



UK & Scotland Commercial Property Market Insights

September 2022

**Grant Lonsdale and Cristina Balekjian,
CoStar Analytics**



© 2022 CoStar Group

Agenda

- Office
- Retail
- Industrial
- Hotel
- Summary & Questions

Focus on:

- Occupier Markets
- Scotland vs UK
- Areas of Outperformance and Underperformance

OFFICE



Hybrid Working is The New Reality

The Office Still Matters, but Survey Suggests Hybrid Work Is Here To Stay

JLL Outlines Priorities in New 'Future of Work' Study



Hybrid work is likely here to stay, according to JLL's "Future of Work" survey. (Getty Images)

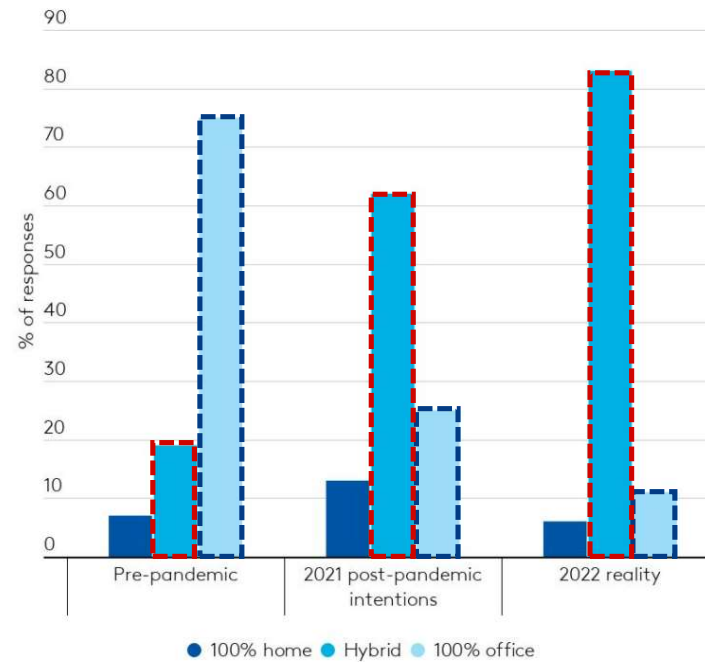
By Candace Carlisle
CoStar News

18 August 2022 | 13:19



The workplace has been turned on its head since real estate services firm JLL's last "Future of Work" survey was conducted four years and a global pandemic ago. And while office needs have been evolving in the midst of a global health crisis, one thing remains certain among the surveyed decision-makers: The office remains critical to conducting business.

Changing "place of work" policies

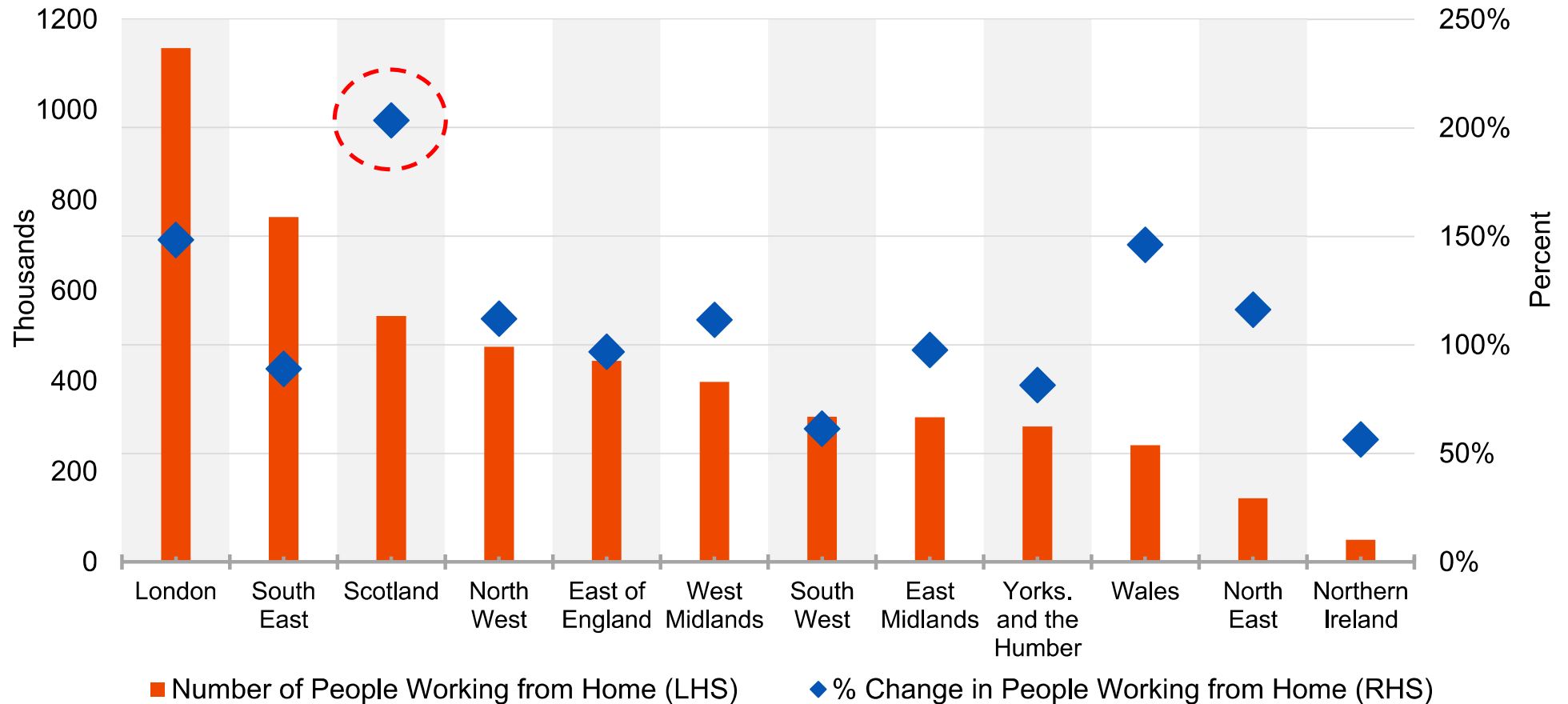


CoStar Sentiment Survey, January 2022:

Over 80% now hybrid, up from below 20% in 2019

Full office drops from 75% to 11%

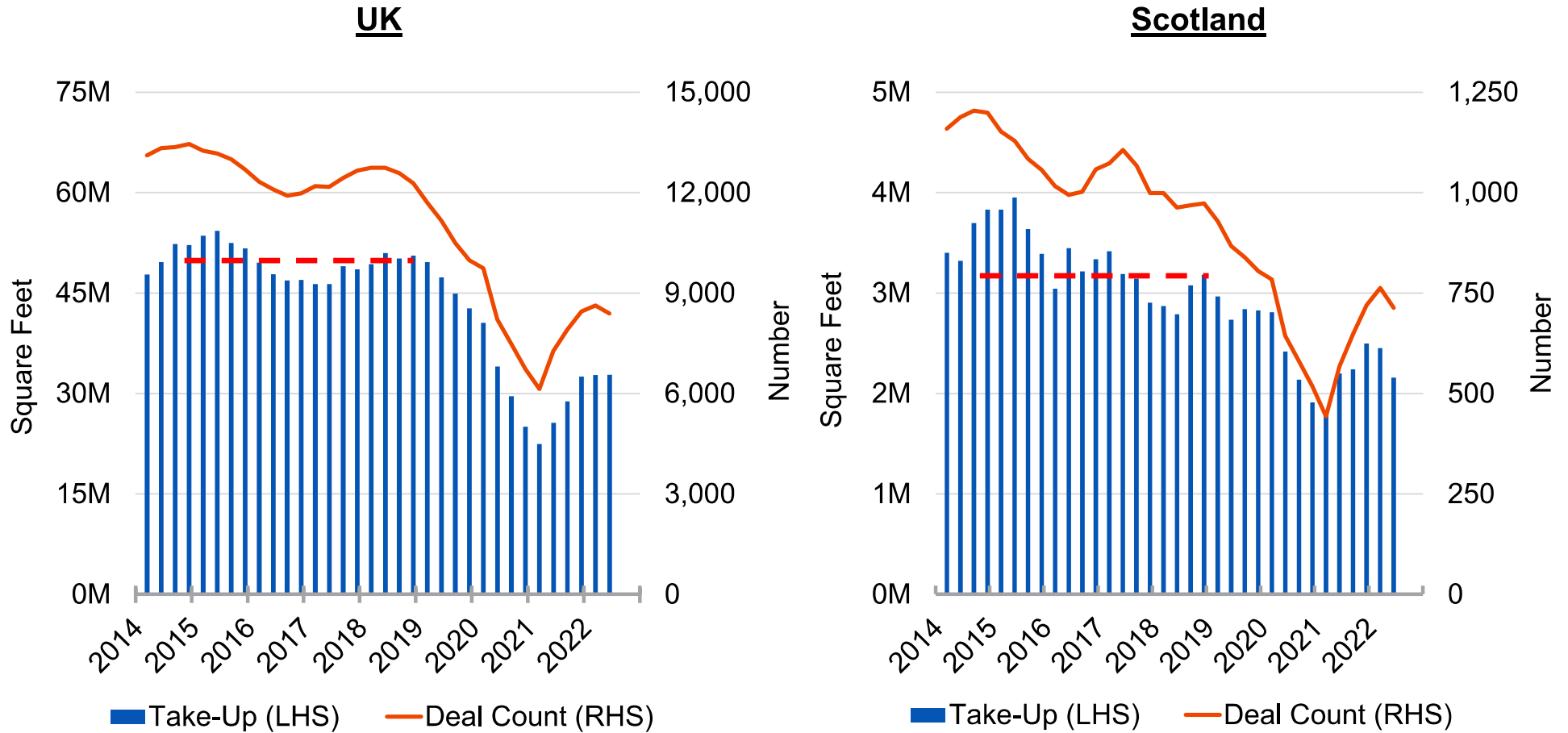
Scottish Firms Have Embraced Working from Home in a Big Way



Source: Office for National Statistics, July 2022

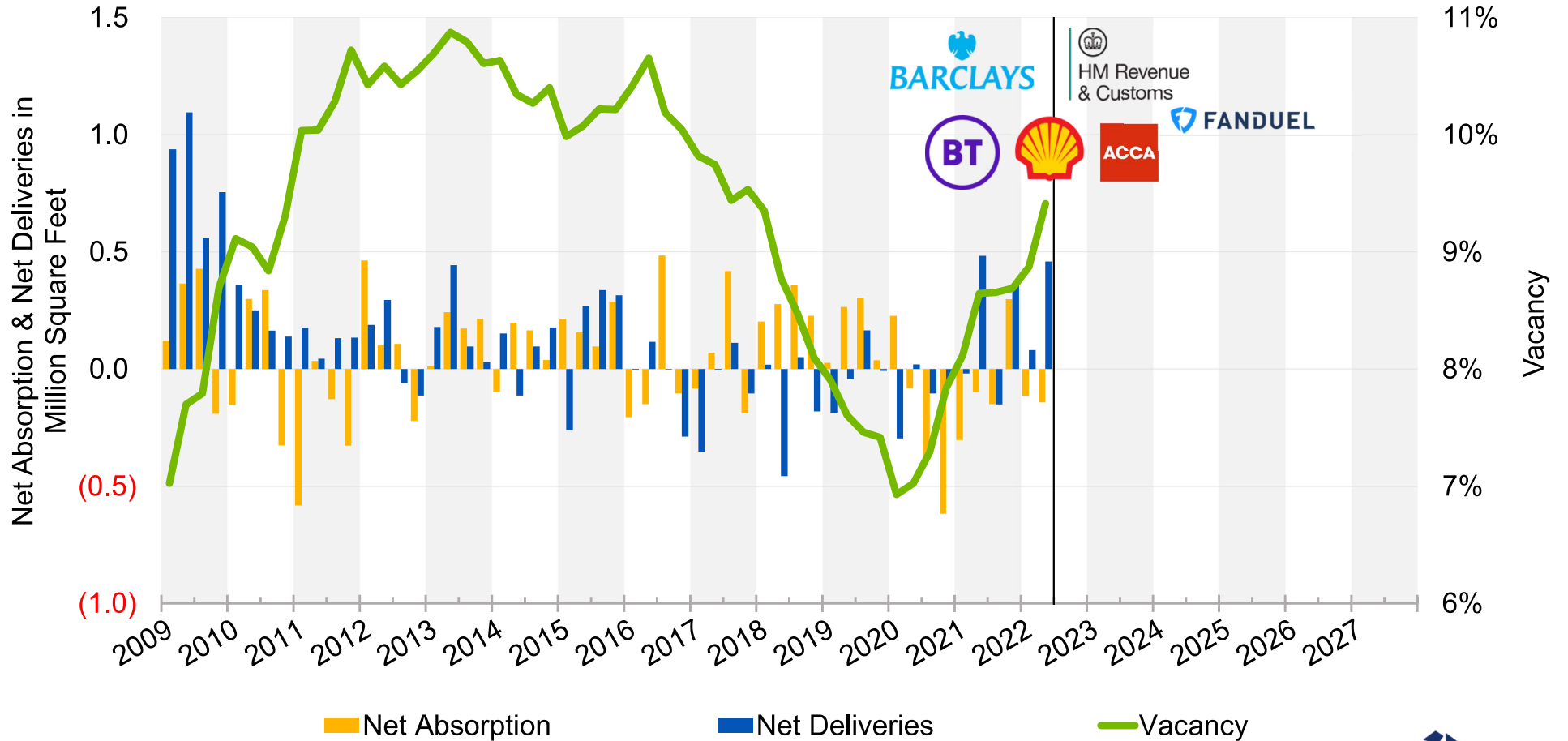
Note: Figures show change from Q4 2019 to Q1 2022

Office Take-Up Down a Third on Pre-Pandemic Average

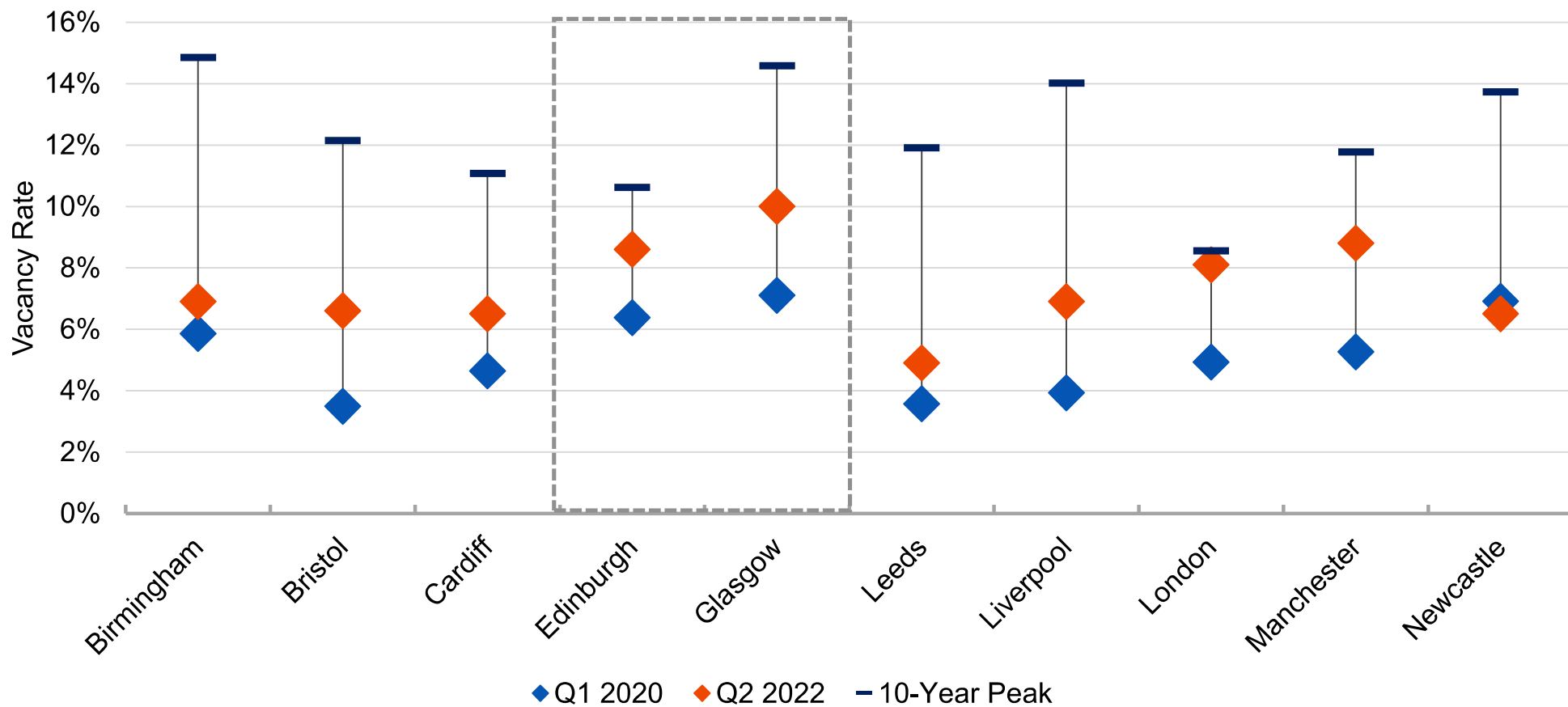


Note: Take-up and deal count figures annualised; Dashed line shows pre-pandemic five-year average

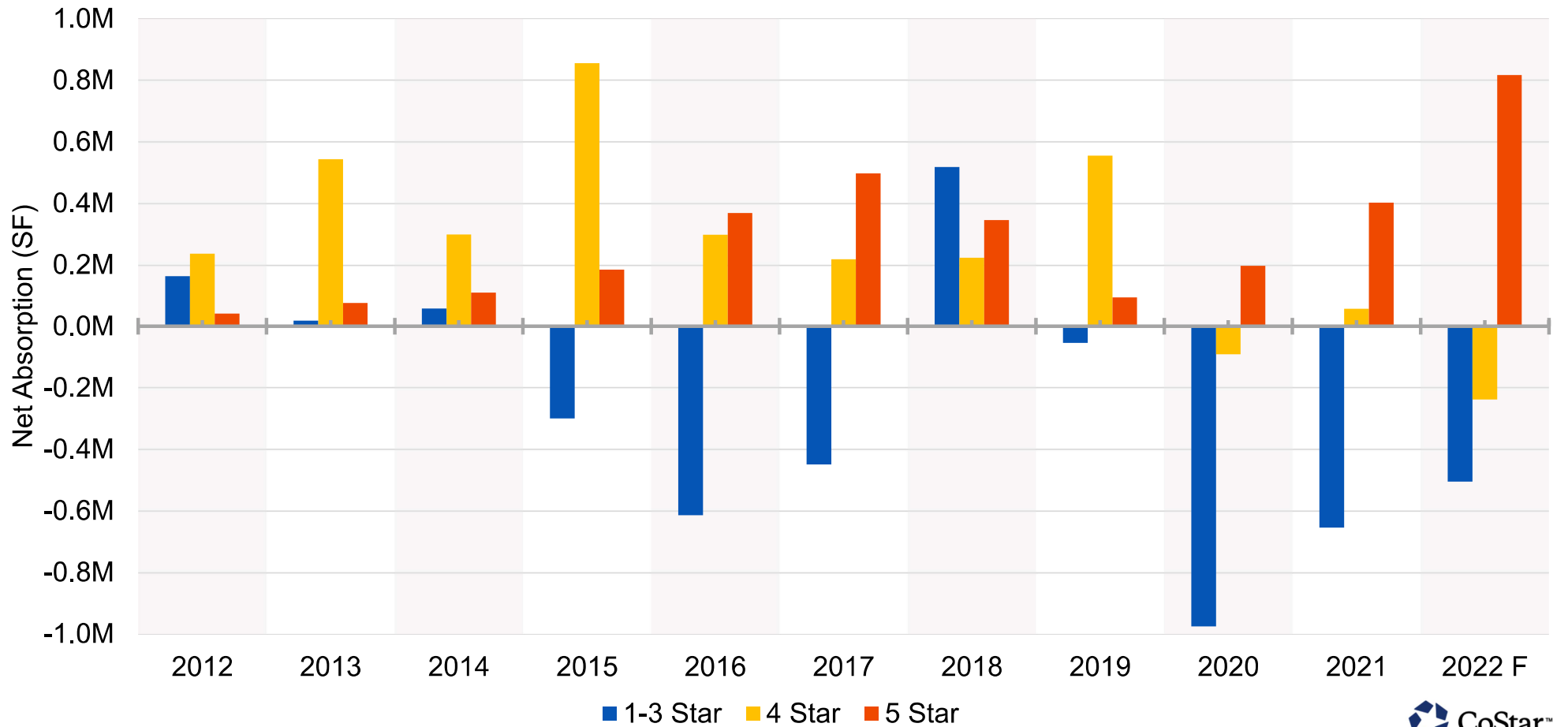
Scotland's Office Vacancy Rate at Four-Year High and Rising



Vacancies Up In Nearly All Regional Markets Since Pandemic

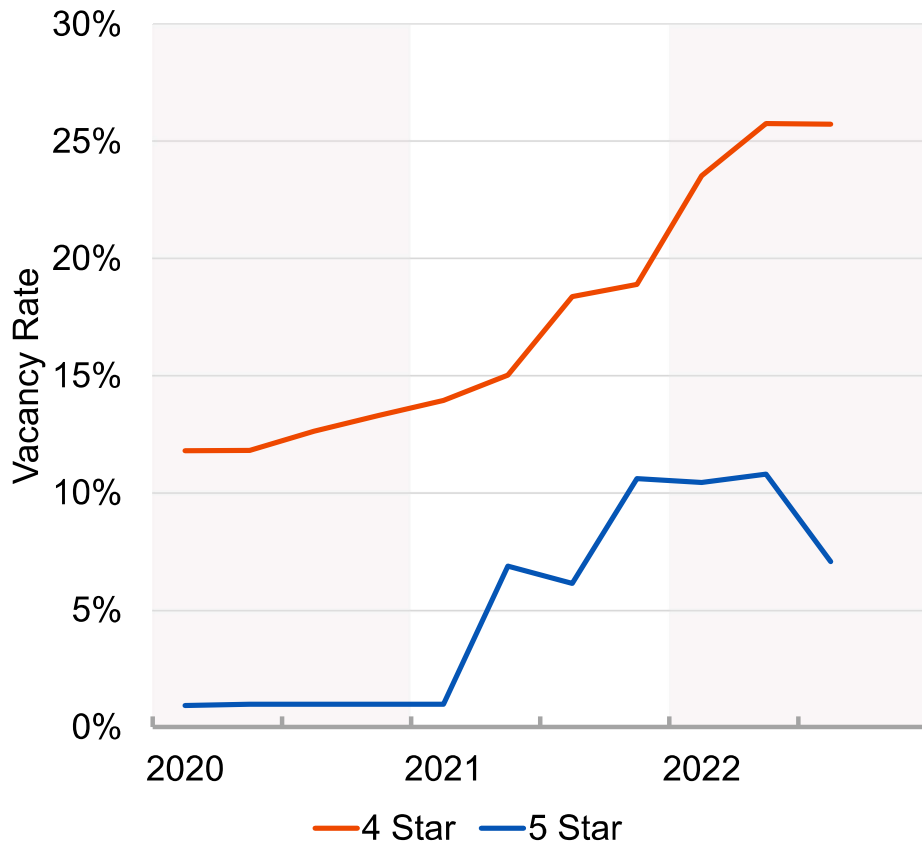


Flight to Quality Strongly Favours Top-Tier Offices in Scotland

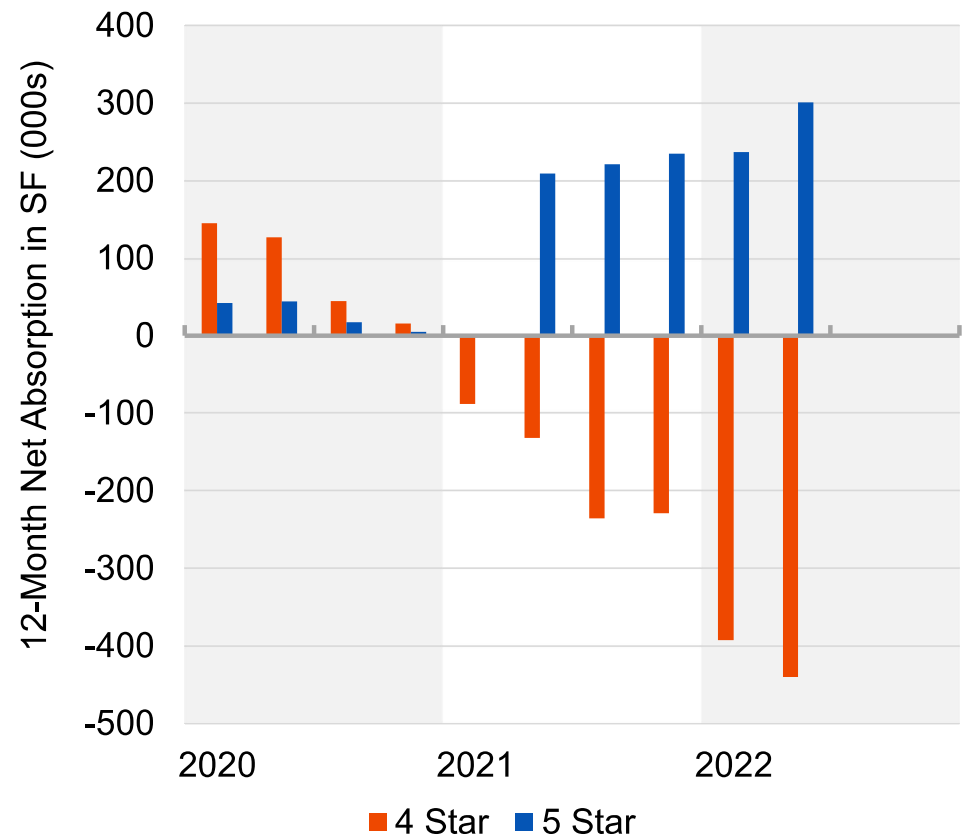


Flight to Quality Has Been Pronounced in Glasgow's City Core

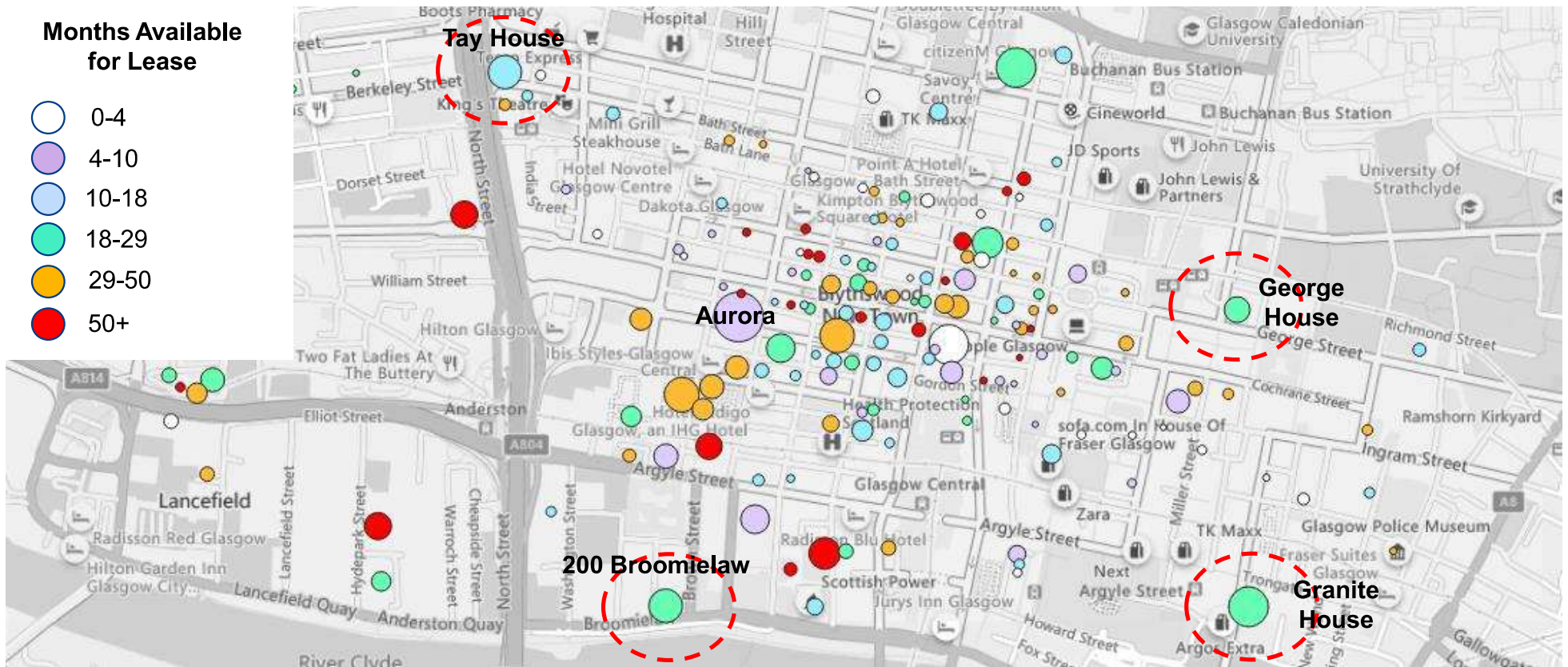
Vacancy Rate, 4 Star vs 5 Star



Net Absorption, 4 Star vs 5 Star

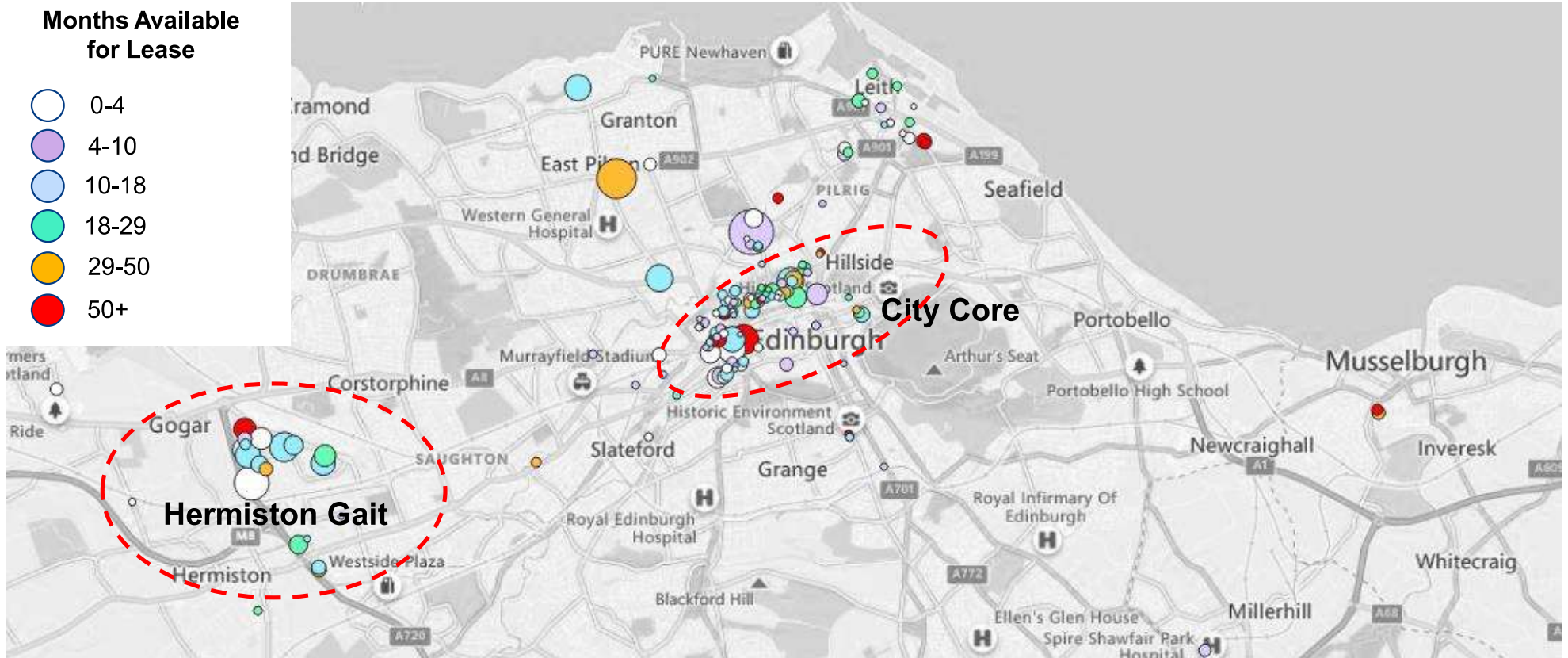


Glasgow: Large Blocks of Available Space on City Core Periphery



Note: Bubble size represents size of availability in square feet; Months available for lease figures are averages of all spaces in building

Edinburgh: Availability Has Risen Sharply in the West



Note: Bubble size denotes size of availability in square feet; Months available for lease figures are averages of all spaces in building

Upward Pressure on Top-End Office Rents

Tristan and Sterling Sign Shoosmiths For HQ at Brum Landmark

Largest Letting at 105 Colmore Row Takes it to 60% Prelet or Under Offer



105 Colmore Row has fast become a Birmingham landmark. (Tristan, Sterling)

By Paul Norman
CoStar News
12 January 2022 | 9:38



Bristol Hits Record £40-Per-Sq-Ft Letting As Office Market Continues Strong Run

IV Real Estate Understood To Have Hit Milestone As South West City's Office Market Continues Outperformance



Technology firm Hudson has taken 10,000 sq ft of 40 Corn Street in Bristol. (CoStar)

By Paul Norman
CoStar News
30 March 2021 | 14:50



M&G Leases All 390,000 Square Feet of Offices at Haymarket Edinburgh Two Years Ahead of Completion

As Shoosmiths, Deloitte and Dentons Are Final Tenants To Sign, CoStar Finds Out How The Scheme Has Proved Pandemic Proof



The Haymarket scheme is fully leased two years out from its completion. (M&G)

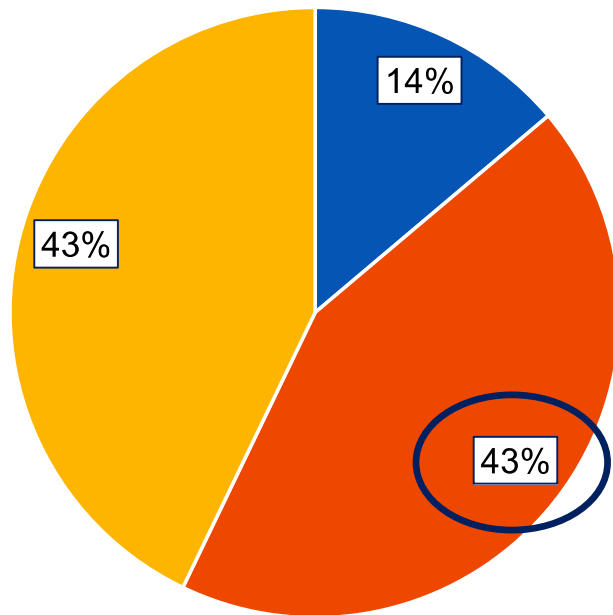
By Paul Norman
CoStar News

16 February 2022 | 7:30

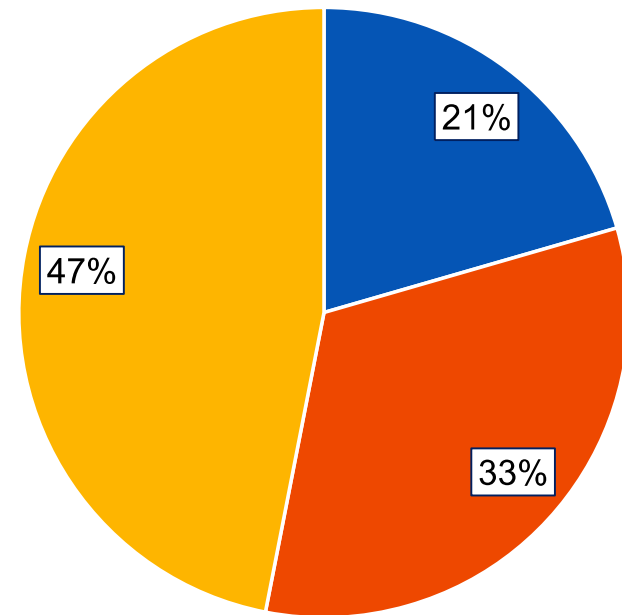


Share of Deals With Rent Discounts Has Increased

Q2 2020 – Q2 2022



Q1 2018 – Q1 2020

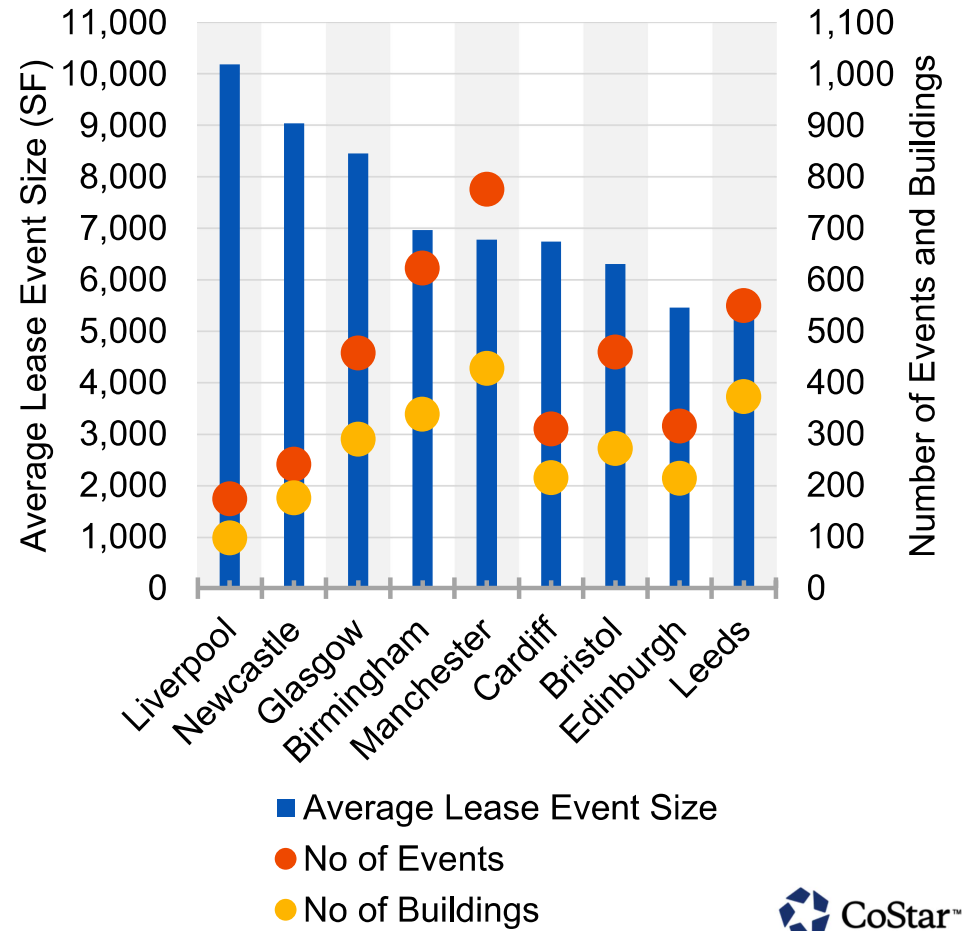
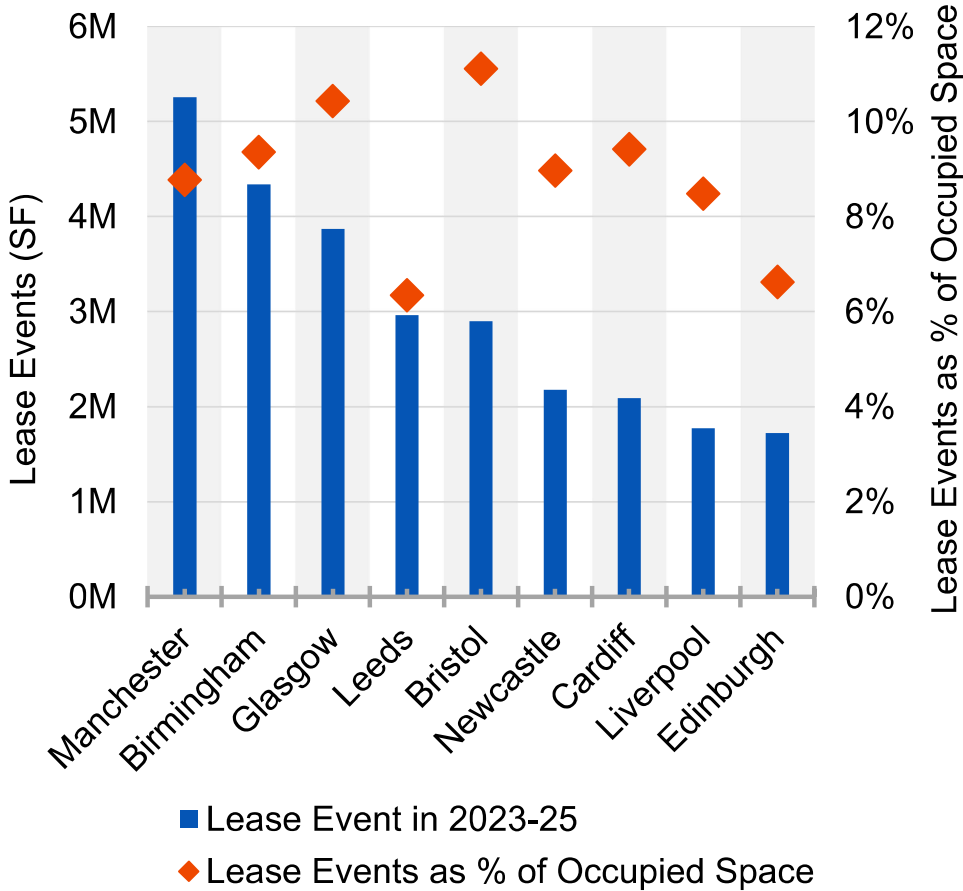


■ Above Quoting ■ Below Quoting ■ No Difference

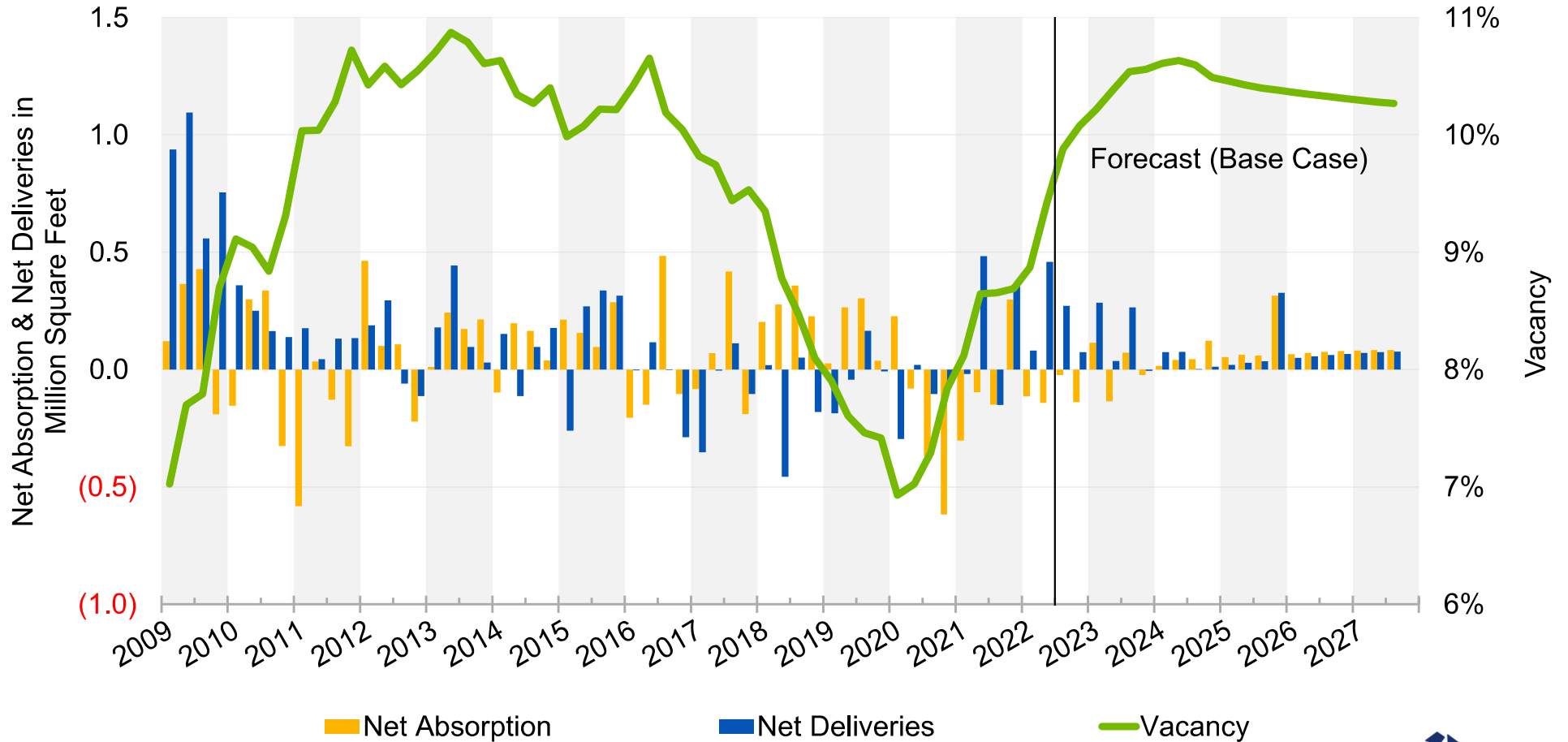
■ Above Quoting ■ Below Quoting ■ No Difference

Note: Includes deals with an achieved and asking rent only; Scotland-wide; 1,000 sq ft+ on FRI leases only

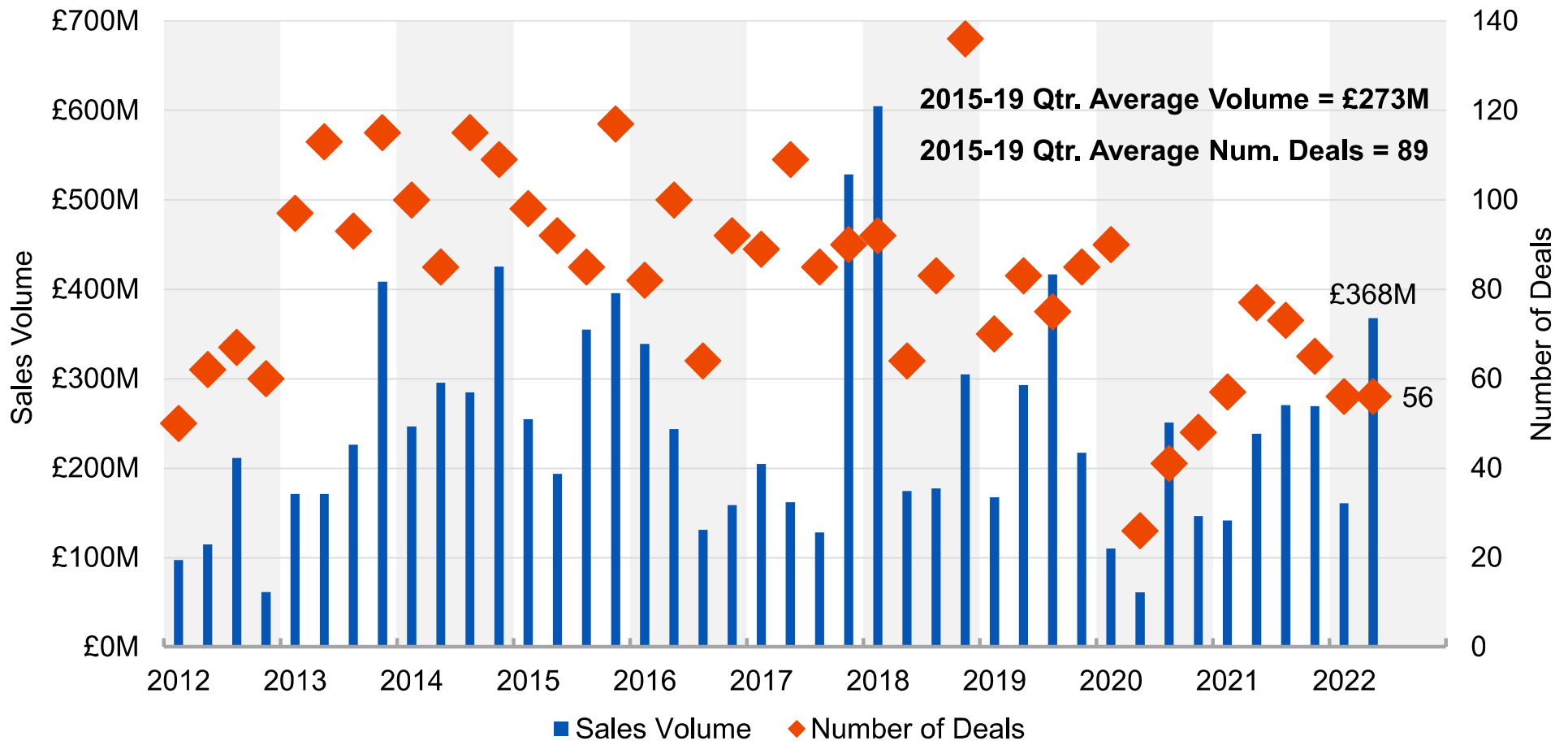
30M Square Feet of Lease Events Across Big Nine in 2023-25



Scotland's Office Vacancy Rate Yet to Peak



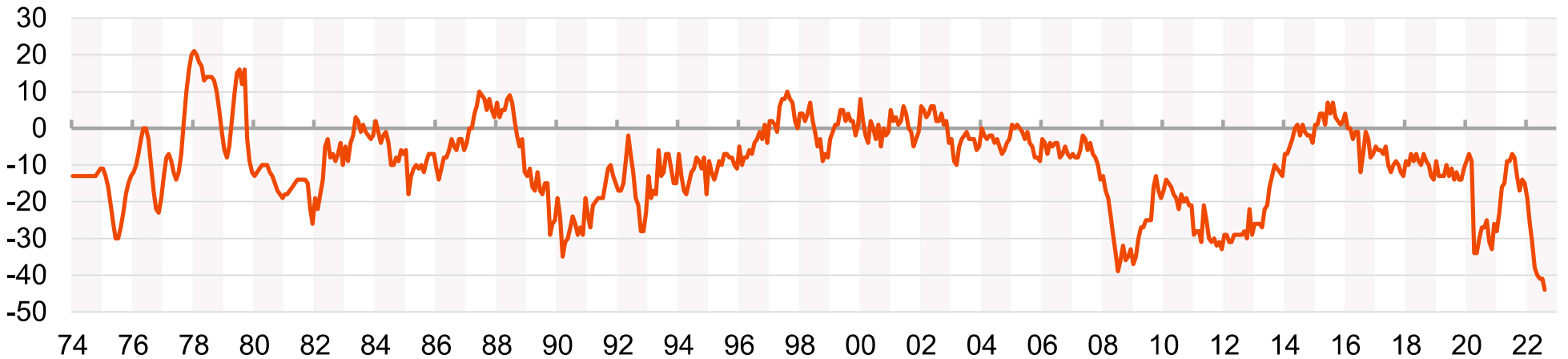
40% Drop in Deal Frequency Reflects Polarised Office Sector



INDUSTRIAL



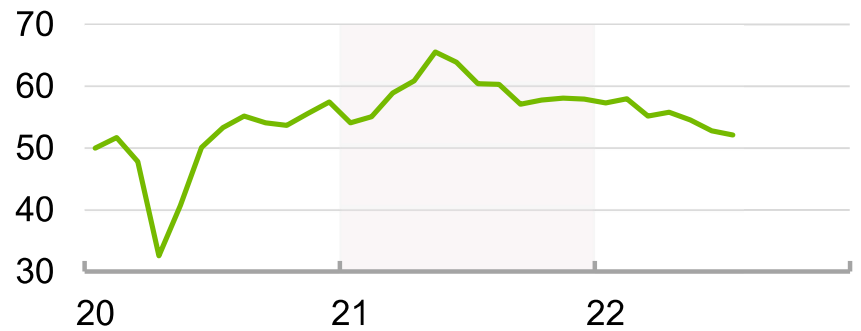
Key Indicators Heading in Wrong Direction



— Consumer Confidence

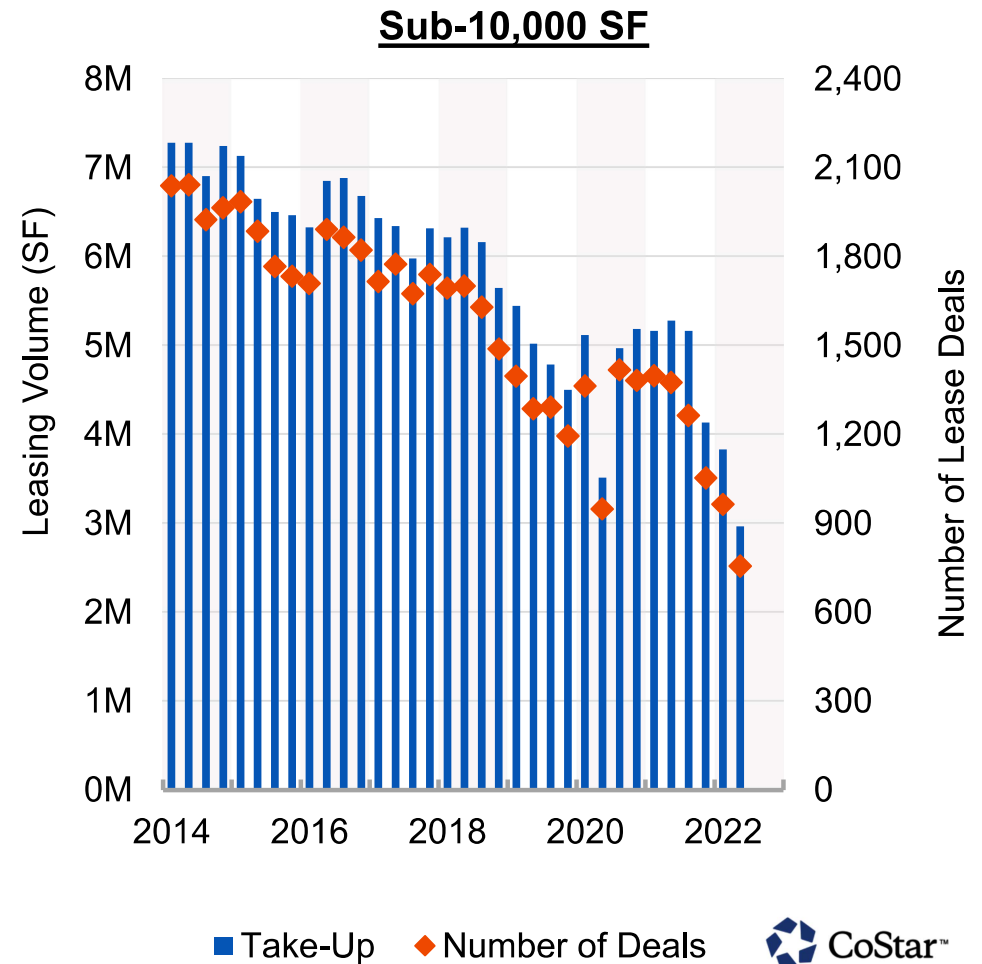
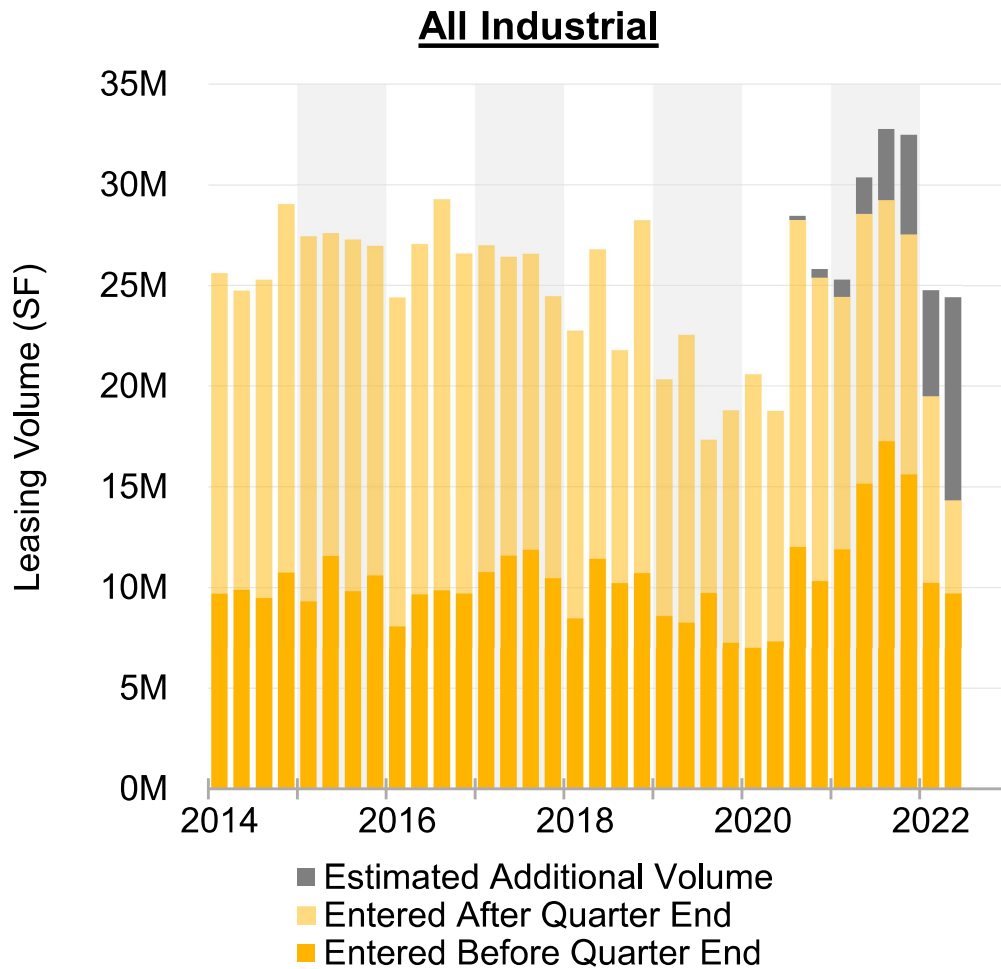


— Internet Retail Sales as a Percentage of Total Retail Sales

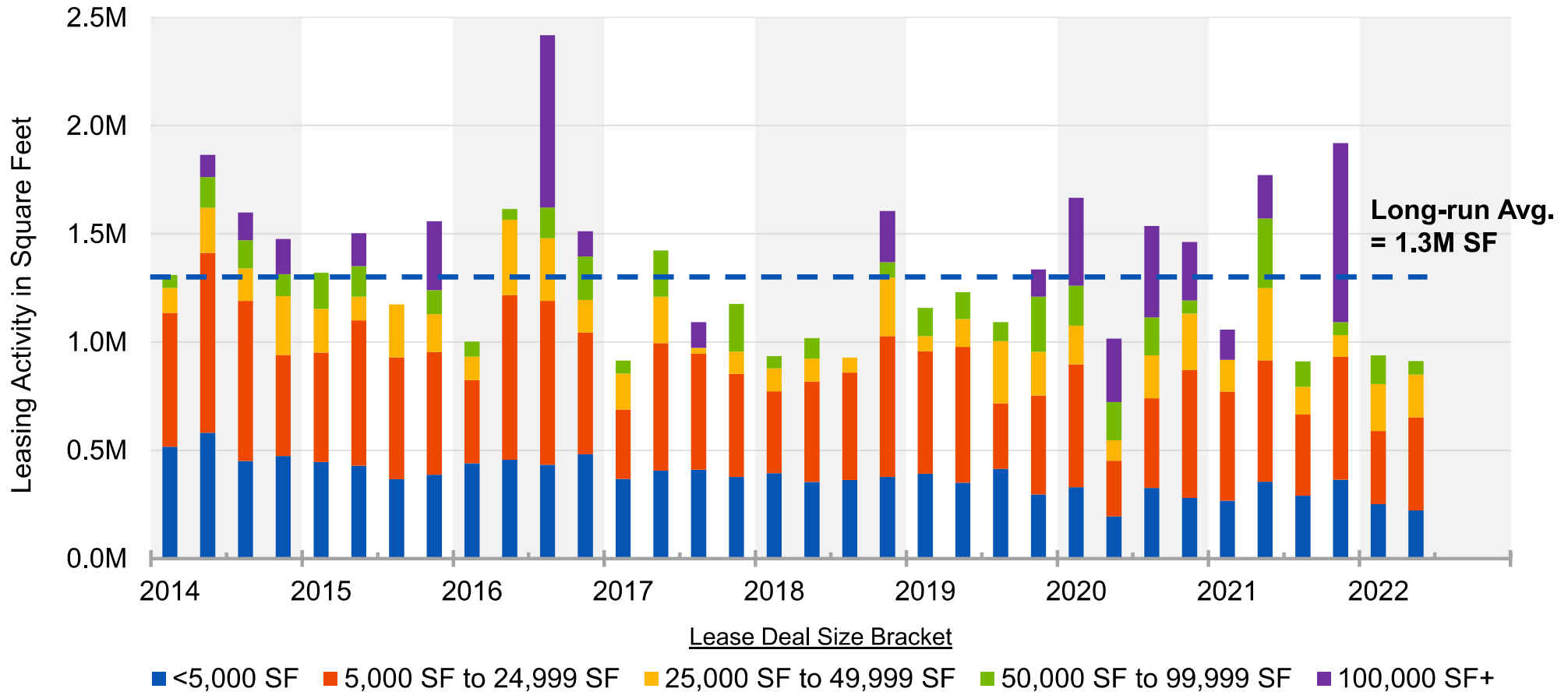


— Manufacturing PMI

UK Industrial Take-Up Slowing in 2022, Including Smaller Sheds

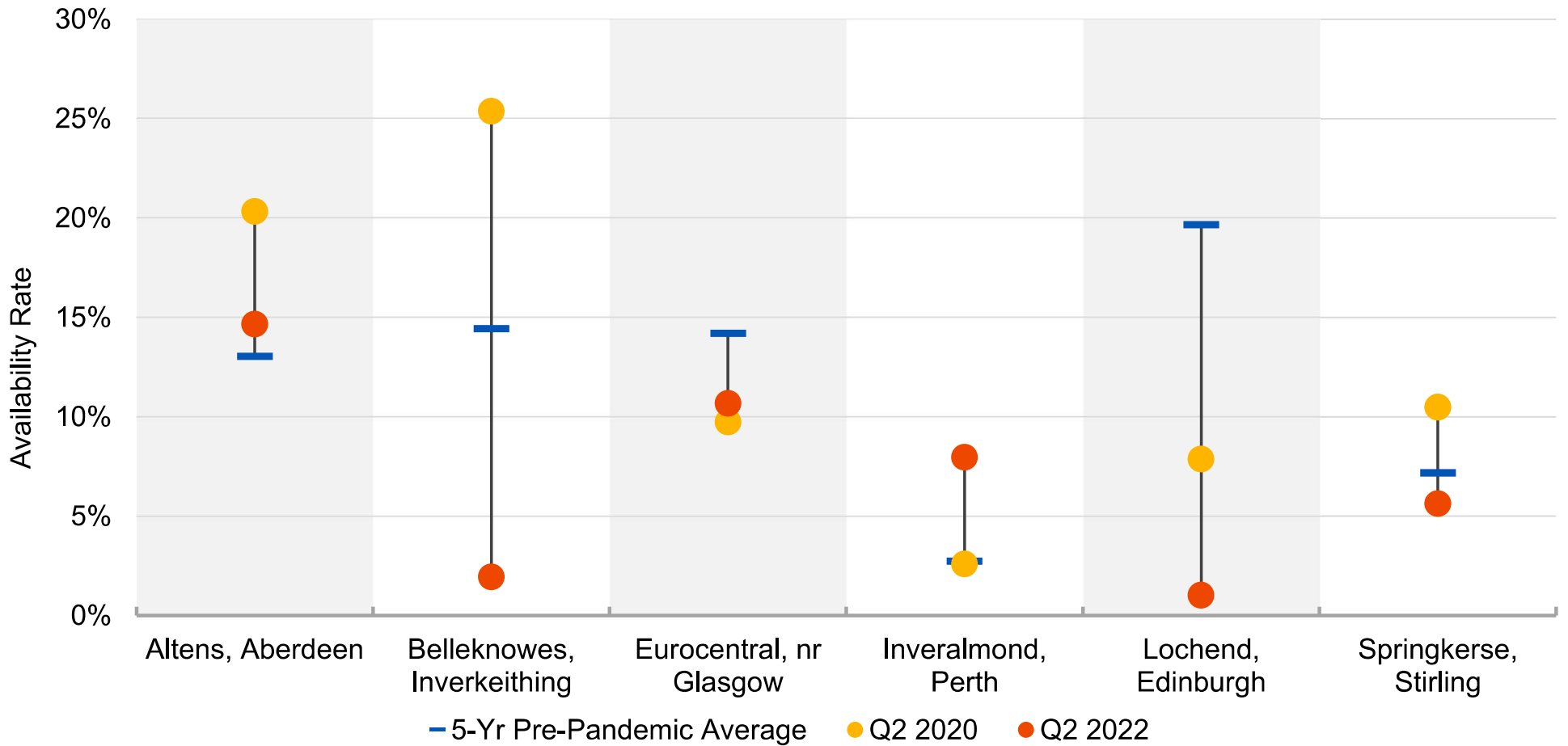


Scottish Shed Take-Up Also Moderating After Strong 2020-21

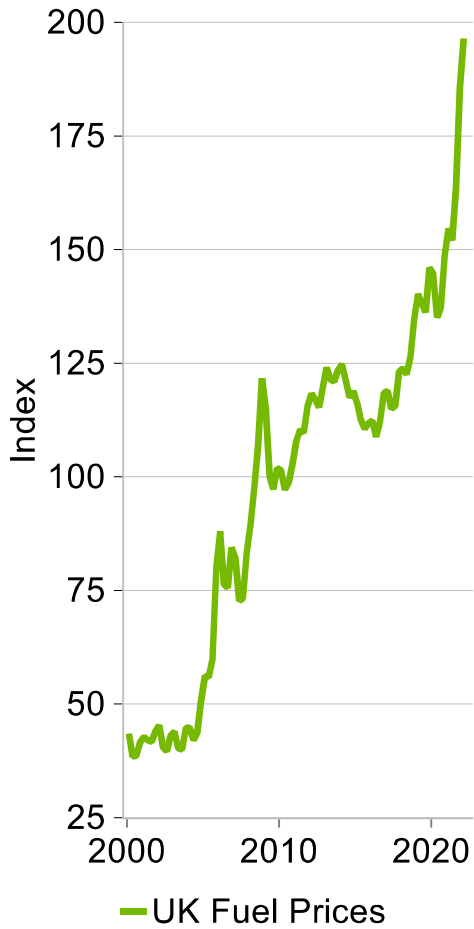


Note: Excludes renewals and regears

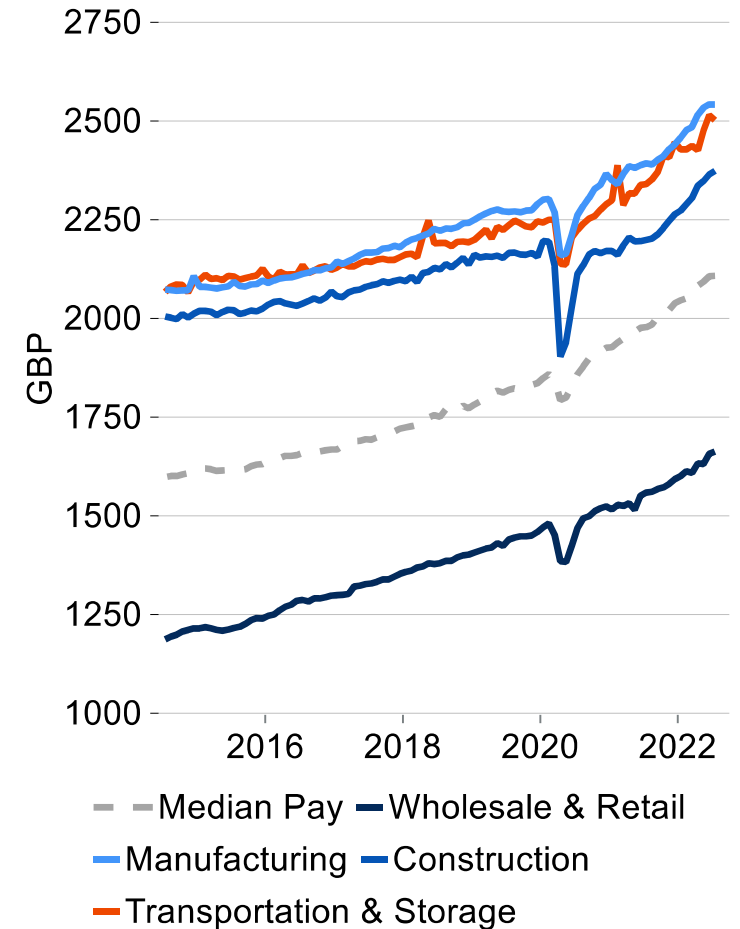
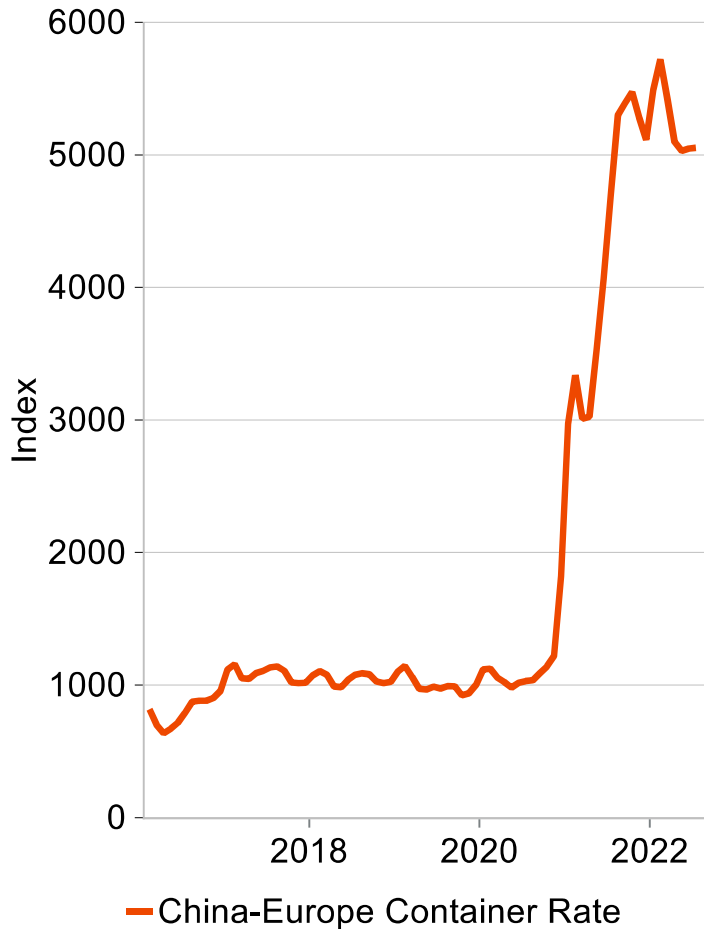
Tight Availability Across Many Key Industrial Estates



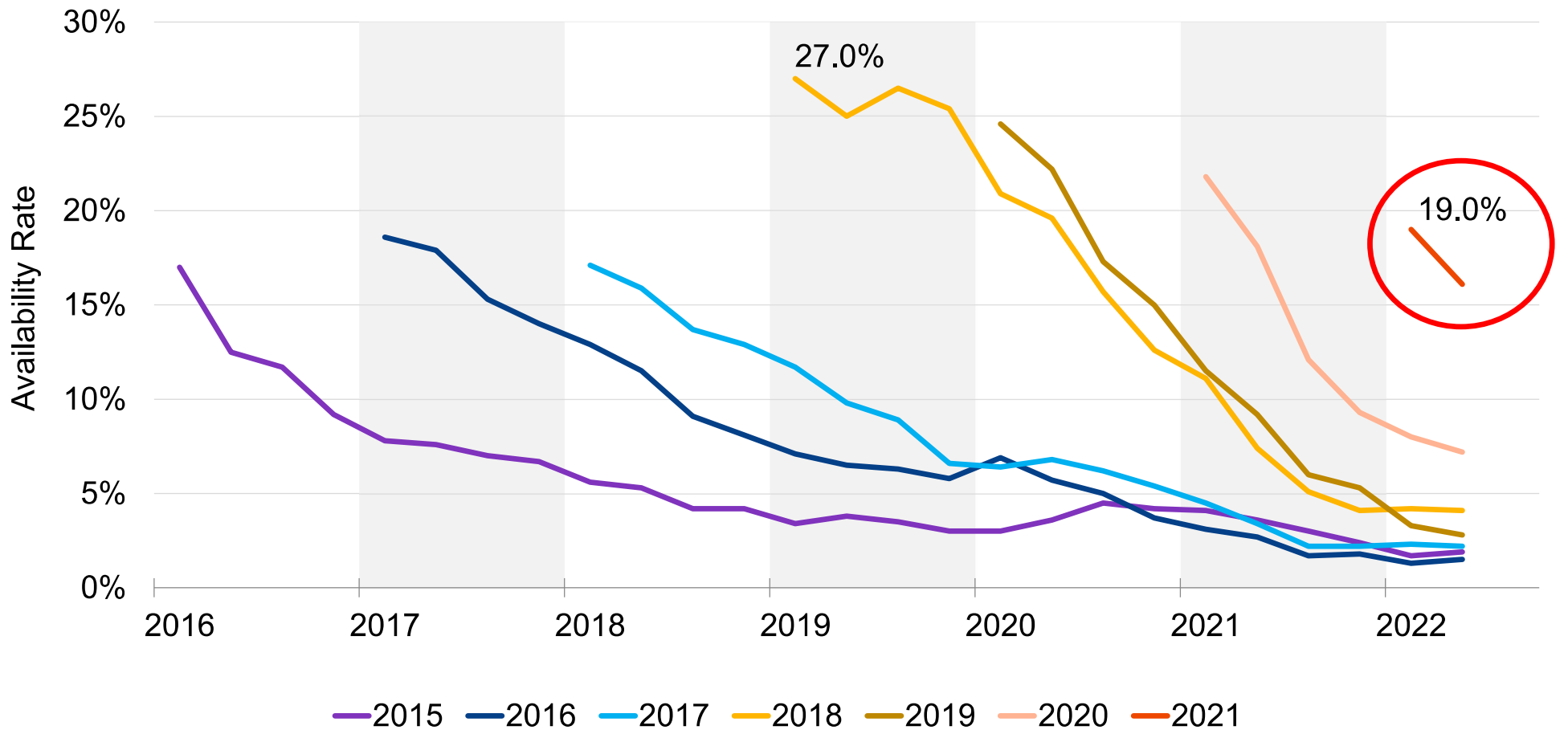
Occupiers' Cost Bases Have Increased Markedly



Source: CoStar, Macrobond

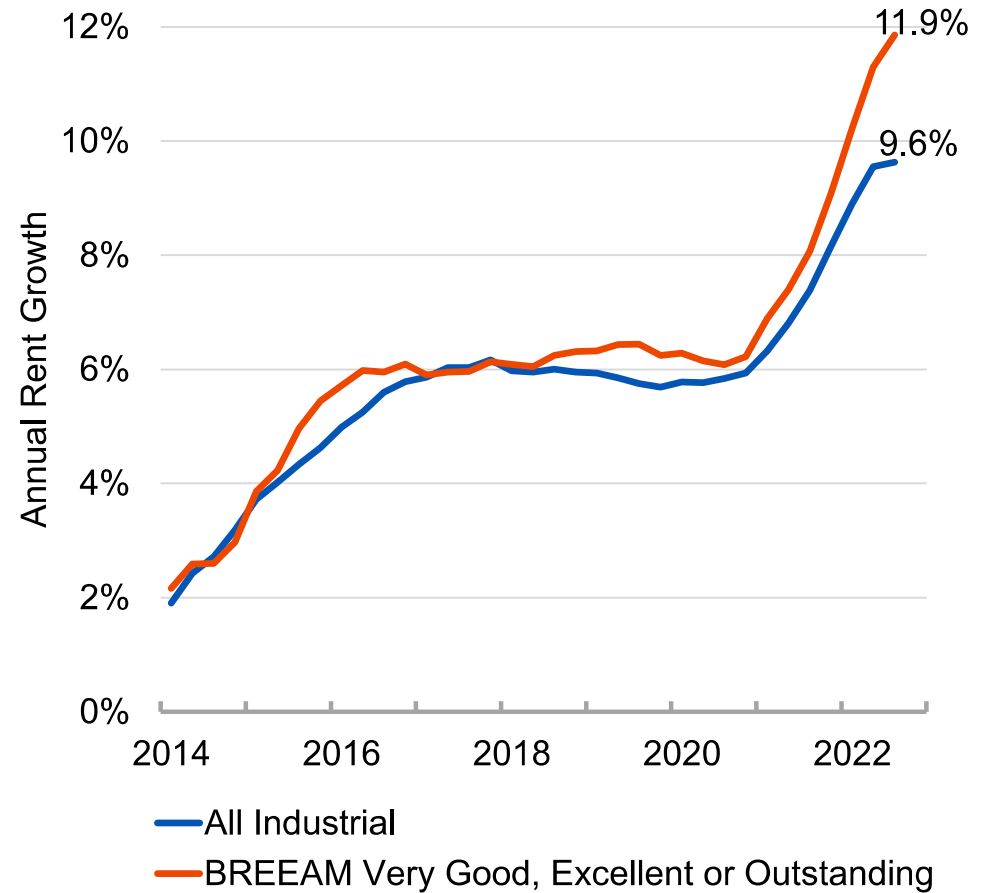
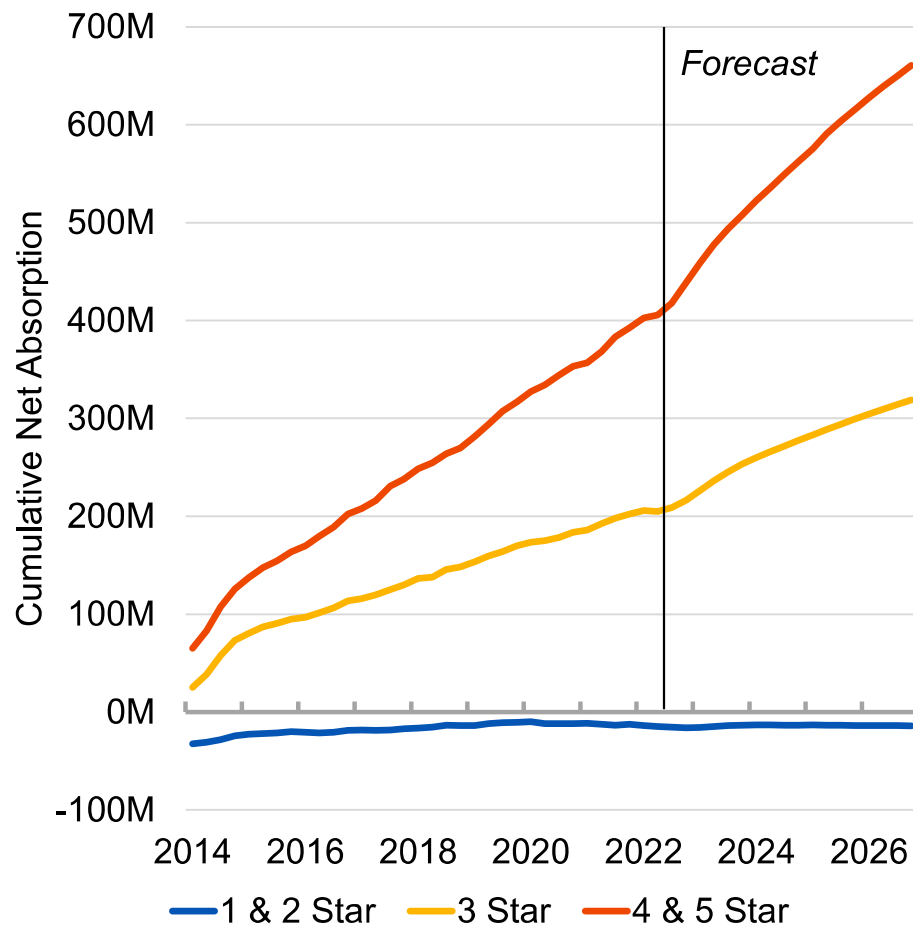


Warehouses Built Last Year Attracted Strong Preleasing



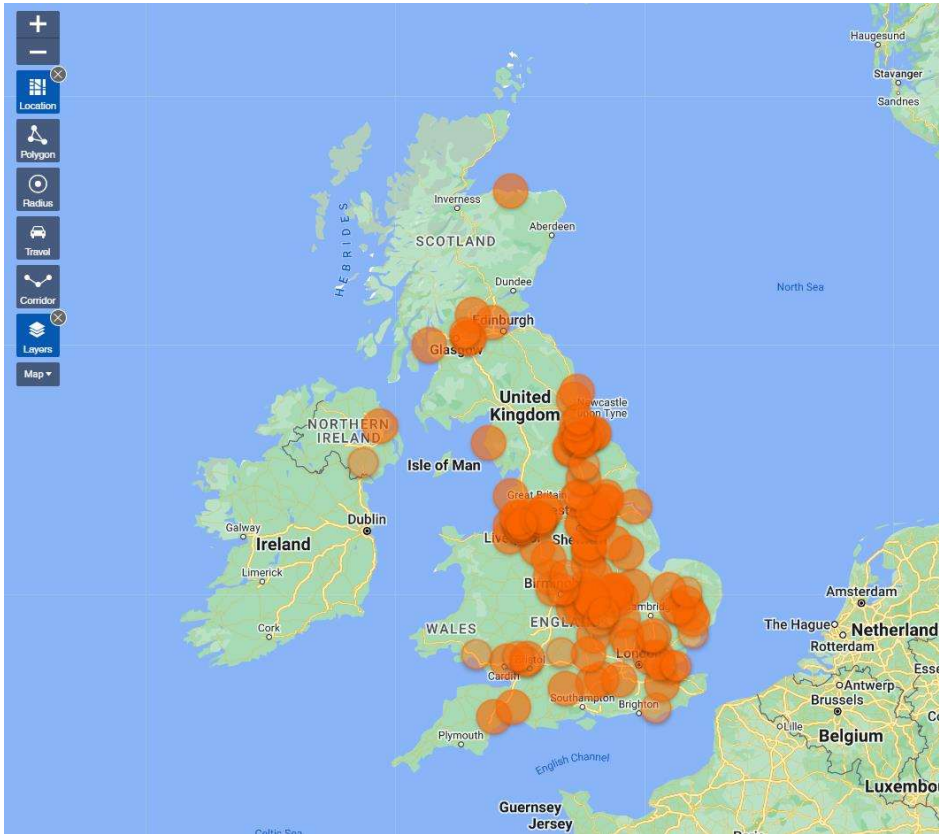
Note: Chart shows share of UK industrial stock listed as available from calendar year after completion

Warehouse Quality and Sustainability Increasingly Important



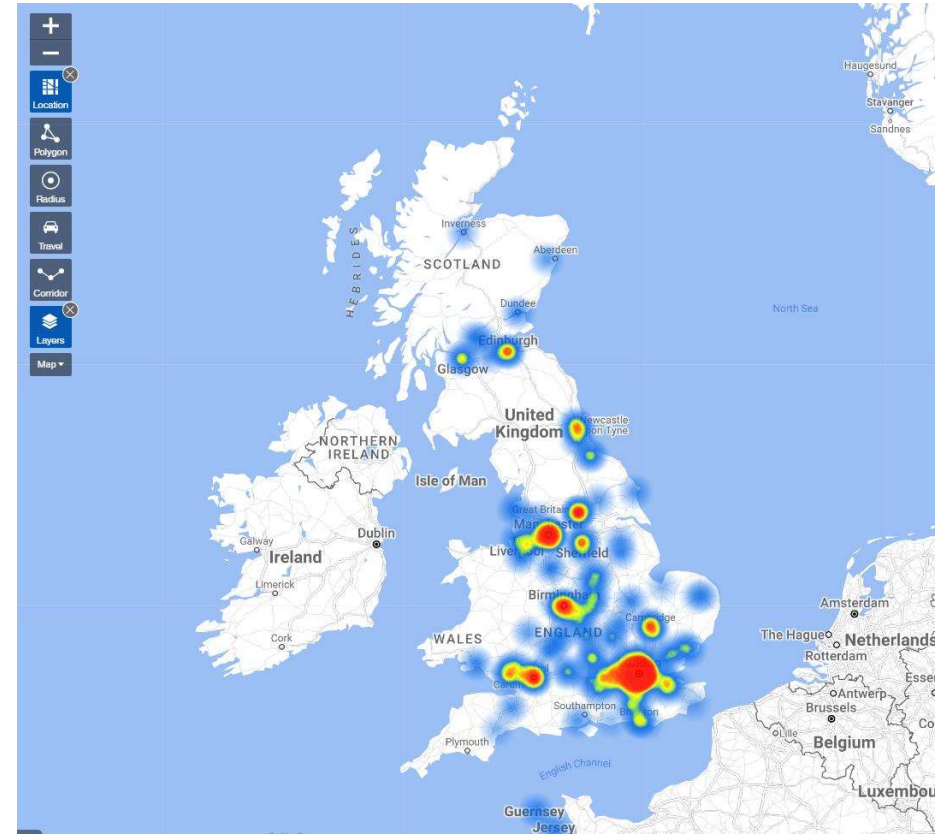
Bulk of Construction Activity and Pipeline South of the Border

Planning Applications Submitted in Past 6 Months

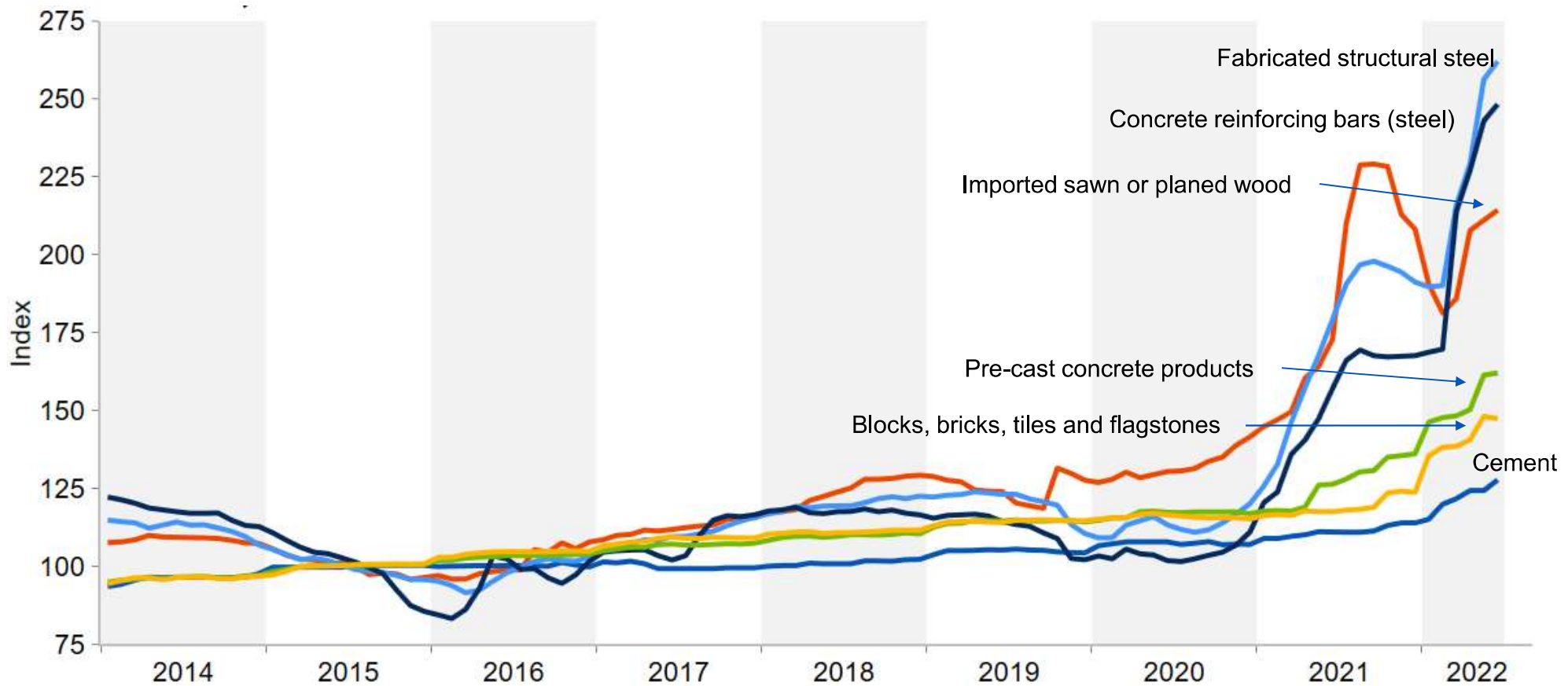


Map Shows Warehouse, Distribution and Light Industrial Projects; GDV £20M+

Under Construction Heat Map

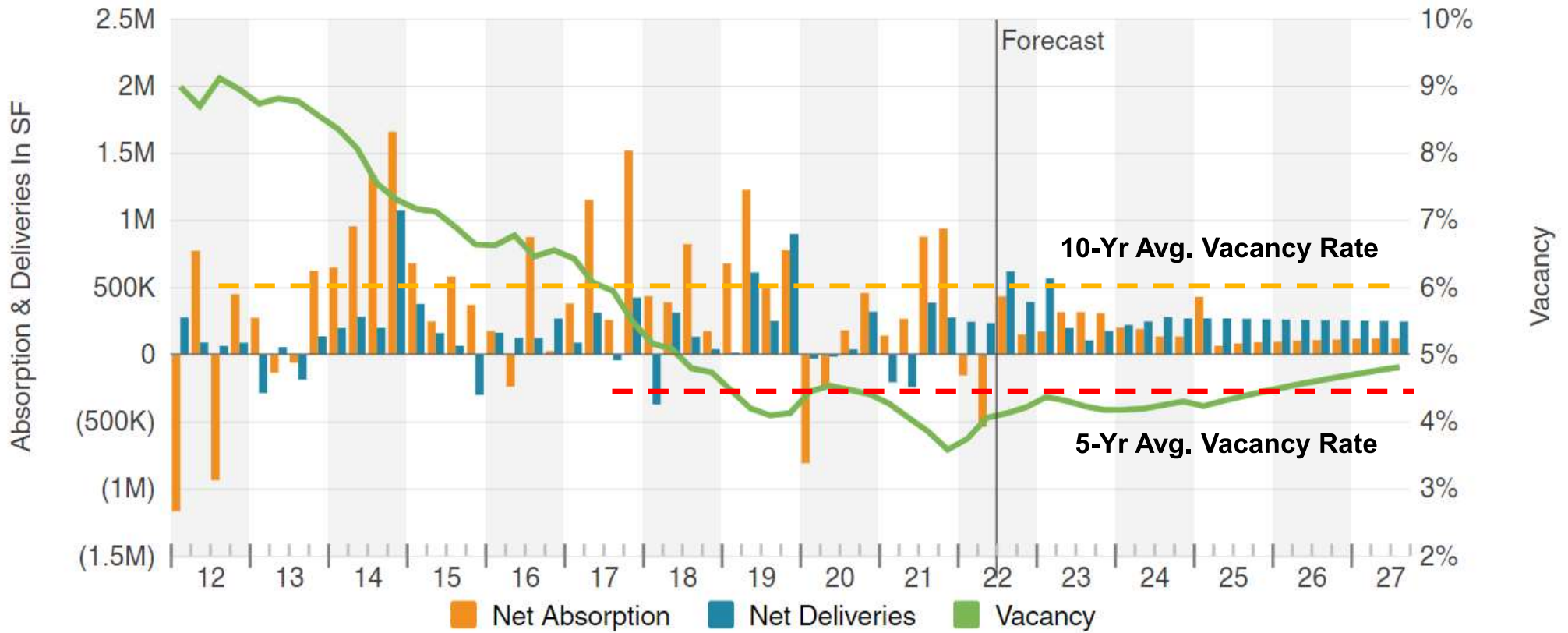


Prices of Key Construction Materials Have Risen Sharply

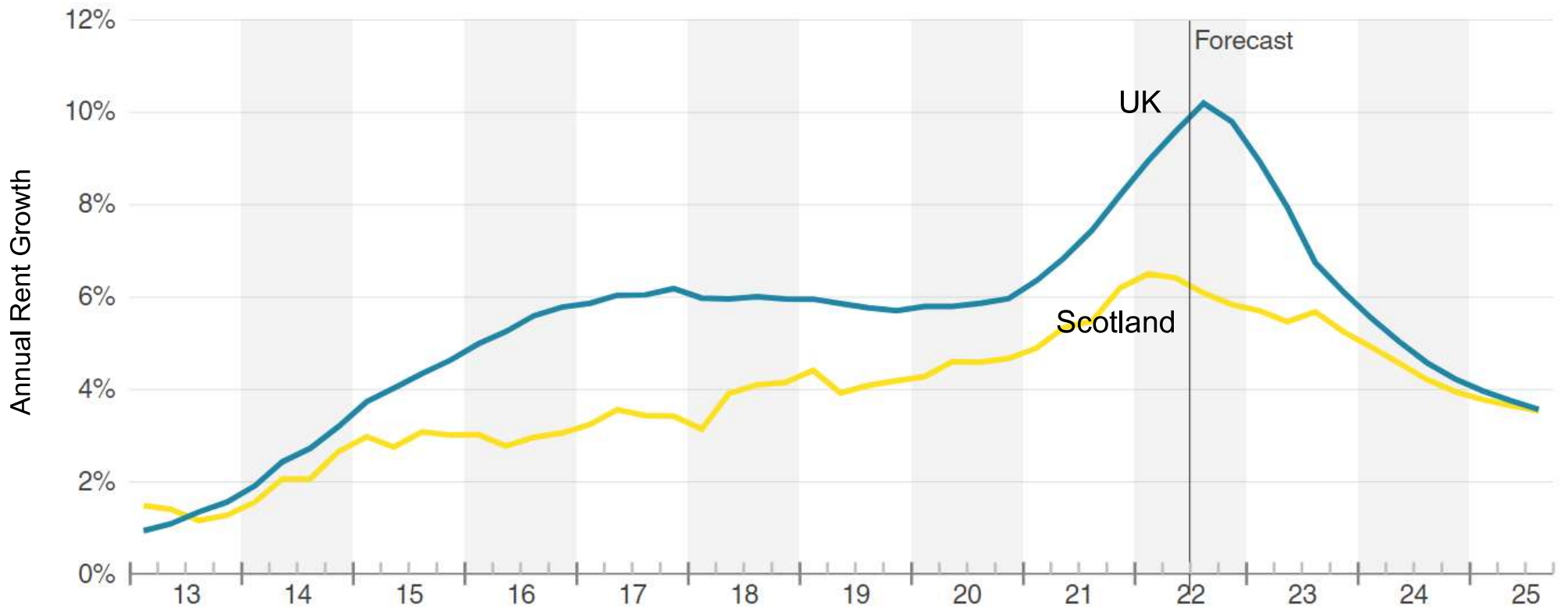


Source: CoStar, Macrobond, UK Department for Business, Energy & Industrial Strategy, August 2022

Tight Market Conditions Expected to Persist



Scottish Industrial Rent Growth Trailing UK



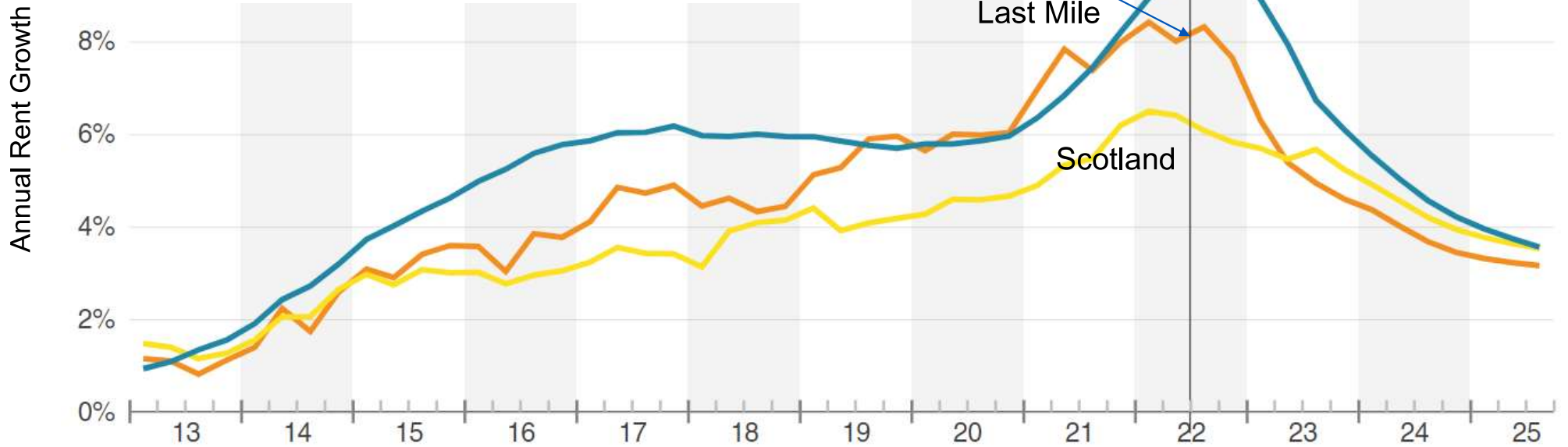
Central Belt Last Mile Outperforming

13 April 2022 | By Grant Lonsdale

Spotlight on the M8 Corridor: Vacancies Sink to Record Low Along Key Distribution Route

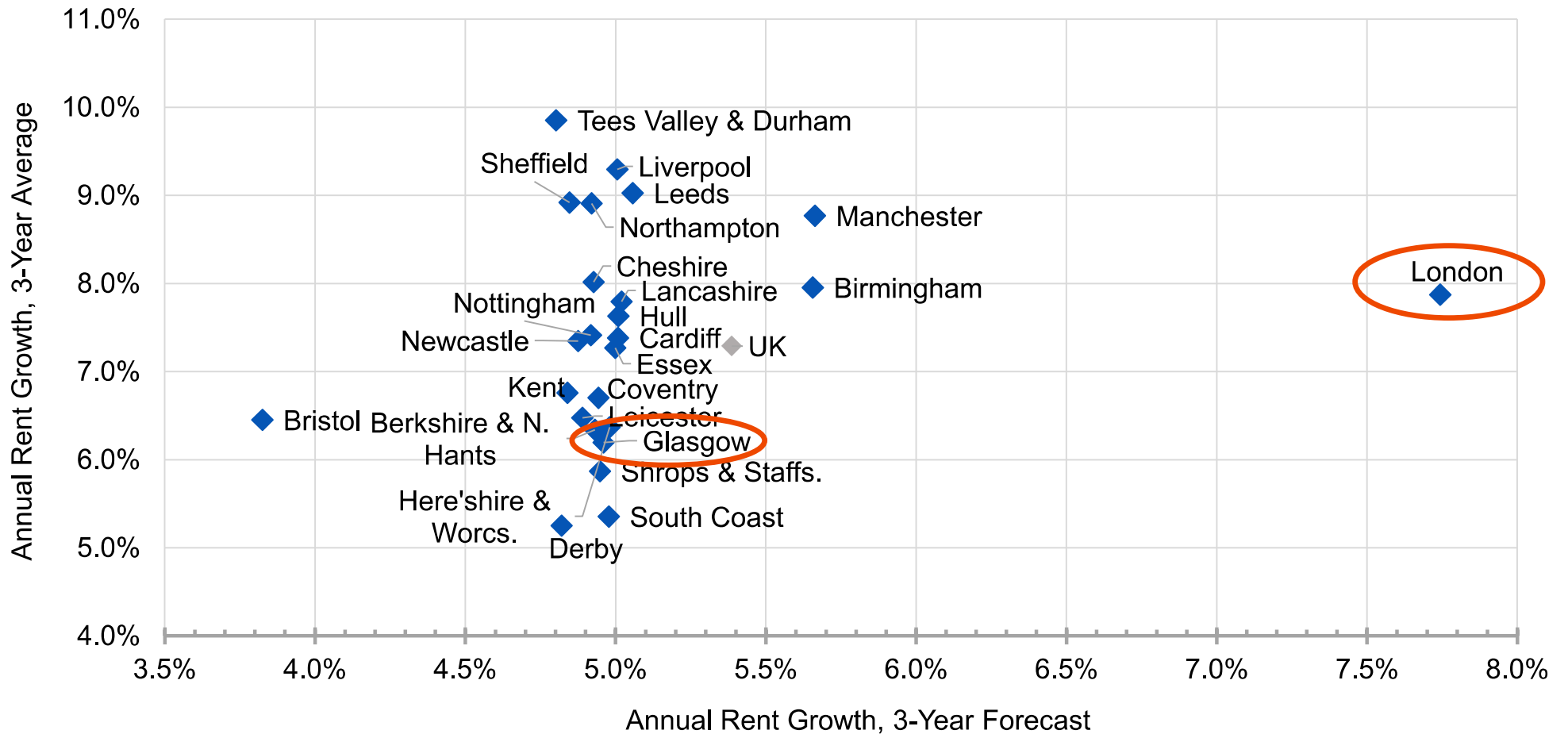
Tight Vacancy Has Pushed Warehouse Rents Up By 8% in the Past Year

Industrial vacancies along the M8 corridor between Glasgow and Edinburgh have dropped to their lowest level on record.



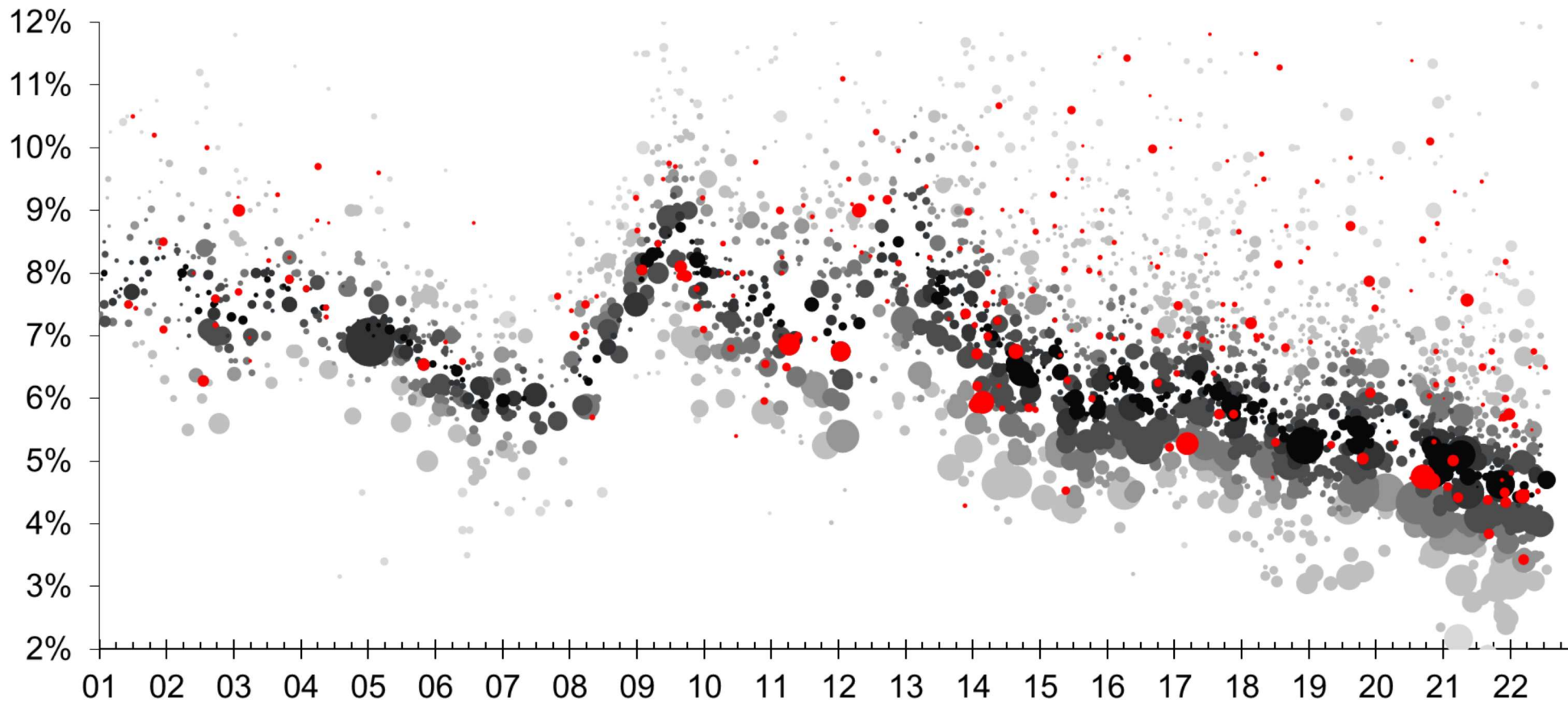
Note: Last Mile includes Edinburgh and Glasgow postcodes EH11, EH12, EH16, EH20, G4, G32 and G40; Distribution and Warehouse properties

Industrial Rent Growth Expected to Slow Across Regional Markets



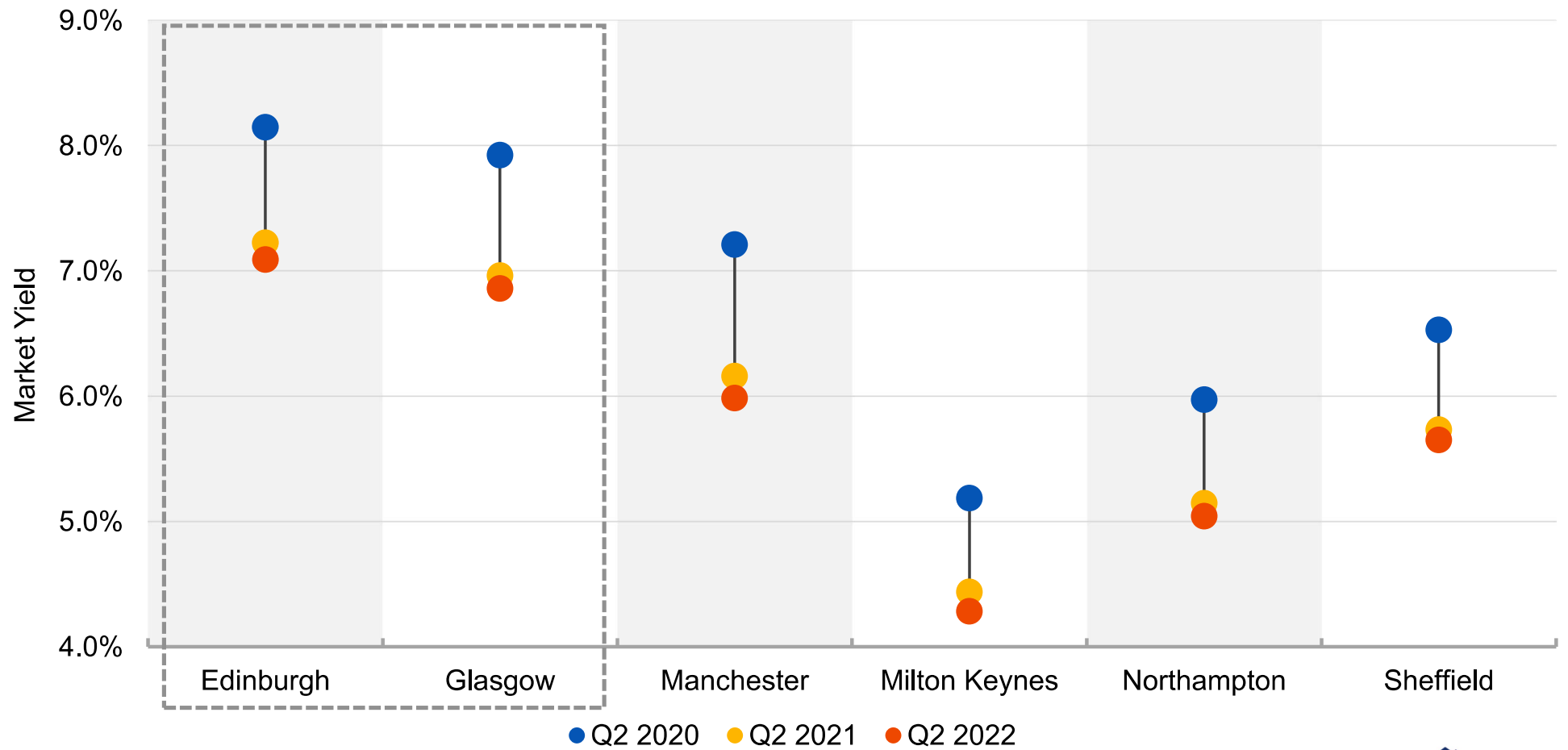
Note: Markets with 50 million SF+ of stock

Industrial Yields Have Compressed Across UK and Scotland



Note: Transaction-based yields; UK industrial deals £1m+; Scottish deals in red

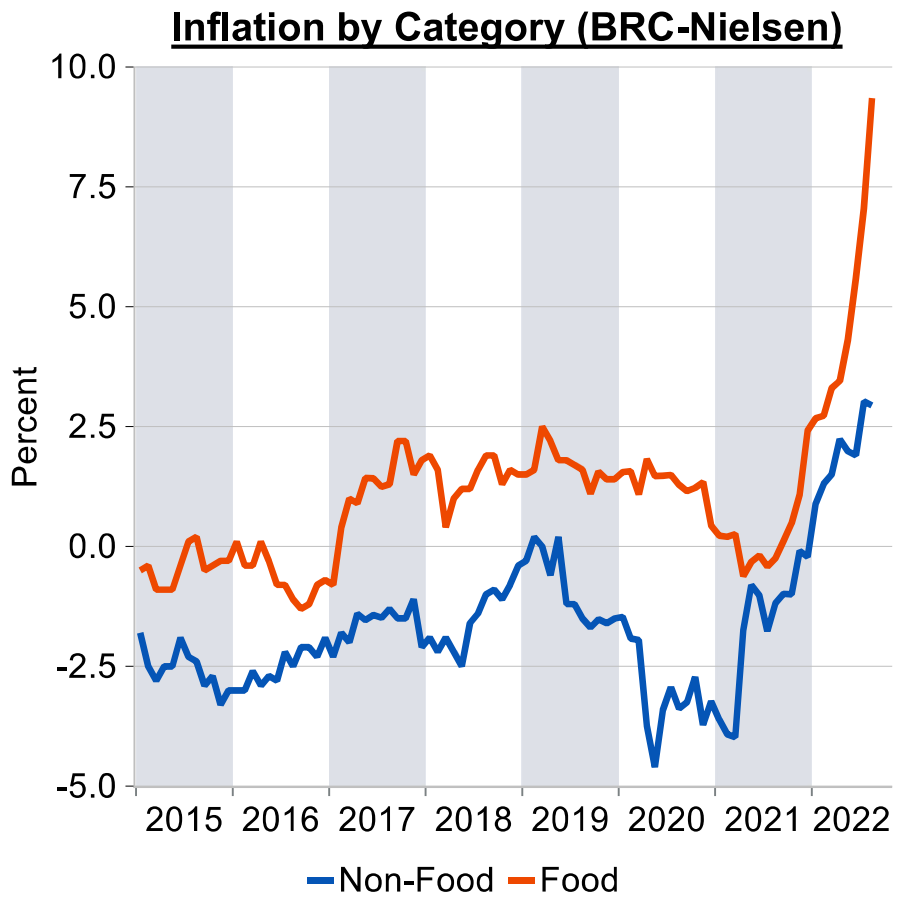
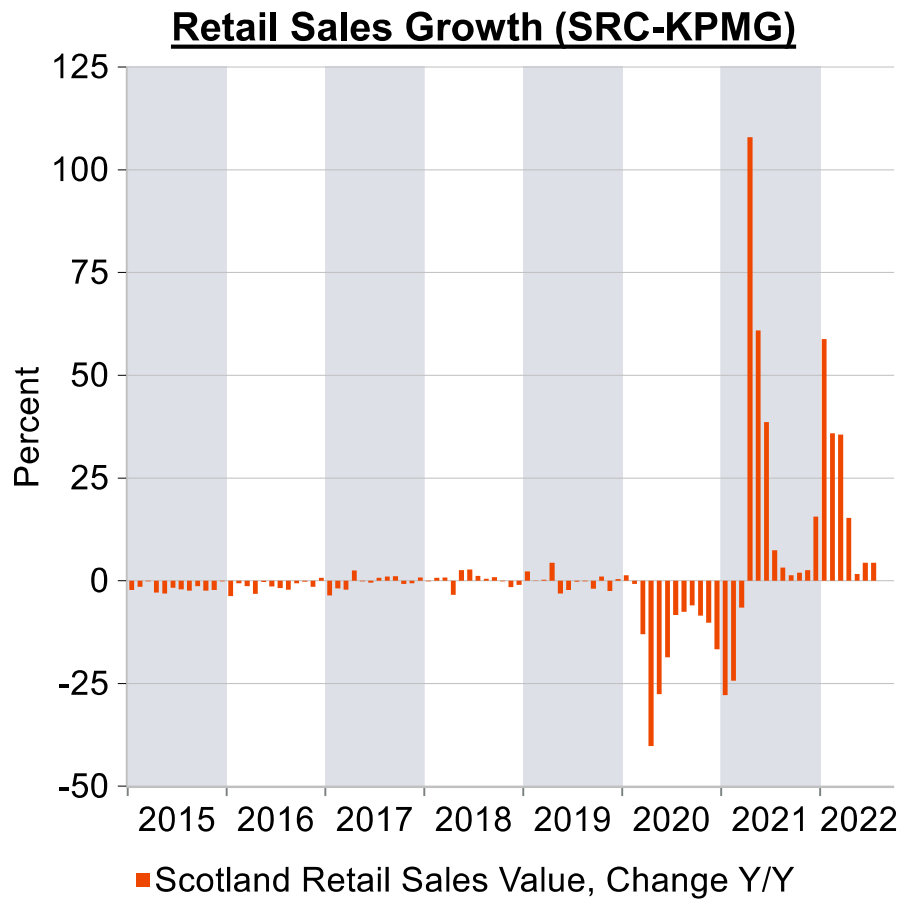
Scottish Industrial Markets Still Offer Investors Relative Value



RETAIL

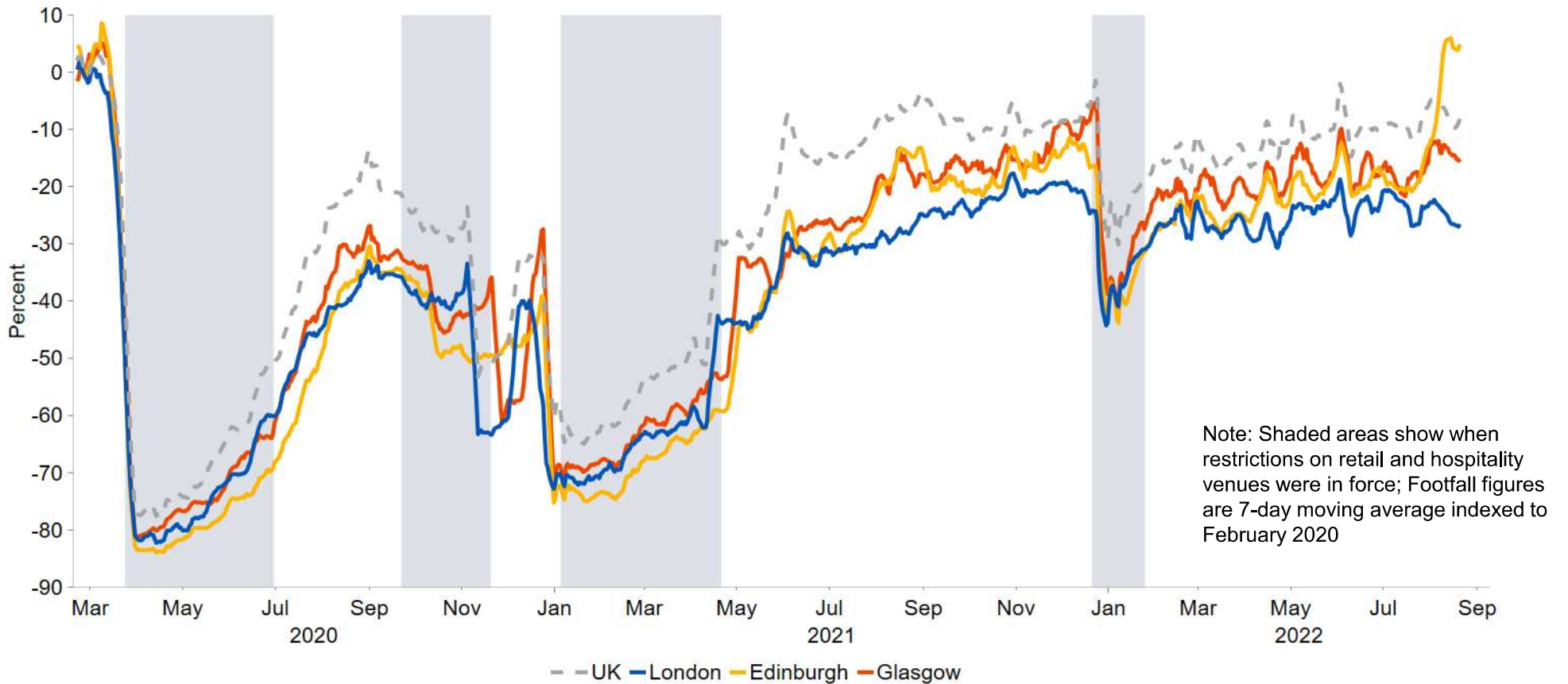


Scottish Retail Sales Growth Flat Amid Cost of Living Crisis



Source: CoStar, Macrobond, August 2022

Retail Foot Traffic Remains Below Pre-Pandemic Baseline



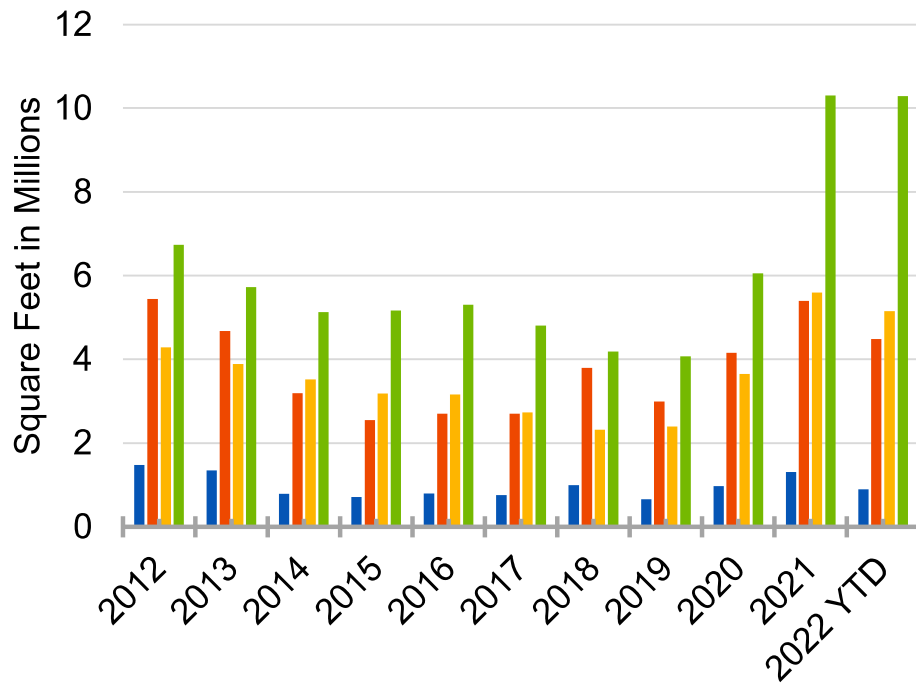
Source: CoStar, Macrobond, Google, August 2022

Vacancy Stabilising and Rents Growing in Scottish Retail Parks



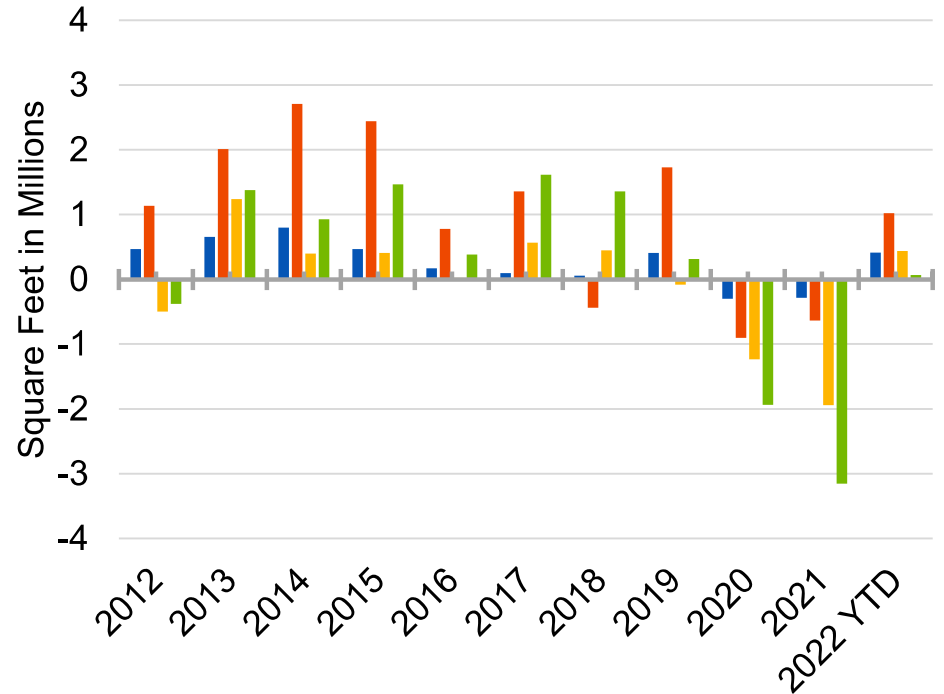
Retail Parks With Grocery Anchor Faring Best – UK Trend

Vacant SF



- Retail Park With Supermarket Anchor
- Shopping Centre With Supermarket Anchor

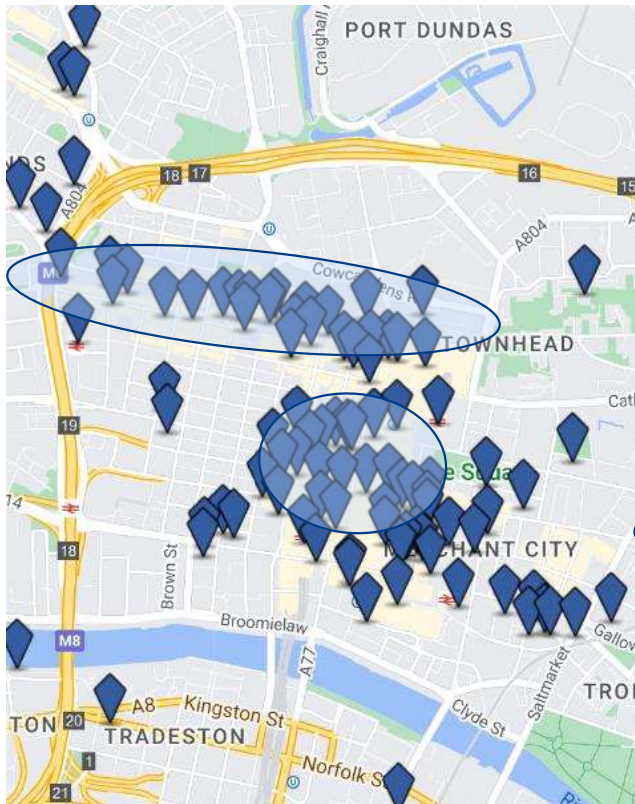
Net Absorption



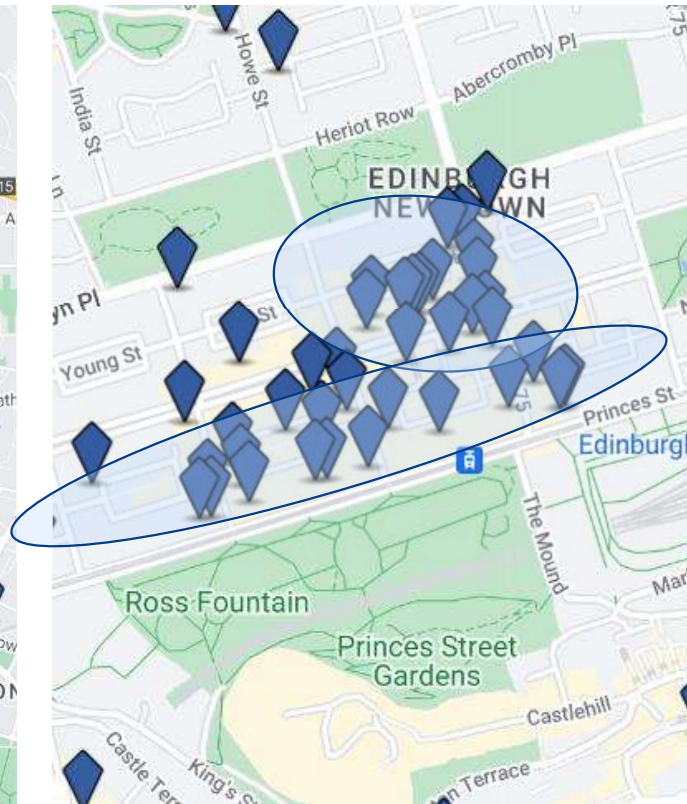
- Retail Park Without Supermarket Anchor
- Shopping Centre Without Supermarket Anchor

City Centres Hit Hard – 400+ Shops On Market Since March 2020

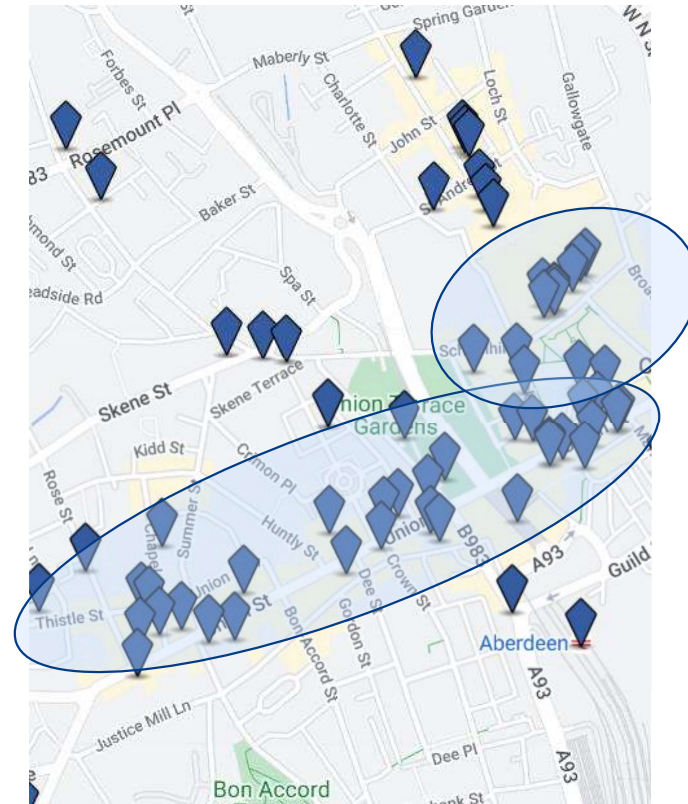
Glasgow



Edinburgh



Aberdeen



Note: Maps shows shops currently listed as available for lease that came to market since 23rd March 2020

Big-Name Retailers Eyeing Large City Centre Stores Again



11 August 2022 | By Grant Lonsdale

German Shoe Giant To Take Former Next As Glasgow Retail Bounces Back

Deichmann is Set To Open a Second Glasgow City Centre Store on Argyle Street

Aegon is in talks to sign Deichmann, Europe's largest footwear retailer, for a 16,000-square-foot store in Glasgow, its second in the city centre, CoStar News can reveal.



18 July 2022 | By Grant Lonsdale

Landsec Lures 'King of Trainers' to Glasgow's Buchanan Quarter

JD Sports Is Likely To Take Former Gap and Paperchase Stores for a 25,000-Square-Foot-Plus Flagship

(Updated on 20 July to reflect that Landsec is only in talks with JD Sports and add Landsec comment).



20 May 2022 | By Grant Lonsdale

Flannels Takes Redeveloped BHS on Edinburgh's Princes Street

Historic Shopping Street Boosted by 24,000-Square-Foot Letting to Luxury Fashion Retailer

LaSalle Investment Management, on behalf of the British Coal pension fund, has signed luxury fashion retailer Flannels for a 24,000-square-foot store at 64 Princes Street in Edinbu...

Investors Looking at High Streets Again as Pricing Softens



123-129 Buchanan Street

£16M, 7.9% NIY

Ediston/Clydebuilt acquired from Abrdn; Tenants include The White Company, Hobbs and Tiso



120 Buchanan Street, Glasgow

£4.7M, 5.8% NIY

Buccleuch purchased from Aegon; New 10-year lease to Laings at £244/SF ITZA



124-125 Princes St, Edinburgh

£15.8M, 6.3% NIY

Overseas investor acquired from Hines; Let to Urban Outfitters and various office tenants

Summary

- **Office** sector polarised amid shift to hybrid working
- Best-in-class offices prized by investors
- **Industrial** sector still fundamentally strong but headwinds growing
- Perception that Scotland's industrial sector is attractively priced
- **Retail** parks have weather the past couple of years well
- Softening prices tempting investors back to high streets

HOTEL

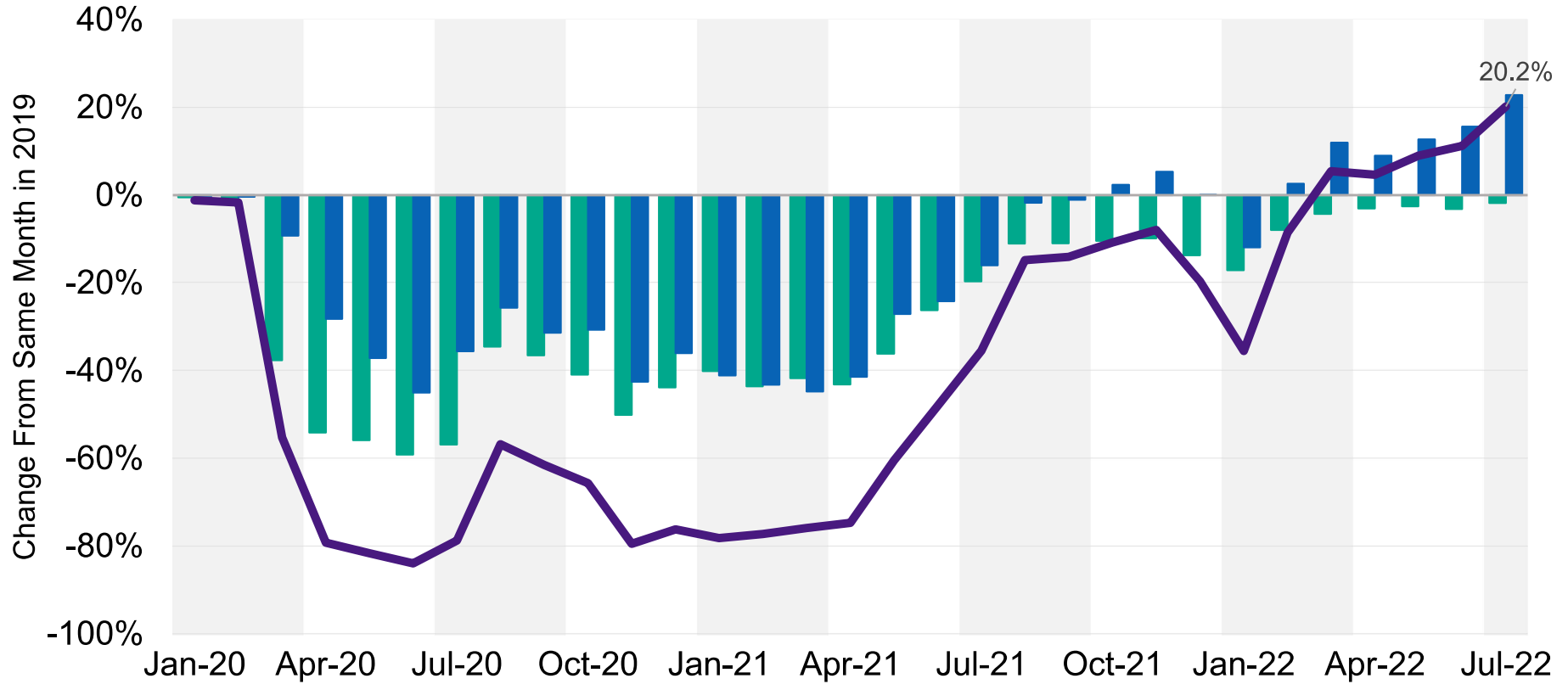


—

Agenda

- ❖ Hotel Performance Trends and Latest Forecasts
- ❖ Supply Trends
- ❖ Investment Trends

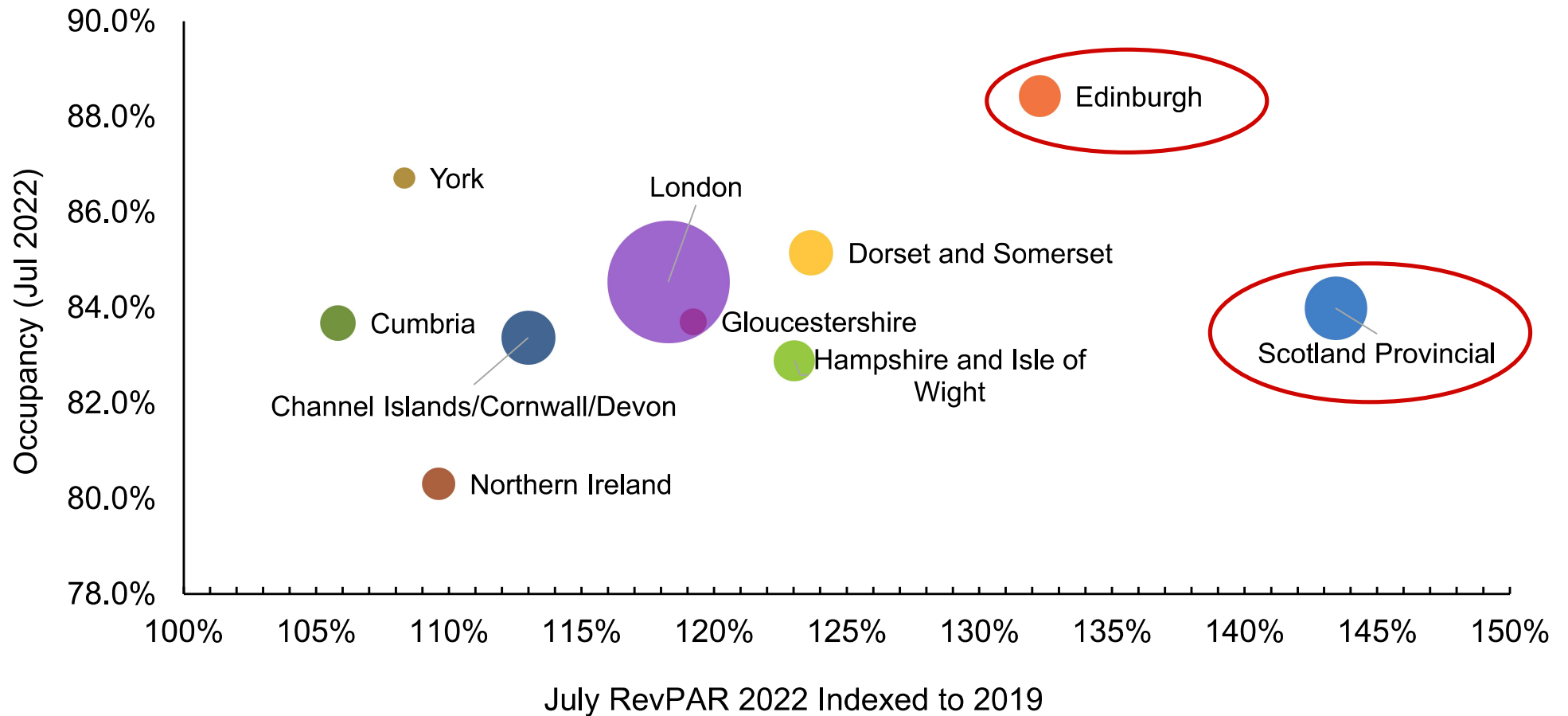
RevPAR Reaches its Highest Level in July



*Occupancy change is in percentage points
Source: STR, August 2022

■ Occupancy*
 ■ ADR
 — RevPAR

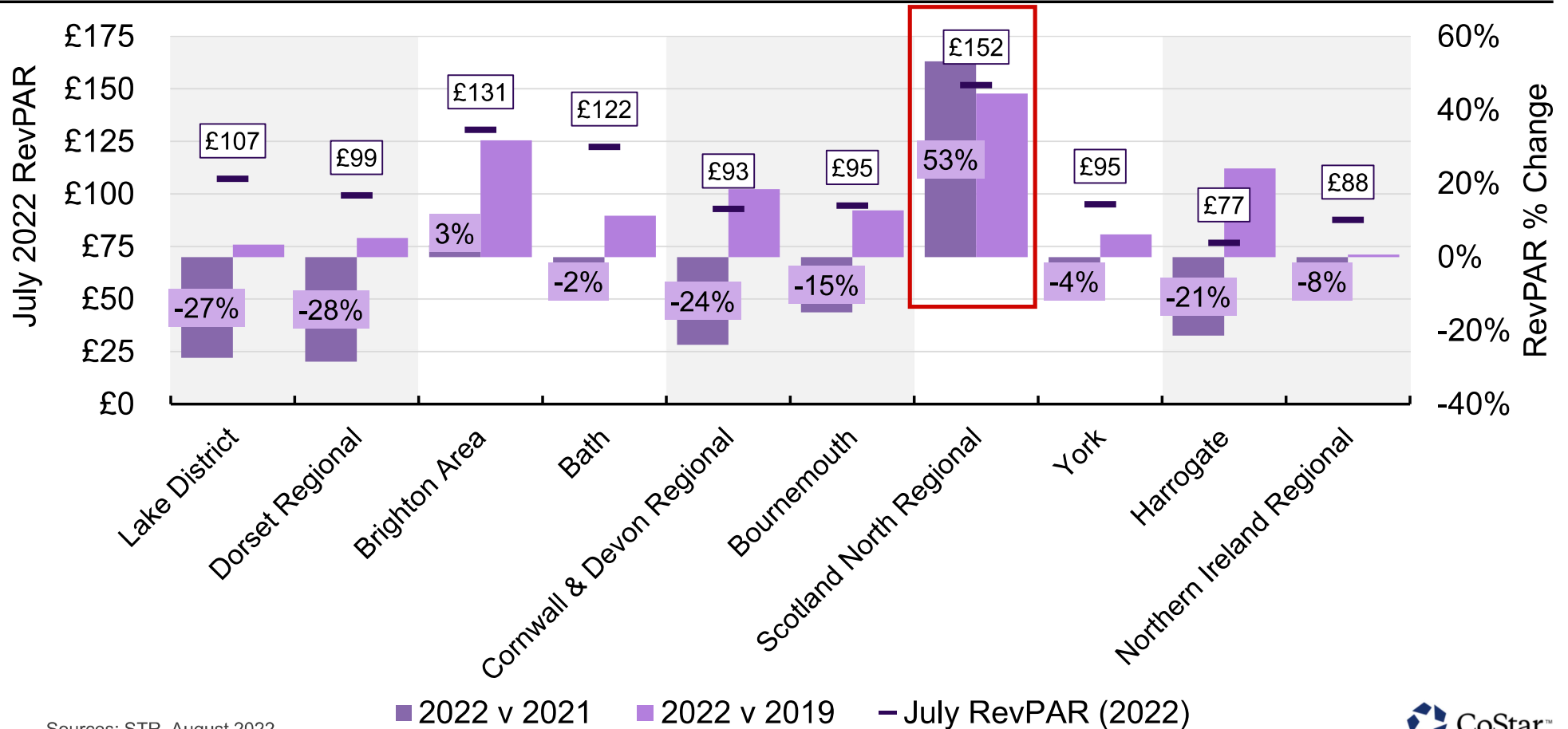
Scottish Markets are Clear Outliers This Summer



Note: Bubble sizes reflect existing rooms inventory

Sources: STR, August 2022

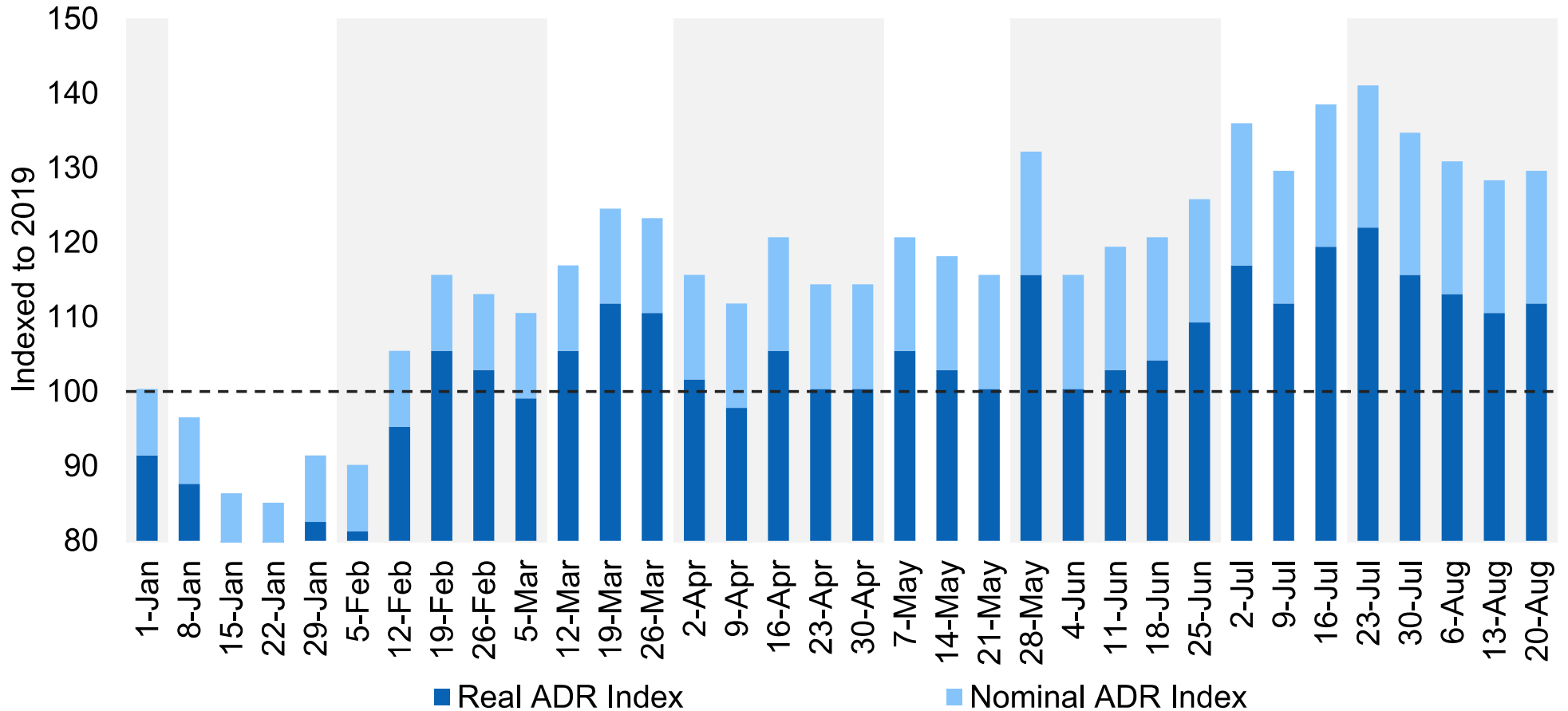
Most Top Performing Submarkets in 2021 See RevPAR Declines This Year Apart from Regional Scotland



Sources: STR, August 2022

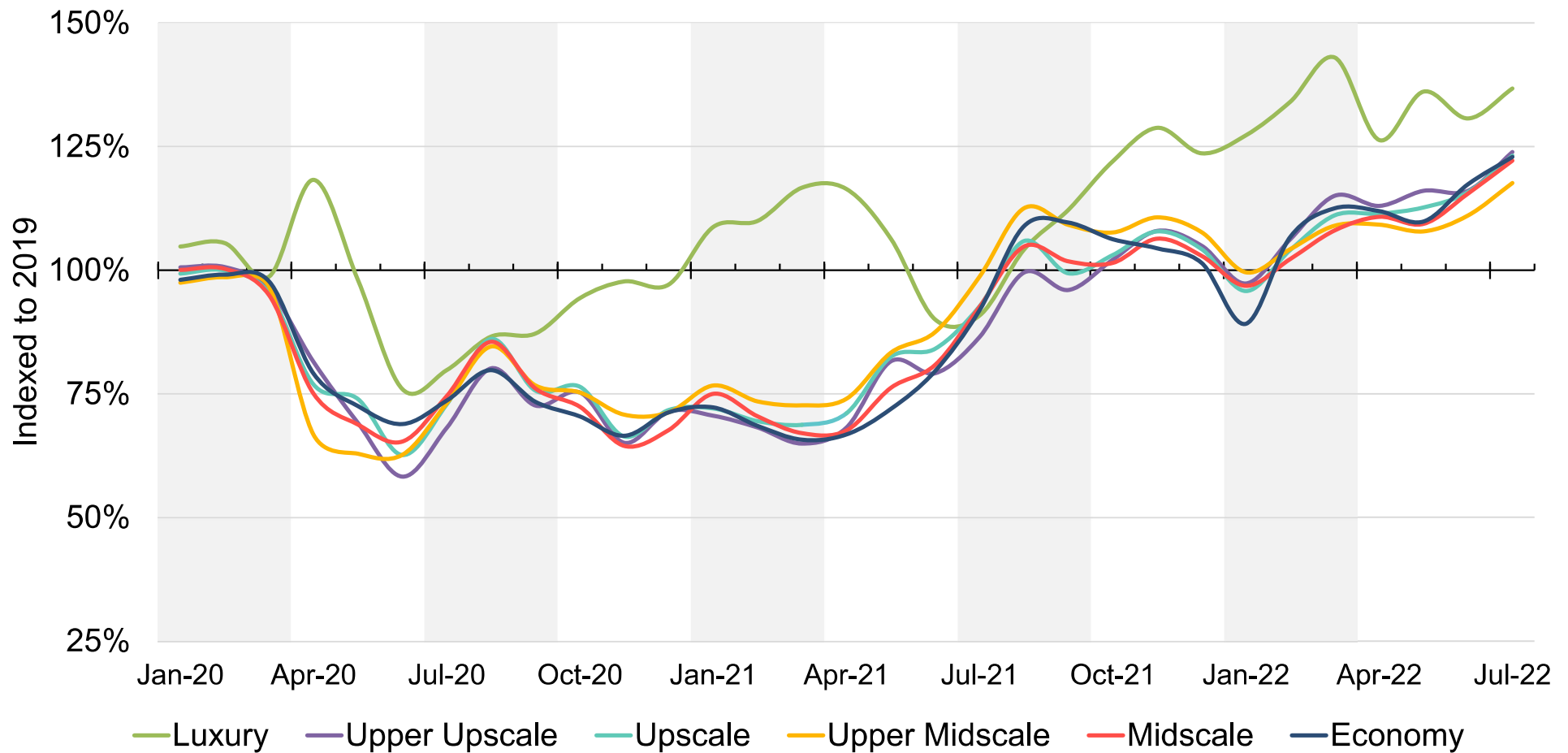


ADR Achieves Real Growth Since June, Well Ahead of Inflation



Source: STR, August 2022

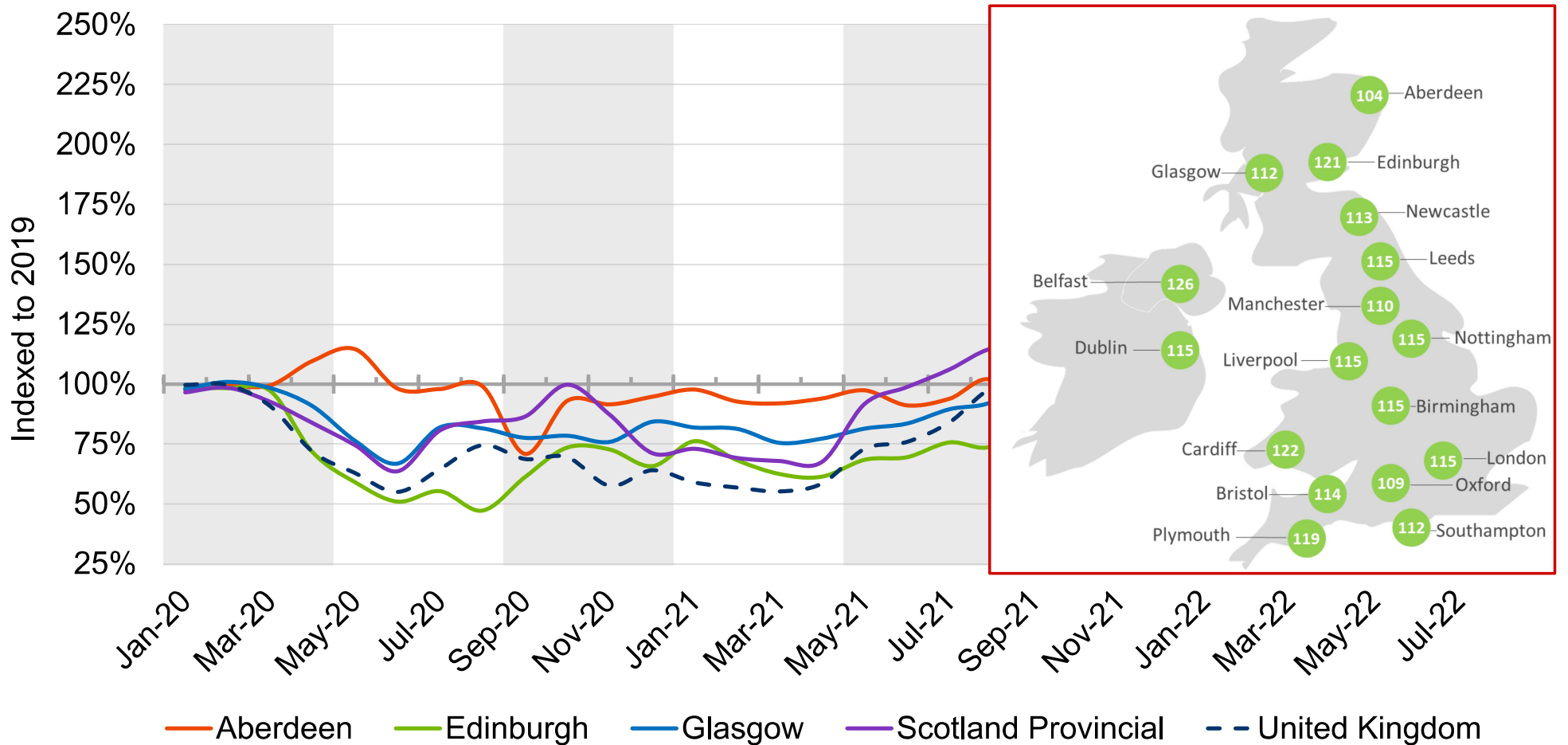
Luxury Drives ADR Growth While All Classes Exceed 2019 Levels



Source: STR, August 2022



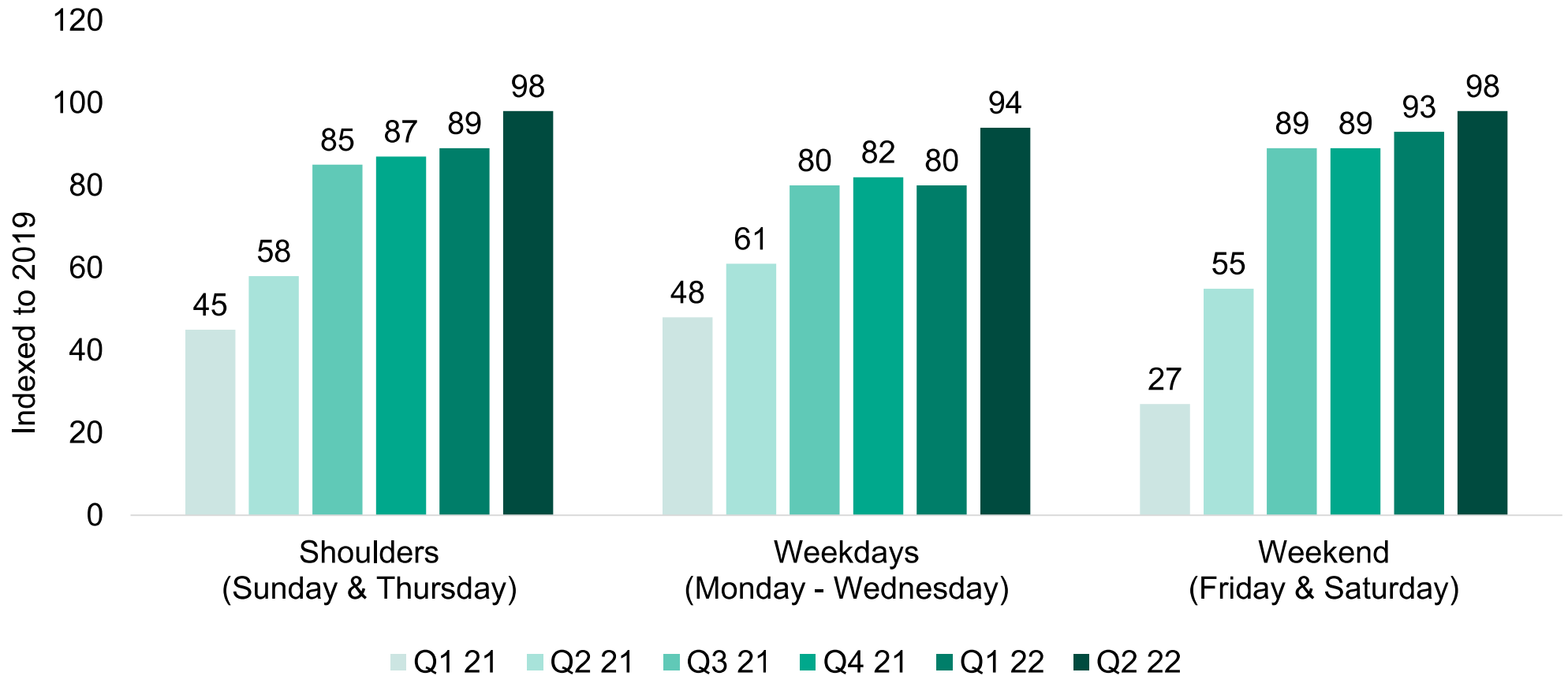
ADR Across Scottish Markets is in Line with the National Index



Note: Map data is YTD Jul 2022 indexed 2019
 Source: STR, August 2022

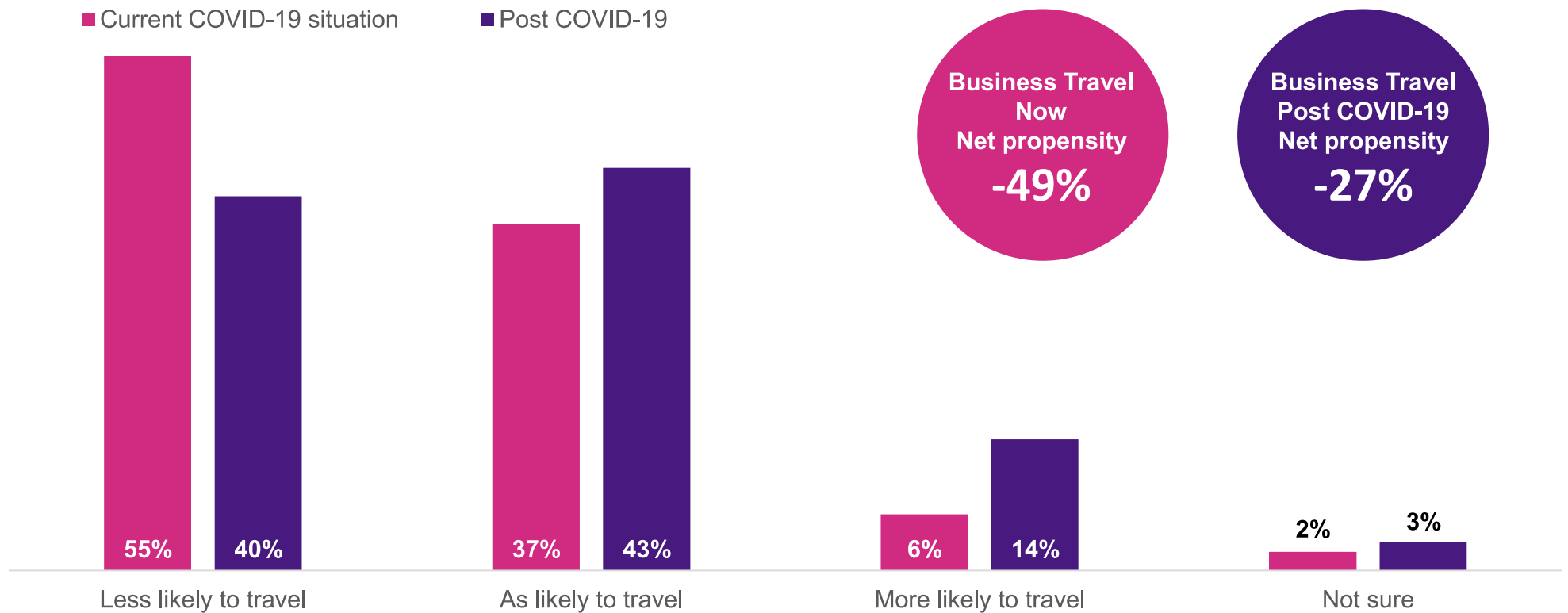


Weekday Occupancies Slowest to Recover While Weekends Lead



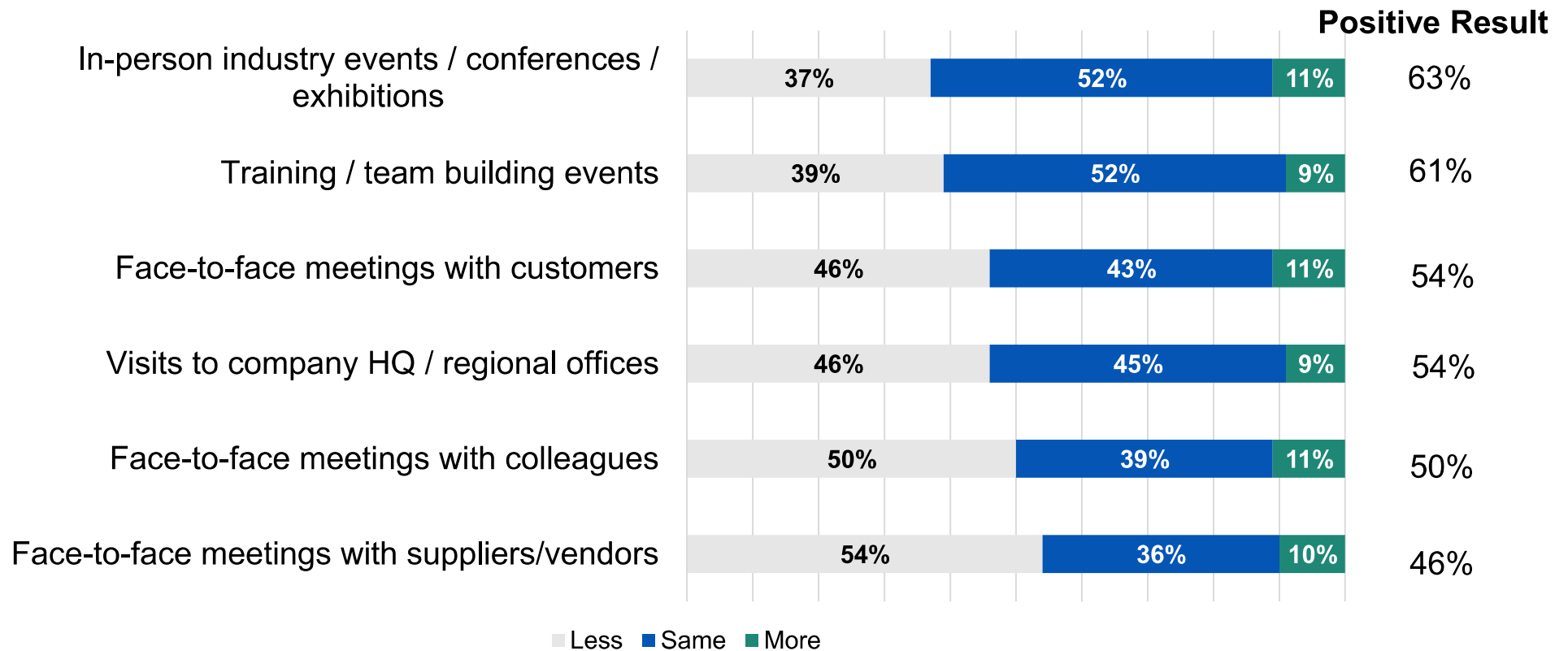
Source: STR, August 2022

Business Travel Continues to be Hit Harder than Leisure Travel Post-Pandemic

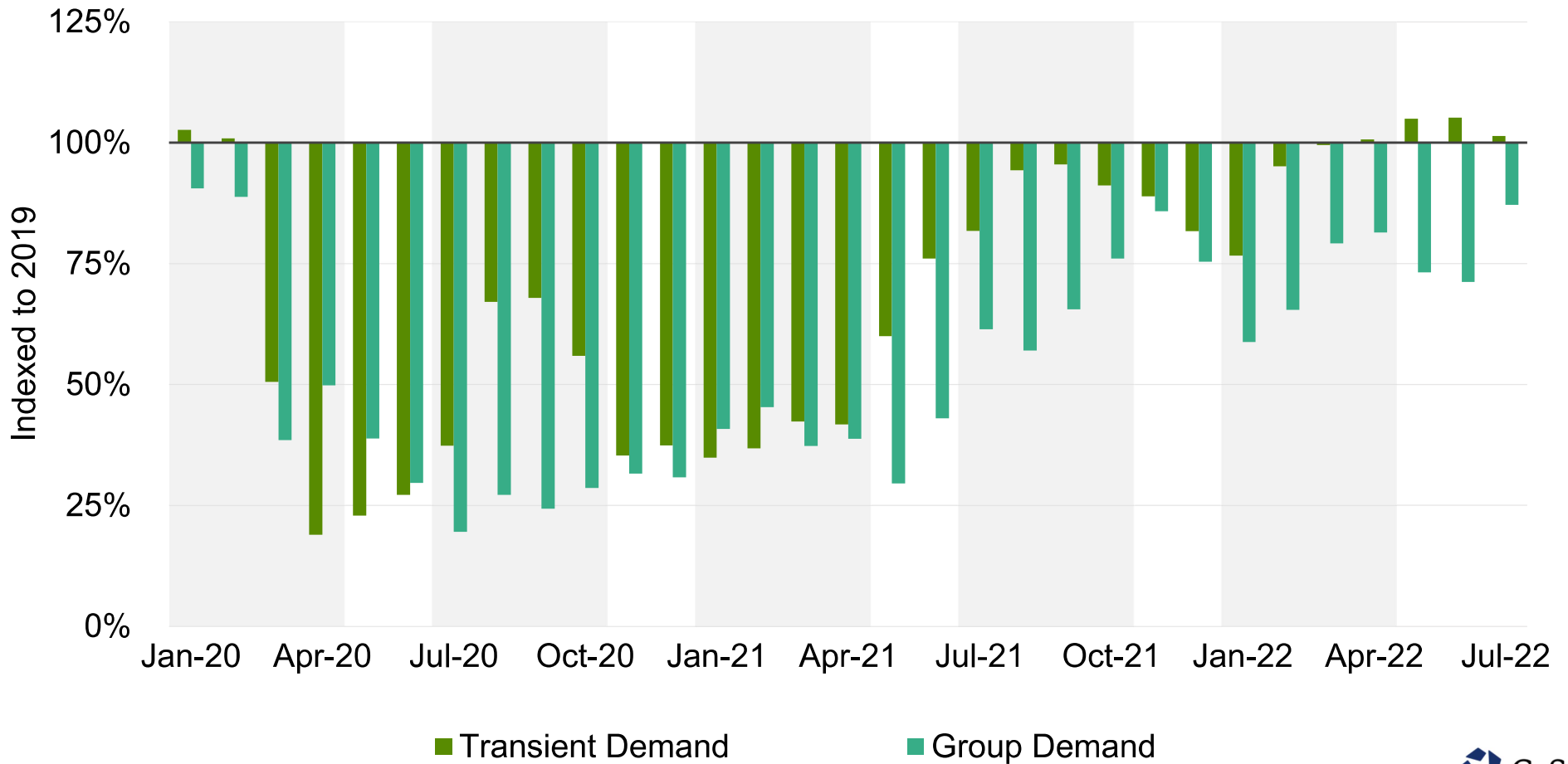


Q: You mentioned travelling for business prior to the pandemic, thinking about the current COVID-19 situation and how that impacts your views on travel, are you likely to travel more or less for business compared to before the pandemic? | Q: Now thinking further ahead about overnight business travel, when the pandemic is completely over, are you likely to travel more or less for business compared to your pre-pandemic levels? | Base: Business Travelers: Jul 2022 (n=389)

In-Person Events and Training/Team Building to Drive Future Business Trips



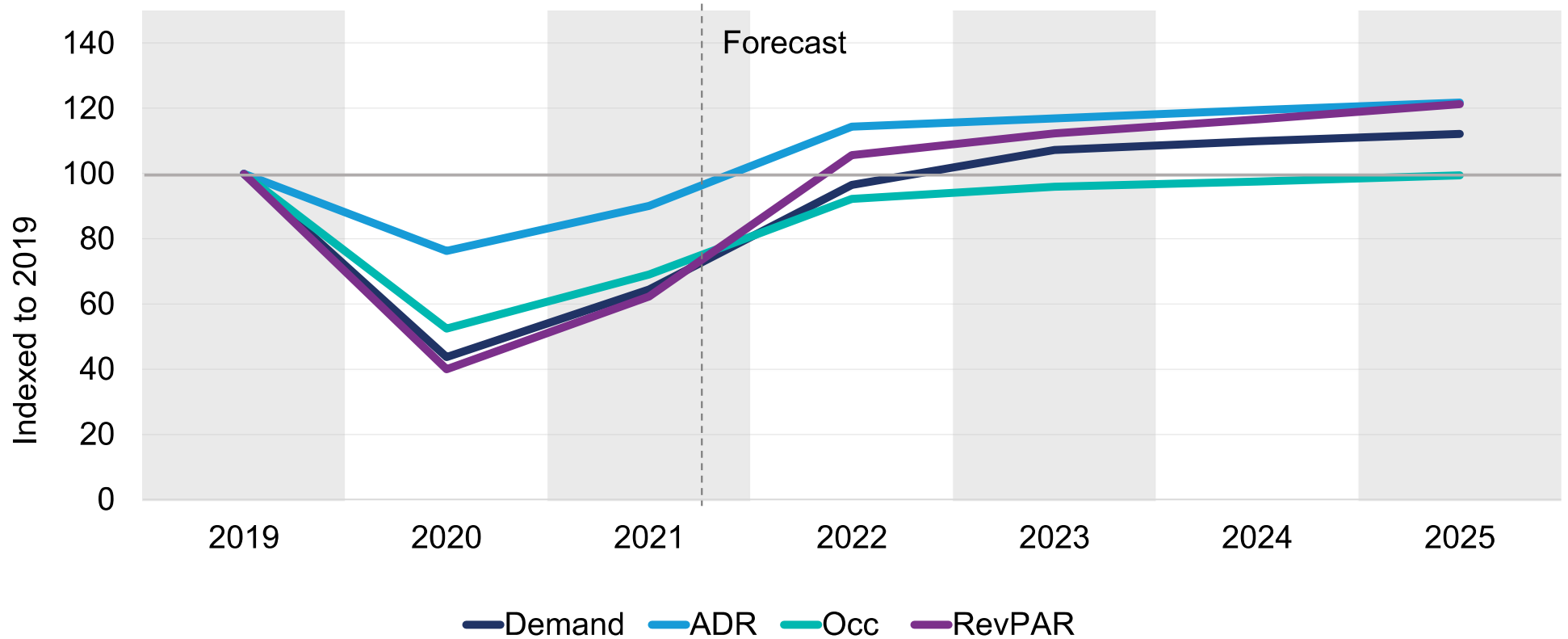
Leisure Transient Demand Leads Recovery While Groups Lag



Source: STR, August 2022

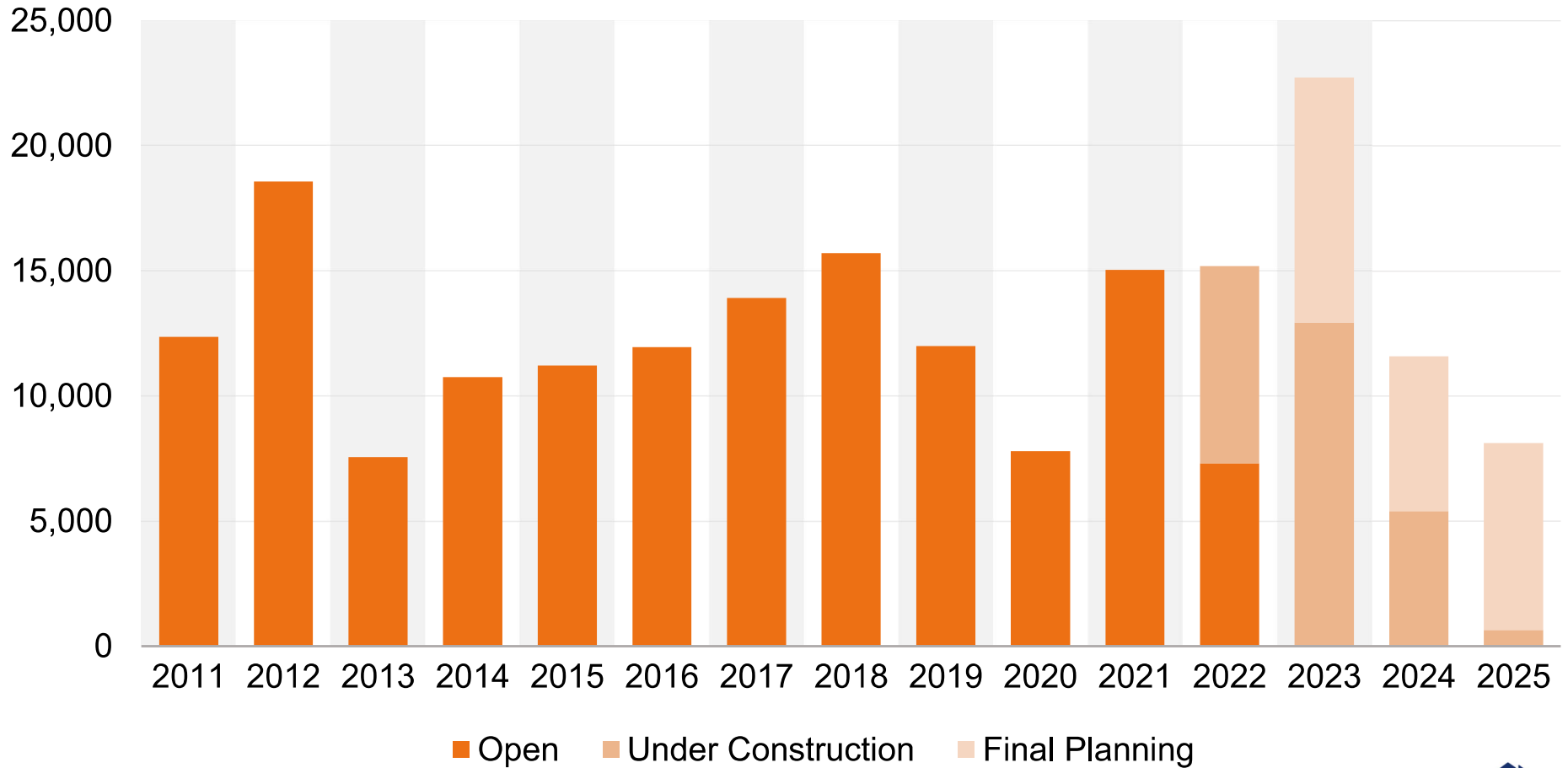


RevPAR Due to Exceed 2019 Levels By Year End

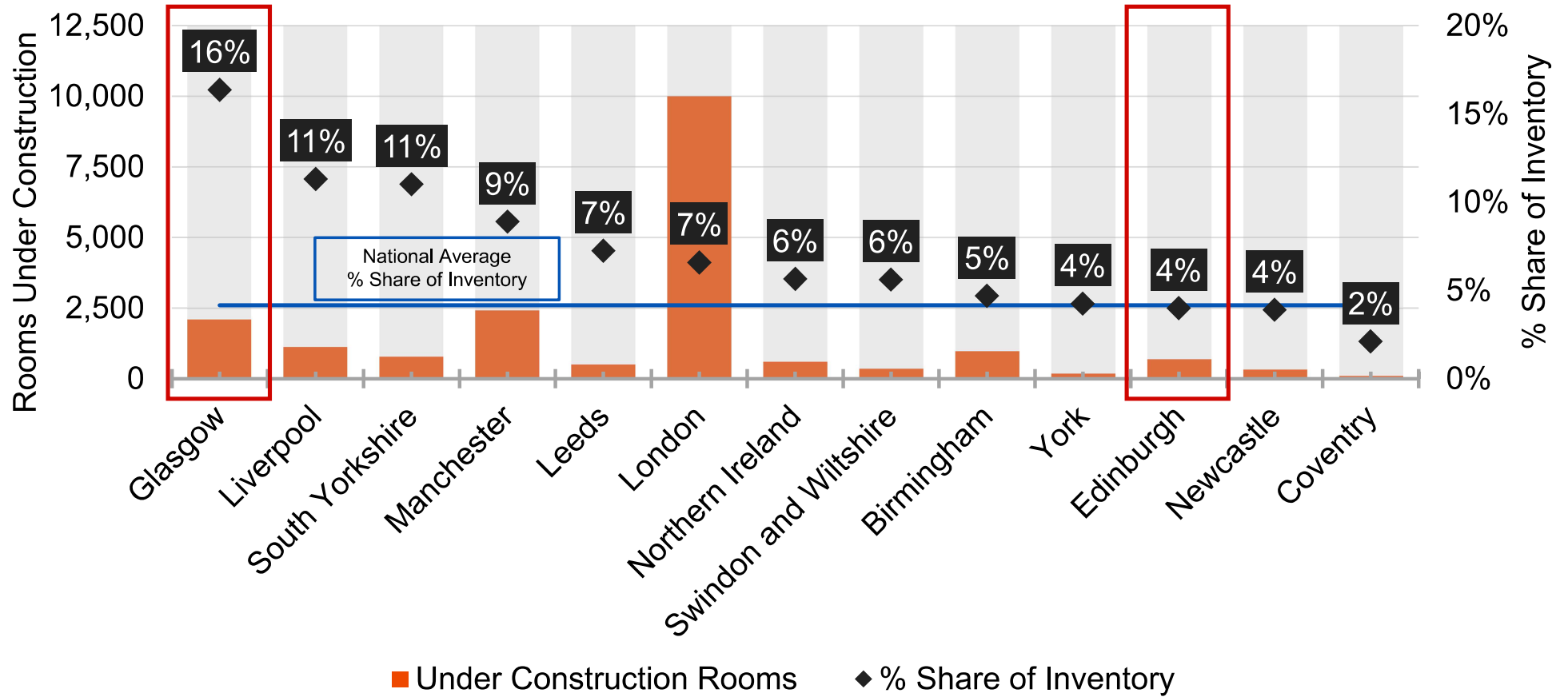


Sources: STR, Tourism Economics, an Oxford Economics Company

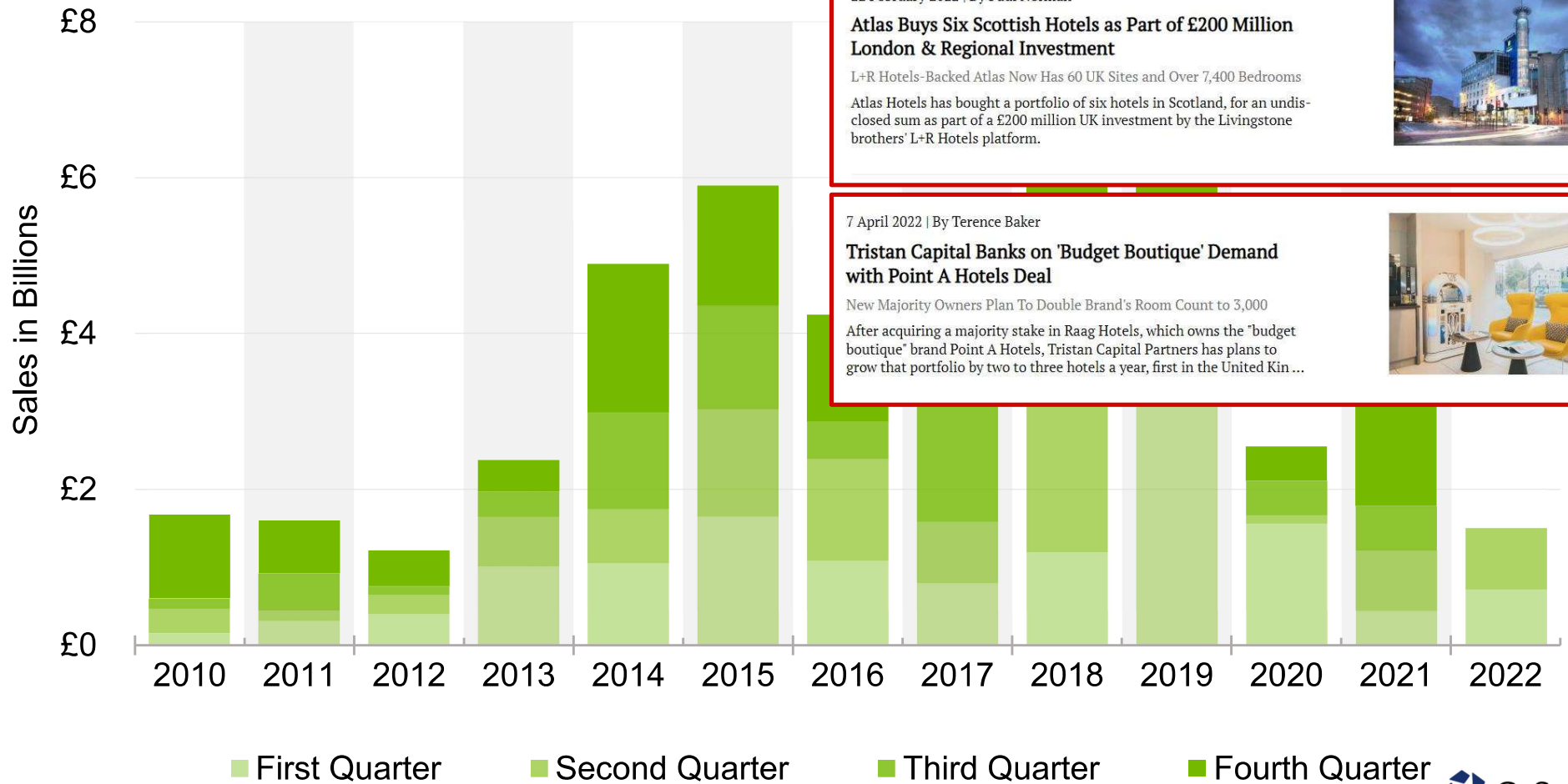
High Levels of Additional Supply in the Next 12-18 Months



Regional Markets Lead New Supply as Share of Inventory



UK Hotel Investment Volumes Increase by 23% in H1 2022



22 February 2022 | By Paul Norman

Atlas Buys Six Scottish Hotels as Part of £200 Million London & Regional Investment

L+R Hotels-Backed Atlas Now Has 60 UK Sites and Over 7,400 Bedrooms

Atlas Hotels has bought a portfolio of six hotels in Scotland, for an undisclosed sum as part of a £200 million UK investment by the Livingstone brothers' L+R Hotels platform.



7 April 2022 | By Terence Baker

Tristan Capital Banks on 'Budget Boutique' Demand with Point A Hotels Deal

New Majority Owners Plan To Double Brand's Room Count to 3,000

After acquiring a majority stake in Raag Hotels, which owns the "budget boutique" brand Point A Hotels, Tristan Capital Partners has plans to grow that portfolio by two to three hotels a year, first in the United Kin...



Key Takeaways

- ✓ RevPAR continues to make strong gains, well ahead of inflation
- ✓ Leisure demand remains key driver of recovery
- ✓ Business transient will remain subdued and led by the group segment recovery
- ✓ Hoteliers continue to have pricing power to drive rates and ADR will drive recovery
- ✓ Next 12 months may be challenging; inflationary pressures on consumers and hotel operations
- ✓ Additional supply may also hamper recovery in some key markets
- ✓ Investment was strong in the first half of the year but is slowing



THANK YOU

Disclaimer

These CoStar Europe materials contain financial and other information from a variety of public and proprietary sources. CoStar Group, Inc. and its affiliates (collectively, "CoStar") have assumed and relied upon, without independent verification, the accuracy and completeness of such third-party information in preparing these materials.

The modeling, calculations, forecasts, projections, evaluations, analyses, simulations, or other forward-looking information prepared by CoStar and presented herein (the "Materials") are based on various assumptions concerning future events and circumstances, which are speculative, uncertain and subject to change without notice. You should not rely upon the Materials as predictions of future results or events, as actual results and events may differ materially. All Materials speak only as of the date referenced with respect to such data and may have materially changed since such date. CoStar has no obligation to update any of the Materials included in this document. You should not construe any of the data provided herein as investment, tax, accounting or legal advice.

CoStar does not represent, warrant or guaranty the accuracy or completeness of the information provided herein and shall not be held responsible for any errors in such information. Any user of the information provided herein accepts the information "AS IS" without any warranties whatsoever. To the maximum extent permitted by law, CoStar disclaims any and all liability in the event any information provided herein proves to be inaccurate, incomplete or unreliable.

© 2022 CoStar Group. No reproduction or distribution without permission.

