

56th
Scottish
Property
Review
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UK Economy

According to estimates of GDP published by the Office for National Statistics (ONS), growth in output increased to 0.7% during the fourth quarter of 2004. Growth was driven by a rise of 0.9% in the service sector: Production industries' output declined by 0.1% as a rise of 0.3% in manufacturing output was offset by a fall of 2.8% in energy extraction.

In March 2005 the Government's target measure of inflation, the Consumer Price Index (CPI), increased to 1.9%, still among the lowest in the EU. Upward pressures from transport costs and seasonal food were balanced by less marked recoveries from sales for some product groups including furniture, household items and games & toys. The headline inflation rate (RPI) remained unchanged at 3.2% in March.

The employment rate for people of working age was 74.9% for the three months ending in January 2005, an increase from 74.7% in the previous quarter. The last time the rate was as high was in August 1990. The number of people in employment reached 28.57million, the highest since comparable records began in 1971. The number of people claiming Jobseeker's Allowance fell by 700 to 813,300 over the quarter to February 2005, the lowest since June 1975.

According to ONS, the UK's balance in goods and services worsened in January to stand at £3.7bn, compared with the revised deficit for December of £3.5bn. The deficit on trade in goods in January was £5.2bn; £0.3bn more than the deficit for December.

Scottish Economy

Scottish GDP rose by 0.9% over the quarter, and by 1.8% over the year, to quarter three 2004. The Scottish economy displayed considerable variation between sectors. Manufacturing output fell by 1.1% over the quarter but rose by 0.4% over the year, while service sector output rose by 1.3% over the quarter and by 1.8% over the year.

British Chamber of Commerce Quarterly Economic Survey (fourth quarter of 2004) highlights a mixed period for the Scottish manufacturing sector. Home orders and sales both increased, while exports slowed down. In the service sector, home sales strengthened but home orders weakened and are now below the national average.

According to the Oil and Gas Index published by the Royal Bank of Scotland, average daily oil production in the 12 months to December 2004 was 4.8% up on the previous month, but down 11.6% on the figures for 12 months earlier: UK oil production in 2004 was more than 25% lower than in 1998, however Sterling oil revenues were almost 90% higher: The cold weather in North America and Europe has increased demand

recently, as has OPEC constraining supply when prices are already high. Forecasters expect 2005 to be a better year for North Sea Oil production, albeit with a slowing rate of decline rather than a return to growth. The rate of growth of gas production rose by 2.5% on the previous month but decreased by 1.2% on the same period a year earlier.

The Fraser of Allander Institute predicts Scottish GDP will grow by 1.7% in 2005 and 1.5% in 2006. Within these forecasts, manufacturing growth has been revised down to a 0.5% increase in 2005 and 0.9% increase in 2006, although these are highly dependent on exports and business investment. Service sector growth in 2005 is expected to be 1.8%, followed by 1.5% in 2006, both of which have been revised downwards. The service sector does employ the majority of people within the Scottish economy, however many of the jobs being lost in manufacturing are highly skilled positions.

Employment and Unemployment

According to the latest figures from the Scottish Executive, seasonally-adjusted employment November 2004 to January 2005 stood at 2,445,000. This represents a 4,000 increase on the previous three-month period and a rise of 54,000 over the year. Seasonally adjusted unemployment in Scotland for the same period stood at 145,000, up 11,000 from the previous three-month period but down by 2,000 over the year.

Business Start-ups and Failures

Figures from Scotland's four main clearing banks show that the number of new businesses accounts established during the fourth quarter of 2004 stood at 5,005; this is 5% lower than in the same period of 2003. Figures for the year ending in December 2004 totalled 20,808, 3% lower than the 2003 figure. The majority of new businesses in quarter four 2004 (2,506 or 50%) were in the real estate, renting and other business sector. The majority of start-ups in the most recent quarter were in Edinburgh City (585) and Glasgow City (598).

Experian's recent analysis of UK businesses revealed that there were 181 failures in the fourth quarter of 2004, an increase of 31% on the fourth quarter of 2003. In 2004 Scotland recorded 711 business failures, a decline of 5% on 2003 and representing 4% of the total for the UK.

Investment and Job Creation

The past six months has again delivered mixed news in terms of investment and job creation. Notable successes are counterbalanced by announcements of redundancies and job losses.

Inverness Medical Innovations (IMI), is to spend £60m creating 500 jobs in Stirling. The jobs include research and development posts as well as opportunities in manufacturing. The multi-million pound investment programme will establish Stirling Medical Innovations, with backing from Scottish Executive funded enterprise body ITI Life Sciences. It will contribute £30m to a three-year research programme on top of IMI's £67m, to develop, manufacture and market tests for cardiovascular disease.

In Gourock, Amazon.co.uk's new distribution centre will create 300 jobs.

Norwich Union is to create 200 jobs at its call centre in Perth. The workers will look after customers who have bought insurance policies through the Asda supermarket chain.

However, on a bleaker note, Standard Life has announced cuts of 650 jobs throughout the UK. The company has 9,000 employees in the UK, with most based in Edinburgh.

The BBC has announced that it is cutting 176 jobs in Scotland. The cuts, which represent more than 13% of staff, will be across content and output departments and are on top of 19 job losses already announced.

In response to the announcement of the loss of almost 900 RAF jobs at RAF Lossiemouth and RAF Kinloss, a task force has been set up to help the local economy to survive the employment blow. Further jobs will be lost at RAF Leuchars in Fife, taking the total to more than 1,000. Also within the defence sector, the engineering group Babcock announced that 290 jobs will be lost at Rosyth naval dockyard in Fife.

Glasgow-based engineering company Weir Group will cut 310 jobs at its Weir Pumps division at sites at Cathcart in the south of Glasgow, Alloa and Manchester. The company plans to relocate to a new base in Glasgow and sell its Cathcart site.

Recent announcements also include the loss of almost 200 jobs at Aberdeen's last remaining textile mill after liquidators were called in.

In the retail sector the supermarket chain Somerfield has announced plans to drop its Kwik Save brand in Scotland with the loss of about 400 jobs. 29 of the Kwik Save stores will be renamed Somerfield outlets and a further 22 will be closed by the end of the year.

Summary

Over the past 12 months the Scottish economy has shown signs of improvement across a range of key consumer, manufacturing, and financial indicators. These suggest economic growth should be more balanced in 2005.

There are some signs that the manufacturing sector is stabilising. The revival of the service sector continues, but its sluggishness has held back the overall growth of the economy.

The increase in employment in Scotland mirrors the exceptionally high UK employment rate for 2004. The number of new business start-ups has declined slightly although there was also a slight decline in the number of business failures.

Retail sales growth is expected to be relatively constant, while the stabilisation of the housing market has been gradual with the Scottish housing market showing far fewer signs of volatility than elsewhere in the UK. Average earnings growth is higher than previously and interest rates are believed to be near their peak, fuelling hopes for a more stable period of growth.

The office sector now has greater volatility arising from shorter leases and the effects of the development cycle.



Retail Property

After a relatively poor Christmas trading period, annual retail sales growth in Scotland surged to 6.8% in February, (SRC/RBS). Like-for-like sales also rose by 3.9% in February. Clothing and footwear retailers report difficult trading conditions. The improved figures are mainly a result of strong growth in the food sector:

Buchanan Street continues to attract new faces to **Glasgow** with retailers such as Puma recently taking 692 sq.m. (7,449 sq.ft.) at the former Bradford & Bingley Bank at 91 Buchanan Street, TM Lewin taking 176 sq.m. (1,900 sq.ft.) in the ex-Vodafone store at 133 Buchanan Street and in turn Vodafone moving to 430 sq.m. (4,595 sq.m.) at 78/80 Buchanan Street. Carphone Warehouse secured 99 Buchanan Street (formerly Whittards) on a new 10 year-lease at a rent equivalent to £235 psf Zone A. The redevelopment of Clydesdale Bank's offices at 150 Buchanan Street will comprise 2,787 sq.m. (30,000 sq.ft.); a number of retailers are rumoured to be interested and 2,045 sq.m. (22,000 sq.ft.) is under offer to New Look.

Developers of the 9,290 sq.m. (100,000 sq.ft.) Odeon Building at the corner of Renfield Street and West Regent Street. Duddingston House Properties, will be preserving the listed facade of the Odeon, but reconfiguring the inside to provide a variety of units for all leisure uses, retail and hotel interests. Five lettings are reported to be in solicitor's hands with others pending.

At The Pollok Centre to the south of Glasgow, landlords Retail Property Holdings have commenced development of 78,967 sq.m. (850,000 sq.ft.) of retail and leisure space to be anchored by Debenhams, Marks & Spencer and Tesco.

At Clyde Shopping Centre, **Clydebank**, Four new tenants have signed up, HMV (537 sq.m. / 5,785 sq.ft.) unit, Bay Trading (141 sq.m. / 1,520 sq.ft.) and BHS and Metropolitan Giftwear also taking space.

In **Edinburgh**, the biggest news is the sale of the department store, Jenners to House of Fraser after 167 years of family ownership. It is understood that the store will continue to trade under the Jenners name.

Nearby, plans are emerging by Abbey to replace the 1960s former Scottish Provident Building on the south side of St Andrews Square with a new retail and office complex. Demand is likely to be strong due to its proximity to Harvey Nichols and Multrees Walk.

Aitken & Niven, has sold its flagship store on George Street. The property has been purchased by Retail Plus Property Partnership who will undertake a redevelopment of the building to create two new retail units of approximately 882 sq.m. (9,500 sq.ft.) and 498 sq.m. (5,365 sq.ft.).

Supermarket giant Asda plans to open a 5,110 sq.m. (55,000 sq.ft.) store on the site of **Aberdeen's** Big W at Boulevard Retail Park. The Aberdeen store is one of seven Big Ws across the UK where sell-offs have reportedly been agreed.

Also in Aberdeen, the most recent lettings within the Academy Shopping Centre are to the outdoor sports retailer, Quiksilver; taking units 1 and 16 (totalling 697 sq.m./7,500 sq.ft.) at a rental of £62,750 per annum.

Zara has signed up as an anchor tenant for Union Square (51,100 sq.m./550,000 sq.ft.) taking a 15-year lease on a unit of 1,870 sq.m. (20,125 sq.ft.). Next (2,787 sq.m./30,000 sq.ft.), HMV and TK Maxx have all agreed pre-lets and Odeon is to open a 10-screen cinema.

In **Dundee**, the former Arnotts store is being redeveloped in a £21m scheme by Dawn Developments to create 6,596 sq.m.(71,000 sq.ft.) of modern retail space. Tenants for the scheme, which is due for completion in Autumn 2005, include Zara, Ottakars, Slaters Menswear and Republic. At the Wellgate Centre, HBG is undertaking a £7m, 5-year programme to include improvements to the facade fronting Murraygate and a 4,645 sq.m.(50,000 sq.ft.) rear extension; New Look has taken a 1,486 sq.m.(16,000 sq.ft.) unit, Vision Express has expanded and Poundland has signed up for 836 sq.m.(9,000 sq.ft.).

Phase 2 of the Eastgate Shopping Centre, **Inverness** has stimulated increased city centre activity. Rangers Football Club has taken 49 High Street (155 sq.m. / 1,669 sq.ft.) on a new 15-year lease. Lloyds TSB has relocated to 2/6 Inglis Street, taking 454 sq.m. (4,886 sq.ft.) via an assignation of the leasehold interest from the existing tenant, Burger King. Blacks has relocated to 3/9 Academy Street (formerly House of Fraser/Arnotts). Slater Menswear is also rumoured to be a prospective tenant here. Meanwhile, within the Eastgate Centre, Crabtree & Evelyn (93 sq.m./1,000 sq.ft.) and travel agents Thomson (186 sq.m./2,000 sq.ft.) have taken units.

There have been several lettings at the Kingsgate Shopping Centre, **Dunfermline**. Julian Graves has opened its 19th Scottish store (60 sq.m./644 sq.ft.), Card Crazy has taken 131 sq.m. (1,410 sq.ft.) and Herbmedic 22 sq.m. (240 sq.ft.). The 13,470 sq.m. (145,000 sq.ft.) centre is fully let and options are being considered for a 18,580 sq.m. (200,000 sq.ft.) extension. In the High Street, MacDonald Estates is redeveloping the former Co-op site; Phase 1 has detailed consent for 11,148 sq.m.(120,000 sq.ft.) of retail space.

The Ryden Scottish Shopping Centre index has increased by 2%, through higher prime Zone A rents in Glasgow city centre, Ayr, Cumbernauld, Dunfermline, Greenock and Stirling.

Shopping Centres Index

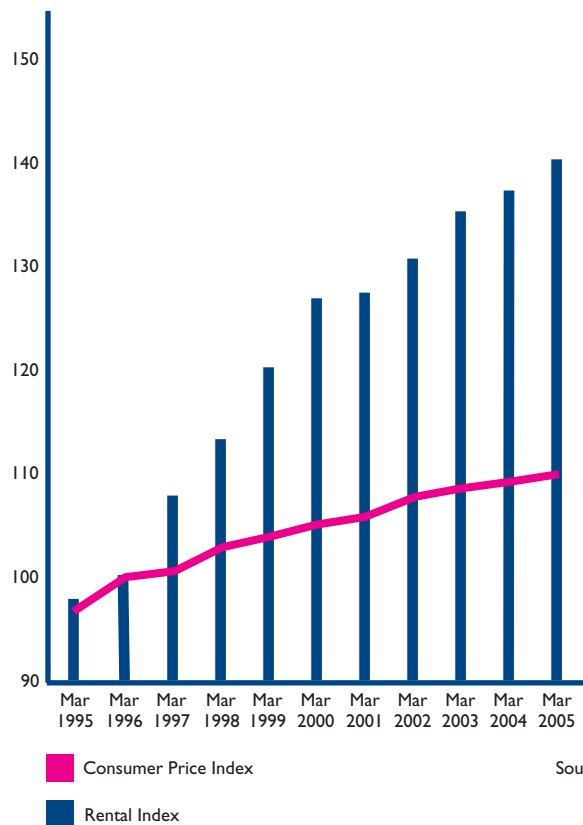
Location	Zone A rate per sq.ft.
Aberdeen	162.50
Airdrie	42
Ayr	88
Braehead	182*
Clydebank	75
Coatbridge	43
Cumbernauld	55
Dumfries	58
Dundee	105
Dunfermline	78
East Kilbride	130
Edinburgh	220
Edinburgh (Gyle)	175
Elgin	40
Falkirk	88
Galashiels	32
Glasgow	235
Glenrothes	57.50
Greenock	76
Hamilton	75
Inverness	115
Irvine	65
Kilmarnock	55
Kirkcaldy	55
Livingston	75
Motherwell	48
Paisley	72
Perth	72.50
Stirling	115
St Andrews	55

* Represents 80% of OMV with turnover provisions.

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

Retail Index & CPI



Source: ONS/Ryden



Glasgow

Cautious optimism best describes current sentiment in the Glasgow office market. The improvement in tenant demand appears to be gaining momentum. This is evidenced by an increase in general enquiry levels both from government and private sector occupiers. The most encouraging aspect is the improvement in the conversion rate from enquiry to take-up. This is beginning to impact on the current supply of accommodation, across both size range and quality.

There continues to be strong demand for owner occupation, particularly at the smaller end of the market where individuals and professional partnerships seek to benefit from SIPPs and commercial property investment vehicles. Supply of suitable property for purchase remains relatively constrained, although this may change as developers progress various proposals in and around the city.

Take-up over the last six months increased from 25,110 sq.m. (270,270 sq.ft.) to 49,840 sq.m. (536,500 sq.ft.), producing a 12-month total of 74,950 sq.m. (806,770 sq.ft.). This is an increase of 25% over the previous 12 months and above the long term average for the city. Transactions include:

Address	Size	Occupier
Citypark	8,361 sq.m.	Dell
Citypark	929 sq.m.	Scottish Enterprise
Citypark	697 sq.m.	NCH Scotland
Central Exchange, Waterloo Street	3,412 sq.m.	NAG/Clydesdale Bank
Standard Life House, West Regent Street	2,991 sq.m.	Lord Advocate
Central Quay	2,768 sq.m.	ACCA
Spectrum Building, Waterloo Street	1,751 sq.m.	NAG/Clydesdale Bank
Spectrum Building, Waterloo Street	892 sq.m.	Scotcall Debt Recovery Services
Spectrum Building, Waterloo Street	859 sq.m.	Giles Insurance Services
1 Atlantic Quay	1,417 sq.m.	Funding Council
Strata House, Cardonald Business Park	697 sq.m.	Glasgow City Council Works Department
Strata House, Cardonald Business Park	697 sq.m.	Amey
9 George Square	664 sq.m.	JLT Benefits
City Point 2	546 sq.m.	Express Newspapers

The statistics include the initial 8,360 sq.m. (90,000 sq.ft.) taken by Dell at Citypark but do not reflect the commitment by Dell to increase occupancy up to 12,075 sq.m. (130,000 sq.ft.), nor do the figures reflect the ongoing construction at Pacific

Quay for the BBC HQ (32,515 sq.m./350,000 sq.ft.) and the Scottish Television HQ (SMG) (5,945 sq.m./64,000 sq.ft.).

The increased take-up and relatively limited amount of new and second hand space coming to the market, has reduced total availability within the city by 14,130 sq.m. (152,125 sq.ft.) to 237,830 sq.m. (2.56 million sq.ft.).

Except for Hymans Robertson and NAG/Clydesdale Bank at Central Exchange, no space has as yet been taken in new Grade A buildings. A total of 32,980 sq.m. (355,000 sq.ft.) is available in four buildings and CEG's Aurora on Bothwell Street, completing Q4 2005, provides a further 16,258 sq.m. (175,000 sq.ft.) of top quality space. Improved enquiry levels will impact on the space available within these buildings over the coming months, thereby reducing such options for occupiers into the medium term. In turn, this will once again entice developers into creating future office supply.

The first to announce such activity is Scarborough Development Group, launching a speculative development of the former Bank of Scotland HQ at 110 St Vincent Street to create 7,739 sq.m. (83,300 sq.ft.). In addition, City Site has announced part refurbishment/part new build proposals for 145 St Vincent Street to create 3,605 sq.m. (38,810 sq.ft.). Other developers are likely to follow, targeting later completions in 2007/2008.

Grade A headline rents in Glasgow City centre remain unchanged at £231-£247 per sq.m. (£21.50-£23.00 per sq.ft.). Rent free/incentive packages should diminish as the expected take-up of Grade A buildings emerges.

In the business park sector, there have been similar signs of improved enquiry levels and tangible activity. Transactions include:

Address	Size	Occupier
Hamilton International Park	6,224 sq.m. *Pre-let	Scottish Power
Hamilton International Park	3,786 sq.m. *Pre-let	First Engineering Scottish HQ
Glasgow Airport Business Park	1,312 sq.m.	Contact4
Strathclyde Business Park	936 sq.m.	First Engineering
Strathclyde Business Park	929 sq.m.	PPD
Strathclyde Business Park	650 sq.m.	Laing O'Rourke
Bothwell House Hamilton Business Park	741 sq.m.	Mental Health Tribunal
Bothwell House Hamilton Business Park	247 sq.m.	Daks

Rentals for non-cooled business park space have shown a slight increase to £145-£161 per sq.m. (£13.50-£15.00 per sq.ft.). Comfort-cooled space is offered at rent of £153-£188 per sq.m. (£14.25-£17.50 per sq.ft.), inclusive of car parking.

Edinburgh

The Edinburgh office market has consolidated during the past six months. Total take-up for the period to March 2005 is slightly lower than at September 2004. The number of larger transactions (929 sq.m./10,000 sq.ft.) reduced from seven to five, although there are a continuing number of significant, unsatisfied requirements.

The five larger office transactions are :

Address	Size	Occupier
Clocktower, South Gyle	1,394 sq.m.	Lothian & Borders Police IT Department
Caledonian Exchange	1,486 sq.m.	Lindsays WS
Edinburgh House, North St Andrew Street	3,700 sq.m.	Royal Bank of Scotland
2 Lochside View, Edinburgh Park	4,544 sq.m.	Miller Developments
Ocean Point, Leith	2,500 sq.m.	VisitScotland

Total take-up for the six months to March 2005 was 32,240 sq.m. (347,000 sq.ft.) compared to September 2004's figure of 46,450 sq.m. (500,000 sq.ft.). These figures combine to a 12-month total take-up of 78,690 sq.m. (847,000 sq.ft.). For the first time in the most recent office market cycle, both Edinburgh and Glasgow are benefiting from similar levels of take-up, above their respective long term average figures

Within the city centre, professional organisations remain the most active sector. The majority of these firms are relocating from period accommodation to higher quality, open-plan accommodation. Lindsays WS recently announced a proposed relocation from Atholl Crescent to the top two floors of Caledonian Exchange, extending to 1,486 sq.m. (15,995 sq.ft.). The building was previously being marketed in its entirety by Standard Life, the existing tenant, but the ability to sub-let these two floors has ensured that Standard Life will remain in occupation of the remainder and the building has been withdrawn from the market. In addition, a number of surveying practices have also expanded and relocated to Grade A accommodation in the heart of the city centre and Exchange areas. Three have relocated to George Street, while two have moved to Edinburgh Quay, Fountainbridge.

In West Edinburgh, City of Edinburgh Council took a sub-lease of 1,394 sq.m. (15,000 sq.ft.) at Clocktower, South Gyle, on behalf of Lothian & Borders Police IT department. The rent is £188 per sq.m. (£17.50 per sq.ft.). Miller Developments Ltd completed a move from former headquarters at Craighleith to 2 Lochside View, a 4,545 sq.m. (48,920 sq.ft.), Grade A office building on Edinburgh Park. This activity at Edinburgh Park ensures there is

only one brand new building currently vacant within the most recent phase of development.

While the majority of letting activity has been concentrated within the city centre and West Edinburgh, it is encouraging to note that Leith has attracted a major new occupier: VisitScotland has leased around 2,500 sq.m. (27,000 sq.ft.) in Ocean Point, a high quality office development undertaken by AWG Developments Ltd immediately opposite the Ocean Terminal Shopping Centre. The rent is rumoured to be £231 per sq.m. (£21.50 per sq.ft.) for a long-term lease.

On the supply side, availability of office space has increased by 11% to 238,000 sq.m. (2.56 million sq.ft.). Much of this increase can be attributed to two major buildings: Standard Life's decision to market their Tanfield complex at Canonmills (18,952 sq.m./204,000 sq.ft.); and the recent completion of Castlemore's Waverley Gate scheme (19,790 sq.m./213,020 sq.ft.). Supply in all other size sectors has decreased by between 10 - 20%. The 186 - 464 sq.m. (2,000 - 5,000 sq.ft.) sector is particularly active at the present time.

Only one speculative scheme is due to complete this year, 40 Princes Street (4,411 sq.m./47,480 sq.ft.). Sustained take-up of Grade A accommodation will begin to put pressure on the level of incentives offered and ultimately drive rental value growth. As the development cycle moves back in their favour, a couple of developers have now signalled their intention to commence schemes during 2005, both of which will be in excess of 4,645 sq.m. (50,000 sq.ft.). For proposed schemes without detailed planning consent, the Council's new Developer Tram Contribution will have an impact. The size of a developer's contribution will be dependent on the scale of development and proximity to the proposed tram routes. Also, the Chancellor's recent announcement to abolish the stamp duty exempt areas will require to be factored into appraisals in certain locations.

Headline rents in the city centre for the highest quality space remain at £290 per sq.m. (£27 per sq.ft.), while in prime West Edinburgh locations the latest lettings have been achieved at or around £199 per sq.m. (£18.50 per sq.ft.).



Aberdeen

Take-up in the Aberdeen office market increased by around 3% from the previous six month's figures. Although demand for office space below 929 sq.m. (10,000 sq.ft.) was down, take-up of offices larger than 929 sq.m. (10,000 sq.ft.) doubled over the period. Take-up amounted to 17,200 sq.m. (185,138 sq.ft.) across a total of 54 transactions. Particularly notable is the impact of the offshore industry on demand for larger offices.

Notable among the transactions over 929 sq.m. (10,000 sq.ft.) is Nexen, a Canadian company which purchased the North Sea assets of EnCana, thereby removing 2,787 sq.m. (30,000 sq.ft.) of vacant space from the market at Scott House.

Meanwhile, Kerr McGee (North Sea) Ltd has restructured a lease of Ninian House, Altens, comprising 6,689 sq.m. (72,000 sq.ft.), to the year 2020, underlining the company's belief in the long term future of the offshore industry.

Other major lettings include:

Address	Size	Occupier
Trafalgar House, Hareness Road	2,412 sq.m.	Wood Group Engineering North Sea Ltd
Alba Gate, Stoneywood Park	2,582 sq.m.	Apache North Sea Ltd
The Exchange, Market Street	1,525 sq.m.	Petrofac

Supply has remained fairly constant, although two substantial office buildings where the start date for construction had been delayed are no longer included. Immediate supply now stands at 95,870 sq.m. (1.03 million sq.ft.).

Major refurbished and new space available for occupation includes:

Building	Area	Developer
Excel Centre	5,804 sq.m.	Highcross/Ashkirk
Aberdeen Business Park	5,574 sq.m.	Morley Fund Managers
Pavilions 1 and 2, Kirkhill Business Park	929 sq.m. each pavilion	Knight Real Estate
The Exchange, Market Street	3,979 sq.m.	Hanover Property Trust
Silverburn House, Bridge of Don	2,505 sq.m.	KFH

The total pipeline of office space in Aberdeen is 66,636 sq.m. (717,269 sq.ft.), of which 30% is currently available as set out in the table above and 70% is future supply in ten separate buildings.

There has been no material change in rents. However, rents of £215 per sq.m. (£20 per sq.ft.) are imminent and perhaps in excess of that level when Pavilions 5 & 6 come on the market at Hill of Rubislaw.

There are still some unfulfilled large space requirements which may come to fruition within the next six months. BP has yet to officially announce the way forward for the organisation's planned 16,070 sq.m. (173,000 sq.ft.) headquarters at Dyce.

In summary, the Aberdeen office market is active, with the high level of oil prices filtering its way through to demand from such companies as Amec, Wood Group and Petrofac for office space to accommodate service contracts being awarded to them by the oil majors.

Dundee

Supply of offices in Dundee stands at 19,580 sq.m. (210,766 sq.ft.) in 59 suites, down on the figure in September 2004. Take-up for the past year totals 4,586 sq.m. (49,370 sq.ft.) (SPN).

Current market activity includes the purchase by Kenmore Property Group, in a joint venture with Lehman Brothers, of the Nethergate Centre, a 1970s 7,897 sq.m. (85,000 sq.ft.) office and retail development in the city centre. A refurbishment is planned, with suites from 46 sq.m. (500 sq.ft.) upwards. Meanwhile, developer P4 Properties is close to completing the first phase (8,640 sq.m./93,000 sq.ft.) of Seabraes Yard. Three of the 13 media units are in discussion with tenants.

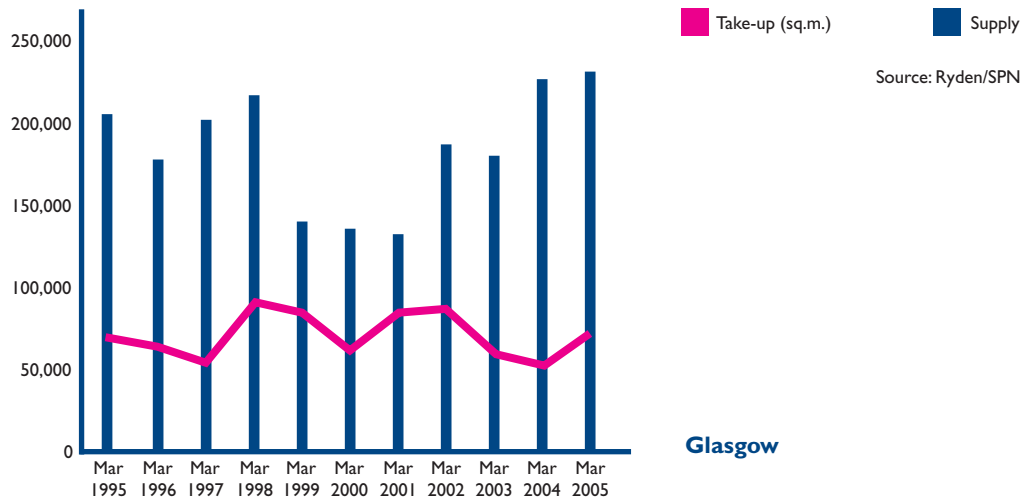
Inverness

In Inverness, planning permission has been secured for the high profile proposed new Scottish Natural Heritage headquarters at Craig Dunain which will house around 300 staff.

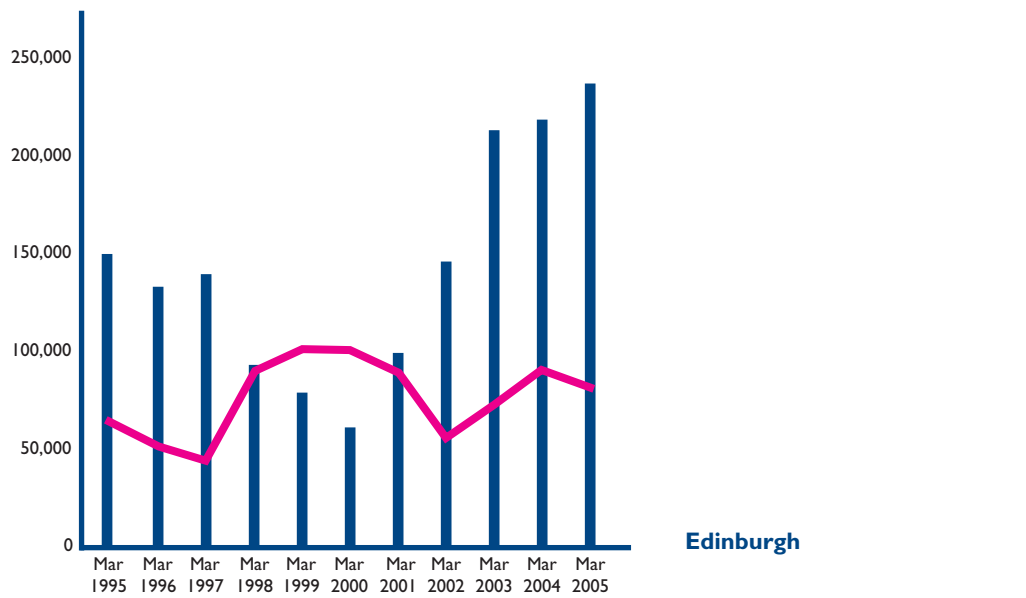
The current supply of offices is 3,888 sq.m. (41,850 sq.ft.) in 21 suites and take-up over the past year totals 1,870 sq.m. (20,130 sq.ft.) in 20 suites (SPN). In the general office market, demand for smaller suites continues to be good.

New or planned office space is available in off centre locations at Inverness Retail & Business Park, Stoneyfield Business Park, Cradlehall Business Park and Fairways Business Park. Rents are typically in the region of £145 per sq.m. (£13.50 per sq.ft.).

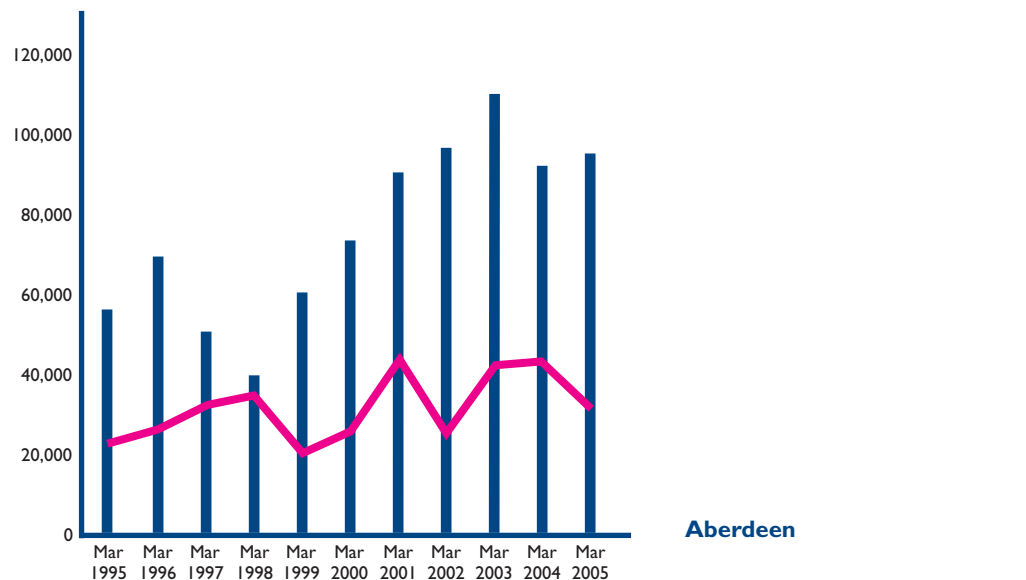
Office Supply and Take-up



Glasgow



Edinburgh



Aberdeen



West of Scotland

The West Central Scotland industrial property market is revitalised following a long period of sluggish activity. The emergence of a pre-let market is a particularly notable feature. A number of sizeable transactions are currently in legal hands. The increase in take-up is welcome news for developers and landlords following what has been a relatively lean period.

Demand for owner-occupied property is well-documented. There continues to be a healthy demand across the size bands, with private individuals and occupiers demonstrating a preference for buildings up to 4,645 sq.m. (50,000 sq.ft.). Purchasers of larger vacant buildings are typically property companies seeking refurbishment and redevelopment opportunities often to let and trade on into, the strong investment market. A good example of this strategy is Commercial Estates Group's purchase for refurbishment of the 12,356 sq.m. (133,000 sq.ft.) former APC manufacturing plant at Eurocentral.

The letting market is also showing an encouraging upturn in activity. The resultant take-up is eroding available supply as little new stock has come on stream recently. Developers of various speculative schemes are now being rewarded with good quality lettings.

Significant transactions include:

Address	Size	Occupier
Excelsior Park, Wishaw	1,858 sq.m.	Bonus Ltd
Excelsior Park, Wishaw	2,137 sq.m.	Keyline Builders Merchants Ltd
Glasgow Gateway, Cambuslang	2,601 sq.m.	Business Post Plc
Moorpark Central, Govan	464 sq.m.	Avesco Plc
M8 Interlink, Coatbridge	1,401 sq.m.	Lyreco Plc
Dunnswood Road, Cumbernauld	7,826 sq.m.	Pilkington Glass Plc
Nexus, Cambuslang Distribution	7,883 sq.m.	United Freight
Westway, Renfrew	2,323 sq.m.	Surefast Freight
Westway, Renfrew	3,716 sq.m.	NHS Glasgow

In addition, Caledonian Land's two speculative buildings at Hillington Park are reportedly under offer. The units of 2,341sq.m. and 3,335 sq.m. (25,200 sq.ft. and 35,900 sq.ft.) are nearing completion at rents of c.£62 per sq.m. (£5.75 per sq.ft.).

Continued demand will lead to short supply of new buildings, particularly in the main strategic locations such as in proximity to Govan, the Baillieston Interchange and around Glasgow Airport. Rents should consolidate then increase and further pre-lets are likely until developers produce new buildings.

The upturn coincides with a period where there is a contraction in the supply of land due to demand from higher value alternative uses. This is particularly acute in Finnieston, a traditional trade-counter location. There has also been a rapid increase in construction costs. These cost-push factors will necessitate higher rents to stimulate new supply. Encouragingly, the occupational market now appears more willing to accept this. An example is Silverbank Developments' Moorpark Central where demand exceeds supply on the initial speculative phase at rents of £59 per sq.m. (£5.50 per sq.ft.).

The emergence of a pre-let market is a consequence of supply shortages, but also the needs of occupiers for specialised buildings. One example is Keiller Development's deal with Lynx Express at M8 Central, Newhouse. This involves a 4,273 sq.m. (46,000 sq.ft.) purpose build distribution unit which is reflected in the rent of £61 per sq.m. (£5.65 per sq.ft.). A second example is the pre-let of 1,827 sq.m. (19,666 sq.ft.) to Barloworld Handling Plc at Allan Water Developments' Cumbernauld Business Park.

In the largest industrial deals since Amazon signed up at Gourrock a year ago, Wm Morrison Supermarkets plc has taken two buildings totalling 23,225 sq.m. (250,000 sq.ft.) to satisfy a short term distribution requirement. These are 12,170 sq.m. (131,000 sq.ft.) Europoint, at Eurocentral (£46 per sq.m./£4.25 per sq.ft.) and 11,055 sq.m. (119,000 sq.ft.) at Pyramids Business Park, Bathgate (£32 per sq.m./£3 per sq.ft.).

These transactions leave Central Scotland with few distribution units in excess of 9,290 sq.m. (100,000 sq.ft.), and fewer still with a specification matching the requirements emerging in the market. Further take-up is anticipated in the second half of 2005, as is the emergence of more bespoke development at the key distribution locations east of Glasgow.

In summary, activity is increasing across all sectors of the industrial market and letting prospects for the second half of 2005 look good. Reduced occupational demand has favoured tenants for the past two years, however the balance may now shift back towards the landlord as quality premises become scarce. This, combined with rapidly increasing land prices and construction costs, will necessitate an upward movement in rents.

East of Scotland

In line with market trends in West Central Scotland, activity in the industrial property market in East Central Scotland is also encouraging. A number of large deals have been completed, while continuing demand for small and medium size accommodation has led to lettings at high rental levels.

The situation within Edinburgh has remained relatively static for no other reason than a lack of available accommodation. Small to medium size units (139 - 1,393 sq.m./1,500-15,000 sq.ft.) are achieving rentals of between £59 and £70 per sq.m. (£5.50 and £6.50 per sq.ft.) for better quality accommodation. The market is however differentiating in recognition of the fact that trade operators are often in a position to pay higher rents for more prominent accommodation. As mentioned in our previous Review, Catalyst has refurbished and converted a former car showroom in Sighthill and achieved a letting to Topps Tiles for the front unit at £118 per sq.m. (£11 per sq.ft.); the remaining units are now reported to be under offer at similar rents. Although this level of rent has yet to be achieved elsewhere in the city, there is no doubt that it is having an knock-on effect on industrial schemes in similar prominent locations.

One of the largest owner-occupier industrial deals to be completed in Edinburgh for some time was the purchase of two stand-alone industrial units at Edinburgh Interchange, Newbridge, West Edinburgh, where Hanover Property Unit Trust sold units 5 and 6 (4,599 sq.m./49,499 sq.ft. and 2,974 sq.m./32,017 sq.ft. respectively) to E-Net at a price equating to approximately £646 per sq.m. (£60 per sq.ft.) capital. There is now only one remaining unit of 3,925 sq.m. (42,253 sq.ft.) at Edinburgh Interchange which is available to let or for sale. This unit is the last remaining large industrial unit currently available on the West side of Edinburgh and occupiers of such accommodation will now have to consider locations such as Broxburn and in particular Livingston to satisfy their needs.

In the wider East of Scotland market, by far the largest industrial deal is the purchase of the former ADC facility in Glenrothes by W G Mitchell, in conjunction with West Bow Properties. This building is situated on a site of 11 hectares (27 acres) and totals 33,486 sq.m. (360,450 sq.ft.); as part of the deal ADC Telecommunications will remain in occupation of approximately 6,503 sq.m. (70,000 sq.ft.). W G Mitchell and West Bow Properties are now marketing the remainder of the accommodation which comprises mainly manufacturing / distribution accommodation and a self-contained office building of 3,920 sq.m. (42,201 sq.ft.).

SCOT Sheridan Developments (Livingston) Ltd has purchased a 5.6 hectare (14 acre) site on Houstoun Industrial Estate in Livingston and intends to construct speculative industrial / trade

accommodation from 464 - 3,716 sq.m. (5,000 - 40,000 sq.ft.). This is the first significant new industrial development to take place in Livingston for well over three years and is recognition that there is now a scarcity of good quality accommodation in the area. Livingston does however have a considerable amount of second-hand accommodation available which is partly a hangover from the demise of the electronic and telecommunications market.

Teague Developments Ltd has purchased the former Whyte & Mackay Bottling Plant at Salamander Place, Leith for c.£11m. The property provides a mixture of warehouse and office buildings totalling 30,705 sq.m. (330,515 sq.ft.) on a site of 6.4 hectares (15.81 acres). The developer proposes residential units and to adapt the more modern buildings on the site to provide 7,4300 sq.m. (800,000 sq.ft.) of business units. Whyte & Mackay is developing a new bottling plant at an existing site in Grangemouth and will remain in occupation at Leith until September 2006.

Recent deals in the East include :

Address	Size	Occupier
Eastern Industrial Estate, Newcraighall	3,902 sq.m.	Safestore plc
Pitreavie Business Park, Dunfermline	1,880 sq.m.	Somerfield Stores Ltd
St Davids Business Park, Dalgety Bay	864 sq.m.	John Menzies Ltd
Pyramids Business Park, Bathgate	11,005 sq.m.	Wm Morrison Supermarkets plc
Central Park, Larbert	1,613 sq.m.	Vibration Technology Ltd
Oakbank Park, Livingston	2,926 sq.m.	Capital Communications Group
West Telferton Industrial Estate, Portobello	279 sq.m.	Halfords Ltd
East Mains Industrial Estate, Broxburn	93 sq.m.	First Furnishing Ltd



Aberdeen

Industrial property take-up in Aberdeen, in units less than 929 sq.m. (10,000 sq.ft.), is up by 20% over the previous six months confirming a healthy demand being experienced in the market for such premises. However, overall activity is down by 14% due to both a shortage of good quality stock and limited demand for units over 929 sq.m. (10,000 sq.ft.). Overall the statistics show a take-up of 34,345 sq.m. (369,685 sq.ft.) across 64 transactions.

Supply of industrial space is down by 20% to 74,290 sq.m. (799,655 sq.ft.) in 161 properties. Despite the apparent lack of good stock and limited interest in the larger properties there have been three significant transactions:

Address	Size	Occprier
Craigshaw Base Abbotswell Road, Tullos	1,408 sq.m.	Car Clinic (Lease)
Kirkton Drive, Dyce	4,103 sq.m. plus 1.6 hectares	Well Ops (UK) Ltd (Sale)
Consafe Centre Greenwell Road, Tullos	3,767 sq.m.	Undisclosed (Sale)

The oil industry has fared extremely well over the past six months and is predicted to continue to prosper for some time to come. The UK is starting to benefit from the global upturn in upstream investment, with production from Clair and James fields starting in the last three months. This, combined with the high level of operator interest suggests that 2005 will be a much better year for the North Sea. At the time of writing North Sea Brent oil had reached \$53 per barrel, 65% higher than a year ago.

An established land supply of 257 hectares (637 acres) of Business and Industrial Land exists in Aberdeen City. However, further analysis indicates that only 42.5 hectares (105 acres) is marketable and only 36.5 hectares (90 acres) of Business and Industrial Land is available for immediate development in Aberdeen City.

In Aberdeenshire there is 230 hectares (569 acres) of established Business and Industrial Land. However, only 122 hectares (301 acres) are marketable and 23 hectares (57 acres) are immediately available.

Major brown field sites on the market at the moment include: -

- Donside Paper Mill, Aberdeen, comprising 8.9 hectares (22 acres)
- Kirkburn Mills, Peterhead, comprising 1.94 hectares (4.8 acres)

Although demand remains strong in the industrial market,

particularly for trade counter property with an element of retail planning permission as noted in the East Central Scotland commentary, rents have yet to nudge past £59 - £62 per sq.m. (£5.50 - £5.75 per sq.ft.) for new build warehousing and £107 - £113 per sq.m. (£10 - £10.50 per sq.ft.) for ancillary offices.

Dundee

The supply of industrial property in Dundee has increased since September 2004, to stand at 101,000 sq.m. (1.1m sq.ft.). Take-up of industrial units over the past year totals 15,460 sq.m. (166,390 sq.ft.) (SPN). Industrial demand remains steady, although principally for smaller scale units of up to 464 sq.m. (5,000 sq.ft.).

Recent deals include:

Address	Size	Occupier
Douglas Street	524 sq.m.	JB Frozen Foods Ltd
Balgray Place	908 sq.m.	Laminates Ltd
Brown Street	93 sq.m.	Die-Cast Depot

In the development sector, the former Holo-Krome Factory at Kingsway West has been bought by Edinmore Properties. Edinmore plan a substantial refurbishment and remodelling package of this 9,290 sq.m. (100,000 sq.ft.) facility to provide a range of modern industrial/business space units.

Inverness

The Longman Industrial Estate continues to be the preferred location in Inverness, but available sites are rare and at a premium. The Highland Council offered the last of its available sites for long ground lease at the start of the year and received numerous offers well in excess of the asking rent of circa £24,700 per hectare (£10,000 per acre) per annum. Council land at the Carse Industrial Estate is also oversubscribed and the waiting list closed.

Rents for modern industrial warehouse buildings at Longman Industrial Estate continue to edge up towards £64 per sq.m. (£6 per sq.ft.).

Overview

The IPD Annual Index Results confirmed 2004 as an outstanding year for property returns. The all property total return for 2004 was 18.3%. On this measure property outperformed equities (12.8%), bonds (6.6%) and with inflation at 3.5% provided real total returns of 14.3%. All property equivalent yields ended 2004 at 6.6% down from 7.3% at December 2003 and contributed 11.4% to total returns.

Retail

The returns on retail property ended 2004 on a 10-year high with the total return figure in this sector recorded at 20.5%. A substantial 14.1% of this was capital growth largely through yield shift.

Recent retail property investment deals include:-

Address	Property	Purchaser
Sauchiehall Street, Glasgow	Shopping centre (c. 1,858 sq.m.) Anchored by Primark, TK Maxx and W H Smith	Morley Fund Management c. £61 million (c. 4.85%)
St Enochs Shopping Centre, Argyle Street, Glasgow	Shopping centre (c. 66,425 sq.m.)	Mills Corporation/ Ivanhoe for c. £272.5 million
Kittybrewster Retail Park, Aberdeen	Retail warehouse park extending to 13,006 sq.m. with 12 tenancies	Junction Limited Partnership for c. £52 million (4.75%)
Jenners Department Store, Edinburgh	Department store comprising 16,722 sq.m.	Private individual for c. £37.2 million (4.5%) yield subject to 35 year leaseback
Kingsgate Retail Park, East Kilbride	Retail warehouse comprising 9,513 sq.m. let to B&Q	Syndicate of Irish investors for c. £23.3 million (NIY c.5%)
91 Buchanan Street, Glasgow	Unit let to Puma (UK) Ltd on a 15 year lease	Acquired by a private investor for £6.3m (4.58%) yield

Within the sector, strong performance was recorded for retail warehousing but also for shop units. The poorest overall rated performance was for out-of-town shopping centres but these still delivered 15% total returns.

The outlook for retail is less clear. The major risks to continued performance centre around overall consumer behaviour and housing market slow down. The possibility of further interest rate increases is an important factor influencing consumer sentiment.

Whilst much of the overall performance, as for other sectors, has come from a downward yield shift, rental growth is likely

to be a more important determinant of performance in the future. Prospects vary substantially within the sector and potential performance volatility is illustrated by the wide range of retailer results.

Offices

Offices remained the poorest performing sector within the property market, but the most improved sector over 12 months. The total return figure for December 2004 was 15.2% (2003: 3.2%). Rental value decline has bottomed out and falling yields have added substantially to values as they have across all sectors. The capital growth contribution to returns to December 2004 was 7.6% (2003: -4.3%).

London offices bounced back from a recent downturn. Office parks were the poorest performing category at 12% total return. The figure for the rest of the UK offices was 16%.

The outlook for offices is tied to the financial and corporate sector. Although 2004 showed GDP growth of 3.1%, it is anticipated that 2005 will show lower growth and with reduced contributions from the consumer and government. Employment growth is also expected to be sluggish which may impact on the office market.

Recent office property investment deals include:-

Address	Property	Purchaser
Clarendon House, 114-116 George Street, Edinburgh	Modern 3,262 sq.m. building let to Inland Revenue with 7 years term certain at passing rent of £ 263 per sq.m.	Royal London Asset Management for c. £13.25 million (c. 6%)
One Morrison Street, Edinburgh	Prime Grade A building completed 2003 and comprising 5,295 sq.m. let to Franklin Templeton for 17 years. Also income from Odeon Cinema and small Sainsbury's supermarket	Hermes for c. £31 million equating to blended yield of c. 5.85%
40 Torphichen Street, Edinburgh	Redeveloped building comprising 5,181 sq.m. Multi-let to tenants including AON and Royal London	SAL Oppenheim for c. £20.5 million representing NIY of c. 6.2%
Dalmore House, 310 St Vincent Street, Glasgow	Office building of 6,503 sq.m. let to Whyte & McKay for a further 11 years at £210 per sq.m.	Channel Islands Overseas Trust for £20.25m (6.89%)
1 Pacific Quay, Glasgow	Modern business park building of 2,755 sq.m. let to Scottish Ministers 2025 for £445,000 (£161 per sq.m.)	Private US investor for £8.462, an initial yield of 5.2%



Industrial

The total return for industrial was 16.9% at December 2004 (2003: 11.2%). Rental income levels remain the highest at 7.2%, albeit now only marginally ahead of offices (7.1%).

Yield shift again was a significant contributory to performance, at 9.1% from capital growth (2003: 3.4%). Equivalent yields ended the year at an average of 7.6% (2000: 8.6%).

The sub-sectors tend to be determined by the economic activity of the occupiers and these influences are likely to affect the outlook for 2005. Manufacturing (representing c.20% of the rental in the IPD index) continues to decline and to impact on available secondary space in the market. Industrial is also at some risk - albeit less than retail - from the housing sector downturn.

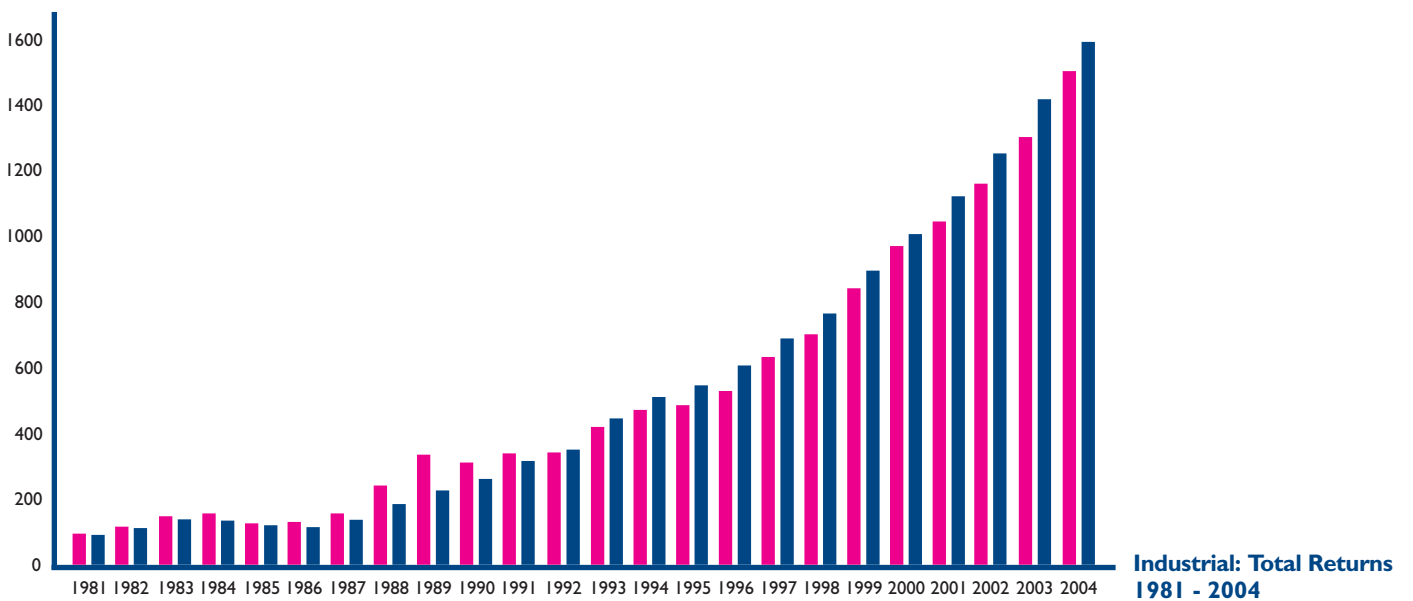
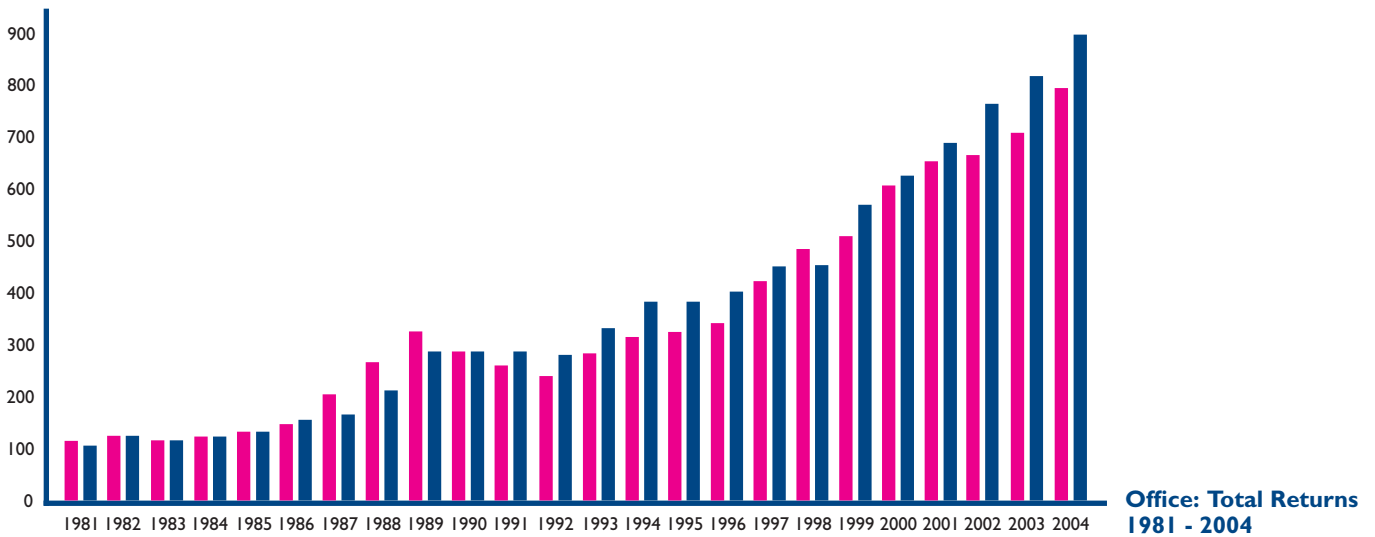
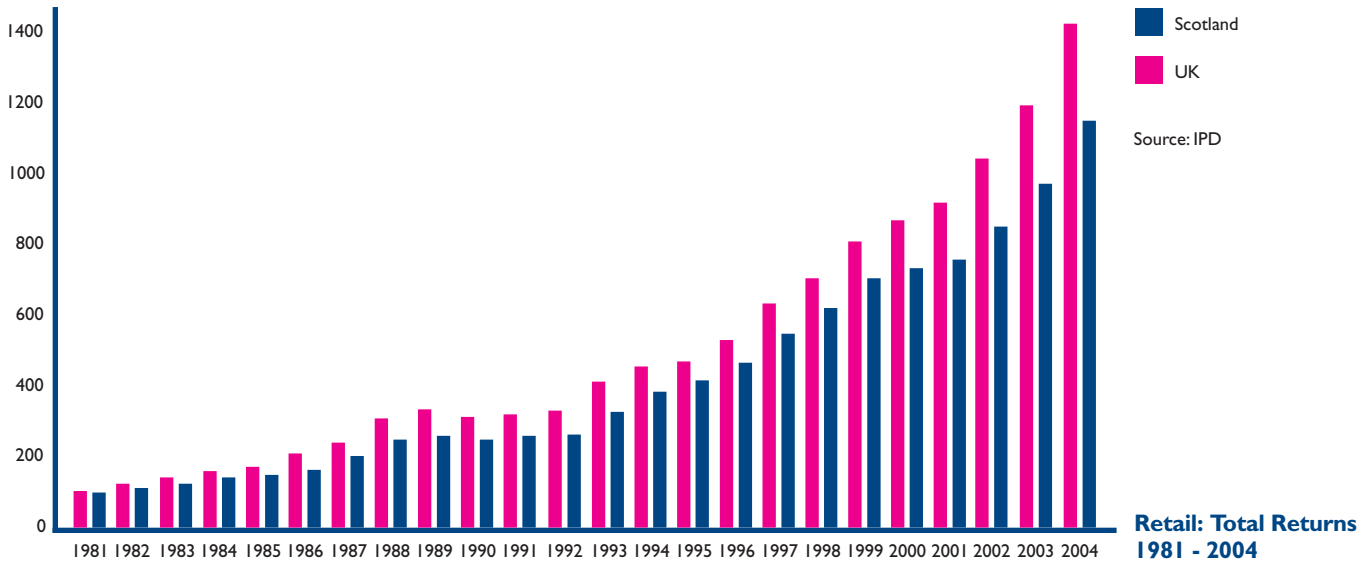
There are however opportunities in this sector which has pockets of under-supply. The sector also continues to benefit from investors taking a long-term view on change of use to higher values through more intensive land use and higher rental and capital rates on accommodation built.

Recent industrial property investment deals include:-

Address	Property	Purchaser
Bridge of Don Complex, Aberdeen	Industrial and office buildings let to KMC Oiltools (Europe) Ltd until 2007 (3,920 sq.m.)	Acquired by PPG (Edinburgh) Ltd for £2.265 million reflecting NIY of c. 9.6%
Airlink Industrial Estate, Glasgow Airport	Multi-let industrial estate totalling 7,618 sq.m. in 16 units, (3 vacant).	Acquired for £4.4m with a net initial yield of 8.19%

Market Prospects

Property investment remains attractive relative to other sectors. Supply is limited and weight of money is likely to maintain strong prices during the course of this year, although yield hardening effect is unlikely to be sustained at 2004 levels. The nature of buyers continues to broaden including UK institutions, pension funds, Irish and other overseas investors and new vehicles such as REITs and derivative products are likely to add to the overall importance to property as investment asset class. Commentators predict returns for 2005 of between 10% and 15% and for property returns to match or exceed equities.



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