UK Commercial – March 2021

SPOTLIGHT
Savills Research

Scotland Offices

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Occupational • Investment • Outlook

1.3 million sq ft
Core Scotland 2020 take-up

45%
Grade A take-up share in 2020

Top sectors
Insurance & Financial Services (29%), Extraction & Utilities (29%) & Public Services, Education & Health (13%)

£35.50
Headline rent - achieved in Edinburgh city centre

UK government will relocate over 1,000 jobs to Scotland

On the 15th March 2021, the UK government announced plan to set up a secondary HQ in Glasgow as part of its plan to relocate thousands of civil service roles outside of central London. Glasgow, East Kilbride 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 available space; 2 Atlantic Square, Cadworks and Bothwell Exchange have a combined 272,000 sq ft of office availability. However, once this is let, there will be no new developments available until at least 2024.

Savills expects the majority of the remaining development pipeline will be let during 2021, due to occupiers continued flight to quality, which has been accelerated due to the Covid-19 pandemic.

Cover: Planning recently granted for LandSec's new office in Glasgow, One Dundas Square.

The Haymarket, Edinburgh where Baillie Gifford signed for 280,000 sq ft during Q3 2020.

Occupational overview

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

During 2020, take-up in the core Scottish markets (Aberdeen whole market, Edinburgh city centre and Glasgow city centre) reached over 1.2 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 102,331 sq ft at Aberdeen International Business Park. Another notable deal was by The Scottish Government, which leased 91,000 sq ft at 220 High 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 key UK regional city in which 2020 take-up exceeded 2019. Overall, office take-up in Scotland was 28% 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. Savills Office FiT survey found that 92% of office workers in Scotland believed the office would remain a necessity. 52% believed this to be the case for at least the short-term future, while the remaining 40% 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 29% of core Scotland take-up, with Baillie Gifford's deal in Edinburgh accounting for 77% of this. Key deals also included Wescot Credit Services leasing 28,000 sq ft at 310 St Vincent Street, Glasgow, and Cadence leasing 85,000 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 13% of take-up, respectively.

45% of deals were for Grade A space, slightly below the average proportion of around 50%. However, 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 office availability 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.

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 20% 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 secured Edinburgh the highest rents within the core Scottish markets, with prime rents of up to £35.50 per sq ft, although, shortly followed by Glasgow, which shorty expects to report rent of £34.00 per sq ft. In Aberdeen, prime office rents remain at £32.50.

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 £383 million, significantly below the average of around £900 million.

Edinburgh saw the highest levels of office investment (£266 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.

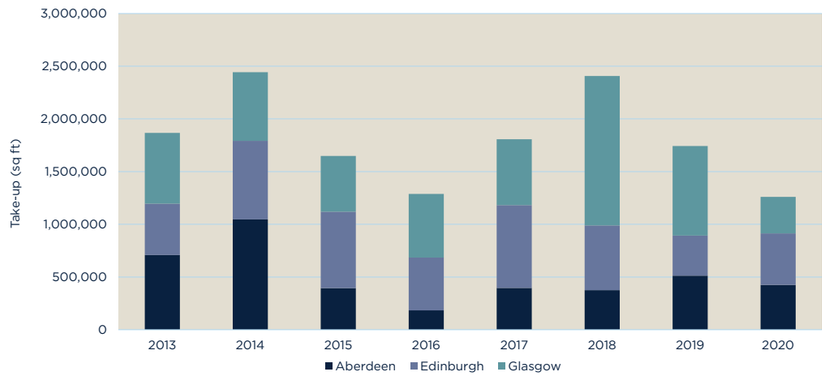
Savills expects that demand for prime offices will increase during 2021 as occupiers return to their offices in Scotland. With the number of Covid-19 cases rapidly decreasing and the vaccine roll-out progressing, it's expected that normality will begin to return to the market this year and investors 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%.

75%
of office investment into Scotland came from overseas.

Core take-up

Disruption caused by the Covid-19 pandemic limited Scotland's 2020 office take-up.



Source Savills Research

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

5%
Office-based employment growth
forecast in Scotland over the next five years

40,000
Additional office-based jobs
forecast in Scotland over the next five years

17.5%
GVA growth
forecast in Scotland over the next five years

Source: Oxford Economics

Outlook

What to expect from Scotland in 2021

1 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.

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

3 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.

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

5 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. We therefore expect to see increased activity from the renewable energy sector in Aberdeen during 2021.

6 In Edinburgh, Savills expects an increasing rental differentiation will develop between offices that are able to facilitate wellness and ESG requirements and those that cannot.

7 Throughout 2020 there were significant changes in the needs of occupiers. As a result, a number of short-term lease extensions were granted. It is therefore expected that there will be a significant increase in occupier activity as occupiers work out their specific need in terms of office quantum and location.

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

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