

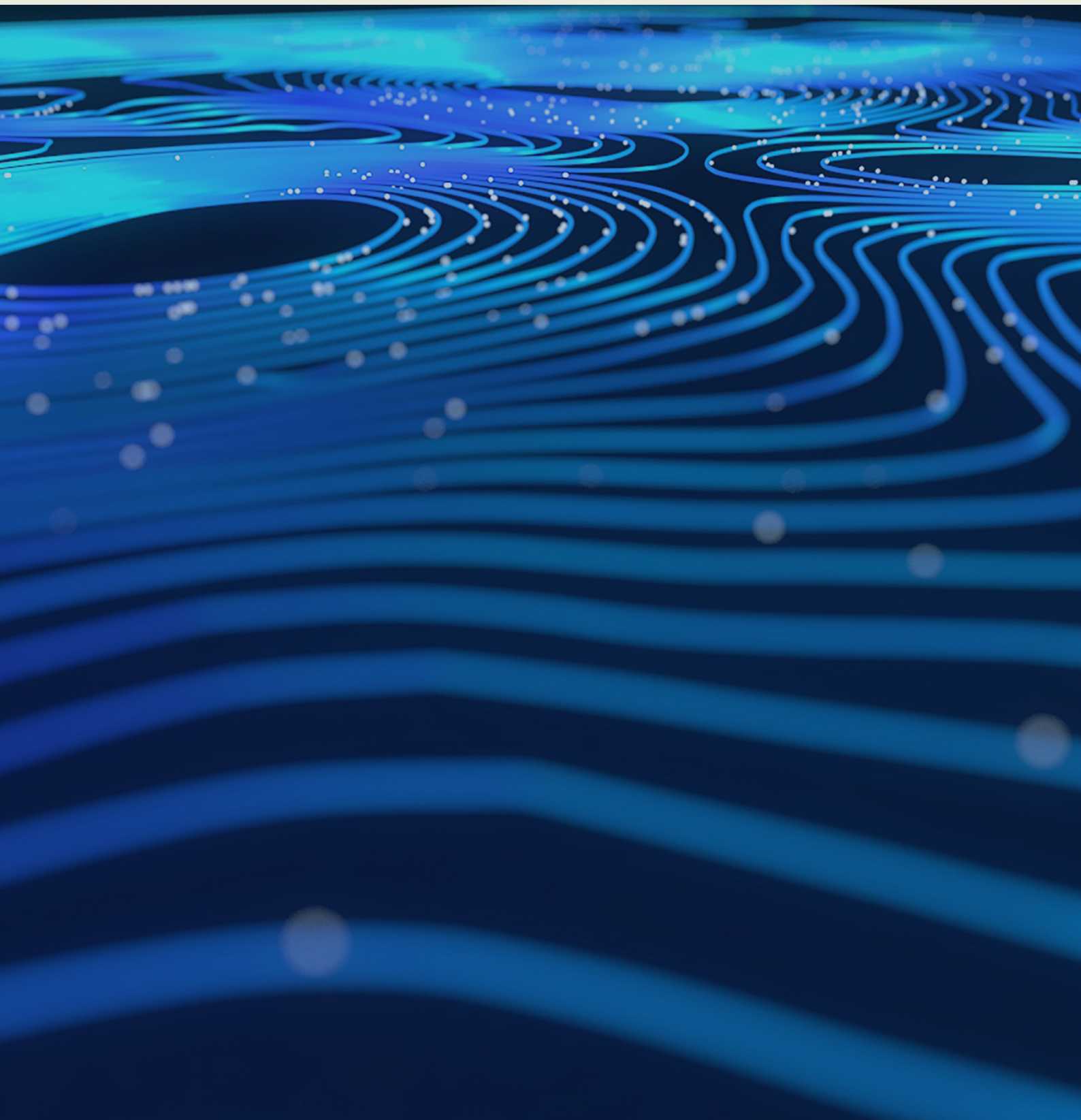
M25 & South East Market Report



Q1 2024

Investment, Development & Occupational Markets

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Key takeaways



1

An uptick in pre-leasing meant total take-up in Q1 was 12% above the 10-year quarterly average.



2

New and Grade A accounted for 94% of total take-up.



3

Five markets in the South East have experienced double-digit rental growth in the past 12 months.



4

Investment volumes registered the second consecutive quarterly rise.



5

Prime office yields held firm at 7.00% in Q1.

Executive Summary

OCCUPIERS JOSTLE FOR POSITION.

Early occupier action underpinned occupier activity in Q1 2024. Nine transactions totalling 421,600 sq ft were agreed at buildings still under construction during the quarter. This represented 43% of total take-up, the highest proportion of leasing volumes since 2001.

The uptick in pre-leasing meant total take-up reached 979,125 sq ft, 12% above the 10-year quarterly average. Notably, the four-quarter rolling average rose to 4m sq ft, the highest total since before the COVID-19 pandemic (Q3 2019).

QUALITY DICTATES ACTION, BUT FOOTPRINTS REGISTER A RISE IN Q1.

The high level of pre-leasing contributed to the overall percentage of new and Grade A take-up, rising to 94% during the quarter. This high concentration further demonstrates the current occupier's focus towards modern, sustainable offices with good transport connections and a strong amenity offer. While we noted a reduction in space requirement in previous quarters in conjunction with the pursuit of best quality, the first quarter bucked this trend. In Q1, five deals above 50,000 sq ft were completed, the highest in just over two years. This may indicate that corporate occupiers are beginning to move from a strategy of 'just enough' to footprints, including an element of expansionary space.

A 'NARROWING' OF THE OCCUPIER LENS SUPPORTING RENTAL GROWTH.

While economic conditions remain challenging, the steady erosion of the 'best quality' supply continues to support upward pressure on headline rents. The South East office rent index shows a 1% increase over the past 12 months. However, closer inspection indicates that 14 South East markets have exceeded the 1% average rise, and five have registered double-digit increases since Q1 2023.

SUPPLY EDGES UP, BUT NEW SPACE AVAILABILITY IS LOW.

The total market vacancy rate has risen gradually since early 2020, settling at 8.6% at the end of Q1 2024. If considered for new and Grade A space, this rate is 6.6%. Each of these measures is the highest for ten years. However, if considered for just new space – the principal focus of the market – the percentage this represents of total availability is just 7%, well below a 10-year average of 11.5%.

The tightening of new supply highlights the impact of a depressed development pipeline over the past two years, with only 900,000 sq ft speculative developments delivered in the core South East markets since the end of 2021. At the time of writing, a further 1.2m sq ft is scheduled to be completed by 2027.

High build costs and falling market rates will continue to test viability, however. Knight Frank's tender price index indicates that costs increased by 3.5% in the UK in 2023, following double-digit rises in the previous three

years. This is expected to rise to 3.6% by 2027. Capital values have fallen accordingly, with yields increasing by circa 100bps over the past 12 months.

INVESTMENT VOLUMES RISE AGAIN.

Investment turnover during Q1 was £398m in 26 transactions, the second consecutive rise in volumes but still 43% below the 10-year quarterly average. Even so, buying opportunities for prime or 'near prime' assets have remained particularly low, with the high cost of debt and weakened market rates continuing to impact buyer and seller appetite.

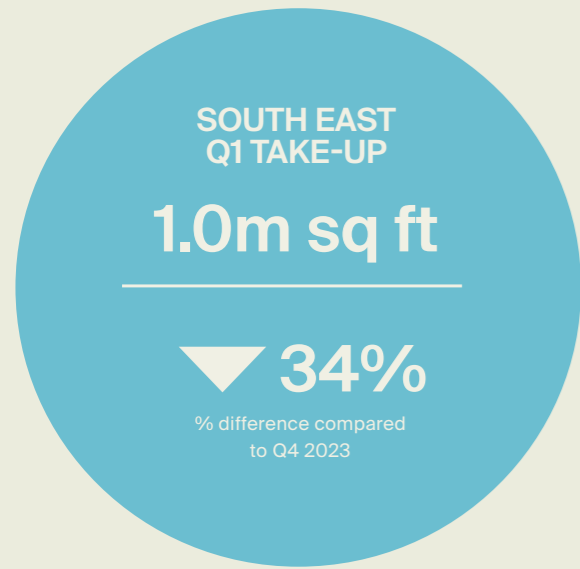
Similarly, investor interest in secondary stock is low currently, albeit growing interest toward possible permitted development opportunities may bolster activity in this area of the market moving forward. Pricing for poorer quality secondary and tertiary stock continues to soften, which may further entice private and opportunistic investors or those seeking such repositioning projects.

PRICING REMAINS UNDER THE MICROSCOPE.

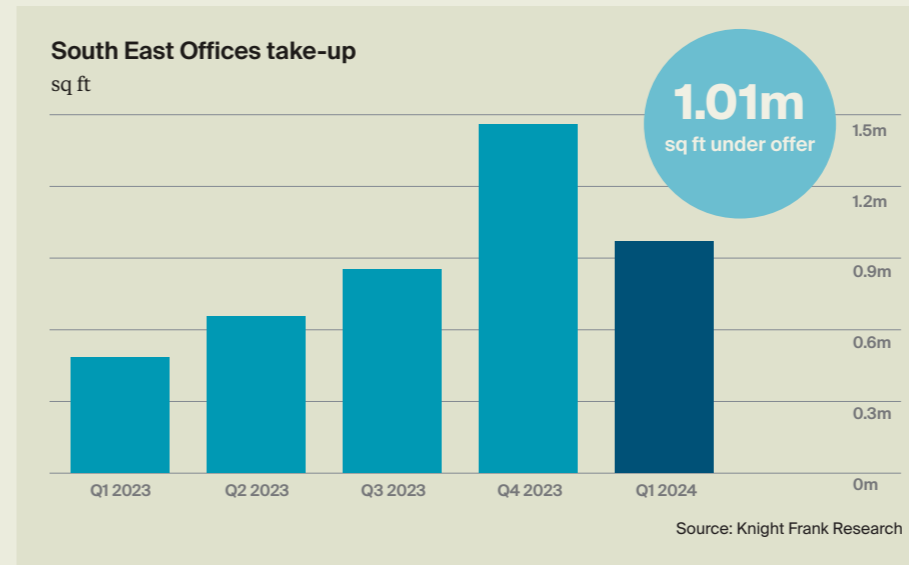
Prime yields for 15-year income remain at c.7.00%, albeit there was no evidence of this level during the first quarter, so price discovery is still a market characteristic. Opportunistic buyers are active and growing in number and we anticipate that core and core-plus investors will also return in greater numbers as more favourable debt becomes available.

Occupier market

Leasing volumes and active demand proved strong in Q1, reflecting a rising occupational need to engage with the market. Supply levels remain static, with the development pipeline challenged by rising costs.



Tempo, Maidenhead



RODDY ABRAM

The volume of demand for new and best quality offices, against a stalled development pipeline, means that rental values continue to trend upwards in premium buildings.



JACK RILEY

The continued quantum of lettings on best-in-class office space further demonstrates the occupier focus toward prime, modern and sustainable offices with strong transport links and amenity.

Take-up and supply Q1 2024

	TAKE-UP (SQ FT)	TAKE-UP (VS Q4 2023)	SUPPLY (SQ FT)	SUPPLY (VS Q4 2023)	VACANCY RATE
SE	979,125	▼ -34%	14.0m	▲ 11% New and Grade A space: 77%	8.6% New and Grade A space: 6.6%
M25	435,038	▼ -22%	9.4m	▲ 13% New and Grade A space: 73%	7.8% New and Grade A space: 5.7%
M3	175,573	▼ -45%	2.2m	▲ 18% New and Grade A space: 75%	5.7% New and Grade A space: 4.3%
M4	320,298	▼ -43%	8.3m	▲ 2% New and Grade A space: 82%	12.4% New and Grade A space: 10.2%

Source: Knight Frank Research

Key Leasing transactions Q1 2024

ADDRESS	SIZE SQ FT	OCCUPIER	RENT £ PER SQ FT
Tempo, Maidenhead	97,488	Johnson & Johnson	£52.50
Bicester Motion Innovation Quarter, Bicester	88,000	YASA Motors	Conf.
One Olympia, Kensington	72,192	IWG/Spaces	£50.00
Victoria Gate, Woking	66,415	Surrey County Council	£18m freehold sale
Harwell Campus, Oxford	64,325	Diamond Light Source	Conf.

Source: Knight Frank Research.

Prime Rents

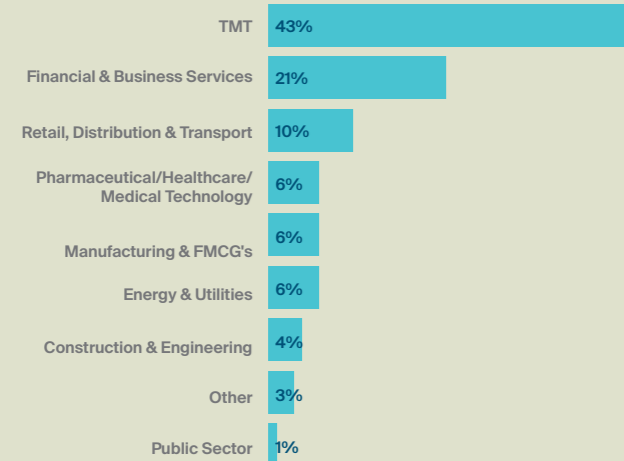
£ per sq ft

ACTIVE DEMAND: 4.8M SQ FT

Named demand in the South East

Active named demand by sector

Q1 2024



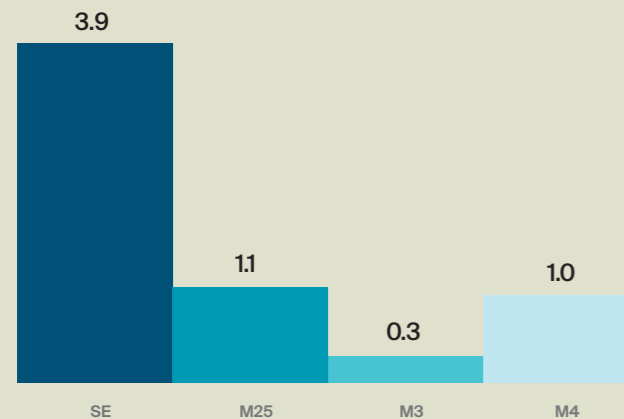
Source: Knight Frank Research

DEVELOPMENT: 4.7M SQ FT

Space under construction in the South East
855,000 sq ft Pre-let

Speculative development

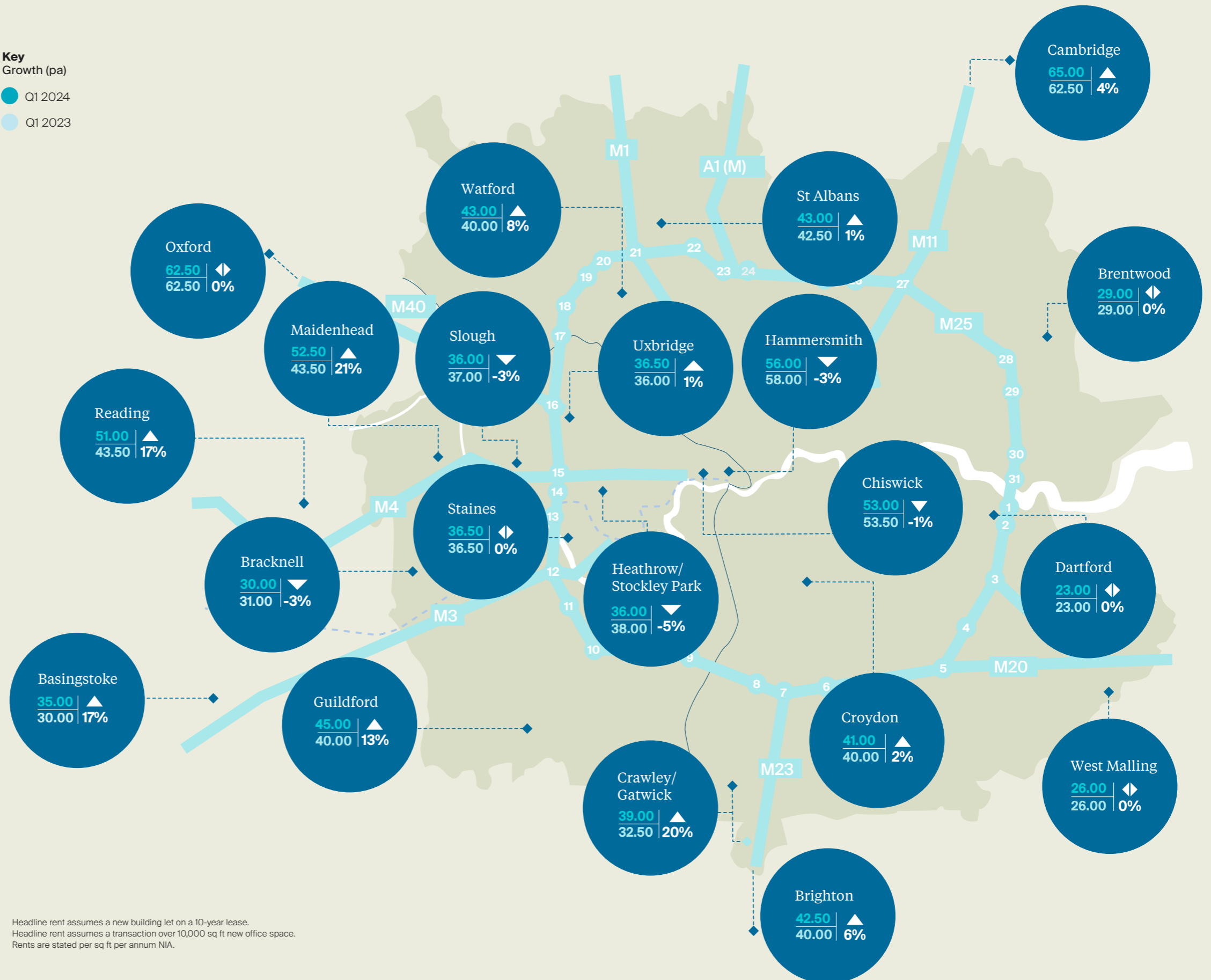
Sq ft due to complete before 2026



Source: Knight Frank Research

Key
Growth (pa)

● Q1 2024
● Q1 2023



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

Although improving investment volumes in the first quarter were low, the amount of stock under offer is rising however as the gap between buyer and seller expectations narrow.



Q10 Bricket Rd, St Albans



£398m*

South East transaction volumes



£15.33m

Average lot size



7.00%

Prime net initial yield

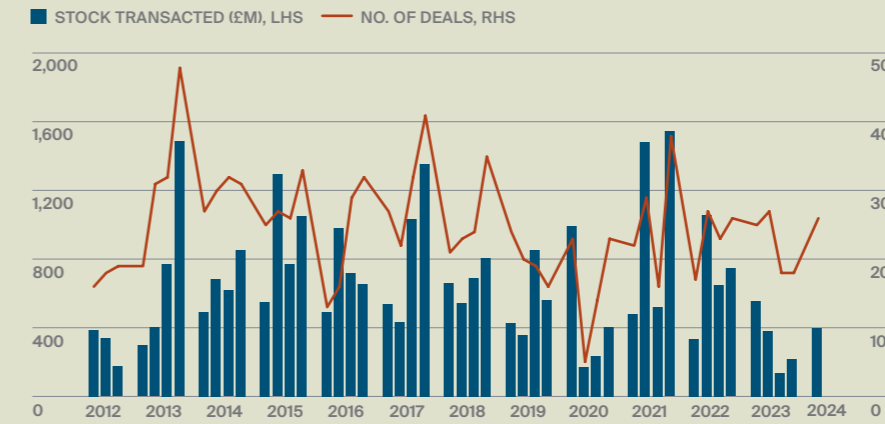


74%

Buyers from the UK

* Includes occupier acquisition
Footnote: Headline statistics are representative of Q1 2024

Investment volumes

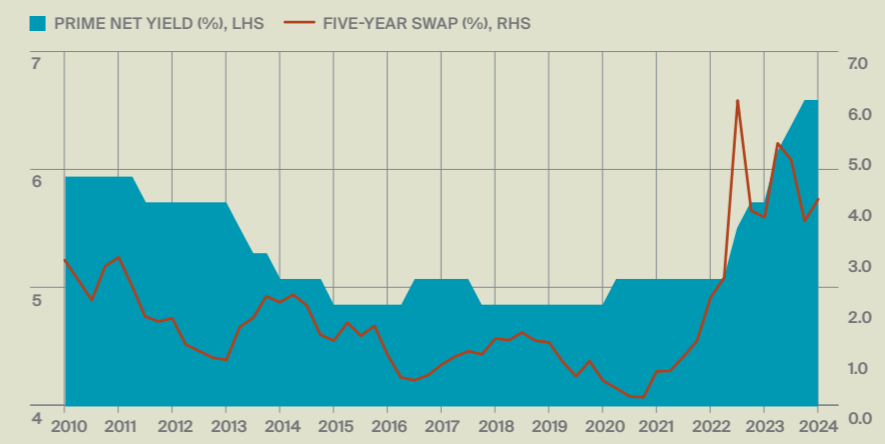


Source: Knight Frank Research



SIMON RICKARDS
South East and Greater London office assets are attractively priced by historical standards, and contrarian buyers are looking for value-add opportunities to build out the high quality stock which is in short supply.

Prime net initial yield and finance



Source: Knight Frank Research



HENRY WYLD
Investor confidence around pricing is steadily increasing. This is will also be coupled with more motivated asset owners, with the buyer and seller gap narrowing, particularly for prime office buildings.

Key transactions Q1 2024

ADDRESS	PRICE (£M)	NET INITIAL YIELD	VENDOR	PURCHASER
One Ruskin Square, 1/5 Station Approach, Dingwall Road, Croydon	£115	6.00%	Schroders	HM Revenue & Customs
Oxfam House, 2700 John Smith Drive, Oxford Business Park South, Oxford	£37	4.27%	Sutton Council	Oxtec developments
The VHQ, Fleming Way, Crawley	£26	9.12%	Columbia Threadneedle	Mirabaud Asset Management Ltd
Norfolk House, 13 Wellesley Road, Croydon	£23	12.29%	Kennedy Wilson	Private Investor

Source: Knight Frank Research. GIA

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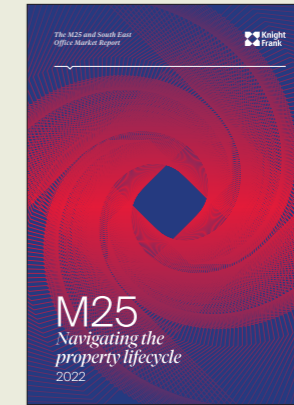


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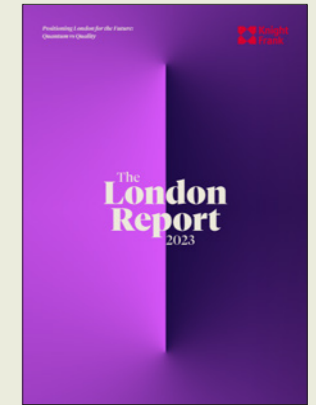
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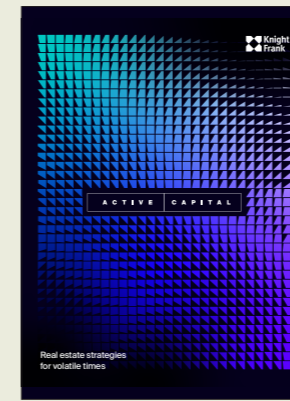
M25 Key Markets



M25 - The Next Chapter



The London Report



Active Capital



UK Cities



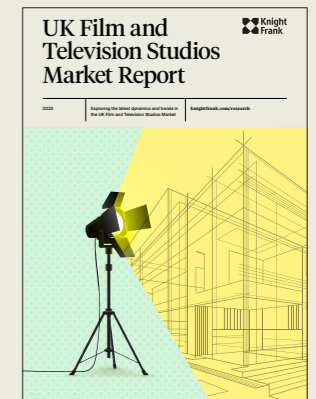
(Y)OUR SPACE



UK Gaming Report



UK Life Sciences



UK Film and Television Studios Market

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 inclusive 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 2024.

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