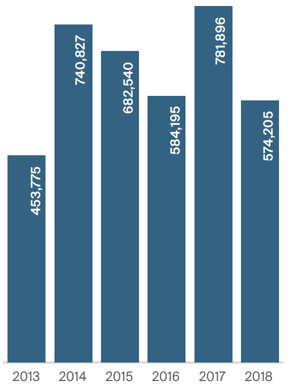
EDINBURGH OFFICE MARKET

OCCUPIER HEADLINES

- With leasing activity picking up in H2, city centre take-up reached 574,205 sq ft by year end. Although this represents a decrease of 27% compared to 2017 which was a record year, the 2018 total is consistent with the 10-year average.
- The largest transaction of the year was the 60,000 sq ft pre-let to Bailie Gifford at the Mint Building. The development is due to complete in 2019 and is part of an £85m regeneration project at The Registers. Aside, Royal London signed a 10-year lease for 47,912 sq ft at 22 Haymarket Yard. In addition, Brodies and Pinsent Masons agreed pre-lets totaling 68,439 sq ft at Capital Square. The building is due to complete in 2020.
- Occupiers from the Finance, Banking and professional services were most active in 2018 accounting for 61% of take-up combined. Interest from the TMT sector also remained strong, accounting for 21% of take-up.

TAKE-UP*
(sq ft)

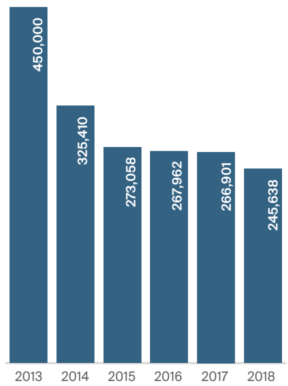
Year End 2018	574,205
2018 vs 10 year average	-2%



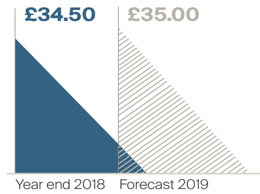
* Denotes city centre

GRADE A SUPPLY*
(sq ft)

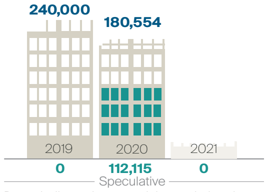
Year End 2018	245,638
2018 vs 10 year average	-35%



PRIME RENT
(£ per sq ft)



DEVELOPMENT PIPELINE
(sq ft)



Dates indicate the potential completion date of schemes under construction as at Q4 2018

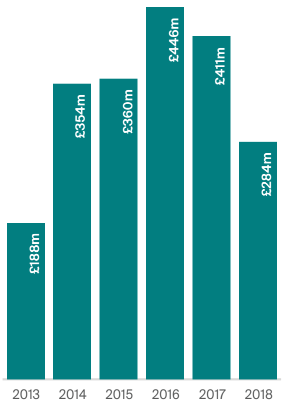
Development schemes are inclusive of both new and comprehensive refurbishment.

INVESTMENT HEADLINES

- Investment volumes exceeded the £200m mark for the fifth consecutive year in 2018. A total of £284m of office stock was sold, 12% ahead of the 10-year annual average.
- Notably, three transactions over £50m completed. The largest was the acquisition of New Uberior House by MAS Real Estate for £71m. The building is currently let to Bank of Scotland over several leases which will expire by Dec 2025.
- At year end, Greenridge agreed the £65.5m purchase of No1 Tanfield from Patrizia. The property has been transformed into a hub for TMT firms. In July, Hines acquired the Mint Building for £54m. Baille Gifford will be a tenant on completion of the scheme.
- Overseas investors remained the most active in 2018, accounting for 64% of volumes during the year.

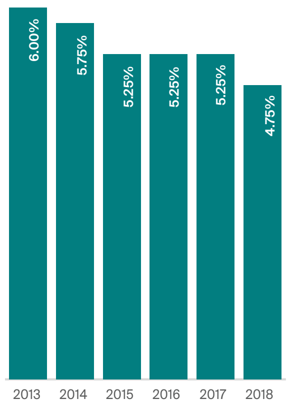
INVESTMENT VOLUMES (£)

Year End 2018	£284m
2018 vs 10 year average	+12%

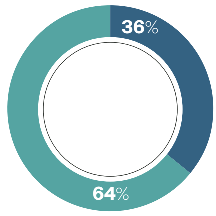


PRIME YIELD
(NIY)

Year End 2018	4.75%
Forecast 2019	4.75%

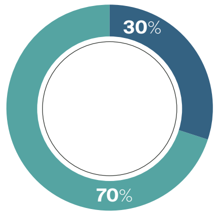


PURCHASERS
(last 12 months)



UK Overseas Private

VENDORS
(last 12 months)



KNIGHT FRANK VIEW

Alasdair Steele
Partner

2018 was a solid year for Edinburgh as we saw UK funds return to the market whilst overseas investors continued to seek office investments in the city.

The strong supply-demand story has attracted investors and resulted in a hardening of yields, with prime yields edging towards 4.5%. Despite the fall this level of yield still looks attractive in comparison to many other European cities.

The lack of supply combined with continued strong tenant demand will benefit landlords, with strong rental growth anticipated over the next twelve months.

However, this lack of supply is limiting activity. The city is a fantastic place to live and its population is growing. More office space is desperately needed to accommodate new entrants and allow existing occupiers to expand, and generate more jobs for Edinburgh's growing workforce.

The drop in investment volumes for Edinburgh offices last year was a reflection of a lack of stock rather than anything more sinister; investor demand remains strong and we are aware of several significant assets that are being lined up for sale this year. Although Brexit will inevitably play its part, there could well be an uptick in activity in 2019.

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