UK Commercial – May 2019

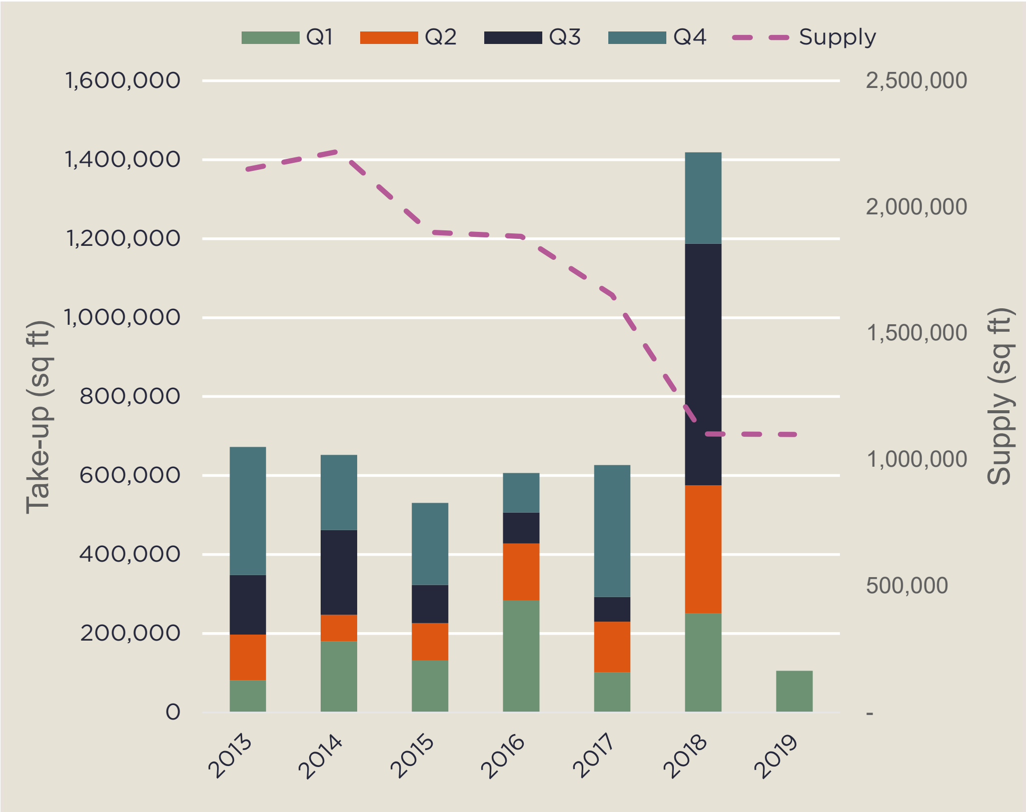
MARKET IN MINUTES

Savills Research

Glasgow Offices

savills

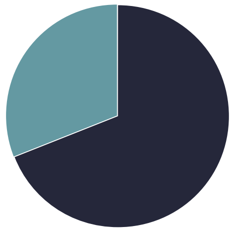
Summary Although overall Q1 take-up was down, Glasgow city centre saw an increase in deal count - demonstrating stability in Glasgow's office market.



Source Savills Research

Key Data Points

From the first quarter of 2019



31%

Tech, Media and Telecoms accounted for almost a third of Q1 take-up.

Deal count

was more than double Q1 2018, and 39% up on the Q1 five-year average.

5%

Rental growth forecast

Savills expects to see rents of up to £34.00 per sq ft achieved in Glasgow city centre by the year end.

Deal count in Glasgow city centre has more than doubled since last year

Following an exceptional 2018, momentum in Glasgow's office market continued into 2019. After a steady churn of smaller lettings, Q1 2019 take-up totalled at 103,500 sq ft achieved across 38 deals.

Although overall take-up, in sq ft, was lower than last year, deal count was more than double Q1 2018 and 39% above the Q1 five year average. A greater number of smaller deals indicates a stable market which is less susceptible to fluctuation, than one driven by large individual deals.

Glasgow city centre's under supply of Grade A office space was reflected in take-up, with just 19% of Q1 deals being for Grade A space. Currently Glasgow city centre only has enough Grade A supply available to meet the demand for 7 months of Grade A take-up, demonstrating a strong need for new Grade A offices in Glasgow city centre.

However, Glasgow has a number of refurbishments completing this year which will boost Grade A supply levels. By the year end there will be an additional 196,000 sq ft of Grade A refurbished space ready for occupancy within the city centre, although due to strong demand approximately 20% of this is already under offer. 151 West George Street, 55 Douglas Street, Ink Building and Sentinel are all currently under refurbishment and due to complete later this year.

Tech, media and telecoms accounted for almost a third of take- up (31%), resulting in TMT being the most active sector in Q1. Key deals to this sector included Gamma Telecoms signing for 15,700 sq ft of Grade A space at 2 West Regent Street and Onscale taking 4,600 sq ft at 310 St Vincent Street.

Over the past five years Glasgow has seen employment growth of 19% in the professional, scientific and tech industries, and is forecast to see a further 12% growth over the next five years. This is projected to create an additional 4,000 jobs in these industries, suggesting strong demand from these sectors will continue. This is reflected in the current requirements in the market with over 10% for tech and media companies but significantly higher when the actual use of the space is considered e.g fin-tech uses.

Headline rent in Glasgow city centre is currently £32.50, offering a 7% discount to Edinburgh city centre. Savills expects Glasgow will see rental growth of 5% in 2019 with prime rents reaching up to £34 by the year end.

“ **Due to the large number of requirements currently in the market, Savills expects end of year take-up will be considerably higher than the 10-year average. Savills forecasts that by the end of 2019 Glasgow city centre will see take-up of approximately 1 million sq ft.** ”

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INVESTMENT OVERVIEW

Glasgow is fast moving up the requirement lists of many international investors who are attracted by the city's diverse economy, strong occupational market dynamics and highly competitive income yields.

Overseas investors accounted for just over half of total Q1 volumes which stood at £50.6million, with approximately £170 million worth of deals under offer and expected to complete in Q2, a trend on course to continue for the rest of 2019.

The positive office dynamics are such that investor demand is healthy across the risk spectrum; secure income deals are highly sought after even when term certain income drops below 10 years, as evidenced by Moorfield selling 2 Atlantic Quay to French Fund Corum for £22.25 million reflecting a 6.25% yield, whilst confidence in the city's occupational market and predicted growth is leading to greater demand for short to medium term asset management plays, such as a private investor acquiring the multi-let 4 Atlantic Quay for £14.9 million, 6.62% NIY and CEG agreeing to acquire The Eagle Building for £8.5million, a substantial refurbishment opportunity.

Prime office yields currently sit at 5.00% -5.25% NIY having compressed 25-50 basis points since this time last year.

LOOKING FORWARD: WHAT WE EXPECT FROM 2019

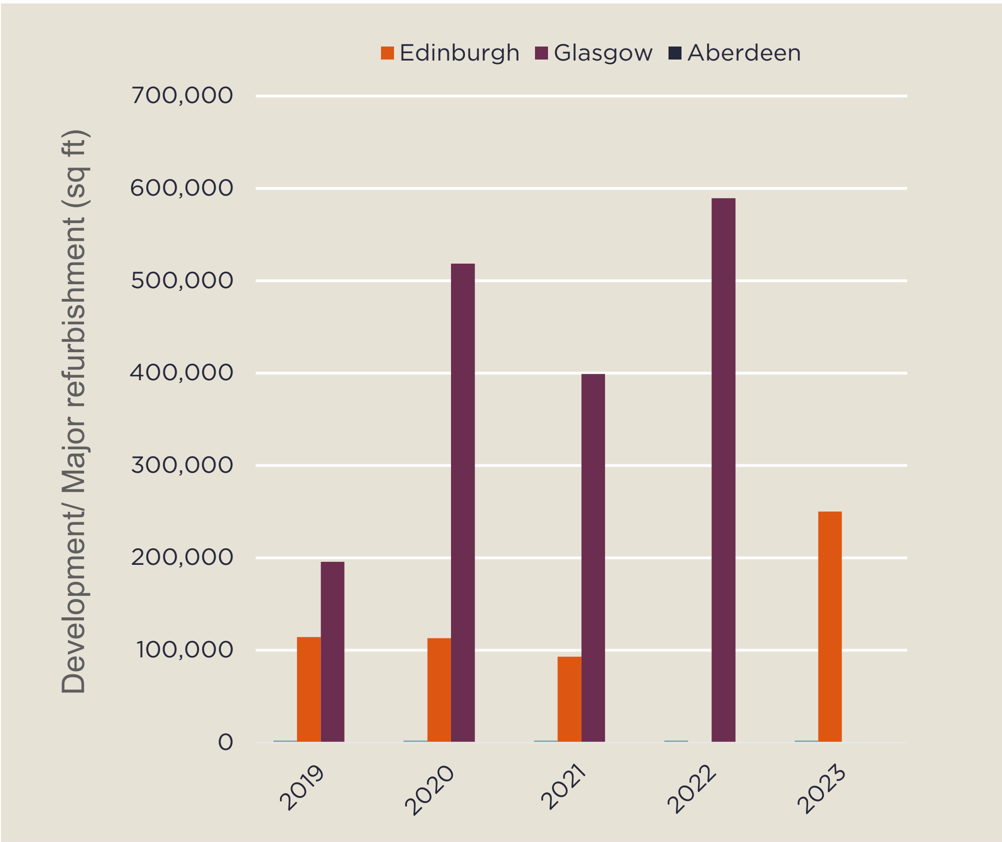
Due to the large number of requirements currently in the market, Savills expects end of year take-up will be considerably higher than the 10-year average. Savills forecasts that by the end of 2019 Glasgow city centre will see take-up of approximately one million sq ft - reflecting growth of 62% from average take-up levels.

Any new pre-lets within the city centre could achieve rents higher than the current headline of £32.50. Savills predicts that by the year end rents in Glasgow city centre will reach up to £34 per sq ft, reflecting rental growth of 5%.

Glasgow is set to see an increase in Grade A supply this year due to refurbishments reaching completion, therefore Savills expects Glasgow city centre will see an increase in Grade A take-up due to increased supply on the market.

Whilst prime office yields have trended down to 5.00-5.25% NIY in the last 12 months, Glasgow still offers an attractive yield discount to other UK and European regional cities. Couple this with significant positive letting activity ongoing we expect investor appetite to remain strong over the next 12 months.

Glasgow is currently set to see the most new and refurbished office space become available, within Savills key Scottish markets, over the next five years.



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> **By the year end there will an addition 196,000 sq ft of Grade A refurbished space ready for occupancy within the city centre. 151 West George Street, 55 Douglas Street, Ink Building and Sentinel are all currently under refurbishment and due to complete later this year.**

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