

Ryden



81st
Scottish
Property
Review

OCT/17

Scotland's economy continues to deliver only marginal gains. Indicators and forecasts suggest this is likely to continue into the medium term.

The speculative office development cycle has ground to a halt again bar selected schemes in Edinburgh, where vacancy continues to fall. Edinburgh's rapid re-use of obsolete offices for alternative uses is a market that Glasgow is gradually adapting to, and Aberdeen must develop soon.

Central Scotland's industrial property market is now an overnight success story, 30 years in the making. Occupancy rates are high and prime rents are rising. Aberdeen's market is challenged by the offshore industry and has no speculative industrial development underway for the first time in many years.

Retail and leisure activity continues to focus on prime and super-prime locations, such as Glasgow's Buchanan Street and selected retail warehouse parks.

There is good news on business rates; from April 2018 new build property will not pay any rates until occupied for the first time, then the occupier will benefit from a first year without rates. Details are to be included in the Scottish Government's December budget.

Investment markets are more liquid as political turbulence has eased, and pricing is attractive particularly where occupier demand:supply fundamentals are strong.

DR MARK ROBERTSON, PARTNER



Economy

Scotland's economy continues to deliver marginal gains. Forward economic indicators and forecasts suggest that this modest performance is expected to continue.

The Scottish economy grew by 0.1% in the second quarter of 2017. The dominant services sector grew by 0%, but overall growth was held back by contraction in both the production (-0.7%) and construction (-3.5%) sectors. On a 12 month basis, economic activity in Scotland during the second quarter of 2017 was 0.5% higher than the same quarter in 2016, compared with 1.5% for the UK.

The most recent Bank of Scotland Purchasing Managers' Index remained unchanged from August at 52.2 in September, signalling marginally positive activity and thus modest economic expansion.

Scottish Chambers of Commerce found that business optimism improved in Q3 2017, although recruitment was expected to become more difficult.

The Scottish unemployment rate for the three months June to August 2017 was 4.1%. This is a rise from 3.8% for the previous three month period, but a fall from 4.7% for the same period in 2016. Unemployment in Scotland remains below the UK rate of 4.3%.

The Insolvency Service reports a total of 220 company insolvencies in Scotland in the second quarter of 2017. This is down by 24.1% on the same period in 2016, but is higher than the 172 company insolvencies recorded in the first quarter of 2017.

The Scottish Government's Retail Sales Index for Scotland reports retail sales in Scotland grew by 1.1% during the second quarter of 2017, and by 1.6% on an annual basis. This is lower than the 2.6% recorded in Great Britain over the same 12 month period. The retail industry survey published by the Scottish Retail Consortium/KPMG reports 1.1% growth in retail sales over the 12 months to September 2017; this is however buoyed by food sales growth of 2.7%, while in the non-food sector a 2.0% decline in store sales was balanced by online sales. Very recent confidence surveys by the CBI indicate that the retail market is now weakening, as real disposable incomes come under pressure. Commentary on the retail property market is provided on pages 12 and 13.

The Department for Business, Energy & Industrial Strategy reports indigenous production of crude oil was 3.6% lower in the second quarter of 2017 compared with the same period in 2016. The implications of current offshore industry trends for the Aberdeen property market are analysed on pages 6, 7 and 10.

The recent comparison of independent forecasts for the UK economy published by HM Treasury in October 2017 indicates average UK growth forecast expectations of 1.6% for 2017 and 1.5% for 2018.

For Scotland, Fraser of Allander Institute's central forecast, published in September 2017, anticipates slightly lower growth of 1.2% in 2017 and 1.4% in 2018, followed by continuing gradual improvement to 1.7% expansion in 2019.

The table of larger job gains and losses (overleaf) highlights net gains in the Scottish travel industry and in retailing (among larger companies at least). Banking, industry and other services show some gains, but also notable job losses.

Job gains:

AGO Outsourcing announced **470 jobs** at its new contact centre in East Kilbride. 90 positions are to be filled initially followed by the creation of 380 jobs in 2018.

Airline Jet2.com plans **200 new positions** between Edinburgh and Glasgow airports. These positions include pilots, cabin crew and ground operation staff.

Banking group HSBC announced **500 new positions** across Scotland, including new jobs at the Edinburgh Global Risk centre and the customer contact centre in Hamilton.

Australian financial services company Computershare is to open a 'centre of excellence' in Edinburgh creating **300 new jobs**.

Retailer Tesco is creating **250 additional jobs** at its contact centre in Dundee.

Food retailer Aldi announced **300 new jobs** in Scotland with the opening of six new stores during 2017, adding staff at existing sites and expanding its Scottish headquarters and regional distribution centre in Bathgate.

Travel agent Barrhead Travel is to create **105 new jobs** in addition to the **149 new employees** already taken on in 2017. Many of which will be based at its Glasgow flagship store and includes 25 modern apprentices.

Food retailer Lidl plans to create **360 new jobs** at its Eurocentral distribution centre when it opens in winter 2019.

IT consultancy BJSS intends to **recruit 70** highly-skilled IT consultants with the opening of its Scottish hub in Glasgow.

North Sea newcomer Chrysaor plans to employ an **additional 40** people in Aberdeen across a range of business areas in addition to roles which are to be filled by staff transferring from Shell following Chrysaor's purchase of a package of Shell's North Sea assets.

Job losses:

Lloyds Banking Group is closing its Bank of Scotland call centre in Dundee with the **loss of 252 positions**.

Around **800 jobs** are expected to be lost over the next three years following the merger of Standard Life and Aberdeen Asset Management.

Vasanat International Ltd trading as Scottish Electrical Group in Dundee has gone into administration with the **loss of 100 jobs**.

Following the administration of Glasgow-based landscaping and civil engineering firm Land Engineering (Scotland) Ltd **135 jobs were lost**. However 249 jobs were saved after part of the company's business and assets were sold to landscape firm Idverde.

Law firm Pagan Osborne Ltd fell into administration with the **loss of 70 positions** following the closure of its offices in Edinburgh, Cupar and St Andrews, however Dundee-based law firm Thorntons took over the assets and work which saved 50 positions and the Anstruther office has been re-branded as Thorntons.

Oil giant Royal Dutch Shell is to **cut 90** onshore jobs at its North Sea headquarters in Aberdeen.

Aberdeen City Council is cutting its workforce with the **loss of 150 positions**.

Retailer John Lewis is closing its distribution centre in Leith, Edinburgh with the **loss of 78 jobs**. Distribution will be centralised at its existing delivery hub in Glasgow where 40 new jobs are to be created.

Cabling firm Xtreme Business Solutions fell into administration with the **loss of 50 jobs** in Aberdeen and Fife.

Planning

The Scottish Government continues to move forward with its intentions to further reform the Scottish planning system and at the end of June 2017 produced a Position Statement. The statement discussed the proposed reforms following the consultation on the Places, People and Planning report earlier this year.

A number of firm commitments stood out: strengthening the plan-led system; empowering communities; the importance of housing and infrastructure delivery; and stronger leadership with more effective resourcing.

The Statement sends a clear message that the planning system will be very much plan-led, with a number of actions proposed such as the removal of Strategic Development Plans (SDP) in favour of 'partnership working' and greater roles for national policy in the form of National Planning Framework (NPF) and Scottish Planning Policy (SPP). These proposals have the potential to streamline the plan-led system, but, there is a risk of over-centralisation and the prospect of local circumstances and development issues being missed.

Extending the Local Development Plan (LDP) plan period to 10 years potentially provides greater certainty over how places will evolve, particularly for communities. Nevertheless, there remains concern that this will result in plans becoming stagnant and outdated. To counter this the Government proposes provisions to enable interim review of LDPs. This may of course just create more delays.

Delivery of development is highlighted and this is a positive feature. Scotland's planning system must move away from seeing legacy site allocations maintained through LDPs with no realistic prospects for delivery.

There is sound logic in promoting a 'Gatecheck' process before a draft LDP is published. This should remove the debate around issues such as housing land. That said, those issues would have to be comprehensively resolved prior to proposing allocations in a plan, otherwise the Examination would remain an arena for debating such principles and the plan review process may be no more efficient than it is now.

There is a concerted drive for community empowerment and engagement within a reformed planning system. This is a positive and sound aspiration. More people – and a wider range of people – should be involved in how their communities evolve. However, the introduction of Place Plans and more extensive community engagement have the potential to run counter to the key objective of planning reform, which is to make the system more efficient. To be effective for all, there must be a process of education among those representing communities in the planning process. All too often there is a starting point of 'no development please' at a local level and a real disrespect for, and distrust of, the development industry. It is important that community representatives understand planning and development, otherwise these proposals will simply strengthen the hand of those who wish to prevent development at any cost.

Unsurprisingly, housing and infrastructure delivery are key priorities of the Scottish Government's Position Statement. There is often far too much debate around housing land and proposals to provide greater clarity and certainty are welcomed. The intention appears to be that these matters will be addressed at a national level within NPF and SPP, increasing the importance of getting it right from the top down.

There is the prospect of a zoned approach to development. Ryden (in association with Brodies) was commissioned to undertake research for the Scottish Government into the use of Simplified Planning Zones (SPZs) and equivalent mechanisms. The research sought to identify the potential for a more flexible and widely applicable land use zoning mechanism, including broader target markets, fewer exclusions and more streamlined preparation. The Scottish Government has indicated its intention to take this forward via Simplified Development Zones, with details to be confirmed.

Finally, the Scottish Government remains committed to investing in a better and more efficient planning system through measures such as improving leadership and skills, increased charges for services and improving performance. Thus far, there have been significant increases to planning fees, to be followed by other revised charging structures. Although this should attract support in principle from the development industry, that will only be on the basis that these increased charges bring forward a more efficient and better resourced planning system.

In terms of next steps, the Scottish Government's White Paper, formalising the proposed reforms, is anticipated by the end of 2017.

Offices

Glasgow's office market has continued to be relatively flat over the last six months. However, larger deals for the Scottish Government's Department for Work and Pensions and Scottish Courts and Tribunals Service, totalling c. 14,865 sq.m. are expected. These will bolster the market figures after a slow third quarter. In terms of other Government activity, the UK Government has confirmed selection of BAM/Taylor Clark's Atlantic Square site for a new 16,723 sq.m. office building to house a regional hub. In addition, the Scottish Government has announced that Glasgow and Dundee have been selected as the locations for the new Social Security Agency Central Administration Buildings, to accommodate a total of around 1,500 staff, split between the two cities.

City centre office take-up over the last six months was 32,242 sq.m., which produced a city centre annual total of 53,451 sq.m. The figure for this most recent period includes the previously announced Morgan Stanley pre-letting at 122 Waterloo Street (14,400 sq.m.), where development is due to complete over the next few months. If this is excluded, city centre activity is down by some 16% on the previous period at 17,842 sq.m.

The most notable larger lettings were to Student Loans Company at Europa Building, Argyle Street (3,795 sq.m.); Ofgem at Commonwealth House, Albion Street (1,965 sq.m.); Wood Group at Abstract Securities' St Vincent Plaza (1,602 sq.m.); Mazars and Lindsays at Esson Properties' 100 Queen Street (735 sq.m. and 729 sq.m. respectively); and Threesixty Architecture at Castleforge Partners' The Garment Factory on Montrose Street (778 sq.m.).

Activity on the periphery outside of Glasgow city centre produced an additional 7,745 sq.m. take-up over six months and a total of 13,360 sq.m. over the 12 months. Deals include Actavo expanding (an additional 1,009 sq.m.) and Aggreko (570 sq.m.) taking office space at Citypark; at Skypark with Dayforce Europe Ltd (588 sq.m.) in SP5 and a range of smaller lettings in Skyhub; at Clyde Gateway in The Albus with a letting to School Cloud Systems (192 sq.m.), as well as lettings at Red Tree Bridgeton and Rutherglen; Clintec at 133 Finnieston Street (402 sq.m.); Technical Retail Services' purchase of Pavilion 1 at J24 Business Park (644 sq.m.); Sartorius Stedim Ltd in the Fleming Pavilion at West of Scotland Science Park (438 sq.m.); and both The Whisky Bond and The Hub at Pacific Quay attracting further tenants.

City wide take-up is 39,985 sq.m. over six months and 66,809 sq.m. over 12 months, 5% below the 10-year average.

Going forward, the most significant feature of the Glasgow office market beyond the government activity is the serious shortage of new build Grade A larger floorplate offices. Occupier choice is currently restricted to just two developments, being the balance of space remaining at

St Vincent Plaza (c. 4,088 sq.m.) and 1 West Regent Street (c. 3,112 sq.m.). While there are a number of city centre pipeline office developments with planning consent and others in the planning pipeline, none have as yet announced an intention to develop speculatively.

Major refurbishments and the few existing buildings with larger floorplates will benefit from this hiatus in the new build cycle. Occupier choice for those seeking over 4,645 sq.m. in the city centre is limited to six buildings of which only two: NFU Mutual's 191 West George Street (8,060 sq.m.) and Aviva's 123 St Vincent Street (8,475 sq.m.), provide floorplates of c. 1,394 sq.m. Smaller floorplate options are available at Commerzbank's 4 and 6 Atlantic Quay (5,307 sq.m. and 7,289 sq.m. respectively), Praxis' 310 St Vincent Street (6,991 sq.m.) and Epic Properties' 9 George Square (4,948 sq.m.).

Refurbishment completions contribute to a 7% rise in supply to 350,186 sq.m., comprising city centre up 10% at 218,731 sq.m. and periphery relatively static at 131,455 sq.m.

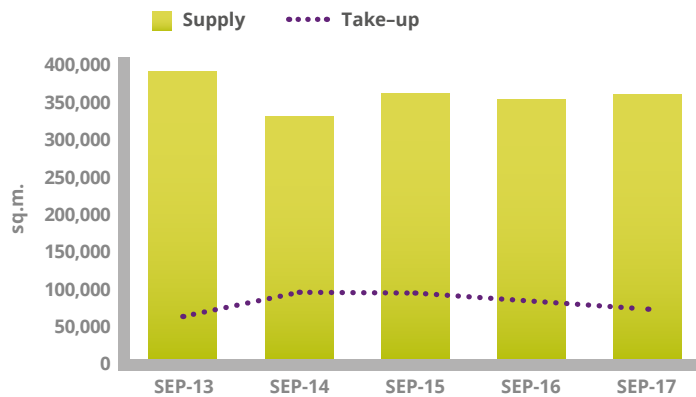
The lack of core CBD (Central Business District) new development activity is an opportunity for other areas. Clyde Gateway and partner Highbridge Properties have identified this potential and are progressing proposals for a new urban office park, Magenta, located at Shawfield, to the south east of the city centre. The first building, Red Tree Business Suites (3,716 sq.m.) is under construction with completion due May 2018.

Out-of-town to the east of Glasgow, Strathclyde Business Park has secured deals to Weir Group at both Duart House (1,013 sq.m.) and Avondale House (697 sq.m.); Energetics took space at Fenwick House, Hamilton International Park (2,227 sq.m.); lettings were secured at Eurocentral to Bouygues in Excel House (552 sq.m.) and Amey in Precision House (452 sq.m.); and Leisure Link Promotions and Aventas Global took space in Orbital House, East Kilbride.

To the west of the city, Westpoint Business Park (370 sq.m.) secured Chronos Life Management; Phoenix Business Park attracted Exile Fitness to Chiron House (835 sq.m.) and Clydebuilt Business Solutions to Trojan House (158 sq.m.). In Paisley a range of small suite lettings completed at St James Business Centre, Linwood, and Police Scotland took space at Osprey House, Inchinnan Road (2,580 sq.m.).

The prime headline office rent in Glasgow remains at £306-£323 per sq.m. This is likely to come under upward pressure due to the lack of new build supply and increasing construction costs. There is also the potential for rental increase for best quality larger floorplate refurbishments where rents are currently in the range of £231-£280 per sq.m. At the smaller end, there remains a wide range of city centre options for occupiers seeking good quality space smaller than 929 sq.m. with rents of £178-£226 per sq.m. and attractive incentive packages.

Glasgow office supply and take-up



Edinburgh's office market delivered another strong six month period. Take-up for the six month period to end September 2017 was 41,837 sq.m. Office take-up over 12 months of 78,140 sq.m. is a robust market performance, particularly in the context of reducing supply.

Edinburgh city centre attracted 28,070 sq.m. of office take-up over the six month period, representing 67% of total city-wide take-up. Grade A and high quality accommodation accounted for 13,111 sq.m. or 47% of city centre office take-up. Eight deals in excess of 929 sq.m. were recorded.

Notable city centre pre-lets include State Street Bank at Quatermile 3 (6,097 sq.m.) and Nucleus Financial Ltd at Greenside, Blenheim Place (1,742 sq.m.).

Future office take-up will be bolstered by further significant pre-letting activity. This is led by the pre-construction letting of Artisan's 16,844 sq.m. New Waverley office development to the Government Property Unit, Standard Life Aberdeen's pre-letting of 6,410 sq.m. at 10 George Street and Computershare at Four North, North St Andrew Street (3,846 sq.m.).

Edinburgh's peripheral office markets recorded a total of 13,767 sq.m. transacted across 36 deals over the past six month period. This represents a 6% increase in activity (floorspace taken-up) compared with the previous period.

West Edinburgh saw a total of 10,347 sq.m. transacted across 15 deals including: Standard Life Investments at John Courage House (2,913 sq.m.); Sykes at Currie House (836 sq.m.) and NuCana at 3 Lochside Way (523 sq.m.).

In North Edinburgh around Leith, a total of 2,177 sq.m. transacted across eight deals including The Leith Agency at Commercial Quay (659 sq.m.) and VOCAL at 60 Leith Walk (435 sq.m.). The proposed tram extension to the city's waterfront would enhance connectivity and development potential within this currently peripheral market area.

Total office supply across Edinburgh is 143,420 sq.m. This is an 11% decrease from the previous figure reported in April 2017, and takes the vacancy rate to a low point of c. 7%.

Edinburgh's future office supply pipeline has been significantly reduced as a result of the strong take-up and large pre-commitments reported above, as well as redevelopment of obsolete offices for alternative uses. A number of suites also have been removed from the market following the merger of Standard Life and Aberdeen Asset Management to form Standard Life Aberdeen, including one of the largest open plan office suites at Exchange Crescent (2,787 sq.m.).

One notable new opportunity recently brought to the Edinburgh market is 525 Ferry Road (10,141 sq.m.). The building will be vacated by State Street Bank when the company relocates to Quatermile 3. Other significant opportunities, such as the Royal Bank of Scotland offices on Dundas Street, are more likely to attract mixed-use residential and commercial redevelopment.

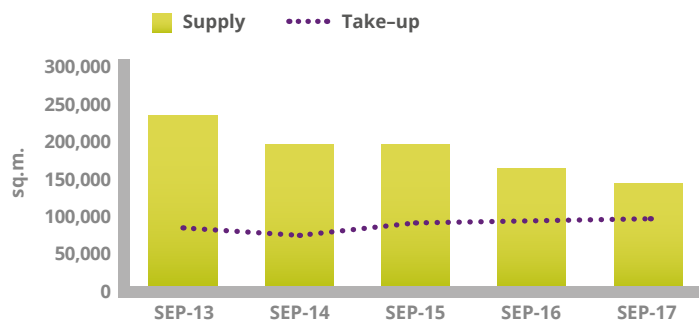
Grade A supply remains extremely tight and speculative development is limited. Chris Stewart Group's The Mint Building at 42 St Andrew Square (5,667 sq.m.) and Greenside, Blenheim Place (where 1,486 sq.m. remains following the pre-let to Nucleus Financial Ltd), plus GSS' development at 2 Semple Street (3,591 sq.m.), are the only speculative office developments currently on-site to deliver Grade A office stock by late 2018/early 2019.

A number of smaller refurbishments including 1 St Andrew Square and 132 Princes Street have now completed and should attract smaller occupiers looking for space in that active sector of the market. Larger refurbishments include One Lochrin Square, where recent letting successes include Ctrip (1,133 sq.m.) and 3,251 sq.m. under offer to serviced office operator Regus' Spaces brand.

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

Address	Size	Occupier
122 Waterloo Street	14,400 sq.m.	Morgan Stanley
Europa Building, Argyle Street	3,795 sq.m.	Student Loans Company
Commonwealth House, Albion Street	1,965 sq.m.	Ofgem
St Vincent Plaza, St Vincent Street	1,602 sq.m.	Wood Group
95 Bothwell Street	1,377 sq.m.	Jacobs
City Park, Alexandra Parade	1,009 sq.m.	Actavo

Edinburgh office supply and take-up



The next major city centre speculative development is expected to be BAM Properties/Hermes Investment Management's Capital Square (11,334 sq.m.), which has just announced an imminent site start with projected completion early 2020. The long-awaited The Haymarket project may also bring forward offices at Building 5 (8,825 sq.m.), as part of a larger, mixed-used development. At Fountainbridge, Vastint may push forward speculative plans at Freer Street, which along with EDI Group Ltd's India Quay, could offer c. 17,600 sq.m. of office accommodation.

In West Edinburgh, a number of refurbishment options are available. The next new-build phase of Edinburgh Park by Parabola will offer an initial phase of 6,503 sq.m. alongside improved leisure opportunities and residential use close to the tramline, Edinburgh Park and Gateway rail stations.

Prime rents for existing Grade A office accommodation in Edinburgh remain £300-£323 per sq.m. rising up to £350 per sq.m. for pre-letting activity on best space. While incentives remain around 18-24 months for a 10 year lease commitment to the highest quality occupier covenants, this is coming under downward pressure for the best opportunities due to constrained supply.

Prime office rents in West Edinburgh remain up to £172 per sq.m. for refurbished options in the South Gyle area, rising to £215 per sq.m. on Edinburgh Park. These rents are expected to increase when the next phase of development is delivered by Parabola at Edinburgh Park.

In North Edinburgh prime office rents remain up to £150 per sq.m., although limited supply of quality stock means that £130 per sq.m. is more typical for the area.

Performance in the oil and gas sector continues to underpin office market activity in **Aberdeen**. While the price of oil has stabilised around the mid \$50's per barrel for the majority of 2017 and had reached \$58 per barrel at the time of writing, recovery in this sector is slow and steady. Commentators now describe the pricing outlook as "lower forever" rather than "lower for longer". Cost savings will deliver short to medium term benefits, however longer term investment in the North Sea is still difficult to justify at these price levels. This longer term prognosis is delaying recovery within the North East's white collar workforce, and thus its office market.

While supply of offices in Aberdeen has risen by only 3% in the last six months, total supply is still sitting at 276,850 sq.m. The completion of The Silver Fin and Marischal Square has brought the current development cycle to a close. Grade A supply currently accounts for almost 40% of total supply at around 104,980 sq.m. There is still a large amount of space being marketed that may become obsolete.

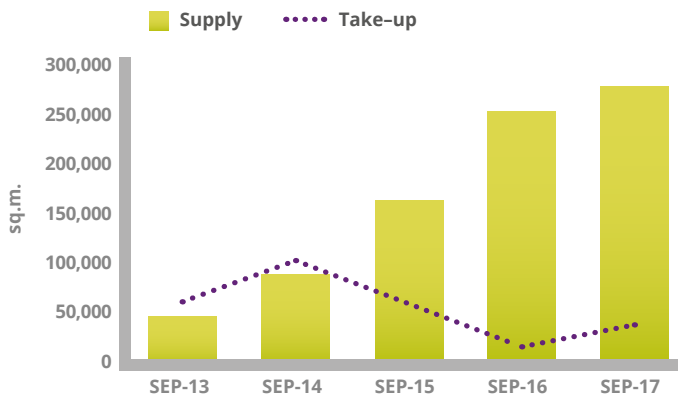
The average transaction size is 232 – 464 sq.m. and appears to have stabilised at this level. Many tenants are looking for these suite sizes within modern buildings, to take advantage of the efficiencies that a new build open plan property can offer. Landlords with larger floorplates are considering sub-division to accommodate these requirements.

While take-up over the past six months has reduced from 21,800 sq.m. to 17,560 sq.m., a detailed analysis of this is more positive. The last six months has produced 44 transactions, up from 31 in the previous period which included the Total E&P letting of 10,030 sq.m. at Westhill. Current take-up comprises 9,155 sq.m. (53%) of offices smaller than 929 sq.m. with only three transactions making up the additional 8,405 sq.m.

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

Address	Size	Occupier
Quartermile 3	6,097 sq.m.	State Street Bank
John Courage House, South Gyle Broadway	2,913 sq.m.	Standard Life Investments
Citywest, Robertson Avenue	2,345 sq.m.	Scottish Braille Press
Greenside, Blenheim Place	1,742 sq.m.	Nucleus Financial Ltd
The Cube, 45 Leith Street	1,184 sq.m. (additional)	Baillie Gifford
One Lochrin Square	1,133 sq.m.	Ctrip

Aberdeen office supply and take-up



The larger three transactions are the letting at The Capitol to Chrysaor (4,505 sq.m.) following their \$3 billion acquisition of North Sea assets from Shell; Stronachs LLP committing to 1,300 sq.m. at 28 Albyn Place; and serviced office provider Orega at The Silver Fin building on Union Street (2,600 sq.m.).

Headline rents have remained at £345 per sq.m. with incentives staying at around the 12 month rent free level for every five years of commitment. That said, and despite positive take-up, there has been a marked slowdown in the number of enquiries due to the cautious outlook.

Fundamentally, the supply and demand dynamics in the Aberdeen office market remain set up to produce further downward rental pressure. It is expected that a reduction in rents across all quality of office accommodation together with increased incentives will be required to entice occupiers to relocate. This must be allied with regeneration initiatives to deal with the emerging overhang of surplus older offices in the city.

The office market in **Dundee** continues to focus on smaller requirements from local and national occupiers. The majority of these requirements are seeking premises that would qualify for the Small Business Bonus Scheme (a Scottish Government business rates incentive).

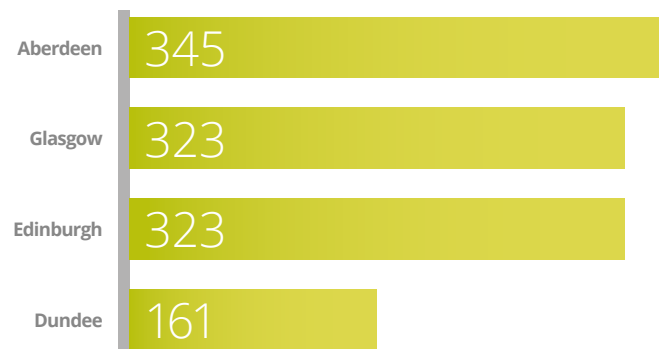
Recent office transactions in Dundee include: Unit 1 Brown Street (290 sq.m.) let to Hyper Luminal Games; 11 South Tay Street (150 sq.m.) let to Entrust People; and Unit 11 at District 10 (39 sq.m.) taken by KDQ.

Work at Water's Edge (Shed 25) at City Quay is well underway. The converted dock shed will provide open plan, flexible workspace and should link up well with proposed city quay marina development.

Development activity is planned to begin at Site 6 on Dundee Waterfront in January 2018. The site will deliver 5,335 sq.m. of office accommodation, along with two ground floor commercial units. With such development now clearly on the horizon there has been an increase in interest from national companies who previously may not have considered locating in Dundee. As noted in the Glasgow office commentary, Dundee has been named by the Scottish Government as the beneficiary of new jobs to be created by the devolved Social Security Agency.

Prime office rents in Dundee remain well below Scotland's other cities at £161 per sq.m.

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



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

Address	Size	Occupier
The Capitol	4,505 sq.m.	Chrysaor
28 Albyn Place	1,300 sq.m.	Stronachs LLP
The Silver Fin, Union Street	2,600 sq.m.	Orega

Industrial

Central Scotland's industrial property market is an overnight success story which has been some thirty years in the making. The ugly duckling of the commercial sector is attracting increasing investor and developer interest due to low levels of availability and emerging evidence of strong rental growth. An economy returning to more meaningful growth would see businesses hampered by a lack of suitable premises. The current supply is simply insufficient for a market of this size.

In the **West of Scotland**, the overall vacancy rate is now 6.9% on a stock of 8.6 million sq.m., or c. 2.5 years' supply based upon current activity. This availability includes a wide geographical area with some poorer areas and obsolete properties; consequently the prime supply is extremely limited.

The Greater Glasgow area including locations such as Cambuslang and Rutherglen has a 5.2% vacancy rate, but this also includes poorer properties and locations. Adopting a proxy of units constructed post-2000 yields an availability rate of 1%. The actual picture for prime properties, in prime locations, is almost certainly even lower, particularly given the time lag in reporting of transactional activity.

The lack of availability in prime areas is benefitting adjoining secondary areas by diverting unsatisfied demand. For example East Kilbride had high levels of availability due to a combination of a drop in demand and issues with obsolescence and ageing stock. East Kilbride now has a vacancy rate of 6.4%, i.e. it is performing better than the wider market. Other secondary and tertiary areas are showing similar positive results, including parts of Ayrshire which had struggled over recent years. There has been good take-up in Kilmarnock and it now also has low levels of availability and is showing rental growth. Irvine also shows falling availability, although there is less evidence of consistent rental growth.

Cumbernauld is perhaps the one major industrial area with stubbornly high levels of availability and little rental growth. Availability rates have been falling, however the current vacancy rate is still 14%. Cumbernauld is extremely well connected to the motorway network and is home to a wide range of successful businesses, but it has seen very little new space developed over the past 20 years and now has many larger outmoded properties, which will keep the vacancy levels high.

Against this context of constrained supply and areas of market recovery, demand is not consistent. For some properties there has been a return to requests for best bids given multiple interests, but there are still properties and locations where demand is weaker.

One disappointment is the larger end of the market from 6,500 sq.m. plus. This is a sector where there is limited availability, however demand is also low and a number of prime buildings remain available. In a period where online shopping is growing exponentially, there have been surprisingly few large distribution deals, as stock is brought from depots further south to smaller warehouses in Scotland. Recent activity has mainly involved land sales to owner occupiers such as Lidl at Eurocentral, and to facilitate a new 7,400 sq.m. facility for DPD also at Eurocentral. Nevertheless, given the extremely limited supply it would only require a handful of larger deals to require new development, almost certainly at higher rentals given rising build costs.

Good interest is reported on each of the new build industrial projects in-and-around Glasgow. At Rutherglen Links Business Park, Harris Finance has completed two buildings and is on site with a third, having secured a pre-let. The first building of 1,858 sq.m. is available but currently has multiple interests as both a single unit and sub-divided with an asking rent of £81 per sq.m. The 929 sq.m. unit has been let with Screwfix taking 697 sq.m. in shell condition on a straight 10 year lease at £81 per sq.m. and Eurocell taking the balance of 232 sq.m. on a 10 year lease with break at 5 at £91 per sq.m. The pre-let is for 1,208 sq.m. on a straight 10 year lease at £91 per sq.m.

Hillington Park's Evolution Court is now complete. It provides c. 7,900 sq.m. across four buildings at a quoting rent of £81 per sq.m. One of the four units is close to concluding a transaction and it is anticipated that three of the four buildings will be let by the early part of 2018. A notable deal here includes the re-letting of 2 Jubilee Court, a fully refurbished 2,833 sq.m. building which has been let to Stearn Electric on a 10 year lease at £68 per sq.m.

Clyde Gateway Urban Regeneration Company is about to reach practical completion on a 2,554 sq.m. development at Clyde Gateway East. The unit is targeted at the manufacturing and engineering sector. There have been several viewings prior to completion with terms issued at the quoting rent of £83 per sq.m.

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

Address	Size	Occupier
2 Jubilee Court, Hillington Park, Hillington	2,833 sq.m.	Stearn Electric
4 Cartside Avenue, Inchinnan Business Park, Paisley	2,230 sq.m.	Vascutek Ltd
Rutherglen Links Business Park, Rutherglen	697 sq.m.	Screwfix

At Newhouse, Fusion Assets is reporting strong interest in its 1,858 sq.m. speculative unit, which is designed to be sub-divided into smaller units. Occupier terms have been issued and it is likely the unit will be let on this basis.

Other deals of note include the letting of 4 Cartside Avenue, Inchinnan Business Park (2,230 sq.m.) to Vascutek Ltd on a new 10 year lease at £73 per sq.m.; and the purchase of 100 Inchinnan Road, Bellshill (7,705 sq.m.) by Danobe for £1.45 million, this unit is being comprehensively upgraded and may be sub-divided to provide two units, it has attracted strong early interest and is expected to lease quickly following completion of the works.

Industrial rents in the West of Scotland are rising and are set to move higher given very tight supply. This may be seen as negative from a tenant's perspective, however higher rents are needed to encourage the development market to build new space. Without this, occupiers will find themselves in an even worse position when their businesses are hampered by an inability to grow. A small upturn at the larger end of the market would quickly eliminate available supply in the prime locations and conditions would then be favourable for speculative development.

Any effect of the weak economic growth on the **East of Scotland** industrial market are difficult to see. Indeed the market has never been so 'full'. There is a lack of supply and it is difficult to see this changing in the short to medium term.

The rate of new development and refurbishment is so limited that it has had very little impact on the market. Speculative schemes will increasingly 'stack up' as rents continue to rise and incentives decrease. This should spur developer confidence, particularly for accommodation below 929 sq.m. on well located sites.

Due to the continued demand and lack of supply, rents for prime stock will shortly break the £107 per sq.m. barrier on a regular basis. There are already a number of trade related deals at this level, again for units smaller than 929 sq.m. General prime locations are now firmly established between £81 and £91 per sq.m.

With the majority of larger manufacturing occupiers still sitting in 30 – 50 year old industrial accommodation, when company failures or downsizing/upsizing does occur, the resultant large scale property vacancy is more

likely to lead to demolition than sub-division and refurbishment. The liability for vacant rates coupled with energy performance requirements and building age must be taken into account in financial appraisals.

In Edinburgh, C&W Assets are nearing completion of Phase 2 of West Edinburgh Business Park, South Gyle, totalling 2,415 sq.m. Units are available from 232 sq.m. Encouragingly there is room here for a third phase of 2,135 sq.m. Nearby, Peveril Securities and Citivale have the prime site 7Hills Business Park on Sighthill Industrial Estate, and have secured planning consent for approximately 7,432 sq.m. to supplement the three new existing buildings, two of which are leased to Edinburgh University and Amazon and the third comprises 1,765 sq.m. Planning consent for the remainder of the site shows a range of units from 325 sq.m. to 4,645 sq.m., and the new accommodation is available on a 'to be built' basis for delivery within 18 months.

Within existing building stock, IPIF have undertaken the extensive refurbishment of 4,527 sq.m. on Edinburgh Distribution Park, Newbridge in West Edinburgh. In addition CBREi (Shell) have completed the refurbishment of Unit 3 Chariot Drive, Edinburgh Interchange, Newbridge (2,972 sq.m.) which is available for immediate occupation at a quoting rent of £73 per sq.m.

Transactions across and around the city include the letting at A1 Industrial Estate of Units 5/6 Sir Harry Lauder Road (929 sq.m.) to FABB Sofas at a rent of £81 per sq.m.; Unit 10 Bankhead Industrial Estate, Sighthill (464 sq.m.) to Eurocell at £89 per sq.m.; the letting of Unit 5 Dryden Vale, Bilston Glen Industrial Estate, Loanhead (604 sq.m.) to Heriot AV at £75 per sq.m.; and Glacier (Edinburgh) Ltd t/a Aquaid Lothian taking Unit 7 Dryden Vale, Bilston Glen Industrial Estate, Loanhead (196 sq.m.) at £87 per sq.m.

Within East Lothian a number of deals have completed over the last few months. For the first time in a number of years this has led to estates such as Newhailes Industrial Estate, Musselburgh and Macmerry Industrial Estate now being fully occupied. The provision and ease of access to the A1 trunk road, the motorway network and Edinburgh City Bypass is proving attractive to occupiers. Transactions include the letting of Unit 11 Newhailes Industrial Estate, Musselburgh (1,858 sq.m.) to Go Jump In at £65 per sq.m.; and Units 3 & 4 Broughton Park, Newhailes Industrial Estate, Musselburgh (1,333 sq.m.) to Image Scotland Ltd at £69 per sq.m.

Moving away from Edinburgh, other schemes which could make a significant difference to the market are Falkirk Gateway which has recently been relaunched to the market, providing strategic sites for early development and zoned for mixed-use. Phase 1 at Falkirk Gateway is already underway where Forth Valley College, with the backing of the Scottish Government, is to provide a new £83 million state-of-the-art campus on a 6 hectare site which is due for completion in 2019. An element of new build industrial/manufacturing is anticipated on at least part of the two remaining sites. The nearby Earls Gate Business Park in Grangemouth is nearing full occupation with only the 1.6 hectare Plot 7 remaining available, at £432,000 per hectare.

In Fife, Scarborough Muir has recently launched Queensferry One which comprises a total of 52.5 hectares of waterside development land situated in the Port of Rosyth, providing the opportunity for accommodation from as small as 929 sq.m. to well over 18,518 sq.m. on a design-and-build basis. There could also be some smaller speculative accommodation provided in late 2018 which would certainly be a positive step for the Fife market. This bridgehead location now benefits from the recently opened Queensferry Crossing.

The industrial market in **Aberdeen** has experienced a difficult but nevertheless active six months, in the context of the offshore industry as summarised on page 6.

Industrial property take-up during the last six months totals 24,791 sq.m. which represents a 34% increase on the previous six months. An additional 18,766 sq.m. is currently under offer. The number of deals concluded has risen from 18 to 37, which is a 105% increase.

Take-up has increased across all the size ranges, with the exception of premises larger than 929 sq.m. where take-up is down by 73%. At the time of our April report 16,910 sq.m. of available industrial stock was under offer.

These deals have now concluded so in effect, only an additional c. 7,881 sq.m. transacted in the last six month period (although the further 18,766 sq.m. is now under offer).

Recent transactions include Unit A, Broadfold Road, Bridge of Don (2,435 sq.m.) let to GS Hydro; Unit 1, Kingshill Commercial Park, Westhill (1,728 sq.m.) let to Swellfix UK Ltd, t/a Tendeka; Hareness Road, Altens (1,692 sq.m.) sold to MacGregor Industrial Supplies; H2, Aberdeen Energy & Innovation Park, Bridge of Don (1,505 sq.m.) let to ICR Integrity Ltd; and Unit 1, Hareness Circle Altens (1,498 sq.m.) sub-let to NXG Ltd.

Supply has increased significantly by 17% in the last six months from 167,282 sq.m. to 195,014 sq.m. The industrial supply can be categorised as follows: new build stock 19,618 sq.m. (10%); modern stock 93,731 sq.m. (48%); and older stock: 81,665 sq.m. (42%). The number of properties available in the market place has risen from 155 to 184, a 19% increase. Supply is up across all the size ranges with the exception of the 464 – 929 sq.m. range, which is down 5% due to the large volume of deals concluding in this range. Most notably, supply has increased by 40% in the 929 sq.m. plus size range where demand is also weaker.

The industrial sector in Aberdeen at present is most certainly an “occupiers’ market”, with those companies with an active requirement for new premises seeking short term flexible leases, increased incentives and reduced rents. Due to the sheer volume of stock on the market at the present time and the end of empty rates relief on industrial buildings, landlords are increasingly having to entertain these requests. Landlords of buildings where tenants are seeking to vacate are offering improved lease packages to retain some form of income and to avoid paying rates on empty buildings.

For the first time in many years there is currently no speculative industrial development taking place in Aberdeen, which is a reflection of the current and anticipated market in the city.

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

Address	Size	Occupier
Units 5/6 Sir Harry Lauder Road, A1 Industrial Estate, Edinburgh	929 sq.m.	FABB Sofas
Unit 10 Bankhead Industrial Estate, Sighthill, Edinburgh	464 sq.m.	Eurocell
Unit 5 Dryden Vale, Bilston Glen Industrial Estate, Loanhead	604 sq.m.	Heriot AV
Unit 11 Newhailes Industrial Estate, Musselburgh	1,858 sq.m.	Go Jump In
Units 3 & 4 Broughton Park, Newhailes Industrial Estate, Musselburgh	1,333 sq.m.	Image Scotland Ltd
Unit 4 Almond Court, Middlefield Industrial Estate, Falkirk	608 sq.m.	Graham

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

Address	Size	Occupier
Unit A, Broadfold Road, Bridge of Don	2,435 sq.m.	GS Hydro
Unit 1, Kingshill Commercial Park, Westhill	1,728 sq.m.	Swellfix UK Ltd, t/a Tendeka
Hareness Road, Altens	1,692 sq.m.	MacGregor Industrial Supplies
H2, Aberdeen Energy & Innovation Park, Bridge of Don	1,505 sq.m.	ICR Integrity Ltd
Unit 1, Hareness Circle Altens	1,498 sq.m.	sub-let to NXG Ltd
Unit B, Minto Avenue, Altens	1,360 sq.m.	Euro NDT

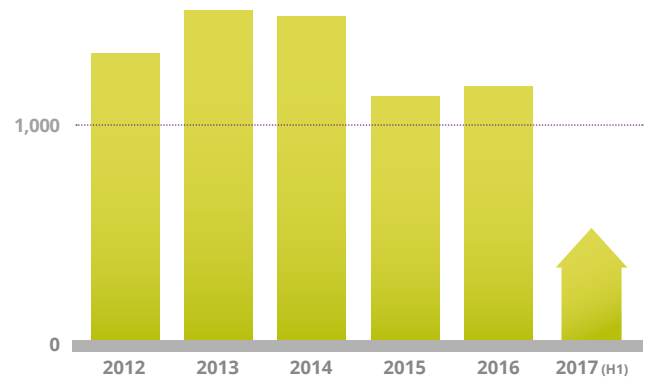
In **Dundee** the industrial property market continues to be well supplied, supported by a good level of occupier enquiries coming through, particularly for transport corridors linking to the north and south.

There have been requirements in the market place from oil and gas companies seeking storage options who would consider Dundee, given the lower rent and rates liabilities in comparison to Aberdeen. Delivery and courier companies are also showing similar interest. A number of parcels of land at Dunsinane Industrial Estate have been brought to the market to try and capture some of this potential.

The Dundee industrial market also has traditional, older stock that due to the nature of design and construction has much more limited market potential.

Recent transactions in the city include Unit 6 Douglas Court, West Henderson's Wynd (223 sq.m.) to Dundee Strength Unit for a specialist gym and 1 Dundonald Street (721 sq.m.) let to A&C Engineering on a five year lease.

Number of industrial transactions in Scotland



Retail and Leisure

The retail environment continues to be challenging. Sales volume growth has slowed over 2017 compared to the same period of 2016 and the retail market continues to be hampered by a squeeze on disposable income with monthly wage growth still lagging behind inflation. Retail prices are pressured by weak Sterling and retail failures for 2017 are up on the total figure for 2016. While spending is generally weakening, performance has been buoyed in certain tourist destinations such as Edinburgh which have benefited from the weakness of Sterling.

In the food sector however, there are continued acquisitions and expansions, especially from the likes of discounters Aldi and Lidl who continue to enhance their market shares.

Canadian coffee chain Tim Hortons has recently begun expansion in Europe and opened its first store in Scotland on Argyle Street in Glasgow. Another store opening is to follow at Silverburn Shopping Centre, with further stores proposed in Stenhousemuir, Falkirk, Ayr and Dunfermline.

Glasgow continues to attract new lettings within the core retail areas of the city centre. The market is competitive on prime Buchanan Street, delivering strong demand for prime retail space. Following on from the opening in April 2017 of a T2 tea shop at 131 Buchanan Street at a new record rent equating to £317 per sq.ft. Zone A, stationer Scribbler leased 122 Buchanan Street in July 2017 at a rent of £187,500 per annum (£312 per sq.ft. Zone A). Shoe retailer Russell & Bromley relocated to the opposite side of Buchanan Street from No.60 to No.57 on a new 10 year lease at a rent of £335,000 per annum (£315 per sq.ft. Zone A) with effect from June 2017. Clothing retailer H&M opened a 6,040 sq.m. flagship store at 185 Buchanan Street in August. Competing retailers are now courting H&M's former store at 182 Buchanan Street, where lingerie retailer Victoria's Secret is rumoured to be interested.

Sovereign Centros has announced that three flagship stores are to be developed following partial demolition of 135-153 Argyle Street. This follows the announcement of a nine-screen Vue Cinema as the anchor to the proposed 8,360 sq.m. leisure development as part of the redevelopment of the former BHS store to the east of the St Enoch mall.

Following on from recent store openings to designer clothes retailer Flannels and bath and body brand Molton Brown at **Silverburn** Shopping Centre, owners Hammerson announced a letting to Canadian coffee chain Tim Hortons as noted above, along with expansion plans from JD Sports which intends to double the size of its existing store to 1,190 sq.m.

At British Land's **Glasgow Fort**, clothing retailer Superdry opened a 1,115 sq.m. store, while stationers Smiggle opened a 93 sq.m. unit and Paperchase a 186 sq.m. store. Nursery and baby brand Mamas and Papas relocated to a 466 sq.m. unit for a new format concept store. The food and beverage offer has been enhanced with Yo Sushi, Pret a Manger, Thaikhun, Café Rouge and Gourmet Burger Kitchen all opening or planning to open. Sports Direct is to build its first single sports superstore to incorporate its own brands, namely Sports Direct, Flannels, USC and including gym concept Everlast Fitness Club, all within a 16,700 sq.m. purpose-built development.

Livingston Designer Outlet Centre has recently attracted clothing retailers Barbour, Timberland and Hugo Boss, along with Italian dining chain Prezzo.

Redevelopment of a city block is well underway at TH Real Estate's **Edinburgh** St James in the east of the city centre. A pre-let has recently been agreed with Roomzzz for a 73 room aparthotel, in addition to those agreed with Next, Everyman Cinemas and W Hotels.

Standard Life Aberdeen and Peveril Securities completed its restaurant line up within the nearby St Andrews Square development, with a letting to Argentine steak house Gaucho who will join the recently opened The Ivy on the Square along with Dishoom, The Refinery and Vapiano.

Fashion retailer Damaged Society and AdoraBubble Tea have taken units in Waverley Mall following acquisition of the underground shopping centre by Moorgarth earlier in 2017.

Out-of-town, TH Real Estate announced lettings at its Craigleith Retail Park with homewear retailer Homestore & More (1,703 sq.m.), Card Factory (186 sq.m.), coffee chain Starbucks (186 sq.m.) and Toys R Us (1,115 sq.ft.) who will sit alongside M&S, TK Maxx, Boots and Homebase.

At Hunter REIM's Cameron Toll Shopping Centre, the former 1,858 sq.m. BHS department store was let to Aldi which has now converted the unit and opened a supermarket here. Following on from this announcement, sandwich chain Subway has opened, Greggs has relocated to a larger unit and its former unit has been let to electronic cigarette retailer Vaporize. The Gym group is currently fitting out a 1,393 sq.m. unit.

All four of the new retail units at Fife Central Retail Park in **Kirkcaldy** opened over the summer; new retailers here are Oak Furniture Land, Sofology, Wren Kitchens and DW Sports.

Also in Fife, fashion retailer Bonmarche opened at the Kingsgate Shopping Centre in **Dunfermline**, stationer Card Factory has relocated to a larger unit and clothes retailer Shmooz is fitting out a larger unit for its relocation within the centre.

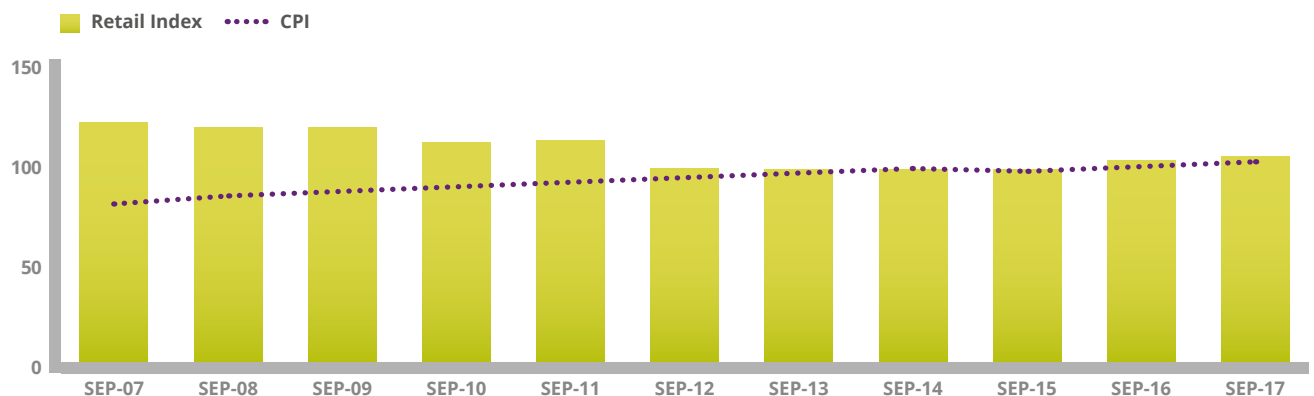
In **Perth**, lifestyle brand Joules opened on St John's Street in June 2017. Elsewhere on the street independent department store chain Beales is to open its first store in Scotland at the former McEwan's of Perth premises. As part of the redevelopment of St Catherine's Retail Park the former B&Q store is being demolished to make way for 4,180 sq.m. of new space in five retail units and a restaurant. Homesense (part of the TJX UK group) and Tapi Carpets and Floors Ltd are each taking units here.

The interest in drive-thru's continues in **Dundee**, in particular along the Kingsway trunk road. Kilmac is currently developing a Starbucks drive-thru at Fulton Road on Wester Gourdie Industrial Estate which is due to open in November 2017. Further along the Kingsway at Dunsinane Industrial Estate, the Scottish Government has reversed Dundee City Council's rejection of a retail parade that includes Domino's Pizza, Starbucks and a children's nursery. In the city centre the new Dundee train station is due to open March 2018; a good level of interest is being shown in the retail and café units which are currently under construction.

Homesense has opened its second homewares store in Scotland at Union Square Shopping Centre, **Aberdeen**, just outside the main mall next to Hobbycraft. Meanwhile, Danish design chain Flying Tiger has opened a store within the Trinity Centre.

Ryden's prime retail rents index covers Scotland's top 20 shopping locations and is shown on the chart. The index shows a marginal rise this year due to an increase in Zone A rents on Buchanan Street in Glasgow. The rent index has broadly kept pace with consumer price inflation since the market adjusted to the post-crash conditions of 2009-11.

Retail rent index



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

Investment

The political drag on property investment since 2014 has now subsided, with investors adjusting to the outcome of the snap general election in June 2017. While the ongoing Brexit negotiations and the uncertainty that brings will feature for some time, the possibility of a second Scottish Independence referendum in the near future has abated. This has undoubtedly helped to restore some confidence in the market and investor sentiment towards Scotland has improved.

Glasgow and Edinburgh have been the cities to benefit most, with foreign investors at the forefront of activity once again taking advantage of the weak pound. UK Funds have largely remained cautious when considering opportunities. The improving occupier markets and tighter supply of prime stock in these two cities have contributed to an upturn in investor demand with several large transactions concluded over the past six months. Notably, some of the trophy assets have changed hands at reduced yields, further evidencing an upturn in confidence.

Office Property

Ryden's April 2017 Review commented upon the variable nature of the activity within the Scottish office investment sector. This has been even more noticeable over the last six months. Overall, activity levels declined slightly in Edinburgh, picked up in Glasgow and fell away in Aberdeen which recorded no significant transactions during the review period.

Buyers came from a wide range of sectors, comprising overseas investors – in which category Hong Kong funded investors Wirefox continued to be very acquisitive – property companies and private investors. Active investors continued to benefit from the virtual absence of UK institutions, albeit there are encouraging signs of selective re-emergence in this sector.

Prime office yields remain relatively stable at 5.25-5.5% in Edinburgh and Glasgow. Aberdeen's are perceived to be in the low 6% territory, albeit this will require new transactions to confirm. Secondary pricing is highly variable, particularly in short income situations with potential void and significant non-recoverable liabilities. This has resulted in numerous secondary buildings changing use to hotels or student accommodation, which provide a welcome supply of well-secured income investments back into the market. Over the longer term, the removal of a number of secondary/ tertiary office buildings from the market can only help occupancy rates.

Looking forward, there is a reasonable supply of opportunities in the market, including interesting assets such as Skypark in Glasgow. Encouragingly, activity in Aberdeen should also see a much needed boost with deals anticipated to conclude on some notable buildings

in the city. With a steady increase in buyers north of the Border, the next six months could be a positive time for the market, subject to any Brexit developments not scaring off investors.

Industrial Property

Over the past six months investor demand for industrial stock has continued to increase, particularly across Central Scotland, with Edinburgh and Glasgow leading the way. Outwith this area, demand remains solid but pricing is lower by comparison. Aberdeen and the North East continue to be affected by the decline in the oil and gas sector, however the industrial market has fared better than offices with limited speculative development available.

Activity in the sector is increasing and has begun to filter through to investors, who are slowly beginning to switch on to the attractive pricing. Trading does remain limited though due to a lack of stock, but this is expected to change.

The increase in demand is across the full spectrum of investors from institutions to added-value buyers. With strong occupational demand and early signs of rental growth in the sector, and not only for new build stock, investors sense a rising market to latch on to. The main drag on trading continues to be a lack of available stock. There continues to be a discount for Scottish assets compared with the rest of UK market and, while this gap is closing, pricing remains competitive and attractive.

High levels of activity from private investors continue to drive the single-let market, with institutional demand for larger single-let properties also strong. The smaller end is driven by private investors; M&G's recent sale of the HSS Hire Service unit in Bellshill saw several bidders, mostly private investors, the highest of whom paid a 6.04% yield for the property.

Multi-let industrial estates are keenly fought over, as the recent sale of Kingston Bridge Trading Estate in Glasgow demonstrates. A number of bidders offered for the property, which was eventually secured by Scotmid at a yield of 5.92%.

Given the ongoing critical lack of new build stock in the country, the proposed rates holidays for first occupation of newly-built property is a welcome boost for developers.

Office property investment deals include:

Address	Property	Purchaser
122 Waterloo Street, Glasgow	13,935 sq.m. Grade A office purpose built for Morgan Stanley who took a new 15 year lease with a break after 10 years at £285 per sq.m.	KFIM obo Korean Pension fund for c. £65.5 million (5.6%)
Capella, 60 York Street, Glasgow	10,719 sq.m. Grade A multi-let office. Tenants include Atos IT Services, Glasgow City Council and MacRoberts LLP	Wirefox for £43.5 million (6.54%)
Athenaeum, 8 Nelson Mandela Place, Glasgow	5,644 sq.m. Grade A listed multi-let office. Tenants include Close Brothers, Shawbrook Bank Ltd and Rathbone Investment Management	Topland Group for £11 million (8%)
RWF House, 5-11 Renfield Street, Glasgow	3,531 sq.m. mixed-use Grade B listed multi-let building. Tenants include Miller Samuel Hill Brown LLP, Capita and Greggs plc. One vacant office and one vacant retail unit	Ambassador Group Ltd for £6 million (6.27%)
Empire House, 27-57 Sauchiehall Street & 127-131 West Nile Street, Glasgow	4,283 sq.m. mixed-use multi-let building. Tenants include Costar, British Transport Police, Starbucks and Coral	George Capital LLP for £17.5 million (6.8%)
Quartermile 2, Edinburgh	5,467 sq.m. Grade A multi-let office. Tenants include Morton Fraser LLP and The Scottish Whisky Association. WAULT of c. 7.2 years	UBS Asset Management for £28.5 million (5.4%)
14-17 Atholl Crescent, Edinburgh	Category A listed townhouse office building of c. 2,857 sq.m. leased to Brodies LLP until November 2019	Private investor for £9.55 million (5.72%)
Orchard Brae House, Edinburgh	Multi-let office extending to 9,548 sq.m. with 2,110 sq.m. vacant. Tenants include Johnston Publishing, Sopra Group, Marsh and Bloomberg. WAULT of 7 years 6 months to expiries and 4 years 7 months to break options	Palm Capital for £16.025 million (c. 8%)
7 Walker Street, Edinburgh	Townhouse office let to Robinson Medical Recruitment Ltd until February 2026 (tenant break option February 2021)	Private investor for £1.27 million (4.92%)
Denburn House, Union Terrace, Aberdeen	5,100 sq.m. Grade B Listed office building redeveloped in the 1980's. Very short term lease expiry	Queensway Group for £3.5 million

Industrial property investment deals include:

Address	Property	Purchaser
Kingston Bridge Trading Estate, 42-50 Watt Street, Glasgow	3,649 sq.m. modern multi-let trade counter estate, let to Arco, Dulux Decorator Centre and City Electrical Factors. Medium term income	Scotmid for £4.7 million (5.92%)
Oakbank Industrial Estate, Garscube Road, Glasgow	8,129 sq.m multi-let estate, let to a mix of national and local tenants. Two vacant units of 172 sq.m. and 1,097 sq.m. the larger unit with a rent guarantee in place	Ribston for c. £7.77 million (c. 7%)
HSS Hire Service Group, 2 James Street, Righead Industrial Estate, Bellshill	4,911 sq.m. refurbished industrial unit, let to HSS Hire Service Group Ltd until November 2026. Initial passing rent of £264,285 pa	Private investor for £4.125 million (6.04%)
Next Plc, Woodrow, Eurocentral	6,496 sq.m. modern single-let distribution unit let to Next Plc until March 2019. Passing rent of £349,850 pa	Custodian REIT for £4.75 million (6.91%)
2 Todd Square, Houston Industrial Estate, Livingston	3,995 sq.m. distribution unit let to A Share & Sons Limited (trading as SCS) on a lease expiring on 2 October 2022	Custodian REIT for £2.59 million (7.5%)
West Telferton Industrial Estate, Edinburgh	2,695 sq.m. multi-let industrial estate predominately let to local tenants	Tarras Park Properties (North) Ltd for £2.5 million (7.21%)
Aberdeen Harbour	37 ground lease sites comprising an aggregate of 4.98 hectares. The sites are largely developed for a mix of industrial and office uses	Palmer Capital for £11.9 million (4.29%)

Retail and Leisure

Once again the retail property investment market presents a very mixed picture. Consumer challenges have influenced occupational demand and concentrated the minds of active retail investors on very specific areas of the market. Income, sustainability of rent and liquidity are key considerations in the investment decision-making process.

On the high street, occupier demand is far more selective than in the past with retailers less willing to compromise. This is mirrored by investment activity where there is a strong focus on well-configured assets in prime pitches within key centres. The recent sale of 55-59 Buchanan Street, Glasgow to Tanyari, to a private Geneva-based investor, at what is considered to be a record low yield for the current cycle of 4%, demonstrates the appetite for super-prime assets. Meanwhile, the purchase of Jenners department store on Princes Street by Anders Povlsen, a private European investor, for £53 million (4.64%) reflects investor demand for long, secure income.

Demand from investors for retail warehouse assets over the period has remained relatively buoyant and indeed pricing has probably increased. Investors have recognised the attractive yields and returns available and the fact that the sector may be comparatively defensive against the changing consumer landscape. Assets under £20 million with long income and strong catchments have found particular favour. The sector is now attracting investors who may have otherwise bought logistics properties. A significant transaction for Scotland involved the sale of Almondvale South Retail Park in Livingston to Sidra Capital (a Sharia-compliant investor) at a price of £40 million, representing a yield of 6.5%.

Interest from investors in the shopping centre sector has been thin and a number of high profile sales have failed to transact. As it tries to adapt to the changing needs of the retailer, the sector is going through a period of rationalisation and in certain instances the only solution is demolition. Where viable, such situations may present regeneration opportunities focused on mixed-use to include new retail, residential, hotel, restaurant and

Retail and leisure property investment deals include:

Address	Property	Purchaser
55-59 Buchanan Street, Glasgow	948 sq.m. prime retail parade, let to Molton Brown, Russell & Bromley and Kiko Milano. Mix of short term and long term income	Tanyari for £22.1 million (c. 4%)
134-140 Renfield Street/ 18-26 Renfrew Street, Glasgow	894 sq.m. prominent retail parade, let to Thistle Taverns Ltd, Trust Inns Ltd and Newsbox	Private investor for £2.1 million (c. 7.73%)
Iberica, 140 St Vincent Street, Glasgow	391 sq.m. ground floor and basement Grade B listed restaurant unit, let to Iberica Food & Culture Ltd until 2032	Private investor for £1.42 million (6%)
Jenners, 47-52 Princes Street, Edinburgh	16,700 sq.m. iconic department store. Let to House of Fraser (Stores) Limited expiring April 2040	Anders Povlsen for £53 million (4.64%)
109 Princes Street, Edinburgh	Primary retail unit extending to 210 sq.m. Let to Levi Strauss (UK) Ltd until August 2025	Private investor for c. £4.13 million (5.25%)
Miller & Carter Steakhouse, 29-31 Fredrick Street, Edinburgh	New 25 year lease to Mitchells & Butlers No2 Ltd subject to 15 year break option	Private investor for c. £7.225 million (4.63%)
1-23 Shandwick Place, Edinburgh	Mixed use building providing retail, restaurant and hotel accommodation. Occupiers include Azzuri Restaurants Ltd, Cityroomz and Optical Express	Private investor for c. £6.3 million (6.23%)
Almondvale South Retail Park, Livingston	35,200 sq.m. retail park anchored by Sainsbury's superstore, along with Sports Direct, Toys R Us and Home Bargains	Sidra Capital for £40 million (6.5%)
McDonald's drive-thru, Whitburn Road, Bathgate	Modern drive through leased to McDonald's Restaurants Limited expiring January 2042. Accommodation extending to 330 sq.m. plus 79 parking spaces	The Oddfellows (The Unity United) (Property) (Investment Fund) for £2.05 million (5.07%)
Haudagain Retail Park, Great Northern Road, Aberdeen	1,254 sq.m. multi-let retail park. Tenants include KFC, Carphone Warehouse, Maplin and American Golf	Private investor for £2.7 million (8.7%)
127 Union Street, Aberdeen	115 sq.m. retail unit let to EE Ltd with 4.5 years unexpired	Private investor for £710,000 (8.05%)
Charleston Road North, Aberdeen	New 480 sq.m. convenience store let for 8.5 years to Sainsbury's	Private investor for £875,000 (6.25%)

leisure space. Edinburgh St James is a leading example of this change. Investors considering existing schemes remain cautious and concentrated on issues such as tenant default, over renting, void costs and capital expenditure requirements. In certain instances the impact of these factors on net value is dramatic.

Outlook

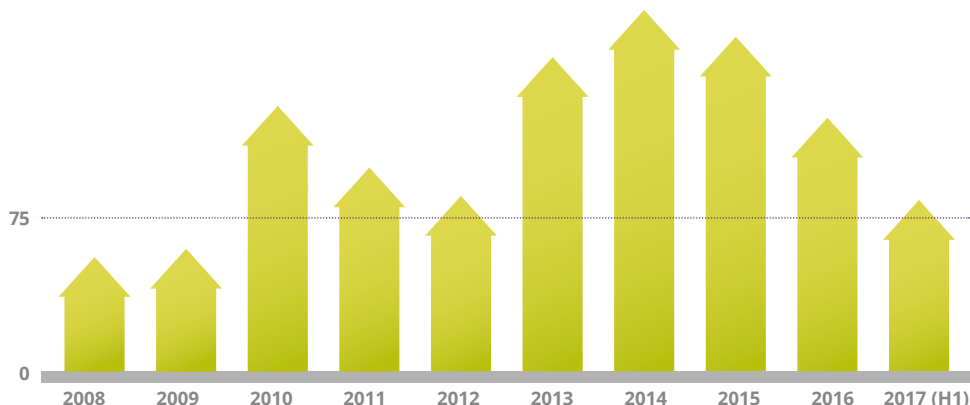
The current heightened investment activity levels are expected to continue, and may potentially increase in the run up to the year end. It is likely that Scotland’s leading three cities will all see sizeable deals concluding in the next couple of months. This will give Aberdeen in particular a welcome boost, where the transaction volume has fallen of late due to the challenging local economy denting

investor confidence. There are however encouraging signs of increased business activity in the city which will in time filter through to the property market.

While the Brexit negotiations will continue to bring uncertainty to the UK in 2018, it is far from clear how property will be impacted as the politicians slowly work towards a divorce settlement. However, it is anticipated that property will feature highly on the shopping list of investors and fund managers regardless. Indeed, if there is a general tailing-off of investor demand next year the impact could be greater south of the border, where yields have compressed to historically low levels in some hotspots. While the yield arbitrage between Scotland and England has now narrowed for certain asset types during 2017, Scotland does generally offer more value and this is clearly attracting investors from the UK and overseas.

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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We are grateful for the assistance of CoStar.