# Edinburgh faces critical shortage of prime Grade A offices amid rising rents and hotel conversions



As Edinburgh emerges from the significant impacts of the pandemic, a compelling narrative is unfolding in its office market. The shift towards hybrid and flexible working models has not quelled the demand for quality office environments; rather, it has underscored the necessity for high-standard office spaces that facilitate collaboration and innovation. Key areas within Edinburgh’s central business district, particularly St Andrew Square, the Exchange District, and the West End, have historically provided such spaces. However, the current landscape reveals a concerning shortage of prime Grade A office stock, prompting reflection on the city's future business capabilities and development strategies.

Recent data shows that office demand remains robust, with Savills noting a total take-up of 649,000 square feet of office space in Edinburgh in 2023—only marginally below the previous year. This demand is underscored by a preference for premium spaces, with Grade A offices accounting for 56% of city centre take-up. As occupancy rates rebound, businesses are increasingly looking to secure high-quality office space up to three years in advance, highlighting a strategic shift in how companies approach their workspace requirements.

Compounding these dynamics is the fact that over the past eighteen months, more than 220,000 square feet of prime office space has been repurposed for hotel conversions. This trend, while enhancing the city's tourism appeal, signals a significant loss in available office capacity, with notable buildings such as Edinburgh One on Morrison Street and several others in prime locations transitioning away from office use. The tension between accommodating growing tourism needs and maintaining a robust office market poses a critical challenge for city planners and developers alike.

In light of this, the discussion surrounding the potential for refurbishment of existing assets is gaining momentum. Ardstone Capital's refurbishment of 24 St Andrew Square, which was 60% pre-let upon completion, showcases the ongoing demand for upgraded office environments. According to research from Cushman & Wakefield, the intersection of strong tenant demand and limited quality office stock has led to a notable rise in prime rental prices, with figures reaching as high as £45 per square foot. This upward trajectory in rents points not only to a healthy market but also to a continuing competitive landscape, as businesses vie for limited high-quality space.

However, the office development sector faces significant hurdles. The absence of specific planning policies protecting prime office spaces has raised concerns among stakeholders. Current guidelines, as indicated by the National Planning Framework 4 (NPF4), encourage the retention of existing office buildings but lack explicit protections for prime locations. This gap could jeopardise the city’s ability to sustain a vibrant business environment as demand evolves. The call for a solid planning framework that balances development with the preservation of economically vital office spaces is becoming increasingly urgent.

The evolving hybrid work landscape is echoed in findings from KPMG, which reported that over 75% of financial sector leaders plan to enhance office attendance in the coming year, with many looking to encourage office presence at least four days a week. The ongoing search for optimal hybrid work models demonstrates the greater emphasis on collaboration and in-person interaction, highlighting how companies continue to navigate post-pandemic operational challenges.

As Edinburgh confronts these complex demands, the critical shortage of prime office stock underscores a need for proactive measures. The aim should be to cultivate a balanced approach to development that supports both employment growth and tourism without compromising the quality of office choices available. Now is the pivotal moment for stakeholders, including local authorities, developers, and investors, to collaborate in shaping a thriving future for Edinburgh's office market—one that prioritises high-quality spaces while understanding the significance of adaptability in a changing work environment.

### 📌 Reference Map:

* Paragraph 1 – [[1]](https://www.heraldscotland.com/news/25197375.scotlands-capital-must-protect-prime-office-stock/?ref=rss), [[4]](https://projectscot.com/2024/04/constrained-edinburgh-office-supply-drives-growth-in-prime-rents/)
* Paragraph 2 – [[2]](https://www.reuters.com/world/uk/finance-bosses-eye-fresh-uk-return-office-push-kpmg-says-2024-10-23/), [[5]](https://www.scottishfinancialnews.com/articles/savills-premium-office-demand-drives-rental-growth-in-edinburgh)
* Paragraph 3 – [[3]](https://projectscot.com/2024/08/prime-edinburgh-city-centre-office-rents-grow-at-fastest-rate-since-2015/), [[6]](https://www.scotsman.com/business/why-rents-for-prime-offices-in-edinburgh-have-jumped-by-8-per-cent-in-the-last-year-4732358)
* Paragraph 4 – [[4]](https://projectscot.com/2024/04/constrained-edinburgh-office-supply-drives-growth-in-prime-rents/), [[7]](https://www.insider.co.uk/news/edinburghs-critical-shortage-prime-office-31865491)
* Paragraph 5 – [[1]](https://www.heraldscotland.com/news/25197375.scotlands-capital-must-protect-prime-office-stock/?ref=rss), [[3]](https://projectscot.com/2024/08/prime-edinburgh-city-centre-office-rents-grow-at-fastest-rate-since-2015/)

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://www.heraldscotland.com/news/25197375.scotlands-capital-must-protect-prime-office-stock/?ref=rss> - Please view link - unable to able to access data
2. <https://www.reuters.com/world/uk/finance-bosses-eye-fresh-uk-return-office-push-kpmg-says-2024-10-23/> - A KPMG UK survey reveals that over 75% of financial sector leaders plan to increase office attendance within the next year, with more than a third expecting employees in the office at least four days a week. This shift aims to address challenges in enticing workers back to the office post-pandemic, as many financial services staff preferred remote work, leading to reduced occupancy rates and impacting in-office collaboration. Concerns over regulatory and hybrid work-related risks are prevalent, though 58% of those polled believe flexible working could enhance competitiveness. Companies like Amazon, Goldman Sachs, and JP Morgan are also emphasizing increased in-office presence to retain talent and balance hybrid working models. The survey indicates that businesses are still trying to find the optimal hybrid working approach more than two years after the pandemic.
3. <https://projectscot.com/2024/08/prime-edinburgh-city-centre-office-rents-grow-at-fastest-rate-since-2015/> - Research from Knight Frank indicates that prime city centre office rents in Edinburgh rose by 8% in 2023, from £40 per sq. ft. to £43 per sq. ft., marking the largest increase since 2015. Despite challenges like the pandemic and the shift towards hybrid working, prime rents have increased by 21% since the end of 2019. The analysis suggests that continued demand and a limited development pipeline could push prime rents higher by the end of 2024. Edinburgh's overall vacancy rate remained around 11% in the second quarter, with new and second-hand Grade A availability falling to less than 0.4% and 6.7%, respectively.
4. <https://projectscot.com/2024/04/constrained-edinburgh-office-supply-drives-growth-in-prime-rents/> - Cushman & Wakefield reports that the lack of quality office stock, coupled with strong tenant demand, has led to a 12.5% year-on-year increase in prime headline rents in Edinburgh city centre, reaching £45.00 per sq. ft. The constrained supply is exacerbated by potential development stock being removed from the pipeline, as buildings are repurposed for other uses. The report highlights the competitive landscape in the Edinburgh office market, with occupiers vying for the best available space for their talent.
5. <https://www.scottishfinancialnews.com/articles/savills-premium-office-demand-drives-rental-growth-in-edinburgh> - Savills reports that take-up of office space in Edinburgh reached 649,000 sq ft in 2023, just 0.9% below 2022's figure, indicating consistent demand. Despite a shortage of supply, businesses are starting to look up to three years in advance to secure quality office accommodation. In 2023, prime and Grade A space accounted for 56% of city centre take-up, suggesting a continued preference for high-quality spaces. The report also notes that Edinburgh has seen robust rental growth, with prime space already under offer at £45 per sq ft, a 5% increase from 2023.
6. <https://www.scotsman.com/business/why-rents-for-prime-offices-in-edinburgh-have-jumped-by-8-per-cent-in-the-last-year-4732358> - Knight Frank's analysis reveals that prime office rents in Edinburgh city centre rose by 8% in 2023, from £40 per sq. ft. to £43 per sq. ft., marking the largest increase since 2015. Despite challenges like the pandemic and the shift towards hybrid working, prime rents have increased by 21% since the end of 2019. The analysis suggests that continued demand and a limited development pipeline could push prime rents higher by the end of 2024. Edinburgh's overall vacancy rate remained around 11% in the second quarter, with new and second-hand Grade A availability falling to less than 0.4% and 6.7%, respectively.
7. <https://www.insider.co.uk/news/edinburghs-critical-shortage-prime-office-31865491> - Property services firm JLL reports that Edinburgh's shortage of Grade A office space continues to stifle deal activity, with this trend expected to persist over the next two years. Total take-up in Edinburgh in 2023 was 661,000 square feet, an 18% reduction compared to the 10-year average of 806,000 square feet. Headline rents in the city centre have grown from £40.00 per square foot at the end of 2022 to £43.00 per square foot by the end of 2023, a 7.5% year-on-year increase. JLL attributes this to a shortage in supply of 'best-in-class' office space, leading to concerns that Edinburgh's city centre might begin to inhibit business growth.