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Savills World Research
UK Commercial

Spotlight
Glasgow office market

August 2013

Leasing market supply and demand

■ 2013 started relatively quietly in the Glasgow office market, with almost exactly 200,000 sq ft of office space leased in the first six months of the year. This is down on the same period in 2012, though better than the long-run average for the first half of the year.

■ The dominant business sectors were Insurance and Financial Services and the Professions, with JP Morgan and KPMG responsible for the two largest lettings of Q2 at 27,000 sq ft and 15,500 sq ft respectively.

■ Prospects for the remainder of 2013 look good, with 85,000 sq ft of office space under offer as at August 2013. These include high profile lettings to SAS, Ashurst, ATOS and Skyscanner.

■ Overall supply fell by 3% over the first half of 2013, with total availability as at the end of July down to 2.2m sq ft. This is still a high level of vacancy when you consider that average annual take-up in Glasgow is only 500,000 sq ft, but in common with most other UK office markets there is an undersupply of Grade A office space in Glasgow.

■ We estimate that the Grade A availability has fallen by 7% over the first six months of 2013, a function of both a tenant bias towards Grade A space and the severely restrained development pipeline.

■ The most significant project in terms of size in the City's development pipeline is St Vincent Plaza which is due to deliver 170,000 sq ft in 2015. While this is not prime in terms of location it will deliver a large amount of high quality space This will bring the total pipeline for 2015 to nearly 500,000 sq ft. Other schemes of note include 110 Queen Street and 1 West Regent Street.

Rents

■ The first half of this year has seen a marked change in confidence in the Glasgow office market, with landlord's agents beginning to feel more optimistic about the prospects for recovery and the demand for Grade A office space. This means that while prime headline rents remained unchanged at £27.50/sq ft, the rent free periods on offer at such properties have started to shorten.

■ Six months ago we suggested that the typical rent free period on offer for a prime unit on a ten year lease was 30 months. This has now shortened to 24 months.

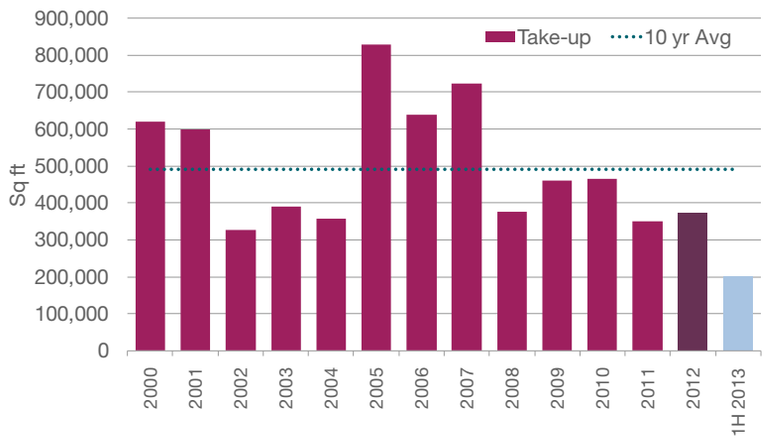
Investment market

■ At the end of 2012 we estimated that prime Glasgow office yields were in the region of 6.25%-6.50%, and we expected them to remain stable at this level. The first half of 2013 has not delivered any transactional evidence to prove or refute this view.

■ The lack of prime investment evidence remains more down to lack of supply than demand. The first half of 2013 has seen a marked rise in investor interest in the UK regional

GRAPH 1

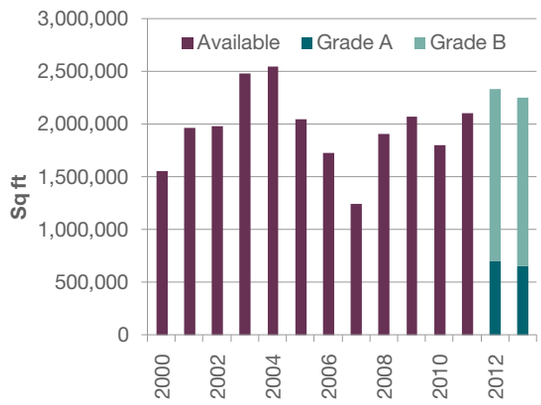
1H 2013 take-up was 17% down on 1H 2012



Source: Savills

GRAPH 2

Availability fell by 3% in 1H 2013



Source: Savills

cities, driven by the expectation of an imminent rental recovery, and the record wide yield gap between London and the regions.

■ As a result of this we have revisited our expectations for prime Glasgow office yields and expect them to harden by 25 basis points over the next six months if a suitable product comes to the market.

■ We also suggested that 2013 would see a rise in interest in higher yielding investments, and this has definitely come true with a cluster of recent deals at yields in excess of 10%. Typical of this trend was the sale of both 53 and 100 Bothwell Street at 12.3% and 10.9% respectively.

Outlook

■ We remain fairly optimistic about the outlook for both the office leasing and investment markets in Glasgow over the short to medium term. While the prospect of a "Commonwealth Games bounce" is unlikely, it is clear that business confidence in the City is beginning to improve.

■ The prospects for the Glasgow economy do look good, with the latest forecast from Oxford Economics predicting annual average GDP growth of just over 2.0% per annum over the period 2013-2017. This will make Glasgow one of the top 15 fastest growing cities in Europe, with stronger growth than Zurich, Frankfurt and Paris.

■ 2013 is expected to be the last year of this cycle of falling employment in the City, with the average annual growth for the following four years projected to be a modest 0.5% per annum.

■ The fastest growing sectors in terms of employment will all be predominantly office-based, with the Professional, Real-estate and TMT sectors all forecast to see jobs growth of more than 1% per annum.

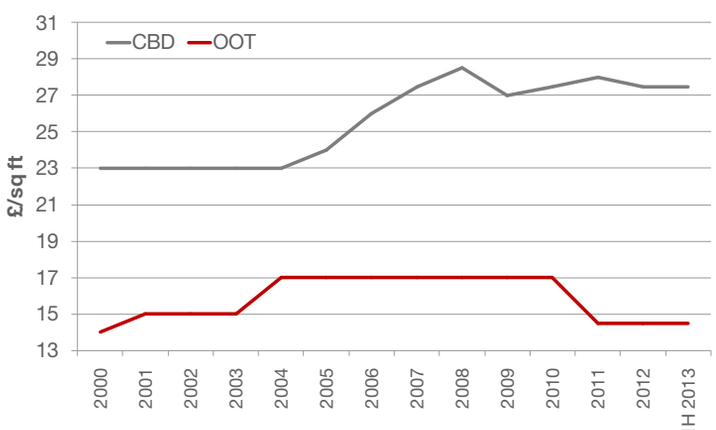
■ This will translate into a steady recovery in take-up to around average annual levels over the period 2014-2017 (though Grade A take-up will be hamstrung by lack of new stock in 2014/15). This will put further downward pressure on the availability of such space across the City.

■ Glasgow is relatively unique amongst the UK regional cities in that it has a reasonably active development pipeline of office space. However, 2014 will be characterised as another year of very low levels of completions, and this will put upward pressure on both net-effective and headline rents.

■ 2015 will see a fairly significant level of development completions in the City, and while some of this space will undoubtedly have been pre-let, rents are likely to stabilise in that year. However, over the five year period 2013-2017 we are still forecasting annual average rental growth of 1.25% per annum, which will take the top rent to a new high of £30/sq ft by 2017.

GRAPH 3

Prime headline rents remained stable in 1H 2013



Source: Savills

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