

THE UK OUT OF TOWN OFFICE MARKET “ONE OF THE GREATEST INVESTMENT OPPORTUNITIES”



THE OPPORTUNITY

The UK office park investment market presents one of the best procyclical capital market sub sector opportunities in the UK. With the relentless push by the majority of investors towards both urban regional office centres and London, the pricing disparity that has been created is too wide. The current pricing discount for out of town office parks has arisen in the majority due to a miss perception in the health of the sector and investors current sentiment towards this sub sector of the office market.

Both current occupational demand / take up and achievable pricing in the out of town office market indicates there is both rental and capital value appreciation to be captured. The out of town office park market is one of very few sectors in the UK which will offer investors with prospects of superior returns and attractive income returns.

KEY FACTS ABOUT THE OUT OF TOWN OFFICE PARK MARKET



Occupational take up

Over the past 10 years, approximately 50%-60% of annual occupational take up in the Thames Valley and south-east office markets has occurred on office parks. This is a clear illustration of its enduring occupational attractiveness and ability to achieve rental resilience and growth.



An institutional asset class

Over the past 10 years approximately £16 billion of office parks have been traded. In 2017, there was approximately £2.2 billion traded. The largest investors within this sector have been UK Institutions, Global Investment Managers and Sovereign Funds, the later two being more dominant. The calibre of these investors illustrates their confidence in this sub sector in providing resilient performance through both property and economic cycles.



Rental appreciation

The majority of office parks in the UK remain below their peak 2001 rental levels unlike most urban centres. This provides reassurance that there is realistic scope for sustained rental appreciation within this sector starting from an economic base.



Investment returns

Office parks currently offer investors an approximate 100-175 basis point yield advantage over city centre offices. Income return will be the primary driver of total returns over the next stage of the property cycle. It is realistic to assume that office parks can provide superior returns as they should realistically witness rental growth and yield compression from their current discounted levels.

WINNING CHARACTERISTICS & ATTRIBUTE'S

Stock selection is key to being a winner in this market. The winning characteristics and attributes for selecting an out performing office park / out of town office building are those that benefit from all or most of the following:-

MASTER PLANNED ENVIRONMENT

Successful parks are those that can control and adapt their environment through a holistic master planned approach. This includes the scope to extend their parking provisions, enhance bus services to mainline transport links, creating pedestrianised zones, landscaping, the development or improvement of on-site amenities, to even the creation of a mixed use vibrant environment. Furthermore, those parks that have a progressive approach to building design with an emphasis on wellbeing and productivity will meet the aspirations of the very best talent.

BRAND

A key indicator for stock selection are parks with a strong brand that are market dominant. A strong brand leads to a strong occupier following. Office park brands are created by having high quality, modern, flexible space offering both high levels of connectivity and amenity value. This is important to occupiers in both recruiting and retaining top talent.

SCALE

Out of town parks which benefit from scale / critical mass have the ability to attract strong business clusters, on park "cross selling" through collaboration and the potential to become renowned as "locations of excellence". Parks of scale enable them to accommodate diversity in both building size, amenities and transport options. This in turn assists in creating a strong community feel amongst occupiers which assists in both attracting and retaining tenants.

COMPLIMENTARY

Successful out of town office locations also need to be complimentary and relevant to their respective city centres. Many occupiers have car borne business functions and also large floor plate requirements. These in the majority cannot be satisfied in town / city centres due to both planning restrictions and there being constrained city cores.

CONNECTIVITY

Access and proximity to multi-modal transport links is fundamental. Parks that benefit from close proximity to established transport links (motorway, rail, cross rail, bus and air) will maintain their competitive advantage. Those parks which benefit from both access and proximity to this level of infrastructure will maintain their competitive advantage as this is not easily replicated.

AMENITY

Successful office parks are those that offer both amenity and an attractive working environment. Successful office parks are those that can distinguish themselves from the rest of the market through place making.

CAR PARKING

Approximately 60% of the working population commute to work via car. The continued dominance of this medium of travel means that a key driver of office park / out of town success is in relation to their specific car parking provisions. New consented schemes only have car parking provision of 1:400 – 1:500 sq ft. Those parks with historic more generous provisions will continue to experience strong tenant demand.



A strong brand and master planned environment



Scale - Clustering and diversity



Connectivity & Accessibility



Complimentary to a strong city centre



Amenity & Wellbeing



Car Parking Provisions

EXAMPLES OF OFFICE PARKS THAT POSSESS WINNING ATTRIBUTES, TOGETHER WITH A COHESIVE MANAGEMENT STRUCTURE AND PROGRESSIVE OWNERSHIP. THESE INCLUDE:

A MASTER PLANNED ENVIRONMENT

Blythe Valley Park (BVP), West Midlands

- BVP is the Midlands' premier park. It totals 257 acres and is an established 2 million sq ft master-planned campus. Its owners, I.M. Properties, have created a world class environment. It has a perfect mix of H.Q. offices, an abundance of both recreational and amenity facilities, a day nursery together with a specific well-being offering for employers and nature walks within its 122-acre country park. In addition, I.M. Properties also host regular food events, open air sport and cinema screenings and park bikes which enhance the human experience at BVP and ensures the workplace becomes even more permeable. The parks placemaking is evolving further with the recent planning consent for up to 750 homes, a hotel, retail accommodation and additional leisure & community uses.
- I.M. Properties are ensuring that the park remains attractive and relevant to corporate occupiers by making BVP a 24 hour a day vibrant, sustainable and mixed use built environment by implementing well thought placemaking initiatives.
- BVP is a strong example of a master planned environment offering corporate occupiers CBD benefits, namely public transport, amenities and housing whilst maximising the out of town benefits of proximity to an airport, motorway / rail access, proximity to HS2 infrastructure and landscaping.

SCALE / BRAND

Stockley Park, Heathrow

- The park is set within 450 acres and totals over 1.8 million sq ft of built space set across 26 Grade A offices.
- Stockley Park has excellent onsite amenities and communication links. It is a park that has many winning attributes. In addition, it has a strong brand and scale, which has created a strong occupier following and given it the ability to attract business clusters.

PROGRESSIVE OWNERSHIP

Vanwall Business Park, Maidenhead

- The park is a landmark western corridor office park with a scale of approximately 600,000 sq ft within 16 HQ offices. The ownership of the park is split across several ownerships. The park benefits from key winning attributes, namely a strong brand, excellent connectivity, access to a large skilled labour force (TMT and Pharmaceutical) and its proximity to both Heathrow and Central London. Its final ingredient

required was amenity. One of the owners of the park, M&G have recently developed a striking amenity centre as a focal facility for all occupiers of the park. This in turn completes the parks experience.

AMENITY

Farnborough Business Park, Farnborough

- It comprises 115 acres with 14 buildings totalling 554,000 sq ft with a further 150,000 sq ft of consented offices. The park is owned by Frasers Centrepont. The scale and quality of the Park and being situated on the edge of the town centre has allowed it to provide one of the best provisions of onsite business park amenities. Its amenities extend to approximately 300,000 sq ft of retail and leisure facilities.

THE DIRECTION OF OCCUPIER TRAVEL

A Final Observation

- Over the past 5-10 years there has been an increased urban push from both developers and investors to renew and refresh under-utilised city centre opportunities. The shift towards urbanisation has in part been driven by occupier demand and the perception that corporates wish to attract and retain top millennial talent.
- City centres have evolved and have created new, vibrant developments with a mix of uses together with a large residential emphasis. However, the majority of this residential development comprises apartment living and are now at a price point that is tipping the affordability scales.
- Of interest, Zillow Group have recently published a report on the USA housing market. The report states that the largest group of new homebuyers in America are millennials in the age group of 18-34. Of note, 47% of millennials who buy a new home are buying in the suburbs.

Question: is this an indicator in the direction of travel of office demand changing again?

Millennials are the talent of today and the decision makers of the future.



Like any investment strategy, a balanced approach is a sound approach. Office parks that benefit or have the ability to offer winning attributes should be pursued as those that commit will be rewarded.

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