
88TH
SCOTTISH PROPERTY REVIEW 2023
Ryden

3 SUMMARY AND OUTLOOK
4 ECONOMY
5 PLANNING
7 RESIDENTIAL DEVELOPMENT
11 OFFICES
21 INDUSTRIAL
30 RETAIL AND LEISURE
33 INVESTMENT

CONTENTS

SUMMARY AND OUTLOOK

SCOTLAND APPEARS TO BE DIPPING INTO A SHALLOW RECESSION IN 2023 BEFORE CLIMBING BACK TO PRE-PANDEMIC OUTPUT LEVELS BY EARLY 2025. While employment is high, price inflation has resulted in a record fall in the real value of disposable incomes and rising development and operating costs for the property industry.

A strong post-lockdown rebound in Scottish housebuilding continued in 2022, however slower sales and reduced prices are anticipated. In the context of other cost pressures this would adversely impact land values, other than in locations of high pent-up demand such as parts of Edinburgh.

The BTR and PBSA sectors are performing strongly due to significant undersupply. Two major city centre BTR schemes completed and attracted very good demand however emergency legislation in the rental market has curtailed the development pipeline.

The flight to smaller, better quality offices to meet ESG requirements and hybrid working is evident in reduced floorspace take up but increased deal numbers. Demand for quality buildings, and possibly rising office-based staff numbers for some, continues to fuel the development and refurbishment cycle in Edinburgh and Glasgow and has delivered increased prime rents with prospects for further growth.

Industrial property market fundamentals remain strong in Central Scotland, although tight supply and economic uncertainty are suppressing some demand and leading to short term lease renewals. While distribution users are still important, the demand profile is widening. A number of schemes are currently under construction and planned. Rising costs and adverse yield shifts may challenge some speculative developments. Rents continue to rise not only due to demand, but also better quality supply through refurbishment and new development as EPC ratings and ESG credentials begin to impact industrial property.

While retail sales have increased, most of that is price inflation. Online shopping (and services) have shrunk the required physical store footprint. Closures have been High Street and shopping centre focused, although the latter have improved recently and retail parks, particularly foodstore-led, continue to outperform. The food and beverage market has delivered new openings but is now cautious about operating and living costs.

The discount retail sector is mature but active. De-malling city centres are being joined by a growing cast of suburban and regional centres seeking a more mixed-use offer. Hotels are selectively active in prime locations such as Edinburgh's Princes Street.

A strong investment market faltered in the autumn in the face of growing economic pressures and political fiascos. A selective market from particular investor types has since prevailed. The investment market is moving through its price discovery phase and is expected to pick up during the second half of 2023 as borrowing costs stabilise. Entrepreneurial investors may weigh the optimum market timing to acquire in sectors with strong market fundamentals including Grade A offices, industrial/logistics, BTR, PBSA, improving prime retail and the nascent life sciences sector.

DR MARK ROBERTSON
RESEARCH PARTNER

ECONOMY

GROWTH

During the third quarter of 2022 Scotland's economy contracted by 0.2%. Output remained flat in the services sector (0.0%), but fell in both the construction (-0.3%) and production (-1%) sectors. This quarterly output is 1.1% below the pre-pandemic level in Q4 2019.

A more recent, provisional monthly estimate for November 2022 suggests that output in that month fell by -0.1%. Output in the services sector – which accounts for around three quarters of the economy – remained flat (0% growth), within this sector growth was seen in consumer facing services (0.7%), health education and public services (0.5%), while all other services fell by -0.6% in total. Overall output in production, construction and agriculture saw a fall of -0.4%, within this sector falls were seen in Electricity and Gas Supply industry (-6.2%), water supply and waste management (-2.3%), partly offset by growth in manufacturing (1.1%) and agriculture, forestry and fishing (1.5%).

EMPLOYMENT

Scotland's unemployment numbers for the three months to November 2022 grew by 1,000 on the previous three months to stand at 92,000, however this is still 8,000 fewer than the same period in 2021. This is equivalent to an unemployment rate of 3.3%, which is below the level recorded before the COVID-19 pandemic started. The rate is unchanged on the previous three months and is below the UK rate of 3.7%. Scotland's overall employment rate reached a new high of 76.1% and sits above the UK figure of 75.6%.

Across the country there were however notable job losses in manufacturing, retailing & leisure, financial services, construction and food & beverage. Job gains were recorded in areas of economic expansion including technology, renewable energy, logistics and care services.

OUTLOOK

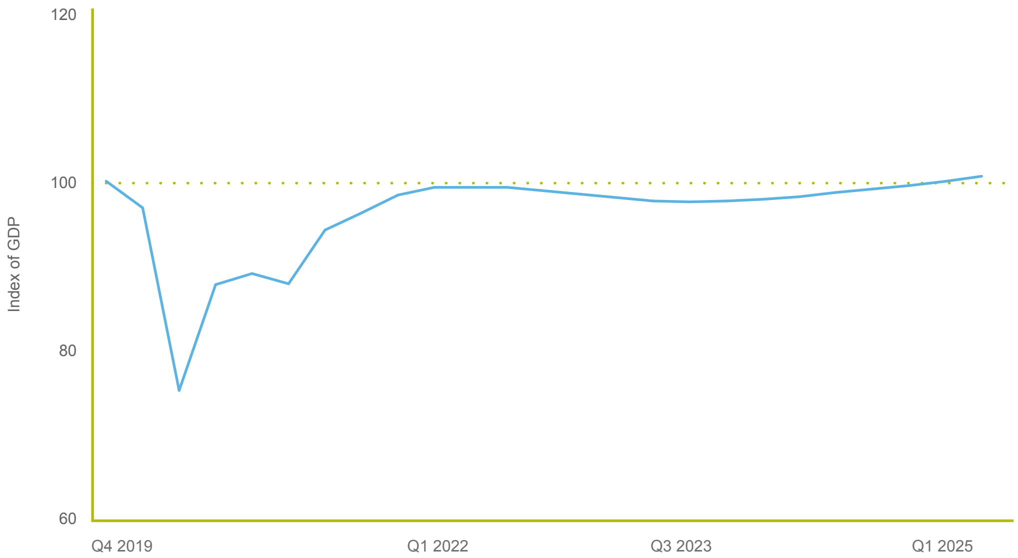
The RBS Purchasing Managers' Index for December 2022 showed an increase in Scottish business activity to 48.3 from 43.9 in November, signalling modest contraction.

Fraser of Allander Institute expect the economy to enter recession during 2023, forecasting contraction of -1.0% for 2023, followed by a return to growth of 0.6% in 2024.

Similarly, the Scottish Fiscal Commission forecasts a shallow recession this year, with a return to the Q1 2022 pre-recession peak in economic output by Q1 2025 and a return to pre-pandemic levels by Q3 2025.

All property market sectors in Scotland have to a greater or lesser extent been adversely affected by the sharp inflation-and-interest rate cycle, particularly the development and investment industries, including those sectors and regions where the underlying market dynamics are positive. Property market stabilisation in Scotland during 2023 will depend upon the expectations of a short and shallow recession being borne out, and inflation tracking downwards allowing an early peak in interest rates.

RECESSION DELAYS RETURN TO PRE-PANDEMIC GDP LEVEL



Source : Scottish Fiscal Commission

PLANNING

NATIONAL PLANNING FRAMEWORK NPF4

Scottish Parliament approved NPF4 on the 11th January 2023 but this is not the end of the process and NPF4 is not yet part of the statutory development plan. The next step is for the commencement of provisions of the Planning (Scotland) Act 2019, in particular section 13 which will make the National Planning Framework part of the development plan. Scottish Ministers intend to adopt and publish NPF4 in February 2023. NPF3, SPP, all strategic development plans and any supplementary guidance will then cease to have effect.

NPF4 sets out the Scottish Government's priorities and policies for the planning system up to 2045, including an approach to achieve net zero carbon emissions by that date.

For the first time it incorporates Scottish Planning Policy (SPP) and the NPF into a single document. This is a significant change to the operation of the planning system and NPF4 will have legislative clout as the first tier of policy as part of the Statutory Development Plan. It is therefore a very important primary level of planning policy that will inform decision makers assessing individual planning applications.

Given the ongoing climate emergency, it is unsurprising that the environment, biodiversity and climate change are key themes, alongside meeting the needs of communities and an emphasis on everything local, providing denser forms of development, particularly brownfield, in 20 minute local neighbourhoods.

NPF4'S KEY THEMES INCLUDE:

- Reinforcing the development plan system and limiting the scope for departures.
- All planning applications will need to demonstrate how they help meet net zero carbon emissions by 2045.
- Aims to increase the density of development in settlements.
- Tighten up on green belt/greenfield development and increased pressure to demonstrate consideration of brownfield sites first to limit urban expansion.
- Affordable housing requirements to be 'at least 25%' and more where justified (lower amounts also need to be justified).
- Houses on land not identified for housebuilding should not be supported.
- A centralised approach dictating the housing land requirements with just over 200,000 new homes forecast to be required nationwide over the next 10 years.
- Renewed support of a place-based approach to design, 20-minute neighbourhoods, and with housing land allocated an 'infrastructure first' basis.
- Renewed emphasis on creating sustainable places that are liveable, productive and distinctive.

54.3

WEEKS

Major housing applications on average*

285

DECISIONS

Total number of Major Development decisions

*Figures exclude major applications subject to processing agreements where timescales for decisions are agreed in advance.

- An update of the six qualities of successful places: designed for lifelong health and wellbeing; safe and pleasant; well-connected and easy to move around; distinctive; sustainable and adaptable.
- Recognition of the mitigation hierarchy and that development proposals should provide significant biodiversity enhancements.
- Development planning should be 'infrastructure first' setting out requirements, the evidence base and required developer contributions. This will likely fuel debate on contributions being commensurate in scale and kind and on development land tax.
- A need for blue and green infrastructure including provision for new or improved access to play and outdoor sports opportunities.
- Reducing the need for unsustainable travel by prioritising areas that can be accessed by public transport or active travel. Strong emphasis that developments which encourage reliance on the private car should not be supported.
- Stronger recognition of irreplaceable habitats such as Ancient Woodlands with new protections outlined.
- Stronger support for wind farms, small scale renewables, solar developments and carbon capture/negative emissions developments.
- Identification of National Developments which include very different scales and forms of development, some previously identified and others no longer listed despite not being fully delivered.

10.8

WEEKS

Average decision time for Local Development planning decisions

44.6

WEEKS

Major Development planning decisions were quicker on average

The proposed NPF4 has been met with mixed responses. Some ministers and many practitioners hoped for more direction and focus on delivery. The Scottish Government is committed to further guidance as requested during its approval.

The planning system remains a largely prescriptive and regulatory system of control that provides ever more layers and hurdles to navigate to deliver permissions. There will be many proposals that gain support from policy principles at national level but fall foul of local circumstances, policies and politics. There will continue to be a tension between a top down government approach vs empowering community planning and local policy responses.

It will be important to monitor how the additional layers of supporting information and NPF4 will impact developers' appetite. At present that appetite is patchy and very much focussed on prime locations. Activity is most buoyant for beds (PBSA and BTR) and sheds (distribution & logistics).

Other areas of growth are life sciences and refurbishment and conversion of existing buildings, especially offices – some for upgrading into new Grade A space and others for repurposing. There is still demand for new student (PBSA) proposals but these can be locally controversial.

Planning activity from housebuilders has slowed in line with the market (see Residential Development section). Some are refocusing on brownfield land opportunities, although housing for sale can struggle to compete with BTR/PBSA for sites in the major cities. Appetite for greenfield housing land continues, but will be harder to justify under NPF4, hence a rise in activity around LDP reviews seeking to have sites allocated in order that they are able to secure planning permissions going forward.

Other planning activity is much more specific in terms of sector and geography – discount and convenience retail markets are still active but generally there has been a marked decline in retail/leisure and hotel proposals in the planning system.

RESIDENTIAL DEVELOPMENT

DEVELOPMENT

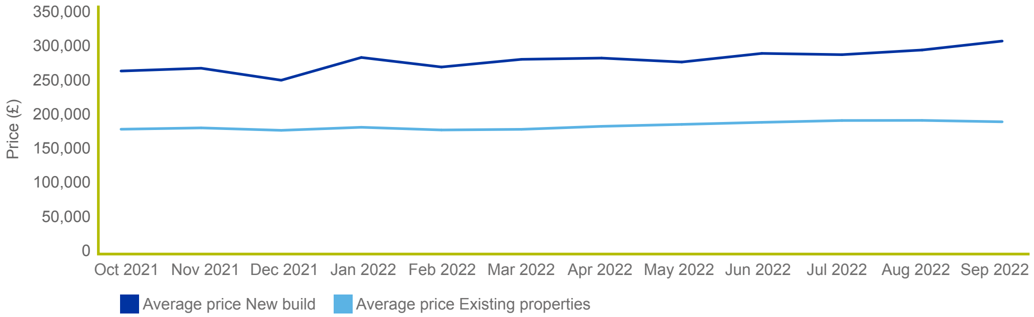
The new build residential market in Scotland in 2022 saw the average house price rise from £258,000 to just over £300,000. In part this reflected a greater demand for larger family homes, continuing the trend following the pandemic. Over the three year period October 2019 to September 2022 the average price for a new build property increased by £100,000 which again will have been influenced by fewer apartments compared to family housing being developed.

In terms of supply there was a strong rebound after lockdown with the Scottish Housing Market Review (Scottish Government, January 2023) reporting 20,767 new build completions across all sectors in Scotland in the year to end March 2022, an increase of 39.7% (5,900 homes) on the previous year. Meanwhile, there were 18,672 new build starts across all sectors in the year to end March 2022, up by an annual 5.1% (914 homes). House building data for the remainder of 2022 will no doubt confirm this upward trajectory in the new build market, however activity remains below the pre-pandemic level of 22,124 completions and 25,491 starts in the year to end March 2020.

The economic downturn, escalation of cost of living and increased mortgage rates are now prompting obvious predictions that house prices will decline in 2023, with a broad consensus suggesting somewhere between a 5% and 15% drop on average across the UK. A number of volume housebuilders are anticipating a slowdown in sales rates as is already being evidenced in noticeably fewer reservations compared with last year's levels.

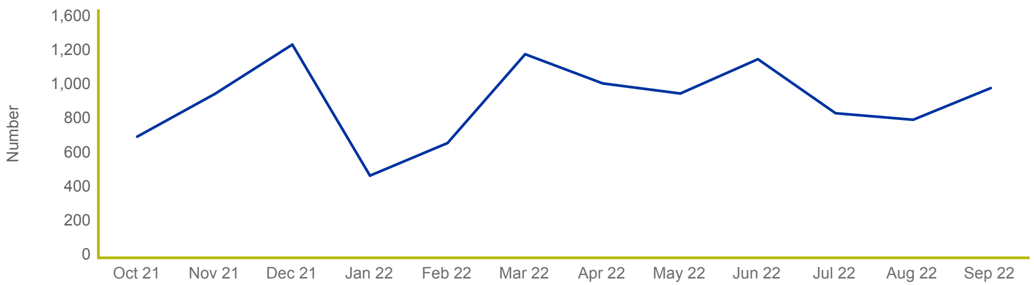
Conversely, the traditional (non BTR) rental market in Scotland is expected to continue to perform strongly particularly in University towns and cities where there is significant undersupply. This imbalance will be further exacerbated by recent rent control regulations which are currently hindering the previously burgeoning interest from BTR developers and investors in this growing sector of the market. This time last year it was anticipated that the development pipeline for large scale BTR projects would be making a meaningful contribution to increasing stock levels, particularly in Edinburgh and Glasgow and it is to be hoped that the delay is temporary.

HOUSE PRICES



Source: HM Land Registry

SALES VOLUME NEW BUILD



Source: HM Land Registry

LAND MARKET

The residential land market continued to perform strongly in 2022, fuelled by strong developer interest and a tight supply of good sites with planning consent coming to the market. Rising property prices helped offset the very rapid increase in construction costs which, while showing some signs of stabilising, continue to impact on development viability. With increased planning gain contributions likely to be requested including a greater percentage of affordable housing, land values will reduce if sales values fall as predicted.

Different factors affect local housing markets. The preferred position within the City of Edinburgh's Planning Department is for future development to be focussed on repurposing brownfield sites. The consensus amongst developers is that for different reasons, including reduced demand for certain locations, a number of sites will not be deliverable which will lead to a shortfall in the effective housing land supply. This will curtail development in the first years of the new plan once adopted, so it could follow that pent up demand for fewer sites will shore up what might be otherwise falling land values. Greenfield values for family housing in Edinburgh are therefore expected to remain constant within a range of £1.25 to £2.25 million per net developable acre.

In Glasgow greenfield land and values remain within a range of £0.5 to £1 million, although some prime sites may achieve more.

The Aberdeen land market continues to perform steadily with a reasonable supply of larger sites becoming more established and generating consistent sales rates. While the housing market remains inextricably linked to the oil and gas markets, values for well-located sites with capacity for in excess of 50 units sit between £0.5 to £0.8 million.

BUILD TO RENT (BTR)

The Build to Rent (BTR) sector in 2022 was very much a tale of two halves. The first half saw the much anticipated completion of two landmark city centre schemes in Glasgow and Edinburgh.

In Glasgow, Legal & General's Solasta Riverside completed in the summer. Quoting rents started at £945 per month for studios up to £1,850 per month for three bedroom apartments. Leasing activity has been extremely positive with L&G reporting it as their quickest scheme to reach full occupancy in the UK.

Moda Living's The McEwan at Fountainbridge in Edinburgh launched the initial phase in the first quarter of 2022 with quoting rents considerably above market expectations. Rents ranged from £1,400 per month for studios up to £3,250 per month for three bedroom apartments. Take up has been reported as strong with quoting rents being achieved.

The BTR sector was continuing to build momentum in Scotland, with a number of new schemes being promoted through the planning systems and consented schemes on site in Glasgow and Edinburgh. A notable feature of the market was a marked increase in interest in suburban family housing BTR.

The sector was, however, dealt a significant blow in October 2022 when the Scottish Government introduced emergency Cost of Living legislation which brought into effect a 6 month temporary freeze on in-tenancy rental increase and a moratorium on evictions until March 2023. As of January 2023, this has been extended for a further 6 months until September 2023, although in-tenancy increases of up to 3% will be permitted.

The introduction of the legislation had a major impact on developer and investor confidence in the Scottish BTR market. A number of consented schemes have been paused or funding deals withdrawn. The industry estimates that investment of circa £800 million (c. 4,000 units) have been impacted. Some developers are now looking to re-purpose proposed BTR developments for student use.

BTR DEVELOPMENT	DETAILS
SOLASTA RIVERSIDE, GLASGOW	DEVELOPMENT OF 324 UNITS BY DRUM PROPERTY GROUP, FUNDED BY LEGAL & GENERAL, COMPLETED SUMMER 2022
THE MCEWAN, FOUNTAINBRIDGE, EDINBURGH	476 UNIT DEVELOPMENT BY MODA LIVING. PHASE 1 COMPLETED Q1 2022, PHASE 2 UNDERWAY
HOLLAND PARK, PITT STREET, GLASGOW	433 UNIT DEVELOPMENT BY MODA LIVING. ANTICIPATED COMPLETION LATE 2023
CANDLERIGGS SQUARE, GLASGOW	CONSTRUCTION COMMENCED IN NOVEMBER 2021 ON 346 UNITS BY DRUM PROPERTY GROUP AND STAMFORD PROPERTY INVESTMENTS, COMPLETION ANTICIPATED LATE 2023
CENTRAL QUAY, GLASGOW	498 UNIT DEVELOPMENT BY PLATFORM_ IS DUE FOR COMPLETION EARLY 2024
G3, MINERVA STREET GLASGOW	DEVELOPMENT BY DRUM PROPERTY GROUP, FORWARD FUNDED BY EDMOND DE ROTHSCHILD REAL ESTATE INVESTMENT MANAGEMENT. 82 UNITS IN BLOCK 2 DUE FOR COMPLETION Q2 2023 AND 32 UNITS IN BLOCK 3 DUE FOR COMPLETION Q3 2023
STEADS PLACE, LEITH, EDINBURGH	110 UNITS BY DRUM PROPERTY GROUP, FUNDED BY EDMOND DE ROTHSCHILD REAL ESTATE INVESTMENT MANAGEMENT. DUE FOR COMPLETION LATE 2023
BONNINGTON ROAD LANE, EDINBURGH	DEVELOPMENT OF 453 UNITS BY PLATFORM_ IS UNDER CONSTRUCTION
IONA STREET, EDINBURGH	WATKIN JONES SCHEME FORWARD FUNDED BY VITA GROUP. UNDER CONSTRUCTION, 60 BTR UNITS AND 205 STUDENT HOMES
FREER STREET, EDINBURGH	VASTINT ON SITE DUE TO COMPLETE LATE 2023

OUTLOOK

The slowdown experienced in the land market towards the end of 2022 is likely to continue throughout 2023. It is hard to foresee a short term upturn in sales rates given the economic headwinds which will persist throughout the year. While previous house price increases have managed to offset build cost inflation this will cease with further house price falls forecast for this year. A reduction in sales rates will extend the existing development pipeline for many housebuilders which may well lessen competition for land resulting in land values softening or reducing. As with any market slowdown this will present opportunities for those previously unable or unwilling to participate in a competitive and rising market.

DEMAND

Glasgow city centre office take up for 2022 totalled 408,000 sq.ft. comprising 124 deals. While this shows an increased number of transactions (up 25% on 2021), this is the lowest level of take up for 10 years, ignoring the pandemic impacted 2020. Economic challenges through 2022 have been well documented and will have influenced the level of take up, however the reality is that many occupiers have considered their office needs post-pandemic. Their future size requirements have fluctuated, and in most cases this has resulted in a smaller level of space being acquired. A number of Government requirements failed to progress as expected, with some being absorbed into existing surplus stock together with some occupiers agreeing lease extensions.

Continuing the trend from last year, activity was focused in the Grade A new stock or high quality refurbishments. Approximately 26% of take up was in the completed Grade A space and 25% was in floor plates in excess of 10,000 sq.ft. Noting the increased volume of transactions however, 68% were for offices smaller than 3,000 sq.ft.

The 5-year average for city centre office take up now equates to 708,000 sq.ft.

A new headline rental for the city centre has now been achieved of £36 per sq ft. at Cadworks.

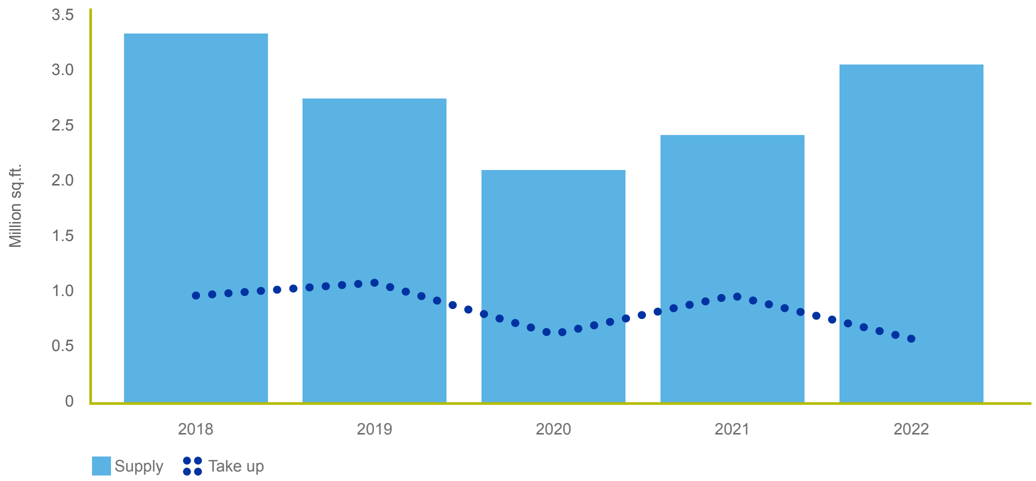
Demand remains characterised by occupiers seeking best in class space. Whilst the weighting towards Grade A has eased, there is a clear trend towards buildings that provide high quality specification and working environments, exceptional wellbeing facilities and achieve the highest standards of environmental performance including ensuring net zero carbon emissions.

The indigenous/SME market has rebounded in terms of the volume of new lettings. A trend is established for landlord fitted out options ('Cat A +') available on flexible lease terms, many of which are available in fully refurbished buildings where landlords are diversifying their offer alongside office space available on traditional lease terms. The popularity of the Cat A+ model links directly to the uncertainty many occupiers are experiencing regarding future office requirements around flexible working.

CITY CENTRE DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	SECTOR
CADWORKS	33,905	OVO ENERGY	ENERGY
177 BOTHWELL STREET	29,683	EVELYN PARTNERS	PROFESSIONAL
2 WEST REGENT STREET	24,350	WIZU WORKSPACE	SERVICED ACCOMMODATION
2 ATLANTIC SQUARE	14,814	BURNESS PAUL	LEGAL
2 ATLANTIC SQUARE	14,488	SIEMENS	PROFESSIONAL
ONYX, 215 BOTHWELL STREET	12,438	DIAGEO	FOOD AND DRINK

SUPPLY AND TAKE UP (CITY WIDE)



OFFICES GLASGOW

CITY CENTRE NEW BUILDS

ADDRESS	SIZE (SQ.FT.) (AVAILABLE)	ESTIMATED DELIVERY DATE	DEVELOPER
2 ATLANTIC SQUARE	96,650 (31,768)	COMPLETE	BAM PROPERTIES/ TAYLOR CLARK
CADWORKS	94,431 (44,451)	COMPLETE	FORE PARTNERSHIP
177 BOTHWELL STREET	305,000 (50,000*)	COMPLETE	HFD (NOW OWNED BY PONTEGADEA)
33 CADOGAN STREET	290,000	2025	CEG

* released by Virgin Money for sub-lease

NOTABLE EXISTING REFURBISHED OFFICES

ADDRESS	SIZE (SQ.FT.) (AVAILABLE)	DEVELOPER
55 DOUGLAS STREET	85,391 (85,391)	SIGNAL CAPITAL
6 ATLANTIC QUAY	78,459 (68,000)	SOLUTINO PTE LTD
200 BROOMIELAW	78,000 (78,000)	AM ALPHA
SENTINEL, 103 WATERLOO STREET	84,623 (33,280)	ARDSTONE CAPITAL

PIPELINE OF KEY REFURBISHMENT SCHEMES

ADDRESS	SIZE (SQ.FT.)	DELIVERY DATE	DEVELOPER
LUCENT, 50 BOTHWELL STREET	91,500	2023	ORION CAPITAL MANAGERS
AURORA, 120 BOTHWELL STREET	174,000	2023	FORMA REAL ESTATE
TAY HOUSE, 300 BATH STREET	78,000	2023	LONDON & SCOTTISH PROPERTY INVESTMENT MANAGEMENT (LSPIM)
123 ST VINCENT STREET	104,500	2023	LONGMEAD CAPITAL
THE MET TOWER, NORTH HANOVER STREET	120,000	2024	BRUNTWOOD SCITECH
150 ST VINCENT STREET	152,000	2025	CLEARBELL CAPITAL LLP

SUPPLY

The total vacancy for the city centre is in the order of 1.74 million sq.ft. (c. 8% vacancy rate) up from 1.35 million sq.ft. in 2022.

The three new build Grade A offices which formed the most recent development cycle – 2 Atlantic Square, Cadworks and 177 Bothwell Street – are now all complete.

Construction has commenced at 33 Cadogan Street where developer CEG started groundworks in October 2022 for its 290,000 sq.ft. speculative office building, which is due for completion mid-2025.

In the refurbishment sector, Orion Capital Managers' Lucent, 50 Bothwell Street is now well underway with a completion date of Q2 2023. Strip out works have commenced at Forma Real Estate's Aurora, 120 Bothwell Street and at The Met Tower, North Hanvover Street following Bruntwood SciTech's acquisition in April 2022.

PERIPHERAL MARKET

Take up in Glasgow's peripheral office market in 2022 reduced compared to 2021 at 47,322 sq.ft. in 34 transactions (a 35% reduction of floorspace). Similar to the city centre market though, this decline in floorspace take up masked a 36% increase in the number of transactions. Again there was a significant weighting to smaller lettings of under 2,000 sq.ft.

As a result of the limited take up coupled with occupier space release, supply levels for peripheral space is continuing to increase.

OUT OF TOWN MARKET

Take up in Glasgow's out of town office market in 2022 was 118,654 sq.ft. in 41 transactions.

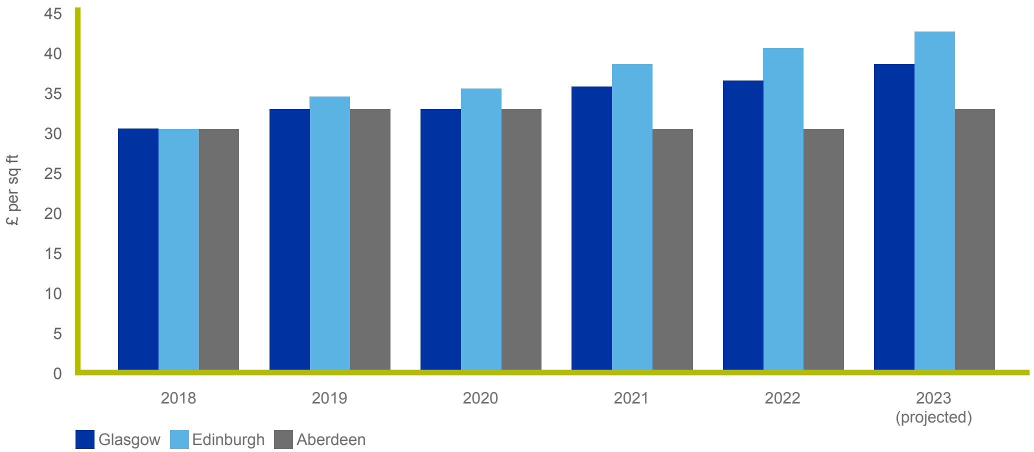
Take up in 2021 was skewed by a number of sizeable owner occupier sales, so a 67% reduction is perhaps not a fair reflection of 2022's activity, especially when the volume of deals concluded is only 13% less than the previous year. A number of occupiers also completed lease extensions as opposed to progressing relocations.

Supply levels to the east of the city centre significantly outweigh occupier options available in the western out of town market as a result of historic development cycles on former Enterprise Zone sites.

KEY PERIPHERAL AND OUT OF TOWN DEALS

ADDRESS	MARKET	SIZE (SQ.FT.)	OCCUPIER	SECTOR
CITYPARK, ALEXANDRA PARADE	PERIPHERAL	6,449	SWECO	ENGINEERING
MAXIM 7, MAXIM OFFICE PARK, EUROCENTRAL	OUT OF TOWN	15,089	LINEAR GROUP	CONSTRUCTION
ORBITAL HOUSE, EAST KILBRIDE	OUT OF TOWN	10,801	OPUS BUSINESS ADVISORY GROUP	SERVICED ACCOMMODATION
ORBITAL HOUSE, EAST KILBRIDE	OUT OF TOWN	8,496	QUALITROL DMS	TMT
BELHAVEN HOUSE, STRATHCLYDE BUSINESS PARK, BELLSHILL	OUT OF TOWN	6,186	FOCUS GROUP	TMT
PAVILION 4, GLASGOW BUSINESS PARK, GLASGOW	OUT OF TOWN	5,636	GLASGOW CITY COUNCIL	PUBLIC SECTOR

PRIME OFFICE RENTS



OUTLOOK

There will continue to be demand for Glasgow's best office buildings as corporate occupiers seek state of the art environments to attract staff back to offices and equally to retain key staff. Occupiers will expect exceptional building facilities to be provided and increased pressure to deliver net zero targets is anticipated over and above minimum environmental credentials.

The trend to revisit occupier size requirements is expected to continue as it has done throughout 2022, although some occupiers are now expected to increase their space needs to support higher numbers of staff working from their office premises.

The demand for lease flexibility from many occupiers will remain and the attraction of fitted out offices delivered by landlords will continue to offer a cost effective, flexible solution.

Entering into 2023, there is c. 200,000 sq.ft. of live occupier requirements reviewing their market options, predominately focusing on best in class space. This will continue to erode office stock notably the existing Grade A space and is expected to lead to further rental growth.

OFFICES EDINBURGH

CITY CENTRE DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	SECTOR
20 BRANDON STREET	139,172	BLACKROCK	FINANCIAL SERVICES
CAPITAL SQUARE	21,446	ANDERSON STRATHERN	LEGAL SERVICES
1 HAYMARKET SQUARE	16,383	SHOOSMITHS	LEGAL SERVICES
1 HAYMARKET SQUARE	14,962	DENTONS	LEGAL SERVICES
1-7 EXCHANGE CRESCENT	12,066	DUKOSI	TECHNOLOGY
106 HOLYROOD ROAD	11,577	ROCKSTAR NORTH	TECHNOLOGY
10 GEORGE STREET	10,515	TRUST PILOT	TECHNOLOGY
CAPITAL SQUARE	9,241	STANTEC	PROFESSIONAL SERVICES

DEMAND

In 2022, Edinburgh's office market delivered a total of 651,570 sq.ft. of take up across 159 deals. This marks a small 6% increase in the number of deals but a 15% decrease in overall floorspace take up against 2021, signalling smaller transactions on average.

Lease re-gears totalled a further 493,315 sq.ft. within 55 deals, with some significant occupiers re-structuring, for example Turcan Connell at Princes Exchange, Earl Grey Street (26,048 sq.ft.), Blackrock at Exchange Place, Semple Street (86,415 sq.ft.), Skyscanner at Quartermile 1 (37,764 sq.ft.) and Scottish Ministers at Silvan House, Corstorphine Road (88,915 sq.ft.). If lease re-gears were included then 2022 would have delivered 1,144,885 sq.ft. of take up.

CITY CENTRE

Edinburgh's city centre transacted 497,982 sq.ft., representing 76% of city-wide take up. Grade A and high quality accommodation accounted for 310,503 sq.ft. or 62% of city centre office take up.

The prime rental tone for Grade A accommodation has risen to £40 per sq ft (there have been examples of specific floors exceeding this tone) with incentives holding at around 12-15 months for a 10 year lease commitment to the highest quality covenant. Given the supply constraints, particularly within the Grade A market, headline rent increases of up to £42 per sq.ft. are predicted for the best quality space, particularly those achieving the higher ECG credentials.

PERIPHERAL

Office take up in West Edinburgh rose by 46% on 2021 levels with 79,921 sq.ft. transacted across 20 deals. Prime rents sit around £22 per sq.ft. for refurbished options in the South Gyle area, rising to £25 per sq.ft. for refurbished space on Edinburgh Park, albeit at New Park Square rents of £29 per sq.ft. are sought. The most notable deal in this sub-market was the letting of Lomond House, 10 Lochside Place, Edinburgh Park to pizza oven manufacturer Ooni at £24 per sq.ft. CEG's refurbished Verdant at Redheughs Rigg, South Gyle also performed well with 4 transactions totalling 13,814 sq.ft., offering tenants the advantage of Cat A+ transactions, avoiding significant fit out cost expenditure.

North Edinburgh also delivered increased levels of take up with 29,623 sq.ft. transacted across 18 deals and prime rents sitting around £18 per sq.ft. Call In Homecare's acquisition of a total of 7,648 sq.ft. at Northwood Investor's Sugar Bond building on Anderson Place was the largest recorded new letting in this sub-market. Significant lease renewal activity was noted at Commercial Quay where Cello Signal recommitted to a total of 16,528 sq.ft.

> “HEADLINE RENT INCREASES OF UP TO £42 PER SQ.FT. ARE PREDICTED FOR THE BEST QUALITY SPACE, PARTICULARLY THOSE ACHIEVING THE HIGHER ECG CREDENTIALS.”

PERIPHERAL DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	SECTOR
LOMOND HOUSE, 10 LOCHSIDE PLACE, EDINBURGH PARK	17,962	OONI PIZZA OVENS	FOOD
VERDANT, REDHEUGHS RIGG, SOUTH GYLE	6,490 3,552 1,722 1,420	QUORUM CYBER BUPA BLACK & WHITE ENGINEERING TWEED FINANCIAL SERVICES LTD	TECHNOLOGY HEALTHCARE ENGINEERING FINANCIAL SERVICES
SUGAR BOND, ANDERSON PLACE, LEITH	7,648	CALL-IN HOMECARE	HEALTHCARE
OLD ASSEMBLY HALL, CONSTITUTION STREET, LEITH	3,424	ARCHITYPE LTD	ARCHITECTURE

PRIME CITY CENTRE AVAILABLE SPACE

ADDRESS	SIZE AVAILABLE (SQ.FT.)	LANDLORD	TENANTS
1-7 EXCHANGE CRESCENT (TO BE REFURBISHED)	22,086 (68,091 AVAILABLE FOLLOWING REFURBISHMENT)	STANDARD LIFE ABERDEEN (HEAD-TENANT)	SHEPHERD & WEDDERBURN, AMAZON, JLL, RYDEN
SALTIRE COURT, CASTLE TERRACE	35,449 (*ALSO 26,951 OF TENANT SPACE AVAILABLE HERE)	TIGON 7 LTD	CMS, KPMG, CLOSE BROTHERS, SHOOSMITHS, DELOITTE*, MARTIN CURRIE*
24-25 ST ANDREW SQUARE (REFURBISHMENT)	48,047	ARDSTONE	VACANT
QUARTERMILE ONE (REFURBISHMENT)	47,947	EPIC LTD	PURE GYM, SKYSCANNER
2 FREER STREET, FOUNTAINBRIDGE (NEW BUILD)	28,086	VASTINT (SUB LEASE VIA FANDUEL)	FANDUEL
2 LOCHRIN SQUARE (REFURBISHMENT)	26,096	UBS ASSET MANAGEMENT	SPACES, CO-OPERATIVE BANK
1 TANFIELD (REFURBISHMENT)	21,000	GREENRIDGE INVESTMENT MANAGEMENT	FNZ, CRANEWARE, TRAINLINE, STMICROELECTRONICS

PRIME CITY CENTRE NEW BUILDS AND PIPELINE OF KEY REFURBISHMENT SCHEMES

ADDRESS	SIZE (SQ.FT.)	DELIVERY DATE	DEVELOPER
THE NETWORK, NEW TOWN NORTH	80,000	DEMOLITION ONGOING WITH 2025 DELIVERY	ORION CAPITAL MANAGERS
EXCHANGE PLACE 4	20,000	APPROVED PLANNING. NO CONSTRUCTION DATE ANNOUNCED	EP3 DEVCO LTD
ELGIN HOUSE, HAYMARKET YARDS	C. 150,000	PLANNING PENDING C. 2025	ELGIN HAYMARKET LTD
ROSEBERY HOUSE, HAYMARKET TERRACE	158,000	PLANNING PENDING C. 2025	AVIVA INVESTORS
FOUNTAINBRIDGE	C. 100,000	TO BE SUBMITTED C. 2026	CRUDEN HOMES AND BUCCLEUCH PROPERTY
30 SEMPLE STREET	57,000	REFURBISHMENT ON SITE WITH DELIVERY JUNE 2024	BBC PENSION TRUST
CLARENDON HOUSE, 116 GEORGE STREET	35,000	REFURBISHMENT ANTICIPATED DELIVERY 2024	ABRDN
28 ST ANDREW SQUARE	73,000	REFURBISHMENT AND EXTENSION APPROVED PLANNING, Q3 2024 DELIVERY	AVIVA INVESTORS
EDINBURGH ONE, MORRISON STREET	88,000	REFURBISHMENT APPROVED PLANNING. ON SITE Q1 2024	ODYSSEUS CAPITAL MANAGEMENT

SUPPLY

Total office supply across Edinburgh at end Q4 2022 was 1,590,713 sq.ft. which is an 11% decrease on Q4 2021. Notably c. 42% of total space available comprises Grade A or high quality refurbished Grade B space which is a 27% increase on Q4 2021, comprising 462,860 sq.ft. available within Edinburgh city centre and 201,300 sq.ft. within West Edinburgh.

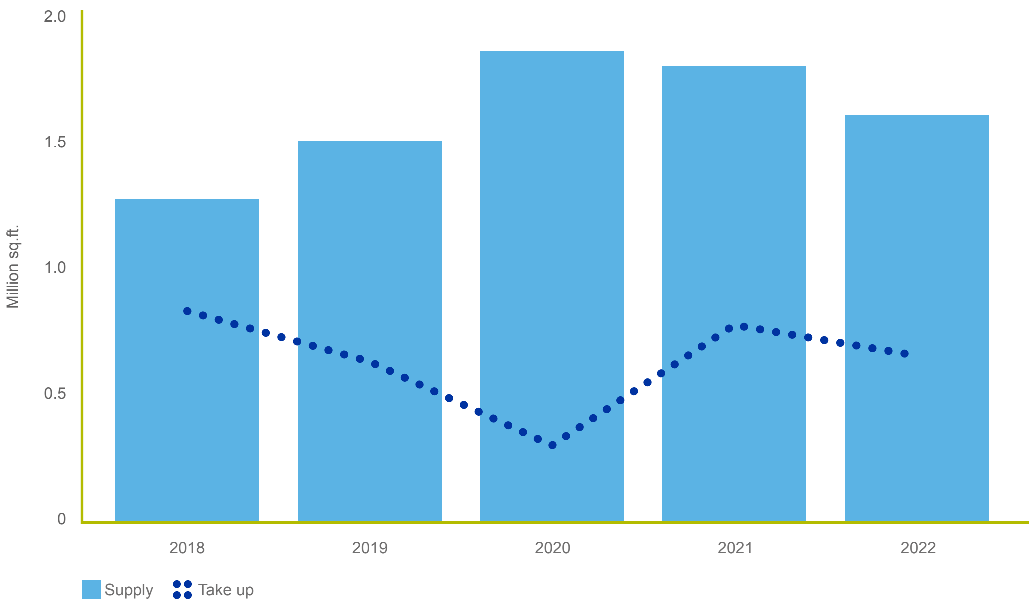
Void rates around Edinburgh are roughly 7%. A shortage of Grade A office space in Edinburgh city centre reflects active demand and the requirement by business for the flight to quality within the city centre market.

City centre supply reduced during 2022 and there are limited options available to accommodate new requirements upwards of 20,000 sq.ft. over the next 12-24 months, hence the reason the number of lease re-gears has occurred.

Given this tightening of the Grade A office market and erosion of office stock within the city centre, a number of Grade A office developments and significant refurbishments are proposed, mainly in the west end but also in the core and north of the city centre.

Supply has increased within the West Edinburgh market with pre-letting design and build opportunities available, particularly within Shelborn Asset Management's Edinburgh Green master planned development (800,000 sq.ft.) and Parabola's New Park Square (1 million sq.ft.) proposed commercial development.

SUPPLY AND TAKE UP



OUTLOOK

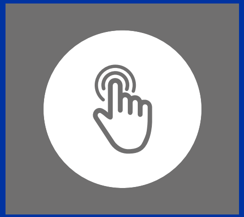
The outlook for the Edinburgh office market remains generally positive but not without challenges; the single largest variable is how occupiers adapt their return to work strategies and consequently how much space is needed for existing staff and new recruits in a changing and flexible environment. It is noticeable that most of the new office relocations have taken reduced space (20-30%) and offer hybrid working conditions with employers reflecting on the environment and style of the workplace they offer. This is leading to a broader consideration of ESG office benchmarks such as Nabers, WELL ready, CycleScore and WiredScore in addition to EPC and BREEAM.

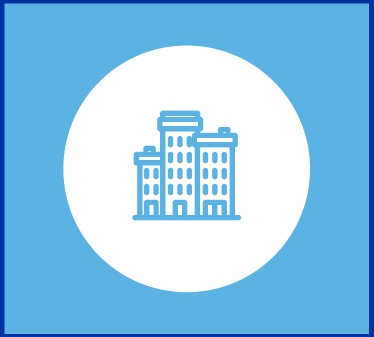
A significant regearing of leases has taken place over the last two years as some occupiers consider their requirements, stabilise costs and review what options are available in the current market and in the pipeline.

Despite significant cost inflation including utilities costs and non-domestic rates, occupier demand continues across all sizes particularly the small to medium sizes and up to 20,000 sq.ft. within the city centre. The flight to quality and lease flexibility is at the forefront with most occupiers aware that these also impact rental values within a tight supply market.

WEST EDINBURGH AVAILABILITY

ADDRESS	SIZE (SQ.FT.)	ESTIMATED DELIVERY DATE	DEVELOPER
VERDANT REDHEUGHS RIGG, SOUTH GYLE	60,000	REFURBISHMENT	CEG
ONE EDINBURGH GREEN REDHEUGHS AVENUE, SOUTH GYLE	89,863	REFURBISHMENT Q1 2023	SHELBORN ASSET MANAGEMENT
1 NEW PARK SQUARE, EDINBURGH PARK	84,330	NEW BUILD COMPLETED Q2 2022	PARABOLA
4-5 LOCHSIDE AVENUE, EDINBURGH PARK	43,025	REFURBISHMENT	KNIGHT PROPERTY GROUP
3 LOCHSIDE AVENUE, EDINBURGH PARK	50,000	SUB-LET	FROM SAINSBURY'S BANK
2 BROADWAY PARK, SOUTH GYLE	42,000	REFURBISHMENT Q4 2023	AMBASSADOR GROUP
1 BROADWAY PARK, SOUTH GYLE	31,524	SUB-LET	FROM ABRDN
1-3 LOCHSIDE CRESCENT, EDINBURGH PARK	31,286	SUB-LET	FROM AGEON





"DESPITE SIGNIFICANT COST INFLATION INCLUDING UTILITIES COSTS AND NON-DOMESTIC RATES, OCCUPIER DEMAND CONTINUES."

DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	SECTOR
THE SILVER FIN BUILDING, UNION STREET	100,312	SHELL	OIL & GAS
LEVEL 3, 1 MARISCHAL SQUARE	18,000	NORTH SEA TRANSITION AUTHORITY	OIL & GAS
UNIT 19 ABERCROMBIE COURT, WESTHILL	18,911	PONTICELLI UK LTD	OIL & GAS
5TH FLOOR, ANNAN HOUSE, PALMERSTON ROAD	16,103	THREE60ENERGY	OIL & GAS
LEVEL 1, THE CAPITOL, UNION STREET	15,304	OREGA	SERVICED ACCOMMODATION

OFFICES ABERDEEN

DEMAND

Aberdeen's office market experienced take up of 385,583 sq.ft. across 77 deals in 2022. This total represents a 95% increase in take up of floorspace and a 60% increase in the number of deals concluded when compared to the previous year. However 2021 delivered the lowest annual take up in the last 10 years and 2022 is more in line with the 5 year average.

The majority of office deals were smaller at sub 5,000 sq.ft., with only 12 deals of between 5,000 – 10,000 sq.ft. and six above 10,000 sq.ft. The largest deal was Shell taking 100,000 sq.ft. at The Silver Fin building on Union Street. Shell is currently fitting out the space and the addition of c. 500 staff will be a very welcome boost for the city centre.

Prime rents for Grade A stock have generally remained at circa £30 per sq.ft. however there have been some smaller deals within grade A office stock that have achieved £32.50 per sq.ft. Rental incentives have remained fairly generous but these are starting to reduce on certain stock.

SUPPLY

Aberdeen's city office supply at the end of 2022 totalled 2,531,599 sq.ft. This is a reduction of 10% in comparison to supply at the end of 2021: finally reflecting a decreasing vacancy rate within the market.

Unfortunately the development pipeline remains poor with no new developments planned in the near future. A relatively tenant friendly market, increased build costs and the general yield profile for offices in Aberdeen makes new build office development unrealistic. Some office stock is being purchased for refurbishment which is likely to prove popular in an improving market where tenants are generally looking to improve the quality of their premises. Although the effects of the pandemic have largely diminished the increase in hybrid working has had a negative effect on confidence in the office market.

Grade A office accommodation continues to fill up in Aberdeen, and of the three new build offices from the last development cycle in the city centre only two have available space. Following the letting to Shell, The Silver Fin Building is now full. Marischal Square has also seen activity with suites let to NSTA, Burness Paull and CBRE resulting in only 30,000 sq.ft. of 175,000 sq.ft. being available. The Capitol was previously full but with Harbour Energy moving out there is currently 30,000 sq.ft. available with an additional 13,000 sq.ft. which they occupied already under offer or let.

Similarly the better quality stock outwith the city centre continues to prove the most popular. Aberdeen International Business Park has attracted several new lettings and has one large deal in the pipeline which would result in the building being almost full. PrimeFour at Kingswells and Westhill have also attracted various lettings, and existing stock at PrimeFour in particular is running out.

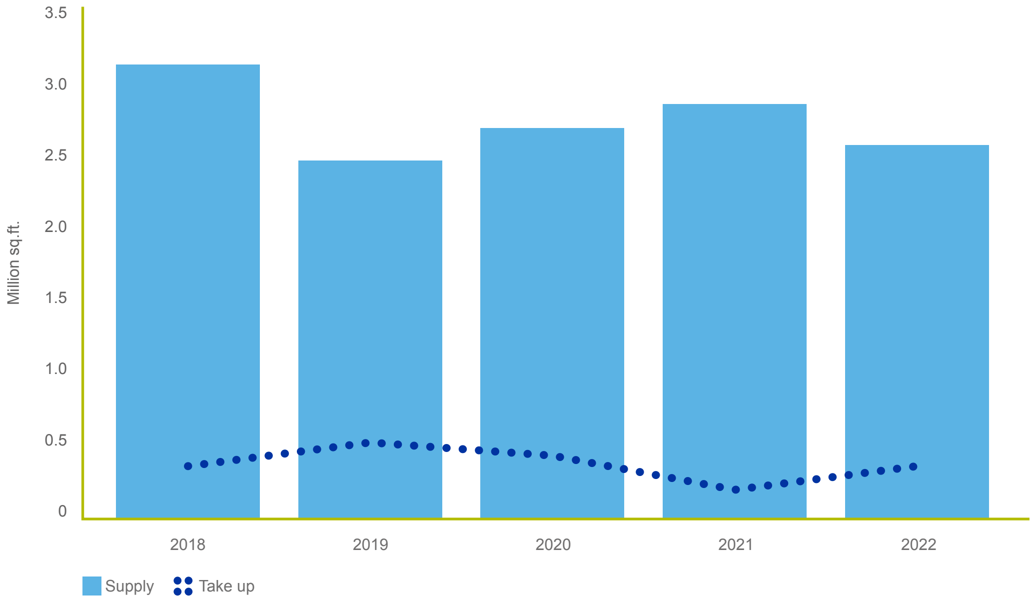
OUTLOOK

2022 saw a shift in sentiment for the Aberdeen market with an increased emphasis on energy security and a sustained high oil price helping to provide confidence in the post-pandemic local economy and spur office take up.

However, recent political statements on the future of exploration in the North Sea coupled with the implications of the Windfall Tax have cast a shadow over the city and 2023 will see these factors play out in the market.

Occupier sectors within the city are reacting in different ways to remote working and with a fairly tight employment market some companies are reluctant to push employees back to the office. In general occupancy levels are up, but exactly how this is going to look in the future is yet to be seen.

SUPPLY AND TAKE UP



INDUSTRIAL

GLASGOW AND WEST OF SCOTLAND

DEMAND

The industrial market remains strong and active in the West of Scotland despite headwinds in the wider economy. Availability remains at historically low levels, the number of requirements remains high and rental growth continues to track well above long term averages.

This lack of availability and consequent rental growth stems from ongoing structural changes in the economy which have generated a greater need for industrial property. However, the process of change is not complete and rising interest rates and fears of a recession have been insufficient to overcome the basic need for more space. Whisky, widgets and wafers all need warehoused.

At the same time the market is building insufficient new space and there are still low levels of business failure with limited quantities of space recirculating to the market. Rising construction costs and a dramatic shift in yields have led to the delay and postponement of some speculative schemes thereby exacerbating the problem and those that have been built are experiencing cost-push inflation on rental levels. Indeed, passing rents on the prime schemes of a few years ago are now looking remarkably cheap.

DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	RENT (PER SQ.FT.)	SECTOR
50 CARMABEN ROAD, QUEENSLIE INDUSTRIAL ESTATE, GLASGOW	45,000	TRADEBE UK	£7.50	WASTE MANAGEMENT
FINLAS STREET, COWLAIRS INDUSTRIAL ESTATE, GLASGOW	60,000	NHS SCOTLAND	£4.25	HEALTHCARE (DECONTAMINATION UNIT)
UNIT D, BELGRAVE LOGISTICS PARK, BELLSHILL	50,000	LIKEWISE GROUP	£8.50	DISTRIBUTION CENTRE
WEST 104, HILLINGTON PARK	25,500	KAYFOAM LTD	£8.50	MANUFACTURER
PHASE 4, LANGLANDS COMMERCIAL PARK, EAST KILBRIDE	24,000	CORNEY & BARROW	SALE	WINE MERCHANT
BRITTAIN WAY, EUROCENTRAL	152,000	WINCANTON PLC (RENEWAL)	£7.00	LOGISTICS
PLOT J, EUROCENTRAL	105,000	BOARD24	CONFIDENTIAL	MANUFACTURER

“

WHILE THIS ONE SIDED MARKET WILL BENEFIT A NUMBER OF PARTIES IN THE SHORT TERM, IT IS NOT A HEALTHY POSITION FOR THE WIDER ECONOMY AND IT LIMITS BUSINESS GROWTH.

”

Take up of industrial floorspace across West Central Scotland in 2022 was 3.6 million sq.ft., an increase on 2021. Consequently, there is the equivalent of 1.1 years of supply and, in reality, availability is even lower when obsolete and unlettable property are removed. Take up has continued to be remarkably robust but a fall is expected in 2023 due to the lack of available space and hence a limitation in supply rather than lower demand.

According to CoStar, the average rent across the entire leased stock is now £6.59 per sq.ft. In isolation it is a meaningless metric given the averaging involved in terms of size, quality and location but as a trend it shows a 53% rise from £4.32 per sq.ft. in 2015.

SUPPLY

The basic numbers are remarkable. According to CoStar, the Greater Glasgow market has a stock of 103 million sq ft of which 3.1% is vacant and total availability is now not much higher at 3.9%. This latter metric adds occupied space that is being marketed along with new build pipeline space to the base figure. New build is less than 1% of the total stock. Average rental growth remains in excess of 8.5% per annum.

While this one sided market will benefit a number of parties in the short term, it is not a healthy position for the wider economy and it limits business growth. In addition, a decreasing number of strategic sites and the looming issue of obsolescence and better building performance will have to be addressed in the near future.

On the latter point, occupiers are now asking questions about building performance which had been of limited interest in the past. Reduced running costs is certainly an emerging trend. Larger businesses with multiple branches are favouring modern stock even if this involves paying a higher rental.

Rental increases have led to the re-emergence of occupiers seeking to buy units, but this is no easy task. Few owners are willing to sell when the rental prospects are so positive. For sales transacted in 2022 there has been a noticeable increase on capital rates achieved across all grades of stock.

In prime locations new developments are underway and proving popular. Knight Property Group has completed phase 1 at Belgrave Logistics Park, Bellshill which is a redevelopment of the former Devro facility. Four buildings have been built to date and provide best in class logistics space from 19,000-50,000 sq.ft. Two of the units are now let with positive discussions for the other two. The final unit in the scheme will comprise 126,000 sq.ft. and is the largest speculative unit under construction in Central Scotland, well placed to capitalise on requirements that will only consider existing units or units under construction.

NEW DEVELOPMENTS

DEVELOPMENT	DEVELOPER/LANDLORD	DESCRIPTION
BELGRAVE LOGISTICS PARK, BELLSHILL	KNIGHT PROPERTY GROUP	FOUR BUILDINGS FROM 19,000-50,000 SQ.FT., TWO NOW LET. THE FINAL 126,000 SQ.FT. WILL COMPLETE SEPTEMBER 2023
DALMARNOCK NORTH, GLASGOW	HARRIS FINANCE	TWO UNITS, 5,000 SQ.FT. AND 10,000 SQ.FT. WITH A FURTHER PHASE OF 30,000 SQ.FT. SINGLE UNIT
HILLINGTON PARK	FRASERS PROPERTY GROUP	132,000 SQ.FT. IN UNITS FROM 5,111 – 25,467 SQ.FT. NOW COMPLETE
BELGRAVE POINT, BELLSHILL	J SMART & CO	50,000 SQ.FT. UNIT UNDER CONSTRUCTION
CONNECT 70, BELLSHILL	WEST RANGA PROPERTY GROUP	70,000 SQ.FT. PRIME LOGISTICS DEVELOPMENT

Knight Property Group has also completed Phase 4 of the Langlands Enterprise Park in East Kilbride, a standalone 24,000 sq.ft. unit with 10 metre clear height and a 35,000 sq.ft. yard. This has been sold to fine wine merchants Corney & Barrow.

On the other side of the city, at Hillington Park, Frasers Property Group has now completed the 132,000 sq.ft. BAIZ Project and a range of units from 5,111-25,467 sq.ft. are provided. Each unit has large dedicated yards and high levels of energy efficiency. To date c. 70% is let or in advanced legal stages, with a rental tone at £9.50 per sq.ft. Hillington Park has enjoyed high levels of occupancy and tenant retention over recent years and additional space is much needed. Further phases of new product are being reviewed as well as an active refurbishment programme.

Within the City boundary, Harris Finance is constructing two units at Dalmarnock North to provide 5,000 sq.ft. and 10,000 sq.ft. at a rental tone of £9.50 per sq.ft and a further phase providing a single unit of 30,000 sq.ft. Harris Finance has also purchased a 3 acre site at Gateway Glasgow, Cambuslang which is capable of taking a 30,000 sq.ft. shed in a highly prominent position.

At Eurocentral, Hermiston Securities is on site to build a 105,000 sq.ft. bespoke facility for Board24 with a completion in October 2024.

Next door, WH Malcolm is adding an extension to its existing facility and the company is also expanding its warehouse capacity in Linwood.

Also nearing completion is the vast facility for HarperCollins UK at Nova Business Park in Robroyston. This facility which is in excess of 500,000 sq.ft. is being built by DB Symmetry on land purchased from Scottish Enterprise and is the latest 'what's that' mystery for people approaching Glasgow from the North.

Other notable projects include 50,000 sq.ft. by J Smart & Co at Belgrave Point in Bellshill; 70,000 sq.ft. at Connect 70 in Bellshill by West Ranga Property Group; and 42,000 sq.ft. at Tannochside Business Park by Cedarwood Asset Management.

OUTLOOK

Wider economic commentary suggests a period of recession but that it is likely to be relatively shallow and shorter than expected. There are views that business failures will rise, however, there remains little evidence of this within the industrial sector. Space returning to the market would be welcomed by many occupiers given the difficulties in securing suitable premises.

Take up will fall in 2023 due to a lack of space rather than a fall in demand. Rental growth will continue, driven by the pricing required on the new build projects that come through and also the low void levels. Finally, the development pipeline will remain constrained due to viability issues caused by high construction costs and uncertainty within the investment market.

EDINBURGH AND EAST OF SCOTLAND

INDUSTRIAL

DEMAND

The industrial property market in East Central Scotland continues to be active, however a lack of available supply and property obsolescence are affecting take up.

During 2022 around 750,000 sq.ft. of industrial floorspace was transacted in c. 120 units. This is a 43% reduction from 2021's take up of 1.32 million sq.ft., albeit in a similar number of transactions.

Given current economic uncertainty, expansions and relocations are being micro analysed and many occupiers are choosing to commit to short term lease renewals as opposed to relocations.

While distribution companies continue to account for a large proportion of the enquiries and take up, there is a gradual trend towards a more diverse range of occupiers seeking accommodation. Requirements vary not only by sector but also specification, for example larger office content, substantial power supply or large external areas.

Occupiers continue to seek prime locations and given the supply constraints are willing in most cases to pay the market rent. Secondary locations are also seeing a spike in demand principally due to lack of availability of buildings in prime locations that meet occupiers' requirements and are within budget.

SUPPLY

The supply of industrial property in East Central Scotland continues to fall year-on-year and is now at a record low of c. 2.2 million sq.ft. indicating a vacancy rate of only 3%. As recently as 2019 supply of industrial property stood at over double the current level at 4.8 million sq.ft.

With vacancy rates at such critically low levels expected to persist throughout 2023, the lack of suitable available accommodation is likely to continue to hinder take up levels. Property obsolescence continues to affect the market with tranches of traditional accommodation now well in excess of 40 years old.

There are currently four multi-let industrial schemes under construction in East Central Scotland. In prime West Edinburgh, Chancerygate/Bridges Fund Management/ Westbrook Partners development at Capital Park, Sighthill Industrial Estate comprises multiple terraces measuring in excess of 120,000 sq.ft. and due for completion Q2 2023.

At Fife Interchange North in Dunfermline, Fife Council has commenced the construction of new business units in sizes from 2,000-8,000 sq.ft. and with an innovative design incorporating sustainability elements. These units will be available in the Spring of 2024.

In Livingston, Northern Trust is developing 16 units totalling 18,646 sq.ft. at Eliburn Industrial Estate. Meanwhile at Abbotsford Business Park in Falkirk, construction of 16 units of 1,000-2,000 sq.ft. is due to commence by Abbotsford IP Ltd.

"EXPANSIONS AND RELOCATIONS ARE BEING MICRO ANALYSED AND MANY OCCUPIERS ARE CHOOSING TO COMMIT TO SHORT TERM LEASE RENEWALS AS OPPOSED TO RELOCATIONS."

Capital Park in Sighthill is setting new rental levels, quoting c. £16 per sq.ft. for units of 2,900-25,000 sq.ft. Well located existing estates within Edinburgh now have rents firmly established between £9 and £12 per sq.ft. often for units which are 20-40 years old.

Rents outwith Edinburgh have increased at a slightly slower pace. £9 per sq.ft. is established for modern trade counter premises within West Lothian (3,000-10,000 sq.ft.) and £10 per sq.ft. within Midlothian (2,500-6,000 sq.ft.)

The largest space remaining available is at MSIP (Michelin Scotland Innovation Park) in Dundee where units of 30,000-300,000 sq.ft. are available. MSIP recently completed their Skills Academy and Innovation Centre and now have a strong occupier base working under the sustainable mobility and low carbon objectives.

In response to the acute shortage of available accommodation, GSS Developments recently applied for planning consent at EDI Approach, Newbridge, the former Continental Tyre Factory for 750,000 sq.ft. of industrial, distribution, trade counter and manufacturing space over a number of different sized units.

REFURBISHMENTS AND NEW DEVELOPMENTS

DEVELOPMENT	DEVELOPER/LANDLORD	DESCRIPTION
EDI APPROACH, NEWBRIDGE, EDINBURGH	GSS DEVELOPMENTS	727,000 SQ.FT. OF NEW BUILD INDUSTRIAL SPACE IN 11 UNITS. PLANNING APPLICATION TO BE SUBMITTED SHORTLY WITH COMPLETION EXPECTED 2024
CAPITAL PARK, BANKHEAD AVENUE, SIGHTHILL INDUSTRIAL ESTATE, EDINBURGH	CHANCERYGATE/BRIDGES FUND MANAGEMENT/ WESTBROOK PARTNERS	EDINBURGH'S LARGEST SPECULATIVE INDUSTRIAL DEVELOPMENT EXTENDING TO C. 120,000 SQ.FT. COMPLETION Q2 2023
TURNHOUSE COURT, NEWBRIDGE, EDINBURGH	NORTHERN TRUST	14 INDUSTRIAL UNITS TOTALLING 28,413 SQ.FT. IN UNITS FROM 1,405-4,154 SQ.FT. RECENTLY COMPLETED
4 EAST TELFERTON, EDINBURGH	PRIVATE DEVELOPER	3 NEW INDUSTRIAL UNITS RANGING FROM 1,000-4,000 SQ.FT. COMPLETION Q1 2023
SHERRIFHALL SOUTH, DALKEITH, MIDLOTHIAN	BUCCLEUCH PROPERTY	40,000 SQ.FT. ACROSS A RANGE OF SMALL TO MEDIUM UNITS. PLANNING PERMISSION GRANTED
PENTLAND TRADE PARK, PENTLAND INDUSTRIAL ESTATE, LOANHEAD, MIDLOTHIAN	LANDSDOWNE INVESTMENTS LTD	PHASE 2 OF SINGLE INDUSTRIAL/TRADE COUNTER UNIT OF 12,000 SQ.FT. UNDER CONSTRUCTION WITH COMPLETION Q2 2023
ELIBURN INDUSTIAL ESTATE, LIVINGSTON, WEST LOTHIAN	NORTHERN TRUST	NEW INDUSTRIAL UNITS OF 18,646 SQ.FT. OVER 16 UNITS. CONSTRUCTION WORKS HAVE STARTED WITH COMPLETION Q4 2023
FIFE INTERCHANGE NORTH, DUNFERMLINE, FIFE	FIFE COUNCIL	NEW INDUSTRIAL DEVELOPMENT COMPRISING 25,000 SQ.FT. OVER 9 UNITS. WORKS HAVE COMMENCED WITH COMPLETION Q1 2024
THE AVENUE INDUSTRIAL ESTATE, LOCHGELLY, FIFE	PRIVATE DEVELOPER	NEW INDUSTRIAL UNITS OF 1,000-1,350 SQ.FT. TOTALLING 4,500 SQ.FT. RECENTLY COMPLETED
A9 ESTATE, ABBOTSFORD BUSINESS PARK, FALKIRK	ABBOTSFORD IP LIMITED	16 INDUSTRIAL UNITS RANGING FROM 1,000-2,000 SQ.FT. TO LET OR FOR SALE. CONSTRUCTION STARTING Q2 2023

DEALS

ADDRESS	SIZE (SQ.FT)	OCCUPIER	RENT (PER SQ.FT.)	SECTOR
UNIT 13, 6 SOUTH GYLE CRESCENT, EDINBURGH	6,425	GL FLOOR FINISHING COMPANY LTD	£8.40	TRADE COUNTER
UNITS 2/3 BANKHEAD AVENUE, SIGHTHILL INDUSTRIAL ESTATE, EDINBURGH	5,700	TOOLSTATION	£12.50	TRADE COUNTER
QUEEN ANNE PARK, NEWBRIDGE	10,100	COLIN PARKER FURNITURE	£8.00	MANUFACTURING
UNIT 1 KINGSTHORNE PARK, LIVINGSTON	18,017	DALRADA TECHNOLOGY LTD	£6.25	MANUFACTURING
28C FIRTH ROAD, HOUSTON INDUSTRIAL ESTATE, LIVINGSTON	16,600	LIVINGSTON PRECISION ENGINEERING	£5.00	ENGINEERING
1 NAIRN ROAD, DEANS INDUSTRIAL ESTATE, LIVINGSTON	43,809	SCOTMID LTD	SALE	DISTRIBUTION
7 MURRAYSGATE INDUSTRIAL ESTATE, WHITBURN	105,823	WINDOW SUPPLY COMPANY	£3.15	MANUFACTURING
UNIT 4 DRYDEN VALE, BILSTON GLEN INDUSTRIAL ESTATE, LOANHEAD	2,569	HEATING PLUMBING & PARTS SUPPLIES LTD	£10.50	TRADE COUNTER
25 HARDENGREEN LANE, HARDENGREEN INDUSTRIAL ESTATE, DALKEITH	11,787	THE ENERGY TRAINING ACADEMY	£6.80	TRAINING ACADEMY
UNIT 10 BELLEKNOWES INDUSTRIAL ESTATE, INVERKEITHING	5,819	HOWDENS	£7.00	TRADE COUNTER
UNIT 2 VIEWFIELD INDUSTRIAL ESTATE GLENROTHES	47,457	HCS CONTROL SYSTEMS LTD	£3.50	MANUFACTURING
UNIT 3, WEST PITKERRO INDUSTRIAL ESTATE, FOWLER ROAD, DUNDEE	12,810	BIFFA	£8.00	RECYCLING
UNIT 10 FORBES COURT, FALKIRK	5,242	SEVENDAY	£7.25	TRADE COUNTER

OUTLOOK

With rising cost of debt finance, yield shift, volatility in construction and infrastructure costs, some speculative developments may become unfeasible, further impacting industrial property supply.

Rental growth will continue across all size ranges, principally driven by the demand and supply disparity, however the growth rate will likely slow down while remaining above the levels seen prior to the pandemic.

Notably, the market is beginning to attract demand for buildings with higher EPC ratings and ESG credentials. In these circumstances occupiers are looking at landlords to provide the relevant upgrades, which are now being reflected in the rental values.

The UK and Scottish Governments have announced two new Green Freeports in Scotland to be established in Inverness and Cromarty Firth and Firth of Forth. The Forth Green Freeport aims to drive a transition to net zero carbon by 2045, helping to create c. 50,000 green jobs and to address infrastructure gaps which are currently holding back investment. The sectoral focus will be on renewables manufacturing, alternative fuels, carbon capture utilisation and storage and shipbuilding, as well as the development of a new creative hub. The site includes the ports at Grangemouth, Rosyth and Leith, Edinburgh Airport, and a site at Burntisland.

INDUSTRIAL

ABERDEEN

DEMAND

The industrial market in Aberdeen improved in 2022 due mainly to the upturn in the energy sector on the back of a rising oil price. In recent times the oil price has stabilised at around $85 per barrel which has increased investor confidence, although as noted in the Aberdeen office market commentary the impact of recent political decisions and statements regarding the oil & gas industry have yet to been seen. Take up in 2022 totalled 926,140 sq.ft. which was a 34% increase on 2021 and a 25% increase on 2020.

There were 93 industrial transactions in 2022, a 2% increase from 2021 when there was a total of 91 transactions. The average deal size is 10,022 sq.ft. which is an increase from 7,194 sq.ft. in 2021. As expected, the vast majority of deals relate to the energy industry with the only notable exceptions being the pre-let car showroom deal at the former Tyseal Base in West Tullos to TrustFord and the letting of the 67,376 sq.ft. Wallace Facility in Badentoy to Biffa for waste services.

DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	SECTOR
WALLACE FACILITY, BADENTOY AVENUE, PORTLETHEN	67,376	BIFFA	WASTE SERVICES
RICHARD IRVIN HOUSE, HARENESS ROAD, ALTENS	47,710	ETZ LTD (SALE)	ENERGY
UNIT 2, LAWSON DRIVE, DYCE	28,222	KWI (UK) LTD, T/A G & A BARNIE GROUP (SALE)	BUILDING SERVICES
CRAIGSHAW CRESCENT, WEST TULLOS	28,029	TRUSTFORD	CAR SHOWROOM
UNIT 5B, ABZ BUSINESS PARK, DYCE	21,233	WELLTEC (UK) LTD	ENERGY
20 HOWE MOSS DRIVE, DYCE	15,778	QUARTZELEC	ENERGY
UNIT 4, KIRKHILL COMMERCIAL PARK, DYCE	15,364	DUNCAN & TODD GROUP	OPHTHALMIC LABORATORY

SPECULATIVE DEVELOPMENT

DEVELOPMENT	DEVELOPER/LANDLORD	SIZE/NUMBER OF UNITS	DESCRIPTION
ALTENS TRADE PARK, SOUTERHEAD ROAD, ALTENS	KNIGHT PROPERTY GROUP	UNITS 1 & 2, 7,666 SQ.FT.	CONSTRUCTION COMPLETE. UNITS 1 & 2 AVAILABLE
UNITS 1-15, ABZ BUSINESS PARK, DYCE	ABZ DEVELOPMENTS LTD	9 UNITS OF 2,500 SQ.FT. 3 UNITS OF 5,000 SQ.FT.	PHASE 1 AND 2 NOW COMPLETE. 5 UNITS REMAINING
SALTIRE BUSINESS PARK, BADENTOY, PORTLETHEN	SALTIRE DEVELOPMENTS	7 UNITS TOTALLING 13,146 SQ.FT.	CONSTRUCTION COMPLETE. ALL UNITS AVAILABLE
THAINSTONE BUSINESS PARK	ANM GROUP/GSS DEVELOPMENTS	6 UNITS FROM 1,496-5,528 SQ.FT.	TWO UNITS LET
PHASE 2 AND 3, CITY SOUTH BUSINESS PARK	DANDARA	PHASE 2 FROM 1,500-2,250 SQ.FT. PHASE 3 FROM 750-1,000 SQ.FT.	5 UNITS REMAINING IN PHASE 2. PHASE 3 UNDER CONSTRUCTION

SUPPLY

Industrial supply in Aberdeen totals around 2.5 million sq.ft. Supply has grown continuously since 2016 when it totalled 900,000 sq.ft., but is now starting to decrease. Occupiers are gravitating towards good quality stock and supply of this continues to be constrained.

Landlords of older and more obsolete stock continue to have problems and demolition remains one of the viable options to mitigate holdings costs.

Lease lengths are beginning to increase and some occupiers are willing to make 10-15 year lease commitments for larger buildings.

Prime industrial rents in Aberdeen are £9 per sq.ft. for workshops; £18 per sq.ft. for offices and £12 per sq.ft. for concrete yards. New build stock is at an all-time low and in order for speculative development to be viable for developers, these rents will to need to increase to offset rising interest rates and construction costs.

OUTLOOK

In recent times the Aberdeen industrial market has improved and the size of requirement has also increased as confidence in the energy market has continued to build. The city's industrial property market remains heavily reliant on the energy industry and requires confidence in that sector if it is to continue to develop and prosper.

RETAIL AND LEISURE

The physical retail market continues to contract due to the significant growth of online shopping. Cost of living and energy prices are expected to impact the first half of 2023 with High Street casualties anticipated.

According to the British Retail Consortium/ KPMG, although total sales in the UK in December 2022 were up on 2021, this was largely due to goods costing more and volumes of goods that people are buying is significantly less than compared with the same period in 2021.

Similarly, Scottish Retail Consortium data superficially suggests that retailers had their best monthly performance in two decades in December 2022, where total sales in Scotland increased by 11.3% compared to the year before, however when adjusted for inflation the year-on-year figure reduced to 3.9%. Total food sales increased by 11.5% compared to December 2021 and total non-food sales increased by 11%.

According to the Centre for Retail Research in 2006 the online share of retail sales was 6.6%, rising to 12.7% by 2013, 19.1% by 2019 and 26.5% in 2022, as the pandemic accelerated the share of online versus physical stores. They also report 17,145 stores closed their doors in the UK during 2022 which is up by 50% on 2021.

Closures due to online migration are not limited to retail sales, and a range of other services is also affected. For example in the financial sector there were 662 closures across the UK with 300 planned for 2023.

The closures are a combination of administration, mergers, agreed CVAs or rationalised portfolios of occupiers to meet reduced or changing demand. According to the Scottish Retail Consortium one in every six shops in Scotland is now lying vacant. The overall retail vacancy rate in Scotland is 15.7%, by location the vacancy rate for shopping centres is the highest at 20.5%, followed by the High Street at 14.8%, with retail parks at 9.8%. This indicates a structural challenge requiring alternative uses.

Most closures are High Street and shopping centre focused as national multiples rationalise or exit the market. However, there is a marked improvement in shopping centre trade post-pandemic and also continued outperformance by retail parks, particularly those anchored with food stores.

Recent store closures and announcements include Byron burger chain closing 9 restaurants across the UK, including one on Lothian Road in Edinburgh; T2 Tea closing all of its stores in the UK including one on Buchanan Street, Glasgow; Paperchase has gone into administration and its stores will close; M & Co are closing 170 UK stores; however more positively M & S are opening 8 full-line stores in the UK and 12 food halls including one in Largs.

“THERE IS A MARKED IMPROVEMENT IN SHOPPING CENTRE TRADE POST-PANDEMIC AND ALSO CONTINUED OUTPERFORMANCE BY RETAIL PARKS, PARTICULARLY THOSE ANCHORED WITH FOOD STORES.”

MARKET ACTIVITY

As previously reported, plans have been revealed for the transformation of Glasgow city centre's prime Buchanan Gallleries and at St Enoch shopping centre where up to 1700 new homes are proposed alongside other mixed uses including retail, leisure, entertainment, hotel, and commercial uses and a Civic Square; this is an ambitious development and may take 15 to 20 years to deliver in several phases. The Buchanan Galleries development has a similarly ambitious plan to create a mixed use neighbourhood centre and could take a further 10 years to deliver.

On Sauchiehall Street, Glasgow's retail vacancies have been compounded by large closures, including Marks & Spencer, BHS, Watt Brothers and Dunnes stores. Proposals for these are student accommodation with retail units in the former Marks & Spencer unit, a mixed-use development including retail, office and leisure in the former BHS store, and a boutique hotel for the former Watt Brothers store. Glasgow City Council is currently consulting on options for the former shopping Golden Z spanning Sauchiehall Street, Buchanan Street and Argyle Street.

The food and beverage sector in Glasgow bounced back in 2022 with strongest activity for the sector in the last five years. It is encouraging that new openings are dominated by local entrepreneurs, including offerings such as Bao, Fat Lobster, and August House while new bars opened by Innis & Gunn on West Nile Street and Alchemist on George Square.

Out of town to the east of Glasgow, British Land has agreed to relocate Zara at Glasgow Fort to create a 37,000 sq.ft. store within the space previously occupied by Topshop and Topman.

Edinburgh's new St James Quarter reports that the centre is up to 95% let since opening with additional new tenants including COS, Duck & Waffle and The Alchemist, although toy store Hamleys is reportedly pulling out of the centre along with other locations.

On Princes Street, the development pipeline continues following on from the Johnny Walker experience within the former House of Fraser, the redevelopment of the former Debenhams into a 207-bed hotel and Jenners rebirth as a hotel and retail destination following its closure and recent fire. Within the mixed-use redevelopment of the former BHS, Flannels has taken 24,000 sq.ft. on the ground and first floors and Roxy Lanes opened a multi-activity bar on Rose Street in addition to Premier Inn.

Ruby Hotels announced its first project in Scotland at 107-108 Princes Street, the former Next and Zara stores (which both relocated to St James Quarter), with plans for a 300-bedroom hotel with rooftop bar and retail space below. ROK Hotels plan a hotel and restaurant for the former Top Shop store at no 30.

Ambassador Investments has received planning consent for the first phase of the demolition at Ocean Terminal Shopping Centre in Leith, Edinburgh, allowing for a relocation of some occupiers and the initial phase of residential development in this location which will benefit from the extension of the city's tram network from Spring 2023.

In Aberdeen, new stores opened in Union Square in the forms of Quiz which relocated from Bon Accord Shopping Centre, Rituals Cosmetics, Superdrug, jeweller Chisholm Hunter and an Itsu restaurant. Retail space within the Bon Accord centre needs to be re-imagined, recent closures include Quiz (relocation), Kurt Geiger and Jack Wills, added to that the owners of the centre went into administration and the shopping centre is currently for sale. Attic Clothing opened on Union Street, in a relocation from the Academy Shopping Centre. Poundland opened at the Trinity Centre. Restaurants Six by Nico and Gidi Grill opened on Union Street, and Arcade Bar & Games is set to open in the former Espionage nightclub.

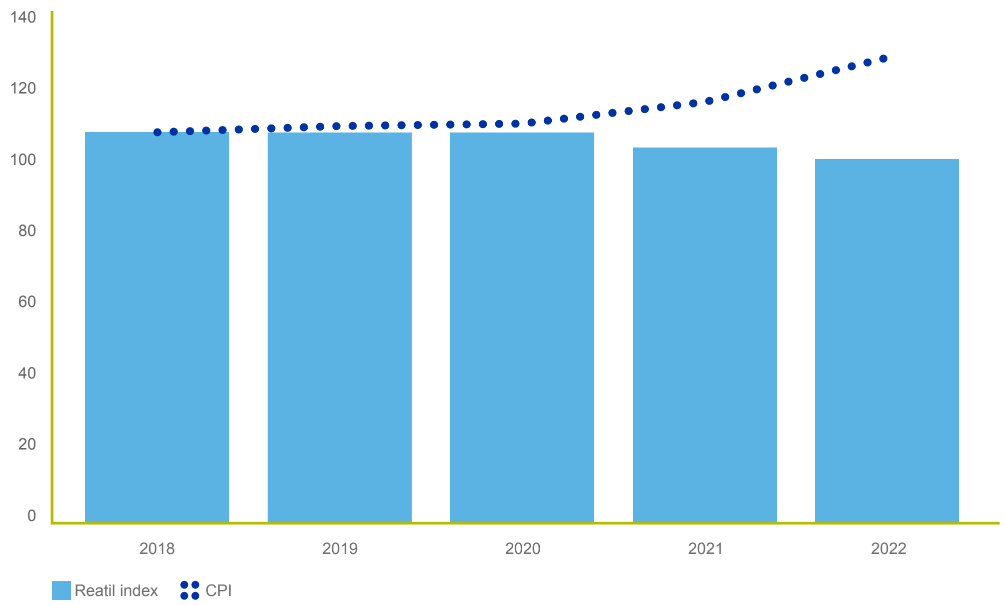
Marks & Spencer are closing on Murraygate in Dundee and plan to open at Gallagher Retail Park in the former DW Sports unit. Game on Murraygate is closing, while Regatta opened in the Overgate centre, while Savers relocated within the Wellgate Centre.

In East Kilbride, Matalan opened in the former TJ Hughes unit and Monterey Jacks opened an American diner.

Livingston has seen new retailers with Sole Trader, Kurt Muller and Cavani in the Designer Outlet Centre. ChopStix in The Centre. Smyths Toy Superstore opened at Almondvale West Retail Park and a B & Q smaller store format opened at Almondvale South Retail Park. Asda on the Move opened beside The Centre.

Despite recent economic conditions in the sector market sentiment remains buoyant for 2023, with occupier demand remaining strong. The prime rental index has now fully parted company with CPI as it edges downwards through new evidence while inflation has spiked.

RETAIL INDEX (TOP 20 TOWNS)



OUTLOOK

The immediate future of the retail and leisure market is selective and cautious. Uncertainty in the market caused by the energy and cost of living crises is likely to create a pause over springtime in the market for food and beverage albeit there is a strong underlying demand in the sector with a push in the second part of the year anticipated. Occupier demand is particularly notable within the discount retail market, with the likes of Aldi, Lidl, Home Bargains and B&M continuing to expand in a mature market and commanding a growing market share.

Retail rents within the key cities prime retail areas are slowly crystallising, although downward pressure still exists and it may take some time to reach the pre-pandemic levels. Rents in Zone A rents have reduced in both Edinburgh and Aberdeen, to £220 per sq.ft. Zone A and £100 per sq.ft. Zone A respectively.

Proposals for Glasgow's Buchanan Galleries signal the beginning of the great de-malling. Over the coming market cycle the remodelling (or removal) of older town centre shopping malls to provide the right scale and mix of units for retail and leisure operators alongside mixed-use development will become the prevalent market trend. Proposals for the likes of Greenock's Oak Mall and Cumbernauld's securing of Levelling-Up fund to rebuild its town centre are among the early moves, with many similar projects now in gestation across Scotland.

DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	SECTOR
PRINCES SQUARE, BUCHANAN STREET, GLASGOW	753 950	DERMALOGICA CARVELA	BEAUTY FOOTWEAR
164A BUCHANAN STREET, GLASGOW	1,289	DUNE	FOOTWEAR
98 BUCHANAN STREET, GLASGOW	20,000	LUSH	BEAUTY
70 BUCHANAN STREET, GLASGOW	34,000	LAINGS	JEWELLER
108 – 110 SAUCHIEHALL STREET, GLASGOW	2,500	POPEYES	FOOD AND DRINK
GLASGOW FORT, GLASGOW	37,000	ZARA	FASHION AND HOME
BRAEHEAD, RENFREW	13,000	GAP	FASHION
ST JAMES QUARTER, EDINBURGH	600 7,500 8,400 7,000 30,000	NEOM ORGANICS COS DUCK & WAFFLE THE ALCHEMIST TOCA SOCIAL	HEALTH & WELLBEING FASHION FOOD AND DRINK FOOD AND DRINK LEISURE
64 PRINCES STREET, EDINBURGH	24,000	FLANNELS	FASHION
65 GEORGE STREET, EDINBURGH	6,300	ABERCROMBIE & FITCH	FASHION
51 GEORGE STREET, EDINBURGH	7,051	THE ALCHEMIST	FOOD AND DRINK
UNION TERRACE GARDENS, ABERDEEN	740	COMMON SENSE COFFEE HOUSE	FOOD AND DRINK
122 UNION STREET, ABERDEEN	5,676	BARGAIN BUYS	DISCOUNT RETAILER
WINCHBURGH	12,000	SAINSBURY'S	SUPERMARKET

INVESTMENT

OVERVIEW

It is easy to forget how strongly 2022 began, with a number of high profile deals completed across all sectors and record yields achieved in the industrial sector. That market was beginning to recede by the summer though and following the growing economic pressures and political fiascos in the autumn, it disappeared completely.

When there was a functioning market, the retail warehouse, industrial and alternative sectors were the most active areas, with selective buying in the office sector reflecting a flight to quality in line with occupiers. The market was dominated by private equity, property company and overseas investors, with the continued scarcity of UK institutional players – who were more likely to be sellers, particularly later in 2022 when dealing with redemption issues. In the latter part of the year, cash buyers were in a strong position to pick up bargains, although with relatively few distressed sellers, the pricing gap between buyers and sellers restricted activity.

Overall, despite Q4 recording the lowest sale volume since the lockdown quarter of Q2 2020, total investment volumes in Scotland for deals over £1 million rose to almost 200 transactions, above the 5 year average.

ALTERNATIVES

2022's many challenges impacted significantly on transactional activity across the living sector. Despite the strong market dynamics which include robust occupational demand, investor interest and appetite, the various headwinds have combined to restrict development and in turn limit development funding activities. Developers and indeed funders have had to contemplate multiple risk scenarios and ongoing uncertainty. Developers have confronted significant construction cost inflation allied to an increase in the cost of finance and an outward shift in yields. Rental inflation (reflecting the acute undersupply of accommodation particularly in the PBSA sector) has compensated, however rising operational costs (in large part due to energy and wage inflation) has limited the growth in NOI in relation to operational assets.

Looking forward, the outlook for the living sector to include PBSA, BTR and Care continues to be positive. The undersupply of suitable accommodation is acute and as demand continues to build, the prospects for income growth are compelling (although BTR is subject to rent legislation, see page 9). As construction cost inflation slows and operational costs settle, the viability of new developments should become more certain, particularly if yields again harden to reflect the positive prospects for income return and growth. Despite the challenges, developer interest in these sectors continues to be significant as witnessed at recent closing dates.

The prospects for capital growth from built, well specified and fit for purpose assets in PBSA, BTR and Care sectors are positive and these should perform strongly in the short to medium term, particularly if operational costs can be controlled.

The hotel sector has had much to contend with as it adapted to Brexit, recovered from the impact of the pandemic and then confronted cost inflation and labour shortages. These remain current issues but from a positive perspective in Glasgow, Edinburgh and Aberdeen the market has enjoyed ADR growth and RevPAR recovery. Occupancy is improving and overseas tourism has returned.

Transactional activity suffered but there are signs that the market is returning with recent sales including the Travelodge at Cameron Toll, Edinburgh. Interestingly there is good demand from a number of hotel and aparthotel occupiers for representation in Edinburgh and to a lesser extent Glasgow. Again the cost of delivery in this sector has significantly increased in recent years and at present the arithmetic is impacting viability.

There continues to be a significant weight of money from a range of investors for long income investments that offer annuity-style characteristics. Pricing is very much influenced by interest rates and bond rates but the availability of this defensive and patient capital is significant. The latter part of 2022 witnessed a softening in bond yields although there are some signs of stability and if and when rates settle then longer let transactions and sale and leaseback propositions could increase again. Certainly in relation to PBSA, many universities are contemplating long lease or income strip deals in an effort to address their acute undersupply of student accommodation.

ALTERNATIVES DEALS

ADDRESS	PROPERTY	PURCHASER
PREMIER INN, 141 WEST NILE STREET, GLASGOW	210-BEDROOM HOTEL LET TO PREMIER INN	ROPEMAKER PROPERTIES FOR £30.2 MILLION (4.34%)
TRAVELODGE, CAMERON TOLL, EDINBURGH	115-BEDROOM HOTEL LET TO TRAVELODGE	PRIORY RE LTD FOR £10.05 MILLION (6%)
STUDENT ACCOMMODATION PORTFOLIO, ABERDEEN	PORTFOLIO OF 6 UNITE STUDENTS PROPERTIES WITH A TOTAL OF 1,050 BEDS	CLEARBELL CAPITAL LP FOR £33 MILLION

OFFICE DEALS

ADDRESS	PROPERTY	PURCHASER
177 BOTHWELL STREET, GLASGOW	NEW BUILD, MULTI-LET OFFICE EXTENDING TO 305,000 SQ.FT. WAULT OF 18 YEARS	PONTEGADEA FOR £220 MILLION (4.5%)
78 ST VINCENT STREET, GLASGOW	PERIOD, MULTI-LET OFFICE EXTENDING TO 13,500 SQ.FT. WITH A RESTAURANT ON GROUND FLOOR	PRIVATE INVESTOR FOR £2.33 MILLION (9.5%)
EASTGATE, 727 LONDON ROAD, RUTHERGLEN	MODERN OFFICE BUILDING OF 56,530 SQ.FT. LET TO GLASGOW CITY COUNCIL FOR A FURTHER 9 YEARS	OVERSEAS INVESTOR FOR £20.8 MILLION (5.25%)
3-11 MELVILLE STREET, EDINBURGH	MULTI-LET 17,791 SQ.FT. TRADITIONAL OFFICE IN WEST END LOCATION	PRIVATE OVERSEAS FAMILY FOR £9.85 MILLION (4.82%)
EXCHANGE TOWER, 19 CANNING STREET, EDINBURGH	MULTI-LET BUILDING IN THE EXCHANGE DISTRICT EXTENDING TO 63,036 SQ FT. WAULT OF C. 4.6 YEARS (3.4 TO BREAKS)	CERVIDAE FOR £20.78 MILLION (7.48%)
WAVERLEYGATE, WATERLOO PLACE, EDINBURGH	REFURBISHED MULTI-LET CITY CENTRE OFFICE EXTENDING TO APPROXIMATELY 203,601 SQ FT. WAULT C.4 YEARS (3.3 TO BREAKS)	KENNEDY WILSON FOR £78.05 MILLION, REFLECTING 5.5%
ORCHARD BRAE HOUSE, QUEENSFERRY ROAD, EDINBURGH	MULTI-LET 105,728 SQ.FT. OFFICE BUILDING OUTWITH ESTABLISHED CBD. WAULT OF APPROX. 3.5 YEARS	VCM GLOBAL ASSET MANAGEMENT FOR £18.6 MILLION (7%)
GYLE SQUARE, 1 SOUTH GYLE CRESCENT, EDINBURGH	SINGLE-LET 152,496 SQ.FT. HQ BUILDING ON A BUSINESS PARK. 7 YEARS TERM CERTAIN INCOME TO SCOTTISH MINISTERS (NHS SCOTLAND)	ASSURA ASPIRE FOR £53.1 MILLION (5.21%)
37 ALBYN PLACE, ABERDEEN	13,725 SQ.FT. FULLY REFURBISHED MULTI-LET OFFICE WITH A WAULT OF C. 4 YEARS	TOPLAND GROUP FOR £3.539 MILLION (C. 8%)
ABERDEEN BUSINESS PARK, DYCE, ABERDEEN	PART VACANT, HIGH QUALITY MULTI-LET BUSINESS PARK EXTENDING TO 58,265 SQ.FT.	DS PROPERTIES FOR £2 MILLION (17.52%)
PRIME FOUR BUSINESS PARK, KINGSWELLS, ABERDEEN	GRADE A OFFICE BUILDING EXTENDING TO 45,800 SQ.FT. IN PREMIER BUSINESS PARK. LEASED TO EQUINOR WITH C. 8 YEARS UNEXPIRED	GG CAPITAL FOR £20 MILLION (7.7%)

OFFICES

Investors active in the office sector in 2022 were already adjusting to changing occupational patterns post-pandemic, higher construction costs and ESG requirements, when the rapid increase in borrowing costs proved too much for a number of agreed deals. The subsequent mini budget was the final straw and prompted most to pull up the drawbridge until some form of normality could be established. Those investors who remained active were faced with a plethora of opportunities and the luxury of being able to pick and choose which to pursue. Understandably, many investors chose to focus on the core markets of London and the South East in preference to the regions.

The year had started off reasonably well, with trading across each of the main cities, albeit skewed toward a few, bigger deals rather than a churn across the spectrum. This was especially so in Glasgow, where the sale of 177 Bothwell Street to Pontegadea for £220m was the only city centre deal of any note all year. Edinburgh saw a greater depth of activity and a 20% increase in transactions compared to 2021. Aberdeen continued to return to a more liquid market. Prime office investment yields are now perceived to be at 6% for Edinburgh and Glasgow and 7.25% in Aberdeen.

Looking forward, it is clear that the rise in prime yields will restrict opportunities for speculative development. Activity levels are likely to be reliant on sellers being able – or forced – to sell into the current market and the polarity in pricing should create some interesting opportunities, especially as the rental growth story remains strong. Entrepreneurial investors may recognise an early opportunity to take their pick of the better buildings out there, rather than waiting until later in the year when it is has been forecast that investors are likely to return en masse.

INDUSTRIAL

As 2022 kicked off the industrial sector was the hottest in town as the strong levels of investor demand experienced in 2021 continued unabated through the first two quarters. The frenzied activity in the race to capture deals inevitably led to further yield compression throughout the country. This even extended to Aberdeen where an improving occupier market underpinned two substantial deals at historically low yields, both bagged in January by Realty Income, a US REIT.

Further south, the majority of the demand was focussed on the booming logistics sector which was still much in favour after benefiting from the pandemic. Several high profile sales concluded at the favoured M8 locations of Eurocentral and Newbridge. The most notable was the Zenith building at Brittain Way, Eurocentral which was acquired by BP Pension Fund for £16.5 million, reflecting an ultra-low yield of 3.6%.

Nothing lasts for ever though and as the summer arrived the challenges of a faltering economy started to take its toll on investor confidence. With inflation rising rapidly to a 40-year high the cost of debt jumped and the party came to an end. Even the previously robust industrial sector was not spared and the renegotiating of prices downwards became commonplace. Investment volumes dropped significantly as unforced sellers of stock decided to wait for another day.

The very low number of multi-let industrial estate deals, even in the first half of the year, was caused by a scarcity of product rather than waning investor demand.

Despite the headwinds, industrial property was still the most favoured in the market as the year drew to a close and whilst deals were harder to come by, there was still activity although yields had generally moved out by 100 -150 basis points. Transactions are scarce, but prime yields in Edinburgh and Glasgow are considered to be in the order of 5.25% with Aberdeen sitting at 6.25%. Yields for secondary investments attractive to debt buyers have also softened and many are now hunting for double digit opportunities.

INDUSTRIAL DEALS

ADDRESS	PROPERTY	PURCHASER
ZENITH, 10 BRITTAIN WAY, EUROCENTRAL	LOGISTICS WAREHOUSE OF 93,000 SQ.FT. LET TO AMAZON UNTIL 2026. ALSO INCLUDED A RENTALISED 2 ACRE SITE	BP PENSION FUND FOR £16.5 MILLION (3.6%)
5 BRITTAIN WAY, EUROCENTRAL	LOGISTICS WAREHOUSE OF 92,925 SQ.FT. LET TO GIST LTD ON A NEW 5-YEAR LEASE WITH A BREAK AFTER 3 YEARS	CUSTODIAN REIT PLC FOR £11.13 MILLION (5.25%)
10 MCNEIL DRIVE, EUROCENTRAL	LOGISTICS WAREHOUSE OF 9,808 SQ M, LET TO WM MORRISON SUPERMARKETS LTD WITH A BREAK AFTER 7 YEARS	GRAYLING CAPITAL FOR £8 MILLION (6.95%)
WESTWAY PARK, RENFREW	MULTI-LET INDUSTRIAL ESTATE COMPRISING 160,000 SQ.FT. WITH DEVELOPMENT LAND	ARES MANAGEMENT FOR £110 MILLION (6%)
ROYAL MAIL SORTING OFFICE, SIGHTHILL INDUSTRIAL ESTATE, EDINBURGH	SINGLE-LET IN TOWN LOGISTICS FACILITY EXTENDING TO C. 215,745 SQ.FT. C. 8 YEARS UNEXPIRED INCOME	ICG REAL ESTATE FOR £34.4 MILLION (4.4%)
UPS, 28 SOUTH GYLE CRESCENT, SOUTH GYLE INDUSTRIAL ESTATE, EDINBURGH	UNIT EXTENDING TO 18,363 SQ.FT. LET TO UPS EXPIRING OCTOBER 2027	PRIVATE INVESTOR FOR C. £2.55 MILLION (5.24%)
TESLA, 23 CLIFTONHALL ROAD, NEWBRIDGE, EDINBURGH	DISTRIBUTION UNIT OF 20,010 SQ.FT. LEASED TO TESLA MOTORS LTD WITH C. 4.5 YEARS UNEXPIRED INCOME	RIBSTON FOR £3.125 MILLION (4.81%)
SCANIA, ABBOTSFORD BUSINESS PARK, FALKIRK	FORWARD FUNDING OF NEW 22,244 SQ.FT. FACILITY ON 4.77 ACRE SITE, 15 YEAR LEASE TO SCANIA	REALTY INCOME FOR £8 MILLION (5.4%)
ORBITSTATES BUILDING, WELLINGTON CIRCLE, ABERDEEN	LOGISTICS WAREHOUSE OF 169,810 SQ.FT. WITH A WAULT OF C. 9.5 YEARS	REALTY INCOME FOR £15.17 MILLION (5.75%)
HARVEST AVENUE, D2 BUSINESS PARK, ABERDEEN	MODERN INDUSTRIAL FACILITY EXTENDING TO 88,300 SQ.FT. LET TO OCEANEERING INTERNATIONAL WITH 13 YEARS UNEXPIRED	REALTY INCOME FOR £16 MILLION (5.24%)
84 HOWE MOSS AVENUE, DYCE, ABERDEEN	MODERN 30,380 SQ.FT. INDUSTRIAL UNIT LET TO MACARTNEY UK LTD WITH C. 7.5 YEARS UNEXPIRED	CLOWES DEVELOPMENTS FOR £4 MILLION (11.62%)
SETON HOUSE, DENMORE INDUSTRIAL ESTATE, BRIDGE OF DON, ABERDEEN	MODERN 35,520 SQ.FT. INDUSTRIAL UNIT LET TO SPARROWS OFFSHORE SERVICES LTD WITH 13.5 YEARS UNEXPIRED	PRIVATE OVERSEAS INVESTOR SYNDICATE FOR £3.8 MILLION (8.68%)
CAIRNROBIN INDUSTRIAL PARK, PORTLETHEN, ABERDEEN	MODERN 1,841 SQ M INDUSTRIAL UNIT LET TO OEG OFFSHORE WITH 10 YEARS UNEXPIRED	OVERSEAS INVESTOR FOR £6.685 MILLION REFLECTING 7.52%.

RETAIL AND LEISURE

Surprisingly, retail investment volumes for 2022 were significantly up, due to a particularly active first half of the year following a weak 2021.

The start of the year saw deal volumes and pricing in all retail subsectors improving with a weight and depth of money attracted to the relative discount on offer compared to other sectors. Early transactions included Henderson Park's acquisition of Silverburn Shopping Centre in Glasgow. Other regional shopping centres changed hands including the Howgate Centre in Falkirk and Rivergate Shopping Centre in Irvine to Lonair Ltd, sparked by dramatic price falls and opportunistic, often private equity backed buyers looking higher up the risk curve.

Retail warehousing has been the standout sector, particularly schemes with foodstore anchor tenants. Prized by investors for their defensive qualities, these assets have been the best performing of any of the traditional real estate sectors in 2022 driven by robust income returns and capital growth. Notable transactions include Realty Income's acquisitions of Great Western Retail Park, Glasgow and Beach Boulevard Retail Park in Aberdeen, as well as Supermarket Income REITs acquisition of West End Retail Park, Glasgow and Savills Investment Management's acquisitions of Cumbernauld Retail Park and Porthlethen Retail Park, Aberdeen.

Glasgow experienced the most dramatic upturn in investment volumes of Scotland's major cities over this period driven by appetite for retail warehousing.

With markets already beginning to cool post summer due to the wind down of government economic support through the pandemic, and the rising cost of energy fuelled by the war in Ukraine, the surprise budget sprung by the Truss government in October created turmoil across the investment markets eroding all positivity and value recovery.

Shopping centres have been discounted yet again with the continued absence of debt restricting larger transactions.

The retail warehousing sector has stabilised/re-adjusted more quickly due to robust underlying occupational demand in strong locations.

Opportunities exist in the high street for well-funded private and prop co investors as institutions seek to sell. The likes of Buccleuch Property, Ediston Real Estate, Broadland Properties Ltd and Westerwood Properties have selectively taken advantage of this, acquiring assets on prime retail thoroughfares of Buchanan Street, Glasgow and George Street, Edinburgh off elevated yields and often re-based rental levels. Particularly appealing are multi-let and/or mixed use blocks offering diversity of income and use. It is still possible to pick up single unit shops on Edinburgh's Princes Street for double digit yields.

Princes Street has continued its move towards a more leisure/hospitality focus following the decampment of major retailers to St James Quarter. The latest examples of this is Hunter REIM's acquisition of the former Next, Zara and Russel & Bromley stores for conversion to a 300 bed Ruby Hotel.

Unsurprisingly there has been limited transactional activity in the leisure sector as the cost of living impacts upon consumers. Better located leisure schemes with relevant offerings should continue to appeal but activity levels are likely to be suppressed.

At the lower end of the lot sizes, demand continues from cash rich private investors and small propcos, with pricing generally holding up or subject to smaller adjustments, and a focus on well let High Street retail, roadside convenience, and drive thru's.

Once again further polarization is anticipated across the retail market, between prime and tertiary locations and schemes further compounded by elevated debt costs, particularly for secondary assets. For now, activity levels remain diminished as investors continue to adopt a wait and see stance.

“RETAIL WAREHOUSING HAS BEEN THE STANDOUT SECTOR, PARTICULARLY SCHEMES WITH FOODSTORE ANCHOR TENANTS.”

RETAIL AND LEISURE DEALS

ADDRESS	PROPERTY	PURCHASER
123-129 BUCHANAN STREET, GLASGOW	THREE RETAIL UNITS WITH C. 3 YEAR WAULT, WITH PART VACANT PERIOD OFFICES ABOVE	CLYDEBUILT LP FOR £16 MILLION (7.93%)
SILVERBURN SHOPPING CENTRE, GLASGOW	1 MILLION SQ.FT. RETAIL AND LEISURE DESTINATION PARK	HENDERSON PARK FOR £140 MILLION (9.3%)
GREAT WESTERN RETAIL PARK, GLASGOW	194,000 SQ.FT. RETAIL PARK TENANTS INCLUDE STARBUCKS, BURGER KING AND WREN KITCHENS	REALITY INCOME CORP FOR £87 MILLION (5.96%)
WEST END RETAIL PARK, GLASGOW	79,680 SQ.FT. RETAIL PARK, ANCHOR TENANTS ARE SAINSBURY'S AND M&S SIMPLY FOOD	SUPERMARKET INCOME REIT FOR £35 MILLION (5.3%)
CUMBERNAULD RETAIL PARK, CUMBERNAULD	MODERN MULTI-LET PARK COMPRISING 90,000 SQ.FT., WITH A WAULT OF C. 10 YEARS	SAVILLS IM FOR £24.5 MILLION (6.25%)
100A PRINCES STREET, EDINBURGH	SINGLE UNIT SHOP LET TO SWAROVSKI UNTIL OCTOBER 2026, EXTENDING TO 1,418 SQ.FT.	PRIVATE INVESTOR FOR £1.42 MILLION (12%)
86-92 GEORGE STREET & 72-74 ROSE STREET LANE NORTH, EDINBURGH	MIXED-USE BLOCK, COMPRISING A RANGE OF RETAIL AND OFFICE SPACE, EXTENDING TO 44,086 SQ.FT.	BROADLAND PROPERTIES LTD FOR £15.25 MILLION (6.12%)
21-25 FREDERICK STREET, EDINBURGH	CORNER POSITION WITHIN "GOLDEN RECTANGLE." 8,043 SQ.FT. LET TO BARBOUR AND A LOCAL COVENANT, WITH SMALL OFFICE ABOVE. WAULT 4.8 YEARS	JACK PROPERTY INVESTMENTS LTD FOR C. £2.54 MILLION (7.44%)
WICKES, 45 STEVENSON ROAD, EDINBURGH	SINGLE-LET RETAIL WAREHOUSE EXTENDING TO 21,935 SQ.FT. AND LEASED UNTIL JULY 2036	PRIVATE INVESTOR FOR £6.05 MILLION (5.1%)
SAINSBURY'S, INGLIS GREEN ROAD, EDINBURGH	85,962 SQ FT SAINSBURY'S SUPERMARKET AND PFS CIRCA 16.5 YEARS UNEXPIRED INCOME	URBIUM CAPITAL PARTNERS FOR £32.2 MILLION (4.6%)
PORTLETHEN RETAIL PARK, PORTLETHEN, ABERDEEN	PRIME 107,070 SQ.FT. MULTI-LET RETAIL PARK WITH A WAULT OF C.10 YEARS	SAVILLS IM FOR £17.5 MILLION (7.09%)
BEACH BOULEVARD RETAIL PARK, ABERDEEN	PRIME 223,890 SQ.FT. MULTI-LET RETAIL PARK WITH A WAULT OF C. 8 YEARS	REALTY INCOME FOR C. £60 MILLION (6.25%)

OUTLOOK

The general perception is that H1 will be a quiet period for investment trading, with activity picking up later in the year as borrowing costs stabilise. With the UK entering recession, investors will have another factor to consider and whilst it is tempting to wait for the bottom of the market, those active now will have the greatest choice of opportunities. With supply/demand fundamentals in good shape across many of the key sectors – Grade A offices, industrial/logistics, BTR, PBSA and an improving prime retail story – then assuming the recession is short and shallow as forecast, this would signal selective acquisitions. Similarly, the nascent life science sector in Scotland should provide interesting opportunities.

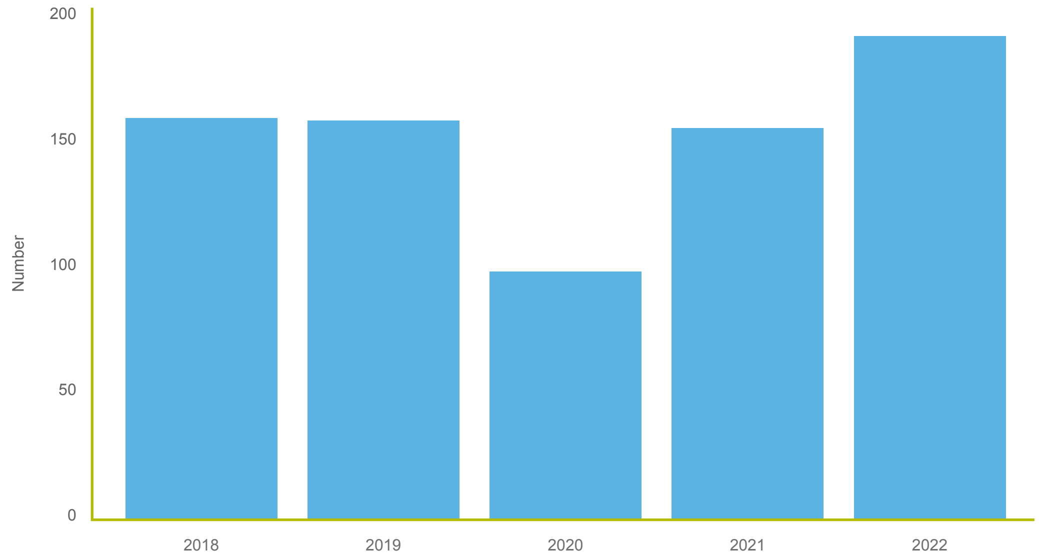
The office sector arguably took the biggest hit in 2022 and rising construction costs caused a number of proposed refurbishment schemes to pause. With costs unlikely to fall, rents need to rise and/or yields strengthen once more for viability to return. However, any fall in secondary pricing should continue the removal of secondary and tertiary office buildings for repurposing into other uses – BTR, aparthotel, PBSA, etc, where planning permits.

It is hoped that 2023 will see less political impact on the property sector and, from a Scottish perspective, an early resolution to the BTR rental constraints would be welcomed. At a local political level, greater clarity and assistance in developing alternative use schemes in city centres would have the dual benefits of accelerating the regeneration of redundant secondary retail properties, whilst increasing city centre living. Prime retail pitches look to be steadily recovering and some rebalancing from online back to physical shopping, together with the 2023 rating revaluation – where high street retail will be a beneficiary – will help this process.

“H1 WILL BE A QUIET PERIOD FOR INVESTMENT TRADING, WITH ACTIVITY PICKING UP LATER IN THE YEAR AS BORROWING COSTS STABILISE.”

INVESTMENT TRACKER

Number of investment transactions over £1 million in Scotland.



EDINBURGH
7 Exchange Crescent
Conference Square
EH3 8AN
0131 225 6612

GLASGOW
ONYX
215 Bothwell Street
G2 7EZ
0141 204 3838

ABERDEEN
The Capitol
431 Union Street
AB11 6DA
01224 588866

LEEDS
Northspring Park Row
36 Park Row
LS1 5JL
0113 243 6777

LONDON
Suite 410, Linen Hall
162-168, Regent Street
W1B 5TF
020 7436 1212

MANCHESTER
2nd Floor
28 King Street
M2 6AY
0161 249 9778

DR MARK ROBERTSON
Research Partner
mark.robertson@ryden.co.uk

KAREN FORSYTH
Research Manager
karen.forsyth@ryden.co.uk

ryden.co.uk

Ryden