

Response ID ANON-B3JU-DSBD-H

Submitted to Local Development Plan Main Issues Report 2019 Consultation
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About You

What is your name?

Name:

Iain McMillan

What is your organisation?

Organisation:

Norr Consultants Ltd

On behalf of:

Robertson Property

How can we contact you?

Email:

[REDACTED]

Telephone:

[REDACTED]

Address:

[REDACTED]

[REDACTED]

[REDACTED]

1 Introduction

Section 1 provides a context for the Main Issues Report Do you have any comments in relation to this section?

Do you have any comments in relation to this section?:

2 Settlement Strategy

Question 1 New Housing Sites

Do you agree with our preferred housing sites? Are there any other sites that would be suitable for housing?:

Question 2 Housing Allowances Beyond 2032

Is there a need for us to identify further Housing Allowances or sites for the period beyond 2032?:

Question 3 Brownfield and other Opportunity Sites

Are there any further brownfield or other opportunity sites which would be suitable for redevelopment?:

See attached supporting statement for proposed opportunity site

Question 4 New Healthcare Facilities

Do you have any comments on these sites? Are there any other sites in these areas that we should be considering?:

6 Resource and Business Policy

MAIN ISSUE 6 Low and Zero Carbon Generating Technologies and Water Efficiency

Should the requirement of existing Policy R7 be changed?:

Not Answered

Question 22 Low and Zero Carbon Generating Technologies and Water Efficiency

What methodology should the Council use in calculating compliance with Policy R7, specifically how should the target of reducing carbon dioxide levels be calculated?:

Question 23 Solar Farm Developments

Do you agree that Solar Farms should be supported within the Council's policy on Renewable and Low Carbon Energy developments, and should specific guidance be included within Policy R8?:

MAIN ISSUE 7 Heat Networks

Should we include a policy in the Local Development Plan supporting the development of Heat Networks within the City?:

Not Answered

Question 24 Supporting Business and Industrial Development

Should we carry forward our current policy approach to safeguarding existing business and industrial areas from other development pressures into the next Local Development Plan?:

There should be flexibility towards supporting uses and developments that encourage the redevelopment within existing business and industrial areas that enhance their attractiveness. We have put forward a proposal for rezoning of business and industrial land to allow this. See attached supporting statement.

MAIN ISSUE 8 West End Office Area

Should the policy support a mix of uses in the West End Office Area? If so, what types?:

Not Answered

Additional Documents

Please include comments on other documents below:

Please include comments on other documents below::

Additional Files

If you have further information you would like to provide you may upload it here.:

Combined Submission Docs to Planning.pdf was uploaded



Main Issues Report Response

Hareness Road

IAAB190023

Robertson Property

May 10, 2019

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1 INTRODUCTION

This report has been submitted as a response to the Aberdeen City Main Issues Report (MIR) on behalf of Robertson Property who seek a rezoning of employment land at the corner of Hareness Road and Wellington Road. There was no bid made for this site made through the call for sites, however, it is put forth that this proposal provides flexibility to bring back a vacant site into productive use. This report should be read in conjunction with the Report on the Commercial Property Market prepared by FG Burnett attached in Appendix 1.

The site is located at the junction of Wellington Road and Hareness Road on the edge of the Altens Industrial Estate to the south of the city. The uses in the industrial estate in close proximity are largely Class 4 with an area of storage and distribution to the south. To the west of Wellington Road there are residential properties.

Following an appraisal of the market and the viable options for the redevelopment the opportunities are significantly restricted. In order to achieve a viable redevelopment of this site there is a requirement for a mix of uses including uses that fall outwith classes 4, 5 or 6. There does remain potential for development of 4, 5 and 6 uses albeit on a reduced scale and as a part of a balanced mixed use development of the site.

This submission sets out the reasons for seeking a change in zoning for this site and considers the implications in relation to the employment market and national/regional planning policy. It is trusted that the site will be considered and ultimately hoped that the zoning is amended in the forthcoming LDP or an alternative identification is made to allow for greater flexibility in the appropriate land uses.

2 SITE BACKGROUND AND PLANNING HISTORY

The site is located within the Altens Industrial area, which is 2 miles to the south of the city centre, toward the southern edge of Aberdeen. It lies adjacent to the roundabout linking Hareness Road with Wellington Road, this can be seen in Figure 1.

The site was the location of the former Lauries Motel and since its closure there have been a range of applications for development on the site as listed below-

- A6/2138 Office Development Approved
- 120129 Extension of time to A6/2138
- 140229 Office Development (Approved)
- 170950/S42 Section 42 Application to Vary Planning Condition (Approved)
- 180968/DPP Erection of Drive-Thru Units and Retail with associated infrastructure (Withdrawn)

None of the above planning approvals have been implemented and the most recent use of the site is as a hotel (Class 7). There remains a

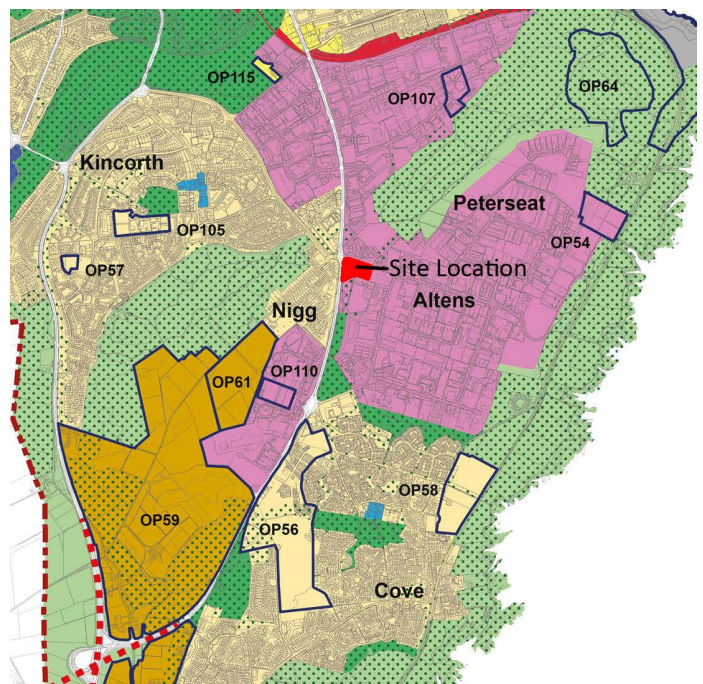


Figure 1: Site Location

valid planning permission for 7,157sqm GFA office building (Reference 170950) however lack of demand and over supply direct to a requirement to reconsider the proposal to enable the site to be brought back into use.

The site is currently allocated within Business and Industrial Land in the LDP, which seeks development of Class 4, 5 and 6 uses. Policy does allow for ancillary development, but to provide further flexibility a change in zoning is sought.

3 POLICY AND OTHER MATERIAL CONSIDERATIONS

The proposal for the site is to rezone it as an opportunity site from industrial land to a mixed use allocation to provide greater scope to bring the site back into productive use. A consideration of the proposal is made in review of national, regional and local policy alongside other material considerations.

3.1 NATIONAL

Nationally, Scottish Planning Policy (SPP) provides policies which reflect the Scottish Ministers priorities for the planning system and directly relates to-

- The preparation of development plans;
- The design of development from initial concept through to delivery; and
- The determination of planning applications and appeals.

SPP recognises the role that the planning system plays in supporting business and employment and states-

"The planning system should:

- *Promote business and industrial development that increases economic activity while safeguarding and enhancing the natural and built environments as natural assets;*
- *Allocate sites that meet the diverse needs of the different sectors and sizes of business which are important to the plan area in a way which is flexible enough to accommodate changing circumstances and allow the realisation of new opportunities; and*
- *Give due weight to net economic benefit of proposed development."* (SPP, para 93).

Whilst there is a recognition of the need to suitably allocate employment land, national policy clearly recognises the need for the planning system to be adaptable and not hinder economic growth through a restrictive approach which does not recognise the benefit that new opportunities can bring. The need for flexibility is crucial as the economy changes, this is particularly evident in Aberdeen where the oil and gas industry downturn has forced the economy to adapt. The planning system must allow for incremental change and adapt to changing circumstances and conditions.

3.2 REGIONAL

The extant Strategic Development Plan was adopted in 2014 for Aberdeen City and Aberdeenshire. The SDP targets the Aberdeen City LDP to ensure there is at least 60ha of marketable land available in Aberdeen City in a range of locations. This plan was adopted during a period of economic prosperity in Aberdeen where oil prices were very high, in 2015 oil prices plummeted causing many businesses to close or relocate. Throughout the SDP period, the 60ha target was achieved and the Employment Land Audits

for the last 5 years show that there has been an average of 273.37ha of established employment land available for uptake in the city.

The SDP is currently under a period of review and the proposed SDP is currently being examined by Ministers prior to adoption. The Main Issues Report which was prepared as part of the forthcoming SDP noted the significant amount of employment land allocated in the Aberdeen City LDP and stated *"Aberdeen City and Shire continues to have a very generous supply of employment land throughout the area"* (SDP MIR, p12). The report also acknowledges the high level of vacant land in the Region, the Employment Land Audits which are conducted do not take this into account, however, in line with the oil and gas downturn there has been a number of companies moving and closing down over recent years leaving industrial and office space behind.

The SDP MIR subsequently informed the proposed SDP for Aberdeen which states, *"where new development is proposed adjacent to Employment Land Allocations, the potential impact of that development on existing or future nearby uses must be considered, as well as the potential impact of those existing uses on the new development"* (Proposed SDP, 5.12).

The primary concern at a Regional level is having sufficient land allocated or available for employment uses. Mixed use development at Hareness Road must be considered against the existing uses, however, there would be no conflict and the location of the site on the periphery of the industrial estate assists with this also as it can be enjoyed by the surrounding residential developments as well as those working in the Industrial Estate. This site's most recent use was not for a class 4, 5 or 6 use and has not contributed to the employment land supply in Aberdeen.

3.3 LOCAL

The extant Aberdeen City LDP states, *"It is recognised that supporting facilities such as shops, hotels, leisure and sports uses, crèches and children's nurseries can make an important contribution to the city's employment areas. Such facilities are already present on a number of the city's employment areas and the Plan supports the provision of these uses, where appropriate, within employment areas."* This recognition of the mixture of uses which is becoming increasingly prevalent in employment allocations illustrates the positive impact complementary mixed uses can have employment areas.

Whilst employment allocations are retained for Class 4, 5 and 6 uses, the LDP does not preclude development on employment land where the proposed use does not compromise or conflict with the business and industrial uses. Policy B1 requires that land zoned for business and industrial uses be retained for Class 4, 5 and 6 uses, however, allows other uses which may be suited to be assessed on their own merits. There is an increasing recognition of the role that complementary uses can provide in industrial estates, not only can these provide more vibrancy to the area but they can also support the surrounding businesses. Planning applications will be assessed on their individual merit and it is proposed this is an opportunity to allow a broader mix of uses on this site to enable the redevelopment without affecting the operation of neighboring uses.

Policy H2 addresses Mixed Use development, it states, *"where new industrial, business or commercial uses are permitted, development should not adversely affect the amenity of people living and working in the area."* It is considered that a mixed use development at Hareness Road would suitably complement the surrounding development. The industrial estate currently has a large amount of vacant buildings and there has been very little development in recent years. Introducing a broader mix of development outwith the traditional Class 4, 5 and 6 would provide more variety in the area which the surrounding residential

developments could also benefit from. There would be no conflict at the site and the development would not impinge on the industrial area with the large amount of vacant sites providing ample class 4,5 and 6 space.

The MIR for Aberdeen City does not propose to amend these policies in the forthcoming LDP so it is expected that this policy shall remain in the new plan when adopted.

3.4 BUSINESS LAND AVAILABILITY

The proposed SDP requires the Aberdeen City LDP to have 60ha of employment land allocated at all times, the extant LDP has allocated 105ha of employment land up to 2032 with a further 70ha between 2033 and 2040. The strategic requirement is sufficiently fulfilled and there are a large number of employment land allocations currently. Aside from the allocated land, there is also an abundance of vacant units across the city which are not included in the allocated land. This is largely due to the downturn in the oil and gas economy in Aberdeen which has resulted in businesses moving and closing down.

The Aberdeen Employment Land Audit 2017/18 shows that there is currently 286ha of established employment land supply in Aberdeen City. This is undeveloped land which is allocated for industrial/business/employment use, the current allocations are outlined in Table 1 below.

Table 1: Aberdeen City Established Employment Land Trend (all figures in hectares)					
Location	2014	2015	2016	2017	2018
Lochside/Newlands	3.6	2.2	2.2	2.2	2.2
Aberdeen Gateway	3.5	2.4	2.4	2.4	2.4
Peterseat	6.9	8.6	8.6	8.6	8.6
Altens East	8.8	11	8.2	8.2	8.2
Aberdeen Science & Energy Park	1.2	1.5	1.5	1.5	1.5
Aberdeen Innovation Park	2.4	3	3	3	3
Findlay Farm	13.1	16.4	16.4	16.4	16.4
The Core Berryhall/Cloverhill	54.7	68.4	68.4	68.4	68.4
Airport Dyce Drive	59.3	68.7	60.2	77.35	77.35
Dyce Drive	0.9	1.1	1.1	1.1	1.1
Raiths, Dyce	1.2	1.5	1.5	1.5	1.5
Wellheads West	1.4	0.9	0.9	0.9	0.9
Grandhome	4	5	5	5	5
Craibstone North & Walton Farm	1.2	1.5	1.5	1.5	1.5
Rowett North	27.6	34.5	34.5	34.5	34.5
Prime Four	26.4	16.5	16.5	16.5	16.5
Greenferns	8	10	10	10	10
East Arnhall	0.64	1	1	1	1
Countesswells	8	10	10	10	10
Oldfold	4	5	5	5	5
Loirston	8.8	11	11	11	11
TOTAL	245.64	280.2	268.9	286.05	286.05
Source: All figures taken from Aberdeen City and Aberdeenshire Employment Land Audits					

Table 1 illustrates the significant increase in allocated employment land in Aberdeen City since 2014 as well as highlighting a lack of uptake as these sites have remained unoccupied over a five year period. These allocations do not factor in land which is available for employment use such as vacant office space which is also in abundance in Aberdeen currently.

There is currently 286ha of employment land allocated in Aberdeen City, the average development rate on employment land for the last ten years has been 7.9ha per annum. Based on the current total allocation there is a 28 year supply of employment land which further demonstrates the healthy level of allocated land.

The Employment Land Audit notes that, *"following the downturn in the oil and gas industry over the past three years, fewer marketable sites are expected to come forward in the near future and existing sites are being taken up at a slower rate."* Thus, whilst there may be less employment allocations entering the supply, there is far less demand with uptake not at a high level, this indicates a need to rethink employment sites where land is sitting vacant and not providing any economic gain.

Development rates at the Altens Industrial Estate have been slow with only 3.9ha land developed between 2005 and 2018. There is also a large amount of vacant land which is not accounted for in the Employment Land Audit following the downturn in the gas and oil economy in the city. The lack of development combined with the extent of vacant land demonstrates the need to rethink the employment allocation at Altens.

The proposed opportunity site had lain vacant for a significant period of time and based on recent development rates it is likely to remain undeveloped unless the sites use is reconsidered. There is no loss in available employment land in the redevelopment of what was formerly a hotel site and its redevelopment for a mixture of uses would not compromise the ability to meet business' needs.

3.5 STATE OF MARKET

FG Burnett have been appointed to advise Robertson Property on the current state of the commercial market in Aberdeen and a report on the commercial market for business uses on the site at Hareness has been prepared and submitted with this response.

This report highlights the economic effect that the down turn in the oil price has had on the demand for office and industrial space. This dramatic fall from a high point in 2014 has led to a significant level of vacancies in the market. Within the office market there is no market for the development of office accommodation at this site. Consideration has been given to the effect that the completion of the new harbour may have on the local demand and the potential discussed with the Council's Economic Development Service. There has been no enquiries and interest in developments on this basis and with the availability of property this is not likely to change the demand for commercial land at this site. Within the industrial market the level of supply available in the market compared to demand suggests that there is not likely to be a shift in the ratio to provide an opportunity for investment in the foreseeable future.

4 MIXED USE DEVELOPMENT

This proposal seeks allocation as a mixed use opportunity site within land allocated for employment use, the most recent use on the site was as a hotel and has not formed part of the employment land in Aberdeen City. There is the potential for an office development of a smaller scale than approved

previously, but this would require to be supported by complimentary uses to ensure viability for the development, a mixed use zoning would provide support to this proposal.

The allocation as mixed use is not considered to be in conflict with the industrial estate and in most instances could provide uses which would suitable complement the employment land. The mix of uses at the site could provide a vibrant setting with no conflict.

5 CONCLUSION

The rezoning of the site at Hareness Road to land for mixed use would provide an opportunity to bring the land into productive use. The site has lain unused for a significant period of time since the demolition of the Lauries Motel.

National policy recognises the need for the planning system to be adaptive to market conditions and encourages using land which would have a positive impact on the economy. Rezoning the land will have no impact on the supply of business land in Aberdeen, with more than 4 times the required land supply.

With the evident changes in the local economy there has been a major shift in the supply of commercial space and the demand ratio and the requirement for new development has been decimated. With the reduced turnover and the abundance of available premises there is limited opportunity for new development.

Following an appraisal of the market and the viable options for the redevelopment these opportunities are significantly restricted. In order to achieve a viable redevelopment of this site there is a requirement for a mix of uses including uses that fall outwith classes 4, 5 or 6. There does remain potential for development of 4, 5 and 6 uses albeit on a reduced scale and as a part of a balanced mixed use development of the site. It is considered that a mixed use zoning would best suit the opportunities for the redevelopment of this site and it is requested that this is taken into account in the Proposed Local Development Plan.

Appendix 1 Report on the Commercial Property Market



Main Issues Report Response

Hareness Road

- Report on the Commercial Property Market



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INTRODUCTION

This report forms part of the response to the Aberdeen City Main Issues Report (MIR) submitted by NORR on behalf of Robertson Property who seek a rezoning of employment land at the corner of Hareness Road and Wellington Road and set out a commentary and conclusion regarding the current state of the occupational property market for different sectors of commercial property particularly those, which up to this point, would have been most commonly associated with and likely to utilise the site.

REMIT

Against the background, the subject site has lain vacant for 36 months without any meaningful interest being expressed in acquiring an office building for which the site has an extant planning permission, we have been instructed to provide a background to that lack of interest and a considered view as to the likelihood of any such interest being expressed in the short to medium term. We have also been asked to comment on the availability and take up of development land with a view to establishing the materiality of the loss of a site for office purposes.

EXPERTISE

This report has been prepared by Graeme Watt and Jonathan Nesbitt, both Executive Directors of FG Burnett, with over 50 years of commercial property experience. Graeme is an industrial specialist having represented both landlord and tenants in industrial agency instructions, lease re-structuring and acting for industrial landlords and tenants on rent review instructions. Graeme is a Member of both the Royal Institution of Chartered Surveyors and Chartered Institute of Arbitrators.

Jonathan is an office specialist, acting for Landlords in disposal instructions, predominantly in Aberdeen and the North East of Scotland and also tenants in acquisition requirements, strategic portfolio analysis, and lease restructuring. Jonathan is a Member of the Royal Institution of Chartered Surveyors and a Fellow of the Chartered Institute of Arbitrators. Jonathan also undertakes rent reviews in respect of office premises throughout Scotland for both Landlords and tenants.

SITE DESCRIPTION

As the reader will be familiar with subject site, we do not propose to provide a detailed description of the site, suffice to say it comprises an irregularly shaped parcel of land, extending to 0.858 hectares (2.12 Acres) situated at the roundabout junction of West Tullos Road, Wellington Road and Hareness Road. Surrounding properties to the east are mainly offices, which are currently vacant and available and industrial facilities, while across Wellington Road to the west, there is a mix of uses but predominantly it is a residential area comprising Loirston, Kincorth and West Tullos.

ECONOMIC BACKGROUND TO PROPERTY DEMAND

We will consider both the office and industrial sector in greater detail and in turn below (with the greater emphasis on offices given the extant planning permission) but as a precursor to that, it is appropriate that we state that despite the best and continuing efforts of the city to diversify and find, foster and encourage new industries to establish themselves in Aberdeen, there is absolutely no

doubt that the office and industrial sectors of Aberdeen's commercial property market are directly linked to the fortunes of the energy sector and its performance. It is well documented that the energy sector has suffered a severe downturn since 2015 onwards. Recent commentary suggests an element of positivity returning to the sector but acknowledging that it is also accepted that it will never be as buoyant as it was and it will still take a considerable time to absorb the vast supply of space which now exists.

Offices

Since the fall in the oil price in 2015 from \$120 to \$25 dollars per barrel and the subsequent austerity measures adopted by all energy companies in Aberdeen, the office market dynamic has gone through a seismic shift.

In 2014, the Aberdeen office market witnessed take up of c 1.2m sq.ft, coupled with a dearth of quality supply. Supply of all types of office accommodation was in the region of 300,000 sq.ft, the majority of which was in largely tertiary premises. Anything of any quality was occupied. To put the take up figures in perspective, the annual take up in London in the same year was 11m sq.ft despite having 35 times the population.

The planning consent for the Skypoint Development (the subject site) came at a time just prior to the oil price collapse and with burgeoning supply and a fall in demand, there was insufficient demand to agree a pre-let and a lack of optimism in market conditions to provide the confidence to construct on a speculative basis.

Within the period 2015 to present, Aberdeen has witnessed unprecedented levels of supply, with current figures sitting at approx. 2.8m sq.ft which on the basis of average annual take up equates to approx. 7 years supply. It is clear that there has been a move away from more traditional west end accommodation to modern open plan space in the city centre, those traditional buildings becoming increasingly more difficult to dispose of.

In addition, peripheral areas such as Bridge of Don, Dyce and Altens / Tullos has witnessed the biggest change in demand dynamic. The peripheral locations were and still are characterised by modern office pavilions, largely built between 2008 and 2014, on a speculative basis to cope with the burgeoning demand. These buildings were designed to cater for the size of requirements prevalent in the market at that time, a significant proportion of which preferred large floor plates and buildings of 10,000 – 40,000 sq.ft were common characteristics of modern speculative development. The fact that the majority of developments prior to 2015 were leased very shortly after completion if not before was testament to the strength of the market. The current office market story is the corollary of this.

Large modern open plan office pavilions in the periphery of the city are largely unlettable at present. The average letting size in Aberdeen over the past 2 years is in the region of 3,500 sq.ft. The majority of requirements and transactions are for quality city centre space with some west end transactions in high quality space where the letting terms are considerably different from those applicable in 2014. In many cases the reason properties remain available in the peripheral locations is not a function of rent – there are instances of buildings being offered at £1 per annum – it is simply a function of demand or rather a complete lack thereof. Westhill has bucked the trend over the past 24 – 36 months. Small office pavilions 2,000 sq.ft or floors within these buildings have performed reasonably well with a consistent churn. It is however important to stress that these transactions are being concluded at rents of £15 / £16 sq.ft with 6 -9 months rent free on a 5 year deal. This is contrast to £23/sq.ft and 3 months rent free 3 years ago. Small office suites have let, large open plan modern pavilions have not.

In terms of the subject site, it is located in a very prominent location at the junction of Hareness Road and Wellington Road. However, it is important to assess the amount of accommodation in the immediate vicinity to understand the lack of confidence to continue with the development for which planning permission was obtained.

In terms of competition to this development, it is our experience that a south of the city requirement would have taken in all options between the North Dee Business Quarter and say City South Business Park in Portlethen. At present there is the following availability within these geographical parameters:

Property Address	Floor Area
Horizon House, Old Ford Road	32,000 sq.ft
Riverside House, Riverside Drive	53,000 sq.ft
Admiral Court, Poynerook Road	20,000 sq.ft
Pilgrim House, Old Ford Road	14,000 sq.ft
The Exchange, Market Street	30,000 sq.ft
Consort House, Stell Road	60,000 sq.ft
City View Business Park, Wellington Road	34,000 sq.ft
Craigshaw Business Park, Craigshaw Road	58,000 sq.ft
Trafalgar house 1 & 2, Hareness Road	100,000 sq.ft
Balmoral Business Park, Wellington Road	30,000 sq.ft
City Gate 3, Hareness Road	13,000 sq.ft
Loirston House, Wellington Road	20,000 sq.ft
Quattro Business Park, Wellington Circle	45,000 sq.ft
KMD Business Centre, Wellington Circle	30,000 sq.ft
Wellington House, Wellington Circle	20,000 sq.ft
Gateway Business Park	20,000 sq.ft
City South Business Park, Portlethen	25,000 sq.ft
The Maersk Facility, Crawpeel Road	100,000 sq.ft
Total	704,000 sq.ft

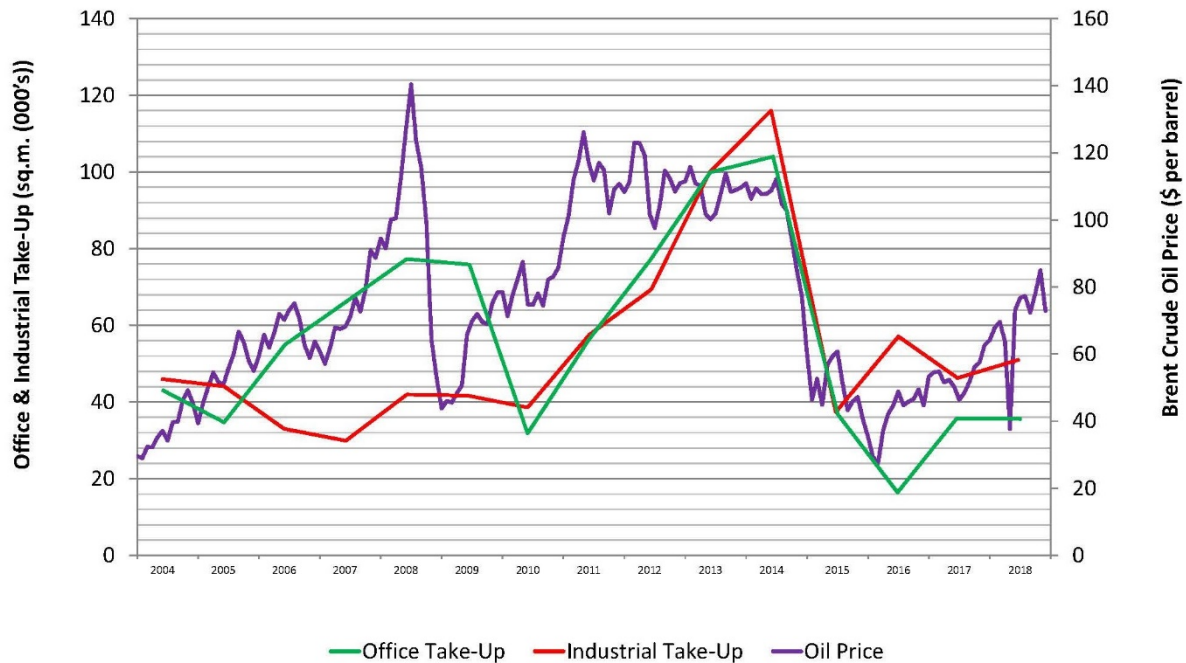
(* All sizes approximate)

This totals approximately 700,000 sq.ft of generally high quality office accommodation between Market Street and Portlethen. This represents approximately 25% of all available supply! This does not take into account the inferior office accommodation which is also available in sub-standard quasi industrial premises or old style office developments.

It is also important to acknowledge the impact that the AWPR is having and will have on office market dynamics. It is likely that with vastly improved accessibility to all parts of the city, especially Bridge of Don and Dyce, that office requirements may not be so confined to pre-determined geographical locations. The whole of the city has now opened up for occupiers and they are no longer confined to a location because of potential staff disruption or proximity to clients. Occupiers are now able to seek accommodation in other parts of the city which may provide a better financial solution for their business. In addition to the availability mentioned above, the vast amount of availability in Westhill, Bridge of Don and Dyce also comes into play and provides competition for those properties mentioned above which would not have been the case pre AWPR.

The statistics are compelling and the following graphs explain the shift in the demand / supply equation and the very strong link between the office market and the oil price.

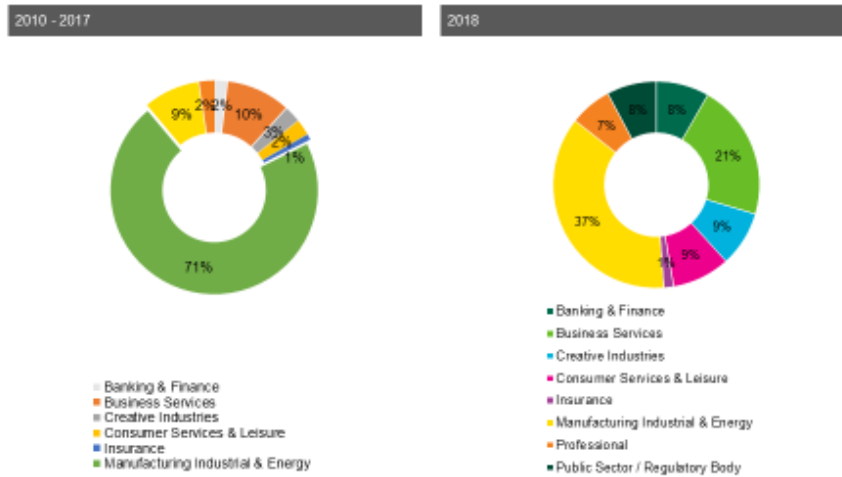
Fig. 1 - Correlation between oil price and office take up



The past 10 years saw a rapid increase in the oil price following the previous price crash in 2009, at the same time office take up grew steadily until 2014 when record take up figures were posted of 1.2m sq.ft or so. The fall in pricing in late 2014 / early 2015 had a much more marked impact with take up levels falling dramatically and remain extremely subdued over the previous 4 years. 2016 saw the lowest annual take up of 183,000 sq.ft, approximately 15% of the previous year's figures. 2017 and 2018 have all been around the 350,000 – 400,000 sq.ft levels, below average take up figures.

Fig. 2 Take up by sector

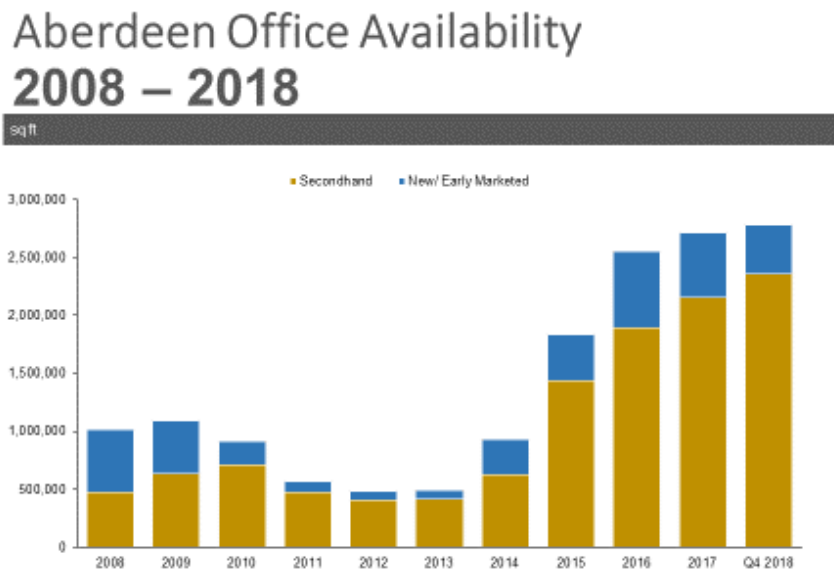
Aberdeen office take-up By Sector



In tandem with the lack of office take up it is interesting to note the nature of the occupiers who are leasing office accommodation in the city. In the 7 years 2010 – 2017, the energy and manufacturing sector was responsible for the lion’s share of office take up correlating to a sustained oil price at profitable levels. This has nearly halved in 2018, with energy sector making up a vastly reduced percentage of all office transactions.

It is this category of occupier who would be the principle target for high quality peripheral office accommodation. The lack of activity in this sector is the reason the above properties mentioned remain available.

Fig.3 Office Availability



Office availability is at unprecedented levels and represents approximately 7 years average annual take up. As at the end of 2018, approx. 250,000 sq.ft of this was available in the three new developments on Union Street and Broad Street, namely The Silver Fin Building, the Capitol and MSQ. Approximately 150,000 sq.ft of these buildings have however been leased since completion in 2017 showing again a move towards city centre quality, especially when rent and incentive packages are at current levels.

The level of availability has had a considerable impact on lease terms, rent and incentives. Rents have fallen by up to 40% in the west end and in peripheral areas this would be in excess of this especially when incentives are added. At these levels no new development could be supported, especially when landlords of existing buildings are prepared to offer high quality space at a fraction of previous rental levels. The following graph confirms the appetite towards new development in the city.

Fig. 4 Office Development Pipeline

Aberdeen office development pipeline 2008 – 2020

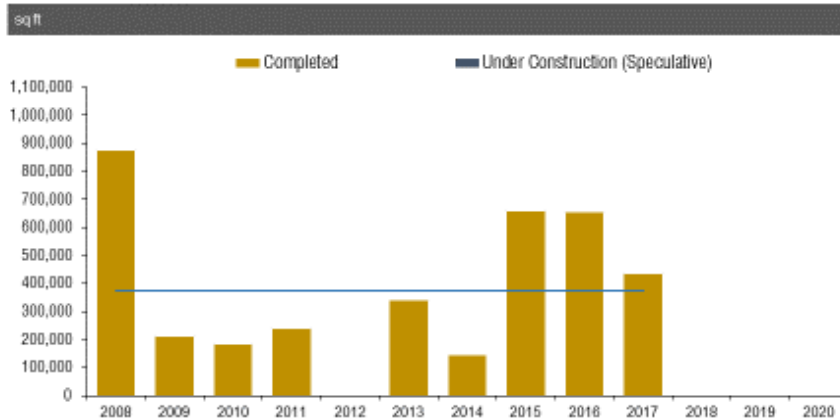
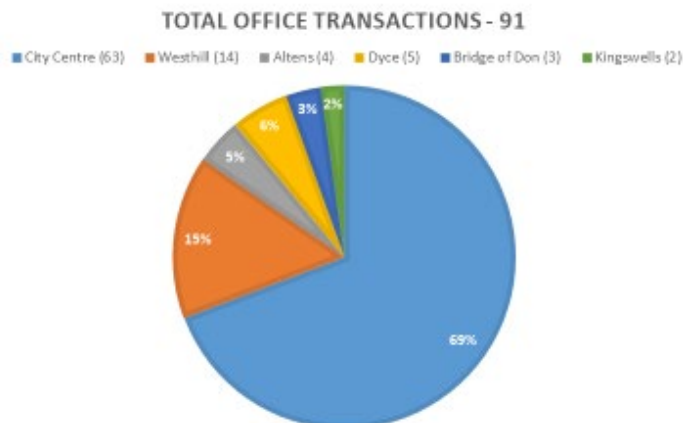
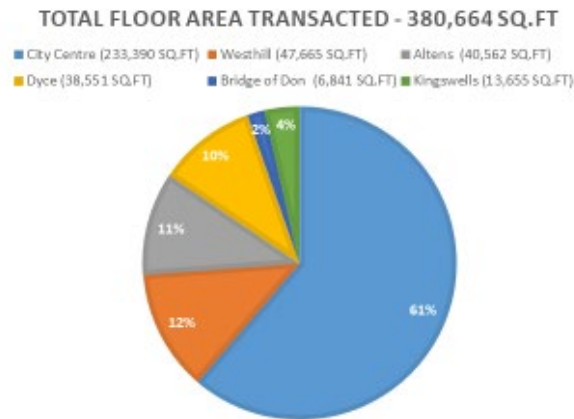


Fig. 5 Locational Preference

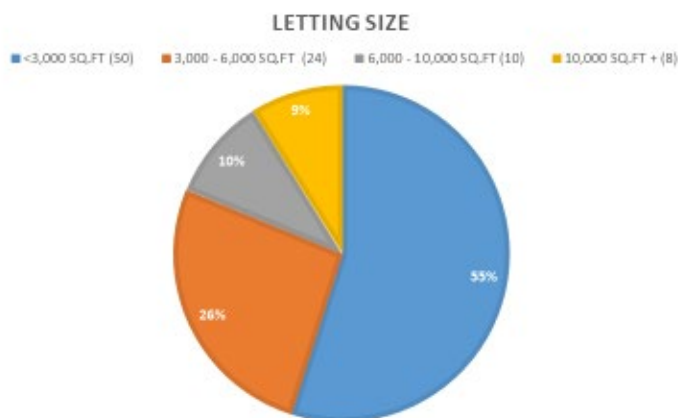
2018 OFFICE MARKET - % TRANSACTIONS BY LOCATION



2018 saw a total of 91 office transactions. Nearly 70% of which were in the city centre and west end. Altens witnessed 4 office transactions in the year, c 5% of all deals in 2018, with a total area of 40,000 sq.ft – 11% of the total. This included the sale of the KMD Business Centre – 30,000 sq.ft which was bought at auction at a price just over 10% of the previous asking price in 2015. The floor area take up by location can be seen in the following graph, Fig. 6

Fig. 6
2018 OFFICE MARKET - % FLOOR AREA BY LOCATION


The simple fact is that there is an unprecedented supply of good quality office accommodation especially in the peripheral areas and it is these areas where there is a severe paucity of demand. There were only 8 transactions in excess of 10,000 sq.ft in 2018. The vast majority of transactions being less than 3,000 sq.ft. There is little demand for large office buildings in the periphery of the city. At the time of writing we understand there is a deal shortly to complete for 50,000 sq.ft of extremely high quality space in Dyce. This is an exception to the rule and the space represents one of the best office buildings in the city in terms of specification and amenity. We also understand that the rent will be in excess of 35% less than the head lease rent currently payable, once incentives are taken into account.

2018 OFFICE MARKET - FLOOR AREA %


To conclude, there is no market for a large or even medium sized modern office buildings on the subject site, either on the basis of a pre-let or on a speculative basis. The simple dynamics of rent, terms and incentive would make the development of office buildings economically unviable with costs being far outweighed by any potential return. Those occupiers who may have a requirement for office space have a wealth of options and lease terms would be considerably more attractive than those required to facilitate the construction of the office scheme as proposed.

Industrial

It bears repeating that the performance of Aberdeen's industrial property market is as directly linked to the fortunes of Aberdeen's energy sector as the office sector.

Accordingly, I do not intend to re-state the graphic facts and figures described above. In short however, the industrial market in and around Aberdeen continues to experience challenging times and despite the improved oil price and positive sentiment seemingly returning to the market, this has yet to be translated into material increased demand and transactional activity.

Over the past 4 years, supply has continued to increase and now stands at over 2.5 Million sq ft far outstripping demand.

By way of illustration the annual take up of industrial space since 2015 is as follows (this excludes lease renewals):-

2015 – 397,000 sq ft
2016 – 596,000 sq ft
2017 – 534,000 sq ft
2018 – 660,000 sq ft

More recently, the take up of supply in Q1 2019 was 140,000 sq ft, slightly down on 2018 which was 160,000 sqft. Not unexpectedly, the average deal size was around the 5,000 sq ft mark, however, there were a couple of larger deals at circa 20,000 sq ft which buoyed the take up statistics.

There are currently between 50 and 60 active industrial requirements in the market with the majority in the 2,500- 5,000 sq ft size bracket, though by dint of forthcoming lease events, including lease expiries, there are some larger requirements emerging, in fact 21 requirements in excess of 10,000 sq ft

Geographically, , 40% of the supply is concentrated to the south of the River Dee which accounts for around 1m sq.ft. of available space. The second largest concentrated area is Dyce with the remainder of the peripheral locations including the city centre in single digit percentage points. The demand profile more or less reflects the supply profile.

In essence and summary, we are currently working in a commercial environment where the demand / supply equilibrium currently highlights a ratio of no less than 4 : 1 in terms of annual take up to overall supply.

Fundamentally, this is because we are still in an era where energy sector companies have been seeking to not only rationalise their portfolio of facilities with the objective of reducing costs they have been also been seeking to release facilities which do not match up to their aspirations in terms of layout, specification and energy performance. Accordingly, various industrial facilities across the size sector have been released to the market and it is predominately this space, often offered on discounted terms, which has absorbed and satisfied the pre-existing demand. The good news to be taken from that is that deals are happening as a result of the highlighted "positivity" within the energy

sector but it will take some time, if ever in the foreseeable future before the demand / supply ratio shifts to a level which prompts and reignites developer interest in mainstream industrial property.

That is not to say that there has not been any new build, there has but only on very limited cases on a design and build pre-let basis or, in anticipation of an improving market, to capture the interest of small emerging companies. Evidence of this type of development can be taken from the speculative development of several new build small unit size multi-let schemes, the first such schemes in the Aberdeen market for over 10 years eg. at Altens Trade Park, Souterhead Road, Altens and ABZ Business Park, Dyce within the city and beyond the city boundary but still worthy of mention, at City South, Portlethen and Kingshill Commercial Park, Westhill

EMPLOYMENT LAND

A thorough and detailed analysis of land available and potentially available for development now and in the near future is contained in the Employment Land Audit which is a publically available document produced annually and jointly by Aberdeen City Council and Aberdeenshire Council.

For the purpose of this exercise and commentary, I think it is material and relevant to quote the Executive Summary contained within that document and I do so below. There is no doubt that the market commentary, economic indicators and influences highlighted earlier in this commentary are corroborated in this document.

Executive Summary

Purpose and Background

The Aberdeen City and Shire Employment Land Audit provides up-to-date and accurate information on the supply and availability of employment land in the North-East of Scotland. The audit has been produced by officials of Aberdeen City and Aberdeenshire Councils and the Strategic Development Planning Authority (SDPA). The 2017/18 Audit has a base date of 1st April 2018. You can also view the Employment Land Audit document on the councils' websites:

www.aberdeencity.gov.uk/localdevelopmentplan

www.aberdeenshire.gov.uk/council-and-democracy/statistics/economy

Established Supply

Between April 2017 and April 2018 the established land supply in Aberdeen City remained the same at 286ha. Over the past year, no sites have been completed and 12ha remains under construction for a second year on The Event Complex Aberdeen (TECA). Aberdeenshire has seen a very minor increase of 2ha resulting in a new established supply total of 553ha. Over the past year, 15ha have been built out and a further 2.7ha are under construction.

Constrained Supply

There has been no change in the constrained supply for Aberdeen City between April 2017 and April 2018, remaining at 64ha for a third year, which equates to 22% of its established supply. In Aberdeenshire, the constrained supply has decreased by 3% over the same period to 245ha, meaning that 44% of the established supply in the Shire is constrained.

In general, the relatively high amount of constrained supply in both authorities can be explained by the fact that some of the larger Local Development Plan (LDP) allocations with more complex infrastructure requirements are realistically expected to come forward in the medium rather than short term.

Marketable Supply

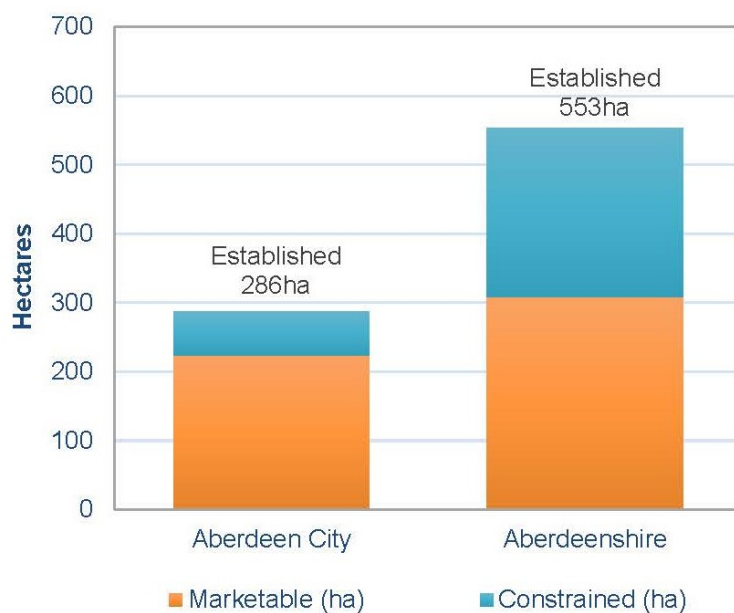
In Aberdeen City, the marketable land supply has seen no change between April 2017 and April 2018 and remains at 223ha, of which 52ha are classed as immediately available. In Aberdeenshire, there was a net increase of 3% in the marketable supply over the year to 307ha, of which 68ha are classed as immediately available.

The Strategic Development Plan requirements for employment land supply are as follows:

- 60ha of marketable land available in Aberdeen City
- 60ha of marketable land available in the Strategic Growth Areas of Aberdeenshire
- At least 20ha of this marketable land to be suitable for high quality business use/company headquarters

The targets for the supply of marketable employment land in both Aberdeen City and Aberdeenshire continue to be significantly exceeded and the overall employment land supply provision is generous. Over 20ha of the total marketable land available is considered suitable for high quality business use and/or company headquarters. The Proposed Strategic Development Plan has recently been out for consultation, in which the employment land supply targets remain unchanged. The Proposed Plan will be submitted to the Planning and Environmental Appeals Division (DPEA) of the Scottish Government for an examination in public during the first half of 2019.

Figure 1: Employment Land Supply Aberdeen City and Shire 2017/18

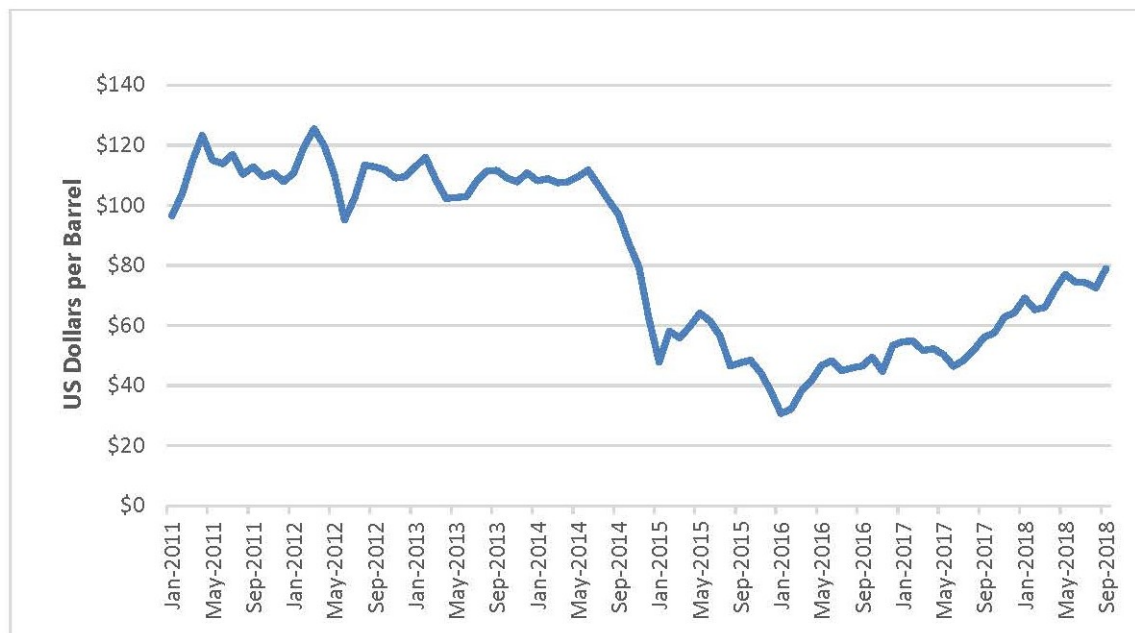


Market Activity ¹

Figure 2 below shows the dramatic fall in the oil price towards the end of 2014 from over \$100 per barrel to below \$40 per barrel in early 2016. In early 2018 the price of Brent rose above \$70 per barrel for the first time in over 3 years and encouraging signs of improvement in trading conditions in the oil and gas industry have been reported. It is anticipated that ongoing price stability in the region of \$70 - \$80 per barrel, together with the vast reduction in operating costs achieved over the last 2-3 years, may now allow companies to plan for the future. This could involve new property requirements, potentially filtering through to an increased take up rate of employment land.

¹ Published Sources: *Knight Frank Aberdeen Office Market Activity Report Spring 2018* ; *Ryden 82nd Scottish Property Review April 2018*; *Ryden 83rd Scottish Property Review October 2018*, *CBRE Marketview Aberdeen Office H1 2018*

Figure 2: Europe Brent Crude Price January 2011 – September 2018



Source: eia.gov (US Energy Information Administration)

Looking back over 2017/18, there remained a steady take up of employment land in Aberdeenshire, despite the continuation of low oil prices. In contrast, there has been a continued significant drop in the rate of development in the City over 2017/18 with no new developments having been completed or started in that period. TECA at Rowett North, (Bucksburn) covering 12h remains under construction for a second year. Several of the previously completed sites in the City are yet to be occupied despite some confidence returning to the oil and gas industry.

Over the period there has continued to be a fluctuation in the supply of both vacated secondary stock and excess Grade A space in new build premises, causing overall supply to continue to outstrip demand in both the office market. However, the level of available Grade A office space is down compared to the previous year as occupiers continue to upgrade to modern, high quality accommodation, moving out of poorer quality secondary premises. The industrial market also has an excess of supply over demand, particularly older stock, and activity has been low. Despite this, very limited speculative development is set to return to the new build industrial market with smaller multi-let units planned at Kingshill Commercial Park, Westhill and City South Business Park, Portlethen.

In the City, the Marischal Square development on Broad Street (high quality office, retail and leisure space) completed towards the end of 2017 has secured a number of occupiers and the remaining space continues to be marketed.

Developments within Aberdeenshire completed over the period 2017/18 include a new base for National Oilwell Varco at Kintore, expansion of the Brewdog complex at Ellon and a large council depot at Macduff.

In conjunction with this summary but drilled down to a transactional level to evidence the lack of activity, we are only aware of a very limited amount of recent and/or ongoing transactions of development ground. These include:-

- Souterhead Road, Altens – a site acquired by Knight Property to provide Altens Trade Park referred to above. This involved “buying in“existing ground leases;
- D2 Business Park, Dyce – An imminent acquisition of a site, slightly in excess of 2 acres for an owner occupier.

However, we are aware of existing, effectively functionally obsolete buildings which have been acquired for the purpose of development these include the former Total headquarters at Crawpeel Road, Altens, Silverburn House, Claymore Drive, Bridge of Don, the former Land Rover Vehicle dealership at Greenwell Road, Hercules House in Badentoy Industrial Park, Portlethen.

Accordingly, it is reasonable to conclude that for the short/medium term and foreseeable future, there is an ongoing and adequate supply of development ground to match the likely demand.

CONCLUSIONS

There is absolutely no doubt that against the background of current macro-economic indicators and general level of energy sector activity, matched against the obvious, undoubted if not unprecedented levels of supply and take up of existing office and industrial facilities, the prospect of there being any market interest in speculatively developed office or industrial facilities on the subject site will, both in the short term and for the foreseeable future, be remote in the extreme. In any event and against the background of the penal empty property rates regime, even with transitional and other reliefs, the short to medium term prospect of any office and industrial facilities being developed speculatively on this site would be remote in the extreme as well.

Equally but against that same wider economic background and market conditions, we can see no reason to suggest that the loss of this site for office or industrial use will have any impact at all far less a material effect on the overall supply of development available to satisfy current and anticipated demand for the short term and foreseeable future.

We hope this commentary is sufficient for the purpose for which it is intended and fulfils the remit set out above.



Aberdeen Office

33 Albyn Place, Aberdeen AB10 1YL
T: 01224 572661

www.fgburnett.co.uk