SCOTTISH ENTERPRISE AYRSHIRE

BUSINESS PROPERTY BULLETIN
May 2004

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This report is prepared by SPN on behalf of Scottish Enterprise Ayrshire. It reviews industrial and office market activity in the year to December 2003. 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.

Scottish Economic Summary

Provisional estimates of seasonally adjusted Gross Domestic Product (GDP) for Scotland, published by the Scottish Executive in April 2004, indicate growth of 0.2% in the fourth quarter of 2003 and 1.7% over the year to Q4 2003. Published figures for the UK as a whole show stronger growth in Q4 of 0.8% and growth of 1.8 % over the year to Q4.

Q4 saw a significant change from the recent trend, with growth of 1.6% in the production sector and growth of 0.6% in manufacturing, compared to a decline in output of 0.2% in the service sector. However, over the whole of 2003 output fell in the Scottish production sector by 1.6% and manufacturing declined by 2.2%, compared to growth of 2.3% in the service sector.

Across the UK, output in services grew by 2.2% in 2003, while the production sector recorded a decline of 0.5% and manufacturing output fell by 0.2%.

The construction sector in Scotland performed well in 2003, recording 5.7% growth in output, compared to 5.0% across the UK.

Recent figures from the Royal Bank of Scotland's PMI Scotland Report for April[1] indicate 10 successive months of growth in the Scottish private sector economy, with April recording the highest level of output for 4 years and indications of expanding employment in all sectors. However the report warns that growth in Scotland continues to lag the rest of the UK, including the predominantly manufacturing regions of the Midlands and North West.

Table 1

GDP Seasonally Adjusted	% Change Q4 2003 on Q3 2003	% Change Year to Q4 2003
Scotland	0.2 (0.8)	1.7 (1.8)
Production	1.6 (-0.1)	-1.6 (-0.5)
Construction	1.2 (1.4)	5.7 (5.0)
Services	-0.2 (1.0)	2.3 (2.2)
Note: UK Figure in brackets. Source: Scottish Executive April 2004		

Above trend economic growth in the second half of 2003, together with underlying inflationary pressure, prompted the Bank of England MPC to raise base rates to 3.75% in November 2003 and to 4.0% in February 2004. Continuing rapid house price inflation and increasing retail sales prompted a further rise to 4.25% in May.

The Chancellor in his March Budget statement predicted growth in the UK economy of 3% to 3.5% in 2004, but the Fraser of Allander Institute maintained its forecast for growth in Scottish output at 2.1%.

Scottish claimant count unemployment rate in March 2004 was 3.6%, down by 0.1`% over the year. The Labour Force Survey average total employment in the period Spring to Winter 2003 was unchanged at 74%.

South Ayrshire's unemployment rate at 4.0% has fallen by 0.2% over the year to March, but remains above the Scottish average. Unemployment has also fallen in both East and North Ayrshire but remains relatively high at 4.7% and 5.5% respectively (Table 2).

Table 2

	Claimant Court Unemployment	Average Total Employment
Scotland	3.6%	74%
East Ayrshire	4.7%	72%
North Ayrshire	5.5%	69%
South Ayrshire	4.0%	76%
Source: Scottish Executive		

[1] Purchasing Managers' Index Scotland Report, Royal Bank of Scotland/ NTC Research, April 2004

Scottish Industrials - Overview

The overall supply of available industrial floorspace in Scotland peaked in the first quarter of 2003, and declined slowly over the nine months to December. Despite this decline, the volume of available floorspace remains relatively high at 7% above the 3-year average. By contrast, the number of units on offer is at the lowest level for six years, reflecting a shift in supply towards larger units.

During 2003, the fall in available floorspace was confined mainly to Forth Valley (-47%), Glasgow (-26%), Grampian (-15%) and Tayside (-14%). Supply also fell marginally in Renfrewshire, but increased in all other areas including Edinburgh & Lothian (+16%) and Lanarkshire (+25%).

Take-up of industrial floorspace continued to fall in the first three quarters of 2003, but increased by 7% in Q4. Despite this increase at the end of the year, take-up of industrial space in 2003 was 14% below the three-year average.

During 2003, only Forth Valley and Renfrewshire recorded an increase in take-up. All other LEC areas have seen a decline in take-up of floorspace compared to the previous year. In the three years to December 2003, only Renfrewshire has recorded growth in take-up.

The RICS in Scotland's Commercial Property Survey for Q3 2003 reports little movement in industrial rents in most areas. Reported rental growth in the year to September was marginally negative in most areas and positive only in Livingston, Perth and Dundee. Growth in the three years to September was highest in Glasgow at only 1.6%.

The CB Richard Ellis Scottish Quarterly Index reports a return to limited rental growth in Q4 of 2003 at 0.6% and growth for the year of 0.1%, which is weaker than the UK.

Scottish Offices - Overview

Following a dip in supply in the first half of 2003, the steady rise in available office accommodation since 2001 resumed in the second half of the year. Available office floorspace at December 2003 was at the highest level yet recorded by SPN, 13% higher than at December 2002 and 21% above the five-year average.

During 2003, only Forth Valley, Grampian and Tayside recorded a fall in available office supply, while all other areas recorded an increase. The biggest rise in available floorspace was in Lanarkshire at 70%, while Edinburgh & Lothian recorded a rise of 22%. Both Glasgow and Edinburgh cities recorded a rise in available office floorspace in 2003 of 12%.

Office take-up rose in the second half of 2003 for the first time in 2.5 years. During 2003, take-up of floorspace was 17% higher than in 2002, although the number of transactions was marginally down.

There was considerable regional variation, with growth confined to Edinburgh & Lothian, Fife, Lanarkshire and Renfrewshire.

Take-up in Glasgow was virtually unchanged from the previous year, while Edinburgh City recorded a rise of 45% in floorspace taken up.

The RICS in Scotland's Commercial Property Survey at September 2003 suggests falling rental values in Edinburgh over the previous year, particularly for business park space. Returns for Glasgow indicate a slight fall in rental values for city centre open plan space, but some marginal growth for business parks and traditional space. Returns for Aberdeen (west end) and Dundee suggest growth of 4% - 4.5% over the year.

The CB Richard Ellis Scottish Quarterly Index reports positive rental growth for offices in Q4 of 2003 (0.2%), for the first time in two quarters, bringing their annual growth for 2003 to -1.9%.

Figure 1

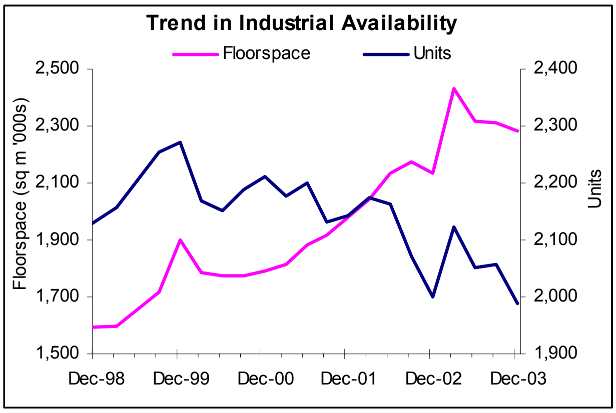
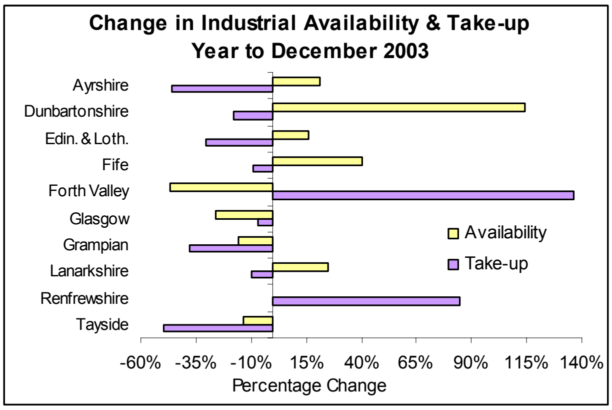


Figure 2



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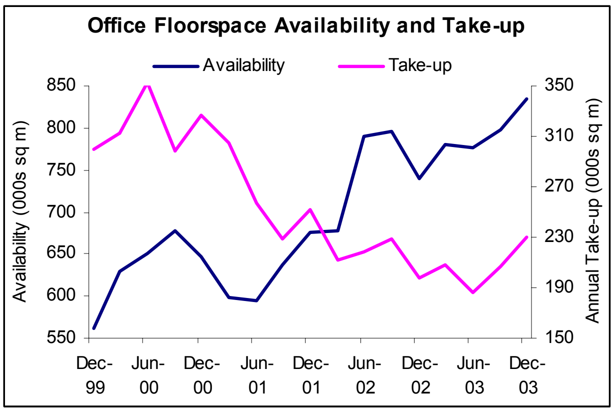


Business Property Market Activity – Ayrshire

Industrial Stock

SPN holds information on 1,459 'standard'[2] industrial units in Ayrshire totalling 1.15 million sq m. Almost half of this floorspace (48%) is in North Ayrshire, with 27% in East Ayrshire and 25% in South Ayrshire. Irvine 'new town' holds 31% of all industrial floorspace, but has only 18% of the units. Ayrshire as a whole accounts for around 9% of the total stock in Central Scotland[3].

Both East and North Ayrshire have a relatively old industrial stock, with only 7% of floorspace built since 1990 and over 80% built pre 1980. South Ayrshire stock is younger, with 18% of floorspace built post 1990 and 59% pre 1980. This compares to a Central Scotland average of 13% of floorspace built post 1990 and 69% built pre 1980.

Irvine has a high proportion of stock in large units with 26% over 999 sq m and only 29% under 200 sq m compared to a Central Scotland average of only 17% over 999 sq m and 45% under 200 sq m.

Industrial Availability

At December 2003, SPN recorded 204 available industrial units in Ayrshire totalling 255,124 sq m. The number of available units has remained largely unchanged during 2003, but the volume of available floorspace increased by 21%. The overall rate of availability remains relatively high in East and North Ayrshire, but significantly lower in South Ayrshire, as shown in Table 3.

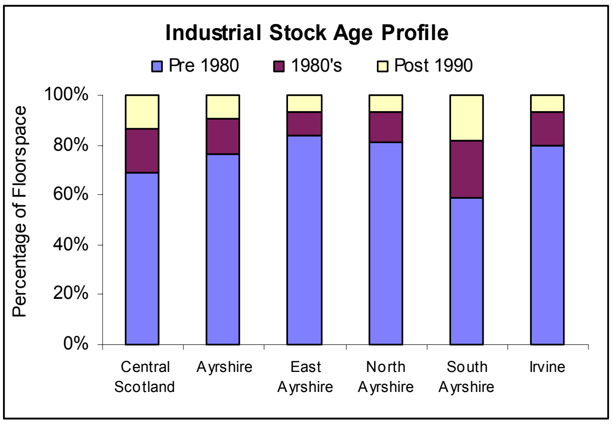
Table 3

Industrial Availability - Ayrshire		
	Rate of Availability	
	Units	Floorspace
SE Ayrshire	14%	22%
Central Scotland	11%	15%
SE Glasgow	11%	12%
SE Renfrewshire	12%	21%
East Ayrshire	18%	25%
North Ayrshire	14%	26%
South Ayrshire	8%	11%
Irvine	16%	28%

As shown in Figure 6 the increase in supply was in units over 500 sq m and mainly in 1980s floorspace. The supply of post 1990 floorspace fell by 30% to less than 20,000 sq m. The supply of units of less than 500 sq m is at the lowest level for five years.

East Ayrshire recorded an increase in both units and floorspace available, but both South and North Ayrshire saw a shift towards larger properties, with increased available floorspace in a smaller number of units.

Figure 4



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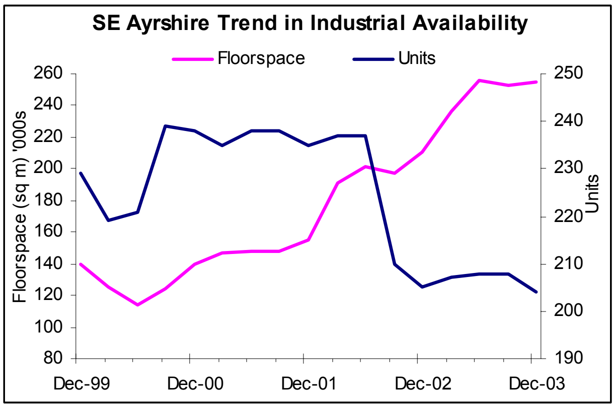

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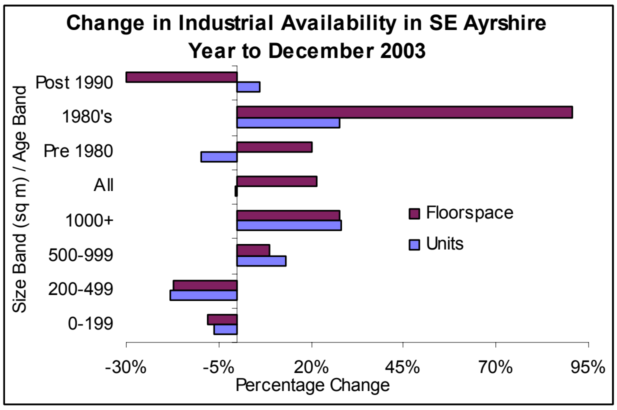

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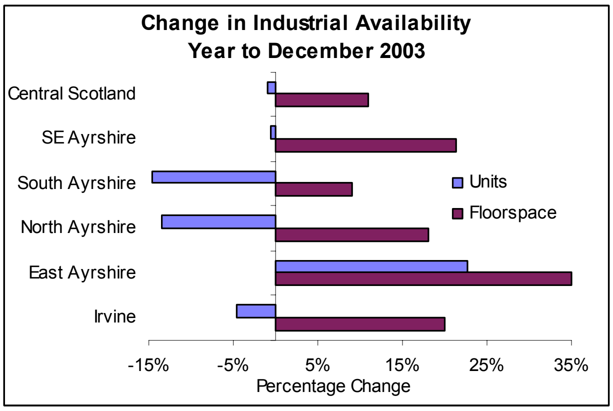

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[2] This includes all industrial units within recognised industrial estates or industrial areas, but excludes large single user facilities. 'Business units', 'open storage' and 'yards' have also been excluded from this analysis.
[3] Central Scotland includes SE Ayrshire, Dunbartonshire, Fife, Forth Valley, Glasgow, Edin. & Loth, Lanarkshire and Renfrewshire.

Over the same period, Central Scotland recorded an 11% rise in available floorspace with a marginal fall in the number of units.

East Ayrshire has a very low proportion of available supply in large sizes, with only 25% of units over 499 sq m and 16% over 999 sq m, compared to Central Scotland averages of 43% and 27% respectively. By contrast, North Ayrshire has a relatively low proportion of small units, particularly in Irvine where less than 20% of available units are under 200 sq m.

As shown by Figure 8, a very low proportion of available floorspace in Ayrshire is modern (post 1990) at only 8%. The proportion of post 1990 space is higher in South Ayrshire at 31%, higher than the Central Scotland average of 23%.

Industrial Take-up

Over the year to December 2003, SPN recorded take-up of 35,252 sq m of industrial space in 106 units in Ayrshire. This represents a marginal increase in the number of transactions compared to the previous year, but a decrease of almost half (46%) in floorspace taken up.

Over the same time period Central Scotland recorded a fall in take-up of floorspace of 8% with no significant change in number of transactions.

Take-up of floorspace in Ayrshire in 2003 was 20% below the 3-year average and 16% below the 5-year average.

An increase in take-up was recorded for small sizes under 500 sq m of around 19%, but this was heavily overshadowed by a fall of over 50% in take-up of larger units.

All three local authority areas suffered a significant reduction in take-up of floorspace with the biggest percentage reduction in East Ayrshire where, paradoxically, there was an increase in the number of units taken up.

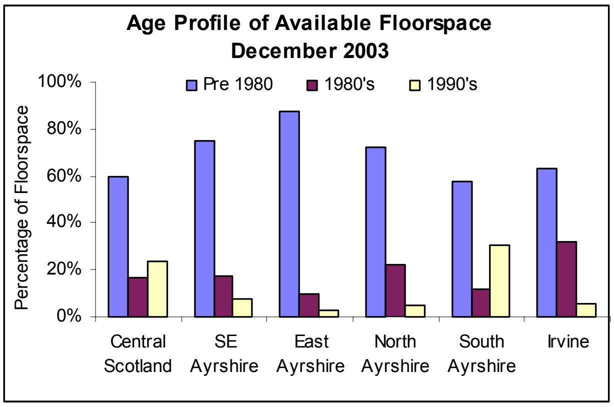
Average annual take-up for Ayrshire, estimated from total recorded take-up over 3 years to September 2003 is shown in the table below. This reflects reduced take-up in 2003.

Table 4

December 2003	Average Annual Take-up		No. of Years Supply	
	Units	Floorspace (sq m)	Units	Floorspace
Ayrshire	108	46,153	1.9	5.5
East Ayrshire	34	18,454	2.7	4.2
North Ayrshire	55	21,379	1.5	6.8
South Ayrshire	18	6,320	1.6	5.2
Irvine	23	13,231	1.9	7.7
Central Scotland	977	556,566	1.6	3.6

Supply at December 2003 represented 1.9 years take-up of units and 5.5 years supply of floorspace, compared to a Central Scotland average of 1.6 years supply of units and 3.6 years take-up of floorspace. This reflects the recent increase in available floorspace in Ayrshire, together with falling levels of take-up.

Figure 8



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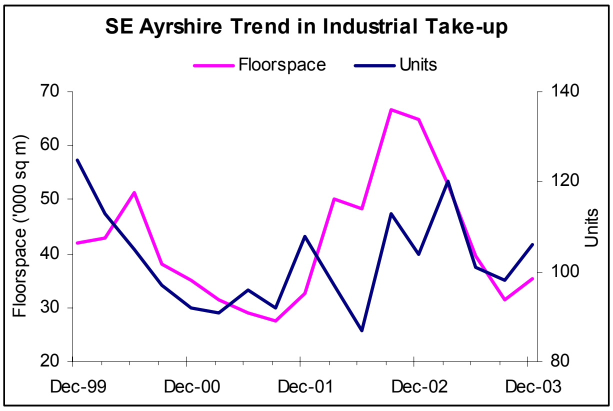

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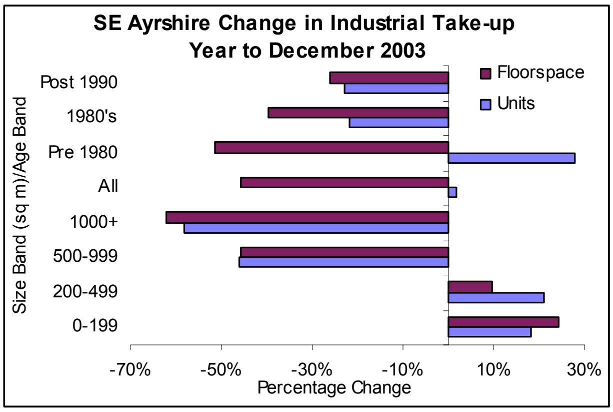

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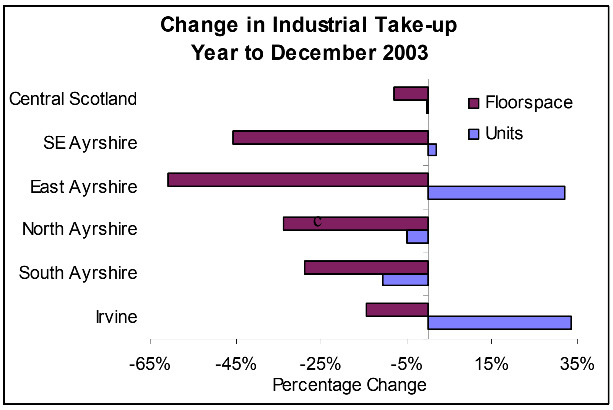


Office Availability

At December 2003, SPN recorded 74 available office and business units in Ayrshire that totalled 18,157 sq m. This included 15 units (4,120 sq m) that were ‘under offer’ at that time.

Of the available space, 35% (6,300 sq m in 12 units) was built post 1990 and 5% (982 sq m in 3 units) was built since 2000.

Available floorspace increased by 20% during 2003 from the relatively low level recorded at December 2002, although the number of properties on offer fell by 14% (Figure 12). The increase in available floorspace was mainly in modern space and in large sizes as shown by Figure 13. The supply of 1980’s floorspace fell by over 30%, while post 1990 space increased by over 200%.

Most of the decrease in floorspace was in North Ayrshire, although in a reduced number of premises. South Ayrshire recorded a smaller increase, while supply fell by half in East Ayrshire. In Central Scotland as a whole, office availability increased during 2003 by 11% in unit numbers and by 19% in floorspace.

Despite the recent increase, the proportion of available office space in Ayrshire that was built post 1990 remains relatively low at 35%, with only 9% built since 2000. This compares to Central Scotland averages of 60% built post 1990 and 35% post 2000. Most of the available modern space is in North Ayrshire while East Ayrshire records only one available property built post 1990.

Office Take-up

In the year to December 2003, SPN recorded take-up of 4,910 sq m in 37 office and business units in Ayrshire. This was a decrease in take-up from the previous year of 31% in floorspace and of 16% in the number of transactions. Take-up during 2003 was 27% below the five-year average.

Across Central Scotland as a whole, take-up of office floorspace increased in 2003 by 29%, although with a marginal fall in unit transactions.

Almost half (49%) of all floorspace taken up in 2003 was in sizes of less than 200 sq m, although only 19% of available space is in this size band. No take-up was recorded in sizes above 999 sq m.

Based on an estimate of average annual take-up over the 3 years to September 2003, supply at December represented 2.9 years take-up of floorspace. This is a higher level of supply, relative to average take-up, than reported in our last review, but still below the Central Scotland average of 3.7 years supply.

Figure 12

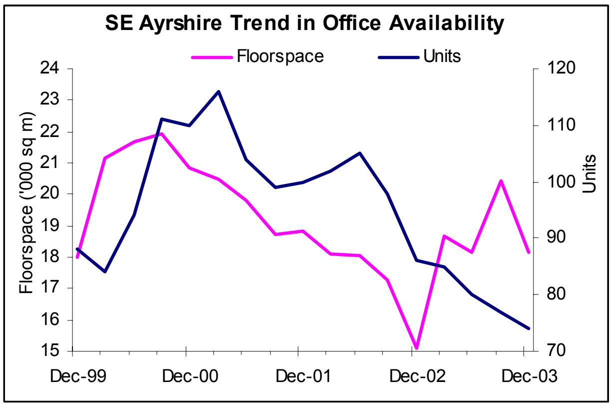
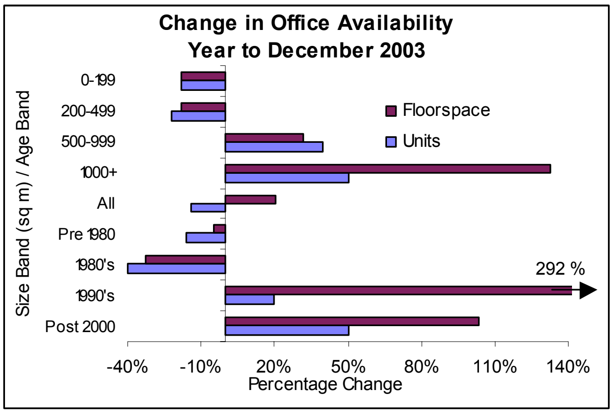


Figure 13



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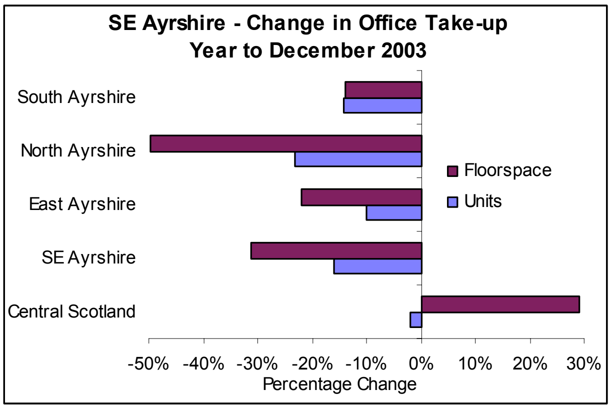

Figure 15