

UK Regional Office Investment Market Watch



Sentiment improving amongst investors

There was £1.02 billion invested in Q3 2024 which was nearly double the previous quarter's total, demonstrating the improving sentiment amongst investors. This brought total investment for the first three quarters of the year to reach £2.1 billion which was 7% above the same time period in 2023 but 50% below the five-year average. The uptick in activity is notable when reviewing the number of deals recorded. There were 87 deals recorded in the last quarter which was the highest total since Q2 2022.

Overseas investors have been the most active buyers this year, accounting for 44% of investment volumes. The purchaser type accounted for four of the five largest transactions in the last quarter. Notable deals included Tristan Capital Partners acquiring Cody Technology Park, Farnborough for £112 million and Mitsubishi UFJ Financial Group purchasing Syngenta's, International Research Centre for £70 million. Activity from overseas investors is expected to continue, notably from existing and newly created French SCPI funds and Middle Eastern capital who are targeting regional markets.

There was £542 million of assets placed under offer in Q3 2024 and a further £482 million of assets being launched to the market in the same quarter. This bodes well for Q4 2024, having the highest quarterly total of investment in the last 12 months.

Regional Office Yields

	Year	Prime	Secondary	Spread
Birmingham	Oct-24	7.00%	8.50%	150 bps
	Oct-23	6.75%	8.50%	175 bps
Bristol	Oct-24	7.00%	8.50%	150 bps
	Oct-23	6.75%	8.50%	175 bps
Cardiff	Oct-24	8.25%	10.50%	225 bps
	Oct-23	8.25%	10.50%	225 bps
Edinburgh	Oct-24	7.00%	9.00%	200 bps
	Oct-23	6.75%	9.00%	225 bps
Glasgow	Oct-24	7.50%	10.00%	250 bps
	Oct-23	7.50%	10.00%	250 bps
Leeds	Oct-24	7.25%	10.00%	275 bps
	Oct-23	7.25%	10.00%	275 bps
Manchester	Oct-24	7.00%	8.50%	150 bps
	Oct-23	6.75%	8.50%	175 bps
South East	Oct-24	7.75%	10.00%	225 bps
	Oct-23	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.

Key Stats

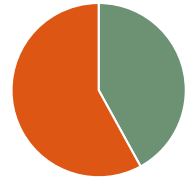
7.00%

Prime regional office yield



£2.1bn

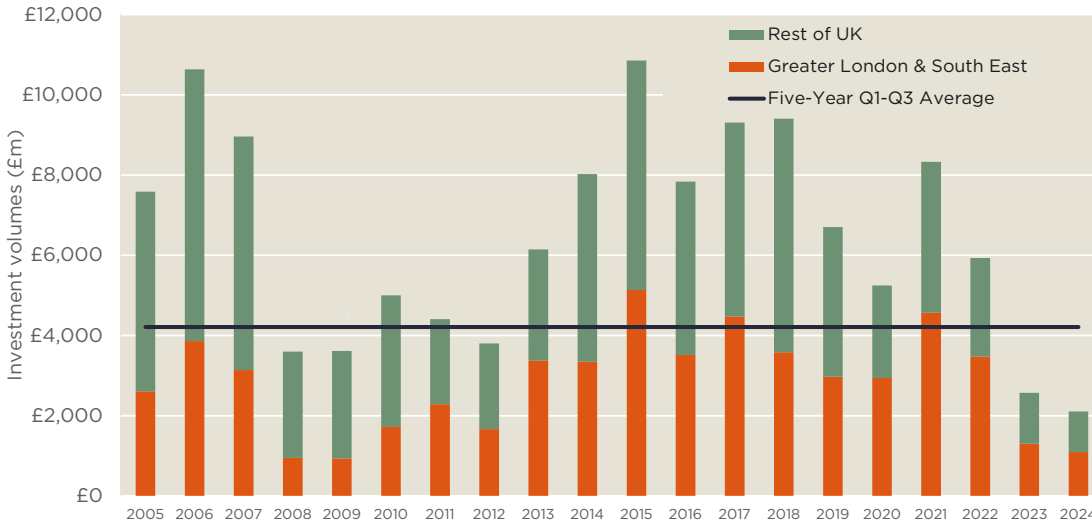
UK office investment volumes outside of Central London at the end of Q1-Q3 2024



44%

Overseas investors were the most active investor accounting for 44% of total investment in Q1-Q3 2024

Office investment volumes Total turnover recorded in Q1-Q3 2024 was £2.1 billion which was 50% below the five-year average



Source MSCI/Savills



61%

The number of deals below £10 million in Q1-Q3 2024, this was 2% above the five-year average of 59%

Regional office pricing is discounted when compared to other sectors

The office market has undergone a significant period of repricing during the recent periods of high inflation. From September 2022, Savills prime regional and South East office yield has moved out by 225 and 250 basis points respectively, in this time period. Whilst yield softening has occurred across all sectors, the regional office market has experienced the largest outward movement in pricing.

The structural change that the office market is currently experiencing has continued to negatively impact sentiment along with the rise in finance costs. These factors have combined to result in pricing levels plateauing despite the base rate being cut earlier this year in August.

There is however a growing consensus amongst the investor community that current pricing in the office market has reached the “bottom”. Both, the retail and industrial sectors have experienced yield hardening in recent months with the office market still yet to turn, making core or core plus office opportunities appear cheap when compared to other sectors.

Liquid and decisive investors will be able to benefit from the current occupational market dynamics. Take-up levels have improved with take-up at the end of the first three quarters of the year being 5% and 10% above the five year average for the Greater London & South East region

and Big Six regional cities. The increase in take-up is putting pressure on existing supply levels with the development pipeline limited across the regional markets, resulting in rental growth for both prime and standard grade A space. Eleven submarkets have achieved record rents in Q1-Q3 24 in the Greater London & South East region and the average prime rental growth forecast across the Big Six regional city centre markets for 2024 is 9%. These occupational market trends make the regional office market an attractive investment proposition at current pricing levels.

Prime Yields The prime regional office yield has remained at 7.00% for the last ten months whilst other sectors have experienced yield hardening

