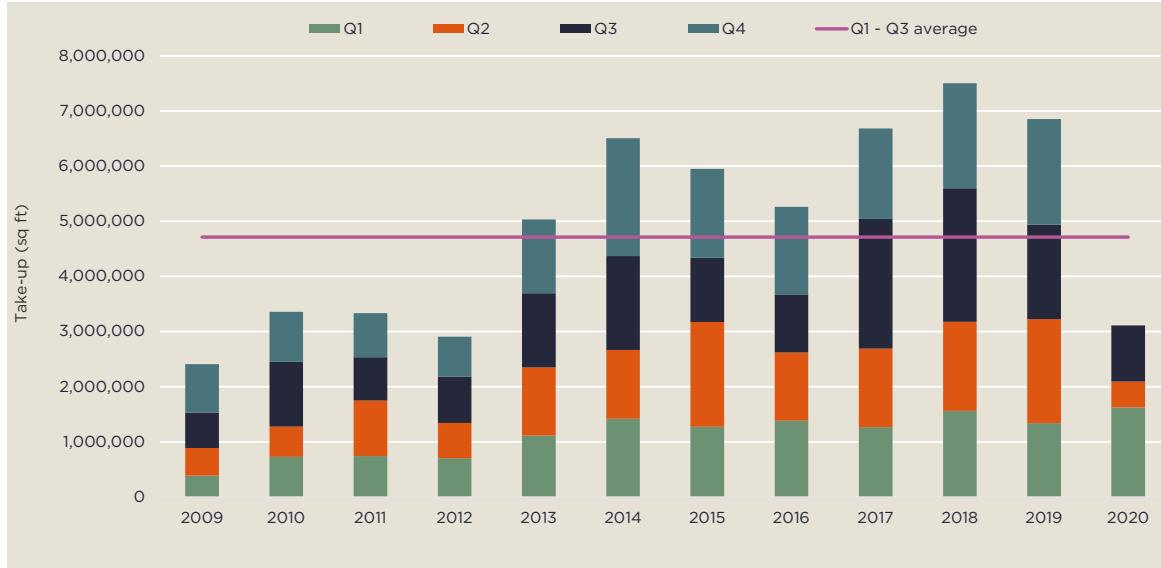


UK Regional offices



Summary: The reduction of lockdown measures during Q3 saw occupational office activity increase, but, remain below average levels. However, as the UK enters a second national lockdown, the outlook for Q4 is uncertain.



Source Savills Research

Q3 showed a significant uplift on Q2

After a UK-wide lockdown saw most offices across the UK become temporarily closed, it came as no surprise that at 470,882 sq ft, Q2 regional take-up was 75% down on Q2 2019. However, Q3 take-up has shown a significant uplift on Q2, totalling just over 1 million sq ft, a 116% increase. However, this was still 40% below Q3 2019.

As a result of this Q3 uplift, Q1-Q3 regional office take-up totalled 3.1 million sq ft representing a 34% decrease on the five-year Q1-Q3 average. It should be noted that while offices in England and Wales were able to open during Q3, this was not the case in Scotland, where a strict lockdown remained in place.

Interestingly, Aberdeen and Edinburgh were the only key regional cities where Q1-Q3 take-up levels were the same or above Q1-Q3 2019. In Aberdeen, a strong Q1 2020 and a weak start to 2019 saw Q1-Q3 2020 take-up reach similar levels to Q1-Q3 2019. However, Edinburgh saw a significant increase with Baillie Gifford signing a 280,000 sq ft pre-let at The Haymarket, which saw Q3 2020 take-up exceed Edinburgh's five-year quarterly average by 105% and, Q1-Q3 take-up exceed Q1-Q3 2019 by 29%.

So far this year, the Technology, Media and Telecoms (TMT) sector has accounted for a quarter of take-up. The sector signed for a total of 777,520 sq ft of office space which equated to 25% of total take-up. Key deals from this sector included telecommunications giant BT, which signed for 283,073 sq ft at Three Snowhill, Birmingham during Q1, the largest regional TMT deal on Savills records. Hilti, which creates software, design and products for the construction industry leased 42,559 sq ft at 1 Circle Square, Manchester,

during the first quarter, and online betting company Bet365 leased 25,029 sq ft at Core, Manchester.

Currently, there is a total available office supply of 12.1 million sq ft in the UK regions, reflecting an 11% decrease from the five-year average figure. However, of that, 3.5 million sq ft is Grade A, equating to a 14% increase on the five-year Grade A average. New developments approaching their completion dates have seen Grade A supply increase across the UK regions. However, when supply levels are compared to average annual take-up, this still only reflects enough supply to meet the demand for one year of Grade A take-up. The UK cities still have a severe undersupply of Grade A office space.

In some markets, the situation is more acute than others: Birmingham, Bristol, Glasgow and Leeds all have six months or less of Grade A supply available, demonstrating a critical need for speculative office development in these markets, to keep up with average demand.

The limited take-up and disruption caused by Covid-19 has given occupiers more leeway to negotiate and secure competitive rents. However, top rents have remained strong, and Oxford, Cambridge Manchester and Birmingham have all experienced rental growth this year. Oxford saw rental growth of 17.5%, Birmingham 7.2%, Leeds 6.7%, Cambridge 5.4% and Manchester 2.7%.

The introduction of the UK's second lockdown from the 5 November makes the outlook for Q4 uncertain. However, with scientific advancements in the development of a Covid-19 vaccine, the prospects for 2021 are positive.

Key data points

For the first three quarters of 2020



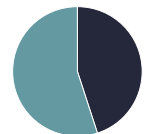
Take-up

Total take-up reached 3.1 million sq ft



25%

The Technology, Media & Telecoms sector accounted for 25% of take-up



45%

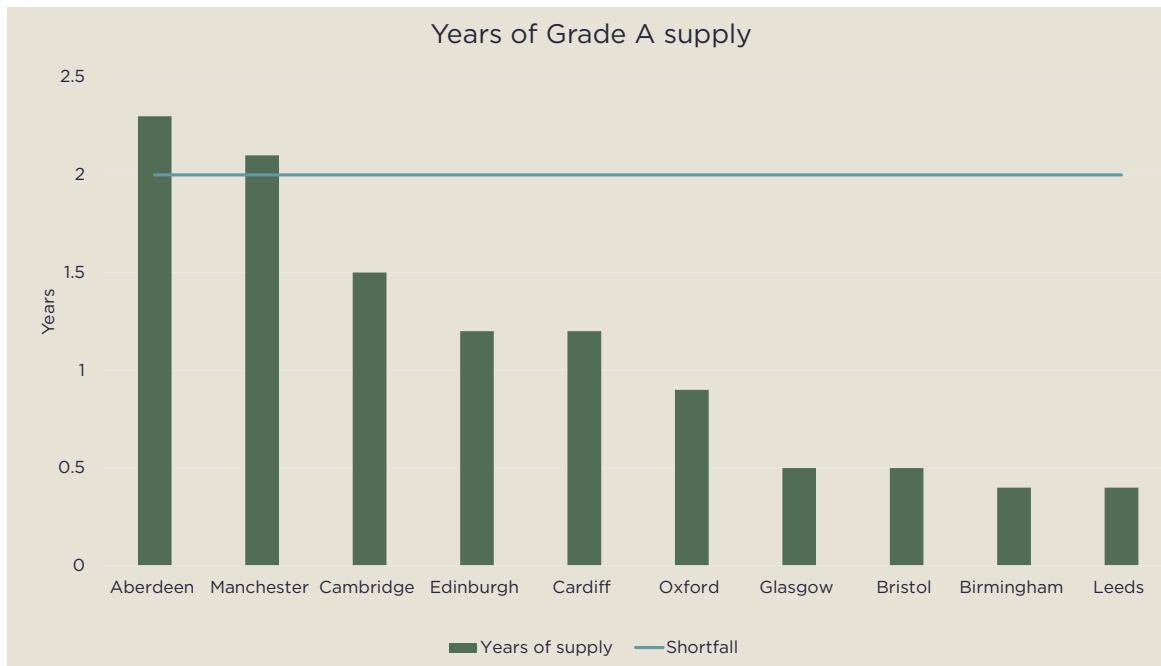
Share of take-up that was Grade A



-11%

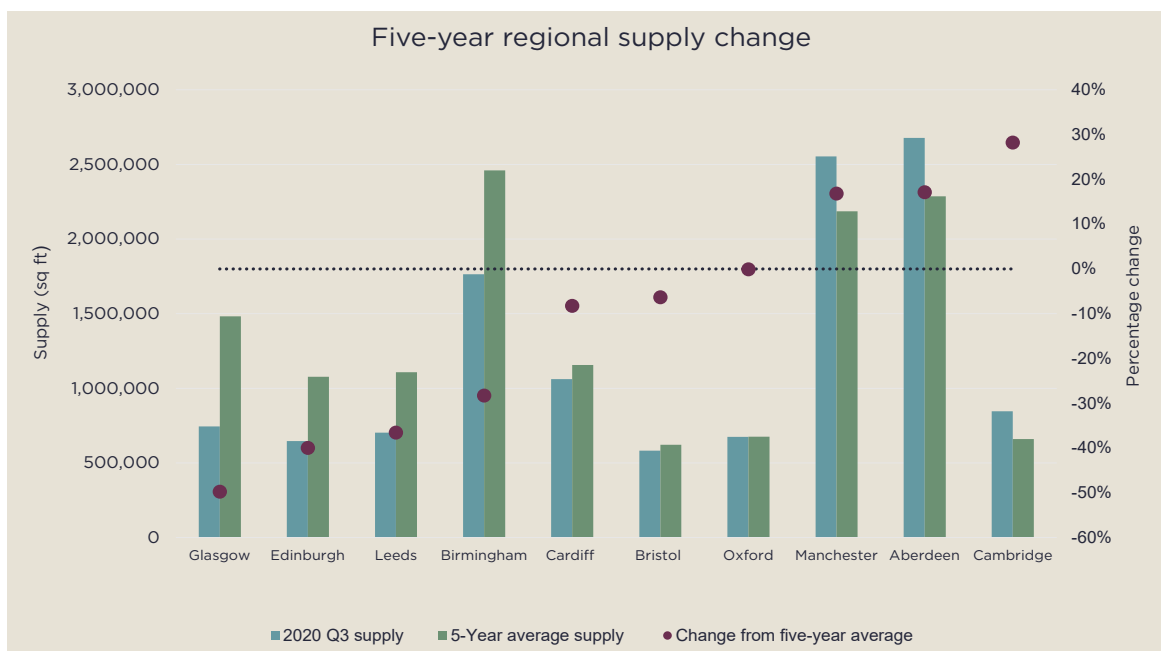
Availability is currently 11% below the five-year average figure

Years of Grade A supply: 8 out of 10 of office markets within the UK regional office markets don't have enough availability to meet the demand for two years of average take-up, which is considered to be an undersupply.



Source Savills Research

Five-year regional supply change: Seven of the UK regional office markets have seen a reduction in supply when compared to the five-year average. Birmingham, Leeds, Edinburgh and Glasgow have all seen supply fall by over 25%. In Manchester and Cambridge, development completions have seen supply levels increase, while in Aberdeen, changing market dynamics have been the source of the increase.



Source Savills Research

👉 **In some markets, the situation is more acute than others: Birmingham, Bristol, Glasgow and Leeds all have six months or less of Grade A supply available.** 👉

Savills team

Please contact us for further information

Jonathan Gardiner
Head of National Office Agency
020 7409 8828
jgardiner@savills.com

Clare Bailey
Director
Commercial Research
020 7409 8863
cbailey@savills.com

Pearl Gillum
Research Analyst
Commercial Research
0207 535 2984
pearl.gillum@savills.com

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