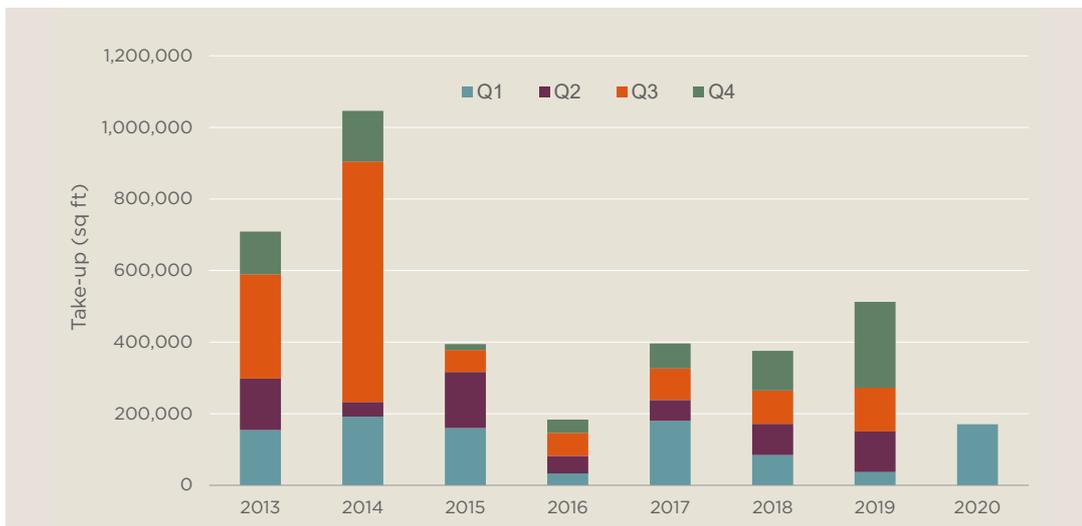


# Aberdeen Offices



**Summary:** In Q4 2019, the Aberdeen office market posted its strongest quarter since the oil industry downturn of 2014. This momentum appeared to be carrying into 2020; however, the impact of Covid-19 and the severity of its effect on global Oil and Gas markets now presents an uncertain outlook for the remainder of the year.



Source Savills Research

## Q1 take-up was 72% above the Q1 five-year average; however the largest two transactions were low-value sales

Take-up in the Aberdeen office market reached an ostensibly impressive 170,513 sq ft in Q1 2020. Simple consideration of this figure shows a number significantly beyond that from the same period last year and 72% ahead of the Q1 five-year average. However, analysis of the underlying transactional data shows that around half of this total figure was accounted for by two low priced sales – one of which was an auction sale.

Were these two deals to be excluded from the overall number, then Q1 2020 take-up for the city would be reduced to 87,000 sq ft, which is 12% below the Q1 five-year average but still more than double the Q1 2019 figure, which was one of the poorest quarters on record.

However, were it not for a number of deals which were due to complete in late March being derailed or delayed by the emergence of Covid-19, then the start to the year would have undoubtedly been a far more positive and the five-year average would have been comfortably exceeded. Savills alone had around 15,000 sq ft of deals due to complete in late March which were affected by lockdown and did not complete as a direct consequence.

The Energy sector accounted for a significant proportion of Q1 take-up, with Engineering and Extraction & Utilities sectors providing a combined 72% of total market activity. In the largest transaction of the quarter, engineering, construction and maintenance company Stork purchased the 55,500 sq ft former AKER office - The Quad - at auction. Norwegian state-owned Equinor signed for an additional 15,000 sq ft at Prime Four Business Park, adding to their existing 45,000 sq ft presence there and Neo Energy agreed a deal for the 12,744 sq ft top floor, of British Airways Pension Scheme's The

Silver Fin Building, which saw reinforcement of the city's top headline rent of £32.50 per sq ft.

Continuing the trend from 2019, overall market supply continued to reduce throughout Q1, totalling at circa 2.4 million sq ft at the end of Q1 2020. This figure is expected to increase over the coming months, as occupiers look to make redundancies or pursue cost efficiencies, and many reconsider how they occupy office space with work from home, agile working and social distancing agendas all coming to the forefront of occupier considerations.

The effect of Covid-19 was felt too late on for the true extent of its impact to manifest in Q1 take-up figures. It is widely accepted that Q2 will show much more clearly the severity of the impact of the virus on our markets. We remain of the view that we may see a 'bounce back' in the second half of the year, with many deals and requirements that were in the market pre-Covid-19 being on hold as opposed to completely cancelled.

Historically, oil prices have significantly influenced office activity in Aberdeen, with vacancy rates increasing rapidly when the price of oil fell dramatically in 2014. Therefore, Aberdeen is likely to be affected by the impact Covid-19 has already had, and continues to have, on the Oil and Gas industry. Aberdeen is expected to see office-based employment fall, with a 1% reduction forecast over the next five years. The speed of recovery of Aberdeen's office market is heavily dependent on both the recovery of the global oil market, the strength of the UK economy and the shape of post-Covid office demand.

### Key data points

For the first quarter of 2020.



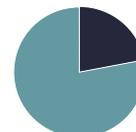
### Take-up

Total take-up reached 170,513 sq ft during Q1 2020.



72%

Take-up share from the Engineering and Extraction & Utilities sectors.



22%

Share of take-up that was Grade A space.



9%

Reduction in Grade A supply since the end of 2019.

## The prospects for Aberdeen’s life science sector are high

The life science sector in Scotland has grown significantly during the past decade.

The total level of capital raised in the wider life science sector grew from £925m in the five-year period 2010-2014 to £1.2bn in the last five-year period (2015-2019). The total level in 2019 grew annually by 71%. These investment trends bode well for the continued growth and the opportunity for diversification away from existing business sectors. In Aberdeen, at a count of 13 since 2010, there have been relatively few deals in the life science sector compared to the 180 recorded in the energy sector.

The creation of new real estate to cater for this growing sector is vitally important. The BioHub on Aberdeen’s Foresterhill Health Campus, a joint initiative between Aberdeen City and Aberdeenshire councils and Opportunity North East, received planning permission in 202. This will provide the facility to link business, health researchers and

academia to establish a stronger proposition for spin-out companies, inward movers in the life science sector and capture the interest of the funding community, including venture capitalists.

As mentioned already, funding levels in Aberdeen remain relatively low, but there is increasing interest and companies based at the proposed new Foresterhill Health campus will look to attract funding, including investment from Scottish Enterprise, which is ranked 4th in the UK for the number of VC investments.



The target is to double the number of companies in the region’s life sciences cluster by 2027.

## What makes Aberdeen?

Aberdeen is Scotland’s third largest city and the energy capital of Europe. However, it also offers a great range of opportunities from its vibrant sports and social scene, its cultural events calendar and its world-renowned research and education institutes.



Aberdeen has excellent transport links with Aberdeen airport providing a regular service to major UK and European cities, as well as train, bus and road links.



The pool of educated and skilled workers is high, thanks to the city’s culture of education and the long-established university, making it a good place to start or relocate a business.



Aberdeen ranked 6th best in the UK in the Demos-PwC Good Growth for Cities Index 2019, beating both Edinburgh and Glasgow.



With a range of museums, art galleries, cinemas and concert venues, Aberdeen caters for all cultural, leisure and entertainment tastes.



According to Demos-PwC Good Growth for Cities Index (2019) Aberdeen is the best-performing city in the UK when measuring house prices relative to earnings.



£8.4 billion of public and private investment is due to be delivered before 2030.



Aberdeen is set to become Scotland’s first city in which nearly every home and business will have access to gigabit-speed broadband.



25 of Scotland’s top 100 businesses are located in Aberdeen.



Aberdeen’s commercial port is one of the busiest in the UK. Over 4.2 million tonnes of freight are transported to and from the port annually.

## Savills team

Please contact us for further information

### Dan Smith

Director  
Head of Aberdeen Office  
Business Space  
01224 971 134  
dan.smith@savills.com

### Rod Leslie

Director  
UK Investment  
0131 247 3812  
rleslie@savills.com

### Steve Lang

Director  
Commercial Research  
0207 409 8738  
slang@savills.com

### Pearl Gillum

Research Analyst  
Commercial Research  
0207 535 2984  
pearl.gillum@savills.com

Savills plc: Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 700 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa, India and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

“Aberdeen is the best-performing city in the UK when measuring house prices relative to earnings.”

