

Ryden

April/08: **62nd**

Scottish Property Review



# Economy

## & Planning

### Economy

**Economic growth in Scotland slowed a little during 2007. Despite the credit crisis, most economic indicators continue at around their trend levels.**

- Scottish GDP grew by 2.1% over the year to quarter three 2007, below the UK growth rate of 3.2%. The service and construction sectors expanded by 2.8% and 1.1% respectively, however there was a 0.8% decrease in production sector output.
- Forecast UK economic growth averages 1.7% for 2008 and 1.8% for 2009. These forecasts are below the long run average and reflect concerns about the ongoing impacts of the credit crisis. Forecasts for Scotland are more positive at 2.2% for 2008 and 2.5% for 2009.
- The Scottish unemployment claimant count stood at 2.5% in January 2008, down 0.4% over 12 months. Aberdeenshire had the lowest claimant count (0.8%) and North Ayrshire the highest (4%).
- The Committee of Scottish Clearing Banks (CSCB) confirms that the number of new business accounts established during 2007 totalled 25,041. This is 7% higher than the 2006 figure. The largest share of new businesses in quarter four 2007 (8,653 or 34%) was in the real estate, renting and other business sector.
- Experian reports a total of 779 business failures in Scotland during 2007 (4% of the UK total). This was 4.4% lower than in 2006. During 2007 the number of businesses that failed in the UK fell by 8.9% compared with 2006.
- Retail sales in Scotland were 2.5% higher on a like-for-like basis over the 12 months to February 2008. Further comment on the retail sector is provided on page 12.
- According to the RBS Oil and Gas Index, average daily output in December 2007 was 16% lower than in December 2006.
- Continued job losses in manufacturing reflect a long run decline. Major job gains are in retailing, information and communications technologies, financial services, healthcare and engineering:-

#### Job Gains

Babcock Marine plans 350 new positions in Rosyth

Asda plans up to 1,000 new jobs in Scotland with the opening and expansion of stores

ClinTech International plans to locate its global headquarters in Glasgow, creating up to 240 jobs

Dell plans to double its workforce in Scotland to 1,600 over the next four years

150 jobs are to be created by Lloyds TSB at its call centre in Glasgow

Production Services Network (PSN) is planning to recruit up to 100 new employees in Aberdeen

#### Job Losses

Bausch & Lomb announced 250 redundancies at its plant in Livingston

National Semiconductor announced 60 job losses at its plant in Greenock

Discount bookseller The Works is closing six stores in Scotland with the loss of 35 jobs

27 positions are to be lost with the closure of Hewden's head office in Uddingston

Associated British Foods' frozen food factory in Dundee is to close with the loss of 60 jobs

45 jobs will be lost through the closure of J Barbour & Sons' factory in Galashiels

90 jobs are to be lost at CRC Glenrothes

## Planning

It has been more than a year since the Planning etc (Scotland) Act 2006 was passed. The new planning system it set out to create is taking shape as consultation on secondary legislation gains momentum.

The details of the new system are being released through the Scottish Government's consultation exercises. Two areas where significant change will take place are in national planning and the system of appeals.

### National Planning Framework 2 (NPF)

The second NPF sets out Scotland's spatial strategy to 2030. It specifies those developments seen as vital for Scotland's economic growth and likely to benefit from expedited planning procedures. These include facilities and infrastructure to support the 2014 Glasgow Commonwealth Games, a replacement Forth Crossing, improvements in rail and port freight facilities and the expansion of Glasgow and Edinburgh airports. Consultation ended in April 2008 and the publication has broadly been welcomed by a property industry keen to see enhanced strategic direction and investment in Scotland.

### Planning Appeals

#### *Schemes of delegation*

The scheme of delegation will allow certain applications, neither complex nor controversial, to be determined by a Council officer who will be able to take the full range of decisions: approval; approval with conditions; refusal. Applications not to be delegated include those subject to an unresolved objection from a statutory consultee at the outline stage; those relating to land in the ownership of the planning authority; or any requiring an Environmental Impact Assessment.

Planning authorities are not required to consult on schemes of delegation, but each scheme should be reviewed at intervals of no more than five years.

#### *Local Reviews*

Decisions taken under a scheme of delegation will be reviewed by the Planning Authority where the applicant is not satisfied with the decision and submits a Notice of Review within three months of a decision (or deemed refusal). The Local Review Body is to comprise 3-5 elected members with legal support. The Body must be trained and operate in a demonstrably independent way from the original decision maker. Review processes will exclusively involve hearings and written submissions, with decisions issued no more than two months from the submission of a Notice of Review. Further detail of the operation of these bodies will be dealt with in guidance rather than regulations.

#### *Planning Appeals*

Applications decided by a Planning Committee can still be appealed to Scottish Ministers, albeit within three months rather than the current six. As with Local Review Bodies, appellants wishing to introduce new material into the appeal process will have to demonstrate why the material could not have been available any earlier, or the exceptional circumstances that require its submission. Any revisions made to a proposal after a decision is made will require a fresh application. Final decision on the method of appeal used will be made by Scottish Ministers. The Planning Inquiry process will be reserved for those issues where cross examination is required.

### The main areas of concern for the property industry in these proposals are:

- The lack of consultation on schemes of delegation. Initially, schemes of delegation should probably be reviewed more frequently. Also, outstanding objections can often be dealt with by condition and should not automatically be excluded from the delegated process.
- The greatest level of uncertainty surrounds the Local Review Bodies. Their training, independence and ability to deliver reasoned judgements within the short timescales allowed will be scrutinised carefully by appellants.
- Shorter timescales to appeal and barriers to fresh evidence being submitted before an appeal will require applicants and their advisors to have a robust planning strategy from the beginning.

Estimated dates for implementation of secondary legislation during 2008 are:

- Regulations on Development Plan - October 2008
- Development Management - November 2008
- Regulations on the Planning Hierarchy - November 2008

# Office

# Property

**Office market activity in Aberdeen continues at exceptional levels. Annual take-up in Glasgow and Edinburgh is around average. Supply of new offices is limited, but the development pipeline is building for 2009 and beyond.**

Demand from indigenous companies has continued to eat into **Glasgow's** already limited supply of Grade A and B city centre offices.

Take-up over six months, while unspectacular at 33,115 sq.m., nevertheless contributes to a 12 month total of 85,120 sq.m., slightly ahead of the 10-year average.

Notable among a wide range of deals (see table on page 5) are the letting of the last floor at Aurora, Bothwell Street to Davis Langdon of 1,780 sq.m.; expansion of Morgan Stanley into a further 840 sq.m. at Sentinel, Waterloo Street; and Semple Fraser's lease of 2,835 sq.m. over two floors at 123 St Vincent Street. The market for smaller office suites has also been active.

Enquiry levels from the local Glasgow market remain strong. Companies recognising the current dearth of high quality space are coming to the market early, to secure new premises to relocate to at lease expiry or break option. These companies could seek short term lease extensions, but most older properties are operationally inefficient and provide a poor working environment. Attraction and retention of key staff is an important aspect for business and influences property decisions.

Wider economic uncertainty will in the short term delay larger corporate decisions for UK relocations. However, Glasgow and the West of Scotland will continue to be well placed to attract organisations seeking a cost-effective location.

Over the last six months, Glasgow's total availability of space has dropped by some 14% to 140,620 sq.m. This equates to 7.6% vacancy rate, falling to c. 5.5% in the central area.

The only new-build development completed and currently available is Wilson Bowden Developments' 4 Atlantic Quay (6,863 sq.m.) where 4,500 sq.m. remains for lease following lettings to BDO Stoy Hayward and Haden Building Management.

Occupiers seeking more than 2,785 sq.m. are currently limited to four buildings within the city centre and a further nearby option at FM Developments' 133 Finnieston Street where 3,695 sq.m. remains available. The only building that can currently provide a self-contained option of any scale is Medius at Pacific Quay (2,410 sq.m.).

There is limited second-hand/refurbished space available and ongoing tenant demand is further reducing choice. Only four Grade A/top Grade B buildings can provide floorplates over 929 sq.m. and only one can provide a floor over 1,395 sq.m.

Taylor Wimpey's Cuprum, Argyle Street (9,140 sq.m.) will complete towards the end of 2008. A range of other developments are set to complete during 2009. Larger floorplate options will include: Broadway, Renfield Street (11,613 sq.m.), 1 George Square (11,800 sq.m.), 141 Bothwell Street (16,333 sq.m.) and Capella, Atlantic Quay (10,220 sq.m.). Various smaller buildings, including IVG/HBG's Clarion, on Wellington Street and Stockland Halladale's 1 Waterloo Street, will offer professional firms and smaller corporate organisations the opportunity for multiple floor and/or self-contained occupancy.

Limited office supply over the next 6-12 months and ongoing tenant activity are likely to push prime headline rents.

These are currently £295-£305 per sq.m., with potential for further increases in specific instances. Properties slightly outwith the prime core area are likely to be able to offer discount to prime rents, perhaps £260-£280 per sq.m. Rents for good quality refurbished space have continued to rise and are now at £235-£255 per sq.m., with potential for further growth.

Incentive levels have reduced due to continuing demand and lack of stock. It is likely that these will increase again as developers seek to secure tenants in competition within an increasing supply of new office space and also to maintain headline rentals.

Out-of-town, the most notable transactions have been the letting of Caledonian House, Cardonald Business Park (6,160 sq.m.) to NHS and Lumina Building, Hillington Park (2,535 sq.m.) to Balfour Kilpatrick. Further out-of-town activity includes: **Eurocentral** with lettings at Trilogy to Cisco Systems (2,044 sq.m.) and Laing O'Rourke (2,885 sq.m.), and at Europoint to Skanska (998 sq.m.) and Bowmer & Kirkland (324 sq.m.). Taylor Wimpey secured 646 sq.m. at Gateway Glasgow, and Eastlake Group expanded into a further 350 sq.m. at GSO Business Park. Various office units are under offer at Craighall Business Park and at Keiller Estates' Watermark Business Park, Govan Road where pavilions are being offered for sale with several under offer prior to completion.

The most striking addition to the out-of-town market is MAXIM, Eurocentral. Developer TAL CPT Ltd is well underway with what is believed to be the largest single phase, speculatively developed office park in the UK at 68,000 sq.m. MAXIM will comprise ten office buildings ranging from 5,446-17,330 sq.m. in



**Larger office lettings in Scotland include:**

Address	Size	Occupier
Caledonia House, Cardonald Business Park, Glasgow	6,164 sq.m.	NHS
Aurora, 120 Bothwell Street, Glasgow	1,780 sq.m.	Davis Langdon
123 St. Vincent Street, Glasgow	2,835 sq.m.	Semple Fraser
Finlay House, 10-14 West Nile Street, Glasgow	825 sq.m.	Cairngorm Management Ltd
4 Atlantic Quay, Glasgow	800 sq.m.	Haden Building Management
225 Bath Street, Glasgow	716 sq.m.	SgurrEnergy Ltd
145 St Vincent Street, Glasgow	808 sq.m. 400 sq.m. 368 sq.m.	Anglo Irish Bank King Sturge Remploy
220 St Vincent Street, Glasgow	740 sq.m. 392 sq.m.	CIGNA International Hiscox
9 George Square, Glasgow	662 sq.m.	Bell & Scott
Levels 4 & 5 Exchange Crescent, Edinburgh	5,390 sq.m.	Shepherd & Wedderburn
1 Lochrin Square, Edinburgh	5,676 sq.m.	HBOS
1 Quatermile, Edinburgh	4,459 sq.m.	Maclay Murray & Spens
2 Lochrin Square, Edinburgh	1,693 sq.m.	Biggart Baillie LLP
Waverley Gate, Edinburgh	1,124 sq.m.	Microsoft
Union Plaza, Union Row, Aberdeen	2,500 sq.m.	Paull & Williamsons AGR Subsea
Loirston House, Wellington Road, Aberdeen	1,500 sq.m.	Shell
Pavilion 5, Kirkhill Business Park, Dyce, Aberdeen	1,300 sq.m.	Seawell Ltd

landscaped parkland and will include a café, restaurant and shops as well as being adjacent to the Dakota Hotel.

Further business park development is underway at **Hamilton** International Park, High Blantyre. Both MAXIM and Hamilton International Park benefit from former Enterprise Zone status, allowing their respective developers to offer highly incentivised financial packages.

In general terms, rents for non-cooled business park space around Glasgow are £160-£170 per sq.m. and comfort cooled space £153-£188 per sq.m. (inclusive of car parking). Sale prices for smaller pavilions range from £2,045-£2,370 per sq.m.

Six month take-up in the **Edinburgh** office market is 47,050 sq.m. The total for the 12-month period is 83,144 sq.m., meeting Edinburgh's 10-year annual average take-up and (almost) catching up with Glasgow for the first time since 2005.

However, take-up in early 2008 has been slower due to concerns over the wider economy causing occupiers to delay decisions, unless they have immediate requirements through lease expiries or break options.

Total office supply in Edinburgh is currently around 197,000 sq.m., indicating a 4% decrease since September 2007.

Edinburgh's office market is still relying on existing occupiers, particularly the legal and professional sectors, rather than attracting new business. Demand continues to favour smaller, open-plan accommodation, and landlords have been prepared to split floors within larger buildings to accommodate this trend.

Demand for larger offices has however increased too. There have been 14 office deals larger than 929 sq.m., including a letting to HBOS at Lochrin Square (5,676 sq.m.), Shepherd & Wedderburn at Exchange Crescent (5,285 sq.m.), Jacobs Babbie at 160 Dundee Street (1,144 sq.m.) and Murray Beith Murray at Glenfinlas Street (1,858 sq.m.).

The re-emergence of pre-letting activity is notable in the Edinburgh office market. Maclay Murray & Spens took 4,459 sq.m. at Quatermile, while Biggart Baillie LLP and Watson Wyatt Worldwide took 2,333 sq.m. at Lochrin Square.

Occupier demand is putting pressure on limited Grade A office supply. Developments completed during Q4 2007/Q1 2008 were: Gladedale Capital/Scotmid's Lochrin Square (8,445 sq.m.); Gladedale Capital's Quatermile (9,660 sq.m.); HBG Properties' Interpoint, Haymarket (4,800 sq.m.); and AMA's Fusion at Logie Green Road (2,789 sq.m.). A total of 13,441 sq.m. remains available in these new-build office schemes, however several imminent deals are expected to further reduce this supply.

Six further new developments have obtained detailed planning consent totalling 60,496 sq.m. and are due to complete during 2009. These include Springside, where AMA/Grosvenor/RBS are due to commence construction in July 2008 of approximately 4,579 sq.m. of offices, and Gladedale Capital's second phase of Quatermile where law firm Morton Fraser is expected to occupy approximately 5,295 sq.m.

Three further, large-scale developments could gain planning consent during the next 12 months, with the prospect of completion from 2010 onwards: Tiger Developments' Phase 1 at Haymarket (14,000 sq.m.); Stockland Halladale's St Andrew Square (6,600 sq.m.); and the office element of Mountgrange's New Street (9,000 sq.m.).

In addition, City of Edinburgh Council's Exchange Court (Morrison Street) scheme (16,700 sq.m.) has completed its first round of re-tendering since the withdrawal of developer CALA/AWG. The Council is now expected to proceed with the scheme as direct developer.

HBOS is exploring the opportunity of a headquarters office development on the Fountain South site at Fountainbridge. This gives confidence to adjoining sites and a positive message for the extension of the central business district.



There is evidence of increases in Edinburgh office rentals, particularly for suites below 929 sq.m. Prime rents in central Edinburgh are presently £307 per sq.m., with £323 per sq.m. achieved with the letting of 1,124 sq.m. at Waverley Gate to Microsoft. Rents will come under short term pressure from both rising construction costs and competition between prospective occupiers.

In **West Edinburgh**, Premier Property Group has completed its EHQ/EH1 development at South Gyle, which comprises 9,052 sq.m. of Grade A office space. Goodman plans to start on site with Phase 1 at South Gyle Broadway, which includes an initial two buildings totalling 7,432 sq.m. EDI is also considering Phase 2 of Pentad which will comprise 2,797 sq.m.

Lettings have been slower in West Edinburgh over the past six months and Virgin Money has withdrawn from 4/5 Lochside Avenue. However, 7 Lochside View is reportedly under offer to JP Morgan, following a letting to Applecross (1,170 sq.m.).

With the price of crude oil exceeding \$110 per barrel, it is not surprising that the occupational office market in **Aberdeen** remains strong.

Six month office take-up has increased by 25% to 43,000 sq.m. in 62 transactions. Once again this could have been significantly higher were it not for the lack of Grade A offices. Take-up for the past 12-months is 76,700 sq.m., this is 76% above the 10-year average. Supply of offices is approximately 100,000 sq.m., of which almost 20% is under offer.

A number of schemes are now complete or nearing completion and strong demand in the market has resulted in a series of pre-lets. To the south of the city, Wellington House (1,900 sq.m.) was completed in

November 2007 and is currently under offer, while Craigshaw House (2,900 sq.m.) went under offer in March 2008 just prior to practical completion.

At Westhill, Phase 1 at Westpoint (6,300 sq.m.) is complete. Pavilion 2 here is under offer, Pavilion 3 has been let to Bluesky Business Space and strong interest is noted in Pavilion 1 which is due for completion in April 2008. The neighbouring development at Aspect 32 (3,100 sq.m.) is almost complete and both pavilions are now under offer.

Within Aberdeen city centre, there is still a severe lack of Grade A office stock. Rents are being pushed up on any properties that become available, such as the Exchange on Market Street where 1,700 sq.m. has been let back-to-back with the previous tenant moving out. Union Plaza is on target for completion in May 2008 and of the 11,600 sq.m., over 4,000 sq.m. has been pre-let (to Paull & Williamsons and AGR Subsea), 2,480 sq.m. is under offer and there is strong interest in the remainder with further deals likely prior to practical completion.

In the West End of the city, rents are continuing to rise with every deal that is completed, although the lack of supply is frustrating for the many occupiers who currently have West End requirements that cannot be satisfied. The most recent transaction in this area has seen rent hit the magic £323 per sq.m. (ie. £30 per sq.ft.) for a 650 sq.m. building on Queens Road. There are only a handful of West End office schemes to be developed and it seems likely that this rent will not be a one-off.

For many years **Dundee** has suffered from a shortage of new Grade A office accommodation within the city centre. This is now being addressed by a number of developments in the pipeline.

At West Marketgait, 2,044 sq.m. of second floor office accommodation is currently under construction as part of a development which includes bars/restaurants, shops, casino and residential accommodation. Planning permission has recently been granted for Dundee One, a riverfront development of two Grade A open plan office buildings each offering 4,645 sq.m. and due to complete mid-2009.

Existing office premises available within the city centre include Vision@Seabraes (9,387 sq.m.) and Foxdown Developments' 2,323 sq.m. scheme at Seabraes which is filling up with Proper Games Ltd, IRT Surveys, Tag Games and STV all completing recent deals. City Quay continues to prove attractive to occupiers such as AWD, West Residential, Dundee & Angus Chamber of Commerce, Enterprise North East Trust and DM Hall.

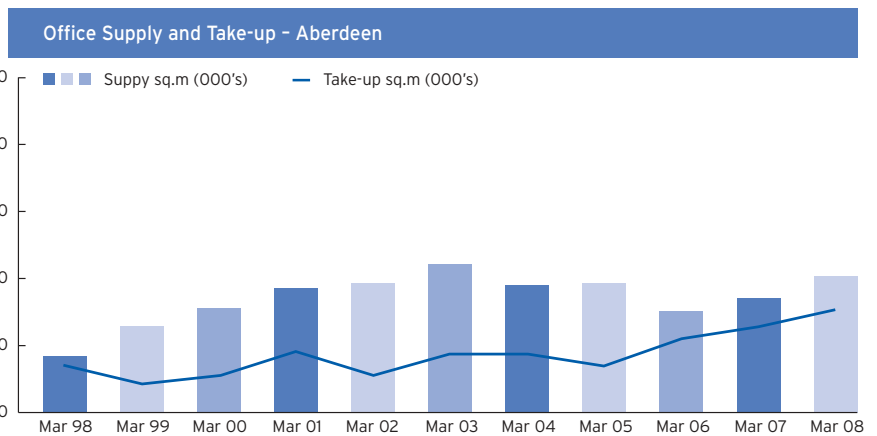
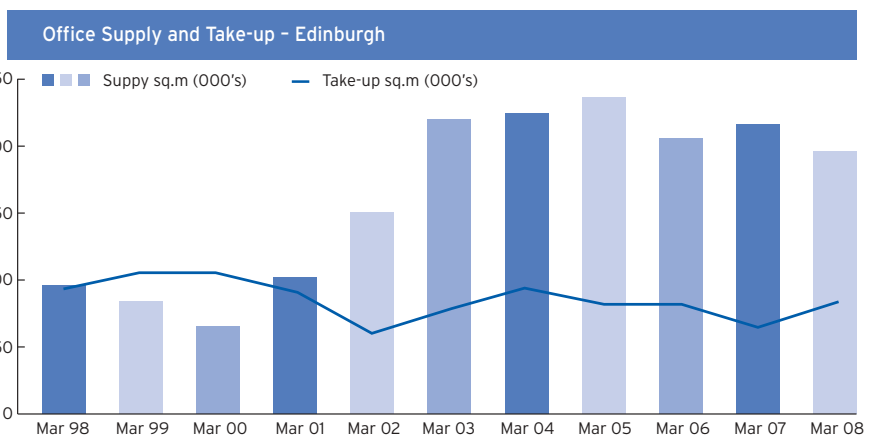
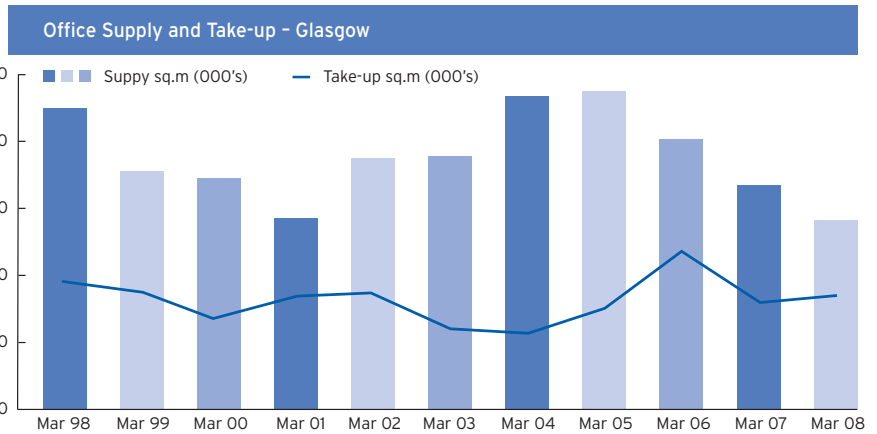
Gladman Developments plans 26 office pavilions at Dunsinane Industrial Estate, and on a neighbouring site, Evans Easyspace is to develop a £2.8 million Evans Business Centre to provide 24 offices from 21-102 sq.m.

Prime office rents for modern open plan office accommodation in Dundee are presently £150 per sq.m.

Demand for office space in **Inverness** has improved. Construction at Fairways Business Park is now complete, Orion Engineering has extended its original pavilion, and Brewin Dolphin has relocated to larger space at Lyle House (204 sq.m.) at £150 per sq.m. The University of Aberdeen has taken space within Castle House (180 sq.m.) also at £150 per sq.m. and Elgin-based construction group Robertson has established a new subsidiary, Robertson Highland, which will be based here.

In Inverness city centre, stock is older and of mixed quality. Mott MacDonald (303 sq.m.) and Project Management Partnership (UK) Limited (119 sq.m.) have been secured for refurbished space within Moray House, Bank Street, both at £150 per sq.m. There is continued interest in remaining space here.

New-build office options are available at Cradlehall, East Seafield, Stadium Road and potentially Rose Street. Rents are typically in the range £145-£161 per sq.m.



Source: Ryden

# Industrial

# Property

**Scotland's industrial property sector is holding up well. The ongoing credit crisis is expected to restore market balance and curb land price inflation, except in Aberdeen where property supply is unable to meet demand.**

The industrial market continues to produce a strong line of positive stories and the past six months has been a period of excellent trading. There is no definitive evidence of a slow down despite current economic concerns. Nevertheless, over the next six months it is likely that there will be an impact on demand due to uncertainty within the economy as a whole and the difficulty in securing credit. This may in particular reduce demand in the fledgling new-build for sale market.

Ryden's recent reports highlighted increasing shortages of quality industrial property in most locations. Shortages are particularly acute within **Glasgow** where there are few opportunities for occupiers below 929 sq.m.

Overall statistics show steady industrial availability. However, this aggregated figure is misleading as a significant amount of the new space is accounted for in large speculative units targeting the distribution market. The Gladman development Max@J4M8 in **Livingston** provides 61,000 sq.m. in a single facility and at **Eurocentral** 22,668 sq.m. is provided in six buildings including one of 11,353 sq.m. There has been some development below 2,787 sq.m. but this is unlikely to meet the current level of demand.

The industrial property market is in a more balanced state compared with previous periods of uncertainty. Obsolete stock formerly used by heavy industry has typically been redeveloped for alternative uses and space released by the electronics

industry has largely found new uses. Consequently, rental growth is expected and it is likely that the base rental level will be around £65 per sq.m., rising to in excess of £75 per sq.m. for units below 929 sq.m. and trade counters.

In the development sector, SCOT Sheridan is particularly active in providing light industrial/trade units across a variety of locations. A recent completion is Phase 4 of Excelsior Park, **Wishaw** where 3,716 sq.m. of space in units from 464 sq.m. is proving popular with trade users. Other SCOT Sheridan activity includes a 4,180 sq.m. development at Orbital Park, College Milton, **East Kilbride** and 4,153 sq.m. at Rutherglen Park, **Rutherglen**. The latter is attracting strong interest due to its proximity to the M74 completion route. It is likely that at least one pre-sale will be agreed here prior to a site start.

At Eurocentral, the current phase of the Advanced Build Programme is nearing completion. Athena (3,833 sq.m.), Apollo (4,951 sq.m.), Pegasus (5,992 sq.m.) and Orion (7,913 sq.m.) will be complete from June 2008. The units are within an area branded Centralpoint and will feature enhanced levels of security and controlled access. The quoting rent for all properties is £59 per sq.m. with the exception of Orion which has cross-docking capability and is available at £62 per sq.m. The Pharos building (3,735 sq.m.) has been taken by James Latham Plc for its first depot in Scotland, on a new 17-year lease at £59 per sq.m. Commercial Estates Group has refurbished and sold the 12,728 sq.m. EC-1 building to Scottish and Southern Energy Plc for £6.09 million (£476 per sq.m.).

At Wilson Bowden Developments' Gateway Glasgow, a 2,694 sq.m. new building due for completion in June 2008 has been taken by Witton Associates LLP for trading business Righton at a price of £888

per sq.m. Wilson Bowden Developments is also constructing a 1,997 sq.m. unit on the adjoining site which is available on a for sale/to let basis. The quoting price is £969 per sq.m. and quoting rent £65 per sq.m.

On the west side of Glasgow, Toolbank has agreed a pre-sale with St. Modwen for a 2,508 sq.m. unit at a price reflecting £856 per sq.m. The unit is on the new Pegasus Park within **Hillington** and construction is now underway.

MEPC continues to redevelop sections of Hillington Park. Recently announced is Kelvin Gate, a speculative development extending to 2,827 sq.m. in units from 139 sq.m. at £81 per sq.m., where two units are under offer. Kelvin Gate follows the successful speculative development of three units, two of which are now let to Future Environmental Services (1,900 sq.m.) and Cromwell Group Ltd (886 sq.m.) both at c. £65 per sq.m., with the final unit under offer.

Other significant recent transactions include the assignation of RDT's leasehold interest in a 3,530 sq.m. unit at **Cambuslang** Investment Park; the sale of a 4,645 sq.m. unit at **Blantyre** Industrial Estate to Cameron Linn for £215 per sq.m.; and the sale of 9,290 sq.m. at Dubbs Road, **Port Glasgow** to McLaren Packaging for £2.2 million (£237 per sq.m.).

Demand for industrial land in the West of Scotland remains strong. Transactions are achieving record prices for prime sites. Prices in excess of £875,000 per hectare have been paid and this level will be exceeded by transactions currently being progressed.



There has yet to be any significant impact on industrial land prices through the combined rise in construction costs and weakening investment yields, but it is anticipated that there will at least be a slowdown in land price inflation.

Rents for good quality industrial property in **Edinburgh** increased steadily in 2007 and early 2008. Landlords can now expect to achieve prime rents in the region of £75-£81 per sq.m. in prominent areas such as Sighthill on the west side of the city and Seafield on the north-east side. For example, Napier University has taken a 464 sq.m. unit at £81 per sq.m. at Bankhead Workspace, Sighthill. The increase in trade counter demand has driven rents in the Seafield area to around £100 per sq.m., as indicated by the lettings at Seafield Industrial Estate to M & S Supplies Ltd and Multi Tile Ltd.

On the south side of Edinburgh, EDI's Peffermill Industrial Estate is now fully let. The final unit was let to Tiler Training School at £60 per sq.m. Prestonfield Development Co Ltd has commenced Phase 2 at Prestonfield Park, Kingshaugh Road; works are due for completion in summer 2008 and only one unit remains available following pre-lets to St Andrews Timber Supplies (1,557 sq.m.), Howden Joinery (1,060 sq.m.), Edinburgh City Council (2,332 sq.m.) and Express Removals (1,418 sq.m.).

To the west of Edinburgh, Phase 1 at **Newbridge One**, the speculative development by Upland Developments, is now complete. Two units are under offer at rents of £75 per sq.m. and strong interest is noted in the remaining 2,787 sq.m. Phase 2 will commence later in 2008.

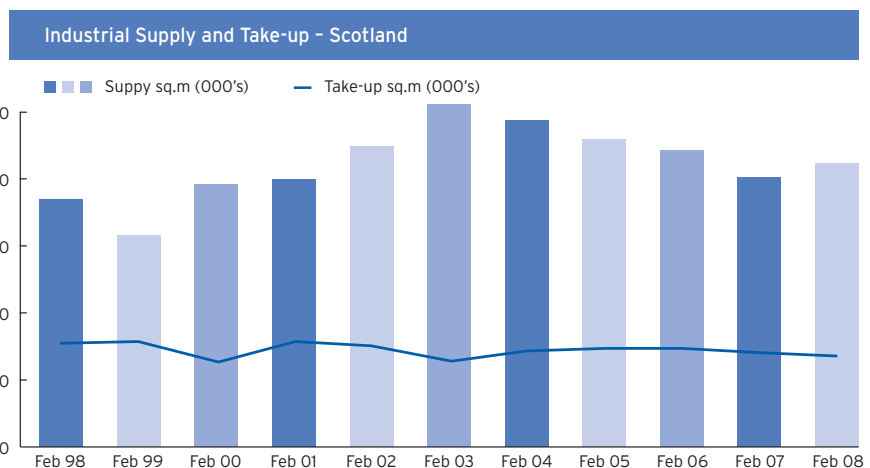
New-build industrial development continues in the **Bilston Glen** and **Loanhead** areas of Midlothian. Sharkey Space has developed a stand-alone industrial unit of 1,022 sq.m. Corinthian Scotland has developed a modern, stand-alone unit of 743 sq.m. and split this to sell half to Gordon & Halliday at £969 per sq.m.

West Lothian continues to attract a variety of occupiers including distributors, manufacturers and more recently trade counter occupiers. As a result, landlords here can now also expect to achieve rents in the region of £75-£81 per sq.m.

At Phase 1 of SCOT Sheridan's New Houston Business Park, **Livingston**, Screwfix Direct Ltd has taken a 623 sq.m. unit and J & W Carpets a 464 sq.m. unit, both at £70 per sq.m. Phase 2 (3,250 sq.m.) is now complete and two units totalling 929 sq.m. are under offer. At Hunting Park, Livingston, Click Netherfield Ltd has taken a 461 sq.m. unit. Following refurbishment at Brucefield Industry Park there have been two recent lettings, to Homestyle Group (2,890 sq.m.) and Instock Disposables (1,700 sq.m.). SCOT Sheridan's Easter Inch Park, **Bathgate** (4,180 sq.m.) is also

complete, with City Electrical Factors taking 279 sq.m. at c. £71 per sq.m., and two further units totalling 697 sq.m. are under offer. In **Linlithgow**, E-NET Park is now complete and provides 4,645 sq.m. of modern industrial/trade counter units. Units at E-NET Park are available to purchase, or to lease at £75 per sq.m. and three are currently under offer.

In Fife, the newly refurbished and subdivided Buko Business Centre in **Glenrothes**, (27,870 sq.m.) has secured further lettings, to Tullis Russell Papermakers (6,040 sq.m.) and Chesters of St. Andrews (697 sq.m.). There is a considerable oversupply of old industrial accommodation in Fife, encouraging extensive refurbishment and subdivision to provide flexible space for varying occupiers. Examples include: Boston Road, Viewfield Industrial Estate in Glenrothes, purchased by Lincoln Land; Pitreavie Way, **Dunfermline** (former Simclar factory), purchased by Amawell, where D & G Autocare has taken a 464 sq.m. unit at £64 per sq.m.; and Solectron's former facilities at Pitreavie Industrial Estate which have been rebranded as Castle Industrial Centre by Fife Group.



Source: SPN



At Broadleys Business Park, **Stirling**, a terrace of five industrial units totalling 2,787 sq.m. in units from 464 sq.m. is planned by a joint venture between Stirling Council and developer Valad. Phase 2 will comprise a further two terraces totalling 4,887 sq.m. and will be due for completion in late 2008.

Northern Trust has acquired 1.6 hectares at Earlsgate Park, **Grangemouth** at a price in the region of £617,500 per hectare, where they plan to erect speculative industrial and office accommodation.

Demand for industrial accommodation in **Aberdeen** is at an all time high, due predominantly to activity in the North Sea oil and gas industry. Industrial rents are rising across the full spectrum of premises due to a serious shortage of suitable accommodation.

Over the past six months a total of 24,394 sq.m. has been let in 47 transactions. This represents a 6% decrease in take-up to the previous six months. This decline in take-up can be explained by the low number of industrial properties available on the market. The number of industrial units available has fallen from 74 to 53 in the last six months. Take-up has been particularly strong for units between 464-929 sq.m. and those larger than 1,858 sq.m.

Land values in Aberdeen remain in excess of £1.25 million per hectare. Developers are undertaking a number of speculative and design-and-build lease arrangements for industrial properties at record rents. Presently, new build rents are £91 per sq.m. for warehouse accommodation and £172 per sq.m. for associated office space. Landlords again find themselves in the enviable position of being able to dictate terms, driving substantial increases in rents and lease lengths.

The few units that do satisfy modern occupier requirements are being snapped up with next to no void periods, and several transactions have been carried out at closing dates or prior to units coming to the market.

Developers are to undertake a number of speculative industrial developments to the north of the city (at Kirkhill Commercial Park and Raiths Industrial Estate) and south of the city (at Minto Drive, Peterseat, Altens East and Balmoral Business Park). These may go some way to alleviating shortages of medium to larger units. There is also strong demand for units of between 279-743 sq.m., but at present, developers are not willing to provide units of this size.

Current market constraints in Aberdeen will only ease when development land in the pipeline overcomes infrastructural problems to allow developers to meet occupier needs.

On the back of the strong occupational market in Aberdeen, land values in **Inverurie, Kintore, Ellon** and **Stonehaven** have increased significantly to exceed £617,500 per hectare. New build rents in these locations mirror those of Aberdeen in 2006 and 2007 at £64-£75 per sq.m. for warehouse accommodation and £129-£140 per sq.m. for associated office space.

Industrial property in **Dundee** is attracting market interest, particularly again from trade counter occupiers. At Dunsinane Industrial Estate, SCOT Sheridan's 3,902 sq.m. light industrial scheme has recently secured its first tenant, Plumbstore Ltd (697 sq.m.). A further 697 sq.m. is under offer to another national trade counter occupier and there is interest in the remaining units. Screwfix Direct has acquired 837 sq.m. at Faraday Street, Dryburgh Industrial Estate and Brandon Tool Hire a 535 sq.m. unit at Kingsway East.

A number of other trade counter operators are actively seeking premises within the Dundee area.

There continues to be a lack of modern industrial accommodation in Dundee, causing sales and lettings to fall short of potential demand. This may be partly offset by forthcoming smaller developments, including two newly-consented schemes within West Pitkerro Industrial Estate at Ainslie Street (four units of 390 sq.m. each) and Fowler Road (four units totalling 3,808 sq.m.). Evans Easyspace has also announced plans to build a £2.8 million business centre at Dunsinane Industrial Estate which will include 12 workshops of up to 102 sq.m. each.

Rents for small to medium-sized industrial units in Dundee range from £21-£32 per sq.m. for older/second-hand accommodation, up to £64 per sq.m. for new premises.

Demand remains strong at **Inverness'** prime Longman Industrial Estate, particularly from trade counter operators seeking prominent pitches. Number 8 Seafield Road (1,486 sq.m.) has been sub-let to Caledonian Logistics; Unit 3, 2 Henderson Road (464 sq.m.) has been let to Lighting & Homestyle Direct at £97 per sq.m.; and units 5/6, 36 Seafield Road (157 sq.m.) have been let to Highland Industrial Supplies at £105 per sq.m.

Supply of industrial property in Inverness is restricted, particularly units with yard areas, and premiums are being paid in many instances.

The city's other main location, Carse Industrial Estate, is also well occupied although inferior in terms of connections to the trunk road network.

Inverness Airport Business Park Limited (IABP) has appointed UK architect firm Make as masterplanners for its 250 hectare business park site adjacent to Inverness Airport. IABP is to submit plans to develop the site over the next 30 years as a high amenity business park with a mixture of office, science park, light industrial, freight and aviation-related developments.

**Recent industrial property transactions in Scotland include:**

<b>Address</b>	<b>Size</b>	<b>Occupier</b>
Kelvin Gate, Hillington Park, Hillington	1,900 sq.m.	Future Environmental Services
Pharos building, Eurocentral	3,735 sq.m.	James Latham Plc
EC-1 building, Eurocentral	12,728 sq.m.	Scottish and Southern Energy Plc
Blantyre Industrial Estate, Blantyre	4,645 sq.m.	Cameron Linn
Prestonfield Park, Kingshaugh Road, Edinburgh	1,060 sq.m.	Howden Joinery
Bankhead Workspace, Sighthill, Edinburgh	464 sq.m.	Napier University
Easter Inch Park, Bathgate	279 sq.m.	City Electrical Factors
New Houston Business Park, Livingston	623 sq.m.	Screwfix Direct
Broadfold Road, Bridge of Don, Aberdeen	2,453 sq.m.	Ziebel
Denmore House & JGB Centre 2, Woodside Road, Bridge of Don, Aberdeen	3,919 sq.m.	Scomi Oilfield Europe Ltd
Faraday Street, Dryburgh Industrial Estate, Dundee	837 sq.m.	Screwfix Direct
8 Seafield Road, Longman Industrial Estate, Inverness	1,486 sq.m.	Caledonian Logistics
Unit 3, 2 Henderson Road, Longman Industrial Estate, Inverness	464 sq.m.	Lighting & Homestyle Direct

# Retail

# Property

**As expected, consumer expenditure growth is slowing. This is increasingly reflected in retailers' trading performances and in weak rental growth in the retail property market.**

In February 2008, like-for-like retail sales in Scotland were 2.5% higher than 12 months earlier. This is ahead of the UK growth figure of 1.5% (SRC/RBS).

There is no doubt that the prevailing economic uncertainty has impacted upon high street retailers. Recent casualties include The Greeting Card Group (trading under the brands Card Fair and Card Warehouse), Music Zone, Dolcis and Stead and Simpson (the latter being brought out of administration by Shoe Zone).

Despite difficult trading conditions, some retailers are keen to expand. These include Travis Perkins-owned DIY chain Wickes embarking on an aggressive expansion programme to double its store portfolio, Orange mobile phones, sandwich retailers Greggs, Subway and Baguette Express and convenience store operators such as Sainsburys and Tesco continuing to target town and suburban locations.

**Glasgow's** Buchanan Street continues to attract new retailers. The arrival of fashion retailer Bench, taking the former Gant unit at 39/41 Buchanan Street, follows All Saints, Hutchison 3G and Apple taking new stores and Mappin & Webb relocating to a new flagship store at 28 Buchanan Street. Prime rents remain in the region of £255 per sq.ft. Zone A.

At the northern end of Buchanan Street the Buchanan Partnership has received outline planning permission to more than double the size of the Buchanan Galleries Shopping Centre from 55,740 sq.m. to 120,700 sq.m. Works are planned to commence Autumn 2008 and complete in Spring 2011.

As previously reported, work has commenced on the £100 million refurbishment of the existing St Enoch Centre. The key changes will be a new entrance/façade at the junction of Buchanan Street and Argyle Street, an extensive upgrade of St Enoch Square and the refurbishment of the existing mall area. On completion at the end of 2009 the centre will be in excess of 93,000 sq.m.

In October 2007, Retail Property Holdings opened its 93,000 sq.m. Silverburn Centre in **Pollok**. The scheme's anchor tenants are Debenhams, Marks & Spencer and Next. New Look, H&M, River Island, Boots and Zara have also acquired space. In addition to the Silverburn Centre, Retail Property Holdings plans to continue the development of Pollok with a retail and leisure park on the other side of the M77 motorway. The developer has submitted a planning application outlining a footprint of 13,935 sq.m. rising to 20,902 sq.m. when the mezzanine floors are included.

In **Edinburgh**, the St James Shopping Centre is set for a major redevelopment. Plans include demolishing the existing centre to make way for a 78,975 sq.m. new scheme on the same site. John Lewis, the existing anchor, will remain on site with the rest of the scheme being developed by Henderson Global Investors. Works are anticipated to begin in 2010.

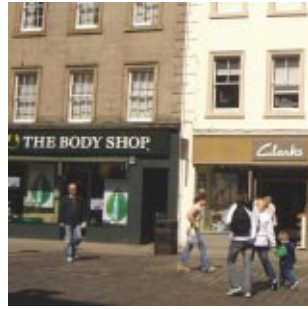
New Look is set to take over the store currently occupied by The Pride of Scotland at 121-123 Princes Street, and plans to open the three-storey 2,045 sq.m. store in 2010. Cath Kidston has opened its first Scottish store at 58 George Street (133 sq.m.) and Church Shoes is opening its second UK store outside London at 59a George Street (134 sq.m.).

A high-profile opening this year will be The Elements in **Livingston**. Land Securities' new £130 million extension to the existing Almondvale Shopping Centre will provide an additional 35,000 sq.m. including anchor tenants Debenhams and Marks and Spencer (8,361 sq.m. each). Latest retailers to sign up include Orange (143 sq.m.), River Island (981 sq.m.) and Nando's (423 sq.m.). Strong retailer interest is reported in the remaining units.

Following its acquisition of the Brandon Shopping Centre, **Motherwell** in February 2007, CALA Properties has lodged a planning application for the development of the former Asda store and provision of a new entrance. Plans include reconfiguration of the 6,875 sq.m. store to provide six retail units with new frontages to the mall and car park.

At the Eastgate Shopping Centre, **Inverness**, Zoo Clothing has taken a 44 sq.m. retail unit. Also in the city centre, 43 High Street has been let to Phones 4 U (302 sq.m.) at a rent equating to £105 per sq.ft. Zone A, which is a record for this location.

A number of multiple retailers have entered the **Aberdeen** market. Recent lettings in the Bon Accord Centre and St Nicholas Centre include Republic (372 sq.m.) and Jane Norman (279 sq.m.). Virgin Media took a 93 sq.m. retail unit on Union Street's prime retailing pitch and All Saints (493 sq.m.) acquired the former Fopp unit. On the secondary pitch of Union Street SK:N acquired approximately 372 sq.m., Greggs 124 sq.m. and Betfred 160 sq.m. Rents for shop units on the secondary pitch of Union Street have now increased to £62.50 per sq.ft. Zone A from a recent low point of £50 per sq.ft. Zone A.



At Union Square, Aberdeen, Hammerson is on site. The former bus station has been demolished and construction is fully underway. Completion of the 50,000 sq.m. shopping and leisure development is due in Autumn 2009.

At St Johns Shopping Centre, **Perth** there have been recent lettings to 3 Mobile, Jane Norman and Coffee Republic.

In **Dunfermline**, construction is well underway on the £50 million extension of the Kingsgate Shopping Centre. The scheme will be anchored by a 7,430 sq.m. Debenhams and is due for completion in August 2008.

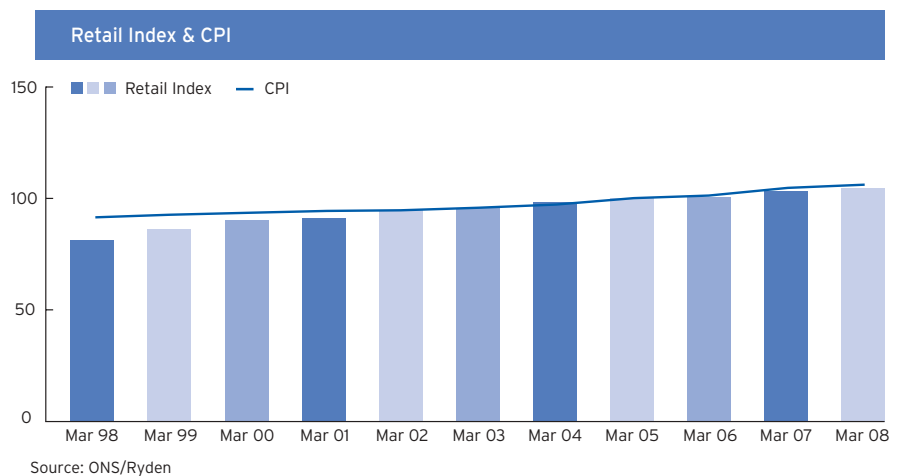
The Ryden Retail Rent Index has grown by 0.5% over the past 12 months (see table and chart). This is well below the rate of price inflation and reflects rental growth in only Braehead and Perth, both of which were reported in the previous Scottish Property Review.

#### Retail Rent Index

Location	Zone A rate per sq.ft.
Aberdeen	170
Airdrie	42
Ayr	88
Braehead	200 *
Clydebank	75
Coatbridge	43
Cumbernauld	55
Dumfries	58
Dundee	110
Dunfermline	78
East Kilbride	130
Edinburgh	220
Edinburgh (Gyle)	175
Elgin	40
Falkirk	88

Location	Zone A rate per sq.ft.
Galashiels	32
Glasgow	255
Glenrothes	57.50
Greenock	77.50
Hamilton	84
Inverness	115
Irvine	76
Kilmarnock	60
Kirkcaldy	55
Livingston	107
Motherwell	48
Paisley	72
Perth	77.50
Stirling	115
St Andrews	55

1. The Zone A figures reflect rents which have been achieved in the market.
  2. The Zone A rate relates to prime pitch.
  3. 30ft. Zone A.
  4. Top 30 centres only.
- \*represents 80% of OMV with turnover provisions.



# Investment Market

**Occupier markets continue to perform well and underpin current investment values in many of Scotland's prime locations. However, secondary markets and the retail sector have substantially weakened.**

Total returns from property have collapsed to -10.7% in the year to March 2008. This reflects yield impact of -17.6% over twelve months for the relatively prime assets held in the IPD monthly index portfolio. Secondary assets have undoubtedly suffered greater yield shift.

The rate of falling returns has recently slowed, giving some hope that this trend is bottoming-out. However, concerns continue as to the ongoing impact of the credit crunch.

## Office

Investors seeking bargains North of the Border have, to a large extent, been disappointed. Vendors are maintaining a hard line over their yield aspirations and there is a lack of investment stock being offered to the market by "willing" sellers, ie funds with redemption issues.

In comparison with recent transactions in London and South-East England, prime office investment yields of 5.5-6.0% may appear keen. However, these should be considered in the context of the strong markets in each of Scotland's major cities, suggesting that rental growth can be expected to continue.

Secondary investment stock, in contrast, has experienced a significant rise in yields. The scarcity and cost of debt is forcing geared investors to move their initial yield requirements to 7% or more.

Annual returns for Scottish office property were -3.1% for the year to December 2007. Equivalent yields increased to 6.2% while rental growth delivered 3.9%.

## Recent office investment deals in Scotland

Address	Property	Purchaser (initial yield)
124 St Vincent Street, Glasgow	3,530 sq.m. let to Commercial Union until March 2008	Joint venture between AWG and Baronsgate Estates for £8.8 million (5.27%)
Capital Building, 12/13 St Andrew Square, Edinburgh	2,569 sq.m. building let to RBS, Whitbybird Holdings, Best People Ltd and Elan Computing Ltd. Leases expire 2015-2016	Private German investor for £10.2 million (5.6%)
33a, 35 George Street, 66 Hanover St, Hobart House (70-90 Hanover Street) and 20-22 Thistle Street, Edinburgh	3,558 sq.m. offices and 1,068 sq.m. retail. Multi-let building, occupiers include HSBC, LaSalle Investment Management and Towry Law. Leases expire 2011-2015	Private Scottish investor for £21.2 million (5.6%)
Riverside House, Riverside Drive, Aberdeen	4,875 sq.m. multi-let office building	Camlin Investments for £13.1 million (6.98%)
Altec Centre, Altens Aberdeen	2,700 sq.m. of multi-let 1980s office pavilions	Braefoot Cox for £4.1 million (8.1%)
6 Golden Square, Aberdeen	725 sq.m. single-let period office building	Golden Square Properties for £1.81 million (5.4%)



## Industrial

There is still an active demand for industrial investments in Scotland, particularly from private investors and property companies. With base rates falling, funding terms have improved to an extent, although loan-to-value ratios and lending margins have moved against the borrower. In general, industrial yields are now 0.75-1.25% higher in comparison to the peak of the market in early 2007. Prime yields for well-let, rack-rented industrial property are now around 6.75% in Aberdeen and 6.5% in Edinburgh and Glasgow.

There is less industrial investment stock being openly placed on the full market as off-market deals are increasingly favoured by vendors. Multi-let industrial estates, trade parks and industrial buildings with roadside frontage remain very popular. Buyers for single-let industrial investments suited to more passive investors are harder to identify. However, as rental growth is strong in certain areas, for example Aberdeen, some opportunities will perform well over the medium to long term.

Annual returns for Scottish industrial property fell into negative territory (-0.9% in December 2007) during the review period. This was largely due to equivalent yields increasing to 7.1%, more than cancelling-out rental income of 5.8% and rental value growth to 3.0%.

## Recent industrial property investment deals in Scotland

Address	Property	Purchaser (initial yield)
Deerdykes View, Cumbernauld	10 industrial units totalling 1,694 sq.m.	Thistle Properties for £1.75 million (7.7%)
Todd Square, Houston Industrial Estate, Livingston	3,066 sq.m. distribution warehouse let to Continental Tyre Group	Mutley Properties for £2.45 million (7.38%)
Catalyst Trade Park, Edinburgh	Tenants include Topps Tiles, Carpetright and Plumbzone	Protego for c. £4 million (6.25%)
Units 1-3, Wellington Circle, Altens, Aberdeen	15,800 sq.m. distribution warehouse split into three units	Gilcomston Investments for £9.4 million (7%)
Nord Centre, York Street, Aberdeen	9,150 sq.m. comprising multi-let industrial units and office suites	Aberdeen Harbour Board for £10.5 million (5.3%)
Quarry Road, Northfield, Aberdeen	2,300 sq.m. comprising four terraced industrial units	Gilcomston Investments for £1.8 million (6.95%).
Denmore Road, Bridge of Don, Aberdeen	2,000 sq.m. detached workshop with offices and yard	Europa Holdings for £2.5 million (6.6%)

## Retail

Concern over the prospects for consumer expenditure has weakened investor demand in the retail sector. Yields have risen in both the High Street and out-of-town sectors.

On the High Street, the institutional and Irish investors who were driving the prime market have largely withdrawn. Prime yields have moved out to 5% at best and deals are scarce. At the secondary end of the market, vendors appear to be sitting out the storm rather than forcing difficult investment stock onto an unwilling market. There is little doubt however that yields in the secondary retail markets have softened considerably.

Demand for shopping centres is very selective. Asset management opportunities are sought and rental guarantees are unpopular. Retail parks with Class 1 retail planning consent continue to be attractive at current yield levels, whereas bulky goods parks are less sought after by investors.

IPD statistics for the Scottish retail sector show a total return of -7.1% to December 2007 as equivalent yields moved to 5.8%, income returned 4.2% and marginally positive rental value growth delivered 0.4%.

### Market Prospects

Despite some very negative market sentiment, the economy remains reasonably stable with modest growth projected for the UK and higher growth forecasts for Scotland.

The anticipated revival of property company purchasing is undoubtedly being constrained by the dramatically changed attitude of the banks to the property sector.

### Recent retail property investment deals in Scotland

Address	Property	Purchaser (initial yield)
109/113 Sauchiehall Street, Glasgow	Retail unit let to Orange	JP Morgan for £2.96 million (5.25%)
36 Buchanan Street, Glasgow	186 sq.m. retail unit occupied by Karen Millen with 10 years unexpired	Redevco for £6.4 million (4.85%)
Princes Square Shopping Centre (and the Guildhall), Glasgow	Princes Square comprises 9,290 sq.m. in 49 retail units, and Guildhall comprises 11,613 sq.m. multi-let offices	Redevco for £107 million (5.1%)
90a Princes Street, Edinburgh	Retail unit let to Body Shop	LaSalle Investment Management for £3.4 million (4.9%)
21 Princes Street, Edinburgh	Retail unit let to T-mobile	Private investor for £3.3 million (5.1%)
115/119 High Street, Dunfermline	Three units let to Next, River Island and Stevens Bakers extending to 1,486 sq.m.	Private investor for £4.1 million (6.24%)
96 Willowbank Road, Aberdeen	1,300 sq.m. of retail warehouse space split into two units	Private investor for £2.65 million (6.1%)
81 Union Street, Aberdeen	67 sq.m. retail unit	Royal London for £1.125 million (5.46%)

The extent of the reversal of the banks' risk assessment policy and the subsequent amount and cost of debt finance is adding to the uncertainty and is causing delays and aborted transactions.

Some institutional buyers are however taking advantage of higher income returns, while redemptions from private investor funds also slowed dramatically in February, reducing the pressure on these funds to sell.

There is continuing uncertainty as to how long the investment market will remain in negative territory and in partial paralysis. Investors remain very cautious, although those who are well-funded are now in a position to acquire what may in the medium term be reflected on as very astute buys. For the optimist, conditions are bound to change for the better; when exactly this will happen is more difficult to assess.

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