

Ryden



77th
Scottish
Property
Review

OCT/15



Economic growth in Scotland was marginal in Q2 2015. Underlying economic activity is finely balanced and unemployment has increased. The slowdown was unexpected as surveys had suggested that economic expansion had been sustained.

The country's property markets clearly believe that this is a temporary dip. The markets continue their cyclical upturn. Activity is however highly concentrated in prime locations, mainly Glasgow and Edinburgh. The ripple of growth to other locations is not yet evident and some sectors, particularly those related to the oil industry, continue to suffer from weak markets.

The investment markets are responding to inflows of funds to prime sector-regions where the market balance is positive. Even for less well-positioned assets, opportunistic investment interest can be identified.

A rapid return to normal economic performance is required in late 2015 and early 2016 to avoid any harm to this nascent property market recovery.

DR MARK ROBERTSON, PARTNER

Economy

The Scottish economy weakened during the first half of 2015. Growth fell to marginal levels, underlying economic activity became very finely balanced and unemployment increased. A “charting” approach might see a cyclical downturn emerging; a more considered approach would recognise that factors such as the downturn in the North Sea oil industry – which affects regional economies beyond Aberdeen – and slowing global growth may have converged during the first half of the year.

Gross Domestic Product (GDP) in Scotland grew by a marginal 0.1% in the second quarter of 2015. This was driven by quarterly growth in the construction sector (3.5%), however output in the dominant services sector was static, while output contracted in the production sector (-0.8%). On an annual basis, Scottish GDP grew by 1.9%.

The most recent Bank of Scotland Purchasing Managers Index (September 2015 PMI = 49) reports a fall in both manufacturing and service sectors, confirming this downturn in economic activity, although the index is only marginally below a stable reading.

The Scottish unemployment rate for the three months June to August 2015 rose to 6.1%, a rise of 0.7 percentage points over four quarters, to sit above the UK rate of 5.4%. The Scottish claimant count however was 2.9% for September 2015, which is down by 0.4 percentage points over 12 months.

The Committee of Scottish Clearing Bankers confirms that the number of new business accounts opened during the first half of 2015 totalled 6,191; this is down by 5% from the same period of 2014. The largest share of new businesses (28%) was in the real estate, renting and other business sector.

The Insolvency Service reports a total of 224 company insolvencies in Scotland in the second quarter of 2015. This is down by 18% on the same period of 2014, but is similar in number to the 221 company insolvencies recorded in the first quarter of 2015.

The retail sector presents a mixed picture. According to the Scottish Government's Retail Sales Index for Scotland, sales grew by 0.8% during the second quarter of 2015, and by 2.4% on an annual basis. This is a positive trend for the retail sector as real wages are now rising, but is significantly below the 4.4% retail sales growth recorded in Great Britain over the same 12 month period. More recent data from another source indicates that total retail sales in Scotland were 1.3% lower over the 12 months to September 2015 (Scottish Retail Consortium/KPMG).

According to the Department of Energy and Climate Change, indigenous production of crude oil was 14.8% higher in the second quarter of 2015 compared with the same period in 2014. This may indicate a degree of stabilisation within the industry, which has been challenged by low oil prices, leading to cost-cutting and job losses.

The Consensus Forecast for UK Economic Growth published by HM Treasury in October 2015 predicts 2.5% growth in 2015, followed by 2.3% in 2016. The EY ITEM Club's summer forecast predicts UK growth of 2.7% for 2015 and 2016. The International Monetary Fund's forecast for the UK in 2015 is 2.5%.

For Scotland, Fraser of Allander Institute's central forecast – published in June 2015 – is for growth of 2.5% in 2015 and 2.3% in 2016 and 2017. EY Scottish ITEM Club's summer forecast raised its growth forecast by 0.2% to 2.2% for the Scottish economy in 2015. These forecasts pre-date and may be challenged by the particularly weak Q2 output growth.

Job gains:

Defence and security contractor Lockheed Martin plans to create more than **300 positions** over the next two years at its new offices at Skypark in Glasgow.

ScotRail operator Abellio plans to recruit around **100 new train drivers** across Scotland, with driver roles being created in Aberdeen, Ayr, Bathgate, Edinburgh, Glasgow, Gourrock, Helensburgh, Inverness, Perth, Stirling and Tweedbank.

Business services firm HGS Europe is to create **200 new front and back office roles** at its call centre in Selkirk, as part of a wider **500 new jobs** announcement.

Contact centre operator Parseq plans to add a further **250 full and part-time positions** at its new base in Pacific Quay, Glasgow.

Financial services support firm International Financial Data Services (IFDS) is to add **100 new positions** at its office in Craigforth, Stirling.

Global enterprise solutions business Genpact is opening a new 'centre of excellence' in Glasgow and will employ around **140 wealth management professionals**.

Spire Global plans to create more than **50 new jobs** establishing a nano-satellite design facility at Skypark in Glasgow.

Call centre firm Ascensos intends to double its workforce in Motherwell by creating an additional **200 new jobs**.

Discount gym operator PureGym is opening three new outlets across Scotland (Charing Cross and Shawlands in Glasgow and in Motherwell) creating **60 new jobs**.

Job losses:

Gore-Tex fabrics maker W.L. Gore & Associates announced plans to cut **120 jobs** at its fabric manufacturing plant in Livingston.

Energy firm Hydrasun is consulting on around **97 job losses** within its Aberdeen headquarters.

Technip UK is consulting with its subsea workforce over up to **80 job losses** at its Westhill base on the outskirts of Aberdeen.

Young's Seafood is to cut **650 jobs in 2016: up to 200 jobs will be lost** at its plants in Fraserburgh and Grantown-on-Spey in January, followed by **450 others later in the year**.

Papermakers Tullis Russell went into administration with the **loss of 325 jobs** at its plant in Markinch.

Local Authorities confirming probable job losses include City of Edinburgh Council (**2,000**), North Lanarkshire Council (**1,095**), and Argyll and Bute Council (**400**).

Steel firm Tata confirmed it is to close its two plants in Scotland with the **loss of 270 jobs; 225 jobs will be lost** at the Dalzell plate rolling works in Motherwell and **45 posts** at the Clydebridge plant in Cambuslang.

Planning

Planning Reforms

In early September Scotland's First Minister announced a further review of the Planning System. This comes ten years after the White Paper on *Modernising the Planning System*, which resulted in the changes introduced in the *Planning etc (Scotland) Act 2006*.

The focus of the First Minister's announcement was on increasing the delivery of high quality housing developments. That has since been widened by the Social Justice Secretary's setting up of an independent panel to carry out a "game changing review of Scotland's planning system". It will look at six key issues;

- Development Planning
- Housing Delivery
- Planning for Infrastructure
- Further Improvements to Development Management
- Leadership, Resourcing and Skills; and
- Community Engagement

Whether this is an acknowledgement that the previous reforms have not worked is neither here nor there, and the review should be welcomed by the development industry.

The provision of infrastructure is essential to the delivery of development. Ryden's recent research report into *Planning for Infrastructure* undertaken for the Scottish Government contained 35 recommendations, many of which will provide essential input to the review process. The key to swifter conclusion of Section 75 Agreements is better links between planning, infrastructure and delivery of development. Planning needs to take the lead role and the review provides an opportunity to facilitate this.

Whilst infrastructure is a major hurdle, it also takes far too long from a site first appearing in a Local Development Plan (LDP) to its delivery on the ground. The development planning and development management processes are inextricably linked and need to be looked at closely if delivery is to speed up. If a site has been identified

through the LDP process it will already have been the subject of robust public scrutiny, and may even have been considered at an Examination in Public. In those circumstances, so why subject it to yet further scrutiny at the planning application stage? The principle of development should be firmly established through the development plan and not re-opened for debate at the application stage.

Once a site is allocated in a LDP, developers should be able to move straight to an application for full planning permission, with any masterplan requirements being an integral part of that process rather than a pre-cursor to it. Significant time savings could be made simply by streamlining the development plan and development management processes. Further consideration must also be given to the conditions imposed on a planning permission and the likelihood that they will further delay the delivery of development.

In certain areas, once a site is identified in a LDP, there may be opportunities to include it as part of a simplified planning zone, in an effort to encourage development and speed up the delivery process. The necessary controls could be imposed through the use of Design Codes and Supplementary Guidance.

More fundamentally, is a two-tier Development Plan system necessary in some areas and not others? Often the information or statistics that the Strategic Development Plan is predicated upon is outdated by the time the requirements have filtered down and found their way into adopted LDP. Planning is a dynamic process and the system needs to be flexible and responsive enough to deal with upturns, or indeed downturns in the economy. All too often LDPs come up with the required land supply only after demand has peaked.

Improvements to the planning system will inevitably require additional resources, particularly if Officers are to be given the added responsibility to ensure infrastructure, and consequently development, is delivered on time.

Offices

Office markets in Scotland's cities diverged during 2015. Edinburgh is enjoying a period of strong take-up which is rapidly eroding Grade A office supply. Glasgow has experienced a temporary dip in lettings. Aberdeen's market is weakened by the low oil price. Dundee's active small office sector is now extending into the market for medium-sized offices.

Glasgow enjoyed a very active run of larger deals during Q4 2014 and Q1 2015. This has been followed by a lull in major letting completions over the last six months. Larger activity was limited to Teleperformance taking 2,557 sq.m. at Cuprum, Argyle Street, along with smaller but notable lettings at: new-build 1 West Regent Street where Arup has taken 1,264 sq.m.; 141 Bothwell Street where Genpact secured 1,184 sq.m. and 2 West Regent Street where the rapidly expanding fantasy sports company FanDuel opened a Glasgow office (785 sq.m.). Further lettings are understood to be close to completion in the new schemes at 110 Queen Street and 1 West Regent Street and Abstract Securities is reporting strong interest in floors at St. Vincent Plaza.

The summer slowdown on the timing of completions has resulted in a rather exaggerated reduction in total take-up of c.50% to 28,648 sq.m. for Q2 and Q3 2015 compared to the previous six month period. Of this take-up, 15,576 sq.m. was in the city centre. Combined with the previous six month period, this nevertheless produces a strong 12 month take-up of 88,280 sq.m.

A significant number of live requirements are expected to take Grade A and higher quality refurbished accommodation during Q4 2015 and Q1 2016. This is expected to boost take-up going forward and show that the most recent period has been a temporary phase. This occupier momentum will further reduce the choice for those companies seeking high quality large floors. There are only five new or refurbished city centre buildings capable of providing floors over 1,394 sq.m. and only the refurbished space at Tay House, 300 Bath Street can offer floors over 1,858 sq.m.

Glasgow continues to need new development to replace older existing stock and to compete with other UK cities to attract inward investment. The healthy undercurrent of existing and anticipated demand set against reducing new supply sets the scene for the next cycle of speculative development. A limited number of schemes are in a position to trigger development, with completions now likely to be in 2018. BAM Properties, jointly with Taylor Clark Properties, has secured planning permission for a new development at Atlantic Square which will include

25,000 sq.m. of Grade A offices; Titan Investors has secured planning permission for New Exchange, Cadogan Street (8,826 sq.m.) and is expected to receive planning permission for its Broadway Two scheme on Renfield Street (16,723 sq.m.). Other developers are also reviewing options for new build and major refurbishment opportunities.

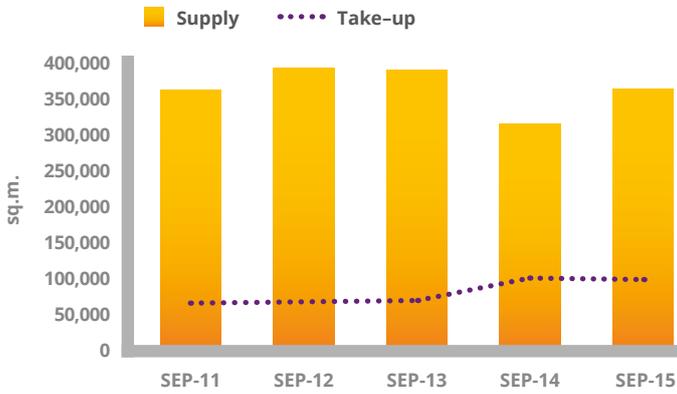
Meantime, the quality of space available to smaller and medium sized indigenous companies and professional firms, typically seeking floors 400-800 sq.m., is improving. The active refurbishment of buildings such as Aviva's The Beacon, St Vincent Street (3,039 sq.m.), EPIC UK's 9 George Square (4,317 sq.m.), Whiteburn's 100 West George Street (2,408 sq.m.), Cornerstone's 220 St Vincent Street (1,410 sq.m.) and Esson Properties' 100 Queen Street (4,831 sq.m.) are adding to supply and market choice in this important sub-sector for the city.

There has been relatively limited addition to existing supply over the last six months. This allied to the temporary slowdown in take-up means that total supply rose by 5% to 352,811 sq.m., with a 4% increase in the city centre at 223,918 sq.m. and periphery up 7% to 128,893 sq.m.

On the periphery, there has been an encouraging flurry of activity across a range of properties. Parseq has taken space at One Central Quay (1,287 sq.m.); WebHelp expanded at Citypark (additional 839 sq.m.) and The University of Glasgow at The Olympic Building, Bridgeton (702 sq.m.). Skypark has secured lettings of refurbished space in Skypark 5 to Spire Global UK Limited (591 sq.m.) and Everis Consulting Limited (436 sq.m.), along with lettings in Skypark 1 and 3 and small suites within The Skyhub. Morrison Construction (652 sq.m.) and Enchanted Forest Nursery (345 sq.m.) have taken space at Rowan House and Orion House respectively at Nova Business Park; Compliance First (307 sq.m.) and Children 1st (301 sq.m.) at Academy Office Park; three lettings have completed at The Hub, Pacific Quay; five lettings at The Whisky Bond; Fairfield, Govan has secured lettings to Brookfield (390 sq.m.) and Algiz (100 sq.m.); a further five new tenants have taken space at Inovo Building, George Street; and Clyde Gateway secured MadeBrave (292 sq.m.) as the first tenant at The Albus, Bridgeton, as well as six

new lettings at their Red Tree Business Centres in Bridgeton and Rutherglen. Clyde Gateway is also reporting good interest in the recently completed 3,166 sq.m. new office building, One Rutherglen Links, at Farmeloa Road in Rutherglen.

Glasgow office supply and take-up



The out-of-town market has been relatively slow over this period. Northern Marine Group bought a building of 1,306 sq.m. at South Avenue, Clydebank; AMCO leased 719 sq.m. at Antonine House, Broadwood Business Park, Cumbernauld; Maxim Office Park has let 433 sq.m. to Digital Health & Care Institute (DHI) along with further lettings within their small business suites in Maxim 3 to Proact UK (260 sq.m.), Allied Glass (194 sq.m.) and Arran Aromatics (193 sq.m.). There were also further small suite lettings at Willow House, Strathclyde Business Park and Coatbridge Business Centre.

There continues to be strong demand within Glasgow city centre for the best office space and it is anticipated that a number of active enquiries will proceed to take space over the coming months. With no new development starts announced as yet for the next cycle, it will be 2018 before new build schemes complete. The majority of indigenous occupiers will require to consider the balance of space remaining in the existing new builds or the range of refurbished space that is being brought to the market to fill the gap.

Prime headline rents have increased to £306-£317 per sq.m. allied to a tightening of incentives, with potential for rents to breach £323 per sq.m. over the coming months.

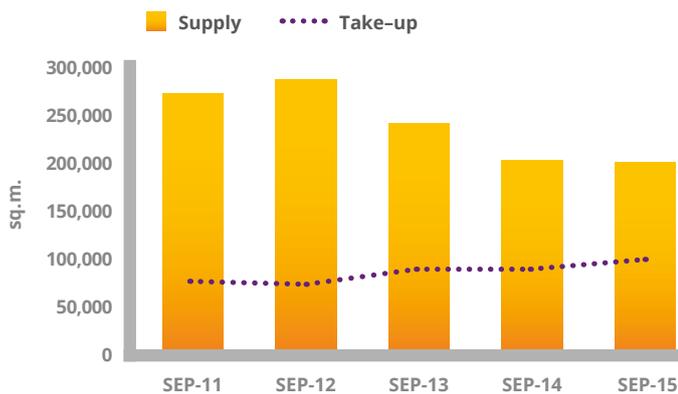
High quality refurbished space may benefit; the rental range is wide at £247-£269 per sq.m. with potential to increase as the market continues to improve.

Edinburgh's office market achieved 42,040 sq.m. of take-up during the six months to October 2015. This represents a 14% decrease in activity from the previous six month period. However that was a high point for the market and total take-up for the 12 months to October 2015 is 91,103 sq.m., which is the highest recorded figure since 2004. City centre take-up was 33,000 sq.m. across 79 deals and representing 78% of total take-up, down 18% from the previous six month period. Grade A and good quality refurbished accommodation accounted for 15,852 sq.m. or 48% of city centre office take-up. West Edinburgh saw a total of 1,926 sq.m. transacted across five deals, a 13% decrease in activity from the previous six month period.

Larger office deals in Glasgow over the last six months include:

Address	Size	Occupier
Cuprum, Argyle Street	2,557 sq.m.	Teleperformance
One Central Quay	1,287 sq.m.	Parseq
1 West Regent Street	1,264 sq.m.	Arup
141 Bothwell Street	1,184 sq.m.	Genpact
Spectrum Building, 55 Blythswood Street	877 sq.m.	Arthur J Gallagher UK Ltd
Centura Court, Hillington	857 sq.m.	FEP Heatcare
City Park, Alexandra Parade	839 sq.m.	WebHelp UK

Edinburgh office supply and take-up



City centre take-up was led by notable lettings including: FreeAgent at Edinburgh Quay One (1,034 sq.m.); The Law Society of Scotland at Atria One (1,772 sq.m.); Whitespace at Norloch House, King Stables Road (1,208 sq.m.); Harper Macleod LLP at Citipoint, Haymarket Terrace (748 sq.m.) and Capita Business Services at 145 Morrison Street (2,499 sq.m.). Pre-letting activity has also returned to the market as competition to secure the best space increases, with FanDuel signing a pre-let for 5,441 sq.m. at Quatermile 4, the most significant office transaction across the period.

Other notable office deals across the city centre include: Brocade Communications at Caledonian Exchange, Canning Street (595 sq.m.); Hays Plc (650 sq.m.) and Environ UK (410 sq.m.) at 7 Castle Street; The Scotch Whisky Association at Quatermile 2 (614 sq.m.); and Codeplay at Argyle House, Lady Lawson Street (642 sq.m.).

City centre activity also includes sales of office buildings for alternative uses such as residential. Notable examples include: 41-44 Drumsheugh Gardens (2,530 sq.m.) and 15-19 York Place (702 sq.m.) to Square and Crescent;

12-18 Torphichen Street (570 sq.m.) to Stoneacre Properties; and 25-27 Drumsheugh Gardens (1,753 sq.m.) to Sundial Properties.

The most notable transaction recorded in West Edinburgh was the letting to Blyth + Blyth of 1,096 sq.m. at The Cornerstone, South Gyle Business Park. This market is expected to improve significantly over the next six month period with a number of buildings reporting space presently under offer, including HSBC at 6 Lochside Avenue (c.3,716 sq.m.). An upturn had been anticipated in West Edinburgh due to the availability of cost-effective modern office space and the launch of the tram service in 2014, and it now appears that this is underway.

In North Edinburgh, notable transactions include: Duthus Investments taking 395 sq.m. at Commercial Quay and LEWIS Creative Consultants taking 363 sq.m. at 1 Rennie's Isle. A number of buildings are reporting increased activity levels with space under offer which will translate into take-up in Q4 2015. This is a result of decreasing supply of open plan accommodation in the city centre and is evidence of the ripple effect across Edinburgh's compact urban area which was anticipated in our last Review.

Total office supply across Edinburgh at April 2015 is 194,846 sq.m., a decrease of 7% from the previous six months' recorded figure.

Prime office rents in central Edinburgh remain around £300 per sq.m., although pre-letting activity is occurring at rents above this level. Incentives remain around 18-20-month's rent free for a 10-year lease commitment to a high quality covenant, although this is inevitably coming under further downward pressure. No significant rental growth has been demonstrated yet other than for the aforementioned pre-lets, but with incentives reducing further the prospects for real rental growth are improving.

Larger office deals in Edinburgh over the last six months include:

Address	Size	Occupier
Quatermile 4	5,441 sq.m.	FanDuel
145 Morrison Street	2,499 sq.m.	Capita Business Services
Atria One	1,772 sq.m.	The Law Society of Scotland
Norloch House, Kings Stables Road	1,208 sq.m.	Whitespace
Edinburgh Quay One	1,034 sq.m.	FreeAgent
The Cornerstone, South Gyle Business Park	1,096 sq.m.	Blyth + Blyth

The lack of immediate Grade A supply in Edinburgh city centre is evident and this will undoubtedly lead to further pre-letting activity. There are a number of larger requirements circulating across the city, which will take out the remaining space at Atria and other new buildings. Ernst & Young is rumoured to have settled with The Haymarket development for their 3,716 sq.m. requirement; Phase 1 of this Tiger Developments/ Interserve mixed-use development will include 8,361 sq.m. of Grade A office accommodation. It is understood the first phase will be ready during late 2017/early 2018.

M&G Real Estate is constructing 12,077 sq.m. of speculative Grade A office development at Quartermile 4 (completion Q2 2016) and has already announced the partial pre-letting to FanDuel. Further announcements are about to be made on the remaining floors and it is strongly rumoured that they are to be occupied by Cirrus Logic.

Standard Life Investments and Peveril Securities are pushing forward to completion with 6 St Andrews Square, which was pre-let to Standard Life Investments with completion due in 2016.

The next phase of the development cycle is gradually beginning to take shape. The Chris Stewart Group has secured planning for the Mint Building on West Register Street with an HQ office proposal (c.5,574 sq.m.) as part of the mixed-use development of the former HBOS offices on St Andrew Square. Hermes Investment Management and Parlison Properties secured planning consent for the 11,326 sq.m. Capital Square development, which could be ready Q2/3 2018. IVG has now commenced refurbishment of 40 Torphichen Street (5,050 sq.m.). Following the purchase of offices on Semple Street by GSS from Scottish Widows, the building will be demolished and c.4,645 sq.m. of Grade A offices will be provided. Other design and build opportunities include: Quartermile 3 (M&G); Freer Street at Fountainbridge (Interserve); and New Waverley (Artesian Real Estate Group).

The slump in the oil price continues to hit the **Aberdeen** office market as the oil and gas sector deploys austerity measures to counter difficult trading conditions.

At the time of writing, the price of Brent Crude Oil is trading at just under \$50 per barrel and has been fluctuating between low \$40s and low \$50s for the last six months. This low level of global pricing has caused many organisations in the sector to re-appraise their investment strategies for the North Sea region; subsequently resulting in decreased capital expenditure in light of lower revenues.

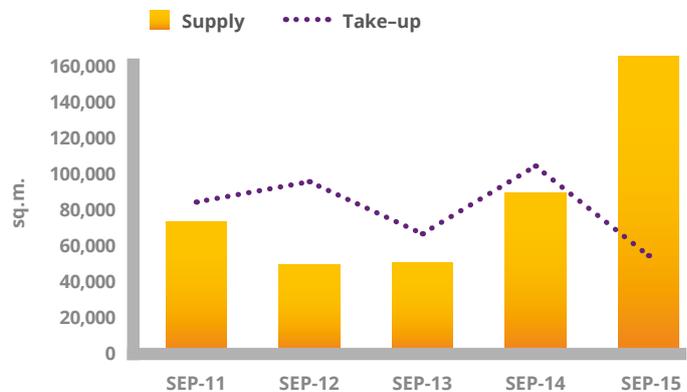
This continues to hurt the operation, production and supply chain in the oil and gas sector, meaning a decrease in the volume of white collar employees. Ultimately this has decreased the demand for office space required by the sector and consequently increased the supply as more offices are placed on the market.

In the last six months office supply has increased by 22% on the previous six months, which was already up 56% on the six months prior to that. Total supply is currently sitting at 162,860 sq.m. This has created an unprecedented and

polarised mix of supply in the market: poorer quality leased premises on the market which are deemed surplus to requirements or obsolete; and new speculative developments being completed following activity in the development pipeline.

City centre development remains on course to deliver three major new office projects; The Capitol by Knight Property Group (6,503 sq.m.) is due for completion in January/February 2016; Titan's Silver Fin (11,613 sq.m.) is due for completion Q2 2017; and work has now started on site for Muse's Marischal Square project (office content 16,258 sq.m.). Despite the increase in office supply, these three developments are widely regarded as good news for the city centre market which still has a lack of Grade A office space.

Aberdeen office supply and take-up



Across the city and periphery, Grade A supply accounts for only 36% of total supply. What this means is that there is an abundance of secondary stock that is unlikely to be fit-for-purpose going forward. This is confirmed by occupiers' drive to secure better quality accommodation, as take-up of Grade A space accounts for 77% of all office deals in Aberdeen during the last six months. Surplus, obsolete office stock in Aberdeen is therefore less of an office market challenge, and more of a regeneration opportunity for other market sectors.

Only 26,160 sq.m. of office space was taken up over the six months to October 2015, a decrease of 15% on the previous six month period, contributing to an annual decrease of 46%. However the number of transactions in the six months to October 2015 reduced by only three to 45 in total. This tends to bear out Ryden's previous analysis that it is the size rather than the number of office requirements which has declined.

Total take-up for the last six months was underpinned by four sizeable transactions: Lloyds Register (9,290 sq.m.) and Anderson Anderson & Brown LLP (4,180 sq.m.) at Prime Four, Kingswells; AMEC (3,995 sq.m.) at Annan House, North Dee Business Quarter; and Oil and Gas Authority (1,115 sq.m.) at AB1, Huntly Street. Aker Solutions is now occupying its new 31,590 sq.m. HQ premises in Dyce, a transaction which was recorded in previous take-up data.

Larger office deals in Aberdeen over the last six months include:

Address	Size	Occupier
Prime Four, Kingswells	9,290 sq.m.	Lloyds Register
Prime Four, Kingswells	4,180 sq.m.	Anderson Anderson & Brown LLP
Annan House, North Dee Business Quarter	3,995 sq.m.	AMEC
AB1, Huntly Street	1,115 sq.m.	Oil and Gas Authority

Take-up in the **Dundee** office market continues to be in the smaller serviced office sector. This has been demonstrated at District 10, the new modular office development constructed from recycled shipping containers, which is now 100% occupied.

City Quay has been the focus for regeneration through commercial and residential development in recent years. Demand for ownership opportunities remains strong here. In the last six months, Unit 17 (156 sq.m.), Unit 18 (154 sq.m.) and Unit 19 (66 sq.m.) have been sold and a further six units are currently under offer. Nearby at DundeeOne, River Court, Handelsbanken, continues its UK expansion after taking a suite of approximately 232 sq.m.

Larger requirements are more limited, however there are some tentative signs of an increase in occupier activity demonstrated by an increase in the number of office requirements larger than 464 sq.m. Game developers Kobojo Ltd and Tag Games have both relocated to modern office accommodation within the Vision Building (527 sq.m. and 352 sq.m. respectively) on new 10-year leases. Outwith the city centre, Robertson Construction has taken over the former headquarters office of the collapsed Muirfield Contracts at 1 George Buckman Drive (838 sq.m.).

Prime city office rents 2015 (£ per sq.m.):



Industrial

Continued industrial property market activity in Central Scotland and little new development has led to low vacancy and frustrated demand. Of that property available to the market, only a small percentage is truly prime. There is frustration on both sides of the market as developers juggle appraisals to justify new development at rents which are acceptable to occupiers. The low oil price has adversely affected demand not only in Aberdeen but in supply chain locations throughout Scotland.

The industrial market in the **West of Scotland** has become extremely active in Q3 2015, after a prolonged summer period when enquiry levels were unpredictable and generally lower than expectations. In particular, the market for space of less than 1,000 sq.m. was down on normal levels but is now pressing ahead. Over the year to date, there has been increased demand for smaller units with a number of estates fully occupied or approaching full occupancy. This smaller end of the market is extremely tight and occupiers will struggle to identify options in prime and good secondary locations. In such locations, landlords are now able to dictate terms; pressing for longer lease commitments at higher rents and with incentives reducing from levels earlier in the year. Landlords are also reluctant to allow leases to run on tacit relocation and it is becoming more common for notices to be served with the confidence that a new agreement will be reached or a replacement occupier found in early course.

The most interesting sector is from 1,400 sq.m. – 5,600 sq.m., where there is a dramatic shortage of available space with limited supplies of prime product. Across the Greater Glasgow market there are perhaps fewer than 15 quality buildings in this sector. A range of covenants are competing for the remaining space and as noted above, landlords are increasingly able to dictate terms leading to rental growth and longer lease commitments. An example of this new confidence is the recent letting of 40 Cambuslang Road, **Cambuslang** (2,590 sq.m.) where multiple parties were interested in the space and it was finally secured by Hydrasun on a straight 10-year lease at £67 per sq.m. for a building which is now 12 years old. New build remains a problem for both occupiers and developers. Occupiers would generally prefer existing space at current rental levels and a number of agent searches have been issued repeatedly after failing to identify suitable existing space in previous rounds. In some cases this had then led to the occupier initiating direct searches in the belief that the retained

agent must have missed something. However, the reality is that there are acute shortages and increased supply is needed in the form of new build space or through the less likely event of second hand space becoming available in an improving market.

Development remains limited, despite the very positive leasing story. Appraisals point to the need for a significant rise in rents to combat rising costs. For example, the required rent on a 2,000 sq.m. unit is above £80 per sq.m. This is due to increases in construction costs because of inflation on material prices and increased building standards plus fewer contracting businesses to carry out the work. This is placing pressure on site values but the land element is a relatively small part of the overall cost. Prime industrial land is now likely sitting at £0.43 million per hectare. More importantly there is an urgent need for a re-basing of industrial rental levels and an acceptance of longer leases by occupiers in order for a strong development market to return.

Lack of occupiable space is now restricting take-up and the vacancy level has plateaued not because of a lack of demand, but more that the available space is unsuited to current needs. There remain thousands of square metres of obsolete industrial buildings in the market but in spite of this the current vacancy rate is as low as c.8% for the Greater Glasgow area rising to c.12% with the inclusion of leasehold interests for sale. The true figure for modern, well located space of sizes in demand will be much lower; less than 5% of the available supply is graded by Ryden as prime.

Over the past 12 months 0.24 million sq.m. of industrial space has been taken up within the defined market, which is slightly below the 5-year average. Take-up figures for the final quarter of 2015 are expected to be higher, although as noted above, demand is being suppressed by lack of suitable supply, and a number of requirements remain active, which would have taken space had it existed.

Larger industrial deals in the West of Scotland over the last six months include:

Address	Size	Occupier
40 Cambuslang Road, Cambuslang	2,591 sq.m.	Hydrasun
2129 London Road	2,800 sq.m.	Voyage Decoration
75 Keppochhill Road, Glasgow	2,308 sq.m.	Lomond Foods
Zenith, Eurocentral	8,547 sq.m.	Amazon

Some developers are committed to a speculative build programme. C&W Assets is currently on site to construct a 2,024 sq.m. unit at Belgrave Point, **Bellshill**. A completion date is set for May 2016 and the quoting rent is likely to be above £80 per sq.m.

Fusion Assets is set to continue with its sixth investment and is again utilising the Scottish Government and European Union's SPRUCE fund taking the total invested so far to over £43 million. Strathclyde Business Park will be the next location where 15 smaller units are planned.

At **Hillington**, Patrizia AG and Oaktree are appraising projects with the aim of bringing new product to the thriving estate in 2016.

Shortages will remain even if all of these projects make it to site over the coming 12 months as development pipeline delivery is well below the 10-year average of c.50,000 sq.m. per annum for the Greater Glasgow market area, which includes the dampening effect of a recession.

The big box market has been disappointing. There have been relatively few transactions and the list of requirements is down on the same period last year. However, at **Eurocentral**, Amazon completed on the 8,500 sq.m. Zenith at a rent of £59 per sq.m. and the 5,200 sq.m. Atlas is under offer, leaving Vertex at 12,000 sq.m. as the only vacant building at Eurocentral. The Eurocentral Partnership is now investigating a new phase of development, mixing a number of mid-sized units with larger stock of up to 6,500 sq.m. The timing could be spot-on, as it is unlikely that requirements will remain low, particularly from the parcel delivery market which continues to expand and as Eurocentral remains the prime distribution location in the West of Scotland.

The distribution sector will be further stimulated by the M8, M73 and M74 motorway improvement project which is now well underway. The short-term disruption will hopefully lead to a further enhancement of this key area for industrial and distribution property.

In April 2015, a significant increase in take-up was reported alongside strong enquiry levels for all size sectors in **East Central Scotland**. This has resulted in a market which, in common with the West of Scotland, has little supply, but where the overall level of demand can only now be described as steady at best.

Due to the limited supply, incentives being offered to ingoing tenants are being reduced, but to counteract this, tenants are seeking longer leases in order to secure attractive terms.

In prime locations, mainly within **Edinburgh** and the surrounding area, rental levels are holding at between £75 – £81 per sq.m. for unit sizes of up to 1,393 sq.m. There are a number of landlords now seeking to improve upon this rent level due to the limited supply. For the best located trade and quasi-retail accommodation, higher rents of between £97 – £118 per sq.m. are achievable for small to medium sized units up to 700 sq.m.

In selected areas in East Central Scotland the reduced oil price has had an impact on the industrial market as the supply chain is affected. Areas such as Fife, West Lothian, Falkirk and Grangemouth have experienced a reduction in enquiries from this normally active business sector.

Speculative development is still scarce, but encouragingly the C & W Assets scheme at Inchwood Business Park, **Bathgate** is now close to being fully let at a rent of £70 per sq.m. The same company developed 2,440 sq.m. of speculative accommodation at West Edinburgh Business Park, South Gyle; 50% of the accommodation within Phase 1 is reported to be under offer and the quoting rent is £81 per sq.m.

In July 2015 the City of Edinburgh Council announced it would commence the speculative development of 16 small industrial units totalling 1,600 sq.m. on Cultins Road, **West Edinburgh** with completion expected Q4 2016.

A notable transaction also in West Edinburgh was the purchase by Peveril Securities of three business units (totalling 4,935 sq.m.) on a 2.4 hectare site, situated on Bankhead Crossway South, Sighthill Industrial Estate. The purchasers have consent for 7,430 sq.m. of additional new industrial space and will be named Seven Hills Business Park.

Adjacent to this site, Scot JCB Ltd purchased 6 Bankhead Drive, a site of 0.95 hectares for c.£1.2 million per hectare. The new owner will build new premises here for its own occupation and will relocate within the estate.

Larger industrial deals in the East of Scotland over the last six months include:

Address	Size	Occupier
20 West Shore Road, Edinburgh	4,686 sq.m.	Schlumberger Oilfield UK Ltd
Unit 3 Seafield Way, Edinburgh	2,107 sq.m.	Rexel Senate
Buko Business Centre, Southfield Industrial Estate, Glenrothes	1,209 sq.m.	Textile Care Supplies Ltd
Ainslie Street, Dundee	2,331 sq.m.	Gillies of Broughty Ferry

With investment demand for industrial accommodation remaining strong and rent levels now firmly established for medium sized accommodation between £75 and £81 per sq.m. it is anticipated that there will soon be new development proposals in Edinburgh and the immediate market area. Away from Edinburgh, no new speculative development is expected in the East of Scotland unless support funding is available from local authorities or government funded organisations.

One of the largest recent deals in Edinburgh has been the letting of 4,686 sq.m. by Philip C Smith Ltd to Schlumberger Oilfield UK plc at 20 West Shore Road on a 5-year lease. Elsewhere in the city, Rexel Senate took Unit 3 Seafield Way (2,107 sq.m.); Stevenswood Ltd leased Unit 4a at Seafield Way (464 sq.m.) at £81 per sq.m.; and Wolsey leased 410 Gorgie Road (551 sq.m.) at £73 per sq.m.

The largest distribution building in East Central Scotland is **J4M8 380**, this property has recently been purchased by Logisor who will commence a new marketing campaign for the building which will include offering the accommodation in two sections of approximately 13,000 sq.m. and 22,300 sq.m.

Elsewhere in West Lothian at Nasmyth Court, Houstoun Industrial Estate, **Livingston**, ArjoHuntleigh took 139 sq.m. at £68 per sq.m. and Environmental Energy Controls took 287 sq.m. at £54 per sq.m. At Eliburn Industrial Park, Livingston units were let to Shine Cleaning Solutions (110 sq.m.), Marionville Models (106 sq.m.) and Knightsridge Garage Services Ltd (221 sq.m.) at rents from £62 – £65 per sq.m.

The occupancy levels of industrial accommodation in the Bridgehead area of **Fife** remain high with some estates, for example Belleknowes Industrial Estate in Inverkeithing and Hillend and Donibristle Industrial Estate in Dalgety Bay, remaining close to fully let; a recent transaction here is unit 12B Ridge Way (592 sq.m.) being let to Avtek Solutions.

At Pitreavie Business Park on the south side of Dunfermline, there is limited availability of industrial units above 464 sq.m. Dunnottar Estates has completed the refurbishment of their last remaining unit (1,483 sq.m.) and this accommodation now provides modern units at a quoting rent of £43 per sq.m.

Although demand in central Fife over recent months has been limited, due to a combination of factors including the subdued oil price and some larger company closures (Tullis Russell and Velux), there have been some deals to note including in Glenrothes the purchase of 70 Nasmyth Road, Southfield Industrial Estate (1,888 sq.m.) by Euroquilt Ltd and a letting at Buko Business Centre (1,209 sq.m.) to Textile Care Supplies Ltd. Industrial rents in this area for traditional accommodation remain between £21 and £43 per sq.m., which should now be seen by occupiers as good value for money in comparison to other locations in Scotland.

The last six months has been a challenging period for the **Aberdeen** industrial market due predominantly to the fluctuating low oil price (see office market commentary). As a consequence, the vast majority of the oil and gas operators and service companies have continued to implement measures in order to further reduce their cost bases. It remains uncertain when the situation is likely to improve, but current conditions are predicted to continue well into 2016.

Industrial take-up in the last six months totals 28,413 sq.m. which represents a 60% decrease on the previous six months figure. Interestingly, take-up is significantly down across all size ranges, with the exception of industrial units between 0-464 sq.m. where take-up is actually up by 28%. The total number of deals transacted over the six month period is down from 45 to 28 which represents a decline of 38%. A large portion of the take-up is actually larger new build deals, where terms were agreed in 2014 in a more buoyant market.

Supply has increased by 26% in the last six months from 63,242 sq.m. to 79,747 sq.m. The number of properties available has risen from 53 to 82, which is a 55% increase. Supply in the 464-929 sq.m. size range has increased substantially by 53%, which is worrying in the context that take-up in this size bracket is down by 66%.

Rental levels have remained strong, with new build rents remaining at around £97 per sq.m. for warehouse accommodation, £191 – £194 per sq.m. for offices and £19 – £21 per sq.m. for secure concrete yards. Underlying this however is a shift from a landlords' to a tenants' market. Developers are now considering 10-year lease term commitments for new build properties and incentives

Larger industrial deals in the North of Scotland over the last six months include:

Address	Size	Occupier
Aberdeen Gateway Business Park, Cove	5,611 sq.m.	Cameron
Aberdeen Gateway Business Park, Cove	1,347 sq.m.	Ruthven Properties Ltd
Peregrine Road, Westhill	5,079 sq.m.	Forum Energy Technologies UK Ltd

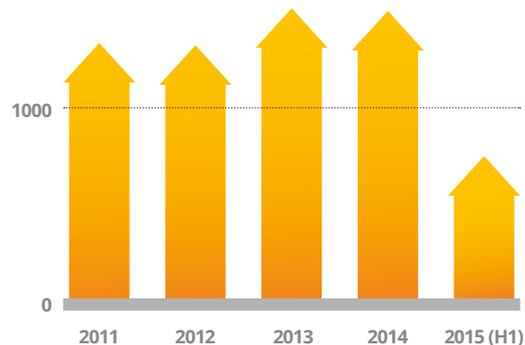
are now having to be offered to ingoing tenants in order to get them to sign up to 5 to 15-year leases. Landlords of secondary industrial stock are having to accept and offer more flexible lease terms in order to reduce or eliminate rental voids.

Despite the tougher market conditions, it is clear that occupiers are still seeking new build or modern industrial units that satisfy occupier needs, i.e. higher eaves heights, capacity for overhead craneage, high specification offices, etc. – but the problem appears to be getting the necessary consents and approvals to commit to the lease terms that the landlords and developers are presently seeking in the market place. A number of developers across the city have undertaken speculative industrial developments which are presently being actively marketed. Some developers have committed to building new stock, even in these tougher market conditions, and these are: The Core Bridge of Don, by Mountgrange comprising warehouse (1,951 sq.m.), offices (557 sq.m.) and yard (3,035 sq.m.); Units 1 & 2 Aberdeen Gateway Business Park, Cove by Muir Group comprising warehouse (929 sq.m.), offices (418 sq.m.) and yard (929 sq.m.); and 25 Silverburn Crescent, Bridge of Don by Nu-Style Products Ltd comprising warehouse (540 sq.m.), offices (372 sq.m.) and yard (207 sq.m.).

The industrial property market in **Dundee** experienced lower levels of take-up over the past six months, primarily due to the limited number of good quality buildings available. As such, a number of long standing requirements remain unsatisfied. Activity is concentrated on small to medium sized transactions within second hand stock. There continues to be a shortage of affordable prominent sites for industrial/trade counter development, where competition from higher value uses exists. Approximately 2.4 hectares at Dunsinane Industrial Estate was sold to Peter Vardy for its CarStore “car supermarket” concept. In close proximity, the site of the former Bonar House at Faraday Street, extending to 1.8 hectares, has been sold to a developer considering alternative uses.

Recent industrial deals include the sale of former Brown Construction premises at Ainslie Street (2,331 sq.m.) to Gillies of Broughty Ferry; the sale of a former Arnold Clark garage at 5 Annfield Road (681 sq.m.) to Moark Ltd; the letting of Unit 1 (464 sq.m.) and Unit 2 (743 sq.m.) Lochee Road to Easityre and Tayside Autocentre respectively; and Unit 5 Taygate Trading Estate, Coldside Road (557 sq.m.) to Stevenswood Holdings Ltd.

Number of industrial transactions in Scotland



Retail and Leisure

The improving landscape of the Scottish economy over the past three years – the most recent dip notwithstanding – has little positive impact on occupancy rates in town centres.

High Street voids most recently increased from 10.4% to 10.6% quarter on quarter. The economic commentary earlier highlights the ongoing challenges month-to-month, despite overall increases in available consumer expenditure. The steady growth of online retailing is part of this challenge and the market response by some retailers, such as Argos, John Lewis Partnership and IKEA (below) is to pursue a multi-channel model.

Locations which have shown improvement are those that have adapted to demand from a diversity in local and national retail occupiers, together with leisure-based operators such as cafes, bars and restaurants (with 'casual dining' proving to be popular) and health and fitness. Health and fitness has also moved on from its previous incarnation with companies now targeting 464 – 3,716 sq.m. premises both in and out-of-town.

The diversity shown in the market at this time may act as a reminder to the planning authorities that retail protection policies may now be inappropriate and do not reflect the modern High Street. The dividing line between retail and leisure will continue to blur and a diverse high street or retail park with retail and leisure offerings is more likely to draw customers, widen the expenditure base and increase dwell times within town centres and malls.

In **Glasgow**, the main news is the delay in the proposed extension to the Buchanan Galleries which will accommodate a pre-let to Marks & Spencer, Next, a 10-screen Showcase Cinema de Lux, together with other retail and restaurant space. The delay is reportedly due to re-sequencing of the construction programme in order to accommodate works to be carried out to Queen Street railway station. The 41,800 sq.m. extension forms part of a £400 million investment by Land Securities.

Gieves & Hawkes has taken the former Phones 4 U store at 131 Buchanan Street on a new 10-year lease (subject to tenant-only break option at year 5) at an initial rent of £200,000 per annum (£269 per sq.ft. Zone A). The tenant received six months rent free.

In the leisure sector, occupiers continue to add to the city centre portfolio. Recent openings include: Anchor Line, Five Guys, Gourmet Burger Kitchen, Bill's, and Côte Brasserie, with the addition of Byron which is due to open on West George Street later in the year.

Silverburn has added Thaikhun to its stable of restaurant offerings with a 310 sq.m. unit adjacent to the 11 new restaurants and 14-screen cinema added to the centre earlier in the year. **Braehead** has announced the proposed opening of a Krispy Kreme store within the former Clydebuilt Maritime Museum.

In **East Kilbride**, Orion Capital Managers continues to work on letting activity within the town centre with recent deals to Bella Italia, Frankie & Benny's, Filling Station, Chiquitos, Nando's, Handmade Burger Co and Pizza Express who have all taken space within the new leisure quarter alongside Pure Gym. The leisure quarter is now 80% let with works due to commence on 15th November and completion due in September 2016.

TH Real Estate's **Edinburgh** St James represents a massive £850 million project due to transform the current St James Centre with in excess of 92,900 sq.m. of retail, leisure, residential, hotel and multi-level car parking. The developers propose to close the existing Centre after the New Year period with the projected demolition start date reported as April 2016. With Land Securities' recent experience in Glasgow, it remains to be seen if demolition will commence on programme due to concerns raised over the potential impact of elements of the development on Edinburgh's World Heritage status.

The development of the north side of St Andrews Square by Standard Life Investments and Peveril Securities is underway with the 15,330 sq.m. development including a TK Maxx store, office accommodation for Standard Life Investments' occupation, residential apartments and six restaurant units due for completion in 2016. It is understood that restaurant occupiers are likely to pay record rental levels within the development. Two top London restaurants will be opening their first restaurants in Scotland here: Busaba Eathai (634 sq.m.) and Drake & Morgan (655 sq.m.).

Jewellers Laing plans to relocate its flagship store from Frederick Street and secured an assignation of the former Barclays unit at 72 George Street, where rental is passing at £322,500 per annum on a lease which expires on 2027 with a tenant only break option in 2022. The tenant paid a premium of £115,000 to secure the lease.

In **Aberdeen**, Hammerson reports new lettings to Krispy Kreme and Thaikhun at Union Square Shopping Centre. In addition, the developer has announced a £200 million expansion to accommodate 30 new retailers, a 120-bed hotel and food court, adding 22,300 sq.m. with a further 600 car spaces over a multi-level car park.

Out-of-town, the former Makro site at Wellington Road, Aberdeen has attracted IKEA with a new concept 4,270 sq.m. "click and collect" store which will open in Spring 2016.

American burger chain Five Guys has announced it will open a **Dundee** restaurant in October within the Overgate Shopping Centre. This follows the opening of Krispy Kreme earlier this year. The Boozy Cow Restaurant, which already has outlets in Aberdeen and Edinburgh, also hopes to move to the city shortly. At Kingsway West Retail Park, Sofaworks Ltd has taken 1,254 sq.m. of new retail space from Land Securities Properties Ltd.

In **Inverness** Shopping Park is understood to be set to commence with a £13 million refurbishment of the Park which will include a redevelopment of the former Comet space to accommodate Frankie & Benny's, TGI Fridays and Nando's.

In **Perth**, a £30 million development has been announced for the site of the former Thimblelow car park which will include restaurants, bars, speciality shops, cinema, health & fitness and a multi-storey car park. Expresso Property has been selected as preferred developer.

Retail park activity in Scotland has accelerated due to the recent acquisition of 14 sites from Tesco by Glasgow based London & Scottish Investments which intends to develop the sites for out-of-town retail warehouse use. The sites are situated in East Kilbride, Paisley, Crieff, Aviemore, Cupar, Cowdenbeath, Thurso, Dundee, Kilmarnock, Larkhall, Coatbridge, Dalkeith and Glasgow.

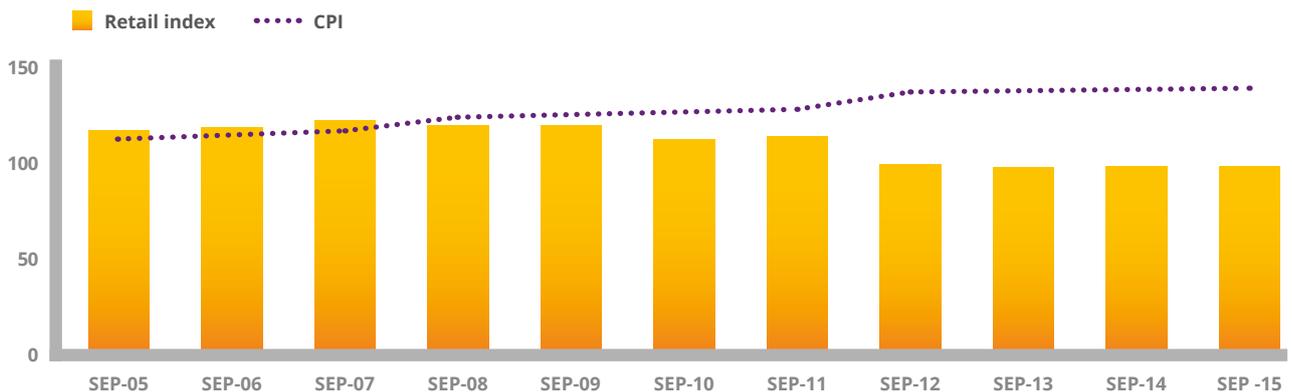
The most active occupiers in the out-of-town market are B&M, Home Bargains, The Range, Dunelm and Poundland. It has been estimated that between the five operators alone, approximately 0.9 million sq.m. of floor space will be taken over the next 5 years. Recent transactions and openings include: Home Bargains taking a pre-let at Edinburgh West Retail Park, Chesser Avenue in Edinburgh; The Range opening at Caledonian Retail Park in Wishaw and to open in Falkirk by the end of 2015. Poundland opened at Wick Retail Park in Wick and Strathkelvin Retail Park in Bishopbriggs; while B&M opened at Telford Retail Park in Inverness, Braidfuite Retail Park in Lanark, Fort Kinnaird in Edinburgh, Glasgow Road in Dumbarton, Springfield Retail Park in Elgin and at Stockbridge Retail Park in Linlithgow.

The local convenience market remains a challenging market for some occupiers, although Sainsbury's and Co-op remain positive about future acquisitions, with Tesco having slowed down activity and Morrisons having stepped out of the convenience market entirely.

The grocery market continues to be led by budget chains Aldi and Lidl with the former commanding a 5.6% share of the UK's grocery market, up from 4.8% a year ago and Lidl growing from 3.6% to 4% in the same period.

Once again there is no change in Ryden's prime retail rental index (covering Scotland's top twenty shopping locations, see chart below). In real terms, when price inflation is factored-in, this represents a steady fall in the value of rents even in prime locations. Some latent upward pressure does however exist within particularly strong shopping pitches where vacancies are negligible, and these may nudge the index up during 2016.

Retail rent index



Investment

The continuing uncertainty over Scotland's political future Post-Referendum as we approach finalisation of the Scotland Bill 2015/16 is undoubtedly having an adverse effect on the Scottish property investment market and as a result, dampening transactional activity.

Market overview

Notwithstanding robust and improving occupational markets, it must be a concern that Scotland appears to be 'off limits' for a number of UK-based institutions until the picture is clearer. In the short to medium term these investors may seek to maintain a neutral or reduced weighting to Scottish assets – particularly in the secondary market - in their portfolio as a response to the perceived exposure to risk. Overseas investors, perhaps due to their experience in dealing with a range of political circumstances across European markets, appear to be less concerned.

The fall in oil prices and slow down in the occupational markets in Aberdeen has, unsurprisingly, led to a hiatus in investment activity as investors draw breath and wait for that market to find its new level.

In addition to the adverse impact on the key commercial investment sectors as a consequence of wider political uncertainty, proposed new legislation such as the Private Housing (Tenancies) Bill could also have a significant impact on future investment into the currently very active student accommodation and nascent private rental sector (PRS) sectors. There is a growing frustration within the property community that the detail of such legislation and its potential ramifications for the development, construction and investment sectors have not been fully appreciated.

All Property Total Returns for Scottish property for the four quarters to June 2015 were recorded at 11%, a slight reduction on the equivalent period to June 2014 of 11.8% and below the UK All Property Total Return of 15%.

Office

Investment activity in the Scottish office sector has continued to be patchy, although some active periods were recorded either side of the summer shutdown. Noticeable differences between the three principal cities have also intensified during the review period, with Glasgow and Edinburgh now higher up investors' shopping lists than Aberdeen.

This shift in demand has been driven largely by the fortunes of the occupier markets in the three cities. Aberdeen has historically been a counter cyclical city and this is evident again; while the outlooks for Glasgow and Edinburgh have improved, the opposite applies in Aberdeen as the oil industry correction continues. There have still been decent levels of activity in Aberdeen, just not as frantic as during the height of the market in early 2014. Transactions are still occurring, some of significant size. EnQuest's 20-year sale and leaseback of Annan House on Palmerston Road to Rockspring for £45.1 million grabbed the headlines in the late summer. The unfortunate timing played a part in the 6.5% yield, which was somewhat generous for this striking new Grade A city centre building. There have been no sizeable transactions of stock with shorter leases in Aberdeen, as owners anticipate limited demand due to the risk factors associated with re-letting.

Elsewhere in Aberdeen it was encouraging to note a couple of successful purchases by foreign investors, namely Peregrine House in Westhill and 6 Queen's Road/31-33 Union Grove in the West End which were sold together. The buyers were Capital Trust Group (Middle East) and Beauchamp Investments (Singapore). The details are outlined in the table of transactions.

There has been considerable activity in the asset management category in Glasgow, which is encouraging and demonstrates investors' confidence in the occupier market in that city. The stand-out deal was Moorfield's £60.7 million purchase of 1, 2 & 3 Atlantic Quay from M & G Real Estate for a net initial yield of 8.54%. The WAULT to the break options was just under three years. Other asset management buys include 180 St Vincent Street by Northwood and 180 West George Street by Picton Capital.

The most notable yield and income transaction in Glasgow was Almundi's £33.4 million acquisition of the Equinox building, Cadogan Street, in a portfolio transaction. The building was let to esure.com for 15 years and the allocated price reflected a yield of 5.25%.

Investor demand for Edinburgh offices has continued to strengthen over the review period with interest from UK Institutions, overseas investors, European funds and equity rich investors. This is evidenced by an increasing volume of transactional activity. Weight of money, limited supply and improving occupational dynamics have combined to create yield compression; and the prime yield for a well-let city centre office would be in the order of 5.5% at the present time.

Further investor activity is expected in Edinburgh and Glasgow in the run up to the end of 2015. Several major buildings are up for grabs including Meridian Court and The Grosvenor Building in Glasgow and Atria in Edinburgh.

Based upon the IPD Quarterly Index the Total Return for the sample of Scottish office properties to June 2015 was 11.8%, which is marginally down from the previous year. Rental value growth has increased for the fourth year running with yield impact moving in the opposite direction.

Office property investment deals include:

Address	Property	Purchaser
1, 2 & 3 Atlantic Quay, Glasgow	26,079 sq.m. multi-let office buildings, let to Lloyds, Bank, BAE Systems and AXA Insurance	Moorfield for £60.7 million (c.8.54%)
163 West George Street, Glasgow	3,061 sq.m. multi-let office building, let to tenants including Savills, KPMG and Pertemps	Private investor for £8.7 million (6.51%)
180 West George Street, Glasgow	4,840 sq.m. multi-let Grade A office building, let to Standard Life and Michael Page	Picton Capital for £14.25 million (7.8%)
Westport 102, Edinburgh	9,001 sq.m. multi-let predominantly office building, occupiers include Scottish Ministers, Audit Scotland and Senergy	Britannia Invest A/S c/o Cording for £32.2 million (c.6.17%)
Citypoint, Haymarket Terrace, Edinburgh	3,927 sq.m. multi-let office, occupiers include BDO and Harper Macleod	CBRE Global Investors for £14.5 million (c.5.7%)
Tanfield, Edinburgh	17,730 sq.m. multi-let office, occupiers include Avaloq, FNZ and Alstom	Rockspring for £56 million (c.6.55%)
Annan House, Palmerston Road, Aberdeen	11,300 sq.m. single let office building, sale and leaseback for 20 years	Rockspring for £45.1 million (6.5%)
Peregrine House, Peregrine Road, Westhill, Aberdeen	2,945 sq.m. single let office building, with a new 15-year lease	Capital Trust Group for £10.2 million (6.24%)
6 Queen's Road/31-33 Union Grove, Aberdeen	Two prime office buildings totalling 2,165 sq.m. WAULT of 14 years	Beauchamp Investments for £10.875 million (5.88%)

Industrial

Sentiment drives the market, and in addition to the residual caution towards Scotland following recent political events in the UK, more generally recent pronouncements regarding growth globally and China in particular have also perhaps given investors pause for thought, narrowing the focus on stock selection. Consequently, the chase for absolute prime industrial assets has become increasingly hard run across the UK.

In Scotland, the fundamentals of good occupational demand and contracting supply have reinforced investor activity. However, this is a two-tier market where prime assets enjoy high demand, particularly from UK institutions, and there is less depth to the market for more secondary or older stock.

The recent trading of prime industrial stock has left few opportunities across Scotland. With the best secondary stock difficult to acquire, further compression in industrial yields is anticipated, driven largely by specialist buyers in the sector. Institutional buyers will remain active in the prime part of the market but are increasingly finding stiff competition from the weight of money chasing good secondary stock.

Funding for speculative industrial development remains absent from the Scottish market at present. However, as has been argued for the past two Reviews and demonstrated once again in the occupational market commentaries in this report, it remains an excellent opportunity, particularly for funds to secure stock in a competitive market, while ensuring the required return and desired value of money placed in the market.

Pricing remains strong for multi-let industrial estates. Yields continue to reflect 6.75-7.25%, albeit with little trading in the past six months or so, it is conceivable that there has been some further compression in those levels. Single let assets continue to perform well with buyers for most lot sizes and pricing again remains in the low 6% for well-let stock.

The annual performance for Scottish industrials to end June 2015 saw a total return of 17.9%, broadly in line with the overall 2014 result and up from the 15.5% for the year ending June 2014. While Scotland still lags the UK as a whole (20.3% to year end June 2015), the gap is narrowing and will continue to do so as investors seek better value outwith the London and south east markets.

Industrial property investment deals include:

Address	Property	Purchaser
Ibrox Business Park, Glasgow	6,499 sq.m. modern multi-let estate of 18 units. Tenants include SIG, Edmundson Electrical and Stevenswood	Buccleuch Property for £4.711 million (c.7.75%)
Units 1, 2 & 10, James Street, Righead Industrial Estate, Bellshill	1,889 sq.m. modern multi-let trade counter units. Tenants include SIG and Edmundson Electrical	Threadneedle Investments for £1.75 million (7.24%)
Glencairn Industrial Estate, Kilmarnock	11,705 sq.m. multi-let estate of 58 units let to a mix of high quality covenant and local occupiers. 10 vacant units	IO Group for £7.075 million (c.7.7%)
Bonnington Trade Centre, Bonnington Road, Edinburgh	Multi-let estate comprising 7 units and total area of 2,982 sq.m. Tenants include ATS Euromaster Ltd and Johnstone's Paints. WAULT of approx. 16 years to expiries and 13 years to breaks	Esson Properties for c.£3.35 million (6.3%)
7 Bankhead Medway, Sighthill, Edinburgh	Data centre investment let to Onyx Group Ltd extending to 2,887 sq.m. with c.5 years unexpired	Private investor for c.£2.2 million (c.8.67%)
Imex Industrial Estate, Bilston Glen, Loanhead	Multi-let estate comprising 39 units and extending to 4,347 sq.m.	Industrials UK LLP for £3.55 million (c.8.07%)
9 Oakbank Park Way, Livingston	2,966 sq.m. modern single let industrial unit fitted out as a disaster recovery centre, leased to THUS Group Holdings Ltd, sub-let to Sungard Availability Services (UK) Ltd. 4 years unexpired	Squarestone Growth Fund LLP £1.63 million (9.5%)
Gateway Drive, Aberdeen Gateway, Aberdeen	2,183 sq.m. single let industrial and office building with a new 15-year lease	MRC Pension Trust Ltd for £5.855 million (6.29%)
Main Road, Blackburn, Near Aberdeen	6,634 sq.m. single let industrial and office building with unexpired term of 18.5 years	Capital Trust Group for £16.97 million (6.25%)
Viking House, 1 Claymore Drive, Bridge of Don	1,645 sq.m. single let industrial and office building, sale and leaseback for 15 years	DS Properties for £1.735 million (8.5%)

Retail

The retail investment sector improved over the Review period. The breadth of demand for retail property has spread outwith specific sub-sectors, although there does continue to be a concentration on prime and very good secondary stock. This focus may be changing and as investors seek income return, more secondary assets may come into view.

Yields have continued to harden (ie. reduce, driving up prices) for prime retail product as institutions and overseas investors have set their sights on this sub-sector.

Although many institutional investors have reservations about increasing their weightings to Scotland during this Post-Referendum period, demand for prime Edinburgh and Glasgow retail continues to be strong and the pool of buyers deep.

Interest from investors in High Streets outwith Edinburgh and Glasgow is weaker and as a consequence, the income return available is significantly higher. Enhanced returns are generating demand from well-funded private investors and property company investors.

Retail property investment deals include:

Address	Property	Purchaser
116-120 Buchanan Street, Glasgow	Prime retail unit let to Diesel on FRI terms expiring October 2022 at a passing rent of £303,000 per annum (£252 per sq.ft. Zone A)	Kames Capital for £6.45 million (4.43%)
92-96 Argyle Street, Glasgow	1,022 sq.m. retail unit let to Officers Club on FRI terms expiring April 2024 with tenant break option April 2019. Passing rent of £300,000 pa (£135 per sq.ft. Zone A)	Aberdeen Asset Management for £4.3 million (6.6%)
14 Royal Exchange Square, Glasgow	84 sq.m. retail unit let to Sweaty Betty on FRI terms expiring August 2024, tenant break option August 2019 at a passing rent of £52,500 pa (£107 per sq.ft. Zone A)	Private investor for £875,000 (5.7%)
Greenlaw Village, Newton Mearns	1,863 sq.m. modern retail units let on FRI terms to Home Bargains and Pets at Home. Total passing rent of £276,832 per annum. Average unexpired income of c.13 years	Private investor for £4.1 million (6.37%)
Forge Retail Park, Glasgow	32,516 sq.m. retail park with 18 tenants including Marks & Spencer and Next	Pradera & Tristan Capital Partners for £83.6 million (6.95%)
124/125 Princes Street, Edinburgh	3,567 sq.m. mixed use (retail & offices) multi-let building. Tenants include Urban Outfitters (56% of income), RICS and Chartered Institute of Housing. WAULT of approx. 8.81 years	Hines for £18.05 million (5.37%)
71-77 Princes Street, Edinburgh	2,467 sq.m. multi-let retail investment. Tenants include Costa, Fraser Hart, O2, Three and Dr Martens. WAULT of approx. 8.4 years to expiries (7.4 years to breaks)	Savills Investment Management for £24.075 million (5.11%)
89 George Street, Edinburgh	Flagship retail unit let to White Stuff providing total area of c.1,421 sq.m. with c.10 years unexpired	Aviva Investors for £6.6 million (4.48%)
21-25 Frederick Street, Edinburgh	Mixed-use building extending to 687 sq.m. Occupiers include J Barbour & Sons, Laing The Jeweller and John Dickson & Son Ltd	Tonstate Group for £3.9 million (6.32%)
B&Q, Tennent Street, Coatbridge	9,546 sq.m. retail warehouse let to B&Q plc with c.8 years unexpired. DIY consent	Client of Ediston Property Investment Company for £16.8 million (7.46%)
B&Q, Crieff Road, Perth	5,702 sq.m. retail warehouse let to B&Q plc with c.11 years unexpired. Open non-food consent	Friends First Life Assurance Company for £11.75 million (6.84%)
Jamie's Italian, 38 Union Street, Aberdeen	701 sq.m. restaurant let for 22 years	Private overseas investor for £2.2 million (5.58%)

With shopping centre investment activity on the upturn, the retail warehouse sector within Scotland continues to be the least favoured sector of the retail property investment market. At this point in time there appears to be limited interest in bulky goods single and multi-let assets. Those investors active in this sub-sector are securing well-let product at attractive yields in the range of 7% to 8%.

Based upon the IPD Annual Index, the performance of all Scottish retail property to June 2015 has slipped from the previous year and recorded a total return of 8.7% (to June 2014: 10.3%). Although rental value growth was better, yield improvement slowed over the period.

Outlook

As investors monitor the wider political developments, it looks likely that the cautious sentiment will continue for the near future or at least until other issues, such as the potential UK Brexit scenario, take precedence. Prime investments will always attract strong demand but the definition of what constitutes 'prime' will remain narrow and the fall off in demand and pricing for secondary assets will continue to be more severe than usual.

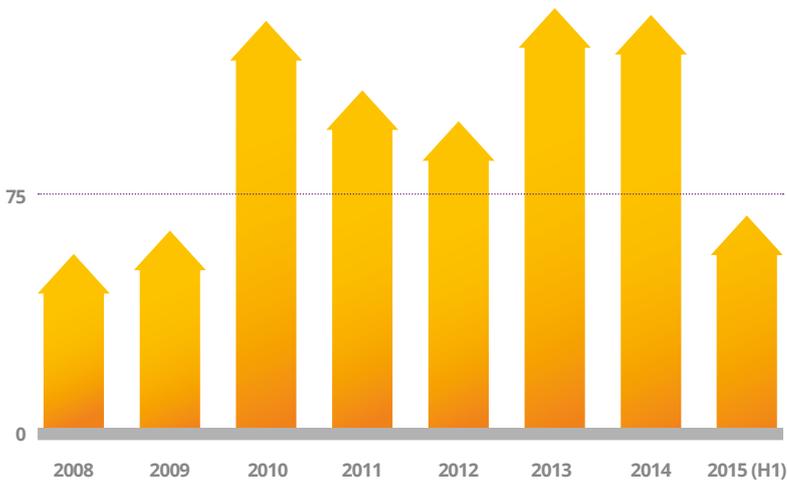
The absence of speculative development in the office and industrial sectors throughout the Central Belt, and the reduction in prime supply will inevitably lead to improved rental and letting prospects for existing and refurbished stock. There is an added bonus for those investors in the market that these opportunities are available at attractive yields/capital values, both historically and in comparison to similar regional centres south of the border.

Pricing on secondary assets remains quite volatile and the convergence of short income pricing and alternative use values for student accommodation, residential and private rental sector (PRS) should continue to stimulate change of use in a number of these situations.

Now, more so than ever, the Scottish market offers strong performance opportunities for those investors with the benefit of a clear head and a good understanding of the market, able to look beyond the immediate uncertainties.

Investment tracker:

Number of transactions over £1 million in Scotland



Edinburgh

7 Exchange Crescent
Conference Square EH3 8AN
Tel: 0131 225 6612

Glasgow

130 St Vincent Street G2 5HF
Tel: 0141 204 3838

Aberdeen

25 Albyn Place AB10 1YL
Tel: 01224 588866

Leeds

3rd Floor Carlton Tower
34 St Paul's Street LS1 2QB
Tel: 0113 243 6777

Dundee

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