

focus on...

South East Offices

RECENT PROJECTS



Arlington Business Park, Theale



Aston Court, Gerrards Cross



Blays House, Egham



Chapel House, Windsor



Kingswood, Ascot



Lambourn Court, Oxford



The Omnibus Building, Regiate



York House, Watford

MARKET INFLUENCES

"Shares charged higher on both sides of the Atlantic yesterday, as improving corporate earnings buoyed investors' hopes."

THE TIMES

"Motorola yesterday released its third quarter earnings a day and a half early, in an attempt to dispel the impact of a credit rating agency downgrade on Friday." THE TIMES

"US manufacturing rose for the second consecutive month during August, bolstering signs of a broader economic recovery. But factory owners continue to eliminate jobs." WALL STREET JOURNAL

"XANSA, the IT services provider, said yesterday that it would close its loss-making European division and consider a similar move in the US, as it shifts its strategy towards expanding further into India."

THE TIMES





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Efficiency drives are producing results

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Efficiency in the workplace is one of the big drivers for many organisations in today's rather slow markets. It can be achieved in many ways - one current buzzword is 'offshoring', coined to describe the process of shipping jobs overseas to cheaper labour bases. Over half of the Fortune 500 companies outsource some degree of their software requirements to locations like India, China and Central Europe. And it's not just IT - manufacturers such as Black & Decker and Gillette are increasingly taking advantage of cheaper skilled labour and distribution costs, as well as less onerous corporation taxes.

Another major source of increased efficiency is technology. Over the past three years, most organisations have been keeping IT spending to minimal maintenance levels and have disregarded upgrades. Three years is a long time in technology, so perhaps the next stage in improving balance sheets and efficiency will be through this route. Cisco has recently introduced a new phase of IP phone technology - the sophistication of the 7900 range is probably best explained by the statements in Cisco's own recent advertisement:

- I have the power to unite voice and data on one network.
- I can cut wiring and maintenance in half.
- I can cut costs while improving efficiency.
- I have the power to log calls, listen to emails and schedule appointments.
- I am the multi-tasker.
- I am the reason for increased productivity.
- I am more than the Cisco 7960G IP Phone.

Technology may be the next source for efficiency

Vodafone and Microsoft have also announced an alliance which will integrate mobile phones with personal computers. Again, the message is 'ease of work 24/7/365', but human nature has evolved at the same rate as technology and the office environment is still an important factor. Hot-desking, touch-down and desk-share formed the first generation of office efficiency, but failed to produce the expected level of space downsizing. However, there is no doubt that working practices have become more efficient (do you work from home occasionally?) and some of the older office stock now has to face up to reality - it just doesn't work.

The signs of recovery in the technology sector on both sides of the Atlantic are encouraging, but what does it mean for the property markets?

There's little chance of a sudden rush from this sector to take back or take up office space, but the horizon does look slightly improved. In the UK, first positive signs of recovery could be in the Thames Valley, which is currently sitting on vast amounts of vacant office space, of which about half is brand new Grade A space. The last couple of weeks has seen some good news for the region, with both GE Capital and Exxon Mobil announcing that they are considering moving a number of existing operations there, amounting to around half a million square feet.

In the short term, even with increased demand, we believe rents are likely to fall further in the Thames Valley region before they begin to recover. Landlords will create a competitive market to secure tenants, compounded by the large amounts of surplus space which is available to sub-let from existing occupiers. Town centre locations are the current preference for most occupiers.

Signs of recovery in the technology market are encouraging

What about the rest of the South East?

Occupier demand throughout the South East region remains cautious, but, for the first time since the end of 2001, we have started to see tentative demand at both the small and large ends of the market. This market stabilisation is being driven predominantly by the diminishing uncertainty in the global economy, but the real test will be whether current demand actually converts into signed transactions.

Some key observations are:

- For the last 18 months, take-up has been at its lowest since the downturn of the early 1990s.
- Headline rents are under pressure, but have not yet really been tested. Demand is low, but developments are generally well-financed, so few landlords have succumbed to pressure to drop rents in order to secure occupiers.
- Headline rents will probably drop a further 5% to 10% overall.
- Available space is not all newly-developed. Approximately 40% of vacant space across the region is offered by occupiers, with the advantages of existing fit-out and favourable lease terms, such as in situ break options. However, some sub-lease deals are being blocked by landlords where incentives are deemed to affect rent reviews and valuations.
- At present, the market is largely incentive-driven. A recent transaction in Slough reported 34 months rent-free on a 15-year lease with no breaks.
- M25 vacancy rates are around 9.5%, with the western area at 12.5%. In Central London, vacancy rates are lower in the West End at 7.1%, but higher in the City at 13.9%.

Source: Market information, Colliers CRE National Offices Team

Take-up indicators for last 18 months

Town	Up to 5,000 sq ft	5 - 10,000 sq ft	10- 20,000 sq ft	20- 40,000 sq ft	40- 60,000 sq ft	60,000 +
Bracknell	9	1	6	1	0	0
Heathrow/Uxbridge	5	5	0	8	1	2
High Wycombe & Immediate Area	13	6	1	2	1	1
Reading & Immediate Area	7	9	1	7	0	0
Watford & Immediate Area	6	5	5	2	0	2
Woking & Immediate Area	3	3	1	1	0	0
Staines/Chertsey	4	6	3	2	1	1
Leatherhead/Dorking	3	0	2	1	0	0
Redhill/Reigate	5	2	1	0	0	0
Croydon	8	5	10	0	3	0
Guildford	2	8	2	0	0	0
Crawley/Gatwick	11	4	4	2	1	0
Blackwater Valley	7	1	4	1	0	1

Source: PROMIS Agents

**Headline rents
are under
pressure**

**Take-up is at its
lowest since 1990s**

**Rents may fall
further before
market recovers**



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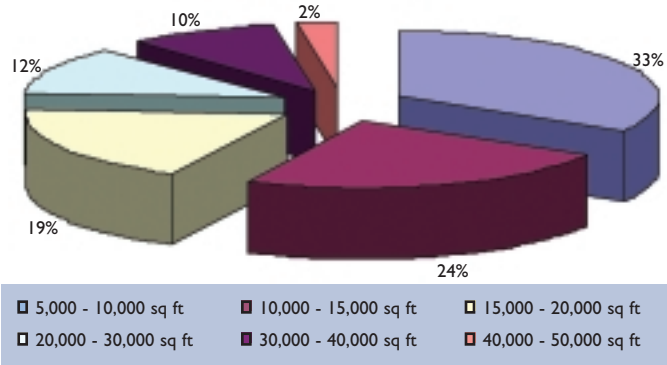
Greatest demand is for space of less than 10,000 sq ft

Silicon Valley hit by 'offshoring'

HP and Intel opening new facilities in Bangalore

Demand Indicators

Indicative Office Requirements up to 50,000 sq ft: M4 Corridor 2003



Source: Market information, Colliers CRE National Offices Team

View from America

California's Silicon Valley was hard hit when the dotcom bubble burst three years ago. Now, a new worry is adding to its misery: the English speaking, well educated Indian subcontinent is becoming a direct competitor, which will have drastic knock-on implications for the real estate markets.

If current business process outsourcing trends continue, more than three million accounting, engineering, computing and high-tech jobs - which would normally occupy 660 million square feet of US office space - will be moved offshore. Filling that space will be a long-term problem for the industry and the office market will erode further.

According to a report in The Silicon Valley/San Jose Business Journal, Intel Corp is purchasing 43 acres in Bangalore, India, for a new company campus which could be as large as one million square feet. Hewlett Packard is also considering a lease on a 400,000-sq ft campus in Bangalore, in addition to its existing commitments. Silicon Valley-based firms such as Oracle, Agilent Technologies and Cisco already have significant operations in India.

Last year alone, according to the report, it is estimated that India saw some ten million square feet of gross absorption in real estate, surpassing 2002 and 2001, when take-up was seven million and five and a half million square feet respectively. Annual rents are around \$19 per sq ft, compared with \$25 in Silicon Valley and \$30 in neighbouring San Francisco. However, rents are not the only savings. Graduates in India's IT sector earn only around 10% of the salary enjoyed by their US counterparts, but this still represents a comparatively high income for India.

With India turning out over two million graduates each year from her 300 universities, all of which are fluent English speakers, there is a plentiful supply of suitable candidates for jobs. The situation for Silicon Valley is likely to be further exacerbated as India increases her capabilities in high-tech product development and high-end IT consulting.

While the US is the first to feel the effects of offshoring, there is little doubt that the UK will also be affected, although to what degree we will have to wait and see.

SOUTH EAST CONTACTS:

For a recent review of South East Offices please refer to www.collierscre.com

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