

Ryden

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Scottish Property Review

The property market cycle is back. Sustained economic growth – and in some areas lack of supply – has rekindled the occupier markets, in turn encouraging developer and investor interest.

In the offices sector Aberdeen's strong demand continues to be suppressed by lack of supply, Glasgow's development cycle is underway as take-up improves and Edinburgh's supply is falling as strong take-up meets virtually no new development.

The industrial sector is benefiting from fresh demand and rising occupancy rates. With the exception of Aberdeen, new development is very limited. The next market phase should see re-engagement of the development industry backed by investor demand.

Retail and leisure development is concentrated mainly at Glasgow's shopping malls; for most other locations a gradual reduction in vacancy and stable rents will be the measures of success.

DR MARK ROBERTSON,
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Economy

& Planning

Economy

Economic growth has gained significant traction during 2013 and appears to have become established across sectors. The current recovery is the strongest upturn since the recession of 2008/09 and appears much less likely to be a false dawn for the Scottish economy.

- Scottish GDP grew by 0.6% during the second quarter of 2013. On an annualised basis growth is reported at 1.8%. The quarterly figure matches the UK performance while the annualised figure is significantly higher than the UK's 1.3%.
- This rising growth rate in conjunction with business surveys reported below provides evidence that after five years the economy may finally be reaching the "escape velocity" cited by the Governor of the Bank of England.
- The consensus forecasts for UK economic growth published by HM Treasury in October 2013 are 1.4% for 2013 and 2.2% for 2014. For Scotland, Fraser of Allander Institute's central forecast published in June 2013 was for growth of 0.9% in 2013, followed by stronger growth of 1.6% in 2014 and 2.1% in 2015. Recent economic forecasts such as the HM Treasury consensus have been revised upwards as evidence of growth mounted during the Summer and early Autumn.
- Bank of Scotland's Purchasing Managers' Index for September 2013 identifies record-equalling levels of private sector output growth and new business across both the manufacturing and service sectors, with resultant job creation well above average.
- Continuing with the positive news, the Scottish unemployment rate fell to 7.3% for the three months June - August 2013. This is down by almost a full percentage point from 8.2% a year earlier.

Job Gains

- Pensions group Aegon UK plans to create over 100 new roles at its headquarters in Edinburgh over the next few months
- Sainsbury's Bank plans to increase its workforce in Edinburgh by 70 jobs by the end of 2013
- Call centre operator Webhelp TSC announced 400 new jobs across its centres in Glasgow, Larbert and Kilmarnock
- Capgemini, the IT outsourcing and services firm, announced plans to create 500 new jobs in Inverness over the next three years
- New supermarket openings are creating new positions: a store in Helensburgh by Waitrose will create 200 jobs, and a Morrisons in Kirkcaldy will create 330 new jobs
- Car dealership Peter Vardy is to create 70 new jobs at its 'Carstore' at Hillington in Glasgow
- Wood Group, the international energy service firm, plans to recruit a further 700 employees who will be based in Aberdeen and work either in the city or offshore
- Global energy and infrastructure firm GE plans an additional 100 posts in Montrose over the next three years

Job Losses

- OKI, the printer manufacturer based in Cumbernauld, plans to half its workforce with the loss of around 175 jobs
- Cash machine and electronics firm NCR announced plans to axe up to 70 jobs at its research and development operation in Dundee
- Plans to cut 133 jobs were announced by Philips for its lighting plant in Hamilton
- The Royal Bank of Scotland announced it is to axe around 1,400 jobs over the next two years, about half of them at its headquarters in Edinburgh
- More than 160 jobs were lost following the administration of Dundee-based shoe retailer William Smith Ltd, who traded as DE Shoes and Foot Factory
- Shipbuilding firm Buckie Shipyard Ltd has gone into administration with the loss of around 70 jobs at its yard in Buckie
- Law firm Maclay Murray & Spens has cut 28 jobs at its offices in Edinburgh, Glasgow and London
- Shetland-based civil engineering contractor MK Leslie entered administration with the loss of 50 jobs

- New business formation and business failure data is less positive. The Committee of Scottish Clearing Bankers confirms the number of new business accounts opened during the first half of 2013 totalled 6,117. This was down by 24% on the same period of 2012. The largest share of new businesses (1,474 or 24%) was in the real estate, renting and other business sector.
- Companies House reports a total of 522 business liquidations in Scotland for the six months from March 2013 (4.5% of the

UK total). This is an increase in both the number (from 458) and the share of UK liquidations (4.1%) compared with the preceding six month period.

- Retail sales in Scotland were 1.8% higher over the 12 months to September 2013 (Scottish Retail Consortium/KPMG). On a like-for-like basis sales were 0.8% lower over the period. September appears to have been a weak month however, as on a three-monthly basis sales increased by 3.1%. Further comment on the retail sector is provided on page 12.



- According to the Department of Energy & Climate Change, indigenous production of crude oil fell by 14% in the second quarter of 2013 compared with the same period of 2012.

In summary, as evidence of stronger and more widespread economic growth builds, forecasters are revising upwards their expectations for full year expansion in 2013 and in turn their projections for 2014.

Planning

Scottish Planning Policy & National Planning Framework 3

The Scottish Government and Planning Minister Derek Mackay MSP continue their reforming ways in 2013, with tweaks to the statutory planning system aimed at supporting sustainable economic growth.

Many of the most significant proposals are contained in the draft Scottish Planning Policy (SPP), which was subject to consultation until July 2013. Given its role in shaping the content of development plans and determining individual applications and appeals, these could have real significance if they survive the consultation process.

Overall, there is far more prominence given to planning's role in delivering "sustainable economic growth". Planners are directed to attach significant weight to the economic benefit of proposed development as a material consideration, particularly the creation of new jobs. This will be music to the ears of anyone who has tried to convince local authorities that development which creates and sustains jobs should be welcomed.

As a means of encouraging growth, the draft SPP also states that developer contributions should not adversely affect the viability of development, affordable housing contributions should not exceed 25% and allocated employment sites should be marketable (Scottish Government emphasis).

Housing is now titled *Enabling Delivery of New Homes* which shows a shift in emphasis. It is proposed that the much

cited "generous" housing land supply could be defined as 10-20% above the projected requirement, although this proposal may yet be watered down in the final draft.

Overall, the document contains a number of initiatives which appear to be informed by market evidence and experience, allowing the Scottish planning system to learn from previous mistakes and to adapt.

Town Centres First

The future of town centres has been a hot topic for many months in planning and development. Hit particularly badly by weak retail sales, shop closures and the flight to prime pitches which has left secondary locations failing to attract investment, many town centres in Scotland are struggling.

Three major new town centre reports have now been published: for the Scottish Government, *Community and Enterprise in Scotland's Town Centres* by the Town Centres External Advisory Group led by Malcolm Fraser; *Improving High Streets and Town Centres* by the team led by Mary Portas for the UK Government's Department of Community and Local Government; and the Grimsey review on *The Vanishing High Street*, which was published as a counter to the Portas review.

All three reports address some common themes, despite the differences in perspectives and approaches. Each accepts the reduction in retail's role within town centres, with the Grimsey report specifically recommending that policy makers accept that Britain has too many shops. The need to increase footfall is another key issue and considering alternative uses for retail units to attract this footfall is a strong message conveyed by the reports. Improving accessibility is one way to achieve this, as Portas recommended in relation to car parking charges in town centres. Re-introducing or increasing residential use in town centres, as the Scottish Government aims to do, is another proposed solution.

The final common theme is business (non-domestic) rates. For most towns in Scotland, the solution to their problems is unlikely to come from national retailers. Renewed economic, social and cultural activity in town centres is more likely to come from local businesses, entrepreneurs, enthusiastic volunteers and young people. A significant barrier to start-up enterprises is business rates. However, the Town Centres External Advisory Group was told explicitly that any variation or relief in town centre business rates would not form part of the emerging Town Centre Review Action Programme.

More positively, the Scottish Government has announced a £2 million fund targeted at demonstration projects that bring vacant properties in town centres into residential use. This should help to direct some residential activity towards town centres and help to counter-balance the "generous" provision of housing sites mentioned above which might otherwise siphon-off market demand.

In a further effort to drive footfall back into town centres, the draft SPP proposes a 'town centre first' approach be taken that would require sequential tests - with town centres the preferred location - not just for retail and commercial leisure development proposals, but for all uses that generate footfall, including public buildings such as offices, libraries and education and healthcare facilities. This in turn could have a significant impact on public sector estates as many departments, authorities and agencies strive to reorganise to achieve greater efficiency from their assets.

Office

Property

Take-up (sales and lettings) of offices in Scotland's three largest cities over the past 12 months totals 210,000 sq.m. Demand in Aberdeen continues to be strong, the market in Glasgow has improved again from a low point Q4 2012/Q1 2013 and Edinburgh's market activity has accelerated.

In **Glasgow** increasing letting activity is evident among medium and larger indigenous companies. This is allied to inward location and supported by smaller transactions across the city. Inward relocations include KPMG (1,436 sq.m.) at 123 St. Vincent Street; Skyscanner (992 sq.m.) at 151-155 St. Vincent Street; Cognizant (713 sq.m.) at 250 West George Street; and Aquira Direct Marketing (785 sq.m.) at Four Winds, Pacific Quay.

This activity has led to a doubling in take-up over the six months compared with the previous period, to 38,344 sq.m., producing a total of 57,056 sq.m. for the 12 months since September 2012.

Other notable transactions include: JP Morgan taking 1,902 sq.m. at Alhambra House, Waterloo Street; First ScotRail occupying 1,641 sq.m. at Atrium Court, Waterloo Street; and Student Loans Company taking 1,271 sq.m. at Cerium, Douglas Street.

Subsequent to the cut-off-date for this Review, Atos has taken 3,484 sq.m. at Capella, York Street; SAS 1,058 sq.m. at Cuprum, Cadogan Square; and Brodies has taken a pre-let of 2,639 sq.m. at BAM's 110 Queen Street. An announcement is also expected shortly for Ashurst Solicitors taking 2,415 sq.m. in another new inward relocation to Glasgow. This ongoing larger activity will bolster take-up over the coming months and continue to eat into the supply of higher quality city centre office stock.

Three new-build speculative developments are now underway: BAM'S 110 Queen Street (13,285 sq.m.), PRUPIM/Mountgrange's 1

West Regent Street (12,540 sq.m.) and Abstract Securities' St. Vincent Plaza (15,794 sq.m.). Completion of these buildings is programmed for early to mid-2015. Scottish Power is now also on site with a new 20,450 sq.m. headquarters at the west end of St. Vincent Street.

In the interim while these major developments are under construction, smaller scale refurbishments are being undertaken. AWG Property/Belgate Estates' 124 St. Vincent Street (3,390 sq.m.) is nearing completion; CBRE Global Investors has commenced the refurbishment of Culzean House, Renfield Street (1,858 sq.m.); and Aviva will shortly commence refurbishment of 2,723 sq.m. of offices at The Beacon, 176 St. Vincent Street.

While take-up is healthy, this has not significantly impacted on the total supply of available space, as some refurbished stock begins to come through and second hand space is released to the market. Supply remains relatively static at 381,835 sq.m., with 240,291 sq.m. of this available in the city centre.

There are five new buildings capable of providing greater than 1,858 sq.m., three of which can provide over 3,716 sq.m. Of these, only Cuprum can provide floors greater than 1,394 sq.m. One of the new buildings, INOVO at 121 George Street, is being developed by Scottish Enterprise for companies connected with the increasingly active renewable energy and enabling industries sector.

There are four refurbished buildings that can provide greater than 3,716 sq.m., two of which - George House in George Square and 123 St. Vincent Street - can provide floors greater than 1,394 sq.m. The largest city centre floor plate available is at Alexander Bain House, York Street at circa 2,813 sq.m.

There has been a flurry of smaller transactions on the immediate periphery of the city centre, including: five lettings totalling 1,263 sq.m. at Skypark; fourteen lettings totalling 1,444 sq.m. at The Hub, Pacific Quay (the largest being 517 sq.m. to BMJ Architects); seven small suite lettings at Clyde Gateway's Red Tree Business Centre, Bridgeton; and several small lettings at West of Scotland Science Park.

Further afield business park deals have been secured at The Arc, Hillington; Fullarton Court, Cambuslang; Craighall Business Park, Port Dundas; and Clydesdale House, Glasgow Business Park. Larger out of town deals have been completed at: Riverside Business Park, Greenock to IBM (1,960 sq.m.); Elite House, Eurocentral to Enable Scotland (2,658 sq.m.); Coltness House, Strathclyde Business Park to Sphinx Medical (489 sq.m.) and CSE Controls (466 sq.m.) as well as Amor Group (670 sq.m.) at Avondale House; and Titanium, Braehead to Kent Foods (640 sq.m.).

Top rents for existing office stock in Glasgow remain within the range £269-£291 per sq.m. with potential for one-off peaks above this on limited remaining Grade A space in the best buildings. Refurbished accommodation continues to cover a wide range from £180-£269 per sq.m. depending upon the quality and location. Good quality business park space can range from £120-£145 per sq.m. for non-cooled accommodation and £145-£193 per sq.m. for comfort cooled space. Flexible leases along with substantial incentives remain available.

Edinburgh's office take-up during the six months to October 2013 was 52,093 sq.m., a 37% increase on the previous period due to a marked upturn in occupier activity, particularly for Grade A offices both in and out of town. Take-up over the past 12 months reached 84,482 sq.m., the highest total since 2004.



Within the last six months 25,068 sq.m. of office space was transacted within Edinburgh city centre comprising 63 deals. Outside the city centre 26,570 sq.m. was transacted in 33 deals. Grade A take-up represented 34% of total take-up within the city centre and 45% within West Edinburgh.

Ten office transactions larger than 929 sq.m. include the following larger deals: Bank of New York Mellon at Capital House, Festival Square (5,072 sq.m.); PwC at Atria, The Exchange (2,998 sq.m.); and at Edinburgh Park Lloyds Banking Group at Pentland House, 8 Lochside Avenue (5,104 sq.m.), JLT at 7 Lochside Avenue (3,138 sq.m.) and Sainsbury's Bank at 3 Lochside Avenue (7,701 sq.m.).

While these larger transactions naturally generate most attention, there has been a number of smaller but notable 300-500 sq.m. deals within the city centre, including 30 Charlotte Square to Cornelian Asset Managers; offices at Citypoint to NATS; CareerBuilder at Waverley Gate; Wright Johnson & Mackenzie at the Capital Building; offices in Apex 2 to PGS; and The University of Edinburgh/IBM at Quartermile 2.

The market for period townhouses is also active, both for office and alternative uses. Examples include 14-20 Hill Street (1,072 sq.m.) bought for serviced office use, 10-14 Manor Place (1,097 sq.m.) purchased for residential conversion and 22 York Place bought by Unite for owner occupation.

West Edinburgh's office market is resurgent following a lengthy drought. In addition to the major lettings to JLT and Sainsbury's Bank noted above, Computershare acquired 577 sq.m. within 10 Lochside Place, Lloyds Banking Group purchased 8 Lochside Avenue and Business Stream restructured its lease of 2,508 sq.m. at Lochside View. Edinburgh Park is benefiting from a combination of quality larger office space, improving transport accessibility with the

pending launch of the tram service, and competitive pricing at rents of circa £150-£160 per sq.m.

Office transactions have also been recorded in inner city locations including 492 and 600 Gorgie Road to Garvald (total 794 sq.m.); Guide Dogs at Vantage Point, Corstorphine (307 sq.m.); and Hollander International Systems at Birch House, Bankhead Crossway South (328 sq.m.). In Leith/Granton however take-up has been slower with only a few transactions concluding to occupiers such as Millar & Bryce and Ignite Your Brand.

Total office supply in Edinburgh at October 2013 is 233,612 sq.m. This is a decrease of 8% over six months, as accelerating take-up has met very limited new development. City centre supply stands at 140,285 sq.m. (down from 152,556 sq.m. in April 2013) and peripheral office supply is 93,172 sq.m. Grade A offices account for 40% of city centre supply and 23% in West Edinburgh.

There are numerous transactions currently in legal hands. As Grade A office supply reduces the market will come under pressure, particularly from major occupiers with anticipated lease events between 2014 to 2018. Pre-letting activity of Grade A offices should re-emerge at improved rental values and reduced market incentives. As reported in previous Reviews there are however still a number of occupiers deciding not to relocate, preferring to agree lease extensions in their existing buildings.

There are no new developments added to Edinburgh's office pipeline. The Charlotte Square Collection (4,080 sq.m.) is due to complete in November 2013 and in addition to Cornelian Asset Managers it is understood that Ruffer also has accommodation under offer.

The major five-phase joint venture at Haymarket between Tiger Developments

and Interserve will commence in November 2013 with railway tunnel works; the car park, pre-let retail premises and aparthotel should be completed by 2016 with office development likely to be dependent on pre-letting activity.

In Waverley Valley, Artisan Real Estate Group is making progress with its revised Caltongate development. The initial phase of residential units and two hotel accommodation blocks are being progressed with pre-letting agreements. Again offices should follow as the scheme progresses.

Stockland, with their development partner Bowmer & Kirkland, look likely to commence their St Andrew Square (15,400 sq.m.) scheme to provide three levels of retail accommodation and five levels of open plan Grade A offices.

In the medium term, Henderson Global Investors' St James Quarter Development is a mixed use proposal comprising a major shopping centre, residential units and 9,290 sq.m. of offices. Demolition of the existing centre could commence during 2015.

Prime office rents in central Edinburgh generally remain at around £290 per sq.m., although Atria has achieved rents of £322 per sq.m. There continues to be downward pressure on rents for non-prime offices and incentives remain around 30 months' rent-free for a straight 10-year lease.

Prime West Edinburgh rents remain around £193 per sq.m. for good quality space within Edinburgh Park. Other locations around South Gyle achieve £130 per sq.m., falling to £75 per sq.m. in tertiary areas around the city.



Economic activity in **Aberdeen** has remained strong during the last six months. Once again, the main driver behind demand in the city's office market has been the oil price. Averaging over \$105 per barrel and peaking during August this year at \$118 per barrel, the price continues to underpin the strength of the local property market as the sector invests both in their North Sea assets and in their capacity to service global oil and gas markets.

Office take-up for the six month period has increased by 22% to 37,625 sq.m. in 65 transactions. These transactions take the 12 months total to almost 68,500 sq.m. Not included within the take-up statistics are several large new-build offices which are under offer. The development lag is

undoubtedly slowing take-up as occupiers look for facilities to be built for their needs. Speculative development is letting, as demonstrated by the City View joint venture between Knight Property Group and M&G where both buildings are now let.

Aberdeen's office market activity is concentrated in new buildings. Consequently supply has fallen by only 1.9% over the past six months to 48,959 sq.m. despite continued strong take-up.

Several city centre office developments have been unlocked in the last six months. Knight Property Group has obtained planning consent for 6,500 sq.m. of Grade A office accommodation at the former Capitol Cinema on Union Street and Drum Property

Group secured consent for a 11,150 sq.m. pre-sale to EnQuest of what will be known as The Grande within the North Dee Business Quarter. Both these developments are about to commence construction. In addition, SMG Developments has now sold Triple Kirks (renamed The Point) to Dandara who has committed funds to speculatively build-out the 6,800 sq.m. building.

To the west of the city, Knight Property Group has followed on from the success of Prospect Park with a new development, Kingshill Business Park extending to 10,700 sq.m. Phase One is currently being developed with one pavilion under offer and the other three totalling 2,750 sq.m. available from Q1 2014. Prime Four at Kingswells is also continuing to attract interest from occupiers with another deal about to be announced for a 3,250 sq.m. facility. This location has very quickly become a top choice for occupiers and the developer is currently considering speculative offices within the next phase.

To the south of Aberdeen, Phase 1 of City View is now fully let to Amec who occupy 3,100 sq.m. in two buildings. Phase 2 comprising one building of 3,250 sq.m. is under construction and due for completion in March 2014. Speculative building is also underway at Balmoral Business Park with a 3,900 sq.m. pavilion due for completion Q3 2014. It is understood that Muir Group may also be considering speculative development for a standalone 1,850 sq.m. office building at Aberdeen Gateway following the success of their 1,850 sq.m. pre-let to Enesco earlier this year. Dandara has bought Axxess Business Park which can accommodate up to 56,000 sq.m. of mixed use over the 14.5 hectare site, Phase 1 will extend to approximately 7,900 sq.m. of office accommodation and the site is currently being masterplanned.

To the north, D2 Business Park and Aberdeen International Business Park continue to seek

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

Address	Size	Occupier
Alhambra House, Waterloo Street, Glasgow	1,902 sq.m.	J P Morgan
Atrium Court, Waterloo Street, Glasgow	1,641 sq.m.	First ScotRail
123 St. Vincent Street, Glasgow	1,436 sq.m.	KPMG
Cerium, Douglas Street, Glasgow	1,271 sq.m.	Student Loans Company
The Bridge, Argyle Street, Glasgow	1,115 sq.m.	Salus
151-155 St. Vincent Street, Glasgow	992 sq.m.	Skyscanner
Four Winds Pavilion, Pacific Quay, Glasgow	785 sq.m.	Aquira Direct Marketing
Atria, The Exchange, Edinburgh	1,170 sq.m. 2,998 sq.m.	Green Investment Bank PwC
Capital House, Festival Square, Edinburgh	5,072 sq.m.	Bank of New York Mellon
Pentland House, Robb's Loan, Edinburgh	5,104 sq.m.	Lloyds Banking Group
3 Lochside Avenue, Edinburgh Park, Edinburgh	7,701 sq.m.	Sainsbury's Bank
7 Lochside Avenue, Edinburgh Park, Edinburgh	3,138 sq.m.	JLT
Phase 2, Prime Four, Kingswells, Aberdeen	5,850 sq.m.	Premier Oil
Maersk House, Crawpeel Road, Altens, Aberdeen	2,470 sq.m.	Maersk Oil & Gas
Kirkgate House, St Nicholas Centre, Aberdeen	1,450 sq.m.	WS Atkins
Deebridge House, Leggart Terrace, Aberdeen	870 sq.m.	Aberdeen Appointments Agency
DundeeOne, City Quay, Dundee	808 sq.m.	YoYo Games
Cowan House, Inverness Business & Retail Park, Inverness	c. 464 sq.m.	Capgemini

occupiers following their deal with Aker Solutions, while ABZ has launched the availability of The Campus. i2 Serviced Offices has purchased a site at ABZ and is due to open in mid-late 2014. Goodman has now secured planning permission for Stonewood Business Park which comprises a 10,000 sq.m. office development on a 1.6 hectare site adjacent to BP. This development is set to commence in Q1 2014 with demolition on site imminent.

Aberdeen's headline office rents of £339 per sq.m. are constrained by the lack of transactions. Prime rents should move on following the completion of some of the developments noted above.

Letting activity for **Dundee** office space continues at below average levels. The letting of an entire floor within DundeeOne is however a tangible sign of recovery. YoYo Games has taken a 10-year lease on 808 sq.m. of prime office accommodation within Unicorn Property Group's prominent Grade A office development at City Quay. This follows the recent lettings of serviced accommodation on the ground floor where all but one of nine suites has been let over the past year.

Dundee's office sector continues to rely mainly on these smaller transactions. At Prospect Business Centre, Dundee Technology Park, five new tenants have been secured in units ranging from 42 sq.m. to 87 sq.m. At Dundee Business Park, Gladman Developments has secured recent lettings to C2 Software (232 sq.m.), Unison Centre (95 sq.m.) and Infinity Marketing (95 sq.m.). Castlecroft Business Centre and Marketgait Business Centre also continue to prove popular with only a limited number of suites available in each. Other transactions of note include the sales of Unit 7A City Quay (90 sq.m.) to George Stubbs Insurance and Unit 14 City Quay (557 sq.m.) to EQ Accountants, and the letting of Unit 1A, 63 Brown Street (290 sq.m.) to the charitable organisation, Christ Embassy.

At District 10, Scottish Enterprise's new £1.7 million development at Seabraes, the first of nine proposed buildings is nearing completion. The scheme aims to accommodate the trend for flexible office space by creating unique modular accommodation constructed from recycled shipping containers. Building 1 will provide 15 lettable units, each of approximately 39 sq.m. and aimed at early stage creative industry companies.

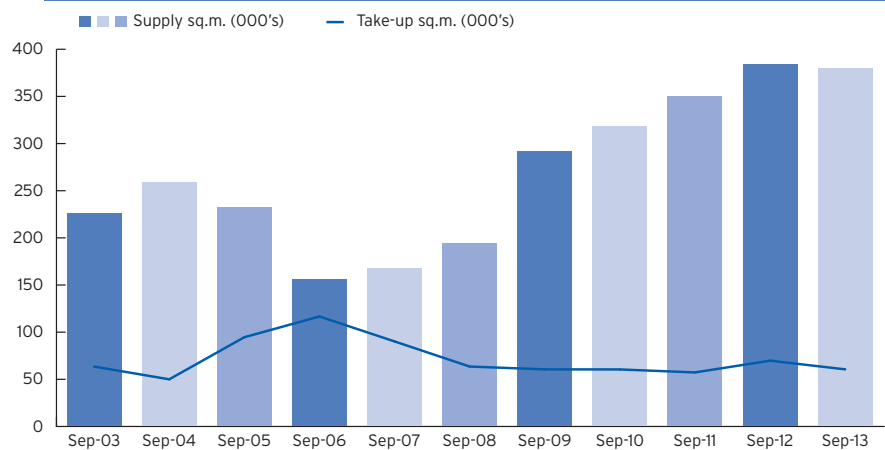
The office market in **Inverness** continues to be active, although overall take-up levels remain below average. Recent transactions

include the sale of 10 Ardross Street (343 sq.m.) to a firm of local accountants, Callander Colgan, for owner occupation, and the letting of 3 Ardross Terrace (228 sq.m.) to ReMax. It is encouraging to see a resumption of market interest in this location.

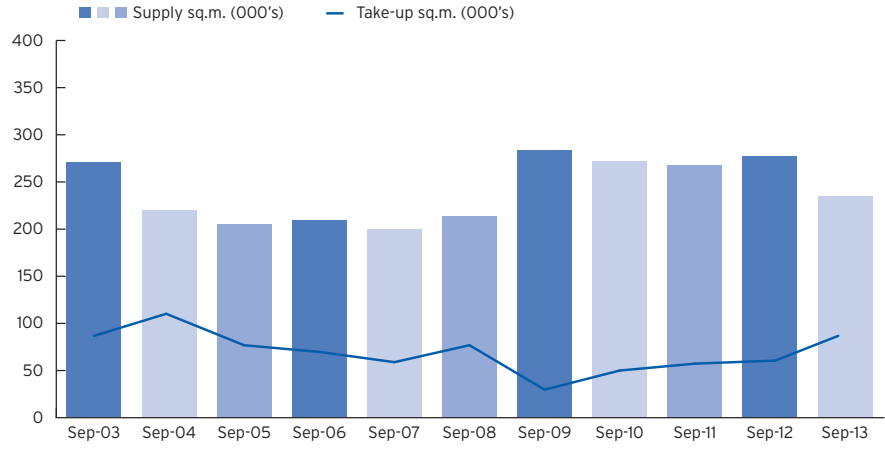
The biggest news in the out of town office market is Highlands & Islands Enterprise's (HIE) proposal to share new premises with the University of the Highlands & Islands (UHI) at Inverness Campus. The concept includes shared office accommodation, teaching, research and laboratory facilities, with additional space to showcase the

region's key economic sectors including renewable energy and life sciences. If the plans go ahead around 150 staff would transfer from HIE's existing offices in Inverness and Dingwall to relocate to the Campus. This will be one of the largest transactions within the Highland office market and should act as a catalyst in the development of Inverness Campus. Within HIE's existing building at Cowan House, Inverness Business and Retail Park, Caggemini will create up to 500 new jobs and take over the entire building by late 2014 to create one of the company's global centres of excellence for advanced IT.

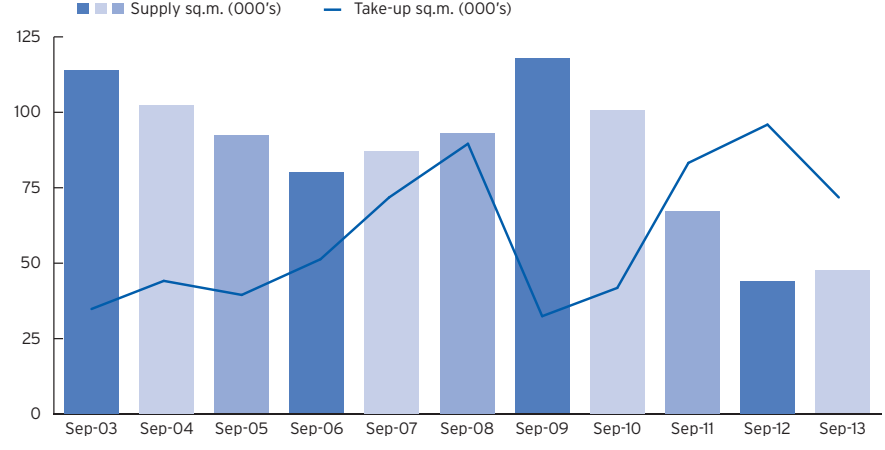
Office Supply and Take-up - Glasgow



Office Supply and Take-up - Edinburgh



Office Supply and Take-up - Aberdeen



Source: Ryden

Industrial

Property

Occupier confidence in the Central Scotland industrial property market is improving. This is demonstrated by demand for property, rising occupancy rates and the re-emergence of confidence among the developer and investor communities. The market is on the cusp of more sustained activity, raising the possibility that lack of supply may become more of a concern than lack of demand. The market in Aberdeen continues to out-perform.

Over the past six months the **West of Scotland** industrial market has benefited from improved business confidence, leading to an increased volume of enquiries and viewings. Only a small number of the deals were for properties of greater than 4,645 sq.m. Larger deals attract attention and influence market perceptions, but in times like these their absence can mask an improving situation and a high volume of smaller and mid-sized deals.

There is latent demand for units of 1,393 - 2,787 sq.m., but few of the active requirements have completed during the review period and the decision making process within this sub-sector remains slow. Enquiries often take over 12 months to move from initial interest to a concluded deal. More headline deals are anticipated over the next 12 months both for existing speculative industrial space and bespoke (purpose-built) properties.

The development market has been slow with little new product on site and few site starts planned over the next 12 months. Nevertheless, the lettings at Plot B Eurocentral and the level of interest in Dundyvan Enterprise Park detailed below, demonstrate demand for modern, well designed space in prime locations.

The most notable larger deals are: Brakes Group vacating existing depots to occupy a new-build unit (circa 18,580 sq.m.) at a rent understood to be in the region of £54

per sq.m. at Prologis Park, **Newhouse** on a site adjacent to the Co-op facility fronting the M8; the 18,927 sq.m. former Co-op building at College Milton in **East Kilbride** being sold to Premier Pan European Limited for around £1.5 million; the obsolete 18,223 sq.m. 1 Glenburn Way, East Kilbride being sold for £260,000 to A & G Rentals; and speedy Asset Services Limited taking a lease of the 5,685 sq.m. former John Menzies facility at Fullarton Drive, **Cambuslang** at a rent understood to be £57 per sq.m. on a 10-year lease.

The type and standard of product represented by these deals spans the complete spectrum from bespoke new-build, to good quality second hand space in a prime location, to older outmoded property in secondary locations. The Brakes Group deal is another endorsement of the M8 corridor as the preferred location for regional distribution centres (RDCs) and the stretch between Bellshill and Newhouse is becoming "Big Box Alley" for West Central Scotland with Bathgate and Livingston continuing the trend to the East.

The **Eurocentral** Partnership Limited has secured the final occupier for their Plot B development at Eurocentral following early lettings of the two smaller units. The three units were erected on one of the last pieces of Golden Contract land and Eddie Stobart has taken Unit 1 (1,590 sq.m.) at a rent of £73 per sq.m. The Eurocentral Partnership Limited is now appraising a further phase of development.

There was strong demand for Tonsley Investments' hybrid unit at Euromed, Strathclyde Business Park. The 1,430 sq.m. unit attracted multiple viewers and was on the market for less than three months. The high office content (circa 1/3rd) was expected to be a possible issue but proved to be well suited to the needs of a variety of businesses including medical users. The property has been taken by BCF

Technology Limited on a straight 10-year lease at £70 per sq.m.

The joint venture between Fusion Assets and CBC at Dundyvan in **Coatbridge** is benefiting from lack of competing new stock in North Lanarkshire. The 3,995 sq.m. Dundyvan Enterprise Park completed at the end of September 2013 and provides units from 137 - 464 sq.m. or larger in combination. Thomas Scott Seating purchased a 274 sq.m. unit at £861 per sq.m. before practical completion and the deal has been followed by four leases in legal hands on rents ranging from £67 - £73 per sq.m. Fusion Assets also plan similar projects for Cumbernauld, Eurocentral, Chapelhall and Strathclyde Business Park.

The sale to Thomas Scott Seating reflects the increased interest in smaller heritable property within the market, where many robust businesses are keen to own rather than lease. This market has been curtailed in recent years by weak lending and a disconnect between the costs of building/refurbishing small units and valuations. It is expected that further sales will follow at Dundyvan, providing market evidence for the new-build sector and helping facilitate a greater number of sales elsewhere.

The demand for owner occupation is also evident at Zephyr (Scotland) Ltd's Centrepoint, **Hillington**. The former J G Coughtrie facility has been sub-divided and re-modelled with an initial phase providing 18 units ranging from 111 - 172 sq.m. Phase 1 was completed in August and eight of the 18 units have been let, five sold and one is under offer to lease. The highest price achieved has been £839 per sq.m. and the highest rent £74 per sq.m. Phases 2 and 3 are now underway.

Sales involving larger units are less common, although there are transactions



to report. Euro PC sold 100 Pitches Road, **Cardonald** (1,340 sq.m.) to Westside Distribution for £810,000 (£605 per sq.m.). The sale was completed following a closing date with a number of parties submitting bids for this well-specified unit. At **Clyde Gateway East**, a new-build 1,496 sq.m. unit has been sold to PF Cusack at £775 per sq.m.

There is growing demand for bespoke industrial buildings. Discussions are progressing on a number of the prime development sites in the Glasgow area. Such projects are important for the market as they demonstrate confidence and necessitate a cost-driven agreement on price or rent which provides evidence for the surrounding area.

High occupancy levels have been maintained on the main estates in the Greater Glasgow area. MEPC report 98% occupancy on their holding at **Hillington Park** and Cornerstone is moving to full occupancy on the **Kingston Bridge Trading Estate**, where refurbished units immediately secured occupiers at rents of circa £86 per sq.m. The **Clydesmill Estate** in Cambuslang is owned by a number of parties and is another area experiencing strong demand and low supply.

There are positive signs of an upturn in occupier activity in the **East Central Scotland** industrial property market. In addition to a number of significant transactions over the last six months reported below, there are substantial deals in the pipeline for industrial land, design-and-build premises and existing accommodation. This increased occupier activity boosts investor and developer confidence; speculative development is now being considered.

Good levels of market activity are being recorded within **Edinburgh**, with a particular focus around the **Newbridge** area at the M8/M9 Motorway intersection,

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

Address	Size	Occupier
Fullarton Drive, Cambuslang	5,685 sq.m.	Speedy Asset Services Limited
Fairfield Place, College Milton, East Kilbride	18,927 sq.m.	Premier Pan European Limited
Terston House, Edinburgh Interchange, Newbridge, Edinburgh	6,112 sq.m.	United Wholesale Limited
Bankhead Drive Estate, Sighthill, Edinburgh	1,074 sq.m.	Dingbro
Royston Road, Deans Industrial Estate, Livingston	8,361 sq.m.	Lidl
Granitehill Road, Northfield Industrial Estate, Aberdeen	10,932 sq.m.	Hall & Tawse Joinery Ltd
Alliance Centre, Greenwell Road, Tullos, Aberdeen	4,039 sq.m.	John Clark Holdings
Southview, Blackness Road, Aberdeen	1,935 sq.m.	Weatherford
Riverside Distribution Centre, Dundee	6,076 sq.m.	Brakes Group
Bridgepoint, Longman Drive, Inverness	1,127 sq.m.	TNT

emphasising the importance to occupiers of road transport links. In the largest transaction, E-Net let Terston House (6,112 sq.m.) at Edinburgh Interchange to United Wholesale Limited. Hansteen has now fully let its budget space at Queen Anne Drive with a letting to gym equipment supplier Anytime Leisure (2,571 sq.m.) at £27 per sq.m. Joint Properties secured 100% occupation at Queen Anne Park with a letting to The National Galleries of Scotland (905 sq.m.) at £61 per sq.m.

Within urban Edinburgh, industrial activity has been more limited. The only significant transaction is a letting to car parts distributor, Dingbro (1,074 sq.m.) at Standard Life's Bankhead Industrial Estate, **Sighthill**, at a rent of circa £65 per sq.m.

South of the city, in **Midlothian**, Palmer Manse secured their largest letting to date at Dryden Vale, Bilston Glen Industrial Estate, **Loanhead** where DI UK Limited acquired 1,161 sq.m. at £70 per sq.m. Bilston Glen remains the favoured location for industrial occupiers in the area, offering

good quality modern space with easy access to the Edinburgh city bypass and city centre. Evidence of this is the continued success of IMEX Bilston Glen, where six separate lettings have been secured within the last six months to tenants including Dolby Vivisol (25 sq.m.), Kitchen Doctor (95 sq.m.) and Cool Breeze (147 sq.m.).

The emphasis on strategic transport links for occupiers also applies to **West Lothian** where the largest transaction saw discount food retailer, Lidl, take circa 8,361 sq.m. at Royston Road, Deans Industrial Estate, Livingston as additional space to their main regional distribution centre; the rent equates to £25 per sq.m.

Other transactions in West Lothian include: DLF Trifolium purchasing 10 Westerton Road (4,078 sq.m.), East Mains Industrial Estate, Broxburn; A1 Automotive purchasing 2 Simpson Parkway (3,049 sq.m. on a 2.5 hectare site) at Kirkton Campus, Livingston; and Mitsubishi leasing an additional 2,787 sq.m. at Houstoun Industrial Estate, Livingston.



In **Fife**, the headline transaction was the acquisition of the former Co-op facility at Pitreavie Industrial Estate, Dunfermline by FMC Technologies for £2.5 million. FMC already has a substantial presence on the estate and the addition of this 24,154 sq.m. building on a 10.6 hectare site confirms their commitment to the area.

In **Grangemouth**, Thomson Pettie Engineers has taken a lease of 4,601 sq.m. at Abbotsinch Road at a rent of £12 per sq.m.

The only speculative industrial development in the pipeline in East Central Scotland is C & W Assets' scheme at the former Pentad site at South Gyle. A site start is planned in the final quarter of 2014 for a first phase of 2,440 sq.m.

The buoyant North Sea Oil and Gas industry continues to fuel strong demand for industrial accommodation in **Aberdeen**. A high oil price of above \$100 per barrel and continued significant investment are driving strong take-up and a diminishing supply of good quality industrial stock.

Industrial take-up in the last six months totals 56,043 sq.m., a 131% increase on the previous six months. Most notably, deals are up in the following size ranges; 0 - 464 sq.m. (37%), 929 - 1,858 sq.m. (207%) and over 1,858 sq.m. (1147%). Take-up is down in the 464 - 929 sq.m. size range, but this can be explained by a significant proportion of the stock in this size range presently undergoing refurbishment and it is expected that deals will happen shortly after the works have been completed. It is also worth noting that while a number of large transactions have taken place in the last six months, a significant proportion of the stock that is presently "available" is actually under offer. These pending deals will be captured in the April 2014 Scottish Property Review.

Supply over the last six months has decreased by 25% to 70,596 sq.m. Most

notably supply in the larger size ranges has fallen by around 35% as a number of substantial deals concluded. These include Granitehill Road, Northfield Industrial Estate (10,932 sq.m.) sold to Hall & Tawse Joinery Ltd for £975,000; Alliance Centre, Greenwell Road, Tullos (4,039 sq.m.) sold to John Clark Holdings for £2.75 million; and Greenwell Place, Tullos (2,464 sq.m.) leased to Subsea Technologies Ltd on a one-year deal at £130,000 per annum.

The decrease in industrial property supply within Aberdeen city has resulted in a number of occupiers considering relocating to the periphery where industrial stock is more readily available and rental levels are lower.

New-build rental levels remain strong and continue to rise; prime rents are presently £91 - £94 per sq.m. for warehouse space, £188 - £191 per sq.m. for offices and £16 - £19 per sq.m. for secure concrete yards. Rents for secondary industrial buildings have risen steadily on the back of this.

The industrial sector in Aberdeen continues to be a landlords' market, with limited incentives and break options being offered to ingoing tenants. Average lease lengths remain at 5 - 10 years for secondary stock and 15 - 20 years for new and speculatively built stock.

Once again, due to the strong occupational demand, a number of developers are undertaking speculative industrial developments across the city and again they continue to receive strong interest prior to completion. These include: ABZ Developments and Gilcomston Investments in Dyce; Buccleuch/Scottish Enterprise at the Aberdeen Energy & Innovation Parks in Bridge of Don; Muir Group at Aberdeen Gateway; Knight Property Group at Minto Commercial Park in Altens; and Forbes Homes at Peterseat Park. A number of developers across the city also have

substantial industrial headquarter design-and-build schemes under offer and announcements about these are expected shortly.

In the largest industrial letting within **Dundee** in recent years, Brakes Group extended their occupation of Units 1 & 2 Riverside Business Park to the adjoining unit (6,076 sq.m.) on a 20-year lease. In the east of the city, Howdens Joinery Group opened their second depot at Baluniefield Trading Estate (857 sq.m.) on a new 15-year lease. At Fowler Road, West Pitkerro, a Dundee-based engineering group has purchased the former McTavish Ramsay factory site (3,181 sq.m.), and at Ainslie Street a complex of industrial and office buildings (2,369 sq.m.) was sold to a speculative investor.

The majority of lettings in Dundee involve small to medium-sized second hand units. A number of trade counter requirements are in the market driven by lease expiries or companies looking to consolidate to reduce costs, but these remain unsatisfied primarily due to the lack of modern accommodation in good locations.

Industrial property rents in Dundee range from as low as £10 per sq.m. for older, second hand accommodation, up to £96 per sq.m. for new industrial/trade counter units in prominent locations.

The industrial market in **Inverness** continues to experience a good level of demand with pressure continuing on the limited number of buildings available within the popular Longman Industrial Estate. Ark Estates has continued to enjoy strong interest with their new development at Bridgepoint on Longman Drive. Site 2 has already been let to BEAR Scotland Ltd to service that trunk roads contract. Work is continuing on Site 3 to refurbish and convert the existing buildings to provide four modern industrial units where TNT has

taken 1,127 sq.m. and Hayley Group has taken 373 sq.m. of space, both on 10-year leases. These units are expected to be ready in November 2013 and the remaining two units (279 sq.m. each) will be available for lease at rents of £81 per sq.m.

Braidwood Properties has acquired a 0.52 hectare development site at Fresson Business Park on Stadium Road where they have secured planning permission to construct 1,486 sq.m. of industrial accommodation.

Overall Inverness continues to suffer from a lack of industrial land. Opportunities for new development are limited and a number of companies keen to locate within the city are being frustrated by the lack of suitable premises. With the current Local Development Plan review it is likely The Highland Council will be considering opportunities to create additional business land to help support the local economy.

The table below presents a selection of speculative industrial developments across Scotland. Although the market cycle is re-emerging in 2013, this is a slow process and speculative supply continues to be dominated by the buoyant Aberdeen market:-

Address	Size	Developer
Dundyvan Enterprise Park, Coatbridge	3,995 sq.m. in units from 137 - 464 sq.m. or larger in combination. Completed September 2013	Joint venture between Fusion Assets and CBC
Inchwood Park, Bathgate	20 units totalling 4,666 sq.m. Phase 1 (eight units) complete	C & W Assets Ltd
Aberdeen Gateway, Aberdeen	Warehouse 929 sq.m. office 418 sq.m. yard 929 sq.m.	Muir Group
Plot 14B, Peterseat Park, Altens, Aberdeen	Warehouse 756 sq.m. office 625 sq.m. yard 2,450 sq.m.	Forbes Homes
Building A, Raiths Industrial Estate, Pitmedden Road, Dyce, Aberdeen	Warehouse 760 sq.m. office 311 sq.m.	Gilcomston Investments Ltd
Building B, Raiths Industrial Estate, Pitmedden Road, Dyce, Aberdeen	Warehouse 418 sq.m. office 225 sq.m.	Gilcomston Investments Ltd
3 International View, ABZ Business Park, Dyce, Aberdeen	Warehouse 990 sq.m. office 610 sq.m. yard 1,873 sq.m.	ABZ Developments Ltd
4 International View, ABZ Business Park, Dyce, Aberdeen	Warehouse 850 sq.m. office 318 sq.m. mezzanine 289 sq.m. yard 1,747 sq.m.	ABZ Developments Ltd
Unit H1, Aberdeen Energy Park, Claymore Avenue, Bridge of Don, Aberdeen	Warehouse 1,122 sq.m. office 366 sq.m. yard 1,726 sq.m.	Bucleuch Property
Unit H2, Aberdeen Energy Park, Claymore Avenue, Bridge of Don, Aberdeen	Warehouse 1,122 sq.m. office 366 sq.m. yard 1,728 sq.m.	Bucleuch Property
Unit 6, Minto Commercial Park, Altens Industrial Estate, Aberdeen	Warehouse 847 sq.m. office 320 sq.m. yard 1,150 sq.m.	Knight Property Group

Retail

Property

According to the Scottish Retail Consortium (SRC)/KPMG, in September 2013 total retail sales increased by 1.8% compared with September 2012. Like-for-like sales decreased by 0.8% over the same period.

SRC reports that shop price deflation is having an impact upon the value of sales, while a broader three month view shows higher annualised sales growth of 3.1%. Sales to September were driven by a 2.3% increase in total food sales compared with September 2012 and a 1.4% increase in non-food sales.

The rate of retailers going into administration has now slowed, with 2012 being the worst year for retailers failing since 2008. Recent failures in 2013 include Nicole Fahri and Dwell.

Value retailers, for example B & M, Poundworld, Home Bargains and Poundland, are still expanding and actively looking for new sites. In general however, although national multiple retailers do have property requirements, these are very specific in terms of location and property type.

The Range home, leisure and garden retailer is actively expanding in Scotland and is currently filling large voids around the country. Its first Scottish outlet was opened in Glasgow in the former Wickes unit on London Road; in Edinburgh a store was opened in the former Big W at the Jewel; and stores in Dundee (the former Tesco at Stack Leisure Park, Lochee), Dumfries (Leafield Road) and Aberdeen are planned.

The latest news from **Glasgow**, the UK's second most popular retail destination after London, is Land Securities & Henderson Global Investors' Buchanan Galleries proposed extension which has heralded the signing of Marks & Spencer for a new 13,935 sq.m. store to anchor the £300 million retail and leisure scheme which is scheduled to open in 2017.

Other major news within the city centre in Glasgow includes the St. Enoch Shopping Centre sale which is reported on page 16.

At **Silverburn**, Hammerson has announced the signing of Cineworld as the anchor to its new 10,700 sq.m. extension. The 14-screen cinema will be developed along with nine restaurants and a Gala Bingo. Work should start by the end of 2013 with a planned opening of Autumn 2014.

The leisure extension at Hercules Unit Trust's **Glasgow Fort** shopping centre has now opened. It totals 4,180 sq.m. and comprises a Vue multiplex cinema and restaurant space let to TGI Friday's, Prezzo, Harvester, Chiquito and PizzaExpress. Within the existing retail space Schuh opened a 603 sq.m. shoe shop in the former Republic unit.

INTU Properties announced a letting to Nando's at its **Braehead** development; this 339 sq.m. unit will complement the Nando's currently trading from the adjacent Xscape. Elsewhere in the centre Next expanded into a 2,787 sq.m. unit formerly occupied by BHS and JD Sports has taken two of the former Next units (1,022 sq.m.).

In **Edinburgh** city centre, Legal & General secured a letting at 127 Princes Street to California's sportswear company Vans of the prominent 1,600 sq.m. former Game store at £160,000 pa. Elsewhere on Princes Street, Dr Martins opened at no 76 in the former Watches of Switzerland unit and Hutchison 3G opened in no 134a, the former Gamestation shop.

On Multrees Walk, Burberry, Nespresso and Tommy Hilfiger are opening units and Hugo Boss is expanding its store.

Patisserie Valerie has announced its third shop in Edinburgh at 25 George IV Bridge (199 sq.m.) on a 15-year lease.

As reported in the Offices section on page 5, the major redevelopment to create St James Quarter in Edinburgh city centre is moving closer to commencement; reports suggest that the scheme could take four years to develop.

To the east of the city at **Fort Kinnaird**, Outfit signed a new 10-year lease to occupy a 1,486 sq.m. shop which features Top Man, Miss Selfridge, Wallis, Dorothy Perkins and Burton. Meanwhile in the west at the **Gyle**, Clintons and Schuh have both opened new stores. Wagamama has secured a 279 sq.m. restaurant within **Ocean Terminal**, Leith.

At Land Securities' The Centre, **Livingston** several retailers have recently taken space including Burger King, The Entertainer, Officers Club, Perfect Home and Fuel.

In **Dunfermline**, Boots has relocated from the High Street to a 1,393 sq.m. store in the Kingsgate Centre formerly occupied by Argos. On the High Street, Poundworld is fitting out the former M & Co store. Meanwhile at Halbeath Retail Park the former Focus DIY has been sub-divided into four units, Argos, who are in temporary occupation at a pop-up shop inside Homebase, will open in one of the units and Pets at Home has opened in another.

Following redevelopment of St Johns Shopping Centre, **Perth**, H & M and River Island have opened their new stores. Elsewhere in the city Marks & Spencer opened an 817 sq.m. Simply Food store at Inveralmond Retail Park.

In **Dundee**, the redevelopment of the Stack Leisure Park in Lochee appears poised to take a leap forward with the news that The Range, as reported above, is to take over the former Tesco supermarket (4,831 sq.m.). This follows the news that Aldi is to occupy a new food store (1,720 sq.m.).



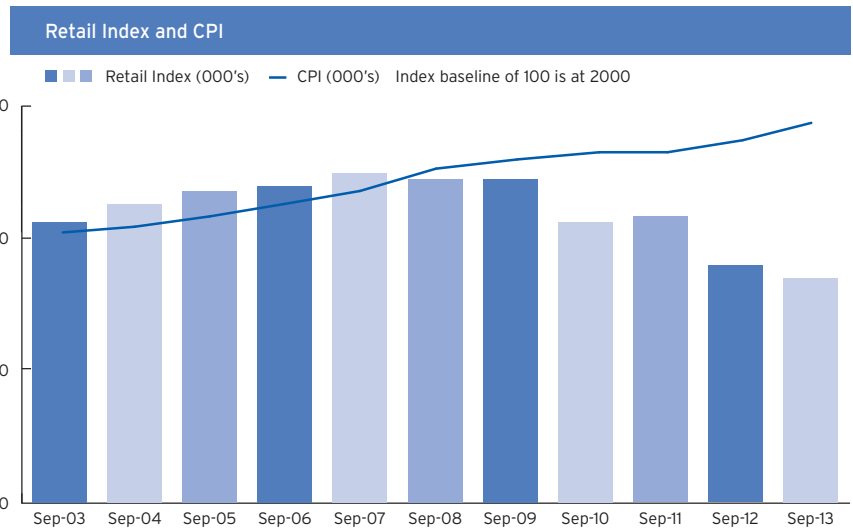
At Milton of Craigie Retail Park, on the other side of the city, Unit 3 (1,000 sq.m.) has been let to Pets at Home, 261 Brook Street (164 sq.m.) has been let to Holland & Barrett, and Unit 1C/D (189 sq.m.) has been purchased by Joup Ltd t/a Domino's Pizza.

Hammerson's Union Square in **Aberdeen** has attracted The White Company, Patisserie Valerie and Mac Cosmetic who plan to open new stores, while on Union Street Poundworld has opened a 1,121 sq.m. store.

The retail market in **Inverness** remains under pressure. Within the city centre the new Jessops company has agreed terms to lease their previous store at 26 High Street (206 sq.m.) on a new five-year lease. There have been two further lettings on Strothers Lane with Poppy Scotland and Games Workshop both agreeing terms to lease 144 sq.m. and 59 sq.m. retail units respectively. These transactions secure 100% occupancy at the 1,579 sq.m. retail development which was completed in 2006.

In the superstore sector, fewer new stores are opening as operators concentrate on local convenience formats instead. Main foodstore activity includes Waitrose opening in Helensburgh and starting the planning process in Ayr; Asda progressing a site in Stirling at Crookbridge; Tesco considering a circa 6,500 sq.m. proposal at East Kilbride; and Morrisons opening in Kirkcaldy.

In summary, the overall picture is of a gradually improving retail market, in line with the wider economy, although sales are volatile month-to-month and growth is not strong. Major malls are attracting new development but for the large majority of towns the priority will be to stabilise occupancy levels then gradually reduce vacancies, including some diversification away from retail and probably involving new leisure operators.



Source: ONS/Ryden

The Ryden Retail Rent Index (above) has stabilised in 2013 but remains 19% below its 2007 peak, excluding the effects of price inflation.

Many occupiers are now trading at rents considerably in excess of current values. This is compounded by non-domestic rates which often are not reflective of the letting market, and indeed can make units uneconomic even on reduced rents.

Investment

Market

Over the past six months there has been a significant change in attitude; Scottish commercial property is now firmly back on the agenda for investors seeking core and value added stock. The weight of money driving demand is significant. Supply of institutional grade prime and good secondary stock is limited, and competition for available product is fierce. As a result, market pricing is moving rapidly in certain sectors.

With a widely held view that central London is over-priced, investor attention has turned to the regions in search of value. Scotland, in particular the Aberdeen, Edinburgh and Glasgow markets, has much to offer. At this stage the question of Scottish independence does not appear to be adversely affecting investor demand as strategies are formed and decisions made based upon underlying fundamentals and market dynamics.

Available statistics are backward-looking and do not necessarily highlight the recovery that is underway. Based upon the IPD Quarterly Index for the 12 months to June 2013, the total return for Scottish All Property was 1.8%. This can be attributed to yield improvement, a deceleration of capital growth decline, steady income return and marginally negative rental growth. Scottish property lagged the UK's 4.6% return, which is distorted by London Offices' scale and stellar performance (over 10%).

The most marked Scottish underperformance has been the office sector's annual total return of 0.7%. There were however signs of improvement with total returns in the quarter to June 2013 recorded at 1.4%. Current transactional activity now points towards strong performance particularly in regard to yield improvement.

Scottish industrial property with a return of 4.7% has again been the country's best performer, albeit the sector also lagged UK industrial property's 4.8% return.

Office property investment deals include:

Address	Property	Purchaser
Sentinel, 103 Waterloo Street, Glasgow	7,813 sq.m. Grade A office building. Multi-let to tenants including AON, Morgan Stanley and British Steel Pension Fund	Ardstone Capital for £25.15 million (6.87%)
Atrium Court, Waterloo Street, Glasgow	9,755 sq.m. landmark multi-let office building. One vacant floor. Tenants include First ScotRail and Scottish Enterprise	USS for £13.2 million (10.5%)
Dalmore House, 310 St Vincent Street, Glasgow	6,507 sq.m. office developed in 1990's. Let to Whyte & Mackay for three years, tenant in partial occupation and partially sub-let	Praxis for £10 million (13.95%)
Kelvin House, Buchanan Business Park, Stepps	1,852 sq.m. modern business park office, single let to BAM Construct UK Ltd on FRI terms with in excess of eight years unexpired	Cedarwood for £2.3 million (12.12%)
Citymark, Fountainbridge, Edinburgh	9,607 sq.m. Grade A office building let to HBOS plc	Ardstone Capital and CBRE Investors for £33.7 million (7.2%)
4-5 Lochside Avenue, Edinburgh Park, Edinburgh	3,808 sq.m. office pavilion let to Agilent Technologies UK Ltd until 2020	LaSalle Investment Management for circa £5.2 million (8.6%)
Calton Square, Edinburgh	14,121 sq.m. Grade A office building let to Baillie Gifford and Pillar Projects until 2023	GLL Real Estate Partners for £57 million (7.25%)
Prime Four Business Park, Kingswells, Aberdeen	New 5,853 sq.m. HQ office building let to Premier Oil	RLAM for £27.40 million (6.05%) on a forward commit basis
Prospect Park, Westhill, Aberdeen	4,831 sq.m. HQ office let to Bibby Offshore	SLI for £13.80 million (7.30%)
Pavilions 2 & 3, Aspect 32, Westhill, Aberdeen	4,493 sq.m. office let to Technip UK Limited	COIF Charities Property Fund for £13.50 million (6.94%)
Silverburn House, Bridge of Don, Aberdeen	13,594 sq m HQ office building let to GE Oil and Gas	Carrisbrook for £17.56 million (10.05%)

At a city level, Aberdeen offices registered a 12-month total return to the end of June 2013 of 10.8% with Aberdeen industrial property close behind at 8.8%. Across the Central Belt, industrial has been the strongest performer with annual total returns of 5.1% in Edinburgh and 4% in Glasgow.

Office

The initial signs of returning investor demand highlighted in the April 2013 Review have since developed into a wave of deals in Edinburgh and Glasgow. Investors are seeking to take advantage of the strengthening occupier markets in each city, prior to the anticipated fall in regional office yields.



The Aberdeen market continues to perform strongly and provides the performance indicators that investors covet: strong occupier demand, rental growth and an absence of supply leading to pre-lettings.

Prime office yields across all three cities are around 6%, with Aberdeen the most likely to achieve sub-6% in the near future due to its pipeline of new-build Grade A schemes under development.

The improving occupier markets are encouraging investors to move up the risk curve and focus on existing buildings with refurbishment opportunities or short leases. A preference remains for multi-let buildings, although void costs remain an important factor to consider.

The ability to pick up obsolete or off-pitch offices cheaply has enabled developers to cherry pick buildings for change of use to residential, student accommodation or hotel use, where investor demand can be expected. Similarly, vacant buildings can also be sold on a floor-by-floor basis to owner occupiers.

Out of town the market remains patchy and pricing volatile, depending on the specific occupier markets and income quality of the investment concerned. The sale of 4-5 Lochside Avenue, Edinburgh Park where circa 20 bids were received reflects the depth of institutional and private money that will emerge for a high quality building let at a sensible market rent to a strong covenant.

Industrial

Activity in the industrial investment sector remains selective. Cautious optimism is the prevailing sentiment, which is an improvement on the previous extreme caution. Investors are beginning to relax into a more positive and active approach to the sector.

Institutions continue to be the main purchasers of industrial stock, but there is

an increase in activity from both property companies and private investors too.

The sector suffers from an ongoing lack of new-build development which has led to a reduction in stock against generally improving occupier demand. As a result, some of the capital value lost since the 2008 crash has been reversed. As rental growth returns and prime yields slowly improve, industrial property is once again becoming the solid investment choice.

Investor demand continues to focus on Aberdeen, the strongest performing city economy outwith London. A number of recent transactions have seen yields fall further, such as Ignis Asset Management's purchase of Lion House in Dyce for £9.625 million which reflected a 7.1% yield.

In the Central Belt activity is more selective; there have been some opportunistic acquisitions but the main

focus continues to be on prime industrial assets.

Notable transactions include Eskmuir's acquisition of Inner City Trading Estate at a net initial yield of 8.5%, reflecting appetite for well-let stock, and Parabola's acquisition of the DSG unit in Cumbernauld at a 21% yield reflecting a more opportunistic transaction.

Yields have begun to stabilise and in certain instances reduce across each of the main Scottish centres. Demand remains healthy for long-let property but there has also been an improvement in demand from the funds for larger, new-build multi-let stock.

New development remains key to maintaining the improving status of the sector, particularly in the Central Belt where development has been difficult to unlock. Aberdeen, with a strong occupational story will continue to enjoy high levels of development and consequently strong investor interest will

Industrial property investment deals include:

Address	Property	Purchaser
Inner City Trading Estate, Glasgow	4,781 sq.m. multi-let industrial/trade estate over nine units. Tenants include City Electrical Factors, Tiso and Dales Cycles. Medium term income	Eskmuir for £3.4 million (8.5%)
Burntbroom Court, Queenslie Industrial Estate, Glasgow	4,406 sq.m. multi-let industrial estate over nine units. Short to medium term income. Tenants include ITW Ltd and Dyson Insulations	Private Investor for circa £1.42 million (12.4%)
Unit 3, Axis Park, Cumbernauld	7,738 sq.m. single let modern distribution unit let to DSG Retail Ltd on FRI terms expiring Dec 2015. Passing rent of £360,000 pa (£46.50 per sq.m.)	Private Investor for £1.55 million (22%)
Lion House, Kirkhill, Dyce, Aberdeen	4,645 sq.m. office and industrial facility let to Expro North Sea	Ignis Asset Management for £9.625 million (7.1%)
Aberdeen Gateway, Altens, Aberdeen	9,012 sq.m. office and industrial HQ facility let to Hydrasun	RLAM for £15.15 million (7.25%)
Peregrine Road, Westhill, Aberdeen	2,434 sq.m. new build industrial building let to Bibby Offshore	Private investor for £3.85 million (7.37%) on a forward funding basis

be sustained. For Glasgow and Edinburgh the lack of new-build availability and consequent pressure on rents should help to make speculative development more viable in the coming 12 months.

Retail

It is difficult to recall a time when there has been such a contrast in the pricing of prime and secondary High Street retail assets. Recent or ongoing deals in each of the three main cities are achieving yields of 5% or below, despite cautious rental growth predictions in the retail sector, with buyers taking the opportunity to secure trophy assets offering scarcity and thus liquidity.

In contrast, secondary and tertiary units remain heavily discounted, both in historic terms and in comparison to prime. Yields continue to vary wildly, even for retail units in the same pitch, once factors like income security, lease length and occupier demand are factored in. Those investors with the strongest market and retailer intelligence are increasingly able to select the best deals and take advantage of current pricing.

After a period when shopping centre availability was high but transaction levels low, there has been a significant increase in volume and a deepening of the pool of potential buyers. The headline sales have been Bon Accord and St Nicholas shopping centres in Aberdeen and St Enoch Centre in Glasgow, however there has also been a steady turnover of smaller regional centres, with the likes of LaSalle and New River becoming centre owners.

Retail park transactions have been relatively scarce, with the biggest deal - KKR & Quadrant's acquisition of Great Western Retail Park, Glasgow - forming part of a portfolio purchase from Resolution. Notwithstanding this lack of deals, demand remains keen for the better parks, although more selective for bulky goods schemes.

Market Prospects

Investment activity over the next six months is expected to be significant. Rising confidence from occupiers, limited growth in supply and a more positive outlook for the economy should continue to accelerate property's recovery. The weight of money in the market will continue to seek suitable outlets, however lack of stock will inevitably widen requirements and force compromise.

Retail property investment deals include:

Address	Property	Purchaser
123-129 Buchanan Street, Glasgow	2,364 sq.m. of prime mixed use retail and office block over basement to third floors. Principal tenants are Tiso, The White Company and Hobbs. Passing income is split - retail income 93.5% and office income 6.5%	Scottish Widows Investment Partnership for £22.85 million (5%)
St Enoch's Centre, Glasgow	76,551 sq.m. mixed use shopping centre anchored by Debenhams and BHS	Blackstone for £189 million (7.25%)
Gala Retail Park, Galashiels	4,054 sq.m. retail park comprising six units. Tenants include Marks & Spencer, Next, Boots, New Look and C&J Clark. Average seven years WAULT. Open Class 1 (Non Food) Consent	M&G for £10.867 million (6.4%)
Birkenshaw Retail Park, Uddingston	3,960 sq.m. multi-let warehousing. Consists of four units. Tenants include J&W Carpets and Monarch Retail. Stepped rental increases on Monarch lease. One vacant unit. Bulky goods consent	Private Investor for £1.85 million (8.82%)
Inverurie Retail Park, Inverurie	8,305 sq.m. retail park	Henderson Global Investors for £11.79 million (6.9%)
Wellington Circle, Aberdeen	10,292 sq.m. retail warehouse let to Makro	Private Investor for £6.50 million (9.45%)
Livingston Designer Outlet, Livingston	27,690 sq.m. retail and leisure complex, comprising 98 retail and leisure stores, food court and an eight screen cinema. Anchored by Vue Cinema, Gap, Next and Marks & Spencer	LaSalle Investment Management on behalf of the Mars Pension Fund for £52 million (8.75%)
Bon Accord and St Nicholas Shopping Centres, Aberdeen	Two adjoining shopping centres totalling 42,735 sq.m. with over 75 retail units	F&C Reit for £185 million (7.25%)

Secondary value recovery should follow and some recovery in tertiary values may occur. Despite loan book sales which included many Scottish assets, the anticipated glut of these assets coming to market has not yet materialised. Open market sales for these assets may be a last resort as borrowers endeavour to re-finance and loan purchasers adopt a longer term approach. This approach allied to the weight of money and widening of investor requirements should help to maintain values, albeit occupational demand in secondary and tertiary markets may remain fragile. An orderly market adjustment is the best possible outcome for the loan portfolio sector.

Demand for long-let stock with rpi/cpi/linked uplifts continues from an increasing number of funds. Yields continue to reduce in this sector, and little if any discount appears to apply to forward

funding/purchase situations, as scarcity of stock dictates pricing. As occupational demand continues to recover, there are signs - albeit very selective - that speculative development funding is starting to emerge in certain sectors.

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