

Q2 2024

 **30 SEMPLE STREET**

“Net Zero” is the aim for all businesses going forward.

By retaining the original frame at 30 Semple Street, Edinburgh, over 3,300 tons of CO2 was saved – 50% of the carbon compared to a similarly sized new build. The new thermally efficient facades and all-electric hybrid VRF systems will allow the building to operate with zero carbon emissions, and the roof-mounted PV array will provide clean renewable energy to the common parts.

We are delighted to have successfully pre-let the top two floors to Hymans Robertson, with the 4th floor also now let to Red Rock Power.

Tenants seeking an environmentally designed building should look no further; this is the most accredited office building in the Scottish market available for occupation later this year.

 **[30SEMPLSTREET.COM](https://www.30semplestreet.com)**

Q2 MARKET OVERVIEW

After a blistering Q1, occupational demand slowed after Easter and pre-election, as interest rates remained stuck at 5.25% and the economy – and more importantly occupiers – played a game of “wait and see”. The 25 basis point cut in interest rates announced on the 1st of August – the first cut in over 4 years – will give businesses more confidence, which can only be good news for our economic environment.

Whilst it's still unclear whether the market is fuelled by a chronic lack of supply or strong demand, it's apparent that discerning occupiers are assessing their options up to five years out and rents continue to rise for the very best space. We believe it won't be long before £50 psf is reached for the very best space going. It's the continued strong rental growth prospects that will attract more investors into the currently unloved office sector. Clearly Pontegadea have done their homework on this as they swoop in to buy the Mint Building, setting a new benchmark for UK regional pricing. Others will follow.

With a return in confidence comes more ambition to take on new leases, incur fit-out costs and plan positively for the future – lease re-gears for older space becomes less likely. We anticipate Q3 and Q4 stats will see Edinburgh close to 750k of take up – not quite the heady heights of 2017 but strong.

DEALS IN TOTAL:

34

(CuthbertWhite
involved in 15)

LARGEST CITY CENTRE DEAL:

BUILDING:
Quay 2

OCCUPIER:
Azets Holdings

SIZE:
12,706 sq ft

AVERAGE DEAL SIZE:

5,430

sq ft

3.8% less than
Q1 2024

TAKE UP:

City centre total:
90,274 sq ft

Whole of Edinburgh
(including city centre)
total:
113,000 sq ft

£45.00

psf

**Grade A headline rent
achieved**

EXISTING, PRIME GRADE A SUPPLY:

City centre total:
264,572 sq ft

Whole of Edinburgh
(including city centre)
total:
431,564 sq ft

MARKET INSIGHTS



The circular economy, and the ESG drive, continues to dominate in the commercial property spectrum, from base build specification – ‘shell and floor’ my particular favourite – re-using of furniture and ‘lease ready’ fit outs. Whilst we frequently see tenants inheriting second hand fit out and furniture, adaptation is frequently required and can be extremely complex. The dial on how space is fitted out has shifted massively in the last few years due to different working practices. Landlords are also embracing what is termed ‘CAT A+’ by fitting out meeting spaces, kitchen and break out areas in advance of tenant interest, invariably charging more rent for the privilege. On the basis that contractor availability is not ideal right now – not helped by city centre LEZ restrictions – this really does make sense. Understanding the complexities of protecting your interests either as a Landlord or Tenant has never been more complex, and CuthbertWhite is here to advise you through it.

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In Q1 we reported increased capital chasing office repositioning plays, which was further evidenced this month with Hillcrest PERE's purchase of Arkwright House in Manchester, a value-add proposition.

Currently our city is witnessing an ongoing prime office transaction which will help investors evaluate their exit assumptions when appraising opportunities. Green Street News reported that the Mint Building is under offer to Pontegadea for c. £44.5m, equating to £631 psf, a net initial yield of 5.52%, rising to 6.31% after a November rent review. Built to exemplary standards by Chris Stewart Group, it was sold in 2018 at a 4.50% yield and £755 psf creating the benchmark for prime at the time. It is in an undoubted location, the office element is let to FNZ for 10 years unexpired and it is circa 5 years old, so, in our view it is “proper prime”!

We appraised the opportunity for another institutional client with a similar cost of capital who was disappointed not to be given the opportunity of bidding. The purchaser swooped in ahead of a closing date that had been set! This evidences a depth of demand which we foresee growing in the coming 24 months as investors gain more confidence in the sector, driven by real rental growth prospects in key cities like Edinburgh. A shrewd purchase for Pontegadea and a bellwether for prime regional UK offices.

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Given the acute shortage of prime Grade A product in Edinburgh city-centre, we are convinced that those on-site with new buildings (refurbished or redeveloped) will be rewarded with strong tenant interest and rising rents.

Pre-lets require cast-iron confidence in the professional team delivering the project and we are fortunate to have excellent professionals in the city who can manage construction risk effectively – e.g. Corran Properties at the Charlotte Square Collection where 15k has been pre-let to Hampden Bank and Kiltarn Partners LLP – with two further comprehensively refurbished buildings due to complete shortly. Those with the foresight to buy and refurbish well located city-centre buildings – e.g. Broadland at 90A George Street – have seen all vacant space pre-let prior to practical completion at rents comfortably in excess of business plan.

With end investor appetite (and yields) coming in and increasingly few opportunities of real scale, there will be strong returns made by those who can unlock the correct building, manage construction risk and deliver the product.

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In Q1 & Q2 2024, 75% of city centre deals of 3,000+ sq. ft completed in buildings with an EPC B or higher, as opposed to 44% in Q1 & Q2 2019.

This displays the advancement of ESG benchmarks set by landlords and occupiers, as well as highlighting the increased importance of “strong” environmental accreditations to office occupiers. Moreover, 59% of live requirements in Q2 2024 stipulated “Grade A stock only/strong ESG credentials”.

Environmental accreditations are no longer simply about meeting statutory and regulatory mandates, but an alignment on ESG commitments from occupiers and landlords. We are seeing in real time the effect of ESG commitments on the office market and how that translates into “take up” – which is why progressive market advice paired with proactive asset management is so important in today’s office market.

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CITY CENTRE PIPELINE

[35K SQ FT PLUS – PRIME]

[DEVELOPMENTS / REFURBISHMENTS ON-SITE]

[DEVELOPMENTS / REFURBISHMENTS YET TO COMMENCE - TIMING TBC]

New Clarendon (35k sq ft)



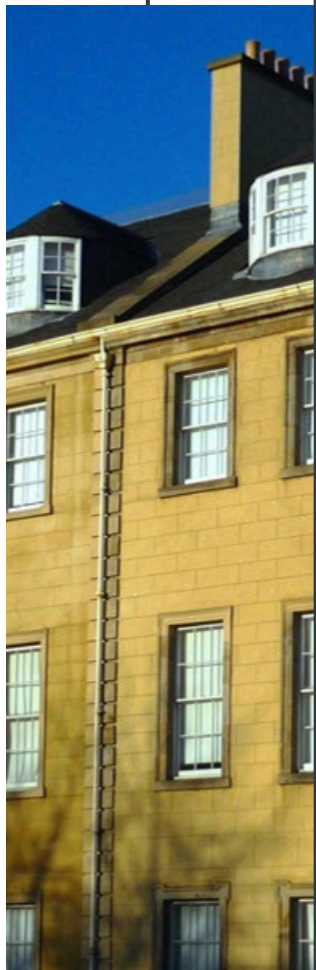
COMPLETING AUGUST 2024. 77% PRE-LET

30 Semple Street (57k sq ft)



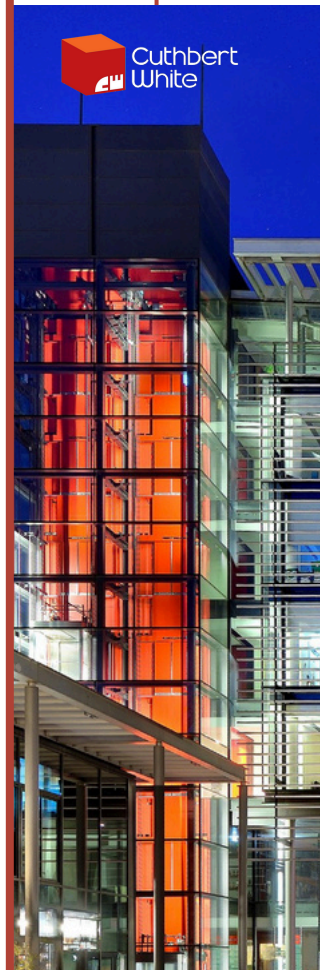
PC Q4 2024. 40% PRE-LET

25 St Andrew Square (48k sq ft)



PC Q1 2025

Quartermile Two (41.5k sq ft)



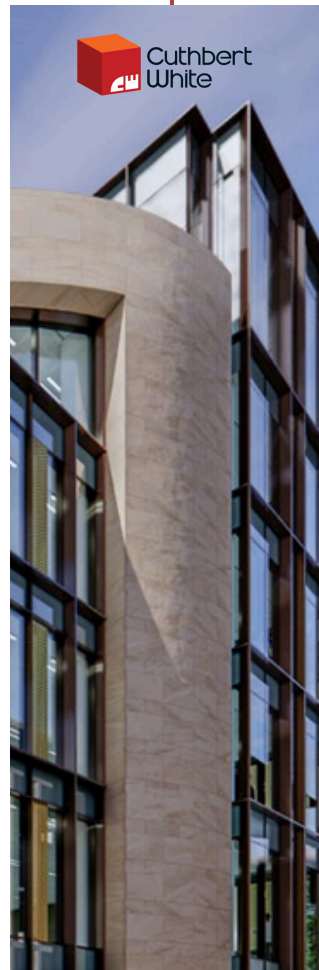
REFURBISHMENT PC Q1 2025

The Network (82k sq ft)



NEW BUILD. SITE NOW CLEARED

Exchange Place 1 (119.5k sq ft)



PLANNING SECURED. WORKS COMMENCE MID-2025

20 Haymarket Yards (220k sq ft)



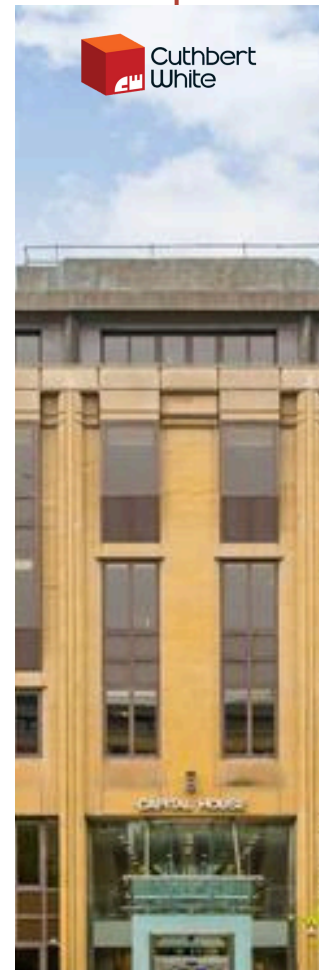
NEW BUILD. SITE NOW CLEARED

Rosebery House (158k sq ft)



NEW BUILD. PLANNING SECURED

Capital House (54k sq ft)



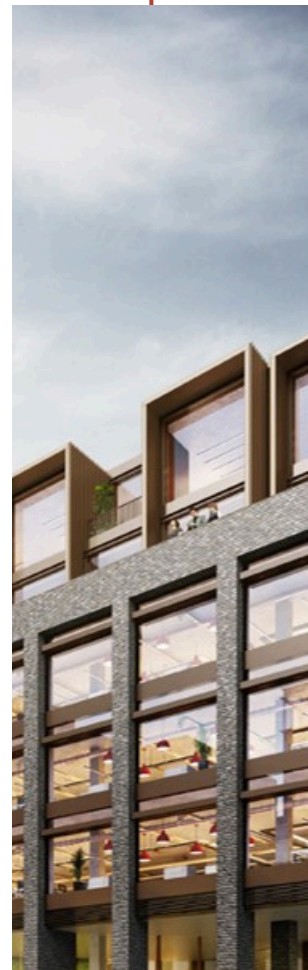
FUTURE REDEVELOPMENT TBC

Calton Square (160k sq ft)



REFURBISHMENT. VP MID 2025

India Quay, Fountainbridge (150k sq ft)



NEW BUILD. SEEKING PRE-LETS