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Ryden

The Scottish Property Review

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UK Economy

Growth in output slowed from 0.7% to 0.3% between the third and fourth quarters of 2000 (source: ONS), the slowest quarterly growth rate since 1998 when the UK was suffering the consequences of the Asian economic crisis. For 2000 as a whole, GDP is estimated to have grown by 3%, above the Treasury estimate of 2.25% and an improvement on the 2.3% recorded in 1999.

The headline rate of inflation has continually fallen during the course of the past six months to stand at 2.7% in February 2001. The underlying rate, which excludes mortgage interest payments, fell to 1.9% in February, and has now remained below the Government-set target of 2.5% for 23 months.

Improvements continue in the UK labour market, with rising employment and falling unemployment between the three months from November 2000 to January 2001. According to the Labour Force Survey (LFS) employment rose by 102,000 over the three months to January to stand at 28.09 million, giving an employment rate of 74.8%. ILO unemployment stood at 1.54 million during November to January, a rate of 5.2%. The number of people claiming unemployment benefit fell by 10,600 to stand at 996,200, or 3.4% of the workforce, and is below 1 million for the first time since 1975. Nevertheless, expectations are that unemployment will start to rise again during the first half of 2001.

The UK's global trade deficit widened from £4.6 billion to £5.2 billion during the three months ending January 2001 (ONS). Treasury forecasts laid out in the March Budget suggest that the trade gap will continue to widen during 2001 and 2002.

The number of people claiming unemployment benefit fell below 1 million for the first time since 1975.

Scottish Economy

Output

Provisional estimates published by the Scottish Executive indicate that GDP rose by 0.7% in the third quarter of 2000. The construction industries experienced 9.3% growth on the previous year, with smaller increases for the service sector (0.3%) and production industries (1.6%). Manufacturing output increased by a marginal 0.1% on the previous year.

Recent results from the British Chambers of Commerce Quarterly Economic Survey indicate a steady growth in domestic markets for all sizes of firms over the last two quarters, with both Scottish sales and orders improving considerably. However, export sales have not made a significant improvement nationally and Scottish sentiment has deteriorated.

According to the Oil and Gas Index published by the Royal Bank of Scotland, UK oil production fell by 5.2% between December and January to stand at 2.3 million barrels per day. Production was 14% lower than the previous year and represents the lowest January total since 1993. The decline is thought to be temporary and output is forecast to rise later in the year. Gas production rose to its highest level since December 1999, with output increasing by 14.2%.

According to figures published by the Scottish Executive, export sales during the fourth quarter of 2000 were up £0.64 billion on the previous quarter and up £0.3 billion on the same quarter of 1999.

The Fraser of Allander Institute forecasts growth of 2% in the Scottish economy during 2001 and a further increase during 2002. At 2.6%, Cambridge Econometrics is a little more optimistic in respect of Scotland's growth for 2001, but expects a decline to 1.9% during 2002. However, more recently Business Strategies Ltd has revised downwards its forecast from 2.0% to 1.4% in light of the foot and mouth epidemic and US economic downturn. In due course, other forecasters are expected to do likewise.

Employment and Unemployment

ONS presents a positive picture of the Scottish labour market for the final three months of 2000, with an increase in the employment level and a drop in unemployment figures. Labour Force Survey data shows a rise in the numbers employed to 2,398,000, a rate of 74%. This represents an increase of 2.5% on the same period last year. The ILO unemployment measure fell to 160,000 (6.2%), a decrease of 29,000 on the year, while the number of people claiming unemployment benefit also fell to 108,200 (4.5%) in February. However, the unemployment rate for Scotland continues to be a percentage point above the UK rate.

Business Start-ups and Failures

Figures published by Scottish Enterprise show that the number of new businesses in Scotland fell by 12.4% during the first three-quarters of 2000 to stand at 13,107. Dun & Bradstreet's latest business survey shows that Scotland has experienced a drop in the number of business failures (-7%) along with most of the rest of the UK, with the exception of the NorthEast (increase of 11.8%) and the NorthWest (increase of 1.1%).

Investment and Job Creation

Scotland continues to dominate the call centre market in the UK, with some notable job announcements during the last six months. Among the most significant have been the establishment of a call centre in Glasgow by Thomson, creating 350 jobs over the next 3 years and Monster.com, the internet recruitment company which is to locate a European sales centre in the city providing 180 jobs. Manpower employment agency is to create 200 jobs at a new call centre in Scottish Borders which will be used for customer service and financial services, while National Australia Group is to recruit 500 employees in Kilmarnock for a tele-banking centre, part of an £80m investment to open summer 2001.

Merger discussions are ongoing between Halifax plc and Bank of Scotland which would result in a combined £28 billion company. The formation of the merged company and its headquaters would affect the employment and office landscape of Edinburgh but as its stands it would be premature to speculate.

Despite the fall in oil production, new jobs are being created in this sector. An investment worth £8.5 million by US oil services group Weatherford has led to 100 new jobs split between the company's manufacturing facility at Arbroath and headquarters in Aberdeen.

Scotland continues to dominate the UK call centre market

Job losses in traditional manufacturing industries in Scotland have been offset to an extent by several announcements in the last six months within the electronics and communications industries. Scottish Borders is to benefit from increased worldwide demand for telecommunications ducting systems through the creation of 100 new jobs at Mainetti Technology in Hawick. An £8.2 million joint venture between Edinburgh University and Scottish Enterprise is to provide 30 new jobs in the Capital at a Scottish Microelectronic Centre which will house young companies. Cumbernauld-based electronic systems design and supply company Nallatech is to create 70 jobs as part of a £2 million funding package from 3i and Scottish Equity Partners. However, a downturn in global demand for mobile telephones has caused the closure of Motorola's Bathgate plant resulting in the loss of 3200 jobs. In addition, 300 jobs are to be lost at the Japanese computer printer firm, OKI, in Cumbernauld. Meanwhile, GE Power Systems' engineering power plant in Clydebank has shed 150 workers after losing out on contracts.

Summary

The Scottish economy appears to be growing at a marginally slower rate than the national average. Recent announcements of threats to jobs in the electronics sector demonstrate a vulnerability of many locations to foreign-owned plants, especially those involved in lower value-added and lower skill activities.

Growth forecasts are being revised downwards and will need to take account of threatened jobs losses and plant closures. In spite of this, total employment in Scotland is projected to resume growth during 2002.

The retail sector is going through a period of uncertainty, particularly the fashion industry. There are however signs of a confident mood among discount and large space occupiers and this is being reflected in a number of transactions throughout Scotland.

A more mixed retail market is leading to both acquisitions and disposals. For example, demand from retailers requiring smaller unit shops has tailed off and at least ten are presently available on Princes Street, Edinburgh. Meanwhile, redevelopment of the premises at 83 Princes Street, Edinburgh formerly occupied by Etam now provides Superdrug with 560 sq.m. (6,000 sq.ft.) of retail space plus additional basement and first floor sales. Adjoining this, Sun Alliance has completed a similar redevelopment to the rear of the existing demise and lettings have been completed with both GAP and Footlocker. In both instances this reflects a headline rental of £240 per sq.ft. Zone A with the tenants receiving packages of incentives. Elsewhere in Princes Street, Redevco, the property arm of BHS has acquired the adjoining interest of GUS formerly trading as Burberrys. It is understood that an extensive retail and office development will be undertaken, again with the intention of meeting the requirements of large space, discount occupiers. Out-of-town, Forth Kinnaird recently launched with a host of new retailers and Ocean Terminal, Leith is under construction.

A more mixed retail market is leading to both acquisitions and disposals.

In Glasgow the position is more complex as the city's prime Buchanan Street is affected not only by wider trends, but also reflects a local market where rentals have increased considerably and substantial new development came onstream at Buchanan Galleries and out-of-town at Braehead. Consequently, rentals have stabilised and a number of prime units are available. In Buchanan Street, USC has taken a sub lease from Warner Brothers of a store extending to 1,200 sq.m. (13,000 sq.ft.), at what is understood to be a revised rental of £775,000 per annum.

Throughout Scotland the position is similar in respect of limited market expansion, but notable consolidation on existing prime shopping streets. The disposal programme undertaken by variety store C&A has allowed Primark to acquire new stores in Aberdeen, Dundee, Stirling and Braehead, with premiums being paid or in the case of the latter two deals being structured on a new lease basis. Elsewhere, TGQ acquired the C&A in Glasgow and Hennys the C&A interest in East Kilbride.

Where demand for smaller unit shops exists, this is driven predominantly by phone retailers including Phone 4U and new operators including Pocket Phone Shop, The Phone People and the Mobile Phone Store.

Analysis of recent prime retail property transactions confirms that the Ryden Scottish Shopping Centres Index, shown on the chart opposite, has not shifted during the past six months. The most recent market cycle has brought significant rental growth to the five main cities, averaging 52% between 1995-2001. A number of larger towns such as Stirling, East Kilbride and Livingston have also enjoyed strong rental growth, however for many of the remainder the challenge has been to hold their positions in the retail hierarchy. The continuing low growth retail environment is likely to exert similar pressures for the foreseeable future.

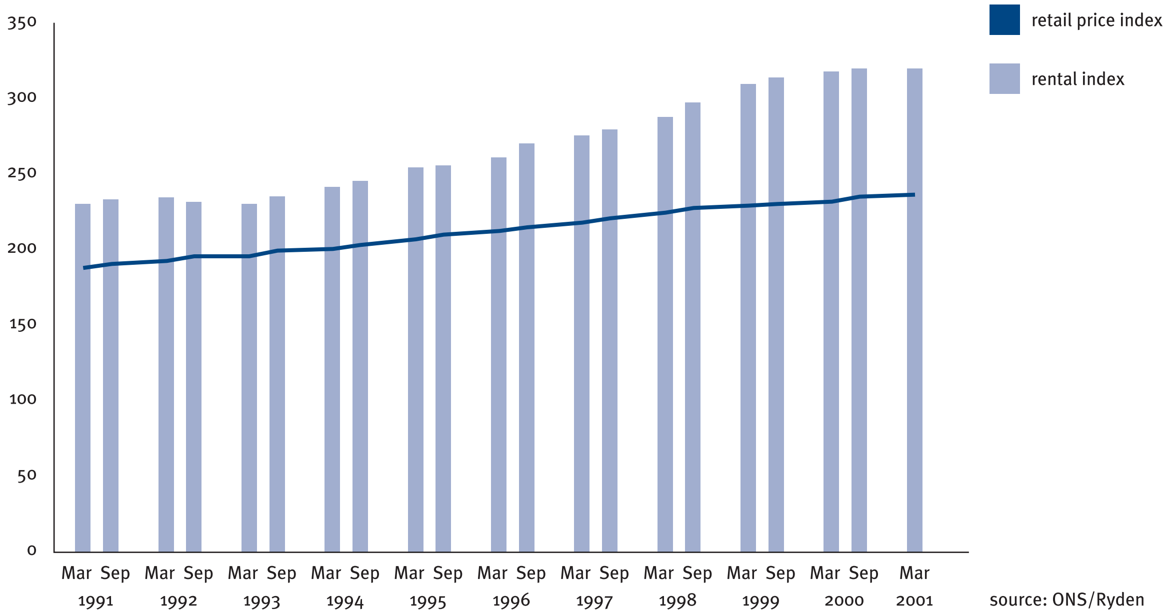
Scottish Shopping Centres

Location	Zone A rate per sq.ft.
Aberdeen	142
Airdrie	42
Ayr	70
Clydebank	60
Coatbridge	43
Cumbernauld	48
Dumfries	58
Dundee	120
Dunfermline	60
East Kilbride	115
Edinburgh	240
Edinburgh (Gyle)	165
Elgin	40
Falkirk	80
Galashiels	35
Glasgow	220
Glasgow (Braehead)	145
Glenrothes	45
Greenock	67.50
Hamilton	55
Inverness	97.50
Irvine	47.50
Kilmarnock	55
Kirkcaldy	55
Livingston	75
Motherwell	48
Paisley	65
Perth	72.50
Stirling	85
St. Andrews	37.50

Notes

1. The Zone A rates reflect rents which have been achieved in the market and do not anticipate levels where there has been a lack of market evidence.
2. The Zone A rate relates to the prime pitch.
3. 30ft. Zone A.

Retail Index



source: ONS/Ryden

Glasgow

Strong demand from IT-based companies, particularly in the software, call centre and financial services sectors, continues to drive the Glasgow office market.

Take-up for the 12-month period to March 2001 totalled 83,613 sq.m. (900,000 sq.ft.), well above the 10 year average of 60,385 sq.m. (650,000 sq.ft.). Three-quarters of take-up has been within the city central core, and 88% has been for modern or refurbished space. There is currently a total of 142,140 sq.m. (1.53 m sq.ft.) supply available across all ranges of size and quality of space within Glasgow, indicating an estimated vacancy rate of 7.6%.

While the twelve month total is impressive, the last six month period has seen a fall in the rate of take-up to 33,855 sq.m. (364,425 sq.ft.). This is attributed primarily to the lack of supply of medium-rented city centre offices and a dearth of any sizeable space on business parks. Occupiers have relatively limited choice of product, particularly for new, refurbished or equivalent second hand buildings offering floorplates over 743 sq.m. (8,000 sq.ft.), where there are only four options in the central core. Those companies seeking an early move to larger premises over 2,787 sq.m. (30,000 sq.ft.) are also very restricted for choice with only a handful of buildings of varying quality presently available. There is relatively limited development underway in the central core. Four projects totalling 20,438 sq.m. (220,000 sq.ft.) are programmed to complete between August 2001 and March 2002.

Notable transactions during the last six months include:

- Bank of Scotland taking the eighth floor at 123 St Vincent Street (1,361 sq.m./14,650 sq.ft.)
- Aberdeen Asset Management plc securing the seventh floor at 123 St Vincent Street (1,454 sq.m./15,650 sq.ft.)
- Standard Life taking two floors at 180 West George Street (1,466 sq.m./15,780 sq.ft.)
- Michael Page leasing the sixth floor at 180 West George Street (561 sq.m./6,040 sq.ft.)
- Hilton Reservations relocating to 4 Cadogan Square (3,543 sq.m./38,140 sq.ft.)
- House of Fraser secured space at Granite House, Stockwell Street (1,300 sq.m./ 14,000 sq.ft.)
- Various lettings including NHS Direct and Health Technology Board for Scotland at Delta House, West Nile Street totalling 1,440 sq.m. (15,500 sq.ft.)
- Melville Craig relocating to Madelaine Smith House, Blythswood Square (1,193 sq.m./ 12,840 sq.ft.)
- Level-One expanding into a further floor at 9 George Square (646 sq.m./6,950 sq.ft.)
- Cap Gemini expanding into a further floor at Regent Court, West Regent Street (511 sq.m./5,500 sq.ft.)

Rental levels at the top end of the market have moved ahead from £215 per sq.m. (£20 per sq.ft.) to £247 per sq.m. (£23 per sq.ft.).

To the west of the city core, Akeler Developments has commenced a speculative 7,153 sq.m. (77,000 sq.ft.) office building adjacent to the new Scottish Daily Record HQ, which is programmed to complete end 2001/ early 2002. To the east, the former Wills Factory at Alexandra Parade is being comprehensively refurbished as City Park and will provide up to 27,870 sq.m. (300,000 sq.ft.), offering large, open-plan floorspace at competitive rental levels, to be marketed primarily at call centres and software/hi-technology companies.

Rental levels at the top end of the market have moved ahead from £215 per sq.m. (£20 per sq.ft.) one year ago to a current headline figure of £247 per sq.m. (£23 per sq.ft.) achieved recently at new developments at 123 St Vincent Street and 180 West George Street. Refurbished open-plan office space can vary between £150 and £199 per sq.m. (£14 and £18.50 per sq.ft.) dependent upon quality and location.

With the exception of Arlington's Glasgow Business Park to the east, where up to 1,050 sq.m. (11,295 sq.ft.) is available, there is virtually no other business park space currently available within the City. A limited amount of space remains available at Strathclyde Business Park, Bellshill. Planning applications have been submitted for additional speculative office buildings of 2,787 sq.m. (30,000 sq.ft.) and 5,574 sq.m. (60,000 sq.ft.) at Pacific Quay to the south of the River Clyde and further announcements are anticipated at Hillington and Glasgow Airport Business Park. Top quality business park space including raised floors and comfort cooling has secured rentals of £161 - £172 per sq.m. (£15 - £16 per sq.ft.), with increased levels of £177 - £188 per sq.m. (£16.50 - £17.50 per sq.ft.) likely to be quoted for future phases.

Edinburgh

The Edinburgh property market awaits the implications of a more uncertain business climate. Local markets cannot escape world events, however impacts will probably not be known for a number of months. For the moment, the fundamentals of the national economy and the property sector in general are sound and locally the continuing severe supply/demand imbalance should stand the Edinburgh office market in good stead. Since Christmas 2000, over 32,515 sq.m. (350,000 sq.ft.) of modern, open-plan floor space has been let in Edinburgh to organisations such as Royal Bank of Scotland, Friends Ivory and Sime, MWB and Baillie Gifford.

As predicted in our last Review, a shortage of new developments has hindered take-up over the last six months. The 12 month take-up figure at 91,000 sq.m. (979,531 sq.ft.) is close to the 92,900 sq.m. (1 million sq.ft.) of take-up which has occurred over the previous three years, ahead of the previous ten year average of 72,000 sq.m. (775,000 sq.ft.).

Supply at March 2001 equated to 100,574 sq.m. (1,082,577 sq.ft.). However, this figure is misleading in that only 18,580 sq.m. (200,000 sq.ft.) of this floor space is in open plan units greater than 929 sq.m. (10,000 sq.ft.). Only three buildings larger than 1,858 sq.m. (20,000 sq.ft.) and only two buildings over 3,716 sq.m. (40,000 sq.ft.) are available.

Over 70% of demand from occupiers is for city centre locations. Requirements for large floor plates, particularly in the financial and IT sectors, has precluded many major occupiers considering the city centre, due to a combination of conservation restrictions and a limited supply of suitable sites.

A shortage of sites in the original Exchange district has resulted in a move southwards to Fountainbridge. Edinburgh Quay and City Mark, providing 11,148 sq.m. (120,000 sq.ft.) and 9,290 sq.m. (100,000 sq.ft.) respectively, are leading the spread of the Exchange in this direction. While a number of smaller lettings have occurred in excess of £323 per sq.m. (£30 per sq.ft.), Edinburgh One, Morrison Street let at £312 per sq.m. (£29 per sq.ft.) to Scottish Widows Investment Partnership is still regarded as the benchmark prime rental. At the east of the city centre, 70% (9,750 sq.m./105,000 sq.ft.) of Pillar Property/Parlison's Calton Square has been pre-let to Baillie Gifford.

Since Christmas 2000, over 32,515 sq.m. (350,000 sq.ft.) of modern, open-plan floor space has been let in Edinburgh.

Financial services and IT occupiers have largely been willing and able to pay the high prevailing rental levels in Edinburgh. A hard core of professional organisations remains either unwilling or unable to breach £269 per sq.m. (£25 per sq.ft.). Until a more balanced office market returns to Edinburgh, these occupiers may be precluded from expanding.

At West Edinburgh, Chase Manhattan has concluded a deal on a building at Edinburgh Park, which takes out-of-town office rentals to a new high of £274 per sq.m. (£25.50 per sq.ft.). Nearby, EDI's South Gyle Crescent scheme will provide 17,187 sq.m. (185,000 sq.ft.) of flexible accommodation.

In the townhouse market, lettings are most active among smaller buildings in the 186-232 sq.m. (2,000-2,500 sq.ft.) bracket. Larger townhouse buildings in the 372-465 sq.m. (4,000-5,000 sq.ft.) range are proving more difficult to let to single occupiers. However, the shortage of modern, open-plan space, and the price sensitivity of the professional sector could see a revival in the fortunes of these larger buildings. Landlords who are prepared to be flexible in terms of lease length and number of occupiers are having greater success at the present time. Townhouse buildings available for sale with vacant possession are continuing to sell well, both for office use and for residential conversion.

A number of interesting schemes have recently been announced, one of the most significant being Waterfront Edinburgh Ltd's imaginative plans for the Granton area. While requiring vision, this scheme will provide Edinburgh with office and business opportunities. Developments proposed at Newbridge, Sighthill and South Gyle will further assist the market. Any concerns that these developments could create an over supply are mis-conceived as together they represent a much-needed long-term development pipeline for the city.

Aberdeen

2001 has had a very encouraging start, with a sharp increase in the number of enquiries received for office accommodation in the City. Business confidence remains relatively high as a result of the ongoing recovery in the North Sea Oil Industry. The price of oil has fallen since our last report to around $25 per barrel. This more sustainable level should help bring welcome stability to the property market. Take-up of floor space over the last 6 months has fallen slightly by 5% to 21,832 sq.m. (235,000 sq.ft.). Despite the fall, take-up is still 35% higher in comparison with the same period last year.

Recent significant lettings are:

- Talisman Energy has now relocated from 1 Berry Street to a new 8,919 sq.m. (96,000 sq.ft.) facility on Holburn Street, developed by European Development Company Ltd. Talisman Energy has taken a 25 year lease subject to a tenant's break option after 15 years at an initial rent equating to £182 per sq.m. (£16.90 per sq.ft.).
- Atlantic Telecommunications Ltd has leased the 1,797 sq.m. (19,344 sq.ft.) refurbished Braemar House, 267 Union Street from new owners Chancery Gate. The lease period expires in March 2023 and there is a tenant's break option in March 2014. The initial rental agreed equates to £86 per sq.m. (£8 per sq.ft.). Braemar House has no parking facilities.
- Wood Group Engineering Ltd has taken a short term lease of a 742 sq.m. (7,985 sq.ft.) refurbished suite within Ebury House on Dee Street, presently owned by Spirit IV Ltd. The rent agreed for a two-year commitment was £129 sq.m. (£12 per sq.ft.).

These deals illustrate the wide variance in rentals throughout the city, reflecting differences in accommodation, amenities and location. Although the rentals are relatively low in the case of Braemar House and Ebury House, it is encouraging that these office buildings have benefited from the recent increase in letting activity, after lying vacant for several years.

Certain office buildings have benefited from the recent increase in letting activity, after lying vacant for several years.

Encouragingly, current enquiries emanate from a wide range of industry sectors. The majority of requirements are for accommodation under 186 sq.m. (2,000 sq.ft.), although there has also been a rise in demand for accommodation between 465 sq.m. (5,000 sq.ft.) to 929 sq.m. (10,000 sq.ft.).

Following the completion of the Seafield House extension for Chevron and Talisman House on Holburn Street, new construction in the City is limited to Riverside House on Riverside Drive, which is being developed by Morrison Development Partnerships Ltd and is due for completion early 2002. The 4,900 sq.m. (52,750 sq.ft.) building is part pre-let to Gainsborough Business Centres for a serviced office operation. The refurbishment of Johnstone House on Rose Street by Miller Cromdale Ltd is also nearing completion and 1,974 sq.m. (21,253 sq.ft.) has been pre-let to local solicitors Ledingham Chalmers for a period of 20 years. The rent payable is understood to be in the region of £172 per sq.m. (£16 per sq.ft.) although as part of the deal the developer has taken on Ledingham Chalmers' leasehold obligations at its existing properties in Golden Square.

Last year's two speculative developments, Knight Real Estate's 1,234 sq.m. (13,283 sq.ft.) Centre 2000 building at Kirkhill and G & J Investments' 1,486 sq.m. (16,000 sq.ft.) Bishop's Court development at 29 Albyn Place, are now both under offer with tenants expected to take entry by the beginning of May. Construction work on Esson Properties Ltd's 1,521 sq.m. (16,370 sq.ft.) Blenheim Gate development near Queens Cross is expected to start shortly.

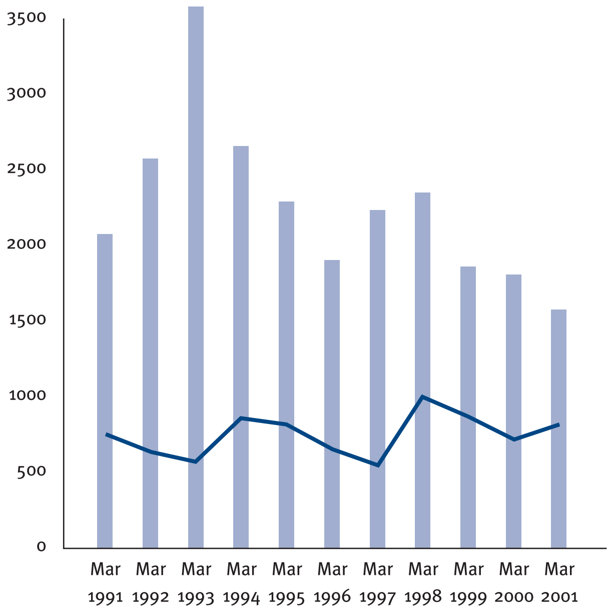
Supply of vacant office space in the City has increased to 91,639 sq.m. (986,404 sq.ft.). Once again, a significant proportion of this space is below the standard required by most occupiers in today's market. The rise in the available stock is mainly attributable to Silverburn House, which will become vacant in May following Total Fina Elf's relocation to Altens. Kuwait Finance House, the owner of the 11,427 sq.m. (123,000 sq.ft.) building, intends to refurbish a minimum of one floor shortly after Total Fina Elf's departure.

The outlook for the remainder of 2001 is more positive than 1999 and 2000 and the current level of requirements circulating the market indicates the likelihood of some major lettings later in 2001 or early in 2002.

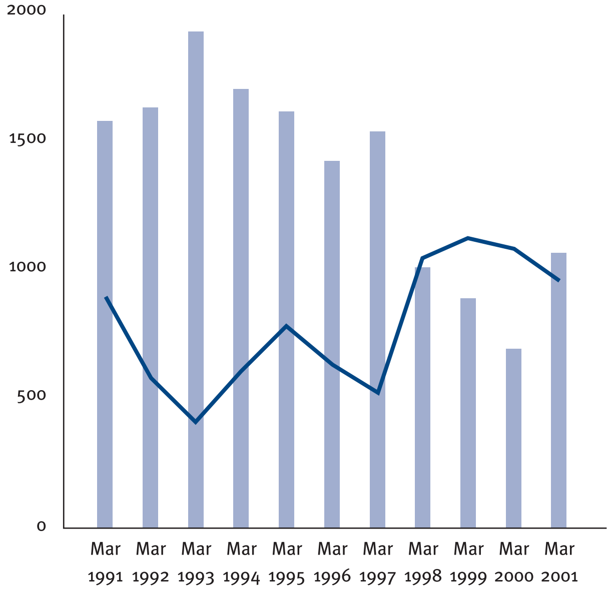
Office Supply and Take-Up

take-up (000's sq.ft.)

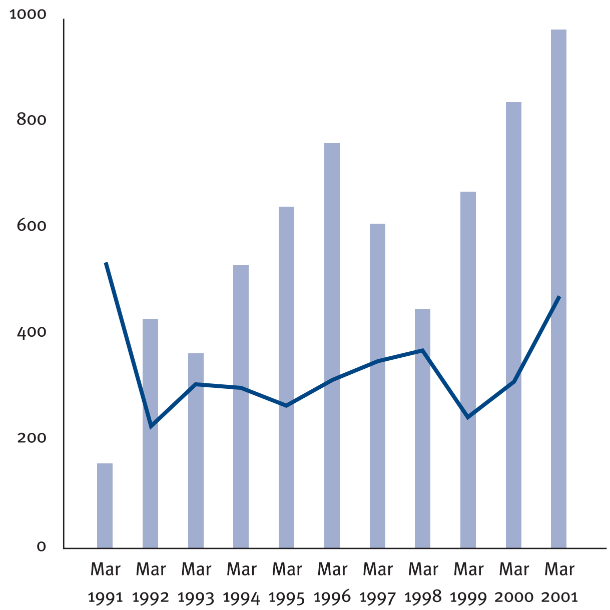
supply



Glasgow



Edinburgh



Aberdeen

source: Ryden/SPN

West of Scotland

The threat of downturn in the economy has not yet been manifested in reduced demand for industrial property in the West of Scotland.

In-house research confirms that enquiry levels have increased in comparison with the same period last year, indeed during March the highest level of enquiries for many years was recorded. Interestingly, the highest percentage was targeted towards units in excess of 1,858 sq.m. (20,000 sq.ft.). Scottish Property Network confirms continuing demand, recording a reduction in available supply during March of around 9% from the previous month and an increase of 30% in numbers of transactions.

This more active market has triggered prime rental growth over the last 12 months. Standard rents for new industrial accommodation in prime locations around Glasgow are now within the range £54 - £59 per sq.m. (£5 - £5.50 per sq.ft.), with exceptional locations such as Glasgow Airport achieving base rents of £67 per sq.m. (£6.25 per sq.ft.).

One of Scottish Enterprise Glasgow early strategic sites, Cambuslang Investment Park has secured Scottish Media Group's new printing facility and John Menzies is also to locate a new distribution facility here. Portal Developments is expected to progress a new phase of speculative units at Cambuslang Investment Park and Wilson Bowden is completing extensive ground works in advance of developing a speculative 5,580 sq.m. (60,000 sq.ft.) unit, and is also reported to be in advanced negotiations concerning a 10,220 sq.m. (110,000 sq.ft.) pre-let distribution facility.

In-house research confirms that enquiry levels have increased in comparison with the same period last year

The success of Scottish industrial developments has not gone un-noticed and a number of English based developers are now foraging north of the border, for example Welbeck Land Ltd. has secured two development opportunities at either end of the M8 motorway at Gateway Distribution Park, Newhouse and Edinburgh Interchange, Newbridge.

At Hamilton International Technology Park, Akeler Scotland Ltd's speculative development of 11,620 sq.m. (125,000 sq.ft.) of accommodation has borne fruit with lettings to Edgecom Instruments and CTS plus a third unit currently under offer.

Meanwhile, new development continues at Hillington Industrial Estate to the West of Glasgow through the activities of developers Caledonian Land, Ebury Properties and Whiteford/Morrison Developments.

This combination of continuing new supply in tandem with increased transactions can be seen on the figure overleaf. Supply of new-build industrial floorspace in the West of Scotland is holding steady at around 88,000 sq.m. (950,000 sq.ft.), despite take-up having accelerated considerably to just under 46,000 sq.m. (approximately 500,000 sq.ft.). Market prospects remain good based upon anticipated activity over the short term, however a slowing manufacturing sector and weaker export markets may place greater reliance upon services-related activity by late 2001 and into 2002.

East of Scotland

The most significant distribution deal to be agreed in West Lothian for some time has just been finalised at Junction 4 of the M8 motorway. A pre-letting at a rental understood to be in the region of £55 per sq.m. (£5.10 per sq.ft.) has been agreed to Scottish Courage for a 11,613 sq.m. (125,000 sq.ft.) distribution facility. It is also rumoured that a food retailer is considering J4M8 for a major new facility.

West Lothian Council Planning Department is also currently considering no less than nineteen separate applications for industrial development projects in Livingston, which together total in excess of 46,450 sq.m. (500,000 sq.ft.).

Indigenous demand for medium sized industrial space 1,394 – 2,787 sq.m. (15,000 -30,000 sq.ft.) remains strong and has pushed rentals to in excess of £65 per sq.m. (£6 per sq.ft.) and capital values well over £538 per sq.m. (£50 per sq.ft.).

West Lothian Council is currently considering nineteen separate applications for industrial development.

At Edinburgh Interchange, adjacent to Newbridge Roundabout, developers Hanover Unit Property Trust and Welbeck Land Ltd are currently midway through construction of seven units ranging in size from 1,500 sq.m. (16,000 sq.ft.) to 4,645 sq.m. (50,000 sq ft) on a 6.3 hectares (15.5 acre) site. Also under construction is Premier Property Group's Edinburgh E-State, which will comprise a total of 18,137 sq.m. (195,231 sq.ft.) of business space accommodation aimed at office, telecom, light industrial and IT companies. New developments in and around Edinburgh are letting at rentals between £56.50 - £62 per sq.m. (£5.25 - £5.75 per sq.ft.). Evidence of the strength of the market for the smaller accommodation (232 – 929 sq.m./2,500 – 10,000 sq.ft.) has been demonstrated by Rower Developments Ltd on Newhailes Industrial Estate, Musselburgh, where five out of the six units were pre-let. The most significant hotspot on the south side of Edinburgh in recent years has been Bilston Glen in Loanhead, which has had a number of speculative schemes succeed and also direct land sales by Midlothian Council for owner-occupiers. It is notable that all of these new development locations lie on the Edinburgh periphery around the City Bypass.

North of the River Forth, Fife's recent success stories include ADC, which aims to employ a total of 1,400 people once its 34,838 sq.m. (375,000 sq.ft.) facility at Bankhead Park in Glenrothes is complete. In Dunfermline, the sale of the former Grove TK Factory at Pitreavie Business Park has recently concluded to Palmer & Harvey, already based on the estate. The company's existing building is approximately 5,109 sq.m. (55,000 sq.ft.) and the new building is 18,098 sq.m. (194,809 sq.ft.) on 6.7 hectares (16.5 acres).

Total supply of new-build industrial accommodation in the East of Scotland is virtually identical to the West of Scotland, at circa 88,000 sq.m. (950,000 sq.ft.), however take-up is less strong and developers will monitor closely events at major manufacturing employers over the current months.

Aberdeen

The recovery of the Aberdeen industrial market on the back of increased offshore investment has taken longer to arrive than first anticipated, but the last 6 months figures confirm a 50% increase in take-up to 33,032 sq.m. (355,553 sq.ft.) and a 100% increase in the number of transactions. Supply also showed a marginal increase (5.5%), masking a decrease in availability in all size ranges except 929-1,858 sq.m. (10,000-20,000 sq.ft.).

The increase in take-up of small to medium sized facilities and the placing on the market of additional larger units reflects structural change in the market during the last two years. Many young technology companies are now seeking to expand and there has been a corresponding loss of medium to large space users through mergers or take-overs. Existing stock continues to be almost exclusively of a second hand nature, not particularly suitable for or attractive to emerging new technology industries.

Significant transactions over the period include:

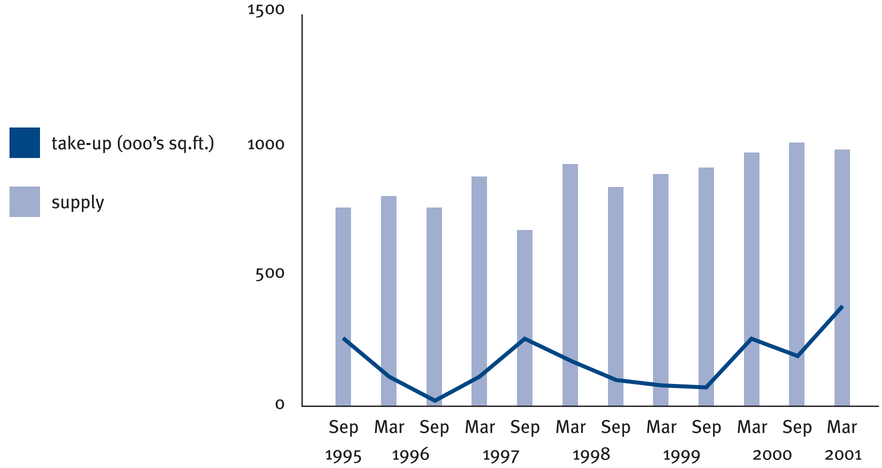
- Sale of a 3.2 hectares (8 acre) site at Craigshaw Road, West Tullos to Knight Real Estate for £2 million, now marketed as offering office/industrial design-and-build opportunities.
- Sale of a 990 sq.m. (10,659 sq.ft.) warehouse/office facility at Silverburn Place, Bridge of Don to HRH Ltd for £250,000. The site extends to 0.4 hectares (1.05 acres) and is on a long-term ground lease at an annual rental of £16,800 per annum.
- Letting of a 1,309 sq.m. (14,093 sq.ft.) warehouse/office facility at Kirkton Drive, Raiths Industrial Estate to IAC Ltd for a term of 10 years at a rental of £65,000.
- Letting of a 924 sq.m. (9,942 sq.ft.) warehouse facility to Bellhaven Breweries at Hareness Circle, Altens for a term of 10 years at a rental of £43,000.

The land supply situation has eased a little with sites at Peterseat and Altens East now confirmed for industrial use, although Altens East is unlikely to be readily available in the short term. Further easing of the situation through introduction of the 67 hectares (165 acres) designated south of Aberdeen Airport also seems unlikely in the short term, due to the high cost of off-site roads and infrastructure and the complication of multiple ownerships. Prices for the few sites available continue to be driven up by lack of supply. Baker Hughes recently placed its 5.07 hectares (12.5 acres) site at Dyce Drive on the market with an asking price of £2.5m (£493,000 per hectare/£200,000 per acre).

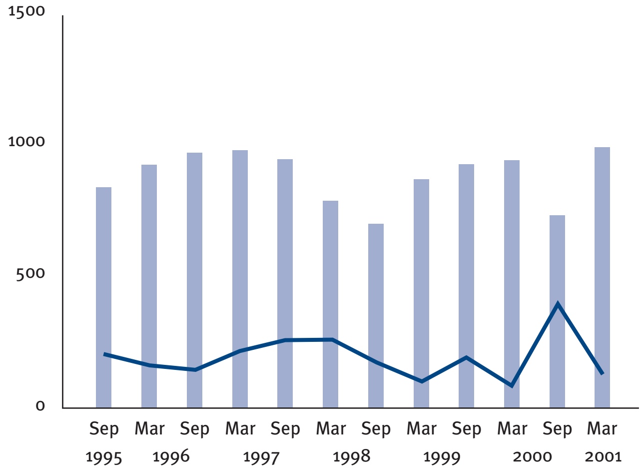
The land supply situation has eased a little with sites at Peterseat and Altens East now confirmed for industrial use.

Although the Aberdeen industrial market requires new stock, escalating land values and investment yields stuck in the 8-9% bracket have restricted opportunities for speculative development. Strengthening demand and lower interest rates may be help redress this balance, but a significant increase in land supply is also required to provide space for the next generation of development. The large number of inner city industrial sites now being considered for alternative uses, principally residential, places further pressure on supply of industrial land and buildings.

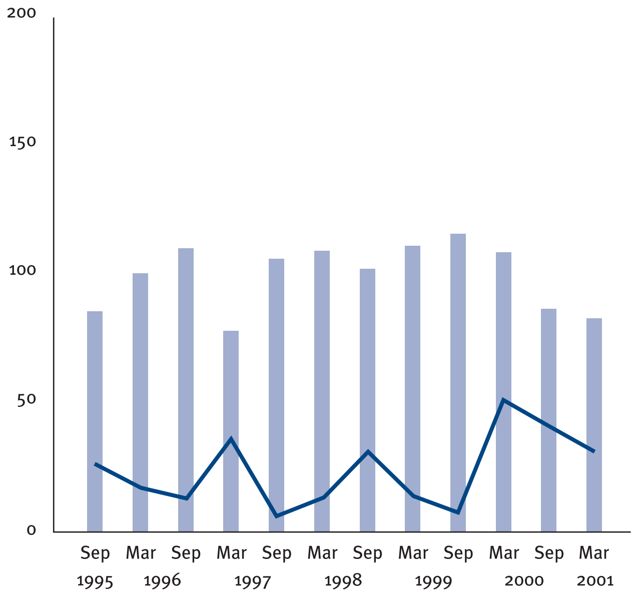
New Industrial Supply and Take-up



West of Scotland



East of Scotland

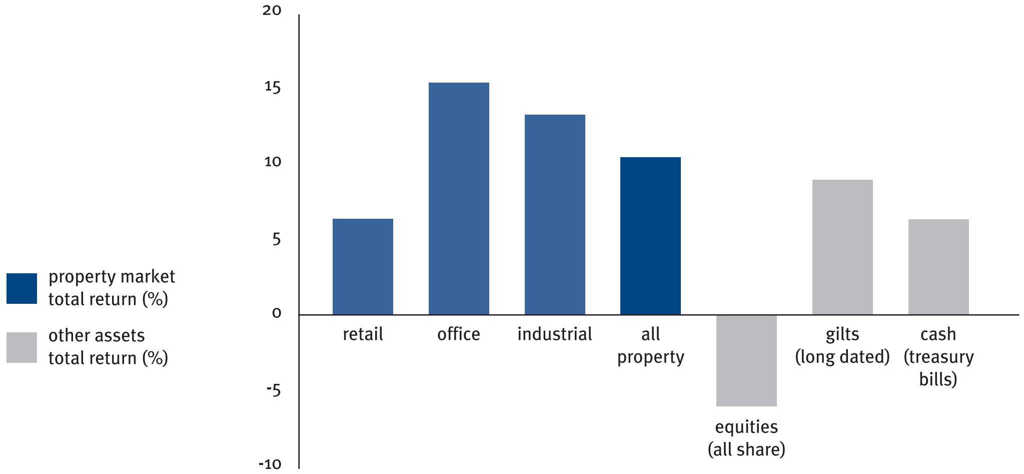


North of Scotland

source: Ryden/SPN

Overview

The year 2000 ended on a high note for property as total UK property returns, as measured by IPD, out-performed the other asset classes.



source : IPD

As equities markets have fallen, firstly to reflect prospects in a low growth environment and now due to concerns about the corporate sector, property continues to offer investors attractive levels of return. Somewhat ironically, institutional demand for property has been adversely affected as falling equity values skew investment weightings of fund managers' ideally balanced portfolios, making many of them 'over-weight' in the property sector.

The reluctance of institutions to acquire, and indeed their desire to sell property, has had an adverse effect on the confidence of the market. The property market has traditionally depended upon the institutions as a solid foundation of demand, particularly for prime investment stock.

The most competitive bidders are the geared property companies and private investors.

The reduced significance of the institutions is however a long term trend and the availability of debt finance at lower and lower levels has already resulted in the most competitive bidders for almost all property being the geared property companies and private investors, often in consortia. This will continue to be the case, and it is a challenge for the property industry to also make the market user-friendly for the less experienced individual investors, many of whom will hold cash until the equities markets bottom out.

Industrial

Although industrial returns continue to be strong (13.8% on UK IPD portfolio), with average return from income at 8.4%, activity in Scotland during this period has been relatively subdued. Yields generally have stabilised having fallen steadily over the last few years.

There has been little transactional activity during the review period. Irish investor W G Mitchell Limited has purchased 49 multi-let units forming Wardpark North and East Industrial Estate in Cumbernauld from Ashtenne for £7.25 million. The conversion of former industrial property to other uses continues in areas of high land value such as West Edinburgh. Flexible business space units are now being developed speculatively in key locations to meet unsatisfied demand for new space.

Retail

While property out-performed other assets in 2000, the overall performance did deteriorate from 1999. Much of last year's deterioration was due to retail and an average yield shift of -0.2% over the year together with a slow down in rental growth to circa 4% from the previous five year average of circa 6%. These statistics confirm the experience of the markets where retail is out of favour and there has been relatively little activity in the investment market. There has been a strong reaction from investors to the well-publicised problems in the High Street as some retailers struggle to adapt to a fast changing environment. There are of course always success stories and particularly in areas which missed the last boom, there are opportunities for rental growth. Where yields have moved outwards reflecting general market sentiment, the prospect for above average returns is genuine.

Larger lot sizes of shopping centres and their intrinsic ability to be 'worked' are leading to acquisitions in this sector. Retail warehousing and High Street units continue to reflect a mixed picture. There remains a shortage of larger units in many prime High Street pitches and these are likely to survive a rationalisation of retailer demand in good heart.

The transfer of property ownership from institutions to geared vehicles comprising private individuals is typified by the sale of the Hamilton Portfolio by Scottish Widows Investment Partnership. This is a portfolio of well-let single shop units in market and provincial towns providing a total lot size of £65 million.

Offices

Total returns in the office sector topped the table in the year to December 2000 at 15.5%, benefiting from rental growth at 12.8%, almost double that of the previous year. This has been led in the UK by strong growth in Central London. In Scotland, total returns were lower (11.7% in the year to December 2000) but remain strong and are led by a similar influence from Edinburgh. Rental growth in Edinburgh reflects strong demand from major companies and a restricted supply of Grade A space.

The emergence of non-institutional investors is typified by the purchase of the pre-let Calton Square office scheme in Edinburgh by Matrix Securities. A number of other significant office investment transactions have occurred in Edinburgh, including 25 St Andrew Square, 1/2 St Andrew Square, 1 & 2 Lochside Way, 1 Castle Terrace, 40 Torphichen Street and two buildings at Almondvale Business Park in Livingston. Prime yields for rack-rented stock in Edinburgh are confirmed at 6.5%.

Aberdeen is being identified once again as a contra-cyclical investment opportunity.

Security of cash flow is increasingly key in this market and Prudential Portfolio Managers' purchase of Pentland House in Edinburgh reflects this. This property has been allocated to a Property Bond Fund and was purchased reflecting a net initial yield of 7.4%.

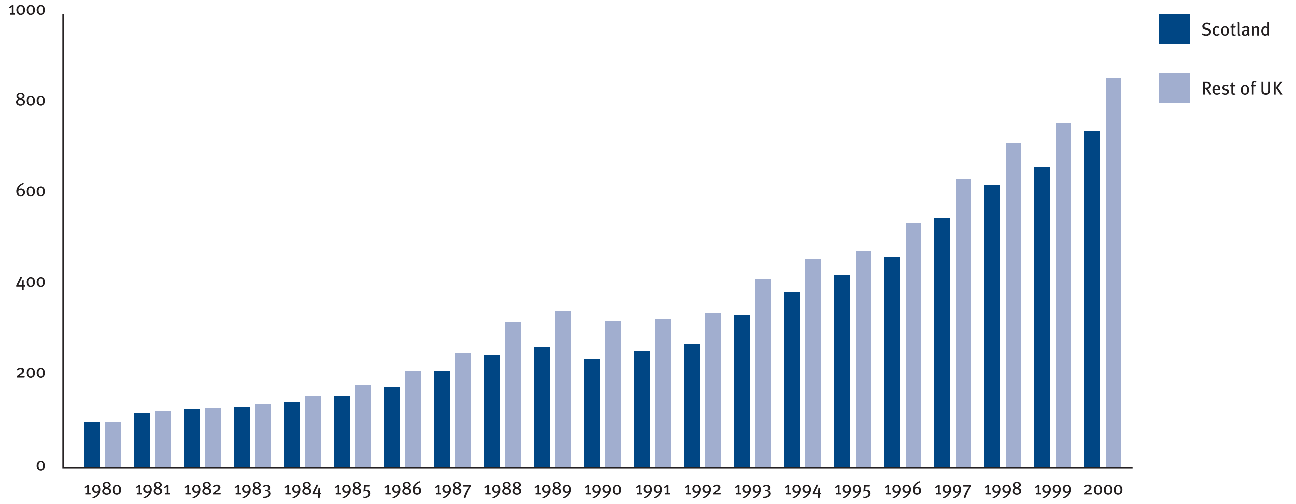
In Glasgow, there have also been a number of transactions, although none in the traditional prime area. These include Tay House, George House, St Andrews House, 1 & 2 Cadogan Square, Citypoint, Caledonia House and the Medi Park at Strathclyde Business Park. The Glasgow office market continues to improve with rental growth evident in the core area. There has also been strong developer interest in Glasgow reflected in Commercial Estate Management's purchase of Standard Life House and the Cuckfield Group's purchase of Baltic Chambers. Both are short-term income producing properties with redevelopment prospects.

Yields are currently driven by debt capacity, with well-let, long-term income attracting a premium due to attractive finance opportunities. Prime yields for Glasgow offices are assessed at 7%.

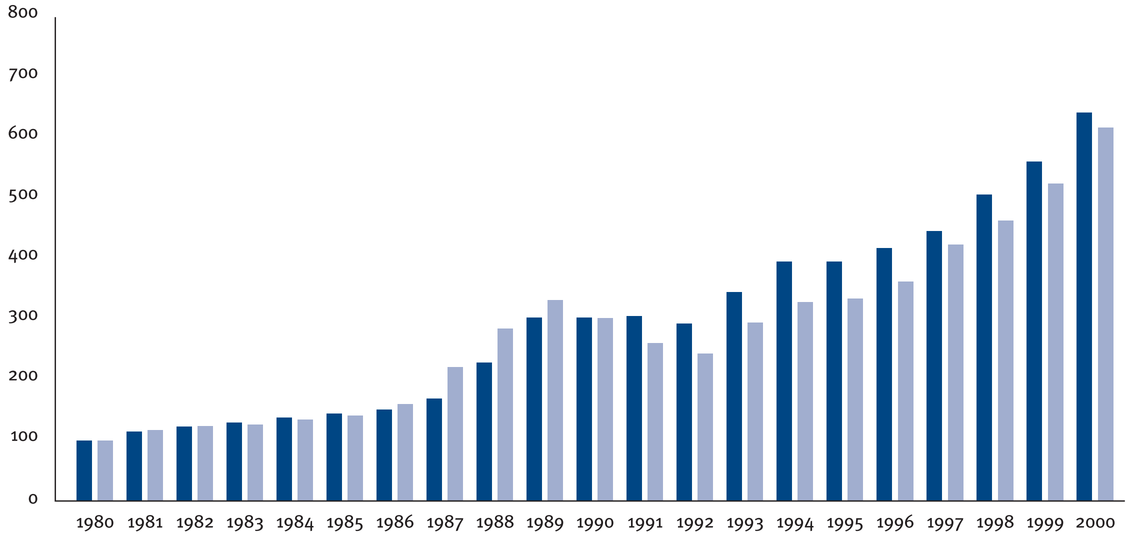
Aberdeen is being identified once again as a contra-cyclical investment opportunity and consequently there has been an increase in investor activity over the last six months. Miller Group led the way with its purchase of the completed Bridge View scheme together with Johnston House, a package providing secure income flow and a phased refurbishment opportunity.

A number of buildings which have been available for sale have now attracted bids at acceptable levels and deals are anticipated at Talisman House, Regent Centre and Alba Gate. Yields in Aberdeen continue to be close to 8% for prime office stock.

Retail: Total Returns 1980-2000



Office: Total Returns 1980-2000



Industrial: Total Returns 1980-2000