Ryden

84th Scottish Property Review

APR/19

Scotland's economy is delivering steady but subdued growth. Medium term economic growth forecasts anticipate comparable performance although 2019 looks particularly weak. Unemployment is however at a record low level.

Glasgow's office market continues to deliver a regular volume of activity, accelerated by last year's pre-lets which have now triggered the next wave of development. Occupational demand remains strong in Edinburgh and the development response limited, although schemes are emerging. Aberdeen's office market is at a low point and is lagging an uptick in the local economy.

The industrial market in Central Scotland winds ever tighter as high demand and occupancy rates face a huge ageing stock. The concern is that occupier and investor demand is not stimulating sufficient development or refurbishment, and land supply constraints may begin to emerge.

The retail sector continues to deliver a surprising volume of activity against a very challenging background of industry restructuring.

2018's active property investment sector spilled over into 2019, but otherwise the market has slowed as Brexit has made no progress. Market fundamentals remain strong though for prime stock and both investors and vendors may need to consider grasping the nettle (or thistle).

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Economy

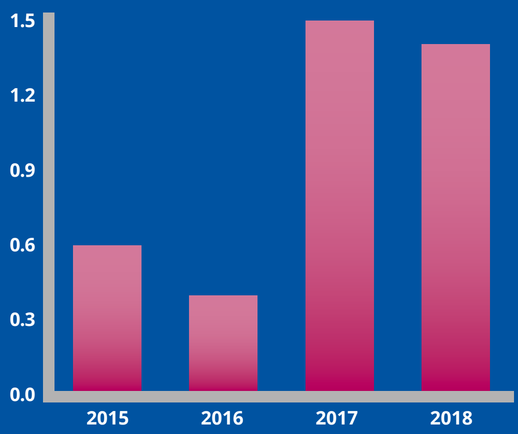
During the fourth quarter of 2018 Scotland's economy grew by 0.3%. This is a marginal improvement on growth of 0.2% in the third quarter of the year. The economy has now grown for eight consecutive quarters. Output grew by 0.5% in the services sector and by 0.8% in the construction sector, but contracted by -0.9% in the production sector. In 2018 as a whole the Scottish economy grew by 1.4% compared with 2017, equivalent to the growth rate reported for the UK.

The Royal Bank of Scotland's Purchasing Managers Index for March 2019 showed a marginal increase in Scottish private sector business activity with a rise to 49.6 in March from 49.4 in February. A score of 50 indicates an economy that is neither growing nor contracting and the index confirms that business conditions remain challenging.

Scottish unemployment for the three months December 2018 to February 2019 fell by 8,000 to stand at 93,000. This is equivalent to an unemployment rate of 3.3%, down by 0.3% on the previous three months and a new record low for the country. Unemployment in Scotland now sits well below the UK rate of 3.9%. Job gains shown in the table span a wide range of goods and services. Job losses also span a number of sectors, although with a concentration in manufacturing, most notably at Michelin in Dundee.

The Insolvency Service records an estimated 245 company insolvencies in Scotland in the fourth quarter of 2018, reflecting an increase of 8.4% on the same period in 2017. During 2018 as a whole an estimated 980 company insolvencies were recorded, which is 14% higher than was recorded in 2017.

Scottish Economic Growth (year-on-year)



Source: Scottish Government

The Retail Sales Index for Scotland published by the Scottish Government reports that the value of retail sales grew by 1.0% during the fourth quarter of 2018 and the volume of retail sales grew by 0.6% over the same period. In Great Britain the value of sales decreased by -0.1% and the volume fell by -0.2% over the same quarter. The Scottish Retail Sales Monitor published by the Scottish Retail Consortium/KPMG reports total sales growth of 0.3% over the 12-months to March 2019; food sales fell by -0.2% while non-food sales grew by 0.7%.

The Department for Business, Energy and Industrial Strategy reports that indigenous production of crude oil was up by 18% in the fourth quarter of 2018 compared with the same period in 2017. This is the highest volume since the first quarter of 2011, and may be attributed to new fields coming online at the end of 2017 along with the closure of the Forties Pipeline System in December 2017 which suppressed production in the fourth quarter of 2017.

The comparison of independent forecasts for the UK economy published by HM Treasury in April 2019 anticipates economic growth of 1.3% across the UK for 2019 rising slightly to 1.5% for 2020. The Office for Budget Responsibility forecasts marginally lower economic growth of 1.2% for the UK for 2019 in its Economic and fiscal outlook published in March 2019.

For Scotland, Fraser of Allander Institutes central forecast published in April 2019 anticipates economic growth of 1.1% for 2019, followed by faster but modest growth of 1.4% in 2020 and 1.5% in 2021. Other forecasts for Scotland's economic growth in 2019 range from 1.0% to 1.2%, although these have not been updated since December 2018.

Job gains:

Company	Sector	Location	Jobs
TravelNest	Travel and tourism	Edinburgh	80
Travelodge	Travel and tourism	Scotland	400
Incremental Group	Digital technology	Glasgow	110
Hinduja Global Solutions (HGS)	Contact centre	Selkirk	150
Sentinel Marine	Oil and Gas support services	Aberdeen	80
Aldi	Retail	Scotland	200
Openreach (British Telecommunications plc)	Trainee engineers	Scotland	220
Bhagat Holdings Limited	Food production	Annan	120
Tim Hortons	Café	Scotland	100
Barratt Developments plc	Construction	Scotland	150
Startline Motor Finance Ltd	Finance	Glasgow	50
KPMG LLP	Professional services	Glasgow	Up to 400

Job losses:

Company	Sector	Location	Jobs
McGill	Building services	Dundee	374
Michelin	Manufacturing	Dundee	850
Kaiam UK	Manufacturing	Livingston	310
Mainetti UK	Manufacturing	Jedburgh	50
Adelie Foods Group Ltd	Food production	Kilmarnock	180
Edinburgh Salmon Company (ESCo)	Food production	Dingwall	160
Skretting UK	Feed plant	Invergordon	50
Healthcare Environmental Services (HES)	Clinical waste	Shotts and Dundee	150
M & Co	Retail	Renfrewshire	59
Elis / Berendsen UK	Laundry services	Kirkcaldy	90
Duncan Adams Ltd	Road haulage	Grangemouth	130
Richard Irvin and Sons Ltd	Energy solutions	Aberdeen	109
Vodafone	Communications	Glasgow	300

Planning

Legislation update

The Planning Bill (Scotland) that has been promoted by the Scottish Government as a 'root and branch' review continues to make its way through the parliamentary process. In March, a revised Financial Memorandum of the Bill was published which sets out the cost implications following the amendments made at Stage 2.

The amendments included proposals for expanding the National Planning Framework (NPF) to become part of the formal Development Plan; changing the way Strategic Development Plans (SDPs) and Local Development Plans (LDPs) are prepared; new consultation requirements for the NPF; and LDPs moving to a 10-year cycle.

Other more detailed amendments include preparation of open space strategies; assessing housing needs of older and disabled people; a requirement for Local Place Plans; Masterplan Consent Areas (MCAs); Culturally Significant Zones (CSZs); changes to development management procedures; and infrastructure funding.

When the Bill was first introduced, the Scottish Government's objective was to streamline and improve the planning system. It was clear throughout Stage 2 that the new duties being added to the bill (as a result of amendments) would have a significant financial impact.

The government's own Financial Memorandum estimates that the burdens on planning authorities are expected to increase by £19 million to £74 million and for developers by £395 million to £1.18 billion. This directly conflicts with predicted savings of £22 million to £33 million that were originally envisaged.

The costs are just one issue - the complexity of the Bill is another significant concern.

A number of amendments impose burdens that are out of proportion with the issues they seek to resolve. There are now many overlapping and prescriptive amendments which come at a significant cost to local authorities and the development sector, and will impact on Scotland's development economy.

The Bill was originally envisaged as providing a more streamlined system, to positively support the delivery of planned development and offer more effective engagement with local communities and increased participation generally.

The amendments made during Stage 2 place 91 additional burdens upon local planning authorities at a time when they face continued cuts to their planning budgets.

Stage 3 of the Bill is expected to come forward this summer, when the Scottish Government will consider how to remove unnecessary burdens.

Clearly, the Bill will not deliver what is needed in its current format and has moved away from what was initially intended.

The delay and uncertainty in the development planning process inevitably has real implications on the delivery of development. Early engagement with the planning process and strategic vision is at least as important than ever.

Development plans update

There is significant activity across Scotland regarding emerging Strategic and Local Development Plans. Spatially there does appear to be a consistent return to regeneration of brownfield land and to extending and developing existing communities with more modest housing allocations.

Creating 'place' and mixed use communities, recognising changing dynamics of how we live, work and play, is also a consistent policy objective at all levels and in all places.

In the **Edinburgh City Region,** the development industry and particularly the housebuilders await the outcome of SESplan 2. This currently remains with Scottish Ministers for approval following the reporter's examination.

The single most contentious issue continues to be housing land supply. The Reporter recommended that the shortfall in housing delivery experienced between 2012-2018 cannot be ignored and should be carried forward through the new plan. However, in concluding, the Reporter disputed whether delivering that shortfall would require significant new land allocations in subsequent LDPs. In essence, existing undeveloped allocations are likely to be sufficient. Allocations do though need to be effective to be delivered and there is no doubt that effectiveness of supply will dominate in local plan reviews and at appeals.

Planning authorities and developers continue to dispute the weight which can be applied to the currently unapproved SESplan 2 figures. This relates primarily to situations where there is currently a shortfall in effective housing land supply which would be significantly diminished if the unchanged SESplan 2 figures were applied. Recent appeal decisions confirm that little weight can be applied to SESplan 2 in its current form.

A number of Local Development Plan reviews will commence once SESplan 2 is approved including Edinburgh (City Plan 2030), East Lothian and Midlothian.

In terms of new housing allocations, the focus of growth is centred on Edinburgh. The City of Edinburgh Council's proposed housing strategy moves away from strategic greenfield release to a focus on brownfield and urban area sites with housing promoted as part of genuine mixed-use and regeneration proposals.

Elsewhere, local authorities do not anticipate significant new housing allocations, with appropriately scaled extensions to existing settlements being the main focus.

The Proposed **Aberdeen City and Shire SDP** was submitted to the Scottish Ministers for examination on 20 March, with a target approval of December 2019.

The Spatial Strategy remains unchanged and directs development to the four Strategic Growth Areas (SGAs) of Aberdeen City, the Aberdeen to Peterhead 'Energetica Corridor' and the road and rail corridors between Aberdeen to Huntly and Aberdeen to Laurencekirk.

There may be a case for a new growth corridor to include Westhill, given its sustained economic performance and the potential for future growth being enhanced due to the recent opening of the long awaited Aberdeen Western Peripheral Route.

Sustainability and regeneration remain as priorities, with a target for at least 40% of all new housing in Aberdeen City to be on brownfield land. The density of housing developments on larger sites within the SGAs remains unchanged at 30 dwellings per hectare, however that target is increased to no less than 50 dwellings per hectare in the Aberdeen City SGA. This may be difficult to realise without significant flatted development which might not achieve other priorities of delivering mixed communities and site specific flexibility.

The housebuilders have highlighted concerns over the lack of ambition within the SDP. Larger land requirements are identified in later plan periods rather than the period 2016 – 2032, which might not support the aspirations for growth as the region now emerges from a difficult economic period over the last decade.

Consultation on Aberdeenshire Council's 2021 Local Development Plan Main Issues Report (MIR) has recently concluded. Aberdeen City Council's 2022 Local Development Plan Main Issues Report (MIR) consultation process is ongoing, new allocations are limited to 640 houses, with the priority given to brownfield land further fuelling housebuilders' frustrations.

Proposed greenfield housing allocations are typically small-scale, with limited impacts on the environment and infrastructure and unconnected to existing allocations identified in the 2017 plan and the Council has not considered it necessary to identify any further employment land.

The current **Glasgow and Clyde Valley City Region** Strategic Development Plan (Clydeplan) was approved in July 2017, and sets the long-term strategy for development to 2036.

The Strategic Development Planning Authority is not working to prepare a new plan. Instead, over the course of 2019, Clydeplan will focus principally on partnership working and engagement with key stakeholders to clarify and develop the future role and responsibilities of strategic planning for the region. In short, the preparation of a new Clydeplan is in a holding pattern as the Planning Bill moves through the Parliamentary process.

Similarly, local authorities within the city region have been noticeably cautious in preparing their new LDPs over the last year. None have quite come to a standstill, but there have been significant pauses for breath.

This uncertainty about the future planning system is also apparent in the recently published annual Development Plan Schemes. Many have qualifying language, caveating that the timescales of the overall process and the scope of each key stage may change while they are preparing their new LDPs.

Offices

Glasgow's strong occupational demand has continued over the last six months, albeit take-up has inevitably receded from the high of last year when regular market activity was bolstered by various substantial pre-lets.

A lull since the turn of the year is likely to be temporary as there are a number of sizeable requirements above 1,394 sq.m. currently considering the limited availability of high quality, larger floorplate office space.

Availability of buildings capable of providing more than 1,858 sq.m. with floors larger than 929 sq.m. now stands at just four buildings; Granite House, Stockwell Street plus three refurbishments, 50 Bothwell Street and 6 Atlantic Quay have yet to commence, while 55 Douglas Street is underway with completion due in the first quarter of 2020.

Supply has been eroded by lettings at 123 St Vincent Street to HMRC (5,626 sq.m.) and further space to KPMG (2,840 sq.m.); Chivas Brothers taking the whole of 2-4 Blythswood Square (2,560 sq.m.); The Scottish Government at 4 Atlantic Quay (1,643 sq.m.) and Macmillan Cancer Support at Atrium Court, Waterloo Street (1,635 sq.m.); allied to space currently under offer at St Vincent Place (2,497 sq.m.), 191 West George Street (3,904 sq.m.), 141 Bothwell Street (1,879 sq.m.) and 2 West Regent Street (1,463 sq.m.).

The only refurbished self-contained building currently available is 241 West George Street at 2,052 sq.m.

This dearth of Grade A supply has encouraged developers to bring forward speculative development. BAM Property/ Taylor Clark are well underway with 2 Atlantic Square (8,965 sq.m.) and HFD Group has commenced 177 Bothwell Street where c.18,115 sq.m. is available following the pre-let of 10,308 sq.m. to Clydesdale Bank. Fore Partnership will shortly commence Cadworks, Cadogan Street (8,826 sq.m.), and demolition is presently underway to prepare for M & G Real Estate's proposed new development The Grid, Cadogan Street (25,548 sq.m.).

With the lack of existing Grade A space and limited refurbishment in the short term, there is the strong possibility of further pre-letting activity both prior to and during construction of these projects.

Business centre activity continues to flourish by providing walk-in alternatives for occupiers seeking early access and lease length flexibility. WeWork and other operators continue to look for space in the city.

Take-up for Glasgow over the last six months totalled 42,032 sq.m., contributing to a 12 month figure of 76,717 sq.m. Of this, city centre take-up over the last six months totalled 36,164 sq.m., producing a 12 month city centre total of 63,253 sq.m. This is similar to the underlying trend for same period last year, if pre-construction deals to HMRC, Clydesdale Bank and Barclays are excluded.

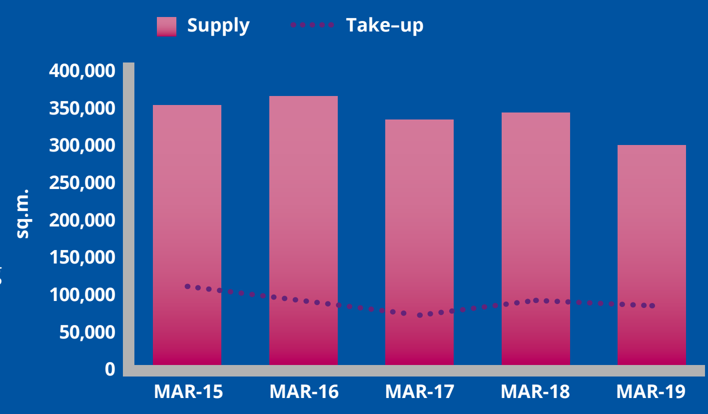
City centre availability is currently 170,514 sq.m., down some 5% over the last six months and by some 20% over the last 12 months. Across the whole city total supply is 295,366 sq.m.

Glasgow's periphery continues to deliver office activity, primarily across a range of smaller sizes. Skypark has attracted several lettings totalling 1,583 sq.m., including Startline Motor Finance Ltd (695 sq.m.), Blyth & Blyth Consulting Engineers Ltd (322 sq.m.) and Lloyds Register (399 sq.m.). The Hub, Pacific Quay, The Whisky Bond and Templeton Studios have all secured a variety of lettings. Brand Energy and Infrastructure Services have taken 304 sq.m. at Academy Park.

Following on from the pre-letting to Speirs Gumley of 668 sq.m., Clyde Gateway's Red Tree Magenta is enjoying a great run since completion in December 2018. The development is already c. 95% let having secured BRE Scotland (672 sq.m.) and Robertson Group (124 sq.m.) along with a further 17 smaller lettings of these high quality business suites.

Out-of-town activity has been relatively subdued. Deals include: Cefetra Ltd at Glasgow Airport Business Park (1,025 sq.m.); IQA Operations Group Ltd at Centura Court, Hillington (857 sq.m.); lettings to Lovell Partnerships Ltd at Braidhurst House (361 sq.m.) and G4S Care & Justice

Glasgow office supply and take-up



Services at Duart House (260 sq.m.) Strathclyde Business Park; and Abbey Accounting within Pavilion 1 at St James Business Park, Paisley (247 sq.m.) along with other activity within St James Business Centre.

Glasgow's prime headline office rent has increased to £350 per sq.m. With the lack of Grade A supply there is scope for this to increase further. Top quality refurbishments are also set for an uplift from the current £231-£280 per sq.m., particularly for those offering larger floorplates. Incentive packages remain very competitive, though most noticeably at the smaller end of the market where occupiers still have a good selection of options.

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

Address	Size	Occupier
123 St Vincent Street	5,626 sq.m.	HMRC
	2,840 sq.m.	KPMG
Princes House, 50 West Campbell Street	5,339 sq.m.	Barclays
2-4 Blythswood Square	2,560 sq.m.	Chivas Brothers
4 Atlantic Quay	1,643 sq.m.	The Scottish Government
Atrium Court, 50 Waterloo Street	1,635 sq.m.	Macmillan Cancer Support
Empire House, 131 West Nile Street	1,137 sq.m.	CXP Ltd (Customer Experience People)
Glasgow Airport Business Park	1,025 sq.m.	Cefetra Ltd
Breckenridge House, 274 Sauchiehall Street	1,018 sq.m.	Glasgow School of Art
191 West George Street	969 sq.m.	Hewlett Packard
Tay House, 300 Bath Street	910 sq.m.	University of Glasgow
2 Centura Court, Hillington Park	857 sq.m.	IQA Operations Group Ltd

Edinburgh's office market delivered 41,952 sq.m. of take-up across 102 deals during the six months to March 2019, resulting in 87,007 sq.m. of total take-up for 12 months. This represents a 39% increase in activity (floorspace taken-up) compared with the same six month period in 2018.

A total of 27,291 sq.m. was transacted in Edinburgh city centre over six months, representing just over 65% of total take-up across the city. Grade A and high quality accommodation accounted for 14,334 sq.m. or 53% of city centre office take-up.

Aberdeen Standard Investments acquisition of 10 George Street (6,410 sq.m.) is included within the above figures. The transaction was signed in 2017; it fell outwith our statistics period but now is within six months of completion. Other notable deals included Amazon at 1 Exchange Crescent (2,997 sq.m.); Burness Paull LLP who secured expansion space within Exchange Plaza; and Epic Games at Quartermile 2 (940 sq.m.).

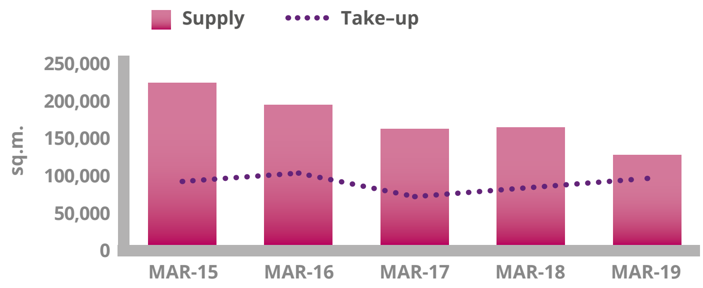
Edinburgh's prime rent for Grade A city centre accommodation remains around £365 per sq.m., although this could reach a new high in the next 6-12 months due to limited supply. Incentives remain around 15 months for a 10-year lease commitment to the highest quality covenant.

Edinburgh's peripheral office markets delivered activity of 14,661 sq.m. across 34 deals over the last six month period, a 57% increase in activity (floorspace taken-up) compared with same six month period in 2018. The largest peripheral transaction was the Church of Scientology acquisition at Westfield House, 26 Westfield Road (4,516 sq.m.).

West Edinburgh saw a total of 9,902 sq.m. transacted across 13 deals. This included Pulsant who secured expansion space at the Vega Building, Flassches Yard (1,323 sq.m.) and Scotmid's Rosewell House development at Connect Business Park achieving full occupancy again with a total of 244 sq.m. let to Envipco and King & Moffatt. Prime rents in West Edinburgh have moved on to £215 per sq.m. for refurbished options in the South Gyle area, rising to above £248 per sq.m. for refurbished Grade A space on Edinburgh Park.

In North Edinburgh (Leith) a total of 1,854 sq.m. transacted across 8 deals including: Upward Mobility at Links House (625 sq.m.); Allegis Group (226 sq.m.) and

Edinburgh office supply and take-up



The Salvesen Mindroom Centre (192 sq.m.) at Great Michael House; Wave Utilities (242 sq.m.) at Ocean Point; and Tanami at Commercial Quay (207 sq.m.). Prime quoting rents in North Edinburgh have increased to £193 per sq.m. as supply continues to reduce and refurbished space is released.

Total office supply across Edinburgh at March 2019 is 129,069 sq.m. This is a 10% increase from the previous six month's figure, largely due to significant space being released at 10 George Street (6,410 sq.m.) and Silvan House, Corstorphine Road (3,314 sq.m.). 10 George Street, which as noted above was recently pre-let to Aberdeen Standard Investments is to be re-marketed as the space is no longer required following occupational re-organisation. This building is scheduled for completion July 2019 and is understood to have received significant interest.

The only new build space completed within the last six months was GSS Developments at 2 Semple Street (3,497 sq.m.) which has significant interest in part of the buildings following abortive negotiations with serviced office provider WeWork.

BAM Properties/Hermes Investment Management's development at Capital Square, 62 Morrison Street remains on course to complete May 2020 and is 56% pre-let with 5,016 sq.m. available.

With limited new development options currently on-site, refurbishment of existing stock continues to be pursued to deliver space. For example 80 George Street (3,770 sq.m.) was recently refurbished and has just announced a letting to WeWork for its first office in Scotland (although the transaction is not included in take-up data because it occurred after the cut-off date). Orchard Brae House, APEX 123, Commercial Quay (Leith) and The Stones (South Gyle) have also completed refurbishments and offer good quality office accommodation in a choice of locations across the city.

Following the acquisition of The Haymarket development site by M & G Real Estate from Interserve during 2018, an urban design framework has been approved and plans for the first phase of offices which will deliver space by 2021 are to be announced.

Also in the city centre west, Vastint obtained planning permission for New Fountainbridge and is expected to commence works Summer 2019 at the former Fountain Brewery site to deliver 5,532 sq.m. of offices alongside a 262-bedroom Moxy hotel in August 2020.

EP3 Devco Ltd is awaiting planning consent for the final piece of the Exchange Place development at Port Hamilton, Exchange Place 4 (1,750 sq.m.) which could potentially deliver office space by 2021.

In West Edinburgh, Parabola has now received planning consent for the next phase of Edinburgh Park and is set to deliver the first phase, a new mixed-use urban quarter with 7,897 sq.m. of offices, multi-storey car park and Civic Square starting Summer 2019.

Finally, City of Edinburgh City Council is progressing its plans for the Fountainbridge development comprising 10,300 sq.m. of offices along with retail, 434 homes and public realm, completing the masterplan for the Fountainbridge area.

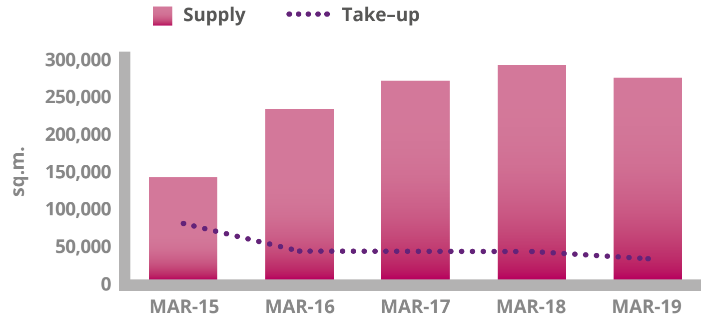
Larger office deals in Edinburgh over the last six months include:

Address	Size	Occupier
Westfield House, 26 Westfield Road	4,516 sq.m.	Church of Scientology
1 Exchange Crescent	2,997 sq.m.	Amazon
Exchange Plaza, Lothian Road	1,550 sq.m. (additional)	Burness Paull LLP
Vega Building, Flassches Yard	1,323 sq.m.	Pulsant
Quartermile 2	940 sq.m.	Epic Games
Links House, Links Place	625 sq.m.	Upward Mobility

The energy sector appears to have stabilised within **Aberdeen** and confidence within the industry has undoubtedly improved. The price of Brent Crude oil is currently sitting at $72 per barrel and everything is pointing towards an improving local economy which is starting to see recruitment on the rise again and more contracts being awarded.

This background would suggest an improvement in the city's office market, but unfortunately it appears to be lagging behind the economy. That said, the recent statistics do not fairly reflect current activity in the market in the form of an increased number of requirements and a number of deals that are expected to complete soon.

Aberdeen office supply and take-up



Take-up in Aberdeen over the last six months was 10,870 sq.m. which is down 40% from the previous six months. This was over 34 transactions, only one of which was over 929 sq.m. A total of 62% of the transactions were located in the centre and west end, with the remainder located peripherally.

Deals within the new Grade A stock in the city centre were concluded to Spaces and Tenaris, who took 2,451 sq.m. and 785 sq.m. respectively at Marischal Square.

Elsewhere in the city centre John Crane Group took 845 sq.m. at The Exchange on Market Street.

Work is well under way for a full refurbishment of the former Grampian House (4,290 sq.m.) on Union Row to be re-branded as Meridian. The refurbishment is due for completion by early Summer 2019.

Of all the peripheral locations, Westhill appears to be performing best with a relatively steady churn of smaller suites. Boskalis Subsea took a lease of the last whole unit at Kingshill Business Park at Pavilion 5 (794 sq.m.).

Supply is standing at 263,840 sq.m. which is a decrease of 7%. This is split approximately one-third new build / Grade A space, one-third modern and the final third old / redundant space. In line with take-up statistics this still represents a huge oversupply and there is increasing pressure on some of the poorer stock to consider alternative uses, or in some cases even demolition to avoid the hefty costs of holding vacant stock.

The Aberdeen office market is still realigning itself, but as further requirements start to come through in conjunction with decreasing supply, the market will gradually move towards a healthier balance.

Prime city office rents 2019 (£ per sq.m.)

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

Address	Size	Occupier
1MSq, Marischal Square	2,451 sq.m.	Spaces
The Exchange, Market Street	845 sq.m.	John Crane Group
Kingshill Business Park, Westhill	794 sq.m.	Boskalis Subsea
2MSq, Marischal Square	785 sq.m.	Tenaris

Industrial

The **West of Scotland** industrial market is heading towards the lowest level of availability since detailed records began. Greater Glasgow's total industrial stock now stands at 8.98 million sq.m. with a vacancy rate of 4.6% and a total availability rate of 7.3% (CoStar). The situation will become acute on completion of the considerable volume of deals currently in legal hands, as a good proportion of the remaining supply requires investment to accommodate future occupation. It is almost inevitable that company growth is being restricted by a lack of suitable property despite the ongoing political uncertainty taking the edge off potential business activity.

Greater certainty on the UK's future in Europe would likely lead to increased demand, however, one headwind is often replaced by another and uncertainty is the new norm. Nevertheless, it is concerning that Scotland's largest conurbation has little scope to cope with a sudden uptick in demand with low supply, a limited development pipeline and looming obsolescence. Over 40% of stock is in excess of 40 years old and some level of development is required to at least stand still. The push to create better configured, more energy efficient buildings and eliminate hazardous building materials will continue to grow through changes in legislation and customer demand.

Unsurprisingly, these market dynamics are causing rents to rise in most locations. The average market rent is now £56 per sq.m. and this is the aggregated figure across a large geographical area and variety of stock. For certain locations and sizes, rents are now showing significant growth in excess of the market average of 5% for 2018. However, such clear evidence of growth has failed to generate a significant development response. There are ongoing viability issues in Scotland with an interaction of rising build costs, yield differential in comparison with the rest of the UK and concerns over long term rental growth. There are plenty of parties wanting to buy industrial investments, but relatively few willing to create them.

A notable number of pre-let negotiations are making progress towards site starts at record rental levels. The majority of these deals are pre-lets due to the specific requirements of the occupier, but a proportion are simply pre-lets due to the lack of standard product in certain size bands.

Asset managers are busy on most estates improving the tenant line up and terms by weeding out unsuitable uses and difficult occupiers. The improved income margin is also leading to the refurbishment and improvement of space, which is good for the overall standard of stock.

Alongside obsolescence, the other major concern is the depletion of 'oven ready' development land in the areas of strongest demand i.e. in-and-around Glasgow on the M8 and M74 corridors. A number of strategic industrial locations are approaching their final phases of development. This is positive news for job creation but there is a lengthy lead-in to create the next phase of development land and therefore potential shortages. There are now very few development sites within the Cambuslang area, while Glasgow Business Park is attracting strong interest for the balance of land and there are various discussions progressing at Eurocentral, Hillington Park and Westway. Nova Technology Park at Robroyston is likely to be the next focus of development interest given its proximity to Glasgow city centre and four-way access to the M80; Scottish Enterprise's search for a development partner is timely. Further land is available at Gartcosh to the north on the M80 but it may be allocated for other purposes, which leaves Ravenscraig as the largest strategic site for a range of occupiers but most importantly a location with the capacity to accommodate the largest plots of c. 40 hectares. Ravenscraig's position would be enhanced greatly by the proposed City Deal project to improve the connection from the M74 through the site and onwards to the M8 and eventually Cumbernauld.

Most other development land opportunities require significant investment in terms of remediation, platforming and infrastructure and are unlikely to come forward in the absence of public sector assistance. The private sector would need serviced land values to rise dramatically as current industrial values are largely artificial due to historic public sector support. Prime values currently sit at £543,500 per hectare headline while £247,000 per hectare is recorded for most secondary towns outside Glasgow. The actual cost will vary depending on site specific factors and levels of remediation, however a true price is likely £741,000 per hectare plus.

The Building a Better Scotland fund will assist the private sector with some projects, but it is likely that the visionary role of creating new strategic locations will rest with the public sector in terms of the site preparation work in advance of demand and to open opportunities for the private sector to provide the buildings. A partnership between the public and private sectors is crucial.

There is positive news with some development projects on site or making good progress towards a site start. Aberdeen Standard Investments is progressing ground works on three new buildings at Clyde Gateway East in Glasgow. The largest unit is 4,500 sq.m. with sub-division capability, along with one of 1,533 sq.m. and another of 1,279 sq.m. The smallest unit has an asking rent of £94 per sq.m. and the largest £81 per sq.m. with cost options for additional yardage. Two of the units already have strong letting interest .

Muir Group intend to commence works imminently on a new 3,623 sq.m. small unit scheme at Glasgow Business Park providing base units of 279 sq.m. and 464 sq.m. with rents in the order of £86 per sq.m. There is also good interest in the balance of the development land for possible bespoke solutions.

At Hillington Park, Frasers Property UK plan to bring forward 9,290 sq.m. in units of up to 929 sq.m. at rents in the order of £107 per sq.m.

There is a considerable number of deals in legal hands but relatively few have completed in recent weeks. Some examples of market activity are : OSL Rail Limited leased building 202 of the Evolution series (1,647 sq.m.) on frontage land at Hillington Park at £81 per sq.m. and a second party is in advanced discussions for building 204.

At Oakbank Industrial Estate, Glasgow, Ribston leased a refurbished 1,093 sq.m. unit to The Vegan Kind at £75 per sq.m. At Eurocentral, Mentholatum renewed the lease on the 5,995 sq.m. Pegasus building at £65 per sq.m. Number 100 High Craighall Road, Glasgow (2,210 sq.m.) was let to C7 Church at £95 per sq.m.; and D McGee and Sons Ltd leased a new build unit at Belgrave Point, Bellshill (2,024 sq.m.) on a 10-year lease at £81 per sq.m.

The industrial market remains in rude health and it is expected a number of very positive pre-lets will conclude over the next few months which should encourage more development activity. A greater volume of new space is needed desperately and there is growing evidence the market will pay the necessarily higher rents required for viability. It is also likely growth mechanisms will become more common as a means of encouraging forward funding support on speculative development.

It is not such a positive time for occupiers given the difficulties in securing suitable premises and rising costs. This will become more acute as large sections of the existing stock approach economic and functional obsolescence. Some of this will be refurbished and given a new lease of life and some will be demolished to make way for other uses, but where and when will new space be created once the dwindling supply of development sites finally runs out?

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

Address	Size	Occupier
100 High Craighall Road, Glasgow	2,210 sq.m.	C7 Church
Belgrave Point, Bellshill	2,024 sq.m.	D McGee and Sons Ltd
Units 4 & 5 Bleasdale Court, Clydebank Business Park	1,844 sq.m.	MGM Timber
Building 202, Hillington Park	1,647 sq.m.	OSL Rail Limited
Oakbank Industrial Estate, Glasgow	1,093 sq.m.	The Vegan Kind

The industrial property market in **East Central Scotland** remains resilient despite the backdrop of political and economic uncertainty. A two-tier market has however emerged. Enquiries and take-up levels for accommodation above 2,787 sq.m. are being scrutinised more than ever in relation to the over-riding economic factors. There have in fact been only two transactions above 2,787 sq.m. in East Central Scotland over the last six months, which is certainly unusual given the supply position in relation to the number of reported live occupier requirements.

Due to increasing obsolescence of industrial property, landlords are prepared to undertake speculative refurbishment for well-located accommodation. This offers not only the ability to attract industrial tenants, but also alternative uses such as quasi-retail, trade counter and to a certain extent leisure-related uses. There is demand for speculative development opportunities in strategic locations where a shortage of well-located small to medium sized accommodation can be demonstrated.

Vacancy rates are at an all-time low at 3.9%. Rents continue to rise steadily and speculative development is at its highest level since 2012. This is certainly good news for the market and also for occupiers seeking better quality accommodation.

In many other city locations throughout the UK, the take-up of accommodation for last mile delivery is increasing. East Central Scotland has seen little evidence of this other than logistics companies taking strategic satellite accommodation on the outskirts of the cities with close proximity to the main arterial links. While it is expected that online retailing will continue to grow, Edinburgh is well served by the motorway network serving Central Scotland and last mile occupiers seem to have taken the view that there is no need to have inner city accommodation.

Edinburgh continues to prove an attractive and sought after destination for traditional industrial companies, trade counter users and to a certain extent retail/ showroom users. Many estates are now reporting 100% occupancy levels including RLAM's Seafield Industrial Estate; Buccleuch Property's West Telferton Industrial Estate; Vardy Property Group's Bankhead Crossway North, Sighthill; Kinnaird Properties Corunna Place, Leith; and Scotmid's Lochend Industrial Estate, Newbridge.

Rents for established estates which serve the city range between £86 - £102 per sq.m. Roadside development or estates on the periphery of retail centres can achieve rents up to £129 per sq.m.

While landlords and developers are willing to consider speculative development, this is very much on the basis that the completed accommodation is capable of sub-division with unit sizes normally varying between 200 sq.m. to 3,000 sq.m., ie. the small to medium bracket noted above.

Vardy Property Group recently completed a 1,625 sq.m. speculative development on Bankhead Crossway North, in West Edinburgh. The development is 100% occupied and occupiers include Thornbridge Sawmills (1,207 sq.m.), Young Malt (241 sq.m.), and Ashley Ann Ltd kitchens, bedrooms and bathrooms (167 sq.m.); at rental levels averaging £102 per sq.m.

By far the largest speculative development in Edinburgh is Seven Hills Business Park, Bankhead Crossway South, Sighthill, in West Edinburgh which is now mid-way through construction. The developers Peveril Securities and Citivale have pre-sold the estate to Triton Property Fund LP (managed by UBS). The development is due for completion in Autumn 2019 and will comprise 11 units totalling 7,060 sq.m. Unit sizes will range from 312 - 2,803 sq.m. with quoting rents of £91.50 per sq.m.

Also within Sighthill Industrial Estate, Glenalmond Investments has completed a terrace of five units from 185 - 1,108 sq.m. One unit has been let pre-completion to Eldin Tile and Stone Ltd at a rent of over £110 per sq.m.

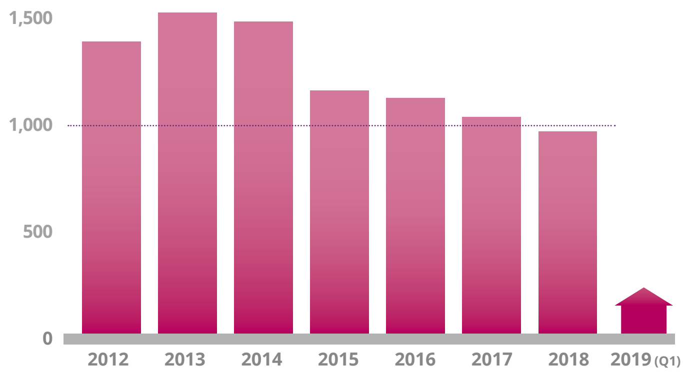
Transactions have continued on Edinburgh's best located estates including: Dignity Funerals at Unit 1 East Telferton Industrial Estate (801 sq.m.); R Drummond Carriers Ltd at Unit F Queen Anne Drive, Newbridge (2,554 sq.m.) and QA Vehicle Solutions Ltd at Unit 1 Gogarbank, Gogar Station Road, Newbridge (1,718 sq.m.).

In North Midlothian, close to Edinburgh, Loanhead and in particular Edgefield, Pentland and Bilston Glen Industrial Estates continue to prosper with low vacancy rates and demand that surpasses supply for units below 250 sq.m. Rents for units ranging in size from 100 - 250 sq.m. exceed £97 per sq.m. and from 251 - 464 sq.m. comfortably reach £70 per sq.m. Recent transactions at Bilston Glen Industrial Estate include : Units 3/4 Dryden Place (688 sq.m.) let to Macsween of Edinburgh at £78 per sq.m.; Unit 8 Dryden Vale (238 sq.m.) let to Summerhall Distillery at £86 per sq.m.; and Unit 5 Dryden Place (239 sq.m.) let to Eagle Plant Hire at £97 per sq.m.

Southwark Project Management Ltd has now commenced the substantial redevelopment of c. 5,575 sq.m. of industrial accommodation at Pentland Industrial Estate which will be available in units from 464 sq.m. Completion is due in the third quarter of 2019 with quoting rents from £91per sq.m.

West Lothian has an industrial stock of 2.17 million sq.m. and a current vacancy rate of 5.8%, which is a fall of over 5% in the last six months (CoStar). The increased take-up

Number of industrial transactions in Scotland



is a spillover from Edinburgh's increasing rents, limited supply and generally constrained market. The refurbishment of existing accommodation within Brucefield Industry Park and Deans Industrial Estate provides more attractive and flexible units for incoming tenants. While rents have historically been static, there are now signs of steady increases for traditional accommodation ranging from £48 - £65 per sq.m. It is encouraging to see that Chancerygate has now started the speculative development of eight terraced units within New Houstoun Industrial Estate totalling 3,644 sq.m. with units from 326 sq.m., completion is due in October this year with quoting rents of £86 per sq.m.

Of particular note in West Lothian the recent sale of the former Jabil Circuits Ltd factory premises on Oakbank Park to defence specialists Raytheon. This property is totals 12,301 sq.m. and achieved a price in the region of £6 million.

The M9 corridor including Linlithgow, Falkirk, Grangemouth and Stirling continues to see a steady level of demand and gradual take-up. Transport links are excellent to the main Scottish cities with each town also having its own industrial and commercial bases. Within the modern and better located estates, rents vary between £65 - £75 per sq.m.

Within Falkirk's principal industrial location, Middlefield Industrial Estate, IPIF and LCP have speculatively undertaken an extensive refurbishment to offer units from 250 sq.m. Within the same estate, Balgonie Estates Ltd recently concluded lettings at Unit 1 Almond Court (466 sq.m.) to Arco at £65 per sq.m. and Unit 3 Almond Court (928 sq.m.) to RDW Book & Paper Conservation Ltd at £49 per sq.m.

Mill Road Industrial Estate in Linlithgow has seen a significant increase in letting activity and development. SRA Ventures recently acquired stand-alone industrial/ distribution premises with offices (3,530 sq.m.), and plan to extensively refurbish and provide units from 250 sq.m. with expected quoting rents from £80 per sq.m. Development work has commenced with expected completion in the third quarter of 2019. Also within the estate, Maxam Developments has committed to develop two stand-alone trade counter units capable of further sub-division measuring in total 1,021 sq.m. anchored by a pre-letting to Screwfix (455 sq.m.) at a rent of £81 per sq.m. In addition, Arco recently let Unit 38 Mill Road Industrial Estate a (617 sq.m. stand-alone modern business unit) at £81 per sq.m.

In Fife, Dunnottar Estates has let Cowie House, Pitreavie Business Park in Dunfermline (1,483 sq.m.) to Classique 4 Brides Ltd at £49 per sq.m. At Belleknowes Industrial Estate in Inverkeithing, Hermes Property Unit Trust secured their first letting of the year of Unit 16 (541 sq.m.) to AIC Heating (UK) Ltd at £65 per sq.m. Two other units on the estate are reportedly currently under offer.

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

Address	Size	Occupier
Oakbank Park, Livingston	12,301 sq.m.	Raytheon
Unit F Queen Anne Drive, Newbridge	2,554 sq.m.	R Drummond Carriers Ltd
Unit 1 Gogarbank, Gogar Station Road, Newbridge	1,718 sq.m.	QA Vehicle Solutions Ltd
Cowie House, Pitreavie Business Park, Dunfermline	1,483 sq.m.	Classique 4 Brides Ltd
Bankhead Crossway North, Sighthill, Edinburgh	1,207 sq.m.	Thornbridge Sawmills
Units 3/4 Dryden Place, Bilston Glen Industrial Estate, Loanhead	688 sq.m.	Macsween of Edinburgh Ltd

The industrial market in **Aberdeen** has yet again had a difficult six months. The oil price fell sharply from the $85 per barrel high of October 2018 to $50 per barrel (in December 2018) and this created further uncertainty in an already challenging market place. Sentiment in the market place has though improved in the early part of 2019, due predominantly to the oil price recovery to $72 per barrel.

Industrial take-up in Aberdeen over the last six months totals 34,703 sq.m. which represents a 7% increase on the previous six months. An additional 10,870 sq.m. is currently under offer. The number of deals concluded, however, has fallen from 51 to 42, a decrease of 18% over the last six months. This can be explained by a 124% increase in take-up of buildings in excess of 929 sq.m. Take-up of buildings between 186 - 464 sq.m. is down by 29% and down by 20% in the 465 - 929 sq.m. size range. Take-up of buildings up to 185 sq.m. has increased by 31% to 7,592 sq.m.

Recent transactions include the lettings of Units 2-4, Hub at Hareness, Hareness Road, Altens (1,950 sq.m.) to Control Valve Solutions Ltd; the former SIG Building, Silverburn Place, Bridge of Don (1,778 sq.m.) to Pitreavie Packaging; and Unit 8, Miller Street, Aberdeen (2,492 sq.m.) to MKM Building Supplies; along with the sale of Unit 1, Woodside Road, Bridge of Don (1,261 sq.m.) to Allied International UK Ltd.

Industrial supply in Aberdeen has risen by 5% over the last six months to 241,712 sq.m. Supply is down in the smaller size ranges, but has increased by 26% in the 929 sq.m. plus size range. Some of the larger oil and gas operators continue to bring substantial industrial premises to the market as they seek to consolidate and reduce costs. Supply can be categorised as follows; new build 7,780 sq.m., old 93,187 sq.m. and modern 140,745 sq.m. Once again, new build supply stock levels have fallen significantly (24%) which demonstrates that there is still strong occupation demand for good quality/high specification industrial units.

The increase in take-up of buildings up to 185 sq.m. has given developers the confidence to press ahead with the development of new build multi-let schemes. Speculative developments comprise : Knight Property Group's recently completed Kingshill Commercial Park in Westhill, comprising five units of 232 sq.m.; Construction is due to commence at ABZ Developments Ltd's ABZ Business Park in Dyce, with 14 units from 232 sq.m.; at Altens Trade Park in Aberdeen, Knight Property Group is due to commence the construction of six units ranging from 70 – 372 sq.m.; construction has completed at Dandara's City South Business Park in Portlethen – of the 19 units (from 116 sq.m.), two have been sold and five are under offer; and seven units totalling 1,221 sq.m. are due to be constructed at Saltire Business Parks development at Badentoy Avenue in Portlethen.

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

Address	Size	Occupier
Unit 8, Miller Street, Aberdeen	2,492 sq.m.	MKM Building Supplies
Units 2-4, Hub at Hareness, Hareness Road, Altens	1,950 sq.m.	Control Valve Solutions Ltd
Former SIG Building, Silverburn Place, Bridge of Don	1,778 sq.m.	Pitreavie Packaging
Unit 1, Woodside Road, Bridge of Don	1,261 sq.m.	Allied International UK Ltd

Retail and Leisure

The Scottish Retail Consortium and KPMG Scottish Retail Sales Monitor reported in March 2019 that total retail sales grew by 0.3% compared with the same month in 2018. Total sales are below both the three and 12 month averages, but performed better than the fall of -0.5% recorded for the UK as a whole.

Food sales were down -0.2% in March 2019 (year-on-year). Non-food sales rose by 0.7% in March 2019 (year-on-year); when adjusted for online purchases 1.3% growth is recorded.

The Local Data Company reports that 18,355 stores closed across the UK during 2018; 13,676 shops opened during the year leading to a net loss of 4,679 stores (up more than 1,600 on 2017). If banks and restaurants are included the total number of consumer outlets that closed in 2018 was 50,828.

Recent store closures include Mothercare, Homebase, Marks & Spencer, New Look Brighthouse and Carpetright. Further closure announcements came from HMV, Office Outlet, LK Bennett, Oddbins, Thomas Cook and most recently Debenhams including one store closure in Scotland in Kirkcaldy. Restaurants continue to be affected with recent closure announcements from Patisserie Valerie, Gaucho, Chiquitos and Frankie and Benny's.

It is anticipated that Company Voluntary Arrangements (CVAs) allowing occupiers to exit leases or pay reduced rents will continue to appear over the course of 2019.

Against this challenging national background, prime destinations continue to attract regular demand from retail and leisure chains.

In **Glasgow** city centre Nando's has taken a second restaurant in St Enoch Shopping Centre with a 361 sq.m. unit in the new restaurant quarter adjacent to Vue cinema and alongside a further eight restaurants.

Redevco secured two new occupiers at Princes Square on Buchanan Street with accessories brand Kate Spade in a 167 sq.m. store, its first standalone store in Scotland; and gin brand Eden Mill's 380 sq.m. Blendworks experience with Jax bar-eatery. They join 3-screen boutique Everyman Cinema which opened in November 2018.

Perfume and candle brand Jo Malone is relocating from Princes Square to the former Whittard of Chelsea store at 95 Buchanan Street, as the specialist tea retailer relocated to Buchanan Galleries. Lettings have been announced on Ingram Street to fashion firm Fred Perry for 72 sq.m. and jacket designer Belstaff for 202 sq.m. both on 10-year leases. Optician Specsavers opened in the former Ann Summers store at 55 Sauchiehall Street; the store extends to 213 sq.m. and was let at an initial rental of £115,000 per annum.

At Intu Braehead, toy store The Entertainer opened a 520 sq.m. store on the upper mall and footwear retailer Footasylum increased their store size from 325 sq.m. to 929 sq.m. HMV's shop closed briefly but its new owners soon re-opened the store. The Little Dessert Shop opened in a 56 sq.m. unit adjacent to Intu's indoor ski slope.

Following on from recent lettings to TJ Hughes and Flying Tiger in **East Kilbride,** Taco Bell agreed to take a new restaurant within the town centre on the site of the former Burger King.

The proposed St James Quarter by TH Real Estate in **Edinburgh** is on track for completion in 2020. Four further pre-lets have been announced to clothing brands Zara (3,437 sq.m.), Bershka (864 sq.m.), Pull & Bear (743 sq.m.) and Stradivarius (557 sq.m.) joining existing anchor store John Lewis, Next, Everyman Cinema and W Hotel.

At the west end of the city centre, Diageo plans to open a Johnnie Walker visitor attraction at Parabola's former House of Fraser store on Princes Street. This marks the likely shift of occupier focus to the St James Quarter in the east end of the city.

The re-development of the former BHS store on Princes Street is underway, to create a £20 million mixed-use scheme including a 137-bedroom Premier Inn, 3,720 sq.m. flagship retail store, and two new restaurants on Rose Street with completion planned for Spring 2020.

Multrees Walk welcomes two new entrants, with cashmere and knitwear retailer Johnstons of Elgin and ladieswear by Max Mara, both due to open stores in the Spring.

To the south of the city at Straiton Retail Park a 2,370 sq.m. extension is planned by Peel Retail Parks. The new terrace will comprise up to 11 new units with Greggs, Starbucks, Card Factory and Archers Sleep Centre all confirming they will take space here.

Brewdog has opened a new bar restaurant within Hammerson's Union Square Shopping Centre in **Aberdeen**. The McGinty Group secured the former Jamie's Italian for a bar restaurant and pizzeria within premises which originally traded as department store Esselmont & Macintosh. There are proposals to redevelop the former BHS on Union Street and Aberdeen Market, into a landmark building with shops, restaurants, cafes and grade A office space by owner Patrizia.

Discount retailer Home Bargains opened a 1,286 sq.m. store at Berryden Retail Park, in the former JJB store which closed in 2012. Nearby at Centrepoint Retail Park clothing and homeware retailer Matalan opened a new store in March 2019.

Several new retailers have been attracted to **Livingston** Designer Outlet including clothing retailers Reiss (168 sq.m.), Guess (379 sq.m.), Under Armour (239 sq.m.) and Kids Around (204 sq.m.) all taking space on 10-year leases. A £7 million centre revamp will also be undertaken this year. Next's new store at Almondvale West Retail Park is due to open imminently. Elsewhere on the retail park, Homesense opened within TK Maxx. H & M relocated into the former BHS store within The Centre.

At **Fife** Central Retail Park in Kirkcaldy, both Mothercare and Toys R Us closed, however Toys R Us was soon replaced by discount retailer B & M. In the town centre Marks & Spencer closed and Debenhams is to close, although on a positive note the 7,490 sq.m. Postings Shopping Centre which had suffered since the closure of Tesco in 2015 was purchased by Evergold Property who plan to refurbish and rebrand the centre.

Following on from lettings to Homesense and Tapi carpets at St Catherine's Retail Park in **Perth**, Iceland have been granted planning permission to open a new Food Warehouse within part of the site of the former B & Q DIY store. Outdoor clothing specialist Trespass relocated into St Johns Shopping Centre while fish and chip shop chain Blue Lagoon will open in the former Trespass store.

At Springkerse Retail Park in **Stirling,** discount retailer B & M has agreed terms to take on the former Homebase store. In the Thistles Shopping Centre toy retailer The Entertainer opened in the former Toys R Us unit.

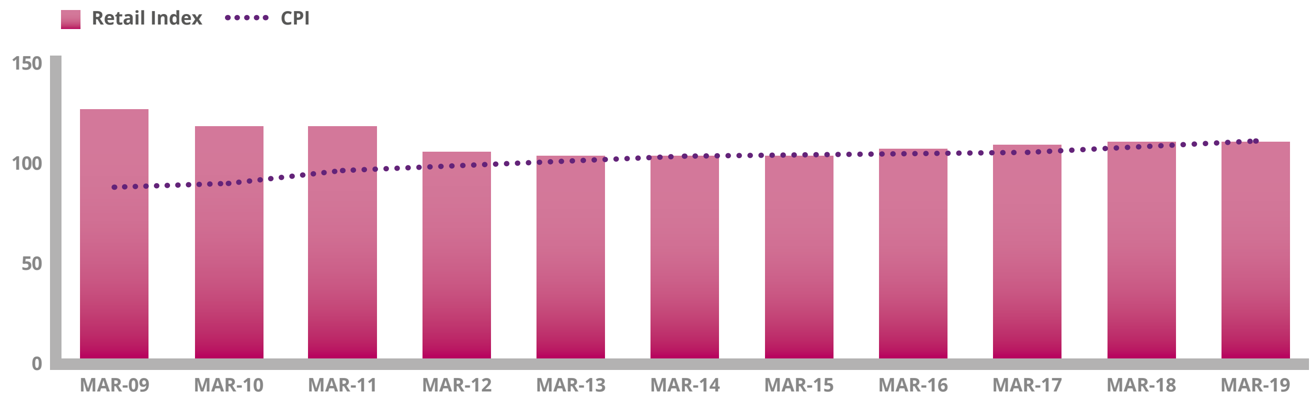
In summary, the retail apocalypse reported by some sources has failed to take grip of the market, which has proved to be more resilient than some expected. However, the continued growth of on-line sales will have a lasting impact on the sector. Repurposing of town centres and failing shopping centres both in and out-of-town is expected to become prevalent. This will require a co-ordinated approach from both the private and public sector to address potentially complex commercial and community issues.

It is likely that 2019 will continue to reflect concerns over further CVAs and limited occupier demand. Transactional activity may focus on re-gearing and rightsizing rather than additional acquisitions for occupiers.

Locations with solid fundamentals will continue to be attractive for occupational and investment demand. Those driving new space continue to be the same names in the value sector, namely: Lidl, Aldi, B & M, Home Bargains, The Range and Food Warehouse.

Ryden's prime retail rent index which covers Scotland's top 20 shopping locations is shown on the chart below. Over the period, retail rental growth has approximately matched consumer price inflation. In 2018 a marginal rise was recorded at the start of the year, due to prime locations in Glasgow and Edinburgh delivering rental growth. Since then flat rental performance has been noted across the principal retail locations. Latent upward pressure is noted in Edinburgh and downward pressure in Greenock.

Retail rent index



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

Investment

The review period has straddled two contrasting quarters for the Scottish commercial property investment scene. The fourth quarter of 2018 brought an active year for investment to an end, with several deals concluding and contributing to a healthy £2.5 billion of stock transacted across the sectors. However, since the turn of the year the market has been pre-occupied with the ongoing Brexit process and inevitably investment volumes have been lower than those recorded in recent years.

However, much of this inactivity has been caused by a lack of stock coming to the market rather than wholesale negative sentiment towards property and acquisitive investors turning bearish. Uncertainty surrounding the Brexit deal has clearly contributed to lower activity levels, but there is still a significant weight of money in the market with an interest in the main Scottish centres. Investor demand for Edinburgh is particularly strong and pricing has been very keen, while there has also been healthy interest in Glasgow opportunities. Meanwhile, the economic recovery in Aberdeen has not gone unnoticed by investors throughout the UK and overseas with a couple of notable transactions concluding during the period. Dundee too has begun to attract interest on the back of the city's well publicised renaissance.

Offices

The last six months of trading within the office sector has been a 'game of two halves'. Positive sentiment and trading continued through the fourth quarter of 2018. A significant number of deals completed, but although some of these spilled over into the early part of 2019, there has been very little new product coming to the market, by comparison, since the turn of the year.

The spectre of Brexit continues to create uncertainty and caution and it is clear that many investors will only invest if they perceive an asset to offer exceptional value.

Demand does remain positive with buyers seeking both long lease, low risk opportunities and also value-add or development opportunities. Focus remains on the core Central Business Districts with pricing heavily discounted for out-of-town assets. The one exception was the off-market corporate sale of the NHS National Services Scotland building at Gyle Square, Edinburgh to Hyundai Asset Management for £55 million, showing a yield of c.5.25%.

Elsewhere in Edinburgh, demand remains strong for offices particularly from the funds, however with little stock coming to market it has been more difficult to assess any real change in pricing.

In Glasgow a number of deals confirm a good spread of active purchasers, including funds. BMO Real Estate Partners acquired Sutherland House on St Vincent Street, a 3,672 sq.m. multi-let office for £9.75 million reflecting 3.65%. There were a number of bidders all keen to secure the upside on letting the vacant space. Corum XL, part of French asset manager Corum Asset Management, acquired 2 Atlantic Quay for £22.25 million (6.25%) the building extends to 7,179 sq.m. and is let to Lloyds Bank for a further seven years.

In Aberdeen there has been an encouraging upturn in interest with purchasers taking advantage of the relative value in the office sector. The first quarter of 2019 saw the first multi-let office transaction in over six years with Adapt Real Estate buying AB1 on Huntly Street which had a WAULT of seven years for £13.495 million reflecting an initial yield of 7.85%. Pricing has found its level and buyers are exploiting the fall in values from the peak of the market.

Buildings with long leases to strong covenants remain the most favoured of assets, however property companies and sophisticated private investors continue to take on letting and asset management risk for buildings with solid fundamentals.

With buyers cautious about bringing anything to market until there is more certainty over the Brexit process the market will continue to see low transactional volumes. However once there is clarity in the Brexit process a significant increase in stock coming to market is anticipated and consequently a quick increase in trading will be seen.

Office property investment deals include:

Address	Property	Purchaser
The Equinox building, Cadogan Street, Glasgow	6,303 sq.m. let entirely to Esure with c. 12 years unexpired	Roebuck Asset Management for c. £30.5 million (5.96%)
2 Atlantic Quay, Glasgow	1990s building totalling 7,179 sq.m. fully let to Lloyds Banking Group until 2026	Corum XL for £22.25 million (6.25%)
4 Atlantic Quay, Glasgow	Modern multi-let building totalling 6,812 sq.m. Majority let to Scottish Ministers with one vacant floor	Private London based investor for £14.9 million (6.62%)
Sutherland House 149 St Vincent Street, Glasgow	Grade B Listed prominent corner multi-let office building totalling 3,672 sq.m. Tenants include CBRE, BUPA and GVA. With three vacant floors	BMO Real Estate Partners for £9.75 million (3.65%)
Gyle Square, South Gyle Crescent, Edinburgh	Single let 13,825 sq.m. office to NHS National Services Scotland on a lease expiring June 2029	Hyundai Asset Management for £55 million (corporate transaction at 5.25%)
Tanfield, Edinburgh	Multi-let office building extending to c. 17,650 sq.m. Tenants include FMZ, Aecom and Craneware	Greenridge Investment Management for c. £65.5 million (6%)
Interpoint, Haymarket, Edinburgh	c. 4,460 sq.m. office let entirely to Royal London Mutual Assurance Society Ltd. Lease expiring January 2029 with tenant break option in January 2024	Ropemaker Properties (BP Pension Fund) for £18.85 million (6.45%)
Longmore House, Salisbury Place, Edinburgh	Historic Environment Scotland HQ extends to 4,460 sq.m. Lease expires October 2034	Private investor for £13.05 million (5.19%).
45 Melville Street and 1 Melville Crescent, Edinburgh	Townhouse office of 792 sq.m. let to The Secretary of State for Scotland until August 2024	Private investor for £3.425 million (c. 4.66%)
6 Almondvale Business Park, Livingston	Multi-let office building extending to c. 2,850 sq.m. Tenants include Bellway Homes, Mexperia UK Ltd and Energy Assets	Morris & Spottiswood for £2.1 million (c.11.16%).
AB1, Huntly Street, Aberdeen	Refurbished multi-let office building extending to 4,411 sq.m. with a WAULT of c. seven years	Adapt Real Estate for £13.495 million (7.85%)
Atmosphere One, Prospect Park, Westhill, Aberdeen	A modern Grade A office building extending to 4,958 sq m let to Rever Offshore with c. 9.75 years unexpired.	Private overseas investor for £13.375 million (8.68%)

Industrial

Activity in the industrial investment market reduced during the first quarter of 2019 as vendors held off from bringing investments to market, unsure as to the response they would receive from buyers.

Prior to that, transactional activity was limited with very few prime opportunities coming to market in Scotland's principal three cities. Consequently, and buoyed by the strong occupational market, investors have been encouraged to venture into markets previously considered secondary, with recent transactions in Livingston and Dumbarton attracting institutional interest. Otherwise, activity in 2019 to date has tended to comprise portfolio sales, with vendors such as IOAM and Cedarwood looking to derive some benefit from their occupational letting successes.

The occupational market in Aberdeen has started to pick up and investors are willing to look again, although there has been a lack of fresh opportunities openly tested in the market. Investor interest has tended to be focused on multi-let estates offering immediate opportunities to add value.

Prime yields for multi-let estates look to be at or around 5.75% in Central Scotland, but with the gap in pricing between prime and secondary increasing in what is an uncertain market. Prime, single let units are likely to attract an initial yield of 5.50 - 5.75% or below where there are fixed rental uplifts.

Looking forward, the next phase in the market should be for investors to underwrite new development but it may require a resolution in the political arena for this to take place. Other than confidence, the Scottish industrial market has every ingredient required to continue to provide investors of every description with the opportunities and performance they would wish to see.

Industrial property investment deals include:

Address	Property	Purchaser
Aircargo Centre, Glasgow Airport	Modern multi-let estate of nine units totalling 13,885 sq.m. WAULT of 4 years. Leasehold sale	Warehouse REIT for £11.1 million (6.7%)
Broadmeadow Industrial Estate, Dumbarton	Multi-let estate totalling 7,171 sq.m, sold with fully let income. WAULT of c. 4 years. Concluded and settlement conditional upon expected ground lease assignation	Caisson for £3.8 million (8.5%)
Melford Avenue, Righead Industrial Estate, Bellshill	1,858 sq.m. modern single let unit let to GEOAmey for c. 12 years	Wordie Properties Ltd for £2.55 million (6.8%)
Brucefield Industry Park, Livingston	Multi-let industrial estate extending to c. 51,840 sq.m.	Onyx (M7/Blackstone JV) for £19.847 million (c.6.5%)
Seven Hills Business Park, Sighthill, Edinburgh	Forward funding of new 7,060 sq.m. industrial/ trade counter development. The deal includes c. 4,366 sq.m. of up and built accommodation leased to Napier University, Amazon and Historic Environment Scotland	UBS Asset Management (Triton Property Fund LP) for c. £15 million
7 Bankhead Medway, Sighthill Industrial Estate, Edinburgh	Single let data centre investment leased to Onyx Group Ltd expiring August 2025 and extending to c. 2,880 sq.m.	Cygnet Properties for c. £2.77 million (8.18%)
Tweedbank Industrial Estate, Galashiels	Multi-let industrial estate extending to 10,680 sq.m.	M7 Real Estate Partners for £4.57 million (8.62%)
Peregrine Road, Westhill, Aberdeen	Industrial facility extending to 1,892 sq.m. let to Halliburton with c.4.5 years unexpired	CCLA for £2.63 million (9.5%)

Retail, Leisure and Alternatives

2018 was a torrid year for the retail sector as the increasing impact of online retail sales took its toll on footfall, with costly shopping centre and high street locations the most affected. In addition Brexit uncertainty has had an adverse impact. These factors have combined and resulted in retailer failures, CVAs, limited occupational demand, a sharp fall in investment activity and rising yields (falling prices) across all sub-sectors. Transactional volumes are significantly down and caution is the watchword for investors willing to consider investment into the sector.

The UK retail market continues to be in a state of flux and further retailer CVAs and administrations are anticipated. The response of landlords to such events will be telling, as without compromise and possibly structural change the outlook for the high street and shopping centre sectors in the short to medium term may prove bleak. Against a backdrop of occupier uncertainty and negative sentiment it is envisaged that retail property investment markets will remain relatively subdued. A fundamental barrier to activity is the gap between vendor valuations and buyer expectations.

There does however remain a compelling case for investment into the right retail stock with correct fundamentals. Continued activity is envisaged where assets are relevant to their catchment, have a good trading history, are rack rented and/or realistically priced.

The retail warehouse sector is attracting investor interest, in part due to pricing but also acknowledging certain defensive characteristics. Factors such as the rise of the value retail sector and its focus on unit size, accessibility, car parking and lower occupational costs is of relevance, but also the ability of the sector to adapt to online trade may be a consideration. The supermarket and in particular the discount food sectors continue to prove attractive to investors seeking long-dated income and strong occupier covenants. The scarcity of discount food opportunities in particular has maintained strong pricing in this sub sector of the market.

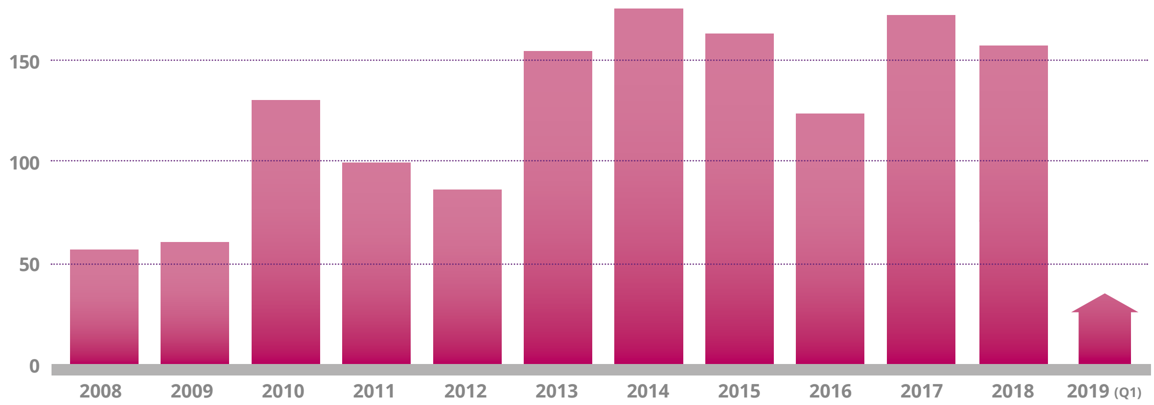
The leisure market comprising bar, restaurant and hotel propositions has enjoyed mixed fortunes. Demand from occupiers within the food and beverage sector has generally softened, however investor demand has remained robust where covenant and lease terms meet key criteria.

The hotel sector continues to attract significant investor interest, particularly in relation to leased transactions in key markets. Edinburgh and Glasgow are recognised as strong centres offering good prospects for performance and REVPAR growth. In Edinburgh deals have been transacted involving the two Whitbread leased hotels at New Waverley and also Travelodge Hotels at Cameron Toll and Rose Street. In Glasgow there has been significant funding activity following Dalata's commitment to lease transactions within the city centre. In addition to standard lease transactions there is also more interest from ground lease investors as hotel owners/operators and developers endeavour to create product to meet demand. Despite wider market uncertainty, the weight of money has continued to apply a downward pressure on yields within the long lease hotel sector.

Over the review period a good deal of activity and interest was recorded in alternative sectors including student accommodation both leased and direct let, the build-to-rent sector and also the senior living and care sector. The most notable student accomodation deal over the review period involved the sale of the former office Pentland House on Robbs Loan in Edinburgh, which is to be redeveloped as student accommodation and leased to the University of Edinburgh. The proposition which benefited from a 20-year lease to the University secured bids from a number UK institutional investors and a funding yield of c. 3.7%.

Investment tracker:

Number of transactions over £1 million in Scotland



Retail and leisure property investment deals include:

Address	Property	Purchaser
Great Western Retail Park, Glasgow	Two retail units totalling 24,879 sq.m. let to Sainsbury's (until 2031) and Pets at Home (until 2026)	Sidra Capital for £23.15 million (6.26%)
260 Argyle Street, Glasgow	294 sq.m. single let convenience store let to Co-operative Food Group Ltd for 15 years with tenant break option at 10th anniversary. 5 yearly reviews geared to CPI	Wordie Properties Ltd for £1.09 million (6.08%)
Craigentinny Retail Park, Seafield Road, Edinburgh	2,322 sq.m. multi-let retail warehousing. Tenants include Halfords, Archers Sleep Centre and Connection Flooring	Danobe Securities for £3.35 million (7.81%)
Scotmid, East Main Street, Broxburn	1,210 sq.m. high street supermarket with car parking. Sale and leaseback providing 10 years term certain. Lease subject to 5 year CPI linked reviews	Private investor for £2.035 million (6.5%)
75 Aberdour Road, Dunfermline	Local retail parade extending to c.650 sq.m. Multi-let to tenants including Barnardo's, Ladbrokes and Ariana Properties	LCP Goup for £920,000 (c. 8.7%)
Matalan, 70 Carron Road, Falkirk	4,230 sq.m. retail warehouse leased to Matalan Retail Ltd until October 2024	M7 Real Estate Investment Partners VIII for £3.977 million (9.96%)
Justice Mill Lane, Aberdeen	Comprises modern health club extending to 2,797 sq.m. let to Nuffield Health with c.8.25 years unexpired	Marr Holdings for £4.3 million (7.24%)
133-141 Union Street, Aberdeen	City centre building extending to 2,587 sq.m. with 31% let to Nationwide Building Society for c.12 years. Remainder vacant	Sydney & London Properties Ltd for £3.03 million (8.25%)
Travelodge, Cameron Toll, Edinburgh	115 bed hotel leased to Travelodge. Lease expiring April 2045. Rent subject to 5 yearly reviews to the higher passing rent multiplied by the uplift in RPI over the period	Lothbury Investment Management for £13.7 million (4.5%)
Travelodge, Rose Street, Edinburgh	Let to Travelodge Hotels Ltd until October 2044 subject to 5 yearly index linked reviews to the RPI compounded annually. 43 bed hotel	Clients of AXA for c. £7.7 million (4.3%)
Roxburgh Place, Edinburgh	Student residence scheme extending to 59 beds at Edinburgh University expiring September 2020	Private investor for £5.5 million (5.23%)

Outlook

The potential delay of six months to the Brexit process is clearly not a welcome development and will likely suppress the level of transactional activity in the coming months. That said, sellers who have been delaying marketing may not be prepared or able to wait any longer and the nettle may need to be grasped. These times are uncertain and difficult to predict, although the underlying demand for quality prime stock in Scotland is good and is expected to remain that way for the foreseeable future.

Thus the outlook has changed very little since our last Review. 2019 is almost certainly going to be a quieter year for investment volumes, but that applies to the UK as a whole, not just Scotland. It may take a while longer for the bounce in activity, but the underlying property fundamentals are largely positive and those investors who can take a long term view will weather the political uncertainty and will likely be rewarded.

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