

QUARTERLY SOUTH-EAST OFFICE INVESTMENT MARKET SNAPSHOT

Q2 2023

INVESTMENT MARKET DASHBOARD

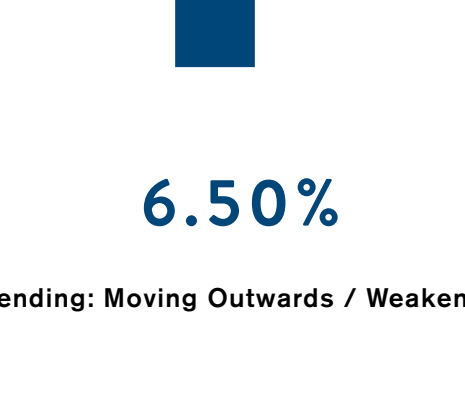
INVESTMENT VOLUMES YTD

£894m



INVESTMENT VOLUMES Q2 2023

£252m



*Includes deals which have exchanged

UNDER OFFER



c.£534m

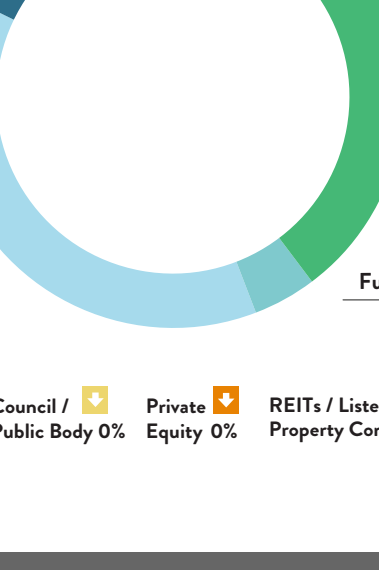
PRIME YIELDS



6.50%

Trending: Moving Outwards / Weakening

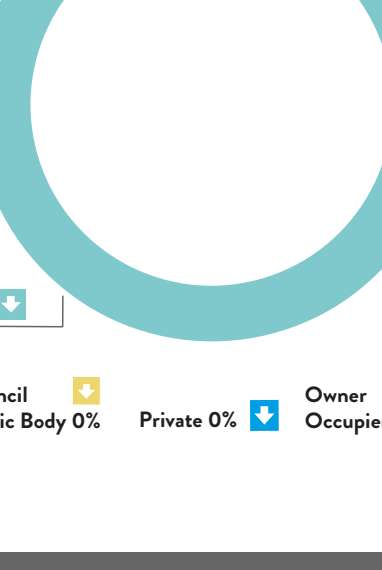
INVESTOR SENTIMENT



2/10

Trending: Weakening

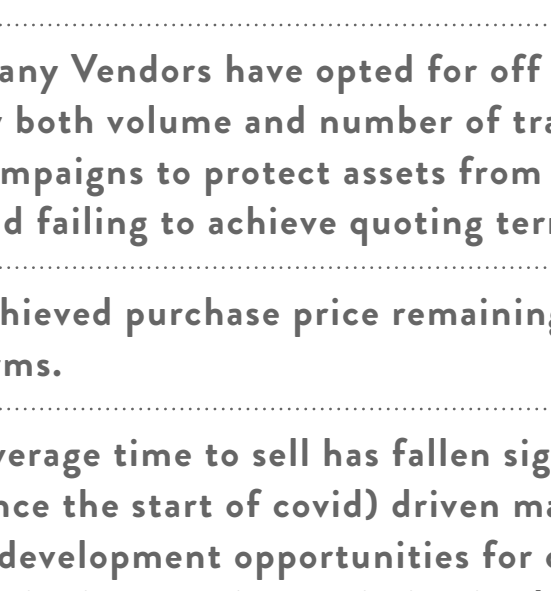
INVESTMENT SUPPLY LEVELS



3/10

Trending: Weakening

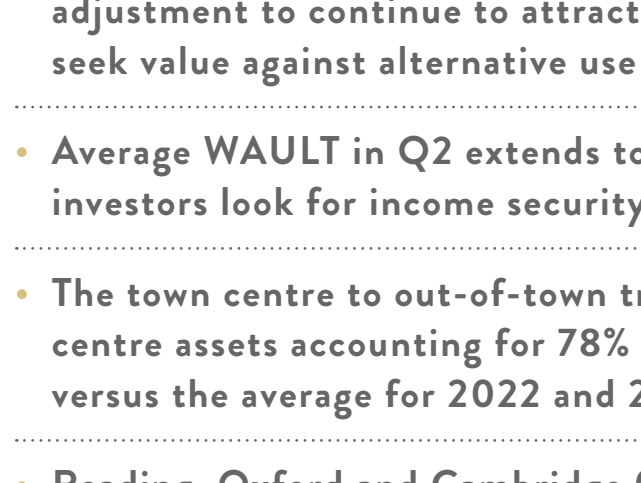
INVESTMENT VOLUMES Q2 2023 VS PREVIOUS YEARS



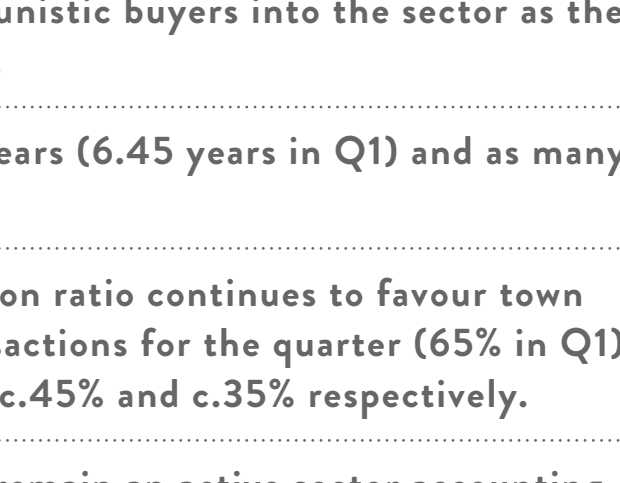
INVESTMENT VOLUMES Q2 2023 VS RECENT QUARTERS' DEAL VOLUMES



Q2 BUYER PROFILE



Q2 VENDOR PROFILE



Owner 0% Council / Public Body 0% Private Equity 0% REITs / Listed Property Companies 0%

Council / Public Body 0% Private Equity 0% Owner Occupier 0%

ACRE CAPITAL COMMENTARY

- Q2 2023 transaction volumes are 65% below the 5 year Q2 average and most notably the worst quarter on ACRE's records. This is due to various factors: Vendors who are lowly geared being unwilling to crystallise losses, valuations exceeding market pricing, a weak and expensive debt market and poor investor confidence.
- The market continued to remain very fragmented with no repeat buyers and limited realistic Vendors which has impacted transaction volumes. On the sell side CBRE IM and Abrdn were the only repeat Vendors with 2 sales each.
- Many Vendors have opted for off market sales. Over a third of all transactions by both volume and number of transactions formed part of narrowing marketing campaigns to protect assets from being tainted by long marketing processes and failing to achieve quoting terms.
- Achieved purchase price remaining on average at 19% discount to quoting terms.
- Average time to sell has fallen significantly to below 5 months (c.6 months since the start of covid) driven mainly by the improving demand for redevelopment opportunities for change of use and opportunistic buyers beginning to gain conviction in their business plans.
- Property companies and privates made up over half of the buyer profile as they take advantage of weakening investor sentiment and overseas investors seeking higher returns make a return to the office market accounting for 35% of total transactions.
- In Q2 the average net initial yield achieved neared double figures (9.92% from 8.60% in Q1) and average lot size halved to £13.25m. We expect this price adjustment to continue to attract opportunistic buyers into the sector as they seek value against alternative use classes.
- Average WAULT in Q2 extends to 7.35 years (6.45 years in Q1) and as many investors look for income security.
- The town centre to out-of-town transaction ratio continues to favour town centre assets accounting for 78% of transactions for the quarter (65% in Q1) versus the average for 2022 and 2021 of c.45% and c.35% respectively.
- Reading, Oxford and Cambridge (ROC) remain an active sector accounting for 26% of transaction volumes albeit this is considerably lower than the previous quarters.

AVERAGE ACHIEVED DISCOUNT TO QUOTE REMAINS AT 19%

OPPORTUNISTIC BUYERS TAKE ADVANTAGE OF WEAKENING INVESTOR SENTIMENT

KEY INVESTMENT TRANSACTIONS

CLEARWATER COURT, READING



PRICE	£34.2m / 7.79% NIY / £384 PSF
TENANCY	Thames Water Utilities Limited
WAULT (YRS)	9.70
PURCHASER	Glade Capital

LANSDOWNE BUILDING, CROYDON



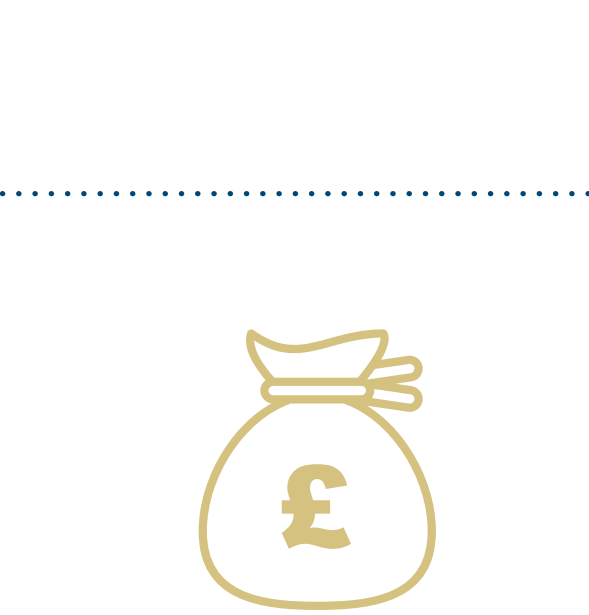
PRICE	£18.0m / 12.00% NIY / £171 PSF
TENANCY	Multi-let
WAULT (YRS)	2.30
PURCHASER	BYM

65 WOODBRIDGE ROAD, GUILDFORD



PRICE	£13.1m / 8.79% NIY / £419 PSF
TENANCY	Multi-let
WAULT (YRS)	5.70
PURCHASER	Private

BUILDING 3 BEARBROOK OFFICE PARK, AYLESBURY



PRICE	£8.5m / VP / £106 PSF
TENANCY	VP
WAULT (YRS)	VP
PURCHASER	Sheen Lane

AVAILABILITY

4 LONGWALK, STOCKLEY BP, STOCKLEY



QUOTE PRICE	£34.3m / 7.50% NIY / £419 PSF
TENANCY	Multi-let
WAULT (YRS)	4.50
VENDOR	Abrdn

CIRCUS STREET, BRIGHTON



QUOTE PRICE	£16.8m / 6.25% NIY / £495 PSF
TENANCY	Multi-let
WAULT (YRS)	4.29
VENDOR	U&I

KINGSMEAD BUSINESS PARK, HIGH WYCOMBE



QUOTE PRICE	£15.5m / 11.88% NIY / £108 PSF
TENANCY	Multi-let
WAULT (YRS)	2.70
VENDOR	Dalancy

SEEBACK HOUSE, MILTON KEYNES



QUOTE PRICE	£10.2m / 7.83% NIY / £254 PSF
TENANCY	EMW Law LLP
WAULT (YRS)	10.00
VENDOR	Fiera

OCCUPATIONAL MARKET SNAPSHOT

HEADLINE RENTS

Trending: IMPROVING - for best-in-class

INCENTIVES

Trending: STABLE - for best-in-class

VOIDS

Trending: STABLE - for best-in-class

RENTAL MAP

THE OFFICE OCCUPIER

OCCUPIER DEMAND
Poor for H1 2023, but signs of improved activity for H2

SUPPLY
Very thin / limited Grade A space across the South East

RENTS
Steady in most core markets and a slight upward trend in certain locations

LIFE SCIENCES
Oxford and Cambridge with many Landlords still trying to grasp the concept of Life Sciences

WORKING ENVIRONMENTS
Best in class space and employee wellbeing are the priorities

ATTITUDE
Despite challenging take up across the South East, business growth has resulted in activity

COREP

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DEBT FINANCING

BEST-IN-CLASS
There is still lending appetite for best-in-class assets

BUSINESS PLAN IS KEY
Having a business plan both from a leasing and capex perspective is critical for attracting finance.

EPC
Hard to find accretive finance for offices with an EPC worse than a B.

FINANCING
More attractive debt terms on acquisitions where new equity is going in, rather than refinances.

BROTHERTON

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