



Office market update

Q4 2024

Market overview

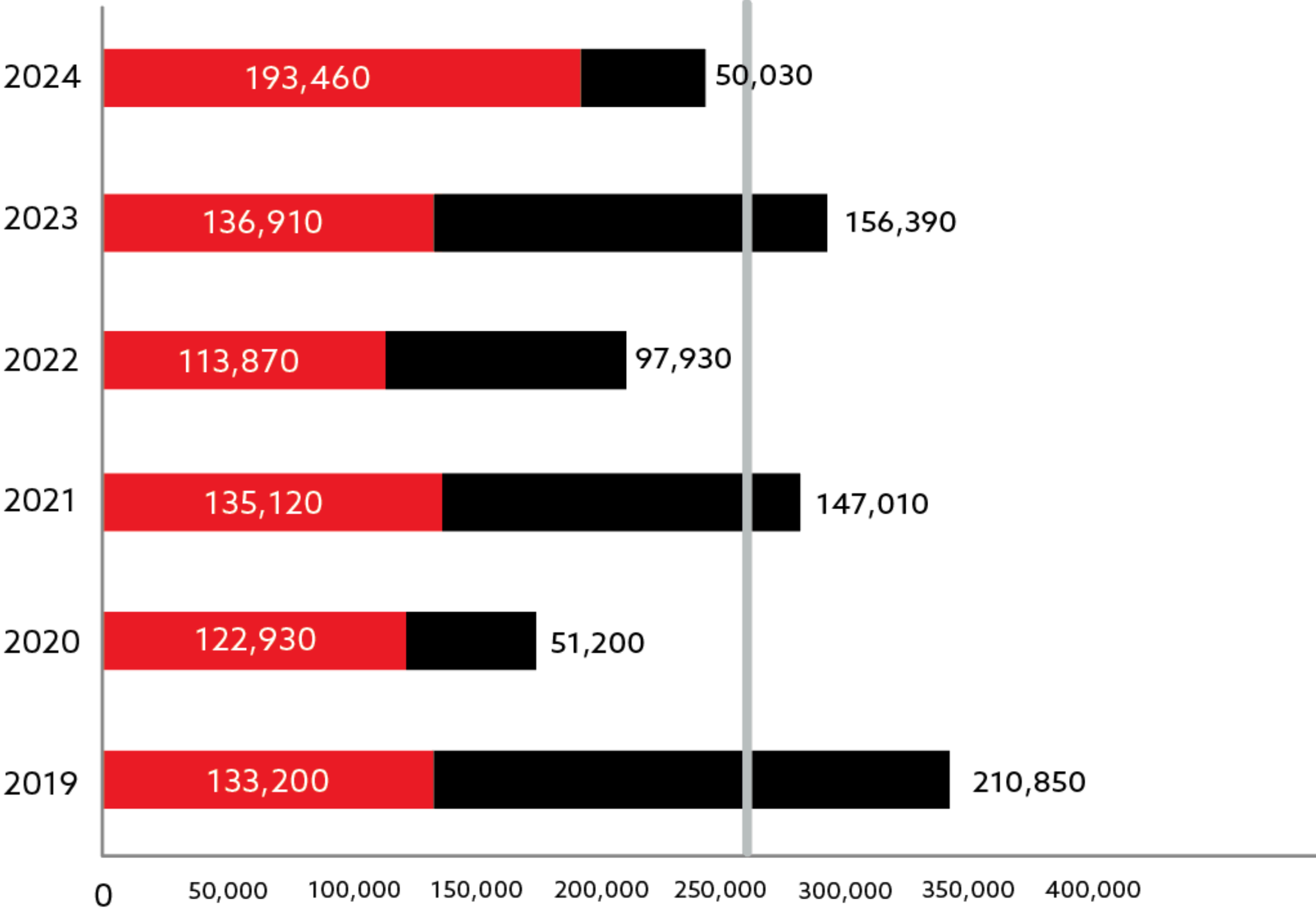
- Despite an encouraging first half of the year the second half of the year has been a lack lustre affair with take up in all regional markets 13% below the levels achieved in 2023.
- The vacancy rate overall remains low across the region and with limited newly refurbished stock or new developments coming through, Grade A supply remains critical in all markets particularly Basingstoke, Guildford, Woking and Weybridge where it is currently sub 5%.
- In addition to the limited supply of office space we continue to see stock erosion from residential uses in town centres and industrial in out of town locations.
- With continued increases in build costs even modest refurbishment are now looking unviable without rental levels increasing significantly. 2024 has seen prime rents achieved in Guildford (£50.00 per sq ft), Woking (£38.00 per sq ft), Basingstoke (£34.50 per sq ft) and Farnborough (£34.50 per sq ft).
- CAT A plus fitted space continues to be a buoyant sector of the sub 4,000 sq ft market with average CAT A plus rents now in the mid £40.00 to early £50.00 range.
- Grade A take up in our core market accounted for 64% of the take up this year against a figure of circa 80% for the wider south east market reflecting the limited Grade A stock and compromises tenants are having to make in the Surrey and North Hampshire region.
- Supply remained broadly the same over our key markets over the last 12 months. However with no significant new developments and with offices sold for alternative uses there has been a reduction in overall office stock. There are currently no new speculative developments set to start within the next 12 months to address this.

Take up - *key* markets

Guildford, Woking & Weybridge



Take up year to date Q4 2024



■ in ■ out — 5 year average



Guildford, Woking & Weybridge

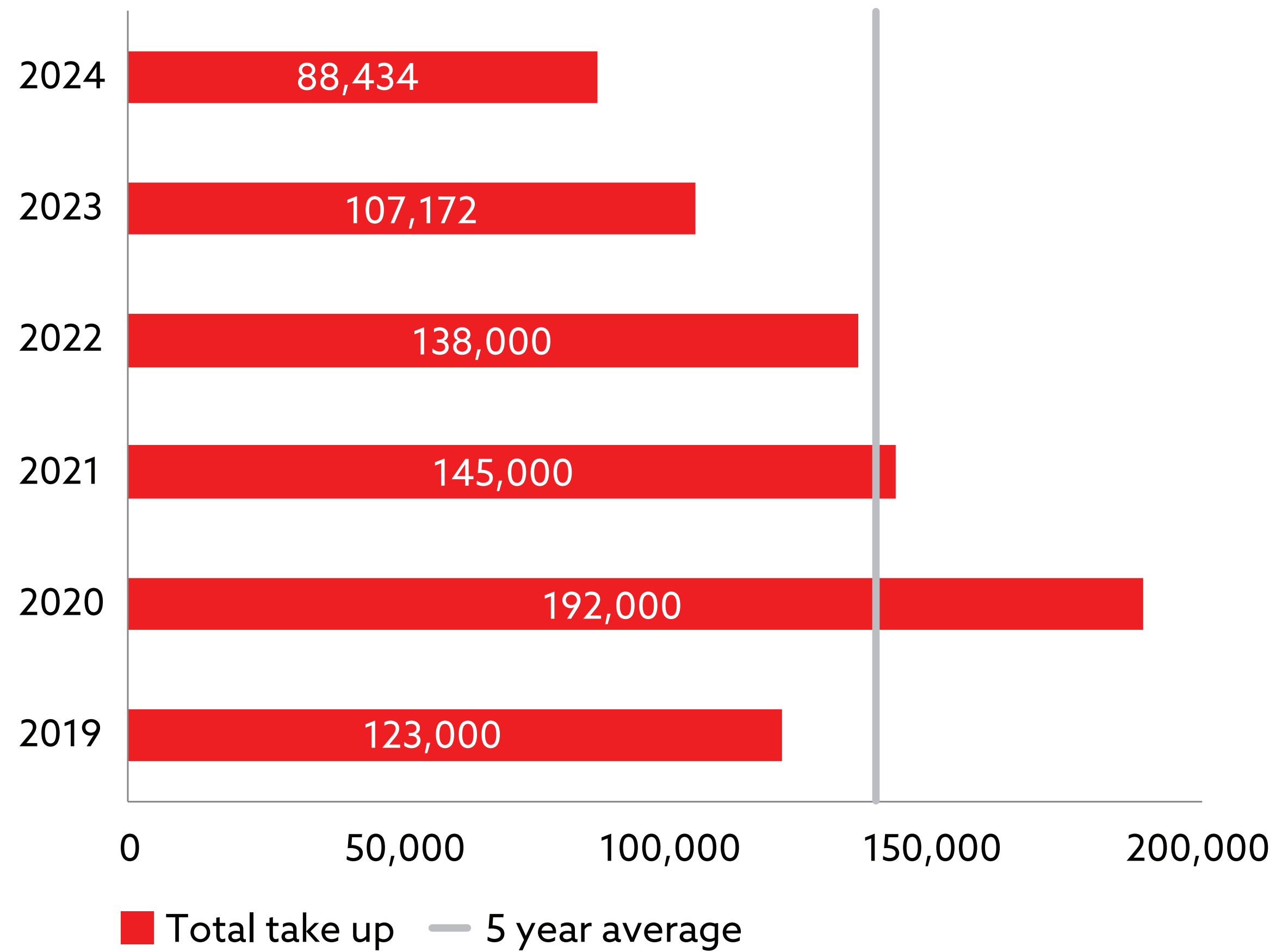


- Despite a solid start to the year with significant transactions such as Surrey County Council taking 66,500 sq ft at Victoria Gate, Woking (Curchod & Co advised on the disposal) there has only been one other transaction over 20,000 sq ft in the market since then. That was also in Woking with the largest deal in H2 being the vacant possession sale of 6 Church Street West totalling 30,924 sq ft (Curchod & Co deal) exchanging just before Christmas. Both Q3 and Q4 have seen a marked decline in activity with just under 60,000 sq ft transacted in the second half of the year compared to over 185,000 sq ft in the first half of the year.
- With the second half of the year being almost a complete reverse of what happened in 2023 overall take up was 20% down on the previous year.
- The overall vacancy rate dropped below 10% and the Grade A vacancy rate to sub 5% This is likely to reduce further in 2025 especially the Grade A supply with limited no new builds coming on line and limited refurbishments planned.
- Where investors and developers have been brave and delivered product this has, in the main, proved successful with lettings over the course of the year in the Bottleworks taking rents from £42.50 up to £50.00 per sq ft and with strong interest in the remainder of the building.
- With the last significant amount of space at Space Woking transacting to Kone Lifts who are relocating from Chertsey to Woking, benefitting from the superior transport links to London, this marks the last of the trio of Grade A buildings which were brought to the market in and around Covid transacting leaving no new or substantially refurbished accommodation of any size available in Woking town centre.
- New developments such as M&G's 1 Onslow Street (100,000 sq ft), Orchard Street and V7's 1 Farnham Road (75,000 sq ft) and Acklam Developments One Woking (135,000 sq ft) are all currently only available on a pre-let basis with no plans to start speculative construction in the next 12 months. This leaves the supply pipeline looking set to remain constrained and buildings capable of refurbishment in a 6 to 9 month window look set to capitalise on the pent up demand with rents in Guildford already reaching the £50.00 per sq ft and in Woking forecast to hit mid £40.00's per sq ft for Grade A accommodation.
- We continue to see older office buildings in need of significant refurbishment being sold for permitted development in town centres (6 Church Street West – exchanged, Quadrant Court – under offer, Hollywood House – sold and under construction and St Andrews House – sold with plans proposed for change of use to residential).

Blackwater Valley



Take up year to date Q4 2024



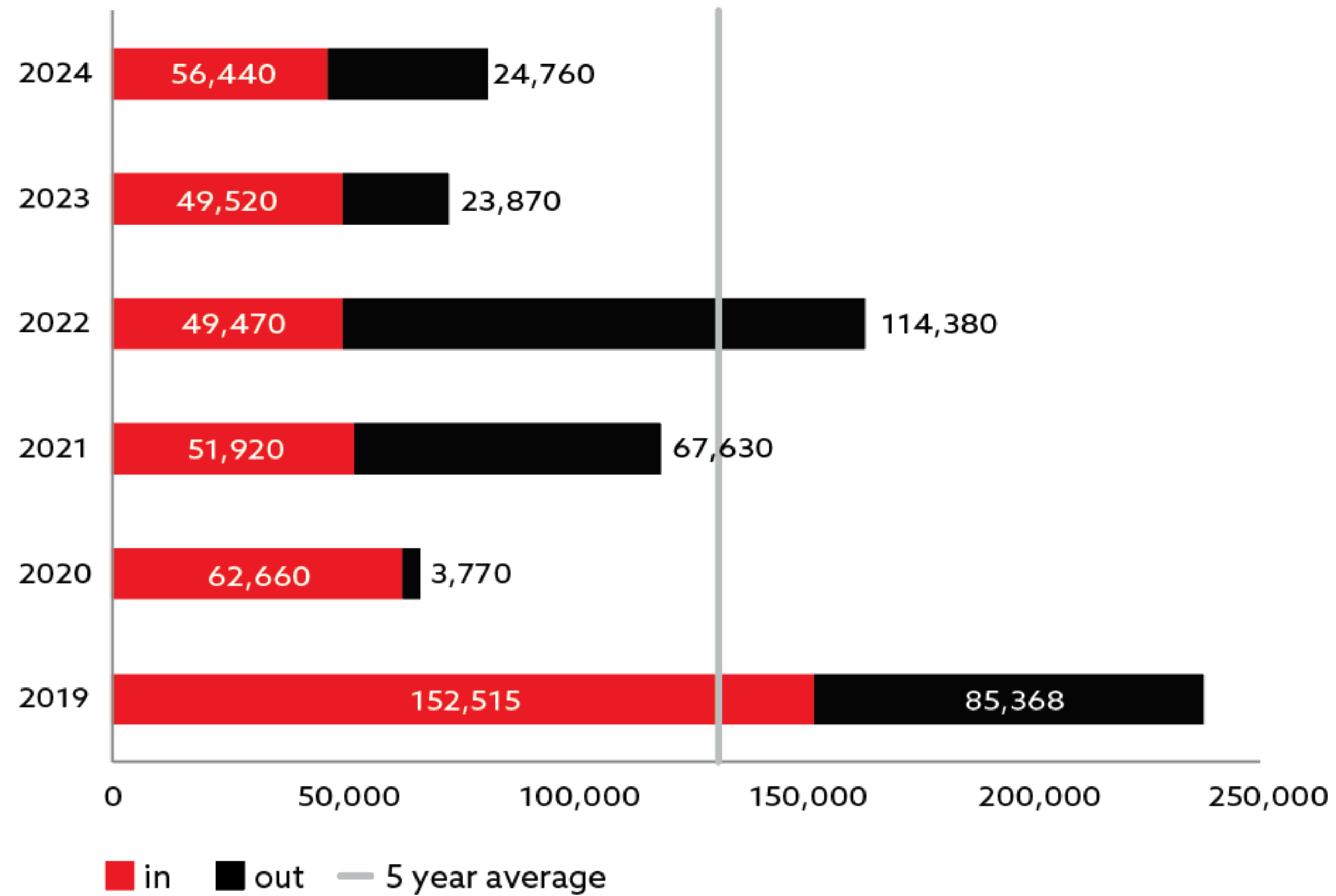
Blackwater Valley



- With an overall vacancy rate of just over 11% and a Grade A vacancy of 7.8% the Blackwater Valley has a relatively healthy level of stock compared with Guildford, Woking, Weybridge and Basingstoke.
- With the purchase by Tristan Capital and XLB of Cody Technology Park in Farnborough, the Blackwater Valley looks set to have an injection of newly refurbished Grade A space with onsite amenities. This will lead to new occupiers relocating to the Blackwater Valley especially Farnborough where the highest volume of good quality space is located.
- Despite good levels of stock, similar to our other markets in the region the second half of 2024 was far more sluggish than the first half.
- Overall take up was just under 90,000 sq ft and is significantly down on the 5 year average of 141,000 sq ft and the lowest level its been in over 5 years.
- In a disappointing year for take up in larger transactions the only transaction over 10,000 sq ft was the letting to DXC (29,205 sq ft) at 110 Pinehurst Square, Farnborough Business Park.
- Over 70% of take up was of Grade A space which was slightly down on the wider south east market but reflective of the trend for occupiers looking for best in class buildings with good ESG credentials.

Basingstoke

Take up year to date Q4 2024



Basingstoke

- Reflective of the wider Surrey & Hampshire markets Basingstoke saw a disappointing second half of the year after encouraging start. The only deal to have transacted over 10,000 sq ft was the AA's acquisition of 41,000 sq ft at The Plant which reached practical completion in September. The Plant continues to set the benchmark for newly refurbished Grade A best in class accommodation and continues to attract good levels of demand which will undoubtedly account for the majority of take up in 2025.
- Contrary to the wider South East and the regional market, ignoring The Plant transaction, the majority of take up was for Grade B stock reflecting the limited Grade A supply which currently stands at a very low rate of just 4.2% of total stock and against a low overall low vacancy rate of just over 8.3%.
- On the back of rents in the mid £30's per sq ft being achieved at The Plant, which accounted for over 60% of take up, hopefully this will lead to increased investor confidence in a market in desperate need of new stock.
- Office stock continues to come under pressure from alternative uses with town centre buildings becoming vacant being sold for residential redevelopment and office buildings on the edge of town being redeveloped for industrial space. Examples of this are Winterthur House and Fanum House in the town centre which both are planned to be redeveloped into residential accommodation.
- Overall take up was the lowest it has been since the Covid affected year of 2020 and significantly below the 5 year average 132,000 sq ft standing at a total of 81,210 sq ft.



Prime office rents in Thames Valley, Surrey and North Hampshire

Q4 2024

Predictions for 2025

- With a highly constrained development pipeline across the region take up in 2025 is likely to be at similar or worse levels than we have experienced in 2024. But, investors who are brave enough to refurbish and reposition buildings will continue to see record rents being set and the flight to quality that has been experienced so far will continue.
- With residential values over 50% higher per sq ft than offices and continued strong levels of demand for new industrial space, we will continue to see further office stock erosion. However, encouraging signs from the investment market towards the end of the year signal that some investors have called the bottom of the market and office sales such as Tempus Court, Guildford and The Forge, Woking may well prove to be the turning point in the market.
- With Grade A supply at historically low levels and with a number of large corporate occupiers in older office accommodation 2025 could well be the beginning of a new era of pre-let transactions.
- While the current permitted development to residential route through planning remains in place we are likely to continue to see the lower risk option being taken by investors to convert their office buildings to residential use and to capitalise on this window of opportunity at the detriment to future stock levels and the wider business economy in Surrey and Hampshire.
- On the flip side larger single occupancy HQ style properties that may have been out of favour in the past will provide much needed refurbished office stock and are likely to be presented to the market as multi let campuses. This will lead to occupiers having to look at relocating out of the towns they have been established in for a number of years in order to find the right product if they need to move in a relatively short time frame and cannot wait for a pre-let to be developed.
- The age old adage of "build it and they will come" may well prove to be the theme of 2025 and investors who are brave enough to embrace this approach and to offer best in class product will find themselves rewarded in an increasingly two tier market with rents that would previously have been inconceivable outside Greater London.



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