

51<sup>st</sup> edition

Ryden

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## UK Economy

According to the Office for National Statistics (ONS), growth in output during the second quarter of 2002 improved to 0.6%. Over twelve months, GDP rose by 1.2%, below the Treasury forecast of 1.6% and below the 1.9% recorded in 2001. This reflects a decline in manufacturing output and a fall in the rate of growth among services.

In the twelve months to August 2002, the Retail Price Index rose by 1.4%. The underlying rate, which excludes mortgage interest payments, fell to 2.0%, below the Government-set target of 2.5%.

Unemployment remained unchanged at 5.2% in July 2002 (source: ILO). The number of people claiming unemployment benefit fell to 943,300 (3.1%) in August 2002. Expectations are that unemployment will start to rise during the second half of 2002, with figures produced for the Treasury suggesting that the claimant count will rise to 980,000.

The UK's global trade balance was £4.0 billion in deficit during the second quarter (ONS). The balance of trade in services continues to be positive and the deficit on trade in goods is narrowing as export growth picks up.

## Scottish Economy

Provisional estimates published by the Scottish Executive indicate that GDP rose by 0.7% in the 12 months to the first quarter 2002. The Scottish economy displayed considerable variation between sectors; service sector output increased (+5.7%) while manufacturing output decreased (-10.6%). Transport storage & communication (+12.8%) and real estate & business services (+10.4%) grew fastest, while electrical and instrument engineering fell furthest (-26.3%).

Recent results from the British Chamber of Commerce Quarterly Survey report mixed fortunes. Orders and sales are slightly weaker than anticipated in all sectors except wholesale distribution. Business confidence is stronger in manufacturing, construction and tourism, but has weakened in wholesale and retail distribution.

According to the Oil and Gas Index published by the Royal Bank of Scotland, average daily oil production in the 12 months to July 2002 was 3.5% lower than in the previous 12 months. Uncertain

global recovery and the potential impact of a US attack on Iraq mean that predictions of oil production remain unclear. The rate of growth of gas production remained slow, with average daily output only 0.6% higher in the 12 months to July 2002 than in the previous 12 months.

The Fraser of Allander Institute forecasts growth of 0.7% in the Scottish economy during 2002, increasing to 1.4% in 2003. Cambridge Econometrics forecasts 1.3% growth in 2002 and predicts a strong recovery in 2003 when manufacturing output returns to growth.

## Employment and Unemployment

ONS data for the twelve months to July 2002 indicate stable employment and rising unemployment in Scotland. Labour Force Survey data show a 0.2% fall in the numbers employed on the same period a year earlier: ILO unemployment fell to 164,000, down 0.1% on the equivalent figure for 2001. The number of people claiming unemployment benefit fell marginally to stand at 101,100 (4.0%) in August.

The travel-to-work areas of Aberdeen and the Shetland Isles continue to have unemployment rates well below the Scottish averages at 1.6% and 1.7% respectively. North Ayrshire (9.5%), East Ayrshire (8.0%) and Girvan (7.4%) remain comparatively high.

Forecasts from the Fraser of Allander Institute suggest that employment in Scotland will increase by 69,700 over the next two years, with the majority of jobs to be created in the service sector. Claimant unemployment is expected to fall in 2002 (-5.8%) and 2003 (-0.5%). Cambridge Econometrics anticipates a marginal decrease in employment (-0.2%) and a marginal increase in unemployment (+0.4-0.6%) during 2002/3.

## Business Start-ups and Failures

Scottish Enterprise figures show that the number of new businesses in Scotland during the second half of 2001 decreased by 4.7% in comparison with the same period a year earlier. The majority of start-ups were in Edinburgh & Lothian (1,801), Glasgow (1,227) and Grampian (828). The biggest declines were in Dunbartonshire, Dumfries & Galloway and Ayrshire.

Dun & Bradstreet report a rise in the number of business failures. Scotland recorded 2,593 business failures during the first two quarters of 2002, 11.9% of the total for Britain. Liquidations (1,049) increased by 40.6% and bankruptcies (1,544) increased by 1.8%.

## Investment and Job Creation

In the call centre market iSky Europe has announced plans to set up a customer care call centre at the Portal Hosting site in Tannochside, near Glasgow, creating up to 500 jobs. Meanwhile, Glasgow-based Callpoint Europe announced 40 new jobs.

Job losses include one hundred call centre workers in Thurso at mobile phone operator O2 and insurance giant Norwich Union cutting 80 jobs across Scotland following a radical overhaul of its Scottish operations.

BP has announced further plans to cut back its workforce as part of a rationalisation programme, with 300 contract North Sea jobs going in Aberdeen, 250 of them offshore. In contrast, the company also announced plans to invest £200 million into developing the fourth phase of the Schiehallion field, west of Shetland. Elsewhere, oilfield service company SPS-AFOS International has announced plans for expansion in the next three years, including the addition of 150 jobs.

The manufacturing sector was hit by the news that Smith & McLaurin, the 153 year-old manufacturer of laminates, has gone into receivership following a slump in business. The electronics sector also received bad news with the announcement of 650 jobs coming under threat at computer giant Compaq's Erskine plant. The redundancies are additional to the 700 jobs shed last year, and come as a result of the £20 billion merger with Hewlett Packard, which is to result in the loss of 15,000 jobs worldwide. BBR Systems is to close its computer equipment business in Glenrothes and software firm Sykes is to lay off up to 40 of its 170 Galashiels workers. Elsewhere, the future of

360 software jobs is under threat following moves to put TelesensKSCL into receivership. The uncertainty surrounding the telephone billing software company follows a liquidity crisis for its German parent company.

## Prospects

The Scottish economy continues to under-perform the UK average, and was technically in recession at the beginning of the year. However, recent evidence suggests that the downturn will not be sustained.

The service sector is performing strongly and there are some signs that manufacturing is beginning to recover, although the electronics sector is an exception. Despite a mixed profile of job losses and gains, employment is set to increase, fuelled by the service sector and offsetting job losses in manufacturing. Unemployment is expected to remain low and may fall further next year. Nevertheless, growth will remain below trend for the foreseeable future and geo-political uncertainty will pose a continuing threat to the durability of economic recovery in Scotland and elsewhere.

# RETAIL PROPERTY

## Retail Property

Growth in Scottish retail sales has continued over the last six months. However, retailers remain nervous over market prospects and rental growth has been experienced in only select shopping pitches in cities and market towns. The Ryden Scottish Shopping Centres rental index shows no confirmed growth since April 2002.

Food retailers such as Safeway, Tesco, J Sainsbury and Marks & Spencer are demonstrating flexibility to meet changing patterns of consumer demand. This is apparent through their expansion into smaller city centre units and suburban outlets.

In **Glasgow**, J Sainsbury has secured a local outlet on Sauchiehall Street close to Primark's store. Savers Health and Beauty, part of the retail arm of Hutchison Whampoa, has taken a unit from Arcadia on Sauchiehall Street. Other transactions in the area include O'Neills and H Samuel in Buchanan Galleries and Zara, which took approximately 1,670 sq.m. (18,000 sq.ft.) within a redevelopment on Buchanan Street.

Capital & Regional/Pillar Properties newly-named Glasgow Fort Shopping Park has in excess of twenty-four occupiers currently in legal hands. Construction is due to start on site by the end of 2002 with hand over to the retailers by the end of 2004.

**Edinburgh** witnessed the opening of Harvey Nichols at the Walk in August. The store appears to be trading well. Ocean Terminal in Leith has welcomed new tenants including Arcadia brands Top Shop, Dorothy Perkins, Burton and Wallis, together with Viva Sofa, Clintons, Adams, Special Occasions and Goldsmith. Ocean Terminal is anchored by Debenhams and Bhs.

In September, a £10m Marks & Spencer dedicated food store of 1,022 sq.m. (11,000 sq.ft.) opened at Fort Kinnaird in Edinburgh, one of only eight food-only stores in the UK. M&S has also spent £17m rejuvenating fifteen of its Scottish stores, creating around 200 new jobs. To the south of Edinburgh, fashion and homeware retailer TK Maxx is to open a second store at Straiton retail park, while homeware retailer Room 2 will also open a store at the site.

In **Livingston**, the McArthur Glen outlet centre has secured further lettings, consolidating the New Town's authority in the East of Scotland retail hierarchy.

Dawn Developments has bought the House of Fraser store on Union Street, **Aberdeen**. The store is rumoured to be under offer and has planning and listed building consent for 6,967 sq.m. (75,000 sq.ft.) of retail space. Dawn Developments has also lodged a planning application for the redevelopment of another House of Fraser store in **Dundee** which amounts to 7,896 sq.m. (85,000 sq.ft.) of retail floorspace. Elsewhere in Dundee, Mango has recently taken space in Overgate and Specsavers has taken a unit on Murraygate. In addition, Ottakers has acquired the James Thin unit on High Street and the former Debenhams store on Nethergate has recently been granted consent for a change of use to include two bar/restaurants and further retail floorspace.

The Eastgate Centre in **Inverness** is being extended and refurbished. Debenhams has secured half of the additional 18,116 sq.m. (195,000 sq.ft.) floorspace. Other tenants confirmed to be taking space include H&M, Pizza Express and Laura Ashley.

Market activity in Scotland's Millennium city, **Stirling**, includes the redevelopment of the link mall and the opening of Next, Superdrug, Gap and JJB Sports.

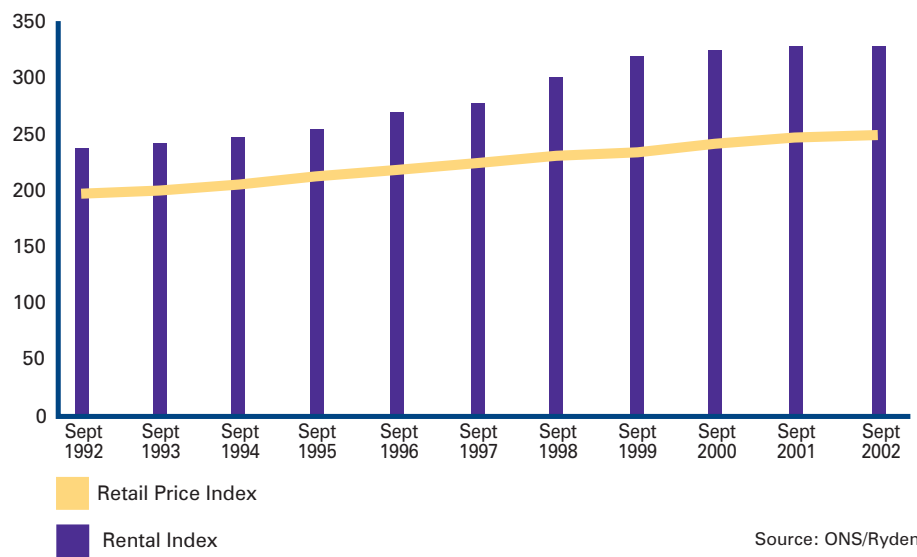
Development is progressing at **East Kilbride's** 26,010 sq.m. (280,000 sq.ft.) CentreWest. Anchored by Debenhams, the mall centre is due to open in March 2003 and has attracted Next, JD Sports, HMV and River Island.

Across the Scottish retail sector, redevelopment and reconfiguration of established town centres is the main theme for the next market cycle. In addition to those mentioned above, extensions are proposed or underway at Kingsgate Centre (Dunfermline), Kyle Centre (Ayr), Newcross and Regent Centre (both Hamilton), Kingdom Centre (Glenrothes), Peel Centre (Dumfries) and in Kirkcaldy.

**Scottish Shopping Centres**

Location	Zone A rate per sq.ft.
Aberdeen	142.50
Airdrie	42
Ayr	75
Braehead	145
Clydebank	60
Coatbridge	43
Cumbernauld	49
Dumfries	58
Dundee	105
Dunfermline	65
East Kilbride	115
Edinburgh	220
Edinburgh (Gyle)	175
Elgin	40
Falkirk	88
Galashiels	32
Glasgow	220
Glenrothes	52.50
Greenock	72
Hamilton	70
Inverness	115
Irvine	65
Kilmarnock	55
Kirkcaldy	55
Livingston	75
Motherwell	48
Paisley	72
Perth	72.50
Stirling	105
St. Andrews	37.50

**RETAIL INDEX**



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.

# OFFICE PROPERTY

## Glasgow

The Glasgow office market is not immune from the effects of the current economic downturn. The reduction in corporate activity will inevitably impact in the short term on requirements for larger amounts of space.

Unlike the early 1990s however, when Glasgow had substantial oversupply of quality offices, there is now a genuine shortage of Grade A and B office supply within the larger occupiers' target floorplate range of 929 - 1,858 sq.m. (10,000-20,000 sq.ft.). While total supply has remained relatively static over the period at 177,445 sq.m. (1.91 million sq.ft.), availability of Grade A and B office space is at historically low levels, representing circa 2% of total stock and 20% of available space.

Perhaps surprisingly in the present economic climate, occupier activity in Glasgow has held up well. Office take-up for the six months to September totalled circa 37,160 sq.m. (400,000 sq.ft.) producing a 12-month figure of 77,235 sq.m. (831,365 sq.ft.), around 28% above the long term average.

Notable transactions during the last six months include:-

Address	Size	Occupier
180 St Vincent Street	1,948 sq.m. (20,968 sq.ft.)	Yellow Pages
1 Atlantic Quay	2,044 sq.m. (22,000 sq.ft.)	LS Trillium
3 Atlantic Quay	2,322 sq.m. (25,000 sq.ft.)	LS Trillium
2 Central Quay	1,839 sq.m. (19,796 sq.ft.)	General Electric
100 Bothwell Street	1,098 sq.m. (11,818 sq.ft.)	Maclay Murray & Spens
5 Cadogan Square	844 sq.m. (9,090 sq.ft.)	Scottish Refugee Council
Grosvenor Building, Gordon Street	769 sq.m. (8,275 sq.ft.)	Anderson Fyfe
Athenaeum	764 sq.m. (8,226 sq.ft.)	Blood Transfusion Group
Alhambra House, Waterloo Street	635 sq.m. (6,836 sq.ft.)	DVLA
100 Bothwell Street	567 sq.m. (6,104 sq.ft.)	The Student Loans Co

Aside from the odd exception such as BT and Scottish Enterprise, Glasgow has seldom secured bespoke pre-lettings or sales. The city's success in attracting occupiers has historically been based upon providing speculatively-developed buildings ready for immediate occupation. A lack of such development last year resulted in lettings during construction at Equinox (6,100 sq.m./65,650 sq.ft.) and Cerium (6,780 sq.m./73,000 sq.ft.). Three new-build, speculative developments totalling 25,000 sq.m. (270,000 sq.ft.) are presently under construction in Glasgow's new International Financial Services District (IFSD). The largest of these is Crown Dilmun's Optima building (10,610 sq.m./114,200 sq.ft.) in Robertson Street, completing Summer

2003. 200 Broomielaw (Walker Group, 7,318 sq.m./78,774 sq.ft.) and 6 Atlantic Quay (Wilson Bowden, 7,154 sq.m./77,000 sq.ft.) will both complete during the final quarter of 2003. No other new developments in the city centre are scheduled to complete until mid-2004 at the earliest.

Headline Glasgow office rents are unchanged at £231-£247 per sq.m. (£21.50-£23 per sq.ft.). Lease length flexibility and tenant break options remain features of the market on refurbished and second hand stock.

On the immediate periphery of the central core, Skypark (rooftop, 3,251 sq.m./35,000 sq.ft.) will complete during first quarter 2003, while the first phase refurbishment of Elphinstone's Citypark (total 32,515 sq.m./350,000 sq.ft.) is now available. Outwith the central core, AXA REIM have commenced construction of Cirrus, comprising 7,111 sq.m. (76,545 sq.ft.) of Grade A specification offices at Glasgow Airport Business Park.

Further business park development activity includes Taylor Woodrow's Philipshill Business Park, East Kilbride, where two buildings of 1,858 sq.m. (20,000 sq.ft.) and 2,787 sq.m. (30,000 sq.ft.) have been completed, and at Silverbank Development's Hamilton Business Park where Bothwell House (2,250 sq.m./24,225 sq.ft.) is now available. Development is also underway at Hamilton International, where HF Developments/AWG are on-site with Aspect House, a speculative 4,378 sq.m. (47,124 sq.ft.) office building adjoining the new, multi-occupier International House which provides serviced offices of 3,638 sq.m. (39,160 sq.ft.).

Rentals for business park space range from £145-£156 sq.m. (£13.50-£14.50 per sq.ft.) for non-comfort cooled accommodation to £161-£188 per sq.m. (£15-£17.50 per sq.ft.) for air conditioned/comfort cooled space, inclusive of car parking.

## Edinburgh

The Edinburgh office market has endured a sustained period of uncertainty over the past 12 months. However, only some of this can be attributed to the events of September 11 2001. The economy was already showing some signs of a downturn prior to this, borne out by the fact that during the second half of 2001 there were no major new lettings in excess of 929 sq.m. (10,000 sq.ft.), either in the centre of Edinburgh or the established peripheral locations.

While this situation took a considerable time to improve, there are now clear signs that the market has picked up during 2002. Noteworthy transactions recently completed include:-

Address	Size	Occupier
Excel House, Semple Street	1,904 sq.m. (20,500 sq.ft.)	Bank of Scotland plc
Exchange Tower, Canning Street	1,678 sq.m. (18,070 sq.ft.) (three floors)	Henderson Boyd Jackson
Albany House, Albany Street	1,486 sq.m. (16,000 sq.ft.)	Simpson & Marwick
Westfield House, Murrayfield	3,251 sq.m. (35,000 sq.ft.)	Standard Life
Keith House, Edinburgh West Office Park	725 sq.m. (7,800 sq.ft.)	Highfield Group

Rentals achieved for these transactions do not provide conclusive evidence of prime levels for 2002. Rentals range between £172 - £269 per sq.m. (£16 - £25 per sq.ft.) across a variety of stock and locations.

Edinburgh has fared rather better than many other major office centres due to the resilience of the financial services sector, which contributes to an estimated 40,000 jobs across Lothian (SFE). However, in line with trends in London and elsewhere, the fund management sector has suffered a downturn.

In the 12 months to September 2002, there was take-up of 60,220 sq.m. (648,200 sq.ft.), of office space across Edinburgh. This is almost exactly the same as the 12 month period to March 2002 and confirms a return to trend following the boom years of 1998 to 2000. Such levels of take-up are encouraging during difficult economic conditions, but the next few months will provide a more robust test of whether the market is actually picking up, as the final quarter of the year is typically the most active period.

Office supply has increased from 149,900 sq.m. to 182,160 sq.m. (1.61 million sq.ft. to 1.96 million sq.ft.), but the greater increase

has been in the peripheral locations, particularly West Edinburgh where there have been a number of recent building completions. These include 7 Lochside Court (5,639 sq.m./60,700 sq.ft.), Edinburgh Park, while both 2 Lochside View (4,543 sq.m./48,900 sq.ft.) and 4/5 Lochside View (4,924 sq.m./53,000 sq.ft.) remain vacant. Similarly, 2 Hermiston Quay is completed while 1 Hermiston Quay awaits an occupier.

In the city centre, market sentiment is affected by the withdrawal of Abbey National from a deal to take the entire accommodation being developed at Citymark, Fountainbridge. At the east end of the City Centre, Waverley Gate (the former GPO Building) will offer in excess of 18,580 sq.m. (200,000 sq.ft.) of Grade A accommodation and is the largest single office development presently underway in Scotland. Market rumours suggest there is interest being shown in the entire building.

Within the original Exchange District, City of Edinburgh Council's proposed sale of HI, the last remaining site, is attracting significant developer interest. It is understood that six parties have now been shortlisted for interview for a proposed prime office and conference space development.

While the market has been relatively quiet over the past 6 months, there remains substantial latent demand from large organisations seeking to relocate. At the last estimate there were more than forty occupiers requirements seeking accommodation in units of 929 sq.m. (10,000 sq.ft.) or larger. The financial services sector leads the way in terms of requirements, but professional services organisations - particularly lawyers - are also showing signs of activity. The professional services sector tends to require a catalyst, such as the development of Saltire Court on Castle Terrace in the 1990s. Perhaps Henderson Boyd Jackson's relocation to modern space at Exchange Tower may signal a new market for the 2000s.

## Aberdeen

Despite recording a healthy level of take-up during the last six months, the number of new requirements for office accommodation in Aberdeen has fallen over the period. The market was at its busiest in May/June, cooled during the course of the summer and although there was more activity during September, the rise was relatively modest. The majority of the demand remains focussed towards smaller buildings and suites under 929 sq.m. (10,000 sq.ft.).

Take-up of office accommodation in the city has risen for the second consecutive review period by 19% to 20,346 sq.m. (219,000 sq.ft.). Encouragingly, the total number of completed transactions has risen significantly to sixty-eight. The most significant lettings of the past six months are:-

Address	Size	Occupier
Langlands House, Huntly Street	4,195 sq.m. (45,150 sq.ft.)	Global Santa Fe
Pavilion 2, Craigshaw Business Park, West Tullos	1,012 sq.m. (10,900 sq.ft.)	Halliburton Brown & Root Ltd
Foresterhill Health & Research Complex	929 sq.m. (10,000 sq.ft.)	Scottish Ministers, for NHS Education for Scotland
Kirkgate House, above St Nicholas Shopping Centre	1,310 sq.m. (14,100 sq.ft.)	Aberdeen City Council (Social Work Department)
1 Berry Street	2,118 sq.m. (22,800 sq.ft.)	Regus

With the completion of 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.ft.) Blenheim Gate, on Blenheim Place, speculative construction is now limited to the following two projects:

- Developers AECC Ltd, are due to complete Balgownie 1 at Aberdeen Exhibition and Conference Centre at Bridge of Don by December 2002. The building will provide 2,787 sq.m. (30,000 sq.ft.) of modern office accommodation. It is understood that part has been pre-let to Aberdeen City Council. The quoting rent is £183 per sq.m. (£17 per sq.ft.).
- Hanover Property Trust is nearing completion of the refurbishment and extension of the 7,135 sq.m. (76,800 sq.ft.) Victoria Tower on Market Street. The quoting rent is £156 per sq.m. (£14.50 per sq.ft.).

Supply of second hand office accommodation has increased by 8% to approximately 113,800 sq.m. (1,225 million sq.ft.). The most notable addition to the list of available properties was

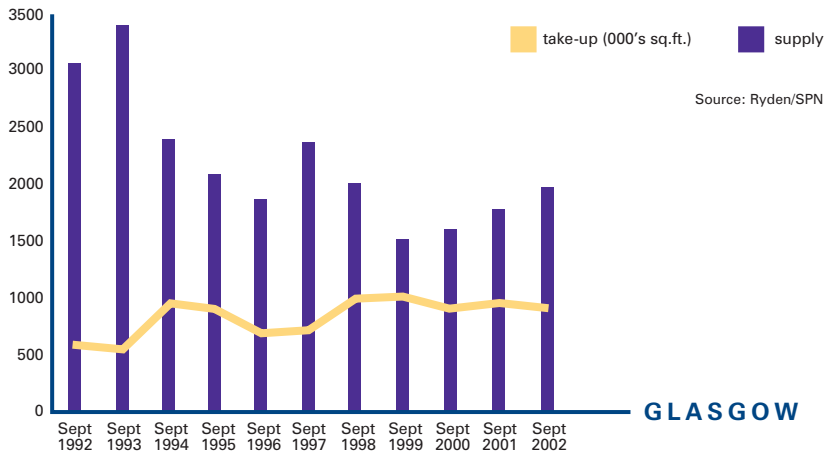
Enterprise Oil's 5,295 sq.m. (57,000 sq.ft.) of accommodation at St Magnus House, Guild Street following Shell's takeover of the company. However, this accommodation, which won the BCO's National Fit-Out Award last year, has been sub-let to Canadian Natural Resources after less than a month on the market. Shell is also shortly to vacate Loirston House in Altens, which extends to 1,395 sq.m. (15,000 sq.ft.).

The Government's increased tax on oil revenues, announced at the last Budget, is having an impact on the local economy and in turn the property market. Against the background of recent job losses in the industry, BP's plans to build a new £110 million office complex at Stoneywood to accommodate their North Sea Oil & Gas Headquarters are understood to be under review. The eventual building is likely to be smaller than the original proposals for 36,000 sq.m. (387,500 sq.ft.).

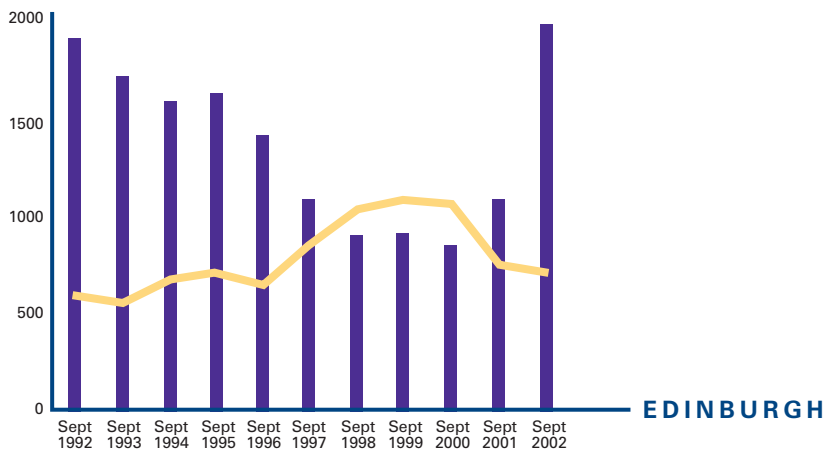
Furthermore, Aberdeen Asset Management's plans to convert the University of Aberdeen's historic Marischal College into a 15,600 sq.m. (168,000 sq.ft.) HQ office building have been shelved, according to recent reports. The fortunes of the fund management company have suffered in the wake of the downturn in the UK economy and the equity markets in particular.

In summary, there have been some notable deals in the review period, although the prospects for the next six months are somewhat uncertain. There is still strong demand for good quality, open-plan office accommodation in the West End. The majority of the speculative developments are however located outwith the West End and accordingly a significant number of requirements remain unsatisfied. This is unlikely to change in the foreseeable future as the commercial developers cannot compete with their residential counterparts for available sites in the West End.

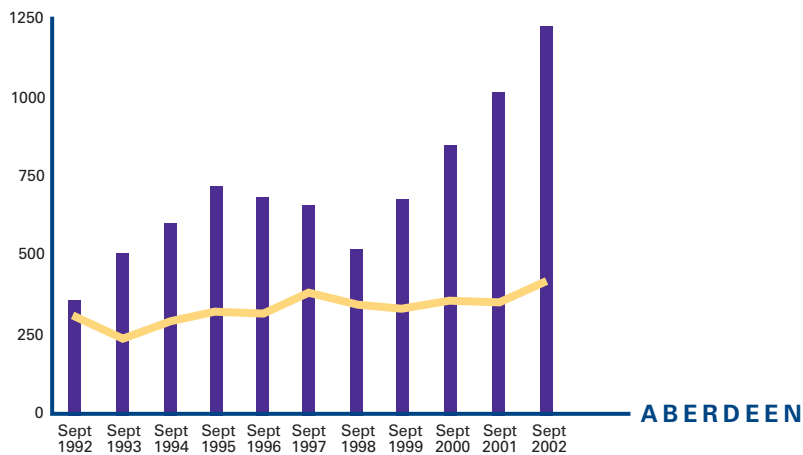
**Office Supply & Take-Up**



**GLASGOW**



**EDINBURGH**



**ABERDEEN**

# INDUSTRIAL PROPERTY

## West of Scotland

The prospect of owning a tangible asset and low borrowing costs are resulting in increased enquiry levels for feuhold industrial property. This push for owner occupation coincides with a time where there is increasing product on the market. The poor performance of the electronics sector has freed-up a number of acquisition opportunities, particularly in the New Towns. For example, Panasonic recently sold its 3,357 sq.m. (36,140 sq.ft.) East Kilbride facility for circa £226 per sq.m. (£21 per sq.ft.), including a significant area of expansion land.

At Inchinnan Business Park, the sale of two properties has recently concluded for CTP Silleck and a third should conclude shortly. The smallest building was a 919 sq.m. (9,896 sq.ft.) unit, which achieved £255 per sq.m. (£23.75 per sq.ft.), and a 2,859 sq.m. (30,777 sq.ft.) unit was sold for £183 per sq.m. (£17 per sq.ft.). The final building of 5,248 sq.m. (56,495 sq.ft.) is currently under offer.

On the leasing side, the West of Scotland industrial market continues to put out mixed messages. Demand for locations and sizes vary quite markedly.

On a very broad brush basis, the overall message does not differ from the April Review. The distribution sector continues to be active in size bands above 4,645 sq.m. (50,000 sq.ft.), with the mid-band slower (1,393 sq.m. - 4,645 sq.m./15,000 sq.ft. - 50,000 sq.ft.) and strong activity re-emerging for smaller units of 46 sq.m. - 1,393 sq.m. (500 sq.ft. - 15,000 sq.ft.).

Despite supply of new-build accommodation in the West of Scotland rising to 84,730 sq.m. (912,000 sq.ft.), the market continues to suffer from a shortage of good quality product in locational hot spots such as Glasgow Airport and Cambuslang. Consequently, development activity continues in these prime locations.

Wilson Bowden has now started on site at Glasgow Gateway, providing speculative units of 2,600 sq.m. and 3,810 sq.m. (28,000 sq.ft. and 41,000 sq.ft.). The smaller unit is due for completion by the end of the year, with the larger following shortly thereafter. Also at Cambuslang, The Junction is almost completely developed and has been an extremely successful location. The final phase of development includes a speculative 1,858 sq.m. (20,000 sq.ft.) unit, which was recently completed and is attracting good interest.

Further positive announcements concerning the M74 extension will enhance Cambuslang and the southside as a distribution location. It is now evident in the marketplace that displaced occupiers are seeking to relocate and speculators are moving in to acquire land and buildings.

At The Phoenix, Paisley, SCOT Sheridan Developments Limited has acquired a 5.44 hectare (13.49 acre) site from Cuckfield. A 17,650 sq.m. (190,000 sq.ft.) production and warehouse development to be known as Imperial Park is due to start on site by the end of October. The units will be of 1,858 sq.m. and 2,323 sq.m. (20,000 sq.ft. and 25,000 sq.ft.), providing up to a maximum of 4,181 sq.m. (45,000 sq.ft.) in a single unit. Design and build opportunities of up to 10,220 sq.m. (110,000 sq.ft.) will be available on the Phase 2 site.

At Newhouse, Saltire Developments propose a 30 hectare (75 acre) distribution park to be known as Linkpark, offering sites capable of accommodating up to 27,900 sq.m. (300,000 sq.ft.)

At Prestbury's Westway, the initial phase of development is now complete. Block K provides 19,510 sq.m. (210,000 sq.ft.) of high eaves distribution space. Westway offers space from 929 sq.m. - 27,900 sq.m. (10,000 sq.ft. - 300,000 sq.ft.) and Prestbury is offering a flexible approach to leases and rentals.

In summary, the market continues to produce deals, although the Scottish recession has impacted on the market and new development. A market downturn always reinforces the fundamental considerations of industrial property, namely securing the correct type of product in a prime location and offering it at an acceptable rental or price.

## East of Scotland

Two powerful market trends characterise and define activity in the East of Scotland industrial sector, and indeed the rest of the country. First, the modernisation of industry continues to create demand for new and replacement premises. Secondly however, the sector is not immune to the shift of economic activity from industry to services.

In the former category, at Edinburgh Interchange (Newbridge), George Waterston & Sons Ltd has taken Unit 5 (4,520 sq.m./48,650 sq.ft.) for a term of 25 years at a rental of £59 per sq.m. (£5.50 per sq.ft.). George Waterston & Sons Ltd is an established (since 1752) company relocating to more modern premises and realising a high development value for an existing property in Edinburgh. A similar strategy is being pursued by Brodie, Melrose Drysdale & Co Ltd, which sold its property at 1 Dock Street in Leith, situated on a site area of 0.36 hectares (0.9 acres) to Gregor Shore Properties at a price of £2 million. Brodie, Melrose Drysdale & Co has relocated to Newhailes Industrial Estate in Musselburgh where the company has purchased land and constructed a new facility.

In West Lothian, Banner Business Supplies Ltd has taken 2,545 sq.m. (27,398 sq.ft.) on Kingsthor Park, Houstoun Industrial Estate from Wyndham Investments Ltd on a ten-year lease and at a rental equating to £48 per sq.m. (£4.50 per sq.ft.). Other transactions in West Lothian include the sale of unit 1 Dunlop Square (3,347 sq.m./36,028 sq.ft.) by James Keiller (Edinburgh) Ltd to Scottish Motor Auctions Ltd at a price of £1.34 million. The owners (Haslemere) of Deans Industrial Park on the west side of Livingston which totals in excess of 32,515 sq.m. (350,000 sq.ft.), have secured two further lettings within their portfolio to North West Medical Supplies and Pet Planet. Both of these deals were concluded at a reduced rental of £37 per sq.m. (£3.50 per sq.ft.).

The most significant transaction in East Central Scotland over the last six months has been the purchase of the former Motorola plant in Bathgate, West Lothian, by Pearl Assurance through Henderson Global Investors and the Scottish Capital Group at a price of £10.7 million. The building was constructed in the early 1990s and totals 47,188 sq.m. (507,933 sq.ft.) on a site of over 37.5 hectares (93 acres). At its peak in the mid-1990s, Motorola employed in excess of 3,000 people at the plant. The property is to be re-named Pyramids Business Park

and the intention of the purchasers is to invest more than £3 million into the property and provide approximately 18,580 sq.m. (200,000 sq.ft.) of high quality office accommodation and 10,680 sq.m. (115,000 sq.ft.) of distribution space with integrated office accommodation. The new owners intend to offer the space from as little as £91 per sq.m. (£8.50 per sq.ft.) and significant interest is already reported. This major initiative neatly illustrates the changing industry/services balance.

In Fife, the new ferry service from Rosyth to Zeebrugge is beginning to have positive effects on the local property market and as a result of this Rosyth Europarc Ltd is planning to construct new dockside warehousing accommodation which will be available in units from 2,322 - 11,613 sq.m. (25,000 - 125,000 sq.ft.).

In Tayside, there is a considerable amount of second-hand accommodation currently available (c.163,500 sq.m./1.75 million sq.ft.) which is holding back rental growth and also constraining any significant new development. The rental achievable for new accommodation in Dundee is at best £46 - £48 per sq.m. (£4.25 - £4.50 per sq.ft.). The market for industrial accommodation in Perth continues to be very slow with occupiers choosing to have outlets in the principal cities of either Edinburgh or Dundee.

The consensus view of the industrial property market in East Central Scotland is that the number of enquiries received has reduced steadily over the last 12 months. While this is of course a concern to all those involved in the market, there is still a reasonable number of deals being completed.

## Aberdeen

Notwithstanding uncertainty within the oil sector, industrial take-up over the last six months is almost double that of the previous six months at 60,409 sq.m. (650,224 sq.ft.). However, 53% of this was accounted for by one transaction, the sale of the former Donside Paper Mill. If this is excluded from the analysis, the figures are 10% down on the last six months at 28,356 sq.m. (305,224 sq.ft.) and 40% down on the same period last year. The number of transactions remains broadly similar at 49, with 90% of these in the under 929 sq.m. (10,000 sq.ft.) category.

A 20% drop has been recorded in the amount of industrial space available. Current supply of 163,800 sq.m. (1.76 million sq.ft.) in 223 properties brings the level back to broadly the same as this time last year. This supply is almost exclusively second-hand, much of it now 15-20 years old.

Significant deals within the most recent period include:-

Address	Size	Occupier
Donside Paper Mill	32,051 sq.m. (345,000 sq.ft.) on a 8.8 ha (22 acre) site	Sold to Roger Taylor for £2.1m
Former S & N Depot, Craigshaw Crescent, West Tullos	4,563 sq.m. (49,116 sq.ft.) on a 0.9 ha (2.3 acres) site	Sold to Volkswagen Financial Services
Odfjell building, Denmore Road, Bridge of Don	1,800 sq.m. (19,378 sq.ft.) on a 1.2 ha (3 acre) site	Sold to Linmere for £850,000
Woodside, Bridge of Don	865 sq.m. (9,315 sq.ft.)	Leased to Howden Joinery for 15 years at £40,000 per annum
A3 Airport Industrial Park, Dyce	843 sq.m. (9,068 sq.ft.)	Sub-let to Vosper Thomcroft UK Ltd for 5 years at £45,500 per annum

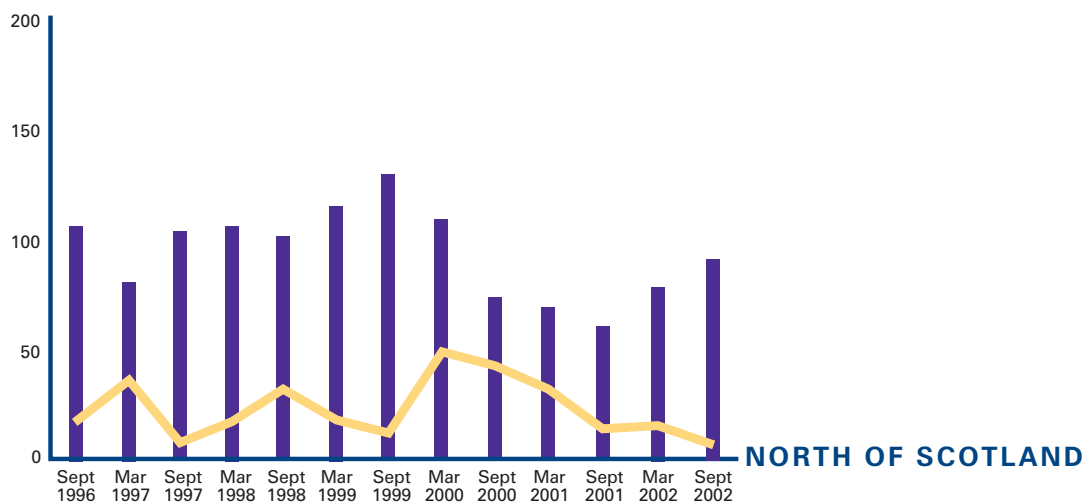
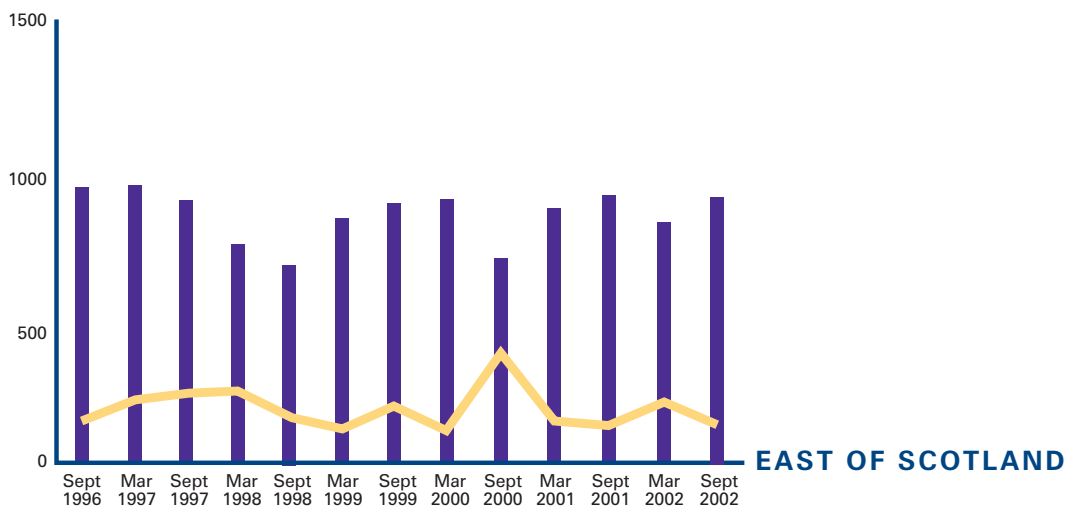
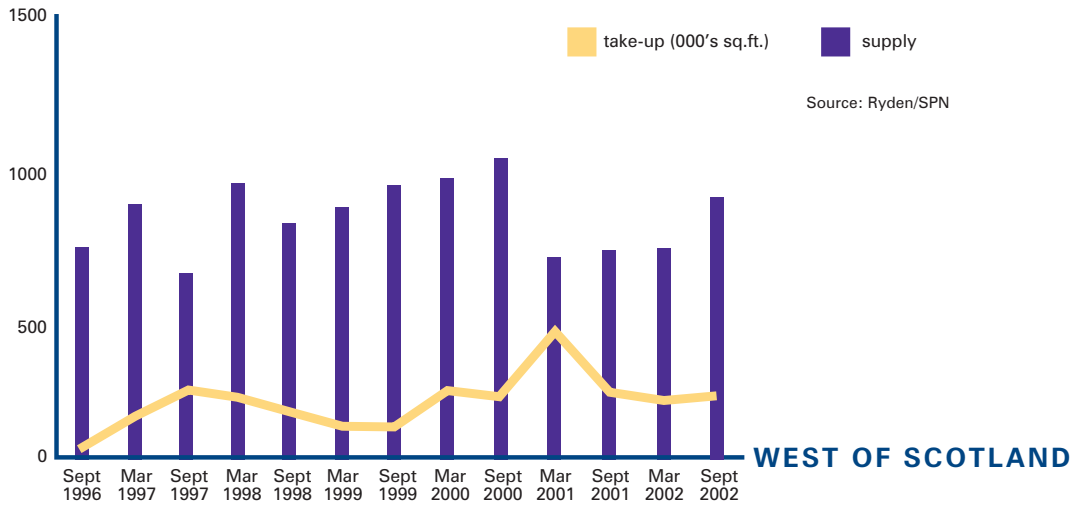
Land supply continues to be restricted, although 12 hectares (30 acres) at Altens East (subject of a recent planning appeal) is now openly available for development and a new planning application has been lodged for 60 hectares (150 acres) at Cairnrobin. Planning permission has also now been confirmed for a Park & Ride facility on the A96 adjacent to Marshalls Trailers, which should assist in funding the new link road to Kirkhill, required to unlock the area to the south of Aberdeen Airport at Dyce Drive for development.

The oil industry has experienced several high profile mergers and acquisitions in both the operating and service sectors

over the last two years. This has resulted in some major restructuring within a number of these organisations. While that in itself has produced new property requirements, it has also slowed the progress on a number of new offshore projects.

While short term uncertainty is affecting investment in the oil sector, the UK Continental Shelf can continue to provide a stable area for investment in the longer term. The challenge for Aberdeen will be to continue to drive down costs in the face of mounting competition for investment from other more economically attractive global locations. A competitive property market offering a wide range of modern facilities at competitive rates and in attractive locations will be an integral part of this process.

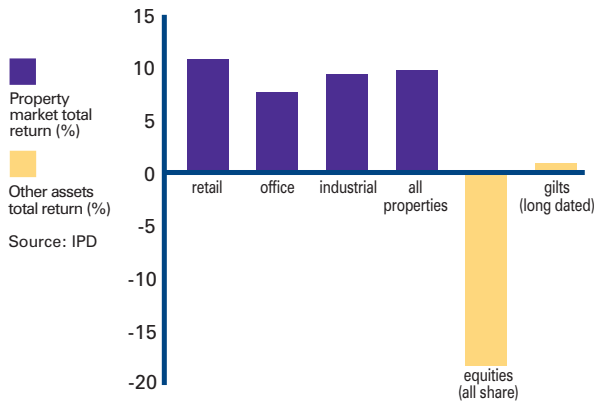
**New Industrial Supply and Take-up**



# INVESTMENT MARKET

## Overview

The last six months have seen substantial levels of activity in the property investment market. Investors seek a safe haven in property, attracted by initial income return on average between 7% and 8% per annum. Institutional investors, property companies, collective investment vehicles, high net worth individuals and the banks who support them are all active buyers of property, as a defensive purchase during a period when the equity markets have been in turmoil.



IPD's monthly index shows yields continuing to fall despite generally flat rental value growth. In the 12 months to August 2002, total returns of 9.4% for all property are recorded within IPD's UK index. This is the highest level of return since quarter one 2001. The trend in falling yields is led by retail property.

Gilt yields have also fallen significantly, improving short-term performance and narrowing the gap with property. Total returns for gilts in the 12 months to August 2002 are 7.4%. By contrast, the performance of equities is reported as -18.7% in the year to end August, since then the market has lost further value.

## Retail

Retail property has emerged as the strongest sector and the only one to record positive rental growth. The total return for the 12 months to end August in IPD's monthly index is 11.4%. A downward yield movement is occurring, correcting a previous upward adjustment which occurred during a weaker market period.

Interest in retail property has been significant over the review period. The spectrum of interest has been broader than ever and has ranged from the disillusioned private investor bidding for well-let retail units at auction through to the institution seeking significant holdings to increase portfolio weightings in anticipation of enhanced performance.

The downward shift in yields has caused vendors to recognise the opportunity to better historic valuations and considerable stock has come forward. Much of the stock has been traded through portfolios and has been of mixed quality.

Recent deals include:-

Address	Property	Transaction
94 - 102 Sauchiehall Street, Glasgow	Block of 4 units let to tenants including Holland and Barrett. Rents from £137 - £144 per sq.ft. Zone A	Acquired by Deutsche Asset Management for £9.75m. Net initial yield 5.75%
Princes Street, Edinburgh	24/25 let to Vodafone/ Carphone Warehouse. 44 let to Lush	Sold at yields of 5.75% to 6%
Sauchiehall Street Centre, Glasgow	Shopping centre of 11 shop units and a department store	Acquired by German Fund iii Fonds for £46.25m. Net initial yield c. 6%
Kyle Centre, Ayr	Shopping centre	Acquired by City Site Estates for £25.5m. Net initial yield 6.6% rising to 8%
B&Q and Big W, Forge Retail Park, Glasgow	Two big box retail warehouse units	Acquired by Dodder Limited Partnership for in excess of £39m. Net initial yield 6.25%

## Offices

Offices remain the only sector showing rental value decline. IPD figures show a UK wide average of -1.2% over the 12 months to end August. Allied to this, yields have increased by 0.03% over this period. The total return of 7.2% includes an average income return of 8%. Market sentiment suggests much heavier falls in rental value in London and the South East, particularly in the City and M4 corridor regions.

In Scotland, prime rental values in Edinburgh have fallen, although investor demand remains strong from individual, syndicated and overseas investors who see continued value at initial yields of 6.25% to 6.5%. In Glasgow, investor interest remains strong as both income flow and active opportunities attract investors.

Recent deals include:-

Address	Property	Transaction
Excel House, Semple Street, Edinburgh	A new building of 3,900 sq.m. (42,000 sq.ft.) let to Bank of Scotland and MacRoberts Solicitors.	Purchased by Westmoreland Investments at a price approaching £14m. Net initial yield c. 6.2%.
Innova Campus, Rosyth Europarc, Rosyth	10,684 sq.m. (115,000 sq.ft.) in three buildings let to tenants including Bank of Scotland and Forsyth Business Centres.	Purchased from Teesland by Matrix Securities at c. £20m. Net initial yield 7.8%.
225 Bath Street, Glasgow	A 1960s building of 8,268 sq.m. (89,000 sq.ft.) let to Teletext and AG at c. £140 per sq.m. (£13 per sq.ft.).	Acquired by Warner Estates at c. £12.5m. Net initial yield 9%.
Spectrum Building, Waterloo Street, Glasgow	A refurbished building of 6,094 sq.m. (65,600 sq.ft.) partially let with rental cover over vacant accommodation.	Acquired by clients of Henderson Investors at £15.5 million. Net initial yield 8%.
City Gate, Aberdeen	A new building let to AMEC until 2016.	Acquired by Irish Investors for a price of £7.7m. Net initial yield 7.06%.

## Industrial

Industrial sector performance continues to be driven by income return at 8.4%, with rental growth at 1.2% over 12 months pushing total returns to 9%. Yields have remained static overall.

Transactional activity over the review period has again been limited by available stock, however investor interest in the sector is significant with institutions seeking multi-let and single-let opportunities, property companies seeking asset enhancement opportunities and private/syndicated investors actively pursuing well-let units. The lack of well-specified modern investment stock has again encouraged the funding of some speculative schemes, such as the funding by IPIF of SCOT Sheridan's 17,650 sq.m. (189,980 sq.ft.) development at Imperial Park, Linwood.

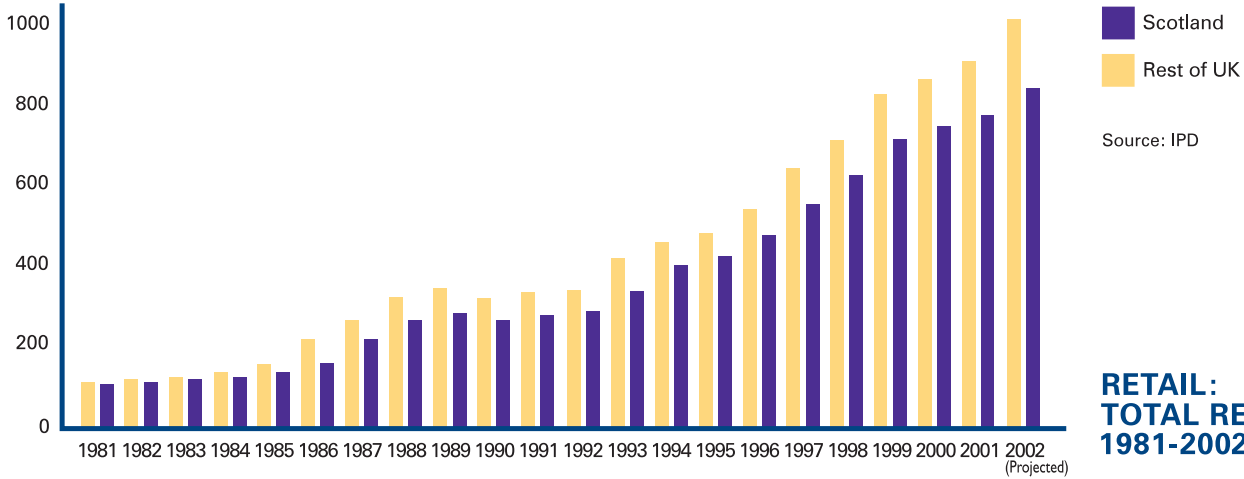
Other recent deals include:-

Address	Property	Transaction
Gateway Glasgow, Cambuslang	12,356 sq.m. (133,000 sq.ft.) pre-let to Tradetam for 20 years at £51 per sq.m. (£4.75 per sq.ft.).	Pre-sold to Tritax Assets for £7.83m. Net initial yield of 7.59%.
Tannochside Park	Multi-let estate comprising 6,968 sq.m. (75,000 sq.ft.), fully let at rents of £48 to £54 per sq.m. (£4.50 to £5 per sq.ft.).	Sold to Antler Investments for £3.425m. Net initial yield of 9.5%.
Minto Avenue, Aberdeen	Warehouse unit let to John Lewis plc expiring 2009 at a rent of £108,000 pa.	Acquired by Acre Property for £1.215m. Net initial yield of 8.4%.

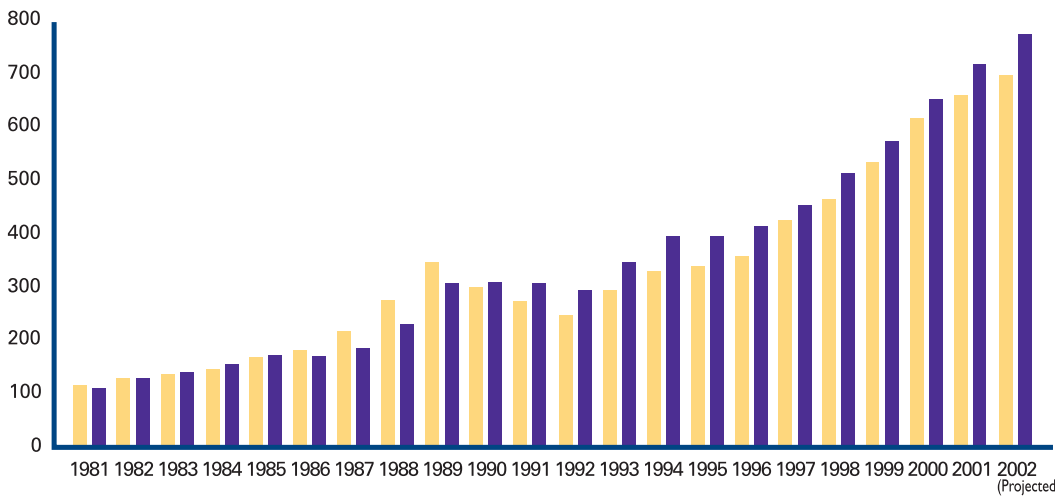
## Market Prospects

Some concern now exists that rental value growth will decline or reverse given a poorer economic outlook, particularly in the offices sector. This could be expected to lead to upwards pressure on yields and falling capital values. On the other hand, the low interest rates and returns available in the broader investment market suggest there may be scope for further downward yield shifts.

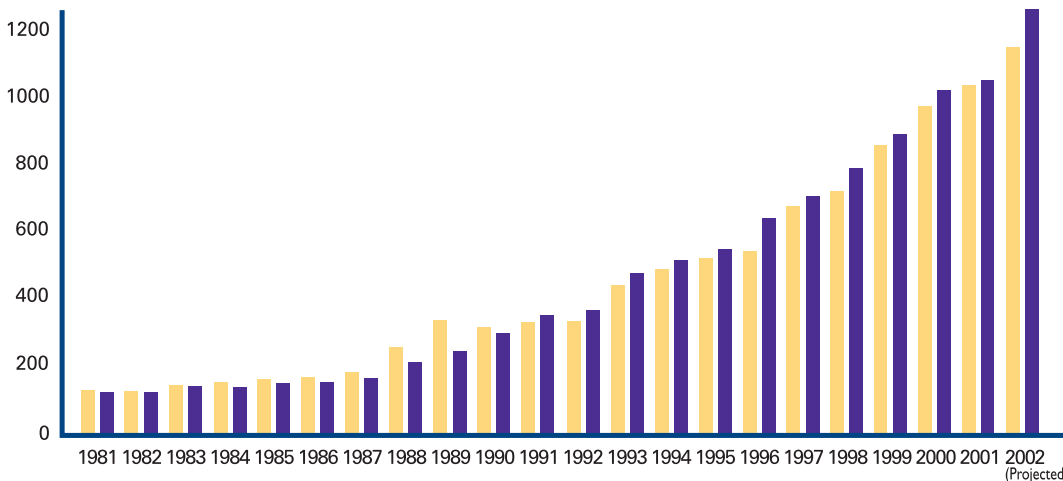
In the short-term, weight of money is the over-riding factor pushing down yields, particularly for secure, long term income investments. Markets will remain busy as strong levels of demand for new investment purchases encourage profit-taking by existing investors. For the moment, property is an attractive prospect for a wide range of investors at current pricing, without the need for significant rental growth.



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