UK government will relocate over 1,000 jobs to Scotland

On the 15th March 2021, the UK government announced plan to relocate thousands of civil service roles outside of central London. Glasgow, Edinburgh and the surrounding areas will therefore benefit from new jobs and investment from the UK government, with the Cabinet Office and FCDO relocating over 1,000 civil service roles to the region.

The new government office in Glasgow will be set up within the next three years and will be home to at least 500 officials out of the Cabinet Office’s 8,500 staff. The UK and Scottish Governments already have a network of offices based in Glasgow city centre so this arm of the cabinet office will join a cluster of Government offices in Glasgow.

While it is not yet known where in Glasgow the Cabinet Office plan on basing their office, with the significant development currently happening in Glasgow, they will have the option of many high-quality offices to choose from. However, they will have to act quickly if they wish to secure the highest-quality space in Glasgow. As at present, around 80% of space under construction is already pre-committed.

Of the developments completing this year, three have already available space: 2 Atlantic Square, 2 Cadworks and Bothwell Exchange.

During 2020, take-up in the core Scottish markets (Aberdeen whole market, Edinburgh city centre and Glasgow city centre) reached over 1.1 million sq ft. Overall take up, for the three cities combined, was down from both 2019 and the five-year average, which was unsurprising due to the significant disruption caused by the Covid-19 pandemic. However, Edinburgh saw an uplift in take up and a number of key transactions occurred across Scotland. Two deals in excess of 100,000 sq ft completed; Baillie Gifford agreed to 280,000 sq ft at new development The Haymarket in Edinburgh, and BP leased 102,311 sq ft at Aberdeen International Business Park. Another notable deal was The Scottish Government, which leased 91,000 sq ft at 1 St Vincent Street, Glasgow.

Baillie Gifford’s deal at The Haymarket saw Edinburgh’s 2020 take up exceed 2019 by nearly 30%. Edinburgh was therefore the only UK regional city in which 2020 take-up exceeded 2019. Overall, office take-up in Scotland was 48% below 2019, which is impressive considering the rest of the UK was almost 40% down on the previous year. This is especially significant as offices in Scotland have been inaccessible to tenants since March 2020, while in England and Wales, offices were able to open throughout the summer when Covid-19 cases reduced. However, FIT survey found that 95% of office workers in Scotland believed the office would remain a necessity. 46% believed this to be the case for at least the short-term future, while the remaining 4% believed it will always be a necessity. This demonstrates the long-term future confidence from workers in Scotland’s office market.

The Insurance & Financial Services sector accounted for 25% of core Scotland take-up, with Baillie Gifford’s deal in Edinburgh accounting for 77% of this key deal also included Wesco Credit Services leasing 48,000 sq ft at 30 St Vincent Street, Glasgow, and Cadence leasing 18,000 sq ft at 40 Princes Street, Edinburgh. The Extraction & Utilities and Public Services, Education & Health sectors also accounted for a significant proportion of take-up, accounting for 19% and 15% of take-up, respectively.

Edinburgh was the only UK office market that showed an annual uplift in take-up for 2020.

INVESTMENT OVERVIEW

Scotland saw total commercial investment volumes of £1.2 billion throughout 2020, a 46% decrease on 2019. Offices accounted for 32% of volumes totalling £838 million, significantly below the average of around £900 million.

Edinburgh saw the highest levels of office investment (£286 million), with the two largest deals in Scotland occurring within the city. Glasgow received office investment totalling £76 million while no offices were purchased in Aberdeen during 2020.

Overseas investors were the most active, accounting for 75% of Scotland’s office investment volumes totalling £285 million, demonstrating strong international confidence in Scotland’s economy. Overseas investment into Scotland has come from a variety of countries in Europe and the Far East.

Savills expects the majority of prime offices to increase during 2021 as occupiers return to offices in Scotland. With the number of Covid-19 cases rapidly decreasing and the vaccine roll-out progressing, it is likely that nodal points will begin to return to the market this year and investors will show an increased appetite for Scotland’s prime office buildings.

Disruption from Covid-19 caused prime yields throughout Scotland to move out by 25 basis points during 2020. Therefore, in Edinburgh, prime office yields currently sit at 4.75%; Glasgow at 5.25% and Aberdeen at 6.75%.

Nonetheless, each market remains affected by limited Grade A supply and, in Edinburgh and Glasgow, a low availability of the development pipeline.

There is currently no office space under construction in Aberdeen, although Grade A supply continues to decrease, falling by 26% in 2020. Total supply in the core Scottish markets, therefore, sits at 4 million sq ft, of which, just 26% is Grade A.

The significant city centre demand for Grade A office space has assured Edinburgh the highest rents within the core Scottish markets, with prime rents of £35.50 per sq ft. Although, with a number of new developments reaching practical completion this year, we expect to see an uplift in Grade A take-up throughout 2021, demonstrating occupiers’ continued flight to quality in Scotland.

Weaker take-up as a result of the Covid-19 pandemic saw average office yields increase across the UK. However, the key Scottish cities were less affected, increasing by just 2% compared to 26% for the rest of the UK major cities.

Scotland’s office availability was less affected, increasing by just 2% compared to 26% for the rest of the UK regions.

What to expect from Scotland in 2021

Glasgow’s Q1 2021 take-up is currently expected to exceed the total of Q2-Q4 2020. It is therefore expected that 2021 take-up will show a significant uplift on 2020 levels. There is a strong demand for new developments, and with three completing this year still with available space, a high proportion of take-up is likely to be for Grade A space facilitating rental growth.

For this year, Glasgow has seen an increase in demand from sub 5,000 sq ft occupiers, demonstrating a regeneration in activity from SMIs following disruption from Covid-19. We expect this to continue throughout 2021, demonstrating confidence in Glasgow’s office market and future growth in the local economy.

In Aberdeen, we have already witnessed older, poorer stock converting to alternative use. We expect this will continue throughout 2021, streamlining Aberdeen’s office availability.

Occupiers’ continued flight to quality will see the already limited availability of Grade A office stock across all markets reduce further throughout the year.

The proposed energy transition zone is expected to bring in a wave of new, green and renewable energy suppliers into Aberdeen over the next few years.

Savills Office FIT survey found that 92% of people working in Scotland believed the office would remain a necessity.
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