

M25 Offices

Q4 2021

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KEY TAKEAWAYS

1

Take-up in 2021 was 2.6m sq ft, an increase of 24% ahead when compared to 2020.

2

TMT occupiers accounted for 29% of office take-up during the year, the highest representation on record.

3

South East office vacancy was 6.9 % at year-end, unchanged when compared to the close of 2020.

4

Investment in South East offices reached £4.02bn, a record level for the region.

5

Overseas capital accounted for 59% of investment volumes.

EXECUTIVE SUMMARY

Occupier activity picks up despite Plan B.

The final quarter of 2021 registered a late flurry of occupier activity with 48 deals completing, the highest quarterly total for two years. During the quarter, 638,000 sq ft was leased, a total that represents a quarterly uplift of 10%. Consequently, take-up across the South East for the year increased to 2.6m sq ft, 24% ahead of total take-up recorded in 2020 but 18% short of the 10-year annual average. Notably, large-scale deals have been a factor in supporting the year-on-year rise. In 2021, nine deals of 50,000 sq ft and over completed. This is the highest total since 2018.

TMT proves resilient.

The strength of the TMT sector proved decisive to the fortunes of the South East office market in 2021. While the Covid crisis has negatively affected many industries, for the TMT sector, the economic impact has been largely neutral, or even positive for some industry segments. TMT occupiers accounted for 29% of office take-up during the year, the highest representation on record. Notably, three transactions over 100,000 sq ft completed across the South East during 2021. All were to TMT firms. The M4 corridor was the principal location of interest. Take-up by TMT occupiers in 2021 in the M4 market was 572,000 sq ft. This total is 34% ahead of the long-term average. Life sciences dominated again in Oxford and Cambridge, with 520,000 sq

ft leased during the year despite a backdrop of reducing vacancy. The market imbalance in these two cities is expected to stimulate speculative development inclusive of lab ready stock.

Vacancy remaining low.

Despite fears of rising supply, vacancy in the South East was 6.9 % at the end of 2021, unchanged when compared to the close of 2020 and still below the 10-yr average of 7.0%. In fact, 23 of 42 South East markets recorded a reduction in vacancy or have stayed at the same level over the past 12 months.

Significantly, the level of vacant 'New space' recorded a further fall in Q4, representing just 7.0% of total availability at year-end. This is the lowest percentage recorded.

A development response has begun, but realisation will not be until 2024/5. The amount of speculative space recorded as under construction at year-end was 1.7m sq ft, polarised in just a handful of market centres. Even so, closer analysis shows that only 650,000 sq ft of this total will complete within the next two years. This means that tight supply of best quality office space will persist for at least the next 24 months and therefore, vacancy will remain below the long-term trend.

Record year for South East investment.

South East office investment volumes more than doubled in 2021 to reach £4.02bn by year-end. This is a record

for the region and is 45% above the 10-year annual average. Heightened activity in the final quarter bolstered the annual performance. Asset sales in Q4 totalled £1.5bn. This total is 123% above the 10-year quarterly average for the region.

International buyers dominate in 2021.

Foreign investors were the dominant source of interest in the South East offices market in 2021. Overseas capital accounted for 59% of investment volumes during the year, driven by the UK's relatively attractive pricing and growth of the domestic life sciences sector fuelling demand for high quality office space. Significantly, foreign investors accounted for six of seven transactions that exceeded £100m in 2021, a tally bolstered by GIC's acquisition of a 40% stake in Oxford Science Park in Q4.

Golden triangle take centre stage.

Investor appetite toward assets associated with the growing life sciences sector continued to solidify in 2021. Office investment within the Golden Triangle totalled over £1.5bn during the year, with interest led mainly by global private equity houses. Cambridge was the principal target, recording £677m of office stock sold across 14 transactions. This represents the highest annual total on record for the city.

OCCUPIER MARKET

Despite significant headwinds, occupier activity registered an improvement of 24% year-on-year. The technology sector dominated transaction schedules and new enquiries, accounting for 29% of take-up in 2021

SOUTH EAST Q4 TAKE-UP

638k sq ft

▲ 10%

% difference compared to Q4 2021.



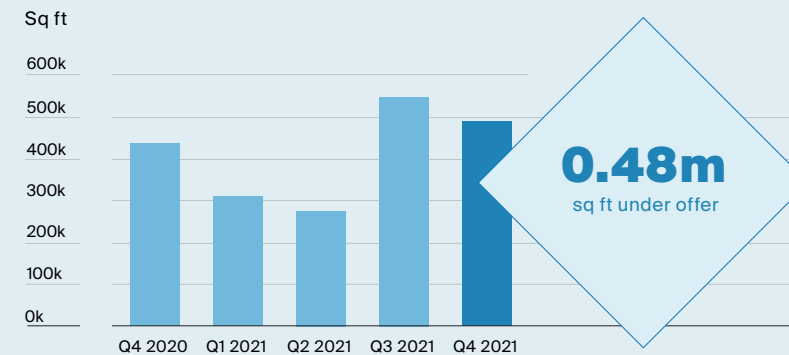
Union, Stockley Park

Take-up and supply Q4 2021

	TAKE-UP (SQ FT)	TAKE-UP (VS Q3 2021)	SUPPLY (SQ FT)	SUPPLY (VS Q4 2021)	VACANCY RATE
M25	487,846	▼ -11%	8.0m	▲ 8% New and Grade A space: 68%	6.6% New and Grade A space: 4.5%
M3	183,905	▲ 88%	2.0m	▼ -11% New and Grade A space: 75%	5.2% New and Grade A space: 3.9%
M4	269,306	▼ -22%	6.4m	▲ 12% New and Grade A space: 79%	9.7% New and Grade A space: 7.6%

Source: Knight Frank Research

M25 take-up



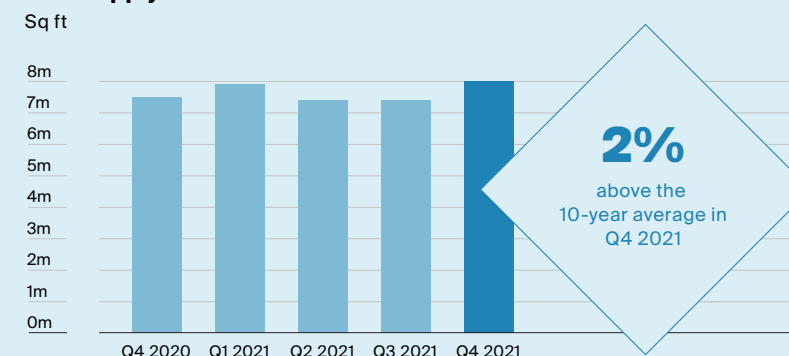
Source: Knight Frank Research



Emma Goodford

With supply low and development delayed, occupiers are evaluating office requirements and turning to pre-letting. Life sciences workplace requirements are expected to grow in particular, with offices offering laboratory capability as well as incubation facilities increasingly being sought.

M25 supply



Source: Knight Frank Research



Roddy Abram

The ESG and Sustainability agenda will continue to drive office relocations in 2022, as major corporates seek to meet ESG commitments to both employees and shareholders. At the same time, rising build costs and the lack of supply for new grade-A space will be key drivers of rental growth.

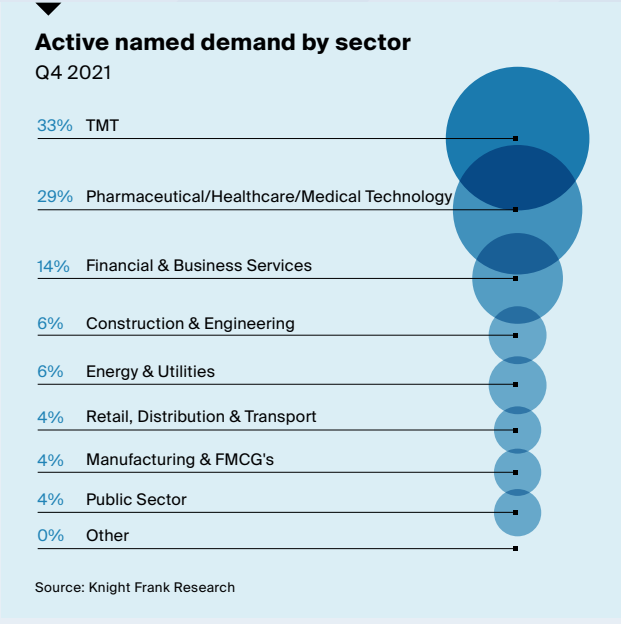
Key leasing transactions Q4 2021

ADDRESS	SIZE SQ FT	OCCUPIER	RENT £ PER SQ FT
Old Town Hall, Bromley	73,000	Clockwise	N/A
The Avenue, Leavesden Park	67,451	Skanska	£26.50
Portway Building, Granta Park	51,000	Altos	£48.50
Portway Building, Granta Park	45,433	Bicycle Therapeutics	£46.50
Building 12, Chiswick Park (grd & prt 1st flrs)	36,061	Richmond The American International University In London Inc	N/A

Source: Knight Frank Research

ACTIVE DEMAND: 5.8M SQ FT

Named demand in the South East



DEVELOPMENT: 2.1M SQ FT

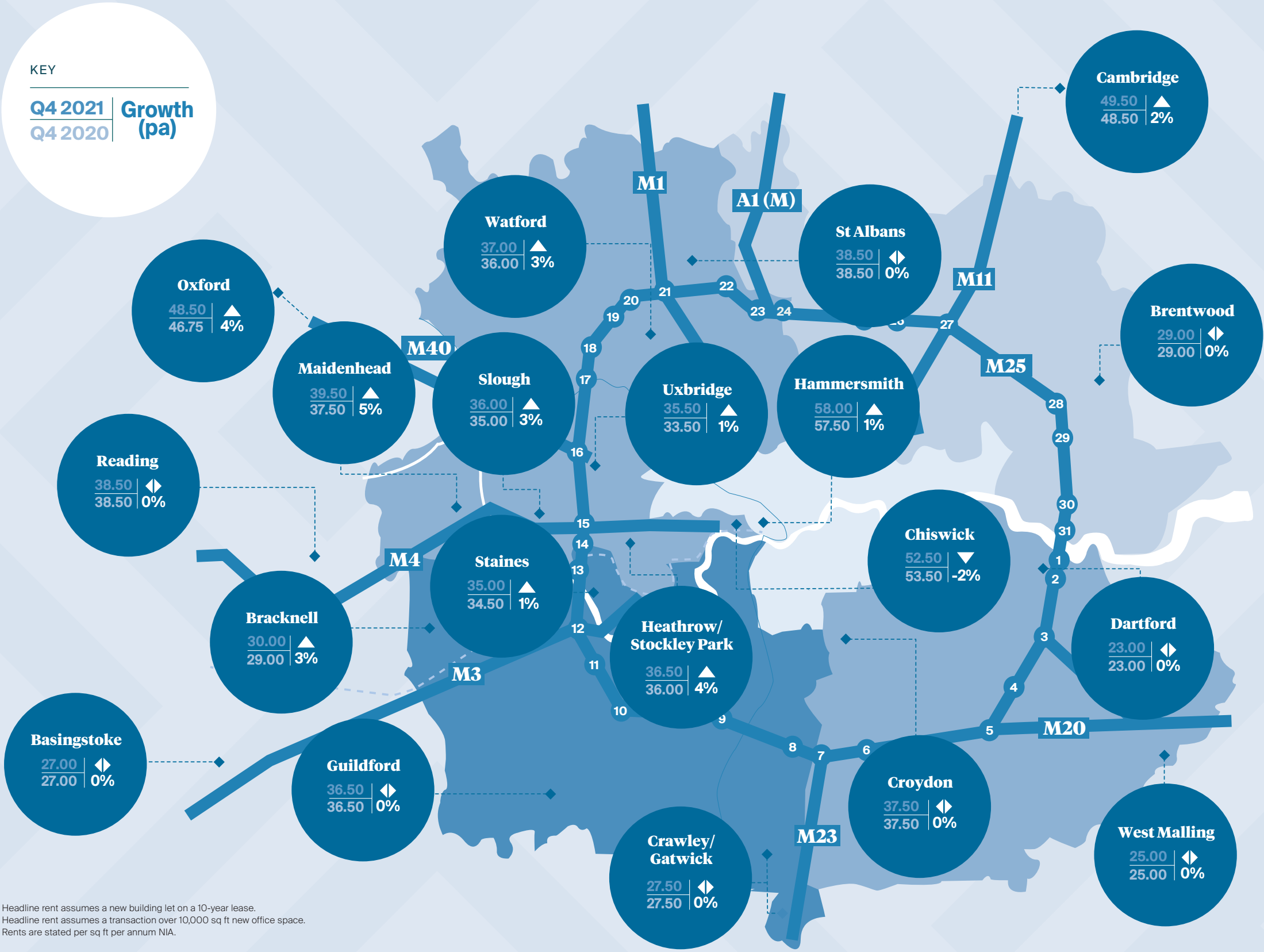
Space under construction in the South East

*This includes pre-let (0.5m sq ft) and speculative space (0.6m sq ft)



PRIME RENTS

£ PER SQ FT





Bath Road, Slough

INVESTMENT MARKET

Investor confidence continues to grow, with a record level of investment recorded over the year. Overseas capital was significant, accounting for almost two thirds of total investment in 2021.



£1.54bn

South East
transaction volumes



£40.7m

Average
lot size



5.25%

Prime net
initial yield



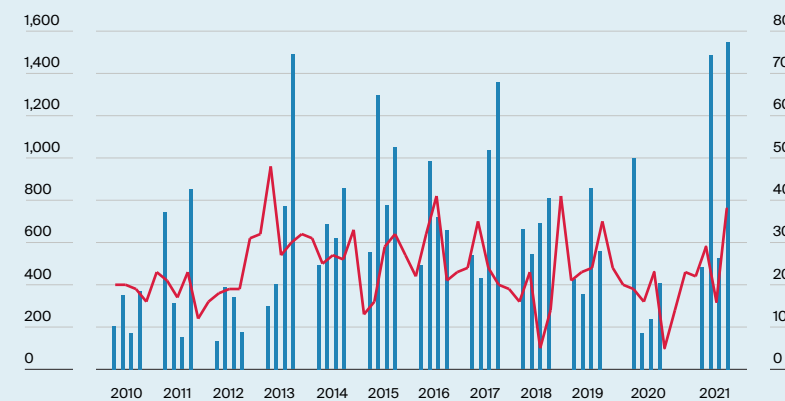
59%

Buyers from
the UK

Footnote: Headline statistics are representative of Q4 2021.

Investment volumes

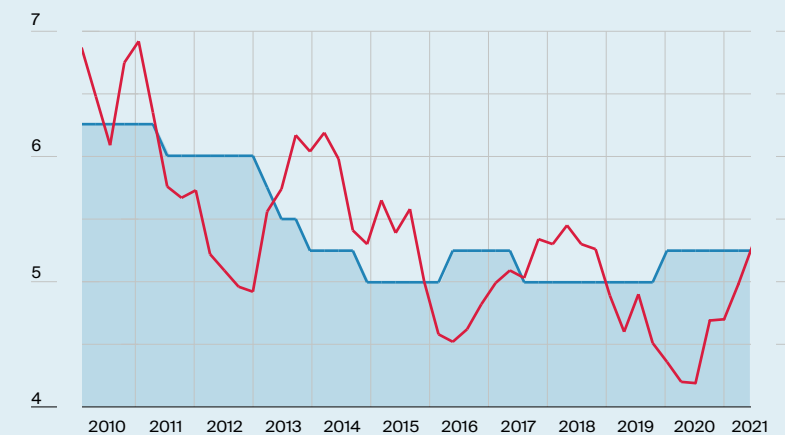
■ Stock Transacted (£m), LHS ■ No. of deals, RHS



Source: Knight Frank Research

Prime net initial yield and finance

■ Prime net yield (%), LHS ■ Five-year SWAP (%), RHS



Source: Knight Frank Research



Simon Rickards

The level of equity primed for investment into South East offices is high and could increase, as confidence in the sector grows. Activity will focus on prime fundamentals, ESG and a best in class offering, albeit with greater attention given to escalating refurbishment costs.



Tim Smither

The market will see polarisation in 2022, with the best multi-let offices performing well to the detriment of secondary stock. Interest in assets associated with the life sciences sector will be strong, with substantial levels of equity yet to be deployed.

Key transactions

Q4 2021

ADDRESS	PRICE (£M)	VENDOR	PURCHASER
Bath Road Frontage, Slough	£425.00	AEW	Segro
Oxford Science Park (40% stake)	£160.00	Magdalen College, Oxford	GIC
Compass Centre, Heathrow	£100.60	Arora Group	Prologis
Building 2600, Oxford Business Park	£61.45	Mayfair Capital	Royal London Asset Management
Forum, Solent Business Park, Fareham	£63.35	Tristan Capital	Kennedy Wilson

Source: Knight Frank Research

NATIONAL OFFICES

Emma Goodford



Partner
Head of National Offices
+44 20 7861 1144
+44 7831 581 258
emma.goodford@knightfrank.com

Will Foster



Partner
National Offices
+44 20 7861 1293
+44 7789 878 007
will.foster@knightfrank.com

Roddy Abram



Partner
National Offices
+44 20 7861 1280
+44 7899 001 028
roddy.abram@knightfrank.com

Ashley Drewett



Partner
National Offices, Lease Advisory
+44 20 7861 1156
+44 7799 478 834
ashley.drewett@knightfrank.com

Andrew Wood



Partner
National Offices, Tenant Representation
+44 20 7861 0662
+44 7800 500 752
andrew.wood@knightfrank.com

Jack Riley



Partner
National Offices
+44 20 7861 5375
+44 7867 002 484
jack.riley@knightfrank.com

CAPITAL MARKETS

Simon Rickards



Partner
Head of National Offices 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

Richard Claxton



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

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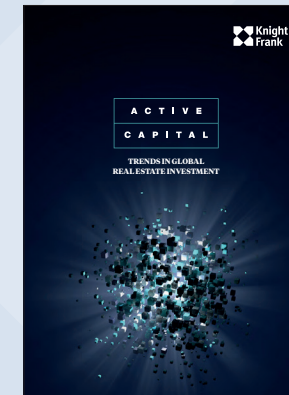
M25 Key Markets



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 December 2021.

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