

# Spotlight The Future of Glasgow's Real Estate

2017



## SUMMARY

Mixed-use schemes and regeneration will determine how we will live, work and socialise in Scotland's largest city

- Public sector investment has supported economic growth and will encourage private sector investment and development.
- Retail, leisure and other occupiers are consolidating around transport links and Buchanan Street, creating a strong amenity offering in this central core.
- Suburban local authorities are providing 87% of new housing supply in Greater Glasgow despite the city

of Glasgow having the strongest projected household growth.

- Mixed-use development in key areas in the city centre will bring forward much needed new residential, office and leisure space and drive change in how we work, live and socialise.
- Infrastructure investments are creating, and reinforcing, demand for industrial sheds, business parks and residential development along key routes.

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 “Mixed-use development in key areas in the city centre will bring forward much needed new residential, office and leisure space”  
 Savills Research  
 .....

# Market Dynamics

## INVESTING IN GLASGOW'S FUTURE

The city of Glasgow continues to evolve supported by strategic investment in key projects

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"Investment kick-started by the Commonwealth Games has helped Glasgow put its best foot forward"

Savills Research  
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**E**conomic growth has, and will continue to be, supported by considerable investment in the city.

Glasgow has enjoyed 9.9% GVA economic growth over the past five years. This exceeds the Scottish average of 8.4% and is set to continue, with growth expected to reach 7.2% over the next five years.

Investment kick-started by the Commonwealth Games helped Glasgow put its best foot forward and has created a sense of momentum within the city.

Since then, the signing of the City Region Deal in 2014 has brought in £1.3 billion of additional investment from Westminster and Holyrood. This will be used to pay for major transport initiatives including the airport tram link, urban improvements and employment programmes.

Private investment in the city region will bring forward a number of landmark schemes, primarily in the city centre.

▼ Public sector investment has supported economic growth



### A sporting, retail and cultural powerhouse

Home to the largest sporting infrastructure, boosted by Glasgow's 2014 Commonwealth Games legacy, as well as the SSE Hydro; the third busiest entertainment arena in the world, Glasgow can truly be classed as a cultural powerhouse.

The largest retail centre in the UK outside London, Glasgow's shopping provision attracts a catchment of around 90 million each year, with average annual consumer expenditure comparatively high at £2,480 per person, according to data from CACI.

Glasgow's music, food and sport offering confirms the city's reputation as an international destination. The tourism industry brought 2.3 million visitors to the city in 2012, generating £495 million of income for the city. This is set to grow to £771 million by 2023, bringing an additional 6,600 jobs.

### Start ups and creative industries

Glasgow is home to a diverse start up scene and in recent years, the city has attracted a number of digital media and tech start up companies.

One result has been the employment growth of the technology, media and telecoms sector, which has grown by 11.5% over the last five years. This industry is set to see a further 4.8% growth over the next five years, supported by the introduction of ultra-fast fibre network internet in the city. Download speeds will exceed one gigabit per second, making Glasgow one of the best connected cities in the UK.

The regeneration of the area around Port Dundas has created a new 'cultural hub', through the provision of collaborative workspaces, such as the Whisky Bond, along with event and exhibition space.

The expansion of Glasgow School of Art's campus to include the previous Stow Campus site, alongside RSAMD's increased studio provision will increase footfall to this area, connecting Cowcaddens and Garnethill.

### Office market

Available Central Glasgow supply of all grades of office stock stood at 1.8 million sq ft at the end of 2016, which equated to a vacancy rate of around 13.7%. This has increased recently due to the availability of refurbished office space.

FIGURE 1  
Grade A office space is in short supply



Source: Savills Research

Central Glasgow supply of Grade A space (including new build and top refurbishments) stood at circa 400,000 sq ft at the end of 2016. With circa 53,000 sq ft of new Grade A stock currently under offer there is less than 13 months of Grade A supply remaining, which Savills classify as a shortfall.

Uncertain levels of demand due to perceived economic challenges has resulted in no speculative space under construction and we do not expect to see any new Grade A office development until 2020, at the earliest.

### Residential development

In the year to June 2016, 4,749 new homes were completed within Greater Glasgow, of which 31% were social housing tenures. This is significantly short of the 6,110 new homes per year identified as required by the Clydeplan HNDA (housing need and demand assessment).

The local authorities surrounding the city supplied 87% of new private supply in the year to June. Meanwhile, the city of Glasgow has the strongest projected household growth rate in the region.

Based upon the five-year average of 518 completions per annum there is potentially a shortfall of over 11,000 homes over the next five years within the city, excluding any historic undersupply.

### A growing rental market

Affordability constraints, a growing economy and lack of new supply, particularly in key locations such as the Merchant City, have contributed to a growing private rented sector.

Between 2011 and 2015 the number of households in this tenure increased by 12,000 and now account for 20% of all households within the city.

During the same period, rents increased by 16%, and in the past year they have increased by a further 7.2%, according to Citylets. The average rent for a two bedroom flat now equates to £754 per calendar month.

Changes in tax liabilities for rental properties, the additional dwelling supplement on buy to let purchases alongside tenancy reform could reduce the supply of rental stock, ultimately creating greater opportunities for entirely rental driven development.

### Student housing market

Student housing has been the main

source of development in recent years, building out many sites which might once have been for residential or office.

There are currently 12,000 student beds, catering for a student population of 67,000. There is potential for a further 8,000 beds, but it is highly unlikely that these will all be delivered due to financial constraints. ■



The tourism industry is set to grow to £771 million by 2023

FIGURE 2  
Glasgow's housing shortfall



Source: Savills Research

# Central Glasgow

## REIMAGINING THE CITY CENTRE

Mixed-use schemes will deliver future homes and workspace in the city centre, changing how we live, work and socialise

.....  
“For schemes with a residential component, proximity to established residential markets is important”  
Savills Research  
.....



**1.9 million sq ft**  
of office space in the pipeline

**T**he area known colloquially as the “Golden Z”, comprising the prime retail locations of Sauchiehall Street, Buchanan Street and Argyle Street, has contracted. Occupiers are now primarily focusing on Buchanan Street, along with the blocks near St. Enoch’s and Buchanan Galleries shopping centres, which bookend the street.

Buchanan Street is now fully occupied and is experiencing a surge in rental growth. Demand continues to outstrip supply, so much so that rental levels are now eclipsing Zone A £/sq ft of £300, which reflects a 14% average increase over the past two years.

As a result, we anticipate increased demand for locations just beyond Buchanan Street. Potential reductions in rateable values are likely to further attract retailers and leisure users.

There are a vast number of bars, cafes and restaurants on the periphery of Buchanan Street, offering visitors everything from fast food to fine dining. Merchant City, Royal Exchange Square, Gordon Street and St Vincent Street have established themselves as appealing leisure destinations, attracting local and national interest as this market continues to grow.

### Office space

Offices within a five to ten minute walk of Glasgow’s two main train stations are in highest demand.

When new developments come forward within this core area they are well received and encourage existing occupiers within the city to relocate and often reconcile multiple offices.

For example, the newly built Grade A 110 Queen Street has attracted ACCA, who relocated from Central Quay, and DWF from Charing Cross. Looking forward, Morgan Stanley will be consolidating their two Glasgow offices into Bothwell Exchange.

However, there is little immediate new Grade A office supply in the city

centre. This will have a number of implications.

Firstly, some companies with imminent lease events will agree short term extensions while they wait for new space to be delivered in three to five years’ time. These occupiers will be anticipating the 1.9 million square foot of proposed office developments with planning permission, and could be considering pre let agreements.

Secondly, refurbishments will offer new high quality supply and fill the gap left by the development cycle. This will include the refurbishment of existing buildings to Grade A standard. We anticipate around 600,000 sq ft of office space will come forward through refurbishment over the next two years.

Looking forward, prime sites could be developed on a speculative basis or benefit from pre lets. Some sites will have to reconsider their development mix and the weakest sites and older stock may have to consider alternative uses, such as residential and serviced apartments.

### Mixed-use development

Mixed-use developments will be the key driver bringing forward new residential, office and leisure development within the city centre and in doing so will change how we live, work and socialise. Supported by investment and strategies from Glasgow City Council, their development could bring about substantial change in how we utilise the city centre and areas just beyond it.

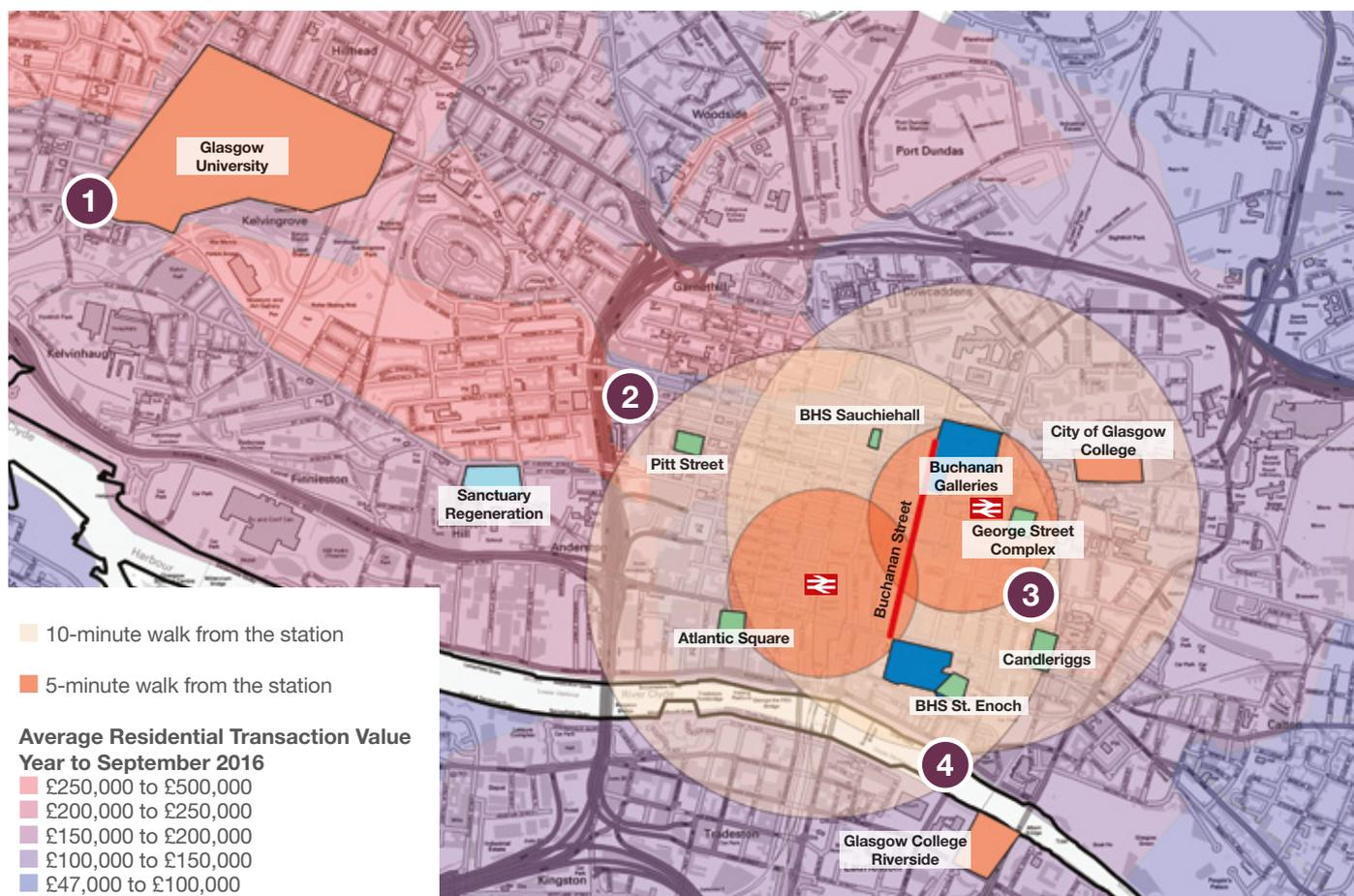
For schemes with a residential component, proximity to established residential markets is important. Within Glasgow, the Merchant City and West End markets will be the main drivers.

The Merchant City commands a premium due to its residential reputation, central location and proximity to the University of Strathclyde. It is a very small market; in the year to September 2016 there were 145 transactions and the average transaction value was £171,343.

The West End is larger, both in respect of transactions and geography. Due to a comparatively high transaction value, £270,131 in Dowanhill and Hillhead, the West End has, and is continuing to create opportunities on its periphery.

These opportunities have included Finnieston and Park areas, which are now firmly established and are creating opportunities on their peripheries, as they consolidate and improve. ■

FIGURE 3  
**Highest demand for space is within five minutes of the two main stations**



1

#### **PARTICK & PARTICKHILL**

The expansion of the University of Glasgow campus will have a positive impact on this area through the provision of significant new academic and research accommodation, including the potential for a large mixed-use scheme incorporating leisure, hotel, residential, retail and other uses. The redevelopment of the Western Infirmary site will refocus the university towards the south of Byres Road and in doing so increase the attractiveness of Partickhill and Partick.

2

#### **CHARING CROSS**

The regeneration of Sanctuary Housing Association's stock on St Vincent Street alongside the development of the new Scottish Power HQ, has vastly improved the streetscape along the west end of St Vincent Street. The proposed PRS development at the former Police Headquarters on Pitt Street could facilitate the spread of the West End/ Finnieston residential market across the motorway, in time creating opportunities for some of the vacant commercial space around Blythswood Hill.

3

#### **NORTH GEORGE SQ./ MERCHANT CITY**

Chris Stewart Group's George Street Complex will provide student housing, hotel space, serviced apartments and office space around newly created public spaces. This, combined with the new City of Glasgow College campus, the redevelopment of Queen Street station and redevelopment of Glasgow College of Building and Printing has the potential to provide a new lease of life for the heart of city.

4

#### **MERCHANT CITY**

The development of the former Goldberg's site on Candleriggs site will provide residential units for sale and rent alongside a hotel, retail and student housing. The scheme could facilitate the expansion of Merchant City south beyond Argyle Street. This, combined with the redevelopment of the BHS store at St. Enochs and increased footfall generated by the new City of Glasgow College campus, could refocus this area and create opportunities for development around the Saltmarket and Gallowgate.

# Greater Glasgow INFRASTRUCTURE DRIVES THE MARKET

Improvements to infrastructure around Glasgow will continue to prompt development activity across real estate sectors

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“There has been considerable trading activity for well located and well let multi unit industrial estates across Glasgow”

Savills Research  
.....

**G**reater Glasgow is defined by its connectivity. With over 1.7 million people living within the region, road and public transport links are of great importance allowing residents to access employment, leisure and retail facilities. Many of Glasgow's most popular residential suburbs benefit from direct, fast links to the city centre and to the large shopping centres.

Some of the £1.3 billion of City Region Deal funding has been invested in or is targeted towards strengthening this network. Improving connectivity will increase the attractiveness of existing areas and facilitate new development as a result.

### Industrial

There has been considerable trading activity for well located and well let multi unit industrial estates across Glasgow and its surrounding areas, and this is set to continue throughout 2017.

▼ The industrial market is supported by infrastructure



This increased demand for industrial space has largely come from the growth of online retail, with a need to be located close to a wide consumer catchment. Around 30% of the UK's total industrial floorspace taken in the UK during 2016 was from internet retailer Amazon. This included taking 330,000 sq ft letting of J4M8 in Bathgate, near Edinburgh.

Traditional store-focused retailers have also been important players. Lidl have taken space at Eurocentral to create a regional distribution centre to support the growth of their in town retail.

However, it is mostly smaller logistics and distribution based schemes which will be the key drivers of demand going forward. One such scheme is Evolution Court, Hillington Park, which is made up of four separate units and will provide circa 90,000 sq ft of industrial space. The market continues to prove most active on sub 10,000 sq ft units, with well located modern product benefiting due to the lack of development.

The lack of existing modern industrial space and extremely restricted development pipeline has led to pent up demand for prime locations. This imbalance should have a positive impact on property investment and rental values for industrial properties going forward.

For an industry where infrastructure is a major driver, key improvements to complete the M8 and improve the Raith interchange will benefit the industrial market directly through improved connectivity with the Scottish and UK industrial markets.

### Business parks

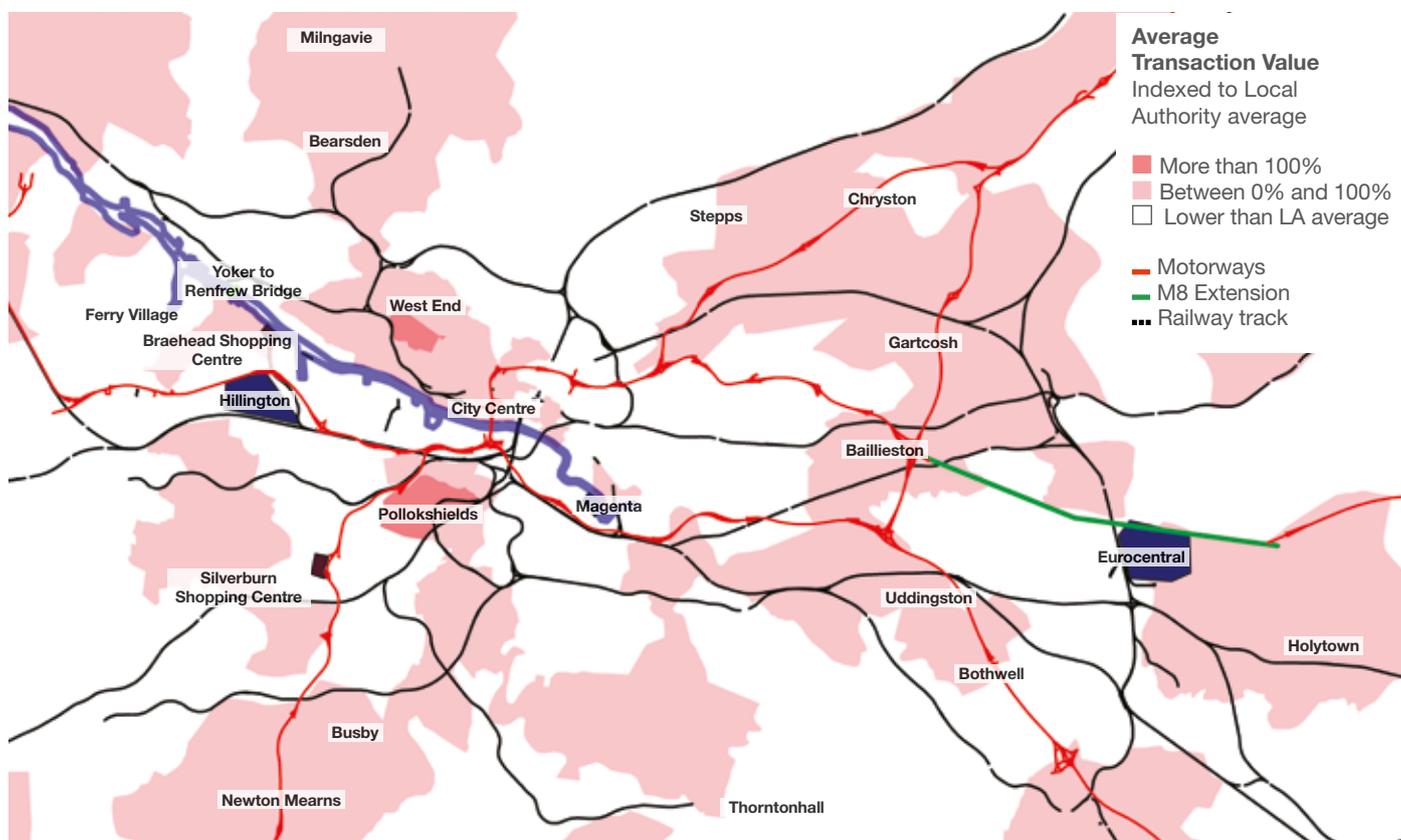
Take up of business park space has improved and is anticipated to continue as the ripple effect of rising rents and lack of good quality city centre stock continues. Meanwhile a healthy supply of out of town stock perpetuates.

Only one new business park is planned, the circa 1.2 million sq ft Magenta scheme in Clyde Gateway. It benefits from an existing rail network, improving road infrastructure and is surrounded by new residential development and mixed-use leisure facilities.

Historically out of town business parks with little public transport infrastructure have struggled to attract tenants, despite containing high quality stock. Nova Business Park

FIGURE 4

## Infrastructure improvements will help to pave the way for the city's wider development



Source: Savills Research

in Robroyston is one such example, however, a new proposed park and ride facility could be a game changer.

### Retail

Glasgow's out of town retail provision has improved considerably in recent years, with schemes drawing on leisure provision in order to create a "destination", which offers much more than shopping alone. Infrastructure projects such as the extension of the M77 and the proposed Yoker to Renfrew road bridge have and will create much larger catchments.

The 1.5 million sq ft Silverburn Shopping Centre now contains a 4D cinema alongside a plethora of restaurants, likewise Braehead shopping centre's proximity to the Intu Centre with its cinema, restaurants and crazy golf alongside an indoor ski slope, are both prime examples of this evolution in shopping. Finally, Glasgow Fort recently extended its offering with an

M&S and now incorporates a Vue cinema and restaurant.

### Residential

This connectivity, short commuting distances and established communities are compounded in some areas by the location of well-regarded schools.

These established suburbs attract significant premiums. Bearsden and Milngavie in East Dunbartonshire command 43% and 10% respectively, above an already comparatively high average of £215,980.

Newton Mearns in East Renfrewshire, Scotland's most expensive local authority, commands an average transaction value 24% higher than average.

This places many of these areas beyond the means of most purchasers. Therefore, demand exists for more attainably priced housing in well-connected locations with access to amenities.

The development of out of town retail and leisure developments such as Silverburn and Braehead with their excellent transport links has benefitted housing in the wider area through the increased provision of lifestyle amenities in areas such as Darnley, Renfrew and Cowglen.

At Cowglen, near Silverburn, 500 units are currently underway by Persimmon Homes adjacent to the centre. Braehead has seen 10 years of development on the brownfield sites at Ferry Village, with more planned.

This area has become attractive, with an average transaction value of £145,789, £10,000 higher than the local authority average, which to a degree represents a new build premium.

Both the Braehead Shopping Centre and the local residential markets will benefit from the construction of the £90 million Yoker to Renfrew road bridge after it was recently given planning permission. ■

## OUTLOOK

### Mixed-use schemes and improved infrastructure will drive the city forward

- Mixed-use schemes already in the pipeline will be driving much of the initial change, providing much needed residential, retail and office space.
- New residential supply is primarily being delivered by the local authorities surrounding Glasgow, rather than the city itself, although large regeneration projects are supplying much needed new supply at an attainable price point.
- Infrastructure improvements will increase competition for space within the industrial market, with smaller, well located units in high demand.
- With retail and office demand consolidating around Buchanan Street, we anticipate that the initial focus will be on converting and refurbishing existing buildings in the central core.
- However, brownfield sites, currently located on the periphery of the city, will become increasingly attractive as refurbishment and conversion opportunities in the core are developed.
- Public sector investment will continue to play an important role in facilitating change in key locations through strategic planning and preparation of sites.
- In particular, infrastructure projects that are visible and impact on peoples lives will attract private sector capital first.
- Beyond this, access to finance will be imperative for private sector investors to assist in delivering projects.
- The city is set to see significant change in how people live, work and socialise but ensuring that the city embraces and capitalises on these changes will be imperative in driving the city forward.

## Savills team

Please contact us for more information



**Emily Dorrian**  
Residential Research  
0141 222 4132  
edorrian@savills.com



**Clare Bailey**  
Commercial Research  
020 7409 8863  
cbailey@savills.com



**Mike Barnes**  
Commercial Research  
020 3107 5459  
mbarnes@savills.com



**Susan Emmett**  
Residential Research  
020 3107 5460  
semmett@savills.com



**Ross Allardice**  
In Town Retail  
0141 222 5889  
rallardice@savills.com



**Bruce Patrick**  
Head of Commercial  
Development  
0141 222 5873  
bpatrick@savills.com



**David Cobban**  
Business Space  
0141 222 4101  
dcobban@savills.com



**Ross Sinclair**  
Industrial Space  
0141 222 4145  
rsinclair@savills.com



**Alistair Wood**  
Head of Planning  
0141 222 4102  
awood@savills.com



**Carole Mackie**  
Head of New Homes  
0141 222 5886,  
cmackie@savills.com



**Andrew Perratt**  
Head of Residential  
0141 222 5874  
aperratt@savills.com



**Jamie Doran**  
Head of Development  
0141 222 5878  
jdoran@savills.com

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