

ABERDEEN OFFICES

MARKET UPDATE H2 2013

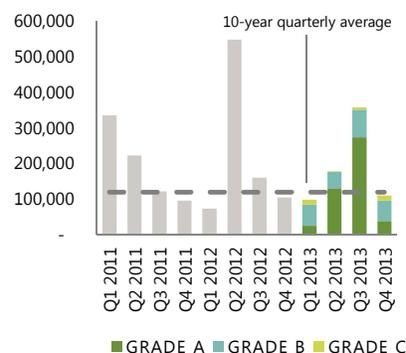
Occupier market

- Following Q3's impressive take-up of 356,000 sq ft, Q4's 109,000 sq ft was closely in line with the long-term average. Take-up for 2013 as a whole reached a substantial 740,000 sq ft, marking a third consecutive year of take-up in excess of 700,000 sq ft. Record levels of investment into the North Sea oil and gas sector is also continuing to stimulate high levels of demand, with active requirements surging to 1.5m sq ft in Q4.
- Unlike Q3, Q4's activity lacked any major pre-let agreements to drive overall take-up. The majority of Q4's 12 deals involved smaller suites, with the two largest transactions comprising AMEC's lease of Pavilion 1, City View (19,339 sq ft) and Dana Petroleum's assignment of Grampian House, Union Row (45,543 sq ft).
- There are a number of key requirements coming to fruition. Statoil, DOF and PD & MS are all understood to have now shortlisted their options, with decisions anticipated in early 2014. Meanwhile, Argon Properties is understood to have secured an occupier for a 185,000 sq ft pre-let at Hareness Road, Altens.
- An acute shortage of supply remains a key theme in the market, with the only remaining new build space (Phase 1, City View) having recently gone under offer. Consequently, SWIP's recent AB1 refurbishment scheme in Huntly Street (c. 48,000 sq ft) is expected to attract strong interest as it is the only sizeable office available in the city core.
- However, new development continues apace, with 230,000 sq ft of speculative activity underway in the city centre alone. Schemes include Dandara's The Point, Schoolhill Titan Investors' The Silver Fin and Knight Property Group's redevelopment of the Capitol, while Miller Cromdale's Pilgrim House is now progressing following a 50% pre-let by the Food Standards Agency in Q3 2013.
- There are also numerous developments in the pipeline which will have a significant positive impact on supply in the future. Examples include Muse's Marischal Square mixed-use scheme on the site of the former St. Nicholas House, and Miller Cromdale's Ardent House and Liberty House schemes at North Dee Business Quarter.
- With supply currently restricted in the city core, out-of-town locations such as Prime Four, Kingswells and Kingshills Business Park, Westhill, together with D2 and Aberdeen International Business Park at Dyce, are expected to attract further interest in the course of 2014.

Agent's view

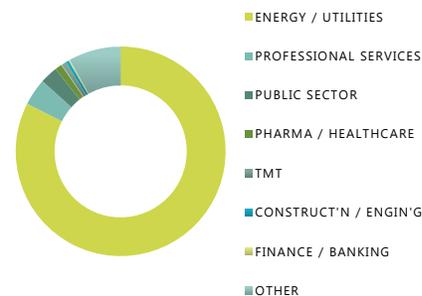
2014 is sure to be another strong year for the Aberdeen office market. A number of major pre-lets are anticipated in the coming months and we expect these deals and other notable requirements to boost overall 2014 take-up towards an impressive 1m sq ft. Aberdeen's headline rent - already the highest of any regional office market - is expected to reach a new high of £34.00 per sq ft by the end of 2015. While the delivery of various speculative developments in the city 18 months from now will significantly shift the dynamics of supply, this will most likely manifest itself in a slight softening of rental incentives.

FIGURE 1
Take-up by grade (sq ft)



Source: Knight Frank Research

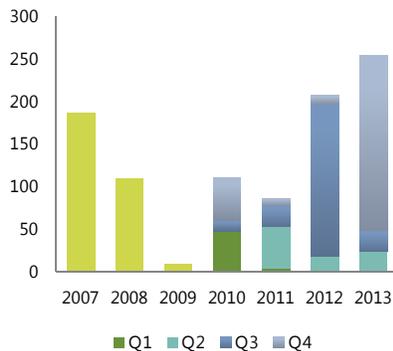
FIGURE 2
H2 2013 take-up by sector



Source: Knight Frank Research



FIGURE 3
Aberdeen office investment turnover (£m)



Source: Knight Frank Research, Property Data



Investment market

- The buoyancy of Aberdeen's occupier market, combined with a recent revival of investment demand for regional offices, pushed investment turnover in the city to a record total of £253.6m for 2013. While all the main regional markets have enjoyed a welcomed return of investment demand, Aberdeen was the only market where activity in 2013 exceeded the levels seen in the boom period of 2006/07.
- Investment activity burst into life in the final quarter, which saw seven of 2013's 12 transactions and £175m of turnover. A key draw for investors has been the opportunity to buy into 15-20 year income following a number of major pre-let deals, while secondary assets have also attracted interest on the back of strong reversionary potential.
- Underlining the strength of appetite to 'buy into' the city, H2 2013 also saw two prominent deals to forward fund the speculative development of Silver Fin and Capitol, Union Street which together amounted to £100m.
- Reflecting the positive underlying fundamentals in the occupier market, Aberdeen's prime office yield currently stands at circa 6.00% (15-year income). Yields have also hardened by 75bps over the past 12 months.
- Although strong investment demand shows no sign of abating, the market is watching closely to see what effect the debate on Scotland's possible independence will have on institutional demand, and whether investor uncertainty will switch the focus of attention more towards England's core cities.

TABLE 1
Selected investment transaction in H2 2013

Date	Address	Purchaser / Vendor	Price	NIY(%)
Dec 2013	Union Plaza, Union Wynd	L&G / Stewart Milne	£54.8m	6.30
Oct 2013	No 1 & 2 The Exchange	Hermes REIM / Rockspring Hanover	£21.0m	7.49
Sep 2013	Silverburn House	Carisbrooke Investments / Highcross Fund	£17.6m	10.10
Dec 2013	Aspect 32, Arnhall Business Park, Westhill	CCLA Investment Management / Private Investor	£13.5m	6.90

Source: Knight Frank Research, Property Data

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