

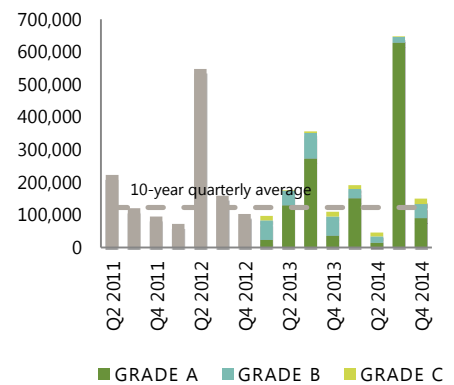
ABERDEEN OFFICES

MARKET UPDATE H2 2014

Occupier market

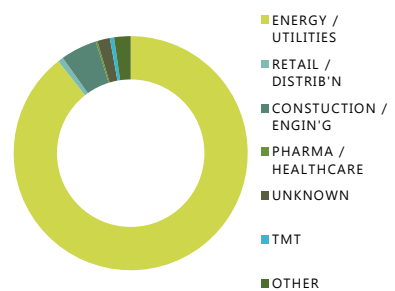
- Despite the uncertainty surrounding the Scottish Referendum, 2014 as a whole saw an impressive 1 million sq ft of take-up, with about 75% of it occurring in H2. This was largely aided by two major deals, namely Aker/ASA's (334,795 sq ft) lease at Aberdeen Business Park, which is the largest ever leasing deal in Scotland and Wood Group's (215,000 sq ft) lease at Site 38, Hareness Road, Altens.
- Q3 saw the highest level of quarterly take-up ever in the city, totalling 647,874 sq ft and up 76% on Q3 2013.
- While Q4 failed to match Q3, take-up of 150,000 sq ft ensured that Q4 still managed to perform above the 10-year quarterly average.
- The Oil and Gas sector continued to dominate H2 activity, with take-up levels in Energy/Utilities (708,000 sq ft) accounting for 89% of the total (Figure 2).
- The availability of Grade A space has risen by 20% to 75,000 sq ft, responding to the high levels of demand experienced in late 2013.
- Recently completed schemes Pilgrim House at North Dee Business Quarter, AB1 and 70 Queen's Road, are the latest examples of developments available for lease.
- With a total of 411,000 sq ft of speculative development now underway, it is likely that the current shortage of supply will be alleviated by 2016.
- However, with active requirements slowing amid concerns about the recent fall in oil prices, take-up activity is expected to 'cool off' whilst occupiers re-evaluate expansion plans.
- It is expected that there will be little or no rental growth this year, with headline prime rents forecast to remain at £32 per sq ft.

FIGURE 1
Take-up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2
H2 2014 take-up by sector



Source: Knight Frank LLP

Agent's view

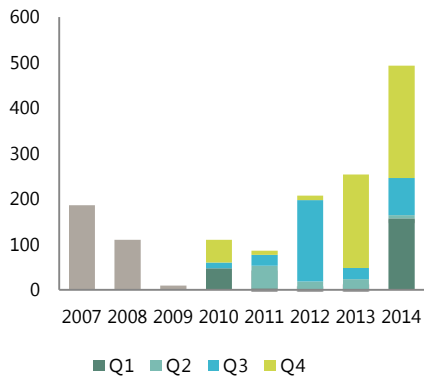
While 2014 posted one of the largest annual take-ups ever seen in the city, the significant fall in oil prices has overshadowed what would have been an impressive year for Aberdeen. With demand now on a downward trend and a large number of developments scheduled to come to fruition in the next 18 months, there is now a danger that there may be an over-supply of office space in the market. The extent to which this occurs, however, will be dependent on how long it takes for oil prices to revert back to their previous levels, with some analysts suggesting that prices will remain low for at least two years.



Dandara's development of The Point is scheduled to complete in Q3 2015 Knight Frank is the joint leasing agent.

FIGURE 3

Aberdeen offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

Investment market

- Investment demand remained strong in 2014, with transaction volumes reaching a record breaking £492m, outstripping total investment for 2013 and 2012 combined.
- Investment activity was particularly strong in Q4, where volumes reached a record £246m, surpassing the previous quarterly record of £205m achieved in Q4 2013. Investment turnover in Q4 alone matched the turnover attained for the whole of 2013.
- Significant deals included Legal and General Property's acquisition of Aberdeen International Business Park for £127m, reflecting a yield of 5.75% and Aviva Investors' purchase of Marischal Square for £107m.
- H2 investment was a considerable improvement on H1, with buying activity more than doubling in the final six months of the year, suggesting that investor sentiment had regained momentum after the referendum.
- Prime office yields remained unchanged at 5.75% throughout 2014
- Despite a year dominated by record highs, there are fears that investment will be affected following the significant fall in oil prices which occurred in the final months of 2014. With Aberdeen at the epicentre of the Scottish oil industry, some analysts believe that while the investment markets in other major Scottish cities will continue to strengthen, activity in Aberdeen may begin to cool.
- However, the degree to which the oil price decline affects investment depends on how long oil prices remain low. In the meantime, it will be interesting to see whether other Scottish cities that are less exposed to the oil sector benefit.

TABLE 1

Selected investment transactions in H2 2014

Date	Address	Purchaser / Vendor	Price	NIY
Dec 14	Westhill Business Park	Private Investor / Andrews Home Aberdeen	£2.11m	8.25%
Dec 14	Kirkhill Business Park	Aviva Investors / Kirbus Properties	£10.34m	5.97%
Nov 14	Aberdeen International Business Park	Legal & General Property/ Abstract Group, Aker ASA	£127m	5.75%
Oct 14	Marischal Square	Aviva Investors / Aberdeen City Council	£107m	n/a
Aug 14	Prime Four Business Park	Aberdeen Asset Management / Drum Property Group Ltd	£16.03m	5.82%

Source: Knight Frank LLP



Legal & Property purchased Aberdeen International Business Park comprising 335,000 sq ft for £127m.



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