
Edinburgh

UK Cities 2024 Insights

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Occupier

Take-up

Deal numbers rise for best quality.

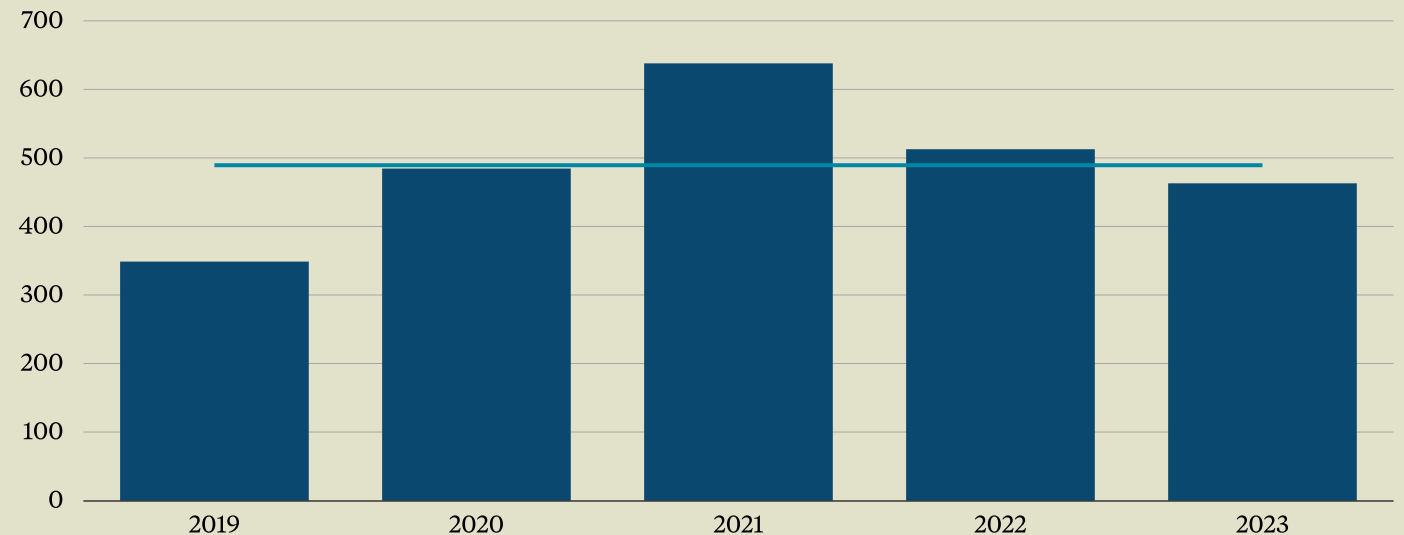
Key Takeaways

- Overall take-up fell 10% during 2023 reaching 463,000 sq ft by year-end. Despite the year-on-year decrease, the 2023 total was just marginally below the 5-year annual average for the city.
- Interestingly, deal numbers were up in 2023 with 138 transactions completed. This compares to 116 in 2022 and is the highest total since 2015.
- Analysis of average deal size reflected the shift in occupier footprint requirements. In 2023, the average deal size was 3,350 sq ft, below the long-term trend of 4,900 sq ft.
- Securing 'Best Quality' was evident, with grade A accounting for 60% of take-up.

Edinburgh Take-up

sq ft, 000s

■ Take-up — 5-Yr Annual Average



Source: Knight Frank Research, Macrobond

Take-up by Sector

Technology firms underpin demand.

Key Takeaways

- Companies derived from the TMT sector accounted for 27% of take-up across 34 deals in 2023.
- The letting of 28,000 sq ft by Analog Devices at 2 Freer Street was the largest occupier transaction of 2023. The building, 2 Freer Street, forms the first phase of the New Fountainbridge mixed-use development on the site of the former McEwan's Fountain Brewery and North British Rubber Company.

Take-up by Sector 2023

%



Source: Knight Frank Research

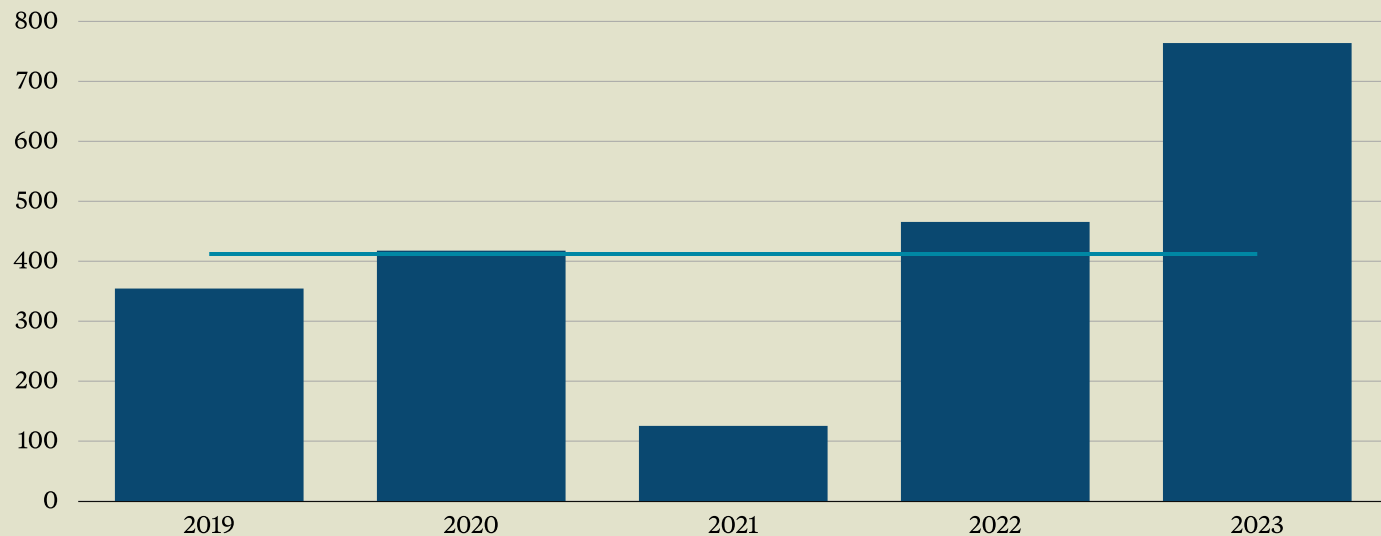
Availability

Vacancy rises, but new space is limited.

Edinburgh Grade A Supply

sq ft, 000s

■ Grade A Availability — 5-Yr Average



Source: Knight Frank Research, Macrobond

Key Takeaways

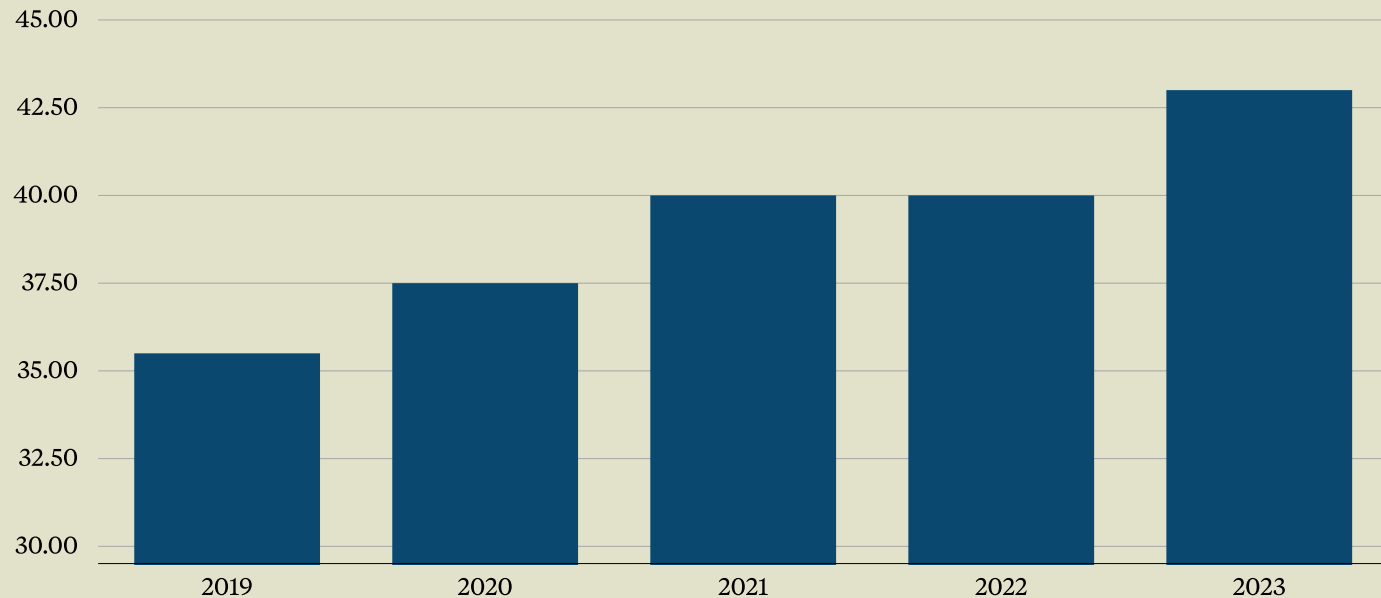
- Year-end availability of grade A space stood at 763,000 sq ft. refurbished space. This total is 64% ahead of the equivalent period in 2022 and the highest level since 2010.
- However, most grade A supplies are second-hand or refurbished space.
- Only 11 grade A offices in the city centre can currently provide space over 10,000 sq ft on a single floor.
- With just two new schemes, totalling 147,000 sq ft due to be completed over the coming 36 months, the supply shortage of new space is set to continue.

Prime Rent

Rental uplift reflects competition for high-quality space.

Edinburgh Prime Rent

£ per sq ft



Source: Knight Frank Research, Macrobond

Key Takeaways

- In 2023, prime rents increased by 8% to £43.00 per sq ft.
- Edinburgh had the highest prime office rent of the major UK Cities at Q4 2023.
- Due to a limited supply of brand-new best-in-class space, and the impending completion of new schemes, prime rents are expected to rise to £46.50 per sq ft by the end of 2024.



Market Sentiment

- Even with the backdrop of macro uncertainty and local 'issues', the UK office market is active albeit market polarisation is widening.
- Longer-term signs of recovery and involvement in requirements of occupiers are being monitored, but currently demand is being driven by actioning lease events.



Future Demand

- Sectors that are currently seeing the most activity are Professional Services, Education, and TMT and it is envisaged that this will continue in 2024.
- Serviced office providers are also active and accounted for 8% of take-up in 2023. This is the highest representation for 5 years.



Trending

- There is a longer time lag between occupiers being out in the market inspecting options ahead of completing deals.
- Pre-letting activity or leasing during construction is having a greater impact on the market. This will support the viability of some development schemes moving forward.



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 a 5-year term certain and 18-24 months on a 10-year term certain.

Investment

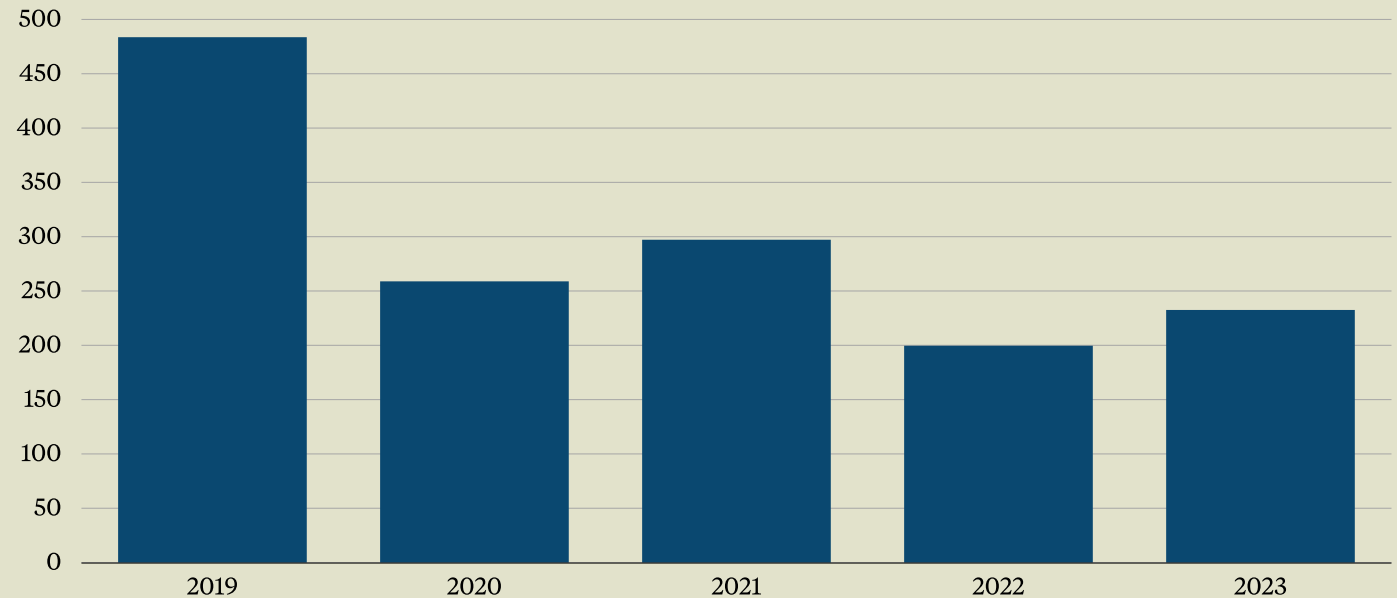
Investment Market

Investment volumes rise in a challenging market.

Key Takeaways

- Investment volumes in Edinburgh finalised at £232.5m in 2023, 23% below the 5-year annual average. However, this is an 11% increase on investment turnover when compared to the previous year.
- The sale of 58 Morrison Street for £70m was the largest deal of 2023, purchased by Federated Hermes. This was one of four transactions over £20m to complete in 2023.
- Property companies accounted for 62% of investment turnover during the year, and 7 out of the 10 deals completed.

Edinburgh Annual Investment
£m



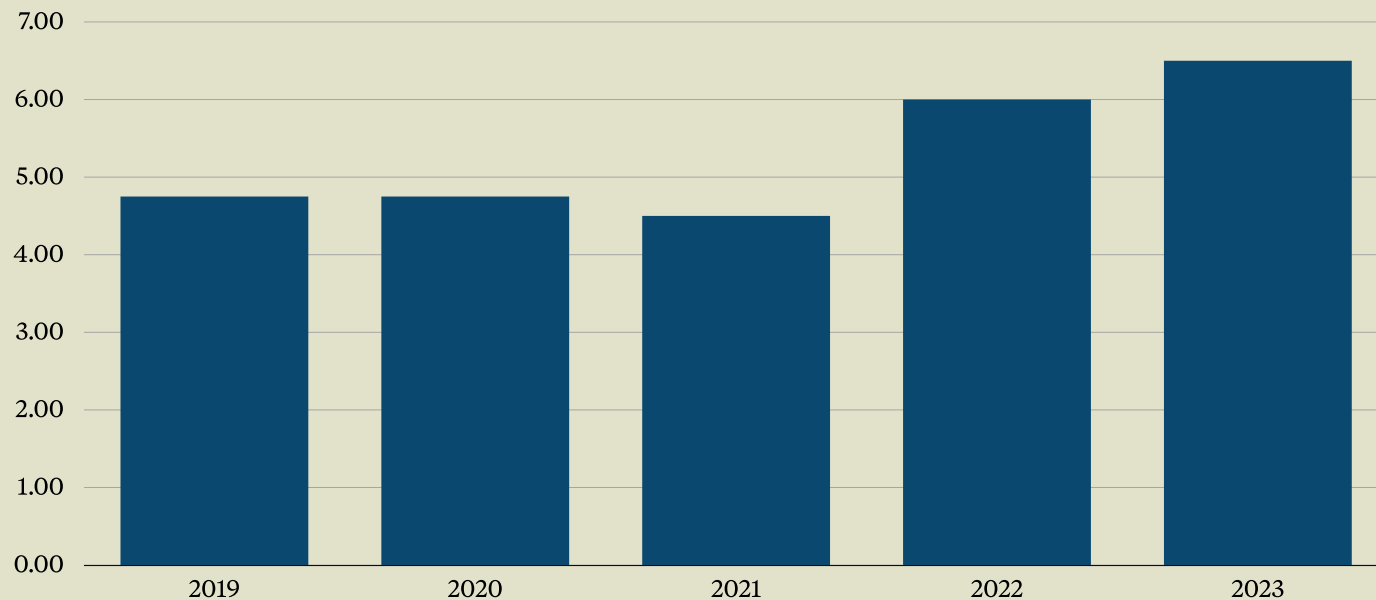
Source: Knight Frank Research, Macrobond

Investment Pricing and Outlook

Yield shift creates opportunity.

Edinburgh Prime Yield

%



Source: Knight Frank Research, Macrobond

Key Takeaways

- Prime office yields stood at 6.50% at the close of 2023, having softened by 50 bps since the end of the previous year.
- At this level, yields are 175 bps above the 4.75% recorded before the Covid pandemic.
- Out-of-town yields typically stand at 8.50%, depending on the age and quality of the asset.

Investment View



Market Sentiment

- Rising cost of debt and macroeconomic uncertainty led to a drop in investment volumes in 2023.
- The end of the year displayed the start of a 'settling down' in the debt market and positive sentiment continues to occur as 5-year SWAP rates dropped down to 3.5% from 5.5% in summer 2023.



Who's Buying, Who's Selling

- 2023 witnessed a flurry of activity from private investors in Scotland.
- Private buyers who were not impacted by the rising cost of debt were able to seize advantage of the market and secure prime assets in core locations.



Opportunities

- Assets of uncertainty in the market, predominantly offices, are being sold to alternative-use buyers.
- The hotel and PBSA markets in Edinburgh are struggling to secure sites to meet growing demand, and vacant office buildings in key locations are providing these much-needed development opportunities.



Pricing

- Prime office yields have moved out by 50bps over the past 12 months.
- Increased transactions and liquidity have also helped to benchmark the movement in pricing, assisting to bridge the disconnect between seller's and buyer's aspirations that was seen in 2023.

Questions?

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