OUTLOOK

- Diminishing levels of supply will result in limited options for occupiers seeking good quality office space.
- A number of lease events due to take place between 2015 – 2017 are likely to result in occupiers securing space by way of pre-lets.
- 2013 take-up is expected to be slightly higher than 2012.
- The recent H1 rise in availability will quickly subside, as new grade A space is quickly let.
- Headline rents and incentives will remain unchanged in H2.
- Next year is expected to see incentive levels start to reduce as availability falls.
- A wholesale return to speculative development still remains unlikely in the short-term.
- After a period of inactivity, West Edinburgh has started to turn a corner, seeing considerable letting activity over the past six months.
- The limited supply of high quality office stock for investors to buy is likely to frustrate current appetite.
- Competition for quality assets will result in yield compression with buyers and sellers being in a tighter and readily accepted yield band.
- Taking into account deals currently under offer and an element of new stock, we anticipate transactional volumes to the end of H2 could be in the order of £300m.

INVESTMENT

- H1 2013 Edinburgh office investment totalled £134m, quadruple the level for the whole of 2012 when £32.67m transacted.
- This sharp rise in transactional volume was down to two major deals.
- The largest was Munich-based fund manager, GLL Real Estate Partners long awaited purchase of Carlton Square for £56.75m, at a yield of 7.25%. The buildings two tenants, Baillie Gifford and Pillar Projects leases both expire in 2023.
- The other notable deal was UK institutional investor M&G Real Estate’s £46m purchase of Waverley Gate, reflecting a yield of 7.3%. Tenants at the redeveloped former GPO building include Amazon, H&M and Scottish Ministers.

Key investment transactions, H1 2013

<table>
<thead>
<tr>
<th>Date</th>
<th>Address</th>
<th>Size (sq ft)</th>
<th>Purchaser</th>
<th>Vendor</th>
<th>Price</th>
<th>Yield (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun 13</td>
<td>Carlton Square</td>
<td>152,000</td>
<td>GLL Real Estate Partners</td>
<td>Jaguar Capital</td>
<td>£56.75m</td>
<td>7.25%</td>
</tr>
<tr>
<td>Feb 13</td>
<td>Waverley Gate</td>
<td>205,170</td>
<td>M&amp;G Real Estate</td>
<td>Highcross</td>
<td>£46.0m</td>
<td>7.3%</td>
</tr>
<tr>
<td>May 13</td>
<td>Holyrood Park House</td>
<td>44,685</td>
<td>St James’s Place Property Fund</td>
<td>Henderson Investors</td>
<td>£8.72m</td>
<td>9.24%</td>
</tr>
<tr>
<td>May 13</td>
<td>Caledonian Exchange</td>
<td>59,000</td>
<td>Blackrock</td>
<td>Overseas</td>
<td>£17.7m</td>
<td>8.00%</td>
</tr>
</tbody>
</table>

Source: Property Data, BNP Paribas Real Estate

CONTACTS

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THE OCCUPIER MARKET

- H1 Edinburgh take-up reached 294,645 sq ft, up 28% on H2 2012.
- There has been good demand for high quality space from a cross section of sectors.
- With rapidly expanding global travel search engine, Skyscanner, taking 9,200 sq ft of additional space at Quartermile One.
- An 11,325 sq ft letting to law firm ACH Shoosmiths at Saltire Court; a requirement generated following a merger last year.
- And the Green Investment Bank signing up to 12,338 sq ft at Atria, setting a record city centre rent of c. £32.00 per sq ft.
- Ultimately in H1 it was sub 10,000 sq ft deals that sustained take-up levels.
- What has become evident is occupier demand is starting to shift. Current requirements are now not just lease event driven, but also the result of expansionary activity e.g. Sainsbury’s Bank.
- The shortage of grade A city centre supply was temporarily alleviated in H1, with the launch of Edinburgh City Council’s 200,000 sq ft development Atria, and Ediston’s smaller 26,000 sq ft 145 Morrison Street scheme.
- Atria is proving popular and is expected to enjoy further letting success in H2.
- Looking ahead PwC are due to conclude on 32,000 sq ft at Atria and Bank of New York Mellon are seeking c. 60,000 sq ft.
- Located in the traditional core, 44,000 sq ft is due to launch at Fordell Estates 26-31 Charlotte Square development, providing grade A office space.
- Grade A new building supply is c. 240,000 sq ft.
- Grade A second hand supply is also c. 240,000 sq ft.

RENTS

- H1 Edinburgh headline rent remained unchanged at £27.50 per sq ft.
- Only a limited number of city centre buildings, such Atria, can achieve above this top rental level.
- Older grade A buildings continue to attract lower rents.
- Incentives remain competitive.
- Tenants typically look to negotiate 12-16 months rent-free on a 5 year lease and 24-30 months on a 10 year lease.

Edinburgh take-up (2009 – H1 2013)

<table>
<thead>
<tr>
<th>Address</th>
<th>Size (sq ft)</th>
<th>Tenant/Purchaser</th>
<th>LH/FH</th>
<th>Rent (psf)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hayweight House, 23 Lauriston Street</td>
<td>19,378</td>
<td>Scottish Association of Mental Health</td>
<td>Freehold sale</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>Atria One, Morrison Street</td>
<td>12,338</td>
<td>Green Investment Bank</td>
<td>New lease</td>
<td>£32.50</td>
</tr>
<tr>
<td>Saltire Court, Castle Terrace</td>
<td>11,325</td>
<td>ACH Shoosmiths</td>
<td>New lease</td>
<td>£25.00</td>
</tr>
<tr>
<td>Clarendon House, 114-116 George Street</td>
<td>9,940</td>
<td>Pagan Osborne</td>
<td>New sub-lease</td>
<td>£21.00*</td>
</tr>
<tr>
<td>Quartermile One, Lauriston Place</td>
<td>9,200</td>
<td>Skyscanner</td>
<td>New lease</td>
<td>£27.50</td>
</tr>
</tbody>
</table>

Regional office headline rents

* Asking rent

CONTACTS

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