RESEARCH

EDINBURGH OFFICES

MARKET UPDATE **H2 2015**

Occupier market

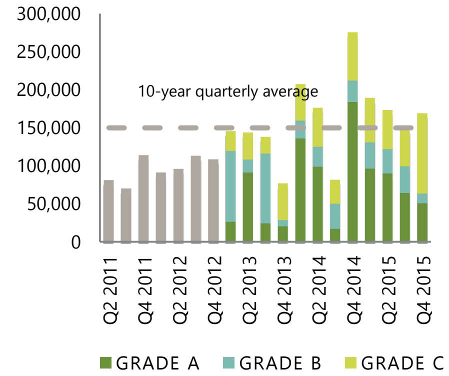
- The latest take-up information shows that city centre take-up reached 318,000 sq ft in H2 2015. While this is a marginal reduction on H1 2015, the results prove that Edinburgh remains a hotbed for occupiers.
- This momentum has translated beyond the city centre boundaries, with take-up across Edinburgh totalling 1.15m sq ft. This is a 15 year high and almost double the 10 year average.
- The Technology, Media and Telecoms sector (TMT) continued to dominate the occupier market, accounting for 41% of total take-up in H2. This included the 59,000 sq ft pre-let of Quartermile 4 by FanDuel Ltd which is the markets largest pre-let in 10 years.
- Another notable feature of H2 was that the majority (49%) of office space let involved Grade C stock, in stark contrast with H1, which saw 40% of deals involve Grade A stock. The rise in the proportion of Grade C office deals can be attributed to the lack of available good quality office space which has declined by 16% in 2015.
- With take-up in 2015 and 2014 representing high levels of activity in the market, much of the demand recorded in previous periods has been satisfied. This is one of the reasons why the level of active requirements fell in Q4 to 106,000 sq ft, which is 41% lower than the corresponding year (Q4 2014).
- As of Q4 2015, Grade A availability stood at 273,000 sq ft, which is 21% below the 5-year average. If recent annual take up levels continue, the market will see the supply of Grade A stock amount to less than one year's supply. This is likely to have a positive impact on rental growth.
- Prime headline office rents in 2015 for Edinburgh grew by 11% to £31 per sq ft, representing the highest annual rental growth rate in the city for 12 years. Further growth is anticipated, with the latest forecasts suggesting that prime office rents will reach £32 per sq ft by the end of 2016.
- With the Scottish general election scheduled to take place in May 2016, it will be interesting to see how the office market fares in the lead up to the election. The overwhelming support for the Scottish National Party (SNP) as shown from the latest polls does suggest that the election is largely in favour of the incumbent party. 2016 could well be 'business as usual' for occupiers and potential occupiers seeking to engage in relocation and expansion plans.

Agent's view

Edinburgh has experienced an interesting two years, with the Scottish referendum now well firmly in the past. While annual city centre take-up in 2015 was marginally below 2014, nothing should be taken away from markets ability to facilitate >500,000 sq ft annual take-up for the fourth consecutive year. The rise in Grade C office deals in H2 suggests that for some occupiers, the pull factor to the city centre outweighs the build quality. With the city experiencing high activity over the last two years, it was expected that the market will return to normality. Going into 2016, we expect the market to continue to see steady levels of take-up.

FIGURE 1

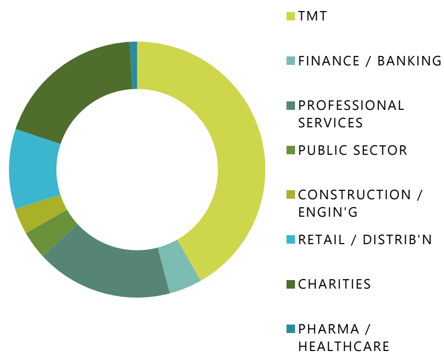
City centre take-up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2

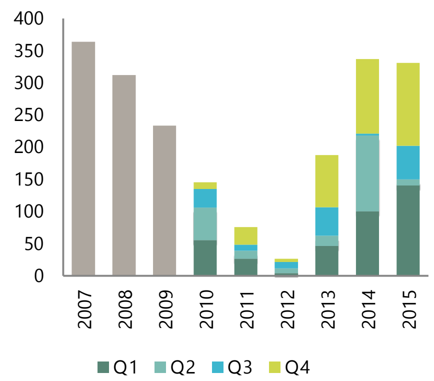
H2 2015 take-up by sector



Source: Knight Frank LLP

Coutts & Co Trustees (Jersey) Ltd have instructed Knight Frank to dispose of c. 16,000 sq ft of refurbished office accommodation in Nova House.

FIGURE 3
Edinburgh offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

In December 2015, an overseas investor purchased 30 Lothian Road for £93.75m from Standard Life, reflecting a NIY of 6.31%.

Investment market

- 2015 investment volumes reached £330.7m, marginally below 2014's total of £336.5m but significantly above levels seen in previous years.
- Total transactions in 2015 would have exceeded 2014's total if a number of significant deals completed by Q4 2015 as expected. As a result, there is an expectation that Q1 2016 will see the conclusion of key office deals.
- In 2015, office assets in Edinburgh were sold for an average of £20.7m, up 23% on 2014.
- H2 2015 saw volumes reach £181.2m, a 21% rise on H1. Overseas investors continue to account for the majority of volumes, accounting for 63% of total H2 volumes.
- The most notable deal involving an overseas investor was the £93.75m purchase of 30 Lothian Road from Standard Life in December 2015, representing a net initial yield (NIY) of 5.08%.
- Another significant deal H2 deal was Britannia Invest A/S' acquisition of 102 Westport for £32.2m in October 2015, reflecting a NIY of 6.31%.
- Office yields hardened by 25bps in Q4 to 5.25% as investors continue to take note of the ever improving occupational market.
- As with other regional cities, the market could be faced with uncertainty as the EU referendum nears, with the official date set on 23rd June 2016. This uncertainty in the market could be compounded if the results prove that Scotland and the rest of the UK are divided on EU membership.

Selected investment transactions in H2 2015

Date	Address	Purchaser / Vendor	Price	NIY
Dec 15	Lothian Road, 30	Overseas client of HSBC / Standard Life	£93.75m	5.08%
Dec 15	Edinburgh Park	CCLA Investment Mgmt/ Aviva Investors	£19.0m	6.31%
Oct 15	102 Westport	Britannia Invest A/S / Private Investor	£32.20m	6.17%
Aug 15	Citypoint, 65 Haymarket Terrace	CBRE Global Investors / Rockspring	£14.48m	5.76%

Source: Knight Frank LLP

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