RESEARCH

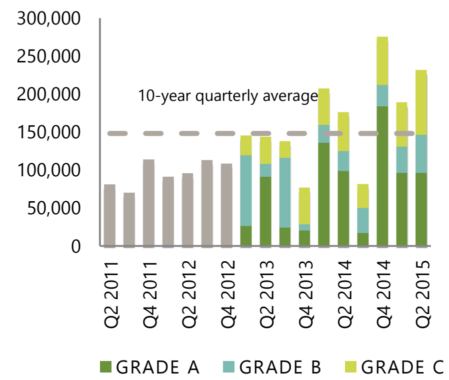
# EDINBURGH OFFICES

## MARKET UPDATE **H1 2015**

## Occupier market

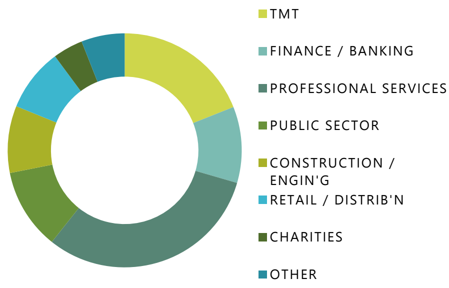
- The occupier market experienced a surge in activity in H12015, as take-up reached 448,025 sq ft. This represented a 25% increase on H2 2014, placing Edinburgh on course to exceed 2014's annual take-up of 740,000 sq ft.
- Deals involving high-quality office space continued to dominate activity in H1, with over 40% of total take-up comprising Grade A offices, which has left the level of new office stock in the city at its lowest in nearly three years.
- Activity in the market was characterised by firms in two key sectors – Technology, Media and Telecoms and Professional Services. These two sectors alone accounted for 48% of total take-up in H1.
- One of the largest deals in H1 involved Capita, which leased the entire building (26,896 sq ft) at 145 Morrison Street. Other deals in the city saw the Law Society of Scotland secure 19,079 sq ft at Atria One. Both schemes were recently built, offering new high-spec office facilities.
- Although Q1 2015 and Q2 2015 were below Q4 2014's take-up of 275,000 sq ft, both quarters managed to perform above the 10-year quarterly average, which currently sits at 148,000 sq ft.
- With the number of active requirements up at its highest level since Q2 2010, there is every indication that potential occupiers may struggle to find new office premises in the city given the acute supply of Grade A space. However, it does send a positive message to developers and investors who are considering building new offices in the regional city.
- The earliest scheduled development which will boost Grade A supply will be completed in mid-2016 (Quartermile 4), providing over 130,000 sq ft of new office space.
- As the market experiences high levels of take-up and a shortage of Grade A offices, particularly in the city centre, it is likely that occupiers will be forced to look at more peripheral locations in Edinburgh.

FIGURE 1
**City centre take-up by grade (sq ft)**




**Source:** Knight Frank LLP

FIGURE 2
**H1 2015 take-up by sector**



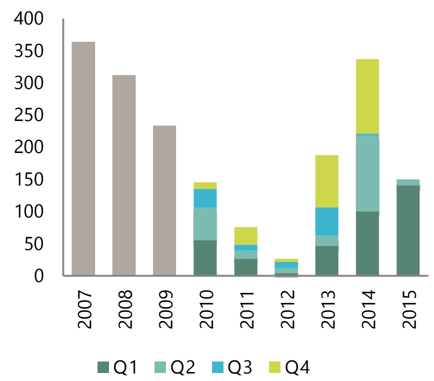

**Source:** Knight Frank LLP

## Agent's view

Edinburgh continues to experience high levels of take-up following the Scottish Referendum, and we could see this momentum lead the city to an improvement on 2014's annual take-up of 740,000 sq ft, which was also the highest annual take-up in 10 years. The level of Grade A supply has been affected by the recent surge in activity, and it is expected that this trend will continue as the city awaits the completion of Quartermile 4, which is due mid-2016. A number of pre-lets could be finalised, as firms look to take advantage of the latest new office development. Prime office rents could rise to £29 by the end of 2015, as the market adjusts to the absence of new office stock.

**Brocade secured 6,400 sq ft at the recently refurbished Caledonian Exchange.**

FIGURE 3
**Edinburgh offices investment turnover (£m)**




**Source:** Knight Frank LLP, Property Data


**In Q1 2015, Knight Frank Investment Management acquired Edinburgh Quay 2 for £24.5m from Cordea Savills European Commercial Fund.**

## Investment market

- Investment volumes reached £149m in H1 2015, up 26% on H2 2014, but down 32% on H1 2014.
- Activity in H1 was largely driven by UK institutions, which have seen Edinburgh offer superior yield and value for assets in comparison with other regional cities.
- The largest deal in H1 involved the Rockspring UK Value Fund, which purchased 1 Tanfield for £56m, reflecting a net initial yield of 6.5%. This investment was among 8 deals which were completed in the first quarter of 2015, the highest number since Q4 2013.
- Investment in Q1 reached £140m, representing 94% of the total in H1. However, the slow in activity in Q2 has been largely attributed to the lack of good quality secondary assets in the market, as opposed to a decline in investor interest. As more offices are brought to market in the next 12 months, investment activity is expected to rise.
- Prime office yields hardened by 25bps at the beginning of 2015 to 5.50%, and may be driven down further in line with other regional cities as new office schemes become available to investors (Q2 2015 prime office yields – Birmingham and Manchester were 5.00%)
- After a turbulent 2014, Edinburgh appears to have come out strongest amongst the other Scottish regional centres. With the Scottish general election less than 12 months away, it will be interesting to see how this will affect Scotland's regional cities, with early polls suggesting that the election will largely favour the SNP.

TABLE 1
**Selected investment transactions in H1 2015**

| Date | Address | Purchaser / Vendor | Price | NIY |
|---|---|---|---|---|
| Mar 15 | 20 Haymarket Yards | Kames Capital / RF Capital Pty Ltd | £14.82m | 6.14% |
| Mar 15 | 24-25 St Andrew Square | TBC / GW Investments | £19.6m | n/a |
| Mar 15 | 1 Tanfield | Rockspring UK Value Fund/ Carlyle Group | £56m | 6.5% |
| Mar 15 | Edinburgh Quay 2 | Knight Frank IM LLP / Cordea Savills ECF | £24.5m | 6.88% |

**Source:** Knight Frank LLP

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