OFFICE DEVELOPMENT IN EDINBURGH 2017
Edinburgh, the capital of Scotland, is a knowledge economy. Half of the working-age population is educated to degree-level or higher, and over half of all jobs in the city are managerial or professional roles. Salaries for full-time workers average £30,000: 7% above the UK average, but 17% below the average for London. With a population of half a million, Edinburgh benefits from the assets of a far larger city – including a major international airport and a sophisticated business ecosystem giving businesses access to a comprehensive network of suppliers – while remaining a compact city in which many commuters travel on foot or bike, with more green space than any other UK city.

The city’s economy is grounded on four broad pillars: financial services; higher education; tourism; and technology. Long-established strengths in banking, asset management, and insurance and pensions has made Edinburgh a location of choice for many of the world’s largest financial institutions. Four higher education institutions with more than 50,000 students are based in Edinburgh, among them the University of Edinburgh, a global top-flight university at the forefront of research into clinical medicine, computing, biology, robotics and other disciplines.

Home to two UNESCO World Heritage Sites, the world’s largest arts festival, and a range of critically-acclaimed visitor attractions, eateries and venues, Edinburgh has a strong visitor economy, with one of the highest rates of hotel occupancy in Europe. Supported by one of Europe’s largest schools of computing, the city’s technology sector is a global force in fintech and gaming.

With a growing services-based economy, there is a need for investment in Edinburgh to deliver additional flexible, modern office accommodation.

THE OFFICE OCCUPIER MARKET

A combination of factors are combining to create a favourable market for office landlords and developers in Edinburgh:

- Demand is strong. A total of 96,145m² (1.03 million ft²) of office space was leased in Edinburgh in the year ending September 2016 (source: Ryden) – the highest take-up on record since 2004. New requirements are arising from domestic company growth, lease events, and “north-shoring” (the relocation of roles out of London to more affordable locations in the UK), with approximately 6,000 additional jobs created in Edinburgh every year.
OFFICE DEVELOPMENT IN EDINBURGH 2017

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Sector</th>
<th>Development</th>
<th>Space leased</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cirrus Logic</td>
<td>Electronics</td>
<td>Quartermile Four</td>
<td>8,604 92,613</td>
</tr>
<tr>
<td>University of Edinburgh</td>
<td>Higher education</td>
<td>Argyle House</td>
<td>5,348 57,565</td>
</tr>
<tr>
<td>People’s Postcode Lottery</td>
<td>Charity</td>
<td>28 Charlotte Square</td>
<td>3,085 33,207</td>
</tr>
<tr>
<td>Ernst &amp; Young</td>
<td>Professional services</td>
<td>Atria 1</td>
<td>3,031 32,625</td>
</tr>
<tr>
<td>STMicroelectronics</td>
<td>Electronics</td>
<td>Tanfield</td>
<td>2,000 21,528</td>
</tr>
</tbody>
</table>

- Development activity is subdued, with just 619m² (6,667 ft²) of new stock completed in 2015. This, coupled with the limited number of development opportunities, means prime office properties are at a premium.
- Older stock is being redeveloped for alternative uses such as hotel and residential, with permission granted for the redevelopment of 25,837m² (278,106ft²) of space in 2015. This is eroding the availability of space.
- As a result of aggressive letting activity and the loss of office space to alternative uses, the available supply of office space in Edinburgh is at its lowest level since 2001. (Source: Ryden) The supply of prime space in the city centre is particularly low, standing at 24,619m² (265,000ft²).
- There is a locational mismatch between supply and demand, with the city centre accounting for the majority of occupier requirements but a relatively low proportion of available stock.

As of December 2016, prime rents in Edinburgh were the highest of the UK’s major regional office markets at £355 per m² (£33 per ft²). Office properties in Edinburgh therefore generate healthy incomes while still comparing favourably from an occupier cost perspective to the City of London (£737 per m² / £68.50 per ft²) and the West End (£1,292 per m² / £120 per ft²). (Source: Cushman and Wakefield) Rental growth is expected, with Knight Frank predicting that prime rents will reach £377 per m² (£35 per ft²) during 2017. Incentives in Edinburgh are among the lowest of the regional UK cites at 18 months on a 10-year term. (Source: GVA)
OFFICE DEVELOPMENT IN EDINBURGH 2017

Out-of-town rents on office properties in Edinburgh are considerably more subdued in a UK context, suggesting these properties may have potential for rental growth if occupier demand becomes keener.

OFFICE INVESTMENT MARKET

Investor interest in office properties in Edinburgh has proven strong in recent years, with the city recording its largest ever purchase in 2015 with the sale of Port Hamilton, the headquarters of financial services giant Scottish Widows, for over £105 million. Following the vote for the UK to leave the European Union in June 2016, investor interest in Edinburgh’s office market has remained robust, with transactions in 2016 totalling £426 million – the highest figure on record since 2006. Overseas investors accounted for close to three-quarters of the total. Investor interest spans properties from trophy assets with secure income streams to under-performing properties with scope to boost value through refurbishment and active management. Some key recent transactions are summarised below:

- In April 2016, real estate investor DEKA Immobilien purchased Atria 1 and Atria 2 for £105.3 million – a net initial yield of 5.35%. Atria, an 18,815m² (202,524ft²) speculative office development in Edinburgh’s financial district, is multi-let to tenants including PWC, Brewin Dolphin, and the UK Green Investment Bank.

- In May 2016, investment manager Greenridge acquired Gyle Square for £48.4 million, representing a net initial yield of 5.76%. Gyle Square is located in South Gyle, a commercial suburb in the west of Edinburgh, and is just minutes from a tram halt providing direct connections to the city centre and airport. The 13,827m² (148,832ft²) office, built in 2004, is fully-let to the National Health Service.

- In September 2016, investment manager TRIUVA purchased Waverleygate for £63.0 million – a net initial yield of 5.69%. Located in the heart of Edinburgh city centre, the 19,029m² (204,824m²) landmark Victorian building was extensively refurbished in 2005 and is now occupied by a mix of tenants including Microsoft, Amazon, H&M and the National Health Service.

- In October 2016, Aberdeen Asset Management acquired Dundas House for £24.0 million – a net initial yield of 5.65%. Lying to the north of Edinburgh city centre, the 11,119m² (119,685ft²) Dundas House is fully-let to financial services giant Standard Life.
Prime yields in Edinburgh are middling relative to other regional UK cities at 5.50% (versus 4.25% for the City of London and 3.25% for the West End). Yields in Edinburgh softened slightly in 2016.

Tenant and investor interest have created a marketplace where developers can commence speculative schemes confident of securing lettings and end purchasers. An example of this can be seen with the 11,948m² (128,608ft²) **Quartermile Four** office building, one of the final elements of a major mixed-use regeneration to the south of Edinburgh city centre. Funded by M&G Real Estate, development commenced speculatively in mid-2014. By early-2016, the building was fully pre-let to the technology firms FanDuel and Cirrus Logic. Practical completion was achieved in April 2016, and in the following month the building was acquired by TRIUVA for £68.5 million (a 5.21% net initial yield).

The bullish office market, along with a structural under-supply of office stock and the devaluation of Sterling, has created opportunities for investors seeking stable returns at competitive prices; limited availability of stock for sale means developers looking to divest prime assets can be assured interest.
OFFICE DEVELOPMENT IN EDINBURGH 2017

OFFICE DEVELOPMENT OPPORTUNITIES

Office completions in Edinburgh have slumped over the past decade, while demand has steadily climbed since the early-2010s. As a result, demand for prime offices is healthy, with recent speculative developments fully pre-let prior to completion.

There are currently 12 major office developments in the pipeline in Edinburgh, representing a total of 146,880m² (1.58 million ft²). However, only six are currently under construction, of which two are 100% pre-let and two more are the subject of pre-let negotiations. If all 12 developments proceed and are delivered over a five-year period, this would represent approximately 29,376m² (316,200 ft²) of completions per annum. As can be seen in the above chart, this is still considerably below historical levels. Several of the developments present opportunities for funders, development partners and investors. All but one of the developments are located in the city centre.

<table>
<thead>
<tr>
<th>Development</th>
<th>Developer</th>
<th>Size</th>
<th>Started</th>
<th>Finish</th>
<th>Pre-let</th>
</tr>
</thead>
<tbody>
<tr>
<td>South St Andrew Square</td>
<td>Standard Life/Peveril</td>
<td>10,034</td>
<td>2017</td>
<td>2017</td>
<td>Yes</td>
</tr>
<tr>
<td>Quartermile 3</td>
<td>Moorfield</td>
<td>6,781</td>
<td>2017</td>
<td>2017</td>
<td>Yes</td>
</tr>
<tr>
<td>SNBTS National Centre</td>
<td>NHS</td>
<td>10,500</td>
<td>2017</td>
<td>2017</td>
<td>Yes</td>
</tr>
<tr>
<td>The Haymarket</td>
<td>Interserve/Tiger</td>
<td>38,496</td>
<td>2018</td>
<td>2018</td>
<td>Yes*</td>
</tr>
<tr>
<td>2 Semple Street</td>
<td>GSS Development</td>
<td>3,260</td>
<td>2018</td>
<td>2018</td>
<td>Yes</td>
</tr>
<tr>
<td>Capital Square</td>
<td>Hermes</td>
<td>14,179</td>
<td>2018</td>
<td>2018</td>
<td>No</td>
</tr>
<tr>
<td>The Mint Building</td>
<td>Chris Stewart Group</td>
<td>5,574</td>
<td>2018</td>
<td>2018</td>
<td>Yes</td>
</tr>
<tr>
<td>New Waverley North</td>
<td>Artisan REI</td>
<td>7,264</td>
<td>2018/19</td>
<td>2018/19</td>
<td>No</td>
</tr>
<tr>
<td>New Waverley South</td>
<td>Artisan REI</td>
<td>7,630</td>
<td>2018/19</td>
<td>2018/19</td>
<td>No</td>
</tr>
<tr>
<td>India Quay</td>
<td>The EDI Group</td>
<td>11,621</td>
<td>2019+</td>
<td>2019+</td>
<td>No</td>
</tr>
<tr>
<td>Freer Street</td>
<td>Amco/Omni</td>
<td>13,061</td>
<td>2019+</td>
<td>2019+</td>
<td>No</td>
</tr>
<tr>
<td>Springside</td>
<td>Grosvenor</td>
<td>18,480</td>
<td>2019+</td>
<td>2019+</td>
<td>No</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>146,880</td>
<td>1,581,002</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Enabling works only

The adopted Local Development Plan (LDP) for Edinburgh identifies three areas where there are opportunities for further office development: the city centre; West Edinburgh; and the Leith Waterfront.
OFFICE DEVELOPMENT IN EDINBURGH 2017

• In the city centre, the remaining development opportunities are primarily infill developments and the refurbishment of existing buildings to contemporary standards. Developments in the city centre benefit from proximity to the existing cluster of office occupiers, as well as the amenities of a major city and access to the national rail network. Office rents in the city centre average £202/m² (£19/ft²), rising to well over £300/m² (£28/ft²) for the most prime properties.

• In West Edinburgh, there are opportunities for further office development at the established business parks at Edinburgh Park and South Gyle, where office rents average £132/m² (£12/ft²). In addition, the International Business Gateway presents an opportunity to deliver a new office district as part of a mixed-use development. West Edinburgh benefits from proximity to Edinburgh Airport, and is serviced by both tram and heavy rail. The area is home to the global headquarters of the Royal Bank of Scotland, along with the offices of blue chip companies such as Diageo; Tesco Bank; JP Morgan; BT; and HSBC.

• At the Leith Waterfront, land has been allocated for commercial-led mixed use development. The existing office stock of Leith primarily comprises converted period warehouses and other repurposed buildings with limited modern stock. The Leith Waterfront is one of a limited number of locations in Edinburgh with scope for high-rise development. Office rents in Leith currently average £127/m² (£12/ft²), rising to over £200/m² (£19/ft²) for modern space.

There are currently unimplemented planning consents for over 620,000m² (6.67 million ft²) of office space in Edinburgh, with more than 120,000m² (1.29 million ft²) awaiting determination.

SUPPORT FOR OFFICE DEVELOPMENT IN EDINBURGH

The City of Edinburgh Council and its partners can offer a broad spectrum of support for developers interested in delivering office space in Edinburgh. Potential measures available include:

• Site identification
• Assistance with pre-letting
• Site assembly using statutory powers
• Non-domestic rates deferrals on empty properties
• Joint venturing
• Low carbon/green energy solutions
• Market intelligence
OFFICE DEVELOPMENT IN EDINBURGH 2017

EDINBURGH DEVELOPMENT AREAS
An overview map of Edinburgh, with major new development areas marked in red.

A map of Edinburgh city centre with some key development areas highlighted, including areas where major new office development is planned. The route of the tram line is marked in orange.

A map of West Edinburgh, showing the major office development opportunities at Edinburgh Park/South Gyle and the International Business Gateway. The route of the tram line is marked in orange.
A map of the Edinburgh Waterfront, highlighting the numerous major brownfield redevelopment opportunities. The route of the proposed tram extension is marked in orange.

DISCOVER MORE
For more information about office developments in Edinburgh or to meet with a member of Team Edinburgh at MIPIM 2017, please contact;

David Cooper
Development
City of Edinburgh Council
T: +44 (0) 131 529 6233
E: david.cooper@edinburgh.gov.uk

Elaine Ballantyne
Investment & International Relations
City of Edinburgh Council
T: +44 (0) 131 469 3854
E: elaine.ballantyne@edinburgh.gov.uk