



Scotland

Property Snapshot

Q3 | 2023



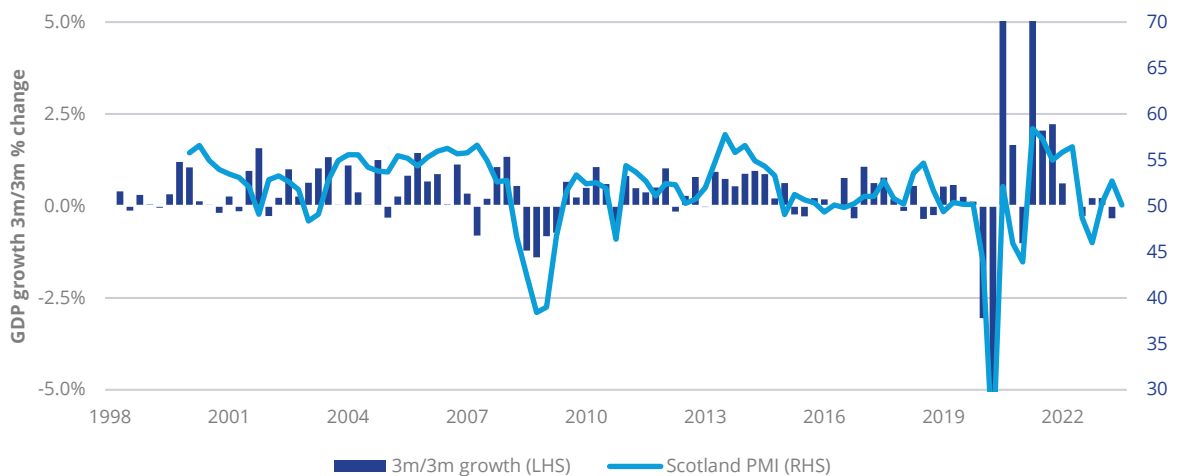


Economy

- Monthly figures show that Scotland's onshore GDP rose by 0.1% m/m in August. The size of the economy is now 1.8% above pre-Covid levels (February 2020). However, the 3m/3m figure points to stagnation dragged down by a 0.7% 3m/3m decline in the production sector.
- The Royal Bank of Scotland PMI registered below the 50 no-change mark in September, suggesting a decline in business activity. The index stood at 49.3, slightly above the UK average of 48.5.
- Latest results from the Scottish Chambers of Commerce survey suggest that cost pressures continued to weigh heavily on business confidence in Q2 2023, with 75% of firms reporting higher labour costs.
- The Q3 ICAEW Scottish Business Confidence Index held steady at 6.4, ahead of the UK average (2.9). The report highlights that companies plan to raise their capital investment and R&D budgets faster than any other region or nation in the UK over the next year.
- Forecasts from Oxford Economics suggest that Scottish GDP will grow only marginally in both 2023 and 2024 before accelerating to 1.3% in 2025.
- Scotland's unemployment rate stands at 4.3% in the three months to July. This is up by 1.2 percentage points from the previous quarter, but in line with the UK average. The number of people in employment stands at 2.689 million, an increase of 26,000 since the previous quarter.
- Experimental HMRC data indicates that earnings increased by 7.9% y/y in August compared to a year ago. This is higher than the corresponding UK-wide figure of 6.7%.
- HM Treasury forecasts show interest rates ending 2023 at 5.25%, with some forecasters expecting a fall to 4.50% or lower by the end of 2024.
- At the time of writing, the GBP/USD exchange rate stands at 1.23 up from 1.15 a year ago. Gilt yields are in a 4.40-4.60% range. Oil has stabilised at around \$85 per barrel, down from around \$95 per barrel a year ago, but higher than the \$70-80 range recorded over much of the summer.

Colliers' view: *Inflation is finally starting to slow more considerably, and interest rate cuts are expected towards the middle of 2024.*

Figure 1: Scotland GDP growth (Q2) and the PMI (Q3)



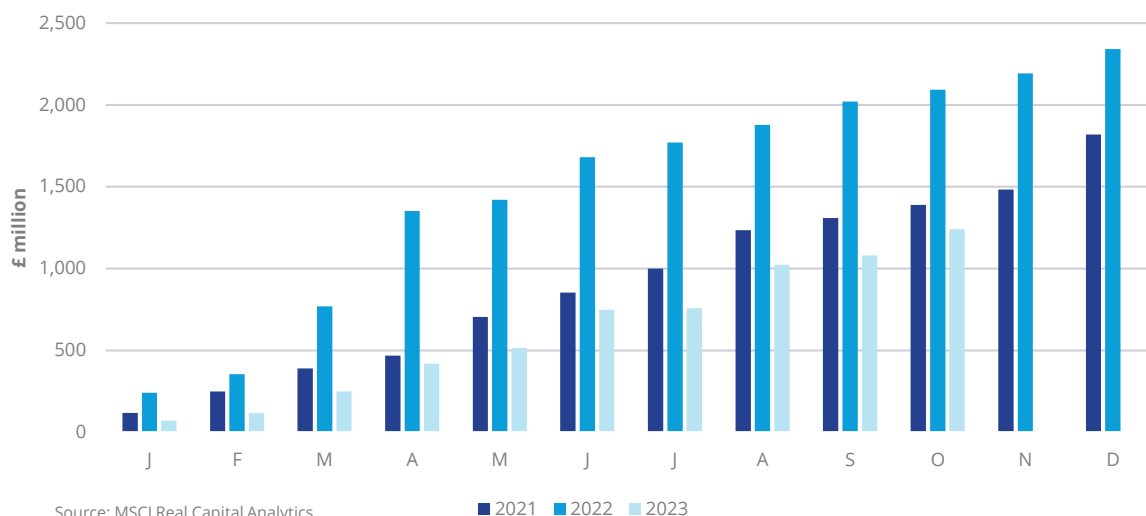


Investment

- Quarterly investment volumes slowed from a revised £500m in Q2 (previously reported as £320m) to £330m in Q3, which was around 33% below the five-year quarterly average of £500m.
- The Q1-Q3 2023 investment volumes figure of £1.1bn is down by 47% on the Q1-Q3 2022 figure.
- With 32 deals completed, the average lot size stands at £10m, down from 13m in Q2, and slightly below the five-year average of £11m.
- Retail accounted for a 32% share of all investment activity in the year-to-date, followed by offices at 26%, and industrial at 15%.
- Cross border capital accounted for around 32% of all activity by value so far in 2023, well below the 2022 share of 45%.
- The largest Q3 transaction was the £62m sale of Craighleith Retail Park to Realty Income Corporation.
- Q3 MSCI data shows a stabilisation in UK All Property net initial yield, but equivalent yields continue to move out and have now risen by around 150 bps since Q2 2022.

Colliers' view: Investment activity is likely to remain subdued in Q4, but we expect a pick-up in 2024 when investor sentiment improves, and interest rates and inflation continues to fall.

Figure 3: Investment transaction volumes (cumulative)



Source: MSCI Real Capital Analytics

■ 2021 ■ 2022 ■ 2023

Retail



£180m

Q3 investment volumes



-40%

YTD investment volumes against 2022



-21

GfK consumer confidence in September



+8bps

IY "Retail Scotland" movement in Q3

Capital markets:

- Retail investment volumes rose from £110m in Q2 to £180 in Q3.
- The largest Q3 transaction by value was Realty Income Corporation's £62m purchase of Craigleith Retail Park at a yield of 7.8%.
- Elsewhere, Patron Capital acquired Livingston Designer Outlet for £57m, and Capital & Regional PLC bought Gyle SC for £40m.
- Eight assets traded during Q3 with an average sales price of £22m.
- In the year to date, investment volumes stand at £390m. This is 40% lower than the corresponding 2022 figure.
- "Retail Scotland" initial yields rose by 8 bps in Q3, compared to a 13 bps increase across the whole of the UK.

Occupier markets:

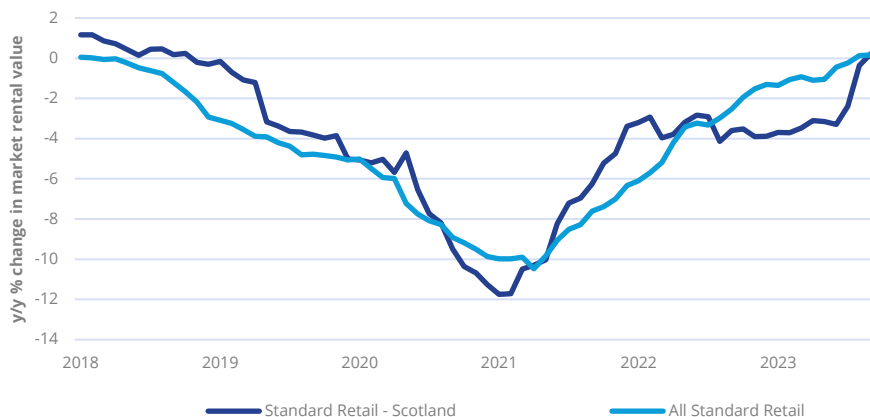
- New lease agreements include Uniqlo and M&S taking space in Edinburgh, Primark leasing space in Glasgow, and The Factory Shop Limited signing for space in Dumfries & Galloway and South Ayrshire.
- Retail rents continue to rise. Annual rental growth rose for the third consecutive quarter, accelerating from 2.5% y/y in Q2 to 3.3% y/y in Q3. Rents in Edinburgh are up by 3.7% y/y while Glasgow rents are up by 6.7% y/y.
- Annual retail price inflation fell to a 19-month low of 8.9% in September, down from 12.6% a year ago.
- The GfK consumer confidence index rose from -45 at the beginning of the year to -21 in September. This is the highest level since January 2022, but below the long-term average of -12.

Top Q3 investment deal by value

Asset type	Value	Yield	Location	Seller	Buyer
Retail Park	£62m	7.8%	Craigleith RP, Edinburgh	Nuveen Real Estate	Realty Income Corporation
Retail Outlet	£57m	n/a	Livingston Designer Outlet	Blackstone	Patron Capital Partners
Shopping Centre	£40m	n/a	Gyle SC, Edinburgh	Cerberus	Capital & Regional Plc

Source: MSCI RCA

Figure 6:
Market rental value growth - Retail



Source: MSCI UK Monthly Property Index

Office



£50m

Q3 investment volumes



-55%

YTD investment volumes against 2022



£39.00

Edinburgh prime rent, psf



£36.00

Glasgow prime rent, psf

Capital markets:

- Office investment slowed from a revised £160m in Q2 (previously reported as £90m) to £50m in Q3, marking the weakest quarterly figure since Q2 2020.
- Only six assets transacted in Q3, down from ten in Q2, and below the five-year quarterly average of 11.
- In the year to date, investment volumes stand at £260m. This is 55% lower than the corresponding 2022 figure.
- The largest June deal was the £31m sale of Edinburgh's 40 Princess Street.
- Prime yields are at 6.00% in both Edinburgh and Glasgow.

Occupier markets:

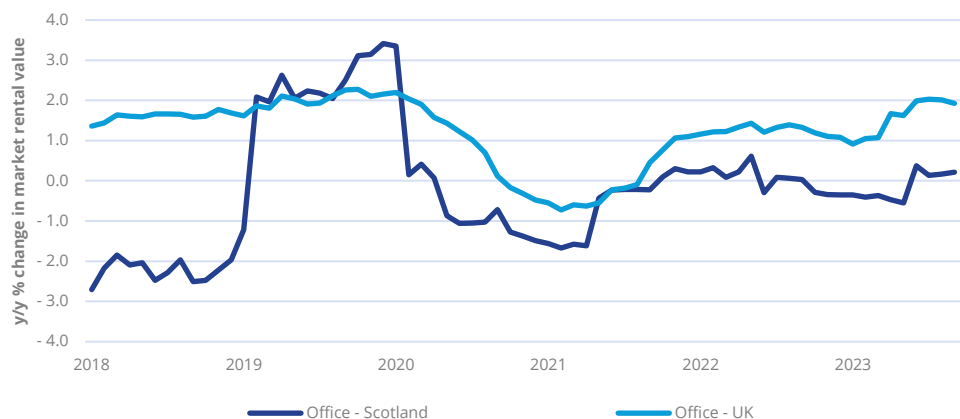
- Although take-up in Glasgow picked up from 81,700 sq ft in Q2 to 87,600 in Q3, leasing activity remained well below the five-year quarterly average of 131,400 sq ft.
- There is currently 2.267m sq ft of space available in Glasgow, resulting in an overall vacancy rate of 14.4%. This is in line with Q2.
- Take-up in Edinburgh slowed significantly to 46,000 sq ft in Q3, well below the five-year quarterly average of 109,200 sq ft and the weakest since the 'Covid-quarter' of Q2 2020.
- Availability of space in Edinburgh stands at 891,800 sq ft and the vacancy rate rose to 7.5%.
- Prime rents in Edinburgh and Glasgow are stable at £39.00 psf and £36.00 psf, respectively.

Top Q3 investment deal by value

Asset type	Value	Yield	Location	Seller	Buyer
Office	£31m	7.7%	40 Princess Street, Edinburgh	Redevco	Remake Asset Management
Office	£4m	n/a	Orbital House, East Kilbride	Not disclosed	Hamilton Capital Partners
Office	£3m	9.5%	Maxxium House, Stirling	Emblation	Not disclosed

Source: MSCI RCA

Figure 7:
Market rental value growth - Offices



Source: MSCI UK Monthly Property Index

Industrial



£60m

Q3 investment volumes



-45%

YTD investment volumes against 2022



+3.9%

Annual rental growth of "Industrial - Scotland" in Q3



+15bps

YTD "Industrial - Scotland" movement in Q3

Capital markets:

- Industrial investment activity rose from £30m in Q2 to £60m in Q3.
- Seven assets were sold during Q3. The average sales price was £8m.
- The £180m transacted between January and September is 45% below the corresponding 2022 figure.
- The largest transactions in 2023 so far were the £41m sale of an 860,000 sq ft warehouse in Glenrothes and the £23m sale of a 333,000 sq ft warehouse in Motherwell.
- MSCI data suggests that "Industrial - Scotland" net initial yields rose by 15 bps in Q3, taking the total outward shift that started in Q3 2022 to 128 bps.

Occupier markets:

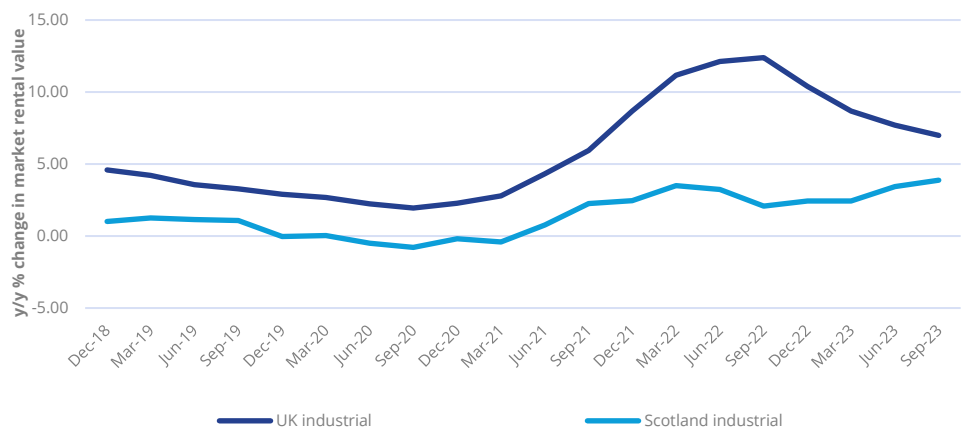
- Q1-Q3 2023 take-up across all sizes reached 4.6m sq ft. This is in line with the corresponding 2022 figure and 4.7% above the five-year Q1-Q3 average
- The Q3 vacancy rate of 3.6% (3.5% in Q2) equates to 9.3m sq ft of available space.
- As developers continue to battle with elevated build costs, there will be a lack of new space coming to the market for at least the next 18 months. We therefore expect continued rental growth, albeit at a decelerating rate.
- "Industrial - Scotland" rents rose by 0.5% q/q in Q3, down from 1.5% q/q in Q2. Annual rental growth was 3.9% which is well below the 7.0% UK average.

Top Q3 investment deals by value

Asset type	Value	Yield	Location	Seller	Buyer
Warehouse	£8.5m	n/a	Turnhouse Road, Edinburgh	Lothbury IM	ICG
Warehouse	£6.7m	6.2%	McNeil Drive, Motherwell	Galbraith	Wesleyan Assurance
Warehouse	£4.6m	7.3%	Whistleberry Road Hamilton	Kirkstone Holdings	Urban Industrial Income

Source: MSCI RCA

Figure 8:
Market rental value growth - Industrial



Source: MSCI UK Property Digest Reference Tables

Hotel



£40m

Q3 investment volumes



+46%

YTD investment volumes against 2022



+1.3%

Annual rental growth for hotels (UK) in Q3



+22bps

1Y "Hotel (UK)" movement in Q3

Capital markets:

- Investment in the hotel sector slowed from £110m in Q2 to £40m in Q3.
- During the first nine months of the year, £150m was transacted in the sector. This is up by 46% on the same period in 2022.
- In the year to date, 18 hotels changed hands with an average deal size of £8.6m.
- The largest Q3 deal was the £9m sale of the Carnoustie Golf Hotel & Spa to CGLMC Limited.
- UK-wide hotel yields rose by 22 bps in Q2, according to the MSCI Digest Index, having already risen by 88 bps between Q3 2022 and Q2 2023.

Occupier markets:

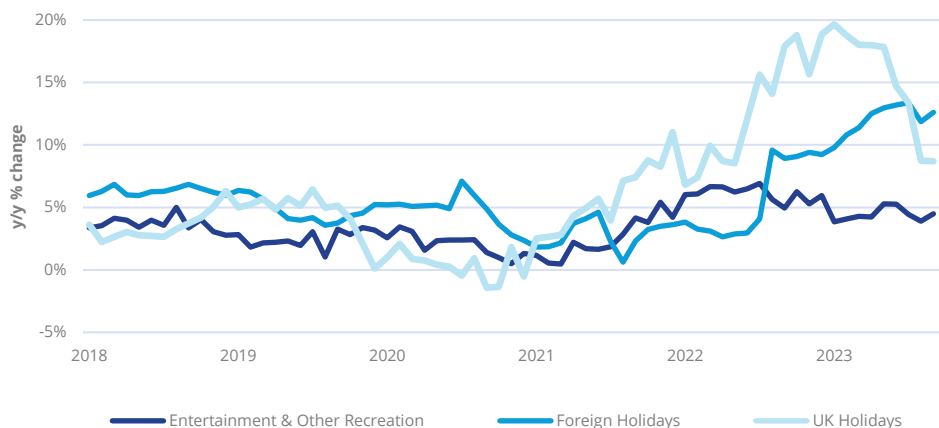
- Latest available ONS data shows that there were 3.5m overseas visits to the UK in June. In the latest three-month period, there were 9.9m overseas visitors, around 25% higher than the corresponding 2022 figure of 8m.
- GVA in the accommodation and food services sector rose marginally (0.1% m/m) in August and was 2.9% higher than in August 2022.
- The cost for UK holidays rose by 8.7% y/y in September. This is the joint-weakest rise in 16 months.
- The Q3 MSCI Digest Index shows that annual rental growth for hotels stood at 1.3%. This was the strongest increase in over three years.

Top Q3 investment deals by value

Asset type	Value	Yield	Location	Seller	Buyer
Hotel	£8.8m	6.5%	Carnoustie Golf Hotel & Spa	Not disclosed	CGLMC Limited
Hotel	£7.5m	n/a	Mercure Glasgow City	Alternative Income REIT	S Hotels and Resorts
Hotel	£0.4m	n/a	The Saltoun, Fraserburgh	JD Wetherspoon	Intuitive Holdings

Source: MSCI RCA

Figure 9:
Retail Price Index –
selected
categories



Source: Office for National Statistics

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