

M25 Offices

Q3 2021



EXECUTIVE SUMMARY

KEY TAKEAWAYS

1

Take-up in 2021 is 27% ahead of the equivalent period in 2020.

2

Year-to-date, take-up in the M4 market is double that of 2020.

3

The TMT sector accounts for 33% of take-up in 2021.

4

At £2.49bn, investment volumes for 2021 are the highest recorded during a Q1-Q3 period for six years.

5

Overseas capital accounts for 69% of investment volumes in 2021.

Market engagement rising

The South East office market continued to show gradual signs of market recovery in the third quarter, with leasing volumes reaching 580,451 sq ft by quarter end. Although this total is 27% below the 10-year quarterly average, the rolling annual deal rate increased further and is now at the highest level since Covid restrictions were imposed in 2020.

Take-up for 2021 year-to-date is 1.95m sq ft, a total that is 27% ahead of the equivalent period in 2020. Most notably, the number of leasing transactions completed in 2021 up to October, already exceeds the full year total of 2020. Significantly, seven deals of over 50,000 sq ft have concluded in 2021. This is the highest number of deals of this scale during a Q1-Q3 period since 2016. While the appetite of businesses to enact space moves is still below pre-pandemic levels, confidence is solidifying and engagement with the market is increasing as a result, against a backdrop of falling availability and reducing vacancy rates.

Technology sector expansion in 2021

The UK technology sector has navigated the economic damage from Covid relatively unscathed, with the pandemic even accelerating business growth of some industry segments. Demonstrating this, technology derived employment in the region has registered little movement over the past 18 months, in contrast to other sectors. Significantly, forecasts predict that the sector will be one of few that record employment growth over the next 18 months, indicating a 3% uplift. This headcount growth is being borne out in the South East office market.

To date, occupiers from the Telecoms, Media, and Technology sector account for 33% of take-up across the South East in 2021.

Interestingly, the average size of TMT deals in 2021 has been 21,735 sq ft, the highest level since 2005. This demonstrates that occupiers from this sector are not only active in the market but have growing business models and expanding market presence.

M4 in focus

With the Technology sector particularly active, it is unsurprising that the M4 has been the best performing market. Take-up in 2021 has reached 1.2m sq ft. This total is more than double the take-up registered in the full year of 2020 and is 3% higher than the 10-year average for a Q1-Q3 period. Technology occupiers have dominated activity. Market representation from the sector in 2021 is 45%, significantly higher than the 10-year trend of 27%. Most notably, of the three transactions of over 100,000 sq ft completed in the South East in 2021, all were to occupiers of a technology discipline, and all were in the M4 market.

Vacancy low, and development pipeline offers no relief

With the attention of occupiers focused on acquiring best quality, the availability of new office space and development pipeline will be important. Analysis of take-up across the South East in 2021, reveals that the percentage of total take-up that either 'New' or 'space under construction' represents, is at a five-year high.

At the end of Q3 however, total availability in the South East was 10.6m sq ft, 7% below the 10-year average. Significantly, 'New space' represented just 7.8% of total availability, the lowest percentage recorded since 2007. With the amount of speculative space under construction at just 600,000 sq ft, the shortage of best quality office space will mean that vacancy rates remain below the long-term trend at least for the short term, even if demand remains at a lower level.

Strong results in 2021 underpinned by weight of capital

Investment volumes for the South East in Q3 2020 totalled £524m, the second highest quarterly total since March 2020. This meant that the total for 2021 to date has now reached £2.49bn. This is not only the highest total for a Q1-Q3 period for six years but is already higher than the full year totals for 2020 and 2019 respectively.

International buyer spree continues

International money continues to dominate South East office investment activity. Overseas buyers account for 69% of investment volumes in 2021, the highest representation for six years. In the first 9 months of 2021, £1.7bn of international capital has been committed, twice the amount invested by overseas buyers in pre-Covid 2019.

Cambridge, centre of attention

Cambridge has been the location of choice in 2021. As at Q3, £548m has been committed to buying office assets in Cambridge. This represents 22% of total office investment volumes in the South East in 2021. Competition for opportunities in Cambridge remains strong. Of the 10 deals completed in Cambridge in 2021, five have gone to domestic investors and five to overseas buyers. Notably, of the nine transactions exceeding £50m in the South East this year, five have been in Cambridge.

Pricing pressure increasing

Prime yields remained at 5.25% in Q3, although prime reversionary assets are trading below this level. With market supply tightening, expectations of future rental growth for best quality continues to underpin interest. At Q3 2021, 28 of 51 South East markets have registered an uplift in prime rents since the start of the pandemic.

OCCUPIER MARKET

The technology sector accounts for a third of transactions in 2021 and continues to dominate new enquiries. Vacancy is low, with a rise unlikely in the short term.



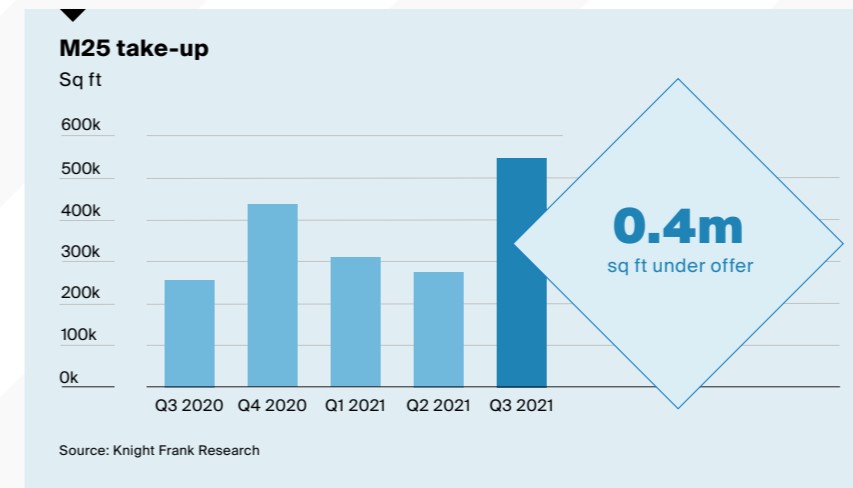
The Bower, Stockley Park

Take-up and supply

Q3 2021

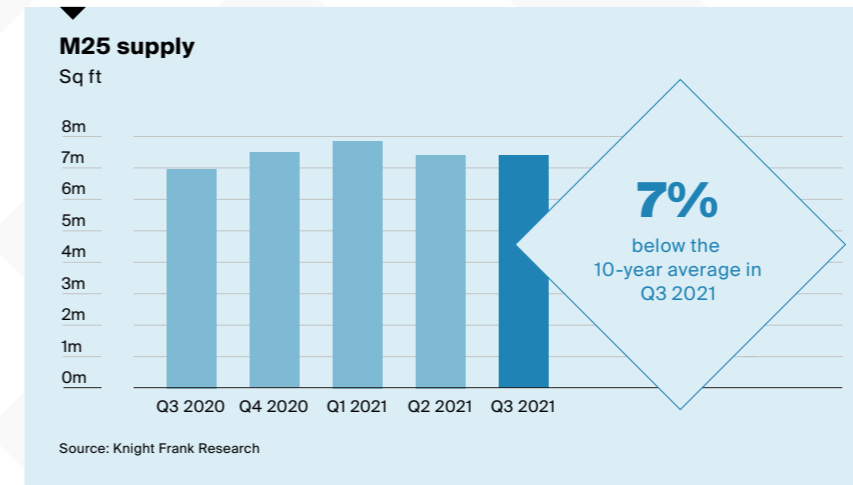
	TAKE-UP (SQ FT)	TAKE-UP (VS Q2 2021)	SUPPLY (SQ FT)	SUPPLY (VS Q2 2021)	VACANCY RATE
M25	545,991	▲ 98%	7.4m	◀ 0% New and Grade A space: 75%	6.1% New and Grade A space: 4.6%
M3	97,663	▼ -31%	2.3m	▲ 1% New and Grade A space: 75%	5.8% New and Grade A space: 4.4%
M4	347,437	▼ -5%	5.8m	▲ 5% New and Grade A space: 87%	8.6% New and Grade A space: 7.5%

Source: Knight Frank Research



Emma Goodford

Occupiers are increasingly selective of amenities and the overall build quality of their offices and are accelerating acquisition strategies to not miss out on the buildings that meet these criteria. As supply reduces, those assets that have a progressive specification and service offer will attract premium rents.



Roddy Abram

Although take-up remains volatile, low supply and a constrained development pipeline indicates that the vacancy rate will remain below the long term trend as we approach the end of 2021.

Key leasing transactions

Q3 2021

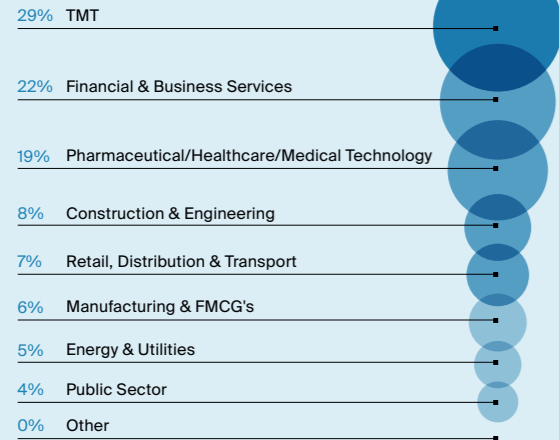
ADDRESS	SIZE SQ FT	OCCUPIER	RENT £ PER SQ FT
The Bower, Stockley Park	144,711	Canon	£36.50
2 Cambridge Science Park, Cambridge	118,000	Roku	£37.25
1 Victoria Street, Windsor	45,876	Intersystems	£43.50
234 Bath Road, Slough	45,346	Lonza	£31.00
198, Cambridge Science Park, Cambridge	36,446	Microsoft	conf

Source: Knight Frank Research

ACTIVE DEMAND: 4.0M SQ FT

Named demand in the South East

Active named demand by sector
Q3 2021



Source: Knight Frank Research

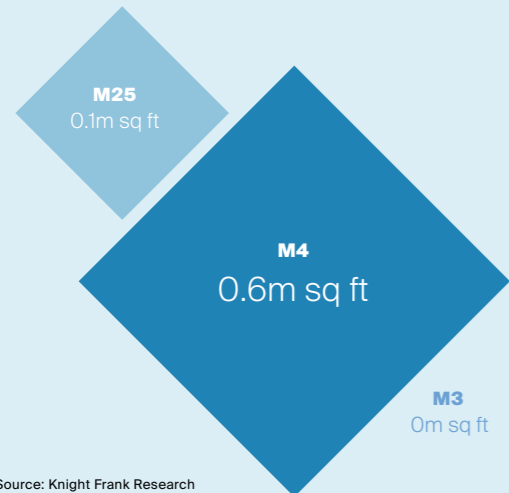
DEVELOPMENT: 1.1M SQ FT

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



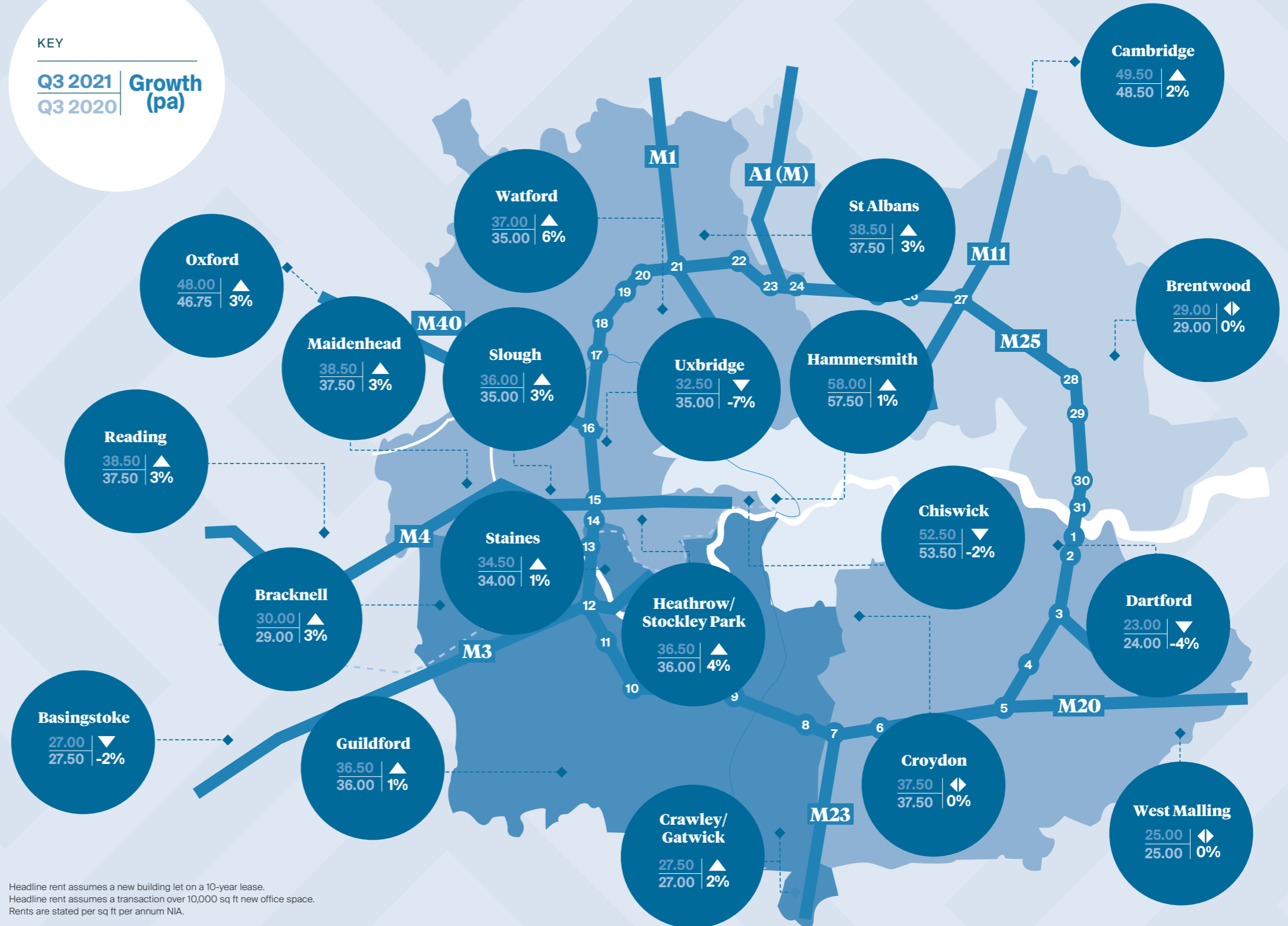
Source: Knight Frank Research

PRIME RENTS

£ PER SQ FT

KEY

Q3 2021 | Growth (pa)
Q3 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.



Cathedral Square, Guildford.

INVESTMENT MARKET

Investment activity continues to rise, with the buyer pool becoming increasingly diverse. International buyers continue to dominate, accounting for 69% of investment during 2021.



£524m

South East transaction volumes



£32.7m

Average lot size



5.25%

Prime net initial yield

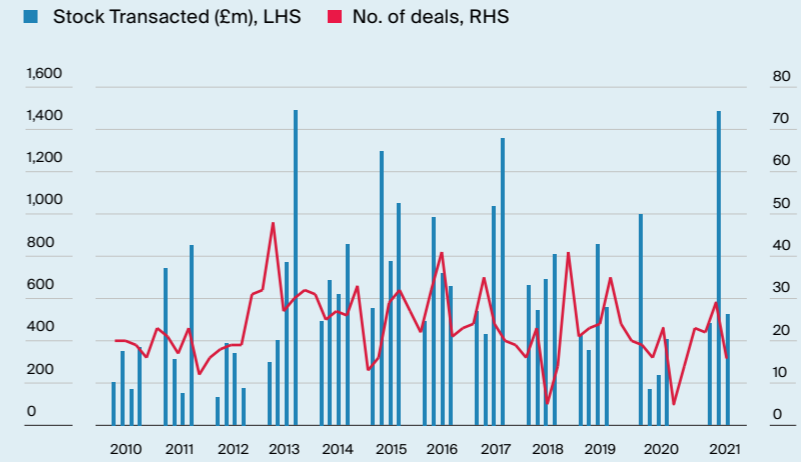


53%

Buyers from the UK

Footnote: Headline statistics are representative of Q3 2021.

Investment volumes



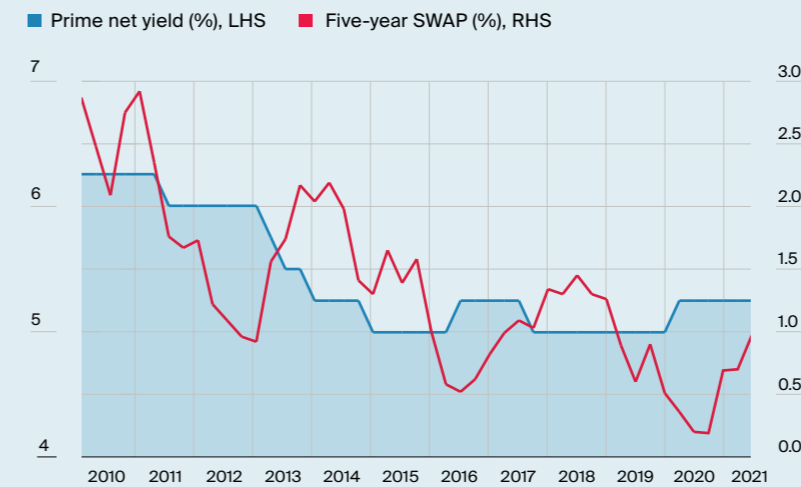
Source: Knight Frank Research



Simon Rickards

Investors have been drawn to the strong underlying fundamentals of the South East. Supply is limited due to the development pipeline being squeezed over the past 18 months and as such, investors are competing to acquire good quality assets in an undersupplied market.

Prime net initial yield and finance



Source: Knight Frank Research



Tim Smither

As we edge toward year-end, interest is rising for prime opportunities, particularly those backed by high growth industries such as the TMT and life sciences. A greater focus on prime and on assets with strong ESG credentials means that polarisation with regard to pricing is beginning to emerge.

Key transactions

Q3 2021

ADDRESS	PRICE (£M)	VENDOR	PURCHASER
Cambridge Technology Park, Cambridge	£135.00	Abstract Securities	Blackstone/BioMed Realty
Peterhouse Technology Park, Cambridge	£75.00	La Salle IM	British Land
Castle Hill Park, Cambridge	£63.00	Abrdn	Brydell Partners
Quantum Business Park, Maidenhead	£31.50	M&G Real Estate	Revcap
Merlin Place, Cambridge	£20.55	Praxis	Kadans Science Partner/AXA

Source: Knight Frank Research

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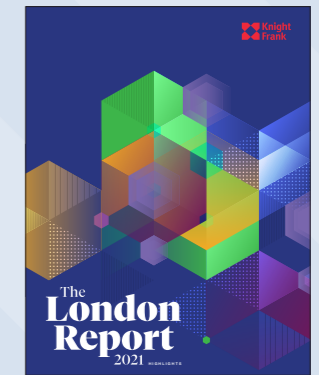
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M25 Key Markets



M25 - The Next Chapter



The London Report 2021



Active Capital



Power in Partnership



(Y)OUR 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. 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 September 2021.

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