SCOTTISH ENTERPRISE EDINBURGH & LOTHIAN

Business Property Review March 2007

This report, prepared by SPN on behalf of Scottish Enterprise Edinburgh & Lothian (SEEL), 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 Edinburgh & Lothian area.

Main Findings

Industrials

- **Available industrial space in Edinburgh & Lothian at the end of 2006 was 12% higher than in December 2005 and the number of available units was 14% higher.**
- **Growth in supply was strongest in Edinburgh where available space increased by 26%. Supply increased in West Lothian by 11%, but declined in Midlothian and East Lothian.**
- **A relatively high proportion of available floorspace in Edinburgh & Lothian is modern, with 31% built post-1990 and 14% post-2000. On average across Central Scotland, 25% of available space was built post-1990 and just 8% post-2000.**
- **Take-up of floorspace in Edinburgh & Lothian in 2006 was 41% lower than in 2005 and 28% below the 5-year average.**
- **Take-up of floorspace increased in Livingston by 48%, but declined in Edinburgh by 78%. Across Central Scotland as a whole, take-up of industrial space fell by 6% in 2006.**
- **Available floorspace in Edinburgh & Lothian at December represented 3.9 years' average take-up. Central Scotland on average had 3.4 years' supply.**

Offices

- **Available office space in Edinburgh & Lothian at December 2006 was 15% below the level recorded a year earlier, but close to the 5-year average. In Central Scotland as a whole, available office space declined in 2006 by 7%.**
- **Take-up of office space in Edinburgh & Lothian in 2006 rose marginally from the level recorded in 2005, but remained 10% below the 5-year average.**
- **In Edinburgh, which accounted for 84% of all take-up in the SEEL area, take-up of floorspace was 7% higher than in 2005. By comparison, take-up in Glasgow declined by 18%.**
- **Available office space in Edinburgh & Lothian at December represented 2.9 years' average take-up. Edinburgh had 2.8 years' supply, compared to just 1.9 years' supply in Glasgow and 2.7 years' supply in Central Scotland.**

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 Edinburgh & Lothian remains lower then the Scottish average. The rates of unemployment in Edinburgh City & Midlothian were unchanged during the year. East and West Lothian recorded increases of 0.1% and 0.3% respectively.

Table 2

	Claimant Count Unemployment January 07	Average Total Employment Mar 05-Feb06
Scotland	3.1% (0.0%)	75%
East Lothian	1.6% (0.1%)	78%
Edinburgh	2.6% (0.0%)	77%
Midlothian	2.0% (0.0%)	79%
West Lothian	2.9% (0.3%)	76%

(figures in brackets show change over previous year)

Source: Scottish Executive, February 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. Growth in take-up in Edinburgh was confined to post-2000 floorspace, up by 32%, while take up of older space declined.

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

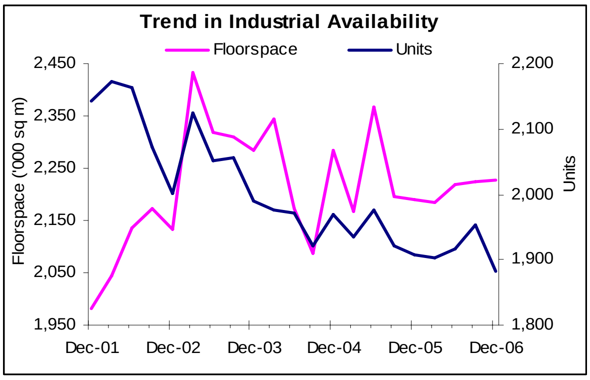
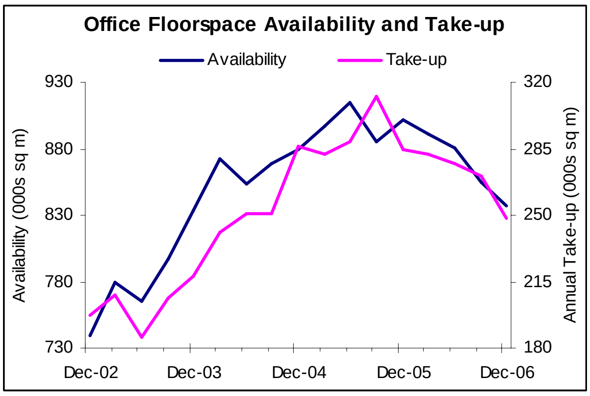


Figure 2



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

Property Market Activity – Edinburgh & Lothian

Industrial Stock

SPN holds information on 2,978 standard[4] industrial units in the Edinburgh & Lothian area, totalling just under 2.8 million sq m.

As shown by Figure 3, the age profile of industrial stock in Edinburgh & Lothian is younger than average, with 20% of floorspace built post-1990 and 6% post-2000. Across Central Scotland as a whole, only 16% of floorspace is post-1990 and 4% post-2000.

Within the SEEL area, Edinburgh has the highest proportion of space built post-2000 at 6%, but a relatively low proportion of 1990s space at just 8%. In West Lothian 22% of floorspace is in 1990s accommodation and 5% built post-2000. Stock in East Lothian is considerably older on average, with just 4% built in the 1990s and 5% built since 2000.

Stock in West Lothian is strongly biased towards large sizes, with 23% of units over 999 sq m, compared to 19% in Edinburgh, 17% in Midlothian and 12% in East Lothian. In Livingston, 33% of units are over 999 sq m, compared to a Central Scotland average of just 18%.

Industrial Availability

At December 2006, SPN recorded over 375,000 sq m of available space in 311 units in Edinburgh & Lothian. As shown by Table 3, over 80% of this supply is in Edinburgh and West Lothian.

Table 3

Distribution of Available Industrial Space in SEEL		
	Units	Floorspace
East Lothian	8%	8%
Edinburgh	40%	43%
Midlothian	10%	10%
West Lothian	42%	39%

At the end of 2006, available floorspace was 12% higher than at December 2005 and the number of available units was 14% higher. At December, supply of floorspace was 12% above the 3-year average and 7% above the 5-year average. The number of available units was 18% above the 3-year average and 19% above the 5-year average.

During 2006, Central Scotland[5] as a whole recorded a marginal increase of just 2% in supply of floorspace, while the number of units on offer was relatively unchanged.Supply in Edinburgh & Lothian increased in all size-bands, with strongest growth in the 500-999 sq m band. There was a decline in supply of pre-1980 space, but increased availability of younger floorspace (Figure 6).

Figure 3

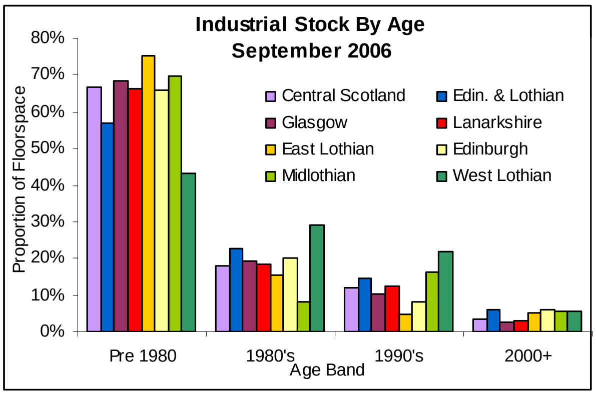


Figure 4

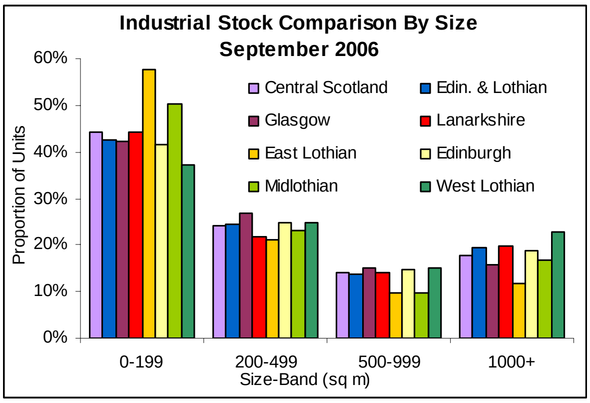


Figure 5

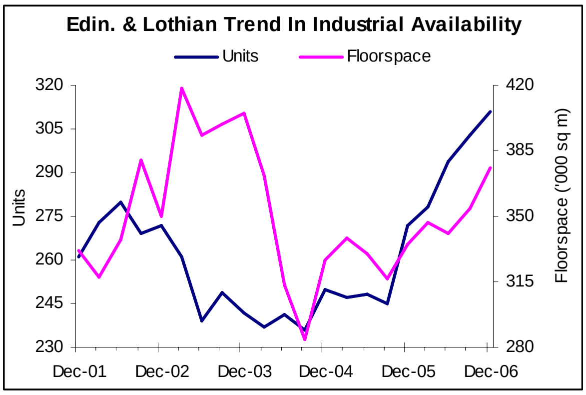
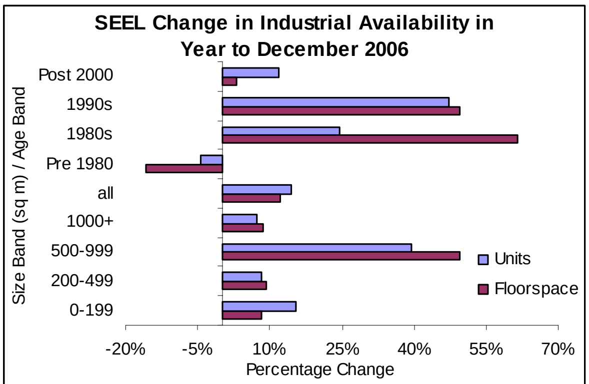


Figure 6



---

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

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

Growth in supply was strongest in Edinburgh where available floorspace increased by 26%. West Lothian recorded an increase of 11%, while available floorspace decreased in Midlothian and East Lothian by 6% and 18% respectively (Figure 7).

As shown in Table 4, the proportion of recorded stock available at December 2006 in Edinburgh & Lothian was close to the Central Scotland average, although now marginally higher in terms of floorspace.

Table 4

Industrial Availability Rate		
	% of Recorded Stock	
	Units	Floorspace
Edinburgh & Lothian	10%	14%
Central Scotland	9%	13%
Glasgow	9%	11%
Lanarkshire	8%	9%
East Lothian	10%	23%
Edinburgh City	10%	14%
Midlothian	8%	14%
West Lothian	13%	12%

The age profile of industrial supply in Edinburgh & Lothian is relatively modern, with 31% of floorspace built post-1990 and 14% post-2000. On average in Central Scotland, 25% of floorspace was built post-1990 and just 8% post-2000.

Edinburgh has a particularly high proportion of available floorspace built since 2000, at 22%, but with a relatively low proportion of 1990s space at just 7%. A high proportion of supply in West Lothian is in 1990s accommodation, at 31%, with 9% built post-2000. Supply in East Lothian, by contrast, is predominantly in older accommodation, with 92% of floorspace built before 1980 (Figure 8).

As shown in Figure 9, industrial supply in Livingston is heavily weighted towards large sizes, with 36% of units over 999 sq m and only 16% in sizes below 200 sq m. This compares to Central Scotland averages of 27% of units over 999 sq m and 33% under 200 sq m.

In Edinburgh & Lothian as a whole, 29% of available units are in sizes over 999 sq m and 29% under 200 sq m. Both Glasgow and Lanarkshire have a significantly higher proportion of availability in small units, with 37% in sizes of less than 200 sq m.

Figure 7

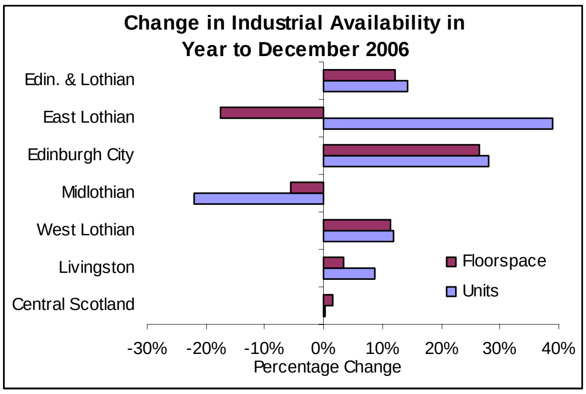


Figure 8

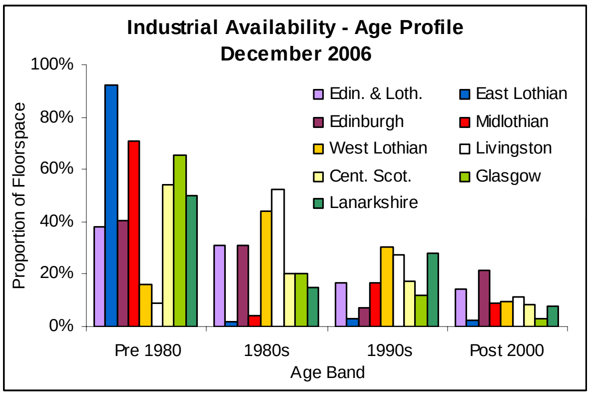
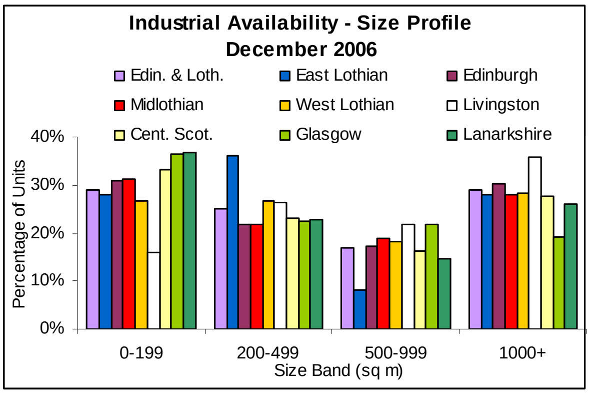


Figure 9



Industrial Take-up

In 2006, SPN recorded take-up of just over 72,000 sq m of industrial floorspace in Edinburgh & Lothian in 148 units. The volume of floorspace taken up was 41% lower than in 2005, but the number of transactions was 9% higher.

Take-up of floorspace during 2006 was 26% below the 3-year average and 28% below the 5-year average. The number of transactions was 2% below the 3-year average and 8% below the 5-year average.

As illustrated in Figure 11, there was a significant fall of 61% in take-up of floorspace in units over 999 sq m, but growth in smaller sizes, especially in the 200 – 499 sq m size band.

Take-up of floorspace built post-2000 fell by 58% in 2006, although there was an increase of 123% in the number of post-2000 units taken up. Take up of 1990s space increased over the year, but take-up of older floorspace declined, particularly of pre-1980 space.

Within the SEEL area, only West Lothian recorded any growth in take-up in 2006, up by just 4% in terms of floorspace, but with a rise of 53% in units taken up. Growth was strong in Livingston, which recorded a 48% increase in floorspace taken up and a rise of 64% in the number of transactions.

In Edinburgh, take-up of floorspace declined in 2006 by 78%, with a reduction of 37% in the number of transactions. Take-up also fell substantially in the small East Lothian market, as shown by Figure 12.

In Central Scotland as a whole, take-up of industrial space fell by 6% in 2006, with a slight increase, of just 3%, in the number of transactions. Take-up of industrial space fell marginally in Glasgow by 2%, while Lanarkshire recorded a substantial increase of 47%.

Average annual take-up for Edinburgh & Lothian, estimated from the total recorded take-up over the 3 years to September 2006 is shown in Table 4 below.

Table 4

Average Annual Take-up	Units	Floorspace (sq m)
Edinburgh & Lothian	158	96,900
East Lothian	8	5,883
Edinburgh	44	37,604
Midlothian	22	6,561
West Lothian	83	46,852
Livingston	38	30,848

Available supply at December 2006 is shown in Figure 13 as a number of years' average take-up. Supply in Edinburgh & Lothian at December 2006 represented 2.0 years' supply of units and 3.9 years' supply of floorspace. Supply across Central Scotland is lower, relative to average take-up, at 1.6 years' supply of units and 3.4 years' supply of floorspace.

The number of years' supply of industrial space is lower in West Lothian at 3.1, but relatively high in Edinburgh, which now has 4.3 years' supply of floorspace.

Figure 10

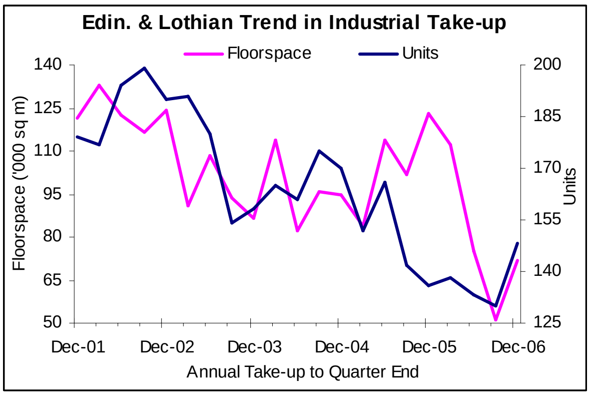


Figure 11

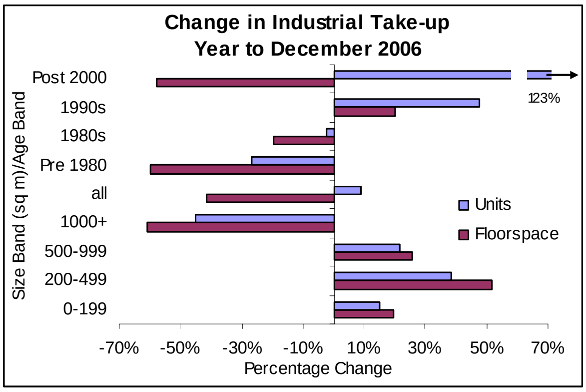


Figure 12

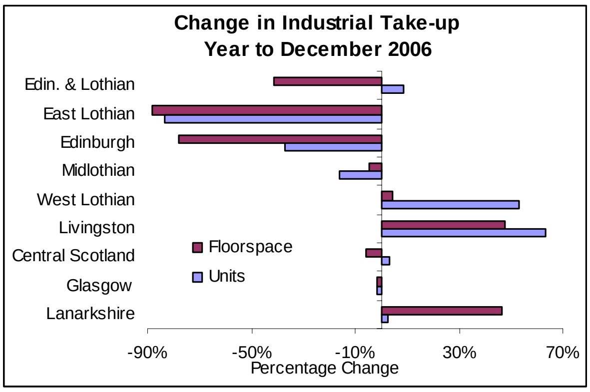
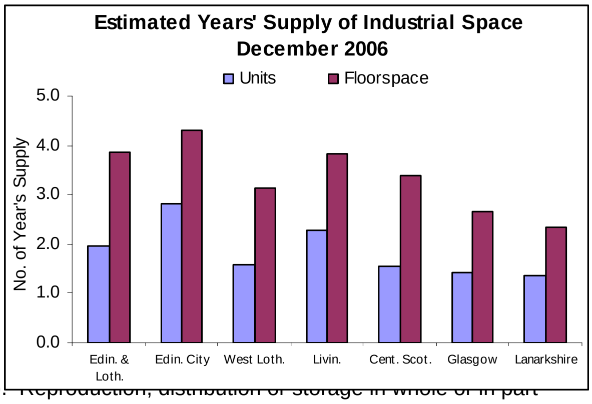


Figure 13



Office Availability

At December 2006, SPN recorded approximately 275,000 sq m of available office and business space in 476 premises in Edinburgh & Lothian. This reflects only accommodation that was immediately available for occupation and excludes around 102,000 sq m that is offered in advance of construction or is still under construction or refurbishment.

The total available space logged by SPN included premises that are 'under offer'. At the end of 2005, these totalled 14,900 sq m in 57 units, or 5% of the total supply.

Supply of floorspace fell steadily during the last three quarters of 2006, to finish the year 15% below the high level recorded at the end of 2005. The number of available premises increased by 5% over the year. Available floorspace at December was 7% below the 3-year average and close to the 5-year average.

The supply of modern space built since 2000 declined over the year by 26%, as shown by Figure 15. Supply of floorspace built pre-1980 also declined, by 24%.

The number of available premises in sizes of less than 200 sq m increased by 20% but supply declined in larger sizes.

Edinburgh recorded a fall of 16% in available floorspace over the year, but with an increase of 4% in available units. The supply of post-2000 floorspace in Edinburgh declined by 24%. In Glasgow, by comparison, available office space fell overall by 21%, but the supply of post-2000 space was substantially unchanged.

On average across Central Scotland, available office floorspace fell by 7% in 2006 and the supply of units rose by 9%.

As shown in Figure 17, 63% of office floorspace in Edinburgh & Lothian was built since 1990 and 35% since 2000. This is now closer to the Central Scotland averages of 59% in post-1990 space and 34% post-2000. Available office space in West Lothian is younger on average, with 86% built post-1990 and 43% post-2000. The small office supply in Midlothian is also predominantly in modern space.

In Edinburgh, 58% of available floorspace was built post-1990 and 33% post-2000. By comparison, supply in Glasgow is significantly older, with 47% of available floorspace built post-1990 and only 24% post-2000.

Edinburgh has a high proportion of office supply in large sizes, with 23% of available premises in sizes of more than 499 sq m and 13% over 999 sq m, compared to averages for Central Scotland of 15% over 499 sq m and just 9% over 999 sq m. In Glasgow, only 15% of available premises are over 499 sq m and 7% over 999 sq m.

Figure 14

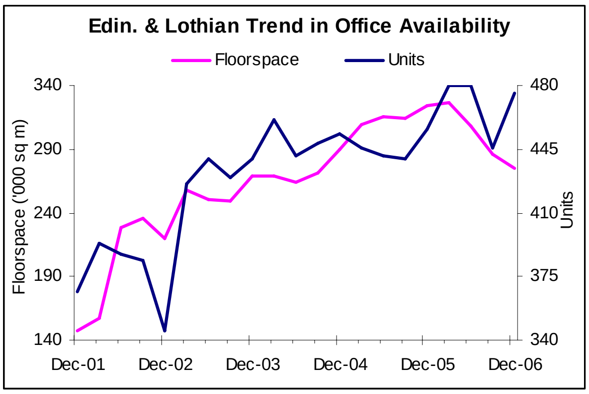


Figure 15

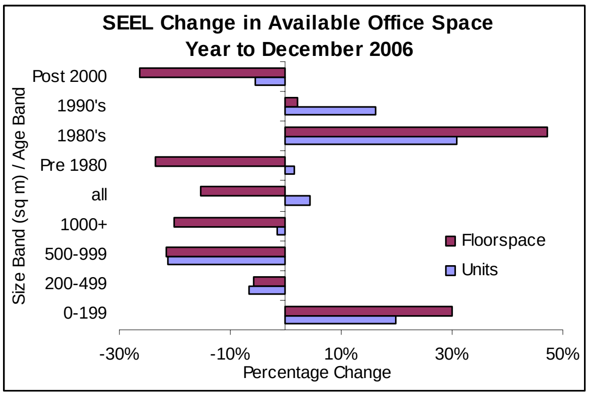


Figure 16

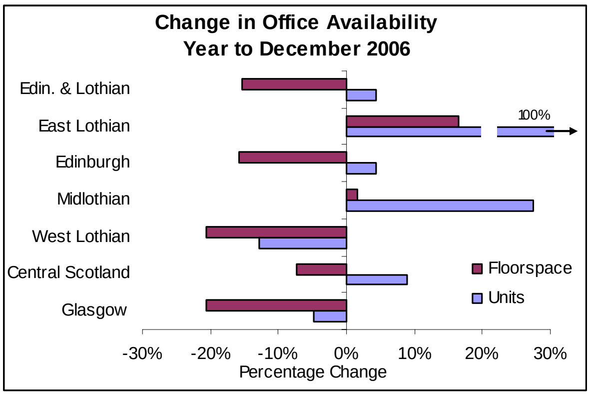
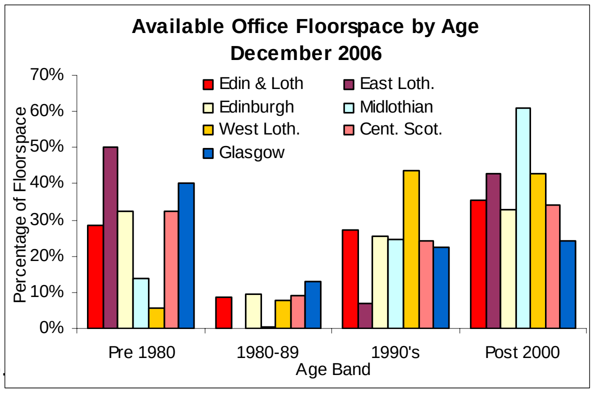


Figure 17



Office Take-up

In the year to December 2006, SPN recorded take-up of 69,015 sq m of office and business floorspace in Edinburgh & Lothian in 247 transactions. This represents a marginal rise in take-up of floorspace compared with the previous year, and a 9% increase in the number of transactions.

Take-up of floorspace in Edinburgh & Lothian in 2006 was 20% below the 3-year average and 10% below the 5-year average.

In Edinburgh, take up of floorspace increased slightly by 7% and the City accounted for 84% of all office space taken up in the SEEL area. The small Midlothian market recorded a significant increase in floorspace taken up, but still accounted for just 4% of the total. Take-up of office space in West Lothian declined by 35% and accounted for 12% of the SEEL total in 2006.

Across Central Scotland as a whole, take-up of office space declined by 11% during 2006 and the number of transactions by 5%. In Glasgow, take-up fell by 18% in volume of floorspace and by 5% in units .

Take-up of post-2000 floorspace increased by 38% in Edinburgh & Lothian and by 32% in Edinburgh City. In Glasgow, by contrast, there was a decline of 38% in take-up of post-2000 floorspace.

Based on an estimate of average annual take-up over the 3 years to September 2006, supply in Edinburgh & Lothian at December 2006 represented 1.8 years' supply of units and 2.9 years' supply of floorspace. This was close to the Central Scotland average of 1.8 years' supply of units and 2.7 years' supply of floorspace.

Supply of office space in Edinburgh City represented 2.8 years' average take-up overall, and 2.2 years' supply of space built since 2000. In Glasgow, supply of office space is significantly lower, relative to average annual take-up, at 1.9 years' supply overall and with only 1.1 years' supply of post-2000 space (Appendix 8c).

Figure 18

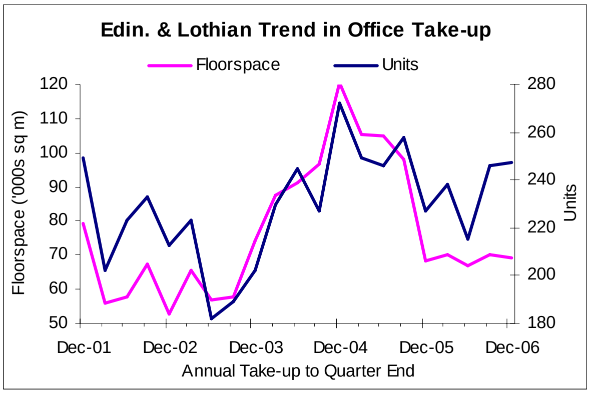


Figure 19

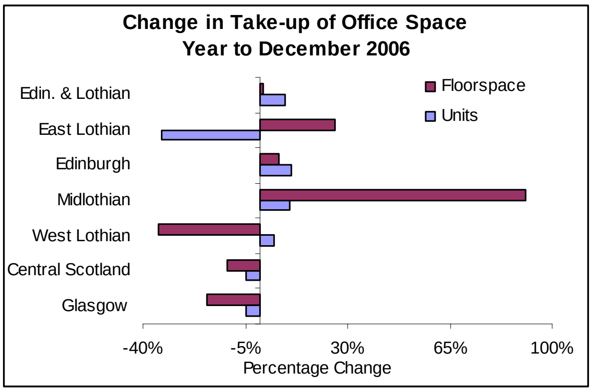


Figure 20

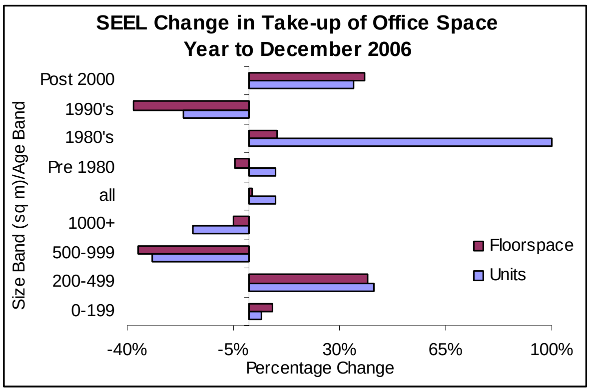


Figure 21