



Radius

Scotland's CRE sector: on the rise



SUMMARY:

As Scotland's economy gets back to business, a revival is taking place across the country where demand for high-quality real estate is creating opportunities for investors, developers and businesses alike.

This report from EG Radius looks into the data and deals that underpin this transition. From flagship Grade A office developments in Edinburgh and Glasgow to the investors capitalising on the regional warehouse boom, an exciting transformation is underway.



Metrics: H1 2022

	Industrial	Office	Retail
Average achieved rent (per sq ft)	£8.62	£17.09	£22.38
Average deal size	11,266	4,439	4,173
Average lease length	6 years, 1 month	6 years	7 years, 8 months

Metrics: H1 2022 v 5 year average

	Industrial	Office	Retail
Average achieved rent	+ 26.8%	+ 2.1%	+ 9.7%
Average deal size	+ 33.8%	(- 9.8%)	+ 44.4%

Rental markets are performing above average

REPORT:

Situated on the west edge of the city centre, Charing Cross station has long been synonymous with Glasgow's commercial fortunes – most recently as the gateway to the city's International Financial Services District.

Exiting the station today, visitors find themselves looking up at the next phase of Glasgow's evolution. From the new 220,000 sq ft headquarters of Scottish Power to the flagship St Vincent Plaza development, the area contains some of Scotland's most exciting real estate developments.

Crucially, though, the developments also capture a wider story that is taking place across Scotland – as demand for high-quality real estate creates opportunities for investors, developers and businesses alike.

OFFICE: BACK TO BUSINESS

As the country's largest and most iconic urban hubs, Glasgow and Edinburgh have long been the twin drivers of Scotland's office market. And with the pandemic in retreat, neither city has wasted time in getting back to business.

Situated in the city's historic centre, Haymarket Edinburgh (a joint venture between M&G Real Estate and Qmile Group) is one of Scotland's impressive and sustainable new office developments – set to provide more than 390,000 sq ft of Grade A space over three buildings.

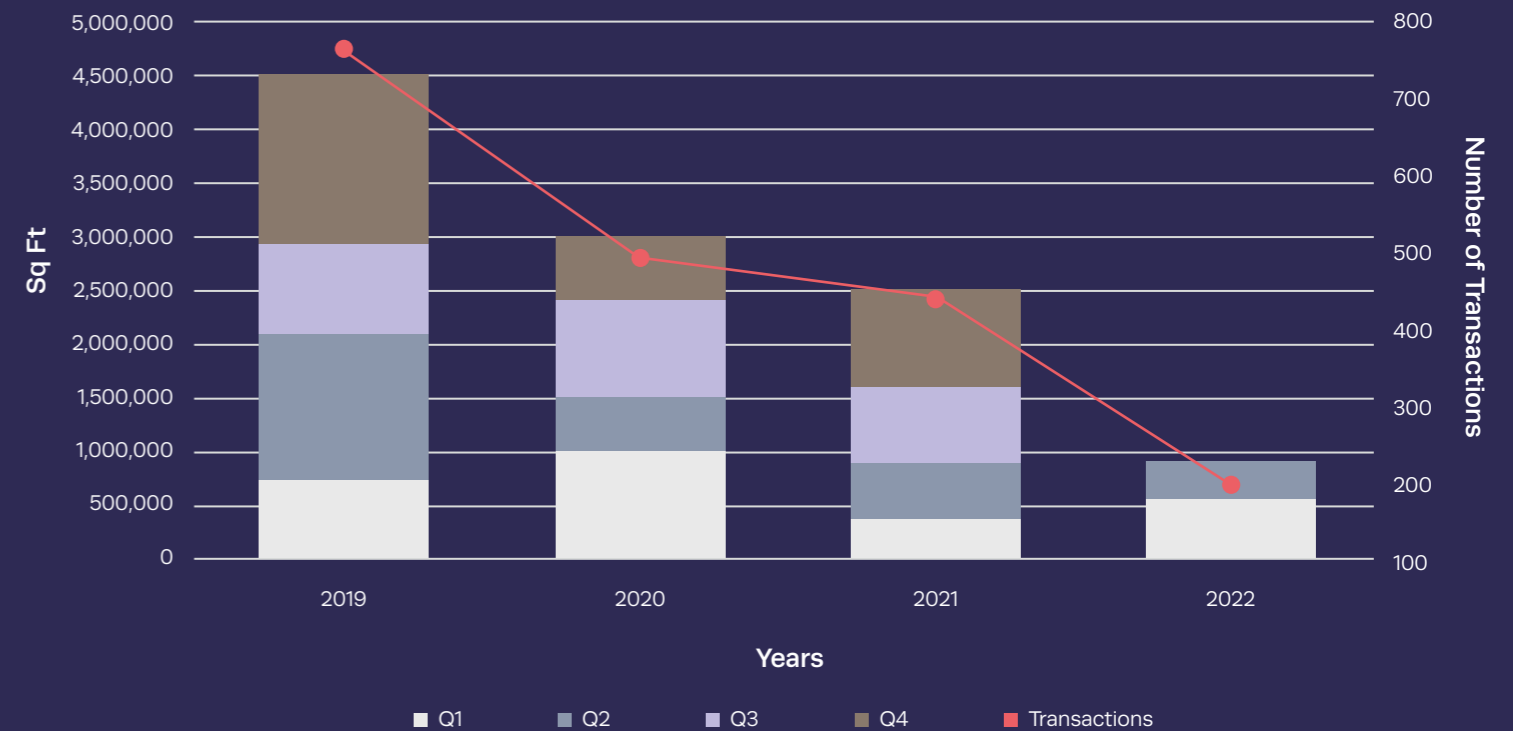
In Q1 2022, M&G announced that Haymarket One was now fully let, with tenants including three law firms (Shoosmiths, Dentons and Shepherd & Wedderburn) as well as consultancy Deloitte. The site will also host the new headquarters of Scottish investment house Baillie Gifford, who will lease 280,000 sq ft over 20 years.

"This new office is a significant long-term investment for Baillie Gifford, demonstrating our confidence in the future," commented the firm's senior partner, Andrew Telfer. "It will bring all our Edinburgh colleagues under one roof again, in a more flexible and dynamic working environment."



Larger premises dominate transactions

Lettings and occupational sales: office take-up



Rarely one to settle for second place, Glasgow has been busy making deals of its own. In September, wealth managements Evelyn Partners (created from the merger of Tilney and Smith & Williamson) signed for 30,000 sq ft at HFD Group's flagship 177 Bothwell Street development – a short walk from Charing Cross.

But the largest letting of the past 18 months comes from neither Glasgow or Edinburgh but the coastal city of Aberdeen – with the news that energy major Shell (a presence in the region for more than 50 years) will be moving its entire north-east operation into the Grade A Silver Fin building

More than 1,000 staff are set to work from the 500,000 sq ft office when the move is complete – making the energy giant and FTSE 100 company one of Aberdeen's largest employers.

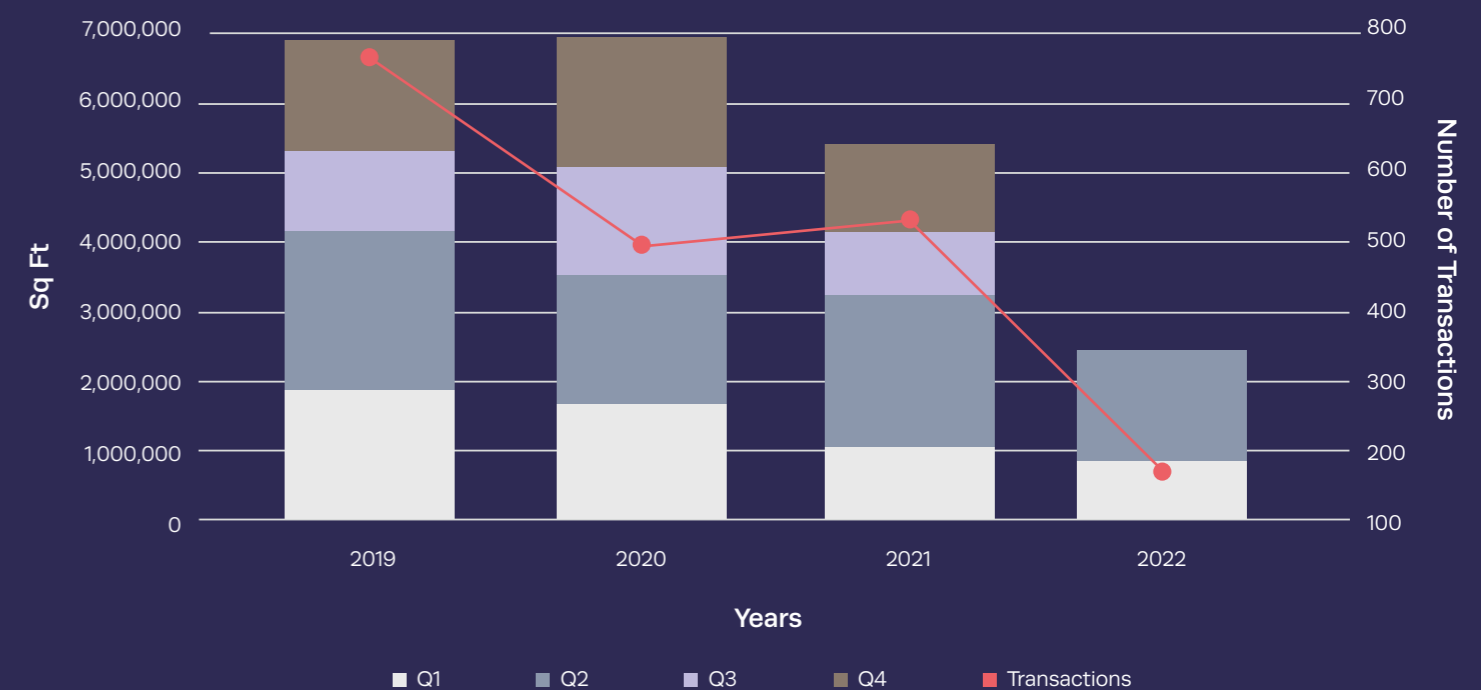
INDUSTRIAL: RESILIENT DEMAND

In common with other UK regions, Scotland's industrial market remained resilient throughout the pandemic, with transactions constrained by a lack of supply rather than flagging demand.

The largest deal of the period was the letting of a 550,000 sq ft megashed (in Robroyston's Nova Business Park) to publisher HarperCollins, where it is expected to host some 500 jobs. The 450-acre site had been vacant for several years before being developed by Tritax Symmetry, the logistics arm of the FTSE 250 REIT.

"This is a really significant deal as it is the largest industrial pre-let in over a decade in Scotland, particularly in a sector which has record-low availability," said Iain Davidson – industrial director for Colliers, which advised on the leasing and planning for the scheme.

Investors prioritise larger opportunities Lettings and occupational sales: industrial take-up



Other notable recent deals include the letting of 105,823 sq ft in Bathgate (near Livingston) to UK-wide window manufacturer Window Supply Company and 95,513 sq ft in Motherwell to logistics and supply chain specialists Wincanton Holdings.

Unsurprisingly, the industrial sector continues to draw investor interest. In September, Custodian REIT announced its £100m purchase of a 92,000 sq ft distribution centre situated between Glasgow and Edinburgh. Currently leased by distribution firm Gist, the holding is expected to provide an initial yield of around 5.25%.

RETAIL: CONFIDENCE RETURNS

Despite gloomy predictions for the sector more generally, Scotland's retail sector has shown welcome signs of resilience.

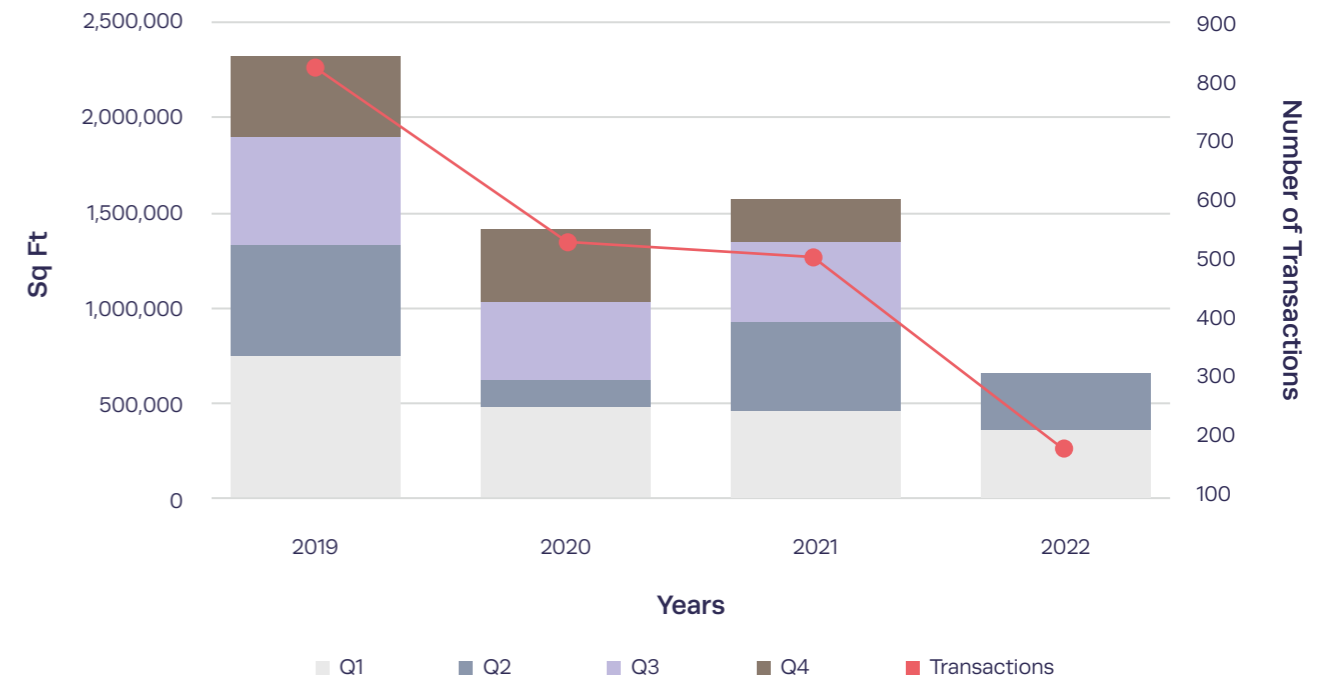
This summer, the Scottish Retail Consortium revealed a drop in the vacancy rate for Scottish units: down from 15.8% to 15.7% between Q1 and Q2 2022. The improvement was due to stronger numbers for retail parks and high street units – whereas shopping centre vacancies had risen slightly.

In one particularly encouraging deal, the fashion retailer Zara is set to double its presence at British Land's Glasgow Fort retail park – taking on 37,000 sq ft that had previously hosted TopShop. "Zara's decision to open a flagship store is a fantastic endorsement for the park," said Ben Grose from British Land.

Other significant deals include 79,602 sq ft in Dumbarton to Asda; 32,121 sq ft in Glasgow's Forge Retail Park to B&M; and 28,000 sq ft in Glasgow to luxury watch sellers Laings.



Lettings and occupational sales: retail take-up



PLANNING: ROBUST PIPELINE

The strong prospects for Scotland's CRE sector are reflected in robust planning numbers, as developers look to capitalise on the demand for quality space across the country. According to planning records, 480,016 sq ft of office space is set to complete construction in H2 2022 (compared to 3,766,655 sq ft of industrial and 3,673,934 sq ft of retail).

While the number of overall planning applications has risen since the pandemic (from 7952 in 2019 to 8395 in 2022) the percentage receiving permission has dropped: from 82% to 45%

Beyond the residential sector, planning permission rates remain higher: with 80% of industrial applications, 95% of office applications and 84% of retail applications receiving permission.



Several major developments could soon be in the pipeline. In Glasgow, CBRE has been appointed to a buyer for a 55,000 sq ft plot at the city's 20 India Street. Initial feasibility studies have highlighted redevelopment opportunities across the residential, student and office sectors.

"20 India Street offers a rare chance to secure the largest development site in one of Glasgow's best-connected locations," said Andy Cunningham from CBRE Scotland. "It is a major opportunity for a developer to create a new sense of place in an area with so much potential."



Applications/permission over time

	Applications	Permissions
2019	7952	6488 (81.59%)
2020	7148	5490 (76.8%)
2021	7986	5500 (68.87%)
2022	8395	3817 (45.47%)



Top agents in Scotland:

Lettings and
occupational sales,
Jan-Sep 22

Colliers International

2,167,286 sq ft

Savills

1,634,608 sq ft

Knight Frank

791,019 sq ft

JLL

567,912 sq ft

CBRE

539,014 sq ft

FG Burnett

321,376 sq ft

**G M Brown Property
Consultants**

254,254 sq ft

Graham + Sibbald

224,777 sq ft

Shepherd Commercial

194,810 sq ft

**Falconer Property
Consultants**

140,749 sq ft

Avison Young

138,137 sq ft



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