

RESEARCH & FORECASTING UK

EDINBURGH OFFICES OCCUPIER SNAPSHOT

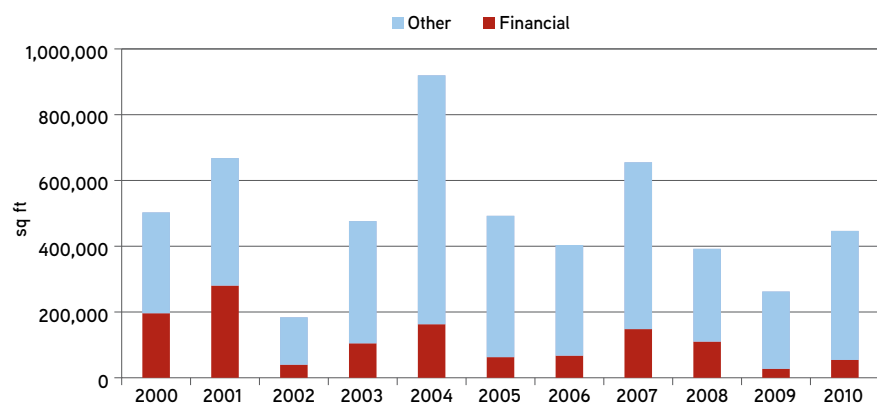


Edinburgh saw a marked improvement in take-up during 2010, with the City Core office market seeing a 24% rise in transaction levels year on year. 2010 offices take-up in the City Core reached 446,000 sq ft. Banking and financial services take-up, although nearly doubling year on year, was still the second lowest annual figure since 2002. At 54,558 sq ft it was substantially below the 10 year annual average for financial take-up which is 114,247 sq ft (see Figure 1).

While the banking and financial sector saw 12% of identified take-up in 2010 (see Figure 2), marginally up on 2009, there was a healthy mixture of sectors active within the Edinburgh office market. The public sector accounted for the highest percentage with the deal to the NHS (37,000 sq ft) at Waverley Gate responsible for over half that figure. Out-of-town, Tesco's purchase of HQ1 at South Gyle (97,000 sq ft) was the most significant deal in the wider Edinburgh market but retail and leisure sector occupiers in the City Core included, Innis & Gunn, Glenmorangie and H&M. The Tesco deal apart, there was a shortage of larger deal sizes. No deals above 40,000 sq ft were recorded in the City Core itself, with only six deals of 15,000 sq ft or above signed.

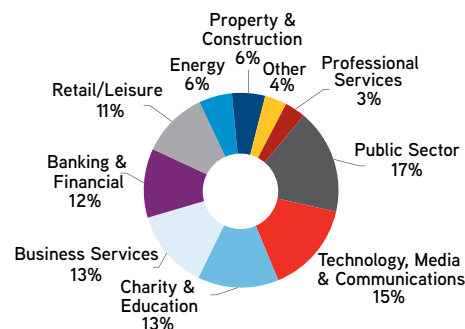
A host of business sectors have seen an uplift in take-up of office space during 2010. These include financial, charity, manufacturing, transport, education, energy and utilities, retail and leisure, TMT and the public sector (see Figure 3).

FIGURE 1: EDINBURGH CITY CORE OFFICES: FINANCIAL SECTOR TAKE-UP AS A PROPORTION OF TOTAL TAKE-UP



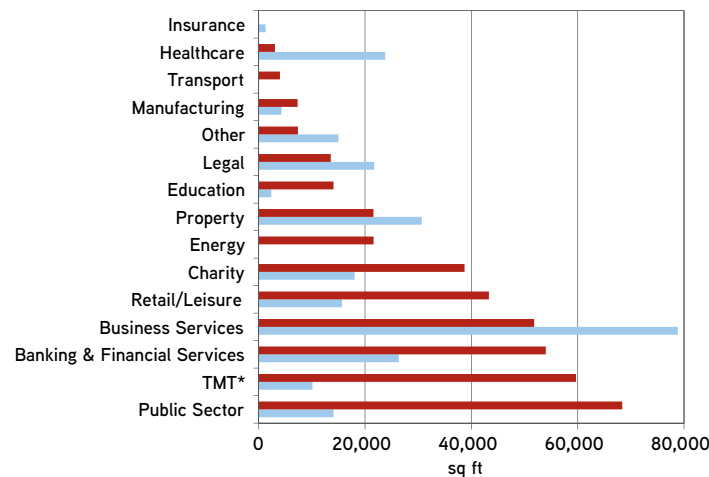
Source: Colliers International

FIGURE 2: EDINBURGH CITY CORE OFFICES TAKE-UP BY BUSINESS SECTOR 2010



Source: Colliers International

FIGURE 3: EDINBURGH CITY CORE OFFICES TAKE-UP BY BUSINESS SECTOR 2010 VS 2009



*Technology, Media & Telecommunications

Source: Colliers International

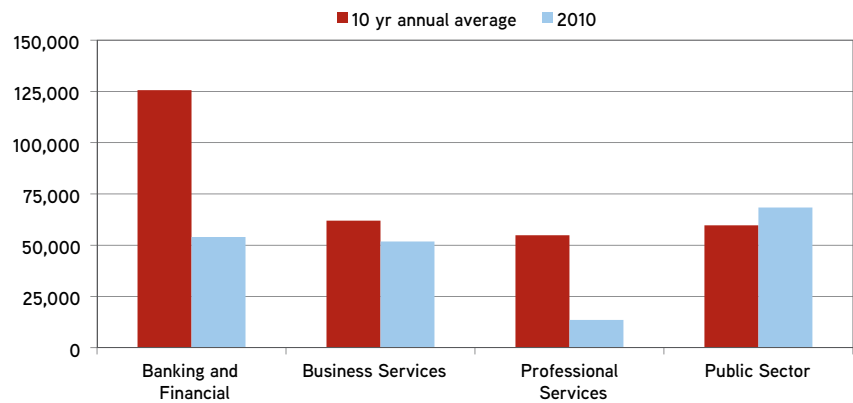
Compared with the longer term averages (see Figure 4), occupier demand in Edinburgh still remains below trend. In terms of the business sectors, as in 2009, just one business grouping, the public sector, is above long term trend. While business services was above its 10 year average in 2009, it fell back in 2010 with total take-up down by 32%.

Future public sector spending cuts are likely to have a major impact upon office take-up within the City Core of the Edinburgh market. While in 2010, the public sector was the largest business sector in terms of uptake of office space, this figure is likely to fall markedly over the next two years. Figure 5 shows the history of public sector take-up in the Edinburgh City Core over the past 11 years.

Between 2005-2009, annual public sector take-up in the Edinburgh City Core averaged just 21,417 sq ft per annum. Although public sector take-up quadrupled during 2010 compared to 2009, it still only accounted for 17% of identified take-up. Figure 6 shows that the public sector contribution to overall City Core take-up, with the exception of 2003-2004, has been modest. Hopes, the slack may be taken up by the private sector were given weight as the Scottish manufacturing and service sectors both recorded growth in January. However, overall private sector employment levels fell for the third successive month in January, casting doubt on that hypothesis. Economic growth in Scotland remains below the UK average.

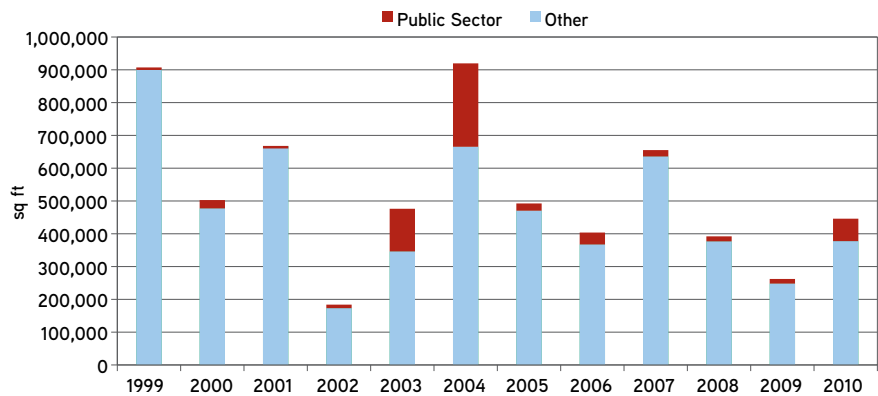
The first two months of 2011 have been positive with Virgin Money taking 30,000 sq ft in St Andrews Square and Regus extending their lease over 20,700 sq ft at Conference House, Morrison Street in the city centre. There still remains an oversupply of office space in the city, in particular Grade B space, down 4% year on year. Over 300,000 sq ft remains available and we do not expect to see any uplift in rents which currently stand at £27.50 psf.

FIGURE 4: EDINBURGH CITY CORE OFFICES TAKE-UP BY KEY BUSINESS SECTORS 10 YR AVG VS 2010



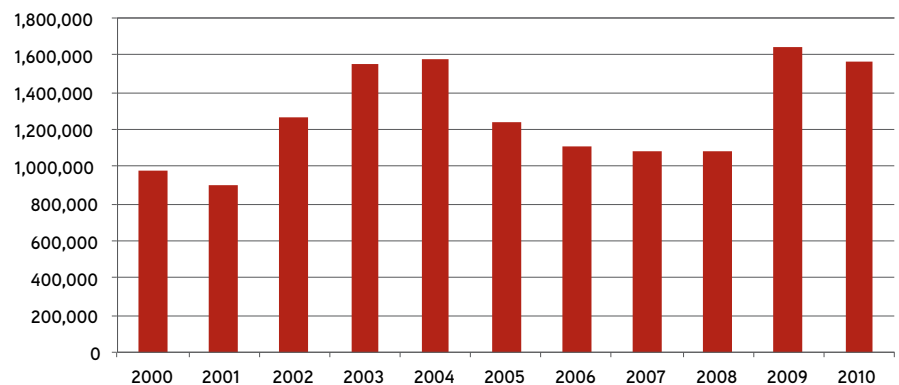
Source: Colliers International

FIGURE 5: EDINBURGH CITY CORE OFFICES TAKE-UP BY PUBLIC SECTOR OCCUPIERS 1999-2010



Source: Colliers International

FIGURE 6: EDINBURGH CITY CORE OFFICES AVAILABILITY



Source: Colliers International

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