Ryden

83rd Scottish Property Review

OCT/18

Economic activity in Scotland has increased to sit above the UK averages on both quarterly and annual measures. Unemployment has declined significantly and now sits marginally below the UK average. Weaknesses are however evident in retail sales growth and rising insolvencies. Forecast economic growth is positive and supported by current performance, although it remains below the long run average.

The Glasgow and Edinburgh office markets demonstrate stable take-up. However both markets are very tight as supply is diminishing and major occupiers pre-let in advance of construction in Glasgow, and during construction as buildings are drip-fed to the market in Edinburgh. Aberdeen continues its multi-year transition to modern city centre office stock, supported by the recycling of obsolete offices for alternative uses, typically residential.

The retail sector is undergoing well-documented secular shifts to dominant centres and mixed format online and physical trading channels. The transition is made more difficult by cost pressures in the sector, although some operators continue to perform well and expand.

In the property investment sector, demand is driving yield compression (price rises) in the Glasgow and Edinburgh office and industrial markets. Aberdeen's market is stabilising and re-emerging as the offshore industry recovers. The retail sector reflects the market divergences within the industry, with investors' attention shifting to alternative asset classes such as hotels.

DR MARK ROBERTSON, PARTNER

Atlantic Quay, Glasgow

Economy

The Scottish economy expanded at an improved rate of 0.5% during the second quarter of 2018. Growth was achieved in all main economic sectors: services expanded by 0.4%, production by 0.6% and construction by a substantial 1.8%.

On an annualised basis, economic activity in Scotland was 1.7% higher during the second quarter of 2018 than during the same quarter in 2017 (see chart below). The annualised growth rate is significantly ahead of the 1.3% growth rate recorded for the UK.

The Royal Bank of Scotland's Purchasing Managers' Index for September 2018 fell to 53.4 from a peak of 55.5 in August. A reading of above 50 indicates potential growth. 53.4 compares reasonably well with recent results, although it is a 5-month low as reported workloads rise more slowly. Private sector output showed steady expansion and employment had increased.

Reflecting these survey trends, the Scottish unemployment rate for the three months June to August 2018 stood at 3.9%. This is a notable decrease from 4.3% for the previous three month period and is down by 0.2 percentage points from the same period in 2017. Unemployment in Scotland now sits marginally below the UK rate of 4%.

According to the Insolvency Service there were 266 company insolvencies in Scotland in the second quarter of 2018. This is an increase of 18.2% in comparison with the same period in 2017.

The Retail Sales Index for Scotland published by the Scottish Government reports growth of 0.3% during the second quarter of 2018 and 0.5% on an annualised basis. This is lower than the 2.8% recorded in Great Britain over the same 12-month period. The retail industry survey published by the Scottish Retail Consortium/KPMG reports higher 0.9% growth in retail sales over the 12-months to September 2018; food sales performed well with growth of 3.7% while non-food sales fell by -1.4%.

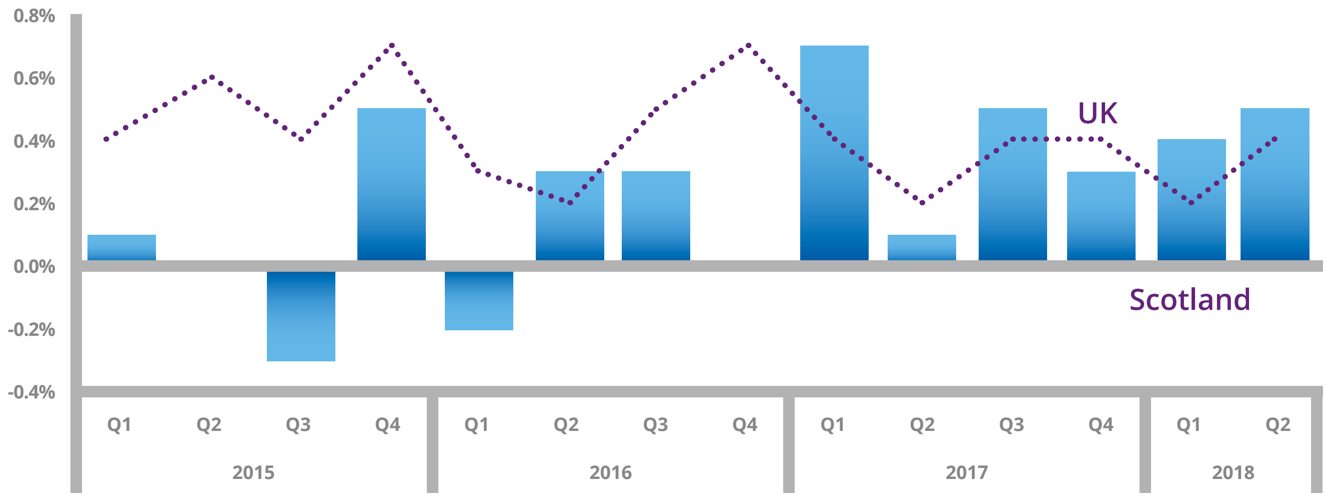
The Department for Business, Energy and Industrial Strategy reports indigenous production of crude oil was 0.9% higher in the second quarter of 2018 compared with the same period of 2017. Further comment on the offshore industry is provided in the Aberdeen market reviews on pages 7 and 11.

The most recent comparison of independent forecasts for the UK economy published by HM Treasury in October 2018 anticipates 1.3% growth across the UK economy for 2018, rising slightly to 1.5% for 2019.

For Scotland, Fraser of Allander Institute's central forecast, published in September 2018, anticipates the same growth as the UK in 2018, at 1.3%. The Institute's central forecast expects this to be followed by an improvement to 1.4% for both 2019 and 2020, which would sit marginally lower than the UK forecasts.

The tables of larger job gains and losses on the next page highlight new employment in the travel industry, financial services and in retailing, but also significant losses within the retail sector, food production and construction.

GDP growth compared to last quarter (%)



Source: Scottish Government

Job gains:

Company	Sector	Location	Jobs
DataVita Ltd	Data centre	Lanarkshire	50
Network Rail	Transport	Scotland	200
Jet2.com	Travel industry	Glasgow and Edinburgh	300
Spirit AeroSystems	Aerospace	Prestwick	40
Lidl UK GmbH	Retail	Scotland	300
BT Consumer	Retail and telecommunications	Dundee, Glasgow, Aberdeen	192
TJ Hughes	Retail	4 stores in Scotland	240
Moxy Hotel	Hotel	Glasgow	32
Travelodge	Hotel	Edinburgh and Glasgow	60
Barclays	Banking	Glasgow	2500
2 Sisters Food Group	Food production	Coupar Angus	250
Social Security Scotland	Public sector	Dundee	40
DPD Group	Distribution	Eurocentral	65

Job losses:

Company	Sector	Location	Jobs
Essentra plc	Manufacturer and distributors	Kilmarnock	50
Pinneys of Scotland	Food production	Annan	450
Thomas Auld & Sons Ltd	Retail	West of Scotland	105
Poundworld	Retail	Scotland	82
Homebase	Retail	10 in Scotland	350
House of Fraser	Retail	Edinburgh	127
Marks & Spencer	Retail	East Kilbride, Falkirk, Kirkcaldy	230
Fabb Sofas	Retail	Paisley and Edinburgh	38
Crummock Ltd	Construction	Midlothian	287
Lambert Contracts Ltd	Construction	Paisley	80
Total	Oil & gas	Aberdeen	Further 50
STV	Broadcasting	Scotland	59
West Lothian Council	Public Sector	West Lothian	150

Planning

The Planning Bill (Scotland) is making its way through the Scottish Parliament. The Stage 2 'line-by-line' scrutiny continues to be very challenging for the Scottish Government. Recent amendments include the restriction of Scottish Ministers' intervention powers in Local Development Plans. This was brought forward to address the Committee's concerns about the 'centralisation' aspects of the Bill.

There have been a significant number of amendments proposing variations on a third party right of appeal. The Scottish Government has maintained a firm stance in opposing this initiative, but both the Labour and Green parties support some form of appeal rights for third parties and restricted appeal rights for applicants. Current amendments proposed include: third party right of appeal for planning decisions not in accordance with the local development plan; a community right of appeal against certain decisions; and no right of appeal for development on land not allocated for development.

Land Value Capture has continuing support within amendments proposed at this stage. This is a sensitive issue and would arguably represent a seismic shift in the way planning operates in Scotland. Counter arguments maintain that there are already powers available to enable a local authority to gain an uplift from land value, including Section 75, Developer Contributions, planning conditions, and the ability to make legal agreements via alternative statute.

Historic Environment Scotland (HES) is consulting on its draft replacement of the Historic Environment Scotland Policy Statement (HESPS). This will run until 3 December 2018. The document will influence HES' decision-making on matters relating to the historic environment and the planning process. Historic Environment Policy (HEP) is a more concise policy document than HESPS and will be underpinned by a series of more detailed "Managing Change" guidance documents. This policy guidance will also be reviewed, starting with consultation on a revised 'Demolition' document in November. HES will also consult on revised designations, including listed buildings, policy and criteria, in January 2019. These new policy guidance documents will be in place, alongside any other essential guidance, before HESPS is withdrawn in Spring 2019.

Housing delivery continues to be central to the planning system. The 2017/2018 Housing Statistics for Scotland show a mixed picture across sectors. Total new housing supply (new build, refurbishment and conversions) increased from 18,683 in 2016/17 to 19,428 in 2017/18. Housing association new builds increased by 14% and local authority new builds by 34%, while private sector-led new builds decreased by 2%.

The replacement strategic development for the South-East of Scotland – SESplan 2 – deals with the opportunities and challenges presented by the continuing growth of the Edinburgh city region. Most notably, the Examination Reporter has found that the shortfall in housing delivery across the past six years (2012-2018) must be delivered through future Local Development Plans (LDPs). The house building requirement is revised from 70,237 homes (2018-2030) to 103,896 (2012-2030) to account for that previous delivery shortfall. Notably, a dual tenure approach (market and affordable) was found to be appropriate and in strict compliance with the provisions of Scottish Planning Policy.

This does not necessarily mean a wholesale search for new sites around the region, as the Reporter also considered that most LDPs will have allocated sufficient land to meet a significant proportion of the shortfall. Over the next 12-year period some of the need for growth will be met through those allocations in existing LDPs and the remainder is to be identified in future LDPs, mostly around Edinburgh and along transport corridors.

Those future LDPs are now emerging: Midlothian and Edinburgh Councils are working towards their Main Issues Reports (MIRs) for 2019. Notably, Edinburgh is not proposing to undertake a call for sites and will go straight to MIR for the new City Plan 2030. The Plan's spatial strategy will be focused on the re-use and regeneration of brownfield land and a definitive move away from releasing more greenfield land, which was one of the major and contentious issues associated with the current LDP.

In the North East of Scotland, the Aberdeen City and Shire Strategic Development Planning Authority is working on a replacement Strategic Development Plan. The Proposed Plan was published on 8 October and consultation runs until 17 December 2018.

As part of the review of LDPs in the North East, both Aberdeenshire Council and Aberdeen City Council invited development bids earlier this year for sites to be considered for inclusion in their forthcoming plans. An assessment of the development bids has been carried out over the summer and both Councils intend consulting on their MIR early in 2019. A draft MIR is presently being considered by Aberdeenshire Council's various Area Committees. Alongside their MIR, Aberdeenshire Council also intend to publish a draft Proposed LDP to highlight the impact of the changes they are proposing.

Offices

Barclays' decision to almost triple the size of its **Glasgow** operation by committing to a new development of c. 43,700 sq.m. at Drum Property's Buchanan Wharf, bringing an additional 2,500 jobs, is a huge endorsement for the city and the outstanding highlight among several announcements in what has been a very active six months.

The surge in market activity also includes pre-lets for Clydesdale Bank (10,308 sq.m.) at HFD Group's 177 Bothwell Street (28,335 sq.m.) and for GPU/HMRC (17,390 sq.m.) at BAM Property/Taylor Clark's 1 Atlantic Square.

Take-up of existing space has also been active. In the Broomielaw area, following on from lettings to DWP and Scottish Courts and Tribunals, the Scottish Ministers has taken 3,226 sq.m. at 4 Atlantic Quay. The decision for the location of the new Scottish Social Security Agency is awaited and further Scottish and UK Government departmental rationalisation is likely as the result of other ongoing strategic reviews.

A strong feature over the period is the expansion of business centre activity. Orega has completed on c.1,950 sq.m. at Epic's 9 George Square and Regus has taken 2,874 sq.m. at 1 West Regent Street as well as the self-contained upper floors of 100 West George Street (1,829 sq.m.) for its Spaces operation. WeWork is well documented as looking for space in both Glasgow and Edinburgh and other operators are also considering the cities.

Excluding the pre-construction deals, city centre take-up of existing stock over the last six months accounted for 34,685 sq.m., producing an annual total of 77,235 sq.m., some 16% above the same period last year. Such activity continues to erode the very limited supply of high quality larger floorplate options for occupiers. There are only seven such buildings capable of providing larger than 1,858 sq.m. with floors larger than 929 sq.m. This includes three which are awaiting refurbishment (50 Bothwell Street, 6 Atlantic Quay, and Cerium on Douglas Street) with no definitive timescales yet announced. St Vincent Plaza with 2,497 sq.m. remaining is the only new build option. As such, there are only four buildings of this scale currently ready and available and only two of these buildings, 191 West George Street and 123 St Vincent Street offer floors of over 1,394 sq.m.

Outwith the period analysed in this report, but concluded as we go to print, HMRC has leased 5,574 sq.m. at 123 St Vincent Street. This deal further reduces large floorplate office supply in Glasgow city centre.

For those occupiers seeking their own front door, self-contained options are also limited. There are just two buildings between 1,950 sq.m. to 3,252 sq.m., only one of which - 241 West George Street (2,052 sq.m.) - is fully refurbished and ready for occupation. There are no self-contained buildings available between 3,252 sq.m. and 6,968 sq.m.

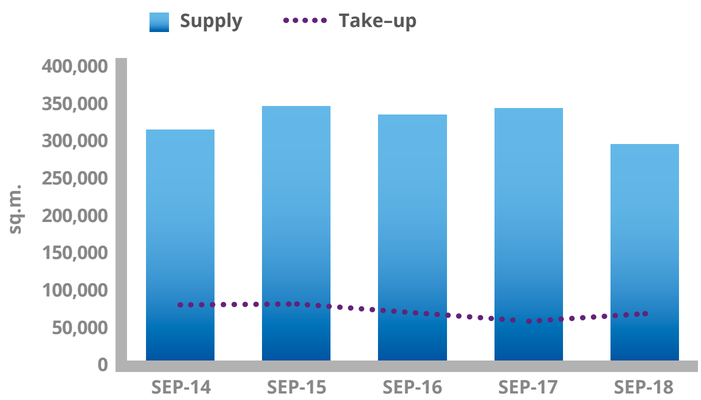
The development cycle is finally reacting to the shortage of Grade A office space in Glasgow. Fore Partnership are close to completing demolition and aim to roll into construction of Cadworks, Cadogan Street (8,826 sq.m.); BAM/Taylor Clark are on site with 2 Atlantic Square (c. 8,360 sq.m.); and HFD Group have commenced 177 Bothwell Street (28,335 sq.m.). These buildings are well placed to benefit from first mover(s) advantage. In the meantime, occupiers requiring space quickly will have to focus on the limited existing stock and forthcoming refurbishments.

Smaller indigenous occupiers seeking less than 929 sq.m. are not so restricted and continue to have a wide range of competitively-priced office options.

Glasgow city centre total existing office availability stands at 179,340 sq.m., having reduced by some 16% over the last six months. Overall within the city, total supply is 304,445 sq.m.

Outwith the city centre, take-up on the periphery totals c. 7,596 sq.m. across a range of sizes. Deals include space at Skypark 1 and 5 to Startline Motor Finance and Stena Shipping respectively; 133 Finnieston Street to French Duncan LLP and CityFibre; and deals at Pacific Quay, at The Hub for BMJ Architects and at Four Winds Pavilion for Frame Agency Ltd. At Glasgow Business Park there were lettings to First Mortgage and Omnitel Communications Ltd. The Whisky Bond on Dawson Road and The White Studios on Templeton Street continue to attract smaller companies.

Glasgow office supply and take-up



Clyde Gateway's Red Tree Business Suites have also had further success with lettings at both Red Tree Rutherglen and Bridgeton. Red Tree Magenta, the initial building at Clyde Gateway/Highbridge Properties' Magenta Urban Office Park, has secured a first letting of 668 sq.m. to Speirs Gumley and is reporting further strong interest.

Out-of-town at Maxim Office Park, Sitel Group has taken the whole of Maxim 10 (5,458 sq.m.) while at the smaller end, Brown McFarlane has leased 131 sq.m. in Maxim 3. At Westpoint Business Park in Paisley, Kent Foods Ltd purchased Building 1, (1,179 sq.m.), to part-occupy. At Buchanan Tower, Buchanan Park in Stepps, CWA has taken 1,254 sq.m. while at Solais House, Strathclyde Business Park in Bellshill, Siemens Gamesa has leased 417 sq.m.

Prime office rents in Glasgow city centre are increasing to £323-£350 per sq.m. This reflects not only the lack of new build Grade A space, but also necessity in the face of rising construction costs. This is likely to have a knock-on effect for the best quality larger floorplate refurbishments where rents currently sit at £231-£280 per sq.m. Deals at the smaller end of the high quality market remain very competitive with attractive incentive packages and rents of £178-£226 per sq.m.

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

Address	Size	Occupier
Buchanan Wharf	43,664 sq.m.	Barclays *
1 Atlantic Square	17,390 sq.m.	GPU/HMRC *
177 Bothwell Street	10,308 sq.m.	Clydesdale Bank *
Maxim 10, Maxim Office Park, Eurocentral	5,458 sq.m.	Sitel Group
4 Atlantic Quay	3,226 sq.m.	Scottish Executive
1 West Regent Street	2,874 sq.m.	Regus (Spaces)
9 George Square	2,037 sq.m.	Orega
67 Hope Street	1,861 sq.m.	Webhelp
100 West George Street	1,829 sq.m.	Regus
95 Bothwell Street	1,557 sq.m. 1,409 sq.m.	SThree Partnership LLP Jacobs
Buchanan Tower, Buchanan Park, Stepps	1,254 sq.m.	CWA
Building 1, Westpoint Business Park, Paisley	1,179 sq.m.	Kent Foods Ltd
Capella, 60 York Street	1,014 sq.m.	Arrow Global Ltd

* Pre-let

Edinburgh's office market delivered 45,055 sq.m. of take-up across 99 deals during the six months to September 2018, resulting in an annual total of 75,163 sq.m. This represents an 8% increase in activity compared with the same period in 2016 / 2017.

Edinburgh city centre attracted 32,919 sq.m. of office transactions, representing just over 73% of total take-up across the city. Grade A and high quality office accommodation accounted for 23,195 sq.m. or 70% of city centre office take-up during the six month period.

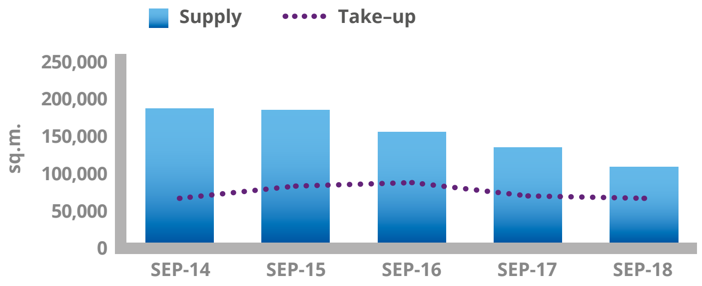
Pre-lets led the way, with investment manager Baillie Gifford's pre-let of 20 West Register Street (5,574 sq.m.) at St Andrew Square being the largest city centre deal. Pre-let deals were also signed by law firms Brodies LLP (4,011 sq.m.) and Pinsent Masons LLP (2,347 sq.m.), both of whom have committed to taking space at the Capital Square development on Morrison Street within the Exchange District which is scheduled for completion in 2020.

Other notable Edinburgh city centre deals over 929 sq.m. include: serviced office provider Spaces' expansion at 1 Lochrin Square (1,450 sq.m.) bringing its total floorspace occupied in the building to 4,210 sq.m.; Royal London at 22 Haymarket Yards (now occupying the full building of 4,366 sq.m.); EDP Renewables at Atria One (1,378 sq.m.); Aquila Insight at 7 Exchange Crescent (1,284 sq.m.); and Artemis Fund Managers at Exchange Plaza, Lothian Road (1,274 sq.m.).

Prime rents for Grade A office accommodation in Edinburgh city centre have increased to £365 per sq.m. due to increased competition to secure the best space. Incentives remain at around 15-18 months for a 10-year lease commitment to the highest quality covenant, although this will come under further pressure as a result of supply constraints.

On the periphery of Edinburgh the office markets delivered a total of 12,136 sq.m. of transactions across 25 deals over the past six month period. This is a 12% decrease in activity compared with the same six month period in 2017.

Edinburgh office supply and take-up



West Edinburgh saw a total of 6,133 sq.m. transacted across eight deals, with Diageo's pre-let of 11/12 Lochside Place, Edinburgh Park (4,069 sq.m.) being the standout letting. Charles River expanded at Clearwater House, Heriot-Watt Research Park and now occupy the full building of 2,800 sq.m. Scotland Food & Drink Ltd confirmed its relocation to Ratho Park One (406 sq.m.). Prime rents in West Edinburgh have moved on to £182 per sq.m. for refurbished options in the South Gyle area, rising to £236 per sq.m. for refurbished Grade A space on Edinburgh Park.

In North Edinburgh a total of 2,878 sq.m. transacted across nine deals including: Millar & Bryce at Ocean Point, Ocean Drive (731 sq.m.); Mercy Corps (583 sq.m.) and Alex Quinn & Partners (360 sq.m.) at Commercial Quay; and a trio of lettings at Waterview House, The Shore, to Consider IT (327 sq.m.), Spiritmedia (198 sq.m.) and Atlas Travel Solutions (191 sq.m.). Prime office rents in North Edinburgh have increased to £161 per sq.m. as supply continues to reduce.

The temporary letting of 525 Ferry Road (10,125 sq.m.) in the north of the city to arts charity, Edinburgh Palette, has been disregarded within the take-up statistics as this property is still available as an office opportunity and thus still forms part of market supply.

Total office supply across Edinburgh at September 2018 is 117,374 sq.m. This is a substantial 28% decrease from the previous six month figure, reflecting strong take-up and limited new development. This dynamic has seen a number of significant pre-lets eating into the supply pipeline e.g. BAM Properties / Hermes Investment Management's Capital Square development on Morrison Street scheduled for completion in 2020 is now 56% let (4,976 sq.m. available) through the two deals to major legal firms which were noted above.

During the Review period, the only new build office space to be completed was GSS Developments' 2 Semple Street (3,497 sq.m.) adjoining the Exchange District. With limited new development options currently on-site, there is continued interest in the refurbishment of existing office stock to deliver space, such as 80 George Street (3,770 sq.m.) which is currently undergoing refurbishment; and Orchard Brae House, Queensferry Road where refurbishment has now completed (2,678 sq.m. available).

M&G Real Estate completed the acquisition of The Haymarket development site from Interserve during the second quarter of 2018. Further announcements of the new owner's development plans for the city's major strategic gap site are awaited. A first phase would be unlikely to deliver new office space before 2021 / 2022.

Vastint has obtained planning permission for its site at Fountainbridge and is expected to commence works before the end of 2018 at the former Fountain Brewery site. The mixed-use development is proposed to deliver 5,237 sq.m. of new-build offices alongside a 262-bedroom Moxy hotel.

Meanwhile, EP3 Devco Ltd is looking to press ahead with the final piece of the Exchange Place development at Port Hamilton with a planning application for Exchange Place 4 (1,750 sq.m.) submitted in September 2018. The infill plot would complete the Exchange Place development adjacent to Scottish Widow's HQ.

Parabola has yet to finalise plans for the surplus House of Fraser department store at 145 Princes Street, but this is expected to be for alternative non-retail use with strong pre-letting / sale interest understood to be in discussions. In West Edinburgh, Parabola has also now received planning consent for the next phase of Edinburgh Park and is set to deliver a major new mixed-use urban quarter with residential, office and leisure uses.

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

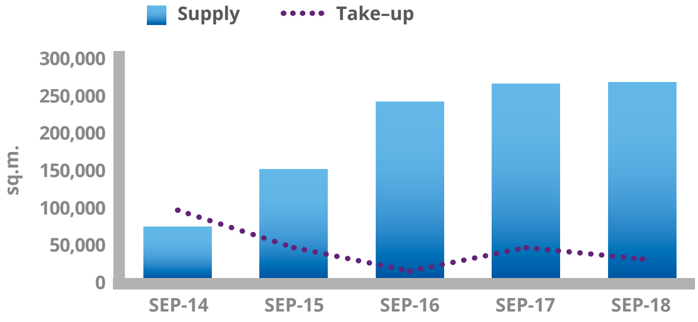
Address	Size	Occupier
20 West Register Street	5,574 sq.m.	Baillie Gifford*
Capital Square, Morrison Street	4,011 sq.m.	Brodies LLP*
	2,347 sq.m.	Pinsent Masons LLP*
1 Lochrin Square	1,450 sq.m. (additional)	Spaces
Atria One	1,378 sq.m.	EDP Renewables
7 Exchange Crescent	1,284 sq.m.	Aquila Insight
11/12 Lochside Place, Edinburgh Park	4,069 sq.m.	Diageo

* Pre-Let

In **Aberdeen**, sentiment in the oil and gas sector continues to improve with the price of Brent Crude now at or above $80 per barrel.

This stabilisation of the commodity price, at prices higher than where analysts predicted several years ago, has instilled measured confidence across the sector resulting in increased activity. Short term contract awards are slowly happening and new players are constantly reviewing the North Sea Continental Shelf as a place for future investment. Recruitment is starting to take place slowly, but this is not yet leading to a quick rise in the take-up of office accommodation.

Aberdeen office supply and take-up



The general consensus among the service companies within the oil and gas supply chain is that contract pricing and margins will have to move to a more favourable position in order to have any meaningful impact on growth within the industry. The result is a fairly flat office market in the short term until this growth takes effect. Many occupiers still require to fill grey space (offices which are leased or owned but not currently utilised) before they start to consider any additional market needs.

Supply still hovers around 278,700 sq.m., with just over 93,000 sq.m. of this being Grade A space. There is a shift across the sector with more lettings of better quality accommodation now happening. Grade A supply is down by 3,400 sq.m. since April, whereas older quality stock has increased by over 16%, clearly demonstrating that occupiers are moving on to Aberdeen's next generation of office space.

There is still c. 93,000 sq.m. of older office accommodation in Aberdeen that is fast becoming obsolete, if indeed it is not already so. Office obsolescence is however assisting a spike in development of upper level Union Street premises into residential uses. This is against the back drop of Aberdeen City Council promoting policy on City Centre Living as well as providing assisted funding through the Conservation Area Regeneration Scheme (CARS) and a recent announcement of the reduction in Affordable Housing contributions for developments in this area. This move is seen as an important step and a catalyst in the transformation of obsolete office buildings in the core city centre area.

Take-up of offices in Aberdeen over the last six months has increased to just over 18,000 sq.m. in 46 transactions. This is the sixth quarter in a row that take up has been around the 40-plus transactions level with the average transaction size still sitting within the 232 – 464 sq.m. size range.

Recent transactions include Grade A lettings at Mariscal Square to NHS National Services Scotland (929 sq.m.) and RBS (660 sq.m.); at Silver Fin to Verus Petroleum (567 sq.m.), CATS Management (381 sq.m.) and Barclays (288 sq.m.); and to Nobel Drilling at the Stratus Building at ABZ Business Park (780 sq.m.).

Further lettings across the city include BW Offshore at Horizons House, Waterloo Quay (959 sq.m.); Ineos at Prime Four Business Park (901 sq.m.); and Serica Energy at H1 building, Hill of Rubislaw (678 sq.m.).

Headline rents at Aberdeen's three new-build city centre developments remain at the same level since the last Review, with The Silver Fin holding at £350 per sq.m. Incentives are still increasing with 12-months' rent free very much being the tone for every five years of income. These incentives are likely to increase in the short term, unless a significant shift in the supply and demand dynamics takes place.

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

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

Address	Size	Occupier
Marischal Square	929 sq.m. 660 sq.m.	NHS National Services Scotland RBS
Silver Fin, Union Street	567 sq.m. 381 sq.m. 288 sq.m.	Verus Petroleum CATS Management Barclays
Stratus Building, ABZ Business Park	780 sq.m.	Nobel Drilling
Horizons House, Waterloo Quay	959 sq.m.	BW Offshore
Prime Four Business Park	901 sq.m.	Ineos
H1 building, Hill of Rubislaw	678 sq.m.	Serica Energy

Industrial

It was a slow summer for the Scottish industrial property market during an otherwise continuing good period for the sector. Activity levels are now rising again, however there is a nagging feeling that the market, though positive, is not yet firing on all cylinders. Demand for larger properties remains unpredictable and there have been fewer leads from established businesses and inward investors. It is of course possible that some projects are on hold until there is greater clarity on our future relationship with the rest of Europe, a view that is supported by anecdotal evidence from various sources. Uncertainty is rarely positive.

The summary remains largely the same as in our previous Reviews. Continuing reductions in supply, more industrial estates achieving full occupancy, rising rents and some limited development reaction. A greater number of potential new industrial projects are now under discussion or making progress through the planning system. The detail is more complicated of course and the exact location, configuration and condition of a property remain the key to its success in the market.

The **Greater Glasgow** industrial property market has a total stock of 8.8 million sq.m. of which 8.1% is currently available comprising 5.5% vacant space and 2.6% available via existing leases (CoStar). Availability remains lowest for units smaller than 929 sq.m., at 4.5% with 3.0% vacant and 1.5% via existing leases.

Average take-up in Greater Glasgow over the past five years has been 323,900 sq.m. per annum, which suggests 2.32 years of remaining supply. Take-up has slowed in 2018 in comparison with recent years, but a good number of deals are in legal hands and some catch-up is anticipated in the remaining months of the year. In addition, the usual lag in reporting deals may be a contributory factor.

However, a further possible explanation is that the tightening supply is creating unsatisfied demand given a lack of suitable units by location, size and modernity. There is also an increasing number of parties wishing to buy property, but very low levels of property available for sale. It is unlikely that the development market will create new space for onward sale given the level of investment interest in let stock, therefore determined buyers will need to wait for opportunities to arise, or resort to leasing.

The lack of supply in Glasgow continues to benefit surrounding towns. East Kilbride's total availability has fallen to 7.6 % (5.3% vacant and 2.3% existing leases) and rents are rising across most unit sizes in the town.

However, East Kilbride's performance appears almost static in comparison with Cumbernauld's turnaround. Total availability peaked in Q4 of 2014 at 32.8% and is now 9.4% (6.7% vacant and 2.7% existing leases). Cumbernauld's 2018 figures now show a fall in activity as rising demand has taken-up better industrial space, leaving a balance of poorer properties. An excellent location and road infrastructure perhaps indicate that Cumbernauld now warrants greater consideration for new development or refurbishment. Northern Trust's and CEG's refurbishments at Westfield have led to a good flow of lettings on formerly difficult space and industrial units at Cumbernauld Business Park are now fully let following Freshco taking 604 sq.m. at £48 per sq.m.

Also in the wider region, Kilmarnock is now one of the tightest markets with a total availability of 5.6% (3.2% vacant and 2.4% existing leases). IO Group's Glencairn Estate in Kilmarnock is nearing full occupancy and rents have steadily increased over the past few years. Nevertheless, rents in Kilmarnock still sit below the Greater Glasgow average. It is unlikely the local markets would welcome the rental levels required for new build, but equally a continued erosion of supply in Kilmarnock and also in Irvine will constrain business growth.

New-build industrial development projects on site in Greater Glasgow now include: detached units on Abercromby Street, Glasgow (1,534 sq,m.); Dunn Street, Glasgow (743 sq.m.); Auldyards Road, Gartcosh (1,672 sq.m.); Rutherglen Links Business Park, Rutherglen (1,393 sq.m.); and a mid-terrace infill unit on Cartside Avenue, Inchinnan (313 sq.m.).

Proposed speculative new-build projects include:

Developer	Property	Size
Fusion Assets and J Smart & Co	Auldyards Road, Gartcosh	1,486 sq.m. and 2,276 sq.m
Harris Finance	Rutherglen Links Business Park, Rutherglen	2,787 sq.m.
Aberdeen Standard Investments	Clyde Gateway East, Glasgow	1,300 sq.m., 1,579 sq.m. and 4,274 sq.m. (sub-divisible)
Muir Group	Glasgow Business Park, Glasgow	3,530 sq.m. in units of 279 sq.m. and 464 sq.m
Tilstone	Queenslie Industrial Estate, Glasgow	3,716 sq.m. in units of 279 sq.m. and 464 sq.m.
Fusion Assets and CBC	Condor Glen, Eurocentral	4,088 sq.m. in units of up to 929 sq.m.

Significant projects are also under consideration at Eurocentral and Hillington Park with further development starts in 2019 considered highly likely. At Hillington Park there are only eight units available smaller than 929 sq.m. out of a total stock of 212 units.

In total, projects actively on site or under advanced consideration will create over 55,740 sq.m. of new space mainly focused in and around Glasgow. Assuming all are initiated in 2019 this will still fall well short of the 92,900 sq.m. of construction starts in what is considered a normal development market for Glasgow. It will begin to address some of the shortages experienced in key locations, without fully meeting anticipated demand.

Notable deals include activity at Eurocentral, where Brewdog purchased the Vertex building (11,985 sq.m.) from Muse Developments at a confidential price for a UK distribution hub; and Wincanton Plc leased Colossus 1 (8,780 sq.m.) from Kennedy Wilson at £55 per sq.m. following full refurbishment of the space.

In Bellshill, Unit A at Eastpoint (2,670 sq.m.) let to GeoAmey at £70 per sq.m. is an excellent example of a building reconfigured, by Zephyr (Scotland) Limited, achieving a strong rent. McGhee's Bakery leased Unit 1 Belgrave Point (1,773 sq.m.) on a 10- year lease at £81 per sq.m. It is understood the unit is for its Just: Gluten Free Bakery brand and was let in shell condition with an allowance for up to 10% office accommodation provided via a rent-free period.

The 1,858 sq.m. new build at Plot C, Unit 1 Rutherglen Links Business Park has been split and 1,111 sq.m. let to Ford Retail Limited at £81 per sq.m. on a shell basis as a parts distribution centre for the group. This follows lettings on the Park to Eurocell, Screwfix and Trans Canada Turbines and is an excellent example of the public and private sectors working together to create new employment space. Clyde Gateway URC remediated the site and put in the Park infrastructure while Harris Finance has constructed and marketed the buildings on a speculative basis.

The Cambuslang/Tollcross area of Glasgow is particularly strong for the industrial market given the immediate access to the M74 and close proximity of Glasgow city centre. However, availability levels are low and most of the sites are developed, leaving occupiers with few options. Aberdeen Standard Investments' development at Clyde Gateway East is expected to attract good levels of interest in 2019. In Cambuslang, Righton has leased 64 Fullarton Drive (1,882 sq.m.) at £81 per sq.m. on a 10-year lease following refurbishment upon the expiry of the previous lease.

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

Address	Size	Occupier
Vertex building, Eurocentral	11,985 sq.m.	Brewdog
Colossus 1, Eurocentral	8,780 sq.m.	Wincanton Plc
Unit A at Eastpoint, Bellshill	2,670 sq.m.	GeoAmey
64 Fullarton Drive, Cambuslang	1,882 sq.m.	Righton

The industrial property market in **East Central Scotland** is also fundamentally strong. A similar situation exists of limited supply and a pipeline of new development which in reality will not dampen the market given its overall scale.

The market area (Edinburgh, Lothians, Fife and Falkirk) has a current availability rate of 9.4%, comprising 5.6% of vacant space and the remaining 3.8% available through existing leases (CoStar). The availability rate has fallen from c.12% in 2014.

The Edinburgh city industrial property market is in a particularly healthy position. Supply is limited and rents for well-located estates are firmly established between £86 – £96 per sq.m. For exceptional, high profile estates with a trades focus rents of £107 per sq.m. and above have been achieved. However, the trade counter sector is entering a mature phase and new enquiries have eased.

Speculative industrial schemes to the west of Edinburgh, either completed or recently commenced, have proven popular. The City of Edinburgh Council development of 16 small industrial / workshop units at East Hermiston Business Park on Sighthill Industrial Estate totalling c.1,580 sq.m. is now fully let at rents in excess of £96 per sq.m. At C&W Assets' West Edinburgh Business Park at South Gyle, 25% remains available within the 2,400 sq.m. second phase and the final third phase of 1,858 sq.m. is about to be marketed on a design-and-build basis.

A further new development of trade counter units is underway by Vardy Property Group at Bankhead Crossway North on Sighthill Industrial Estate (1,625 sq.m. in total) and encouragingly the agents report that all but one of the units is currently under offer. The guide rent for this development is £107 per sq.m.

Transactions have continued on Edinburgh's major and inner urban estates including: DFS at 23 South Gyle Crescent, South Gyle Industrial Estate (2,741 sq.m.); St Andrew Timber & Building Supplies at Unit 28 Stenhouse Mill Wynd Industrial Estate (270 sq.m.); and B & B Clean at Unit 6, Block 5, West Telferton Industrial Estate (190 sq.m.).

Within parts of Midlothian, the rents achievable in estates such as Bilston Glen and Pentland Industrial Estate (Loanhead) are at the same level as within Edinburgh. These estates benefit from direct access to the city and the A720 City Bypass. Rents of £75 - £86 per sq.m. can be expected for better accommodation for small to medium unit sizes (139 - 1,393 sq.m.).

Transactions in Midlothian include: DCL Joinery on Hardengreen Industrial Estate, Dalkeith (250 sq.m.); Inclusive Play Ltd and SARAL Recycling Ltd at Edgefield Road Trade Park, Loanhead (186 sq.m. each); and Sidey Solutions on Pentland Industrial Estate, Loanhead (206 sq.m.).

West Lothian's traditional industrial accommodation was mostly developed by Livingston Development Corporation a number of decades ago. Refurbished industrial space is on offer at rents of between £43 - £48 per sq.m., a level which has prevailed for many years. The lack of modern space across the region is driving the refurbishment. For example, the ongoing partial refurbishment of units at Brucefield Industry Park in Livingston is proving popular with a recent letting to Diet Chef of 2 Rennie Square (3,437 sq.m.).

There are relatively few new industrial developments in West Lothian. Where these are trade related, rents increase to £70 - £86 per sq.m. New Houstoun Business Park in Livingston is a good example, where Chancerygate proposes a new development totalling 5,853 sq.m.; construction should commence within the next few months and agents are reporting strong interest in potential pre-lets. The second phase of C&W Assets' Inchwood Business Park in Bathgate is now fully let and only one phase of 1,098 sq.m. remains to be developed in this location.

There has been little activity in the large (in excess of 4,645 sq.m.) unit sector in East Central Scotland, with the exception of Fife Group acquiring the former CommScope premises in Lochgelly, Fife of approximately 11,150 sq.m. on 10 hectares for £1.5 million.

In addition 1 Simpson Parkway, Kirkton Campus in Livingston, a purpose built factory and office premises of 11,200 sq.m. which has lain vacant for a number of years, has recently been demolished. It is likely the land will be developed for an alternative use.

The most significant investment in industrial property in Fife over recent months has been at Belleknowes Industrial Estate in Inverkeithing where owners Hermes Property Unit Trust are undertaking refurbishment and modernisation. Units are available from 325 - 1,670 sq.m. at rents from £54 - £70 per sq.m.

Also in Fife, marketing is due to commence for the gateway site at Scarborough Muir Group's Queensferry One in Rosyth. Proposed uses include a petrol filling

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

Address	Size	Occupier
23 South Gyle Crescent, South Gyle Industrial Estate, Edinburgh	2,740 sq.m.	DFS
Unit 3 Newbridge Industrial Estate, Edinburgh	2,146 sq.m.	Lothian Buses
2 Rennie Square, Brucefield Industry Park, Livingston	3,437 sq.m.	Diet Chef
South Lumley Street, Grangemouth	4,180 sq.m.	Epiroc

station, motorway services, drive-thru restaurant and coffee shop, and a hotel along with retail and leisure. A 24-hectare site for design-and-build solutions from 929 sq.m. is available here.

High tech train manufacturer, Talgo, is considering the former power station site at Longannet near Kincardine as a location for its new factory. It is also looking at a site in Hunterston, Ayrshire and four other UK locations.

The industrial property market around Grangemouth and Falkirk has been positive recently. Notable transactions include Epiroc, formerly part of Atlas Copco, leasing 4,180 sq.m. at £48 per sq.m. on South Lumley Street in Grangemouth following an extensive refurbishment by Bellair (Scotland) Ltd.

Northern Trust's multi-let industrial development in Grangemouth at Grange Court, Earls Gate Business Park has re-let its last remaining unit to again become fully occupied achieving a rate of £84 per sq.m. in a recent letting to AVSD Ltd. This is well timed as the Lancashire developer is about to commence construction of Phase 2 Grange Court comprising a further 1,626 sq.m. of industrial units with completion expected in summer 2019.

Nearby, Falkirk Council's development of four industrial / trade counter units totalling 929 sq.m. at Abbotsford Business Park within Bankside Industrial Estate has taken a further step toward completion and is expected to achieve similar rents of c. £86 per sq.m.

The **Aberdeen** industrial property market continues to experience challenging times, despite the improved oil price. The sentiment in the market place has certainly improved during the course of 2018, but this, as yet, is not fully reflected in increased industrial property activity.

Abereen's industrial take-up in the last six months totals 32,485 sq.m. which represents a 10% decrease on the previous six months. An additional 14,780 sq.m. is currently under offer. The number of deals concluded however has risen from 35 to 51, an increase of 45% in the last six months, which highlights that the active sector is the smaller size range of 0-464 sq.m., where take-up has increased by 90% on the previous six months.

Larger transactions have reduced but include Control Valve Solutions at Unit 7, Minto Commercial Park, Minto Place, Altens (2,228 sq.m.); Texo Group Ltd at Unit 2, Kingshill Commercial Park, Westhill (1,440 sq.m.); Fugro GB (North) Marine Ltd at Unit 1, Denmore Place, Bridge of Don (1,087 sq.m.); HB Rentals at Howe Moss Drive, Kirkhill Industrial Estate, Dyce (1,076 sq.m.); and Foro Energy (UK) Ltd at Unit 2A, Kintore Business Park, Kintore (1,069 sq.m.).

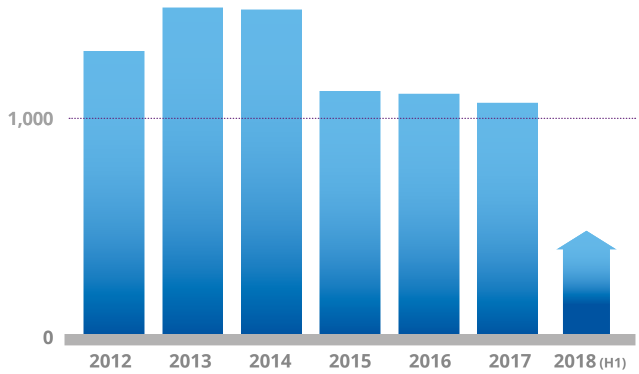
Industrial property supply in Aberdeen has risen by 14% over the last six months from 190,938 sq.m. to 218,374 sq.m. The number of properties available has risen from 189 to 205, an 8% increase. Supply is up in all size ranges, but most notably, it has risen by 20% in the 929 sq.m.+ size bracket. In recent months a number of the larger oil and gas operators have placed substantial industrial facilities on the market as they seek to reduce costs and consolidate into a smaller number of operational premises.

Supply can be categorised: new build stock 5%, modern stock 52%, and older stock 38%, with an additional 5% under construction. Interestingly, new build stock levels have fallen 38% highlighting that occupiers, despite tough market conditions, are still seeking good quality space.

The increase in smaller unit market activity has given a number of developers in the market the confidence to press ahead with the speculative development of new-build multi-let schemes. These are: Knight Property Group at Kingshill Commercial Park in Westhill, five units of 232 sq.m.; ABZ Developments at ABZ Business Park in Dyce, 14 units from 232 sq.m.; and Dandara at City South in Portlethen, 19 units from 116 sq.m. These will be the first new build multi-let schemes built in the Aberdeen market for over 10 years.

As it remains a tenants' market, the current period represents a good opportunity for occupiers to take on better quality premises, whilst benefiting from rent free periods and more flexible lease terms.

Number of industrial transactions in Scotland



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

Address	Size	Occupier
Unit 7, Minto Commercial Park, Minto Place, Altens	2,228 sq.m.	Control Valve Solutions
Unit 2, Kingshill Commercial Park, Westhill	1,440 sq.m.	Texo Group Ltd
Unit 1, Denmore Place, Bridge of Don	1,087 sq.m.	Fugro GB (North) Marine Ltd
Howe Moss Drive, Kirkhill Industrial Estate, Dyce	1,076 sq.m.	HB Rentals
Unit 2A, Kintore Business Park, Kintore	1,069 sq.m.	Foro Energy (UK) Ltd

Retail and Leisure

The Scottish Retail Consortium and KPMG announced that in September 2018, like-for-like retail sales in Scotland fell by -0.2%, year-on-year. Food sales were the strongest category with a year-on-year increase of 3.7%, however non-food sales fell by -1.4%.

Scotland has endured the most substantial contraction of high street shop units in the UK, with 520 closures (Local Data Company) during 2017. Banks, travel agents and estate agents were among the worst affected.

Factors leading to these industry stresses and closures are well-documented. Market pressures are both general to the market and specific to individual retailers – migration of consumer spending to the internet, the increasing dominance of regional shopping centres, over-expansion in some cases and rising business operating costs including supply chains, staff and property.

Previously announced retail closures have included Maplin,Toys R Us, New Look, Carpetright, Poundworld, Marks & Spencer and Homebase, together with restaurant closures from occupiers such as Carluccio's, Jamie's Italian, Prezzo and Byron.

In the department store sector, further high-profile closures include House of Fraser (Edinburgh) and potentially Watt Brothers (Glasgow). This follows closures from larger stores such as BHS, Dunnes and McEwans of Perth. Debenhams has also very recently announced a rationalisation programme.

There is however some positive news on the high street, through the continued expansion of operators including Lloyds Pharmacy, Betfred, Co-op Funeral Care and Greggs, each of which reports multiple new openings around the country.

There is also further positive news from Aldi which has reported its intention to open a further 130 stores around the UK; Scotland features strongly with a number of new stores planned. Also in the convenience sector, Co-op has followed on from its expansion in 2017 with a further 18 stores planned in Scotland during 2018.

As indicated in the economic commentary on page 1, and bucking the challenging market conditions for department and variety stores, TJ Hughes' expansion plans include four stores in Scotland, in East Kilbride, Dundee, Livingston and Clydebank.

Expansions also continue both in and out-of-town – although mostly out-of-town – for café operators Starbucks, Costa Coffee and Tim Hortons.

Nespresso has opened a new store at 60/62 Buchanan Street, **Glasgow**. This follows recent openings by Vapiano restaurant at 235 Buchanan Street, T2 at 135 Buchanan Street and Levi at 38 Buchanan Street on a new 10-year lease which established the tone of £317 per sq. ft. Zone A. The recent letting of 1,858 sq.m. to Victoria's Secret within Land Securities' Buchanan Galleries Shopping Centre has secured a prominent frontage onto super-prime Buchanan Street.

The owner of Princes Square, Redevco, has announced the opening of a 3-screen boutique Everyman Cinema at the end of October 2018. The new cinema will offer more than 200 seats together with a bar serving food and drink. The centre has also announced that fashion and accessories brand, Kate Spade New York, will open a new store in Spring 2019.

Sovereign Centros has commenced the leisure development within the former 7,060 sq.m. BHS store aimed at re-anchoring the St Enoch shopping centre. The proposed 2,787 sq.m. cinema is to be operated by Vue and nine restaurant units will range in size from 186 - 464 sq.m.

PureGym opened a 1,050 sq.m. gym during the summer at **Silverburn** Shopping Centre. Fashion brand Khaadi has now opened its first Scottish store at the centre and children's leisure concept Fun Street plans to open a 1,115 sq.m. indoor play centre in 2019.

Glasgow Fort announced the arrivals of fashion retailers Tessuti with a 530 sq.m. store and Scotts with a 409 sq.m. store. These retailers join other recent arrivals Ann Summers and Skechers.

As indicated opposite, a letting to TJ Hughes has been announced at **East Kilbride** Shopping Centre within the former 2,945 sq.m. BHS store. This follows a letting to Flying Tiger of 279 sq.m. unit in the centre. The Marks & Spencer outlet in East Kilbride is however earmarked for closure.

The construction of the St James Quarter in **Edinburgh** is ongoing and on track to open in 2020. Lettings elsewhere in Edinburgh city centre include Mint Velvet's relocation to 35 George Street (325 sq.m.) on a 15-year lease at an initial rental of £260,000 per annum; and Optical Express at 10 George Street (638 sq.m.) at an initial rental of £275,000 per annum.

On St Andrew Square in Edinburgh, The Registers development by Chris Stewart Group continues to add to new restaurant openings in the area with Hawksmoor's 170-seat steak restaurant, along with Tattu and Franco Manca. The adjacent former RBS premises will be redeveloped into the Gleneagles Club, an Edinburgh offshoot of the renowned hotel offering bars, restaurant and bedrooms.

At Fort Kinnaird on the outskirts of Edinburgh, recent openings include Schuh and Schuh Kids (464 sq.m.), a flagship Currys PC World (2,184 sq.m.), Barrhead Travel (186 sq.m.), Skechers (604 sq.m.), Wagamama (372 sq.m.) and Swarovski (139 sq.m.). JD Sports has doubled its store size at the retail park to 929 sq.m.

In **Aberdeen**, Waterstones opened a 920 sq.m. bookstore in the Bon Accord Shopping Centre. The new store forms part of a leisure-focused development which will include a 700 seat 7-screen cinema and restaurant terrace. Additionally, Bon Marche opened a 372 sq.m. store on a new 10-year lease at an initial rent of £225,000 per annum.

In **Dundee's** Wellgate Centre Shopping Centre, as noted, TJ Hughes opened a new 5,110 sq.m. store in October 2018, replacing the former BHS as a flagship store anchoring the centre. Xercise 4 Less also recently opened a gym here.

In **Livingston**, clothing and homewear retailer Next will relocate from the centre to Almondvale West Retail Park in early 2019 to occupy a 2,300 sq.m. store. The landlords also announced an investment of £3.5 million to enhance the buildings and public realm space at the retail park. At Almondvale South Retail Park, TJ Hughes as indicated opened a 2,230 sq.m. home concept store in the former Toys R Us unit as part of its expansion in Scotland.

St Catherine's Retail Park in **Perth** has attracted recent openings by Homesense and Tapi Carpets in a new unit built on the site of the former B&Q DIY store.

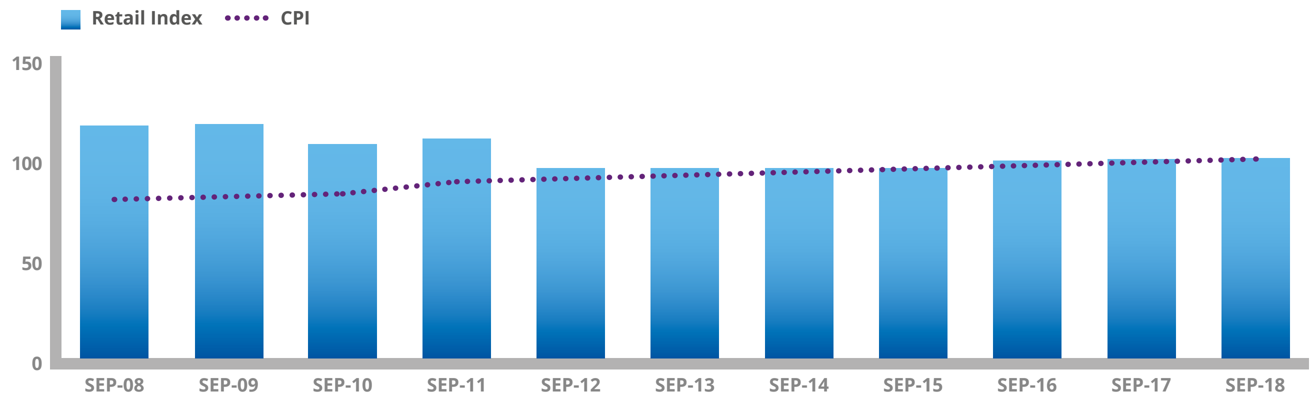
Plans have been approved to create four restaurants and a food kiosk facing onto Falcon Square at the Eastgate Shopping Centre in **Inverness**.

In summary, the retail market in Scotland continues to deal with the cost issues highlighted above, and concerns about rising interest rates which may further exacerbate these cost pressures.

Some retailers are scaling back openings in the hope of a better deal in the months to come, or to benefit from the failure of another occupier where more desirable premises may become available. It is expected that a tenants' market will prevail for the foreseeable future.

Ryden's prime retail rent index covers Scotland's top 20 shopping locations and is shown on the chart below. A marginal rise was recorded at the start of 2018 due to prime locations in Glasgow and Edinburgh once again delivering rental growth, within an otherwise flat rental performance across the country's principal retail locations.

Retail rent index



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

Investment

While summer 2018 was record breaking weather-wise, the property investment market was cooler during July and August when almost no stock of any note was brought to the market. However, as soon as September arrived, a string of new sales were launched across the country as sellers looked to cash in on improved sentiment in the Scottish marketplace.

Overall, transactional activity has increased compared to the previous six months. With just over two months to year end it is expected that 2018 will exceed 2017 in terms of investment volumes and number of properties sold. Glasgow offices and Aberdeen industrials have been the particular hot spots compared with last year. Meanwhile, investors' insatiable appetite for Edinburgh continues and as a result yields in that city are now at or approaching historically low levels.

Of the three principal property sectors, retail is the one where investor demand is the most fragile, which is not unexpected given the well-publicised and numerous profit warnings of some of the most well-known High Street retailers. This of course is a UK wide concern and has led to lower deal volumes. Scottish investment activity in this sector has been geographically patchy with interest in larger lot sizes principally focused on the prime locations within Glasgow and Edinburgh.

Offices

The healthy levels of transactional activity reported in our April Review have continued. An increasing number of buyers have targeted existing owners who are looking to book profit generated by asset management and letting successes provided by the generally strong office occupational markets.

As a result, yield compression is underway in stronger city markets. Glasgow's prime office yields have moved down to 5% – 5.25% and well-let modern city centre product in Edinburgh is in the range 4.5% – 5%. Prime Aberdeen yields are steady at 6.25% and provide solid income returns.

Office property investment deals include:

Address	Property	Purchaser
145 St Vincent Street, Glasgow	Prominent Grade B corner office extending to 3,530 sq.m. Multi-let and tenants include Morton Fraser, Lockton and Panoramic Growth Equity	RJ Holdings for £11 million (6.9%)
38 Cadogan Street, Glasgow	3,716 sq.m. refurbished multi-let office building. Majority let to Westcot Credit Services. One vacant suite	APAM Ltd for £7.3 million (4.8%)
1 Atlantic Quay, Glasgow	11,309 sq.m. refurbished office building. Majority let to Secretary of State for c. 12 years	Darin Partners for £52 million (5.2%)
Maxim Office Park, Eurocentral	10 buildings comprising 70,235 sq.m. with 26% occupancy. Tenants include SEPA and Balfour Beatty	Shelborn Asset Management. Sale subject to NDA but above quoting price of £30 million
Princes Exchange & New Uberior House, Earl Grey Street, Edinburgh	Two adjoining office buildings totalling 14,720 sq.m. Let to Bank of Scotland expiring December 2025	MAS Real Estate for £71 million (5.57%)
20 West Register Street, Edinburgh	5,574 sq.m. prime office building will be completing early 2019. Pre-let on a 15-year lease to Baillie Gifford	Hines for c. £53 million (c. 4.5%)
Greenside, Blenheim Place, Edinburgh	Extensively refurbished 3,530 sq.m. office building completed in Autumn 2017. 85% let	KanAM for £17.5 million
7 Lochside View, Edinburgh Park, Edinburgh	Modern multi-let 5,627 sq.m. building fully let to Business Stream, Origo Services, WSP and Viavi Solutions UK	Aprirose for £13.3 million (5.9%)
Thermopylae House & Teekay House, Westhill	Two modern office buildings extending to 4,354 sq.m.	Sydney & London Properties for £13.3 million (7.58%)
City Wharf, Shiprow, Aberdeen	Modern city centre office building with additional income from car park, casino and retail units	HKIP/Revcap for £11.35 million (9.62%)

Office investment buyers have tended to be Middle East or Far Eastern investors for the institutional stock and UK property companies for secondary and value-add assets. Both UK and German institutions have not been active buyers and are more likely to dispose of assets. An acceptable solution to the Brexit situation would be a stimulus for greater German investor activity, although this applies to the UK generally rather than just the Scottish market.

Activity levels in Edinburgh and Glasgow have varied. In Glasgow, significant numbers of buildings have recently come to market or changed hands. The most notable deal was Moorfield's sale of Building 1 Atlantic Quay to Darin Partners for £52 million (5.2%) There has been less activity in Edinburgh, with the most notable market transaction the acquisition of the Haymarket development site by M&G Real Estate for £49.1 million. There has been limited activity in Aberdeen, with only two sales of significance.

In the out-of-town market, the sale of Maxim Office Park, Eurocentral, to Shelborn Asset Management is the standout deal. Comprising 70,235 sq.m. of accommodation with a 26% occupancy rate, the park offered a significant asset management opportunity and sold at a figure considerably ahead of the asking price of £30 million.

Industrial

The industrial sector has cemented its place at the forefront of most investors' acquisition strategies. As a result the sector has continued to perform well.

Demand is strongest in Glasgow and Edinburgh, although the recent recovery and stability in the oil and gas sector has seen investors buying again in Aberdeen where a number of notable deals have concluded.

Demand does however favour long-dated income or modern property in prime locations. Older or more secondary stock has continued to struggle, with transactions taking longer and fewer buyers active. This has been reflected in pricing, with the gap from prime to older or secondary stock continuing to grow, confirming a more cautious approach by investors outside of modern units in the best locations.

Industrial property investment deals include:

Address	Property	Purchaser
The Point, Port Dundas, Glasgow	Multi-let industrial/trade park totalling 26,942 sq.m. Tenants include SeeWoo Cash and Carry, Howden, HSS, Screwfix and Euro Car Parts	Kames Capital for £14.1 million (6.6%)
M8 Interlink, Coatbridge	26,942 sq.m. multi-let industrial estate with tenants including Boots, Rentokil, PTS and Eurocell. Three vacant units with rent guarantees	Aberdeen Standard Investments for £24.6 million (c. 6%)
Clyde Gateway East, Glasgow	6,736 sq.m modern multi-let industrial estate, let to BT, Glacier Energy and Greencore	Aberdeen Standard Investments for £10.65 million (6.1%)
Yodel, Righead Industrial Estate, Bellshill	4,942 sq.m distribution facility let to Yodel until 2025, tbo 2020	Custodian Capital for £3.72 million (6.94%)
Tallents House, South Gyle Crescent, Edinburgh	8,763 sq.m. office and warehouse facility. Let to Royal Mail Group Ltd expiring March 2020	Ambassador Group for £7.37 million (8.14%)
Hunting Park, Houstoun Industrial Estate, Livingston	Multi-let industrial estate split ownership extending to c. 3,250 sqm.	Sheet Anchor Investments for c. £1.65 million (9.14%)
Oakbank Park Place, Livingston	Modern sub-divided unit of 7,908 sq.m. Tenants are Oasis UK and DX Network Services. WAULT c. 6 years to breaks.	Tarras Park Properties (North) Ltd for c. £2.9 million (9.9%)
Units 2 - 4, Hareness Circle, Altens Industrial Estate, Aberdeen	Terraced industrial units extending to 1,386 sq.m.	Drumcarron Property Ltd for £1.12 million (9.65%)
Unit 7B, ABZ Business Park, Kirkhill, Aberdeen	Detached industrial unit extending to 1,719 sq.m.	Maven Capital Partners for £3.4 million (7%)
Lombard Centre, Kirkhill Industrial Estate, Aberdeen	Three terraces of industrial units extending to 3,030 sq.m.	Stenprop Ltd for £3.2 million (8.15%)
Unit 4, ABZ Business Park, Kirkhill, Aberdeen	Detached industrial unit extending to 1,449 sq.m.	Lightstone Properties Ltd for £2.9 million (8.35%)
Portlethen Industrial Estate, Portlethen	Two terraces of industrial units extending to 2,093 sq.m.	M7 Real Estate for £1.585 million (8%)
Tofthills Avenue, Midmill Business Park, Kintore	Office and workshop extending to 19,853 sq.m.	Ropemaker Properties for £31.2 million (6.31%)

Multi-let estates remain favoured by institutional investors and property companies, while private investors continue to drive the single-let industrial market. The biggest factor affecting the market at present – notwithstanding the ongoing political uncertainty, which has largely been ignored by most investors so far – is a real shortage of good quality industrial property investments for sale. Although occupational levels remain high and rental growth continues, there has not yet been a flow of stock into the market, as a result of continuing vendor uncertainty over suitable opportunities for reinvestment of sale proceeds.

Yields continue to reduce in Glasgow and Edinburgh, where long-let good quality stock is expected to trade between the 5.25% – 5.75% range and good multi-let estates at 6% – 6.25%. Aberdeen continues to improve, but has not yet returned to pre-2014 levels.

New industrial supply remains an issue. However a shift in attitude is evident among institutional funders who, recognising the critical shortages of supply, are beginning to once again consider funding for speculative development. Some developers will aim to capture pent-up occupier demand and speculative new-build stock will begin to feed through to the market in the latter half of 2019. Consideration is however only being given to prime locations such as Cambuslang / Eurocentral in the West and South Gyle / Sighthill in the East.

Retail and Leisure

The retail sector continues to confront a number of headwinds. A flood of CVAs, subdued retail spending, Brexit uncertainty, the continued rise of e-commerce, business rates and the National Living Wage are all negatively impacting the sector. The challenges have combined to constrain occupational demand and place a downward pressure on rental levels in all but the most prime locations. The fall in transactional volumes across the sector is a direct result of investors' cautious, selective approach, where income quality and sustainability are paramount.

The chill winds have been felt most notably in the unit shop and shopping centre sub-sectors, where the downward pressure on rents and the slowdown in transactional volumes have been marked. These sub-sectors are probably most affected by the factors noted above and in particular changing consumer behaviour and the continued decline in face-to-face spending.

Notable transactions include the purchase of the House of Fraser store on Buchanan Street, Glasgow by SDI (Propco 66) Ltd (a subsidiary of Sports Direct) for £95 million (4.2%) from DTZ Investors. Another prime transaction involved the purchase of 79-80 Buchanan Street, Glasgow by Ponte Gadea from Lothbury for £31 million (c. 4%). These transactions demonstrate how super-prime yields have remained firm while sub-prime yields have drifted.

Retail warehousing continues to attract both overseas and domestic investors. In part this interest reflects the appetite for stable long income. A key consideration for operators and investors is location, as convenience to the consumer is key. This will become increasingly important to online retailers with the growth of "click and collect" and "next day delivery".

A significant recent transaction in this sector was M&G Real Estate's purchase of a 50% share in Fort Kinnaird Retail Park in Edinburgh for £167 million (5.38% initial yield). In the regional markets, Fife Central Retail Park in Kirkcaldy was purchased by Capreon from Hammerson as part of a portfolio.

The supermarket and discount food sectors continue to prove popular for investors seeking long-dated income and relatively sound occupier covenants. Food sales have been robust, but rents particularly on larger stores have experienced downward pressure. This has influenced investors and interest is predominantly focused on smaller stores, especially where leases incorporate open market rent reviews.

The leisure sector continues to prove popular with investors. More attention is being paid to covenant strength in the food & beverage sector, however the hotel sector continues to attract new operators and investors. From an investment perspective the market is becoming quite congested and, in an effort to secure opportunities, investors are moving into the managed hotels sector. In the meantime, prices continue to increase in the leased hotels sector.

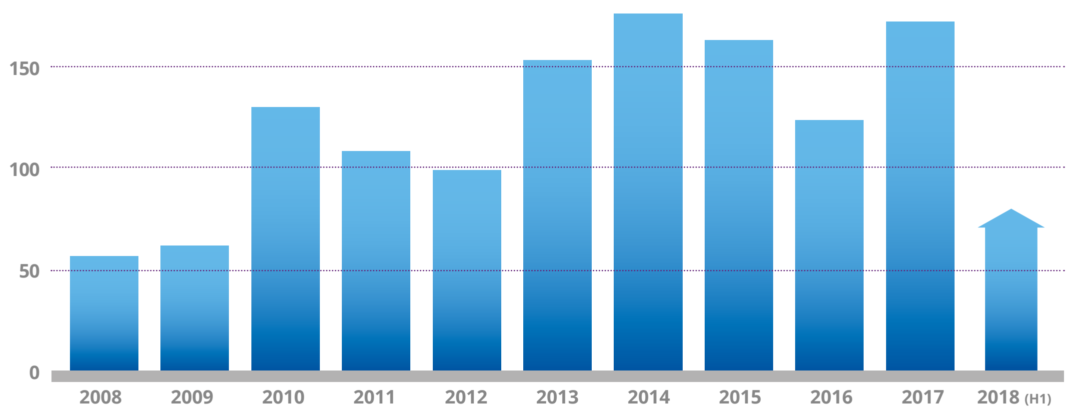
The alternative sector generally, which includes hotels, is burgeoning. The weight of money exceeds the available stock. This has led to yield compression across a number of asset classes and also an increase in forward funding transactions. The difference in yield between up-and-built and funding transactions is ever-decreasing. A significant appeal of the alternative sector is the prospect of income matching inflation, either through indexation or investment into an asset where it is perceived income growth will track or outperform inflation. Examples of this strategy include investment into direct-let student accommodation, private rental sector (PRS)/built-to-rent residential and managed hotels.

Retail and leisure property investment deals include:

Address	Property	Purchaser
House of Fraser Buchanan Street, Glasgow	Flagship department store	SDI (Propco 66) Ltd for £95 million (4.2%)
78-90 Buchanan Street & 9-17 Exchange Place, Glasgow	Prime corner mixed-use block totalling 3,252 sq.m. Multi-let to Vodafone, Lush, Starbucks, Rogano with upper floors	Ponte Gadea for £31 million (4%)
122-128 Buchanan Street, Glasgow	221 sq.m. prime retail units let to Swatch and Scribbler on long term income	DTZ Investors for £9.36 million (4.2%)
Fort Kinnaird Retail Park, Edinburgh	Prime retail and leisure park on the outskirts of Edinburgh. Anchored by M&S, Primark, Next and Odeon cinema	M&G Real Estate (50% share) £167 million (5.38%)
113 Glasgow Road, Edinburgh	Stand-alone B&M unit of 3,746 sq.m. located beside the Maybury junction	Mayfair Capital Investment Management Ltd for £8.3 million (6%)
Sainsbury's Local, Causewayside, Edinburgh	365 sq.m. convenience store let to Sainsbury's Supermarkets Ltd until February 2029, tenant break option February 2024	Private investor for £975,000 (6.25%)
196 - 206 Union Street, Aberdeen	Six retail units extending to 2,682 sq.m.	Hazledene House for £5 million (9.82%)
Wellington Circle, Aberdeen	Retail warehouse development extending to 10,404 sq.m.	House of Hiranandani for £22.5 million (6.01%)

Investment tracker:

Number of transactions over £1 million in Scotland



Outlook

The current strong level of investor demand for quality Scottish assets is expected to continue for the remainder of this year as investors seek to capture better value yields compared to the hotspots in England.

Undoubtedly, the outcome of the Brexit negotiations will influence how 2019 plays out. The fire power and enthusiasm of overseas investors may be dampened if the outcome is perceived to be negative or if the currency exchange rates move against them. That, however, could well be to the UK institutions' benefit.

Many in the industry are predicting a quieter first quarter in 2019 with the expectation that sellers may postpone marketing initiatives until later in the year after the dust has settled. That may well happen, but even if the political interference leads to a dip in the fortunes of the property industry, from recent experiences in Scotland the underlying property market is resilient and will recover.

Edinburgh
7 Exchange Crescent
Conference Square EH3 8AN
Tel: 0131 225 6612

Glasgow
130 St Vincent Street G2 5HF
Tel: 0141 204 3838

Aberdeen
25 Albyn Place AB10 1YL
Tel: 01224 588866

Leeds
3rd Floor Carlton Tower
34 St Paul's Street LS1 2QB
Tel: 0113 243 6777

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

Manchester
2nd Floor
28 King Street M2 6AY
Tel: 0161 249 9778

Contacts
Bill Duguid, Managing Partner
bill.duguid@ryden.co.uk

Dr Mark Robertson, Partner
mark.robertson@ryden.co.uk

Karen Forsyth, Research Manager
karen.forsyth@ryden.co.uk

www.ryden.co.uk

We are grateful for the assistance of CoStar.