

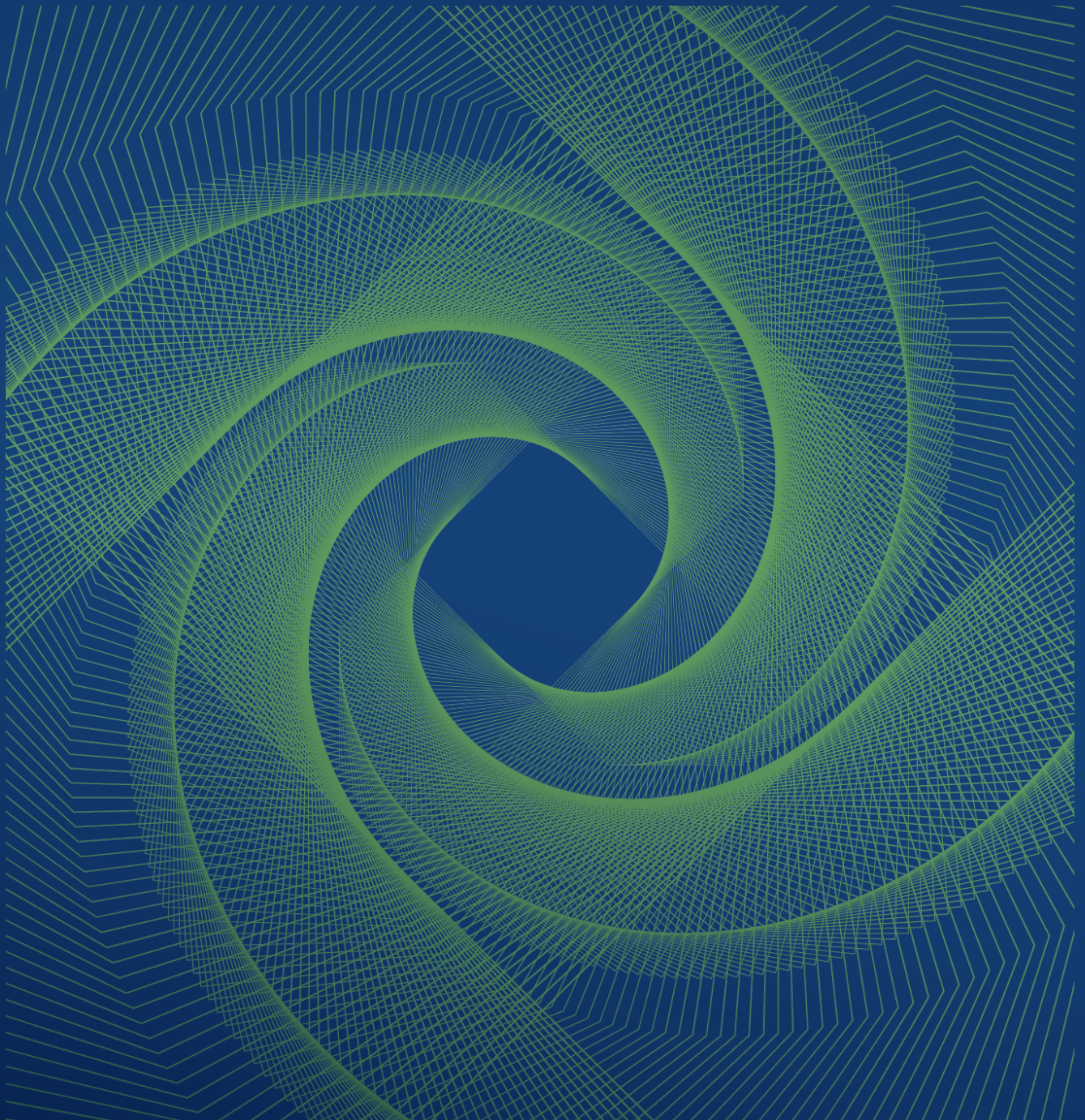
*Investment, Development
& Occupational Markets*



M25 Offices

Q3 2022

knightfrank.co.uk/research



EXECUTIVE SUMMARY

KEY TAKEAWAYS

1

Take-up in the South East reached 591,000 sq ft, the highest Q3 total since 2019

2

Vacancy again remained relatively unchanged over the quarter at 7.4%, just above the long-term trend

3

Investment volumes in the third quarter were 15% above than the long-term average by volume

4

International capital accounted for 60% of investment volumes during the third quarter

5

Prime office yields in the South East moved out to 5.75% during Q3.

Deal numbers up, take-up volumes down.

In the occupational market, leasing levels proved respectable but not exceptional. Overall take-up in the defined South East market reached 591,000 sq ft, below the long-term quarterly average but the highest Q3 total since 2019. Although larger scale transactions were few during the third quarter, take-up was supported by a high deal count. In Q3, 71 occupier transactions completed, well ahead of the long-term quarterly average of 52.

As year-end approaches, leasing volumes for 2022 have reached 1.95m sq ft, almost identical to the total recorded at the equivalent juncture in 2021. For reference, leasing volumes in 2021 reached 2.59m sq ft by year-end. Notably in 2022 however, active demand levels as at September 30th were ahead when compared to September in 2021, raising the potential for a strong final quarter. Predictions of a UK recession though may temper occupier appetite, with lease events expected to be the main driver of any activity.

Occupiers target Cambridge.

Outside the South East perimeter, Cambridge was the most active market in Q3 in terms of take-up. During the quarter, nine occupier transactions completed totalling 118,000 sq ft, which was the highest total of any centre studied in the report, fuelled by a combination of office and life science (lab use) demand.

Prime rent in Cambridge has reflected the high level of occupier demand and varies depending on location and specification of accommodation (office / lab enabled office / fitted lab). The prime office rent remains approximately £55.00 per sq ft in the city centre and £37.50 per sq ft in

out of town locations, but there is space under offer in excess of £40.00 per sq ft, as at the end of Q3 2022.

Demand from Life Science occupiers remains robust with lab enabled offices and fitted lab accommodation achieving premium rents in relation to the prime city centre and out of town prime office rents. The level of premium achievable depends on the specification of the accommodation delivered.

Best quality supply falling.

Vacancy again remained relatively unchanged over the quarter at 7.4%, just above the long-term trend. Notably, the availability of New & Grade A space continued to fall. At quarter end, the vacancy rate related to New and Grade A space had dipped to 4.6%, the lowest level since 2019.

Moving forward, the development pipeline offers little respite for those targeting new space. At quarter end, 1.8m sq ft of speculative space was under construction and due for delivery before the end of 2024. Beyond the next 24 months though, construction starts are likely to be scarce, with rising debt and construction costs now impacting developer appetite. Even so, the tightening supply environment is creating isolated opportunity. Locations of particularly low supply and strong transport links and amenity are expected to record rents over £40 per sq ft in the coming months, meaning developers could capitalise on market imbalance.

Investors press ahead despite wider turmoil.

Investment volumes in the third quarter totalled £652m across 23 deals, 15% above than the long-term average by

volume. Supporting performance in Q3 was continued interest in Oxford and Cambridge, with the two cities accounting for 56% of investment turnover. The largest transaction of the quarter was the £210m acquisition of three assets at Cambridge Science Park by Brockton Everlast inc from TusPark. The office buildings are held on a long-leasehold of around 200 years from Trinity College, are long-let, office-orientated properties. The purchase takes Brockton Everlast's Cambridge investments to over £400m.

International buyers retain an appetite for South East assets

Overseas buyers continue to target opportunities in the South East partly supported by the weakening pound. International capital accounted for 60% of investment volumes during the third quarter and accounts for 55% of capital committed during 2022. Significantly, larger lot sizes have been the principal target. Considered over the past 24 months, overseas buyers have been responsible for 17 of 28 transactions over £50m.

Disruption leads to yield shift.

In Q3, turbulence within domestic and global capital markets filtered through to market pricing. Prime office yields in the South East moved out to 5.75% during the quarter, responding to the sharp rise in swap rates and the erosion of the gap between UK Gilts and office yields. The escalating cost of debt in particular has meant that core-plus buyers took an increasingly cautious approach. Although capital markets have since stabilised in part, the geopolitical landscape remains challenging meaning investment volumes could be held back moving into the final quarter of the year.

OCCUPIER MARKET

Although leasing volumes dipped in Q3, actual deal numbers were up reflecting an increasing occupational need to engage with the market. Supply levels remain static, with the development pipeline challenged by rising costs.

SOUTH EAST Q3 TAKE-UP

591k sq ft

▼ -42%
% difference compared to Q2 2022



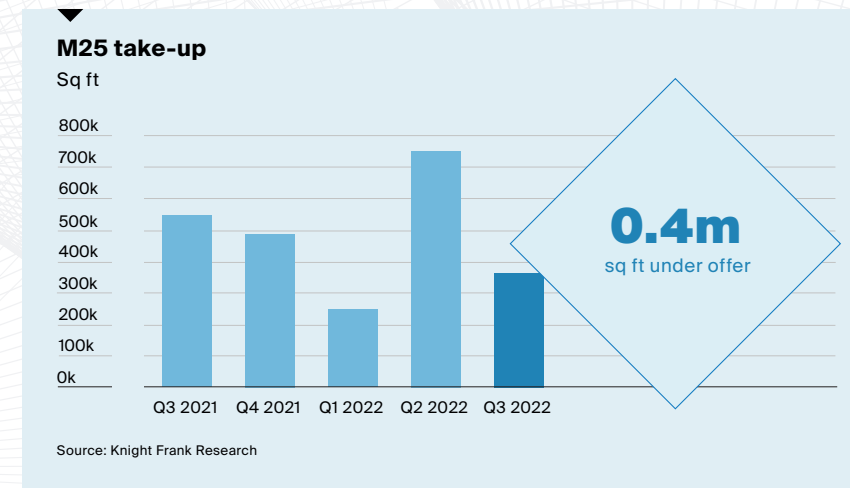
22 Cambridge Science Park

Take-up and supply

Q3 2022

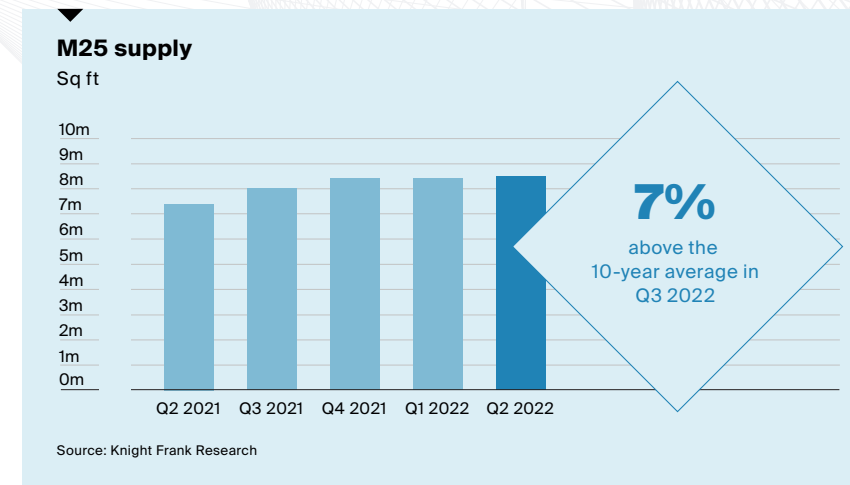
	TAKE-UP (SQ FT)	TAKE-UP (VS Q2 2022)	SUPPLY (SQ FT)	SUPPLY (VS Q2 2022)	VACANCY RATE
M25	363,091	▼ -42%	8.5m	▲ 1% New and Grade A space: 66%	7.0% New and Grade A space: 4.6%
M3	143,550	▼ -62%	2.2m	▲ 9% New and Grade A space: 72%	5.6% New and Grade A space: 4.0%
M4	295,165	▼ -4%	7.0m	▲ 4% New and Grade A space: 75%	10.5% New and Grade A space: 7.9%

Source: Knight Frank Research



Roddy Abram

Occupiers are continuing to deliberate on the most appropriate strategy for their occupation over the next 5-10 years. Lease events are currently the primary driver for most new enquiries.



Jack Riley

A number of medium to larger requirements remain active in the market as we head toward year-end. Tellingly, this interest is almost solely focused on the best-in-class supply that can support post Covid workplace strategies and ESG requirements.

Key leasing transactions

Q3 2022

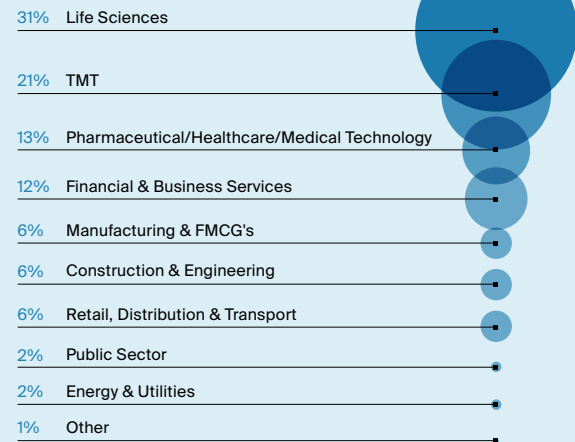
ADDRESS	SIZE SQ FT	OCCUPIER	RENT £ PER SQ FT
Minerva, London Road, Crawley	54,000	Schlumberger	Confidential terms
5 Foundation Park, Maidenhead	39,087	Biogen	£36.50
Earley East, 300 Thames Valley Park Drive, Reading	33,965	Huawei	£36.00
22 Cambridge Science Park	30,294	Dassault Systèmes	£37.50
Mortlock House, Cambridge	31,248*	Nuclera	£43.25

Source: Knight Frank Research. * GIA

ACTIVE DEMAND: 5.9M SQ FT

Named demand in the South East

Active named demand by sector
Q2 2022



Source: Knight Frank Research

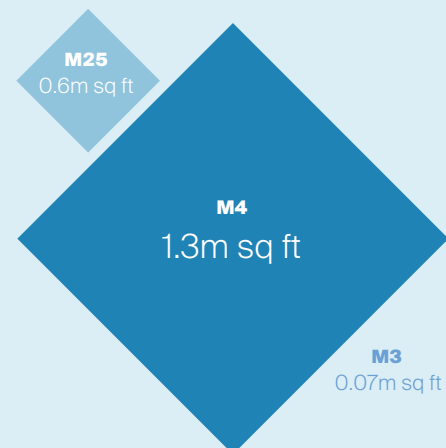
DEVELOPMENT: 2.3M SQ FT

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



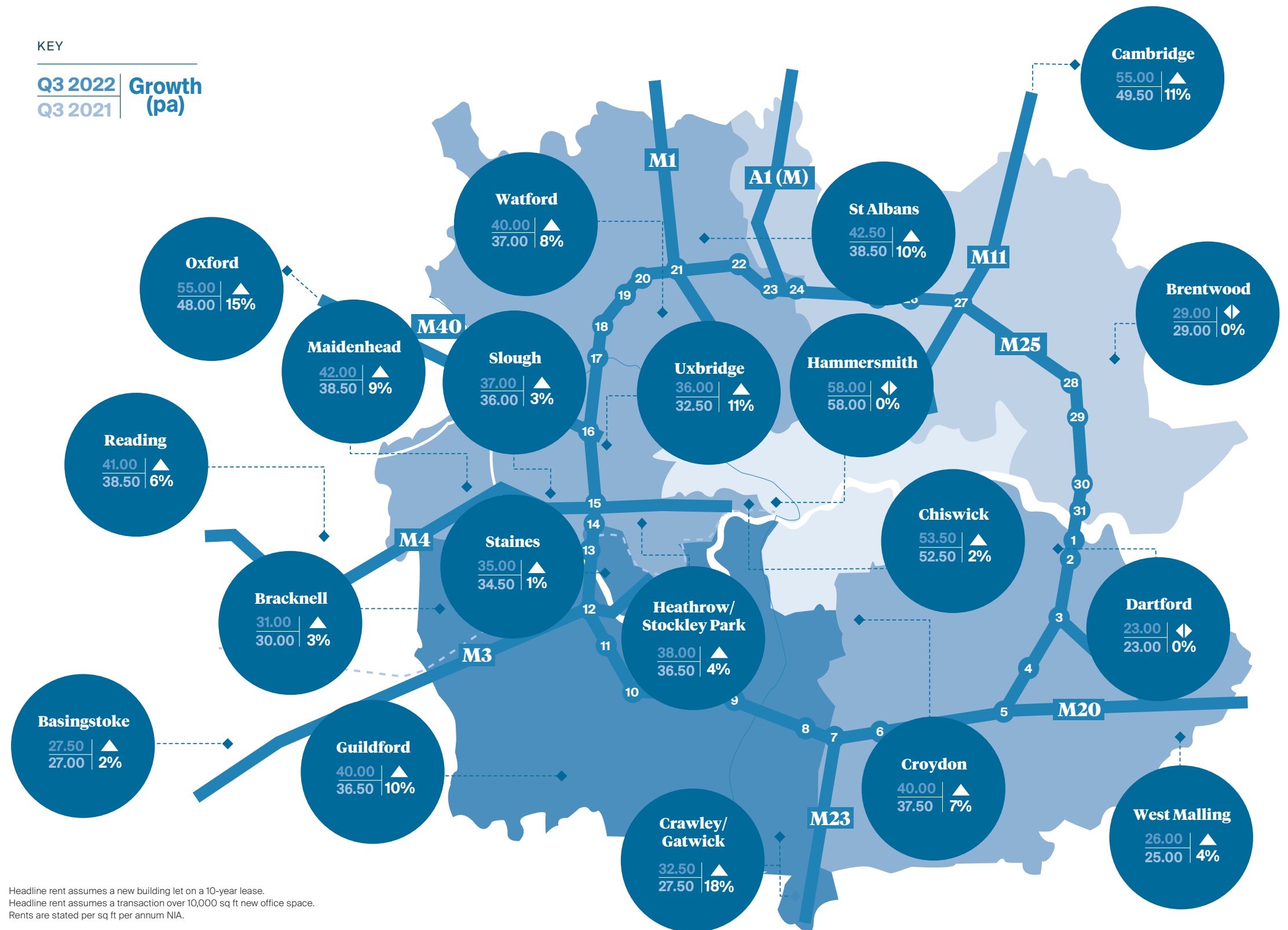
Source: Knight Frank Research

PRIME RENTS

£ PER SQ FT

KEY

Q3 2022 | **Growth (pa)**
Q3 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 N/A.



2 Cambridge Science Park

INVESTMENT MARKET

Investment volumes in the third quarter were above trend, with Oxford and Cambridge heading the locations targeted. The rising cost of debt and economic turmoil has provoked a 50 bps outward shift in prime office yields.



£646m

South East transaction volumes



£28m

Average lot size



5.75%

Prime net initial yield

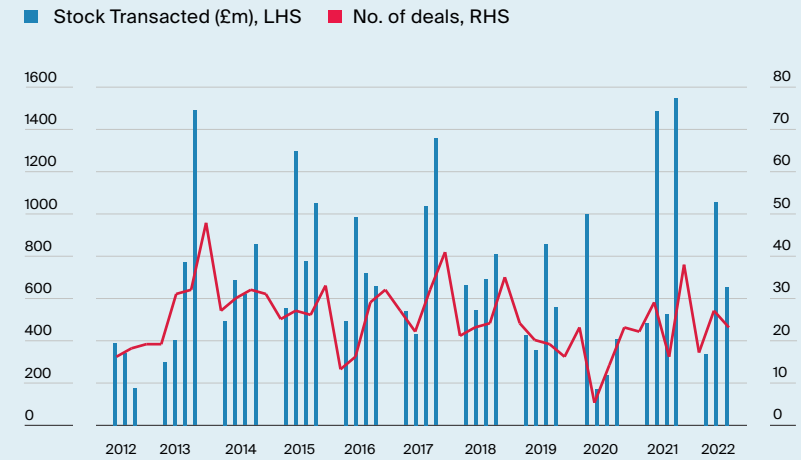


40%

Buyers from the UK

Footnote: Headline statistics are representative of Q3 2022.

Investment volumes



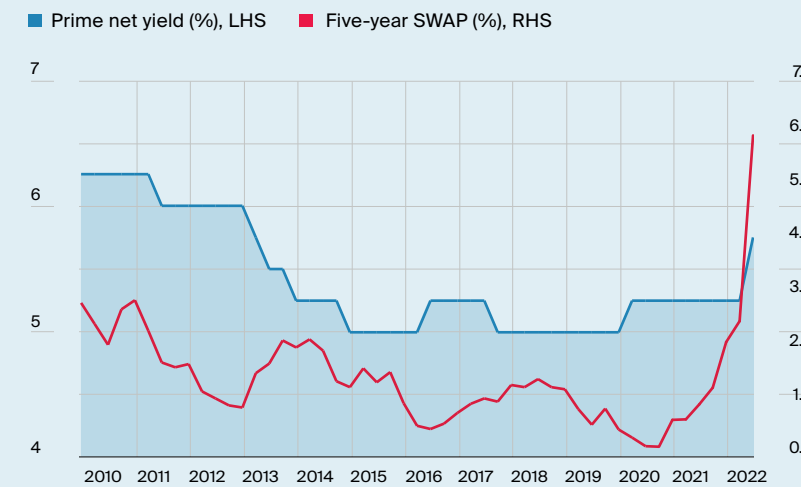
Source: Knight Frank Research



Simon Rickards

Despite the wider economic turmoil, it is encouraging that Q3 volumes were healthy by historical measure. As with previous quarters, growth of Life Science has proved particularly attractive to investors meaning Cambridge and Oxford continue to dominate the stats.

Prime net initial yield and finance



Source: Knight Frank Research



Tim Smither

The most significant challenge to activity will be the cost of debt. Five-year swap rates have nudged above 5% over the last three months, which has led to a rapid re-pricing across the market. This in turn will create significant opportunities for some, but as ever stock selection is key.

Key transactions Q3 2022

ADDRESS	PRICE (£M)	VENDOR	PURCHASER
Buildings 1, 2 and 26, Cambridge Science Park, Cambridge	£200.00	TusPark Holdings	Brockton Everlast
The Bower, Stockley Park, Uxbridge	£73.75	Patrizia / Clearbell JV	Sidra Capital
Beaver House, Oxford	£65.00	Christ Church, Oxford University	UBS
Regal House, Twickenham	£52.00	Aviva Investors	Brunswick Property Partners
Gosling Building, Oxford	£42.50	Oxford Nanopore Technologies	The Oxford Science Park(Properties) Ltd

Source: Knight Frank Research

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



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



Tim Smither
Partner
Capital Markets
+44 20 7861 1277
+44 7876 145 909
tim.smither@knightfrank.com



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



Richard Claxton
Partner
Head of UK Capital Markets
+44 20 7861 1221
+44 7774 826 558
richard.claxton@knightfrank.com

LIFE SCIENCES



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

OFFICE & INNOVATION



Freddie Owen
Partner
Capital Markets
+44 20 7861 1225
+44 7774 109 666
freddie.owen@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 2022



Active Capital



UK Cities Themes for 2022



(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 Sept 2022.

Knight Frank Commercial Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs. Important Notice: This general document is provided strictly on the basis that you cannot rely on its contents and Knight Frank LLP (and our affiliates, members and employees) will have no responsibility or liability whatsoever in relation to the accuracy, reliability, currency, completeness or otherwise of its contents or as to any assumption made or as to any errors or for any loss or damage resulting from any use of or reference to the contents. You must take specific independent advice in each case. It is for general outline interest only and will contain selective information. It does not purport to be definitive or complete. Its contents will not necessarily be within the knowledge or represent the opinion of Knight Frank LLP. Knight Frank LLP is a property consultant regulated by the Royal Institution of Chartered Surveyors and only provides services relating to real estate, not financial services. It was prepared during the period of June 2020. It uses certain data available then, and reflects views of market sentiment at that time. Details or anticipated details may be provisional or have been estimated or otherwise provided by others without verification and may not be up to date when you read them. Computer-generated and other sample images or plans may only be broadly indicative and their subject matter may change. Images and photographs may show only certain parts of any property as they appeared at the time they were taken or as they were projected. Any forecasts or projections of future performance are inherently uncertain and liable to different outcomes or changes caused by circumstances whether of a political, economic, social or property market nature. Prices indicated in any currencies are usually based on a local figure provided to us and/or on a rate of exchange quoted on a selected date and may be rounded up or down. Any price indicated cannot be relied upon because the source or any relevant rate of exchange may not be accurate or up to date. VAT and other taxes may be payable in addition to any price in respect of any property according to the law applicable. © Knight Frank LLP 2022. All rights reserved. No part of this presentation may be copied, disclosed or transmitted in any form or by any means, electronic or otherwise, without prior written permission from Knight Frank LLP for the specific form and content within which it appears. Each of the provisions set out in this notice shall only apply to the extent that any applicable laws permit. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934 and trades as Knight Frank. Our registered office is 55 Baker Street, London W1U 8AN, where you may look at a list of members' names. Any person described as a partner is a member, consultant or employee of Knight Frank LLP, not a partner in a partnership.