

UK Regional Office Investment Market Watch



Prime yields remain static

Investment volumes in the Greater London & South East and regional market reached £1.07 billion at the end of Q1 2021 which represented a 25% fall from the total recorded in Q1 2020 and 32% decrease in the long term average turnover for the first quarter of the year. Limited stock was traded which was reflected in the fall in transactional volumes. The number of deals recorded in the first quarter was 52% below the long term average. The fall has been notable amongst the smaller lot sizes with the number of transactions recorded below £20 million being 62% below the long term average for the first quarter.

The prime regional office yield moved out by 25 basis points to 5.00% in April 2020 in response to the investor caution arising from the coronavirus pandemic and has remained at this level.

Investor demand is currently split into three main categories being long income, life sciences and market priced value add opportunities. The demand for assets which are single let with over ten years of income has been strong and there are examples of assets which match this criteria being traded at yields below 5.00%. This was evident in Bristol in Q1 2021 where Aberdeen Standard Investments acquired Temple Quay House for £75 million which reflected a yield of 3.95%. The building was let to the UK Government for 16 years.

Regional Office Yields April 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%	7.50%	200 bps
Edinburgh	4.75%	6.50%	175 bps
Glasgow	5.25%	6.75%	150 bps
Leeds	5.00%	7.25%	225 bps
Manchester	5.00%	6.75%	175 bps
M25	5.50%	8.50%	300bps

Source Savills Research

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

Key Stats

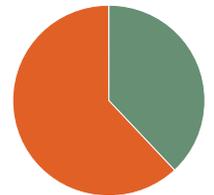
5.00%

Prime regional office yield



£1.07 bn

Office investment volumes outside of Central London in Q1 2021



58%

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



-52%

The number of deals recorded was 52% below the Q1 long term average

Office Investment Volumes Total investment in 2021 was 32% below the long term Q1 average



Source Property Data/Savills

Overseas investors continue to be the most active in the market

Overseas investors were the most active investors across the regional office investment market in Q1 2021. The investor type accounted for 58% of investment which was the highest proportion from the sector in the last ten years.

This followed good levels of activity from the sector in 2020 with the sector accounting for 44% of overall investment which was the highest proportion amongst all investors. The proportion of overall investment has increased each year since 2018 and it is expected that non domestic investors will continue to remain active in the market. There

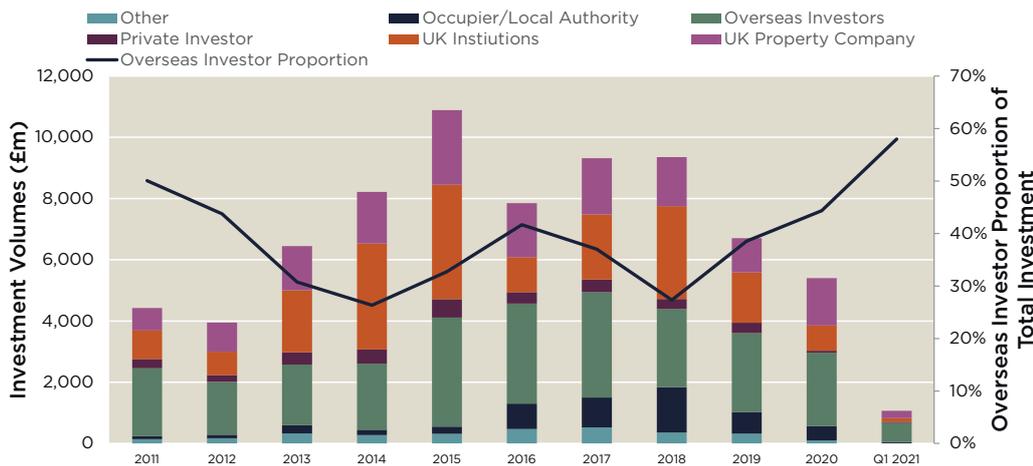
are a number of new international entrants who are seeking to invest in the regional office market. This demand is from a variety of nationalities across all continents.

The type of product that overseas investors are targeting has diversified with risk adverse income and value add opportunities both being considered. There are a number of UK institutional funds who have been willing vendors for assets with shorter income and part vacancy since the summer of 2020 creating price discovery.

The demand for business park assets

from overseas investors has remained strong during the Covid-19 pandemic. The subsector invested £1.2 billion into business parks assets in 2020 which equated to 54% of investment. This was the highest proportion amongst all types of purchasers. This trend has continued into 2021, with overseas investors accounting for 75% of investment into business parks assets in Q1 2021. A notable recent transaction was Henley Investment Management and Colmore Capital acquiring Bedfont Lakes, Heathrow.

Overseas Investment The proportion of overall investment from overseas investors in Q1 2021 totalled 58% which is the highest proportion in the last ten years

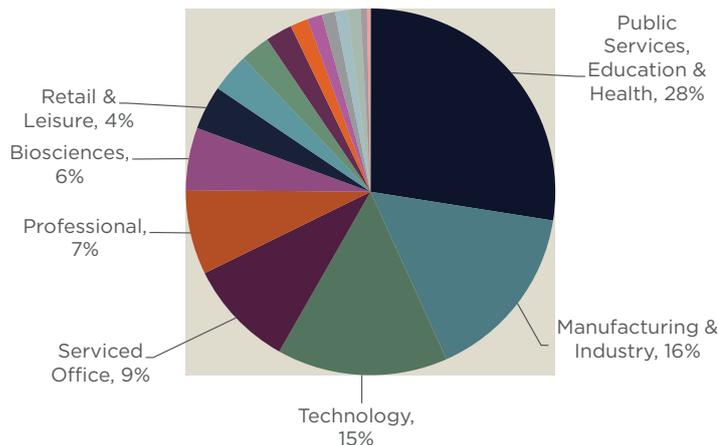


Source: Property Data/Savills

In Q1 2021, the public sector was the most active across both the Greater London & South East and regional office market, accounting for 28% of total take-up. This has been primarily caused by the expansion of the Jobcentre Plus from the Department for Work and Pensions who acquired 565,000 sq ft across the regional markets which Savills track.

Furthermore the UK government have committed to relocate 22,000 civil service roles outside of London and the South East by 2030 as part of the “levelling up” agenda. This will provide new sources of occupier demand for the regional office market. This has been exemplified by the announcement of more than 3,000 civil service jobs across the Home Office and the Department for Business, Energy and Industrial Strategy will be relocated to hubs in Stoke-on-Trent, Edinburgh and Belfast by 2025.

Take-up by Business Sector The public sector was the most active business sector across the Greater London & South East and regional office market in Q1 2021, accounting for 28% of take-up



Source Savills

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

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