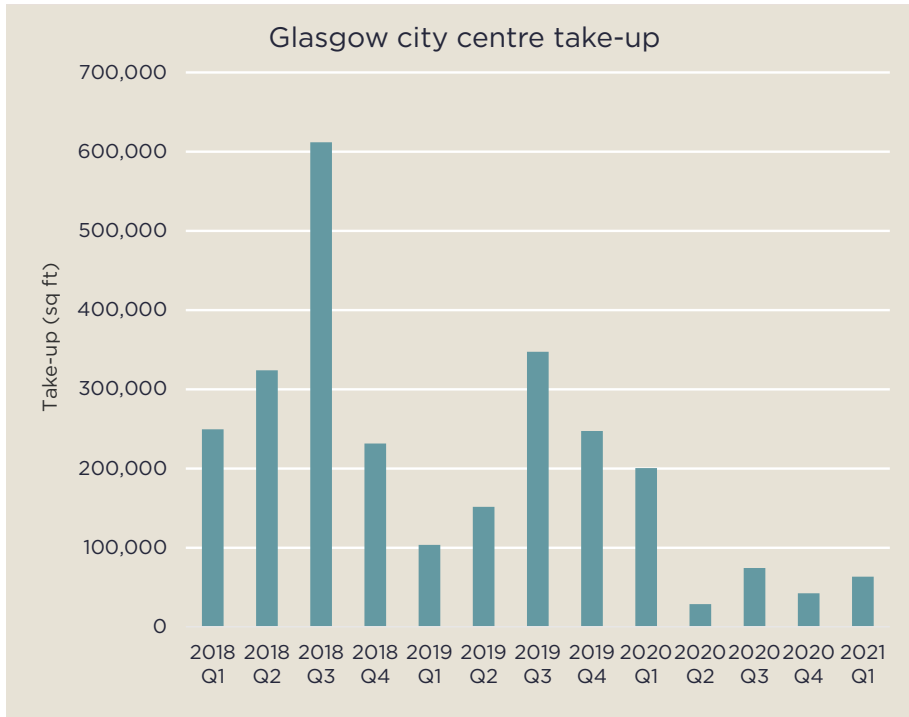


Glasgow Offices



Summary: Although take-up remained limited throughout Q1, the amount of office space currently under offer and the volume of requirements in the market present strong prospects for the remainder of 2021.



Source Savills Research

The return of start-ups and SMEs shows positivity in the market

During the first quarter of 2021, take-up in Glasgow city centre reached 63,388 sq ft, a 49% increase from Q4 2020 but a 67% decrease from the five-year quarterly average. Although take-up remained low, activity in the market is significantly up from the last three quarters. Glasgow's Q1 take-up fell significantly below the expected volume for the period due to slow progress in the completion of deals. However, Savills is aware of circa 170,000 sq ft of office space that was under offer throughout Q1 and is still yet to complete. Take-up would have been significantly higher if these deals had completed before the end of March.

Over 50% of take-up came from the Property Company, Development & Construction sector, although this was due to one large deal. During February, Multiplex Europe Ltd let 34,000 sq ft at 2 Cadogan Square, the largest office deal in Glasgow during Q1. The Public Services, Education & Health and Business & Consumer Services sectors also contributed to a significant proportion of take-up, accounting for 13% and 10%, respectively.

Glasgow's take-up is undoubtedly still impacted by the restrictions put in place to control the Covid-19 pandemic and, this will continue until offices are able to fully reopen.

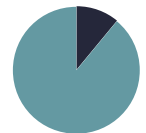
However, demand for office space in Glasgow remains at a pre-pandemic level and Savills is aware of circa 800,000 sq ft of live requirements currently in the market, demonstrating significant occupier confidence in Glasgow. Throughout Q1, Savills has witnessed an increase in requirements below 5,000 sq ft as start-ups and SMEs have begun to recover from the disruption caused by Covid-19. This demonstrates not only future confidence in Glasgow's office market but strength in the wider economy.

Availability in Glasgow currently stands at 1.1 million sq ft, reflecting a 23% decrease from the five-year average level. 37% of availability is Grade A, totalling 426,000 sq ft, an 80% increase since the end of 2020, of which 187,000 sq ft is new build and refurbished space completing within the next six months. This has given Grade A supply levels a much-needed boost, however, current demand still exceeds Grade A supply levels by 88%. 2 Atlantic Square is quoting rents of £34.00 per sq ft which, we believe will be achieved imminently this year. Savills expects rents to continue to rise in 2021, as new developments become available, reaching £34.50 per sq ft by the end of the year and moving up to £36.00 per sq ft by the end of 2025.

Key data points
from the first quarter of 2021



+49%
Q1 2021 take-up showed a 49% increase on Q4 2020.



18%
Grade A space accounted for 18% of take-up in Q1 2021.



£34.50 psf
Savills expects prime rents will reach £34.50 per sq ft during 2021.



88%
Current demand exceeds Grade A supply by 88%

“Savills is aware of circa 800,000 sq ft of live requirements currently in the market, demonstrating significant occupier confidence in Glasgow.”

GLASGOW IS EXPECTED TO SEE STRONG INVESTMENT ACTIVITY AS COVID-19 MEASURES EASE

During Q1, Glasgow saw total commercial investment of £117m, of which offices accounted for 24%, totalling £28.25m from just one transaction. Cuprum on Argyle Street was sold to international investors, Trinova Real Estate, during March, reflecting a 7.1% yield for the corporate acquisition.

While investment volumes remain low, this is not a reflection of investor appetite. In fact, investor interest is reported as being very strong, but Covid-19 restrictions on population movement have prevented building inspections and thus limiting investment activity.

As these restrictions are eased throughout the year, and offices repopulate, we expect strong investment activity. Savills can identify buildings earmarked to sell during the course of 2021 aggregating to approximately £330-£350m in value.

Disruption from Covid-19 caused prime yields throughout Scotland to move out by 25 basis points during 2020, and currently, in Glasgow prime office yields are 5.25%.

Sustainability is at the forefront of office development in Glasgow

Demand for high-quality regional offices has grown significantly over the last decade. With offices now being used as a recruitment tool and a key feature in the race for talent, occupiers want the best space to satisfy their workforce. A 2019 poll by Scottish Environment LINK found that over 80% of the Scottish public were concerned about the environmental effects of climate change and pollution, and 94% even expressed that they see Scotland's natural environment as 'very important' or 'quite important' to both Scotland's economy and its national identity.

The increased public interest in protecting our environment, as well as UK law requiring all companies to reach net zero carbon by 2050, has heightened the demand for sustainable offices. Upgrading to a sustainable office can be seen as an easy 'win' in reducing a company's carbon output, which will become increasingly important as we move closer towards net zero. From analysing the Scottish Government's data on non-domestic energy performance certificates (EPCs) Savills has discovered that just 1% of office buildings in Glasgow have an EPC score of A, demonstrating a significant need for EPC A-rated office buildings in the city.

Limited development has previously restricted occupiers access to new Grade A office stock. However, Glasgow is currently in the midst of a large phase of office development, and sustainability has been at the forefront of developers' plans. The significant demand in Glasgow has seen around 80% of the pipeline already pre-committed. However, there are three developments completing this year that still have availability. 2 Atlantic Square, Cadworks and 177 Bothwell Street are all completing during 2021 – each will be built to an extremely high specification with significant wellness and environmental features.

2 Atlantic Square is due to complete in the second quarter of 2021 and has 97,000 sq ft available. The development is expected to achieve a BREEAM rating of 'Excellent' as well as an EPC of 'A'. The building will also promote those inside to take part in sustainable behaviours with 180 cycle spaces, and electric car and cycle charging points. 117 Bothwell Street is also expected to achieve both BREEAM Excellent and EPC A. The development, which is due to complete in Q4, will promote employee well-being with its health hub, roof terraces and rooftop running track.

However, the development with the highest focus on sustainability is Cadworks, which is due to complete during the third quarter of 2021, and aims to become one of the most sustainable buildings in Scotland. Cadworks aims to achieve a BREEAM rating of 'Excellent' and an EPC of 'A'. The development is also WELL Gold-ready, incorporating the latest research on how a building can help its occupants feel physically and mentally healthier.

Cadworks will also promote sustainable behaviours from its tenants. The building will have 119 bike stations, electric bike and car charging points, a cycle maintenance station as well as Scotland's first integrated bike ramp providing unencumbered access to the building from street level.

The 94,000 sq ft speculative development will even be net zero carbon in operation and powered only by renewable electricity, which will be tracked via smart meters. 75% of supplies during the build come from the local area; materials such as glass, steel, wood and concrete are recycled. Cadworks completion is due to coincide with Glasgow's global climate summit in Q4 2021 and will be one of the first large-scale office buildings in the city to be fully carbon neutral in operation.



Cadworks aims to become one of the most sustainable buildings in Scotland. Currently 94,000 sq ft available through Savills.

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