MARKET IN MINUTES
Savills Research

UK Regional Office Investment Market Watch

savills

Prime yield moves out by 25 basis points

There has been cautious optimism on the economic outlook with the base rate remaining at 5.25% since the 3rd August, with economists forecasting the base rate to fall in the second half of 2024. This has however not altered investor sentiment in the short term which was reflected in the Savills prime regional office yield moving out by 25 basis points from October to stand at 6.75%. This is the highest level since August 2009. The outward yield shift has been notable with the prime regional office yield softening by 200 basis points since August 2022. Investment volumes have been impacted by the weaker market sentiment with £1.9 billion recorded at the end of the third quarter which was 62% below 2022 and the five year average for the same time period. There was £506 million transacted in Q3 23 which was the lowest quarterly total since Q3 2008. The two largest deals recorded in Q3 were Praxis acquiring the Brindley Place campus, Birmingham for £125 million reflecting a yield of 11.53% and Citi buying One Sovereign Street, Leeds for £38.5 million reflecting a yield of 7.00%.

Price discovery has been challenging to achieve across the market. Focussing on the South East region, there is currently £1,45bn of stock being marketed that remains unsold at the current pricing. The total discount on assets traded in 2023 compared to their previous sale within the last five years is 50%, demonstrating the compromise on pricing that vendors are reaching to achieve a sale.

Regional Office Yields November 2023

	Year	Prime	Secondary	Spread
Birmingham	Nov-23	6.75%	8.50%	175 bps
	Nov-22	5.50%	7.25%	175 bps
Bristol	Nov-23	6.75%	8.50%	175 bps
	Nov-22	5.25%	7.25%	200 bps
Cardiff	Nov-23	8.25%	10.50%	225 bps
	Nov-22	5.75%	8.50%	275 bps
Edinburgh	Nov-23	6.75%	9.00%	225 bps
	Nov-22	5.50%	7.00%	150 bps
Glasgow	Nov-23	7.50%	10.00%	250 bps
	Nov-22	6.00%	7.75%	175 bps
Leeds	Nov-23	7.25%	10.00%	275 bps
	Nov-22	5.25%	8.50%	325 bps
Manchester	Nov-23	6.75%	8.50%	175 bps
	Nov-22	5.00%	7.00%	200 bps
South East	Nov-23	7.50%	10.00%	250 bps
	Nov-22	6.00%	10.00%	400 bps

Source Savills Research

*Secondary yields refer to buildings in core locations which have been refurbished or developed over five years ago and have a WAULT below five years.

Key Stats

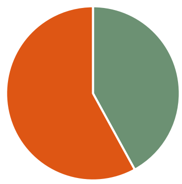
6.75% ↑

Prime regional office yield

£

£1.9bn

Office investment volumes outside of central London at the end of Q1-Q3 23



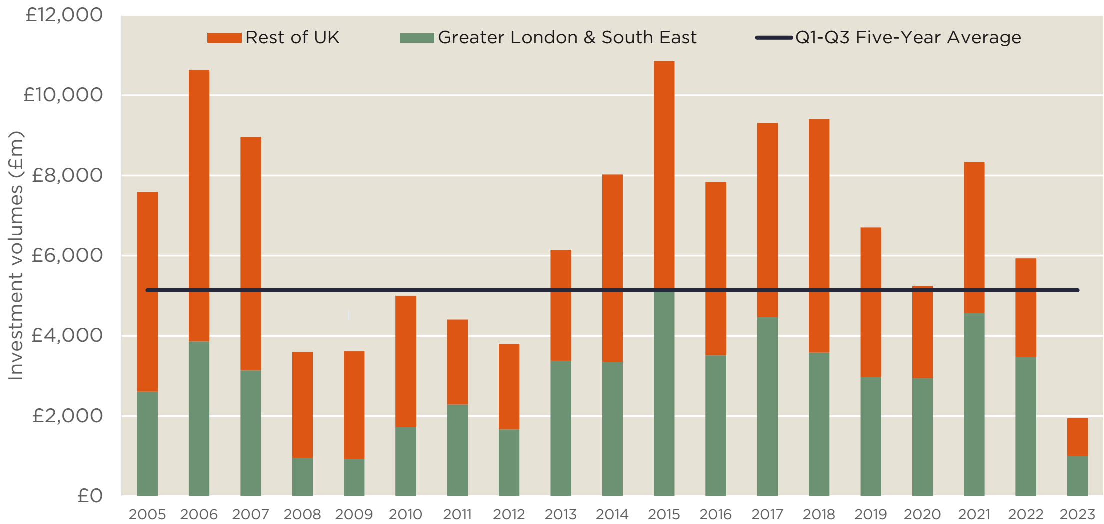
36%

UK Property Companies were the most active investor accounting for 36% of total investment in Q1-Q3 23

63%

The number of deals below £10 million in Q1-Q3 23

Office investment volumes Total turnover recorded in Q1-Q3 2023 was 62% below the five-year average



Source MSCI/Savills

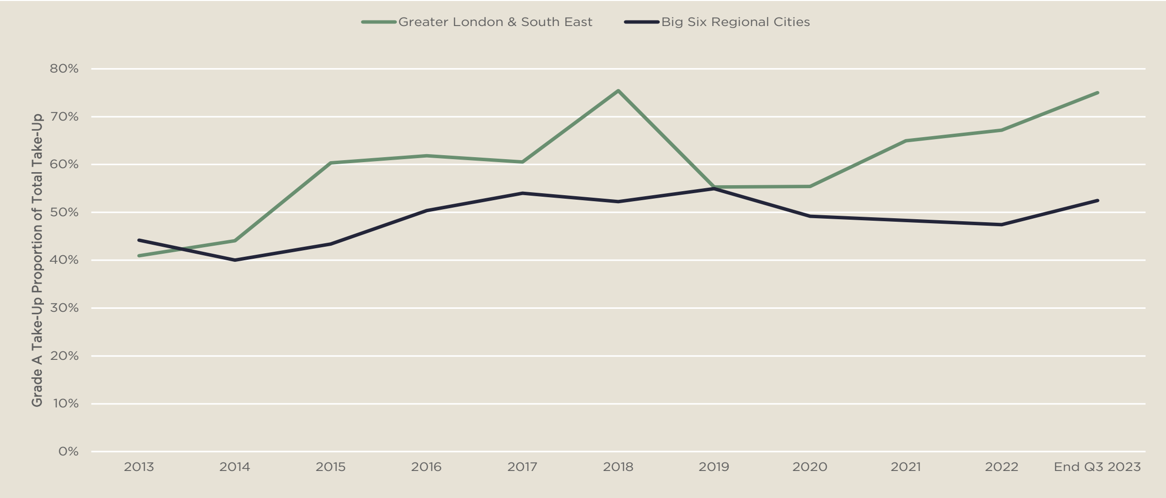
Prime rental growth accelerates across the regional office market

In contrary, to the weaker investor sentiment that is currently prevailing across the regional office market, there has been an uptick in activity across the occupational markets. The polarisation in letting and rental performance of prime and secondary assets has accelerated post Covid-19, notably in the Greater London & South East region where 75% of take-up recorded in the first three quarters of the year was grade A standard. This was the highest proportion ever recorded.

Corporate occupiers are seeking best in class sustainable office space that is amenity rich which can help attract and retain staff in a competitive labour market. Office space that is designed to align with an occupier's values can help cultivate, reinforce a company's culture. Morgan Stanley's Alphawise survey uncovered the flight to quality with 50% of workers suggesting that their new workplace has more amenity.

There is a lack of existing prime space available with only 13% and 19% of total supply across the Greater London & South and Big Six Regional City markets being classified as this standard. The limited competition for prime space combined with corporate occupier demand being focussed on this product has facilitated significant rental growth. Eight submarkets across the Greater London & South East region have experienced over 10% prime headline rental growth this year. Notably Maidenhead and Crawley have seen prime headline rents increase by 46% and 37% respectively. This trend has also been evident across the Big Six regional cities with Manchester, Edinburgh, Birmingham and Leeds setting new record rents this year.

Flight to Quality The occupier preference in the market is for grade A office space with prime product setting new rental tones

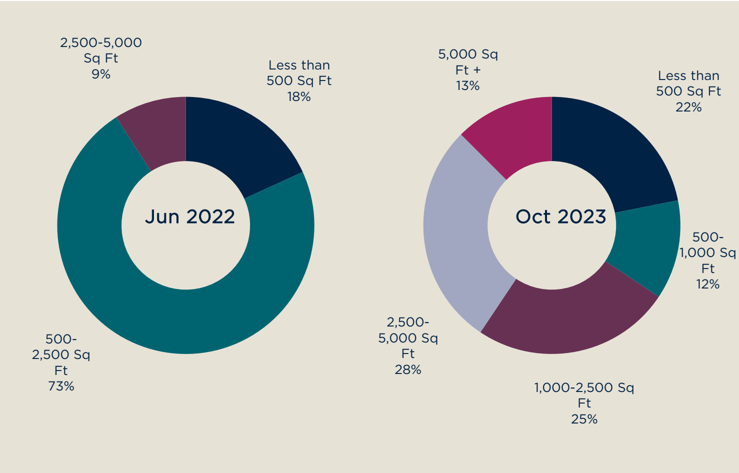


Source: Savills Research

Savills Landlord Flex 2023 survey revealed that there has been an increase in the typical size of a flexible workspace requirement.

A consequence of the ongoing desire for more flexibility and service from tenants is the change in the size of occupiers who have been leasing flexible office space. In the 2022 survey, the most common size requirement was between 500-2,500 sq ft accounting for 73% of responses from landlords. There has been an increase in demand for flex space from larger tenants which was revealed in the 2023 survey with 41% of landlords stating that 2,500 sq ft + was the typical flex size unit. Interestingly 13% of landlords stated it was over 5,000 sq ft, highlighting the increasing demand for flexibility from corporate occupiers and a move towards managed products.

Rise in Demand for Flex Space There has been an increase in the typical size of a flex space requirement



Source Savills Research

Savills team

Please contact us for further information

Mark Porter
Director
UK Investment
020 7409 9944
mporter@savills.com

James Vivian
Director
UK Investment
020 7409 8731
jvivian@savills.com

James Emans
Director
UK Investment
020 7409 8132
jemans@savills.com

Steven Lang
Director
Commercial Research
020 7409 8738
slang@savills.com

Simon Preece
Associate Director
Commercial Research
020 7409 8768
spreece@savills.com

savills