

UK Regional Office Investment Market Watch



Regional offices resilient

Prime yields remained stable across the regional office market at 4.75% in Q4 19 underlying the demand for prime assets in the market. The prime yield has remained at 4.75% since Q4 17. The attractive yields when compared to central London (West End 3.50% and City 4.0%) have attracted both overseas and UK institutional interest.

The most active purchasers in the regional office market in 2019, in regards to volumes transacted, were overseas investors. They accounted for 38% of total investment volumes. This large proportion was predominantly caused by strong demand for large lot sizes. Overseas investors accounted for 50% of assets purchased for over £50 million in 2019.

We expect an uptick in activity in the market in 2020 as a result of political certainty and greater clarity over Brexit. This will be predominantly from UK institutions who are actively seeking opportunities in the regional office markets. Furthermore, we expect overseas investors to continue to be active with a notable increase in demand from Far Eastern and European investors. Prime regional office yields are attractive when compared to other major European office markets which will continue to attract demand from overseas investors. There will also be stronger demand for refurbishment and value add opportunities due to the higher rental growth prospects that is possible across the regional office market and the South East.

Regional Office Yields Q4 19

	Prime	Secondary*	Spread
Aberdeen	6.50%	8.50%	200bps
Birmingham	4.75%	6.50%	175 bps
Bristol	4.75%	6.25%	150 bps
Cardiff	5.50%	7.00%	150 bps
Edinburgh	4.50%	6.50%	200bps
Glasgow	5.00%	6.75%	175 bps
Leeds	4.75%	6.75%	200 bps
Manchester	4.75%	6.50%	175 bps
M25	5.00%	6.50%	150bps

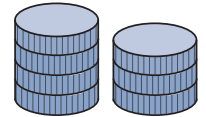
Source Savills Research

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

Key Stats

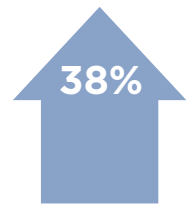
4.75%

Prime regional office yield



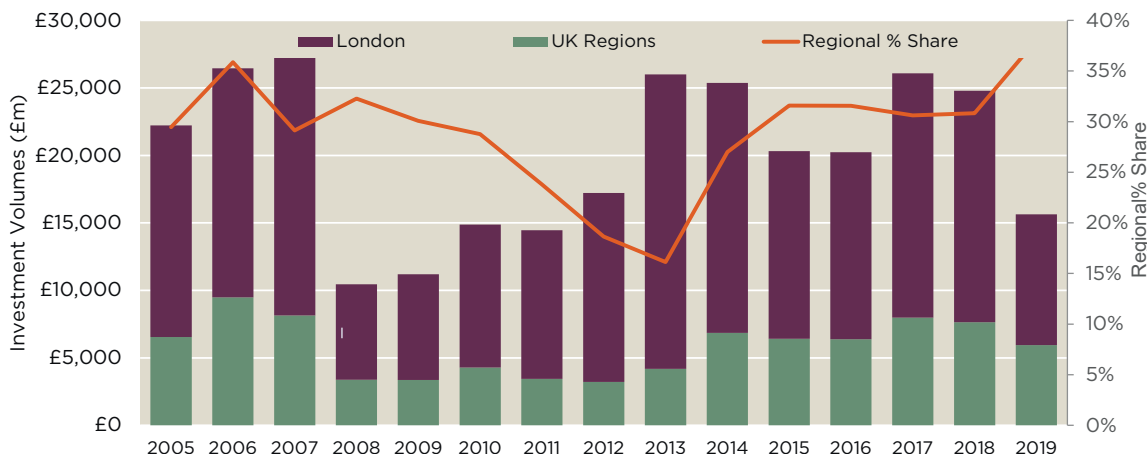
£6.0bn

Regional office investment volumes in 2019



The proportion of UK office investment volumes being by regional offices

Office Investment Volumes Investor demand muted in 2019 amongst the economic and political uncertainty



Source Property Data/Savills

Which markets are expecting the strongest rental growth?

The regional office market has experienced strong rental growth in recent years, which has been caused by new development of an unprecedented standard and specification setting new rental tones. There has also been a lack of office supply.

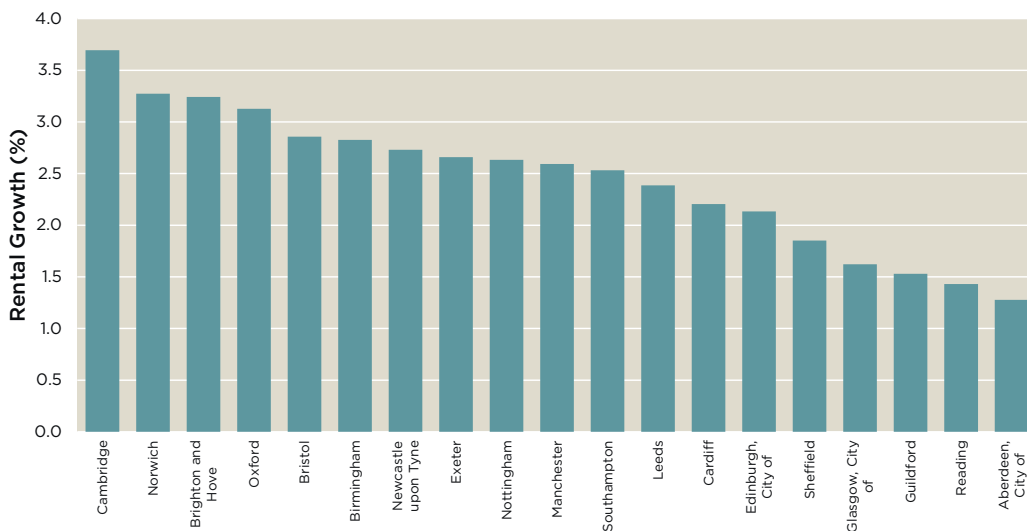
The chart below highlights RealFor's office average rental growth predictions for the next five years in key regional office markets. Cambridge is expected to have the highest average annual growth over the next five years at 3.7% per annum.

The regional office market is characterised by a lack of supply. There are eight markets where the vacancy rate is below 10%. Furthermore in Birmingham, Bristol, Cardiff, Edinburgh, Glasgow and Manchester there is below one year of grade A supply. The Greater London & South East office market currently has the lowest amount of supply available than any point in the last 20 years.

The dearth of available grade A space has resulted in strong pre-letting activity. There is currently 4.7 million sq ft under

construction across the UK regional office market, although 55% of this space has been pre-let. This will ensure that the supply constraints persist in the short to medium term.

UK Office Rental Growth Forecasts Average annualised rental growth projections for key UK regional office markets for the next five years.

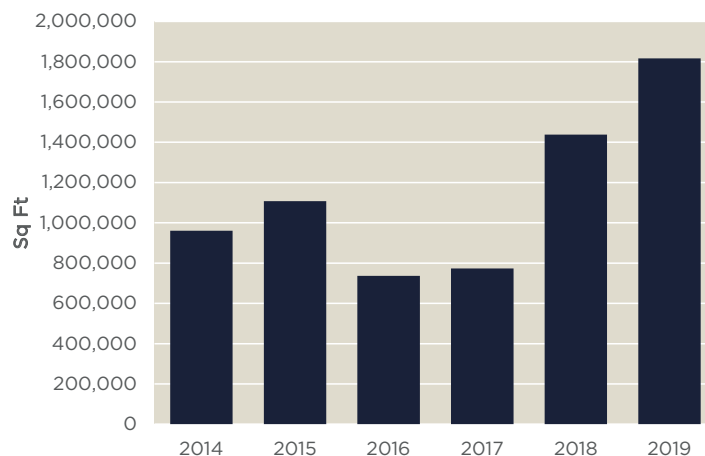


Source: Realfor

The regional office market has experienced strong demand from the technology, media and telecommunications sector in 2019 with 1.8m sq ft recorded which was the highest on record.

A key attraction for large occupiers who have opened new technology hubs in the regional cities is the cheaper staff costs and the significant graduate talent pool. Amazon, Sky Betting and Gaming and BT have all leased in excess of 50,000 sq ft each in the last two years. Furthermore Goldman Sachs have a 60,000 sq ft requirement for a tech hub in a regional city and the BBC have announced plans to open a tech hub in Newcastle.

Record TMT take-up Demand from technology occupiers was the highest on record in the regional cities in 2019



Source: Savills Research

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