Edinburgh City Plan 2030 Commercial Needs Study:

Office Market

November 2018

Contents

EXECUTIVE SUMMARY

1. City of Edinburgh Council instructed a land and property **commercial needs** study to inform the preparation of **City Plan 2030**, which is currently programmed for adoption in May 2021.

2. This phase of the commercial needs study provides a detailed assessment of **Edinburgh's office market**. Industrial, retail and visitor accommodation studies are reported separately.

3. **Planning policy** at all levels emphasises Edinburgh's importance as a key driver of economic growth. Key economic sectors - research and knowledge, business and financial services, tourism and creative industries - have different land and property requirements. These requirements are reflected within the geography of investment clusters across the city. A flexible approach to employment land is evident at all levels of policy, to support changing requirements of key sectors and allow for the realisation of new opportunities. Within the spatial strategy, offices are directed to specific locations in the city centre and at peripheral sites to the west, north and south of the city and at town and local centres.

4. The office study echoes the Edinburgh **Economy Strategy**'s *good growth* ambitions around attracting investment, flexible workspace and having a range of office locations. Economic forecasts in SESPlan and the City Region Deal signal future growth and are used here to inform office market projections.

5. Edinburgh's office market has been driven by organisational **evolution**, but sometimes also by **revolution**, such the opening up of West Edinburgh and the Exchange in the 1990s, or the loss of New Town offices to alternative uses in the 2010s. Technological, sociological and environmental changes are making offices less about physical property and more about employee well-being and productivity. Technology is enabling offices to accommodate more jobs, agile working and less formal tenures. City centres - accessible by public transport and close to a range of accommodation, services, amenities and entertainment for employees - are attracting increased office market demand.

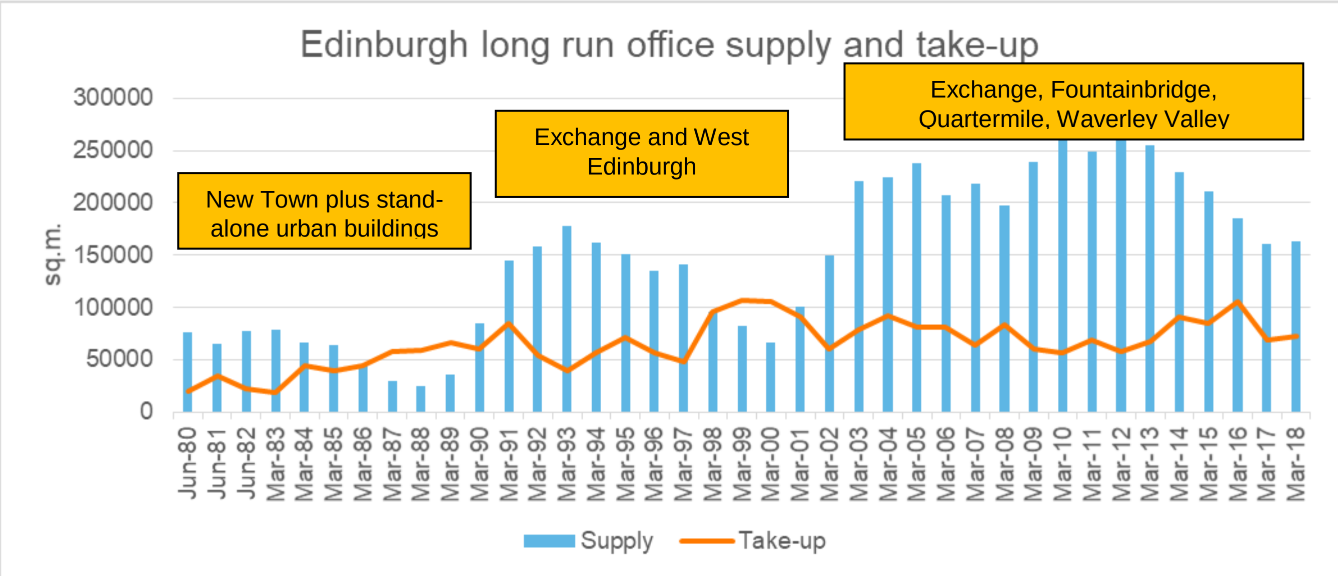
6. Supporting these office market trends, **occupier** consultations identified the current key drivers of location in the city as: attracting staff, cost, office quality and transport accessibility (particularly public transport). Occupiers reported finding a limited choice of offices in their preferred search areas.

7. Edinburgh's **office stock[1] is 1.85 million sq.m.** (19.9 million sq.ft.). Of this, 46% is located in the city centre, 20% in West Edinburgh, 5% at the Waterfront, 1% in the South East and 28% elsewhere in the city. This means that more than half of office stock is outside of the city centre, and nearly one-third is outside of recognised office zones. There are 1,413 offices in total, averaging 1,310 sq.m. and multi-let to on average 5 occupiers. The majority of stock (61%) is graded 3-star[2] (out of 5), 2-star (25%) or 4-star (12%). The dominant 3-star rating is unlikely meet the requirements of contemporary businesses.

[1] Sources: CoStar / Scottish Assessors' Association / Ryden. Net offices areas, both occupied and vacant.

[2] 3-star are offices are defined as "*less flexible floor plates, likely older and renovated*" with "*some standard amenities, modest landscaping and likely small or no exterior spaces*" (CoStar).

8. Edinburgh's annual office **take-up**[3] since 1980 averaged 66,500 sq.m. (see chart). Take-up rose as the city's office market expanded. The city centre accounts for 64% of long run take-up, rising to 77% during the 2010s. Average long run supply of 147,000 sq.m. increased as new locations opened-up.



9. New office **development** in Edinburgh averages 37,000 sq.m. each year[4] (around 1.7% of stock). Development declined from an early 2000s peak but shows recent recovery. In 2017, 31,400 sq.m. was built, although nearly half was for suburban healthcare rather than the office market. Of a further 32,700 sq.m. under construction, 88% is pre-let and further new buildings since have tended to attract pre-lets. Looking forwards, of a pipeline of 538,000 sq.m. office development with planning permission across the city, only 10% is in the city centre where the majority of market demand is directed.

10. Office floorspace is being **lost to alternative uses**. Over the past five years 97,552 sq.m. was lost, 44% to residential use, 40% to hotels/ serviced apartments and the balance to other uses. These uses are higher value (at the time) and some pre-commit to take entire buildings. The majority (68% in 71 buildings) was lost in the city centre. New office development of 88,943 sq.m. over the same period means that the net loss is 8,609 sq.m., although the quality is improved as new, purpose-built offices replace obsolete older buildings. The next, large wave of redevelopment is emerging among Edinburgh's large portfolio of 1960/70s office blocks in urban areas such as Gorgie and Meadowbank.

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[3] Sales and lettings of both new-build and secondhand offices.

[4] Source: City of Edinburgh Council. Gross floorspace. Equivalent net area would be c.31,500 sq.m.

11. Current office **supply** in Edinburgh is 207,663 sq.m. This 11% vacancy rate includes obsolete stock; the choice for occupiers seeking modern office space is much more restricted. Edinburgh city centre has the lowest vacancy rate among major UK regional office markets. Over the past 12 months 69% of **take-up** has been in the city centre. The average office deal size is 390 sq.m. (suitable for around 25 to 50 staff). Prime new-build city centre **rents** are £360 per sq.m. (£33.50 per sq.ft.); however rents vary by office location and quality and the average is £198 per sq.m. (£18 per sq.ft.) over the past 5 years.

12. The **office market projected development requirement**[5] for Edinburgh 2019-2030 based upon employment projections and the potential need to replace lost office stock are:

- **High** requirement 29,625 sq.m. (net) per annum (*gross 35,482 sq.m.*)
- **Medium** requirement 23,344 sq.m. (net) p.a. (*gross 27,463 sq.m.*)
- **Low** requirement 17,063 sq.m. (net) p.a. (*gross 20,074 sq.m.*)

Edinburgh's projected office need is therefore **17,000 sq.m. to 30,000 sq.m. (net floorspace) per annum until 2030**. While the upper figure is described as 'high', it reflects accepted growth projections and proven loss of office stock to alternative uses. The high requirement is close to the average development rate since 2000, although that happened in pulses rather than a straight line.

13. Two **locational options** are considered:

- **Balanced growth**: 70% of development in the city centre to match proven demand, 30% elsewhere
- **Decentralised growth**: 50% of development in the city centre and 50% elsewhere

The most likely scenario based upon current trends is for **high, balanced growth.** This would require in the **city centre 248,850 sq.m.** (c.2.7 million sq.ft.) of new office development and in **other locations 106,650 sq.m.** (c.1.15 million sq.ft.), over the next 12 years. Policy and potentially market intervention would be required to support what is essentially the '*fourth wave'* of Edinburgh's office development, to add to the existing three on the chart (previous page). Alternative outcomes could result from combinations of lower growth, slower loss of office stock and further agile working. However, only a low demand scenario with slower loss of office stock might remove the need for major intervention.

14. Edinburgh's new-build offices tend to be small, expensive co-working spaces, or large, expensive headquarters. However, the majority of the city's office market is '**mid-market**', by location, quality, size (typically multi-let) and cost. It is not currently evident that there is any response to this market's needs, while the continuing loss of traditional offices and the potential loss of older urban office blocks reduces the supply available to that mid-market.

[5] High growth: 1,050 additional office-based jobs per annum; Medium growth: 900; Low growth: 750

15. Based upon the study and scenarios, the office market priorities for City Plan 2030 are:

- **Identify the next city centre office / mixed-use district(s). Public transport interchanges and amenities are key drivers in identifying city centre locations for development or redevelopment.**

- **Capture the potential of off-centre office locations through transport investment and diversification to include a full range of land uses.**

- **Meet the needs of the city's large mid-market. This is both an economic development and a planning policy priority, and will likely require market intervention.**

1.0 Introduction

Study Brief

1.1 City of Edinburgh Council instructed a land and property **commercial needs** study to inform the preparation of **City Plan 20230**. The current Edinburgh Local Development Plan (LDP)[6] was adopted in November 2016. It will be replaced by City Plan 2030 which is currently programmed for adoption in May 2021[7].

1.2 The commercial needs study is delivered by the Council's framework commercial property consultants, led by Ryden and supported by sub-consultants Cushman & Wakefield, GVA and JLL.

1.3 The full commercial needs study is a four-phase project which is intended to:

- provide a robust evidence base covering current and emerging commercial land and property trends to inform City Plan 2030;
- meet the sectoral requirements of Scottish Planning Policy (SPP); and
- in the interim period until City Plan 2030 is adopted, assist the city planning function under the current adopted LDP.

Based upon the timetable above and the proposed Scottish Government planning reform to extend LDP durations from 5 to 10 years, City Plan 2030 would cover the calendar years 2021 – 2030 inclusive.

The interim period covered by this study until adoption of City Plan 2030 would therefore be from Q4 2018 / Q1 2019 through to Q4 2020.

The commercial needs study will also help to inform Edinburgh's Economy Strategy, which is discussed in Section 3 of this report.

[6] http://www.edinburgh.gov.uk/info/20013/planning_and_building/66/edinburgh_local_development_plan/1

[7] The timetable and indicative dates for City Plan 2030 are set out in the Development Plan Scheme September 2018: http://www.edinburgh.gov.uk/downloads/file/11318/city_plan_2030_development_plan_scheme

1.4 The phase of the commercial needs study presented in this report provides a detailed assessment of **Edinburgh's office market**. Industrial, retail and visitor accommodation studies are reported separately.

Study Approach and Content

1.5 The economic, planning policy and property market contexts for Edinburgh's office market are presented in Sections 2, 3 and 4 respectively.

1.6 Office market analysis is reported in Sections 5 (stock of all offices), 6 (market dynamics – demand and supply), 7 (development and investment) and 8 (current market activity).

1.7 Section 9 presents a dashboard summarising a range of measures across Edinburgh's office market areas, and a summary comparison of the city's office market with UK large UK regional cities.

1.8 Edinburgh office market projections for the City Plan 2030 period from 2021 to 2030 inclusive are explained and presented in Section 10.

2.0 Planning Policy Context

Introduction

2.1 This section presents the planning policy context for Edinburgh's office market. It considers national, regional and local planning policy, noting of course that the study is to inform a review of that local planning policy for City Plan 2030.

National Planning Policy

2.2 National planning policy is set out within the National Planning Framework (NPF3) 2014 and Scottish Planning Policy (SPP) 2014. These support the Scottish Government's long-term strategy to:

> *"create a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth'*

2.3 Scottish Planning Policy (SPP) recognises that:

> '*good planning creates opportunities for people to contribute to a growing, adaptable and productive economy'* and '*spatial strategies within development plans should promote a sustainable pattern of development, appropriate to the local area'*.

2.4 In terms of supporting business and employment land, SPP sets out that a key policy principle for the planning system should be to:

> '*allocate sites that meet the diverse needs of the different sectors and sizes of business which are important to the plan area in a way which is flexible enough to accommodate changing circumstances and allow the realisation of new opportunities*.'

2.5 National Planning Framework 3 (NPF3) further supports this economic growth through business space development at a strategic level. It recognises cities as the main drivers of the economy and sets out investment into the seven city regions as a top spatial priority. A flexible strategy is outlined to promote distinctive city regions around Scotland's key sectors; energy; food and drink; life sciences; tourism; financial and business services; universities and the creative industries.

2.6 The Edinburgh city region, which includes the city itself and West Lothian, Midlothian, East Lothian, Fife and Scottish Borders, supports many of these key sectors. Edinburgh is recognised as one of Europe's most important centres for financial services and tourism. Energy, creative industries and life sciences are growing sectors within the city and its universities are major contributors to the city economy. To accommodate growth, NPF3 sets out areas for growth within Edinburgh;

- **The City Centre**; the civic, cultural, tourism and commercial hub with its world-renowned built heritage as a key asset

- **The Waterfront**: a top regeneration priority for new homes and port, energy and industrial development

- **West Edinburgh**; a significant location for investment with the airport, National Showground and the International Business Gateway, promoting a business-led development and the creation of new jobs.

- **The South East of Edinburgh into Midlothian**; will accommodate significant growth and is a key location for the life sciences based around the Edinburgh BioQuarter and nearby Midlothian BioCampus.

NPF3 gives the status of a **national development** to the strategic enhancement of Edinburgh Airport with associated mixed use/ business space and the New National Showground Facility.

Regional Planning Policy

2.7 SESplan (2013) is the Strategic Development Plan covering Edinburgh and the South East of Scotland. It sets out a vision to 2032 for the development of the region, taking account of both SPP and NPF3. It focuses development in the areas of growth for Edinburgh as identified in NPF3 and noted at 2.6 above and designates these as Strategic Development Areas.

2.8 The second Proposed Strategic Development Plan for the South East of Scotland (2016) was submitted to Scottish Ministers for examination on 26 June 2017. It sets out a strategic vision up to 2038. Key areas of change and locations for investment are identified as significant business clusters. Local Development Plans will also consider whether to identify business clusters. Within Edinburgh the proposed replacement SESPlan identifies:

- a **Central Business Cluster** (city centre and Leith, the latter based on city centre expansion and tram extension proposals);
- the **West Edinburgh Business Cluster** (International Business Gateway, Edinburgh Airport, Scotland's National Showground, Edinburgh Park, South Gyle and Gogarburn): and
- an **Innovation and Science Cluster** which includes University Campuses and Edinburgh BioQuarter in Edinburgh.

Local Planning Policy

2.9 The adopted Edinburgh Local Development Plan (2016) reflects the national and strategic economic priorities set out within the NPF and SESplan. The commentary below focuses on the current spatial strategy rather than policy detail, as the office market study is undertaken at a market level and additionally it may influence the evolution of City Plan 2030.

2.10 The economic strategy seeks sustainable growth through investment in jobs – focussing on development and regeneration, inward investment, support for businesses and helping unemployed people into work or learning.

2.11 The plan recognises that the strength of Edinburgh's economy is based on a range of key sectors, for example tourism, financial services, life sciences and higher education. Edinburgh also has a wide range of cultural, arts and sports venues which bring economic benefits as well as enhancing the wellbeing of residents and visitors. The LDP supports existing businesses, makes specific provision for a growing student population, continues to promote previously identified economic proposals and highlights new investment opportunities.

2.12 The spatial strategy identifies the city centre, the waterfront, West Edinburgh and The South East of Edinburgh as Strategic Development Areas. Further areas for investment are recognised in the adopted LDP as Employment Centres.

2.13 Within these Strategic Development Areas and Employment Centres, economic opportunities are identified. These reflect a wide range of sites, as required by SPP and SESplan (see Figure 1):

- **Strategic Office Locations** in the city centre, Leith and Edinburgh Park/ South Gyle (Policy Emp 1)
- **Special Economic Areas** at Edinburgh BioQuarter, Riccarton University Campus and Business Park, Edinburgh Airport, Royal Highland Centre, International Business Gateway and RBS Headquarters at Gogarburn (Policies Emp 2 to Emp 7); and
- **Business and Industry Areas,** such as Newbridge (Policy Emp 8).

Figure 1: Edinburgh's Economic Development Opportunity Areas

Source: extract from Edinburgh LDP Figure 6

2.14 Policy Emp 1 Office Development is the core office policy and states that high quality office developments, including major developments, will be supported in the City Centre and in the other strategic business centres identified preferably as part of business led mixed use proposals; and also in town or local centres as identified (where of an appropriate scale).

2.15 Where it is demonstrated that sites in such locations are unavailable or unsuitable, other accessible mixed use locations may be considered close to public transport nodes, compatible with the accessibility of the location by public transport and with the character of the local environment.

2.16 In addition, any office development exceeding 2,500 square metres must demonstrate that the impact on existing town centres is acceptable.

2.17 Policy Emp 8 Business and Industry Areas - states that planning permission will be granted for business, industrial or storage development on sites identified on the Proposals Map as part of a 'Business and Industry Area' and that development, including change of use, which results in the loss of business, industrial for storage floorspace or potential will not be permitted in these areas.

2.18 Small scale proposals for ancillary uses which support local businesses and provide services for their employees may be supported as an exception to this policy.

2.19 Policy Emp 9 Employment Sites and Premises covers proposals to redevelop employment sites or premises in the urban area for uses other than business, industry or storage. It states that such proposals will be permitted provided those will not prejudice or inhibit the activities of any nearby employment use; it contributes to the comprehensive regeneration and improvement of the wider area; and, if the site is larger than one hectare, the proposal includes floorspace designed to provide for a range of business users (sites smaller than one hectare are not required to provide any replacement business space).

2.20 There is a general presumption that permission will be granted for the development for employment purposes of business and industrial sites or premises in the urban area.

Summary

2.13 The cascade of planning policy from national through strategic to local level sets an important context and direction for economic investment and employment land across the Edinburgh city region and city. Planning policy at all levels emphasises Edinburgh's importance as a key driver of economic growth. Research and knowledge, business and financial services, tourism and creative industries are key sectors for the city, all of which have different land and property requirements. These requirements are reflected within the geography of investment clusters across the city. A flexible approach to employment land is evident at all levels of policy which aims to support changing requirements of key sectors and allow for the realisation of new opportunities. Within the spatial strategy, offices are directed to specific locations in the city centre and at peripheral sites to the west, north and south of the city and at town and local centres.

3.0 Economic Context

Introduction

3.1 Edinburgh's economic performance drives the city's office market. The service sector accounts for the majority of the Edinburgh[8] city, regional and Scottish economies. There is a strong alignment between the service sector and the office market, meaning that trends and forecasts for services are critical to understanding office market potential to inform City Plan 2030.

Scottish Economy

3.2 Scotland's Economic Strategy (March 2015)[9] seeks to increase the country's competitiveness and tackle inequality. Four priorities to support the delivery of sustainable economic growth are identified: investment, innovation, inclusive growth and internationalisation. The Edinburgh city economy provides strong support for all of these economic priorities.

3.3 Forecasts of economic growth for Scotland extend only into the medium term and do not cover the full City Plan 2030 period. The Scottish Fiscal Commission envisages low growth of marginally below 1% per annum to 2023. Other forecasters such as the EY ITEM Club and Fraser of Allander Institute are a little more positive and envisage economic growth above 1% per annum over the medium term, although this remains well below the historic average of around 2-2.5% per annum.

[8] The separate Industry market report for City Plan 2030 estimates that employment in the city's offices is around four times higher than employment in its industrial premises.

[9] https://beta.gov.scot/publications/scotlands-economic-strategy/

Regional Economy[10]

3.4 As well as being Scotland's capital city, Edinburgh is the regional centre for the South-East of Scotland. The city provides services to the wider city region and is a major employment hub, particularly in the service sector and thus the regional office market.

3.5 SESPlan[11] confirms that the Edinburgh City Region is one of Europe's most important areas for financial services and for tourism[12]. It notes the continuing shift towards knowledge and technology-based industries, and the importance of financial and business services and government. It reports that around one-third of the city's workforce commutes in from the wider city region.

3.6 SESPlan provides employment forecasts for the city region to 2030, which is coterminous with the City Plan 2030 Edinburgh office market review in this report. These employment forecasts anticipate significant growth and are used in Section 10 to inform the office market scenarios.

3.7 The Edinburgh and South East Scotland City Region Deal[13] is an infrastructure investment and skills development programme totalling around £1.1 billion. The programme is expected to create substantial additional economic activity. Particular areas of focus will include improving productivity across the labour market, building on key assets and helping to address inequality. The range of planned investments across infrastructure, incubation, technology, cultural and leisure assets would stimulate demand for business space, either directly through job creation or indirectly through additional economic activity. Supporting analysis for the City Region Deal also includes long run employment forecasts.

10 Two regional geographies are used for analysis here: SESPlan and the Edinburgh City Region. Each comprises six constituent local authority areas: Edinburgh, Scottish Borders, Midlothian, East Lothian, West Lothian and Fife. The only difference between these two geographies is that the SESPlan area excludes North-East Fife around St Andrews and Cupar, which accounts for approximately 5% of the regional population and much less of its office-based employment. For the purposes of regional discussions the two areas are treated as broadly equivalent.

11 www.sesplan.gov.uk/assets/SESplan%20Strategic%20Development%20Plan%20Approved%2027%20June%202013.pdf

12 SESPlan Main Issues Report Technical Note – Economy (July 2015): www.sesplan.gov.uk/assets/publications/MIR/Economy.pdf

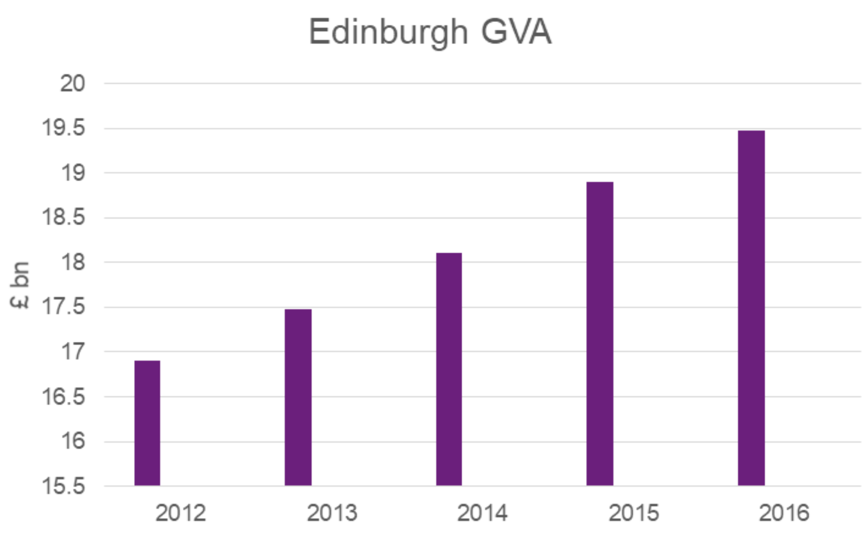
13 http://www.acceleratinggrowth.org.uk/

Edinburgh Economy [14]

3.8 Edinburgh is a growing city, due to rising birth rates, people living longer and net in-migration for work or study. The city's population was estimated at 507,000 in 2016,[15] which is an increase of 6% over the 477,000 recorded 5 years earlier at the 2011 Census. At the City Plan 2030 end date Edinburgh' population is forecast to be 11% higher again, at 564,000. While the greatest population growth is forecast in pensionable age groups, the city's working age population is also forecast to rise at around 1% per annum over the City Plan 2030 period.

3.9 Edinburgh has a high-performing economy. Gross value-added (economic output) per worker is very high at £59,800 per worker, or £37,000 per head of population. Edinburgh's total GVA has increased at an average compound growth rate of 3.5% per annum since 2012 to reach £19.5 billion in 2016 (Figure 2). This growth rate significantly exceeds the national average rates for Scotland and the UK.

Figure 2



Source: ONS

[14] Sources for the review of the Edinburgh economy in this section are:
- Edinburgh by Numbers 2017 (City of Edinburgh Council) (the 2018 report is due to be published in September 2018);
- Office for National Statistics, Edinburgh's Economic Strategy (June 2018);

Where office-based activity is inferred from employment data this has been aggregated by Ryden from individual sectors.

[15] National Records of Scotland

3.10 A higher proportion (73%) of Edinburgh's working age resident population is in employment than the UK city average. Including the effects of commuting, the city had a total of 324,000 jobs in 2015, of which 30% (98,400) were based in the city centre. The jobs total had increased faster than the UK or Scottish averages since 2010, at around 2% each year.

3.11 Approximately 38% of this city-wide employment is in sectors that typically occupy offices (excluding offices within education and healthcare campuses). That would equate to potential office-based employment of around 123,000 people.

3.12 Edinburgh is the administrative capital of Scotland and is a major financial centre with a large banking sector, £800 billion of funds under management (2016) and an innovative financial services sector which now embraces the rapidly-growing financial technology (fintech) sector. The city generates approximately half of Scotland's financial and insurance sector economic output. These and other sectoral strengths such as higher education, tourism, healthcare and research underpin the city's economy.

3.13 In addition to high profile headquarters offices, the city has a deep pool of businesses across the size ranges. In 2015, a total of 19,825 businesses were registered in Edinburgh. Approximately 59%[16] (11,630) of these were in business sectors that may occupy offices; by sizeband:-

- 10,900 have 0-49 employees (*offices of up to say 500 sq.m.*)
- 340 have 50-249 employees (*offices of 500 – 2500 sq.m.*)
- 390 have 250 or more employees (*offices larger than 2500 sq.m.*)

The 11,630 figure will significantly over-estimate the number of office occupancies in the city, as many services will be sited in Class 2 (shopfront) premises rather than in office buildings, for example estate agencies and bank branches.

3.14 The skew towards smaller organisations informs office market needs. The implication is that more than 90% of occupiers would require from a 1-person suite up to a floor or a very small building. Only a small minority of Edinburgh's organisations – although they are large in number – would be capable of accommodating most or all of a modern office block.

[16] The baseline economic analysis for the City Region Deal identifies that 55% of Edinburgh's businesses are in sectors which typically occupy offices (using Ryden's classification of office-based sectors).

3.15 Edinburgh creates 3,000 business start-ups annually. The city's most recently-reported 5-year survival rate for start-up businesses is 42%, which is comparatively high in a national context. Edinburgh is currently rated as the number one UK city in which to start a business by the Start Up Cities Index[17]. Many of these new businesses will not be suited to or require office premises, but a proportion are likely to begin moving up the ladder of accommodation from very flexible premises, homeworking or mobile working, to more formal arrangements as they become established.

3.16 The recent (June 2018) Edinburgh Economy Strategy sets out a new ambition for the city's economy to achieve 'good growth', by continuing to be the most productive major city in the UK while extending the benefits to all citizens. The strategy is built around inclusion and innovation and is centred on collaboration between the city's anchor institutions. The strategy identifies levers for change which include the delivery of high quality enabling infrastructure and services.

3.17 This office market study deliberately mirrors that new economic strategy for Edinburgh by taking an 'inclusive' approach to offices and occupiers. It therefore considers the *entire office stock* across all city locations, rather than the more common 'prime' market focus.

3.18 Office markets contribute to a number of themes and objectives within the new economy strategy for Edinburgh:

- the strategy notes the paradox of strong demand for office and workspace, yet private investment that does not flow easily to meet that demand

- development of new, flexible workspace is viewed as critical, particularly for new growth sectors which do not fit easily into traditional property models

- strong demand for offices within the city centre faces perceived constraints on availability, yet this focus has not stimulated developments elsewhere in the city

[17] https://startups.co.uk/starting-a-business-in-edinburgh/

The strategy responds to these challenges through proposals to deliver new plans and business growth in strategic zones across the city, including strategic city centre corridors such as Haymarket and Fountainbridge, and as part of mixed-use development at the Waterfront, West Edinburgh and South East Edinburgh.

The strategy seeks to meet the needs of the future economy by working with partners and private sector developers and using strategic investment funds to ensure supply of affordable, flexible workspaces of varying sizes.

3.19 Looking beyond Edinburgh the Centres for Cities Outlook 2018 analyses the performance of and prospects for 62 UK cities. Their forecast period to 2030 is aligned with the LDP period under consideration here. Edinburgh has one of the lowest proportions of jobs in occupations likely to contract[18] (57th of 62 cities) and conversely one of the highest shares (4th of 62 cities) of the types of jobs likely to increase. Within this growth however, the Centre for Cities cautions that the process of shrinkage and growth will inevitably cause disruption, particularly in large cities.

3.20 Taking an ultra-long term view, the 2050 City Vision provides a unifying force for Edinburgh. Based upon consultations with thousands of stakeholders, the Vision sets out the four themes for Edinburgh as an *inspired, thriving, connected* and *fair* city. Actions areas for project and programmes will complement these themes. The character of the city and its quality of life are seen as inseparable from its long term business and economic success. This is acknowledged by the Vision as requiring "brave and ambitious" decisions about buildings and their design and use, including the relationship between heritage and large scale development.

[18] Based upon analysis by NESTA which considers changes such as technology, demography and globalisation. In the office-occupying sector the occupations likely to shrink include financial and other administration while those likely to grow are higher skilled activities, particularly in the private sector.

4.0 Office Market Trends

Introduction

4.1 To the casual observer, Edinburgh's office buildings may have a solid, permanent appearance, with only slow, incremental change. In reality, office occupiers are subject to constant underlying change. This is driven mainly by organisational evolution, but sometimes also by revolution, such the opening up of West Edinburgh and the Exchange in the 1990s, or the loss of New Town offices to alternative uses in the 2010s.

4.2 This section considers some wider trends which are expected to affect Edinburgh's office market over the City Plan 2030 period; references are collated as endnotes to the report. Some trends are already visible, while others are only just emerging. With a 12-year horizon to 2030, it is inevitable that further, unforeseen trends will also emerge to affect the city's office market.

Office Working

4.3 There are 20 million office-based workers in the UK, making up 62.5% of the total working population[i]. Continued growth of the service sector has driven the expansion and evolution of office working.

4.4 Over the past 25 years, technological, sociological and environmental changes have reconfigured traditional understandings of office space. A new generation of millennials with differing requirements and expectations of the work environment combined with new technologies are now bringing about a revolution in the way office space is used. The focus has shifted from offices being purely about physical property, towards how the workplace can enhance employee well-being and productivity[ii].

Technology

4.5 The principal impact of technology within offices is upon flexible team working in open-plan spaces. Office floorspace can house more jobs and economic activity than in the past. However, that office space must be higher quality in terms of providing open-plan floorplates, capacity for flat screen information and communications technologies (ICT) and desking systems, and comfort-cooling systems. Agile working with less than one desk per employee can also increase occupational densities.

4.6 The overall trend is towards smaller, better, more intensively used offices. Between 2000 and 2012 the number of office jobs in England and Wales rose by 21%, yet the stock of office space increased by less than 17%. Increasing communal space for leisure and amenities is also evident[iii].

4.7 Looking forwards, technology allied to the focus on well-being is putting employees at the centre of the office design process. Smart buildings can give employees a sense of control over zonal heating, cooling, lighting and fresh air[iv]. The BCO highlights however that the offices sector is still delivering buildings that are not as smart as they could be, with many specified to provide an 'analogue' rather than a 'digital' experience[v].

4.8 SCDI's *Automatic…for the People ?* (2018)[19] envisages machines performing an expanding range of non-routine employment tasks. Many current jobs will either be replaced or changed fundamentally by automation, most likely in administrative, clerical and production roles. Technological change will automate individual tasks rather than whole jobs, so many jobs will 'evolve' to include complementary and new work rather than simply disappearing. Automation is likely to span a much wider part of the skill distribution than before, including some office activities. On average, around 30% of jobs in sectors occupying offices are reported by SCDI to be at high risk of automation. Ryden would note that Edinburgh is however benefiting from the associated job creation by organisations leading these technological advances, such as fintech.

Agile Working

4.9 Organisational change facilitated by ICT has led to the spread of 'agile working', where employees are not dependent on a single place of work and utilise a wide range of work settings. Agile working is characterised by a high level of choice and mobility[vi]. In a recent BCO survey, 52% of employees already work outside of a traditional office at least one day a week, while 18% work from a public location every week[vii]. The office itself is also becoming more of a ' hub' as ' a work space is no longer just a desk' and begins to blur the lines between home, work and leisure with the agglomeration of life activities into office space[viii]. Agile working practices will mean the future office will be characterised by wide, open floor plates and communal areas to enable flexible ways of working.

[19] https://www.scdi.org.uk/policy/automatic-for-the-people/

Co-working / Serviced Offices

4.10 Related to agile working, 'co-working' spaces provide a place to work and meet for *individuals not employed by the same organisation*. This is part of a wider trend towards greater use of less formal, shorter tenures in serviced offices. The trend is attributed[20] to a permanent shift to higher levels of self-employment, with those freelance workers more likely to be in knowledge-intensive industries. Moreover[21], established companies are also using co-working / serviced space for incubation, acceleration and partnering projects, in parallel with their main corporate premises. Technology is once again an enabler of these flexible occupational trends.

4.11 In central London, flexible workspace providers accounted for 25% of office space taken-up in 2017. WeWork has been the most prolific taker of office space across central London since 2012[ix]. UK regional cities have around 0.35 million sq.m. of flexible workspaces in their city centres, a figure that almost doubles when out of centre locations are considered. In Edinburgh, flexible workspace accounted for 4%[22] of take-up in 2017 compared with an average of 9% across UK regional office markets. The average flexible office size in Edinburgh was 730 sq.m.,[23] smaller than the UK average. There is ongoing demand from operators for flexible workspace in Edinburgh.

Working Practices

4.12 New working practices within the knowledge economy are leading to emerging organisational models *within* companies. Stable, process-based departmentalised structures are yielding to knowledge-based collaborative models. Many larger organisations now set business-wide standards for their occupation of office space[x]. These organisations now look less like 'corporate islands' and are more networked, relying on a rapidly growing 'contingent' workforce to provide input to business activities. With this in mind, "the traditional headquarter is beginning to lose its monopoly as the prime physical infrastructure for an organisation" [xi].

[20] Cushman & Wakefield

[21] JLL

[22] Ryden would note that Edinburgh also has numerous technology incubators, science incubators and creative industry hubs which provide serviced and co-working spaces, but may not appear in office market commentaries.

[23] Actual occupancy will be significantly less than this allowing for receptions, meeting rooms and running voids

Location

4.13 This flattening of the corporate hierarchy has led to some firms, particularly those which are London-based, to move certain aspects of their business to regions with lower rents and lower cost residential options for their employees. Recent high profile relocations include: the relocation of BBC headquarters from London to a new base in Mediacity, Salford; the relocation of HSBC's head office roles in 2015 away from London to Birmingham's Arena Central; and the possible high profile relocation of Channel 4 from London. The capacity of regional cities to deliver sufficient volumes of Grade A office space has however been questioned [xii].

4.14 More importantly, urban locations in generally have seen a resurgence. Occupiers have rediscovered the central business district (CBD). There is a growing interest among employees to work in locations accessible by public transport in close proximity to a range of accommodation, services, amenities and entertainment. Many cities have greatly improved their centres. A 2016 survey by BCO and Savills looking at *'what workers want'* found that the preferred location among respondents was the town/city centre, with the business park model less favoured [xiii]. An increase in sustainable and public transport in cities is resulting in a reduction in on-site car parking and an increase in bicycle parking for new office development[xiv].

4.15 Despite this preference for central locations, there will still be occupier space requirements outside of city centres that developers and policy makers must plan for, and demand for lower cost accommodation for administrative functions. This presents an opportunity for peripheral and out of centre business parks to repurpose their existing stock and improve connectivity to the urban core, attracting the types of amenities that modern office occupiers are seeking [xv].

5.0 Edinburgh Office Stock

Introduction

5.1 A full baseline analysis of Edinburgh's office stock - both occupied and vacant – has been assembled for this study. The analyses are presented at a high level, in order to identify trends and help to inform City Plan 2030. The underlying analysis is though based upon granular data for the entire city office market over the long term.

Stock

5.2 Edinburgh's office stock at June 2018 is estimated at **1.85 million sq.m.** (19.9 million sq.ft., say 20 million sq.ft.)[24]. This figure is based upon net lettable areas, ie. the areas of office buildings capable of being occupied rather than ancillary stairs, corridors, et cetera. Development data cited later in this section uses gross building areas, which are larger.

5.3 Table 1 on the next page compares total floorspace to high level office employment estimates, using employment densities. Employment densities have been falling over time, but a reasonable mid-point of 1 job per 13.5 sq.m. matches the office stock estimate. The analysis suggests that many organisations are working to modern standards but others are in less efficient, older office premises.

[24] This study uses the Edinburgh City Council local authority area and includes all office buildings except for those within educational and healthcare campuses, for example King's Buildings (University of Edinburgh) or Little France (NHS Lothian). Multiple sources are used – CoStar, Scottish Assessors' Association, in-house databases and market knowledge. All detailed data is held in a spreadsheet for analysis and linking to the Council's GIS.

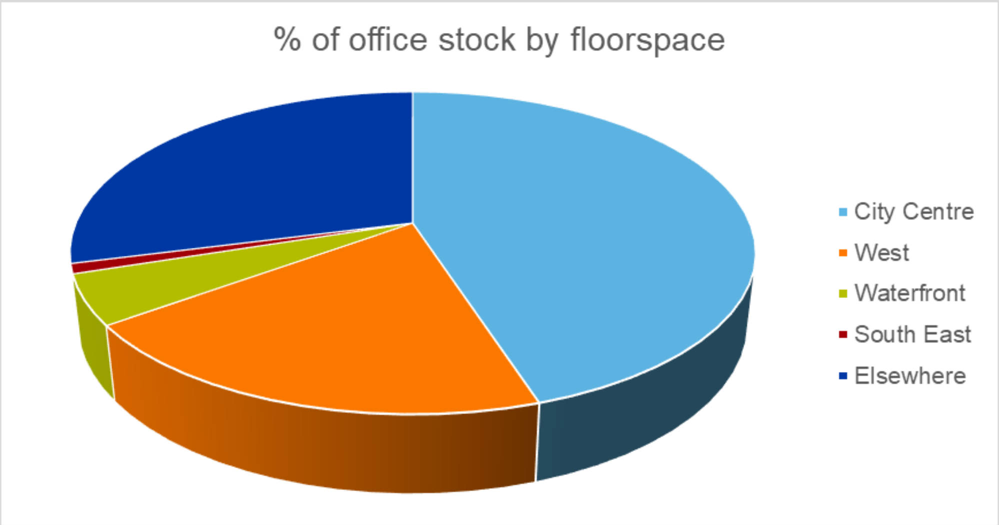
Table 1: Edinburgh office-based employment

Office-based employment estimate	Employment densities (area per employee)	Vacancy adjustment	Inferred total floorspace
123,000 (2015) (*see Section 3*)	1 per 12 sq.m. (2015[25])	+10%	1.62 million sq.m. (net)
	1 per 18.5 sq.m. (2001)	+10%	2.53 million sq.m. (net)
	1 per 13.5 sq.m.	**+10%**	**1.85 million sq.m. (net)**

Office Stock by Location

5.4 The largest proportion (46%) of office floorspace is located in the city centre[26] (Figure 3, see maps in Appendix 1). The city centre also has the largest proportion by number (48%) of office buildings (Figure 4). The mean city centre office building size is 1,257 sq.m. (13,525 sq.ft.) (Figure 5).

Figure 3 (*Source: Ryden / Costar*)

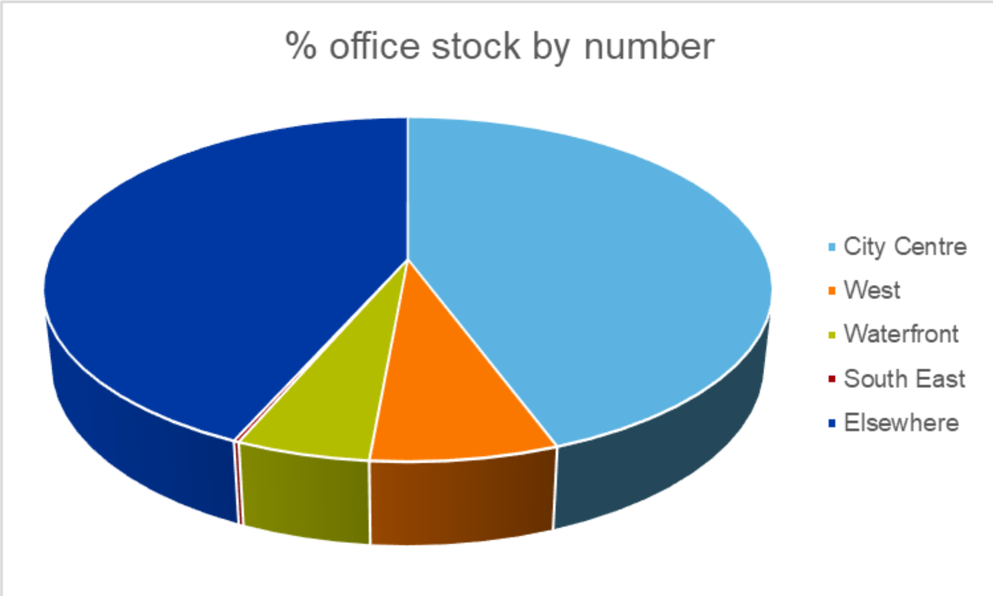


[25] Homes and Communities Agency Employment Density Guide 2015. The mean professional services and public sector employment density is 1 per 12 sq.m.; outliers are corporate offices (13 sq.m.), TMT (11 sq.m.) and call centres (8 sq.m.) https://www.gov.uk/government/publications/employment-densities-guide-3rd-edition

British Council for Offices separately estimates that office workers now have 9.6 sq.m. each BCO (2018) Office Occupancy: Density and Utilisation. http://www.bco.org.uk/Research/Publications/Office_Occupancy_Density_and_Utilisation.aspx

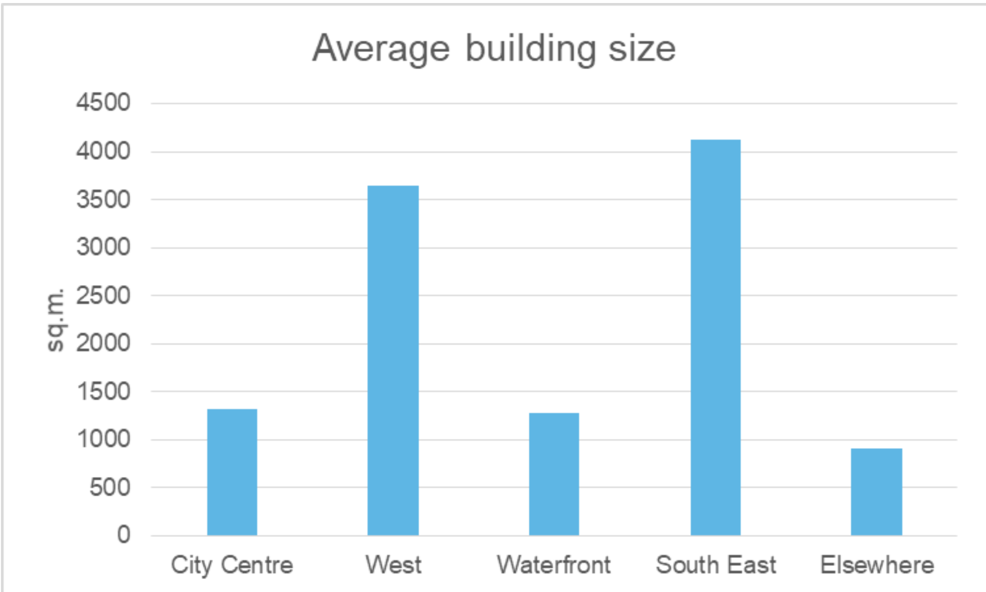
[26] Area definitions are taken from the Edinburgh LDP

Figure 4



Source: Ryden / Costar

Figure 5



Source: Ryden / Costar

5.5 The stock analysis in the charts illustrates that, while the city centre is the largest office location, it is not the majority of floorspace. More than half (54%) of Edinburgh's office total stock is located in:

5.5.1 West Edinburgh: 20% of office stock by floorspace and 7% by number of offices. The mean building size is 3,650 sq.m, with purpose-built modern business pavilions on average three times the size of the typical city office.

5.5.2 The Waterfront has 5% of the city's offices by floorspace and also 5% by number. The mean office size is 1,280 sq.m. as the stock comprises some purpose-built offices but also older conversions.

5.5.3 The South East has only 1% by floorspace and 0.2% by number, but a large average office size of 4,126 sq.m. These buildings are specialist, multi-let premises at Edinburgh's BioQuarter.

5.5.4 The most notable stock finding is that 28% of office floorspace and 39% of buildings are dispersed in 'elsewhere' urban locations. Their mean size is 941 sq.m.; many though are in smaller suites in traditional buildings. Notable clusters include the north New Town to Stockbridge, Murrayfield/ Corstorphine to the west, Bruntsfield/ Morningside to the south, and the Bonnington area. Larger urban offices outside of recognised market areas tend to be the city's 1960s/70s office blocks in locations such as Gorgie and Meadowbank; this portfolio of buildings is considered in Section 10.

5.5.5 In distributional terms therefore, although the city centre is prominent, there is significant office-based economic activity which is neither in recognised prime market locations nor in the LDP's planning policy zones. Of the newer office growth areas, only West Edinburgh is significant in overall city terms. The Waterfront office stock is very modest and the South East is marginal in stock terms (although it is important in economic value terms).

5.6 The stock analysis identifies individual office buildings. The total number in the city is 1,413 and the mean size is 1,310 sq.m. (14,100 sq.ft.). Many buildings are multi-occupied, meaning that the total number of occupiers is higher. A 2018 estimate[27] suggests that Edinburgh has around 7,000 office occupiers[28]. The 'average' occupier may therefore use around 260 sq.m. of

[27] Scottish Assessor's Association has 7,174 office occupancies in Edinburgh. This includes bank branches. Appling a very approximate share of Scotland's bank branches to Edinburgh and given that there may be other minor discrepancies in definitions, this total number of office occupancies in the city is rounded down to an indicative 7,000.

[28] This is reasonably consistent with the 11,630 businesses in Section 3, of which some will be in other types of accommodation

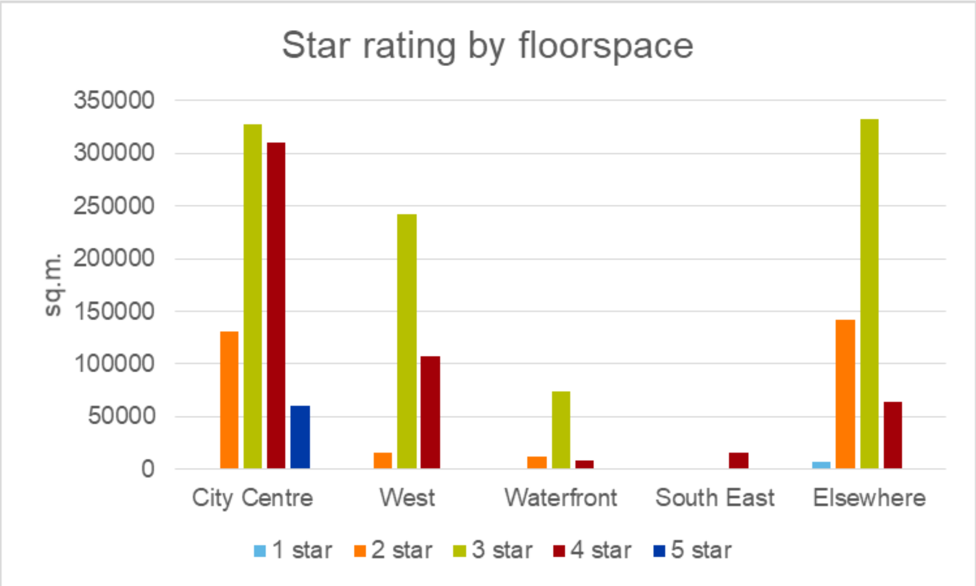
office space, accommodating say 20-25 employees. The ‘average’ building based upon this data would thus have 5 occupiers.

Office Stock Quality

5.7 CoStar allocates star ratings to offices buildings to reflect their quality (see Appendix 2 definitions). Ryden has analysed this data against the stock totals above and into sub-market areas. The results are shown on Figure 6. Office building ratings[29] range from 5-star (“exemplary, state-of the art”) down to 1-star (“practically uncompetitive, possibly functionally obsolete”).

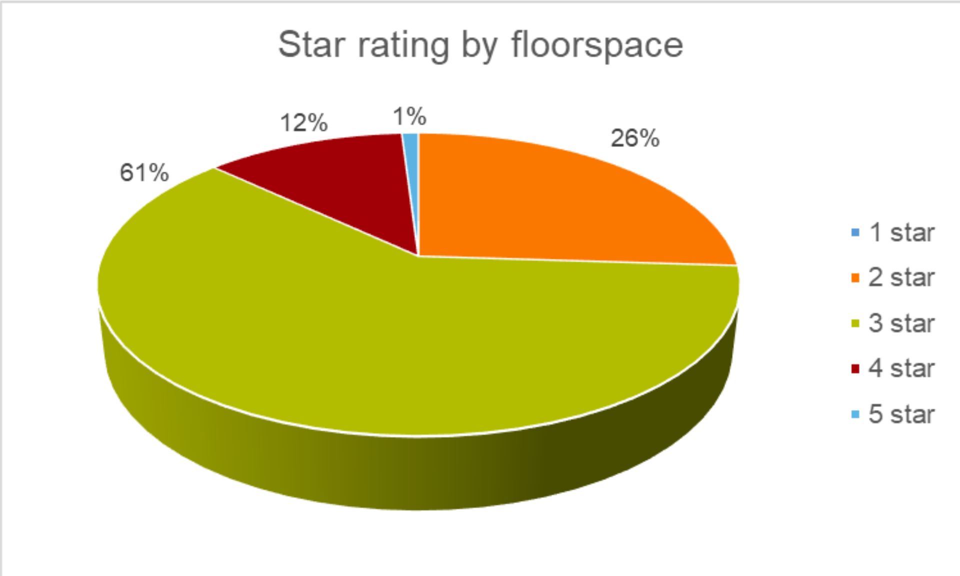
5.8 Very little (1%) of the city’s stock is 5-star, and all of that is located in the city centre. The large majority of stock across all locations is 4-star (12%, mostly in the city centre), 3-star (61%) or 2-star (26%). Only a marginal amount of stock outside of the defined office market zones is awarded the lowest rating of 1-star. The analysis confirms that Edinburgh’s office stock is not only dispersed as shown above, but is also diverse. The dominant 3-star rating (Figure 7) reflects office buildings with “less flexible floor plates, likely older and renovated” and “some standard amenities, modest landscaping and likely small or no exterior spaces”. These offices are unlikely meet the requirements of contemporary businesses (see Section 8 for consultations with recent and potential relocating organisations).

Figure 6: Office Floorspace by Area and Rating (*Source: CoStar/ Ryden)*



[29] The five categories used to rate office buildings by CoStar are: architectural design, structure/ systems, amenities/ management, site/ landscaping/ exterior spaces and certifications.

Figure 7: Office Floorspace by Rating



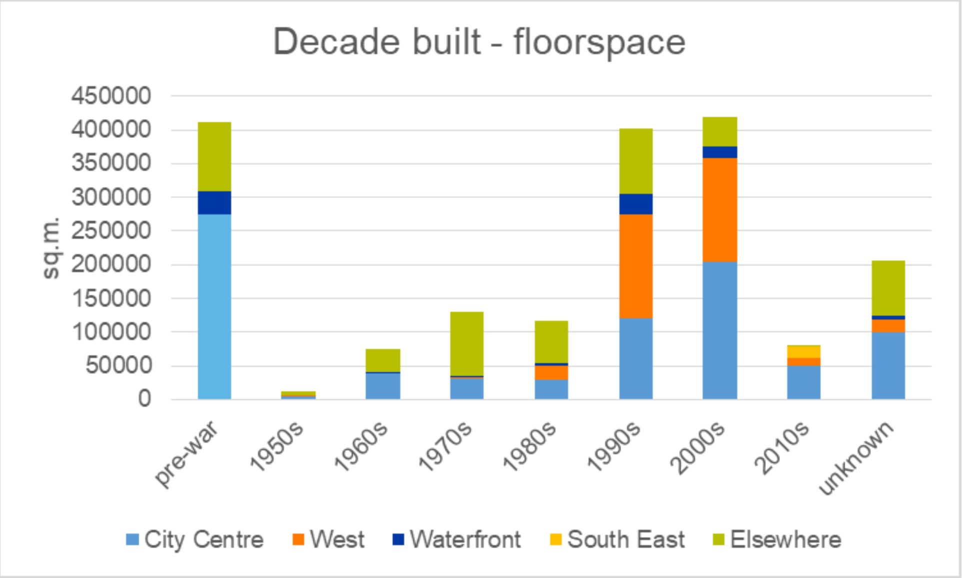
Source: CoStar/ Ryden

5.9 An alternative analysis of the city's office stock is shown on Figure 8 on the next page. This indicates the decades in which office floorspace was built, split by market area. The two clear peak eras are the pre-WW2 period when the city's tenements and townhouses were built, then the 1990s and 2000s. The post-crash slump entering the 2010s is also apparent.

5.10 The mean age of the city's office floorspace is around 50 years, ie. built during the 1960s. This however is an average of the separate peaks on Figure 8. The true 'average' for purpose-built offices rather than conversions is the 1990s. The data records only the decade in which office floorspace was built and will not capture where any individual buildings have been fully refurbished to later, more modern standards.

5.11 By market area, the city centre dominates the pre-war office stock on Figure 8, which is to be expected given Edinburgh's historic core. The 'elsewhere' locations were the most active during the 1970s and also to an extent the 1960s and 1980s; these are the ageing office blocks discussed further in Section 10. During the 1990s and 2000s, West Edinburgh grew rapidly as an office location, although the city centre was broadly comparable in terms of development scale. In the 2010s to date development volumes have been more subdued – with a recent upturn which is noted in Section 7 – and the city centre has accounted for approximately one-third of new office building.

Figure 8: Edinburgh Office Stock by Decade Built and Location



Source: CoStar/ Ryden

6.0 Office Market Dynamics: Supply and Demand

Introduction

6.1 This section of the report builds upon the stock analysis in Section 5 to provide analyses of:

- **Supply** of and **demand** for office property in Edinburgh:
    - Ultra long term (39 years) trends and market cycles, city-wide
    - Medium term (6 years), city-wide and by sub-market areas

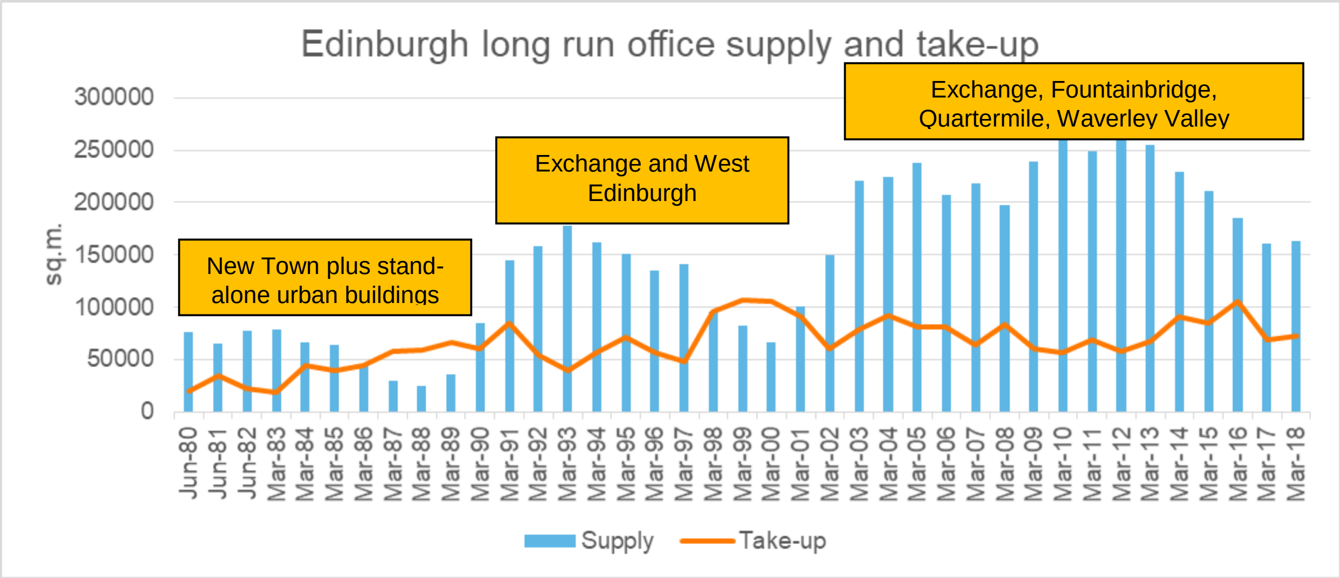
Edinburgh Office Market Trends

6.2 Edinburgh's roles as the administrative capital of Scotland and as a major financial and business centre has long provided strong foundations for the city's office market. Physically, the market has evolved from the smaller period buildings within historic location in the city's Georgian New Town (north of the 'city centre retail core' on Figure 9), to purpose-built offices in the Exchange District in the western city centre, West Edinburgh, Leith and satellite locations around the core city centre such as Fountainbridge and Quartermile, and now redevelopment of office blocks in St Andrew Square.

Figure 9 (*Source: Edinburgh LDP Figure 11)*

6.3 The most significant market shift was the move to large, open-plan office floorplates from the late 1980s onwards. The market growth at that point is evident on Figure 10. This was partly planning-led, through identification of new locations and relaxation of the Use Classes Order in 1989, and partly occupier-led as Edinburgh following London's lead after the Big Bang financial deregulation of 1986.

Figure 10



Source: Ryden

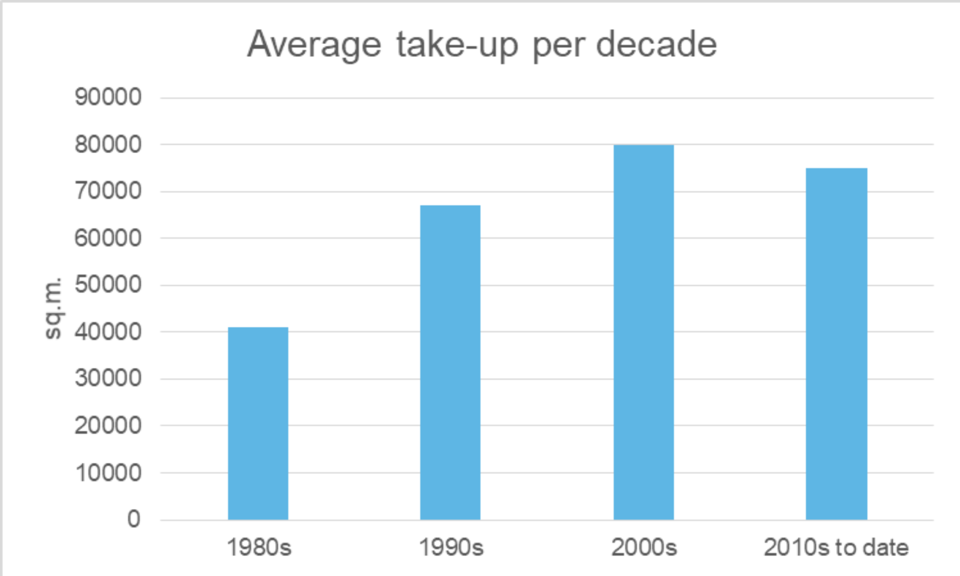
6.4 The average office take-up (sales and lettings) figure for Edinburgh since 1980 is 66,500 sq.m. (0.72 million sq.ft.) per annum, including both new-build and second hand offices. This average contains a growth trend across the four decades (Figure 11):

- 41,000 sq.m. per annum taken-up during the 1980s
- 67,000 sq.m. per annum during the 1990s
- 80,000 sq.m. per annum during the 2000s
- 75,000 sq.m. per annum during the 2010s to date (which includes the post-recessionary period 2010-13)

It is notable that market crashes in 2001 and again in 2008 decreased take-up of offices in Edinburgh (Figure 10, red line), but did not deflect the overall growth trend.

6.5 The average supply of offices in Edinburgh since 1980 is 147,000 sq.m. (1.58 million sq.ft.) Office supply (the blue bars on Figure 10) rose strongly with the opening-up of the Exchange and Edinburgh Park during the 1990s, and again with the largely city centre-led development phase of the 2000s. In West Edinburgh, the last new building at Edinburgh Park and RBS Gogarburn (pictured) completed in 2005. The development lag caused office supply to peak two years after the market crash of 2008. Since full economic recovery in 2013, office supply in Edinburgh has tracked steadily downwards.

Figure 11



Source: Ryden

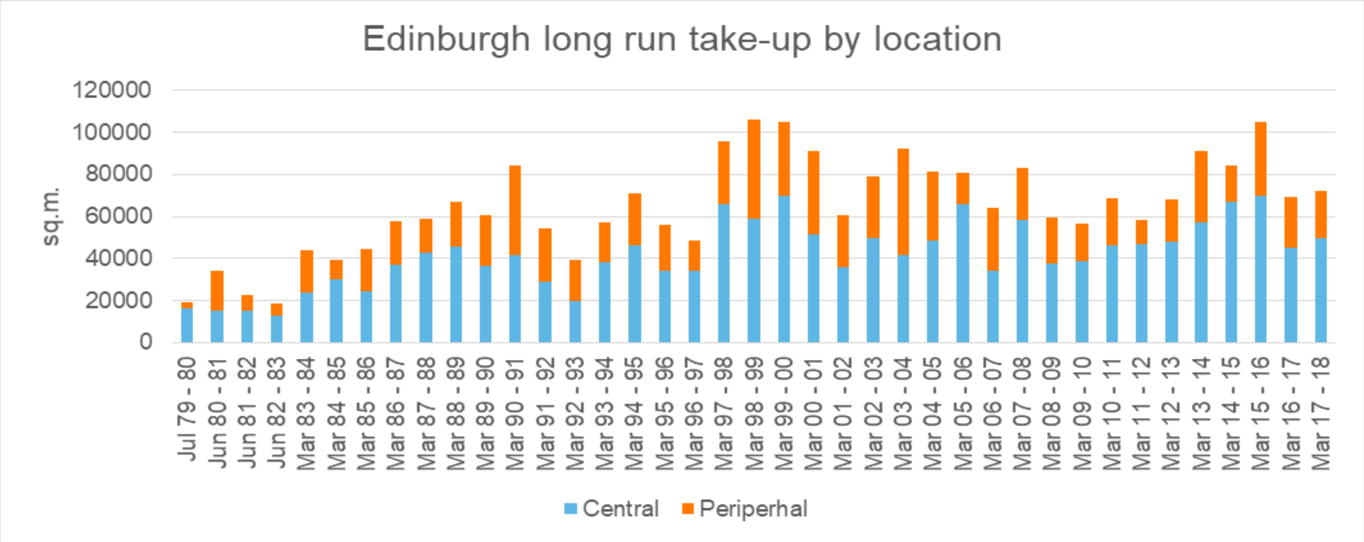
6.6 Figure 12 splits long take-up into central and peripheral locations:

- Central Edinburgh's mean annual take-up is 42,000 sq.m. (64%)[30]
- Peripheral areas' mean annual take-up is 24,000 sq.m. (36%)

By decade, the Central area accounted for 66% of take-up during the 1980s, falling to 62% then 60% in the 1990s and 2000s respectively as West Edinburgh opened-up. Notably, the city centre's share of office market demand has jumped to 77% during the 2010s to date. This may reflect development in new city centre locations (such as Quartermile) and also a market preference (including investors) for major urban centres.

[30] The term 'Central Edinburgh' is used to indicate slight differences from the LDP's City Centre (Figure 9 above). The wider definition includes some offices north of Queen Street Gardens to Tanfield and the West End to the north of Haymarket.

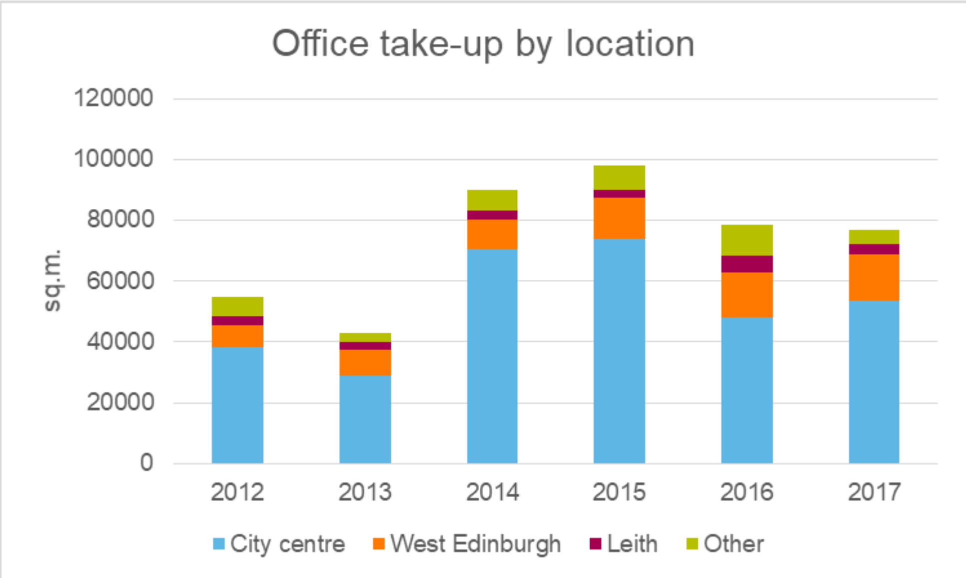
Figure 12



Source: Ryden

6.7 The analyses above provide a 39-year view of Edinburgh's office market. More recently, Figure 13 analyses take-up since 2012 on a calendar year basis and by office location. On this analysis, the city centre has accounted for 71% of recent Edinburgh office market take-up. West Edinburgh accounts for 16%, Leith 5% and other locations 9%[31].

Figure 13



Source: Ryden

[31] Total does not add to 100% due to rounding

7.0 Office Development and Investment

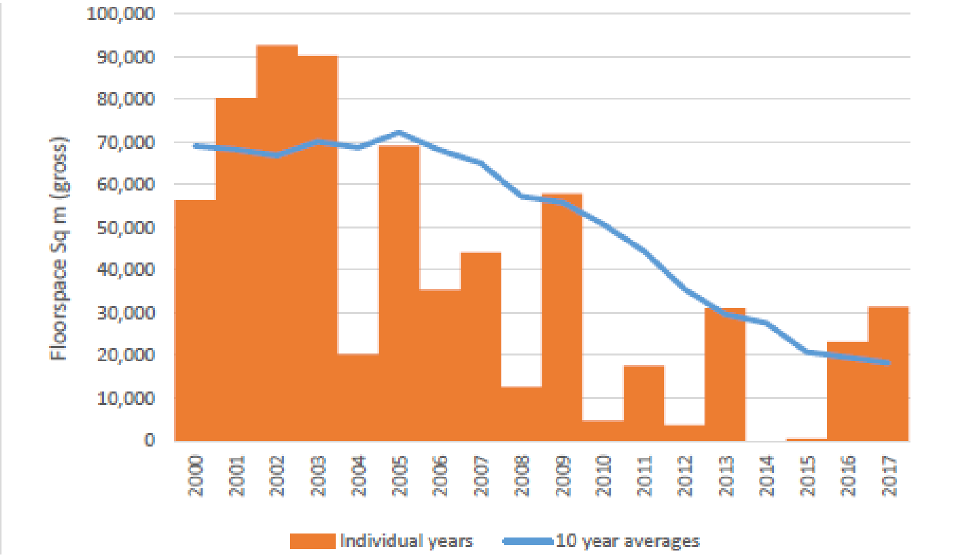
Introduction

7.1 The total stock of offices in Edinburgh is reported here as 1.85 million sq.m. Development activity adds to or removes office stock on a continual basis. Office development has a complex and dynamic relationship with Edinburgh's planning and development sectors. Investment activity supports the development and trading of office property.

Development

7.2 City of Edinburgh Council monitors office development activity. Figure 14 replicates the summary chart from the December 2017 office development report. Annual average office completions in the city since 2000 are approximately 37,000 sq.m.[32] Adjusted to a net lettable area of c.31,500 sq.m., is equivalent to 1.7% of stock of 1.85 million sq.m. This would be credible expansion rate for a growing office market. The development rate had gradually declined from an early 2000s peak (which did include some major headquarters such as RBS). Stock completed in 2016 and 2017 and under construction shows some recovery. The office development rate had been lower since the 2008 market crash, although Edinburgh is a relative success story as that speculative office development can be funded.

Figure 14: Edinburgh Office Completions 2000-17 (*Source: City of Edinburgh Council)*



[32] These are gross figures for full office buildings, whereas all other floorspace figures in this report are net lettable areas. Where comparisons are made here, an approximate average net:gross ratio of 85% is adopted.

7.3 Of the 31,400 sq.m. completed in 2017 in 6 new buildings, 54% was in the city centre, 33% in West Edinburgh and 13% elsewhere. The largest new office completed in 2017 was 3-8 St Andrew Square in the city centre. However, only 54% of this office development, all of it in the city centre in three buildings[33], was available to the occupier market. The remaining 46% of completions were purpose-built healthcare buildings in outlying locations rather than offices for the market[34]. The available new-build office pipeline can therefore be (much) less than development data might suggest.

7.4 At December 2017, a further 75,550 sq.m. of offices was reported to be under construction in Edinburgh at four city centres sites. However, the largest of these - 43,800 sq.m. at The Haymarket - only completed site works before the project was sold on in 2018 without any office buildings having been started. The actual under construction figure for December 2017 is revised here to 32,700 sq.m. Of these, 21,000 sq.m. GPU building at New Waverley is pre-let, the Mint Building at West Register Street (7,700 sq.m.) has also attracted a pre-let. A new development at Semple Street (4,000 sq.m.) has now completed. Office space under construction does not include refurbishments such as Four North in St Andrew Square.

7.5 Three new planning consents for office development were granted in 2017, for a total of just over 10,000 sq.m. The only new consent of significant scale was for the University of Edinburgh Institute of Regeneration and Repair at Edinburgh BioQuarter, which will provide 9,100 sq.m. of office accommodation. While economically important to the city, again this does not form part of the wider office market due to user restrictions.

7.6 Beyond that committed development, a further 538,000 sq.m. of office development has planning permission (excluding projects under construction). This is equivalent to a 29% expansion to the city's office stock. Of this consented office development:

- 60% is in West Edinburgh (37% at Edinburgh Park)
- 21% is in the South East (at Edmonstone Campus)
- 3% is elsewhere outwith these strategic office locations
- notably, only 10% of the pipeline is in the city centre

[33] Lauriston Place 6,781 sq.m.; Festival Square 600 sq.m.; St Andrew Square 9,420 sq.m.

[34] NHS at Pennywell 1,700 sq.m.; Hub at Colinton 2,400 sq.m.; Scottish National Blood Transfusion Service headquarters at Riccarton 10,500 sq.m.

7.7 A further 153,000 sq.m. of office development proposals (8% of current stock) was awaiting determination at December 2017. Of this, 80% is in West Edinburgh; more than half of that is at the proposed International Business Gateway, which still requires land assembly, infrastructure or development. Within the city centre only 4,500 sq.m. offices within a hotel-led development was awaiting determination; this is 3% of the city's office development proposals to be determined. On this basis current city centre office consents would not meet proven and anticipated demand.

7.8 Edinburgh's total office stock is increased by new development, but is also reduced by floorspace lost to alternative uses. A total of 97,552 sq.m. of offices was re-used or replaced for alternative uses over the five years 2013-17 inclusive (not including consents still to be implemented).

7.9 Comparing this loss of office floorspace with new-build office development of 88,943 sq.m. over the same period, the net effect is that the city has lost 8,609 sq.m. of office floorspace since 2013. In qualitative terms however the city's office stock has improved as new, purpose-built offices replace obsolete older buildings.

7.10 The city centre accounted for the large majority - 70% or 68,652 sq.m. in 71 buildings – of office floorspace lost over the 5-year period. By sector, 44% of floorspace was lost to residential use, 40% to hotels/ serviced apartments and the balance to other uses. (*this is equivalent to losing four offices of the size of Standard Life Aberdeen's 17,650 sq.m. Lothian Road headquarters, pictured, over five years*).

7.11 The normal explanation for this loss of office floorspace is that other uses have higher demand and deliver higher land values. A more nuanced approach is required for this study, recognising three distinct market situations:

7.11.1 **Prime residential** conversions, for example of Georgian New Town townhouses, deliver 25-50% higher capital values than offices. Residential demand for these traditional buildings is strong. Office demand for them is reduced due to functional obsolescence against purpose-built open-plan offices. Notwithstanding this trend, townhouses are still very well suited to the needs of small to medium 'brass plate' organisations seeking a core city centre / West End presence for face-to-face business.

7.11.2 **Pre-committed high demand** sectors. The advantage that hotels, aparthotels, student accommodation and sometimes retail and leisure uses have over offices is not simply high demand; as offices are also in high demand. Their principal advantage, for risk-averse funders, is the ability to pre-commit to entire buildings. This makes the development fundable and profitable. By comparison, most office occupier requirements are of insufficient scale to fund entire buildings.

7.11.3 **Loss of future opportunities**. In addition to office floorspace lost directly to alternative uses, pipeline office supply in Edinburgh is also being eroded. Again this is particularly true of the city centre due to high demand-and-value alternative land uses. Major, mixed-use development sites in Edinburgh can evolve away from offices towards other uses.

7.12 Tables 2 and 3 indicate current and potential new office developments in Edinburgh respectively. The former are under construction and the latter are developments where an anchor occupier may be required. Securing an anchor occupier without a clear commitment to a site start can be challenging due both the uncertainty and the occupier having to wait around two years before moving. Table 2 is the short to medium term office development pipeline for the city, rather than the long term office planning consent pipeline noted above.

Table 2: Edinburgh City Centre Office Development Pipeline: New-build: on site or early commencement

Photo	Address	Size (net) (sq. m.)	Rent (per sq.m.)	Developer/ Funder	Comments
	The Haymarket	8,800 to 34,400	£377	M&G	• Pre-lets or purchase options • 2021 proposed first completions
	Capital Square	11,400	£355-377	Hermes	• 2020 • 60% pre-let
	2 Semple Street	3,530	c £355-387	GSS Developments	• Completed August 2018

Source: Ryden

7.13 Occupier activity within the development pipeline is reducing supply. During 2017 and 2018 the following have pre-let during construction:

- Quartermile 3 (let to State Street);
- 3-8 St Andrew Square (Standard Life);
- 4 North St Andrew Square (Computershare);
- the Mint Building West Register Street (Baillie Gifford); and
- Capital Square (Brodies LLP)

In addition, the Government Property Unit has committed to a 21,000 sq.m. pre-let at New Waverley. This letting activity leaves only two-and-a-half of eight very recent new city centre office developments still available.

7.14 Potential future office developments in Table 3 are not straightforward. A significant proportion of the office pipeline could potentially yield to the higher value / pre-committed land uses described above, although improving development economics for office through the supply-demand balance and rising rents may make the sector more competitive again.

<u>Table 3: Edinburgh City Centre Office Development Pipeline: Pre-letting and redevelopment opportunities</u>

Photo	Address	Size (gross) (sq.m.)	Developer/ Funder	Comments
	India Quay	11,600	Edinburgh City Council & Vastint	• Mixed use consent
	Waverley Station	Up to 9,300	Network Rail	• Feasibility options could include offices or hotel • Planning consent required • 2020/21
	Dewar Place	Up to 7,150	Scottish Power/C220	• Aiming for completion 2020 •
	Dundas Street/ Fettes Row	Up to 19,330	Royal Bank Of Scotland	• RBS vacating • Residential-led opportunity • Target release date of Q4 2018

Source: Ryden

Note: Argyll House at Lady Lawson Street is sometimes referred to as an opportunity, but is not included here as it is subject to a headlease to Telereal Trillium until 2033, and sub-leases to Codebase and University of Edinburgh

Office Investment

7.15 Investment into Edinburgh's office market performs three primary functions:

- it demonstrates value to underpin appraisals and market confidence;
- it provides finance for new development; and/or
- it provides an exit route for developers to recycle their capital.

7.16 Lending to property suffered following the 2008 Global Financial Crash. Lending banks remain 'risk-off' in 2018, focusing on standing investments and pre-committed developments, and major cities (especially London and its south-east ambit) over other locations. The Commercial Real Estate Lending Survey[35] reports that, in 2017, 76% of £44 billion lending was by banks and 24% by alternative lenders and insurers. Prior to the crash, 95% of property lending came from banks. 18% of development finance was to the office sector. 5% of was allocated to Scotland. Speculative offices attracted higher interest margins than pre-let offices and loan-to cost ratios of 64%. Future lending intentions show a continuing preference for standing investments, ie. built and occupied.

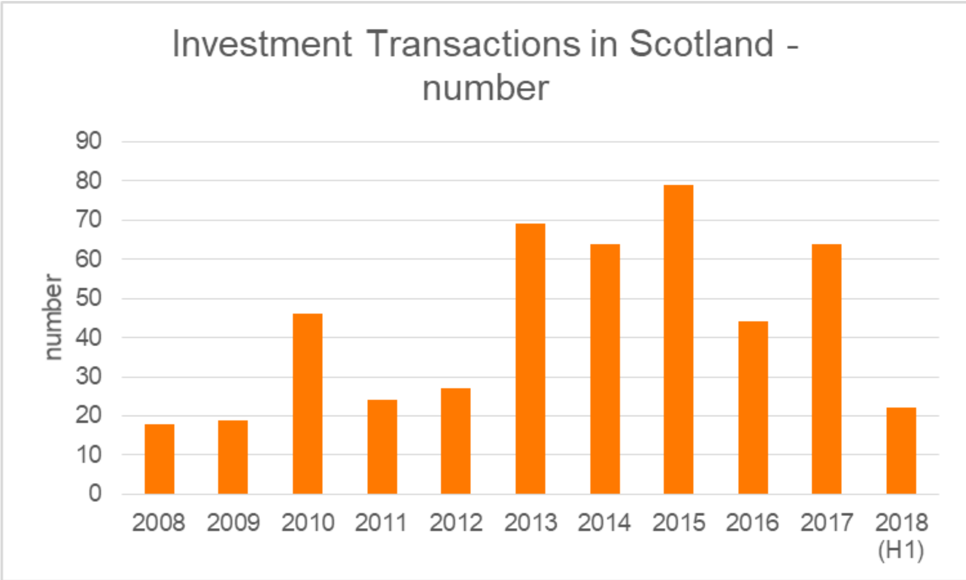
7.17 In terms of standing assets, Ryden monitors all commercial property investments in Scotland of £1 million value or above. A total of 476 office investment transactions are recorded over the past 10½ years (Figure 15). These transactions comprise 2.72 million sq.m. of floorspace with a value of £7 billion. The extended post-crash period followed by market recovery can clearly be seen on the chart.

7.18 Edinburgh accounts for one-third[36] of Scotland's office property investment market activity. A total of 164 office investment sales over £1 million are shown on Figure 16. These transactions comprise 0.8 million sq.m. of floorspace with a value of £2.43 billion. The number of deals each since 2013 is broadly stable at 19 to 24.

[35] De Montfort University / CASS Business School: https://www.cass.city.ac.uk/business-services/consulting/research/commercial-real-estate-debt/the-uk-commercial-property-lending-report

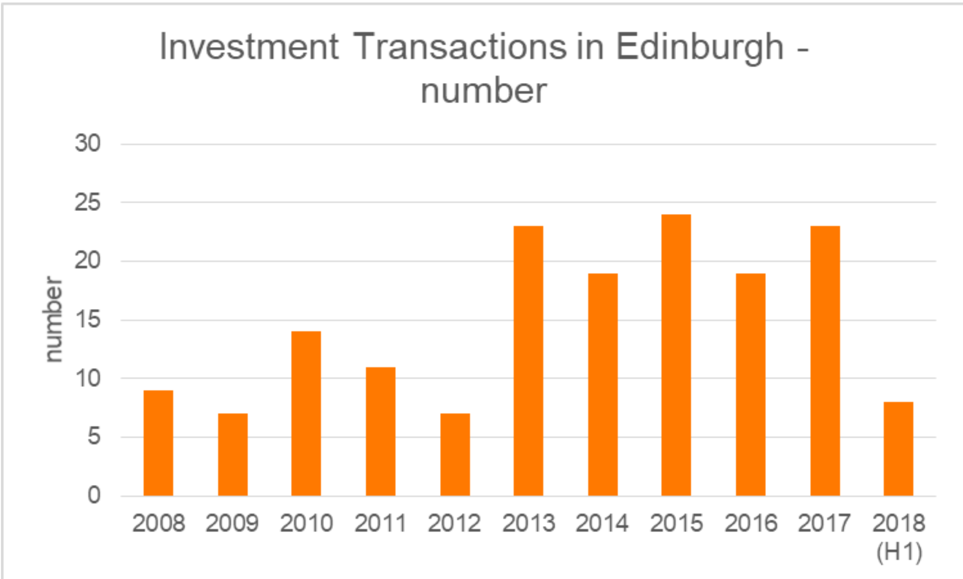
[36] 34% of Scotland's office investment since 2008 deals by number, 29% by floorspace and 35% by value

<u>Figure 15</u>



Source: Ryden

<u>Figure 16</u>



Source: Ryden

7.19 The mean office investment transacted in Edinburgh since 2008 is 4,900 sq.m. with a value of £14.8 million. Examples of recent transactions are provided in Table 4. The review confirms the broad spectrum of investor in Edinburgh's office market, from major pension funds and life assurance companies, through smaller and independent funds to developers and construction companies.

Table 4: Edinburgh Office Investment Transactions Q3 2017 to Q2 2018

Photograph	Address	Property details	Purchaser
	Princes Exchange & New Uberior House, Earl Grey Street	Two adjoining buildings (14,718 sq.m.). Let to Bank of Scotland over several leases expiring December 2025.	Q2 2018 to MAS Real Estate for £71 million.
	Apex 123, Haymarket Terrace	Built in 1991 across 3 buildings (8,360 sq.m.). 80% occupied, tenants include Scottish Enterprise, Scottish Further & Higher Education Funding Council and Mazars.	Q1 2018 to Patrizia Immobilien for £26 million (7.6%).
	160 Dundee Street	Originally developed as the HQ for Scottish and Newcastle (4,460 sq.m.). Multi-let to nine tenants, including Jacobs UK and Experian. One vacant suite.	Q1 2018 to APAM for £9.6 million.
	9-10 St Andrew Square	Prime office and retail asset across eight floors (4,966 sq.m.). Sainsbury's occupies the retail unit and Regus the remainder of the building.	Q1 2018 to Rockspring Property Investment Managers for £25.7 million (5.2%).
	10 Melville Street	Townhouse office (302 sq.m.).	Q1 2018 to Scottish Midland Co-operative Society Pension Scheme for £1.55 million (4.6%).
	Alexandra House, 21 Cliftonhall Road, Newbridge	Detached modern office building arranged to provide five open-plan suites (1,972 sq.m.).	Q1 2018 for £1.2 million
	New Waverley	Forward funding of UK Government-let office (17,650 sq.m.) on a 25-year lease.	Forward funding in Q4 2017 of £106 million (4.3%) new development.
	Saltire Court, Castle Terrace	16,722 sq.m. office. Tenants include KPMG LLP, Deloitte LLP, CMS Cameron McKenna LLP and Martin Currie Investment Management.	Q4 2017 to private Saudi Arabian investor for £71 million (6.3%).
	14-17 Atholl Crescent	Category A-listed townhouse office (2,857 sq.m.). Let to Brodies LLP on a lease due to expire in November 2019.	Q3 2017 to McLaughlin & Harvey Ltd for £9.5 million (5.75%).

Source: Ryden

7.20 Analysing the investment transaction data by location (Figure 17) shows:

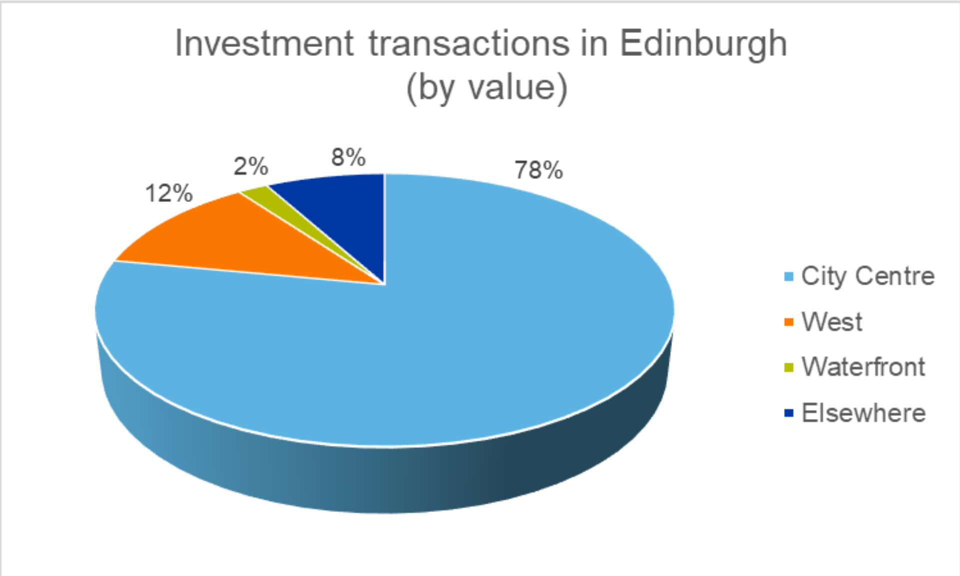
- 69% of deals were in the city centre (67% by size and 78% by value)

- 13% of deals were in West Edinburgh (15% by size, 12% by value)

- 3% of deals were at the Waterfront (3% by size, 2% by value)
- 15% of deals were elsewhere (14% by size, 8% by value)

The city centre's large, modern offices let to major occupiers, thus attracts the large majority of investment trading.

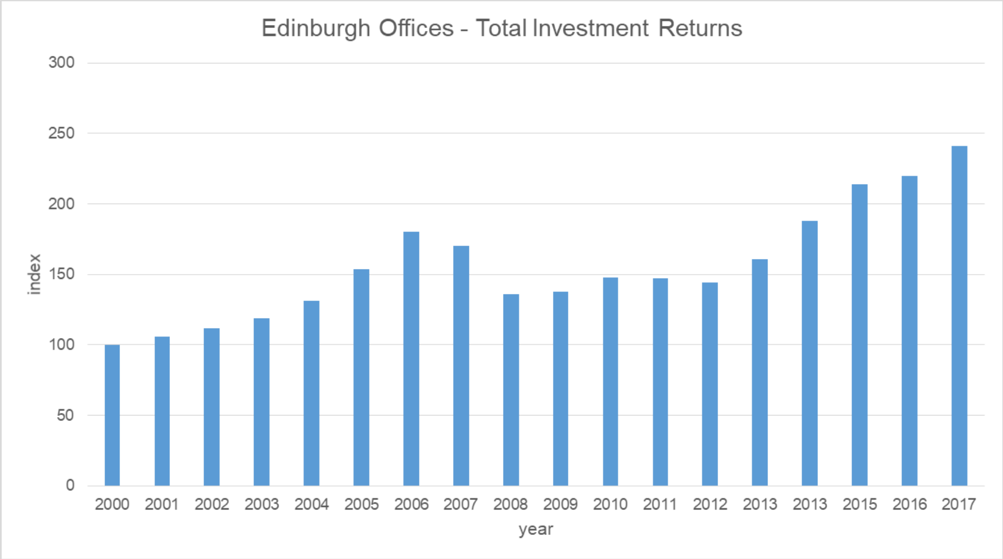
Figure 17



Source: Ryden

7.21 Figure 18 analyses the investment performance of Edinburgh offices since 2000. Investment performance – the total return to investors – comprises the increases in rental value and increases in capital value of an asset. Total returns from Edinburgh offices from December 2000 to December 2017 were 141%. The annualised rate of return is 5.3%. This a low rate of return, caused by the Global Financial Crash and aftermath 2008-12, which is clearly evident on the chart in the negative returns (loss of value) then lack of growth over that period. A 10-year view still includes the crash and shows a 4.3% annualised return, whereas a 5-year view since 2013 shows 11.7%. To June 2018 the index has increased by a further 6.2% (over 6 months).

Figure 18



Source: MSCI / Ryden

7.22 Looking to future investment performance, the Investment Property Forum reports consensus forecasts at a (UK) national level. The current office market forecast is for annualised returns of 3.8% from 2018 to 2022 inclusive. The forecast returns are low, as analysts predict that the market - which is dominated by London - is at the end of its capital value growth cycle and rents may also grow only marginally over the medium term (as underlying economic growth is expected to be slow). Individual cities such as Edinburgh can deviate significantly from these national averages, although they do tend to follow the general property sector capital market cycle.

8.0 Edinburgh Office Market in 2018

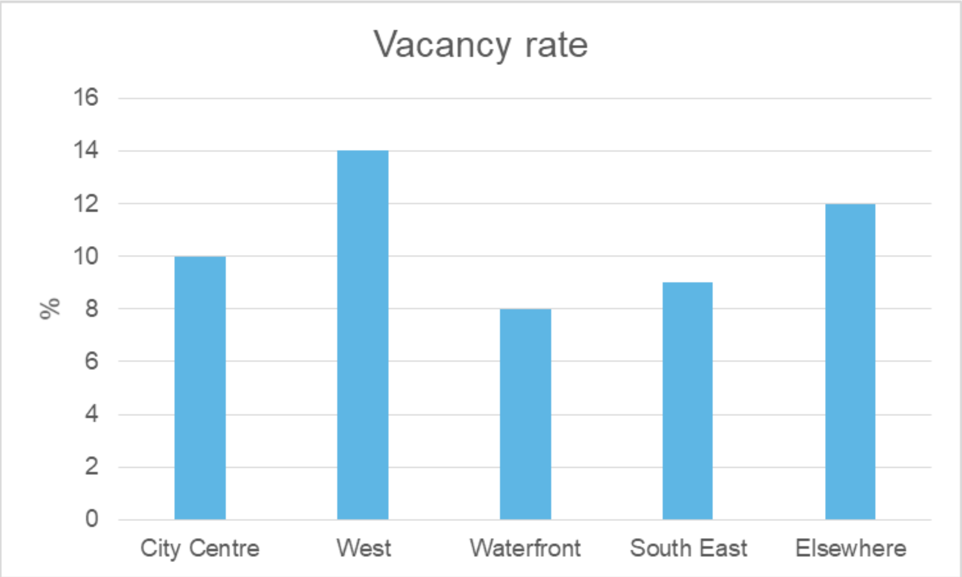
Introduction

8.1 Sections 5 to 7 provided a comprehensive baseline analysis of Edinburgh's office markets, covering stock and long run trends. This section assesses the current office market in Q3 2018.

Market Dynamics

8.2 Available office space totals 207,663 sq.m. This indicates a current city-wide office vacancy rate of 11%[37]. It is important however to highlight the scale of obsolete stock within the vacancy rate – the effective availability rate for occupiers seeking modern office space is much lower than this. In tandem with low levels of new development and the loss of office stock to other uses highlighted above, the city's office vacancy rate has reduced. By sub-market area (Figure 19):

Figure 19



Source: Ryden / Costar

[37] This may marginally under-estimate office vacancy in Edinburgh, as business centre operators are treated as 100% in occupation, whereas in reality they may have regular small vacancies within their managed buildings.

- 40% of available office space is in the City Centre (10% vacancy rate[38]).
- 24% is in West Edinburgh (14% vacancy rate)
- 4% is at the Waterfront (8% vacancy rate)
- 1% in the South East (9% vacancy rate); and
- 31% is elsewhere (12% vacancy rate, including two large buildings totalling 31,500 sq.m. at 131-155 Dundas Street and 525 Ferry Road which is leased by Edinburgh Palette but still being marketed)

8.3 Take-up Q2 2017 to Q1 2018 inclusive was 71,945 sq.m.[39] Although major investments capture the headlines, only 11 deals from a total of 185 were larger than 929 sq.m. (10,000 sq.ft.). The average transaction size was 390 sq.m. Half of all transactions were smaller than 200 sq.m. A selection of recent transactions is shown in Table 5 on the next page. By sub-market area over this most recent 12-month period:

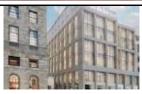
- The City Centre recorded 69% of take-up by office floorpsace, or 68% measured by number of deals (125)
- Peripheral areas (West, Watefront, South East and Elsewhere) recorded the balance of 31% of floorspace taken-up, or 32% of deals

8.4 Rents for office premises vary significantly by sub-market area and quality of building. Typically office rents are reported for prime Grade A office space in the city centre; these are currently £360 per sq.m. for new-build developments. These rents are 'headline', ie. before any incentives to occupiers such as rent-free initial periods.

[38] This is all marketed and potentially available space from CoStar, for consistency with stock data. Table 7 in the next section uses agent definitions and indicates a 7% office vacancy rate for Edinburgh city centre.

[39] Ryden's take-up data excludes pre-commitments which are not yet on site, which in this instance means that the Government Property Unit pre-let of 16,844 sq.m. at New Waverley is not included. If it was included in the data, then the 12 month take-up figure Q2 2017 to Q1 2018 would be 88,789 sq.m. (0.955 million sq.ft.).

Table 5: Recent Office Transactions

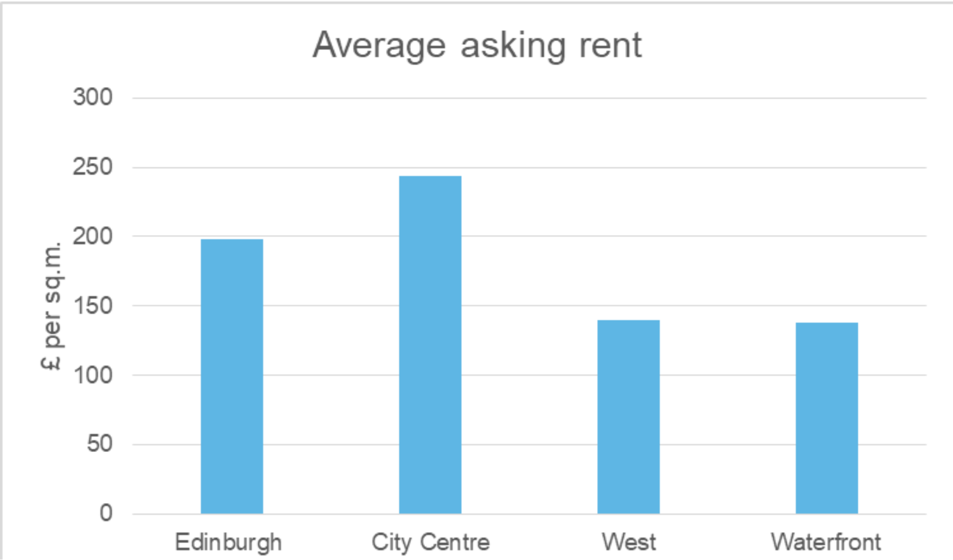
Photograph	Address	Size	Occupier
	Four North, St Andrew Square	3,846 sq.m.	Pre-let Computershare
	Mint Building, 20 West Register Street	5,574 sq.m.	Pre-let Baillie Gifford
	One Lochrin Square, Fountainbridge	2,760 sq.m. 1,133 sq.m.	Spaces Ctrip
	Edinburgh Quay 2, Fountainbridge	1,316 sq.m.	SWECO
	Tanfield	630 sq.m.	Blackcircles
	40 Torphichen Street	744 sq.m. 401 sq.m.	Clearwater Analytics Marks & Clerk
	Quartermile 3	6,097 sq.m.	State Street Bank
	John Courage House, South Gyle Broadway	2,913 sq.m.	Standard Life Investments
	Greenside, Blenheim Place	1,742 sq.m.	Nucleus Financial
	The Cube, 45 Leith Street	1,184 sq.m. (additional)	Baillie Gifford
	Atria One, Morrison Street	539 sq.m.	Turner & Townsend
	132 Princes Street	464 sq.m.	10 Design
	1 St Andrew Square	414 sq.m. 370 sq.m.	Ediston Real Estate Places for People
	Capital Square, Morrison Street	4,011 sq.m. 2,347 sq.m.	Pre-let Brodies LLP Pre-let Pinsent Masons LLP

8.5 Current quoting rents across Edinburgh range upwards from a base level of around £107 per sq.m. Looking at average quoting rents for Edinburgh office sub-markets[40] (Figure 20) indicate that growth has been concentrated into the city centre (at a rate equivalent to 4.8% per annum):

[40] South East rents are distorted by the specialist accommodation at the Bioquarter and are not included

- Edinburgh's current average (mean) office asking rent is £198 per sq.m.; the 5-year average is £181 per sq.m.
- City Centre rents average £244 per sq.m. (+12% over 5-years)
- West Edinburgh rents average £140 per sq.m. (-2% over 5-years)
- Waterfront rents average £138 per sq.m. (equal to 5-year average)

Figure 20



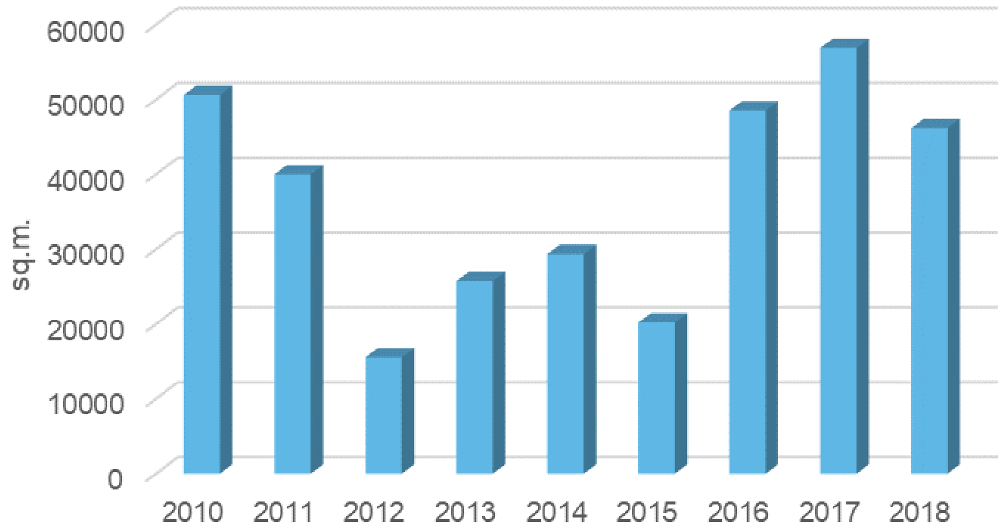
Source: Ryden / Costar

8.6 Only the city centre prime rents are sufficient to support new-build development. The other areas' rents would not meet development costs, although a pre-let would seek to agree a rent to make a project viable. However, the market-wide analysis suggests that office rents generally across Edinburgh may be more affordable to occupiers than the oft-quoted prime city centre levels would suggest.

Occupational Demand

8.7 Occupier requirements for offices larger than 929 sq.m. (10,000 sq.ft.) since 2010 are shown on Figure 21. Current demand of 46,000 sq.m. is the 4th-highest of the 9 years shown and is reasonably close to the decade's peak years. The sectoral mix in 2018 is diverse, with requirements from financial and business services, technology and media, serviced office providers and public sector organisations.

Figure 21: Edinburgh office requirements (> 929 sq.m.)



Source: Ryden

8.8 In terms of incoming occupiers, foreign direct investment (FDI) is monitored annually by EY[41]. Scotland recorded a 7% increase in project numbers to reach a 10-year high of 116 in 2017. Business services continued to be the largest sector. Edinburgh secured 29 (25%) of the projects attracted to Scotland in 2017, which is a 45% increase on 2016. Edinburgh's wins include 4 of Scotland's 10 largest projects by job numbers, and the city ranked third in the UK behind Manchester (45) and London.

8.9 Among investors' stated preferences in the EY survey, real estate availability and cost was cited as a 'top two' consideration by 15% of those surveyed. The higher ranked preferences were: labour skills and availability (33%); partner and supplier availability (20%); labour costs (18%); and transport infrastructure (17%); real estate was however ahead of six further criteria, including both telecommunications and education.

8.10 The study programme also included some direct consultations with occupiers in the Edinburgh office market who have recently moved. The aim was to provide some qualitative views on the market offer and user experience of the current market. Summarising the consultations:-

[41] Golden Opportunity: EY's Attractiveness Survey Scotland (June 2018)

8.10.1 Eight organisations were consulted. Three have recently moved to core city centre locations, two to peripheral central locations, one to an inner urban location and one is still searching. One respondent spoke on behalf of a group of organisations rather than a specific occupier requirement Edinburgh employee numbers range from 20 to 300. Sectors included are fintech, technology, design, electronics and public sector.

8.10.2 Occupiers were asked to about the importance of a range of factors in influencing their occupational decisions. The key drivers of office location were attracting staff, cost and transport accessibility. The city centre offices accessibility and staff attraction, but pricing is moving out of reach for some sectors.

8.10.3 Brand / corporate image was less important, although the sample is small and the results do tend to vary by occupier type.

8.10.4 Other factors mentioned as important by occupiers were sustainability, amenities, capacity for growth and security. Despite the mention of sustainability though, specific questions on green leases and energy efficiency did not find these to be priorities.

8.10.5 The office building itself featured as a significant factor, for reasons of IT efficiency, productivity, working environment, culture and again attracting and creating the correct environment for staff. Respondents were each to some extent implementing modern, ICT-based working in open environments with shared, agile and informal working opportunities.

8.10.6 A majority of respondents reduced their occupational costs through relocation, with the exceptions being those who had expanded. Those who had completed their relocations reported that they have achieved the business targets which they had set.

8.10.7 Access to public transport featured strongly in the locational preferences. Railway stations were specifically mentioned, along with bus and tram services and bicycle parking. Negative mention was made of congested pedestrian routes at peak times of the tourism year.

8.10.8 The internal design and environment (including common areas) of offices were important to these respondents. However, internal amenities (such as concierge services) were less important than external amenities (retail, leisure opportunities).

8.10.9 When asked whether Edinburgh offers sufficient building choice for occupiers, only one responded positively. Each of the others found office choice to be limited in their preferred search area, which is notable given the broad range of organisation types and sizes consulted. Particular constraints noted were the limited supply of large open plan floorplates, limited choice in the city centre, lease flexibility to accommodate growth, and the lack of office options in alternative city locations which can still offer the "excellent transport options you get in the city centre". One respondent stated that they have been "unable to identify a building offering the right environment at the right price" and pose the question, "do you compromise on cost, quality or location ?".

8.10.10 Specific issues were raised by respondents in terms of delays or uncertainty related to planning, non-domestic rates and securing utilities connections.

8.10.11 Potential future enhancements to Edinburgh's office market offer were largely the corollaries of the constraints noted above. Respondents would like to see more office choice in the city centre, as well as greater affordability and better transport connectivity beyond the city centre to attractive alternative office locations in Edinburgh.

9.0 Dashboards: Location Quotients and Regional Cities

Introduction

9.1 This section concludes and summarises the office market analysis presented in Sections 5 – 8, by:

- creating a set of location quotients for Edinburgh's office market; and

- providing a comparative review with other UK regional city markets

Location Quotients

9.2 Table 6 provides a set of location quotients (LQs) for Edinburgh's office market. An LQ indicates the 'concentration' of a particular measurement within an area. For example, if the city-wide office vacancy rate is 10% and the sub-market area's is 5%, then the LQ is 0.5. The city-wide LQ for all market indicators is thus 1.0.

9.3 LQs can help to confirm areas of market pressures and weakness. These, along with the regional office market comparisons, can be updated to inform City Plan 2030 and planning and economic development activity. LQs in Table 6 are highlighted amber where an indicator is notably above or below the average, and red where this may have significant implications for the functioning of that office market area.

9.4 The LQ findings are indicative rather than definitive. The office market history of an area does not necessarily mean that policy and markets will continue to operate in that way. For example, there may be no intention to develop new-build office blocks to replace those built in previous market cycles, but the finding that the planning pipeline is weak in those locations is still informative. By indicator:

9.4.1 Vacancy rates by area are reasonably consistent, although West Edinburgh's is a little high at 13.9%.

9.4.2 The share of take-up by area highlights two areas for concern: the city centre office market is attracting 71% of take-up with only 45% of stock; and the reverse position where 'elsewhere' urban locations have 29% of stock but are attracting only 9% of take-up.

Together these LQs imply an office market which is concentrating into the city centre rather than dispersing across other urban employment centres.

Table 6: Edinburgh Office Market Location Quotients (September 2018)

<table>
<tr><th>Location</th><th>Stock (sq.m.)</th><th>Vacancy rate</th><th>Take-up (share v. stock)</th><th>Rents (£/sq.m.) (% 2.5 yrs)</th><th>Investment share</th><th>* rating</th><th>Stock loss</th><th>Planning consent pipeline</th></tr>
<tr><td>Edinburgh</td><td>1,850,000 (100%)</td><td>1.00 (11.2%)</td><td>1.00 (100%)</td><td>1.00 (£198) (+9%)</td><td>1.00 (100%)</td><td>3.2 stars</td><td>1.00 (100%)</td><td>1.00 (100%)</td></tr>
<tr><td>City Centre</td><td>829,000 (45%)</td><td>0.90 (10.1%)</td><td>1.58 (71%)</td><td>1.23 (£244) (+12%)</td><td>1.73 (78%)</td><td>3.4 stars</td><td>1.56 (70%)</td><td>0.22 (10%)</td></tr>
<tr><td>West Edinburgh</td><td>365,000 (20%)</td><td>1.24 (13.9%)</td><td>0.80 (16%)</td><td>0.71 (£140) (-2%)</td><td>0.65 (13%)</td><td>3.2 stars</td><td rowspan="4">0.54 (30%)</td><td>3.00 (60%)</td></tr>
<tr><td>Waterfront</td><td>96,000 (5%)</td><td>0.76 (8.5%)</td><td>1.00 (5%)</td><td>0.70 (£138) (+0%)</td><td rowspan="3">0.43 (15%)</td><td>2.9 stars</td><td>1.00 (5%)</td></tr>
<tr><td>South East</td><td>16,000 (1%)</td><td>0.84 (9.4%)</td><td>n/a</td><td>n/a</td><td>4.0 stars</td><td>24.00 (24%)</td></tr>
<tr><td>Elsewhere</td><td>546 (29%)</td><td>1.04 (11.7%)</td><td>0.32 (9%)</td><td>n/a</td><td>2.8 stars</td><td>0.10 (3%)</td></tr>
</table>

Source: Ryden

9.4.3 The city centre is the highest-rented location with the fastest growth, re-confirming the demand pressure in central Edinburgh; indeed all of the rental growth is concentrated here. Rising city centre rents are increasing occupier costs but are positive for development viability.

9.4.4 The city centre attracts 78% of investment activity. This reflects large, modern, well-let buildings. It does mean though that the remainder of the city attracts comparatively low levels of capital.

9.4.5 Star ratings indicates that Waterfront offices and the substantial 'elsewhere' urban office stock both fall below an average 3.

9.4.6 The stock loss column is split into city centre and other locations. This indicates that the loss of offices to alternative uses is proportionately higher in the city centre, which is not unexpected given the range of viable land uses attracted to central Edinburgh.

9.4.7 Finally, the future office development pipeline is heavily skewed towards the West and South-East. The city centre and 'elsewhere' urban areas have proportionately very little office development proposed. The planning pipeline is of course only a projection of potential interest, and does not confirm the degree of commitment to build offices, the timing or the eventual scale or mix.

Regional Cities

9.5 Edinburgh is one of a number of large UK cities which dominate the office market outside of London. Comparative market performance against these other cities is both informative generally, and important in attracting mobile capital to Edinburgh's office market.

9.6 Table 7 provides a summary comparison of the major regional city office markets. Taking each of the market indicators in the table columns in turn:-

9.6.1 **Edinburgh** has the **4th-largest office stock** among the regional cities. Glasgow and Birmingham have around 1/3rd more office floorspace and Manchester's stock is nearly double Edinburgh's.

9.6.2 Annual average take-up measures sales and lettings over the past 10 years. Edinburgh's **take-up is approximately 3rd-equal** alongside Leeds and Glasgow. Birmingham has higher office take-up and again Manchester's is around double Edinburgh's.

9.6.3 Supply of **new-build Grade A** office space in each city depends upon development market cycles. Glasgow has the lowest current supply, reflecting no new-build completions since 2016. Edinburgh's **new-build Grade A office supply is second-lowest**, with Leeds, Manchester and Birmingham respectively having x2, x4 and x5 Edinburgh's supply.

9.6.4 A low **investment yield** signals investor confidence in a market. There are three clear yield bands in the table: the two larger English cities Birmingham and Manchester sit in the 4%s, Glasgow and **Edinburgh mid-table in the 5%s** and Leeds and Cardiff at approximately 6%.

9.6.5 Edinburgh has the **lowest-equal city centre office vacancy rate**, at 7%, alongside the smaller Cardiff office market. Edinburgh's office vacancy rate is approximately half that of the other four regional office centres, although their higher vacancy rates do reflect a mix of greater obsolescence (as noted above, Edinburgh recycles vacant offices for alternative uses) and more new building.

9.6.6 **Prime office rents** are reported as "headline", which means before any occupier incentives are discounted. Edinburgh's rents are equal highest alongside the larger office markets in Manchester and Birmingham. Glasgow and Leeds sit on the next tier while Cardiff's rents are notably lower than the other regional cities.

Table 7: UK Regional City Office Markets (Q3 2018)

City	Office Stock	Annual take-up	Grade A new-build supply	Investment yield (initial)	Vacancy rate (city centre)	Prime office rent
Edinburgh	**1.85m sq.m.**	**52,600 sq.m.**	**15,500 sq.m.**	**5.5%**	**7%**	**£360 / sq.m.**
Glasgow	2.4m sq.m.	54,000 sq.m.	11,900 sq.m.	5.2%	14%	£323 / sq.m.
Manchester	3.6m sq.m.	102,250 sq.m.	64,000 sq.m.	4.6%	13%	£360 / sq.m.
Birmingham	2.5m sq.m.	67,250 sq.m.	73,680 sq.m.	4.2%	14%	£360 / sq.m.
Leeds	1.9m sq.m.	51,400 sq.m.	33,400 sq.m.	6.1%	15%	£323 / sq.m.
Cardiff	0.9m sq.m. (city centre)	35,500 sq.m.	17,100 sq.m.	6.0%	7%	£275 / sq.m.

Sources: PMA, Ryden, GVA, Cushman & Wakefield, Costar, IPD/MSCI

Note: Grade A supply is availability in buildings constructed 2015 and later or currently under construction
Note: yields are IPD portfolio initial yields and individual investments will vary from this average

10. Edinburgh Office Market Projections and Scenarios

Introduction

10.1 The analyses in Sections 2 to 9 are now used to develop **office market projections and scenarios** to inform the City Plan 2030 Main Issues Report. The projections use analytical techniques and market judgement to indicate the potential market requirement for offices in the city. The scenarios then explore the variability, market and spatial implications of the projections.

Office Market Projections

10.2 Edinburgh office market projections are made for the 12-year period from 2019 to 2030 inclusive. This approximates to the final two years of the adopted LDP (2019 and 2020) followed by the anticipated ten years lifespan of City Plan 2030 (2021 to 2030 inclusive).

10.3 Potential future demand for additional office accommodation in the city is assessed using the employment projections which were reviewed in Section 3:

10.3.1 Financial and business services[42] are forecast in SESPlan to gain an additional 32,800 jobs 2013-2030. 57% of these are forecast to be based in Edinburgh. On a straight-line basis this equates to an average of an additional 1,045 jobs per annum in the city. More than half of the forecast employment growth is in professional, scientific and technical activities. SESPlan notes that many companies in the financial services sector are internationally successful and demand grade A office space, which in 2015 was in short supply in the city and particularly in the city centre. Public sector employment 2013-2030 was anticipated to show a net balance close to zero. An increasing concentration of regional employment in Edinburgh is anticipated. As a coda to the forecasts however, SESPlan notes that many of the fastest growing companies may not fall comfortably within a specific sector.

[42] Three employment scenarios were provided by Oxford Economics and run from 2013 to 2030. The figures used here are from the middle, baseline scenario.

Ryden

10.3.2 Forecasts for the Edinburgh City Region Deal[43] also show substantial regional employment growth. Net regional employment expansion of 47,300 jobs 2017 to 2027 indicates around 4,700 additional jobs annually on average. Aggregating the sectors most likely to occupy office space (using Ryden's definitions) yields total additional jobs of 18,100, or an average increase of around 1,800 annually across the region to 2027. Based upon other market evidence reported here, the majority of these additional office jobs would be likely to be located in Edinburgh.

10.3.3 The office-based employment growth scenarios for Edinburgh to 2030 based upon these forecasts are:

- High growth: 1,050 additional office-based jobs per annum
- Medium growth: 900
- Low growth: 750

The range of growth forecasts may reflect not only different economic conditions, but also the extent to which offices are – or can be – accommodated in Edinburgh rather than the wider region[44].

10.4 Edinburgh also requires to replace lost office stock. As noted earlier, the loss of office stock to alternative uses exceeds all new development since 2013, leading to no net additional new floorspace. If the actual uses of recently-built offices are considered then the addition to stock through new development is very modest (1,137 sq.m. pa.). The average loss of office stock to alternative uses in Edinburgh since 2013 is 19,125 sq.m. (gross).

10.5 Loss of office floorspace is assumed here to continue, through a combination of alternative use demand and obsolescence (see office stock age and quality analyses in Section 5). Office opportunities for alternative use in the prime city centre should naturally decrease as this supply is taken-up, but conversion/ redevelopment opportunities may emerge more so at ageing offices in mid-urban locations. The stock loss rates used here are:

[43] Edinburgh and South East Scotland City Region Deal Evidence Base Team. Also based upon Oxford Economics data.

[44] As a further cross-check, paragraph 3.8 cited working age population growth of 1% per annum to 2030. If applied pro rata to the 123,000 indicative office-based jobs in this study, that would also suggest more than 1,000 new office jobs annually.

- High: 19,125 sq.m. per annum (100% of rate since 2013)
- Medium: 14,344 sq.m. (75%)
- Low: 9,562 sq.m. (50%)

The variables behind these different rates of stock loss are: the extent of office obsolescence; market demand and viability for office and other uses; and physical suitability and planning support for alternative uses.

10.6 Table 8 presents the spreadsheet model of these high, medium and low[45] office development projections. Replacement, rather than net additional, offices account for the majority of development (56-65%) within each projection. The projections assume that there are no further demand changes with the *existing* office stock to accommodate demand. These might include increased occupational densities (there are physical limitations on this, although less than one desk per person can overcome those), or a falling vacancy rate.

10.7 The Edinburgh office development projected requirements 2019-2030 are:

- High requirement 29,625 sq.m. (net) per annum (gross 35,482 sq.m.)
- Medium requirement 23,344 sq.m. (net) p.a. (gross 27,463 sq.m.)
- Low requirement 17,063 sq.m. (net) p.a. (gross 20,074 sq.m.)

These requirements represent the net occupied office areas. Areas are also therefore reflated by c.15% to be comparable with planning data.

Edinburgh office market forecasts 2019 - 2030 inclusive

Table 8: Edinburgh Office Market Forecasts 2019-2030 (inclusive)

		High	Medium	Low	
A.	Forecast employment growth:	**1050**	**900**	**750**	jobs per annum
B.	Employment density:	**10**	**10**	**10**	sq.m. per job
C.	Additional office space required:	**126000**	**108000**	**90000**	A x B per annum x 12 years 2019-2030
		High	**Medium**	**Low**	
D.	Replacement office stock required	**229500**	**172125**	**114750**	Stock loss rate @ 100%, 75%, 50%, x 12
E.	Total office development required:	**355500**	**280125**	**204750**	C + D
F.	Office development required pa.	**29625**	**23344**	**17063**	E / 12 years

[45] These combine high projections for additional and replacement office stock, then medium projections for each, then low projections for each. Intermediate combinations such as high additional with medium replacement are not shown here.

10.8 The range of projected office development required in Edinburgh is therefore **17,000 sq.m. to 30,000 sq.m. (net floorspace) per annum until 2030**.

10.9 The projected office development requirement is a mean (average) based upon the 12-year cumulative total. Edinburgh's development tends to be in waves of market activity rather than in neat annual bundles (see Figure 10, page 26).

10.10 While the upper figure is described here as 'high', it reflects the growth projections set out in SESPlan and in the Edinburgh City Region Deal. It is also based upon on a loss of office stock to alternative uses which is proven over the past five years 2013-18. The medium and low projections would therefore allow for some economic underperformance against the growth projections, and/or less loss of stock to alternative uses.

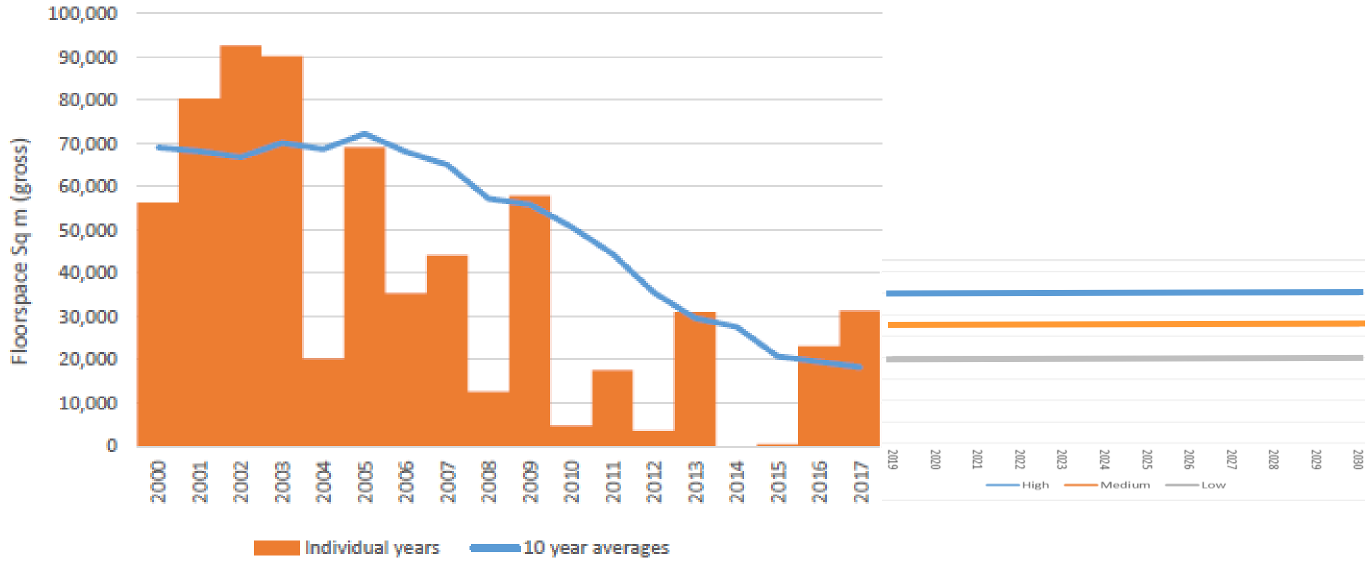
10.11 A build rate of 1.25% pa to replace and add to the city's office stock on an annual basis may seem marginal. However, the active property market of 2013-18 has added zero net additional office stock, the pipeline is limited and emerging sites may also be under alternative use pressures.

10.12 The total projected development requirement of 205,000 to 355,000 sq.m. (line E, Table 8) is equivalent to 9% to 16%[46] of Edinburgh's current stock of offices. The additional stock – ie. for net new activity rather than stock to replace lost offices – of 90,000 to 126,000 sq.m. is equivalent to 4 to 6% of the current stock. Although these percentages may seem modest, they could imply land areas similar to a major business park or office district.

10.13 The projected office development requirement of 17,000 to 30,000 sq.m. per annum is not inconsistent with the mean development rate of 31,500 sq.m. since 2000. It could also confirm greater floorspace efficiency gradually reducing the amount of office space per job. Figure 22reproduces City of Edinburgh Council's development completions chart from Figure 14, with the high, medium and low development projections added[47].

[46] Adjusted for net:gross at 85%
[47] Inflated to gross by

Figure 21: Projected Development Levels against Historic



Market Scenarios: Locational Options

10.14 Table 9 considers **two potential locational options** around the high, medium and low growth office market projections to 2030. These are:

Balanced growth: this assumes that the relationship between the city centre and other office markets continues along historic lines; with the city centre as the dominant location for reasons of access, amenity and occupier and funder preferences. Under the balanced growth scenario, 70% of new office development is in the city centre and 30% in other locations (mainly on the city periphery).

Decentralised growth. This scenario would reflect a decision to direct development activity to alternative locations. The reason for this would be lack of development capacity in the city centre (discussed below). Under the decentralised scenario, 50% of development would be in the city centre and 50% in other locations such as the city periphery, town centres or other accessible locations.

Table 9 shows the projected (net) volume of office space required in the city centre or elsewhere. Neither the scenarios nor the high / medium / low projections are forecasts of what will happen in Edinburgh's office market.

In particular the 'elsewhere' requirements are not likely to happen without significant policy and market intervention. The projections simply reflect different, credible economic prospects and the spatial planning and economic development options around those.

Table 9: Edinburgh Office Market Scenarios

Growth: / Locations	Low	Medium	High
Balanced (70:30)	**Low, balanced growth: 143,325 sq.m. city centre 61,425 sq.m. elsewhere**	**Medium, balanced growth: 196,088 sq.m. city centre 84,037 sq.m. elsewhere**	**High, balanced growth: 248,850 sq.m. city centre 106,650 sq.m. elsewhere**
Decentralised (50:50)	**Low, decentralised growth: 102,375 sq.m. city centre 102,375 sq.m. elsewhere**	**Medium, decentralised growth: 140,062 sq.m. city centre 140,062 sq.m elsewhere**	**High, decentralised growth 177,750 sq.m. city centre 177,750 sq.m. elsewhere**

Floorspace figures are net internal areas; to convert to gross building areas divide by 85%.

10.15 **High, balanced growth** maps forecast employment growth onto **proven locational preferences and proven loss of office stock**. City Plan 2030 should consider the requirement to provide for this scale and distribution of office development. Most notably, this would require approximately 250,000 sq.m. (2.7 million sq.ft.) of new office space in the city centre by 2030, equivalent to a 30% addition to current city centre office stock.

The remaining city centre gap sites are not capable of accommodating this. The implication of the scenario is that a further suite of large sites, or one major site, is required in or on the edge of the city centre. This would likely involve site assembly and market intervention. Mainline railway stations and tram halts may provide a guide to possible locations for new office district(s) in central Edinburgh. This is essentially the 'fourth wave' of Edinburgh's office development, to add to the existing three shown on Figure 10 earlier. The requirement for 107,000 sq.m. elsewhere in the city could be largely met at Edinburgh Park then by other individual sites known or arising in the west and north office zones.

10.16 Under the high, decentralised growth scenario, meeting more office need in other locations reduces the city centre requirement to 178,000 sq.m. (1.9 million sq.ft.). This would still require the identification of a major office district or a number of large sites. A further 178,000 sq.m. would be required in other locations. This scale of development is not currently provided for in any active development site in north or west Edinburgh's office zones. As a very broad comparison, it is around the size of Edinburgh Park as currently built. The potential for an additional c.18,000 employees in these location/s would have implications for promoting, servicing and development site/s including transport links.

10.17 The **medium scenarios** where growth is slower, but also less office stock is lost to alternative uses, reduces some of the pressure on the city centre, but only to 196,000 sq.m. (2.1 million sq.ft.) (balanced growth) or 140,000 sq.m. (1.5 million sq.ft.) (decentralised growth). These office requirements are still of the scale of a new city centre office district or multi-site solution. The 'elsewhere' requirements under the medium balanced growth scenario could be met by existing sites with limited new additions; decentralising under the medium growth scenario would again involve development in excess of currently planned schemes and a total of around 14,000 additional employees working in north and/or west Edinburgh.

10.18 The **low growth scenarios** would clearly require less new office development than the medium or high growth scenarios. The volumes are still significant though, with balanced growth requiring 143,000 sq.m. (c.1.5 million sq.ft.) of new-build city centre offices and 61,000 sq.m. (0.66 million sq.ft.) in other locations. The low, decentralised growth scenario requires 102,000 sq.m. (1.1 million sq.ft.) of new-build offices in each of the city centre and other locations.

10.19 It is only at this last, low level of projected office development requirements that it may be possible to meet Edinburgh's office market needs to 2030 from existing identified sites and other windfall opportunities. All other scenarios are likely to require planning action and possibly market intervention, particularly in the city centre.

Scenarios – A Discussion

10.20 The Edinburgh office market is dynamic and complex. The following commentary explores some of the variations and implications of the market scenarios, in doing so drawing together a number of themes introduced earlier in this report.

10.21 One means to reduce the future office development requirement could be to address the **loss of office stock** to alternative uses, as the replacement requirement is greater than the expansion requirement. Protectionist policies could seek to continue existing city centre and urban 'elsewhere' offices (or sites) in that use. Viability and obsolescence would challenge this as a blanket approach, as large mid-urban office blocks fall obsolete. The buildings in Table 10 on the next page were built in the 1960s and 1970s in mid-urban locations and total 132,000 sq.m. (7% of the city's stock). Many are already being appraised for future use options (including, for some, offices).

10.22 **Falling occupational densities** may reduce future office requirements. The job forecasts may be high, but they might be squeezed into more intensive use of the existing office stock, thus requiring (much) less new office development. There are three reasons to treat this with caution:

- first, higher occupational densities require quality buildings[48] and much of Edinburgh's stock is of middling quality;
- secondly, diminishing returns are being reached in space-planning;
- and thirdly, this is a slow, organic process.

The exception might be if continued changes to working practices lead to less than 1 desk per employee becoming more commonplace. As a broad guide, if a combination of improved layouts and new working practices yielded a need for 7.5 sq.m. per job in new office buildings, rather than the 10 sq.m. used in the projections, then the total requirement would of course fall by 25%. This type of occupational density adjustments could provide some resilience for Edinburgh against the challenges of delivering high volumes of new office development.

[48] For example moving from 12 sq.m. to 10 sq.m. or 8 sq.m. per person involves not only desking but also denser services such as toilets, air handling, fire escapes, lifts and so on

Table 10: Large Mid-Urban Office Buildings (1960s / 1970s vintage)

Building	Description
15 Dalkeith Road 	Owned and occupied by Scottish Widows. Built in the 1970s. Totals c. 20,000 sq.m.
Dundas House, 20 Brandon Street 	11,120 sq.m. built in the 1970s. Occupied by Standard Life
Saughton House, Broomhouse Drive 	18,300 sq.m. built in the 1970s. Occupied by Scottish Government
Chesser House, 500 Gorgie Road 	12,200 sq.m. built in the 1960s. Formerly occupied by City of Edinburgh Council. Sold for residential redevelopment and consented for 132 units.
Riverside House, 502 Gorgie Road 	2,312 sq.m. built in the 1970s. Multi occupied
Pentland House, 47 Robbs Loan 	8,766 sq.m. built in the 1970s. Currently vacant, formerly occupied by NHS and Government departments
525 Ferry Road 	12,100 sq.m. Formerly occupied by State Street Bank. Recently leased to Edinburgh Palette for a creative hub but still being marketed.
Meadowbank House, London Road 	11,230 sq.m. built in the 1970s. Occupied by Registers of Scotland
St Margarets House, London Road 	8,547 sq.m. built in the 1970s. Former government office, most recently occupied by Edinburgh Palette. Proposed for alternative use.
Orchard Brae House, Queensferry Road 	9,455 sq.m. built in the 1970s. Multi-occupied
Finance House, 10 Orchard Brae 	9,724 sq.m. built in the 1960s. Occupied by Black Horse, to be vacated
Silvan House, Corstorphine Road 	8,300 sq.m. built in the 1970s. Occupied by Scottish Ministers (Forestry Commission Scotland)

Not including former RBS building at 113-115 Dundas Street which is vacant, but is central and was built in the 1990s

10.23 **Inward investment** is variable according to sector activity and Edinburgh's relative attractiveness. The city has tended to attract smaller, higher value inward investment, particularly in the technology sector. Inward investment to Edinburgh may account[49] for c.5,000 sq.m. of annual office take-up in the city. This would be equivalent to 7% of recent annual take-up. Although Edinburgh secured 4 of Scotland's 10 largest projects in 2017, some very large mobile investments/ consolidations, such as Barclays Banks' recent 'northshoring' announcement in Glasgow, do not consider the city. This is reportedly due to a tight and expensive property market, lack of grant assistance and smaller labour market than competitors.

[49] Based upon previous analysis by Ryden (5,500 sq.m.) and EY's 2017 FDI data.

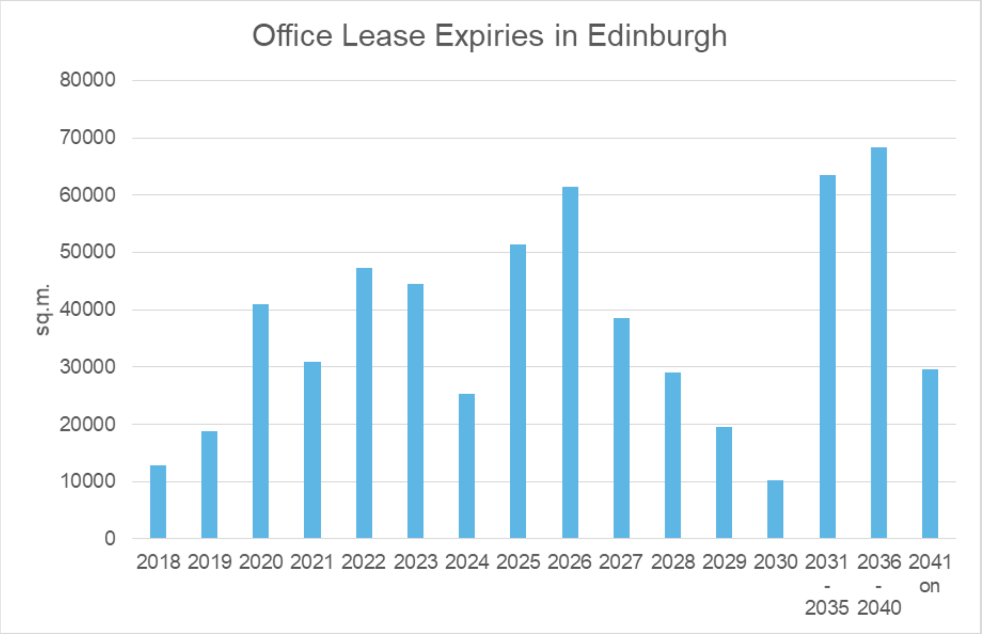
10.24 Office market activity and growth may not be 'neat', but involve **change and churn** across occupiers, some of whom may not fit tidily into standard occupier types. Many will not require Grade A offices, but rather good quality secondhand accommodation or affordable, flexible newer options. In comparison with post-industrial regeneration cities elsewhere, Edinburgh has a paucity of such building or conversion / development opportunities, and a very active development market for alternative non-office uses.

10.25 Occupier sectors showing no net growth may still **'churn'**, as they migrate from obsolete to more efficient buildings continues. The ongoing Government Property Unit/ HMRC's investment at New Waverley is of net additional benefit to Edinburgh, but will relocate some jobs from other locations including in the Lothians. The Scottish Government central estate[50] in Edinburgh is approximately 140,000 sq.m., (7.5% of the city's office stock) and has reduced by 20% since 2013 due to modernisation of working practices. Planning is underway to identify opportunities for further efficiency gains, while also ensuring that the estate is flexible and able to respond to any future change. Further devolution may also create new requirements; the new Scottish Social Security Agency for example will be formed and based across Glasgow and Dundee. The Forestry Commission, which is based in Edinburgh, is understood to be de-merging its English and Welsh responsibilities in 2019. City of Edinburgh Council has already rationalised into a portfolio of nine city centre and local area buildings totalling 57,550 sq.m. (3.1% of the city's office stock).

10.26 The **market timing** of office requirements 2019-2030 must be considered. Economic forecasts suggest slower growth until Brexit is underway. Sectoral trends – such as fintech-type move innovation into general professional services and government – could also drive market cycles. Lease expiries can indicate when demand might arise; Figure 23 depicts 255 leases larger than 500 sq.m. totalling 593,000 sq.m. (32% of stock). The analysis is not predictive for individual occupiers, but is a proven guide to Edinburgh's office market cycles. It suggests rising demand in the early 2020s. This could also be consistent with recovery to more normal economic growth post-Brexit.

[50] Scottish Government and Executive Agencies, Public Bodies and Special Health Boards. Source: Scottish Futures Trust

Figure 23



Source: Ryden

10.27 A further 14% of Edinburgh's stock in 41 offices is **owner-occupied**. These may also have some propensity to move due to organisational change or building obsolescence, but that is harder to predict than with a lease end. Headquarters developments for owner-occupiers have included the Scottish Government, Standard Life, Scottish Widows, City of Edinburgh Council and RBS (although some have been sold and leased back). The last major development phase was from the mid-1990s to mid-2000s.

10.28 **Property obsolescence** is complex. It can be physical, functional, locational, technological or indeed environmental or statutory in terms of legislation. Building age and suitability for modern working practices are a guide, but each building can be specific in terms of its potential for refurbishment. Viability of that investment will be dependent upon the technological requirements, location, site and potential for alternative uses. As noted above, the wave of re-purposing of the city's Georgian New Town is now beginning to extend into older open-plan offices (and could potentially sweep up more modern offices where the alternative use value and demand and very high).

10.29 In locational terms, the city's **prime office market** is tightly concentrated, between St Andrews Square (east) and Morrison Street (west). The occupier markets are driven to a significant degree by Waverley (east) and Haymarket (west) mainline railway stations, supported by the bus and tram networks. Staff amenities are also a major consideration, with Edinburgh city centre ranking highly in this regard. Developers and funders, having experienced major losses in off-prime office locations following the 2008 market crash, align their projects with these occupier locational preferences. Edinburgh Park is a prime out-of-town business park location.

10.30 Edinburgh's **lost office pipeline opportunities** are also relevant. Office viability is improving, and some sectors may ease, but others – particularly residential - could potentially re-emerge at a pace and scale to compete alongside already active sectors such as student housing and hotels. As a back-check on lost office opportunities, Ryden has assessed the performance of the Edinburgh 12, which was a post-crash initiative to re-start Edinburgh city centres major sites which envisaged 140,000 sq.m. of new-build Grade A office space. To date, 66,000 sq.m. (47%) of this has been built or is underway; Quartermile, St Andrew Square and New Waverley account for most of this.

10.31 The most notable **sectoral trend** in the office market is the axis between TMT (technology, media and telecommunications) and new ways of working. This is likely to continue, as financial technology innovates and technology spreads further into the service sector. The city's specialist incubators such as Codebase and Summerhall (and at universities for example at King's Buildings) are being complemented by some prime city co-working. More flexible spaces are in the pipeline, including private investment and City Deal-funded incubators.

10.32 As recognised in Edinburgh's Economy Strategy, the supply of new, flexible workspace is limited. It tends to be prime city centre and expensive. The majority of the city's office market is '**mid-market**' in terms of location, size and price (rent) point. It is not currently evident that there is any market response to the needs and potential - through new starts, growth companies, loss of existing SME stock, working practices of this mid-market. The example pictured is Glasgow's 52,000 sq.m. Skypark[51], which is within walking distance of the city centre, with excellent transport

[51] http://www.skypark-glasgow.com/

connections and local amenities, at advertised rents of £200 per sq.m. (£18.50 per sq.ft.), in suites from 50 sq.m. (500 sq.ft.) to full floors. Edinburgh offers very little in this mid-market sector, and is losing stock. Crucially, this mid-market does not offer the rents, lease terms of size of occupiers that could typically attract development finance (most investors prefers standing assets or absolute prime new-build offices). **Edinburgh's new-build are binary – small, expensive co-working spaces, or large, expensive headquarters**. **The mid-market is being squeezed.** Within the spatial planning for City Plan 2030, mid-market option(s) should be considered.

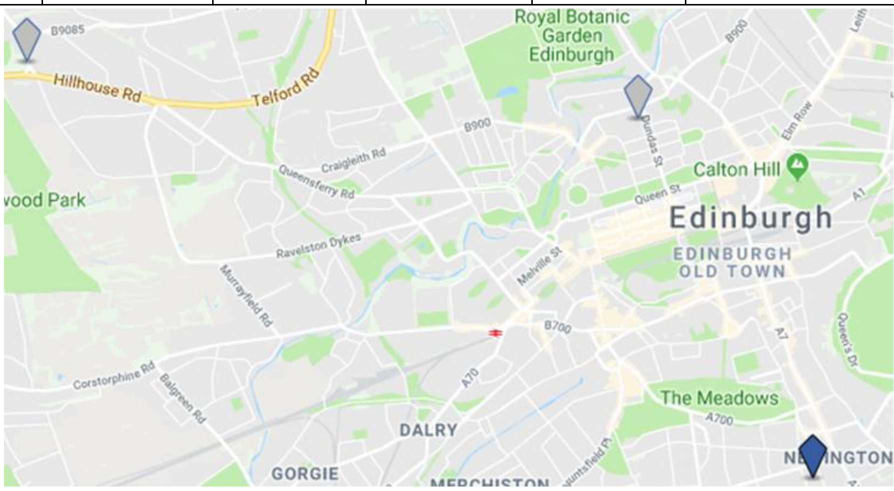
10.33 Finally, to illustrate this point about the city's mid-market, Edinburgh's **'average' office** based upon the analysis in this report is:-

- 1,300 sq.m. (14,000 sq.ft.)
- multi-occupied
- built in the 1990s
- accommodating around 100 – 125 employees
- graded 3-star on a 5-star scale
- renting for around £180 per sq.m. (c.£17 per sq.ft.), and
- in an inner urban location close to the city centre.

The 'average' office in the city is therefore around 20 years old, mid-urban, comparatively affordable, and is let to a mix of SMEs. Table 11 on the next page illustrates three offices broadly fitting this description of Edinburgh's critical 'mid-market' office sector, while the accompanying map indicates their locations.

Table 11: The Average Edinburgh Office

Property	Size	Year built	Number of occupiers	Rent (per sq.m.)	Location
116 Dundas Street 	1,810 sq.m.	1989	7	£129	Northern periphery of city centre
Block C, Kittleyards 	1,480 sq.m.	1985	3	£177	West Causewayside, 1.5 miles from city centre
Q Court, Quality Street 	1,168 sq.m.	1999	6	£118-£150	3 miles north west of city centre



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Summary – Market Priorities

10.3 The three market priorities for City Plan 2030 based upon the scenarios are to:

10.3.1 Identify the next city centre office /mixed-use district(s) to follow on from the Big 12. The total scale will depend upon the scenario adopted, but it is substantial based upon proven market trends and forecast growth and market change. Public transport interchanges and amenities are key drivers in identifying the next target city centre locations for development (or redevelopment of existing land uses) to follow on from completion of The Haymarket and India Quay as the last remaining major office proposals.

10.3.2 Capture the potential of off-centre office locations through transport investment, and diversification to include a full range of land uses (away from the 1980s / 90s business park model). Again the scale depends upon the scenario adopted, but it is potentially substantial over the long term and may require economic development intervention beyond simply zoning and connecting sites.

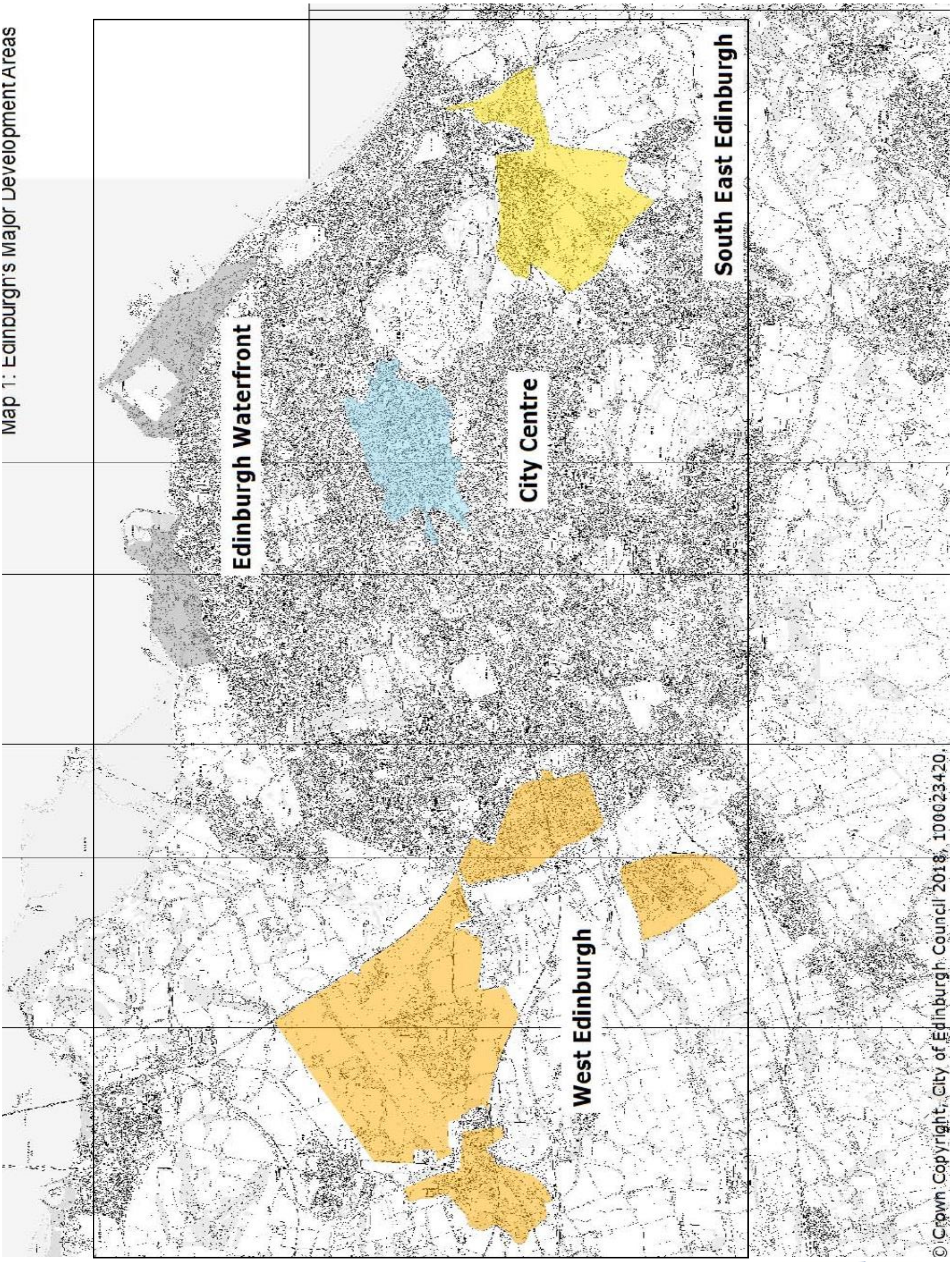
10.3.3 Meet the needs and demand of the city's large mid-market. This is an equal priority with the spatial planning above, as not only is demand anticipated but supply of affordable SME premises is being eroded by alternative uses, without replacement. This is both an economic development and a planning policy priority and will likely require market intervention in preventing loss of sites and buildings, and delivering viability.

Ryden LLP
November 2018

APPENDIX 1

EDINBURGH DEVELOPMENT AREAS

(source: Office Development Schedule 2017, City of Edinburgh Council)



APPENDIX 2

Office Star Rating Definitions

RATING	GROUP		DEFINITION
★★★★★	A 5-Star office building is exemplary of a state-of-the-art, category defining structure that represents the latest trends and quality in design and construction, prominent in its context or of a landmark status, and very likely a certified sustainable and energy efficient building. Buildings rated to exhibit the nation's current set of highest quality structures and form the benchmark of current excellence in office buildings.		
	Architectural Design	Exterior Materials/ Façade	High-quality durable materials – natural stone, glass, well detailed metal panels; accentuating lighting.
		Lobby/ Common Areas	Double height or atrium lobby with top quality finishes/materials and artwork, clear and intuitive layout for visitors, comfortable waiting area, accentuating lighting, high level of finish in other common areas and elevator cabs/lobbies.
		Fenestration/ Glazing/ Views	Full height glass, corner windows, abundant natural day lighting, generally available exterior views, high ratio of glazed to opaque exterior walls, highly efficient glazing specifications.
		Overall Aesthetics	Positively differentiated from background buildings yet contextually appropriate. Representing current trends and standards in design and/or of a timeless, perhaps a historic quality. Aesthetically exceptional arrangement of forms, massing and materials. Likely designed by a notable or signature architect.
		Access	Clearly articulated entrance identified with an architectural feature; truck and service entrance distanced from main entrance.
	Structure/Systems		High ceiling heights/slab-to-slab dimensions, efficient and virtually column free floor plans; modern energy-efficient HVAC, digitally controlled building automation systems, individual control/VAV units, efficient elevators with continuous shafts serving parking levels and upper floors, dedicated freight elevator. These buildings are likely to be constructed recently or undergone a significant renovation.
	Amenities/ Management		Concierge, on-site management, fitness center, services (dry cleaning, shoe repair, etc.), security with streamlined ID and badging process, on-site conference facilities, bicycle storage, shower facilities, and other highly demanded amenities.
	Site/Landscaping/ Exterior Spaces		Continually maintained landscaping where applicable; exterior gathering spaces, roof terrace or courtyard.
	Certifications		Very likely a certified/labeled green and energy efficient building.
	At a minimum level, a 5-Star building typically includes the following: exterior materials listed above, a glazing ratio of approximately 75%, 12' slab-to-slab dimension, a column free floor plan, a regular floor plate shape, and multiple desired amenities.		
★★★★	A very high quality building that maintains market leadership through the strength of its initial construction, continual above average maintenance and desirability for tenants and investors over time, These buildings are likely to be older than the current 5 Star set.		
	Architectural Design	Exterior Materials/ Façade	High-quality durable materials – likely similar to 5 Star type yet possibly exhibiting signs of age and wear.
		Lobby/Common Areas	Large lobby with clear circulation, above average finishes, comfortable waiting area.
		Fenestration/ Glazing/Views	Full height glass or ribbon windows/large punched windows, great natural day lighting and views.
		Overall Aesthetics	Positively differentiated from background buildings yet contextually appropriate. Representing recent trends and standards in design and/or of a timeless, perhaps a historic quality.
		Access	Clearly articulated entrance identified with an architectural feature, truck and service entrance distanced from main entrance.
	Structure/Systems		Likely to have some 5 Star qualities, or of a prior generation of buildings.
	Amenities/ Management		Likely to have some 5 Star qualities, possibly without service oriented amenities.
	Site/Landscaping/ Exterior Spaces		Well maintained landscaping where applicable; likely to have exterior gathering spaces, a roof terrace or courtyard.
	Certifications		Likely a certified/labeled green and energy efficient building.

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RATING	GROUP	DEFINITION	
★★★	Architectural Design	Exterior Materials/ Façade	Brick, stucco, EIFS, precast concrete, or possibly higher rated materials with signs of age and wear.
		Lobby/ Common Areas	Modest lobby size and finish, clear lobby layout for visitors.
		Fenestration/ Glazing/Views	Punched or ribbon windows, fair mix of glazed and opaque surfaces that provides adequate natural light.
		Overall Aesthetics	Average with respect to background buildings, contextually appropriate.
		Access	Undifferentiated but obvious main entrance.
	Structure/Systems	Minimal ceiling height, smaller, less flexible floor plate, likely older and renovated.	
	Amenities/ Management	Some standard amenities.	
	Site/Landscaping/ Exterior Spaces	Modest landscaping and likely small or no exterior spaces.	
	Certifications	Possibly a certified/labeled green and energy efficient building.	
★★	Architectural Design	Exterior Materials/ Façade	Brick, stucco, EIFS, precast concrete, with noticeable aging.
		Lobby/Common Areas	Minimal or no lobby.
		Fenestration/ Glazing/Views	Small, seemingly inadequate windows.
		Overall Aesthetics	Average, functional.
		Access	Unarticulated entrance.
	Structure/Systems	Purely Functional.	
	Amenities/ Management	Likely none.	
	Site/Landscaping/ Exterior Spaces	Minimal or no landscaping, no exterior spaces.	
	Certifications	Unlikely a certified/labeled green and energy efficient building.	
★	Practically uncompetitive with respect to the needs of a typical office tenants, may require significant renovation, possibly functionally obsolete. The building may have been originally constructed for non-office use.		

ENDNOTES – REFERENCES FOR SECTION 3

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