

Ryden

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Scottish Property Review

Economy

& Planning

Economy

Muted economic growth in 2008 is now reversing into a sharp recession. Forecasts for 2009 and 2010 reflect ongoing concerns about the ripple effects of the 21 month old credit crunch into the wider economy.

- Scottish GDP grew by 1.4% over the 12 months to the end of the third quarter 2008, below the UK growth rate of 1.9%. The service sector expanded by 2%, the production sector by 0.9% and the construction sector continued its downward spiral, falling by 3.4%.
- The Consensus forecast for UK economic growth published by HM Treasury predicts a fall in output of 3.4% during 2009 and growth of 0.3% in 2010. For Scotland, Fraser of Allander Institute's central forecasts are for falls in output of 2.6% in 2009 and 1.2% in 2010.
- The Scottish unemployment claimant count was 3.8% at February 2009. Aberdeenshire and The Shetland Islands had the lowest claimant counts (1.3%) and North Ayrshire had the highest (5.9%).
- The Scottish Government has accelerated capital spending which will support over 5,000 jobs over the coming 12 months. It has also initiated plans to help support the house-building industry by accelerating the supply of affordable housing through £644 million being invested over the next 12 months.
- The Committee of Scottish Clearing Banks reports that the number of new business accounts established during the second half of 2008 totalled 9,013. This is down by 10% from the same period in 2007. The majority of new businesses (3,497 or 39%) were in the real estate, renting and other business sector.

Job Losses

International Paper is to close its Inverurie paper mill with the loss of 371 jobs

Microchip designer and manufacturer Gemfire shut its Livingston factory, incurring 250 full-time job losses, although 80 staff have been recalled on a contract basis

Thorntons Solicitors has announced that 40-50 full-time jobs will be lost across their offices in Perth, Arbroath, Forfar and Edinburgh

Lifescan in Inverness plans to cut 45 jobs within their support departments including office and administrative posts

MFI's administration has resulted in the loss of 92 jobs across Scotland

W & J Cruickshank, the Moray soft drink firm, has ceased trading with the loss of 33 jobs

Slumberland plans to cut 38 jobs at its Burnfoot factory in Hawick

Lighthouse Caledonia closed its fish processing factory in Stornoway with the loss of 130 jobs

Job Gains

BiP Solutions plans to create 100 new jobs in Glasgow

FMC Technologies has opened a new R&D centre at Bellshill, creating up to 25 jobs

BSkyB plans to create 140 jobs across call centres in Uddingston and Dunfermline as well as in the company's Scottish-based field engineer team

Aggreko plans to create 113 jobs and safeguard 120 jobs in Dumbarton

Apex opened its Waterloo Place Hotel in Edinburgh with the creation of around 80 jobs

Burntisland Fabrications (BIFab) plans to create 150 new jobs in Methil, Fife

Ryanair has opened a base at Edinburgh Airport, creating 100 direct jobs and an additional 100 indirect jobs in airport-based services

- Companies House reports a total of 223 business liquidations in Scotland during the last three months of 2008 (3.5% of the UK total). This is a 114% increase in comparison to the same period in 2007.
- Retail sales in Scotland were 0.9% lower on a like-for-like basis over the 12 months to February 2009 (SRC). Further comment on the retail sector is provided on page 12.
- According to the International Petroleum Monthly, UK average daily oil production preliminary estimates in the 12 months to December 2008 indicate a decline of 7% on the previous year's output.
- Despite this negative economic climate and rising unemployment, job losses in sectors including electronics, paper and food & drink are to some extent being offset by new investment in transport, media, engineering and other technology-based industries (see table).

Planning

The new planning system for Scotland is finally due to go live. The next five months will provide a crucial test for planners and for the property industry.

National Planning Framework 2

Parliamentary consideration of the new National Planning Framework is complete. This sets the national strategic priorities to support sustainable economic growth.

Planning etc. (Scotland) Act 2006

Secondary legislation is now beginning to filter through into practice, implementing the Planning etc (Scotland) Act 2006 (see table).

Development Planning

Strategic and Local Development Plans are now only required for the four city regions of Aberdeen, Dundee, Edinburgh and Glasgow. The remaining authorities require to prepare only Local Development Plans. Examinations will replace Local Plan Inquiries and planning authorities can only depart from the Reporter's recommendations in limited circumstances. New development plans will come in gradually across Scotland and will have less of an immediate impact than changes to the development hierarchy.

Development Hierarchy

Planning applications will now be classed as national, major or local developments. Ministers have confirmed their support for the proposed national developments, such as Edinburgh and Clyde Waterfronts, and added the further priority of a high speed rail link between Scotland and London. From April 2009, the thresholds for major developments are: 50 or more houses; 10,000 sq.m. or more business/industry; floorspace greater than 5,000 sq.m. for other uses; or sites exceeding two hectares.

Regulation	Date laid	Date of coming into effect
Development Planning	19 December 2008	28 February 2009
Development Planning (Saving, Transitional and Consequential Provisions)	19 December 2008	28 February 2009
Grounds for Declining to Follow Recommendations	19 December 2008	28 February 2009
Hierarchy of Developments	19 December 2008	6 April 2009
Schemes of Delegation Local Review Procedure	23 December 2008	6 April 2009 3 August 2009
Fixed Penalties	19 December 2008	3 August 2009
Appeals	23 December 2008	3 August 2009
Development Management	23 December 2008	6 April 2009 (pre-application consultation & e-planning) 3 August 2009 (remainder)

Schemes of Delegation and Local Review Procedure

If an application does not meet these thresholds for a major development, new regulations allow Local Developments to be determined by Planning Officers in circumstances set out in that Local Authority's scheme of delegation. An increased number of delegated decisions is likely.

If refused, any appeal will go to a Local Review Body rather than to Scottish Ministers. The Local Review Body will consist of at least three Councillors and meetings will be held in public. The method of determination is at the discretion of the Review Body and there is no automatic right to be heard. This element of the new system remains the most uncertain. Only test cases will be able to establish its effectiveness.

Development Management

New legislation covering development management introduces the following changes:

- Pre-application consultation is mandatory for major and national developments.

- All detailed applications will require a design and access statement.
- Neighbour notification will become the responsibility of the planning authority.
- Pre-determination hearings are required for national and major developments where these are significantly contrary to the Local Development Plan.
- The process of purifying planning conditions can no longer be done through an exchange of letters, but will instead be through a formal application process.
- The time period for the determination of major and national applications has increased to four months. The current two month period will continue to apply for the remainder of developments.

Appeals

From August 2009, the time period for lodging appeals against refusal of planning consent is reduced from six to three months. The Reporter appointed will decide on the best procedure for determination and is entitled to make a decision without any further procedure.

Office

Property

Scotland's city office markets are experiencing a market downturn. Take-up of offices has decreased, supply has increased and enhanced occupier incentives are required to sustain prime headline rents.

Over the last six months **Glasgow's** total availability of office space has increased by 23% to 251,585 sq.m. This increased supply reflects both a slowdown in sales and lettings, and new developments which are due to be completed in the city centre over the next six months.

New development completions to end September 2009 will provide 62,255 sq.m. of additional city centre Grade A office space. Of this, around 11,948 sq.m. has been let or is under offer during construction. A further 24,980 sq.m. of Grade A city centre new development is set to complete between September and the end of 2009. On the western periphery of the city centre the Moda building, Elliot Street, Finnieston will add a further 3,790 sq.m. Beyond this existing construction activity there will be no further major, new speculatively developed Grade A completions in the city centre during 2010 and possibly throughout 2011.

This development gap means that those developers who have secured full planning permission and development funding, such as IVG/Ediston for Broadway Two (13,935 sq.m.) and Buccleuch Property for Evolution (6,600 sq.m.) are in an ideal position to offer pre-let opportunities to companies who can identify future need for accommodation beyond the current development cycle.

The majority of letting activity over the past six months has been driven by professional and service sector occupiers seeking office space of between 465-930 sq.m. The largest office transaction was on the periphery of the city centre at

Major Glasgow city centre new-build completions to end 2009:

Address	Size
141 Bothwell Street, Glasgow	16,270 sq.m. (7,615 sq.m. let)
Broadway One, Renfield Street, Glasgow	11,655 sq.m.
Capella, Atlantic Quay, Glasgow	10,220 sq.m. (3,190 sq.m. under offer)
Cuprum, Argyle Street, Glasgow	9,195 sq.m.
Clarion, 29 Wellington Street, Glasgow	6,970 sq.m.
Copenhagen, 67 Hope Street, Glasgow	6,040 sq.m.
Cornerstone, West Regent Street, Glasgow	1,905 sq.m.
1 George Square, Glasgow	12,140 sq.m. (1,143 sq.m. let)
One Waterloo Street, Glasgow	5,413 sq.m.
2 West Regent Street, Glasgow	7,430 sq.m.

Pacific Quay, where BIP Solutions purchased the Medius Building (2,350 sq.m.) within the Media Quarter.

Take-up of offices in Glasgow over the six months to March 2009 was 24,244 sq.m. This contributes to a 12 month take-up total of 57,359 sq.m., which is 34% lower than the previous 12 month period. The drop-off in completed deals has been noticeable from January 2009, although enquiry levels for office space within the city centre and on the immediate periphery remain strong. There are 15 active enquiries larger than 929 sq.m., totalling more than 46,450 sq.m. of potential demand for Grade A or top Grade B office space.

It is likely that several of these enquiries will take office space over the coming months as new buildings are completed. MacRoberts Solicitors will take 3,190 sq.m. at Capella, Atlantic Quay, Broomielaw. PricewaterhouseCoopers has committed to taking 2,600 sq.m. at 141 Bothwell Street. Gardiner & Theobald is to lease 1,143 sq.m. at 1 George Square at what is understood to be a new rental high of £317 per sq.m., 4% above the £305 per sq.m. set at 141 Bothwell Street.

The Media Quarter at Pacific Quay continues to attract companies. In addition to anchor occupier Digital Design Studio, The Hub building has secured lettings to Shed Media, AV9 Limited and Southside Technology and also reports strong interest from other media-related companies.

The Ma×im Office Park at Eurocentral to the east of Glasgow will, upon completion, offer ten buildings totalling 69,680 sq.m. and ranging from 5,446 - 17,330 sq.m. It is the largest speculatively built, single phase development in the UK and fully completes in the early part of 2010. Both Ma×im and Hamilton International Park at High Blantyre are developed on former Enterprise Zone land and their ongoing "Golden Contract" status allows highly incentivised financial packages for occupiers.

Although there has been a slowdown in letting activity at the traditional out-of-town business parks in the Greater Glasgow area, there have been some notable transactions at Tannochside and Scottish Enterprise Technology Park. These are highlighted in the table on page six.



Closer to Glasgow city centre, a 1,685 sq.m. building has been sold at Watermark Business Park, Govan in addition to the letting of Pavilion 3 (850 sq.m.) to Hulley & Kirkwood. At Craighall Business Park, Port Dundas, following on from the sale of Building 6 (1,205 sq.m.) to Bield Housing Association, the Sinclair Building (1,605 sq.m.) is presently under construction and has been sold to an investor who in turn will be offering the space for lease.

The first phase of Goodman's Westpoint Business Park near Glasgow Airport at Inchinnan Road, Paisley, is due for completion summer 2009, providing four two-storey pavilions of 387-486 sq.m. and a larger three-storey building of 2,447 sq.m. These buildings will in part address the limited availability of business park space to the west of Glasgow.

Although headline prime office rents in Glasgow have increased from £305 to £317 per sq.m. as described on page four, the general position is that rents in all office sub-markets including Grade A are under pressure. As increased office stock comes to the market, developers and landlords are providing substantially enhanced rent free/incentive levels, particularly to occupiers able to offer a strong covenant. Rental across the spread of Grade A specification buildings ranges from £260-£317 per sq.m. Rents for top quality refurbished office space have fallen back to £225-£245 per sq.m.

Tenants are typically seeking flexibility of lease length through break options at five and/or ten years, although there is also recognition that leases of ten years or longer will attract increased incentives.

Rents for non-cooled business park space around Glasgow have fallen back to £155-£165 per sq.m. and comfort cooled space £165-£190 per sq.m. (inclusive of car

parking). Sale prices for smaller pavilions range from £1,935-£2,260 per sq.m.

Edinburgh's six month take-up of offices to March 2009 was 26,582 sq.m. Over the 12 month period, take-up was 59,604 sq.m. This is 30% below Edinburgh's ten year average office take-up. Both the take-up figures and the trend are comparable to Glasgow's.

In Edinburgh city centre 16,641 sq.m. was transacted within 60 office deals, indicating an average deal size of 277 sq.m. Outside of the city centre, 9,940 sq.m. was transacted in 35 deals, indicating a similar average size of 284 sq.m.

Take-up of offices since late 2008 has reflected a general slow-down in the occupational market, with many organisations deciding to delay relocation unless they had immediate requirements.

Occupier demand in Edinburgh is currently lower than is normal for the city, particularly for floorplates over 929 sq.m.

However, smaller, quality, open-plan offices continue to be in demand and landlords remain flexible in their approach, offering competitive rental and incentive packages. Recent transactions in this market include The Stamp Office (occupiers are VOSA, Scottish Legal Complaints Commission and Secretary of State for Communities), Venue Studios (Virgin Money) and Commercial Quay (Cisco).

Once again the Edinburgh office market is reliant upon existing occupiers, primarily from the professional services sector. Hymans Robertson, Scott-Moncrieff and Faber Maunsell all have under offer office space within new developments.

Total Edinburgh office supply at March 2009 was 239,119 sq.m., an increase of 9% since September 2008. Within the city centre

130,241 sq.m. of office space is available, of which 32,980 sq.m. is Grade A accommodation offering floor plates larger than 929 sq.m.

Waverley Gate at the east end of the city centre still remains largely unoccupied and accounts for 56% of Grade A office supply. The developer behind Waverley Gate, Castlemore Properties, is now in administration and market speculation suggests that there is interest in the building from prospective purchasers.

Four large city centre office developments are due to complete during 2009. These are: Exchange Place on Semple Street (19,509 sq.m.); Westport 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).

Tanfield, the redevelopment by The Carlyle Group and Bellhouse Joseph, will complete in July 2009. The scheme comprises 17,930 sq.m., of which 1,580 sq.m. is currently under offer to a professional services organisation.

There are no Edinburgh office schemes scheduled to complete in 2010-2012 and a number of the larger future developments continue to be on hold while their developers re-evaluate timescales and funding options.

There is also now uncertainty over some projects reported in Ryden's October 2008 Scottish Property Review. The planning decision has been called-in by Scottish Ministers for Tiger Developments scheme at Haymarket, while the commercial office element of the mixed-use development at Springside is currently on hold due to the fragility of the market and, with the recent announcement of the administration of Mountgrange, there is now doubt over the proposed office development at Caltongate on New Street.



Larger office deals in Scotland over the past six months include:

Address	Size	Occupier
Medius, Pacific Quay, Glasgow	2,350 sq.m.	BiP Solutions
Building 2, Tannochside Park, Uddingston	1,751 sq.m.	EPOCH Property Ltd
Pegasus House, Scottish Enterprise Technology Park, East Kilbride	1,628 sq.m.	Weir Group
206 St Vincent Street, Glasgow	899 sq.m.	Smith & Williamson
1 Forrest Gate, Tannochside Park, Uddingston	795 sq.m.	Hoover Candy
8th Floor, Aurora, 120 Bothwell Street, Glasgow	785 sq.m.	Marks & Clerk
Orion House, Scottish Enterprise Technology Park, East Kilbride	715 sq.m.	Gael
220 St Vincent Street, Glasgow	563 sq.m.	Towry Law
Moda, 138 Elliott Street, Glasgow	550 sq.m.	Equator
Pavilion 3, Watermark Business Park, Govan	850 sq.m.	Hulley & Kirkwood
Watermark Business Park, Govan	178-609 sq.m. (4 buildings)	Various (Sales)
Interpoint, Edinburgh	4,352 sq.m.	Tesco Personal Finance
Edinburgh Quay	726 sq.m.	Companies House
The Clocktower, Edinburgh	1,146 sq.m.	Onyx
110 Commercial Street, Leith, Edinburgh	1,070 sq.m.	Lothian and Borders Police
Arnhall Business Park, Westhill, Aberdeen	14,461 sq.m.	Subsea 7
Seafield House, Aberdeen	1,800 sq.m.	Chevron
Dundee One (Phase One)	4,645 sq.m.	Scottish Police Services Authority

There is further uncertainty over the amount of "grey space" (currently occupied but potentially surplus) that could be returned to the market from the merger between Lloyds TSB and HBOS, and over the development of the 5.7 hectare site at Fountainbridge purchased prior to the merger for an HBOS administration hub.

Prime office rents in central Edinburgh remain stable at £307 per sq.m., however there are instances of substantial increases in incentives available to occupiers.

Prime West Edinburgh rents have recently reduced from £215 to £172 per sq.m. for good refurbished space, although office space in some less well-located buildings is being marketed at below £108 per sq.m.

The **Aberdeen** office market has been relatively buoyant over the last six months, but is beginning to slow down. A drop in the price of crude oil to a low point of \$38 per barrel dampened demand for offices in the city, although at the time of writing the price had risen again to around \$50 per barrel.

This is still below the \$65-\$75 per barrel required to return a degree of confidence to the industry and to the property market.

Office take-up in Aberdeen for the six month period to March 2009 decreased by 38% to 29,000 sq.m. within 52 transactions. Supply has increased by 14% to 106,000 sq.m. To date there has been no reduction in rental levels, however incentive packages are increasing in a market that has unquestionably become more tenant-friendly due to decreasing demand for offices.

Countering this weaker demand, there is still a relatively small supply of Grade A office space available in the city. With few speculative office schemes progressing due to funding constraints, it is likely that headline rental levels will remain stable.

Chevron has secured a lease of a new 1,800 sq.m. suite within Seafield House at a headline rent of £323 per sq.m., demonstrating that there is still strong demand in the market for the right product.

Within the west end, Thorpe Molloy has taken a lease of 38 Albyn Place for a partly refurbished building at a headline rent of £307 per sq.m., which is slightly less than the rent achieved on other west end buildings.

Work is progressing on city centre speculative office developments at Freedom House, City Wharf and IQ. These buildings are due for completion in June 2009, November 2009 and April 2010 respectively. Freedom House is reportedly under offer and due for occupation shortly after completion.

At Westhill, Eden Rock has completed Phase 2 of Aspect 32 and Knight Real Estate is continuing with Phase 2 of Westpoint, due for completion in July 2009. Of the 7,300 sq.m. Gladman has built at Abercrombie Court, 2,300 sq.m. has been let or sold and a further 900 sq.m. is currently under offer.

In **Inverness**, Callander Colgan has taken a five-year sub-lease of 140 sq.m. office space from Aberdeen Asset Management within Ballantyne House at a rental of £114 per sq.m.

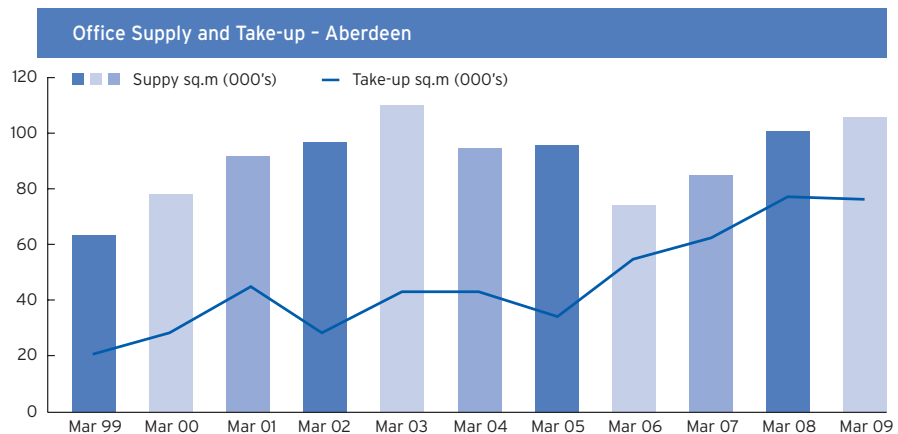
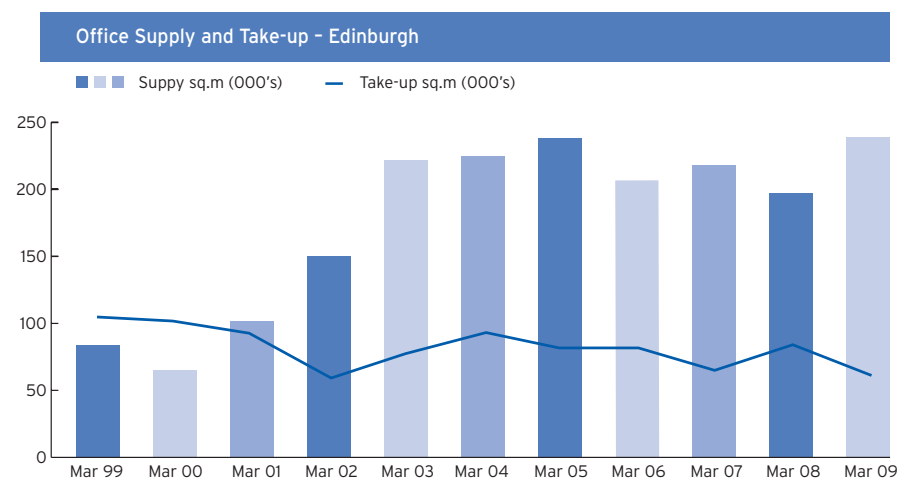
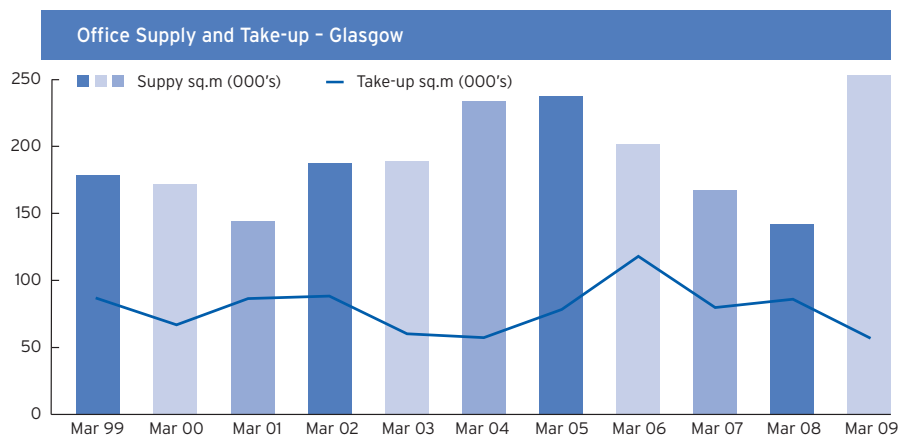
In a major boost for **Dundee's** city office market, Dundee One, the largest speculative development for a generation, has secured a pre-let of 4,645 sq.m. to the Scottish Police Services Authority. Phase Two will provide an additional 4,645 sq.m. and is due to complete early 2010.

Nearby, City Capital Quay Ltd has recently let two refurbished office units each of approximately 93 sq.m. at Unit 5 & Unit 19 City Quay to Aim Design and Ross & Liddell respectively, and has an additional 377 sq.m. under offer which is expected to conclude shortly.

Within the city centre, Millard Consulting has taken 418 sq.m. of new office accommodation at Seabraes. On West Marketgait, Alliance Trust PLC will begin moving into its new 5,017 sq.m. purpose-built headquarters. Also on West Marketgait, James Keiller Estates Ltd is nearing completion of Westport (2,044 sq.m.).

At Dunsinane Business Park, Gladman Developments continues the Phase One construction of approximately 2,202 sq.m.

Dundee's prime city centre headline office rents are likely to receive a significant boost from the Dundee One letting. The wider range, however, remains at £140-£150 per sq.m. for Grade A accommodation, with rents for top quality refurbished space at £108-£135 per sq.m. Headline rents are however being sustained by increased incentives.



Source: Ryden

Industrial

Property

While the recession is undoubtedly affecting business confidence, the Scottish industrial market remains active with a good flow of property transactions and some development activity. Take-up has however declined and it is anticipated that there will be an increased rate of company failure in the second half of the year which could put pressure on rents and overall terms.

In the **West of Scotland**, the low supply of available industrial property is helping to shore up the market.

In previous downturns, an oversupply of property quickly led to falls in rental levels and more flexible terms as landlords chased income. Over the past 20 years however, large areas of industrial stock have been redeveloped for higher value uses such as housing, offices and retail. The current market is therefore more balanced and supports rental levels for better quality stock, although it is likely in the current market that occupiers will press for greater flexibility in the structure of leases and will also expect greater incentives.

Rental levels have fallen in less favoured locations and for older or poorer quality stock. Pressure will increase across the market if the downturn is sustained and if supply of available property increases through higher levels of company failures.

There has been a marked decline in demand for owner-occupation, although transactions are still completing. Many businesses would prefer to own their premises, however it has become increasingly difficult to fund a purchase. Reduced loan-to-value levels and more stringent lending terms, along with divergence between vendors' price aspirations and valuations, have combined to slow what was a significant market.

For many businesses there may also be the added need to retain cash reserves for the ongoing running of the business rather than investing in property.

Those industrial property sales which are progressing tend to involve cash buyers and there are signs of investors re-entering the market to take advantage of distressed opportunities. Positively, many of the would-be owner-occupiers have instead opted to lease property and this switch has contributed to leasehold transactions over the past six months.

Development activity is limited. A lack of funding and confidence are major issues which falls in land values and construction prices have been unable to overcome. Nevertheless there is ongoing interest in new property for pre-let/sale at a number of locations. The funding of such projects is challenging and may require innovative solutions but deals are anticipated, driven by businesses' needs for bespoke property solutions.

The undersupply of small industrial units within the **Glasgow** city boundary has prompted Silverbank Development Company Limited to commence construction of two speculative schemes at Glasgow Business Park on the east side of the city. Parkway Point is a 3,700 sq.m. project providing units available to lease or buy from 160 sq.m. and will be completed in early summer 2009. The neighbouring Glasgow Trade Park will cater for requirements from 279 sq.m. and is attracting strong pre-let interest.

Silverbank Development Company Limited is also developing 2,323 sq.m. in 13 units at Belgrave Central, **Bellshill**. Two units are pre-let, four are under offer and agreement has been reached to lease an additional two units.

SCOT Sheridan's **Rutherglen** Park is nearing completion. This 4,089 sq.m. speculative development situated off Dalmarnock Road offers units from 186 sq.m. for sale or lease. Two potential transactions are in legals and demand is anticipated from local company relocations as a consequence of the various infrastructure projects and the overall regeneration programme of the Clyde Gateway project. Road network improvements will also make this a popular location to serve Glasgow and the surrounding settlements.

At **Hillington**, Affinity Partners LLP has found an innovative solution for the re-use of a northlight building occupying an entire plot. Partial demolition and a complete refurbishment will create 27 units from 158 sq.m. for sale or to let. Four units have been pre-let at rents of up to £78 per sq.m.

While these small unit developments may seem to provide a considerable amount of new development in difficult economic times, they are nonetheless insufficient to meet anticipated market demand for such properties in Glasgow city and the surrounding towns.

Demand for larger industrial property is generally driven by the distribution market, although there have also been manufacturing-related enquiries in recent months. A number of factors are underpinning this market, including stock-holding for longer during the economic downturn, growth in the online retail market and companies rationalising from several buildings into a single facility. These contribute to a regular flow of enquiries and it is anticipated that there will be a number of significant deals in the next quarter.



At **Eurocentral** both TAL CPT Land Development Partnership LLP and the Eurocentral Partnership Limited are reporting regular enquiries for completed buildings and potential new build pre-lets. TAL CPT secured early lettings at two of the six buildings at Centralpoint and further firm interests are currently being pursued. The remaining development land at Eurocentral is also attracting strong interest for both the former Enterprise Zone sites and standard development plots.

Within **East Central Scotland**, there is a clear slowing of industrial occupier activity. However, in common with the West, there remains a good volume of transactions at the smaller end of the market.

Speculative development activity has slowed, with only two developments commencing in the region in the last six months. Rental levels are holding up, however downward pressure on rents may materialise as occupiers active in the market are now negotiating hard.

In **Edinburgh**, Royal London Asset Management's (RLAM) estate at Seafield Road has benefited from further significant letting activity. Bunzl plc has agreed a pre-let of 2,328 sq.m. at 4 Seafield Way, which RLAM is currently redeveloping for trade and industrial units. The rental agreed equates to £67 per sq.m. and is the largest letting within the city in the last six months.

The strength of the smaller end of the market is shown by the success of EDI's Peffermill Parc scheme. EDI has extended its ownership here through the purchase of the former Jelly Club (1,779 sq.m.) which will be leased in a range of unit sizes.

To the south of the city, C & W Assets' second speculative phase at Bilston Park, Bilston Glen (2,323 sq.m.) is nearing completion and has attracted good levels of interest. A number of smaller transactions have also taken place at Chancerygate and Sharkey Space's developments at Bilston Glen.

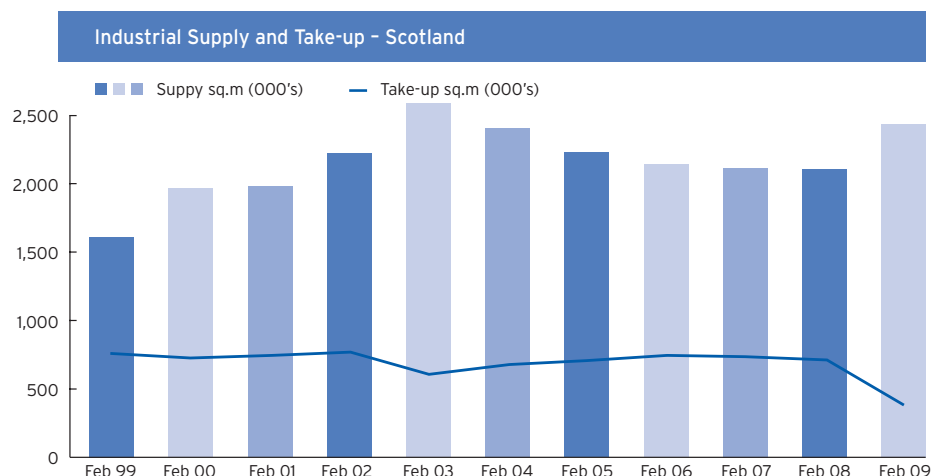
In **West Lothian**, following the sale of the company's Broxburn facility last year, Glenmorangie has taken the decision to purchase land from the Miller Group at Alba Campus for the development of a new bottling plant which may extend to around 9,000 sq.m.

An example of general letting activity at the smaller end of the West Lothian market is Danwood leasing 465 sq.m. at SCOT Sheridan's Phase 2, New Houstoun Business Park at a rental of £75 per sq.m.

In **Fife**, Network Rail and Well Tools are leasing 836 sq.m. and 529 sq.m. respectively at rents of £52-£54 per sq.m. at Belleknowes Industrial Estate, Inverkeithing. The estate also has a further 529 sq.m. currently under offer.

Fife Warehousing has had further success at its Pitreavie Business Park scheme, where BetterWorld Books has leased 1,390 sq.m. at a rent of £40 per sq.m.

Also in Fife, the former Freescale factory at Halbeath (c. 92,903 sq.m.) is under offer to a solar panel manufacturer.



Source: SPN



In **Grangemouth**, Danish biomass producers Energi Randers has leased 9,243 sq.m. at an undisclosed rent at Inchyra Road. This was one of the largest lettings over the last six months.

Also in Grangemouth, Northern Trust has commenced construction of a speculative industrial development at Grange Court which will provide 1,537 sq.m. of warehouse/production units from 101 sq.m. upwards.

In **Aberdeen**, a number of larger industrial transactions have concluded in the last six months, due mainly to the availability of premises of around 1,858 sq.m. A total of 39,898 sq.m. has been let or sold in 38 transactions. This is a 155% increase in take-up compared with the previous six months.

Despite this take-up, supply of industrial property in Aberdeen is still 35% higher than six months ago, at 92,529 sq.m.

New-build industrial rents in Aberdeen remain high, at £91 per sq.m. for warehouse space, £188 per sq.m. for offices and £16 per sq.m. for concrete yards.

In recent months however the secondary industrial market has changed, especially for units smaller than 929 sq.m, where landlords are introducing previously unheard-of tenant break options and rent-free periods. These initiatives can be explained by the significant increase in supply in this industrial property size range.

There is presently no evidence that land values in Aberdeen have fallen from the £1.3 million per hectare established at May 2008. However, demand from owner occupiers and developers to purchase land has fallen due to the uncertainty surrounding the oil price and the present funding problems, and this must affect market values for land.

Speculative developments at Kirkhill Commercial Park (Knight Property Group) and Raiths Industrial Estate (Gilcomston Investments) have now completed.

New developments at Badentoy (GSS Developments) and Peterseat Park (Forbes Homes) are under construction and are expected to be ready for occupation in mid to late 2009.

Speculative development and design-and-build development in Aberdeen is being affected by the wider economic picture as the credit crunch has hit both investment yields and availability of funding. Covenant strength, lease length, rents and rent review provisions have been increasingly important to underpin individual schemes.

The previous problem of a lack of supply of industrial stock through land shortages in Aberdeen is being addressed by a number of new sites, namely: Kirkhill Commercial Park, Raiths Industrial Estate and Dyce Drive to the north of the city; Silvertrees and Stewart Milne's development land in Westhill; and Balmoral Business Park, Aberdeen Gateway, Minto Commercial Park, Altens East, Peterseat and Axxcess Business Park to the south.

In **Inverness**, Upland Developments Limited recently let 28 Harbour Road (1,339 sq.m.) to Sheffield Insulations at an initial rental of £104 per sq.m. Plumbstore has taken 752 sq.m. of industrial warehouse space at 1 Longman Drive, Longman Industrial Estate at £66 per sq.m. Also at Longman Industrial Estate, Harrow Properties has let Unit 42, Seafield Road (86 sq.m.) to Advanced Stairlifts in a deal equating to in excess of £107 per sq.m.

There has been limited activity recently in the **Dundee** industrial property market. Those transactions which have completed suggest continuing demand for owner-occupation. Examples include Unit 2a Ainslie Street, West Pitkerro Industrial

Estate (272 sq.m.) and Unit 3B, 5 Tom Johnston Road (798 sq.m.) which is currently under offer.

For larger units available to lease in Dundee, interest from occupiers in the current market is tending to be at comparatively low rental levels.

Industrial property rents in Dundee range from £22-£32 per sq.m. for older second hand accommodation, up to £65 per sq.m. for new industrial space.

Larger industrial transactions in the last six months include the following:

Address	Size	Occupier
5 Birch Road, Dumbarton	2,083 sq.m.	First Group
Block G2 Westway, Renfrew	6,265 sq.m.	Aggreko Plc
341 Bogmoor Road, Glasgow	1,431 sq.m.	Thornbridge Sawmills Limited
29/43 Napier Road, Wardpark North Industrial Estate, Cumbernauld	4,716 sq.m.	Balfour Beatty Plc
Unit 7, 4 Kirkshaws Road, M8 Interlink Estate, Coatbridge	926 sq.m.	Access Rentals (Scotland) Limited
Melford Road, Righead Estate, Bellshill	3,530 sq.m.	Rowan Timber Limited
Unit 1 & 2, Inchyra Road, Grangemouth	9,243 sq.m.	Energi Randers
AMG Building, Bucksburn, Aberdeen	5,295 sq.m.	Enermec
Mugiemoss Road, Bucksburn, Aberdeen	7,897 sq.m.	Peterson SBS
Former Tay Building, Dyce, Aberdeen	3,499 sq.m.	Sold to Dunnottar Estates
Unit 2, Howe Moss Drive, Dyce, Aberdeen	1,019 sq.m.	Turner Diesel
St Machar Road, Aberdeen	1,573 sq.m.	Worldwide Oilfield Machine (UK) Ltd

Retail

Property

The Christmas and New Year period provided a short-lived boost for Scotland's retail sector. Like-for-like retail sales in Scotland fell by 0.9% in February 2009 compared with February 2008, the worst performance since August 2000. This decline followed growth of 0.8% to December 2008 and 2.0% to January 2009 [source: SRC]. Despite many retailers continuing their price discounting, it appears that there has been a significant drop in sales volumes across the retail sector.

Food operators remain the most active in the current market. This is a typical recessionary pattern where staple and value products perform best. New store/site requirements for Scotland are being circulated by Morrisons, Aldi, Lidl and Waitrose.

In the discount/value sector, retailers such as B & M, Home Bargains, Go Outdoor and Poundworld are continuing to acquire in-town and out-of-town stores throughout the country.

Since Ryden's October 2008 Scottish Property Review, there have been further high profile retailers going into administration. The most notable casualties are Woolworths, MK One, Zavvi, USC, The Pier, Mosaic Fashion and Klick Munro.

These failures are bringing a significant number of retail units to the market. For example, despite Iceland, Tesco and Sainsbury's having signed contracts to acquire the leases of 350 Woolworths' branches, more than 450 are currently on the market through administrators or landlords.

In **Glasgow**, BAM Properties Ltd is currently refurbishing the former Early Learning Centre and Principles' units at 26 Buchanan Street to create a flagship store extending to 3,000 sq.m. over basement, ground, first

Retail Rent Index

Location	Zone A rate per sq.ft.
Aberdeen	£162.50
Airdrie	£42
Ayr	£88
Clydebank	£75
Coatbridge	£43
Cumbernauld (Phase 4)	£55
Dumfries	£58
Dundee	£105
Dunfermline	£78
East Kilbride	£130
Edinburgh	£220
Edinburgh (Gyle)	£175
Elgin	£40
Falkirk	£88
Glasgow	£255

Location	Zone A rate per sq.ft.
Glasgow (Braehead)*	£200
Glasgow (Silverburn)	£185
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

and second floors. Dialogue with a retailer is well underway. Quoting rent for the unit is £1.3 million per annum.

On Argyle Street, TK Maxx has agreed to take occupation of numbers 36-40 (6,438 sq.m.) on a new 15-year lease at an annual rent of £1.3 million per annum. TK Maxx's arrival may add to the attraction of the west end of Argyle Street and improve footfall to entice further retailers to surrounding vacant units.

Work continues on the £100 million refurbishment of the St Enoch Centre. Deals are in place with G-Star Raw, Kimble, Tesco and Boots. It has recently been announced that H&M and Costa Coffee will both open major new stores.

The H&M store will be within the new mall, while Costa Coffee will open a 185 sq.m. flagship store with a mezzanine floor in a prime unit facing on to St Enoch Square.

Commencement of works on the extension to the Buchanan Galleries Shopping Centre has been delayed until early 2010. Agents are reporting reasonable interest in the former Open unit which will be reconfigured to provide two units comprising 215 sq.m. over two floors.

At Glasgow Fort on the city's eastern edge, the proposed 16,257 sq.m. Phase 2, to be anchored by Marks & Spencer, has been put on hold. It is not known when Phase 2 will be built.



In **Edinburgh**, a £25 million expansion of the Cameron Toll shopping centre has been announced by the owners, Warren Private Finance. Plans include an additional ten retail units, six new restaurants, a roof-top dining area and a five-screen cinema. This news comes just weeks after plans to redevelop the St James Centre in the city centre were approved by City of Edinburgh Council.

Despite the ongoing tram works in Edinburgh city centre, there is live retail and emerging hotel interest along Princes Street. Urban Outfitters is rumoured to be considering the former Zavvi unit at 124/125 Princes Street along with easyHotel seeking the upper floors for their hotel concept. Similarly, in addition to New Look agreeing a deal to occupy 2,044 sq.m. of retail space within Deramore's 121-123 Princes Street, Premier Inn is in advanced discussions to occupy the upper floors and create a 96-bedroom hotel. This would be the company's fifth hotel in the city.

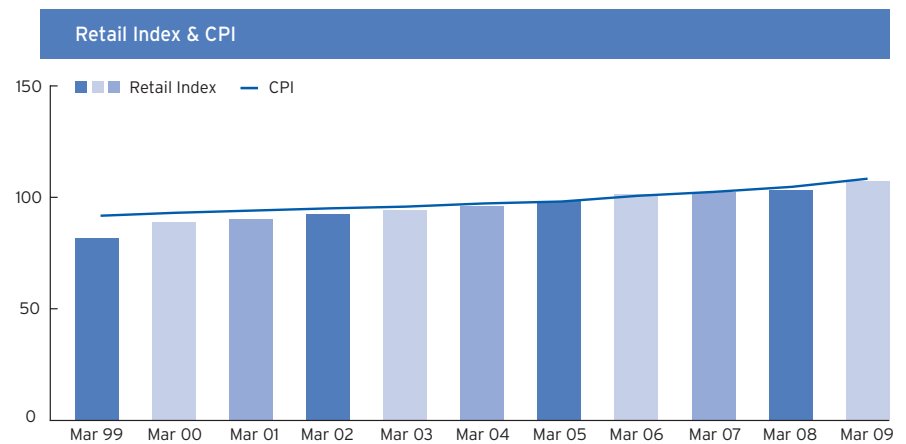
Land Securities' new £130 million extension Elements Square in **Livingston** opened in October 2008. The whole scheme, including the original Almondvale Centre, has been rebranded The Centre. Debenhams and Marks & Spencer are anchor tenants along with Orange, River Island and Optical Express. The Arcadia Group started trading from their four stores (Topshop, Topman, Dorothy Perkins and Burton) in April. Restaurant operator Tony Roma's is due to open later this year, joining other operators Ask, Nando's, Wagamama and Chiquito.

Hammerson's development at Union Square in **Aberdeen** is scheduled for completion in Autumn 2009. Latest additions to the scheme include Zara, H&M and Clarks.

Jurys Inns has taken occupation of an eight-storey, 203-bed hotel at Union Square and will be commencing fit-out shortly. The hotel will sit next to a new CineUK cinema.

Since Ryden's October 2008 Scottish Property Review there has been very little new retail development or large lettings in Scotland's other main towns and cities. The Ryden retail rent index (see table opposite and chart below) shows no change from October 2008, other than the removal of Galashiels as it falls out of the top 30 index to be replaced by the new Silverburn centre in Glasgow.

This static position reflects a dearth of market evidence sufficient to move the prime rents in the index. There is however a wide spectrum of underlying market conditions, from Paisley where short term lettings indicate a very weak market and downward pressure on rents, to George Street (Edinburgh) and Buchanan Street (Glasgow) where latent rental growth potential is evident in current market activity.



Source: ONS/Ryden

Investment

Market

Scottish commercial property recorded a total return of -21.9% in 2008 (UK: -22.1%) according to the IPD Annual Index.

It would appear from the reported data that values have held up marginally better in Scotland, however the IPD UK index is heavily weighted towards the south-east where value falls have been most pronounced. Also the Scottish market may have enjoyed a degree of lag when compared to the remainder of the UK.

More recent data based upon the valuation of the relatively prime assets held within the UK Monthly Index show total returns collapsed to -24.3% in the 12 months to end February 2009. This well-publicised decline compares to a -33% fall in the FTSE All Share Index over the same period, a -62.5% fall in property equity values and a 6.8% return from UK bonds.

The fall in values in the IPD Monthly Index from its peak (June 2007) is now in the order of -40%. Although values show signs of stabilising in respect of well-let prime assets, further value falls are anticipated in certain sectors as investors prioritise quality and sustainability of income.

There has been limited transactional evidence generated to confirm the above data. Willing leveraged investors have been constrained by the terms and availability of bank debt and there have been relatively few forced sales in the market. Investor sentiment continues to show signs of improvement and those seeking good value now appear to be finding it.

Office

Following a significant repricing, prime offices now feature on investors' target lists once more, albeit within strict parameters.

Office property investment deals include:

Address	Property	Purchaser
4 Atlantic Quay, Glasgow	6,874 sq.m. Grade A office space	Credit Suisse for £16 million (3.83% due to vacant floors)
227 West George Street, Glasgow	2,768 sq.m. Grade A office space	Axa for £5.1 million (10.6%)
24-25 St Andrew Square, Edinburgh	4,640 sq.m. single-let Grade A office building	Private investor for £16.1 million (7.4%)
126/128 George Street, Edinburgh	2,368 sq.m. prime office building	Thistle Property Group for £8.15 million (7.75%)
Headland House, 469-473 Union Street, Aberdeen	378 sq.m. office building	Private investor for £887,500 (8.72%)
Unit 18 Abercrombie Court, Westhill, Aberdeen	483 sq.m. new pavilion office building	Kenfield Investments for £1,040,000 (8.25%)
Aberdeen Gateway, Moss Side, Aberdeen	279 sq.m. office building on a 1.9 acre site	OLIM (Asda Pension Fund) for £2.4 million (6.5%)

Well-let, defensive stock is most sought after, especially buildings with Government or blue chip income on 15-year or longer unexpired lease terms, with geared rental uplifts.

There are also encouraging signs that demand is slowly returning for core city centre multi-let buildings, although investors have no shortage of opportunities in this sub-sector and will inevitably gravitate toward the best buildings.

Where an office investment offers only short term income, has voids or involves un-let development, the scarcity of bank debt has decimated this area of the market, unless the lot size is at the smaller end and a cash buyer can be attracted. The yields being achieved in these situations can relate more to opportunity cost than market value.

Prime yields on "annuity" quality investments are around 6.5-7%, with yields moving out to 7.5-8% for standard prime stock. The yield gap between prime

and secondary is such that the latter can reasonably be expected to require a yield of 12-14% to attract a buyer.

Annual returns from UK office property to December 2008 were negative at -22.4%. Annual returns for Scottish office property were -19.9%. Equivalent yields increased to 8.6% while rental growth delivered 0.9%.



Industrial

Demand for industrial investments in Scotland during the review period has been patchy and remains adversely affected by the pricing and restricted availability of finance, although the wider recession is also a significant influencing factor.

In many cases there is still a pricing gap between vendors and purchasers, which has led to a significant decrease in the volume of transactions. There appears to be a greater acknowledgement south of the border that prices have fallen sharply, creating the perception that better value exists there. However, in certain market areas it is expected that occupational demand and in turn rental levels will hold up better in Scotland during the recession.

Multi-let industrial estates have fallen out of favour as leases tend to be short and there is often more risk of tenant defaults, making these situations harder to fund. Consequently, yields have increased considerably and in most cases are now above 10%.

Market demand is significantly better for long lease investments of 15-20 years or more, particularly those offering a very strong covenant and a geared rent review structure. For this type of stock there is a greater acceptance that prices are close to the bottom as a significant number of buyers have returned to the market in recent months.

In particular, well-located distribution warehouses are popular targets for private investors and some funds.

Initial yields for prime, rack-rented stock are now 7.75-8.25% in Aberdeen, 9-9.5% in Edinburgh and in Glasgow 7.75-8% for stand alone properties.

Industrial property investment deals include:

Address	Property	Purchaser
Langland's Business Park, East Kilbride	Sainsbury's distribution warehouse	Latium Group for £12.94 million (circa 8%)
Plot L, Woodrow, Eurocentral	6,495 sq.m. distribution warehouse	Private investor for £3.85 million (circa 8.6%)
Cairn Facility, Howe Moss Avenue, Kirkhill	4,062 sq.m. industrial/office facility	HKIP (Aberdeen) LLP for £3.9 million (6.95%)
11 Wellheads Crescent, Dyce	5,738 sq.m. industrial/office facility	Wordie Properties for £3.05 million (7.07%)
Denmore Road, Bridge of Don	2,950 sq.m. industrial/office facility subject to ground lease	Private investor for £2.25 million (7.91%)

Lower yields have been achieved where the rent is subject to a guaranteed early reversion.

The IPD total annual return from UK Industrial Property to December 2008 was measured at -21.2%, comprising income return of 6.3% and capital growth of -26.0%.

Annual returns for Scottish industrial property were -16.7% over the 12 month period to December 2008. Equivalent yields increased to 9.2% and rental value growth increased to 4.1%.

Retail

As the sector which is most immediately susceptible to the effects of the recession, it is unsurprising that retail property has been the hardest hit part of the commercial investment market.

Investor demand for High Street shops is very specific, comprising prime units/clusters in undoubted pitches, where investors perceive retailer demand will hold up even through a protracted downturn. Prime yields have softened to 6.75-7% and are very sensitive; a weaker pitch or over-rented property can easily push the yield out by 1-2%.

Demand for out-of-town retail has polarised, dependent upon planning consent. Schemes with Class 1 consent remain marketable, but those with bulky goods consent are proving difficult to sell, as retailers selling DIY, furniture and furnishings have been hardest hit by the slump in the housing market. Yields for Class 1 retail parks can range between 7-8%, whereas yields above 10% are generally required to secure disposal of a bulky goods retail park.

Shopping centre transactions are scarce. The withdrawal from the market of various specialist investors and absence of significant tranches of debt has reduced the pool of potential purchasers to selected funds or opportunity buyers. Opportunities to purchase shopping centres at what are perceived to be true market values have been extremely limited.

Annual returns to December 2008 from UK retail property were -22.5%. Annual returns for Scottish retail property were -23.2%. Equivalent yields increased to 8.1% while rental value growth was 0.2%.

Retail property investment deals include:

Address	Property	Purchaser
70-76 Argyle Street, Glasgow	1,516 sq.m. retail unit	Private investor for £9.45 million (7.25%)
94-96 Sauchiehall Street, Glasgow	Two retail units totalling 543 sq.m.	Threadneedle for £3.57 million (8.42%)
Gavin Mill Road, Milngavie	400 sq.m. roadside property	Private investor for £0.57 million (6.75%)
335-349 Union Street, Aberdeen	Five retail units with a total reduced area of 520 sq.m.	Private investor for £2.45 million (8.4%)

Market Prospects

Yields on well-secured prime investment properties (with leases over 10-15 years unexpired) appear to be stabilising, as do yields on smaller lot sizes (up to £20 million).

This process is likely to continue as investors compare opportunities to the returns offered by cash on deposit, and as Euro-zone investors take advantage of a lower Sterling exchange rate.

Further value falls can be expected across any sectors where the prospect of falling rents, income voids, capital expenditure and re-letting risk are high. Such value falls are likely to continue until the wider economy shows some signs of recovery. There is now a marked spread in yields between prime and secondary properties and this yield gap is set to widen, as is the spread between smaller and larger lot sizes and investments with different tenant/lease profiles.

It is envisaged that there will continue to be limited investment stock available in the market. This is despite the prospects that certain banks will address specific situations within their loan books, the need for some retail funds to raise cash and for

specific REITS to undertake selective sales to complement equity-raising initiatives.

A survey of credit conditions undertaken by the Bank of England in the first quarter of 2009 reported a decrease in credit availability to the commercial real estate sector. It is however anticipated that the availability of credit will improve as a number of UK and mainland European banks start to lend again, albeit on the basis of low loan-to-value ratios and healthy margins above LIBOR.

With the prospect of an investment property demand/supply imbalance, better credit conditions and improved investor sentiment, there is a possibility of a relatively quick return to asset price inflation. There is thus cause for some optimism that the investment market may start its recovery during the course of 2010, but driven by capital appreciation as rental values may generally be flat or falling.

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