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QUARTERLY SOUTH-EAST OFFICE INVESTMENT MARKET SNAPSHOT

Q1 2023

INVESTMENT MARKET DASHBOARD

INVESTMENT VOLUMES FY 2022

£3.069bn

(2021 £3.757bn)

INVESTMENT VOLUMES Q1 2023

£638m

Includes deals which have exchanged

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UNDER OFFER

c.£534m

PRIME YIELDS

6.00%

Trending: Stable

INVESTOR SENTIMENT

3/10

Trending: Weakening

INVESTMENT SUPPLY LEVELS

3/10

Trending: Stable

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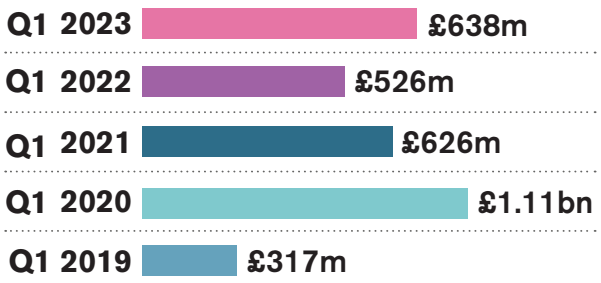
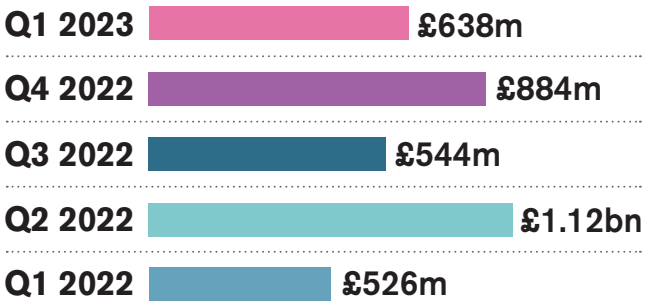
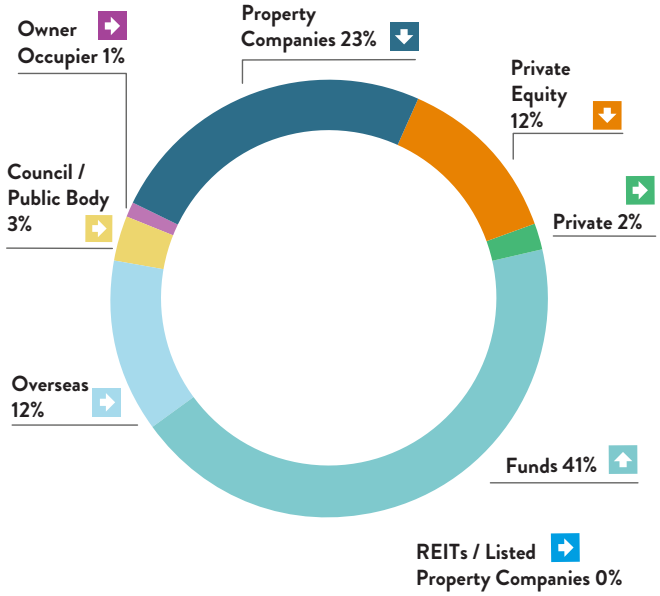
INVESTMENT VOLUMES Q1 2023 VS PREVIOUS YEARS



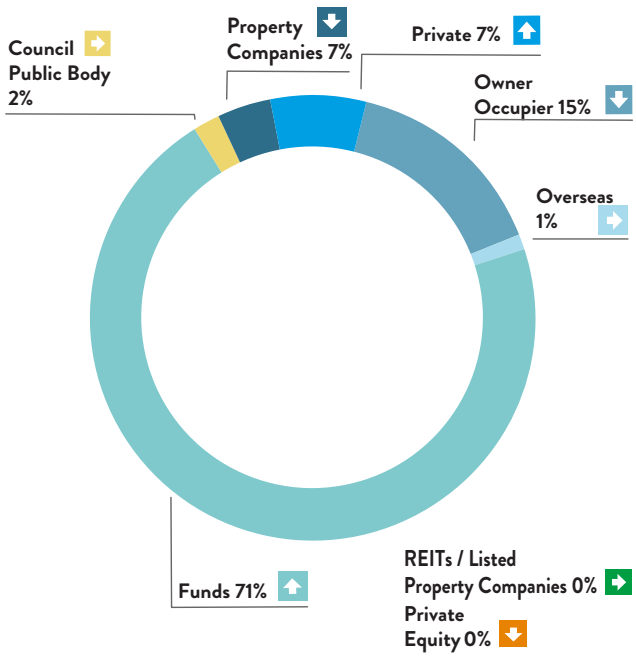
INVESTMENT VOLUMES Q1 2023 VS RECENT QUARTERS' DEAL VOLUMES



Q1 BUYER PROFILE



Q1 VENDOR PROFILE



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Q1 2023

ACRE CAPITAL COMMENTARY

Q1 2023 transaction volumes are in line with the 5-year Q1 average of £640m and up from Q1 2022's total by over 20%. However, this has been substantially bolstered by Pension Insurance Corporation's (PIC) £267.60m acquisition of 2 Ruskin Square, Croydon (long let government income) from Schroders / Stanhope.

Average time to sell has marginally increased back up to just over 6 months (having fallen to below 6 months in Q4 2022 for the first time since COVID-19.)

Due to the increased all in debt costs and falling investor sentiment & conviction, the buyer pool is limited and we have seen the number of deals fall to 23 for the quarter compared to the average in 2022 of 36 per quarter - a fall of almost 40%.

There were 10 single-let assets traded in Q1 which were let on longer leases and attracted lower yields at an average of c.6.60% NIY versus multi-let assets with a much shorter WAULTs of 3.10 years and achieved yields an average yield of 10.60%.

- Reading, Oxford and Cambridge did not have their usual hold over the market accounting for only 13% of transactional volumes with three deals. However, if Ruskin Square is removed from the investment volumes, then the ROC would account for over 30% of the quarter's total.

- There has been a notable change in the town centre to out-of-town transaction ratio. 65% of transactions for the quarter were town centre assets versus the average for 2022 and 2021 of c.45% and c.35% respectively, however the absence of any large Life Science deals is a notable driver of this change.

- The market remained to remain very fragmented with no repeat buyers. On the sell side CBRE IM and M&G had 2 sales each and Columbia Threadneedle had 3. At present Abrdn, CBRE IM, L&G, Orchard Street and Columbia Threadneedle all have 3 live sales and Schroders have 4, continuing this trend.

- If Ruskin Square is included, Funds dominate both the buy and sell side accounting for 60% and almost 50% respectively. If excluded from our stats, then this drops significantly to 30% and 9% meaning funds were the most active vendors and property companies with 40% were the most active purchasers.

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AVERAGE TIME ON THE MARKET HAS INCREASED BY A WEEK DURING THIS QUARTER DESPITE REDUCED TRANSACTION VOLUMES

TOWN CENTRE ASSETS ARE ATTRACTING THE MOST INTEREST (PRIME LIFE SCIENCE LOCATIONS ASIDE)

KEY INVESTMENT TRANSACTIONS

2 RUSKIN SQUARE, CROYDON

PRICE	£267.6m / 4.07% NIY / £776 PSF
TENANCY	The Government Property Agency
WAULT (YRS)	25.00
PURCHASER	Pension Insurance Corporation (PIC)

WESTBROOK CENTRE, CAMBRIDGE

PRICE	£75.0m / VP / £609 PSF
TENANCY	VP
WAULT (YRS)	VP
PURCHASER	UBS

LONDON SQUARE, GUILDFORD

PRICE	£41.0m / 9.35% NIY / £308 PSF
TENANCY	Mult-let (7)
WAULT (YRS)	4.53
PURCHASER	Sidra Capital

CONCORDE PARK, MAIDENHEAD

PRICE	£14.0m / 11.30% NIY / £202 PSF
TENANCY	Multi-let (5)
WAULT (YRS)	5.02
PURCHASER	Skelton Group

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AVAILABILITY

ST GEORGE'S HOUSE WEST WIMBLEDON

QUOTE PRICE	£53.6m / 6.75% NIY / £660 PSF
TENANCY	Multi-let (3)
WAULT (YRS)	3.60
VENDOR	Orchard Street

RADIO AND ST ANDREW'S HOUSE, CAMBRIDGE

QUOTE PRICE	£40.8m / 5.86% NIY / £477 PSF
TENANCY	Multi-let (6)
WAULT (YRS)	3.30
VENDOR	Orchard Street

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Q1 2023

THE FLORENCE BUILDING, BASINGSTOKE

QUOTE PRICE	£24.2m / 5.75% NIY / £395 PSF
TENANCY	Sovereign Housing Association Limited
WAULT (YRS)	16.00
VENDOR	L&G

ATRIUM, UXBRIDGE

QUOTE PRICE	£16.0m / 4.95% NIY (c.50% vacant) / £114 PSF
TENANCY	Multi-let (6)
WAULT (YRS)	1.92
VENDOR	Blackrock

3 ARLINGTON SQUARE, BRACKNELL

QUOTE PRICE	£13.0m / 9.75% NIY / £196 PSF
TENANCY	Multi-let (6)
WAULT (YRS)	3.90
VENDOR	Orchard Street

THE GREAT HALL, TUNBRIDGE WELLS

QUOTE PRICE	£7.3m / 7.16% NIY / £180 PSF
TENANCY	BBC & Sainsbury's
WAULT (YRS)	4.80
VENDOR	Federated Hermes

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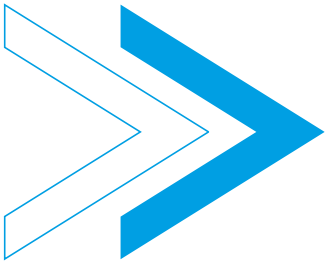
OCCUPATIONAL MARKET SNAPSHOT

HEADLINE RENTS

Trending:
IMPROVING – for best-in-class

INCENTIVES



Trending:
STABLE – for best-in-class

VOIDS

Trending:
STABLE – for best-in-class

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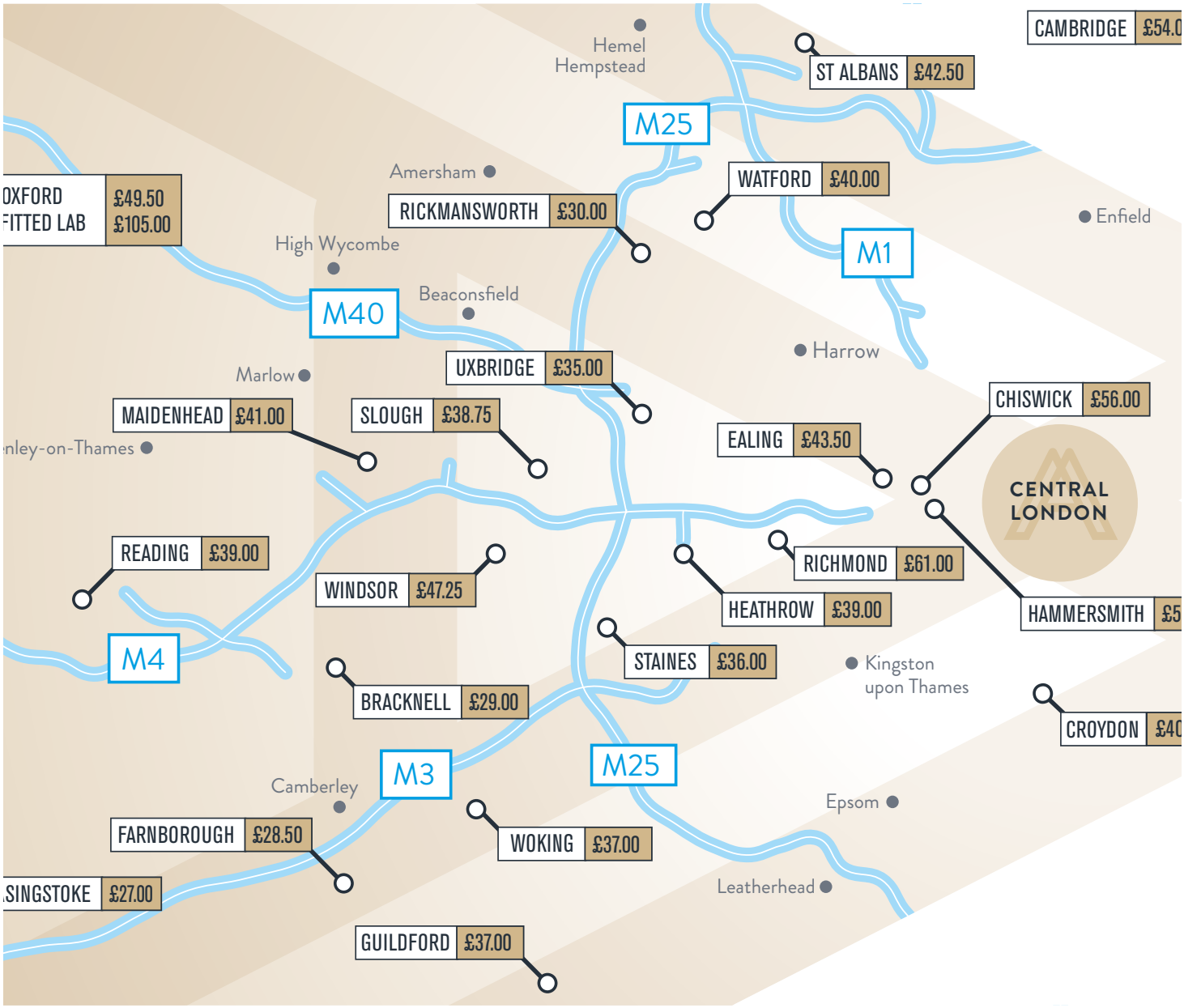
RENTAL MAP



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THE OFFICE OCCUPIER

OCCUPIER DEMAND

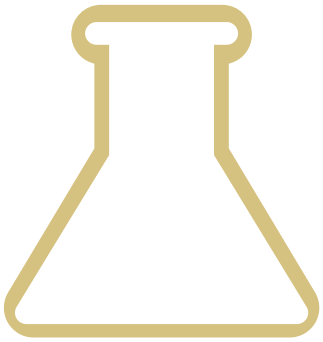
Businesses are focused on investing in high-quality space that will attract staff back to the office

SUPPLY

Lack of Grade A supply in most South East markets (and a very limited future pipeline)

RENTS

Rents are improving for best-in-class assets but remain steady for the remainder of office supply



LIFE SCIENCES

Supply is largely non-existent causing an imbalance between supply and demand. As such, rents continue to rise

WORKING ENVIRONMENTS

Businesses are committed to providing their staff with engaging, collaborative and connected working environments

ATTITUDE

Many businesses recognise the value of being back in the office but the flexible 'hybrid working' model is here to stay

COREP

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DEBT FINANCING

BEST-IN-CLASS

Lenders have new targets for 2023 so there is still appetite for the right schemes this year

LEASING RISK

Debt funds willing to take leasing risk on newly refurbished offices, with interest reserves in place where there is no or limited income

EPC

EPC ratings are critical for lenders and if the asset doesn't have a B rating, showing a business plan as to how this will be achieved is needed

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