RESEARCH

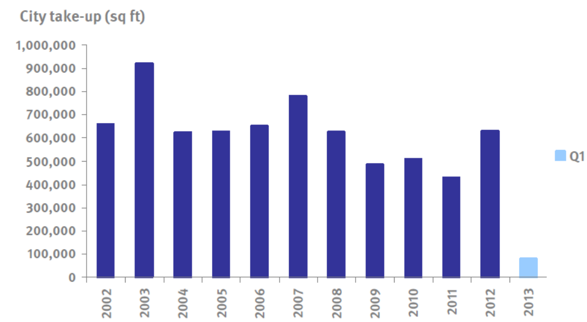
# EDINBURGH OFFICES

## Market update Q1 2013

Knight Frank

## Key highlights

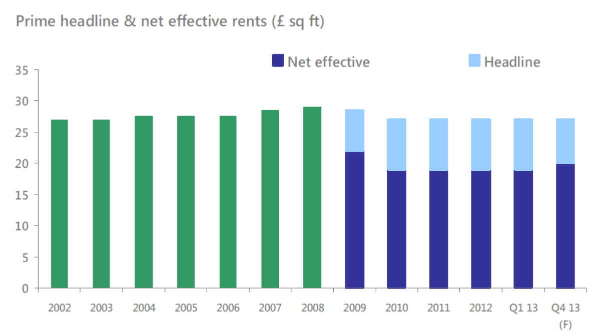
- Edinburgh's office market had a realtively subdued start to the the year, with Q1 take-up of c.80,000 sq ft, down by 47% on Q4 2012 and 6% on a year ago.
- Prime headline rents remained unchanged on Q4 at £27.00 per sq ft and net effective rents were also stable at £19.00 per sq ft.
- While the vacancy rate edged down to 7.25% and the availability of Grade A space rose to 290,000 sq ft, active named requirements dropped in Q1 to reach 280,000 sq ft – remain 6% down on a year ago.



Source: Knight Frank Research

## Office gossip

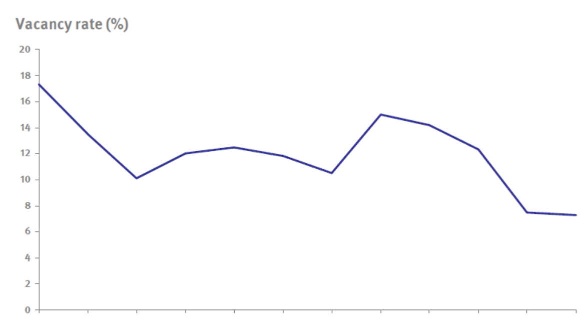
- The majority of letting activity in Q1 has been in the city centre. Green Investment Bank concluded c. 15,000 sq ft pre-let at Atria, ACH Shoosmiths acquired 11,300 sq ft in Saltire Court and Pagan Osborne acquired c. 9,000 sq ft at Clarendon House.
- Atria continues to attract attention and it is reported that PWC are about to go under offer on a floor extending to c. 32,000 sq ft.
- Key requirements in the city centre include the Faculty of Actuaries (7,000 sq ft), Drummond Miller (7,000 sq ft), MBM solicitors (15,000 sq ft) and Marsh (10,000 sq ft).
- Speculative development activity increased further to 223,000 sq ft in Q1, with construction beginning on the Morrison Street scheme.



Source: Knight Frank Research

## Looking ahead

- Tiger Developments has sold the Haymarket to Interserve for an undisclosed amount. The development will provide offices, retail, leisure and hotel accommodation on completion – albeit timescales will be confirmed as to when Interserve will start on site.
- The redevelopment of 26-31 Charlotte Square extending to c.45,000 sq ft is progressing and due for completion in August in 2013.
- The supply of Grade A office accommodation is falling 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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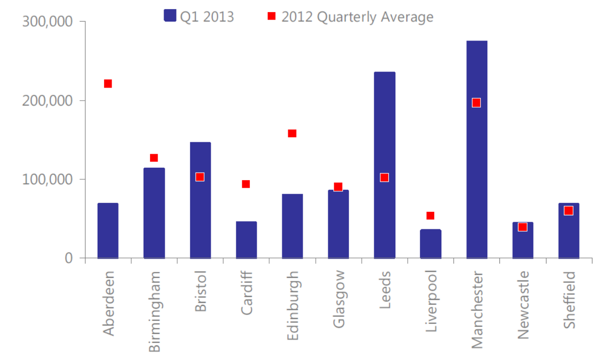
# UK REGIONAL OFFICES ROUND-UP

Q1 2013

## Occupier demand

- Following a strong final quarter in 2012, activity in the key regional office markets has been maintained in Q1 2013. A number of markets have performed well and saw Q1 take-up exceeding 2012's quarterly average including Bristol, Leeds, Manchester, Sheffield and Newcastle. The 11 markets combined recorded total take-up of 1.19m sq ft during Q1 - marginally down on Q4 2012 but up 9.8% on a year ago.
- In most markets, activity was predominantly characterised by a high number of small deals, typically for second-hand refurbished space.
- There is a healthy level of requirements in the regional office markets, with notable quarterly increases seen in Newcastle (+60%) and Aberdeen (+36%), although the majority are in the sub-5,000 sq ft bracket.

**City centre take-up, Q1 2013 vs 2012 quarterly average total (sq ft)**

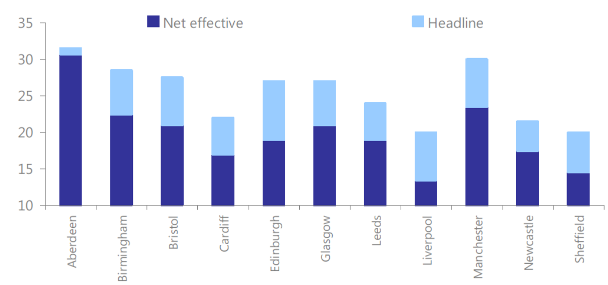



Source: Knight Frank Research

## Supply and rents

- Q1 saw a marginal quarterly increase in Grade A supply up from 3,013,043 sq ft in Q4 2012 to 3,067,043 sq ft. However, the current level is 11% down on a year ago. The availability of Grade A space continues to be eroded in most markets in the absence of new completions. Year-on-year double-digit fall was recorded in Birmingham (-33%), Leeds (-14%), Glasgow (-13%), Manchester (-13%), Newcastle (-12%) and Liverpool (-10%).
- Headline rents and incentives have been fairly static over the quarter, although there has been an increase in the net effective rent in Birmingham (from £21.50 to £22.50) and Cardiff (from £16.50 to £17.0).

**Q1 2013 Prime headline & net effective rents (£ sq ft)**




Source: Knight Frank Research

## Investment market

- According to Property Data, Q1 investment turnover was c.£600m outside London and the South East, an improvement on Q1 2012 but nevertheless 30% below the 10-year quarterly average.
- Whilst strong investor interest in prime office stock has been maintained, the availability of suitable product (prime and long-income assets) is the major barrier to activity. One interesting deal in Q1 was Gingko Tree's acquisition of a part share of One Angel Square in Manchester, although it remains to be seen as to whether this marks the start of more sustained interest from foreign investors in the UK regions.
- Prime regional office yields were largely unchanged in Q1, albeit there were some tentative signs of improved sentiment for prime stock. Indeed, Birmingham and Manchester both saw prime yields move in by 25bps to stand at 6.25%, whilst Newcastle was the only city to see prime yields soften Q1.

**Prime office yields**

| | 2012 | | | 2013 | Yield sentiment |
|---|---|---|---|---|---|
| | Q2 | Q3 | Q4 | Q1 | |
| Aberdeen | 6.50% | 6.50% | 6.50% | **6.50%** | ◄ ► |
| Birmingham | 6.50% | 6.50% | 6.50% | **6.25%** | ◄ ▼ |
| Bristol | 6.50% | 6.50% | 6.50% | **6.50%** | ◄ ► |
| Cardiff | 6.50% | 6.50% | 6.50% | **6.50%** | ◄ ► |
| Edinburgh | 6.50% | 6.50% | 6.50% | **6.50%** | ◄ ► |
| Glasgow | 6.50% | 6.50% | 6.50% | **6.50%** | ◄ ► |
| Leeds | 6.50% | 6.50% | 6.50% | **6.50%** | ◄ ► |
| Liverpool | 7.25% | 7.50% | 7.50% | **7.50%** | ◄ ► |
| Manchester | 6.50% | 6.50% | 6.50% | **6.25%** | ◄ ▼ |
| Newcastle | 6.75% | 6.75% | 6.75% | **7.00%** | ◄ ▲ |
| Sheffield | 7.25% | 7.25% | 7.25% | **7.25%** | ◄ ► |

Source: Knight Frank Research