Ryden

THE SCOTTISH PROPERTY REVIEW OCTOBER 2001 No 49

Ryden

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ECONOMIC COMMENTARY BY ECONOMIC RESEARCH SERVICES

UK ECONOMY

A slowdown in UK economic growth to 2.1% in the twelve months to June 2001 accompanies a period of concern over the condition of the global economy. Though concerns originated with slower growth in the United States, weaker growth is now seen in the EU economies, while anxiety over the condition of the Japanese economy has re-emerged.

Inflation is at its lowest level since the 1960s, helping to keep interest rates at historically low levels. Underlying inflation for 2001 is forecast at 2.0%.

Results for the labour market are mixed. Employment remained static between quarters one and two and unemployment decreased during the period April to June 2001. Latest claimant count figures (3.2%) are the lowest since September 1975. According to the latest Labour Force Survey, the employment rate increased by 0.2% over the year to 74.8%, while ILO unemployment fell to 5.0%.

IN THE WAKE OF THE TERRORIST ATTACKS IN THE USA, ALL ECONOMIC FORECASTS ARE NOW SUBJECT TO REVISION.

SCOTTISH ECONOMY

Provisional estimates published by the Scottish Executive indicate that the Scottish economy strengthened in the fourth quarter of 2000, although the year-on-year change was below the long-term trend. Both manufacturing and services under-performed, although the service sector performed better in Scotland than in the UK as a whole. Official figures produced by the Scottish Executive Rural Affairs Department show that 2000 was another difficult year for Scottish agriculture, with average net farm incomes falling for the fifth consecutive year. Such problems are likely to be exacerbated over the coming year as a result of the foot and mouth outbreak.

Recent results from the British Chambers of Commerce Quarterly Economic Survey depict continued positive performance in orders and output in the manufacturing sector, but weak optimism in the service sector despite less marked reductions in demand.

According to the Oil and Gas Index published by the Royal Bank of Scotland, production fell in June, the third monthly fall in a row. Based on this, annual oil production for 2001 is projected to be down some 8% on the year. The story for gas is more positive and it is expected that 2001 production will be broadly similar to last year's record levels.

According to estimates from both Business Strategies Ltd and Cambridge Econometrics, output growth in Scotland during 2001 and 2002 will be substantially below the UK average. However, in the wake of the terrorist attacks in the USA, all economic forecasts are now subject to revision.

EMPLOYMENT AND UNEMPLOYMENT

ONS presents a positive picture of the Scottish labour market for the three months to June 2001, with employment levels remaining stable at their highest point since 1960, and unemployment falling. Labour Force Survey data shows the numbers employed to be 2.40 million in the April to June 2001 period, up 37,000 on the same period a year earlier. The ILO unemployment measure fell to 155,000 (6.1%), a decrease of 13% on the year. The numbers claiming unemployment benefit also fell to 4.1% in July, down 11% over the year. However, the unemployment rate for Scotland continues to be a point above the UK rates. Aberdeenshire (5.3%) continues to have an ILO unemployment rate well below average, while Glasgow (14.5%), Dundee (14.0%), and East Ayrshire (13.5%) remain comparatively very high.

Forecasts by Business Strategies Ltd anticipate that the claimant count should remain largely the same for both Scotland and the UK during 2001/2002. Forecasts for employment growth by Cambridge Econometrics paint a more depressing picture for Scotland during 2002, with employment growth at only 0.6%. Once again, these will now be subject to revision.

BUSINESS START-UPS AND FAILURES

According to business advisor Grant Thornton, the number of Scottish firms failing during the first two quarters of the year leapt by 36% to the highest level in a decade. These figures come at a time when the number of Scottish start-ups is falling. The worst hit sectors were construction, followed by manufacturing, wholesale and retail.

Dun and Bradsheet's latest business survey results also show that Scotland has recorded an increase in the number of business failures, compared with mixed results for the rest of the UK. Scotland recorded 2,263 business failures during the first half of 2001, an increase of 7% on 2000. Liquidations increased by 3%, and bankruptcies by 10.7%.

INVESTMENT AND JOB CREATION

The electronics sector has been badly hit over the last three months. NEC confirmed that 600 jobs would be lost at its semiconductor plant in Livingston. A collapse in the market for the firm's DRAM memory chip was blamed for the job losses. However, the company said production of other electronic components will continue, safeguarding around 1,000 jobs. Torridon, the Edinburgh-based memory chip developer, has been forced to call in the liquidators after failing to raise £5m to continue trading. In addition, hundreds of jobs are under threat at the ICL plant in Edinburgh while a question mark has been placed over Motorola's future in Scotland.

On a brighter note, the Scottish Borders has demonstrated the potential to bounce back. Signum Circuits has announced intentions to recruit 100 people and move into some of the premises previously occupied by Viasystems. Keltec, a Kelso-based electronic company, has been acquired by US firm Plexus and announced the creation of an additional 117 jobs. In the west, Tiny, one of Britain's largest personal computer manufacturers, has announced it is moving its UK manufacturing operation from China to Prestwick, creating more than 150 jobs.

There have also been several announcements with regard to older manufacturing industries. BAe Systems is to axe around 1,000 shipworkers' jobs on the Clyde despite winning an order to build new destroyers for the MoD. One of Scotland's most famous industrial yards, Kvaerner Fabrication at Methil in Fife will be mothballed, with the loss of 110 jobs; around 20 people are being kept on to continue trying to secure new contracts so the yard can eventually be re-opened.

Scottish papermaker Inveresk announced it would axe 150 jobs, or one fifth of its work-force, while 500 jobs are hanging in the balance at the Aberdeen-headquartered carpet textiles manufacturer Richards and Kilmarnock valve maker Glenfield & Kennedy.

There are however several positive developments in the services sector. Marketing Management Services International announced it would create at least 400 full time posts at its Glasgow headquarters. Global recruitment agency Tully & Co is to open its first Scottish office in Glasgow, while a new consultancy company, The 20-20 Partnership, has also been established in the city. Scotland also continues its dominance of the call centre industry, with German information services provider Telegate planning to create 400 jobs at a new operation in Dumfries.

PROSPECTS FOR A SLOWDOWN IN SCOTLAND'S PROPERTY MARKETS ARE BOTH SECTOR-SPECIFIC AND MARKET-WIDE.

SUMMARY

Scotland continues to attract investment, especially as a location for call centres. But recent announcements of job losses in the electronics sector have demonstrated the vulnerability of many foreign-owned plants, especially those involved in lower value-added and lower skill activities. Moreover, the decline of many traditional industries may leave Scotland feeling increasingly fragile.

Downward revision of growth prospects in the wake of the terrorist attacks is now inevitable. The Scottish Executive highlights in particular tourism, aviation, electronics and international investment as vulnerable. Prospects for a slowdown in Scotland's property markets are both sector-specific and market-wide.

RETAIL PROPERTY

The retail sector in Scotland continues to show signs of uncertainty. Retail spending has continued to rise and to some extent support the wider economy, but concerns have been raised over occupational demand for retail space within Scottish city centres. Developments are typically focused on refurbishment or expansion of existing schemes to combat increasing competition.

Retailers face mixed fortunes. The expansion into the Scottish market of value retailers such as TJ Hughes, Dunnes Store and Peacocks has come at a time when more established traders have encountered difficult trading conditions. There have however been a number of success stories, for example Next has expanded, reflecting an increased market share.

THE MOST NOTEWORTHY EVENT IS THE OPENING OF FORTH PORTS'/BANK OF SCOTLAND'S OCEAN TERMINAL.

Electrical and phone retailers are reviewing their trading positions in light of significant downturn in demand for mobile phones, personal computers and other electrical goods. The competitiveness of this sector has been highlighted by Scottish Power's withdrawal.

In GLASGOW, developments have been announced at the St Enoch Centre for an additional 4,645 sq.m. (50,000 sq.ft.) and at the Sauchiehall Centre where redevelopment will release around 1,858 sq.m. (20,000 sq.ft.). The popular Princes Square development, having recently been extended, is now programmed for a £2 million facelift.

Elsewhere in Glasgow, lettings have been achieved within the mixed use Glasshouse development on Glassford Street. The Designer Room fashion retailer has agreed terms for 1,765 sq.m. (19,000 sq.ft.) within this development. Other transactions in the city include a letting of accommodation at 30 St Enoch Square to Maplin Electronics. Additionally, German brand Olsen opened their first UK store on Buchanan Street.

Glasgow now has the UK's largest IKEA, comprising 24,500 sq.m. (263,724 sq.ft.) on a site adjacent to Braehead Shopping Centre and Retail Park.

EDINBURGH continues to suffer from a limited supply of prime modern retail units and a number of the traditional units on Princes Street have remained vacant for some time. Nevertheless, demand for representation within the Capital remains strong and Royal Sun Alliance's recent redevelopment of accommodation behind a retained façade at 121/123 Princes Street is let to Gap, Footlocker and Superdrug.

The most noteworthy event was the October opening of Forth Ports'/Bank of Scotland's 40,877 sq.m. (440,000 sq.ft.) Ocean Terminal, Leith. This mixed retail and leisure scheme within the rapidly evolving Port of Leith demonstrates demand for quality accommodation, having secured Debenhams as an anchor store alongside BHS, Gap, Internacionale and Orange. Ster Century Cinemas has a 12-screen cinema and Sir Terence Conran has opened his first Scottish restaurant here.

Developments under construction in Edinburgh include a 8,920 sq.m. (96,000 sq.ft.) Harvey Nichols department store, 27 retail units, 3,250 sq.m. (35,000 sq.ft.) of offices and a new city bus station at The Walk, St Andrews Square, scheduled for completion in August 2002.

Pillar Properties continues to invest in Fort Kinnaird to the south-east of Edinburgh. Recent lettings include JD Sports 465 sq.m. (5,000 sq.ft.), Etam 613 sq.m. (6,600 sq.ft.) and Pizza Hut 199 sq.m. (2,143 sq.ft.).

In DUNDEE, Shoe Express will take occupation of a unit of 256 sq.m. (2,761 sq.ft.) at 26 Murraygate. At the Wellgate Centre, Crazy Georges has taken 139 sq.m. (1,500 sq.ft.) and Adams Childrenswear leased 262 sq.m. (2,820 sq.ft.). One2One has secured a 110 sq.m. (1,184 sq.ft.) unit at Unit 7, Cowgate Centre.

In INVERNESS, Royal Sun Alliance has launched plans for a further 16,723 sq.m. (180,000 sq.ft.) of retail space at the Eastgate Centre, anchored by a 6,503 sq.m. (70,000 sq.ft.) Debenhams unit, with other lettings secured to H&M and Laura Ashley.

JJB Sports continues to expand by securing a unit of 1,560 sq.m. (16,785 sq.ft.) within the Thistle Centre, STIRLING. Beaverbrooks will occupy a 80 sq.m. (860 sq.ft.) unit, while Bodycare will take 290 sq.m. (3,120 sq.ft.). Primark is to lease the 3,320 sq.m. (35,723 sq.ft.) former C&A unit on Marches Mall.

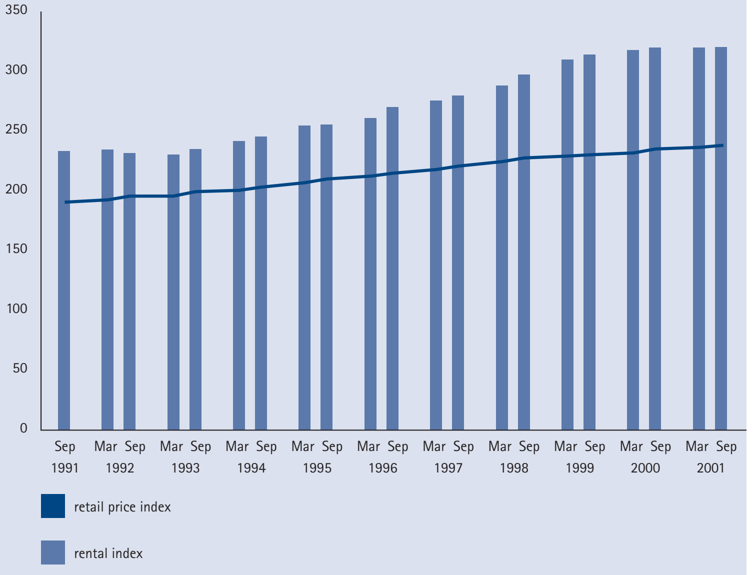
Retail rents reflect an uncertain market. Previously proven rents in some centres, such as Edinburgh, are now demonstrated to have been market peaks. Our Scottish Index has grown by 0.2% over the past six months and prospects do not suggest any imminent improvement.

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	105
Dunfermline	65
East Kilbride	115
Edinburgh	220
Edinburgh (Gyle)	165
Elgin	40
Falkirk	80
Galashiels	35
Glasgow	220
Glasgow (Braehead)	145
Glenrothes	52.50
Greenock	70
Hamilton	55
Inverness	97.50
Irvine	63
Kilmarnock	55
Kirkcaldy	55
Livingston	75
Motherwell	48
Paisley	60
Perth	72.50
Stirling	100
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

OFFICE PROPERTY

GLASGOW

The Glasgow office market remains strong in the face of the threat of recession. The 6 months to September 2001 produced take-up of 48,310 sq.m (525,000 sq.ft.), resulting in a healthy 12 month total of c.82,700 sq.m (890,000 sq.ft.). This compares favourably with the long term average of c.60,385 sq.m. (650,000 sq.ft.).

The initiative from Scottish Enterprise and Scottish Financial Enterprise to promote Scotland to financial services companies will encourage substantial new development in core areas, from The Broomielaw north to the historic financial centre of St Vincent Street and West George Street.

Notable recent transactions include:

- Scottish Enterprise relocating to a new HQ, 8,965 sq.m. (96,500 sq.ft.) at 150 Broomielaw
- esure leasing the whole of Equinox, 6,100 sq.m. (65,650 sq.ft.) during construction
- CallPoint Europe Limited securing 3,159 sq.m. (34,000 sq.ft.) at 349 Bath Street
- Gainsborough Business Centres leasing 2,787 sq.m. (30,000 sq.ft.) at 151 West George Street
- Cogent Investment Operations Limited taking 2,674 sq.m. (28,785 sq.ft.) at 7 West Nile Street
- Indigo Lighthouse taking 2,323 sq.m. (25,000 sq.ft.) at Fisher House, Bath Street

Only two speculative, new-build schemes are nearing completion in the central core: County Properties' 180 St Vincent Street, 4,850 sq.m. (52,200 sq.ft.) and Taylor Woodrow's Cerium Building, 6,875 sq.m. (74,000 sq.ft.). The only other new-build project in the central core set to complete over the next 12/18 months is CityPoint Phase 2 (3,642 sq.m./39,200 sq.ft.). In the pipeline, Crown Dilmun has announced a city centre site start in November for a speculative new building of c.10,683 sq.m. (115,000 sq.ft.) in Robertson Street and Wilson Bowden has intimated intent to provide a further phase of speculative development at Broomielaw.

THE GLASGOW OFFICE MARKET REMAINS STRONG IN THE FACE OF THE THREAT OF RECESSION.

Outwith the immediate central core, Akeler's new build 2 Central Quay, (7,154 sq.m./77,000 sq.ft.) will complete in early 2002 and Elphinstone's refurbishment and part new build at CityPark will provide shell space up to c.26,010 sq.m. (280,000 sq.ft.). Allied London & Scottish is now on-site with development of panoramic rooftop space of 3,252 sq.m. (35,000 sq.ft.) over two new floors at the highly successful Skypark at Finnieston.

Such development, allied to a range of fringe refurbished and second hand space, has resulted in total supply of available office space within the city boundary rising to 181,160 sq.m. (1.95 million sq.ft.). However, this conceals a relative shortage of Grade A and B accommodation within the central core.

The impending move by BBC may trigger further speculative office development at Pacific Quay, where the joint developers recently announced further masterplanning for higher density, mixed-use development. On the north side of the River, the substantial mixed-use development proposed for Glasgow Harbour is picking up momentum.

Headline rentals have consolidated at £230-£247 per sq.m. (£21.50-£23 per sq.ft.) as evidenced by deals at 123 St Vincent Street and Equinox.

Deals for prime address and/or large floorplate buildings are being concluded on the basis of 15 year leases, although break options are available in some instances. Break options also continue to be available on most refurbishments, where the rental range remains between £150 and £199 per sq.m. (£14 and £18.50 per sq.ft.) dependent on quality.

Increased occupier activity has further reduced availability of business park space. The majority of Arlington's Glasgow Business Park space is now under offer and there are only three new pavilions, each of 1,151 sq.m. (12,396 sq.ft.), available at Festival Court in Brand Street, Govan.

Outwith the city, only two pavilions, each of 908 sq.m. (9,777 sq.ft.) and two other single floors remain available for first time letting at Strathclyde Business Park where Cable & Wireless are also seeking to dispose of their lease of a 2,322 sq.m. (25,000 sq.ft.) building. Such under-supply has encouraged Taylor Woodrow to commence development of 4,630 sq.m. (49,850 sq.ft. as a first phase at Philipshill Business Park, East Kilbride. In Hamilton, Silverbank Development Company is on-site at Hamilton Business Park with the first phase of 2,235 sq.m. (24,060 sq.ft.).

Short term slackening of demand due to economic uncertainty will impact on the rate of take-up over the next 6-12 months but the long term prospects remain favourable.

EDINBURGH

The summer months were characterised by slowing activity in the Edinburgh office market. Contraction in the economy has been felt most acutely by those organisations which experienced the most rapid growth, namely IT, telecoms and certain areas of financial services.

While a marked increase is evident in activity and enquiries at the smaller end of the market, a number of larger property decisions are on hold. Serviced office and business centre operators have been most affected, as a drop in demand coincided with the opening of a number of business centres in Edinburgh and competition has driven prices downward. Some operators – including MWB and HQ – which leased buildings are pursuing the disposal of surplus space on a traditional lease basis.

Total supply of office space in Edinburgh stands at 101,965 sq.m. (1,097,556 sq.ft.). Supply of quality, open-plan space in the city centre remains limited with only five buildings immediately available providing units in excess of 1,858 sq.m. (20,000 sq.ft.). This position will be redressed during 2002 as a further 32,515 sq.m. (350,000 sq.ft.) of space is completed. These completions include PPG's development of the ABC Cinema at No. 1 Morrison Street (5,295 sq.m./57,000 sq.ft.), AB Hamilton/ Bank of Scotland's development of Citymark at Fountainbridge (9,476 sq.m./ 102,000 sq.ft.) and the innovative Rutland Building (1,695 sq.m./18,250 sq.ft.).

Supply of new space in west Edinburgh will increase as various developments come on stream, including two speculative buildings at Edinburgh Park providing 7,434 sq.m. (80,000 sq.ft.). A new building at Hermiston Quay of 2,828 sq.m. (30,441 sq.ft.) is under construction and two buildings on the Clocktower Estate return to the market as casualties of the downturn in the IT sector. HQ's building No. 2 Lochside View (5,574 sq.m./60,000 sq.ft.) will also add to this supply.

In view of market uncertainty it is likely that developers may put on hold commencement of some speculative buildings, or at least restrict them to initial phases of any scheme, regulating the market to prevent over-supply.

Total annual take-up for the 12 months to September 2001 stands at 70,105 sq.m. (754,616 sq.ft.). Although down on the very high (93,000 sq.m./1m sq.ft.) volume of recent years, this may be viewed as a reversion to trend given a previous 10-year average take-up of 72,000 sq.m. (775,000 sq.ft.).

Significant recent transactions include:-

- Network building, Haymarket – 1,579 sq.m. (17,000 sq.ft.) acquired by Pensions Trust
- 80 George Street, 4,366 sq.m. (47,000 sq.ft.) let to Friends Ivory Sime at £296 per sq.m. (£27.50 per sq.ft.), 50% available for sub-let.
- Exchange Tower – leasing by Franklin Templeton of additional 743 sq.m. (8,000 sq.ft.).
- East Fettes Avenue – letting of the former Scottish & Newcastle headquarters to Guardian IT (3,900 sq.m./42,000 sq.ft.).

The benchmark for prime rents remains at £312 per sq.m. (£29 per sq.ft.), attributable to the now historic letting of Edinburgh One to Scottish Widows Investment Partnership. Similarly, the letting to Chase Manhattan on Edinburgh Park at £275 per sq.m. (£25.50 per sq.ft.) remains the ceiling for prime space on the west side.

Interest for mid-sized accommodation has been sustained, both to lease and purchase. Organisations seek value for money and where possible good car-parking, leading to increased interest in peripheral buildings, a number of which are currently in solicitors' hands.

There is continued interest in the purchase of townhouse buildings from both residential and office users. Recent prime office deals in South Charlotte Street and Rutland Square achieved rents of £194/£215 per sq.m. (£18/£20 per sq.ft.).

IT IS LIKELY THAT DEVELOPERS MAY PUT ON HOLD COMMENCEMENT OF SOME SPECULATIVE BUILDINGS.

The largest current transaction (not included in our figures) is the reported pre-let of a building of circa 18,580 sq.m. (200,000 sq.ft.) on part of the Waverley Station/Railtrack site to the City of Edinburgh Council. Details of this transaction have yet to emerge.

The question of transportation in Edinburgh remains particularly pertinent. The abandoned CERT scheme linking the city centre to the airport is to be replaced by the more localised (West of Edinburgh) WEBS project. Funding has been procured for Crossrail and feasibility studies into E-rail (south circular) and a public transport connection between Edinburgh's waterfront and the city centre. Substantial further work and investment is required to drive forward these initiatives, but effective transportation is crucial to the city's longer term development potential.

ABERDEEN

The last six months were a period of mixed fortunes for Aberdeen's office market. The take-up level and the number of new enquiries fell, although on the positive side a record rent for the city has been achieved at Hill of Rubislaw and two of the city's prominent office occupiers have announced plans for major relocations.

The number of enquiries received for office accommodation fell sharply during the summer period, but recovered in recent weeks. In comparison to last year there are fewer large requirements above 2,787 sq.m. (30,000 sq.ft.) in the market, although demand for smaller buildings and suites is still very healthy.

Take-up of office accommodation in the city has fallen by 53% to 10,220 sq.m. (110,000 sq.ft.), although the total number of completed transactions (45) is similar to the previous period. This fall was inevitable following several large office relocations in 2000. The three most significant lettings of the past six months are:

- Local solicitors, Ledingham Chalmers, have taken a 20 year lease of 1,974 sq.m. (21,250 sq.ft.) in Miller Cromdale's refurbished Johnstone House on Rose Street. The rent agreed is understood to be in the region of £178 per sq.m. (£16.50 per sq.ft.), although as part of the deal Ledingham Chalmers assigned lease liabilities at existing buildings in Golden Square to Miller Cromdale.
- CHC Scotia Ltd, the helicopter company, has taken a 15 year lease of Knight Real Estates' 1,234 sq.m. (13,283 sq.ft.) Centre 2000 building at Howe Moss Drive, Kirkhill at a rent of approximately £134 per sq.m. (£12.40 per sq.ft.).
- Following Chevron's merger with Texaco, the company has leased a further 1,020 sq.m. (11,000 sq.ft.) in Seafield House, Hill of Rubislaw until November 2010. A record rent of £215 per sq.m. (£20 per sq.ft.) was agreed for the additional accommodation and the existing lease subsequently varied.

THERE ARE FEWER LARGE REQUIREMENTS, ALTHOUGH DEMAND FOR SMALLER BUILDINGS AND SUITES IS STILL VERY HEALTHY.

The supply of new or refurbished accommodation remains very limited. Ribnort Ltd's 1,486 sq.m. (16,000 sq.ft.) Bishops Court at 29 Albyn Place is the only building presently vacant and ready for occupation. Speculative construction works at Knight Real Estate's 5,920 sq.m. (63,700 sq.ft.) Craigshaw Business Park at West Tullos and Esson Properties Ltd's 1,336 sq.m. (14,378 sq.f.t) Blenheim Gate have now started. Work is also well underway at Inter City Developments' 907 sq.m. (9,767 sq.ft.) Albyn House development at Albyn Lane, which has been pre-let to Veba Oil & Gas.

The supply of second hand accommodation has increased by 6% to approximately 96,710 sq.m. (1,041,000 sq.ft.). The most notable addition to the list of available properties is 5,500 sq.m. (59,375 sq.ft.) of Shell's accommodation at Seafield House, Hill of Rubislaw. A significant number of Shell's staff at Seafield House are being relocated to their HQ offices at Tullos following a refurbishment which is nearing completion.

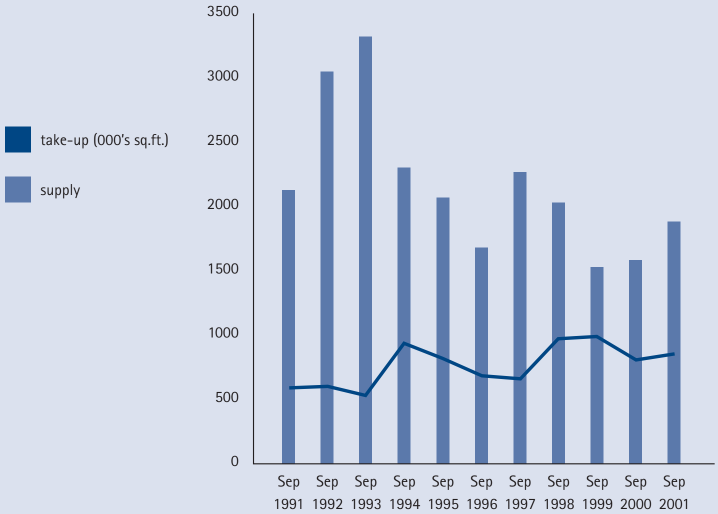
Locally, the economy remains relatively strong, despite the threat of recession. Oil production in the North Sea has fallen this year, although the major oil companies continue to realise substantial profits from a sustained two-year period of high oil prices. However, the recent atrocities in the US have caused some wider fluctuations in the price and the immediate future is somewhat uncertain.

One particularly positive piece of news from the offshore industry is BP's announcement of plans to build a new £110 million office complex at Stoneywood to accommodate its North Sea Oil & Gas headquarters. The 36,000 sq.m. (387,500 sq.ft.) building, which is planned to be complete in 2005, will replace an outdated complex at nearby Farburn. This is a significant boost for the city and underlines the company's long term confidence in the local oil industry.

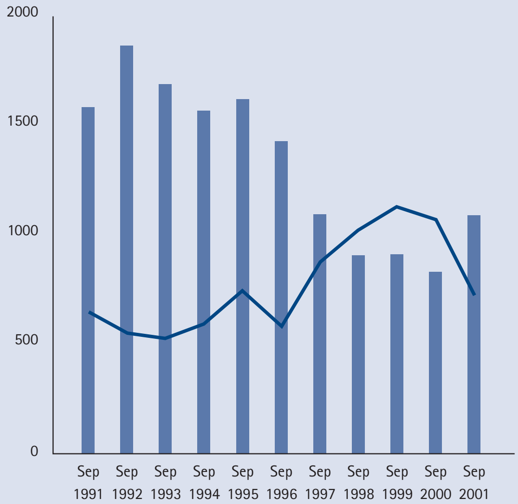
Encouragingly, there is further good news from outwith the oil industry. A joint planning application has been lodged by Aberdeen University and Aberdeen Asset Management to convert the city's historic Marischal College into a 15,600 sq.m. (168,000 sq.ft.) headquarters office for the expanding international fund management company.

In summary, despite a fall in the level of take-up and a more bleak economic outlook, Aberdeen continues to generate positive news for the longer term and may yet again demonstrate a market out-of-step with the rest of the UK.

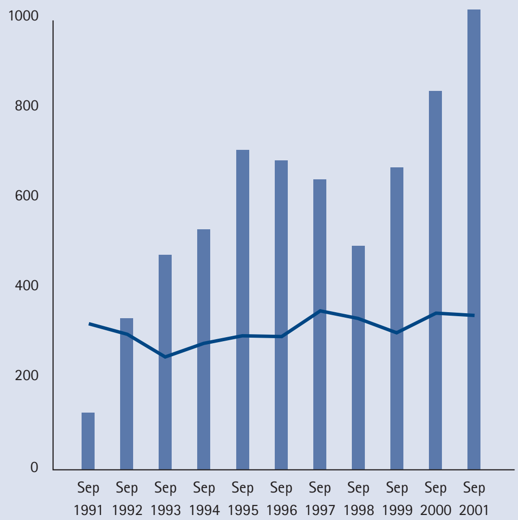
OFFICE SUPPLY AND TAKE-UP



GLASGOW



EDINBURGH



ABERDEEN

INDUSTRIAL PROPERTY

WEST OF SCOTLAND

Recent world events have increased market concerns over recession, compounded by high profile closures and job losses. Nevertheless, the industrial property market continues to be strong in many sub-sectors.

The distribution sector is particularly positive. A number of logistics operators are rationalising existing property portfolios and investing in large regional distribution facilities at the main hubs of the motorway system. P&O Properties recently took the 8,640 sq.m. (93,000 sq.ft.) Colossus at Eurocentral at around £54 per sq.m. (£5 per sq.ft.) and Exel/Trade Team has signed-up for 12,356 sq.m. (133,000 sq.ft.) at Wilson Bowden's Glasgow Gateway, Cambuslang. Colossus was a speculative build, demonstrating confidence in the sector, and Amec has followed this up by instigating further phases. Colossus II was completed in September, providing a further 8,733 sq.m. (94,000 sq.ft.) of distribution space. Artemis continues the classical theme at Eurocentral and is due to complete in December, providing 6,596 sq.m. (71,000 sq.ft.). Further good news for Eurocentral is the prospect that British Bakeries will shortly sign-up for a 8,361 sq.m. (90,000 sq.ft.) distribution depot.

THE GOVAN AREA ILLUSTRATES AN ACTIVE LOCAL MARKET AND THE APPETITE OF GLASGOW DEVELOPERS.

Earlier in the year, Geo-Logistics leased a 11,705 sq.m. (126,000 sq.ft.) distribution facility at Phoenix Business Park, Linwood, to service contracts for companies including Compaq.

Further distribution enquiries are expected over the coming months. Developers with suitable sites should be optimistic about future prospects but it is unlikely that others will follow Amec's speculative approach. The rationalisation process within the distribution sector should also free-up some interesting buildings which are likely to be ideal property company stock.

In Govan, a ten-unit 4,645 sq.m. (50,000 sq.ft.) development by Silverbank is complete. Citylink Central Industrial Park is Glasgow's newest business location and 40% of the first phase units are already let, with a further three units under offer in Phase 2 and potential for a further 6,503 sq.m. (70,000 sq.ft.) on an adjoining site. The Govan area illustrates an active local market and the appetite of Glasgow developers. Two industrial sites in Govan marketed by Glasgow City Council attracted a number of high value bids. Likewise, at nearby Shieldhall an industrial portfolio of land and buildings by CG Property attracted strong interest.

At Anniesland, all nine units are now let or under offer. Likewise, at Gorbals where twelve new units at Riverside Business Park are all taken. At Kinning Park, St Martin's is close to concluding a let of 929 sq.m. (10,000 sq.ft.). At Southpoint, Dixons Blazes is reaching capacity.

Air transport distributors are also reassessing their property requirements. The provision of new space at Air Cargo centre stimulated deals to companies such as Fritz Cargo and Expeditors. BAA Lynton is expected to announce a further 4,645 sq.m. (50,000 sq.ft.) of lettings in the coming weeks which will result in full occupancy, while lettings at AXA's Glasgow Airport Business Park will set record levels for the West of Scotland market. Vico has pre-sold a 1,254 sq.m. (13,500 sq.ft.) to Thistle Freight at Gateway International development close to the airport, and a further speculative 929 sq.m. (10,000 sq.ft.) is under construction and due for completion in Spring 2002.

At Inchinnan Business Park, Renfrewshire Enterprise is set to release 50-70 acres of land for class 4 development. This will tie in with the earlier phases but with an effort to attract office occupiers and research and development companies. A step in this direction is Graham Technologies recent acquisition of the former India Tyre factory. The existing structure has been extensively refurbished and extended to create a 4,831 sq.m. (52,000 sq.ft.) facility.

Meanwhile, Prestbury/West Coast Capital plans major refurbishment and capital expenditure following its recent acquisition of Babcock Park, Renfrew from MEPC.

Within the mainstream market there continues to be a steady stream of deals. Indigenous manufacturers may be struggling with the export market but many are still looking to expand and reassess their space requirements. The inward investment market has cooled, but this has been evident for two years and will not have as large an impact on the letting market as some commentators anticipate, as many of these operators were owner-occupiers with very specialised facilities. Suppliers have however also been hit; these organisations do take leases and some voids will result.

EAST OF SCOTLAND

The East of Scotland industrial property market is also in a delicate position. The differing fortunes of and prospects for the indigenous and inward investment markets illustrate this starkly.

In the indigenous market, well in excess of 90% of all accommodation is smaller than 2,787 sq.m. (30,000 sq.ft.). This market has continued to make steady progress over the last six months and rental levels are now firmly established in the better locations at £65 per sq.m. (£6.00 per sq.ft.) and above. The most significant development is Edinburgh Interchange (situated to the west of Edinburgh and close to the airport) where Hanover Property Unit Trust and Welbeck Land are currently mid-way through the construction of seven industrial units varying in size from 1,486 sq.m. (16,000 sq.ft.) to 4,181 sq.m. (45,000 sq.ft.). Two of these units are already let and occupied, by Bradisco and Direct Auto Finance, and a third unit is under offer.

Developer confidence in the west side of Edinburgh is further demonstrated by Kenmore's recent purchase of the former Fyffes Bananas factory in Newbridge, a series of three buildings totalling 10,984 sq.m. (118,231 sq.ft.), at a price of £2.7 million. The asking rentals for the refurbished accommodation will be in the region of £54 per sq.m. (£5 per sq.ft.). Edinburgh E-State on Bankhead Crossway South, Sighthill proposes a new concept in business space and will comprise 18,130 sq.m. (195,149 sq.ft.) of flexible two storey accommodation arranged in a courtyard setting. The development will be constructed in phases and a site commencement is anticipated before the end of 2001 with completion of Phase 1A by June 2002. Quoting rentals for the proposed development are £81 per sq.m. (£7.50 per sq.ft.).

This development activity means that supply of new industrial accommodation in Lothian is now at its highest level since the withdrawal of the public sector from direct provision, some 92% above the level prevailing 12 months ago.

Kilmartin/Strawson is soon to complete a 13,935 sq.m. (150,000 sq.ft.) facility for Scottish & Newcastle at its Junction 4 of the M8 motorway development (J4M8) and a new 37,160 sq.m. (400,000 sq.ft.) facility for Aldi. It is also reported that a further 2,787 sq.m. (30,000 sq.ft.) is currently under offer. This confirms the increasing importance of the central M8 as a distribution location.

In the inward investment market, Scottish Enterprise and Locate in Scotland have been very successful over the last three decades at attracting significant projects courtesy of major global companies. Although this business has been very welcome, it has exposed Scotland to the sharp end of the ongoing global economic difficulties which are particularly evident in the hi-technology sector. Companies such as Motorola, NEC and ADC Telecommunications have either closed their factories or announced major redundancies.

J4M8 CONFIRMS THE INCREASING IMPORTANCE OF THE CENTRAL M8 AS A DISTRIBUTION LOCATION.

The indigenous and inward investment markets are undoubtedly related, and there are certainly major spin-offs for local companies working with international players. There is however an element of independence among the majority of indigenous companies which underpins market prospects for new, well-located industrial development in East Central Scotland.

ABERDEEN

The recovery of the Aberdeen industrial market continues on the back of increased offshore investment. The last 6 months take up-figures show a 46.5% increase to 48,371 sq.m. (520,661 sq.ft) on the previous 6 months. This provides further evidence of a continuing upward trend, as the previous 6 months' figures had been 50% up on the period immediately before that. The main increase has been in the 1,858 sq.m. (20,000 sq.ft.) plus bracket where a number of new, single occupier developments have been completed at Dyce, Badentoy and Peterseat. The number of transactions has also increased from 62 to 69, although there was a decline in the take-up of space below 464 sq.m. (5,000 sq.ft.).

THE HEALTHY INCREASE IN TAKE-UP IS MAINLY IN NEW, PURPOSE BUILT FACILITIES.

Supply showed a marginal decrease to 149,940 sq.m. (1,613,960 sq.ft.), although the number of properties available increased slightly from 225 to 231. The healthy increase in take-up is mainly in new, purpose built facilities, while the existing supply continues to be made up of predominantly second hand properties. Supply and demand also continue to be strongly influenced by the restructuring of many occupiers through take over and merger.

Significant transactions during the period include:

- Sale of a 2,600 sq.m. (27,976 sq.ft.) former car showroom and workshop complex (ASM Ltd) for approximately £750,000. The site extends to 0.80 hectares (2 acres) and is held on a long-term ground lease at an annual rental of £31,500 per annum.
- Sale of a 1,278 sq.m. (13,760 sq.ft.) warehouse/office facility at Howemoss Drive, Kirkhill Industrial Estate to Anson Ltd for £500,000.
- Letting of a 1,055 sq.m. (11,353 sq.ft.) warehouse/office facility at Minto Drive, Altens Industrial Estate to sub-tenant Munro Pharmaceuticals Ltd until March 2009 at a rental of £59,500.
- Letting of a 1,022 sq.m. (10,996 sq.ft.) warehouse/office facility at Howemoss Drive, Kirkhill Industrial Estate to Panalpina World Transport Ltd for a term of 10 years at a rental of £65,000.

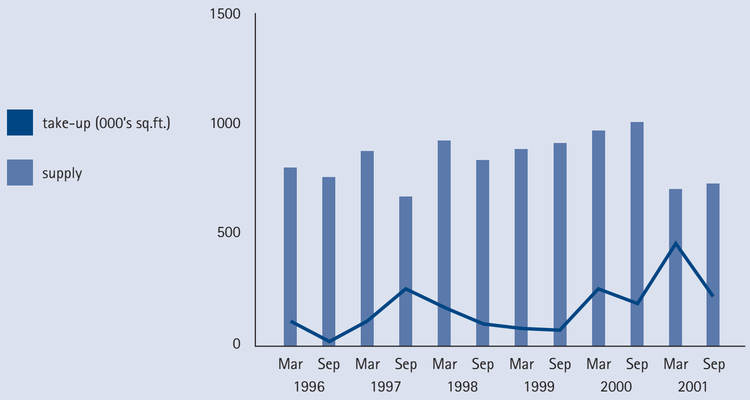
A restricted land supply continues to influence the market. Prices for available sites are now confirmed at £500,000 per hectare (£200,000 per acre) by the recent acquisition of a 5 hectare (12.5 acre) site at Dyce Drive by Norwich Property Trust. The site has consent for business and industrial use and it is anticipated the fund may be prepared to undertake some speculative office development. Norwich Property Trust also acquired Expro's mixed industrial and office facility developed by BAA Lynton plc at Dyce Drive. The property, which is leased until August 2017, was sold at a price reflecting a yield of 8.45%.

No further progress appears to have been made on delivery of the 67 hectares (165 acres) south of Aberdeen Airport or the 60 hectares (150 acres) at Moss Side/Cairnrobin, where section 75 agreements on the provision of infrastructure remain outstanding, although agreements with developers may now be in place on both. Stewart Milne has gained outline planning consent for a 40 acre business park in conjunction with residential development adjacent to the A90 at Portlethen and close to the Cairnrobin site.

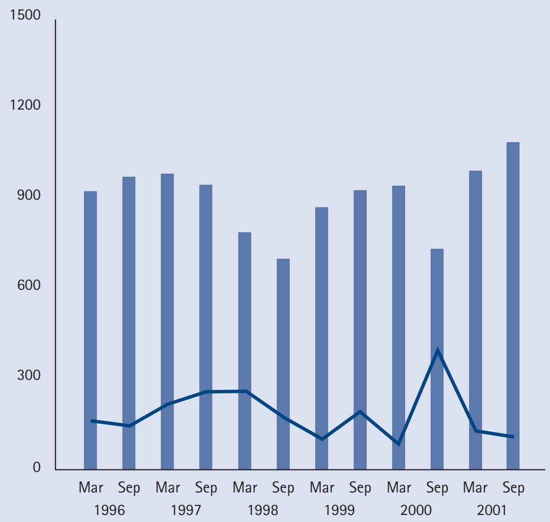
The investment by a major fund in land for development purposes is a sure sign of improved market perceptions of the long-term future of the offshore industry in Aberdeen. This has also been considerably boosted by BP's recent announcement of their intention to construct a new headquarters, as reviewed in our Aberdeen Office Market commentary.

Any significant increase in the supply and quality of land immediately available for development is sure to attract interest from potential occupiers, as the offshore industry moves into a new phase of long-term development benefitting from low interest rates.

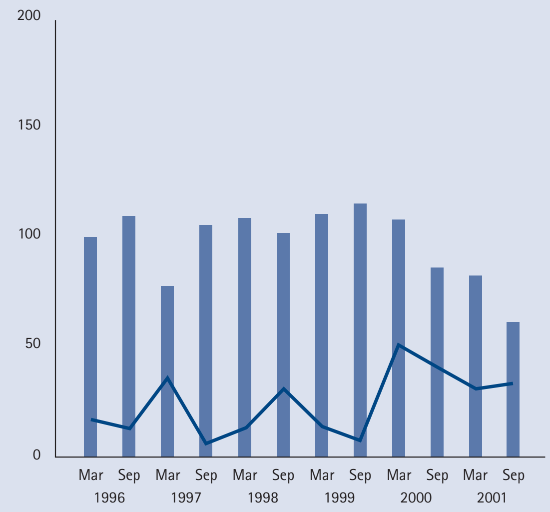
NEW INDUSTRIAL SUPPLY AND TAKE-UP



WEST OF SCOTLAND



EAST OF SCOTLAND

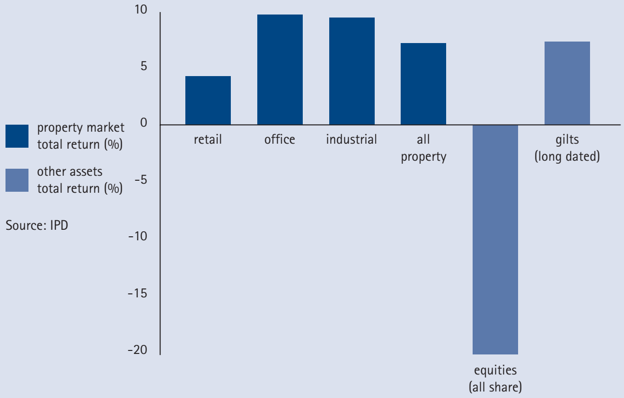


NORTH OF SCOTLAND

INVESTMENT MARKET

OVERVIEW

Total UK property returns in the 12 months to end September 2001 have matched the performance of gilts and significantly outperformed equities.



The last 12 months has witnessed a marked decline in equities markets, as firstly recessionary concerns gathered momentum and more recently the tragic events of 11th September have taken effect.

As equity portfolios have fallen in value the focus has turned to property as an asset class. Investors are attracted by its tangible nature and income returns in a low growth environment. The demand from private investors and geared property companies has been fuelled by the availability of debt finance and in some instances the willingness of banks to take equity in transactions.

AS EQUITY PORTFOLIOS HAVE FALLEN IN VALUE THE FOCUS HAS TURNED TO PROPERTY AS AN ASSET CLASS.

Through syndication and joint venture initiatives, private investors have gained exposure to value transactions which had previously been the domain of property companies and institutions.

The increased activity by new participants has been countered by the relative inactivity of traditional players such as listed property companies and institutions. The limited property company sector has generally disinvested and, while acknowledging the benefits of property investment, institutions have adopted a fairly neutral stance. Although there are signs emerging that institutions may participate selectively in the market, ironically many are now hampered by the proportionate increase in the value of property as part of their mixed portfolios.

RETAIL

Despite buoyant consumer expenditure, the retail sector has continued to under-perform the office and industrial sectors, with UK total returns slipping to 4.5% and rental value growth averaging only 2.1% (IPD).

There has been limited investment activity in the prime pitches of Glasgow, Aberdeen and Edinburgh, due in no small part to the differential between book values and achievable prices. Although the prospects for the sector are not yet clear, there are signs that institutions are beginning to return to the market, albeit selectively with particular emphasis on the main centres, larger units and multi-let asset management opportunities.

In contrast to the institutions, private investors and geared property companies have been busy. The softening in the market has allowed property companies to pursue shopping centre opportunities and private investors to acquire prime units in some of the smaller centres.

Deals include:

- CAMERON TOLL SHOPPING CENTRE, EDINBURGH
  Comprising 40 units anchored by Savacentre, the Centre was acquired by Cameron Toll Partnership, a joint venture between Kilmartin, Portfolio Holdings and Abbey National, at a price of £66 million.
- KINGSGATE SHOPPING CENTRE, DUNFERMLINE
  Comprising 40 units let to tenants including Arcadia, Etam, Dixons and Safeway, the Centre was acquired by PPG at £37 million reflecting a yield of 7.5%.

OFFICES

Total returns in the office sector again top the table to end September at 9.8% (IPD). Average total returns in Scotland were lower at 9.1%.

In Edinburgh, office take-up to end September fell to 69,700 sq.m. (750,000 sq.ft.). Although available supply increased to over 1 million sq.ft. (5% of total stock) and further product will come through the development pipeline during 2002, recent surveys predict continued high levels of demand from Edinburgh's growing economy.

Investment activity in the Edinburgh office market is presently confined to geared ventures comprising private, syndicated and overseas investors. Institutional interest has been less evident, although certain specific requirements remain unfulfilled.

In turn, the prime yield for rack rented office stock in Edinburgh has shifted outwards over the review period to between 6.5 and 6.75%.

Deals include:-

- EDINBURGH ONE, MORRISON STREET, EDINBURGH
  A new building of 54,000 sq.ft. let to Scottish Widows at £312 per sq.m. (£29.00 per sq.ft.) acquired by Matrix Securities at an initial yield of 6.4%.
- HENRY DUNCAN HOUSE, GEORGE ST, EDINBURGH
  The sale and leaseback for a 15 year term by Lloyds TSB of a 5,100 sq.m. (55,000 sq.ft.) building to a private investor at a price representing an initial yield of 6.75%.

In Glasgow, take-up in the year to end September increased to 82,700 sq.m. (890,000 sq.ft.), exceeding Edinburgh for the first time since 1996. Strong activity in Glasgow's occupational market has been mirrored over the last twelve months by high levels of transactional activity, as investors sought to take advantage of the growth opportunities. A lack of new development set against continuing occupier take-up encouraged investors to target those buildings with short term redevelopment or refurbishment opportunities, together with those where rental growth would be achievable.

Deals include:

- EQUINOX, CADOGAN STREET, GLASGOW
  A new build 64,000 sq.ft. building pre-let to esure, a subsidiary of Halifax, on a sixteen year lease, was acquired by a Hong Kong based investment company at an initial yield of 6.6%.
- 200 ST VINCENT STREET, GLASGOW
  A 49,000 sq.ft. building let to Royal and Sun Alliance Plc until 2012, with a break from 2007 onwards, was acquired by Commercial Union Life Assurance (Morley) for £9.05 million, a net initial yield of 8.5%.
- COLVILLE HOUSE, BOTHWELL STREET, GLASGOW
  A 1960's building totalling 70,000 sq.ft., the building is let to British Steel Plc (sub-let to Scottish Enterprise) until May 2003. The building was acquired for £6 million by CEM, a net initial yield of 10.24%.

INDUSTRIAL

The performance of Scottish industrials (10.9% return) compares favourably to UK industrials (9.4%) within the IPD portfolio over the last 12 months.

The prospect of higher income returns from multi let industrials appeals to institutions seeking to enhance portfolio returns, and also to debt driven purchasers seeking to benefit from arbitrage and asset management opportunities. In addition, there is strong demand for well let single units from syndicated investors and consortia.

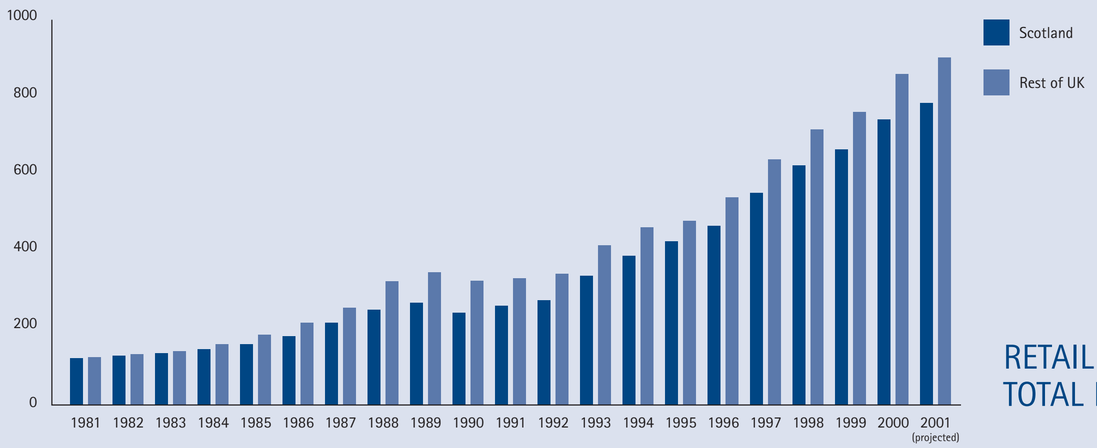
INSTITUTIONS HAVE SHOWN A WILLINGNESS TO PARTICIPATE IN THE BEST SPECULATIVE SCHEMES

There exists an over supply of older industrial stock within the central belt and new, speculative development is succeeding in the best locations such as Newbridge, Eurocentral and Cambuslang. Institutions have shown a willingness to participate in the best speculative schemes and this has been rewarded as rental growth materialises.

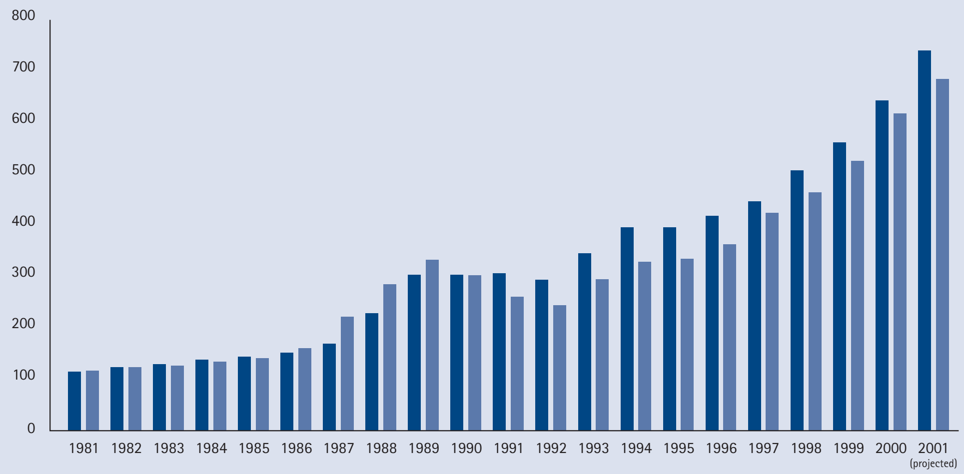
Notable recent transactions include:

- WESTFIELD PARK, CUMBERNAULD
  A 1970's/80's estate of 33,000 sq.m. (355,000 sq.ft.), the estate was acquired by Kenmore/GE Capital for £13.2 million, a net initial yield of 9.5%.
- HELICAL BAR PORTFOLIO
  Comprising 39,200 sq.m. (422,000 sq.ft.) in nine locations, the portfolio was acquired by Ashtenne/Morley for £15.1 million, a net initial yield of approximately 10%.
- SPECTRUM PORTFOLIO
  Comprising older Scottish Development Agency stock, the portfolio was acquired by Charterhouse for £9.7 million, an initial yield of 9.6%.
- EUROMED, STRATHCLYDE BUSINESS PARK
  Three high quality manufacturing units totalling 4,370 sq.m. (47,000 sq.ft.), let to Scottish Enterprise until 2013 were sold for £4.07 million, a net initial yield of 7.45%.

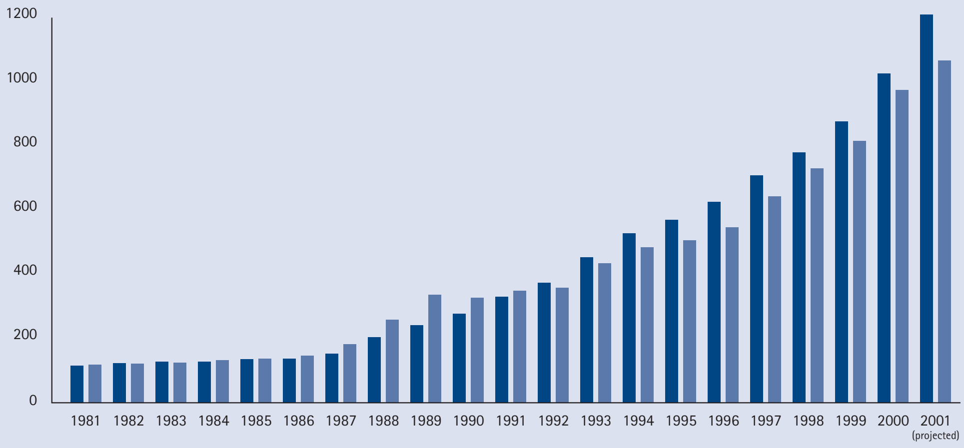
INVESTMENT PERFORMANCE



RETAIL:
TOTAL RETURNS 1981–2001



OFFICE:
TOTAL RETURNS 1981–2001



INDUSTRIAL:
TOTAL RETURNS 1981–2001

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