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# SCOTTISH ENTERPRISE AYRSHIRE

## Business Property Review March 2007

Scottish Enterprise Ayrshire

This report, prepared by SPN on behalf of Scottish Enterprise Ayrshire, reviews industrial and office market activity in 2006. The report begins with an overview of general economic conditions and of activity in Scottish industrial and office markets, before focussing on supply, take-up and market performance in the Ayrshire area.

## Main Findings

**Industrials**

- Available Industrial floorspace in Ayrshire decreased by 5% in 2006 and the number of available units fell by 15%. In Central Scotland as a whole, industrial supply was substantially unchanged.
- At December 2006, available floorspace in Ayrshire was close to the 5-year average, but the number of units on offer was 19% below the 5-year average.
- The decrease in supply was confined to East Ayrshire, which recorded a 50% fall in available floorspace, compared to increases of 28% and 34% respectively in North and South Ayrshire.
- Take-up of industrial floorspace in Ayrshire in 2006 was 12% lower than in 2005 and the number of transactions was down by 15%. Across Central Scotland, take-up of floorspace fell by 6%, with a marginal rise in number of transactions.
- Take-up of floorspace in Ayrshire in 2006 was 27% below the 5-year average.
- Available floorspace in Ayrshire at December 2006 represented 6.2 years' average take-up. This compares to 3.4 years' supply on average in Central Scotland.

**Offices**

- Supply of office floorspace increased in Ayrshire by 61% in 2006 and the number of premises on offer increased by 71%. In Central Scotland, available office space decreased by 7%, although with a 9% rise in the number of units.
- At December 2006, available office space in Ayrshire was 76% above the 5-year average.
- Take-up of office space in Ayrshire in 2006 was 5% lower than in 2005 and the number of transactions was down by 17%. Across Central Scotland, take-up of floorspace fell by 11%, with a 5% decrease in transactions.
- Take-up of floorspace in 2006 was just 5% below the 5-year average.
- Available office space in Ayrshire at December represented 7.8 years' average take-up. This is now significantly above the Central Scotland level of 2.7 years' supply.

**Scottish Economic Summary**

The Scottish economy performed well in 2006 and above trend growth is expected to continue into 2007.

Provisional figures published by the Scottish Executive in January 2007 show growth of 2.3% in seasonally adjusted Gross Domestic Product (GDP) over the year to Q3 of 2006. Although below the growth rate for the UK as a whole (2.6%), this was well above the long-term average and most analysts now expect this relatively strong performance to continue in 2007.

The Scottish construction sector recorded expansion of 5.5% in the year to September 2006, compared to just 0.3% across the UK as a whole. Growth was again strong in the service sector, which increased output by 2.8%, although this was below the UK growth rate of 3.6%.

Output in the Scottish production sector fell by 0.5% over the year, compared to a decline of 0.9% for the UK. Manufacturing output also fell in Scotland by 0.3%, compared to marginal growth in the UK of 0.1% for the year.

Table 1

| GDP Seasonally Adjusted | % Change Q3 2006 on Q2 2006 | % Change Year to Q3 2006 |
|---|---|---|
| **Scotland** | 0.5 (0.7) | 2.3 (2.6) |
| **Production** | 0.2 (0.2) | -0.5 (-0.9) |
| **Construction** | 2.4 (0.7) | 5.5 (0.3) |
| **Services** | 0.4 (0.8) | 2.8 (3.6) |
| Note: (UK Figure in brackets) | | |
| **Source: Scottish Executive, January 2007** | | |

The most recent figures from the Royal Bank of Scotland PMI Scotland Report[1] indicate even stronger growth in Scottish private sector output towards the end of 2006, with December registering a 3-month high in manufacturing production and an 11-month high in service sector activity. Expansion has continued into 2007, with the service sector recording accelerated growth in January and February, although with slower growth in manufacturing.

In its latest commentary on the Index of Leading Economic Indicators[2], The Bank of Scotland predicts strong economic growth for Scotland in the first half of 2007, reaching 2.2% in Q2, but moderating in the second half of the year.

With CPI inflation running well above the Treasury's 2% target, the Bank of England MPC has increased base interest rates three times since July 2006, taking the rate to 5.25% in January 2007, its highest level since May 2001.

The latest increase in January 2007 took financial markets by surprise and was not welcomed by the business community, but was narrowly supported on the MPC in order to bring inflation back within target in the medium term. Despite speculation that another rate rise will be needed to control short-term inflation, rates were unchanged in February and March.

Claimant count unemployment in Scotland at the end of 2006 was 3.2%, unchanged over the year, and the ILO measure of unemployment, at 5.2% in November, was down 0.1% on the previous year. The latest Labour Force Survey total employment rate for Scotland in the period September to November 2006, was 75.3%, remaining above the average for the UK and for most EU countries.

The Royal Bank's PMI Report records twenty-three consecutive months of increased employment in the Scottish private sector to December 2006, with job-creation accelerating towards the end of the year. Growth in service sector jobs continued into 2007, with February recording the highest rate of job creation for almost 9 years.

Claimant Count Unemployment has fallen in East Ayrshire in 2006, by 0.2% to 4.5%. South Ayrshire also recorded a decrease of 0.1% to 3.4%. However, in North Ayrshire, the unemployment rate has risen by 0.3% to 5.4%. Claimant Count Unemployment throughout Ayrshire remains above the Scottish average of 3.1% (Table 2).

Table 2

| | Claimant Count Unemployment February 07 | Average Total Employment Jul 05-Jun 06 |
|---|---|---|
| Scotland | 3.1% (0.0%) | 75% |
| East Ayrshire | 4.5% (-0.2%) | 71% |
| North Ayrshire | 5.4% (0.3%) | 70% |
| South Ayrshire | 3.4% (-0.2%) | 74% |
| (figures in brackets show change over previous year) | | |
| **Source: Scottish Executive, March 2007** | | |

[1] Purchasing Managers' Index Scotland Report, Royal Bank of Scotland/ NTC Research, January - March 2007

[2] The Scottish Index of Leading Economic Indicators, Bank of Scotland, February 2006

## Scottish Industrials - Overview

The total supply of available industrial floorspace in the Scottish Enterprise area did not change substantially during 2006. Recorded supply of available floorspace at the end of 2006 was 2.23 million sq m, just 2% higher than the level recorded a year earlier and close to the 5-year average. However, the number of units on offer fell again during 2006 to 1,883, the lowest level recorded by SPN, reflecting a continuing trend towards supply in larger units. Since December 2000, the average size of available industrial unit has increased by 46% to approximately 1,200 sq m.

The biggest decline in supply was in units in the size-band 200–499 sq m (-8%), while the number of units of 1,000 sq m and above increased over the year by 6%. The supply of floorspace built post-1990 increased by 17% and post-2000 space increased by 19%, compared to a decrease of 6% in floorspace built pre-1980.

Industrial take-up in 2006, at 523,000 sq m, was 8% below the level recorded in 2005 and 6% below the 5-year average. The number of units taken up was, however, 2% higher than in 2005, reflecting an increase in take-up of smaller units and a fall in take-up of units over 500 sq m. Take-up of units built post-2000 increased by 85% over the year, but mainly in small sizes, so that the floorspace taken up in that age-band was just 2% higher than in 2005.

Most LEC areas recorded a fall in industrial take-up in 2006, but Lanarkshire saw a substantial increase of 47% in floorspace taken up, while Tayside and Forth Valley recorded more modest rises of 12% and 7% respectively. Take-up of floorspace in Glasgow fell only marginally by 2%, compared to a decline of 41% in Edinburgh & Lothian.

The CB Richard Ellis quarterly index[3] reports rental growth of 2.4% for Scottish industrials in 2006, ahead of the UK average of 1.4%. Capital growth of 11.7%, raised total annual return on industrials to 18.6%, compared to a UK average of 17.7%.

## Scottish Offices - Overview

Available office floorspace at December 2006 (837,000 sq m) was 7% below the level recorded a year earlier and close to the 5-year average. Most of the decrease was in older (pre-1980) space, which reduced by 17%. Supply of post-2000 floorspace fell by just 3% over the year.

In Edinburgh City, available office space fell by 16% overall from the high level recorded at the end of 2005 and the supply of floorspace built since 2000 decreased by 24%.

Glasgow recorded a decrease of 21% overall, largely in older floorspace, while the supply of modern space was substantially unchanged.

Take-up of office floorspace recorded in 2006 (248,000 sq m) was 13% below the relatively high level recorded in 2005 and close to the 5-year average. The number of recorded transactions was just 3% down over the year.

In Glasgow, take-up of floorspace in 2006 was 18% below the high level recorded in 2005, but still 23% above the 5-year average. The reduction in take-up was exclusively in post-2000 floorspace (-38%), while take-up of older floorspace increased slightly.

Edinburgh City recorded a small increase in take-up of just 7%, but take-up in 2006 was 8% below the 5-year average. Reduced take-up in Edinburgh was confined to pre-2000 floorspace, with growth of 32% in the take-up of more modern space.

Office markets in Aberdeen, Dundee and Lanarkshire all recorded a fall in take-up during 2006.

The CBRE quarterly index[3] reports rental growth of 1.2% for Scottish offices in the final quarter of 2006, taking growth for the year to 2.8%, compared to 7% across the UK. Capital growth of 14.1% took the average total return on Scottish offices to 20%, compared to 23.1% for the UK.

*Figure 1*

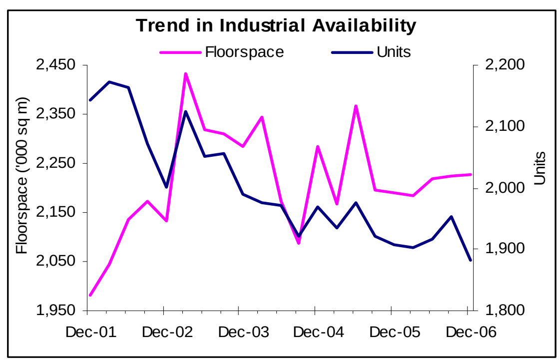
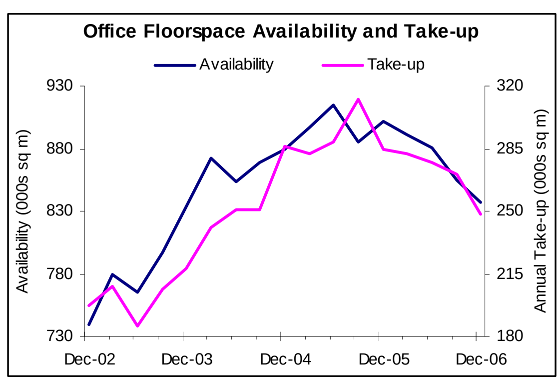



*Figure 2*




[3] Scottish Property Quarterly, 4th Quarter 2006, CB Richard Ellis

## Business Property Markets in Ayrshire

### Industrial Stock

SPN holds information on 1,556 'standard'[4] industrial units in Ayrshire totalling over 1.2 million sq m. Almost half of this floorspace (49%) is in North Ayrshire, with 27% in East Ayrshire and 24% in South Ayrshire. Irvine 'new town' provides 32% of all industrial floorspace in Ayrshire, but has just 18% of the units.

Stock in East and North Ayrshire is, on average, relatively old, as shown by Figure 3. Only 5% of space in East Ayrshire was built since 1990 and the area has hardly any post-2000 space. In North Ayrshire, 7% of floorspace is post-1990 and just 1% post-2000. Stock in South Ayrshire is younger, with 17% of floorspace built since 1990 and 5% post-2000.

In Central Scotland on average, 16% of stock was built post-1990 and just over 3% since 2000.

The size profile of Ayrshire stock does not differ greatly from the Central Scotland average, as shown by Figure 4. Irvine, however, has a high proportion of stock in large units with 26% of units over 999 sq m and 26% under 200 sq m. In Ayrshire as a whole, only 16% of units are over 999 sq m and 44% are in sizes of less than 200 sq m.

Across Central Scotland[5] 18% of units are over 999 sq m and 44% under 200 sq m.

### Industrial Availability

At December 2006, SPN recorded 155 available industrial units in Ayrshire totalling 220,320 sq m. This represents a reduction of just 5% in supply of floorspace and of 15% in the number of units, compared to December 2005.

Across Central Scotland as a whole, supply of floorspace increased marginally over the same period by just 2% and the number of units on offer was substantially unchanged.

At the end of 2006, the supply of floorspace in Ayrshire was close to the 5-year average, but the supply of available units was 19% below the 5-year average.

Supply fell in most age and size-bands. Despite a marginal increase in floorspace built in the 1980s, the number of units in this age-band decreased by 28%.

At December, 50% of all available space was in North Ayrshire, with 26% in South Ayrshire and 22% in East Ayrshire.

*Figure 3*

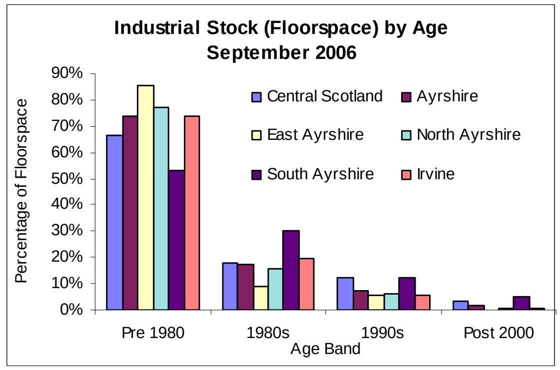
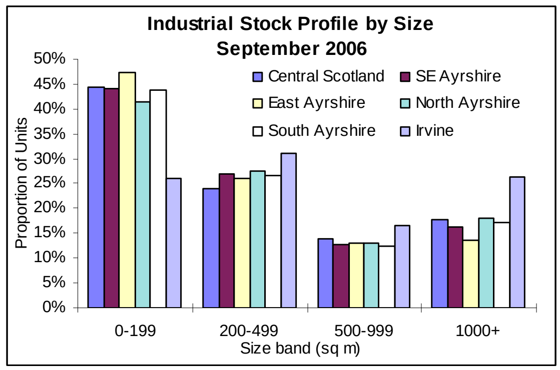



*Figure 4*

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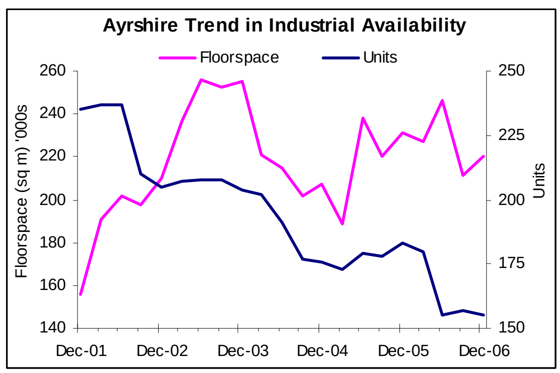


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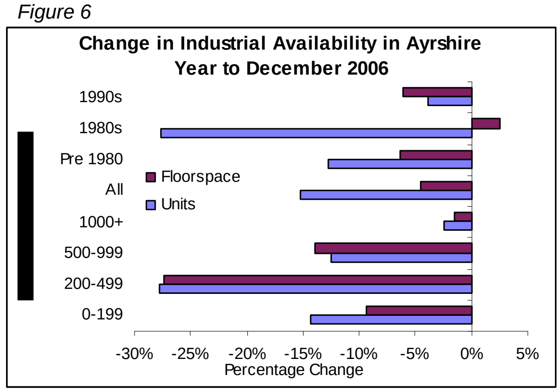


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[4] This includes all industrial units within recognised industrial estates and areas but excludes large single user facilities, 'business units', 'open storage' and 'yards'.

[5] Central Scotland includes SE Ayrshire, Dunbartonshire, Fife, Forth Valley, Glasgow, Edinburgh & Lothian, Lanarkshire and Renfrewshire.

The decline in available floorspace was confined to East Ayrshire where supply fell by 50%. North and South Ayrshire recorded rises in floorspace of 28% and 34% respectively. However, the number of available units decreased in all three local authority areas as shown in Figure 7.

In Irvine, the volume of floorspace increased by 69%, although the number of units was unchanged. This large increase, however, was due mainly to the availability of one building of 37,160 sq m on the former Volvo site at Tournament Park. Discounting this one property, available floorspace decreased by 5% in Irvine and by 14% across North Ayrshire as a whole.

The percentage of recorded stock available at the end of 2006 is shown in Table 3 below. The rate of availability has fallen slightly since our last report, but remains above the Central Scotland average.

Table 3

| Industrial Availability - Ayrshire | | |
|---|---|---|
| | Rate of Availability | |
| | Units | Floorspace |
| SE Ayrshire | 10% | 18% |
| | | |
| Central Scotland | 9% | 13% |
| SE Glasgow | 9% | 11% |
| SE Renfrewshire | 11% | 20% |
| | | |
| East Ayrshire | 11% | 15% |
| North Ayrshire | 12% | 18% |
| South Ayrshire | 6% | 19% |
| Irvine | 15% | 21% |

As shown in Figure 8, the age profile of available floorspace in Ayrshire is relatively old, with 71% built pre-1980, 8% built-post 1990 and just under 1% built post-2000. In Central Scotland as a whole, 54% of available space is pre-1980, 25% post-1990 and 8% post-2000.

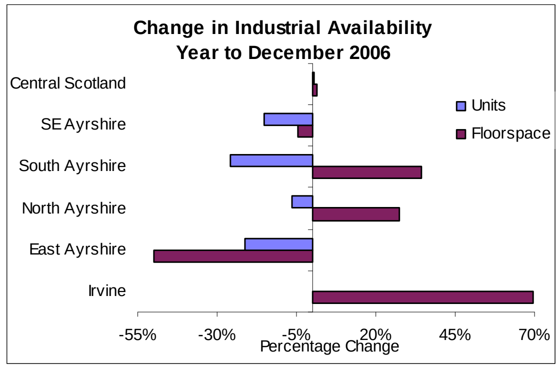
Available supply in South Ayrshire is more modern, reflecting the age profile of the stock, with 19% of available space built post-1990 and 45% pre-1980. East Ayrshire, by comparison has just 1% of floorspace built post-1990 and 90% built pre-1980. In North Ayrshire, around three-quarters of available floorspace was built pre-1980 and just 5% post-1990.

At the end of December 2006, SPN recorded only two available units in Ayrshire built since 2000.

The size profile of availability in Ayrshire does not differ significantly from the Central Scotland norm, as shown by Figure 9. However, East Ayrshire has a high proportion of available units in small sizes at 48% and a low proportion in sizes over 499 sq m. Supply in South Ayrshire, by contrast, is strongly biased towards large units, with 43% over 999 sq m and only 26% under 200 sq m.

Across Central Scotland as a whole, one third of available units are under 200 sq m and 27% in sizes of 1,000 sq m or above.

*Figure 7*

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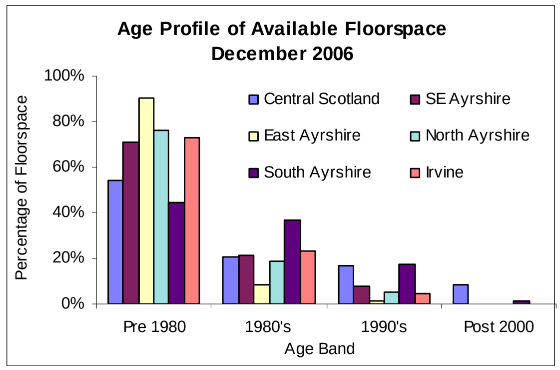


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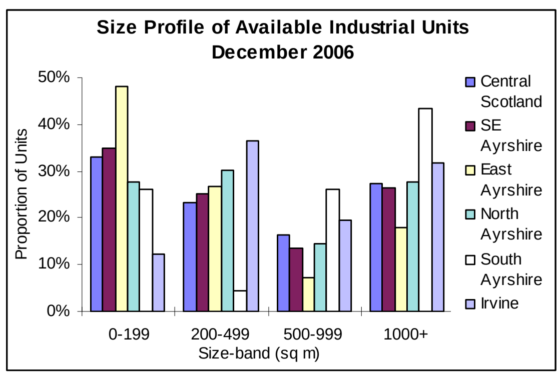


## Industrial Take-up

In 2006, SPN recorded take-up of 27,776 sq m of industrial floorspace in Ayrshire, in 67 transactions. This represents a fall in take-up, compared with the previous year, of 12% in floorspace and of 15% in the number of transactions.

Over the same period, Central Scotland recorded a 6% reduction in floorspace taken up, but with a marginal increase of 3% in the number of transactions.

In 2006, take-up of floorspace was 7% below the 3-year average and 27% below the 5-year average. The number of transactions was close to the lowest recorded by SPN.

As shown in Figure 10, take-up of floorspace in large units, over 999 sq m, increased by 38% over the year, but the number of transactions in this size-band fell from 7 to 6. Take-up of premises in the 500 - 999 sq m size-band fell by 62% in terms of both floorspace and units.

Take-up of post-1990 floorspace increased by 17% over the year, although the number of post-1990 units taken up fell by 63%. It should be noted, however, that the supply of modern industrial units in Ayrshire is relatively low and volatility in take-up levels would be expected.

The reduction in take-up was confined to North Ayrshire, where the volume of floorspace taken up fell by 24% and the number of units decreased by 46%. South Ayrshire recorded a 9% increase in floorspace taken up but with a substantial rise of 73% in transactions. Take up in East Ayrshire was substantially unchanged from 2005.

Average annual take-up in Ayrshire, estimated from total recorded take-up over the 3 years to September 2006 is shown in Table 4 below. These estimates have decreased since our last report.

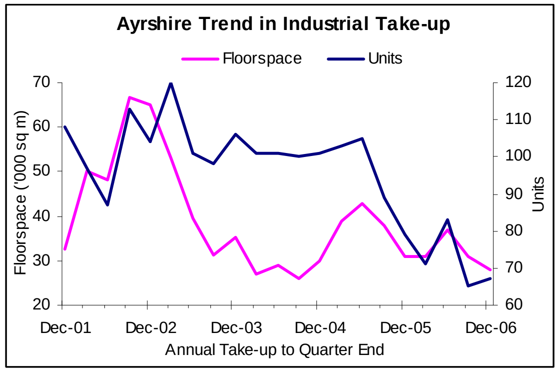
Table 4

| Average Annual Take-up | Units | Floorspace (sq m) |
|---|---|---|
| Ayrshire | 92 | 35,682 |
| East Ayrshire | 28 | 6,255 |
| North Ayrshire | 45 | 19,932 |
| South Ayrshire | 18 | 9,495 |
| Irvine | 27 | 9,627 |

Availability at December 2006 is shown in Figure 12 as a number of years' average take-up. Supply in Ayrshire represented 1.7 years' take-up of units and 6.2 years' supply of floorspace. Central Scotland as a whole has 1.6 years' supply of units and 3.4 years' supply of floorspace.

Supply of floorspace, relative to average take-up, is high in East Ayrshire at almost 8 years' supply, compared to around 6 in both North and South Ayrshire. Irvine also has a relatively high level of available floorspace, compared to average take-up, at 8.8 years' supply.

*Figure 10*

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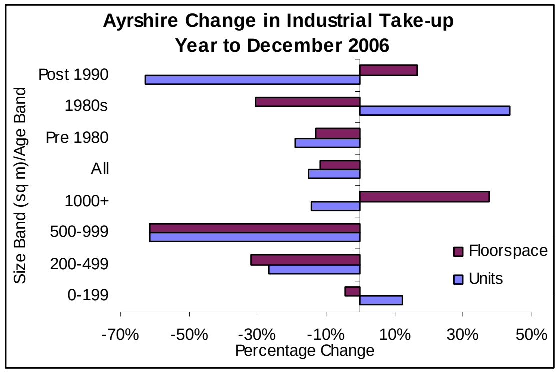


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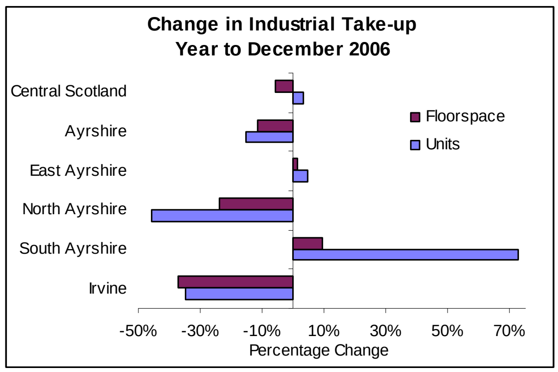


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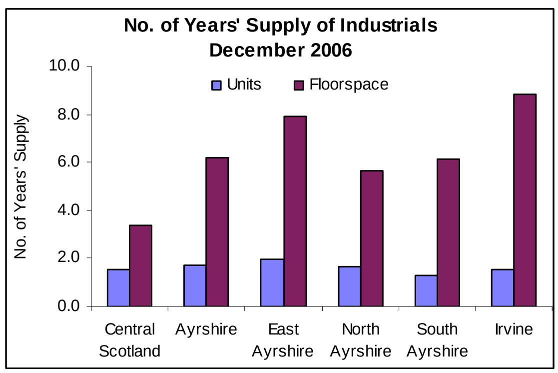


## Office Availability

At December 2006, SPN recorded 120 available office and business units in Ayrshire, totalling 40,780 sq m. This includes only accommodation immediately available for occupation and excludes around 4,900 sq m that was offered in advance of construction.

Of the total recorded available space, 4,300 sq m in 20 units were 'under offer' at December.

Supply of office floorspace in Ayrshire increased dramatically in 2006 by 61%, to the highest level recorded by SPN. The number of premises on offer grew by 71%. Across Central Scotland as a whole, the supply of office floorspace fell in 2006 by 7%, although the number of available units increased by 9%.

At December available office floorspace in Ayrshire was 76% above the 5-year average.

The increase in supply was confined to South Ayrshire, where the volume of floorspace increased by 310% over the year. Most of this growth (174%) occurred in Q3, including the re-introduction to the market of the former Jabil Circuits building in Ayr, providing 7,071 sq m of floorspace in 6 units, and a further 3,934 sq m in 2 units at Prestwick International Aerospace Park.

Available office space fell in 2006 by 21% in East Ayrshire and by 6% in North Ayrshire.

The age profile of available floorspace in Ayrshire is now more modern than previously reported, with 35% of floorspace built post-1990 and 22% post-2000. As shown by Figure 15, the proportion of modern space in Central Scotland as a whole is higher, with 58% built post-1990 and 34% post-2000.

East Ayrshire has no post-2000 floorspace available, but a high percentage of available space in 1990s accommodation. North and South Ayrshire have comparatively little 1990s space, but both have over a quarter of available office space in post-2000 accommodation.

Compared to the Central Scotland average, Ayrshire has a high proportion of available office accommodation in small sizes, with 72% of premises under 200 sq m. However, Ayrshire now also has a relatively high proportion of supply in large units, with 13% in sizes over 999 sq m, compared to 9% on average across Central Scotland. As shown by Figure 16, supply in large units is mainly in South Ayrshire.

The proportion of availability in the 200-999 size range is comparatively low in Ayrshire, especially in the 500-999 sq m band (Figure 16).

*Figure 14*

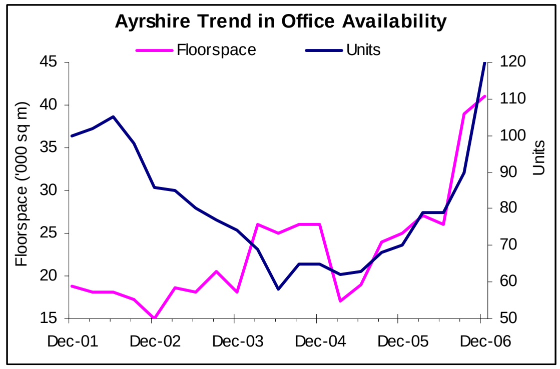
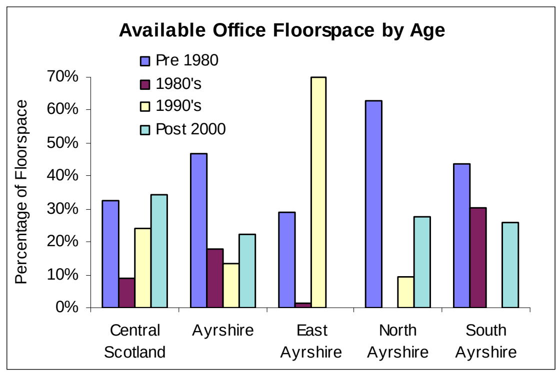



*Figure 15*

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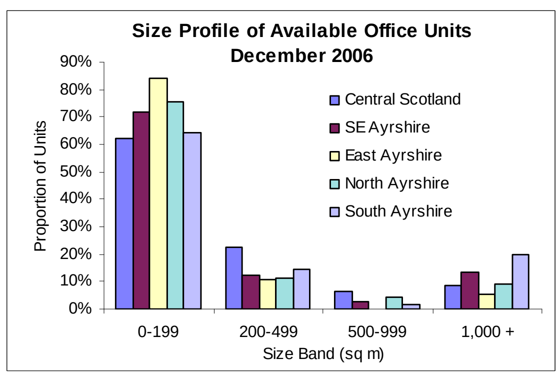

## Office Take-up

In 2006, SPN recorded take-up of 5,160 sq m in 30 office and business units in Ayrshire.

In terms of floorspace, this represents a 5% fall in take-up, compared to 2005. The number of transactions recorded was down by 17%.

Take-up of floorspace during 2006 was marginally above the 3-year average and just 5% below the 5-year average.

In Central Scotland as a whole, take-up of office floorspace fell by 11% in 2006 and the number of transactions decreased by 5%.

The decline in take-up was confined to North Ayrshire, where take-up of floorspace fell by 66% and the number of transactions was down by 60%. In the small East Ayrshire market, take-up of floorspace increased by 54% and the number of transactions doubled. South Ayrshire also recorded strong growth in take-up of floorspace (56%) but with just a 6% rise in transactions.

It should be recognised that in these small markets, wide variations in levels of take-up would be expected.

Based on an estimate of average annual take-up over 3 years to September 2006, office supply in Ayrshire at December 2006 represented 7.8 years' supply of floorspace and 3.5 years' supply of units. Due to the recent significant growth in supply, this is now well above the Central Scotland averages of 2.7 years' supply of floorspace and 1.8 years' supply of units.

As illustrated in Figure 19, supply of floorspace, relative to average annual take-up is now particularly high in South Ayrshire, at over 10 years' supply.

*Figure 17*

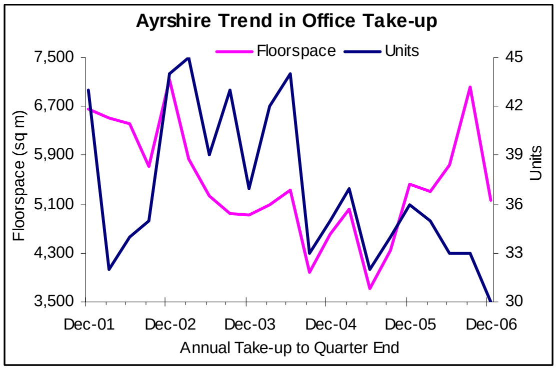


*Figure 18*

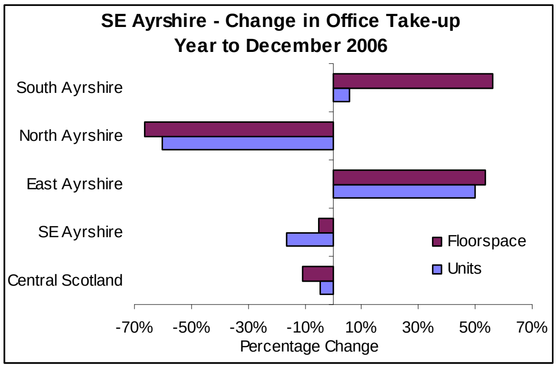


*Figure 19*