EDINBURGH OFFICES
Market update Q2 2013
Knight Frank

Key highlights

- Take-up in Edinburgh office market rebounded in Q2, recording 100,353 sq ft, up 25% on the previous quarter.
- Prime headline rents remained unchanged on Q1 at £27.00 per sq ft and net effective rents were also stable at £19.00 per sq ft.
- As was the case in Q1, the vacancy rate remained unchanged at 7.25% in Q2 although the availability of Grade A space fell to 251,431 sq ft, 3.3% down on a year ago. Active named requirements dropped in Q2 to stand at 171,900 sq ft – 33% down on Q2 2012.

Office gossip

- Continuing the trend from Q1, the majority of leasing activity in Q2 was in the city centre. Green Investment Bank has taken an additional 12,388 sq ft at Atria and Skyscanner has also taken an additional 9,180 sq ft of office space at Quartermile One less than a year after agreeing terms on 28,000 sq ft of office space.
- The Exchange District continues to see a good level of activity with strong interest in Atria and Exchange Place. West Edinburgh has also seen a rise in enquiry levels and activity, particularly on Edinburgh Park.
- 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).

Looking ahead

- Speculative development activity totalled 223,000 sq ft in Q2, boosted by the commencement of construction on the Morrison Street scheme in June. In addition, Fordell Estates’ 44,000 sq ft Charlotte Square Collection scheme is due to complete in August.
- We expect the supply of Grade A office accommodation to continue to fall and demand will filter through to both secondhand Grade A and Grade B space.
- Meanwhile, landlords with poorer quality existing space should consider undertaking good quality refurbishment in order to capture the improvement in occupier demand.
UK REGIONAL OFFICES ROUND-UP
Q2 2013

Occupier demand

- The regional office markets received a welcomed boost in Q2. Demand is relatively robust for the regions, with a growing list of sizeable requirements, mainly from corporate occupiers in the legal and financial sectors.
- The 11 markets combined recorded total take-up of 1,376,023 sq ft during Q2 – up 16% up on Q1 2013. Whilst overall total take-up for H1 2013 stands a modest 2% higher than H1 2012, this was largely due to Aberdeen’s exceptional performance in 2012. Indeed, H1 2013 take-up in England’s major regional markets has rebounded sharply from H1 2012, namely Birmingham (up 128%), Leeds (up 106%), Bristol (up 54%) and Manchester (up 51%).
- Whilst there was a healthy level of activity, similar to previous quarter, transactions continued to be predominantly characterised by smaller deals.

Supply and rents

- Availability of Grade A space slipped to 2,831,975 sq ft in Q2 2013 – 15% down on Q2 2012. This reflects the continuing erosion of Grade A space in most markets in the absence of new completions/development activity. A year-on-year double-digit fall was seen in Birmingham (-44%), Leeds (-32%), Glasgow (-17%), Manchester (-13%), Sheffield (-13%), Newcastle (-11%) and Liverpool (-10%), with the exception of Bristol (+31%) and Cardiff (+29%).
- There are signs that sentiment in the occupier market is improving. Headline rents and incentives have been largely stable, with only Aberdeen showing an increase in headline rents (from £31.50 to £32.50). While further significant growth in regional headline rents is unlikely over the remainder of 2013, net effective rents may harden as Grade A supply continues to decline.

Investment market

- Investment turnover for offices outside London and the South East was subdued in Q2. The latest figures from Property Data suggest c.£346m turnover, 42% down on Q1.
- Strong investor interest in prime office stock in the regions has been maintained, although a shortage of suitable product (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 largely stable in the regional cities, albeit Q2 saw signs of improved sentiment for prime stock. Aberdeen, Birmingham, Bristol, Cardiff, Edinburgh, Glasgow and Leeds saw prime yields move in by 25bps.

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