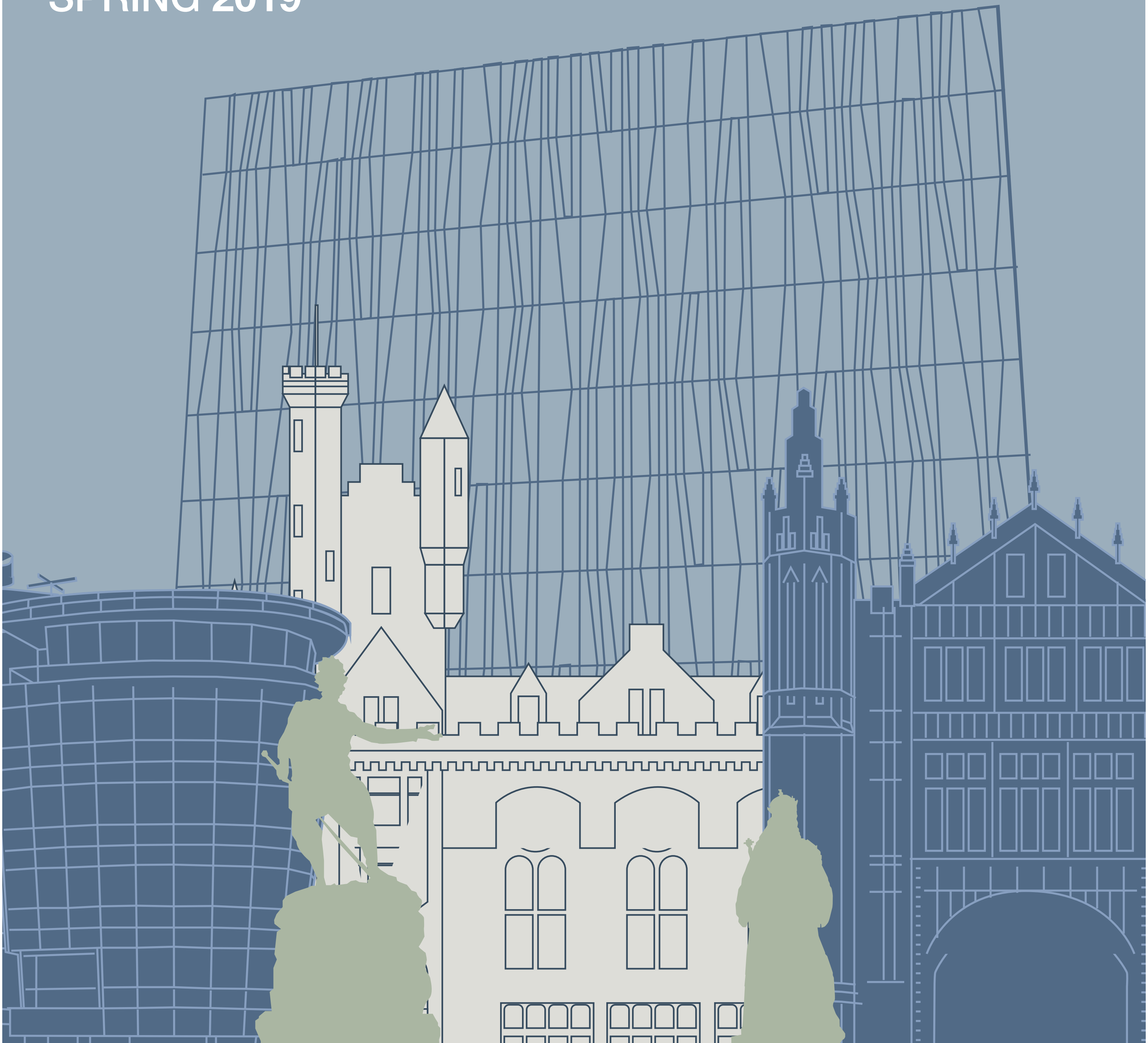
RESEARCH

Knight Frank

THE ABERDEEN REPORT

SPRING 2019



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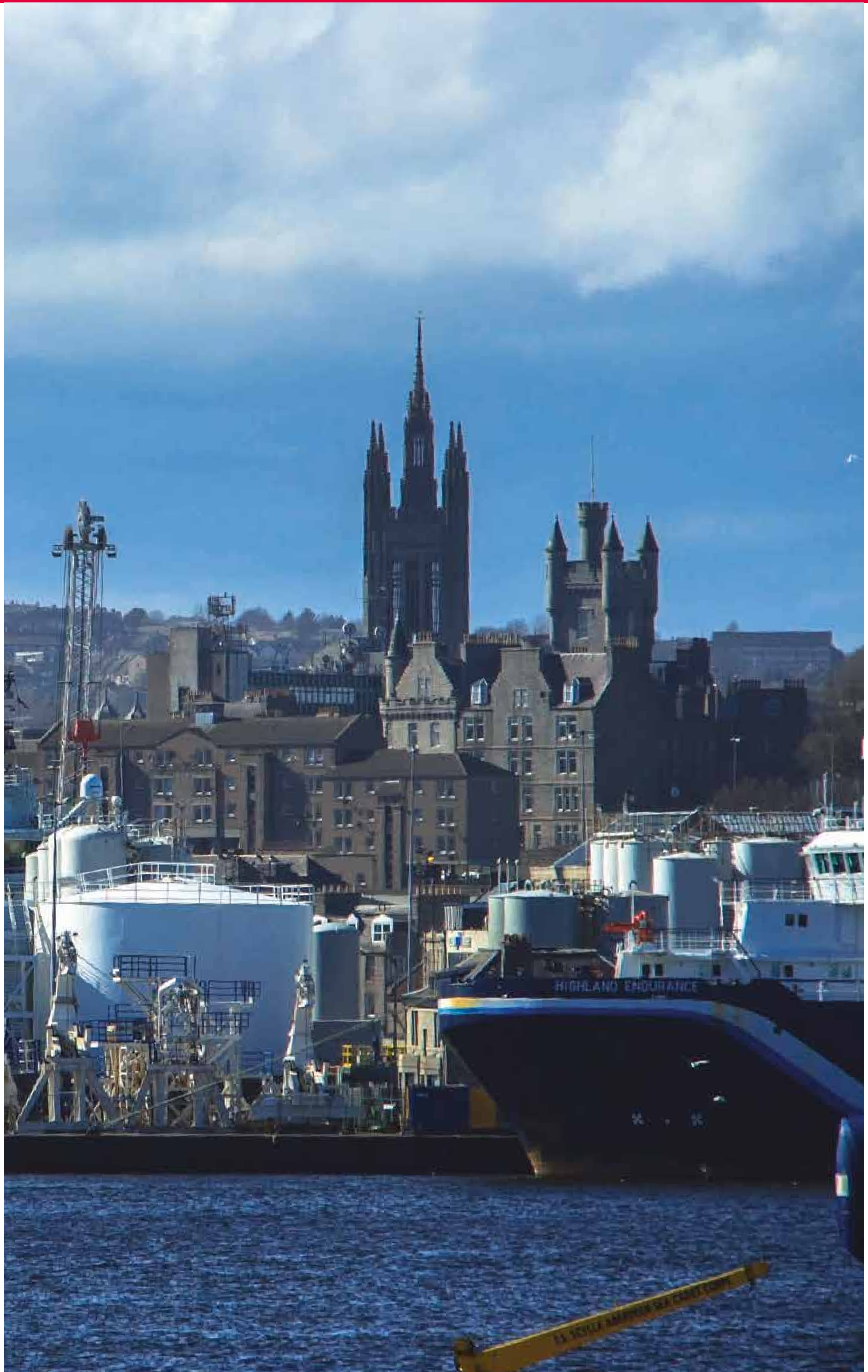


FOREWORD

JOCK GARDINER
PRIVATE EQUITY INVESTOR

I consider myself very fortunate having lived, studied and worked in the Granite City since 1983 to be an adopted Aberdonian. The city has always been synonymous for an entrepreneurial, industrious and resilient approach to business and it would be fair to say that these characteristics have been put to the test in recent years. North East Scotland's dependency on the oil and gas industry has been highlighted by the length of the recent downturn in this vital sector and the impact that has had on business and employment prospects but the green shoots of recovery and more diverse economic development activity are now increasingly evident.

Investment and major new gas discoveries in the UKCS continues and the emergence of a new breed of oil and gas E&P companies is encouraging as is the development of new technologies and smarter ways of operating within the energy service sector. Private equity and property investors who continue to invest wisely through the oil cycles will undoubtedly harvest their rewards in the years to come.

The economic diversification challenge for the region remains but significant progress is being made with a glut of major infrastructure projects completed or in progress. Transport connectivity by road, air and sea to North East Scotland is being transformed with the opening of AWPR, expansion of Aberdeen International Airport and the South Harbour development which will bring both new leisure and industrial opportunities.

> **"The economic diversification challenge for the region remains but significant progress is being made with a glut of major infrastructure projects completed or in progress."**

The leisure and tourism sectors will benefit from the new 12,500 seat state of the art TECA Exhibition Centre and the myriad of recent hotel developments in the airport and Woolmanhill areas. The City Deal and public investment programmes for the Music Hall and Art Gallery alongside innovative cultural events such as the acclaimed NUART festival help create a feel-good factor for Aberdeen complementing the recent new office developments that result in an ever-evolving city skyline.

And finally, thirty-five years after "Gothenburg" isn't it marvellous to see Aberdeen Football Club's new state of the art training facility taking shape adjacent to the new city by-pass. Hopefully the refurbished Town House will be the scene of another victory parade down Union Street in the very near future !

ABERDEEN'S ECONOMY

Recovery for the energy sector is supporting steady growth.

As Europe's energy capital, Aberdeen's economic performance typically reflects the oil price. An extended rally for Brent Crude, from under $30 a barrel in January 2016 to over $80 in September 2018, has resulted in a period of economic recovery for the city.

The final months of 2018 saw the price weaken to $54 by late December, as global economic growth slowed. However, a new rally began in early 2019, with Brent Crude at around the $65 mark at the time of writing. The North Sea oil fields were producing just over 1 million barrels per day in October 2018, up from 914,000 a year earlier, according to the Oil & Gas Authority, a UK government agency. A rising oil price and increasing production levels bodes well for economic growth prospects in Aberdeen this year.

Aberdeen is also benefiting from expansion by industries that provide services and equipment to the energy sector. This was demonstrated by Kawasaki Heavy Industries' decision in January 2019 to establish an autonomous underwater vehicles business in the city.

Providing further evidence of more activity for the energy sector was the 6% year-on-year increase in offshore supply vessel tonnage using Aberdeen Harbour in 2018. The South Harbour development is expected to complete in 2020, which will enhance the port's ability to serve offshore industries in the future.

However, much will depend on how well the UK and global economy performs in 2019, with the risk of a hard Brexit as a concern. While supporters of a no deal Brexit in the Westminster Parliament are a minority, it could still happen by default unless a consensus can emerge around either the government's deal or an alternative option.

Data from the Office for National Statistics and Centre for Cities showed that output per worker is higher in Aberdeen compared to most UK cities. Workers in Aberdeen averaged output of £62,200 per annum, which is well ahead of Dundee at £53,500 and Glasgow at £47,250, but lower than Edinburgh at £68,150. Aberdeen's figure also beats Bristol (£59,750), Manchester (£50,450) and Leeds (£51,250). This bodes well for long-term prospects for economic growth and investment.

This summer will see the opening of The Event Complex Aberdeen (TECA), a new conference and exhibition centre, located near the airport, which incorporates two hotels and an energy centre. The main 12,500 seat arena will provide a world-class venue for trade shows and entertainment events. This will improve the city's leisure and business services facilities, offering direct and indirect benefits to the local economy.

The city should benefit from lower traffic congestion, following the opening in February of the final section of the Aberdeen Western Peripheral Route.

Overall, Aberdeen remains one of the UK's more successful and productive city economies, which continues to develop as a centre for energy industry expertise. New infrastructure and amenities will help to future proof its growth, including the harbour expansion and the new conference and leisure facilities at TECA. Brexit is a potential risk, although it remains to be seen whether a no deal scenario will occur.

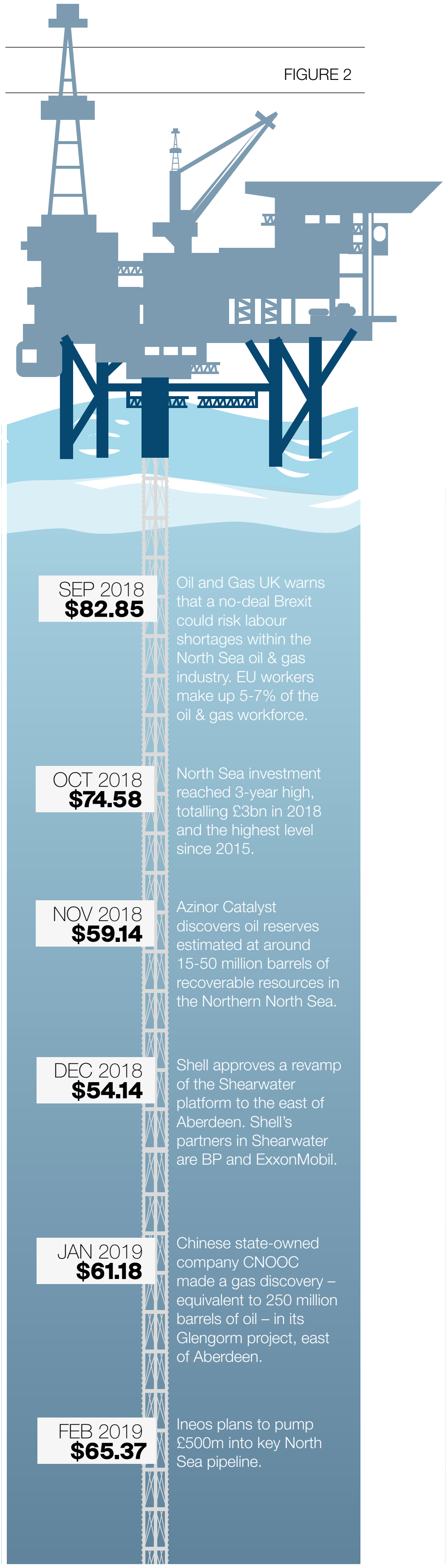
FIGURE 1
UK Annual GDP growth

Source: ONS

> **"Overall, Aberdeen remains one of the UK's more successful and productive city economies, which continues to develop as a centre for energy industry expertise."**

JAMES ROBERTS, CHIEF ECONOMIST

FIGURE 2



Footnote: Brent Crude

OFFICES OCCUPIER MARKET

Sentiment in office market sector improves with rising oil prices.

The Aberdeen office market has experienced a marked imbalance between supply and demand. There is evidence that the worst is behind us, aided by the higher oil price helping to improve sentiment in the Oil & Gas sector to which the Aberdeen market is intrinsically linked. Demand is gradually improving, with evidence of new entrants investing in the North Sea.

Landlords are willing to sub-divide to adapt to a demand profile that is led by sub 5,000 sq ft requirements.

Take-up

Total take-up for 2018 reached 388,227 sq ft, well below the 10-year average of approximately 540,000 sq ft. This is also below the overall take-up of over 400,000 sq ft in 2017, although the 2017 total was underpinned by the letting of Subsea 7's office HQ in Westhill (138,000 sq ft) by Total.

The 2018 figure, however, does not include the sale of Silverburn House, totalling 141,000 sq ft. The former Office HQ facility was sold at auction and is expected to go for alternative use.

In total there were 95 transactions recorded throughout 2018, an increase of 38% compared to 2017. The increase in the number of office deals transacted over the year shows greater stability in the office market; meaning less reliance on the large single lets that have been a mainstay of the Aberdeen office market, in the period up to the oil crash in 2014.

Whilst there has been an attempt to diversify away from the energy sector since the oil crash, the reliance on the Oil & Gas sector still remains strong. As with previous cycles once the oil price starts to increase, take up also improves as projects are reviewed and contracts awarded, leading to new employment and demand requirements for new space.

Key transactions

KMD Business Centre (33,079 sq ft), sold prior to auction for continued office use, was the largest transacted deal of 2018. Serviced office provider Spaces who acquired 26,300 sq ft in 1MSq at Marischal Square, was the largest deal within the city core. Also in Marsichal Square, Aberdeen Journals leased 18,936 sq ft, NHS took 9,975 sq ft, with global oil and gas supply company Tenaris securing 8,452 sq ft.

BW Offshore leased over 10,000 sq ft in Horizons House at Waterloo Quay adjacent to Aberdeen Harbour which along with new lettings at the Exchange showed continued demand for offices with harbour views.

The most notable out of town deal was Noble Drilling acquiring 16,591 sq ft at ABZ Business Park, in Dyce.

KEY OFFICE TRANSACTIONS IN 2018

ADDRESS	TENANT	SIZE SQ FT	RENT (£ PER SQ FT)
Wellington Circle, Altens	KMD Business centre	33,079	Sold for £400,000
Marischal Square	Spaces	26,300	Management Agreement
Marischal Square	Aberdeen Journals	18,936	Withheld
ABZ Business Park, Dyce	Nobile Drilling	16,951	£18.00
Horizons House, Waterloo Quay	BW Offshore	10,325	£26.50
Marischal Square	NHS	9,975	Withheld
Marischal Square	Tenaris	8,452	Withheld

Source: Knight Frank Research

Aberdeen International Business Park

Supply & demand

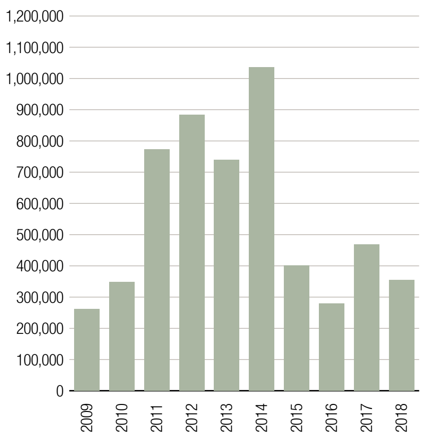
Office availability currently stands in excess of 2.7m sq ft, although around a third of supply is poor quality, with some landlords choosing to demolish obsolete stock in order to mitigate high business rates liabilities. Redevelopment and alternative use is expected for some properties.

Take up throughout 2018 has generally been dominated by energy sector companies taking advantage of market conditions to move to higher quality buildings in more desirable locations. We are also witnessing traditional west end occupiers migrating to the city centre, leaving many vacant west end offices that will likely be converted to residential use in the coming years.

The number of active requirements at the end of 2018 stood at 36, although the vast majority (22) of these were for sub 5,000 sq ft. We have, however, seen a small number of larger requirements of 10,000 sq ft and above return to the market following recent positive announcements from operators in the Oil & Gas sector regarding contract wins and new exploration.

FIGURE 3

Office city centre take-up (sq ft)



Source: Knight Frank Research

"2019 will see greater interest in high quality new build or refurbished space within the city centre."

MATTHEW PARK, ASSOCIATE OFFICE AGENCY

Headline rent & incentives

2018 set a new record headline rent of £32.50 per sq ft in Aberdeen, which was achieved at The Silver Fin Building and is expected to be maintained in future transactions during 2019. However, in general, lease terms have shortened, headline rents have reduced (for all but the newest City Centre stock) and incentives have increased dramatically.

Looking forward

Early indications for 2019 are encouraging with many occupiers seeing the current imbalance of supply over demand being a great relocation opportunity. Trend for the year is likely to be a continued interest by occupiers in new build or refurbished space within the city centre.

Office buildings that are considered functionally obsolete or poorly located within industrial estates will likely be demolished or go to alternative use which will help decrease the over supply of office stock.

INDUSTRIAL OCCUPIER MARKET

Take-up remains stable but occupier demand is on the up.

Occupiers are now demanding properties in good condition and with a high specification.

SCOTT HOGAN,
SURVEYOR
INDUSTRIAL AGENCY

Take-up

Aberdeen's industrial market is dominated by the energy sector. Unsurprisingly confidence has returned to the sector on the back of an improving oil price.

Industrial take-up reached just under 640,000 sq ft for 2018, a total only marginally better than recorded in 2017 where industrial take-up amounted to 630,000 sq ft. The interesting statistic to note is that although only 10,000 sq ft more was transacted year-on-year, there were 14 more transactions.

The majority of demand is for properties sub 10,000 sq ft, which is consistent with the 2018 average transaction size of 8,510 sq ft. Interestingly, take up for properties between 5,000 and 10,000 sq ft was greater than for units sub 5,000 sq ft. This is perhaps an indication of occupiers looking at growth and taking advantage of "the tenant friendly" market conditions.

Industrial properties between 5,000 and 10,000 sq ft proved to be the most sought after size bracket by occupiers during 2018. In total there were 26 transactions recorded, double the number recorded during 2017.

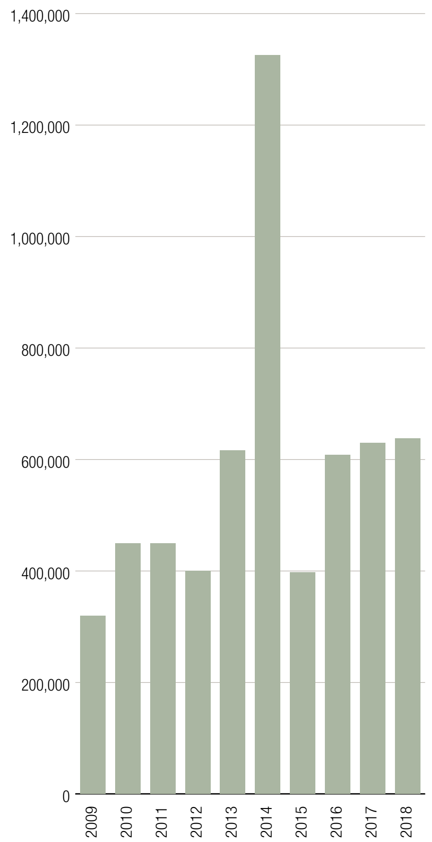
Key transactions

Westhill proved to be popular for occupiers with large industrial requirements. The largest letting of the year saw Proserv occupy 59,762 sq ft of industrial space on Enterprise Drive, Westhill in September 2018, which was the only letting above 40,000 sq ft. Technip also extended their footprint within Westhill by agreeing to a new lease of 34,233 sq ft of refurbished stock on Enterprise Drive, which sits adjacent to their office HQ.

Other large transactions included both Power Jacks and Texo Group moving to newly built properties within Kingshill Commercial Park, Westhill, developed by Knight Property Group. Power Jacks and Texo Group leased 22,300 sq ft and 15,500 sq ft of accommodation, with associated yards, respectively.

Unit 8 Minto Commercial Park

FIGURE 4
Industrial take-up (sq ft)



Source: Knight Frank Research

Supply & demand

In terms of supply, levels remain at over 2 million sq ft. 70% of total supply is located within Dyce and South of Dee. Although supply remains at such a high level it should be noted that a proportion of this stock is no longer fit for occupation in its current state.

The condition of properties is a factor that is being carefully considered by landlords, as tenants continue to "shop with their eyes". With a number of new builds and refurbished properties coming to the market, occupiers can now be more selective and demand a higher specification than previously available.

This is evidenced by the success at both Wellheads Industrial Estate, Dyce and Altens Lorry Park, to the south of the city throughout 2018. Developers have also been active speculatively building at Kingshill and City South.

The fact that occupiers are now demanding properties of good condition and a high specification should come as no real surprise. Pragmatic landlords that have already refurbished their buildings are reaping the rewards and it is a strategy that will continue throughout 2019. This will ultimately lead to a better quality of properties across all sizes in the market.

TABLE 2
KEY INDUSTRIAL TRANSACTION

ADDRESS	TENANT	SIZE (SQ FT)
Buildings 1 & 2 Enterprise Drive, Westhill	Proserv	59,762
Phase 1 & 2 Enterprise Drive, Westhill	Technip	34,233
Unit 8 Miller Street, Harbour/Beach	MKM Building Supplies	26,829
Unit 7 Minto Commercial Park, Altens	Control Valve Solutions	23,981
Unit 7 Kingshill Business Park, Westhill	Power Jacks	22,300

Source: Knight Frank Research

ABERDEEN INVESTMENT MARKET

Investor interest in Aberdeen continued to improve during 2018, particularly for industrial stock.

Overview

The first half of 2018 in particular registered a notable improvement in investor sentiment in the city when compared with 2017. Renewed investor interest was undoubtedly increased by sentiment towards the improving energy sector on the back of a higher oil price. Interest was further fuelled by yield compression of the UK's other regional cities including Scotland's central belt where yields are at an all-time record low, pushing investors to look elsewhere for greater value.

Offices

Although the headline figure of investment volumes shows an increase from just under £100m to £145m, there were only three office investment transactions. The increase in volume was due to the sale of the Aker UK Campus by L&G in March 2018 for £112.5m reflecting a yield of 6.92%. The remaining lease term to Aker Solutions ASA was c.17.5 years. Other than the lot size, this transaction was noteworthy because it was purchased by LCN Capital Partners who were making their second largest acquisition in the city following that of Lloyds Register, Prime Four in 2017.

In 2019 we have already seen AB1, Huntly Street (£13.495m/7.85%) and Atmosphere 1, Prospect Park, Westhill (£13.325m/8.68%) both sold to overseas investors, with the added advantage of a currency play on top of the attractive yields on offer supporting the purchase. This shows that despite economic uncertainty deals are still being done.

There has been improvement to sentiment, but pricing is expected to remain largely stable in the coming 12 months. While not immune to the general political uncertainty, Aberdeen is an economy that has a niche for often being cyclical to the rest of the UK as the oil price will have an equal or greater impact on its fortunes over the next few years.

Industrial

Investor interest in Aberdeen's industrial market improved significantly during

TABLE 3

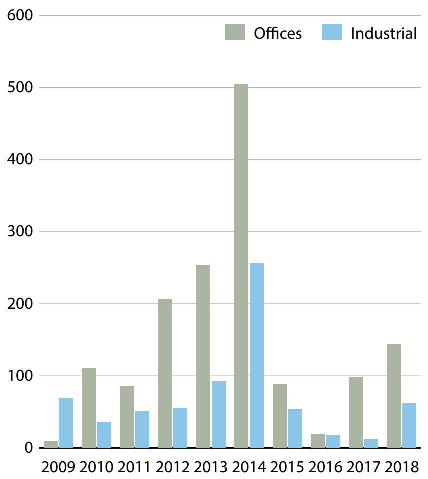
OFFICE INVESTMENT TRANSACTIONS IN 2018

PROPERTY	SIZE (SQ FT)	PRICE	NET INITIAL YIELD	PURCHASER
Aker UK Campus, Aberdeen Business Park	336,367	£112.50m	6.92%	LCN Capital Partners
Thermopylae & Teekay House, Westhill	46,863	£13.30m	7.58%	Sydney & London
Statoil (Equinor), Prime Four Business Park	45,797	£18.70m	6.14%	Golden Globe
TOTAL		**£144.5m**		

Source: Knight Frank Research

FIGURE 5

Annual investment volumes (£m)



Source: Knight Frank Research

2018 and transaction numbers and volumes were close to 10-year averages with 15 transactions totalling £62m with an average yield of 8.58%. The increase in demand saw sales for a variety of investments from long lease income, multi-let industrial estates and value add opportunities, subject to realistic pricing.

The standout deal in the sector was the sale of National Oilwell Varco's Facility, Midmill Business Park, Kintore comprising 213,762 sq ft, selling for £31.25m equating to a yield of 6.31%. The bespoke facility had a remaining lease term of 19 years with five yearly indexation linked uplifts demonstrating the continued demand for long leased assets to strong covenants.

Other notable activity saw four sales at ABZ Business Park, all single let properties with 10 year plus incomes to secure covenants selling for yields of between 7.0%-7.35%.

TABLE 4

INDUSTRIAL INVESTMENT TRANSACTIONS IN 2018

PROPERTY	SIZE (SQ FT)	PRICE	NET INITIAL YIELD	PURCHASER
NOV Facility, Tofthills Avenue, Midmill Business Park, Kintore	213,762	£31.25m	6.31%	BP Pension Fund
Jablite, Craigshaw Road	55,652	£2.258m	11.50%	Waterhill Property Group
Odfjell Drilling, Crawpeel Road, Altens	53,963	£3.11m	10.85%	Waterhill Property Group
Lombard Centre, Kirkhill Place	30,381	£3.25m	8.15%	Stenprop
Barclayhill Place, Portlethen Industrial Estate	22,532	£1.585m	8.00%	M7 Real Estate
Halliburton, Peregrine Road, Westhill	20,764	£2.633m	9.49%	CCLA
5B International View, ABZ Business Park	19,275	£3.115m	7.00%	Private Investor
7B International View, ABZ Business Park	18,499	£3.45m	7.00%	Grayling Capital.
5A International View, ABZ Business Park	16,130	£3.318m	7.00%	Palmer Capital
4 International Drive, ABZ Business Park	15,702	£2.90m	7.35%	Lightstone Property
Units 2/3 & 4, Hareness Circle	14,924	£1.125m	9.65%	Drumcarron Property Group
Bruce Building, Kirkhill Place	12,500	£1.050m	9.05%	Private Investor
Online Electronics, Blackburn Industrial Estate	11,810	£0.935m	9.65%	Private Investor
16-18 St Machar Road	8,538	£0.775m	8.84%	Danube Properties
Units 1-4 Novar Place	8,011	£0.835m	8.79%	Gilcomston Investments
TOTAL		**£61.59m**		

Source: Knight Frank Research

Multi-Let Estates (MLE's) at Portlethen Industrial Estate and Lombard Centre were purchased by sector heavy weights M7 Real Estate and Stenprop respectively for yields of 8.0%-8.15%. The Portlethen Industrial Estate received nine offers at a closing date showing the interest in this sub-sector and lot size. Stenprop's purchase of Lombard Centre also followed their purchase of Souterhead Industrial Estate in Q4 2017, which showed their confidence in the improving occupational market and favourable yields on offer. Indeed this market demand has seen developers take notice with new MLE's being constructed and discussed in all the prime industrial locations in the city.

Alternative

The third traditional property sector, retail, has had a torrid time with a raft of national CVA's and store closures which has predictably seen yields push out significantly as investors exercise greater caution. At least at a local level there are positive discussions and decisions being taken to try to enhance Aberdeen's retail thoroughfare via the City Centre Masterplan, City Living Team and Vanguard series.

Alternative investment opportunities that benefit from the key fundamentals of long leases, index-linked reviews to strong covenants continue to attract strong interest with record low yields being paid. By way of example, Knight Frank Investment Management purchased the NCP Car Park, Shiprow for a yield of 4.75% in July 2018. The car park was let to NCP with a remaining term of 27.5 years. Convenience stores and drive thru investments are generally highly sought after by private individuals as part of property portfolios or SIPP's with closing dates often being set.

> **There is an expectation that the city's short term investment prospects will be as much driven by the oil price as political uncertainty.**

CHRIS ION
PARTNER CAPITAL MARKETS

LAND MARKET

Aberdeen should be viewed as a buying opportunity.

ERIC SHEARER
PARTNER
DEVELOPMENT

Market overview

It is now over four years since the oil price crash and a lot of water has flowed under the bridge in that time. Every element of Aberdeen's local economy in the northeast has suffered badly to a greater or lesser extent (mostly greater!).

Real estate, both commercial and residential, has been severely affected by the downturn. In simple terms, the city has lost tens of thousands of jobs from the oil sector and supporting industries, with almost every job lost negatively impacting the property industry.

Residential land

Less people means fewer homebuyers and tenants in the residential sector, which not only reduces demand but also increases supply as those people migrate to other locations to find work. Add to that a distinct lack of confidence in job security, stagnation in the sector is the result. Thankfully, Aberdeen is now seeing the green shoots of recovery. It has been reported that residential values, on average have fallen by around 20% and crucially the volume of transactions collapsed by over 30%.

Encouragingly local solicitors are reporting an increase of around 10% in transaction volumes in the last quarter of 2018 and there is a cautious optimism in the sector.

During the last four years we have seen massive falls in residential land values. In simple terms for every 10% reduction in house values the effect on residential land values is magnified by a factor of at least three to four times. In fact, we have seen cases where residential land values have fallen by 70%.

For example

If a £350,000 detached home in Bridge of Don has fallen in value by 10% that means that the return to the developer has fallen by £35,000. Construction costs have not however reduced (and in many cases increased because of higher environmental standards) so the only place to claw back this £35,000 will be in the price paid for the land.

In this case, if the land value had been £85,000 per detached unit this would now need to reduce by the £35,000 fall in the value of the finished house. This therefore means that the plot value is now £50,000 per detached house, which equates to a 41% drop in land value.

It is very difficult for landowners to get their heads around this fact and what we are seeing is that many previously agreed option agreements are being either re-negotiated or dropped.

In the residential land sector we are already seeing increased demand where successful and well-funded housebuilders are actively looking for "oven ready" sites of between 50 and 200 units. Our view is that residential land values are at the bottom of the curve and that the better "oven ready" sites will see modest increases in value this year. As for the large "Master Planned" sites, we still fear that the significant (multimillion pound) costs of servicing these sites will hinder their delivery. Where 'Big was Beautiful' 10 years ago, it is now more a case of 'Medium is Marvellous' or 'Small is Sweet'.

Employment land

Like residential land, the value of employment land is determined by the value of the completed building, which will hopefully be leased on a long lease to a good tenant. Unfortunately, over the last four years there have been few tenants to fill new schemes. With rents falling and yields rising (investors perceiving Aberdeen to be higher risk) we have falling capital values and therefore less profit in such schemes.

At the peak, employment land for industrial use was trading at over £640,000 per acre (at D2 Business Park in Dyce). Since then, there have been few land sales and we are now seeing fully serviced and platformed sites being offered for between £300,000-£350,000 per acre. This represents a 45% fall in value.

In the case of land, which only has a Class 4 (Office) consent, the view is that many of these sites currently have little or no value as the residual development appraisal will show insufficient developer return to justify paying anything. Exceptions to this will surface in the event that an occupier is willing to agree a pre-let and has a space requirement that cannot be fulfilled by existing stock.

In terms of supply, Aberdeen has hundreds of acres of consented employment land, hence it is not scarce. What is, however, peculiar to Aberdeen is that most of this land is in the hands of developers and investors who are not distressed and are prepared to wait it out. Hence why Aberdeen is not seeing forced sales in this sector.

It is fair to say that there has been a "Perfect Storm" in the commercial sector in the North East. Whilst average fall in values may be in the order of 25% properties, usually offices, transact at values, which show up to 90% reductions in what had been paid for those same properties in the period 2010-2014.

Buying opportunity

Our "House View" at Knight Frank is that Aberdeen should now be seen as a buying opportunity.

Why?

1. Owners are now more realistic about the value of their property and buyers can now buy at prices where they have the opportunity to make profit.
2. Buyers (many from outwith Aberdeen) are looking at the Oil Price recovery and flagging Aberdeen as a recovery situation and assuming that with oil price increase comes property price recovery.
3. Recent sales like Salvesen Tower (£20,000); Silverburn House (£1 million); KDM Office (£400,000) – all prior or at Auction. This has highlighted Aberdeen as a bargain buy city.
4. In the Investment market we offer longer leases than Glasgow and Edinburgh, plus 2%-3% higher yield for your pound.

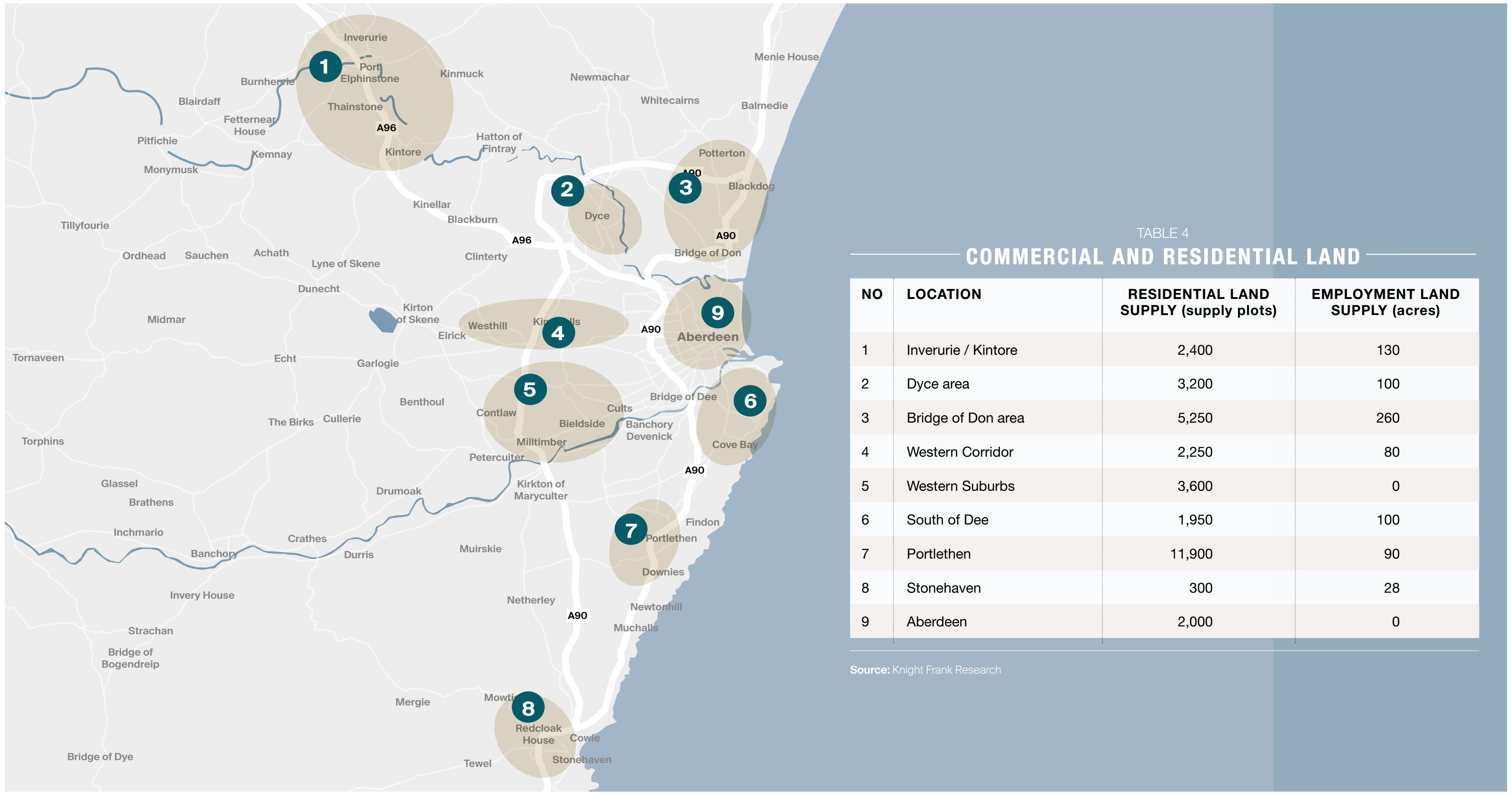


TABLE 4

COMMERCIAL AND RESIDENTIAL LAND

NO	LOCATION	RESIDENTIAL LAND SUPPLY (supply plots)	EMPLOYMENT LAND SUPPLY (acres)
1	Inverurie / Kintore	2,400	130
2	Dyce area	3,200	100
3	Bridge of Don area	5,250	260
4	Western Corridor	2,250	80
5	Western Suburbs	3,600	0
6	South of Dee	1,950	100
7	Portlethen	11,900	90
8	Stonehaven	300	28
9	Aberdeen	2,000	0

Source: Knight Frank Research

FORWARD THINKING

The pace of change in Aberdeen is accelerating creating an unprecedented array of challenges and opportunities for both businesses and the city.

A changing city

Aberdeen has never experienced the scale and pace of change as it is currently. Three topics that will shape Aberdeen's future are explored below:

Diversification

Aberdeen is well regarded as the Oil Capital of Europe and, up until recently, probably not a lot else (maybe the European Cup win in 1983 by a certain Sir Alex Ferguson). This, however, is changing. As a consequence of the last oil price downturn Aberdeen's public and private stakeholders have joined together to regenerate and promote the city as one with a more diversified economy. Tourism and leisure has been identified as a primary focus. Aberdeen has so much to offer from castles to coastlines, golf courses, architecture and fantastic food and drink. With initiatives like North East 250, the Dolphin Centre and festivals including the hugely popular Nuart. Aberdeen is set to receive a further shot in the arm with the completion of TECA – Aberdeen's new state of the art entertainment complex and the South Harbour development, which will allow Aberdeen to cater for larger cruise liners upon completion in 2020 with bookings already confirmed.

City Centre Masterplan

With the opening of Marischal Square in the east end of the city centre the city has seen new interest in this area from developers, investors and occupiers. This trend is set to continue as further occupiers are secured; a potential investor /JV partner is secured for the redevelopment of the Queen Street Quarter and the proposed redevelopment

“Diversification is to be welcomed to Aberdeen's economy.”

of the BHS/indoor market site. The addition of the Sandman Hotel and proposed 'second Scotsman Hotel' and apartments for the former Woolmanhill Hospital are hugely encouraging for the rejuvenation of the city centre. The redevelopment of the Triple Kirks/The Point is well underway and with a successful application to allow lettings to non-students, it could provide a catalyst for further major residential or mixed use developments backed by the Council's City Centre Masterplan and City Centre Living Strategy.

Cityfibre

Probably the least known but the one future attribute that could have the biggest impact – Aberdeen is set to become a forerunner for digital transformation in Scotland with the installation of Gigabit-capable full fibre broadband network under the Vodafone and CityFibre (Fibre-to-the-Premises) programme. The Vodafone and CityFibre partnership will mean that Aberdeen becomes Scotland's first city in which nearly every home and business will have access to gigabit-speed broadband. In a global commodity market like oil this could have a major influence on where companies locate given requirements will continue to grow for greater and faster quantities of data.

Electric charging stations

When looking forward to future trends within the property industry, electric vehicles and charging points may not be the first thing to spring to mind.

Aberdeen must continue to adapt to a rapidly changing marketplace.

ERIC SHEARER, OFFICE HEAD, KNIGHT FRANK ABERDEEN

The UK government has already outlined a plan to ban new sales of petrol and diesel cars and vans from 2040. Plug-in hybrids, hybrids and electric vehicles will be long-term replacements, although to date take-up has been disappointing with only 5.5% of new vehicles' sales being an electric or hybrid vehicle. A large part of this is due to the lack of forward planning in installing charging points, which is a UK wide problem, although highlighted more in Aberdeen due to the above average vehicle ownership.

The property industry is in a unique position where it can become an early adopter in this regard by speculatively installing car charging points onto property or within car parks. The obvious easy win is for installations at industrial properties where most already have three-phase power.

As we witnessed with the influx of solar panels within the residential market, it is our view that those early adopters will receive the greater grants. They will not only benefit financially, but also from the added attractiveness of having first mover advantage in competitive property markets. Any way of "greening" property is only positive, and electric charging points will soon become an essential rather than a 'nice-to-have.'

Offices – serviced and hybrid

The serviced office market is very much a growth sector across the UK and has evolved to meet the needs of modern occupiers. Some of the benefits to occupiers include building environmental accreditation, concierge services, occupier well-being (café bars, gym, creche, cycle stores/showers etc.) and flexible workspaces. The CityFibre project installing Gigabit-capable full fibre broadband networks in Aberdeen further enhance the capabilities and appeal of this 'Plug and Play' offering.

Aberdeen has always had a number of national (Regus) and local serviced office operators (BlueSky, Aspire and Cromdale), but a number of new entrants are entering the market, indicating a natural evolution of this sector.

In particular, Spaces have taken a lease within the new Marischal Square development, joining the ranks of Orega in Silver Fin, Citibase on Queen's Road and Centrum Offices on Union Street. A number of Funds and Property Companies have re-purposed space within existing offices to provide serviced offerings – Capsule at L&G's Union Plaza, Agile at Kennedy Wilson's Charter building, Hill of Rubislaw and Hive at 1-3 Albyn Place. The WeWork concept, which provides shared workspaces for start-ups, small businesses and larger enterprises, are at the pinnacle of this evolution. Whilst they do not yet have a presence in Aberdeen, it will only be a matter of time before they break into the market.

Expectations are that the range of flexible workspace offerings will continue to develop in the market as occupiers, including energy companies, seek to reduce occupational costs and better quality flexible space.

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

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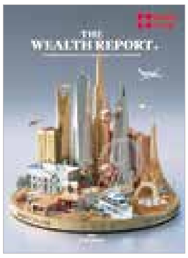

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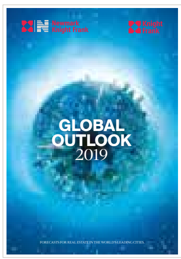

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