

INTRODUCTION

This report is the latest in a series of half-yearly updates on property market activity in the Scottish Enterprise (SE) area¹, based on an analysis of the SPN database as at June 2005. In this review, for the first time, the Borders and Dumfries & Galloway areas are included within the main survey area.

Details of the composition of any data set in this report or further analysis can be provided by SPN. For assistance, please contact SPN on 0141-561 7300.

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¹ The Scottish Enterprise area includes the 12 Local Enterprise areas of Ayrshire, Borders, Dumfries & Galloway, Dunbartonshire, Edinburgh & Lothian, Fife, Forth Valley, Glasgow, Grampian, Lanarkshire, Renfrewshire and Tayside but excludes the Highlands and Islands areas of Scotland.

1 Economic Background & Property Market Summary

The Scottish Economy

The latest provisional figures published by the Scottish Executive in July 2005, and covering the period to the end of March, show no change in seasonally adjusted Gross Domestic Product (GDP) in Scotland in Q1 of 2005 and growth of 2.0% in the previous four quarters. Official figures show that growth in Scotland continued to lag behind the UK average, which was 0.4% in Q1 and 2.7% over the year.

Over the year to Q1 2005, annual output in Scotland's production sector fell by 0.4% and manufacturing output fell by 0.3%. This compares to UK averages of 0.3% growth in production and 1.3% growth in manufacturing. The Scottish services sector recorded positive growth of 2.6% in the year, but still behind UK average growth in services of 3.5%. Only the construction sector in Scotland out-performed the UK average, with annual growth in output of 3.2%, compared to 2.7% growth across the UK.

Table 1

GDP Seasonally Adjusted	% Change Q1 2005 on Q4 2004	% Change Year to Q1 2005
Scotland	0.0 (0.4)	2.0 (2.7)
Production	-2.3 (-0.9)	-0.4 (0.3)
Construction	0.3 (0.6)	3.2 (2.7)
Services	0.6 (0.7)	2.6 (3.5)

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

The most recent figures from the Royal Bank of Scotland's PMI Scotland Report² are more positive, indicating twenty-six successive months of growth in Scottish private sector output to August 2005 and, although growth has slowed in July and August, the overall trend is ahead of most other UK regions. In the three months to August, growth in private sector output in Scotland, as recorded in the PMI, was the strongest of all UK regions.

In its commentary on the Index of Leading Economic Indicators³, The Bank of Scotland predicts above average underlying growth for Scotland in the next year, although with some slowing in growth towards the end of 2005, followed by an up-turn in Q2 2006.

After holding interest rates steady for a year, the Bank of England MPC reduced the base rate in August 2005 by 0.25% to 4.5%, reflecting concerns over slowing growth and consumer spending. This was not, however, a unanimous decision and, despite calls from business leaders for further cuts to boost growth, there remain concerns over inflationary pressures.

Official unemployment figures continue to fall. Claimant count unemployment stood at 3.2% in December 2004, down 0.2% on the year and the Labour Force Survey total employment rate for the period Winter 2003 to Autumn 2004 was unchanged at 75%. The Royal Bank's September PMI Report² records six successive months of growth in private sector employment to August, but largely in services, with declining employment in manufacturing.

² Purchasing Managers' Index Scotland Report, Royal Bank of Scotland/ NTC Research, September 2005

³ The Scottish Index of Leading Economic Indicators, Bank of Scotland, July 2005

Industrial Property Market

Available industrial floorspace fell slightly in Q1 2005 but increased again by 9% in Q2. At the end of June 2005, supply of floorspace was 9% higher than at June 2004, standing 5% above the 3-year average and 12% above the 5-year average. This increase was, however, largely in older floorspace, with the supply of modern (post-1990) space recording a marginal fall. Against the recent trend, the total number of units on offer increased by 5% in the first half of 2005, but with a slight fall over the twelve months to June. The long-term decline in availability of small units (<200 sq m) also reversed in the first two quarters of 2005, up by 13% over the six-month period, but with a 5% reduction over the year.

SPN recorded significant growth of 15% in take-up of industrial floorspace in the twelve months to June 2005, with a 7% increase in the number of transactions. Take-up in the year was 11% above the 3-year average. Substantial growth in take-up was recorded in Edinburgh & Lothian (39%) and in Glasgow (38%), with no change in Lanarkshire. Only Tayside and Renfrewshire recorded any significant decline in take-up over the year.

The CBRE Quarterly Index⁴ reports rental growth in Scottish industrials of just 0.6% over the 12 months to Q2 2005. The total annual return on industrials in Scotland was reported as 10.3%, underperforming the UK average and other property sectors.

Office Property Market

The available supply of office accommodation continued to rise steadily during the first half of 2005. Available floorspace at June was 7% higher than at June 2004 and 10% above the 3-year average. This increase was, however, mainly in older (pre-1980) space, with only a marginal rise in supply of modern accommodation.

Available floorspace in Edinburgh City grew by 21% over the year to June, with a significant increase (33%) in post-2000 space. Glasgow recorded an overall increase in supply of 15%, mostly in 1990s space (53%), but with a reduction in the supply of post-2000 floorspace (-11%). Available office space in Lanarkshire fell by 21% over the year, while Grampian recorded a 6% rise.

The steady growth in office take-up recorded in 2004 has continued into the first half of 2005. Take-up of floorspace in the 12 months to June 2005 was 15% higher than in the previous year, and 20% above the 5-year average. The biggest increase was in take-up of post-2000 space, up by 56%.

Glasgow recorded the largest increase in take-up over the year, up by 53% overall and with a rise of 177% in take-up of post-2000 space. Edinburgh City also recorded a substantial increase in take-up of 42%, with a 47% increase in take-up of post-2000 space. Take-up fell in Lanarkshire by 25% over the year, while Grampian recorded a 17% increase.

The CB Richard Ellis Scottish Quarterly Index⁴ reports a fall of 0.3% in Scottish office rental values in the first half of 2005, but with 0.7% growth in the year to Q2. However, boosted by strong capital growth, total annual returns on offices were reported to have reached a high of 15.6%.

⁴ Scottish Quarterly Index, 2nd Quarter 2005, CB Richard Ellis

2 Industrial Stock

SPN holds information on 18 million sq m of 'standard'⁵ industrial accommodation in Scotland, with just under 17.7 million sq m of this space in the 12 SE Local Enterprise (LEC) areas listed in Table 2 below. Almost half of all floorspace (45%) is located in the four Clyde Valley LEC areas⁶, with 22% of the total in Lanarkshire. The Borders and Dumfries & Galloway areas together account for less than two percent of all industrial space.

Table 2

All Industrial Stock Recorded by SPN March 2005		
	Units	Floorspace
SE Ayrshire	1,512	1,173,102
SE Borders	375	156,357
SE Dumfries & Galloway	170	116,370
SE Dunbartonshire	661	455,632
SE Edinburgh & Lothian	2,814	2,725,748
SE Fife	1,492	1,223,041
SE Forth Valley	1,364	1,058,749
SE Glasgow	2,704	2,040,975
SE Grampian	2,385	1,895,802
SE Lanarkshire	4,038	4,015,943
SE Renfrewshire	1,422	1,514,252
SE Tayside	1,589	1,317,870
12 LECs	20,526	17,693,841

Over 60% of recorded stock was built before 1960 and only 14% (2.5 million sq m) has been built since 1990. Only 3% of recorded floorspace was built since 2000, reflecting relatively low levels of new industrial development in recent years.

As previously reported, Edinburgh & Lothian and Renfrewshire have the highest proportion of modern floorspace at 19% of total stock, compared to just 9% in Ayrshire, Borders and Dunbartonshire (Figure 2).

As shown by Figure 3, Grampian has a relatively low proportion of units in sizes under 100 sq m at 31%, compared to an average of 43% and 61% in Borders, while both Borders and Dunbartonshire have relatively low proportions of stock in large units over 999 sq m.

⁵ This includes all industrial units within recognised industrial estates or industrial areas, but excludes large single-user facilities and 'non standard' premises. Premises identified as 'business units', 'yards' or 'open storage' are also excluded from this analysis.

⁶ Dunbartonshire, Glasgow, Lanarkshire & Renfrewshire

Figure 1

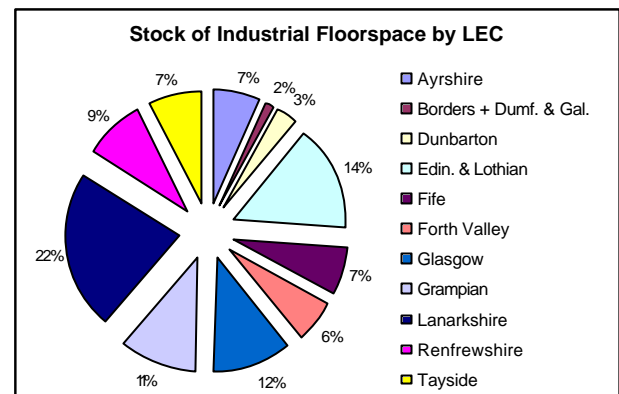


Figure 2

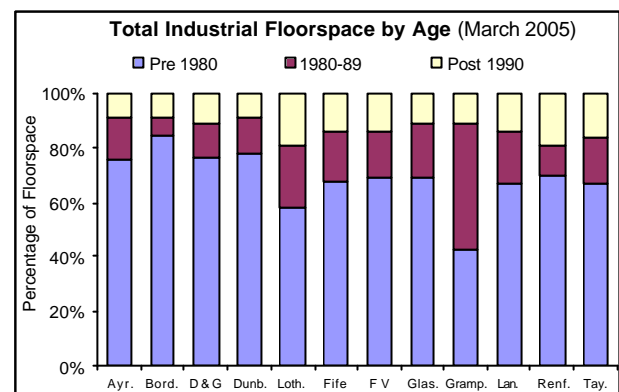
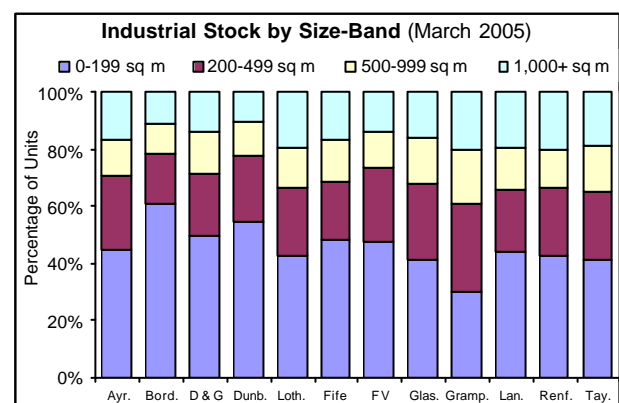


Figure 3



3 Industrial Supply

At June 2005, SPN recorded 1,977 available industrial units in the SE area, totalling 2,367,755 sq m.

Available floorspace at the end of June was 9% higher than a year earlier and 5% above the 3-year average. However, this increase was largely due to a few large manufacturing plants coming onto the market, which are more likely to be re-developed than occupied (e.g. Rolls Royce, Hillington).

The supply of modern (post-1990) floorspace recorded a marginal fall in the year to June, but with a 9% rise in the number of units on offer. The supply of new (post-2000) space also fell slightly by 2%. Availability of pre-1980 space increased by 13% over the year, but with a slight reduction in the number of units in this age-band.

Against the recent trend, the number of units on offer increased by 5% in the first half of 2005, and is now just 1% below the 3-year average and 4% below the 5-year average.

The long-term decline in availability of small units (< 200 sq m) was reversed in the first half of 2005 with a rise of 13%, but over the 12 months to June, numbers declined by 5%. As shown by Figure 5, available supply increased in all other size-bands.

The biggest increase in supply was in Renfrewshire, where available floorspace increased by 47%, but this included two large manufacturing facilities more likely to be redeveloped than taken-up for occupation. The Rolls Royce facility at Hillington (73,000 sq m) came on the market in April and is now reported to have been sold for redevelopment in August 2005. The Purina plant in Barrhead (22,000 sq m) is also likely to be redeveloped. Discounting these two properties would reduce the rise in available floorspace to 11% in Renfrewshire and to just 1% in the SE area as a whole.

Both Glasgow and Edinburgh & Lothian recorded small rises of 7% and 6% in available floorspace, with Lanarkshire recording a rise of 15%. In Fife, available floorspace fell by 30%, while the smaller industrial markets in Borders, Dumfries & Galloway and Dunbartonshire all recorded significant decreases in supply.

Figure 4

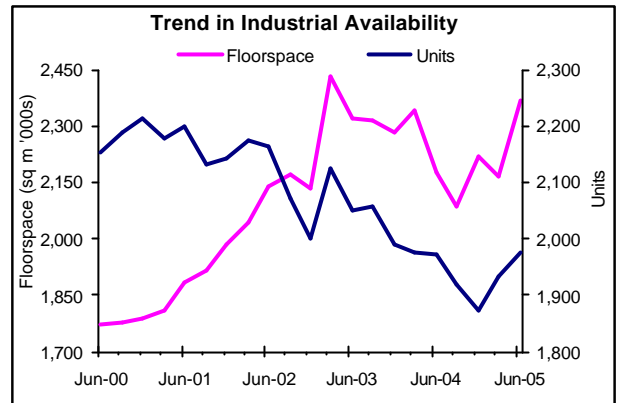


Figure 5

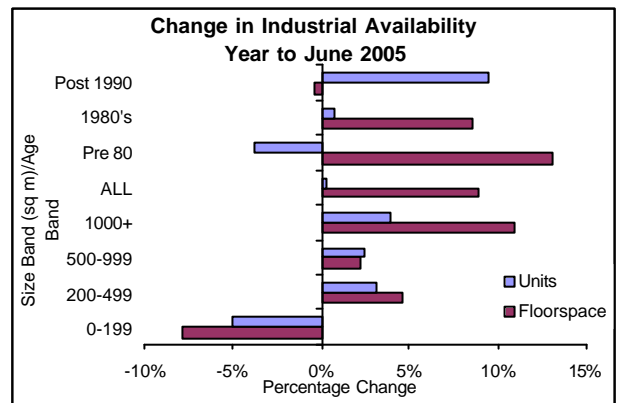
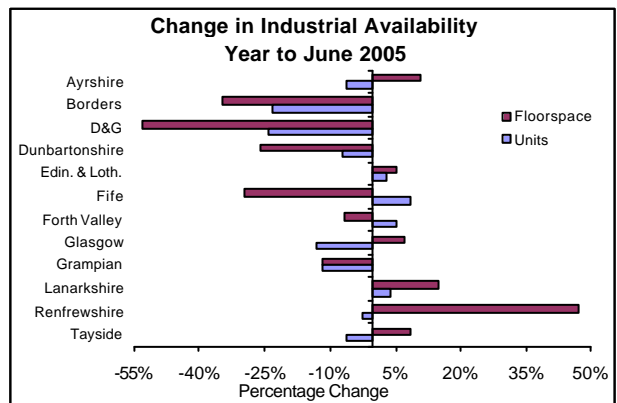


Figure 6



At June, just over half (52%) of available industrial floorspace was in the Clyde Valley, with almost a quarter (23%) in Lanarkshire, as shown by Figure 7.

The total volume of available floorspace built post 1990, at 520,000 sq m, has not changed significantly since June 2004, but floorspace built since 2000 has fallen marginally by just under 2% to 155,000 sq m. Across the SE area as a whole, the proportion of available space built since 1990 was 22%, with only 7% built since 2000.

Forth Valley has an exceptionally high proportion of availability in modern accommodation, with 50% of floorspace built post 1990 and 18% built since 2000. Edinburgh & Lothian also has a high percentage of available space built post-2000 at 16% (54,000 sq m). By contrast, only 9% of available floorspace in Glasgow was modern (post-1990) and only 3% (8,000 sq m) was built since 2000. In Lanarkshire, only 2% of recorded available floorspace was built post-2000 (12,000 sq m).

The number of small units (< 200 sq m) on the market fell to 661 at June or 33% of the total, while the number of units of 1,000 sq m or more increased to 510 (26%).

As previously reported, both Edinburgh & Lothian and Renfrewshire have high proportions of supply in large units, with a correspondingly low proportion of small units, particularly in Renfrewshire, where the proportion of units under 200 sq m has fallen to just 18%. Glasgow also has a relatively low proportion small units available, with a higher than average percentage in the 200 to 999 sq m range.

The size distribution of available units in Borders and Forth Valley is heavily weighted towards small units, with 57% and 48% respectively in sizes of less than 200 sq m. Both areas have relatively few available units in the 500-999 sq m band.

Figure 7

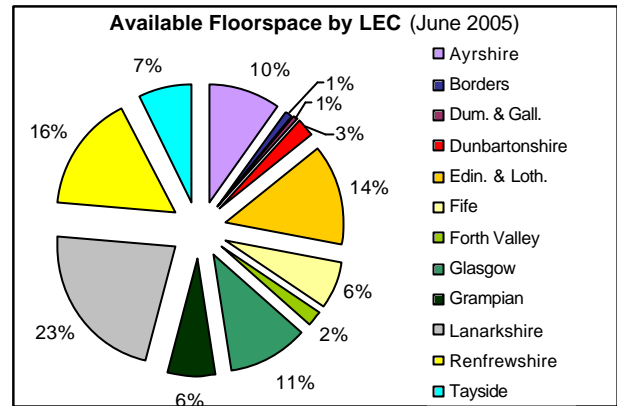


Figure 8

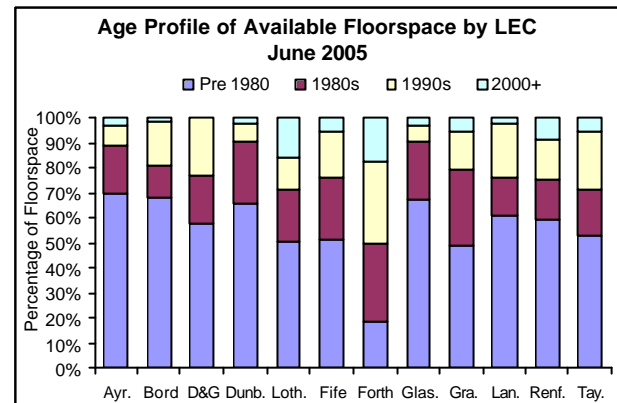
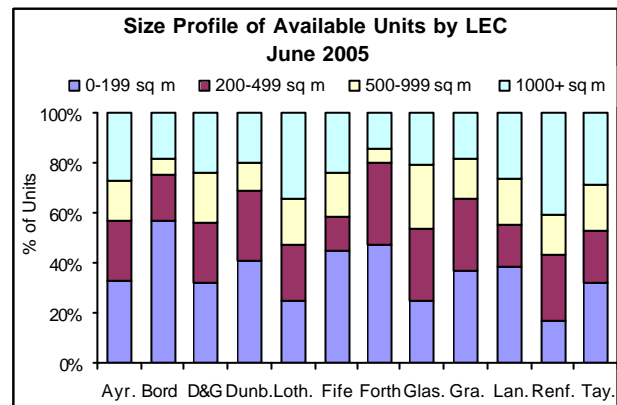


Figure 9



4 Industrial Take-up

Industrial take-up recorded by SPN in the SE area in the year to June 2005 totalled 634,960 sq m in 1,116 units.

The trend in take-up monitored directly by SPN⁷ is shown in figure 10. Take-up of industrial floorspace in the year to June 2005 was 15% higher than the previous 12 months. The number of transactions also increased over the year by 7%.

The volume of floorspace taken-up in the year was 11% above the 3-year average and 5% above the 5-year average. The number of transactions was 7% higher than the 3-year average and 3% higher than the 5-year average.

As illustrated in Figure 11, take-up increased in all size and age bands, although growth was mainly in the larger size-bands, with an increase of 39% in the number of units above 999 sq m taken up. Take-up in the smallest size-band was substantially unchanged, with a marginal rise in floorspace, but a slight fall in the number of transactions

Take-up of modern (post-1990) floorspace increased by just 4% in the year to June, with a 2% rise in the number of transactions. Most of the growth in take-up was in older accommodation as shown by Figure 11.

In terms of volume, the biggest growth in take-up was recorded in Edinburgh & Lothian, with an increase of 32,000 sq m or 39% over the previous year. Glasgow also recorded a significant increase of almost 27,000 sq m in take-up (38%), while take-up in Lanarkshire was unchanged.

Dunbartonshire recorded the biggest percentage increase of almost 200%, but from an exceptionally low level in the previous year. Ayrshire, Borders and Grampian also recorded significant growth in take-up of over 50%. Only Tayside and Renfrewshire recorded significant reductions in take-up over the year.

Lanarkshire had the highest volume of take-up in the year, with 20% of the total, closely followed by Edinburgh & Lothian at 18%. Just under half (48%) of all take-up was in the Clyde Valley.

⁷ Take-up is based on change in recorded availability identified as a lease or a sale by the marketing agent.

Figure 10

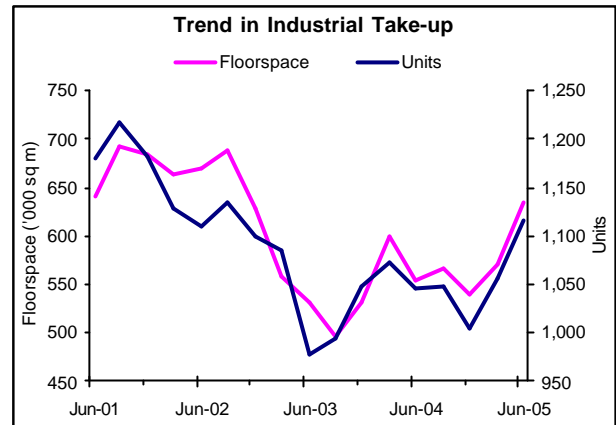


Figure 11

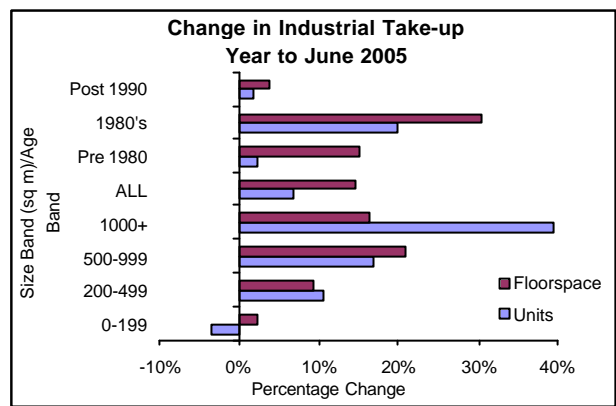


Figure 12

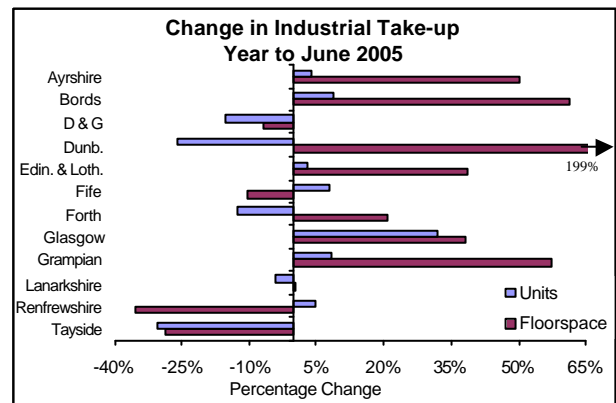
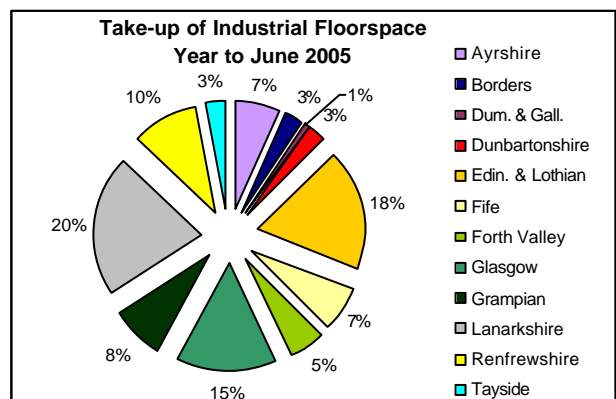


Figure 13



The average annual take-up for each LEC area, estimated from the total recorded take-up over the 3 years to March 2005, is shown in Table 3. Figure 14 shows availability at June 2005 expressed as a number of years' potential take-up, based on the estimated average take-up.

Available supply at June in the Scottish Enterprise area as a whole represented 1.8 years' take-up of units and 3.7 years' take-up of floorspace.

Supply of small units (<200 sq m) remains relatively low at 1.1 years' supply, as does supply of 1990s units at just 1.5 years' supply.

Ayrshire and Dunbartonshire both have a high supply of industrial floorspace relative to average annual take-up at around 6 years' supply, while Renfrewshire has 5 years' supply. Forth Valley, by contrast, has only 1.2 years' supply of floorspace and just 1.1 years' supply of units.

The supply of small units (<200 sq m) is low, compared to average take-up. In both Glasgow and Edinburgh & Lothian, the available supply of small units is only in the region of 9 months' average take-up.

Some of the most significant industrial letting deals recorded in the first half of 2005 are shown in Table 4 below.

Figure 14

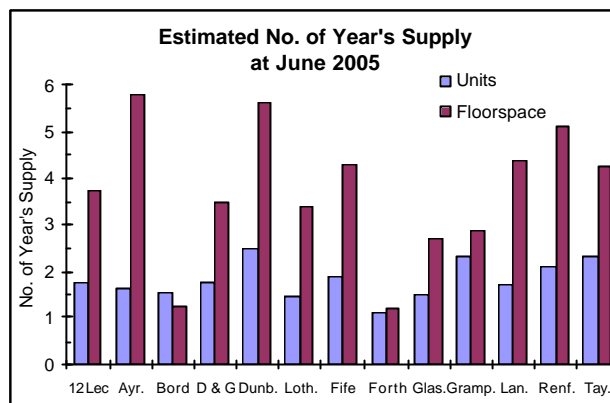


Figure 15

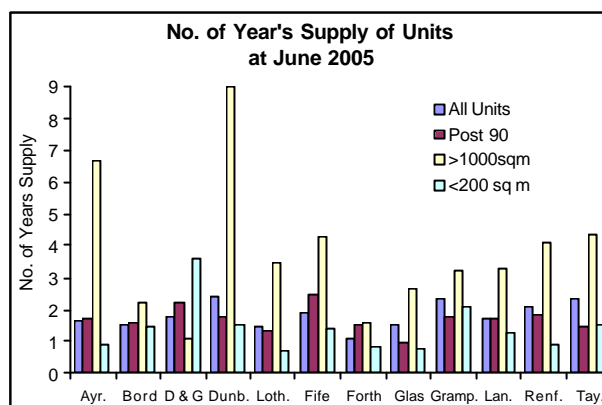


Table 3

Average Annual Take-up*	Units	Floorspace (sq m)
All Scotland	1,188	655,653
12 LEC Area	1131	632,417
Central Scotland	919	516,863
Ayrshire	108	40,977
Borders	32	17,612
Dumfries & Galloway	14	4,443
Dunbartonshire	32	10,523
Edinburgh & Lothian	169	97,967
Fife	76	35,266
Forth Valley	70	36,980
Glasgow	175	98,614
Grampian	99	51,967
Lanarkshire	207	121,353
Renfrewshire	82	75,184
Tayside	68	41,532

* 3 years to March 2005

Table 4

Industrial Letting Deals					
Property	Size sq m	Lessor	Occupier	Approx. Date	Headline rental rate * £/sq m (£ sq ft)
Easter Inch, Pyramids Business Park, Bathgate	10,962	Pearl Assurance Co Ltd	Wm Morrison	Q2 2005	£33.37 (£3.10)
Europoint, 10 McNeil Drive, Eurocentral, Bellshill	12,175	Tritex	Wm Morrison	Q2 2005	£45.75 (£4.25)
Units B13 & B14, Olympic Business Park, Dundonald	4,317	Catalyst Capital	Arran Aromatics	Q2 2005	£26.92 (£2.50)
2 Kelvin Park South, East Kilbride	4,484	Ashtenne	Undisclosed	Q2 2005	£37.91 (£3.52)
1A Old Liston Road, Newbridge	6,503	Ediston Properties	Spring Distribution	Q1 2005	£25.83 (£2.40)
M8 Central Business Park	4,366	ING Real Estate Inv Mgt	Lynx Express Delivery	Q1 2005	£60.84 (£5.65)

* headline rental rate is estimated from the initial rent reported by the letting agent and cannot be warranted accurate by SPN

5 Office Supply

At June 2005, SPN recorded 914,910 sq m of available office and business floorspace in 2,222 premises in the Scottish Enterprise area. This reflects only accommodation that is immediately available for occupation and excludes around 300,000 sq m that is offered in advance of construction or still under construction.

The total available floorspace logged by SPN includes premises that are 'under offer'. At the end of June 2005 these totalled 99,900 sq m, or 11% of total supply.

The steady increase in office supply recorded during 2003 and 2004 has continued during the first half of 2005. At June 2005, available floorspace was 7% higher than at June 2004 and 10% above the 3-year average. Most of this increase, however, was in older (pre-1980) space, up by 22% as shown by Figure 17. The supply of post 2000 floorspace increased by just 3% overall.

Edinburgh & Lothian recorded a rise of 19% in supply of floorspace, although with no change in the number of premises on offer. In Edinburgh City, which provides 27% of all available floorspace in the SE area (246,000 sq m), available supply increased by 21% over the year. Most of this increase was in new (post 2000) space, up by 33%, although Edinburgh also recorded a significant increase of 25% in pre-1980 space (Figure 18).

Glasgow City, which contains 26% of all available floorspace (242,000 sq m), saw a rise in supply of 15% in the year to June. Availability of post-2000 floorspace fell in Glasgow by 11%, but there was a significant increase of 53% in 1990s accommodation, as well as a 32% increase in older pre-1980 space.

Available office space in Lanarkshire fell by 21% over the year to 94,000 sq m, or 10% of the total availability in the SE area at June. Grampian also provides around 10% of the total office availability, having recorded a 6% increase over the year to just over 95,000 sq m. All other LEC areas provide less than 5% of the total available floorspace.

Figure 16

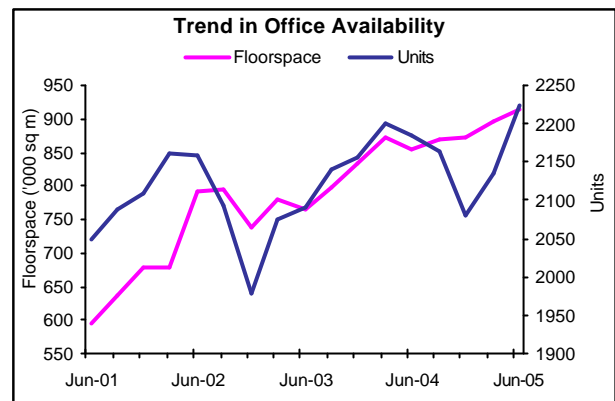


Figure 17

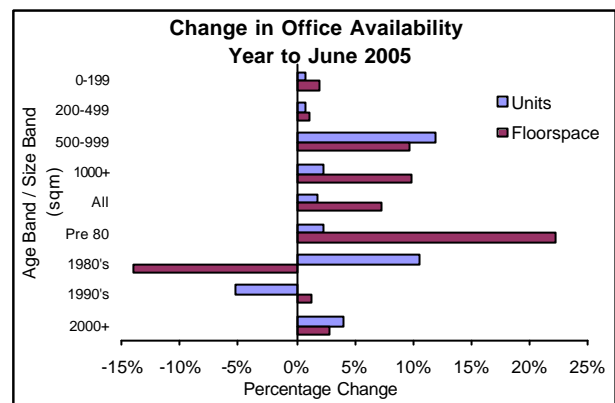


Figure 18

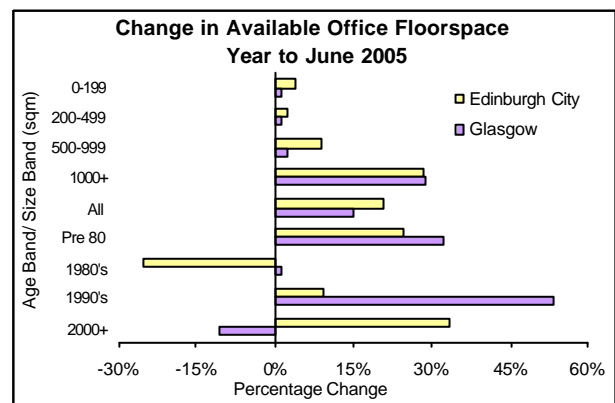
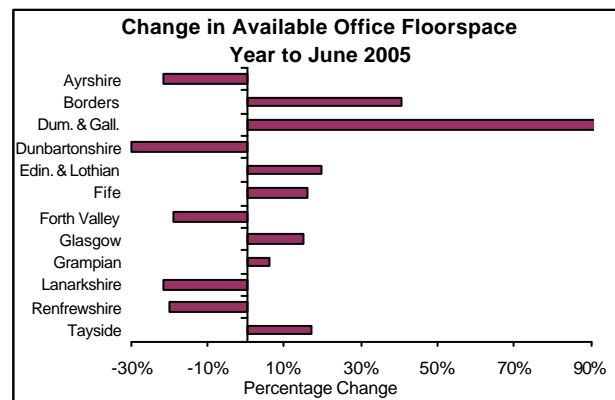


Figure 19



6 Office Take-up

The growth in office take-up recorded in 2004 has continued throughout the first half of 2005. Take-up of floorspace in the year to June totalled 288,899 sq m, 15% higher than in the previous year and 20% above the 5-year average.

The biggest increase was in take-up of post-2000 floorspace, up by 56% over the year, accompanied by a significant drop in take-up of 1990s space. Take-up of units under 200 sq m was unchanged, with increased take-up in all larger size-bands, particularly in the 500-999 sq m band (Figure 21).

The largest increase in take-up over the year was in Glasgow, up by 53% to just under 92,000 sq m, or 32% of all take-up in the SE area. Growth in Glasgow was mainly in floorspace built post-2000 (+177%).

Edinburgh City also recorded a substantial increase in take-up, of 42%, with a 47% increase in take-up of post-2000 space.

Two-thirds of all office floorspace taken up was in Edinburgh & Lothian (35%) and Glasgow (32%).

Lanarkshire recorded a fall in office take-up of 25% over the year, while Grampian saw a rise of 17%. Both Lanarkshire and Grampian contributed just 7% of all office take-up in the year to June, with 6% in Renfrewshire.

Based on the average annual take-up over the 3 years to March 2005, available supply at June 2005 represented 2.0 years' take-up of units and 3.7 years' take-up of floorspace in the SE area.

Available floorspace in both Glasgow and Edinburgh City represents 3.4 years' average take-up. Supply of office space, relative to average take-up is high in Lanarkshire, Grampian and Tayside, as shown in Figure 23.

A number of the most significant letting deals recorded in the first half of 2005 are shown in Table 5 overleaf.

Figure 20

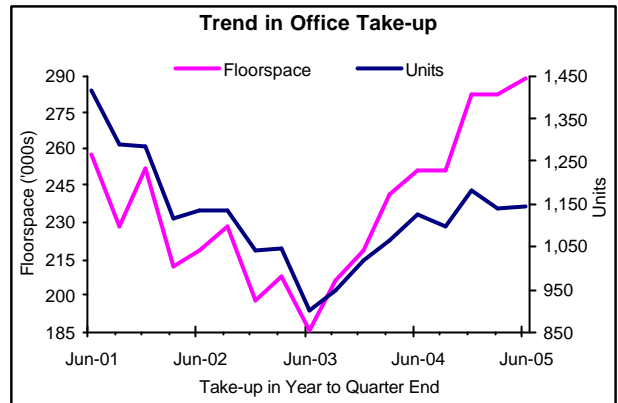


Figure 21

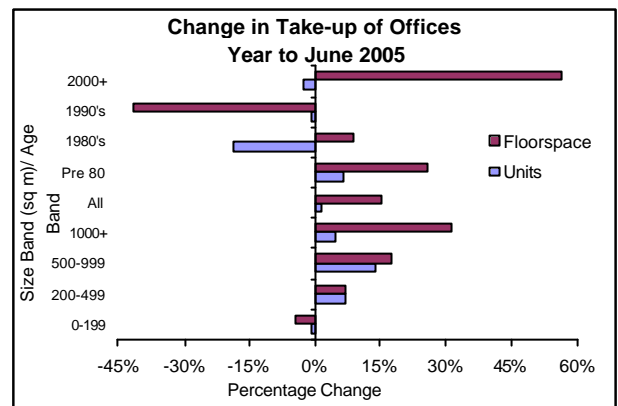


Figure 22

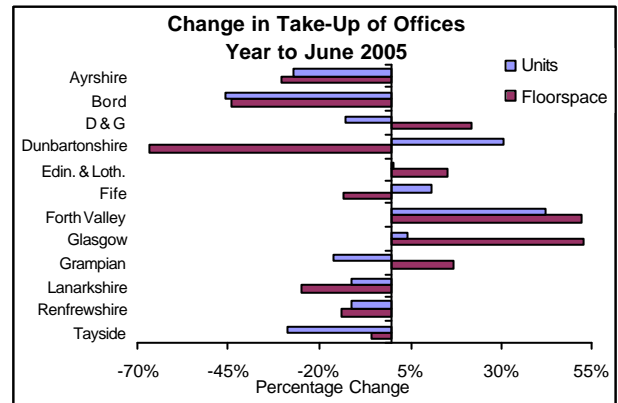


Figure 23

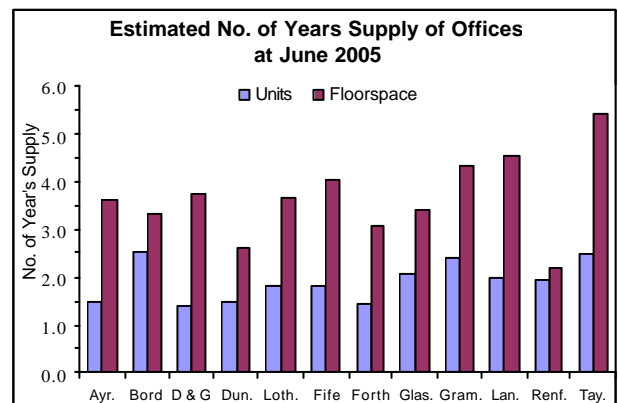


Table 5

Office Letting Deals					
Property	Size sq m	Lessor	Occupier	Approx. Date	Headline rental rate * £/sq m (£/sq ft)
The Exchange, 12 Market Street, Aberdeen	1,699	TRS	Petrofac	Q2 2005	£160.05 (£14.90)
Ocean Point 1, Leith	2,401	Ocean Point Property Investment	Visit Scotland	Q1 2005	£231.43 (£21.50)
Caledonian Exchange, Canning Street, Edinburgh	1,605	Standard Life Assurance Co	Lindsays WS (sub lease)	Q2 2005	£247.57 (£23.00)
Spectrum Building, 55 Blythswood Street, Glasgow	1,751	Gleeson Group Plc	Clydesdale Bank Plc (sub Lease)	Q1 2005	£193.75 (£18.00)
Central Quay, 2 Hydepark Street, Glasgow	2,768	Akeler (Scotland) Ltd	Association of Chartered Certified Accountants	Q1 2005	Undisclosed
Sentinel Building, 105 Waterloo Street, Glasgow	1,719	Kenmore Wellesley House Ltd	AON	Q2 2005	£236.81 (£22.00)
Clydesdale Bank Exchange, 20 Waterloo Street, Glasgow	3,381	Cala Properties	Clydesdale Bank Plc (sub Lease)	Q1 2005	Undisclosed
City Park, 368 Alexandra Parade, Glasgow	9,104	Elphinstone Properties	Dell UK	Q1 2005	Undisclosed
Skypark, Finnieston, Glasgow	10,219	Allied London & Scottish Properties	O2 (UK) Ltd	Q2 2005	£156.08 (£14.50)
Campsie House, Hamilton International, Hamilton	2,890	AWG & HF Developments	ICM Computer Group Plc	Q1 2005	£155.65 (£14.46)

* headline rental rate is estimated from the initial rent reported by the letting agent and cannot be warranted accurate by SPN