News Release

8 October 2018

Knight Frank profits jump 14% to £166.7m led by resilient global markets

Results for the year ended 31 March 2018:

- **Group turnover up 10% to £525.9m** (2017: £476.2m)
- **Group profit before tax up 14% to £166.7m** (2017: £145.7m)
- **Strong balance sheet with net assets at £262.9m** (2017: £224.7m)

Results overview

Alistair Elliott, senior partner and group chairman commented: “I am pleased to report another very strong set of results for the group. Our turnover increased by 10% in the face of volatile markets and political conditions around the world and we improved our margins with profit up 14%. We believe that this is a reflection of the success of our concentration on organic and strategic investment in people over the past five years and is a tribute to the quality of our teams across the globe.

“If we reflect on our progress over the ten years since the financial crisis, there is good reason to feel confident. Since 2008, we have substantially increased the scale, breadth and scope of our business and, recognising the cyclical nature of our markets, we have retained profits in order to build a strong balance sheet that has no net debt. We think that this is particularly important in the current environment.

“Our investment in technology continues apace as we continue to put our people and clients at the heart of what we do. Through our technology board, we investigate and adopt technologies that will improve client service and are right for our business without impeding on the personal relationships, on which we remain firmly focused.

“In 2017/18, the UK again delivered very encouraging results, despite the ongoing uncertainty about outcomes surrounding Brexit. All our service lines performed strongly with a record result from our UK commercial business backed by another outstanding year across our UK regional offices. Our UK residential business also performed robustly, with pressures on the London and Country sales markets offset by a record year in lettings and new homes development and sales.

“We continue to grow our global network, focusing on the 12 gateway cities that represent locations where we believe we can make the greatest impact. Our Asia Pacific operations delivered record turnover and profit, with our businesses in Singapore and Hong Kong achieving their best years yet. In Europe, our teams in Germany, the Czech Republic and Belgium also achieved record years and we are delighted to see a strengthening in our French performance, a testament to the strategic recruitment of key individuals in our Paris office. Our global service lines outperformed, with record years for capital markets in Europe and Asia Pacific and records for our valuation and advisory businesses in Europe, Asia Pacific and MEA and for our office agency business in Europe.

“Mobility of staff, training and development remain central to our strategy of recruiting and retaining the best people in key areas around the world. Across our network, we are resolutely committed to embracing diversity and are taking a leading position in the industry to achieve this. We believe the solution lies in education and information about our sector reaching a wider range of people~~,~~ from an early age. We continue to take a leading role in many industry initiatives that are making great headway. However, we will have to be patient before we see significant results.

Market overview

“There is no denying that the headwinds in the UK have been significant, with increasing regulation, higher construction costs, a more complex and time-consuming planning process, a substantial rise in transaction costs and political instability. Despite this, aside from the much-publicised structural shift around retail and a cooling in residential prices, the real estate sector is performing reasonably well.

“If the UK real estate sector is to be allowed to continue to play its part then there must be an acknowledgement of the current barriers and an encouragement of investment. We need an urgent review of business rates, especially for the high street. We need to streamline the planning process, and focus particularly on how this might assist the required rejuvenation of those high streets where traditional retail is no longer an option. We believe there is huge potential to reintroduce more homes above shops and a strong chance this may ultimately lead to a much-needed transformation of some high streets and communities.

“The UK population is growing; to operate and remain competitive in a global arena our infrastructure must be a priority, implemented at greater pace and viewed over a 20 or 30 year period.

“We believe a rethink is required on purchase taxes. The multiplier effect of a vibrant homes market across all regions and all price bands is well-acknowledged, and something we need to address immediately. The Government’s recent announcement of a proposed increase in stamp duty land tax for overseas homebuyers shifts the purchase tax landscape yet again. Multiple stamp duty changes in recent years have slowed transaction volumes in some parts of the market by raising costs and creating further uncertainty. This in turn has reduced market liquidity, which is now leading to a fall in the stamp duty tax take. Moreover, overseas investment into new-build property has forward-funded the delivery of much needed accommodation, which otherwise might not have been developed.”

Commercial

The UK commercial market continues to experience mixed conditions. The industrial sector remains strong and is popular with investors thanks to the e-commerce revolution, while the opposite is true for retail. Nationally, the office market is gradually improving and the absence of a Brexit-related downturn in occupier demand is encouraging investors to buy in central London.

In Europe, Germany remains a popular market with investors, with above average transaction volumes in the Netherlands, Spain and Ireland. What’s more, the co-working revolution continues to spread and is having an impact on most occupier markets, forcing a general supply squeeze in offices.

In the Middle East, a determination to reform domestic economies, through diversifying away from oil, is leading to new real estate development projects. Also, the recent rise in oil prices is refilling the coffers of sovereign wealth funds and increasing the volume of capital available for investment in the coming year.

In Asia, economic growth generally remains strong, with impressive market expansion in South Asia, China and Southeast Asia. The explosion in e-commerce across the region continues to be a major driver of demand for logistics warehouses, while traditional retail remains challenging and co-working is an evolving trend for all major office markets across the region. While the US-China trade tensions, rising debt levels and the impact of rising interest rates in the US are likely to weigh on the region, the outlook for Asia remains broadly positive.

On a global level, cross-border investment demand has held strong, driven principally by Asian investors who continue to see the UK and US as popular destinations. Private equity firms have amassed significant ‘dry powder’ and are seeking greater diversity to spread risk. We expect this to buoy investment demand for commercial property in the coming year. Occupier markets should expect further tech demand and this will be supplemented by the finance sector and professional firms searching for more space.

Residential

Our key UK residential markets continue to experience tough trading conditions. The combination of very high stamp duty on £1m+ residential purchases and, to a lesser extent, the impact of Brexit uncertainty in consumer confidence, has acted to push sales volumes lower and put downward pressure on pricing. Central London has been the market hardest hit by these factors, although here lower prices have begun to support sales volumes.

Prime European residential markets have seen an uptick in performance, boosted by improved economic conditions. France, Italy and Spain in particular have seen improvements in demand from the UK and Northern Europe, with markets like Madrid leading with strong price growth.

Middle Eastern real estate markets have softened over recent months as commercial occupier demand has slipped. Despite this wider slowdown, there are pockets of relative outperformance, particularly in prime market sectors. The recent recovery in oil prices is positive for the local economy. Should crude oil sustain its recent price rise, we should start seeing positive ramifications on the economy and real estate market conditions.

Residential markets across Asia-Pacific have seen mixed performances with Chinese cities experiencing a slowing of growth, which had been at spectacular levels, while a resurgence of demand and pricing in Singapore is now falling back following newly introduced government cooling measures.

Measures aimed at calming price growth and dampening demand in housing markets remain a feature in markets as far apart as Canada, New Zealand and Australia – affecting the direction of investment flows from cross-border purchasers.

Gradual moves to higher interest rates are pushing investors to focus on income returns and value creation across global markets - with a growing focus on regeneration and infrastructure led opportunities.

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Knight Frank LLP Consolidated Profit and Loss Account

	2018 £M Audited	2017 £M Audited
Turnover	**525.9**	**476.2**
Staff costs	(227.1)	(202.2)
Depreciation and amortisation	(8.3)	(6.1)
Other operating income	5.7	6.4
Other operating costs	(132.8)	(132.9)
Operating profit	**163.4**	**141.4**
Share of operating profits of associated undertakings	2.4	2.4
Income from fixed asset investments	1.2	1.5
Profit before interest and taxation	**167.0**	**145.3**
Interest receivable and similar income	2.1	2.0
Interest payable and similar charges	(2.0)	(1.2)
Other financial income	(0.4)	(0.4)
Profit on ordinary activities before taxation	**166.7**	**145.7**
Tax on profit on ordinary activities	(3.6)	(3.3)
Profit or loss for the financial year after taxation and before members' remuneration and profit shares	**163.1**	**142.4**

Knight Frank LLP Consolidated Balance Sheet

	2018 £M Audited	2017 £M Audited
Intangible assets	0.4	-
Other fixed assets	25.4	27.3
Fixed assets	**25.8**	**27.3**
Cash at bank and in hand	184.0	166.6
Other net current assets	77.7	64.3
Net current assets	**261.7**	**230.9**
Creditors: amounts falling due after more than one year	(1.3)	(2.0)
Provision for liabilities and charges	(13.5)	(14.7)
Pension liabilities	(9.8)	(16.8)
Net assets	**262.9**	**224.7**

We have continued to build and develop strategically in key areas across our network. Some highlights include:

People

- **Nick Holt, Greater China –** Head of Research and Chair of British Chamber of Commerce
- **Mei-Han Wong, Greater China, Hong Kong –** Head of International Residential Sales
- **Tushar Rane, India** – Head of Capital Markets
- **Lisa Attenborough, UK –** Head of Commercial Debt
- **Charles Ingram-Evans, UK –** Head of Building Consultancy
- **Simon Leadbetter, UK –** Group Head of Marketing, Communications and Digital
- **Ross Murray UK –** Head of Rural Asset Management
- **Rory Penn, Thomas van Straubenzee, UK** – Joint Heads of Private Office
- **Tom Scaife, UK –** Head of Retirement Living
- **Justin Young, UK –** Chief Operating Officer

Expansion and innovation

- **Germany** – expanded our existing residential partnership with Ziegert in Germany through opening an office in Frankfurt
- **Hungary** – opened new office in Budapest
- **New Zealand** – established a new strategic partnership with Bayleys Realty Group Limited, New Zealand's largest full-service real estate agency with more than 90 offices and 1,800 members of staff
- **UK** – created a tech board to investigate, embrace and adopt technologies that are right for our business and will improve our service to clients
- **UK** – launched a dedicated team to focus on research, land agency, valuations, rentals and sales across the retirement sector in the UK
- **UK** – opened an office in Woolwich in the Royal Arsenal Riverside development, where Knight Frank is an instructed agent, continuing its strong relationship with Berkeley Homes, the developers of the scheme
- **Knight Frank Investment Management (KFIM)**:
  - Investment Performance – where benchmarked, assessed over both the short and the long term, the performance of KFIM's client accounts remains considerably ahead of the benchmarks
  - Business and Geographical Diversification – in line with the strategy to develop a long term sustainable IM business, the KFIM management team continues to focus on geographical and client diversification. Over the past 12 to 14 months, notable success has been achieved in attracting new Asian and UK institutional investors, including the conclusion of seven new transactions (in both the UK and Europe) on behalf of a variety of Korean institutional investors. In addition, KFIM successfully concluded a third fund raise for its Long Income Fund
  - Assets under Management – In the financial year 1st April 2017 to 31st March 2018, KFIM increased AuM by circa £740m to £2.33 billion (August 2018 £2.7 billion)

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Deal highlights

- **Asia Pacific** - appointed by Amazon to work on office services and project management assignments in Beijing, Ningbo, Shanghai, Beijing, Manila, Bangkok and Singapore
- **Australia –** appointed to sell Crown Resort's first residential project, One Barangaroo, Sydney, 82 luxury residences above a six star hotel
- **Australia** – instructed to sell 55,000 sq km, comprising 16 cattle stations across Queensland, Northern Territory, Western Australia and feedlots in Indonesia
- **Australia** – completed lease disposals at 405 Bourke Street, Melbourne of 43,356 sq m to National Australia Bank for Brookfield
- **Europe** – valued the €1.6bn IDI Gazely "Project Pearl" industrial portfolio, comprising 71 assets across five territories on behalf of Goldman Sachs
- **France** – sold "Place des Halles" shopping centre in Strasbourg on behalf of Hammerson for €290m. The largest shopping centre sale in France in last 12 months
- **Greater China** – leased 10,000 sq m (107,640 sq ft) of office space in Shanghai on behalf of China PR giant, Blue Focus
- **Greater China, Hong Kong** – sold house on 33 Island Road, Deep Water Bay for HK$500 million
- **Kenya** – appointed by Actis to manage Garden City Development, a 46 acre mixed-use scheme in Nairobi
- **Philippines –** secured 70,000 square meters of gross leasable area with JPMorgan Chase in Manila with Megaworld
- **Singapore** – completed five residential development sales worth SGD$1.8 billion
- **Spain –** acquired a number of new retail management mandates, taking its total number of management projects to a total combined area of approximately 1.5 million sq m
- **UAE –** sold U-Bora Tower in Dubai for US$204m on behalf of a Korean asset manager. The largest single office transaction ever in the Middle East
- **UK** – sold the 600,000 sq ft Royal Mint Court site to the Chinese Government for the new Chinese embassy at a price in excess of £200m for Delancey/ LRC
- **UK –** sold a house on Holland Park with a guide price of £45m to achieve a record price per square foot for the area
- **UK** – sold Hull Motor Park, comprising 105,139 sq ft of car showrooms on 11.25 acres, to an overseas buyer. The largest single-asset dealership investment so far this year
- **UK** – sold Mount Pleasant, The Royal Mail sorting office, to Taylor Wimpey for £193.5m
- **UK** – acquired the Regent Portfolio on behalf of iQ student accommodation (Goldman Sachs Wellcome Trust) for £869m. The portfolio comprised 11 buildings and 3,644 student rooms across London, Edinburgh, York, Bath and Brighton
- **UK** – on behalf of Blackstone sold The Adelphi, an iconic London landmark building, to Ponte Gadea for approximately £550m
- **UK –** leased 212,999 sq ft to Publicis Media at the Television Centre in White City on behalf of Stanhope, Mitsu Fudosan, SIMCo. The largest leasing deal in London so far this year
- **USA** – leased 1 million sq ft to Facebook on behalf of the ownership of Moffett Towers II
- **USA** – acquired **ASOS'** new 1 million sq ft US fulfilment facility in Atlanta, Georgia.

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For further information, please contact:

Alice Mitchell, Head of corporate communications, Knight Frank, +44 (0)20 7861 1738/ +447776769510
alice.mitchell@knightfrank.com

Alistair Elliott, Group Chairman & Senior Partner, Knight Frank +44(0)20 7861 1141 / +44(0)7836 233756
Alistair.elliott@knightfrank.com

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Notes to Editors

Knight Frank LLP is the leading independent global property consultancy. Headquartered in London, Knight Frank has more than 18,000 people operating from 523 offices across 60 markets. The Group advises clients ranging from individual owners and buyers to major developers, investors and corporate tenants. For further information about the Company, please visit knightfrank.com.