

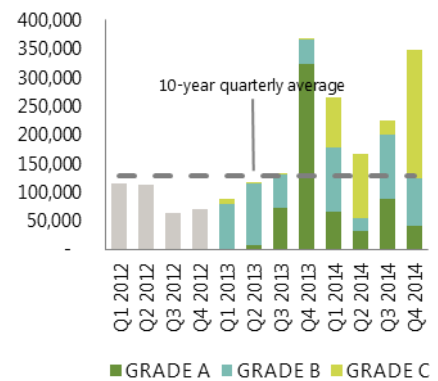
GLASGOW OFFICES

MARKET UPDATE H2 2014

Occupier market

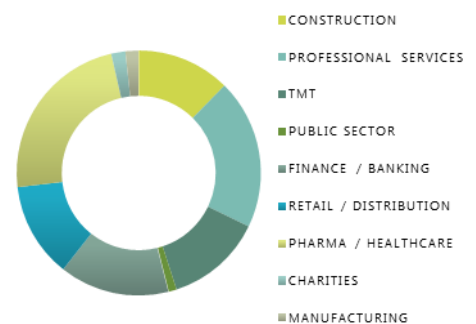
- Glasgow city centre take-up was 406,549 sq ft in H2 2014, taking full year take-up to 686,122 sq ft, down 3% on an annual basis. Activity was driven by the pharmaceutical, finance and professional services sectors, which accounted for 57% of total activity in H2.
- The third quarter saw the highest level of take-up in 2014 with a number of larger deals completing. Network Rail acquired 51,060 sq ft at 151-155 St Vincent Street and 20,518 sq ft at George House, 50 George Square, which accounted for most of Q3 take-up totalling 225,434 sq ft.
- Other sizable deals include Cigna Insurance leasing 33,368 sq ft at the Grosvenor Building, 72 Gordon Street, Clydesdale Bank acquiring 30,000 sq ft at Granite House, 31 Stockwell Street and the 12,000 sq ft pre-let to Grant Thornton at 110 Queen Street.
- Office demand remains strong with Morgan Stanley issuing a requirement for 100,000 to 150,000 sq ft and Cigna Insurance for 35,000 to 40,000 sq ft. There was 300,000 sq ft of active requirements in Q4 2014.
- Total availability of offices in Glasgow City Centre totalled 4,249,520 sq ft in H2, with Grade A supply decreasing on a quarterly basis to approximately 201,816 sq ft in Q4. Grade B supply continued to hold steady with 1,683,000 sq ft available in Q4, while Grade C supply increased on an annual basis by 53% to 570,000 in Q4.
- There are three speculative developments which are due to conclude in H1 2015 which will provide an additional 457,000 sq ft of new Grade A space to the market. However, two of these speculative schemes are already pre-let; therefore we are likely to see pressure on supply for good quality space.
- An increase in refurbishment projects is likely to fill the gap of quality office availability. One such refurbishment project is 100 Queen Street which is undergoing a full Grade A refurbishment on 55,000 sq ft, which will become available in Q2 2016.
- The office vacancy rate jumped from 13.25% at the beginning of the year to 15.34% in Q4, while prime office rents rose 4% during the same period to £30.00 psf in Q4.

FIGURE 1
Take-up by grade (sq ft)



Source: Knight Frank Research

FIGURE 2
H2 2014 take-up by sector



Source: Knight Frank Research

Agent's view

Morgan Stanley's requirement for up to 150,000 sq ft will have developers looking at speculative schemes in order to cater for this size of design and build requirement.

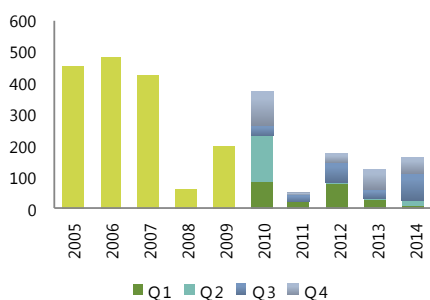
With diminishing supply we believe it will only be a matter of time before a new scheme goes on site to provide a future pipeline with significant lease events occurring over the next three years.

We also expect prime office rents to come under pressure as existing good quality diminishes..



100 Queen Street will undergo a full Grade A refurbishment

FIGURE 3
Glasgow office investment turnover (£m)



Source: Knight Frank Research, Property Data

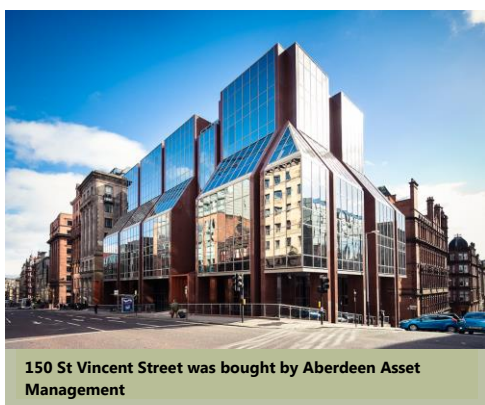
Investment market

- Glasgow recorded strong investment activity in the second half of the year with total volumes reaching £140m, an 83% increase on the first 6 months of the year. On an annual basis, total investment volumes amounted to £164m – 26% up on 2013.
- One of last year's most significant deals was Aberdeen Asset Management, which bought 151-155 St Vincent Street from Hermes in December 2014 for £27.85m, reflecting a NIY of 6.37%. The 73,000 sq ft office building in the city centre underwent a comprehensive £9m refurbishment by Hermes Real Estate in 2011. It was the first institutionally-owned property put up for sale after September's Scottish Independence Referendum, following six months of relative inactivity.
- Following the building's refurbishment, travel search website Skyscanner signed for a 10,860 sq ft deal in September 2013 and for a further 11,690 sq ft in March 2014. The remaining 51,000 sq ft of space has been subsequently let to Network Rail.
- The WAULT to break was only circa four years which demonstrates the growing confidence that UK institutions have in the rebounding occupational market.

TABLE 1
Selected investment transaction in H2 2014

Date	Address	Purchaser / Vendor	Price	NIY(%)
Dec 2014	151-155 St Vincent Street	Aberdeen Asset Management / Hermes REIM	£27.8m	6.38
Nov 2014	50 George Square	Ardstone Capital / Redevco UK	£22.5m	n/a
Sept 2014	110 Queen Street	Deutsche Asset & Wealth Management / BAM Properties	£70m	n/a
Aug 2014	200 Renfield Street	Kames Capital's Property Income Fund / Cording Danmerc Ltd	£13.7m	8.07

Source: Knight Frank LLP



150 St Vincent Street was bought by Aberdeen Asset Management