

RESEARCH



# EDINBURGH

OFFICE MARKET REPORT  
Q3 2016



# OCCUPIER MARKET



Toby Withall  
Partner

The 'Brexit effect' meant a slowdown in occupier activity during the third quarter. Nonetheless, the number of active requirements remains high and this, combined with low supply, will add further upward pressure to rents.

Office take-up in Q3 fell by 59% quarter-on-quarter with 76,160 sq ft, transacted. This meant that total take-up for the year increased to 428,700 sq ft. Although this is 16% less than at the same point in 2015, the 2016 total is on par with the long-term average for the period.

The growing appetite from TMT firms to occupy space in Edinburgh's city centre was again reflected in the latest quarterly take-up results, with 51% of total take-up coming from the TMT sector. This was followed by Professional Services, which represented just under a quarter of total take-up.

Despite slower occupier activity in Q3, the level of available Grade A space fell by 25% to 200,000 sq ft. This represents the lowest total on record for the city.

Prime rents remained at £33.00 in Q3 2016. Notably, Edinburgh has recorded the highest rental increase of any UK regional city over the past 12 months with an uplift of 16%. A further increase is expected by year-end with levels expected to reach £34 per sq ft.

## THE DETAIL Q3 2016

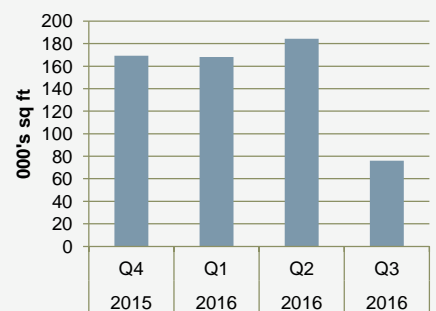


**TAKE UP** (sq ft)  
**76,160**  
-59% Q-ON-Q  
**2016 YTD**  
**428,700**  
-16% Y-ON-Y

### 5 YEAR HISTORIC COMPARISON

By Quarter	TAKE-UP	Q3 2016
High	275,000	-72%
Low	76,160	0%
Average	151,000	-49%

### TAKE-UP LAST 4 QUARTERS

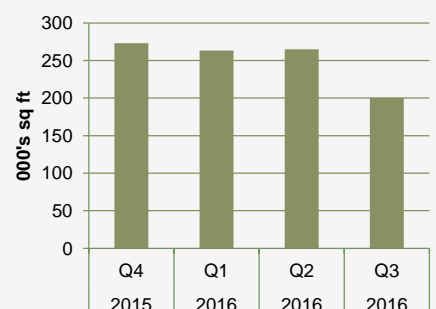


**GRADE A SUPPLY**  
**200,000**  
sq ft  
Change q-on-q  
**-25%**

### 5 YEAR HISTORIC COMPARISON

GRADE A	SUPPLY	Q3 2016
High	478,000	-58%
Low	200,000	0%
Average	321,000	-37%

### SUPPLY LAST 4 QUARTERS



**PRIME RENT**  
**£33.00**  
per sq ft  
Change y-on-y  
**16%**



**UNDER CONSTRUCTION**  
**118,000**  
sq ft  
Change y-on-y  
**+101%**

# INVESTMENT MARKET

Investment demand for offices in Edinburgh continues strongly with annual investment volumes now reaching record level. Overseas investors remain the principal source of demand with strong interest meaning prime yields are holding firm.

Total office investment in Q3 reached £67.7m, a 12% increase on Q2. This meant that investment volumes for the year increased to £402m, the highest total on record for the city. Significantly, five transactions above £25m have completed in the first nine months of 2016. This compares to three in all of 2015.

The largest transaction of the quarter was the £63m acquisition of Waverley Gate by TRIUVA. The deal represented a net initial yield of 5.69%. Notably, the Waverley Gate acquisition is the second this year by the German Investor following with the £68m purchase of Quartermile 4 in Q1 2016.

In 2016, investors from overseas represent the principal source of investment in Edinburgh, accounting for 77% of total investment volumes. German investors account for 61% of investment turnover at the Q3 mark. Notably, this purchaser group has responsible for all purchases above £50m this year.

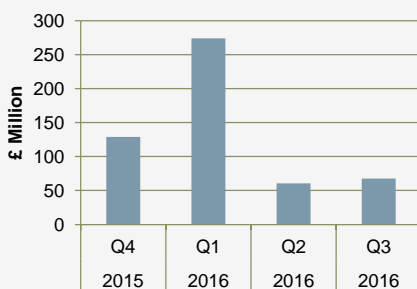
Prime office yields remained at 5.25% for the fourth consecutive quarter; some 75bps above 2006's historic lows. We anticipate that the appetite for quality stock will remain robust. Secondary asset interest may reduce however, with investors becoming more risk-averse post the EU vote.



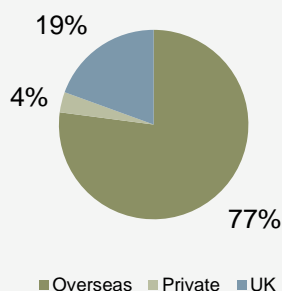
Alasdair Steele  
Partner

## THE DETAIL Q3 2016

INVESTMENT VOLUMES  
LAST 4 QUARTERS



INVESTOR BY TYPE LAST 4 QUARTERS



**TURNOVER**  
**£68m**  
Change q-on-q  
**+12%**



**AVERAGE DEAL**  
**£20m**  
Last 4 quarters



**PRIME YIELD**  
**5.25%**  
Change q-on-q  
**0**



**YIELD GAP**  
**425bps**  
to 10yr UK Gilts

5 YEAR HISTORIC COMPARISON

	QUARTERLY TURNOVER £M	Q3 2016	AVERAGE DEAL SIZE £M
High	274	-75%	£20m
Low	3	+2200%	£5m
Average	66	+5%	£10m

## EDINBURGH

### **Alasdair Steele**

Managing Partner, Edinburgh  
+44 131 222 9622  
[alsadair.steele@knightfrank.com](mailto:alsadair.steele@knightfrank.com)

### **Toby Withall**

Partner, Edinburgh  
+44 131 222 9616  
[toby.withall@knightfrank.com](mailto:toby.withall@knightfrank.com)

### **Simon Capaldi**

Associate  
+44 131 222 9621  
[simon.capaldi@knightfrank.com](mailto:simon.capaldi@knightfrank.com)

## RESEARCH

### **Lee Elliott**

Partner, Head of Commercial Research  
+44 20 7861 5008  
[lee.elliott@knightfrank.com](mailto:lee.elliott@knightfrank.com)

### **Darren Mansfield**

Associate, Research  
+44 20 7861 1246  
[darren.mansfield@knightfrank.com](mailto:darren.mansfield@knightfrank.com)



## Important Notice

© Knight Frank LLP 2016 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.