

Aberdeen office market activity report

Spring 2007

Contents

Economic overview	2
Office occupational market	2
Investment market	5



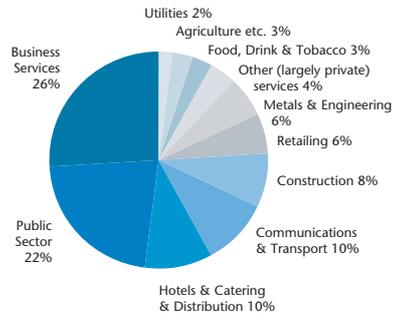
Executive summary

- Economic output in Aberdeen is projected to increase in 2007 by 2.1%, principally driven by the Banking & Insurance and Communications sectors.
- The Aberdeen market has continued to improve during 2006, evidenced by strong take-up and a return of pre-lets to the market.
- Prime office rents exceeded £21.00 per sq ft in 2006, in line with our forecasts.
- As supply for good quality accommodation with ample parking becomes increasingly limited, certain occupiers have started to acquire space in more peripheral locations.
- The lack of quality accommodation available has also led to the re-emergence of speculative development within the market.
- Investment activity remains strong with prime yields falling from 6.00% to 5.25% driven by improving market sentiment, a strengthening occupational market and prospects for further rental growth during 2007.

Figure 1
Grampian Output 2006*
 (£m, 2003 prices)

Source: Experian Business Strategies

*Oil output is excluded from this analysis due to its overwhelming influence on the local economy.



Total output (GVA) 100%

Economic overview

Aberdeen is the largest commercial centre in Grampian Region and is regarded as the centre of Europe's oil and gas industry. The city is also a key regional centre for several global business service providers, most notably from the professional and financial sectors.

The impact of rising oil prices has continued to impact positively upon the local economy; however, oil output is excluded from the official output figures due to its overwhelming influence on the local economy. Consequently, economic growth in Grampian Region in 2006 totalled 1.6%, below the UK average of 2.8%. Nonetheless, Banking & Insurance output rose by an impressive 7.7% during the year and Business Services rose by 4.7%. The latest forecasts from Experian Business Strategies for Grampian Region suggest that growth in 2007 will improve, reaching 2.1%. Communications and Banking & Insurance are projected to be the key growth sectors in the region during 2007.

At the end of 2006 there were further advancements made to improve Aberdeen's infrastructure which will benefit the business community. Plans to extend the runway at Aberdeen Airport have been approved by local councillors. The Master Plan for the project sets out a £10m two year plan including a runway extension and expanded international arrivals hall. There are plans for a total of £60m to be invested into the airport over the next decade with a view to raising passenger numbers up to 4m by 2015 and 5.9m by 2030. Developers behind the project have estimated that the scheme may lead to the creation of 1,200 new jobs at the airport which would have a significant impact on the local economy.

The formal consultation process is currently underway for the Aberdeen Western Peripheral Route (AWPR) which is due to open in 2011. Both the north and south routes of the A90 together with the Fastlink (Stonehaven to Cleanhill) have now been approved.

Office occupational market

Aberdeen has continued to perform very strongly during 2006, underlining the city's position as a major regional office location. Letting activity in Aberdeen has remained buoyant with take-up in 2006 in excess of 300,000 sq ft. Take-up was boosted by the Petrofac Ltd pre-let at Consort House totalling 78,000 sq ft, at a rent of £17.50 per sq ft. The scheme is scheduled to complete in April 2007. Overall take-up during the year was driven by a diverse range of occupiers acquiring space and dominated by larger transactions (over 25,000 sq ft).

Table 1 – Key office transactions

Address	Tenant	Size (sq ft)	Rent (£ per sq ft)
Blenheim House, Fountainhall Road	Bell Lawrie	5,300	23.00
Blenheim House, Fountainhall Road	Ernst & Young	12,066	21.50
2-8 Albyn Place	Genesis	12,760	21.00
Consort House, Stell Road	Petrofac Ltd	78,000	17.50
Quattro Business Park, Wellington Circle	AMEC plc	45,800	16.00
King's Close, Huntly Street	Venture Production plc	31,826	16.00
Excel Centre, Bridge of Don	Accenture	29,063	14.75
Silverburn House, Bridge of Don	Vetco	26,944	13.00

Source: Knight Frank LLP

“In line with our forecasts, prime office rents exceeded £21.00 per sq ft.”

“A number of companies have committed to new build developments, bringing renewed confidence to the market.”



Genesis acquired 12,760 sq ft of accommodation at 2-8 Albyn Place at a rent of £21.00 per sq ft.

The key driver of rental growth within the market continues to be strong demand, combined with a lack of good quality accommodation, particularly that which offers ample car parking. As demand for Grade A accommodation within the city continued to outstrip supply during 2006, a new prime rent of £21.50 per sq ft was established when Ernst & Young acquired 12,066 sq ft at Blenheim House. A rental level of £23.00 per sq ft was achieved in the same building for a smaller transaction, when Bell Lawrie acquired 5,300 sq ft.

During 2006 there were relatively few office sales with vacant possession, the majority of which were below 10,000 sq ft. However, the market remains competitive with rates in the region of £350 per sq ft being achieved. In spite of continued strong demand from local businesses seeking to owner-occupy property, sustained demand and rental growth means investors are unwilling to sell even when leases are expiring. Competition from residential developers for conversions has dissipated in the face of high prices and office developers.

The Aberdeen market comprises the city centre core, city fringe locations such as the Harbour area and a number of highly successful out-of-town business and science parks. Several transactions completed in the city centre during 2006 which boosted take-up, including the 31,826 sq ft letting by Venture Production plc at Huntly Street. Genesis also leased 12,760 sq ft at 2-8 Albyn Place for £21.00 per sq ft.

The out-of-town market also performed strongly during 2006. At Quattro Business Park to the south of the city AMEC plc acquired 45,800 sq ft at £16.00 per sq ft. Accenture acquired 29,063 sq ft at the Excel Centre at Bridge of Don, underlining the importance of Aberdeen as a key regional office location and the centre's ability to attract major business services occupiers. Scottish Enterprise Grampian's Aberdeen Science Parks have continued to attract interest from research, development and design focused companies, particularly in the energy sector, achieving high occupancy within their multi-let offices. Given conditions within the current market there is also considerable interest reported in the remaining development sites on the Parks, reflecting the growth of local oil and gas related consultancy services. The serviced office market within Aberdeen has also been active, as demonstrated by Regus' takeover of Gainsborough's Riverside Business Centre in early 2006.

As a result of sustained demand for good quality offices and a lack of significant redevelopment opportunities in 2006, there is currently no Grade A accommodation in excess of 10,000 sq ft available within the city centre. Although there is a number of buildings located close to the Harbour area with space available, including British Telecom House, Atholl House, Regent Centre and Salvesen Tower, the specification in these buildings often fails to meet modern standards and the car parking ratios are below current occupier expectations.



AMEC plc acquired 45,800 sq ft at Wellington Circle at the Quattro Business Park at a rent of £16.00 per sq ft.



Seletar Shipping (Scotland) Ltd are to complete an extensive refurbishment of Ocean Spirit House at Waterloo Quay.

Table 2 – City core development pipeline

Scheme	Size (sq ft)	Developer	Quoting Rent (£)	Estimated Completion Date
Wellington House, Wellington Circle	19,408	Knight Real Estate	18.00	Mid 2007
Scott Sutherland House, Waverley Place/Albert Street	14,230	C & L Properties	24.00	Early Summer 2007
Princewall House, Huntly Street	13,846	County Properties Group Ltd	24.00	Autumn 2007
Union Plaza, Union Row	125,000	Stewart Milne Group Ltd	22.50	Late 2007
28 Albyn Place	10,479	Carlton Rock Ltd	25.00	Late 2007/Early 2008
New Horizons House, Waterloo Quay	36,000	Seletar Shipping (Scotland) Ltd	20.00	Mid 2008
9 Queen's Road	c. 20,000	Esson Properties Ltd	25.00	Subject to planning
Triple Kirks, Schoolhill	c. 60,000	Barratt	20.00	Requires a pre-let to proceed

Source: Knight Frank LLP

Given the lack of good quality accommodation currently available, a number of occupiers have shifted their focus to more peripheral locations such as Silverburn House (Vetco) and the Excel Centre (Accenture) at Bridge of Don, buildings which had previously remained empty for several years. The additional space in these buildings continues to generate considerable interest as do the remaining pavilions at Morley's Aberdeen Business Park and the forthcoming Phase 2 of Kirkhill Business Park.

High oil prices continue to have a positive impact on the local economy with a number of oil majors and service companies committing to new build developments and bringing renewed confidence to the market. Akeler is undertaking the largest single new construction at Stoneywood, Dyce for BP's new HQ for its exploration and production activities in the UK, Norway and the Netherlands. Totalling 190,876 sq ft, the scheme has already started construction. Shell (UK) Ltd has committed to a ten year lease on the Phase VI extension to their Tullos HQ, totalling circa 129,000 sq ft. This is to be developed by AWG, with construction anticipated to commence in summer 2007. An additional 80,000 sq ft of accommodation at Hill of Rubislaw has been developed for Chevron, who pre-let the space in 2005 at £20.75 per sq ft. Also at Hill of Rubislaw, Marathon has committed to a lease extension and physical extension to their HQ.

Halladale Muir Limited are developing the Aberdeen Gateway Business Park to the south of the city and will be setting aside 20 acres of the 45 acre development for office use. This will provide up to 250,000 sq ft of Grade A space. Rockwater Property Partnership are about to submit a detailed planning application for Phase 1 at Stoneywood Park, Dyce, for 70,000 sq ft of Grade A space.

Within the Harbour area, Seletar Shipping (Scotland) Ltd has announced an ambitious redevelopment of New Horizons House, creating 36,000 sq ft of top quality office space along with an extensive refurbishment of Ocean Spirit House at Waterloo Quay. In addition, Kenmore will soon be commencing its mixed-use City Wharf development which will include circa 28,000 sq ft of offices, a hotel and casino.

A further indication of the renewed confidence in the Aberdeen market is the re-emergence of speculative development. The largest proposed speculative development is the Stewart Milne Group's Union Plaza scheme, which on completion in late 2007 will offer 125,000 sq ft of Grade A space in the city centre. Given the limited number of sites available within the city centre, developers are now focusing on the construction of new pavilion offices in more peripheral, traditionally industrial, locations in order to satisfy active requirements.

At Arnhall Business Park, Westhill, Sub-Sea 7 and ACERGY have acquired 12 and 15 acre sites respectively for new office HQs. Business Homes/CALA Properties are also developing offices at Grandholm Village and Mugiemoos Business Park for lease or sale which are attracting considerable interest. Halliburton and Weatherford have also announced recent office expansion plans on sites at Altens East.

Knight Frank's view

- Occupiers in Aberdeen currently regard a parking ratio of 1:750 sq ft as a minimum, underlining the importance of car parking spaces to tenants in the Aberdeen occupier market. The poor specification of some buildings and the limited amount of car parking available has already led to a considerable amount of unsatisfied active demand within the current market.
- Those buildings that are highly specified and that do offer ample parking will help boost rental levels within the city during 2007. Given the renewed confidence in the market and the projected delivery of new accommodation in the city centre during the year we forecast rents to rise to £23.50 per sq ft by the end of 2007.

“Investment activity strengthened during 2006 with yields hardening to 5.25%.”

Investment Market

Demand for product within the Aberdeen market has continued to improve over the last 12 months, as evidenced by the sale of King’s Close in Huntly Street which was sold in 2005 at a yield of 6.76% compared to a yield of 5.93% achieved in early 2006. The investment market in Aberdeen has witnessed several large transactions during 2006. One of the most notable transactions to complete during 2006 involved the purchase of 2-8 Albyn Place by Deedream Ltd for £5.3m reflecting a net initial yield of 5.25%. This transaction demonstrates the keen yields which investors are willing to pay for Grade A accommodation in prime locations within the city.

Table 3 – Key investment transactions

Property	Size (sq ft)	Price (£ millions)	Net Initial Yield (%)	Purchaser
Kvaerner Village, Howemoss Avenue, Kirkhill	115,085	19.6	5.60	Lamont Property Ltd
Scott House & Trafalgar House, Hareness Road, Altens	95,571	19.6	6.90	Northridge Capital Ltd
Quattro Business Park	61,915	12.0	7.25	Hamilton Portfolio
Denburn House, Union Terrace	54,038	10.3	7.00	G E Real Estate
King’s Close, Huntly Street	32,170	8.2	5.93	Arlington Property Investors
Custom House, Guild Street	32,051	5.8	6.05	Aviva Staff Pension Trustees Ltd
Alba Gate, Stoneywood Park, Dyce	27,839	5.7	6.71	Private Client
2-8 Albyn Place	12,760	5.3	5.25	Deedream Ltd

Source: Knight Frank LLP



Alba Gate, Stoneywood, Dyce was acquired by a private client for £5.7m reflecting a net initial yield of 6.71%.

As a result of the competitive market, Aberdeen prime yields have hardened from 6.00% to 5.25% within 12 months and this competition has been primarily driven by property companies. Investment activity has continued into 2007 with a number of large transactions currently under offer including Talisman House in Holburn Street, let to Talisman Energy (UK) Ltd, which at the time of print was under offer at a yield reported to be 5.75%. Grampian House is also currently under offer and due to complete shortly. Although there exists a considerable development pipeline, yields are nonetheless expected to harden further in 2007 as investors seek to capitalise on projected rental growth.

Aceryg and Shell’s new developments are currently being marketed as pre-funding opportunities and are expected to generate strong interest from major property funds.

Knight Frank’s view

- Aberdeen’s stable economy continues to attract strong investment demand.
- Following major transactions in late 2006 and in the first half of 2007, it is likely that transaction size will decrease in line with the size of new lettings (approximately 10,000 sq ft).
- New build Grade A space will continue to attract premiums of circa 0.5%-1.0% over more traditional property.
- The yield differential for lease terms of less than and longer than 10 years is likely to remain, although the strength of occupational demand means that the majority of leases are now 15 years.

Research

Research

Claire Higgins

Partner

+44 (0) 207 861 1246

claire.higgins@knightfrank.com

Andrew Hawkeswood

Senior Research Analyst

+44 (0) 207 861 1248

andrew.hawkeswood@knightfrank.com

Aberdeen

Eric Shearer Partner

Development & Investment

+44 (0) 1224 415948

eric.shearer@knightfrank.com

Katherine Monro Partner

Disposals & Acquisitions

+44 (0) 1224 415962

katherine.monro@knightfrank.com

Richard Evans Associate

Valuations & Rent Reviews

+44 (0) 1224 415952

richard.evans@knightfrank.com

Douglas Garden Partner

Building Consultancy

+44 (0) 1224 415940

douglas.garden@knightfrank.com

Knight Frank Commercial Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

Knight Frank Research Reports are also available at www.knightfrank.com

Americas

USA

Bermuda

Brazil

Caribbean

Australasia

Australia

New Zealand

Europe

UK

Belgium

Czech Republic

France

Germany

Hungary

Italy

Poland

Portugal

Russia

Spain

The Netherlands

Africa

Botswana

Kenya

Malawi

Nigeria

South Africa

Tanzania

Uganda

Zambia

Zimbabwe

Asia

China

Hong Kong

India

Indonesia

Malaysia

Singapore

Thailand

© Knight Frank LLP 2007

This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Commercial Research or Knight Frank LLP for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank Commercial Research.

Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Registered office: 20 Hanover Square, London W1S 1HZ