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SCOTTISH ENTERPRISE AYRSHIRE

Business Property Review March 2006



This report, prepared by SPN on behalf of Scottish Enterprise Ayrshire, reviews industrial and office market activity in 2005. 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.

Main Findings:

Industrials

- Available industrial floorspace in Ayrshire increased by 12% in 2005. At December, available floorspace was 12% above the 5-year average, but the number of units on offer was 11% below the 5-year average
- Across Central Scotland, the supply of industrial floorspace fell by 4% in 2005
- Ayrshire has a low supply of modern space, with only 8% of available floorspace built post-1990 and 1% built post-2000. On average across Central Scotland, 22% of available industrial space is post-1990 and 7% post-2000.
- Take-up of industrial floorspace in 2005 in Ayrshire was 5% higher than in 2004, but the number of transactions was 22% lower. Central Scotland recorded a rise of 10% in floorspace taken up in 2005 and a 2% rise in the take-up of units.
- Take-up of industrial floorspace in Ayrshire in 2005 was 19% below the 5-year average.
- Available floorspace in Ayrshire at December 2005 represented approximately 6.7 years' average take-up.

Offices

- The supply of available office and business floorspace in Ayrshire was substantially unchanged over the course of 2005, while across Central Scotland office supply increased slightly by 4%.
- Take up of office space in Ayrshire in 2005 was 18% higher than in 2004.
- Total available office and business space in Ayrshire at December 2005 represented around 5 years' average take-up.

Scottish Economic Summary

Provisional figures published by the Scottish Executive in January 2006 show growth of 1.7% in seasonally adjusted Gross Domestic Product (GDP) in Scotland over the year to Q3 of 2005. Growth in Scottish output matched the UK average over the year, but was slightly stronger in Q3 of 2005 at 0.5%, compared to 0.4% for the UK as whole.

The main source of growth was again the service sector, which increased output by 2.7% in the year to Q3, equalling the UK average.

Output in the Scottish production sector fell by 1.3% over the year, compared to a decline of 1.0% for the UK. Manufacturing output also fell in Scotland by 0.4%, compared to marginal growth in the UK of 0.1% for the year. Growth in the Scottish construction sector slowed to 1.2% in the year to September 2005, compared to 1.7% across the UK, although growth in Scottish construction was stronger in Q3 2005, at 1.4%.

Table 1

GDP Seasonally Adjusted	% Change Q3 2005 on Q2 2005	% Change Year to Q3 2005
Scotland	0.5 (0.4)	1.7 (1.7)
Production	-1.0 (-0.6)	-1.3 (-1.0)
Construction	1.4 (0.5)	1.2 (1.7)
Services	0.8 (0.7)	2.7 (2.7)
Note: (UK Figure in brackets)		
Source: Scottish Executive, January 2006		

More recent figures from the Royal Bank of Scotland PMI Scotland Report¹ indicate stronger growth in Scottish private sector output at the start of 2006, with February registering the biggest increase for eight months. Growth was strongest in the service sector, but manufacturing output also increased for the third consecutive month in February, at the fastest rate since July 2005. Over the twelve months to February, reported growth in private sector output in Scotland was close to the UK average and out-performed all regions except London and the South East.

In its commentary on the Index of Leading Economic Indicators², The Bank of Scotland predicts a modest slow-down in the Scottish economy in 2006, but suggests that Scotland is performing better than most areas of the UK and can expect a soft economic landing, with growth stabilising towards the end of 2006.

After twelve months without change, the Bank of England MPC cut base interest rates by 0.25% to 4.5% in August 2005 and has held that rate through Q1 2006. With UK inflation (CPI) having stabilised around the 2% target, but with pressure from manufacturers for further reduction in interest rates, commentators are now divided on whether a further cut in base rate can be expected in the short term.

Contrary to the trend in parts of England & Wales, official unemployment figures continue to fall in Scotland, but at a slowing rate. Claimant count unemployment in Scotland stood at 3.2% in December 2005, down 0.1% on the year. The latest Labour Force Survey total employment rate for Scotland was unchanged at 75%. The Royal Bank's PMI Report records twelve consecutive months of increased employment in the Scottish private sector to February 2006, although job-creation was mainly in the service sector with falling employment levels in manufacturing.

Claimant Count Unemployment in Ayrshire remains above the Scottish average. During 2005, unemployment fell by 0.3% to 4.4% in East Ayrshire but increased by 0.1% in South Ayrshire to 3.6% and by 0.2% in North Ayrshire to 5.2% (Table 2)

Table 2

	Claimant Count Unemployment January 06	Average Total Employment Mar 04-Feb 05
Scotland	3.2% (-0.1%)	75%
East Ayrshire	4.4% (-0.3%)	71%
North Ayrshire	5.2% (+0.2%)	70%
South Ayrshire	3.6% (+0.1%)	74%
(figures in brackets show change over previous year)		
Source: Scottish Executive, February 2006		

¹ Purchasing Managers' Index Scotland Report, Royal Bank of Scotland/ NTC Research, February 2006

² The Scottish Index of Leading Economic Indicators, Bank of Scotland, February 2006

Scottish Industrials – Overview

Available industrial floorspace in the Scottish Enterprise area increased by 4% in the first half of 2005, but fell again by 8% in the second half. Recorded supply of available floorspace at the end of 2005 (2.19 million sq m) was 4% below the level recorded a year earlier and just 1% above the 5-year average.

The biggest decline in supply was in modern (post-1990) space, which fell by 13% over the year. There was a significant increase in the number of available units built post-2000, up by 50% to 157, but this growth was in small sizes and the total volume of post-2000 floorspace fell by 6%.

Industrial take-up increased strongly in the first half of 2005, but fell again in the second half of the year. Recorded take-up of floorspace in 2005 was just 2% higher than in 2004, but still 4% below the 5-year average. The number of transactions was 4% below the level recorded in the previous year. The decline was largely in take-up of small units of less than 200 sq m, which fell by 11% over the year.

Edinburgh & Lothian recorded growth of 30% in floorspace taken up, compared to a 20% increase in Glasgow and a 21% rise in Lanarkshire. Grampian, Tayside and Renfrewshire all recorded a significant fall in take-up over the year.

The CB Richard Ellis Quarterly Index³ reports rental growth of 2.3% for Scottish industrials in 2005 and capital growth of 8%, taking the total annual return to 16.4%, compared to a UK average of 19%.

Scottish Offices - Overview

Available office floorspace at December 2005 was 3% higher than at the end of 2004 and 14% above the 5-year average. Most of the increase was, however, in older (pre-1980) space, which increased by 20%. Supply of post-2000 floorspace fell marginally over the year.

In Edinburgh City, available office space grew by 14% overall and the supply of floorspace built since 2000 increased by 38%. By contrast, Glasgow recorded an increase of just 2% overall and a fall of 50% in available post-2000 floorspace.

Available office space in Renfrewshire grew by 23%, while Lanarkshire recorded a fall of 18%.

Take-up of office floorspace in 2005 was substantially unchanged from the level recorded in 2004, but still 15% above the 5-year average. The number of recorded transactions was 7% down over the year.

Take-up of post-2000 floorspace increased by 14%, while take-up of pre-1980 space fell by 14%.

Glasgow recorded a dramatic rise in take-up of office space in 2005 of over 54,000 sq m and 86% overall, including a rise of over 42,000 sq m (189%) in post-2000 space. Most of the increased take-up in Glasgow was in large sizes, although there was 17% growth in the number of recorded transactions.

By contrast, office take-up in Edinburgh City fell by 52,000 sq m or 48% overall, with a 67% fall in take-up of post-2000 space. The fall in take-up in Edinburgh was mainly in larger sizes, with a 56% reduction in transactions and a 72% fall in floorspace taken up in sizes over 1,000 sq m.

Significant rises in take-up were recorded in Grampian (83%) and Tayside (35%), while take-up fell in Renfrewshire (-53%) and Lanarkshire (-12%).

The CBRE quarterly index³ reports rental growth of 0.5% for Scottish offices in the final quarter of 2005, taking growth for the year to 0.6%. Despite this relatively low rental growth, capital growth of 13.9% in 2005 made offices the strongest performing sector in Scotland with an average total return of 21.7%.

Figure 1

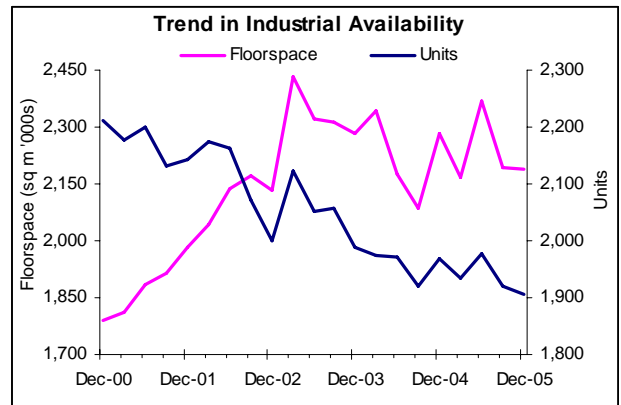
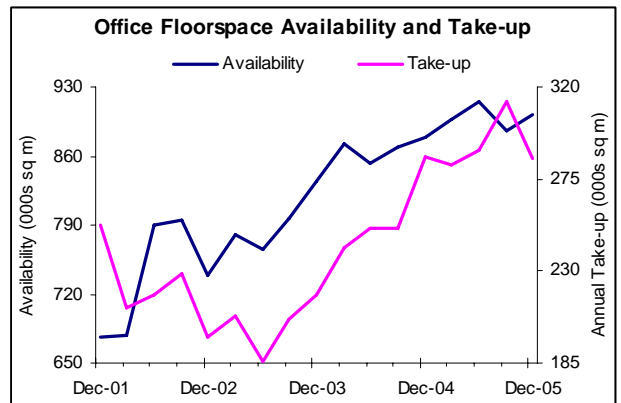


Figure 2



³ Scottish Quarterly Index, 4th Quarter 2005, CB Richard Ellis

Business Property Markets in Ayrshire

Industrial Stock

SPN holds information on 1,532 'standard'⁴ industrial units in Ayrshire totalling 1.2 million sq m. Almost half of this floorspace (48%) is in North Ayrshire, with 29% in East Ayrshire and 23% in South Ayrshire. Irvine 'new town' provides 30% of all industrial floorspace, but has only 18% of the units.

Both East and North Ayrshire have a relatively old industrial stock, with less than 10% of floorspace built since 1990 and over 80% built pre-1980. South Ayrshire stock is younger, with 18% built post-1990 and 54% pre-1980. This compares to a Central Scotland⁵ average of 15% built post-1990 and 67% built pre-1980.

Irvine has a high proportion of stock in large units with 25% over 999 sq m and only 26% under 200 sq m, compared to a Central Scotland average of only 18% over 999 sq m and 45% under 200 sq m.

Industrial Availability

At December 2005, SPN recorded 183 available industrial units in Ayrshire totalling 230,938 sq m. This represents an increase of 12% in terms of floorspace and of 4% in the supply of units, compared with the previous year.

Across Central Scotland as a whole, supply of floorspace fell by 4%, with a marginal fall in the number of available units.

Available floorspace in Ayrshire at December was 12% above the 5-year average, but the number of units on the market was 11% below the 5-year average (Figure 4).

Supply of large units (over 999 sq m) fell by 16% over the year, although floorspace in this size band increased by 12%. Supply also decreased in the 500-999 sq m size band, while availability increased in sizes under 500 sq m, both in terms of floorspace and the number of units on offer (Figure 5).

The increase in availability during 2005 was mainly confined to East Ayrshire, where available floorspace increased by 114% and the number of units increased by 18%. The big jump in floorspace was, however, largely attributable to one building, the former Stoddard's factory in Kilmarnock (38,551 sq m). Excluding this property, available floorspace increased by 31%.

In North Ayrshire, supply of floorspace fell overall by 17% and the number of units by 6%.

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

⁵ Central Scotland includes SE Ayrshire, Dunbartonshire, Fife, Forth Valley, Glasgow, Edinburgh & Lothian, Lanarkshire and Renfrewshire.

Figure 3

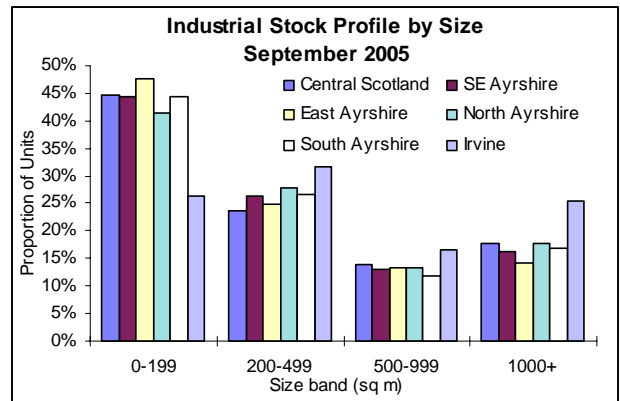


Figure 4

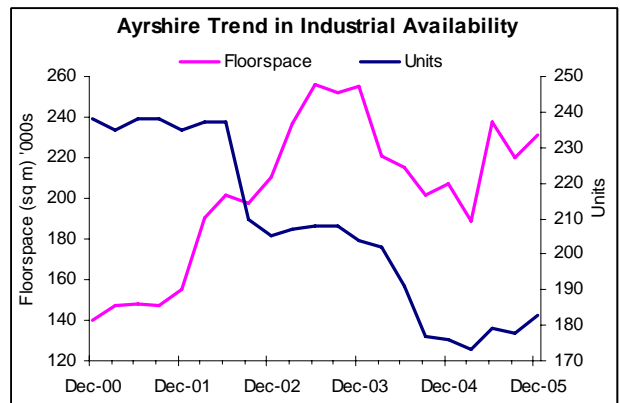


Figure 5

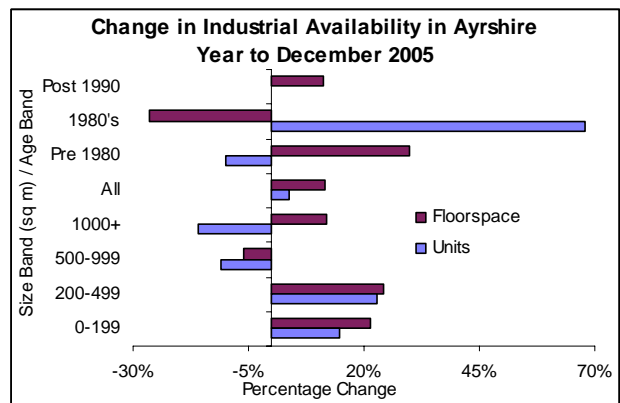
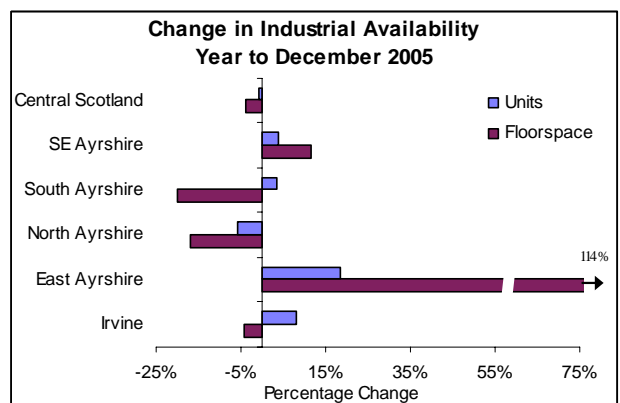


Figure 6



North Ayrshire recorded a significant fall of around 20% in availability of units over 499 sq m.

South Ayrshire recorded a fall of 20% in available floorspace but with a marginal 3% rise in the number of available units.

The percentage of recorded stock available at the end of 2005 is shown in Table 3 below. The rate of availability has increased marginally since 2004 in terms of floorspace and remains significantly above the Central Scotland average.

Table 3

Industrial Availability - Ayrshire		
	Rate of Availability	
	Units	Floorspace
SE Ayrshire	12%	19%
Central Scotland	9%	13%
SE Glasgow	9%	11%
SE Renfrewshire	11%	18%
East Ayrshire	14%	28%
North Ayrshire	13%	15%
South Ayrshire	8%	15%
Irvine	15%	14%

As illustrated in Figure 7, available floorspace in Ayrshire is, on average, relatively old, with 72% built pre-1980, 8% post-1990 and less than 1% post-2000. This compares to Central Scotland averages of 60% pre-1980, 22% post-1990 and 7% post-2000.

The age profile of available supply in South Ayrshire is more modern, with 18% of floorspace built post-1990 and 44% pre-1980. By contrast, over 90% of available floorspace in East Ayrshire was built pre-1980 and less than 1% post-1990. In North Ayrshire, 11% of floorspace is post-1990 and 64% pre-1980. Available supply in Irvine is younger, with only 44% of floorspace pre-1980 and 15% post-1990.

At December, SPN recorded only one available unit in Ayrshire built since 2000.

East Ayrshire has a high proportion of available units in small sizes of less than 200 sq m (49%) and a correspondingly low proportion in sizes over 999 sq m (14%). North Ayrshire, by contrast, has only 21% of available units under 200 sq m and 28% over 999 sq m. This is largely due to Irvine, which has a very small supply of units under 200 sq m at 10% (4 units) and 32% over 999 sq m.

Across Central Scotland on average, 32% of available units are under 200 sq m and 26% in sizes of 1,000 sq m or above.

Figure 7

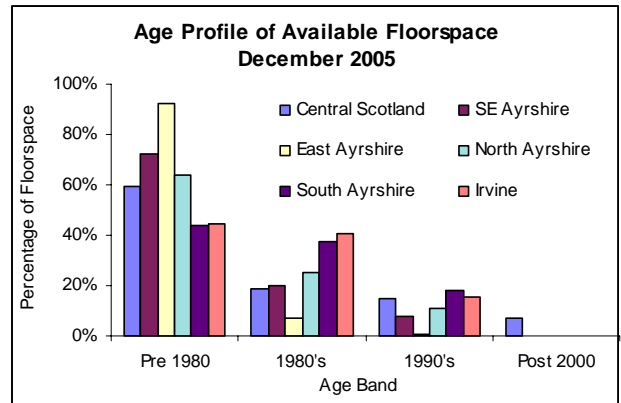
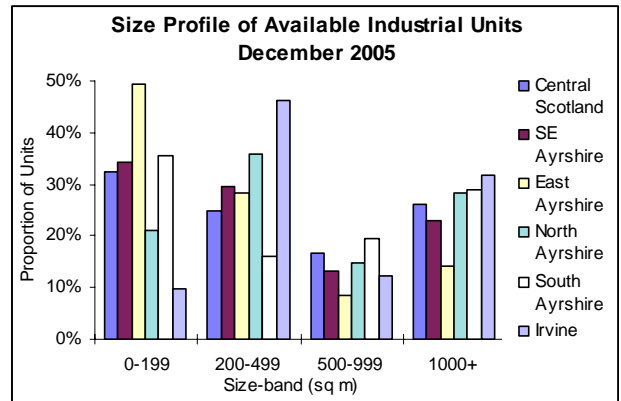


Figure 8



Industrial Take-up

In 2005, SPN recorded take-up of 31,455 sq m of industrial floorspace in Ayrshire, in 79 units. This represents a rise of 5% in floorspace taken up compared with the previous year, but a 22% fall in the number of transactions.

Over the same time period, Central Scotland recorded a rise of 10% in take-up of floorspace and a 2% increase in the number of transactions.

In 2005, take-up of floorspace in Ayrshire was just 2% below the 3-year average, but 19% below the 5-year average. The number of transactions recorded was the lowest for 8 years.

Take-up of floorspace in large units, over 999 sq m, rose by 34% over the year, while the number of transactions in this size-band increased from 4 to 7. However, take-up of floorspace in small units of less than 200 sq m fell by 44%, from 60 transactions in 2004 to 33 in 2005.

Take-up of post-1990 units increased by 33% in the year, but the volume of post-1990 floorspace taken up decreased by 32%. It should be noted, however, that the supply of modern industrial space in Ayrshire is relatively low and volatility in take-up levels would be expected. Almost two-thirds of all space taken up in 2005 was built pre-1980.

The increase in take-up of floorspace was confined to North Ayrshire, with a rise of 18% overall and of 9% in Irvine. However, the number of transactions fell by 12% in North Ayrshire and by 16% in Irvine. Take-up in South Ayrshire fell by 8% in floorspace and by 48% in units. In East Ayrshire, take-up of floorspace fell by 11% and the number of transactions fell by 21%.

Average annual take-up for Ayrshire, estimated from total recorded take-up over 3 years to September 2005 is shown in Table 4 below.

Table 4

Average Annual Take-up	Units	Floorspace (sq m)
Ayrshire	100	34,264
East Ayrshire	30	8,402
North Ayrshire	53	17,775
South Ayrshire	17	8,086
Irvine	27	9,017

Availability at December 2005 is shown in Figure 12 as a number of years' average take-up. Supply in Ayrshire represented 1.8 years' supply of units and 6.7 years' supply of floorspace. Central Scotland as a whole has 1.6 years' supply of units and 3.3 years' supply of floorspace.

Supply of floorspace, relative to average annual take-up, appears high in East Ayrshire, at almost 12 years' supply, compared to just 5 in both North and South Ayrshire, but given the very small size of these markets, supply and take-up figures are volatile.

Figure 9

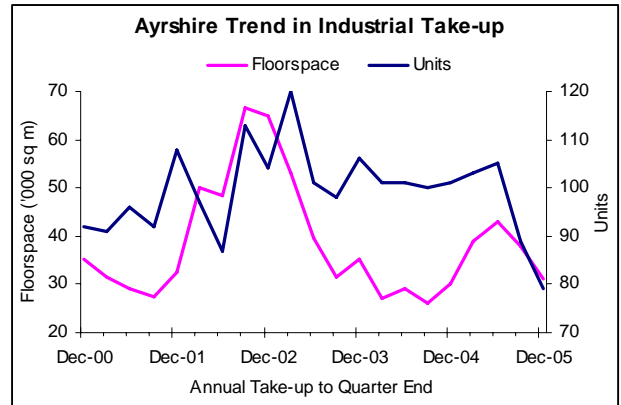


Figure 10

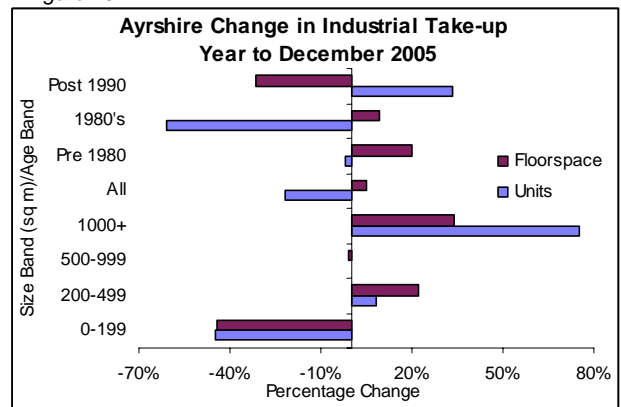


Figure 11

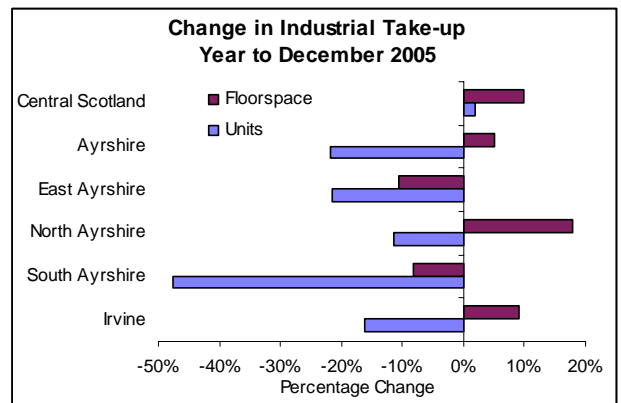
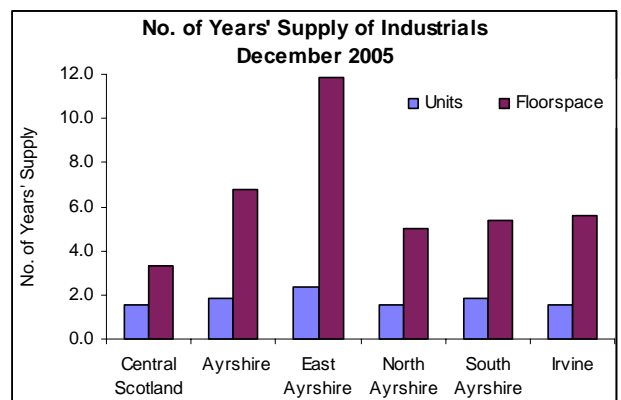


Figure 12



Office Availability

At December 2005, SPN recorded 70 available office and business units in Ayrshire, totalling 25,375 sq m. This includes only accommodation immediately available for occupation at December and excludes around 240 sq m that was offered in advance of construction. Of the total recorded available space, 1,000 sq m in 8 units were 'under offer' at December.

Available office space fell by over 7,000 sq m in Q1 2005 due to the withdrawal from the market in March of the former Jabil Circuit call centre in Ayr. However, supply increased steadily over the rest of the year to finish less than 1% below the level recorded in December 2004. The number of premises on offer was just 6% higher.

In Central Scotland as a whole, available office floorspace increased by just 4%, with a small rise of 2% in the number of available premises.

East and North Ayrshire recorded increases in available floorspace of 94% and 39% respectively. Available floorspace in South Ayrshire fell by over half, to just under 6,000 sq m, albeit with a small rise in the number of premises on the market. Such large percentage changes in supply are not remarkable in such small markets.

The size profile of available offices in Ayrshire shifted during 2005 towards smaller sizes, with a 62% increase in floorspace provided in sizes under 200 sq m and a 10% fall in floorspace over 200 sq m. Supply of modern (post-1990) space increased significantly by 140%. This was largely, but not entirely, due to one property at Rowallan Business Park, totalling 3,577 sq m.

Office Take-up

In 2005, SPN recorded take-up of 5,426 sq m in 36 office and business units in Ayrshire. This represents an increase of 18% on the previous year, although the number of transactions increased by only 1. Take-up of floorspace during 2005 was 9% above the 3-year average and just 6% below the 5-year average.

In Central Scotland as a whole, take-up of office floorspace fell by 6% in 2005 and the number of transactions decreased by 4%.

Over one-third of the recorded take-up in Ayrshire in 2005 was accounted for by one large pre-let of 1,958 sq m to AiB at Station Plaza, Kilwinning. Apart from this one letting, all take-up in Ayrshire was in sizes under 500 sq m, with 78% of transactions in sizes under 200 sq m.

Based on an estimate of average annual take-up over 3 years to September 2005, office supply at December 2005 represented 5.0 years' supply of floorspace and 1.7 years' supply of units (Figure 16). On average, Central Scotland had 3.2 years' supply of floorspace and 1.8 years' supply of units. Supply of floorspace, relative to average annual take-up, is lower than average in South Ayrshire, at 2.6 years' supply, and high in both East and North Ayrshire.

Figure 13

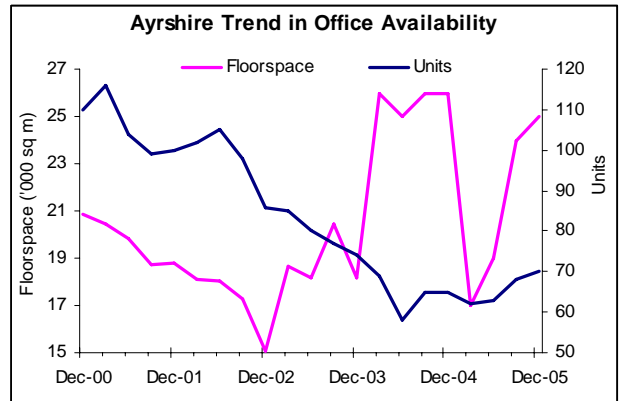


Figure 14

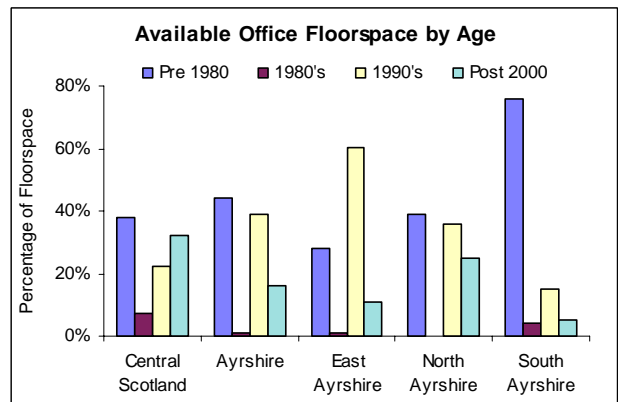


Figure 15

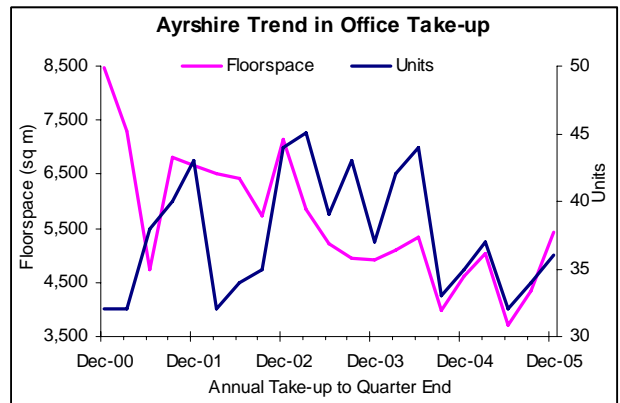


Figure 16

