

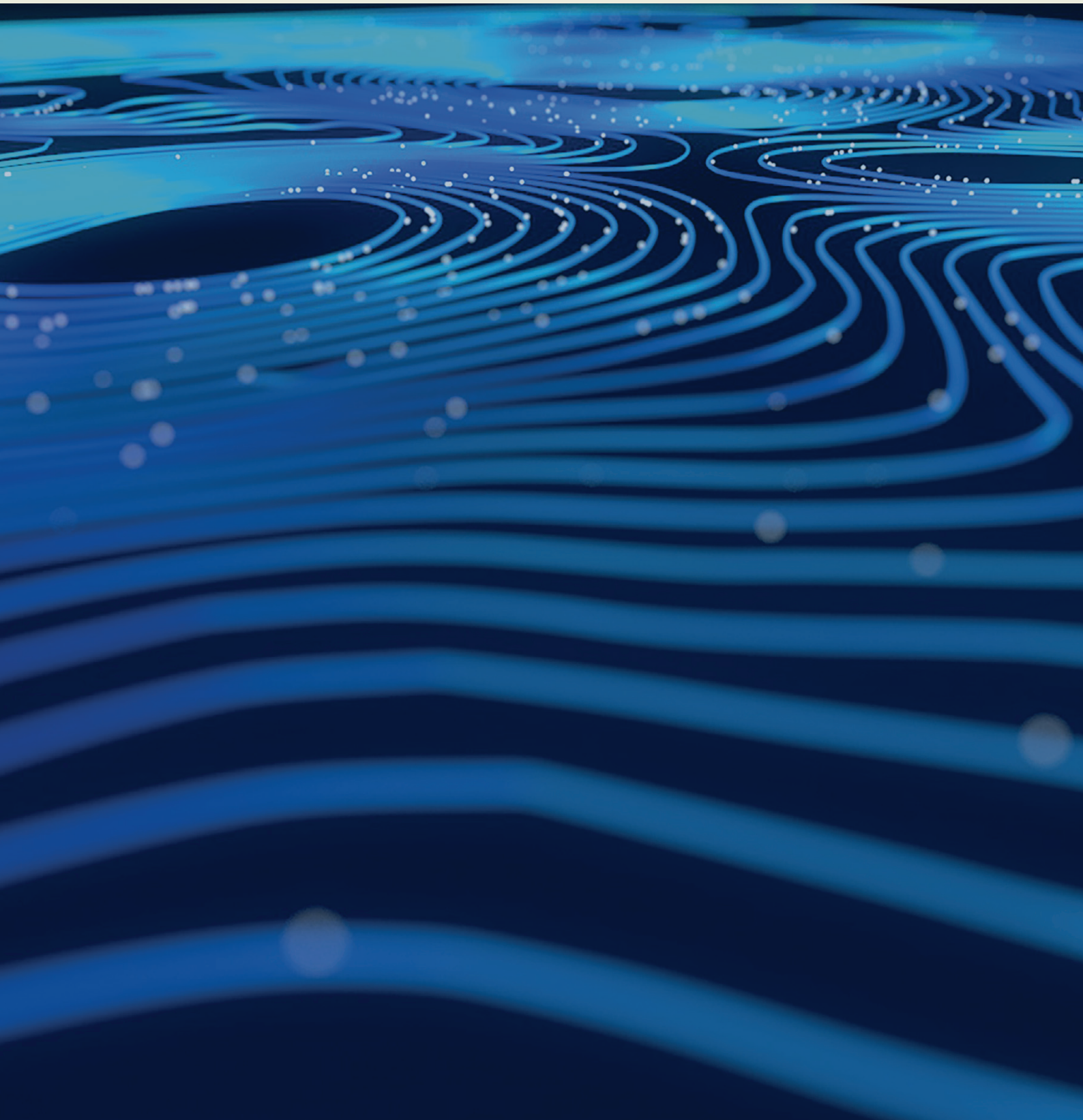
# M25 & South East Market Report



Q3 2023

Investment, Development & Occupational Markets

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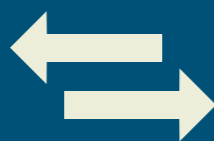


# Key takeaways



1

Take-up in the South East reached 870,000 sq ft, the highest quarterly total of 2023.



2

Vacancy was relatively unchanged at 7.9%, just above the long-term trend.



3

Investment volumes in Q3 were the lowest quarterly total since 2008.



4

Private property companies accounted for 37% of investment volumes in Q3.



5

Prime office yields in the South East increased to 6.75% during Q3, reflecting a 100bps outward shift over 12 months.

# Executive Summary

## TAKE-UP RISES AS THE HIGH DEAL COUNT CONTINUES

Total take-up for the region as a whole proved respectable but not exceptional. Just over 870,831 sq ft was let or acquired by occupiers, marginally above the long-term quarterly average and the highest total in 2023. A higher-than-average deal count was again evident during the quarter, demonstrating a general escalation of organisations reacting earlier to upcoming lease events. In Q3, 90 occupier transactions were completed, ahead of the long-term quarterly average of 60. Notably, Cambridge and Oxford continued to register the highest interest, with the two cities accounting for 26% of take-up in Q3 and 31% when considered over the year-to-date.

## A FURTHER UPTICK IN THE FOURTH QUARTER?

As year-end approaches, leasing volumes for 2023 have reached 2.0m sq ft, 15% less than recorded at the equivalent juncture in 2022. Notably, however, close to 1.3m sq ft of space was under offer at quarter end. Of this total, 20% was for Cambridge and Oxford, with the remaining 1m sq ft targeting the broader South East market. Furthermore, named demand also had exceeded the 5m sq ft mark by quarter end, finalising at 5.4m sq ft headed by firms from the technology sector that account for 39%. This total is the highest for two years.

## VACANCY RISING, BUT BEST QUALITY SUPPLY REMAINS STABLE

Overall vacancy nudged higher during Q3 to finish the quarter at 7.9%, just above the long-term trend of 7.3%. Notably, the availability of New & Grade A space remained stable. At quarter end, the vacancy rate relating to New and Grade A space was 5.8%, unchanged from the previous quarter and demonstrating the short void periods of well-located, good-quality space in the current marketplace.

The development pipeline offers little for those targeting new space in the core South East markets. At quarter end, 1.7m sq ft of speculative space was under construction and due for delivery before the end of 2025. Beyond the next 24 months, though, construction starts will likely be scarce, with yield shift, rising debt and construction costs impacting developer appetite. Outside of the South East Core, developer activity is higher. In Cambridge and Oxford, 1.35m sq ft is under construction with a delivery date before the end of 2025.

## INVESTORS PAUSE IN Q3

Investment transactions in the third quarter totalled £111.3 million across 15 deals, with smaller-sized acquisitions dominating activity due to the current debt financing environment. Deal sizes in Q3 reflected the year so far, with all but two transactions during 2023 having been completed at a price under £50 million. However, positively, over

£500 million of stock was under offer or had recently been exchanged at quarter end, suggesting a busier final quarter of the year.

## BUYER POOL REMAINS THIN

Anticipation of pricing movement, high cost of debt and economic disruption for overseas buyers in their domestic markets has thinned the buyer landscape for South East Offices in 2023. Institutional capital remains largely absent, albeit this primarily reflects the lack of opportunities to buy prime stock. US Private Equity interest has also retreated as US markets and the US economy has deteriorated. Analysis of 2023 transactions indicates that property companies account for most acquisitions at 37%, with private investors the next at 23%. Both have sought low-value buildings with long income or asset management opportunities.

## PRICE SHIFT IN Q3

Prime office yields in the South East softened by a further 25bps to 6.75% in Q3, albeit the potential for additional outward shifts is reducing. The Bank of England's recent decision to hold base rates and the recent dip in the 5-year SONIA swap rate add some weight to the prospect of a slightly more favourable investor environment moving forward. Even so, the cost of debt remains a hurdle to activity, with most investors continuing to take a cautious stance.

# Occupier market

Leasing volumes and active demand improved in Q3, reflecting a rising occupational need to engage with the market. Supply levels remain stable, with the development pipeline challenged by rising costs.

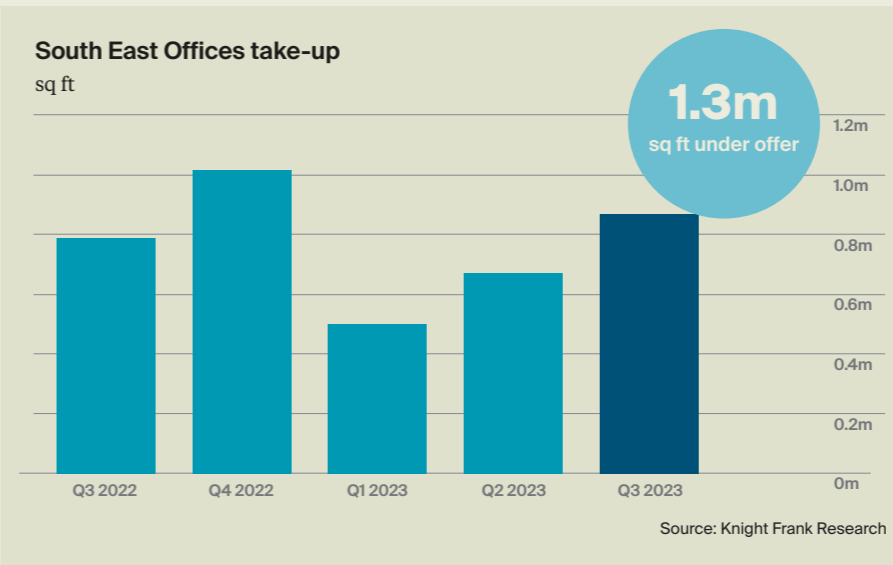


North Bailey House, Oxford

## Take-up and supply Q3 2023

	TAKE-UP (SQ FT)	TAKE-UP (VS Q2 2023)	SUPPLY (SQ FT)	SUPPLY (VS Q2 2023)	VACANCY RATE
<b>SE</b>	870,831	▲ 30%	12.9m	▲ 2% New and Grade A space: 73%	7.9% New and Grade A space: 5.8%
<b>M25</b>	434,897	▲ 84%	8.6m	◆ 0% New and Grade A space: 69%	7.1% New and Grade A space: 5.0%
<b>M3</b>	157,607	▲ 84%	1.8m	▼ -11% New and Grade A space: 78%	4.7% New and Grade A space: 3.7%
<b>M4</b>	279,060	▲ 45%	8.0m	▲ 6% New and Grade A space: 78%	12.1% New and Grade A space: 9.4%

Source: Knight Frank Research



**RODDY ABRAM**

Whilst Q3 was again dominated by Oxford and Cambridge, greater interest and optimism are developing across other key South East markets, action underpinned by impending lease events.



**JACK RILEY**

The level of active demand is encouraging, with prime product monopolising activity and enquiries. Viewings are rising, particularly for grade A space, and these indicators substantiate our opinion of a gradual upward trajectory for the South East market.

## Key Leasing transactions Q3 2023

ADDRESS	SIZE SQ FT	OCCUPIER	RENT £ PER SQ FT
Dexter Building, Harwell Campus, Oxford	53,000	Nuclear Decommissioning Authority	Confidential
Edridge Place, Direct Line House, Croydon	49,870	Oxford Business College	Approx £6.2m (Freehold Sale)
7 Roundwood Avenue, Heathrow	37,900	Accord Healthcare	Approx £7.9m (Freehold Sale)
Parkside House, Epsom	34,449	University for the Creative Arts	£22.00
125 Freston Road, Hammersmith	29,675	Phoebe Philo	£22.50

Source: Knight Frank Research. GIA

# Prime Rents

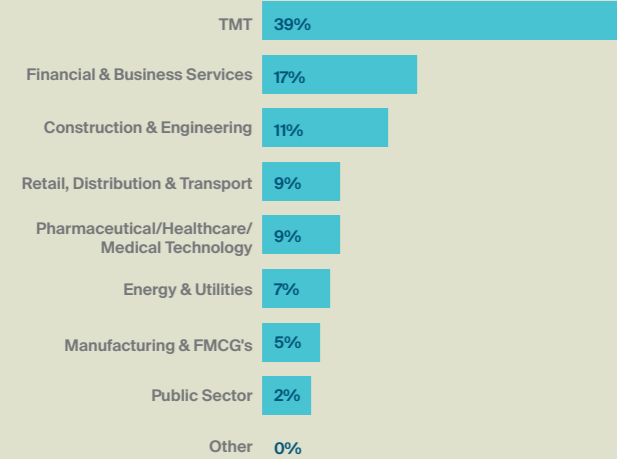
£ per sq ft

ACTIVE DEMAND: 5.5M SQ FT

Named demand in the South East

## Active named demand by sector

Q3 2023



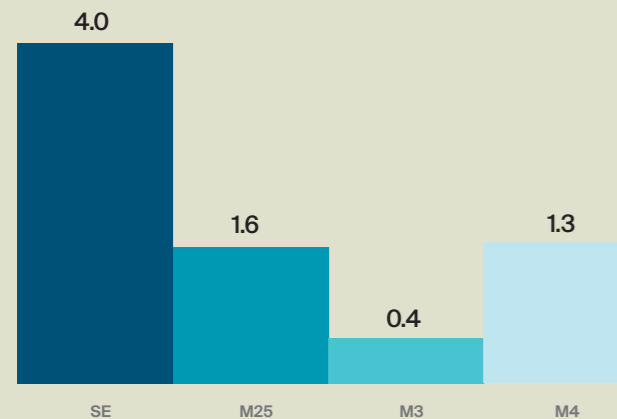
Source: Knight Frank Research

DEVELOPMENT: 4.9M SQ FT

Space under construction in the South East

## Speculative development

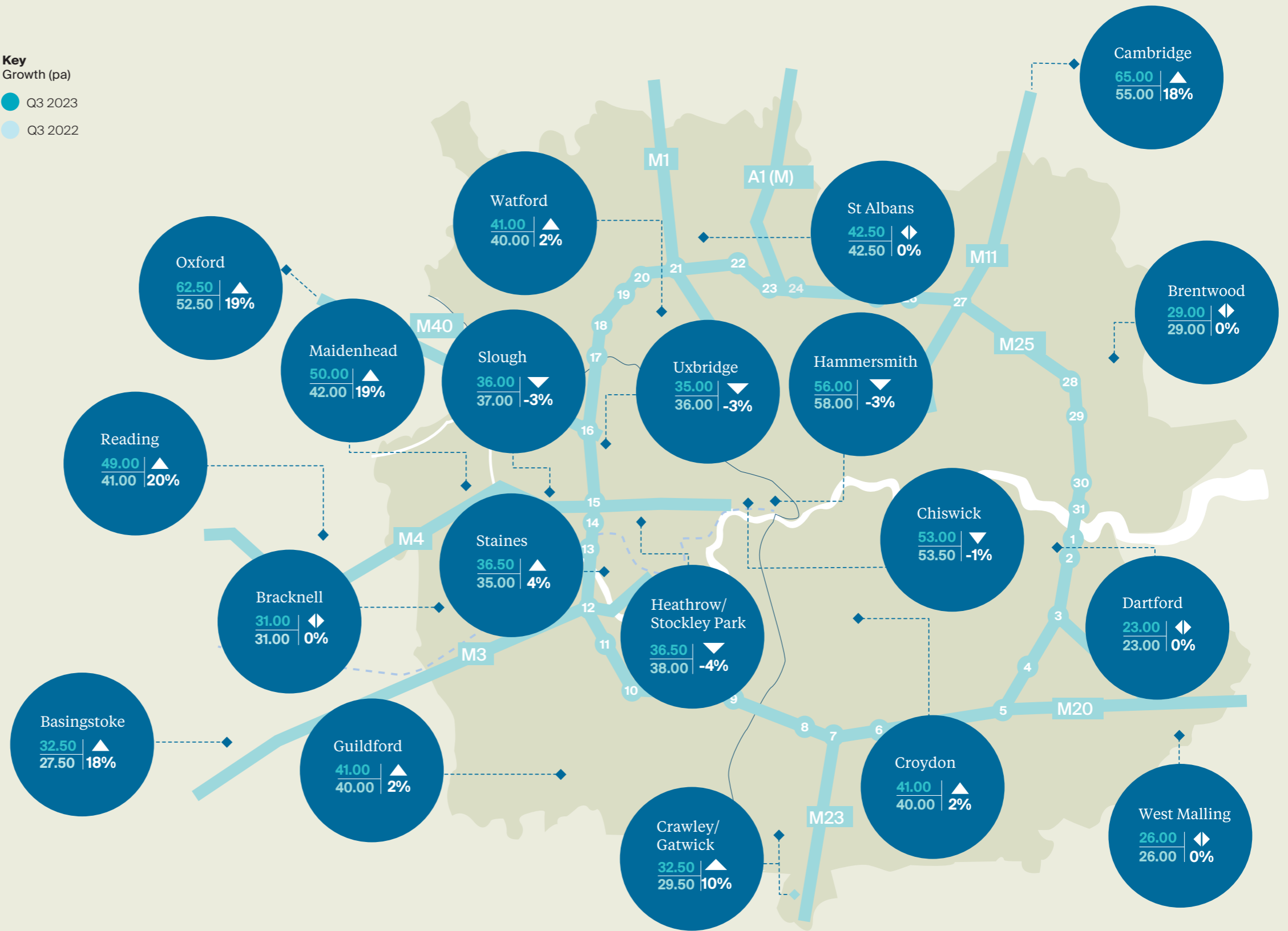
Sq ft due to complete before 2026



Source: Knight Frank Research

**Key**  
Growth (pa)

● Q3 2023  
● Q3 2022



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 in the third quarter were low, albeit the amount of stock under offer is rising. The high cost of debt and continuing economic turbulence have prompted a further 25 bps outward shift in prime office yields.



Kia's UK Headquarters, Walton-on-Thames



**£111m**

South East transaction volumes



**£7.4m**

Average lot size



**6.75%**

Prime net initial yield

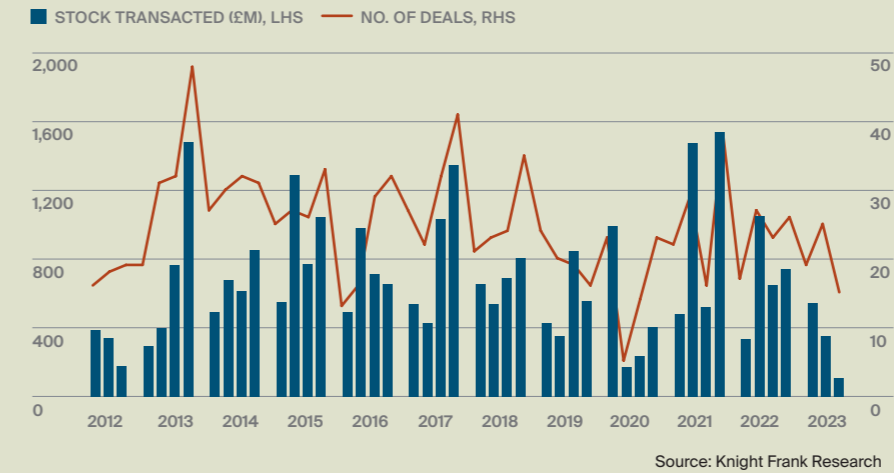


**37%**

Buyers from the UK

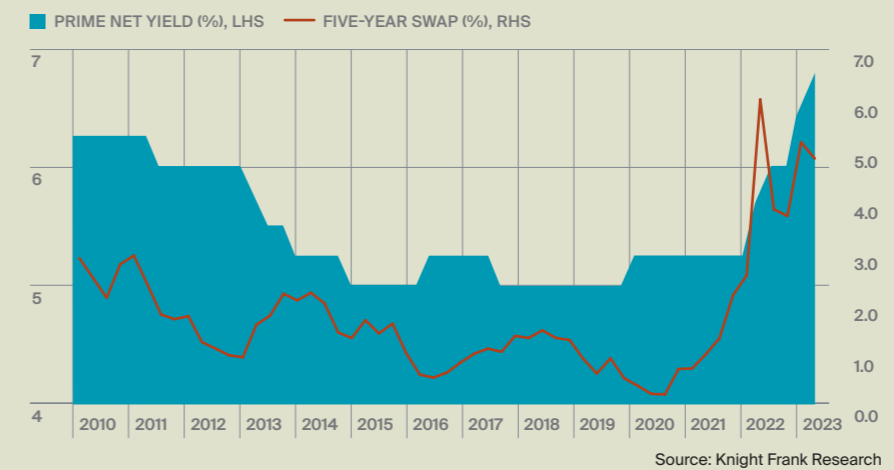
Footnote: Headline statistics are representative of Q3 2023

## Investment volumes



**SIMON RICKARDS**  
Although Q3 volumes were lower than historical levels, we are seeing an increasing number of buyers looking to invest in both income deals and the stronger office markets.

## Prime net initial yield and finance



**HENRY WYLD**  
There is a growing conviction that we have reached the bottom of value erosion, at least for the better-quality stock. A busy end of the year is anticipated.

## Key transactions Q3 2023

ADDRESS	PRICE (£M)	NET INITIAL YIELD	VENDOR	PURCHASER
The Lansdowne Building, 2 Lansdowne Road, Croydon	£18m	12.35%	BlackRock	Mid West
KIA UK HQ, Walton Green, Walton-on-Thames	£12m	7.00%	abrdn	CitiBank
The Pavillion, 1 Atwell Place, Thames Ditton	£10m	8.88%	Private Investor	Newcore Capital Management LLP
22 Market Street, Maidenhead	£10m	7.28%	Palace Capital Plc	Soor Capital
Mansel Court, 2A Mansel Road, Wimbledon	£9m	n/a	Columbia Threadneedle   The Carbon Trust   Stanhope Plc	Korol

Source: Knight Frank Research. GIA

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M25 Key Markets



M25 - The Next Chapter



The London Report



Active Capital



UK Cities



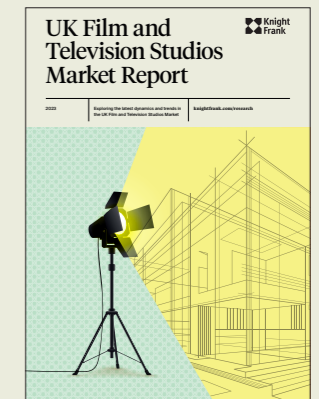
(Y)OUR SPACE



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 September 2023.

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