

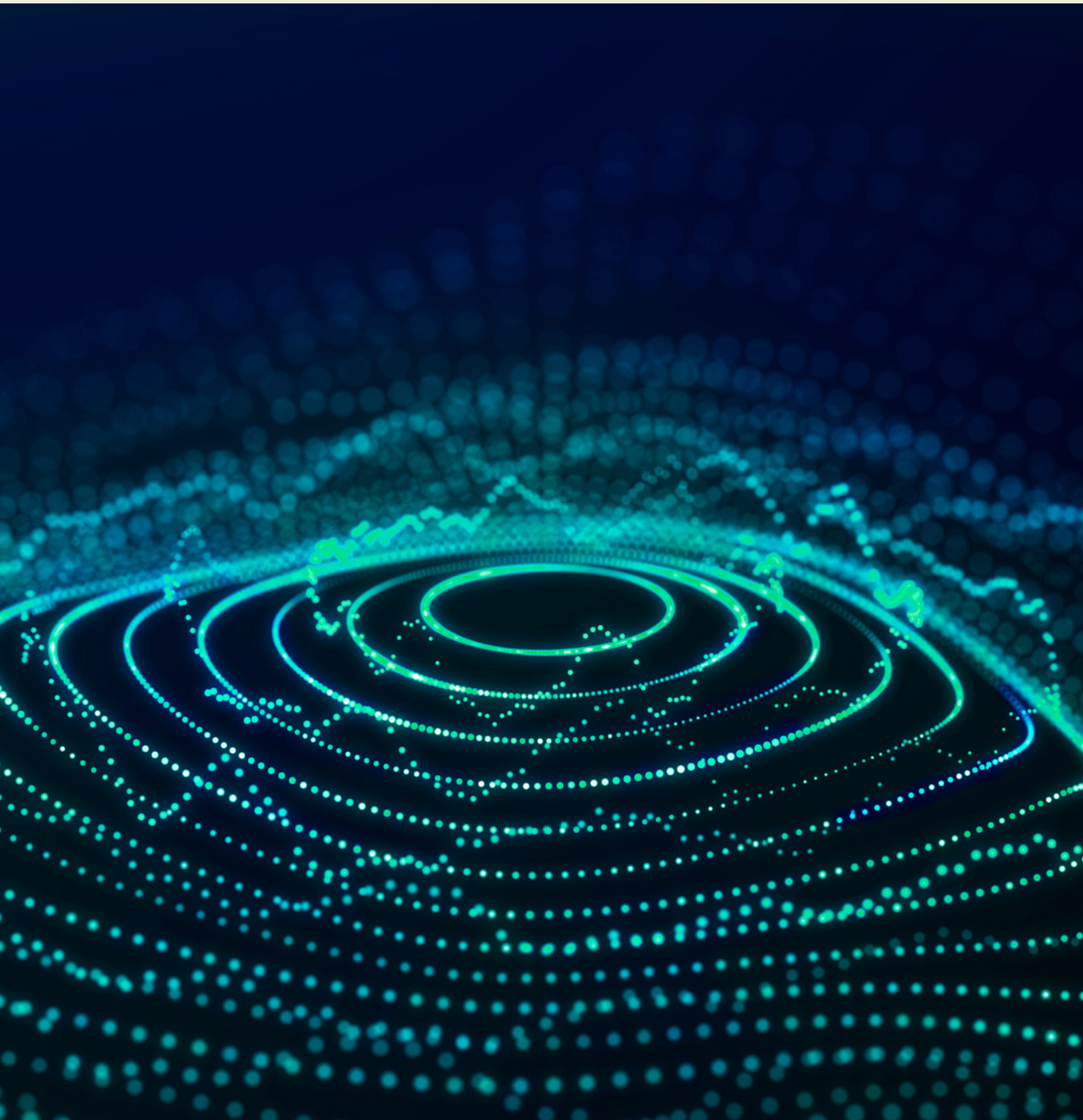
M25 & South East Market Report



Q3 2024

Investment, Development & Occupational Markets

knightfrank.com/research

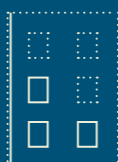


Key takeaways



1

Leasing volumes in the South East with one quarter of the year left are 34% ahead of the equivalent period in 2023.



2

16 deals have completed in 2024 whilst the buildings were under construction.



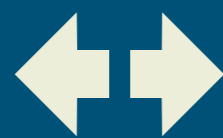
3

Two markets, Cambridge and West London account for 66% of the speculative development pipeline.



4

Investment volumes for 2024 measured at the end of September were 65% below the 10-year average for the period.



5

Prime Yields remained unchanged at 7.00%.

Executive Summary

OCCUPIER

Sustained market activity.

The South East office market continued to record consistent activity in the third quarter, with leasing volumes reaching 866,000 sq ft, a total in line with the 10-year quarterly average. During the quarter, 79 occupier deals were completed, the highest number so far in 2024 and well above the long-term quarterly average of 63.

Notably, take-up in every quarter of 2024 so far has been above 800,000 sq ft. This is the first year since 2019, where activity in the first three quarters has consistently exceeded this threshold. Consequently, take-up for 2024 year-to-date has reached 2.69m sq ft. This total is 34% ahead of the equivalent period in 2023 and is the highest total at this stage of any year since 2019.

Securing the best space means earlier market engagement.

In 2024, nine deals of over 50,000 sq ft have concluded. This is the highest number of deals of this scale during a Q1-Q3 period since 2021. Notably, of these, four deals above this threshold were completed at buildings where construction work is ongoing, highlighting the appetite of businesses to act early to secure the best spaces. In fact, considering all size ranges, 16 deals were completed in 2024 at buildings during construction works, the most in a year since 2001.

Best quality supply falling.

Vacancy again remained relatively unchanged over the quarter at 8.4%. Notably, the availability of New & Grade A space has fallen consistently throughout 2024 as completions have not kept pace with letting activity. At the end of the quarter, the vacancy rate for New and Grade A spaces dipped to 6.4%, meaning the gap between total vacancy and that of 'best quality' is now the widest for 24 months.

Moving forward, the development pipeline remains limited for those targeting new space. At the end of the quarter, 1.8m sq ft of speculative office space was under construction and due for delivery before the end of 2027. Further analysis indicates that West London accounts for 40% of this total, led by the development of Olympia Square. Cambridge accounts for 26%. Outside these markets, the continued shortage of best-quality office space will mean that vacancy rates remain below the long-term trend, at least for the short term, thus creating isolated opportunities for development starts.

INVESTMENT

Is the investment market beginning to stabilise?

Investment volumes for the South East in the third quarter totalled £237m. Although the Q3 total is 70% above the same period in 2023, this remains 65% below the 10-year quarterly average. Fundamentally,

investors remain cautious, with the re-pricing of office assets in recent months and elevated cost of debt leading to a lack of motivated buyers and sellers. That said, the period of correction, at least for Prime, has now stabilised, meaning market interest is beginning to renew, albeit debt rates remain a significant hurdle to any uptick.

Private money is the most active.

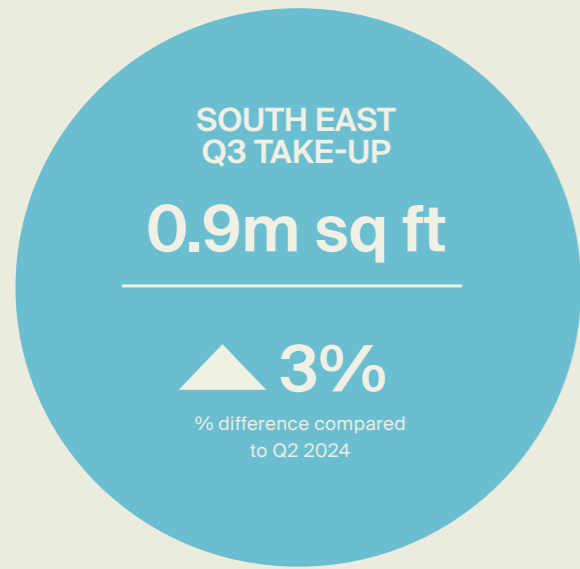
Institutional money continues to be absent from the market as offices remain largely out of favour. In Q3, Private equity accounted for 38% of total investment volumes. Over the year to date, however, property companies have been most active, accounting for 31% of the market, with this investor group increasingly drawing out potential value-add investments and opportunities to reposition or repurpose office assets to meet modern occupier demands.

Is the pricing shift subsiding?

Prime yields remained at 7.00% in Q3, with pricing at the top end of the market unchanged throughout 2024. The consensus is that Prime has now 'reached the market level' with further outward shift unlikely. However, the yield spread between Prime and secondary properties continues to widen as obsolescence, location disadvantages, and sustainability upgrade requirements challenge secondary assets.

Occupier market

Reflecting a rising occupational need to engage with the market, take-up in the South East was above 800,000 sq ft for the third consecutive quarter. The development pipeline remains concentrated, with speculative activity limited.

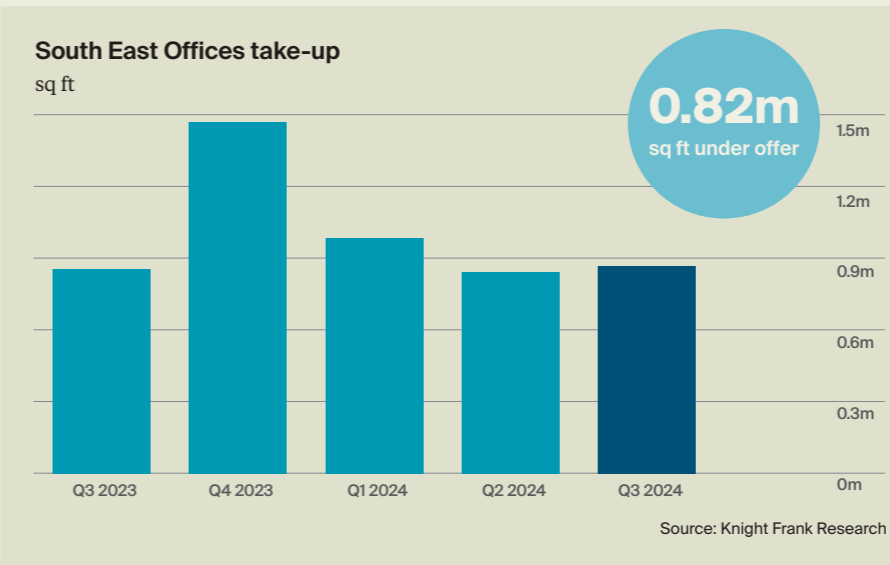


MediaWork, White City

Take-up and supply Q3 2024

	TAKE-UP (SQ FT)	TAKE-UP (VS Q2 2024)	SUPPLY (SQ FT)	SUPPLY (VS Q2 2024)	VACANCY RATE
SE	865,557	▲ 3%	15.6m	▲ 2% New and Grade A space: 77%	8.4% New and Grade A space: 6.5%
M25	382,616	▲ 13%	10.7m	▲ 23% New and Grade A space: 76%	8.9% New and Grade A space: 6.8%
M3	46,772	▼ -51%	2.7m	▲ 8% New and Grade A space: 73%	6.8% New and Grade A space: 5.0%
M4	299,507	▲ -29%	7.1m	▼ -5% New and Grade A space: 89%	10.7% New and Grade A space: 9.5%

Source: Knight Frank Research



RODDY ABRAM

The continued reversion to office-first work policies means that lease-event driven transactions have steadily trended upwards. Companies are consolidating fragmented office footprints into high quality headquarters, whether town centre or well-amenitised business parks.



JACK RILEY

The large volume of deals currently under offer, which is largely also focussed on the best-in-class space, reflects companies looking to secure prime space which remains in short supply due to development constraints.

Key Leasing transactions Q3 2024

ADDRESS	SIZE SQ FT	OCCUPIER	RENT £ PER SQ FT
500 Capability Green, Luton	81,460	TUI	£29.50
Building 7, Croxley Park, Watford	50,105	Health Services Laboratories	£28.50
MediaWork, White City Place, White City	47,650	Imperial College of Science	£55.00
500 South Oak Way, Green Park, Reading	44,029	Wood Group	Conf.
58 Clarendon Road, Watford	41,522	Vinci	£40.00

Source: Knight Frank Research.

Prime Rents

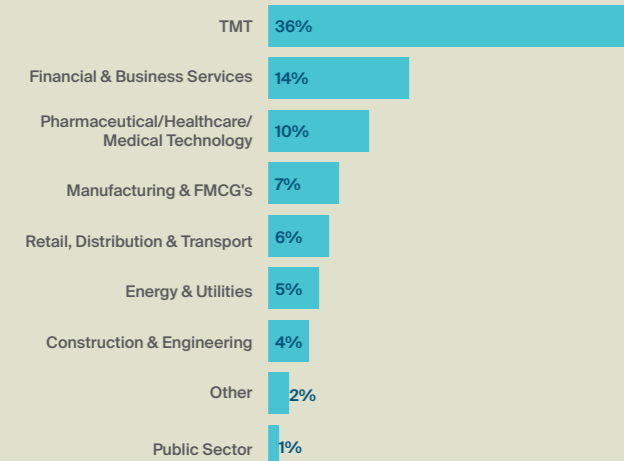
£ per sq ft

ACTIVE DEMAND: 5.16M SQ FT

Named demand in the South East

Active named demand by sector

Q3 2024



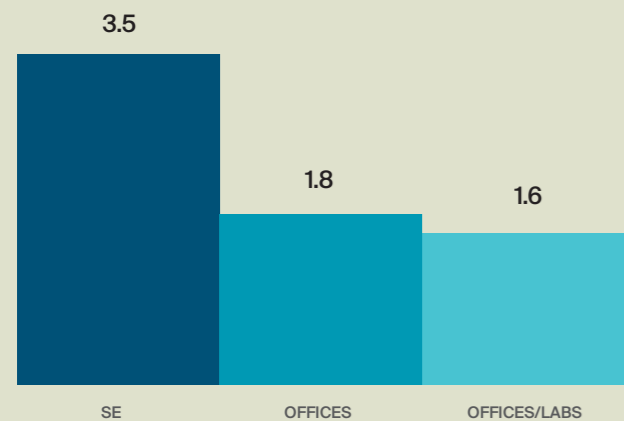
Source: Knight Frank Research

DEVELOPMENT: 4.5M SQ FT

Space under construction in the South East
1.0m sq ft already leased

Speculative development

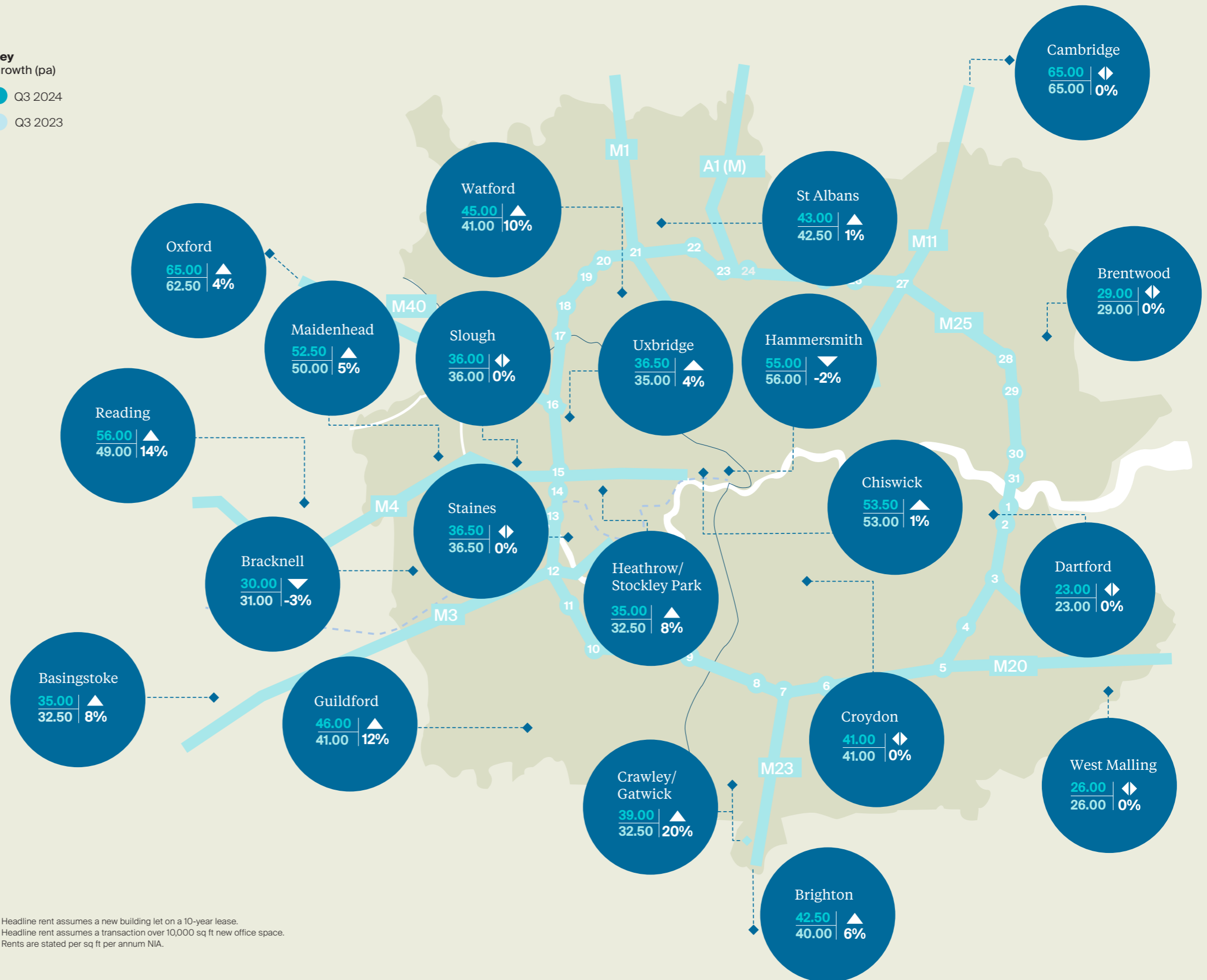
Sq ft due to complete before 2028



Source: Knight Frank Research

Key
Growth (pa)

● Q3 2024
● Q3 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

Investor sentiment remains cautious, challenged in the UK by debt costs, and potential changes to tax and regulation. Pricing at the top end of the market has stabilised after a period of outward shift.



Building 8, Chiswick Park



£217m*

South East transaction volumes



£11.42m

Average lot size



7.00%

Prime net initial yield

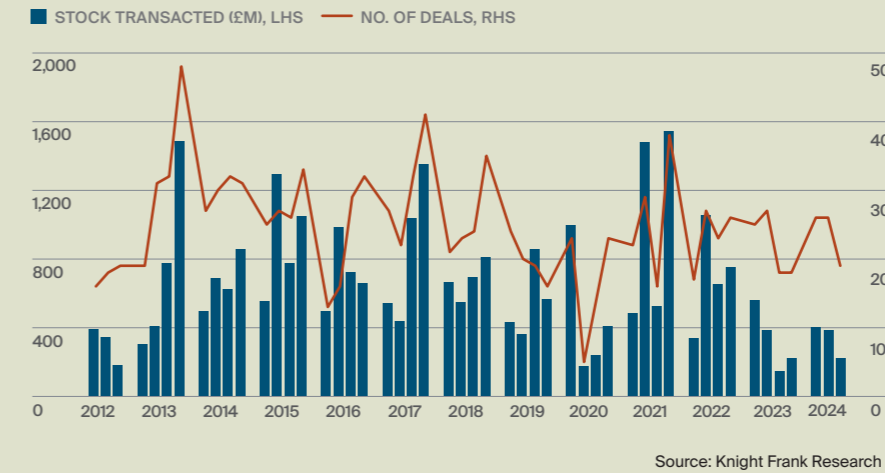


53%

Buyers from the UK

* Includes occupier acquisition
Footnote: Headline statistics are representative of Q3 2024

Investment volumes



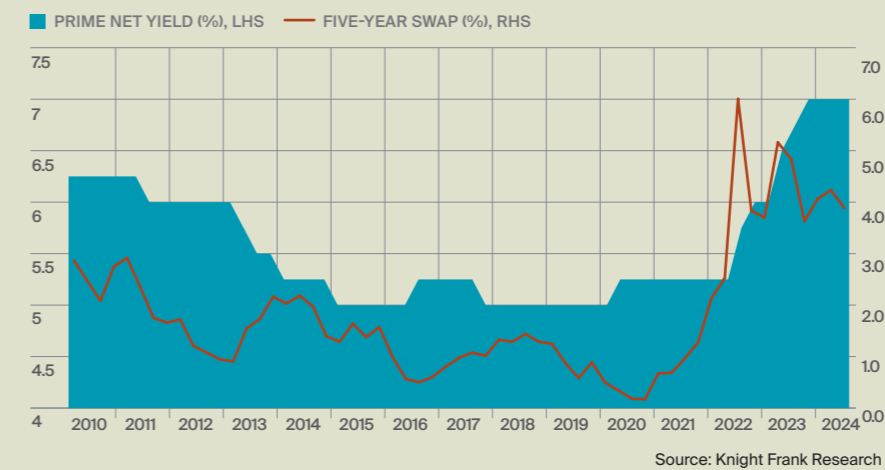
Source: Knight Frank Research



SIMON RICKARDS

Deal flow indicates that nimble, opportunistic buyers have confidence in prime asset values with strong occupier profiles. However, there is still a shortage of motivated sellers, with many waiting on rate cuts to help strengthen asset prices in locations of short supply.

Prime net initial yield and finance



Source: Knight Frank Research



HENRY WYLD

Pricing for prime has stabilised with greater buyer and seller acknowledgement of current market value. However, price erosion may well continue for secondary buildings without viable repositioning credentials.

Key transactions Q3 2024

ADDRESS	PRICE (£M)	NET INITIAL YIELD	VENDOR	PURCHASER
Building 8, Chiswick Park, Chiswick	£48	9.00%	Abrdn	Sun Capital Partners
EMC Tower, Great West Road, Brentford	£22	Conf.	Dell Technologies	Signal Capital Partners LLP Sheen Lane Developments Ltd
Sutton Point, Sutton Court Road, Sutton	£21	Conf.	Carrigmay Sutton (Jersey) Ltd	Activum SG Capital Management
Shinfield Park, Reading	£21	Conf.	Global Net Lease	Fiera Real Estate Wrenbridge Capital

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
rodny.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



Nick Blevins
Partner,
Head of Life Sciences and Innovation
+44 20 7861 1686
+44 7885 271 302

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

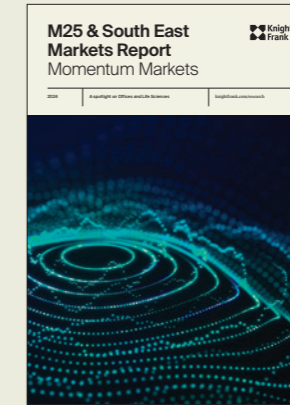


Jodie Gibson
Analyst
+44 20 7861 1024
jodie.gibson@knightfrank.com

Recent market-leading research publications



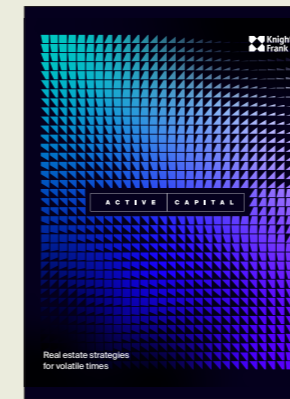
Data Centres
The EMEA Report



M25 – Markets Report



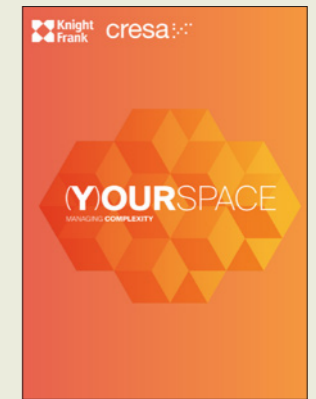
The London Report



Active Capital



UK Cities



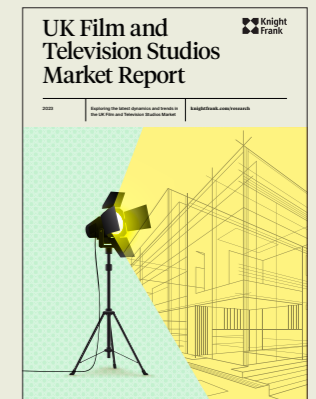
(Y)OUR SPACE



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 31st Oct 2024.

Knights 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 of 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 2024. 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.