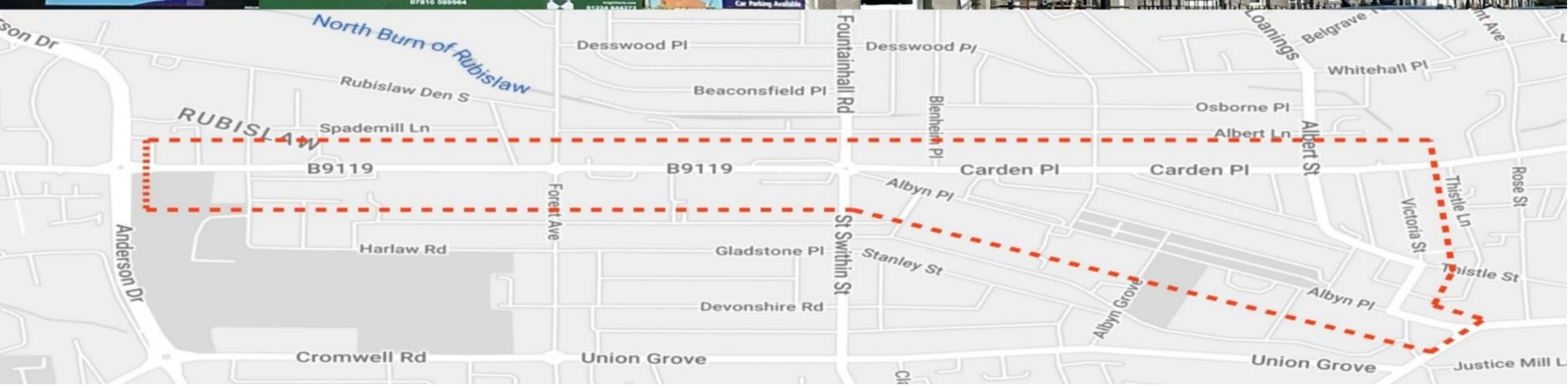
West End of Aberdeen Office Vacancy
June 2024



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1.0 Introduction

This Aberdeen West End Office research project focuses on the number of vacant buildings in the West End area of Aberdeen. The area, known for its large granite houses built between 1880 and 1920, has seen significant changes over the years. Constructed initially as residential dwellings, many of these properties were later converted into office use in response to the growing demand from the expanding business sector driven by the North Sea's oil and gas activity. However, with shifting business trends and preferences, and the downturn in the oil and gas sector since 2014, these once-popular office spaces have lost their appeal, resulting in many buildings standing empty or underutilised. This has led to neglect in certain areas, impacting the vibrancy and economic activity of the West End of Aberdeen.

1.1 Motivation and Contextual Discussion

The measure of vacancy is frequently used to measure the health of a real estate market. High vacancy is considered problematic for owner/investors and for the health of a neighbourhood, while low vacancy is considered beneficial to owner/investors as it may lead to rental and capital growth and creates vibrancy in an area. An equilibrium vacancy rate is where there is no upward or downward pressure on rental rates, but in reality, in most space markets a balance is rarely achieved. (Parli & Miller 2014).

The research is motivated by the need to tackle economic decline and urban blight in the West End of Aberdeen. Changes in office space requirements due to technological advancements, evolving work cultures, and the oil and gas turndown have left many historic buildings vacant. This situation provides an opportunity to explore the possibility of converting these properties back into residential use or finding alternative sustainable uses to revitalise the area.

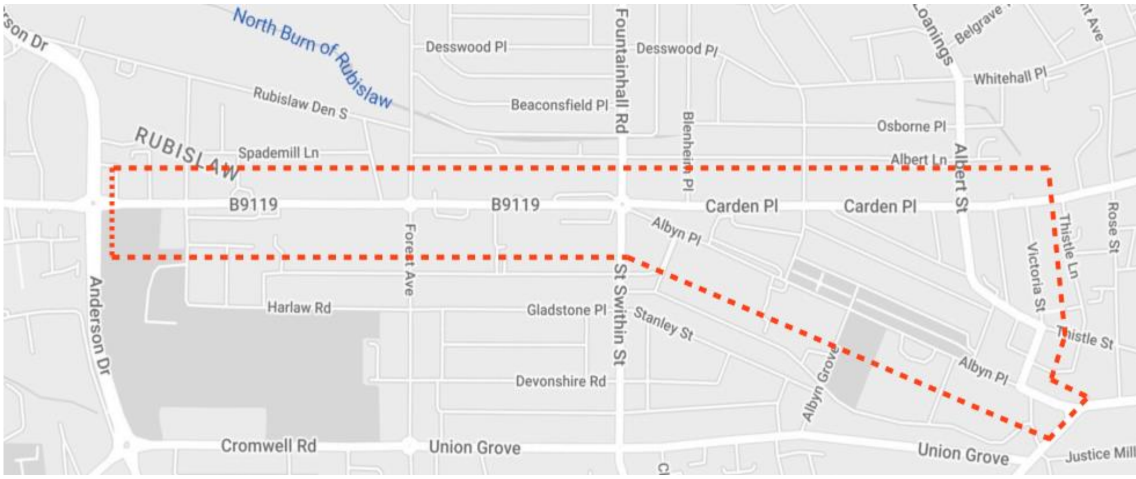
The decreasing demand for traditional office spaces, along with broader economic factors such as declining house prices, building material cost inflation and high interest rates, complicates the feasibility of converting these buildings into residential properties or renovating the existing spaces to preserve them as office units and make them more appealing to businesses.

1.2 Agreement on the Boundaries of the Area Under Investigation

The research focuses on the West End area of Aberdeen, mainly centered around Queen’s Road, Carden Place and Albyn Place. This district features a diverse mix of land uses, including offices, schools, hotels, residential flats, and a private hospital. The area encompasses several key streets: Alford Street, Albyn Place, Rubislaw Terrace, Queen's Terrace, Albyn Terrace, Rubislaw Place, Victoria Street, Waverley Place, Albert Street, Carden Place, and Queen's Road. This area comprises around 1.2 million sq. ft. of commercial space. See Fig. 1 below.

NB. This is not a report on the whole office market in Aberdeen, but only of a particular defined area.

<u>Figure 1. West End Aberdeen Research Area</u>



2.0 Demographics of Aberdeen

2.1 Population

Aberdeen boasts the third-highest population in Scotland. As of March 2022, Aberdeen City had an estimated population of 224,000, marking its lowest level since 2012. Between 2001 and 2021, the city's population increased by 7.3%, rising from 211,910 to 227,430 (Office for National Statistics, 2024). Aberdeen's population peaked in 2015 at 230,350. Projections in 2018 estimated that Aberdeen City's population would reach 227,885 by 2022, however, these estimates have proven inaccurate, as the actual population decreased to 224,000.

2.2 Employment Statistics

For over five decades, the oil and gas industry has been central to the economy of the North East of Scotland, significantly contributing to the region's prosperity and resulting in higher average earnings compared to other parts of the UK. However, direct employment in this sector has experienced a decline, falling from a peak of 30,600 jobs in 2015 to 21,000 jobs in 2021 (Aberdeen City Council, 2023). Despite this reduction, the oil and gas sector remains a major employer in the region. Including indirect employment within the wider supply chain, the industry supported approximately 60,000 jobs in the North East in 2023 (Aberdeen City Council, 2023).

2.3 GVA

Between 2007 and 2016, Aberdeen City had a greater Gross Value Added (GVA) per hour worked than the average in England, Scotland, Northern Ireland and Wales. In 2021, although Aberdeen's GVA reached a record high of £36.8, it was lower than the averages for both England and Scotland.

3.0 The Office and Residential Market

3.1 The Office Market in Aberdeen

In 2023, the total office take-up was 321,013 sq. ft., which was 17% lower than in 2022 and 14% below the average of the past five years. New space to the market and grade A space made up 50% of the total take-up in 2023 (Knight Frank, 2024).

In 2023, the Energy and Utilities sector remained the most dynamic in terms of occupancy. Companies in this sector accounted for 56% of all take-ups (Knight Frank, 2024). The availability of Grade A office space dropped to 184,098 sq. ft. by the end of 2023, which was a 69% decrease from the previous year and more than 50% below the five-year average. This was the lowest year-end figure since 2014.

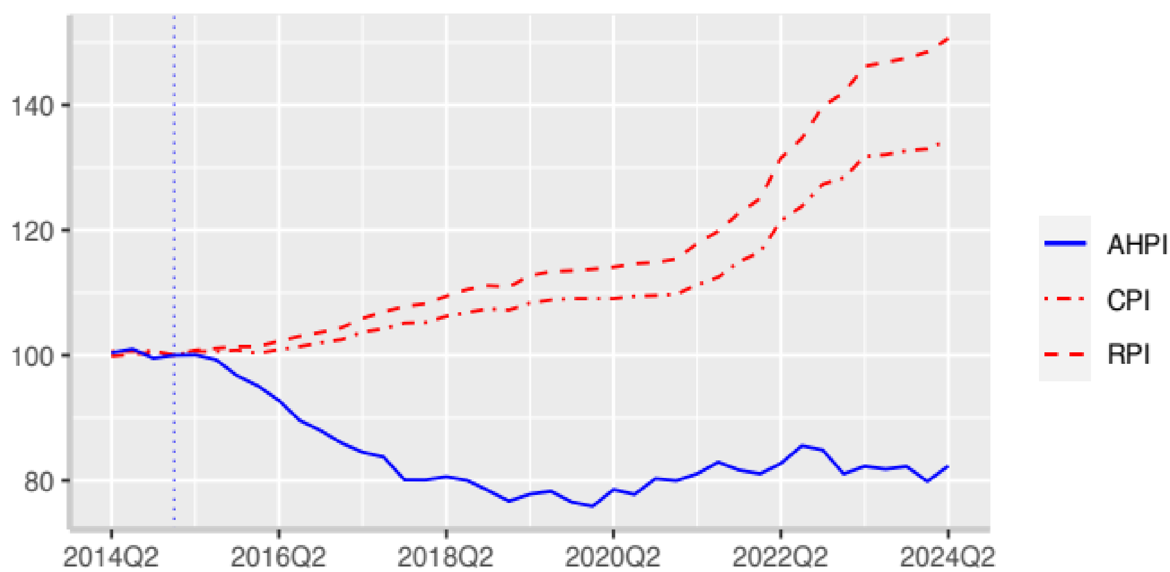
Since 2018, prime rents in Aberdeen have remained stable at around £32.50 per sq. ft. This makes Aberdeen one of only two major regional cities that have not experienced rental increases since Covid restrictions were lifted. Looking ahead, Knight Frank and Savills both predict rental growth in the following years.

3.2 The Residential Market in Aberdeen

Since 2015, Aberdeen's average house prices have declined while the UK's prices have continued to rise. As of April 2024, the average house price in Aberdeen was £125,671, while the UK average stood at £281,373 (UK HPI, 2024). From 2004 to 2014, Aberdeen City experienced an average annual growth rate in house prices of 9.1%. In contrast, from 2014 to 2024, the city has witnessed an average annual decline of 2.9%.

Based on data from ASPC, the Aberdeen House Price Index (AHPI) decreased by almost 20% from the second quarter of 2015 to the second quarter of 2024. In contrast, during the same period, the Retail Price Index (RPI) increased by 50%, while the Consumer Price Index (CPI) rose by more than 35%.

Figure 2. Price Indices from 2014Q2 to 2024Q2



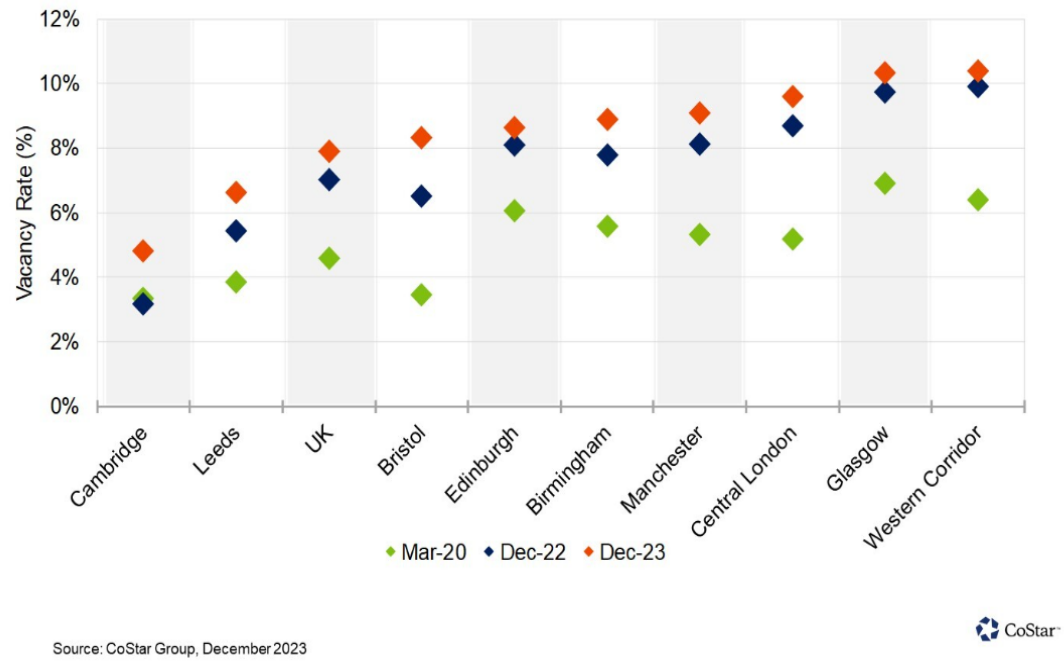
Source:https://www.aspc.co.uk/media/be1fin02/second-quarter-2024.pdf

4.0 The Market Challenges

4.1 Working from home and post COVID-19 effects

The COVID-19 pandemic has brought significant changes to the commercial office real estate sector, largely due to the rise of remote work. Many companies have heavily invested in remote work capabilities, indicating that remote work may have a lasting impact beyond the immediate crisis. According to the Office for National Statistics, around 39% of UK adults have been working from home. At the same time, new construction is at near-record levels, leading to a significant increase in vacancies across the UK, especially in London (Forsdick and Murray, 2023). Figure 3. below indicates the increase in office vacancy rates in major UK markets.

Figure 3. Office Vacancy Rates in Major UK Markets



Source: https://product.costar.com/home/news/1783462936

Although businesses are generally decreasing their office space in the UK, high-quality office spaces remain in strong demand. Businesses are willing to pay higher rents for the best spaces, driven by factors such as location, advanced technology, modern fittings, and strong ESG ratings (Forsdick and Murray, 2023).

4.2 Business rates and the timeline of the removal of Empty Property Rates Relief

For the fiscal year 2024/25, the distributable non-domestic rates (NDR) for Scotland have been assessed at £3,068 million. Aberdeen City Council is expected to receive £208 million in distributable NDR for 2024/25, which is a decrease from the £258 million received in the previous year (Aberdeen City Council, 2024).

The last revaluation of rateable values took place in 2023 and estimated the annual rent a property could command on the open market as of 1st April 2022. From 2023, many property occupiers in

Aberdeen started paying a reduced rates bill, with the city's total rates bill decreasing by 17%. Occupiers had experienced significant increases in the 2017 revaluation, which had been based on the robust local economic conditions of 2015. The next revaluation will occur in 2026, based on property values as of 1st April 2025. Historically, revaluations were conducted every five years, but starting in 2023, they will now occur every three years. This change aims to ensure that rateable values are more closely aligned with current rental market conditions, making the rates payable more accurately reflective of property values. The Scottish Government sets non-domestic rates in Scotland, while local councils are responsible for administering and collecting these rates. The rateable value is multiplied by the rate poundage to determine the rates payable, with potential adjustments for applicable reliefs (Aberdeen City Council, 2024).

Table 1. Tax Rates 2024/25

Rate name	Rateable value	Tax rate
Basic property rate ('poundage')	Up to £51,000	49.8 pence
Intermediate property rate	£51,001 to £100,000	54.5 pence
Higher property rate	Over £100,000	55.9 pence

From 1st April 2023, Empty Property Relief (EPR) was devolved to local authorities, giving them complete control over reliefs and exemptions for fully unoccupied properties, including listed buildings and properties under administration. This move aligned with the Scottish Government's aim of encouraging vacant properties' reoccupation and economic use. Prior to 1st April 2023, all vacant listed buildings received 100% exemption. However, from 1st April 2023, businesses with unoccupied and unfurnished properties in Aberdeen could apply for EPR, receiving 50% relief for the first three months, which then reduced to 10% for the remaining period the property remained empty. As at December 2023, 1,105 properties were benefiting from this relief scheme, amounting to a total relief value of £4.2 million. However, from 1st April 2024, Aberdeen City Council removed all empty property reliefs, reducing the EPR to zero, except for businesses or organisations that have entered insolvency (Aberdeen City Council, 2024).

5.0 Vacancy levels in the West End of Aberdeen Research Area

5.1 Method of Data Collection and Analysis

Initial data collection involved mining the Scottish Assessors Association (SSA) database to identify all commercial properties located in the West End of Aberdeen. Information was extracted on the property address, description, proprietor, occupier/tenant, rateable value, total building floors, and net internal area. The data collection date was 28th June 2024. For properties where information was not available through the SAA, CoStar[1] was used to fill in any data gaps, particularly regarding the net internal area of the buildings.

[1] www.costar.co.uk

After gathering initial data, fieldwork was conducted to collect more information about the current state of the buildings. This involved physically observing the external appearance of the properties to observe and document their status. The buildings were categorized as occupied, available for rent, for sale, under redevelopment, or showing no activity. During these visits, each building's external condition was assessed and ranked into three categories: unkempt, average, and highest quality. To further enrich the analysis, the research included an examination of listed properties in the West End, guided by the *Aberdeen City Conservation Area Character Appraisals and Management Plan*. The council categorizes listed buildings into three classifications: A, B, and C.

During the data analysis phase, occupancy and vacancy data were examined to calculate overall occupancy rates and identify areas with high vacancy rates.

Research was also conducted on the amount of planning applications for a change of use back to residential between 2014 and 2024, within our research area. The research aimed to understand current trends in the Aberdeen West End area and to gauge the intentions of developers and landlords regarding their properties. The data was retrieved from the Aberdeen City Council website.

5.2 Vacant Space

For the Aberdeen West End area, the data collection from the SAA reveals that out of a total of approximately 1.172 million sq. ft. of commercial space, around 900,000 sq.ft. are dedicated to offices.

The West End Office Market comprises 906,974 sq. ft. of office space. There is currently vacant space covering 257,140 sq. ft., resulting in an overall vacancy rate of 28.35%. The overall vacancy rate is further categorized as follows: Official Vacancy Rate (14.82%), Re-development Vacancy (9.11%), No-activity Vacancy (3.54%), and Sale/To Let Vacancy (0.88%).

The "Official Vacancy Rate" includes office space that is considered vacant according to the SAA website. For the purpose of this study, we consider current redevelopment projects as "empty space". "No-activity" refers to spaces that are not listed as empty by the SAA but were found to be vacant during our fieldwork. Finally, "Sale/To Let Vacancy" includes empty buildings that are actively advertised for sale or lease but are not recorded as vacant by the SAA, while being found to be vacant during our fieldwork.

Table 2. West End Office Market Vacancy

West-End Office Market	Square Footage
Total	906,974
Vacant	257,140
Vacancy Rate	28.35%

Analysis at street level reveals some significant differences in the vacancy rate. Analysis of Rubislaw Terrace/Queen's Terrace presents an alarming picture. With a total of 125,330 sq. ft. of commercial space, 60,600 sq. ft. are currently vacant, resulting in an abnormally high vacancy rate of 48.35%.

Note that in all space markets there is expected to be some frictional vacancy, where there is allowance made for turnover of occupiers and time required for search for new premises, contracts to be drawn up and refurbishment to take place. The industry 'rule of thumb' for frictional vacancy is often quoted as 5% (Fanning et.al., 1994). The vacancy rates listed in Table 3 should be considered against this frictional vacancy rate of 5%.

Table 3. West End Office Market Vacancy by Street

	Total	Vacant	Vacancy Rate
Alford Place	37,633	6,269	16.66%
Albyn Place	258,038	73,696	28.56%
Rubislaw Terrace/ Queen's Terrace	125,330	60,600	48.35%
Albyn Terrace	45,857	10,733	23.41%
Rubislaw Place/ Victoria Street/ Waverley Place	81,504	15,565	19.10%
Albert Street	40,187	10,564	26.29%
Carden Place	170,218	45,998	27.02%
Queen's Road/ Queen's Garden	413,187	57,714	13.97%

5.3 Condition Survey

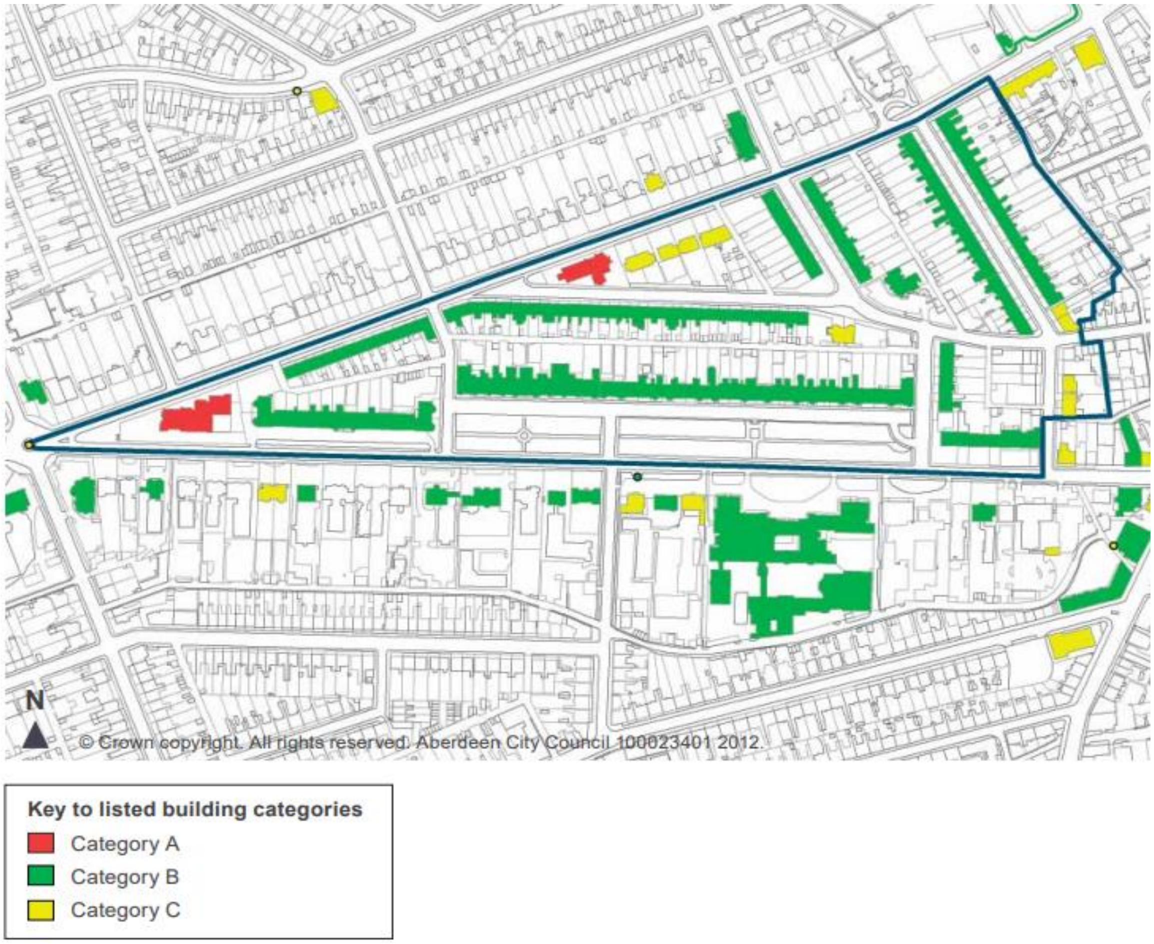
The properties in the West End were classified into three condition levels: unkempt, average, and highest quality. Out of 219 commercial properties, 8 were categorized as unkempt, 194 as average, and 17 as highest quality. This distribution indicates that only 7.76% of properties in the West End are of the highest quality, while 88.58% are average, and 3.66% are unkempt. It is acknowledged that this is a subjective measure based on the external appearance only.

5.4 Listed Buildings and Conservation Area

Out of 219 properties, two are classified as Category A (both are churches), 108 as Category B, 38 as Category C, and 71 are not listed buildings.

The terraces - Rubislaw Terrace, Queen's Terrace, and Albyn Terrace - are all designated as Category B listed buildings. Aberdeen City Council's decision in the 2024/2025 Partnership Budget requires these Category B listed buildings, which currently have the highest vacancy rates in the West End, to pay full business rates. Before 1st April 2023 (when Empty Property Relief (EPR) was devolved to local authorities), all listed buildings were completely exempt from business rates, if they were vacant.

Figure 5. West End map showing properties with listed status



Source:https://www.aberdeencity.gov.uk/sites/default/files/2013_Con_Appraisal_3_Albyn.pdf

5.5 Planning Applications for Change of Use Back to Residential

Between 2014 and 2024, 27 commercial spaces in the West End were approved for conversion back to residential use. However, only 10 properties were removed from the SAA valuation roll (suggesting conversion took place), while the remaining 17 are still listed and likely still paying business rates (suggesting conversion has not started or not been completed).

Table 4. West End Change of Use to Residential Planning Applications: 2014 to 2024

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	Total
Albyn Place		1	2	1								4
Victoria Street	1		3									4
Carden Place	2	1	2	2		1	1					9
Queen's Road	1	1		1								3
Rest of West-End	1	1	2		1	1	1					7
Total	5	4	9	4	1	2	2	0	0	0	0	27

6.0 The Challenge

Changes to Aberdeen's economy have impacted its real estate market. Decline in oil and gas investment and the increasing trend of remote working, has affected the demand for office space. Many properties, especially those located in the *Terraces,* are struggling to find tenants as the internal layouts are dated and require significant upgrading work to reach a standard suitable for letting. The economics of such refurbishment is questionable given high building cost inflation and the uncertainty of securing a tenant on a reasonable length of lease, paying a rental rate that justifies the expense. This has resulted in a vacancy rate of nearly 50% in some areas.

Landlords who have vacant properties are currently facing a challenging situation. Since 1st April 2024, when Aberdeen City Council abolished the empty rates relief, the holding costs have increased significantly as they are now required to pay business rates in full. This change requires landlords to make prompt decisions about the future of their properties or suffer high holding costs.

After consulting with planning experts, commercial property professionals, and property owners, three potential solutions were identified, with a focus particularly on what may be possible in the *Terraces*:

1. Upgrade to Grade A Office Standard: This option involves converting the office into an open-plan space where possible, and modernizing it to meet Grade A standards, including necessary refurbishments and 'degassing'. The typical cost of upgrading to a Grade A office is approximately £1,250 per square metre.

2. Convert to a Single Residential House: This option involves converting the office space back into a single-family home. The conversion cost is around £750 per square metre.

3. Convert to Multiple Flats**:** This would involve converting the office space into multiple residential units, typically four to six flats. The conversion cost for multiple flats is roughly £1,500 per square metre. This higher cost, compared to single residential house conversions, is due to the need for multiple kitchens, bathrooms, and fire separation including the possible need to incorporate sprinkler systems.

7.0 Conclusion

Below is a summary of the factors contributing to the challenges faced by the Aberdeen West End office market and are the origin of the current problematic situation:

1. Decline of the Oil and Gas Industry: The downturn in the oil and gas sector has significantly impacted the local economy, leading to reduced demand for office space in Aberdeen. Despite refurbishments and conversions to open-plan layouts, some properties remain vacant, while others fail to sell at auctions for a fraction of their former value.

2. Rising Costs: Upgrading existing office spaces to Grade A standards has become prohibitively expensive. Due to increasing material costs, building costs have surged by 30% since 2022, while property values have declined. Converting cellular office spaces back to residential use is not economically viable for landlords.

3. Unwanted Cellular Space: The predominantly cellular office layouts in the original West End buildings are outdated and unattractive for modern office use. This is particularly detrimental to properties located in the *Terraces*, with the result that just under 50% of the space remains vacant.

4. Shift to Remote Work: The rise of remote working has reduced the need for office space, further diminishing demand in the Aberdeen West End office market.

5. Planning Challenges: Stakeholders report significant challenges in aligning with planners' expectations, which are often seen as unrealistic. In addition, there is concern about the time taken to consider applications.

6. Energy Efficiency Hurdles: Enhancing energy efficiency in listed buildings is difficult and expensive. For example, restrictions on window replacement prevent the installation of double glazing, complicating efforts to improve energy performance.

The key conclusion from the research is that within the Aberdeen West End area, office vacancy is likely to remain high, except in cases where the office space is of Grade A standard, or close to that standard. While there are moves to convert some of the vacant office space back to residential use, high building cost inflation and a weak residential market has made this action economically challenging. Owners of listed properties that are vacant are now faced with a significant increase in their holding costs due to the removal of Empty Property Relief. This may have the result of forcing owners to rethink their holding strategy, encouraging more activity, assuming of course there is a market for their proposed end use.

Persistent urban vacancy impacts the urban realm in many ways, including the physical decline of the building structure and deterioration of the surrounds, a plethora of To Let and For Sale boards, increased vandalism - note the fire damage to 31/32 Albyn Place - and a feeling in the neighbourhood of ongoing economic decline. A 28% vacancy rate indicates a market where the supply of office space heavily outstrips demand. It is worth reflecting on whether incentives are needed from local and central government to encourage conversion of vacant office stock back to residential use. These incentives could take the form of say, fast track planning approvals, more flexibility around building standards, tax breaks and even some grants or loans. It will not have gone unnoticed that the West End Office area is adjacent to Union Street and bringing more residents back to this area may well help regenerate the wider city centre.

Acknowledgement

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