

This report, prepared by SPN on behalf of Scottish Enterprise Ayrshire, reviews industrial and office market activity in the year to December 2004. 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

The latest provisional figures published by the Scottish Executive in January 2005 show growth of 0.9% in seasonally adjusted Gross Domestic Product (GDP) in Scotland in Q3 of 2004 and growth of 1.8% in the previous four quarters. Growth in Scotland continues to lag behind the UK average, which was 3.2% in the year to Q3.

The main source of growth was again the service sector, which increased output by 1.3% in Q3, but by only 1.8% in the year to September, well below the UK average of 3.8% for the year. Output in the Scottish production sector registered only marginal growth of 0.1% over the year, compared to 0.5% for the UK. Growth in Scottish manufacturing was just 0.4% over the year, compared to growth of 1.5% for the UK.

The construction sector in Scotland out-performed the UK average, recording growth in output of 8.4% in the year to September 2004, compared to 4.5% across the UK.

More recent figures from the Royal Bank's PMI Scotland Report¹ indicate twenty successive months of growth in Scottish private sector output to February 2004. Growth in manufacturing output increased towards the end of 2004, but weakened at the start of 2005, with February recording the weakest growth since October 2004. Growth in services slowed towards the end of 2004, and although increasing somewhat in February 2005, remained below the level seen in the first half of 2004. The rate of new business growth improved in February in both sectors, but remained below the 2004 average.

Table 1

GDP Seasonally Adjusted	% Change Q3 2004 on Q2 2004	% Change Year to Q3 2004
Scotland	0.9 (0.5)	1.8 (3.2)
Production	-0.1 (-1.3)	-0.1 (0.5)
Construction	0.4 (1.2)	8.4 (4.5)
Services	1.3 (0.9)	1.8 (3.8)

Note: UK Figure in brackets.
Source: Scottish Executive January 2005

¹ Purchasing Managers' Index Scotland Report, Royal Bank of Scotland/ NTC Research, March 2005

In its commentary on the Index of Leading Economic Indicators², The Bank of Scotland highlights signs of economic improvement in Q4 of 2004 and predicts above trend growth into 2005, but easing back to the long term average rate of 2% in the second half of the year.

Following a rise in base rate to 4.75% in August 2004, the Bank of England MPC has held this rate for the remainder of 2004 and through Q1 2005. This is the highest base rate amongst the group of seven industrial nations and while a number of economic commentators believe it has now peaked, opinion remains divided on whether the next move is likely to be up or down.

Official unemployment figures continue to fall. Claimant count unemployment stood at 3.3% in February 2005, down 0.4% on the year and the Labour Force Survey total employment rate for the second half of 2004 rose to 75%. The Royal Bank's PMI Report records a return to marginal growth in private sector employment in November and December following a slight decline in late Summer 2004, but with employment levels remaining static in the first two months of 2005.

The unemployment rate in South Ayrshire has fallen 0.8% over the year to February and is now just above the Scottish average. Unemployment has fallen in both East and North Ayrshire, although it is still relatively high, compared to the Scottish average, at 4.4% and 4.9% respectively (Table 2)

Table 2

	Claimant Count Unemployment February 05	Average Total Employment Q1-Q4 2004
Scotland	3.3%	75%
East Ayrshire	4.4%	72%
North Ayrshire	4.9%	67%
South Ayrshire	3.5%	76%

Source: Scottish Executive March 2005

² The Scottish Index of Leading Economic Indicators, Bank of Scotland, January 2005

Scottish Industrials - Overview

Available industrial floorspace fell by 11% in Q2 and Q3 of 2004, but increased again by 6% in Q4. Over the year, supply of floorspace fell 3% in 2004 to stand just marginally above the 3-year average and 7% above the 5-year average. However, the number of units on offer again fell to the lowest level recorded, 8% below the 5-year average, reflecting a continuing shift in supply towards larger units. Availability of units under 200 sq m fell over the year by 21%. Ryden's 55th Scottish Property Review³ reports an emerging shortage of good quality units in sizes of less than 1,393 sq m (15,000 sq ft).

In 2004, the Strathclyde region as a whole recorded almost no change in available floorspace, but Lanarkshire saw a 20% increase, while Ayrshire and Dunbartonshire recorded substantial decreases of 19% and 34% respectively. Edinburgh & Lothian and Fife recorded falls in available floorspace over the year of 19% and 13% respectively, while Tayside saw a substantial increase in supply of 23%.

Take-up of industrial floorspace during 2004 was 2% higher than in the previous year, but 5% below the 3-year average. However, take-up of modern (post-1990) floorspace increased by 64% over the year and take-up of post-2000 floorspace grew by 22%, while take-up of pre-1990 space fell by 10%.

Take-up of floorspace in Strathclyde fell overall by 9%, due mainly to a fall of 20% in Glasgow and a smaller decline of 8% in Lanarkshire. Tayside and Forth Valley both recorded relatively low levels of take-up in 2004, down by 21% and 51% on the previous year. By contrast, take-up increased significantly in Fife and in Grampian by 127% and 51% respectively. Edinburgh & Lothian recorded a more modest rise of 10% over the year.

The CBRE Quarterly Index⁴ reports no rental growth in Q2 or Q3 of 2004 for Scottish industrials, and a marginal fall in rental values in the year to September of 0.4%. Weakening capital growth reduced the reported total investment return to 12.8% in the twelve months to September.

Scottish Offices – Overview

The steady rise in available office accommodation continued in the second half of 2004. Available floorspace at December was 5% higher than at December 2003 and 7% over the 3-year average. However, this increase was mainly in 1980s space, up 48%, while post-1990 space fell by 3%.

Available floorspace in Edinburgh City increased by 19% over the year, but mainly in 1980s space, while available space built post-2000 fell by 10%. Glasgow, by contrast, recorded an overall increase of just 2%, with a rise of 36% in post-2000 space and a falling supply of older space.

In Aberdeen, available floorspace was up by 31% overall, but with a rise of 190% in post-2000 accommodation.

The growth in office take-up recorded in the second half of 2003 continued throughout 2004. Take-up of floorspace in 2004 was 30% higher than in the previous year and 11% above the 5-year average. Take-up of post-1990 floorspace increased by 34% and take-up of post-2000 space was up by 42%, compared to a marginal fall in take-up of 1980s floorspace.

Only the Grampian area recorded a significant fall in take-up in 2004, with take-up in Aberdeen down by 28%. Edinburgh city saw an increase of 82% in take-up, while Glasgow recorded a rise of 11%. Substantial increases were also recorded in Dunbartonshire, Forth Valley, Renfrewshire and Tayside.

The CB Richard Ellis Scottish Quarterly Index reports marginal rental growth for offices in Q2 and Q3 of 2004, continuing a slow return to positive growth, but for the year to September they report a small decline in rental values of 0.3%. CBRE also point to strengthening capital growth, raising total return on Scottish Offices to 9.9% in the year to September.

Figure 1

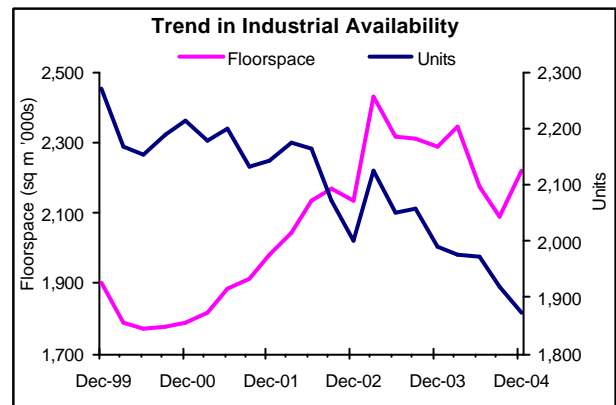
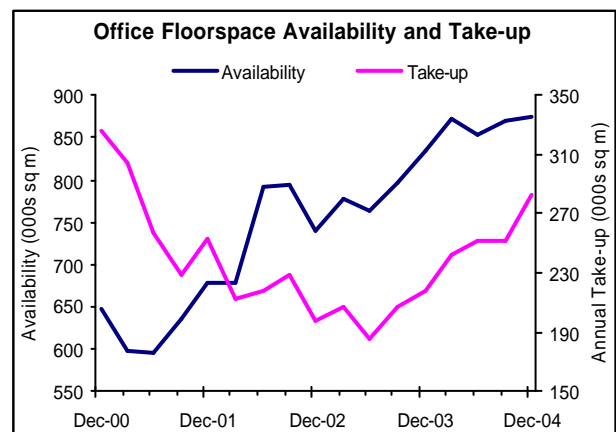


Figure 2



³ 55th Scottish Property Review, October 2004, Ryden

⁴ Scottish Quarterly Index, 3rd Quarter 2004, CB Richard Ellis

Business Property Markets in Ayrshire

Industrial Stock

SPN holds information on 1,494 'standard'⁵ industrial units in Ayrshire totalling 1.17 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 31% of all industrial floorspace, but has only 18% of the units.

Stock in Ayrshire is slightly older than the Central Scotland⁶ average with 75% of floorspace built pre-1980 and only 9% built post 1990, compared to 68% pre-1980 and 14% post-1990 in Central Scotland as a whole. However, South Ayrshire has a younger stock, with 16% of floorspace post-1990 and 54% pre-1980. In East and North Ayrshire, only 7% of space is post-1990 and over 80% pre-1980.

Irvine has a high proportion of stock units in large sizes, at 25% over 999 sq m, and only 27% under 200 sq m. Across Central Scotland as a whole, 18% of units are over 999 sq m and 45% under 200 sq m.

Industrial Availability

At December 2004, SPN recorded 176 available industrial units in Ayrshire totalling 207,092 sq m. Supply fell steadily in the first 3 quarters of 2004 to finish the year 19% below the level recorded at the end of 2003 in terms of floorspace and 14% lower in unit numbers.

Over the same period, Central Scotland as a whole recorded an 8% fall in available units and a decrease of 5% in available floorspace.

As illustrated in Figure 5, there was a fall in supply of post-1990 accommodation and increased availability of 1980s space.

The available supply of small units (<200 sq m) fell by 37% and the supply of floorspace in units over 999 sq m fell by 21%, although there was no change in the number of units in this size-band.

Of the three local authority areas, only South Ayrshire recorded any increase in available floorspace in 2004, up by 66%, although there was almost no change in the number of units. Available floorspace in North Ayrshire fell by 27% in 2004, but with a small rise in the number of units. East Ayrshire recorded a fall of 39% in available floorspace and of 35% in units.

⁵ This includes all industrial units within recognised industrial estates and areas, but excludes large single-user facilities, 'business units', 'open storage' and 'yards'.

⁶ Central Scotland includes the SE LEC areas of Ayrshire, Dunbartonshire, Edinburgh & Lothian, Fife, Forth Valley, Glasgow, Lanarkshire, and Renfrewshire.

Figure 3

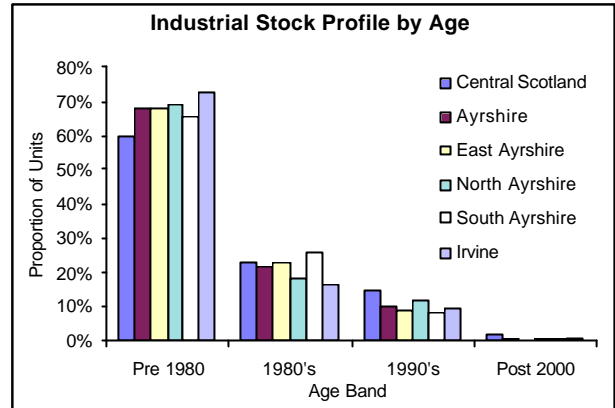


Figure 4

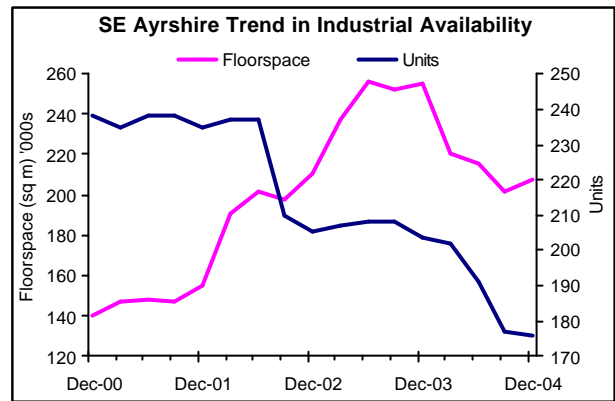


Figure 5

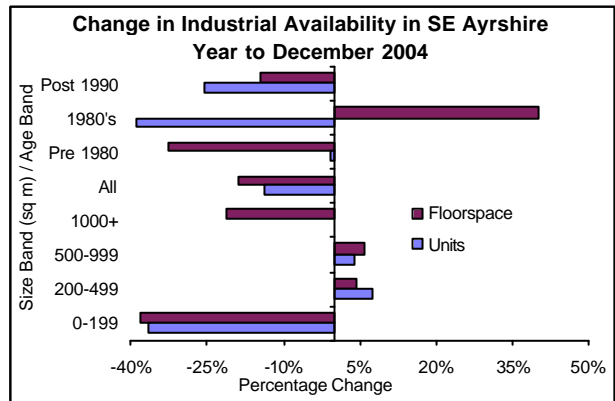
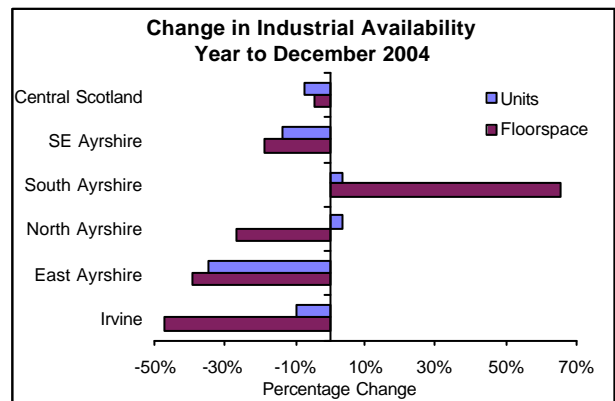


Figure 6



Available floorspace in Ayrshire at the end of 2004 was 6% below the 3-year average, but 11% above the 5-year average. The number of available units was 14% below the 3-year average and 19% below the 5-year average, reflecting a long-term sustained decline in the numbers of available units in small sizes.

The percentage of recorded stock available at the end of 2004 is shown in Table 3 below. The rate of availability in Ayrshire has fallen since 2003, but remains higher than the Central Scotland average.

Table 3

Industrial Availability - Ayrshire		
	Rate of Availability	
	Units	Floorspace
SE Ayrshire	12%	18%
Central Scotland	9%	14%
SE Glasgow	11%	11%
SE Renfrewshire	12%	20%
East Ayrshire	12%	15%
North Ayrshire	14%	19%
South Ayrshire	8%	19%
Irvine	14%	15%

As shown by Figure 7, a relatively low proportion of Ayrshire's available space is modern, with only 8% built post-1990 and 62% pre-1980. This compares to Central Scotland averages of 25% post-1990 and 56% pre-1980.

Of the 3 council areas, the proportion of available floorspace built post-1990 is highest in South Ayrshire at 14%. Supply in East Ayrshire is particularly old, with only 1% of available floorspace built post-1990 and 87% pre-1980.

The size profile of available units in Ayrshire as a whole is similar to the Central Scotland average, as shown in Figure 8. However, North Ayrshire has a low proportion of supply in small units, with only 19% under 200 sq m, compared to 31% in Ayrshire as a whole. In Irvine, only 3 available units were recorded in this size-band. East Ayrshire, by contrast, has over half of its available units in sizes of less than 200 sq m and a correspondingly low supply of units in larger sizes.

Figure 7

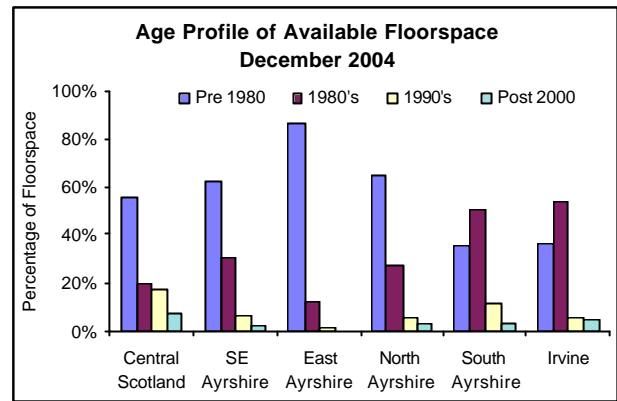
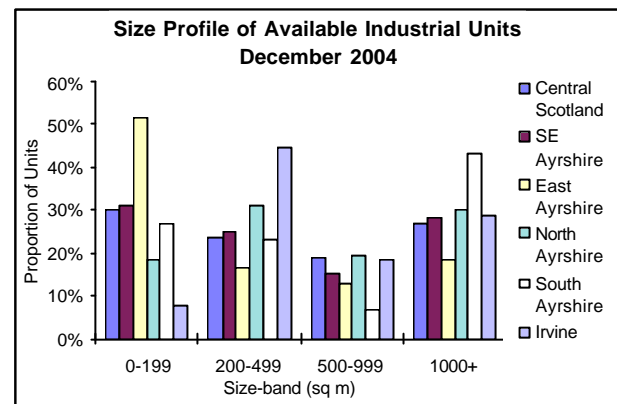


Figure 8



Industrial Take-up

In 2004, SPN recorded take-up of 29,958 sq m of industrial space in Ayrshire, in 101 transactions. This represents a decrease of 15% in floorspace taken up compared to the previous year and a fall of 5% in the number of transactions.

Over the same time period, Central Scotland recorded a marginal fall in take-up of floorspace with a fall of 9% in the number of transactions.

Take-up of floorspace in Ayrshire in 2004 was 31% below the 3-year average and 24% below the 5-year average.

Take-up of floorspace in large units, over 999 sq m, fell by 50% over the year, although there was a significant increase in take-up of floorspace in the 500 to 999 sq m size band (87%). Take-up of small units, less than 200 sq m, fell by 15% over the year.

Take up of pre-1980 floorspace decreased by 27%, while take-up of post-1990 floorspace was down by 12%. There was an increase of 50% in take-up of 1980s floorspace, but from a relatively low level in the previous year.

Not all of the local authority areas suffered a fall in take-up. In South Lanarkshire, take-up increased in 2004 by 46% in floorspace and by 24% in units. Take-up of floorspace in East Ayrshire, by contrast, decreased by 49%, but with only a marginal fall in transactions. North Ayrshire recorded a fall of 13% in take-up of both units and floorspace.

Average annual take-up for Ayrshire, estimated from total recorded take-up over 3 years to September 2004 is shown in the Table 4 below.

Table 4

Average Annual Take-up	Units	Floorspace (sq m)
Ayrshire	108	45,376
East Ayrshire	30	16,463
North Ayrshire	61	22,364
South Ayrshire	17	6,549
Irvine	28	13,359

Availability at December 2004 is shown in Figure 12 as a number of years' average take-up. Supply in Ayrshire represented 1.6 years' supply of units and 4.6 years' supply of floorspace. Central Scotland as a whole also had 1.6 years' supply of units, but only 3.6 years' supply of floorspace.

Supply of floorspace, relative to average annual take-up, is high in South Ayrshire, at over 8 years' supply, compared to only 2.8 years' supply in East Ayrshire.

Figure 9

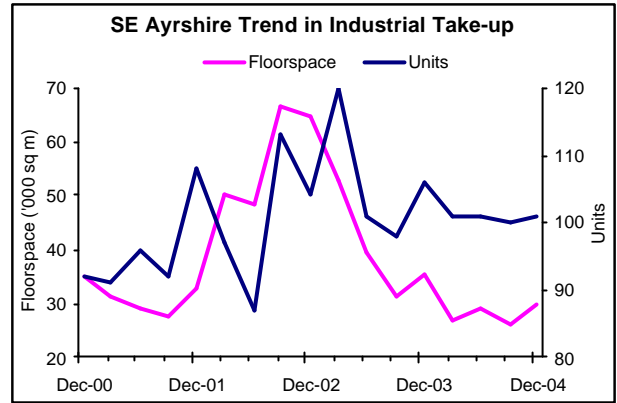


Figure 10

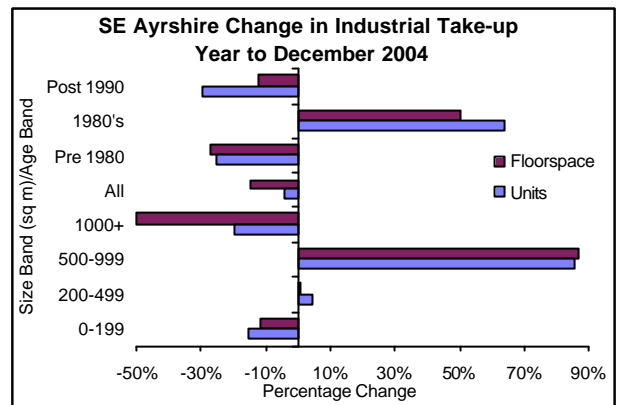


Figure 11

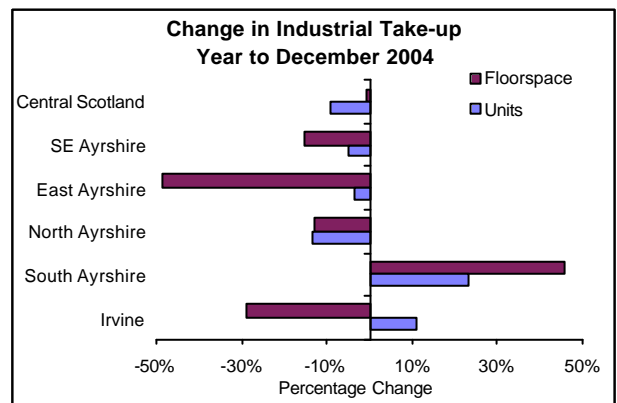
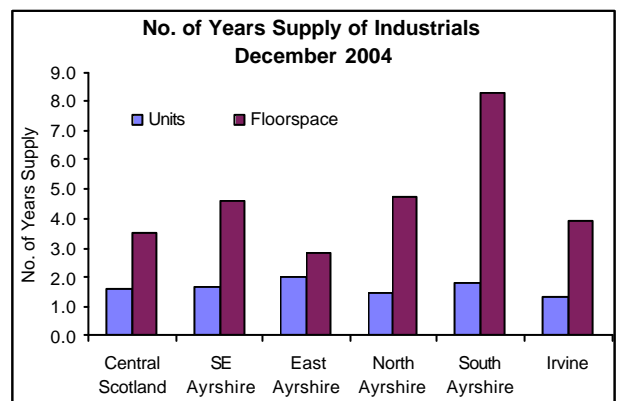


Figure 12



Office Availability

At December 2004, SPN recorded 66 available office and business units in Ayrshire, totalling 25,569 sq m. This reflects only accommodation that was immediately available for occupation at December and excludes around 1,900 sq m that was offered in advance of construction.

Of the total recorded available space, 2,080 sq m in 14 units were 'under offer' at December.

As illustrated in Figure 13, available floorspace increased dramatically in Q1 2004, and levelled off in the rest of the year. At December, the supply of floorspace was 41% higher than at December 2003, although the number of properties on offer fell by 11%.

The increase in supply in Ayrshire was confined to East and South Ayrshire. Availability in North Ayrshire was substantially unchanged.

In Central Scotland as a whole, office availability fell during 2004 by 5% in unit numbers although there was a slight increase (2%) in floorspace.

The increase in available floorspace in Ayrshire was mainly in large sizes over 1,000 sq m and in 1980s accommodation. Most of the increase was accounted for by only two additional large properties. The supply of post-1990 floorspace fell slightly by 8% and the very limited supply of post-2000 space fell by 62%.

As shown by Figure 14, the age profile of available office space in Ayrshire is relatively old, with only 23% built post-1990 and 3% post-2000. This compares to Central Scotland averages of 57% post-1990 and 35% post-2000. East Ayrshire has very little modern space available.

Office Take-up

In 2004, SPN recorded take-up of 4,602 sq m in 35 office and business units in Ayrshire. This represents a small decrease in take-up from the previous year of 6% in floorspace and of 5% in the number of transactions.

Take-up of floorspace during 2004 was 28% below the five-year average and 17% below the 3-year average.

In Central Scotland as a whole, take-up of office floorspace increased by 35% in 2004, with a 20% rise in the number of unit transactions.

Almost half (49%) of the total office floorspace taken up during 2004 and 80% of the transactions were in sizes of less than 200 sq m, although only 12% of the available space is in this size band. No take-up was recorded in sizes greater than 999 sq m and only 1 transaction over 499 sq m.

Based on an estimate of average annual take-up over 3 years to September 2004, supply at December 2004 represented 4.7 years' take-up of floorspace and 1.6 years' supply of units (Figure 16). On average, Central Scotland had 3.7 years' supply of floorspace and 1.8 years' supply of units at December.

Figure 13

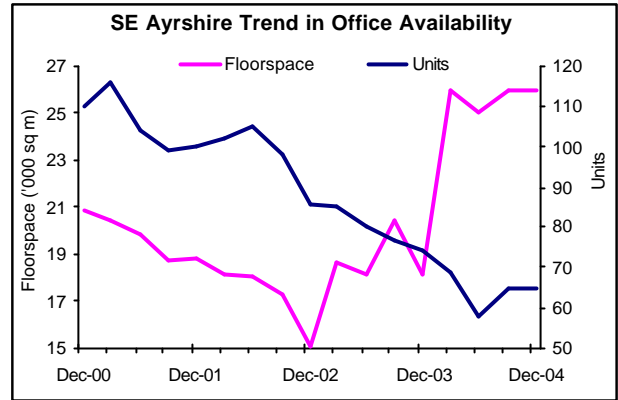


Figure 14

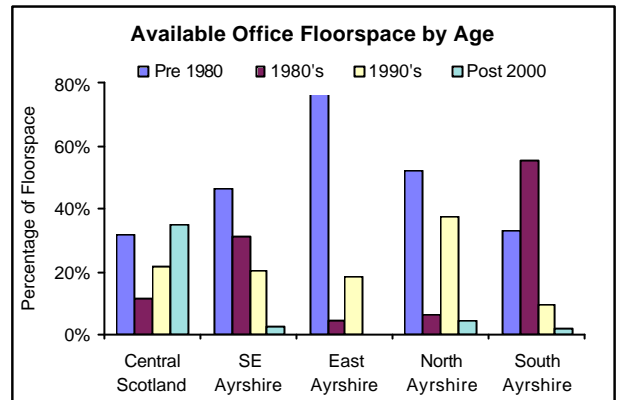


Figure 15

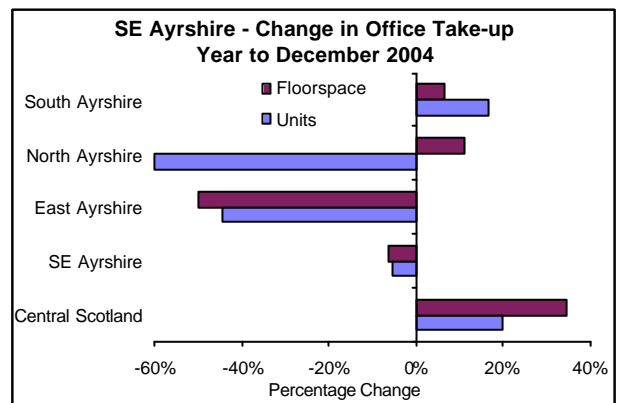


Figure 16

