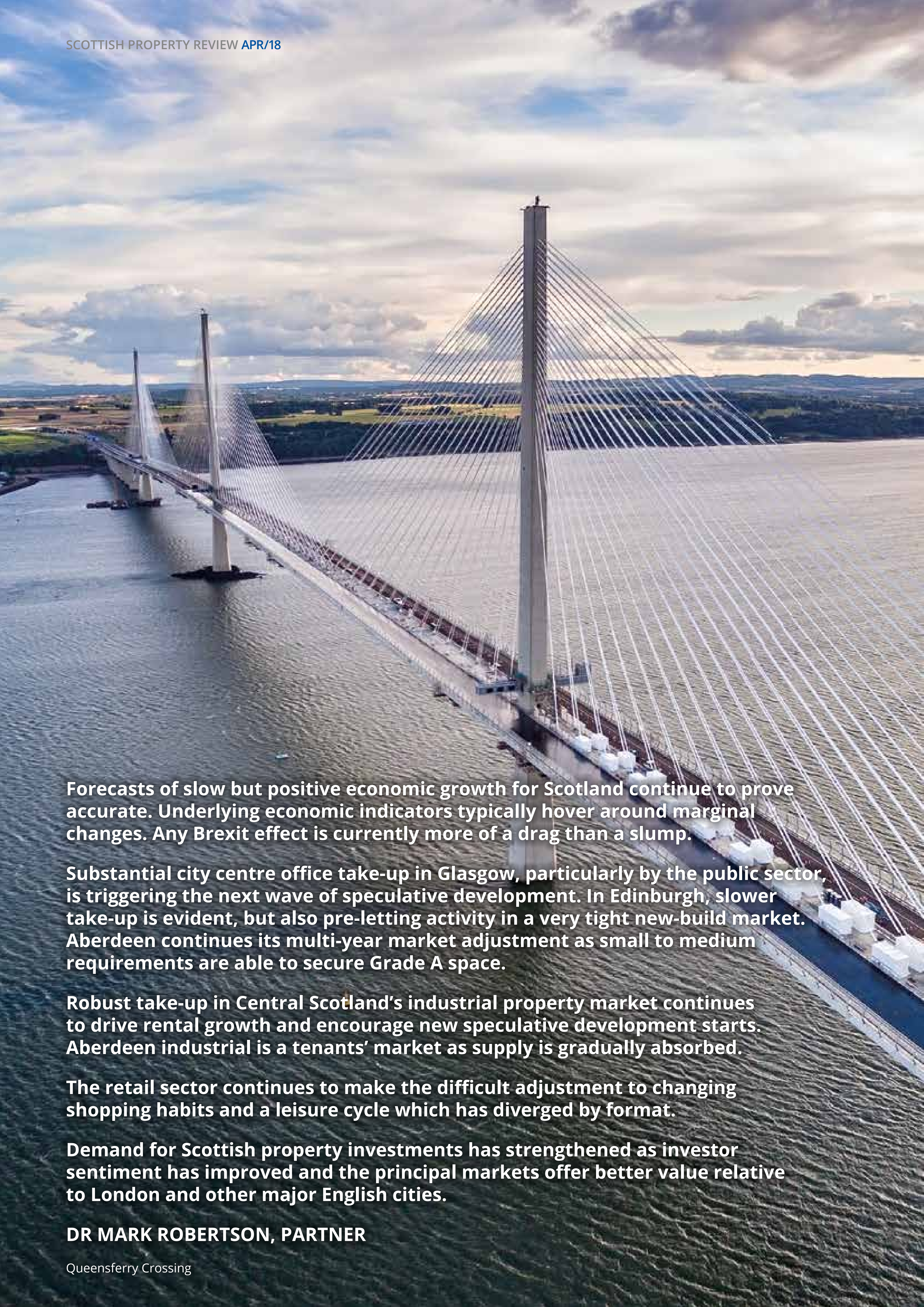
Ryden

82nd Scottish Property Review

APR/18



Forecasts of slow but positive economic growth for Scotland continue to prove accurate. Underlying economic indicators typically hover around marginal changes. Any Brexit effect is currently more of a drag than a slump.

Substantial city centre office take-up in Glasgow, particularly by the public sector, is triggering the next wave of speculative development. In Edinburgh, slower take-up is evident, but also pre-letting activity in a very tight new-build market. Aberdeen continues its multi-year market adjustment as small to medium requirements are able to secure Grade A space.

Robust take-up in Central Scotland's industrial property market continues to drive rental growth and encourage new speculative development starts. Aberdeen industrial is a tenants' market as supply is gradually absorbed.

The retail sector continues to make the difficult adjustment to changing shopping habits and a leisure cycle which has diverged by format.

Demand for Scottish property investments has strengthened as investor sentiment has improved and the principal markets offer better value relative to London and other major English cities.

DR MARK ROBERTSON, PARTNER

Queensferry Crossing

Economy

During the fourth quarter of 2017 Scotland's economy grew by 0.3%, following growth of 0.2% in the third quarter of the year. The services sector grew by 0.5% and the production sector grew by 0.9%, however construction sector output contracted by 2.6%. On an annual basis the Scottish economy grew by 0.8%. This is lower than the 1.8% growth reported for the UK during 2017.

The Bank of Scotland's Purchasing Manager Index for March 2018 showed an increase in Scottish private sector business activity, with a rise from 49.5 in February to sit at 50.8 in March (a score of 50 would suggest an economy which is neither growing nor contracting). This marginal improvement marks the strongest rise in private sector activity since October 2017.

Scottish unemployment for the three months December 2017 to February 2018 grew by 3,000 to stand at 115,000. This is equivalent to an unemployment rate of 4.2%, the same rate as recorded for the UK as a whole. Notable new job creations (see 'Job gains' table) include construction, telecoms and business services. Notable job losses are recorded in retail, the public sector, and oil and gas.

According to the Insolvency Service there were an estimated 223 company insolvencies in Scotland in the fourth quarter of 2017; this was down by 2.6% compared with the same period of 2016. During 2017 as a whole an estimated 844 company insolvencies were recorded, which is substantially (18%) lower than in 2016.

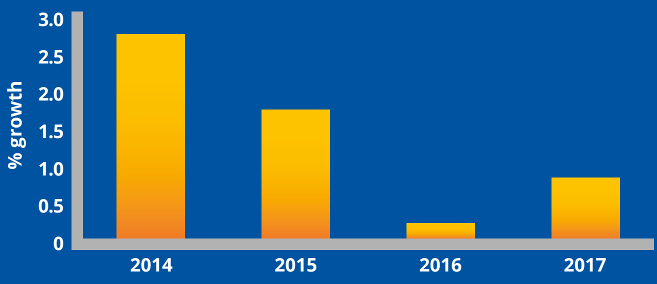
The Scottish Government's Retail Sales Index for Scotland reports that sales were flat during the fourth quarter of 2017, however over the year the volume of retail sales grew by 1.7%. This is higher than the 1% recorded in Great Britain over the same 12-month period. More recent data from the Scottish Retail Consortium states total retail sales grew by 0.8% over the 12-months to March 2018.

The Department for Business, Energy & Industrial Strategy reports indigenous production of crude oil was broadly stable, at only 0.2% lower in the fourth quarter of 2017 compared with the same period in 2016. Further comment on the offshore industry is provided in the Aberdeen market reviews on pages 6 and 11.

The comparison of independent forecasts for the UK economy published by HM Treasury in March 2018 anticipates 1.6% growth across the UK economy for 2018, dipping slightly to 1.5% in 2019. In the Economic and fiscal outlook published in March 2018 by The Office for Budget Responsibility, economic growth of 1.5% is forecast for the UK for 2018.

For Scotland, Fraser of Allander Institute's central forecast, also published in March 2018, is for growth of 1.2% in 2018 followed by an improvement to 1.4% economic expansion in each of 2019 and 2020.

Scottish Economic Growth (year-on-year)



Source: Scottish Government.

Job gains:

Company	Sector	Location	Jobs
Co-op	Convenience retail	Scotland	275
Barratt Developments	Construction	Scotland	100
Openreach	Telecoms	Scotland	400
Serica Energy	Oil and Gas	Aberdeen	40
Aggreko	Energy	Dumbarton	23
UBS Wealth Management	Finance	Edinburgh	30
Persuit Marketing	Telemarketing	Glasgow	75
Previse	Fintech	Glasgow	37
SThree	Recruitment	Glasgow	300
Radisson Red	Hotel	Glasgow	80
Systal Technology Solutions	IT	Robroyston	30
Spark Energy	Contact centre	Selkirk	100

Job losses:

Company	Sector	Location	Jobs
Royal Bank of Scotland	Finance	Scotland	158
Toys R Us	Retail	Scotland	800
Maplin	Retail	Scotland	177
Palmer & Harvey	Wholesaler	Scotland	150
Marine Harvest	Food production	Scotland	34
Aberdeen City Council	Public Sector	Aberdeen	370
Total	Oil and Gas	Aberdeen	250
Petrofac	Oil and Gas	Aberdeen	90
T.O.M Group	Vehicle hire	Airdrie	342
2 Sisters	Food production	Cambuslang	450
James Callander & Son	Timber	Falkirk	89
Murray & Murray	Manufacturing	Glenrothes	40
Babcock	Engineering	Rosyth	400
West Lothian Council	Public Sector	West Lothian	150

Planning

The Planning (Scotland) Bill was introduced to the Scottish Parliament by the Cabinet Secretary for Communities, Social Security and Equalities, on 4 December 2017. The Bill is currently at Stage 1 of what is a 3-stage process.

The Scottish Government has widely promoted the Bill as a root and branch review and a once in a lifetime opportunity for reform. More than a decade ago similar claims were made for the reform promoted by a previous administration. The claims were overstated then. This is likely to be the case again. The detail in the Bill is limited. Principles are set out. Detailed implementation will be contained within future secondary legislation.

Delivery of the planning service in local authorities remains largely a regulatory function of control. The quality of the service delivery is significantly affected by resourcing. The increase in planning application fees was not ring fenced and has therefore had patchy results in providing direct investment in planning services. Planning remains a key part of delivering and capturing economic development and investment, and any return to more closely aligned economic development and planning functions within local authorities would be welcomed.

It is likely that the development plans will, in the future, now have a 10-year life cycle and that a standardised policy approach will migrate upwards to the National Planning Framework. Development plans will largely focus on land to be allocated for development, principally for housing.

Early engagement with the development plan process at the call for sites or bidding stage will thus become more important than ever.

Third party rights of appeal remain a focus of interest during the call for evidence stage of the Bill, additional information from City of Edinburgh Council (CEC) was requested regarding their suggested approach to 'limited equal rights of appeal'. CEC has been exploring ways of 'improving public confidence in the planning process' and in particular where expanded rights of appeal could be applied to major developments. CEC envisages a procedural challenge rather than one to the principle of development where it accords with the development plan, which could be initiated by the same defined groups who could prepare place plans i.e. a community controlled body.

The prospect of third party rights of appeal has never really left the planning reform agenda. Given the clear emphasis for community empowerment within the current reforms, including the opportunity for communities to prepare Local Place Plans, it is likely that the debate on third party rights, and potential charges for an appeal, will continue.

Delivery of infrastructure through developer contributions also continues to ignite debate. It is an issue with which the planning system has struggled. Some authorities have sought to capture value in a 'one pot' approach. But this is based upon local policy that does not meet the terms of Scottish Government guidance on contributions requiring to be related to the impact of a particular development, and such contributions being commensurate in scale and kind to mitigate the impacts of a particular development proposal.

The Supreme Court ruling on Chapelton of Elsick found against a 'one pot' approach in Aberdeen and Aberdeenshire. Other authorities (Edinburgh and Fife) have recently been informed that they need to re-consult fully on proposed Supplementary Guidance on developer contributions.

An infrastructure levy is under consideration as an alternative. This would be the subject of secondary legislation and could include provisions preventing the grant of planning permission until the levy has been paid.

Current development proposals in the planning system reflect market activity and variations across the main urban areas. Primary focus has been in key sectors of mixed use brownfield/regeneration projects particularly pre-let/sold hotels and student housing. Residential including PRS (private rented sector/build to rent housing) and hybrid proposals for serviced apartments/aparthotels are blurring the lines between use classes and policy application.

Greenfield release for housing remains a key area of activity and major decisions are still awaited for land release in West Edinburgh following Scottish Government Reporters rejecting proposed allocations in the last Local Development Plan review in 2016.

The Court of Session Decision in relation to Clydeplan issued in March 2018 dismissed an appeal by Gladman Developments Ltd. This was on the issue of the plan simply repeating the land allocations of the previous plan and in the Appellant's view failing to apply the terms of Scottish Planning Policy (SPP). The judgement confirms that SPP is an expression of general principles and not interpreted as if it were statute, and there was no departure from the policy principle to provide an adequate housing supply.

Offices

The completion of the large Government office deals in **Glasgow** at 1 and 3 Atlantic Quay; Department for Work and Pensions 7,854 sq.m. and Scottish Courts and Tribunals Service 7,479 sq.m. respectively, along with the GPU/HMRC pre-let of BAM Properties/Taylor Clark's 1 Atlantic Square (17,392 sq.m.) provide the headlines over the last six month period. Further Government letting activity is anticipated for several other departments including the new Social Security Agency, over the coming months.

While Government activity has been dominant, the private sector has also contributed. Notable lettings include JP Morgan at 141 Bothwell Street (1,902 sq.m.) and Zurich Insurance at St Vincent Plaza (1,600 sq.m.), along with a reasonable spread of lettings to indigenous professional firms and business service companies such as Incremental Group at The Garment Factory (776 sq.m.), Currie & Brown at 150 St Vincent Street (793 sq.m.), COWI at 310 St Vincent Street (649 sq.m.) and Succession Wealth at Finlay House, West Nile Street (825 sq.m.). This activity has produced city centre take-up over the last six months to end February of 33,045 sq.m. This excludes the GPU/HMRC pre-let which falls outwith our statistics period. Combined with the previous period, this provides a 12-month Glasgow city centre total take-up of 65,287 sq.m.

Increasing activity by specialist business centre operators is a feature throughout the major UK cities and Glasgow has attracted its share. Orega is taking c. 1,950 sq.m. at Epic's 9 George Square and Regus is known to be looking at expanding its operations in the city.

Office activity on the city centre periphery has been relatively quiet over the period. Take-up has however been bolstered by owner occupier purchases at 138 Hydepark Street by Structured House Group and The Octagon, Baird Street by Careys Group. Peripheral lettings include: 1,049 sq.m. to Webhelp and Alexandra Childcare at City Park; 1,454 sq.m. to Stream Technologies, Norr Consultants, Startline Motor Finance and McCann Complete Medical at Skypark; Rock Sport Media (169 sq.m.) and PMGC Technology (101 sq.m.) at Academy Park; Tissue Solutions at West of Scotland Science Park (219 sq.m.); Kerry UK Logistics at Centura Court, Hillington (188 sq.m.); Clark Gillone at Finnieston Business Park (310 sq.m.); and lettings at 133 Finnieston Street to Serial Affinity (210 sq.m.), Prevailing Analytics (315 sq.m.) and Alpha Office Furniture (373 sq.m.). These all help push the periphery total take-up to 9,504 sq.m. The small suite sector was also relatively active at The Whisky Bond, Templeton on the Green and Red Tree Bridgeton.

City centre and peripheral activity provided a combined city wide office take-up of 42,549 sq.m. over six months and 82,534 sq.m. over the 12-month period. Government activity over the period resulted in take-up being ahead of the long term average.

The burst of larger building take-up, while good news, has substantially reduced availability of large scale options. This has put the spotlight on what is now a critical shortage of speculative new build Grade A offices. New build supply is limited to space at St Vincent Plaza (2,497 sq.m.) and 1 West Regent Street (3,097 sq.m.).

Refurbishments at NFU Mutual's 191 West George Street (7,661 sq.m.), Aviva's 123 St Vincent Street (8,467 sq.m.), TH Real Estate's 95 Bothwell Street (4,309 sq.m.) and Praxis's 310 St Vincent Street (5,937 sq.m.) offer high quality alternative options for occupiers. Along with other refurbishments, these are well placed to benefit while awaiting the next cycle of speculative new build development.

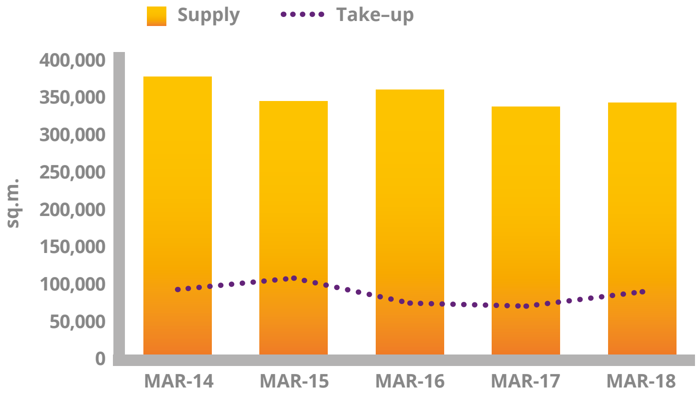
That cycle is now emerging, FORE Partnership are now on site with Cadworks, 20 Cadogan Street (8,825 sq.m.) with completion due in 2020; BAM Properties/Taylor Clark will speculatively develop 2 Atlantic Square (8,361 sq.m.) to tie in with their adjacent pre-let development for GPU/HMRC and HFD Group is understood to be committed to new build at 177 Bothwell Street (26,477 sq.m.). Confirmation is awaited for others such as M & G Real Estate's 33 Cadogan Street (25,548 sq.m.), Formal Investment's former BHS store on Bath Street (12,077 sq.m.) and Whiteburn Projects The Still, Waterloo Street (9,290 sq.m.).

In the circumstances, there is potential for further pre-let activity following the example of Morgan Stanley who take occupancy of their new 14,400 sq.m. building over the next few weeks and GPU/HMRC at Atlantic Square.

The recent city centre letting activity has to an extent been balanced by the addition of the refurbishments noted above, along with the release of second hand space. As such, city centre supply has remained relatively static at 214,218 sq.m. with overall supply down by c. 5% to 332,731 sq.m.

There is an increasing awareness of the importance of staff wellbeing and environmental sustainability which companies are addressing to compete effectively in attracting and retaining staff. Clyde Gateway and Highbridge Properties are embracing this in their development proposals for Magenta Urban Office Park located a short distance to the south east of Glasgow city centre. Red Tree Magenta (2,600 sq.m.), providing business suites and collaboration space, will open in June 2018 and is already attracting early occupier interest.

Glasgow office supply and take-up



Activity in Glasgow's out-of-town office market has been limited to relatively small scale lettings. The most notable have been at Maxim Office Park where lettings have been secured to Ricoh (415 sq.m.), Wills Bros (433 sq.m.) and Lamellar Biomedical (312 sq.m.).

In East Kilbride, Aventas Global Outsourcing took 600 sq.m. at Westpoint House and Traveltek took 202 sq.m. at Orbital Court, Peel Park. SCTS leased 281 sq.m. at Brandon Gate and Made in Scotland took 382 sq.m. at Princes Gate, Hamilton. To the west, P2ML took 454 sq.m. at Blair Court, Clydebank Business Park.

Prime headline Glasgow city centre office rents remain at £306-£323 per sq.m. but are expected to rise over the coming development cycle. Best quality larger floorplate refurbishments are also likely to benefit by way of increase from their current level £231-£280 per sq.m. There remains a range of smaller suite refurbishment options where deals are very competitive at rents of £178-£226 per sq.m. with attractive incentive packages.

Edinburgh's office market delivered 30,108 sq.m. of take-up in 87 deals during the six months to March 2018. This resulted in 71,945 sq.m. of total take-up for the 12-months to March 2018 which is a 17% decrease compared with the same six month period in 2017.

Edinburgh city centre saw 21,779 sq.m. transacted, representing just over 72% of total take-up across the city. Grade A and high quality accommodation accounted for 13,307 sq.m. or 61% of city centre office take-up during the six month period.

Only three deals in excess of 929 sq.m. were recorded in the city centre: a pre-let to Computershare at Four North, St Andrew Square (3,846 sq.m.); and Regus' co-working brand, Spaces at 1 Lochrin Square (2,760 sq.m.) and SWECO at Edinburgh Quay 2 (1,316 sq.m.), both Fountainbridge.

Other notable city centre deals included: Clearwater Analytics (744 sq.m.) and Marks & Clerk (401 sq.m.) at 40 Torphichen Street; Cirrus Logic's expansion into the ground floor of 3 Quartermile (684 sq.m.) bringing their total occupation to 7,187 sq.m.; and DEM Solutions Ltd at 1 Rutland Court (533 sq.m.). In the south of the city centre, Tanfield let office space to GE Grid Solutions (630 sq.m.) and Blackcircles (710 sq.m.), bringing this multi-let 17,652 sq.m. building up to 100% occupancy.

Prime rents for existing Grade A accommodation in Edinburgh city centre remain around £323 per sq.m. rising up to £355 per sq.m. for pre-letting activity on best new-build space. Incentives have reduced to around 15-18 months for a 10-year lease commitment to the highest quality covenant, as a result of constrained supply of best in class office space.

Edinburgh's peripheral office markets transacted a total of 8,329 sq.m. across 24 deals over the last six month period. This represented a 40% decrease in activity (floorspace taken-up) compared with the same period in 2017.

West Edinburgh saw a total of 5,376 sq.m. transacted across 10 deals including: serviced office provider Instant Offices leasing 2,189 sq.m. at Cornerstone on South Gyle Business Park to Prudential; and Renishaw Plc taking space at Young House, Discovery Terrace on Heriot-Watt Research Park (895 sq.m.). Prime rents in West Edinburgh remain up to £172 per sq.m. for refurbished options in the South Gyle area, rising to £215 per sq.m. on Edinburgh Park.

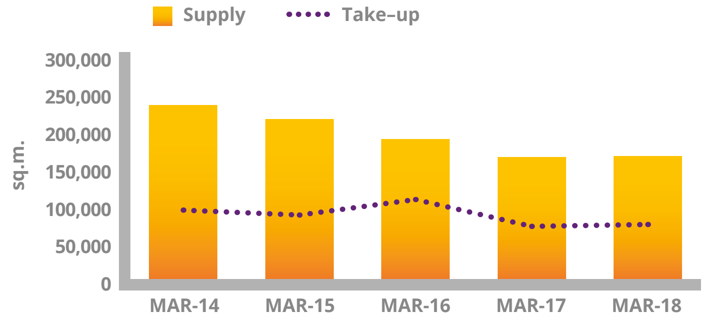
At the time of writing CEG had concluded on the purchase of The Stones in West Edinburgh from Edinburgh Napier University at a price in excess of £8.1 million.

In North Edinburgh, a total of 2,003 sq.m. transacted across 8 deals including: Lyles Sutherland at Great Michael House (287 sq.m.) and Studio Something at St Ninian's Manse (268 sq.m.). Prime rents in North Edinburgh remain up to £150 per sq.m. although there remains a limited supply of quality stock and the general tone for the area is closer to £130 per sq.m.

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

Address	Size	Occupier
1 Atlantic Square	17,392 sq.m.	Pre-let GPU/HMRC
1 Atlantic Quay	7,854 sq.m.	Department for Work and Pensions
3 Atlantic Quay	7,479 sq.m.	Scottish Courts & Tribunals
141 Bothwell Street	1,903 sq.m.	JP Morgan
St Vincent Plaza	1,560 sq.m.	Zurich Insurance
City Park, Alexandra Parade	1,058 sq.m.	Webhelp

Edinburgh office supply and take-up



Total office supply across Edinburgh at March 2018 was 162,516 sq.m. Despite this 13% increase in supply, largely due to grey space being released, the top end of the market continues to be squeezed. Only five properties offering self-contained office suites above 1,393 sq.m. are available within the city centre.

Very few larger options exist, with 525 Ferry Road (10,219 sq.m.) in the north of the city currently the single largest opportunity available. Other significant opportunities include the Royal Bank of Scotland offices on Dundas Street – which may be more likely to be part of a mixed residential/commercial redevelopment – and the Younger Building on Redheughs Avenue, South Gyle which offers 8,349 sq.m.

Grade A office supply remains extremely tight and active pre-letting will take out speculative developments. Chris Stewart Group's The Mint Building, 42 St Andrew Square (5,574 sq.m.), already has strong pre-letting interest. BAM Properties/Hermes Investment Management's Capital Square (11,334 sq.m.) with projected completion early 2020 again has significant pre-letting interest. GSS Development at 2 Semple Street (3,497 sq.m.) is also on-site to deliver much needed self-contained office space or floor-by-floor options ready for occupation in 2019.

A number of smaller refurbishments have completed and are attracting occupiers (232 – 465 sq.m.) This active sector of the market also increasingly lacks good quality options. Larger refurbishments include 1 Lochrin Square with continued letting success following Ctrip and 40 Torphichen Street having 2,967 sq.m. remaining within a maximum of seven available suites.

The major office development news in Edinburgh city centre is site owner Interserve shortlisting purchasers for The Haymarket site. While the disposal process may delay building availability, this development prospect will deliver Edinburgh's next landmark office space and should be available to capture the significant lease events of 2022/2023.

Returning to West Edinburgh, Grade A new build opportunities are also very limited, albeit a number of refurbishment options exist for prospective occupiers. The next phase of Edinburgh Park by Parabola will offer an initial phase of 6,503 sq.m. alongside improved leisure opportunities and residential use close to the tramline and the Edinburgh Park and Gateway rail stations.

Sentiment in the **Aberdeen** oil and gas industry is generally improving as the price of Brent Crude stabilises at around $70 per barrel. This confidence has arisen from both the commodity price and production levels. Together with the cost cutting measures previously put in place, this has led to increased revenues for many operators in the UK Continental Shelf. Optimism is slowly filtering through the supply chain, with some service companies reporting increased levels of demand for proposed projects – mainly tied into operational and production-led contracts rather than new assets. The offshore sector has also seen an increase in the corporate transactional market with companies like Ineos, Neptune Energy, Serica Energy and Enquest all increasing their presence in the North Sea.

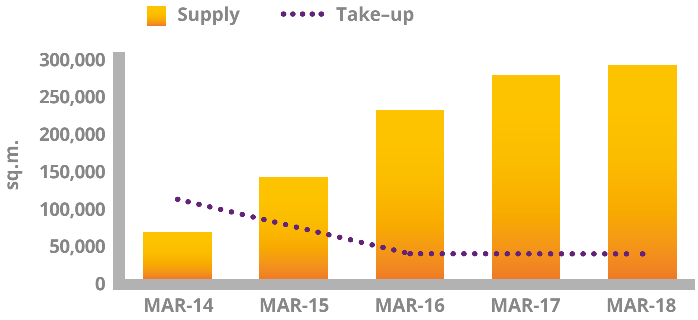
Despite this increased optimism, uncertain times are still being experienced with regard to commercial property in Aberdeen. Office supply is still fluctuating, with current figures showing a slight increase of 1.2% from the previous six months to just over 280,400 sq.m. of availability. As anticipated though, the level of Grade A supply is down by c. 4,520 sq.m. Additionally, at least a further 5,420 sq.m. of Grade A accommodation is under offer at the time of writing.

This confirms that Aberdeen's occupiers are still seeing a benefit in occupying modern, high quality Grade A offices that are more efficient in layout as well as operational costs, rather than remaining in poorer quality secondary accommodation.

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

Address	Size	Occupier
Four North, St Andrew Square	3,846 sq.m.	Pre-let Computershare
1 Lochrin Square, Fountainbridge	2,760 sq.m.	Spaces
Edinburgh Quay 2, Fountainbridge	1,316 sq.m.	SWECO
Tanfield	710 sq.m.	Blackcircles
	630 sq.m.	GE Grid Solutions
Cornerstone, South Gyle Business Park	2,189 sq.m.	Instant Offices
40 Torphichen Street	744 sq.m.	Clearwater Analytics
	401 sq.m.	Marks & Clerk

Aberdeen office supply and take-up



This positive attitude towards Grade A offices has also been driven by market rents and overall pricing, which have eased via the increased incentive packages currently on offer.

Take-up of offices in Aberdeen has reduced slightly during the last six months. This is usually accounted for during the fourth quarter where take-up is historically lower. Total take-up for the last six months equates to 15,330 sq.m. in 44 transactions, giving an annual take-up figure of 32,920 sq.m.

Recent transactions include Grade A lettings to Aberdeen Journals at 1 Marischal Square (1,765 sq.m.) and Acumen Financial Planning at City South Business Park (780 sq.m.). Further lettings across the city include TauRx Pharmaceuticals at 395 King Street (1,150 sq.m.); Anasuria Operating Company at Caledonian House, Union Street (815 sq.m.); and Department of Work and Pensions at Ebury House, Dee Street (1,130 sq.m.).

The average size of transaction in Aberdeen is stabilising in the 232 – 464 sq.m. range. Consequently, landlords at new build city centre office developments, The Capitol, The Silver Fin, Marischal Square and at Union Plaza are each looking to pro-actively provide suite sizes to accommodate these 'sweet spot' requirements.

Headline office rents in Aberdeen city centre have now stabilised at around £323 per sq.m. for new build Grade A properties, however incentives have increased in the last 6-12 months. Although increased incentives are assisting take-up, the inherent demand is still low against the backdrop of a high level of supply. This outlook is not expected to change in the short term. As alternative uses for obsolete office properties erodes supply and take-up of Grade A stock continues, it is anticipated however, that incentives can gradually normalise.

Prime city office rents 2018 (£ per sq.m.)

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

Address	Size	Occupier
1 Marischal Square	1,765 sq.m.	Aberdeen Journals
395 King Street	1,150 sq.m.	TauRx Pharmaceuticals
Ebury House, Dee Street	1,130 sq.m.	Department of Work and Pensions

Industrial

The industrial property market in the **West of Scotland** remains positive, but complicated. Demand has been strengthening since late 2012 and there is a limited supply in most sub-markets. Rents are rising and the development market is beginning to respond with a number of active projects. Demand is particularly strong below 929 sq.m., but not uniformly so, and in the last six months there has been a disappointing number of active requirements for prime units in the 1,858 – 4,645 sq.m. sizeband. The market for the largest space, units larger than 4,645 sq.m., remains unpredictable, but has been more active and lettings are progressing on a good proportion of what remains of the limited available larger industrial stock.

The Greater Glasgow industrial property market has a total stock of 8.79 million sq.m., of which 8.9% is currently available comprising 5.9% vacant space and 3% available via existing leases (CoStar). Over the past five years 87% of lettings have been for properties of less than 929 sq.m. and availability is lowest in this sector at 4.6% (3.2% vacant and 1.4% via existing leases). This low vacancy rate is clearly evident from multi-let estates in and around Glasgow. Remaining space is often in need of improvement or reconfiguration i.e. there is usually a physical reason why it is vacant.

IO Group's Glasgow North Trading Estate in Maryhill is the latest estate to achieve full occupancy, from a position of high levels of availability during the recession when future letting prospects appeared poor. The estate has benefited from the overall rise in demand, the displacement of businesses from other locations for reasons such as re-development and the general increase in rents. Closer to the city centre, Ribston recently purchased Oakbank Estate, Garscube Road and set about refurbishing the available space. Strong reported demand should result in early full occupancy at reported rents of £97 per sq.m. on units of up to 186 sq.m. A further example is Scottish Canal's estate at Payne Street next to junction 16 of the M8, where the final unit is in legal hands at £86 per sq.m. Such stories are common throughout the city.

Average annual industrial property take-up in Greater Glasgow over the past five years has been 323,900 sq.m., which suggests 2.4 years of remaining supply. Net absorption has been positive for each year and was particularly strong in 2017. Early data suggests take-up has slowed in 2018, but this is likely due to a lag in reporting and may also reflect unsatisfied demand given a lack of suitable units by location, size and in the level of obsolescence. There has been a sharp rise in the number of parties wishing to buy properties, but there is very little product available given the positive reasons for existing owners to retain stock. These prospective buyers are tending to search the market for several months but frequently lease once it is accepted that purchasing is not an option. Further unsatisfied demand to purchase is expected to convert to leasehold interests over the coming months.

The lack of supply in Glasgow is benefitting surrounding areas. East Kilbride's total availability has fallen to 9.5% (5.4% vacant and 4.1% existing leases). Rents are rising, although they continue to be at a discount to Glasgow. Cumbernauld has shown the greatest improvement with a substantial net absorption in 2017 to reach 11.7% availability, down from 14% only six months ago. This has been aided by the long overdue investment in the stock by new landlords such as Northern Trust which has made significant improvements to the Westfield North Estate and has been rewarded by early lettings at improved rents. The Cumbernauld market has also witnessed a number of larger transactions in a period where few have been completed in the market as a whole, including at Axis Park, Westfield Industrial Estate with a letting to ID Systems UK Ltd (3,751 sq.m.) and Unit 3 (7,581 sq.m.) attracting strong interest following a refurbishment now under offer to purchase; and a letting to Pusterla 1880 UK Ltd at Grayshill Road (4,304 sq.m.).

Supply is also tightening across Ayrshire, although it is a mixed picture with some areas performing better than others, for example Kilmarnock where availability is low and rents are rising steadily. Overall supply for Ayrshire is now 8.4% of stock, however demand for larger buildings remains sporadic.

The low number of quality occupier requirements for units of 1,858 – 4,645 sq.m. has been disappointing, particularly as it is here that the development market has responded to the greatest degree. However, demand is often cyclical. Longer term trends and a review of existing occupied space confirms the importance of the sector based on generally low levels of vacancy and significant under provision for normal levels of demand. Demand is expected to improve, but the lack of current activity is concerning as this sub-market is generally populated by the larger companies and major employers who tend to make greater levels of investment.

The market for the largest space (above 4,645 sq.m.) remains unpredictable, but has been more active recently. Encouragingly, Scottish Enterprise reports an increase in investment interest for larger manufacturing space with a number of active requirements negotiating land purchases to create bespoke facilities. Transactions on existing space are progressing at Eurocentral where Vertex (12,000 sq.m.) and Colossus 1 (8,870 sq.m.) are both under offer to lease and, as mentioned above, Unit 3 at Axis Park, Cumbernauld.

These sheds remain predominately used for storage and distribution purposes associated with production, although requirements from retailers are also evident.

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

Address	Size	Occupier
Eurocentral	6,500 sq.m.	DPD
Grayshill Road, Cumbernauld	4,304 sq.m.	Pusterla 1880 UK Ltd
Axis Park, Westfield Industrial Estate, Cumbernauld	3,751 sq.m.	ID Systems UK Ltd
Rutherglen Links Business Park, Rutherglen	1,208 sq.m.	TransCanada Turbines (TCT)

The continuing growth of online retailing is boosting demand for warehousing in the rest of the UK, but it continues to be at lower levels in Scotland. Outwith Amazon and the supermarkets, most of the increased online demand is served by regional distribution centres in England with product shipped to local courier hubs closer to the delivery point. In Scotland, the courier companies are expanding, including Hermes' move to Eurocentral to a unit providing an additional 2,787 sq.m. and DPD's new 6,500 sq.m. unit on plot R at Eurocentral. This trend is expected to continue.

The 'big box' market for the largest industrial units is potentially on the cusp of an interesting period, given the ongoing erosion of the existing supply. Buildings will return to the market from time to time, but the existing supply is extremely limited and pressing requirements will be met via pre-let agreements or satisfied from options south of the border if buildings are not available within the required time period. Speculative provision in the future is extremely unlikely given the design and demand uncertainties within this sector. A pre-let market would see rentals rise considerably given the overall increase in costs since the previous phase of speculative development and the absence of funding support. Rents of £54 – £65 per sq.m. for existing prime space are some way below the true cost of providing such facilities. It is likely rents in excess of £75 per sq.m. would be required for a typical facility and specialist facilities with large areas of hardstanding or higher performance cladding could approach £97 per sq.m.

The positive industrial market has renewed interest in development land. The most significant transaction this year to date has been the Muir Group's acquisition from Citylink of the remaining 11 hectares of development land at Glasgow Business Park. The first phase of development is at an advanced stage of design with a planning application to be submitted shortly and a site start scheduled the summer 2018. This will provide 3,623 sq.m. of industrial space in two terraces with base unit sizes of 279 sq.m. and 488 sq.m. capable of combination. Future development phases will target larger users and the park is capable of accommodating a unit of up to 9,290 sq.m. Other strategic land transactions are currently in legal hands and due to conclude over the coming weeks.

Headline land values remain relatively static due to the costs of infrastructure and site enabling works and increased build costs. Prime levels have reached £495,000 per hectare but more commonly good sites are selling for £396,000 to £458,000 per hectare. However, there is now relatively little consented development land prepared and ready to take early development and an increase in supply may be limited without public sector assistance. Therefore land values are expected to rise, particularly where the acquisition is to accommodate a pre-let.

East Central Scotland's industrial property market, remains robust, underpinned by strong rental growth and diminishing availability. This is particularly the case for prime, well-established locations offering units up to 929 sq.m. Given this, prime rents are expected to continue to grow and establish £107 per sq.m. as the benchmark rent for modern accommodation. Rental growth is however expected to be at a slower rate than over the last 12-18 months.

Given this demand, landlords/developers who are already familiar with East Central Scotland are prepared to undertake speculative schemes, when many others are looking for a pre-let to allow them to commence their development.

Various speculative schemes have either recently completed or are due to commence, primarily in the west of Edinburgh. On Sighthill Industrial Estate, City of Edinburgh Council recently completed the development of 16 units totalling 1,580 sq.m. on Cultins Road; SRA Ventures acquired c. 3,720 sq.m. on Bankhead Medway and plan to demolish the existing premises and erect a parade of five units totalling 2,322 sq.m.; and the owners of 7 Hills Business Park on Bankhead Crossway South, Peveril Securities and Citivale, are looking to commence the largest speculative development in the city totalling 7,432 sq.m. with units ranging from 279 – 3,400 sq.m. Nearby, Vardy Property Group's construction of 1,625 sq.m. sub-divisible into five units from 174 sq.m. on Bankhead Crossway North is due for completion in the second quarter of 2018. C & W Assets 2,415 sq.m. Phase 2 of Edinburgh West Business Park, South Gyle is now complete and is 75% occupied.

The fundamental lack of available modern accommodation across East Central Scotland is demonstrated by a number of prime locations now reporting 'waiting lists'. The aforementioned speculative developments will only provide a fraction of the space required to fulfil the underlying occupier demand.

Landlords are now in a position to be more selective with their tenant choice. This in turn is having a negative impact on start-up/younger companies, short term requirements and slightly more contentious users.

While demand is at an all-time high, lack of available land and rising construction and infrastructure costs make most developments prohibitive outside of the top prime areas noted above. Meanwhile, some tenants can hesitate to commit due to unsuitable units and wider economic uncertainty. Industrial stock also remains a target for developers who can achieve higher land values for alternative uses including residential, student accommodation, leisure and hotels.

Existing landlords are taking the opportunity of high occupancy rates to upgrade existing accommodation. Southwark Developments completed an extensive refurbishment of 10 units in sizes from 186 – 464 sq.m. within Edgefield Industrial Estate, Loanhead; and Royal London has refurbished eight units of c. 464 sq.m. each on Seafield Road, Edinburgh.

The lack of available industrial units within Edinburgh has benefited neighbouring locations, for example Broxburn and Bathgate to the west, Loanhead to the south and Musselburgh to the east. These areas are experiencing high occupancy levels and rental growth, although despite this ripple effect the achievable rental rates between prime and other locations has continued to widen.

Despite other major city centres reporting demand for 'last mile delivery', it does appear that Edinburgh's compact geographical area can be serviced from peripheral locations. Retailers who historically required warehousing within the city to supply regional stores are now withdrawing to more centralised areas, for example Next and Amazon at Sighthill and Debenhams at Newbridge.

Industrial deals across Edinburgh include lettings at: Block A Units 1 and 2 Clifton Trading Estate, Newbridge (2,055 sq.m.) to Restore Datashred at £64 per sq.m; Units 23-27 Marnin Way, West Edinburgh Business Park (1,226 sq.m.) to Valtti at £91 per sq.m; 165 Bonnington Road, Bonnington Trade Centre (451 sq.m.) to Screwfix at £91 per sq.m.; Unit 1 Corunna Place, Leith (101 sq.m.) to Solid Liquids Ltd at £99 per sq.m.; and Unit 1b (B) Seafield Road (469 sq.m.) to Peter Vardy Management Services at £95 per sq.m.

Midlothian, given its ease of access into Edinburgh, continues to flourish, especially within Hardengreen Industrial Estate, Dalkeith and Bilston Glen, Loanhead. Both estates report critically low vacancy rates and there are only two available plots within each that could accommodate new development. Rents continue to rise, including Summerhall Distillery taking Unit 9 Dryden Vale, Bilston Glen Industrial Estate (238 sq.m.) at £80 per sq.m. and Petro Assist taking Unit 1 Dryden Court (1,166 sq.m.) at £79 per sq.m.

In West Lothian there continues to be a good take-up of buildings below 929 sq.m. Recently completed deals have been above the £45 per sq.m. barrier. Lettings include: Unit 1,224 East Main Street, Broxburn (851 sq.m.) to Thrifty Car and Van Hire at £56 per sq.m.; Unit 13/14 Inchwood Park, Bathgate (442 sq.m.) to Screwfix at £75 per sq.m.; and Unit 3 Rankine Square, Deans Industrial Estate, Livingston (1,168 sq.m.) to Space Solutions Ltd at £43 per sq.m.

The upper Forth Estuary around Stirling/Grangemouth/Falkirk remains an attractive destination for both industrial and trade occupiers. IPIF, owner of Etna Trade Park, Middlefield Industrial Estate, Falkirk, is undertaking a phased refurbishment of three terraced units totalling in excess of 5,110 sq.m. and Northern Trust secured planning permission for the erection of 10 units totalling 1,619 sq.m. at Grange Road, Earls Gate Park in Grangemouth, where development is due on site in the third quarter of 2018. Transactions in the upper Forth area include Unit 2, 6 Munro Road, Stirling (139 sq.m.) let to TTG Transportation Ltd at £71 per sq.m. and Unit 11 Forbes Court, Middlefield Industrial Estate, Falkirk (497 sq.m.) let to Belfor UK Ltd at £65 per sq.m.

In Fife, Belleknowes Industrial Estate in Inverkeithing, is situated within five minutes' drive from the new Queensferry Crossing, and is undergoing a 'freshening exercise'. Owners Hermes Investment Management plan a refurbishment of the entire 22 unit estate, where units range in size from 325 – 1,289 sq.m.

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

Address	Size	Occupier
Block A Units 1 and 2 Clifton Trading Estate, Newbridge	2,055 sq.m.	Restore Datashred
Units 23-27 Marnin Way, West Edinburgh Business Park, Edinburgh	1,226 sq.m.	Valtti
Unit 3 Rankine Square, Deans Industrial Estate, Livingston	1,168 sq.m.	Space Solutions Ltd
Unit 1, 224 East Main Street, Broxburn	851 sq.m.	Thrifty Car and Van Hire
Unit 8 Woodgate Way South, Eastgate Industrial Estate, Glenrothes	756 sq.m.	Ceiling 2 Floor

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

Address	Size	Occupier
Hunting Energy Services headquarters (part of), Badentoy Avenue, Portlethen	2,626 sq.m. + yard	OEM Diesel
Unit 7, Kingshill Commercial Park, Westhill	2,072 sq.m. + yard	Power Jacks
Units B and C, Broadfold Road, Bridge of Don	1,399 sq.m.	InterMoor

Scarborough Muir's Queensferry One is one of the biggest commercial development sites in East Central Scotland, totalling 52.5 hectares, and situated next to Rosyth Dockyard and the new Queensferry Crossing. Three design-and-build opportunities are currently in legal hands. This is one of very few sites which could accommodate early requirements in excess of 18,580 sq.m.

Glenrothes and Kirkcaldy continue to be restricted by the quality of their existing industrial supply, with the majority of units constructed in the 1960s and 1970s. Take-up of medium to large industrial premises in Glenrothes has been limited, with only two transactions over 464 sq.m. occurring over the last six months. There is however a more positive story in the small to medium market. This is particularly apparent at Fife Council's Queensway Business Park in Glenrothes where the seven unit development completed in February 2018 is already fully let. Units range from 93 – 139 sq.m. and rents in the region of £62 per sq.m. were achieved

Areas such as Eastfield Industrial Estate remain popular as this continues to be the prime trade counter location in Glenrothes. Lettings to Ceiling 2 Floor of Unit 8 Woodgate Way South (756 sq.m.) at £37 per sq.m. and The Paint Shed of Unit 6 Woodgate Way (373 sq.m.) at £43 per sq.m. show that demand continues for small to medium units on prominent sites.

The industrial property market in **Aberdeen** has once again experienced a difficult and challenging six month period. The last quarter of 2017 was characterised by rising oil prices that eventually saw Brent Crude surpass $70 per barrel in early 2018, for the first time in three years. This will have provided some relief and a boost to margins for exploration and production companies on the UK Continental Shelf.

Industrial property take-up in Aberdeen during the last six months totals 35,983 sq.m. which represents a 45% increase on the previous six months. An additional 15,515 sq.m. is currently under offer. The number of deals concluded has fallen from 37 to 35, a 5% reduction, which can be explained by rising transactional activity in the larger size range, exceeding 929 sq.m. (up by 460%) and reduced activity in the smaller size ranges, 0 – 185 sq.m. (down by 30%).

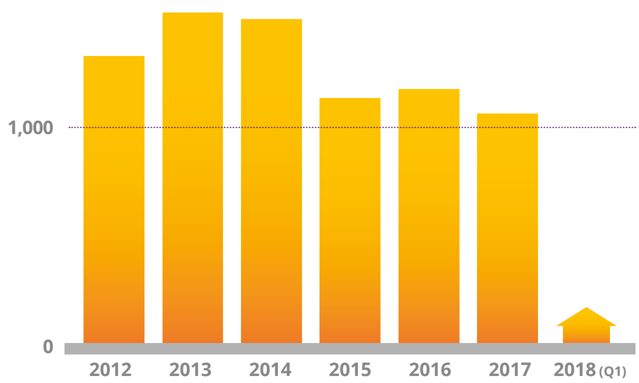
Transactions include: the letting of Units B & C, Broadfold Road, Bridge of Don (1,399 sq.m.) to InterMoor; Unit 7, Kingshill Commercial Park, Westhill (2,072 sq.m. with a 1,120 sq.m. yard) to Power Jacks; and part of the Hunting Energy Services headquarters at Badentoy Avenue, Portlethen (2,626 sq.m. with a 1.4 hectare yard) to OEM Diesel; along with the sale of a 2,662 sq.m. unit at Hareness Road, Altens.

Supply of industrial property in Aberdeen has fallen by 3% in the last six months to 190,938 sq.m. The number of properties available has risen from 184 to 189, a 2.7% increase. Supply is up most notably in the 0 – 186 sq.m. (14%) and 464 – 929 sq.m. (29%) size ranges. Supply can be categorised as follows: new build stock 9%, modern stock 50%, and older stock 39% with an additional 2% under construction.

After a period of very little speculative industrial development, Knight Property Group is shortly to commence the construction of a new build terraced scheme at Kingshill Commercial Park in Westhill. The development will comprise five units of 232 sq.m. each and strong occupier interest has already been shown. It is understood that other Aberdeen-based developers are also considering similar type developments.

Notwithstanding these positive initiatives, Aberdeen industrial market remains a 'tenants market', with landlords having to consider short term/flexible leases and increasingly competitive rental packages. This situation is unlikely to change in the short to medium term.

Number of industrial transactions in Scotland



Retail and Leisure

Although total sales in Scotland increased by 0.8% in March 2018 compared with March 2017, higher growth had been expected with the Easter weekend falling in this month this year. The severe weather seen at the start of March 2018 kept shoppers from reaching stores and non-food sales decreased by 4%. However food sales increased by 6.8%, due to both Easter and Mothers' Day celebrations.

The winners recently have been food retailers, albeit some of the growth has been through food price inflation. Co-op have followed on with their expansion in 2017 with a further 18 stores planned in Scotland over 2018.

In the comparison shopping sector more aspirational retailers such as Fat Face, Superdry and John Lewis appear to be doing better than some of their more mid-market peers.

The expansion trail continues both in and out-of-town for Starbucks, Costa Coffee, Pret a Manger and Tim Hortons, both for standard shops and drive thru acquisitions.

Challenges in the market have had an impact on the number of retailers with proposed store closures UK-wide, including Homebase (40 stores) and Mothercare (40+ stores). Administrations include Jaeger, Agent Provocateur, Jones the Bootmakers, Maplin (220 stores closed) and Toys R Us (105 store closures). The leisure and restaurant business has not been immune, with Jamie's Italian, Byron and Prezzo having restaurant closures in Scotland and owner Conviviality placing Bargain Booze into administration.

The super prime Buchanan Street in **Glasgow** has consolidated rental levels set by T2 and Scribbler in 2017 with further lettings to clothing retailer Levi at 36 Buchanan Street on a new 10-year lease reflecting £317 per sq.ft. Zone A and phone store Vodafone agreed a 10-year lease extension reflecting a rental equivalent to £320 per sq.ft. Zone A, effective from December 2019. Elsewhere on the street Vapiano opened its 1,022 sq.m. Italian restaurant at no. 235 and US lingerie chain Victoria's Secret has been granted planning permission to start work on the former H&M unit within Buchanan Galleries.

New lettings have been secured at St Enoch Centre to jeweller Swarovski, shoe retailer Schuh Kids and designer childrenswear retailer BilliesMarket. Music retailer HMV extended their lease for a further 3 years and re-geared lease terms have been agreed with footwear retailer Ecco, accessories retailer Claire's and chocolatier Thorntons. In addition, Mr Nick's Greek Kitchen and Starbucks opened within the food court. Redevelopment plans for the centre comprise a 9-screen VUE cinema, new restaurants to include DiMaggio's, Pizza Hut, Nandos and Ed's Easy Diner and three flagship retail stores onto Argyle Street.

In Princes Square independent jeweller Diamond Heaven opened its first store in Scotland, and Karen Millen opened a clothing boutique. In addition independent operator Everyman Cinemas is to open a 3-screen boutique cinema within the lower level of the mall in Autumn 2018.

At **Silverburn** Shopping Centre JD Sports doubled the size of its store to 1,200 sq.m. New stores were opened by clothing retailers Joules and Quiz, and gadget shop Menkind along with further additions to the food offer via Tim Hortons and Tony Macaroni. Multinational fashion brand Khaadi is opening a 250 sq.m. store, its first in Scotland and PureGym will open a 1,000 sq.m. 24-hour gym in June 2018.

Lush Cosmetics opened at **Glasgow Fort**. Footwear retailer Skechers and lingerie store Ann Summers plan to open and US diner chain Denny's is rumoured to be interested in the shopping park.

At EK in **East Kilbride**, Yankee Candle, stationer Smiggle and a Tim Hortons coffee shop all opened.

In **Edinburgh** city centre, the demolitions at St James Centre are now complete. TH Real Estate's Edinburgh St James development has agreed a pre-let with luxury brand Roomzzz for a 73-room aparthotel at its £850 million new mixed-used development. Roomzzz will join a 214-bedroom W Hotel, a flagship Next store and a 5-screen boutique Everyman Cinema.

Multrees Walk adjacent to Edinburgh St. James attracted two new occupiers in the forms of luxury lifestyle brand Coach and a first Scottish store for Holland Cooper. At the nearby St Andrew Square development by Standard Life Aberdeen and Peveril Securities the restaurant line up has been completed with openings by Argentine steak house Gaucho and Italian restaurant Vapiano, joining The Ivy on the Square, Dishoom and The Refinery.

Following clothing apparel chain All Saints store relocation in the city centre from Princes Street to the former French Connection unit on George Street, Cath Kidston backfilled the All Saints unit and relocated from George Street. Flight Centre relocated from its North Bridge outlet into the former McColls on Hanover Street.

Princes Street has seen little market activity, however Pret a Manger opened a sandwich shop at no. 135. Activity on George Street has shown further rental growth with a lease renewal of the TM Lewin unit at no. 48 reflecting a rate of £185 per sq.ft. Zone A, Starbucks at £190 per sq.ft. Zone A and the renewal on the LK Bennett unit at no. 45 pushing the rent to £200 per sq.ft. Zone A where the retailer secured a 10-year extension effective from February 2018 with a tenant-only break option at year five.

Clothing retailer Next is to more than double the size of its store in **Livingston** to 2,300 sq.m. with a relocation from The Centre to Almondvale West Retail Park. The retail park is to undergo a £3.5 million refurbishment enhancing the buildings and public realm. Poundstretcher joins The Range and Matalan in the conversion of the former B & Q unit at Retail Park South.

Work on the £30 million Mill Quarter, **Perth**, a mixed-use scheme incorporating a cinema and shopping complex by developer Expresso Property has begun. Elsewhere in the city centre Oliver Bonas opened a store at 168/172 High Street.

Home Bargains opened it third store in **Dundee** at Kingsway East Retail Park. In the city centre, plus-sized retailer Yours Clothing opened on Murraygate.

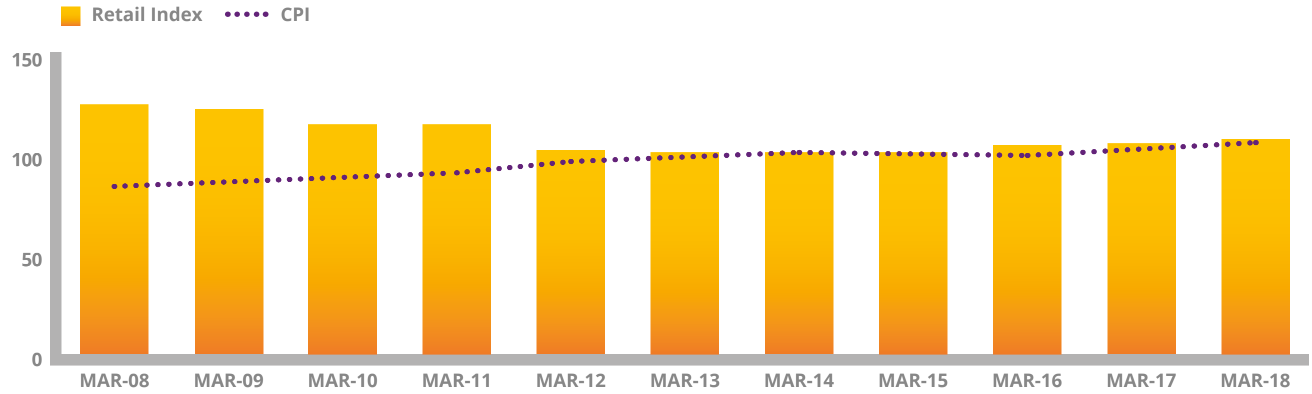
In **Aberdeen**, bookseller Waterstones is opening a 920 sq.m. store in the Bon Accord Shopping Centre. This forms part of a wider leisure development which will include a 7-screen cinema and restaurant terrace. On Union Street Dr Martens opened a footwear shop at no. 87 and Miller & Carter opened a steak restaurant in the former Esslemont & Macintosh store. Pizza restaurant Mozza and footwear retailer Skechers opened in Union Square shopping centre. Ice-cream parlour Mackies, Italian restaurant Tony Macaroni and bar restaurant All Bar One join the line-up of leisure operators at Marischal Square along with the opening of the 126-bedroom Residence Inn by Marriott.

The overall retail market across the UK has been dealing with a move from traditional bricks and mortar retailing, the continuing onslaught of online sales, the increasing dominance of prime destinations, and potential further concerns over the impact of Brexit on the market. There continues to be a distinct oversupply of unsuitable retail accommodation throughout Scottish towns and modern-sized requirements are not met by the size or shape of much of the available accommodation.

Accordingly, High Streets and shopping centres continue to seek alternative, non-retail occupiers to fill vacant units. Leisure, health and fitness, cinema and bar/restaurant uses are becoming widespread targets across many former shopping locations.

Ryden's prime retail rent index covers Scotland's top 20 shopping locations and is shown on the chart. Following a period of no rental growth, 2018 has seen a marginal rise, due to positive rental movement in the prime locations of Buchanan Street in Glasgow and Princes Street in Edinburgh.

Retail rent index



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

Investment

Demand for Scottish commercial property investments strengthened during the review period, due largely to improved investor sentiment and the opportunity to acquire better value product relative to London and the principal English centres. Thankfully, investors appear to have set aside the political concerns of recent years and are now firmly back in the market. The Brexit negotiations will clearly continue for some time yet, although so far there seems to be little impact on investor appetite.

Encouragingly, there has been a healthy level of activity across all of the three principal Scottish cities during this review period.

Office Property

The office investment sector has been eventful as the positive occupational story encouraged strong investor demand. The main constraint on transactional activity has been the availability of suitable opportunities in the market. The fourth quarter of 2017 generated strong activity levels and a raft of deals completed or were put into legal hands, however 2018 started slowly, with new opportunities relatively scarce and the bulk of activity occurring off-market.

The office markets in each of the three main cities are at different stages of the cycle. Investment activity over the last six months emphasises these differences.

In Glasgow, activity is still focused within the city centre and edge-of-city centre markets, with value-added opportunities coming forward for investors to target. The recent acquisition of Skypark by Hermes Investment Management for £78 million emphasised both the re-emergence of the institutional investor as well as the increasing appetite for investors to venture up the risk curve. Prime yields in the city are perceived to be at 5.25-5.5%.

By contrast, in Edinburgh the severe shortage of city centre office availability and scarcity of significant development opportunities has led to relatively few deals. One exception was the acquisition by Rockspring Property Investment Managers of 9-10 St Andrews Square, let to Regus and Sainsbury's supermarket for an initial yield of 5.25%. Prime yields in the city centre are now edging down towards 5% and the focus of much of the activity has been in the out-of-town market, mainly West Edinburgh, a recent example being the acquisition of Pentland Gate Office Park by HKIP for £9.4 million, reflecting an initial yield of 10%.

The Aberdeen market, whilst not having the same availability constraints as Edinburgh or Glasgow, has seen a flurry of recent deals with generally overseas investors acquiring medium to long term income deals at relatively attractive yields. A good example is the acquisition of the Statoil Building at Prime Four Business Park by Golden Globe for £18.7 million/6.2% for 14 years income. The recent Aker Solutions sale at Aberdeen International Business Park to LCN Capital Partners for £114 million/6.9% provides an unusually high return in the current market for 17 years of blue chip income. These transactions emphasise the relative value available in the Aberdeen market as that market adjusts.

Looking forward, there should be a continued positive market scenario for those investors seeking both value and opportunity. Subject only to the influence of Brexit-related issues, the remainder of 2018 should be active.

Industrial Property

The industrial property investment sector has continued to perform during the last six months, albeit there is an emerging change in investor attitude towards secondary stock. In the main centres demand continues to be strong, particularly around Glasgow and Edinburgh. The recent period of stability in the oil and gas sector has also encouraged investors to reconsider Aberdeen and the North East, improving the deal flow.

While demand has continued to remain focused on the industrial sector, it has been noticeable that pricing on older or secondary stock has not continued to keep pace with the improvement in prime yields. This suggests a more cautious approach by investors to opportunities which do not offer modern units or the best locations.

Multi-let industrial estates remain favoured by institutional investors and property companies, while private investors continue to drive the single-let market. The single biggest factor affecting the market at present is the availability of good quality industrial property. While occupational levels remain high and rental growth continues in the Central Belt, the flow of stock into the market is constrained largely because of vendor uncertainty over reinvestment.

Multi-let yields remain low in Glasgow and Edinburgh, where good quality stock is expected to trade in the 6% – 6.5% range. Aberdeen continues to lag these levels, although the sale of Souterhead Industrial Estate, Altens to Stenprop is a positive sign and proof that the market for shorter term income in the city is now returning after a barren spell lasting some three years.

Single-let yields have strengthened slightly, as shown by the recent sale of the Royal Mail depot in Wishaw, which was sold to a private investor for a yield reflecting 5.75%. The property was a modern industrial unit with 9.5 years unexpired lease term.

New supply remains an issue, however there is a shift in attitude from institutional funders who, recognising the critical shortage, are beginning to consider funding for speculative development once again. However, this is caveated by that consideration only being available for prime industrial locations.

Office property investment deals include:

Address	Property	Purchaser
Skypark, Finnieston, Glasgow	51,097 sq.m. Grade A multi-let office campus. Tenants include O2 and Serco Group. Sale included three development sites	Hermes Investment Management for c. £78 million (c. 7.1%)
Cerium Building, 55 Douglas Street, Glasgow	7,496 sq.m. modern single-let office, let to Morgan Stanley and Student Loans Company on short term income	Signal Real Estate Opportunities for £16.3 million (10.25%)
48-72 St Vincent Street and 147 Buchanan Street, Glasgow	8,256 sq.m. mixed-use multi-let office, retail and leisure building. Tenants include BTO Solicitors LLP, Apple, All Bar One, Lloyds Bank and Skipton Building Society	Ponte Gadea for £47.8 million (c. 5.2%)
3 Atlantic Quay, Glasgow	7,386 sq.m. refurbished office building. Single-let for 25 years to Scottish Courts and Tribunals Service	Legal & General Assurance for £50 million (3.6%)
9-10 St Andrew Square, Edinburgh	Eight storey prime office and retail property extending to 4,966 sq.m. Let to serviced office provider Regus Group with Sainsbury's at ground floor level	Rockspring Property Investment Managers for c. £25.75 million (5.25%)
Government Office Hub, New Waverley, Edinburgh	16,844 sq.m. office development. Let on a 25 year lease to HMRC. Anticipated practical completion June 2019	Legal & General for c. £106 million (c. 4.3%)
Saltire Court, Castle Terrace, Edinburgh	Prime multi-let office extending to 16,896 sq.m. Tenants include Deloitte LLP, KPMG LLP, Martin Currie Investment Managers and CMS Cameron McKenna LLP. WAULT 9.2 years. 8.7 years to breaks	Al Rashed for c. £71 million (6.33%)
Apex 123, 95 Haymarket Terrace, Edinburgh	Multi-let office investment comprising a terrace of three self-contained buildings extending to 8,450 sq.m. Tenants include Scottish Enterprise, Stewart Milne Group and Svenska Handelsbanken. WAULT 7. 13 years. 3.95 years to breaks	Patrizia Immobilien AG for c. £27 million (7.32%)
10 Melville Street, Edinburgh	Townhouse office investment let to Melville Independent Plc until 2025, extends to c. 302 sq.m.	Scottish Midland Co-operative Society Pension Scheme for £1.55 million (4.66%)
160 Dundee Street, Edinburgh	Multi-let office building extends to c. 4,534 sq.m. Tenants include Alzheimer Scotland and Blackwood Homes and Care. WAULT 6.6 years to expiries and 4 years to breaks	APAM for £9.64 million (8.6%)
Aberdeen International Business Park, Dyce, Aberdeen	31,250 sq.m. Grade A office building let to Aker Solutions	LCN Capital Partners for £114 million (6.9%)
West Campus, Westhill, Aberdeen	19,675 sq.m. Grade A office building, industrial facility and leisure complex let to Total E&P UK Ltd and Subsea 7	Gulf Islamic Investments for £39.375 million (7.88%)
Prime Four Business Park, Aberdeen	4,180 sq.m. Grade A office building let to Statoil	Golden Globe Ltd for £18.7 million (6.2%)
Ensco House, Aberdeen Gateway	2,400 sq.m. Grade A office building let to Ensco Plc	Private investor for £6.5 million (7.34%)

Industrial property investment deals include:

Address	Property	Purchaser
Westway, Renfrew	15,087 sq.m. self-contained industrial park extending over 54.5 hectares. Tenants include Doosan Babcock, WH Malcolm Ltd and Balfour Beatty	Canmoor for £40 million (c. 8.9%)
Pinnacle & Zenith, Eurocentral	Two modern distribution units totalling 14,791 sq.m. let to Eddie Stobart Logistics Plc (lease expiry 2027, tbo 2022) and Amazon (lease expiry 2020)	Private investor c. £13 million (6.95%)
Royal Mail Depot, Excelsior Park, Wishaw	10,405 sq.m. modern single-let unit, let to Royal Mail with circa 9.5 years unexpired lease term	Private investor for £8.76 million (5.75%)
West Telferton Industrial Estate, Edinburgh	Modern multi-let industrial estate comprising 11 units and total area of c. 2,670 sq.m. WAULT of c. 4.5 years to expiry and 3.9 years to breaks	Buccleuch Property for £2.5 million (7.21%)
Units 1, 2 & 3 Starlaw Park, Livingston	Multi-let industrial/distribution units. Tenants include Alcatel-Lucent UK Ltd, CFH Docmail Ltd and Young's Seafood Ltd. Extending to approximately 12,865 sq.m. WAULT c. 10 years	Kames Capital for £9.3 million (7.22%)
2 Todd Square, Livingston	Single-let industrial unit let to A Share & Sons Ltd expiring October 2022. Extends to c. 3,990 sq.m.	Custodian REIT for £2.59 million (7.5%)
Almond Court, Falkirk	Modern multi-let estate extending to 2,939 sq.m. WAULT of approximately 5.3 years to expiries and 4.2 years to break options	Balgonie Estates for £2.16 million (7.19%)
Unit 5B, ABZ Business Park, Dyce, Aberdeen	1,790 sq.m. high spec industrial unit let to Reel Group Ltd with 13.25 years remaining	Private investor for £3.1 million (7%)
Souterhead Industrial Estate, Altens, Aberdeen	3,735 sq.m. multi-let industrial estate	Stenprop for £4.175 million (8.2%)
Kirkhill Place, Kirkhill, Dyce, Aberdeen	1,160 sq.m. industrial unit let to Expro Group with 10 years remaining	Private investor for £1.05 million (9.04%)
Craigshaw Road, West Tullos, Aberdeen	4,316 sq.m. industrial unit let to Styropack with 7 years remaining	M7 Property Group for £2.258 million (11.5%)

Retail and Leisure Property

The uncertain retail market outlook allied to the lack of clarity around Brexit have combined to subdue pricing and maintain selective and cautious investment into the sector. Key considerations continue to be the quality of income, sustainability of rent and liquidity. More than ever there is a focus on 'prime' and 'secure' assets.

Demand for shopping centre assets has been limited, particularly from institutional investors. This lack of demand and a reluctance from sellers to re-price stock has led to a significant drop in transactional activity. It is envisaged that during the course of the year valuations will realign with market pricing and this should lead to an increase in transactional activity. There does seem to be strong demand for convenience and community centres that trade well. Smaller lot sizes (sub £20 million) with supermarket element are attracting interest from property companies and private investors. These opportunities can offer strong geared returns, without demanding significant capital expenditure. Others offer attractive repositioning or redevelopment opportunities.

Despite some well documented retailer distress, the retail warehouse market has proved resilient, attracting interest from overseas and UK investors. UK Institutions have actively sought out prime multi-let retail warehouse opportunities as they are viewed as safe and secure.

In turn, pricing for the best assets has improved. Secondary assets offering management opportunities are also proving to be popular with geared and overseas investors.

In pursuit of income there continues to be strong interest in the Alternative investment sectors to include leased Hotel, Leisure, Restaurant, Student and Ground lease situations. The considerable weight of money from Annuity funds, Long lease funds, REITs, Pension funds, overseas and private investors continues to drive yields down and prices up.

The insatiable appetite for index-linked income is generating much pre-let development and funding activity. This is set to continue over the next 12-24 months and beyond as a number of development propositions are under consideration. It is interesting to note that although many investors would prefer to acquire built assets there is little yield differential between funding and built propositions at the present time.

An example of recent activity in this sub-sector is the funding of the proposed Malmaison Hotel, St Andrew Square, Edinburgh. With an end value of c. £27 million the forward funding transaction reflected a yield of c. 4.25%.

Retail and leisure property investment deals include:

Address	Property	Purchaser
50-74 Sauchiehall Street, Glasgow	Retail parade totalling 2,460 sq.m. let to Bank of Scotland, Dr Martens and Poundland	DTZ Investors for £15.3 million (6.1%)
35-53 Buchanan Street, Glasgow	16,837 sq.m. prime flagship department store let to House of Fraser (Stores) Ltd with 142 years unexpired	DTZ Investors for £35.18 million (4.68%)
130-140 Buchanan Street, Glasgow	322 sq.m. prime retail units let to Starbucks and James Pringle Weavers on short to medium term income	Redevco for c. £14 million (c. 4.1%)
House of Fraser, 146 Princes Street and 1 Hope Street, Edinburgh	Iconic corner building at the west end of Princes Street let to House of Fraser (Stores) Ltd expiring 2058	Parabola for c. £17.47 million (3.93%)
117 Princes Street, Edinburgh	Single-let retail unit let to Vodafone Ltd until October 2048 and extending to approximately 548 sq.m.	CBRE Global Investors for £6.85 million (4.47%)
9-11 Ferniehill Drive, Edinburgh	Sale and leaseback of Iceland unit, with part sub-let to Lidl, on a 10 year term. Extends to 1,730 sq.m.	Gilmerton Properties for c. £3.74 million (6.05%)
100A Princes Street, Edinburgh	Single-let retail unit. Let to Swarovski UK Ltd until October 2026. Extends to c. 134 sq.m.	The ACT Foundation for £3.35 million (5.09%)
Academy Centre, Belmont Street, Aberdeen	6,200 sq.m. multi-let retail and leisure centre with WAULT of 7.25 years	Rasul Group for £6.05 million (8.89%)
157-165 Union Street, Aberdeen	1,370 sq.m. retail parade with WAULT of 3.5 years	Hazledene House for £3.48 million (10.51%)
Guild Street, Aberdeen	400 sq.m. convenience store let to Sainsbury's with 6 years remaining	Private investor for £875,000 (5.7%)
Muirend Road, Portlethen	765 sq.m. multi-let neighbourhood retail parade	LCP for £1.3 million (8.47%)
Drive Thru, Blackburn, nr Aberdeen	195 sq.m. drive thru let to Starbucks with 14.5 years remaining	Private investor for £1.81 million (3.92%)

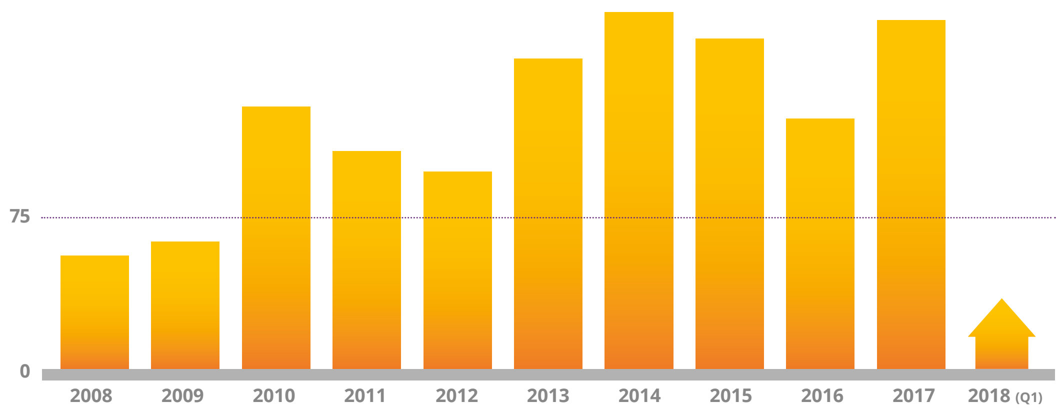
Outlook

The current healthy level of investor demand for quality Scottish assets is expected to continue this year, although potentially the limited availability of product will restrict transactional activity. With many existing landlords cash rich and seeking to invest further before disposing of existing assets, it is perhaps the case that 2018 will be another year where the greatest activity will emerge later in the year. The variances in demand between the three cities is not anticipated to change in the coming months, although there could be more competition for Aberdeen opportunities if the local economy continues to recover.

On a more macro level, the IPF published a UK Consensus Forecast for 2018 in March which produced an interesting and wide range of anticipated returns for 2018 between the three principal property sectors. The All Property Return was forecasted to be 4.6% with the industrial sector again forecast to be the best performer with a total return of 9.0% forecast. This compares favourably with offices at 2.3% and standard retail at 3.7%.

Investment tracker:

Number of transactions over £1 million in Scotland



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