MARKET IN MINUTES

Savills Research

Market in Minutes

savills

Average prime yields at their lowest since March 2020

There was a small decrease in the UK average prime yield in July, and it currently stands at 5.13% - the lowest level since March 2020 and the seventh consecutive monthly fall. With six downward arrows this month, the momentum in the UK commercial property market continues to build. Commercial property investment volumes reached £31.4 billion at the end of July, which was a 32% increase on the same time period in 2020 and 4% above the five-year average for this time period but was 7% below the same time period in 2018. Encouragingly, the three-month rolling total for investment volumes reached £16.1 billion for May to July 2021 which was a 38% increase from the previous three-month period (Feb-Apr 21). At the end of July, industrial assets have received the highest quantum of investment totalling £9.7 billion, which equates to 31% of total investment, which is above the 14% in 2018. At the end of July, regional office investment volumes for 2021 had also increased by 40% when compared to the investment volumes recorded in the same time period in 2020 but 23% down when compared to 2018. The Big Six regional cities accounted for 22% of regional office investment in 2021 (up to the end of July), which is still below the five-year annual average of 30%.

Savills prime yields

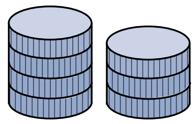
	July 2020	June 2021	July 2021
West End Offices	3.75%↓	3.25%	3.25%
City Offices	4.00%	4.00%	4.00%↓
Offices M25	5.25%↑	5.50%	5.50%
Provincial Offices	5.00%	5.00%↓	.5.00%↓
High Street Retail	6.00%	6.75%	6.75%
Shopping centres	6.50%↑	7.50%	7.50%
Retail Warehouse (open A1)	6.75%↑	6.00%	6.00%↓
Retail Warehouse (restricted)	7.00%↑	6.25%	6.25%↓
Foodstores (OMR)	4.50%	4.50%↓	4.50%↓
Ind/ Distribution (OMR)	4.25%	3.50%	3.50%↓
Industrial Multi-lets	4.00%	3.50%	3.25%
Leisure Parks	6.75%↑	7.50%	7.50%
London Leased (core) Hotels	4.00%↑	3.50%	3.50%
Regional Pubs (RPI)	4.75%↑	5.25%	5.25%

Source Savills

Key Stats

5.13%

The UK average prime yield



£31.4bn

Commercial property investment volumes reached £31.4 billion at the end of July, which was a 32% increase on the same time period in 2020

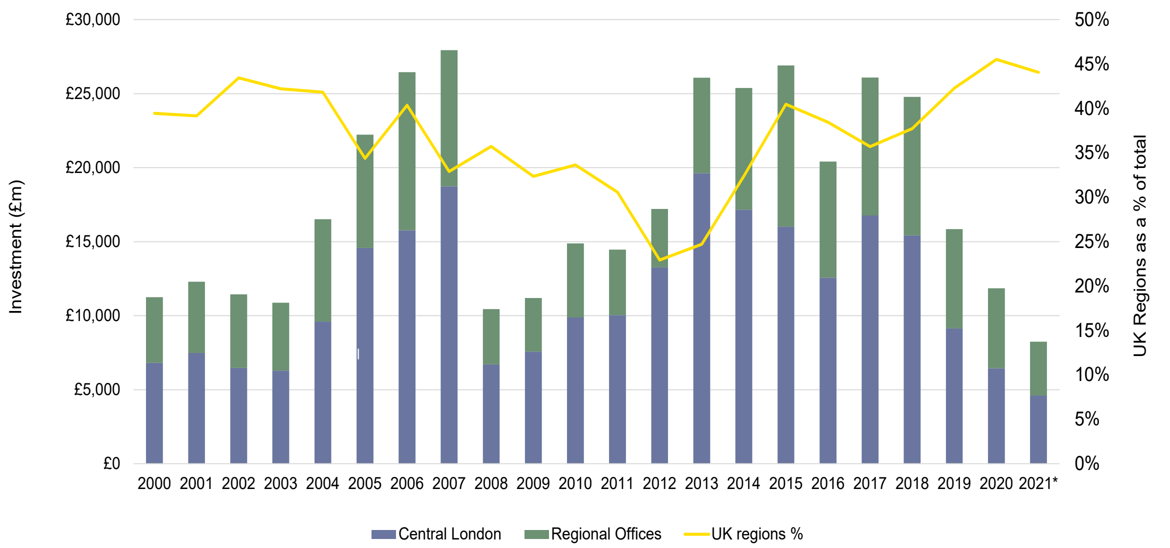
18%

The increase in the number of deals recorded from Jan-July 21

6

Number of sectors that have a downward prime yield expectation

Regional office investment volumes in July are up 40% on the same period in 2020



*to July 2021

Source PropertyData

Affordable workspaces - a solution, not a problem

Providing affordable and interesting workspaces is crucial to ensuring that cities such as London are at the forefront of the tech and creative industries, and therefore a draw for national and international talent.

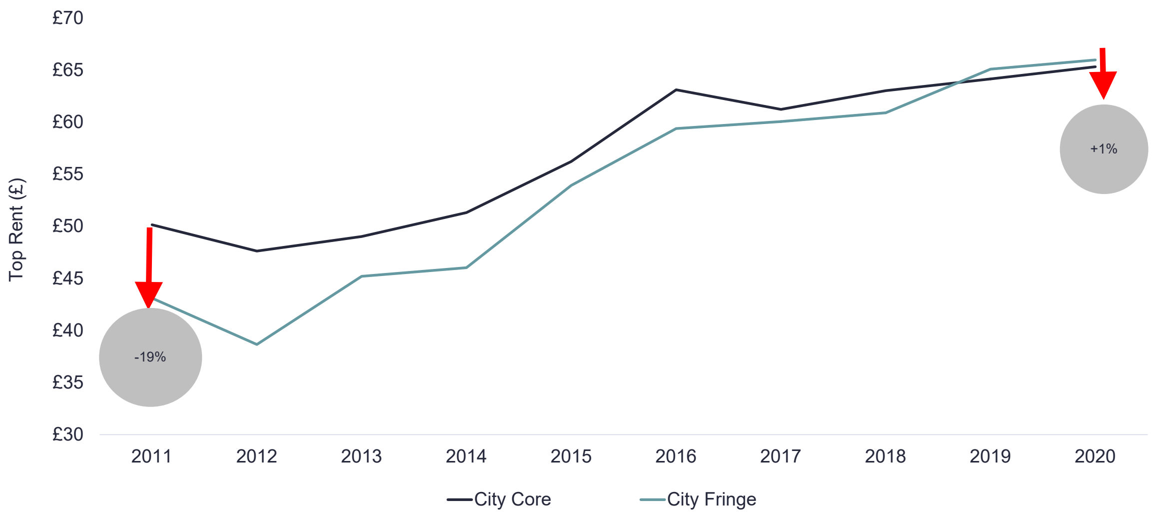
Cheaper fringe space has historically helped generate economic growth and jobs, providing space for entrepreneurs and creatives in the early stages of their businesses. But where are London's affordable fringe locations today? Office rents have been increasing over the last ten years, and the cheaper locations for office space have seen the fastest increases in rent – the City core saw rents increase by 29% over the last ten years, with the fringe witnessing a huge 53% growth. Subsequently, the gap between the core and fringe has closed.

Ten years ago, there was a 19% gap between average core and fringe rents, but by the end of 2020, this gap was non-existent (see chart, below). The problem has been worsened by the redevelopment of non-residential space into new housing, decreasing the supply of space for businesses.

With SMEs leading much of London's future innovation and enterprise, the availability of affordable workspaces is key. The Mayor of London's new London Plan1 is giving greater significance to the importance of affordable workspaces and the need to provide for it in the planning process. The plan defines an affordable workspace as one where rents are maintained below the market rate for a specific social, cultural or economic development purpose. Included are workspaces for specific sectors that have social or cultural value, such as charities or social enterprises, artists' studios, designer-maker spaces, and supporting start-up businesses or regeneration. The past five years have seen a growing number of local authorities introducing affordable workspace policies in some form, these mostly being aimed at securing subsidised premises from major office schemes. Currently, five inner London authorities have an adopted policy that requires the provision of affordable workspace within commercial developments over certain thresholds and within specified areas, with a further four having requirements within their emerging policies. However, often repurposing older buildings that are already in the right places is often a more sustainable and cost-effective way to develop London.

Do read our recent report for more details: https://www.savills.co.uk/research_articles/229130/315848-0

The rental gap between the City core and fringe has closed over the last 10 years

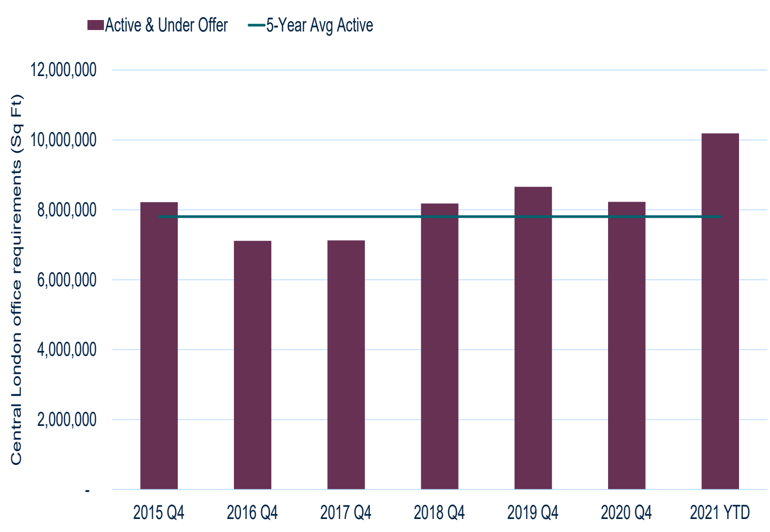


Source Savills

Despite the continued debate about the longer term impact working from home will have on office space demand, encouragingly, many central London occupiers appear to be reactivating their requirements for office space, many of which were put on hold last year. Savills has recorded the second-highest monthly take-up since the first lockdown back in Mar 2020, with 540,000 sq ft let across Central London in July.

Despite leasing activity remaining below typical levels we would see prior to Covid-19, at present active central London requirements stand at 10m sq ft. This is up 17% on the end of 2019, 23% up on the start of this year and 27% up on the five-year average. Furthermore, 23% of occupiers with an active requirement are increasing their footprint by 50,000 sq ft or more. New/expanding and first-time entrants account for 15% of occupiers searching for space across central London.

Central London requirements are 27% up on the five-year average



Source Savills

Savills team

Please contact us for further information

James Gulliford
Joint Head of UK Investment
020 7409 8711
jgulliford@savills.com

Richard Merryweather
Joint Head of UK Investment
020 7409 8838
rmerryweather@savills.com

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