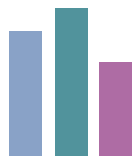


Scotland Offices





1.7 million sq ft
of take-up in Core Scotland during 2019



54%
of take-up was Grade A



Top sectors
Banking (18%), TMT (18%), Extraction & Utilities (14%)



£35.50
Headline rent - Which was achieved in Edinburgh city centre

STRONG INTERNATIONAL CONFIDENCE IN SCOTLAND CONTINUES.

Over half of all investment into Scotland in 2019 was made by international investors, representing the largest share of inward investment since 2016. American investors accounted for the largest proportion investing £293 million into Scotland over the year, well above the £119 million invested in 2018.

The Far East invested over £281 million and invested in some of the largest deals in Scotland. Leonardo Innovation Hub was sold to Korean investors for £100 million with a 5.9% yield but the largest deal last year was to German investors who bought 4-8 St Andrew's Square for £120 million, representing a yield of 4.45%. European investors also continue to invest heavily into Scottish commercial real estate with almost £250 million invested, with offices most in demand.

But what is it about Scotland that makes it so attractive to international investors? Nick Penny, Head of Savills Scotland and Director in investment comments "Investors are attracted by the strong performance of the economy, record employment and more attractive yields on offer relative to other regional cities and the south east."

Adding that "plans set out by the government to position Scotland as a forward-looking digital nation by embracing 5G has the potential to enhance Scotland's global competitiveness and continue to drive inward investment. We are already experiencing a growth in the tech sector, particularly in Edinburgh, and with digital becoming more engrained in business processes and procedures, having a fast and reliable digital infrastructure will become increasingly vital for businesses."

Cover: Met Tower, Glasgow. Savills are acting on behalf of the landlord.



The Haymarket, Edinburgh. Savills are acting on behalf of the landlord.

Occupational overview

Banking was the most active sector in core Scotland during 2019.

During 2019, take-up in the core Scottish markets (Aberdeen whole market, Edinburgh city centre and Glasgow city centre) reached over 1.74 million sq ft although down from 2018 and the five year average, a number of strong transactions took place. JP Morgan Chase pre-committed to 270,000 sq ft at a new development site in Glasgow on Argyle Street now renamed JPMC Argyle Street. This was not only the largest deal in Scotland but the largest deal in the big nine regional office markets. TAQA signed for over 76,000 sq ft at Aberdeen's 'Deepwater House' and WeWork took over 40,000 at 80 George Street, Edinburgh.

Aberdeen saw take-up increase to its highest levels since 2014 totalling 512,000 sq ft. This was 36% above 2018 and 52% above the post 2014 annual average. Glasgow city centre saw total take-up of 848,000 sq ft, which was significantly down from the previous year. This was due to three significant deals in excess of 100,000 sq ft occurring in 2018, including Barclay's pre-commitment of 470,000 sq ft. However, Glasgow's end of year take-up was still above the five-year annual average by 11%. In Edinburgh, the extremely limited

availability of quality office stock (existing and pipeline) contributed to city centre take-up falling to 380,000 sq ft, a lower level than that experienced in each of the preceding two years.

54% of deals were for Grade A space slightly above the average proportion of 49%. Interestingly, 93% of deals over 20,000 sq ft were Grade A, highlighting occupiers flight to quality and the need for new/Grade A office space to facilitate large deals in Scotland. Glasgow is currently core Scotland's market of choice for deals over 20,000 sq ft, accounting 70% of deals while Aberdeen accounted for 20% and Edinburgh 10%. Smaller deals showed a preference for Grade B space with 65% of deals under 5,000 sq ft being for Grade B buildings.

Banking was the most active sector within the core markets accounting for 18% of take-up – all of this occurred within Glasgow where JP Morgan Chase, Clydesdale Bank and Handelsbanken signed for a combined 310,000 sq ft of office space across four deals. TMT also accounted for 18% of take-up and saw the largest count of deals with 307,000 sq ft of take-up to the

sector across 59 deals.

Each market is affected by limited Grade A supply and a low development pipeline. Glasgow is currently in a unique position as it is able to facilitate significant city centre office development. Glasgow currently has over 1.4 million sq ft of space under construction although, 85% of this is already pre-committed. Development in Edinburgh is much more restricted. However, there is currently just over 370,000 sq ft of office space under construction in Edinburgh city centre. Similarly to Glasgow 70% of this is already pre-let. There is currently no office space under construction in Aberdeen city centre although Grade A supply is quickly decreasing, falling by 56% in 2019. Total supply in the core Scottish markets therefore sits at 4 million sq ft of which just 26% is Grade A.

The limited development and significant city centre demand has secured Edinburgh the highest rents within the core Scottish markets, with prime rents of up to £35.50 per sq ft. Although, closely followed by Glasgow which after seeing rental growth of 4.6% during 2019 has prime rents of up to £34 per sq ft, while rents in Aberdeen remain at £32.50.

INVESTMENT OVERVIEW

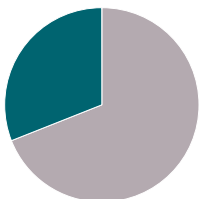
Scotland saw total commercial investment volumes of over £2.2 billion throughout 2019 a 22% increase on the 10-year average. Offices accounted for 40% of volumes totalling £900 million, also a significant increase on the 10-year average (30%).

Edinburgh saw the highest levels of office investment (£539 million) with the two largest deals in Scotland occurring within Edinburgh. Glasgow received office investment totalling £150 million closely followed by Aberdeen which saw £133 million.

Overseas Investors were the most active investor's accounting for nearly 70% of Scotland's office investment volumes totalling £622 million, demonstrating strong international confidence in Scotland's economy. Overseas investment into Scotland has come from a variety of countries in Europe, the US and the Far East.

Savills expects that demand for prime offices will continue throughout 2020, already increasing due the post-election reduction in uncertainty and perceived risk. We have already seen a number of investors who were dormant last year actively seeking opportunities in the market now, suggesting demand in 2020 will be significantly up from 2019.

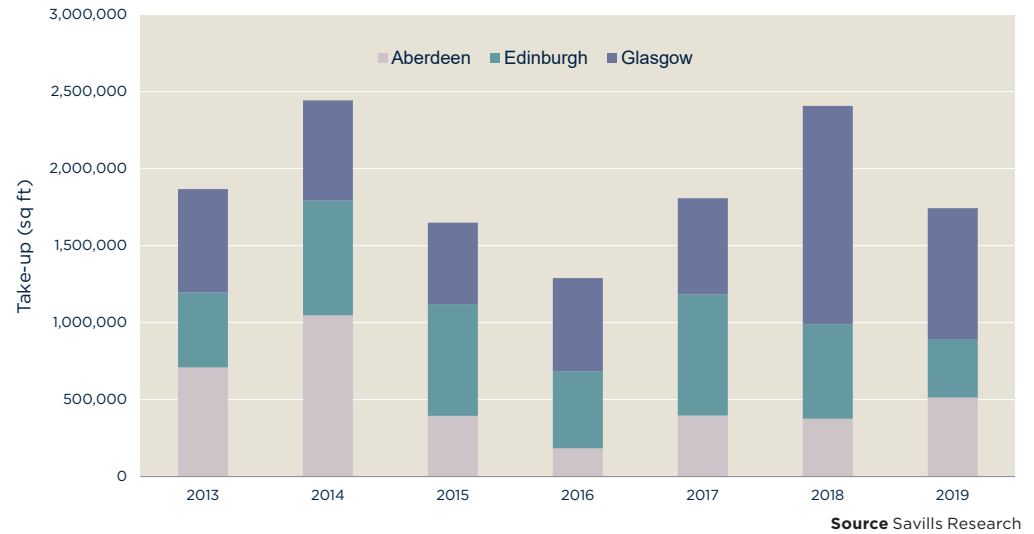
In Edinburgh, prime office yields currently sit at 4.50%, Glasgow 5.00% and Aberdeen 6.50%. In Glasgow and Aberdeen yields remained stable throughout 2019, while Edinburgh experienced prime yield compression of 25 basis points.



69%
Of office investment into Scotland came from overseas.

Core Scotland Take-up

Take-up in core Scotland was limited throughout 2019.



Investors are attracted by the strong performance of the economy, record employment and more attractive yields on offer relative to other regional cities and the south east.

4%

Office based employment growth

Forecast in Scotland over the next five years

32,000

additional office based jobs

Forecast in Scotland over the next five years

7%

GVA growth

Forecast in Scotland over the next five years

Source: Oxford Economics

Outlook

What to expect from Scotland in 2020

1 Both Edinburgh and Glasgow experienced rental growth in 2019, we expect rents in both cities to continue rising throughout 2020. Savills forecasts that rents in Edinburgh will reach £37 per sq ft and Glasgow £35 per sq ft by the end of this year.

2 The limited availability of Grade A office space across all markets will continue to affect take-up particularly in markets where development is limited such as Edinburgh and Aberdeen.

3 Savills expects that demand for prime offices will continue throughout 2020, already increasing due the post-election reduction in uncertainty and perceived risk. We have already seen a number of investors who were dormant last year actively seeking opportunities in the market now, suggesting demand in 2020 will be significantly up from 2019.

4 In Aberdeen we expect that strong demand will continue reducing total availability. This will be most prevalent in Grade A due to occupiers continued preference for high quality office space.

5 In Glasgow the occupational demand remains high with 1.3 million sq ft of named requirements currently considering their next move. Around 500,000 sq ft of these named requirements will commit in 2020 therefore maintaining or increasing the likely take-up for the year.

6 While there remains significant oversupply in west Edinburgh, much of this is very poor quality. For buildings that are capable of offering occupiers the quality that they require, we forecast potentially significant rental growth beyond the current headline of £21.50 per sq ft.

The limited availability of Grade A office space across all markets will continue to affect take-up.



Savills Commercial

We provide bespoke services for landowners, developers, occupiers and investors across the lifecycle of residential, commercial or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team

Research

Pearl Gillum

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

Nick Penny

Director
Head of Scotland
Investment
0131 247 3803
npenny@savills.com

Dan Smith

Director
Aberdeen
Office Agency
01224 971 134
dan.smith@savills.com

Mike Irvine

Director
Edinburgh
Office Agency
0131 247 3817
mike.irvine@savills.com

David Cobban

Director
Glasgow
Office Agency
0141 222 4101
dcobban@savills.com

Stuart Orr

Director
Scotland Investment
0141 222 4144
sorr@savills.com

Rod Leslie

Director
Scotland Investment
0131 247 3812
rleslie@savills.com

Mark Fleming

Director
Scotland Investment
0131 247 3733
mfleming@savills.com
