

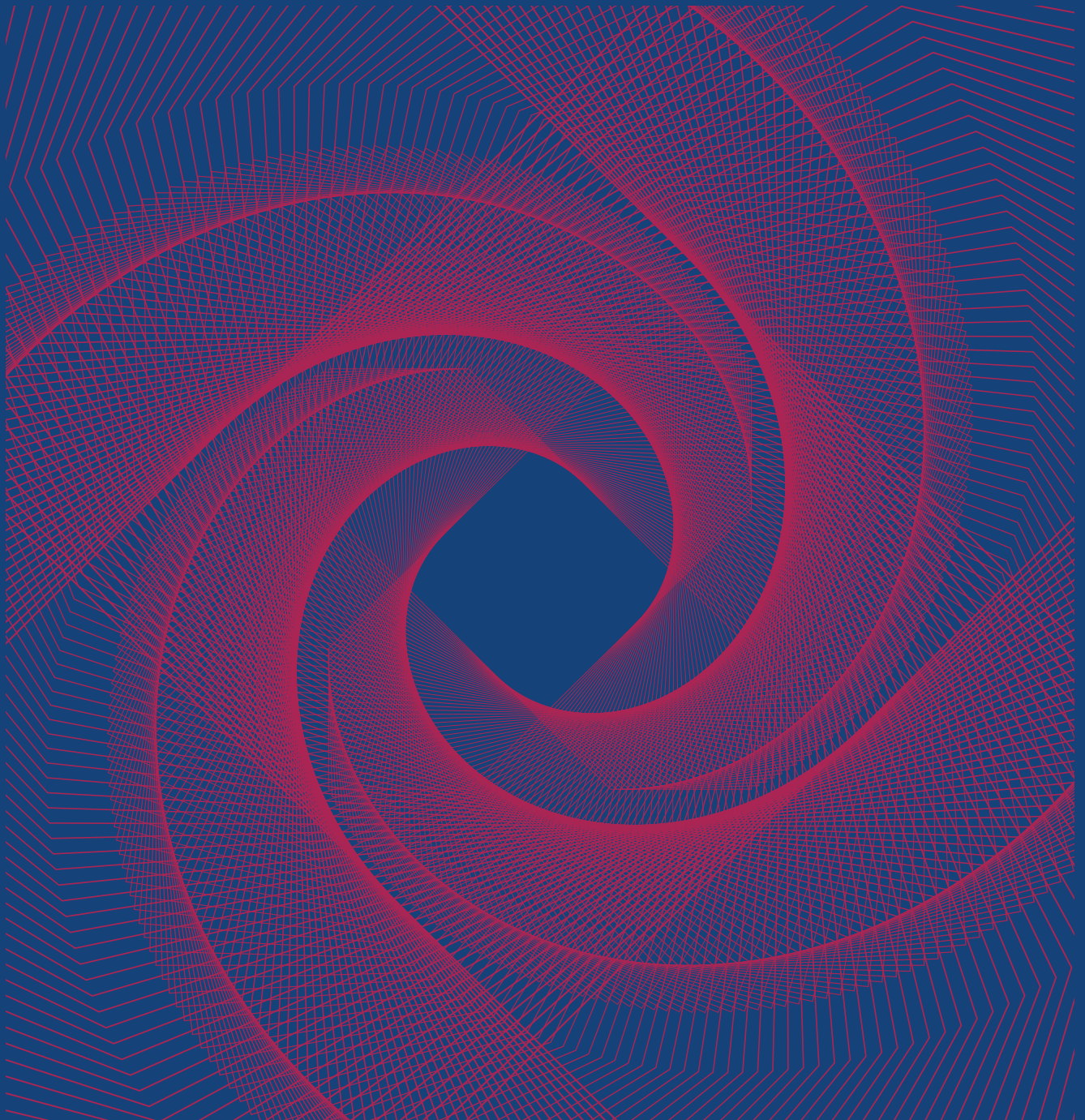
M25 Offices



Q1 2023

Investment, Development & Occupational Markets

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Key takeaways



1

Take-up in Q1 was low at 358,861 sq ft, albeit deal numbers were in line with the long-term average.



2

Vacancy again remained relatively unchanged over the quarter at 7.5%, just above the long-term trend.



3

Investment volumes in Q1 2023, were the highest for a Q1 period since before the Covid Pandemic.



4

UK money accounted for 61% of investment volumes during the first quarter.



5

Prime office yields in the South East remained unchanged at 6.00% in Q1.

Executive Summary

OCCUPIERS CAUTIOUS IN Q1.

Following a flurry of occupier deals in late 2022, activity in the first quarter of 2023 proved slow. During the quarter, 358,861 sq ft was leased, 47% below the 10-year average for the period. Significantly, the number of deals completed in Q1 was broadly in line with the long-term trend. The quantum of space taken was below historic, with the average deal size being 7,600 sq ft and the largest deal completed at 30,000 sq ft.

With active demand remaining relatively robust, the subdued levels of take-up indicate an increased possibility of lease re-gears and renewals in the near term. Landlords are more willing to offer existing tenants favourable terms and incentives to minimise void risks.

LEASE EVENTS TO DRIVE DEMAND?

The outlook for the rest of 2023 indicates improvement. At the end of Q1, close to 350,000 sq ft of space was under offer, much of which should transact in Q2. In addition, the tightening supply environment will mean that occupiers will activate searches well ahead of lease events. Close to 4.5m sq ft of lease expiries will occur between April 2023 and the end of 2024. This will support market

activity for the remainder of 2023, as occupiers engage earlier to secure the best space.

VACANCY ABOVE TREND, BUT BEST QUALITY REMAINS SCARCE.

Market vacancy remained unchanged in the first quarter at 7.5%, with the low level of transactional activity only marginally moving the amount of space on the market. At the end of Q1 2023, total office availability was 12.2m sq ft, representing a 5% increase year-on-year. Interestingly, the rise is attributable to new space entering the marketplace, with availability of this grading rising by 32% when compared to the equivalent period in 2022. Despite this increase however, the amount of new space marketed as at the end of Q1 was 34% below the 10-year average.

At the time of writing, work on 2.3m sq ft of new or refurbished space was underway, with 1.8m sq ft of speculative development due for completion by 2025. Of this total, 55% of works are comprehensive refurbishment schemes. With development under increasing scrutiny because of cost inflation, the future development landscape in the South East will remain targeted in the best locations.

STRONG Q1 RESULTS MASK DIFFICULT INVESTMENT CONDITIONS.

Although the weak economic forecasts and the disrupted geopolitical landscape is diluting investor sentiment, investment volumes for the South East in Q1 2023 totalled £537m across 22 transactions. Both volume and deal count were on par with the long-term average for a Q1 period. Most notably, activity in Q1 2023 reflects the strongest start to a year since before the Covid pandemic, indicating an investor willingness to transact given the right opportunity.

PRICING TO POLARISE?

Prime yields were unchanged at 6.00% in Q1, with an expectation that the gap between prime and secondary will continue to widen. As per previous market downturns, a flight to quality is on the agenda for many investors, with pricing for the best assets beginning to harden. However, secondary or tertiary assets, where there is a requirement for significant refurbishment works and potential lengthy void periods could see further correction, although the size of any shift maybe mitigated by interest from opportunistic buyers.

Occupier market

Although leasing volumes were low, actual deal numbers were up reflecting an increasing occupational need to engage with the market. Supply levels remain static, with the development pipeline challenged by rising costs

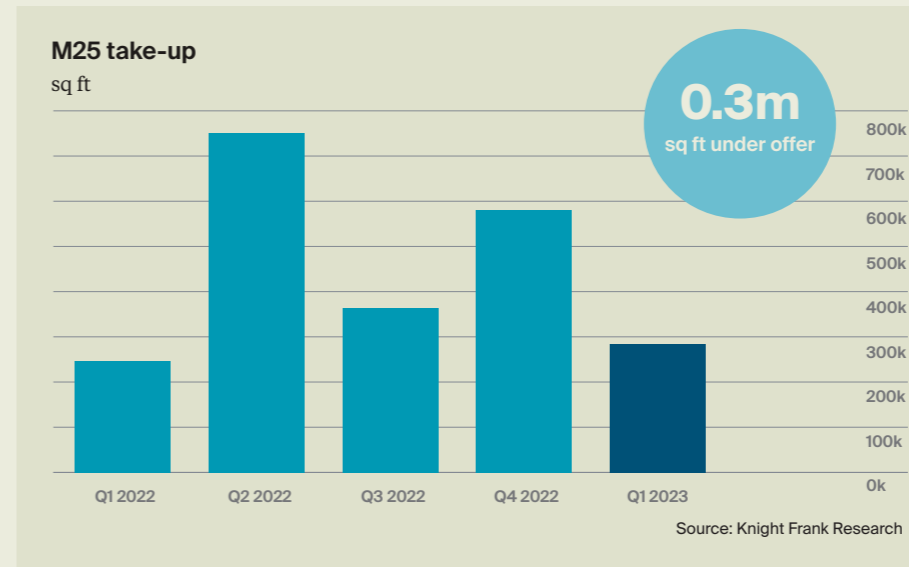


Botanica, Ditton Park

Take-up and supply Q1 2023

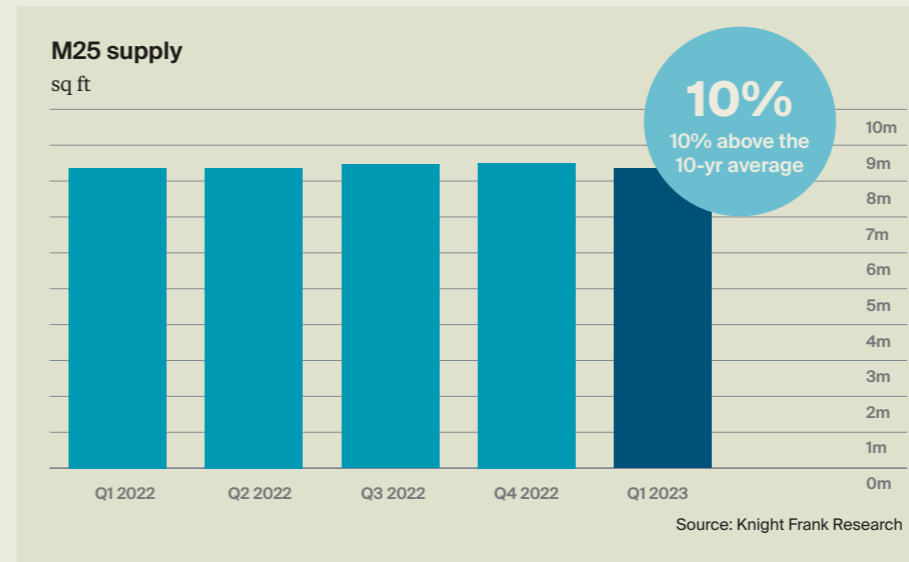
	TAKE-UP (SQ FT)	TAKE-UP (VS Q3 2022)	SUPPLY (SQ FT)	SUPPLY (VS Q3 2022)	VACANCY RATE
M25	284,005	▼ -51%	8.4m	▼ -2% New and Grade A space: 68%	6.9% New and Grade A space: 4.7%
M3	116,628	▼ -57%	2.3m	▼ -3% New and Grade A space: 74%	5.9% New and Grade A space: 4.4%
M4	146,352	▼ -59%	7.2m	◀ 0% New and Grade A space: 76%	10.9% New and Grade A space: 8.3%

Source: Knight Frank Research



RODDY ABRAM

Businesses are continuing to deliberate on the most appropriate strategy for their occupation over the next 5-10 years. Lease events are currently the primary driver for most new enquiries.



JACK RILEY

A number of medium to larger requirements remain active in the market. Tellingly, this interest is almost solely focused on the best-in-class supply that can support the sustainability ambitions of organisations.

Key Leasing transactions Q1 2023

ADDRESS	SIZE SQ FT	OCCUPIER	RENT £ PER SQ FT
Evolution Business Park, Cambridge	36,211	Nyobolt	£25.00
Brennan House, Farnborough	30,309	Herrington Carmichael	Conf
Milton Park, Park Drive East, 141-143, Oxford	30,000	New England Biolabs	Conf
Botanica, Slough	25,344	Arvato	£29.18
Union Stockley Park, Heathrow	23,980	Keyence	£39.50

Source: Knight Frank Research. GIA

Prime Rents

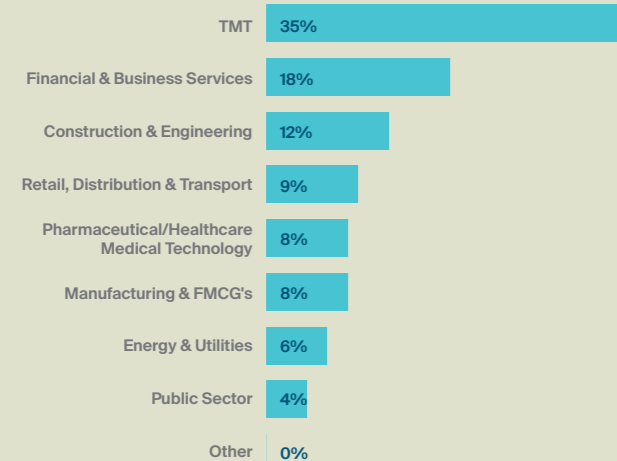
£ per sq ft

ACTIVE DEMAND: 4.4M SQ FT

Named demand in the South East

Active named demand by sector

Q4 2023



Source: Knight Frank Research

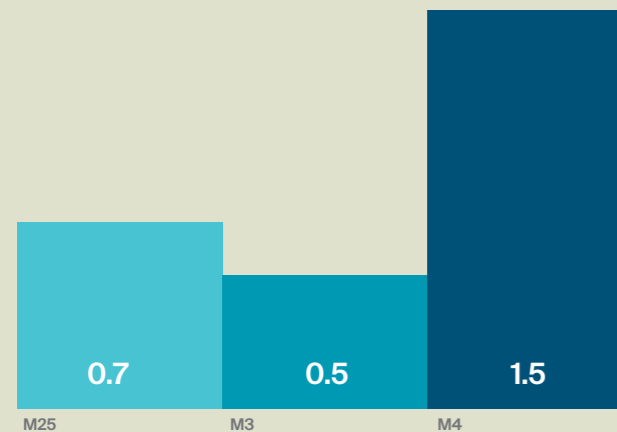
DEVELOPMENT: 2.9M SQ FT

Space under construction in the South East

*This includes pre-let (0.5m sq ft) and speculative space (0.6m sq ft)

Speculative development

Sq ft due to complete before 2024

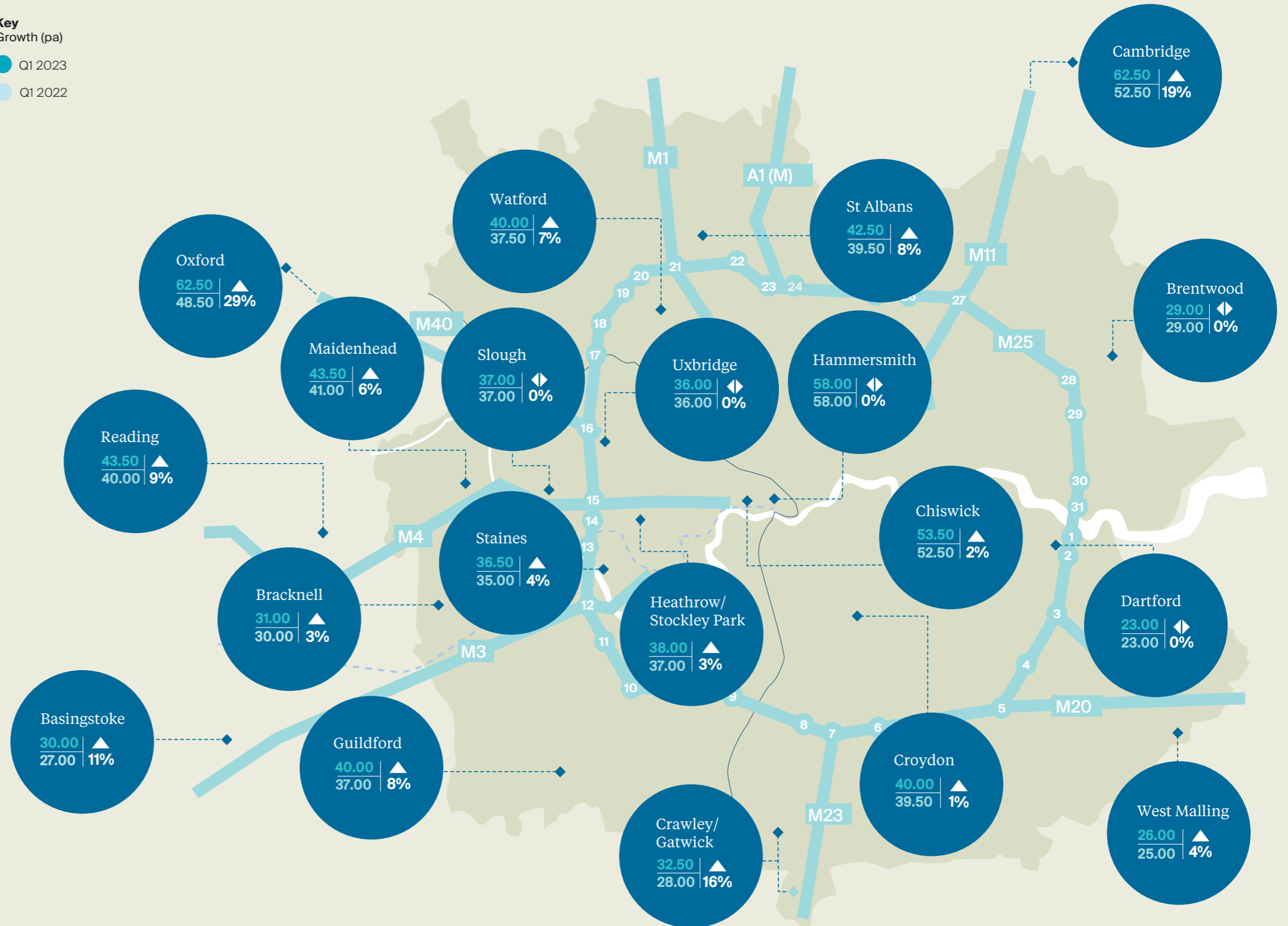


Source: Knight Frank Research

Key
Growth (pa)

● Q1 2023

● Q1 2022



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.

Investment market

Investment interest held firm in Q1, with the buyer pool remaining diverse. The cost of debt and economic turmoil continues to add caution to pricing appraisal.



2 Ruskin Square, Croydon



£537m

South East transaction volumes



£24m

Average lot size



6.00%

Prime net initial yield

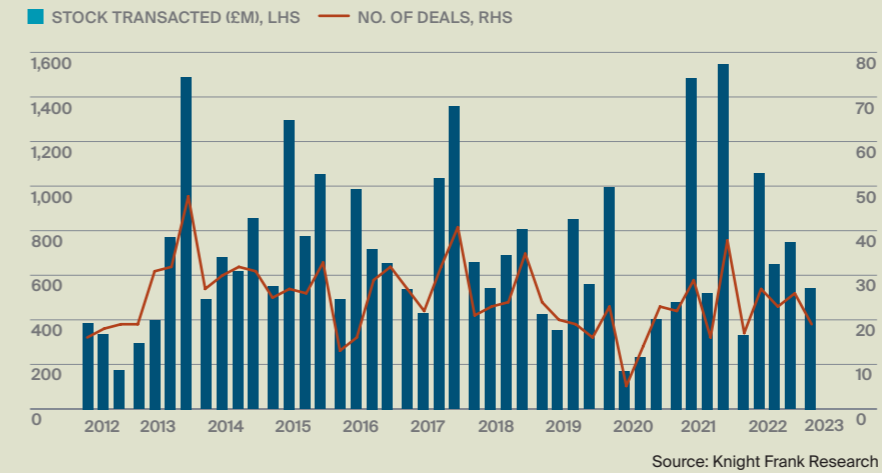


61%

Buyers from the UK

Footnote: Headline statistics are representative of Q1 2023

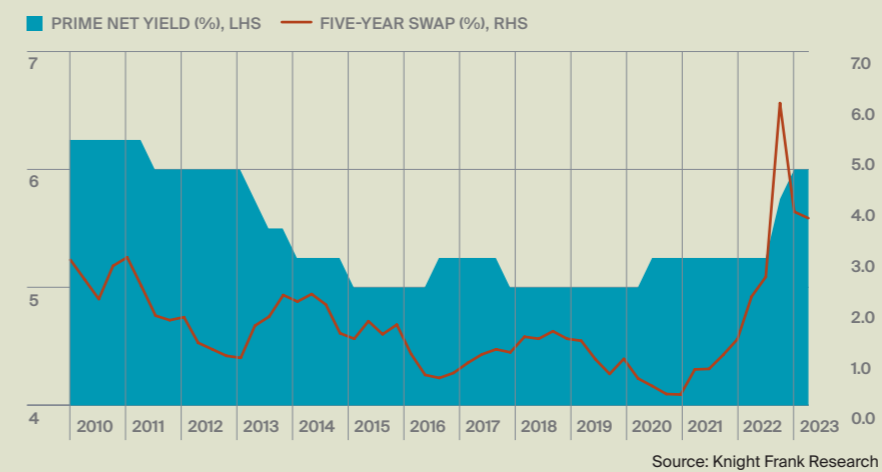
Investment volumes



SIMON RICKARDS

Despite the wider economic turmoil, it is encouraging that volumes were healthy by historical measure. Life Science assets remain attractive to investors meaning Oxford and particularly Cambridge continue to see high levels of interest.

Prime net initial yield and finance



HENRY WYLD

One of the most significant factors affecting activity is the cost of debt, which remains high relative to the low levels seen in recent years. With maturity dates looming, the 'sell rather than refinance decision' will serve to increase stock in the market.

Key transactions Q1 2023

ADDRESS	PRICE (£M)	NET INITIAL YIELD	VENDOR	PURCHASER
2 Ruskin Square, Croydon	£267.6m	3.94%	Schroders / Stanhope	Pension Insurance Corporation
Westbrook Centre, Cambridge	£75.0m	na	Capital London	UBS
Electric House, Croydon	£35.5m	5.00%	Starview Estates	Client of SMTB
163 Cambridge Science Park	£12.2m	2.24%	The City Council of Norwich	Cadillac Fairview / Stanhope
Hinshelwood Building, Oxford Science Park	£19.4m	3.90%	Mayfair Capital	The Oxford Science Park Ltd
Frame Works, Richmond	£19.3m	5.60%	Boulton Brooks Real Estate	Derbyshire County Council c/o Colliers Capital

Source: Knight Frank Research. GIA

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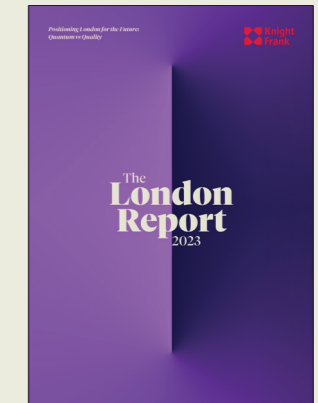
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M25 - The Next Chapter



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UK Cities



(Y)OUR SPACE



UK Life Sciences

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. The market statistics quoted as 'South East' or 'South East Study Area' are however, exclusive of Cambridge, Oxford and Brighton.
- 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 2023.

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