

Edinburgh Office, H1 2015

Good fundamentals in Edinburgh but no 'lift off'

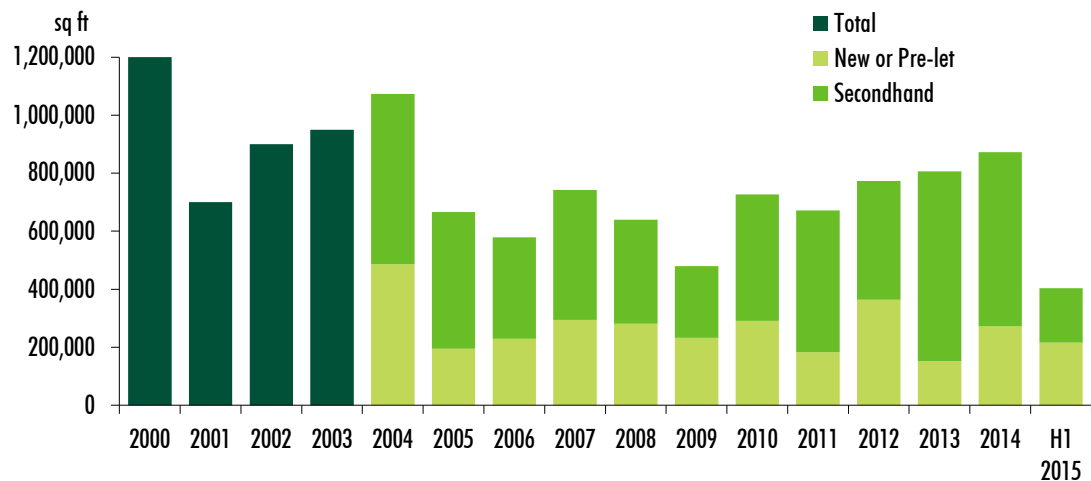
Take-up
-2%

Availability
-5%

Prime Rent
£30.00

Prime Yield
5.5%

Edinburgh Office Take-up



Source: CBRE

"In Spring 2014, Moorfield made what was then seen as the brave call, to speculatively develop Quatermile 4. The reward has come this year – the largest true pre-letting of a speculative office in over a decade. Supply in the City is at a critical level and occupiers know their only choice is to move quickly and aggressively. FanDuel did that and the deal concluded 6 weeks after agreeing terms".

STEWART TAYLOR

Senior Director
National Office Agency

DEMAND

There is healthy occupier demand for office space in Edinburgh on paper with a number of new requirements being circulated. However, this has yet to translate into a significant 'lift off' in transaction volumes. A total of 403,984 sq ft was taken up in the first half of 2015, marginally higher than the five year H1 average and virtually level with the previous three half years. These levels may be partly attributable to the lack of available stock and high rents required for the new buildings. We are also seeing more re-gears than usual which could be as a result of the same drivers.

Known demand in the market for varying volumes of space includes KPMG, Amazon, Nucleus Financial, Edinburgh University, Brodies and CMS.

Some of this demand may convert into re-gears as opposed to office moves as many potential movers are in acceptable existing accommodation and their requirements are driven by a break or expiry opportunity rather than expansion. EY identified The Haymarket as the preferred option for their 35,000 sq ft requirement, but are yet to enter into legal proceedings. The financial sector remains healthy in various guises and the tech sector continues to be a source of requirements of various sizes. However, the depth of demand remains fragile.

SUPPLY

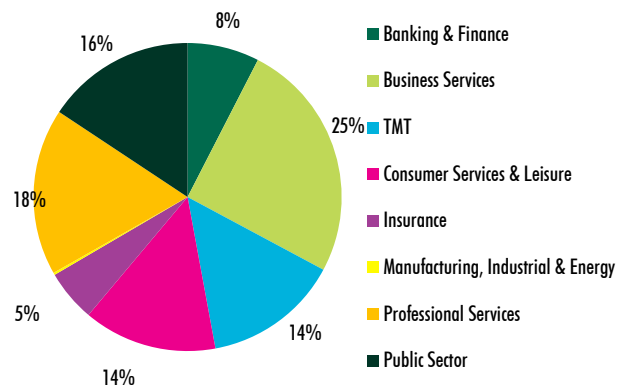
Total office availability at the end of H1 2015 was 1,950,046 sq ft, almost unchanged from the level recorded at the end of 2014. The current level is 25% below the five year average. Of the total available space for occupation just 418,238 sq ft is newly completed which equates to less than half the ten year average level.

With the current supply shortage and increasing weight of occupier demand, confidence amongst developers is growing. Two new schemes are due to start on site in the H2 2015: The Haymarket (91,000 sq ft) and The Registers (61,000 sq ft) in St Andrew Square following Quatermle 4. It is unlikely anything else will move off the blocks until one of these pre-lets However Moorfield at Quatermle are sufficiently confident that they are considering moving Quatermle 3 (76,000 sq ft) forward this year.

RENTS

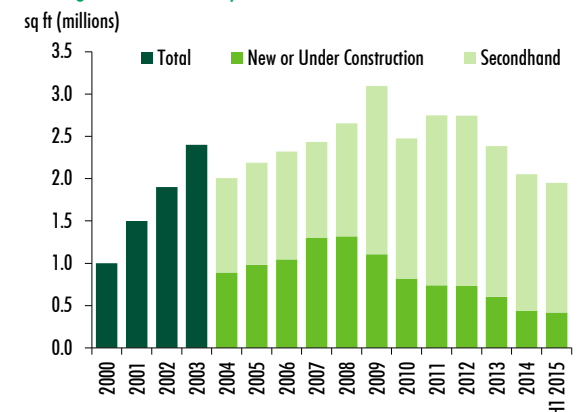
Prime rents in Edinburgh increased to £30.00 per sq ft in H1 2015. There is an upward pressure on rents and the next pre-let is likely to set a new benchmark in the market. Any occupier wishing to pre-let the best space in the city is likely to have to pay over £32 per sq ft. Rental levels are expected to keep rising over the next 24 months at least, across all levels, including Grade B space. Incentive packages for the best space are now dipping below 12 months per five year term certain for the first time in this cycle.

Edinburgh Office Take-up by Sector, H1 2015



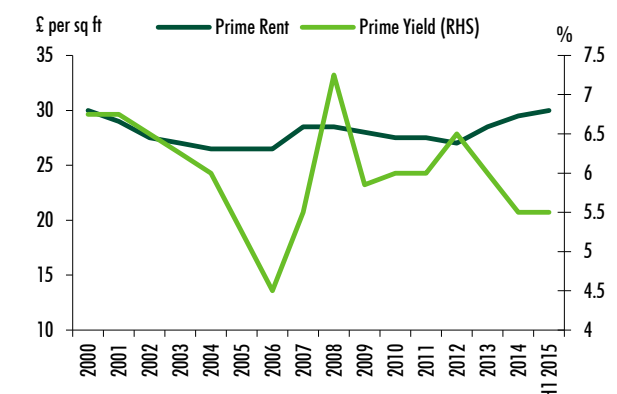
Source: CBRE

Edinburgh Office Availability



Source: CBRE

Edinburgh Prime Office Rents and Yields



Source: CBRE

INVESTMENT

There has been a healthy level of investment activity so far in 2015. In the first six months, £138 million was transacted across eight deals. This included the sale of Tanfield for £56 million, Quay 2, Fountainbridge for £24.5 million and The Gemini Building, St Andrew Square for £19.6 million. Demand has mainly come from institutional investors including Rockspring, Knight Frank Investors and Kames Capital.

Prime yields for offices in Edinburgh have moved in from 5.75% at the end of 2014 to 5.50% at the mid-point of 2015. This level means that Edinburgh, as with the other major Scottish cities, is trading at a discount, not just to London and the South East, but also to certain other regional centres, notably Birmingham, Bristol and Manchester. This has, in part, been caused by recent political uncertainties linked to last year's Scottish independence referendum and the recent UK general election.

The market has not been tested by a truly prime city centre asset to properly establish prime yields and the level of demand from UK and overseas investors. It is, however, widely accepted that yields have been trending stronger throughout the year, with this direction of travel likely to continue into the second half of 2015.

Looking forward, the outlook for office investment in Edinburgh looks positive. A combination of tight supply of occupational stock, most notably in the Grade A sector, continued healthy demand from occupiers and positive rental growth forecasts have generated strong market fundamentals for the city. As a result we expect to see continued robust levels of demand from UK and overseas investors, particularly for prime, best in class assets. In addition, there remains a focus on value add / core plus opportunities where assets can be refurbished or re-let.

Edinburgh Office Market Summary

	H2 2014	H1 2015
Take-up	412,879 sq ft	403,984 sq ft
Long-term half yearly average take-up	344,691 sq ft	344,585 sq ft
Availability	2,053,523 sq ft	1,950,046 sq ft
Prime Rent (per sq ft)	£29.50	£30.00
Investment Transactions	£125m	£135m
Prime Yield	5.75%	5.50%

Source: CBRE

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