

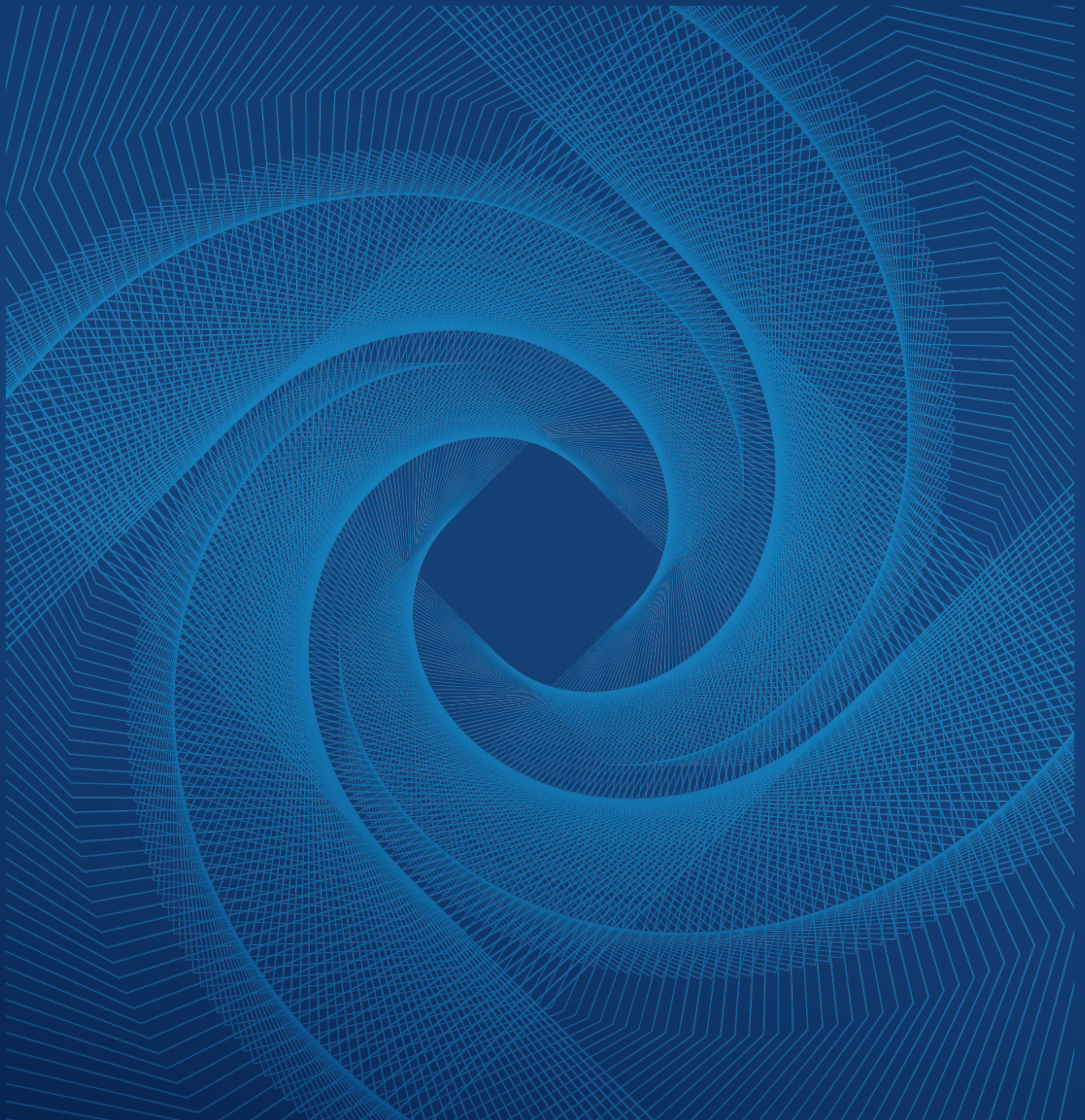
*Investment, Development
& Occupational Markets*



M25 Offices

Q2 2022

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KEY TAKEAWAYS

1

Leasing volumes in the South East reached 1m sq ft in Q2, 29% above the 10-year quarterly average

2

Total availability is just above the 10-year average, with Grade B space accounting for 30%

3

Take-up of either 'New' or 'space under construction' is at the highest it has been since 2016

4

Investment volumes topped £1bn in Q2 2022

5

Life Sciences account for 27% of investment over the past 2 years

EXECUTIVE SUMMARY

Positive deal rate despite continued headwinds.

Leasing volumes in the South East reached 1m sq ft in Q2, 29% above the 10-year quarterly average and the highest quarterly total since 2018. Underpinning the rise was an agreement between LCN Capital Partners and Cube Real Estate for funding for Unilever's new 282,000 sq ft HQ building in Kingston. Unilever will take occupation from early 2025. This is the third largest deal in the region of the past 22 years.

The higher level of activity in Q2 meant that take-up at the mid-point of the year increased to 1.33m sq ft. Although this total is 6% below the 10-year average for the period, it is in line with take-up at the same point in 2021. Notably, deal numbers have increased year-on-year. At mid-year 2022, 102 deals have completed in the South East. This is 20% higher when compared to H1 2021.

Vacancy stable.

At mid-year 2022, total availability in the South East was 11.9m sq ft, just above the 10-year average. Significantly, Grade B space accounted for 30% of vacant space at quarter end, having increased in recent quarters. This is the highest percentage since 2014. By contrast 'New space' represented just 6% of total availability at mid-year, the lowest percentage recorded since 2007. With the amount of speculative space under construction at just 1.8m sq ft, a shortage of best quality office space will be a factor of the market for at least the short term.

Quality driving headline rent.

The prospect of disruption to business operations through an inability to source new office space has meant that some businesses are engaging with the market earlier. Analysis of take-up across the South East reveals that the percentage of total take-up that involved either 'New' or 'space under construction' during the first half of 2022 was the highest it has been since 2016.

This trend is driving up headline rents across the region. Over the past 12 months, 38 of 51 markets studied have registered rental increase. In just the first six months of 2022, 33 of 51 markets have seen an uplift. With the space under construction and due for delivery within the next three years, already 25% let, this market imbalance will continue to apply upward pressure on rents and could result in a tightening of incentives.

Investor push in Q2.

Total investment into South East offices in Q2 2022 reached £1.06bn. This total represents a 216% increase quarter-on-quarter and is the third quarter of the last six where volumes have exceeded £1bn. As a result, investment volumes for H1 2022 increased to £1.4bn. Although this total is 29% below when compared to H1 2021, a record year, the H1 2022 total is 9% above the 10-year average for an H1 period.

Life Science underpinning market activity.

A principal target for investors continues to be the main South East centres of Life sciences. Principally collaboration and consolidation are driving the expansion

of life sciences clusters, with the South East benefitting from its leading position in the sector. The UK Government has also committed to quadrupling R&D spending by 2025, meaning the sector has strong future growth characteristics making it attractive from a long-term investment perspective.

Cambridge and Oxford are proving particularly attractive to real estate investors, with deals across these cities accounting for 27% of investment volumes since the first Covid lockdown in 2020. The second quarter further demonstrated the scale of investor demand for the sector. During Q2, Longfellow Real Estate Partners and the Public Sector Pension Investment Board (PSP Investments) acquired Capital Park in Cambridge for £185m from Oval Real Estate. Ahead of this, Life Science REIT had acquired Oxford Technology Park from Oxtec Developments for £183m. Once fully developed, Oxford Technology Park will comprise up to 450,000sqft of mixed-use life science space and amenity assets.

Yield shift ahead?

Prime yields were unchanged at 5.25% in Q2, although perceived risk stemming from geopolitics and the worsening outlook for the UK economy is adding pressure on balancing buyer and seller expectations. While the investment case for South East prime remains solid, the escalating cost of debt though has seen core-plus buyers take an increasingly cautious approach as the quarter progressed. This will inevitably influence secondary pricing moving forward.

OCCUPIER MARKET

Leasing activity rose to the highest level for four years in Q2 2022.

SOUTH EAST Q2 TAKE-UP

316k sq ft

▲ 216%
% difference compared to Q4 2021.



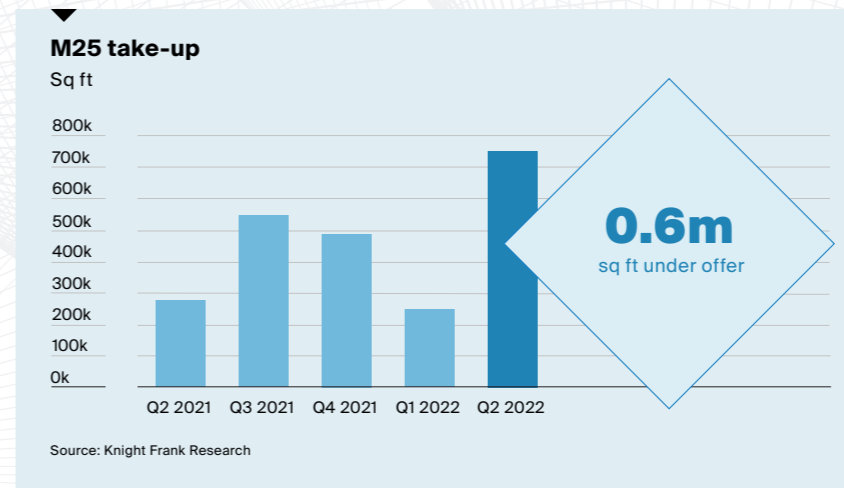
Eden Campus, Kingston

Take-up and supply

Q2 2022

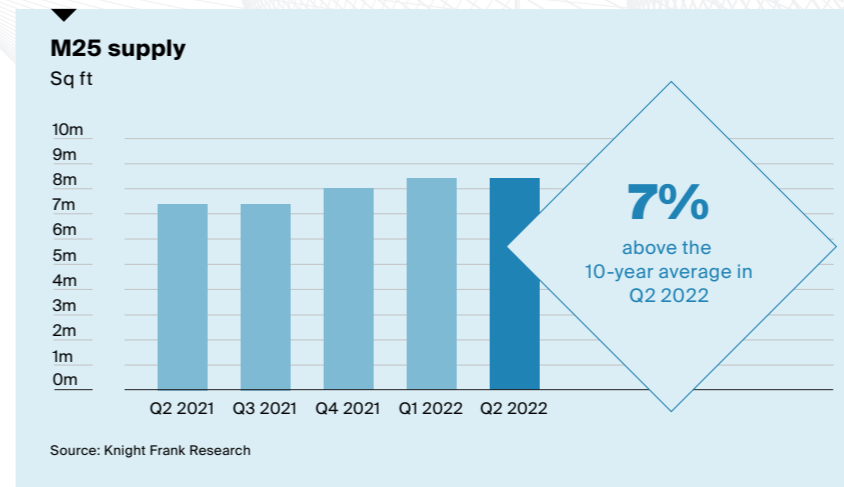
	TAKE-UP (SQ FT)	TAKE-UP (VS Q3 2021)	SUPPLY (SQ FT)	SUPPLY (VS Q4 2021)	VACANCY RATE
M25	247,449	▲ 204%	8.4m	◆ 0% New and Grade A space: 67%	6.9% New and Grade A space: 4.6%
M3	104,118	▲ 325%	2.0m	▼ -10% New and Grade A space: 69%	5.7% New and Grade A space: 4.0%
M4	157,806	▲ 170%	6.7m	▼ -4% New and Grade A space: 78%	10.5% New and Grade A space: 8.2%

Source: Knight Frank Research



Roddy Abram

The limited development pipeline suggests that headline rents will continue to rise in the prime South East markets and incentive packages will start to tighten to pre-pandemic levels.



Jack Riley

The robust Q2 results were due to a combination of pent-up demand and continued return of occupier confidence in the office market.

Key leasing transactions

Q2 2022

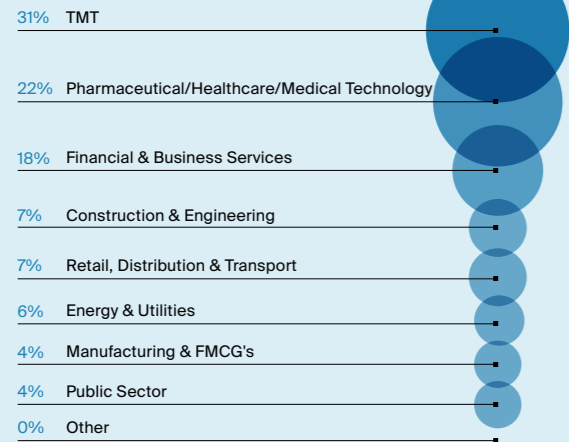
ADDRESS	SIZE SQ FT	OCCUPIER	RENT £ PER SQ FT
Eden Campus	282,000	Unilever	£40.50
Broadwater Park	97,223	Bosch	Confidential
Edward Street Quarter	83,124	Octopus Energy	£36.00
Maplewood, Chineham Park	51,764	Techdata	£24.50
Penguin Random House	49,247	University of West London	£19m (Freehold Sale)

Source: Knight Frank Research

ACTIVE DEMAND: 4.5M SQ FT

Named demand in the South East

Active named demand by sector
Q2 2022



Source: Knight Frank Research

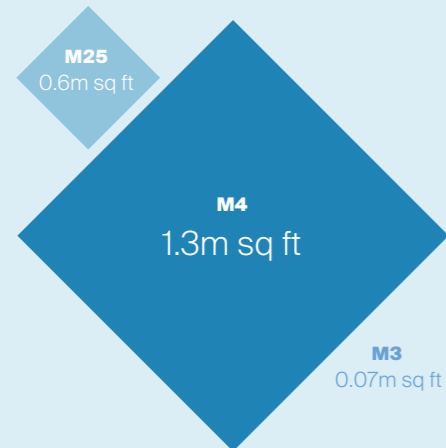
DEVELOPMENT: 2.3M SQ FT

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 2023



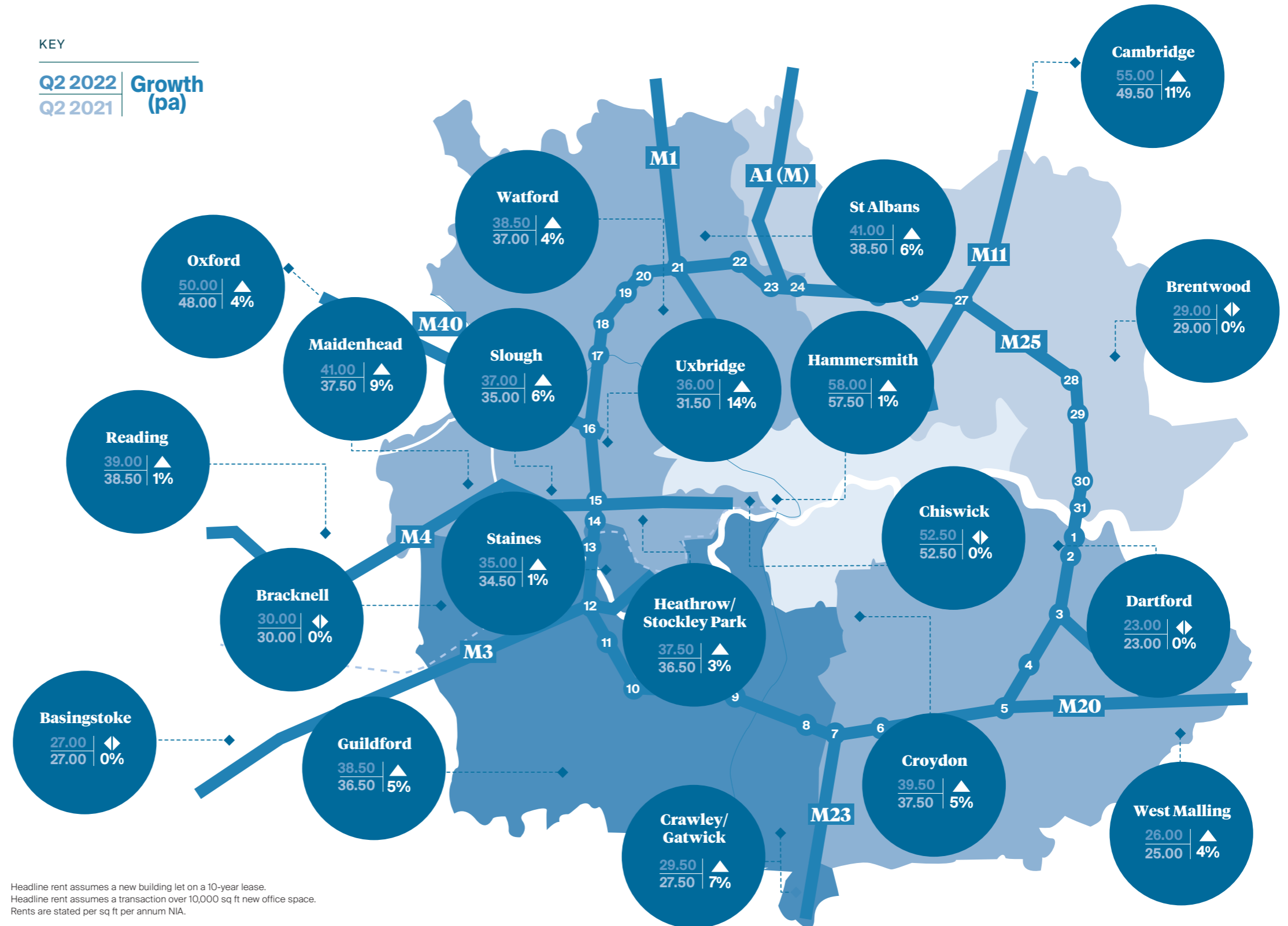
Source: Knight Frank Research

PRIME RENTS

£ PER SQ FT

KEY

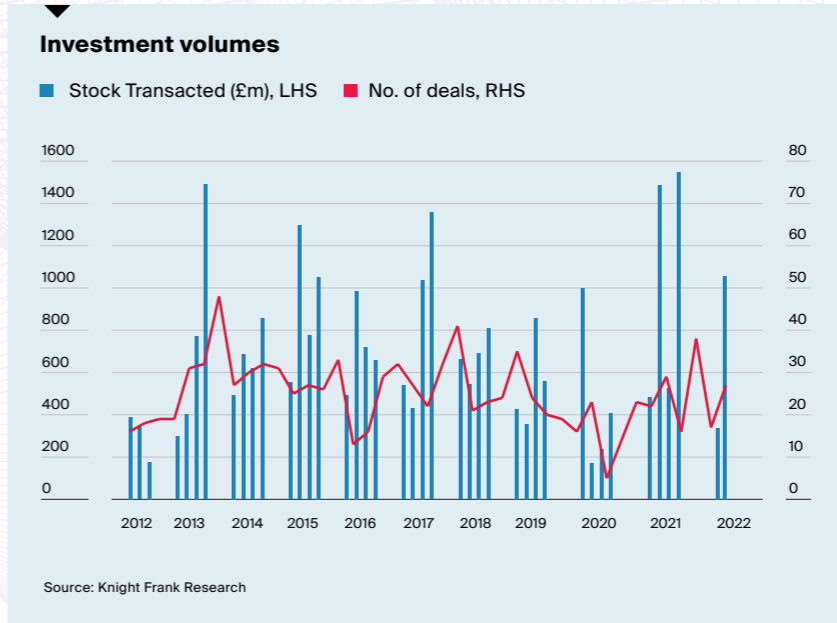
Q2 2022 | **Growth (pa)**
Q2 2021



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.



Capital Park, Cambridge

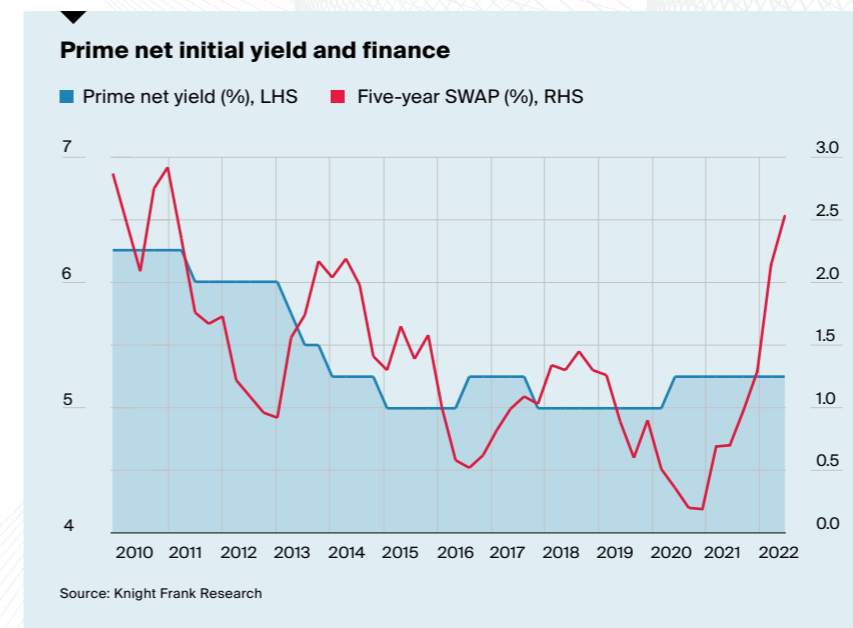


Simon Rickards

The investment case for South East prime remains solid, with the life-science sector continuing to attract global capital at record yields.

INVESTMENT MARKET

Investment volumes topped £1bn for the third time in 18 months in Q2. International buyers continue to dominate, accounting for 62% of investment during the quarter.



Tim Smither

The market for core-plus stock has proved extremely sensitive to the cost of debt and, as a result, we have seen pricing for short let stock soften over the last 2 months.



£1.06bn

South East transaction volumes



£39m

Average lot size



5.25%

Prime net initial yield



38%

Buyers from the UK

Footnote: Headline statistics are representative of Q2 2022.

Key transactions Q2 2022

ADDRESS	PRICE (£M)	NET INITIAL YIELD	VENDOR	PURCHASER
Unilever HQ, Kingston upon Thames	£250.00	4.60%	NFU	LCN
Capital Park, Cambridge	£185.00	3.10%	Oval Real Estate	Longfellow
Oxford Technology Park, Oxford	£183.00	4.75%	Private Investor	Life Science REIT
One Forbury Place, Reading	£100.00	5.64%	M&G	CitiBank
Bond House, Chiswick	£34.50	4.11%	Private Singaporean Investor	Primary Health Properties PLC

Source: Knight Frank Research

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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 30th June 2022.

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