UK Commercial – August 2022

MARKET IN MINUTES

Savills Research

UK Regional Office Investment Market Watch

savills

Investor demand polarised as prime yield remains static

Investment volumes reached £3.6 billion at the end of H1 2022 which represented a 4% increase from H1 2021 and 15% above the long-term average. This has been primarily caused by several large transactions completing in H1 2022. There were nine deals over £100 million in the first half of the year which is the second highest total in the last ten years. Notable deals included LCN Capital Partners forward funding Unilever's Kingston Campus for £245.6 million reflecting a yield of 4.6% and Pontegadea acquiring 177 Bothwell Street, Glasgow for £215 million. This was the largest single office investment transaction ever recorded in Scotland. Overseas investors remain the most active investors in the market accounting for 49% of investment in H1 2022.

The robust occupational fundamentals of the regional office market have appealed to investors who are seeking core or core plus opportunities. All of the Big Six regional cities have below two years of Grade A supply. The appeal was evident by Blackstone's first acquisition in the market in H1 2022, acquiring The Colmore Building, Birmingham for £182 million. The turbulent macroeconomic outlook and rising cost of debt has resulted in the prime regional office yield trending upwards. There has been yield softening for secondary assets with Glasgow, Leeds, M25, Edinburgh and Bristol all experiencing an outward movement in their secondary yield in the last three months. The polarisation of pricing is expected to continue with increasing build and debt costs driving secondary yields outwards.

Regional office yields August 2022

	Year	Prime	Secondary*	Spread
Birmingham	Aug-22	5.00%	6.75%	175 bps
	Aug-21	5.00%	6.75%	175 bps
Bristol	Aug-22	4.75%	6.75%	200 bps
	Aug-21	5.00%	6.75%	175 bps
Cardiff	Aug-22	5.50%	8.50%	300 bps
	Aug-21	5.50%	8.00%	250 bps
Edinburgh	Aug-22	4.75%	6.50%	175 bps
	Aug-21	4.75%	6.50%	175 bps
Glasgow	Aug-22	5.00%	7.50%	250 bps
	Aug-21	5.25%	6.75%	150 bps
Leeds	Aug-22	5.00%	8.00%	300 bps
	Aug-21	5.00%	7.25%	225 bps
Manchester	Aug-22	4.50%	6.50%	200 bps
	Aug-21	5.00%	6.75%	175 bps
M25	Aug-22	5.25%	9.00%	375 bps
	Aug-21	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

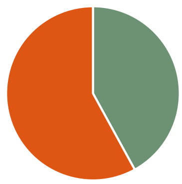
Key Stats

4.75%↑

Prime regional office yield

£3.6bn

Office investment volumes outside of central London in H1 2022



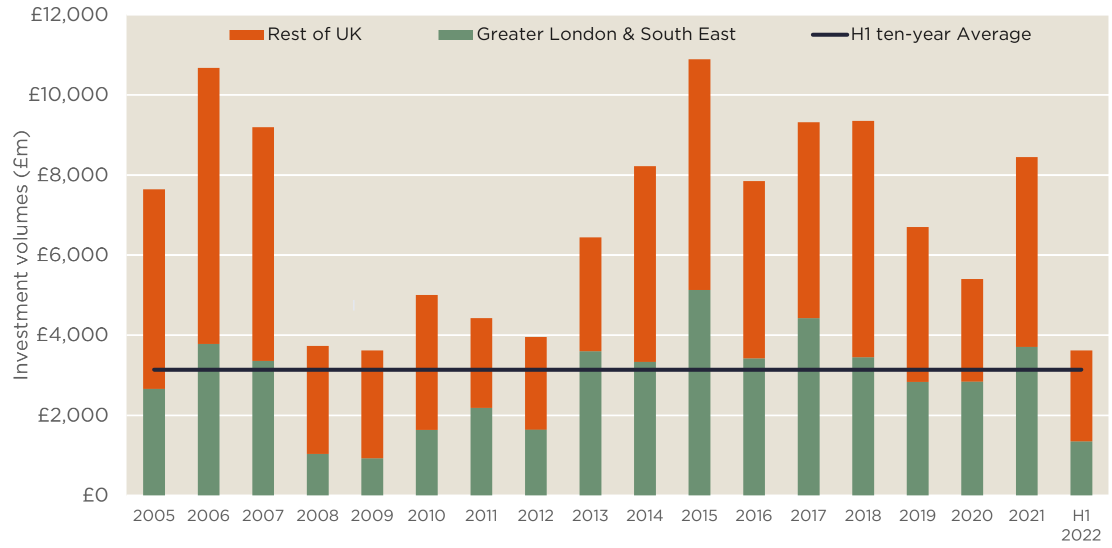
49%

Overseas investors accounted for 49% of total investment in H1 2022, which was the highest proportion amongst all investor types

9

The number of deals over £100m in H1 2022. This was the second highest total in the last ten years

Office investment volumes Total turnover recorded in H1 2022 was 15% above the long-term average for the first half of the year



Source Property Data/Savills

The technology sector continues to drive demand in the occupational market

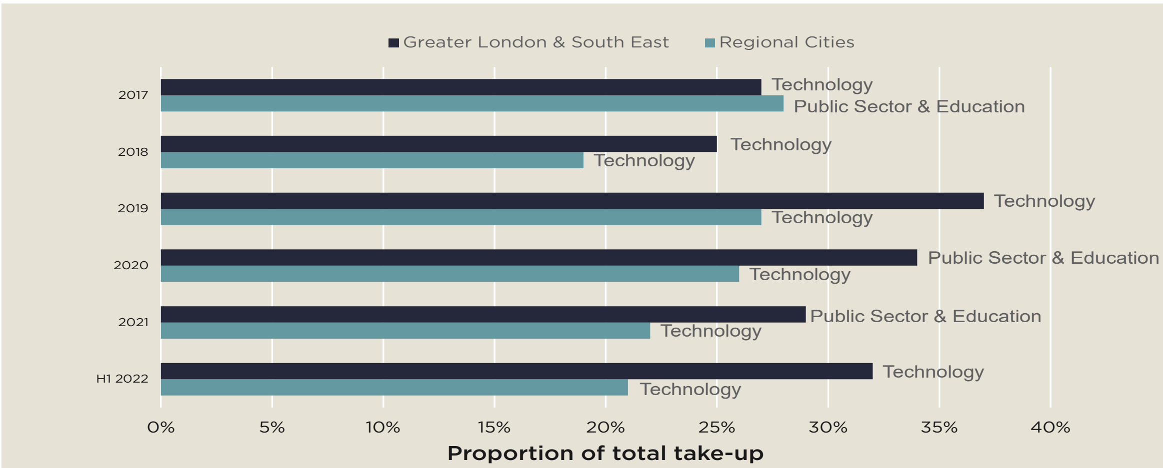
Demand in the occupational market continues to be spearheaded by the technology sector. This was evident in both the Greater London & South East office market and the Regional City office market in H1 2022 with the sector accounting for 32% and 21% of take-up recorded which were the highest proportions when compared to other business sectors. Notably the sector recorded an increase of 50% and 68% across both market areas from the take-up recorded in H1 2021 underlining the increased activity.

The sector has notably been active in Bristol, Manchester and Cardiff across the Regional City office market. In Bristol, the sector recorded the highest level of take-up for the first two quarters of the year when compared to five previous years in H1 2022. Notable transactions in Bristol included Paymentsense acquiring 55,000 sq ft at Commercial Estates Group, EQ speculative development and Pax8 leasing 24,000 sq ft at No.2 The Distillery.

Focusing on the Greater London & South East market, the technology sector has been notably active in Reading and Guildford where the sector acquired 53,000 sq ft and 50,000 sq ft respectively. Reading has experienced the highest quantum of demand from technology occupiers in the last five years across the Greater London & South East market. The cluster of gaming companies in Guildford continues to expand with over 70 companies based in the town employing 1,800 people according to Guildford Borough Council.

The UK technology sector was valued at over $1 trillion according to the UK's Digital Economy Council in 2022 which is only behind China and USA. This valuation is five times the scale of France and double the size of Germany illustrating the scale of the sector. Further growth from the sector notably from start-ups and scale-up companies is expected with £6.6 billion of venture capital invested into technology companies across the UK in H1 2022 which followed £6.1 billion of venture capital investment in 2021. The expansion of the sector bodes well for future demand for regional office space

Most Active Business Sectors The technology sector was the most active in H1 2022 in both the Greater London & South East and Regional City office market

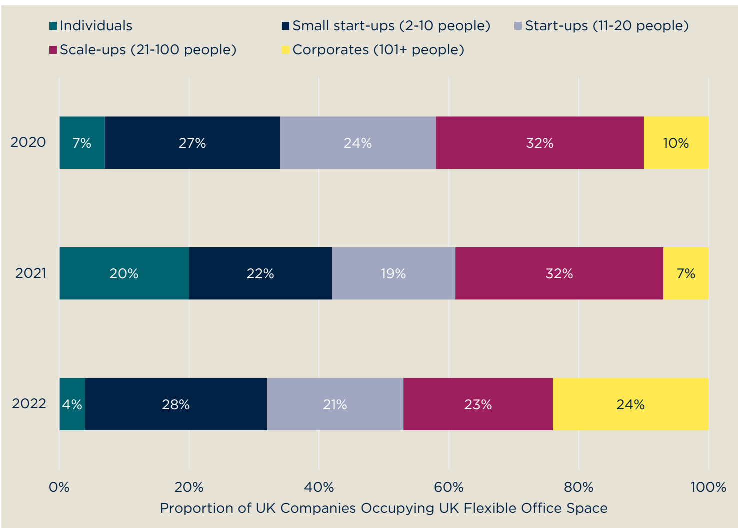


Source: Savills Research

There has been a surge in demand for flexible office space with Workthere reporting a 143% increase in the number of enquiries from pre-Covid-19 levels at the end of H1 2022. Notably, there has been a change in the type of company requiring flexible office space. Workthere's Flexmark 3.0 survey revealed that the proportion of corporate organisations (employing 101+ people) that occupy flexible office space has risen from 10% in 2020 to 24% in 2022. The quantum of flexible office space within a corporate's portfolio is rising as hybrid working models become more widely adopted.

Landlords expect this to continue with 72% of respondents from [Savills Landlord Flexible Office survey] expecting that occupiers will require more flexibility and being able to book space on an as-needed basis.

Flex Occupiers There has been an increase in the number of corporate organisations occupying flexible office space



Source Workthere

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