
Aberdeen

UK Cities 2024 Insights

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Occupier

Take-up

Deal numbers improve in the second half of 2023.

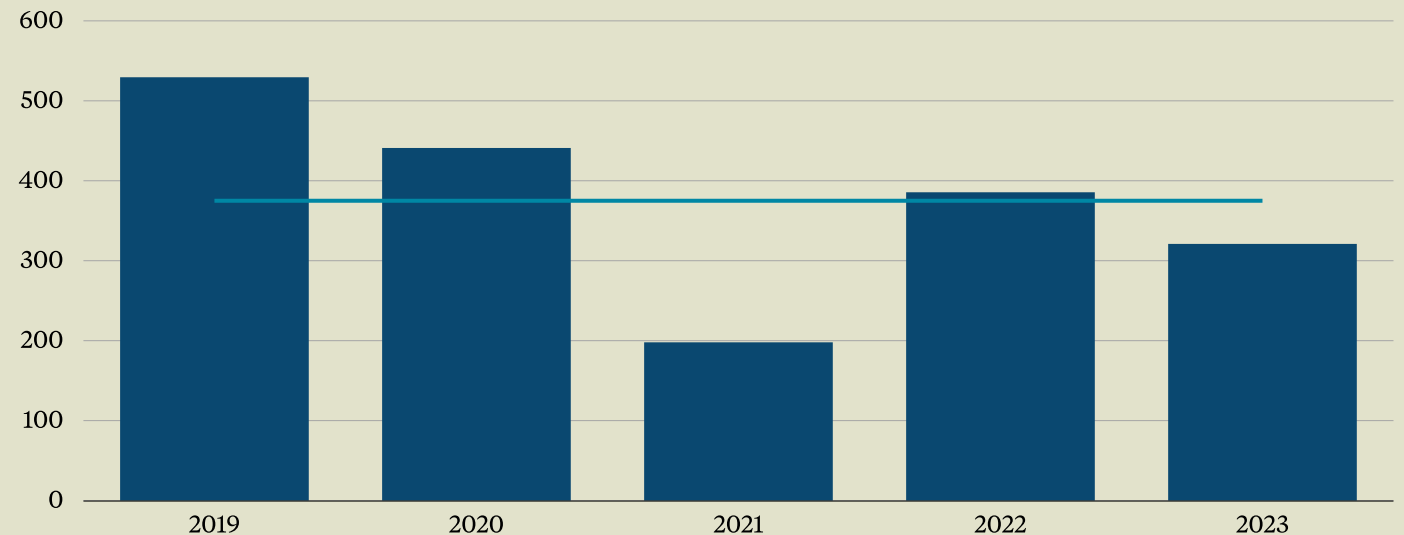
Key Takeaway

- Total office take-up in 2023 was 321,013 sq, 17% less than recorded in 2022 and 14% below the 5-year annual average. However, the second half of the year indicated activity levels were improving, with take-up almost double that of the H1 2023 period.
- Notably, deal numbers during 2023 were elevated. During the year, 74 occupier deals were completed. This total is marginally lower than the 77 of 2022 but is well above the 5-year annual average of 67.
- New and grade A space accounted for half of the total take-up in 2023.

Aberdeen Annual Take-up

sq ft, 000s

■ Take-up — 5-Yr Annual Average



Source: Knight Frank Research, Macrobond

Take-up by Sector

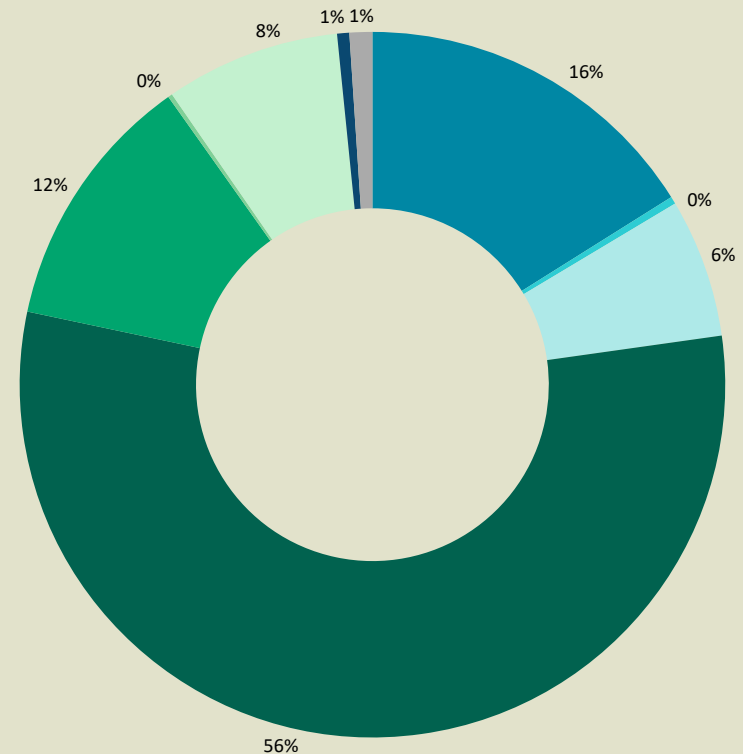
Energy firms underpin office demand.

Key Takeaway

- The most active occupier sector in 2023 was again the Energy and Utilities sector. Firms derived from this grouping accounted for 56% of take-up and 30 of 74 occupier deals completed.
- The largest transaction involved Harbour Energy taking 35,000 sq ft of grade A office space at Aberdeen’s Prime Four Business Park in Kingswells. The energy company will occupy the entirety of Unit 9, a BREAAAM ‘Very Good’ rated two-storey office building.

Take-up by Sector 2023

%



Source: Knight Frank Research

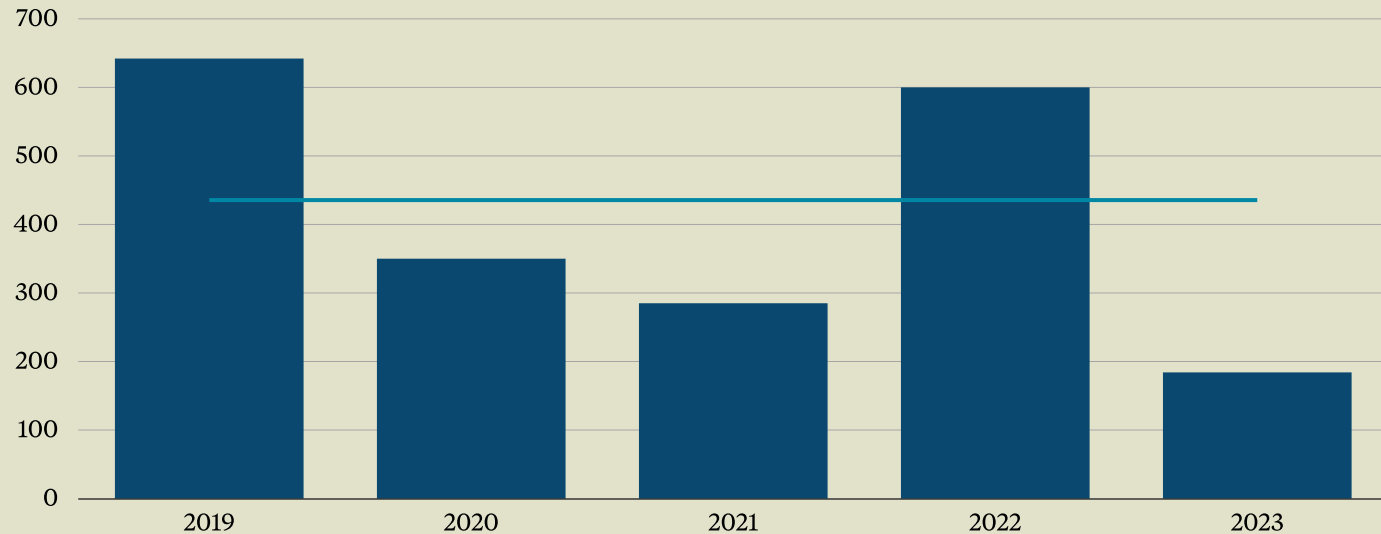
Availability

Grade A availability is the lowest for nine years.

Aberdeen Grade A Supply

sq ft, 000s

■ Grade A Availability — 5-Yr Average



Source: Knight Frank Research, Macrobond

Key Takeaway

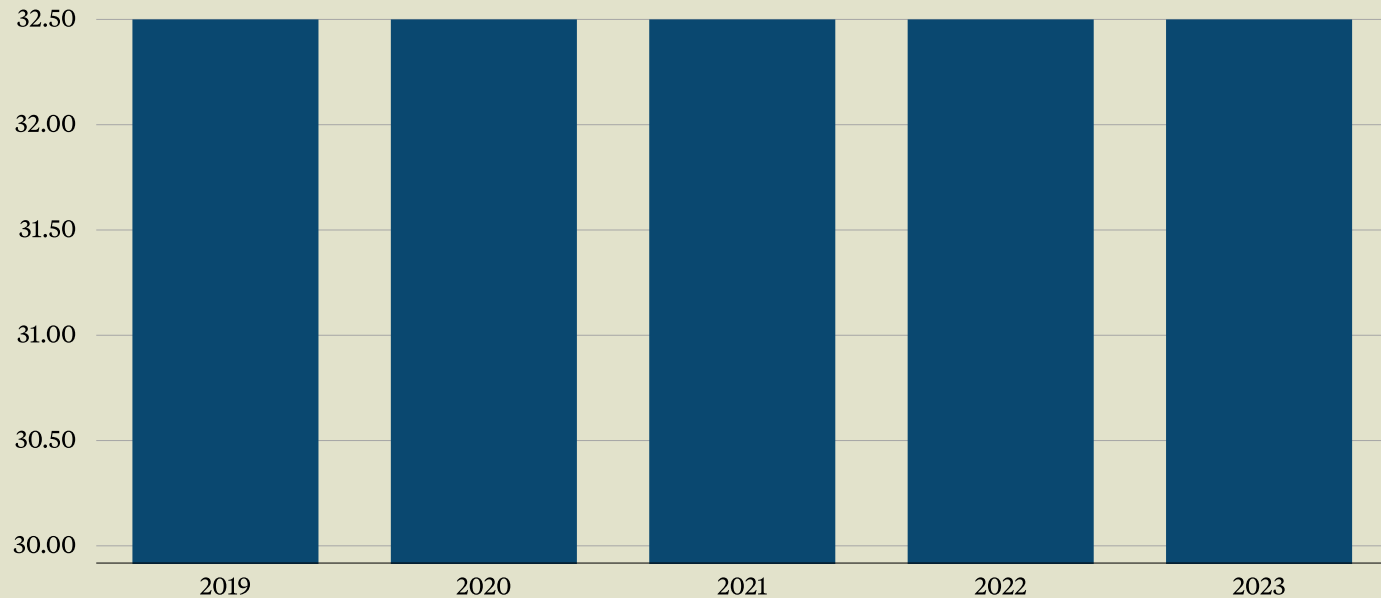
- Grade A availability fell to 184,098 sq ft at 2023 year-end, 69% below the level of the previous year and 59% below the 10-year average. Notably, this is the lowest year-end total since 2014.
- At the time of writing, there are no significant office development projects underway.

Prime Rent

Prime rents hold firm.

Aberdeen Annual Prime Rent

£ per sq ft



Source: Knight Frank, Macrobond

Key Takeaway

- Prime rents remained unchanged at £32.50 per sq ft.
- At this level, Aberdeen is one of two major regional cities to not see rental increase since the lifting of Covid restrictions.
- Moving forward, with the level of available supply tightening and development activity constrained, prime rents are forecast to rise to £34.00 per sq ft by the end of 2024.



Market Sentiment

- Aberdeen's office market has been boosted by a consistent oil price above \$75 per barrel the past two years. This has resulted in an increase in activity from energy firms and service providers.
- Grade A availability has now dropped to a record low of just below 2%, the lowest on record in Aberdeen.



Future Demand

- Aberdeen's primary sector remains to be Oil and Gas, although we are observing many 'traditional' oil and gas firms transition and operate in renewable energy sectors.
- Aberdeen's development pipeline is currently non-existent. Any new development will have to be pre-let at record-breaking headline rents to justify building in the current economic climate.



Trending

- There is a longer time-lag between occupiers being out in the market inspecting options ahead of completing deals.
- We are seeing energy firms relocate to best in class space to suits today's business needs and attract employees back into the office.



Rents, Incentives etc

- The pursuit of 'best in class' means record rents are being recorded in many of the leading UK markets.
- Incentives have also remained stable with between 9-12 months on 5-year terms certain and 18-24 months on a 10-year terms certain.

Investment

Investment Market

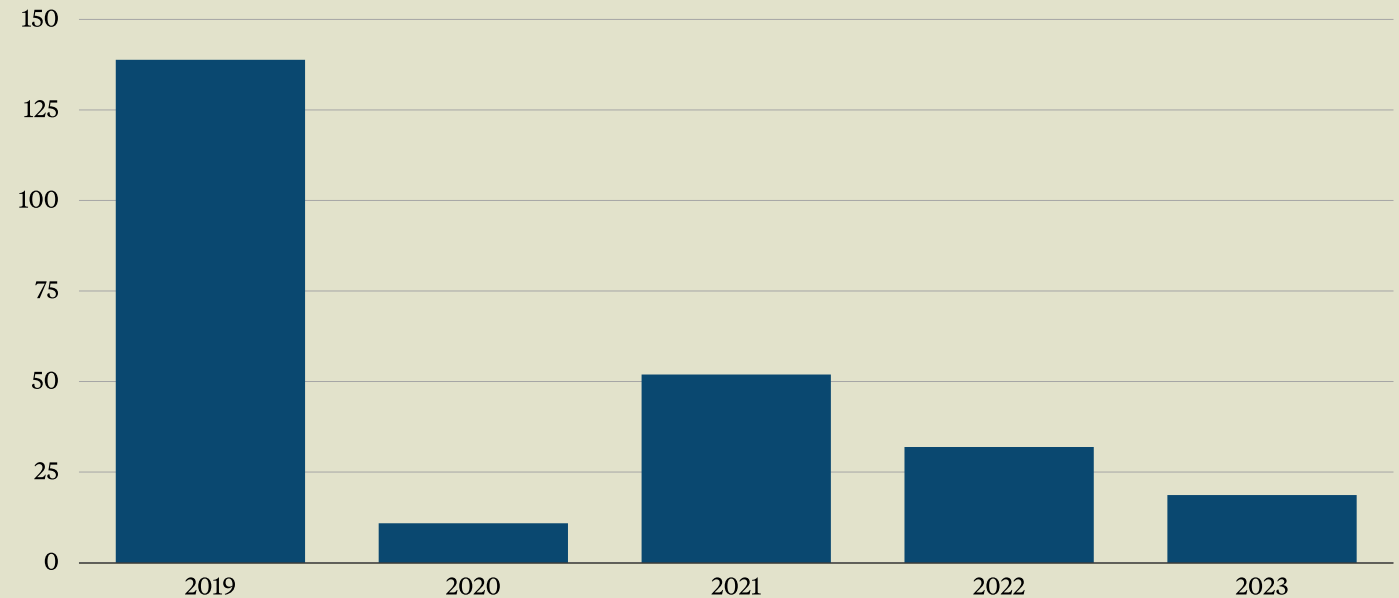
Investment market subdued in 2023.

Key Takeaway

- Consistent with the wider market, Aberdeen experienced a fall in investment activity in 2023, with £18.6m, 62% below the 5-year annual average.
- During 2023, six deals were completed. Property companies accounted for most of the activity, representing 98% of investment for the year.

Aberdeen Annual Investment

£m



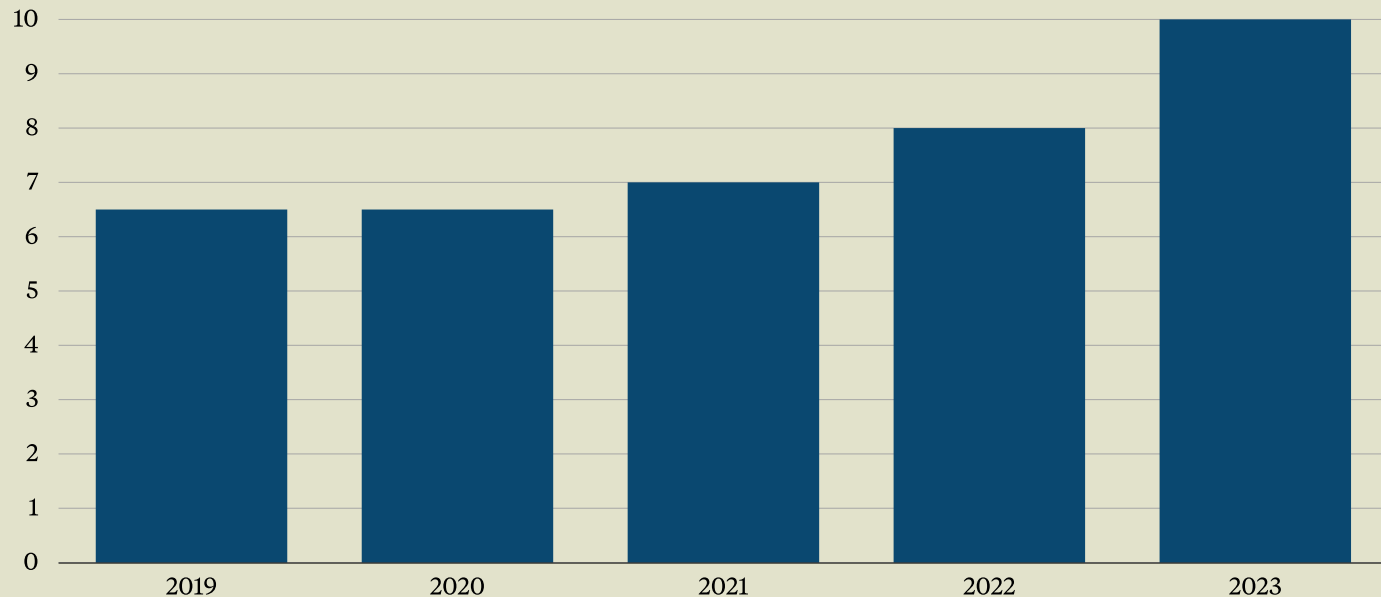
Source: Knight Frank Research, Macrobond

Investment Pricing and Outlook

Yields shift outward.

Aberdeen Prime Yields

%



Source: Knight Frank Research, Macrobond

Key Takeaways

- At the close of 2023, prime office yields in Aberdeen stood at 10.00% reflecting a 200bps outward shift since December 2022.
- Reflecting the market volatility, prime yields are 350bps above the level recorded ahead of the Covid pandemic.
- However, with the cost of debt becoming more favourable, forecasts indicate that prime office yields are unlikely to soften further in 2024.

Investment View



Market Sentiment

- Many investors remain “off” offices.
- The outlook feels positive given the last interest rate decision and current downward direction of inflation.
- Some pricing discovery is being accepted.
- Yields set to stabilise in 2024 after outward progression during 2023.



Who's Buying, Who's Selling

- Core plus investors are looking at core and value add investors are looking at core plus.
- Traditional property companies are active, with overseas buyer interest returning.
- Limited institutional appetite.



Opportunities

- Aberdeen provides a continuing yield differential to rest of UK's regional cities with prime yields in the 10's presenting value to investors.
- Core plus with strong credentials are an opportunity.
- Development is a challenge given build costs and yield levels.
- Alternative uses considered for obsolete assets.



Pricing

- A perfect storm for development resulting in a limited residual site value.
- Prime office yields have moved out by 200bps on average over the past 12 months.

Questions?

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