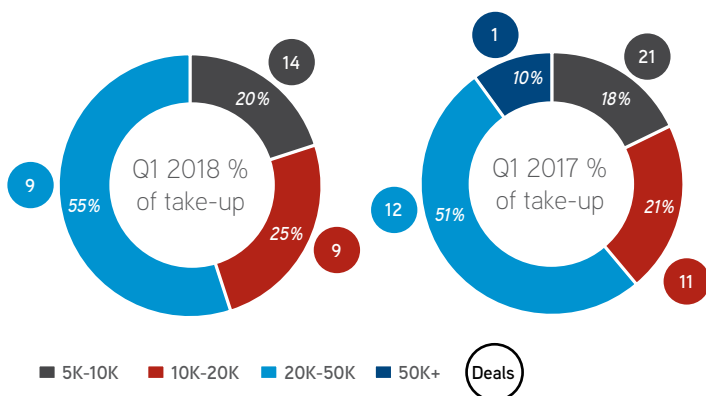


MARKET HIGHLIGHTS

- > The start of the year saw Q1 leasing activity slow down from 2017's strong finish. This is due, in part, to occupiers taking much longer to review occupational and lease event strategy.
- > By example, several transactions in Q1 were held over from 2017, including GiffGaff at Belmont, Uxbridge (22,000 sq ft), Eaton Power and Black & Decker on Bath Road, Slough (54,581 sq ft combined).
- > 55% of all take-up was for between 20,000 and 50,000 sq ft, comprising of nine transactions (see Figure 2). The largest in this sizeband was for 45,000 sq ft at 270 Bath Road, Slough let to Black & Decker.
- > Despite there being less transactions, the mid to lower size bands saw the greatest proportional increase in Q1 take-up.
- > Activity across the South East remains healthy with 234,000 sq ft under offer; of which 91,000 sq ft is in the Thames Valley.
- > Q1 total take-up across the South East stood at 468,632 sq ft. The five-year quarterly average stood at approx. 796,000 sq ft. Although muted when compared to previous quarters, Q1 2018 leasing activity was marginally higher than in Q3 2017, which was at 467,000 sq ft.
- > Serviced office operators were again active in Reading, with Fora (Thames Tower), Pure Office (The Blade) and Central Working (R+) taking a combined 59,660 sq ft between the three buildings.
- > The amount of available stock across the South East declined from year end levels. The lack of Grade A space and demand saw rental growth in a number of centres such as Slough (19%), Maidenhead OOT (16%) and Twickenham (11%) (see Figure 1).
- > Occupiers continue to seek best quality space and this is where we see the opportunity for rental growth against a backdrop of diminishing supply.

Figure 2 & 3. SE Office Take-up by Size Band



Source: Colliers International

Q1 2018 Total Take-Up

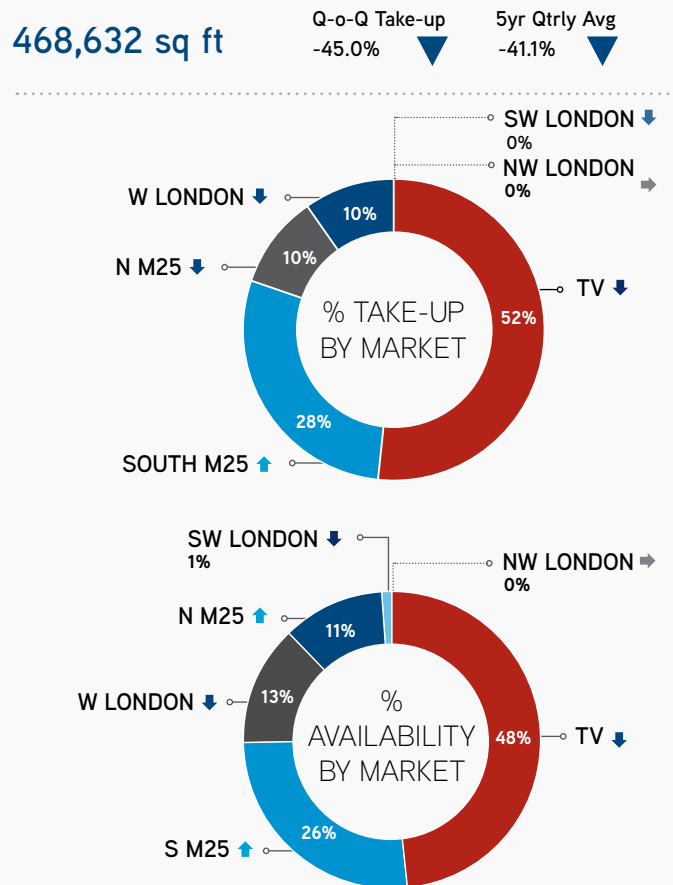
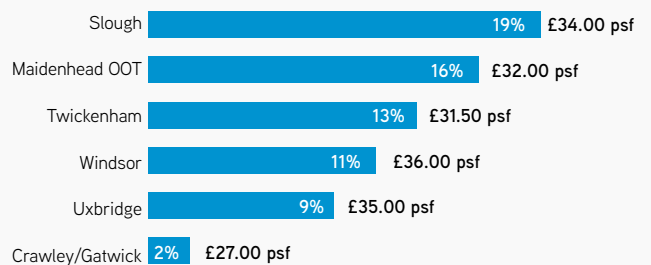
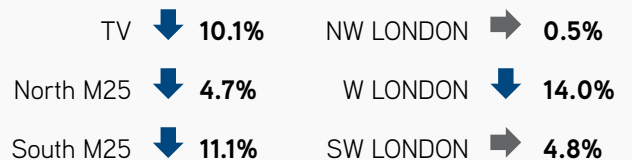


Figure 1. Best Performing Towns - Annual Rental Growth



Vacancy % and Trends



AREA IN FOCUS SOUTH WEST LONDON

The South West London sub market comprises the key centres of Richmond, Kingston and Wimbledon. The area has strong transport links, rents and rates are still at significant discount to central London, hence the appeal to occupiers. The dense residential population in South West London also provides a strong labour pool to both attract and retain employees across many levels.

Since 2010 availability in the South West London market has decreased from over 550,000 sq ft to just over 160,000 sq ft in 2017. This can, in part, be attributed to Permitted Development Rights. Vacancy rates now sit at less than 3.0% in Kingston, 4.8% in Wimbledon and 2.6% in Richmond.

During the same time period, rents have increased significantly with prime rents in Kingston now at £32.50 per sq ft, Wimbledon at £54.00 per sq ft and in Richmond at £46.50 per sq ft.

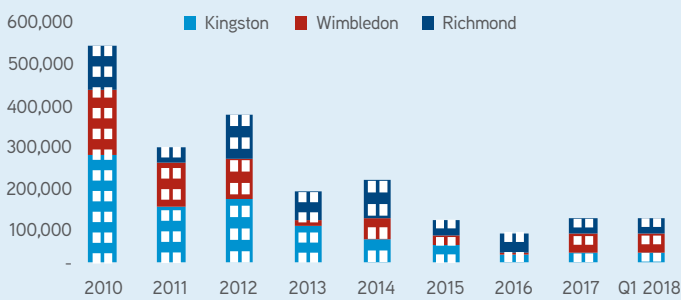
There are five key schemes in the pipeline for South West London, delivering some much needed supply:

- > Wellington House, Wimbledon – Columbia Threadneedle – 26,000 sq ft being delivered in March 2019.
- > 22-24 Worple Road, Wimbledon – TH Real Estate – 35,000 sq ft planning consent granted.
- > The former Magistrates Court, Richmond – BA Pension Fund / Exton, c.38,000 sq ft in early discussions with planners.
- > 19-22 The Quadrant, Richmond - Kier, c.20,000 sq ft, size and timing yet to be confirmed.
- > 145 London Road, Kingston – Wolters Kluwer current HQ - Wolters Kluwer proposing to relocate into 19,000 sq ft in the rear building and release 36,000 sq ft office space to be refurbished by a new owner.

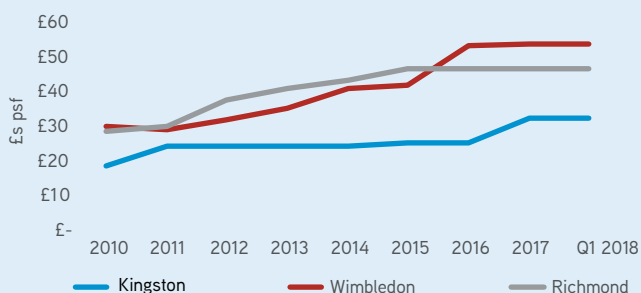


Richmond Riverside

SOUTH WEST AVAILABILITY



PRIME RENTS



VACANCY RATES



Vacancy rates:
▼ 3.0%

Kingston



Vacancy rates:
▼ 2.6%

Richmond



Vacancy rates:
▼ 4.8%

Wimbledon

Source: Colliers International

INVESTMENT COMMENTARY

Q1 2018 witnessed 37 South East office transactions totalling approximately £810 million. This is a notable 84% increase on total transaction volumes in Q1 2017, which saw 26 transactions totalling £440 million.

The key trends for the first quarter were:

- > There remains a significant weight of money pursuing office investment opportunities in the South East.
- > There continues to be a shortage of assets openly marketed for sale.
- > Long leases offering secure income and multi-let town centre opportunities remain the most keenly sought after.
- > Buyer diversity with financial institutions, private equity, property companies, overseas investors, private investors and councils all actively targeting offices in the South East.
- > Financial institutions were responsible for 28% of all acquisitions in the quarter.
- > Prime net initial yields remain resilient at 5%.

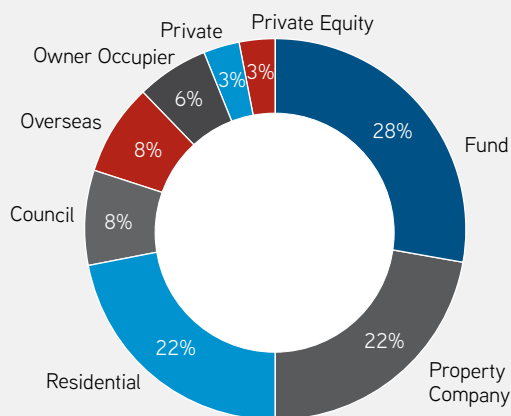
Four transactions accounted for £366 million equivalent to 45% of the total volume of all transaction in Q1.

The sector continues to attract a diverse spread of buyers as demonstrated by the pie chart opposite. Of the 37 transactions in Q1 there were 36 different buyers.

As anticipated, the UK financial institutions have been the most active buyers of South East offices this quarter. This looks set to continue as other sectors, such as industrial, have seen tightening returns as a result of significant yield compression over the past 24 months, making it more challenging to meet targeted returns.

We anticipate that the South East office market will remain robust in the shadow of the UK's exit from the European Union, which is now only a year away.

Number of Transactions by Investor Type



The reasons for this continued growth are:

- > a shortage of openly marketed opportunities which is in stark comparison to the significant weight of money chasing opportunities;
- > the weakened pound continuing to attract inward investment from overseas capital;
- > the loss of office space via permitted development rights;
- > the opening of the Elizabeth Line;
- > the sustained buying power of the councils.

Values remain robust, particularly for well-let assets offering a secure income flow. The lead buyer for these tends to be the councils; who don't always target specific performance benchmarks, but rather looking for security and a positive arbitrage against their low cost of borrowing.

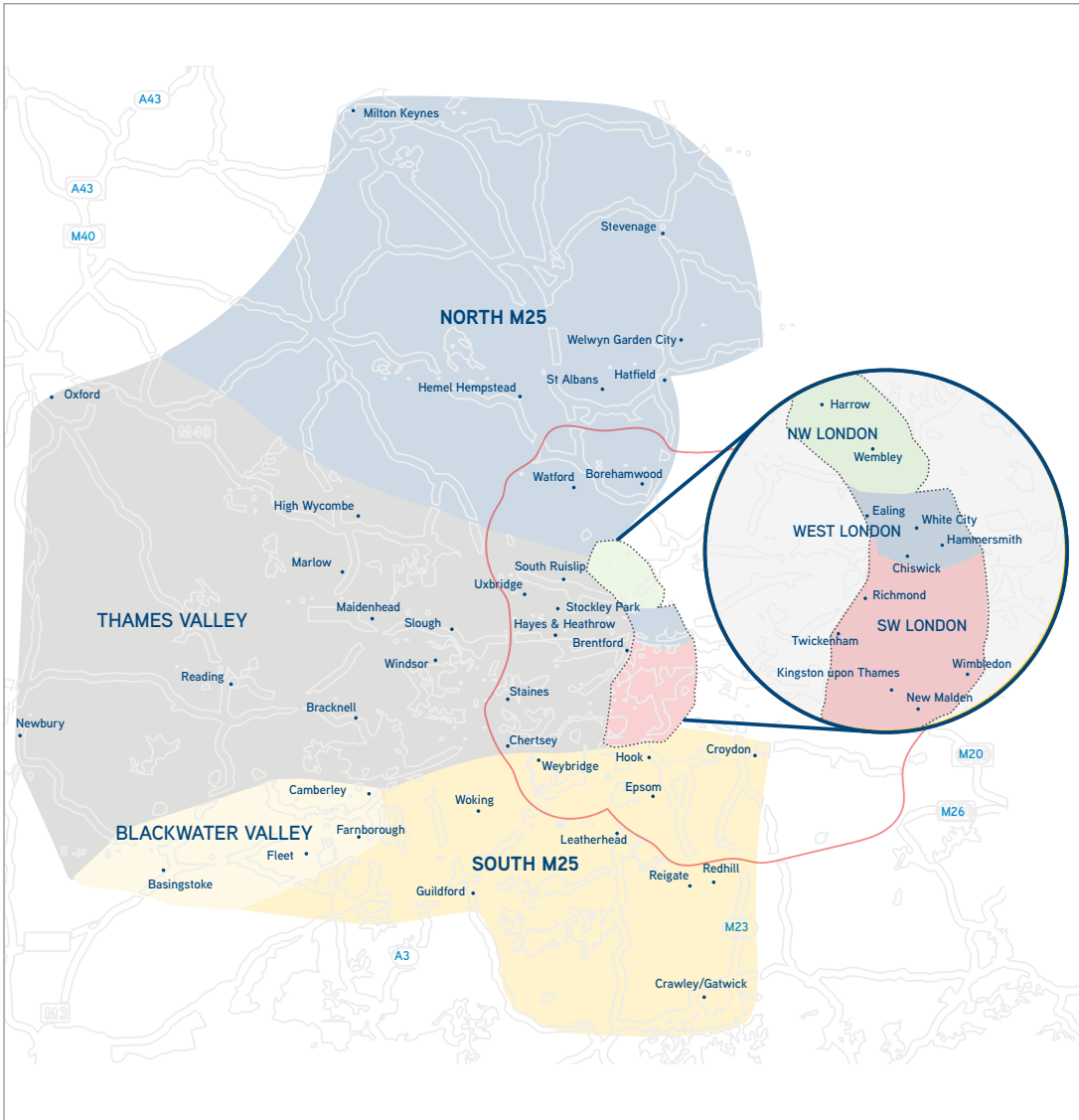
The secondary market is more fragile, unless it is in a strong town centre location or clearly underpinned by an alternate use such as residential.

Q1 2018 Investment Highlights

PROPERTY	SIZE (SQ FT)	AWULT TO BREAK/EXPIRY	PRICE	NET INITIAL YIELD	PURCHASER
12 Hammersmith Grove, Hammersmith	170,000	13 years	£170,000,000	5.25%	Spelthorne Borough Council
NATS, Buildings 1-5, 4000 Parkway, Solent Business Park	261,049	13.5 years	£82,000,000	5.23%	RBS Pension Fund
The Aircraft Factory, Hammersmith	77,502	4.25 years	£63,000,000	6.50%	L&G
Harman House, Uxbridge	129,060	7.9 years 5.4 years	£51,000,000	6.68%	CLS
Xerox Campus, Uxbridge	147,807	2.5 years 1.5 years	£43,000,000	£291 cv psf (PD Purchase)	Mantra
1 Longwalk Road, Stockley Park	74,958	3.15 years	£30,050,000	6.85%	Royal UK Properties
Kennet Wharf, Reading	54,194	6.2 years	£20,100,000	6.04%	Reading Borough Council
Riverside House, Windsor	25,974	4.3 years	£15,900,000	5.35%	KFIM
1-7 Stoke Road, Guildford	37,147	4.8 years 2.8 years	£14,685,000	5.74%	M&G

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.



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