UK Commercial – February 2025

MARKET IN MINUTES

Savills Research

UK Regional Office Investment Market Watch

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Pricing remains stable with sentiment improving

Sentiment has notably improved across the regional office investment market, with turnover reaching £2.9 billion in 2024 – a 10% increase from 2023. The total was still, however, 49% and 61% below the five- and ten-year average, respectively. Notable transactions in the market included Tristan Capital Partners acquiring Cody Technology Park, Farnborough, for £112 million and Ashtrom Properties buying Central Square, Leeds, for £78 million, reflecting a yield of 8.00%. It is expected that investor confidence will continue to be boosted by the improving levels of tenant demand evident in the occupational market. Take-up across the Big Six regional cities totalled 4.6 million sq ft, which was 15% above the five-year average and the highest total since 2019. Opportunistic investors are proactively seeking assets with good fundamentals that have been repriced. The prime regional office yield currently stands at 7.00% and has remained at this level for the last 13 months. The prime yield gap to central London is at its widest level in the last 30 years, standing at 237 basis points and provides an opportunity to acquire assets at discounted prices. It is expected that the market will experience prime yield compression, with further base rate cuts anticipated later this year. This trend has already been evident in the South East region, with the prime yield moving by 25 basis points in January to stand at 7.50%.There have been £389 million of assets placed under offer since the start of January, highlighting the improved sentiment in the market

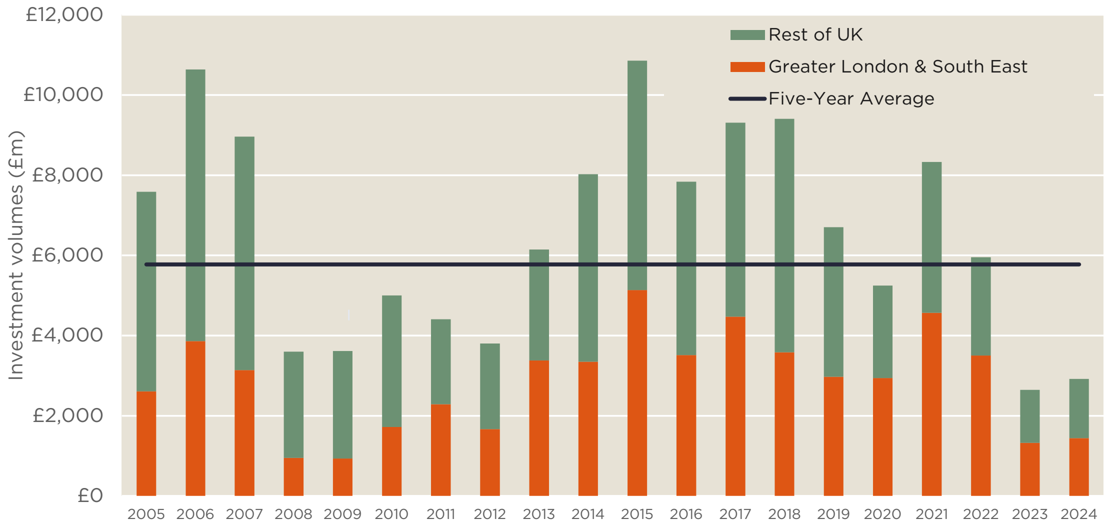
Regional Office Yields

	Year	Prime	Secondary	Spread
Birmingham	Jan-25	7.00%	8.50%	150 bps
	Jan-24	7.00%	8.50%	150 bps
Bristol	Jan-25	6.75%	8.50%	175 bps
	Jan-24	7.00%	8.50%	150 bps
Cardiff	Jan-25	8.50%	11.00%	250 bps
	Jan-24	8.25%	10.50%	225 bps
Edinburgh	Jan-25	6.75%	9.00%	225 bps
	Jan-24	7.00%	9.00%	200 bps
Glasgow	Jan-25	7.50%	10.00%	250 bps
	Jan-24	7.50%	10.00%	250 bps
Leeds	Jan-25	7.25%	10.00%	275 bps
	Jan-24	7.25%	10.00%	275 bps
Manchester	Jan-25	6.75%	8.25%	150 bps
	Jan-24	7.00%	8.50%	150 bps
South East	Jan-25	7.50%	10.00%	225 bps
	Jan-24	7.50%	10.00%	250 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.

Office investment volumes Total turnover recorded in 2024 was £2.9 billion which was 10% above 2023 but 49% below the five-year average



Source MSCI/Savills

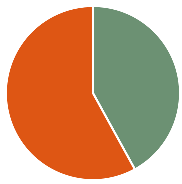
Key Stats

7.00%

Prime regional office yield

£2.9bn

UK office investment volumes outside of Central London at the end of 2024



41%

Oversesas investors were the most active investor accounting for 41% of total investment 2024

63%

The number of deals below £10 million in 2024, this was 4% above the five-year average of 59%

There are a lack of repeat buyers active in the market with the buyer pool becoming more diverse

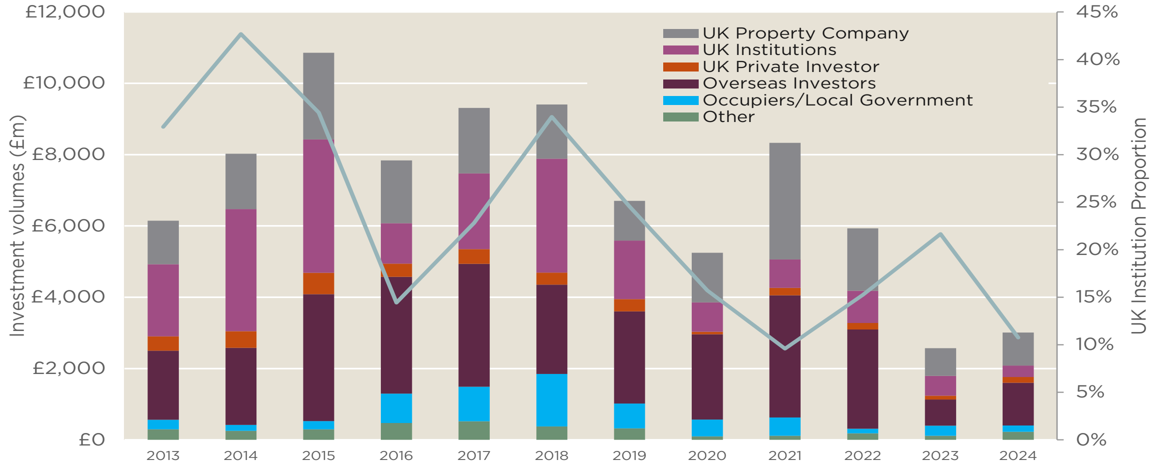
The buyer pool across the regional office market has changed markedly in recent years which is exemplified in the below chart. The most notable change has been the falling activity from UK institutional investors, this buyer type only accounted for 11% of investment volumes in 2024 and has been on a general downward trend over the last decade. Their investment activity is expected to remain low due to reduced portfolio weightings towards offices and maturing pension schemes.

Overseas investors were the most active buyer type across the market, accounting for 41% of investment. It is expected that these purchasers and new entrants will continue to replace the investment activity of institutional investors. There has been a notable increase in activity from French SCPI funds, these investors are attracted by the smaller lot sizes and liquidity of UK regional markets – 92% of lots traded since 2019 have been below £50 million. These investors are expected to remain active throughout 2025; ASPIM reported that at the end of Q3 2024, annual net inflows into French SCPI funds totalled €2.5 billion.

Property companies continue to remain active within the market, accounting for 32% of investment volumes in 2024. This trend is expected to continue; 35% of assets which are currently under offer are set to be converted to alternative use.

The diversity of landlords within the regional office market is increasing, with the buyer pool becoming increasingly disparate. There were only 15 repeat buyers and only two investors acquired more than two assets (this excludes portfolio sales). At current pricing levels, we expect continued interest from new entrants this year.

Buyer Pool Overseas investors were the most active purchasers in 2024 with this trend expected to continue this year

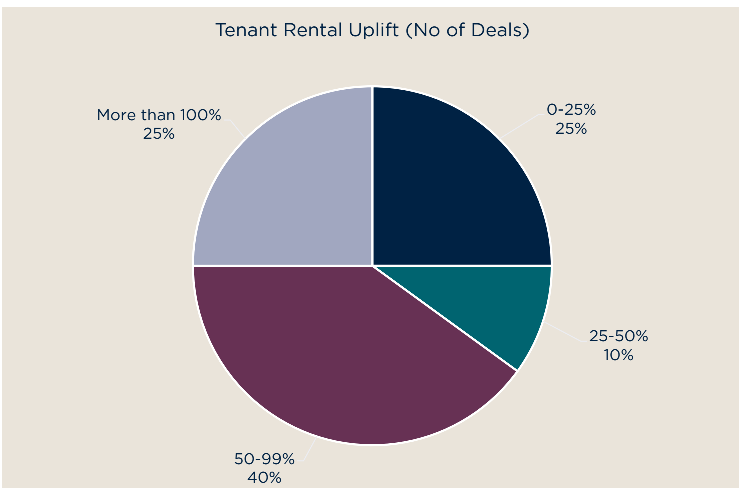


Source: Savills Research

Macroeconomic uncertainty has been present across the market in recent years, but this has not deterred corporate occupiers from paying premium office rents. Rental growth has been a key trend that has helped underpin the investment rationale for purchasing regional offices. Focussing solely on the Greater London & South East region, rental growth has outperformed pre-Covid levels. Average prime rents increased by 8% in 2024, despite sluggish economic growth, with GDP increasing by 0.9%.

Savills has analysed the tenant rental uplift on prime Grade A letting transactions across this region in 2024. This uncovered that, on average, occupiers are paying 69% higher rents on a per sq ft basis when compared to their previous lease after they have relocated. The ongoing flight to quality in the market will help sustain rental growth for both prime and Grade A buildings.

Rental Growth The corporate occupier preference for best in class office space has supported rental growth despite weak levels of economic growth



Source Savills Research *Prime A lettings only for the Greater London & South East region in 2024
The sample used was 30 lettings.

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