Ryden

76th Scottish Property Review

APR/15

Economic growth is entrenched in Scotland in 2015 and forecast to continue. This augurs well for the country's commercial property markets. Exceptionally however, service sector output stalled during late 2014.

City office markets are in transition. Demand in Glasgow and Edinburgh has accelerated and the timing of new developments in both cities looks favourable. The market balance in Aberdeen has switched as increased supply meets fewer requirements from the dominant offshore energy industry.

Industrial property demand increased sharply in the Central Belt post-Referendum. Vacancy rates are falling below normal levels and some prime estates are full. The development industry has yet to provide a meaningful response. The industrial market in Aberdeen is still active despite the lower oil price.

The retail sector continues to focus mainly on city centres, prime shopping malls and leisure uses.

The property investment market is broader based and making up for lost time. Activity is weighted towards larger transactions. Where market fundamentals are clearly improving, increased investor interest is following.

DR MARK ROBERTSON, PARTNER

Economy

The Scottish economy has expanded continuously for more than two years since recovery gained traction during the second half of 2012. Gross Domestic Product (GDP) grew by 0.6% in Quarter 4 2014. This was driven by strong construction sector quarterly expansion (6.1%), growth in the production sector (1.0%) and, unusually, static output from the dominant services sector.

Looking more closely at the services sector, distribution, hotels & catering output was flat, while low growth in transport, storage & communications was offset by marginal contractions in both business & finance and in government & other services.

On an annual basis, Scottish GDP in 2014 as a whole was 2.7% higher than in 2013.

The most recent Bank of Scotland Purchasing Managers Index (March 2015 PMI = 49.4) reports a marginal fall in output, but modest growth in both employment and new business.

The Scottish unemployment rate (ILO) for the three months December 2014 to February 2015 rose to 6%. However it recorded a fall of 0.6 percentage points over four quarters. The rate currently sits above the UK figure of 5.6%. The Scottish unemployment claimant count was 3.2% in February 2015, which is down 1 percentage point over 12 months.

The Committee of Scottish Clearing Bankers confirms that the number of new business accounts opened during the second half of 2014 totalled 5,267; this is down by 5% from the same period of 2013. The largest share of new businesses (27%) was in the real estate, renting and other business sector.

Companies House reports a total of 181 company liquidations in Scotland in the fourth quarter of 2014, an 11.3% decrease on the same quarter of 2013. For 2014 as a whole there were 874 company insolvencies, a 19.4% increase on 2013.

According to the Scottish Government's Retail Sales Index, sales grew by 1.7% during the fourth quarter of 2014, and by 1.6% on an annual basis; effectively indicating flat sales for most of 2014 followed by a surge over the final quarter. This is in marked contrast to the 5% retail sales growth recorded in Great Britain during 2014.

More recent data indicates that total retail sales in Scotland were 0.1% lower over the 12 months to March 2015. On a like-for-like basis sales decreased by 1% annually (Scottish Retail Consortium/ KPMG).

According to the Department of Energy and Climate Change, indigenous production of crude oil fell by 4.4% in the fourth quarter of 2014 compared with the same period of 2013. Further comment on oil prices and property market activity in Aberdeen is provided in the office and industrial market commentaries in this report.

The Consensus Forecast for UK economic growth published by HM Treasury in March 2015 predicts growth of 2.7% in 2015 and 2.3% in 2016. The EY ITEM Club predicts UK growth of 2.8% for 2015. The International Monetary Fund's forecast for the UK in 2015 is 2.7%.

For Scotland, Fraser of Allander Institute's central forecast – published in March 2015 – is for growth of 2.6% in 2015 and 2.4% in 2016, while EY ITEM Club's winter forecast predicts a sharper slowdown to 2% growth for the Scottish economy in 2015.

Job gains:

Supermarket chains plan expansion during 2015: Waitrose plans 2,000 new jobs across the UK, in Scotland a new supermarket is under construction in Milngavie where **180 positions** will be created. Lidl plans **500 new jobs** in Scotland; at least three new stores are proposed, adding to the 90 it currently has, alongside a refurbishment programme of existing stores. This is in contrast to dis-investment by the largest superstores, reported below under job losses.

In Glasgow, Post Office Travel Insurance plans **75 jobs** at 6 Atlantic Quay, where the company is setting up a new business, Post Office Management Services Ltd, to expand the product range of its travel insurance services.

Craft beer maker BrewDog is to create **130 new jobs** at its facility in Ellon; the expansion will see the firm increase its workforce at the site from 370 to 500.

Aberdeen-based house builder Stewart Milne Group plans **250 new posts** during 2015 to support growth across its house-building and timber systems divisions. These roles will be at its home building operations in Scotland and the north-west of England, and at its timber systems site in Oxfordshire.

Electricity and gas company ScottishPower plans to recruit about **350 trainees**, with around half of these based in Scotland.

Nationwide will create 200 new jobs with the rollout of Nationwide NOW, a video link service that connects customers in branches to financial consultants elsewhere, **80 of these positions** will be at its administration centre in Dunfermline.

Oil and gas service company the Hydrus Group requires **100 additional members of staff** at its new base in Brechin.

J.P. Morgan plans to create **500 new IT jobs** in Glasgow over the next three years at its European Technology Centre.

In Edinburgh, Swiss banking software group Avaloq will expand its current workforce of **60 to 130 during 2015**. The company aims to eventually expand to **500 staff** in Scotland.

Around **160 further jobs** are to be created at Silverburn Shopping Centre's leisure extension with **20 positions** at Chimichanga, and McDonald's and Cineworld Cinemas with **70 new jobs** each.

Pep&Co, a new chain of discount clothing stores, announced **500 jobs in 50 new stores** which are planned to open throughout the UK.

Job loses:

Drilling contractor KCA Deutag plans **30 onshore job losses** in Aberdeen and **200 offshore North Sea losses** as part of a wider global restructuring.

In February, **170 staff** at Burntisland Fabrications Ltd yards in Methil, Burntisland and the Isle of Lewis were notified of potential redundancy when a 90-day consultation was launched. BiFab is bringing a number of large projects to a close.

Bank Fashion went into administration in January putting **1,500 jobs at risk** across the UK. 20 of its 84 shops in the UK have closed to date, in Scotland this includes stores in Edinburgh, Livingston, Dundee and Inverness.

A total of **143 jobs were lost** in Scotland with the collapse of parcel courier firm City Link.

DIY retailer Kingfisher is to close 60 B&Q stores across the UK within the next two years which may lead to around **3,000 job losses**. Six store closures have been announced to date, including in Scotland a store in Dundee.

Supermarket operator Tesco is closing 43 stores across the UK shedding 2,000 posts in the process. In Scotland four stores have closed resulting in the loss of more than **300 positions**. Along with store closures there will be further job losses in head office and managerial roles. The big four supermarkets have all suffered and UK-wide job losses have been announced in this sector: Morrisons with **2,600 positions**, Asda announcing **1,360** and Sainsbury's with **800**.

Planning

Efficiency & the local development plan review process

The Scottish Government has begun to financially penalise local authorities for delays in the processing and determination of planning applications. As yet, no such procedure exists relating to Local Development Plans (LDPs), with Section 16 of the Town & Country Planning Act 1997 merely stipulating these must be replaced every five years.

Late March 2015 saw the publication of both the Proposed Aberdeen City and Aberdeenshire LDP public consultations. This marks the penultimate stage in the LDP Review process, which began in mid-2013 and is due to finish by late 2017. The Councils' policy teams will embark on the cyclical process once again within a year. Despite this slow process, the planning authorities already have LDPs in place. Meanwhile the nation's capital, Edinburgh, remains LDP-less.

The decision by City of Edinburgh Council's Planning Committee not to hear representations to its city's Second Proposed Plan (published for consultation in June 2014), was attributed to the need to wait for the outcomes of called-in applications where Planning Minister Alex Neil sought to secure an effective five-year housing land supply in the city. With the deferred Committee date now taking place after the General Election, the industry will inevitably speculate about an aversion to making the tough decisions necessary to allow the land and property markets to function properly.

The LDP is a critical document to ensure the *'right development in the right place',* as promoted by Scottish Planning Policy (SPP). But it needs to be at the right time too. A review into why the ability of local authorities to produce an LDP is so variable could disseminate best practice across Scotland, particularly around streamlining the administrative process and reducing timescales.

Meeting housing land supply targets… More than just a numbers game

The future for housing land supply in south-east Scotland was confirmed with the approval on 28 October 2014 of the SESplan Housing Land Supplementary Planning Guidance. This document sets very ambitious targets for six local authorities: City of Edinburgh, East Lothian, Midlothian, Fife, Scottish Borders and West Lothian. The majority of long awaited LDPs are now coming forward.

There is an easy win for local planning authorities in providing a genuinely generous supply of land. That said, there must be a focus on delivering houses in the right locations (as required by SPP). Part of this must involve open and consistent market engagement, including insight into the development economics, infrastructure and land assembly issues which underpin effectiveness within a rolling five-year supply.

Planning policy has for many years prioritised the reuse of brownfield land. If the challenging land requirements of SESplan are to be met then LDPs must also embrace the opportunities presented by greenfield sites.

The delivery of infrastructure is key to realising many larger, strategic sites. This requires funding, which in part at least will come from developer contributions by way of planning obligations. Local authorities must ensure that obligations are consistent with the approach set down in Circular 3/2012. It is particularly important for developers to understand the financial commitments which may be required, to allow them to be factored into the business case and viability appraisals from the outset. In this regard, planning authorities must acknowledge more readily a developer's right to query the level of contribution and understand how those contributions will be spent.

The successful delivery of an effective housing land supply is much more than a numbers game, as demonstrated by the introduction of the SESplan requirements. The Housing Land SPG (Supplementary Planning Guidance) is a significant challenge for authorities and delivering enough housing in the right locations will not be easy. The emerging LDPs offer landowners and developers the opportunity to promote land for residential development.

Clustering of pay day lenders and betting shops

Following consultation by the Scottish Government into the clustering of pay day lenders and betting shops in town centres, the possibility of a new planning use class was raised. However, despite strong support for tighter regulation of lending and gambling premises, the Consultation concludes that the Scottish Government should not make any changes to planning legislation at this time. This is because it is difficult to define a pay day lender in legislation (relative to other types of financial institutions). The scale of the problem is unclear and there is an alternative and more appropriate approach through improved financial and gambling legislation.

While the consultation emphasises that existing mechanisms, such as development plan policies, should continue to be used to control the numbers and locations of pay day lenders and bookmakers, the effectiveness of this approach remains to be seen given the prevalence of these premises, particularly in less affluent areas.

Of comparable interest, from April 2015 (in England only) new legislation will classify betting offices and pay day lenders as 'sui generis'. This will require an application for planning permission to open any such unit, giving planning authorities greater control over the location of such premises.

What is net economic benefit?

Following the publication of the revised Scottish Planning Policy in 2014, it was clear that planners were expected to give greater consideration to the contribution a proposal would make to sustainable economic development. The presumption in favour of this within the SPP states that:

'The planning system should support economically, environmentally and socially sustainable places by enabling development that balances the costs and benefits of a proposal over the longer term. The aim is to achieve the right development in the right place' (Paragraph 28)

Paragraph 29 explains this means that policies and decisions should be guided by a number of principles, including *'giving due weight to net economic benefit'*. The Scottish Government is now working on providing guidance that will seek to establish what net economic benefit is, and how it can be measured and weighed.

A broader understanding of the economic benefits of development is certainly welcomed. A planning system that segregates developments into use classes is at a disadvantage when trying to understand the argument of net economic benefit; non-employment uses are often subject to less stringent assessment, or assessed largely for negative impact (such as retail). The methodology too can be a patchwork quilt of often rather dated data from Scotland and elsewhere.

Experience of presenting economic evidence within the Scottish planning system, and of attempts to elevate the role of economic impact (in Northern Ireland), suggest that such guidance can only be a starting point for the evolution of good practice.

Finally, there needs to be an understanding that softer impacts, such as supporting community infrastructure, enterprise and social capital, are also highly significant, particularly when developing in regeneration areas. These factors should be acknowledged and given due weight.

Hopefully, with the right tools, the net economic benefit can not only be calculated but used to help the broader community understand the true benefits and opportunities which development can bring.

Offices

Office sales and lettings in both Glasgow and Edinburgh accelerated strongly during Quarter 4 2014 and Quarter 1 2015, post Scotland's Referendum. Glasgow recorded its highest take-up for nine years. Encouragingly, this take-up comprises transactions across the business sectors, rather than being attributable to one or two very large deals. The Aberdeen demand/supply balance has switched and the market is adjusting to fewer requirements, more new development and release of office space, although take-up remains healthy as pre-lets continue to take occupation.

Glasgow has enjoyed a healthy resurgence of office market activity from larger corporates and professional firms over the last six months. This looks set to continue over the coming months as a number of property searches are currently active. A string of lease breaks and expiries is allied to improving occupier confidence and planned growth through economic recovery. The risk of missing out on the opportunity to secure larger floorplates in new developments and best quality refurbishments has also been a key motivator in occupiers' decision making process.

The resultant activity has produced take-up of c. 59,630 sq.m., an increase of some 44% on the previous six month period. This contributes to a 12 month total of 100,842 sq.m., up by 17% on the corresponding period last year. The main focus has been within the city centre with take-up of 44,629 sq.m. This reflects an increase of 100% on the previous six months. By contrast, peripheral take-up has dropped by c. 21% to 15,001 sq.m. However this is distorted as previous figures were inflated by Police Scotland's relocation to Dalmarnock. Underpinning peripheral activity in this latest period are lettings at Skypark, Finnieston to Lockheed Martin (3,261 sq.m.), along with a range of other deals totalling 2,752 sq.m., and Webhelp UK taking 3,086 sq.m. at City Park, Alexandra Parade.

The new-build developments in Glasgow city centre are enjoying early success, with further announcements likely. 110 Queen Street has so far completed deals to Brodies (2,329 sq.m.), Deloitte (1,685 sq.m.) and Grant Thornton UK (1,399 sq.m.); 1 West Regent Street has secured Weir Group (2,370 sq.m.) and Global Radio (1,264 sq.m.); and Abstract Securities' 15,762 sq.m. St Vincent Plaza is also attracting strong interest. All three developments will complete shortly.

Cigna has taken 3,100 sq.m. in the refurbished Grosvenor Building, Gordon Street and J.P. Morgan expanded by taking a further 1,180 sq.m. at Alhambra House, Waterloo Street where the company now occupies the whole building plus an additional 1,902 sq.m. at nearby 141 Bothwell Street.

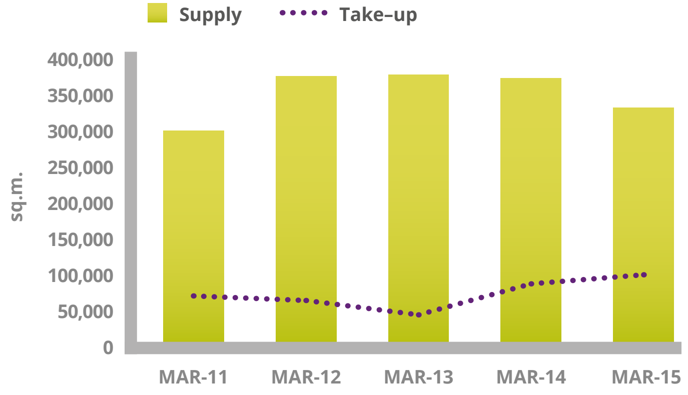
Owner occupation during this period also proved attractive to Strathclyde Passenger Transport which purchased 131 St Vincent Street (2,088 sq.m.) and to Woolgar Hunter which acquired 226 West George Street (1,228 sq.m.).

The addition of the remaining space within the three new developments (33,080 sq.m.) and the release of second hand space e.g. 7,289 sq.m. at 6 Atlantic Square, is reflected in an increase of c. 11% in city centre total supply at c. 214,635 sq.m. By contrast, lack of additional stock and recent take-up activity has reduced total peripheral office availability by c. 8% to 120,280 sq.m.

However, the underlying trend is the reducing availability of new larger floorplate and higher quality refurbished space, particularly for those occupiers seeking over 2,323 sq.m. in floors over 929 sq.m. The choice becomes even more limited for those seeking over 3,716 sq.m. and floors over 1,394 sq.m.

There continues to be less deal activity in the mid-size, professional service market which remains very competitive with occupiers having a relatively wide range of choice of differing qualities. However, there are signs of improving activity in this sector which will begin to impact on the availability of higher quality options.

Glasgow office supply and take-up



While larger activity on the periphery of Glasgow city centre has been focussed on Skypark and City Park, there has also been a flurry of lettings elsewhere including Clydesdale House, Glasgow Business Park where Miller Homes took 574 sq.m.; Academy Park where Barnardo's, Taylor Maxwell and Euro Systems each acquired space; The Hub, Pacific Quay with lettings to Opinurate, Cohesion Medical and Victory TV; The Whisky Bond, Dawson Street with lettings to RHA, Kirsty Mac and Get Fully Furnished; Hillington with deals at The Arc and Centura Court; and small suite lettings at the Red Tree Business Centres at Bridgeton and Rutherglen.

The out-of-town market has been relatively static with activity limited to smaller lettings such as Buchanan Gate where AMEY/Black & Veatch took 623 sq.m.; Westpoint Business Park where D2 Corporate and Henry Schein took 368 sq.m. and 242 sq.m. respectively; Dalziel Services (539 sq.m.) at Trilogy One, Eurocentral; Provista (366 sq.m.) at Bothwell Bridge Business Park; CEKA Communications Ltd (231 sq.m.) at Grove House, Tannochside Business Park; and Wills Brothers Ltd and Ford Motor Group taking space within the recently released small suites at Maxim 3, Maxim Office Park, Eurocentral.

The prime office market in Glasgow has shown strong signs of recovery over the last 12 months and this is set to continue as companies focus on the best of the remaining space. This will encourage developers to look ahead to providing the next cycle of new developments. There have been no new starts formally announced to date and as such, further new schemes are unlikely to complete until 2017. The opportunity exists for landlords to provide high quality refurbished space to satisfy earlier requirements.

Prime headline rents have begun to increase and are now £301-£317 per sq.m. for new space. High quality refurbished accommodation shows a discount at £247-£269 per sq.m. Generally, across the wider market, flexible leases and substantial incentives remain available although there are signs of incentives tightening at the upper end of the market as the availability of Grade A space reduces.

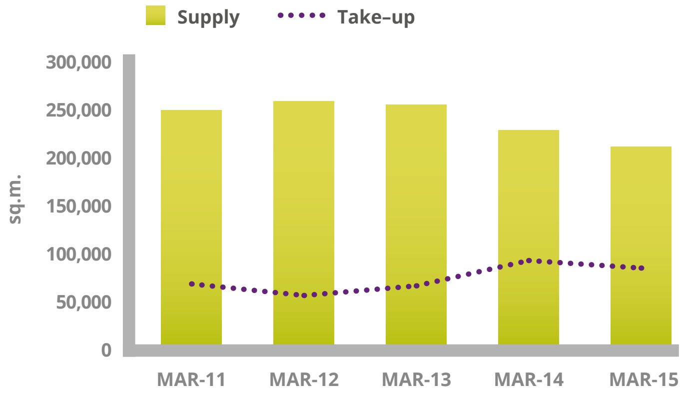
Larger office deals in Glasgow over the last six months include:

Address	Size	Occupier
Skypark, Elliot Place	3,261 sq.m.	Lockheed Martin
Grosvenor Building, Gordon Street	3,100 sq.m.	Cigna
City Park, Alexandra Parade	3,086 sq.m.	WebHelp UK
Granite House, Stockwell Street	2,919 sq.m. and 930 sq.m.	Clydesdale Bank
1 West Regent Street	2,370 sq.m.	Weir Group
131 St Vincent Street	2,088 sq.m.	Strathclyde Passenger Transport
141 Bothwell Street	1,902 sq.m.	J.P. Morgan
Tay House, 300 Bath Street	1,867 sq.m.	The University of Glasgow

Edinburgh's office market achieved 48,957 sq.m. of take up during the six months to April 2015 (Q4 2014 & Q1 2015). This represents a 38% increase in activity from the previous six month period.

Total take-up for the 12 months to April 2015 is recorded at 84,375 sq.m., a 7% fall compared with the previous 12 months. City centre take-up was 40,372 sq.m. across 96 deals representing 82% of total take-up. This activity is up 66% from the previous six month period. Grade A and good quality refurbished accommodation accounted for 26,562 sq.m. or 66% of city centre office take-up.

Edinburgh office supply and take-up



West Edinburgh attracted take-up of only 2,224 sq.m. transacted across eight deals, a 50% decrease in activity from the previous six month period and only a 4% share of city office market activity. Peripheral office locations remain comparably fragile. However, with city centre take-up increasing, demand is expected to ripple outwards and in particular to West Edinburgh which has benefited from the improved transport connections following the opening of Edinburgh's tram network.

Notable office lettings within the city centre include: LogicNow taking 1,293 sq.m. at Exchange Place; Dell and FNZ concluding 2,478 sq.m. combined at Tanfield; and the pre-let to Standard Life of St Andrew Square of 10,033 sq.m. Pinsent Masons re-geared its lease at Princes Exchange (2,259 sq.m.) and F&C also re-geared at 80 George Street (c. 1,207 sq.m.). Postcode Lottery acquired 772 sq.m. at 80 George Street; Optimise secured 463 sq.m. at Quartermile 2; WYG concluded on 508 sq.m. at The Cube; Aon took space in Atria 1 (452 sq.m.); Lomond Capital and Seebyte concluded (1,285 sq.m. combined) at Orchard Brae House; Harley Haddow concluded (625 sq.m.) at 125 Princes Street and Cundalls took 524 sq.m. at Exchange Place One.

In North Edinburgh, VFS Global acquired 363 sq.m. at Rennie's Isle while Myeloma UK secured 583 sq.m. at 22 Logie Mill Road, Beaverbank Business Park.

As noted above, there was limited activity within West Edinburgh. Lockheed Martin taking 394 sq.m. at Lochside House, 7 Lochside Avenue was the most notable office transaction recorded across the period.

Total office supply across Edinburgh at April 2015 is 211,266 sq.m., an increase of 8% since October 2014. This increase is primarily due to new development at Quartermile 4 (12,077 sq.m.), 40 Torphichen Street (5,100 sq.m.) and the release of space at Edinburgh Quay 1 (3,251 sq.m.).

Prime office rents in central Edinburgh remain around £300 per sq.m., although Atria has secured £322 per sq.m. Incentives have reduced slightly and 24-months' rent free can be secured for a straight 10-year lease commitment for the right covenant. Rental growth is expected as a result of market dynamics and any new Grade A build will require to achieve a rental in excess of £322 per sq.m., particularly as building costs for Grade A offices are likely to be in the region of £1,600 per sq.m.

The lack of immediate Grade A supply is evident and this will undoubtedly lead to further pre-letting activity. For example Ernst & Young is rumoured to have settled with The Haymarket development for their 3,716 sq.m. office requirement.

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

Address	Size	Occupier
St Andrew Square	10,033 sq.m.	Standard Life
Tanfield	2,434 sq.m.	Dell and FNZ
Exchange Place, Semple Street	1,300 sq.m.	LogicNow
125 Princes Street	622 sq.m.	Harley Haddow
Exchange Place One, Semple Street	520 sq.m.	Cundalls

Development activity in Edinburgh is ongoing. M&G is constructing a 12,077 sq.m. speculative Grade A office development at Quartermile 4 (completion Q2 2016). Phase 1 of the Tiger Developments/Interserve mixed use development, The Haymarket, will include 8,361 sq.m. of Grade A office accommodation (completion from 2017). Standard Life Investments and Peveril Securities are on site with 6 St Andrews Square which has been pre-let to Standard Life with completion due in 2016.

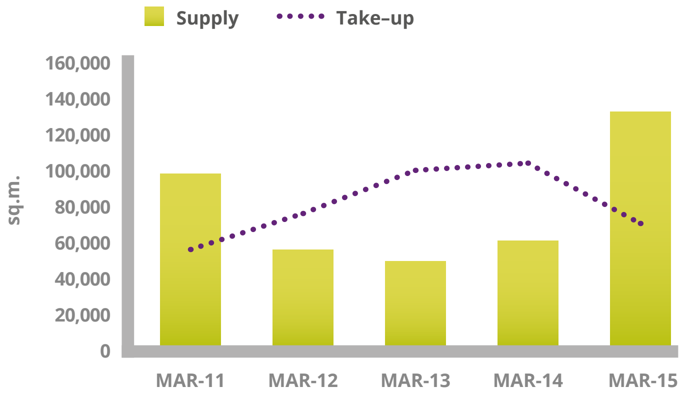
It is anticipated that the Chris Stewart Group will apply for planning consent for a c. 5,574 sq.m. office development on West Register Street as part of the mixed-use development of the former HBOS offices on St Andrew Square. A number of other ongoing city centre new-build office development opportunities are also emerging including: Freer Street at Fountainbridge, New Waverley (Artisan Real Estate Group), Semple Street and Hermes Real Estate's proposals for the former Skypark within the Exchange all have the potential to contribute to market momentum.

There has been reasonable office take-up in **Aberdeen** since October 2014 with several companies committing to significant pre-lets despite the low oil price. Take-up for the six month period sits at 31,000 sq.m. over 48 transactions which is a fall of 21% compared with the previous six months.

At the time of writing, the Brent Crude Oil price sits at $64 per barrel, up from a low point of $47 per barrel in January 2015. The March budget saw the Chancellor cut Petroleum Revenue tax as well as the Supplementary Charge. Industry experts view this as a very important step, which will not solve issues in the short term, but will encourage future investment in the North Sea. The industry is still engaged in a cost-cutting exercise as it tries to realign its cost base to more sustainable levels.

Supply of offices in Aberdeen has increased significantly by 56% to 133,600 sq.m. A number of secondary buildings have come on to the market through a mixture of companies relocating to new-build premises and excess accommodation where companies have downsized due to the current climate. In addition, some companies that have committed to pre-lets in a stronger market have now realised they were overzealous in their size requirements and have placed some of the excess accommodation on the market.

Aberdeen office supply and take-up



No lettings of Grade A accommodation in the city centre or West End have taken place and therefore no increase in prime rents from £345 per sq.m. has been seen. In general terms, rental levels have remained consistent, although increased incentive packages are starting to emerge, which is not surprising considering the unprecedented market conditions over the last few years where virtually no rent free periods were being granted. There has certainly been a shift in the supply/demand curve, but again, this is not surprising considering previous market dynamics.

City centre speculative development is continuing at pace. The 6,900 sq.m. Capitol, Union Street, is on course for completion in January 2016. Work has also now commenced on Muse's Marischal Square and Titan's Silver Fin, Union Street, both comprising c. 12,000 sq.m. and due for completion mid-2017.

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

Address	Size	Occupier
City South	6,500 sq.m.	KCA Deutag
Ardent West, North Esplanade West	4,360 sq.m.	PD & MS Energy
Primefour, Kingswells	4,200 sq.m.	Statoil
Horizons House, Waterloo Quay	3,800 sq.m.	DOF Subsea

To the west of Aberdeen city, Primefour has landed two further pre-lets, to Lloyds Register EMEA (9,300 sq.m.) and Anderson Anderson & Brown LLP (4,200 sq.m.); these have not been accounted for in the current take-up data as work has not yet started on site. At Westhill, Schlumberger has taken a lease of c. 2,000 sq.m. at Peregrine House, while Knight Property Group let the last pavilion in Phase 1 of Kingshill Business Park to AIS and also completed work on the next two buildings of 743 sq.m. each.

In Dyce, Aker put 7,100 sq.m. of excess accommodation within its new building on the market for lease as well as the existing buildings it is vacating. The speculative Stratus building (1,500 sq.m.) at ABZ is also due for completion in June 2015.

To the south of Aberdeen, the final building at Cityview (4,300 sq.m.) will be completed in June 2015. Balmoral Business Park's 42,000 sq.m. speculative building remains available and the Quattro building on Wellington Circle has come to the market.

The Aberdeen office market has undoubtedly slowed down and there has been a fall in the number of larger office requirements. As always, the office market will be dictated by the oil & gas industry, which it appears still has some way to go in readjusting its cost base and adapting to oil price change.

In the largest commercial property deal of the year in **Dundee**, accountancy firm Henderson Loggie has relocated to modern office accommodation within The Vision Building, Greenmarket (1,523 sq.m.) on a 10-year lease term. Current tenant, city computer games studio Outplay Entertainment, relocated within the building (1,265 sq.m), and further suites of 352 sq.m. and 527 sq.m. are also currently under offer.

The availability of Grade A office space in Dundee continues to decline, with no new speculative developments in the immediate pipeline. Dundee City Council is releasing development sites in the Central Waterfront area and is reporting significant interest. The development of these sites will become increasingly important for Dundee to ensure the city is able to offer the next generation of new office space to compete effectively with other UK regional cities.

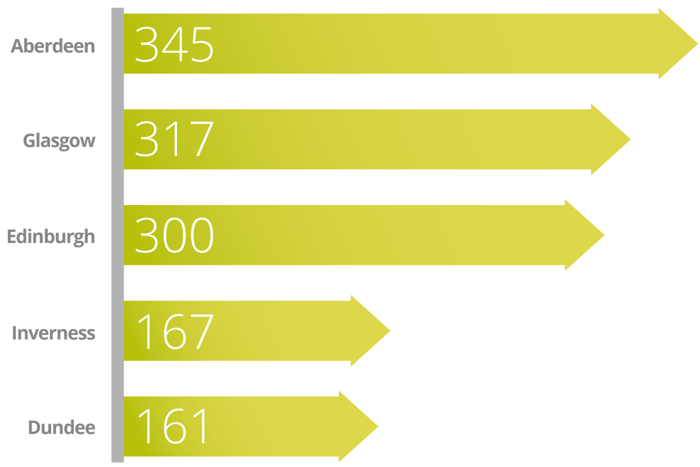
Within Dundee Waterfront, DP&L's century-old Maritime office building (1,282 sq.m.) has been purchased by Stone Acre which plans a combined residential and commercial redevelopment. At West Pitkerro, Aberdeen based Richard Irvin Energy Solutions opened its first Dundee office at Kingfisher House (298 sq.m.).

The office market in **Inverness** continues to be active. The majority of demand is for smaller office suites in the 46 – 139 sq.m. range. There have been 10 office transactions in Inverness over the last six months.

There is currently 20,845 sq.m. of office space available in Inverness, comprising properties located both within the city centre and edge of town. However, a large percentage of this is obsolete stock.

Recent transactions include West Coast Energy within a new build office building at 36C Longman Drive, Longman Industrial Estate (85 sq.m.) on a five-year lease; McDonald & Ross Const. Ltd within Marr House, Beechwood Business Park (98 sq.m.) also on a five-year lease; and Cairngorm Outdoors at Highland Rail House, Station Square (43 sq.m.) on a two-year lease.

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



Industrial

Industrial property enquiries and viewings in Scotland's Central Belt increased sharply post-Referendum. This has continued into 2015, with only the briefest of market shut-downs over the Christmas period. Demand for industrial property has eased in Aberdeen due to the fall in oil prices, however the demand/supply switch is less dramatic than in the city's office market.

In the **West of Scotland** the increased demand, in tandem with low rates of company failure and low development activity, is driving the market towards a sub-10% total availability/vacancy rate. The vacancy rate is c. 8% for Glasgow and its wider conurbation, or 11-12% if leasehold interests are included. The true lettable figure for Glasgow is likely to be at or around 4% once off-pitch and poorer or obsolete properties are stripped out and the vacant figure for prime property is likely to be in the order of 1%. This is good news for the owners of existing stock and developers as rents and prices are now on the rise and there is also strong interest for investment opportunities. Businesses seeking cheap properties in poorer locations will find options, however those seeking modern prime space with good access to the motorway network will have fewer options and may need to compete with other occupational interest.

The low availability within the city boundary and its immediate environs has led to a number of estates achieving fully let status. The latest is IO Asset Management's IO Centre at **Glasgow Business Park** where recent lettings to National Veterinary Services and Tri-Star absorbed the remaining space. NVS leased 1,432 sq.m. at £59 per sq.m., and Tri-Star took a re-gear on existing space plus an additional 655 sq.m. to bring total occupation to 1,782 sq.m. at a rent of £61 per sq.m. Other projects on the park are approaching full occupancy and Glasgow Business Park Limited is progressing land sales to occupiers on 1.6 hectares of the remaining 11 hectares. Additionally, the 6,040 sq.m. former MFI shed which had lain vacant for a number of years has been let to DFS.

According to CoStar, net take-up – i.e. taking account of buildings returned to the market – for the Greater Glasgow area over the past 12 months was 243,476 sq.m. Within the Glasgow boundary a greater number of buildings were returned to the market but much of this is older engineering space. Take-up within the city boundary is now constrained by the lack of available modern product and transactions will instead flow to surrounding areas.

A similar set of market dynamics in prime English locations would lead to an active development market but there remains little development activity in and around Glasgow for reasons previously reported. The Scottish market is perhaps two years behind the development upturn in England. With a lack of development, it is now likely that inward investment decisions are being delayed or re-directed due to the lack of available Grade A product in the key market of 1,393 – 4,645 sq.m.

There are signs of growing interest in development and pre-recessionary levels of investment demand are reducing yields, which will assist development appraisals. However, a new concern for developers is the pressure on margins through the prospect of higher construction costs over the next 12 to 18 months and uncertainty as to whether the market will meet the necessary rent and price levels required to make a return. Revised costs are suggesting the rent for mid-sized product of 1,393 sq.m. upwards will need to start at or around £75 per sq.m. with an incentive package based on one month per year of secure income. The previously reported lettings at **Clyde Gateway East** are positive indicators for rental growth as is the recent deal to UK Mail at **Cambuslang** where the company has taken the 5,110 sq.m. former Citylink unit on an off market deal at a rent of £64.60 per sq.m. on a straight 10-year lease.

There were no new development completions in Greater Glasgow during 2014. The final 2015 figure will include the bespoke BT building at Clyde Gateway East (1,203 sq.m.) and 3,948 sq.m. at Kelburn Business Park, Port Glasgow where Phase 1 is complete (2,276 sq.m. in blocks of 1,440 sq.m. and 836 sq.m.) and phase 2 two is nearing completion (1,672 sq.m. in two 836 sq.m. blocks). The only other new building is a bespoke build for First Group adjacent to the M74 on Glasgow's south side (c. 3,716 sq.m.). It is unlikely that any other projects will be complete in 2015, yielding a development total of 8,867 sq.m. in a market with net absorption last year as indicated of 243,476 sq.m.

In 2016 and 2017, there should be industrial site starts and completions of speculative space of 8,361 sq.m. and 6,968 sq.m. respectively in the Glasgow market area. Each of these years' figures will be almost certainly boosted as more projects are initiated in response to these stark market dynamics. Nevertheless, current predictions show a significant shortfall on the amount of space required to provide West Central Scotland with competitive modern space for evolving business needs.

Projects under discussion include Queenslie Industrial Estate, **Glasgow** where Rockspring is considering two speculative small unit schemes comprising 11 units, ranging in size from 297 sq.m. to 557 sq.m. Two of the 557 sq.m. units could be combined to create 1,114 sq.m. but the scheme is firmly aimed at smaller space requirements. Within Lanarkshire, Fusion Assets is the most active developer and has acquired a number of plots to bring forward up to 2,276 sq.m. The larger product would be provided at **Gartcosh** or potentially at Link Park, **Newhouse.** It is unlikely that either of these developments will be brought forward in the next 18 months unless through pre-let demand, and instead the smaller schemes will be prioritised at Condor Glen, Eurocentral and Western Campus, Strathclyde Business Park. Also within Lanarkshire, J Smart & Co has obtained planning consent for three buildings on their 1.7 hectare Belgrave Point, Bellshill site. The planning consent provides for one building of 1,951 sq.m. and two buildings of 2,694 sq.m. It is understood the plan is to proceed with one of the units on a speculative basis during 2015.

Within **Renfrewshire**, Patrizia AG and Oaktree's acquisition of Hillington Park will lead to a greater level of development activity on Scotland's largest business estate comprising over 185,800 sq.m. of industrial and office accommodation and 27 hectares of development land. The park has an occupancy level of c. 97% with representation from a wide spread of business sectors and increased market activity will lead to demand for new space from existing occupiers trading-up and new interests capitalising on its position between Glasgow city centre and Airport. Simplified Planning Zone (SPZ) status will offer a competitive edge over surrounding locations in terms of delivery timescale and development certainty.

MEPC has retained ownership of Clyde Gateway East following its sale of Hillington. Phase 1 is fully occupied and the bespoke pre-let for BT is complete and occupied. A future phase of development is under review and it is likely that speculative space of 1,393 – 3,716 sq.m. in and around Cambuslang would be well-received. As already noted, UK Mail is moving to a larger 5,110 sq.m. unit and their existing 2,591 sq.m. is attracting strong interest at the quoting rent of £67 per sq.m.

At **Eurocentral**, Muse is reviewing further phases of development but has no immediate plans for a site start. Two transactions are close to conclusion at Eurocentral on units of c. 9,290 sq.m. and this will leave two vacant buildings, one of 5,200 sq.m. and the other 11,985 sq.m. plus one leasehold interest of c. 8,640 sq.m.

With shortages of prime industrial space, the conditions for a pre-let market are developing, but there remains a distinct occupier preference for existing product. This largely stems from the short lead-in times for many businesses from the identification of need to an operational date, but pricing is also a consideration. With the reducing availability of existing product, it is likely more bespoke deals will be agreed particularly for parties seeking non-standard product. Encouragingly, Scottish Enterprise reports strong interest from occupiers for its various sites such as those at Eurocentral and Gartcosh.

There is increased development interest in potential refurbishment projects, but relatively few suitable opportunities. Harris Finance successfully refurbished the 1,440 sq.m. former Booth Murie unit on South Street, Glasgow and has let 929 sq.m. to GAP Van Hire at £56.50 per sq.m., with the balance available at £59 per sq.m. Eastpoint Property Limited purchased Innovation Park, Bellshill from administration and is converting the office space back to industrial use in two sub-divisible blocks; terms have been issued on over 50% of the space. Also in Bellshill, the 5,110 sq.m. Pepsico unit is being refurbished and is expected to attract good levels of interest given its large yard and location between the M8 and M74 motorways; a single occupier is expected to take the space.

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

Address	Size	Occupier
Cambuslang Road, Cambuslang	5,110 sq.m.	UK Mail Group
Axis Park, Cumbernauld	3,751 sq.m.	AG Barr
IO Centre at Glasgow Business Park	1,432 sq.m.	NVS
South Street, Glasgow	929 sq.m.	GAP Van Hire

Industrial property enquiry levels have steadily increased in **East Central Scotland** over the last six months. This has resulted in a significant increase in take-up for the same period. Activity is across all sectors and particularly within the 464-1,393 sq.m. size bracket. Greater economic certainty post-Referendum, the move into a new financial year and the resumption of growth in the housing market creating demand from ancillary industries all contribute to this increased demand.

As in the West of Scotland, the continuing steady rise in take-up and falling supply of modern accommodation will in turn drive rental growth and reduce tenant incentives in prime locations. Evidence of this includes activity in Falkirk and Loanhead.

London & Cambridge Properties Ltd recently undertook a speculative refurbishment of Units C, D and E, Etna Road, Middlefield Industrial Estate, **Falkirk** (1,672 sq.m.) where extensive refurbishment included complete recladding, sub-division and creation of additional car parking. The recent lettings to Euro Car Parts, Hayleigh and latterly Al Murad justifies the capital expenditure, for example Unit C (567 sq.m.) was let to Al Murad at £70 per sq.m. on a 10-year lease. Other deals within the immediate area include: Unit 12 Forbes Court (518 sq.m.) to Belfor UK at £56 per sq.m. on a 10-year lease; and Unit 2 Castle Road (241 sq.m.) to Stevenswood also at £56 per sq.m. on a five-year lease.

At Bilston Glen Industrial Estate, Loanhead, recent lettings include: Unit 5 Dryden Loan (587 sq.m.) to FSW Ltd at £70 per sq.m. on a five-year lease; Unit 6 Dryden Loan (733 sq.m.) to Clark Commercials at £73 per sq.m. on a 10-year lease; and in Phase 1, Unit 18 (464 sq.m.) was let to Grange Door Systems at £70 per sq.m. on a 10-year lease.

In **Edinburgh** the recent lettings of Block 5, Units 2 & 3 Peffermill Industrial Estate (394 sq.m.) to Travis Perkins on a five-year lease; and at Bankhead Industrial Estate, Unit 15 (1,075 sq.m.) to The Edinburgh Beer Company at £70 per sq.m. on a 10-year lease, and Unit 8 to Midland Building Products (490 sq.m.) at £76 per sq.m. on a five-year lease, has resulted in both estates being fully let for the first time in a number of years.

Further notable industrial property transactions within Edinburgh include: GAP at Unit 4C Seafield Industrial Estate (603 sq.m.) for £86 per sq.m. on a 10-year lease, this property had been vacant since refurbishment in 2010; 1E Seafield Industrial Estate (464 sq.m.) let to Hilti for £78 per sq.m. on a five-year lease; Eurocell took Unit 9, A1 Industrial Estate (490 sq.m.) on a five-year lease at £70 per sq.m.; and Unit 12 South Gyle Crescent, South Gyle (2,205 sq.m.) was let to Network Rail on a 10-year lease at £83 per sq.m.

Newbridge continues to be an attractive destination for a variety of occupiers servicing Edinburgh city centre and the surrounding area. Due to the shortage of modern opportunities within the vicinity, Unit 1 Edinburgh Interchange, Chariot Drive (1,526 sq.m.) was let to PTS at £62 per sq.m. on a 10-year lease, before the previous tenant's lease had expired. Also at Newbridge, William Tracey Group purchased Unit 6 (5,400 sq.m.) for £2.35 million.

West Lothian has attracted a number of larger industrial deals in the last six months, although rents remain stagnant due to the larger stock of buildings in the area. The most significant deals include West Lothian Council purchasing the former Mahle building at 4 Inchmuir Road, Whitehill Industrial Estate, Bathgate (18,993 sq.m.) for £1.35 million, as part of its depots modernisation exercise; and Yodel taking a two-year sub-lease of 9,005 sq.m. at Unit 7 Nettlehill Road, Houstoun Industrial Estate, Livingston at £43 per sq.m.

There is further occupier activity in **Fife** where Dunnottar Estates is speculatively refurbishing Unit 4 Pitreavie Business Park, Dunfermline (1,875 sq.m.) and has secured L&I Eaton Accident Repair Centres at £30 per sq.m. on a five-year lease, post-completion of the works.

No new speculative industrial property schemes have come to the market in East Central Scotland over the past six months. Phase 1 of C & W Assets at West Edinburgh Business Park has now reached completion with a good level of interest being shown by prospective tenants; there is interest in the remaining land at Roxhill Developments site at Newbridge; and speculative development is still being considered by Kames Capital at Bilston Glen in Loanhead.

One notable underpinning factor for development projects, related to the wider economic and housing market expansion, is the re-emergence of trade counter occupiers for better locations. This is placing upward pressure on lease durations and rent levels, most evidently by reducing tenant incentives. This in turn should give encouragement to developers to re-appraise dormant projects.

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

Address	Size	Occupier
Unit 12 South Gyle Crescent, South Gyle, Edinburgh	2,205 sq.m.	Network Rail
Unit 6 Newbridge Industrial Estate, Newbridge	5,400 sq.m.	William Tracey Group
4 Inchmuir Road, Whitehill Industrial Estate, Bathgate	18,993 sq.m.	West Lothian Council
Unit 7 Nettlehill Road, Houstoun Industrial Estate, Livingston	9,005 sq.m.	Yodel
Smeaton Road, Wester Gourdie, Industrial Estate, Dundee	1,064 sq.m.	DFS Trading Ltd

As noted in the office market commentary, **Aberdeen** has experienced a challenging six months due to the sharp decline in the oil price and cost restructuring among offshore companies. However, industrial take-up over six months totals 71,370 sq.m., a 76% increase on the previous period. The number of large transactions (1,858 sq.m.+) increased by 314% but the total number of deals concluded fell by 17% from 54 to 45. Take-up is down 52% in the smallest (0-464 sq.m.) size range but supply remains steady, due to a large proportion being obsolete stock that does not meet occupiers' needs.

In recent weeks, there has been an increase in demand in this size range as refurbished terraced stock comes to the market and these transactions are likely to be reflected in the take-up figures in the next Review.

Larger deals have taken place south of the city at Aberdeen Gateway Business Park, where Total E&P UK Limited took 18,080 sq.m. and Oil States Industries (UK) Ltd took 2,140 sq.m., and north of the city at ABZ Business Park in Dyce with ATR taking 1,500 sq.m. and Reel Group with 1,790 sq.m.

Supply of industrial floorspace in Aberdeen has increased slightly from 59,202 sq.m. to 63,242 sq.m. The number of properties on the market has fallen from 65 to 53. Supply is down by 92% in the 1,858 sq.m.+ size range which indicates the pace at which these larger buildings coming to the market are being taken by occupiers. Supply is down by 43% in the 464 – 928 sq.m. size range and by 28% in the 929 – 1,857 sq.m. range.

Rental levels in Aberdeen remain strong, with new-build rents rising to £97 per sq.m. for warehouse accommodation, £191 – £194 per sq.m. for offices and £19 – £21 per sq.m. for concrete yards. Lease lengths for new-build industrial stock remains at 15-20 years, however, it is anticipated that incentives will rise in the tougher market conditions created by lower oil prices and occupier cost-cutting. Secondary stock lease lengths remain at 5-10 years, although increasingly landlords are having to accept and offer more flexible lease terms in order to minimise or avoid rental voids.

Despite the tougher market conditions it is clear that the vast majority of occupiers still prefer more modern/new-build industrial stock as these properties better suit needs such as a higher eaves height, the capacity for overhead craneage and high specification offices. On the back of this, developers in Aberdeen are still undertaking speculative industrial projects, as indicated in the table on the next page.

Once again, a number of developers have significant industrial HQ design and build schemes under construction and announcements on these deals are expected shortly.

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

Address	Size	Occupier
Aberdeen Gateway Business Park, Aberdeen	18,080 sq.m.	Total E&P UK Limited
Aberdeen Gateway Business Park, Aberdeen	2,140 sq.m.	Oil States Industries (UK) Ltd
5A, ABZ Business Park, Dyce	1,500 sq.m.	ATR
5B, ABZ Business Park, Dyce	1,790 sq.m.	Reel Group

Speculative industrial developments in Aberdeen:

Development	Developer	Details
Unit 2 Wellheads Road, Dyce	MB Air Systems Ltd	Offices 420 sq.m. Warehouse 796 sq.m. Yard 20,493 sq.m.
Aberdeen Gateway Business Park, Cove	Muir Group	Offices 418 sq.m. Warehouse 929 sq.m. Yard 929 sq.m.
Unit H2, Aberdeen Energy Park, Claymore Avenue, Bridge of Don	Scottish Enterprise/Buccleuch Property	Offices 366 sq.m. Warehouse 1,122 sq.m. Yard 1,726 sq.m.
7A International Avenue, ABZ Business Park, Dyce	ABZ Developments Ltd	Offices 377 sq.m. Warehouse 1,150 sq.m. Mezzanine 376 sq.m. Yard 1,804 sq.m.
7B International Avenue, ABZ Business Park, Dyce	ABZ Developments Ltd	Offices 559 sq.m. Warehouse 1,131 sq.m. Yard 1,835 sq.m.
Unit 3, Kingshill Commercial Park, Westhill	Knight Property Group	Offices 511 sq.m. Warehouse 929 sq.m. Yard 1,200 sq.m.
Unit 4, Kingshill Commercial Park, Westhill	Knight Property Group	Offices 511 sq.m. Warehouse 929 sq.m. Yard 994 sq.m.
Plot 14B, Peterseat Park, Altens	Forbes Homes	Offices 626 sq.m. Warehouse 756 sq.m. Yard 2,450 sq.m.
Raiths Industrial Estate, Dyce	Gilcomston Investments Ltd & Bamma Properties Ltd	Offices 557 sq.m. Warehouse 1,189 sq.m. Yard 1,942 sq.m.

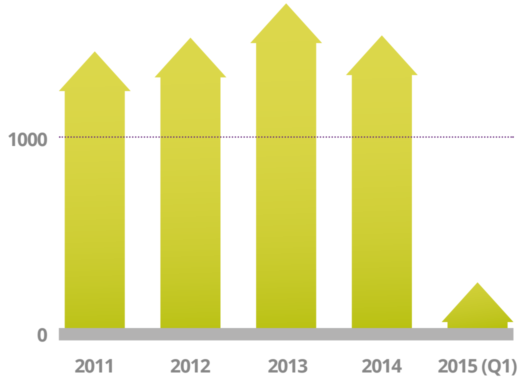
In **Dundee**, the industrial property market remains active, despite a limited supply of good quality modern available properties and a shortage of new industrial development sites. The majority of accommodation that remains available is much older stock which has been vacant for some time.

Transactions of note include: Unit 31 Faraday Street (748 sq.m.) let to HSS Hire on a new 10-year FRI lease; Unit 2 Blinshall Street (752 sq.m.) let to Fife Autocentre on a 15-year lease; Unit 2 Douglas Street (426 sq.m.) let to Easityre Ltd on a five-year term; and a warehouse on Smeaton Road (1,064 sq.m.) let to DFS Trading Ltd.

The industrial market also continues to be active within **Inverness**. There is currently 21,775 sq.m. of industrial space available comprising mainly older stock within the Longman and Carse Industrial Estates. There have been six industrial transactions in the last six months. There continues to be a shortage of land for industrial development and also a shortage of modern industrial space.

Transactions include: Magnet, kitchen specialists, with new build retail/trade counter space at Unit 2, Fresson Business Park, Stadium Road (743 sq.m.) at a rent equating to £101 per sq.m.; All Sewn Up at 42-42C Seafield Road (154 sq.m.) on a three-year lease, with an average rate of £119 per sq.m.; and Calman Trust at Unit 7A Henderson Road (159 sq.m.) on a 10-year lease at a rent of £75 per sq.m.

Number of industrial transactions in Scotland



Retail and Leisure

Scotland's economy continues to improve. High employment levels and the resumption of real growth in wages provide a positive context for the retail and leisure sectors. The main investment focus is upon the expansion and diversification of existing prime shopping centres.

However, in March 2015 total retail sales in Scotland decreased by 0.1% compared with March 2014, while like-for-like sales decreased by 1% over the same period. Food sales were up 0.5% on March 2014, the best performance since April 2014, (SRC/KPMG).

The aftermath of the recession and structural change in the retail industry continue to blight many locations. According to PwC, 2014 saw 312 store closures in Scotland and only 246 store openings, a net closure of 66 shops which is double that of 2013. There were various winners and losers over the period. B&M, Aldi, Lidl, Card Factory and the wider leisure, health and fitness and restaurant market are all in expansion mode. Notable market concerns include Bank Fashion with 84 planned closures, B&Q with 60 planned closures and BHS with some uncertainty over its plans across a large portfolio of stores.

In **Glasgow**, Buchanan Galleries has been re-named as Buchanan Quarter and is anticipating construction of the proposed 55,740 sq.m. extension to include retail, leisure and restaurant space. St Enoch Shopping Centre has heralded 16 deals since its acquisition by BlackRock under the guidance of Sovereign Land, with lettings including Pavers, West Coast, Rohan, No.1 Currency, Beautiful Nails Parlour, Mooboo and Ed's Easy Diner.

Silverburn has recently added restaurant occupiers to the Mall: Cosmo, TGI Friday's, Five Guys, PizzaExpress, Zizzi, Chimichanga, Patisserie Valerie and Pret a Manger. This is a recurring theme where established prime shopping centres are capitalising upon rising expenditure potential by diversifying into leisure uses and extending customer "dwell time".

In **East Kilbride** town centre, the new landlord Orion Capital Managers is similarly working hard to secure occupiers within the proposed 11 restaurants and leisure hub around the Olympia Mall. The new leisure development will open in Autumn 2016 offering a new ice rink, with lettings in place to Pure Gym, Frankie & Bennys and Chiquitos and a further five national restaurants under offer.

Edinburgh continues to show increased occupier activity within the George Street and Princes Street areas, and may well benefit from the impending relocation of occupiers to allow for the proposed re-development of the ageing St James Centre into the St James Quarter.

Recent activity in the city centre includes Yo! Sushi opening on an upper floor at 79 Princes Street and Vodafone opening in the former La Senza unit at 117 Princes Street. ESPC agreed a new 10-year lease at 107 George Street at a rental of £182,000 pa, and at 57 George Street lululemon athletica has taken on a lease at £342,240 pa which reflects a Zone A rate of £172.50 per sq.ft. Further demand for George Street is apparent with the recent closing date set for the former Barclays at 72 George Street, which is now reportedly under offer.

The owner of Ocean Terminal in Leith, Resolution Property, plans a £6 million investment and expansion programme. H & M will be relocating to a 2,044 sq.m. unit in Autumn 2015.

Dundee's £1billion Waterfront Regeneration Programme is catalytic for its city centre. At Wellgate Shopping Centre the landlord is working hard to attract restaurant operators to sit alongside The Light cinema which has agreed to take space within the Centre.

Dundee city centre continues to attract restaurant and licensed trade occupiers including 11-19 Union Street let to The Palais Tea Room (122 sq.m.) and Unit 80 Nethergate let to Aroma Beans Ltd (96 sq.m.). The Stack Leisure Park has welcomed another new tenant with Sports Direct planning a 2,787 sq.m. £5 million gym and retail outlet, a new concept which is the first of its kind in Scotland. At Kingsway East, discount retailer, B&M Homestore, has taken the former B&Q superstore (3,172 sq.m.).

Hammersons Union Square development in **Aberdeen** continues to be the most successful development within its portfolio in Scotland, with 19 restaurants and cafes, in excess of 50 shops and c. 1,700 car spaces, cinema and hotel. Union Square remains a strong contender for any restaurant operator with a requirement. North of Union Street, Bon Accord & St Nicholas Shopping Centre is progressing a proposed redevelopment to accommodate 5,388 sq.m. of leisure floorspace for an eight-screen cinema and restaurant units. JoJo Maman Bébé opened a store here in March 2015.

There continues to be an increase in activity in **Inverness**, where 55 Academy Street (55 sq.m.) has been let to Creative Skate Store. F&C has placed Eastgate Shopping Centre on the market after successfully securing planning consent for a proposed cinema and additional restaurant accommodation. It is anticipated that the Eastgate Centre will prove to be a popular leisure destination in its own right.

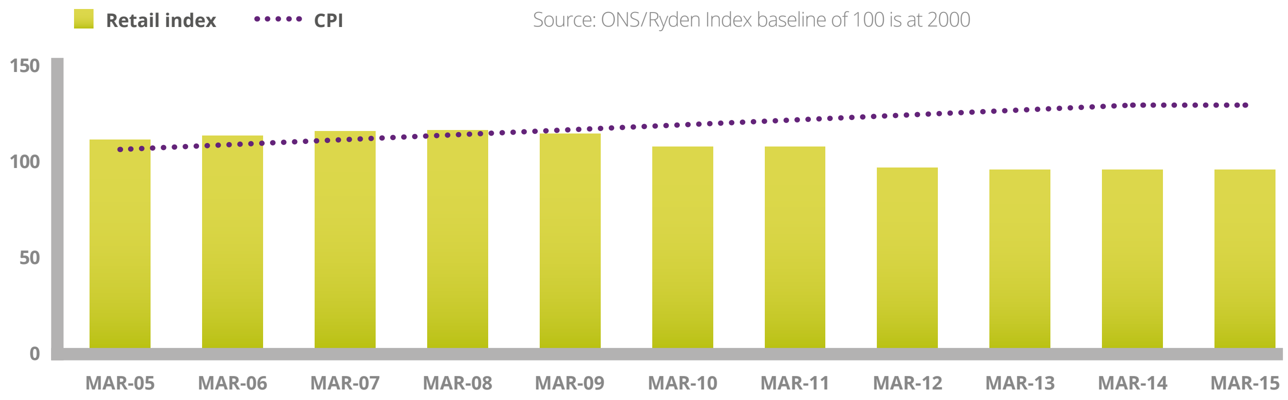
The retail warehouse sector is showing signs of life. In Kirkcaldy, the Next Lifestyle store opened at Fife Central Retail Park at the end of 2014. The new units at Halbeath Retail Park, Dunfermline are now occupied; Argos and Halfords opened during 2014, and further expansion is planned here. DFS has opened a furniture store at Heathfield Retail Park in Ayr. B&M took the final unit at Glasgow's Great Western Retail Park. March 2015 saw the opening of a seven-screen Odeon cinema and a Specsavers opticians at Fort Kinnaird in Edinburgh.

UK supermarket chains are continuing to experience challenging conditions. Tesco announced the closure of 43 stores across the UK, and dropped plans for 49 future store openings. In Scotland four stores have closed: Tesco superstore in Kirkcaldy, Tesco Metro in Grangemouth, Tesco Homeplus in Edinburgh and Tesco Express in Troon. Eight planned Tesco supermarkets – in Aviemore, Banff, Cowdenbeath, Crieff, East Kilbride, Fort William, Glasgow and an extension to the existing Cupar store – have been cancelled. Sainsbury's has also mothballed a number of planned new stores.

Meanwhile, convenience chains operated by these supermarket chains and their competitors are steadily increasing their market shares. Lidl plans at least three new stores in Scotland during 2015, and Aldi plans 60 new stores in the UK during 2015. Food retailers' expansion plans reflect the change in shoppers habits, from the dominance of weekly trips to large out-of-town supermarkets, to more frequent and complementary use of mid-sized and local stores.

The Ryden retail rent index (see chart), which measures prime rents in Scotland's top twenty shopping destinations, continues to mark time. However, four years of unchanged data masks complex underlying trends, including shifts in pitches (Princes Street falling relative to George Street in Edinburgh for example), net contractions in store numbers as retailers enter and depart the market, and diversification into leisure uses both on traditional High Streets and in shopping centres, the latter often requiring new development to accommodate expansion.

Retail rent index



Investment

The Scottish property investment market is making up for time lost during Scotland's Referendum process in 2014, when collective nerves over the prospect of Scottish Independence brought the market to a virtual standstill.

Market overview

With a No vote having eased the concerns of most investors, the cautious return to trading in Q4 2014 and start of 2015 has now gathered speed and a number of notable deals have recently completed or are in the process of doing so.

Interestingly, while the volume of transactions in 2014 overall and Q4 particularly were positive, for those on the ground the market felt patchy and this is corroborated by the detailed statistics. Total investment volume in 2014 was £3.5bn (Co Star), an increase of 81% on 2013. However as the Ryden Investment Tracker confirms, the overall number of deals fell slightly and the activity was weighted toward fewer, larger deals, often forming part of UK-wide portfolios.

Recent activity is broader based, as UK institutions have been particularly active and US equity providers team up with local partners to target asset realignment stock. The property company sector, with a handful of exceptions, remains generally focused on the smaller end of the market.

All Property Total Returns for Scottish property for the four quarters to December 2014 were recorded at 12.4%, a notable improvement on the December 2013 equivalent of 7.3% and reflected the return of capital growth at a rate of 5.9% (compared with 0.6% in 2013).

Office

Overall investment activity in the office sector was patchy in Scotland during the review period as investors took their time to fully digest the impact of the close vote to stay in the Union; periods of inactivity were interspersed with some notable and indeed record-breaking transactions.

During the last quarter of 2014, Aberdeen was again the most active city in Scotland, certainly in terms of transaction volume. Legal & General's £127 million acquisition of Aker's new 31,120 sq.m. UK HQ at Abstract's Aberdeen International Business Park was a milestone deal for the city and Scotland. The building, which is situated close to Aberdeen International Airport, is thought to be the country's largest ever single office building transaction. Aker, a Norwegian oil service company, signed a 20-year lease and the price reflected a net initial yield of 5.75%.

Elsewhere in Aberdeen, transactional activity in the £10 million to £20 million price bracket was brisk with several deals concluding during the review period. These deals, which are outlined in the table of transactions, cover a wide range of property types from a multi-let 1980s building, to the forward funding of a new Grade A building.

The turn of the year brought a more challenging market to Aberdeen as the plunging oil price at that time, coupled with an increasing pipeline of supply, started to influence demand for investment stock, particularly from the UK institutional sector. To date, very few properties have been brought openly to the market in 2015, therefore it is impossible to accurately gauge if the reduced demand has started to impact yields, although for long term secure stock a material change is not anticipated in the coming months. With some funds retreating for now, debt buyers taking advantage of favourable finance terms may well start to emerge as the successful bidders.

In Glasgow, there is very encouraging activity to report, with the highlights being Deutsche AWM's £70 million forward commitment purchase of BAM Properties' flagship development at 110 Queen Street and M&G Property Portfolio's £72.6 million acquisition of the Aurora building on Bothwell Street. 110 Queen Street is a 13,657 sq.m. Grade A development which has been part pre-let to Brodies and will also have retail units on the ground floor. The building will be sold upon completion, with the developer covering the rent over the vacant parts for a period of two years. The price reflects a net initial yield of 6.5%. The 16,397 sq.m. Aurora building was built in 2006 and is multi let with some high profile tenants including Barclays Bank and Aggreko. The price reflects a net initial yield of 6.18%.

The most significant office investment transaction in Edinburgh involved the sale of the iconic Scottish Widows HQ at Port Hamilton to private clients of HSBC. The 25,200 sq.m. building situated within the Exchange is leased to parent company Lloyds plc for 15 years with annual rental uplifts. The price paid at £105 million represented a net initial yield of 5.10%.

Although transactional activity within Edinburgh city centre has been otherwise limited over the review period, there is a widely held view the prime yield for city centre Edinburgh offices has improved to c. 5.5% There is certainly heightened interest in the market from a broad range of overseas and domestic, private and institutional investors.

Dundee has also attracted office investment activity in the notable sale of the 12,280 sq.m. NCR building on the Kingsway to ARC Real Estate/Moorpark Capital Partners for £11.1 million, reflecting a net initial yield of 7.88%. The lease pertaining to this landmark building was recently restructured to give a 12 year unexpired term, which paved the way for an off-market sale.

Investor demand for offices in Edinburgh and Glasgow is expected to increase during 2015 as the occupier markets in these cities strengthen further. In Aberdeen, demand for secure long term Grade A investment stock should be able to weather the challenging times in the local market, however short term stock will require to be attractively priced to reflect increased re-letting risk.

Based upon the IPD Quarterly Index, the Total Return for the sample of Scottish office properties to December 2014 was 13.7%, which compares favourably to the previous year where total returns were recorded at 7.8%. The change in capital growth and yield impact had the greatest effect.

Office property investment deals include:

Address	Property	Purchaser
Aurora, 120 Bothwell Street, Glasgow	16,397 sq.m Grade A multi-let office building tenants include Barclays, Knight Frank, and Aggreko Plc	M&G Property Portfolio for £72.6 million (6.18%)
151/155 St Vincent Street, Glasgow	6,838 sq.m. refurbished office building fully let to Skyscanner and Network Rail	Aberdeen Asset Management for £27.8 million (6.38%)
George House, 50 George Square, Glasgow	9,088 sq.m. multi-let office building, part vacant. Tenants include Network Rail and Anderson Strathern	Ardstone Capital for £22.5 million (5.9%)
110 Queen Street, Glasgow	Forward commitment of 13,657 sq.m. Grade A office building with retail on ground floor. Part pre-let. 2 years rent cover provided by the developer (BAM)	Deutsche AWM for £70 million (6.5%)
Rutland Court, Edinburgh	3,596 sq.m. with 18 car spaces. Let to Anderson Strathern until December 2023	Overseas investor for £14.75 million (6.67%)
Port Hamilton, Edinburgh	Single let to Lloyds Bank. Term certain of 15 years with 3% annual rental uplift	Private overseas investor for £105 million (5.1%)
Edinburgh Quay 2, Edinburgh	Multi-let and part vacant. 5,591 sq.m. with 75 car spaces. Tenants include Baker Tilly and Pinsent Masons	Client of Knight Frank IM. for £24.5 million (c. 6.88%)
Aker HQ, Aberdeen International Business Park, Aberdeen	31,122 sq.m. single-let office building to Aker	Legal & General for £127 million (5.75%)
Johnstone House, Rose Street, Aberdeen	4,866 sq.m. multi-let office building	Private Family Trust for £19.39 million (6.75%)
Ardent West, North Esplanade West, Aberdeen	4,426 sq.m. single-let office building	LaSalle Investment Management for £16.95 million (7.40%)
Kirkhill Business Park, Howe Moss Drive, Dyce	5,071 sq.m. multi-let office pavilions	Aviva for £10.35 million (6.8%)
NCR Building, Kingsway, Dundee	12,280 sq.m. single-let office building to NCR	ARC Real Estate/ Partners Moorpark Capital for £11.1 million (7.88%)

Industrial

As with the rest of the UK, the Scottish industrial investment market has experienced a surge in demand from a broad range of investors across the sector. With the continued weight of money focussing on the sector, prices are improving and investors have increasingly had to move up the risk curve, stimulating a recovery in pricing for secondary product.

Prime assets, either multi or single let, remain scarce and are hotly contested when brought to the market. Crucially, secondary stock is also now becoming increasingly difficult to acquire as pricing improves and it is clear there has been a step change in attitude towards the sector from investors.

The emergence of new funds targeting industrial stock will add to demand. As a result, strong growth can be anticipated in the coming 12-18 month period. The lack of development and slow removal of obsolete stock for redevelopment – often for residential – will see the problem exacerbated and buyers will have to consider forward funding options to enjoy a meaningful return from the sector. However, given funding yields and with rental growth anticipated, against a backdrop of diminished supply, this could provide less risk for investors than they might imagine.

Pricing for prime multi-let estates remains strong, with yields generally reducing to 6.75% – 7.25% although there are some individual deals – such as Prestonfield Park in Edinburgh and Hareness Park, Aberdeen – where this threshold has been broken. These good larger estates attracted strong interest from funds resulting in yields in the low 6%'s. Single-let industrial investments continue to attract solid demand and pricing has remained steady at around 6% for leases providing strong income.

Based upon the IPD index, total returns in 2014 for Scottish industrials were 17.9%. This was below the UK's 23.3% due to the southern focus of market activity over the past two years, but there is a strong possibility that this position is reversing.

Industrial property investment deals include:

Address	Property	Purchaser
Southpoint, Dixon Blazes, Glasgow	12,900 sq.m. secondary multi-let estate of 6 units. WAULT of 3.6 years to breaks	LC Industries for £4.14 million (8.7%)
55 Westburn Drive, Clydesmill Industrial Estate, Cambuslang	1,910 sq.m. high quality modern industrial unit let to Brenntag UK Ltd on FRI terms until April 2021. Fixed uplift in April 2016 to 2.5% pa compounded	Custodian REIT plc for £2.138 million (8.75%)
NHS Laundry, Excelsior Park, Wishaw	3,295 sq.m. modern single-let unit to The Scottish Ministers with c. 10 years unexpired at a topped up passing rent of £411,133 pa. Rent subject to 2.6% annual uplifts	Kames for £5.03 million (7.73%)
Prestonfield Park, Edinburgh	Multi-let industrial estate of c. 9,100 sq.m. WAULT of 6.64 years to expiry (4.82 years to breaks). Tenants include City of Edinburgh Council and City Electrical Factors	Aviva for c. £9.6 million (6%)
Plot C, Newbridge One Industrial Estate, Edinburgh	Forward commitment to purchase c. 5,574.18 sq.m. unit let to GeoPost UK Ltd	AXA Real Estate for c. £8 million (5.74%)
Hareness Park, Hareness Circle, Altens	10,668 sq.m. multi-let industrial estate	Aberdeen Asset Management for £14.04 million (6.25%)
Broadfold Road, Bridge of Don	5,111 sq.m. comprising three industrial units	W.P. Carey Inc. for £4.57 million (9.24%)
Badentoy Crescent, Badentoy Park, Portlethen	1,421 sq.m. single let industrial unit	Private investor for £2.35 million (6.84%)
3 International View, ABZ Business Park, Dyce	1,574 sq.m. single let industrial unit	Private investor for £4.1 million (5.83%)

Retail

Investor appetite across the retail property sector has improved markedly and in certain sub-sectors market activity has increased significantly. The more positive consumer outlook allied to a gentle improvement in occupational demand may have aided the recovery, however the principal driver has been the sheer weight of money seeking a suitable asset.

The retail sector has offered an opportunity to diversify and place significant monies into a area that has provided an attractive return relative to other sectors and asset classes. Institutional and overseas investors have been busy acquiring prime, well-secured stock. Specialist funds and opportunity fund-backed asset managers have actively sought dominant shopping centres, and property companies with an appetite for active management have pursued secondary parades and centres, supported by the availability of bank debt.

The retail warehouse sector presently appears to be the least favoured of the retail sub sectors, however there are signs that this is changing and the spotlight will shift to embrace this area of the market also.

Significant ongoing retail investment sales activity includes three shopping malls: Gyle Shopping Centre in Edinburgh, The Centre in Livingston and Eastgate Centre in Inverness.

The continued improvement in the retail sector is borne out by the IPD Quarterly Index, where in the four quarters to December 2014 Scottish retail property recorded a total return of 10.6% (to December 2013: 6.2%). The principal drivers behind the sector's performance were yield improvement and income return, however rental value growth also registered as a positive.

Retail and leisure property investment deals include:

Address	Property	Purchaser
40 Stockwell Street, Glasgow	2,608 sq.m. flagship retail store let to Argos on FRI terms expiring December 2018 at a passing rent of £359,000 pa	Private investor for c. £3.48 million (9.75%)
Sauchiehall Shopping Centre, Glasgow	18,116 sq.m. retail and leisure space. Tenants include WHSmith, Superdrug, Primark, Q-Park and Pure Gym	KKR for £46.5 million (7.7%)
57-61 St Vincent Street, Glasgow	402 sq.m. restaurant to Five Guys on a lease expiring May 2041 at a passing rent of £175,000 pa with stepped increase to £220,000 pa in December 2016	F&C for £3.325 million (4.97%) (Reversionary yield of 6.25% in December 2016)
120 Princes Street, Edinburgh	Leased to Currys/PC World and Starbucks with WAULT of c. 5.28 years	Fidelity UK Real Estate fund for £9.5 million (5.7%)
109-112 Princes Street, Edinburgh	Flagship retail store let to Debenhams expiring November 2054	Private purchaser for c. £25.5 million (c. 4.75%)
Retail Portfolio: Whitehouse Road, Barnton; Moray Way North, Dalgety Bay; and Market Place, North Berwick	Three multi-let neighbourhood retail parades, predominantly let to local operators	Private investor c. £2.6 million (c. 10%)
Malmaison Hotel, Queen's Road, Aberdeen	High quality boutique hotel with 80 rooms	Aberdeen Asset Management for £21.81 million (5%)

Outlook

Scottish property investment currently looks very attractive to those investors who have re-entered and to those who are targeting or simply contemplating the market.

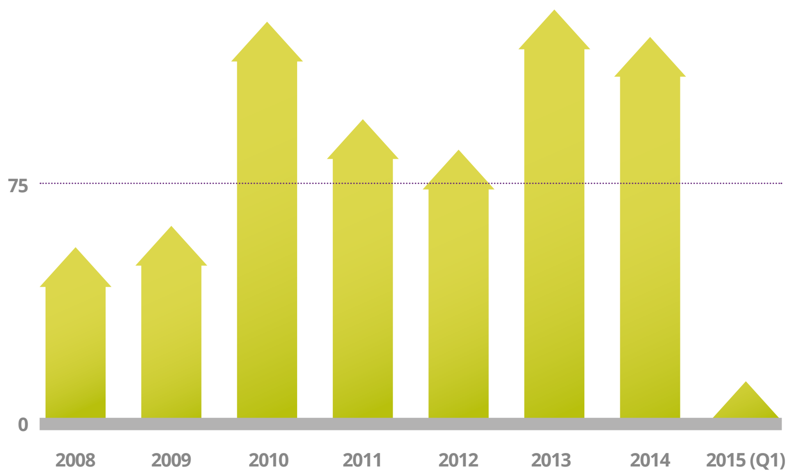
Strong occupier performance and a lack of recent speculative development in the office and industrial sectors make current prime and good secondary yields look highly attractive in comparison to equivalent English locations, driving strong yield compression at the prime end of the market. Activity in the industrial sector will be deal-led rather than geographically focused, but, given the overall market balance, greatest demand for these assets is anticipated in and around Glasgow, Edinburgh and the M8 corridor. The secondary market is expected to follow in terms of yield compression, albeit perhaps not to the same extent as the prime market.

The market for alternative and leisure sectors has also expanded, and it is only in the High Street retail and retail warehouse sectors where demand remains selective.

The introduction of the new Land and Buildings Transaction Tax on 1st April did not spur too many transactions to be rushed through to take advantage of the previous rates, although the Aurora office deal in Glasgow was one exception to this.

Investment tracker:

Number of transactions over £1million in Scotland



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