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## UK Economy

According to the Office for National Statistics (ONS), growth in output during the second quarter of 2004 (0.9%) slowed when compared to the previous quarter (1.0%). Over the year to the second quarter of 2004, GDP rose by 3.7%. Between the first quarter and second quarter of 2004, output from both the production industries and manufacturing industries rose by 0.9%, while service sector output increased by 1.0%.

In August the Government's target measure of inflation, the Consumer Price Index (CPI), stood at 1.3%, down from 1.4% in July. The headline inflation rate (RPI) rose to 3.2%, from 3.0% due largely to rising mortgage interest payments. Using the internationally comparable CPI, the UK's inflation rate has been one of the lowest in the EU since the beginning of 2000.

The three months to July 2004 saw a fall in both employment and ILO unemployment compared with the same period a year ago. Employment was down slightly by 1,000 on the previous 3 months to stand at 28,301,000 - a rate of 74.6% of the working-age population. The number of people claiming unemployment benefit in August compared to the previous month fell by 6,100 to 830,200 - the lowest level since June 1975. The claimant count rate of 2.3% in the second quarter 2004 was down from 2.5% in the previous quarter and down 0.3 percentage points on the same time last year.

The UK's balance in goods and services in July is provisionally estimated to have dropped to £3.7bn from a revised figure of £3.4bn in June, highlighting the widening trade deficit. The figure on trade in goods is provisionally estimated to stand at £5.2bn in July compared to a surplus on trade in services of £1.5bn.

## Scottish Economy

Provisional estimates published by the Scottish Executive indicate that GDP increased by 0.2% during the first quarter of 2004 and by 1.6% in the year to the first quarter 2004.

Recent results from the British Chamber of Commerce Quarterly Survey reveal that the manufacturing and service sectors experienced contrasting second quarters of 2004. Within manufacturing, domestic sales recovered well, and export sales strengthened. The service sector also recovered slightly with both domestic sales and orders improving on the very low levels recorded in the fourth quarter. Confidence in profitability and turnover in the service sector strengthened compared to levels six months earlier, with employment prospects remaining stable.

According to the Oil and Gas Index published by RBS, average daily oil production in the 12 months to September 2004 was 9.9% down on the figures for 12 months earlier. Although oil and gas production in the UK increased slightly in July, the trend for oil production is still down. The combined rate of growth for both gas and oil production is 1.1% on the same period a year earlier.

Scotland has placed great emphasis on tourism as a unique and sustainable influence on the economy. Recent figures in the tourism sector have been positive. Total visitor demand improved again in Q1 2004 to continue the trend from 2003 and business confidence in the sector is the strongest first quarter level for six years.

The Fraser of Allander Institute predicts Scottish GDP will grow by 2.2% in 2004 and 2.0% in 2005. Manufacturing growth has been revised down to a 1.2% increase in 2004 and 1.7% in 2005. These figures are highly dependent on exports and business investment. Service sector growth in 2004 is expected to be 2.3%, followed by 2.0% in 2005. Financial services, transport and other business services are predicted to be key drivers.

## Employment and Unemployment

ONS data indicates that both the Scottish employment and unemployment rates increased slightly over the twelve months to July 2004. Labour Force Survey data for the three months to January 2004 revealed a 0.4 percentage point rise in the employment rate on the same period a year earlier. The seasonally adjusted unemployment rate for the three months to August 2004 stood at 6.0%, up 0.4% on the same period in 2003. The number of people claiming unemployment benefit fell marginally to stand at 89,300 (3.4%) in August.

Aberdeenshire and East Dunbartonshire have claimant count rates well below the Scottish average at 1.4% and 1.8% respectively. Inverclyde (5.5%), North Ayrshire (4.7%), Glasgow City (4.5%) and Dundee City (4.4%) have all fallen since January 2004 but remain high in a Scottish context.

Forecasts from the Fraser of Allander Institute suggest that employment in Scotland will increase by 21,900 over the coming year and subsequently by 29,300 in 2005. The majority of these jobs are expected to be in the service sector. The manufacturing sector is now expected to register net job losses in 2004 and only modest employment gains in 2005, most of which are expected to be part-time and flexible jobs. The claimant unemployment rate is expected to reach 3.8% in 2004, compared to a projected ILO rate of 5.5%.

## Business Start-ups and Failures

Figures published by the Committee of Scottish Clearing Banks show that the number of new businesses established in Scotland during the second quarter of 2004 stood at 5,405, 7% lower than in the same period last year. The majority of new businesses in Quarter 2 2004 (51%) were in the real estate, renting and other business sector. The majority of start-ups were in Glasgow City (649) and Edinburgh City (597).

Experian's recent analysis revealed 173 business failures in Scotland during the first quarter of 2004, a decline of 22.1% on the same time 12 months earlier.

## Investment and Job Creation

In the past six months there has been mixed news regarding investment and job creation. Positive announcements are tempered by redundancies and job losses.

The Ministry of Defence recently announced that over 400 jobs are to be lost at RAF Lossiemouth and RAF Kinloss in Moray.

Further public sector job losses have been announced in Scotland as a result of the recent plans to streamline the civil service. The Employment and Benefits office in Fife is to be closed resulting in the loss of approximately 60 jobs, while Coatbridge Jobcentre and Jobcentre Plus in Provan, Glasgow are to be closed along with the social security offices at Hamilton and Perth.

In the retail sector, over 140 jobs are to be lost throughout Scotland as the retailer 'Your More Store' is to close twenty shops in various locations. The news follows the collapse of negotiations for a £30m purchase from a number of interested parties.

Sun Microsystems, the software and hardware producer, has recently confirmed that 50 jobs will be lost in its Linlithgow plant, mainly in the Marketing, Sales and Administration departments. The news is however seen as a relief by many, as the firm had announced that over 1,500 jobs were to be lost - the vast majority of the redundancies will occur south of the border.

Efforts to develop Glasgow's International Financial Services District have been slow to attract investment. So far, only actuary Hymans Robertson has relocated here.

Becogent, the fast-growing telecoms service centre, has recently announced further investment in two different call centre locations in Scotland, in addition to its overseas investment in South Africa and India. Two hundred jobs will be created at a call centre in Glasgow and a further 600 at a new centre in Erskine. Another call centre has recently opened in Bathgate, providing 630 jobs, one of a number of Inland Revenue contact centres.

Rolls Royce recently announced a £45m investment in a new factory in East Kilbride, safeguarding up to 1,100 jobs. A further 55 other jobs in Scotland are to be retained through Napier

Brown Foods' acquisition of cake ingredients firm Renshaw Scott in an £18.5m deal.

## Summary

Over the past twelve months the Scottish economy has endured low growth levels and difficult economic conditions. Manufacturing decline has continued, but there are some signs that the sector is stabilising. A rise in exports can be attributed to the improving global economy. Although domestic demand remains low, mirroring the rest of Europe, this is forecast to improve over the coming months.

The number of people in work in Scotland has increased slightly. However, the seasonally-adjusted claimant count has also risen, in contrast to the UK trend. New business starts remained broadly constant in the two years to end 2003, although during second quarter 2004 the numbers of starts (and failures) in Scotland declined significantly.

There are signs that Scotland's service and manufacturing sectors are beginning to arrest recent negative trends. Expectations in both sectors show that firms - particularly larger firms - expect rising turnover and profitability and this should bode well for future growth.



### Retail Property

Despite increased interest rates, retail sales in Scotland over the summer have been strong, often out-performing the rest of the UK, with the exception of London.

Like-for-like retail sales for September 2004 were 5.5% higher than last year. Overall retail sales grew by 7.6% in the 12 months to September (SRC/RBS).

Retailer demand remains relatively strong. However, supply of large, quality space is limited in prime retail pitches. Expanding retailers range from the value sector such as H&M, Ethel Austin and the Pound stores, to fashion operators such as USC, Zara, Next and Arcadia. Retailers with requirements for market towns include Subway, Clinton Cards and Card Factory.

In recent months, there have been signs of improvement in the bar/restaurant market. In addition, the leisure industry is making provisions in anticipation of the changes to the UK Gaming Laws which may result in the introduction of casino-led leisure developments.

Reports suggest that **Glasgow** is in danger of losing its status as Britain's second most popular shopping centre to Birmingham. Demand, however, remains strong with Mexx and Adidas having requirements for Buchanan Street and Next and TK Maxx looking for more space within the city.

Swedish retailer Gant recently announced it is moving into Buchanan Street by taking part of the former Laura Ashley unit. The retailer will be joined in the street by Zara, which is to open its first Glasgow store. More activity is expected early 2005 when around 2,787 sq.m. (30,000 sq.ft.) of retail space will be created at 150 Buchanan Street by Clydesdale Bank's move to a new head office.

Glasgow Fort Shopping Park opened fully in October. Zara recently signed up to join a strong list of retailers including Next, River Island and Arcadia. Nearby, Wm Morrison Supermarkets is advancing the development of a 12,000 sq.m. (130,000 sq.ft.) store.

Phase 2 at **Braehead** is now underway. Operators include Xscape, Scotland's first snowdome, plus Odeon multi-screen cinema, health club, specialist sports and leisure shopping. Capital & Regional in partnership with CSC plan the development to be available for occupation in Spring 2006.

In **Edinburgh**, H&M has pre-let 2,415 sq.m. (26,000 sq.ft.) at Redevco's redevelopment of the former C&A and Burberry properties on Princes Street. The scheme is scheduled to complete early next year and provides an additional unit of c.1,300 sq.m. (14,000 sq.ft.). Meanwhile, at the Multrees Walk development off St Andrew Square, further lettings to DAKS Simpson and Anne Fontaine mean that more than half of the formerly empty units are now occupied. Retailers here include Emporio Armani, Louis Vuitton, Vidal Sassoon and Calvin Klein.

**Aberdeen** City Council has agreed to join forces with the owners of the Bon Accord and St Nicholas Centres and the John

Lewis Partnership to chart a way forward and provide major improvements to the retail experience in the city centre.

Meanwhile, Stannifer and Hammerson's Union Square development in Aberdeen has secured pre-lets to city newcomers H&M and TK Maxx, despite the development not being scheduled to open until 2007. H&M is however expected to start trading in November 2004 from two floors of the former House of Fraser store on Union Street.

In **Dundee**, Zara continues its Scottish expansion programme by taking 1,207 sq.m. (13,000 sq.ft.) over three floors in the former Arnotts building on the corner of High Street and Commercial Street. Other retailers signed up include Republic, Original Shoe Company and Ottakar's.

In Dundee's retail warehouse sector, Phase 1 of the Gallagher Retail Park, a 13,000 sq.m. (140,000 sq.ft.) development was pre-let to Matalan and Brantano. JJB Sports is signed-up for a 2,322 sq.m. (25,000 sq.ft.) unit in Phase 2, for a health & fitness club concept, and the remaining unit is under offer to another national retailer. At Kingsway West Retail Park, Land Securities has recently completed the latest phase of a £40m redevelopment, doubling the floor space to over 37,160 sq.m. (400,000 sq.ft.) to accommodate a Tesco Extra superstore (9,290 sq.m./100,000 sq.ft.), Boots and SCS furniture.

The most recent lettings within the Eastgate Centre, **Inverness** are to Zara (1,393 sq.m./15,000 sq.ft.) and NevisSport (186 sq.m./2,000 sq.ft.). A number of other shops are currently under offer. Rents of £110.75 per sq.ft. Zone A are now being achieved in Phase 1 of the Centre.

New Look, Poundland, Peacocks and Ethel Austin have opened their large format stores within **Cumbernauld** Shopping Centre, in a £4m sub-division of the former 3,902 sq.m. (42,000 sq.ft.) Tesco store. The new development will also accommodate new units for Superdrug and Ladbrokes. A Tesco Extra store totalling 9,755 sq.m. (105,000 sq.ft.) opened in January 2004.

There have been several lettings at the Almondvale Shopping Centre in **Livingston**, including Harvey & Thompson Pawnbrokers (81 sq.m./880 sq.ft.), Sports World (929 sq.m./10,000 sq.ft.) and Accessorize (121 sq.m./1,300 sq.ft.). At Almondvale South Retail Park, Frankie & Benny's and KFC have both taken space.

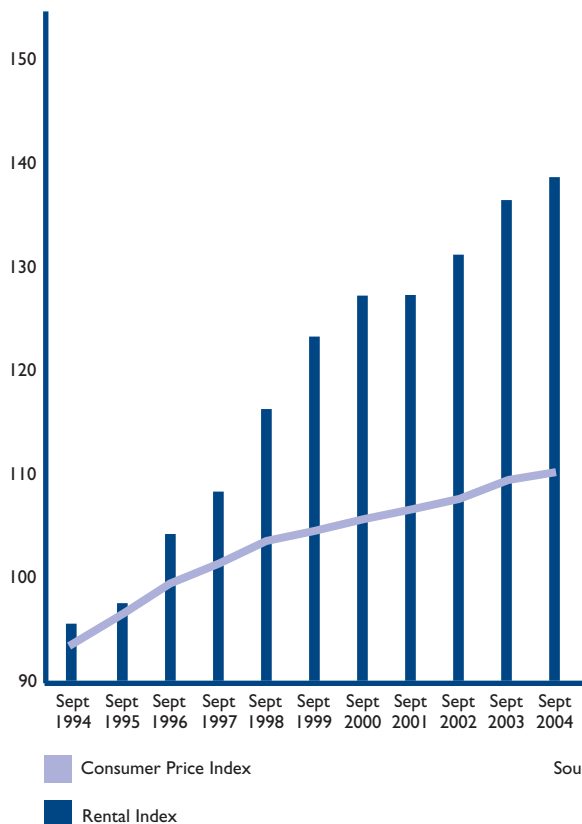
Construction has begun at **Ayr** Central, the 18,600 sq.m. (200,000 sq.ft.) shopping development by Henry Boot Developments, where Phase 1 is due for completion and available for occupiers for pre-Christmas occupation in 2005. Debenhams will anchor the development alongside other key lettings to Next, Ottakar's and H&M.

The Ryden retail rent index is static over the past 6 months. The rents indicate the peak levels attained in each centre and some locations will continue to demonstrate growth in selected pitches, through rent reviews or due to new development.

**Shopping Centres Index**

Location	Zone A rate per sq.ft.
Aberdeen	162.50
Airdrie	42
Ayr	80
Braehead	220*
Clydebank	75
Coatbridge	43
Cumbernauld	49
Dumfries	58
Dundee	105
Dunfermline	65
East Kilbride	130
Edinburgh	220
Edinburgh (Gyle)	175
Elgin	40
Falkirk	88
Galashiels	32
Glasgow	220
Glenrothes	57.50
Greenock	72
Hamilton	75
Inverness	115
Irvine	65
Kilmarnock	55
Kirkcaldy	55
Livingston	86
Motherwell	48
Paisley	72
Perth	72.50
Stirling	105
St. Andrews	55

**Retail Index & CPI**



**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.
4. Top thirty centres only

\* Represents 80% of OMV with turnover provisions



## Glasgow

There is an undercurrent of stronger tenant demand for offices in Glasgow, primarily from indigenous occupiers, and general market sentiment suggests that this is set to continue. However, market statistics confirm that activity has remained unspectacular over the last six months. Take-up over the period of 25,110 sq.m. (270,270 sq.ft.) produces a 12-month total of 50,540 sq.m. (544,000 sq.ft.). This compares with 53,230 sq.m. (572,970 sq.ft.) for the previous period. The pattern of take-up continues to be at the smaller end of the market and spread across city centre and fringe locations. Strong interest in owner occupation is demonstrated by pre-purchase interest in Glasgow, Centurion and Craighall Business Parks.

Transactions during the past six months include:

Address	Size	Occupier
Central Exchange, Waterloo Street	2,470 sq.m. (26,600 sq.ft.)	Hymans Robertson
Skypark, Finnieston	2,397 sq.m. (25,800 sq.ft.)	Travel 2
City Park, Alexandra Parade	1,208 sq.m. (13,000 sq.ft.)	Exult
1 Blythswood Square	975 sq.m. (10,500 sq.ft.)	Fitzpatrick's
CityPoint 2	790 sq.m. (8,500 sq.ft.)	Hardie Caldwell
Fyfe Chambers, West George Street	566 sq.m. (6,092 sq.ft.)	Visionware
City Park, Alexandra Parade	557 sq.m. (6,000 sq.ft.)	SAGA Radio
Centurion Business Park, Shields Road	520 sq.m. (5,594 sq.ft.)	ROK Build Limited
The Athenaeum, Nelson Mandela Place	476 sq.m. (5,128 sq.ft.)	Global Home Loans
Portland House, Renfield Street	453 sq.m. (4,875 sq.ft.)	Interquod
Sutherland House, West George Street	372 sq.m. (4,000 sq.ft.)	OFCOM

There has been only one deal of any real scale in the Grade A market: acturaries Hymans Robertson have taken a lease of 2,470 sq.m. (26,600 sq.ft.) at the new-build Central Exchange, Waterloo Street. It is anticipated that further Grade A space will be taken as at least two other companies in the financial services sector are likely to commit to c.1,858 - 3,716 sq.m. (20,000 - 40,000 sq.ft.). Increasing demand from Government/ Quasi Government agencies may also permeate through both in Glasgow and the provincial West of Scotland towns and business parks.

The supply of completed, new-build Grade A city centre stock currently stands at 34,375 sq.m. (370,000 sq.ft.) in five buildings. In addition, Kenmore's Sentinel on Waterloo Street will provide a further 7,800 sq.m. (84,000 sq.ft.) at the turn of the year and CEM's Aurora on Bothwell Street (16,258 sq.m./175,000 sq.ft.) is programmed for completion during the final quarter of 2005. In the short to medium term occupiers have choice and a strong negotiating position, although this will change as the new-build space inevitably gets taken-up.

Adjacent to the central core, there has been good take-up at Allied London's Skypark and Elphinstone's City Park. Both schemes report a healthy number of enquiries and a range of deals in the pipeline.

The selection of Pacific Quay as the preferred location for major development for both BBC HQ (32,515 sq.m./350,000 sq.ft.) and Scottish Television HQ (SMG) (5,945 sq.m./64,000 sq.ft.) will lead to other media and related occupiers co-locating to the area and will encourage further bespoke and speculative development.

Further afield, there has been take-up activity at various business parks. Transactions include:

Address	Size	Occupier
Cirrus, Glasgow Airport Business Park	990 sq.m. (10,645 sq.ft.)	George Wimpey
Bothwell House, Hamilton	232 sq.m. (2,500 sq.ft.)	Daks
Bothwell House, Hamilton	743 sq.m. (8,000 sq.ft.)	Mental Health Tribunal
Avondale House, Strathclyde Business Park	743 sq.m. (8,000 sq.ft.)	Scottish Power
Braidhurst House, Strathclyde Business Park	1,022 sq.ft. (11,000 sq.ft.)	Laing O'Rourke
Buchanan Gate	625 sq.m. (6,730 sq.ft.)	Sodexo
Buchanan Gate	943 sq.m. (10,150 sq.ft.)	Tulloch

Grade A headline rents in Glasgow city centre remain unchanged at £231 - £247 per sq.m. (£21.50 - £23 per sq.ft.). Refurbished quality second-hand space is achieving £161 - £199 per sq.m. (£15 - £18.50 per sq.ft.). Substantial rent free/incentive packages and lease length flexibility remain features of the current market.

Rentals for non-cooled business park space are static at £134 - £150 per sq.m. (£12.50 - £14 per sq.ft.) with comfort cooled space offered at £153 - £188 per sq.m. (£14.25 - £17.50 per sq.ft.) inclusive of car parking.

## Edinburgh

Market perception suggests that times are sluggish in the Edinburgh office market. However, the latest supply and take-up figures make for rather more encouraging reading.

In the six months to September 2004, office supply has continued to decline, to a total of 214,620 sq.m. (2.31 million sq.ft.). This represents a 20% decrease from the peak of 266,965 sq.m. (2.87 million sq.ft.) recorded 12 months ago.

Take-up for the same six-month period has remained relatively stable, with almost 46,450 sq.m. (500,000 sq.ft.) taken up by commercial occupiers. However, while 2003's take-up was boosted by some very large lettings, in 2004 the number of mid-range lettings over 929 sq.m. (10,000 sq.ft.) has increased. The largest, at One Morrison Street to Franklin Templeton, involves the 5,295 sq.m. (57,000 sq.ft.) building being leased in its entirety. This represents an almost doubling of the company's Edinburgh presence. Another city centre deal was the short-term letting of 3,716 sq.m. (40,000 sq.ft.) at Edinburgh House, North St David Street to The Royal Bank of Scotland. These are positive signs for the city's financial services sector.

Steady take-up is gradually eroding Edinburgh city centre's supply of new-build offices. Of seven new buildings, totaling 26,000 sq.m. (280,000 sq.ft.) four are partially-let. The three remaining self-contained properties include 28 St Andrew Square (4,424 sq.m. / 47,600 sq.ft.) and Holyrood Park House (4,365 sq.m. / 46,972 sq.ft.). Two further city centre offices are under construction - the 19,800 sq.m. (213,000 sq.ft.) Waverly Gate and redevelopment at 40 Princes Street to provide 4,460 sq.m. (48,000 sq.ft.).

West Edinburgh is benefitting from a marked increase in business moves. As well as the Common Services Agency's relocation to Gyle Square, as previously reported, other significant transactions in the area include:

Address	Size	Occupier
Edinburgh Park	3,716 sq.m. (40,000 sq.ft.)	British Aerospace
4/5 Lochside View, Edinburgh Park	1,393 sq.m. (15,000 sq.ft.)	Oracle
Gyle Square	1,115 sq.m. (12,000 sq.ft.)	Pfizer

While public transport remains an emotive issue for Edinburgh, the recently-opened Edinburgh Park rail halt and the launch of the West Edinburgh Busways system (WEBS) in December 2004 will continue the process of alleviating the problem on the west side of the city.

A number of Scottish Executive departments are earmarked for relocation, but some have shown little signs of recent activity.

It is therefore encouraging to report VisitScotland's decision to relocate from West Edinburgh to 2,322 sq.m. (25,000 sq.ft.) at Ocean Point, Leith, AWG's flagship development. It is hoped that this announcement, together with the recent Scottish Executive Finance Committee report on the relocation of public sector jobs, may encourage a further round of relocations in the near future.

Despite this renewed market activity, rents remain static and incentives continue to underpin lettings. The headline rent for Grade A accommodation in central Edinburgh remains at £290 per sq.m. (£27 per sq.ft.), while the most recent lettings in West Edinburgh have been announced at £194 - £204 per sq.m. (£18 - £19 per sq.ft.). This shows a current differential of 1/3 (approximately) between the locations, a relationship well-established but occasionally distorted in the past by unusual market conditions.

When considering peripheral Edinburgh, it is important to recognise the role of Fife and the Lothians, and in particular the Bridgehead area. At present, the Fife office market is showing some encouraging signs of activity. The largest speculative office building, jointly undertaken at Masterton Park, Dunfermline by SCOT Sheridan & The Buccleuch Group, has announced a first letting to George Wimpey East Scotland Ltd for 1,022 sq.m. (11,000 sq.ft.).

In West Lothian, at Pyramids Business Park, Livingston, the Inland Revenue has opened a flagship contact centre totalling c. 9,290 sq.m. (100,000 sq.ft.). Also, as part of the Scottish Executive policy for the location of new departments the Scottish Building Standards Agency (SBSA) will be moving to Livingston once a suitable property has been identified and Her Majesty's Inspectorate of Education has taken 1,755 sq.m. (18,890 sq.ft.) at Deholm House, Almondvale Business Park.



## Aberdeen

The surge in demand for offices in Aberdeen in late 2003 and early 2004 has slowed considerably. A total of 74 lettings amounting to 16,815 sq.m. (181,000 sq.ft.) have concluded during the past six months. In fact, demand is rather volatile; although lettings have fallen by 40% since our previous report, they remain 16% higher than in the same period of 2003.

The office market remains most active at the smaller end (less than 186 sq.m./2,000 sq.ft.), which accounts for 51 lettings. This is a 9% increase in activity for smaller offices compared with the previous period. Only three transactions involved offices larger than 929 sq.m. (10,000 sq.ft.). The largest is to Aberdeen City Council for offices of 1,951 sq.m. (21,000 sq.ft.) at Balgownie 1 at the Aberdeen Exhibition Centre, Bridge of Don. The three larger office lettings are:

Address	Size	Occupier
1/5 Albyn Place	1,733 sq.m. (18,657 sq.ft.)	Bank of Scotland
Balgownie 1	1,951 sq.m. (21,000 sq.ft.)	Aberdeen City Council
26 Albyn Place	1,347 sq.m. (14,500 sq.ft.)	BG International

As demand for offices has slackened, supply increased by 11% since April 2004 to 105,900 sq.m. (1.14m sq.ft.), although it remains lower than at the 2003 peak.

New developments in the pipeline include:

Address	Size	Developer
Trafalgar House	3,251 sq.m. (35,000 sq.ft.)	Highcross
Hareness Road	5,574 sq.m. (60,000 sq.ft.)	Highcross
Hareness Road	4,645 sq.m. (50,000 sq.ft.)	European Development Co

In addition to these new-build developments, the following buildings provide newly-refurbished and recently completed offices now available for occupation:

Address	Size	Developer
Excel Centre	5,804 sq.m. (62,474 sq.ft.)	Highcross/Ashkirk
Aberdeen Business Park	5,574 sq.m. (60,000 sq.ft.)	Morley Fund Managers
Pavilions 1 and 2, Kirkhill Business Park	929 sq.m. (10,000 sq.ft.) each pavilion	Knight Real Estate
The Exchange, Market Street	5,853 sq.m. (63,000 sq.ft.)	Hanover Property Trust

This total new/newly-refurbished supply of 31,640 sq.m. (340,500 sq.ft.) provides a range of options for larger occupiers in the city.

There are still unfulfilled large space requirements which may come to fruition within the next six months. Meanwhile, BP has narrowed down a shortlist to two developers for the company's 16,072 sq.m. (173,000 sq.ft.) new Headquarters requirement at Dyce.

The £204 per sq.m. (£19 per sq.ft.) rent achieved in the previous period has been further established by more lettings at this level to BG International at 26 Albyn Place and to the Bank of Scotland, who replaced Aberdeen Asset Management at 1/5 Albyn Place.

## Dundee

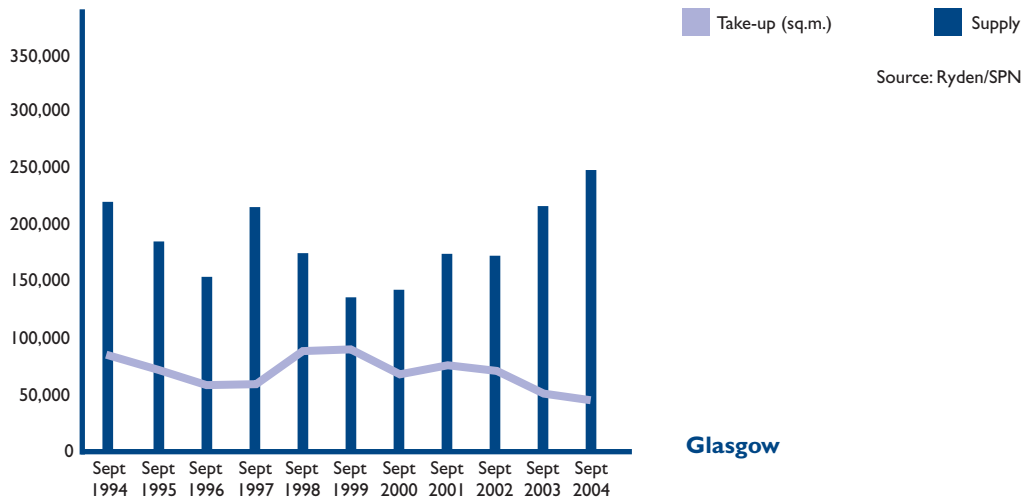
The Dundee office market has seen several prime developments in recent months and is experiencing increasing levels of activity, with demand principally for good quality, modern accommodation.

At Dundee Technology Park, developer Foxdown Properties has pre-let two separate developments of 929 sq.m. (10,000 sq.ft.) and 1,393 sq.m. (15,000 sq.ft.). US drugs services group Upstate has taken a lease of one of the buildings for its European Headquarters, further enhancing Dundee's reputation in the bio-science industry.

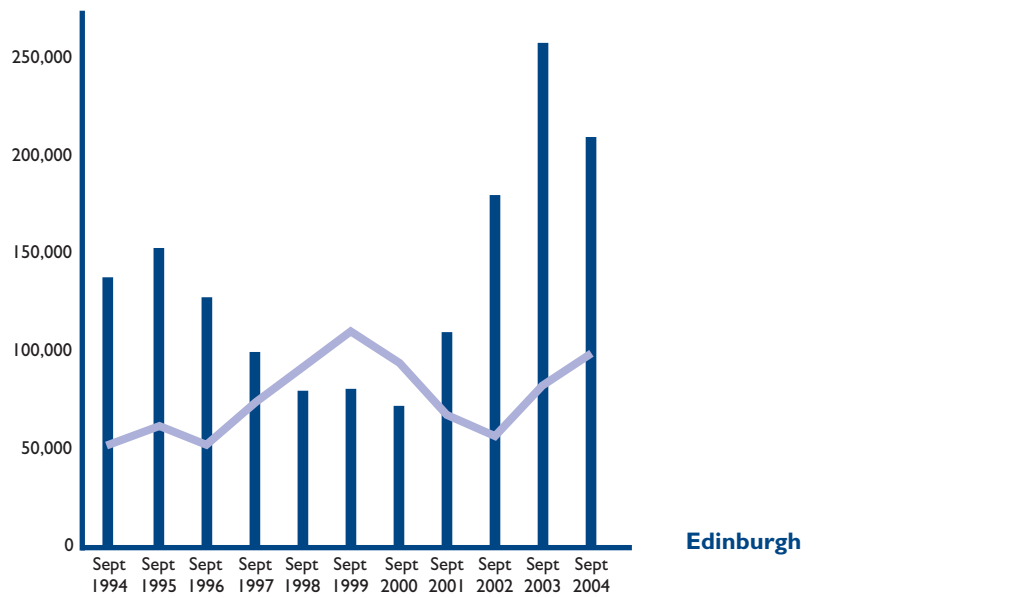
In the city centre, Phase 1 of the Dundee Digital Media Park - the redevelopment of the 8,640 sq.m. (93,000 sq.ft.) former Seabraes Mill - is currently being developed by Jersey-based P4 Properties. Phase 2 of the Digital Media Park is planned for an adjoining 6.8 hectare (17 acre) site.

The current supply of offices in Dundee stands at 22,000 sq.m. (236,800 sq.ft.) in 59 suites, around the average for the city. Office take-up over the past year totals 5,160 sq.m. (55,540 sq.ft.). The majority of lettings concern offices smaller than 200 sq.m. (2,152 sq.ft.) (SPN).

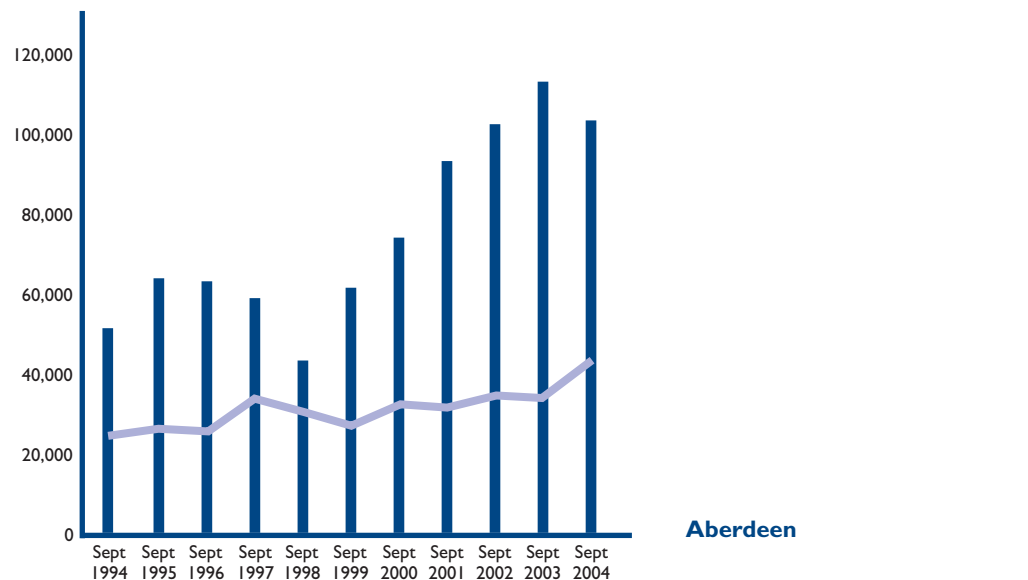
Office Supply and Take-up



Glasgow



Edinburgh



Aberdeen



## West of Scotland

Our April 2004 Review predicted that the level of occupational demand would rise in the second half of the year. This is now emerging, albeit with sectoral variations.

The most active sector continues to be feuhold property of all sizes. Demand is concentrated on second-hand space where capital values range between £107 - £430 per sq.m. (£10 - £40 per sq.ft.). An example of a typical transaction is the sale to a private individual of the remaining 2,508 sq.m. (27,000 sq.ft.) at Dawn Group's 1 Young Place, East Kilbride. The sale was agreed at £339 per sq.m. (£31.50 per sq.ft.). The building offers good quality second-hand space with a slightly higher than normal office content and standard yardage. Lettings have been slow in East Kilbride, but there has been a regular flow of sales.

There has also been a rare sale of a new property. Wilson Bowden has sold a 3,810 sq.m. (41,000 sq.ft.) speculative unit at Glasgow Gateway, Cambuslang to PJW Enterprises at a price of £549 per sq.m. (£51 per sq.ft.). In light of rapid increases in construction costs, this appears to be a sound buy, but the deal is unlikely to be repeated with most developers seeking prices in excess of £646 per sq.m. (£60 per sq.ft.) for similar product.

Occupational demand for feuhold property will continue until higher interest rates and alternative pension vehicles dampen this. Continued revelations within the pension market are however likely to have long term effect: property is tangible and houses a business as well as providing an investment.

Take-up for leasehold property larger than 2,787 sq.m. (30,000 sq.ft.) remains sporadic, although quality requirements are circulating in the market. The most significant deal is the letting of the 27,870 sq.m. (300,000 sq.ft.) former Fullarton building at Faulds Park, Gourrock to Amazon.co.uk for a new distribution centre. This is a coup for Scotland over alternative locations in England. The details of the transaction are confidential, but the rent is understood to be c.£32 per sq.m. (£3 per sq.ft.) on a medium term lease with an early break option.

TDG Logistics has taken a sub-lease on the 13,192 sq.m. (142,000 sq.ft.) Scottish Power building at Eurocentral to service an Argos contract. The deal is understood to contain an early break option and strong incentives. The head lease is passing at £50 per sq.m. (£4.65 per sq.ft.)

At Hillington the former Sports Connection building at 1 Jubilee Court (4,645 sq.m./50,000 sq.ft.) has been taken by the NHS for a laundry service on a 15-year lease at £48 per sq.m. (£4.50 per sq.ft.). Also at Hillington, the last remaining 1,858 sq.m. (20,000 sq.ft.) unit at Sentinel Court has been let to Haven Products at around £56 per sq.m. (£5.25 per sq.ft.). Owner Caledonian Land has been encouraged by these transactions and is now on site building two speculative units of 2,341 sq.m. (25,200 sq.ft.) and 3,335 sq.m. (35,900 sq.ft.). Quoting rents will be in the order of £62 per sq.m. (£5.75 per sq.ft.).

Many of the larger requirements are seeking distribution-style buildings with yards and dock-loading. This is not compatible with the majority of production units created on a speculative basis. As a consequence, there is an increase in pre-let interest, with two deals agreed and others under discussion. One of the agreed pre-lets is to Lynx Express for a new 3,716 sq.m. (40,000 sq.ft.) purpose-built facility at M8 Central, Newhouse.

There is now a shortage of good quality industrial units of below 1,393 sq.m. (15,000 sq.ft.) as a consequence of the low level of development activity in this sector. The pressure on land values and construction costs will limit the viability of new schemes. However, a lack of new supply and diminishing quality second-hand options should increase rents in strategic locations and encourage a further phase of speculative development. One of the few current schemes in Glasgow is Silverbank's Moorpark Central. Phase 1 of the development provides units from 464 - 1,858 sq.m. (5,000 - 20,000 sq.ft.) at rents of £59 per sq.m. (£5.50 per sq.ft.). Another is the development of speculative units by Govan Initiative and Modular Holdings at Ibrox Business Park, Govan totalling 2,337 sq.m. (25,165 sq.ft.) at £59 per sq.m. (£5.50 per sq.ft.). Similarly, Utilities Scotland Limited plan a further phase at Baltic Business Park, Paisley following successful lettings at Phase 2. Rentals will likely be £59 - £64 per sq.m. (£5.50 - £6 per sq.ft.) for units from 279 - 1,672 sq.m. (3,000 - 18,000 sq.ft.). Construction will likely start in the spring of next year.

With the exceptions of the Amazon.co.uk and TDG deals, the large scale distribution market has been relatively quiet. This is set to change and indeed there are currently a number of very active requirements in the market. Developers with large strategic sites are well placed to capitalise. Wilson Bowden has decided to anticipate future demand and plans a further speculative phase at Glasgow Gateway comprising units of 4,645 sq.m. (50,000 sq.ft.). This is a bold move but the location is prime and can respond to demand from relocated M74 occupiers, while the company's development expertise will ensure that the units meet current market preferences.

## East of Scotland

The industrial property market in East Central Scotland has been, at best, steady over the last six months. Rents remain static and vary from a high of £70 per sq.m. (£6.50 per sq.ft.) in West Edinburgh to £48 per sq.m. (£4.50 per sq.ft.) in areas such as East Lothian, Midlothian, West Lothian and Fife.

Recent deals in the East include:

Address	Size	Occupier
Sir Harry Lauder Road, A1 Industrial Estate	822 sq.m. (8,848 sq.ft.)	TM Robertson (Wine Merchants)
Sir Harry Lauder Road, A1 Industrial Estate	1,460 sq.m. (15,715 sq.ft.)	Dingbro Ltd
Newcraighall Road, Eastern Industrial Estate	1,888 sq.m. (20,325 sq.ft.)	Multi Tile Ltd

On the west of the City, within Standard Life's Bankhead Industrial Estate there has been a flurry of lettings and a rent of £70 per sq.m. (£6.50 per sq.ft.) is now firmly set. On a much larger scale, Ikea has taken the last remaining unit at Edinburgh Distribution Park in Newbridge from IPIF at a rental of £51 per sq.m. (£4.75 per sq.ft.). This unit is c. 4,645 sq.m. (50,000 sq.ft.) and is a specialised distribution facility.

Further deals within Edinburgh include the letting of two buildings at Murrayburn Road on a site of 1.3 ha (3.2 acres) to MKM Building Supplies.

The strength of the owner-occupied market, clearly evident in West Central Scotland, is also a factor in the East. Most recently, when a 1,393 sq.m. (15,000 sq.ft.) building became available in Tennant Street, Leith due to a receivership, eight competitive offers were received.

Increasing residential development land values in Edinburgh are well documented. This has allowed existing industrial companies to relocate out of outmoded premises in the city to purpose-built/modern buildings outwith the city. Relocations include:-

- Glenmorangie from Leith to Broxburn
- Oceaneering Multiflex from Leith to Rosyth
- Whyte & Mackay from Leith to Grangemouth
- Waddies from Slateford Road to Livingston
- George Waterstons from Warriston Road to Newbridge
- Mackenzie & Storie from Coburg Street, Leith to Newbridge

Further companies are considering relocations, however increasing timescale and costs associated with brownfield residential development in the city are slowing this market.

Another important trend is the emergence of trade park-style developments and/or conversions. For example, Catalyst is in

the process of converting the former Appleyard car showroom on Bankhead Drive, Sighthill Industrial Estate (west Edinburgh) to provide six units each of approximately 464 sq.m. (5,000 sq.ft.). One of these units has been let to Multi Tile Ltd t/a Topps Tiles and the quoting rent is offers in excess of £118 per sq.m. (£11 per sq.ft.), a considerable mark up over industrial rents. Similarly, Royal London is achieving rents in the region of £81 per sq.m. (£7.50 per sq.ft.) for prominently-situated industrial units on Seafield Road East, now occupied by trade park users such Nevada Bob's Golf and Remnant Kings.

In East Lothian, the largest recent deal was at Unit 5 Gateside Commerce Park in Haddington, where Industrial Estates (Scotland) Ltd, let a building of 7,165 sq.m. (77,130 sq.ft.) to Edinburgh Removals at a rent of just under £30 per sq.m. (£2.80 per sq.ft.).

In Fife, the developers of Frances Industrial Estate, Kirkcaldy, Fife Warehousing, have successfully secured tenants for two units of 325 sq.m. (3,500 sq.ft.) and 651 sq.m. (7,015 sq.ft.) to Star Performance and Kingdom Bakers respectively. The rents achieved are in the region of £48 per sq.m. (£4.50 per sq.ft.).

At Grangemouth and Falkirk, small to medium size accommodation has benefited from a very high occupation level, however, rents are yet to progress much beyond £48 per sq.m. (£4.50 per sq.ft.) for the very best accommodation.

There are positive indications that developers are now beginning to consider speculative schemes outwith the Edinburgh boundaries. Land prices within Edinburgh are too expensive to justify industrial development, however, in areas such as Livingston where land can be acquired for c. £124,000 per hectare (£50,000 per acre), new development can be viable and competes in a market characterised by ageing industrial stock. In Musselburgh, Vesta Developments Ltd is developing a speculative 1,858 sq.m. (20,000 sq.ft.) unit on Newhailes Industrial Estate, quoting a rent of £62 per sq.m. (£5.75 per sq.ft.).



### Aberdeen

Activity in the industrial market has remained fairly constant since the previous report. A total of 39,770 sq.m. (428,000 sq.ft.) of space has been taken-up in 70 transactions. Once again, the busiest sector has been for units less than 464 sq.m. (5,000 sq.ft.). Forty-four transactions have taken place in this sector; a 33% increase in demand for small space compared with the previous six months. There have been very few significant, larger transactions. Those of note are:

Address	Size	Occupier
Eastman House, Bridge of Don	1,867 sq.m. (20,100 sq.ft.)	Fugro Survey (Lease)
Craigshaw Base, West Tullos	1,406 sq.m. (15,132 sq.ft.)	ASDA (Lease)
Unit 8, Crombie Road	1,835 sq.m. (19,748 sq.ft.)	METS Engineering (Sale)

The overall supply of industrial space has decreased by 9% over the six-month period and is standing at 92,720 sq.m. (998,000 sq.ft.) within 182 separate properties.

Demand remains constant in the industrial market but rents have yet to nudge past the £59 - £62 per sq.m. (£5.50 - £5.75 per sq.ft.) mark for new-build warehousing and £107 - £113 per sq.m. (£10 - £10.50 per sq.ft.) for ancillary offices. Landlords are however having to be increasingly flexible with regards to lease lengths as occupiers remain concerned about taking on premises that may not suit their needs in the medium-long term.

The numbers of enquiries received from smaller oil field operators, builders merchants, storage companies and trade counter users appears resilient despite the notoriously "quiet" summer period. 2005 is being touted as being a good year for oil, as a number of exploration contracts are to be awarded. Demand for industrial premises should be strong, certainly in the short to medium term.

Predictions that North Sea Crude would reach \$40 per barrel by September 2004 have been proved to be correct with the September RBS Oil & Gas Index showing \$46.62 per barrel. Meanwhile more than 50 offshore operators have agreed to sign up to a new Code of Practice, a joint initiative put forward by Government and Industry, which is now expected to improve access to oil infrastructure.

The new Aberdeen Western Peripheral Route is expected to start construction in 2007 and is due to open in 2010. The 18-mile dual carriageway is expected to bring a £500m boost to the North East economy.

In excess of 100 hectares (250 acres) of additional business and industrial land has been designated at Bridge of Don, Dyce and Loirston within the new Local Plan. However, more than 100 hectares (250 acres) of land designated for this purpose

in the previous Local Plan still remains undeveloped at Dyce and Cairn Robin due to the high cost of infrastructure. The result is that on paper land supply appears more than adequate, but the supply of readily available serviced land continues to be hampered by infrastructure constraints. Additional land at Altens which has been brought forward over recent years and is serviced, includes Altens East and Peterseat, where around 8 hectares (20 acres) is immediately available at each location.

Out of the City at Westhill, Phase 2 of Arnhall and Westhill Business Park will provide a further 24 hectares (60 acres), available without major infrastructure constraints. At Badentoy a further 20 hectares (50 acres) remains undeveloped along the northern boundary.

A similar story exists in major Aberdeenshire towns such as Stonehaven and Inverurie, where the supply of immediately available employment land is hampered by major infrastructure requirements, although successful small industrial areas have been developed at Kintore and Blackburn.

### Dundee

Industrial space is perhaps the least notable part of Dundee's rejuvenation, however, demand is steady, and there is a ready supply of accommodation throughout the main industrial estates. Requirements can normally be quickly satisfied from existing stock, at rents which are very competitive compared with other cities.

The current supply of industrial space in Dundee stands at 86,000 sq.m. (925,000 sq.ft.) in 76 units. This is slightly lower than the average for the city. Take-up of industrial units over the past year totals 11,600 sq.m. (125,000 sq.ft.), down on the average figure. The majority of deals have been for units under 500 sq.m. (5,380 sq.ft.) (SPN).

## Overview

In a market where yields have fallen steadily, speculation continues as to when this downward movement will stop, or indeed reverse. Since early 2002, equivalent yields have moved from 8.3% (initial yield 7.1%) to 6.7% (initial yield 5.8%) (IPD).

Over the six-month review period, however, the weight of money available for property investment remains the main feature. The most active buyers are UK Institutions, private Irish and other non-UK resident buyers. These buyers are attracted by stable economic conditions in the UK and the mature property investment market. Equity sources, both institutional and private, have overtaken debt-driven players as the financial markets have tracked and extrapolated rising base rates.

Given the cost of debt and its relationship to initial yields, highly geared investors are no longer able to compete without a guaranteed rising cash flow. This can be challenging, as rental growth has been marginally positive in the retail sector, flat for industrial property and is still marginally negative overall in the offices sector.

The continued availability of equity for property investment reflects the attractive returns relative to (stock market) equities and gilts.

### Results to end - August 2004

Total return over	Property	Equities (All share)	Gilts (5 - 15 years)
12 months	16.6	10.8	2.8
Calendar year 2004 to date	11.5	2.9	2.2
6 months	9.5	0.9	1.2
3 months	4.8	1.6	2.9
1 month	1.2	1.7	1.6

Source: IPD

## Retail

Five interest rate increases in 10 months have succeeded in reducing inflationary pressure and the housing market is now slowing as anticipated. Retail performance is expected to be adversely affected by this slowdown. Meanwhile, however retail has been the best performing sector, benefiting from lower yields due to the weight of money referred to above and sustained consumer spending. The longer lease lengths common to the retail sector and to retail warehousing in particular have contributed to the downward yield trend. Rental growth in the IPD retail portfolio has also continued to make a positive contribution.

### Retail Performance Results (12 months to August 2004).

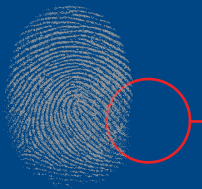
	UK	Scotland
Capital Growth	13.4	12.7
Rental Value Growth	3.9	5.5
Total Returns	20.3	19.4

Source: IPD

Recent retail property investment deals include:

Address	Property	Transaction
Buchanan Prospect, 69-71 Buchanan Street, Glasgow	Three retail units let to Moss Bros, Timberland and Warner Bros, with offices above let to Regus	Acquired by an Irish Investor for £34.75m (4.9%)
Anniesland Retail Park, Glasgow	Three units let to Boots, Poundstretcher and DSG Retail until 2019	Acquired by Threadneedle Property Investments for £10.47m (5.4%)
107-108 Princes Street, Edinburgh	Single unit let to Next plc, lease expiry 2023	Acquired by NFU for £25.4m (4.54%)
B & Q, Coatbridge	Retail warehouse comprising 9,513 sq.m. (102,400 sq.ft.) let to B & Q plc until 2022	Acquired by an Irish Investor for £22.75m (5.75%)
125 Union Street, Aberdeen	Retail unit let to Game with 13 years unexpired	Acquired by Royal Liver at c. £5.5%

Short term growth prospects are limited, but the base rate may have peaked for the moment and consumer expenditure growth remains positive, particularly in Scotland.



## Offices

Office sector returns are improving, although it is still the weakest performing property sector. Despite signs of a pick-up in business investment at the beginning of the year, the corporate sector remains hesitant.

### Offices Performance Results (12 months to August 2004).

	UK	Scotland
Capital Growth	2.2	2.3
Rental Value Growth	-2.7	0.2
Total Returns	10.0	9.5

Source: IPD

Recent office property investment deals include:

Address	Property	Transaction
5 Atlantic Quay, Broomielaw, Glasgow	Modern 9,012 sq.m. (97,000 sq.ft.) building let to Scottish Enterprise	Acquired by Standard Life for £37m (5.6%)
Britannic Court, Bothwell Street, Glasgow	Redeveloped multi-let office (8,361 sq.m./90,000 sq.ft.)	Acquired by Redevco for £22m (7.3%)
Rutland Court, Edinburgh	Modern 3,596 sq.m. (38,712 sq.ft.) building let to Anderson Strathern WS	Acquired by Irish investors for £16.65m (6.17%)
14-17 Atholl Crescent, Edinburgh	Town house & open plan offices (2,788 sq.m./30,011 sq.ft.) Let to Brodies	Acquired by a private UK investor for £9.25m (6.16%)
Bridge View, Aberdeen	Modern multi-let offices (7,785 sq.m./83,800 sq.ft.)	Acquired by an Irish investor for £15.6m (7.2%)
Tayforth House, Dundee Technology Park, Dundee	Modern 1,510 sq.m. (16,250 sq.ft.) building let to Aberdeen Asset Management plc	Acquired by a private property company for £2.811m (6.6%)

The downward trend in office rents does seem to have halted, and in certain areas growth is reported once again as markets adjust to a shift in the demand and supply balance. Weight of money has pushed yields down, providing a renewed capital value growth contribution. The office development pipeline has slowed markedly in some pockets of the London and regional markets. There will undoubtedly be a time lag in turning the supply tap back on, which will in these areas create real rental value growth opportunities. In summary, this sector is re-emerging from its recent downturn.

## Industrial

As manufacturing industry in the UK has reduced in scale, the industrial sector has become more service sector-focused. Performance therefore reflects elements of both the consumer and corporate business services markets.

Initial yields have continued to fall and now sit only marginally above those for the offices sector:

### Industrials Performance Results (12 months to August 2004)

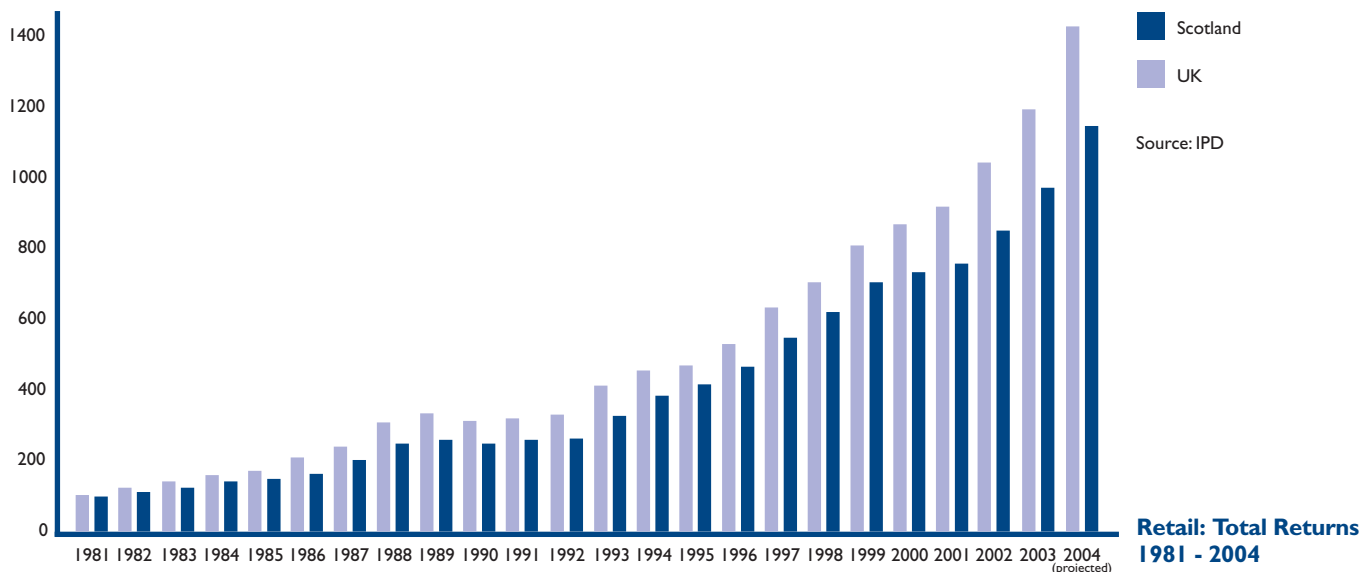
	UK	Scotland
Capital Growth	7.4	5.1
Rental Value Growth	0.6	-0.9
Total Returns	15.7	13.7

Source: IPD

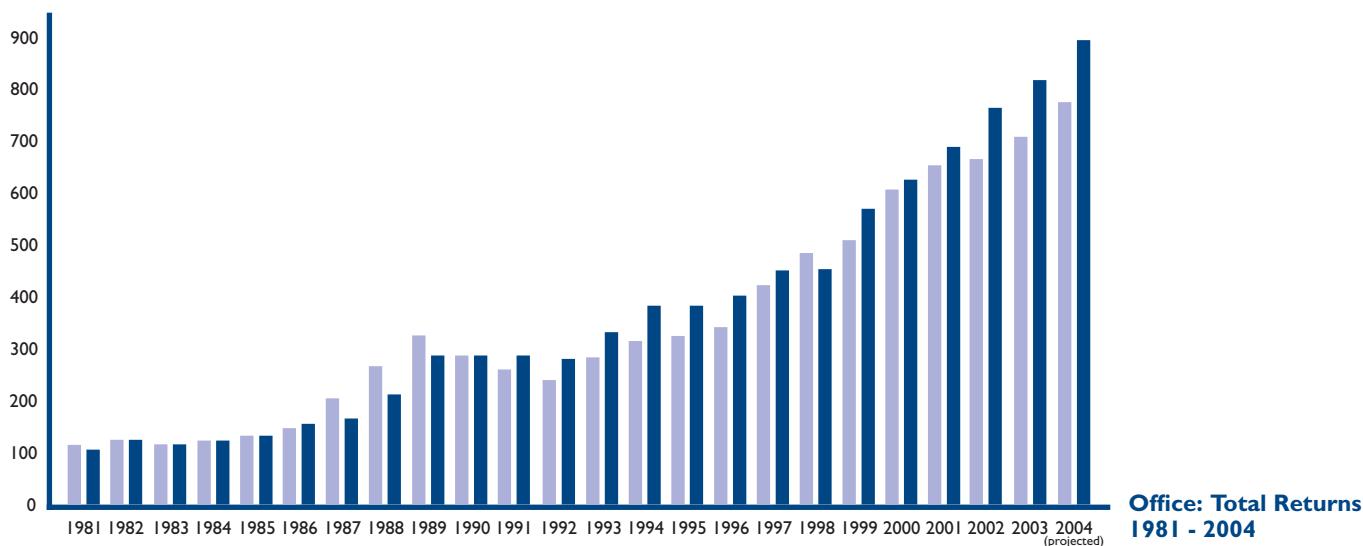
Recent industrial property investment deals include:

Address	Property	Transaction
Westfield Park, Cumbernauld	32,515 sq.m. (350,000 sq.ft.) 1980s park on a 27 hectare (67 acre) site	Acquired by i o g for £16.6m (7.7%)
A, B & D Minto Avenue, Altens, Aberdeen	2,973 sq.m. (32,000 sq.ft.) industrial estate let to Iron Mountain and Norson Services	Acquired by Royal Ordnance Pension Fund for £2.3m (7.35%)
7 Nettlehill Road, Houston Industrial Estate, Livingston	8,640 sq.m. (93,000 sq.ft.) unit let to Hays Distribution Services Ltd	Under offer at price close to £7.45m (c. 7.75%)
4 Maxwell Square, Brucefield Industry Park, Livingston	c. 5,017 sq.m. (54,000 sq.ft.) let to USC Group Ltd	Under offer to a private individual at c. £3.5m (c. 6.5%)

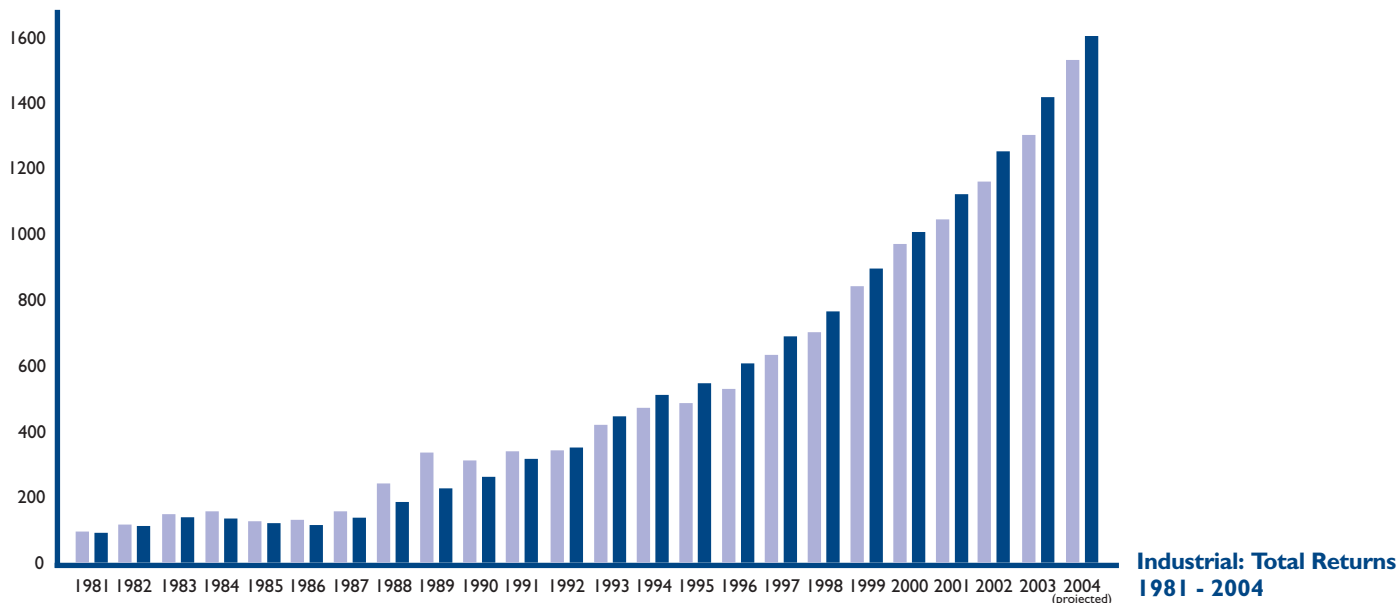
Industrial portfolios are popular with investors, offering a spread of risk, relatively low absolute rents and the active management opportunities available with the shorter leases now widespread in this sector. Alternative uses and development possibilities also attract investors seeking asset enhancement opportunities.



**Retail: Total Returns  
1981 - 2004**



**Office: Total Returns  
1981 - 2004**



**Industrial: Total Returns  
1981 - 2004**

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## Acknowledgements

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

