GVA James Barr

A **Bilfinger Real Estate** company

Research

Scotland's Prospectus 2015

January 2015

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"2014 was a truly significant year for Scotland. In 2015, the economic building blocks are in place that will generate further growth in real estate across all sectors in our key regional cities."

Keith Aitken

Regional Senior Director – GVA James Barr

"In 2014, Santander's team of Real Estate specialists were able to play their part supporting a significant number of important transactions across Scotland. In 2015 we very much see further growth opportunities and are committed to continue supporting the ambitions of our Real Estate clients."

Nick Peet

Divisional Head, Real Estate Finance for Scotland

Santander

Introduction

2014 has been a roller-coaster year in terms of investment trading volumes in Scotland, primarily due to the Scottish Independence Vote on 18 September and the subsequent announcement on stamp duty. As can be seen from the charts in our Investment section overall investment volumes in the UK totalled c £60 billion for the year, 20% up on 2013 whilst in Scotland the total will be in the order of £2.4 billion, the best trading year since the peak of the market in 2006 and 2007 when volumes reached c £3 billion. However, the 2014 total is skewed by five transactions of in excess of £100 million each.

Growth prospects

Estimates from Experian suggest that Scotland achieved healthy economic growth of around 2.8% in 2014 (see Figure 1), above the average for the regions outside the Greater South East. Although we expect this to moderate a little, broadly in line with the UK, Scotland should still see healthy and above trend growth over the next two years.

Scotland has a relatively high exposure to the finance & insurance sector compared with most of the UK (except London), and the sector saw considerable contraction of around 20% during the downturn. However, growth resumed in 2013, and the sector should continue expanding at a steady pace over the medium term. Output in the professional services sector in Scotland has grown very strongly over the last two years, by an estimated 10%, and it is forecast to remain a leading growth sector. These trends are particularly positive for occupier demand in the office sector.

The Economy

The economic background

Perceptions of economic performance and prospects can change quickly as new economic events and themes develop. Looking back to a couple of years ago there was a worry that the UK economy would experience a triple dip recession and, in the most pessimistic commentaries, that even reaching 2% growth might prove to be a major challenge. Now, with the latest published figures, which include revisions to previous official data, it appears that the economy did not even suffer a double dip recession. Furthermore, we have now enjoyed two years of continuous economic growth and GDP is about 3% above its pre-recession level.

As with any overall performance figure, not all constituent parts of the economy will share exactly the same experience. While confidence of both consumers and businesses has increased over the past two years, in the most recent quarter it has been consumer spending that has shown the strongest contribution to overall growth, with business investment recording an unexpected fall. In terms of employment, the private sector has been growing – by around 900,000 jobs over the past year – while the public sector has been shrinking. Unemployment rates have fallen throughout the UK, with the unemployment rate in Scotland now at 5.6%, down from 7.3% a year earlier and the employment rate in Scotland, at 74%, is at its highest since the middle of 2008.

Future economic growth

Economic forecasters are expecting the UK economy to grow further this year, by around 2.5%, and unemployment to fall further. This view has been little changed over the past six months. But there has been one major change in economic conditions recently - the fall in global oil prices. While prices of other commodities have also fallen, it is the oil price fall from $112 per barrel at the end of June to just $56 per barrel at the end of December, the lowest level since the middle of 2009 that has attracted the most attention. Its effect has already been seen in a sharp reduction in the rate of inflation in the UK.

In rather simplistic terms, the fall in the price of oil, assuming that it is not a 'flash in the pan' that will soon be reversed, has positive effects for oil consumers but negative ones for oil producers. As a result, the UK and Scottish economies will see a mix of these effects because of the importance of the North Sea oil economy and the oil industry generally, which could prove especially important for the Aberdeen region. Lower inflation, and in particular lower fuel prices, should increase households' discretionary incomes and their spending. This effect should bolster economic growth. Quite how North Sea oil companies (and other companies in the wider oil business) will react to the fall in oil prices in terms of their production, investment and employment decisions is yet to be seen. This therefore adds a degree of uncertainty to the economic outlook for both Scotland and the UK that market participants were not anticipating six months ago.

Real average earnings

Lower inflation, with the Governor of the Bank of England already needing to write a letter of explanation to the Chancellor of the Exchequer for the undershoot of the inflation target in December, looks set to be the new major economic theme for this year. Adding lower inflation to the signs that average earnings growth is now starting to edge up as the labour market has improved means that this year could mark a significant turning point in real average earnings trends. After a prolonged period of falling real average earnings, this may emerge as the major turnaround theme of the year – time will tell. But in the coming months one feature that is likely to attract increased interest is the inflation forecast produced by the Bank of England. With inflation at just 0.5% in December, the next forecast, which will be in the February Inflation Report, is likely to be a closely watched economic factor.

Figure 1

Property Development

Introduction

The land and development sector in Scotland has experienced a significant improvement in 2014, led in the main by a surge in activity in the oil and gas sector in Aberdeen. There have also been a number of new and active participants in the market over the last two years. Attitude to risk and the continued importance of the occupier remain as key drivers to reward and success. Funding of new development has changed with new sources of direct equity (UK & Foreign) linking up with skilled experienced developers with good local knowledge. This new form of collaboration will continue in 2015. One of the biggest concerns for the Scottish development scene is the lack of readily available, quality opportunities – particularly evident in the capital city, Edinburgh.

Key sectors

The occupier remains 'king' in the creation of new commercial stock. 2013 and 2014 have seen a number of emerging sectors enter the commercial property market, balanced by the notable withdrawal of others. Most developers are "in tune" with this rebalancing and are seeking opportunities that match these requirements. Highlighted below are a selection of emerging and evolving sectors:-

Food retail

All of the four national operators are essentially in rationalisation mode with very little (if any) new site acquisitions under way. New and adjusted hurdle rates and sales forecasts suggest that land values achieved at Q4, 2014 are now 60% - 70% lower. This has presented a real opportunity for discount food operators such as Aldi and Lidl who have sought to expand rapidly. As their space needs are smaller, they prefer to co- locate with non-food discount retailers such as B&M or Home Bargains, family themed pubs or fast food/drive thru' operators. This combination of uses is required to drive footfall. GVA foresee that this style of neighbourhood centre development will increase further in 2015.

Residential – private rented sector (PRS)

The PRS sector has doubled in size in Scotland over the last 15 years and now represents an eighth of all homes in Scotland. However, the development of bespoke developments for let is still at an early stage but seems focussed in Edinburgh where the dynamics of high sales rates, desired city living and a high student population have served to command significant interest from developers and financial institutions in this sector. In 2013-15 in the order of 3,700 student bedrooms will have been developed with a number of developers still keen on further development close to Edinburgh University.

The modern PRS development requires a higher allocation of amenity space which impacts on profitability when compared to standard residential development. Also, the issue of the affordable provision requires to be addressed. Some would argue that PRS is a reaction to high prices and seeks to address affordability and difficulties in the mortgage market so should not be further penalised by unrealistic, affordable housing requirements. Scottish Government is proposing a new standard tenancy agreement and consultation that seeks to listen to both tenants and landlords is underway.

Technology, media and telecoms (TMT)

Edinburgh has traditionally been regarded as one of the UK's leading financial centres. This GVA believe will continue, supported by Standard Life's recent announcement to consolidate their presence in the city at 3-8 St Andrew Square. However, GVA recently reported in our Q4 2014 Edinburgh Office Market Review a substantial increase in take up in the emerging TMT sector. Rockstar's acquisition of Barclay House on Holyrood Road has led the march, plus Skyscanner's rapid growth at Quartermile and a number of lettings led by Codebase at Argyle House at West Port. GVA forecast further growth in this sector.

In Glasgow, the TMT sector is showing signs of life with new entrants - Gamma Telcoms (6,000 sq ft), Skyscanner (22,500 sq ft) and Global Radio (13,500 sq ft). Significantly, Skyscanner and Global Radio have not shied away from paying top rents in prime Grade A Glasgow Office buildings, perhaps following the trend in Edinburgh.

Aldi

Quartermile, Edinburgh

Key transactions

In 2014 a number of key development opportunities were sold or placed under offer. Much of the activity was recorded after the referendum vote on 18 September. These transactions included:

- 44 York Place, Edinburgh – acquired by Consensus Capital and subsequently pre-let to Premier Inn. The investment was then sold to USS
- Lismore House, 127 George Street, Edinburgh – sold to London Serviced Apartments Ltd for a serviced apartment development
- Erskine House, Queen Street, Edinburgh – also sold to London Serviced Apartments Ltd
- King Stables Road, Edinburgh – this Council owned site recorded over 25 bids at a recent closing date and a shortlist of six parties are now being invited to refine their proposals for a second closing date in January, 2015
- Bothwell Plaza, Glasgow – acquired by HF Developments. The previous development had consent for over 300,000 sq ft of offices/hotel. A city council ground lease requires to be negotiated and a design team appointed before a new planning consent is sought
- Broadway 2, Renfrew Street, Glasgow – acquired by Titan Developments on which the consented scheme extended to 149,000 sq ft of offices. Broadway 1 is let to Tesco Personal Finance

Erskine Hoouse, Edinburgh

Looking forward in 2015

GVA foresee an increase in demand across all sectors within the capital city, with particular focus on the hotel, residential, office and retail sectors. The biggest issue facing eager developers is the lack of "oven ready" opportunities. If Edinburgh can secure a 'City deal' (£1billion) to help fund major infrastructure and housing projects then this will further enhance the city's appeal.

In Glasgow, their City deal extending to £1.13billion will significantly help major projects. The extension of Buchanan Galleries in the city centre will further boost the city's appeal as a prominent UK retail centre. This will focus the prime pitch in and around the shopping centre and will alter the retail profile of pitches like Sauchiehall Street. Hotel development will continue in the city on the back of an exceptional year. In terms of office development, new development will be tempered as developers/funds await the completion of 1 West Regent Street, 110 Queen Street and St Vincent Plaza. Pre-letting has occurred already at these new build developments with Global Radio pre-letting the 7th floor of 1 West Regent Street in December 2014, Brodies leasing the 8th and part 7th floor at 110 Queen Street, and Grant Thornton pre-letting the 9th floor of 110 Queen Street, earlier in 2014. It is expected that rents in excess of £29 psf have been achieved.

In addition, floors 7-10 are under offer at 1 West Regent Street, as is the 5th floor of 110 Queen Street.

If all deals legally complete, this represents 141,000 sq ft which is 31% of the total new build stock under construction and due to complete during 2015.

In Aberdeen, the unexpected nature of the fall in oil prices will have an adverse impact on oil producers. In turn, the considerable momentum that had built up in the Aberdeen property market will understandably slow. Prime office rents will be pitched at £33 psf although incentives to achieve this will require to increase. A number of consented schemes have commenced, but will be hoping for an improvement in the oil price during the latter half of 2015.

Current forecasts suggest a further fall to $50/barrel or lower and as a consequence, oil & gas service companies will be required to focus on saving costs rather than further expansion in the immediate term.

In 2015, GVA also forecast a number of new corporate entrants to the development market which will comprise known traditional developers linking up with new sources of equity. Recent examples of this include; AMA and Soutar Investments, London & Scottish Investments and Tosca, and Duddingston House Properties and Catalyst Capital LLP.

In Edinburgh, sites and opportunities will become available at Fountain South, Springside, Fountainbridge and Dewar Place. In Glasgow, interest will continue in the surplus Glasgow College's estate and GVA forecast that development will actually commence at Edinburgh St James (Q4 -2015) and will continue around Haymarket at New Waverley, 3-8 St Andrew Square and Quartermile.

However, speculative development will be limited as a result of the uncertainty regarding the 2015 UK General Election, construction cost inflation (expected to increase by 6% in 2015) and occupiers remaining cautious about expansion.

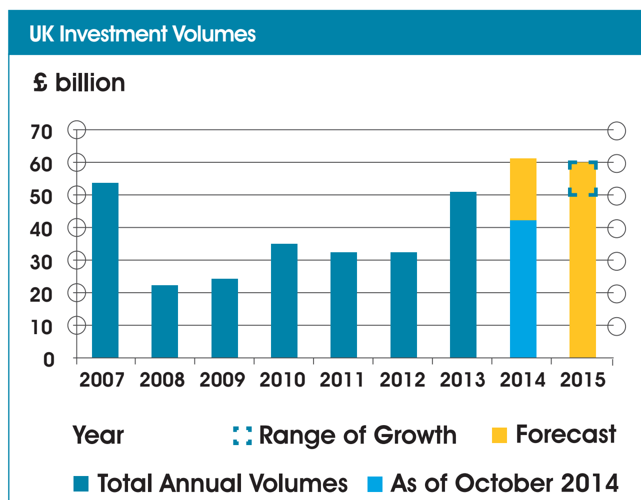
A number of land surplus clients will seek to offload assets in 2015 to include Local Authorities, NHS Trusts, Banks and the Ministry of Defence/Defence Infrastructure Organisation.

Investment market

Introduction

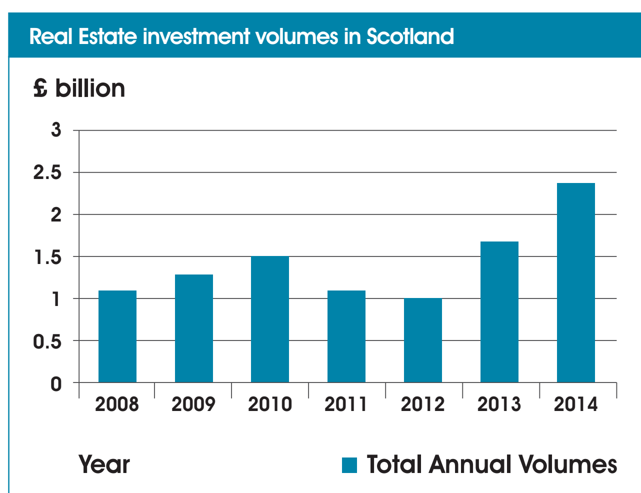
2014 has been a roller-coaster year in terms of investment trading volumes in Scotland, primarily due to the Scottish Independence Vote on 18 September and the subsequent announcement on stamp duty. As can be seen from the charts below, overall investment volumes in the UK totalled c £60 billion for the year, 20% up on 2013 whilst in Scotland the total will be in the order of £2.4 billion, the best trading year since the peak of the market in 2006 and 2007 when volumes reached c £3 billion. However, the 2014 total is skewed by five transactions of in excess of £100 million each.

UK Investment Volumes



Source: Property Data

Real Estate investment volumes in Scotland



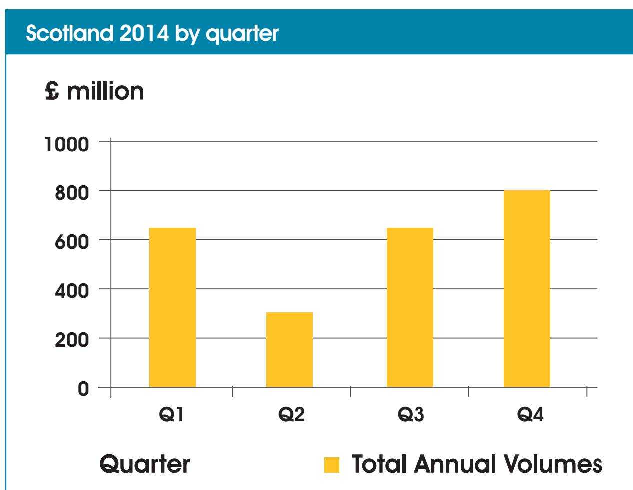
Source: Property Data

Interestingly, since 2008 the trend in Scotland has followed that of the UK but with a bigger bounce in trading volumes in 2014 (up by 45%).

The chart below indicates the impact of the referendum vote, as the market paused for breath from early May to the end of August.

Overall, the political environment has led to a lack of open market activity with a number of transactions agreed privately or with limited bidding on a confidential basis, including recent transactions such as Aberdeen International Business Park, 50 George Square Glasgow and 110 Queen Street Glasgow.

Scotland 2014 by quarter



Source: Property Data

Aberdeen International Business Park

It is anticipated that more stock will trade openly in 2015 with increased activity by overseas high net worth investors and institutions. There is however a question mark on potential trading activity in Aberdeen with the recent significant and continuing drop in the oil price. GVA believe that prime investment stock is unlikely to be adversely affected but assets with shorter term income profiles could be difficult to trade until the oil price starts to stabilise and/or starts to increase. It is likely that tenants will seek larger incentives on new office space.

Interestingly, the spilt between sector and geography shows that Aberdeen was responsible for circa 15% of all Scottish investment activity whilst the office sector was responsible for 30% of all Scottish transactions. This compares with a total of 40% office sector transactions in the UK market. It is anticipated that there will be more trading in the office markets in 2015 in Scotland moving toward the long term trend of c 35%.

The Silverfin, Aberdeen

Major transactions and themes

There were ten transactions in excess of £50 million lot size and five transactions in excess of £100 million, responsible for £1.1 billion out of a total of £2.4 billion. The five deals in excess of £100 million included four large shopping centre deals. These five deals were The Centre, Livingston, Aberdeen International Business Park, Buchanan Galleries Shopping Centre, East Kilbride Shopping Centre and Overgate Shopping Centre, Dundee.

Other major transactions that occurred in the year include:

- Maersk House, Aberdeen – purchased by a private overseas investor
- Fife Park, St Andrews – student university campus purchase by M&G
- Cameron Toll Shopping Centre, Edinburgh – purchased by Oaktree Capital with Hunter Fund Management
- Aberdeen Energy Park – purchased by Moorfield
- St James Retail Park, Dumbarton – purchased by Legal & General
- Rolls Royce, Inchinnan – purchased by EPIC UK Ltd
- New Uberior House, Edinburgh – purchased by Aerium Finance Ltd
- The purchase of the MEPC business park portfolio of three assets that included Hillington Industrial Estate by Patrizia/Oaktree

The above indicates a healthy broad spectrum of investors with larger transactions supported by Funds from the U.S. It is expected that this will be a continuing theme of the market in 2015 reinforced by increasing investment from the Middle and Far East and possibly Germany. There has also been renewed confidence and activity in the Grade A office development sector, albeit there has been limited trading in the three main city centre office markets in Aberdeen, Glasgow and Edinburgh.

The office funding transactions that were agreed in 2014 are summarised below:

- The Silver Fin, Union Street, Aberdeen – funded by Titan Investors to British Airways Pension Fund
- Quartermile 3 & 4, Edinburgh– funded by Moorfield to M&G
- 110 Queen Street, Glasgow – funded by BAM to Deutsche
- 3-8 St Andrew Square – funded by Standard Life

It is anticipated that there will be increased activity in the Grade. A funding market in 2015. However, this activity is likely to be restricted by a lack of schemes with planning consent.

Predictions for 2015

GVA anticipate a more regular quarter by quarter trading activity during 2015, with investment volumes likely to be in the order of £2.4 billion to £2.6 billion.

There has been some pricing uncertainty in the market in 2014 due to a lack of trading in the £1-£30 million lot size bracket and thewe do anticipate that this will change during the next 12 months, with more open market sales transactions leading to increased confidence in asset pricing.

It is also anticipated that there will be increased investment from overseas institutions. This is likely to come from German funds who believe London to be expensive and also from sovereign wealth funds and private net high worth investors from the Middle and the Far East. An example of this was the purchase in December 2014 of the Lloyds HQ office in Morrison Street, Edinburgh by such an investor for c £105 million.

In terms of sector activity, it is unlikely that there will be the same volume of trading in the shopping centre arena but GVA believe that this slack will be taken up by increased activity in city centre office volumes and in further multi-let industrial and distribution activity.

Scotland has also fared well in gross capital formation in 2014 and with stable interest rates and bond yields we anticipate that there will be a strong demand to invest. However, the potential areas for concern surround the impact of a possible EU referendum, the falling oil price and continuing euro-zone weakness.

Finally, after the frustrations and uncertainties in 2014, could it be that in Scotland in 2015, both domestic and International investors see Scotland as a secure location for investment and a good risk differentiator compared to the rest of the UK/Europe, with an improving economy, increased confidence and an attractive transparent market?

With improving prospects for genuine rental growth in most sectors and with an increasing weight of money for quality assets, GVA predict that yields will improve by 25 basis points during the year for prime and good secondary stock, but with a question mark over the sustainable value of poor secondary assets and locations.

Offices

Office take - up during 2014 considerably outperformed the five year average across the three main office markets of Edinburgh, Glasgow and Aberdeen, following on from a stable and much improved 2013.

1 West Regent Street, Glasgow

The Referendum did delay occupier decisions during 2014 between May and September, which has resulted in a few transactions in advanced legals slipping into 2015. Notwithstanding this, the Scottish Markets are following a similar, much improved trend to the other sizable regional office markets of Birmingham, Manchester, and Bristol etc. which similarly have performed strongly.

Glasgow

Glasgow has experienced a significant improvement in 2014. The city has recorded a dramatic reduction in demand during the (post) recessionary years, with take up falling off dramatically reaching a five year low in 2011 at 358,000 sq ft (and 2012 at 372,000 sq ft).

In contrast, annual take-up for 2014 was 665,000 sq ft, considerably above the five year average of 536,000 sq ft following on from an excellent 2013 at 725,000 sq ft supported by Scottish Power's pre let of 220,000 sq ft.

Since 2012, a sustained increase in demand has seen existing Grade A stock almost erode with only 282,000 sq ft currently available and ready for immediate occupation. Only one existing building (Cuprum) can accommodate a requirement larger than 50,000 sq ft and 123 St Vincent Street can accommodate a requirement of 45,000 sq ft. Beyond that, the remaining existing Grade A stock is spread over a number of properties which on the whole have smaller floor plates.

Pre-letting activity at the three buildings currently under construction is significant, partly as a result of lack of existing availability, but also due to the enhanced specification and green credentials of the new developments in comparison to the last development cycle. For example, Clearbell's 1 West Regent Street, which will be the first to complete in March 2015, boasts an EPC rating of A, is designed to an occupational capacity as standard of 1/8 m2 and has enhanced features for cyclists, including purpose built luxury locker and showering facilities for the tenants.

Top 5 Glasgow grade A lettings 2014

Date	Building	Tenant	Size W(sq ft)
August	1st, 2nd, 3rd, 6th, 7th Floor, 151/155 St Vincent Street	Network Rail	48,570
October	3rd - 6th floors, Grosvenor Building, Gordon Street	Cigna	33,368
March	2nd Floor, Alexander Bain House, 15 York Street	Criminal Injuries Compensation Authority	30,275
July	2nd Floor, George House, George Square	Network Rail	20,525
September	4th Floor, 141 Bothwell Street	JP Morgan	20,471

Speculative Development

Speculative Grade 'A' Development	Total (sq ft)	% of Total under construction
Under Construction	458,000	100%
Pre-let	78,014	17%
Under Offer	17,883	4%
Available	362,103	79%

Looking forward in 2015

- Further significant pre-letting activity in 2015. 110 Queen Street and 1 West Regent Street will be approaching full occupancy by the end of 2015
- Further high profile relocations from financial and professional services occupiers following announcements from Brodies, Deloitte and Grant Thornton in 2014
- In particular, occupiers to watch include Morgan Stanley, Atkins, KPMG, Cameron McKenna and the government sector who have forthcoming lease events in the city
- Further activity in the renewables sector as Glasgow continues to evolve as a centre of excellence for the renewables Industry. Digital and media also key sub sector in Glasgow
- Prime rents will breach £30 psf as good quality prime stock erodes quickly and no prospect of any new development completing until late 2017 becomes a concern amongst occupiers

- The importance of the workplace and staff retention will become a key priority of the businesses, encouraging relocation decisions
- Continued flight to quality amongst occupiers
- Changing occupier requirements. Developers must ensure office design meets future aspirations of occupiers to position themselves for pre-letting
- Occupiers' priorities have changed as economic growth returns and limited quality stock may hamper business growth
- Titan Investors most likely to kick off next wave of speculative development at New Exchange on Cadogan Street, having obtained a detailed consent in 2014 for circa 100,000 sq ft of Grade A offices in the heart of the CBD

Likely highlights of 2015

- All Energy Conference comes to Glasgow and underlines importance of renewables sector to micro economy
- The £100 million Technology and Innovation Centre completes in Merchant City in the International Technology and Renewable Energy Zone
- 1 West Regent Street reaching PC in Spring 2015
- 110 Queen Street and St Vincent Plaza reaching PC in Summer 2015
- Ground broken on next wave of speculative development
- Skyline on M8 Western gateway approach transformed, as new Scottish Power HQ emerges fully
- Further successes in Clyde Gateway Regeneration Area announced which is transforming East End of Glasgow
- Further high profile occupier announcement lead by Morgan Stanley

3-8 St Andrew Square, Edinburgh

Edinburgh

Edinburgh proved, in a Scottish context, a comparatively more resilient and robust office market during the recessionary years, mainly due to the relative constraints on growth in stock. Annual take up was maintained closer to the five year average (unlike Glasgow) despite its greater exposure to the financial services sector. Emerging sectors such as TMT assisted in plugging any gaps in demand. The constraints on city centre development in Edinburgh reduced its exposure to large stock levels during the recession. In contrast, higher stock levels in Glasgow meant a slower recovery and increased pressure on landlords to reduce rents and increase incentive levels.

In contrast to Glasgow, in 2014 Edinburgh recorded a significant drop in general enquiries for office space, particularly amongst professional and financial occupiers. This was as a consequence of the uncertainty generated by the independence referendum on 18 September particularly given Edinburgh's status as the UK's largest regional financial centre. In spite of this however, take-up for the year was the highest recorded since 2007 reaching 830,000 sq ft. This is approximately 23% greater than the 10 year average and bolstered in particular by Standard Life's pre-let of 3-8 St Andrew Square (108,000 sq ft) and Rockstar's acquisition of Barclay House (75,000 sq ft).

With the majority of take-up concentrated on Edinburgh city centre, this has further eroded existing supply levels with central Grade A availability currently around 500,000 sq ft, of which much is surplus occupier space. Presently, three speculative office developments are underway in Edinburgh due for completion in 2016/17. This will deliver an additional 330,000 sq ft of prime Grade A stock to the market. GVA's recent research report 'Edinburgh office demand – business as usual post referendum?' predicts a spike in lease events in the city in 2017 and 2022 giving an opportunity for landlords and developers to position themselves accordingly.

The greatest threat to Edinburgh's city centre office market is a lack of available sites for further development and the conversion of existing buildings to alternative uses. Many offices are being converted to alternative, and presently, higher value uses such as hotels, student accommodation and residential, rather than being refurbished for continued office use. From an office stock perspective the lack of immediately available Grade A and good quality Grade B accommodation within Edinburgh city centre may drive some occupiers to consider out of town or indeed alternative destinations. As things stand there are only six existing buildings capable of satisfying requirements in excess of 30,000 sq ft on single or contiguous floors in central Edinburgh.

It is therefore clear that there is a lack of Grade A accommodation, particularly providing larger floor plates. A combination of other factors including the constraints on future growth within the city centre, the enhanced connectivity provided by the tram and traffic congestion around the city centre, are all factors in which we believe will benefit the out-of-town locations around the city centre focussed on Edinburgh Park.

Edinburgh Park

Forecast for 2015

Predictions:

- There is scope for further pre-letting activity in 2015 with Quartermile the suggested favourite location
- A return to the market of financial and professional services occupiers
- In particular, occupiers to watch include EY, Deloitte, Brodies, Simpson & Marwick, Sainsburys Bank and State Street
- The development of Capital Square (Hermes) will commence now that it has a planning consent
- Further activity in the TMT sector as it continues to evolve as a key employer
- Supply and demand dynamics in central Edinburgh will see greater demand for out of town business locations. In particular, following improved public transport links betweeen the airport and city centre, GVA forecast healthy levels of activity in Edinburgh Park

Top 5 Edinburgh grade A lettings 2014

Date	Building	Tenant	Size (sq ft)
December	3-8 St Andrew Square	Standard Life	108,564
January	Barclay House 108 Holyrood Road	Rockstar	75,514
March	Suite 1, Ground Floor, Tanfield	Zonal Retail Data Systems	20,600
Q2	40 Princes Street	Aberdeen Asset Management	14,815
Q4	Suite 7, First Floor, Tanfield	Deli	14,317

Speculative Development

Speculative Grade 'A' Development	Total (sq ft)	% of Total under construction
Under Construction	329,164	100%
Pre-let	108,564	33%
Under Offer	-	0%
Available	220,600	67%

Aberdeen

In contrast to the wider Scottish economy Aberdeen's position as the Energy Capital of Europe saw it excel during the recession and post-recession years as this coincided with a sustained period of high oil prices. The industry boom combined with the natural life expiry of a number of "industrial" office headquarters buildings, ensuring this counter cyclical market enjoyed unpredicted office market conditions with demand for Grade A office space significantly outstripping supply. This transformed the Aberdeen office market and re-shaped it with many major oil companies relocating to purpose built buildings on the edge of the City.

Top 5 Aberdeen lettings of 2014

Date	Building	Tenant	Size (sq ft)
August	Dyce Drive	Aker Solutions	335,000
July	City Park	Wood Group	75,514
	Prime 4	Statoil	45,000
	Prime 4, Plot 11A	OneSubSea UK	35,000
March	Welllington Road, Pavilion 3	Amec	34,499

In 2014, take up was at or about 1 million sq ft – a 35% increase on the previous year. Take-up in 2013 reached 740,000 sq ft which is approximately 50% above the long term average though 12% down on 2012.

The independence referendum followed by the drop in oil prices, saw Aberdeen enter a period of uncertainty which has already seen a handful of occupiers delay relocation decisions while the wider economic picture becomes clearer.

Speculative Development

Address	Size	Location
The Point	72, 657 sq ft	City Centre
Silver Fin Building	132,000 sq ft	City Centre
Capitol House	70, 000 sq ft	City Centre

That said, 2014 saw Aberdeen achieve record rental levels with £32 psf 'City Centre' and £27 psf 'out of town' being secured. In addition to this, incentive packages are nominal relative to both Edinburgh and Glasgow.

Development throughout has primarily been focussed on green field sites in out of town locations by entrepreneurs capitalising on local knowledge and experience. These include City View Buisness Park and City South Business Park which are under construction. Others like Prime 4 Business Park have been constructed on a pre-let basis with rents in the order of £24-£27 per sq ft secured.

By contrast, demand for city centre accommodation has been weaker, hampered by a lack of good quality available stock. This balance is being addressed with a number of new buildings now under construction or in detailed planning discussions.

Looking forward in 2015

- Aberdeen rents will plateau with incentive packages being pushed out to levels more akin to other regional centres
- We may see a return of short-term project led requirements
- New overseas companies will enter the market through corporate acquisitions

Prime 4 Business Park, Aberdeen

Planning

St James Shopping Centre, Edinburgh

Introduction

In 2007 many prescient observers predicted a lengthy turn-round from the crash, lasting up to 7 years. One commentator suggested that the development sector needed a long period to de-tox after a long period of binge. As the New Year has commenced in the past 2 years, there have been signs of a return to fresh levels of activity, but things have wobbled forwards, with trepidation remaining about debt, funding, occupiers and above all political change that might be arriving just at a time when the property market is in most need of certainty.

Whatever the drivers to falls and rises in the development market, activity levels in planning consenting are a reasonable barometer of market confidence. Last year witnessed a further national increase in planning fees to ensure Council departments were adequately resourced to meet these growing demands. Whilst the increase this time was only 5%, this had followed a 20% rise the year before, and was highly unpopular with many industry bodies. With every local authority being under significant pressure to reduce their overall budgets, the fee rise presents an opportunity to invest in their planning services to meet these increased demands and ensure that under-performance won't be an additional drag on economic recovery. The Government's Planning Performance Framework regime, introduced at the same time as the fee rise, will be play an important role in holding those authorities to account in future years, with resulting penalties, in reduced fees as well, if they under-perform.

GVA has seen a notable up-turn in new enquiries from clients to mount more assertive campaigns to propose new developments, make Proposal of Application Notices, manage public consultations and negotiate schemes through the hurdles. The period of late September to late January has been the busiest in years and has set an optimistic mood for more positive signs of market upturn and developer confidence in 2015 and beyond.

Retail

Whilst some in the retail sector struggle with larger format food superstores, more agile smaller formats with discount as the focus are thriving. GVA was involved in 17 such stores in 2014, gaining consents in 9 locations, with the remaining expected to see positive progress this year. Comparison (non-food) retail increasingly migrates to the immediate world of the "virtual estate" of on-line ordering. Online spending now assumes 11.5% of overall retail sales in the UK amounting to £45bn, with projections that this will only continue to grow in future years. For more tangible comparison shopping in the real estate world of the built environment, there are significant implications for our high streets, malls and retail centres. GVA's last round of emerging floor space research showed that nearly 900,000sqm of new retail space is consented but that only 4% of this was under construction.

Scotland has seen a significant leg-up from Scottish Government assisting with tax increment funding models for Glasgow Buchanan Galleries and Edinburgh St James. Perhaps more of the same will be needed to boost our core city centres elsewhere in locations such as Aberdeen, Dundee, Inverness and Perth. The complexities of planning, infrastructure, land assembly, occupier take up and funding all conspire to make retailing by bricks more difficult than clicks. Compare the two year planning-to-completion of Amazon Fife (90,000 sq m) to the possibility of 12 years to deliver Edinburgh St James (approx. 50,000 sq m additional space). If real estate is to continue with strength to deliver our future retail outlets in our urban centres where we can enjoy a real day out rather than a virtual tablet or smart-phone trip; it will require significant support from central and local government and other sources to secure land, funding, consenting and clear passage to build and delivery. It seems odd to have a highly regulated planning policy framework controlling Class I Retail space when Class II shed space for on-line despatch of retail can be permitted without obstacle.

The number of retailers that are now available to occupy retail parks that are restricted to 'bulky goods' are significantly diminished due to mergers and companies going into administration. On average the number of retailers in the 'bulky goods' market has reduced by some 56%, higher in some sectors such as electrical, over the last 20 years, as set out in the table below. In this context it is clear that the opportunity to find new "bulky goods" retailers and tenants to occupy existing (or consented) retail parks is severely limited.

It is also clear that the current economic position has resulted in falling demand, generally as a result of a drop in discretionary spending on products typically linked to the movement of the housing market such as a DIY, floor coverings and furniture. Some agencies estimate the future annual growth in bulky goods to 2019 to be 2.8% compared to a growth of 11.7% from 1991 to 2011.

In addition the rapid growth in the internet in recent years has increased the market share of non-store retail sales and the potential impact on shopping centres. Current estimates indicate that comparison sales by special forms of trading (which includes internet sales in addition to mail order, vending machines) will increase from 7% in 2002 to 21% in 2029.

Retail Parks

Sector	1994	2013	+/- Change	% Change
Furniture	35	16	-19	-54%
Textiles	5	3	-2	40%
Carpets/Floors	8	4	-4	-50%
Electrical	11	3	-8	-73%
Autoparts	2	1	-1	-50%
Office furniture	3	1	-2	-67%
DIY	6	3	-3	-50%
Total	**70**	**31**	**-39**	**-56%**

Supporting this, Retail Rankings indicates that during the economic downturn it was operators who expanded their operations online who managed the highest growth, with the highest growth being achieved by Ebay. Increasing sales from internet based companies such as Ebay and Amazon are also significantly affecting the trading performance of electrical retailers, evident in Comet's demise. In addition a number of retailers are progressing with 'Click and Collect' services and that is having a further impact on the requirement for space in town centres and retail parks.

Employment use

So, retail has limped selectively back into action. Retail spend will thrive when the economy thrives and this should boost demand for business and employment space. Scotland still strives to secure the inward investors and manufacturers that can drive the economy and recent flurries of site searches for offshore wind supply chain manufacturers have stirred our ports and harbours, but business space remains the more active sector, with renewed interest in offices and space for businesses in well-connected locations. City centres will continue to remain as the preferred locations.

Residential

Supporting a growing number of households is the other area of critical development activity and Scotland has woken slowly from recession with an urgent need to feed the pipeline with new residential sites. In Scotland, the Scottish Government target of 35,000 homes per annum has never been met since this was set in 2007. At its peak, delivery was 25,000 to Dec 2007 and in 2013 it was down to 15,000 units. Local authorities seem to default to caution on housing land allocations with a fear of oversupply, sometimes based on a fondness for older site allocations that have scant chance of delivery. New pressures are on for more deliverable and desirable locations and Scottish Ministers have recently "recovered for decision" a number of extant planning appeals – a signal perhaps of a more robust lead from the centre on delivering new homes?

Residential is seeing a boost in the main city centres with an active student housing sector and an emerging private rented sector as outlined in the Development section.

National Planning Policy

Whilst our friends in planning south of the border continue with their vexed approach to "localism" (more often than not decided by a dose of centrism from Government), we can reflect in Scotland on a planning system that has been reformed, refreshed and given more vigour by recent incumbents in Government. The new National Planning Framework and Scottish Planning Policy in 2014 re-focussed the national priorities including: a new presumption in favour of development that contributes to sustainable development, the town centre first principle for retail and other footfall generating uses and further guidance on the issues around prematurity, which will no doubt be further clarified by the Minister call-ins mentioned earlier. These will be followed keenly by many observers across the region with aspirations to address the capital's desperate need for additional housing provision.

Post referendum there are now a number of ministers with a portfolio interest in planning, economy, regeneration, infrastructure, housing and transport. Their challenge is to align a central message that enthuses local government to act with more immediacy, not just on the development plan (structure or local plan) or development management (application process), but also on delivery. Delivery relies on early actions to find prime, attractive sites that will attract occupiers and create added value where infrastructure will be delivered and modern, accessible, energy efficient, high density development can thrive over the longer term. We coin the phrase sustainable development so often, but need to list the elements that make it sustainable and find the ways of delivering those elements. With greater certainty for real estate through a clear planning-led economy GVA hope for a shallower fall and a shorter de-tox next time round in the cycle.

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Published by GVA
10 Stratton Street, London W1J 8JR
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10237