87TH SCOTTISH PROPERTY REVIEW 2022

Ryden

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SUMMARY AND OUTLOOK

SCOTLAND IS EASING OUT OF THE LAST OF THE TIERED PROTECTION RESTRICTIONS ASSOCIATED WITH THE COVID-19 PANDEMIC. While economic output is once again around pre-pandemic levels, the societal and economic changes brought by the pandemic have accelerated trends within some property market sectors.

City office markets staged a recovery in 2021 in Glasgow and particularly in Edinburgh, although Aberdeen has yet to fully pick up again. Occupiers recognise the likely endurance of agile working post-pandemic and are adjusting their space requirements accordingly, but notwithstanding this shift are active in the market and laser focused on top quality space, ESG credentials and future flexibility.

The industrial property market shrugged off the twin challenges of Brexit and the pandemic, and indeed found some opportunity in each. Steady demand growth and the relentless ageing of the existing industrial stock should drive positive activity across Central Scotland into at least the medium term. The Aberdeen industrial market is holding steady with some potential for an uptick.

Increased retail spending is a rebound rather than growth, and the physical retail market continues to consolidate and restructure. Floorspace contraction and the imperative for mixed-use regeneration has spread from smaller towns to larger, formerly important shopping destinations and indeed to parts of city centres. Comparison retailing no longer necessarily means a visit to the shops but is done online and at home too. Meanwhile, discounters, food and drive thru operators are trading well and expanding.

Property investment accelerated during the latter half of 2021 as investors re-entered the market, particularly for industrial property, city centre trophy office buildings and retail warehousing tilted towards essential goods. Glasgow and Edinburgh were favoured, while activity in Aberdeen increased significantly as some investors sought out value opportunities. The wall of money targeting property – including active overseas investors – and the lifting of pandemic restrictions are expected to sustain market activity during 2022.

Residential development decreased during the pandemic but overall sales and prices accelerated. The development land market is strong although prices are partly balanced out by rising build costs. The Build-to-Rent sector is now on-site with a strong pipeline.

DR MARK ROBERTSON
MANAGING PARTNER

ECONOMY

GROWTH

During the third quarter of 2021 Scotland's economy grew by 1.0%. Output grew in the services sector (2.1%), but fell in the production (-3.1%) and construction (-1.5%) sectors. This quarterly growth represented a significant slowing over the 5.6% which had been recorded in Q2 2021.

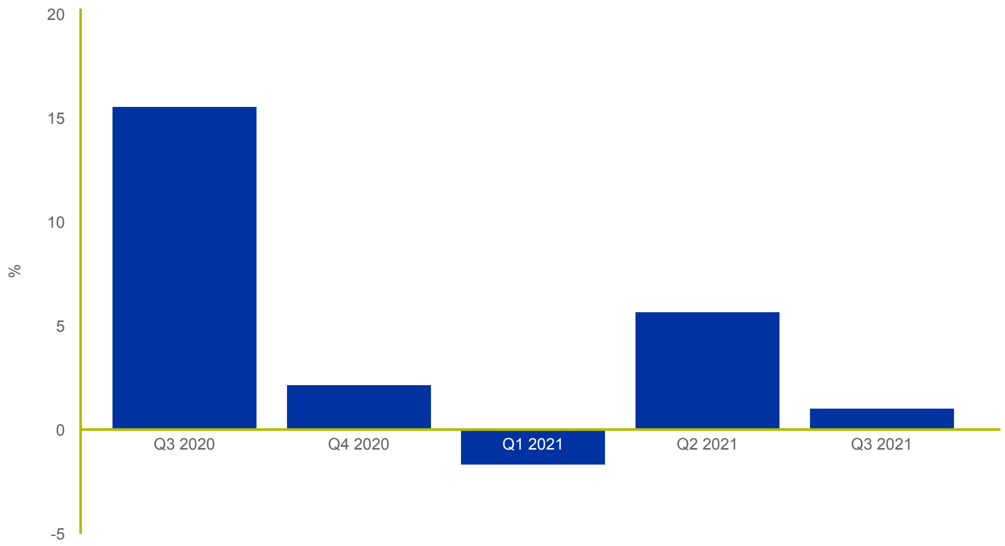
A more recent, provisional monthly estimate for November 2021 suggested that output in that month grew by 0.8%. Provisional GDP in November was 0.6% above the level recorded in February 2020 immediately before the pandemic struck, meaning that all of the slump in output recorded following the first lockdown in March 2020 has now been recovered. In November 2021 output in the services sector – which accounts for three-quarters of the Scottish economy – grew by 0.5%, production grew by 1.7% and construction grew by 3.6%. Output within the service sector varied with consumer and public services broadly flat but other services growing at an estimated 0.9%.

EMPLOYMENT

Scotland's unemployment numbers for the three months to November 2021 fell by 21,000 to stand at 100,000. This is equivalent to an unemployment rate of 3.6%, which is below the level recorded before the COVID-19 pandemic started. The rate is down by 0.8% on the previous three months and is below the UK rate of 4.1%. Scotland's overall employment rate of 75.1% was however slightly below the UK figure of 75.5%.

The furlough scheme ended in September 2021. Given that an estimated one-third of jobs in Scotland were supported by this scheme the initial labour market signs following its expiry are positive. Across the country there were however notable job losses in the energy sector, retail and leisure sectors, and across wider sectors including manufacturing and engineering, and financial services. Job gains were recorded in the technology sector, life sciences sector, renewable energy sector and COVID-19 related employment.

GDP GROWTH COMPARED TO LAST QUARTER (%)



Source: Scottish Government

OUTLOOK

The RBS Purchasing Managers' Index for December 2021 showed an increase in Scottish business activity to 52.7. A reading of above 50 signals net growth, however the Index was below the 55.9 recorded in November 2021 and was the weakest figure for 10 months. The dip in November may have been due to concerns over the economic impacts of the Omicron variant which have since abated.

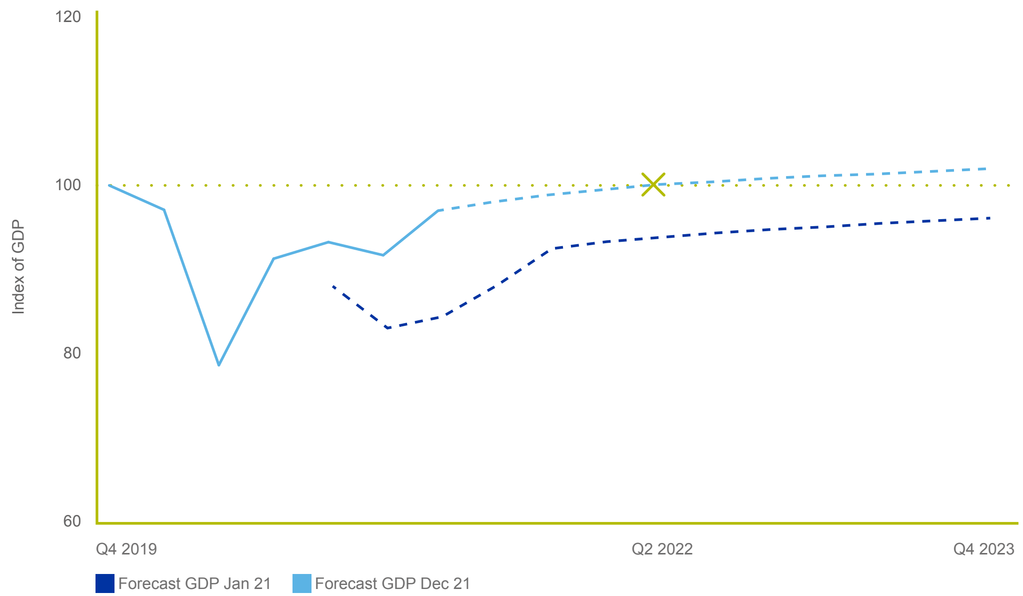
Fraser of Allander Institute offers positive forecasts for economic growth in Scotland. While noting the effects of the Omicron variant, as well as cost pressures and supply chain disruptions, the Institute estimates that growth in 2021 was 6.4% and forecasts 4.7% growth for 2022. The Scottish Fiscal Commission expects GDP to return to pre-pandemic levels during Q2 2022.

Residential development decreased during the pandemic but overall sales and prices are partly balanced out by rising build costs. The Build-to-Rent sector is now on-site with a strong build pipeline.

There is no doubt that the series of lockdowns and tiered protection restrictions over the past 22 months have delayed the restoration of previous levels of economic activity, however the final phase of re-growth has happened quite quickly. Scotland's property markets are now following this clear path to recovery, although there continues to be substantial variation by market sector due to the specific impacts of the pandemic in accelerating trends and also its lagged effects, for example on vacancy rates.

> "SCOTLAND'S PROPERTY MARKETS ARE NOW FOLLOWING THIS CLEAR PATH TO RECOVERY, ALTHOUGH THERE CONTINUES TO BE SUBSTANTIAL VARIATION BY MARKET SECTOR."

RETURN TO PRE-PANDEMIC GDP REVISED SINCE LAST BUDGET



Source : Scottish Fiscal Commission

PLANNING

NATIONAL PLANNING FRAMEWORK NPF4

A draft of the long-awaited National Planning Framework 4 (NPF4) has recently been published by the Scottish Government.

NPF4 sets out the Scottish Government's priorities and policies for the planning system up to 2045, including an approach to achieve net zero carbon emissions by that date. For the first time it incorporates Scottish Planning Policy (SPP) and the NPF into a single document.

Significantly it will have legislative clout and will form part of the Statutory Development Plan upon its adoption. It is therefore a very important planning policy tool that will inform decision makers assessing individual planning applications.

Given the ongoing climate emergency, it is unsurprising that the environment, biodiversity and climate change are key themes, alongside meeting the needs of communities and an emphasis on everything local.

NPF4 aims to deliver change and provide founding context in determining planning applications. This could possibly lead to more weight being attributed to general principles by reporters at appeal, or the NPF could simply be a point of reference... 'notwithstanding which the Local Development Plan Policy states...'

54.8
WEEKS
Major housing applications on average*

10
WEEKS
Average decision time for Local Development planning decisions

41.3
WEEKS
Major Development planning decisions were quicker on average

272
DECISIONS
Total number of Major Development decisions

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

Some of NPF4's key messages of interest to developers and investors include:

- The renewed attempt to re-inforce the development plan system and limit the scope for departures.
- The stated aim of increasing the density of development in settlements.
- The related tightening up on green belt/ greenfield development and more pressure to demonstrate consideration of brownfield sites first.
- Minimum all-tenure housing land requirements that in instances have largely been reduced in line with local planning authority submissions.
- The requirement for a programmed housing supply pipeline.
- Increased requirements for 'adaptability' of housing.
- Affordable housing requirements to be 'at least 25%' and more where justified (lower amounts also need to be justified).
- A requirement for a 'statement of community benefit' on proposals of 50+ housing units.
- 'Houses on land not identified for housebuilding should not be supported'.

Other wider policy initiatives in the draft include requirements for:

- Spatial strategies, which will presumably inform the Regional Spatial Strategies that all local planning authorities have to produce in accordance with the Planning (Scotland) Act 2019.
- A centralised approach dictating the housing land requirements for each planning authority in Scotland, with just over 200,000 new homes forecast to be required nationwide over the next 10 years. The housing land requirements will also be set for the following 10 years.
- Renewed emphasis that urban expansion should be limited where brownfield, vacant and derelict land and buildings can be used. It is also recognised that brownfield sites can make contributions to restoring biodiversity.
- Renewed support of a place-based approach to design, and support for the 20-minute neighbourhood, housing land allocated an 'infrastructure first' basis.
- A renewed emphasis on creating sustainable places that are liveable, productive and distinctive.
- An update of the Scottish Government's six qualities of successful places: designed for lifelong health and wellbeing; safe and pleasant; well-connected and easy to move around; distinctive; sustainable (including support of net zero carbon); and adaptable.
- Recognition of the mitigation hierarchy (i.e. the order in which the impacts of development should be considered and addressed) and that development proposals should provide significant biodiversity enhancements.
- All planning applications will need to demonstrate how they help meet net zero carbon emissions by 2045 – although details on how this consideration will be applied are limited.
- Development planning should be 'infrastructure first' in that local development plans must clearly set out infrastructure requirements, the evidence base for those requirements, and indicate required developer contributions. This will fuel more debate on contributions being commensurate in scale and kind and on development land tax.

- An emphasis on the need for blue and green infrastructure with local development plans required to identify and protect this including provision for new or improved access to play and outdoor sports opportunities.

- Reducing the need for unsustainable travel, in that local development plans must prioritise allocations to areas that can be accessed by public transport or active travel. Strong emphasis that developments which encourage reliance on the private car should not be supported.

- Stronger recognition of irreplaceable habitats with new protections outlined, such as for ancient woodland.

- Stronger support for wind farm developments, small scale renewables, solar energy developments and carbon capture/negative emissions developments.

- Identification of 18 National Developments across Scotland – which include very different scales and forms of development, some previously identified that survive and others no longer listed despite not being fully delivered.

The proposed NPF4 has been met with mixed responses. Is this another once in a lifetime chance for change? Or simply some well aligned policy narrative but light on actual delivery detail?

There will be many proposals that gain support from policy principles at national level but fall foul of local circumstances, local policies and local politics. There will continue to be a tension between a top down government approach vs empowering community planning and local policy responses.

Some ministers and some practitioners might have hoped for more direction and focus on delivery and grasping the nettle of infrastructure delivery which continues to be the major obstacle to strategic growth. Discussion and consultation will follow on Development Tax.

The proposed NPF4 falls short of a paradigm shift that promotes and shapes development in a way that is more closely aligned to market needs (not wants). The planning system remains a largely prescriptive and regulatory system of control that prescribes the reasons and justifications for not doing or approving something.

It adds little to previous policy guidance but the top down direction of local housing land targets and potential standardisation of LDP policies may further erode local distinct and bespoke solutions that are required to deliver investment and growth.

That combined with allocations based on eggs in fewer larger baskets will reduce local and regional developer activity and competition at the point of sale through choice and quality of design as well as price. All corners of all camps have recognised for well over two decades that there is a housing crisis – we need to build more homes that are affordable and accessible – yet the system constrains supply, drip feeds the market and house prices (current and new stock) are climbing to new record levels.

All of this sits in a COVID-19 vacuum where trends have been accelerated or exacerbated: the decline of the high street, re-imagining shopping centres and what a town centre should be and more flexible forms of living and working for the next generation.

Alongside parliamentary review of NPF4, the Scottish Government is running a public consultation on the draft, which is open for comments until 31st March 2022.

> “THE PLANNING SYSTEM REMAINS A LARGELY PRESCRIPTIVE AND REGULATORY SYSTEM OF CONTROL THAT PRESCRIBES THE REASONS AND JUSTIFICATIONS FOR NOT DOING OR APPROVING SOMETHING.”

RESIDENTIAL DEVELOPMENT

DEVELOPMENT

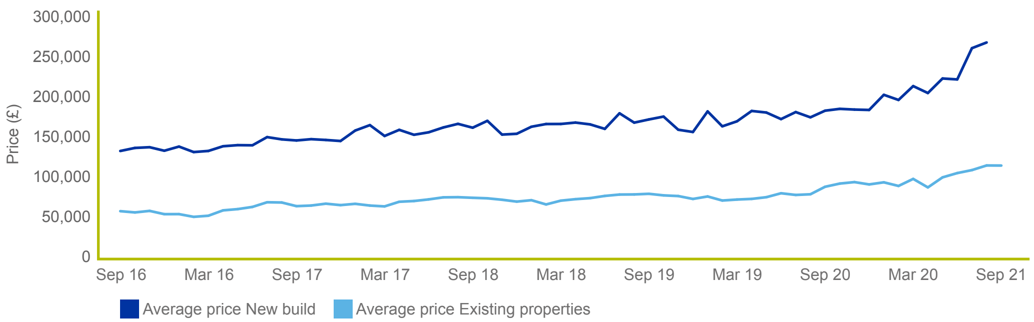
Delayed data makes clear the effects of the pandemic on the new build residential market in Scotland. A total of 14,834 all-sector new build homes were completed in the year ending 2020, which was a decrease of 32% compared with 2019. The number of new build homes which started construction across all sectors was 17,883 which was a decrease of 27%. These figures need to be considered in the context of the industry view that 25,000 new homes are required each year to meet need and demand. During 2021, new build sales transactions returned to pre-pandemic levels showing an increase of 18% on the previous year.

This disparity between demand for and supply of new homes helps to explain why average sale prices increased by 25% between September 2020 and September 2021, from £219,000 to £274,000. The 5-year increase in new build average sale prices is 47% with the majority of this increase occurring since the start of the pandemic.

The detached family home market has seen the highest percentage growth in house prices in the 12 month period ending September 2021, outperforming flats, terraced and semi-detached properties. This will no doubt have been caused in large part by families looking to up-size.

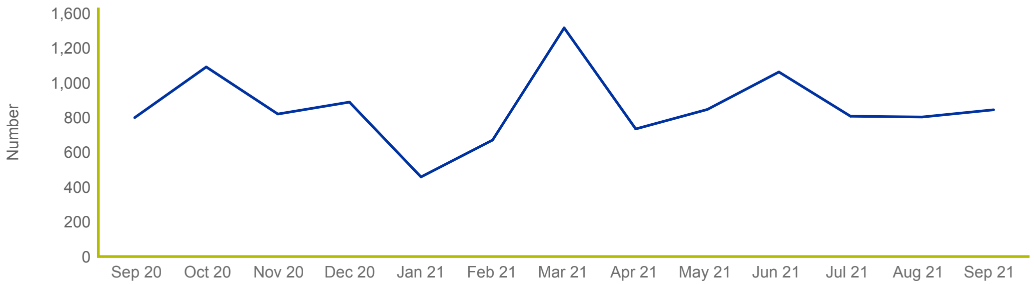
Sales volumes for new build properties have remained broadly static at around 1,000 per month with peaks (March 2021) and troughs (January 2021) coinciding both with normal market cycles and with enforced COVID-19 lockdowns.

HOUSE PRICES



Source: HM Land Registry

SALES VOLUME NEW BUILD



Source: HM Land Registry

LAND MARKET

The residential development land market continues to perform well. A dip in activity at the beginning of the pandemic subsided within a matter of months. Demand for new sites from the volume and mid-tier housing developers remains strong as unit sales rates per month continue to increase in many parts of the country. These positive market conditions and current levels of under supply are encouraging developers to look at acquiring larger sites and to consider sites in what might have previously been regarded as peripheral locations.

Due to homeowners adapting their housing needs for greater living and outdoor space, the detached home sector of the land market continues to perform strongly across cities and larger towns. Land in urban locations more suited to apartment living also continues to attract developer interest in cities such as Glasgow and Edinburgh as well as affluent suburban towns, although in other locations such as Aberdeen oversupply continues to dampen developer demand. The interest from BTR (Build To Rent) developers and investors for well-located urban brownfield sites continues to increase. Further expansion of this sector into more suburban locations capable of providing single family homes for rent is a natural evolution.

The combination of increased developer confidence and constrained land supply would normally push up land values, were it not for the significant increase in build costs which are, in part, balancing out the increase in house sale prices. Accordingly, greenfield values for family housing have risen only modestly. The highest values per net developable acre remain in and around Edinburgh at £1.25 to £2.25 million, in Glasgow £0.5 to £1.0 million and in Aberdeen £0.5 to £0.8 million. These greenfield rates apply to larger sites with the capacity for in excess of 50 units.

BUILD TO RENT (BTR)

The private rental market across both Glasgow and Edinburgh continues to flourish, with tenant demand remaining strong. The underlying issues remain the lack of supply and the quality of stock that is available. Private landlords are being squeezed by new tax legislation which has resulted in a number leaving the market. The supply and demand imbalance has led to double digit annual rental growth in Glasgow of 15.0% and above-average 9.8% in Edinburgh (source: Citylets).

Furthermore, and illustrating the intense competition for rental accommodation, according to Citylets the average time to let in Glasgow was just 9 days, down from 20 days a year ago while the average in Edinburgh was 11 days, down from 33 days.

Despite these market conditions, delivery of good quality rental accommodation via new BTR developments remains slow. Although a target location for institutional investment, Edinburgh and Glasgow have lagged behind other major regions in the UK, particularly with regard to operational BTR units – In Edinburgh, only 7% of BTR stock (including pipeline) is operational. The total pipeline is now 3,985 units in Glasgow and 3,519 units in Edinburgh across 18 developments.

In Edinburgh, Moda Living is now nearing completion of Phase 1 of Springside; initial take up has been extremely positive, achieving the February 2022 take up target by December 2021.

Further BTR developments are under construction (see table).

Rapidly rising construction costs are creating viability issues for developers, however, strong rental growth and increased investor appetite for the residential sector, may go some way to offset cost inflation.

BTR DEVELOPMENT	DETAILS
GRANARY QUAY, GLASGOW HARBOUR	DEVELOPMENT BY DANDARA OF 342 UNITS WITH ANTICIPATED COMPLETION IN LATE 2022
HOLLAND PARK, PITT STREET, GLASGOW	THE 433 UNIT DEVELOPMENT BY MODA LIVING HAS AN ANTICIPATED COMPLETION IN LATE 2023
CANDLERIGGS SQUARE, GLASGOW	IN NOVEMBER 2021 CONSTRUCTION COMMENCED ON 346 UNITS BY DRUM PROPERTY GROUP AND STAMFORD PROPERTY INVESTMENTS, COMPLETION ANTICIPATED LATE 2023.
BUCHANAN WHARF, GLASGOW	DEVELOPMENT OF 324 UNITS BY DRUM PROPERTY GROUP, FUNDED BY LEGAL & GENERAL, IS DUE TO COMPLETE DURING 2022.
CENTRAL QUAY, GLASGOW	498 UNIT DEVELOPMENT BY PLATFORM_ IS CURRENTLY UNDER CONSTRUCTION
G3 SQUARE, GLASGOW	DEVELOPMENT BY DRUM PROPERTY GROUP HAS BEEN FORWARD FUNDED BY EDMOND DE ROTHSCHILD REAL ESTATE INVESTMENT MANAGEMENT'S AND WILL COMPRISE 114 UNITS. CONSTRUCTION IS DUE TO COMMENCE IMMINENTLY
SPRINGSIDE, EDINBURGH	PHASE 1 OF THE 476 UNIT DEVELOPMENT BY MODA LIVING IS UNDER CONSTRUCTION
BONNINGTON ROAD LANE, EDINBURGH	DEVELOPMENT OF 453 UNITS BY PLATFORM_ IS UNDER CONSTRUCTION
IONA STREET, EDINBURGH	WATKIN JONES SCHEME HAS BEEN FORWARD FUNDED BY VITA GROUP. THE DEVELOPMENT WILL INCLUDE 60 BTR UNITS AND 205 STUDENT HOMES. ANTICIPATED START DATE OF Q1 2022
ASHLEY PLACE, BONNINGTON, EDINBURGH	DEVELOPMENT OF 65 BTR UNITS BY GLENCAIRN PROPERTIES HAS AN ANTICIPATED START DATE OF Q2 2022
FREER STREET, EDINBURGH	VASTINT ARE ON SITE, THE HOTEL AND OFFICE ARE NOW COMPLETED, A SITE START FOR 253 BTR UNITS IS ANTICIPATED IN 2022

BTR OUTLOOK

Fundamental demand and supply imbalances in the residential sector, for both sale and letting, underpin positive market prospects. Construction costs and supply chain issues remain a concern although some commentators are suggesting stability will return in the second half of 2022. Planning delays and uncertainty continue to hinder the market's ability to meet buyer and tenant demand.

Buchanan Wharf BTR Development. Source: Drum/Alastair Leith

DEMAND

Glasgow city centre office take up for 2021 totalled 524,230 sq.ft. comprising 99 deals. Despite the ongoing pandemic this was a notable 51% increase from 2020. The 5 year average office take up for the city centre is now 751,900 sq.ft.

A significant element of this activity was in the Grade A sector, accounting for 42% of the total in eight deals. This included a number of occupiers acquiring space who had previously paused relocations as a result of the sudden impact of the pandemic. All three of the new build offices under construction in the city centre secured pre-lets, along with Building 6 at Buchanan Wharf.

Approximately 59% of the take up was secured in buildings with floor plates in excess of 10,000 sq.ft.

A new headline rental for the city centre has now been achieved at £35.25 per sq.ft. (at 177 Bothwell Street).

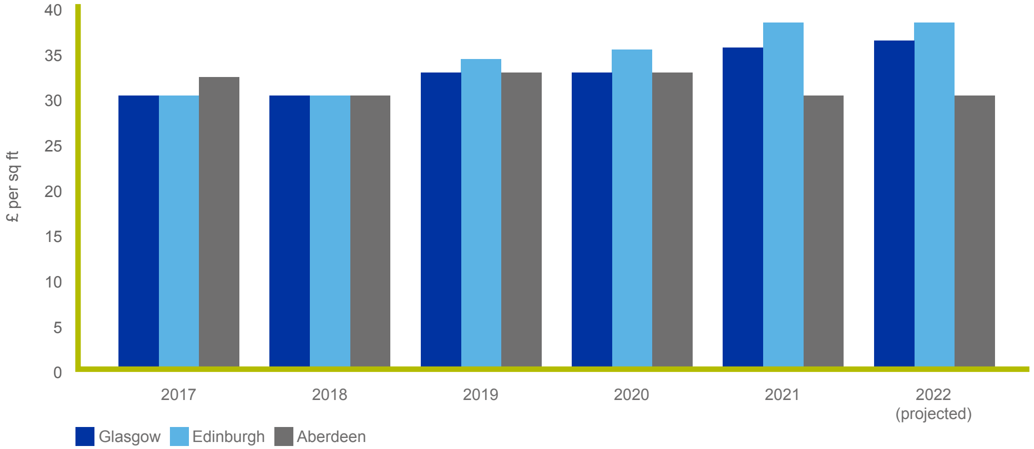
As demonstrated by the full year office take up, demand for the best new space in the city centre has bounced back with a clear signal that occupiers are planning ahead and seeking to provide an exceptional ESG (Environmental, Social, and Governance) focused working environment that attracts staff back to the workplace post-pandemic.

There continues to be healthy demand for highest quality offices with further space currently under offer. This trend is anticipated to accelerate as the market begins to move out of the pandemic.

The smaller indigenous/SME market remains fragile with many occupiers still weathering some elements of the COVID-19 fallout or unable to predict future workplace strategy. Some of these occupiers have taken short term, flexible interim solutions or grasped the opportunity to re-gear their lease on a more flexible basis.

OFFICES GLASGOW

PRIME OFFICE RENTS



CITY CENTRE DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	SECTOR
BUILDING 6, BUCHANAN WHARF	75,000 (PRE-LET)	STUDENT LOANS COMPANY	GOVERNMENT
3RD AND 4TH FLOORS 177 BOTHWELL STREET*	48,870 (PRE-LET)	TRANSPORT SCOTLAND	GOVERNMENT
GROUND & 1ST FLOOR 200 RENFIELD STREET	35,787	DWP	GOVERNMENT
5TH (PART) & 6TH FLOORS 2 ATLANTIC SQUARE	20,739	ATKINS	ENGINEERING
1ST FLOOR 177 BOTHWELL STREET*	20,676 (PRE-LET)	BNP PARIBAS	BANKING
2ND FLOOR 177 BOTHWELL STREET*	19,028 (PRE-LET)	AECOM	ENGINEERING

*It should be noted that to accommodate these lettings, the landlord HFD is no longer delivering their own Business Centre (Opus) which has previously been reported in take up figures.

SUPPLY

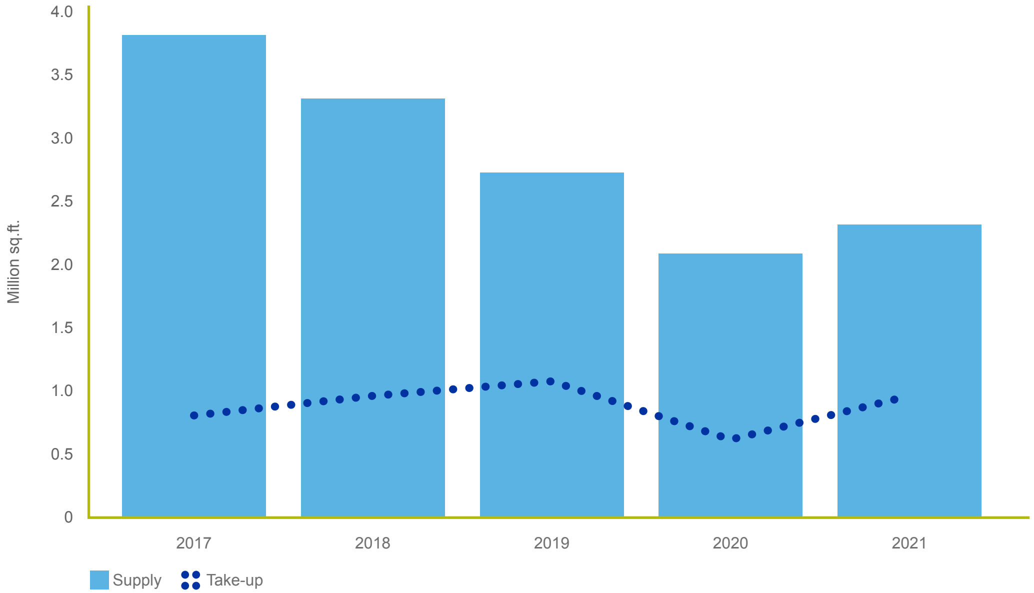
The erosion of Glasgow's city centre prime Grade A office supply is now being replenished by the completion of two out of the three new build offices under construction. The remaining building, 177 Bothwell Street, is due for completion in early 2022 and has already attracted pre-lets during construction as shown in the table on page 13.

There are no further speculative new build offices on site, albeit all eyes are on The Grid site at 33 Cadogan Street which sold before Christmas after strong bidding. New owners, CEG are rumoured to be focusing on a site start in the coming months for a new speculative office building in the order of 275,000 sq.ft.

2021 witnessed two significant acquisitions on Bothwell Street: Orion Capital Managers' purchase of 50 Bothwell Street and Forma Real Estate's acquisition of Aurora, 120 Bothwell Street – both will be targeting the delivery of exceptional refurbished space. The pipeline of notable refurbishment projects is listed in the table.

The total vacancy for the city centre is in the order of 1.35 million sq.ft. (c. 6% vacancy rate), up from 1.042 million sq.ft. in 2020.

SUPPLY AND TAKE UP (CITY WIDE)



CITY CENTRE NEW BUILDS

ADDRESS	SIZE (SQ.FT.) (AVAILABLE)	ESTIMATED DELIVERY DATE	DEVELOPER
2 ATLANTIC SQUARE	96,650 (69,474)	Q3 2021 (COMPLETED)	BAM PROPERTIES/ TAYLOR CLARK
CADWORKS	94,431 (84,345)	Q4 2021 (COMPLETED)	FORE PARTNERSHIP
177 BOTHWELL STREET	305,000 (30,764)	Q1 2022	HFD

PIPELINE OF KEY REFURBISHMENT SCHEMES

ADDRESS	SIZE (SQ.FT.)	DELIVERY DATE	DEVELOPER
THE MET TOWER, NORTH HANOVER STREET	120,000	2023	OSBORNE+CO
TAY HOUSE 300 BATH STREET	88,306	Q4 2022	LONDON & SCOTTISH PROPERTY INVESTMENT MANAGEMENT LTD
50 BOTHWELL STREET	86,250	2023	ORION CAPITAL MANAGERS
200 BROOMIELAW	79,300	Q1 2022	AM ALPHA
GROSVENOR BUILDING 72 GORDON STREET	25,213	Q1 2022	UBS ASSET MANAGEMENT
SPECTRUM 76 WATERLOO STREET	28,730	Q2 2022	TRINOVA REAL ESTATE
69 BUCHANAN STREET	22,873	Q3 2022	WARBURG-HIH INVEST REAL ESTATE UK LTD

PERIPHERAL MARKET

Activity in Glasgow's peripheral office market dramatically reduced in 2021, with total take up of 73,360 sq.ft. in 25 deals. This nets back to a meagre 42,363 sq.ft. when the largest letting at Central Quay is discounted, as this was a relatively short term lease to a film company.

75% of all lettings across the peripheral market were secured in suites under 2,000 sq.ft.

Supply levels remain relatively static although some of the larger peripheral office complexes have seen increased vacancies as a direct result of the pandemic.

OUT OF TOWN MARKET

Take up in Glasgow's out of town office market beyond the city boundary equated to 359,091 sq.ft. in 47 deals.

This level far exceeded 2020 totals and includes a number of sales, a theme continued from the previous year. The figures are somewhat skewed by a large sale of 123 Westerhill Road in Bishopbriggs of 98,120 sq.ft. that will be occupied by its new owners.

There continues to be extensive supply of accommodation to the east of the city centre although limited options that provide newly refurbished space ready for immediate occupation.

OUTLOOK

Despite 2021 starting with a severe lockdown and finishing the year with the Omicron wave, combined with no relaxation on working from home guidance for anything other than essential working, 2021 delivered take up just over 50% up on the previous year. This was very positive.

There was a notable flight to quality for a large portion of the market. The larger transactions are well documented but at the smaller end of the market there have been a number of deals concluded in a new breed of Category A-Plus fitted out offices, offering high end space on flexible lease arrangements.

Strong ESG credentials are becoming increasingly important to tenants.

Most occupiers have taken a reduction in space from the accommodation they currently occupy or reduced their requirement search parameters to a smaller size, roughly 25% less on average.

As the country moves beyond Omicron, large sectors of the market should be able to plan for a return to the office and crystallise future space requirements.

No change is expected to the flight to quality trajectory nor the ever-increasing importance placed on ESG. Flexibility will remain key for a large sector of the market and take up levels are expected to continue to build on the progress made in 2021 as pent up demand for office space is released.

PERIPHERAL DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	SECTOR
PART GROUND & 2ND FLOOR, CENTRAL QUAY	30,997	AMERICAN NIGHTS PRODUCTION (SHORT TERM LET)	FILM PRODUCTION

OUT OF TOWN DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	SECTOR
123 WESTERHILL ROAD, BISHOPBRIGGS	98,120	OWNER OCCUPIER	HEALTHCARE / CHARITY
TITANIUM 3, BRAEHEAD BUSINESS PARK	33,400	BMI HEALTHCARE (OWNER OCCUPIER)	HEALTHCARE
GROUND & 1ST FLOOR, MAXIM 9, MAXIM OFFICE PARK	30,190	LUMIRA DX	LIFE SCIENCES
RIVERSIDE, 2 KINGS INCH WAY, BRAEHEAD	27,999	BEEKS FINANCIAL CLOUD	IT
ENTERPRISE AND INNOVATION HUB, HALO, KILMARNOCK	27,830	PRA LIMITED	DEBT MANAGEMENT

“AS THE COUNTRY MOVES BEYOND OMICRON, LARGE SECTORS OF THE MARKET SHOULD BE ABLE TO PLAN FOR A RETURN TO THE OFFICE AND CRYSTALLISE FUTURE SPACE REQUIREMENTS.”

OFFICES EDINBURGH

CITY CENTRE DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	SECTOR
20 WEST REGISTER STREET	61,237	FNZ	FINTECH
2 FREER STREET	58,870	FANDUEL/FLUTTER	TECHNOLOGY
1 HAYMARKET SQUARE	32,766	CAIRN ENERGY	OIL AND GAS
1 HAYMARKET SQUARE	29,461	SHEPHERD & WEDDERBURN	LEGAL SERVICES
1 HAYMARKET SQUARE	16,383	DELOITTE	PROFESSIONAL SERVICES
QUARTERMILE 3	14,641	ESRI (UK) LTD	TECHNOLOGY
EXCHANGE CRESCENT	13,682	USERTESTING	TECHNOLOGY

DEMAND

In 2021 Edinburgh's office market delivered a total of 770,988 sq.ft. of take up across 150 deals. This very strong recovery is a 49% increase in the number of deals and a 155% increase in overall floorspace take-up against 2020, when the market was firmly in the grip of the pandemic.

CITY CENTRE

Edinburgh's city centre transacted 686,176 sq.ft., which represented 89% of total office take up across the city. Grade A and high quality accommodation account for 299,051 sq.ft. or 44% of city centre office take up.

The prime rental tone for Grade A city centre accommodation has nudged upwards to £38 per sq.ft. (there have been examples of specific floors exceeding this tone) with incentives holding at around 12-15 months for a 10 year lease commitment to the highest quality covenant.

PERIPHERAL

It was another difficult year for peripheral office locations around Edinburgh. West Edinburgh attracted only 54,662 sq.ft. of activity across 8 deals. Prime rents sit at around £21.50 per sq.ft. for refurbished options in the South Gyle area and rising to £25 per sq.ft. for refurbished space on Edinburgh Park. The only notable deal in excess of 10,000 sq.ft. was the letting of 21,757 sq.ft. at 1 Lochside Avenue to the Scottish Prison Service.

North Edinburgh also experienced low levels of take up with only 10 smaller deals and prime rents sitting at around £18 per sq.ft. There was only one deal in excess of 5,000 sq.ft., at 51 Timber Bush (6,970 sq.ft.) to Pure LiFi for their relocation from the proposed redevelopment of Rosebery House, Haymarket.

SUPPLY

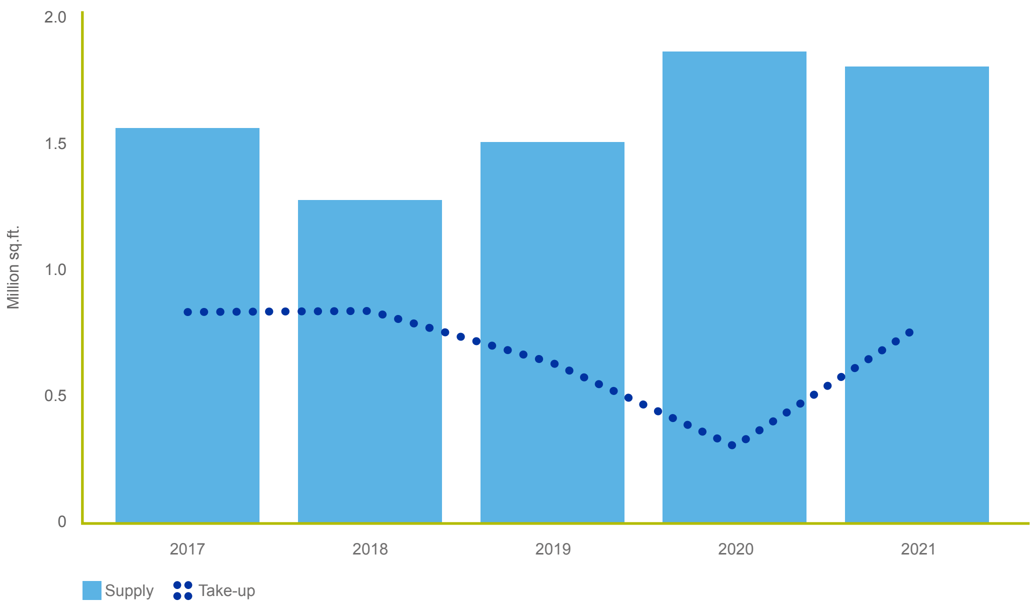
Total office supply across Edinburgh at end Q4 2021 was recorded as 1,785,240 sq.ft. which is a 3% decrease on Q4 2020. Thirty-three percent of total space available comprises Grade A or high quality refurbished Grade B space which is a very slight increase on Q4 2020. Void rates around the city are roughly 7% with a shortage of Grade A and high quality refurbishment pipeline within the city centre.

Occupiers continue to get to grips with their current and projected spatial requirements during this ongoing hybrid working phase and, while there has been some surplus space released to the market, this additional supply has been offset by strong take-up.

Supply of Grade A offices is of real concern within Edinburgh city centre. Proposals for new development and significant refurbishments which could help to alleviate this tight market are highlighted in the table.

Supply has increased significantly in the important West Edinburgh market with the space available from landlords or tenant, or in the pipeline, also tabulated (overleaf).

SUPPLY AND TAKE UP



PERIPHERAL DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	SECTOR
1 LOCHSIDE AVENUE, EDINBURGH PARK	21,757	SCOTTISH PRISON SERVICE	PUBLIC SECTOR
51 TIMBER BUSH	6,970	PURE LIFI	TECHNOLOGY

PRIME CITY CENTRE AVAILABLE SPACE

ADDRESS	LANDLORD	TENANTS	AVAILABLE (SQ.FT.)
20 BRANDON TERRACE	ABRDN (SUB LEASE/ ASSIGNMENT)	ABRDN	139,172
CAPITAL SQUARE, 62 MORRISON STREET	BAM PROPERTIES /HERMES INVESTMENT MANAGEMENT	BRODIES PINSENT MASONS	54,012
SALTIRE COURT, CASTLE TERRACE	TIGON 7	CMS KPMG CLOSE BROTHERS SHOOSMITHS DELOITTE* MARTIN CURRIE*	35,449 (*ALSO 26,951 OF TENANT SPACE AVAILABLE HERE)
1-7 EXCHANGE CRESCENT	STANDARD LIFE ABERDEEN (HEAD-TENANT)	AMAZON JLL RYDEN	22,086
1 TANFIELD	GREENRIDGE	CRANEWARE TRAINLINE ST MICRO ELECTRONICS	21,000
10 GEORGE STREET	ABERDEEN STANDARD INVESTMENTS (HEAD-TENANT)	ARUP GROUP MACROBERTS NURSING & MIDWIFERY COUNCIL	18,645

CITY CENTRE NEW BUILDS AND PIPELINE OF KEY REFURBISHMENT SCHEMES

ADDRESS	SIZE (SQ.FT.)	DELIVERY DATE	DEVELOPER
THE NETWORK, NEW TOWN NORTH	80,000	APPROVED. 2024	ORION CAPITAL MANAGERS
EXCHANGE PLACE 4	20,000	APPROVED. TBC	EP3 DEVCO LTD
FOUNTAINBRIDGE	C. 100,000	APPROVED. C 2025	CRUDEN HOMES AND BUCCLEUCH PROPERTY
ELGIN HOUSE, HAYMARKET YARDS	C. 150,000	PLANNING. C 2025	EDINBURGH HAYMARKET
ROSEBERY HOUSE, HAYMARKET TERRACE	158,000	PLANNING AWAITED. C 2025	AVIVA INVESTORS
28 ST ANDREW SQUARE	60,000	PLANNING AWAITED. C 2024	AVIVA INVESTORS
CLARENDON HOUSE, 116 GEORGE STREET (REFURBISHMENT)	35,000	COMPLETION OCTOBER 2022	ABRDN
30 SEMPLE STREET (REFURBISHMENT)	56,000	APPROVED. 2024	BBC PENSION TRUST AND CBRE GLOBAL INVESTORS
EDINBURGH ONE, MORRISON STREET (REFURBISHMENT)	88,000	APPROVED. 2023	ODYSSEUS CAPITAL

WEST EDINBURGH/PERIPHERAL

ADDRESS	SIZE (SQ.FT.)	DEVELOPER
1 NEW PARK SQUARE, EDINBURGH PARK	84,330 (Q2 2022)	PARABOLA
THE YOUNGER BUILDING, REDHEUGHS AVENUE (REFURBISHMENT)	89,863 (Q4 2022)	SHELBORN ASSET MANAGEMENT
VERDANT, REDHEUGHS RIGG (REFURBISHMENT)	60,000	CEG
3 LOCHSIDE AVENUE, EDINBURGH PARK	50,000	SUBLET AVAILABLE FROM SAINSBURY'S BANK
4-5 LOCHSIDE AVENUE, EDINBURGH PARK (REFURBISHMENT)	43,025	KNIGHT PROPERTY GROUP
2 BROADWAY PARK (REFURBISHMENT)	42,000	AMBASSADOR GROUP

OUTLOOK

The outlook for the Edinburgh office market is positive – the second half of 2021 delivered strong results with city centre Grade A space showing continued demand, particularly the flight to quality and quest for improved ESG credentials. As a result, supply of top quality space in the city centre is reaching critical levels and significant occupier demand is expected to begin to look outwith the core city centre in order satisfy requirements. Due to the disruptive effect of the Omicrom variant through late 2021, a slight lag in activity through Q1 2022 into Q2 is anticipated as occupiers continue to review their needs and how they adapt to the new hybrid working.

A continued improving picture as occupier confidence returns moving through 2022 is anticipated.

The impact and emphasis of ESG on occupiers thinking has continued apace through the past 12 months and this is expected to continue to be an important factor in any strategic decision making going forward – this is something that occupiers, developers and investors will need to bring into sharper focus in order to continue to thrive.

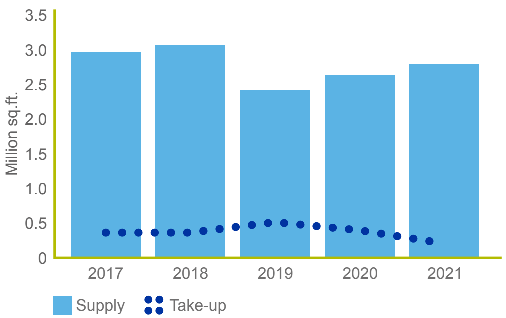
> THE OUTLOOK FOR THE EDINBURGH OFFICE MARKET IS POSITIVE AND A CONTINUED IMPROVING PICTURE AS OCCUPIER CONFIDENCE RETURNS MOVING THROUGH 2022 IS ANTICIPATED.

OFFICES ABERDEEN

DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	SECTOR
FORMER CHEVRON HOUSE, HILL OF RUBISLAW, ABERDEEN	41,367	ITHACA ENERGY (UK) LTD	OIL AND GAS
LANGSTANE HOUSE, 6 DEE STREET, ABERDEEN	11,827	MENTAL HEALTH ABERDEEN	HEALTHCARE
BUILDING 2, LEVEL 1 ABERDEEN INTERNATIONAL BUSINESS PARK, DYCE	11,237	HSE/MET OFFICE	SCIENCE

SUPPLY AND TAKE UP



DEMAND

In 2021 Aberdeen's office market experienced a total take up of 197,914 sq.ft. across 48 deals. This total highlights a 53% decline in take up of floor space and a 9% decrease in the number of deals concluded, when compared to the figures produced in 2020. Take up fell by 50% in relation to the 5 year average.

The majority of office deals completed were smaller and only 5 deals exceeded 10,000 sq.ft. during the course of the year. The largest deal took place at Hill of Rubislaw where Ithaca Energy (UK) Ltd purchased the former Chevron House (96,357 sq.ft.), resulting in 41,367 sq.ft. of net take up.

Prime rents for Grade A office accommodation have fallen to £30 per sq.ft., from £32.50 per sq.ft. in 2020, and generous rental incentives remain prevalent in the market.

SUPPLY

Aberdeen's office supply at the end of 2021 totalled 2.81 million sq.ft. This is a 6% rise in comparison to office supply at the start of 2021 reflecting an increasing vacancy rate within the market.

There are no new developments planned for the coming year which can largely be attributed to the on-going uncertainty surrounding the pandemic and new variants, as well as the continuation of remote/hybrid working. The general uncertainty related to the offshore energy industry is also having a negative impact on investor confidence.

The available Grade A office accommodation within the city centre continues to fill up. Most notably, Shell is set to take all of the remaining 100,000 sq.ft. of office accommodation at the Silver Fin Building which is a hugely positive sign for the city centre market. Another suite is also under offer in Marischal Square which will leave just over 40,000 sq.ft. available in that building.

OUTLOOK

The performance of the Aberdeen office market continues to be held back by the pandemic. As more people are returning to their offices and occupiers are planning for future moves it does feel as if the situation is improving. However until there is a firm drive back into offices the market is likely to remain subdued. Restricted demand and take up are thus still anticipated during the early stages of 2022 but hopefully this will improve as the year progresses.

The price of oil has been steady over the last few months trading in excess of $80 per barrel. Under normal circumstances this would be hugely positive but the uncertainty within the industry in terms of energy transition and the consenting of new exploration allied to the pandemic is resulting in a less buoyant market.

Different sectors are reacting in different ways to remote working and the market has yet to see how the energy industry will react to a hybrid model of working. This will clearly have an impact on spatial requirements moving forward but the hope is there will be a general move back into offices when permitted which will help to bolster demand.

INDUSTRIAL

GLASGOW AND WEST OF SCOTLAND

DEMAND

The West of Scotland industrial and logistics market continues at record levels of activity. There is a complete range of requirements in terms of size and uses however many remain unsatisfied due to the lack of available supply. This is particularly true for larger requirements and indeed there are few units of more than 40,000 sq.ft. available across the Central Belt.

The logistics and parcel delivery markets remain very active but are not the only players in the market and a number of significant production and manufacturing companies are seeking new space to accommodate expansion or changing needs. The combined demand means strategic industrial land is in short supply and a number of key industrial estates will be developed out over the next 18 months. Extensions to existing parks and infill projects are advancing and key infrastructure works at Ravenscraig will release much needed plots of scale however, these are unlikely to be sufficient to accommodate a strong market which is expected to remain busy for the next 5 years. Consequently, there will be an increased focus on the redevelopment of outmoded and obsolete facilities and the traditional industrial estates will see greater development interest.

DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	RENT (PER SQ.FT.)	SECTOR
BURNBRAE ROAD, LINWOOD	132,171	WINCANTON HOLDINGS PLC	£6.25	LOGISTICS
EDINBURGH ROAD, LINK PARK, NEWHOUSE	47,565	CO-OP	£12.15 (PRE-LET)	DISTRIBUTION FACILITY
ATLAS, DOVECOTE ROAD, EUROCENTRAL	56,984	CLIPPER LOGISTICS	£6.35	LOGISTICS
WARDPARK INDUSTRIAL ESTATE, CUMBERNAULD	69,000	ROYAL MAIL GROUP	£5.00	LOGISTICS
MASTERTON WAY, TANNOCHSIDE	37,740	ARTISANAL SPIRIT COMPANY	£6.86	WAREHOUSING (SPIRITS)

"THE LOGISTICS AND PARCEL DELIVERY MARKETS REMAIN VERY ACTIVE BUT ARE NOT THE ONLY PLAYERS IN THE MARKET."

Take up of industrial floorspace across West Central Scotland in 2021 was 3.1 million sq.ft. and this figure is expected to rise to circa 3.3 million sq.ft. once all deals are included. Consequently, there is the equivalent of 1.4 years of supply and, in reality, availability is even lower when obsolete and unlettable property are removed. Although building age is not an accurate guide to obsolescence, it is interesting to note that nearly 50% of Glasgow's stock was built pre-1980s and nearly 7 million sq.ft. is more than 100 years old. It is likely that a high proportion of the remaining available space is unsuitable for current requirements and hence the true availability is negligible and insufficient to service a market of this size and in a period of rising demand. This is borne out through experience in prime areas where occupiers with requirements are now knocking on tenants' doors and asking about availability.

According to CoStar, the average rent across the entire leased stock is now £5.96 per sq.ft. In isolation it is a meaningless metric given the averaging involved in terms of size, quality and location but as a trend it shows a 38% rise from £4.32 per sq.ft. in 2015. Higher rents set on new product have been filtering down through the market and landlords are actively pushing rents on secondary product after years of stasis. Rent rises of 25% are now common at re-gears and renewals. On some trade estates in and around Glasgow city centre deals are completing at £13 per sq.ft. on smaller space and one estate is about to bring a 5,000 sq.ft. unit to the market at an asking rent in excess of £10 per sq.ft.

SUPPLY

According to CoStar, the total stock of industrial property in the Greater Glasgow area now stands at 102 million sq.ft. with a vacancy level of 3.2% and a total availability of 4.6% (4,692,000 sq.ft.). Supply therefore remains at or about a record low despite the total stock having increased by almost 2 million sq.ft.

A new development cycle is now underway in the prime locations. Knight Property Group are on site at Belgrave Logistics Park, Bellshill which is a redevelopment of the former Devro facility. Five buildings will be constructed providing new logistics space from 19,000 sq.ft. up to 125,000 sq.ft. and positive discussions are advancing with a number of occupiers. Unit E at 125,000 sq.ft. is the largest speculative unit under construction in the Central Belt and is well placed to capitalise on a number of requirements that will only consider existing space or units under construction. Knight have also commenced Phase 4 of the Langlands Enterprise Park in East Kilbride which will bring forward a stand-alone 24,000 sq.ft. unit with 10 metre clear height and a 35,000 sq.ft. yard, completion is scheduled for April 2022.

On the other side of the city, Frasers Property Group are nearing completion of the 132,000 sq.ft. BAIZ Project at Hillington Park, which provides a range of units from 5,111 to 25,467 sq.ft. each with large yards and high levels of energy efficiency. The largest unit is now under offer and terms have been issued on a number of the units, with a rental tone at £8.50 per sq.ft. Hillington Park has enjoyed high levels of occupancy and tenant retention over recent years and additional space is much needed and will be followed by further phases of new product and an active refurbishment programme.

Within Glasgow, Harris Finance are constructing two units on London Road to provide 10,000 and 20,000 sq.ft. at a rental tone of £9.50 per sq.ft. and terms have been issued on both units. Also, within the Glasgow boundary, Wemyss Properties are now well advanced on site to bring forward a 24,558 sq.ft. unit at Drumhead Road with completion in the summer.

At Gartcosh, Fusion Assets is on site for a second phase following a successful letting to DX Services. Units of 16,000 sq.ft. and 24,500 sq.ft. will be completed later this year.

CoStar report a total of 745,629 sq.ft. under construction which is a marked improvement on the output in recent years and possibly signals a return to annual construction levels in excess of 1 million sq.ft. a year as was the average in the early 2000s. The figures will be boosted by the new Harper Collins facility at Nova Technology Park which will be 550,000 sq.ft. and will achieve Scottish Enterprise's ambition of attracting a large single user to this strategic site. The project is in the final stages of agreement. It is expected that other major buildings will be announced in the second half of 2022 and in 2023.

NEW DEVELOPMENTS

DEVELOPMENT	DEVELOPER/LANDLORD	DESCRIPTION
LONDON ROAD, GLASGOW	HARRIS FINANCE	TWO UNITS OF 10,000 SQ.FT. AND 20,000 SQ.FT.
DRUMHEAD ROAD, GLASGOW	WEMYSS PROPERTIES	24,558 SQ.FT. UNIT DUE FOR COMPLETION SUMMER 2022
BELGRAVE LOGISTICS PARK, BELLSHILL	KNIGHT PROPERTY GROUP	FIVE BUILDINGS FROM 19,000 SQ.FT. UP TO 125,000 SQ.FT
PHASE 4, LANGLANDS ENTERPRISE PARK, EAST KILBRIDE	KNIGHT PROPERTY GROUP	24,000 SQ.FT. AND A 35,000 SQ.FT. YARD, COMPLETION IS SCHEDULED APRIL 2022
BAIZ PROJECT, HILLINGTON PARK	FRASERS PROPERTY GROUP	RANGE OF UNITS FROM 5,111 TO 25,467 SQ.FT.
GARTCOSH INDUSTRIAL PARK, GARTCOSH	FUSION ASSETS	PHASE 2 OF 16,000 SQ.FT. AND 24,500 SQ.FT. DUE FOR COMPLETION LATER IN 2022

OUTLOOK

The West of Scotland industrial market continues to strengthen as new, growing and modernising occupiers are faced with ageing and obsolete stock. The development market is now responding across a number of locations and further major owner-occupier announcements are also anticipated.

DEMAND

The industrial market in East Central Scotland has been very active over the last 12 months with high demand and take-up and rising rents. Some of this is a consequence of increased demand for floorspace during the pandemic. However, looking beyond that as restrictions are now eased, it is clear that there continues to be a frustrated market place with a dearth of quality properties available for letting or acquisition and a demand level that continues to outstrip supply.

A total of 1.32 million sq.ft. of industrial space was taken up in East Central Scotland during 2021 in 145 transactions. Thirty of these deals were for units larger than 10,000 sq.ft. This is an increase of 44% on the 913,610 sq.ft. industrial floorspace take-up during 2020.

SUPPLY

The current supply of industrial property in East Central Scotland has fallen to 2.65 m sq.ft. giving a vacancy rate of only 3.1%, down from 4.9% reported last year.

The developers and funders of new industrial accommodation earmarked for completion within the next 12 months or so will benefit from the current market position. However the quantity of new stock is very limited in comparison to occupier demand driven by the fast changing marketplace and underlying obsolescence. The positive side of this story is summarised in the table with developers including Chancerygate, Northern Trust, Michelin Scotland Innovation Parc (MSIP) and Fife Council having recently commenced or completed new developments. This new stock is necessary for the market and prime rents are now well established across the area of between £8.50 and £10.00 per sq.ft. for the best quality, well located accommodation.

One notable trend is the effective equalisation of rents across a wider market area, particularly for small to medium sized units (1,500 sq.ft. to 10,000 sq.ft.), where Edinburgh is no longer the only location capable of achieving rents and yields that justify new development. Lettings during Q4 2021 achieved £10 per sq.ft. in Loanhead; £9.50 per sq.ft. in Bathgate; £8.50 per sq.ft. in Dundee; and £8 per sq.ft. in Falkirk.

The scarcity of available buildings is most evident for larger accommodation of 30,000 sq.ft. and above. The overall vacancy rate is at an all-time low so existing requirements will have to consider other locations or venture down the design-and-build route which is time consuming (18 to 24 months) and often presents other difficulties including cost inflation, shortage of construction materials and initially finding a site ready for immediate development. It is very difficult to see the current trend towards online shopping and the need for last mile logistics changing even with the current relaxation of COVID-19 related restrictions so more design-and-build solutions are inevitable.

> “A TOTAL OF 1.32 MILLION SQ.FT. OF INDUSTRIAL SPACE WAS TAKEN UP IN EAST CENTRAL SCOTLAND DURING 2021 IN 145 TRANSACTIONS.”

EDINBURGH AND EAST OF SCOTLAND

INDUSTRIAL

The refurbishment of individual units and estates can be a quick way to meet the demands of the modern occupier seeking quality accommodation. Estate owners will see the benefits in rents achieved on the estate and reduced vacancy due to the best presented and specified properties generally securing tenants quicker than ageing properties. The uplift in rents following the refurbishment of industrial units can be around 20-25%.

The largest redevelopment, sub-division and refurbishment project in the East of Scotland is Michelin Scotland Innovation Parc (MSIP) in Dundee which totals over 700,000 sq.ft. on nearly 100 acres. This is attracting occupiers within the sustainable mobility and low carbon sectors and a number of significant lettings have been secured. MSIP is a joint venture between Michelin, Dundee City Council and Scottish Enterprise and is a great example of public/private collaboration to deliver a successful transition of redundant factory premises into a modern, green business location.

REFURBISHMENTS AND NEW DEVELOPMENTS

DEVELOPMENT	DEVELOPER/LANDLORD	DETAILS
PENTLAND TRADE PARK, PENTLAND INDUSTRIAL ESTATE, LOANHEAD	LANDSDOWNE INVESTMENTS LTD	EXTENSIVE REFURBISHMENT AND SUBDIVISION OF 52,000 SQ.FT. INTO 4 TRADE COUNTER UNITS
BRUCEFIELD INDUSTRY PARK, LIVINGSTON	MILEWAY	RECENTLY ACQUIRED AND ARE EMBARKING ON AN EXTENSIVE REFURBISHMENT
CAPITAL PARK, BANKHEAD AVENUE, SIGHTHILL INDUSTRIAL ESTATE, EDINBURGH	CHANCERYGATE/BRIDGES FUND MANAGEMENT	PLANNING CONSENT GRANTED FOR THE LARGEST SPECULATIVE INDUSTRIAL DEVELOPMENT AT 130,000 SQ.FT.
TURNHOUSE COURT, NEWBRIDGE	NORTHERN TRUST	14 INDUSTRIAL UNITS TOTALLING 28,413 SQ.FT.; WITH UNITS RANGING IN SIZE FROM 1,045-4,154 SQ.FT. CONSTRUCTION WORKS COMPLETING IMMINENTLY
ICON BUSINESS PARK, KIRKTON CAMPUS, LIVINGSTON	ICON DEVELOPMENTS	11 UNITS RANGING FROM 1,023-1,700 SQ.FT. MOST OF THE UNITS ARE NOW LET WITH THE FINAL UNITS DUE TO COMPLETE Q1 2022
PHASE 2 WEST WAY, HILLEND AND DONIBRISTLE INDUSTRIAL ESTATE, DALGETY BAY	FIFE COUNCIL	CONSTRUCTION RECENTLY COMMENCED ON 8 NEW UNITS TOTALLING 14,200 SQ.FT.
FULHAME BUILDING, MSIP, DUNDEE	MICHELIN, DUNDEE CITY COUNCIL AND SCOTTISH ENTERPRISE	6 RECENTLY COMPLETED LIGHT INDUSTRIAL UNITS TOTALLING 12,000 SQ.FT.
LAMMERMOOR AVE, ABBOTSFORD BUSINESS PARK, FALKIRK	SALTIRE BUSINESS PARKS	10 NEW UNITS TOTALLING 11,628 SQ.FT.
PLOT 7, EASTER INCH, BATHGATE	CM STEEL	12 UNITS TOTALLING 15,070 SQ.FT.
ABBOTSFORD BUSINESS PARK, FALKIRK	SPRINGFIELD DEVELOPMENTS	10 NEW UNITS TOTALLING 11,628 SQ.FT. RANGING FROM 1,057-1,568 SQ.FT. MOST OF THE UNITS ARE NOW LET

DEALS

ADDRESS	SIZE (SQ.FT)	OCCUPIER	RENT (PER SQ.FT.)	SECTOR
28 SOUTH GYLE CRESCENT, EDINBURGH	17,688	UPS	£8	LOGISTICS
UNIT 8 CAPITAL PARK, BANKHEAD AVENUE, SIGHTHILL	15,000	TRAVIS PERKINS TRADING CO LTD	£8.60	TRADE
FORT KINNAIRD TRADE PARK, EDINBURGH	10,276	WHOLESALE DOMESTIC	£10	TRADE
UNIT 2, 7 HILLS BUSINESS PARK, EDINBURGH	9,461	ARW BARRIE LTD	£9.50	LOGISTICS
BLOCK A PENTLAND TRADE PARK, PENTLAND INDUSTRIAL ESTATE, LOANHEAD	27,350	TRAVIS PERKINS TRADING CO LTD	£12.75	TRADE
5 ROYSTON ROAD, DEANS INDUSTRIAL ESTATE, LIVINGSTON	122,892	ACEO LTD	SALE	WAREHOUSING (WHISKY)
2 RAW HOLDINGS, CAMPS INDUSTRIAL ESTATE, EAST CALDER	44,828	FINESTAR LTD	SALE	LOGISTICS
UNIT H NEWARK NORTH ROAD, GLENROTHES	66,982	KKR LTD	SALE	STORAGE AND DISTRIBUTION
UNIT 6A PITREAVIE BUSINESS PARK, DUNFERMLINE	15,838	HIRE STATION LTD	£4.50	TRADE

OUTLOOK

It is difficult to envisage any significant change in the current market balance across the East Central Scotland industrial property sector, given minimal availability and constant pressure from occupiers seeking property to meet their operational and sustainability needs.

The rental and yield equation now supports new development across the market area. This will encourage both the private and public sector landowners to consider development.

The next challenge for the market is to meet the gradual return of the manufacturing sector. A number of active enquiries from businesses in that sector will provide even greater challenge to provide suitably designed and specified accommodation.

INDUSTRIAL

ABERDEEN

DEMAND

The industrial property market in Aberdeen remained challenging in 2021 due to COVID-19 and the continued downturn in the oil and gas industry. The oil price has however, risen to above $80 per barrel which gives grounds for optimism moving forward. Take up in 2021 totalled 654,677 sq.ft. which was a 9% decrease on 2020 and a marginal 1% decrease on the 5 year average of 664,351 sq.ft.

There were 91 transactions in 2021 which was a 23% increase from 2020 when there were a total of 72 transactions. The average deal size is now 7,194 sq.ft. which is a fall from 10,010 sq.ft. in 2020. There were 22 deals over 10,000 sq.ft. in 2020. There were 22 deals over 10,000 sq.ft. which is a decrease of 13% on 2020.

> AS EXPECTED THE VAST MAJORITY OF THE DEALS WERE RELATED TO THE OIL AND GAS INDUSTRY.

As expected the vast majority of the deals were related to the oil and gas industry. The logistics and distribution requirements that are so prevalent in other cities have been satisfied with Amazon, DPD and Fedex having secured new premises in Aberdeen in recent years.

Notable deals include the letting of premises totalling 36,624 sq.ft. in Badentoy Industrial Estate to Coretrax where the landlord had invested a significant sum in the extensive refurbishment of the building; the letting of E1, ABZ Business Park to Draeger which is a modern industrial unit totalling 17,248 sq.ft. on a new business park overlooking Aberdeen Airport; and the letting of Knight Property Group's speculative trade counter development in Westhill to Toolstation, Screwfix and The Paint Shed where all of the tenants were secured pre-completion on long lease terms.

SUPPLY

Industrial property supply in Aberdeen totals approximately 3 million sq.ft. The supply of industrial property in Aberdeen has grown continuously over the last five years although this is now slowing. A large proportion of the available stock is towards the end of its beneficial life and now no longer suits occupiers' needs, especially as tenants seek more energy efficient buildings. With the abolition of vacant rates relief in Scotland a few years ago, landlords now have significant holding costs and in a challenging market like Aberdeen's are now looking at ways of reducing these overheads ie. the demolition of buildings that cannot secure tenants. A number of transactions in the Aberdeen market over the last 12 months have been at low rental rates and in some cases properties are being sold at auction for low capital rates per sq.ft.

Occupiers continue to seek good quality modern industrial space but there is less than 150,000 sq.ft. of new build stock on the market at present. Aberdeen needs more speculative development to address this shortage but rising build costs and uncertainty from the oil and gas occupiers means that they are only willing to commit to 3 to 5 year lease terms, making it difficult to stack up financially for the developers. Some developers are however pressing ahead with new schemes, most notably Knight Property Group in Westhill, ANM Group/GSS Developments at Thainstone Business Park and Dandara at City South in Portlethen.

Prime rents in Aberdeen are £8.75 per sq.ft. for workshop space, £17.75 per sq.ft. for offices and £2 per sq.ft. for concrete yards. There has been significant downward pressure on rents for second hand properties in recent times as landlords are having to offer flexible lease arrangements and very competitive rental rates in order to secure tenants. The situation will only change once certainty returns to the market and some of the surplus stock is taken up. At a time when competition is fierce landlords continue to need to extensively refurbish buildings in order to stand a chance of securing an active occupier requirement.

DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	SECTOR
CRATHES & KILDRUMMY BUILDINGS, HOWE MOSS TERRACE, DYCE	76,146	AKER SUBSEA	OIL AND GAS
BADENTOY ROAD, BADENTOY INDUSTRIAL ESTATE, PORTLETHEN	36,624	CORETRAX	OIL AND GAS
35 YORK PLACE, ABERDEEN	35,066	KENWAY TYRES LTD	MOTOR TRADES
WOODSIDE ROAD, BRIDGE OF DON	35,037	VALLOUREC OIL & GAS LTD	OIL AND GAS
UNITS 1-8 FARBURN INDUSTRIAL ESTATE, DYCE	23,800	LJF POWDER COATING	METAL COATINGS
ROWAN HOUSE, PETERSEAT DRIVE, ALTENS	20,605	THE REAL MCKAY LTD	LOGISTICS
UNIT E1, ABZ BUSINESS PARK, DYCE	17,248	DRAEGER	OIL AND GAS

OUTLOOK

In recent months there has been a more positive sentiment in the market as the oil price remains above $80 per barrel and this combined with the lifting of COVID-19 restrictions should hopefully lead to a more positive industrial market in Aberdeen in 2022.

> “IN RECENT MONTHS THERE HAS BEEN A MORE POSITIVE SENTIMENT IN THE MARKET AS THE OIL PRICE REMAINS ABOVE $80 PER BARREL.”

SPECULATIVE DEVELOPMENT

DEVELOPMENT	DEVELOPER	SIZE/NUMBER OF UNITS	DELIVERY DATE
SITES 9 & 10, KINGSHILL COMMERCIAL PARK, WESTHILL	KNIGHT PROPERTY GROUP	8 UNITS OF 2,500 SQ.FT., 1 UNIT OF 1,860 SQ.FT.	CONSTRUCTION DUE TO COMMENCE SHORTLY
ALTENS TRADE PARK, SOUTERHEAD ROAD, ALTENS	KNIGHT PROPERTY GROUP	UNITS 1 & 2, 7,666 SQ.FT.	CONSTRUCTION COMPLETE. UNITS 1 & 2 AVAILABLE
UNITS 1-15, ABZ BUSINESS PARK, DYCE	ABZ DEVELOPMENTS LTD	9 UNITS OF 2,500 SQ.FT.	PHASE 1 COMPLETE – UNITS 3, 8 AND 9 NOW LET. PHASE 2 – UNDER CONSTRUCTION
3 UNITS OF 5,000 SQ.FT.	PHASE 1 AND 2 NOW COMPLETE. 5 UNITS LET	18,138 SQ.FT.	CONSTRUCTION TO COMMENCE SHORTLY
SALTIRE BUSINESS PARK, BADENTOY, PORTLETHEN	SALTIRE DEVELOPMENTS	7 UNITS TOTALLING 13,146 SQ.FT.	CONSTRUCTION COMPLETE. ALL UNITS AVAILABLE
THE CRESCENT, WESTHILL	KNIGHT PROPERTY GROUP	4 UNITS FROM 2,750-3,520 SQ.FT.	NOW FULLY LET TO TOOLSTATION, SCREWFIX AND THE PAINT SHED
THAINSTONE BUSINESS PARK	ANM GROUP/GSS DEVELOPMENTS	6 UNITS FROM 1,496-5,528 SQ.FT.	CONSTRUCTION HAS COMMENCED AND DUE TO COMPLETE IN Q2 2022
PHASE 2, CITY SOUTH BUSINESS PARK	DANDARA	8 UNITS FROM 1,500-2,250 SQ.FT.	PHASE 2 NOW COMPLETE WITH 3 UNITS LET. PHASE 3 IS COMING SOON AND WILL COMPRISE UNITS OF 750-1,000 SQ.FT.

RETAIL AND LEISURE

According to the Scottish Retail Consortium and KPMG, in December 2021 retail sales increased by 15.6% on a like-for-like basis compared with December 2020. Sales had however decreased by 16.6% to that date during the first phase of the pandemic, so 2021 delivered a rebound rather than net growth.

Total non-food sales increased by 19.5% in December 2021 compared with a decrease of 17.7% in the previous year.

Consumers shopping earlier for Christmas 2021, to avoid the risks of logistical problems, helped to improve figures ahead of further Government restrictions which were then imposed in December 2021. In the leisure sector however, after promising levels of activity during November 2021, the spread of the Omicron variant and updated Government guidelines then slowed spending during the final weeks of 2021 as many organisations and individual cancelled their festive season events.

DEMAND

The physical retail market continues to contract with a raft of further closures. According to PWC, 8,700 stores disappeared from UK retail locations during the first six months of 2021. High Street failures included previous stalwarts such as Debenhams, Arcadia (Dorothy Perkins, Top-shop, Miss Selfridge Wallis and Burtons), Jaeger and Paperchase. In addition there were planned store closures from Marks and Spencer, including the major store on Sauchiehall Street in Glasgow, as part of a rationalisation which will close or merge 100 stores by 2022. Peacocks closed half their stores and Paperchase are closing a further 47 stores.

What is now apparent is that the 'comparison goods' clothing and footwear sector which has anchored our shopping streets and malls is multi-channel. The comparison may take place in-store, at home, online or indeed across a combination of those.

The financial services sector was not unaffected on the high street with closures from TSB targeted at 475 outlets and further closures planned from Santander, Lloyds and Virgin Money. This is a long term trend as financial and other professional and consumer services are also increasingly delivered online.

There are likely to be more challenges ahead for retailers and leisure operators with concessions on rates, VAT and salaries due to revert to pre-pandemic levels and loans repayments looming on the horizon. This will further enforce the need for a retail recovery plan from the Government in order to perhaps rescind the working from home guidelines, offer potential grants for occupiers or even consider creating a stimulus plan for shopping.

As previously reported, the sectors trading strongly or looking to expand continue to be those involved in convenience, food sales, discounters and drive-thru restaurants and coffee operators.

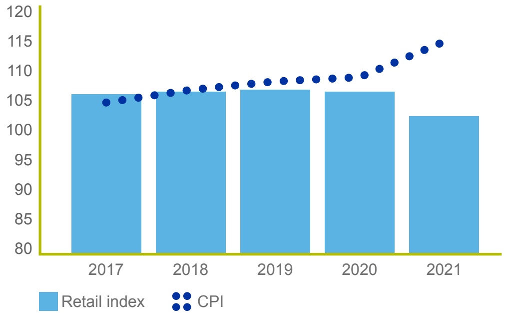
The oversupply of retail floorspace is magnified in town and city centres due to the failure of large floorspace occupiers including Debenhams, Frasers, BHS and Jenners together with planned closures from John Lewis, Next and Marks and Spencer.

John Lewis closed in Aberdeen during 2021 and the department store has been put up for sale.

In total, 15 Debenhams stores in Scotland closed during 2021 – Aberdeen, Ayr, Dumfries, Dundee, Dunfermline, East Kilbride, Edinburgh, Falkirk, Glasgow city centre, Glasgow Silverburn, Inverness, Leith, Livingston, Perth, Stirling. It is notable that the loss of major brands which smaller towns experienced after the Global Financial Crisis in 2008 has extended to all tiers of the shopping hierarchy, with top destinations such as Glasgow, Edinburgh and Aberdeen less affected but certainly not immune to failures or indeed the pruning of store networks.

The deals table on page 32 highlights that the market is dominated by the letting-up of new developments and refurbishments.

“THERE ARE LIKELY TO BE MORE CHALLENGES AHEAD FOR RETAILERS AND LEISURE OPERATORS.”



DEVELOPMENT

In Glasgow, Sovereign Centros has ambitious plans to remodel St Enoch Shopping Centre for mixed use development and provide offices with a rooftop restaurant within the former Debenhams store. A 9-screen cinema opened here in summer 2021.

At the other end of the prime Buchanan Street, owner Landsec has very recently announced plans to demolish Buchanan Galleries (which opened in 1999) and replace it with an ambitious mixed-use neighbourhood which may take up to 10 years to deliver. Further details are expected to emerge during 2022.

Positive outcomes in respect of large space vacancies on Princes Street in Edinburgh include the Johnnie Walker Experience which opened within the former House of Fraser store. Legal and General were successful with a planning approval to create a 207-bed upscale hotel and restaurant with rooftop bar within the former Debenhams, and the owner of Jenners has plans to restore the building to its former glory and also create a hotel and café.

Edinburgh's St James Quarter, a 1.7m. sq.ft mixed-use development opened during 2021 and will comprise 85 shops, 2 hotels, 30 restaurants and a cinema when fully open. The centre is anchored by John Lewis, and occupiers include Next, H&M, Zara, & Other Stories, Berska, Calvin Klein, Castore, Dune, Hamleys, Kartel, Stradivaruis, Bonnie & Wild, Five Guys, Bross Bagels and Lane 7.

The west end of Princes Street is becoming a mixed-use area with restaurants and proposed hotels following the relocation of some retailers including Next and Zara, to the new Edinburgh St James. New entrants here include Bar + Block steakhouse in the former New Look unit.

In the north of Edinburgh, Ambassador Investments has announced a £100 million redevelopment plan for the Ocean Terminal Shopping Centre, Leith which will include the demolition of the former Debenhams store and the integral multi-storey car park.

Shopping centres in traditional towns are now subject to re-development proposals. These include: the demolition of part of the Oak Mall in Greenock to be replaced by a flatted residential development; Artizan Centre in Dumbarton purchased by West Dunbartonshire Council with future opportunities for the site being drawn up; and NewRiver REIT plans to demolish parts of the Piazza Shopping Centre in Paisley to create a mixed-use residential, retail and leisure development.

OUTLOOK

The retail and leisure market outlook remains strong for discount operators and major food store operators together with drive-thru fast food and coffee operators. New entrants to the drive thru each market include Greggs, Popeyes and Wendy's, with plans for UK expansion.

The traditional comparison shopping retail market will continue to consolidate and restructure as highlighted above, with further major, mixed-use redevelopment plans anticipated.

Estimating prime city centre retail rents is challenging in this changing market context. Market evidence exists but it is very early to gauge the settled tones until the market comes back into some form of order and balance. New transactions are sporadic and often case-by-case rather than defining the town, city or mall tone. Generally, most occupiers will seek significant discounts on pre-pandemic rental levels. In these unique circumstances the retail index on the chart is a holding position which may be expected to change significantly over the short to medium term.

DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	SECTOR
ST ENOCH CENTRE, GLASGOW	36,000 28,000	TJ HUGHES GUTTERBALL	DISCOUNT RETAILER BOWLING ALLEY
ST JAMES QUARTER, EDINBURGH	1,200 8,400 1,978 2,475 3,000	BROSS BAGELS DUCK & WAFFLE REISS HAMLEYS HARRODS (H BEAUTY)	FOOD AND DRINK FOOD AND DRINK FASHION TOYS HEALTH AND BEAUTY
ST ANDREW SQUARE, EDINBURGH	7,000	BREAD STREET KITCHEN AND BAR	RESTAURANT
THE CENTRE, LIVINGSTON	17,500	FLANNELS FIVE GUYS	FASHION FOOD AND DRINK
UNION SQUARE, ABERDEEN	1,990	TOMMY HILFIGER	FASHION

INVESTMENT

OVERVIEW

Whilst the COVID-19 pandemic continued to impact the Scottish commercial property investment market during 2021, activity levels were notably higher overall compared to the previous year. The Q1 lockdown inevitably limited deal flow but the subsequent easing of restrictions and vaccination roll out gave investors sufficient confidence to re-enter the market arena.

Demand was greatest for industrial properties, particularly logistics units and opportunities were quickly snapped up at record price levels throughout the country. By mid-year retail warehousing had staged a healthy price recovery from the shock of the 2020 lockdown when parks were trading at a significant discount. Meanwhile the liquidity of High Street retail and shopping centres was further tested with a very limited number of buyers willing to take the plunge. The working from home restrictions continued to have a negative impact on investor demand for offices with only the city centre trophy buildings selling well.

Inevitably, Glasgow and Edinburgh were the favoured locations accounting for two thirds of transaction activity but encouragingly a near doubling of deals was recorded in Aberdeen compared to 2020 as investors sought out higher yielding opportunities.

ALTERNATIVES

Following a challenging 2020 with lower levels of occupancy and rent collection, the Purpose-Built Student Accommodation (PBSA) sector experienced a swift resurgence in 2021.

ALTERNATIVES DEALS

ADDRESS	PROPERTY	PURCHASER
BASE GLASGOW, MCPHATER STREET, COWCADDENS, GLASGOW	NEWLY BUILT STUDENT RESIDENCE SCHEME OF 301 BEDS, WITH C 50% LET TO ROYAL CONSERVATOIRE OF GLASGOW AND THE REMAINDER DIRECTLETS.	ARES REAL ESTATE & GENERATION FOR £35 MILLION (5%)
FORMER TRAVELODGE, 18-20 LEARMONTH TERRACE, EDINBURGH	64 BED HOTEL WITH GIA OF 32,241 SQ.FT. POST CVA OFFER FROM TRAVELODGE AT £320,000 PA ON 25/5 LEASE	VP PURCHASE BY AXCEL GROUP FOR £5.25 MILLION. EQUATING TO £82,000 PER BED
ADAGIO, 231 CANONGATE, EDINBURGH	146 BED ADAGIO APARTHOTEL WITH ANCILLIARY RETAIL. LEASE TO ADAGIO C. 5 YEARS AND RENTAL C. £1.75 MILLION	PANDOX FOR C. £38.5 MILLION. (BLENDED YIELD OF C. 4.25%)
11-23 MONTROSE TERRACE, EDINBURGH	149 BED DIRECT LET PBSA SCHEME TO BE DEVELOPED BY GLENCAIRN PROPERTIES	FORWARD FUNDED AT C. £19 MILLION. EQUATING TO C. £127,500 PER BED
WESTFIELD ROAD AND GORGIE ROAD, EDINBURGH	A TOTAL OF 645 PBSA BEDS ACROSS TWO SCHEMES UNDER DEVELOPMENT BY WATKIN JONES. TO BE DELIVERED IN 2022	FORWARD FUNDED BY SPH AT A COMBINED VALUE OF C £66.5 MILLION. (ANTICIPATED NIY OF C. 5.75%) EQUATING TO £103,000 PER BED

With domestic and international students returning to campuses and an upsurge in applications from both the growing cohort of domestic students and an increasing number of non-EU international students, the direct let market has gathered momentum.

The supply/demand dynamics allied to the prospects for income and capital growth have attracted significant capital from Private Equity firms, institutional investors and owner operators. Demand for core, core-plus, value-add and development propositions in key University cities is strong and this appetite continues to drive much activity within the sector.

Yields for well-located stabilised single assets in primary markets such as Glasgow and Edinburgh are in the order of 5-5.25% with forward funding transactions at a 0.5% discount or thereabouts.

It is anticipated that factors such as the weight of money allocated to the sector, the prospects for rental growth and construction cost inflation will continue to drive pricing and the next 12 months could well see a hardening in yields and a narrowing in the yield gap between stabilised and funding transactions in the best locations. Conversely, assets in smaller secondary markets may struggle to sell.

The Build to Rent (BTR) sector in Scotland is at an early stage but there are signs that it is now gaining traction in what is perceived to be a growing mid-market rental sector.

Most of the investor and developer interest in the sector is focused on Edinburgh and Glasgow conurbations where, despite rising construction costs, perceived demand, anticipated rental levels and a hardening in return aspirations are certainly improving the viability of well-located city centre schemes. A number of land and funding transactions are anticipated over the next 12 months on the assumption that construction cost inflation begins to stabilise.

The Tourism and Hospitality sector continued to be impacted by the pandemic with international travel and large scale events severely restricted. Despite signs of a recent uptick in activity, hotel transactional volumes through 2021 have been very low. This is in part due to the gulf between vendors and buyers pricing aspirations. The outlook for the sector in Scotland does however remain positive and it is anticipated that the country's main markets are well placed to recover quickly as travel and events begin to return. It is envisaged that midscale and economy will recover first and this may lead to some early transactional activity.

“DESPITE SIGNS OF A RECENT UPTICK IN ACTIVITY, HOTEL TRANSACTIONAL VOLUMES THROUGH 2021 HAVE BEEN VERY LOW.”

OFFICE DEALS

ADDRESS	PROPERTY	PURCHASER
AURORA, 120 BOTHWELL STREET, GLASGOW	174,000 SQ.FT. OFFICE. MULTI-LET WITH 3 YEAR WAULT. REQUIRES FULL REFURBISHMENT THEREAFTER	FORMA REAL ESTATE FOR £53 MILLION (8.7%)
150 ST VINCENT STREET, GLASGOW	1970'S OFFICE OF 69,735 SQ.FT. WITH SUB 1 YEAR WAULT ACQUIRED FOR REDEVELOPMENT	CLEARBELL CAPITAL FOR £11.984M (£172 SQ.FT.)
50 BOTHWELL STREET, GLASGOW	LISTED PERIOD OFFICE OF 89,805 SQ.FT. INCLUDES 77,300 SQ.FT. OF VACANT OFFICES REQUIRING FULL REFURBISHMENT	ORION CAPITAL MANAGERS FOR £19 MILLION (£212 SQ.FT.)
CUPRUM, 480 ARGYLE STREET, GLASGOW	10 YEAR OLD OFFICE OF 97,267 SQ.FT. MULTI-LET WITH 4.4 YEAR WAULT. LONG LEASEHOLD INTEREST	TRINOVA REAL ESTATE FOR £28.25 MILLION (7.14%)
THE STAMP OFFICE, WATERLOO PLACE, EDINBURGH	MULTI-LET OFFICE OF 52,177 SQ.FT. ADJACENT TO WAVERLEY STATION. APPROXIMATELY 85% LET AT THE TIME OF SALE WITH 4 YEARS WAULT. TENANTS INCLUDE THE SCOTTISH MINISTERS AND SCOTTISH LEGAL COMPLAINTS COMMISSION	TRINOVA REAL ESTATE FOR £15.33 MILLION (5.14%)
HOLYROOD PARK HOUSE, EDINBURGH	MULTI-LET OFFICE OF 46,529 SQ.FT. TENANTS INCLUDE ROCKSTAR NORTH, CITIBANK AND UNIVERSITIES SCOTLAND. WAULT OF C.7.5 YEARS TO EXPIRY AND 5 YEARS TO BREAKS	ROCKSTAR NORTH FOR £18.25 MILLION (5.25%)
PRINCES EXCHANGE AND NEW UBERIOR HOUSE, EDINBURGH	158,500 SQ.FT. OFFICE SINGLE LET TO RBOS/ LLOYDS BANKING GROUP EXPIRING IN DECEMBER 2030	UNION INVESTMENT FOR £78.6 MILLION (5.25%)
EXCHANGE PLACE ONE, SEMPLE STREET, EDINBURGH	PRIME MULTI-LET OFFICE OF 115,000 SQ.FT. TENANTS INCLUDE BLACK ROCK, HYMAN ROBERTSON, CAMERON HUME AND CUNDALL.	CBRE IM FOR C.£58 MILLION (5.06%)
NEPTUNE HOUSE, NORTH ESPLANADE WEST, ABERDEEN	MODERN 40,900 SQ.FT. GRADE A OFFICE LET TO NEPTUNE WITH APPROX. 8 YEARS UNEXPIRED	GLADE CAPITAL FOR £13.6 MILLION (9.37%)
13 QUEEN'S ROAD, ABERDEEN	REFURBISHED 16,110 SQ.FT. OFFICE BUILDING LET TO PINSENT MASONS WITH APPROX. 6 YEARS UNEXPIRED	PRIVATE OVERSEAS BUYER FOR £5.1 MILLION (10.54%)

OFFICES

2021 was a stop-start year for the Scottish office market, with the working from home regulations – tighter than those in England – having a greater effect on office occupancy and consequently, on investor confidence in the sector.

One market seemingly not affected however was Edinburgh, where a steady stream of investors queued up to acquire buildings across the full spectrum – from trophy assets, to income deals and repositioning/ refurbishment opportunities. Overseas investors were particularly active, to an extent not witnessed in other Scottish office markets.

In Glasgow, the shortage of new build availability prompted strong demand in the refurbishment/redevelopment market – Aurora, 50 Bothwell Street and 150 St Vincent Street changed hands – with buyers looking to provide high quality accommodation that also fulfills the ESG requirements which are becoming an increasing factor in the sector. The uncertainty in the construction sector and build cost volatility was a handicap when appraising schemes but this will hopefully settle down in 2022.

In Aberdeen, a few hardy souls bucked the trend to take advantage of the attractive yields available in the city on short to mid-term income deals but there have been no sales of Grade A buildings with rebased rents. Prime yields in the city are predicted to be in the order of 6.5% which compares well with their rivals; Edinburgh at 4.5% and Glasgow at 5%.

INDUSTRIAL

Once again, the industrial sector was the stand out performer in 2021 with investors' insatiable hunger for product in Scotland mirroring the trend elsewhere in the UK. Whilst the start of the year was relatively subdued due largely to the pandemic peak and consequential travel restrictions it did not take long for activity to pick up and by the end of the year numerous medium to larger deals had been struck.

In contrast to 2020, it was encouraging to note investment activity spreading northwards beyond the central belt with some sizeable transactions completing in Dundee and in particular Aberdeen where trading volumes increased almost five fold.

Much of the demand was focused on the logistics sector of the market which has been on fire during the pandemic, although buyers also emerged for 'standard' industrials. Large, single-let modern sheds attracted interest from a wide range of investors; UK institutions and overseas private equity from the US featured heavily amongst the buyers. Notably, funds managed by abrdn successfully acquired high quality logistics sheds in Glasgow and Aberdeen, let to DHL and DPD respectively, paying handsome prices in the process. The mid-4%s yields initially raised eyebrows but given the intense competition for this sub sector and the significantly lower yields prevailing for similar stock in England these deals provide some value compared to the wider market.

In contrast, transactions of multi-let industrial estates in 2021 were limited to the central belt cities. Several prime estates in Glasgow and Edinburgh changed hands at prices reflecting historically low yields, with the sale of Citylink Industrial Estate in Govan dipping under 5%. Buyers in the prime end of this sub sector remain plentiful with the odd fund active amongst the usual sector specialists – REITs and private equity players from the UK and overseas. Meanwhile, the traditional propcos

INDUSTRIAL DEALS

ADDRESS	PROPERTY	PURCHASER
CO-OP, LINK PARK, NEWHOUSE	FORWARD FUNDING OF A PURPOSE BUILT DISTRIBUTION FACILITY OF 47,565 SQ.FT. PRE-LET TO CO-OPERATIVE GROUP LTD FOR 18 YEARS. 5 YEARLY RENT REVIEWS GEARED TO RPI	FORWARD FUNDED BY REALTY INCOME TRUST FOR £12.5 MILLION (4.5%)
DHL, PLOT 4 CLYDE GATEWAY EAST, CAMBUSLANG	NEW BUILD DISTRIBUTION WAREHOUSE OF 50,034 SQ.FT. LET TO DHL FOR 15 YEARS WITH GEARED RENT REVIEWS	ABRDN FOR £10 MILLION (4.38%)
IBROX BUSINESS PARK, GOVAN, GLASGOW	MODERN MULTI-LET ESTATE TOTALLING 78,674 SQ.FT. IN 22 UNITS. FULLY LET	MILEWAY FOR £9.85 MILLION (C.5.35%)
CITYLINK INDUSTRIAL ESTATE, GOVAN GLASGOW	MULTI-LET INDUSTRIAL ESTATE TOTALLING 56,500 SQ.FT. IN 10 UNITS. FULLY LET	NUVEEN FOR £6.755 MILLION (4.9%)
STENHOUSE MILL WYND INDUSTRIAL ESTATE, EDINBURGH	MULTI-LET ESTATE EXTENDING TO 63,227 SQ.FT. ACROSS 14 UNITS. LOCATED C.2 MILES FROM EDINBURGH CITY CENTRE.	CLIENTS OF KENNEDY WILSON FOR £8.45 MILLION (5.47%)
CATALYST TRADE PARK, EDINBURGH	MULTI-LET TERRACE OF 6 UNITS EXTENDING TO A TOTAL GIA OF C.30,722 SQ.FT. LOCATED 3.5 MILES FROM EDINBURGH CITY CENTRE	TELEREAL TRILLIUM FOR C.£3.85 MILLION (6.5%)
SITE 70, KIRKHILL, ABERDEEN	FOUR BUILDINGS EXTENDING TO 117,330 SQ.FT. LET TO RWG AND ETHOSENERGY WITH A WAULT OF C.11.25 YEARS. LEASEHOLD INTEREST	FUND MANAGED BY KENNEDY WILSON FOR £10 MILLION (8.67%)
ABERDEEN ONE, ALTENS, ABERDEEN	44,130 SQ.FT. DISTRIBUTION WAREHOUSE DEVELOPMENT LET TO FEDEX WITH 15 YEARS UNEXPIRED AND A VACANT 28,525 SQ.FT. UNIT	APRIROSE FOR £11.6 MILLION (5.94%)
BADENTOY NORTH, PORTLETHEN	MODERN 43,000 SQ.FT. INDUSTRIAL UNIT LET TO DPD WITH 20 YEARS UNEXPIRED	FUND MANAGED BY ABRDN FOR £10 MILLION (4.46%)

tend to feature when secondary opportunities are available at more generous yields of 7% and higher.

There were no stand-alone multi-let industrial estate sales in Aberdeen as existing landlords generally preferred to hold and asset manage through that city's challenging market.

Demand from private investors for smaller lots (sub £2 million) remained very strong with single units in favoured central belt locations trading well and achieving yields sub 5%, frequently after a competitive closing date. Investors seeking much higher yields were able to acquire properties in the less favoured locations with some deals creeping into double digit territory.

RETAIL AND LEISURE

Retail investment over 2021 was muted. General sentiment, weak before the pandemic, diminished further amid lockdown restrictions, store closures and company administrations. Costar research suggests 2021 has been the weakest year for retail investment across the UK in over a decade.

Overall the picture is nuanced. Certain sub-sectors, namely supermarkets and retail warehousing, are experiencing high levels of investor demand and sharpening yields account for a significant majority of transactional activity.

Supermarkets and convenience retail have been prized for their defensive qualities with long often inflation-linked leases, strong covenants and food sales increasing as a share of overall spending over the last year. The recent £32 million acquisition of Sainsbury's Inglis Green Road, Edinburgh by Urbium Capital Partners is a good recent example of this.

Retail parks and retail warehousing, in particular those anchored by supermarkets and/or discount retailers with a low proportion of fashion retailers benefit from similar qualities. This is exemplified by Hermiston Gait Retail Park in Edinburgh which was acquired by Ediston/BauMont in early 2020 and sold again in July 2021 for c.£86.5 million at a net initial yield of 6.5%. Other significant regional examples include Garthdee Retail Park in Aberdeen and Renfrew Road Retail Park in Paisley. Notably, all three properties were acquired by US based investor Realty Income.

Shopping centre investment activity increased in 2021 compared to 2020. This is largely the result of dramatic price falls and more opportunistic private equity backed buyers or property companies looking higher up the risk curve. Buyers have tended be drawn towards centres for repositioning, or with redevelopment angles, and those geared towards convenience. The most significant of these recent transactions is Henderson Park and Eurofund's acquisition of Silverburn in Glasgow for c.£140 million, less than half the price it previously changed hands for twelve years ago. Other examples include Oak Mall Shopping Centre, Greenock once valued at £37 million and recently sold to Comer Group for c.£4.5 million. The same company acquired Ayr Central Shopping Centre for c. £8 million. Elsewhere, Motherwell Shopping Centre was acquired by Signal Capital/Edinburgh House and the Wellgate Centre in Dundee was sold to an as yet undisclosed purchaser in December.

Traditional high street retail has been less sought across the investor spectrum, continuing the pre-pandemic movement away from non-essential retail holdings. Certain traditionally prime locations such as George Street, Edinburgh have demonstrated their enduring appeal despite limited occupational demand and high levels of vacancy. Opportunistic property companies and private investors have sought to take advantage of softening yields, appraising off heavily discounted ERVs or buying off recently rebased rental levels. Typically mixed use assets offering diversity of income and alternative use potential have been targeted but there is value to be exploited in selective single unit investments as recent off-market transactions on Princes Street have highlighted. Expect further polarisation in this market between prime and tertiary locations and pitches.

RETAIL AND LEISURE DEALS

ADDRESS	PROPERTY	PURCHASER
SILVERBURN SHOPPING CENTRE, POLLOCK, GLASGOW	1,076,400 SQ.FT. SHOPPING CENTRE, COMPRISES 125 RETAIL UNITS INCLUDING NEXT, MARKS & SPENCER AND TK MAXX, CINEWORLD CINEMA AND 11 RESTAURANT UNITS INCLUDING FIVE GUYS AND PIZZA EXPRESS	HENDERSON PARK AND EUROFUND FOR C. £140 MILLION (9.3%)
B&M, 480 HELEN STREET, GOVAN, GLASGOW	STANDALONE UNIT OF 33,827 SQ.FT. SITUATED NEXT TO AN ASDA SUPERMARKET. NEWLY LET TO B&M ON A 10 YEAR LEASE AT £9.76 SQ.FT. LONG LEASEHOLD INTEREST.	NORTHERN IRISH INVESTOR FOR £4.7 MILLION (6.59%)
AYR CENTRAL SHOPPING CENTRE, AYR	TOWN CENTRE SCHEME OF 180,000 SQ.FT. IN 20 UNITS INCLUDING NEXT AND PRIMARK. VACANT 80,000 SQ.FT. FORMER DEBENHAMS	COMER GROUP FOR £8 MILLION (10.5%)
OAK MALL SHOPPING CENTRE, GREENOCK	275,000 SQ.FT. CENTRE COMPRISING 50 UNITS, WITH 16 VACANT. ANCHORED BY BOOTS, NEW LOOK AND WILKO.	COMER GROUP FOR £4.5 MILLION (C 37%)
HERMISTON GAIT RETAIL PARK, EDINBURGH	306,000 SQ.FT. RETAIL PARK ANCHORED BY TESCO AND B&Q. OTHER TENANTS INCLUDE TK MAXX AND DECATHLON.	REALTY INCOME CORPORATION C. £86.5 MILLION (6.5%)
SAINSBURY'S, INGLIS GREEN ROAD, EDINBURGH	95,000 SQ.FT. SUPERMARKET AND PETROL FILLING STATION LET TO SAINSBURY'S SUPERMARKETS LTD WITH A C. 17 YEARS UNEXPIRED LEASE TERM	URBIUM CAPITAL PARTNERS LLP C.£32.2 MILLION (4.6%)
THE RANGE AND COSTA DRIVE THRU, MILTON LINK, EDINBURGH	98,578 SQ.FT. OF RETAIL WAREHOUSING LEASED TO THE RANGE UNTIL 2033 AND COSTA DRIVE THRU UNTIL 2034. BOTH LEASES SUBJECT TO FIXED RENTAL INCREASES	URBAN LOGISTICS REIT FOR £13.2 MILLION (6.2%)
88 PRINCES STREET, EDINBURGH	RETAIL UNIT LEASED TO SAMSUNG UNTIL JUNE 2022.	DAVID SAMUEL ASSET MANAGEMENT FOR C. £2.5M (15.6%)
GARTHDEE RETAIL PARK, ABERDEEN	PRIME 115,175 SQ.FT. MULTI-LET RETAIL PARK WITH A WAULT OF C.10.5 YEARS TO BREAKS	REALTY INCOME CORPORATION FOR £32.23 MILLION (6.55%)
STONEYWOOD, DYCE, ABERDEEN	MODERN 16,150 SQ.FT. FOOD STORE LET TO MARKS AND SPENCER WITH 10 YEARS TO TBO	ST JOHN'S INCOME FUND FOR £3.75 MILLION (6.0%)
INVERURIE RETAIL PARK, INVERURIE	MULTI-LET RETAIL PARK WITH A WAULT OF C. 6 YEARS	DAVID SAMUEL PROPERTIES FOR £9.575 MILLION (10.05%)

OUTLOOK

Given the huge wall of money remaining available for property investment opportunities it is anticipated the strong levels of activity experienced during the latter half of 2021 will continue throughout 2022. Whilst the late stages of the pandemic will rumble on, there is an acceptance/belief that the worst is over and a real hope that working from home recommendations will be permanently lifted to inject much needed life into town and city centres.

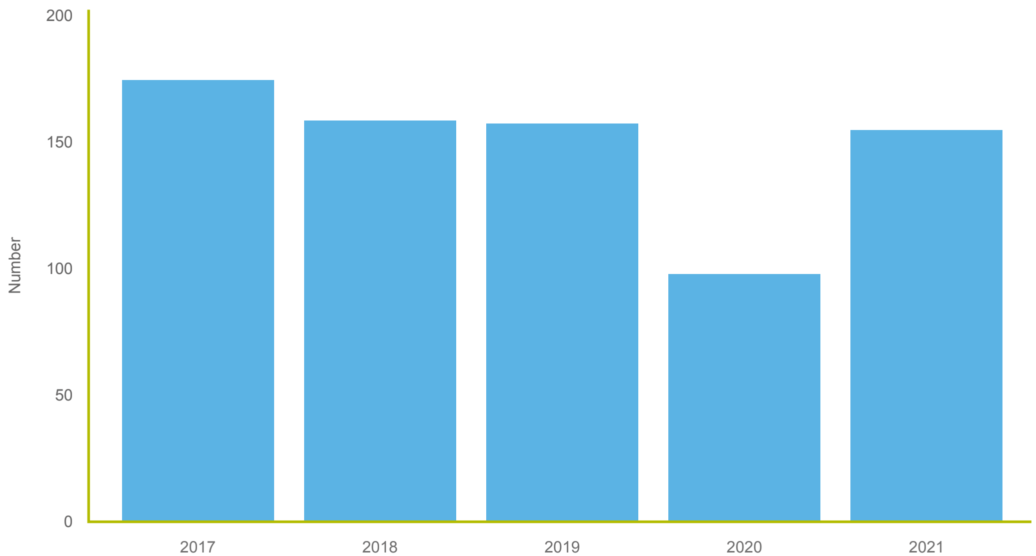
This should help boost investor demand for the office sector but it may be too early to see this filter out to secondary locations and product. Best in class buildings with strong ESG credentials are set to trade well. Industrial and big box retail will remain highly sought after although given the current level of pricing it is hard to forecast another year of substantial yield compression. Overseas investors are predicted to have another active and successful year of acquiring in Scotland and are likely to feature heavily in the bidding for the high profile sales. Inevitably, Edinburgh and Glasgow will attract most interest from investors but there is an improving outlook for Aberdeen and a hope that last year's boost of activity will continue with investors taking advantage of the higher yields on offer.

There are of course other issues to contend with – climate change, rising inflation, interest rates and possible unwanted political interference – but the property industry has demonstrated great resilience and adaptability in the last two years and this is expected to continue through 2022.

> "OVERSEAS INVESTORS ARE PREDICTED TO HAVE ANOTHER ACTIVE AND SUCCESSFUL YEAR OF ACQUIRING IN SCOTLAND."

INVESTMENT TRACKER

Number of investment transactions over £1 million in Scotland.



EDINBURGH
7 Exchange Crescent
Conference Square
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GLASGOW
130 St Vincent Street
G2 5HF
0141 204 3838

ABERDEEN
25 Albyn Place
AB10 1YL
01224 588866

LEEDS
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