

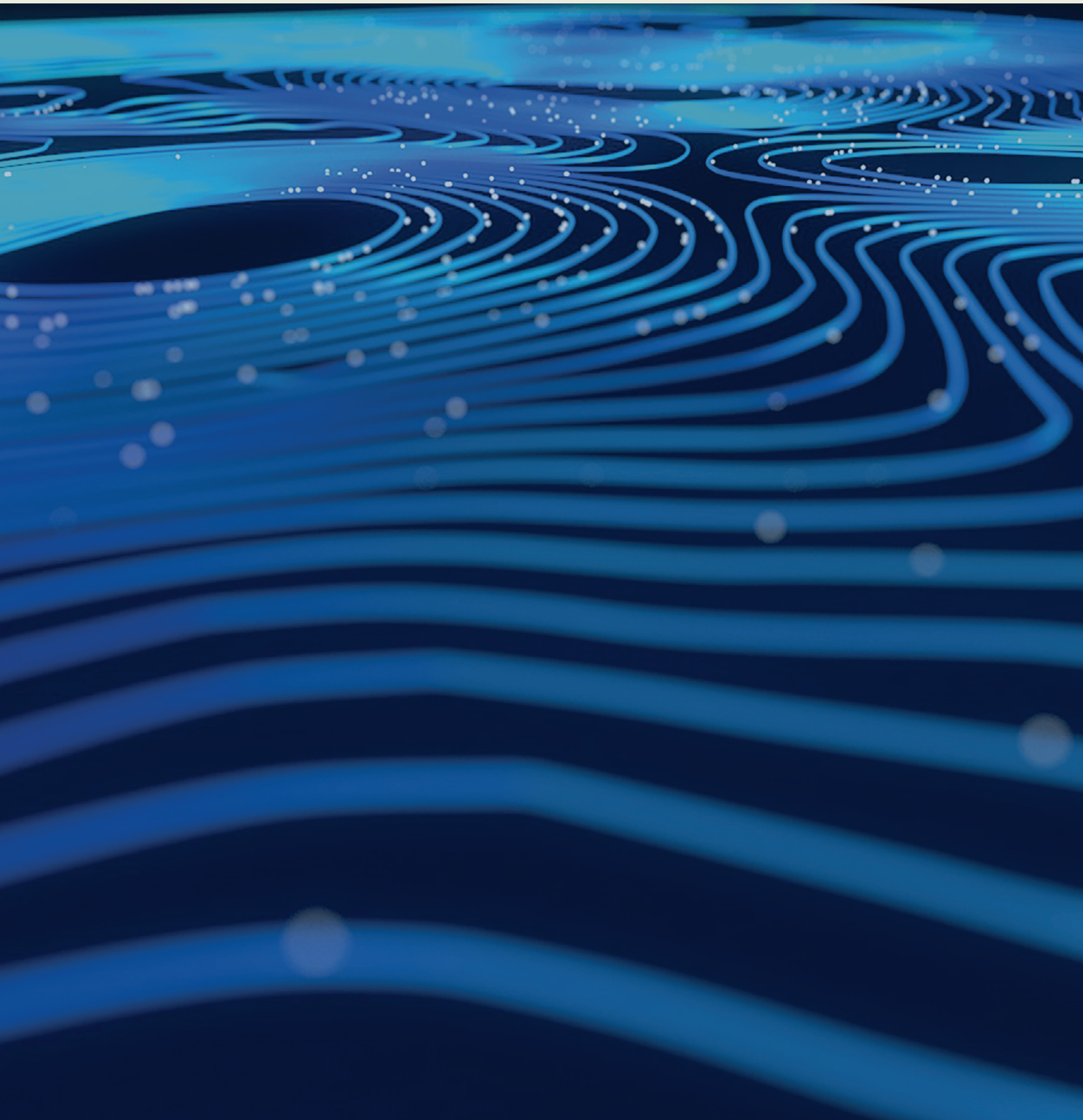
M25 & South East Market Report



Q4 2023

Investment, Development & Occupational Markets

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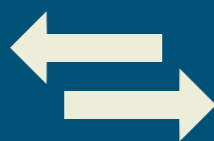


Key takeaways



1

Take-up in the South East rises by 64% quarter-on-quarter in Q4.



2

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



3

Investment volumes in Q4 improved, but remained below the long-term trend.



4

Liquidity thin for higher value assets.



5

Prime office yields in the South East increased to 7.00% during Q4, reflecting a 100bps outward shift over 12 months.

Executive Summary

OCCUPIER ACTIVITY PROVES RESILIENT DESPITE SIGNIFICANT HEADWINDS.

The expectation of a tight future supply landscape set the tone for solid occupier activity in the final quarter of 2023. During Q4, take-up increased by 64% quarter-on-quarter to reach 1.4m sq ft, the highest quarterly total since 2018. Consequently, take-up across the South East for the year increased to 3.45m sq ft, almost identical to the total of 2022 and 3% above the 5-year annual average. A high deal count supported the level of take-up. In 2023, 333 occupier transactions were completed, the highest number of deals in our records.

BEST AND THE REST

A continuing occupier trend observed in 2023 was a distinct focus on acquiring the best quality. This has meant that firms have acted earlier to secure spaces, with the number of leases agreed during the construction process the highest since 2001. New and Grade A space accounted for 84% of take-up in 2023. In contrast, Take-up of grade B space was low, accounting for just 16% of the total.

QUALITY OVER QUANTITY

The final annual results demonstrated a broader trend of reducing requirement sizes. During the year, 74% of deals were for 10,000 sq ft or less, albeit the number of deals completed at the size range was the highest in our records. Overall, the average deal size in 2023 was 10,400 sq ft. This is the smallest in our records, dating back to 1992.

DEMAND CONCENTRATION CREATES UPWARD RENTAL PRESSURE.

Activity levels varied considerably across the markets. In 2023, 6 markets accounted for 50% of total take-up. Consequently, due to this pressure on high quality and the polarisation of markets, 17 of 54 markets recorded an increase in prime rent during 2023, and 17 of 54 recorded a decrease. The remainder stayed the same as year-end 2022.

SUPPLY LANDSCAPE SHIFTING

The overall vacancy for the South East increased marginally in 2023, finishing the year above the long-term average at 7.8%. Interestingly, Grade B space accounted for 24% of South East availability at year-end. This is the lowest representation since mid-2021 and demonstrates new stock coming to market and a greater prevalence of lower-quality stock being taken out of the market.

In 2023, over 1.4m sq ft of speculative development was completed, the highest total since 2017. However, Oxford and Cambridge accounted for 44% of this total as these markets respond to demand for Life Sciences companies. At year-end, 3m sq ft of speculative space was under construction and due to be completed before the end of 2025. Of this, Oxford and Cambridge account for 28%.

WIDER TURMOIL HINDERS OFFICE INVESTMENT.

Investment activity remained subdued in Q4, with £218m of office stock trading, marking a 57% increase compared with Q3 2023, but still 69% below 69% below the 10-year quarterly average. Consequently, investment volumes for 2023 finalised the year at £1.3bn, 55% less than in 2022 and 54%

below the 10-year annual average.

The absence of international buyers partly contributed to the subdued level of market activity in 2023. Although responsible for two of the three transactions over £50m, the number of deals completed by foreign buyers represented 26% of the market, down from 37% in 2022.

LIQUIDITY THIN FOR HIGHER VALUE ASSETS

Despite market challenges, 2023 registered a relatively high number of investment deals. During the year, 88 investment transactions were completing, just ahead of the 5-year annual average of 86. However, liquidity at the higher value section of the market proved tight, with only three transactions above £50m completed. This compares with an annual average of 16. Notably, Life Sciences assets accounted for two of the three transactions above £50m.

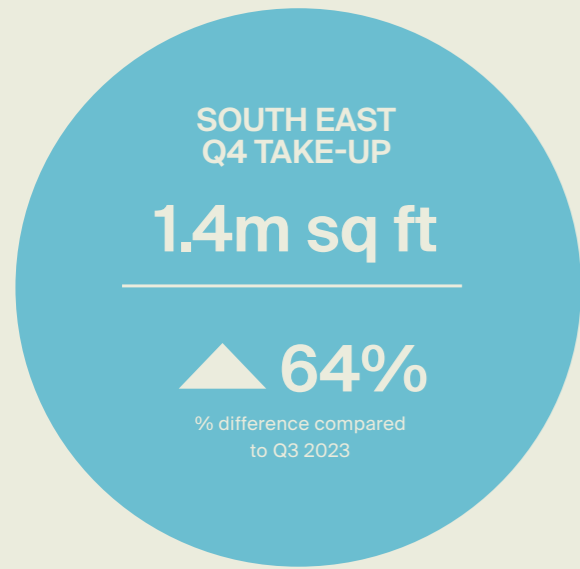
PRICING TO SETTLE IN 2024?

The continued turbulence within domestic and global capital markets led to rapid market repricing in 2023. Prime office yields for the South East increased by 100bps to 7.00% over the year, a level not recorded since the Global Financial Crisis.

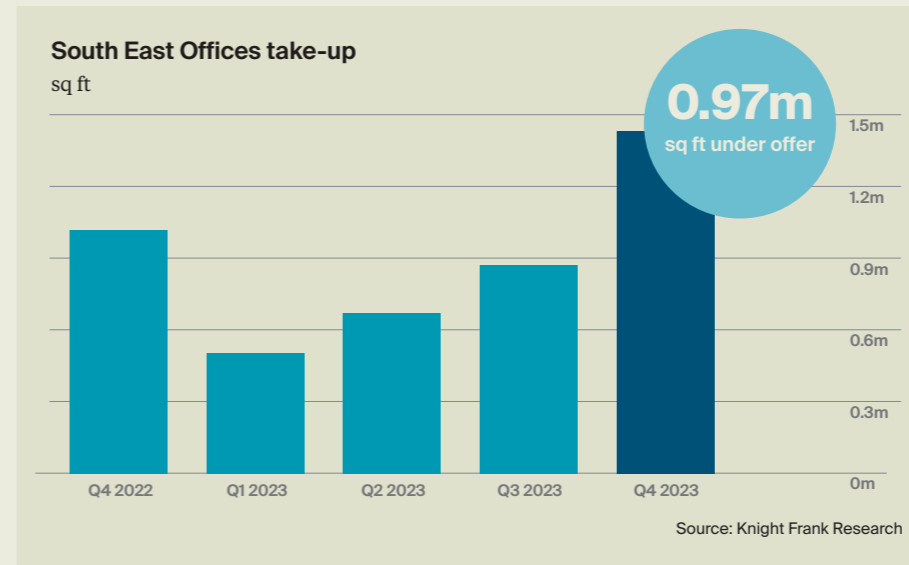
Moving forward, inflationary pressure and capital markets have stabilised, with forecasts indicating a fall in interest rates can be expected in 2024. Price discovery will remain a firm market characteristic, at least for the short term, with the shift in capital values offering opportunities for some investment groups. Equity-backed opportunistic buyers are active, and as markets continue to stabilise, we anticipate that core and core-plus investors will grow in number.

Occupier market

Occupier activity accelerated in Q4 reflecting a rising occupational need to engage with the market. Supply levels remain stable, with the development pipeline challenged by high build costs.

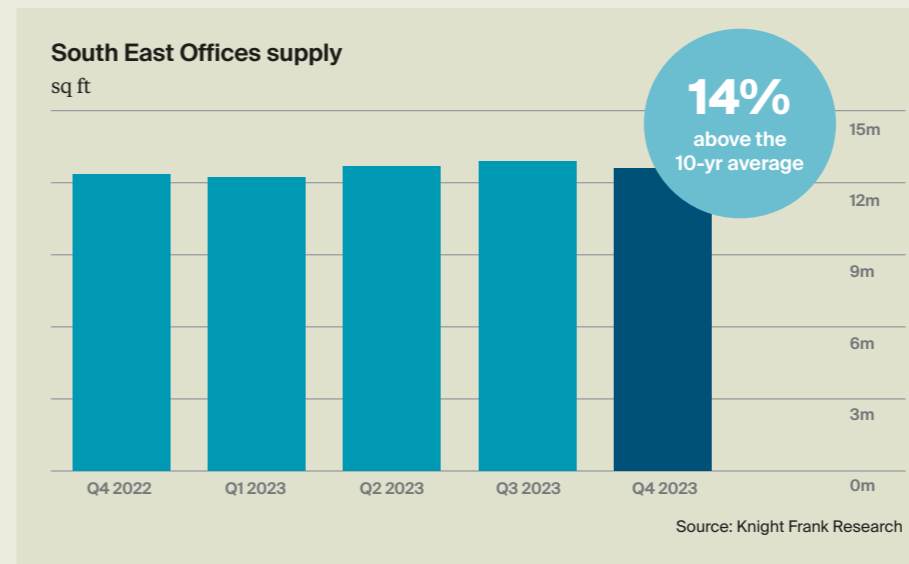


1000 Hillswood Park, Chertsey



RODDY ABRAM

The gulf in demand between best in class space and older, unmodernised buildings continues to widen, and forthcoming lease breaks and EPC regulations will accelerate this trend further in 2024.



JACK RILEY

With active requirements growing but grade A availability declining, office landlords will increasingly need to commit capital expenditure to create futureproofed space.

Take-up and supply Q4 2023

	TAKE-UP (SQ FT)	TAKE-UP (VS Q3 2023)	SUPPLY (SQ FT)	SUPPLY (VS Q3 2023)	VACANCY RATE
SE	1,430,697	▲ 64%	12.6m	▼ -2% New and Grade A space: 76%	7.8% New and Grade A space: 5.9%
M25	557,532	▲ 28%	8.3m	▼ -4% New and Grade A space: 72%	6.9% New and Grade A space: 4.9%
M3	320,967	▲ 104%	1.9m	▲ 2% New and Grade A space: 78%	4.8% New and Grade A space: 3.8%
M4	566,051	▲ 103%	8.1m	▲ 1% New and Grade A space: 81%	12.2% New and Grade A space: 9.9%

Source: Knight Frank Research

Key Leasing transactions Q4 2023

ADDRESS	SIZE SQ FT	OCCUPIER	RENT £ PER SQ FT
Thames Valley Park, Reading	184,500	Lonza	Freehold Sale
400 Longwater Avenue, Reading	119,424	Wood Plc	£40.00
1000 Discovery Drive, Cambridge	79,995	BioNtech	Conf
1000, Hillswood Park, Chertsey	78,259	Air Products	£36.00
200 Fowler Avenue, Farnborough Business Park	35,692	Fluor UK	£25.00

Source: Knight Frank Research.

Prime Rents

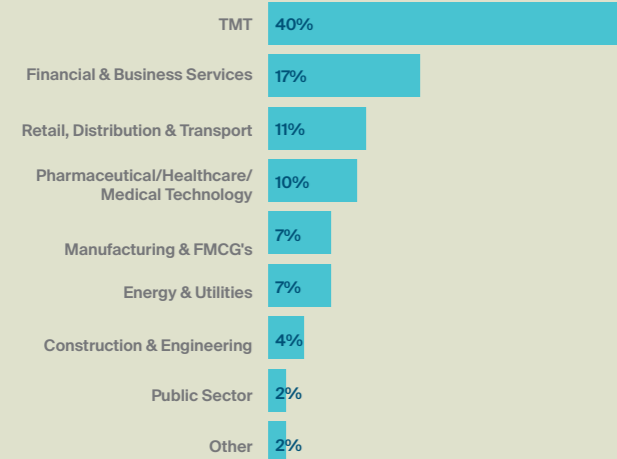
£ per sq ft

ACTIVE DEMAND: 4.9M SQ FT

Named demand in the South East

Active named demand by sector

Q4 2023



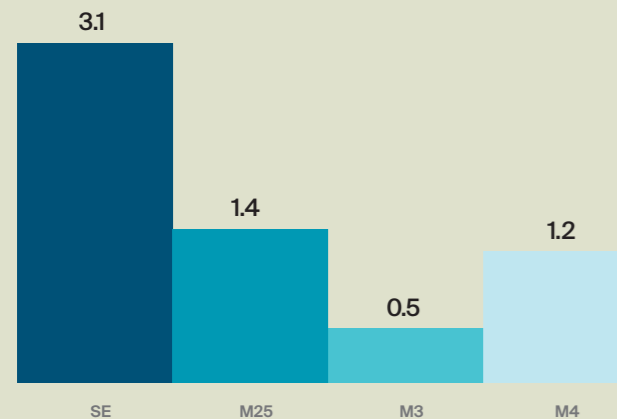
Source: Knight Frank Research

DEVELOPMENT: 3.9M SQ FT

Space under construction in the South East

Speculative development

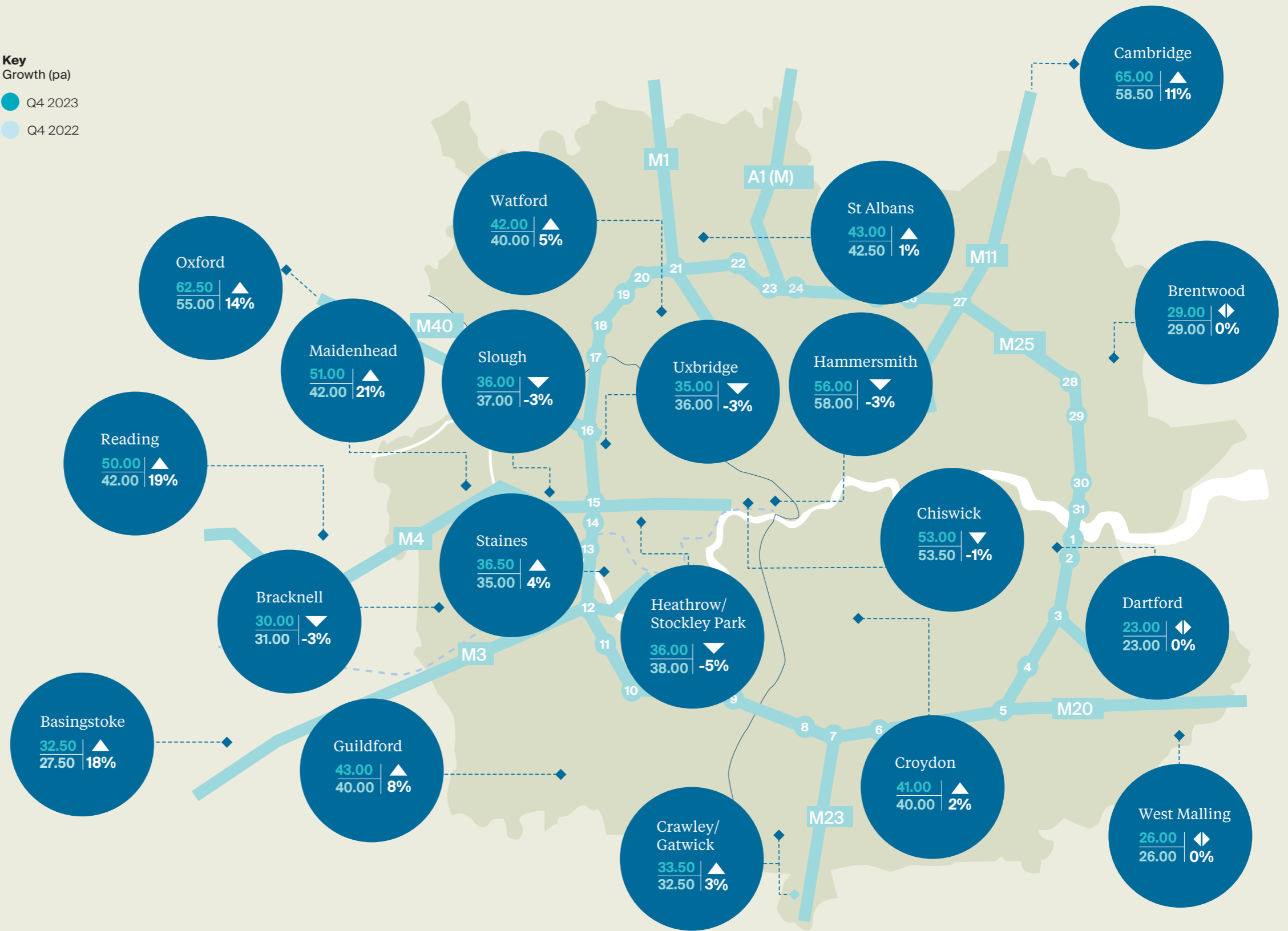
Sq ft due to complete before 2026



Source: Knight Frank Research

Key
Growth (pa)

● Q4 2023
● Q4 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 final quarter were low, albeit the amount of stock under offer is rising. Pricing moved out by a further 25bps as economic and capital markets uncertainty continued.



St Pauls House, Winchester



£218m*

South East transaction volumes



£12.09m

Average lot size



7.00%

Prime net initial yield

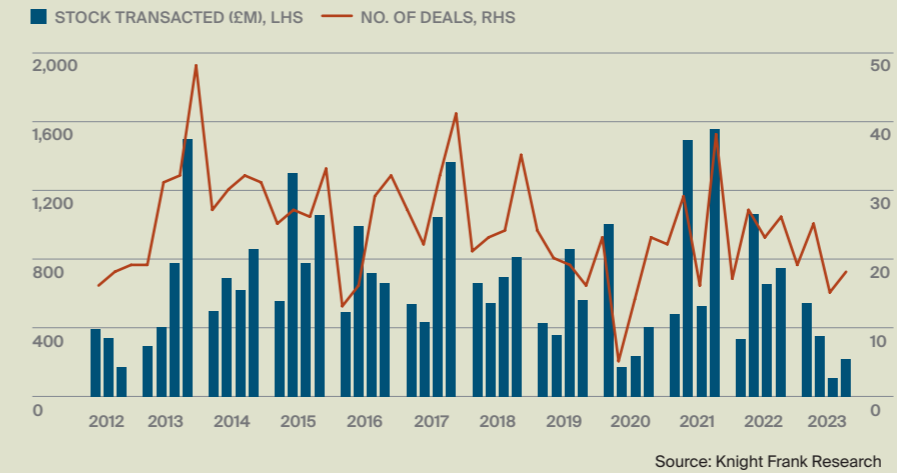


61%

Buyers from the UK

* Includes occupier acquisition
Footnote: Headline statistics are representative of Q4 2023

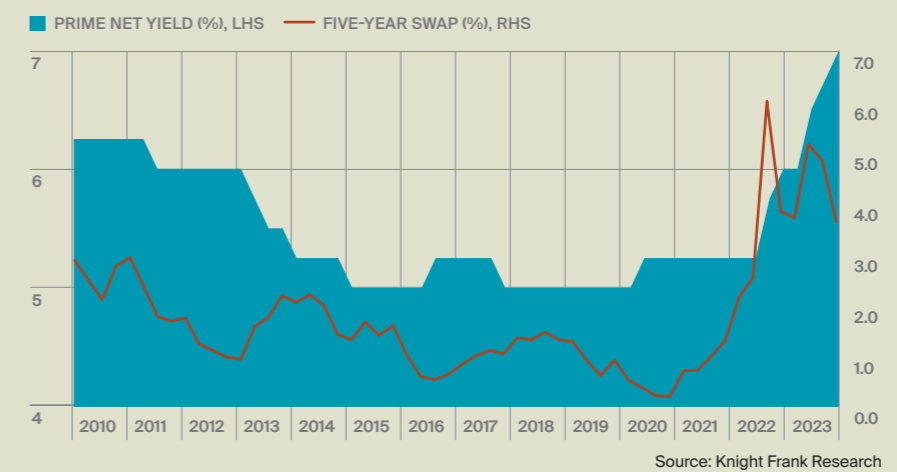
Investment volumes



SIMON RICKARDS

After a particularly turbulent 12 months, we expect there to be increased levels of investor activity during the course of 2024, with vendors becoming increasingly realistic regarding pricing, and buyers looking to invest into the beginning of a new cycle, particularly in 'winning' occupier markets.

Prime net initial yield and finance



HENRY WYLD

With forecasts indicating that interest rates have peaked, clarity on the direction of UK monetary policy will enable investors to assess market opportunities with more surity.

Key transactions Q4 2023

ADDRESS	PRICE (£M)	NET INITIAL YIELD	VENDOR	PURCHASER
Breakspear Park, Breakspear Way, Hemel Hempstead	£30m	n/a	Columbia Threadneedle	Praxis
Caldecotte Lake Business Park, Milton Keynes	£21m	12.50%	Galliard Homes Limited	DNA UK Properties
Grove House, 27 Hammersmith Grove, Hammersmith	£17m	14.48%	Columbia Threadneedle	Central & Provincials Properties Candour Group
Santander House, 80-86 Station Road, Redhill	£15m	8.74%	BlackRock	CitiBank

Source: Knight Frank Research. GIA

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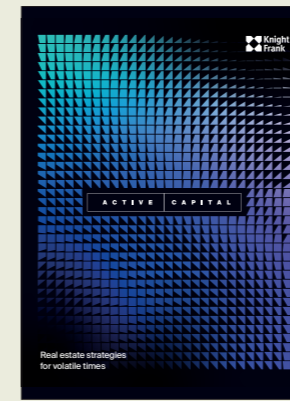
M25 Key Markets



M25 - The Next Chapter



The London Report



Active Capital



UK Cities



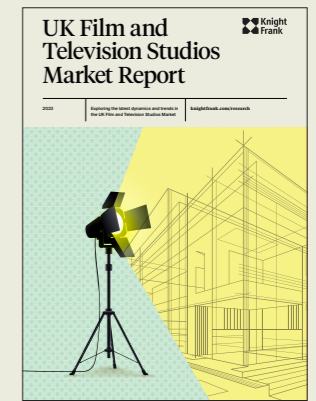
(Y)OUR SPACE



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 31st December 2023.

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