

M25 OFFICES

INVESTMENT, DEVELOPMENT &
OCCUPIER MARKETS **Q4 2014**

HIGHLIGHTS

Q4 M25 office take-up 27% up on Q3. Whole year take-up 17% below 10 year average

M25 vacancy rate remains below the 10 year average at 6.4%. M4 vacancy rate is 7.7% – below the 10 year average

South East office investment strengthens with quarterly turnover 82% above the five-year average, and yields at 5.25% NIY

DEMAND AND TAKE-UP

- Take-up across the M25 office market reached 2.1m sq ft in 2014, 17% below the 10 year average. Q4 take-up of 531,062 sq ft, was 27% up on Q3. Almost three-quarters of office space taken was Grade A and New.
- A feature of 2014 has been the lack of large deals, only 8 were over 50,000 sq ft.
- M4 take-up reached 523,610 sq ft in Q4, 28% up on the previous quarter, and 25% above the five year quarterly average. 90% this take-up was Grade A and New.
- In the M3, relatively subdued take-up of 92,504 sq ft in Q4 (down 34% on the previous quarter), took the annual total for 2014 to 720,968 sq ft, down 31% on 2013. 57% of take-up was Grade A and New.
- The market witnessed 224 transactions in 2014 compared with 216 in 2013.
- The underlying sectors driving demand are TMT (24%), Financial & Business Services (21%), Retail & Distribution (20%), and construction (9%).
- The year end named demand level was at 6.8m sq ft, up 30% on 2013 (5.3m sq ft).



SUPPLY AND DEVELOPMENT

- Availability across the M25 stood at 8.4m sq ft at the end of 2014, two-thirds of this space is New/Grade A quality.
- While availability across the main markets fluctuated in Q4, the annual trend is down. The M3 saw the steepest decline in availability in 2014.
- The M25 vacancy rate remains belows the 10 year average at 6.4%. While the vacancy rate in both the M4 and M3 increased very slightly to 7.7% and 6.9%, respectively.
- At the end of Q4, 29 schemes were underway speculatively across the main markets totalling 2.4m sq ft, a rise of 20% from Q3. This is likely to expand further, with circa 500,000 sq ft expected to commence in Q1 2015, mostly comprising redevelopment of existing buildings.

FIGURE 1
M25 take-up

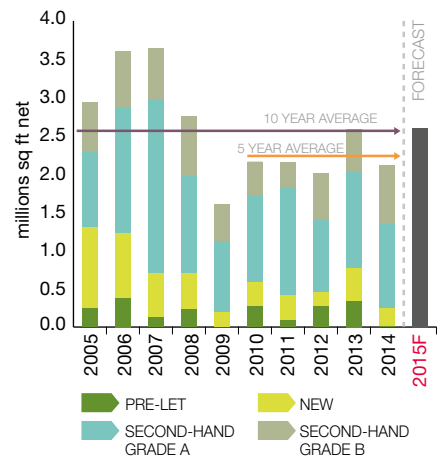


FIGURE 2
M4 take-up

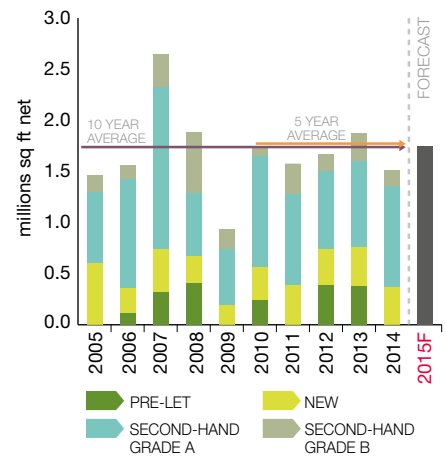
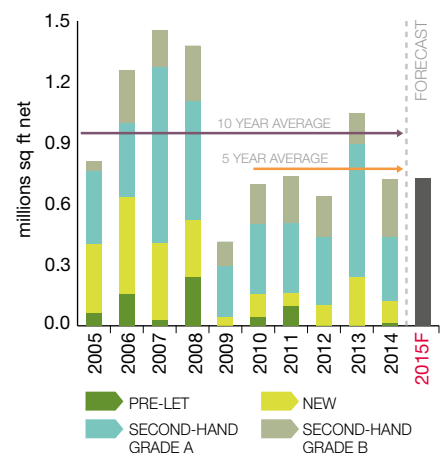


FIGURE 3
M3 take-up



Source: Knight Frank Research

MARKET STATISTICS

TABLE 1

Key town prime rents & forecasts

Town	Q4 prime rent (psf)	Rent free (months)
Basingstoke	£18.00 ▶	33 ▶
Bracknell	£23.00 ▲	27 ▼
Brentwood	£21.00 ▶	24 ▶
Chiswick	£52.00 ▲	15 ▼
Croydon	£24.50 ▲	18 ▼
Gatwick	£24.50 ▲	20 ▼
Guildford	£31.50 ▲	18 ▼
Hammersmith	£51.00 ▲	15 ▼
Heathrow	£32.00 ▲	21 ▼
Maidenhead	£33.50 ▲	21 ▼
Reading	£33.50 ▲	21 ▼
Slough	£26.00 ▲	27 ▶
Staines	£33.00 ▲	21 ▶
St Albans	£25.50 ▲	18 ▼
Uxbridge	£32.00 ▲	21 ▶
Watford	£24.00 ▲	24 ▼
West Malling	£21.75 ▶	21 ▼

Based on new/Grade A building:
10,000 sq ft, 10 yr lease with no breaks

Note: ▲ = forecast for next 12 months

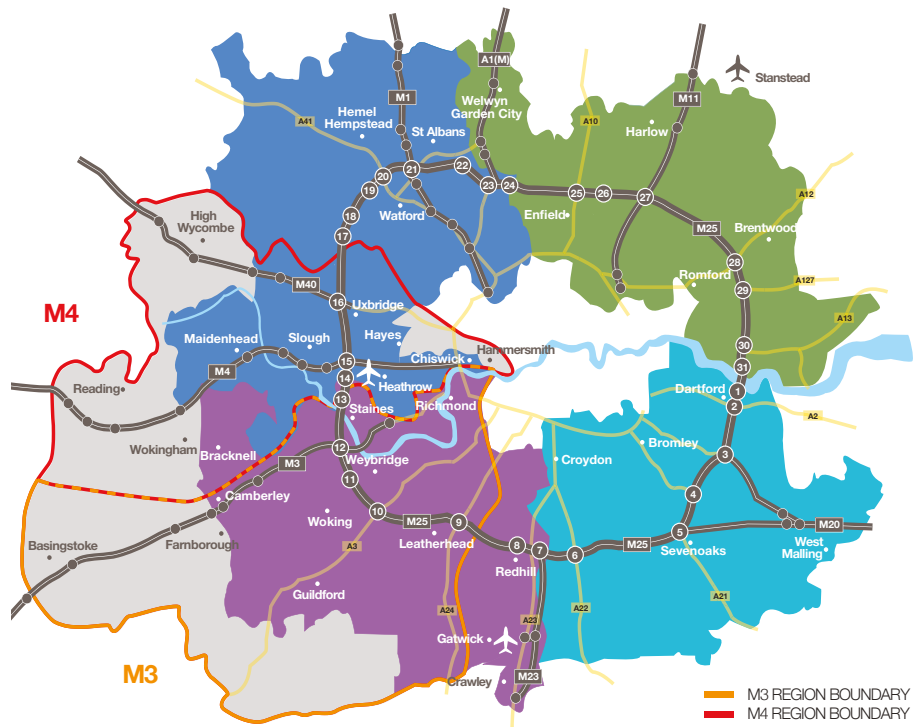


TABLE 2

Demand & Supply

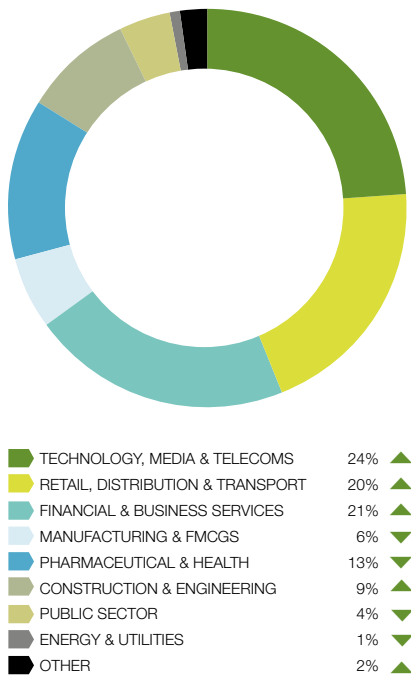
Take-up	M25	NW	SW	NE	SE	M3	M4
sq ft	531,062	288,079	105,101	42,708	95,174	92,504	523,610
Change Q4 14 vs Q3 14	27% ▲	51% ▲	-23% ▼	216% ▲	22% ▲	-34% ▼	28% ▲
Change Q4 14 vs Q4 13	-13% ▼	22% ▲	-63% ▼	206% ▲	22% ▲	-25% ▼	22% ▲
Q4 Pre-let (sq ft)	0	0	0	0	115,000	0	0
Q4 % New & Grade A (inc pre-lets)	72%	89%	67%	100%	13%	57%	90%
Year-to-date (m sq ft)	2.11	0.84	0.94	0.06	0.26	0.72	1.51
Annual change	-18% ▼	-23% ▼	-11% ▼	-70% ▼	11% ▲	-31% ▼	-19% ▼
Forecast 2015 take-up (m sq ft)	2.60	1.06	1.19	0.07	0.28	0.70	1.75

Availability	M25	NW	SW	NE	SE	M3	M4
sq ft	8,387,960	3,740,851	2,917,193	437,775	1,292,141	2,824,256	5,465,190
Change Q4 14 vs Q3 14	0.2% ▼	-2% ▼	0% ◀▶	17% ▲	0.5% ▲	2% ▲	3% ▲
Change Q4 14 vs Q4 13	-7% ▼	-5% ▼	-13% ▼	41% ▲	-9% ▼	-9% ▼	-7% ▼
Q4 % New	15%	12%	23%	13%	8%	16%	17%
Q4 % second-hand Grade A	52%	63%	44%	42%	38%	49%	64%
Q4 % second-hand Grade B	33%	24%	33%	46%	54%	35%	19%
Q4 vacancy rate	6.4% ◀▶	7.4% ▼	7.1% ◀▶	2.5% ▲	6.4% ▲	6.9% ▲	7.7% ▲

Under construction	M25	NW	SW	NE	SE	M3	M4
sq ft (net)	1,572,823	1,146,053	426,770	0	0	354,867	2,051,953
Change 12 months	53% ▼	57% ▲	43% ▲	0% ◀▶	0% ◀▶	19% ▲	77% ▲
Pre-let	0	0	0	0	0	0	115,000

Source: Knight Frank Research

FIGURE 4
M25 active named enquiries by sector



Active demand is 6.86m sq ft at Q4 2014

Note: % = current share of demand
▲ = Movement in last 12 months (absolute terms)

FORECAST AT A GLANCE

	M25	M3	M4
Forecast 2015 take-up (million sq ft)	2.60	0.70	1.75

Take-up:

- Take-up to return to 10 year average levels in the M25. 2015 take-up to be 2.6m sq ft.
- Transactions over 50,000 sq ft to increase but the core market of 10-30,000 sq ft will continue to dominate. Pre-let activity to increase as competition for larger buildings, in scare supply, increases.
- May election to have limited impact during 2015 as the focus remains on securing the best staff and enhancing work environment.
- Continued focus on New and Grade A space linked to recruitment challenges.
- Merger and acquisition activity to drive demand particularly in the telecoms sector.

Supply and rents:

- Further reduction in availability due to limited supply of new development and change of use/ Permitted development.
- Headline rents to rise in towns where major investment is taking place coupled with low supply levels.
- Crossrail to have positive effect on demand and rents.
- The London effect will continue to positively impact Hammersmith, Richmond and London boroughs with tube links, supporting sustained rental growth.

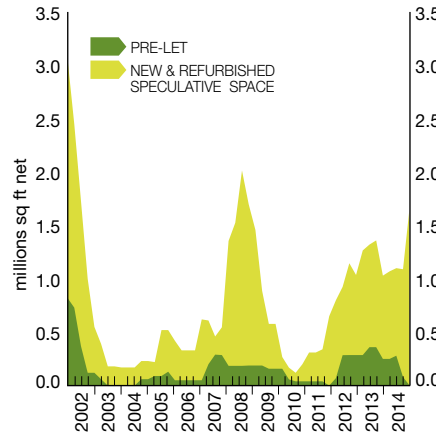


FIGURE 5
Vacancy rates



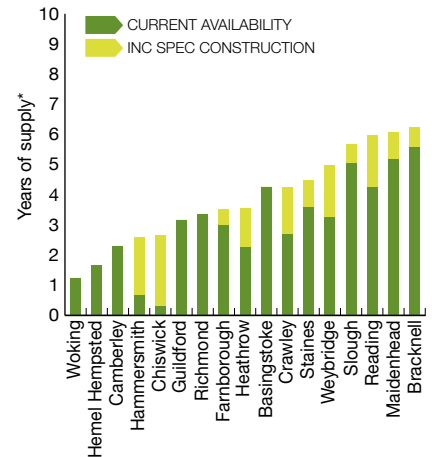
Source: Knight Frank Research

FIGURE 6
Space under construction in the M25



Source: Knight Frank Research

FIGURE 7
Years of New & Grade A supply



Source: Knight Frank Research

*Based on 10 year average New & Grade A take-up vs current New & Grade A availability

INVESTMENT MARKET

TABLE 3
Key investment transactions Q4 2014

Building	Size (sq ft)	Price	Net Initial Yield	Vendor/ Purchaser
One Reading Central, Reading	222,462	£94.50m	6.30%	Aberdeen Asset Management, M&G Real Estate
Grenfell Island, Maidenhead	197,493	£90.20m	5.82%	British Land, L&G
Ealing Cross, Ealing	134,582	£65.00m	5.50%	Benson Elliott, Aviva
London Square, Guildford	125,063	£43.50m	6.71%	IM Properties, M&G Real Estate
Santander House, Redhill	47,000	£19.10m	5.12%	Laidlaw Estates, Blackrock
Walton Green, Walton-on-Thames	30,970	£16.33m	5.25%	Capital Trust, Aberdeen Asset Management

“We expect market sentiment to remain bullish into 2015, with significant UK and overseas capital looking to be deployed, but held back by a lack of buying opportunities.”
Tim Smither, Partner at Knight Frank

INVESTMENT VIEW

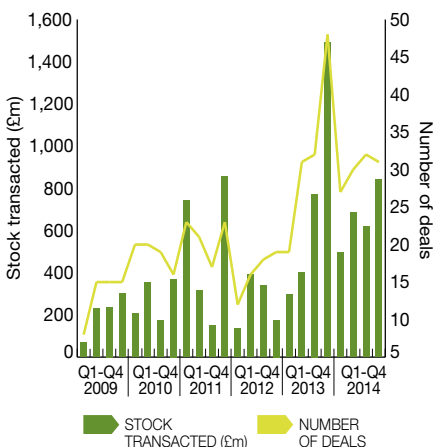
- Sentiment in the South East office investment market remains bullish with Q4 turnover reaching £856m. This is 75% above the 5-year quarterly average.
- 31 deals were transacted in Q4 giving an average lot size of £26.8m. This is 39% above the five year average.
- As with previous quarters, the biggest net investors were UK institutional funds who accounted for 64% of transactional volume in Q4. However, Q4’s largest single transaction was Hunter Real Estate’s £130m acquisition of The Causeway Staines and Aviator Park in Addlestone.
- This brings the total number of deals for 2014 as a whole to 121, with a total turnover value of £2.66bn. With the exception of 2013, when the figures were skewed by Chiswick Park (£780m), this is the highest annual total since 2007.
- Prime yields remain stable at 5.25% with significant demand from UK funds and overseas sovereign wealth funds, albeit prime product remains extremely scarce. As such, yields are expected to harden further during 2015 as investor demand significantly outweighs stock on the market.

	Transaction volume	Mean lot size	Mean NIY
Q4 2014	£855.51m	£27.2m	6.03%
Change 3 mths	36% ▲	40% ▲	46bps ▼
Change 12 mths	43%* ▼	78% ▲	162bps ▼

* 2013 figures include Chiswick Park (£780m)



FIGURE 8
Investment volumes



Source: Knight Frank Research

FIGURE 9
Mean initial yield & finance

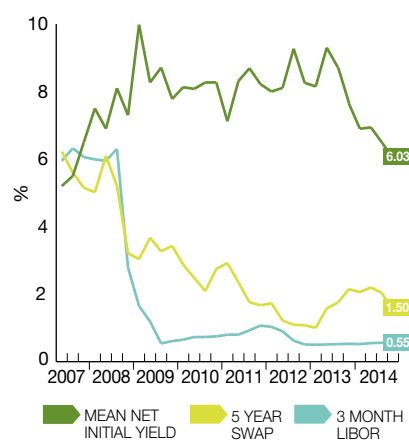
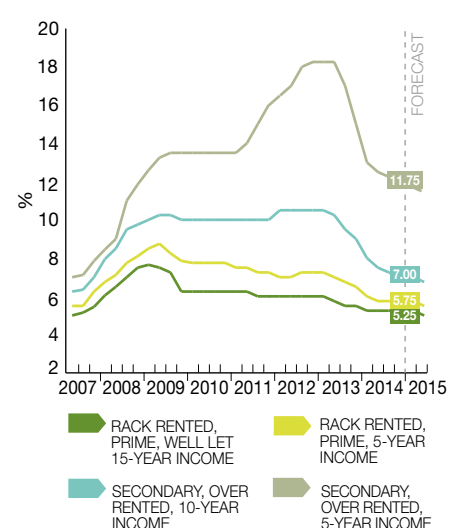


FIGURE 10
Yield forecasts



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TECHNICAL NOTE

- Knight Frank define 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. Existing built office stock in the M4 market totals 69.4m sq ft.
- 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. Existing built office stock in the M3 market totals 42.0m sq ft.
- 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.
- The market definition used, shown in the map on page 3, is based on Local Authority District boundaries.
- 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 130m sq ft (net), an M4 market stock of 69.4m sq ft (net) and an M3 market stock of 42m sq ft (net).
- 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.
- 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 December 31st 2014.

Front cover image: 450 South Oak Way, Green Park

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