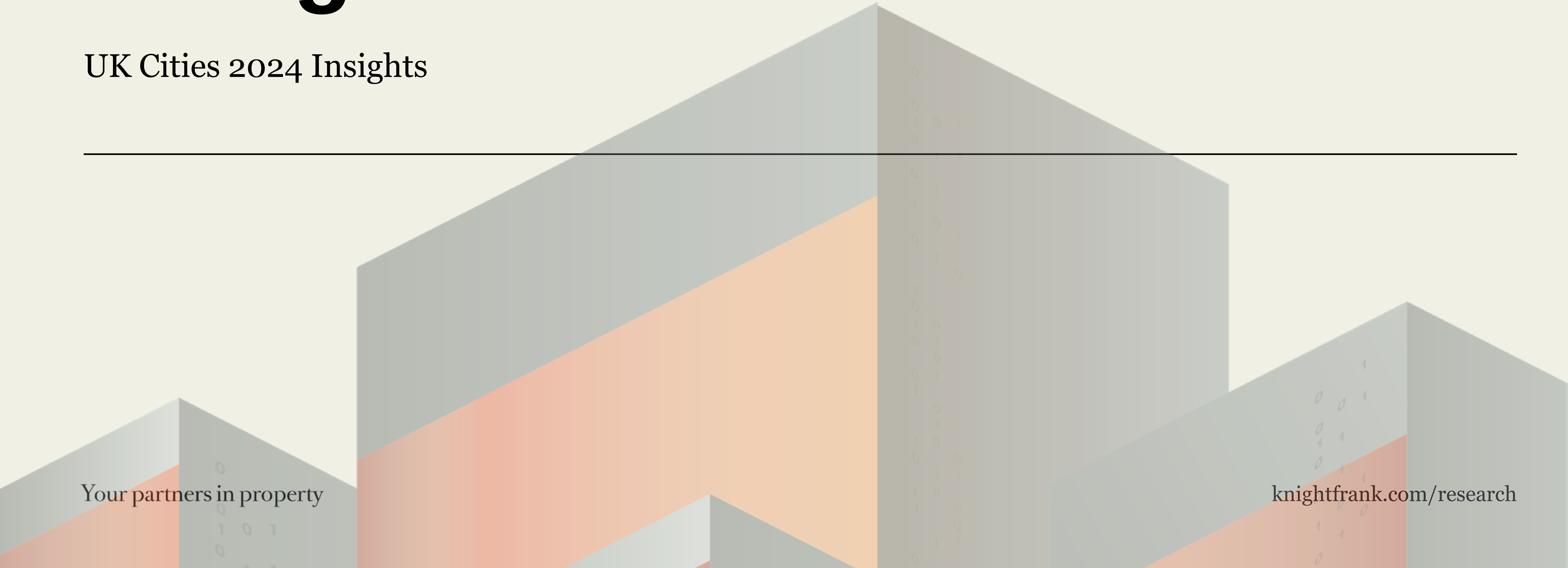
Knight Frank

Glasgow

UK Cities 2024 Insights



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Occupier

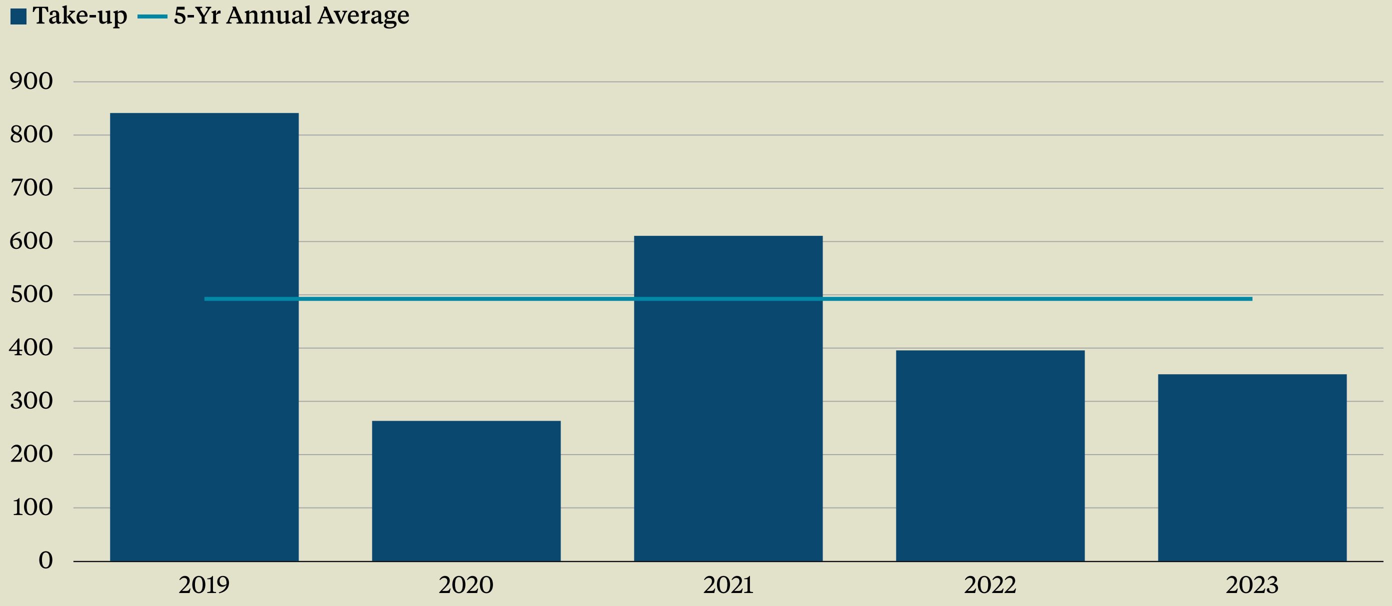
Take-up

Take-up is marginally down in 2023.

Key Takeaways

- Occupier demand fell slightly in 2023 from the previous year, finalising at 350,779 sq ft. This is 41% below the 10-year annual average.
- Despite a challenging H1, take-up was bolstered by a relatively stronger H2, with take-up 15% above the equivalent period of the previous year.
- There were a total of 109 leasing transactions in 2023, 8% above the 5-year annual average for Glasgow.

Glasgow Take-up
sq ft, 000s



Source: Knight Frank Research, Macrobond

Take-up by Sector

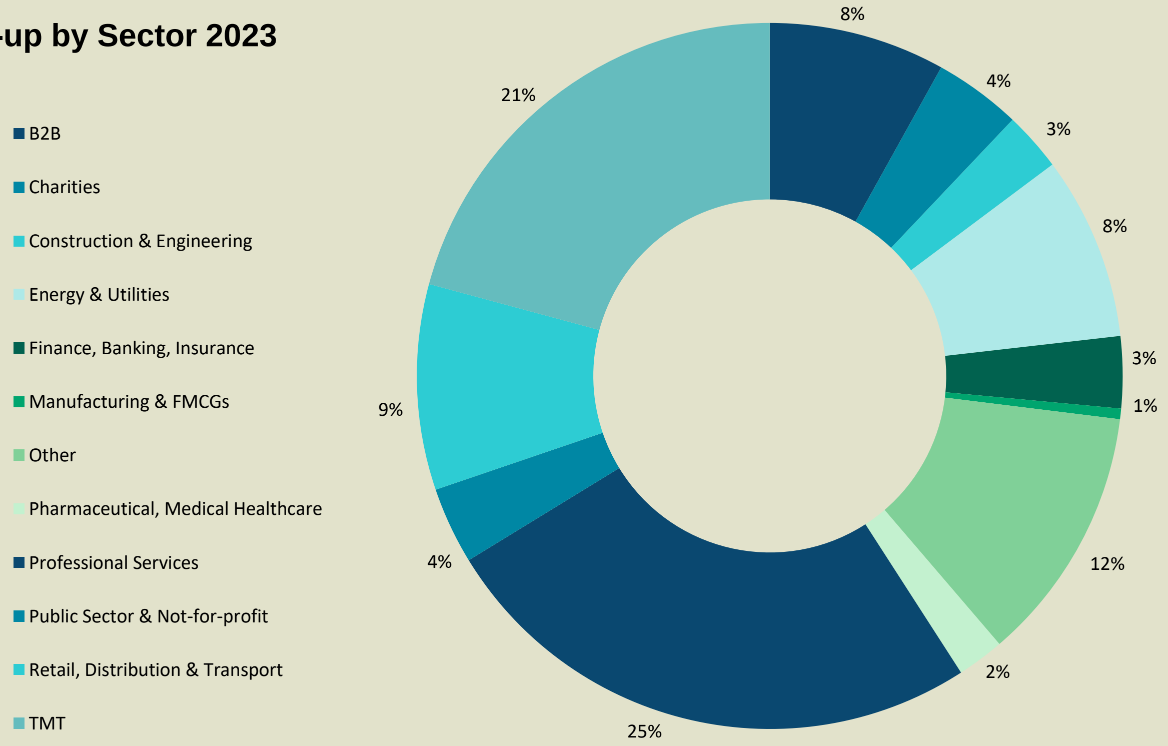
Occupier demand diversifies.

Key Takeaways

- The professional services sector accounted for a quarter of total office take-up in 2023, the largest share of any occupier group.
- The largest transaction within the Professional Services sector involved legal firm Pinsent Masons who took a pre-let of 27,831 sq ft of grade A space across three floors at BREEAM "Excellent" targeting Lucent, 50 Bothwell Street.

Take-up by Sector 2023

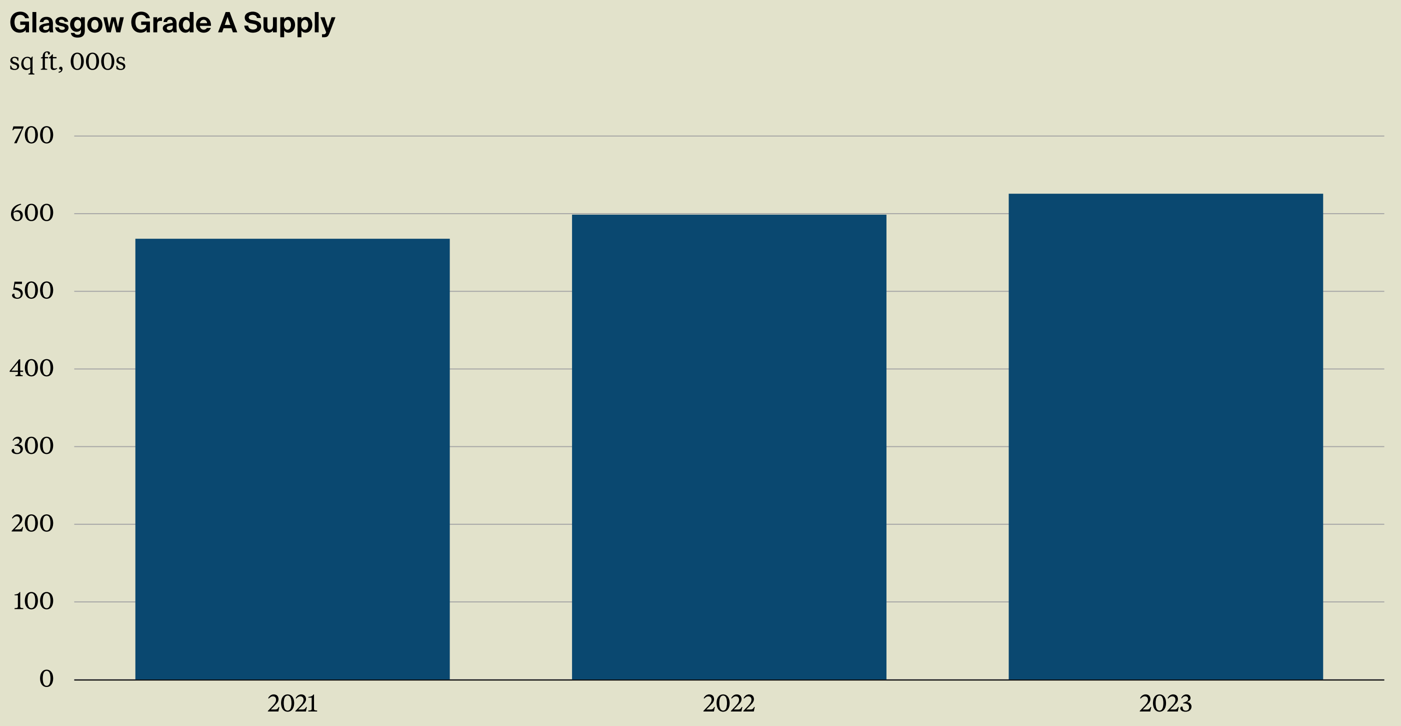
%



Source: Knight Frank Research

Availability

Slight rise in Grade A availability.



Source: Knight Frank Research, Macrobond

Key Takeaways

- The availability of Grade A space rose to 625,689 sq ft at 2024 year-end, having increased by 5% from the previous year.

Development

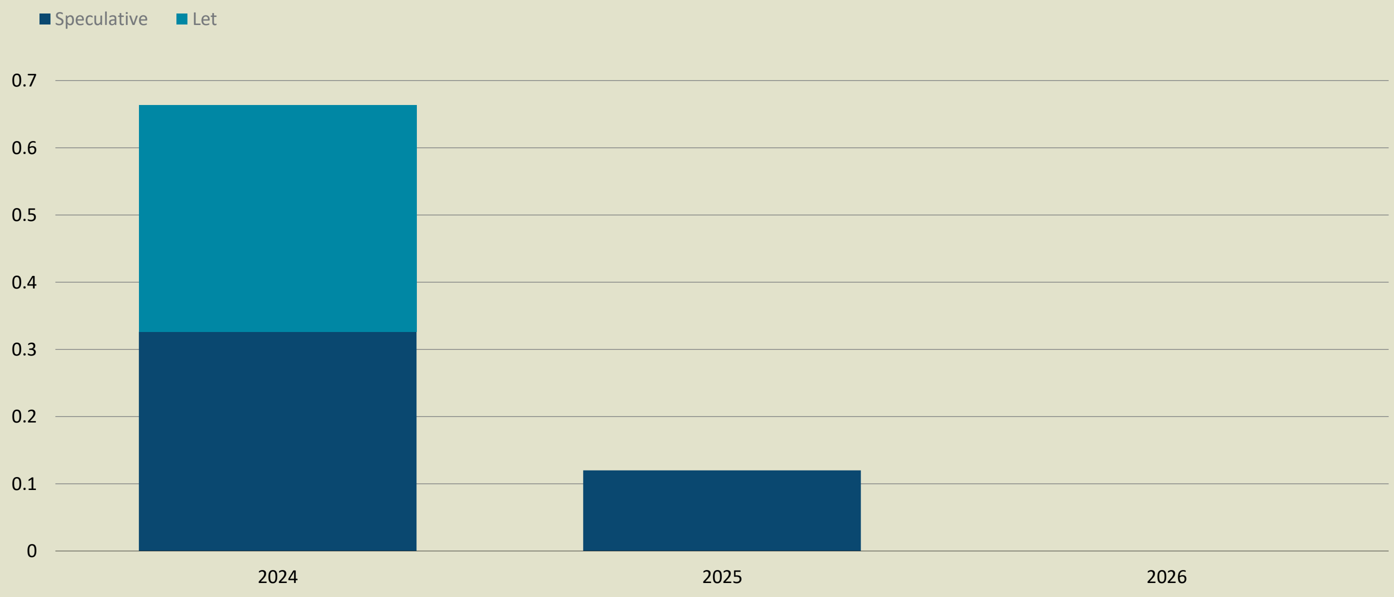
The development pipeline is tight.

Key Takeaways

- At year-end, 664,000 sq ft of office stock was under construction with delivery scheduled for 2024. Of this, 325,951 sq ft is speculative.
- The speculative space due to complete in 2024 is comprised of three buildings, all undergoing comprehensive refurbishments. This highlights developer preference toward less carbon intensive projects and the relatively higher build costs for new buildings.

Development Pipeline (U/C)

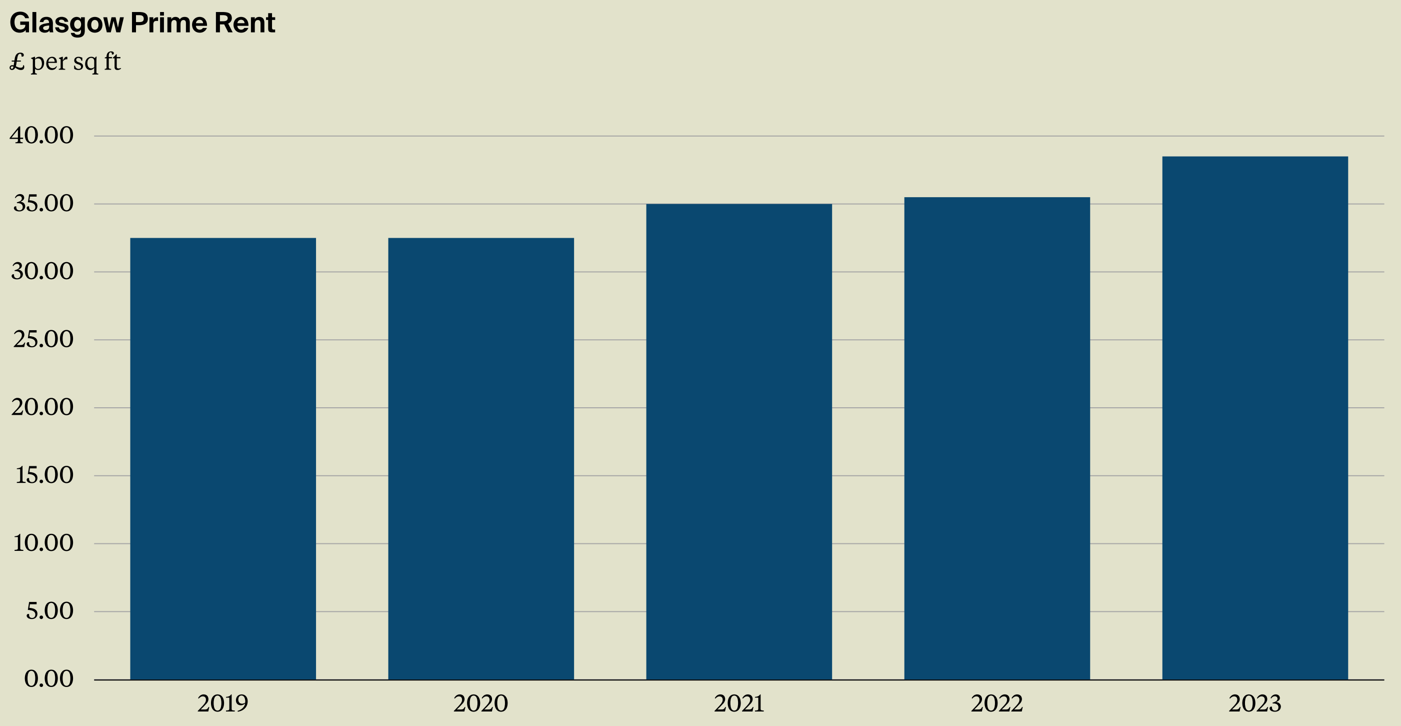
sq ft, millions



Source: Knight Frank Research

Prime Rent

Rents up to record.



Source: Knight Frank Research, Macrobond

Key Takeaways

- Prime headline rents reached £38.50 per sq ft at the end of 2023, an 8% year-on-year increase.
- Notably, Prime rents have increased by 18% since the beginning of the Covid pandemic.
- The completion of best quality space in 2024 is expected to support a further rise in prime rents to £39.50 per sq ft by the end of the year.

Leasing View

Market Sentiment

- Even with the backdrop of Macro uncertainty and local 'issues', the Glasgow office market is active albeit market polarisation is widening.
- Longer-term signs of recovery and evolvement 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 and TMT, and it is expected that this will continue in 2024.
- Serviced office providers are also active in the market looking to supplement the growing demand for turnkey solutions and flexible terms.

Trending

- Deals continue to transact on offices that provide full or partial fit-out, as occupiers seek flexibility and minimise upfront costs.
- Although construction costs are having an impact on future developments, grade A refurbishment schemes continue to attract pre-lets.

Rents, Incentives etc

- The pursuit of 'best in class' space is resulting in sustained pressure on rents as demand continues to outweigh supply.
- Incentives have also remained tenant favourable with between 9-12 months on a 5-year term certain and 18-24 months on a 10-year term certain.

Investment

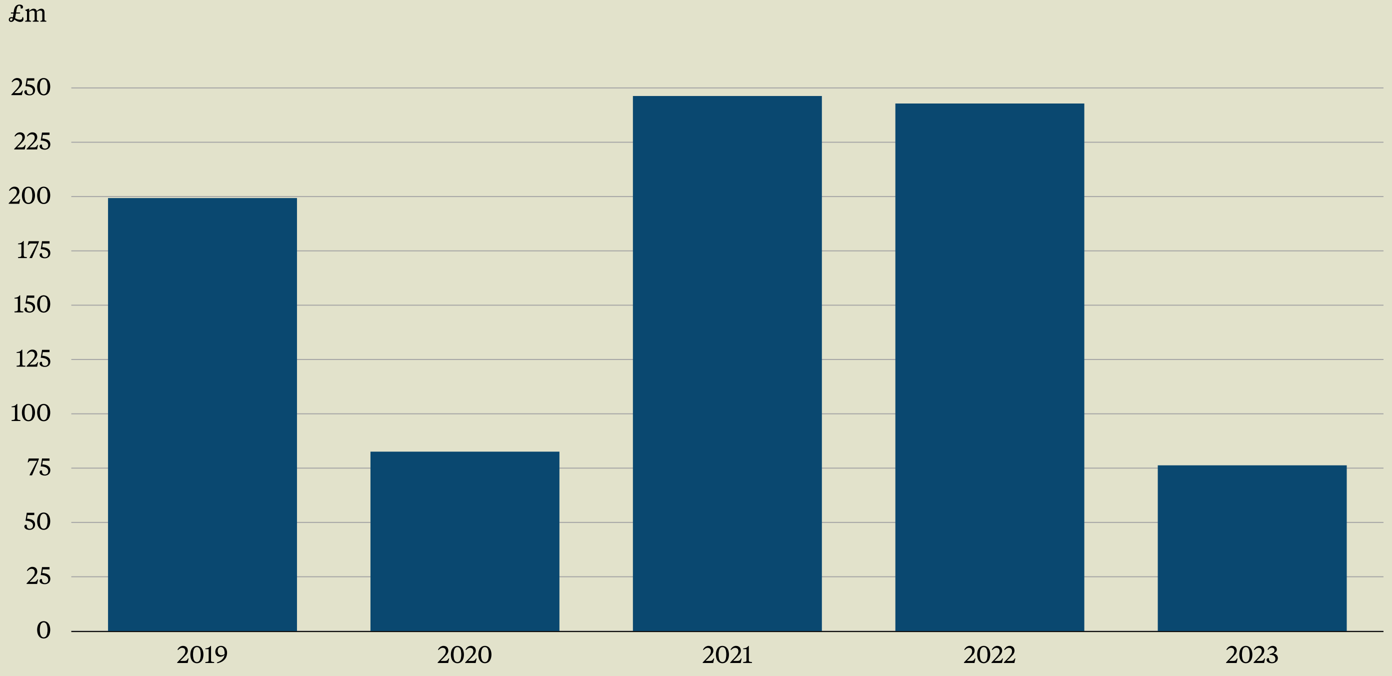
Investment Market

Capital markets turmoil impedes investors.

Key Takeaways

- Investment volumes in Glasgow finished at £76.3m, 68% below the 10-year annual average.
- Investment volumes were supported by the sale of 191 West George street to Corum Asset Management for £36.2m in Q2. This was the only transaction to complete over the value of £10m.
- Overseas investors accounted for the greatest share of investment turnover, at 71%, with capital coming from France and the Netherlands.

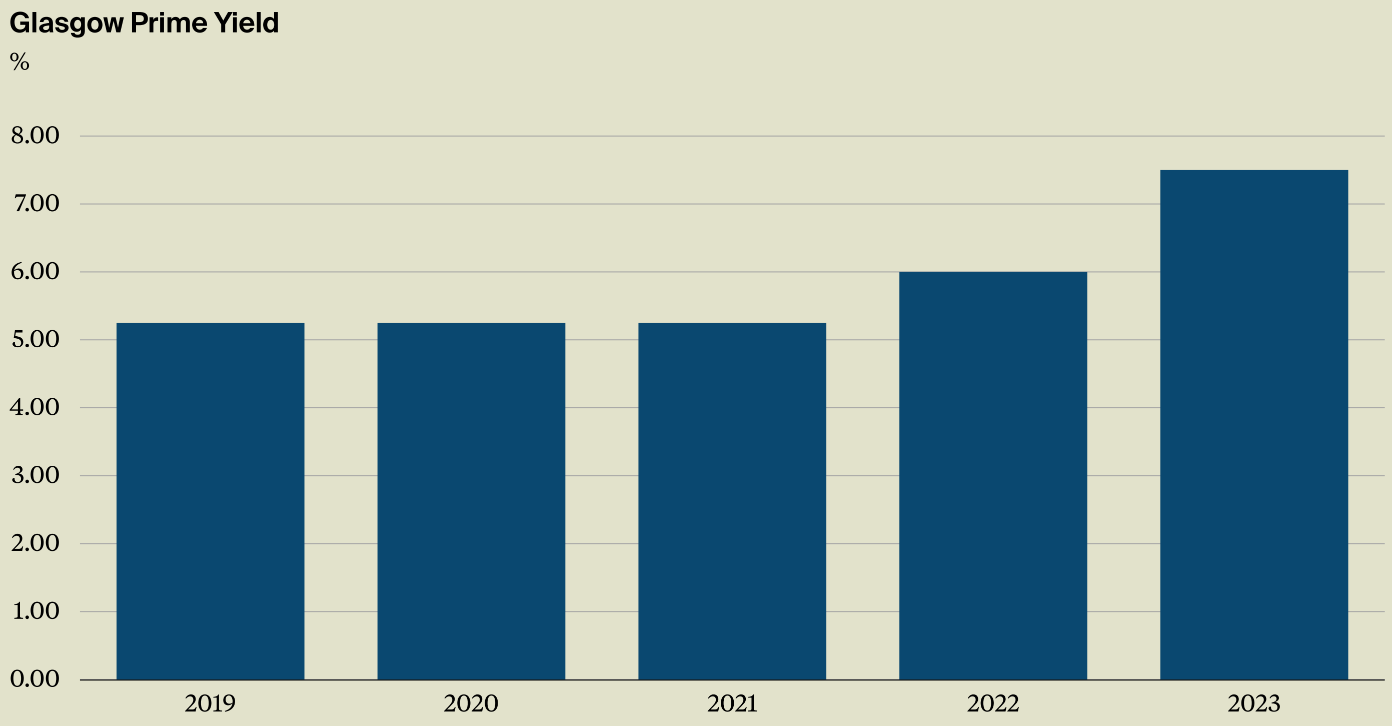
Glasgow Annual Investment



Source: Knight Frank Research, Macrobond

Investment Pricing and Outlook

Yields move out after a rise in debt costs.



Source: Knight Frank Research, Macrobond

Key Takeaways

- Prime office yields moved out by 150 bps during 2023 to finish the year at 7.50%. At this level, prime yields are 225 bps above the pre-Covid market.
- Out-of-town yields typically stand at 8.00%, depending on the age and quality of the asset.

Investment View

Market Sentiment

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

Who’s Buying, Who’s Selling

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

Opportunities

- Investing in the main regional cities at yields in the 6’s and 7’s presents value.
- Core plus with strong credentials is 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 125bps on average over the past 12 months.

Questions?

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