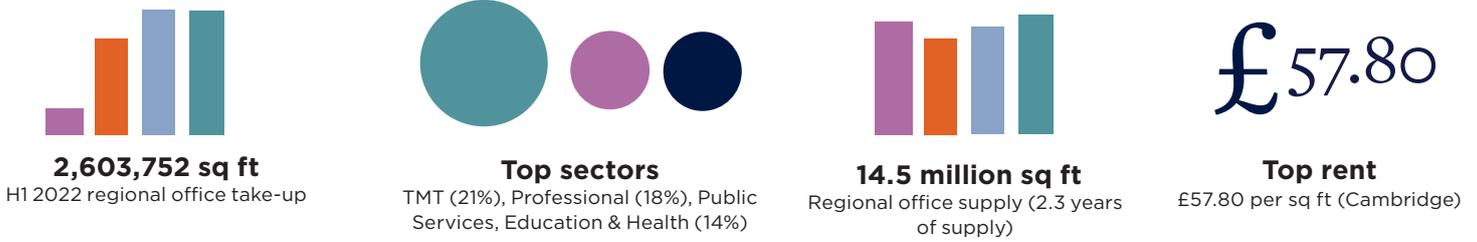


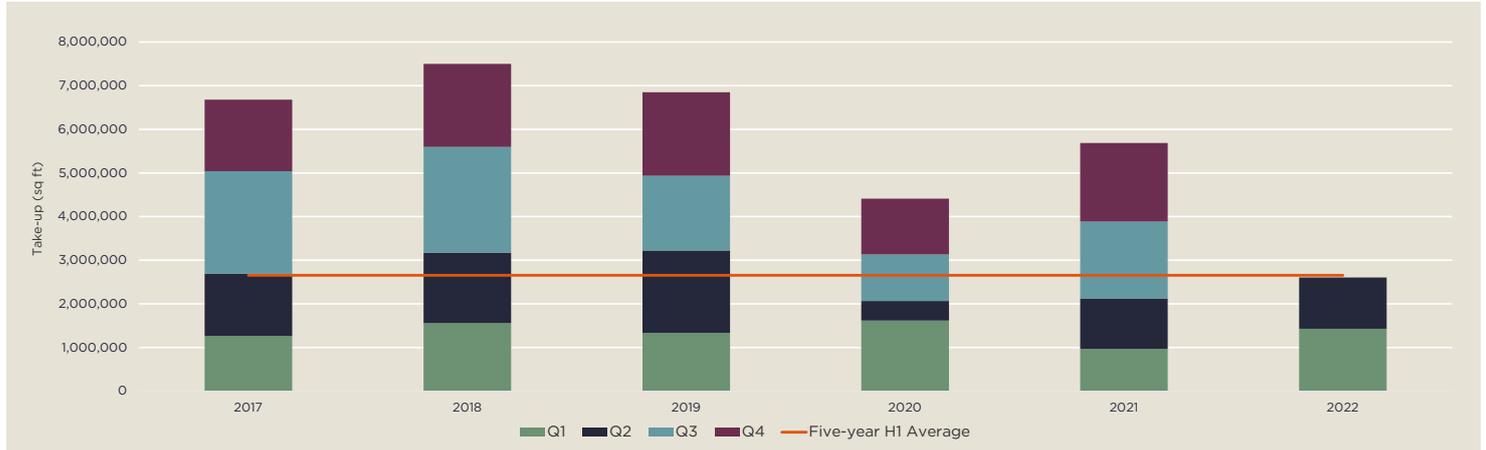
# UK Regional Offices





### UK regional office take-up (sq ft)

Take-up has increased significantly since the second quarter of 2020.



Source Savills Research

## Regional office take-up in H1 was in line with the five-year H1 average

The regional office market continued to build upon its recovery from the impacts of the Covid-19 pandemic in the first half of 2022.

H1 2022 take-up in the regions totalled 2.6 million sq ft. This represented an increase of 22% on H1 2021 and an increase of 26% on the same period in 2020. This was in line with the five-year average for the UK regional markets.

In the regional markets, Grade A take-up for the highest quality space accounted for 46% of the overall total. The 10-year average H1 average Grade A take-up proportion is 41%, which suggests that the result achieved in H1 2022 represents a resilience in Grade A demand and a continuation of the flight to quality within the UK regions.

There were two lettings in the UK regional markets in excess of 100,000 sq ft in the first half of 2022. These were the 100,000 sq ft acquisition by Shell at the Silver Fin Building in Aberdeen and the 130,000 sq ft letting to the Government Property Agency at First Street in Manchester.

In terms of supply, total regional availability stood at 14.5 million sq ft at the end of H1 2022, which was broadly in line with the Q4 2021 total.

Grade A supply decreased by 14% to 4.3 million sq ft. When measured against five-year average demand, the results show that there is currently less than two years of Grade A supply in all of the UK Big 6 markets.

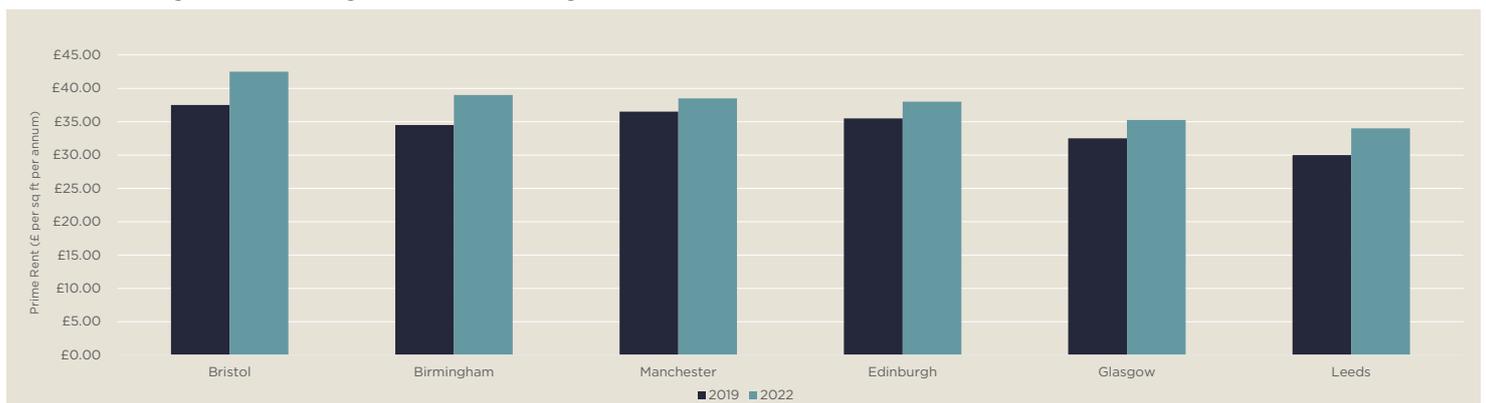
In Birmingham, Bristol, Leeds and Edinburgh, there is currently less than one year of Grade A availability, and with just 130,000 sq ft new build Grade A space available in Glasgow, this is indicative of the shortage of best-in-class buildings within the UK regions.

Despite headwinds, Bristol was still able to achieve rental growth in H1 2022. The prime rent in the market currently stands at £42.50 per sq ft, which represents an increase of 12% compared to the Q4 2021 figure.

Furthermore, optimism remains for rental growth in H2, with at least three of the UK's Big 6 markets forecasting to achieve a prime rent in excess of £40 per sq ft by the end of 2022.

### Big 6 prime rents

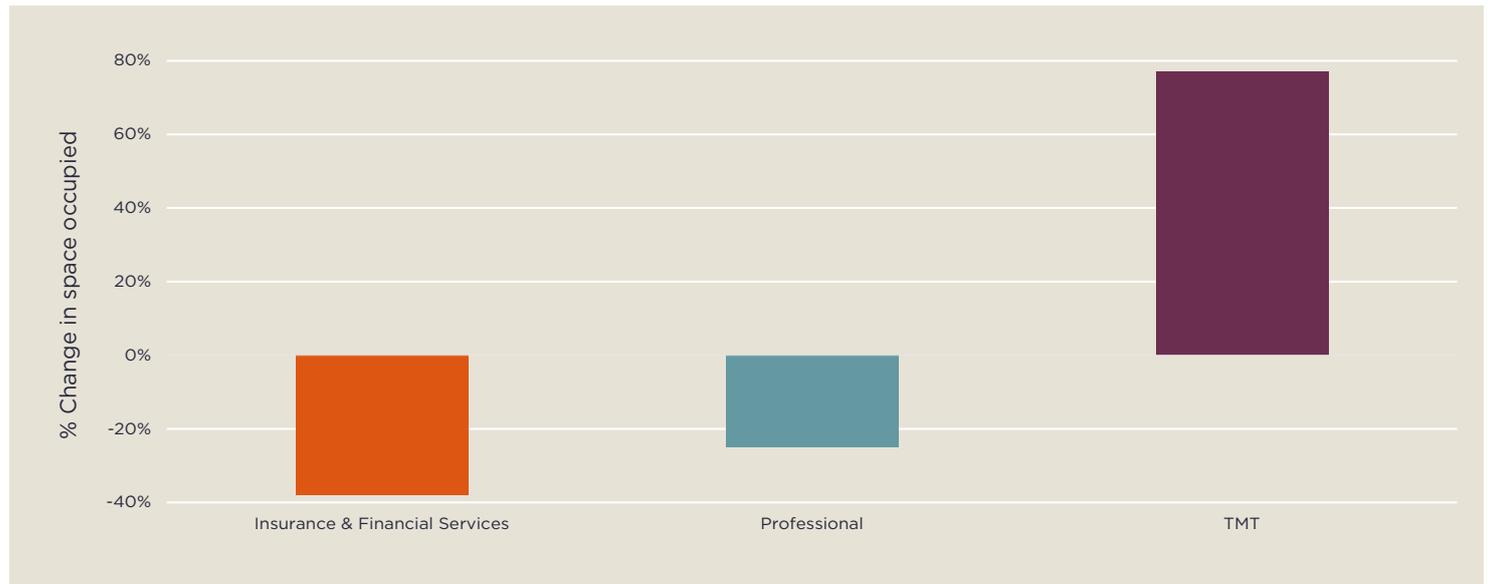
Prime rents have grown at an average of 10% across the Big 6 markets between 2019 and 2022



Source Savills Research

## The change in office space requirements post-Covid-19

The IFS, Professional and TMT sectors have shown clear trends for changing their office size requirements from 2021/2022 acquisitions



Source Savills Research

# Spatial requirements: increase or decrease?

## To what extent has the transition to hybrid working affected occupiers' office needs in the UK Big 6 markets?

With the UK office markets looking to recover and rebuild in response to the Covid-19 pandemic and the rise to prominence of hybrid working, the challenge for occupiers has been to work out whether they need more or less space in their next office acquisition.

One method of measuring this impact is through the analysis of leasing activity to build a comparison of new leases, signed since the end of lockdown, and whether this represents an increase or decrease when compared to the space that was previously occupied.

Across the UK Big 6 markets, deals over 10,000 sq ft in 2021 and H1 2022 produced a net reduction of 8% in space occupied by companies that have moved to new premises within these individual markets. This supports the notion that occupiers are seeking to reduce their office provision to adapt to hybrid working, but the figure of 8% is notably lower than some of the more pessimistic expectations of around 20%.

Not all business sectors in the Big 6 are showing a trend towards office size reductions. Furthermore, with the continuing flight-to-quality in the markets, occupiers taking smaller spaces may be willing to pay higher rents for a better space. As such, the number of transactions over £35 per sq ft increased by 210% in 2021 compared to 2019.

Within the wider UK, Savills has seen a much greater appetite for technology companies to acquire additional office floorspace for their own need during the post-lockdown period. Overall, Savills data shows that technology companies relocating in the Big 6 increased their total office space occupied by 77% in 2021 and H1 2022. From an occupational perspective, the 'TMT' sector has been the most active in four of the last five years. That being said, it can be difficult to distinguish between companies that are increasing office space per head and those that need more space due to corporate growth.

Within the 'TMT' sector, Cloud Imperium's move from Wilmslow to Manchester Goods Yard recorded

the largest increase in office space across the Big 6 markets. The move included the establishment of a new video game development studio that not only relocates the 400 employees from the nearby Cheshire office but also facilitates the creation of 1,000 new jobs in the metropolitan area over the next five years.

One sector that has demonstrated a trend towards a reduction in its level of office provision is the Professional sector. Across 30 acquisitions in 2021 and H1 2022 Professional sector companies that relocated their office spaces reduced their square footage by 28%. This is however in contrast to Central London, where occupiers in this sector are growing their office footprints.

This provides a clear indication that businesses in the Professional sector are set to persist with a hybrid working model where at least a portion of the workforce will continue to spend some of the week working remotely. Similarly, relocations in the Insurance and Financial Services sector have also produced an overall reduction in space, this time by 38%.

**-8%**  
Decrease in space occupied through office moves in the Big 6



77% increase in space occupied by movers in the 'TMT' sector



28% reduction in office space occupied by movers in the 'Professional' sector

## The total space occupied by those relocating to a new office within the Big 6 in 2021 and H1 2022 only decreased by 8%

# Deal count increases in the first half of 2022

## Activity remains strong in terms of the number of completed transactions for deals under 10,000 sq ft

In H1 2022, there was a total of 402 completed lettings across the regional Big 6 markets. It was a particularly strong half year for Manchester (124 transactions) and, notably, Birmingham, whose 60 completed transactions was the second highest H1 that Savills has on record since 2000.

The Big 6 total of 402 deals represented a significant 33% increase on the H1 2021 total of 303 and was also above the five-year Big 6 average by 20%. Conversely, Big 6 take-up in H1 2022 was 16% below the five-year average; therefore, with transactions increasing but take-up decreasing, this introduces one of the key market trends of the quarter: the increasing significance of transactions for the smaller size bands of office space.

In the five years preceding the pandemic, take-up for deals under 5,000 sq ft accounted for 26% of total take-up. In H1 2022, deals

under 5,000 sq ft accounted for an increased 36% of total take-up. This demonstrates the heightened significance of the smaller size band transactions in the first half of 2022.

In explaining the reasoning behind the emergence of this trend, the first area to consider is the causes behind the slowdown in activity from larger occupiers with requirements over 30,000 sq ft. First, there will always have been a degree of due diligence and procedural demands that such organisations require for these larger transactions.

Secondly, in response to Covid-19 and the rise to prominence of hybrid working, many occupiers have sought to reconsider their requirements for their office space, whether that be the appetite for upsizing, downsizing or the need for a different kind of space in order to provide the necessary provisions to maximise productivity and output.

That being said, much of the focus on the continuation of hybrid working and the 'slow' return to the office does not take into account that most offices were not operating at anywhere near a 100% baseline before the pandemic began.

There has also been a significant increase in occupiers demanding smaller, fitted and ready-to-use spaces. Manchester sets a good example of this, where 20% of the transactions recorded in H1 2022 were for plug-and-play space.

Finally, falling levels of Grade A availability in many of the markets could be causing occupiers with larger requirements to wait and consider their options to find a space that adequately meets the needs of the business. In all of the Big 6 markets, there is currently an undersupply of Grade A stock, meaning that the market for large high specification floorplates has become increasingly competitive.



402 Big 6 lettings in H1 2022



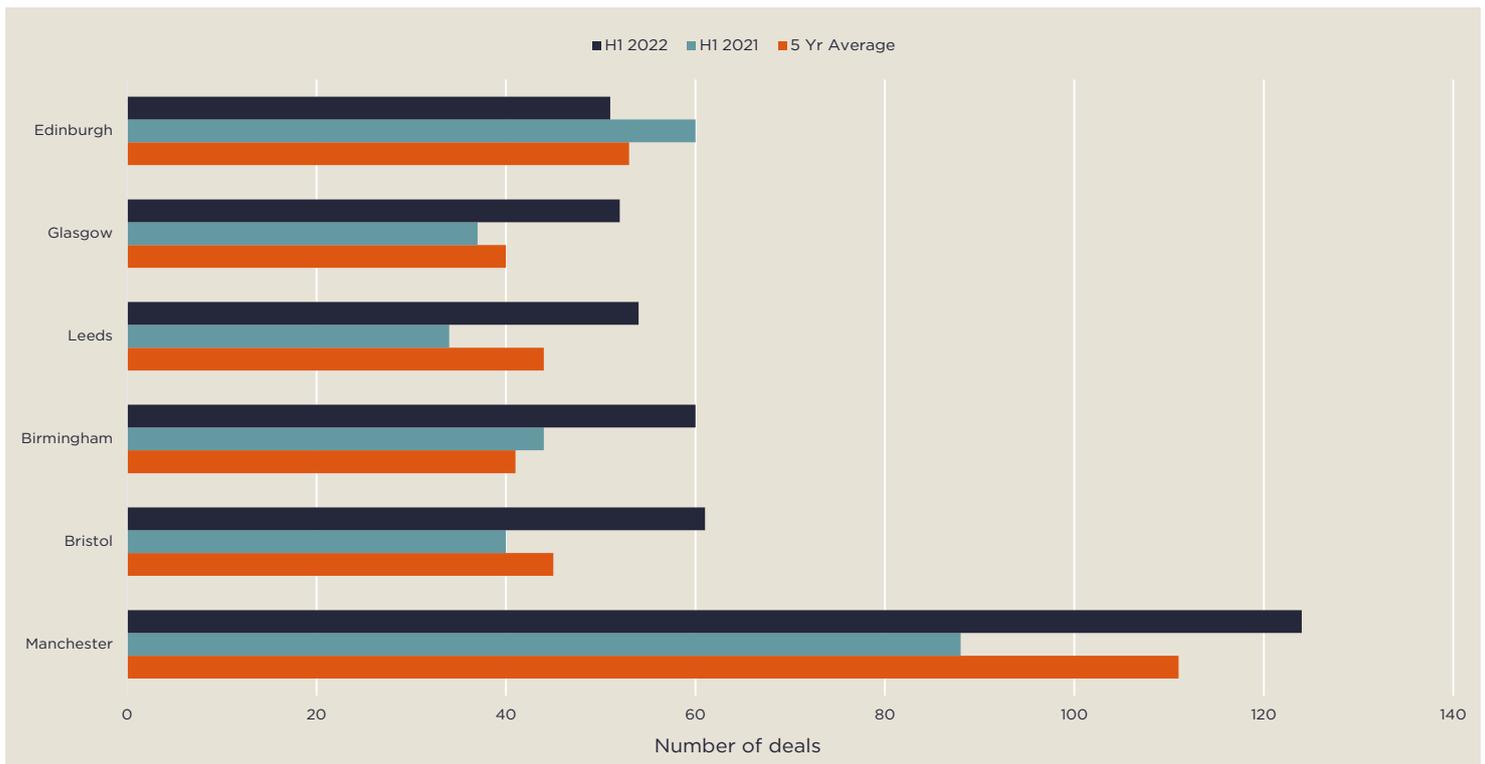
20% more completed transactions in H1 2022 compared to the five-year H1 average



38% increase in lettings under 10,000 sq ft compared to H1 2021

### UK Big 6 markets: deal count

In five of the Big 6 markets, H1 2022 deal count represented an increase on both H1 2021 and the five-year average



Source Savills Research

# Investment volumes were 15% above the H1 long-term average in H1 2022

Overseas investors continue to be the most active investors in the regional office market, accounting for 49% of investment in the first half of the year

Office investment volumes outside of Central London reached £3.6 billion at the end of H1 2022, which was 15% above the long-term average. This has been primarily caused by several large assets being traded, with nine deals over £100 million in the first half of the year, which was the second highest total in the last decade.

Notable large transactions in H1 2022 included Spanish investor PonteGadea acquiring 177 Bothwell Street, Glasgow, for £215 million. This was the largest single office building investment transaction ever recorded in Scotland. The building was speculatively developed by HFD Group, completed in 2022 and comprises 305,000 sq ft. Blackstone acquired The Colmore Building, Birmingham, for £182 million and represented its first investment in the regional office market.

Overseas investors continue to be the most active investor group in the market, accounting for 49% of investment volumes in H1 2022.

In the regional markets, non-domestic investors have been the most active investor group in four of the last five years.

North American investors have been the most active overseas investor group in the regional office market in H1 2022, accounting for 46% of non-domestic investment. They were also the most active overseas investor in 2021. Notable activity from North American investors in the regional market in the last 18 months included LCN Capital Partners forward funding Unilever's new office headquarters in Kingston-upon-Thames for £245.6 million and acquiring BT's new office at Assembly, Bristol, for £134.2 million.

UK property companies were the next most active investors across the market. Investment activity from UK institutions has been limited, with the purchaser type accounting for 10% of investment in H1 2022 and 2021.

The prime regional office yield remains at 4.75%, the robust

occupational fundamentals of the regional office market with all the Big Six regional cities having below two years of Grade A supply has appealed to investors.

Assets which have strong ESG credentials have experienced high levels of investor demand with these type of properties in limited supply. The rising cost of debt and turbulent macroeconomic outlook is however placing upward pressure on the prime yield.

Investors are risk-averse, and amidst increasing build and debt costs, this has resulted in an outward movement of secondary yields.

The gap between prime and secondary yields has widened to over 300 basis points in Cardiff, Leeds and the M25 region. It is expected that investment volumes for secondary properties will continue to remain limited unless there is a further outward movement of yields for this type of product.

## UK regional office investment key stats



**49%**

Overseas investors accounted for 49% of H1 2022 investment volumes



**+15%**

H1 2022 office investment showed a 15% increase from the long-term average



**4.75%**

Prime regional office yield

## UK regional office investment

H1 2022 office investment volumes were 16% below the five-year H1 average





## Savills Commercial

We provide bespoke services for landowners, developers, occupiers and investors across the lifecycle of residential, commercial or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team

---

---

### Office Agency

**James Evans**  
Head of National Office  
Agency  
0161 277 7238  
jevans@savills.com

---

### Investment

**Mark Porter**  
Director  
UK Investment  
020 7409 9944  
mporter@savills.com

---

### Research

**Steven Lang**  
Director  
Commercial Research  
020 7409 8738  
slang@savills.com

**Clare Bailey**  
Director  
Commercial Research  
020 7409 8863  
cbailey@savills.com

**Simon Preece**  
Associate Director  
Commercial Research  
020 7409 8768  
spreece@savills.com

**George Roberts**  
Research Analyst  
Commercial Research  
020 7016 3790  
george.roberts@savills.com