SCOTTISH PROPERTY NETWORK

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Scottish Enterprise Business Property Review

Scottish Enterprise

This report is the latest in a series of half-yearly updates on property market activity in the Scottish Enterprise (SE) area[1], based on an analysis of the Scottish Property Network (SPN) database at June 2006.

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

Scottish Economic Summary

Provisional figures published by the Scottish Executive in July 2006 show growth of 0.5% in seasonally adjusted Gross Domestic Product (GDP) in Scotland in the first quarter of 2006, compared to 0.7% growth for the UK as a whole. However, over the year to the end of Q1 2006, growth in Scottish output equalled the UK average of 1.9% for the year.

Output in the Scottish service sector increased over the year by 2.9%, equalling the average growth for the UK and slightly up on the previous twelve months.

The Scottish production sector again recorded a decline over the year of 2.1%, compared to a decline of 1.7% for the UK. Manufacturing output in Scotland grew by 0.4% in Q1 2006, but declined over the year by 0.9%, compared to a fall of 1.1% across the UK. By contrast, the Scottish construction sector recorded strong growth of 3.6% in Q1 and 3.1% over the year, significantly ahead of the UK average growth of 0.9% in Q1 and 0.4% for the year.

Table 1

GDP Seasonally Adjusted	% Change Q1 2006 on Q4 2005	% Change Year to Q1 2006
Scotland	0.5 (0.7)	1.9 (1.9)
Production	0.1 (0.8)	-2.1 (-1.7)
Construction	3.6 (0.9)	3.1 (0.4)
Services	0.4 (0.7)	2.9 (2.9)
Note: (UK Figure in brackets)		
Source: Scottish Executive, July 2006		

More recent figures from the Royal Bank of Scotland PMI Scotland Report[2] indicate strong growth in Scottish private sector output in the first half of 2006, with growth in July the highest recorded since May 2000. For the first time in eighteen months, growth in manufacturing outstripped growth in the service sector in July and was at the highest level recorded since 1999.

In its commentary on the Index of Leading Economic Indicators[3], The Bank of Scotland reports improved business confidence in Scotland in Q2 2006 and predicts stronger growth in the Scottish economy in 2007, potentially at over 2.5%.

Claimant count unemployment in Scotland stood at 3.3% in June 2006, up 0.1% on the year, while the latest Labour Force Survey total employment rate for Scotland in 2005, was unchanged at 75%. However, the Royal Bank's PMI Report records continued expansion of employment in the Scottish private sector, with growth in manufacturing employment in July at the highest level since March 2004. The Bank of Scotland's Labour Market Report[4] also indicates strong growth in employment levels in Scotland in the first half of 2006, particularly in permanent positions.

With UK inflation (CPI) rising to a nine-month high of 2.5% in June and against a background of steady economic growth and rising wages, the Bank of England MPC raised base interest rates by 0.25% to 4.75% in August. The MPC has warned that inflation is expected to increase further in the short-term, although there appears to be uncertainty as to whether a further rise in interest rates will be necessary to bring inflation back on target.

[2] Purchasing Managers' Index Scotland Report, Royal Bank of Scotland/ NTC Research, August 2006

[3] The Scottish Index of Leading Economic Indicators, Bank of Scotland, July 2006

[4] Scottish Monthly Labour Market Report, Bank of Scotland, July 2006

Industrial Property Market

Available industrial floorspace in the Scottish Enterprise area fell slightly in Q1 2006 but increased again during Q2. Available floorspace at the end of June 2006 (2.2 million sq m) was 6% below the level recorded a year earlier and close to the average level recorded over the last five years. Following a sharp increase in 2001, the volume of floorspace on offer has been relatively stable at 2.1 to 2.4 million sq m since mid 2002. By contrast, the number of units on offer has fallen slowly but steadily over the last five years and the average size of unit on the market has risen by 35% to just under 1,200 sq m. The number of available units under 200 sq m has fallen by 33% in the same period.

The biggest reduction in supply was in older (pre-1980s) floorspace, which fell by 12% over the year. The number of units in the post-2000 age-band again recorded a significant increase (50%), but mainly in small sizes and the total volume of post-2000 floorspace fell by 8%.

Despite recording an increase of 6% during the first half of 2006, take-up of industrial floorspace in the twelve months to June 2006 was 5% down from the previous year. However, take-up in the year remained marginally above the 5-year average.

Following a five-year decline, the number of small units (< 200 sq m) taken up increased in the first half of 2006 by 12%. Over the year to June, take-up of units under 200 sq m increased by 5%, while take-up of units over 499 sq m in size fell by 18%.

Take-up of floorspace built post-1990 fell by 29% over the year, although the number of transactions in this age-band fell by just 2%. Despite an increase of 9% in take-up of units built post-2000, floorspace taken up in this age-band decreased by 39%, reflecting limited supply in medium to large sizes. Take-up of older (pre-1980) floorspace increased by 20%

The CB Richard Ellis Quarterly Index[5] reports rental growth of just 2.0% for Scottish industrials in the year to June 2006, but with strong capital growth taking annual return on Scottish industrials to 19.6%.

Office Property Market

Available office floorspace fell by just 2% during the first half of 2006. At the end of June 2006, supply was 4% below the peak level recorded a year earlier but was still 8% above the 5-year average. The reduction in supply was confined to older (pre-1980s) floorspace, with modest increases in the availability of post-1980 floorspace.

In Edinburgh, available office floorspace fell marginally by just 2% overall, but with a 13% reduction in post-2000 space. By contrast, Glasgow recorded an overall decline of 22% and a fall of 29% in post-2000 floorspace. Edinburgh & Lothian now provides 35% of all available office space in the SE area, with 27% in Edinburgh City, while Glasgow has just 21%.

Take-up of office floorspace decreased slightly by 4% over the year to June 2006, but remained 13% above the 5-year average. There was significant growth in take-up of 1990s floorspace (33%), but take-up of post-2000 floorspace fell by 14% from the high level recorded in the previous year.

Take-up in Glasgow increased by 13% over the year, with strong growth in take-up in sizes over 999 sq m. By contrast, Edinburgh recorded a decline of 41% in floorspace taken up and a large reduction in the number of lettings in sizes over 999 sq m.

The CB Richard Ellis Scottish Quarterly Index records rental growth in Scottish offices picking up to 2% in the year to June, but with falling yields pushing total returns to a high of 25.2%.

[5] Scottish Quarterly Index, Q2 2006, CB Richard Ellis

2 Industrial Stock

At March 2006, SPN held information on over 18.2 million sq m of 'standard'[6] industrial accommodation in Scotland of which, 17.9 million sq m was in the Scottish Enterprise area. The distribution of stock across SE Local Enterprise (LEC) areas is shown in Table 2 below. The biggest concentration of industrial space is in Lanarkshire, which has 22% of all floorspace and 19% of units. The Clyde Valley LEC areas[7] together account for 46% of all floorspace and 43% of units in the SE area.

Table 2

Industrial Stock Recorded by SPN at March 2006				
	Units	%	Floorspace (sq m)	%
Ayrshire	1,549	7%	1,234,047	7%
Borders	387	2%	165,846	1%
Dumfries & Galloway	193	1%	120,366	1%
Dunbartonshire	674	3%	467,768	3%
Edinburgh & Lothian	2,739	13%	2,579,613	14%
Fife	1,555	7%	1,257,867	7%
Forth Valley	1,404	7%	1,138,500	6%
Glasgow	2,831	14%	2,144,862	12%
Grampian	2,344	11%	1,894,940	11%
Lanarkshire	4,054	19%	4,026,877	22%
Renfrewshire	1,462	7%	1,529,460	9%
Tayside	1,629	8%	1,342,827	8%
Scottish Enterprise	**20,821**	**100%**	**17,902,973**	**100%**

As shown by Figure 1, 64% of all recorded floorspace was built before 1980. Just 15% has been built since 1990 and only 3% since 2000, reflecting falling levels of new speculative development.

Grampian has a relatively high proportion of 1980s stock, but very little new provision since 2000. The proportion of modern stock is highest in Edinburgh & Lothian and in Renfrewshire[8] where around 20% is post-1990 and 5% post-2000. Forth Valley also has a higher than average percentage of post-2000 floorspace (4%), but relatively little 1990s space. In Tayside 17% of stock was built post-1990 but just 2% post-2000 (Figure 2).

On average, 43% of industrial units are under 200 sq m and 18% are over 999 sq m.

As shown in Figure 3, Grampian has a low proportion of stock in small units under 200 sq m at 31% and 21% of units in sizes of 1,000 sq m and above. The Borders, Dumfries & Galloway and Dunbartonshire areas all have a relatively high percentage of stock in small units and a correspondingly low proportion in large sizes.

Figure 1

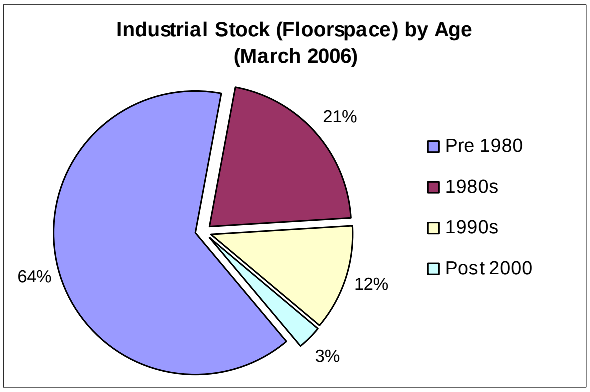


Figure 2

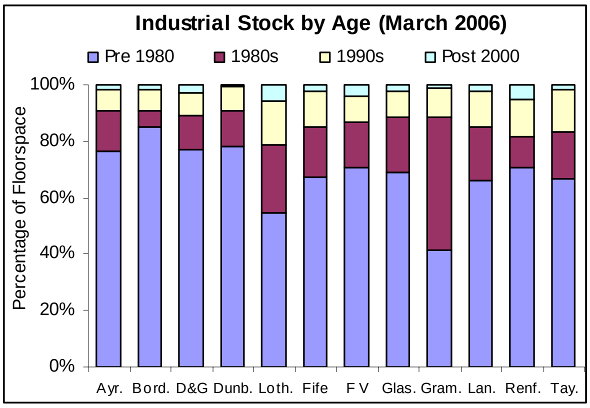
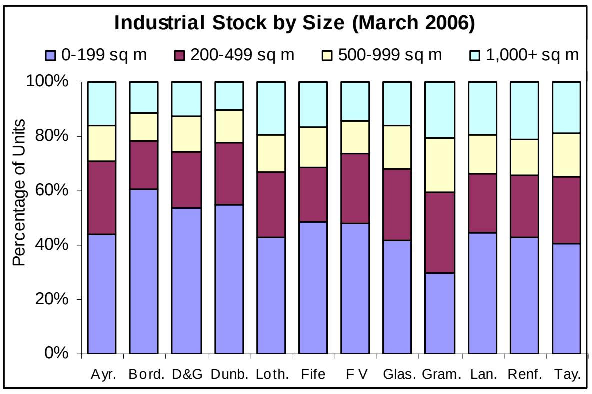


Figure 3



[6] This includes all industrial units in recognised industrial estates or 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.

[7] Dunbartonshire, Glasgow, Lanarkshire and Renfrewshire.

[8] In this report, references to Renfrewshire mean the SE Local Enterprise Area, including the 3 areas of East Renfrewshire, Inverclyde and Renfrewshire.

3 Industrial Supply

At June 2006, SPN recorded 1,917 available industrial units totalling 2,219,068 sq m in the SE area. This represents 98% of all available industrial floorspace in Scotland as a whole.

The supply of industrial floorspace was substantially unchanged over the first half of 2006, increasing by just 1%. At the end of June, available floorspace was 6% below the level recorded at June 2005, but close to both the 3-year and 5-year averages.

As shown by figure 4, there was a slight upturn in the number of units on the market in Q2 2006, but the number of available units in June was 3% below the number at June 2005 and 5% below the 5-year average.

Over the year to June, there was a 5% increase in supply of units in the 200-499 sq m size-band, but a reduction in availability in smaller and larger sizes of 7% and 5% respectively.

As illustrated by Figure 5, supply of older (pre-1980) floorspace fell by 12% over the year, while supply of 1990s space increased by 13%. There was a big rise of 50% in the number of units built post 2000, but this was mainly in small sizes and the overall supply of post-2000 floorspace fell by 8%. Floorspace built post-2000 represents just 6% of total availability.

Only the Fife and Forth Valley areas recorded any substantial rise in available floorspace over the year, up by 40% and 20% respectively. In Edinburgh & Lothian, the number of units on offer increased by 19%, but with just a small rise in available floorspace of 3%. Ayrshire also recorded a marginal rise in available floorspace of 3%, but with a fall of 13% in the number of units on offer.

Most LEC areas recorded a fall in availability, with the biggest decline in floorspace in Dumfries & Galloway (40%). Lanarkshire and Dunbartonshire both recorded a fall of 21% in available floorspace, while Renfrewshire and Glasgow recorded decreases of 16% and 13% respectively.

The proportion of total supply (floorspace) located in the Clyde Valley area fell from 49% at the end of 2005 to 46% in June. Lanarkshire's share of total supply fell from 23% to 20% (Figure 7).

The distribution of available supply across all 12 LEC areas is shown in Table 3 overleaf.

Figure 4

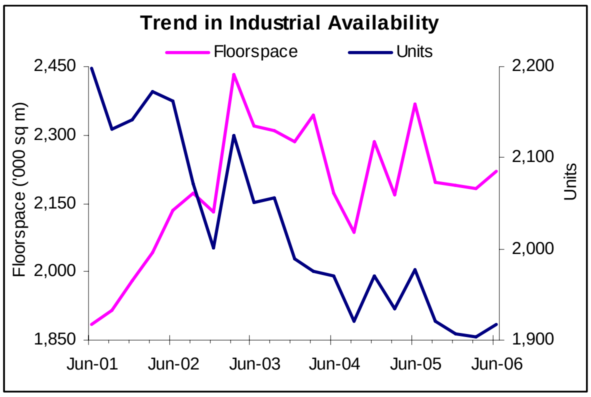


Figure 5

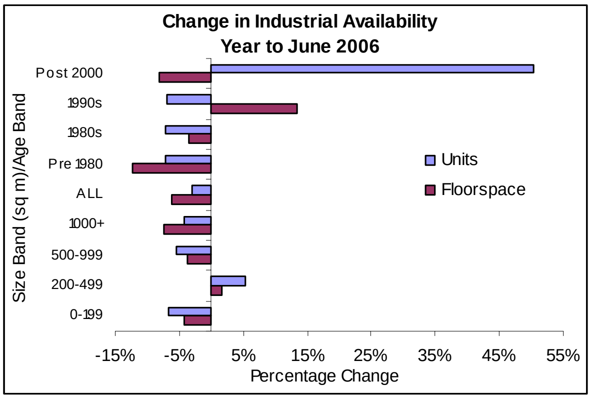
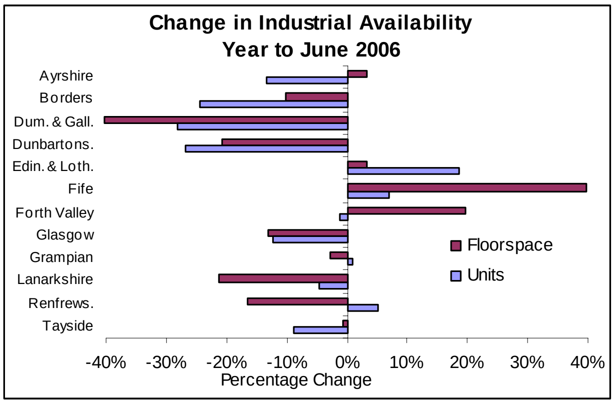


Figure 6



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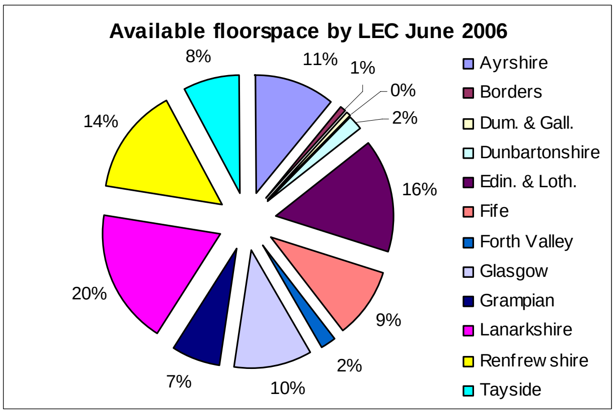


Table 3

Available Industrial Supply June 2006	Units	Floorspace (sq m)
Ayrshire	155	245,819
Borders	37	20,017
Dumfries & Galloway	18	9,205
Dunbartonshire	57	46,993
Edinburgh & Lothian	294	340,832
Fife	153	210,563
Forth Valley	76	53,942
Glasgow	231	231,774
Grampian	233	145,496
Lanarkshire	339	417,705
Renfrewshire	180	321,706
Tayside	144	175,016
Scottish Enterprise	**1,917**	**2,219,068**

Availability at June represented 12% of total recorded floorspace in the SE area and 9% of all units. As shown by Table 4, the proportion of stock currently available in Forth Valley remains significantly lower than average, while Renfrewshire has a high proportion of its stock on the market. Grampian has a low rate of availability in terms of floorspace, but the percentage of units on the market is close to average.

The proportion of available floorspace built post-1990 in the SE area has increased to 25% (from 22% at the end of 2005), but the proportion of available space built post-2000 has fallen slightly to 6%.

As shown by Figure 8, a high proportion of available accommodation in Forth Valley is modern, with 55% built post-1990 and 14% post-2000. Lanarkshire and Tayside also have a comparatively high percentage of modern space, with 33% of availability in post-1990 accommodation, but in Tayside just 5% of space is post-2000, compared to 9% in Lanarkshire. Both Renfrewshire and Edinburgh & Lothian have a high proportion of post-2000 space available, at 10% of total supply.

Ayrshire has a very limited supply of modern space, with only 5% built post-1990 and less than 1% built post-2000. Dumfries & Galloway has no post-2000 units available and only 17% of units built in the 1990s.

On average, 25% of all available units are over 999 sq m and 32% in sizes of less than 200 sq m. As shown by Figure 9, Borders, Dumfries & Galloway, Dunbartonshire and Forth Valley all have a comparatively high proportion of supply in small units.

Renfrewshire has a high percentage of available units in sizes of 1,000 sq m or more and only 17% in premises under 200 sq m. Edinburgh & Lothian and Tayside also have a relatively high proportion of supply in large units, with around 30% above 999 sq m.

Table 4

Industrial Availability June 2006	Rate of Availability	
	Units	Floorspace
Ayrshire	10%	20%
Borders	10%	12%
Dumfries & Galloway	9%	8%
Dunbartonshire	8%	10%
Edinburgh & Lothian	11%	13%
Fife	10%	17%
Forth Valley	5%	5%
Glasgow	8%	11%
Grampian	10%	8%
Lanarkshire	8%	10%
Renfrewshire	12%	21%
Tayside	9%	13%
Scottish Enterprise	9%	12%

Figure 8

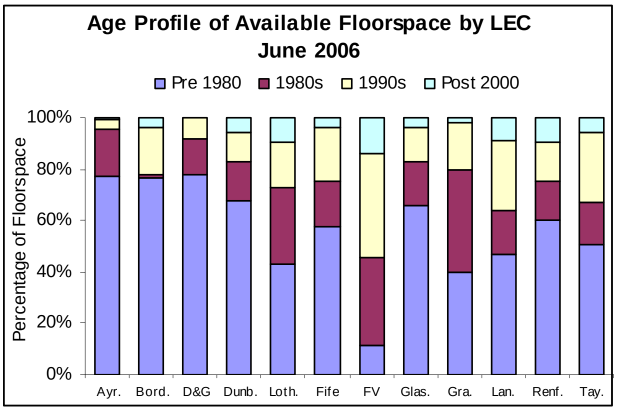
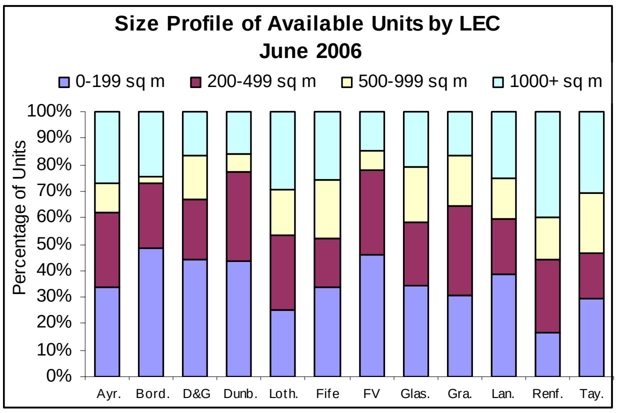


Figure 9



4 Industrial Take-up

In the 12 months to the end of June 2006, SPN recorded take-up of 1,081 industrial units in the SE area, totalling 604,776 sq m.

The trend in take-up monitored directly by SPN[9] is shown in Figure 10. Take-up fell in the second half of 2005, but increased again in the first half of 2006. In the year to June 2006, take-up of industrial floorspace was just 5% lower than the level recorded over the previous 12 months. The number of transactions fell by 3% over the same period.

The volume of floorspace taken up over the year was close to both the 3 and 5-year averages.

Following a five-year decline, the number of small units (< 200 sq m) taken up increased in the first half of 2006. In the year to June take-up of units in this size-band was 5% higher than in the previous year, although the volume of floorspace taken up fell by 4%. There was no substantial change in take-up in the 200 - 499 sq m size band, but take-up of larger units fell by 18%, with a decline of 6% in floorspace taken up in sizes over 499 sq m (Figure 11).

Take-up of modern (post-1990) floorspace fell by 29% over the year, although the number of transactions in this age-band decreased by just 2%. Despite an increase of 9% in take-up of units built post-2000, floorspace taken up in this age-band decreased by 39%, reflecting limited supply in medium to larger sizes. Take-up of older (pre-1980) floorspace increased by 20% (Figure 11).

Lanarkshire recorded the largest increase in floorspace taken up, with a rise of 46,000 sq m or 35% over the previous year, although the number of units taken up increased by just 4%. Fife also saw a big rise in floorspace taken up (34%). As illustrated by Figure 12, the Borders, Dumfries & Galloway, Edinburgh & Lothian and Grampian areas all recorded a significant percentage decline in floorspace taken up. Glasgow saw a more moderate fall of just 6%.

In the year to June 2006, Lanarkshire accounted for 30% of all industrial floorspace taken up in the SE area (Figure 13). The Clyde Valley area accounted for 59% of all floorspace taken up.

Figure 10

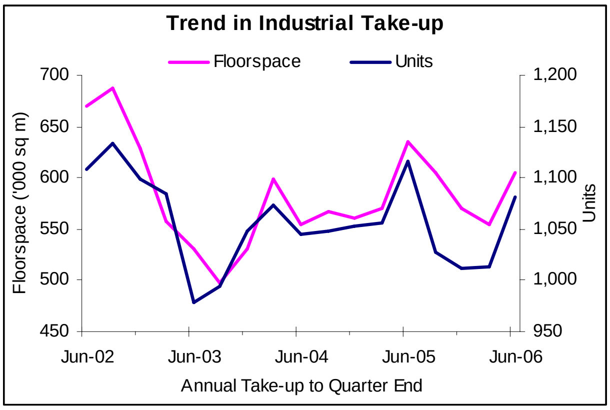


Figure 11

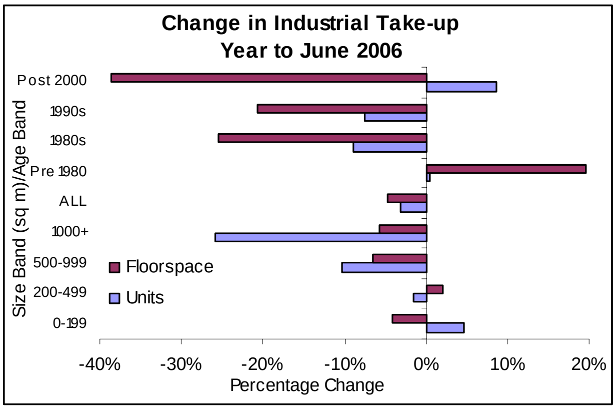


Figure 12

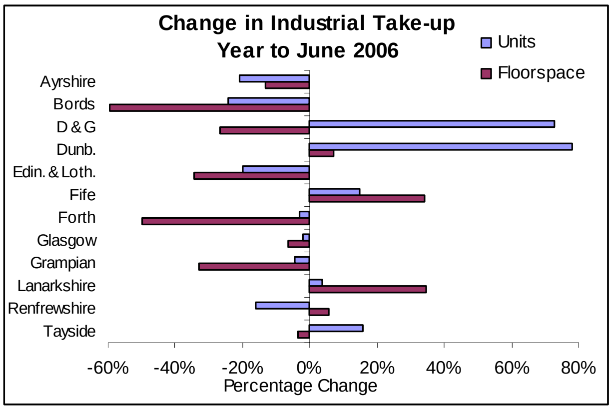
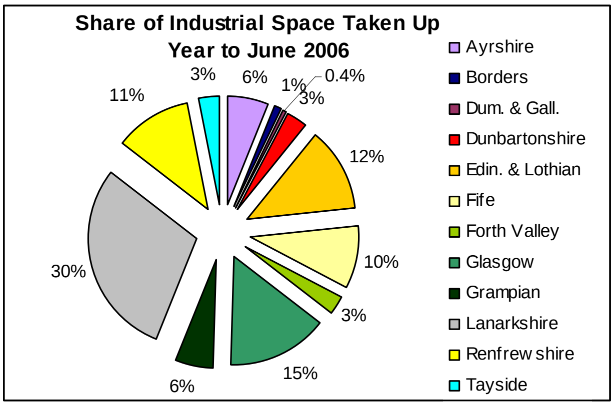


Figure 13



[9]Take-up is based on the change recorded in availability identified as a lease or a sale for occupation by the marketing agent.

The average annual take-up for each LEC area, estimated from the total recorded take-up in the 3 years to March 2006, is shown in Table 5 below. Based on this estimate, availability at June 2006 is shown in Figure 14 as a number of years' average take-up.

Table 5

Average Annual Take-up*	Units	Floorspace (sq m)
All Scotland	1,180	680,599
SE Area	1,133	663,689
Central Scotland	928	566,977
Ayrshire	96	33,885
Borders	35	19,000
Dumfries & Galloway	16	4,267
Dunbartonshire	28	12,186
Edinburgh & Lothian	156	107,990
Fife	87	50,151
Forth Valley	76	45,311
Glasgow	173	90,864
Grampian	95	49,171
Lanarkshire	225	144,419
Renfrewshire	88	82,170
Tayside	60	24,273
* 3 years to March 2006		

Available supply in the Scottish Enterprise area represented 1.7 years' supply of units and 3.3 years' average take-up of floorspace.

Supply of industrial floorspace remains comparatively low, relative to average take-up, in Borders at just 1.1 years' supply and in Forth Valley at 1.2 years' supply. Ayrshire and Tayside, by comparison, have a relatively high supply of floorspace at over 7 years' supply.

The supply of small units remains relatively low at just 1.1 years' supply across the SE area and less than 10 months' supply in both Borders and Forth Valley.

Some of the most significant industrial lettings recorded during the first half of 2006 are shown in Table 6 below.

Figure 14

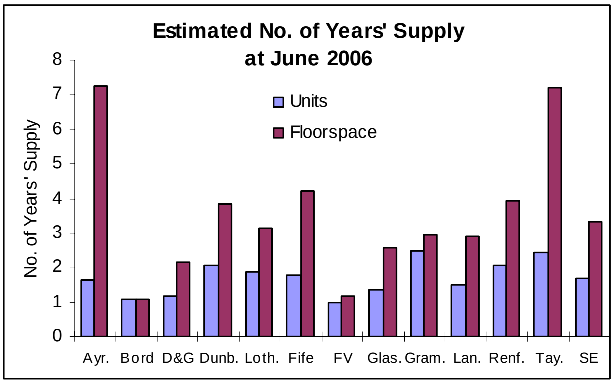


Figure 15

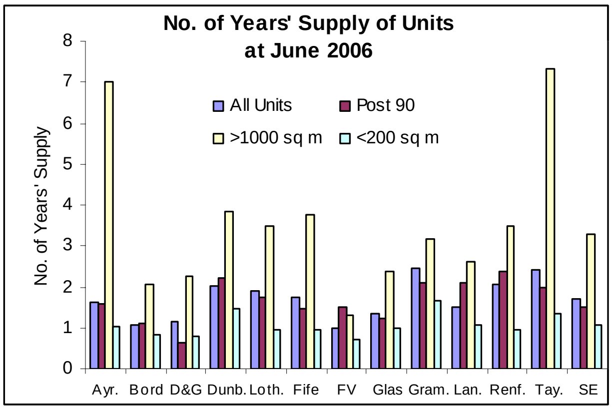


Table 6

Industrial Letting Deals					
Property	Size sq m	Lessor	Occupier	Approx. Date	Headline rental rate * £/sq m (£/sq ft)
Distribution Facility, Eurocentral, Bellshill	6,680	Eurocentral Partnership	SIG plc	Mar-06	£56.51 (£5.25)
1B Baird Road, Kirkton Campus, Livingston	9,732	HBOS	Lidl (UK)	Feb-06	£29.60 (£2.75)
Unit 4, Centrelink 5, Shotts	22,110	Cummins Engine Co Ltd	TDG	Apr-06	Undisclosed
Plot D, Unit 4, Gateway Glasgow, Cambuslang Investment Park	4,738	Wilson Bowden Developments	Encon Insulation Ltd	Mar-06	£58.04 (£5.40)
38 Glenburn Road, College Milton Industrial Estate, East Kilbride	4,962	Kenmore East Kilbride Ltd	NHS Lanarkshire	Jun-06	£43.06 (£4.00)
* 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 2006, SPN recorded 881,000 sq m of available office and business floorspace in 2,246 premises in the Scottish Enterprise area. This reflects only accommodation that is immediately available for occupation and excludes around 676,000 sq m that is offered in advance of construction or still under construction.

The total available floorspace logged by SPN includes some that is 'under offer' and this totalled 82,650 sq m or 9% of total supply.

Available office floorspace decreased slightly by 4% from the peak level recorded in June 2005, but remains 8% above the 5-year average. The number of premises on offer was substantially unchanged over the year and stood 5% above the 5-year average.

Supply of older (pre-1980) floorspace fell by 15%, compared with the previous year, while supply of floorspace built in the 1980s and 1990s increased by 5%. Available floorspace built post-2000 increased by just 2%, although there was a significant increase (39%) in the number of units on offer in that age-band (Figure 17).

In Edinburgh & Lothian, supply of floorspace fell marginally by just 2%, with a similar decline in Edinburgh City. As shown by Figure 18, the City saw strong growth in supply of 1980s (58%) and 1990s (41%) floorspace, but with a reduction in post-2000 space (-13%) and in older pre-1980 space (-20%).

Glasgow, by comparison, recorded an overall decline of 22% in available floorspace. Strong levels of take-up continued to erode the supply of modern space in Glasgow, with post-1990 floorspace down by 24% and post-2000 floorspace reduced by 27% over the year.

Glasgow's share of total available office space in the SE area has fallen to 21% from 26% at the end of 2005. Edinburgh & Lothian provides 35% of all available office space in the SE area, with 27% in Edinburgh City. Lanarkshire has 13% of total office floorspace.

Edinburgh City provides 28% of all available floorspace built since 2000, compared to just 17% in Glasgow.

Renfrewshire and Ayrshire recorded significant increases in available floorspace over the year, as shown by Figure 19, but still account for just 5% and 3% respectively of the SE total.

Figure 16

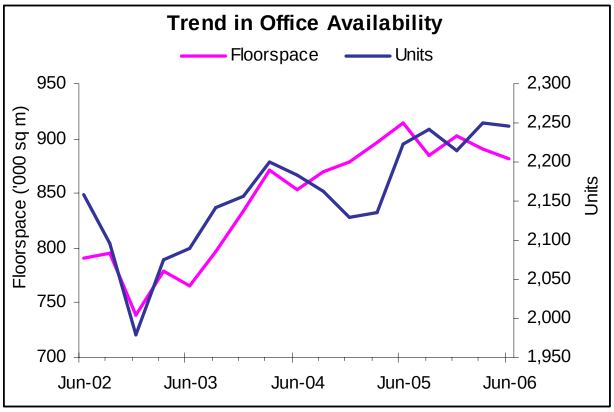


Figure 17

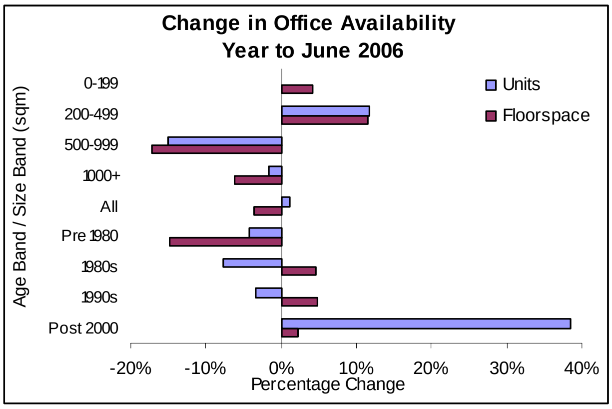


Figure 18

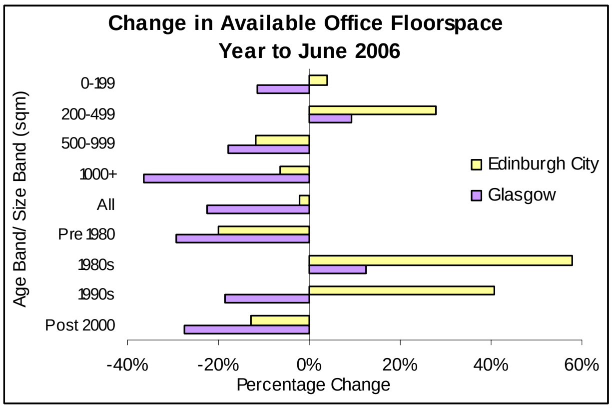
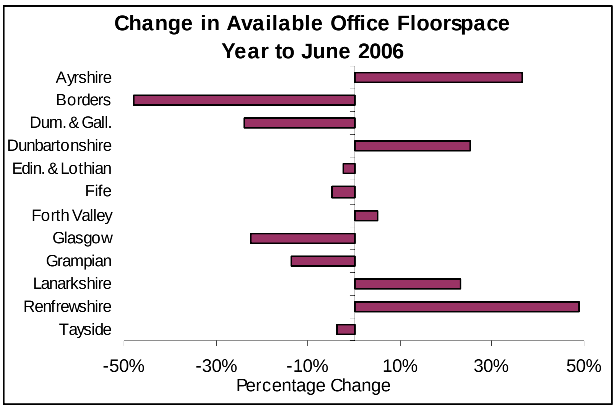


Figure 19



6 Office Take-up

In the year to June 2006, SPN recorded take-up of 277,409 sq m of office and business floorspace in 1,151 transactions. This represents a slight fall of 4% in terms of floorspace taken up, compared with the previous year, although there was a marginal increase in the number of transactions.

The volume of floorspace taken up in the 12 month period was 13% above the 5-year average and the number of transactions recorded was 6% above the 5-year average.

As shown by Figure 21, take-up of 1990s space increased significantly over the year to June, rising by 14,000 sq m or 33%. Take-up of post-2000 space fell by 17,800 sq m or 14% from the high level recorded in the previous year.

Glasgow recorded an increase in take-up of 13% overall, with a 22% increase in the number of transactions. Take-up of post-2000 floorspace in Glasgow was substantially unchanged from the high level recorded in the previous 12 months and take-up of 1990s floorspace increased by 97% over the year (Figure 22).

In Edinburgh City, by contrast, take-up of office floorspace fell by 41% overall, with a 58% (26,000 sq m) fall in take-up of post-2000 space. The number of transactions in Edinburgh was 18% lower than in the previous year.

Take-up in sizes of 1,000 sq m and above increased in Glasgow by 23%, compared to a fall in this size range of 62% in Edinburgh and a fall of 14% across the SE area.

In the 12 months to June 2006, 38% of all office take-up in the SE area was in Glasgow, compared to just 19% in Edinburgh. Glasgow provided 41% of all post-2000 space taken up, with just 18% in Edinburgh.

As shown by Figure 23, significant increases in take-up were recorded in the small office markets of Ayrshire (55%) and Dunbartonshire (169%). Grampian and Tayside recorded rises of 48% and 50% respectively, while take-up fell in Lanarkshire by 12% and in Renfrewshire by 22%.

Based on the average annual take-up over the 3 years to March 2006, available supply in the SE area at June 2006 represented 1.9 years' take-up of units and 3.1 years' supply of floorspace.

Figure 20

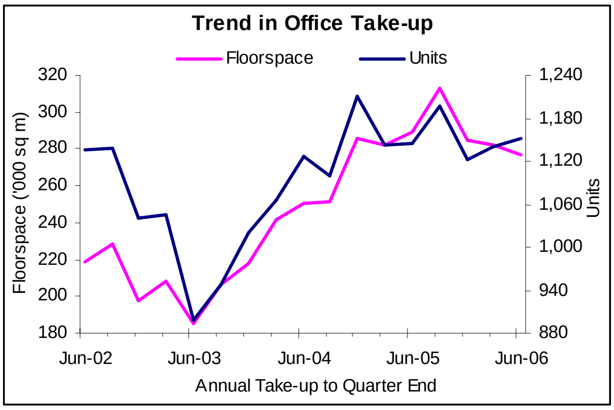


Figure 21

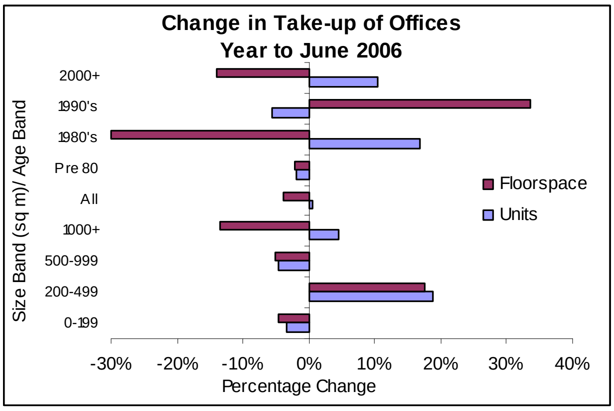


Figure 22

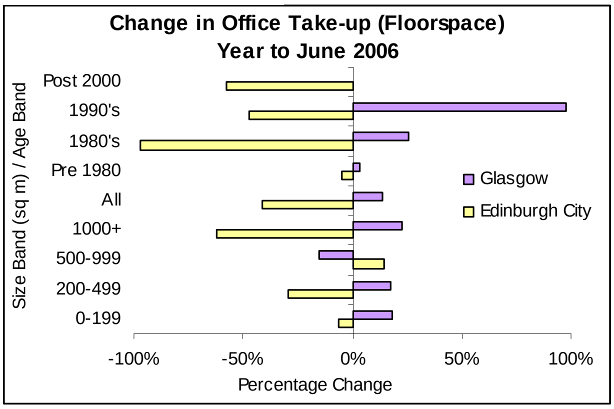
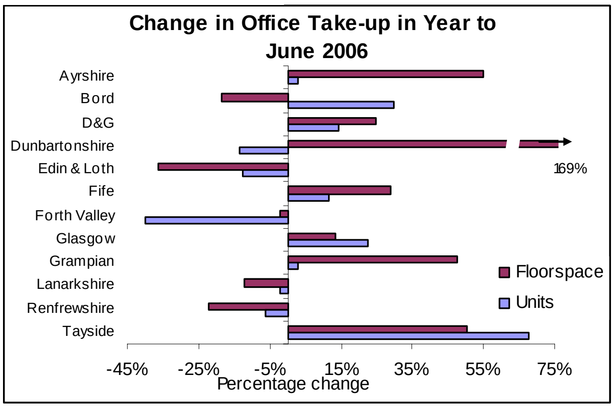


Figure 23



Supply of floorspace, relative to average take-up is now significantly lower in Glasgow at 2.1 years' supply, compared to 3.2 years' supply in Edinburgh. As illustrated in Figure 24, office supply is high, compared to average take-up, in Ayrshire, Lanarkshire and Tayside.

Some of the more significant office lettings recorded during the first half of 2006 are shown in Table 7 below.

Figure 24

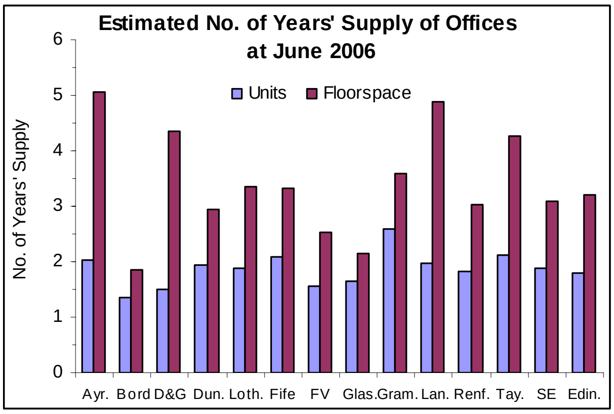


Table 7

Office Letting Deals					
Property	**Size sq m**	**Lessor**	**Occupier**	**Approx. Date**	**Headline rental rate * £/sq m (£/sq ft)**
5th - 8th Floors, 200 Broomielaw, Glasgow	3,298	Walker Group (Scotland) Ltd	Atkins (WS)	Mar-06	£231 (£21.50)
6th Floor, 123 St Vincent Street, Glasgow	1,441	Norwich Property Trust Ltd	Moneyquest	Apr-06	£269 (£25)
4th & 5th Floors, Sentinel, Waterloo Street, Glasgow	1,679	Kenmore Wellesley House Ltd	Morgan Stanley	Feb-06	£242.20 (£22.50)
3rd Floor (part), City Park, Glasgow	3,437	Elphinstone Properties	Halcrow Group Ltd	Feb-06	Undisclosed
1st Floor, Cirrus, Glasgow Airport Business Park, Paisley	1,394	AXA Real Estate Investment Managers	First Milk Ltd	Mar-06	£188.41 (£17.50)
* headline rental rate is estimated from the initial rent reported by the letting agent and cannot be warranted accurate by SPN					