

Ryden

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Scottish Property Review

"Occupier demand for commercial property continues at a healthy level, particularly in the office markets and in Aberdeen. Underlying market activity is therefore stable but investment pricing is in flux."

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# Economy

## & Planning

### Economy

**Economic growth in Scotland continues above trend, but with the expectation that forecasts for 2007 and 2008 will be downgraded over the coming months.**

**Long term employment gains in service industries and losses in traditional manufacturing are again evident. Unemployment remains low and business creation high, although business failures are also rising.**

- Scottish GDP grew by 2.4% over the year to quarter one 2007, below the UK growth rate of 3.0%. The service and construction sectors expanded by 2.9% and 5.4% respectively, however there was a 0.8% decrease in production sector output.
- Fraser of Allander Institute's growth forecasts for Scotland are 2.5% (2007) and 2.3% (2008). New independent forecasts for UK economic growth anticipate 2.8% (2007) and 2.2% (2008).
- Forecasters are expected to revise downwards their expectations for Scottish economic growth following recent events in the financial markets.
- The Scottish unemployment claimant count stood at 2.7% in August 2007, down 0.5% since August 2006. Aberdeenshire had the lowest claimant count (0.8%) and Dundee City the highest (4.2%).
- According to the Committee of Scottish Clearing Banks (CSCB), the number of new business accounts established during the first half of 2007 totalled 15,069. This was 26% higher than in the same period last year. The majority of new businesses (5,228 or 35%) were in the real estate, renting and other business sector.
- However, Experian reports a total of 441 business failures in Scotland during the first six months of 2007, 8.9% more than the first half of 2006.
- Retail sales in Scotland continue to grow, at 3.3% on a like-for-like basis over the 12 months to September 2007 (SRC/RBS).
- According to the Oil and Gas Index published by the Royal Bank of Scotland, average daily oil production in the 12 months to July 2007 was down by 15.7% on the previous year.

#### Job Gains

Morgan Stanley plans a further 600 new jobs in Glasgow

At its headquarters in Perth, Scottish and Southern Energy plans 100 new jobs

Homeloan Management plans 425 new financial services jobs in Glasgow

MGT is to create 250 new positions in Kirkcaldy and Methil

beCogent plans 250 new jobs at its call centre in Erskine

Pharmaceutical Product Development (PPD) is expanding at Strathclyde Business Park, Bellshill and plans 400 new jobs over the next three years

Quintiles will create 150 new jobs over the next four years at the Alba Campus, Livingston

Asprea - a new company which will manage claims for the building insurance services industry - is creating 51 jobs at Alba Business Park, Livingston

Jahan Cashmere is creating 60 jobs in a cashmere factory in Kelso

#### Job Losses

900 manufacturing jobs are under threat at Freescale in East Kilbride

Around 700 jobs across the UK were lost when retailer Fopp went into receivership. HMV purchased six stores and retained 70 jobs

Fork lift manufacturer Hyster is to close its plant in Irvine with the loss of 220 jobs

Babcock Naval Services has announced the loss of 220 jobs at the Clyde Naval Base

In Dundee, Yorkshire Fittings is to close its factory with the loss of 45 jobs and IBP Conex, plumbing fittings, has closed its factory with the loss of 66 jobs

Restructuring at the National Trust for Scotland will mean the loss of up to 80 positions

The Wright Health Group is moving its tooth production from Dundee to Hungary with the loss of 50 jobs

## Planning

### Planning etc (Scotland) Act 2006

The Planning etc (Scotland) Act was passed in November 2006. It is the most fundamental and comprehensive reform of the Scottish planning system in 60 years. The system is now taking shape as consultation for secondary legislation gets underway. Highlighted below are some of the main changes, and their implications:

### National Planning Framework (NPF)

The NPF is a key element in the modernised planning system. It is now a statutory document and part of the development plan. The second NPF will set out Scotland's spatial strategy to 2030, indicating the developments seen as vital for Scotland's economic growth and likely to benefit from expedited planning procedures. It will become available for public consultation later in 2007.

### Front-loading the Planning Process

A variety of changes is intended to ensure that the majority of work in support of a planning application is done prior to submission to the local Planning Authority. The aim is to balance a faster system with more effective consultation. Two examples of how this will be achieved are the changes in the consultation requirements for major applications and the appeals process:

#### Consultation Requirements

Before major planning applications are submitted, the applicant will have to produce a list of community consultees to be approved by the Local Authority. After a 21-week period the finalised application must be submitted along with a consultation report to prove that all relevant consultations have taken place. If the Local Authority is not satisfied that all relevant consultation has taken place they may refuse to validate the application. Additional time, resource and expertise will be needed to fulfill these new requirements.

## Appeals Process

Appeals will become a mechanism to simply review the Local Authorities' decisions. No additional information may be submitted, unless there are exceptional circumstances. The Directorate for Planning and Environmental Appeals (DPEA) will seek statements from applicants and Local Authorities on where they agree and disagree, with areas of disagreement being the focus of the appeal. Furthermore, the time-scale to lodge an appeal will be reduced from six months to three months and the type of appeal will be decided by the reporter. These changes mean that applicants will need to put their full resources into the original application if an appeal is a possibility.

### Development Plan Reform

The development plan framework has been changed to remove the two-tier structure of plans across large parts of the country, and replace it with Strategic Development Plans (in the four largest city regions) and Local Development Plans (across the country). The process for issuing a plan is to be shortened. First the Local Authority will publish an issues and options document and then, following consultation with

communities and stakeholders, the final proposed plan will be published. Plans must be updated every five years. The shorter lead-in time to Local Plans again emphasizes a need for early action.

### Enforcement

Enforcement is to be given new powers. Temporary stop notices will have immediate effect to stop unauthorised development. Increased fees for retrospective planning applications will act as a deterrent. To aid Local Authority enforcement officers it will be necessary for developers to submit a Notice of Initiation and a Notice of Completion for developments. These notices will trigger inspections to ensure developments are compliant with consents and conditions.

### Timetable

Some reforms are already being introduced at Local Authority/DPEA level in anticipation of secondary legislation being passed, but realising planning's full capability and achieving culture change will be an ongoing process. Consultation on the changes will be a continuing feature for the next two years as details of the new system are worked out.

Regulation and Orders etc	End of consultation period	Date for commencement
Enforcement	October 2007	July 2008
Strategic Development Planning Authorities designated	Closed	October 2008
Householder permitted development rights	May 2008	October 2008
Regulations on development planning	October 2007	October 2008
Revised fees	March 2008	November 2008
Appeals	November 2007	November 2008
Hierarchy of developments	November 2007	November 2008
Draft NPF	October 2007	End of 2008

# Office

# Property

**Office sales and lettings in Scotland's three largest cities have increased by 18% over the past six months. Take-up in both Glasgow and Edinburgh has risen. Aberdeen's take-up has declined from its recent peak, but will be boosted again by ongoing larger transactions.**

In **Glasgow**, strong demand from both public and private sectors over the last six months has produced a healthy take-up of 52,000 sq.m. This contributes to 87,000 sq.m. take-up over the last 12 months, slightly ahead of the 10-year average.

Public sector agencies have been particularly active within Glasgow city centre. Office space has been taken by The Scottish Government, Registers of Scotland, NHS Scotland, Glasgow City Council and The Commission for Equality and Human Rights. There was however disappointment for Glasgow when The Scottish Government cancelled proposed NHS relocations.

The private sector has also been busy taking space in the rapidly-reducing supply of Grade A and top Grade B buildings. Barclays Bank has expanded further at Aurora, taking ground and first floor accommodation, increasing its presence to 8,814 sq.m. The last remaining floor of 1,780 sq.m. is under offer. Similarly, Morgan Stanley has taken the last floor at Sentinel.

The only new-build development currently available is 4 Atlantic Quay (6,863 sq.m.). Two floors have been let to BDO Stoy Hayward, another floor is under offer, and interest is reported in other floors. The remaining new-build space represents only 0.35% of city centre stock.

With such a restricted choice at the top end of the market, potential occupiers are reduced to a limited range of good quality second-hand and refurbished property. Within this sector, there are ten buildings (totalling 26,228 sq.m.) in the city centre which can provide space over 929 sq.m.

Dependent on timing and existing lease commitments, there are signs of occupiers considering pre-letting developments. For example, McGrigors solicitors concluded on the top two floors at 141 Bothwell Street (3,396 sq.m.) and three floors have been let to Fortis at FM's 133 Finnieston Street (5,290 sq.m.) where a further floor is under offer.

Cuprum, Argyle Street (9,180 sq.m.) is due to complete during 2008. Further major developments at 1 George Square (11,800 sq.m.) and on the site of the former Scottish TV HQ at Renfield Street (11,613 sq.m.) are due to complete early 2009. Smaller floorplate schemes at Apsley House, Wellington Street; Centro, Waterloo Street; and Evolution, Oswald Street will increase availability and choice in 2009 for larger corporates and financial services companies, and also medium-sized indigenous service sector companies. Pre-let activity during construction is likely to be a feature of the market over the next 12-24 months.

Glasgow's total office availability is 163,480 sq.m. representing a vacancy rate of 8.8%. This falls to 6.7% in the central area. Vacancy is relatively unchanged from the previous period, but there is a reduction in availability of good quality space and an increase in poor quality older space being released to the market.

Ongoing letting activity and limited supply of quality offices are impacting on prime headline rents. These currently sit at

£280-£295 per sq.m., with prospects for further growth over the next 12-18 months as new schemes come through. Those schemes located slightly off-pitch and based upon historic land values are likely to be able to discount prime rents, offering choice to occupiers prepared to consider off-centre/fringe locations.

Rents for good quality refurbished space have moved up to £225-£235 per sq.m., again with potential for further increase.

Incentive packages available to occupiers taking existing office space have reduced, but the prospect of pre-lets on new projects will encourage developers to offer generous rent free periods/incentives to secure tenants - dependent on covenant strength, length of lease and amount of space taken.

Activity has also increased out-of-town and at business parks. Lettings have been secured across a range of locations including GSO Business Park, **East Kilbride** (British Energy 3,250 sq.m.); Hamilton Business Park, **Hamilton** (The Scottish Government and pre-let to Scottish Children's Reporter Administration 1,670 sq.m.); **Eurocentral**, where a string of lettings has been secured at both Europoint and Trilogy with several others under offer; Buchanan Gate Business Park, **Stepps** (Barratt Homes 1,254 sq.m.); Strathclyde Business Park, **Bellshill** (NG Bailey 1,858 sq.m.) and to the west at Centura Court, **Hillington** (Ceridian 880 sq.m.) and Moorpark Court, Govan (YMCA 699 sq.m.).

Further new office development is underway at Hillington, Braehead and Glasgow Business Park.

At Eurocentral, construction is underway of a new office park totalling 68,000 sq.m. to be built in a single phase, with completion programmed within two years.



### Larger office lettings in Scotland include:

Address	Size	Occupier
Hanover House, 24 Douglas Street, Glasgow	3,298 sq.m.	Registers of Scotland
Elphinstone House, 65 West Regent Street, Glasgow	3,066 sq.m.	The Scottish Government
1 Atlantic Quay, Glasgow	2,311 sq.m.	Mott MacDonald
Citypark, Alexandra Parade, Glasgow	2,002 sq.m.	Dell UK
Aurora, Bothwell Street, Glasgow	1,669 sq.m.	Barclays Bank plc
4 Atlantic Quay, Glasgow	1,594 sq.m.	BDO Stoy Hayward
225 Bath Street, Glasgow	1,347 sq.m.	W A Fairhurst & Partners
Guild Hall, Queen Street, Glasgow	1,392 sq.m.	National Australia Bank Group
Clydesdale Bank Plaza, Lothian Road, Edinburgh	1,530 sq.m.	Brodies LLP
Quay2, Edinburgh Quay, Edinburgh	1,300 sq.m.	Baker Tilly
7 Lochside View, Edinburgh Park, Edinburgh	1,170 sq.m.	Applecross
Scott Sutherland House, Waverley Place, Aberdeen	1,320 sq.m.	Simmons & Co
South Point House, Wellington Circle, Aberdeen	1,400 sq.m.	Total
Seafield House, Hill of Rubislaw, Aberdeen	6,000 sq.m.	Chevron
Seafield House, Hill of Rubislaw, Aberdeen	11,400 sq.m.	Shell
Consort House, Poynerook Road, Aberdeen	7,250 sq.m.	Petrofac
West Marketgait, Dundee	2,935 sq.m.	Realtime Worlds

In general terms, rents for non-cooled business park space around Glasgow are £160-£165 per sq.m. and for comfort cooled space £153-£188 per sq.m. (inclusive of car parking). Sale prices for smaller pavilions range from £2,045-£2,250 per sq.m.

Total take-up in the **Edinburgh** office market over the last six months was 36,226 sq.m., achieving a total for the 12-month period of 66,325 sq.m. This is again below Edinburgh's 10-year average.

Edinburgh's office market continues to rely mainly on existing occupiers, particularly from the legal/professional sector. However, there are signs that some new companies are also investing, and there is also the possibility of more Scottish Government requirements remaining in the city.

Smaller, quality open-plan offices continue to be in demand. In some cases landlords have been prepared to split floors within larger buildings to accommodate this trend - examples include 40 Princes Street, 80 George Street, Edinburgh Quay and Waverley Gate.

Despite the lower take-up, pre-letting activity continues to be a feature of the Edinburgh office market. Recent announcements include 1,693 sq.m. at Gladedale Capital's Lochrin Square development to Biggart Baillie LLP, and a further 650 sq.m. is currently under offer to Watson Wyatt Worldwide.

Other law firms are also active. Brodies LLP has taken an assignment of the former State Street accommodation (1,530 sq.m.) at Clydesdale Bank Plaza, Lothian Road. Semple Fraser has concluded terms at 80 George Street (1,516 sq.m.). Shepherd & Wedderburn has 5,390 sq.m. under offer at Standard Life's Exchange Crescent, and both Morton Fraser and DLA Piper UK LLP are actively seeking new accommodation.

During the last six months, the first floor of Quay2, Edinburgh Quay has been let to Baker Tilly (1,300 sq.m.), and 445 sq.m. on the second floor has been let to Barclays Bank. In the city centre, Redevco completed a letting at 40 Princes Street to Aberdeen Asset Management (1,654 sq.m.), and a further floor is currently under offer to CMC Markets (397 sq.m.) and Davis Langdon Mackenzie (464 sq.m.). Oil and gas company BowLeven has leased 623 sq.m. at 1 North St Andrew Lane, off St Andrew Square.

West Edinburgh's business parks are attracting renewed activity. Transactions include: 7 Lochside View to developer Applecross (1,170 sq.m.); 6 Lochside Avenue to Paymentsshield (834 sq.m.); and 7 Lochside Avenue to AstraZeneca (825 sq.m.); while 4-5 Lochside Avenue is under offer to Virgin Money (3,772 sq.m.). Further, smaller lettings at Dunedin Property Group's South Gyle Crescent have concluded to Rentokil Initial UK (286 sq.m.) and Farrer Consulting (291 sq.m.).

In Leith, at Ocean Point, Seven Investment Management (7IM) has concluded terms on 372 sq.m., leaving approximately 650 sq.m. available. Following its acquisition of Commercial Quay, GE Real Estate has completed the refurbishment of all vacant suites and a number of potential occupiers are interested.

Total Edinburgh office supply at September 2007 is 204,570 sq.m., a decrease of 6% from the previously reported figure in April 2007. Two larger buildings account for 15% of this supply: Waverley Gate, Waterloo Place (19,790 sq.m.); and 3-9 St Andrew Square (11,150 sq.m.).

Supply of Grade A offices in Edinburgh has also reduced, however four new buildings will complete this year: Lightning Park at South Gyle (9,052 sq.m.), No. 1 Quartermile (4,366 sq.m.), Lochrin Square (5,753 sq.m.) and Interpoint at Haymarket (4,320 sq.m.). Interpoint is the only speculative development in Edinburgh to achieve an "Excellent" BREEAM rating.

Only AMA's Fusion development (2,787 sq.m.) at Bonnington will complete during 2008. Several prominent city centre developments will complete during 2009; Kenmore Property Group's West Port House (8,767 sq.m.); AMA/Grosvenor/RBS's Springside (5,480 sq.m.); and Kilmartin Property Group's Leith Street development (6,130 sq.m.).



Construction of Scottish Widows' development of 18,580 sq.m. of offices at Exchange Place is underway and will complete during 2009. Buredi plans 8,500 sq.m. office space in its mixed-use development at Freer Street, Fountainbridge, Scottish & Newcastle's former brewery site. Gladedale may also start the second phase of its Quartermile project for completion late 2009/early 2010.

Two notable redevelopments will add to office supply. Tanfield, Canonmills, formerly occupied by Standard Life, was acquired by Bellhouse Joseph and the Carlyle Group, who will provide approximately 17,650 sq.m. of offices, available early 2009. Also, following its purchase of Helix House, Crewe Toll, Orion Trust plans to provide up to 9,755 sq.m. of offices.

Looking to the medium term, developments at Exchange Square, Calton Gate and The Haymarket are planned; however, it is unlikely that office accommodation will be completed at any of these locations before 2010.

Cala/Morrison have withdrawn from the prominent HI development in The Exchange, reportedly due to increased costs arising from changes in building legislation and construction costs. These increases impact on all new development proposals and place upward pressure on office rents.

Prime office rents in central Edinburgh have risen to £301 per sq.m., particularly for suites below 929 sq.m. It is anticipated that £323 per sq.m. will be achievable in coming months.

In **Livingston**, Miller Developments has received planning consent for eight office pavilions, totaling over 2,787 sq.m. at Alba Business Park. Construction is due to start late 2007 with completion planned for Summer 2008.

CALA Properties' speculative Phase 6 (2,960 sq.m.) building at Almondvale Business Park is attracting prospective occupiers. Phase 7 (2,164 sq.m.) has planning consent and construction is due to commence shortly.

The office market in **Aberdeen** remains buoyant, underpinned by a steady oil price, currently in excess of \$80 per barrel.

Take-up of Aberdeen offices for the six month period to September 2007 is down 11% to 34,000 sq.m. in 57 transactions. This is largely due to the lack of immediately available property. This figure also excludes occupiers such as Subsea 7 (13,935 sq.m.), BP (22,000 sq.m.) and Acergy (19,500 sq.m.), which have all committed to new premises for occupation next year. Nevertheless, take-up for the past 12 months is 73,400 sq.m., almost double the average figure.

Total supply remains steady at 86,640 sq.m. A number of unsatisfied occupier requirements reflect a lack of Grade A property available, both in central and peripheral locations, however new development projects are now on site.

At Arnhall, Westhill, construction is underway at both Phase 1 of Westpoint Business Park and Aspect 32, which between them will provide approximately 9,400 sq.m. of Grade A offices.

Another speculative scheme due to commence, Abercrombie Court, will provide approximately 4,500 sq.m. It is anticipated that a considerable amount of this new accommodation will be let prior to completion.

At Altens, south of the city, development is underway at both Knight Real Estate's Wellington House (1,900 sq.m.) and Morley's Craigshaw House (2,900 sq.m.). The speculative SouthPoint House, Wellington Circle (1,400 sq.m.) was let to Total prior to completion earlier this year.

Within the city centre, construction at Stewart Milne Group's Union Plaza (11,600 sq.m.) is well advanced. It is anticipated that the majority of the building will be under offer prior to completion. Work has also commenced on Kenmore Property Group's City Wharf mixed-use development at Shiprow (2,500 sq.m.).

Further confidence in the market has been demonstrated by both Chevron and Shell taking new 10-year lease extensions within Seafield House at Hill of Rubislaw (6,000 sq.m. and 11,400 sq.m. respectively). In addition, Chevron has now taken occupation of Chevron House at Hill of Rubislaw, providing the company with an additional 9,100 sq.m. of accommodation.

Within the West End office district, rents have once again increased significantly during the last six months, from £253 per sq.m. to £290 per sq.m. for a property on Albyn Place.

The only significant West End scheme under construction, Scott Sutherland House on Waverley Place, is now under offer to a single occupier. There are a limited number of schemes currently seeking planning permission and as these filter through, rents should continue to rise.

**Dundee** city centre continues to attract new office development. Foxdown Developments' scheme at Seabraes provides 2,635 sq.m. of office space. A mixed-use development at Westport, to include 5,110 sq.m. offices, also has plans for a further two phases including 7,432 sq.m. offices. Planning permission has recently been approved for Dundee City Council's headquarters office at North Lindsay Street. Construction is well underway for a new headquarters (4,645 sq.m.) for international investment group Alliance Trust at Marketgait.

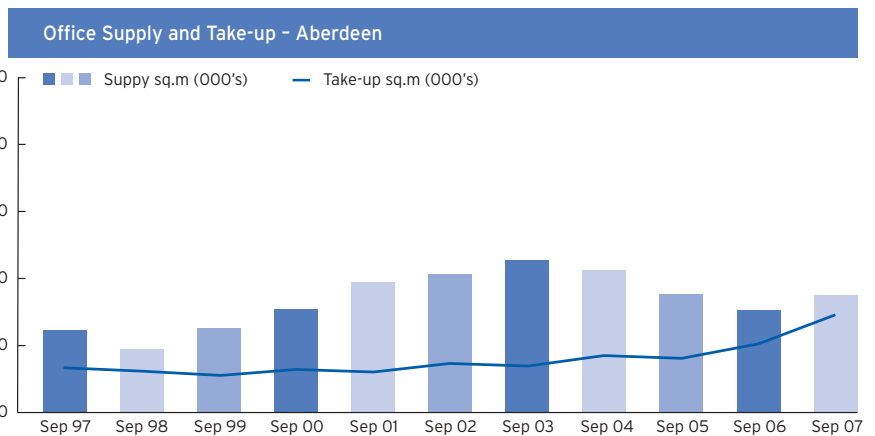
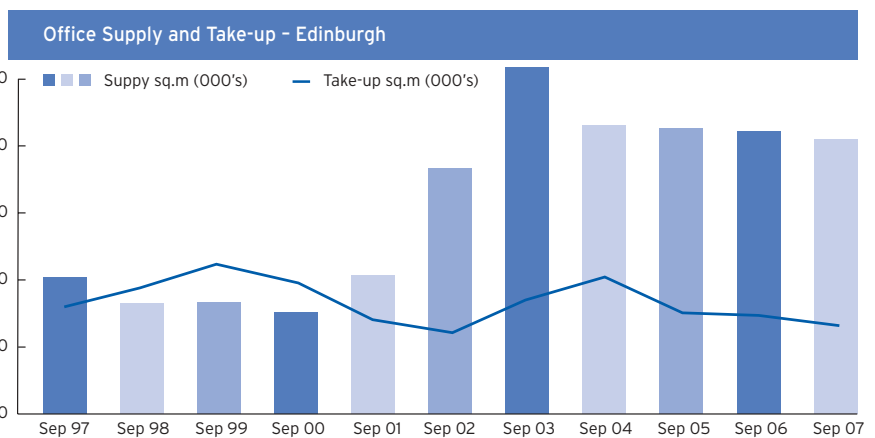
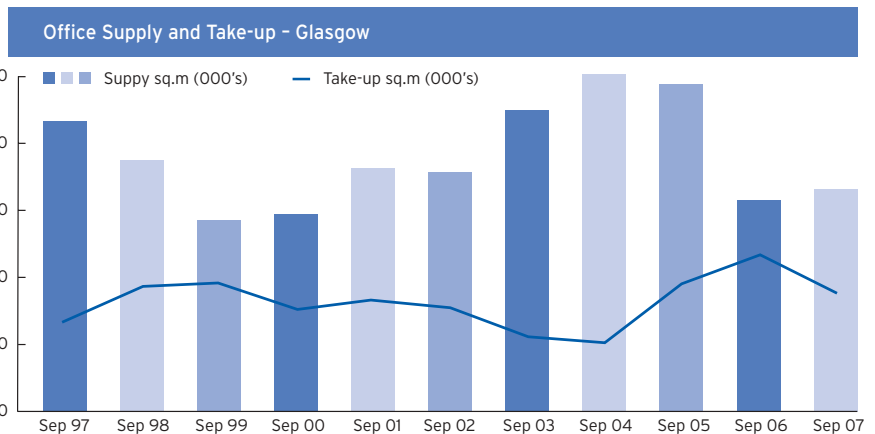
Game software developer Realtime Worlds took the first phase of offices (2,787 sq.m.) at the mixed-use development at West Marketgait. The second phase of offices is currently under construction and offers a further 2,044 sq.m.

Prime office rents for modern, open-plan office accommodation in Dundee are presently £150 per sq.m.

Occupier demand for office space in **Inverness** remains steady. PPG bought Moray House on the riverside at the start of 2007 and are refurbishing the top two floors (817 sq.m.), half of which is under offer. The rent levels are comparable with business park accommodation at c. £151 per sq.m. Further new city centre office schemes are currently being considered by developers.

Following refurbishment by Annfield Assets Ltd, Highland Rail House, Academy Street is now fully let; Clì Gàidhlig (Gaelic promotion organisation) took the final 84 sq.m. office suite.

Fairways Business Park is now almost entirely let/sold. Construction of new pre-let and speculative office pavilions has recently commenced at Cradlehall Business Park. Asking rents for the speculative units are £167 per sq.m.



Source: Ryden

# Industrial

# Property

**Property enquiry levels in the industrial sector are holding firm. Activity is diverse, ranging from re-use of redundant electronics plants, to a strong market for modern industrial premises in prime locations.**

Market trends described in our April 2007 Review persist in **Glasgow** and the West of Scotland. There continue to be acute shortages in most industrial size bands and locations, and there is relatively little new development to help ease the pressure on available stock. On the demand side, the trade counter sector remains popular and demand for larger distribution facilities is encouraging.

It has been a gradual process, but there are now clear signs that the market will accept significantly higher rental levels. In addition, recent pre-lets and pre-sales will provide confidence to developers considering new-build projects.

However, the latest uncertainty is the potential impact of rising investment yields. While rents are rising, uncertainty in the investment market is hitting the other side of the revenue equation at a time of rapidly increasing land prices and construction costs. The higher cost of speculative development will continue to encourage many developers to pursue the pre-let route.

There are of course exceptions, and speculative development is progressing at a number of key locations, such as Eurocentral, ProLogis Park, Gateway Glasgow and Hillington.

**Eurocentral** has experienced a healthy level of pre-let activity, now supplemented by the Advance Build Programme where a variety of unit sizes and configurations will be produced. Recent pre-lets to Sheffield Insulation Group (6,689 sq.m.) and Ossian Group (14,993 sq.m.) have been quickly followed by a pre-let to Warburtons (1,858 sq.m.) for a new distribution facility. The latter building is now on site and has been taken on a new 20-year FRI lease at £75 per sq.m. The rent reflects a slightly higher than normal specification, but would have been higher still without the Enterprise Zone benefits. To date, the Advance Build Programme has brought forward Pharos (3,716 sq.m.) Atlas (5,202 sq.m.) and Titan (11,334 sq.m.). Construction has commenced for an additional four buildings totalling 22,668 sq.m. There is now a single Golden Contract plot left at Eurocentral.

There is also encouraging news from ProLogis at its 29 hectare site adjoining Eurocentral, where a speculative 27,870 sq.m. facility is now on site.

ProLogis and Eurocentral reflect a general optimism about the distribution market in the central belt. There is considerable activity in this sector, with a variety of users seeking to meet their Scottish supply chain needs.

In general, the market to the east of Glasgow remains more active than that to the west. At Gateway Glasgow, there will shortly be an announcement on a pre-sale and associated speculative build. At Glasgow Business Park, there is similar interest in pre-sales, as well as the development of a variety of units on a speculative basis.

Recent land sales at Glasgow Business Park provide a useful indicator on the demand for land. A 2 hectare plot has been sold to Flanagan Flooring for a new 2,787 sq.m. distribution centre and a 0.7 hectare site has been sold to the Volkswagen Group for a commercial vehicle dealership. The latter sale has set a new benchmark for the park at £875,000 per hectare.

To the West of Glasgow, development has been constrained to the Govan area and Hillington Park. At Hillington, MEPC has completed three speculative buildings ranging from 882 sq.m. to 2,471 sq.m. The mid-sized unit (1,914 sq.m.) is under offer at c. £64 per sq.m.

The trade counter market has been less active over the past six months, in part due to restructuring within a number of the most significant players. Nevertheless, a number of significant deals have been agreed. Baltic Business Park in **Paisley** is now fully let with the final unit taken by Brandon Hire (279 sq.m.) at £70 per sq.m. At **Bellshill**, KG Estates purchased the former Sheffield Insulation Group's building and re-branded it Righthead Point. The building has been refurbished and subdivided into three trade counter units; early lettings have been secured to Moores Furniture Group (1,562 sq.m. at £55 sq.m.), Arco (782 sq.m. at £56 per sq.m.) and Screwfix (776 sq.m. at £59 per sq.m.). To the North of Glasgow, Perfect Timber Ltd has leased 1,340 sq.m. at Glentanner Road, Balmore Industrial Estate on a 15-year lease at £37 per sq.m. The unit will be operated as a timber merchants and the deal demonstrates the growing demand for industrial property on the north side of the city.



Developer SCOT Sheridan is active in site acquisition and a development programme targeted at light industrial and trade use. Recent acquisitions include a 1 hectare site at Righead, **Bellshill** where a 3,437 sq.m. scheme will be developed to provide units from 260 sq.m.; and a 1.1 hectare site at College Milton, **East Kilbride** for 4,088 sq.m. in units from 372 sq.m. for lease and also a limited number offered for sale. Finally, Phase 4 of Excelsior Park, **Wishaw** is nearing completion and will provide an additional 3,716 sq.m. This particular development has the advantage of Enterprise Zone benefits and therefore the quoting rental of £59 per sq.m. is also supported by enhanced rent-free periods for qualifying occupiers.

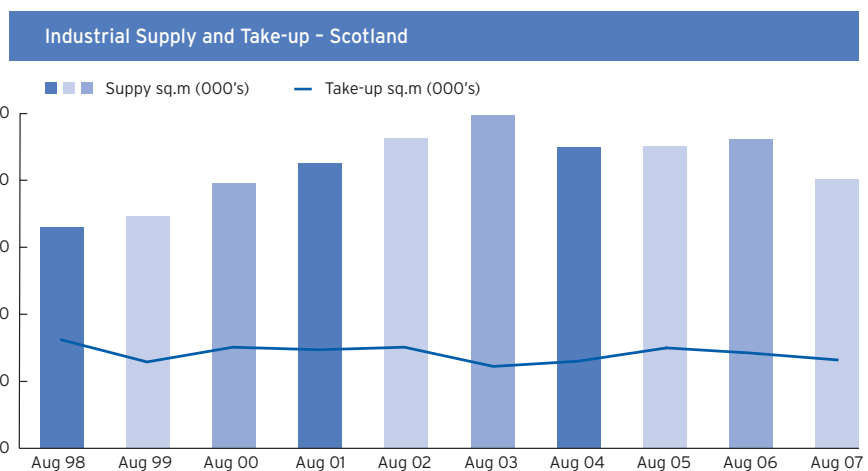
There continues to be strong demand for opportunities to purchase industrial properties and this is particularly evident for units smaller than 929 sq.m. Buildings of this size within Glasgow city boundaries have proven extremely popular. The development market is beginning to respond with a number of new-build units being offered for sale, as reported above.

Within the next six months, the lurch forward in rental levels will become more defined and the sale market is likely to remain strong. Announcements on a number of significant pre-sales may encourage the production of more units on a for-sale basis and prices will breach the £1,076 per sq.m. mark. Stabilising of investment yields should encourage more speculative development in response to shortages across the market.

The industrial market in **Edinburgh** is continuing to achieve steady rental growth. Good quality accommodation in the east of the city is now attracting between £65-£70 per sq.m., for example at A1 Industrial Park where Sheffield Insulation Group has leased a 464 sq.m. unit at £65 per sq.m. In the west of the city, close to the motorway network, rents are reaching £75-£81 per sq.m., for example at Bankhead Workspace, Sighthill where Napier University has leased a 570 sq.m. unit at £80 per sq.m.

To the south of Edinburgh, at Pentland Industrial Estate, **Loanhead**, Travis Perkins has leased a 3,384 sq.m. building on a 1.29 hectare site at £59 per sq.m. At Brucefield Industrial Estate, **Bonnyrigg**, the John Martin Group purchased a 1,068 sq.m. unit for its own use at a price of £904 per sq.m.

At Newbridge, to the West of Edinburgh, Clifton Trading Estate has been refurbished by Rockspring Property Investment Managers. Two units (3,112 sq.m.) have been leased at £59 per sq.m., and 2,787 sq.m. remains available. 3663 First for Foodservice has relocated from here to a new, purpose-built 8,360 sq.m. distribution facility nearby at Claylands Road. Phase 1 of the speculative development by Upland Developments Ltd of Newbridge One (4,650 sq.m.) is nearing completion and two units are under offer at asking rents of £75 per sq.m.



Source: SPN



Phase 2 of SCOT Sheridan's New Houstoun Business Park, **Livingston** (3,252 sq.m.) is nearing completion, and the final unit in Phase 1 has just been let to Screwfix (604 sq.m.) at £81 per sq.m. Easter Inch Park (4,185 sq.m.), **Bathgate** is also nearing completion.

In **Dunfermline**, the Freescale Semiconductor facility is currently for sale and is dominating availability statistics. The 93,470 sq.m. building sits on a 60 hectare site, was completed in 1999, is partially fitted out, but has never been occupied. Although the facility may have to be demolished to allow redevelopment, interest is reported from both local and national developers.

Also in Dunfermline, the former Solectron factory at Pitreavie Business Park has been purchased by Fife Group for c. £3.25 million, and rebranded as Castle Industrial Centre. Part of the 16,540 sq.m. facility will be used for a self-storage business and the remaining space (13,865 sq.m.) is available to lease. A third surplus electronics plant in West Fife, the former Lexmark facility (4,451 sq.m.) in **Rosyth**, is attracting the interest of two manufacturing companies.

In **Glenrothes**, at Westwood Park, technology repair services and solutions company CRC Group has taken a further 10,220 sq.m. of space at Westwood One. Also at Westwood Park, Fife Group has leased a 2,787 sq.m. unit to Citylink, which is being refurbished. The former Buko factory (c. 27,500 sq.m.) at Southfield Industrial Estate was purchased by Tilly Masterson in 2006 and has been extensively refurbished and sub-divided. Rebranded as the Buko Business Centre, recent lettings include Kingdom International Cash & Carry Ltd, Swan Web Solutions and Comzconsult Ltd.

City of Stirling Business Parks Ltd has submitted a planning application for speculative office (6,040 sq.m.) and industrial development (4,180 sq.m. in Phase 1) at Broadleys Business Park, **Stirling**. New industrial / trade units totalling 6,958 sq.m. are under construction by Allan Water Developments Ltd at the entrance to the park.

Earls Gate Park, **Grangemouth**, a 12 hectare commercial and industrial development area, has recently been launched by Kemfine, in a joint venture with Scottish Enterprise Forth Valley. Activity already attracted includes Fasco building a 1,939 sq.m. owner-occupied unit, the former Morton House being sold to Murphy Young to be refurbished as a modern business centre, and 3 hectares of land being placed under offer.

Demand for industrial space in **Aberdeen** remains strong due to the booming offshore industry. A total of 25,930 sq.m. has been let over the past six months in 74 transactions. Although this represents a decrease from 36,321 sq.m. in take-up from the previous six months, it is explained by the low number of available industrial properties. Take-up has been particularly strong for units below 464 sq.m., but has fallen for units in excess of 464 sq.m. Again, this is due to a lack of available stock within this size range.

Demand is particularly strong from oil, oil service and logistics companies. These companies require new-build units with yards that fulfill modern day requirements and which are larger than those units available on the market at present. The stock that remains on the market is poor quality, terraced industrial units in less desirable locations in the city. For this reason, the few more desirable units are being leased "off market" or alternatively, at closing dates.

Supply of industrial units in Aberdeen has fallen from 46,745 sq.m. in 95 units to 39,045 sq.m in 74 units during the last six months.

Land values in Aberdeen remain at c. £1.25 million per hectare, with some developers quoting prices in excess of this figure. Land is due to come on to the development pipeline to the North (Dyce/Bridge of Don), and South (Altens East, Balmoral Park, Cairnrobin, Peterseat, Aberdeen Gateway and Badentoy), as well as at Westhill on the outskirts of the city. Much of this land requires infrastructure and therefore it may be some time before supply of industrial premises rises to satisfy the requirements that currently exist in the market place.

New-build industrial rents in Aberdeen have, as predicted, risen to £86 per sq.m. for warehouse accommodation and £161 per sq.m. for associated office space. Rents for secondary industrial units have also risen.

The present lack of supply of modern industrial property urgently needs to be resolved. However this situation can only change when sites released for industrial use receive the necessary infrastructure and services to make them capable of development.

The industrial property market in **Dundee** is enjoying increasing levels of activity. Occupier requirements are at a peak not seen for many years, most notably in the trade counter sector.

Speculative private sector developers are now willing to invest in the Dundee industrial market. At Dunsinane Industrial Estate, SCOT Sheridan has completed its £3.9 million, 3,945 sq.m. light industrial development. Kingsway Park, the re-developed former Holokrome Factory, provides 9,290 sq.m. of modern industrial / business space units, which is now approximately one-third let. Tenants include Thrifty Car Rental, Danaher Tool Group and Thorntons Solicitors LLP. A further 929 sq.m. is under offer.

The market for small to medium-sized industrial accommodation continues to be relatively strong. Rents range from £21-£32 per sq.m. for older/second-hand accommodation up to £54 per sq.m. for new industrial space.

Industrial transactions in **Inverness** continue to be fuelled by the restricted amount of space currently available on the market, against a backdrop of healthy occupier demand, particularly again from trade counter occupiers.

The largest transaction this year in Inverness has been the letting of a refurbished warehouse at 17 Seafield Road, Inverness (3,530 sq.m.) at £62 per sq.m. to Brake Bros.

Due to a lack of readily available space, recent deals evidence is limited, but good quality, modern industrial units of up to 929 sq.m. typically achieve rentals in the range of £64-£75 per sq.m. Trade counters in the best positions within the Longman Estate are able to exceed this upper rental level.

#### Recent transactions in Scotland include:

Address	Size	Occupier
Eurocentral	1,858 sq.m.	Warburtons
Righead Point, Bellshill	1,562 sq.m.	Moores Furniture Group
Glentanner Road, Balmore Industrial Estate, Glasgow	1,340 sq.m.	Perfect Timber Ltd
100 Penilee, Hillington	10,219 sq.m.	Gordon Leslie Distribution
Todd Square, Houstoun Industrial Estate, Livingston	3,995 sq.m.	SCS Upholstery
Bankhead Workspace, Sighthill Industrial Estate, Edinburgh	570 sq.m.	Napier University
Unit 2B, Pitreavie Business Park, Dunfermline	481 sq.m.	D & G Autocare
Unit 9, Newhailes Industrial Estate, Musselburgh	704 sq.m.	Willow & Co Greetings
Hareness Road, Altens, Aberdeen	1,950 sq.m. + yard	Marla Tube Fittings Ltd
Broadfold Road, Bridge of Don, Aberdeen	1,308 sq.m. + yard	BIS Salamis
Hareness Road, Altens, Aberdeen	1,694 sq.m. + yard	Phoenix Beattie
17 Seafield Road, Inverness	5,530 sq.m.	Brake Bros

# Retail

# Property

**The retail sector in Scotland continues to trade well, but faces a number of short term market challenges, including price discounting, and new shopping centres commencing trading.**

The consumer economy remains strong. Like-for-like retail sales in Scotland were 3.3% higher in September 2007 than 12 months earlier. This is ahead of the UK growth figure of 3.0% (SRC/RBS).

The main driver for rising expenditure is the more aggressive and prolonged promotion campaigns adopted by many retailers, as stores attempted to clear unsold summer ranges. Retailers, however, are still concerned that shoppers may yet react adversely to recent interest rate rises and future constraints on credit.

Despite these uncertain trading conditions, not all retailers are curtailing their expansion programmes. Retailers on the acquisition trail include Specsavers and Superdrug. Value retailers such as Primark and Peacocks remain hungry for more space. Supermarkets continue to be as strong as ever, with all the main operators including discounters Aldi and Lidl aggressively seeking new sites/stores.

Following recent lettings to Hutchison 3G and Apple on **Glasgow's** Buchanan Street, All Saints has taken occupation of 83/85 Buchanan Street at £249 per sq.ft. Zone A. This is All Saints' second store in Glasgow, complementing a unit taken on Ingram Street last year.

In addition, Mappin & Webb is to open a flagship store at 28 Buchanan Street, relocating from its existing unit at 59 Buchanan Street. The new store will trade over ground (136 sq.m.) and first floors (164 sq.m.).

Work has commenced on the £100 million redevelopment of the existing St Enoch

Centre. Key changes will be a new entrance at the junction of Buchanan Street and Argyle Street, an extensive upgrade of St Enoch Square and a refurbishment of the existing mall area. On completion at the end of 2009, the centre will provide in excess of 92,900 sq.m. of floorspace.

As reported previously, the Buchanan Partnership has submitted an outline planning application to more than double the Buchanan Galleries shopping centre to 120,700 sq.m. Works are planned to start in Autumn 2008 with completion Spring 2011. As part of the improvements, the former Open unit will be reconfigured to provide two units comprising 2,322 sq.m. over two floors.

Newcomers to Glasgow include Dwell (929 sq.m.) in Princes Square; and Mulberry (111 sq.m.) and Agent Provocateur (70 sq.m.) on Ingram Street.

Retail Property Holdings' 93,000 sq.m. Silverburn Centre in **Pollok** has opened. The scheme's anchor tenants are Debenhams, Marks & Spencer and Next, with New Look, H&M, River Island and Boots also signed up. A number of units are still in solicitor's hands and developers are hopeful that the scheme will soon be fully let.

London and Regional's Antonine Centre in **Cumbernauld** opened Summer 2007. The scheme extends to 32,515 sq.m. and includes a flagship 4,000 sq.m. Dunnes Stores as well as Next, TK Maxx, Woolworths, River Island, Dorothy Perkins, Henderson the Jewellers, Thorntons and Hutchison 3G.

British Land plc has unveiled plans for a £25 million expansion to **Glasgow Fort**. The proposed scheme includes an increase in retail space from 37,200 sq.m. to 53,500 sq.m., a new Marks & Spencer

store complete with food hall, additional car parking and improved public transport links. HobbyCraft is opening a first Scottish store (1,485 sq.m.) here in November 2007.

In **Edinburgh**, a new shopping street is planned in the Haymarket area, running from Morrison Street to Dalry Road. The project is part of a £200 million mixed-use regeneration by Tiger Developments. Work is expected to commence on site in summer 2008, with completion by 2012.

Transactions in Edinburgh city centre include ladies' clothing retailer Elvi taking space on Frederick Street (143 sq.m.), and All Saints (279 sq.m.) and Just Pink (33 sq.m.) taking units on Princes Street. Recent letting announcements at Multrees Walk, off St Andrew Square, include Kurt Geiger, Bravissimo, Oscar and Fitch, and Firetrap.

In **Aberdeen**, Cruise and Hugo Boss will take joint units on Union Street totalling 728 sq.m. Also on Union Street at no. 57, G-Star has taken a unit of 734 sq.m.

Next has secured a 5,015 sq.m. store at the Bon Accord Quarter development; the two-level store will open in early 2009. At the same development, New Look has upsized from a 365 sq.m. to a 2,510 sq.m. store. Construction of the 50,000 sq.m. Union Square is underway by Hammerson, with completion forecast for Autumn 2009.

In **Livingston**, Land Securities' new £130 million "Elements" extension will provide an additional 35,000 sq.m. and is scheduled to open for trade in October 2008. Anchor tenants have been confirmed as Debenhams and Marks & Spencer (8,361 sq.m. each) with the remainder of the extension comprising 32 retail units, 5 restaurants and 2,229 sq.m. of leisure space.



Work has commenced on the new £50 million Phase 2 of the Kingsgate Shopping Centre, **Dunfermline**. The 16,260 sq.m. extension, which includes a 711 space multi-storey car park, is due for completion in August 2008 and will be anchored by a 7,430 sq.m. Debenhams store. Terms have been agreed with New Look and JJB Sports and there is strong interest in the remainder of the space. In the existing centre, The Perfume Shop (52 sq.m.) and 3 Store (154 sq.m.) have acquired space.

Work is due to begin at Wharfside Regeneration's redevelopment of **Perth** City Hall, in the town centre. On completion it will comprise 12 units, plus cafe and restaurant facilities.

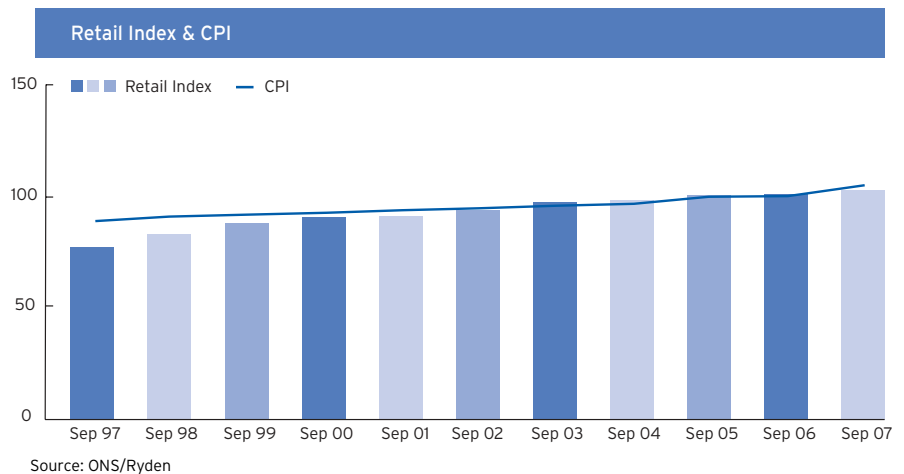
The only changes to the Ryden Retail Rent Index are Braehead's rise from £192 to £200 per sq.ft. Zone A (net), and Perth's rise from £72 to £77.50 per sq.ft. Zone A. As a consequence the overall index has risen by a marginal 0.5% since April 2007.

#### Retail Rent Index

Location	Zone A rate per sq.ft.
Aberdeen	170
Airdrie	42
Ayr	88
Braehead	200 *
Clydebank	75
Coatbridge	43
Cumbernauld	55
Dumfries	58
Dundee	110
Dunfermline	78
East Kilbride	130
Edinburgh	220
Edinburgh (Gyle)	175
Elgin	40
Falkirk	88

Location	Zone A rate per sq.ft.
Galashiels	32
Glasgow	255
Glenrothes	57.50
Greenock	77.50
Hamilton	84
Inverness	115
Irvine	76
Kilmarnock	60
Kirkcaldy	55
Livingston	107
Motherwell	48
Paisley	72
Perth	77.50
Stirling	115
St Andrews	55

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 prime pitch.
  3. 30ft. Zone A.
  4. Top thirty centres only.
- \*Represents 80% of OMV with turnover provisions



# Investment Market

**The much anticipated slow down in the property investment market has occurred, albeit it rather suddenly. A number of factors have combined to bring to an end the recent bull market and reduce the weight of money in the market seeking suitable property investments.**

On the back of sentiment that the market had overshot, cash positions within retail funds turned from overweight to neutral, and in some instances negative, as redemptions occurred. This, allied to the rising cost of short to medium term money and the subsequent credit crunch, has brought uncertainty to the market.

As a result, the volume of transactional activity has slowed. Although it is difficult to confirm exactly where pricing is, investment property values have decreased, probably by some 5% to 10% from their peak.

There are however signs of renewed activity as opportunistic property companies and well funded private/syndicated investors emerge in certain sectors to take advantage of positive rental growth prospects, less competition and more sensible pricing.

The IPD UK Monthly index to end August 2007 recorded total returns for all property over the previous 12 months at 9.9%. Capital growth accounted for 4.8% and rental value growth represented 4%. Over the period property out-performed bonds (0.9%) and under-performed equities (11.8%).

The office sector again recorded the best sectoral performance with total returns of 16%. This performance compares favourably to the retail sector's total returns of 6.7% and the industrial sector's 9%.

## Recent office deals

Address	Property	Purchaser (initial yield)
51 West George Street, Glasgow	4,664 sq.m. office building, let to Clydesdale Bank on 20-year FRI lease	Private investor - in the region of £13.26 million (c. 4.9%)
Aurora, Bothwell Street, Glasgow	16,151 sq.m. multi-let Grade A office building. Tenants include Burness Solicitors, Barclays Bank and BNP Paribas	Credit Suisse - purchase price confidential - property marketed at offers over £94 million (4.75%)
Hamilton House, Hamilton Business Park	1,719 sq.m. multi-let business park office building. Tenants include Scottish Ministers and SCRA	Canyon Investments for £4.25 million (5.96%)
525 Ferry Road, Edinburgh	10,140 sq.m. let to State Street Bank until 2018, with a TBO in 2013	Overseas investor for £36 million (5.97%)
Buchanan House, St Andrew Square, Edinburgh	2,445 sq.m. let to IBM until 2009	Golden Squares for £8.87 million (5.5%)
Consort House, Stell Road, Aberdeen	7,000 sq.m. new single-let office building	Private investor for £23.5 million (5.3%)
Duncan House, Westhill, Aberdeen	5,575 sq.m. modern single-let office building	Park Lane Estates for £11.5 million (6%)
Excel Centre, Bridge of Don, Aberdeen	5,880 sq.m. modern multi-let office building	AWG Property for £11.39 million (6.95%)

## Office

Although a number of high profile transactions have taken place, demand remains selective, with the institutional market essentially dormant. The current level of prime yields is difficult to gauge. Recent deals at initial yields of less than 5% appear to contradict the otherwise negative market perception of the office sector.

Activity in the occupational markets continues to underpin developer confidence, with competition intense for new schemes, albeit the potential exit route provided by speculative funding has effectively disappeared.

This, combined with rising build costs and upward pressure on yields, may impact upon the viability of schemes which are compromised by location or configuration.

In the business park sector, investor demand is selective, with the underlying fundamentals of location, building quality and crucially, competition, dictating investment saleability.



## Industrial

Demand for industrial investments has weakened during the review period throughout Scotland, similar to the rest of the UK. Many funds and private investors have retracted from the uncertain market.

There have been fewer transactions to analyse during the review period, although it is estimated that prime yields for well-let, rack rented stock are now in the order of 6.25%.

Despite the slowdown in the market, active trading property companies still seek new opportunities and in many cases are prepared to deficit finance if the prospects for rental enhancement through lettings and reviews are good.

Multi-let industrial estates and industrial buildings with roadside frontage remain specific targets.

There is less demand for single-let industrial investments suited to more passive investors, although as occupational demand is strong and driving rents upwards in certain areas, some assets will prove to be excellent long term holds.

## Recent industrial deals

Address	Property	Purchaser (initial yield)
Farmecastle Industrial Estate, Rutherglen	6,140 sq.m. multi-let industrial estate and 0.7 hectare development site. Tenants BSS Group and Hilti (GB) Ltd	Ashfield Land for £6.15 million (c. 5%)
Cowlairs Industrial Estate, Glasgow	10,946 sq.m. multi-let industrial estate. Tenants include Baird Clothing and Auld Valves Ltd	Buccleuch Properties £4.45 million (7.3%)
Unit 3, Site 15, Gateway Glasgow, Cambuslang	4,510 sq.m. distribution unit. Forward commitment let to Royal Mail Group	Private Irish syndicate £4.5 million (5.61%)
Starlaw Park, Livingston	12,540 sq.m. industrial estate. Tenants include Macrae Edinburgh	Antler Property Investments for c. £10 million (6.5%)
Units 1-6, Howe Moss Drive, Kirkhill, Aberdeen	1,300 sq.m. comprising six terraced units let to a single company	Gilcomston Investments for £1.273 million (7.49%).
Riverside Business Centre, North Esplanade West, Aberdeen	1,713 sq.m. comprising multi-let industrial units and office suites	Miller Cromdale for £2.54 million (6.21%).
Minto Drive, Altens, Aberdeen	4,589 sq.m. single-let office and industrial facility	Ventnor for £5.435 million (6.75%)
Hareness Circle, Altens, Aberdeen	2,320 sq.m. comprising five terraced units	Kilmartin Property Group for £1.872 million (6.25%)
Oakbank Industrial Estate, Livingston	Multi-let estate to seven tenants with varying lease lengths	Private Irish investor for £4.3 million (6.79%)

## Retail

High Street transactions have been relatively scarce in recent months. At the prime end of the market, the virtual absence of institutional investors has prompted potential sellers to postpone marketing. At the secondary end of the market, the rise in yields has been more pronounced and has deterred all but the most determined sellers.

Shopping centres have, after a repositioning of yields, started to become attractive once more and a number of substantial centres are in the process of changing hands. It is anticipated that the retail park sector will undergo a similar process.

## Market Prospects

Underlying supply and demand in the markets, assuming no serious deterioration in the economy, is stable. However, investment pricing is in flux.

It is anticipated that there will be a further correction in pricing across certain sectors of the market, leading to lower values. However, for reasons of supply, demand and cost push factors such as rising build costs, the rental growth story within certain sectors highlighted in this Review is compelling, and will now play a much more meaningful part in investment performance.

With short to medium term debt becoming cheaper, and signs that liquidity is improving, the investment property market is expected to become more active again, although early signs are that the institutions will continue to sit on their hands until first quarter 2008.

## Recent retail deals

Address	Property	Purchaser (initial yield)
11-13 Gordon Street, Glasgow	504 sq.m. retail unit let to Thomas Cook Retail Ltd on FRI lease expiring Oct 2018. Rent review Oct 2008.	Canada Life for £5.65 million (4.18%)
Birkenshaw Trading Estate, Uddingston	2,091 sq.m. retail warehouse unit let to Currys on FRI lease with 16 years unexpired. Fixed uplift within lease	Danish syndicate for £6.1 million (4.72%)
78-80 Buchanan Street, Glasgow	2,976 sq.m. multi-let retail block with upper floor offices. Tenants include Vodafone, Starbucks and Gant	Private investor for £24.3 million (4.25%)
135-136 Princes Street and 2 South Charlotte Street, Edinburgh	Ground floor retail unit let to O2 until 2013 and Alliance and Leicester until 2019. Upper floor offices let to Burness LLP until 2012	Private Irish investor for £12.8 million (4.8%)
Omni Centre, Edinburgh	Multi-let leisure development, in excess of 20,000 sq.m.	Morley Fund Management and Norwich Property Trust for in excess of £100 million (5%)
Mastrick Shopping Centre, Aberdeen	21 unit neighbourhood shopping centre	Private investor for £5.05 million (6%)

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