

UK Regional Office Investment Market Watch



Prime regional office yield moves in by 25 basis points

Investor sentiment has been improving in the regional office market, which is reflected in the investment volumes recorded in the Greater London & South East and regional market. Turnover totalled £5.7 billion in the first three quarters of 2021, which is 6% above the annual total recorded in 2020 and 20% above the turnover recorded in Q1-Q3 2019. The end year regional office investment volume is forecast to total £7.5 billion, which is marginally above the ten-year average.

The demand in the market is polarised with prime opportunities which can satisfy ESG criteria and provide medium-long term income being actively targeted. This has resulted in the prime regional office yield hardening by 25 basis points and returning to its pre-Covid-19 level of 4.75%. Risk aversion and increasing build costs have resulted in demand for secondary assets weakening in the short term. The yield spread between prime and secondary assets has widened in Glasgow and Leeds.

Overseas investors continue to remain the most active investor in the market and have accounted for 58% of investment in the first three quarters of 2021, which is the highest proportion from non-domestic investors ever recorded. Overseas investors are forecast to surpass the highest ever quantum of capital deployed into the regional office market by non-domestic investors by the end of 2021.

Regional office yields November 2021

	Prime	Secondary*	Spread
Aberdeen	6.75%	8.50%	175 bps
Birmingham	5.00%	6.75%	175 bps
Bristol	5.00%	6.75%	175 bps
Cardiff	5.50%	8.00%	250 bps
Edinburgh	4.50%	6.25%	175 bps
Glasgow	5.00%	7.00%	200 bps
Leeds	5.00%	7.50%	250 bps
Manchester	4.75%	6.50%	175 bps
M25	5.50%	8.50%	300 bps

Source Savills Research

*Secondary yields refer to buildings in core locations of both a lower quality and rental price point

Key Stats

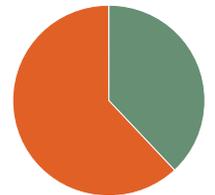
4.75%

Prime regional office yield



£5.7bn

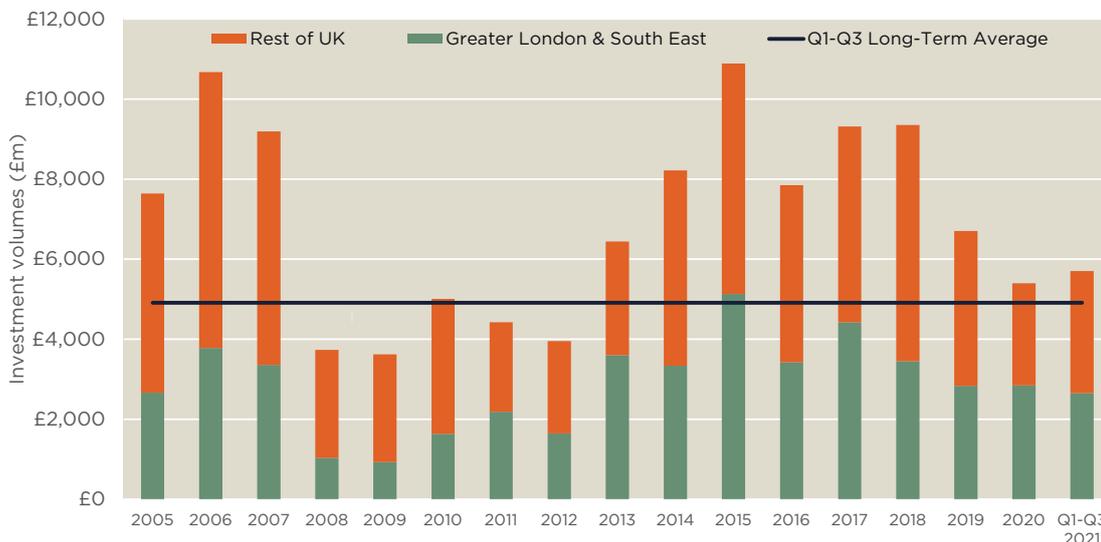
Office investment volumes outside of central London in Q1-Q3 2021



58%

Overseas investors accounted for 58% of total investment in Q1-Q3 2021, which was the highest proportion amongst all investor types

Office investment volumes Office investment volumes recorded in Q1-Q3 2021 were 6% above the end-year 2020 total



Source Property Data/Savills



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The number of deals over £100m in Q1-Q3 2021. This is the highest total in the last five years after the first three quarters

The development pipeline remains constrained as the demand for ESG-compliant space intensifies

The importance of ESG (environmental, social and governance) to occupiers and investors has been rising in recent years and is now a key driver in both the occupational and investment markets.

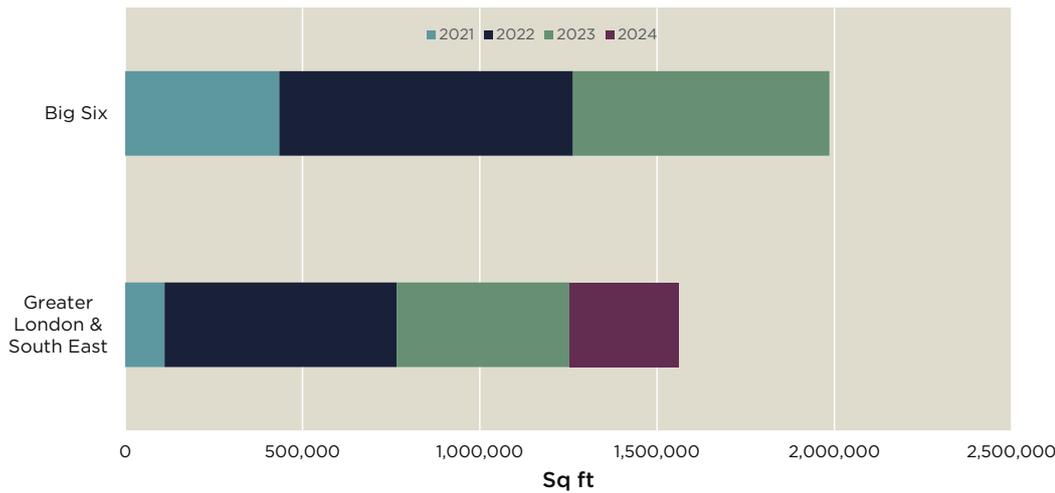
The UK government have proposed that across England and Wales, all non-domestic rented buildings should achieve a minimum energy performance certificate (EPC) rating of 'B' by 2030. Savills Research have highlighted the scale of this challenge after reviewing the EPC ratings across the major office markets across the UK, with 87% of office stock rated below this threshold, which equates to over 1 billion sq ft.

The demand for buildings that can satisfy ESG criteria for occupiers is rising, which is reflected in the ongoing flight to quality across the regional office market. The proportion of space let rated EPC 'A' or 'B' exceeded 60% from 2020 onwards in Birmingham, Edinburgh, Leeds and Manchester. This proportion peaked in Edinburgh at 78%, the highest of all the Big Six regional cities. The Greater London & South East region has also experienced a similar trend with 52% of space let since the start of 2020 being rated EPC 'A' or 'B'. The supply of buildings that are rated EPC B or A equates to only 45% in the Big Six regional cities combined and 39% for

the Greater London & South East office market.

Developers are responding to the demand with all the space under construction across the Big Six cities being rated BREEAM Very Good or above. The development pipeline is still however limited, there is currently 1.8 million sq ft of available space across the Big Six cities which equates to six months of take-up in an average year. This trend is also evident in the Greater London & South East market. There is 1.5 million sq ft in the development pipeline, which equates to six months of take-up in an average year.

Development Pipeline The available space under construction across both Big Six regional cities and Greater London & South East region equates to only six months of take-up in an average year



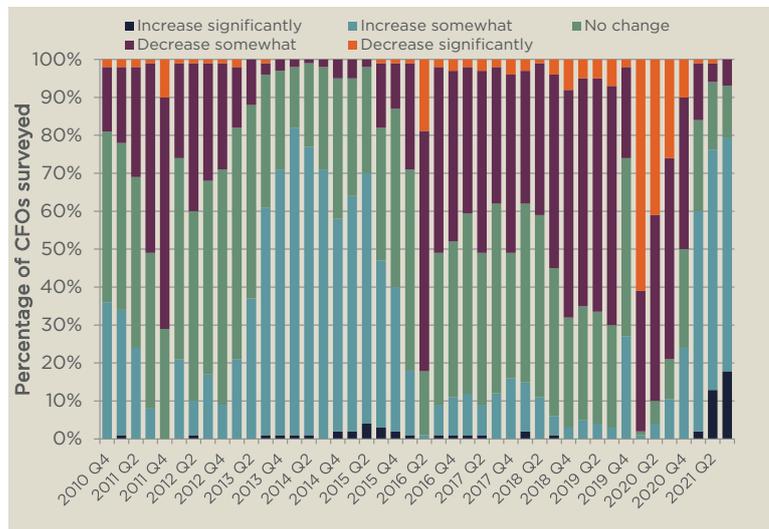
Source: Savills Research

The Deloitte CFO Q3 2021 Survey revealed that UK CFOs currently have the most positive hiring intentions since 2014.

The survey revealed that 80% of UK CFOs planned to increase their workforce within the next 12 months. The positivity of CFOs was underlined by 18% of the respondents stating they planned to increase their workforce significantly. This is the highest proportion the survey has ever recorded for this metric.

Corporate expansion bodes well for future office demand especially for buildings that can satisfy ESG criteria. According to the UK government, one in three of the UK's largest businesses have signed up to the United Nation's Race to Zero campaign, which is committed to net zero carbon emissions by 2050.

Corporate expansion CFOs in the UK have the most positive hiring intentions since 2014



Source Deloitte CFO Survey

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