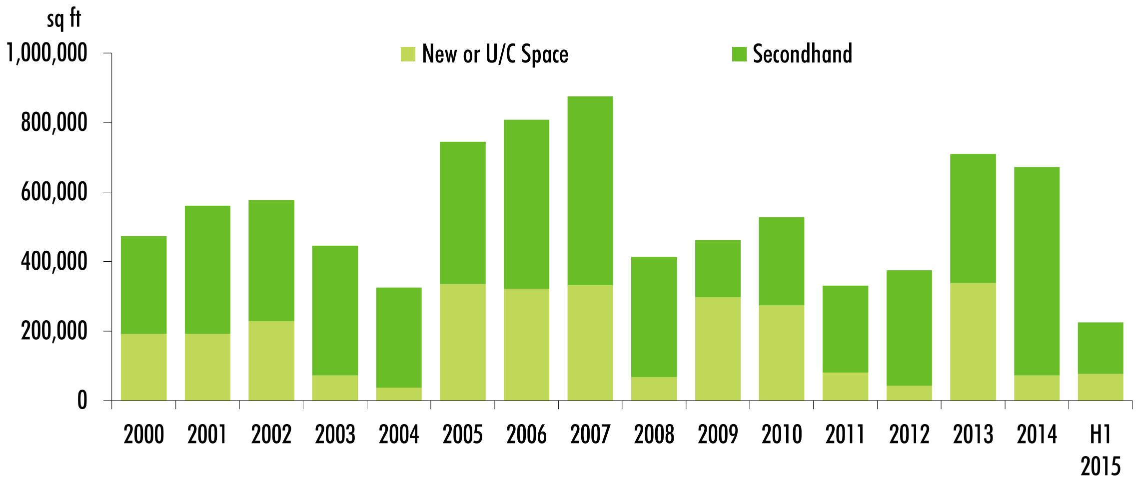
Glasgow Office, H1 2015

Strong demand yet to convert to strong take-up

Take-up -42%
Availability 5%
Prime Rent £29.50
Prime Yield 5.75%

Glasgow Office Take-up



Source: CBRE

"The unprecedented level of occupier demand in Glasgow is rapidly eroding the availability of large floor plates options within prime Grade A buildings. This is forcing an increasing number of occupiers to fast track their requirements to ensure that they can secure suitable accommodation.
This increased market activity is driving rental growth although it has not yet encouraged any new speculative development in the City."

AUDREY DOBSON
Senior Director
Glasgow

DEMAND

Occupier demand within Glasgow remains at an all time high with active requirements exceeding 800,000 sq ft. The market recovery is being driven by a combination of improved economic conditions and an unusually high proportion of indigenous companies with forthcoming lease expiries and break options.

Despite strong demand in the market, take-up during H1 was subdued at just under 225,000 sq ft, representing a 24% reduction on the long term half yearly average. The below trend take-up figures are a reflection of the time taken to get deals over the line rather than a reduction in occupier demand or confidence. The largest deal during Q2 was the letting of 27,522sq ft to Teleperformance at Cuprum, with the only other deal above 10,000sq ft being to Arup (12,603sqft) at 1 West Regent Street.

With the exception of these two deals all other transactions were in units of sub 5,000sq ft.

SUPPLY

Despite the delivery of 470,000sq ft of new Grade A space to the market total supply at the end of Q2 2015 stood at just 1.86sq ft, down 20% since the same quarter one year ago, but 5% above the level recorded at the end of 2014. The new speculative schemes are progressing well and both 110 Queen Street and 1 West Regent Street having already let a significant amount of space. It is widely anticipated that St Vincent Plaza will follow suit as a number of occupiers are showing interest at present.

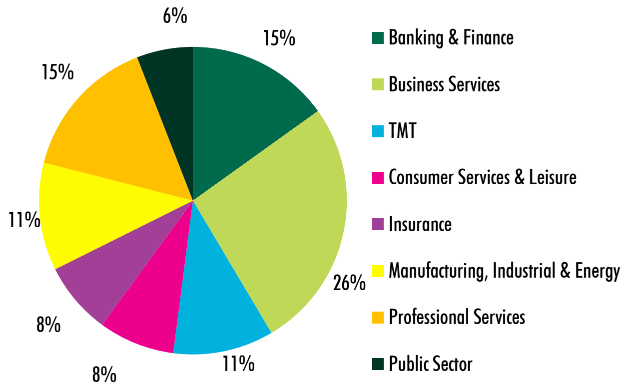
There are a number of development sites with existing planning consent. However, even with a tightening of prime Grade A availability anticipated, there have been no site starts in the city. The demand for space in the medium term is more likely to be met through the delivery of a number of refurbishments including :6 Atlantic Quay (78,459 sq ft).

RENTS

Prime rents now stand at £29.50 per sq ft but are likely to break the £30 per sq ft barrier shortly. The level of incentives being offered to tenants is sharply reducing as occupiers begin to compete for space. This is particularly pronounced in the prime Grade A market but is increasingly a feature of the Grade B market where quoting rents are being rebased to their pre-recession levels.

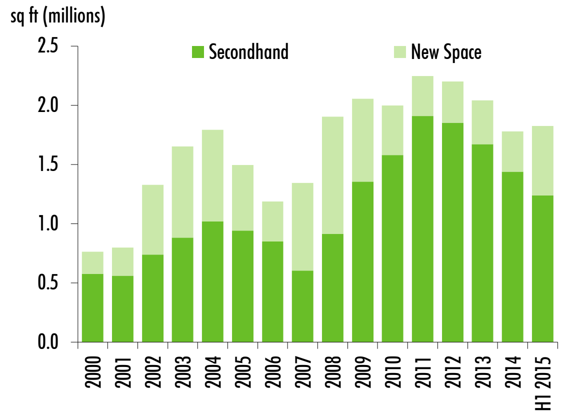
The outlook is very positive with take up anticipated to reach near record levels by the year end.

Glasgow Office Take-up by Sector, H1 2015



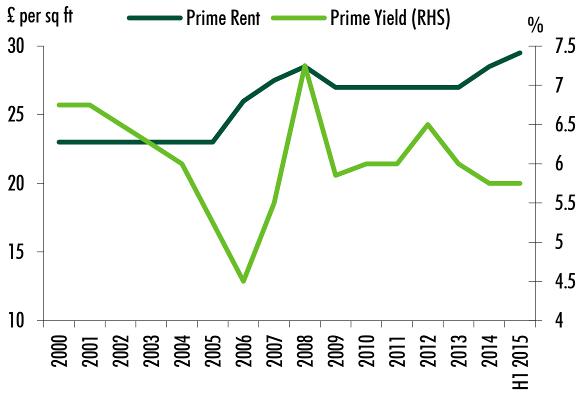
Source: CBRE

Glasgow Office Availability



Source: CBRE

Glasgow Prime Office Rents and Yields



Source: CBRE

INVESTMENT

Investor activity in Glasgow in H1 2015 has been hampered by a lack of product and a slowdown around the General election in May. Transaction volumes total £119m and are dominated by the sales of Aurora, 120 Bothwell Street for £72.36m/6.2% and 150 St Vincent Street for £14.75m/6.6%.

There is not enough prime, new build stock coming to the market in Glasgow to satisfy investor demand. Other than the sale of 110 Queen Street in 2014, we have not seen a truly, new build Grade A office offered to the market in 2015 although sentiment would dictate that prime yields are at 5.50%, which is softer than in Manchester and Birmingham. We foresee this yield level continuing for the remainder of 2015.

Activity since May has picked up considerably with six assets coming to the market totalling £136m, the largest being the offering of M&G's 1-3 Atlantic Quay seeking £62.5m/8.30% . The property is currently under offer. The type of product being offered has tended to be multi-let secondary office buildings, typically older than 10 years and therefore has attracted value add type buyers including private equity with local asset management teams.

Active investors have included Benson Elliot, Ambassador Group, Northwood, and Rockspring. This stock has tended to attract yields in the 7-8% yield category.

Looking ahead we expect to see a continuation of the value add, asset management stock type investor demand. There might be one or two new office developments offered later in the year as completions occur and that will attract the UK and overseas institutional market in the £50m plus lot size category.

In the remainder of 2015, prime yields at 5.50% are unlikely to move unless a landmark deal proves otherwise. Secondary yields will probably harden to the low 7's. There is certainly a slight narrowing of the yield gap between prime and secondary.

Glasgow Office Market Summary

	H2 2014	H1 2015
Take-up	385,925 sq ft	224,920 sq ft
Long-term half yearly average take-up	264,949 sq ft	295,754 sq ft
Availability	1,777,816 sq ft	1,860,617 sq ft
Prime Rent (per sq ft)	£28.50	£29.50
Investment Transactions	£140m	£119m
Prime Yield	5.75%	5.75%

Source: CBRE

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