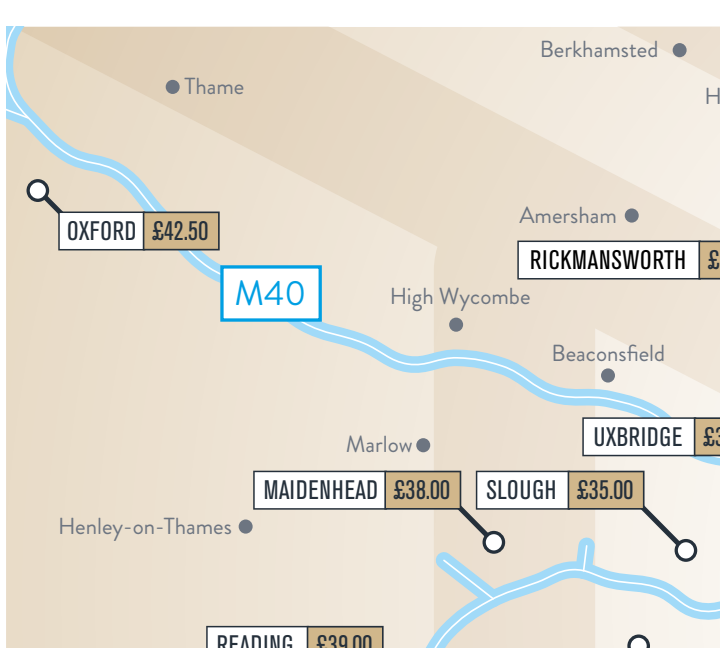
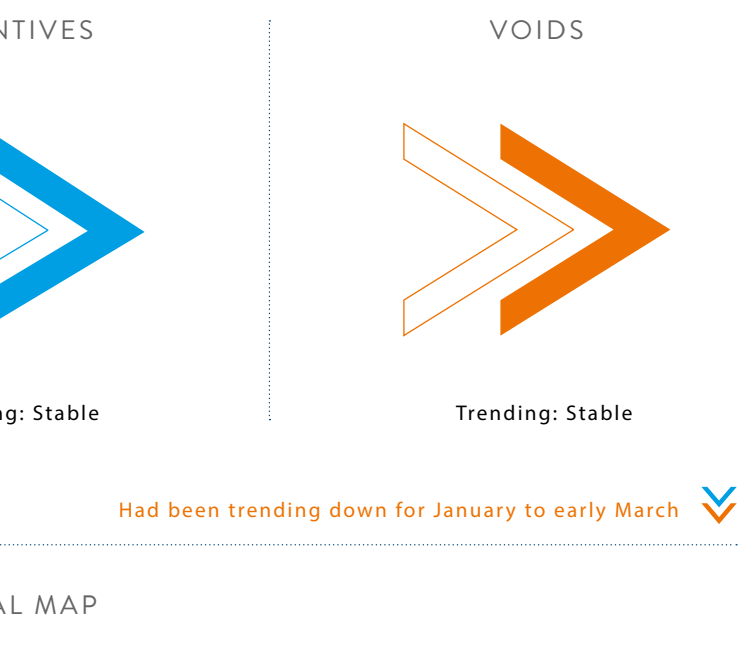
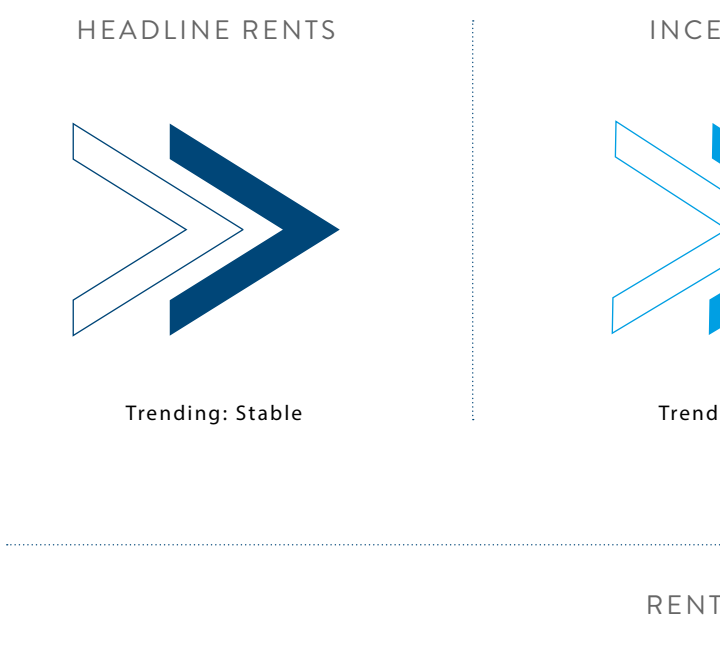
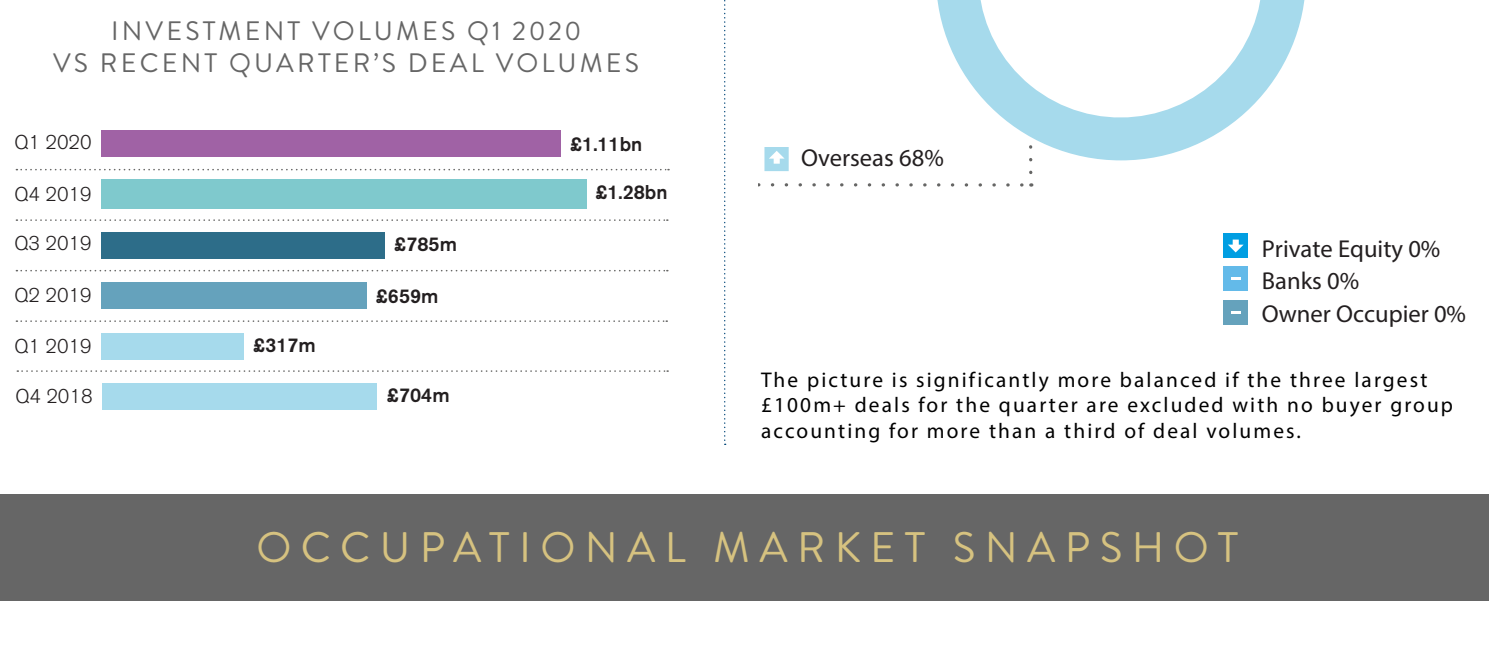
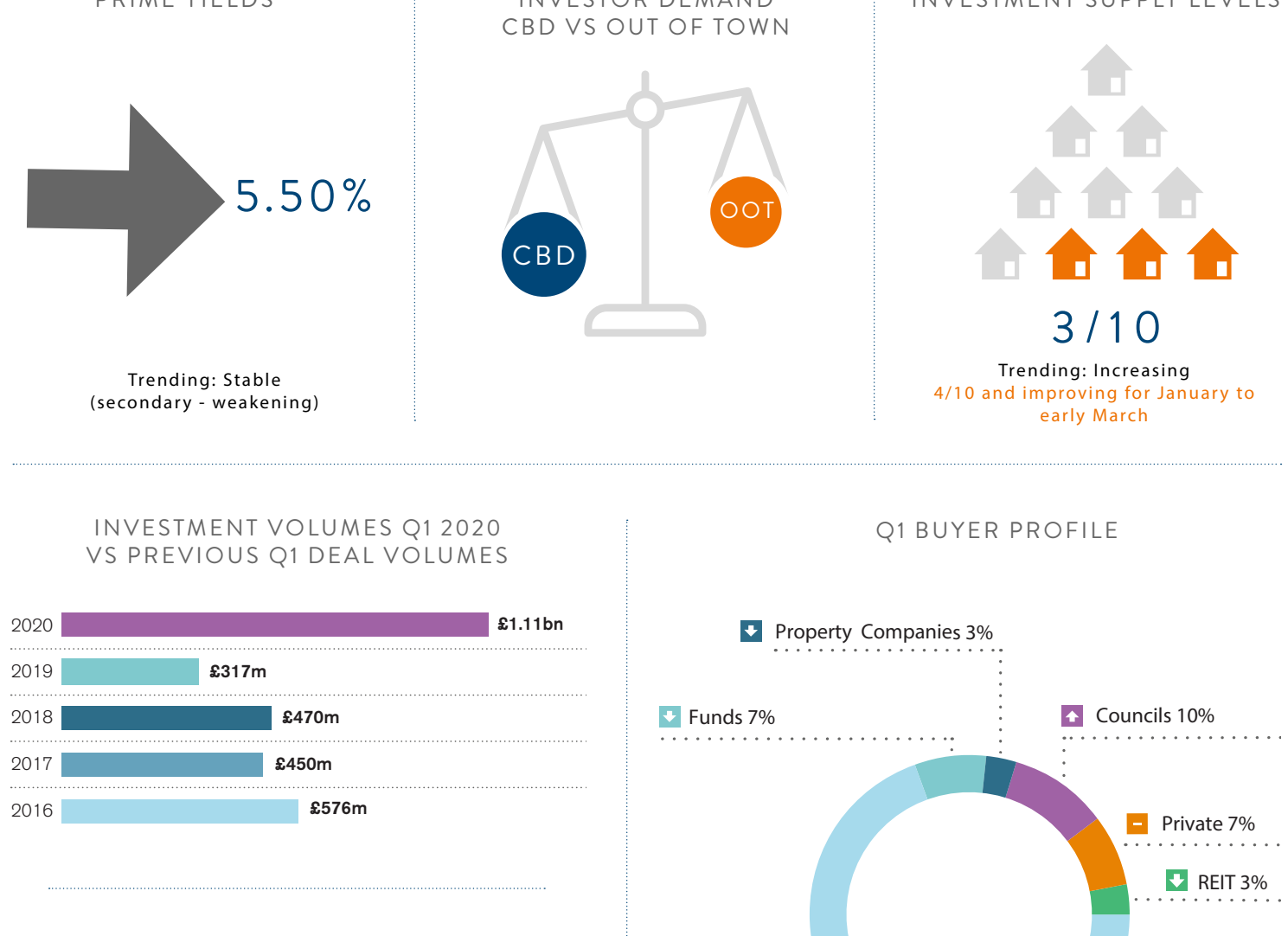


QUARTERLY SOUTH-EAST OFFICE INVESTMENT MARKET SNAPSHOT

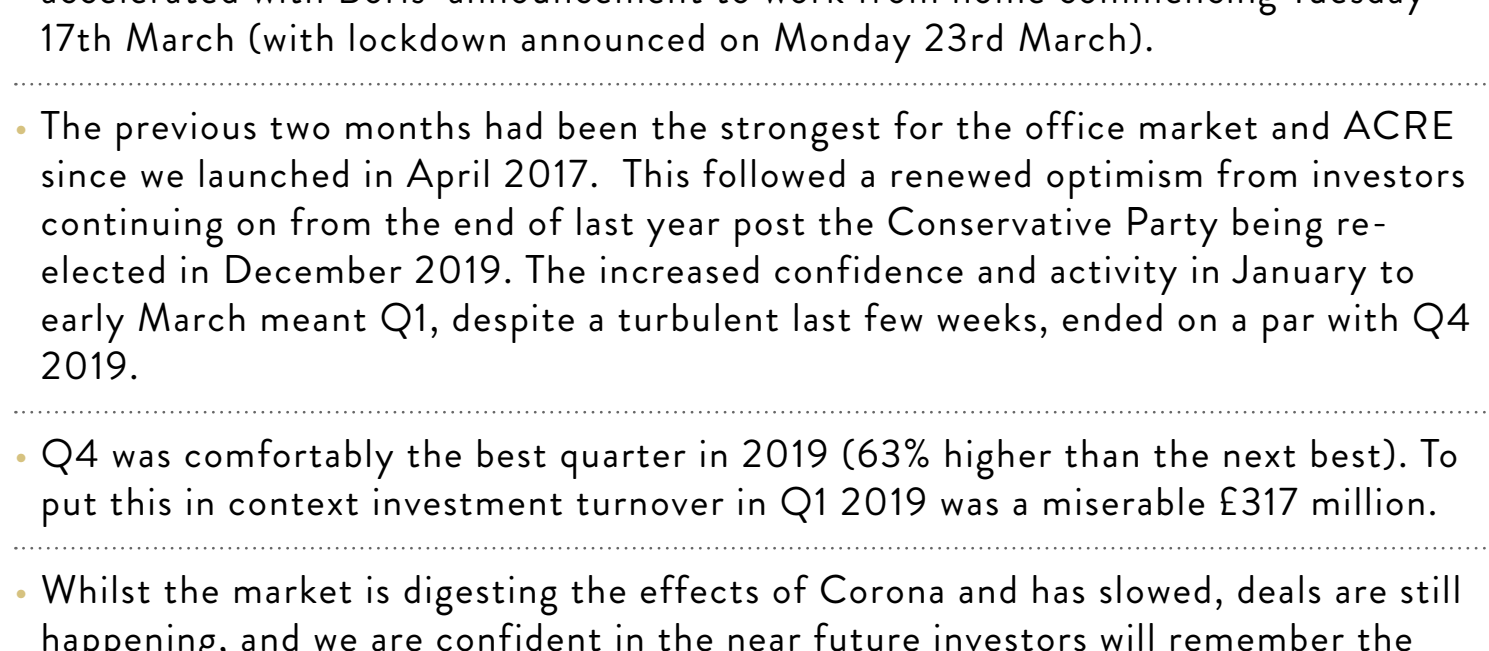
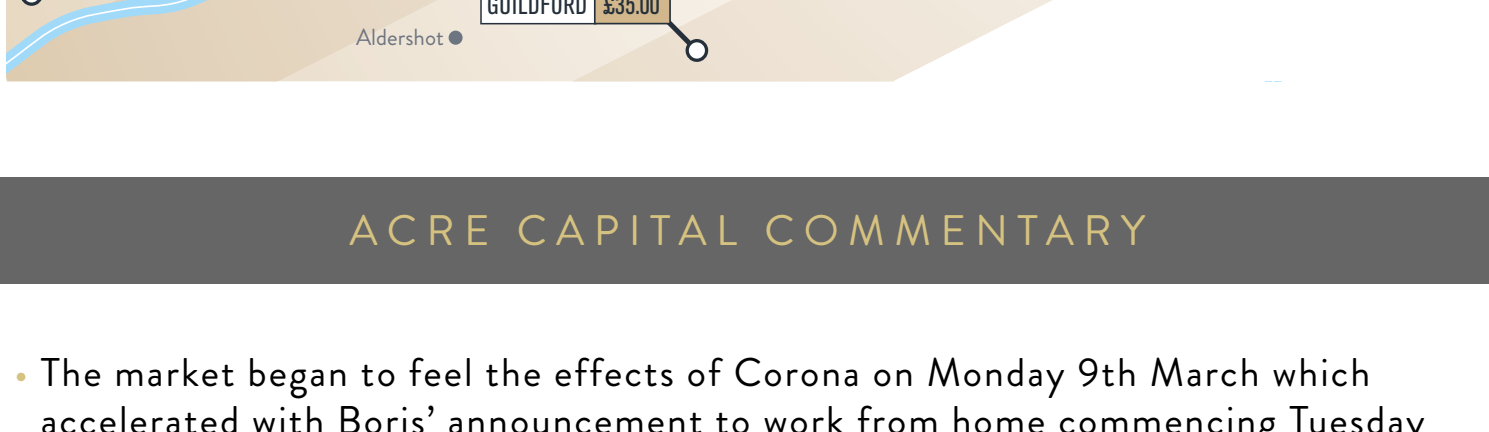
Q1 2020

INVESTMENT MARKET DASHBOARD



The picture is significantly more balanced if the three largest £100m+ deals for the quarter are excluded with no buyer group accounting for more than a third of deal volumes.

OCCUPATIONAL MARKET SNAPSHOT



ACRE CAPITAL COMMENTARY

- The market began to feel the effects of Corona on Monday 9th March which accelerated with Boris' announcement to work from home commencing Tuesday 17th March (with lockdown announced on Monday 23rd March).
- The previous two months had been the strongest for the office market and ACRE since we launched in April 2017. This followed a renewed optimism from investors continuing on from the end of last year post the Conservative Party being re-elected in December 2019. The increased confidence and activity in January to early March meant Q1, despite a turbulent last few weeks, ended on a par with Q4 2019.
- Q4 was comfortably the best quarter in 2019 (63% higher than the next best). To put this in context investment turnover in Q1 2019 was a miserable £317 million.
- Whilst the market is digesting the effects of Corona and has slowed, deals are still happening, and we are confident in the near future investors will remember the market's strong fundamentals. These are:
 - Strong Liquidity (domestic / international)
 - A concentration of some of the strongest companies in the world
 - Low availability of Grade A space
 - A large number of long term, active occupier requirements which remain unoccupied and cannot be postponed again (Brexit)
 - Constrained development pipeline with strong competition from other uses (sheds etc not just residential)
 - A desirable place to live and work
 - Unrivalled transport infrastructure
 - Significant loss of space to residential
 - Proximity / accessibility to London
 - Large pool of skilled labour
 - High GDP outside of London
 - Strong infrastructure investment
 - Low average rents both nominally and real
- In terms of live deals, we are very pleased to report a number of deals going under offer (see 'Investment Opportunities - Watch This Space' Section) / trading since. Notable examples of the latter include ACRE's Apollo Court Hatfield, as well as 300 Capability Green Luton, Jubilee House Brentwood, and Imperial Park Newport.
- This shows just how resilient the market is. Whilst this is encouraging, it is important to provide a balanced view and whilst some deals have failed more have paused for breath, a large proportion of which we think can be rekindled.
- Looking back at Q1, transaction volumes totalled £1.11 billion across 34 deals - this is 123% greater than the 5-year Q1 average - £497 million.
- Q1 also saw three £100m+ deals including the £312 million Chiswick Park, £135 million Bedford Lakes, and £129.25 million Arlington Business Park deals. This is notable when looking back at 2019 and 2018 where there were just four £100m+ deals across the entire year for both years.
- At this stage it is hard to distinguish any strong trend between buyers wanting to continue and those wishing to pause, however deals with more defensive characteristics are more resilient. Bidding prior remained highly competitive for the very best stock demonstrating a willingness among investors to pay premiums to secure opportunities that display strong property fundamentals, secure income, alternative development and/or repositioning angles.
- It would be naive to think the sector will not face challenges given its performance is so strongly correlated to the service sector and GDP. However, a consensus amongst Economists is that the impact/correction will be sharp but not prolonged. The situation remains fluid but this should be a comfort for all.

DEBT FINANCING Q1 2020

- At the start of 2020, there was strong competition amongst lenders to lend on assets in the South East office market. This was evident both on assets with long term income and transitional assets with shorter leases/higher vacancy with credible business plans and competent asset managers in place.
- Post the onset of Coronavirus, the lending market has become more challenging as lenders manage the issues in their existing loan books. The office sector though is still considered one of the more attractive sectors for real estate lenders and whilst pricing on margins/fees has widened and leverage has come in slightly, there are still lenders selectively keen to deploy capital in this space for the right asset/sponsor. We fully expect this appetite to increase as more certainty emerges on the wider global picture over the coming weeks and months.
- Lenders in the short term are however focused on their wider existing loan books particularly around their March quarter date and rent payments.
- For further information please contact:
T: +44 (0) 20 7353 7500
E: t.vaughan@brothertonre.com
www.brothertonre.com



KEY INVESTMENT DEALS & INVESTMENT OPPORTUNITIES

KEY DEALS

BUILDING 7, CHISWICK PARK

DATE TRANACTED	FEB-20
PURCHASE PRICE	£312,000,000
NIY	5.20% (SPV)
CAP VAL (PSF)	£934
AREA (SQ FT)	333,984
TENANCY DETAILS	MULTI-LET
WAULT (YEARS)	9.80
PASSING RENT EPA (EP5F)	£16,523,826 (£49.47)
PURCHASER	STANHOPE PLC

LAKESHORE, 9-11 NEW SQUARE, BEDFORD LAKES

DATE TRANACTED	JAN-20
PURCHASE PRICE	£135,000,000
NIY	7.77%
CAP VAL (PSF)	£497
AREA (SQ FT)	271,630
TENANCY DETAILS	CISCO SYSTEMS LTD
WAULT (YEARS)	4.97
PASSING RENT EPA (EP5F)	£11,200,000 (£39.00)
PURCHASER	FRASERS

ARLINGTON BUSINESS PARK, THEALE

DATE TRANACTED	FEB-20
PURCHASE PRICE	£129,250,000
NIY	5.12% (GUARANTEE NOT TAKEN)
CAP VAL (PSF)	£354
AREA (SQ FT)	364,630
TENANCY DETAILS	MULTI-LET
WAULT (YEARS)	4.20
PASSING RENT EPA (EP5F)	£6,731,353 (£26.38)
PURCHASER	CAPITALAND

300 CAPABILITY GREEN, LUTON

DATE TRANACTED	MAR-20
PURCHASE PRICE	£62,000,000
NIY	6.25% (SPV)
CAP VAL (PSF)	£341
AREA (SQ FT)	181,750
TENANCY DETAILS	BAE SYSTEMS / LEONARDO
WAULT (YEARS)	9.50
PASSING RENT EPA (EP5F)	£3,950,082 (£21.73)
PURCHASER	OVERSEAS CLIENT OF CITI BANK

2 ROUNDWOOD AVENUE, STOCKLEY PARK

DATE TO MARKET	MAR-20
QUOTING PRICE	£40,500,000
NIY	6.70%
CAP VAL (PSF)	£414
AREA (SQ FT)	97,720
TENANCY DETAILS	GILEAD SCIENCE EUROPE
WAULT (YEARS)	5.00
PASSING RENT EPA (EP5F)	£2,888,100 (£29.55)
VENDOR	CORUM AM

145 - 155 KING STREET, HAMMERSMITH

DATE TRANACTED	MAR-20
PURCHASE PRICE	£18,600,000
NIY	4.60%
CAP VAL (PSF)	£650
AREA (SQ FT)	28,615
TENANCY DETAILS	HAMMERSMITH & FULHAM COUNCIL
WAULT (YEARS)	3.00
PASSING RENT EPA (EP5F)	£912,781 (£31.93)
PURCHASER	HAMMERSMITH & FULHAM COUNCIL

JUBILEE HOUSE, BRENTWOOD

DATE TRANACTED	MAR-20
PURCHASE PRICE	£17,000,000
NIY	3.78%
CAP VAL (PSF)	£412
AREA (SQ FT)	41,241
TENANCY DETAILS	REGUS
WAULT (YEARS)	15.00
PASSING RENT EPA (EP5F)	£1,049,417 (£25.45)
PURCHASER	BRENTWOOD BOROUGH COUNCIL

OMNIBUS, REIGATE

DATE TRANACTED	FEB-20
PURCHASE PRICE	£15,210,000
NIY	9.19%
CAP VAL (PSF)	£226
AREA (SQ FT)	67,439
TENANCY DETAILS	MULTI-LET
WAULT (YEARS)	3.50
PASSING RENT EPA (EP5F)	£1,491,847 (£23.49)
PURCHASER	SKELTON

APOLLO COURT, HATFIELD BUSINESS PARK

DATE TRANACTED	MAR-20
PURCHASE PRICE	£14,640,000
NIY	7.23%
CAP VAL (PSF)	£279
AREA (SQ FT)	52,432
TENANCY DETAILS	OCADO CENTRAL SERVICES
WAULT (YEARS)	3.80
PASSING RENT EPA (EP5F)	£1,130,578 (£21.56)
PURCHASER	PRIVATE

HELIOS COURT, HATFIELD BUSINESS PARK

DATE TRANACTED	MAR-20
PURCHASE PRICE	£10,180,000
NIY	8.37%
CAP VAL (PSF)	£225
AREA (SQ FT)	39,859
TENANCY DETAILS	MULTI-LET
WAULT (YEARS)	3.52
PASSING RENT EPA (EP5F)	£911,014 (£22.86)
PURCHASER	TRINOVIA RE / ORYX RE PARTNERS

MIND THE GAP
607 BPS YIELD ARBITRAGE PROPERTY VS GILTS

A compelling case exists for investors to enter the office market.

2 ROUNDWOOD AVENUE, STOCKLEY PARK
PROPERTY - OFFICE

YIELD (NIY) - 6.70%

5 YEARS

Full details above

VS

UK 5 YEAR GILT
UK GOVERNMENT SERVICES

YIELD - 0.63% (27/03/2020)

5 YEARS

INVESTMENT OPPORTUNITIES WATCH THIS SPACE

ACRE expect a volatile few weeks /months ahead with a sharp positive correction to follow. The progress and outcome of the below key opportunities which are either available or under offer will be telling.

OTHER CORONA FACTORS FOR CONSIDERATION

- The South East is relatively unexposed to the serviced office sector, which is suffering given its flexible contracts, compared to London.
- Working at home provides balance to the working life but we are fundamentally social creatures and enjoy others' company. Positive office working environments, of which there are many, should therefore profit.
- We are going to press on the March quarter day which is a significant milestone for rent payment. These are clearly significant headwinds in the economy which are leading certain business sectors to seek rent holidays / delays; this is particularly the case in the F&B, retail and leisure areas. However, whilst not immune, we think the office sector is more resilient than other sectors. Time will tell.
- The epidemic has forced us to upscale our technology skills (e.g. video conferencing). Whilst this could be construed as a threat to office demand, I think social habits negate this and technology is complimentary and not a threat.
- Space – The South East is significantly less dense than London. Will businesses put a premium on space and reconsider where they want to be located? It is no coincidence that the banks and financial institutions based in Central London have their disaster centres here and are currently working out of them. There is a strong argument for business parks here given the resilience they offer for a business than needs to continue to operate! Interestingly, 76% of Q1 deals were out of town and this remains high at 52% even excluding the three largest deals which were all on business parks.
- Construction – A stall in construction will exacerbate supply shortage.

CONTACTS

<p>JAMES LEACH Partner</p> <p>james.leach@acrellp.com 020 3903 4372 07551 434545</p>	<p>MARK WILSON Partner</p> <p>mark.wilson@acrellp.com 020 3903 4369 07958 427643</p>	<p>EDWARD GAMBLE Partner</p> <p>edward.gamble@acrellp.com 020 3903 4373 07803 266214</p>
<p>FRAN DEBNEY Associate</p> <p>fran.debney@acrellp.com 020 3903 4379 07912 041793</p>	<p>WILL NELSON Associate</p> <p>will.nelson@acrellp.com 020 3903 4370 07377 869621</p>	<p>HOLLY RICHARDSON Partner</p> <p>holly.richardson@acrellp.com 0203 903 4371 07730 203428</p>

WWW.ACRELLP.COM

TAYLOR REID