

## Aberdeen Office, H1 2015

# Falling oil prices trickle through to impact demand



Take-up  
-63%



Availability  
+35%

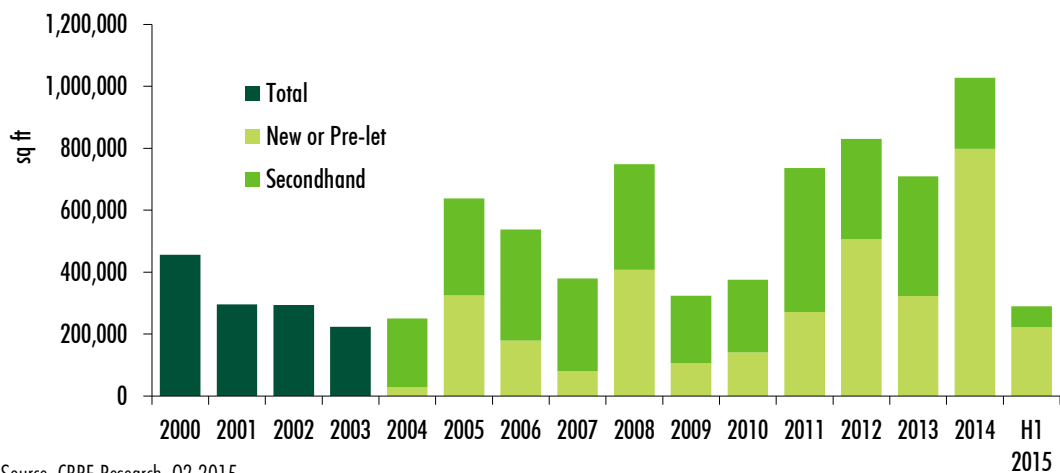


Prime Rent  
£32.00



Prime Yield  
6.00%

Figure 1: Aberdeen Office Take-up



Source: CBRE Research, Q2 2015

"Despite the reduction in oil price, it is positive to note three large headquarter pre-lets completed in Aberdeen in H1 totalling 215,000 sq ft. Nevertheless the majority of new letting activity and requirements have been focused in the sub 10,000 sq ft size bracket."

#### DERREN MCRAE

Managing Director  
Aberdeen

#### DEMAND

Demand for office space in Aberdeen has historically mirrored the price of Brent Crude oil. The city has therefore witnessed exceptionally strong levels of office space demand in recent years given the high oil price. However, since H2 2014 oil prices have been in steady decline, falling from \$109 per barrel at the start of June 2014 to just \$61 per barrel at the start of June 2015. Consequently we are now beginning to witness weaker demand from office occupiers and institutional investors with a reduction in new larger requirements.

Nevertheless there have been three large pre-let transactions in H1, all in out of town locations: Anderson Anderson & Brown and LR Senenergy committed to 45,000 sq ft and 100,000 sq ft respectively at Prime Four Business Park and KCA Deutag acquired 70,000 sq ft at City South.

The weakening in enquiry levels has not yet fed through into take-up figures. In H1 2015 take-up totalled 289,994 sq ft. This was slightly higher than the same period a year ago, however significantly down from the 800,000 sq ft total in H2 2014.

Given the current climate, the majority of transactions have been in the sub 10,000 sq ft size band which accounted for ten out of the eleven deals recorded in Q2 2015.

In terms of future requirements, although occupier demand has been impacted, a number of large takeovers/mergers are being completed plus a number of companies are on the acquisition trail for new assets which will result in an increase in market activity. Additionally a number of the professional firms with lease events coming up are looking to upgrade from older office stock to new Grade A space.

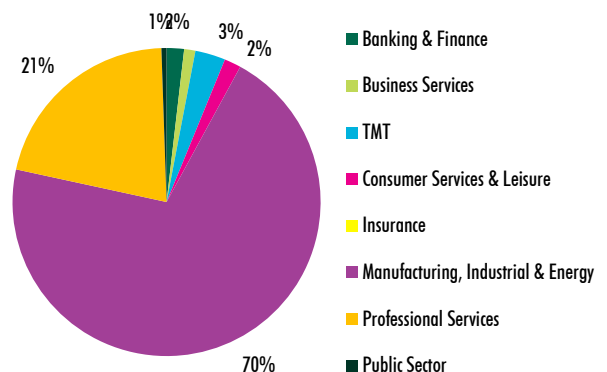
#### SUPPLY

Availability is currently very high, standing at 1.2msq ft at the end of H1. The majority (69%) of this is Grade B and C stock. There is now 390,627 sq ft of office space which is either newly completed or under construction. The largest office available is Building Three, Aberdeen International Business Park (77,059 sq ft). Developers of some sites with office consent are now looking at alternative uses such as hotel or student accommodation. Occupiers are also releasing surplus space to the market on short to medium term basis.

#### RENTS

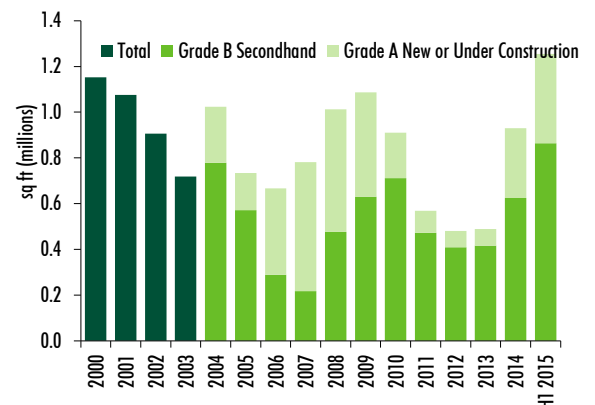
Prime rents have remained stable at £32.00 per sq ft. Despite the current energy sector climate headline rents may potentially increase with the pending completion of city centre speculative developments. However, we envisage incentive packages will increase due to increase supply levels. Secondary rents are likely to be put under more pressure as landlords compete over fewer requirements.

Figure 2: Aberdeen Office Take-up by Sector, H1 2015



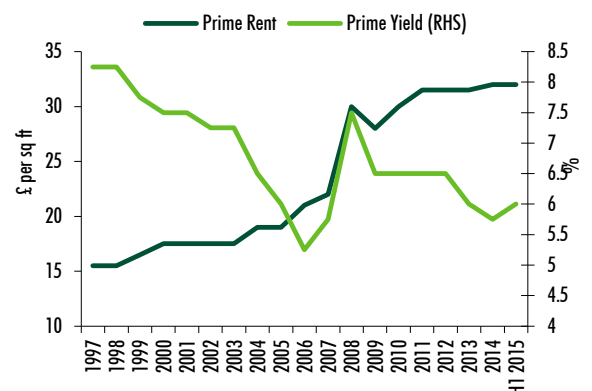
Source: CBRE Research, Q2 2015

Figure 3: Aberdeen Office Availability\*



Source: CBRE Research, Q2 2015

Figure 4: Aberdeen Prime Office Rents and Yields



Source: CBRE Research, Q2 2015

## INVESTMENT

In contrast to the second half of 2014, investment volumes in H1 2015 have been low, with a total of just £23.5m of stock transacting. This compares to £408 million in H2 2014.

In H1 there was only one forward commitment transaction – a new 70,000 sq ft pre-let office which will be completed in Q2 next year. The deal price was £23.5 million and reflected a yield of 6.03%. The building was purchased by a private family trust.

A stronger second half year is expected, however, with the prospect of two deals which are currently under offer and due to complete in H2.

Activity and interest is quieter on the whole in 2015 than 2014. Investor sentiment has weakened on the back of the downturn in the oil and gas industry. Institutional demand in particular has faded as oil prices have fallen. However, pricing has held up well even though there are less buyers looking at the market. Assuming deals under offer conclude, pricing will have moved out by circa 25 basis points against 2014 pricing. Some assets are being withheld from the market until sentiment improves.

As pricing has softened and less institutional buyers have shown interest in the market, alternative private investors and family offices have taken the opportunity to capitalise on this.

The secondary market is currently stagnant as the current occupational market has not filtered through to price expectations. This will remain the same until either; green shoots start to appear in the oil and gas occupational market or price expectations lower in line with the occupational market.

The Aberdeen market still produces good long term income product to strong covenants at attractive pricing in comparison to other parts of the UK.

Ultimately the outlook will depend upon how long the price remains close to the \$50-60 per barrel level. In the short term some exploration activities may be curtailed, but Aberdeen remains an important global centre of excellence for the oil and energy sector, with work extending well beyond the confines of the UK Continental Shelf.

Table 1: Aberdeen Office Market Summary

	H2 2014	H1 2015
Take-up	793,489 sq ft	285,621 sq ft
Long-term half yearly average take-up	277,008 sq ft	315,908 sq ft
Availability	930,318 sq ft	1,254,239 sq ft
Prime Rent (per sq ft)	£32.00	£32.00
Investment Transactions	£408m	£23.5m
Prime Yield	5.75%	6.00%

Source: CBRE Research, Q2 2015

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\* In preparing this report we have undertaken a review of availability across Aberdeen and in particular changes during the latter part of Q4 2014. This process has identified additional space that was effectively available at the end of 2014 which could have been accounted for in H2 of that year. We have therefore adjusted our 2014 historic figures to reflect this additional information and ensure that there is a consistent relationship between H2 2014 and H1 2015 data.