

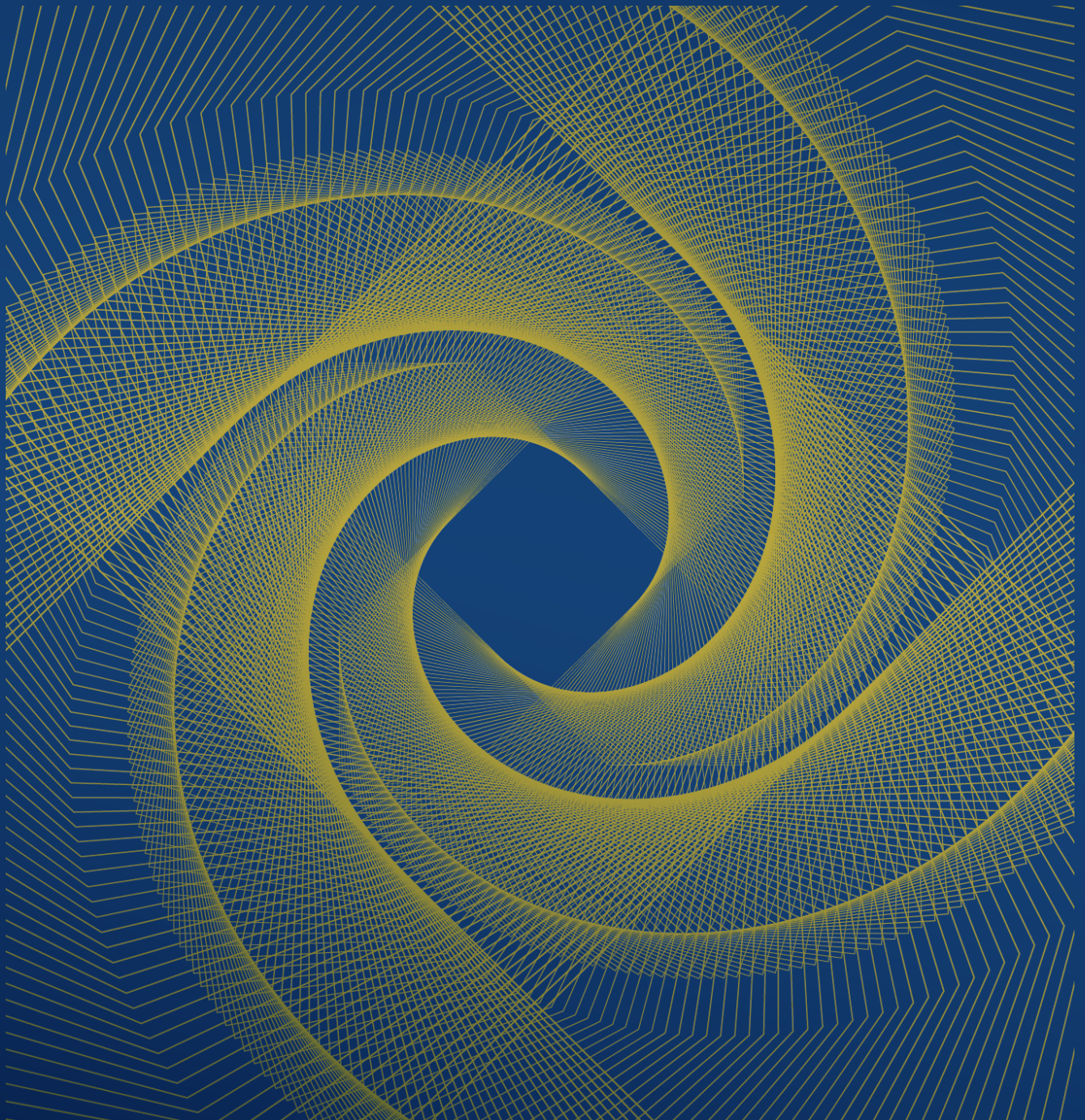
*Investment, Development
& Occupational Markets*



M25 Offices

Q4 2022

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KEY TAKEAWAYS

1

With the final quarter recording a quarter-on-quarter uplift of 37%, take-up for 2022 finished 6% ahead of the previous year

2

TMT occupiers accounted for 23% of office take-up during the year, and 26% of deals completed during the year

3

Life sciences dominated both leasing and investment activity in Oxford and Cambridge

4

Investment volumes increased by 15% quarter-on-quarter in Q4

5

Prime office yields for the South East offices moved out to 6% in Q4

EXECUTIVE SUMMARY

Occupier activity proves resilient despite significant headwinds.

The final quarter of 2022 registered a late flurry of occupier activity. During the quarter, 809,121 sq ft was leased, a total that represents a quarter-on-quarter uplift of 37%. Consequently, take-up across the South East for the year increased to 2.75m sq ft, 6% ahead of total take-up recorded in 2021 but 12% short of the 10-year annual average. The high deal count was a factor in supporting the year-on-year rise. In 2022, 244 occupier deals were completed. This is the highest total since 2018.

Turbulent times for TMT, but still growing in the South East.

The strength of the TMT sector proved decisive to the fortunes of the South East office market in 2022. While some of the global technology firms are reducing headcount, the TMT sector again registered footprint growth across office markets in the South East. TMT occupiers accounted for 23% of office take-up during the year, and 26% of deals completed during the year. The M4 corridor was again the principal location of interest, but at 27, the M3 market recorded the highest number of TMT deals of the past 20 years.

Life Sciences drives activity in Oxford and Cambridge

Life sciences dominated activity again in Oxford and Cambridge, with 470,000

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. Furthermore, asset sales in Cambridge and Oxford accounted for 37% of investment volumes in the South East. This equated to just over £1 billion, as investors continued to allocate capital towards workspaces targeting life sciences and innovation led companies.

Grade B bolsters vacancy rates.

There was further evidence of the flight to better quality offices being underway, with take up for grade A offices offering strong sustainability credentials and amenity offerings accounting for 87% of all space taken. While overall vacancy for the South East finished the year just above the long-term average at 7.6%, availability for new or recently refurbished offices remained unchanged over 2022. Meanwhile, the representation of grade B, or secondary, office stock to overall vacancy is at its highest level since 2014.

Wider turmoil does not deter investment.

While investors were understandably hesitant, the final quarter recorded transactions worth £748 million, up 15% when compared to Q3. This meant that turnover for the year increased to

£2.8 billion. Although this is 31% less than the previous year, activity in 2021 stood out as a record year for South East office investment. When compared to the 10-year annual average, investment volumes in 2022 were just 5% behind.

International buyers target high value assets

During 2022, UK buyers accounted for two thirds of the transactions by number. However, overseas buyers accounted for 53% of investment volumes and were responsible for four of the six deals to complete with a price tag of £100m or more.

Sharp shift in pricing in Q4

Turbulence within domestic and global capital markets led to rapid market repricing in Q4 2022. Prime office yields for the South East offices moved out to 6% in response to the sharp rise in swap rates and the erosion of the gap between UK Gilts and office yields.

Whilst price discovery is now a characteristic of the market, the shift in pricing is attracting new entrants. Opportunistic buyers are active and as stability continues, we anticipate that core and core-plus investors will return in greater numbers. This growth in interest should lead to an increase in liquidity in the coming months and support the possibility of yield compression as the year progresses.

OCCUPIER MARKET

Despite significant headwinds, occupier activity registered an improvement of 6% year-on-year. The technology sector dominated transaction schedules and new enquiries, accounting for 23% of take-up and 26% of deals in 2022



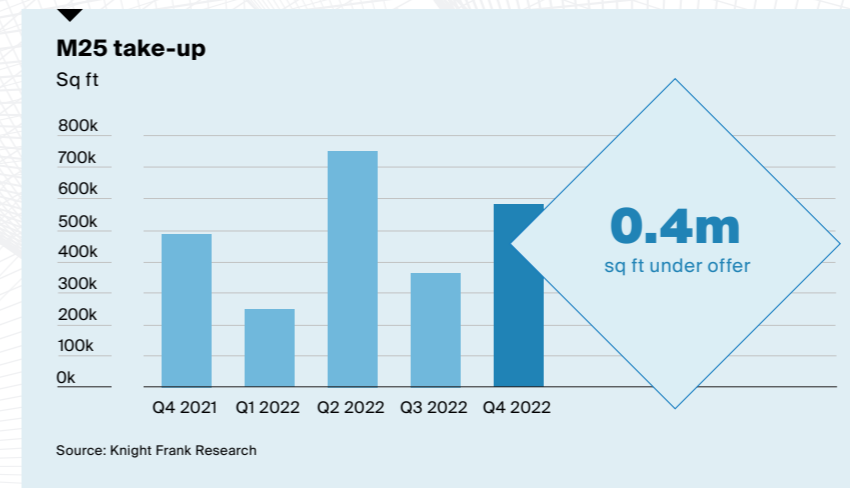
Samsung leased 38,000 sq ft at One Cambridge Square

Take-up and supply

Q4 2022

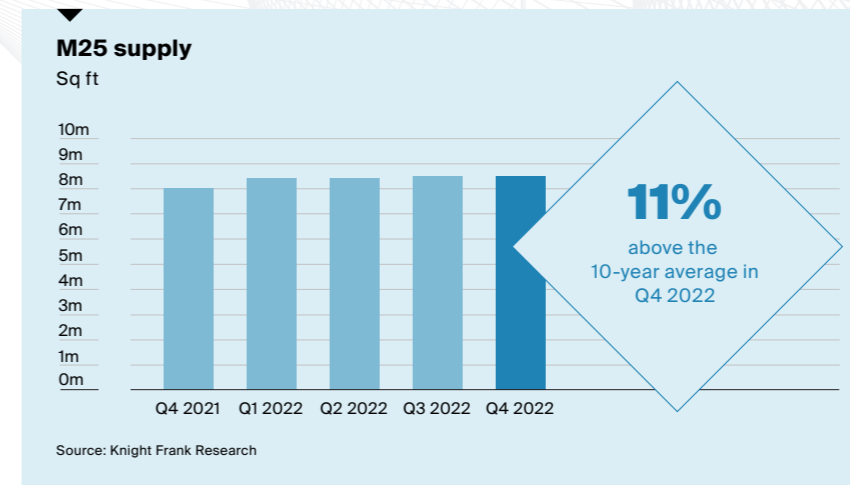
	TAKE-UP (SQ FT)	TAKE-UP (VS Q3 2022)	SUPPLY (SQ FT)	SUPPLY (VS Q3 2022)	VACANCY RATE
M25	580,442	▲ 60%	8.5m	▲ 1% New and Grade A space: 66%	7.1% New and Grade A space: 4.6%
M3	273,560	▲ 91%	2.4m	▲ 9% New and Grade A space: 73%	6.1% New and Grade A space: 4.5%
M4	358,921	▲ 22%	7.2m	▲ 4% New and Grade A space: 76%	10.9% New and Grade A space: 8.3%

Source: Knight Frank Research



Roddy Abram

Take up remained resilient over the 2022, despite macroeconomic shockwaves and hybrid working patterns. While the average size of transactions has reduced, the number of occupiers looking for the best-in-class space has increased, evidenced by deal count and how most new leases were for new or comprehensively refurbished modern offices.



Jack Riley

With the need to justify the rising costs of refurbishment and development, we continue to see rental growth across the prime South East locations and 2023 looks likely to be more of the same with the best quality buildings that are ESG compliant and amenity rich continuing to experience competitive tension.

Key leasing transactions

Q4 2022

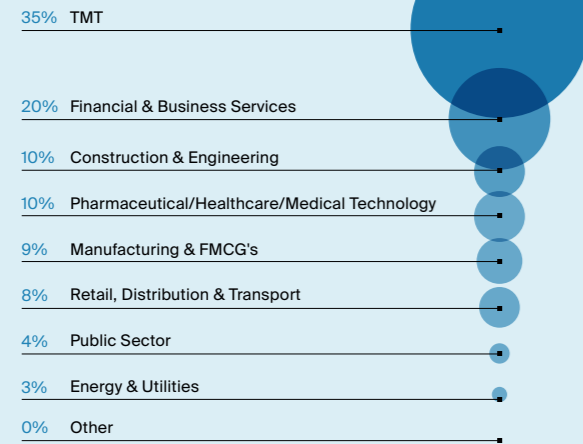
ADDRESS	SIZE SQ FT	OCCUPIER	RENT £ PER SQ FT
Brooklands, The Heights, Weybridge	115,000	GlaxoSmithKline (Haleon)	confidential
Brent Cross New Town, Barnet	110,000	University of Sheffield Hallam	confidential
Park House, Crawley	40,000	Nestle	confidential
One Cambridge Square, Cambridge North	38,000	Samsung	£40.00
Marlow International, Marlow	28,000	Orega	£28.00

Source: Knight Frank Research. GIA

ACTIVE DEMAND: 5.9M SQ FT

Named demand in the South East

Active named demand by sector
Q3 2022



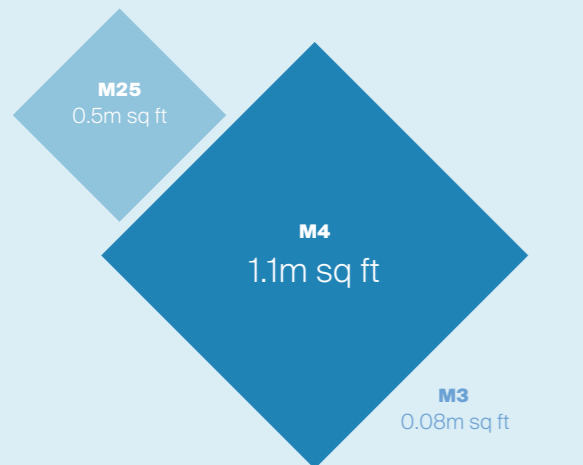
Source: Knight Frank Research

DEVELOPMENT: 1.9M 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 2024



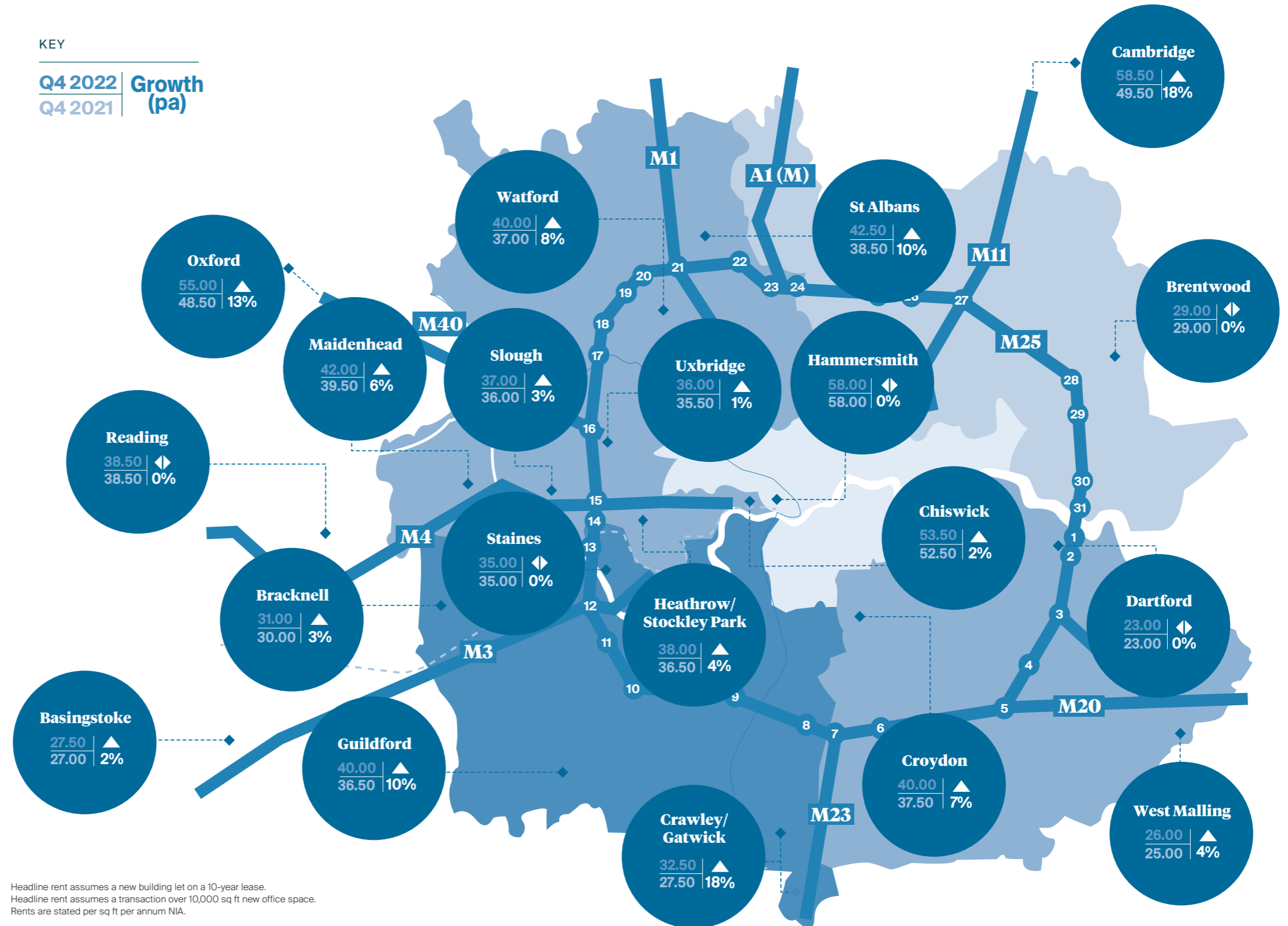
Source: Knight Frank Research

PRIME RENTS

£ PER SQ FT

KEY

Q4 2022 | **Growth (pa)**
Q4 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.



Kadans acquired Windrush Court, Oxford

INVESTMENT MARKET

A final quarter flurry of activity led to investment volumes finalising just shy of the long-term trend. With interest rates still rising, yields registered a further softening in Q4



£748m

South East transaction volumes



£29m

Average lot size



6.00%

Prime net initial yield



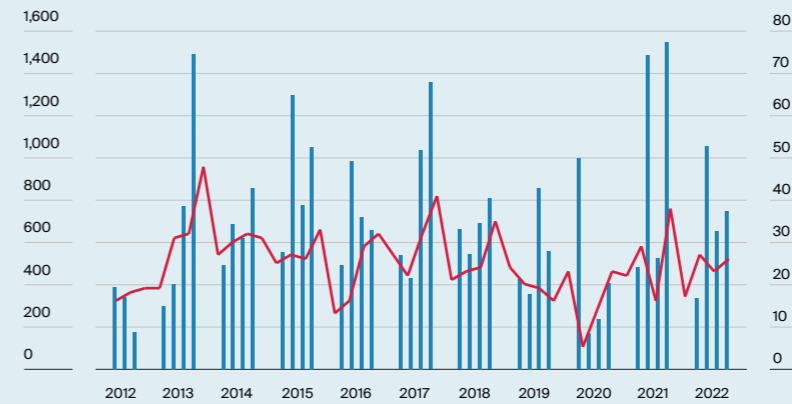
47%

Buyers from the UK

Footnote: Headline statistics are representative of Q4 2022.

Investment volumes

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



Source: Knight Frank Research

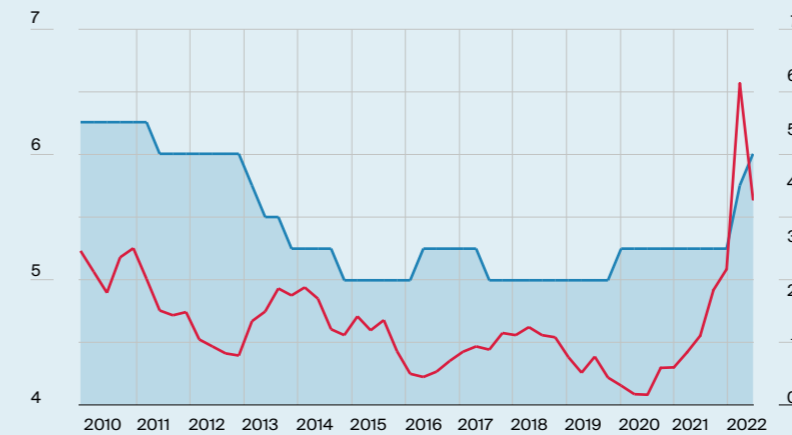


Simon Rickards

Many factors impacted investor sentiment throughout 2022, but after a period of pricing discovery in Q4, brought about by economic and geopolitical turmoil, transactions have begun to take place at a rebased level with relative increased stability.

Prime net initial yield and finance

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



Source: Knight Frank Research



Henry Wyld

The focus on prime buildings and locations, the softening pricing of secondary assets, significant interest in life sciences opportunities and repositioning of tertiary/stranded assets were all present in 2022. These themes will continue in the coming year.

Key transactions Q4 2022

ADDRESS	PRICE (£M)	VENDOR	PURCHASER
Botanic Place, Cambridge	£162.00	Pace Investments Ltd	RPMI Railpen
Gunnels Wood Road, Stevenage	£91.00	GlaxosmithKline	UBS / Reef
194, 196 and 198 Cambridge Science Park, Cambridge	£85.00	Legal & General	Cadillac Fairview / Stanhope Plc
Windrush Court, Oxford	£60.00	Oxford Biomedica (UK) Limited	Kadans Science Partners
1 City Place, Gatwick	£57.50	Legal & General	Qatar Insurance Company

Source: Knight Frank Research

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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 31st Dec 2022.

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