MARKET IN MINUTES

Savills Research

Market in Minutes

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Strong investor demand for industrial assets continues

The average prime yield across all sectors moved in slightly in March. Retail Warehousing (restricted) and Retail Warehousing open A1 were the sectors of choice with both sectors seeing yields move in. Retail Warehousing (restricted) moved in by 25 bps and warehousing (open A1) by 50 bps to 6.25% and 6.00%, respectively. In the short-term, there is also potential for more yield hardening in the industrial and foodstore sectors.

£10.5 bn was invested into UK commercial property in January, February and March which although was a 36% decrease on the preceding three-month period, it was 112% and 14% above the total turnover recorded in Q2 2020 and Q3 2020, respectively.

There has been continual demand for industrial property evidenced with Q4 2020 investment volumes reaching £5.6 billion, which was the highest quarterly total recorded since 2000. This strong investor demand for industrial property continued into Q1 2021, with investment volumes reaching £3.2 billion - the third highest quarterly total in the last 20 years. The demand is set to continue with the strong occupational market appealing to investors. 2020 experienced the highest ever take-up recorded for units over 100,000 sq ft, and Q1 2021 was 34% above the long-term average.

Savills Prime Yields

	March 2020	February 2021	March 2021
West End Offices	3.75%	3.50%	3.50%
City Offices	4.00%↓	4.00%	4.00%
Offices South East	5.00%	5.50%↑	5.50%↑
Provincial Offices	4.75%	5.00%	5.00%
High Street Retail	5.50%↑	6.75%	6.75%
Shopping centres	6.00↑	7.25%↑	7.50%
Retail Warehouse (open A1)	6.25%	6.50%↓	6.00%
Retail Warehouse (restricted)	6.50%	6.50%↓	6.25%
Foodstores (OMR)	4.75%	4.50%↓	4.50%↓
Ind/ Distribution (OMR)	4.25%	3.75%↓	3.75%↓
Industrial Multi-lets	4.00%	3.75%↓	3.75%↓
Leisure Parks	6.00%	7.50%	7.50%
London Leased (core) Hotels	3.75%↑	4.00%	3.75%
Regional Pubs (RPI)	4,50%↑	5.25%	5.25%

Source Savills

Key Stats

150 bps

The rise in prime shopping centre yields over the last 12 months

£10.5bn

Jan, Feb and March 2021 UK commercial investment volume. 36% lower than the same period in 2020

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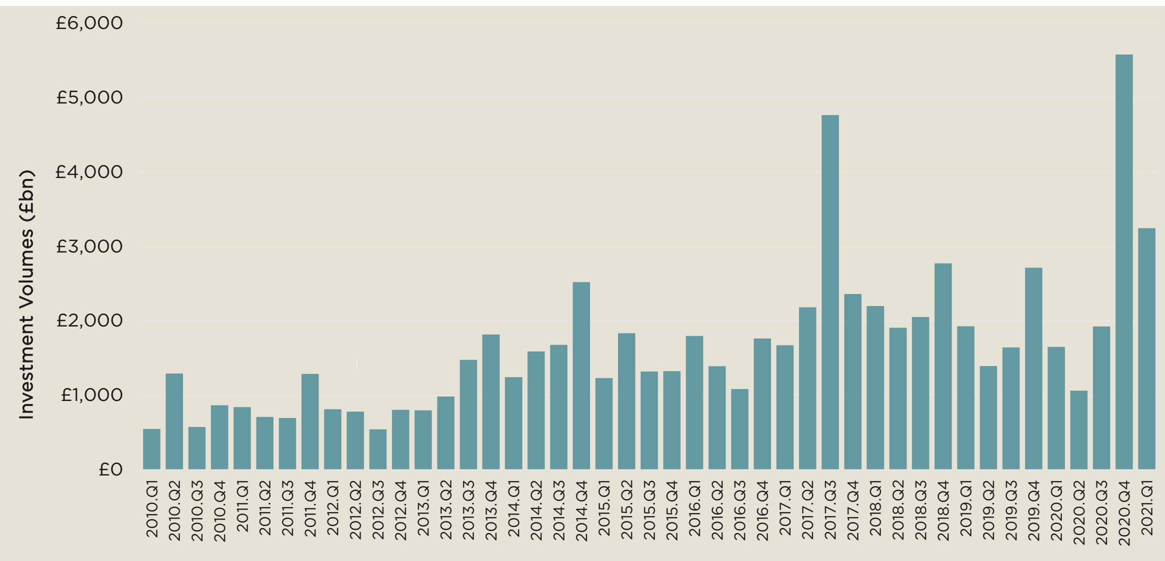
Number of sectors that are expected to see downward pressure on prime yields in the short term

UK industrial investment volumes: reached £3.2 billion in Q1, which was the third highest quarterly total in the last 20 years.



Source PropertyData

The office to residential story

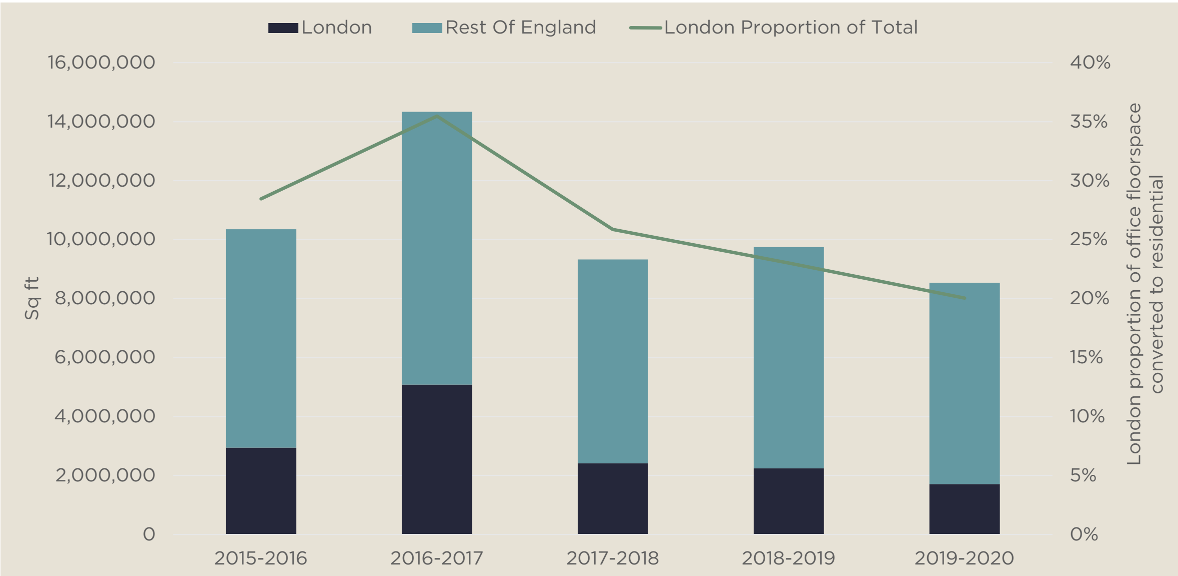
Regional office supply has been on a general downward trend, with supply currently 35% below 2009 levels. Although this has been primarily caused by limited development activity, conversion of poor-quality office space to alternative uses under permitted development rights has also played a key role.

The Ministry of Housing, Communities and Local Government (formerly The Department for Local Communities and Government) has published the number of dwellings which has been built under permitted development rights-office to residential since 2015. They have used the financial year for each annual data collection period.

Savills has assumed the average dwelling size equates to 807 sq ft which BCO (British Council for Offices) have adopted in their report "*Permitted Development Rights One Year on from Permanence (2017)*". Using the number of additional dwellings data from office to residential permitted development rights by MHCLG, Savills has calculated the amount of office floorspace that has been converted to residential uses.

Savills Research estimates that since 2015 in London, there has been 14.4 million sq ft of office space converted to residential. A further 37.9 million sq ft of office floorspace has been converted to residential in the rest of England. According to the MHCLG, there have been 64,800 new dwellings constructed from office to residential conversions across England since 2015 under permitted development rights. Office to residential conversions have been the main source of new dwellings under permitted development rights, accounting for 89% of total conversions in this time period.

How much office space has been converted to residential in England?



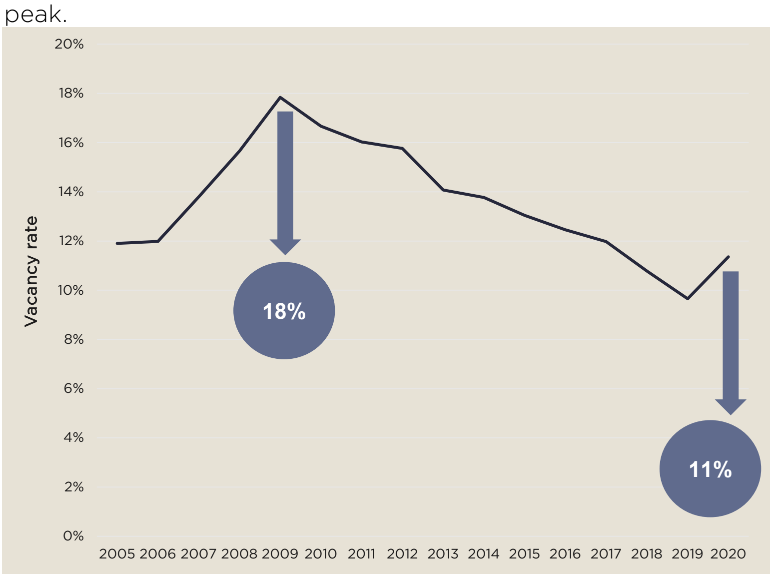
Source Savills using MHCLG Data

The regional vacancy rate has increased very slightly due to the Covid-19 pandemic, moving from 10% in 2019 to 11% as of April 2021, however, it remains extremely low in a historic context as there is an undersupply of office space within the UK's regional markets. Regional office supply still currently remains 35% down on 2009 levels.

During the global financial crash, the situation in the regions was very different as there was an offices oversupply, with the regional vacancy rate moving from 14% to 18% between 2007 and 2009.

The regional markets are therefore now significantly less at risk of downward rental pressure than they were during 2009, evidenced by the fact that virtually all regional markets experienced prime rental growth during 2020 - Manchester even saw rental growth during Q1 2021 with top rents increasing from £37.50 to £38.50 per sq ft.

The regional office vacancy rate is way below its 2009 peak.



Source Savills

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