

Ryden

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Scottish Property Review

Economy

& Planning

Economy

The ongoing credit crunch is beginning to constrain economic activity and dampen expectations for future growth.

Unemployment has increased and retail spending growth is slowing. The number of new businesses has decreased, but fewer businesses have failed.

- Scottish GDP grew by 2.1% over the 12 months to the end of the first quarter 2008, below the UK growth rate of 2.8%. The service sector expanded by 3.2%, while the production sector fell by 0.4%. Reversing recent trends, construction output decreased by 2.9%.
- Forecast UK economic growth is 1.4% for the remainder of 2008 and 1.1% in 2009, according to the International Monetary Fund. These forecasts are below the long run average and reflect concerns about ongoing economic conditions, particularly in the banking and housing sectors.
- Forecast economic growth for Scotland is marginally more positive than the UK figures, at 1.5% for 2008 and 1.6% for 2009 (Ernst & Young ITEM Club), or 1.9% and 1.7% respectively (Fraser of Allander Institute).
- Economic forecasters will however be continually revising their models in the light of the ongoing credit crunch.
- The Scottish unemployment claimant count was 5.4% at August 2008, up by 4% since August 2007. Aberdeenshire had the lowest claimant count (0.8%) and North Ayrshire the highest (4.3%).
- The Committee of Scottish Clearing Banks confirms that the number of new business accounts established during the first half of 2008 totalled 11,015. This was down

Job Gains

beCogent intends to employ 3,500 staff in its Glasgow call centre

LA Recruitment in Aberdeen has doubled its workforce to 25

Northern Offshore UK plans to recruit up to 300 new employees in Aberdeen

Fifi and Ally has acquired Beanscene and increased combined staff to 200

Job Losses

Tulloch Timber Systems has closed its Inverness facility with the loss of 13 jobs

Dundee based law firm Blackadders has cut 44 jobs and closed offices in Kirriemuir and Carnoustie

Vestas announced plans to close its Campbeltown wind turbine factory with the possible loss of 91 jobs

Elgin based Robertson Group has cut 44 jobs

Edinburgh based Martin Currie has announced that it is cutting 18 jobs

GlaxoSmithKline is to cut 55 jobs at Montrose

Scotsman Publications is to reduce its staff by 30 following an organisational review

Fife's Curtis Fine Paper has gone into administration resulting in the immediate loss of 180 jobs

27% on the same period last year.

The majority of new businesses (2,254 or 43%) were in the real estate, renting and other business sector.

- Experian reports a total of 368 business failures in Scotland during the first six months of 2008 (3.5% of the UK total). This was 16.7% lower than during the same period in 2007.
- Retail sales in Scotland were 0.7% higher on a like-for-like basis over the 12 months to August 2008 (source: SRC/RBS). Further comment on the retail sector is provided on page 12.
- According to the International Petroleum Monthly published by the Energy Information Administration (US Government), daily UK oil production in the 12 months to July 2008 was down by 9% on the previous 12 month period.
- Job gains and losses reported in the table above reflect a shift from the recent

pattern, as construction and service organisations as well as manufacturers trim their workforces in response to reduced economic activity.

Planning

The proposed changes to Scotland's planning system are still in the pipeline, with their real impact yet to be felt.

The majority of consultations on secondary legislation have now closed and the Scottish Government is working through responses. Secondary legislation is imminent, as is a tranche of new guidance explaining the legislation's finer details.

Strategic Development Plans (SDPs)

SDPs are replacing structure plans in the four largest city regions – Aberdeen, Dundee, Edinburgh and Glasgow. Strategic Development Planning Authorities have been established and their submissions to the Scottish Government on the proposed boundaries of their plans are awaiting approval.

Work will begin on the SDPs early next year when the relevant secondary legislation is approved. Some local authorities have delayed the preparation of their new local plans until this happens, but it is vital these are agreed soon to ensure clarity for property developers and investors.

Public Consultation

An issue causing concern is the new statutory requirement for major proposals to be subject to pre-application consultations, and in particular how this process will be managed by local authorities. Local authorities will assess whether adequate consultation has taken place, appropriate to the nature and scale of the proposals. This process, on top of their additional responsibility to carry out neighbour notification, places a real burden on local authorities, which are in some cases already under-resourced. Careful management will be required to avoid unnecessary delays in lodging applications.

Regulation	Legislation going to Parliament	Estimated to come into effect	Guidance	Date of publication
Development Planning	November 2008	January 2009	PAN 49 Development Planning	December 2008
			Circular 1/2009 Development Planning	January 2009
Development Management	November 2008	January 2009 - June 2009	PAN 40 Development Management	January 2009
			Circular 2/2009 Development Management	January 2009
Enforcement	March 2009	April 2009	Circular 3/2009 Enforcement	April 2009
National Planning Framework for Scotland 2 (Final Draft)				March 2009

Housing

The revised Scottish Planning Policy 3 (SPP3) Planning for Homes was published in July 2008 and aims to address the difficulties in bringing forward land for housing. It provides guidance on:

- More consistent and robust identification of housing need and demand through joint working between local authorities and a range of partners;
- The allocation of a generous supply of land to meet identified housing requirements across all tenures;
- Mechanisms to help ensure that planned housing is built, including quick and efficient reviews of development plans to enable the maintenance of a five-year effective housing land supply.

The revised SPP3 encourages local authorities to respond more quickly to the housing market by bringing forward additional land when identified supply becomes constrained. However, this may have little impact in the short term while developers experience ongoing market difficulties, caused by reduced house purchaser activity due to the credit crunch.

Office

Property

Office market demand is running at around average levels, as slowing market activity in Glasgow and Edinburgh is offset by high demand in Aberdeen.

Glasgow's total office take-up over the six months to September is 35,675 sq.m. This confirms a 12 month total of 68,790 sq.m., down by 21% from the previous 12 months.

City centre activity has been dominated by deals under 929 sq.m., primarily on high quality refurbished office space at buildings such as 145 St Vincent Street and 206 St Vincent Street, along with low Grade B space across a range of buildings.

There have been only two deals over 929 sq.m. within the city centre since April 2008. These are the pre-let of 1,756 sq.m. at 141 Bothwell Street to HSBC, pushing Glasgow's headline rental up from £295-£305 per sq.m. and a pre-let of 3,158 sq.m. to call centre outsourcing specialist, beCogent, at 2 Cadogan Square.

A significant number of larger indigenous companies have imminent break options and lease expiries. However, there is a dearth of meaningful new development site starts and therefore completions until at least 2011. As such, these indigenous occupiers recognise the need for early commitment to schemes already under construction to ensure acquisition of appropriate premises for their relocation.

Contrary to what may be expected in the present economic climate, there are presently some 25 active enquiries totalling c.55,740 sq.m. seeking Grade A/ top Grade B space. The larger among these potential occupiers have a very limited choice of completed property.

Some companies able to move can take advantage of current market conditions to secure increased rent free periods or other incentives, as developers and landlords compete aggressively for tenants.

Presently there is only one new Grade A building, 4 Atlantic Quay (c.4,495 sq.m. remaining) and only two second hand/ refurbished buildings, 123 St Vincent Street and 150 St Vincent Street, which can offer floors larger than 929 sq.m.

However, there are ten new buildings set to complete in the city centre between now and the end of 2009 which will provide a total of c.78,965 sq.m. Five larger buildings, such as IVG/Ediston's Broadway (11,520 sq.m.) can satisfy major requirements. A range of smaller buildings such as Stocklands' One Waterloo Street (5,410 sq.m.) and HBG/IVG's Clarion, 29 Wellington Street (7,155 sq.m.) can address the local floor-by-floor market, or provide a self-contained option for larger firms and corporates.

Looking beyond this immediate development cycle, there is no other committed development in the central core and only relatively small scale pavilion-style development underway on the immediate periphery. Larger recent completions on the periphery include FM's new build at 133 Finnieston Street (c.3,171 sq.m. remaining) and at Medius, Pacific Quay (c.2,410 sq.m.).

Digital Design Studio has pre-let 1,400 sq.m. at The Hub, a new building of c.5,575 sq.m. which is part of the Pacific Quay Media Quarter being promoted by Scottish Enterprise.

Further afield, Carillion (AMBS) has taken 2,230 sq.m. at **Hamilton** International Park and Morgan Ashurst has secured 1,020 sq.m. at Cirrus, **Glasgow Airport** Business Park.

Glasgow city's total office supply has risen to c.185,806 sq.m., an increase in the vacancy rate from 7.6% to c.10% overall. City centre vacancy has increased from 5.5% to 7.5%.

Supply will continue to rise over the next 12 months as the current pipeline completes, but the situation will reverse as a recovering economy faces a lack of committed new office development.

There will also be a release of second hand office space, primarily of poorer quality and requiring refurbishment where companies relocate, and perhaps also through consolidations in the financial services sector.

For national and international occupiers seeking exceptional value and substantial operational cost savings, both Maxim at **Eurocentral** and **Hamilton** International Park at High Blantyre have new office developments completing on former Enterprise Zone land, permitting highly incentivised financial packages.

Glasgow's prime city centre headline rent has increased to £305 per sq.m., although the wider range remains £295-£305 per sq.m. Properties slightly outwith the city core are likely to offer a discount to prime rents at £260-£280 per sq.m. Rents for top quality refurbished space have also increased to £240-£260 per sq.m. Headline rents are however being supported by substantially increased incentives.

Flexible leases including break options at 5th and/or 10th years remain prevalent in Glasgow, although companies keen to maximise their incentive package may be prepared to consider longer leases of up to 15 years. This however is the exception rather than the norm.



Larger office transactions in Scotland include:

Address	Size	Occupier
Westhill Business Park, Aberdeen	10,750 sq.m.	Aceryg
Pavilion 1, West Point Business Park, Westhill, Aberdeen	4,000 sq.m.	TAQA Bratani
Craigshaw House, Wellington Road, Altens, Aberdeen	3,000 sq.m.	PSL Ltd
Union Plaza, Union Row, Aberdeen	2,500 sq.m.	Aberdeen Asset Management
Pavilion 3, Aspect 32, Westhill, Aberdeen	2,300 sq.m.	Technip
Wellington House, Wellington Circle, Altens, Aberdeen	1,900 sq.m.	Total
2 Cadogan Square, Glasgow	3,159 sq.m.	beCogent
Fenick House, Hamilton Business Park, Hamilton	2,230 sq.m.	Carillion (AMBS)
141 Bothwell Street, Glasgow	1,756 sq.m.	HSBC
206 St Vincent Street, Glasgow	1,308 sq.m.	Various Floors/Tenants
145 St Vincent Street, Glasgow	1,158 sq.m.	Various Floors/Tenants
Cirrus, Glasgow Airport Business Park	1,022 sq.m.	Morgan Ashurst
Bonnington Bond, Edinburgh	1,172 sq.m.	Barco Ltd
Edinburgh Quay, Edinburgh	1,300 sq.m.	Pinsent Mason
Quartermile 6, Edinburgh	3,391 sq.m.	Morton Fraser
Exchange Crescent, Edinburgh	914 sq.m.	Barrie & Hibbert

Peak rents for new-build, non-cooled business park space around Glasgow remain £160-£170 per sq.m. and comfort-cooled space £170-£195 per sq.m. (inclusive of car parking). Sale prices for smaller pavilions remain in the range £2,045-£2,370 per sq.m.

Six month take-up to September 2008 in **Edinburgh's** office market was 33,022 sq.m. 12-month take-up to September 2008 is 80,072 sq.m.

In the city centre, 20,951 sq.m. transacted within 88 deals, indicating an average size of 238 sq.m.

Take-up during 2008 has been slower than in 2007, with many occupiers delaying decisions to relocate unless they have immediate requirements through lease expiries or break options.

Edinburgh's office market continues to rely on existing occupiers, primarily in the legal and professional services sectors. Several requirements remain active from Scottish Government, and also the financial services sector, despite turbulent times.

Pre-letting activity has continued. The largest transaction saw Morton Fraser

secure 3,344 sq.m. at Quartermile's latest office development, which is due to complete during Q4 2009.

Notable city centre office transactions include: Burness WS at 50 Lothian Road; MBM Commercial at 7 Castle Street; Johnston Carmichael at 7/11 Melville Street; Co-op Bank at Lochrin Square; Barrie & Hibbert at Exchange Crescent; CMC Markets at 40 Princes Street; and, more recently, Pinsent Mason concluding at Edinburgh Quay 2.

Smaller, quality, open-plan offices continue to be in demand, and landlords remain flexible when dealing with larger buildings. For example, the refurbished Stamp Office at Waterloo Place has benefited from demand for offices up to 650 sq.m., and has concluded terms with the Scottish Legal Complaints Commission. Two further floors are under offer within weeks of refurbishment.

Market activity in **West Edinburgh** has revived, with transactions concluded at: Hermiston Quay to Adobe; South Gyle Crescent to IKON and Morris & Spottiswood; 7 Lochside View to J P Morgan; as well as two transactions at Wallace House to Logica and DVLA.

In Leith, transactions concluded to occupiers PSCA at Commercial Quay, to Barco and Bonnington Management at Anderson House, Hully and Kirkwood at the Stack, and the Post Code Lottery and Marie Curie at Great Michael House confirm an active market.

In total outside the city centre, 12,071 sq.m. was transacted in 32 deals with an average size of 377 sq.m.

Total Edinburgh office supply at September 2008 is 219,251 sq.m., an 11% increase since March 2008.



Within the city centre, 117,986 sq.m. of office space is available, of which 51,537 sq.m. (43%) is Grade A. Waverley Gate, which remains largely unoccupied, accounts for 35% of this supply.

Four large-scale, city centre office developments are progressing towards completion in 2009. These are: Exchange Place on Semple Street (19,509 sq.m.); West Port House (8,826 sq.m.); Leith Street (6,039 sq.m.); and Quartermile 6 (5,110 sq.m., of which 3,391 sq.m. is pre-let to Morton Fraser, as in the table overleaf). One Springside (5,574 sq.m.) is currently being delayed, and has a dual planning consent for hotel or office use. The refurbishment of Tanfield (17,930 sq.m.) will provide further new office supply.

Positive interests in these developments currently under construction suggests that further pre-lets are a possibility.

There are no Edinburgh office schemes presently scheduled to complete in 2010, and a number of the larger future developments are on hold while developers re-evaluate timescales and funding options. Planning consents have been obtained by Tiger Developments at Haymarket and Mountgrange on New Street. Both developments are unlikely to provide office accommodation before 2011/12.

HBOS has concluded the acquisition of a 5.7 hectares site at Fountainbridge for an administration hub, but in the light of a proposed merger with Lloyds TSB the prospects for this scheme and the potential for rationalisation of existing offices are unclear.

In West Edinburgh, Premier Property Group has completed the EHQ EH1 development, (9,052 sq.m. of Grade A office space), while Goodman and EDI have put on hold their schemes. At Ratho, Scotmid's new office development will provide flexible floorplates from 124-1,835 sq.m.

Prime rents in central Edinburgh remain at £307 per sq.m., however incentives available to occupiers are increasing in the current economic climate. Prime West Edinburgh office rents remain at £215 per sq.m.

Aberdeen continues to enjoy a strong office market. The ever-changing price of oil peaked earlier this year at an all-time high to over \$140 per barrel (Brent Crude), but at the time of writing had fallen back to \$84 per barrel.

Although not immune from the effects of the credit crunch, the Aberdeen commercial property market has remained in its bubble on the back of continued healthy demand from the oil sector.

Office take-up in Aberdeen for the six month period to September 2008 increased by 10% to 47,000 sq.m. in 54 transactions. Strong demand continues to be converted into deals, albeit the supply of Grade A office space remains a constraint. Total office supply currently stands at approximately 93,000 sq.m.

In the West End, two deals have now achieved rents of £323 per sq.m. and another office is under offer at this level. Given the lack of availability, it is likely that more lettings will be achieved at or indeed above this level.

The few West End buildings coming on to the market for sale have been achieving extremely high prices at closing dates. The latest, 12 Queens Road, is under offer at a capital rate in excess of £5,900 per sq.m.

The success of Westhill as an office location continues. The Abu Dhabi national oil company TAQA Bratani has leased the 4,000 sq.m. Pavilion 1 at West Point, while oil service company Technip has leased Pavilion 3 (2,300 sq.m.) at Aspect 32. Both developments are now proceeding

speculatively with their second phases, which between them will comprise more than 6,000 sq.m. due for completion in the second/third quarter of 2009. Gladman Developments continues to build its scheme, Abercrombie Court, to occupier specification and has three tenants signed-up plus strong interest in a number of the other units currently under construction. Acergy has taken part occupation of their new buildings, comprising a stand-alone office of 10,800 sq.m. with ancillary warehouse and leisure facilities.

Speculative schemes are also progressing in Aberdeen city centre. Kenmore's City Wharf (2,600 sq.m.), Hazledene's IQ (11,600 sq.m.) and Miller Cromdale's Freedom House (2,900 sq.m.) are all on site. Stewart Milne Group's Union Plaza is now complete and only 2,300 sq.m. of the 11,400 sq.m. is still available.

No Grade A space is currently available to the south of the city, however, a number of sites are available for office development. Some of these are in discussions for pre-lets, which, if agreed, may encourage their developers to consider speculative offices as part of the same schemes.

Tenant demand for smaller, modern open plan offices in **Dundee** is relatively robust. The majority of lettings in the city concern offices ranging from 70-371 sq.m. and landlords have been prepared to split floors within larger buildings to accommodate this trend.

At West Marketgait, 2,044 sq.m. of second floor office accommodation is nearing completion, as part of a mixed-use development by James Keiller Estates.

Construction work is due to begin shortly at DundeeOne, a riverfront development of two Grade A open plan office buildings each offering around 4,615 sq.m. One building has been let to the Scottish Police Services Authority.

City Quay continues to be transformed following a succession of office lettings. Plans have now been submitted by Unicorn Property Group to develop the last of the dock sheds at the east end of City Quay into nine glass-fronted offices.

Gladman Developments has commenced office development at Dunsinane Estate. Phase 1 will provide approximately 2,200 sq.m. of new office space on a site to be known as Dundee Business Park, and will consist of a mix of office units of 95 sq.m., 205 sq.m. and 483 sq.m., available for sale or lease.

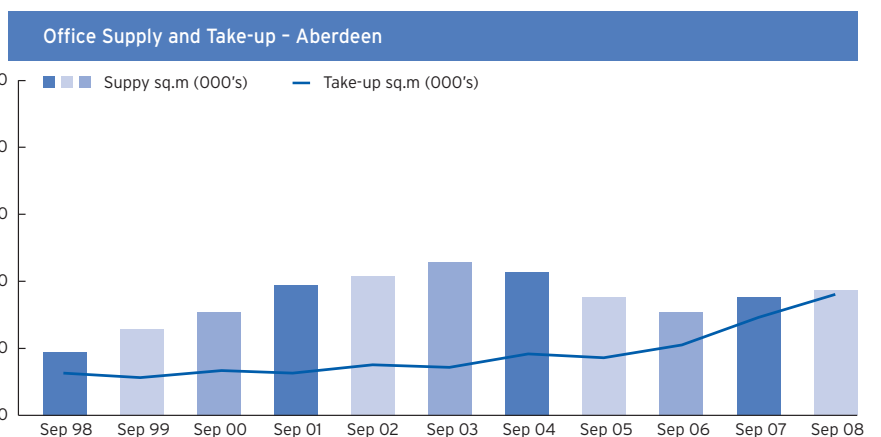
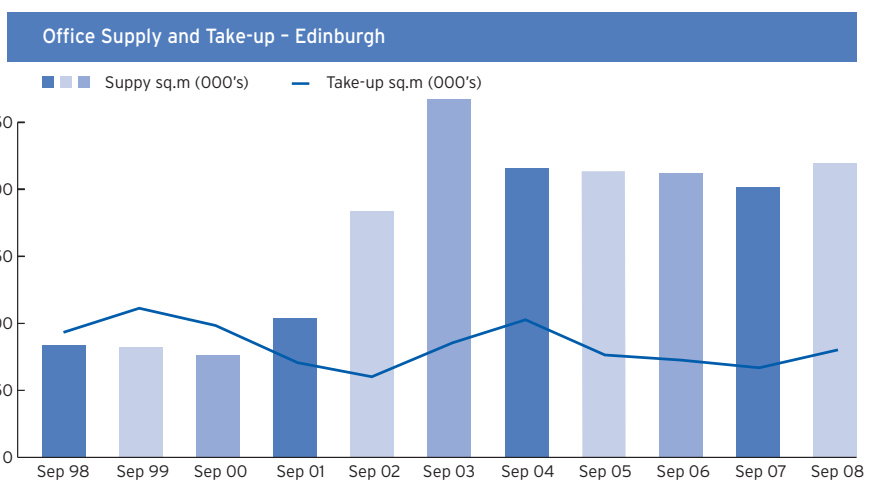
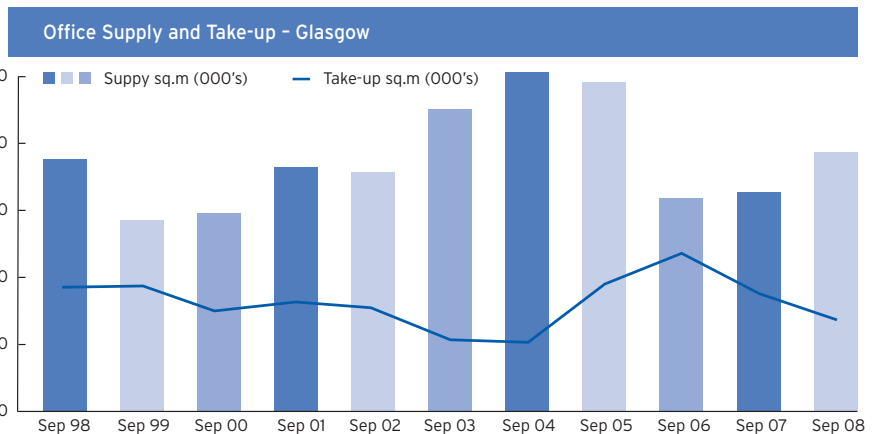
Within Dundee city centre, the refurbished Whitehall House is now fully-let following the letting of a further 1,315 sq.m. to Thortons LLP.

Prime office rents for modern open plan office accommodation in Dundee are around £150 per sq.m. Demand continues for ownership opportunities at capital values for good city centre accommodation ranging from £1,431-£1,668 per sq.m.

At Camas House, Fairways Business Park **Inverness**, modern open plan office space extending to 135 sq.m. has recently been let to Stronachs.

Within the city centre, a letting of 36 sq.m. traditional first floor office space at 25 Inglis Street to Hazel Passmore Jewellery has recently taken place. Second floor space within 3 Union Street extending to 34 sq.m. has been let to Premier Care (Scotland) Ltd.

In the development market, Henderson Group has secured detailed planning consent for a 750 sq.m. new build office block at 33 Henderson Drive, Longman Industrial Estate. The project is scheduled for completion in May 2009.



Source: Ryden

Industrial

Property

2008 continues to be a busy year for the industrial property market. It is inconceivable that the industrial sector will remain immune from the wider economic slowdown, but it appears to be business as usual for the moment. The most significant threat is a lack of credit impacting on sales and development.

The Centralpoint development by TAL CPT Land Development LLP at **Eurocentral** is off to a flying start with two pre-lets agreed in quick succession. Trac International has taken the 3,810 sq.m. Athena at £59 per sq.m. followed by the letting of the 4,966 sq.m. Apollo to logistics specialist Wincanton, also at a rental of £59 per sq.m. This letting of two out of six speculative buildings prior to completion is extremely encouraging for the location and the market as a whole. The deals leave four buildings totalling 30,500 sq.m. available for immediate occupation. The remaining development plots are also attracting strong interest.

In **Cumbernauld**, Edenroc's Wardpark Point has secured a major letting to OKI Europe Ltd. The printer manufacturer has taken 11,890 sq.m. of warehousing space for continued expansion of its operation. At nearby Orchardton Woods, Tenma (UK) Limited has sold its manufacturing plant to AG Barr Plc. The facility comprises two buildings totalling 14,528 sq.m. on a site of 8.3 hectares and the price was £2.85 million. Two further significant deals are close to settlement. These combined transactions will complete what has been the busiest trading period for Cumbernauld's larger industrial buildings in over a decade.

At **Hamilton** International Park, Kuehne and Nagel has taken 4,650 sq.m. on a new 10-year lease (with a break option at year five) at £59 per sq.m. Recently, a further building of 2,331 sq.m. was let to Centrica at a rent of £57 per sq.m. At the nearby Bothwellpark Industrial Estate, DSV has sold its 5,762 sq.m. building to Marlow Pallets.

The West of Glasgow industrial market has been similarly active. Paper Pack has taken 1,160 sq.m. at **Cardonald** on a new 10-year lease at £65 per sq.m. Also at Cardonald, Kschocolat has taken the 1,990 sq.m. Radial Point on a 15-year lease (with break at year ten) at a rental of £65 per sq.m.

At **Hillington**, MEPC has secured the final letting on a phase of larger speculative buildings. The 2,472 sq.m. unit 1 has been let to Balfour Kilpatrick at a rental of £62 per sq.m. on a new 15-year lease (with a break at year ten). MEPC has also completed a development of smaller units at Kelvin Gate. The development comprises 2,800 sq.m. in units ranging from 140-327 sq.m.; units here may be combined to suit larger requirements. Two units have been pre-let to Farmer Autocare and a third is under offer, all at quoting rentals (£80 sq.m.).

Further west at **Linwood**, Melville Exhibitions has leased unit 2 at Imperial Park, The Phoenix. The 1,860 sq.m. unit has been taken on a 10-year lease at £54 per sq.m. The Barrhead Cargo Centre has also secured a major letting with the Eastlake Group taking unit 4 (43,900 sq.m.) and the centre is now fully-let.

The level of demand for smaller industrial units is also strong and there are now acute shortages of these in the Greater Glasgow area. This will hamper activity of small firms and is a significant issue for the local economy. Any new development will likely attract strong demand and early deals. For example, SCOT Sheridan's Rutherglen Park, Dalmarnock Road is now on site and will extend to 4,250 sq.m. in units from 186 sq.m.; unit 1b was under offer before a site start had been made.

The development pipeline has recently slowed due to competing demand for prime sites and the cost-push factors of rising land values and construction costs against static rents. Rents are now on the rise due to shortages, but the credit crunch has hit both investment yields and the availability of funding. Consequently, there is very limited development activity and pre-lets or sales are likely to increase at enhanced rental levels.

Occupational demand for industrial property in East Central Scotland remains robust, which, coupled with the shortage of quality supply, has resulted in rental growth, particularly in the **Edinburgh** area. This is particularly evident for units of up to 929 sq.m. in the more popular industrial locations such as **West Edinburgh** and Seafield.

At Seafield Road, Royal London Asset Management (RLAM) has recently recorded a new rental record for the area in the letting of approximately 465 sq.m. to Tool Station at £102 per sq.m. RLAM's commitment to this location has been further enhanced with the acquisition of the former Evans Halshaw car showroom for re-development to create high quality trade counter/industrial units, due for completion in early 2009.



Also on the east side of the city, EDI has recently completed a speculative development of 13 small, high quality industrial units ranging from 93-140 sq.m.; five of these are under offer at rentals in excess of £75 per sq.m. At East Telferton Industrial Estate, Abercastle has recently let approximately 740 sq.m. to Frazer, part of the Saint Gobain Group, at a rental of £75 per sq.m.

On the west side of the city there has been a flurry of activity in the **Newbridge** area. Upland Developments recently completed phase 1 of Newbridge 1 and has now welcomed its first tenant, the Scottish Ambulance Service, which will take 929 sq.m. at a rental of £77 per sq.m. There is strong interest in the remaining space. Also at Newbridge, Rockspring's recently refurbished Clifton Trading Estate has secured three deals totalling 4,925 sq.m. at rentals of £56-59 per sq.m. Closer to the city, South Gyle and Sighthill continue to have serious shortages of quality industrial property.

At Bilston Glen, **Midlothian**, Sharkey Space has recently completed approximately 930 sq.m. of small business space units for which there is strong occupier interest. Additionally, C & W Assets has committed to a second phase of Bilston Glen, comprising medium-sized warehouse/production units of 465-2,323 sq.m.

Within Pentland Industrial Estate, the most significant recent activity was the letting of the former A G Barr property to Travis Perkins (3,350 sq.m.) at a rental equivalent to £62 per sq.m. Also within Pentland Industrial Estate, Chancerygate Business Centres has acquired the former Lynx Express depot from Kilmartin, and proposes

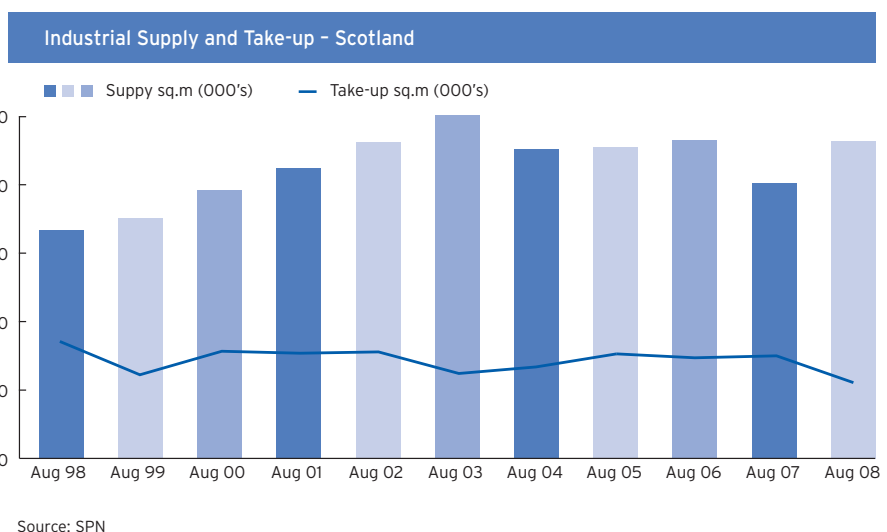
a new-build development of 5,580 sq.m. where small units will be offered on a purchase or lease basis.

Turning to **West Lothian**, one of the largest recent industrial transactions was the sale of Glenmorangie's 74,000 sq.m. Broxburn facility on a site of c.14 hectares to Diageo. Glenmorangie is now searching for a site or building to relocate the company's bottling plant.

SCOT Sheridan continues to be the most active speculative industrial developer in the West Lothian area. Phase 2 of the very successful New Houston Business Park recently completed with lettings to Peffer Paints and OCL totalling 1,400 sq.m. at rentals of £75 per sq.m. SCOT Sheridan is also developing speculatively at Easter Inch, **Bathgate**, where the first tenant, City Electrical Factors has recently taken occupation.

Elsewhere in West Lothian, the bulk of activity has concerned existing second-hand space, such as 3,350 sq.m. at Starlaw Park being leased to Hyaltech.

Within **Fife**, the most significant deal in progress is the sale of the former Freescale semi-conductor plant at Halbeath, **Dunfermline**. Missives have concluded with private equity backed Kingdom Solar. Meanwhile, SCOT Sheridan has purchased the 2,000 sq.m. former Woodrows of Dunfermline facility at Pitreavie Industrial Estate and will be offering this to let or for sale.





The industrial market in **Aberdeen** remains buoyant due to the North Sea oil & gas industry.

A total of 15,650 sq.m. has been let in 34 transactions. This represents a 36% decrease in take-up over the last six months, which can be explained by the low number of industrial properties on the market, particularly up to 1,400 sq.m.

Supply of larger industrial facilities has improved slightly, but this is due to planned relocations to units presently under construction, where the surplus buildings are being actively marketed but will not be ready for entry until 2009.

Tenants are having to renew leases on premises that are not ideal for their businesses. Once again, agents are setting closing dates for lease offers and this looks set to continue. At present, landlords can dictate terms, hence the increases in rents and lease lengths during 2007 and 2008.

Land values in Aberdeen remain in excess of £1.25 million per hectare. The strong market has encouraged both speculative development and new land releases.

Speculative schemes include: Kirkhill and Minto Commercial Parks (Knight Property Group); Raiths Industrial Estate (Gilcomston Investments); Badentoy (GSS Developments Ltd); and Peterseat (Forbes Homes). Some developers have managed to agree pre-lets, previously difficult to achieve in the Aberdeen industrial market.

New industrial land releases include: Balmoral Business Park (7 hectares); Aberdeen Gateway (12 hectares); Altens East (5 hectares) to the south of Aberdeen; and Silvertrees (4 hectares) in Westhill.

Rental levels have again risen and presently sit at £97 per sq.m. for warehouse accommodation, £194 per sq.m. for offices and £19-£22 per sq.m. for concrete yards. On the back of this, rents for secondary industrial units have also risen but these are more dependent upon property age, location and specification.

Dundee's increased occupier demand over the past 18-24 months is now being affected by the wider economy. However, there remains sufficient demand for small to medium units and for premises in the right locations. There is also demand for ownership opportunities rather than the more readily available leasehold options such as the purchase of a 1,598 sq.m. unit by Mahl Properties at Ivory Place, Pitkero Industrial Estate.

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

Recent deals within **Inverness's** prime Longman Industrial Estate include 35K Harbour Road (395 sq.m.) which has been sub-let by HSS Hire to Dobies Heat Centres at a rental of £71 per sq.m. and unit 3, 9 Lotland Street (172 sq.m.) which has been let to Nordex at a rental of £75 per sq.m.

Within the Carse Industrial Estate, recent deals include: unit 41, Carsegate Road (397 sq.m.) being let to Northwards Ltd at a rental of £60 per sq.m.; unit 1, Caledonia Buildings (517 sq.m.) let to Fredi Seafoods at a rental of £39 per sq.m.; and unit 67, Carsegate Road (119 sq.m.) let to Capital Carriers on a new five-year FRI lease at £70 per sq.m.

Larger industrial transactions in Scotland include:

Address	Size	Occupier
Units 1 & 2 Craigshaw Base, Aberdeen	1,362 sq.m.	Arnold Clark
Plot 9a, Peterseat Park Altens, Aberdeen	1,418 sq.m.	KVA Ltd
Units 1 & 2, Wardpark Point, Cumbernauld	11,889 sq.m.	OKI Europe Ltd
7 Orchardton Road, Westfield, Cumbernauld	14,528 sq.m.	AG Barr plc
4 Livingstone Boulevard, Hamilton International Park, Hamilton	4,647 sq.m.	Kuehne and Nagel
Apollo, Centralpoint, Eurocentral	4,966 sq.m.	Wincanton
East Telferton Industrial Estate, Edinburgh	744 sq.m.	Frazer
Newbridge 1, Newbridge, Edinburgh	929 sq.m.	Scottish Ambulance Service
Pentland Industrial Estate, Edinburgh	3,346 sq.m.	Travis Perkins
Starlaw Park, Livingston	3,346 sq.m.	Hyaltech

Retail

Property

Retail sales in Scotland increased by 0.7% over the 12 months to August 2008 on a like-for-like basis. This growth is mainly as a result of the food sector, which is substantially outperforming the non-food sector (source: SRC/RBS).

Many familiar retailing names such as Stead & Simpson, Dolcis and Music Zone have fallen into administration, joined by recent casualties Au Naturelle and coffee shop operator Beanscene.

Further national retailers are trying to safeguard their businesses by running large scale disposal programmes. JJB and JD Sports are marketing 70 and 34 units respectively, Endsleigh has 51 branches on the market and others such as First Quench, Edinburgh Woollen Mill, Woolwich Bank, Nobles Amusements and Jessops also have units on the market.

Some retailers are however pressing ahead with acquisition programmes, mainly in the food sector. Discount food operators Aldi and Lidl are continuing to open new stores, while convenience operators such as Tesco and Sainsbury's are very active. The Co-op has strengthened its share of the market by purchasing Somerfield's stores and also has plans to expand its convenience outlet network. Asda and Morrisons continue to expand, while Waitrose, part of the John Lewis Partnership, is exploring convenience formats for town and city centre locations.

Other sectors performing well are the discount/value high street retail operators, along with pharmacies and bookmakers.

Glasgow's Buchanan Street continues to attract new retailers. Fashion retailer Bench has taken the former Gant unit at 39/41 Buchanan Street. Bench's arrival follows All Saints, Hutchison 3G and Apple taking new stores in Buchanan Street and

Retail Rent Index

Location	Zone A rate per sq.ft.
Aberdeen	162.50
Airdrie	42
Ayr	88
Clydebank	75
Coatbridge	43
Cumbernauld	55
Dumfries	58
Dundee	105
Dunfermline	78
East Kilbride	130
Edinburgh	220
Edinburgh (Gyle)	175
Elgin	40
Falkirk	88
Galashiels	32

Location	Zone A rate per sq.ft.
Glasgow	255
Glasgow (Braehead)	200 *
Glenrothes	57.50
Greenock	72
Hamilton	75
Inverness	115
Irvine	65
Kilmarnock	60
Kirkcaldy	55
Livingston	107
Motherwell	48
Paisley	72
Perth	72.50
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

Mappin & Webb relocating to open a new flagship store at 28 Buchanan Street. Zone A rents remain in the region of £255 sq.ft. Gant has relocated to Ingram Street joining the likes of Mulberry, Agent Provocateur, Polo and Crombie.

House of Fraser on Buchanan Street is currently undergoing a £30 million facelift which is scheduled to be completed in 2010. The 18,580 sq.m. store has recently had the first floor refurbished to create a new menswear department, which now boasts brands ranging from All Saints and Superdry to Paul Smith and Versace.

The £100 million refurbishment of the existing St Enoch Centre is also underway, comprising 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 provide in excess of 92,900 sq.m. of floor space. Agents have reported lettings to G-Star Raw, Tesco and Boots.



The Buchanan Partnership has received outline planning permission to more than double the Buchanan Galleries Shopping Centre from 55,740-120,700 sq.m. Works are planned to commence in Autumn 2008 with completion in Spring 2011. As part of this, the former Open unit will be reconfigured to provide two units over two floors.

In October 2007, Retail Property Holdings opened the 93,000 sq.m. Silverburn Centre in Pollok. The scheme's anchor tenants are Debenhams, Marks & Spencers and Next, while New Look, H&M, River Island, Boots are also trading. Zara has recently opened its doors along with Cotswold, Hawes and Curtis, Jack 'n' Jones, and in the 'Winter Garden' area, TK Maxx, Wagamama, Nandos and O'Briens.

In **Edinburgh**, the St James Shopping Centre is set for a major redevelopment. Plans include the demolition of the existing centre to make way for a new centre of 78,975 sq.m. on the same site. John Lewis, the existing anchor, will remain on site while the rest of the scheme is developed by Henderson Global Investors in a £850 million project, with works anticipated to commence in 2010.

On Princes Street, New Look is set to take over the store currently occupied by souvenir shop, The Pride of Scotland. The retailer aims to open the three floor store in 2010.

On George Street, Jack Wills has secured a store within the former Brook Bros building and agents report that the adjoining unit is now also under offer.

The Elements in **Livingston** opens in October 2008. 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 & Spencer (8,361 sq.m. each). Orange and River Island are also signed up and The Arcadia Group is taking units for Topshop, Topman, Dorothy Perkins and Burton. Restaurant operators Ask, Nandos, Wagamama and Chiquito have also taken space.

Hammerson has secured Jurys Inns as the hotel operator for its £250 million Union Square development in **Aberdeen**. The eight-storey, 203 bed hotel will sit alongside 4,550 sq.m. of retail space, 12 restaurants and a 10-screen multiplex cinema. Completion is scheduled for Autumn 2009. Retailers signed up for the scheme include New Look, Arcadia, Zara, Next and TK Maxx.

In **Dunfermline**, the extension to the Kingsgate Centre opened in August and welcomed JJB, Waterstones, Debenhams, New Look and Poundland.

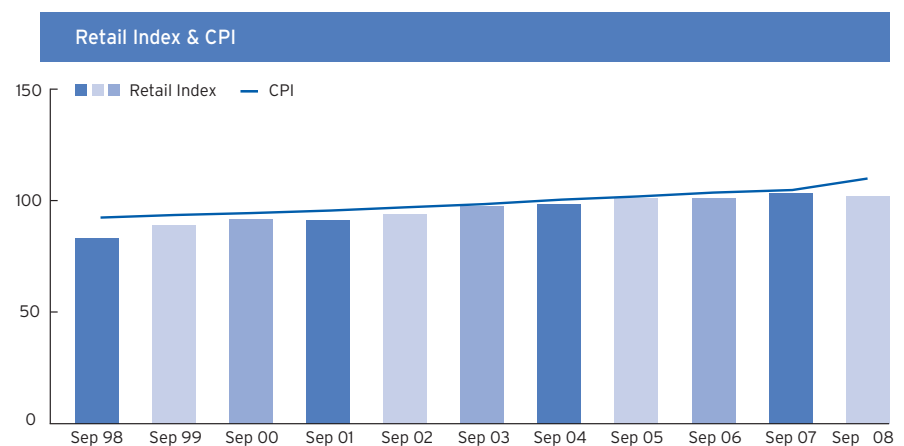
CALA Properties has lodged a planning application for the redevelopment of the former Asda store and provision of a new

entrance at Brandon Shopping Centre in **Motherwell**. Plans include reconfiguring the 6,875 sq.m. store to provide six retail units with new frontages to the mall and car park.

Within the Eastgate Shopping Centre in **Inverness** unit 53 has been let to Joy Fashion Clothing.

Debenhams is to be one of the anchor tenants within a 6,500 sq.m. retail development at Springfield East, **Elgin**. The new development by Elphinstone, in association with Property Investment Partnerships, is expected to open in Spring 2009.

The Ryden Retail Rent Index has declined by 1.5% since March 2008, as prime retail rents have fallen in Aberdeen, Dundee, Greenock, Hamilton, Irvine and Perth. Rents in a number of other towns are also under review. The index will however be boosted in 2009 when Galashiels falls out of the top 30 and the new Silverburn Centre comes in.



Source: ONS/Ryden

Investment

Market

The investment market continues to be afflicted by falling values, as supply of property exceeds purchaser demand and transaction volumes run at low levels. Occupational market activity has held up, although rental growth is now slowing.

Transactional activity has slowed significantly. Any requirements are focussed on annuity-style income with inflation-linked uplifts, prime retail/mixed-use stock and multi-let, high yielding assets.

Values have continued to tumble as the supply of available product outweighs investor demand. Active investors include certain pension funds, well-funded private investors and property companies. The cost and availability of debt continues to be a significant constraint on the market.

The IPD UK Monthly Index to end August 2008 makes grim reading. Total returns for all property over the past 12 months were -17.1%. Capital growth accounted for -21.5% with income return at 5.6% and rental value growth positive at 1.4%.

As an asset class over the 12 month period, property (-17.1%) under-performed equities (-8.7%) and significantly under-performed gilts (8.6%).

The office sector recorded the worst performance, with total returns of -17.9%. The retail sector recorded total returns of -17.4% and the industrial sector was the least worst performer at -15.5%. Notably, all sectors recorded positive rental growth.

The deterioration in performance seems to have slowed over the past six months, as the total return has been recorded at -5.8%. Industrial property again recorded the least worst performance over the period at -5.2%. Worryingly however, rental value growth for the UK has effectively slowed to zero.

Office property investment deals include:

Address	Property	Purchaser
Talisman House, Holburn Street, Aberdeen	8,920 sq.m. single let late 1990s office building	Private investor for £26 million (initial yield 6.4%)
BP HQ, Farburn, Aberdeen	7,340 sq.m. single let new build office building	TMW Pramerica for c.£53 million (6.36%)
32 Melville Street, Edinburgh	307 sq.m. single let townhouse	Private Irish investor for £1.6 million (6.50%)
Kingdom House, Saltire Business Park, Glenrothes	2,691 sq.m. single let office pavilion	Private investor for £4 million (8.74%)
8 Coates Crescent, Edinburgh	469 sq.m. single let townhouse	Property Company for £1.21 million (5.31%)
Lomond House, 9 George Square, Glasgow	5,966 sq.m. multi-let Grade A office building. Tenants include BUPA, Scottish Ministers and Colliers CRE	EPIC for c. £16.5 million (7.1%)
Portcullis House, 21 India Street, Glasgow	9,430 sq.m. office block let to Glasgow City Council with 37 years unexpired, and fixed rental increases	PRUPIM for £17.6 million (5.37%)

Office

Ironically, now that prime office investments can be acquired at historically favourable yields, investors have been unable to take advantage of the opportunity. Numerous buildings have been market-tested and subsequently withdrawn over the past six months due to a combination of lack of buyers and unrealistic vendor price aspirations.

Investor interest remains highly selective, and is strongest for office buildings with well-secured income streams, especially multi-let buildings where rental income provides sufficient interest cover for buyers.

Secondary buildings must be attractively priced to secure interest. For poorer buildings, pricing may be irrelevant if investors take a dislike to them.

Prime city office yields are believed to be 6.25% to 6.5%, although evidence to support this is scarce.

Out-of-town office buildings which can offer secure income and demonstrate rental growth potential are of interest to investors. However, close regard needs to be given to competition from other schemes in that particular out-of-town market. At best, prime out-of-town office yields are considered to be 7% or more.

Returns for Scottish office property were -12.7% for the four quarters to Q2 2008. Equivalent yields increased to 6.9% while rental growth delivered 1.5%.



Industrial

Demand for industrial investments in Scotland has weakened, although the sector remains relatively active when compared with other property types. There continues to be demand from private investors seeking well-let stock and specialised funds (with pre-arranged funding facilities) seeking asset management opportunities.

There is some distress within the industrial sector as historic values are eroded and loan covenants are exposed. A number of property companies that had been active in the industrial sector have retracted from the market to focus on asset management, as the cost and availability of debt impacts on their ability to transact successfully.

There have been a number of notable industrial transactions completed in recent months, as detailed in the table opposite.

Multi-let industrial estates, while still popular, are becoming harder to price as investors become more bearish on tenant covenants and property idiosyncrasy. There will need to be a re-pricing of such assets if transactional activity is to occur.

Initial yields for prime, rack-rented industrial investments are in the range of 7-8%, depending principally on lease length, covenant strength and lot size. Lower initial yields have been achieved where the rent is justifiably reversionary and is therefore expected to increase, particularly in Aberdeen.

Annual returns for Scottish industrial property fell further into the red during the review period (-7.5% over the four quarters to Q2 2008). Equivalent yields increased to 7.7% and rental value growth increased to 3.9%.

Industrial property investment deals include:

Address	Property	Purchaser
Smith International, Badentoy Park, Portlethen	7,320 sq.m. industrial/ office facility	Private investor for £8.1 million (initial yield 5.94%)
Aberdeen Industrial Estate Portfolio	12,650 sq.m., comprising three multi-let industrial estates	Chancerygate BC Investments for £9.4 million (7.5%)
Blackness Road, Altens, Aberdeen	5,510 sq.m. industrial/ office facility	Europa Holdings for £4.45 million (6.75%)
Kirkhill Place, Kirkhill, Aberdeen	924 sq.m. industrial unit	Jasmine Holdings for £975,000 (6.21%)
Dyce Avenue, Kirkhill, Aberdeen	6,050 sq.m. industrial/ office facility	Private investor for £8.7 million (6.6%)
Bilston Glen Phases 2 and 3, Loanhead	4,505 sq.m. multi-let industrial units	Chancerygate for £3.33 million (9.1%)
Unit 7, Pentland Industrial Estate, Loanhead	3,191 sq.m. industrial unit	Private syndicate for £3.05 million (6.2%)
Righead Point, Righead Industrial Estate, Bellshill	3,108 sq.m. multi-let refurbished terrace	Spencer Holdings for £2.367 million (7.1%)
Clydesmill Place, Cambuslang	16,202 sq.m. of multi-let industrial stock	Buccleuch Properties £7.65 million (7.5%)

Retail

The continued absence from the market of institutional and Irish investors has caused high street retail investment activity to stagnate over the last six months. The scarcity and cost of debt financing has driven away private investors from all but the smallest lot sizes of up to £2-£3million.

Shopping centre and retail park transactions have been scarce. Most activity has been confined to portfolio sales, often driven by corporate factors.

The retail warehouse sector has experienced a significant fall in values over the period. Particular pain is being felt in the bulky goods retail warehouse sector, which had enjoyed good growth in values in recent years.

Prime high street yields are judged to be at 5.5% or thereabouts. Only trophy assets are likely to attract sufficient investor interest to achieve this level of yield.

Annual returns for Scottish retail property were -15% for the four quarters to Q2 2008. Equivalent yields increased to 6.3% while rental growth was nominal at 0.1%.

Market Prospects

Market sentiment, backed up to an extent by IPD data, suggests that investment values have fallen by up to 25% over the past 12 months.

Although the deterioration in investment values has slowed, there remain concerns that lack of liquidity in the debt markets will continue to curtail activity and in turn values will continue to fall over the next six months.

Retail property investment deals include:

Address	Property	Purchaser
422/424 Union Street, Aberdeen	177 sq.m. retail unit let to Bradford & Bingley plc	Private investor for £485,000 (initial yield 5.9%)
98/102 George Street and 25/35 Castle Street, Edinburgh	4,399 sq.m. multi-let retail and office scheme	CBRE Investors for £18.5 million (5.85%)
80 Newcraighall Road, Edinburgh	2,872 sq.m. retail warehouse let to Tesco	Private family trust for £14.08 million (5.65%)
Q4 Quartermile, Edinburgh	716 sq.m. multi-let retail parade	Private investor for £3.3 million (5.27%)
460 Sauchiehall Street, Glasgow	444 sq.m. single let to Tesco Stores Ltd, with fixed rental increases	Private Irish investor £1.33 million (4.97%)

As investment fund values catch up with transactional activity, the IPD Index will again endure a torrid time.

Factors that will influence the duration and extent of the further fall in property values include the availability and cost of finance, the health of the wider economy, the occurrence of business failures/tenant defaults and the quantum of investment property that comes to the market by way of distress or otherwise.

The fall in values will probably bottom out within the next six months, providing value to the seasoned investor at yields which properly reflect risks and returns.

As and when the bottom is reached, the landscape of the commercial property investment market, the active participants and the role of the banks will all have changed.

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