UK Commercial – May 2024

MARKET IN MINUTES

*Savills Research*

# UK Regional Office Investment Market Watch

savills

## Investor activity subdued in Q1

Investment volumes across the regional office market have been subdued in the first quarter of the year, with turnover reaching £547 million which was 53% below the five year average. Pricing has remained static since the start of the year with the prime regional office yield standing at 7.00% which is the highest level since July 2009. The South East region has also experienced significant outward yield movement with the prime yield standing at 7.50%.

The largest transaction that completed in Q1 24 was CBRE Global Investors acquiring Halo, Bristol for £70 million, the building comprises 116,000 sq ft and was fully pre-let to Osborne Clark and Deloitte. Focussing on the Greater London & South East region, the largest deal was Jestar acquiring The Hive, Wembley for £38 million reflecting a yield of 11.50%. Price discovery has remained challenging to achieve across the market with a mismatch in pricing expectations between vendors and purchasers persisting, resulting in limited transactional activity. Many investors have priced in anticipated base rate and swap rate cuts into their pricing expectations. Economists are forecasting base rate cuts to not be as aggressive when compared to the beginning of the year. The previous expectation was that there would be an uptick in transactional activity in the second half of the year. This will probably be delayed to Q4 24, depending on the result of the upcoming general election.

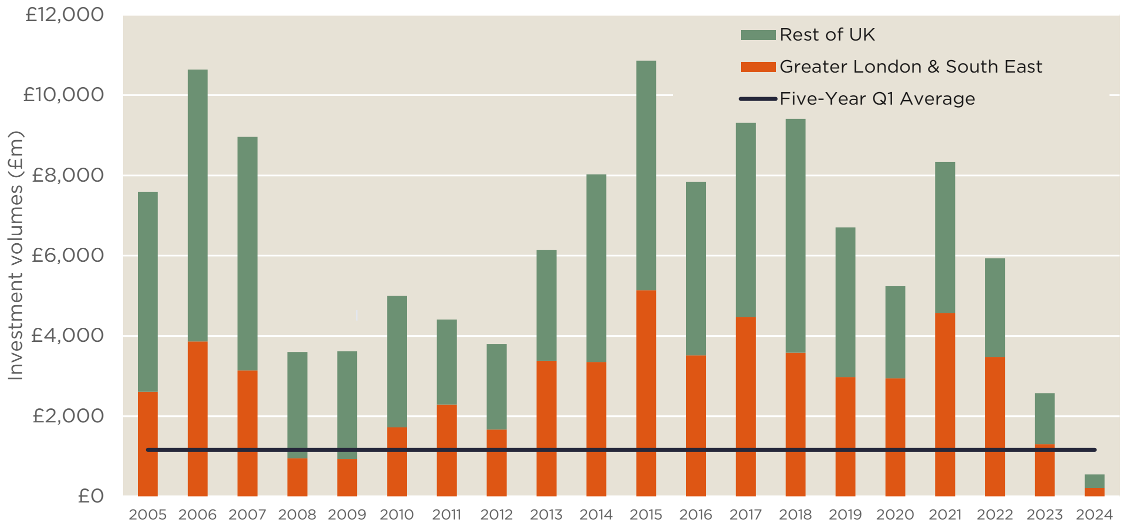
### Regional Office Yields May 2024

| | Year | Prime | Secondary | Spread |
|---|---|---|---|---|
| Birmingham | May-24 | 7.00% | 8.50% | 150 bps |
| | May-23 | 5.75% | 7.50% | 175 bps |
| Bristol | May-24 | 7.00% | 8.50% | 150 bps |
| | May-23 | 5.50% | 7.50% | 200 bps |
| Cardiff | May-24 | 8.25% | 10.50% | 225 bps |
| | May-23 | 6.25% | 9.00% | 275 bps |
| Edinburgh | May-24 | 7.00% | 9.00% | 200 bps |
| | May-23 | 5.75% | 8.00% | 225 bps |
| Glasgow | May-24 | 7.50% | 10.00% | 250 bps |
| | May-23 | 6.00% | 8.50% | 250 bps |
| Leeds | May-24 | 7.25% | 10.00% | 275 bps |
| | May-23 | 6.00% | 8.75% | 275 bps |
| Manchester | May-24 | 7.00% | 8.50% | 150 bps |
| | May-23 | 5.50% | 7.75% | 225 bps |
| South East | May-24 | 7.50% | 10.00% | 250 bps |
| | May-23 | 6.50% | 10.00% | 350 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 Q1 2024 was £547 million which was 53% below the five-year average




**Source** MSCI/Savills

### Key Stats

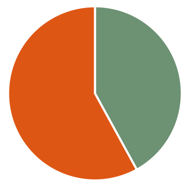
**7.00%**

Prime regional office yield

£

**£547m**

Office investment volumes outside of central London at the end of Q1 2024



**29%**

UK Property Companies were the most active investor accounting for 29% of total investment in Q1 2024

**45%**

The number of deals below £10 million in Q1 2024

# The prime regional office yield gap to central London is at its widest level in over 30 years

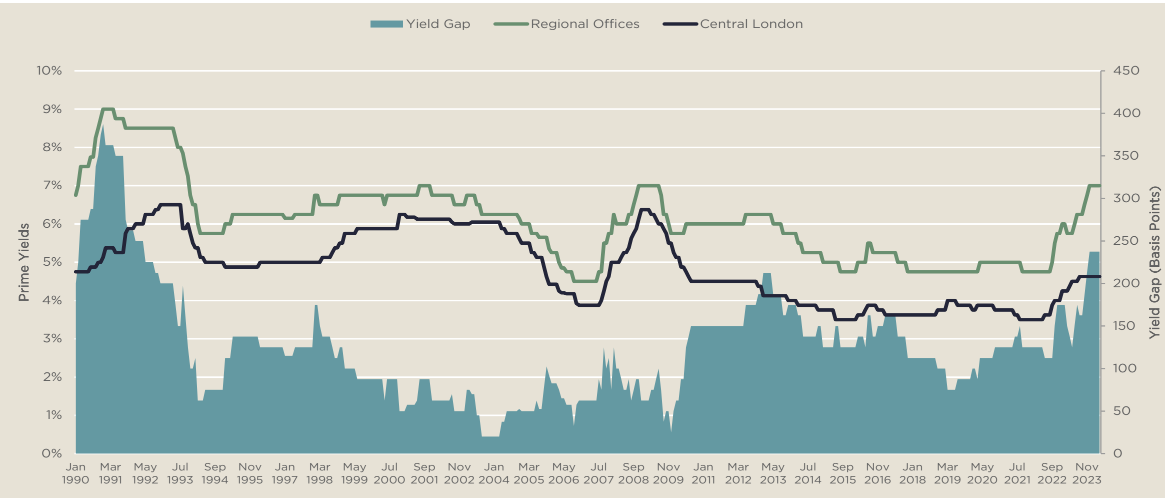
Sentiment towards offices from investors remains challenging with a lack of active buyers in the market. Ongoing concerns on the future of office demand arising from changing working practices has resulted in weaker investor demand. A new normal level of take-up is starting to be established in the occupational market with a clear flight to quality, evident from occupiers. Take-up in the Big Six regional cities at the end of Q1 2024 was 6% above Q1 2023. Furthermore, take-up in the Greater London & South East region (excluding central London) in Q1 2024 was a 35% increase on the same time period last year.

The improving sentiment in the occupational market has however not been mirrored in the investment market. When reviewing the MSCI Office Rest of South East and Rest of UK Capital Growth Index, the data shows a 36% and 34% fall in values since July 2022. This trend is also evident in the Savills Prime Office Yield data series with the current yield gap between prime regional offices and central London offices standing at 238 basis points. This is the widest gap since 1992, which can provide a generational buying opportunity for first mover investors into the sector and region.

Commercial Estates Group have recently launched EQ, Bristol for sale which will test the investor appetite for prime best in class office buildings in the regional markets. The scheme is currently being speculatively developed and comprises 200,000 sq ft. It has achieved the highest office rent across the regional cities and is 84% let during construction. The quoting price is £116 million which reflects a yield of 6.35% or 6.70% for the special purpose vehicle.

A lack of prime transactional evidence has made ascertaining prime pricing challenging. The proposed sale of EQ will help establish a benchmark for prime pricing in the current market and may stimulate further investment activity.

**Prime Yields** The discount regional offices offer when compared to central London can provide a generational buying opportunity



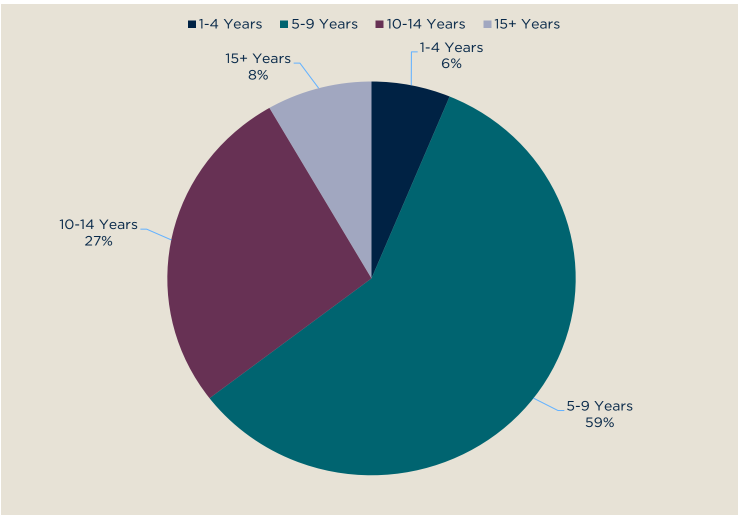

**Source:** Savills Research

The lack of available best in class space across the regional office market, has shifted the market dynamics to be more in favour of the landlord.

This trend has been evident when reviewing the term certains achieved on prime buildings across the Greater London & South East (excluding central London) region. On average, best in class buildings are securing tenants for longer time periods. The average term certain achieved since 2022 on prime best in class buildings is 7.5 years whereas this falls to 6 years on non-prime assets. Notably, 35% of lettings on prime buildings have a term certain over 10 years.

It is expected that this trend will continue as the supply of prime space continues to diminish across the region with greater tenant competition ensuing to secure best in class space.

**Lease Lenghts** The flight to quality in the market is resulting in best in class office space securing longer term certains




**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