RESEARCH

GLASGOW OFFICES

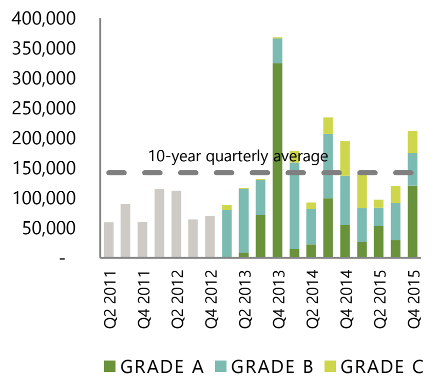
MARKET UPDATE **H2 2015**

Occupier market

- Increased occupier demand translated to a rise in letting activity, with H2 take-up reaching 331,259 sq ft. While this failed to exceed H2 2014's 413,959 sq ft of take-up, it did represent a 40% increase from H1 2015.
- Overall, city centre take-up in 2015 totalled 568,493 sq ft, down 13% on 2014 and 19% on 2013. Despite this, 2015 was up 9% above the 5-year annual average, providing evidence of the market's resilience following a stellar 2013 which saw take-up reach 704,235 sq ft.
- Occupier demand in H2 largely derived from firms within the Professional Services sector and the Finance / Banking sector. Together, these sectors accounted for 70% of total take-up.
- 2015 welcomed three new Grade A office schemes to the market which proved to be popular with occupiers in H2. A total of 120,783 sq ft of Grade A office space was committed in H2, accounting for 45% of total H2 take-up. Grade B and Grade C transactions represented 35% and 20% respectively.
- The largest deal of the year completed in H2 and involved the letting of 39,705 sq ft at the recently built St Vincent Plaza by KPMG. Knight Frank represented the occupier.
- Appetite for office space in the Glasgow continues to increase unabated, with the level of active requirements rising by 40% in the year to Q4 2015.
- While there are no new office schemes under construction to support the rise in requirements, the market could expect announcements for further speculative office developments in 2016, with Atlantic Quay, Bothwell Exchange and Broadway Two likely to expand.
- However, it is unlikely the office market will see new additions before 2018, and this has prompted existing landlords to make considerations for full-scale refurbishment projects in order to fill the lack of new office stock. Refurbishment plans are already underway at 100 Queen Street, 100 West George Street and 9 George Square.
- In the meantime, prime office headline rents are anticipated to rise to £30 per sq ft by the end of 2016.

FIGURE 1

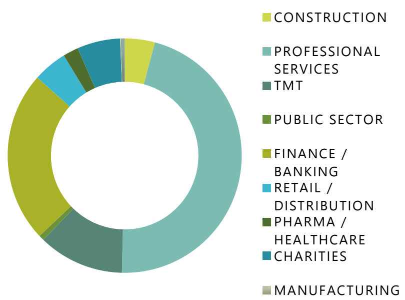
City centre take-up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2

H2 2015 take-up by sector



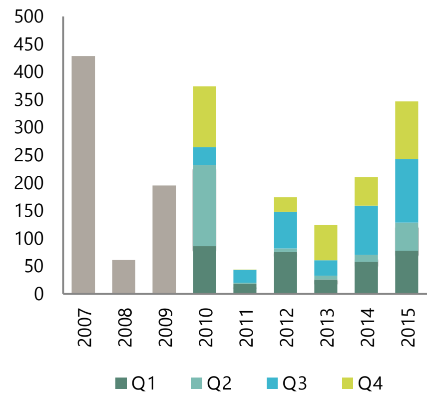
Source: Knight Frank LLP

Agent's view

Throughout 2015, the upper end of the market (Grade A) has been very active due to a number of large scale lease events occurring between 2015 and 2018. The new builds of 1 West Regent Street, 110 Queen Street and St Vincent Plaza generated a lot of interest from the larger occupiers. We anticipate that as we move through 2016, there will only be pockets of space remaining within those buildings. The limited development pipeline within the city and the increasing prospects of no new office scheme before 2018 is expected to lead to increases in, headline rents for prime offices.

St Vincent Plaza, a 172,280 sq ft office scheme completed in Q4 2015.

FIGURE 3
Glasgow offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

Investment market

- Following a strong H1, total office investment volumes in H2 reached £218.78m. This is up by 71% on H1 and more importantly represents the highest half-year turnover in over 5 years.
- This took total investment for 2015 to £346.8m, and marks the third consecutive yearly rise and the highest annual investment seen in Glasgow since 2010 (Figure 3).
- Furthermore, with the exception of Birmingham and Manchester, no other regional city reported greater office investment in 2015 than Glasgow.
- H2 volumes were boosted by the deal which saw Moorfield Real Estate Fund III acquire Atlantic Quay for £60.7m at a net initial yield (NIY) of 8.5%. This scheme consists of 3 multi-let offices located in the city's financial district.
- Other notable deals included the purchase of 19 Cadogan Street by Amundi Real Estate for £33.4m, reflecting a NIY of 5.25%.
- As of Q4, prime office yields hardened by a further 25 bps from Q3 to 5.25%., taking total compression for 2015 to 50bps. This puts Glasgow in line with Leeds, Edinburgh and Bristol in terms of yield level and closer to the 5.00% yields currently seen in Manchester and Birmingham.
- However, the market remains 75bps away from the previous low of 4.50%, suggesting that there is scope for further yield compression.
- With the Scottish general election scheduled to take place in May 2016, cities across Scotland could be faced with added uncertainty. However, with the latest polls suggesting the Scottish National Party (SNP) will retain its position as the leading party, the investment market could continue to offer stable growth.
- On the other hand, the EU referendum scheduled to take place in June 2016 could bring instability across all UK regional cities. Glasgow, like Edinburgh and Aberdeen may be further impacted if it is found that there is a divergence in opinions between Scotland and the rest of the UK.

In December 2015, M&G Real Estate sold Meridian Court to a private investor for £23.85m

TABLE 1
Selected investment transactions/under offer in H2 2015

Date	Address	Purchaser / Vendor	Price	NIY(%)
Dec 15	Meridian Court, Cadogan Street, 5	Private Overseas/ M&G Real Estate	£23.85m	6.01
Oct 15	Cadogan Street, 19	Amundi Real Estate / Union Investment RE	£33.4m	5.25
Oct 15	West Campbell Street, 50	Northwood Investors / State Street Capital	£12.8m	9.36
Sep 15	Atlantic Quay	Moorfield REF III LP / M&G Real Estate	£60.7m	8.54
Aug 15	West George Street, 180	Picton Property Income / Henderson UK Prop OEIC	£14.25 m	7.79

Source: Knight Frank LLP

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