



**Vail
Williams**

Market insights

Regional transaction review

Q4 2019



Summary

2019 was characterised by a lack of certainty and low supply of good investment assets coming to market.

In spite of this, investor sentiment remains strong for long income investments and core assets but, ultimately, investors are still somewhat cautious on the back of recent political uncertainty.

Meanwhile, in the immediate aftermath of the election results in December 2019, Sterling and a sample of property related stock prices, notably house builders, immediately rebounded. Although, Sterling has since fallen to \$1.30 from a post Brexit high of \$1.35.

As we look ahead this year, whilst international property investors will be somewhat relieved that Labour's high-tax and redistributive plans have been rejected by the electorate, we should not expect foreign investment to flood back into the UK just yet.

The challenges of Brexit – in economic and procedural terms – remain omnipresent.

The UK property markets and economy appear to be at an inflection point, as details of the transitional trade negotiations with the EU, as well as key issues facing real estate remain outstanding.

Thinking ahead to what 2020 might bring, with clearer direction for the UK and more clarity and stability, we should start to see more confidence return to the property market, which will hopefully be reflected in an upturn in investment activity.

This will strongly depend on how Brexit trade negotiations are concluded before the end of the transition period ending 31 December 2020.



Q4 Key themes



£12.68bn was invested in the UK property market in Q4 2019, a 6% decrease on Q3 and 26% down on Q4 2018. £46.89bn was transacted in 2019, down from £62.62bn in 2018.



The year was characterised by uncertainty relating to Brexit and the General Election in December. Typically, the most active quarter, Q4 resulted in the lowest number of transactions for 2019.



Industrial investment volume had its best quarter of the year at £1.91bn, demonstrating the resilience of the sector and the positivity surrounding the occupational market and prospects for rental growth. A notable deal was the purchase of Cox Lane Industrial Estate, Chessington, by Orchard Street for £40.25m reflecting a net initial yield of 3.80%.



Investment volumes within the office sector in Q4, including Central London, stood at £3.91bn which represents a decrease on Q3 by 18%. Although a decline in volume, there remains a significant weight of money from overseas and opportunistic investors for well-located offices with strong property fundamentals. A notable deal was the purchase by Kennedy Wilson of The Heights in Weybridge, comprising 348,000 sq ft across 5 buildings for £136m.



There was a significant drop in Local Authority spending in Q4 2019, as supply levels became tighter and investor sentiment reduced due to political uncertainties. In line with the strategy for many Local Authorities, investment focussed on 'In-Borough' opportunities or targeted locations.



Investor sentiment remained low during 2019 which was evident by the low supply of stock. This was particularly evident in the last quarter where most investors were willing to wait for the outcome of the General Election. The larger lot sizes that did sell, tended to be 'off-market' deals.



Retail investment had its worst quarter of the year with volumes down to £859m with a growing trend for yield softening in this sector. Meanwhile, alternatives had another strong quarter with transactions volumes at £3.77bn.

Q4 Market transactions



Birmingham, Midlands

Location:	45 Church Street, Birmingham
Date:	December 2019
Size:	124,137 sq ft
Purchaser:	Royal London
Price:	£61m NIY: 5.32%
Tenant:	Multi-let



Reading, Thames Valley

Location:	Pacific House, Imperial Way
Date:	October 2019
Size:	57,081 sq ft
Purchaser:	CLS Holding Plc
Price:	£15.78m NIY: 7.52%
Tenant:	92% let to 7 tenants



Woking, Surrey

Location:	1 Christchurch Way, Woking
Date:	November 2019
Size:	25,632 sq ft
Purchaser:	Woking Borough Council
Price:	£10.87m NIY: 5.28%
Tenant:	Multi-let to two tenants



West Byfleet, Surrey

Location:	Oyster Park, West Byfleet
Date:	December 2019
Size:	44,475 sq ft
Purchaser:	InfraRed Capital Partners
Price:	£14m NIY: 4.35%
Tenant:	Multi-let



Southampton, Solent

Location:	2 Charlotte Place, Southampton
Date:	November 2019
Size:	79,975 sq ft
Purchaser:	Kingsbridge Estates
Price:	£14.20m NIY: 6.44%
Tenant:	Multi-let with part vacancy



Crawley, Gatwick

Location:	Crawley Avenue, Crawley
Date:	December 2019
Size:	93,000 sq ft
Purchaser:	Aviva Investors
Price:	£42m NIY: 5.48%
Tenant:	Sainsburys

Market snapshot



Q4

Investment Volumes

£12.68bn

Q1 – £11.30bn

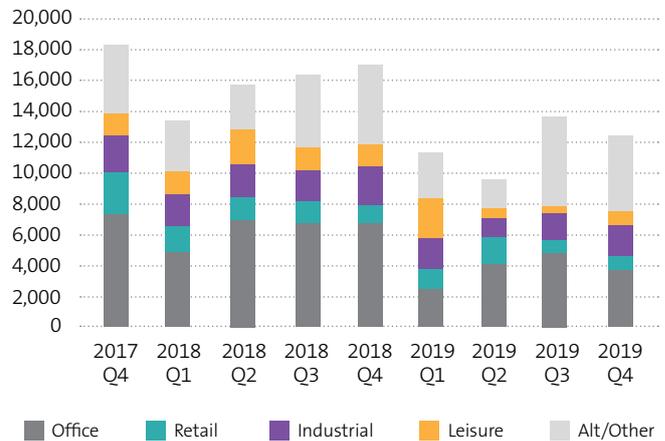
Q2 – £9.38bn

Q3 – £13.55bn

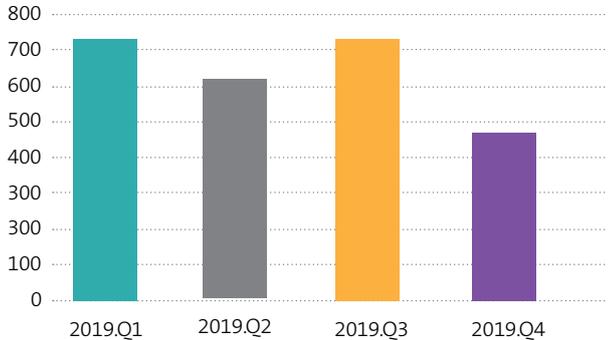
2019 – £46.89bn

Q4 Quarterly Investment Volumes

by sector vs last 2 years (£m)



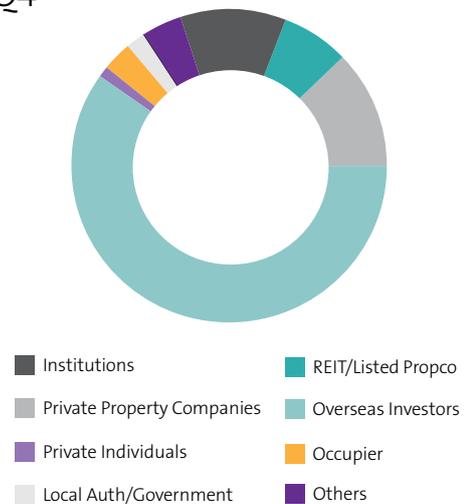
Total number of Q4 Market Transactions vs Previous Quarters



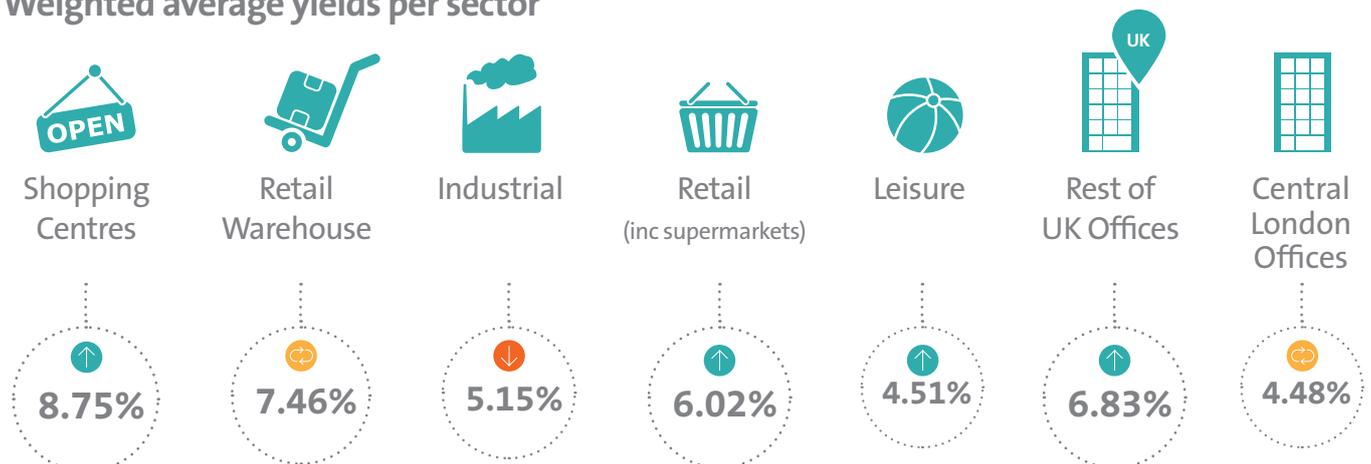
Q4 – 471 2019 – 2,545

Who was the most active investor?

2019 Q4



Weighted average yields per sector



Source – Property Data



Regional snapshot



Thames Valley

- Office demand softened towards the back end of 2019, as many held off decision-making in light of political volatility.
- Availability of new, high-quality office space remains constrained across the region, stimulating prime rental growth in many markets.
- Office market take up for 2019 as a whole along the M4 corridor (Theale to Slough incl. Bracknell, Maidenhead and Windsor) was 49% down on Q4 2018 at 799,970 sq ft.
- The majority of lettings were on Grade A accommodation across the region and rents remain strong at £37.50 psf in Reading and £36.00 psf in Slough. The largest single letting in 2019 was 121,350 sq ft at 500 Brook Drive to Virgin Media.
- Office take up in Q4 2019 was 160,305 sq ft down on the same period in 2018 (413,951 sq ft).
- Key deals included Mattel who took 27,400 sq ft on the 3rd Floor at The Porter Building, Slough. Meanwhile, Thames Water took 28,605 sq ft at Reading Bridge House.
- Regus took 34,508 sq ft at 220 Wharfdale Road, Winnersh Triangle, in a deal brokered by Vail Williams.
- The lease of industrial space fell away in 2019, recording around 1.6 million sq ft, the lowest since 2009. This is likely a supply issue rather than one of demand, with declining availability limiting occupier options.
- Industrial uptake has been driven by third-party logistics providers, retailers and data centres.
- Average industrial rents in the Thames Valley sit at around £11.00 psf, more than 30% higher than five years ago.
- The most notable deal was the pre-let of 200,000 sq ft at Link 225 in Slough by data centre provider Cyrus One UK.
- The highest industrial rent over 100,000 sq ft was £15.25 psf at Valor Park, Slough, with 135,000 sq ft let to SIG Trading.
- Pinewood MBS Lighting took 134,000 sq ft at Uxbridge Industrial Park, meanwhile AVC Live took 72,000 sq ft at Union Business Park, Uxbridge in a deal brokered by Vail Williams.
- There is currently just shy of 1 million square foot of stock under construction in the Thames Valley, with just a third pre-let into the first quarter of 2020.
- Following Panattoni Europe's acquisition of the 30-acre former ICI Dulux site in Uxbridge, a series of modern logistics and warehouse units are expected to come to market.



Solent

- Grade A offices at an all-time low in supply and enquiries over 10,000 sq ft are strong for Southampton.
- Vail Williams continues to lead the office agency market here, acting on the largest office lettings including 16,000 sq ft for AVASK Accounting, 10,000 sq ft for Starling Bank, and 15,000 sq ft for BE Offices.
- Vail Williams remains sole agent for Lakeside North Harbour, achieving 95% occupancy since launch and 4 acres sold to Jaguar Land Rover, construction of which due to commence in 2020.
- AT&T most recent company to move in to 1000 Lakeside, taking 12,000 sq ft.
- Four speculative industrial schemes are under construction totalling 25,000 sq ft, and Paloma Capital's 32,000 sq ft unit completed in January 2020.
- Vail Williams acted for Percival Aviation, successfully acquiring a new 50,000 sq ft new build at J9 South, Segensworth, Fareham, developed by Merick Real Estate.
- Vail Williams are also acting for Coopers Fire and have acquired 50,000 sq ft at Proxima Park, Waterlooville which is due to complete Q1 2020, developed by La Salle Investment Management.

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Gatwick

- Office market take up for 2019 was disappointing at around 70,000 sq ft, against the 10-year average of 120,000 sq ft pa. The largest single letting was 12,000 sq ft.
- However, the majority of lettings were on Grade A accommodation and rents remain strong at £25-£27.50 psf.
- Availability is around 450,000 sq ft, representing approximately 10% of built stock in the region.
- Industrial take up in 2019 equalled the 10-year average at 280,000 sq ft, including a 100,000 sq ft pre-let by GAL at St Modwen Park Gatwick.
- Industrial availability crept up with completion of speculative schemes by Goya Developments - Gatwick 33 (33,000 sq ft), and North Gatwick Gateway (170,000 sq ft). Over 500,000 sq ft is now available.
- Occupier demand remains positive and the outlook suggests improving confidence.

4

Surrey

- There remain good levels of office supply in Staines, Weybridge and Woking, and demand for office space in the latter increasing, with net absorption of 100,000 sq ft in 2019. Staines performed well in 2019 with large occupiers moving to the area from other locations, taking over 100,000 sq ft of stock including the first pre let to Gartner.
- 2019 saw the largest new office building in Woking for 20 years – Space has experienced high levels of interest and success, demonstrating improving confidence in the market.
- Demand has been underpinned by a number of larger deals at Dukes Court and Space which have driven absorption.
- Notable deals include Astellas Pharmaceuticals taking 12,300 sq ft of office space at Space in Woking in October 2019.
- Our key deals included acting for London Marlborough on the lease of 7,680 sq ft to Vifor Farma at Waterfront in Staines, achieving record rents for the area. Other lettings include Ricoh, IFS & Hitachi in 2019.
- Vail Williams also acted for RO Real Estate on the lease of 12,528 sq ft to Robert Half and Yoooserv at Dakota building, proving that Weybridge remains a popular office destination.
- Industrial supply remains stable in Surrey, but stock is limited in certain areas, such as Woking.
- There are several new industrial schemes in the Chertsey area which are close to completion and will be quoting rents of £17.50 psf, more akin to the outskirts of London, pushing rents to an all time high in the area.
- Office market take up for 2019 was strong at 780,095 sq ft, up on 2018 and higher than the 10-year average.
- The largest single letting in 2019 was 92,670 sq ft at 6 Brindley Place to WeWork who took three buildings totalling 229,042 sq ft.
- The majority of lettings were on Grade A accommodation and rents remain strong at £34.00 plus psf for new grade A and £28.00-32.00 psf for refurbished Grade A space.
- BT have just acquired 283,000 sq ft over 12 floors at 3 Snowhill.
- Availability of good grade A is low, but this will be rectified when 3 Snowhill (117,000 sq ft) and 2 Chamberlain Square (183,000 sq ft) complete in early 2020. Meanwhile 103 Colmore Row (230,000 sq ft) is progressing at pace.
- Industrial take up for the Birmingham region remained strong in 2019 both in the manufacturing and distribution sectors.
- International Automotive Components Plc acquired the whole of the new Prologis Park Birmingham Interchange extending to 310,000 sq ft across two buildings for manufacturing and warehousing.
- Jaguar took a pre-let on 414,000 sq ft for a battery plant at Prologis Park Hams Hall.
- In the wider West Midlands, St Modwen are nearing completion on a 480,000 sq ft industrial and logistics scheme by J10 M42 at Tamworth.
- New design and build distribution opportunities are now available at Prologis Park, Hams Hall, Birch Coppice and the adjacent Core 42.
- Occupier demand remains positive and the outlook suggests improving confidence.

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Birmingham

Prime rents

5. Birmingham	Trend
INDUSTRIAL (≤ 40,000 SQ FT): £7.75 psf	↑
DISTRIBUTION (>100,000 SQ FT): £7.50 psf	↑
OFFICES (15,000 SQ FT): £34.00 psf	↑

1. Thames Valley	Trend
INDUSTRIAL (≤ 40,000 SQ FT): READING: £12.00 psf SLOUGH: £14.00 psf PARK ROYAL: £16.50 psf	↑
DISTRIBUTION (>100,000 SQ FT): £11.00 psf	↻
OFFICES (15,000 SQ FT): READING: £37.50 psf SLOUGH: £37.50 psf WINDSOR: £39.50 psf	↻

2. Solent	Trend
INDUSTRIAL (≤ 40,000 SQ FT): £10.00 psf	↑
DISTRIBUTION (>100,000 SQ FT): £9.50 psf	↻
OFFICES (15,000 SQ FT): £21.00 psf	↻

4. Surrey	Trend
INDUSTRIAL (≤ 40,000 SQ FT): CHERTSEY: £16.00 psf EGHAM: £15.00 psf STAINES: £12.00 psf WEYBRIDGE: £14.00 psf WOKING: £14.00 psf	↑
DISTRIBUTION (>100,000 SQ FT): WEYBRIDGE: £12.00 psf WOKING: £12.00 psf	↻
OFFICES (15,000 SQ FT): CHERTSEY: £32.00 psf GUILDFORD: £32.00 psf STAINES: £35.00 psf WEYBRIDGE: £36.00 psf WOKING: £36.00 psf	↻

6. Heathrow	Trend
INDUSTRIAL (≤ 40,000 SQ FT): HEATHROW: £14.95 psf	↑
DISTRIBUTION (>100,000 SQ FT): HEATHROW: £13.95 psf	↻
OFFICES (15,000 SQ FT): HEATHROW/STOCKLEY PARK: £39.50 psf	↻

3. Gatwick	Trend
INDUSTRIAL (≤ 40,000 SQ FT): £14.00 psf	↻
DISTRIBUTION (>100,000 SQ FT): £13.25 psf	↻
OFFICES (15,000 SQ FT): £27.00 psf	↻



Growth



Stable



Slow

Key contacts

Birmingham



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