

Ryden

October/11: **69th**

Scottish Property Review

Economy

& Planning

Economy

The UK and Scottish economies continue to perform well below trend, as the real economy struggles to recover from the banking-induced recession.

- Scottish GDP increased by 0.1% in the second quarter of 2011. This contributed to an annual rise of 1.1%, which is lower than the UK rise of 1.5%. During the second quarter of 2011 output rose in the services sector (0.1%) and production sector (1.7%), but fell in the construction sector (2.3%).
- The latest Consensus forecast for UK economic growth published by HM Treasury predicts growth of 0.9% during 2011 and 1.3% for 2012. For the Scottish economy, Fraser of Allander Institute's central forecasts are for 0.8% in 2011, followed by stronger growth of 1.5% in 2012.
- The Scottish unemployment claimant count was 5.4% in August 2011, up from 5.1% in August 2010. The broader ILO measure of unemployment fell on a quarterly basis to 7.5% for the three months July - September 2011, which is below the UK figure of 7.9%.
- The Committee of Scottish Clearing Bankers confirms that the number of new business accounts opened during the first half of 2011 totalled 7,998. This was down by 4.5% from the same period in 2010. The largest share of new businesses (2,601 or 33%) was in the real estate, renting and other business sector.
- Companies House reports a total of 844 business liquidations in Scotland in the six months from March 2011 (6.9% of the UK total). This is an increase on both the number (586) and the UK share (5.6%) recorded during the preceding six month period.
- Retail sales in Scotland were 2.1% lower on a like-for-like basis over the 12 months to August 2011 (Scottish Retail Consortium/ KPMG). Further comment on the retail sector is provided on page 12.

Job Gains

IT specialist Dell will recruit an additional 200 employees at its Glasgow City Park offices this year

Online retailer Amazon has announced it will create 900 new jobs in Edinburgh over the next five years

The Bank of New York and Mellon is expanding its Blenheim Place offices in Edinburgh and creating over 60 jobs, taking its total workforce in Scotland to 650 employees

State Street is to establish a European Centre of Excellence for cash servicing, creating 90 new posts in Edinburgh

Korean firm Doosan Power Systems is to locate a research and development centre at its current site in Westway, Renfrew, creating an initial 200 jobs

BP has created 1,000 new jobs through a £700 million project to extract oil from a North Sea reservoir

Aker Solutions plans to recruit 300 staff at its Aberdeen-based oil services division

170 new jobs are to be created in Bellshill as FMC Technologies, a provider of technology solutions for the energy industry, expands its 100-strong workforce

Job Losses

Edinburgh-based insurer Aegon UK announced 213 job losses in its life insurance and pensions businesses

Co-operative Financial Services announced the loss of 110 financial advisers as part of a UK-wide re-structuring

GZ Digital Media, owner of printing business Thomson Litho, confirmed 60 jobs are to go at their East Kilbride plant

103 jobs were lost at New McCowans' plant in Stenhousemuir after the makers of Highland Toffee went into administration

47 jobs were lost after specialist roofing company Donaldson and McConnell went into administration

35 jobs have been lost at BAE System's technology development site in Fife

- According to the Department of Energy and Climate Change, indigenous production of crude oil fell by 15.9% in the second quarter of 2011 compared with the same period last year. This follows a similar decrease of 15.6% in the first quarter of 2011 compared with the first quarter of 2010. These are the largest falls in indigenous crude oil production since 1995, although on the positive side at the time of writing Brent Crude was trading at the comparatively high price of \$111 per barrel.

In summary, Scotland's recovery from recession is slow and protracted. Economic growth is fragile, unemployment data is currently mixed, business formation has weakened and consumer

spending is clearly under pressure. Downside risks from fiscal austerity and the troubled Eurozone will continue to drag on growth moving forwards.

Planning

Housing Land Crisis

The much discussed travails of SESplan, which covers south-east Scotland, has highlighted the difficulties Scottish planners find themselves in when confronted with the problem of maintaining a functioning housing land supply. Local authorities are required by the Scottish Government to maintain at all times a five-year housing land supply, yet this has stuttered and stalled in the face of capital rationing

which has reduced housebuilders' and house buyers' access to credit.

Large strategic sites which were to deliver 1,000-plus homes have proven particularly vulnerable. Where significant levels of upfront infrastructure have proven unaffordable, the sites have stagnated and housing has failed to come forward. The planning system has struggled to respond to this challenge.

SESplan continues to include strategic sites which have yet to demonstrate a realistic prospect of development. As a result, the scope for introducing new, potentially more deliverable sites is limited at the Local Development Plan level.

Edinburgh has just published its Main Issues Report (MIR). A key question it is wrestling with is what to do about Leith Docklands. Its preferred approach is to continue to include its 18,000 housing unit contribution. SESplan hasn't programmed this in until post-2024, so it has some breathing space. However, to include a site of this scale as housing when this is no longer compatible with its owner's intentions simply serves to delay the inevitable and allows planners to be seen as disconnected from market reality.

Meanwhile, Reporters are having to patch up several local plans' housing land supply with sites for which there is limited information. This has had the effect of prolonging Examinations in Public (EiP) and raises questions about the transparency of the process for members of the public as sites are introduced at a late stage.

How Public are Examinations in Public?

As the first Local Development Plans (LDPs) to be prepared since the Planning etc (Scotland) Act 2006 came into effect, Scotland's development industry has been following the preparation of the Aberdeenshire and Aberdeen City LDPs closely. Both have now reached the final stage of an EiP into unresolved objections.

The EiP system removes the requirement for cross-examination of expert witnesses and replaces it with a more collaborative and less confrontational round-table 'hearing' process. The removal of the scrutiny brought by cross-examination however highlights the importance for developers and landowners to be represented by chartered professionals whose Code of Professional Conduct assures the integrity of their evidence. On most occasions parties have been represented by a chartered planning consultant. However, depending on the debate and the stakes involved, parties have also brought transport consultants and planning solicitors to the table.

The remit set by the Scottish Government Reporter is also a significant influence on the examination procedures. The Reporter has total control over a hearing's agenda, causing anxiety for both Local Authorities and objectors should key issues be missed. Parties must second-guess the direction a hearing might take in order to be prepared and there are limited mechanisms for raising points that are missed at a session. There is also no guarantee of any oral evidence.

Despite the Reporters for the Proposed Aberdeen City LDP EiP issuing 12 requests for further information, just one hearing session for 'Infrastructure Delivery and Developer Contributions' was planned, and this was subsequently cancelled following receipt of further information on the topic.

This reinforces the importance of providing all information upfront, as an opportunity to examine issues in public is not necessarily guaranteed. The merits of the new approach will only be clear when these first EiP reports are available towards the end of 2011.

Compulsory Purchase Orders

The Scottish Government is reviewing its internal procedures for processing Compulsory Purchase Orders (CPOs) to make the process quicker and more efficient. New guidance will identify and share good practice in the use of CPOs. This guidance will replace Circular 42/1976 and Circular 21/1991 respectively. The revised guidance aims to:

- Endorse properly used CPOs as important tools to assemble land needed for projects to deliver economic recovery, social change, effective and efficient regeneration and sustainable economic growth;
- Encourage authorities to positively and proactively use CPOs, where appropriate, and;
- Set out comprehensive step-by-step plain English guidance on the appropriate and effective use of CPOs.

The Scottish Government consultation considered two draft forms of guidance:

- 1) A revision of circulars 42/1976 and 21/1991 which will provide guidance to authorities on CPOs;
- 2) A plain English guide for owners, tenants and occupiers who may be affected by a CPO.

The Scottish Government expects to publish the revised circular in October 2011 following approval by Scottish Ministers.

With encouragement to use CPO more widely, and stalled development sites across Scotland, local authorities may find themselves wanting to step in to resuscitate what they view as key projects. The crux will be whether they can afford the CPO process and purchases, and demonstrate that they can fund the stalled projects.

Office

Property

Glasgow and Edinburgh are once again achieving similar levels of office property take-up. Aberdeen continues to be the stand-out performer. The potential for a medium term correction in the office markets continues to increase, in the near-absence of new office development since 2008.

There has been little change in the dynamics of the **Glasgow** office market since the 68th Ryden Scottish Property Review in April 2011.

Enquiry levels for larger office space have slowed, and deals are taking longer to conclude, but despite the wider economic problems there has been 28,200 sq.m. of take-up over the six month period. This produces a 12 month total of 55,043 sq.m., which is 17% lower than the previous 12 months' take-up and 27% below the 10-year average. The average is however swelled by occasional very large transactions which are not evident this year.

The largest deal was at Skypark 5 where Glasgow School of Art has taken 4,867 sq.m. for decant purposes while its existing campus is redeveloped. Other notable transactions include Mercer taking 3,160 sq.m. at 1 George Square; Barclays 1,890 sq.m. at Tay House; Westcott Financial Services 1,089 sq.m. at 38 Cadogan Street; Digby Brown 1,068 sq.m. at 2 West Regent Street; Shepherd and Wedderburn 970 sq.m. at 191 West George Street; and Vertex expanding into a further 691 sq.m., taking their occupancy to 1,500 sq.m. at 4 Atlantic Quay.

Despite the slowdown, office requirements from larger corporates seeking quality premises over 929 sq.m. in the city centre remain encouraging.

Experience suggests that some of these companies may decide to re-gear leases on their existing premises, while others will move. Relocations will further reduce the already restricted supply of completed

Grade A new space. The continuing lack of traditional funding means that there is little prospect of any city centre new development completions before 2014. Lack of new supply will dampen take-up over the next 12-24 months, although exceptional transactions such as the Commonwealth Games team taking phased entry of c. 10,000 sq.m. at Tontine House will bolster the figures.

A number of developers are securing planning consent for their schemes and offering the potential for pre-let, for example IVG (UK) Ltd/Ediston Properties Ltd at Broadway Two (14,058 sq.m.) and Capella at Atlantic Square (21,103 sq.m. offices plus hotel and retail/leisure). BAM Properties has recently submitted a planning application for 15,420 sq.m. new-build offices at 110 Queen Street. Goodman has re-masterplanned proposals for the next phases at Central Quay to provide a further 50,168 sq.m.

This new-build development gap provides the opportunity for institutional investors who own larger vacant buildings to refurbish these and bring upgraded space back to the market. Major city centre refurbishment projects expected to complete over the next 12 months include 8,360 sq.m. at Redevco's George House, George Square and Hermes' 6,690 sq.m. at 151-155 St Vincent Street. Refurbished space will compete with vacated second hand property, but this tends to be smaller floors/part buildings of poorer quality. Short term periods left on existing leases also offers limited flexibility for tenants. As ever, there are exceptions, for example BT can offer both flexible lease length and large floorplates of 2,787 sq.m. at Alexander Bain House, Broomielaw.

Total city office vacancy in Glasgow is currently 350,346 sq.m., of which city centre is 209,000 sq.m. This is a decrease of 5% in city centre vacancy since this time last year and indicates a vacancy rate of 14%.

There is 37,100 sq.m. of space capable of accommodating more than 929 sq.m. remaining in seven new-build office buildings. Three provide floorplates greater than 929 sq.m. Only one new office building - Cuprum - provides a floorplate greater than 1,394 sq.m.

Only four new or refurbished city centre properties over 1,858 sq.m. can provide a self-contained building. Cuprum at 9,144 sq.m. is the largest. The others are the smaller floorplate new-build Copenhagen Building, Hope Street (6,038 sq.m.) and refurbishments at Grosvenor Building, Gordon Street (4,739 sq.m.) and Kintyre House, West George Street (2,144 sq.m.).

While there has been relatively little activity at business parks within Glasgow, there has in contrast been significant out-of-town activity from the environmental, renewables and energy sectors, particularly on major business parks to the east in Lanarkshire.

SEPA has taken Maxim 6 (5,450 sq.m.) at Maxim Office Park; Wood Group (3,437 sq.m.), FMC Technologies (2,585 sq.m.) and Gamesa (790 sq.m.) have taken space at Strathclyde Business Park; RES has taken 567 sq.m. at GSO Business Park, East Kilbride; and Scottish Power has leased 7,470 sq.m. at Ochil House, Hamilton International Park. A further 20,450 sq.m. of speculative development is also currently under construction at Hamilton International Park.

The only transactions of note west of Glasgow have been at Westpoint Business Park (Glasgow Airport) where Raynesway Construction has taken 836 sq.m. and Cigna taking 1,500 sq.m. at Clyde View, Riverside Business Park, Greenock.

Market activity in Lanarkshire, in addition to other activity in Glasgow including the recent purchase of One Waterloo Street (5,477 sq.m.) by Scottish & Southern Energy, confirms that West Central



Scotland is an attractive location for companies involved in the burgeoning environmental, renewables and energy sectors, building on the region's strong engineering skills and knowledge base.

Leading the way is the University of Strathclyde and Scottish Enterprise's ITREZ (International Technology and Renewable Energy Zone) initiative which will initially focus on the City Science site at Albion Street/High Street. The University has funding and is out to tender for a Technology and Innovation Centre (TIC) extending to 22,000 sq.m. and Scottish Enterprise is seeking bids to provide an Industry Engagement Building (IEB) of 4,800 sq.m.

Glasgow's URC (Urban Regeneration Company) at Clyde Gateway is progressing office development at Brook Street (6,000 sq.m. for Glasgow Community and Safety Services) and Red Tree Business Suites at Rutherglen and Bridgeton, as well as offering a range of design-and-build and pre-let/sale options on various sites. The completion of the M74 allied to the East End Regeneration Route provides Clyde Gateway with a range of high profile and easily accessible development opportunities.

Peak prime city centre office rents in Glasgow remain at c. £305 per sq.m. Wider Grade A rents are also static within the range £269-£291 per sq.m. Rents for top quality refurbished office space are in the range £185-£231 per sq.m. Substantial rent free incentives and flexible leases support these headline rents, albeit reducing supply at the top end of the market will strengthen the landlord's position over time. Headline rentals for good quality non-cooled business park space around Glasgow have fallen back to £130-£145 per sq.m. and comfort-cooled space to £145-£183 per sq.m.

Edinburgh's six month take-up of offices to September 2011 was 27,674 sq.m.; over the 12 month period take-up was 66,645 sq.m.

The six month take-up is a 29% decrease since March 2011 and is approximately 12% below the long run average.

Over the last six months, 21,732 sq.m. was transacted in the city centre in 74 office transactions. Outside the city centre 5,942 sq.m. was transacted in 35 deals. Grade A take-up over the period represented 13,358 sq.m. (61%) within the city centre and 380 sq.m. (6%) outwith the city centre.

Lower occupational demand has been evident. Some existing occupiers are re-gearing their leases at break options/expiries and taking extensions to avoid any capital costs of relocation.

Demand for offices larger than 929 sq.m. in Edinburgh has been slower than anticipated; however, in 2012-2015 there are several major occupiers with lease expiries which should stimulate market activity.

Since March 2011, seven transactions over 929 sq.m. have concluded, including FNZ at Tanfield, Amazon's expansion at Waverley Gate, Mercer at Quartermile and Standard Life at 10 George Street.

Peripheral locations have struggled, with no larger transactions having occurred within the main business parks of South Gyle and Edinburgh Park during the last six months. Across the wider western office market, transactions have been concluded by Quantum Property Partnership at Heriot-Watt Research Park, Thistle Veterinary Health Centres at New Mart Road, Chesser and Crossreach at Canal Court. Increased activity in Leith and surrounding markets dominated the peripheral market, including Orchard & Shipman and Calibre Interactive who have acquired space at Sugar Bond, Toshiba at Bonnington Bond and SanDisk at Links House.

Smaller open-plan offices continue once again to be the most active sector in Edinburgh. This is evidenced by a number of transactions

such as Bunnyfoot at Circus Lane; Knight Frank at 33 Castle Street; Repsol Nuevas Energias at 40 Princes Street; TNS at 23 Alva Street; Core-Asset Consulting at 37 George Street; SKM at 160 Dundee Street; Legal-E at 101 George Street; Urbicus at 36 Castle Street; and Chartered Institute of Housing at the refurbished 125 Princes Street.

Total office supply in Edinburgh at September 2011 was 265,056 sq.m., an increase of 7% since March. Within the city centre supply stands at 160,108 sq.m. of which Grade A supply has decreased slightly to 51,096 sq.m. (32%) of city centre supply.

Peripheral office supply around Edinburgh has also increased and currently stands at 104,947 sq.m., within which Grade A has increased to around 31,096 sq.m. (29%). This increase is primarily due to the availability of additional stock on Edinburgh Park.

The majority of the upper floors within the Grade A office market have been let and a number of further transactions are currently in legal hands at The Cube, Tanfield, Westport 102, Quartermile and Exchange Place.

There have been several additions to office supply in Edinburgh, particularly from the public sector where around 25,679 sq.m. of second hand office space is available within Argyle House and Pentland House. No new developments have been added to the pipeline, but Edinburgh Council's HI development at Exchange Square is progressing well and is due to complete early in 2013. This will provide 18,580 sq.m. of speculative office space above the extended Edinburgh International Conference Centre. Potential pre-letting opportunities are being discussed, including BlackRock.

A number of major future development options in the city centre are currently in play. The Lloyds Banking Group site at Fountainbridge and Gladedale's Quartermile development are being marketed.



This is part of the re-emergence of major urban brownfield opportunities in the city and also includes sites at Haymarket and Caltongate.

Prime headline office rents in central Edinburgh remain at around £290 per sq.m. During the past six months however there have been no reported transactions above £279 per sq.m. and there continues to be downward pressure on rents. Incentives remain around 30-36 months rent free for 10-year lease.

Prime West Edinburgh rents are also static at around £193 per sq.m. for good quality space within Edinburgh Park. Other office locations around South Gyle have secured lettings 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.

Supply of Grade A offices in Edinburgh will continue to tighten over the next 12-18 months. The lack of new construction may not immediately trigger rental growth, but

incentives will reduce as lease expiries lead to relocations and new occupiers diminish the supply of prime offices. Refurbishment options are required to stimulate and accommodate demand as further new developments will not be available before 2014.

With the price of a barrel of oil remaining in excess of \$100 over the past six months, it is not surprising that activity in the **Aberdeen** office market has again increased. Take-up figures for the six months to September are up, this time by 43% to over 47,000 sq.m. A severe lack of Grade A accommodation has driven more lettings in the secondary market and supply is now down by 24% to 74,000 sq.m.

Within the city centre and west end virtually all of the Grade A office accommodation previously available has now been taken up. The last remaining floor of City Wharf is now under offer and there is only one remaining suite within Union Plaza.

Two significant city centre schemes have

now received planning permission and their owners are actively seeking pre-lets. These are Ardent Holding's mixed-use development (8,500 sq.m. offices) The Pinnacle at Shiprow and Triple Kirks (7,000 sq.m.). Both schemes are now available but will require to be part pre-let in order to progress development.

In the west end Knight Property Group has started speculative work on No. 13 Queen's Road, which will comprise a traditional town house with a new-build open plan extension to the rear totalling approximately 1,500 sq.m. Strong occupier interest suggests this development is close to going under offer.

One-third of current take-up is accounted for by Aberdeen City Council's move from St Nicholas House (which the Council has indicated is to be demolished) to 16,000 sq.m. of new offices created within Marischal College.

Prime office rents in Aberdeen remain unchanged at £323 per sq.m.

At Westhill the only remaining significant supply is the 2,300 sq.m. speculative unit by Gladman Developments, as nearby Elrick House has been let to Technip. FES is in the process of constructing a speculative building, Forth House, which will comprise approximately 1,600 sq.m. of Grade A accommodation and is due for completion during the first quarter of 2012.

At nearby Kingswells, Drum Property Group has launched a new business park, Primefour. Phase 1 will comprise approximately 32,500 sq.m. of office accommodation adjacent to the Kingswells park-and-ride facility and the developer is rumoured to have strong interest in large parts of this initial phase.

To the north of the city in Dyce, Aberdeen Business Park has now finally been fully let, with Schlumberger taking the last remaining suite of 2,150 sq.m. Also to the north in Bridge of Don, Intertek has taken a lease of the last remaining space within North Point

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

Address	Size	Occupier
Skypark, Finnieston, Glasgow	4,867 sq.m.	Glasgow School of Art
G1, George Square, Glasgow	3,160 sq.m.	Mercer
Tay House, Bath Street, Glasgow	1,890 sq.m.	Barclays
38 Cadogan Street, Glasgow	1,089 sq.m.	Westcott Financial Services
2 West Regent Street, Glasgow	1,068 sq.m.	Digby Brown
Waverley Gate, Waterloo Place, Edinburgh	5,337 sq.m.	Amazon
10 George Street, Edinburgh	1,950 sq.m.	Standard Life
1 Tanfield, Edinburgh	1,607 sq.m.	FNZ
Quartermile One, Edinburgh	929 sq.m.	Mercer
Marischal College, Broad Street, Aberdeen	16,000 sq.m.	Aberdeen City Council
North Point, Bridge of Don	3,800 sq.m.	Intertek
King's Close, Huntly Street, Aberdeen	3,000 sq.m.	Dana Petroleum
Aberdeen Business Park, Dyce	2,150 sq.m.	Schlumberger
Elrick House, Westhill	1,950 sq.m.	Technip

at approximately 3,800 sq.m. This leaves virtually no refurbished accommodation available within the Bridge of Don.

To the south of the city there have been no significant lettings, but this is largely due to a lack of Grade A stock. Quattro remains available comprising c. 4,300 sq.m., but requires refurbishment prior to occupation. Approximately 1,500 sq.m. of refurbished accommodation is now available at the Altec Centre. Ground works are underway at Balmoral Business Park to service the eight hectare park ready for development.

With very little significant speculative development the ongoing lack of Grade A supply is likely to persist through the majority of 2012. There are currently active office requirements totalling in excess of 50,000 sq.m., however the majority of these are only prepared to move to the right accommodation, which could result in a lag in the market and a lack of occupational lettings taking place during 2012.

In **Dundee** there have been several small office deals. Transactions include Scott + Co taking 109 sq.m. at 63 Brown Street; Triage Central (260 sq.m.) at 31 Albert Square; Shackleton Technologies (157 sq.m.) at Delta Centre, Gemini Crescent; and Novartis (241 sq.m.) at Unit 1 Valentine Court, Dundee Business Park.

Traditional city centre office space in Dundee is available at rents of £68-£129 per sq.m. with Grade A rents at around £150 per sq.m.

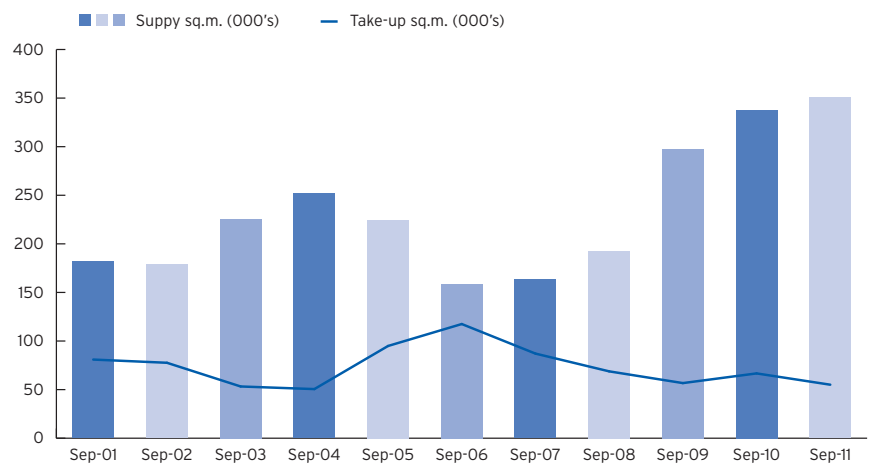
The new Dundee City Council headquarters at Dundee House, North Lindsay Street is now complete and the demolition of the former headquarters at Tayside House will begin in early 2012. This will pave the way for the next phase of the central waterfront regeneration which includes a £47 million outpost of the Victoria & Albert Museum.

Within **Inverness** the largest office transaction has been the relocation of HighNet telecoms company from an existing office on Lotland Street within the Longman area to new headquarters offices at Oykel House, Cradlehall Business Park. The company has taken a 10-year lease on this 465 sq.m. property.

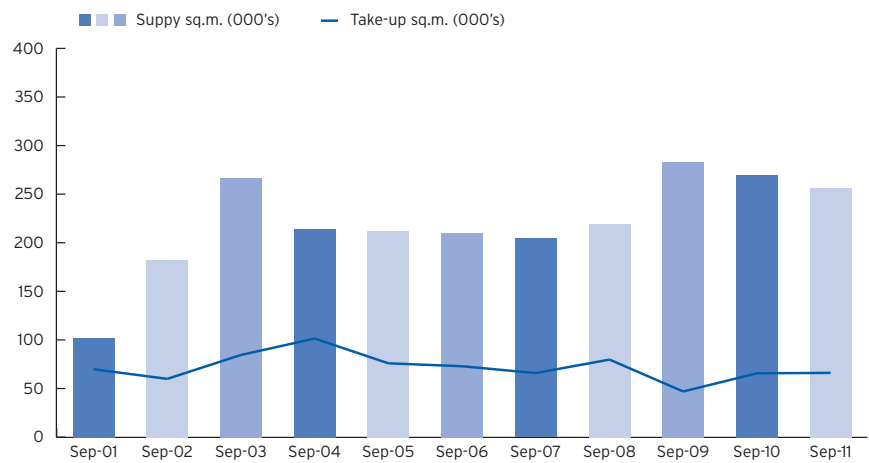
Within the city centre, Digby Brown has acquired the 182 sq.m. ground floor suite in Moray House on Bank Street while Atmos Consulting has taken 119 sq.m. on the third floor based on a five-year lease.

Elsewhere within the city centre, Working Links has taken a new six-year lease on two ground floor suites extending to 147 sq.m. within Ballantyne House on Academy Street.

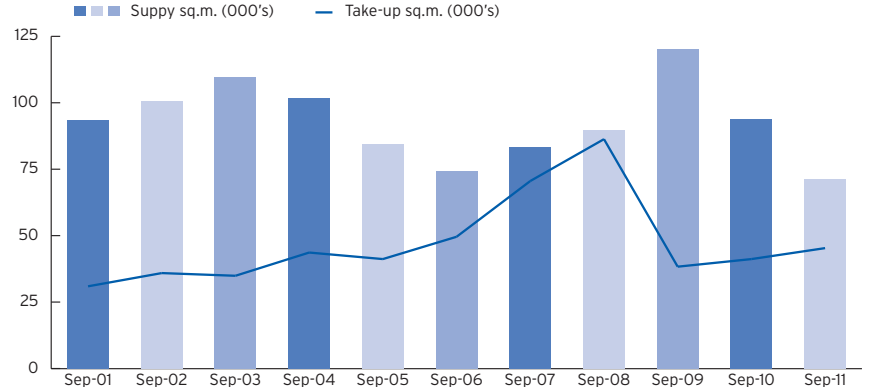
Office Supply and Take-up - Glasgow



Office Supply and Take-up - Edinburgh



Office Supply and Take-up - Aberdeen



Industrial

Property

Despite weathering the 2008-09 recession well, weak corporate confidence has led the industrial sector into a flat spot in 2011. Once again Aberdeen is the exception and continues to perform strongly.

There are however some encouraging signs for the industrial market in the **West of Scotland**, despite limited enquiry levels and few recent transactions of note. The market through the summer months was particularly slow and the quality of enquiries was generally poor. Enquiries were focused on smaller properties and many involved start-up businesses or were motor trade-related.

Despite the economic gloom, the market is becoming more optimistic for the prospects of increased take-up over the coming months, but this follows a difficult six months. Requirements for larger units, almost completely absent from the market over the past 18 months, are re-emerging. It is likely there will be a number of deals across the medium to larger industrial property market before the year end and in early 2012, even if only a few of the current enquiries are converted. The development activity noted later in this section could be well-timed.

The focus of demand has been upon smaller properties (less than 279 sq.m.) and many enquiries were from start-up businesses or from parties seeking an unsuitable change of use. The absence of established businesses in the market is due to a lack of confidence in future sales growth and the economy as a whole. It has been common for companies to remain in existing premises whenever possible despite the availability of break options and expiries. Tenants have sought to renegotiate terms with existing landlords and many have been successful in securing rental concessions and rent-free periods. Landlords eager to limit voids have been prepared to make such concessions.

At **Glasgow Business Park** Wheel Pro has leased 279 sq.m. on a 10-year FRI lease with a break at year five at a rental of £72 per sq.m. Also at Glasgow Business Park, the Parkway Point development has benefited from the expansion of a number of occupiers. National Windscreens, Sign Vision and Go Solar each took adjoining units to double their space. A further three units which are under offer at £75 per sq.m. will take the development to 70% let.

At Northpoint in **Hillington** eight units have been let over the past six months totalling 2,602 sq.m. of space. Tenants include Shaw Pipeline Services, digitalLANE and DP Dental.

There have been some larger transactions including the letting of The Point at Faulds Park in **Gourock**. The unit extends to 8,236 sq.m. and was built on Enterprise Zone land beside a unit now occupied by Amazon. The target market was the electronics industry, however this market contracted shortly after completion and a lengthy void ensued. The unit has been taken by James Walker Engineering, a manufacturer supplying high performance sealing products. The unit was required to accommodate an expansion of the business and was secured on confidential terms. Interestingly, a high percentage of current active requirements is for manufacturing use. The distribution market by comparison remains relatively quiet.

Despite difficult market conditions, Barrhead Central, **Barrhead** has achieved fully-let status through two deals which happened in quick succession. Burns Express relocated from Linwood and leased the 3,903 sq.m. Bay 4 on a new five-year lease. Jacobs & Turner leased Bay 3 (also 3,903 sq.m.) on a short-term deal. Both deals were at rentals of c. £16 per sq.m. The competitive and flexible lease package proved attractive and is typical of the secondary market.

A positive boost for the Greater Glasgow area has been the opening of the M74 completion route. This has been welcomed by the market as it has improved the flow of traffic around the city, reduced travel times on some journeys and alleviated congestion. The Kingston Bridge bottleneck had created an industrial market where occupiers either had to prioritise proximity to the Baillieston Interchange and the national motorway network or alternatively, proximity to Glasgow International Airport. This east/west locational split was almost impossible to overcome and it was rare to persuade a party favouring one mode of transport to consider the opposite side of the city. The final section of M74 has completed Glasgow's ring road and brought the airport and road network together. This will benefit both sides of the city. The east will remain strong as Scottish industry utilises road and rail transport to a greater extent than air cargo and the west side will continue to benefit from proximity to the airport but will have shorter travel times to the M74/M6. Journeys into the city centre will also be quicker due to reduced congestion on the M8 leading to the Kingston Bridge. The network as a whole will improve, which is good for business.

A number of strategic development sites close to the new route are set to benefit. At **Cambuslang**, Wilson Bowden has created the highly successful Gateway Glasgow which already accommodates such major names as Exel Tradeteam, Parcelforce, Encon Insulation and BP. The remaining development plots are ready to accommodate early site starts. Extremely low voids among existing stock clearly demonstrate Cambuslang's popularity with occupiers and it will be one of the first areas to benefit from pre-lets when a stronger market returns.

Also in Cambuslang, five new units are now complete at Bestway's Glasgow East Trade Park. In total, 3,122 sq.m. has been created in units starting at 539 sq.m. at a quoting



rent of £72 per sq.m. The agents report occupier interest here and, given the absence of competing product in this area, early lettings are anticipated.

Clyde Gateway URC, MEPC and SCOT Sheridan have formed a joint venture to develop a speculative phase of industrial accommodation at **Clyde Gateway East**, Glasgow's newest business location. Clyde Gateway East is situated on London Road with access to a four-way interchange at M74 Junction 2a. The initial phase will comprise units of 1,496 sq.m., 1,784 sq.m. and 2,063 sq.m. Construction is due to start within the next few weeks, aiming for completion in Spring 2012.

At **Eurocentral**, the Eurocentral Partnership Limited is developing the final Golden Contract plots following the end of the Enterprise Zone benefits. The new development will complete in November 2012 and in total will provide 22,258 sq.m. across five buildings ranging widely from 431-11,964 sq.m.

Within **East Central Scotland** the smaller end of the industrial property market (under 929 sq.m.) appeared to weaken and there were signs of rising void rates on multi-let industrial estates, although deals were still occurring. The bulk of the activity in the region has however focused on transactions of a medium to large size, both sales and lettings. The sales activity has been an interesting feature of the market, however, in most cases prices had to fall substantially for transactions to take place. Speculative development is making a return to the region, albeit there is only one scheme currently under construction.

The most active area has been West Lothian. Joint Properties has secured a lease of 2,289 sq.m. to Prestige Leisure at the Firth Road development, Houstoun Industrial Estate, **Livingston**. Also within Livingston, IPIF has secured a substantial

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

Address	Size	Occupier
Building 600, Prestwick Airport, Prestwick	6,503 sq.m.	British Airways
The Point, Faulds Park, Gourock	8,236 sq.m.	James Walker Engineering
Bay 4, Barrhead Central, Barrhead	3,903 sq.m.	Burns Express
Units 1-3 Buchanan Park, Cumbernauld Road, Stepps	4,181 sq.m.	Trespass
Unit 3 Kingsthorne Park, Houstoun Industrial Estate, Livingston	2,543 sq.m.	Schuh
Units 1-4 Lindsay Square, Deans Industrial Estate, Livingston	2,333 sq.m.	Pet Planet
Grange Lane, Grangemouth	13,935 sq.m.	Undisclosed
3 Carron Road, Edinburgh	1,858 sq.m.	Broughton Removals
Shed 5, Shore Road, Perth	2,741 sq.m.	Roscco Properties
Site 1, Baldovie Industrial Estate, Dundee	4,030 sq.m.	Undisclosed
Mugiemoss Works, Mugiemoss Road, Aberdeen	6,636 sq.m.	Peterson SBS
Claymore Drive, Bridge of Don	2,519 sq.m. plus yard	Carnegie Developments
Kingswell Bodybuilders, Westhill	2,027 sq.m.	Westhill Garage
Newton Road, Dyce	1,890 sq.m.	Harlen Fabrication Services

letting of units 1-4 Lindsay Square, Deans Industrial Estate to Pet Planet. These units combined extend to 2,333 sq.m. and the rental achieved was £43 per sq.m. Tiger Developments secured a significant letting to Schuh of Unit 3 Kingsthorne Park, Houstoun Industrial Estate. This unit extends to 2,543 sq.m. and was leased at a rental in the region of £32 per sq.m. At Easter Inch, **Bathgate**, UK Prem Fund secured a letting of c. 1,393 sq.m. to Dingbro at £43 per sq.m.

Turning to sales within Livingston, the Administrators of Tradestyle Cabinets secured a sale of 4 Royston Road, Deans Industrial Estate to Coralinn. This unit extends to around 4,489 sq.m. on a site of c. 1.6 hectares and achieved a price of £750,000. The Administrators of Vantana Blinds also secured a sale of the former premises at Starlaw Park which extend to

2,852 sq.m. at an undisclosed price but thought to be less than £750,000. Within Houstoun Industrial Estate, Scottish Water secured a sale of its depot at Muir Road which extended to 4,645 sq.m. to The Royal Edinburgh Military Tattoo at a price in the region of £1 million. Within Kirkton Campus, Tamar Capital Partners secured the sale of a property extending to approximately 12,500 sq.m. for £750,000. At Brucefield Industry Park, the former USC premises extending to around 4,924 sq.m. was sold for £900,000 to Wishco for owner-occupation.

These transactions represent a total of 36,952 sq.m. of sales and lettings within West Lothian alone. The level of activity is encouraging, however, the relatively low capital values achieved on sales reflects a combination of dated buildings, some in poor condition and the continued lack



of availability of debt finance for property purchases. In the current market, cash purchasers can drive prices downwards.

Within **Edinburgh** activity has been limited to smaller-scale units plus a couple of medium-sized exceptions. At Stewartfield Industrial Estate, S R Plant Ltd has taken a unit of 1,323 sq.m. from J Smart & Co at an annual rent equivalent to £40 per sq.m. Also within the Leith area, Lothian Buses has taken a unit of 1,074 sq.m. at 58 Bangor Road at a rental equivalent to £54 per sq.m. and Broughton Removals has leased c. 1,858 sq.m. at 3 Carron Place.

Within East Lothian, which generally has limited industrial activity, there have been two significant transactions of 'distressed' assets. The Administrators of IQ Textiles secured a sale of former production facilities at Mid Road Industrial Estate, **Prestonpans** extending to approximately 3,627 sq.m. at an undisclosed price. It is understood that the purchasers are seeking to redevelop the site for retail use. Also within Mid Road Industrial Estate, the Administrators of Ford's The Bakers secured a sale of the 2,275 sq.m. Unit G to the Caledonian Tree Company for £200,000.

The recent award of the Forth Replacement Crossing contract is expected to benefit the industrial market in **Fife**. The main contractor for the new bridge is now in place and demand is expected from the numerous sub-contractors once they are appointed. Fife is also expected to benefit from the Government initiative to promote renewable energy. Recent deals in Fife (not related to the new Forth Bridge) include the purchase by the Springfield Property Fund of 3,660 sq.m. on Donibristle Industrial Estate, **Dalgaty Bay**. The price has not been disclosed but Springfield has subsequently secured a letting of this unit to IMS Ltd at a rental equivalent to £10.76 per sq.m. Also within Fife, at 1 Newark Road South, Delprom Ltd has purchased the

freehold interest of 2,365 sq.m. from CN Properties. The price is undisclosed.

East Central Scotland's first speculative development since the onset of the credit crunch has commenced at Inchwood Park, **Bathgate** where J Smart & Co is now mid-way through constructing the first phase of 4,666 sq.m. of development due for completion in early 2012. Units will be available from 233 sq.m. upwards.

The **Aberdeen** industrial market has continued to perform well throughout the economic downturn and demand for industrial space has increased significantly during 2011. As mentioned in the office market commentary, this has been a direct result of the oil price rising to above \$100 per barrel.

Industrial take-up in the last six months totals 35,672 sq.m., a rise of 37% on the previous six months. The number of transactions during the six month period has however remained the same. Most notably, take-up in the 0-465 sq.m. size range is up 43%, while for properties 1,858 sq.m. and above take-up has increased by 162%.

Supply remains approximately the same at 119,992 sq.m. within 122 properties. As before, a significant proportion of these buildings are dated and in need of refurbishment.

Rental levels have been maintained and it remains a landlords' market in Aberdeen. Lease lengths of c. 10-15 years are being achieved for large properties in excess of 929 sq.m., whereas five-year leases are more common for the smaller stock. Incentives and void periods for good quality industrial properties have been kept to a minimum. Poorer quality units or industrial properties with very large office floorspace have been the only exceptions to this rule.

Strong demand is once again being experienced from oil service companies as they compete for oil and gas and

renewables-related contracts. On the back of this strong occupational demand, further speculative development is in the pipeline and will be undertaken by Ribnort at ABZ Business Park in Dyce, Gilcomston Investments Ltd at Raiths Industrial Estate and Stockland Muir at Aberdeen Gateway at Cove. Gilcomston Investments Ltd recently undertook speculative development of two industrial units at Raiths Industrial Estate with both properties being let prior to competition on 15-year leases with no rent-free periods.

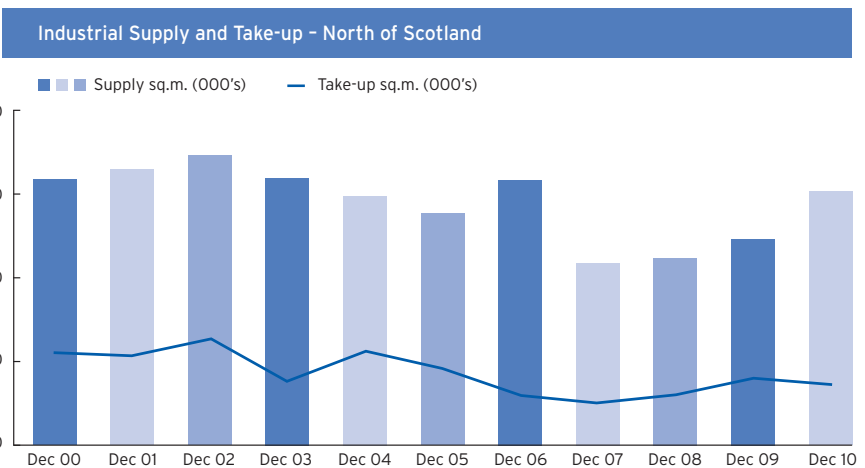
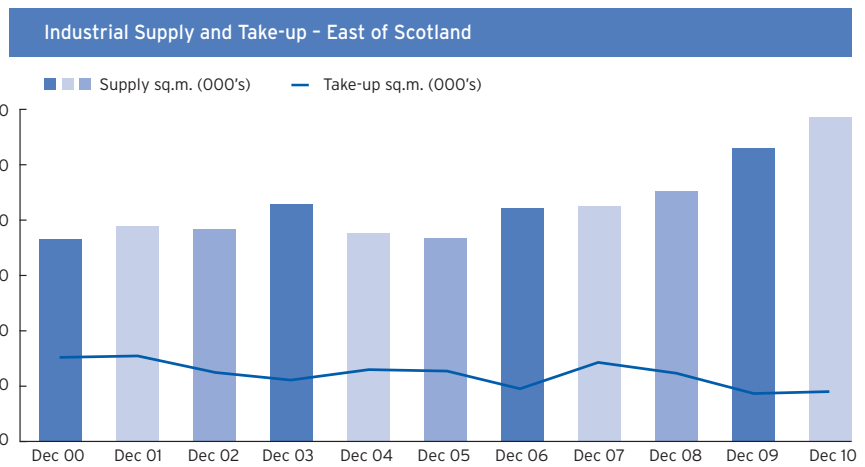
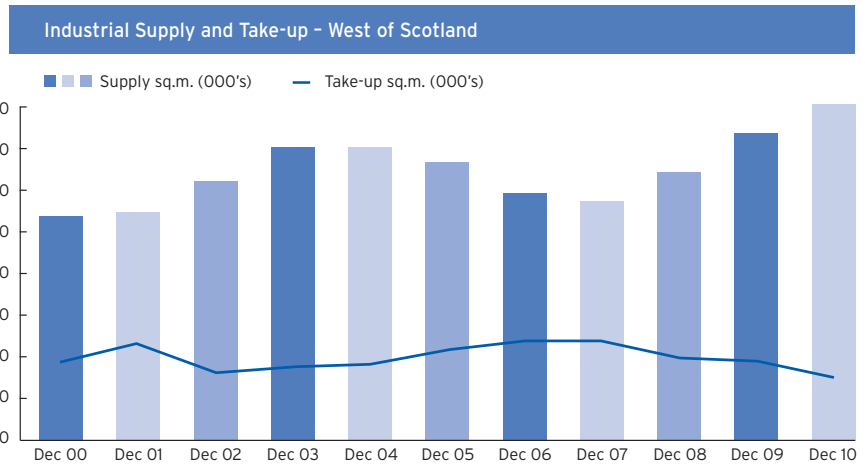
In recent months, ABZ Business Park as mentioned above totalling c. 36 hectares and Kirkwood Commercial Park in **Inverurie** also totalling c. 36 hectares have come onto the market. These land releases will go some way to addressing the shortage of industrial and business development sites to the North of Aberdeen.

The industrial market in **Dundee** has once again experienced a challenging six months, with take-up down in all size ranges. Despite a number of larger requirements emerging late 2010, difficult market conditions have meant that few of these have actually converted into transactions in 2011. Those companies able to move have however been able to take advantage of current conditions to secure increased rent-free periods or other incentives, as landlords compete aggressively for tenants.

Recent industrial deals in Dundee include the letting of Unit 6 Faraday Street (735 sq.m.) to Lavendon Access Services and 3 Harrison Road (785 sq.m.) to TLC Recycling.

Perth has experienced similar conditions to Dundee, however those transactions which have completed suggest continuing demand for owner-occupation. Transactions of note include the sales of Shed 5 Shore Road (2,741 sq.m.) to Rossco Properties and Shed 1A Shore Road (1,689 sq.m.) to Cefetra.

Within **Inverness** the prime Longman area continues to prove popular. Portakabin has taken a new lease on a 0.3 hectare site on a new 10-year lease for a rental of £22,000 per annum. MacGregor Properties Ltd is understood to have agreed two recent pre-lets for the former Jewsen site on Harbour Road. The Jewsen buildings have now been removed and it is expected construction on the new buildings will start later this year.



Source: CoStar SPN

Retail

Property

Retailer confidence continues to be fragile as the consumer economy struggles to emerge from recession. Compounding this difficult occupier market, development activity remains weak due to the lack of debt finance available within the property market. These challenging conditions for the retail sector are likely to persist into the medium term.

Recent figures indicate that activity in the food sector showed increased turnover in July, but slowed again in August as the combination of a weak employment market, low earnings growth and high inflation dampen any growth prospects. Essential, staple and value are the watchwords for the UK's food retail sector.

Like-for-like retail sales in August 2011 were 2.1% lower (SRC) than in August last year, where sales were marginally improved at 0.1% on the previous year. Non-food sales fell by 3.7% in comparison with August last year, as customers focus on value and defer purchase of higher priced items. Many clothing and footwear retailers are suffering larger declines in sales despite offering increased discounts. The general view is that fashion accessories are being added to wardrobes as opposed to replacement of outfits.

Within this challenging market context, retailers are inevitably delivering mixed performances. There are disparities between retail sectors and locations. Margins in both food and fashion have been hit considerably in recent months. Internet shopping has remained relatively strong, particularly within the electrical and consumer electronics sectors.

As reported over the last 18 months or so, Home Bargains, B&M, Poundworld and Poundstretcher continue to acquire units within Scotland and across the UK as a whole. This discount retail market continues to expand and capitalise upon vacant premises across the country. A select few

non-discount retailers such as Mamas & Papas also continue to add new stores. Most prominently, the main convenience store operators such as Tesco, Sainsbury's, Morrisons and Co-op remain active, while Waitrose continues with its cautious, selective entry into Scotland.

Glasgow has maintained its attraction for both consumers and retailers alike and retains its coveted second place in the UK's retail hierarchy, behind London.

Land Securities has commenced development at its 5,574 sq.m. Buchanan Street project to accommodate pre-lettings to Forever 21, Paperchase and Gap. It is understood that all of the remaining units at this development are now under offer.

Other new entrants to Glasgow include Nike Town, Camper and Cath Kidston. Restaurant operator Pesto has recently opened, Carluccio's is due to open and has a requirement for a second outlet, while Eat reportedly has two sites under offer in the city.

Capital Shopping Centres has announced the opening of Apple's new store at Braehead Shopping Centre, where the landlords have secured this high-profile retailer together with Hollister and Jack & Jones to follow. The Filling Station has opened in the adjacent former ice rink and is in discussions with the landlords to extend into the adjacent premises. The Filling Station will be joined by Prezzo and Handmade Burger Co.

Glasgow Fort has commenced on site with a 2,323 sq.m. development to incorporate eight-cinema screens for Vue Entertainment together with T.G.I. Friday's, Chiquitos, Pizza Express, Harvester and Prezzo. It is anticipated that the development will be open for trade in October 2012.

The largest single retail development within **Edinburgh** city centre at this time is the new flagship 7,432 sq.m. Primark store at

91-93 Princes Street which is due to open for trade prior to Christmas 2011.

Due to the continuing challenges facing the retail sector it is expected that the planned major re-development of St James Centre by Henderson Global Investors to create a new retail, leisure and hotel development will remain on hold; the most recent announcement indicated that the project's proposed completion date has been pushed out from 2016 to 2018.

Aberdeen city centre remains a relatively strong location for retailers, supported by economic resilience due to the ongoing success of the offshore oil and gas industry. Hammerson's Union Square Shopping Centre continues to perform well as the latest addition to the city centre. The centre has secured House of Fraser for a new 'click and collect' store, together with Dune, while another fashion retailer reportedly has a unit under offer. Other news in the town centre involves Poundstretcher which recently renewed its lease at 43 Union Street.

Dundee has attracted recent investment from both Land Securities, in its purchase of the Overgate Centre, and by Invista which purchased the Wellgate Centre from Prudential and has now transferred the asset to Orchard Street. Officers Club has renewed its existing lease and the landlords are also working on solutions for the former Ethel Austin and TJ Hughes premises.

East Kilbride continues to attract a significant amount of shoppers, although oversupply of retail floor space is clearly evident through vacancies both within the 116,129 sq.m. town centre and also at the various retail parks. Notwithstanding this oversupply, occupier demand for the town centre remains comparatively strong and includes ongoing discussions for value-led retailers seeking major new stores.

The Thistle Shopping Centre remains the dominant location within **Stirling's** retail

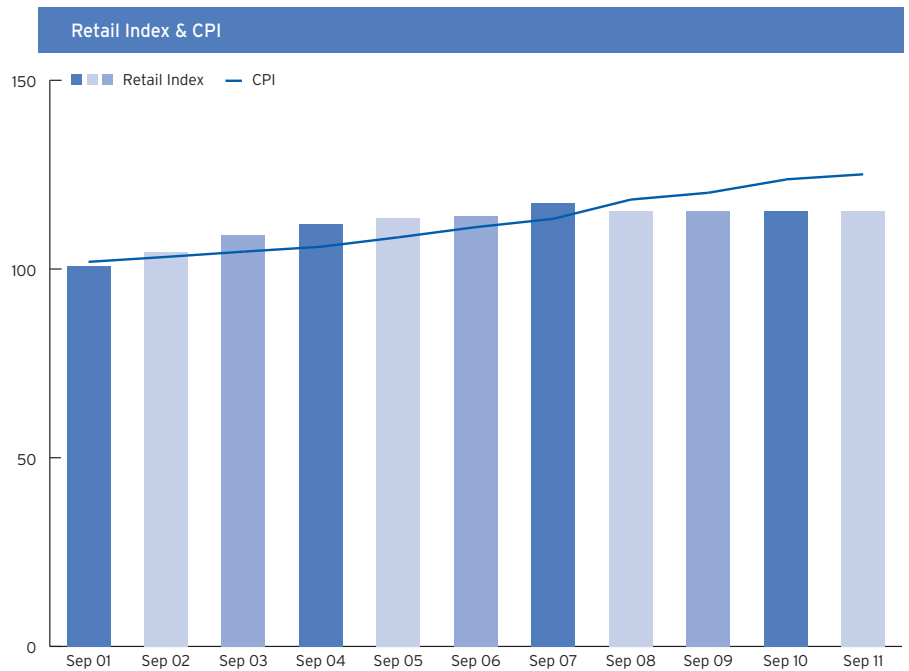


hierarchy, supported by a strong out-of-town retail warehouse location at Springkerse Retail Park. Stirling Ventures and Valad have secured a 3,437 sq.m. anchor in the form of Waitrose within their 5,760 sq.m. development at Burghmuir Roundabout, while an additional 1,394 sq.m. unit is under offer to a well known fashion occupier and the landlords are in discussions with occupiers for the remaining unit of 613 sq.m. This is an open Class 1 retail development and it is anticipated that developers will break ground during Q1 of 2012.

British Land's **Inverness** Retail Park has recently let 557 sq.m. of floor space to Poundworld and it is understood to be already trading beyond expectations. The retailer sits adjacent to JD Sports and Bank with other occupiers including Carphone Warehouse, Costa and New Look.

The market activity described above confirms that the general retail market at this time continues to be a story of mixed performances. There are winners and losers in each sector, most notably differentiated into a small number of prime locations and the ever-expanding superstores, then a long tail of secondary retail towns. This retail market polarity is most evident in the development sector where the only notable activity is either anchored by supermarkets or concerns single blocks in absolute prime locations such as Glasgow's Buchanan Street and Edinburgh's Princes Street.

There are significant variations in rental levels within some retail locations. Rents being agreed can be heavily influenced by the specific aspirations of individual occupiers and landlords where there is little or no competition for shop units. The Zone A rents on the chart also reflect a polarised market where the main cities can demonstrate recent transactions, but many of the 'sub-£100 Zone A' towns' rents are historic, fixed by leases, and increasingly irrelevant to the current market.



Source: ONS/Ryden

Investment

Market

Transactional activity continues to be limited in the Scottish property investment market, as wider economic uncertainty pervades the sector and affects confidence. Investor interest is in very specific areas and if strict criteria cannot be fulfilled, compromise does not appear to be an option.

The approach of active investors is best described as defensive. Investor interest based upon traditional property market occupational supply/demand dynamics is limited.

Based upon the IPD Quarterly Index, overall performance in the Scottish property market has weakened for the second consecutive quarter. Following a decline from 2.1% to 1.9% in Q1 2011, total returns in Scotland for the second quarter were again down, at 1.2%. Over 12 months Scottish commercial property recorded a total return of 7.2% to June 2011; income returns accounted for 6.3% while capital growth was 0.9%. Rental growth was again negative across all sectors bar industrial, however the rate of overall decline has slowed on an annual basis.

As banks continue to de-leverage, their approach to new business is very cautious and extremely selective. The availability of funds for development is at best limited, and restricted to pre-let situations. The costs of finance and associated fees are a significant turn-off and where possible developers are favouring institutional funding. This is really only possible in circumstances where there is a significant pre-let.

Institutional funding has yet to materialise for speculative projects and in turn it is apparent that certain markets will confront a supply shortage in the short to medium term.

The continued quest for secure income, bond-style transactions and the emergence of the "income strip" whereby the property is of little consequence, has opened up new markets. Having invested heavily in supermarkets and hotels, mainstream funds

Office property investment deals include:

Address	Property	Purchaser
Cuprum, Argyle Street, Glasgow	9,328 sq.m. new Grade A office building with floor plates of over 1,393 sq.m. Vacant building purchased with rent guarantees	Tristan Capital for £23 million (9%)
Apex123, 95-99 Haymarket Terrace, Edinburgh	8,732 sq.m. modern office over five storeys, average unexpired lease of 5.9 years	Catalyst Capital for £16.825 million (11.5%)
Edinburgh House, 4 North St Andrew Street, Edinburgh	3,700 sq.m. office subject to a FRI sub-lease between Santander and Guardian Assurance until 2019	Prupim for £11.5 million (7.5%)
BUPA House, 116 Dundas Street, Edinburgh	1,808 sq.m. office over seven floors, three years average term unexpired	Private investor for £3.65 million (9%)
iQ, Justicemill Lane, Aberdeen	New 11,600 sq.m. Grade A office building let to Centrica and Wood Group	Aerium for £50.1 million (6.7%)
Riverside House, Riverside Drive, Aberdeen	4,900 sq.m. office building let to AWG Business Centres, Scottish Ministers and Talisman Energy	Rockspring for undisclosed price
Freedom House, Old Ford Road, Aberdeen	2,950 sq.m. office building let to Aker Business Services	CBRE Investors for £6.765 million (9%)

are now turning attention to emerging sectors such as healthcare, further education, housing and renewables in an effort to satisfy their requirements for property investments.

Office

The regional office markets continue to play the ugly duckling to the London and the South East's swan, at least as far as investors are concerned. With the exception of the Aberdeen market, deals have been few and far between over the last six months.

Investor demand continues to polarise, with long income streams highly sought after and yields holding at 6% or lower for annuity-grade income. However, the absence of new development and shortage of available Grade A accommodation has cut off the major source of deals in this area of the market.

In contrast, caution over short term income has increased. Supply/demand dynamics in Scotland's three major cities provide no reason for panic, suggesting that investor caution is a reaction to wider economic concerns rather than specific market conditions. Consequently, investors buying strategically at current pricing might expect to see some bounce in performance as soon as some confidence returns to the office sector.

In the Grade B and secondary office markets, transactions have been limited and yields vary considerably dependent upon the individual merits of each building. Again, the volatility in pricing should offer opportunities for selective buying based upon careful stock assessment.

In the out-of-town office market the same factors apply, only more so. In Lanarkshire/



East Glasgow, the overwhelming perception - if not always the reality - that Maxim Office Park dominates the market at the expense of all other schemes has seen short income yields become almost meaningless in some instances, with investors preferring to price at heavy discounts to build cost.

Based upon the Quarterly Index, the IPD total annual return from Scottish office property for the year to June 2011 was measured at 4.2%, comprising income return of 6.4% and capital growth of -2.1%. Aberdeen offices continue to register the strongest performance across the three main centres as rental growth continues and yields fall in anticipation of continued future rental growth.

Industrial

Activity in the industrial property investment market in Scotland during the last six months has been mixed. While there has been only a handful of new opportunities introduced to the market during the summer period, a significant number of transactions have been completed across the country. Encouragingly, these transactions have concluded at a time when general market sentiment has weakened following concerns about the wider economy.

With limited stock available, correct market pricing remains challenging, particularly for secondary assets where the difference between purchasers' and vendors' expectations remain a significant obstacle. As a consequence, the marketing process can be lengthy with many transactions taking well over six months to complete. The continued uncertainty in the economy, allied to unrealistic aspirations on value, will continue to limit transactional activity in the short to medium term, unless more distressed stock comes to the market via administrators and banks.

Demand for well-secured, single-let industrial buildings on long leases with geared rental uplifts remains strong. Funds and cash buyers continue to seek such low risk, income-driven deals and yields are established at sub-7% for quality modern buildings let on this basis. Interestingly, some bank lending is also beginning to emerge in this sub-sector and this may in due course lead to an increase in competition for investment opportunities.

Modern and well maintained multi-let industrial and/or trade park estates also remain popular, with funds and property companies seeking asset management

opportunities. Yields for the best quality estates in prime locations are generally in the order of 8%. Poorer estates and secondary locations will command yields in excess of 9% and more likely into double figures.

In the industrial sector, there seems to be less of an investor bias towards London and the South East in comparison to offices. Overall investor demand for industrial stock in Scotland has held up quite well, particularly for the most popular locations - the M8/M74/M80 motorway corridors and around Aberdeen. The M74 and M80 extensions are now complete and improved accessibility should assist these locations.

Industrial property investment deals include:

Address	Property	Purchaser
Langlands Industrial Estate, East Kilbride	14,198 sq.m. modern multi-let industrial estate, total of 22 units. Short to medium term income	Helical Bar for c. £5.9 million (10%)
DHL, Mossbell Road, Bellshill	5,307 sq.m. distribution warehouse let to Exel Europe Ltd until 2021 (tenant break option 2018)	Henderson for £2.4 million (c. 8.8%)
Unit 1, 2 & 3, Canyon Road, Excelsior Park, Wishaw	4,270 sq.m. of modern multi-let industrial space. Tenants are Siemens and Astute Electronics, let until 2015 and 2013 respectively	Private investor for £1.5 million (c. 15%)
Units 7B & 7C North Caldeen Road, Calder Park, Coatbridge	3,424 sq.m. of modern industrial space, two standalone buildings let to TNT and McGregor Young on leases expiring 2012 and 2017 respectively	Private investor for £1.2 million (12.8%)
Cumberland House, Arnhall Business Park, Westhill	2,850 sq.m. office and industrial facility let to Hallin Marine	Aberdeen Property Investors for £5.5 million (7.9%)
Kirkton Drive, Raiaths Industrial Estate, Dyce	3,480 sq.m. industrial unit with offices let to Siemens	BRT Properties for £3.48 million (6.95%)
Badentoy Avenue, Badentoy Park, Portlethen	6,720 sq.m. industrial and office facility let to Smith International	Palmer Capital for £6.4 million (7%)
Wellington Trade Park, Girdleness Road, Aberdeen	2,550 sq.m. trade park, multi-let to tenants including Tile Giant, Topps Tiles, Screwfix	CBRE Investors for £2.925 million (7.08%)
Woodside Road, Bridge of Don	Two industrial units totalling 2,500 sq.m. let to Panalpina and CP Cases	CBRE Investors for £3.031 million (7.8%)

The IPD total annual return from Scottish industrial property for the year to June 2011 was measured at 8.2%, comprising income return of 7.1% and capital growth of 1.1%.

Retail

Demand from investors for the retail sector continues to be influenced by the weak occupier market and falling consumer expenditure. Across the retail property investment sector, location and income quality appear to be the principal considerations. Properties that fall outwith the strict criteria set by investors are failing to transact or hold value.

Prime high street yields have held at 5%, but only in addresses where retailer demand is undoubted such as Buchanan Street in Glasgow and George Street in Edinburgh. Even in those streets the micro location, unit size/configuration and income profile are critical considerations.

Elsewhere demand is extremely variable and reliant upon the quality of income, exact location and lot size of the individual investment. Despite investment funds being active in the retail sector, in reality there continues to be a very finite number of potential buyers for any opportunity.

Private investors continue to be attracted to the retail sector for well-let, sub-£1 million lot sizes. For example, a number of local/neighbourhood stores let to Tesco and Sainsbury's have been transacted at yields of between 5%-6.5% for c. 10-year certain income.

Shopping centres have transacted in Dundee and Perth and have provided the acquiring institution with income yield and asset improvement opportunities. The degree of over-renting in these and other centres would however make it difficult to accurately assess returns beyond the short term.

Retail warehouse park transactions have included the acquisition of Heathfield Retail Park by Ediston Properties from AXA and a recent sale within St Catherines Retail Park, Perth. A number of other secondary parks have however been marketed and failed to achieve their asking prices.

Demand for funding opportunities and investments let to supermarkets continues to be strong. Investor appetite appears split between open market review transactions and geared uplift deals. Much of the activity within this sub-sector has been driven by Annuity Funds.

Retail property investment deals include:

Address	Property	Purchaser
Heathfield Retail Park, Ayr	13,192 sq.m. dominant in-town, bulky goods retail park. Tenants include DSG, Homebase, Dreams, Comet and Halfords	Ediston Properties for £31.975 million (7.15%)
94-96 Argyle Street, Glasgow	Two retail units totalling 1,044 sq.m. on the prime pitch, let to Accessorize and Clinton Cards with c. seven years unexpired on each lease	CBRE Investors for £5.75 million (7.5%)
7 Buchanan Street, Glasgow	15,236 sq.m. comprises half of House of Fraser block. Around 30 years unexpired at a topped up rent of £1.906 million	DTZ Investment Management for c. £35 million (c. 5.2%)
77 George Street, Edinburgh	Prime retail accommodation let to Paperchase until 2021	CBRE Investors for £3.4 million (5%)
6-10 Frederick Street, Edinburgh	1,124 sq.m. of retail space let to Schuh, Dune and Action on Smoking and Health	DTZ Investment Management for £7 million (5.68%)
Rosyth Retail Parade, Backmarch Road, Dunfermline	464.5 sq.m. of retail space, occupiers include Greggs and Coral	Private investor for £1.25 million (7.69%)
Wellgate Shopping Centre, Dundee	31,587 sq.m. of shopping centre retail space, occupiers include Bhs, Poundland, Iceland and Superdrug	Invista Real Estate Investment Management for £31.2 million (9%)
St Johns Centre, St Johns Square, Perth	14,196 sq.m. shopping centre anchored by Primark	Universities Superannuation Scheme for £31.25 million (7.8%)
St Catherines Retail Park (South), Perth	Retail terrace adjacent to town centre	Moorgarth for £12 million (6.82%)

Based upon the IPD Quarterly Index, the total annual return for Scottish retail property for the year to June 2011 was measured at 8.1%, comprising income return of 6.1% and capital growth of 1.9%, despite a rental value fall of -2%.

Market Prospects

Prospects for the remainder of 2011 and the early part of 2012 are uncertain against a fragile economic background. Anticipated performance over the next six months is unlikely to be better than the past, albeit there will be specific market exceptions that may continue to buck the trend.

There are few signs that bank lending will relax and in turn instigate leveraged investment activity. Transactional activity will continue to be dominated by overseas investors, UK institutions and property companies, however there are clear signs that these buyers will be even more selective.

The prospect is that prime and secondary assets will continue to polarise, as will long and short term income transactions, in all but the very best of locations.

The Aberdeen office and industrial markets should continue to perform as occupier demand chases limited supply, particularly within the office sector. Income return allied to rental value growth will continue to drive this performance. Within this sub-sector the market may even witness speculative office development/funding.

Supply of prime office stock within the Edinburgh and Glasgow markets is also eroding and despite the uncertain economic climate, take-up remains stable. Rental value recovery is a real possibility. The absence of new development should also offer refurbishment opportunities.

Of concern is the proposed removal of vacant rates relief on commercial properties. Inevitably this would affect investor perception, influence decision-making and diminish value.

Other sub-sectors such as supermarkets, hotels within Edinburgh, student residences within Edinburgh and Glasgow as well as pre-let logistics will present opportunities for both developers and funders.

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