UK Commercial – August 2021

UK Regional Office Investment Market Watch

savills

Downward pressure on the prime regional office yield

Investment volumes in the Greater London & South East and regional market reached £3.58 billion at the end of H1 2021, which represented a 52% increase from the total recorded in H1 2020 and 18% above the long-term average for the first half of the year. The high turnover can be partly attributed to large lot sizes being traded, with 14 transactions over £50 million in H1 2021-this was the highest number in the last three years.

The investor demand in the market has improved throughout the year, resulting in downward pressure being applied to the prime regional office yield, which has remained at 5.00% since April 2020.

Overseas investors have been actively acquiring assets in the market with non-domestic investment reaching £2.38 billion, which was the highest total recorded at the half-year stage in the last decade. The proportion of total investment from non-domestic investors equates to 65%, which is above the five-year average of 38%. The demand for overseas investors has been diversified, with both long income and value add opportunities being considered. It is expected that overseas investors will continue to be active throughout the remainder of 2021, with demand originating from a variety of nationalities across all continents.

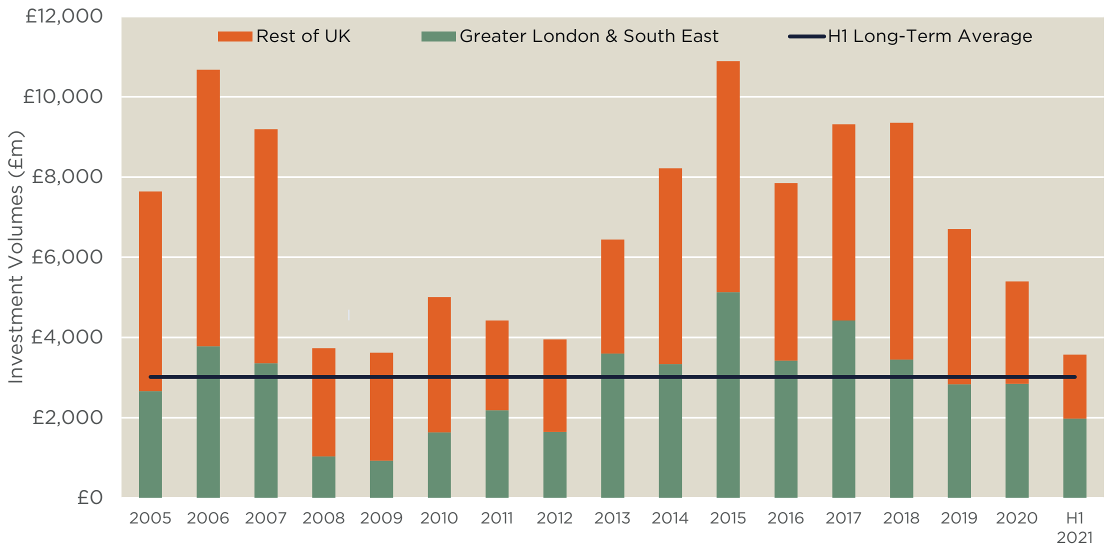
Regional office yields July 2021

	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%	8.00%	250 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%	300 bps

Source Savills Research

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

Office Investment Volumes Office investment volumes recorded in H1 2021 were 18% above the long-term average for the first half of the year



Source Property Data/Savills

Key Stats

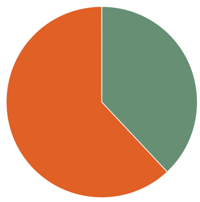
5.00%

Prime regional office yield

£

£3.58bn

Office investment volumes outside of central London in H1 2021



65%

Overseas investors accounted for 65% of total investment in H1 2021, which was the highest proportion amongst all investor types

36%

The number of deals recorded in H1 2021 was 36% above the total recorded in H1 2020

Positive momentum building in the regional office occupational market

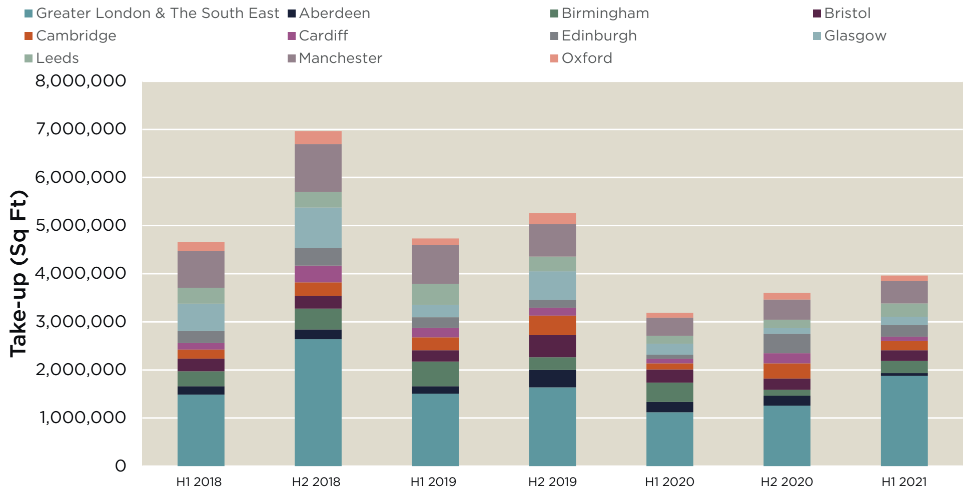
The positive momentum building in the regional office occupational market continued in H1 2021 after the lockdown restrictions imposed throughout 2020 resulted in limited transactional activity. Take-up reached 3.96 million sq ft at the end of H1 2021, which represented a 10% increase from H2 2020 and 24% above H1 2020.

There were notable increases in activity in Birmingham, Leeds, Glasgow and the Greater London & South East region, with each market recording an increase in take-up of over 49% from H2 2020.

The public sector has been the most active business sector in H1 2021 across the regional city office market and Greater London & South region, accounting for 20% of take-up recorded. Other notable business sectors that have been actively leasing office space in H1 2021 include the technology and manufacturing and industry (which includes life sciences) sectors.

The largest letting in the regional city office market was DLA Piper pre-letting 83,012 sq ft at City Square House, Leeds. There were three other deals above 50,000 sq ft. There has also been good demand from larger occupiers in the Greater London & South East region with six deals recorded over 50,000 sq ft, which was the joint highest total at the half-year stage for the region. The optimism amongst corporate occupiers was highlighted by Deloitte's quarterly Chief Financial Officers (CFO) Survey. The survey uncovered that 77% of CFOs indicated that they would increase their workforce in the next 12 months. This was the most positive hiring intentions from the survey since Q2 2014 .

Regional office take-up The take-up recorded in H1 2021 was 10% above H2 2020 and a 24% increase from H1 2020



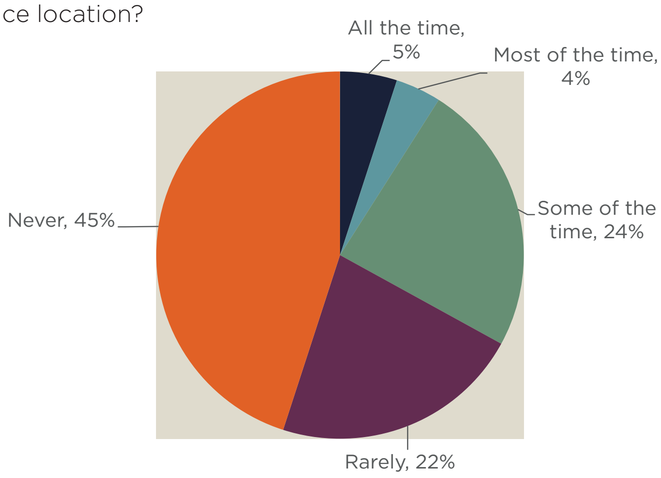
Source: Savills Research

The Savills Office FiT Survey 2021 uncovered that 55% of UK respondents would at some point prefer to work in an office that is shared by other companies/ leased by the employer closer to home,rather than commuting to your main office location. Whilst 9% of respondents reported they would use an alternative company workspace all or most of the time.

The commute is a key factor in the workplace experience of the employee. Grade A offices that are located in proximity to transport hubs with strong amenity provision will continue to appeal to occupiers.

A potential hub and roam locational model may benefit flexible office operators with companies seeking to provide employees with access to a range of alternative workspaces via day pass booking apps.

Hub and Roam How often, if at all, would you prefer to work in an office that is shared by other companies/leased by your company closer to home, rather than commuting to your main office location?



Source Savills Office FiT

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