

M25 Offices

Including the Thames Valley and South East markets

Q1 2021



EXECUTIVE SUMMARY

KEY TAKEAWAYS

1

Take-up in Q1 was the highest quarterly total since Q4 2018.

2

The M4 market represented 55% of the South East take-up in the first quarter.

3

The Public Sector accounted for the highest proportion of take-up in the first quarter, 35%.

4

Investment volumes registered an 18% increase quarter-on-quarter.

5

Overseas capital accounted for 61% of investment volumes in Q1.

Positive start to 2021

After many months of inertia and caution, market activity presented a 'near normal' set of results in the first quarter. Take-up in Q1 was 784,170 sq ft, a total consistent with the 10-year quarterly average. Notably, this figure also represents the highest quarterly total since Q4 2018 and the highest first quarter total since 2016. Amid the 44 transactions, four were for over 50,000 sq ft. This is more deals within the size bracket than were completed in all of 2020.

Dominant M4

With mobile phone firm Three UK agreeing a pre completion pre-let of 117,000 sq ft at Green Park, take-up in the M4 rose to 457,500 sq ft. This total is 15% above the 10-year quarterly average and the highest quarterly total since Q4 2018. Notably the strong start meant that the M4 market represented 55% of the South East take-up in the first quarter, the highest proportion for two years. The Three transaction also further demonstrates the attraction of the M4 to TMT occupiers. Even during the depths of Covid restrictions, TMT occupiers remained active accounting for 37% of take-up. With a greater onus on digital infrastructure a likely legacy of the pandemic, demand from technology derived occupiers will support demand levels in the M4 moving forward.

The Public Sector

The Public Sector accounted for the highest proportion of take-up in the first quarter, 35%. Notably, the Department of Work and Pensions (DWP) were responsible for 10 of 13

deals completed as the government department bolstered its network of offices to support anticipated rising unemployment. In some locations, a record rent was agreed to allow for lease flexibility. DWP remain active in the market and currently represent 7.3% of total active named demand.

Vacancy rising, but pipeline is limited.

Market vacancy continued to register an increase in the first quarter. At the end of Q1, total availability was 11.4m sq ft, 3% below the 10-year average. This translates to a market vacancy rate of 7%. The impact of the office development pipeline on future supply will be important. At the time of writing, the amount of space under construction stands at 1.6m sq ft. Of this, 0.7m sq ft (47%) has already been leased. Interestingly, only 518,000 sq ft of speculative development has come to market since Q4 2019. The level of available new space is now at its lowest level since before the Global Financial Crisis pointing to a near term shortage of new best-in-class offices.

Improving sentiment sparks activity

With the UK government setting out the roadmap for opening up the country, this positive news served to stimulate investor activity in the South East. Investment volumes registered an 18% increase when compared to Q4 2020 to reach £482m by quarter end. Notably, this total is on a par with the 10-year average for a Q1 period and the highest level since before the onset of Covid disrupted markets.

International buyers retain their appetite in the South East

Overseas capital accounted for 61% of investment volumes, with foreign buyers completing five of the seven deals over £20m. The largest of these transactions was Brockton Everlast's acquisition of five buildings at Cambridge Science Park for £98.7m. This deal saw more than £2bn of chasing equity, demonstrating both improving buyer sentiment and the strong interest for life sciences associated real estate assets.

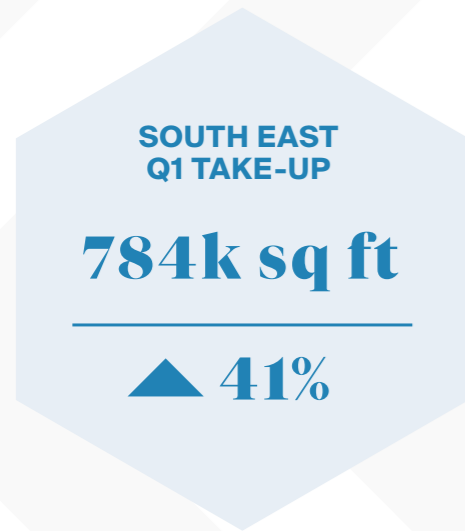
Further analysis of active buyer types shows that institutional funds remain largely absent. By deal number, property companies were the most active buyer, accounting for nine of 22 deals, however private equity buyers accounted for 33% of investment volumes across three deals. An interesting statistic derived from the period covering the Covid-19 pandemic is that property companies and private equity buyers have accounted for 47% of deals and 58% committed capital combined.

Prime yields holding firm

With more businesses reigniting their requirements for office space and exploration of the benefits of suburban offices on the rise, investor appetite towards the South East is solidifying. Prime yields remained at 5.25% in the first quarter. A combination of limited stock and increasing buyer interest however, may add pressure on prime pricing moving forward, widening the gap to secondary where investors are demonstrating greater caution.

OCCUPIER MARKET

Occupier activity in Q1 demonstrated a continued commitment to offices registering take-up consistent with the 10-year average. Although increasing, vacancy remains below the long-term trend.



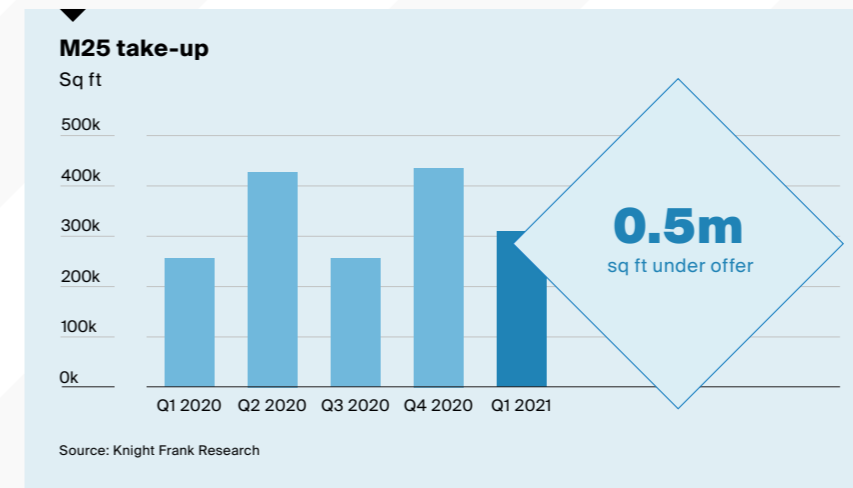
450 Longwater Avenue, Green Park leased by Mapletree to Three UK

Take-up and supply

Q1 2021

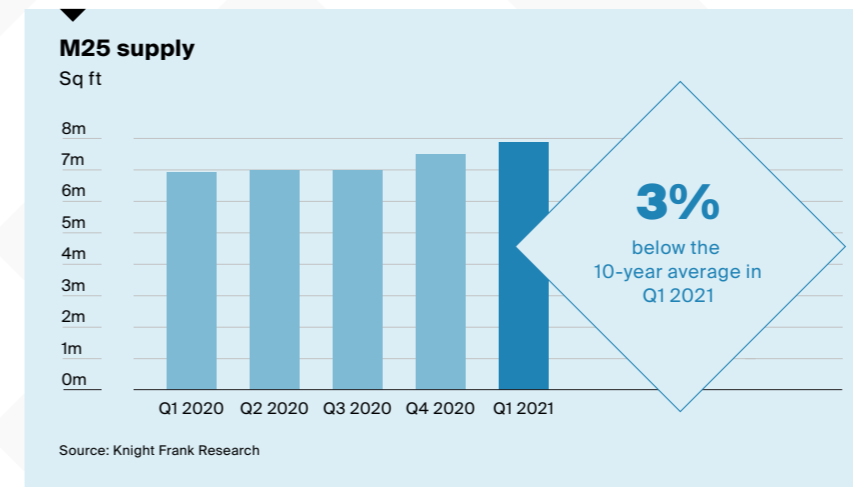
	TAKE-UP (SQ FT)	TAKE-UP (VS Q3 2020)	SUPPLY (SQ FT)	SUPPLY (VS Q1 2020)	VACANCY RATE
M25	309,395	▼ -30%	7.8m	▲ 5% New and Grade A space: 77%	6.5% New and Grade A space: 5.5%
M3	217,555	▲ 132%	2.7m	▲ 3% New and Grade A space: 76%	7.1% New and Grade A space: 5.0%
M4	457,505	▲ 200%	6.2m	▲ 2% New and Grade A space: 84%	9.5% New and Grade A space: 5.4%

Source: Knight Frank Research



Emma Goodford

2021 has begun in an optimistic vein, with the Life Sciences ecosystems of Cambridge, Oxford and West London seeing strong interest. The South East accounts for 40% of all UK employment in this sector and as expansion continues, competitive pressure will drive rental values.



Roddy Abram

Current market activity demonstrates a continued commitment to offices and the strength of the workplace in the South East. The M4 has performed strongly, reflecting the underlying tech sector dominance and connectivity of this region.

Key leasing transactions

Q1 2021

ADDRESS	SIZE SQ FT	OCCUPIER	RENT £ PER SQ FT
450 Longwater, Green Park, Reading.	112,687	Three UK	Confidential
G2 Greenford Square, Greenford	68,759	Global Banking School	£19.25
Grosvenor House, Basingstoke.	58,056	Arena Business Centres	Confidential
One Wood Crescent, White City Place	50,052	PVH	Confidential
Dakota, Heights, Weybridge.	34,560	Surrey County Council	Purchase - £15.9m

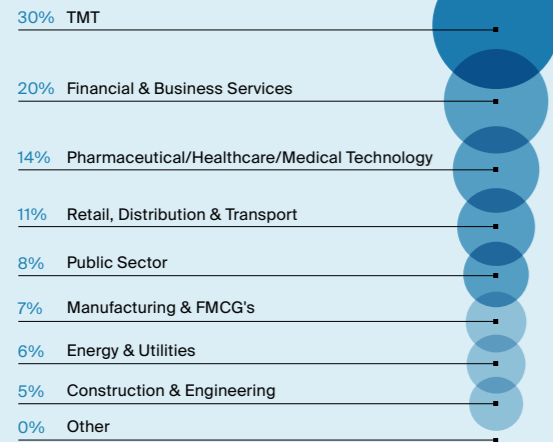
Source: Knight Frank Research

ACTIVE DEMAND: 4.6M SQ FT

Named demand in the South East

Active named demand by sector

Q1 2021



Source: Knight Frank Research

DEVELOPMENT: 1.6M SQ FT

Space under construction in the South East

*This includes pre-let (0.7m sq ft) and speculative space (0.9m sq ft)

Speculative development

Sq ft due to complete before Q1 2022



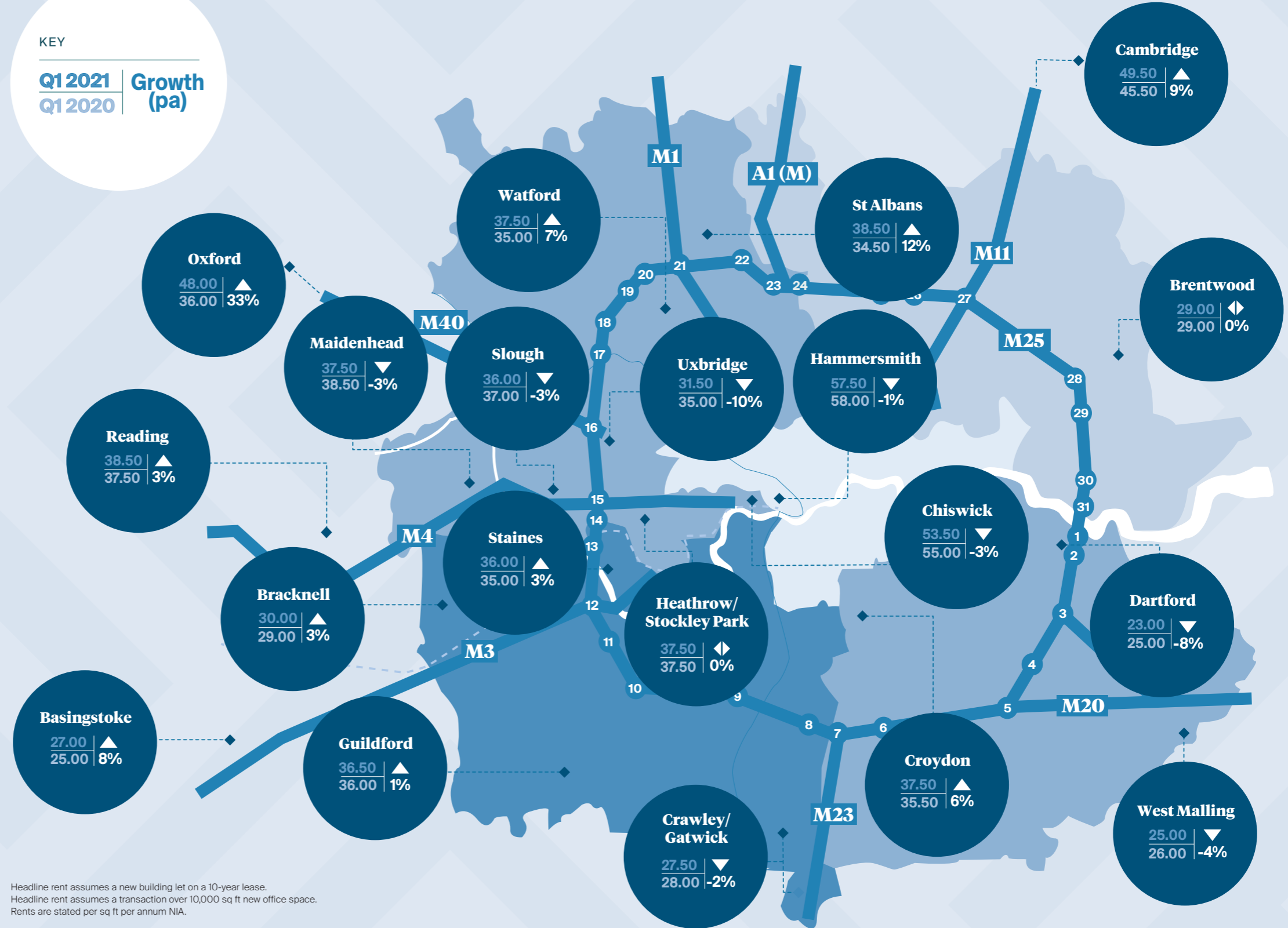
Source: Knight Frank Research

PRIME RENTS

£ PER SQ FT

KEY

Q1 2021 | **Growth**
Q1 2020 | **(pa)**



Headline rent assumes a new building let on a 10-year lease.
Headline rent assumes a transaction over 10,000 sq ft new office space.
Rents are stated per sq ft per annum NIA.



Cambridge Science Park bought by Brockton Everlast.

INVESTMENT MARKET

Investor confidence continued to grow, with volumes registering an 18% increase quarter-on-quarter. Overseas capital was significant, accounting for almost two thirds of investment during the quarter.

▲ 18%

£482m

South East transaction volumes*



£22m

Average lot size



5.25%

Prime net initial yield

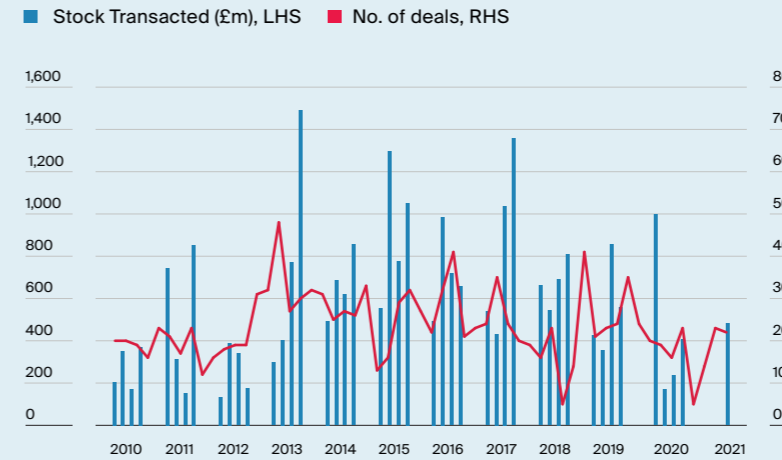


39%

Buyers from the UK

* Percentage change reflects a comparison to Q4 2020

Investment volumes



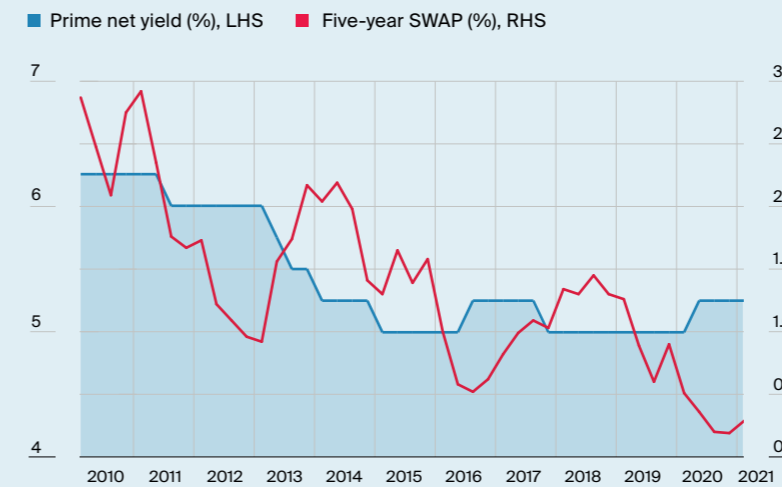
Source: Knight Frank Research



Simon Rickards

The strong commitment from foreign buyers is a major positive for the market post Covid-19. Life Sciences continues to be the principal focus for many overseas buyers, with Brockton's purchase of five buildings at Cambridge Science Park the standout deal of Q1.

Prime net initial yield and finance



Source: Knight Frank Research



Tim Smither

Although we remain in a period of uncertainty, there is increasing clarity in the office sector, with pricing for prime and stable income likely to harden in the coming months, particularly where ESG criteria is met.

Key transactions Q1 2021

ADDRESS	PRICE (£M)	NET INITIAL YIELD	VENDOR	PURCHASER
214 – 240 Cambridge Science Park, Cambridge	£98.77	4.21%	LGIM Real Assets (Legal and General)	Brockton Everlast Inc.
Proctor & Gamble, The Heights, Weybridge	£49.55	5.22%	LGIM Real Assets (Legal and General)	BNP REIM
Melbourn Science Park, Cambridge	£46.20	6.50%	TTP Holdings	Bruntwood / LGIM Real Assets (Legal and General)
418 & 436 Cambridge Science Park, Cambridge	£45.41	4.50%	Trinity College (CSP) Cambridge	Brockton Everlast Inc.
27 Great West Road, Brentford	£45.00	6.90%	LaSalle Investment Management	Areli Real Estate

Source: Knight Frank Research

NATIONAL OFFICES

Emma Goodford



Partner
Head of National Offices
+44 20 7861 1144
+44 7831 581 258
emma.goodford@knightfrank.com

Will Foster



Partner
National Offices
+44 20 7861 1293
+44 7789 878 007
will.foster@knightfrank.com

Roddy Abram



Partner
National Offices
+44 20 7861 1280
+44 7899 001 028
roddy.abram@knightfrank.com

Ashley Drewett



Partner
National Offices, Lease Advisory
+44 20 7861 1156
+44 7799 478 834
ashley.drewett@knightfrank.com

Andrew Wood



Partner
National Offices, Tenant Representation
+44 20 7861 0662
+44 7800 500 752
andrew.wood@knightfrank.com

Jack Riley



Partner
National Offices
+44 20 7861 5375
+44 7867 002 484
jack.riley@knightfrank.com

CAPITAL MARKETS

Simon Rickards



Partner
Head of National Offices Investment
+44 20 7861 1158
+44 7787 844 384
simon.rickards@knightfrank.com

Tim Smither



Partner
Capital Markets
+44 20 7861 1277
+44 7876 145 909
tim.smither@knightfrank.com

Richard Claxton



Partner
Head of UK Capital Markets
+44 20 7861 1221
+44 7774 826 558
richard.claxton@knightfrank.com

RESEARCH

William Matthews



Partner
Head of Commercial Research
+44 20 3909 6842
+44 7973 621 692
william.matthews@knightfrank.com

Darren Mansfield



Partner
Commercial Research
+44 20 7861 1246
+44 7469 667 194
darren.mansfield@knightfrank.com

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



M25 Key Markets



Power in Partnership



The London Report 2021



Active Capital



M25 Report



(Y)OUR SPACE

TECHNICAL NOTE

- Knight Frank defines the M4 market as extending from Hammersmith, west to Newbury, incorporating Uxbridge and High Wycombe to the north and Staines and Bracknell to the south. Reading is also included.
- The M3 market incorporates the main South West London boroughs and encompasses Leatherhead, Guildford and Basingstoke extending north to the M4 boundary described above. Farnborough and Camberley are also included.
- The figures in this report relate to the availability of built, up-and-ready office/B1 accommodation within the M25 market. Vacant premises and leased space which is being actively marketed are included.
- All floorspace figures are given on a net internal area basis (as defined by the RICS).
- A minimum 10,000 sq ft (net) cut-off has been employed throughout. Major and minor refurbishment have been treated as new and second-hand respectively. Data is presented on a centre and quadrant basis. Classification by centre relates to the locational details contained within the marketing material for available properties. Classification in this manner is clearly somewhat arbitrary.
- Vacancy rate data is based on a total M25 stock measure of 121m sq ft (net), an M4 market stock of 66m sq ft (net) and an M3 market stock of 39m sq ft (net). Please note that a revision to total market office stock figures was applied in Q1 2017 to reflect 'change of use' permitted through the Town and Country Planning Order 2015.
- Second-hand floorspace has been sub-divided into A and B grade accommodation, reflecting high and low quality respectively. Whilst subjective, this categorisation is based on an assessment of each property's age, specification, location and overall attractiveness.
- The South East is defined as the market area shown in the map on pages 6 & 7.
- Pre-let = The letting of proposed schemes not yet under construction and those let during the construction process.
- All data presented is correct as at 31st March 2021

Knight Frank Commercial Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs. Important Notice:

This general document is provided strictly on the basis that you cannot rely on its contents and Knight Frank LLP (and our affiliates, members and employees) will have no responsibility or liability whatsoever in relation to the accuracy, reliability, currency, completeness or otherwise of its contents or as to any assumption made or as to any errors or for any loss or damage resulting from any use of or reference to the contents. You must take specific independent advice in each case. It is for general outline interest only and will contain selective information. It does not purport to be definitive or complete. Its contents will not necessarily be within the knowledge or represent the opinion of Knight Frank LLP. Knight Frank LLP is a property consultant regulated by the Royal Institution of Chartered Surveyors and only provides services relating to real estate, not financial services. It was prepared during the period of June 2020. It uses certain data available then, and reflects views of market sentiment at that time. Details or anticipated details may be provisional or have been estimated or otherwise provided by others without verification and may not be up to date when you read them. Computer-generated and other sample images or plans may only be broadly indicative and their subject matter may change. Images and photographs may show only certain parts of any property as they appeared at the time they were taken or as they were projected. Any forecasts or projections of future performance are inherently uncertain and liable to different outcomes or changes caused by circumstances whether of a political, economic, social or property market nature. Prices indicated in any currencies are usually based on a local figure provided to us and/or on a rate of exchange quoted on a selected date and may be rounded up or down. Any price indicated cannot be relied upon because the source or any relevant rate of exchange may not be accurate or up to date. VAT and other taxes may be payable in addition to any price in respect of any property according to the law applicable. © Knight Frank LLP 2021. All rights reserved. No part of this presentation may be copied, disclosed or transmitted in any form or by any means, electronic or otherwise, without prior written permission from Knight Frank LLP for the specific form and content within which it appears. Each of the provisions set out in this notice shall only apply to the extent that any applicable laws permit. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934 and trades as Knight Frank. Our registered office is 55 Baker Street, London W1U 8AN, where you may look at a list of members' names. Any person described as a partner is a member, consultant or employee of Knight Frank LLP, not a partner in a partnership.