

**BUSINESS PROPERTY REVIEW
March 2005**

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This report is prepared by SPN on behalf of Scottish Enterprise Edinburgh & Lothian. It 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 trends in the Edinburgh & Lothian 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	% Change	% Change
Seasonally	Q3 2004 on	Year to
Adjusted	Q2 2004	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

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 into 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 Report² 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 Edinburgh & Lothian remains below the Scottish average as shown in table 2. The rate in Midlothian was unchanged at 2.1% over the year to February 2005. West Lothian and East Lothian saw decreases of 0.4% and 0.3% respectively. Edinburgh's unemployment rate fell by 0.2% in 2004.

Table 2

	Claimant Count Unemployment February 05	Average Total Employment Q1-Q4 2004
Scotland	3.3%	75%
East Loth.	2.0%	79%
Edinburgh	3.1%	75%
Midlothian	2.1%	77%
West Loth.	2.9%	84%

Source: Scottish Executive March 2005

¹ Purchasing Managers' Index Scotland Report, Royal Bank of Scotland/ NTC Research, 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%, but 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

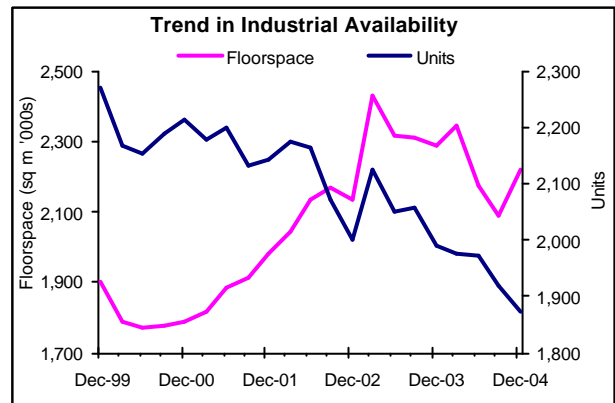
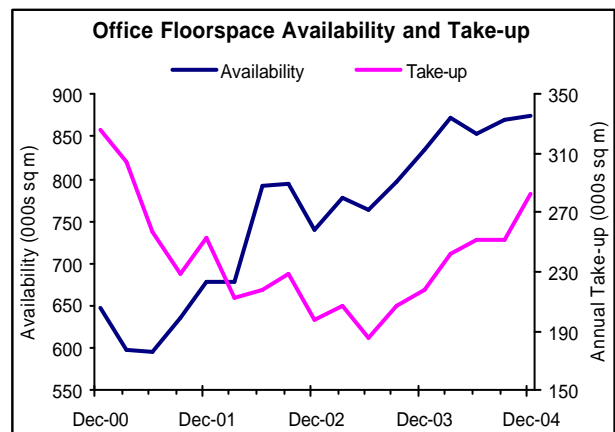


Figure 2



³ 55th Scottish Property Review, October 2004, Ryden

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

Property Market Activity – Edinburgh & Lothian

Industrial Stock

SPN holds information on 2,821 'standard'⁵ industrial units in the Edinburgh & Lothian area, totalling just under 2.7 million sq m.

Industrial stock in Edinburgh & Lothian is, on average, relatively young, with over 40% of floorspace built since 1980 and 18% post-1990. This is, however, mainly due to Livingston where around 30% of both units and floorspace are post-1990. West Lothian as a whole has 24% of floorspace post-1990, compared to only 12% in Edinburgh City. By comparison, the percentage of floorspace built post-1990 across Central Scotland⁶ is 14% and in Glasgow only 11%.

West Lothian stock is also heavily weighted towards larger sized units, with 24% over 999 sq m compared to only 18% in Edinburgh, 16% in Glasgow and 18% across Central Scotland.

Industrial Availability

At December 2004, SPN recorded 250 available industrial units in Edinburgh & Lothian, totalling just under 327,000 sq m. The proportion of recorded stock available at December has fallen since our last report to 12% of floorspace, slightly below the Central Scotland average as show below (Table 3).

Most available supply is located in Edinburgh City and in West Lothian (Table 3).

Table 3

Industrial Availability - Edinburgh & Lothian		
	Rate of Availability	
	Units	Floorspace
SE Edin. & Loth.	9%	12%
Central Scotland	9%	14%
SE Glasgow	11%	11%
Distribution of Available Industrial Space Within SEEL		
East Lothian	6%	4%
Edinburgh	36%	42%
Midlothian	12%	11%
West Lothian	47%	43%

During 2004, available floorspace fell by 19%, although there was a slight increase in the number of units on offer (3%). Supply at December was just 2% below the 5-year average in terms of both floorspace and units.

Most of the decline in floorspace was in larger units over 999 sq m (-24%). Floorspace in the 200 – 499 sq m size band recorded a substantial increase of 35%.

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

⁶ Central Scotland comprises SE Ayrshire, Dunbartonshire, Fife, Forth Valley, Glasgow, Lanarkshire, Edinburgh & Lothian and Renfrewshire.

Figure 3

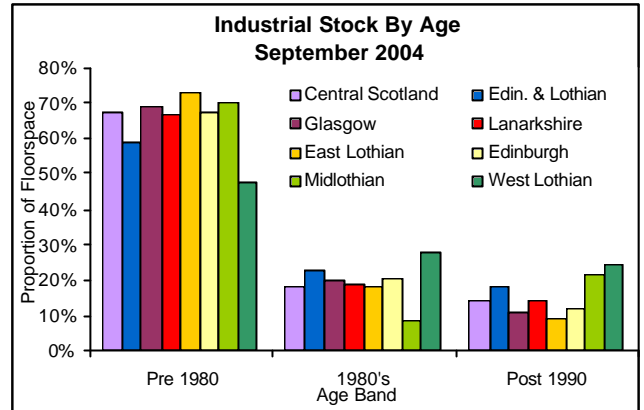


Figure 4

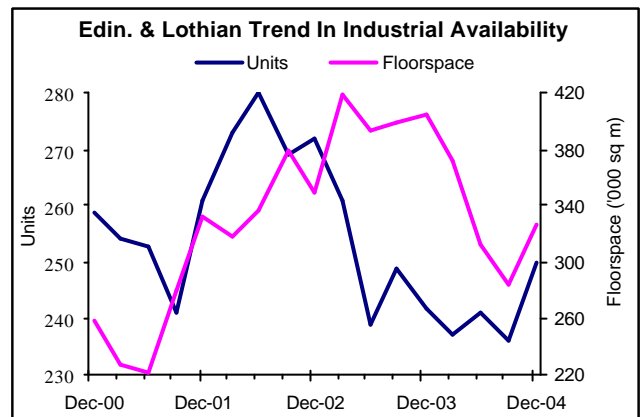


Figure 5

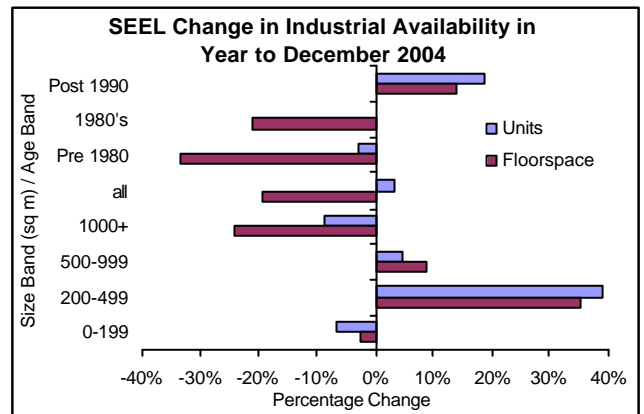
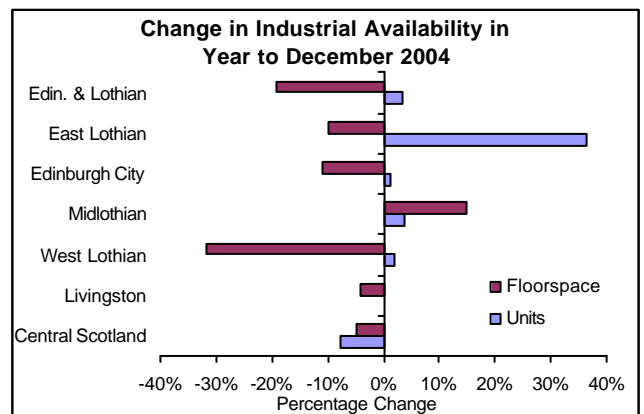


Figure 6



Within the SEEL area, only Midlothian recorded an increase in supply in 2004. The biggest fall in available floorspace was recorded in West Lothian (-32%) as shown in Figure 6. Available floorspace in Edinburgh fell by 11%.

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

The age profile of available floorspace in Edinburgh & Lothian is relatively young with 34% built post-1990, compared to an average of 25% across Central Scotland. This is due to West Lothian, where 47% of floorspace is post-1990, compared to only 21% in Edinburgh City. In Glasgow, just 12% of available floorspace was built post-1990 (Figure 7).

Available supply in Edinburgh & Lothian is biased towards larger units, with 34% over 999 sq m, compared to a Central Scotland average of 27% and only 20% in Glasgow. This is only partly due to a high percentage of large units in Livingston (51% over 999 sq m) as Edinburgh also has a high proportion of available units in the largest size-band (34%). Livingston has a very low proportion of available units under 200 sq m (figure 8).

Industrial Take-up

In 2004, SPN recorded take-up of 170 units in Edinburgh & Lothian totalling just under 95,000 sq m. This represents an increase of 8% in transactions and of 10% in floorspace compared to the previous year.

Take-up in 2004 was 14% below the 5-year average in terms of floorspace and 6% below the 5-year average in unit numbers.

Growth in take-up was confined to modern (post-1990) floorspace, up by 117%, with declining take-up of older space.

Take-up increased for units over 999 sq m (28%) and for units under 200 sq m (13%), but declined in the 200 to 999 sq m size range.

Most of the growth in take-up was in Edinburgh City, where take-up of floorspace increased by 92% and the number of transactions was 25% up on the previous year. Midlothian also recorded significant growth in take-up of floorspace, up by 50%, with a 9% increase in transactions. In West Lothian, take-up of floorspace fell by 21%, although the number of transactions was marginally higher. Despite this general decline in West Lothian, Livingston saw increased take-up in 2004 (Figure 11).

Over the same period, Central Scotland recorded a marginal fall of just less than 1% in floorspace taken up, and a decrease in transactions of 9%. Glasgow and Lanarkshire both recorded falling transactions and reductions in floorspace taken up of 20% and 8% respectively.

Figure 7

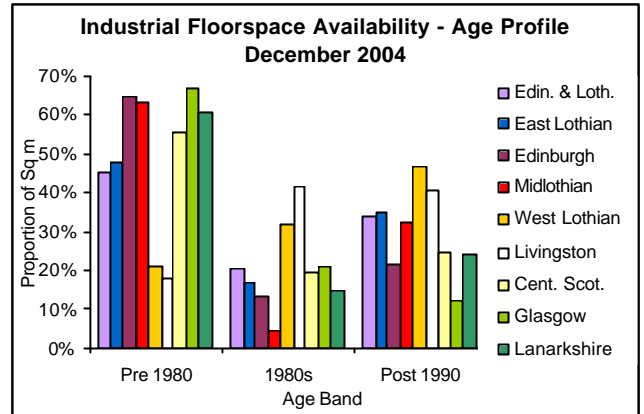


Figure 8

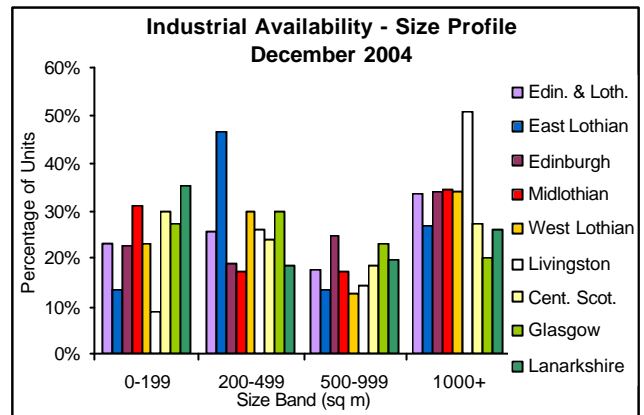


Figure 9

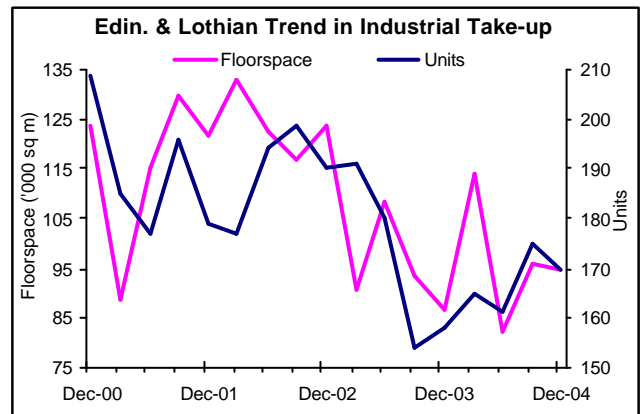
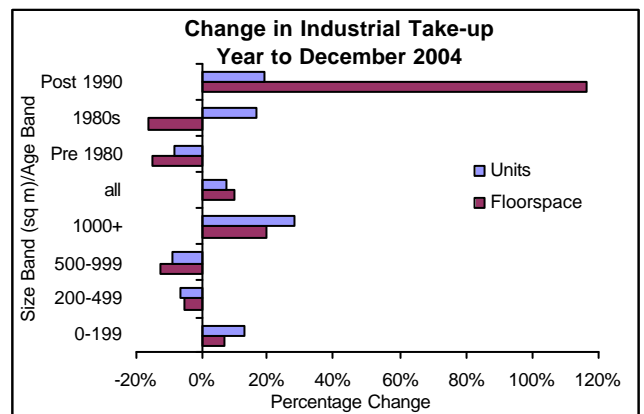


Figure 10



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

Table 4

Average Annual Take-up	Units	Floorspace (sq m)
Edinburgh & Lothian	183	107,340
East Lothian	13	9,162
Edinburgh	62	37,268
Midlothian	28	9,127
West Lothian	81	51,783
Livingston	30	31,931

Available supply at December 2004 is shown in Figure 12 as a number of years' average take-up. Supply at December represented 1.4 years' take-up of units and 3.0 years' supply of floorspace.

This was below the Central Scotland average of 1.6 years' supply of units and 3.6 years' supply of floorspace. Glasgow has a lower supply of floorspace relative to average take-up.

Figure 11

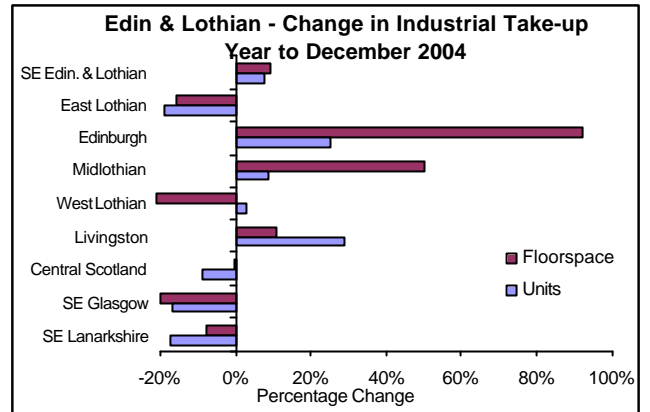
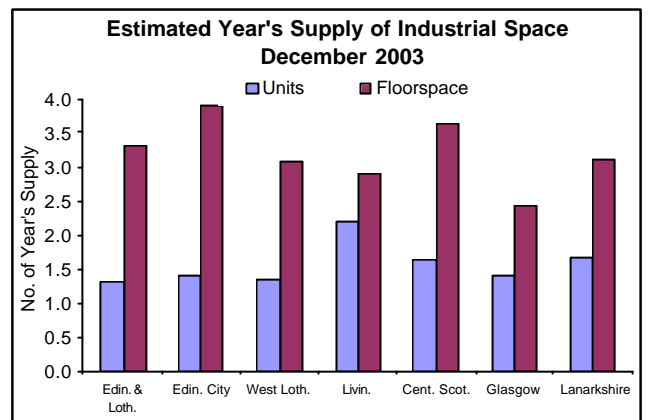


Figure 12



Office Availability

At December 2004, SPN recorded 453 available office and business units in Edinburgh & Lothian, totalling 289,742 sq m. This reflects only accommodation that was immediately available for occupation and excludes around 90,000 sq m that is offered in advance of construction or is still under construction or refurbishment.

The total available floorspace logged by SPN includes premises that are under offer. At the end of December these totalled 25,955 sq m in 51 units or 9% of the total supply.

Despite a fall in the first half of the year, supply of office and business floorspace increased by 8% over the year to December, with an increase of 3% in the number of premises on offer. Available floorspace at December was 11% above the 3-year average and 37% above the 5-year average.

The recorded increase in supply was exclusively in pre-1990s accommodation, while 1990s floorspace fell by 20% and post-2000 floorspace fell by 9%. The volume of 1980s space on the market increased by over 150% (Figure 14).

Available floorspace in Edinburgh City increased by 19% over the year, but mainly in 1980s space, while post-2000 space fell in the city by 10%. Glasgow, by contrast, recorded an overall increase of just 2%, but with a rise of 36% in post-2000 space and a falling supply of older space (Figure 15). At the end of 2004, available office floorspace in Edinburgh exceeded available space in Glasgow for the first time since mid 2003.

Available office floorspace in West Lothian fell in 2004 by 28% to just under 43,000 sq m.

On average across Central Scotland, available office space increased marginally by just 2%.

Despite the recent decline in supply of modern space, Edinburgh & Lothian still has a relatively high proportion of available space in modern accommodation, with 54% built post-1990 and 35% post-2000. In West Lothian, 85% of available floorspace was built post-1990 and 47% post-2000. In Edinburgh City, only 47% of available floorspace is post-1990 and 30% post-2000.

This compares to a Central Scotland average of 57% built post-1990 and 35% post-2000. In Glasgow, 57% of available space was built post-1990 and 39% post-2000.

Edinburgh City has a high proportion of available office space in large sizes, with 16% of premises on offer over 999 sq m compared to a Central Scotland average of 10%. Glasgow has only 9% of available office premises over 999 sq m.

Figure 13

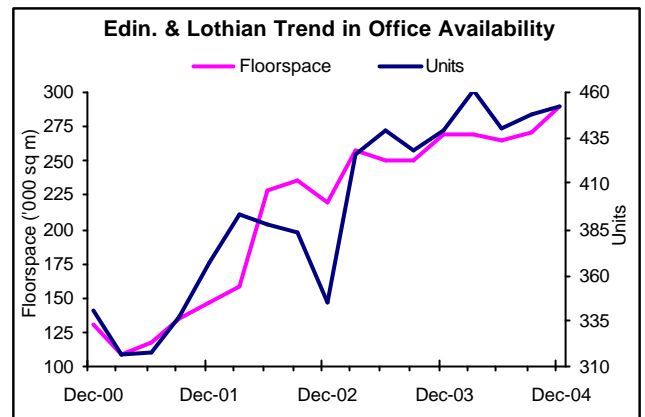


Figure 14

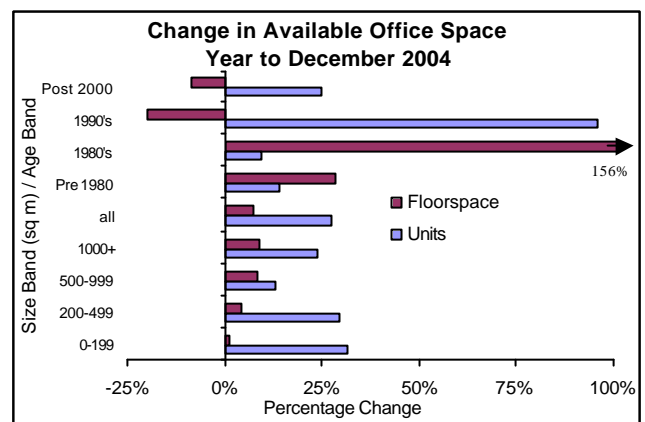


Figure 15

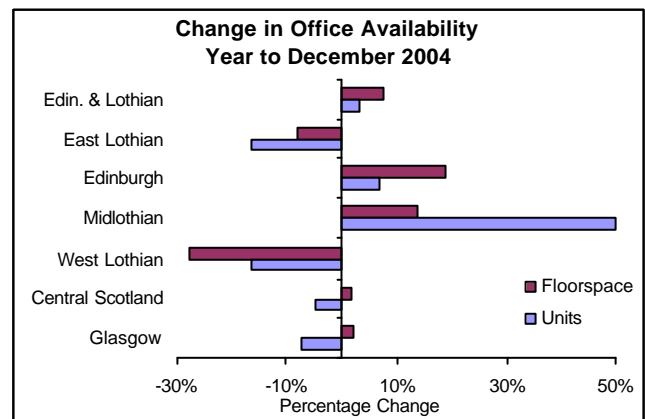
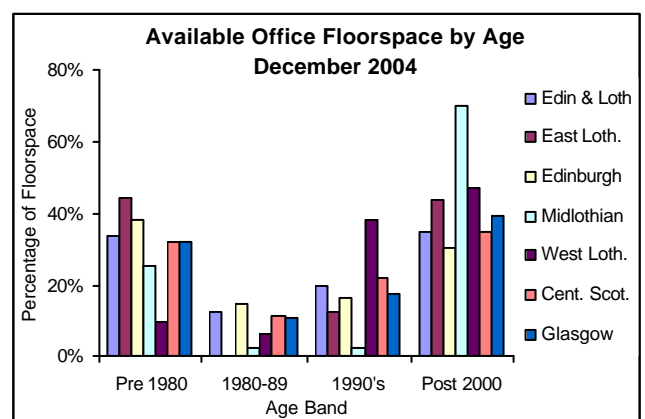


Figure 16



Office Take-up

In the year to December 2004, SPN recorded take-up of 120,358 sq m of office and business space in Edinburgh & Lothian in 272 transactions. This represents an increase of 62% in floorspace taken up and of 35% in the number of transactions, compared to the previous year.

This is the highest level of annual take-up yet recorded by SPN and is 43% above the five-year average.

The majority of this take-up (87%) was in Edinburgh City, where take-up of floorspace in 2004 was up by 82% on the previous year and the number of transactions increased by 42%. Take-up of floorspace in Edinburgh in 2004 was 49% above the five-year average.

As illustrated in Figure 17, take-up in Edinburgh was again higher than in Glasgow, where take-up was relatively flat over the last two years.

Take-up across Central Scotland in 2004 was 35% higher in terms of floorspace and 20% higher in number of units than in 2003.

Take-up increased in all age-bands and in all size-bands except the 500 to 999 sq m band, which recorded a fall of 18%.

Based on an estimate of average annual take-up over the 3 years to September 2004, supply in Edinburgh & Lothian at December 2004 represented 2.0 years' take-up of units and 3.8 years' supply of floorspace. This was close to the Central Scotland average (Figure 20).

Edinburgh City has 3.9 years' supply of office floorspace and 2.0 years' supply of units. Supply relative to average take-up is slightly lower in Glasgow, which has 3.5 years' supply of floorspace and 1.9 years' supply of units.

Figure 17

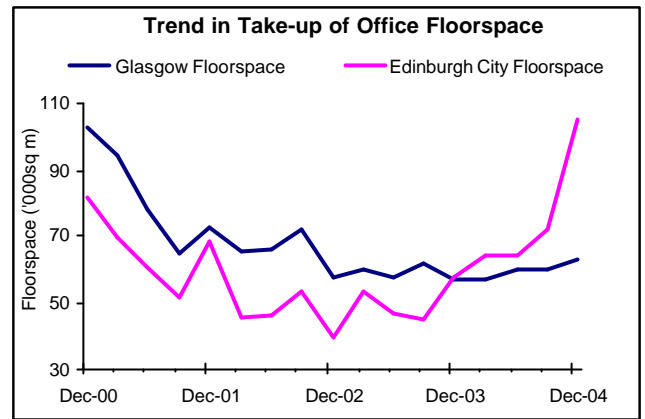


Figure 18

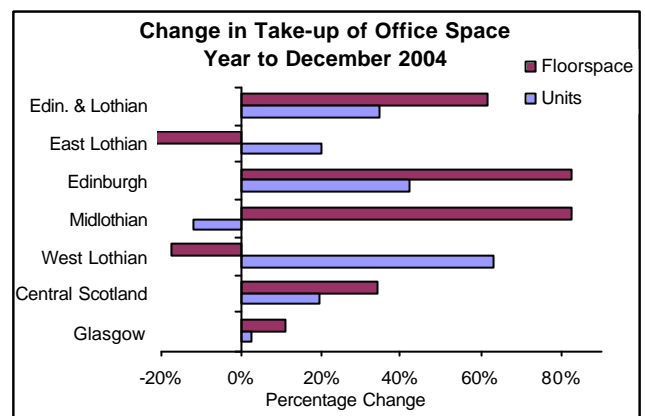


Figure 19

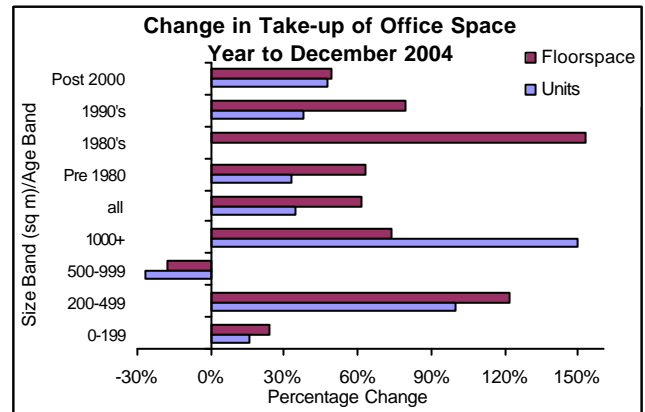


Figure 20

