RESEARCH

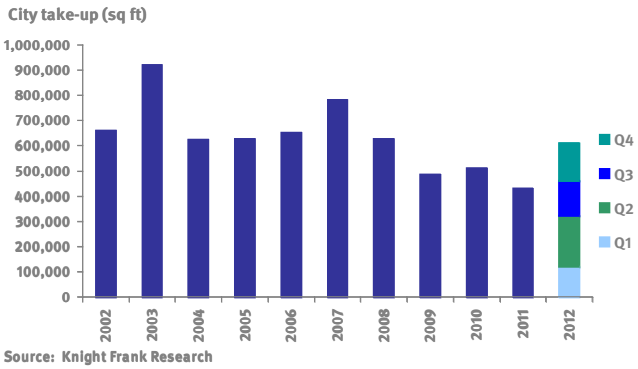
EDINBURGH OFFICES

Market update Q4 2012

Knight Frank

Key highlights

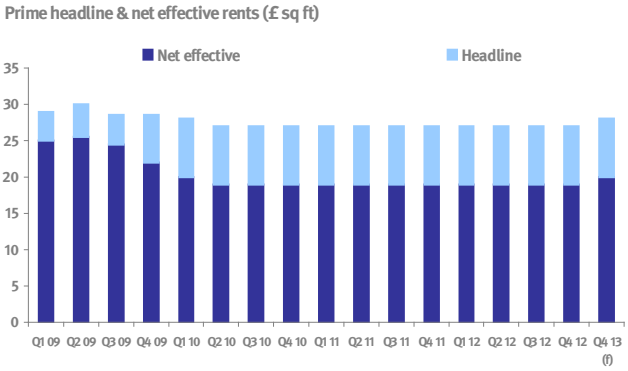
- Edinburgh's office market had a respectable end to the year, with Q4 take-up of 150,000 sq ft, taking the full-year total to 630,000 sq ft. This was the strongest year since 2007 and was just above the ten-year annual average.
- Net effective and headline rents were unchanged over the quarter at £19.00 and £27.00 per sq ft respectively.
- Active named demand remained at a healthy 300,000 sq ft, with the vacancy rate for prime space stabilising at 7.5% - the lowest of the eleven regional city office markets.
- Speculative development activity increased to 158,000 sq ft in Q4, with the start of construction on the Morrison Street scheme.



Source: Knight Frank Research

Office gossip

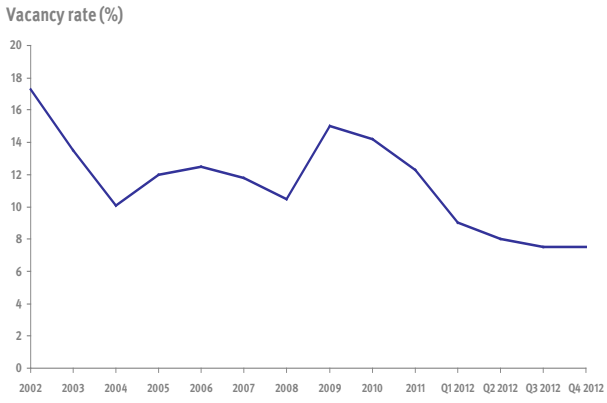
- Letting activity continues to focus mainly on the city centre and the periphery. Key deals signed in Q4 include Multrees Investors' acquisition of c. 5,000 sq ft at 33 Castle Street, which means the building is now 100% fully let.
- In addition, Grant Thornton has leased c. 9,000 sq ft in Exchange Crescent, Alstom has acquired 7,000 sq ft, FNZ has taken 8,300 sq ft in Tanfield and Charles White has acquired c. 3,000 sq ft in City Point.
- Key active requirements include JLT who are seeking c. 25,000 sq ft in the city centre and WS Atkins and IBM who are both looking for 10-15,000 sq ft.



Source: Knight Frank Research

Looking ahead

- The Atria development is nearing completion, which is due at the end of Q1 2013. Ediston's 145 Morrison Street grade A office development is due to complete Q2 2013.
- In addition to the speculative development of 145 Morrison Street reported during the previous quarter, the Atria development continues to progress quickly and remains on track for completion by the end of Q1 2013.
- The supply of Grade A office accommodation continues to erode and this is expected to continue throughout 2013. This will lead to a hardening of incentives and net effective rents should come under upward pressure, potentially reaching £20.00 per sq ft by the year-end.



Source: Knight Frank Research

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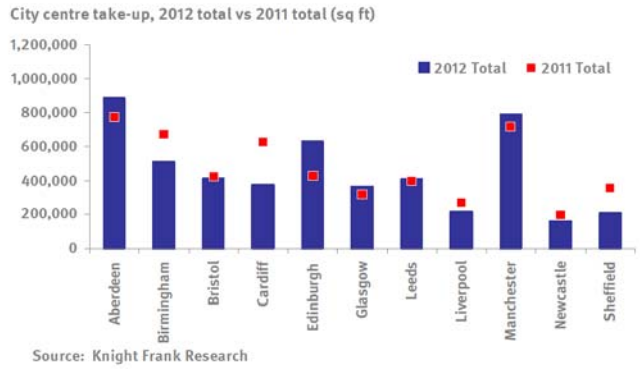
UK REGIONAL OFFICES ROUND-UP

Q4 2012

Occupier demand

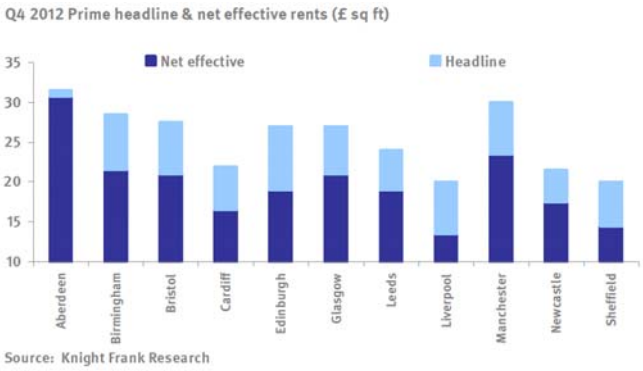
- Take-up in the key regional office markets was generally resilient in Q4 2012. Across the 11 markets combined, total quarterly take-up of 1.22m sq ft was up 2% on Q3, although, 2012 as a whole was marginally lower than 2011.
- Annual take-up for 2012 totalled 4,930,430 sq ft - some 4% down on 2011 and 11% down on the 10-year annual average. A number of markets enjoyed stronger 2012 take-up compared with 2011 including Edinburgh (+47%), Glasgow (+15%), Aberdeen (+14%), Manchester (+10%) and Leeds (+3%).
- Transactions completed in 2012 comprised predominantly secondary space and relatively small lot sizes. However, the 'fight to quality' in most markets continued and we have seen renewed requirements from professional services firms prompted by forthcoming lease expiries.



Source: Knight Frank Research

Supply and rents

- While the speculative development pipeline remains generally limited, Q4 saw another quarterly increase from Q3's 661,431 sq ft to 734,545 sq ft. Despite the improved speculative activity, general sentiment remains cautious and developers will demand a significant pre-let before any large new-build scheme can progress.
- Supply continues on a downward trend in the absence of new completions. At the end of Q4 2012, Grade A supply across the 11 cities combined was down 18% on Q4 2011, with the largest falls seen in Edinburgh (-38%), Glasgow (-36%), Leeds (-30%) and Birmingham (-27%).
- Headline rents remained stable in Q4. However, more generally, incentive packages are either hardening or expected to harden across the regional cities, as a result of this steady erosion of Grade A supply.



Source: Knight Frank Research

Investment market

- The latest figures from Property Data reveal that Q4 investment turnover was c.£550m outside London and the South East, an improvement on Q3 but nevertheless 36% below the 10-year quarterly average.
- There remains strong investor interest in prime office stock, although a shortage of suitable product, namely prime and long-income assets, remains a major barrier to activity. In the secondary spectrum, investor interest is highly selective, confined to good quality secondary stock where there is potential to add value through asset management.
- Generally, prime yields were unchanged in the regional cities in Q4 albeit this is based largely on sentiment. Secondary office yields are under pressure and sentiments remains cautious.

Prime office yields

	2012				Yield sentiment
	Q1	Q2	Q3	Q4	
Aberdeen	6.25%	6.50%	6.50%	**6.50%**	◄ ▲
Birmingham	6.25%	6.50%	6.50%	**6.50%**	◄ ▲
Bristol	6.25%	6.50%	6.50%	**6.50%**	◄ ▲
Cardiff	6.25%	6.50%	6.50%	**6.50%**	◄ ▲
Edinburgh	6.25%	6.50%	6.50%	**6.50%**	◄ ▲
Glasgow	6.25%	6.50%	6.50%	**6.50%**	◄ ▲
Leeds	6.25%	6.50%	6.50%	**6.50%**	◄ ▲
Liverpool	7.00%	7.25%	7.50%	**7.50%**	◄ ▲
Manchester	6.00%	6.50%	6.50%	**6.50%**	◄ ▲
Newcastle	6.50%	6.75%	6.75%	**6.75%**	◄ ▲
Sheffield	7.00%	7.25%	7.25%	**7.25%**	◄ ▲

Source: Knight Frank Research

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