Ryden

75th Scottish Property Review

OCT/14


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As predicted in April, uncertainty surrounding the Scottish Referendum dragged upon markets into Autumn. This was an exceptional event however and continuing economic growth is positive for property markets. The property investment market recognises this and has largely resumed normal business.

City office markets had a quieter period pre-Referendum, although the slowdown in Aberdeen is attributable to lower oil prices and cost-cutting by North Sea operators rather than democracy.

A long run lack of new industrial development is now becoming critical in prime locations as business growth and property obsolescence encourage occupiers to relocate.

The retail sector is still in recovery mode but is supported by an active leisure sector, growing consumer expenditure and a re-basing of values which should help to attract new investment.

DR MARK ROBERTSON, PARTNER

Economy

The Scottish economy has now expanded for eight consecutive quarters. Growth is below the UK rate but the Scottish employment data is stronger.

ECONOMY

Second quarter economic growth of 0.9% in Scotland contributed to a 12 month rise of 2.6%. Quarterly output grew in all sectors: the services sector grew by 0.9%, production sector by 0.3% and construction sector by 3.6%. The UK recorded second quarter growth of 0.9%, contributing to a higher annual rise of 3.2%.

The Bank of Scotland Purchasing Managers Index (September 2014 PMI = 51.5) reports a slowdown in new business growth and output, however reported job creation continued at a steady rate.

Reflecting this, the Scottish unemployment rate for the three months June – August 2014 fell to 5.5%, a fall of 1.9 percentage points over four quarters to sit below the UK rate of 6%. The Scottish unemployment claimant count was 3.3% in August 2014, which is down by 1.3 percentage points over 12 months.

The Committee of Scottish Clearing Bankers confirms that the number of new business accounts opened during the first half of 2014 totalled 6,505; this is up by 6% from the same period of 2013. The largest share of new businesses (27%) was in the real estate, renting and other business sector.

Companies House reports a total of 490 business liquidations in Scotland in the first half of 2014, a substantial increase of 80% from the same period in 2013.

Total retail sales in Scotland were 2.9% lower over the 12 months to September 2014. On a like-for-like basis sales decreased by 4.2% annually (Scottish Retail Consortium/ KPMG). Monthly sales figures can be volatile, and according to The Scottish Government retail sales in Scotland grew by 0.8% during the second quarter of 2014, and by 2.9% on an annual basis.

According to the Department of Energy and Climate Change, indigenous production of crude oil fell by 1% in the second quarter of 2014 compared with the same period of 2013.

The Consesus Forecast for UK economic growth published by HM Treasury in October 2014 predicts growth of 3.1% in 2014 and 2.7% in 2015. The EY ITEM club raised its growth forecast to 3.1% for 2014 and 2.5% for 2015. The International Monetary Fund's forecast for the UK in 2014 is 3.2%.

For Scotland, Fraser of Allander Institute's central forecast published in June 2014 is for growth of 2.5% in 2014 and 2.2% in 2015, while EY Scottish ITEM Club's summer forecast predicts growth of 2.4% in 2014 and 1.9% in 2015. These growth forecasts are lower than the UK expectations cited above, but were made four months ago before the UK predictions had increased.

Job Gains
Around 266 new positions are to be created by engineering firm Doosan Babcock in Renfrew
Oil and gas service firm Hydrus Group is to build a new technology centre in Brechin, creating 100 new positions
Construction and manufacturing firm CCG is creating 40 new positions at its Cambuslang facility
Scottish Gas is creating 80 new contact centre positions in Scotland; 60 in Edinburgh and 20 in Uddingston
HSBC plans 200 new jobs across Scotland
Online retailer Amazon plans 1,000 new positions across the UK, including Dunfermline and Gourock
Sports goods retailer Decathlon opened a 3,000 sq.m. flagship store at Braehead creating 60 new jobs

Job Losses
Following the administration of telephone retailer Phones 4u, 32 stores were closed with the loss of 145 jobs
Oil and gas firm Chevron announced 225 job losses in Aberdeen in its North Sea operations
Energy company Shell UK plans to shed 250 onshore jobs from its North Sea operation in Aberdeen
Up to 50 jobs are to be lost in the acquisition of law firm Tods Murray by Shepherd and Wedderburn
VELUX Company Ltd in Glenrothes is to close its window manufacturing facility with the loss of 180 positions

Planning

NATIONAL POLICY

The reviews into both the National Planning Framework (NPF) and Scottish Planning Policy (SPP) have been completed and were launched by the Scottish Government on 23 June 2014. NPF3 and SPP form the top tier of national planning in Scotland, paving the way for planning authorities in Scotland to produce development plans at both strategic and local levels.

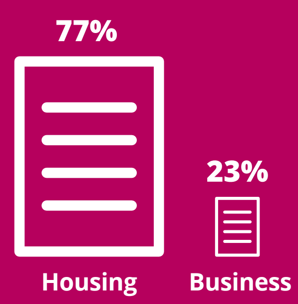
NPF3 represents the Scottish Government's spatial strategy for the entire country for the next 20 to 30 years. Fourteen national developments have been identified to help drive these ambitions forward, including the ongoing successful redevelopment of Dundee's Waterfront and Aberdeen Harbour.

The new SPP sets out Scottish Government national planning policy for the operation of the planning system and land use matters. NPF3 outlines where the Scottish Government wants to see development; SPP outlines how it should be delivered. SPP introduces *'a presumption in favour of development that contributes to sustainable development'*. Significant material weight may be given to proposals that demonstrate substantial economic benefits. This provides scope to push forward economically advantageous proposals, and may lead to more departures from existing, outdated development plan policies.

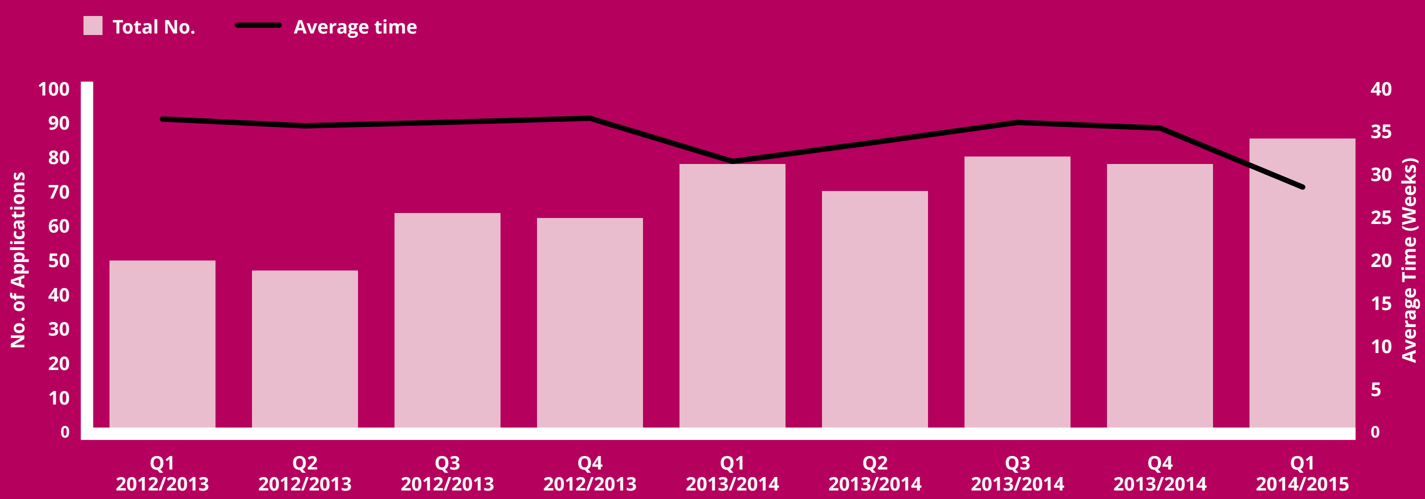
In relation to housing provision, the new SPP expects development plans to address the supply of land for all tenures. To ensure a "generous" supply of housing land for each housing market area, SPP advises that the housing supply target should be increased by a margin of 10 – 20% and a range of sites *"effective or expected to become effective in the plan period"* rather than the previous SPP's *"effective or capable of becoming effective"* (our underlining).

Local planning applications

Major planning applications



All major applications



PLANNING PERFORMANCE AND FEES

At the start of October 2014, the Scottish Government published updated figures which measure the time it takes planning authorities across Scotland to process and determine planning applications. The number of major applications, indicated by the bars, has risen steadily over the past two years as property markets have recovered.

Encouragingly, the black dotted line indicating the average time in weeks taken to process these applications at 28.9 weeks is falling gradually towards the statutory four month (16 week) time limit, although it still has some way to go.

For Local Applications the average determination time of 10.1 weeks shows a sustained fall towards the statutory eight week target. This is critical as local housing developments (<50 units) currently make a huge contribution to housing targets, just as local business applications directly impact upon business growth and job creation.

The Town and Country Planning (Fees for Applications and Deemed Applications) (Scotland) Amendment Regulations comes into force on 1 November 2014. The regulations bring a 5% increase in planning fees. This is the second time the Scottish Government has increased planning fees within an 18 month period (by some 25% since April 2013). The Scottish Government has cited a strengthening of resources to deliver better performance in the decision-making process as a fundamental factor in this increase. The overall improvement in decision making time, reported above, may give some comfort to the development industry, these are averages and conversely the Scottish Government has yet to utilise its powers to reduce fees for underperforming planning authorities.

RESIDENTIAL DEVELOPMENT LAND

The market for residential land across Scotland over the last six months is no longer in recovery mode and is instead delivering a sustained period of more normal trading. The bulk of distressed or part-built sites that were overhanging the market follow the 2008 crash have been sold on or completed. A consistent period of land transactions and recovery in values is providing those with longer term larger landholdings with the confidence to invest in bringing forward sites through the planning system. Residential land values are in the range of £0.75 – £3.75 million per hectare. As sales rates improve, more sites are achieving higher values.

The appetite for land for new housing continues to be dominated by the volume UK wide housebuilders, although more regional players have returned to the market in recent months. Smaller, local developers continue to be largely absent other than in prime locations, due mainly to debt funding restrictions for secondary locations.

Preferred sites remain those with planning consent for family housing and limited infrastructure required. However, as sales rates increase larger sites are being considered which can support more up-front infrastructure. There is also increasing interest in land for flatted developments in strong city locations. Flats are also being reintroduced to masterplan mixes for more suburban locations, in particular sites with strong public transport links such as train stations and tram halts (in Edinburgh). There is also renewed interest in sites that involve part conversion (usually of a listed building) and part new-build. Each of these trends provide further evidence of a return to a more normal residential development market.

Housing completions increased by 5% in 2013/2014 after declining for 5 years.

Offices

Strong office market statistics for the past 12 months mask a lull in the markets since summer 2014. Referendum uncertainty and lower oil price in Aberdeen have depressed demand.

In contrast to the previous period, **Glasgow** has experienced a relatively quiet latest six months with a significant drop off in the number of larger office deal completions in both the city centre and on the periphery. This has resulted in total take-up of 41,206 sq.m. for Q2 and Q3 2014; 22,142 sq.m. was in the city centre, reflecting a decrease of 30%. The city wide figure includes Police Scotland's forthcoming move to Clyde Gateway URC's newly-developed Riverside East building in Dalmarnock (12,450 sq.m.). Despite the slow down, the overall 12 month total to September 2014 at 89,144 sq.m. is up 56% on the previous 12 months.

This most recent lull in city centre activity is temporary as there are a number of large deals expected to complete before the end of the year.

The most notable city centre lettings have been at the refurbished George House, George Square and 151/155 St Vincent Street; where Network Rail took an additional 1,858 sq.m. and a new letting of 4,744 sq.m. respectively. Anderson Strathern also took space at George House and Skyscanner also expanded by a further 1,086 sq.m. at 151/155 St Vincent Street, which is now fully let.

Letting activity is being confirmed at Glasgow's new, speculative city centre offices. Grant Thornton has completed on 1,300 sq.m. at 110 Queen Street and Deloitte is expected to take 1,672 sq.m. There are strong rumours of four floors under offer at 1 West Regent Street. Completion in Spring 2015 for these developments and Abstract Securities' St Vincent Plaza (13,794 sq.m.) is well timed as occupiers begin to realise that the availability of genuine Grade A space is reducing and those with forthcoming breaks/expiries give early consideration to their options. Further occupier momentum may also encourage other developers to dust off drawings in readiness for the next cycle of city centre office development.

Total supply stands at 323,275 sq.m. with city centre availability down by 42,160 sq.m. (18%). This reflects a mixture of take-up and properties either being re-occupied – e.g. BT re-occupying c.10,805 sq.m. at Alexander Bain House, York Street – or being identified for alternative use – e.g. Westergate, Hope Street (7,527 sq.m.) for hotel conversion and 200 West Regent Street for student residences. Grade A supply (excluding the three new-build developments) over 929 sq.m. is limited to c.37,160 sq.m. and many options are compromised either by total size and/or floorplate.

Companies in Glasgow's traditional professional services market seeking floors of 370-600 sq.m. have a choice of high quality space in recently completed core city centre refurbishments such as : The Beacon, 176 St Vincent Street (2,683 sq.m.); Culzean Building, 36 Renfield Street (1,858 sq.m.); and 124 St Vincent Street (3,432 sq.m.). Larger professional firms and corporates seeking new or high quality existing space have a very limited selection, particularly of buildings offering floors of 929 sq.m. or larger and even less choice above 1,395 sq.m.

Recognising this imbalance, Aviva Investors has commenced refurbishment of floors at 123 St Vincent Street to provide c.4,180 sq.m. in floors of c.1,395 sq.m. Tay House at Charing Cross will shortly benefit from the transformation of the building entrance and the refurbishment of the recently vacated first and second floors to provide a combination of scale at c.4,645 sq.m. and larger floorplates of 1,675 sq.m. and 2,787 sq.m.

With the exception of the major move by Police Scotland to Riverside East, activity on the periphery of the city centre has been relatively subdued. Skypark has continued to attract smaller interest with a further four lettings totalling 1,467 sq.m. and The Hub, Pacific Quay is now fully let following completion of deals on the last three suites. Academy Office Park, Gower Street has secured another two tenants. Clyde Gateway URC has recently completed The Albus building providing 1,914 sq.m. of flexible new office space in the Bridgeton area and will also shortly complete a first phase office building of 3,052 sq.m. at Rutherglen Links Business Park.

The out-of-town office market has also experienced limited activity. VWS Westgarth has taken 291 sq.m. at Orbital House, East Kilbride and Castle Building Services and SMART Modular have taken 122 sq.m. and 306 sq.m. respectively at Scottish Enterprise Technology Park, East Kilbride. Cairn Housing Association took 242 sq.m. at Murdostoun House and Macquarie Group 416 sq.m. at Solais House, Strathclyde Business Park.

The Glasgow office market is entering a divergent phase. While there are promising signs of resurgence in the prime market competition across the wider market remains fierce and continues to be characterised by flexible deals and substantial incentives.

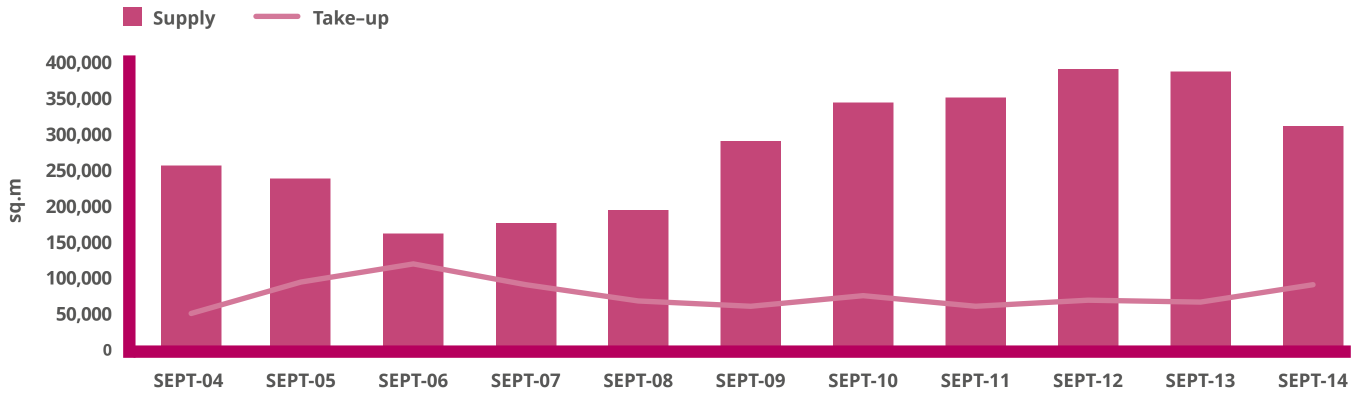
Top rents on existing stock remain static at £269-£280 per sq.m. while new developments are quoting at £306 per sq.m. Abstract Securities is the exception with a quoting rental of £248 per sq.m. for their Grade A new build St Vincent Plaza, a substantial discount over other Grade A space.

Refurbished office space is offered at £180-£269 per sq.m. dependent on quality and location. Rents for good quality business park space can range from £108-£135 per sq.m. for non-cooled space and £135-£193 per sq.m. for comfort cooled space.

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

Address	Size	Occupier
Riverside East, Dalmarnock (Clyde Gateway)	12,450 sq.m.	Police Scotland
151/155 St Vincent Street	4,744 sq.m. 1,086 sq.m.	Network Rail Skyscanner
Alexander Bain House, York Street	2,813 sq.m.	Criminal Injuries Compensation Authority
George House, George Square	1,858 sq.m. 528 sq.m.	Network Rail Anderson Strathern
Central Exchange, Waterloo Street	1,075 sq.m.	Hymans Robertson
Skypark, Elliot Place	903 sq.m.	V Ships
Spectrum Building, 55 Blythswood Street	860 sq.m.	Hays Specialist Recruitment
Sentinel, Waterloo Street	848 sq.m. 567 sq.m.	Morgan Stanley UK Group British Steel Pension Trust
Kintyre House, West George Street	504 sq.m.	Blackbaud Europe Ltd

Glasgow office supply and take-up



Edinburgh's office market achieved 35,418 sq.m. of take-up during the six months to October 2014 (Q2 and Q3). This represents a 9% decrease in activity from the previous six month period, with total take-up for the twelve months to October 2014 recorded at 74,483 sq.m.

City centre take-up was 26,770 sq.m., across 85 deals and representing 76% of total take-up. This activity is down 17% from the previous six month period. Grade A and good quality refurbished accommodation accounted for 15,284 sq.m. or 57% of city centre office take-up. West Edinburgh saw a total of 4,407 sq.m. transacted across 12 deals, a 79% increase in activity from the previous six month period, although this was from a very low base.

These figures point towards a gradual tightening of supply of quality office stock in the city centre, forcing occupiers to widen the net in their search for office accommodation. This is in the context of no new office development to be delivered until late 2015/early 2016.

Significant office lettings in the city centre included: Johnston Press' relocation from Holyrood to Orchard Brae House (2,374 sq.m.); Aberdeen Asset Management's expansion at 40 Princes Street (1,376 sq.m.) and Standard Life Investments at 6-8 George Street (1,063 sq.m.); Alliance Trust (715 sq.m.) and Henderson Global Investors (378 sq.m.) at Atria One and, after our cut-off date for analysis, Aon (455 sq.m); BlackRock who secured additional space at Exchange Place 1 (584 sq.m.); URS at Apex 2, Haymarket Terrace (728 sq.m.); Mott MacDonald who relocated within Caledonian Exchange (709 sq.m.) and RICS at 125 Princes Street (568 sq.m.).

Total office supply across Edinburgh at October 2014 is 195,015 sq.m., a decrease of 5% from the previous six months. Conversion of dated office stock for alternative uses accounts for some of this supply erosion such as: Craigievar House, Craigmount Brae (1,858 sq.m.) and Dunedin House, Ravelston Terrace (1,974 sq.m.) which were sold for conversion to residential use.

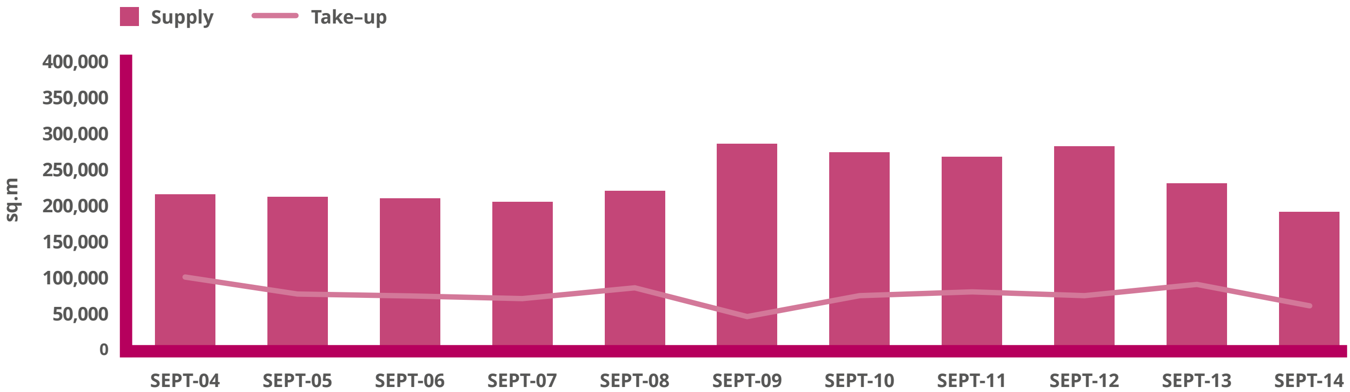
Prime office rents in central Edinburgh remain at around £290 per sq.m. and incentives are holding at around 30 months' rent-free for a straight ten-year lease commitment, although there are signs that this is beginning to decrease in response to increased competition from occupiers to secure the best space.

It is timely therefore that the city's office development sector is finally beginning to re-mobilise. Moorfield is pressing ahead with 18,581 sq.m. of speculative Grade A office space at Quartermile, having secured an £80 million funding deal; Quartermile 3 (12,133 sq.m.) is expected to complete by early 2016 with Quartermile 4 (6,781 sq.m.) to follow. Private equity group Evans Randall is funding Phase 1 of the Tiger Developments/Interserve mixed-use Haymarket redevelopment which includes 8,361 sq.m. of Grade A office accommodation. Standard Life Investments and Peveril Securities are on-site with a £75 million development at 3-8 St Andrews Square which will deliver a 15,400 sq.m. mixed-use retail and office scheme by Q4 2016. Demolition work is underway at Artisan Real Estate Group's £150m mixed use Caltongate development, which is planned to deliver over 20,000 sq.m. of offices, retail and leisure accommodation by end 2015/early 2016 with commitments from Premier Inn and Premier Inn Hub already in place. These live and proposed schemes confirm that the office development cycle has finally re-emerged in Edinburgh city centre.

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

Address	Size	Occupier
Orchard Brae House, Queensferry Road	2,374 sq.m.	Johnston Press
6-8 George Street	1,063 sq.m.	Standard Life Investments
Apex 2, Haymarket Terrace	728 sq.m.	URS
Atria One, Morrison Street	715 sq.m.	Alliance Trust

Edinburgh office supply and take-up



After a long run the office market in **Aberdeen** has turned and we have seen a relatively poor six months of take-up. 39,355 sq.m. has been transacted over 51 deals which is down 29% on the last six month period. Supply has increased by 39% to 85,300 sq.m. as speculative development starts to come into the equation.

At the time of writing, the Brent Crude Oil price sits at just below $85 per barrel, which is 21% lower than six months ago. This is due to a number of factors, including the US Shale gas boom, global growth concerns and ample worldwide supplies. The price however is expected to increase again with forecasts for Brent Crude figures ranging between $96 and $108 per barrel for 2015. In addition to this lower price, drilling activity is down and a general squeezing and cost cutting within the industry has led to a reduction in demand for office accommodation. Industry figures are predicting this will remain the case for the majority of 2015, but the situation will then improve again, assuming there is no significant reduction in the predicted price per barrel.

The supply figures include some of the proposed speculative development which is already on site, however, a number schemes which we understand to be committed are likely to go on site in the next six months. This will significantly increase supply and provide occupiers with a choice on new build Grade A stock. Approximately 53,000 sq.m. of both central and peripheral stock is proposed, all of which should be complete by early 2017. Assuming a re-balancing of the oil supply/demand equation and recovering world economies the market should be strengthening when some of these speculative schemes are starting to come on stream.

The take-up figures have been skewed by the significant pre-let of 20,500 sq.m. to Wood Group on Hareness Road. Without this, the overall take-up would have been at its lowest since 2010. That said, there are still a number of pre-let deals which are under offer and will come into the take-up figures in 2015 when they go on site.

Of the lettings that have taken place none of them have comprised Grade A accommodation in the city centre and West End and we have not seen any increase on the £345 per sq.m. achieved on Queens Road earlier in the year. In terms of availability, the high quality refurbishment of 4,500 sq.m. at AB1 is scheduled for completion in November and is generating strong interest from several occupiers looking at parts of the building. Work is well underway at The Capitol (6,780 sq.m.) and The Point (7,430 sq.m.) both of which are due for completion in Q4 2015.

West of the City, Knight Property Group continue speculative development of Kingshill Business Park at Westhill with two more pavilions of 800 sq.m. each under construction and with recent lettings to CALA and Awilco, they are committed to building out the remaining 5 pavilions in 2015. Primefour at Kingswells continues to thrive with pre-let deals. Statoil and OneSubsea have committed to the park and other deals are due to be announced before the end of the year.

To the north, ABZ Developments have let 1,700 sq.m. to Regus at ABZ Business Park and are pushing forward with a second speculative pavilion of 1,500 sq.m.

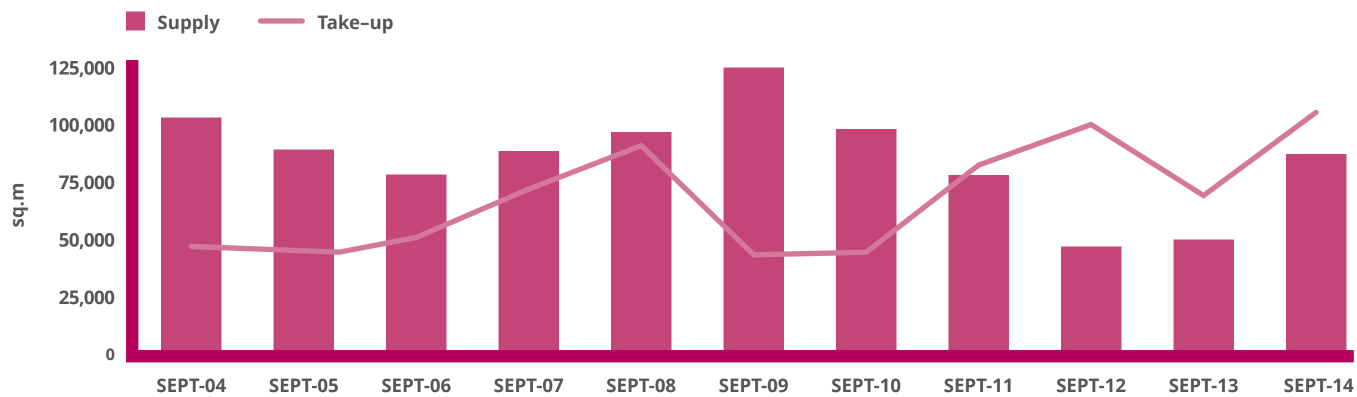
South of the city, Dandara is well under way with 3,000 sq.m. of spec development over five pavilions at City South. Knight have started construction of their final 3,000 sq.m. building which will complete Cityview and Balmoral have finished work on their speculative 3,900 sq.m. unit, which is now available for occupation.

The recent high level of activity in Aberdeen will be curtailed by lower oil pricing and we are likely to see a quieter period ahead in the short term. However, the medium to long term prospects are still positive and with a new pipeline of Grade A accommodation underway we expect to see more normal market conditions returning in that timeframe.

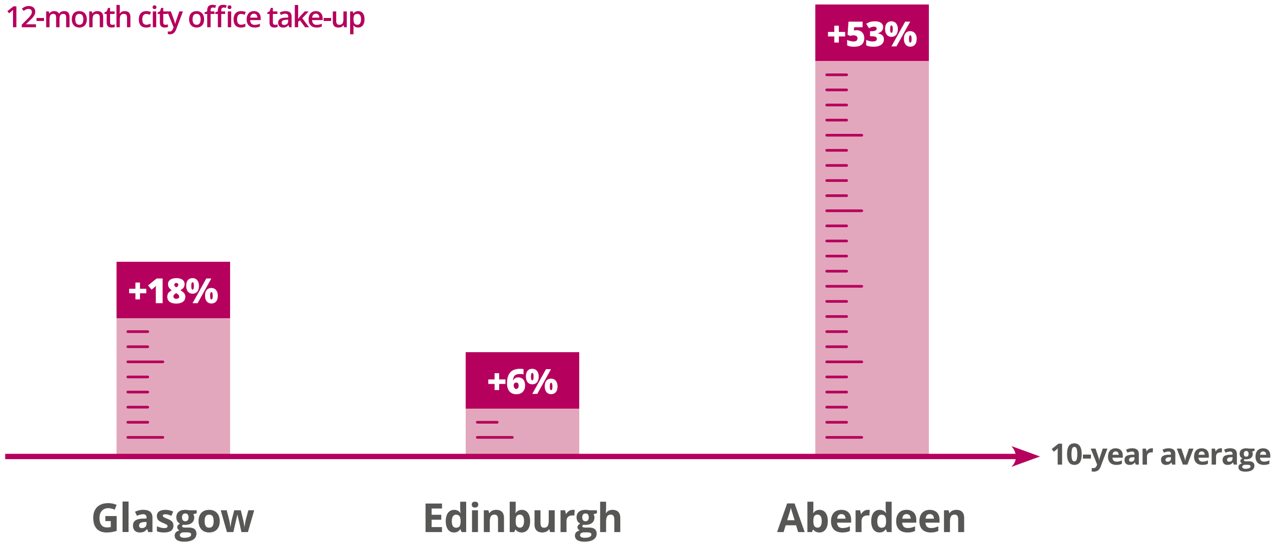
Larger office deals in Aberdeen over the last six months include:

Address	Size	Occupier
Hareness Road	20,500 sq.m.	Wood Group
Primefour	3,250 sq.m.	OneSubsea
Aberdeen Gateway	2,320 sq.m.	Ensco
ABZ Business Park	1,670 sq.m.	Regus

Aberdeen office supply and take-up



12-month city office take-up



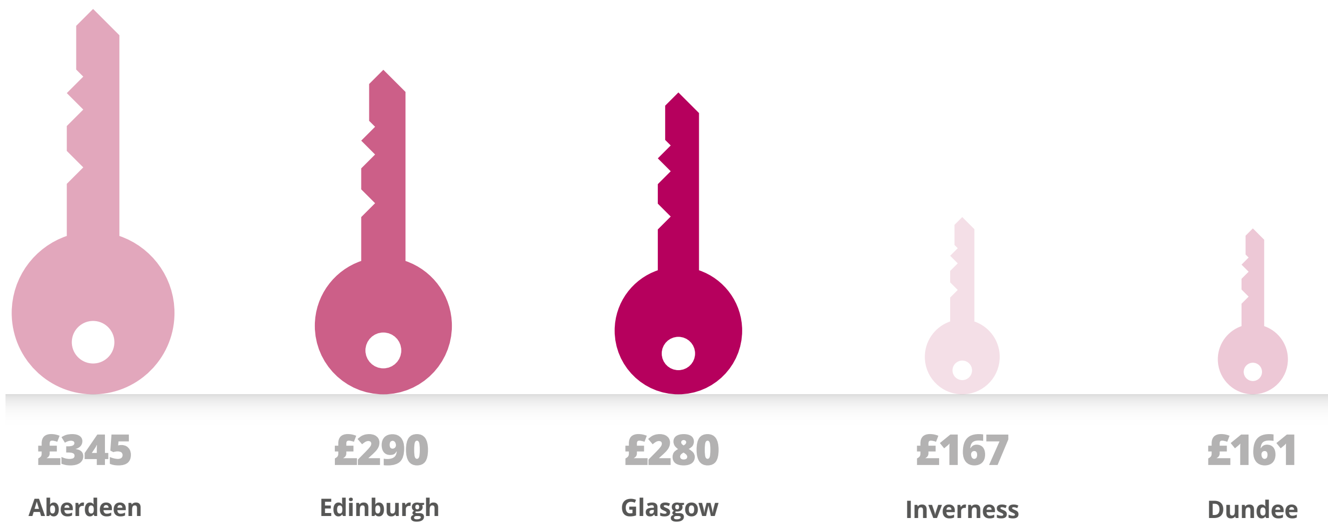
The office market in **Dundee** continues to be active with increasing levels of demand for office suites up to 185 sq.m. City centre serviced offices are well occupied with DundeeOne, Marketgait Business Centre and District 10 all close to full occupancy rates.

Outwith the city centre there have been further lettings at Dundee Business Park, Valentine Court, where DP&L has relocated to modern office accommodation (Unit 2 – 250 sq.m.), and Accel Business LLP has taken a first floor suite (Unit 3B – 110 sq.m.) both on 10 year terms. Swiis Foster Care has agreed a 10 year lease of ground floor office space at Unit 5 Gateway West, Technology Park (229 sq.m.), National Oilwell Varco UK Ltd has occupied a ground floor office at Ainslie Street, West Pitkerro (615 sq.m.), and Cambric Systems Ltd has relocated to modern office accommodation at Tayforth House, 9 Luna Place (301 sq.m.).

The office market in **Inverness** has started to show signs of recovery and recent activity has been mostly concentrated in the city centre. There is currently 18,580 sq.m. of office space available in the city, however much of this office supply is outdated and there remains a lack of modern suitable office space. There are no speculative office developments currently under construction, although Ark Estates recently completed a speculative office development on the Longman Industrial Estate, which is now under offer.

Demand for smaller scale offices remains fairly steady. Hays Specialist Recruitment Limited leased a third floor suite in Moray House, Bank Street (120 sq.m.); Brook Street UK Ltd took a suite at 3 Union Street (74 sq.m.); and the charity Safe Strong and Free took a new lease on a second floor suite in Highland Rail House, Station Square (35 sq.m.).

Prime rent 2014 (£ per sq.m.)



Industrial

The industrial market continued to improve through 2014 and there has been a noticeable rise in enquiries and viewings post Referendum.

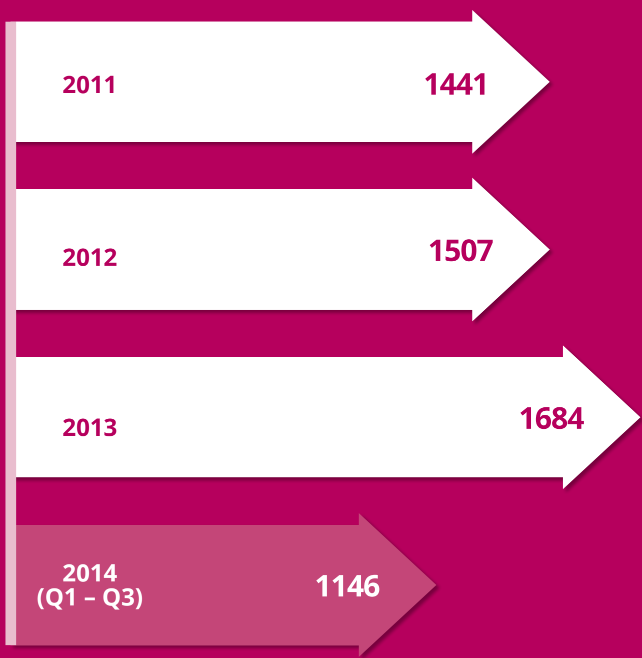
Within prime areas the letting market has now swung in favour of the landlord and there are signs of rental growth and a steady reduction of incentives. Many estates are at high or full occupancy and tenancies previously rolling over on tacit agreement are now being converted into longer term commitments, often at higher rentals. Encouragingly, businesses are generally reporting growing confidence in positive future trading prospects and a good proportion say they expect to expand in the foreseeable future.

In the 1970s and 1980s many parts of Scotland had an over-provision of industrial stock following the decline in manufacturing and traditional heavy engineering. The market took a considerable period to recover through the 1990s and the development of new space was largely left to the public sector. Intervention was initially through direct provision and latterly through subsidies such as LEG-UP and Rapid and through the creation of Enterprise Zones (EZs). In the 2000s, further swathes of outmoded industrial stock were removed to make way for other higher value uses such as residential and retail space. However, outwith the EZs there was still relatively little private sector new build. Public sector assistance finally ended – bar the Urban Regeneration Companies – but even at the height of the market 2005 -2008 there was insufficient industrial development to meet latent demand as higher value office pavilions, retail and housing were built on industrial land. The market headed into the downturn with undersupply in prime areas and creeping obsolescence at older estates; but demand remained relatively robust, despite the economic difficulties.

The **Greater Glasgow** area now has few modern buildings of between 929 sq.m. and 4,645 sq.m. The development market has still to react as funding constraints and rising build costs have not been met by strong evidence of higher rents and prices. Rental growth is now evident in some areas but it may require a number of pre-lets and investment sales to create a more healthy development market. The recent letting to BT at Clyde Gateway East shows that occupiers will pay a cost-based rent; in this instance £172 per sq.m. for a 1,178 sq.m. building with high office content and large area of hardstanding. This is an expensive example, but going forward occupiers must accept higher rents for the creation of suitable buildings.

Market conditions are conducive to this, as strong demand meets limited supply, increasing rents and reducing incentives. Relatively low land values and public sector support for site remediation and infrastructure works are positive. Major infrastructure works including the M74 completion route and re-alignment and upgrading of the A8 are now underway, with improvements also to the Shawhead and Raith Interchanges. Finally, there is strong investment appetite for industrial property product, particularly larger lot sizes. Scottish industrial property is under-priced and sharper yields are anticipated for better quality product.

Number of transactions in Scotland



The peripheral towns around **Glasgow** have higher void levels and have taken longer to show improvement, although **East Kilbride** and **Cumbernauld** for example have benefited from rising industrial take-up over the past six months.

Site starts are expected within the next six months on phase 2 of MEPC/SCOT Sheridan's Clyde Gateway East and also at **Eurocentral**, Plot Y Condor Glen where a joint venture between Fusion Assets/CBC will develop 3,530 sq.m. in units of up to 929 sq.m. At Glasgow Business Park, Silverbank Development Company is appraising plans for the next phase of development to complement the successful Glasgow Trade Park and discussions are ongoing in relation to bespoke buildings. Muse Developments is currently working with architects on the masterplan for plots H, I, J and K at Eurocentral which could bring forward a variety of product solutions to meet the emerging demand for higher specified buildings.

The increased interest from engineering businesses has been notable over the past 24 months and, there is an absence of suitable modern facilities with crane capacity and larger concrete yards. The strength of the Scottish energy sector has led to a number of related enquiries and lettings over recent months and ongoing discussions should result in further deals over the next six months.

There are also signs of increasing interest in development land, with a number of deals in legal hands. On completion these will show a range of values for the better sites from £310,000 to nearly £740,000 per hectare. A more extensive report on industrial land values should be possible within the 76th Scottish Property Review in April 2015.

Occupiers continue flexible lease arrangements. These leases are generally acceptable on existing and older properties, but longer term commitments will be required to encourage the next wave of development and assist business and economic growth. The re-shaping of the industrial market has taken many years, but with the prospect of meaningful rental growth and shortages of supply, the necessary market dynamics are now aligned.

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

Address	Size	Occupier
Units 1/2 The IO Centre, Glasgow Business Park, Glasgow	1,432 sq.m.	National Veterinary Services Limited
120 Springhill Parkway, Glasgow Business Park, Glasgow	6,064 sq.m.	DFS
5/9 Easter Queenslie Road, Glasgow	7,570 sq.m	Confidential
Unit 3 Imperial Park, Linwood	2,352 sq.m	Dimension Shopfitting
Tycos, Montrose Avenue, Hillington	12,356 sq.m.	Wholesale Domestic
The Big Blue Shed, Bellshill	13,350 sq.m	Quiz Clothing

Enquiry levels for industrial property in **East Central Scotland** in the last six months have remained steady, despite a degree of economic uncertainty associated with the Referendum. Occupier activity has been evident across a range of sectors and unit sizes, and there is now a clear shortage of available industrial space across the region.

There has been a noticeable increase in activity in the last six months from trade counter occupiers, linked to economic growth generally and housing market activity specifically. Typical requirements are for high profile properties of 300 – 1,000 sq.m. sited on arterial roads. There has been continued evidence that companies in the oil and gas sector see Central Scotland as a good location for availability of a skilled workforce and good value property, compared to constraints in the Aberdeen area. At St David's Business Park, Dalgety Bay, 6 St David's Drive (1,362 sq.m.) was leased to Oceaneering Umbilical Solutions at £48 per sq.m., while 10 St David's Drive (1,374 sq.m.) was leased to Glacier Energy Services at the same rent. Within **West Lothian** at Heartlands, Junction 5A of the M8, construction of Oil States Industries (UK) Ltd's research and development facility on a 11.12 hectare site is now well underway.

Speculative industrial development returned to **Edinburgh** in the last six months in the shape of C & W Assets' West Edinburgh Business Park. Phase 1 is nearing completion and provides seven units in two blocks of 1,220 sq.m. Phase 2 will provide a further two blocks of 1,220 sq.m. Quoting rents are £81 per sq.m.

Roxhill Developments has 2.45 hectares remaining at their Newbridge scheme following the successful completion of a pre-let to Geopost of 5,574 sq.m. in Phase 1. The remaining site can accommodate up to 10,200 sq.m. of distribution space and is available on a pre-let or turnkey sale basis.

Kames Capital is currently considering speculative development of the remaining land of their successful estate at Bilston Glen, **Loanhead**, which has recently reached 100% occupancy for the first time. Unit 6A Dryden Road was leased to Amey (804 sq.m.) at £108 sq.m. The remaining site of 0.4 hectares can accommodate up to 1,500 sq.m. of new build space.

Further evidence of strong transaction levels across the small to medium sized unit market includes: Unit 11 Bankhead Industrial Estate, Sighthill Industrial Estate, Edinburgh leased to Wetrooms (524 sq.m.) at £58 per sq.m.; a unit at Newhailes Industrial Estate, Musselburgh, leased to Brodie Melrose (483 sq.m.) at £58 per sq.m.; and Unit D, Etna Road, Middlefield Industrial Estate, Falkirk, leased to Hayley Group (565 sq.m.) at £70 per sq.m.

Distribution occupiers continue to actively seek premises, although there has been a lack of any larger deals in the last six months, perhaps more due to a lack of suitable properties or sites rather than a shortage of demand.

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

Address	Size	Occupier
Phase 1, Roxhill Edinburgh, Newbridge	5,574 sq.m.	GeoPost
10 St David's Drive, St David's Business Park, Dalgety Bay	1,374 sq.m.	Glacier Energy Services
6 St David's Drive, St David's Business Park, Dalgety Bay	1,362 sq.m.	Oceaneering Umbilical Solutions
Dunsinane Park, Kilspindie Road, Dundee	1,393 sq.m.	Allison & Stiven
Block 4, Nobel Road, Wester Gourdie Industrial Estate, Dundee	1,750 sq.m.	Fazteck Ltd

The North Sea Oil and Gas market has continued to fuel strong demand for industrial premises in **Aberdeen**, despite lower oil prices. Occupier enquiry levels are high and take-up remains strong, despite a diminishing supply of good quality industrial stock.

Industrial take-up over the last six month period totals 40,574 sq.m., a 5% increase on the previous six months. Take-up has increased in the 464 – 929 sq.m. size range (by 14%) and 930 – 1,858 sq.m. (by a substantial 89%). This is explained by the significant levels of speculative development undertaken by developers in Aberdeen in these size ranges in recent times. By contrast, take-up fell 40% in the 0 – 463 sq.m. size range and by 9% for buildings in excess of 1,859 sq.m., as a strong market in recent years and very little new supply constrains these sectors. A significant number of substantial industrial transactions are presently "under offer" or "under construction" and will be reflected in the next Review.

Supply has risen marginally from 59,005 sq.m. to 59,202 sq.m. in the last six months (0.34%). This masks a number of units larger than 1,858 sq.m. coming to the market in recent months but supply decreasing in all other size ranges. The number of properties actively being marketed has actually fallen from 74 to 65.

The shortage of supply of good quality industrial stock in Aberdeen has led to occupiers considering peripheral options. Take-up in these locations has been strong with Kirkhill Commercial Park in Inverurie becoming fully let and developers that have undertaken speculative development announcing deals.

Rental levels remain strong with new build rents rising to £94 per sq.m. for warehouse accommodation, £191 – £194 per sq.m. for offices and £19 per sq.m. for concrete yards. Over the next 6-12 months these rental levels may well still rise. Rents for secondary industrial units have also risen on the back of this strong prime market.

These conditions mean that the industrial sector in Aberdeen continues to be a landlords' market. Average lease lengths have increased for new-build properties to 15–20 years with minimal incentives. Secondary stock remains at lease lengths of 5-10 years. Again, minimal incentives are being offered to tenants to sign up to lease lengths of this duration, typically three months for every five year term.

A number of developers in Aberdeen have significant industrial HQ design-and-build schemes under offer and under construction and announcements about these are anticipated shortly.

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

Address	Size	Occupier
Hareness Circle, Altens, Aberdeen	1,884 sq.m.	Rigfit
Kirkhill Drive, Dyce, Aberdeen	1,343 sq.m.	Enovate Systems Limited
Z3B, Badentoy Avenue, Portlethen, Aberdeen	1,776 sq.m.	Downhole Products
Site 1, Burnside Drive, Farburn Industrial Estate, Dyce, Aberdeen	3,185 sq.m.	Plexus
3 International View, ABZ Business Park, Dyce, Aberdeen	1,574 sq.m. + yard	SPX
4 International View, ABZ Business Park, Dyce, Aberdeen	1,519 sq.m. + yard	Exova
D1, Gateway Drive, Gateway Business Park, Nigg	5,611 sq.m. + yard	Tetra Technologies
Unit 1 Site 4 Dalcross Industrial Estate, Inverness	804 sq.m.	KN Network Services

The industrial property market in **Dundee**, while experiencing lower take-up over the past six months, continues to attract steady demand, despite the limited number of good quality buildings available. Cording Real Estate Group recently concluded the letting of the last trade counter unit at Dunsinane Park, Kilspindie Road (1,393 sq.m.) to Allison & Stiven. At Kingsway Park, Whittle Place, Unit 1 (737 sq.m.), Unit 5A (929 sq.m.) and Unit 6 (929 sq.m.) have been let to Tokheim, Motor Technology and Diemax Precision Engineering Ltd respectively. At Nobel Road, Wester Gourdie Industrial Estate, Block 4 (1,750 sq.m.) a warehouse with adjoining office was purchased by Fazteck.

Other recent deals of note include the letting of Unit 6 Rutherford Road (349 sq.m.) to Nikole & Jack at a rent of £77 per sq.m., and the sale of Units A & B Longtown Road (1,643 sq.m.) to an owner occupier.

The market for industrial property in **Inverness** remained active over the last six months, although as in other market locations reviewed here there is only a limited supply of available properties. Currently Inverness has 16,720 sq.m. of industrial space available, although much of this is older stock that has been vacant for some time. There is a shortage of land available for industrial development and a shortage of suitable modern industrial space. Over the last six months there have been 21 enquiries for industrial space in the region.

A large industrial building at Unit 1 Site 4 Dalcross Industrial Estate (804 sq.m.) was leased on a new 10-year FRI lease to KN Network Services at £45,000 pa, equating to £56 per sq.m.

New **speculative industrial developments** are mainly in Aberdeen on the back of strong occupational demand:

Development	Developer	Detail
ABZ Business Park, Dyce, Aberdeen	ABZ Developments Ltd	Units 5a and 5b, International Avenue, each totalling c. 1,394 sq.m. – under offer.
		Units 7a and 7b, International Avenue, each totalling c. 1,394 sq.m. construction due to commence shortly – strong occupier interest.
Raiths Industrial Estate, Dyce, Aberdeen	Gilcomston Investments Ltd	Unit C totalling c. 1,858 sq.m. – construction due to commence shortly.
Kingshill Commercial Park, Westhill, Aberdeen	Knight Property Group	The construction of two c. 1,394 sq.m. speculative new build units will commence upon receipt of planning.
Aberdeen Energy & Innovation Park, Bridge of Don, Aberdeen	Moorfield Group	H1 and H2, totalling c. 1,486 sq.m. each – H1 is under offer, H2 due to go under offer imminently.
Aberdeen Gateway Business Park, Aberdeen	Muir Group	Speculative industrial unit totalling 1,300 sq.m. – under offer (construction due to commence shortly).
The Core, Bridge of Don, Aberdeen	Mountgrange	Have submitted a planning application for a 2,415 sq.m. and 3,345 sq.m. speculative industrial development. Construction expected to commence shortly.
Peterseat Park, Altens, Aberdeen	Forbes Homes	Speculative industrial unit totalling c.1,393 sq.m.– under construction and due to be ready for occupation shortly.
Unit 2, Wellheads, Dyce, Aberdeen	MB Air Systems Ltd	A speculative industrial unit totalling c.1,115 sq.m. will be under construction shortly.
Phase 2, Clyde Gateway East, Glasgow	MEPC/SCOT Sheridan	Site starts expected within the next six months.
Plot Y, Condor Glen, Eurocentral	Fusion Assets/CBC	3,530 sq.m. to be developed In units of up to 929 sq.m.
Plots H, I and J, Eurocentral	Muse Developments	Masterplan currently being worked up.
Glasgow Business Park, Glasgow	Silverbank Development Company	Appraising plans for next phase.
West Edinburgh Business Park, South Gyle, Edinburgh	C & W Assets Ltd	Phase 1 nearing completion : 7 units in two terraces each of 1,220 sq.m.

Retail and Leisure

The post-Scottish Referendum retail sector remains challenging, although there are signs of improvement in market sentiment and activity.

With consumer confidence reportedly at its highest level for nine years, some commentators are predicting strong Christmas trading.

Although retail sales on a like-for-like basis fell by – 4.2% on September last year, The Scottish Retail Consortium (SRC) reports footfall as 2% higher. Meanwhile, trend data from the Scottish Government reported in the economy section has total retail expenditure rising steadily since 2012.

Failures in the retail market by way of administration/ insolvency are gradually declining. Major recent casualties include: Phones 4u's 550 stores, of which a significant number will be picked up by Vodafone and EE; Floors-2-Go (in administration for the third time in six years) with 35 stores affected, Internacionale with 110 stores, La Senza's 55 stores, Jane Norman (in administration for the second time in three years) with 24 stores and Albemarle Bond which had reportedly grown too rapidly and folded leaving behind 188 shops.

More positively, Deloitte reports that only 20% of the 5,900 shops affected by 27 of the highest profile retail administrations in the last five years remain vacant. Demand to re-occupy these units is fuelled largely by convenience and discount stores.

The national average shop vacancy rate has fallen to 10.1% on the High Street in August 2014, the third successive quarterly reduction and approaching single figures. Flexibility of lease lengths and falling rentals have assisted this reduction in vacancies, as have incentives (now reducing in many locations) and more frequent use of base and turnover rents. Non-domestic rates remain a challenge however in many locations, being fixed at pre-recession levels and stuck there until 2017, although incentives do exist to attract smaller businesses and to fill vacant units.

In Glasgow city centre, transactions have been limited since the last Review with the most recent being the letting to Greggs at 164 Buchanan Street to incorporate 164b Buchanan Street on a new 10-year lease at an initial rental of £210 per sq.ft. Zone A.

Edinburgh has welcomed the long-awaited Apple flagship store at 10-14 Princes Street. A confidentiality agreement is in place although it is rumoured that Apple secured favourable terms in the order of £150-170 per sq.ft. Zone A for the 1,394 sq.m. unit as the first occupier within the development to sign. Also in the east end of the city centre it is reported that TK Maxx has signed for a major new 2,790 sq.m. unit at the Standard Life/Peveril Securities mixed-use scheme in St Andrew Square.

Transactions in Aberdeen have been limited, mainly due to the success of Union Square and the proposed development within Bon Accord Shopping Centre. However, Taking Shape, an Australian women's plus-sized fashion retailer, opened its first Scottish outlet at 253 Union Street and Shuropody opened at 191 Union Street.

Dundee's waterfront regeneration project continues to create a surge of take-up from restaurant and licensed trade occupiers. US pizza chain Project Pie is to open its first European outlet at 48-54 Reform Street; independent restaurant, Castlehill, opened at 22-26 Exchange Street; True Pizza Co has taken over 2 Whitehall Crescent; and two new restaurants, Oshibori and Ashiana, opened at 162 Nethergate.

In Inverness the retail market has seen a slight increase in activity in the city centre, including 71 Castle Street leased to Rouge Boutiques.

It is anticipated that take-up on voids in High Street will taper off on the basis that some space will require alternative use.

Value retail and convenience food stores will continue to expand as will the restaurant market specifically within city centre locations and leisure hubs.

UK supermarket chains continue to experience challenging market conditions. Tesco's profit warnings, Sainsbury's second consecutive quarterly fall in sales together with Asda and Morrisons loss of market share in 2014 confirm the pressure being exerted at both ends of the market by Aldi and Lidl's growing market share and by strong sales from M&S Simply Food and Waitrose. In response, demand for new outlets continues to shift to the High Street and away from major new superstores.

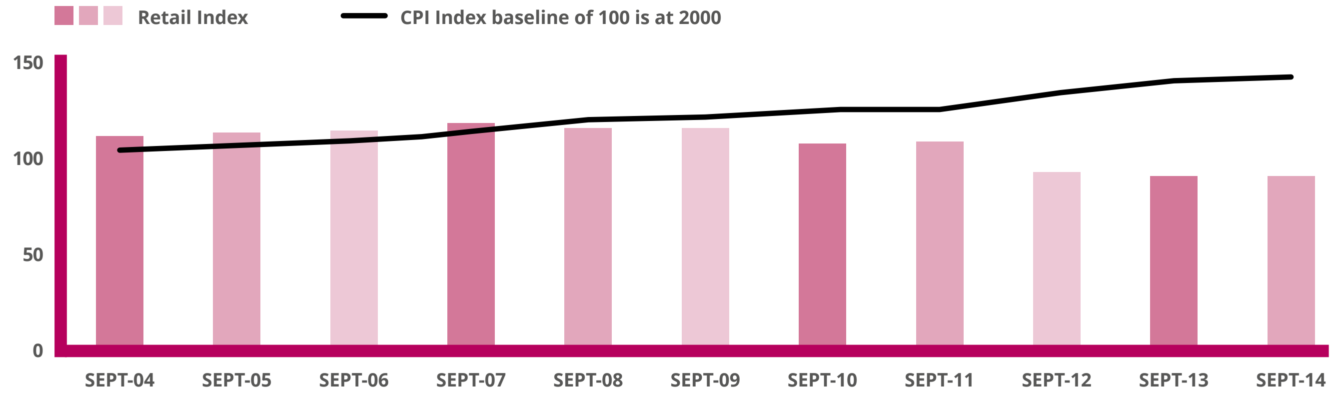
In the retail park sector, performance has slowly improved and vacancies reduced. This is mainly due to activity within the discount sector from occupiers including B&M, Home Bargains, Poundland, The Range and Dunelm. Developments and refurbishments in this sector include Abbotsinch Retail Park (Paisley) which was extended by 5,480 sq.m. to accommodate new lettings to Dunelm, Maplin, ScS and Wren Kitchens with a further 1,858 sq.m. proposed. At Fife Central Retail Park (Kirkcaldy) three adjacent units are being merged to create a 4,645 sq.m. Next Lifestyle store, while the Homebase unit is being taken over by The Range, and a quality food retailer is rumoured to be interested in the existing Next unit. Immediately south of Edinburgh, Straiton Retail Park has attracted Matalan, Next, Sofaworks and Nando's. Hercules Unit Trust is currently on site with Phase 2 at Glasgow Fort Shopping Park with their 10,405 sq.m. extension to incorporate further retail and leisure accommodation.

In the shopping centres sector, leisure occupiers remain the main targets, particularly the successful combination of cinemas with restaurants. Customers seek out the combined shopping and leisure experience and landlords look to extend dwell times and trading hours. These large space-users can also provide a solution where retail vacancies have become long term. Key (digital) cinema operators include Odeon, Vue, Apollo and new players The Light Cinema. Active restaurant operators include Five Guys, Gourmet Burger Kitchen, Handmade Burger Co, Bill's, Byron Burgers, Prezzo, Nando's, Gondola Group and The Restaurant Group. Locations pursuing this strategy include Silverburn (Glasgow), Bon Accord (Aberdeen), Eastgate (Inverness) and Wellgate (Dundee).

Hotel development continues to be a source of market demand and activity. The main players in the market include Premier Inn with their proposed hotels in Edinburgh at York Place (127 rooms) and Caltongate (131 room Hub and 127 room Premier Inn) and proposals on Rose Street (157 room Hub). These complement Premier Inn's recent openings at Pacific Quay in Glasgow and Mill Street in Perth. Premier Inn has further expansion plans proposed throughout the country. Travelodge has requirements for 10 new hotel sites in Scotland plus a 171-room hotel on Queen Street in Glasgow. The ibis brand's expansion includes two new hotels in Edinburgh, a 161-room ibis Budget at Edinburgh Park and a 103-room ibis Styles at St Andrew Square.

In respect of Zone A rents for retail within major centres (see chart), there has been little movement in headline rentals. In some instances incentive levels are being reduced, although tenant-only lease break options also appear prevalent in many cases.

Retail rent index



Retail deals in Scotland over the past six months include:

Address	Size	Occupier
164 Buchanan Street, Glasgow	186 sq.m.	Greggs
Buchanan Galleries, Glasgow	246 sq.m.	Trespass (UK) Ltd
20 Frederick Street, Edinburgh	69 sq.m.	Black & Lizars Ltd
Earl Grey Street, Edinburgh	464 sq.m.	J Sainsbury plc
191-197 Union Street, Aberdeen	730 sq.m.	Shuropody Ltd
11 Hawkhill, Dundee	306 sq.m.	Rishi's Indian Aroma
Rose Street Retail Park, Inverness	1,853 sq.m.	Smyths Toys UK

Investment

Accurately assessing real demand for Scottish commercial investment property during the past six months was difficult due to the impact of the Scottish Referendum.

Prior to the summer the market was moving along like a high-speed train, although by the time August arrived the brakes had been applied, quite firmly in some quarters. In particular, many of the funds and institutions adopted a cautious stance during the final weeks of campaigning with the result that Scotland was sidelined until the political situation was clearer.

Inevitably this led to fewer properties openly coming to the market, particularly at the larger end of the scale. Sellers who were willing to expose their property tended to favour a discreet approach. Some large transactions became conditional upon a "no" vote. However, it was by no means a complete shutdown, as the transaction tables show. Property companies, private equity syndicates and high net worth investors were the main market players during the period.

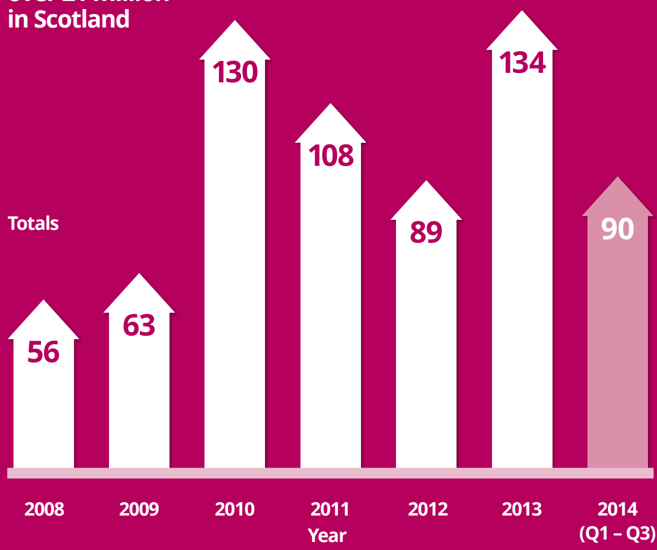
The April 2014 Scottish Property Review highlighted a trend of rising prices and yield compression. In some sectors and locations this started to flatten as the market paused over the summer. Aberdeen was again the most active city with a handful of notable transactions in both the prime and secondary areas of the market. Much of the activity in Aberdeen is focussed towards the development sector.

All Property Total Returns for Scottish property for the four quarters to June 2014 were recorded at 11.8% which compares favourably to the previous four quarters (to June 2013, registering 1.8%). The marked difference is due to significant improvement in both capital and rental value growth.

Land and Buildings Transaction Tax (LBTT) will be the first new Scottish tax since 1707 and it replaces SDLT. High value commercial property transactions (those over £2 million) will incur a higher overall taxation charge, although as the increase in the top slice rate is just 0.5% pricing should remain largely unaffected. However, landlords with high value properties, who are considering a sale, are likely to press ahead with their plans during the first quarter of 2015 before LBTT takes effect.

Investment tracker:

Number of Transactions over £1 million in Scotland



A price collapse in 2008/2009 triggered institutional buying in 2010 which gradually eased 2011/2012. Economic recovery and attractive pricing provided further market stimulus in 2013 which continues in 2014.

OFFICE

Investment activity in the office sector progressively slowed in the run up to the Scottish Referendum as investors called for time out pending the result. Despite this, several high profile transactions did complete across the three principal Scottish cities, although fewer than during the previous six months.

Once again, Aberdeen was the most active city in Scotland with a wide range of buyer types managing to capture stock. Leading the way was Reassure Ltd's £16 million off-market acquisition of the new OneSubsea HQ at Drum Property's Prime Four Business Park, Kingswells, in a forward commitment deal. The park goes from strength to strength and this latest sale creates a new (Scottish) national record low yield of 5.82% for a 15-year lease for an out-of-town office.

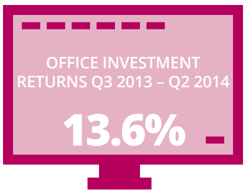
Elsewhere in Aberdeen, Buccleuch Estates' sale of Aberdeen Energy and Innovation Parks at Bridge of Don created significant interest during the traditionally quiet summer period. After some competitive bidding Moorfield emerged as the winning party, snapping up the two 1990s business parks for a price of £35.45 million, reflecting a net initial yield of 8.42%. The parks, which offer a mix of office and light industrial space, also included several long term ground leases and development sites where the vendor has retained an interest.

In Glasgow, the most notable office transactions were Rockspring's acquisition of Guildhall at Queen Street for £29 million, reflecting an 8% yield for a secondary location with ground floor retail, and Kames Capital's acquisition of 200 Renfield Street for £13 million, reflecting 8.07%.

In Edinburgh, market activity was limited with only a handful of transactions completing during the review period, the most notable of which was Erskine House on Queen Street which has been sold by Blue Capital for what is understood to be a change of use to serviced apartments. Nearby, 112 George Street created interest from private investors and was sold for a low yield of 5.26%.

Demand for high-yielding secondary offices is still evident from traditional property companies, investors and syndicates seeking opportunities to add value. These buyers have generally been more active during the summer and were less pre-occupied by the Referendum.

Based upon the IPD Quarterly Index the Total Return for the sample of Scottish office properties for the four quarters to June 2014 was 13.6%, which compares favourably to the previous figure of 0.7%. A reversal of capital growth to a positive value had the greatest impact.



Office property investment deals include:

Address	Property	Purchaser
Guildhall, 45-67 Queen Street Glasgow	13,471 sq.m. Listed office/retail. Tenants include Clydesdale Bank, and Royal Mail	Rockspring for £29 million (8%)
200 Renfield Street, Glasgow	4,956 sq.m. modern office let to NewsQuest Capital until 2030 (break in 2020)	Kames Capital for £13.7 million (8.07%)
111 -115 George Street, Edinburgh	Offices fully let on short-term leases, plus leisure tenants The Living Room and Montpeliers	DTZ IM for £6.955 million (5.88%)
Erskine House, Queen Street Edinburgh	Multi let offices, let on short term income, 7,776 sq.m.	Acquired for alternative use. c.£14.5 million
Admiral Court, Poynernook Road, Aberdeen	3,762 sq.m. multi-let office building	Aston Property Ventures for £11.75 million (9.12%)
Simmons House, Waverley Place, Aberdeen	1,342 sq.m. office let to Simmons & Company Ltd (8 years unexpired)	Gaelic Property Partnership LLP for undisclosed sum
Plot 11A, Phase 2, Prime Four Business Park, Kingswells, Aberdeen	3,304 sq.m. new headquarters let to OneSubsea UK Ltd for 15 years	Forward commitment sale to Reassure Ltd for £16.025 million (5.82%)
Maersk House, Crawpeel Road, Aberdeen	9,257 sq.m. office building let to Maersk with 15 years on the lease	Private purchaser for £28.50 million (6.02%)
Aberdeen Energy and Innovation Parks, Bridge of Don, Aberdeen	19,100 sq.m. multi-let business parks	Moorfield for £35.45 million (8.42%)

INDUSTRIAL

There continues to be strong demand for industrial investments across the size and quality spectrums, although institutional demand did slow in the run-up to the Referendum.

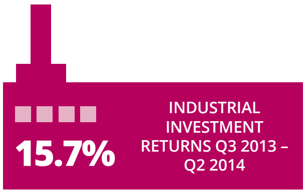
Multi-let estates remain highly sought after, particularly those with trade counter potential and scope to push rents above the standard industrial tone. The opportunity to explore break-up by owner occupier sale is also returning and provides an option in situations where investment values are comparatively low.

The continuing scarcity of speculative industrial development has seen availability fall to critical levels in prime locations in all three major cities and at key transport nodes such as motorways and airport corridors. Incentives have fallen and rental growth for the better estates is now anticipated.

Larger distribution units in the M8 Corridor have proved slower to shift, particularly those above 6,970 sq.m. However, once again, stock is limited and it will take only one or two lettings to transform the market dynamic. With a number of larger requirements in the market this could happen relatively quickly.

Prime yields on multi-let estates are currently at 7-7.5% although returning industrial investment interest may push these lower. Stand-alone investments have reached sub-6% on the strongest income/lease deals, particularly in Aberdeen.

Based upon the IPD Quarterly Index the Total Return for the sample of Scottish industrial properties for the 12 months to June 2014 was 15.7%, significantly above the long run average return.



Industrial property investment deals include:

Address	Property	Purchaser
190 Helen Street, Glasgow	6,667 sq.m. building let to Saint-Gobain with c. 9 years unexpired	L&G (IPIF) for £4.95 million (7.54%)
Central Point, Dovecote Road, Eurocentral	22,731 sq.m. four units including ACS, TRAC and Wincanton	Mayfair Capital for £16 million (7.7%)
Baltic Business Park, Paisley	4,382 sq. let to tenants such as Brandon Hire and Howdens Joinery	Columbus Capital for £2.955 million (8.8%)
The Truffle Portfolio	Five multi-let estates and one single, throughout Scotland. 21,314 sq.m.	Property company for £10.85 million (9.35%)
Firth Road, Livingston	Multi-let totalling 2,289 sq.m. Tenants include Hertz and Canon	Private property company for £1.91 million (13.23%)
Units 1-8 Oakbank Park Way, Livingston	8 units totalling 7,114 sq.m. Medium term income	Property company for £2.55 million (10.23%)
Springkerse Trade Park, Kerse Road, Stirling	Industrial/trade park development of 11 units, totalling 6,688 sq.m.	Private purchaser for £6.5 million (7.5%)
Forum Building, Peregrine Road, Westhill, Aberdeen	5,017 sq.m. new industrial facility let to Forum Energy Technologies (UK) Ltd for 15 years	Forward commitment sale to Aberdeen Asset Management for £9.8 million (6.13%)
Z3B, Badentoy Crescent, Portlethen, Aberdeen	1,756 sq.m. new facility let to Downhole Products for 15 years	F&C Reit for £2.875 million (6.45%)
Arctic House, Kirkton Drive, Raiths Industrial Estate, Aberdeen	1,406 sq.m. industrial facility let to Reel	NHV for £3.5 million (5.54%)
Raiths House, Kirkton Drive, Raiths Industrial Estate, Aberdeen	14,659 sq.m. facility let to Weatherford with 12 years unexpired	Ignis for £22.3 million (6.35%)

RETAIL

Investor demand for prime and good secondary retail investment stock is strong and comes from a wide range of buyers including institutional investors, international investors, private equity and property companies. Activity is being driven by the increased confidence in the occupational market which follows on from the improved economic environment and increased consumer confidence. Recovery is still focussed strongly upon the prime and good secondary end of the market.

This improvement is reflected in performance as a sub-sector and is borne out by the IPD Quarterly Index where in the four quarters to June 2014 Scottish retail property recorded a total return of 10.2% (to June 2013: 1.5%). The principal driver behind the performance was yield reduction and in turn capital growth.

There is no doubt that activity was constrained by the uncertainty brought about by the Referendum, however there were still meaningful transactions in the past six months.

The shopping centre investment market has continued its recovery and substantial transactions include the sale of the East Kilbride Shopping Centre to Orion Capital Managers at a price of £178 million and the sale of Cameron Toll, Edinburgh to Oaktree in partnership with Hunter Asset Management for £46 million. Both sales exceeded expectations and generated strong interest from traditional investors and equity-backed asset managers. These sales demonstrate the significant weight of USA money seeking suitable opportunities in the market at the present time.

High Street property investment activity has been limited, however recent transactions include the £21.5 million sale of the TK Maxx store on Argyle Street, Glasgow which reflected a net initial yield of 5.7%. Also a recent sale on George Street, Edinburgh of the T.M. Lewin unit at 4.66% demonstrates the continued appeal of that street to private and pension fund buyers.

Investor appetite for retail warehousing continues to focus on well-secured, single let units and clusters/parks, although there are signs that investors are beginning to move up the risk curve as they consider more secondary and short term let opportunities.

RETAIL INVESTMENT RETURNS Q3 2013 – Q2 2014

10.2%

Retail property investment deals include:

Address	Property	Purchaser
36-48 Argyle Street, Glasgow	6,550 sq.m. let to TK Maxx to June 2025 with tenant break option 2020.	Henderson for c.£21.5 million (c.5.7%)
Darnley Leisure Park, Glasgow	1,282 sq.m. multi-let retail and leisure park including KFC and Costa	Mayfair Capital for £5.5 million (6.5%)
East Kilbride Shopping Centre	130,000 sq.m. centre effectively comprising East Kilbride town centre	Orion Capital Managers for £178 million (6.75%)
20-40 Gordon Street & 3 West Nile Street, Glasgow	1,341 sq.m. mixed retail/office block. Mix of short to medium term income	Private Investor for £3.6 million (7.02%)
Hanover House, 45-51 Hanover Street, Edinburgh	Retail/leisure, offices, (1,579 sq.m.), including Pret A Manger and Jack Wills	Private investor for £6.5 million (6.59%)
48 George Street, Edinburgh	Retail unit let to T.M. Lewin	Private investor for £2.526 million (4.66%)
Slateford Road, Edinburgh	Retail warehouse (3,244 sq.m.) let to Matalan until December 2017	Private purchaser for £5.55 million (6.84%)
Cameron Toll Shopping Centre, Edinburgh	Shopping centre on the south side of Edinburgh, totals 24,759 sq.m.	Oaktree and Hunter Asset Management for £46 million (7.3%)
54 Guild Street, Aberdeen	414 sq.m. convenience store let to Sainsbury's for 15 years	Puka Shell Ltd for £850,000 (5.85%)

MARKET PROSPECTS

The "No" result at September's Scottish Referendum removed uncertainty from the property investment market, although with further devolution pledged including fiscal powers the dust has still to fully settle.

Already there has been an increase in the number of properties coming to the market. The final quarter of the year is traditionally busy and will provide a better guide to market demand and pricing. Some of the more cautious fund managers may continue to observe rather than participate in the market for a while longer, although undoubtably others will see this period as a buying opportunity.

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