Ryden

April/14:74th
Scottish Property Review

Sustained economic growth and positive forecasts are encouraging increased demand for employment property. Take-up of offices across Scotland's three largest cities is at record levels, despite Aberdeen's buoyant demand being suppressed by the development lag. The retail sector is stabilising but is yet to show any real resumption of growth; most investment is in the related leisure sector. Commercial property development is slowly re-emerging but to date remains highly selective and focused on absolute prime markets.

Despite polarised political campaigns, Scotland's Referendum on independence is clearly not discouraging the occupier markets.
In the investment market there is nervousness from some funds, but these are swamped by the weight of money pursuing prime markets with attractive fundamentals. As the Referendum looms however, the usual Summer market hiatus is likely to continue through early Autumn up until the September 18 plebiscite.

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Economy & Planning

Economy

Scottish economic growth fell to 0.2% during Quarter 4 of 2013. Growth is now entrenched across economic sectors and forecasters anticipate this will continue.

- Fourth quarter growth contributed to an annual rise of 1.6%, marginally below the UK rise of 1.7%. Government analysis suggests that events at the Grangemouth refinery may have depressed growth by at least -0.2%. This contributed to a -0.7% contraction in production, compared with a 0.6% expansion in the services sector in the fourth quarter.
- The Consensus forecast for UK economic growth published by HM Treasury in April 2014 predicts 2.8% growth in 2014 and 2.4% in 2015. The EY Item Club has raised its growth forecast for 2014 to 2.9%, in line with the International Monetary Fund's forecast and above the 2.7% growth predicted by the Office for Budget Responsibility (OBR). For Scotland, Fraser of Allander Institute's central forecast published in March 2014 is for growth of 2.3% for 2014 and again in 2015.
- The Bank of Scotland Purchasing Managers Index (March 2014 PMI = 56.4) indicates that growth continued into the first quarter of 2014. New work inflows and improved conditions and confidence led to the sixteenth consecutive monthly rise in employment. Manufacturing export business did however decline in March.
- The Scottish unemployment claimant count was 3.8% in February 2014, down from 4.9% in February 2013. The broader ILO measure of unemployment fell on a quarterly basis to 6.5% for the three months December 2013 – February 2014, and was down by 0.8% over the year.
- The Committee of Scottish Clearing Bankers confirms the number of new business accounts opened during the second half of 2013 totalled 5,562. This was down by 4.4% from the same period of 2012. The largest share of new businesses (1,509 or 27%) was in the real estate, renting and other business sector.
- Companies House reports a total of 638 business liquidations in Scotland in the six months from September 2013 (5.7% of the UK total). This is an increase in both the number (552) and the UK share of liquidations (4.1%) compared with the preceding six months.

Job Gains
US-owned debt recovery firm Portfolio Recovery Associates UK (PRA UK) plans 400 new jobs at its office in Kilmarnock
Ceridian, human resource and payroll specialist, announced it is to create 130 jobs at a new Technology Centre of Excellence at Braehead
Ascensos announced plans for 600 jobs at its new contact centre in Motherwell. It will be launched with 100 jobs initially, with plans to increase numbers steeply
Capgemini, the IT outsourcing and services firm, announced plans to create 500 new jobs in Inverness over the next three years
Tesco Bank plans to create 300 new jobs at its offices at South Gyle in Edinburgh and Renfield Street in Glasgow
Discount retailer, 99p Stores, plans to open 20 outlets across Scotland by 2016 creating 500 jobs
Optical components company, Kaiam Corporation, plans to expand at its site at Starlaw Business Park in Livingston by building a new production facility, creating 103 new jobs
Oil and gas service company, Howco Group, plans 67 highly skilled new jobs at its engineering division in Irvine
Axis Well Technology in Aberdeen plans to recruit an additional 30 employees at its HQ in Bridge of Don and Westhill offices
Norwegian oil firm Statoil is to create up to 700 new jobs in Scotland, 200 at its new office at Prime Four Business Park in Aberdeen and 500 offshore
Barratt Developments intends to hire 125 apprentices, graduates and trainees in Scotland over the next three years
Job Losses
Rolls-Royce plans to cut 200 jobs at its aerospace plant at Inchinnan
German global chemicals firm BASF is to close its Paisley plant with the loss of 141 jobs
2 Sisters Food Group announced 230 job losses at its poultry processing plant in Coupar Angus
BAE Systems announced around 800 shipbuilding job losses at its sites in Govan and Scotstoun in Glasgow, and Rosyth in Fife
Lloyds Banking Group is to lose 209 jobs in Scotland across its retail, risk, operations and commercial banking divisions
Semichem is to close seven of its branches and all six Fragrance House outlets in Scotland with the loss of 90 jobs
Clothes retailer Internacionale has gone into administration with the loss of around 200 jobs in Scotland
The final Blockbuster video rental stores closed by the end of 2013, with a total loss of around 300 jobs in Scotland

- Retail sales in Scotland were 3.8% lower on a like-for-like basis over the 12 months to March 2014 (Scottish Retail Consortium/ KPMG). Further comment on the retail sector is provided on pages 12 and 13.
- According to the Department of Energy and Climate Change, indigenous production of crude oil rose by 2.4% in the fourth quarter of 2013 compared with the same period of 2012.

In summary, economic growth, employment surveys and forecasts all point towards a sustained and continuing improvement in Scottish economic performance. Business formation and failures, and manufacturing exports and retail performance are the remaining areas of weakness. This resumption of sustained growth is notable against the back cloth of a public sector austerity programme which has reduced employment by around 26,000 over the past four years.

Planning

National Policy

Scotland's new national planning documentation is being launched into the most positive development climate for six years. Both the National Planning Framework 3 (NPF3) and Scottish Planning Policy (SPP) are due to be published in June 2014 by the Scottish Government and will succeed their predecessors. These documents form the top tier of national planning in Scotland and will work in tandem to provide the basis for development plans at strategic and local levels, as implemented by specific planning authorities in each area.

According to the NPF3, Scotland possesses the highest level of Gross Value Added (GVA) per head in the UK outside of London, indicative of the potential for high levels of growth and investment. The imminent NPF3 reflects, to a certain extent, the objectives of the adopted English planning system, introducing a *'presumption in favour of development which contributes to sustainable development'*, with proposals involving economic matters likely to carry significant weight in an attempt to promote growth at all levels.

However, this approach does not betray a soft touch when it comes to decision-making. The growth of Scotland's seven cities, their infrastructure and interconnectivity are logical objectives of the new framework. An increased local authority focus on pre-application activity through public and stakeholder engagement and consultation are considered key elements in delivering *'the right development in the right place'*. This will be a major role of SPP and one which merits specific developer attention.

A steadily increasing population – and smaller household sizes – indicates a significant increase in house building and associated roads and transport infrastructure. The NPF's 25 investment priority areas across Scotland form a solid platform upon which to invest and develop. The new policy environment focuses on sustainable and well-designed development that meets the requirements of a revitalised economy.

Planning Obligations

Recent legislative changes have introduced the right to modify or discharge planning obligations (aka Section 75 agreements) into the Scottish planning system. This was seen, at the time, as yet another way in which planning policy was working to help promote economic recovery. Previously unviable schemes now had the opportunity to argue down onerous financial commitments in an effort to promote development and facilitate growth. To strengthen this provision, the legislation included a right of appeal to Scottish Ministers.

These changes prompted many commentators to predict a flood of applications to reduce financial obligations on developers and applicants. However, recent evidence has suggested this deluge has failed to materialise. Research by Brodies solicitors found the success rate of applications to be around 50%.

The number of applications withdrawn is also relatively high. This may reflect the restrictions imposed on local authorities' handling of such applications, with no room for negotiation and amendment once the application is lodged. Perhaps applicants prefer to retreat rather than risk damaging relationships with planners and elected officials by reviewing legacy consents and the obligations attached to them.

Early dialogue with planning authorities can help overcome any risk to relationships or negative political consequences. A request for removal or modification of a planning obligation should be thoroughly justified either in planning policy terms or with a transparent development appraisal to warrant a departure from the original agreements. The quality of these arguments and the evidence given is a crucial element in determining the success of any attempt to reduce the obligations associated with planning consents.

Office Property

Office take-up across Scotland's three largest cities has reached record levels. A total of 281,627 sq.m. (3.03 million sq.ft.) of sales and lettings over the past 12 months is higher than at any time during Ryden's monitoring of these markets; and is therefore probably the highest-ever level of office demand seen in Scotland.

The **Glasgow** office market had in recent years been reliant mainly on the churn of premises for small to medium-sized indigenous companies.

A welcome feature over the last six months, building on the previous period, has been the completion of a number of larger lettings. When combined with continuing activity for small to medium-sized offices this results in a 25% increase in total take-up over the period to 47,937 sq.m. Of this, 31,964 sq.m. was in the city centre, some 30% higher than the previous six month period. The 12 month total of 86,353 sq.m. produces the highest take-up in Glasgow for eight years and is 90% higher than take-up in the corresponding 2012-2013 period.

This step change in take-up reflects an underlying improvement in occupier confidence allied to the cycle of office lease breaks and expiries in Glasgow.

Notable transactions include: Atos IT Services taking 3,491 sq.m. at Capella, York Street; Clydesdale Bank taking a further two floors (3,427 sq.m.) at Guildhall, Queen Street; Ashurst, another new inward investor to Glasgow, securing 2,330 sq.m. at Clydesdale Bank Exchange, Waterloo Street; and SAS concluding on 1,814 sq.m. at Cuprum, Argyle Street.

In addition, Scottish Enterprise's new building Inovo, George Street (3,955 sq.m.) has secured early success in the renewables and enabling industry sector with lettings at completion to Offshore Renewable Energy Catapult (860 sq.m.) and University of Glasgow (414 sq.m.).

Such improved activity is encouraging; with several deals in the offing and various further lease breaks and expiries due over the next few years, there are good prospects for maintaining take-up at and above historic average levels.

Not included in take-up to end March 2014 is CICA (Criminal Injuries Compensation Authority) concluding terms for circa 2,787 sq.m. at Alexander Bain House, York Street. The take-up also does not yet reflect pre-lets of 20,439 sq.m. to ScottishPower at 314-320 St Vincent Street or 2,323 sq.m. to Brodies at 110 Queen Street, where there is also rumour of further pre-completion interest. Timing also looks promising for Mountgrange/M&G's No 1 West Regent Street (12,540 sq.m.) and Abstract Securities' St Vincent Plaza (15,794 sq.m.), both of which are programmed for completion early/mid 2015.

Larger corporations and professional firms will focus on these three new-build developments and the major refurbishments such as George House, George Square (4,888 sq.m.) and 151/155 St Vincent Street (5,753 sq.m.).

For smaller occupiers, refurbishments such as: Aviva's The Beacon at 176 St Vincent Street (2,683 sq.m.); AWG Property/Belgate Estates' 124 St Vincent Street (3,390 sq.m.); and CBRE Global Investors' Culzean House, Renfield Street (1,858 sq.m.); all provide single and multiple floor choice.

Perhaps surprisingly, total office availability in Glasgow has only reduced by 3% to 369,070 sq.m., while city centre supply is relatively static at 235,068 sq.m. This reflects an increase in refurbishment completions and the release of second hand poorer quality "grey" space with short terms remaining on leases.

Static city centre supply masks the continuing reduction of availability of Grade A larger floorplate options. Three buildings – Cuprum, Argyle Street; 123 St Vincent Street; and George House, George Square – can cater for occupiers seeking larger than 3,716 sq.m. Tay House, Bath Street can provide floors of 1,858 sq.m. For those seeking self-contained buildings, there are only three providing more than 2,787 sq.m. of office space: 124 St Vincent Street (3,390 sq.m.), The Grosvenor Building (4,737 sq.m.), and Sixty7 Hope Street (6,039 sq.m.).

There has been increased activity on the immediate city centre periphery. Accountants French Duncan took 1,225 sq.m. at 133 Finnieston Street and Caley Ocean Systems secured 1,168 sq.m. at Pavilion 1, Watermark Business Park. Carlton Court on the south side of the Clyde attracted Prince's Trust to Cumbrae House (2,178 sq.m.) and Defence Management Group to The Stables (909 sq.m.). Skypark secured a further four lettings totalling 1,939 sq.m. to Axis Productions Limited, Fleet Alliance, D.C. Thomson & Co and Flowserve, while The Hub at Pacific Quay also attracted a further four deals totalling 262 sq.m. Three buildings at Academy Office Park secured tenants totalling 637 sq.m.

The Adelphi Centre has also enjoyed a good run, attracting four lettings totalling 1,038 sq.m. and there was further letting activity at The Hub, Hillington, including 413 sq.m. to UPS, and also at Clyde Gateway's Red Tree Business Centre.

The largest deal in the out-of-town market was at Orbital House, East Kilbride where Atos IT Services took 1,845 sq.m., while in nearby GSO Business Park, ITT Industries leased 370 sq.m. East Kilbride also attracted Insight Secure to the Torus Building, Scottish Enterprise Technology Park (720 sq.m.). The only office deal of any significance to the west of Glasgow was at Cirrus, Glasgow Airport Business Park, where Loganair took 1,312 sq.m. To the east



of the city Maxim Office Park announced lettings to TC BioPharm (465 sq.m.) and Sure Thing! (433 sq.m.). At Strathclyde Business Park, Clough took 670 sq.m. in Avondale House and Brake Bros took 451 sq.m. in Dalziel House.

Top rents on existing Glasgow city centre office stock remain relatively static at £269-£271 per sq.m. However, with the continuing reduction in larger floorplate Grade A availability, the scene is set for rental increases for core city centre developments under construction, back towards previous city rental highs. For example, 1 West Regent Street has recently announced a quoting rental of £306 per sq.m. Interestingly, Abstract Securities' Grade A St Vincent Plaza is able to quote a rent of £248 per sq.m., a substantial discount on the other Grade A new buildings. Refurbished space is offered at a wide range of rents from £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.

Flexible leases along with substantial incentives remain available, although it is likely that with the reduction in Grade A city core space, pockets of the market will see a tightening of incentives; this may be relatively restricted to the upper end of the market. The wider office market remains very competitive with a broad range of secondary and medium quality space available where landlords remain focused on providing attractive financial packages on flexible leases in order to secure occupiers.

Edinburgh's office market achieved 38,859 sq.m. of take-up during the six months to the end of March 2014. This performance at around the long run average combines with a strong previous period to deliver total take-up for the 12 month period April 2013 to March 2014 of 90,952 sq.m., the highest total recorded for the city since 2004.

City centre take-up was 32,168 sq.m., across 75 deals which accounted for 83% of city-wide market activity. Grade A and good quality refurbished accommodation accounted for 19,709 sq.m. or 61% of city centre office take-up. In stark contrast to the previous six month period, West Edinburgh saw a weak total of 2,460 sq.m. transacted across only six deals. Peripheral office locations remain comparatively fragile, although with city centre take-up increasing, demand is expected to ripple outwards and in particular to West Edinburgh which will shortly benefit from improved transport connections through the opening of Edinburgh's tram network.

City centre take-up was led by notable lettings including: Rockstar North at Barclay House, Holyrood Road (6,968 sq.m.); Zonal Retail Data Systems at 1 Tanfield, Canonmills (1,858 sq.m.); ColdBase at Argyle House, Lady Lawson Street (2,471 sq.m.); and Hogarth Worldwide at Waverley Gate, Waterloo Place (799 sq.m.).

Take-up was also bolstered by a number of smaller but notable deals including: People's Postcode Lottery (756 sq.m.) and Scott Logic (361 sq.m.) at 80 George Street; Institute and Faculty of Actuaries (650 sq.m.) and Buck Consultants (413 sq.m.) at Exchange Crescent; QueryClick at 7 Castle Street (501 sq.m.); and IBM (743 sq.m.) at Atria One and EICC (599 sq.m.) at Atria Two.

Total office supply in Edinburgh at April 2014 is 206,122 sq.m., a decrease of 12% from the previous six months. City centre supply now stands at 119,236 sq.m., down from 140,285 sq.m. in October 2013. Grade A or good quality refurbished accommodation accounts for 96,300 sq.m. or 80% of city centre supply.

Since the 73rd Scottish Property Review in October 2013, the Charlotte Square Collection (4,080 sq.m.) has completed. This comprises the refurbishment and redevelopment of six Georgian townhouses on the south side of the square into Grade A offices. Ruffer (153 sq.m.) and Badenoch & Clark (113 sq.m.) have recently secured offices in this prestigious development, joining Cornelian Asset Managers.

Tiger Developments and Interserve are now on site at The Haymarket, a major £200 million redevelopment adjacent to Haymarket railway station, set to deliver 43,000 sq.m. of commercial and leisure accommodation. Office completions are likely to be from 2016 onward, dependent upon pre-letting.

Artisan Real Estate Group is now set to progress the resurrected Caltongate development. Work on this £150 million mixed-use development, delivering over 20,000 sq.m. of offices, retail and leisure accommodation is scheduled to commence summer 2014, with the first buildings completed by end of 2015.

Standard Life Investments and Peveril Securities are moving forwards with a £75 million 15,400 sq.m. retail and office development at 3-8 St Andrews Square. Across the Square, TIAA Henderson Real Estate continue to work up proposals for the St James Quarter development scheme in an £850 million project which will redevelop the St James Shopping Centre and New St Andrew's House to deliver office, residential, retail and leisure space.

Prime office rents in central Edinburgh remain at around £290 per sq.m., although Atria is understood to have secured £322 per sq.m. Incentives remain at around 30 months' rent-free for a straight 10-year lease commitment, although as in Glasgow this is expected to come under pressure as

competition for the best space further erodes supply. Rental growth is unlikely in the short term, but as incentives are reduced future growth becomes likely.

Economic activity in **Aberdeen** has remained strong again for the past six months. The oil and gas sector is wholly underpinning this micro-economic strength as evidenced by the price of Brent Crude which has stabilised at around $108 per barrel.

This stability in the oil and gas sector, coupled with its ongoing investment in the North Sea, is fuelling activity within the occupier sector as companies expand and relocate.

The desire for occupiers to accommodate staff into more modern facilities means that demand for Grade A accommodation is high which, in turn, is actually depressing take-up. This is due to the development lag associated with new-build properties and refurbishments. Combining this with an occupier market which is still very reactive rather than pro-active means that the pre-let sector is not performing as well as it could and there are unsatisfied requirements.

Larger office deals in Scotland over the past six months include:

Address	Size	Occupier
Capella, York Street, Glasgow	3,491 sq.m.	Atos IT Services
Guildhall, Queen Street, Glasgow	3,427 sq.m.	Clydesdale Bank
Clydesdale Bank Exchange, Waterloo Street, Glasgow	2,330 sq.m.	Ashurst
Cuprum, Argyle Street, Glasgow	1,814 sq.m.	SAS
George House, George Square, Glasgow	1,798 sq.m.	Network Rail
200 Renfield Street, Glasgow	1,654 sq.m.	University of Glasgow
Monteith House, George Square, Glasgow	1,068 sq.m.	Skills Development Scotland
Carlton Court, Cumbrae House, Glasgow	2,178 sq.m.	Prince's Trust
133 Finnieston Street, Glasgow	1,225 sq.m.	French Duncan
Pavilion 1, Watermark Business Park, Glasgow	1,168 sq.m.	Caley Ocean Systems
Barclay House, Holyrood Road, Edinburgh	6,968 sq.m.	Rockstar North
Argyle House, Lady Lawson Street, Edinburgh	2,471 sq.m.	ColdBase
Tanfield, Canonmills, Edinburgh	1,858 sq.m.	Zonal Retail Data Systems
Aberdeen International Business Park, Aberdeen	27,870 sq.m.	Aker Solutions
The Grande, Poynernook Road, Aberdeen	11,148 sq.m.	EnQuest
Nexen House, Hareness Road, Altens, Aberdeen	5,574 sq.m.	Wood Group
Grampian House, Union Row, Aberdeen	4,181 sq.m.	Dana Petroleum
Pavilion 3, City View Business Park, West Tullos, Aberdeen	3,252 sq.m.	AMEC
DundeeOne, River Court, Dundee	371 sq.m.	Home Scotland
11/13 Henderson Drive, Longman Industrial Estate, Inverness	327 sq.m.	William Gray Construction
Metropolitan House, High Street, Inverness	104 sq.m.	Laser Gulf Engineering

Even this constrained market with underlying demand and unsatisfied requirements has performed strongly, with take-up hitting 66,800 sq.m., an increase of 77% (29,200 sq.m.) compared to the previous six months.

This has been achieved despite a 22% reduction in the number of transactions to just 51, as a few larger deals account for almost two thirds (52,025 sq.m.) of activity: Aker Solutions at Aberdeen International Business Park (27,870 sq.m.); EnQuest at The Grande, Poynernook Road (11,148 sq. m.); Wood Group at Nexen House, Hareness Road (5,574 sq.m.); Dana Petroleum at Grampian House (4,181 sq.m.); and AMEC at City View Business Park (3,252 sq.m.).

Supply is now on the increase as the development pipeline begins to take form. However, as companies relocate to better quality stock, some secondary stock will struggle to let.

Existing supply is 61,400 sq.m. across 115 properties, reflecting increases of 25% and 30% respectively. In addition, there is 125,420 sq.m. of development pipeline office property – most of which requires pre-lets. Speculative development is limited to two city centre buildings noted below, and two out-of-town at Prime Four (3,700 sq.m.) and Dyce (9,300 sq.m.) business parks.

The strong occupational sector has pushed headline rents in the West End to £345 per sq.m. at the letting of 20 Queen's Road to IONA Energy. It is anticipated that this headline figure will increase towards the end of 2014 and into early 2015 as developments such as The Capitol (6,780 sq.m. speculative development by Knight

Property Group and M&G) and The Point (7,430 sq.m. speculative development by Dandara) come onstream. Beyond these the larger Ardent House, Silver Fin and Marischal Square developments can contribute a further c. 50,000 sq.m.

In the prime out-of-town market west of the city, headline rents range from £253 per sq.m. to a peak of £299 per sq.m. at Prime Four business park.

Although there appears at first glance to be a substantial amount of vacant office space in **Dundee**, the availability of good Grade A space is limited. With an improving economy leading to an increase in demand, and few new developments in the immediate pipeline, rental levels are moving upwards.

During the last six months, the level of uptake has improved – particularly for smaller serviced offices. This has been demonstrated at the ground floor of Unicorn Property Group's DundeeOne at River Court, which has almost 100% occupancy rates at an inclusive figure of £242 per sq.m. equating to a headline rental figure of £161 per sq.m. Scottish Enterprise's District 10, a new modular office constructed from recycled shipping containers, is experiencing similar demand; five units have been let in recent months.

Demand has also increased for offices up to 464 sq.m., primarily from national and regional companies looking to relocate. Home Scotland is relocating into modern first floor accommodation at DundeeOne, River Court (371 sq.m.), a firm of local solicitors is moving into modern second floor accommodation at Seabraes House, Greenmarket (414 sq.m.) and C2 Software is relocating to Dundee Business Park (242 sq.m.).

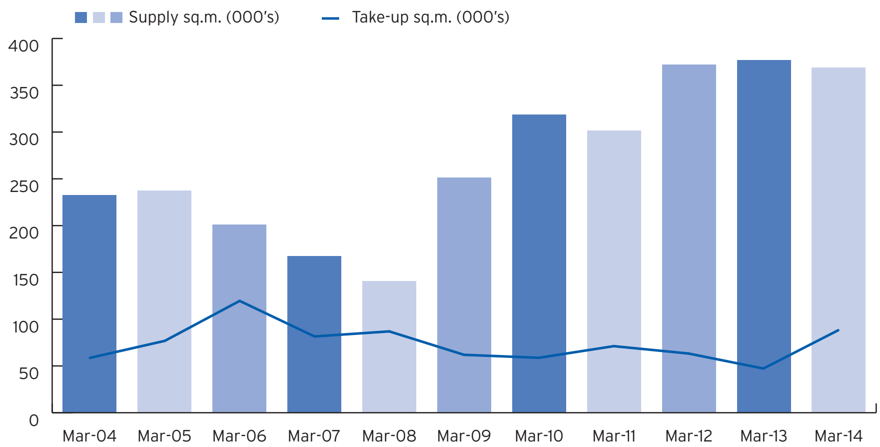
Dundee-based developer, Unicorn Property Group, is to start work on a new 2,044 sq.m. office development to accommodate the upturn in demand in the city. Construction of Shed 25 City Quay, the last remaining transit shed at the Quayside development, is due to commence shortly.

The office market in **Inverness** continues to be active, although overall take-up levels remain below average. There have been two further lettings at Metropolitan House on the High Street and the building is now fully occupied. Walker Love agreed a new 10-year lease of Suite 2 (46 sq.m.) and Laser Gulf Engineering has taken a new lease of Suite 3 (104 sq.m.). At 2 Ardross Street, Walker Crips agreed a new five-year FRI lease of a 134 sq.m. office.

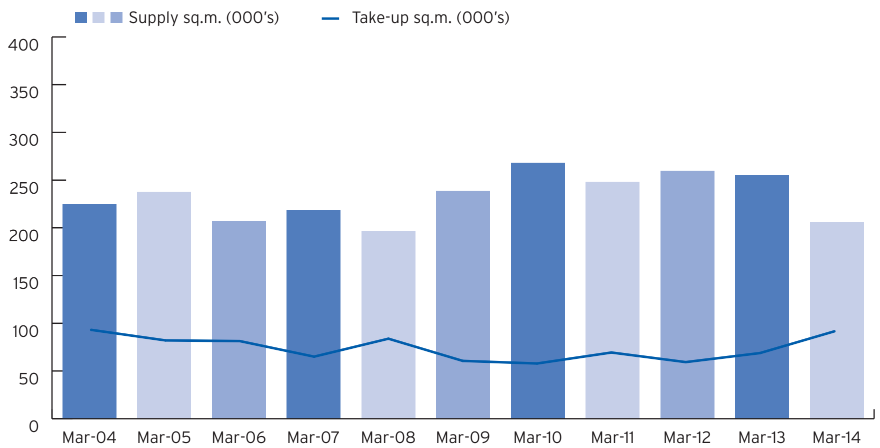
Out-of-town, William Gray Construction purchased an office building at 11/13 Henderson Drive, Longman Industrial Estate (372 sq.m.) from Upland Properties. Elsewhere within the estate ERG agreed a new lease of the Pagoda Building on Seafield Road (462 sq.m.), which will be converted to provide showroom and office facilities for the company.

Highlands & Islands Enterprise is moving from Cowan House on Inverness Business and Retail Park into Fraser House, Friars Lane in the city centre for 18 months while its new purpose built offices are completed at University of the Highlands & Islands (UHI) Inverness Campus. This move will allow Capgemini to increase staff numbers and take over the entire Cowan House.

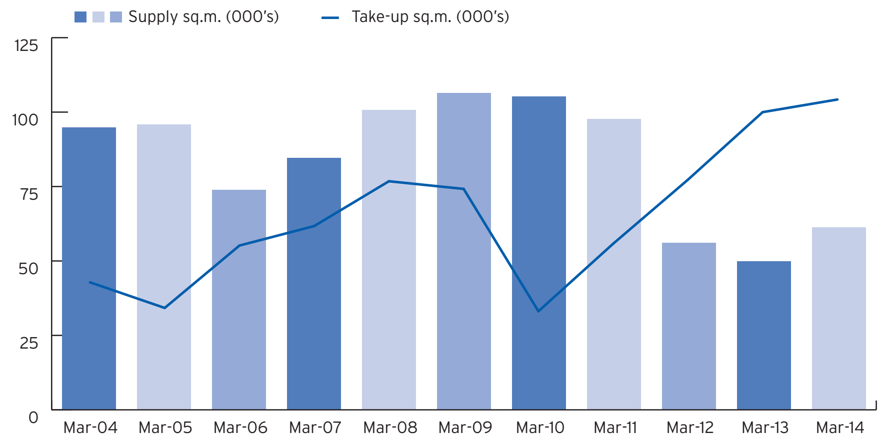
Office Supply and Take-up - Glasgow



Office Supply and Take-up - Edinburgh



Office Supply and Take-up - Aberdeen



Source: Ryden

Industrial Property

Growing optimism within the manufacturing sector has been matched by a marked increase in the number of related property enquiries, and in turn by an encouraging number of industrial property transactions. As take-up has continued to improve, an increasing number of estates are reporting full occupancy. Aberdeen's industrial property market is once again performing strongly as the energy sector continues to invest in the city.

In the **West of Scotland**, take-up of industrial property has improved, although this is more notable in Glasgow and its immediate M8/M74 Motorway corridors than in the outlying areas where vacancy rates remain higher. Although CoStar reports 17% availability of industrial floorspace in the Greater Glasgow area comprising Glasgow, Renfrewshire and North and South Lanarkshire, only 12% is physically vacant and there are acute shortages of buildings smaller than 1,000 sq.m.

The problem of lack of new development began well before the market crash in 2008, although it has undoubtedly been exacerbated by the recession. PMA estimates that only 1.2% of Glasgow city's stock of industrial buildings was built during the past five years. This challenge will grow as most ongoing development is purpose-built, while creeping obsolescence affects older industrial buildings available to the market. As well as constraints for smaller units, occupiers seeking anywhere between 1,500 and 5,000 sq.m. of modern premises within the Greater Glasgow area now have only a handful of options to consider.

The number of distressed industrial property sales is at last in decline; although from an acquisition standpoint, potentially attractive purchases continue to be reported.

Many larger industrial developments in recent years have been outwith the Glasgow City boundary – for example over 140,000 sq.m. at Eurocentral and also at Hamilton International, Strathclyde Business Park, Gateway Glasgow, Cambuslang Investment Park and other locations. The committed development pipeline is however now extremely limited and it is unlikely there will be a reaction in the short-term from developers, despite the encouraging letting story of the past six months. Rents have held steady through the downturn in prime locations but must now show growth to combat increasing build costs; there must also be an improvement in the investment yields paid for the completed product. Industrial appraisals remain extremely sensitive to slight changes and it is still more likely that larger new-build product will be provided via pre-lets or pre-sales.

The development land market is beginning to show signs of life but there remain few sales to form an accurate view of emerging locational trends.

A few developers are actively pursuing new projects. Fusion Assets will follow the creation of 4,030 sq.m. at Dundyvan Enterprise Park, **Coatbridge** with 3,530 sq.m. of small units at **Eurocentral** following the purchase of land from Scottish Enterprise. A site start is anticipated later in 2014 and a variety of sizes will be provided of which the largest single unit will be circa 929 sq.m. At Eurocentral Partnership's development on Plot B, three units were let within a short period of completion to occupiers including Eddie Stobart and Burtonwood. Fusion Assets also plans to build at Strathclyde Business Park, **Bellshill**. The first phase will provide units of 130 sq.m. to 250 sq.m. and will extend to 3,995 sq.m. in total. A second phase has an indicative unit of 1,300 sq.m. and one of 2,787 sq.m., however this may be modified in response to specific demand.

The joint venture between MEPC, SCOT Sheridan and Clyde Gateway is masterplanning future development phases at **Clyde Gateway** East following the successful letting of the final unit within phase 1. The 1,790 sq.m. building 601 has been leased to Torishima Europe Limited at a rent of £70 per sq.m. There has also been a pre-let of building 502 to BT, a 1,195 sq.m. hybrid facility at a headline rental of £172 per sq.m. Future phases will cater for occupiers seeking industrial space from 464 – 4,925 sq.m.

The Eurocentral Partnership is appraising the next phase of development at Eurocentral on Plot H. This is the most prominent plot within the park and will likely target the increasing requirement for hybrid industrial space of 1,858 sq.m. and above including increased office content and a high standard of landscaping. Only two units remain from the most recent development phases which created over 35,300 sq.m. of high bay production/distribution space.

At **Glasgow** Business Park, Silverbank Development has recently traded 9,230 sq.m. of industrial development to M7 in the form of Glasgow Trade Park and Parkway Point. Silverbank Development is now appraising plans for the next phase of development to complement the successful Glasgow Trade Park. Discussions are also progressing on a number of potential bespoke builds for sections of the remaining eight hectares of development land.

Significant sales transactions in the West of Scotland include: Vista Point, 4 Livingston Boulevard, Hamilton International Park (4,712 sq.m.) sold to South Lanarkshire Council at £520 per sq.m. (the neighbouring 1 Livingston Boulevard (3,498 sq.m.) is currently under offer for lease); unit 90, 50 Pitches Road, Cardonald (2,455 sq.m.) sold for £1.2 million (£492 per sq.m.) to Carnevale – a modern unit with high office content but limited yard; and 10 Coddington Crescent, Eurocentral (7,665 sq.m.) sold to Nagel Langdons for £3.1 million (£398 per sq.m.).

Siginifcant letting transactions in the west include: the refurbished 5 Bedlay View, Tannochside, Uddingston (2,277 sq.m.) leased to Belgrade Insulations at £48 per sq.m. on a 10-year lease; 71 Nuneaton Street, Glasgow (3,445 sq.m.) leased at £65 per sq.m. on a 20-year lease to MKM Building Supplies; unit B4, Southcraig Avenue, Rowallan Business Park, Kilmarnock (1,335 sq.m.) leased to ScottishPower at a rent of £60 per sq.m. on a 15-year lease with break option at year 10; unit D, Air Cargo Centre, Glasgow International Airport (1,421 sq.m.) leased to Nippon Express (UK) Limited at £54 per sq.m. on a five-year lease; Tennant Avenue, East Kilbride (1,950 sq.m.) let to Scottish Water at £32 per sq.m. on a 10-year deal with break option at year five; and 22 Napier Place, Wardpark, Cumbernauld (2,787 sq.m.) leased to Fake Bake on a 10-year lease at £32 per sq.m.

The industrial market in **East Central Scotland** also shows sustained recovery in occupier demand. A number of significant deals completing within the past few months are leading to a shortage of prime industrial properties.

Transport links and flexible accommodation remain key for Edinburgh's market, with links to Scotland's motorway network being of key consideration to occupiers seeking space in-and-around Scotland's capital city.

The **Newbridge** area's role as a strategic location is endorsed by Roxhill Developments securing a significant pre-letting of a 5,574 sq.m. purpose-built distribution hub for GeoPost at a rent of £88 per sq.m. This development is now on site with completion due in Autumn 2014. Also in Newbridge, Clifton Trading Estate, owned by Hampshire Pension Fund, is now fully let following the recent letting of unit C2 to Skycig (979 sq.m.) at £53 per sq.m.

Closer to the city centre, **Prestonfield Park**, Kings Haugh, Peffermill, the speculative development undertaken by a joint venture between C & W Assets and Walker Group, is now fully let following two recent transactions. Block F unit 3 has been leased to Nairn's (455 sq.m.) at a rent of £73 per sq.m. and Block 4 unit 2 to St Andrews Timber & Building Supplies (207 sq.m.) at a rent of £70 per sq.m.

C & W Assets has also gone on site with a new speculative scheme at **South Gyle** with the first phase of West Edinburgh Business Park totalling 2,440 sq.m. across two blocks; quoting rents are £81 per sq.m. Elsewhere at South Gyle, a secondhand property, unit 11 South Gyle Crescent, has been let to Redpath Tyres (1,021 sq.m.) at a rent of £70 per sq.m.

Midothian's commercial property market continues to be focused around Bilston Glen Industrial Estate, which is now one of greater Edinburgh's key industrial locations. Recent lettings include units 5 & 6 Dryden Vale, Bilston Glen Industrial Estate to Bio-Rad (789 sq.m.) at a rent of £70 per sq.m. A unit at Dryden Road has been sold to Marine Co Ltd (464 sq.m.) for £350,000 (£754 per sq.m.). The Imex Business Centre continues to attract a diverse range of occupiers; units 53 and 54 are let to Rototherm Canongate Technologies (c. 232 sq.m.) at £81 per sq.m. and unit 42 to McQueens Dairies (139 sq.m.) also at £81 per sq.m.

West Lothian has attracted a number of larger deals in the last six months. The most significant of these is the sale of Angelsea Capital's Max240 new-build distribution unit (22,276 sq.m.) at Junction 4, M8 to the footwear retailer, Schuh, close to the company's headquarters at Deans Industrial Estate, Livingston. A major land deal took place at Heartlands Business Park, Whitburn, following the completion of the new M8 junction (5A), where Oil States Industries UK Ltd purchased circa 11.12 hectares and will construct a 17,651 sq.m. research and development facility.

The Oil States Industries UK Ltd investment may herald an emerging sectoral trend in East Central Scotland – and in particular around the Forth Bridgehead area in Fife – for increased activity from occupiers associated with the oil and gas sector. This appears to be driven by a combination of existing energy occupiers expanding in the area – such as FMC Technologies at Pitreavie Industrial Estate, Dunfermline – and reaction to rising property costs and a shortage of skilled labour in the Aberdeen area.

Also in **Fife**, there is further evidence of increased occupier activity. At Belleknowes Industrial Estate, Inverkeithing there have been three recent lettings totalling 1,665 sq.m. – including 323 sq.m. to Imtech Marine UK Ltd – at rents in the region of £56 per sq.m. At Rosyth Europarc, Hansteen recently acquired a multi-let estate within the Forties Campus and completed two lettings totalling 453 sq.m. at rents in the region of £46 per sq.m.

In response to increased demand and shortage of modern units in prime locations in Fife, Scarborough Muir has recently started marketing new units of 1,000 – 4,000 sq.m. on a design-and-build basis at Rosyth Europarc.

In **Falkirk**, London & Cambridge Properties has recently undertaken an extensive refurbishment of five premises and has let more than 40%, the most recent deal being to A1 Automotive (483 sq.m.) at a rent of £68 per sq.m. Neighbouring Etna Trade Centre also located within Middlefield Industrial Estate secured a letting of 278 sq.m. to Wetrooms at a rent of £54 per sq.m.

With the exception of C & W Assets' recent developments at Inchwood Park, Bathgate (1,784 sq.m. complete) and West Edinburgh Business Park, mentioned above, a return to large scale speculative industrial development is not quite on the agenda in the East of Scotland yet. However, with a

diminishing supply of existing stock and an improving investment market this is expected to change.

The industrial property market in **Dundee** has also experienced good occupier demand over the past six months, including in the trade counter sector and from a number of national occupiers. There remains however a significant shortage of good quality prominent industrial accommodation in the area, and activity continues to be concentrated on small and medium-sized transactions.

Recent deals of note include the letting of unit 31 Faraday Street, Dryburgh Industrial Estate (883 sq.m.) to a national trade counter occupier; units 2C & 2D Dunsinane Park, Kilspindie Road (both 464 sq.m.) let to Headlam Group and Vodafone respectively, with the remaining 1,393 sq.m. going under offer; unit 2A Ainslie Street, West Pitkerro Industrial Estate (929 sq.m.) a modern unit with yard, has been bought by The Compass Investment Trust; and the sale of 43 Baird Avenue, Dryburgh Industrial Estate (1,351 sq.m.) to T.O.M Vehicle Rental.

High levels of activity across the board in the oil and gas sector has again ensured that **Aberdeen**'s industrial market achieved a strong performance. Demand for good quality industrial premises remains high, and take-up is strong across the market.

While total take-up is actually down on the previous six months – 38,560 sq.m. as opposed to the previous six months' 56,045 sq.m. – this is caused by falling supply and a couple of large sales/lettings substantially inflating the previous figures. The level of transactions remained high at 58 compared with 59 for the previous period. Take-up of larger premises is reduced as mentioned, however in the 0 – 464 sq.m. range sales and lettings are up by 12% and in the 465 – 929 sq.m. size bracket by a massive 140%.

Larger industrial deals in Scotland over the past six months include:

Address	Size	Occupier
Building 601, Clyde Gateway East, Glasgow	1,790 sq.m.	Torishima Europe Limited
5 Bedlay View, Tannochside, Uddingston	2,277 sq.m.	Belgrade Insulation
71 Nuneaton Street, Glasgow	3,445 sq.m.	MKM Building Supplies
Unit 90, 50 Pitches Road, Cardonald	2,455 sq.m.	Carnevale
Unit D Air Cargo Centre, Glasgow International Airport	1,421 sq.m.	Nippon Express (UK) Ltd
10 Coddington Crescent, Eurocentral	7,665 sq.m.	Nagel Langdons
22 Napier Place, Wardpark, Cumbernauld	2,787 sq.m.	Fake Bake
Clifton Trading Estate, Newbridge	979 sq.m.	Skycig
Units 5 & 6 Dryden Vale, Bilston Glen Industrial Estate, Midlothian	789 sq.m.	Bio-Rad
Unit 11 South Gyle Crescent, South Gyle Industrial Estate Edinburgh	1,021 sq.m.	Redpath Tyres
Max240 unit at Junction 4, M8, Bathgate	22,276 sq.m.	Schuh
Unit A, Raiths Industrial Estate, Dyce, Aberdeen	1,068 sq.m.	Peak Well Services
Crawpeel Road, Altens Industrial Estate, Aberdeen	4,816 sq.m.	Odfjell Drilling
Caledonian House, Lawson Drive, Dyce, Aberdeen	2,028 sq.m.	Oceaneering International Services Ltd
Unit 2A Ainslie Street, West Pitkerro Industrial Estate, Dundee	929 sq.m.	The Compass Investment Trust
Bridgepoint Trade Park, Longman Drive, Inverness	557 sq.m.	Euro Car Parts Limited
Unit 5, Seafield Road Trading Estate, Seafield Road, Inverness	658 sq.m.	Edmundson Electrical Limited

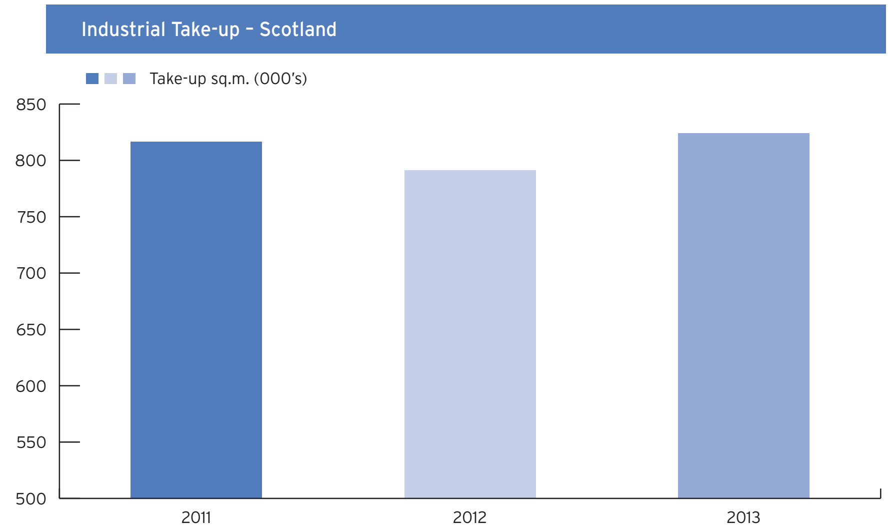
This is driven by SMEs expanding into premises through growth in their businesses.

One of the larger recent transactions concerned an industrial complex at Crawpeel Road, Altens Industrial Estate with offices and a secure yard totalling 4,816 sq.m. sold to Odfjell Drilling. At Farburn Terrace, Dyce, Veripos purchased a 1,419 sq.m. new-build industrial unit from West Coast Estates Ltd for £660,000. Caledonian House, Lawson Drive, Dyce (2,028 sq.m.) was sold to Oceaneering International Services Ltd by Caledonian Logistics Ltd for £2.3 million.

While this consistent level of transactions is positive, there has been an impact on supply. Total industrial supply in Aberdeen is down by 20% to 59,000 sq.m.; in the 0 – 464 sq.m. size bracket supply is down by nearly 50%, while in the 465 – 929 sq.m. bracket supply is down by 10%. It will be increasingly difficult for smaller start-up companies and those looking to make their first move into larger premises to find accommodation to suit their needs. This situation will get worse, primarily due to a lack of development of smaller and terraced industrial units in Aberdeen in the last 10 to 15 years; supply is dependent upon other companies moving into medium to large premises.

The market therefore requires a flow of new medium to large premises to function, and fortunately this sector is healthy. At ABZ Business Park in Dyce, two industrial units of circa 1,395 sq.m. are approaching completion and both are presently under offer; as a consequence an additional four units are due to be developed speculatively by ABZ Development Ltd. At the same development, several other companies have either committed to or are in discussions regarding the design-and-build of facilities. Also at Dyce, Peak Well Services has committed to a long term lease of unit A at Raiths Industrial Estate, a speculatively constructed new-build industrial unit with offices and a secure yard totalling 1,068 sq.m. At Buccleuch Property's development at the Energy and Innovation Parks, one of two speculatively constructed units is under offer and the other is attracting interest. To the south at Minto Commercial Park, the remaining unit at the park has been let to HSP on a long term lease. Across the board these new-build units are commanding £188 – £192 per sq.m. (offices), £91 – £94 per sq.m. (industrial) and £16 – £19 per sq.m. (yards), further demonstrating the ongoing sustainability of these rental levels.

In terms of future industrial development in Aberdeen, Knight Property Group is due to commence the construction of Subsea Park at Westhill; significant levels of demand and take-up are envisaged in a sector which to date has not been readily satisfied at Westhill. Also envisaged are further letting and sales deals being agreed at other design-and-build sites throughout the city



Source: CoStar

to meet several outstanding industrial property requirements.

In **Inverness** the industrial property market remains active, despite limited supply of available properties and an acute shortage of industrial development land.

Ark Estates has concluded a letting of the last trade counter unit within Bridgepoint Trade Park, Longman Drive. The 557 sq.m. unit was leased to Euro Car Parts Limited on a new six-year FRI lease at £64 per sq.m. Unit 5, Seafield Road Trading Estate, Seafield Road (658 sq.m.) was leased to Edmundson Electrical Limited on a new five-year FRI lease at an annual rental of £35,000 per annum.

Retail Property

Scotland's improving economy is not yet translating into retail sales growth. While the late Easter impacts negatively, a fall of -3.8% in like-for-like sales (-2.5% total sales, SRC/KPMG) the 12 months to March 2014 also demonstrates the drag effect of weak income growth upon the sector.

More positively, the volume of retailers entering into administration has slowed, although recent UK casualties include shoe retailer Barratts with 75 stores, 23 concessions and in the order of 1,500 staff at risk, together with Internacionale across 89 stores and around 1,000 staff expected to be lost. Both retailers add to a long list of closures over recent years which may be categorised as over leveraged, poor businesses or those where the internet and supermarkets and department stores have eaten into their markets and margins.

In **Glasgow**, Lothbury Investment Management announced a letting to cosmetics retailer Lush at 78 Buchanan Street in the former Bench clothing unit (325 sq.m.) at a rent of £375,500 per annum. This facilitated a relocation for Lush from 111 Buchanan Street which has been filled by cosmetics retailer Kiehl's. Those lettings, together with the opening of a new Timberland clothing store at 91 Buchanan Street and a flagship store secured by designer clothing retailer Ted Baker on Buchanan Street (the former Timberland unit), further demonstrate retailers' confidence in the country's super prime retail destination.

The restaurant industry is active within Glasgow city centre, with the opening of Las Iguanas on West Nile Street together with the recent signing of Giraffe as the first occupier for Mountgrange and M&G's development at 1 West Regent Street.

Hammersons' **Silverburn** Shopping Centre has demonstrated the importance of their key letting to Cineworld for a 14-screen, 4,645 sq.m. cinema by attracting TGI Friday's for a 634 sq.m. restaurant alongside Cosmo with a 922 sq.m. unit; these operators will join Carluccios, Zizzi and Pizza Express within the new development.

Work on **Glasgow Fort**'s 10,405 sq.m. extension by Hercules Unit Trust has begun; this will comprise five retail units and a restaurant. One of the retail units (7,430 sq.m.) has been let to Marks & Spencer.

Soar INTU **Braehead** (formerly Xscape) has announced recent lettings to Greene King adjacent to the entrance and Toni Macaroni's in the former Pizza Hut unit.

East Kilbride Shopping Centre is also responding to restaurant operators' appetite for further floorspace and working with a variety of brands to implement plans to expand the space around the ice rink area in the town centre mall.

In **Edinburgh**, landlords for the Gyle Shopping Centre on the west side of the city lost a legal battle to create a Primark store within the development, as it was found that they would be acting unlawfully and in breach of Marks & Spencer's lease. Superdrug opened a store at the Gyle in November 2013.

In Edinburgh city centre, Standard Life and Peveril have embarked on a major, speculative mixed-use development at 3-8 St Andrew Square, comprising 15,330 sq.m. of office, retail and residential space, of which it is anticipated 5,110 sq.m. will provide retail or catering offers. Practical completion of the development is anticipated in 2016.

BAM Properties announced a letting to Halifax within the former GAP store at 131-133 Princes Street. This follows a recent change of use application to facilitate occupation for Halifax on the ground floor together with restaurant use on the upper floors. A Three mobile phone store is due to open in the former Gamestation at 134 Princes Street, and the opening of the rumoured Apple store at the east end of Princes Street appears to be happening in the near future. At Multrees Walk new retailers Nespresso, Tommy Hilfiger and Burberry have opened.

Edinburgh's major city centre redevelopment at St James Quarter is reportedly moving closer to a start on site. TIAA Henderson Real Estate plans a comprehensive, £850 million mixed-use regeneration incorporating a major new shopping centre. The demolition and re-build programme is understood to take around four years and would provide a substantial boost for a city centre which has a comparatively limited amount of purpose-built modern retail floorspace.

At St Catherine's Retail Park, **Perth** refurbishment and redevelopment works are underway and have attracted recent lettings to Maplin, Bensons for Beds and Home Bargains. Meanwhile at St John's Shopping Centre, Crabtree & Evelyn opened a store in November 2013.

The Overgate Centre, **Dundee** has secured two major retailers on long-term leases. Retailer JD Sports will move into the centre's largest unoccupied store after taking a 10-year option on a 667 sq.m. outlet, and health food and supplements group Holland & Barrett has taken a 10-year lease on a 177 sq.m. store.

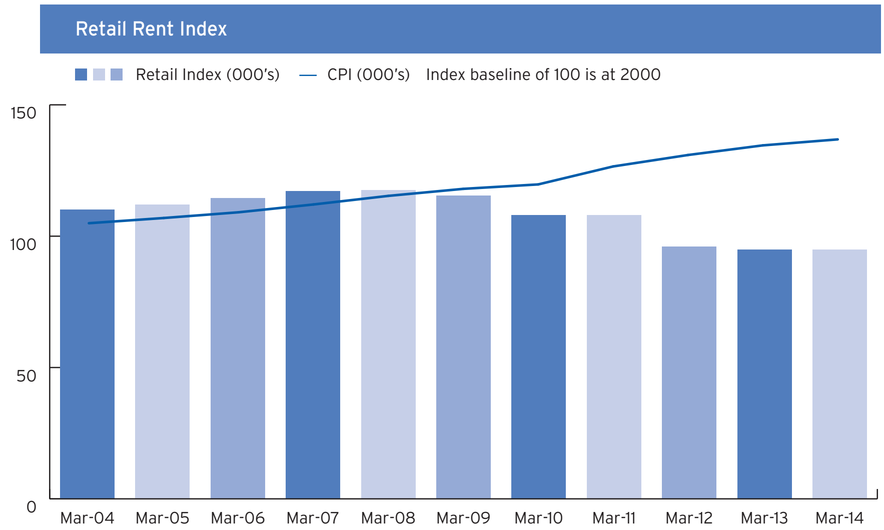
The multi-million pound redevelopment of the Wellgate Centre in Dundee's Murraygate will include a 900-seat eight-screen cinema and a number of new restaurants, cafes and leisure outlets. This project received a significant boost with the news that The Light Cinemas has been confirmed as an anchor tenant. Store Twenty One opened a clothing store at the Wellgate Centre in March 2014.

Aberdeen has added to the restaurant offer at Union Square with a 204 sq.m. letting to Valerie's Brasserie, a new concept from the owners of the Patisserie Valerie group. Elsewhere in the centre Mac Cosmetics and The White Company opened stores. Hammerson reports that 20% of shoppers choose to dine within the centre, indicating the importance of catering as part of the market mix. Valerie's Brasserie joins ASK, Carluccios, Chiquito, Cosmo, Frankie & Benny's, Giraffe, Handmade Burger, Las Iguanas, Nandos, Prezzo, Steak & Grill and TGI Friday's at Union Square.

Retail activity in **Inverness** remains subdued, with pressure on secondary retailing locations as these try to compete with prime shopping mall and out-of-town locations. F & C Reit plan an extension to the Eastgate Shopping Centre which will include an eight-screen cinema. Within the city centre the existing Deenos Sports Bar at 96 Academy Street was sold to Cairngorm Brewery which plans to refurbish the property. Out-of-town convenience food store operators continue to be active, with the Co-op agreeing a new lease on a neighbourhood centre at Milton of Leys on the south side of the city.

With fewer food superstores in the pipeline through Tesco, Sainsbury's and Morrisons, foodstore activity is more dependent upon Asda among the major operators remaining acquisitive, and on smaller stores planned by Lidl and Aldi throughout the country.

Aldi recently opened stores in Inverness, Paisley, Airdrie and Greenock, with further store openings planned in Cambuslang, Inverurie, Ellon, Dundee and Perth during 2014. A new Lidl store opened in Kirkintilloch and another is planned in Rutherglen. Work on the Tesco supermarket on Carnegie Drive in Dunfermline's town centre has finally begun; the store is due to open by the end of 2014.



Source: Ryden/ONS

Convenience store expansion remains the main area of market activity; further stores are planned for Co-op, Tesco, Sainsbury's and Morrisons; the latter has a target of 100 new M stores across the UK over the year ahead.

Ryden's retail rent index (see chart) has finally stabilised in early 2014, following a decline of nearly 20% over the five years 2008-2013. This is merely the nominal decline in prime rental values, as consumer price inflation over the same period was 19%.

The range of rental performance is vast, from Glasgow's Buchanan Street where prime rents have held up well – at least in nominal terms – to smaller traditional town centres where shopping is unlikely to be a major source of future activity and growth.

Investment Market

Demand for Scottish commercial property investments increased further during the past six months as the ever-present weight of institutional money created significant competition. The three principal cities all recorded an increased volume of transactions in comparison with the previous six months.

Inevitably, there was a sharp increase in market prices, particularly in the last quarter of 2013. In some locations and sectors, yields returned to the low levels recorded before the 2007/08 property crash. The market is well and truly back after several inactive years, but it is not a place for the faint hearted. The concept of a single closing date for a property sale now seems to belong to a bygone era and gazumping is also commonplace.

Several transactions concern buildings which had previously failed to sell, largely due to the owners' price expectations being ahead of the market. In some cases the waiting game was as long as five years before the market recovery matched or exceeded their target price.

With a larger pool of buyers hunting for stock, Scotland's Referendum on 18 September has yet to have any meaningful impact on the market. However, in recent sales a few isolated fund managers now seem to be stepping back from Scottish opportunities until the country's constitutional future is known.

All Property Total Returns for Scottish property in the year to December 2013 were recorded at 7.3%. This compares favourably to December 2012's 0.1%. The marked difference is due to significant reduction in yield and a slowdown in the decline of rental value growth.

Office

Investment activity in the office sector has been very brisk, with several high profile transactions completing across the three principal Scottish cities. Targeting quality stock in the regions is firmly back on the agenda for the UK funds, as many seek higher returns than those available in the heat of the London market.

The weight of money in the market is staggering and with limited product available, prices have inevitably increased.

As predicted in the October 2013 Review, a sale of a new-build Aberdeen office was the first Scottish building to achieve a yield of sub-6% in the current market cycle. The new 5,704 sq.m. Technip office HQ at Westhill, Aberdeen attracted tremendous interest for an out-of-town building and an encouraging eight bids were achieved at the closing date. The building sold for £22.75 million and was offered on the basis of a 20-year sale-and-leaseback with

Office property investment deals include:

Address	Property	Purchaser
Capella, 60 York Street, Glasgow	10,710 sq.m. Grade A office building built over 11 storeys. Tenants include Atos IT Services, Capquest and MacRoberts	Invesco for £43 million
150 Broomielaw, Glasgow	8,989 sq.m. Grade A office building let to Scottish Enterprise on FRI terms expiring July 2024	Clal Insurance for £42 million (6.35%)
67-73 St Vincent Street & 19-23 West Nile Street, Glasgow	2,136 sq.m. mixed use office and retail block let on a mixed income profile. Tenants include Progressive Partnership, Will Rudd Davidson and Costa Ltd	DTZ Investment Management for c. £4.3 million (7.2%)
Festival Court, 200 Brand Street, Govan, Glasgow	3,424 sq.m. across three modern buildings let on three separate leases to The First Secretary of State	Tosca Fund for £3.8 million (12.1%)
Princes Exchange/ New Uberior House, Earl Grey Street, Edinburgh	14,725 sq.m. Grade A office building let to Bank of Scotland plc	Aerium for £61.765 million (6.29%)
3-5 Morrison Street, Edinburgh	7,618 sq.m. mixed use building let to Franklin Templeton, Sainsbury's and Odeon Cinema	Redrose Caesar SARL for £29.65 million (6.19%)
Excel House, Semple Street, Edinburgh	3,902 sq.m. let to MacRoberts LLP and Lloyds TSB Scotland plc	CBREGI (BBC) for £14.1 million (6.22%)
Union Plaza, Union Row, Aberdeen	11,335 sq.m. city centre modern office, multi-let to tenants including Deloitte LLP, Aberdeen Asset Management and GDF Suez E&P UK	L & G for £54.8 million (6.37%)
The Exchange, Market Street, Aberdeen	7,541 sq.m. city centre multi-let office, tenants include UK Offshore Oil and Gas Industry Association and Griffin Marine Travel Limited	Hermes for £21 million (7.2%)
Technip HQ, Westhill, Aberdeeen	5,704 sq.m. headquarters office let to Technip UK Limited	BlackRock for £22.75 million (5.75%)
Stoneywood, Dyce, Aberdeen	17,915 sq.m. headquarters office let to BP	LaSalle Investment Management for £68 million (6.65%)

guaranteed rental growth during the lease. BlackRock was the successful purchaser in their first foray into the Aberdeen market.

Elsewhere in Aberdeen, Legal and General picked up Union Plaza at a price of £54.8 million, reflecting a net initial yield of 6.37%. Despite this being one of Aberdeen's two best city centre buildings, serious interest was limited to just three parties. This mainly reflects the lot size, which was too large for many.

In Glasgow, two notable office investment sales completed near the banks of the Clyde in the Broomielaw area of the city centre. BA Pensions' Capella building at York Street was sold to Invesco for £43 million and Standard Life's 150 Broomielaw was sold to Clal Insurance for £42 million.

In Edinburgh, Princes Exchange/ New Uberior House, Earl Grey Street was acquired by Aerium for £61.765 million, reflecting a net initial yield of 6.29%.

The occupier markets in Glasgow and Edinburgh continue to strengthen and play catch-up with Aberdeen, which has been strong for several years now. Against this background, speculative development has returned to all three city centres with M&G, BA Pensions and Standard Life all stepping in to fund or joint venture sizeable projects.

Moving further up the risk curve, demand for high yielding secondary buildings does exist from property companies and investors seeking added value opportunities. However, pricing expectations may need to be adjusted soon as it is anticipated that yield compression will become a feature of this market too.

Based upon the IPD Quarterly Index the Total Return for Scottish office properties in 2013 was 7.8%, which compares favourably to the previous year's -0.6%. Capital and rental value growth both turned positive during 2013.

Industrial property investment deals include:

Address	Property	Purchaser
Glasgow North Trading Estate, Glasgow	11,278 sq.m. multi-let estate in over 20 units. Short term income with around four vacant units. Tenants include BBC Property and National Theatre of Scotland	MStar for £2.2 million (11.69%)
Rolls-Royce, Inchinnan, Paisley	50,260 sq.m. modern HQ building let to Rolls-Royce on FRI terms expiring March 2028	EPIC (UK) for £55 million (6%)
Bilston Glen Industrial Estate, Loanhead	9,718 sq.m. modern multi-let industrial estate comprising 32 units	Kames Capital plc c. £7.6 million (7.9%)
Unit 3 Edinburgh Interchange, Newbridge, Edinburgh	2,973 sq.m. modern warehouse let to HSS Hire	CBREGI (Shell) for £2.1 million (8.25%)
Units 1 & 2, Cullen Square, Deans Industrial Estate, Livingston	7,552 sq.m. distribution and warehouse units let to UK Mail Group plc and Crown Worldwide Ltd	Standard Life Investments for £3.6 million (10.64%)
Royal Mail Building, Altens, Aberdeen	15,591 sq.m. industrial facility let to the Royal Mail and Plaza Interiors	Merseyside Pension Fund for £11.73 million (7.33%)
Aberdeen Gateway, Altens, Aberdeen	16,819 sq.m. new-build industrial building let to Total E&P	Ignis on the basis of a forward funding for £29.78 million (5.9%)
Aberdeen Gateway, Altens, Aberdeen	5,574 sq.m. new-build industrial building let to Tetra Technologies	Ignis on the basis of a forward funding for £10.56 million (6.25%)
Schlumberger, Badentoy, Aberdeen	6,312 sq.m. new-build industrial building let to Schlumberger	LaSalle Investment Management on the basis of a forward funding £13.91 million (6.75%)
Aberdeen Ground Lease Portfolio	Portfolio of 32 Ground Lease sites	SWIP for £23.35 million (3.94%)

Industrial

This is a good time to be a shed-head. The attractive income yields available in the industrial sector have become too good to miss, and the simultaneous arrival of new sector specialists and cash rich institutions has snapped up opportunities as – or even before – they come to the market.

Yields on multi-let opportunities have fallen to 7.5% and further yield hardening would not surprise in light of the scarce opportunities available. Despite the almost total absence of quality units available to let in key locations, the weak speculative development market – Aberdeen aside – is unlikely to bring new stock to the market in any quantity. Furthermore, with no remaining Enterprise Zone sites to distort local markets, the ongoing stock shortage provides good prospect for rental growth to commence in the near future.

Investor demand and pricing on stand-alone investments continue to be dictated by the lease and covenant scenario on offer. Yields down to 6.5% have been achieved on 15-year income with open market value rent reviews. The recent Rolls-Royce deal at Inchinnan achieved a sub-6% yield with the benefit of RPI uplifts.

In Aberdeen, a yield of 5.9% was achieved when Ignis agreed to forward-fund a substantial new warehouse facility at Aberdeen Gateway. The 16,819 sq.m. building will be leased by Total E&P for 20 years and is being developed by Muir Group. This sale provides evidence that funding yields for pre-lets are not being discounted in the current strong market.

Based upon the IPD Quarterly Index the Total Return for the sample of Scottish industrial properties in 2013 was 10.3%. This again is a marked improvement on 2012's 3.4%.

Retail

Although consumer confidence continued to improve during 2013 and has helped to support economic recovery, shop expenditure is struggling to grow. In general retailer interest in new space is now confined to dominant centres.

Investors are mirroring this and focusing on key locations. Despite fragile rental growth prospects, the weight of money has brought about a hardening in yields for the best investment opportunities. Yields for prime rack-rented stock on Princes Street, Edinburgh and Buchanan Street, Glasgow can now be sub-5%, hardening towards 4.5%. Investor interest in this sector is from UK institutional and overseas investors.

The shopping centre investment sector enjoyed a surge of activity during 2013 into early 2014 with new entrants in the various sub-sectors, but particularly for prime/dominant assets. Following F&C REIT's £188.8 million purchase of the Bon Accord and St Nicholas Shopping Centre in Aberdeen, Legal & General Property agreed the purchase of The Overgate Centre in Dundee from Land Securities for £125.3 million at a yield of 7.5%.

Interest in the stand-alone supermarket sector continues to be strong despite a significant slowdown in occupier demand. Much of the appetite is from long lease funds seeking index-linked/annuity-style stock. There is less demand for open market review propositions.

Investor appetite for retail warehousing is limited to either single let units or clusters/parks where rents are sustainable and asset management opportunities exist. Within the various retail sub-sectors, retail warehousing probably offers the most attractive income return.

Retail property investment deals include:

Address	Property	Purchaser
61 Buchanan Street, Glasgow	Prime retail unit of 692 sq.m. let to Timberland on FRI terms expiring 2019 at a passing rent of £332,000 pa (£252 per sq.ft. Zone A)	Private investor for c. £6.55 million (4.7%)
84-92 Gordon Street & 96-98 Hope Street, Glasgow	1,144 sq.m. prominent retail and leisure block let to tenants including Ladbrokes, Bella Italia and William Hill	Kames Capital for £4.45 million (8%)
59 Sauchiehall Street & 100-112 Renfield Street, Glasgow	2,236 sq.m. prominent restaurants let to Caspian Food Retail and KFC on FRI terms	George Capital for c. £4.23 million (7.25%)
104 Princes Street, Edinburgh	High street retail unit totalling 2,780 sq.m. let to Zara	Private Spanish investor for £16.85 million (4.8%)
B & M, West Granton Road, Edinburgh	2,330 sq.m. retail warehouse let to B&M Retail Ltd	AUB UK Commercial Income Fund £2.54 million (7.45%)
Overgate Centre, Dundee	Shopping centre totalling 39,020 sq.m. comprising 70 retail units and two multi-storey car parks. Retailers include Debenhams, Primark, New Look, River Island and TopShop	Legal & General Property for £125.3 million (7.5%)
Sainsbury's, Back O'Hill Road, Stirling	8,175 sq.m. supermarket let to Sainsbury's for a further 23 years and a 306 sq.m. drive-thru restaurant let to McDonald's Restaurant until 2024	Royal London Asset Management for £40.6 million (4.5%)
Constitution Street, Aberdeen	2,720 sq.m. retail warehouse let to Matalan	CCG for £3 million (7.01%)

Scottish retail properties returned 6.2% in 2013 compared with 2012's -0.5%. Capital growth remained neutral and total returns exactly match the income return.

Market Prospects

While there is no sign of investment demand weakening, there is potential for the level of activity and volume of transactions to fall over the next six months. This is partly due to the extremely high volume of transactions recorded over the past six months which will be difficult to replicate, and also to an anticipated slowdown in the lead up to Scotland's Referendum.

It is clear that some of the more hesitant and cautious fund managers have started to play a waiting game due to perceived concerns over liquidity, although conversely some others see this as a buying opportunity. Ultimately a lot will depend on the position of the sellers and their need to sell at that time.

Leaving aside the potential impact of the Referendum, at a micro economic level demand for Edinburgh and Glasgow property should gain further momentum as the occupational markets in these cities continue their recovery. Investor demand for Aberdeen has been strong for several years and there is no reason to see that soften in the coming six months as the city continues to offer decent rental growth prospects and the meanest letting incentives in the country. These investment advantages, coupled with quality product, will be too good to resist for many investors.

Aberdeen will also continue to lead the way in the pricing of secondary or short term investments as recent sales prove that yield compression is also occurring in this sector of the market too. Several short term income deals are ongoing in Aberdeen at yields in the low 7%s and very few high yielding opportunities are coming through. By comparison, 10%-plus yield sales are still coming onto the market in Central Scotland and this is likely to continue over the next six months, although beyond then it is anticipated that secondary yields will also begin to reduce across the country.

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