

Ryden

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Scottish Property Review



“As the recession abates, Scotland’s property markets offer mixed prospects for recovery.

Office market demand is reduced but steady. A lack of new development will put a floor under the office market and position it for recovery. The industrial market’s recession has been short and shallow, encouraging some developers to prepare new-build proposals. Retail’s recession began before the economic downturn and continues afterwards. A toxic combination of weak retailer demand, new floorspace, and polarisation of expenditure towards regional centres is undermining many established retail locations.

The investment market is benefiting from improved capital values and less negative sentiment about rents. The market will however be tested as quantitative easing is reversed, rental growth remains weak and defaulting property loans bring distressed stock to the market”.

**DR MARK ROBERTSON,**  
PARTNER, HEAD OF CONSULTING

# Economy

## & Planning

### Economy

The UK recession has ended, however growth is marginal. Scottish data confirms a similar trend. Unemployment increased substantially in 2009 and is forecast to peak in 2010. Forecasts anticipate slow growth for both the UK and Scotland in 2010 followed by gradual recovery to trend growth through 2011 and 2012.

- Scottish GDP increased by 0.2% in the fourth quarter of 2009. This contributed to an annual fall of 4.8%, which is similar to the UK fall of 4.6%. During the fourth quarter of 2009 output rose in the service (0.2%) and production (0.8%) sectors, but fell in the construction sector (-2.8%).
- The Consensus forecast for UK economic growth published by HM Treasury predicts growth of 1.2% during 2010 and 2.0% for 2011. For Scotland, Fraser of Allander Institute's central forecasts are for a rise of 0.6% in 2010, followed by stronger but still modest growth of 1.6% in 2011.
- The Scottish unemployment claimant count was 4.9% at February 2010, up from 4.1% in February 2009. The broader ILO measure of unemployment rose to 7.6% for the three months November 2009-January 2010, up 2.5% over the year.
- The Committee of Scottish Clearing Bankers confirms the number of new business accounts opened during the second half of 2009 totalled 7,177. This was down 25% from the same period in 2008. The largest share of new businesses (1,974 or 27%) was in the real estate, renting and other business sector.
- Companies House reports a total of 520 business failures in Scotland in the six months from September 2009

### Job Losses

Barclaycard is to close its loan centre in Glasgow with the loss of 350 jobs

Lactalis plans to relocate the A McLelland and Son cheese headquarters from Glasgow to Surrey with the loss of 63 jobs from Scotland

550 jobs have been lost due to the collapse of Edinburgh-based airline Globespan

Borders Books closed its 45 stores across the UK with the loss of 1,100 jobs, including jobs at five stores in Scotland

Borders-based textile mill JJ&HB Cashmere Mills closed premises in Coatbridge and Galashiels leading to 132 redundancies

150 jobs were lost at the headquarters of the Student Loans Company in Glasgow

First Quench (trading as Threshers, Victoria Wine, Haddows and Bottoms Up), closed 53 off licences across Scotland with the loss of 240 jobs

### Job Gains

Odyssey Financial Technologies has opened an office in Glasgow with an initial 20 software developers, and intends to create up to 200 new positions

Ryanair plans a new hangar at Prestwick Airport which will lead to 200 new engineering jobs

New supermarket chain Haldanes acquired four former Somerfield stores retaining c. 200 jobs, with further store openings planned

Outdoor retailer Go Outdoors plans to open five more superstores in Scotland creating more than 200 jobs

Construction skills company CCG will create 50 jobs at its new facility in Cambuslang

Baker Greggs intends to open 70 new stores throughout Scotland over the next five years creating 500 new jobs

Iberdrola Renovables' new offshore wind division headquarters is to be located in Glasgow, and will reportedly create more than 200 jobs over the next six years

(4.2% of the UK total). In the previous six months 490 (3.6% of the UK total) business failures were reported.

- Retail sales in Scotland were 1.1% lower on a like-for-like basis over the 12 months to February 2010 (Scottish Retail Consortium/KPMG). 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 2009 indicate a decline in output of 4.5% when compared with the previous year's output.

- The table lists major job losses and gains over the past six months. Both job losses and gains are recorded in retail, financial services and travel. Job losses are recorded in textiles.

### Planning

Many of Scotland's new planning reforms have now been introduced. Recent publications include the Scottish Government's long awaited consolidated Scottish Planning Policy document, alongside Circular 1/2010 'Planning Agreements' and the statement of Government policy 'Designing Streets'.

## Scottish Planning Policy

In February 2010 the Scottish Government published Scottish Planning Policy (SPP), its statement on nationally important land use planning matters. The document sets out the Scottish Government's view for the purpose of planning and establishes the core principles and objectives for the operation of the planning system. The SPP is a single, concise document to replace 19 separate national statements of planning policy which comprised the National Planning Policy Guidance (NPPG) and SPP series.

The overall aim is to reduce the volume of policy statements, making national planning policy more succinct and clearer to all stakeholders, however the loss of detail places greater reliance on interpretation and best practice and it remains to be seen whether this will increase clarity.

While the broad thrust of the policies remains the same, the new SPP does provide statutory guidance on the principles of sustainable development which will influence future development plans and decisions.

### Planning Agreements

Circular 1/2010 'Planning Agreements' has recently been issued, providing a policy context within which planning agreements will be considered. Planning agreements are often used to ensure the delivery of public goods such as education or infrastructure. Planning agreements should only be sought where they are necessary, are reasonable, serve a planning purpose, and relate to the proposed development in scale and kind.

Planning agreements have been used extensively in the past, particularly for larger developments. However, the implementation of large scale, often mixed use, developments requiring major infrastructure is now stalling.

This is primarily due to the recession, reductions in asset values and inability to secure funding.

It is vital that local authorities respond in a proactive way and are innovative and flexible when considering planning agreements. The Scottish Government also has a potentially significant role in helping to deliver important projects. A partnership approach can move projects on only so far, and financial commitment to deliver major infrastructure is the key to securing early implementation. Government, both central and local, now has a more important role to play.

### Designing Streets: A Policy Statement for Scotland

Designing Streets: A Policy Statement for Scotland came into force in March 2010, replacing PAN 76 New Residential Streets. The document represents the most radical change in urban design issued by the Scottish Government.

The document states that street design must consider place before movement and therefore changes the emphasis of streets away from the dominance of motor vehicles. This move away from car supremacy is expected to result in a fundamental change in the way that streets are designed. The document aims to raise the quality of design in development and to help create streets with a strong sense of place. To achieve this, a site-specific, design-led approach for streets is encouraged.

### Local Review Bodies

Local Review Bodies have been in place since August 2009. Initial figures indicate that almost one third of appeals to Local Review Bodies have been successful in the first seven months. The Directorate for Planning and Environmental Appeals

(DPEA) also upheld almost one third of appeals in the same period, providing some initial comfort of a continued fair hearing under the new regime.

### Rating

Increases in rateable values (RVs) for Scottish non-domestic properties have been announced. The RVs, which are adjusted every five years, affect business rates from April 1st 2010.

Rate-payers complain that RVs have been calculated using property rental values as they stood in April 2008, well before the downturn and just after the property boom. The revaluation date is set by current legislation which Assessors are obliged to comply with.

Value changes have fluctuated significantly across the country and property sectors. For example, RVs for industrial property in West Lothian have increased by c. 23%, public houses in Aberdeen by c. 40%, supermarkets in Glasgow by up to 60% and offices in Edinburgh and Glasgow by c. 10% and c. 15% respectively.

Along with the new RVs, the Scottish Government announced that no transitional relief would be applied at this Revaluation. This would have been helpful for those seeing significant increases and for ratepayers already struggling in the face of the recession. The Scottish Government has publicised the fact that the reduction in the Uniform Business Rate (UBR) will itself cushion the increases, but this is the same UBR as applied in England, which will have a transitional relief scheme. Scottish businesses will suffer this difference.

# Office

# Property

Demand for offices in Scotland's major cities continues at reduced but steady levels. Sales and lettings are running at around 75% of the long term average. This resilient performance during a recession is bolstered by larger deals in Glasgow and an active market for smaller open-plan offices. A lack of new development is expected to put a floor under the market, positioning the office sector for recovery as economic growth resumes and unemployment peaks at a lower level than had been forecast.

**Glasgow** enjoyed a burst of take-up by larger occupiers in Q3 2009. This continued into Q4 with further lettings at 141 Bothwell Street to Shell (5,684 sq.m.) and BNP Paribas (1,632 sq.m.). While there has been a lull in larger deal completions in early 2010, there remains a healthy number of active enquiries seeking space over 929 sq.m. (totalling upwards of 46,452 sq.m.). Several of these are expected to acquire office space soon.

Take-up over the last six months was 24,270 sq.m., down by some 25% over the previous six months but producing a 12 month total of 56,737 sq.m. which is similar to the same period last year.

Supply has increased by 7% over the past six months to 318,668 sq.m. This is due to completion of the final tranche of new-builds and also release of refurbished and second hand space, for example Tay House, Bath Street (3,716 sq.m.), Atrium Court, Waterloo Street (1,652 sq.m.), BT's Broomielaw building (4,180 sq.m.) and City Park (6,225 sq.m.).

The overall vacancy rate for the wider city is c. 17% and the city centre vacancy rate is c. 12%. Within this, new-build city centre Grade A office space available for first letting totals 50,655 sq.m. representing 3.5% of city centre stock.

Of these new-builds only four offer floorplates above 929 sq.m. and only two - Cuprum in Cadogan Square and No. 1 George Square - have floors larger than 1,392 sq.m.

There is strong interest in the remaining 6,225 sq.m. at Clarion, Wellington Street following the letting of 763 sq.m. to Chartis UK. Deals are also likely by way of sub-lease of a single floor of 2,787 sq.m. at BT's Broomielaw building and for a 1,003 sq.m. refurbished floor at 150 St Vincent Street, while No. 1 George Square (10,034 sq.m. remaining) is rumoured to have serious interest in several floors.

Current activity will reduce city centre supply of both Grade A and good quality Grade B office space and the choice of larger floorplate buildings will become more limited. Assuming even modest ongoing demand, this will be further exacerbated over the next 12-24 months due to the lack of any new-build pipeline. Buildings such as Stockland's One Waterloo Street (5,410 sq.m.) and City Site's 2 West Regent Street (7,246 sq.m.) should benefit as professional firms and corporates widen their options to include multiple floor occupancy rather than restricting their search to large floorplate buildings.

This reducing supply of large floorplate new-build offices may encourage pre-letting activity as occupiers seek to secure space in preferred locations and reduce their exposure to the risk of delayed speculative development.

Prime city centre headline rents in the competitive market for new, smaller floorplate buildings are in the range of £269-£291 per sq.m. Reducing supply of larger floorplate buildings supports rents of upwards of £301 per sq.m. for the best office space. Discounted rents will remain available for buildings which face wider competition on both Grade A and higher

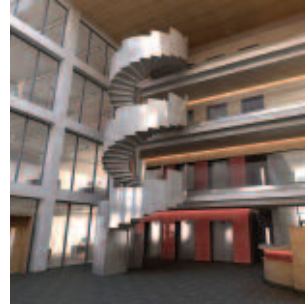
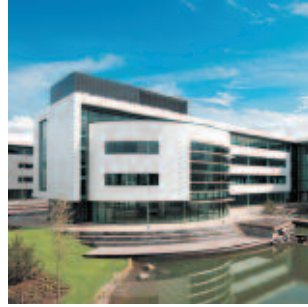
quality Grade B options. Rents for top quality refurbished space are within the range £199-£231 per sq.m. but with increasing supply and competition in this sector, rents, with the possible exception of the best office space, are likely to be under pressure as more second hand accommodation is released to the market.

These headline rents continue to be supported by substantial rent-free incentive packages as landlords compete aggressively across the full range of size and quality, particularly for occupiers offering strong covenants. Such incentives may also be combined with a discounted or stepped rental arrangement.

As demand continues to eat into what is becoming a more restricted supply of Grade A space, incentive levels in the new-build sector will reduce and rental levels will firstly stabilise and then return to growth. Those developers in a position to trigger developments have an opportunity to take advantage of the market to benefit from recovery going forward.

There has been limited activity on out-of-town business parks. Regus has taken 1,579 sq.m. at Maxim Office Park, Eurocentral for a serviced business centre; John Lewis Partnership has secured 3,627 sq.m. at Hamilton International Park, High Blantyre for a contact centre; RES Group has taken 530 sq.m. at STV, Pacific Quay and there have been small lettings (c. 230 sq.m.) to Think Positive and NES Limited at The Arc, Hillington. Ceridian is understood to have committed to a pre-let of ground and first floors at Titanium 2, Braehead (3,250 sq.m.), which is now under construction.

Rents for good quality, non-cooled business park space around Glasgow are £145-£166 per sq.m. and comfort cooled space £166-£183 per sq.m. (inclusive of car parking).



There has been little sales activity in the small pavilion market around Glasgow and pricing is currently under downward pressure in the range £1,830-£2,099 per sq.m.

**Edinburgh's** six month take-up of offices to March 2010 was 36,181 sq.m., contributing to a 12 month total take-up figure of 56,846 sq.m. The six month take-up is an increase from our previous reported figure, and the 12 month figure is 24% below the 10 year average for Edinburgh.

Within Edinburgh city centre 24,892 sq.m. was transacted in 53 office deals over the past six months, indicating an average deal size of 468 sq.m. Outside of the city centre 11,289 sq.m. was transacted within 20 deals at an average size of 564 sq.m. Approximately 45% of the city's transactions over the past six months involved Grade A office space.

Take-up of offices has declined since late 2008. This reflects the general slowdown of the occupational market as some organisations decide to renew their existing lease commitments and delay any planned relocation.

Total Edinburgh office supply at March 2010 was 268,385 sq.m. This represents a decrease of 5% since September 2009. Within the city centre, 169,416 sq.m. of office space is available of which 80,000 sq.m. is Grade A accommodation offering floorplates larger than 929 sq.m.

Occupational demand in Edinburgh is currently lower than is normal for the city, particularly for requirements larger than 929 sq.m. However, since the start of 2010 there has been a noticeable increase in tenant demand including the emergence of new financial organisations with property requirements such as Tesco Personal Finance, Virgin Money and Barclays Bank (who acquired Standard Life Bank).

Smaller, open-plan offices continue to be the most active market sector as landlords offer flexible, competitive packages and reduced rents. Within the city centre transactions have been concluded by: Virgin Money at Venue Studios, Calton Road (263 sq.m.); Royal Pharmaceutical Society at Holyrood Park House, Holyrood Road (338 sq.m.); Trimedia at 19 Thistle Street (247 sq.m.); Mace at Gordon Lamb House by Jacksons Close (185 sq.m.); and Fujitsu at Centrum House, Dundas Street (192 sq.m.).

There have also been 10 larger transactions over 929 sq.m. since September 2009. These include: Wood Mackenzie at Exchange Place, Sempie Street (3,552 sq.m.); AECOM at Tanfield (1,588 sq.m.); NHS Lothian at Waverley Gate (3,716 sq.m.); and Glenmorangie at The Cube, Leith Street (1,140 sq.m). Larger transactions in West Edinburgh were: Agilent at 4/5 Lochside Avenue, Edinburgh Park (2,420 sq.m.); National Trust for Scotland at Hermiston Quay (2,828 sq.m.); and Edinburgh Leisure at Vantage Point (1,652 sq.m.). Just outside Edinburgh in Midlothian, Scottish Qualifications Authority took 5,110 sq.m. at Shawfair Park.

Waverley Gate at the east end of the city centre, which was completed in 2005, remains 50% unoccupied. However, primarily due to competitive deals, this development has had recent success with the letting to NHS Lothian and other occupiers are under offer. The investment interest in Waverley Gate is also rumoured to be under offer.

There are no new office developments currently being scheduled for completion in Edinburgh prior to 2013. HI, in the Exchange District, is the only major development currently being considered however exact details have yet to be announced.

Since Ryden's October 2009 Review the developers at Caltongate and Freer Street went into administration and both site opportunities are available on the open market. The Tiger Development proposal at Haymarket was refused planning permission and the developer is currently preparing a new planning application which includes a mixed-use development of hotel, offices and underground parking.

Prime office rents in Central Edinburgh remain at £301 per sq.m., however there is downward pressure on rents within the city centre since the repricing of Waverley Gate and also other Grade B properties. Incentives have increased substantially with at least 36-48 months rent-free being available on a 15 year lease term on certain transactions. Prime West Edinburgh rents have reached £199 per sq.m. for good quality refurbished space, although office space in less well located buildings has transacted at very low office rents of £81 per sq.m.

The supply of Grade A space is expected to tighten over the next 12-18 months and, while rental growth is not anticipated, incentive levels will decrease as prime supply reduces and market balance is restored.

Demand is slowly creeping back into the **Aberdeen** office market. Although take-up figures are relatively modest by historic standards, there is a general feeling of optimism.

A steady oil price, which has generally remained between \$75-\$85 per barrel over the past six months, has instilled some confidence into the offshore industry. This in turn has led to an increase in demand for office space. Take-up figures for the six month period to March 2009 have increase by 58% to 20,135 sq.m. in a total of 57 transactions. Office supply in the city has decreased by 16% to 105,340 sq.m.



There has been severe pressure on rental levels, but in general they appear to have held steady, although incentive packages have crept up to support headline rents.

Deloitte LLP has taken 1,200 sq.m. in Union Plaza at £253 per sq.m., which is consistent with rents for previous lettings in the building. Xodus Group has taken a lease of Princewall House, Huntly Street at a headline rent of £296 per sq.m. for the entire 1,350 sq.m., which again suggests rental levels have held steady.

At Westhill, a burst of speculative development resulted in approximately 15,000 sq.m. of new offices sitting empty. However, the situation is starting to improve with almost 6,000 sq.m. of this now let or under offer. Aspect 32 has two 750 sq.m. pavilions under offer and both of Knight Property Group's speculative Westpoint pavilions (totalling 3,100 sq.m.) are also under offer.

The recovery within the oil industry has led to a number of contracts being awarded, which have in turn resulted in offices being taken up to service these. Recent examples include 2,000 sq.m. to Wood Group at New Telecom House, South College Street and the purchase of the 1,750 sq.m. Ness Facility in Dyce by PSN. At Marathon House, Hill of Rubislaw, 2,000 sq.m. of refurbished space is under offer as a result of a contract award.

The only two speculative office developments on site in Aberdeen are Hazledene's IQ at Justice Mill Lane (11,613 sq.m.) and SI Group's City Wharf at Shiprow (2,580 sq.m.), both of which are due for completion during the second quarter of 2010. It appears unlikely that there will be any new speculative development starting this year.

In tandem with slowly increasing demand, this limited development pipeline should result in a healthy Aberdeen office market moving forward.

There is currently a total of 43,286 sq.m. of available office space in **Dundee**.

The six month take-up of offices in Dundee to March 2010 was very low at 931 sq.m. Transactions included the sale of 262 sq.m. of office space at 43 Magdalen Yard Road and the first letting at Dundee Business Park of 95 sq.m. of new-build office accommodation to Welcome Financial Services Ltd. At Kingfisher House, Barlow Park, Unit 2A (79 sq.m.) and Unit 3 (208 sq.m.) have been let to Dee Voice & Data Ltd and Tyko Trading Ltd.

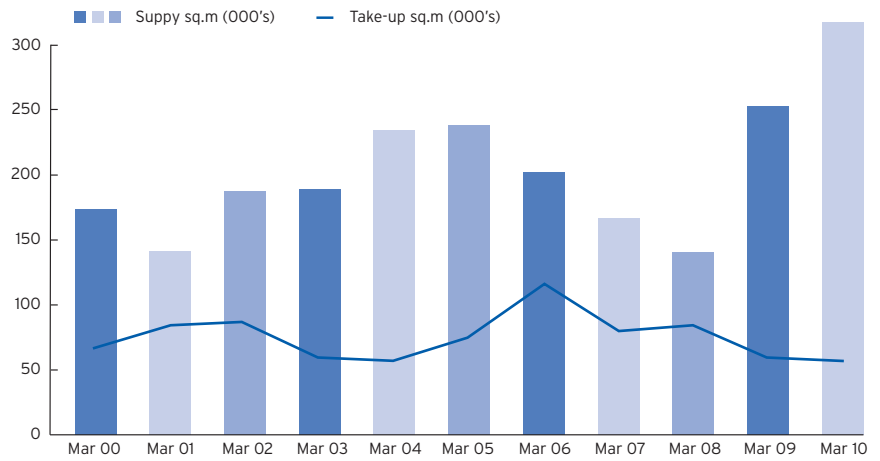
Good Heath & Fitness has taken 178 sq.m. at Unit 8 City Quay, Dundee. Three remaining units at City Quay (from 149-269 sq.m.) are now attracting serious interest or are under offer. At City Quay the headline rent of £134 per sq.m. is being achieved, although this is supported by incentive packages.

There have been several small office transactions in **Inverness**. These include: The Scottish Legal Aid Board at Union Street (275 sq.m.); The Social Enterprise Academy at Margaret Street (41 sq.m.); and KIP McGrath Education Centres at Canal Road (104 sq.m.). Rents range from £69 - £157 per sq.m.

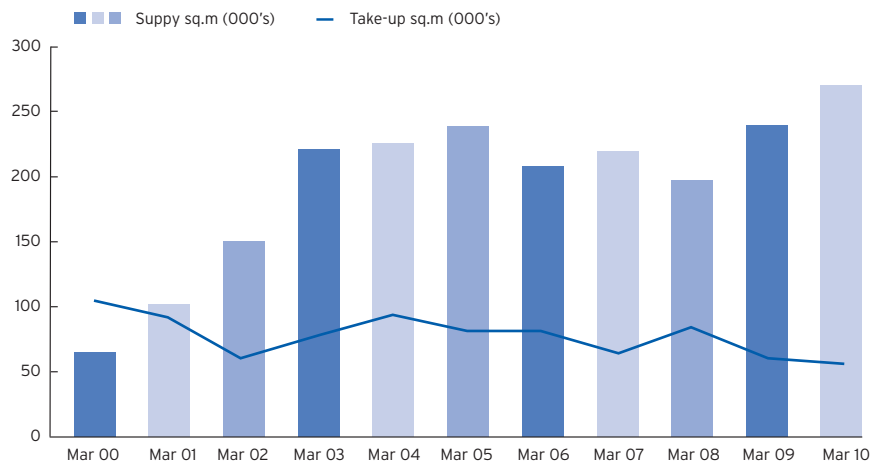
#### Larger office deals in Scotland over the past six months include:

Address	Size	Occupier
141 Bothwell Street, Glasgow	5,685 sq.m.	Shell
141 Bothwell Street, Glasgow	1,630 sq.m.	BNP Paribas
STV Building, Pacific Quay, Glasgow	530 sq.m.	RES Group
4/5 Lochside Avenue, Edinburgh Park, Edinburgh	2,420 sq.m.	Agilent
Hermiston Quay, Edinburgh	2,828 sq.m.	National Trust for Scotland
Waverley Gate, Waterloo Place, Edinburgh	3,716 sq.m.	NHS Lothian
Shawfair Park, Midlothian	5,110 sq.m.	Scottish Qualifications Authority
Princewall House, Huntly Street, Aberdeen	1,350 sq.m.	Xodus Group
New Telecom House, South College Street, Aberdeen	2,000 sq.m.	Wood Group

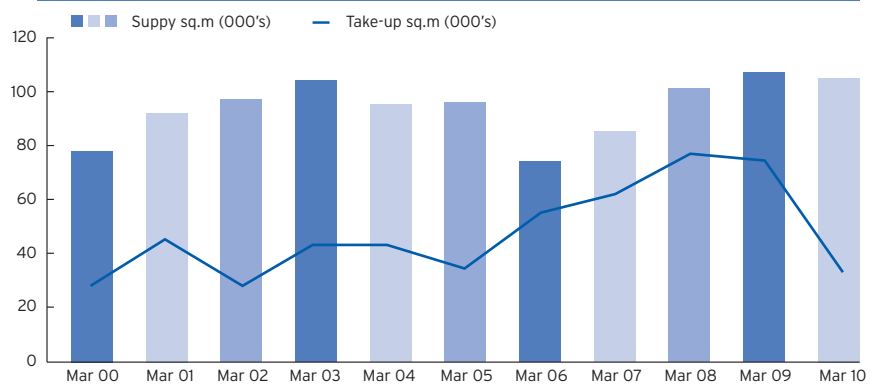
### Office Supply and Take-up - Glasgow



### Office Supply and Take-up - Edinburgh



### Office Supply and Take-up - Aberdeen



Source: Ryden

# Industrial

# Property

The industrial property market's recession has been comparatively short and shallow, particularly in the West of Scotland. Transactions in other locations have been smaller but still steady. The prospect of market recovery including rental performance and investor interest is encouraging developers in some locations to begin to prepare proposals for new industrial schemes.

Occupier demand remains healthy for units smaller than 929 sq.m., however there have been few deals at the larger end of the market. There are active requirements above 5,575 sq.m. which is encouraging, but this has been a period of window shopping which hopefully will translate into deals during 2010.

Given recent economic circumstances, occupiers seeking up to 2,787 sq.m. are often surprised at the shortage of suitable property. The supply of good modern space was tight going into the downturn and there has been little new development to alleviate the problem. It was expected that supply would increase through company failures but to date this has not been a significant factor. As a consequence, rental levels are holding steady and incentives on offer are not significantly different from pre-recession levels.

There are exceptions of course and some very competitive deals are being offered on older or outmoded space, or where there is some other imperative to achieve a letting.

The availability of empty non-domestic rates relief has been a factor in maintaining a more stable market. The picture in Scotland's industrial property market may have been different if landlords had to bear this additional liability.

Steelwork is rising rapidly at ProLogis Park, **Newhouse** on the M8, where a new 46,450 sq.m. regional distribution centre is being constructed for the Co-operative Group. This may lead some to falsely assume there is an active industrial development market, however this is not the case and indeed the Co-operative deal was agreed nearly 12 months ago.

The lack of funding remains an issue and within West Central Scotland, the only new-build industrial property completing in the last six months have been two projects by Silverbank at **Glasgow** Business Park fronting the M8: Glasgow Trade Park provides 5,574 sq.m. of trade units in multiples of 279 sq.m. and 454 sq.m., and got off to a quick start with the pre-let of 1,858 sq.m. to Autoglass at £70 per sq.m. Parkway Point provides 3,716 sq.m. in units for sale or to let from 149 sq.m. Three units are under offer on a leasehold basis at £75 per sq.m.

Looking forward, the only proposed site start is on the final Golden Contract site at **Eurocentral**. Golden Contract sites retain Enterprise Zone benefits after the Zone has expired. Part of Plot F will be developed on a speculative basis to provide two buildings of 6,205 sq.m. and 8,526 sq.m. The larger building may be sub-divided to accommodate smaller requirements of c. 4,180 sq.m. This will leave 3.4 hectares with Golden Contract status, capable of accommodating up to 23,225 sq.m.

Bank funding also remains an issue for occupiers. The restriction of credit has severely reduced the number of property sales and has depressed the price that purchasers are able to pay. There is now a gap between the price required to justify new build and what an occupier can raise. It is unlikely that any new small unit schemes will emerge for some time and this will put further pressure on the

existing stock. This is good news for the owners of estates serving this market as many of the parties still require the space and are willing to lease.

Continuing demand and a restricted supply should boost the value of such assets in the short to medium term. An example of this shift in value has been demonstrated by the sale of Colvilles Park, **East Kilbride**. A private client purchased the estate in June 2009 for £3.4 million and sold it in April 2010 for £4.35 million. Similar shifts in value are likely on other well-let industrial estates.

Within **Edinburgh** a number of significant lettings have occurred over the last six months. On the north side of the city, County Properties secured a letting to APS Group Scotland Ltd of the former Summerhall Press unit, Tennant Street in Leith (extending to 2,415 sq.m.) at £37 per sq.m. In the south-east of the city at Prestonfield Park, a 557 sq.m. unit has been let to Nairn's Oatcakes Limited at £67 per sq.m. On the west side of the city, Eastern Western Properties secured a letting of the former BMW Maintenance Depot at Russell Road to Speedy Hire (981 sq.m.) at a rent equivalent to £90 per sq.m.

At **Newbridge**, Unit 6 Edinburgh Interchange (2,976 sq.m.) was sold to FH Brundle at a rent equivalent to £54 per sq.m. A further 1,473 sq.m. has been let to Diet Chef at Newbridge One Industrial Estate at £54 per sq.m. Phase One of this development is now full.

At East Mains Industrial Estate, **Broxburn**, Eastern Western Properties successfully disposed of three separate properties at Simpson Road totalling 3,937 sq.m. The two larger units were leased at £46 per sq.m. and the smaller building was sold to the adjoining occupier.



Also within East Mains Industrial Estate, Wordie Properties completed a sale of 5 Drovers Road to Recycling Solutions; this site extends to approximately 1.4 hectares including buildings of 1,250 sq.m.

Elsewhere in Broxburn AGR & Sons has taken a further 325 sq.m. at Axwel Yards, at a rent of £32 per sq.m.

A key feature of the above transactions has been the popularity of units with good access to Edinburgh city centre and to the surrounding trunk road and motorway network.

Units 1 & 2 Inchyra Road, **Grangemouth** (9,290 sq.m.) have been let to biomass technology company Verdo Renewables.

In **Kirkcaldy** there have been several smaller lettings at Mitchelston Industrial Estate including MJ Express Distributions (52 sq.m.), 3 Point Power (51 sq.m.) and SFM (28 sq.m.).

In **Dunfermline** lettings have been secured at Elgin Street Industrial Estate to Real Life Options (171 sq.m.) and at Pitreavie Business Park to Mainline Supplements (93 sq.m.).

With the number of lettings taking place over the previous six months, East Central Scotland industrial occupiers are facing a shortage of property in prime areas. As a result, a number of developers are now working on speculative schemes which are expected to be justifiable in terms of rents, incentives and the yield on the completed investment. Another important factor in the development equation is of course the availability of suitable land at a viable price. Whether for owner occupation or development purposes it is unlikely that industrial schemes, at this point in the market cycle, will justify much more than £370,000-£500,000 per hectare.

The industrial property market in **Dundee** has seen little activity over the past

#### Larger industrial deals in Scotland over the past six months include:

Address	Size	Occupier
Glasgow Trade Park, Glasgow Business Park, Glasgow	1,858 sq.m.	Autoglass
Westway Distribution Park, Renfrew	1,858 sq.m.	Nippon Express Ltd
Pegasus Court, Pegasus Business Park, Hillington	743 sq.m.	Powwow Water Company Ltd
Grayshill Road, Westfield Industrial Estate, Cumbernauld	8,000 sq.m.	AG Barr Plc
Units 1 & 2 Inchyra Road, Grangemouth	9,290 sq.m.	Verdo Renewables
Unit 6 Edinburgh Interchange, Newbridge	2,976 sq.m.	FH Brundle
Raiths Industrial Estate, Dyce, Aberdeen	1,406 sq.m.	Reel Group
Peterseat Park, Altens, Aberdeen	947 sq.m.	Cargotec
Unit 5 Minto Commercial Park, Altens, Aberdeen	1,459 sq.m.	Abvalves
Unit 1 Minto Drive, Altens, Aberdeen	1,888 sq.m.	Geopost UK Ltd
18 Seafield Road, Longman Industrial Estate, Inverness	1,617 sq.m.	DuBye Ltd

six months. There is currently 103,241 sq.m. available, but only 1,994 sq.m. in 12 units has been let over the last six months. All these transactions involved premises which were 185 sq.m. or less.

However, there are signs of increasing activity in Dundee, with a number of new, sizeable industrial property requirements emerging and a tranche of properties recently going under offer.

Industrial rents in Dundee have been under downward pressure, with new-build industrial accommodation now ranging from c. £53-£59 per sq.m.

Elsewhere in Tayside, Sterling Relocation Ltd has taken 728 sq.m. of industrial accommodation at Elliot Business Park, **Arbroath** at a rent of £40 per sq.m.

At North Muirton Industrial Estate, **Perth**, Unit 6 Kilda Place (421 sq.m.), was let to McEwens of Perth at £43 per sq.m., and 2,322 sq.m. is under offer at Arran Business

Park at a rent believed to be in the region of £32 per sq.m.

The industrial market in **Aberdeen** has once again experienced a challenging six months, although there certainly appears to be more optimism than was present in the latter half of 2009, due mainly to the stability of the oil price at \$75-\$85 per barrel.

Aberdeen's industrial property take-up in the last six months totals 27,750 sq.m. in 43 transactions. Although this represents a 10% decrease in take-up, the number of transactions increased by 23%. Most notably, take-up increased by 124% in the 464-929 sq.m. size range; this can be explained by the recent increase in supply in this size range, demonstrating that as and when supply increases, transactional activity tends to follow. There continues to be a shortage of supply in the larger than 929 sq.m. size range, which restricts the number of transactions.



New-build industrial rental levels in Aberdeen remain firm at £91.50 per sq.m. for warehouse space, £183 per sq.m. for offices and £16 per sq.m. for concrete yards. A significant change is that it has moved from a landlords' to a tenants' market, with shorter term leases and rent-free periods now having to be considered. Tenants are increasingly seeking short term leases due to the durations of the contracts (typically up to five years) being awarded in the oil industry at present.

A number of developers have undertaken speculative industrial developments in Aberdeen in recent times and the vast majority of these have now been let.

At Knight Property Group's Minto Commercial Park, Altens, Unit 5 was let to Abvalves (1,459 sq.m.), and at Gilcomston Investments' Raiths Industrial Estate, Dyce, 1,406 sq.m. was let to Reel Group. Z3 at Badentoy Industrial Estate by GSS Developments remains available, but is attracting strong interest.

The above buildings are within the 929-1,858 sq.m. size range, which demonstrates there is strong demand for quality, medium sized industrial units within the market place. It is understood that further speculative industrial development is being considered at present by the aforementioned parties.

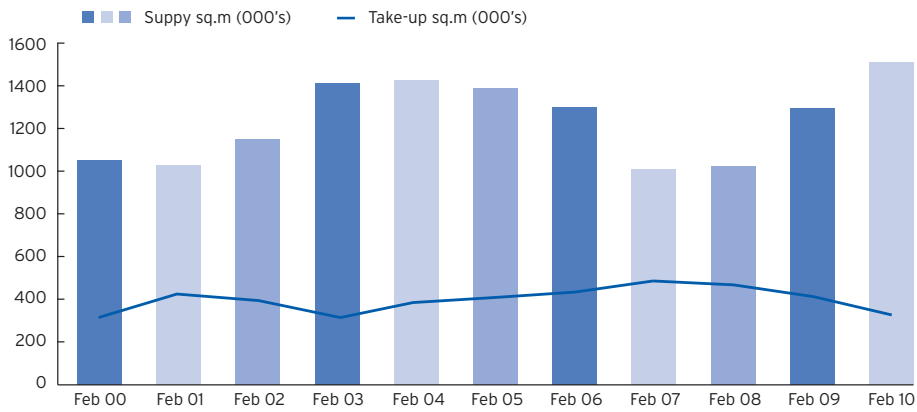
One of Aberdeen's largest industrial transactions in recent years has concluded. Stockland Muir will develop a new headquarters facility on behalf of Hydrasun at Aberdeen Gateway. The facility will comprise a 6,690 sq.m. warehouse, 2,045 sq.m. office and a secure yard, it should be ready for occupation in December 2010. This transaction will be included in future take-up analysis. The property will enable Hydrasun to amalgamate all their services

and divisions under one roof. Their existing facilities at Links Place, Pittodrie Lane and King Street will shortly come to the market.

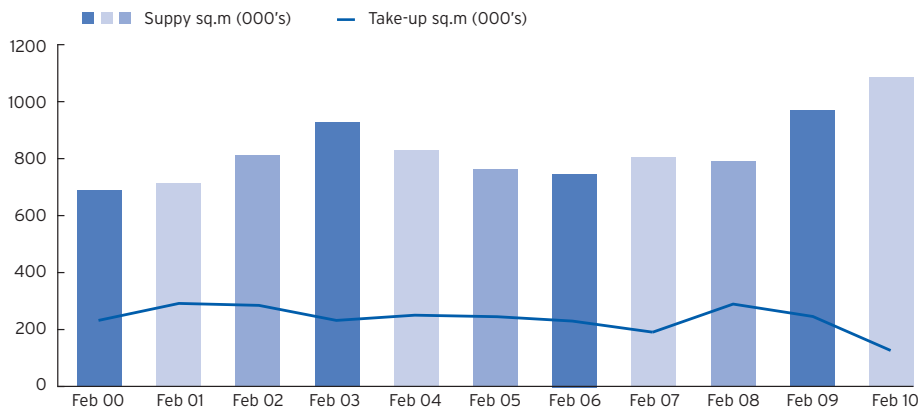
There have been several lettings at Longman Industrial Estate, **Inverness**, to tenants including DuBye Ltd (1,617 sq.m.), Tech Direct Scotland Ltd (88 sq.m.) and Purplelinda Crafts (103 sq.m.), at rents between £62- £113 per sq.m.

Three speculative industrial schemes are planned or underway in the city: at Harbour Road, Longman Industrial Estate five units totalling 256 sq.m. (from 45-76 sq.m.) will be offered to the market at rents of £115- £122 per sq.m.; at Fresson Business Park, Longman Drive two 397 sq.m. units; and at Carse Industrial Estate three units totalling 905 sq.m. (from 130 sq.m.) at £54 per sq.m.

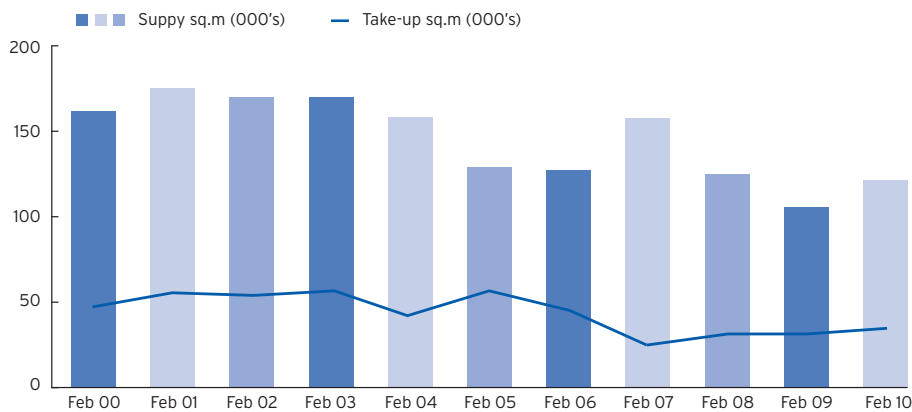
### Industrial Supply and Take-up - West of Scotland



### Industrial Supply and Take-up - East of Scotland



### Industrial Supply and Take-up - North of Scotland



Source: SPN

# Retail

# Property

The retail sector's recession began well before the economic downturn and continues afterwards. Consumer expenditure has held up reasonably well, but is skewed towards food sales and regional shopping centres. This leaves many established towns at the mercy of weak retailer demand and rising vacancies. Rental value decline remains latent in many centres due to lack of transactional evidence.

The Scottish retail property market remains active, albeit due mainly to activity in the value retail and food sectors. Lettings within the now-completed shopping centre development pipeline have tailed off at Aberdeen's Union Square and Livingston's The Centre.

Retail expenditure in Scotland had been growing. However, due to a particularly poor January, by February like-for-like sales were down -1.1% year-on-year. Food expenditure rose by 0.5% while non-food expenditure fell by -2.6% (SRC-KPMG).

UK retail sales figures, however, had improved in February to 2.2% year-on-year as opposed to -1.8% in February 2009.

Retail sales have generally been fuelled by retail foodstores and large discount operators, for example Home Bargains and B&M, rather than the prime High Street and shopping centres.

Vacancies in some traditional town centres are not simply a result of the recession, but are the product of a difficult past six or seven years where retailers have been attracted to new retail development and/or accommodation which offers larger floorplates. This has led to a weakening of the general rental tone within towns and cities throughout the country where vacancies highlight a lack of demand.

In **Glasgow**, the most notable deal is All Saints taking the former Borders lease on Buchanan Street at a current passing rental of £1.43 million. It is rumoured that All Saints had paid a significant six figure premium to secure the lease and is currently in negotiations with another occupier to sub-let in part. It is anticipated that All Saints will take occupation of the ground, basement and first floor. All Saints is currently trading from Buchanan Street and a unit on Ingram Street.

Elsewhere in prime Buchanan Street, activity has sustained a headline rental of c. £260 per sq.ft. Zone A at a recent deal to GIVE at the former Nine West store. GSPC has now concluded an unconditional deal for the Foot Locker unit on the corner of Buchanan Street and Argyle Street. Buchanan Street arguably is the only location in Scotland which shows positive, sustainable rental growth for retail floor space. This is reflected in full occupancy of the street at this time.

Within the refurbished St Enoch Centre, Xile clothing has opened a 213 sq.m. store and Ortak has relocated into the centre from Argyle Street.

On Argyle Street, TK Maxx is currently fitting out a new 6,500 sq.m. store, which is a redevelopment of the former Tesco Metro, and Barclays has secured the former Zavvi unit.

Within the Silverburn Shopping Centre, Pollok, Panasonic has opened a 127 sq.m. shop and Jeune Gens, a childrenswear boutique, has opened a 65 sq.m. shop.

Sports Direct has taken a new lease of the former Pier store Unit 25, Glasgow Fort which comprises a ground floor area of 568 sq.m. Adjacent to Morrisons, Decathlon has secured its first store in Scotland (3,716 sq.m.).

**Edinburgh** has experienced limited retail market activity in recent months. The latest lettings on prime Princes Street were to Urban Outfitters at 124 Princes Street (1,448 sq.m.) and Mountain Warehouse at 126 Princes Street (365 sq.m.).

New Look plans to open a store at 121-123 Princes Street, with Premier Inn hotel on the upper floors. Primark has yet to open its store at 92-93 Princes Street; the retailer originally planned to open in 2009, but now intends to create a larger store (7,432 sq.m. rather than 5,574 sq.m.) and is currently in a consultation period, with the store now due to open 2011.

At The Centre, **Livingston**, Land Securities has secured new lettings to Schuh (488 sq.m.), Bank (279 sq.m.) and JD Sports (952 sq.m.).

Ortak opened a 187 sq.m. shop in Thistle Marches Shopping Centre, **Stirling**, and at Springkerse Retail Park, Archers SleepCentre opened a 696 sq.m. store.

In **Dundee**, Next Home (1,858 sq.m.) and Dunelm Mill (929 sq.m.) have recently opened new stores at Kingsway West Retail Park. In the Overgate Centre, Topshop and Topman are opening a 1,245 sq.m. store.

In the St Johns Centre, **Perth** new stores have been opened by Gimme Gizmo, Ramsdens, J.Co (The Jute Company), Images and a combined Stead & Simpson and Shoe Zone store has re-opened.

**Aberdeen's** Union Square, developed by Hammersons, has continued to build upon lettings reported in Ryden's October 2009 Review and has secured lettings to Peckhams (186 sq.m.), Accessorize (93 sq.m.), Hollister (650 sq.m.), Deichmann (530 sq.m.), Pure Spa (372 sq.m.) and Howards Storage World (464 sq.m.).



At the Eastgate Shopping Centre, **Inverness** stores have been opened by Republic (552 sq.m.) and Past Times (189 sq.m.).

One notable area of market activity is the re-occupation of former Woolworth's stores. These have tended to attract mainly discount retailers. New occupiers include Iceland, Poundmart, Peacocks, Poundstretcher, Wilkinsons and Tesco Metro.

The shopping centre development pipeline has now completed. The next major phase of development is medium term: the St James redevelopment in Edinburgh is programmed for completion 2016; the Buchanan Galleries extension may be accelerated by TIF funding; and Glasgow Harbour now has planning consent for a 25,800 sq.m. retail and leisure centre. In Paisley town centre, Park Lane Group and Renfrewshire Council plan to redevelop the former Arnotts department store into a mix of retail, flats and car parking.

Supermarket operators remain particularly active across Scotland.

Site preparations are proceeding for a new c. 6,600 sq.m. Morrisons in Bathgate; Tesco is moving into Burnside in south Glasgow in a c. 2,050 sq.m. former Somerfield unit; and J Sainsbury with Dawn Developments has secured planning consent for a 5,575 sq.m. store in Irvine.

Aberdeen City Council has identified a site on the West side of the city, at Lang Stracht, for supermarket development.

In East Renfrewshire, Waitrose has secured approval for a 3,350 sq.m. store at Greenlaw, Newton Mearns. This could be the retailer's first new-build store in Scotland.

Asda and Macdonald Estates have announced plans for a £24 million supermarket at the former NCR site at Wester Gourdie, where Dundee City Council

has approved plans for a 4,830 sq.m. store with associated car parking and petrol filling station.

In Perth, Sainsbury's plans a 6,500 sq.m. superstore, with associated parking and petrol station, at the United Auctions mart site at East Huntingtower.

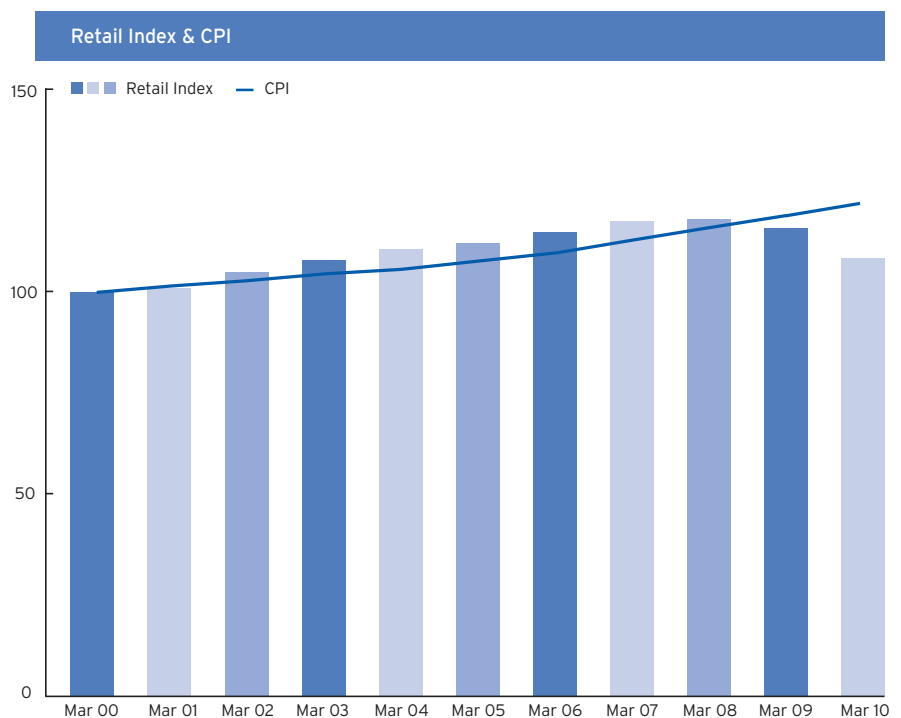
Ryden's long-standing list of rents for Scotland's top 30 shopping centres is replaced below by a single index covering the top 20 centres only. Market activity has continued to polarise the market in favour of regional centres. This is a consequence of shoppers with greater spending power travelling further to obtain a wider range of retail goods (and leisure services).

Between 2000-2010, rents for the top 10 centres (Glasgow to Livingston) grew by 32%, comfortably ahead of consumer price inflation (22%).

Rents in centres 11 to 20 (Dundee to Irvine) grew by 13%, less than inflation. Rents in centres 21 to 30 (Kilmarnock to Elgin) declined by -2%.

However, even for the top 20 shopping centres, the chart shows rents falling and inflation rising since 2008.

Three of the top four rented centres in the index are around Glasgow: the City Centre, Braehead Shopping Centre and Silverburn Shopping Centre. Notably, five relegated out of the index are the surrounding towns such as Motherwell and Cumbernauld. A further five low growth towns ranked between 14-20 are also in West Central Scotland, making it difficult not to conclude cause-and-effect between regional centre growth and local centre decline.



Source: ONS/Ryden

# Investment

# Market

Scottish commercial property recorded a total return of 2.3% in 2009 (UK: 3.5%) according to the IPD Annual Index. Statistics reflect a year of two halves with the market bottoming out by Q2 2009 and thereafter enjoying a sustained recovery fuelled by the weight of un-leveraged money seeking property investments.

Across the principal sectors in Scotland, industrials were again the top performer recording a total return of 6.5% (UK: 3.5%). Retail suffered most with a total return of 1.2% (UK: 5.1%). Scottish offices compare favourably with UK data at 2.2% return for 2009 (UK: 0.1%) however the data pre-dates much of the heated activity within the south-east office market.

All property UK total returns in 2009 (3.5%) comprised income return of 7.4% and capital value decline of -3.6%. Most recent data based upon the IPD Monthly Index to end February 2010 has registered the first positive annual capital growth (2.7%) since September 2007. Capital growth has been driven by the return of yield compression with initial yields falling from a cycle high of 7.9% in June 2009, to 6.8%. In addition rental value decline has fallen from an annual rate of -8.9% in October 2009 to -7.1%.

Most of the transactional activity and in turn the yield compression has been confined to the prime (low risk) end of the market. Secondary property is yet to benefit from the improvement in investor sentiment. The turn around has come as UK institutions invested heavily after being largely inactive for most of 2008 and 2009. This, together with continued foreign investor appetite, in part due to weak Sterling, has resulted in yield compression and value improvement.

## Office

As predicted in Ryden's October 2009 Review, the office sector has been at the forefront of the recovery in the investment market.

## Office property investment deals include:

Address	Property	Purchaser
141 Bothwell Street, Glasgow	16,263 sq.m. Grade A multi-let building. Tenants include Shell, McGrigors and PwC	Aberdeen Property Investors for £66.5 million (5.8%)
Broadway One, Renfield Street, Glasgow	11,738 sq.m. Grade A building, let in entirety to Tesco Personal Finance Plc on a 20 year lease	KanAM Group for £51 million (5.77%)
145 St Vincent Street, Glasgow	3,557 sq.m. refurbished Grade B listed building. Multi-let to tenants including King Sturge and BNP Paribas Real Estate	Scottish Widows Investment Partnership for £11.7 million (6.6%)
Edinburgh Quay, Phase 2, Fountainbridge, Edinburgh	5,586 sq.m. Grade A office. Tenants include Baker Tilly, Barclays Bank, Pinsent Masons, Companies House and Lloyds TSB Bank	Cordea Savills European Commercial Fund for £21.1 million (6.1%)
3-11 Melville Street, Edinburgh	1,742 sq.m. office building. Tenants include Shore Capital Stockbrokers Ltd, Eversheds LLP, ADLP Ltd and Johnston Carmichael LLP	Knight Property Group for £5.3 million (7.6%)
Acergy Campus, Westhill, Aberdeen	19,600 sq.m. mixed use campus comprising office, workshop and leisure buildings	PRUPIM for £36 million (7.1%)
BBC Scotland, Beechgrove Terrace, Aberdeen	849 sq.m. office/studios building	Private buyer for £1.72 million (6.47%)
Pavilion 6, Twin Spires, Mugiemoss Road, Aberdeen	570 sq.m. office pavilion	Private buyer for £1.1 million (9%)

A number of significant transactions have taken place and there has been considerable yield movement.

Investor demand has been driven by the UK institutions and German funds, attracted by a combination of historically attractive yields and, for the latter, favourable currency conditions.

This renewed investor interest co-incident with a number of Grade A new build projects

being let and becoming available, especially in Glasgow.

Prime yields fell by 75-100 basis points over the period and have now stabilised at 5.75%, as highlighted by the Broadway One, Renfield Street, Glasgow transaction (see table).

In the search for higher returns, investors are increasingly willing to consider investments higher up the risk curve, either with an element of letting risk or with shorter lease terms.



As ever, the key to future performance will be sourcing those buildings with characteristics which best match anticipated occupier demand.

Out of town, office activity has been limited. Take-up has been patchy and - with the notable exception of Aberdeen - considerable supply still overhangs the market in many locations.

#### Industrial

The improvement in demand for industrial investments gathered momentum towards the end of 2009. Retail (unitised) funds led the way in a resurgent market as pressure mounted to allocate substantial inflows of cash. With limited stock available, pricing has rebounded rapidly. As a consequence, debt-driven investors trying to acquire the best prime stock have been largely squeezed out the market, particularly for lot sizes greater than £5 million favoured by the retail funds. Private investors provide the competition for smaller lot sizes.

Investor demand is greatest for well-secured, single-let opportunities which guarantee rental growth through fixed or minimum uplifts. Yields for this type of investment fell by around 100-150 basis points in the last quarter of 2009 and are now generally around 7%, or potentially less for smaller lot sizes.

Quality, multi-let industrial estates are also becoming more sought after, despite the higher risk profile. However, competition is less fierce as there is a smaller pool of potential buyers at present. While there have been fewer transactions of this type, there is evidence of a greater yield shift in the order of a fall of 150-200 basis points to 8-8.5% for the best estates. The recovery here has been greater as a result of the heavily discounted prices evident last year.

Yield compression has been almost negligible for secondary industrial property which is either let to weaker covenants

#### Industrial property investment deals include:

Address	Property	Purchaser
Colossus 1 & 2 and Premier Foods Facility, Eurocentral	Three modern distribution buildings totalling 25,843 sq.m. Colossus Buildings let to Wincanton with six to seven years unexpired and Premier Foods Facility let for c. 13 years	Scottish Widows Investment Partnership for £17.08 million  (Colossus Buildings 8.75%) (Premier Foods Facility 7.45%)
UPS Glasgow Centre, Eurocentral	4,427 sq.m modern distribution warehouse, let to Lynx Express Ltd with c. 10 years unexpired	Private investor for £3 million (9%)
23 Seafield Road, Edinburgh	Multi-let terrace of industrial units totalling 3,251 sq.m, tenants include Screwfix and Arnold Clark	Arnold Clark for £2.5 million (6.97%)
Aberdeen Industrial Portfolio	Three terraced industrial estates totalling 12,650 sq.m.	CBRE Investors for £10.427 million (8.45%)
Hydrasun Development, Aberdeen Gateway	10,275 sq.m. industrial and office facility	Forward funding sale to Standard Life for £12 million (8%)
Reed Hycalog, Aberdeen Gateway	3,763 sq.m. industrial and office facility	Standard Life for c. £8.8 million (7.25%)
Cairn Facility, Howe Moss Avenue, Kirkhill	4,062 sq.m. industrial and office facility	Threadneedle for £4.63 million (7.75%)

or has shorter unexpired lease terms. The risks are greater for this type of investment, particularly against the background of a weak economy. Funds are less active in this area of the market and opportunities exist for debt-driven investors.

To date there have been few distressed assets coming to the market in Scotland although sales from the Kilmartin and Kenmore portfolios are anticipated soon, both of which contain some industrial property.

#### Retail

The demise of many formerly active Irish investors, coupled with the ongoing shortage of bank debt, has taken large numbers of active buyers out of the market, leaving gaps in demand for the retail property investment sector.

Prime units in the strongest shopping pitches continue to sell well and yields have fallen back to 5%. Units in non-prime locations with the benefit of long leases to supermarkets or similar quality covenants also generate investor interest.

However, once lot sizes move above the £2-3 million level and become too large for most private investors, secondary asset pricing remains heavily discounted, often offering attractive opportunities.

There has been an absence of major retail park transactions, although a number of smaller parks have changed hands, mainly to institutional buyers.

Investor demand remains keen for retail parks across the spectrum, although pricing of secondary bulky goods parks is unlikely to improve markedly until these retailers show signs of recovery.

Shopping centre activity was dominated by the sale of Silverburn Shopping Centre, Glasgow to Hammerson, following a high profile marketing campaign which generated significant interest, bearing in mind the asset size. The subsequent sale of Clyde Shopping Centre in Clydebank confirmed demand for established shopping centres too.

#### Market Prospects

Following significant investment activity in late 2009 and early 2010, the pace of yield compression has slowed and is likely to stabilise as the market pauses for breath. There are also signs that the fall in rental values may continue to slow, particularly in prime sectors of the market, suggesting property returns should remain positive.

Although investors appear willing to embrace more risk, demand is still focused upon prime, well-let assets. As investors come to terms with revised pricing on such product and the occupational markets show signs of improvement, there is the prospect that investors will modify their investment criteria and move further up the risk curve once again, although such steps are likely to be tentative.

Considerable risk of tenant default and rental depreciation still afflicts many secondary multi-let properties, so it may be some time before meaningful yield improvement returns to these properties. However, for certain investments such as well located multi-let industrials, this 'risk' may well be overpriced as rental values and occupier demand have held up well despite negative market sentiment.

#### Retail property investment deals include:

Address	Property	Purchaser
Silverburn Shopping Centre, Glasgow	93,000 sq.m. shopping centre, 95 shops including M&S and Debenhams and 14 restaurants	Hammerson for £297.5 million (5.77%)
East Kilbride Retail Park, Mavor Avenue, East Kilbride	5,400 sq.m. retail park, let to tenants including Currys, PC World and Dreams. Average unexpired lease term in excess of 15 years	Standard Life for £18.14 million (6.54%)
Clyde Shopping Centre, Clydebank	58,064 sq.m. comprising 120 shops, including ASDA, Dunnes, Primark and BHS and a multiplex cinema	HP Properties Ltd for £69 million (8.5%)
28 Buchanan Street and 39 Argyll Arcade, Glasgow	Two retail units occupied by Mappin & Webb and Laing The Jeweller (Glasgow) Ltd on unexpired lease terms of c. 12 years	Royal Liver for £7.45 million (5.55%)
87 Princes Street, Edinburgh	292 sq.m. retail unit let to Freedom Sports until 2016	CBRE Investors for £3.5 million (6.86%)
501 Union Street, Aberdeen	478 sq.m. retail unit	Private buyer for £1.42 million (5.62%)
Berryden Retail Park, Aberdeen	6,900 sq.m. retail park	Fund buyer for around £25.6 million (6.5%)
The Mall Shopping Centre, Union Street, Aberdeen	17,650 sq.m. shopping centre	Rockspring for £47.4 million (7.9%)

With the impending liquidation of certain property company assets and the scale of refinancing due during 2010 and beyond, it is envisaged that more secondary properties will be exposed to the investment market. This will test institutional demand for embracing risk and also the ability of leveraged investors to secure bank finance on acceptable terms. It may however provide the market opening for opportunity funds that have mainly been inactive to date.

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