

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 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 trends in the Edinburgh & Lothian area.

Main Findings:

Industrials

- The number of industrial units on offer in Edinburgh & Lothian at December 2005 was 9% higher than a year earlier, but available floorspace increased by just 3% over the year.
- Available floorspace fell in Edinburgh City by 6% and in West Lothian by 5%, although Livingston recorded a rise of 11%. Across Central Scotland in 2005, the supply of industrial floorspace fell by 4%.
- A relatively high proportion of Edinburgh & Lothian floorspace is modern, with 28% built since 1990 and 15% post-2000. On average across Central Scotland, 22% of available industrial space is post-1990 and only 7% post-2000.
- Take-up of industrial floorspace in Edinburgh & Lothian in 2005 was 30% higher than in 2004, but the number of transactions was 20% lower. Central Scotland recorded a rise of 10% in floorspace taken up in 2005 and a 2% rise in the take-up of units.
- Growth was strongest in Edinburgh City, where take-up of floorspace increased by 69%, although the number of transactions was down by 22%.
- Available floorspace in Edinburgh & Lothian at December 2005 represented approximately 3.1 years' average take-up. West Lothian had only 2.5 years' supply of floorspace, compared to 3.3 years' supply in Edinburgh City.

Offices

- Available office space in Edinburgh City increased by 14% in 2005, mainly in 1990s and post-2000 accommodation, with reduced supply of older floorspace.
- A high proportion of available office accommodation in Edinburgh & Lothian is modern, with 41% of floorspace built post-2000, compared to a Central Scotland average of 32%.
- Take up of office space in Edinburgh City in 2005 was 48% below the high level recorded in 2004. Within Edinburgh & Lothian, only West Lothian recorded an increase in office take-up in 2005 (13%).
- Available office space in Edinburgh City at December 2005 represented around 3.6 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.

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

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 Edinburgh & Lothian remains lower than the Scottish average as shown in Table 2. The rates of unemployment in Edinburgh City and West Lothian are unchanged over the year to January. East Lothian and Midlothian recorded decreases of 0.4% and 0.1% respectively.

Table 2

	Claimant Count Unemployment January 06	Average Total Employment Mar 04-Feb 05
Scotland	3.2% (-0.1%)	75%
East Lothian	1.6% (-0.4%)	78%
Edinburgh	3.0% (0.0%)	76%
Midlothian	2.1% (-0.1%)	81%
West Lothian	2.9% (0.0%)	79%
(figures in brackets show change over previous year)		
Source: Scottish Executive, 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

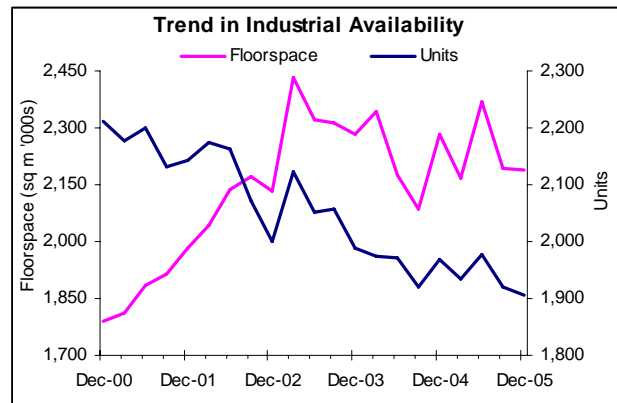
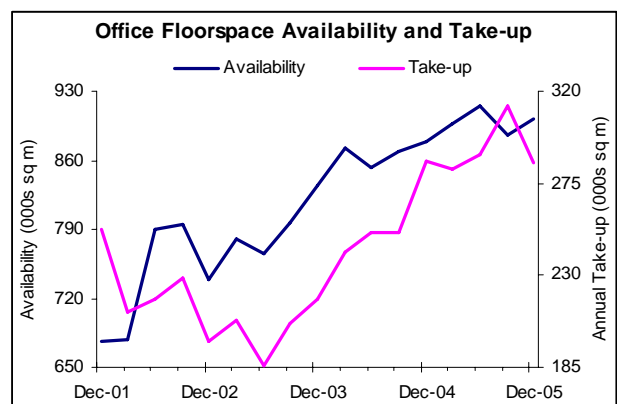


Figure 2



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

Property Market Activity – Edinburgh & Lothian

Industrial Stock

SPN holds information on 2,857 'standard'⁴ industrial units in the Edinburgh & Lothian area, totalling just under 2.8 million sq m.

As shown by Figure 3, Edinburgh & Lothian has a higher than average proportion of modern stock, with 19% of floorspace built post 1990 and 5% post-2000. In West Lothian, 25% of floorspace is post-1990 and 31% in Livingston, compared to just 14% in Edinburgh City.

By comparison, 15% of Central Scotland floorspace was built post-1990 and 3% post-2000.

Stock in West Lothian is strongly biased towards large sizes, with 24% of units over 999 sq m, compared to 19% in Edinburgh and 18% across Central Scotland. In Livingston, 33% of units are bigger than 999 sq m.

Industrial Availability

At December 2005, SPN recorded just over 335,000 sq m of available space in 272 units in Edinburgh & Lothian. As shown by Table 3, most of this supply is in Edinburgh City and West Lothian.

Table 3

Distribution of Available Industrial Space in SEEL		
	Units	Floorspace
East Lothian	7%	11%
Edinburgh	35%	38%
Midlothian	15%	12%
West Lothian	43%	39%

Supply at the end of 2005 was slightly higher than a year earlier, up by just 3% in floorspace and by 9% in number of units. At December, supply of floorspace was close to the 5-year average, although the number of available units was 7% above it.

During 2005, Central Scotland⁵ as a whole recorded a fall of 4% in available floorspace and a marginal fall in the number of available units.

Supply rose most steeply during 2005 in smaller units, with a rise of 47% in units under 500 sq m, and of 34% in units under 200 sq m, as shown by Figure 5.

The largest rise in available floorspace was in Livingston, although East Lothian recorded a big percentage rise, as shown by Figure 6. Despite an 11% rise in Livingston, available floorspace in West Lothian as a whole fell slightly by 5%.

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

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

Figure 3

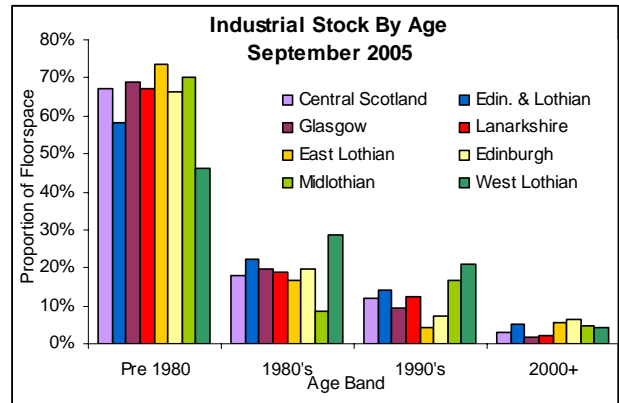


Figure 4

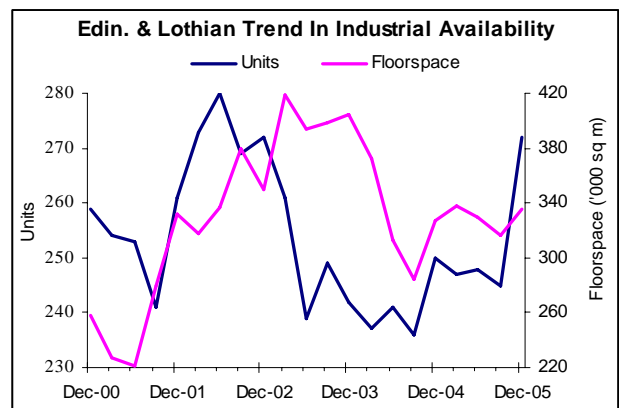


Figure 5

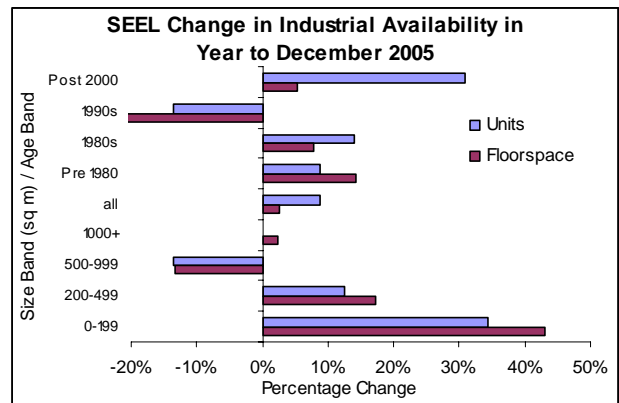
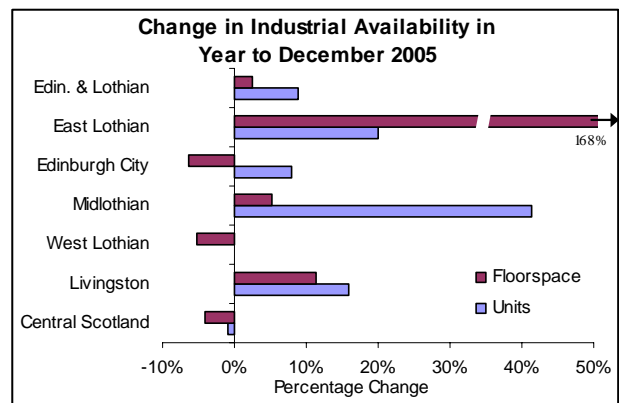


Figure 6



Edinburgh City also recorded a fall in available floorspace of 6%, although the number of units on the market rose by 8%.

The proportion of recorded stock available at December is substantially unchanged from our last report. As shown in Table 4 below, the rate of availability, in terms of floorspace, is slightly lower than average in Edinburgh City and West Lothian.

Table 4

Industrial Availability Rate		
	% of Recorded Stock	
	Units	Floorspace
Edinburgh & Lothian	10%	12%
Central Scotland	9%	13%
Glasgow	9%	11%
Lanarkshire	8%	12%
East Lothian	7%	30%
Edinburgh City	8%	11%
Midlothian	11%	15%
West Lothian	12%	11%

A high proportion of Edinburgh & Lothian supply is in modern accommodation, with 28% of floorspace built post-1990 and 15% post-2000. On average in Central Scotland 22% of available space was built post-1990 and 7% post-2000.

In West Lothian 32% of space is post-1990 and 12% post-2000. Edinburgh has a particularly high proportion of available floorspace built since 2000, at 23%. East Lothian, by contrast has very little modern space available, with 95% of floorspace built pre-1980 (Figure 7).

As illustrated in Figure 8, a high proportion of Edinburgh & Lothian's available supply is in large units, with 31% of all units in sizes over 999 sq m. On average, Central Scotland has 26% of units over 999 sq m and Glasgow only 20%. This bias towards large units is most evident in Livingston, where 38% of available units are over 999 sq m, but Edinburgh City also has a high proportion of available units in this size-band at 36%.

Figure 7

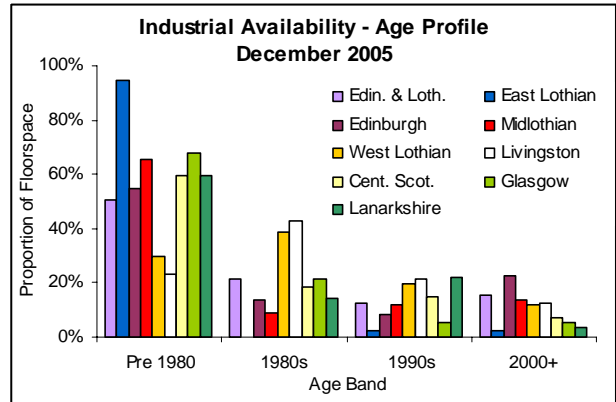
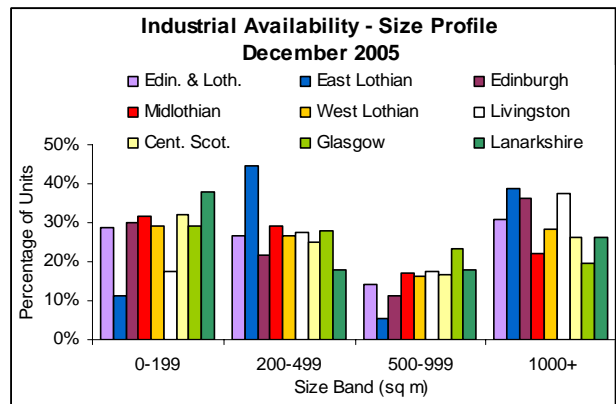


Figure 8



Industrial Take-up

SPN recorded take-up in 2005 of just over 123,000 sq m of industrial floorspace in Edinburgh & Lothian in 136 units. Take-up of floorspace was 30% higher than in 2004, but the number of transactions was 20% lower.

Take-up during 2005 was 12% above the 5-year average in terms of floorspace, but 18% below the 5-year average in the number of transactions.

As shown by Figure 10, there was strong growth in take-up of floorspace in large units (56%), but a significant fall in take-up of small units and of units in the 500-999 sq m size-band.

Take-up of floorspace built post-2000 almost doubled (97%), although take-up of 1990s floorspace fell by 28%. The number of transactions decreased in all pre-2000 age-bands.

Growth was strongest in Edinburgh City, where take-up of floorspace in 2005 was 69% higher than in 2004, although the number of transactions was down by 22%. West Lothian also recorded growth in take-up of industrial space, up by 32%, with a 20% rise in Livingston. The number of transactions fell in all 4 local authority areas.

Central Scotland recorded growth in take-up in 2005 of 10% in floorspace and of 2% in the number of transactions. Glasgow and Lanarkshire both recorded increases of just over 20% in the volume of floorspace taken up.

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

Table 4

Average Annual Take-up	Units	Floorspace (sq m)
Edinburgh & Lothian	168	107,848
East Lothian	13	10,267
Edinburgh	53	38,591
Midlothian	24	6,806
West Lothian	77	52,184
Livingston	31	29,169

Available supply at December 2005 is shown in Figure 12 as a number of years' average take-up. Supply in Edinburgh & Lothian at December 2005 represented 1.6 years' supply of units and 3.1 years' supply of floorspace.

Central Scotland had 1.6 years' supply of units and 3.3 years' supply of floorspace. Supply was lower in Glasgow, relative to average take-up, at 1.4 years' supply of units and 2.5 years' supply of floorspace.

West Lothian also had only 2.5 years' supply of industrial floorspace, compared to 3.3 years' supply in Edinburgh City.

Figure 9

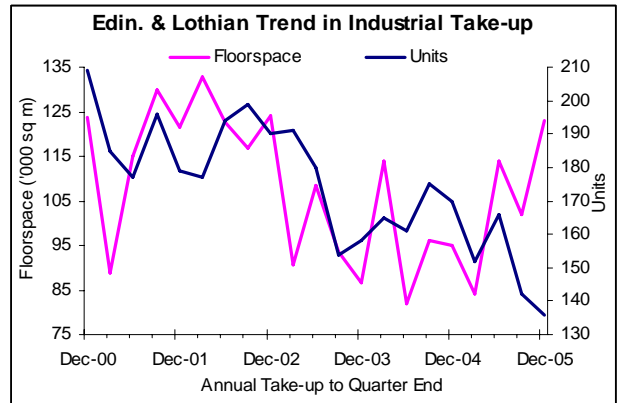


Figure 10

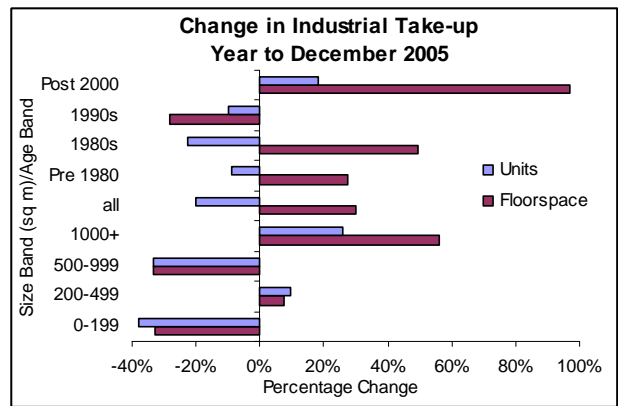


Figure 11

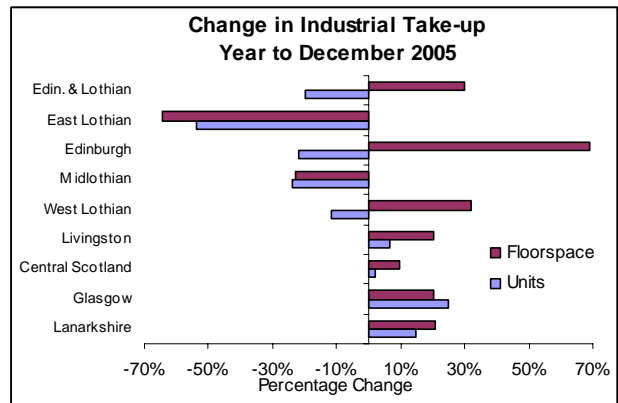
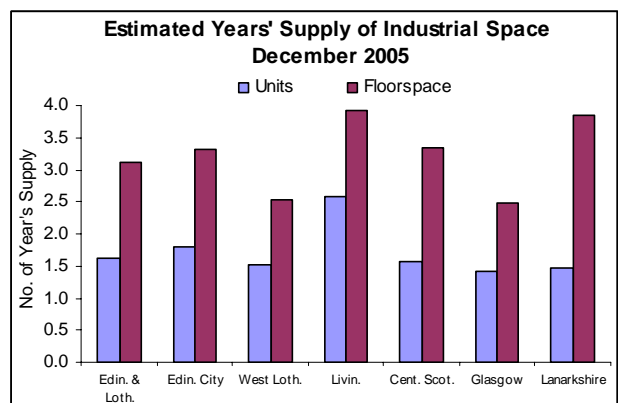


Figure 12



Office Availability

At December 2005, SPN recorded just over 324,000 sq m of available office and business space in 456 premises in Edinburgh & Lothian. This reflects only accommodation that was immediately available for occupation and excludes around 119,000 sq m that is offered in advance of construction or is still under construction or refurbishment.

The total available floorspace logged by SPN included premises that are under offer. At the end of December these totalled 15,030 sq m in 48 units, or 5% of the total supply.

Supply of floorspace increased steadily during 2005, to finish the year 12% above the level recorded at the end of 2004. The number of premises on the market was substantially unchanged. Available floorspace at December was 15% above the 3-year average and 37% above the 5-year average.

Growth in supply was mainly in modern floorspace, with 1990s and post-2000 space both increasing by 32%. Supply of 1980s floorspace fell by 56%, while pre-1980s space increased by just 6%.

Available floorspace in Edinburgh City increased by 14% over the year, with a 38% rise in post-2000 space. Glasgow, by comparison, saw a rise of just 2% in supply of office floorspace, with a 50% decline in supply of post-2000 space.

Supply of floorspace in West Lothian increased by 11%, while the number of units on offer rose by 24%.

On average, across Central Scotland, available office floorspace increased by 4%, and supply of units rose by just 2%.

Edinburgh & Lothian has a relatively high proportion of available office floorspace in modern accommodation, with 63% built post-1990 and 41% built post-2000. This compares to Central Scotland averages of 55% built post-1990 and 32% post-2000.

In West Lothian, 89% of available floorspace was built post-1990 and 55% post-2000. In Edinburgh City, 58% of available space was built post-1990 and 37% post-2000.

Supply in Glasgow is significantly older, with 37% of available space built post-1990 and only 19% post-2000.

Edinburgh City has a high proportion of office supply in large sizes, with 28% of available premises in sizes of 500 sq m or more and 15% over 999 sq m. compared to a Central Scotland average of 9%. In Glasgow only 18% of available office premises are over 499 sq m and 7% over 999 sq m.

Figure 13

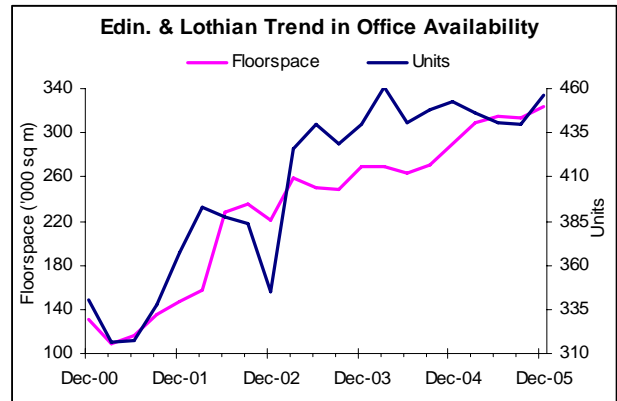


Figure 14

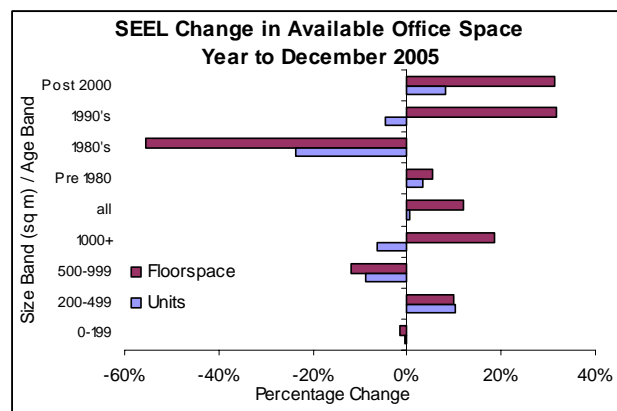


Figure 15

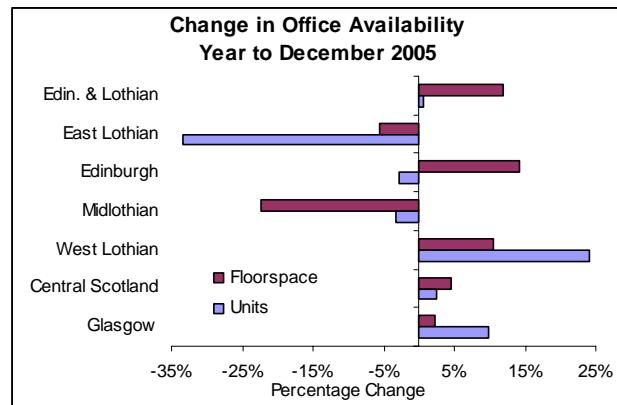
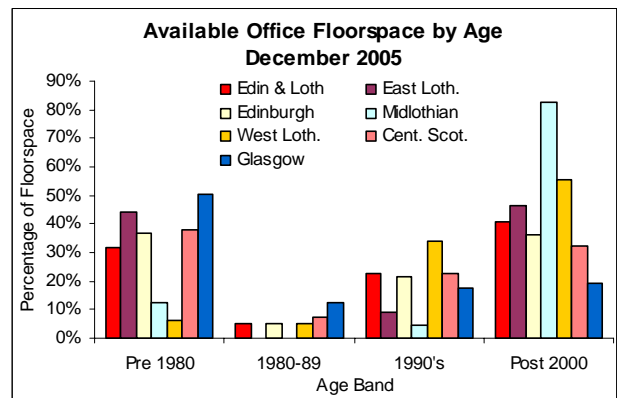


Figure 16



Office Take-up

In the year to December 2005, SPN recorded take-up of 68,237 sq m of office and business floorspace in Edinburgh & Lothian in 227 transactions. This represents a significant decrease from the high level recorded in 2004 of 43% in floorspace and of 17% in the number of transactions.

Take-up of floorspace in Edinburgh & Lothian in 2005 was 22% below the 3-year average and 14% below the 5-year average.

Of the 4 local authority areas, only West Lothian recorded an increase in take-up, with a rise of 13% in take-up of floorspace and of 39% in the number of transactions.

Take-up of floorspace decreased in Edinburgh City by 48% in 2005 and the number of transactions fell by 22%. By contrast, Glasgow recorded a rise of 86% in the volume of office floorspace taken up and a 17% increase in the number of transactions.

As illustrated in Figure 18, take-up of office space fell by 6% on average in Central Scotland during 2005 and the number of transactions fell by 4%.

In Edinburgh & Lothian, take-up increased strongly in the 500 – 999 sq m size-band, but fell in all other size and age-bands.

Based on an estimate of average annual take-up over the 3 years to September 2005, supply in Edinburgh & Lothian at December 2005 represented 3.6 years' supply of floorspace and 1.9 years' supply of units. This was slightly above the Central Scotland average of 3.2 years' supply of floorspace and 1.8 years' supply of units (Figure 21).

At December, Edinburgh City had an estimated 3.6 years' supply of floorspace. Supply of office floorspace in Glasgow was significantly lower, relative to annual take-up, at 2.7 years' supply.

Figure 17

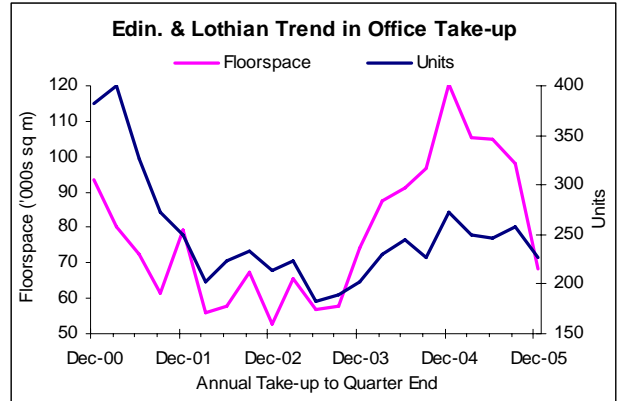


Figure 18

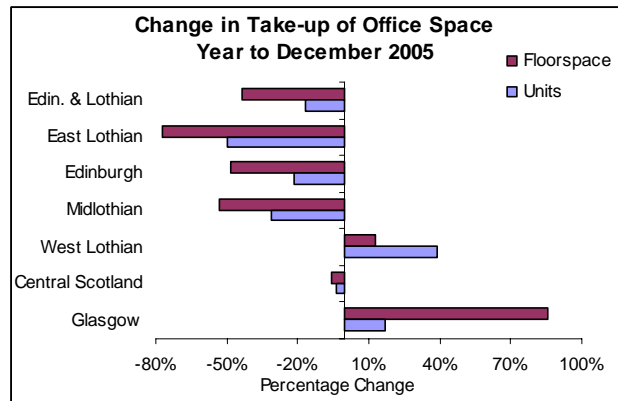


Figure 19

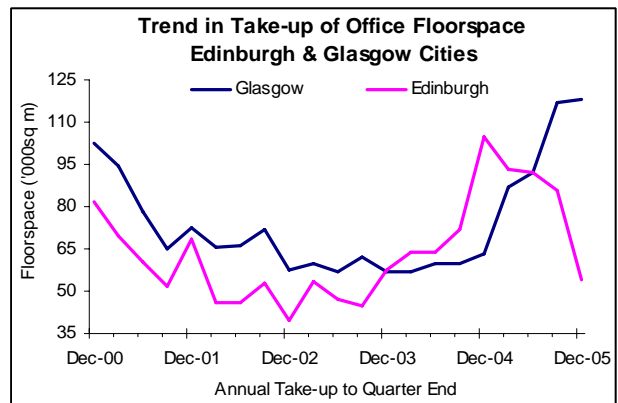


Figure 20

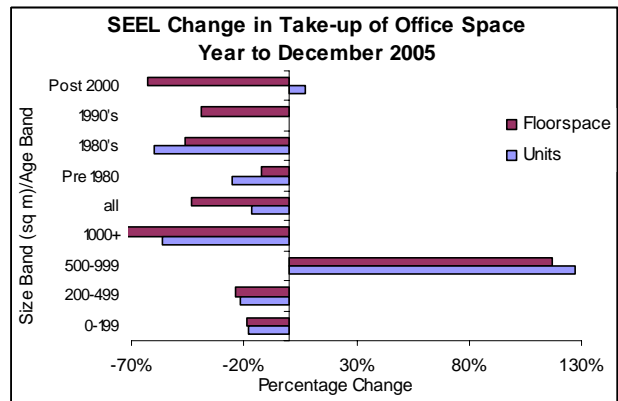


Figure 21

