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Savills World Research
UK Commercial

Spotlight
Glasgow office market

February 2013

Leasing market supply and demand

■ Take-up of office space in Glasgow in the second half of 2012 was a rather underwhelming 137,870 sq ft. This was lower than the take-up in the first half of the year, and brings the total for 2012 to a below average 371,870 sq ft.

■ However, as Graph 1 shows, this level of take-up is pretty much in line with the pre-boom levels that the City experienced, and we believe that a "normal" year's take-up in the City is probably around 400,000 sq ft, making 2012 merely a slightly below average year.

■ While the second half of 2012 did not see any specific leasing deals of note, the biggest news for Glasgow's office market has undoubtedly related to Scottish Power's new HQ on the former Elphinstone Tower site. There was a time that the speculation was that this 220,000 development wouldn't happen, but the latest news is that the JV between Helical Bar and Dawn Developments is close to being forward funded by PRUPIM. Scottish Power is believed to be paying £25/sq ft on a 25 year pre-let. This will clearly free up Scottish Power's existing HQ for a new development or refurbishment.

■ While this has not soaked up any available space in Glasgow, it is a sign that major businesses are having the confidence to commit to new offices, and a vote of confidence in Glasgow as a major employment location.

■ The supply-side of the market remained pretty stable over the second half of 2012, and we estimate that at the end of the year the overall availability was marginally up on the mid-year total at 2.3m sq ft.

■ Grade A availability in the City remains low, accounting for only 30% of the City's total availability of office space. Less than 400,000 sq ft of this is new, and this shortage is why the speculative development pipeline is beginning to open.

Rents

■ The second half of 2012 saw a complete lack of Grade A quality transactional evidence. As such we are fairly cautious on prime achievable rents in the City at present and estimate that £27.50/sq ft remains the benchmark for top quality office space in Glasgow (as set by JP Morgan on Bothwell Street early last year).

■ The limited current availability of brand new office space in the City, combined with the restrained development pipeline, should support rents at this level in 2013. Furthermore, there could be some shortening in the rent-free periods on offer which currently stand at 30 months on a 10 year lease..

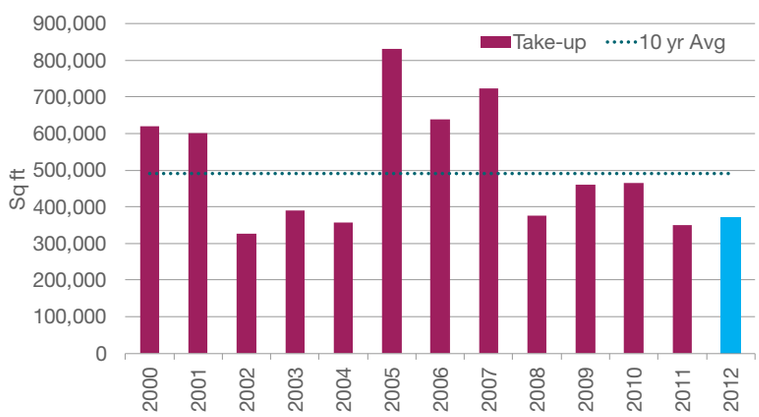
■ Outside the CBD prime office rents have stayed at their mid-year level of £14.50/sq ft.

Investment market

■ The investment market saw a pick up in activity in the final quarter of

GRAPH 1

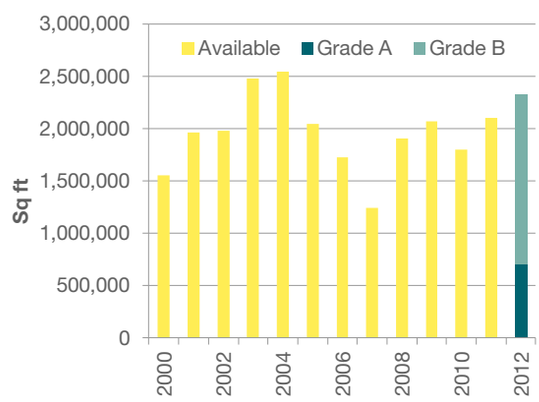
2012 take-up was 6% up on 2011



Source: Savills

GRAPH 2

Availability remains high



Source: Savills

2012. Private investors were active in the purchase of the Clydesdale Bank offices at St Vincent Place, and they also placed 100 Bothwell St under offer. Elsewhere the Sentinel building on Waterloo St was taken off the market, having not met pricing aspirations.

■ We expect that 2013 will see a pick-up in investor interest in secondary assets where the yield has overcorrected in the back of the last few years of rampant risk-aversion. Prime, secure income streams will also remain popular, and we expect that the prime office yields will remain stable at 6.25% to 6.50% in 2013.

Outlook

■ The prospects for the Glasgow economy are generally better than for the UK or Scottish economies. According to the latest forecasts from Oxford Economics, output will increase by 0.9% this year. Thereafter, GVA growth will average 2.8% per annum over the period 2013-2021.

■ The most important indicator for the office market is employment growth. Glasgow's total employment is expected to contract marginally in 2013, but after that will recover and grow by an average of 0.8% pa. Office-based employment is expected to grow faster, by 1.1% per annum from 2014-2021. This implies a net increase of 12,700 office-based workers, which in turn will drive a steady level of demand for office space in the City.

■ Aside from the aforementioned Scottish Power HQ, there are three speculative office developments proposed in the City. These total 490,000 sq ft between them and will not have a significant effect on the Grade A supply/demand imbalance.

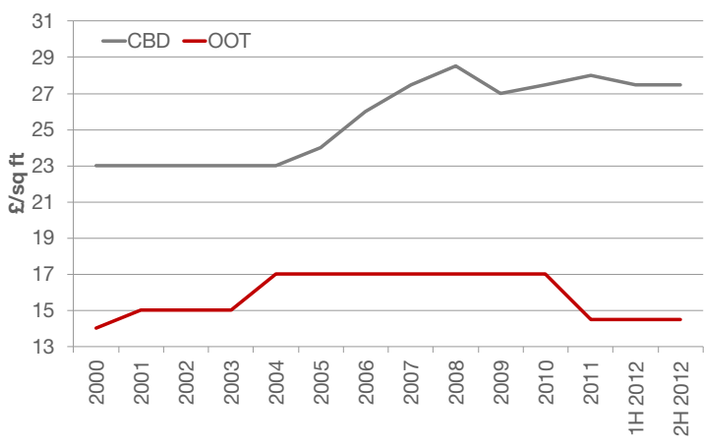
■ Thus, against a background of steadily recovering take-up to around average levels, and a restrained development pipeline, we expect to see upward pressure on prime rents in the City from 2014, and a new peak of £30/sq ft by Q4 2015.

■ Away from the prime end of the market we expect rental growth to remain subdued due to the high level of secondhand space that is currently on the market. This will combine with the space that will be released as businesses begin to trade up when they reach a lease event. We expect that the bulk of the City's future Grade A space will result from development rather than refurbishment. However, only the largest businesses will be able to unlock stalled development projects with a pre-let.

■ There remain downside risks to this relatively positive outlook (e.g. Eurozone disorderly default and Scottish independence). However, we believe that the probability of either of these downside scenarios taking place is diminishing.

GRAPH 3

Prime headline rents remained stable in 2H 2012



Source: Savills

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