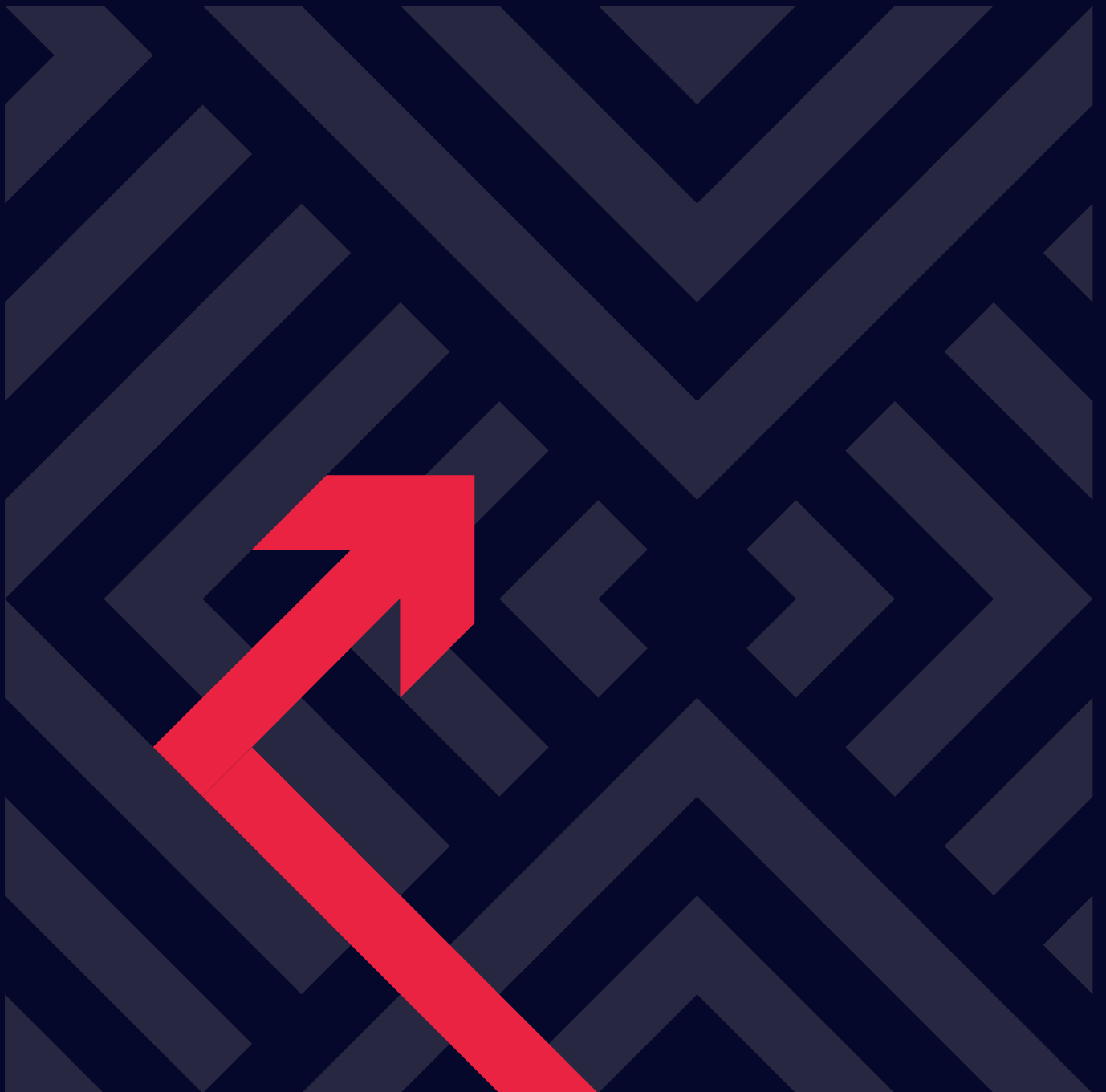

M25 Offices

Q2 2021



EXECUTIVE SUMMARY

KEY TAKEAWAYS

1

Take-up for H1 2021 was the highest total for an H1 period since 2018.

2

Take-up in the M4 during H1 2021 has already exceeded the full year total of 2020.

3

The TMT sector accounted for 30% of take-up in H1 2021.

4

Investment volumes for H1 2021 were £1.97bn, the highest total for an H1 period in 16 years.

5

Overseas capital accounted for 75% of investment volumes in H1 2021.

Positive deal rate despite continued headwinds

Leasing volumes in the South East reached 586,560 sq ft in Q2, 27% below the 10-year quarterly average. Even so, this meant that take-up at the mid-point of the year increased to 1.37m sq ft, the highest total for a H1 period since 2018. Significantly and further reinforcement of the future role of the office, six deals of over 50,000 sq ft concluded in the first half of the year. This is the highest total for deals of this scale during an H1 period since 2016.

Pockets of new activity in 2021

The markets across the South East are recovering at different rates. The M4 is the principal market of focus in 2021. During the second quarter, 367,300 sq ft of take-up was recorded. Although this was 9% below the 10-year quarterly average, this meant that take-up for the first half of the year increased to 824,800 sq ft, a total higher than the full year results of 2020.

Market recovery in the M25 and the M3 is proving slower, albeit firmly underway. In the M25, take-up is below the long term average, but 50 deals have completed in the first six months of 2021. This compares to just 28 in H1 2020. Similarly, the M3 has recorded 24 transactions so far in 2021. This compares to just 18 at the same juncture in 2020. Importantly, both have registered transactions exceeding 50,000 sq ft, thus demonstrating the rekindling of longer term commitments.

Technology and Science leading recovery in 2021

Despite the global pandemic, the first six months of the year have seen a continuation, and in some examples the acceleration of trends that have been observed over recent years. Occupiers stemming from the Telecoms, Media and Technology sector have been particularly active and account for 30% of take-up across the South East in 2021. Interestingly, this business sector also dominates active demand schedules accounting for 30% or 1.3m sq ft.

The Covid-19 pandemic has also served to accelerate both investor and occupier demand for life sciences real estate. The sector is seeing investment rising rapidly as the criticality of its work gains recognition. Across the South East, firms under this umbrella account for 18% of take-up over the past 18 months. Oxford and Cambridge have been the epicentres of activity, with heightened demand supporting a sharp rise in market rents. In Cambridge rents have increased by 9% over the past year, whilst rents in Oxford have risen by a third.

With a greater onus on technological resilience and scientific research, high demand for infrastructure, conducive to these disciplines will be legacy of the pandemic.

Investor push in the second quarter

Total investment into South East offices during Q2 reached £1.49bn, the highest total since Q4 2013 and the second highest since 2005. During the quarter, 29 transactions were completed, the highest amount in

any quarterly period for three years. As a result, investment volumes for H1 2021 reached to £1.97bn. This total is 53% ahead of the equivalent period in 2020 and is the highest for an H1 period for 16 years.

International buyers most active in 2021

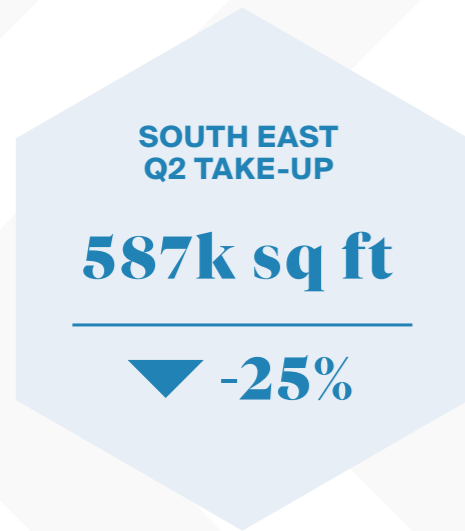
An interesting statistic of H1 2021 was that seven transactions completed with a sale price in excess of £50m. This is the highest total above this threshold during an H1 period since 2017. The seven deals that were agreed account for 59% of total investment volumes during H1. Furthermore, behind six of the seven deals was international money, which accounts for 75% of all volumes during H1. Significantly, confidence has been growing amongst US funds, with 55% of capital spent on South East offices derived from US investors.

Centres of innovation attracting buyers

The main Life Science centres have been a principal target for investors during the first half of the year. Cambridge and Oxford are proving particularly attractive, with 16% of investment deals across the South East completed in these two cities over the past 18 months. As well as the resilience to the pandemic, the sector also has strong future growth characteristics making it attractive from a long term investment perspective. In H1 2021 equity investment into high-growth life sciences companies has already exceeded the whole of 2020, at over £2bn. Funding is translating into strong expansion activity and therefore onward growth from a real estate perspective.

OCCUPIER MARKET

Although a dip was registered in Q2, leasing volumes in 2021 are the highest for three years. Technology focussed occupiers are most active, with the M4 corridor the principal destination.



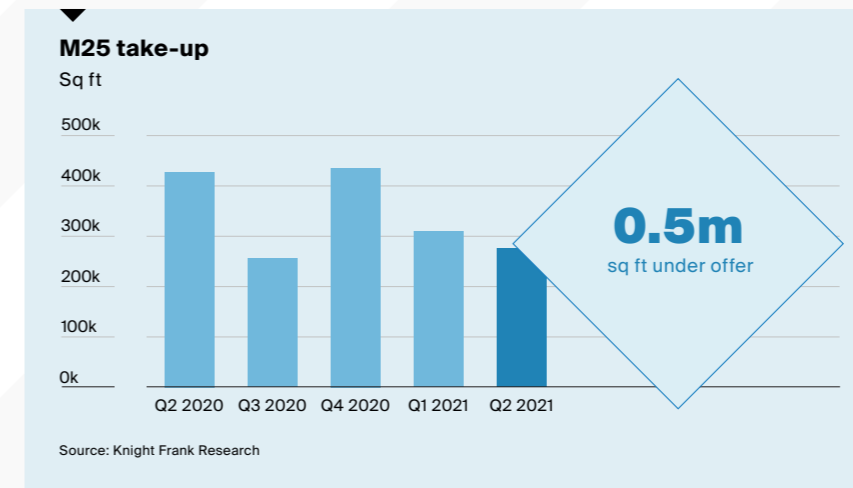
Windsor One, 57,400 sq ft let to Intercontinental Hotels.

Take-up and supply

Q2 2021

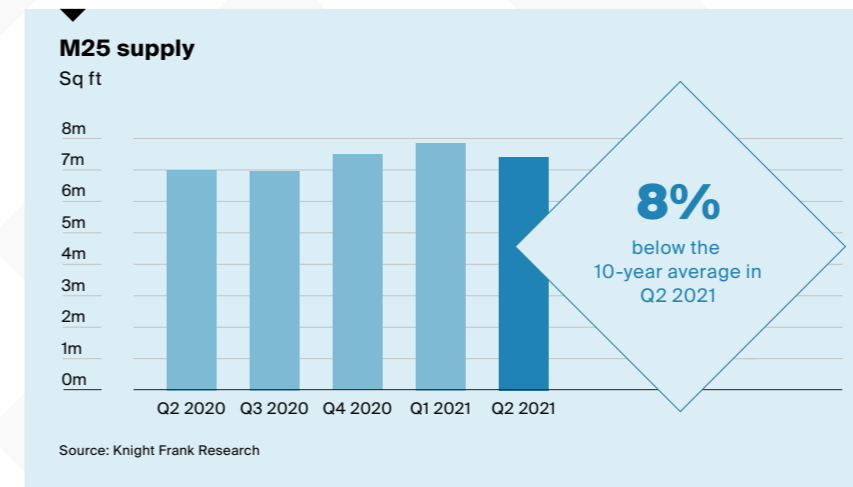
	TAKE-UP (SQ FT)	TAKE-UP (VS Q1 2021)	SUPPLY (SQ FT)	SUPPLY (VS Q1 2021)	VACANCY RATE
M25	275,286	▼ -11%	7.4m	▼ -6% New and Grade A space: 77%	6.1% New and Grade A space: 4.8%
M3	142,328	▼ -35%	2.3m	▼ -18% New and Grade A space: 78%	5.8% New and Grade A space: 4.5%
M4	367,296	▼ -20%	6.0m	▼ -4% New and Grade A space: 85%	9.0% New and Grade A space: 7.7%

Source: Knight Frank Research



Emma Goodford

Market results have been underpinned by larger strategic transactions in H1. With the focus on best quality/ new space, choice is limited, resulting in several large commitments being evidenced. TMT and Life Science sectors have dominated hence the focus on the M4, Oxford and Cambridge markets. This trend is set to continue in H2 as we emerge from the pandemic.



Roddy Abram

Continued activity in the M4 markets has seen record rents of £43.00 per sq ft achieved in Windsor. This firmly backs up the occupier trend for new best in class office accommodation achieving new headline market rents. We see this continuing in other markets across key centres in the South East.

Key leasing transactions

Q2 2021

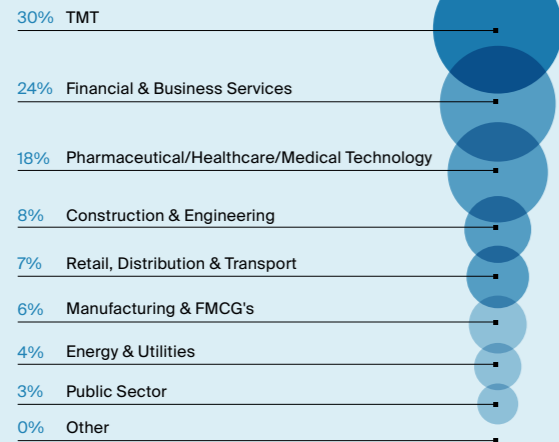
ADDRESS	SIZE SQ FT	OCCUPIER	RENT £ PER SQ FT
BBC Broadcast Centre, White city	120,000	ITV	Conf
Windsor One, Windsor	57,387	Intercontinental Hotels	£43.00
400 Longwater, Green Park, Reading	46,306	Amazon	£36.00
Pinehurst Two, Farnborough Business Park	29,831	Siemens	£28.50
Valliant House, Uxbridge	26,269	DWP	£26.50

Source: Knight Frank Research

ACTIVE DEMAND: 4.3M SQ FT

Named demand in the South East

Active named demand by sector
Q2 2021



Source: Knight Frank Research

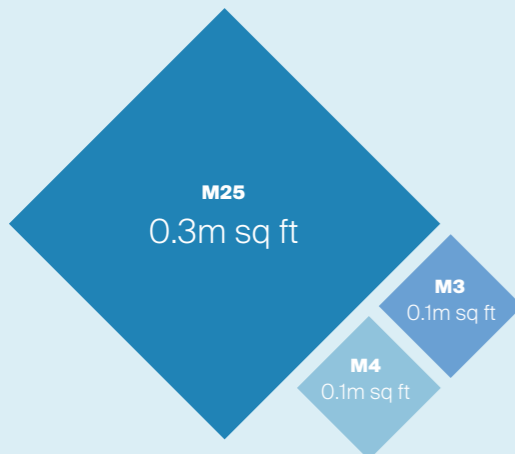
DEVELOPMENT: 0.7M SQ FT

Space under construction in the South East

*This includes pre-let (0.3m sq ft) and speculative space (0.4m sq ft)

Speculative development

Sq ft due to complete before Q2 2022



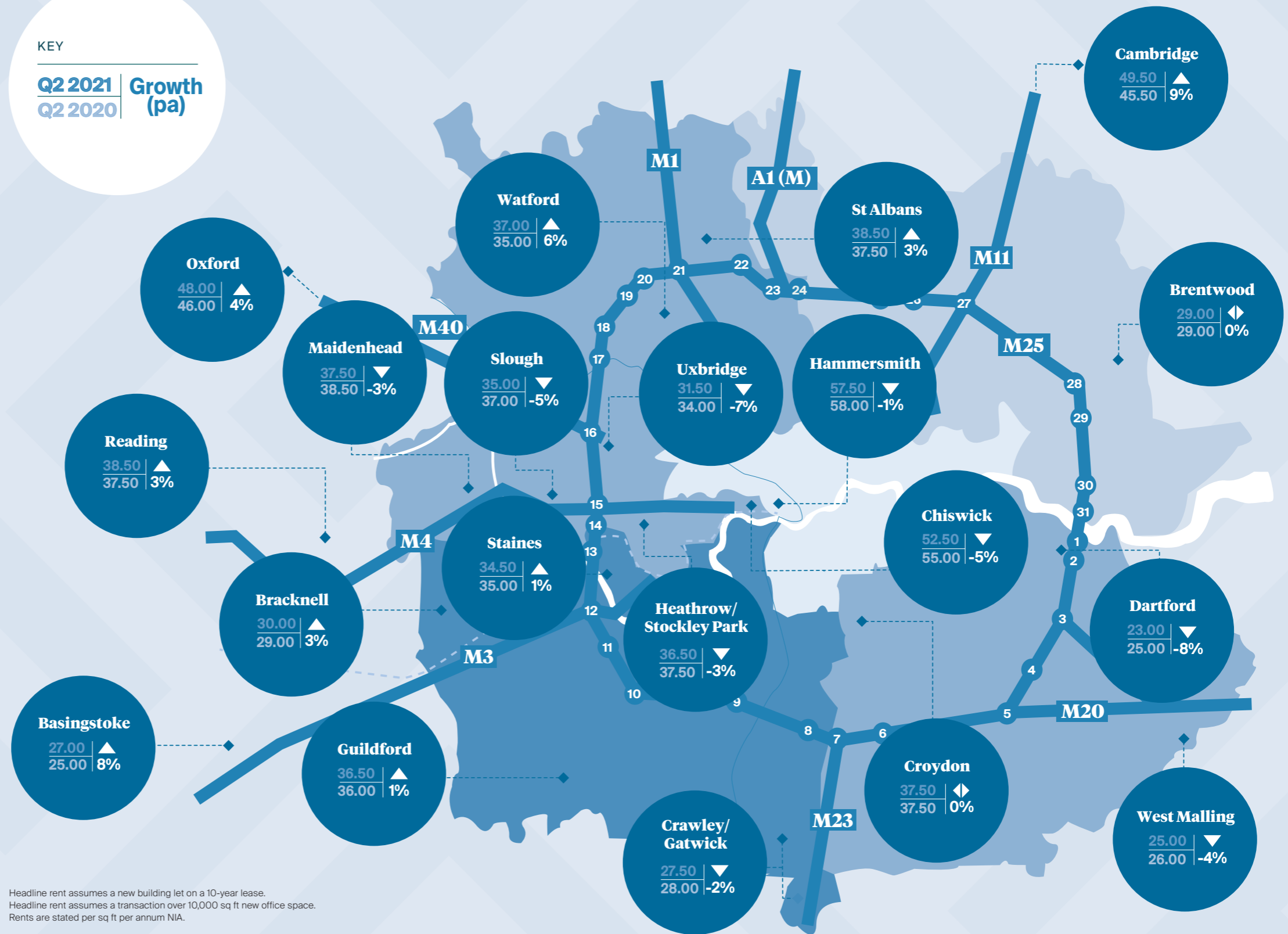
Source: Knight Frank Research

PRIME RENTS

£ PER SQ FT

KEY

Q2 2021 | **Growth (pa)**
Q2 2020



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.



Ealing Cross bought by Oval Real Estate

INVESTMENT MARKET

Trading activity again registered an increase in Q2, with investment volumes the highest for eight years. International buyers continue to dominate, accounting for 78% of investment during the quarter.

▲ 208%

£1.485bn

South East transaction volumes*



£51.3m

Average lot size



5.25%

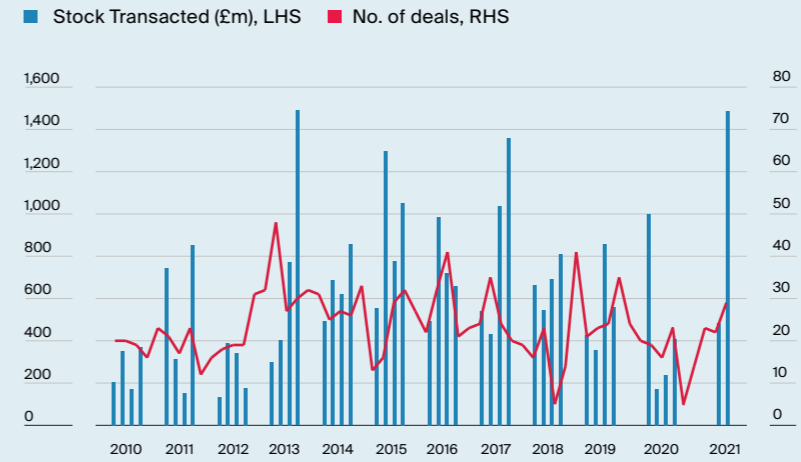
Prime net initial yield



22%

Buyers from the UK

Investment volumes



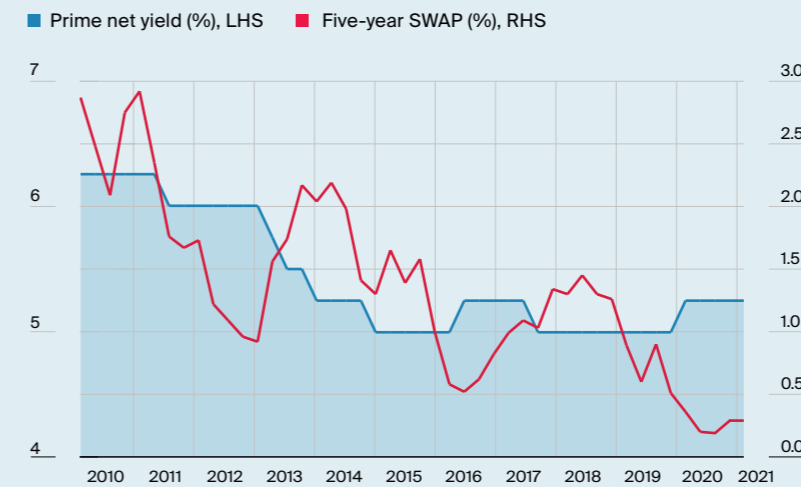
Source: Knight Frank Research



Simon Rickards

Investment activity has been particularly strong in the first half of 2021, with the exposure to growth industries such as life sciences and tech proving especially attractive to investors.

Prime net initial yield and finance



Source: Knight Frank Research



Tim Smither

We are already seeing keen yields for assets underpinned by high growth sectors, but as investors engage in greater number, competitive pressure could lead to a continued hardening of yields at the prime end of the market.

Key transactions Q2 2021

ADDRESS	PRICE (£M)	NET INITIAL YIELD	VENDOR	PURCHASER
McLaren Technology Centre, Woking	£170.00	6.6%	McLaren Group	Global Net Lease
Bedfont Lakes, Heathrow	£101.00	8.07%*	M&G Real Estate	Henley Investment/ Colmore Capital
Ealing Cross, Ealing	£70.23	6.0%	Aviva Global Investors	Oval Real Estate
101 Cambridge Science Park, Cambridge	£50.20	4.5%	LaSalle Investment Management	Morgan Stanley
310 Cambridge Science Park, Cambridge	£45.00	3.2%	CCLA Investment Management	Oxford Properties

Source: Knight Frank Research *On Let Space

* Percentage change reflects a comparison to Q1 2021

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

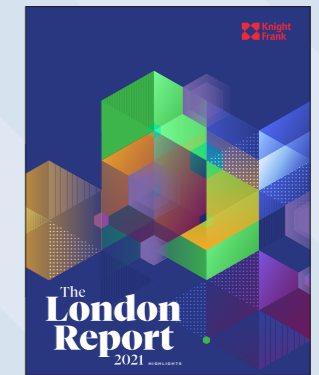
RECENT MARKET-LEADING RESEARCH PUBLICATIONS



M25 Key Markets



M25 - The Next Chapter



The London Report 2021



Active Capital



Power in Partnership



(YOUR) 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 30th June 2021.

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