

## Refurbishments & rental growth to be a major theme for UK regional office market in year ahead

3 years ago



The post-pandemic hunt for 'best in class' offices will unlock refurbishment opportunities of Grade B/ C stock in key UK cities in 2022, with associated rents setting new highs when complete, according to new research from Savills.

In order to satisfy demand, and against a backdrop of limited new supply in some of the Big 6 cities (Birmingham, Bristol, Edinburgh, Glasgow, Leeds and Manchester), Savills believes refurbishment will be a key focus of the UK regional office market in the year ahead.

The firm's research sets out the development pipeline for brand new Grade A offices in the Big 6 markets as severely limited, with only 1.6m sq ft of available new space due to complete between 2022 and 2025. Compare this to Grade A take-up over the past four years, and Savills says the 9.2 million sq ft of take-up between 2018 and 2021 exceeds the available brand new space in the development pipeline for the next four years by a mammoth 468%.

The availability of Grade B/C supply, which at 5.65 million is comparatively larger, presents an opportunity for investment and refurbishment to improve this stock to a Grade A standard, says the firm.

James Evans, national head of office agency at Savills, comments: "The consistent trend across all markets is a steady return of office demand with enquiry levels returning to pre-pandemic levels. Across the board, there is a flight to quality and centralization, and while cities such as Manchester have a healthy pipeline of new offices to satisfy requirements, elsewhere in the country we expect to see high quality

refurbishments fill the gap. Refurbishments are both quicker to deliver and often more economical, while also presenting occupiers with an interesting sustainability proposition given the re-use of existing buildings.

“When one also considers some of the viability issues associated with spiraling build costs, refurbishments will play an increasingly vital role. Furthermore, as we have seen in the South East already, the weight of demand could lead to significant rental growth on refurbished stock. Occupiers are prepared to pay higher rents for better space.”

By comparing the current new build Grade A rents against best in class refurbished space Savills found that Glasgow and Birmingham has the largest rental gaps at c.15%, compared to c.10% in the other Big 6 markets, suggesting these two markets are likely to see the biggest jump in refurbishment rents.

The trend favoring ‘best in class’ precedes the Covid-19 pandemic Savills says, however mass enforced working from home caused many businesses to re-evaluate the role of the office and recognise the need for the best design to preserve its purpose and attract talent. This, together with the individual ESG priorities held by occupiers has increased competition for space.