

Regional Focus

Scotland



Scotland readies reopening

Is the country heading towards a sharp recovery in coming months?

As we approach festival season in Edinburgh – the UK's festival capital – the city has the difficult task of coming to terms with its future. What lasting impact will the pandemic have on the Scottish capital's buzzing arts and performance scene? The major festivals – Fringe, the Edinburgh International Festival and the International Book Festival – have had to scale down their ambitions this year, and some events that were supposed to go ahead despite the pandemic have had to be shelved.

But Scotland's restrictions are easing and, at the time of writing, it looks as if some form of normality will resume on 9 August. There have been delays along the way, and places like Glasgow have had to put up with restrictions longer than surrounding areas due to rising cases.

Overall, however, the Scottish government has shored up public opinion of its handling of the crisis. Broad support propelled the Scottish National Party to its fourth consecutive victory in this year's elections, missing out on an overall majority in Holyrood by only one seat.

The results thrust the question of independence back into the spotlight: with the pro-independence SNP and Green Party scooping up a majority in

parliament, Nicola Sturgeon argued a vote on Scotland's future is "the will of the people". However, the UK government will likely continue to oppose a referendum at least until the next general election.

Time for recovery

Getting through the final months of lockdown will hopefully lead to a strong economic rebound in Scotland, several reports have argued in recent months. Demos-PwC's Good Growth for Cities report in January revealed grim figures about Glasgow's economy shrinking by 10.4% last year – the largest contraction among Scotland's cities – but it also forecast a quicker recovery than in Edinburgh.

To aid recovery, Scotland extended business rates relief in February to the end of the 2021/22 financial year, while the cultural sector will receive emergency funding. In other welcome news for the country's industries, the US suspended tariffs on Scotch whisky, which had caused £500m of losses since 2019. In June, KPMG forecast 6.4% GDP growth for Scotland in 2021, driven by the lifting of restrictions and growth in manufacturing and oil and gas.

Although the recovery will be in part led by the oil and gas industry, renewable energy and climate change have taken centre stage

across Scotland – in part due to Glasgow hosting the UN's COP26 conference in November. While the city and the surrounding area have pledged to plant 18 million trees, the North of Scotland Hydrogen Programme is planning a 'green hydrogen' hub in the Highlands as an alternative to fossil fuels.

The transition to cleaner energy will not be straightforward, and recently released data showed that Scotland missed its greenhouse gas reduction targets in 2019. Regional airline Loganair got involved in the green transition, adding £1 to ticket prices to invest in sustainable technology. The airline will soon begin trialling planes powered by hydrogen and renewable electricity.

Scotland's changing landscape

A number of major developments have recently started and completed, the most significant of which is Edinburgh's £1bn St James Quarter shopping centre, opened near the end of June.

In West Lothian, Amber REI has lodged plans for a development of 1,800 low-carbon homes, while Moda is underway on a 433-home build-to-rent scheme in Glasgow and Edinburgh City Council is on the hunt for a development partner for its 600-home Meadowbank masterplan.

With these and other projects now coming out of the ground and the world's attention turning to Glasgow in the coming months, Scotland is grappling with its future. It's not just the pandemic: developments in Scotland's politics, industry, economy and technology are setting the scene for a swathe of debates about life and work after the pandemic. ■

As occupiers and investors widen their search for commercial space around the UK, Scotland has the potential to make gains across most sectors. But how much has interest grown in the country's largest cities, and how do they stack up against each other?

Three of Scotland's largest cities have been drawing more attention from the industry since the start of 2020 across several sectors. Glasgow, Edinburgh and Aberdeen's leisure enquiries accounted for 4.1% of the UK total in April 2021 (falling slightly to 3.9% in May), compared to 2.1% at the start of last year. Retail (+0.9% points) and industrial (+0.4% points) were also up by the same metric, but not by as much.

The exception to this trend is offices, where the three cities' combined enquiries accounted for a smaller percentage of the total so far in 2021 (2.7%) than at the same point in 2020 (3.4%). In fact, office enquiries in Glasgow were down 13% in Q1 2021 compared to the same period in 2020 and they have fallen further since March. As in the rest of the UK, the hunt for offices has either stalled or shifted out of the largest markets.

Edinburgh rallies – but Glasgow is the place to be

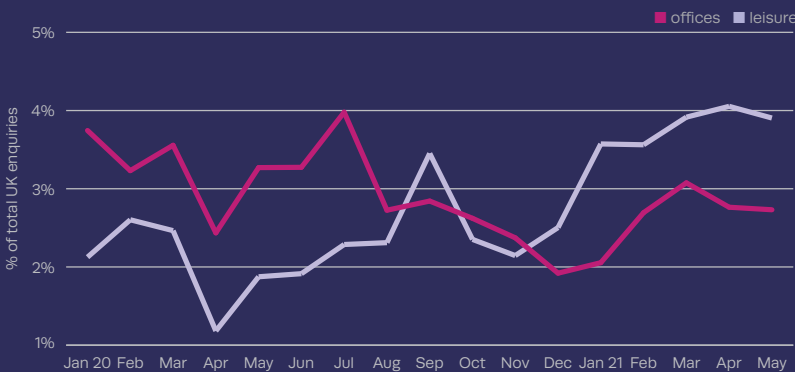
While office enquiries fell in Glasgow, they picked up significantly in the Scottish capital. There were 23% more searches for office space in Edinburgh than in Glasgow in Q1 2021 – a stark contrast to the start of 2020 when the capital had 40% fewer searches than its Lanarkshire counterpart.

However, it was retail that grew most in Edinburgh (up as much as 226% at the start of the year compared to January 2020). Although there was a dip in March and April, enquiries rebounded in May in line with the easing of restrictions – a rebound that did not happen in Glasgow where strict lockdown rules remained in place longer due to a rise in cases.

As Scotland's largest city, however, Glasgow still accounts for significantly more interest from the industry than Edinburgh or Aberdeen.

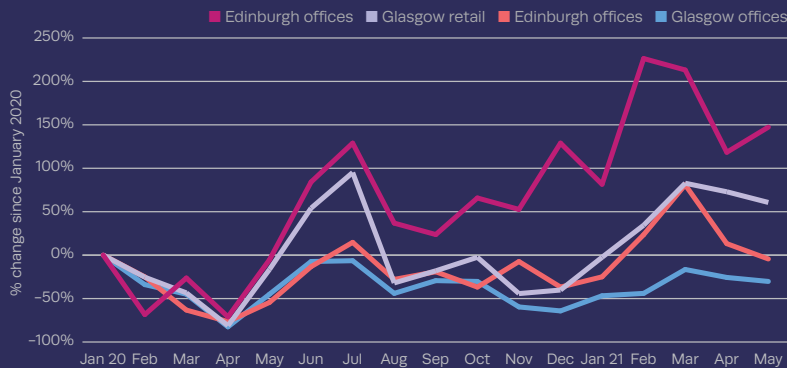
Although industrial remains the city's biggest sector, leisure has experienced the sharpest rise in enquiries so far this year – up 363% on the first five months of 2020. Leisure enquiries across the UK rose by 'only' 111% in that same period. In that way, Glasgow has taken two of the nationwide trends this year – a relative fall in office interest and a rise in leisure – to the extreme. ■

Aberdeen, Edinburgh and Glasgow enquiries as a percentage of UK total



Source: EG Propertylink

Change in enquiries: Edinburgh v Glasgow



Source: EG Propertylink



Occupiers go shopping

Retail had an upbeat start to 2021, but what about the other sectors?

Offices

Office take-up and investment were both down considerably in Scotland as a whole and in its main cities in the last year: there was a 61% fall in take-up from January to May 2021 compared to the same period last year. EG Radius recorded just 408,000 sq ft of lettings from January to May, compared to 1m sq ft in January–May 2020.

Among the largest cities, Aberdeen experienced the sharpest fall at –82% on the first five months of 2020. This was partly exacerbated by the city actually recording a 54% uptick in take-up last year with more lettings than in 2018 or 2019.

Glasgow remains Scotland's most active office market, accounting for 39% of lettings in the country. The last time Edinburgh recorded more office take-up than Glasgow was in 2017, a year boosted by the Government Property Unit's 190,000 sq ft letting in New Waverley.

Recent months have seen a dearth of investment, with the exception

of Q3 2020, when investment totalled £200m across Scotland. More than half of the total came from Hyundai Asset Management's £133m acquisition of 1–3 Lochside Crescent in Edinburgh. Since Q3 2020, EG Radius has recorded just £92m of investment in total across Scotland's office sector.

Industrial

Scotland's industrial sector had an exceptional year in 2020: quarterly take-up didn't fall below the five-year quarterly average of 1.3m sq ft at any point. In fact, the period from January–May 2020 showed a 46% increase in take-up on the same period in 2019.

EG Radius has yet to register deals reaching anywhere near those levels in 2021. Industrial lettings in the first five months came to just 809,000 sq ft – a 71% year-on-year fall, and a 62% decrease on the five-year average.

Industrial investment dried up between Q1 and Q3 2020, but then picked up again in Q4 2020 and Q1 2021. The last quarter of 2020

was particularly active with 34 deals averaging £6.2m, which was the highest average investment in Scotland since at least 2013. Compared to that, the start of this year has been quieter despite a similar number of deals in Q1 (32). With an average deal size of £1.2m, the quarter's total came to just £39m, a fall of 81% on the previous quarter.

At the time of writing in late June, Q2 had registered only £5.5m of industrial investment, which is the second lowest total for a quarter since at least 2013 after Q2 2020 (£5.2m).

Retail and leisure

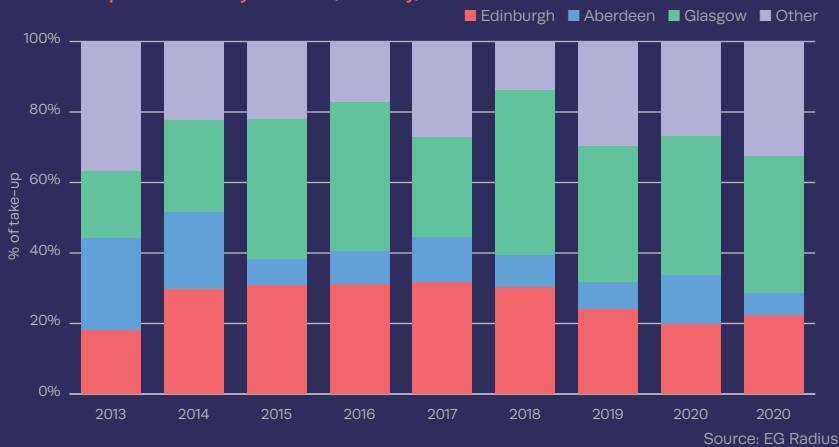
Retail take-up was up 9%, year-on-year, in the first five months of 2021. The sector had one dismal quarter last year (Q2 when total take-up came to 122,882 sq ft after a 70% fall on the previous quarter). Since then, take-up volumes have held up, averaging about 400,000 sq ft per quarter across Scotland in the following nine months.

However, activity appeared to stutter again in Q2 2021. By June, the sector had only recorded 89,000 sq ft of lettings. Investment has similarly been low this year, totalling just £27.4m – less than in Q3 or Q4 in 2020, which recorded a combined total of £79.8m in retail investment.

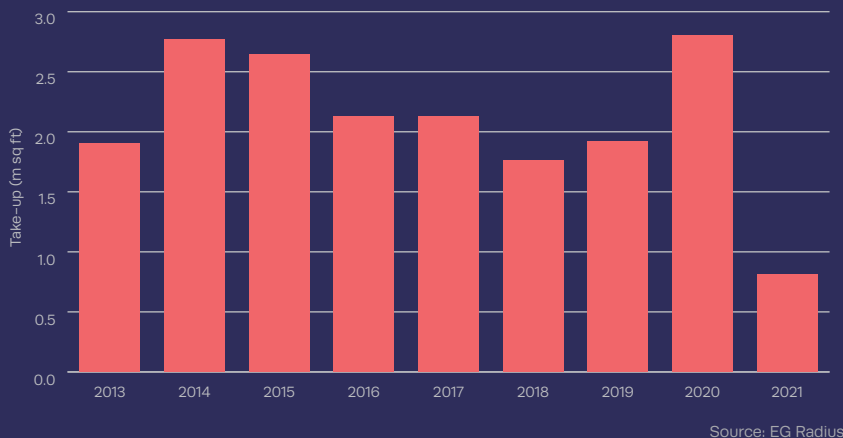
The road to back to the pre-2020 five-year average of £136m per



Office take-up in Scotland by location (Jan-May)



Industrial take-up in Scotland Jan-May, 2013-2021



quarter seems like a long one. The emergence of another wave of Covid cases and a delay to reopening have left the sector with question marks hanging over its future. But if a fast recovery does follow a sharp downturn, we should be able to see the first signs of that in August as restrictions ease.

Residential

Scotland's build-to-rent market has yet to explode in the way it has in other parts of the UK. As EG's recent BTR report showed, Glasgow and Edinburgh have accounted for just 8% of deals between them. Still, there have been a number of notable deals in recent months. Apache & Harrison Street's £100m acquisition of Holland Park, Moda Living's 433-home development, was the fifth largest BTR deal in the UK in Q1. A few months earlier, Legal & General agreed to buy the 346-home Candleriggs Square development in Glasgow for £81.5m. ■

Bilal Ashraf, Associate Partner at Graham + Sibbald

GRAHAM + SIBBALD

We sat down with Bilal Ashraf, associate partner at Graham + Sibbald, to discuss how the company has had to adapt, expectations for the market and permanent changes for the industry

In such challenging times, what are the top three imperatives that your team are focused on to support your clients?

Covid-19 brought many challenges in terms of client relationships. The halt on meeting clients face-to-face was the toughest of them all. However, I would say the top three things that the team at Graham + Sibbald focused on were:

Communication. We had to adapt our communication methods to keep our clients informed. We used Zoom and Teams calls to “meet” clients face-to-face, and our teams also used both methods to communicate between our offices throughout Scotland and England. This allowed us to keep our clients in the know about the market, how it was changing throughout the pandemic, and allowed us to keep clients updated on their instructions on a more personal level and provide the highest standard of service to them at all times.

Instructions. With lockdown, the team had to adapt the traditional way of receiving instructions and offering advice. With challenges



Bilal Ashraf

such as closure of offices/retail premises, the team had to be on hand to offer any advice necessary to our clients. With restrictions in place and inspections not allowed, the team had to use online systems and previous files to undertake any new instructions. EG was a great tool to have in this situation as it allowed the team to pull as much data as possible on instructions. In terms of agency and the agency team, a lot of matters had to be focused on. With restrictions in place and viewings not being carried out, the team adapted to offering video tours to keep our clients' properties marketed to the highest of standards. This allowed the market and property transactions to keep moving in these challenging times.

Support. The team reached out with support for our clients, rather than with marketing. The pandemic was a challenging time for everyone, from landlord to tenants. The team was on hand to deal with issues that arose from the pandemic in terms of providing property advice across all areas of the business, and especially through property management.

What lessons has Graham & Sibbald learnt from this crisis and how has your business changed in the past 12 months?

I think the biggest lesson we have learnt from the crisis is that people can work from anywhere with the right tools and software in place. Our systems allowed us to work from home very quickly and efficiently without any issues, enabling our teams to keep the

business moving and providing the highest service to all our clients. Another lesson was ensuring employees' and clients' safety. We had to adapt our offices and make sure we had safety protocols in place for any employees who could not work from home and for any clients attending the office. Now restrictions are lifting, employee safety is still paramount. Safety protocols remain in place for all our offices and working from home is still very much a priority.

What are your expectations for the Edinburgh market as we come out of lockdown over the next six months?

The Covid crisis definitely had a significant impact on the property sector. There was a caution brought to the Edinburgh market by the pandemic. There was a slowdown in transactions in the retail and office sectors, but the industrial sector remained buoyant.

Office take-up slowed during the lockdowns as occupier requirements were postponed or adjusted. However, saying this, Edinburgh saw its largest ever prelet office deals, with Baillie Gifford taking space (280,000 sq ft) in the new Haymarket development. As restrictions are beginning to be lifted, I think the next six months will see occupiers plan a return to the office, which should signal an office market recovery, albeit with

more widespread implementation of working from home and in some instances reducing space requirements.

As the concentration into prime industrial locations is intensified by the increase in online shopping and services, I think the industrial sector will remain buoyant and rents and yields will sharpen.

The retail market over the next six months will see slow take-up and I think, for Edinburgh, this will take longer to recover due to the move to more e-commerce services. The new St James, which opens this summer, will provide a lift for the sector, but retail was the hardest hit throughout the pandemic and recovery will remain measured.

The property investment market has picked up again and should grow over the next six months. However, I think investors will have more of a focus on off-market deals for good quality properties which are well-let.

I expect the property market recovery in Scotland will follow a slow path to normalisation, especially in the office and retail sectors, as restrictions are slowly lifted. However, a full recovery to pre-2020 market activity levels will take more than six months.

What are your expectations for the Manchester market over the next six months?

During the pandemic, Manchester showed resilience through its robust office, retail and industrial sectors and I have no doubt that in the next six months Manchester should



Real estate data EG provides has helped in drawing up reports and keeping up to date with the most recent transactions.

recover as restrictions are eased and confidence is restored in the market.

The investment market in Manchester remained strong throughout 2020 and traded higher than in 2019, according to reports, which shows there is a lack of stock within the market. Over the next six months, as restrictions are lifted, we would expect an increase demand for the best assets and prime locations from local and overseas investors, which will see demand increase and rents and yields sharpen. The argument around the future of the office is likely to lead to an increase in overall stock levels, both occupationally and for investors and we should see this more in the secondary markets. The North West industrial market continued to stand out as one of the most sought-after throughout the pandemic. We expect demand for industrial assets to remain strong over the next six months and going forward. With the lack of supply for both occupiers and investors, it is likely to continue to drive pricing higher and will see rents and yields sharpen.

The Manchester office market was resilient in 2021 and it should remain resilient over the next six months. The expectation in the market is that activity levels will increase in the latter part of the year given the pent-up demand. Manchester city centre prime rents increased in 2020 from £36.50 per sq ft to £38.50 per sq ft and the expectation is that rents will continue to grow throughout 2021 and I think over the next six months we will see good levels of activity in the office sector in Manchester.

“ The property market in Scotland will follow a slow path to normalisation, especially in the office and retail sectors, as restrictions are slowly lifted. However, a full recovery to pre-2020 market activity levels will take more than six months.”

In the retail sector, while lockdown and restrictions created serious challenges, I think that in the medium- and long-term people will want to get back to socialising, shopping and being together, and the Manchester retail sector should bounce back at steadier pace compared to the office and industrial sectors as the transition of retail continues online.

As you navigate the market this year, how have you benefited from using EG Radius?

EG Radius has been great, allowing our teams to keep up to date on market news and trends through the information it provides. For myself personally, the real estate data EG provides has helped in drawing up reports and keeping up to date with the most recent transactions. EG data has helped provide information to our clients, allowing us to use the data to put together requirement lists, client reports and provide more insight into potential deals/tenants using EG searches. EG has helped me become more efficient when reporting to clients.

Thank you so much for your time, is there anything else that Graham & Sibbald would like to highlight? As this is a customer spotlight, we are keen to share your successes, so anything as a company you are

particularly proud of, or working towards, please do share. At Graham + Sibbald we are proud to be at the forefront of an ever-changing property sector. We trade as a traditional partnership as we consider that this best reflects our commitment to provide safe, reliable and trusted advice and support. We embrace change and focus on developing and providing creative solutions that deliver the best possible outcomes. We are committed to growing our business to better serve our clients, through strategic investment and alliances and through the expansion of our core and specialist services. As one of the most respected property services companies throughout Scotland and England, we offer a unique combination of local knowledge and national reach. Our network of offices covers the country, with all our teams sharing expertise and resources so that they can offer the most effective advice and services.

As a company, we are expanding our presence throughout England on our already established Hotel and Leisure, Building Surveying and Petroleum and Roadside teams. We have recently expanded our foothold in the North West with the expansion of the Manchester office adding Agency and Valuation, and recently opening offices in Birmingham, where we have Steven Halfpenny (Building Surveying), and London with Kit Abram (Hotel and Leisure). The company continues to grow and invest in its people, which allows us to provide the best advice to our clients throughout Scotland and England as we continue to grow ■



With On-Demand Rankings, you can now access an up-to-date view of how agencies are performing across the UK by sector, geography, and deal type, updated on a weekly basis.

Snapshot of contributed data from 01/01/21 to 25/06/2021

Scotland: Top Contributors – Office

Contributor	Space transacted (sq ft)
CBRE	126,914
Knight Frank	97,958
Avison Young	57,034

Scotland: Top Contributors – Industrial

Contributor	Space transacted (sq ft)
CBRE	584,185
Colliers International	569,556
Savills	246,719
JLL	172,856
Gerald Eve	55,608
Avison Young	46,652
Graham & Sibbald	22,556
Knight Frank	7,309
CBRE	584,185

Scotland: Top Contributors – Retail

Contributor	Space transacted (sq ft)
Savills	259,957
CBRE	129,140
Gerald Eve	15,565

Edinburgh Top Contributors

Contributor	Space transacted (sq ft)
CBRE	26,752
JLL	11,813
Cushman & Wakefield	10,431
EYCO	9,565
Lambert Smith Hampton	5,539
Avison Young	1,487

Scotland: Top 10 individual dealmakers by region

Agent	Company	Total space transacted (sq ft)	no of deals
Gregor Brown	Gerald Eve	96,014	42
Jonathon Webster	Savills	191,325	23
Colin Mcmanus	Colliers International	119,918	21
Stuart Moncur	Savills	216,309	20
Iain Davidson	Colliers International	404,266	17
Sarah Hagen	Knight Frank	50,602	15
Andy Cunningham	CBRE	116,991	10
Hannah Lowe	CBRE	69,112	10
Andrew Peel	Graham & Sibbald	25,681	9
Josh Menzies	Savills	16,765	9

For more information and to find out how to contribute your data, get in touch at deals@egi.co.uk

