

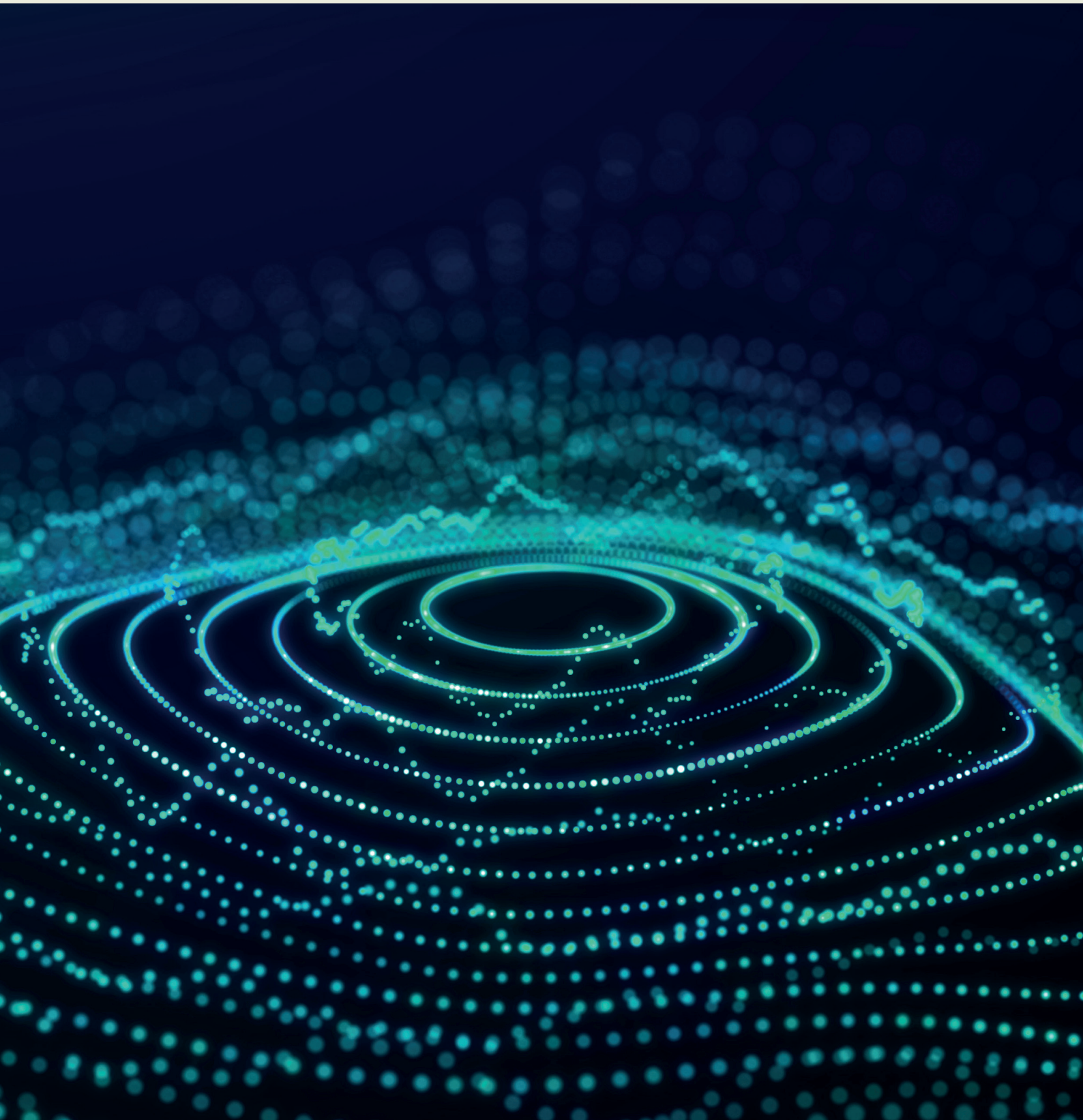
# M25 & South East Market Report



Q2 2024

Investment, Development & Occupational Markets

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# Key takeaways



1

Although leasing volumes in the South East dipped in Q2, take-up for H1 was up 57% year-on-year.



2

Larger requirements are increasing, with seven transactions above 50,000 sq ft already completed.



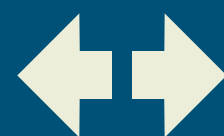
3

The nine 'Momentum Markets' accounted for 77% of mid-year take-up.



4

Investment volumes in H1 2024 were double the total for H2 2023.



5

Prime Yields remained unchanged at 7.00%.

# Executive Summary

## LEASING VOLUMES DIPPED IN Q2 BUT ARE UP YEAR-ON-YEAR.

Leasing volumes in the South East reached 826,330 sq ft in Q2, 16% below the total recorded in Q1 2024 and 6% below the 10-year quarterly average. Even so, the mid-year measure of take-up shows that 1.8m sq ft has been leased. This total is 57% higher than the equivalent period in 2023, with activity in H1 2024 being the strongest first six months of the year since 2019. Notably, the deal rate continues to show improvement. During Q2, 71 occupier transactions were completed, ahead of the 10-year quarterly average of 63. Considered at mid-year, deal numbers for the H1 period have risen yearly since 2020, with H1 2024 recording the highest number of transactions since 2018.

## OCCUPIER ASSURANCE UNDERPINNING LARGER REQUIREMENTS.

Activity in the first half of 2024 has demonstrated that occupiers are bringing requirements to market with a growing certainty of future space needs. In H1 2024, seven transactions above 50,000 sq ft have been completed. This compares to zero in 2023 and a long-term average of four.

Significantly, two additional deals above this threshold were under offer at the close of Q2, and 30 requirements were active. The upturn in larger requirements indicates an occupier's stance

moving from 'just enough' to one that includes expansionary space.

## DIFFERING FORTUNES AT THE MID-YEAR JUNCTURE

The relative performance of the South East markets is somewhat polarised. At mid-year, the nine 'Momentum Markets' that Knight Frank identified earlier this year accounted for 77% or 1.4m sq ft overall take-up in 2024. Standing out, Oxford continues to record heightened activity. The city accounted for 21% of spaced leased in H1 2024 and was in receipt of two of the seven deals over 50,000 sq ft. Similarly, activity in Reading has increased. Take-up in Reading has grown fourfold compared to the equivalent period in 2023. In fact, if considered over a 12-month rolling period, Reading has been the best-performing market in the South East region.

## INVESTMENT ACTIVITY IMPROVING?

South East office investment volumes reached £360 million in Q2 2024, 48% below the 10-year quarterly average. This takes the H1 2024 total to £758M, 19% below H1 2023 and 41% below the 10-year average for a H1 period.

However, whilst investment volumes remain below the long-term trend, the numbers are not indicative of the improving sentiment and uptick in activity. H1 2024 investment volumes marked

a significant increase of 108% from H2 2023. Further, in terms of deal numbers, 50 transactions were completed in the first half of 2024, well above the 10-year average of 44.

## LIQUIDITY REMAINS LIMITED.

Private investors and Property Companies accounted for two-thirds of investment volumes in H1 2024, with Institutional buyers still largely absent. With a higher cost of capital continuing to dominate the market, liquidity remains concentrated in smaller lot sizes, with over 85% of deals completed in H1 of a value below £25m. The second quarter, however, did register three transactions of over £50m. Interestingly, this is the same number of deals traded at this size range throughout the whole of 2023.

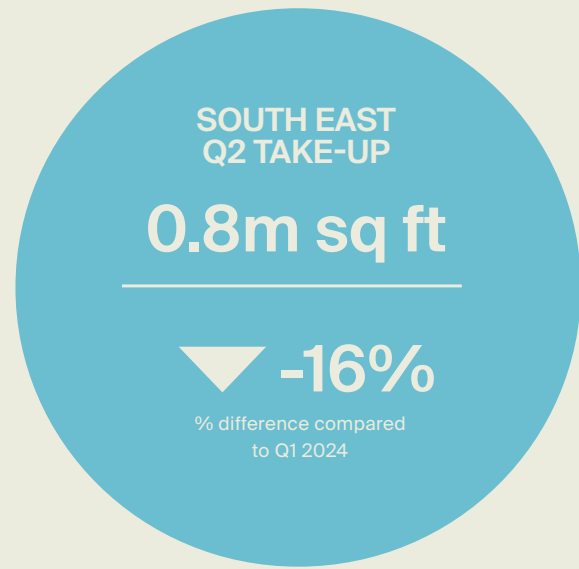
## OUTWARD YIELD SHIFT OVER?

Prime yields were unchanged at 7.00% in Q2, as pricing for best-in-class assets stabilises. With the cost of borrowing still stubbornly high, any inward yield movement remains subject to a BoE interest rate cut. However, with inflation holding at 2.00%, a cut is expected before year-end. As debt rates become favourable, more investors will return to the market. This greater depth of market competition will, sharpen pricing for the best assets.



# Occupier market

Leasing volumes dipped during the quarter, but overall demand remains healthy. Supply levels are static, with the development pipeline challenged by rising costs.



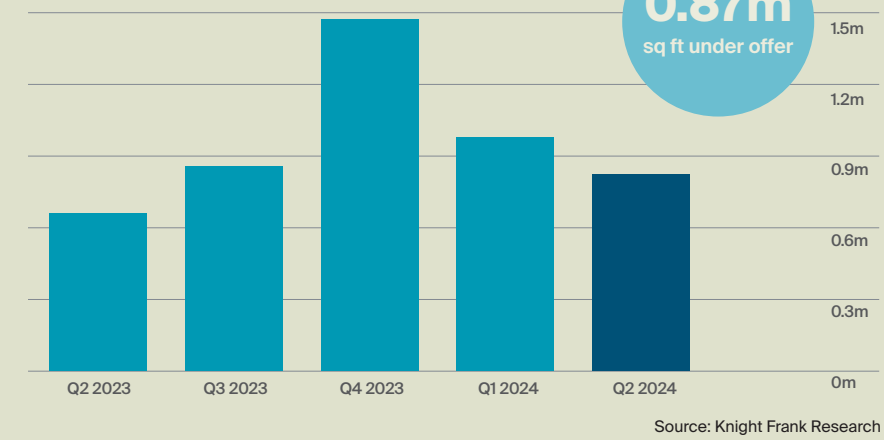
One Station Hill, Reading

## Take-up and supply Q2 2024

	TAKE-UP (SQ FT)	TAKE-UP (VS Q1 2024)	SUPPLY (SQ FT)	SUPPLY (VS Q1 2024)	VACANCY RATE
<b>SE</b>	826,331	▼ -16%	15.2m	▼ -3% New and Grade A space: 81%	8.2% New and Grade A space: 6.6%
<b>M25</b>	338,259	▼ -22%	8.7m	▼ -7% New and Grade A space: 77%	7.3% New and Grade A space: 5.6%
<b>M3</b>	99,065	▼ -44%	2.5m	▲ 12% New and Grade A space: 76%	6.3% New and Grade A space: 4.8%
<b>M4</b>	423,436	▲ 32%	7.4m	▼ -10% New and Grade A space: 88%	11.2% New and Grade A space: 9.9%

Source: Knight Frank Research

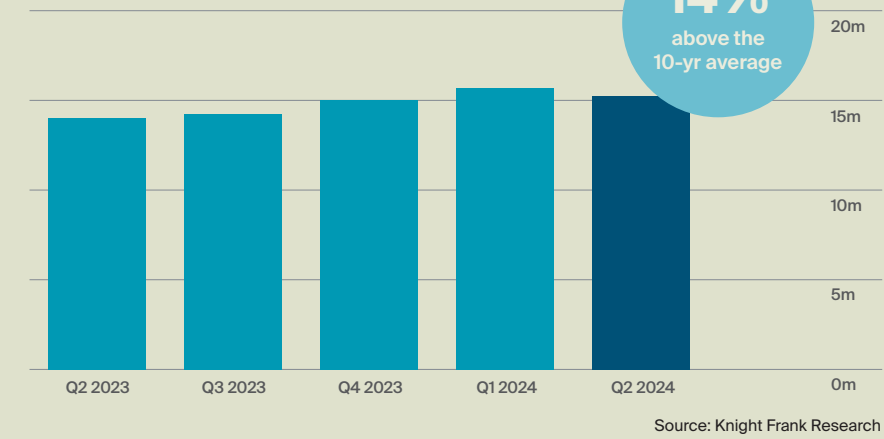
## South East Offices take-up



**RODDY ABRAM**

Companies of all sizes are upgrading their office footprints to newly constructed buildings in locations offering premium amenities, often favouring those with good connectivity to London via public transport.

## South East Offices supply



**JACK RILEY**

Grade A office availability in key locations across the region continues to be constrained, with upcoming lease events intensifying competition for space

## Key Leasing transactions Q2 2024

ADDRESS	SIZE SQ FT	OCCUPIER	RENT £ PER SQ FT
Clarendon Works, Watford	65,327	Allwyn	£44.00
250 Brook Drive, Green Park, Reading	64,207	AWE	£37.68
196 Cambridge Science Park, Cambridge	44,569	AMD	£31.00
One London Road, Staines	43,571	Wood Group	£32.00
Station Hill, Reading	41,936	PWC	£46.00

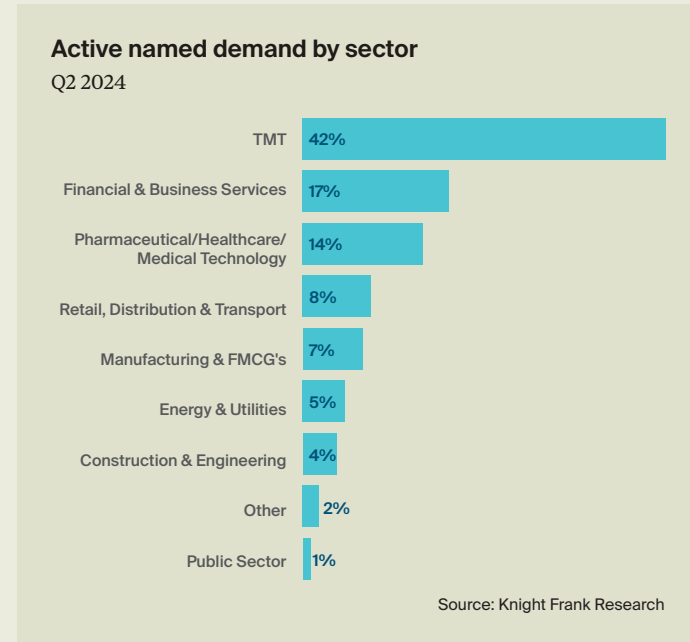
Source: Knight Frank Research.

# Prime Rents

£ per sq ft

**ACTIVE DEMAND: 5.17M SQ FT**

**Named demand in the South East**



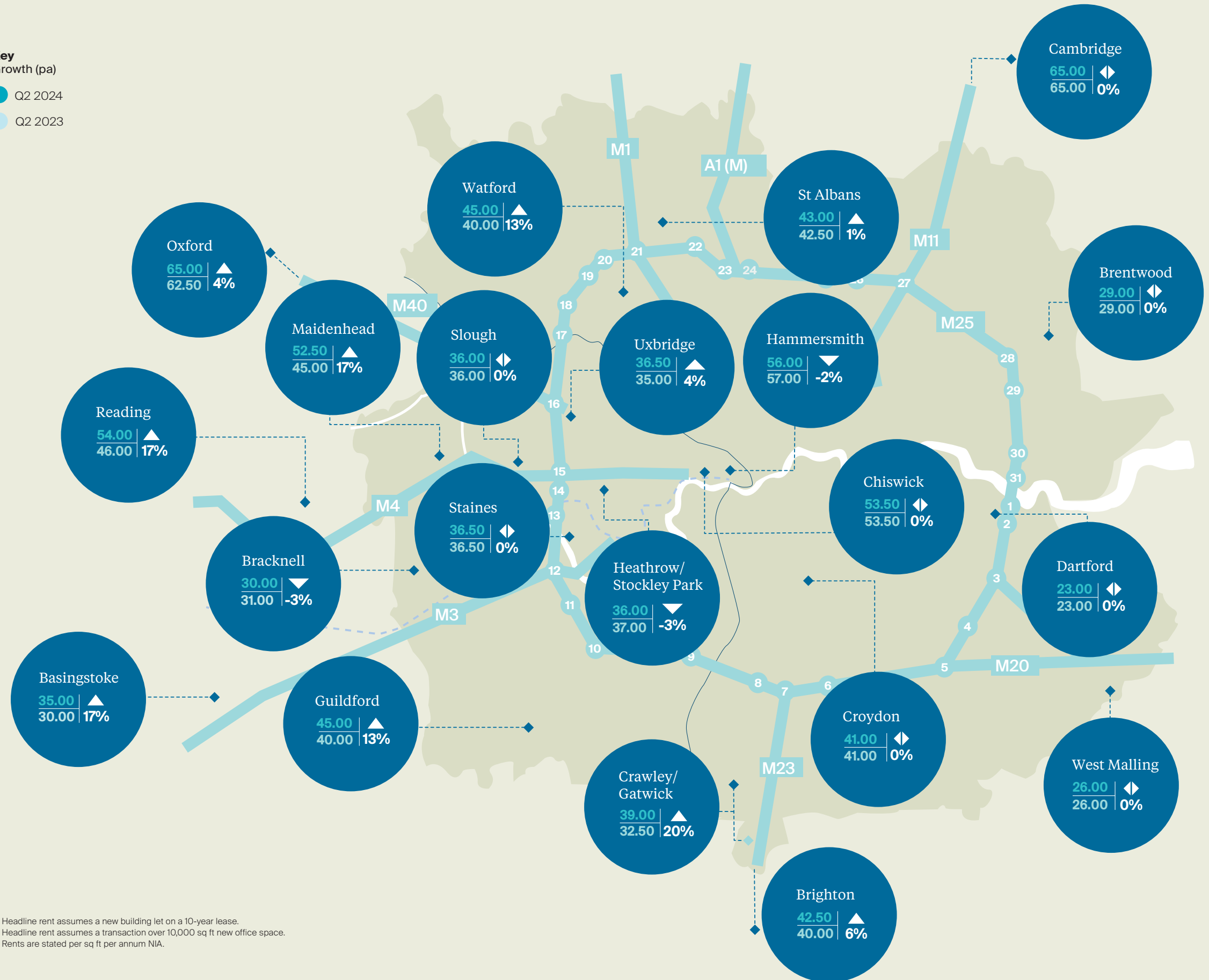
**DEVELOPMENT: 4.9M SQ FT**

**Space under construction in the South East**  
1.0m sq ft Pre-let



**Key**  
Growth (pa)

● Q2 2024  
● Q2 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

Investment volumes remained low in Q2, although the amount of stock under offer is rising. Pricing is stabilising as the gap between buyer and seller expectations narrow.



North Bailey House



**£360m\***

South East transaction volumes



**£15.00m**

Average lot size



**7.00%**

Prime net initial yield

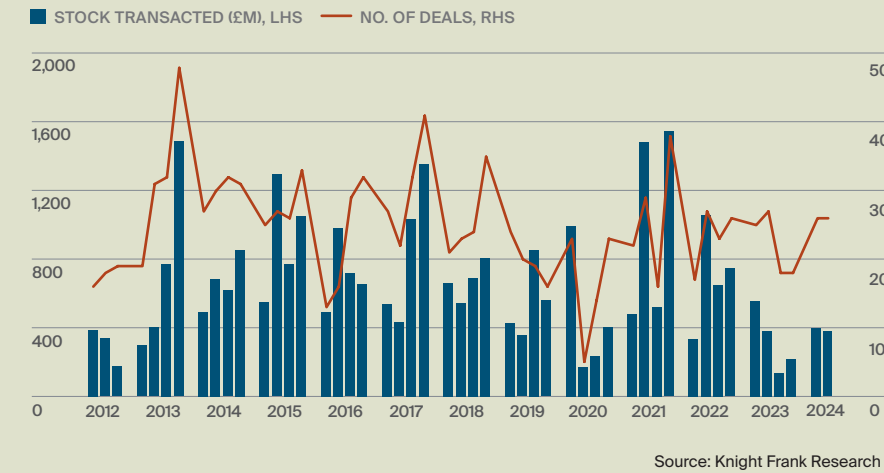


**52%**

Buyers from the UK

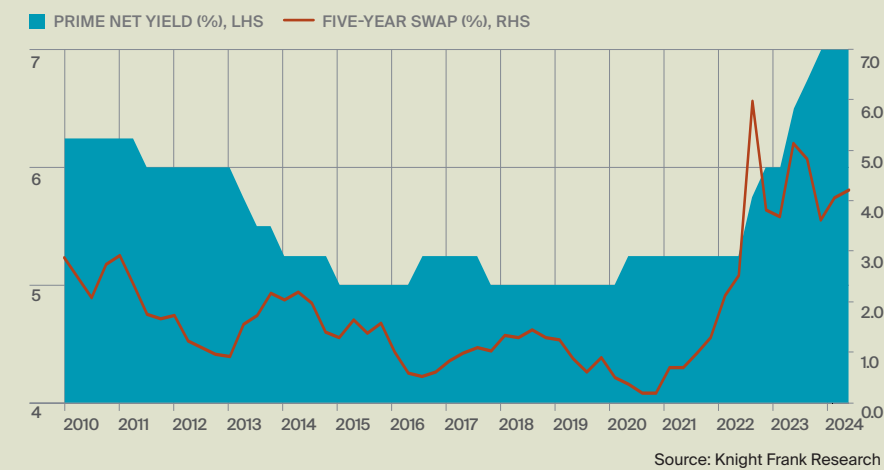
\* Includes occupier acquisition  
Footnote: Headline statistics are representative of Q2 2024

## Investment volumes



**SIMON RICKARDS**  
Although pots of active capital are looking to deploy into attractively priced office assets, the absence of any rate cut has held back bigger ticket transactions. However, with stability improving, there is growing conviction amongst buyers that the prime end of the market has already bottomed out.

## Prime net initial yield and finance



**HENRY WYLD**  
Liquidity is growing for well-located prime assets with a strong income return profile. Secondary and tertiary assets, however, continue to experience value erosion, with interest largely centred on alternative use.

## Key transactions Q2 2024

ADDRESS	PRICE (£M)	NET INITIAL YIELD	VENDOR	PURCHASER
Assembly, The Foundry, 77 Fulham Palace Road, Hammersmith	£52	17.00%	AXA Group	KFIM   Private Investor
Windsor One & Two, Windsor Dials, Arthur Road, Windsor	Conf.	7.00%	Canmoor	Letter One
The Hive, 26 Wembley Park Boulevard, Wembley	£38	11.00%	Quintain   Lone Star Funds	Jester Property Investments Limited
North Bailey House, New Inn Hall Street, Oxford	£21	7.00%	Lothbury Investment Management Limited	Brydell

Source: Knight Frank Research. GIA

**South East & Greater London Offices**



Roddy Abram  
Partner  
Head of South East & Greater London Offices  
+44 20 7861 1280  
+44 7899 001 028  
roddy.abram@knightfrank.com



Jack Riley  
Partner  
South East & Greater London Offices  
+44 20 7861 5375  
+44 7867 002 484  
jack.riley@knightfrank.com



Andy Nixon  
Partner  
South East & Greater London Offices  
+44 20 3909 6830  
+44 7973 924 947  
andy.nixon@knightfrank.com



Ashley Drewett  
Partner  
South East & Greater London Offices, Lease Advisory  
+44 20 7861 1156  
+44 7799 478 834  
ashley.drewett@knightfrank.com



Andrew Wood  
Partner  
South East & Greater London Offices, Tenant Representation  
+44 20 7861 0662  
+44 7800 500 752  
andrew.wood@knightfrank.com

**Capital Markets**



Simon Rickards  
Partner  
Head of South East & Greater London Office Investment  
+44 20 7861 1158  
+44 7787 844 384  
simon.rickards@knightfrank.com



Mark Routledge  
Partner  
UK Life Sciences and Innovation Capital Markets  
+44 7788 454 118  
mark.routledge@knightfrank.com



Henry Wyld  
Partner  
Capital Markets  
+44 20 7861 1520  
+44 7774 833 478  
henry.wyld@knightfrank.com



Charles Hobart  
Partner  
Capital Markets  
+44 20 7861 1212  
+44 7825 608 962  
charles.hobart@knightfrank.com

**Life Sciences**



Emma Goodford  
Partner  
Head of Life Sciences & Innovation  
+44 20 7861 1144  
+44 7831 581 258  
emma.goodford@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

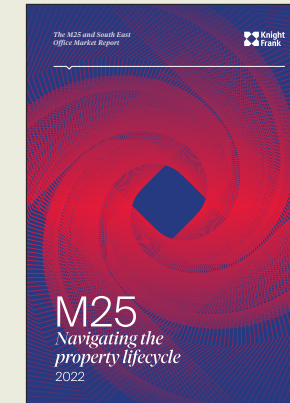


Jodie Gibson  
Analyst  
+44 20 7861 1024  
jodie.gibson@knightfrank.com

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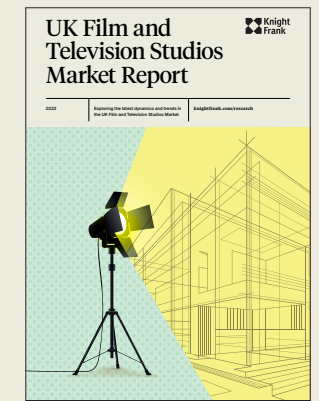
(Y)OUR SPACE



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 30th June 2024.

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