Atlantic Quay 1

Prime City Centre Office Investment With Long Term Government Income

Atlantic Quay, 1 Robertson Street, Glasgow, G2 8JB


City Centre (N & W)
Oswald Street
Central
IFSD

Investment Summary

A rare opportunity to acquire a **prime long income office investment** majority let to the Government;

- **Modern, comprehensively refurbished, Grade A office building** extending to 121,737 sq ft with 84 car parking spaces (1:1,449 sq ft);
- **Prime position within Atlantic Quay**, in the heart of Glasgow's International Financial Services District (IFSD);
- Fully let to exceptionally **strong covenants of the Secretary of State (majority occupancy - 86%) and MacTaggart and Mickel Ltd (occupancy - 14%)**;
- WAULT of **12.2 years to expiry and 11.8 years to break**;
- Current passing rent of £2,908,893 per annum, reflecting a **low average passing rate of £22.54 per sq ft (excluding car parking spaces);**
- **Ideally situated for Glasgow's transport links**, being only a few minutes' walk away from Glasgow Central Railway Station and Glasgow Queen Street Station;
- Atlantic Quay is going through a transformation, with **numerous significant developments having been announced recently** or already on site;
- Atlantic Quay is fast becoming **the go to location for Government occupiers in Glasgow** with the GPU and Scottish Courts committing to 350,000 sq ft in the past 6 months.
- **Heritable interest** (Scottish Equivalent of English Freehold).

We are seeking offers in excess of £48,000,000 (Forty Eight Million Pounds Sterling), exclusive of VAT, for our client's heritable interest in the property.

This reflects a net initial yield of 5.70%, allowing for purchaser's costs of 6.28% and a capital rate of £394 per sq ft.

Location

Glasgow is the largest city in Scotland and the third largest in the UK. The city is known for its cultural, shopping and academic prowess and is fast becoming one of Europe's most vibrant cities. Glasgow is known for its retailing and is the top shopping location in Scotland and second only to London in the UK, with over half a million square metres of retail space and a shopping population of circa 2 million. The colloquially named 'Style Mile' is focussed around Buchanan St, Argyle St and The Merchant City is a fashion hub, while the West End has a boutique offer.

It is one of Europe's most dynamic cities with over £4.85bn of comparison goods spend available in the catchment area and is featured in the top 20 super league of major European shopping destinations by commercial expenditure. Furthermore, there are c. 2.3 million tourists drawn to Glasgow every year which increases footfall and spending.

Glasgow has an excellent reputation for education, with 5 universities and 3 super colleges. The University of Glasgow is the fourth oldest university in the English speaking world and Glasgow Caledonian University is number 2 in the UK for student satisfaction. The city has a graduate level workforce above almost all major UK cities, with 46.3% of the workforce educated to degree level. Glasgow maintains a robust skills pipeline and a talented, multilingual workforce with over 130,000 students from 135 different countries.

Finally, Glasgow's conference facilities are best in class. It is home to the Scottish Event Campus (SEC) which is the UK's largest integrated conference and convention centre. The SEC has generated in excess of £1 billion through business tourism. In addition, the Scottish Hydro Arena was completed in 2013 and hosts around 140 events every year and is currently in the top three worldwide arena venues based on annual ticket sales.

"Glasgow is the largest city in Scotland and the third largest in the UK. The city is known for its cultural, shopping and academic prowess and is fast becoming one of Europe's most vibrant cities."

Economy

Glasgow is the economic powerhouse of Scotland and generates £19.3billion GVA per annum – the largest of any Scottish city and representing 16% of Scotland's output. It is the fastest growing major city economy in the UK with growth significantly outperforming all other core cities in recent years. The City's GVA per capita is £32,308 per person compared to the UK average of £25,351. The most recent global financial services index (March 2017) confirmed this by putting Glasgow in the top 20 European financial centres (ranked 16th) above other major cities such as Brussels, Madrid and Edinburgh.

Glasgow has recently benefited from significant investment into initiatives such as the International Financial Services District (IFSD) and the Technology Innovation Centre. This has further strengthened Glasgow's service sector, which is a major part of Glasgow's economy. The IFSD has become one of the largest financial districts in the UK and has been successful in attracting an impressive line-up of occupiers such as AXA, JP Morgan, NFU Mutual, Barclays Wealth, RBS, Lloyds Banking Group, Tesco Personal Finance and Morgan Stanley.

City Deal

The Glasgow and Clyde Valley City Deal is an agreement between the UK government, Scottish Government and the 8 local authorities across Glasgow and Clyde Valley to invest in the area in order to stimulate economic growth. The scheme will involve £1.13 billion being invested in infrastructure across the area, supporting growth in the life sciences sector, setting up programmes to help the unemployed and helping small to medium size enterprises grow and develop.

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Transport

Road

Four main motorways give Glasgow high speed road access to cities throughout the UK. The M8 motorway provides direct access into the city via six junctions located on the periphery of the CBD and lies at the heart of Scotland's integrated motorway network, connecting directly to Edinburgh. It links with the M74 and the M73 motorways at Junction 4, offering access to Carlisle and Northern England. It also provides access to Stirling and Northern Scotland through its connection to the M80 / A80 at Junction 13.

Rail

Glasgow benefits from having two main railway stations; Glasgow Central Station and Glasgow Queen Street. In addition to providing local services throughout Central Scotland, these stations provide regular intercity transport to all major cities throughout the UK. Glasgow Central Station operates regular services to most major cities in England, whilst Glasgow Queen Street Station provides services to major Scottish cities such as Edinburgh, Aberdeen, Dundee and Inverness. Glasgow is also served by a subway and a local rail system which links the city centre to the outlying suburban areas, making it very accessible for commuters.

Air

Glasgow benefits from having three international airports within 45 minutes of the city centre (Glasgow International, Prestwick and Edinburgh) linking Glasgow to all major UK, European and International destinations. Glasgow International, only 15 minutes' drive from the city centre, offers regular domestic, European, Far East and Trans-Atlantic flights. Glasgow is the eighth busiest airport in the UK, with over 7.4 million passengers and 104,000 aircraft movements recorded each year.

Train times from Glasgow

Flight times from Glasgow

Location

Situation

Atlantic Quay 1 is on the corner of Roberston Street and Broomielaw, occupying a prominent position fronting onto the River Clyde. The property forms part of the highly successful Atlantic Quay development which is located in the International Financial Services District (IFSD).

The building is ideally placed for access to public transport, with both Glasgow Central and Glasgow Queen Street Stations being only a few minutes walk away. It also benefits from an extensive range of bus services which run along nearby Argyle Street. Furthermore, St Enoch subway station is situated within a 5 minute walk of the property providing routes to the north, south and west of the city.

The first phase of the new ‘Fastlink’ has now been delivered and provides a regional Bus Rapid Transit (BRT) system linking major transport hubs, events, venues, local attractions and the new South Glasgow Hospital. The route runs along the Clyde Front via the IFSD. For further information visit, www.spt.co.uk/corporate/about/projects/fastlink.

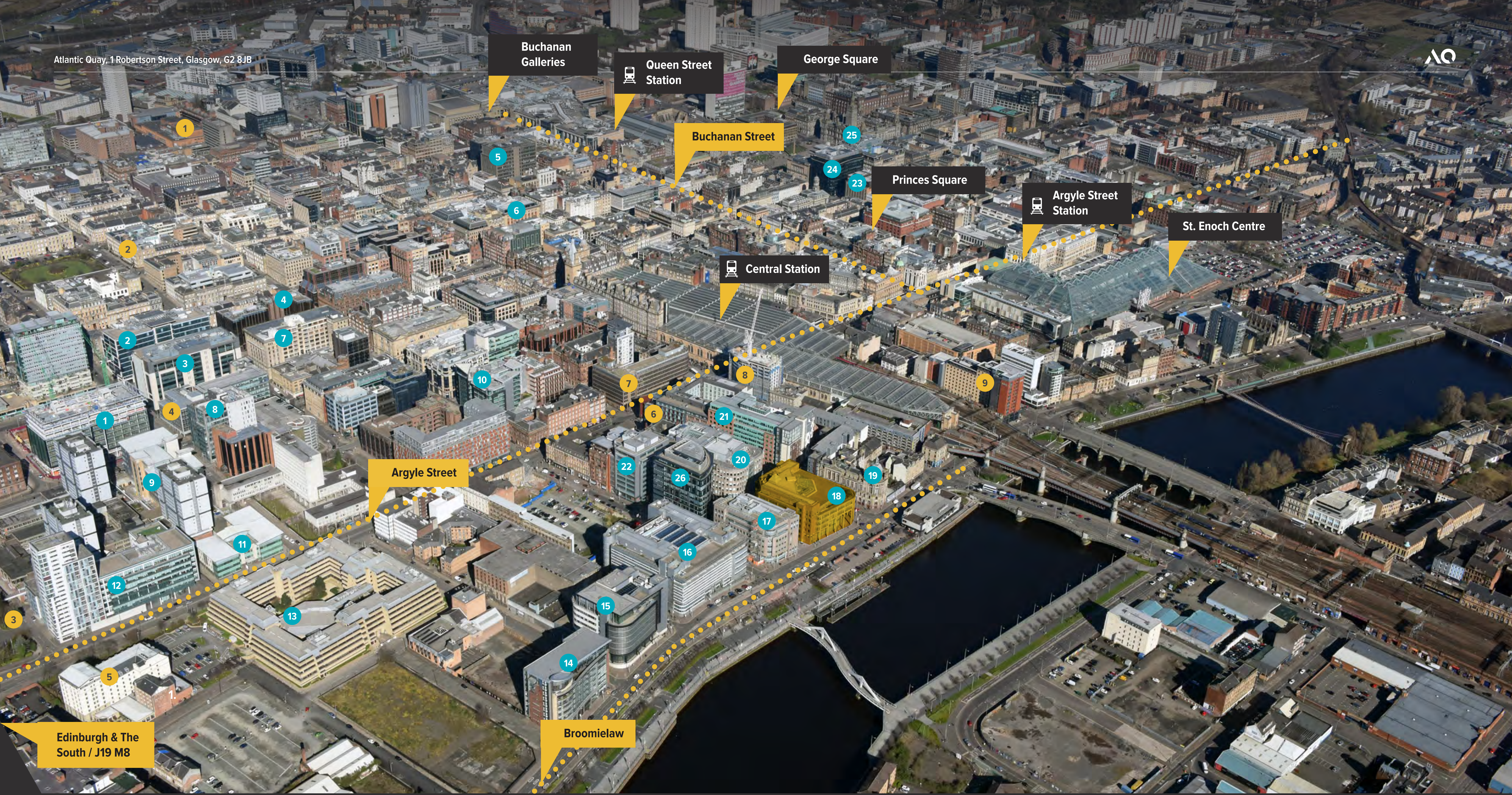
IFSD

The International Financial Services District (IFSD) is a project driven by a partnership between both the private and public sectors, to date, over £1 billion of investment has been secured – 90% of which is private sector funding. The IFSD has created the ideal environment for both local and overseas firms in the finance and service sectors to position themselves within and it is designed to allow fast track occupancy for their operations.

The IFSD was initially launched in 2001 and extended to approximately 1 km^2 between St Vincent Street and the River Clyde. Following its successful growth over the past 15 years, the district has expanded to cover a wider area of Glasgow City Centre. Over 3 million sq ft of high quality Grade A office accommodation has been developed in the IFSD since 2001.

Companies such as Esure and Morgan Stanley have moved into the district and existing employers such as Barclays and BNP Paribas have expanded their operations substantially. This has led to positive job creation with over 15,500 new jobs within the district.

BT, an early partner in the IFSD development has invested £50m in the broadband infrastructure which helps the city deliver best in class leading standards for securing of service, value for money, future proofing and fast reliable connectivity. In addition, a further £50m has been invested in the public realm, creating a high quality business environment.



Occupiers

1. Morgan Stanley
2. Barclays, Burness Paull, BNP Paribas
3. BNP Paribas, HSBC, Shell
4. Student Loans
5. Weir Group, CMS Cameron, McKenna, Arup, Global Radio, FDM Group
6. Lloyds Banking Group
7. Jacobs
8. AON, Morgan Stanley
9. Morgan Stanley
10. Esure
11. Scottish Ministers
12. SAS, Teleperformance, AXA
13. Ministry of Defence
14. Atkins, ACE Insurance UK
15. Scottish Government
16. BT
17. Scottish Courts & Tribunals Service
18. Secretary of State, MacTaggart & Mickel.
19. Clydeport
20. Lloyds Banking Group
21. Scottish Qualifications Authority
22. BDO Stoy Hayward
23. Edrington, Mazars, Lindsays
24. Brodies, DWF, Deloitte, Grant Thornton
25. EY, Maclay Murray & Spens,Mercer, Investec, Gardiner & Theobald
26. MacRoberts, ATOS

Local Hotels

1. DoubleTree by Hilton
2. Blythswood Hotel & Spa
3. Marriot Hotel
4. Proposed Ibis Styles
5. Hallmark
6. Radisson Blue
7. Proposed Hotel Development
8. Motel One (Under Construction)
9. Jury's Inn

Atlantic Quay Renaissance

1. Clydeplace Redevelopment Site
The site immediately to the south of the river controlled by Drum Property Group has planning consent for a substantial mixed use regeneration scheme that will include residential, hotel, office and retail/ leisure space. The final scheme could extend to 1 million sq ft.

2. Broomielaw Waterfront Development
Planning permission exists for 4 leisure/ restaurant pods to be erected fronting the River Clyde. With all the activity in the area at present this will further enhance the appeal of this site to investors/developers.

3. Atlantic Quay 3
Following a comprehensive refurbishment by Moorfield this 80,000 sq ft building was single let to The Scottish Courts & Tribunal Services on a 25 year lease. The building has recently been sold to Legal & General reportedly for £50.1 million and a Net Initial Yield of 3.6%.

4. York Street – BAM Properties and Taylor Clark
Following a search of the Glasgow Office Market the Glasgow element of the Government Property Unit (GPU) has selected this site for the first phase of what could be a 600,000 sq ft requirement. The York Street site is expected to accommodate approximately 200,000 sq ft.

5. Argyle Street Development Site
Vangaurd Real Estate have recently acquired this prominent 0.8 acre site and have already drawn up plans for a 280,000 sq ft office scheme to be built on site.

6. Westergate Chambers – Argyle Street
This office building constructed in the 1980's is rumoured to being converted into a YOTEL. The 50,000 sq ft building is capable of accommodating 175 rooms.

7. Motel One – Argyle Street
Motel One are currently on site developing Glasgow's largest hotel at 374 rooms in a prime location adjacent to Glasgow Central Railway Station. Due to open later this year.

Specification

The property was originally developed in the 1990s and forms part of the wider Atlantic Quay development. The majority of the property has recently been comprehensively refurbished and benefits from the following specification:

Atlantic Quay 1 - Cat A Offices Refurb Specification Ground, Third, Fourth & Fifth Floor Offices.

Offices

- Open plan office accommodation.
- Metal tiled suspended ceiling.
- 2.7m floor to ceiling height.
- Raised access flooring with 180mm void.
- LG7 compliant LED lighting.
- New VRF and mechanical ventilation.
- BMS system.
- Lift access to all floors.
- Kitchen facilities on each floor.
- Male and female WC facilities on each floor.

EPC

A minimum EPC rating of 'C' is being sought. BREEAM - A 'Very Good' rating is being sought.

AQ Site Plan

Atlantic Quay 1 building

1. Atlantic Quay Site boundary
2. Atlantic Quay 2
3. Atlantic Quay 3
4. Atlantic Quay 4
5. Atlantic Quay 5
6. Atlantic Quay 6

We estimate the site area of AQ1 to be 0.83 acres (0.33 hectares). The purchaser will acquire a freehold interest in AQ1. A detailed Title Plan is available within the Dataroom. A wider estate Service Charge is applied for the whole Atlantic Quay development which is currently administered by the owner of AQ1.

Tenancy

Description	Floor	Size (Sq.ft)*	Cars	Rent per annum (Rent per sq ft excluding parking)	Lease Start	Lease Expiry	Next Review	Break	Comments
Secretary of State / DWP	Ground	18,950	7	£453,350 (£23.00)	23/02/2018	22/02/2033	23/02/2023		Rent free until 28th July 2021 (topped up by the vendor). DWP have an option to extend for a further 5 years.
MacTaggart & Mickel Homes Ltd	First	16,721	19	£408,815 (£21.68)	30/06/2016	29/06/2027	30/06/2022		DWP have a right of pre-emption over this space. Initial service charge cap of £134,149.05 per annum (£8 per sq ft) increased by RPI. Rent free period expires on 30th June 2019 (topped up by the vendor). Part sub-let to Imagile Business Support Ltd.
Secretary of State / DWP	Second	21,860	12	£499,990 (£21.50)	30/06/2017	29/06/2022		30/06/2020	DWP have a right of pre-emption over this space
Secretary of State / DWP	Third	23,619	9	£565,737 (£23.00)	23/02/2018	22/02/2033	23/02/2023		Rent free until 28th July 2021 (topped up by the vendor). DWP have an option to extend for a further 5 years.
Secretary of State / DWP	Fourth	22,937	9	£550,051 (£23.00)	13/05/2018	22/02/2033	23/02/2023		Rent free until 31st July 2021 (topped up by the vendor). DWP have an option to extend for a further 5 years.
Secretary of State / DWP	Fifth	17,650	6	£420,950 (£23.00)	23/02/2018	22/02/2033	23/02/2023		Rent free until 28th July 2021 (topped up by the vendor). DWP have an option to extend for a further 5 years.
MacTaggart & Mickel Homes Limited	Car Park	N/A	4	£10,000	13/11/2017	29/06/2027	30/06/2022		Licence for 4 car parking spaces.
Vacant Car parking spaces	Car Park	N/A	18	£0	N/A	N/A	N/A	N/A	
	Total	**121,737**	**84**	**£2,908,893**					

*Floor areas subject to final sign-off.

NB: 1) DWP are granted a right of first refusal on any letting of space within the building to a tenant other than DWP. The right lasts for the entire initial 15 year term of the lease to DWP. If the right is exercised in the initial 2 year period then the landlord has an obligation to carry out refurbishment works.
2) Service Charge - The current service charge is £6.30 per sq ft.

3) There is a wider estate service charge for the whole Atlantic Quay development which equates to £0.50 per sq ft. AQ 1 is responsible for administering this service charge.

Tenure

Heritable Interest (Scottish equivalent of English Freehold).

Floor Guide

Floor Plates

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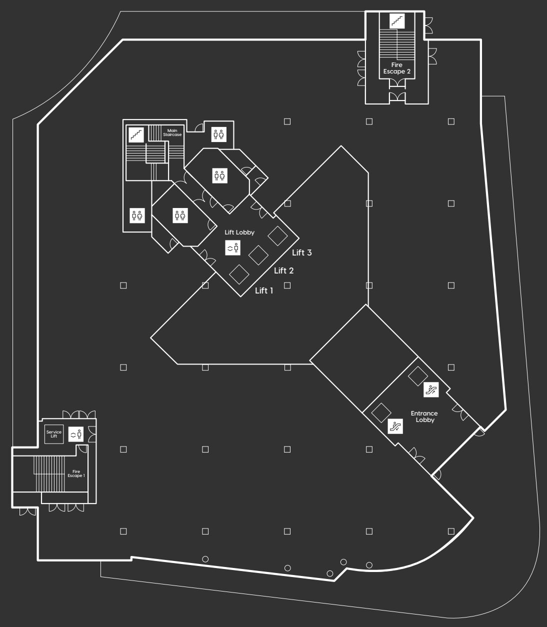
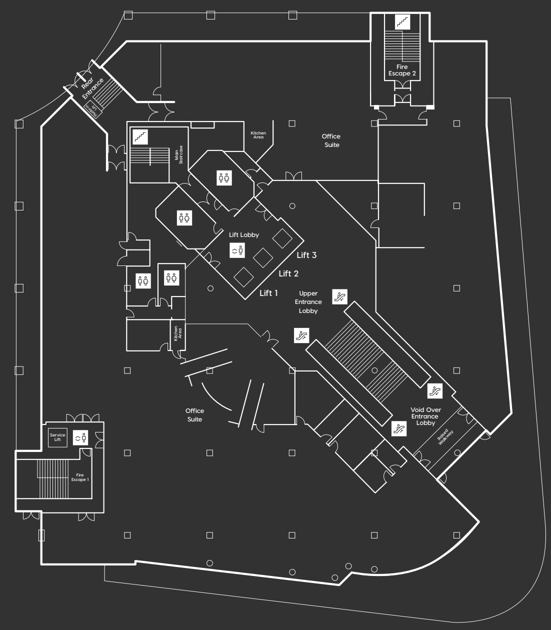


Department for Work & Pensions

Secretary of State / DWP
18,950 sq ft

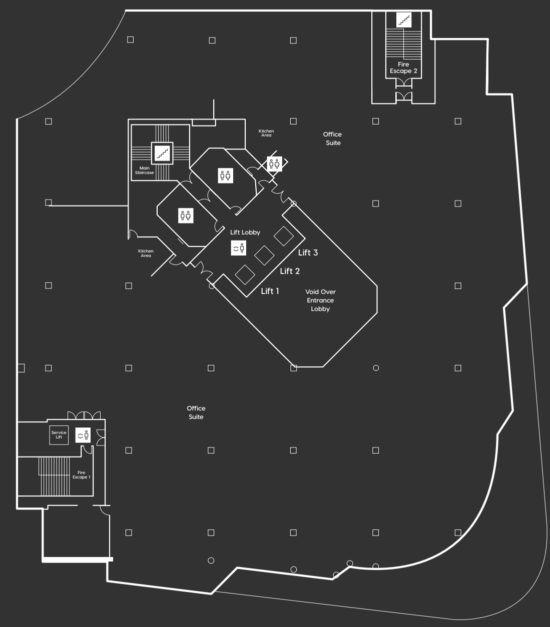
1



Mactaggart &Mickel Since 1925 GROUP

MacTaggart & Mickel Ltd
16,721 sq ft

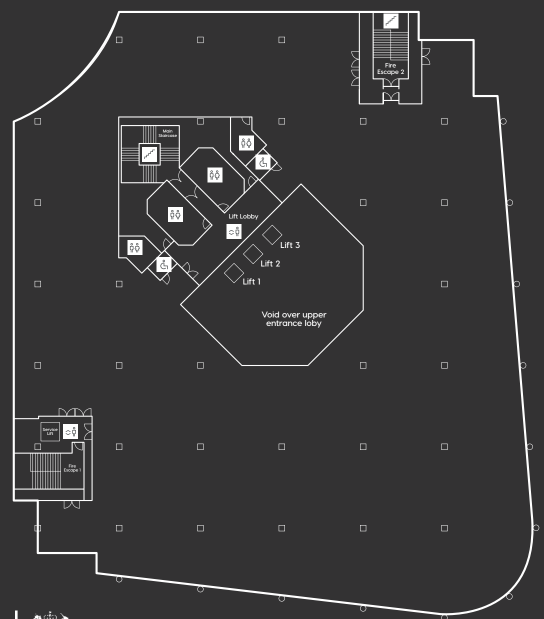
2



Department for Work & Pensions

Secretary of State / DWP
21,860 sq ft

3



Department for Work & Pensions

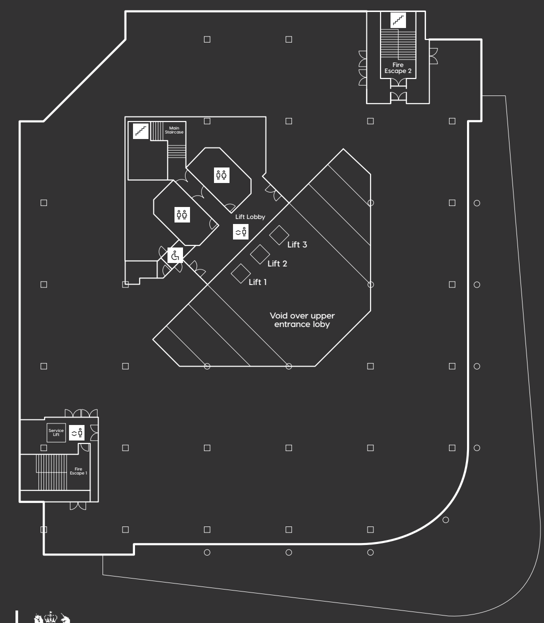
Secretary of State / DWP
23,619 sq ft

4

Department for Work & Pensions

Secretary of State / DWP
22,937 sq ft

5



Department for Work & Pensions

Secretary of State / DWP
17,650 sq ft

Covenant

The Department for Work & Pensions (DWP)

The DWP is a UK Government body responsible for welfare, pensions and child maintenance policy. As the UK's biggest public service department it administers the state pension and a range of working age, disability and ill health benefits to around 18 million claimants and customers. The DWP is a ministerial department, supported by 14 agencies and public bodies, employs around 85,000 people and represents around 25% of total UK Government spending.

As the department is part of the UK Government the lease offers an undoubted covenant.

Department for Work & Pensions

Mactaggart &Mickel Since 1925 GROUP

Mactaggart & Mickel Homes Ltd

Mactaggart & Mickel is a fourth generation family owned group of companies creating high quality homes, from contemporary apartments to traditional family houses since 1925. They currently have developments across the whole of central Scotland and continue to be active across a number of different business lines including Homes (Scotland & England), Commercial Property, Timber Systems, Land and Contracts. A summary of their most recent accounts are contained below:

	Apr 2017 (£ 000's)	Apr 2016 (£ 000's)	Apr 2015 (£ 000's)
Turnover	74,266	65,089	67,961
Pre-Tax Profit/(Loss)	12,740	10,448	9,758
Shareholders Funds	142,586	139,263	135,546

Glasgow Office Market

Glasgow is the third largest UK regional office market and Scotland's largest, with total floor space of 27 million sqft and 16 million sqft in the city centre. However, office supply within the City Centre is becoming more restricted, with a lack of major development activity, which is expected to continue. In particular, Grade A supply is decreasing dramatically, currently standing at 1.4%. This figure will come under even more pressure as there will be no new build offices brought to the market until at least 2019.

Take up reached 627,323 sqft in Glasgow City Centre in 2017, with the majority taking place in the final quarter of the year as Q4 take up reached 330,061 sqft. The improving occupational market coupled with the decreasing level of stock is expected to create a favourable environment for landlords going forward and result in rental growth. This strong demand has continued in 2018, with Q1 take up reaching 251,910 sq.ft.

Prime office rents remain at £30 per sqft, with high quality refurbished space commanding between £25 and £30 psf as a result of the tightening supply of Grade A accommodation.

Investment Market

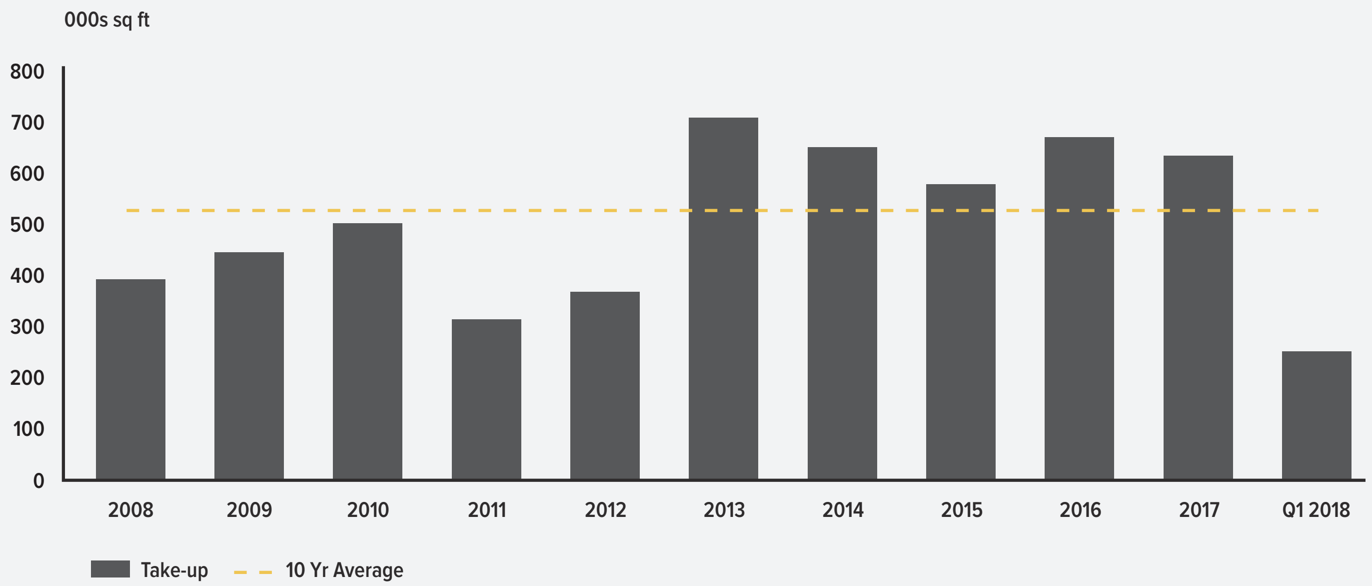
Glasgow is a major centre in itself and has attracted long term investment from a diverse range of sources, most notably UK Institutions, overseas funds and high net worth individuals. Prime city centre office yields in Glasgow are currently 5.25%, which represents a discount to other major cities in the 'Big Six' including Manchester (4.75%) and Birmingham (4.75%).

The Glasgow Office Investment Market witnessed a record year in 2017 with £468m traded in the city centre across 24 transactions. This represented an increase of 122% from 2016 and was significantly ahead of the 10 year average for Glasgow City Centre investment volumes.

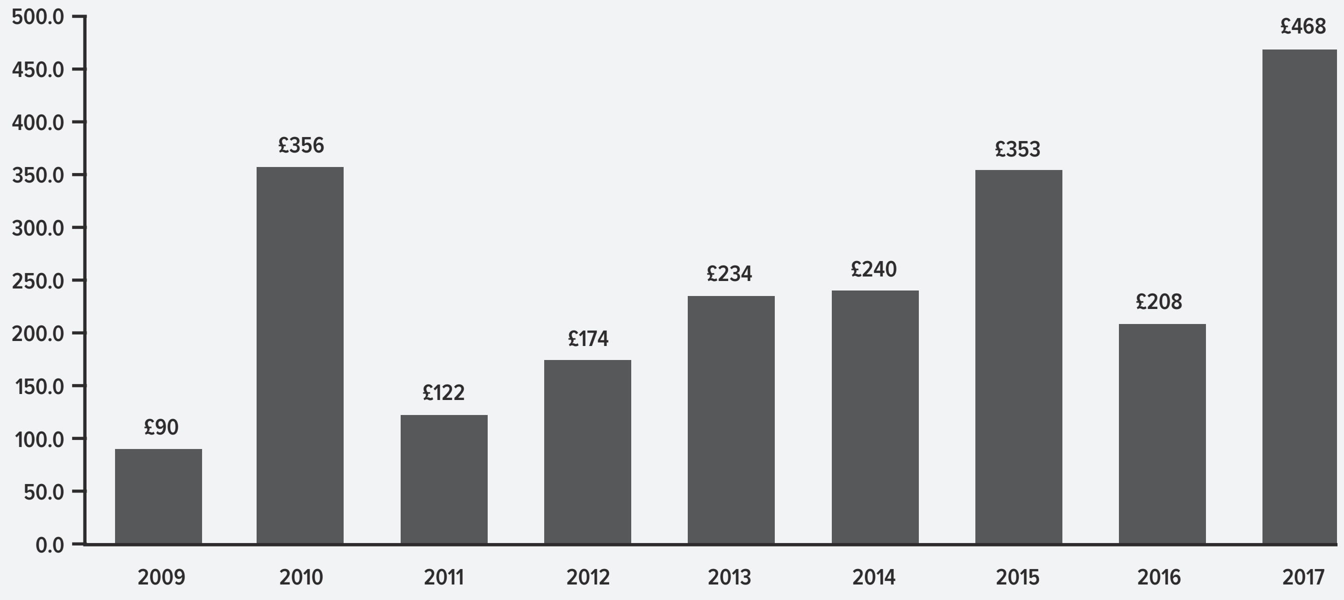
The strong performance in 2017 is expected to continue into 2018 due to the weight of capital still looking to enter into the market. The Scottish office market continues to appeal to investors due to the strong occupational sentiment, lack of stock and the higher returns generated in comparison to other major UK and European cities.

Glasgow Take-up

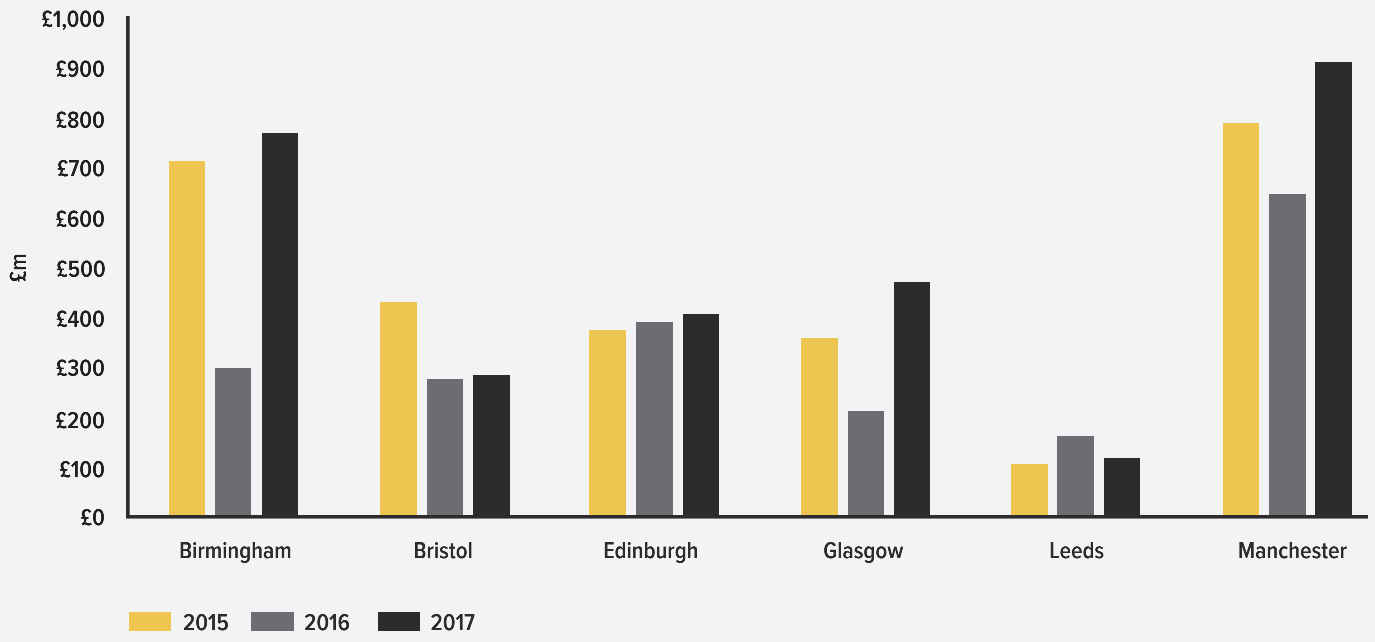
As at end Q1 2018



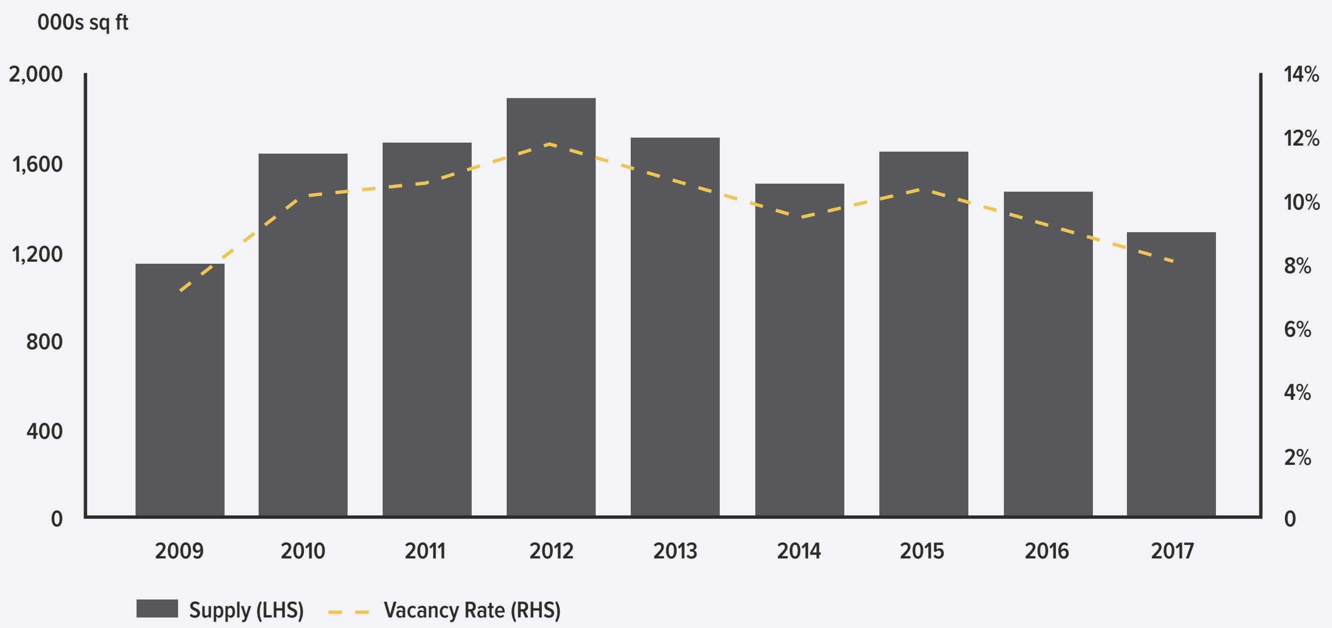
Glasgow Investment Volumes £'M's (as at end 2017)



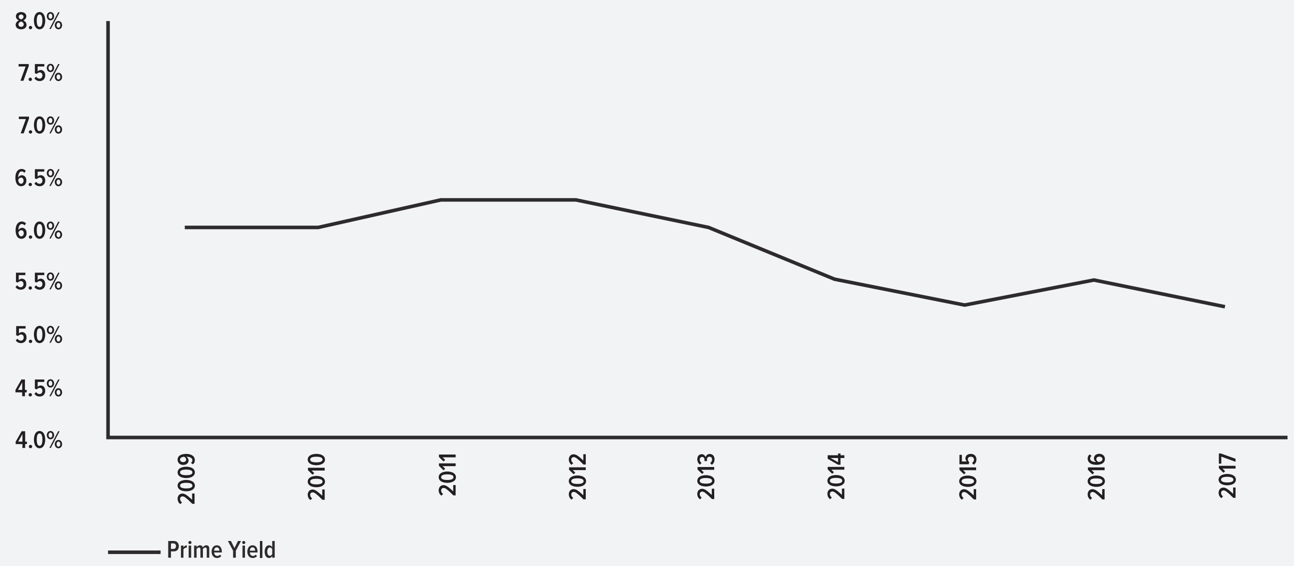
The UK Office Investment Market



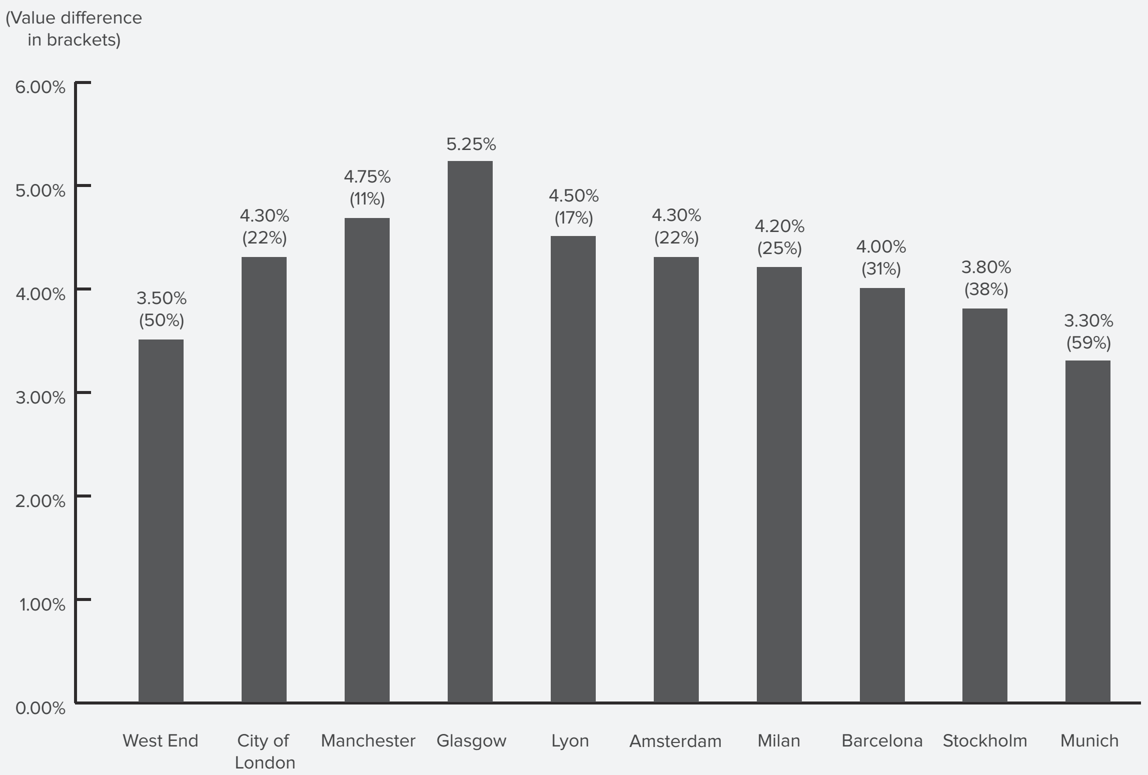
Glasgow Supply (as at end-Q4 2017)



Glasgow Prime Office Yields



Glasgow vs Pan-European Yields



Comparable Investment Transactions

Property Address	Town	Price (£)	NIY	Ave Unexpired Term	Date
81 Fountain Street	Manchester	£22,000,000	5.00%	15 years	Under Offer
One Cathedral Square	Bristol	£33,500,000	4.95%	12.4 years (7.6 years to break	Dec-17
5 St Philips Place	Birmingham	£47,000,000	4.50%	3.84 years (3.60 years to break)	Dec-17
55 Colmore Row	Birmingham	£98,000,000	4.85%	8.42 years (7.18 years to expiry)	Dec-17
Atlantic Quay 3	Glasgow	£50,100,000	3.60%	25 years	Dec-17
122 Waterloo Street	Glasgow	£65,600,000	5.60%	15 years (10 years to break)	Nov-17
St Vincent Plaza	Glasgow	£76,200,000	5.75%	c. 10 years	Nov-17
10 Canons Way	Bristol	£95,500,000	5.19%	15 years	Nov-17
GPU, New Waverley	Edinburgh	£105,705,000	4.30%	20 years	Oct-17
100 Bristol Business Park	Bristol	£26,298,900	5.50%	15 years	Oct-17
101 Embankment	Manchester	£105,000,000	5.30%	5.30% 10 yrs (offices) 35 yrs (car park)	Jul-17
Hartshead House	Sheffield	£20,160,000	5.00%	22 years	Jun-17
111 Edmund Street	Birmingham	£22,500,000	5.25%	14.9 years	Feb-17

The UK Real Estate Lending Market

A broad lender audience, stable lender competition and continued historically low interest rates ensure accretive financing solutions are available.

- The UK lending market remains robust. UK Banks are well capitalised.
- The pool of lenders active in the UK remains diverse and alternative lenders are becoming more competitive as UK banks seek opportunities lower down the risk curve.
- Secure income from a property such as this will be attractive to a number of lenders and competition between them will ensure low margin pricing.
- The indicative cash on cash table is based on an assumed 5 year swap rate of 1.40% including credit spread. Cash-on-cash figures are based on the day 1 passing rent and are exclusive of arrangement fee and other one-off costs associated with arranging the debt.

		LTV		
		50% Interest only	55% Interest only	60% Interest only
All in interest cost	2.90%	8.28%	8.80%	9.44%
	3.00%	8.19%	8.70%	9.31%
	3.10%	8.10%	8.59%	9.18%

VAT

The property is elected for VAT. On this basis it will be payable on the purchase price. However, it is anticipated that the sale will be effected by way of a Transfer of a Going Concern (TOGC).

Capital Allowances

Substantial Capital Allowances are available by separate negotiation.

Service Charge

The service charge is £767,519 per annum equating to £6.30 per sq ft. There is also an estate service charge of £0.5 per sq ft.

SPV

The property is held in a Jersey SPV and a corporate sale could be facilitated. Further information can be provided on request.

Proposal

We are seeking offers in excess of £48,000,000 (Forty Eight Million Pounds Sterling), exclusive of VAT, for our client's heritable interest in the property. This reflects a net initial yield of 5.70%, allowing for purchaser's costs of 6.28% and a capital rate of £394 per sq ft.

For further information or to arrange an accompanied inspection, please contact:

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