MARKET IN MINUTES
Savills Research

Market in Minutes

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Yields are now at October 2019 levels

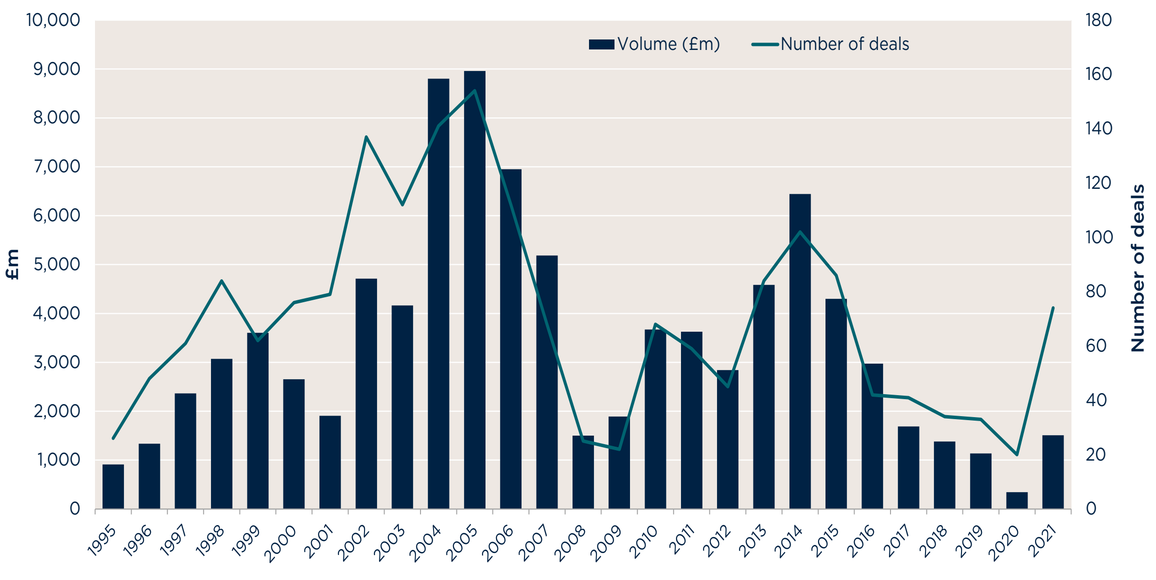
The average prime yield has continued to move in and is now at the level seen in October 2019. Positive sentiment continues with the arrows indicating a yield hardening expected in half of the sectors we monitor (seven) over the coming months. The fact that we expect to see further downward pressure on prime logistics will come as no surprise, given that this has been the sector of choice for most types of investor throughout the crisis ;however, one sector which stands out is Shopping Centres. One of the key changes to the sector in the final quarter of 2021 was the return of larger deals, with two assets of over £100m being traded in December, compared to none in the whole of 2020. Assuming that our optimism about the outlook for the occupational market is correct, then we do expect to see more investor demand for prime Shopping Centres and repurposing opportunities to emerge in 2022. The positive investment trend witnessed in Q4 2021 continues into 2022 with all commercial property investment standing at £6.9bn in January and February 2022 - a 35% increase on the same period in 2021. The industrial and alternative sectors led the way with these two sectors accounting for 45% of total investment in the first two months of 2022.

Savills prime yields

	February 2021	January 2022	February 2022
West End Offices	3.50%	3.25%	3.25%
City Offices	4.00%	3.75%	3.75%
South East Offices	5.50%↑	5.50%↓	5.50%↓
Provincial Offices	5.00%	4.75%↓	4.75%↓
High Street Retail	6.75%	6.50%	6.50%↓
Shopping Centres	7.25%↑	7.50%↓	7.50%↓
Retail Warehouse (open A1)	6.50%↓	5.25%	5.00%
Retail Warehouse (restricted)	6.50%↓	5.50%	5.00%
Foodstores (OMR)	4.50%↓	4.25%	4.25%
Ind/ Distribution (OMR)	3.75%↓	3.25%	3.25%↓
Industrial Multi-lets	3.75%↓	3.25%↓	3.25%↓
Leisure Parks	7.50%	7.25%	7.00%
London Leased (core) Hotels	4.00%	3.50%↓	3.50%↓
Regional Pubs (RPI)	5.25%	5.25%	5.25%

Source Savills

The return of the larger deal for Shopping Centres, with two assets of over £100m being traded in December, compared to none in the whole of 2020.

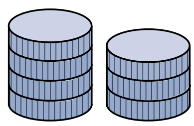


Source Savills

Key Stats

4.84%

The UK average prime yield



£6.9bn

Investment volumes in January & February 2022 were £6.9 bn - a 35% increase on the same period in 2021.

7

Number of sectors with downward yield pressure

Tech investment in the UK in 2021 was at the highest levels since records began

According to the latest report from the Department for Digital, Culture, Media & Sport, tech investment in the UK grew 230% in 2021 to £29.4 bn, the highest figure ever recorded.

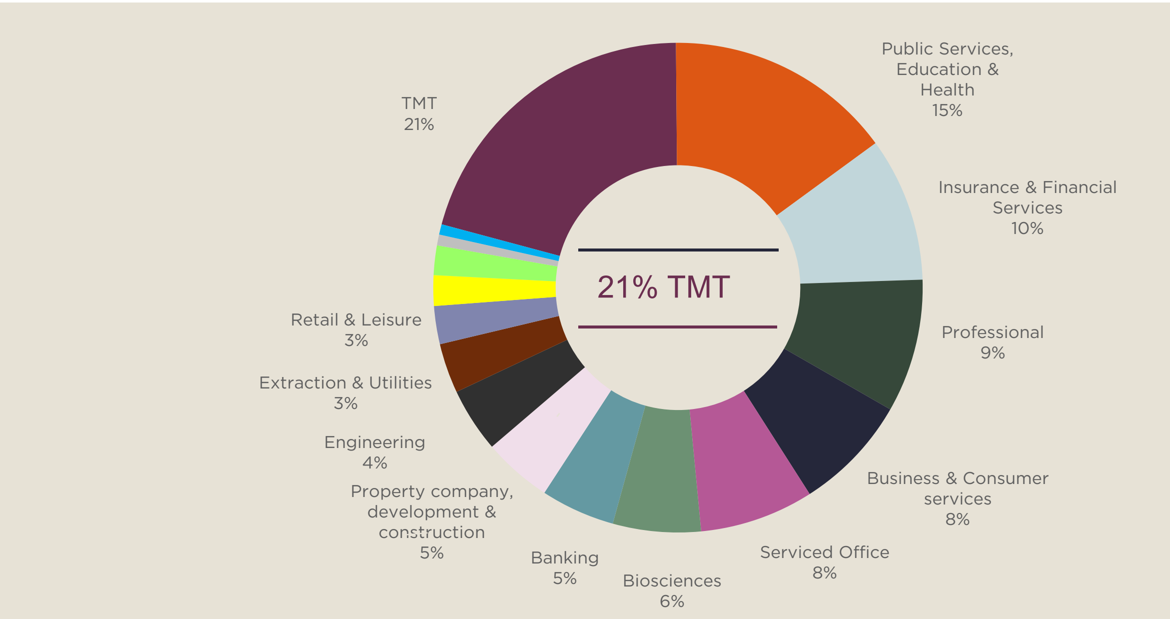
A new levelling up power league has also been revealed to rank regional cities based on venture capital (VC) funding, advertised tech salaries, number of unicorn and futurecorn companies. Cambridge took top spot of the power rankings for 2021, narrowly beating Manchester in 2nd and Oxford in 3rd. Edinburgh, Bristol, Leeds, Birmingham and Cardiff also featured in the top 10. This signals a strong year for the regional cities, with £9 bn invested in areas outside of London and the South East in 2021. Of the 29 unicorns created in the UK this year, nine were outside of London including Interactive Investor in Glasgow and Vertical Aerospace in Bristol.

Tech investment in the UK accounted more than a third of the total annual tech investment in Europe, more than double the investment level in Germany (£14.7 bn) and three times the level in France (£9.7 bn).

VC raising can often be a key indicator of future demand for office space requirements, as when companies receive significant funding they often use this investment to increase their headcount, and therefore require upgraded office space. Over the last five years, technology has become the main driver of UK regional office take-up, with TMT accounting for almost a quarter (21%) of regional take-up (22% in 2021) with key tech deals in 2021 including: Roku: 115,000 sq ft at Circle Square in Manchester, Roku 116,000 sq ft at Cambridge Science Park and Microsoft 36,000 Sq ft at Cambridge Science Park.

Looking at 2022, the growth of the technology sector shows no signs of slowing and the UK's regional office markets present many attractive opportunities for both start-ups and established tech firms looking for high-quality office space. Ultimately, the UK tech sector will remain strong and will play a vital role in helping put the UK economy back on track following the pandemic.

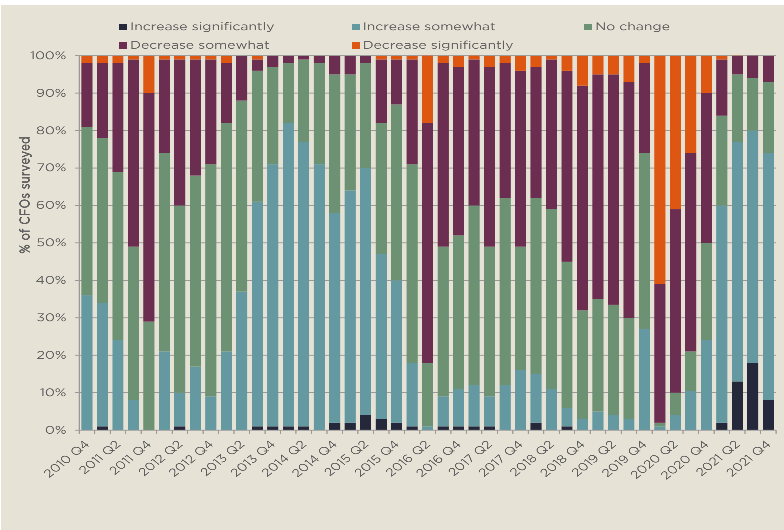
Take-up in the tech sector has contributed to 21% of take-up over the last five years.



The majority of CFOs continue to feel optimistic regarding hiring prospects over the next 12 months. A cumulative total of 74% of CFOs surveyed are expecting hiring to increase over the next 12 months, which is the third highest percentage since 2012, demonstrating the continued optimism at this time. In order to place this sentiment into context, this must be considered alongside the strategic priorities of these businesses over the next 12 months.

A record 37% of CFOs surveyed rate increasing capital investment as a strong priority for their business in the next 12 months. This is the highest percentage recorded since 2012, and significantly represents an increase of 8% on the previous quarter and 17% when compared to the start of 2021. Furthermore, the percentage of those surveyed who aren't prioritising an increase in capital expenditure fell to 32%. This is a 7% reduction on the Q3 total and the lowest quantum since 2012.

CFO optimism is increasing with 74% of CFOs surveyed expecting hiring to increase.



Source Deloitte

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