/Landid for £285 million
- Ares £140 million acquisition of AEW's Equinox Portfolio (comprising 12 South East offices)
- Frasers Property International's purchase of Maxis Business Park for £67.7 million from Oaktree/Patrizia, marking the final of four business parks purchases over the last two years

Councils have again been the dominant buyer of South East offices. In addition to the £285 million acquired by Spelthorne Borough Council, we saw the following activity from councils;

- 25 Windsor Road in Slough acquired by Slough Borough Council (£40 million)

- The Quadrangle in Redhill acquired by Mole Valley District Council (£21.05 million)
- One York Road in Uxbridge acquired by Worthing Borough Council (£10.5 million)
- One Curo Park in St Albans acquired by Brentwood Borough Council (£4.965 million)

We envisage council's continuing to spend into 2019 with a number of the 'quieter' councils now setting up investment panels to facilitate acquisitions on their behalf.

Funds were notably quiet in Q3 having invested only £70 million across five transactions compared to the £265 million invested across 11 transactions in Q2 2018. This is also down from the £183 million invested in Q3 2017, suggesting a lack of suitable opportunities and their inability to compete with councils and overseas buyers.

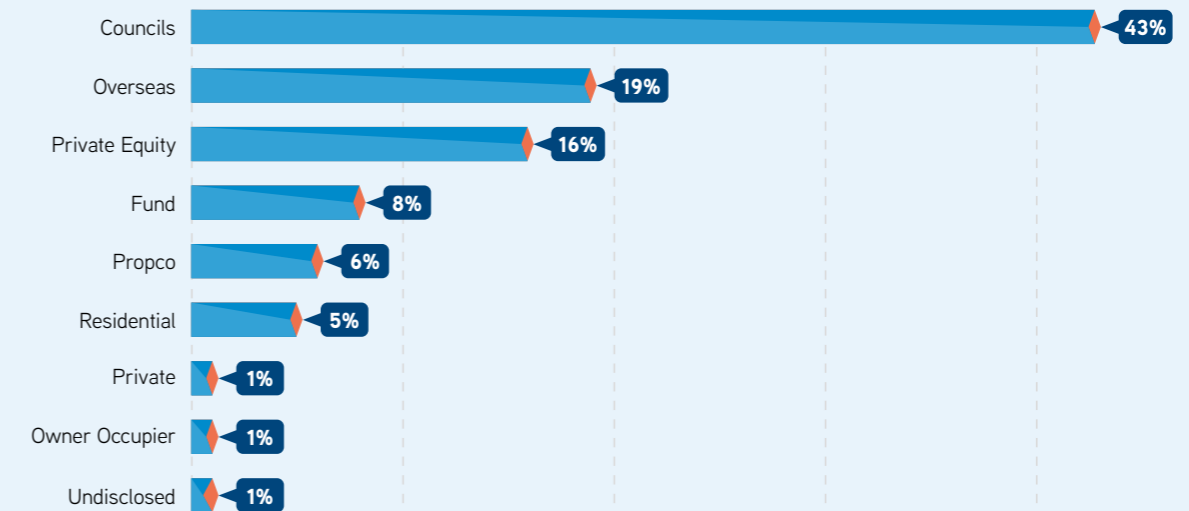
The six acquisitions made by residential/PD developers were notably smaller lot sizes and accounted for only 5% of total investment volumes for the quarter.

We anticipate a strong Q4, driven by a number of large transactions which are already in the pipeline;

- South Korean investors, the Valesco Group, have recently exchanged on the Microsoft office campus at Thames Valley Park, Reading for £100 million
- Aviva HQ in Norwich is under offer to an overseas investor close to the quoting price of £135 million
- Westside in Hemel Hempstead is under offer to Middle Eastern investors above the quoting price of £63.3 million
- Future House in Staines is close to exchanging above quoting at a price of £33.7 million

The secondary out of town office market has struggled in Q3 as investors have reservations regarding the possible effects of Brexit on the occupier market.

Q3 2018 INVESTMENT VOLUMES BY INVESTOR TYPE (%)



Q3 2018 SE INVESTMENT HIGHLIGHTS

● Size (sq ft) ● WAULT to Expiry (Break) ● Price ● Net Initial Yield ● Purchaser



BROCKTON/LANDID SOUTH-EAST PORTFOLIO

- 545,000
- N/A
- £285,000,000
- N/A
- Spelthorne Borough Council



PINNACLE HOUSE, WIMBLEDON

- 43,542
- 14.1 years (9.1 years)
- £40,220,000
- 5.50%
- EPIC



EQUINOX PORTFOLIO

- 482,642
- 6.7 years (5.8 years)
- £140,000,000
- 6.97%
- Ares



TOR, MAIDENHEAD

- 68,065
- 9.3 years (8.8 years)
- £35,025,000
- 5.75%
- M&G



MAXIS BUSINESS PARK, BRACKNELL

- 198,000
- 8.9 years (5.2 years)
- £67,700,000
- N/A
- Frasers Property International



4 THE SQUARE, STOCKLEY PARK

- 81,403
- 5.4 years
- £34,500,000
- 6.50%
- Dimah Capital

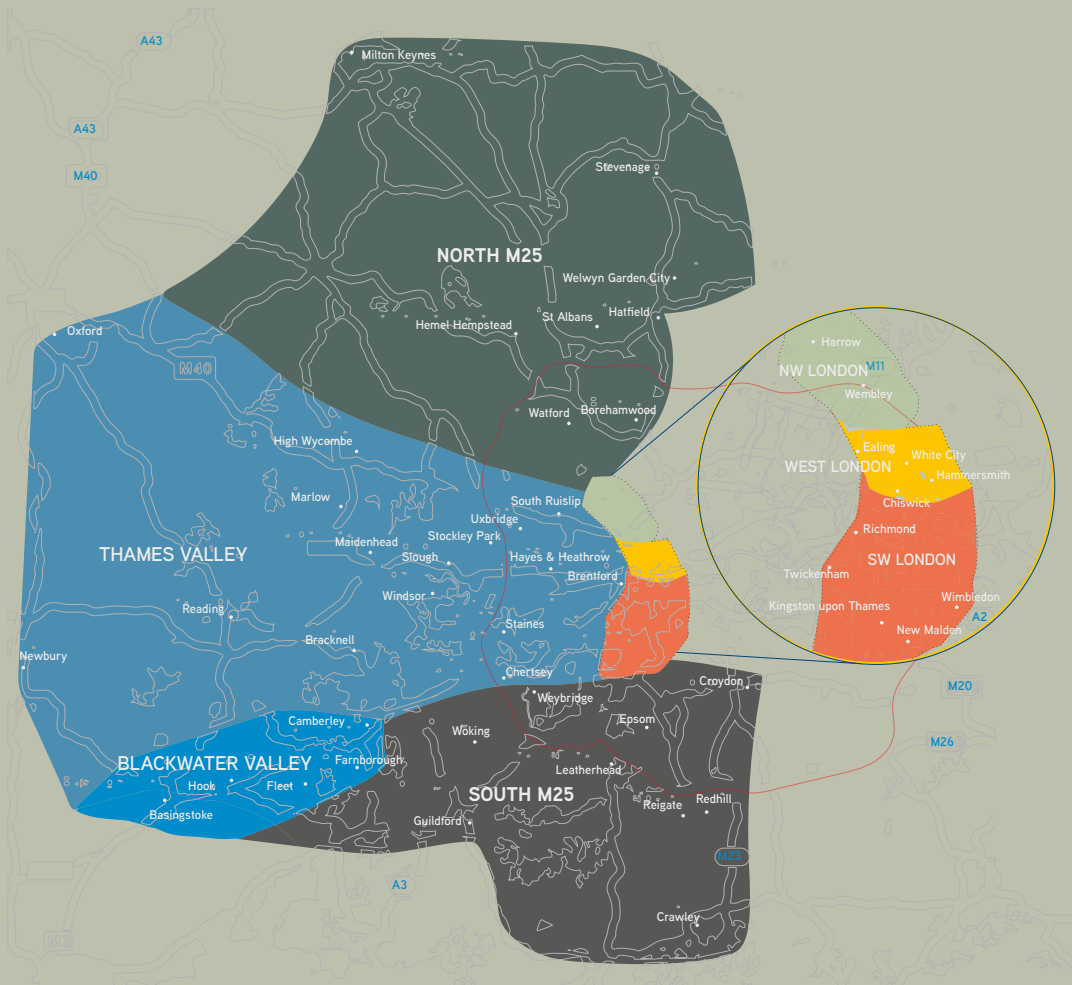


OBSERVATORY HOUSE, SLOUGH

- 111,000
- N/A
- £40,000,000
- N/A
- Slough Borough Council

METHODOLOGY AND CHANGES TO STATISTICAL ANALYSIS

Colliers International South East Offices has changed our geographic boundaries to separate out NW London, West London and SW London. The map below provides a detailed representation of the towns and cities included in these groupings.



FOR MORE INFORMATION

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