

Ryden



80th
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Property
Review

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Onmi Centre, Edinburgh

Scottish economic growth has stalled. Forecasts are for weak economic expansion during a period of ongoing political uncertainty.

Office market demand has continued at a reasonable pace in Edinburgh and Glasgow, with both cities now facing a tightening supply of new-build Grade A developments. Aberdeen's office market shows some early signs of adjustment to the new market conditions in that city.

Supply shortages continue in prime Central Scotland industrial locations. Occupier demand is faced with only very limited new development and refurbishment.

The retail property sector's 2016 growth has not been sustained. Consumer expenditure has weakened and markets outside of top prime locations must constantly adapt to a range of competitive pressures.

Property investment returns have tailed off as capital values have edged downwards. Investor focus is on undoubted rental income through strong tenants, prime locations and long leases.

DR MARK ROBERTSON, PARTNER

Economy

Economic growth in Scotland has stalled, while both lead economic indicators and independent forecasts anticipate an ongoing period of comparatively low growth. However, employment trends remain positive.

Over the calendar year (2016 v 2015) the Scottish economy grew by 0.4%. However on an annual basis economic activity was flat when comparing Q4 2016 with the same period of 2015.

During the fourth quarter of 2016 the economy contracted and activity was -0.2% lower than in Q3 2016. The dominant service sector did not expand, while there was marginal contraction in both the production (-0.9%) and construction (-0.8%) sectors.

The Bank of Scotland Purchasing Managers' Index fell in March 2017 (PMI = 50.1) following a 19-month high in February (PMI = 51.7). Although manufacturing output rose, there was a reduction in service sector activity.

The Scottish unemployment rate for the three months December 2016 to February 2017 fell by 15,000 to stand at 123,000, equivalent to 4.5% and lower than the 4.7% recorded for the UK as a whole.

Notable new job creations (see 'Job gains' table opposite) include activity in the contact centre, pharmaceutical, professional services and technology sectors. Notable job losses are recorded in financial services, engineering and the oil industry.

According to the Insolvency Service there were an estimated 230 company insolvencies in Scotland in the fourth quarter of 2016; this was down by -9.4% compared to the same period in 2015. During 2016 as a whole an estimated 1,035 company insolvencies were recorded, 1.9% higher than 2015.

The Scottish Government's Retail Sales Index for Scotland reports that sales fell by 0.5% during the fourth quarter of 2016, but grew by 3.1% on an annual basis. This is lower than the 5.6% recorded in Great Britain over the same 12-month period. More recent data from the Scottish Retail Consortium states total retail sales in Scotland were 2.1% lower over the 12-months to March 2017. The retail occupational markets are reviewed on pages 14 and 15 and the retail property investment sector is analysed on pages 19 and 20.

According to the Department for Business, Energy & Industrial Strategy, indigenous productions of crude oil decreased by 7.2% in the fourth quarter of 2016 compared with the same period of 2015. However, provisional figures for 2016 show a 3.5% annual increase in production. Comment on the impact of the recovering oil market upon property markets in the north-east of Scotland is provided on pages 9 and 13.

The Consensus Forecast for UK Economic Growth published by HM Treasury in March 2017 anticipates 1.7% growth across the UK economy for 2017, dipping to 1.3% in 2018. For Scotland, Fraser of Allander Institute's central forecast which was published in March 2017 is for growth of 1.2% in 2017, 1.3% in 2018 and 1.4% in 2019.

This extended period of slow economic growth following stagnation last year is considered in the sectoral property market commentaries in this 80th Scottish Property Review.

Job gains:

Professional services firm Genpact is expanding its operations in Glasgow and plans to **create more than 300 new jobs** in the city over the next five years.

Lothian Buses plans to create **55 new positions**, with **45 drivers** and **10 apprentice engineers**.

Pharmaceutical development company Catalent Pharma Solutions intends to **create 60 new jobs** at its site in Bathgate. The positions include warehouse logistics, distribution and packaging equipment operators.

100 positions were secured when contact centre operator Kura maintained the contact centre at Enterprise Park in Forres, (following Capita's withdrawal). **An additional 150 new jobs** are expected to be created.

Customer service firm Webhelp is recruiting **190 people across Scotland** at its centres in Glasgow, Kilmarnock, Greenock and Dunoon.

The Mortgage Lender, a new specialist lender, is launching its office in Glasgow and plans to **create up to 110 jobs**.

Sonomatic, provider of advanced automated ultrasonic inspection services, has opened its facility at The Core business park in Bridge of Don, Aberdeen. **Around 70 new jobs** are forecast here and this expansion could in time **create 200 positions**.

The Co-operative Group plans 20 new convenience stores across Scotland **creating 250 new jobs**.

Job losses:

The Royal Bank of Scotland plans to close a further 30 branches across Scotland **affecting 176 full-time positions**.

Around 300 jobs are being lost with the closure of 40 branches of the Clydesdale Bank across Scotland.

Independent savings bank, Airdrie Savings Bank, is closing. **70 positions will be lost** at its headquarters in Airdrie and branches in Bellshill and Coatbridge.

The Kwik Fit Insurance Services contact centre in Uddingston has been closed by owner Ageas with the **loss of around 500 jobs**.

Following the administration of clothing retailer Ness Clothing **seven stores closed across Scotland**.

Doosan Babcock **announced 270 job losses** at its base in Renfrew. **140 of these are positions in its machinery and assembly plant** and **130 are management and back-office functions**.

Plant hire group Hewden went into **administration with the loss of 50 positions** across Scotland, mainly in Glasgow and Grangemouth.

Oil company Royal Dutch Shell plans to close its finance centre in Glasgow with **the loss of up to 380 positions**.

Planning

Places, people and planning – A consultation on the future of the Scottish planning system

Since the First Minister's announcement to undertake a 'root and branch' review of the Scottish Planning System in September 2015, work has been steadily progressing through the Scottish Government, in consultation with a wide range of stakeholders, to pave the way towards planning reform and commitment to a new Planning Act.

This included the Scottish Government's early appointment of an independent panel. Their May 2016 report, "**Empowering Planning to Deliver Great Places**", set out 48 recommendations on how the planning system could be improved, as Ryden reported in the 79th edition of our Scottish Property Review. The Scottish Government intimated their broad agreement with many of the panel's recommendations, acknowledging that some could be swiftly implemented, while other more radical changes would benefit from further engagement.

On 10th January 2017 the Scottish Government published their eagerly awaited response in "**Places, People and Planning**", setting out their ambitions and proposals for change and inviting further feedback from those with an interest in planning. Given the Scottish Government's broad agreement with the independent panel's recommendations, it comes as no surprise that many of these are replicated within this document. While some recommendations and areas have been expanded upon, there are others which clearly require further thought.

Areas lacking in detail give cause for apprehension and frustration for the development industry, which was seeking a clear strategy for how the proposed changes will be put into practice going forward. Uncertainty may also be felt around some of the key areas proposed for change and their potential to create conflict. As the Scottish Government continues to push towards greater community empowerment and more localised decision-making, how will this create optimum conditions to enable development, including large scale housing delivery, to meet supply deficiencies throughout Scotland?

The proposed changes are centred on four core areas:

- Making Plans for the Future – streamlining spatial planning and policy frameworks to create strong, delivery-focused development plans;
- People Make the System Work – empowering communities and public involvement in planning;
- Building More Homes and Delivering Infrastructure – an infrastructure-first approach with a focus on housing delivery and investment; and
- Stronger Leadership and Smarter Resourcing – a properly resourced, highly skilled system focused on delivering better places.

Across these four themes, 20 proposals aimed at improving the planning system have been put forward. The consultation invites communities, developers, professional planners and other stakeholders to respond to four key questions, with a further 38 optional technical questions aimed at drawing out more detailed responses on specific aspects of the proposed changes.

Substantial change is proposed to the current **development plan system** as the Scottish Government focuses on streamlining the preparation of plans. National Planning Framework (NPF) and Scottish Planning Policy's (SPP) roles will be enhanced to make Local Development Plans (LDP) more concise and consistent. Strategic Development Plans (SDP) will be removed from the process. A welcome approach would see local development plan policies reflecting those set at a national level, with local provision set to identify how to deal with SPP departures to suit local circumstances, rather than acting as policy "rule books".

The proposed removal of Supplementary Guidance may come as a welcome move. Concern is often raised in respect of its lack of independent scrutiny at plan preparation stage and more often than not it can be utilised to muddy the waters and lead to decisions conflicting with the principal policy wording contained within the main body of the plan. Its removal would provide more certainty for both local communities and the development industry.

While on one hand the proposed changes will help facilitate a streamlined planning system by removing SDPs, on the other hand the Scottish Government proposes to create an additional layer of statutory policy through the creation of local place plans. This obviously reflects the ongoing commitment to engage with communities to facilitate greater local involvement in the plan-making process, echoing the legislative sentiments clearly set out within the Community Empowerment (Scotland) Act 2015. Proactive community participation in planning is nothing new and providing a stronger role for communities to help shape the areas they live in should be actively encouraged. However some apprehension will no doubt be felt within the development industry as often community aspirations clash with large scale development, in particular housing and infrastructure delivery. It is imperative that local place plans are also prepared in line with local and national policies and strategies, otherwise significant conflict could arise in the decision-making process. If it is up to the local authority to adopt local place plans as part of the development plan, will this not effectively mean they act as supplementary guidance, which the Scottish Government is keen to remove from the system?

A further aspect of change relates to the **planning appeal process**. The Scottish Government proposes that more appeal decisions are undertaken by Local Review Bodies (LRBs) than centrally by Reporters. Currently LRBs undertake reviews on planning decisions for smaller scale development which has not previously been subject to Committee referral. Still a relatively new concept, they attract mixed opinion from the development industry, with central appeals undertaken by a Reporter generally favoured for their perceived impartiality and greater planning expertise. Similarly, more LRB decisions would reduce the ability to claim for an award for expenses, which can currently be sought when appealing to Scottish Ministers. Councillors sitting on an LRB are highly unlikely to admit their Council has acted unreasonably and award financial claims to applicants and developers.

The emphasis on **housing delivery** remains a strong focus within the consultation paper, which continues to explore potential mechanisms that could be introduced to ensure housing is delivered at scale. The independent panel had previously recommended that Planning Permission in Principle be awarded to sites allocated within a LDP. Ryden undertook research on behalf of the Scottish Government in 2016 exploring the mechanisms required to implement such an approach. This wide ranging study found conditional support and potential to accelerate development delivery. It would however mean a significantly frontloaded system and the Scottish Government has recognised the likely complexities in taking this approach forward. Instead they propose the wider use of Simplified Planning Zones (SPZ), rebranded to 'Ready Planned' or 'Consented Development' Zones.

The drive to improve the service provided by **planning authorities** continues to be a key area of change and should be encouraged. An increase in planning fees is seen as a potential measure to facilitate better resourcing and improved performance. Kevin Stewart, Minister for Local Government and Housing, issued confirmation of a significant increase in planning application fees to take effect from 1 June 2017. The Minister confirmed that a new maximum fee for major applications across most categories of development will be £125,000 and for applications for permission in principle £62,000. This is a considerable increase to current fee levels and while the Minister has agreed that 'performance improvements should be evident in every authority', there is at this stage no indication of what the performance related improvements are and how they might relate to the new fee levels.

Given there is clearly a wider public benefit to be accrued from the planning service, the development industry may question the need for full cost recovery from the private sector. No doubt there will be a reluctance to see increased fees without a clear indication of the means by which performance improvements can be achieved, but in any case they should be proportionate and based on the quality of service received.

The Scottish Government's commitment to change is welcomed, however there remains a concern over the lack of detail attributed to some of the proposals. Undoubtedly this will be fleshed out from the detailed response to the consultation which closed on 4th April 2017, as well as key pieces of ongoing research and pilots to test key areas of change. A summary of the proposed legislative changes is anticipated in mid-2017.

Offices

The **Glasgow** market was relatively subdued over the last six months. The most noticeable larger city centre lettings were to Mott MacDonald at Abstract Securities' St Vincent Plaza (3,207 sq.m.) and Edrington leasing the top four floors at Esson Properties' 100 Queen Street (2,777 sq.m.). Both buildings have achieved further success with lettings concluding just after our statistics cut-off date to Wood Group (1,602 sq.m.) and Lindsays (729 sq.m.) respectively. In addition, several large scale requirements are currently circling the limited choice of remaining existing larger buildings and programmed refurbishments, with the expectation of letting activity over the coming months.

Other recent market activity generally reflects an increase in transactions in the 300–600 sq.m. size range and the regular churn of small office suites of varying quality.

City centre office take-up of 21,209 sq.m. over six months contributes to a reasonable 12-month city centre total of 47,769 sq.m. A lack of larger deal activity on the periphery over the six months produced a lacklustre 5,618 sq.m., resulting in a 12-month total of 15,778 sq.m. These combined deliver city-wide take-up of 26,827 sq.m. over six months and a respectable 63,547 sq.m. over 12 months.

Ongoing take-up and lack of new build speculative development activity are exacerbating a serious shortage of high quality larger office floorplates. This is unlikely to materially change any time soon.

There are six buildings capable of providing more than 1,858 sq.m. with floorplates larger than 929 sq.m. For larger occupiers choice becomes even more limited as there are only two which can provide more than 3,716 sq.m. with floors larger than 1,394 sq.m. Only four buildings over 929 sq.m. have floors larger than 1,394 sq.m. For those companies seeking an entire building, the choice is currently limited to five buildings, three of which are between 2,508 sq.m. and 2,926 sq.m. and two of which are between 6,968 sq.m. and 7,923 sq.m.

The stagnation of major development activity is reflected in a 7% reduction in city centre supply to 198,959 sq.m. since September 2016. Forthcoming major refurbishments such as NFU Mutual's 191 West George Street (7,011 sq.m.), Moorfield/Resonance Capital's 1 & 3 Atlantic Quay (9,840 sq.m. and 7,478 sq.m. respectively), Praxis' Dalmore House (6,289 sq.m.) and Castleforge Partners' The Garment Factory (5,162 sq.m.) among others, will bolster supply.

On the periphery, refurbished space at Skypark has continued to attract occupier demand, with Skypark 5 securing Macs Adventure (830 sq.m.) and Airwave Solutions (879 sq.m.) and at Skypark 1, Axis Productions (789 sq.m.). The Whisky Bond continues to be popular with five lettings to a range of companies and further small suite deals concluded at The Hub, Pacific Quay and Clyde Gateway's Red Tree Business Suites in Bridgeton. To the east of the city centre, Citypark let 836 sq.m. to Sweco and Cloud Cover IT has taken 195 sq.m. at The Albus. Glasgow City Council's Tontine Building at Trongate has enjoyed good success in providing flexible growth space for companies with particular focus for the Technology, Media and Telecommunications (TMT), Innovation and Creative sectors.

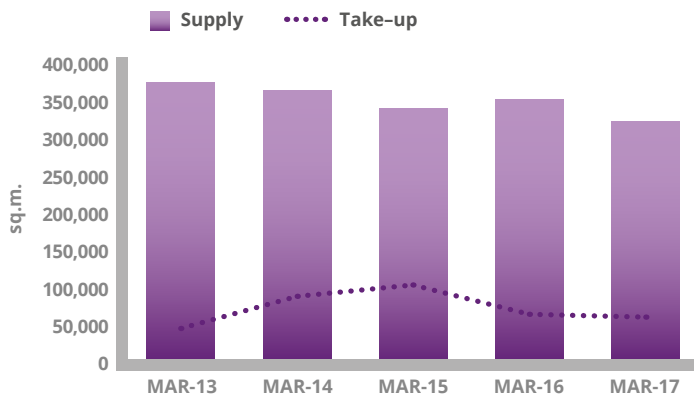
On a larger scale, Clyde Gateway and their partner Highbridge Properties launched Magenta Park with proposals for a new satellite office district over c. 11 hectares at Shawfield, a short distance to the south east of Glasgow city centre. The Park will include a "Red Tree" building of 3,716 sq.m., to replicate the success of existing Red Tree Business Suites in Bridgeton and Rutherglen.

Out-of-town, Maxim Office Park secured notable success in attracting Balfour Beatty who took 4,078 sq.m. in Maxim 7 and TC BioPharm increased their occupancy in Maxim 1 to 1,054 sq.m. NXP took 1,946 sq.m. at Pegasus House, Scottish Enterprise Technology Park, East Kilbride. Citibase took 630 sq.m. in New Alderston House, Strathclyde Business Park and a range of smaller lettings were completed at St James's Centre, Linwood and Prospect Business Centre, Hamilton International Park. Clyde Blowers Capital purchased Redwood House, Peel Park, East Kilbride (1,970 sq.m.) for owner occupation.

While not for office use, the most notable transaction and largest deal with the most significant impact on out-of-town business park availability, was the letting of the entire Eco Campus office development (20,903 sq.m.) at Hamilton International Park, to University of the West of Scotland for conversion to their new university campus.

Prime headline office rents in Glasgow city centre remain at £306-£323 per sq.m. This is likely to come under upward pressure due to the reducing supply of new build high quality space and the future pipeline development facing increasing construction costs. This may also manifest in the potential for increasing rentals for best quality larger refurbishments where rents are currently in the range £231-£280 per sq.m. In the wider refurbishment market, tenants still have a range of choice with rentals in the city centre for £178-£226 per sq.m. Despite reducing supply of offices in some sectors, incentives throughout the market remain very competitive.

Glasgow office supply and take-up



Edinburgh's office market remained robust over the past six months. Notable occupiers relocating has placed further pressure on supply as little new office development is being undertaken.

Key highlights include the continued strong performance from the Technology, Media and Telecommunications (TMT) sector which accounted for 26% of overall take-up across Edinburgh. This activity included STMicroelectronics, intelligentpos, Coda Octopus, Cirrus Logic, FreeAgent, Metaswitch and Zonal Retail Data Systems.

The largest office lease signed across the period was EY at Atria One (3,019 sq.m.). 2017 should now see an increase in pre-letting activity with State Street moving from Exchange Crescent to Quartermile 3 and the Government Property Unit (GPU) under offer at New Waverley.

Overall Edinburgh's office market had a solid performance, achieving 36,303 sq.m. of take-up during the six months to March 2017. Total take-up was 69,227 sq.m. for the 12-months to March 2017.

For the six months to March 2017, city centre take-up was 23,374 sq.m. across 59 deals, representing 68% of total take-up. Grade A and high quality accommodation accounted for 14,628 sq.m. or 63% of city centre office take-up.

Notable city centre transactions included: EY at Atria One (3,019 sq.m.); and Cirrus Logic's continued expansion at Quartermile 4 where they now occupy a total of 10,219 sq.m. with the addition of the 5th floor (2,105 sq.m.). This was assigned from FanDuel, who themselves consolidated into Quartermile 1 (925 sq.m.) having also assigned the 6th floor at Quartermile 4 (1,229 sq.m.) to Bank of Montreal. STMicroelectronics (2,000 sq.m.) and Zonal Retail Data Systems (1,132 sq.m.) expanded at Tanfield which is now 96% let. CMS took additional space at Saltire Court (998 sq.m.); FreeAgent expanded at Edinburgh Quay 1 (941 sq.m.); intelligentpos at Mainpoint, Westport (819 sq.m.); Ramboll Environ at 7 Castle Street (409 sq.m.); and Wipro at 2 Castle Terrace (468 sq.m.).

Prime rents for existing Grade A accommodation in Edinburgh city centre are £300-£323 per sq.m. rising up to £350 per sq.m. for pre-letting activity on the best quality office space. Incentives remain around 18-24 months for a 10-year lease commitment to high quality covenants.

Edinburgh's peripheral office markets saw a total of 12,929 sq.m. transacted across 36 deals over the past six month period, a 13% increase in activity from the previous six month period.

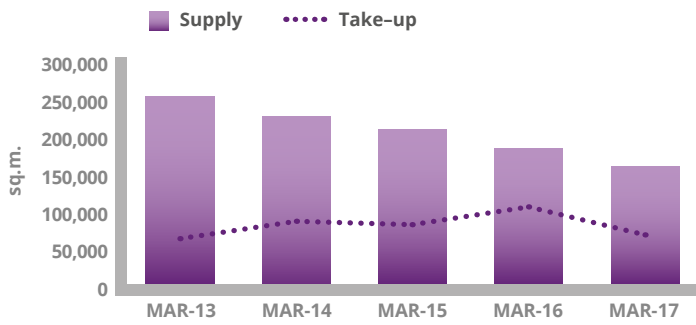
West Edinburgh saw a total of 3,810 sq.m. transacted across seven deals including 38 South Gyle Crescent (1,115 sq.m.) which was sold to Coda Octopus; Heriot House, 595 Calder Road additional (1,098 sq.m.) let to Sykes Global Services for continued expansion; and Akamai Technologies leasing space at 2 Lochside View, Edinburgh Park (414 sq.m.).

Prime rents in West Edinburgh are currently up to £172 per sq.m. for refurbished options in the South Gyle area, rising to £215 per sq.m. on Edinburgh Park. At present there is no speculative office development, but several buildings are undergoing refurbishment offering affordable office options to the market which include: 6,967 sq.m. at Haston House; HSBC releasing 3,716 sq.m. within Edinburgh Park and Broadway Park offering c. 3,716 sq.m.

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

Address	Size	Occupier
Eco Campus, Hamilton	20,903 sq.m.	University of the West of Scotland
Maxim 7, Maxim Office Park	4,078 sq.m.	Balfour Beatty
St Vincent Plaza, St Vincent Street	3,207 sq.m.	Mott MacDonald
1 Atlantic Quay	1,394 sq.m.	Scottish Courts and Tribunals Service
Granite House, Stockwell Street	1,300 sq.m.	Utilita Energy Limited
38 Cadogan Street	983 sq.m.	Westcot Credit Services Limited
Grosvenor Building, Gordon Street	798 sq.m.	Cigna

Edinburgh office supply and take-up



In North Edinburgh a total of 2,039 sq.m. transacted across eight deals including CHASE Recruitment's expansion at Sugar Bond (228 sq.m.) and TPS Consult relocating within Commercial Quay (181 sq.m.).

Prime rents in North Edinburgh are up to £150 per sq.m., although there remains a limited supply of quality stock and the general tone for the area is closer to £130 per sq.m. Anticipating increased demand due to tightening city centre supply, the Leith office market has seen recent investment with Blackstone undertaking a £250,000 refurbishment at their Commercial Quay development, one of the principal commercial destinations in the area.

Leith is also awaiting a decision on the proposed extension of the Edinburgh Tram which is expected to be announced later this year.

Total office supply across Edinburgh at March 2017 is 160,944 sq.m., a slight decrease of 1.5% from the previous six-month recorded figure. The conversion of older offices to alternative uses by developers continues to gradually erode the city's stock. Examples over the past six months include Chesser House, 500 Gorgie Road (12,217 sq.m.) in West Edinburgh, 7 Rutland Square (551 sq.m.) in the city centre and The Citadel, 40 Commercial Street (196 sq.m.) in Leith, all of which are to be converted to residential use.

The potential additional supply of new Grade A/refurbished space deliverable over the next three years stands at 72,884 sq.m. However, this includes both Capital Square (11,334 sq.m.) and The Haymarket development's tHe 5 building (8,826 sq.m.), neither of which is currently on-site to deliver office accommodation, and would rely on pre-letting to unlock development.

Edinburgh's office supply and pipeline will come under further pressure with a number of significant deals in the immediate pipeline including the ongoing GPU requirement which is under offer at Artisan's New Waverley development (14,865 sq.m.), M&G Real Estate's Quatermile 3 (6,782 sq.m.) to State Street and space also expected to transact at Chris Stewart Group's city centre developments, at Greenside and The Mint Building. Occupiers seeking larger buildings will continue to target pre-letting opportunities. This emphasises the need for future development on consented sites to be programmed to maintain market supply, including India Quay, Freer Street and the additional phases of The Haymarket development.

In the meantime, several completed refurbishments offer good quality office space, including One Lochrin Square (5,984 sq.m.) and 40 Torphichen Street (4,848 sq.m.), and for smaller occupiers 1 St Andrew Square (1,503 sq.m.) and 131 Princes Street (1,022 sq.m.). Further potential refurbishments in the pipeline could allow developers to increase the quality and range of office accommodation on offer to occupiers.

The correlation in the oil and gas sector between commodity pricing and economic activity still underpins the **Aberdeen** and north east region as a whole. In the last six months the price of Brent Crude has risen from \$48 to \$55 per barrel at the time of writing. Ongoing price stability at above \$50 per barrel, together with the vast reduction in operating costs achieved over last two years, has resulted in a return to viability for the industry.

This appears to have instilled more confidence in the sector generally and production from the UKCS also grew by around 10% over the last year to c. 1.7m bpd. Signs of this improvement are now filtering slowly through to the property sector.

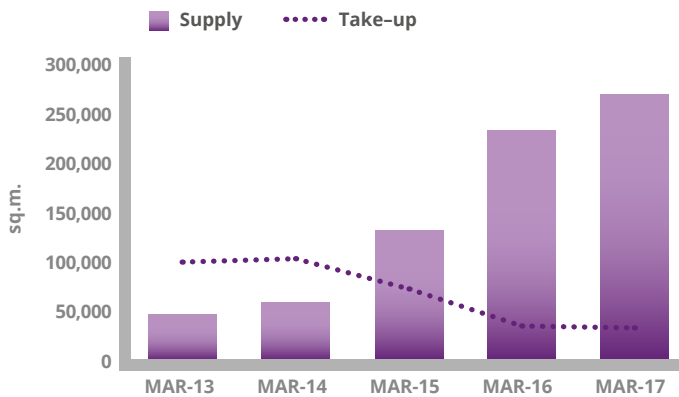
Office supply in Aberdeen has once again risen, to just under 269,400 sq.m. which is up by 7% from six months ago. Of this, c. 28,335 sq.m. remains under construction. Grade A stock accounts for c.111,500 sq.m. (41%) of total office supply.

Smaller suites are now beginning to come on the market as shown by the jump in number of available properties. This has increased by 12%, taking total supply to 278 properties.

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

Address	Size	Occupier
Atria One, Morrison Street	3,019 sq.m.	EY
Quatermile 4	2,105 sq.m. (additional)	Cirrus Logic
Quatermile 4	1,229 sq.m.	Bank of Montreal
38 South Gyle Crescent	1,115 sq.m.	Coda Octopus
Mainpoint, Westport	819 sq.m.	intelligentpos

Aberdeen office supply and take-up



West End office rents have fallen to headline figures of c. £269-£296 per sq.m. This has been evidenced by some open market lettings but is more prevalent in lease renewals, re-gears and extensions. Incentives are still underpinning these transactions with approximately 12-months rent free underpinning a 5-year commitment. Prime rents on three new city centre office schemes have remained at £345 per sq.m. albeit the volume of transactions is significantly lower than in the West End and both The Silver Fin and Marischal Square will not complete until mid-2017. The Capitol completed in Spring 2016.

Take-up has risen by 92% to 21,832 sq.m. over the past six months, in 31 transactions. Of these transactions, 10,870 sq.m. of them are Grade A stock. While total take-up has almost doubled from the previous six months, it is important to note that this figure is underpinned by two significant lettings.

Marathon Oil Corporation has taken 3,252 sq.m. at Hill of Rubislaw and Total E&P has acquired the former 10,030 sq.m. Subsea 7 property at Westhill.

Other significant deals include: Siccar Point Energy Plc at H1, Hill of Rubislaw (715 sq.m.), law firm Maclay Murray & Spens at The Capitol (464 sq.m.), and the Care Inspectorate at AB1 (511 sq.m.). Each signals an important market trend. Siccar Point Energy is a new energy sector player which recently acquired OMV's interest in existing North Sea assets. Maclay Murray & Spens follows PwC's lead in downsizing to more efficient city centre accommodation from their previous traditional

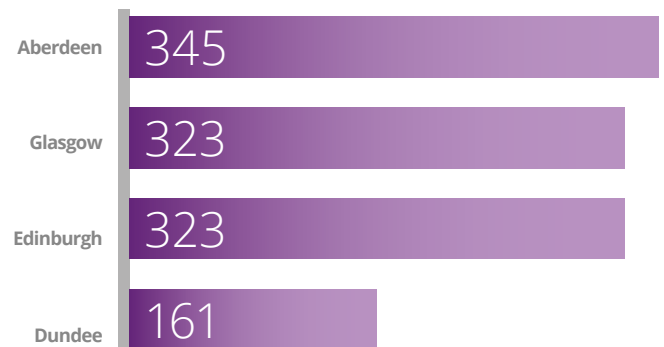
West End property. The Care Inspectorate showed their commitment to city centre re-generation by acquiring a rationalised floorplate of refurbished accommodation at AB1, having downsized from Johnstone House. This reaction by occupiers to new stock, reduced pricing, incentives and flexible leases, is broadly favourable.

Activity in the **Dundee** office market has been muted, with the majority of requirements focused around serviced office accommodation for start-up or small businesses. Recent transactions include : Crucial Visual Communications Ltd (156 sq.m.), Aspen Capital Consultants Ltd (127 sq.m.) and Sidlaw Investments Ltd (127 sq.m.) all at City Quay; and Home Fundraising at 8 South Tay Street (157 sq.m.). A larger office of 913 sq.m. was let to The Insights Group Ltd at Innovation House on Dundee Technology Park.

The sale of Aviva's Swan House on Explorer Road, Dundee Technology Park (5,145 sq.m.) by auction at the end of March will be monitored with interest by the market, with the anticipation that this strategic roadside site will offer significant potential for a new landmark development at the southern gateway to the city.

As part of the mixed-use waterfront development plans have been submitted for Site 6 by Robertson Construction Tayside Ltd for a 7,990 sq.m. office along with a 150-bedroom hotel and 88 residential apartments, the scheme will be built in phases starting in Autumn 2017.

Prime city office rents 2017 (£ per sq.m.)



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

Address	Size	Occupier
Westhill	10,030 sq.m.	Total E&P
Hill of Rubislaw	3,252 sq.m.	Marathon Oil Corporation
H1, Hill of Rubislaw	715 sq.m.	Siccar Point Energy Plc
AB1, Huntly Street	511 sq.m.	Care Inspectorate
The Capitol	464 sq.m.	Maclay Murray & Spens

Industrial

The past six months have continued the positive trend for the core **West of Scotland** industrial property market. Good demand is evident within most of the size bands and particularly so within the prime areas where there is now evidence of strong rental growth. Rents on prime trade parks are now approaching £97 per sq.m. and £81 per sq.m. is the common quoting rent on the new build product coming through. There has also been a boost to the rents of smaller units through the Small Business Rates Relief initiative, where an increasing number have the potential to be rates free and rents have risen accordingly.

Encouragingly, the development market is responding with a number of projects completing or currently on site. Overall however, it is anticipated there will be shortages should current market activity continue, and severe shortages with any significant upturn in activity. The general consensus among marketing agents is that the current political uncertainty is having an effect on the market and may be leading to caution in terms of larger property decisions and, importantly, on inward investment decisions. Whilst indigenous businesses continue to trade well and are positive about the future, there is currently insufficient modern properties to accommodate both indigenous and inward investment demand should the latter element return at any significant volume.

The current vacancy rate for the Greater Glasgow industrial property market is 7.5% (CoStar), with a total availability rate of 9.3% i.e. following the addition of existing leasehold interests which are being marketed. The rate of reduction in the vacancy rate is slowing and has been at around the 8% mark for the past 18 months. This indicates a level of structural void i.e. a significant number of buildings which are obsolete with little prospect of future use. It is unlikely that the vacancy figures can reduce much further but that does not mean there is insufficient demand. It is more likely that an amount of the remaining space, in particular large former production facilities, is unsuitable for the needs of businesses in the market.

There has been strong letting activity from mid-2013 onwards in the post-recovery period and net absorption figures have been positive since 2014 i.e. more space has been let than has returned to the market. Current figures from CoStar report the letting of 241,270 sq.m. over the past 12 months in the defined market area and a positive net absorption of 97,180 sq.m. The figures to date suggest the net absorption rate will be stronger in 2017 in comparison with 2016 and therefore a continuation of the trend whereby overall availability is reducing.

The big box market for large distribution premises has been quiet over the past six months in terms of transactions. It has been a very active period for enquiries, most of which have proven to be contract-led, but few of these contracts have been awarded to date and some have been accommodated in existing property holdings. Active contracts coming through in the next six months could quickly absorb the very few modern buildings of around 9,290 sq.m. and above. Positively, Lidl is progressing with a new Regional Distribution Centre at Eurocentral on c. 20 hectares of Scottish Enterprise land and has secured planning permission for the 58,000 sq.m. facility. There are also advanced discussions for a 5,500 sq.m. facility on the frontage land close to the existing News International facility.

The picture is not universally positive. Secondary and tertiary locations continue to have higher void levels and markets in these areas remain extremely competitive with little sign of rental growth. Improvements to the motorway network in and around Glasgow and along the M8 appear to be boosting the attractiveness of this prime core and thereby drawing in companies from farther afield. The M74 completion project for example further enhanced Cambuslang and greatly improved access to Rutherglen and areas of the East End, thereby releasing sites which would have been considered unattractive 20 years ago and adding areas to the prime core, to the detriment of locations farther out. It will be interesting to monitor the effect of the various roadworks to the East of Glasgow and in particular the Raith Interchange. The re-modelled junction should boost the market in East Kilbride by removing a congestion hot-spot and making access to the M74 and M8 quicker and easier. Presently East Kilbride is showing signs of recovery with increased letting activity however it continues to have higher than past levels of availability and there is no development activity.

Transactions of note across the area include: a unit at The Hub, Air Cargo Centre, Glasgow Airport (3,970 sq.m.) let to PJH Group at £54 per sq.m.; McAlpine Plumbing Products purchased 450 Hillington Road, Hillington Park (2,694 sq.m.) for £2.5 million; Unit 604, Clyde Gateway East (1,500 sq.m.) let to Greencore Group at £81 per sq.m. rising to £86 per sq.m. after two years; 1 York Road, Chapelhall, Airdrie (1,858 sq.m.) let to O&M Movianto at £75 per sq.m.; and 89a Southcroft Road, Rutherglen (4,645 sq.m.) let to Flip Out Glasgow at £54 per sq.m.

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

Address	Size	Occupier
The Hub, Air Cargo Centre, Glasgow Airport	3,970 sq.m.	PJH Group
450 Hillington Road, Hillington Park	2,694 sq.m.	McAlpine Plumbing Products
1 York Road, Chapelhall, Airdrie	1,858 sq.m.	O&M Movianto
Eurocentral, Lanarkshire	58,000 sq.m.	Lidl
Unit 604, Clyde Gateway East, Glasgow	1,500 sq.m.	Greencore Group

Active development projects underway in the West of Scotland comprise:

- At Hillington, PATRIZIA Immobilien AG and Oaktree Capital Management have secured practical completion on Evolution Court, a 7,940 sq.m. development of new space across four buildings ranging from 1,647 sq.m. to 2,225 sq.m. It fronts the M8 and is in addition to the other high profile frontage projects where new dealerships are completing for Volvo/Jaguar, Ducati, Triumph and Harley-Davidson. The quoting rent at Evolution Court is £81 per sq.m. There is also good early interest for a 4,399 sq.m. trade park on Mossland Drive with active pre-let interest.
- At Rutherglen Links, Rutherglen by Junction 2 of the M74, Harris Finance has completed 1,858 sq.m. and 929 sq.m. units with plans for a further 1,208 sq.m. which will go on site in May. A part (697 sq.m.) of the 929 sq.m. unit is in legal hands for a Trade Use with the balance available at a rent of £86 per sq.m., and there are discussions ongoing in relation to the 1,858 sq.m. unit where the quoting rent is £81 per sq.m.
- At Clyde Gateway East, London Road, Glasgow, Clyde Gateway URC is on site to develop a 2,550 sq.m. unit targeted at the engineering and production sectors with completion due in August 2017. The unit has been designed to take 15 tonne crange. The quoting rent is £81 per sq.m. and early viewings have been conducted. The strength of the location is demonstrated by the letting of building 604 on MEPC's portion of the site where a 1,500 sq.m. unit was taken prior to completion by the Greencore Group. The deal was on a stepped rent basis with two years at £81 per sq.m. rising to £86 per sq.m. thereafter and on a straight 10-year lease. Building 605 (1,281 sq.m.) is currently under appraisal.
- In Lanarkshire, Fusion Assets has been the most active developer and has acquired a number of plots to bring forward product of up to 1,858 sq.m. Fusion Assets recently completed construction at Western Campus, Strathclyde Business Park to provide 4,090 sq.m. of smaller unit space in various terraces and early letting activity has been strong. Elsewhere Fusion Assets is building at Link Park, Newhouse which is masterplanned to provide approximately 11,040 sq.m. of new accommodation in units from 464 sq.m. Phase 1 provides 1,858 sq.m. in a building with sub-division capability to provide units from 464 sq.m. and is due to complete in May 2017.

The industrial market within prime locations of **East Central Scotland** remains robust. That said, the sector faces headwinds in the form of slower economic growth and political uncertainty, on top of the recently reduced vacant industrial rates relief, new EPC regulations and revised rateable values from 1st April 2017.

Small industrial units have attracted the biggest increase in demand and rental levels. It will be interesting to see whether the Scottish Government's initiative to offer 100% rates relief on accommodation with a rateable value of £15,000 or below may, in tandem with lack of availability, encourage increased rents.

Although some small unit developments now have waiting lists, there is still a near-absence of speculative development. Continuing demand pressures should provide confidence to landlords and developers looking to embark on either refurbishment programmes or speculative development. However, while many developers have confirmed the desire to undertake schemes, the lack of suitable and affordable land in key locations together with rising construction costs are challenging the development appraisal.

The supply of industrial property is at an all-time low in Edinburgh. A lack of available accommodation together with the restricted development pipeline have inevitably led to rent rises and some landlords now seek a minimum lease duration of 10 years. Following the success of C&W Assets speculative Phase 1 of West Edinburgh Business Park, South Gyle the company has commenced construction of Phase 2, providing two terraces of units totalling 2,415 sq.m. in sizes from 232 sq.m., due to complete late 2017.

Industrial deals across Edinburgh city include Alien Rock taking 23 Dunedin Street (476 sq.m.) at £75 per sq.m.; Unit 1 Newbridge One Industrial Estate, Newbridge (489 sq.m.) let to HSS Hire at £86 per sq.m.; 24 West Shore Road, Granton (293 sq.m.) let to Siemens at £85 per sq.m.; and Edinburgh Napier University taking Unit 1 at 7 Hills Business Park, Sighthill (1,679 sq.m.) at £86 per sq.m.

The availability of modern buildings larger than 4,645 sq.m. within Edinburgh and the immediate surrounding area is marginal. Consequently, take-up levels have plateaued due to the lack of suitable properties rather than demand. This shortage of supply has led to a number of requirements remaining outstanding for both manufacturing and distribution uses. Buildings which

do remain available are located in West Edinburgh, where IPIF has 4,645 sq.m. within Edinburgh Distribution Park off Cliftonhall Road and Scotmid's 9,290 sq.m. high-bay warehousing accommodation on Queen Anne Drive, Newbridge is sub-divisible into four units.

The market continues in strength in Midlothian especially within Hardengreen Industrial Estate, Dalkeith and at Bilston Glen, Loanhead, both of which report low vacancy rates. As reported in the 79th Scottish Property Review in October 2016, rents continue to rise from one transaction to the next. This is evidenced by recent lettings at Bilston Glen Industrial Estate, Loanhead including Super Evil Company Ltd at Unit 39 Imex Business Centre (269 sq.m.) for £66 per sq.m.; Masstone Ltd at Unit 8 Dryden Road (834 sq.m.) for £70 per sq.m.; and Eden Medical at Unit 2 Dryden Loan (446 sq.m.) for £75 per sq.m. Encouragingly new development is underway in Loanhead with Southwark Developments' speculative trade counter scheme, Phase 1, Pentland Industrial Estate comprising c. 4,740 sq.m. in 13 units. In addition the company has recently completed an extensive refurbishment and sub-division of 10 units within Edgefield Trade Park.

In West Lothian there continues to be good take-up for buildings below 929 sq.m., specifically in Livingston. The recent refurbishment programme at Brucefield Industry Park has led to a number of lettings including Unit 5 Rennie Square (578 sq.m.) to Ink On Paper and Unit 4 Rennie Square (578 sq.m.) to Deutsche Windtechnik, both at £48 per sq.m. Other deals in the region include GE taking Unit 5 Elphinstone Square, Deans Industrial Estate, Livingston (972 sq.m.) at £43 per sq.m. and Unit 15 Tartraven Place, East Mains Industrial Estate, Broxburn (291 sq.m.) let to Nu Stock Ltd at £54 per sq.m. C&W Assets has pressed the button on Phase 2 at Inchwood Park in Bathgate following the success of Phase 1. This second phase of 2,675 sq.m. is due for completion by the end of 2017 and pre-lettings of part of this space have been agreed with Screwfix and Howdens Joinery.

The upper Forth Estuary around Stirling/Grangemouth/Falkirk is an attractive destination for both industrial and trade occupiers. Supply, like many other areas, is exceptionally low. Bluewater Scotland has committed

to the speculative build of a terrace of eight industrial and trade counter units at Springkerse Industrial Estate, Stirling. This development will total 2,695 sq.m. in units from 232 sq.m., strong demand is reported with six of the units under offer and quoting rents are in excess of £80 per sq.m. In Grangemouth, Northern Trust has submitted a planning application for the final phase of its development on Earls Gate Park, to comprise a series of industrial and trade units totalling 1,672 sq.m. in units from 93 sq.m. Meanwhile, Falkirk Council is developing four speculative 232 sq.m. units at Abbotsford Business Park in Falkirk, available at rents in the region of £80 per sq.m.

In Fife, Caledon Property Group purchased the remainder of the Simclar International accommodation on Pitreavie Business Park, Dunfermline which totalled c. 11,200 sq.m. A portion of this accommodation has been demolished to create a future development site, and following the refurbishment of Block 1 lettings have been secured to the Scottish Ambulance Service and LaundryPro at £43 per sq.m.

Also in Dunfermline, a joint venture between Fife Council and Scottish Enterprise has recently completed a masterplan exercise of Fife Interchange. The first phase of Fife Interchange is the existing 92,900 sq.m. Amazon Regional Fulfilment Centre. Further sites are available for purchase on design, build and lease from 0.4 hectares up to 17.3 hectares.

The Queensferry Crossing is due for completion during the Summer of 2017. This will not only have a positive impact on the Bridgehead area and Fife, but also improve connectivity between cities and towns throughout East Central Scotland.

In the Scottish Borders, Catalyst Capital has now completed the refurbishment of vacant accommodation on Tweedbank Industrial Estate in Galashiels. Having secured lettings to Borders College, Scottish Borders Supports LLP and Meigle Colour Printers, the only space now available is units of 347 sq.m. and 13,077 sq.m.; the rental required for the larger unit is £40 per sq.m.

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

Address	Size	Occupier
Unit 1, 7 Hills Business Park, Sighthill, Edinburgh	1,679 sq.m.	Edinburgh Napier University
Unit 5, Elphinstone Square, Deans Industrial Estate, Livingston	972 sq.m.	GE
Unit 4, Rennie Square, Brucefield Industry Park, Livingston	578 sq.m.	Deutsche Windtechnik
Unit 8, Dryden Road, Bilston Glen Industrial Estate, Loanhead	834 sq.m.	Masstone Ltd
Wright Avenue, Dundee	6,596 sq.m.	Amazon

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

Address	Size	Occupier
Badentoy North Business Park, Portlethen	3,975 sq.m. + yard	Geopost UK Ltd
Units 1-3, Howe Moss Drive, Dyce, Aberdeen	3,461 sq.m. + yard	Kuehne & Nagel
17-19 Greenhole Trading Estate, Dyce, Aberdeen	1,269 sq.m. + yard	Zilift Ltd

The industrial market in **Aberdeen** continues to experience difficult and challenging times, despite the increase in oil price and improved industry stability noted in the office market commentary on page 9.

Industrial take-up in the last six months totals 18,535 sq.m., a 37% decrease from the previous six months' figure. Take-up is down across all size ranges with the exception of premises between 186 – 464 sq.m, where take-up has risen by 61%. A further 16,910 sq.m. of industrial space which is currently under offer may however signal a more positive period emerging.

The number of deals concluded has fallen by a similar proportion from 27 to 18. Larger transactions include: Geopost UK Ltd at Badentoy North Business Park, Portlethen (3,975 sq.m.); Kuehne & Nagel at Units 1-3, Howe Moss Drive, Dyce (3,461 sq.m.); and Zilift Ltd at 17-19 Greenhole Trading Estate, Dyce (1,269 sq.m.).

Supply has significantly increased in the last six months by 27% from 132,372 sq.m. to 167,282 sq.m. The number of properties available in the market place has risen from 126 to 155, a 23% increase. Supply is up in all size ranges with the exception of 186 – 464 sq.m. range, which is down 8%, due mainly to the strong activity in this popular size range. Most notably, supply has increased by 44% in the 0 – 185 sq.m. size range, and by 56% in buildings exceeding 929 sq.m.

Rental levels have remained strong for new build and good quality stock, but rents for second hand buildings are starting to fall as the level of supply increases. Occupiers are seeking rental reductions and more flexible lease terms. Landlords are having to consider this, especially in light of the recent changes which would make owners of empty units liable for vacant business rates.

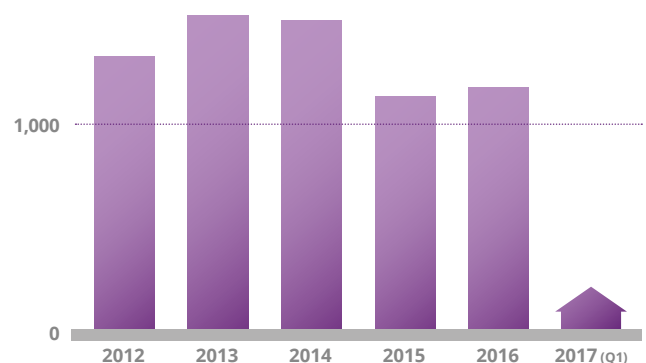
Two speculative industrial developments are due for completion in the next few months, Muir Group's E8 at Aberdeen Gateway totalling 1,347 sq.m., and Knight Property Group's Unit 2, Kingshill Commercial Park, Westhill totalling 1,393 sq.m. It is unlikely that developers will press ahead with further speculative schemes until those that are presently available have been taken up. The aforementioned change to the vacant rates relief for industrial stock is also a significant factor.

The **Dundee** industrial market continues to be well supplied but with a significant proportion of available stock failing to meet occupier requirements due to size, configuration and age. Good demand exists for small to medium sized units of between 93 and 278 sq.m., exactly where stock is most limited. Rental levels remain firm as a result of the limited supply of modern stock. Recent transactions include Cooper's Auto Repairs at Marybank Lane (49 sq.m.) and Turner Facilities Management at Longtown Street (543 sq.m.).

There has been an increase in the number of large industrial requirements (from 900 to 1,858 sq.m.) as several companies look to bridge the gap between the central belt and Aberdeen. Amazon are a good example of this trend, the company agreed a sub-lease of 6,596 sq.m. from Brake Bros at Wright Avenue and are actively seeking to identify premises in Aberdeen to complement their regional distribution centre in Dunfermline.

Peter Vardy Group's car dealership, CarStore, is due to open in May 2017 in a 6,500 sq.m. showroom built on the site of the Valentines' factory on Dunsinane Industrial Estate.

Number of industrial transactions in Scotland



Retail and Leisure

Despite sales growth continuing through 2016, consumer confidence has fallen and like-for-like expenditure is now following suit, as rising inflation, limited wage growth and rising household debt take effect. Retailers will also be faced with the decision to pass on cost increase pressures likely to be the National Living Wage and in some instances increased business rates.

On the expansion trail are the coffee operators who continue to seek space both in and out-of-town, including Costa Coffee, Starbucks and Pret a Manger, together with new operators in the market such as Coffee Republic and Tim Hortons which has made an appearance in the UK through a franchise agreement with SK Group.

Co-op continues to expand and targets a further 20 new stores in Scotland to include Edinburgh, Gretna and Alyth to complement the 15 stores acquired during 2006 which included Bearsden, Kirkcaldy, Laurencekirk and Peterculter. Aldi plans six new stores across Scotland during 2017 including in Dumfries, Montrose and Drumchapel. This will increase its Scottish portfolio to 78. Lidl continues its expansion and intends to double the number of stores throughout the UK to 1,500. However, following the administration of Food Retailer Operations Limited, 34 of its Budgens stores are closing including its two in Scotland, at Paisley and Prestwick.

High Street banks continue to shed branches throughout the country. Following on from 30 Scottish branch closures from the Royal Bank of Scotland and 40 branches of the Clydesdale Bank closing, the Bank of Scotland has announced a further 26 branch closures throughout Scotland.

Although the number of retailers falling into administration has declined recent failures include Jaegar, Jones Bootmaker, Brantano, 99p Stores, Agent Provocateur and Ness Clothing leading to jobs losses and store closures. In addition Marks & Spencer and Debenhams are reviewing their portfolios.

Glasgow's "super prime" Buchanan Street continues to attract strong interest from luxury retailers, with T2 having secured the Gieves & Hawkes unit at 131 Buchanan Street on a new 10-year lease at £240,000 per annum showing a new record Zone A rate of £317 per sq.ft. Hines has secured New Look for a menswear store (531 sq.m.) over ground floor and dining chain Vapiano (1,022 sq.m.) for a restaurant at first floor within the former George Hotel at 235 Buchanan Street, which will add to the new H&M (5,574 sq.m.) due to open within the former Forever 21 space in Buchanan Quarter. Clarks has secured a new lease at 164 Buchanan Street (112 sq.m.) and Les 100 Ceils has taken their debut Scottish store at 18 Princes Square, trading alongside Links of London, Belstaff and COS.

At the opposite end of Buchanan Street, St Enoch Shopping Centre is introducing a 8,360 sq.m. leisure development. The demise of BHS has allowed the owners of the centre, Blackstone in partnership with Sovereign Centros, to create a significant cinema and restaurant-led leisure quarter.

Out-of-town at **Silverburn** shopping centre, Flannels have opened a high-end designer outlet (owned by Sports Direct), its first store in Scotland. Flannels joins other new retailers to the centre, clothing retailer Jack Wills, beauty retailer KIKO Milano and denim brand Levi's.

British Land has been busy with **Glasgow Fort** and announced new restaurant lettings to Gourmet Burger Kitchen (279 sq.m.), Thaikhun (348 sq.m.), Café Rouge (362 sq.m.), Pret a Manger (232 sq.m. within a pod) and Yo! Sushi (213 sq.m.), together with Costa Coffee and Nando's upsizing. In addition, retail lettings have been secured to JD Sports (929 sq.m.), Mamas & Papas (464 sq.m. relocation), Paperchase (186 sq.m.) and Smiggle (93 sq.m.) together with Waterstones (306 sq.m.), Tessuti and Scotts (929 sq.m. within a shared unit) and Superdry (1,115 sq.m.) taking their first out-of-town store in Scotland.

The regeneration of **Edinburgh** St James is well underway; pre-lets have been agreed by TH Real Estate with Next for a 4,645 sq.m. flagship clothing store and Everyman Cinemas for a 5-screen boutique cinema, alongside 20 proposed restaurants, 150 apartments, 1600 car parking spaces and a 214-bed luxury W hotel. Demolition within the site has commenced and the retail and leisure elements are due to open in 2020.

On Edinburgh's Princes Street, stationer Smiggle opened a store at No. 42a, Chisholm Hunter opened a flagship jewellery store at No. 97/98, and jeweller H Samuel opened at No. 119. Sports Direct acquired the former HMV unit at No. 129-130 and has now opened a store here. On George Street, Aspinal of London opened a luxury leather store at No. 43 George Street and Xile Clothing opened at No. 92.

Edinburgh continues to attract further restaurant operators with Five Guys taking 12 Frederick Street (678 sq.m.) at a rent of £200,000 per annum. It is understood that Five Guys has taken a 20-year lease with five yearly rent reviews. In addition, Miller & Carter secured a new restaurant at 29-31 Frederick Street.

Out-of-town, two sofa retailers have opened at **Straiton** Retail Park, FABB Sofas (1,858 sq.m.) and ScS Sofas (705 sq.m.).

In **Aberdeen**, BMO Real Estate Partners announced they are looking to build upon additional restaurant and cinema offerings within the Bon Accord Centre with proposals for a complementary hotel, residential accommodation and serviced apartments. An application has been lodged with Aberdeen City Council seeking Planning Permission in Principle to expand and transform the centre.

The Hub, a new 6,500 sq.m. leisure quarter at **East Kilbride**, officially opened at the end of 2016. The leisure destination includes eight new restaurants and cafés, a climbing wall, aerial adventure course and soft play, which sit around a refurbished ice rink and an existing Odeon Cinema.

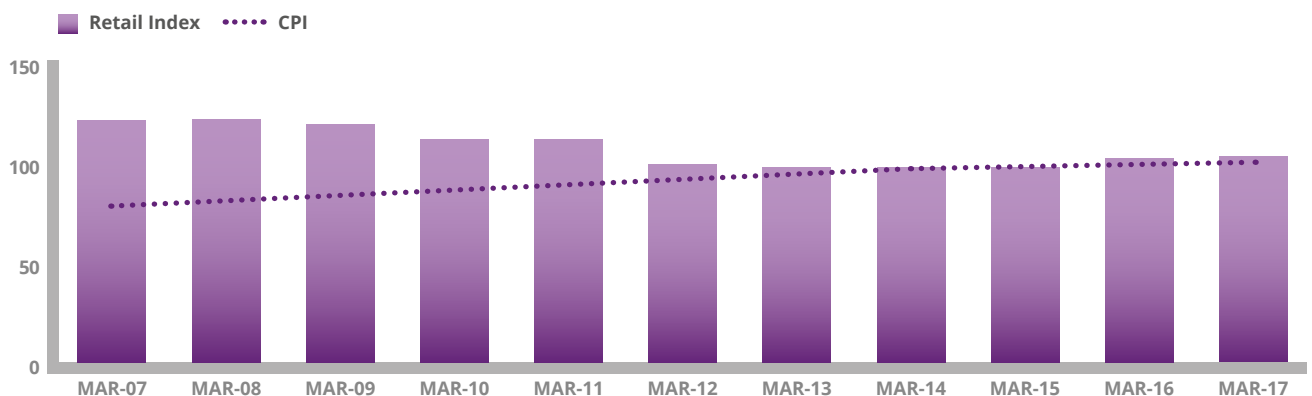
At Fife Central Retail Park in **Kirkcaldy** the former Homebase unit has been demolished to make way for four new units. Owners Hammerson has agreed pre-lets for three of the units with DW Sports, Wren Kitchens and Sofology. A standalone 'pod' unit is also available. In addition Tapi Carpets & Floors will open in the former PC World unit during 2017 following PC World merging into the Curry's unit.

Ryden's prime retail rent index covers Scotland's top 20 shopping locations and is shown on the chart. The index has stalled again following a number of rental rises in 2016, although it has broadly kept pace with retail price inflation since 2013.

Retail transactions over the last six months include:

Address	Size	Occupier
235 Buchanan Street, Glasgow	531 sq.m.	New Look
164 Buchanan Street, Glasgow	112 sq.m.	Clarks
Glasgow Fort, Junction 10 M8, Glasgow	1,115 sq.m.	Superdry
42a Princes Street, Edinburgh	63 sq.m.	Smiggle
Straiton Retail Park, Straiton	1,858 sq.m.	FABB Sofas
East Kilbride Shopping Centre	790 sq.m.	River Island

Retail rent index



Source: ONS/Ryden. Index baseline of 100 is at 2015.

Investment

While there have been some notable sales across Scotland in recent months, the seemingly never-ending political interference continues to be a feature of the commercial property investment market. Just as the market was settling down after the Brexit vote, the First Minister's formal request in March for a second Independence Referendum has made some investors pause for thought once again and most recently the UK faces a further General Election.

After the EU Referendum last year, numerous larger open-ended retail funds were forced to apply discounts or suspend trading to keep investor redemptions in check. Encouragingly, all of the gated funds had resumed normal trading by the end of 2016 after the market recovered from the initial shock of the vote.

However, there has been very little evidence of these retail funds actively seeking opportunities in Scotland since then. Once again foreign investors have been the most acquisitive particularly when well-let trophy assets have been brought to the market. The weakness of Sterling has inevitably helped their cause and some have clearly been attracted to the higher yields available in Scotland compared with south of the border and London in particular.

At the smaller private investor end of the market, political uncertainty has been largely ignored. Demand for lower value opportunities is strong, fuelled by the meagre interest rates offered by banks and the perceived risk of a stock market correction.

Office Property

Continuing with recent trends, activity in the Scottish office property sector has been somewhat variable during the last six months. In general terms, investor demand has been greatest in Edinburgh, although Aberdeen has seen the most significant rise in transaction volumes. Meanwhile, the relative inactivity in Glasgow reported in Ryden's last review has continued. There is no doubt the ongoing political uncertainties are influencing the market and overall investor appetite.

During the past six months Edinburgh has recorded the largest volume of transactions of the three cities, with foreign investors to the fore again. The stand out deals were Aberdeen Asset Management's Exchange Place sales with Building 1 acquired by GLL Real Estate Partners for c. £47 million (an initial yield of 5.56%) and Buildings 2 & 3 to an overseas client of HSBC Private Bank for c. £36 million (5.86%). All of the buildings at Exchange Place are prime Grade A multi-let assets. One other notable transaction was Buccleuch Property's sale of the Scottish Qualifications Authority building at Shawfair Park to Placid Invest, another private overseas investor, for £14.2 million (5.73%). While the location is out-of-town and not prime, the rare opportunity to acquire a 20-year lease to a government tenant proved very appealing, with twenty offers received.

In Glasgow, two buildings attracted fund buyers. The most notable was Tristan Capital Partners' sale of the Cuprum Building at Cadogan Square to Credit Suisse for £28.05 million (6.81%). The multi-let Grade A building marks a return to Glasgow for Credit Suisse which was last active in the city in 2008 when they owned Atlantic Quay. Meanwhile, Kames Capital acquired the multi-let Cornerstone Building at 107 West Regent Street for £6.475 million (7.22%).

The first quarter of 2017 brought a welcome boost to the Aberdeen market with three office buildings changing hands at a combined value of over £52 million. This represents a 275% increase compared to the whole of 2016. The most notable was Drum Property Group's corporate sale of the Lloyd's Register Building at Prime Four prior to marketing for £41.28 million. The purchaser was LCN Capital Partners, a US private equity fund.

Further significant transactions are anticipated in Aberdeen with several buildings presently on the market, including City Wharf, Ensco House and Total's West Campus at Westhill. Some investors have caught on to the oil recession having bottomed out and with investment in the industry increasing there is more reason to be optimistic. Activity may also pick up in Glasgow with Guildhall Queen Street and Granite House, Stockwell Street introduced to the market in late March.

Based upon the IPD Quarterly Index the Total Return for the sample of Scottish office properties for December 2016 was -0.2%, which is down from 9.2% the previous year. This was largely due to reductions in capital and rental value growth, both of which were in negative territory. Total returns for UK offices for December 2016 also fell significantly from 17.6% to 2.1%.

Office property investment deals include:

Address	Property	Purchaser
Cuprum, Cadogan Square, Glasgow	9,067 sq.m. Grade A office building. Multi-let to SAS/Memex, AXA and Teleperformance	Credit Suisse for £28.05 million (6.81%)
7 West Nile Street, Glasgow	3,000 sq.m. Grade B refurb multi-let office and restaurant on ground floor. Tenants include Carluccio's and Capita Property	Telereal Trillium for £6.9 million (7.9%)
Cornerstone, 107 West Regent Street, Glasgow	1,923 sq.m. multi-let modern office building. Tenants include HBJ Gateley	Kames Capital for £6.475 million (7.22%)
Cotton House, Cochrane Street, Glasgow	4,863 sq.m. single let office building, let to the Secretary of State for Communities and Local Government until Dec 2028, tenant break option Dec 2020	Artisan Real Estate Investors for £9.1 million (10.12%)
Exchange Place 1, Edinburgh	Prime city centre office, fully let to BlackRock International, Hymans Robertson, Cundall Johnston & Partners and Evans Cycles c. 11, 126 sq.m. WAULT c. 6 years to breaks and 11 to expiries	GLL Real Estate Partners for c. £47 million (c. 5.56%)
Exchange Place 2 & 3, Edinburgh	Prime city centre, multi-let office buildings extending to 8,382 sq.m. Tenants include Wood Mackenzie, Scott-Moncrieff and Max Fordham	Clients of HSBC Private Bank for c. £36 million (c. 5.86%)
Norloch House, King Stables Road, Edinburgh	1,211 sq.m. detached period office building. Leased to Whitespace (Scotland) Ltd until May 2025	Knight Frank Investors for c. £5 million (c.5.52%)
SQA building, Shawfair Park, Edinburgh	Modern out-of-town business park office investment providing 20 years unbroken income to the Scottish Ministers	Placid Invest for c. £14.2 million (5.73%)
Quattro House, Wellington Circle, Altens, Aberdeen	4,180 sq.m. single-let office building with 7.75 years unexpired to Petrofac Facilities Management	FCFM Group for £7.7 million (12.22%)
Prime Four Business Park, Kingswells, Aberdeen	New 9,470 sq.m. single-let office building let for 15 years to Lloyd's Register	Corporate purchase by LCN Capital Partners for £41.28 million
Trafalgar House, Hareness Road, Altens	Two adjacent office buildings totalling 8,900 sq.m. with a very short term lease expiry	FCFM Group for £4 million

Industrial Property

Since our last review, there has been pockets of industrial investment, but generally activity has been held back by a lack of stock coming to the market, especially for multi-let estates in Central Scotland.

Investor demand remains decent, helped by the strong occupational story in the central belt and the lack of supply of modern, good quality units across all the major centres including Aberdeen. Higher yields available for estates in Scotland in comparison to equivalent properties south of the border provide some of the best value to be had in the current market.

Activity in the single-let investment sector remains brisk for modern, well located units irrespective of lease length. As the deal schedule highlights, there has been activity at either end of the lot size range but demand is strong across the board. The recent reduction in vacant rates

relief has yet to fully impact on the sector due to the low vacancy rates and continued occupier demand, although where secondary/tertiary properties have an ongoing void assumption, the higher holding costs will need to be factored into pricing.

Similarly, investors need to be aware of the recent change to the Energy Performance Regulations, particularly for owners of older properties where potentially more work may be required to conform to an Action Plan.

Total returns for Scottish industrial property for 2016 were 4.1%, a fall from 13.2% in 2015. This reflects the lack of yield reduction in the Scottish industrial sector as has been witnessed in equivalent markets in England, and doesn't yet reflect recent rental growth which has yet to work its way into the data. In comparison, total returns for UK industrial for the equivalent period fell to 7.7% from 16.8% in 2015.

Industrial property investment deals include:

Address	Property	Purchaser
M8 Interlink, Coatbridge	26,951 sq.m. multi-let industrial estate comprising 20 units, mixture of 1980's and 1990's stock. WAULT to breaks of six years	Parabola for £15.9 million (7.95%)
Anniesland Business Park, Glasgow	16,958 sq.m. multi-let industrial estate comprising 64 units. Mix of national and local covenants	C2 Capital for £11.05 million (7.5%)
Tradeteam (DHL), Cambuslang	12,592 sq.m. high quality purpose built distribution facility. Let to Tradeteam on FRI terms expiring May 2027, tenant break option May 2022. Passing rent of £715,000 pa	L&G for £9 million (7.48%)
Abbeyhill Industrial Estate, Edinburgh	Multi-let city centre industrial investment. Terrace of six units. Tenants include Edmundson Electrical, HSL and The Edinburgh Festival Centre	Artisan Real Estate for c. £3.1 million (c. 4.85%)
23 Cliftonhall Road, Newbridge, Edinburgh	Single-let industrial investment leased to Tesla	Private investor for c. £1.36 million (c. 8.36%)
104 and 104a Market Street, Musselburgh	Industrial/trade counter investment leased to Magnet and Baileyfield Parking Limited	Private investor for c. £1.3 million (8.82%)
Amazon, Amazon Way, Dunfermline	92,900 sq.m. fulfilment/distribution centre let to Amazon until 2031	Rasmala for c. £54 million (c. 5.25%)
Gateway Business Park, Aberdeen	New 1,810 sq.m. single-let unit let for 15 years to ERIKS	Private investor for £2.990 million (6.67%)
Badentoy North, Portlethen	New 3,980 sq.m. single-let industrial distribution unit let for 25 years to DPD Group	Riverside Capital for £8.5 million (5.22%)
Badentoy North, Portlethen	New 865 sq.m. single-let unit let for 20 years to BT plc	Private investor for £3.221 million (5.25%)
Murcar Industrial Estate, Bridge of Don	Three adjacent industrial ground lease sites (4.5 hectares) let with c. 90 years unexpired	Nationwide Pension Fund for £6.9 million (3.52%)

Retail and Leisure Property

Across the retail property investment sector including leisure, the various sub-sectors combine to present a rather mixed picture. In general retail sales recorded strong growth throughout 2016 and Christmas trading was reasonably good for the majority of traders. Retail sales growth has however slowed since and consumer demand softened as some sectors have experienced inflationary pressure. The occupier market has remained relatively flat throughout and more recently there has been a degree of fall out with the likes of Brantano and Jaeger being placed into administration. Against this background, the concentration of investors across the various sub-sectors has mostly focused upon prime and very strong secondary stock. The quality and sustainability of the rental income is also key.

The shopping centre sub-sector of the market across the UK experienced a lower than average level of transactional activity in 2016 and has suffered a slow start to 2017. Outwith top prime assets, yields have increased and investor caution continues to support a gap between vendor and purchaser aspirations. As pricing softens for value-add and opportunistic centres, investors may be tempted by income yields. Key to success will be income preservation.

Work is now well underway on Edinburgh St James following the acquisition of a 75% stake in THReal Estate's scheme by Dutch Pension Fund, APG. On behalf of the European Cities Fund, TH Real Estate has also acquired the adjacent OMNI leisure scheme from Aviva Investors Property Trust for c. £75 million. This sale generated significant interest and competitive bids were received from a mix of UK institutions and overseas funds. The sale represents a real vote of confidence in Edinburgh and also underlines that the future of the Capital city's leisure and retail offer is firmly focused on the east end, with the purchase of Waverley Mall shopping centre on Princes Street, Edinburgh for c. £23.25 million (8%). Despite this activity, the sales of the Gyle (west Edinburgh) and Ocean Terminal (Leith) have stalled. It will be interesting to see how the sale of the Kingsgate Centre, Dunfermline is received following its recent launch by Oaktree Capital Management.

The high street market in contrast to the shopping centre sub-sector had a relatively strong 2016, with an increasing number of smaller transactions. This in part is due to low interest rates and the increasing interest in the sector from private investors. Yields have remained relatively stable over the period, however given the weight of money from private equity and overseas investors there are signs that yields may "harden" (reduce, as prices rise) for prime and very good secondary stock.

Retail property investment deals include:

Address	Property	Purchaser
Phoenix Leisure Park, Linwood	1,095 sq.m. leisure park, comprising four purpose built units let to Burger King, KFC, Pizza Hut and Ashoka Cook School. WAULT of c. 6 years	Private investor for £3.6 million (7.8%)
219 Sauchiehall Street, Glasgow	529 sq.m. retail unit let to Sainsbury's on FRI terms expiring May 2022. Passing rent of £226,700 pa	Private investor for £2.15 million (c. 10%)
20-26 Buchanan Street, Glasgow	2,555 sq.m. flagship retail store let to Nike on FRI terms expiring 2025, tenant break option 2020	Redevco for £29 million (4.25%)
OMNI, Greenside Place, Edinburgh	Multi-let city centre leisure investment. Occupiers include The Glasshouse Hotel, Vue Cinemas, Nando's and JD Wetherspoon. WAULT of c. 21 years to breaks	The European Cities Fund c/o TH Real Estate for c. £75 million (c. 6.5%)
Waverley Mall, Princes Street, Edinburgh	7,900 sq.m. of retail and leisure space connecting Waverley Station and Princes Street. Occupiers include Sainsbury's, Post Office, Game and Flying Tiger	Moorgarth for c. £23.25 million (c. 8%)
97A/98 Princes Street and 3 Frederick Street, Edinburgh	Mixed-use building leased to Chisholm Hunter and Radley with six flats above	Chisholm Hunter for c. £12.65 million (c. 5.25%)
134 Princes Street, Edinburgh	Mixed-use building comprising retail and office space with some vacancy. Tenants include Carphone Warehouse, Three and Nationwide Building Society	Whinstane for c. £5.4 million (c. 6.19%)
Shiprow, Aberdeen	107 bed Ibis hotel and adjacent 215 sq.m. PureGym with WAULT of 13.5 years	AccorHotels for £8.3 million (6.26%)
191-197 Union Street, Aberdeen	Two unit shops extending to 908 sq.m. let to British Red Cross and Shuropody	Private investors for £915,000 (10.13%)
Aberdeen Road, Laurencekirk	New 605 sq.m. convenience store let for 15 years to The Co-operative Group	Private investor for £1 million (6.3%)

If UK institutional investors choose to target the sector then this improvement will likely continue, albeit in a Scottish context it may only benefit Edinburgh and Glasgow. Significant transactions over the period include the purchase of the Nike Store on Buchanan Street, Glasgow by Redevo for c. £29 million reflecting a net initial yield of 4.29%.

Transactional volumes in the retail warehouse sector were significantly down in 2016 and weakening investor demand has led to a steady softening in both prime and secondary retail warehouse yields. There are however signs that the investor base for retail warehousing is widening with opportunistic buyers recognising the attractive income returns available, lower vacancy rates and robust occupier demand from bulky, discount and value retailers. There may be real potential during 2017 to see some yield compression within this sector in particular where prospects for maintaining and improving income return exist. The most significant transaction over the review period involved the sale of the Kingsgate Shopping Park in East Kilbride to Orion for £90 million representing a net initial yield of 6.94%. The scheme is fully let to tenants including Sainsbury's, Next and Marks & Spencer.

Investor interest in longer lease supermarkets and retail warehouse units continues to be strong, particularly where leased to strong covenants with the benefit of index linked/fixed uplift rent reviews. The issue of location appears to be of less relevance to the long lease/annuity investors.

Total returns for all Scottish retail property for 2016 were 0.7%, a significant fall from the 7.4% recorded in 2015. This deterioration is in large part due to an outward yield shift. Total returns for UK retail for 2016 comprised 2.6% falling from 9.7% in 2015. The under performance of the Scottish retail market when compared to the UK is in a large part down to the out performance of retail in and around London and the South East. Scotland generally stands comparison to other UK regional markets.

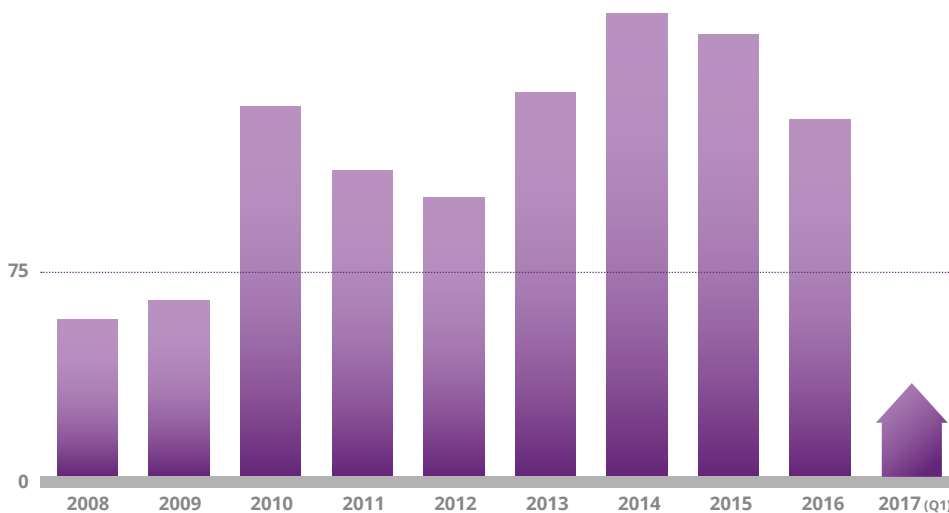
Outlook

The only certainty seems to be political uncertainty, at least for the foreseeable future. With Article 50 of the Lisbon Treaty now triggered by the Prime Minister, the UK's withdrawal from the EU will be the subject of complex negotiations over the next two years and possibly longer. These are uncharted waters and it is impossible to predict how this will affect the property market over the long term.

Considering that investor sentiment recovered quite quickly after the initial shock of the EU referendum result, there is reason to be optimistic that the Brexit negotiations will not directly have a material long term effect on investor demand. However, indirectly this may lead to a second Scottish Referendum, which, based upon the 2014 experience, is more likely to limit demand from those cautious investors who prefer to sit on the fence. As always, others would see this as an opportunity to acquire assets at a significant value discount compared to England where certain sectors like industrials appear to be overheating.

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

Unit 20 City Quay
Camperdown Street DD1 3JA
Tel: 01382 227900

London

4th Floor Langham House
302-308 Regent Street W1B 3AT
Tel: 020 7436 1212

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