

Ryden

April/11: **68th**

Scottish Property Review

Economic recovery from a banking crisis-induced recession is notoriously weak. Aberdeen aside, the lack of a solid foundation to the recovery means that Scotland's occupier markets are still performing at below average levels, while the development sector remains moribund. The investment market appears to have found some stability but trading is thin and these conditions will persist during 2011.

DR MARK ROBERTSON,
PARTNER, HEAD OF CONSULTING

Economy

& Planning

Economy

Scotland's economic recovery remains weak. Negative growth in late 2010 may, as in the wider UK, be offset by growth in early 2011 when data is published, but the foundations of economic recovery are not yet solid.

- Scottish GDP decreased by 0.4% in the fourth quarter of 2010. This contributed to an annual rise of 0.8%, which is lower than the UK rise of 1.5%. During the fourth quarter of 2010 output fell in all sectors, including the services sector (0.1%), production sector (0.5%) and construction sector (2%).
- The Consensus forecast for UK economic growth published by HM Treasury predicts growth of 1.7% during 2011 and 2.1% for 2012. For Scotland, Fraser of Allander Institute's central forecasts are lower at 1% in 2011, followed by stronger growth of 1.6% in 2012.
- The Scottish unemployment claimant count was 5.1% in February 2011, up from 4.9% in February 2010. The broader ILO measure of unemployment fell on a quarterly basis to 8.1% for the three months December 2010 - February 2011, but was up 0.3% over the year.
- The Committee of Scottish Clearing Bankers confirms the number of new business accounts opened during the second half of 2010 totalled 7,058. This was down 2% from the same period in 2009. The largest share of new businesses (2,362 or 33%) was in the real estate, renting and other business sector.
- Companies House reports a total of 586 business failures in Scotland in the six months from September 2010 (5.6% of the UK total). During the previous six months 654 (5.4% of the UK total) business failures were reported.
- Retail sales in Scotland were 3.9% lower on a like-for-like basis over the 12 months to March 2011 (SRC/KPMG).

Job Losses

- In Dunfermline, Wincanton is closing its food distribution centre with the loss of 250 jobs
- Following the administration of construction firm ROK a total of 750 jobs were lost across Scotland
- Insurer Aegon UK announced 600 job losses in Edinburgh
- Dumfries based R & D Construction has gone into administration with the loss of 200 jobs
- The Forestry Commission announced 100 job losses at its Scottish headquarters in Edinburgh
- Printer DC Thomson is closing its plant in Glasgow with the loss of 70 jobs
- Mintlaw based construction group, Les Taylor has gone into administration with the loss of 185 jobs

Job Gains

- Amazon is currently constructing a distribution centre in Dunfermline which will lead to 750 jobs, while in Gourrock a further 200 jobs are to be created
- Investment manager BlackRock is expanding its operations in Edinburgh with the creation of 250 new jobs
- Satellite broadcaster Sky is creating 100 new permanent positions in Livingston
- Gaia-Wind Ltd opened a manufacturing, design and distribution hub in Glasgow, potentially creating 80 new jobs
- Hong Kong based ship management company, Anglo-Eastern Group is moving into larger premises in Glasgow. The expansion may create 50 new jobs
- Tesco Bank is opening a call centre in Glasgow with the creation of 200 jobs

Further comment on the retail sector is provided on page 12.

- According to the Department of Energy and Climate Change, indigenous production of crude oil in the UK was 7.6% lower in 2010 than in 2009.
- The table above lists major job losses and gains over the past six months.

In summary, Scotland's recovery from recession faltered towards the end of 2010. Growth is expected to resume but unemployment data is mixed and consumer spending is now clearly weakening as wages fail to keep pace with price inflation.

Planning

New changes continue to be introduced to the Scottish planning system while previously announced reforms bed-in.

The pace of change is certainly keeping planning consultants on their toes. Reforms highlighted below, are followed by an update in the progress being made on Strategic Development Plans (SDPs) and Local Development Plans (LDPs) across Scotland.

Appeals

While most landowners and developers have got to grips with the two-tier system of appeals to Local Review Bodies or to the Scottish Ministers - introduced through the Planning etc. (Scotland) Act 2006 and The Town and Country Planning (Appeals) (Scotland) Regulations 2008 - appellants are still realising too late that they only have one opportunity to present their case.

Only documents submitted to the planning authority as part of the application process may be submitted for appeal, unless the reporter or Local Review Body requests additional information.

This is crucial as unless there is a material change in the scheme, the Development Plan policies or material circumstances, the planning authority has the power to decline to determine a reapplication following a failed appeal for up to two years.

Section 75 Agreements

One of the most important recent reforms is the introduction of applications to modify Section 75 agreements and the right to appeal to Scottish Ministers where such applications are unsuccessful. This reform was introduced alongside Unilateral Planning Obligations and the right of a planning authority to enter land to fulfill planning obligations as part of Section 23 of the Planning etc. (Scotland) Act 2006 in February 2011.

Development Planning

Aberdeenshire and Aberdeen City Councils are leading the way in the preparation of LDPs (see table). These will be the first plans to be taken through to Examination in Public (EiP) almost wholly under the new system.

Insight into the shorter, focused EiP process was obtained during the examination of the Mid Fife Local Plan in early 2011. Requests for additional written submissions on key points ensured the brevity of any hearing sessions. The Directorate for Planning and Environmental Appeals (DPEA) required just two days of hearing sessions into core issues with three Reporters covering each session. Their report is expected in May/June 2011, which, if it arrives within this timescale, certainly demonstrates a faster turnaround than was previously possible.

Opposite is a timetable of those authorities which have key stages in their SDP and LDP preparations coming up in 2011. The majority of timetables have slipped as authorities get to grips with the requirements for consultation and notification under the Planning etc. (Scotland) Act 2006.

Strategic Development Plans

Plan	Next Stage	Consultation
Aberdeen City & Shire SDP (Aberdeen City and Aberdeenshire)	Main Issues Report (MIR)	Sept - Dec 2011
Glasgow and the Clyde Valley SDP (East Dunbartonshire, East Renfrewshire, Glasgow City, Inverclyde, North Lanarkshire, Renfrewshire, South Lanarkshire and West Dunbartonshire)	Publication of Proposed SDP	June - Sept 2011
TAYplan (Angus, Dundee, Fife and Perth and Kinross)	Publication of Proposed SDP	June - Aug 2011
SESplan (City of Edinburgh, East Lothian, Fife, Midlothian, Scottish Borders and West Lothian)	Publication of Proposed SDP	Nov - Jan 2011

Local Development Plans

Local Authority	Next Stage	Due
West Lothian	Call for sites/public engagement	May 2011
Argyll and Bute	MIR publication	May 2011
Inverclyde	MIR publication	May 2011
East Lothian	Call for sites/public engagement	Summer 2011
Aberdeen City	Examination in Public	Summer 2011
Highland	LDP Examination in Public	Summer 2011
Aberdeenshire	LDP Examination in Public	Summer 2011
South Ayrshire	Proposed Plan consultation	Summer 2011
Western Isles	Proposed Plan consultation	July - Sept 2011
Renfrewshire	MIR publication	August 2011
Cairngorms National Park Authority	MIR publication	August 2011
Glasgow City	MIR publication	August 2011
East Renfrewshire	MIR publication	September 2011
Angus	MIR publication	September 2011
Orkney Islands	Proposed Plan consultation	September 2011
Dundee City	MIR publication	Autumn / Late 2011
East Ayrshire	MIR publication	Sept / Oct 2011
Stirling	Proposed Plan consultation	October 2011
Falkirk	MIR publication	October 2011
Edinburgh City	MIR publication	November 2011

Office

Property

The recent trend of office sales and lettings running below average in Glasgow and Edinburgh but above average in Aberdeen continues. Very limited new development afflicts all locations but has different implications for each city.

Like most other UK regional cities, **Glasgow's** lack of any speculative new-build development and dwindling supply of new Grade A space (and better quality Grade B property) is reducing choice both for indigenous companies seeking to expand or contract and for potential inward relocators. Glasgow over many years has successfully attracted footloose UK wide relocators due to, among other reasons, the availability of well-educated employees across a range of levels and business sectors and the ready availability of a selection of property options.

While there is still a reasonable choice of property quality and type if looking both in and out-of-town, city centre options are now virtually limited to floors in multi-occupied buildings.

There is 28,800 sq.m. of space remaining in six new office buildings capable of accommodating more than 929 sq.m. Three provide floorplates greater than 929 sq.m., but 141 Bothwell Street's remaining 1,184 sq.m. is only part of a floor. Only one new office building, Cuprum, provides a floorplate greater than 1,394 sq.m.

There are only three new or refurbished properties over 1,858 sq.m. that can provide a self-contained building for those companies seeking individual identity. Cuprum at 9,144 sq.m. is the largest and the only new-build. The others are smaller floorplate refurbishments at Grosvenor Building, Gordon Street (4,739 sq.m.) and Kintyre House, West George Street (2,144 sq.m.).

Occupiers therefore have to turn their attention to smaller floorplate new-build options and better quality second hand/refurbished space. With continuing lack of funding for new speculative development allied to the time required for securing planning permission and completing the construction process, there is little prospect of any city centre new development completions before late 2013 or 2014. There is likely to be release of second hand space as companies continue to restructure to adjust to the economic conditions, but, with the odd exception, such office space is likely to be piecemeal and in older, poorer quality buildings. Exceptions are 6 Atlantic Quay where RBS is likely to release a building of 7,186 sq.m. for lease assignment/sub-let and BT's 15 York Street, Broomielaw where floors of 2,787 sq.m. can be made available.

In recognition of the continuing reduction in new supply, developers have been dusting off plans, but none have as yet committed to a speculative site start. Dawn Developments is one of the few developers actively on site and is in the process of finishing off 8,547 sq.m. pre-let offices for Glasgow City Council at Collegelands, High Street, as part of the first phase of a mixed-use scheme including student residences, hotel and multi-storey car park. The Glasgow City Council investment is one of a number of ongoing public sector projects in the city. Despite the much-publicised spending cuts, and although there will be uncertainty over the future of some agencies, a mix of market drivers such as lease expiries, co-location, new initiatives (eg. Commonwealth Games 2014) and building obsolescence mean that the public sector is still a significant force in the office market.

BAM Properties was the successful bidder for the purchase of the former Bank of Scotland property at 110 Queen Street and

is currently reviewing development options (the site currently has consent for a new c. 15,795 sq.m. office building). Redevco is understood to be considering refurbishment rather than new-build of George House, George Square to provide up to c. 9,290 sq.m. in two phases over the next 12 months. The Urban Regeneration Company (URC) at Clyde Gateway is active with office development at Brook Street, Bridgeton (1,672 sq.m.) and Rutherglen (790 sq.m.) as well as offering sites for design-and-build options.

As predicted, Glasgow's high levels of take-up resulting from several large deals in the previous six months could not be sustained and take-up fell by some 37% to 26,842 sq.m. This is still 11% above the equivalent period last year, producing a 12 month total of 69,247 sq.m., 22% higher than the same 12 month period last year. Enquiry levels for offices larger than 929 sq.m. remain encouraging.

While not concluded in time for this Review's statistics, Mercer has completed a lease of 3,255 sq.m. at 1 George Square; only 669 sq.m. on part of the fourth floor remains of the original 12,150 sq.m. There are several other active office requirements which will complete over the coming months, further reducing the limited supply of better quality space in the city centre.

Notable deals over the last six months include: Scottish & Southern Energy's purchase of One Waterloo Street (5,477 sq.m.) for owner occupation, within which CBRE had already leased 560 sq.m.; i2 Office Ltd taking 1,477 sq.m. at 2 West Regent Street (where there is rumour of strong interest in other floors); Ernst & Young (IT) 1,079 sq.m. at Pacific House; Monster 1,005 sq.m. at 150 St Vincent Street; Shepherd & Wedderburn 975 sq.m. at 191 West George Street; Vertex 691 sq.m. at 4 Atlantic Quay; and RSM Tenon 663 sq.m. at 48 St Vincent Street. On the periphery of



the city centre Anglo-Eastern Group took 2,043 sq.m. at Moda, Elliot Street.

There has been relatively little activity at Glasgow's business parks. Synexus has taken 604 sq.m. at Venture Building, West of Scotland Science Park; Westinghouse Rail has taken 302 sq.m. at Academy Park; and The Hub at Pacific Quay continues to attract market interest including another five lettings to small media-related companies. Out-of-town business park deals have been similarly quiet over the period. Close Asset Finance took 357 sq.m. at Orbital House, East Kilbride and SECOM took 310 sq.m. at Dalziel House, Strathclyde Business Park. There are several larger enquiries presently considering out-of-town options and deals are expected over the coming months.

Total city office supply in Glasgow has fallen by 11% over the period since September 2010, to 301,626 sq.m. The city wide vacancy rate is c. 16% and city centre vacancy stands at c. 12%.

Prime city centre headline rents have reached a plateau of c. £305 per sq.m. for the best office space. Those buildings in the wider Grade A market are in the range £269 - £291 per sq.m. Rents for top quality refurbished space are within the range £185 - £231 per sq.m. Incentive levels remain aggressive and it will continue to be a tenant's market, at least in the short term. Reducing supply will however strengthen the landlord's position at the upper end of the market. Headline rents for good quality non-cooled business park space around Glasgow are £140 - £155 per sq.m. and comfort cooled space £150 - £183 per sq.m.

As the supply of new Grade A city centre space continues to dwindle, the case for new development in Glasgow becomes increasingly compelling. Those developers and/or funds with the appetite and resources have the opportunity to benefit going forward.

Edinburgh's six month take-up of offices to March 2011 was 38,971 sq.m.; over the 12 month period take-up was 68,488 sq.m. The six month take-up is a 31% increase since October 2010 but is still 9% below the long run average.

Over the last six months, 23,301 sq.m. was transacted in the city centre in 56 office deals. Outside the city centre 15,670 sq.m. was transacted in 29 deals. Grade A take-up over the period represented 13,249 sq.m. (56%) within the city centre and 10,144 sq.m. (64%) outwith the city centre.

Take-up of offices peaked towards the end of 2010. Lower occupational demand has been evident with many occupiers seeking to re-gear existing leases at break options, taking short term extensions at expiries or delaying relocations to avoid capital expenditure.

Demand for offices larger than 929 sq.m. has been particularly slow. However, anticipated improvement in demand is expected from lease events (expiries and break options) during 2012 - 2015.

Since October 2010, nine transactions over 929 sq.m. have concluded, including Craneware at Tanfield (1,709 sq.m.), Creative Scotland (1,208 sq.m.) and Amazon (969 sq.m.) at Waverley Gate, Virgin Money at St Andrew Square (2,787 sq.m.), Baillie Gifford at The Cube (2,328 sq.m.), COSLA at Verity House (1,577 sq.m.), and Tesco Bank at HQ1, South Gyle Crescent (9,011 sq.m.).

Peripheral office locations continue to struggle, with the exception of Tesco Bank's acquisition of HQ1. If this transaction is removed only 6,378 sq.m. was taken up outwith the city centre, which is the lowest since 2006. Other regional centres around the Lothians and Fife have also seen very low levels of take-up during this six month period.

Small open plan offices continue to be the most active market sector in Edinburgh. Offices between 232 - 463 sq.m. have proven popular throughout the city. Flexible leases and exceptional rental packages are still on offer, however the stock of quality small open plan offices has reduced as transactions have been undertaken. These include Burness LLP at 50 Lothian Road (457 sq.m.), BlackRock at 40 Torphichen Street (385 sq.m.), Skyscanner at 40 Princes Street (340 sq.m.), BTO at Edinburgh Quay (427 sq.m.), and PKF at Citypoint, Haymarket (618 sq.m.). Outwith the city centre similar transactions have occurred, including DataCash at Ocean Point (374 sq.m.), Concept Systems at Beaverbank Business Park (371 sq.m.), SanDisk at Links House (789 sq.m.), and Agilent at 4/5 Lochside Avenue (409 sq.m.).

Demand continues from the financial, IT and professional services sectors, while the public sector has contributed 3,755 sq.m. of office transactions at Waverley Gate and Verity House. NHS Education is considering relocating from two office locations and may follow the trend set by DWP (Department for Work and Pensions) which relocated from one government office at Argyle House to another at Silvan House on Corstorphine Road, backfilling a public sector office void.

Total Edinburgh office supply at March 2011 was 248,550 sq.m., a decrease of 8% since September 2010. Within the city centre, space remains in prime developments at Tanfield, Waverley Gate, Exchange Place, Westport 102 and Quartermile One. Supply has increased in peripheral locations including Edinburgh Park with 22,470 sq.m. of vacant space available.

In the city centre, 151,000 sq.m. of office space is available of which 68,700 sq.m. is Grade A accommodation offering floor plates larger than 929 sq.m. The majority of upper floors within the Grade A office market have now been let. There are also



a number of transactions currently in legal hands and available buildings attracting significant interest.

At present there are no new developments scheduled for completion prior to 2012. Edinburgh Council's HI development at Exchange Square is due in 2013 and will provide around 18,580 sq.m. of speculative office space above the extended EICC.

Following the acquisition of The National Trust for Scotland's six buildings on Charlotte Square, Fordell Estates is considering providing quality office accommodation. It is understood a planning application is being worked up which would lead to offices being available in 2013.

Further development sites with planning consent such as Caltongate, St Andrew Square, Springside and Haymarket have yet to commence on site.

Prime office rents in central Edinburgh are £280 per sq.m., however there continues to be a downward pressure on rents. Grade A office options are maintaining headline rents, but offering incentives of around 30 months rent-free for a 10-year term. Prime West Edinburgh rents remain at £193 per sq.m. for good quality space within Edinburgh Park, albeit other locations around South Gyle have secured transactions at £130 per sq.m. Rents in Leith also remain around £130 per sq.m., however, modern office space can be secured at £75 per sq.m. at Bonnington Bond.

It is expected that the supply of Grade A offices in Edinburgh will tighten as the best space in new buildings has been taken up or will be secured by current market requirements. Rental growth is not anticipated, however incentive levels should stabilise and reduce as supply falls, leading

to opportunities for new-build offices within the Edinburgh market, potentially via private equity companies or financial institutions/developers.

The **Aberdeen** office market has seen a surge in demand, which is not surprising given the price of oil which at the time of writing is at \$125 per barrel. Take-up figures for the six months to March are up by 45% to 33,000 sq.m. and beyond this a large number of available office suites are currently under offer.

Supply of offices in Aberdeen has remained constant at 97,675 sq.m., however the majority of this is secondary accommodation.

Within the city centre there is virtually no Grade A accommodation available, with the exception of the final remaining suite in Union Plaza and three remaining floors within City Wharf, which together total less than 2,000 sq.m. With no further new office building in central Aberdeen on the horizon, this market is likely to remain constrained for some time and companies with pressing office requirements will tend to be pushed out to peripheral locations. A severe lack of good quality office supply in Aberdeen coupled with increasing demand from a strong oil sector is starting to have a positive effect on rents, and incentive packages for the right product are reducing.

Hazledene's iQ development in the city centre was completed in January 2011, at which point it had already been pre-let in its entirety to two companies. Wood Group took a lease of the ground, first and second floors totalling 6,100 sq.m. while Centrica took the remaining 5,600 sq.m. on the upper three floors, setting a new prime rental level for the city of £334 per sq.m.

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

Address	Size	Occupier
One Waterloo Street, Glasgow	5,477 sq.m.	Scottish & Southern Energy
Moda, Elliot Street, Glasgow	2,043 sq.m.	Anglo-Eastern Group
2 West Regent Street, Glasgow	1,477 sq.m.	i2 Office Ltd
Pacific House, 70 Wellington Street, Glasgow	1,079 sq.m.	Ernst & Young (IT)
150 St Vincent Street, Glasgow	1,005 sq.m.	Monster
Tanfield, Edinburgh	1,709 sq.m.	Cranefield
St Andrew Square, Edinburgh	2,787 sq.m.	Virgin Money
The Cube, Leith Street, Edinburgh	2,328 sq.m.	Baillie Gifford
HQ1, South Gyle Crescent, Edinburgh	9,011 sq.m.	Tesco Bank
iQ, Justice Mill Lane, Aberdeen	5,600 sq.m.	Centrica
iQ, Justice Mill Lane, Aberdeen	6,100 sq.m.	Wood Group
Seafield House, Hill of Rubislaw, Aberdeen	6,000 sq.m.	AMEC
Aspect 32, Westhill	2,300 sq.m.	Technip
Admiral Court, Poyrnook Road, Aberdeen	1,900 sq.m.	Aker Solutions
Suite 1, Vision Building, Greenmarket, Dundee	448 sq.m.	Ruffian Games Ltd

More than half (5,950 sq.m.) of the available accommodation within Seafield House at the Hill of Rubislaw Campus has been leased to AMEC, leaving approximately 4,500 sq.m. of the former Shell suite available.

At Westhill the majority of new accommodation has been let in significant deals to Technip at Aspect 32 (2,300 sq.m.) and Sterling Resources at Abercrombie Court (1,595 sq.m.), both Arnhall Business Park. There is understood to be strong interest in the last remaining significant unit, Elrick House, Westhill Business Park, which comprises approximately 1,950 sq.m. Gladman Developments is currently on site at Abercrombie Court, Arnhall Business Park building a number of units below 500 sq.m. and Knight Property Group has lodged a planning application for a speculative building of 2,300 sq.m. to complete their WestPoint development at Westpoint Business Park, which is due to be on site summer 2011.

A number of sites are available for pre-let opportunities outwith the city centre, but a lack of proposed speculative development will ensure that an under supply of Grade A accommodation persists in Aberdeen.

Small to medium-sized open plan office suites continue to be **Dundee's** most active property sector. Rental levels in general have held up reasonably well with Grade A rents at around £150 per sq.m., although these are heavily supported by incentive packages.

Recent transactions include: the letting of a first floor office suite at Argyll House, West Marketgait (406 sq.m.) to Dundee Carers Centre; Suite 1 of the Vision building, Greenmarket (448 sq.m.) to Ruffian Games Ltd; Suite 8 of the Vision Building (418 sq.m.) to Outplay Entertainment; and Unit 4B Valentine Court, Dundee Business Park (109 sq.m.) to Accel Business LLP.

The multi-million pound regeneration of Dundee's waterfront continues. The new Dundee City Council headquarters at Dundee House, North Lindsay Street is nearing completion. This relocation will pave the way for the demolition of Tayside House, an important step in the next phase of the central waterfront regeneration which will include a new network of boulevards and squares lined with offices, cafes, restaurants, flats, a new look railway station and, integral to the whole scheme, a £47 million outpost of the Victoria & Albert museum.

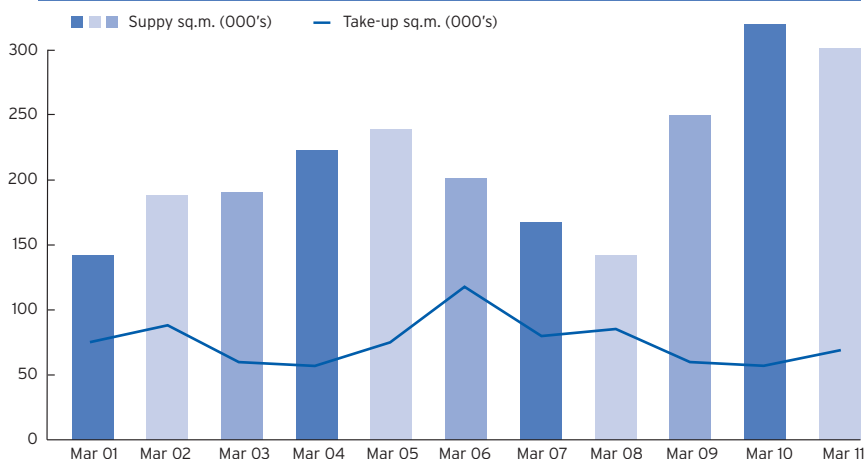
There continues to be steady demand for office accommodation in **Inverness**, driven mainly by lease renewals and companies relocating to better quality or more suitable premises. Recent transactions include the relocation of The Highland Council's Planning Department from their office on Church Street in the city centre to Kintail House, Beechwood Business Park; the 391 sq.m. suite was let at £148 per sq.m.

Generally the supply of office accommodation in Inverness is reducing both within the city centre and in out-of-

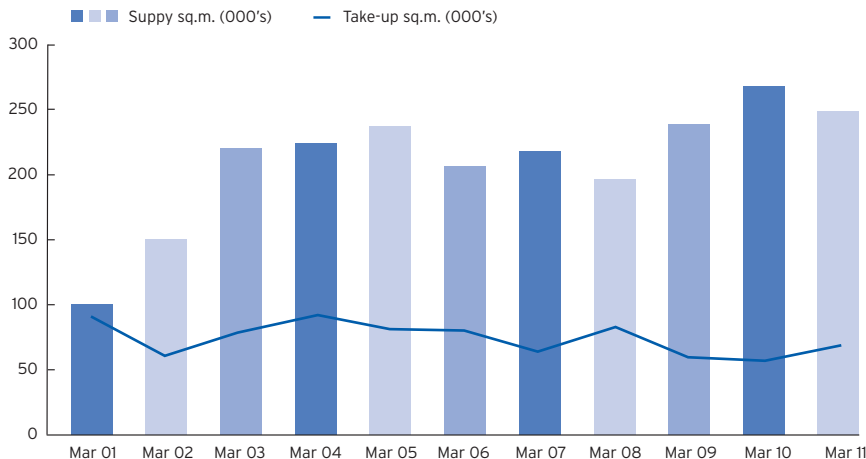
town business parks. In the first instance this will help the market rebalance, but with the lack of new development there may be shortages particularly of modern open plan office space within the near future.

City centre rental levels remain in the range of £129 - £140 per sq.m. with modern out-of-town business parks being £150 - £161 per sq.m.

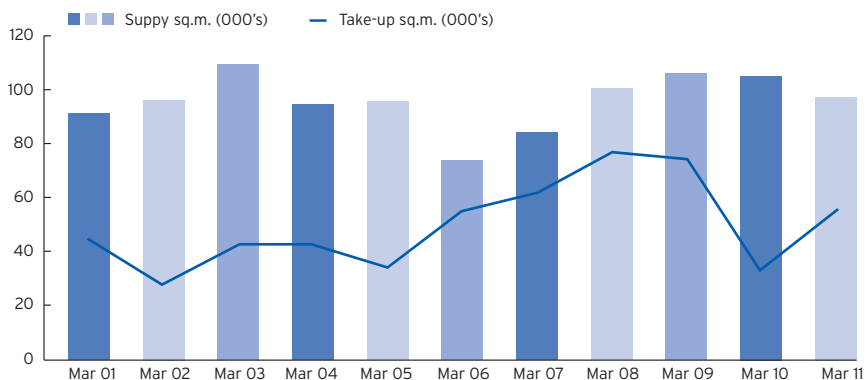
Office Supply and Take-up - Glasgow



Office Supply and Take-up - Edinburgh



Office Supply and Take-up - Aberdeen



Source: Ryden

Industrial

Property

The industrial property market has split into three main bands of demand. Below 929 sq.m. the market remains active with good levels of take-up and shortages in prime areas. From 929 - 2,787 sq.m. there is lower demand, but steady take-up and a number of active requirements seeking suitable property but facing shortages of better quality stock. Above 2,787 sq.m. the market has been very slow with lower than average levels of requirement and little take-up.

Although vacant industrial floorspace is returning to the market through company failures and branch closures, this continues to be at a surprisingly low level given the current economic difficulties. The supply of good quality and well located property consequently remains tight.

It is difficult to summarise rental levels across the **West of Scotland** market given the variance in quality and popularity of locations. In very broad terms rents are holding up well for smaller prime stock but are being reduced for secondary and tertiary property/locations. Some of the pressure on rents is being exerted by occupiers shopping around then remaining in their existing premises after securing more favourable terms. Landlords and tenants are moving towards more flexible leases; 10-years with a break at year five remains the most common, but increasingly there are breaks at year three. The level of incentive is very much deal-specific but these have increased from the rule of thumb of one month rent-free per year of lease income.

The industrial development pipeline remains limited due to funding issues and perceived take-up concerns. However, there are a number of projects on site and others are programmed to follow.

At **Eurocentral**, the Eurocentral Partnership Ltd is developing the final Golden Contract plots following the end of the current Enterprise Zone programme. The new phase of development will in total provide 21,220 sq.m. across five buildings to join the recently completed Pinnacle (6,205 sq.m.) and Zenith (8,526 sq.m.). Both are high bay production/distribution units with dock loading at a rent of £62 per sq.m. These will be joined by Apex (6,661 sq.m.) and Vertex (11,241 sq.m.) due for completion in late 2011. Having recognised the limited availability of small to medium units three of the new buildings will target this market, and on completion will provide units of 1,574 sq.m., 639 sq.m. and 431 sq.m.

At **Cambuslang**, five new industrial units are nearing completion at Bestway's Glasgow East Trade Park. In total, 3,121 sq.m. will be provided in units starting from 539 sq.m. at rents of £72 per sq.m. Cambuslang Investment Park, Clydesmill Industrial Estate, Gateway Glasgow and Junction Estate all show high levels of occupancy and little availability for the below 929 sq.m. market. The location's popularity will increase through the completion of the motorway around Glasgow when the M74 Completion Route opens later this year.

Knapps Developments has completed an innovative development at **Inchinnan Business Park**. Identifying a gap in the market for modern engineering premises Knapps has created two units of 799 sq.m. each with rails capable of supporting 10 tonne travelling cranes. A sale of the first unit to Red Rock was secured prior to practical completion, while the second unit is under offer on a leasehold basis. The sale was at £610,000 reflecting a capital rate of £764 per sq.m. For both companies the craning capability in a modern unit was the main draw.

Other notable deals include the recent letting of 2,050 sq.m. to Fujitsu Telecommunications Europe Ltd at 1A Bedlay View, **Tannochside** at a rent of £43 per sq.m. on an eight-year lease. Unit 1B (2,050 sq.m.) was let to Energetics Design and Build Ltd, on a five-year lease also at c. £43 per sq.m.

At **Glasgow Business Park** there has been a series of lettings at Parkway Point and Glasgow Trade Park. On Parkway Point units F, L and S have been let at rents of £75 per sq.m. to Frontline Safety (186 sq.m. on a five-year lease), National Windscreens (232 sq.m. on a 10-year lease) and Go Solar Now (186 sq.m. on a five-year lease). Unit G extending to 232 sq.m. is under offer. At Glasgow Trade Park, Unit A extending to 558 sq.m. has been let on a five-year lease at £70 per sq.m. to Cooper Callas.

Scottish Widow's Air Cargo Centre at **Glasgow Airport** secured a 1,878 sq.m. letting to Alpha Catering at a rent of £62 per sq.m. on a 10-year lease. The airport sector has been relatively quiet over the past two years, however cargo operators are reporting improved business and it is expected that fresh requirements for industrial premises will emerge over the next 12 months.

In the renewable energy sector, Gaia-Wind has leased 2,230 sq.m. at High Craighall, **Port Dundas** to produce small wind turbines. The agreed rent was £120,000 pa (£54 per sq.m.) on a 10-year lease.

Turning to **East Central Scotland**, the general trend has been the continued lack of new industrial development and a steady stream of demand for lettings of small to medium sized second hand space. The exception to this has been in Fife which has secured three major industrial transactions during the past six months.



Firstly at Calais Muir, **Dunfermline**, Amazon, the online retailer, has agreed the largest ever pre-let deal in Scotland of 92,900 sq.m. (1 million sq.ft.) The building is currently under construction and the rent agreed is believed to be in the region of £32 per sq.m. Also within Dunfermline, the former Freescale building was finally sold; this property of around 93,000 sq.m. on a 60 hectare site was never occupied for its intended use as a semi-conductor plant and has been purchased by Shepherd Offshore who intend to dismantle and demolish the fabrication element of the building and retain the office space. The site will then be redeveloped into an energy park. The third significant transaction in Fife was the acquisition of the former Lexmark Building in **Rosyth** (14,492 sq.m.) by Soltice Property Ltd, which has subsequently sold the building to a manufacturing company looking to create around 600 new jobs.

Turnover of second hand units continues to feature. Examples include the letting of 3,940 sq.m. by Park Lane Ltd at **Newbridge** Interchange to Xtreme Karting at £48 per sq.m. In **Livingston**, Joint Properties secured a significant letting at their development at Firth Road where Prestige Ltd took 2,280 sq.m. at a rent equivalent to £36 per sq.m. Also in Livingston, REIT secured two lettings at Brucefield Industrial Estate, one to David Philips Group (1,167 sq.m.) and another of 588 sq.m. at rents in the region of £39 per sq.m.

A return to new-build speculative industrial development in East Central Scotland is on the horizon, as two projects are being considered for site starts in the next few months. At Inchwood Park, **Bathgate** J Smart & Co (Contractors) plc recently acquired a 1.9 hectare site and proposes a first phase of development of 4,666 sq.m. to commence in May 2011. At **Newbridge**, Northern Trust purchased a 2 hectare site

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

Address	Size	Occupier
1A Bedlay View, Tannochside	2,050 sq.m.	Fujitsu Telecommunications Europe Ltd
Unit A, Glasgow Trade Park, Glasgow Business Park, Glasgow	558 sq.m.	Cooper Callas
Air Cargo Centre, Glasgow Airport	1,878 sq.m.	Alpha Catering
High Craighall, Port Dundas	2,230 sq.m.	Gaia-Wind
Calais Muir, Dunfermline	92,900 sq.m.	Amazon
Halbeath Interchange, Dunfermline	93,000 sq.m.	Shepherd Offshore
Newbridge Interchange, Newbridge	3,940 sq.m.	Xtreme Karting
Unit 2, Dunnottar House, Kirkhill Industrial Estate, Dyce	1,588 sq.m.	Spex Services
Unit 3, Kirkhill Commercial Park, Dyce	1,387 sq.m.	Schilling Robotics
Minto Place, Altens, Aberdeen	1,120 sq.m.	Brinker Technology
Unit D, Broadfold Road, Bridge of Don, Aberdeen	1,279 sq.m.	Global Lifting
Block 2 Fulton Road, Wester Gourdie Industrial Estate, Dundee	2,087 sq.m.	Buckler Ltd
Unit D Smeaton Road, Wester Gourdie Industrial Estate, Dundee	929 sq.m.	DFS
Burnett Road, Longman Ind Est, Inverness	7,432 sq.m.	Scotbake

and is currently working up plans for an Autumn 2011 start date for a new-build speculative first phase of around 2,000 sq.m. Both developments will comprise small high quality units and it is likely that this type of scheme will typify any speculative development in the next cycle. Despite some of the major recent investments in Fife, there is still limited appetite for developing larger units speculatively.

The industrial market in **Aberdeen** has improved in recent months. Since early 2010, the price of oil has increased dramatically. This has instilled confidence in the oil and gas sector and stimulated

further investment in the North Sea. Within the last few months there has been a sharp increase in the price of oil to a high of \$125 per barrel. This has cemented the trend of increased investment in the North Sea, which in turn has put a stress on good quality industrial properties within Aberdeen.

Industrial take-up in the last six months totals 25,955 sq.m. in a total of 41 transactions. This represents an increase in take-up of 27% and an increase in transactions by 58%, most notably take-up in the 929 - 1,858 sq.m. size range where take-up rose by 270% in the last six months. This demonstrates that in the



current market, as and when supply increases, transactional activity follows.

Some of the larger recent transactions include Schilling Robotics (1,387 sq.m.) and Spex Services (1,588 sq.m.) both at Kirkhill Industrial Estate, Dyce, and Brinker Technology at Minto Place, Altens (1,120 sq.m.).

Supply is down across the Aberdeen market, with many of the available properties on the market being dated and in need of significant refurbishment.

Rental levels in Aberdeen have again been maintained. As take-up has increased and as the supply of decent quality industrial stock diminishes, it has once again reverted to a landlord's market. Lease lengths are therefore increasing and the incentives being offered to tenants are minimal. Average lease lengths for modern industrial units are around 10 years, but for older more outdated stock that no longer fulfils occupier requirements, it is five years, potentially with a tenant's break option.

Strong demand is being experienced from oil and gas related service companies, freight and distribution and storage companies, but as supply falls these organisations are increasingly having to consider locations on the periphery of Aberdeen. Some developers have sought to alleviate this problem by undertaking speculative development. These include Gilcomston Investments at Raiths Industrial Estate in Dyce, GSS Developments in Badentoy, Knight Property Group at Minto Commercial Park, and Stockland Muir which has recently submitted a planning application for two speculative industrial units at Aberdeen Gateway in Cove. Enquiry levels are strong with notes of interest having been received and terms having been issued prior to completion. These buildings are within the 929 - 1,858 sq.m.

range, have the right office : warehouse ratio and benefit from secure concrete yards and can therefore target a niche where the vast majority of occupational demand is presently focused.

In conclusion, as the oil price has risen significantly in recent months, demand in Aberdeen has increased with a resultant reduction in the availability of good quality industrial stock. Developers undertaking speculative schemes are capitalising on the strong demand by continuing to build industrial units that satisfy modern requirements.

The industrial market in **Dundee** continues to experience difficult conditions, although there have been several notable transactions during the six months to April 2011.

Despite a number of larger requirements emerging late 2010, supply of existing stock continues to outstrip occupier demand. Discussions are ongoing for a number of those requirements and the next six months could see a period of greater activity for medium to large industrial premises.

Recent deals of note include: Block 2 Fulton Road, Wester Gourdie Industrial Estate (2,087 sq.m.) to Buckler Ltd; Unit D Smeaton Road, Wester Gourdie Industrial Estate (929 sq.m.) to DFS; Unit 6 Tom Johnston Road, West Pitkerro Industrial Estate (929 sq.m.) to Water Evolution Ltd; and a large warehouse facility on Fulton Road, Wester Gourdie Industrial Estate (3,244 sq.m.) to C21 Data Services Ltd.

Any nascent recovery in the Dundee industrial property market may receive a significant boost from the expanding renewable energy sector. Leading wind turbine manufacturers Gamesa has signed a memorandum of understanding

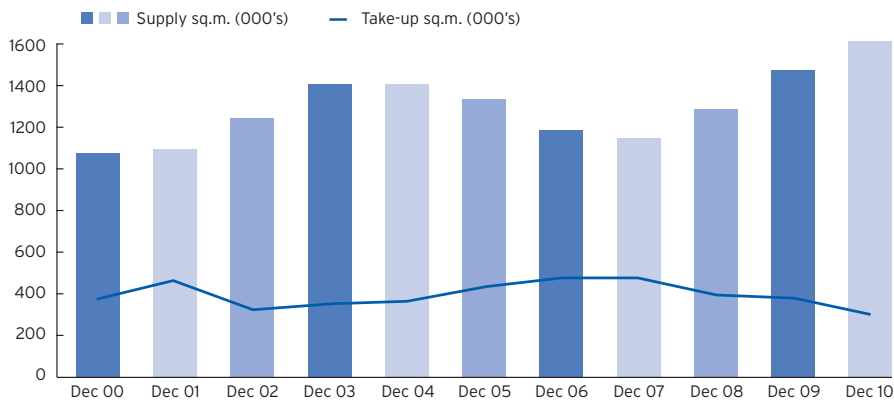
confirming intent to set up a manufacturing and maintenance base in the city. Doosan Power Systems has also indicated that Dundee has been identified as a possible base for wind turbine manufacturing, and other renewable energy companies are also known to be considering establishing a presence in the city.

The largest industrial property transaction within **Inverness** has been the purchase by Scotbake of the former British Bakeries facility (7,432 sq.m. on a 1.3 hectare site) on Burnett Road within the Longman area of the city for just over £1 million. Scotbake will initially move their storage and distribution function into the property but also plan to move production from their existing bakery in due course.

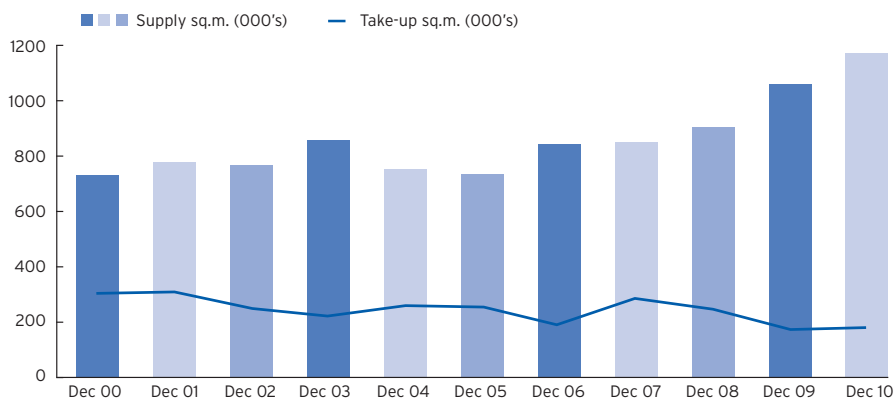
The Highland Council has started construction on two separate developments of a total of 18 small serviced industrial sites ranging between 0.1 - 0.2 hectares, to be made available on long ground leases. The sites are located just off Harbour Road in the Longman area and on Carsegate Road in the Carse Industrial Estate. Both developments will provide new supply of much-needed industrial land within Inverness.

There have also been major announcements in the Highlands outwith Inverness city. Global Energy Group has been selected as preferred bidder for the former fabrication facility at Nigg in Easter Ross. This deep water facility is ideally suited to the developing renewable energy sector and it is hoped it will play a major part in the industry going forward. The second announcement is Roxhill Developments signing an agreement with Inverness Airport Business Park (IABP) to develop up to 37,160 sq.m. on land next to Inverness Airport. Phase 1 will comprise a 12 hectare site which is zoned for a hotel and mixed office and industrial space.

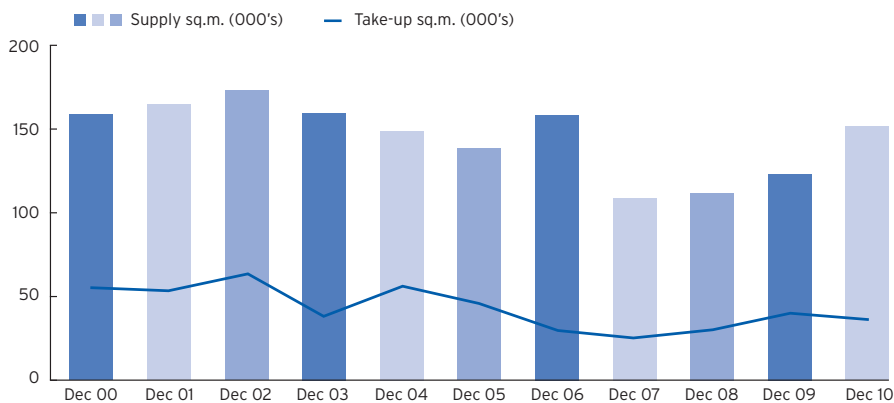
Industrial Supply and Take-up - West of Scotland



Industrial Supply and Take-up - East of Scotland



Industrial Supply and Take-up - North of Scotland



Source: CoStar SPN

Retail

Property

Retail property market activity continues to be focussed within the top prime, food and value sectors. All major food stores are acquisitive across supermarket, superstore and convenience store formats. The value sector of the market has witnessed major activity through the expansion of Poundland, Home Bargains, B&M, Poundworld and Poundstretcher among others.

These market trends are clearly underpinned by Scottish retail sales data. Like-for-like food sales fell by 1.7% over the 12 months to March 2011. Non-food sales fell by a substantial 5.9% (SRC/KPMG). It has been reported that this is mainly due to the first year-on-year fall on disposable income for 30 years as a result of increased utility bills, VAT and an increased risk of job loss together with falling incomes and house prices.

In **Glasgow** activity has been encouraging within Scotland's largest retail centre. Following on from the opening of HSBC on the corner of Buchanan Street and Argyle Street, it is understood that All Saints has secured a restaurant operator for premises to the rear of the former Borders unit which extends to over 650 sq.m.

Further to Land Securities' acquisition of a development site on Buchanan Street opposite Buchanan Galleries shopping centre, the developer has announced lettings to Forever 21 (5,574 sq.m.), Paperchase (1,571 sq.m.), and Gap (1,115 sq.m.). Land Securities and their agents are working on other transactions to secure occupiers for eight remaining shops and a restaurant within the development; completion of this prime city centre scheme is expected March 2013.

Elsewhere on Buchanan Street, fashion retailer Gio-Goi is to open a 400 sq.m. store at No 50 and footwear retailer Camper opened a store at No 160 in March 2011.

In May 2011 Poundland is due to take occupation of almost 929 sq.m. on a prominent corner location at 72-74 Sauchiehall Street at an initial rent of £275,000 per annum. At 208 Sauchiehall Street photography specialist Jacobs has opened a store and The Works has opened a bookstore at No 84.

Out-of-town at **Glasgow Fort**, Vue Entertainment has been secured for a proposed extension to accommodate eight cinema screens. Five restaurant operators are also under offer, and are all due to open in 2012. This will bring a welcome addition to Glasgow Fort and bolster its position as a destination for both shopping and leisure.

To the west of Glasgow, Apple, Hollister and Office are all opening stores at **Braehead** Shopping Centre.

Within **Edinburgh** city centre, the George Street retail market has been very active. Some George Street retailers have relocated to larger units while others have opened new stores. White Stuff relocated to a new store at 89 George Street, while Austin Reed, Country Casuals and Viyella relocated to 102-104 George Street, Pepperberry opened a store at 34 George Street, Joules is to open a store at 27 George Street, and Anthropologie is to open a store at 39-41 George Street.

On Princes Street the 6,970 sq.m. Primark development is currently being developed and is expected to open by the end of 2011.

Transactional activity remains strong in **Aberdeen** due to the continued rise in oil prices and the associated economic growth. The focus of attention remains at Hammerson's Union Square where recent lettings have been secured to Republic, TGI Fridays and Kutchenhaus.

In addition, Jamie Oliver has now secured space for a restaurant within the former

Esslemont and MacIntosh building on Union Street. This follows a very successful opening in Glasgow with a known further requirement for Edinburgh. HSBC is reportedly under offer on the former Internationale unit on Union Street.

In **Inverness** the prime Eastgate Shopping Centre and Inverness Retail Park continue to perform as two independent destinations where each performs as well as the other. Recent announcements include Zara closing their store at the Eastgate Shopping Centre and Topshop procuring part of the space.

Inverness Retail Park continues to maintain solid sales through its existing occupiers and has recently secured JD Sports and Bank as occupiers within Units 6a & 6b taking a combined 790 sq.m.

In addition, food store operators remain active within Inverness. Asda is progressing an outline planning consent for a 6,970 sq.m. store with petrol station at Slackbuie, and Tesco is currently in the process of constructing a fourth store which extends to approximately 2,323 sq.m at Holm Mills on the southern edge of Inverness.

Prudential has recently sold the Wellgate Centre in **Dundee**. The centre is one of the two main shopping centres within the city which are linked via the prime High Street, the other being the Overgate Centre which was recently purchased by Land Securities. The Wellgate Centre may prove to be an opportunistic purchase as the centre has become an established location for value retailers such as Home Bargains.

At the St John's Shopping Centre in **Perth**, Primark opened its 2,230 sq.m. store in the former Bhs in November 2010 and The Works opened a bookstore in March 2011.

In **Livingston** work on the 6,500 sq.m. Primark store is progressing and the outlet is due to open in Spring 2012. In The Centre,



shoe retailer Schuh opened a 488 sq.m. shop and Iceland opened in the former Next unit.

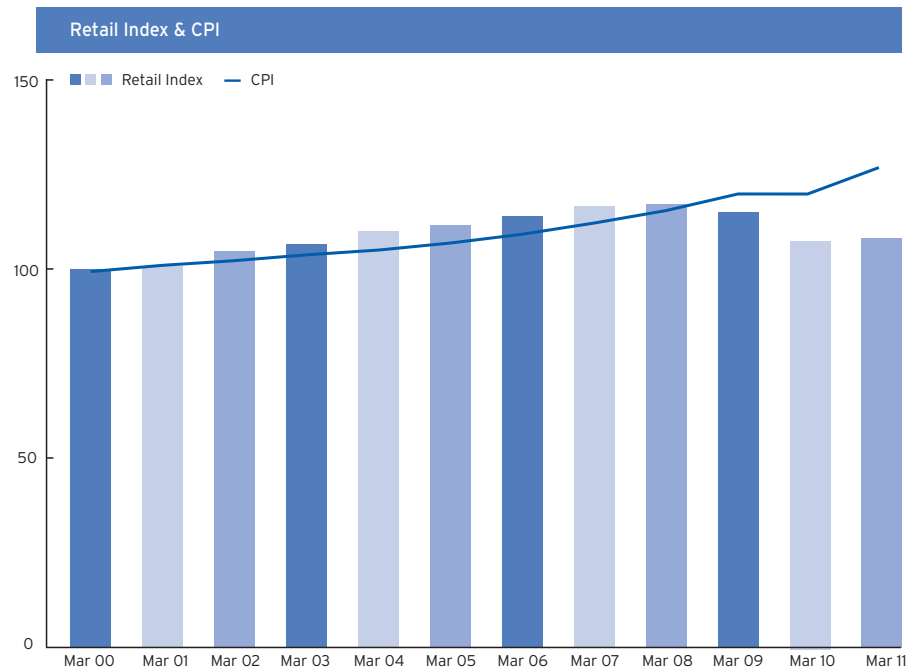
The Thistles Shopping Centre in **Stirling** remains the main draw within the city centre. Recent retailers attracted here include H & M which opened a store in January 2011 and Lush which opened in December 2010.

Stirling Ventures and Valad have announced they are in advanced discussions with occupiers to accommodate their town centre site (5,760 sq.m.) at Burghmuir Road. Announcements will be made shortly in respect of the occupiers within this open Class 1 retail development.

East Kilbride's town centre comprises a covered shopping mall totalling over 116,000 sq.m. of retail and leisure space, and is under the control of RBS and Delancey advised by Cogent. The new owners are progressing with a planning application for a food store and are currently in negotiations with other large store occupiers. It is anticipated that the owners are preparing to re-position the centre and reconfigure the space in order to meet current retailer requirements for the town.

Ayr Central shopping centre was sold recently to Sovereign Land and AREA Property Partners. The new owners plan a makeover for the mall and to introduce new tenants. Fashion retailer Bank recently opened a store here.

The Ryden index of prime retail rents for the top 20 centres in Scotland (see chart) has reflected a falling retail market since 2008. The index currently under-represents the extent of the market downturn, as there is (as yet) insufficient evidence of new lower rental levels being established in a number of centres in the index.



Source: ONS/Ryden

Investment

Market

There are fewer transactions being agreed due to a combination of less active investors and limited suitable stock coming to the market. Demand is limited to the main UK institutions, foreign investors, well-funded property companies and high net worth individuals.

Scottish commercial property recorded a total return of 10.6% in 2010 (UK: 15.1%) according to the IPD Annual Index. Income returns accounted for 4.8% while capital returns were 5.5%. Rental growth was again negative across all sectors, however the rate of decline has further slowed, continuing the trend of recent quarters.

The availability of bank debt remains tight, albeit funds are available for the right deals. Banks seek greater security both in terms of location and certainty of income. While this will support acquisition of some investments, it severely limits the prospects of securing finance for investments classed as secondary or tertiary.

Investors in the market are cautious and selective both in terms of property location and characteristics. Institutions are tending to favour prime locations with a focus on London and the South East of England markets where occupier demand is perceived to be stronger as are the prospects for future rental growth. Within the Scottish market the institutional focus is very much on prime assets in the key markets of Glasgow, Edinburgh or Aberdeen.

Demand is also strong for investments which offer good quality and well-secured long term income, preferably with geared rental mechanisms providing in-built growth, even in non-prime locations. This type of opportunity is attracting a wider range of investors from institutions to cash rich private investors.

An overriding characteristic of the market is the lack of available stock in comparison to the number of investors in the market,

Office property investment deals include:

Address	Property	Purchaser
Equinox Building, Cadogan Street, Glasgow	6,308 sq.m. modern office, let to esure on 20-year lease. Fixed uplift at fifth anniversary, open market reviews thereafter	Union Investment RE for £28.3 million (5.6%)
110 St Vincent Street, Glasgow	8,988 sq.m. modern office building, let to The Governor and the Company of Bank of Scotland with c.13 years unexpired. Fixed uplifts within lease	SEB for c. £40 million (c. 6.25%)
21 Herschell Street, Anniesland, Glasgow	3,003 sq.m. 1970s office building let to The Secretary of State for Communities and Local Government until May 2016	Mactaggart & Mickel for £2.1 million (10%)
Keith House, South Gyle, Edinburgh	7,873 sq.m. multi tenanted secondary office building let to Scottish Ministers, Bank of Scotland, Zurich Assurance Ltd and Computacenter	Invista for £8.05 million (14%)
4/5 Lochside Way, Edinburgh Park, Edinburgh	Modern office extending to 3,900 sq.m. let to Diageo Scotland Ltd till November 2019	Private investor for £9.5 million (8%)
Talisman House, Holburn Street, Aberdeen	8,915 sq.m. Grade A office building let to Talisman Energy	Britannia for £26.55 million (7.12%)
Silverburn House, Bridge of Don, Aberdeen	11,444 sq.m. office building with leisure facilities let to Vetco Gray UK Ltd	Highcross for £16.27 million (10%)

resulting in competitive situations for suitable assets and strong prices being achieved. This is a major factor in maintaining low yield levels for good quality investments. There remains limited demand for secondary and tertiary property due largely to the associated perceived risk and the lack of debt finance. Investors prepared to consider these markets are looking for significant price discounts. There is a gap between the pricing that owners of this type of investment are seeking and what the market is willing to pay.

Office

Scottish offices - in common with regional cities elsewhere in the UK - are affected by the ongoing focus on the London office

market, particularly from foreign investors. This is coupled with a perception that regional centres will be affected to a greater extent by the austerity measures and occupational property cutbacks in the public sector.

Investor demand is limited to Grade A city centre buildings in established locations, where corporate demand is anticipated to hold up. Prime yields are around 6%, in the absence of any fixed rental uplifts.

Annuity grade income streams are still most sought after. In the absence of development stock to attract new lettings, landlords are increasingly working with existing tenants to agree longer lease



terms to tap into this demand, with the benefit of the additional value created shared between the parties. Similarly, corporate occupiers are bringing forward sale and leaseback scenarios, albeit a number of these have fallen at the final hurdle for various reasons.

Grade B and tertiary buildings are proving difficult to sell, with scarcity of bank debt and occupier market uncertainty the dominant factors. In the absence of a pool of potential buyers, sellers are generally left with no option but to keep reducing prices until a buyer is tempted.

The out-of-town office investment market remains lackluster, the notable exception being the acquisition of the Maxim office complex at Eurocentral by Cerberus Capital Management for c. £30 million.

The IPD total annual return from Scottish office property for the year to December 2010 was measured at 9.2%, comprising income return of 4.6% and capital growth of 4.4%.

Industrial

Reduced levels of investment activity in the industrial sector have persisted, with only a handful of transactions completing. Active buyers remain selective and in many cases there is a significant difference between the price expectations of vendors and potential purchasers. With limited stock coming to the market, assessing the correct level of pricing has been difficult, although the yield gap between prime and poorer secondary properties does appear to be widening.

The retail funds are continuing to receive inflows of money and most still have active requirements for industrial stock, particularly well-secured, single-let properties with long unexpired periods and geared rental uplifts. There is evidence of yields reducing for this type of stock, in particular situations where rent reviews

Industrial property investment deals include:

Address	Property	Purchaser
Kingston Trading Estate, Glasgow	3,716 sq.m. modern multi-let industrial estate, tenants include Toolstation, Speedy Hire and City Electrical Factors	RLAM for c. £4 million (6.95%)
NHS Lanarkshire Laundry, Canyon Road, Wishaw	3,285 sq.m. industrial unit let to Lanarkshire Primary Care NHS Trust on lease expiring November 2024. Fixed uplifts within lease	Aviva for £5 million (7%)
Clifton Trading Estate, Edinburgh	Multi-let industrial estate comprising seven distribution units	UK institution for £5.5 million (7%)
Turnhouse Road, Edinburgh	Industrial unit let to TNT	Lothbury Property Trust Company Ltd for £6.325 million (5.96%)
Unit 6, Kirkhill Commercial Park, Aberdeen	2,787 sq.m. new build industrial unit let to Rentair Ltd	Hampshire County Council for £7.45 million (6.55%)
Diamond Envelopes, Wellheads Terrace, Aberdeen	9,674 sq.m. industrial unit 50% let to Petrowell	Highcross for £6.7 million (9%)

are linked to price inflation. Yields have fallen to well below 7% for quality, modern industrial buildings let on this basis.

With economic recovery still fragile in most areas, prospects for rental growth are slim. The situation is different in Aberdeen where there has been a strong increase in occupier demand. This coupled with a fall in supply could rekindle rental growth again by the end of 2011.

Multi-let industrial estates remain popular for funds and property companies seeking asset management opportunities. Despite this, there has been a lack of recent transactions. Yields for the best quality estates in prime locations generally lie within the range of 7.5-8%. Poorer estates in secondary locations are likely to command double digit yields.

The IPD total annual return from Scottish industrial property for the year to December

2010 was measured at 7.3%, comprising income return of 5.4% and modest capital growth of 1.8%.

Retail

Despite a weak occupier market and falling consumer expenditure, the retail sector continues to see a steady churn of deals. In the continued absence of meaningful debt, activity is concentrated into specific sub-sectors of the market.

High street demand is strong in established 100% pitches, where yields of sub 5% are readily achievable from institutional investors. In secondary pitches - or in smaller towns - demand is very selective and yields are as likely to be dictated by the income stream as the pitch. The recent expansion of discount retailers has created a number of new investments, particularly as they are willing to take 10-year leases.

For smaller lot sizes, private investors continue to be active and the steady supply of smaller supermarket formats has proven popular, with yields down to 5% being achieved.

Shopping centres remain popular across the entire spectrum, from regional through to secondary and neighbourhood centres. The dilution of covenant risk across numerous occupiers and attractive income yields are welcome in a difficult retailing environment. Well-funded investors are also taking on retail schemes stagnating through an absence of finance for expansion or reconfiguration.

Demand for open Class 1 retail parks remains keen, notwithstanding an absence of opportunities. Bulky goods retail parks are also coming back onto investors' radars.

The IPD total annual return from Scottish Retail Property for the year to December 2010 was measured at 11.5%, comprising income return of 4.7% and capital growth of 6.5%, despite a rental value fall of -1.8%.

Market Prospects

Prospects for 2011 are similar to 2010, albeit against a less certain economic background.

The health of the banking sector remains crucial to recovery within the property sector. However there is pressure on banks to reduce their exposure to commercial property and a significant improvement in lending cannot be envisaged in the near future. The market will undoubtedly look to new sources of funding to fill the void.

It is likely therefore that demand for commercial investment property will be from similar sources as in 2010 - predominantly the UK institutions, foreign investors, well-capitalised property companies and private investors. Demand is expected to continue to be strong and it

Retail property investment deals include:

Address	Property	Purchaser
Drumchapel Shopping Centre, Glasgow	9,406 sq.m. district shopping centre let to 20 tenants, average unexpired lease term of 9.5 years	The Co-operative Group for £7.85 million (8.33%)
18-26 Argyle Street, Glasgow	Two retail units totaling 1,982 sq.m., tenants are River Island and Phones 4u with c. 8 years unexpired on both leases	DTZ Investment Management for c. £13.5 million (c. 7%)
159-163 Sauchiehall Street, Glasgow	263 sq.m. retail unit let to Barratts until June 2020	Mayfair Capital Investment Management for c. £1.835 million (7%)
139/139a Princes Street, Edinburgh	Two retail units let to Match Urban and The Edinburgh Woollen Mill on leases till 2020 and 2018 respectively	CBRE Investors for £4.325 million (7.42%)
99/99a Princes Street and 2/4 Frederick Street, Edinburgh	Two retail units let to AllSaints and Monsoon on leases till 2013 and 2017. Total passing rent of £448,900	Boulton for £7.07 million (6%)
Overgate Centre, Dundee	39,020 sq.m. shopping centre, occupiers include Debenhams, Next and Primark	Land Securities for £140.5 million (6.74%)
208 Union Street, Aberdeen	502 sq.m. retail & office unit let at ground floor level to Starbucks, with upper floor offices let to Paul & Williamsons	Fieldmont Ltd for £1.2 million (7.61%)
49-55 Rose Street, Aberdeen	Five retail units totaling 321 sq.m.	Private investor for £620,000 (8.7%)

remains to be seen if the supply of suitable investment stock can meet anticipated requirements.

The investments most in demand will continue to be prime and well-located properties as well as assets providing long term secure income. While the focus will remain on London and the South East of England, lack of stock in these locations and reducing returns may encourage investors to consider regional locations where the returns may be better.

In order to secure better returns institutional investors may well continue

the trend of funding developments where these have been de-risked with pre-lets. Given the lack of development over the last few years, prospects may be beginning to improve for some limited speculative funding in prime locations.

It is anticipated that further secondary and tertiary stock will come onto the market and prices may well fall. This will further polarise the secondary and tertiary markets from the prime sector, potentially to the point where opportunities for significant returns begin to emerge.

Contacts

Managing Partner Fiona Morton
Head of Consulting Mark Robertson

Acknowledgements

We are grateful for the assistance of CoStar SPN
and Investment Property Databank (IPD).

www.ryden.co.uk

Edinburgh

46 Castle Street EH2 3BN
Tel: 0131 225 6612
Fax: 0131 225 5766

Glasgow

130 St Vincent Street G2 5HF
Tel: 0141 204 3838
Fax: 0141 204 3554

Aberdeen

25 Albyn Place AB10 1YL
Tel: 01224 588866
Fax: 01224 589669

Leeds

Park House
Park Square West LS1 2PW
Tel: 0113 243 6777
Fax: 0113 243 9323

Dundee

Unit 20 City Quay
Camperdown Street DD1 3JA
Tel: 01382 227900
Fax: 01382 229071

Inverness

Moray House
16-18 Bank Street IV1 1QY
Tel: 01463 717202
Fax: 01463 717204