MARKET IN MINUTES
Savills Research

UK Commercial – March 2021

UK Regional Office Investment Market Watch

savills

Yields remain static although sentiment improving

Investment volumes in the Greater London & South East and regional office market reached £5.40 billion at the end of 2020 which was 19% and 25% below the 2019 total and the long term average. Investor sentiment has been gradually improving throughout the Covid-19 pandemic which was evident in Q4 2020 where volumes totalled £1.84 billion which was the highest quarterly total in 2020 and a 53% increase on the total recorded in Q3 2020.

The prime regional office yield has remained at 5.00% since April 2020 in response to the investor caution in the market arising from the first lockdown. There have though been yields recorded below this threshold for assets which are single let with over ten years income. The demand for secondary assets has been limited with the yield spread over 200 basis points in certain markets.

The appetite from investors to increase their exposure to the life science sector has been already been notable in 2021 and it is expected that this will continue throughout the year. This demand has been primarily concentrated in markets where there are existing large life science clusters such as Oxford and Cambridge which has led to downward pressure on yields in those markets. The supply of laboratory space is exceptionally constrained across the UK which will provide rental growth opportunities. This is notable in Oxford and Cambridge with the vacancy rate being 4% and 0% respectively.

Regional Office Yields January 2021

	Prime	Secondary*	Spread
Aberdeen	6.50%	8.50%	200 bps
Birmingham	5.00%	6.75%	175 bps
Bristol	5.00%	6.75%	175 bps
Cardiff	5.50%	7.00%	150 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%	8.00%	250bps

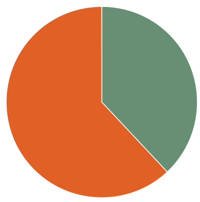
Source Savills Research

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

Key Stats

5.00%
Prime regional office yield

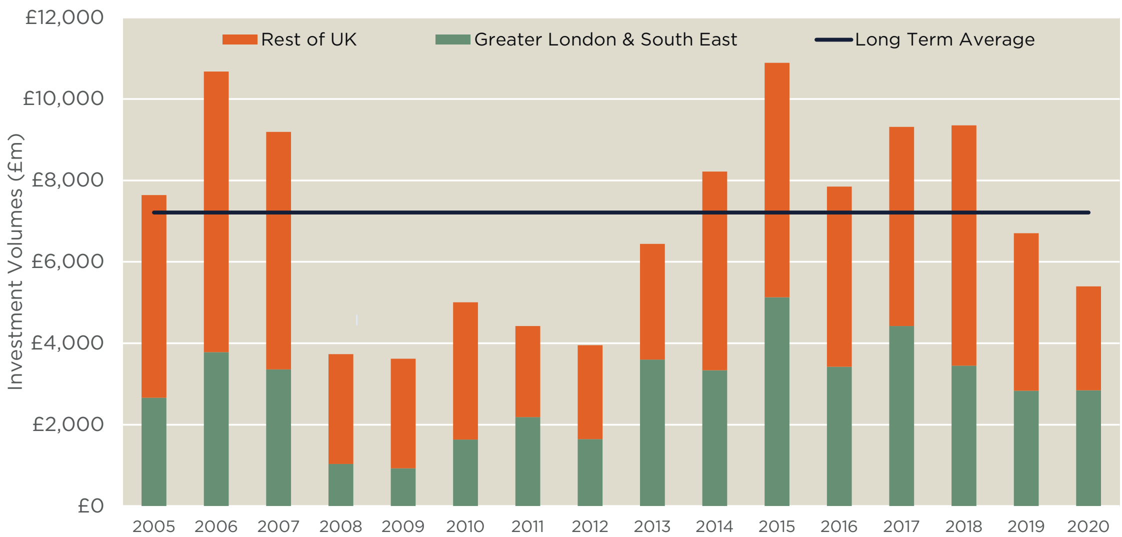
£5.40bn
Office investment volumes outside of Central London in 2020



44%
Overseas investors accounted for 44% of total investment in 2020 which was the highest proportion amongst all investor types

14
There were 14 deals recorded over £100m in 2020 which was 40% above the long term average

Office Investment Volumes Total investment in 2020 was 25% below the long term average



Source Property Data/Savills

Supply levels remain low when compared to historic averages

The initial impact of the Covid-19 pandemic on the regional office market has not resulted in a surge of supply flooding the market. This is reflected in the chart below where in five of the regional markets which Savills track, the end year 2020 supply levels are below the five year average. The supply constraints are notable in Bristol and Glasgow with only approximately six months of grade A supply available assuming the five year average take-up.

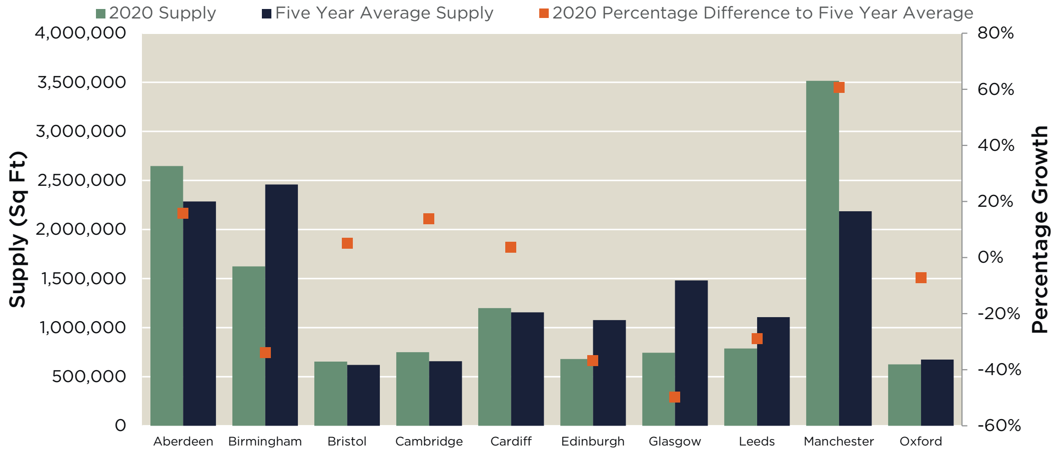
Manchester is the only market which has experienced a significant increase in supply. This can be partly attributed to strong development activity in the city centre with available grade A supply more than doubling from the end 2019 total.

Top headline rents have grown in the regional office market, with five of the Big Six office markets in 2020 seeing top rents increase. The most notable growth was in Birmingham and Leeds where prime rents increased by 7.2% and 6.7% respectively. Incentives have though moved out in response to the Covid-19 pandemic.

The development pipeline continues to remain limited across the regional office market with 2.5 million sq ft of available space under construction which equates to only five months of take-up in an average year. Furthermore 46% of the overall development pipeline has already been pre-let, highlighting the demand for the best quality space.

Supply has been on a general downward trend in market with end 2020 supply 35% below 2009 levels. This has been primarily caused by limited development activity and conversion of poor quality office space to alternative uses under permitted development rights. The quantum of available grade B & C office space has decreased by 49% since 2009.

Regional office supply The supply of office space remains constrained with end 2020 supply more than 20% below the five year average in four key regional office markets

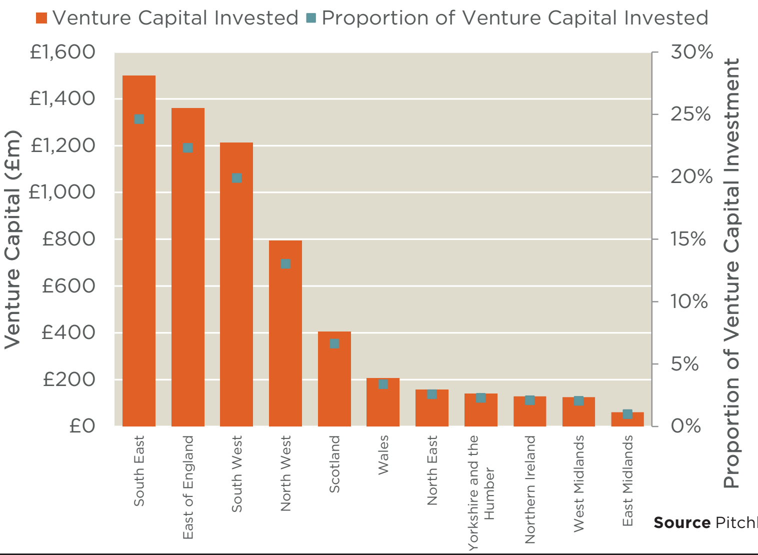


Source: Savills Research

The technology sector has continued to be the most active occupier type in the regional office market. The sector accounted for 26% of take-up in 2020 which was the highest proportion across the market. This trend has been evident in recent years with technology occupiers accounting for the highest volume of take-up in the last three years.

Strong venture capital investment has enabled the growth of the sector outside of London. There has been £6.1 billion of venture capital invested into technologies companies headquartered outside of London in the last five years. The South East, East of England and South West regions have received the highest quantum of venture capital in this time period which bodes well for future take-up from the sector.

Technology Venture Capital Investment There has been £6.1 billion of venture capital invested into technology companies headquartered in the UK regions in the last five years



Source Pitchbook

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