

# Market in Minutes



## Acceleration in yield compression

July's very marginal downward shift in average prime yields picked up some pace last month coming in by 4bps to 5.09%. This was driven by Retail Warehouses (restricted) and City offices, both of which saw yields come in by 25bps. We could see this downward trend continue over the coming months, supported by stronger confidence as economic conditions improve. For example, three sectors mooted further downward pressure on yields.

While rising inflation is currently grabbing the headlines, the direct read through to pricing could be minimal, as property values have a much stronger link with economic growth. Rental growth has benefited from the strong economic recovery in many sectors, albeit tempered by structural change in retail and offices. Having said this, higher inflation will mitigate rental growth in real terms although we believe this will be relatively short lived. Oxford Economics forecast that inflation will come back in to 2.0% by end of 2022, albeit after a rise to 3.5% before the end of this year. This concurs with the MPC's view that inflation will settle back to 2% in the medium term. Rather, it would be a return to rising Bond yields that could temper future yield compression, albeit the current spread is generous enough to absorb higher rates over the short term.

### Savills prime yields

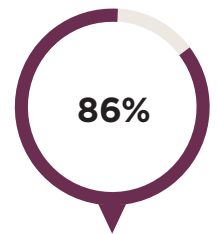
	August 2020	July 2021	August 2021
West End Offices	3.75%↓	3.25%	3.25%
City Offices	4.00%	4.00%↓	3.75%
Offices M25	5.25%↑	5.50%	5.50%
Provincial Offices	5.00%	5.00%↓	5.00%↓
High Street Retail	6.00%	6.75%	6.75%
Shopping centres	6.50%↑	7.50%	7.50%
Retail Warehouse (open A1)	6.75%↑	6.00%↓	6.00%
Retail Warehouse (restricted)	7.00%↑	6.25%↓	6.00%
Foodstores (OMR)	4.50%	4.50%↓	4.50%↓
Ind/ Distribution (OMR)	4.25%	3.50%↓	3.50%↓
Industrial Multi-lets	4.00%	3.25%	3.25%
Leisure Parks	6.75%↑	7.50%	7.50%
London Leased (core) Hotels	4.00%↑	3.50%	3.50%
Regional Pubs (RPI)	4.75%↑	5.25%	5.25%

Source Savills

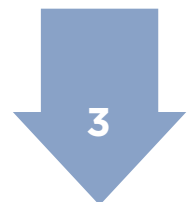
### Key Stats



The UK average prime yield compressed by 4bps to 5.09%

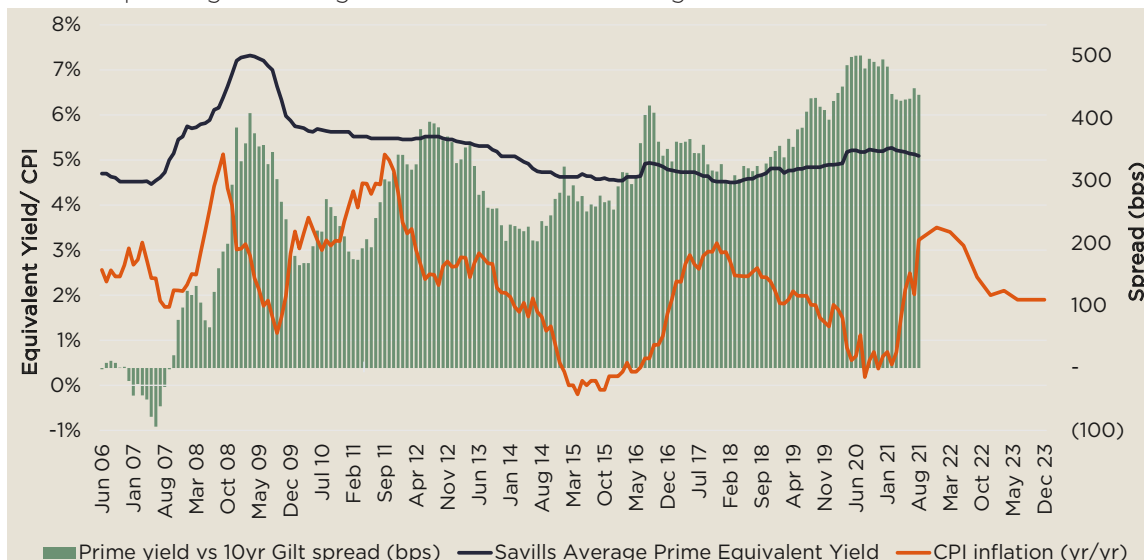


Share of UK respondents who state the office is still essential to business operations post pandemic



Number of sectors that have a downward prime yield expectation

**Is rising inflation a risk to pricing?** No historical link between inflation and yields, with forecasts pointing to slowing inflation as we move through 2022



Source Savills, ONS, BoE

## What is the current sentiment around the office?

Savills Office FiT was launched in response to the Covid-19 pandemic exploring if and how views and preferences on the office have changed in response to the pandemic. The key questions being debated are how do workers feel about the return to the office and where are specific tasks best undertaken. In the most recent survey in July, 86% of UK survey respondents believe the office remains essential for successful business operations post pandemic. This is in line with the 89% recorded at the start of the pandemic, suggesting attitudes towards the office have remained broadly consistent over the last 12 months.

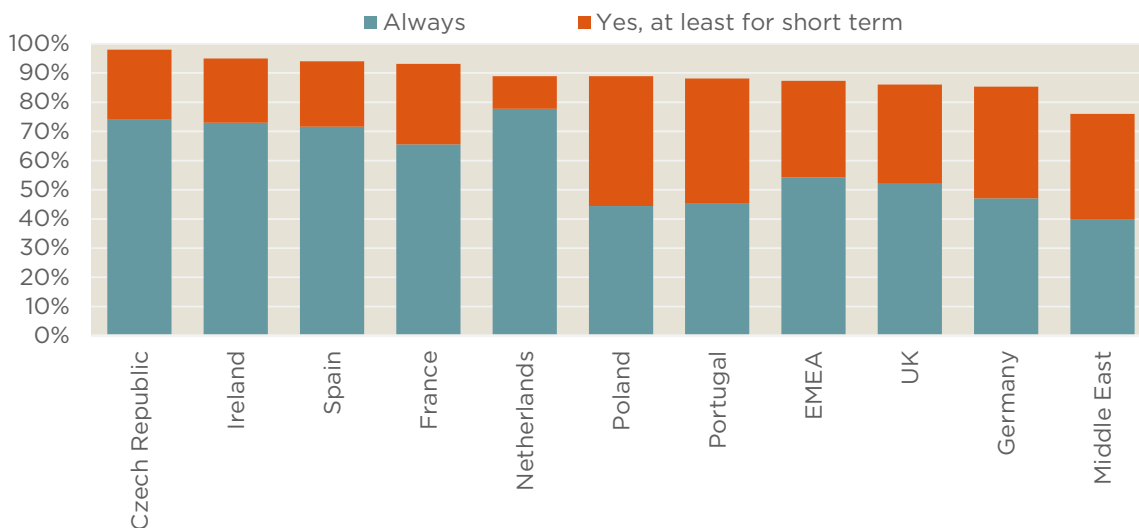
Employers will however need to manage new working preferences. For example, 54% of respondents feel that their mental health is best fulfilled by working from a combination of both the home and the office. Similarly, 48% of respondents feel that their personal growth is best facilitated by working from a combination of both. Working from home can be a positive component of the work-life mosaic, but the workplace remains an essential environment for employee growth and learning as well as key to supporting and maintaining the culture, community and an organisation's brand.

The office is important, but equally so is its configuration. Additional work

settings, collaborative spaces and virtual communications must all be taken into account with appropriate space allocation.

Ultimately, the leadership rationale for decisions made about the office should be communicated to the workforce, if people understand the 'why' they are more likely to accept change. Employee preferences must be balanced with business demands. Whilst there may be a perception that these two aspirations are different, our survey indicates a broadly consistent response between managerial and non-managerial employees. Ultimately, effective communication between employer and employee is vital.

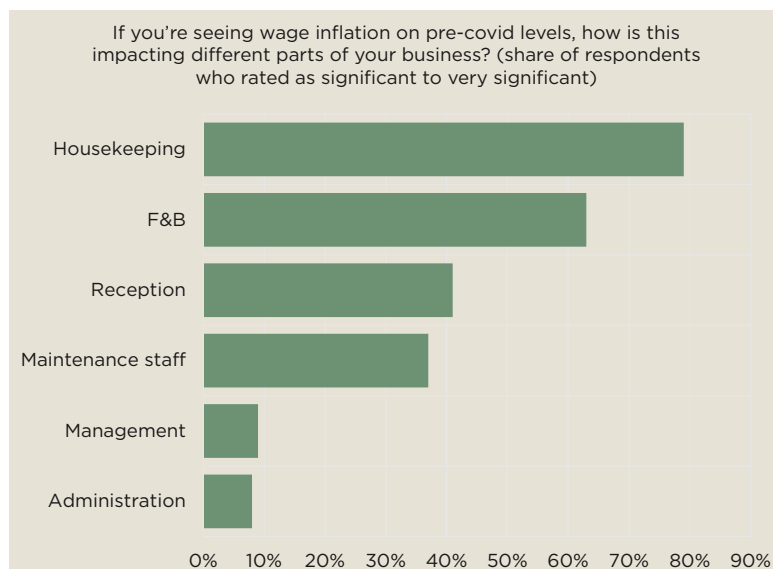
**Is the office still vital for employees?** 86% of UK office based respondents believe the office is still essential for successful business operations post pandemic.



Source Savills FIT survey 2021

Inflationary pressures facing the wider economy is nothing new to the hotel sector. Even ahead of Brexit the sector was seeing rising costs across the board, most notably in terms of wage costs due to staff availability issues. The pandemic has exacerbated these staff shortages particularly as the economy has reopened. Savills Hotels carried out an operator survey to look beyond the headlines and better understand these challenges and what it could mean for lenders and investors. Headline results are that 83% of respondents expect to experience a shortage of staff over the next 12-18 months. In response, respondents believe these shortages could culminate in a 12% increase in average wages, with housekeeping and F&B (food & beverage) functions most exposed. However, these impacts vary significantly across hotel departments, hotel segments and regions.

## Hotels and staff availability pressures



Source Savills hotel operator survey 2021

## Savills team

Please contact us for further information

**James Gulliford**  
 Joint Head of UK Investment  
 020 7409 8711  
 jgulliford@savills.com

**Richard Merryweather**  
 Joint Head of UK Investment  
 020 7409 8838  
 rmerryweather@savills.com

**Marie Hickey**  
 Director  
 Commercial Research  
 020 7409 8288  
 mlhickey@savills.com

Savills plc: Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 600 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, India, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

