RESEARCH

GLASGOW OFFICES

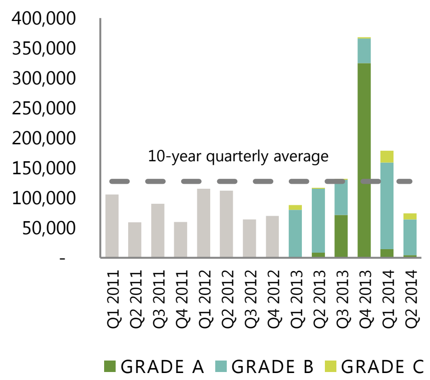
MARKET UPDATE **H1 2014**

Occupier market

- Glasgow city centre saw take-up of 252,712 sq ft during H1 2014, increasing 23% on H1 2013's level. However, the majority of activity seen so far this year came in the first quarter, with a relatively subdued 74,270 sq ft of take-up in Q2. Grade B space accounted for the majority of H1 take-up, with Grade A space making up just 8%.
- The two key deals from H1 both took place in the first quarter, and comprised The Criminal Injuries Compensation Authority's lease of 30,275 sq ft at Alexander Bain House and Network Rail's lease of 19,354 sq ft at George House, George Square.
- There are a number of larger requirements in the market which are close to concluding, with take-up in Q3 expected to rebound from Q2's level. These requirements include Network Rail's 70,000 sq ft relocation from Buchanan House; Cigna's requirement for 30,000 sq ft (which is understood to be focused on the Grosvenor Building), and Glasgow University, who are looking to acquire 20,000 sq ft in Tay House.
- In terms of supply, Grade A availability has reduced by around 15% from 12 months ago to stand at 386,000 sq ft at the end of Q2. This comprises new build schemes as well as recent good quality refurbishments.
- There are three speculative schemes currently on site totalling 458,000 sq ft. All three are due for completion during 2015, with the first to reach practical completion in March 2015. 110 Queen Street is the first building to have secured a tenant, with Brodies Solicitors committing to 25,000 sq ft. The building is also rumoured to be close to securing deals with both Deloitte and Grant Thornton, which would increase its occupancy to 58%. The other speculative developments continue to search for their first tenant.
- One refurbishment project also completed during H1. The Beacon at 176 St Vincent Street has brought an additional 33,964 sq ft of good quality office space to the market. Nonetheless, there are as yet no other rumours of new schemes on the horizon. The future success of the current three speculative developments is likely to influence the desire for further speculative development.
- While the market remains generally tentative at the moment, the short to medium term outlook for Glasgow's office leasing markets remains positive, as demand continues to improve against a backdrop of falling supply.

FIGURE 1

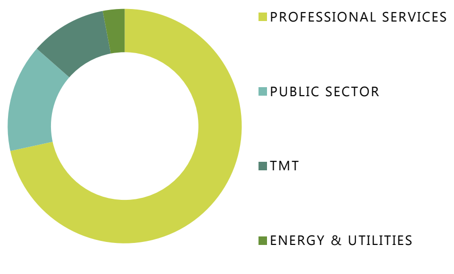
City centre take-up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2

H1 2014 take-up by sector



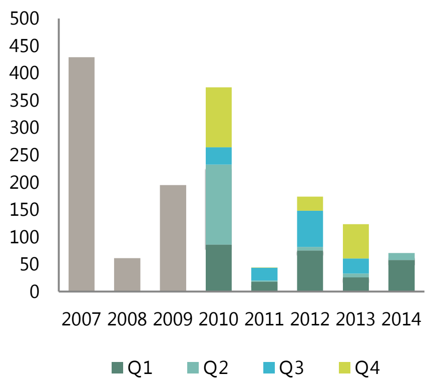
Source: Knight Frank LLP

Agent's view

There are a number of requirements in the marketplace which have been slow moving because occupiers are weighing up their options ahead of the new speculative schemes coming on line in 2015. Take-up in Q3 2014 is expected to increase significantly as some of the larger occupiers complete on the acquisition of Grade A space in the city centre. This may lead to a further increase in activity, as current Grade A stock continues to diminish. Rents are not expected to increase more than £28.50 per sq ft, although incentives may tighten as the new speculative space begins to be absorbed.

110 Queen Street is currently under construction and is scheduled to complete in July 2015.

FIGURE 3
Glasgow offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

Capella, York Street was purchased by Invesco for £43m in January 2014.

Investment market

- Despite strong demand across the main regional centres, there is evidence that fewer investors are looking at prime Scottish properties due to the uncertainty caused by the Independence Referendum in September 2014.
- That said, investment activity has picked up in 2014 following modest turnover in 2013. Transaction volumes reached £70m in H1 2014, up 115% on the same period last year.
- There is arguably a yield differential which should correct itself after the Referendum, however, there has been no prime Grade A transaction in 2014 to test this theory.
- The lack of transactions is largely a consequence of vendors resisting selling due to uncertainty until post referendum, rather than through a lack of potential buyers in the market.
- Prime Glasgow office yields were broadly unchanged in Q2, following a 25bps downward shift in Q1. Prime Glasgow Office yields currently sit in the region of 5.75%, which is broadly in line with the ten year average.
- Investors are seeking to take advantage of the strengthening occupier market in the city prior to the anticipated fall in regional office yields for mainly prime but increasingly secondary /shorter income stock.
- Come Autumn, when the uncertainty of the Referendum is behind Scotland , the backdrop of improving occupier sentiment and limited buying opportunities are expected to lead to a return to yield compression, particularly if the result is a "No" vote.

TABLE 1
Selected investment transactions/under offer in H1 2014

Date	Address	Purchaser / Vendor	Price	NIY(%)
Jan 14	Capella, York Street	Invesco/BA Pension Fund	£43.00	5.50
Jun 14	200 Renfield Street (under offer)	Kames Capital/Cording Capital	£13.80	8.00
Apr 14	30-40 St Vincent Place	PATRIZIA Immobilien AG / Allied Commercial Exports	£10.80m	6.86
Mar 14	Queen Street, 100	Esson Properties Ltd / CBRE Global Investors	£6.10m	n/a

Source: Knight Frank LLP

COMMERCIAL RESEARCH
Anthea To, Associate
+44 20 7861 1236
anthea.to@knightfrank.com

CAPITAL MARKETS
John Rae, Partner, Office Head
+44 141 566 6029
john.rae@knightfrank.com

LEASING
Peter Leburn, Associate
+44 141 566 6018
peter.leburn@knightfrank.com

CAPITAL MARKETS
Patrick Ford, Associate
+44 141 566 0880
patrick.ford@knightfrank.com