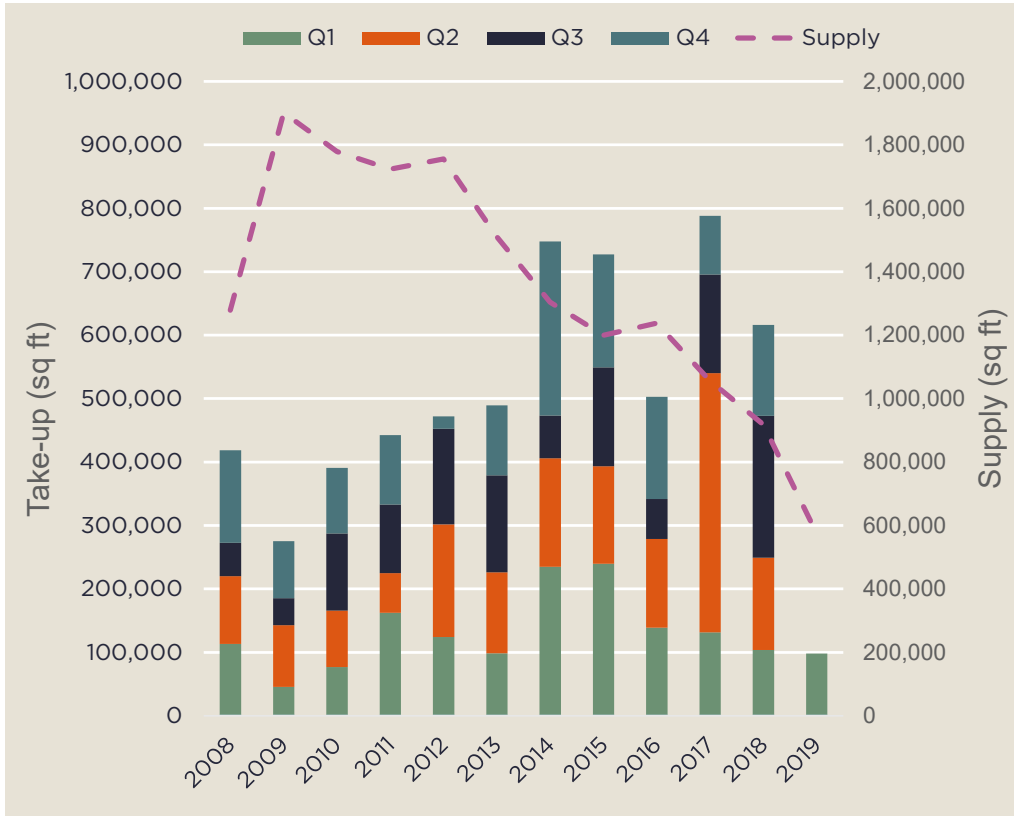


Edinburgh Offices



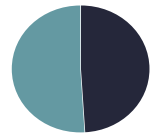
Summary Limited supply in central Edinburgh has continued to suppress take-up.



Source Savills Research

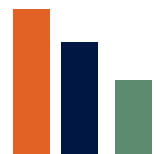
Key data points

from the first quarter of 2019



49%

Grade A space accounted for almost half of take-up in Q1 2019.



Supply

has been steadily decreasing since 2009



6%

Rental growth forecast - Savills expects to see rents of over £35 per sq ft achieved in Edinburgh city centre by the year end.

The tech sector dominated Edinburgh city centre take-up during Q1.

Supply in Edinburgh city centre has been on a downward trend since 2009 and is now at an all time low. Restricted availability is likely to have an impact on reported take-up levels moving forward. With limited choice many occupiers are likely to consider re-gears rather than relocating.

While the city centre remains the focus for most organisations, not all require a central location and supply restrictions may see a movement of these occupiers to more peripheral and out of town locations. However, notwithstanding these shortages, Edinburgh city centre experienced a 45% increase in Grade A take-up during Q1 2019.

90% of Grade A deals came from Tech industries, resulting in TMT being the most active business sector of Q1. Key deals included Amazon signing for 30,000 sq ft at Exchange Crescent and Epic Games taking 10,000 sq ft at Quatermile 2. Over the past 5 years Edinburgh has seen employment growth of 7% in the professional scientific and

tech industries and is forecast to see a further 11% over the next five years; resulting in a projected 3,800 net additional jobs in these industries.

Central Edinburgh currently has a total available office supply of 574,000 sq ft, of that 203,000 sq ft is Grade A, although much of this is considered secondary Grade A. Central Edinburgh currently only has enough supply to meet 1.1 years of demand and 0.8 years for Grade A, demonstrating a severe under-supply. Additionally, there is only one brand new Grade A building in the city centre with available space. 2 Semple Street, which has a total area of 40,000 sq ft, currently has a number of floors under offer, and with no new deliveries until 2020, it is clear that this space will let quickly.

Although no rental growth was seen during Q1, Savills forecasts that by the end of the year Edinburgh city centre will experience rental growth of 6%, with prime rents of over £35 per sq ft.

“Over the past five years Edinburgh has seen employment growth of 7% in the professional scientific and tech industries and is forecast to see a further 11% over the next five years; resulting in a projected 3,800 net additional jobs in these industries.”

Source Oxford Economics

INVESTMENT OVERVIEW

During the first quarter of 2019 Scotland saw total commercial investment volumes of £353 million, £110 million was for office space; accounting for 31%. Almost half of Scotland's office investment came from overseas investors (45%).

Due to a severe lack of stock, Edinburgh commercial investment volumes totalled £64 million, the lowest level since 2013. However, there are a significant number of assets under offer / exchanged, with an aggregate value in excess of £300 million that are due to complete in Q2 2019.

In Edinburgh, office space accounted for almost half of transactions (49%) totalling at £31 million, making offices the most popular sector of Q1 2019. UK institutions were the most active investor type, accounting for 61% of Edinburgh's office investment volumes during the first quarter of 2019.

Key deals during Q1 2019 included the purchase of Longmore House for £12.35 million reflecting a 5.5% yield and the sale of Interpoint for £18.95 million with a 6.4% yield.

Prime office yield in Edinburgh remains at 4.5% having stayed stable during the first quarter of 2019.

LOOKING FORWARD: WHAT WE EXPECT FROM 2019

Limited supply may well see end of year take-up fall below that of 2017 and 2018.

In other UK regional cities, the gap between refurbished and new build office space rents has narrowed. However, in Edinburgh a two tier rental system has remained with top refurbished rents of £32 and top new build rents of £35.

Due to the lack of new deliveries in the city centre in the next few years, Savills predicts that the gap between refurbished and new build rents will start to close, in line with other UK regional cities. Offering landlords with refurbishment opportunities significant growth potential.

Growing rents and limited supply in the city centre may cause tenants, who don't need to be in the city centre, consider west Edinburgh and other peripheral locations. West Edinburgh currently offers a 43% rental discount to the city centre, with prime rents of just £21.50.

Savills predicts that west Edinburgh will experience growth in both take-up and rents because of this. Q1 2019 was a particularly active quarter for west Edinburgh, suggesting this trend has already begun, take-up was more than double the Q1 10 year average and a 129% above Q1 2018.

West Edinburgh After a strong Q1, Savills expects to see take-up in west Edinburgh increase.

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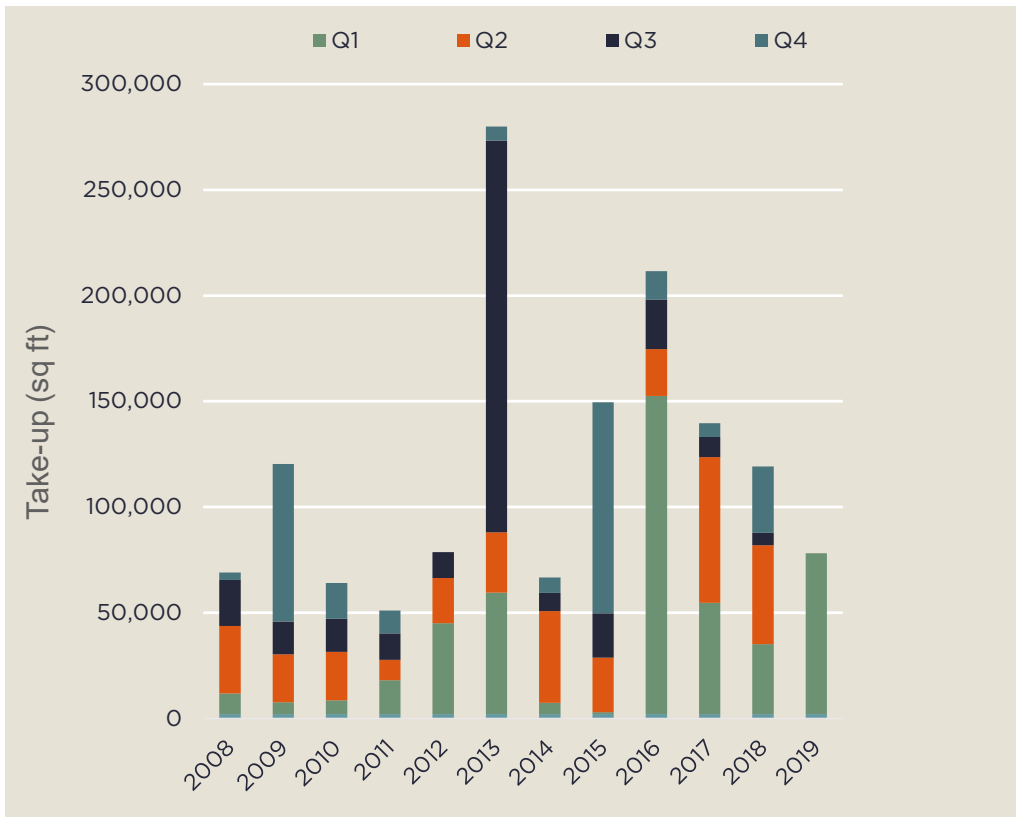
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Source Savills Research

👉 Q1 2019 was a particularly active quarter for West Edinburgh, in which take-up was more than double the 10-year Q1 average and 129% above Q1 2018 👉