

This report is prepared by SPN on behalf of Scottish Enterprise Ayrshire. It reviews industrial and office market activity in the year to June 2003. 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.

### Scottish Economic Summary

Provisional estimates of seasonally adjusted Gross Domestic Product (GDP) for Scotland, published by the Scottish Executive in October 2003, indicate growth of 0.4% in the second quarter of 2003 and 0.5% over the year to Q2 2003. Published figures for the UK as a whole show stronger growth of 0.5% in Q2 and 1.8% over the year to Q2. It should be noted, however, that UK figures are now based on a new chainlinked index not yet implemented for Scotland and so the Scottish and UK figures are not strictly comparable. The new methodology will be implemented in the estimation of quarterly Scottish GDP for Q3 2003, to be published in January 2004.

Output in the production sector continued to decline in Scotland although at a slower rate, down by 6.5% over the year to Q2, compared to a decrease of 1.4% across the UK. Manufacturing in Scotland declined by 7.8% in the four quarters to Q2, compared to a fall of 1.4% for the UK.

The construction sector in Scotland returned to growth with a rise in output of 2.7% in the year to Q2, compared to growth of 6.2% across the UK.

Growth in the Scottish service sector, which performed strongly in 2002, slowed to 2.8% in the year to Q2, just slightly above the UK rate of 2.4%.

More recent figures from the Royal Bank of Scotland's PMI Scotland Report<sup>1</sup>, however, indicate significant improvement in all business sectors in the second half of 2003. The manufacturing sector shows five months of continuous growth, recording its biggest monthly increase in activity in November since May 2000. The Scottish service sector has also recorded strong growth in the five months to November, while 'new economy' output rose in November for the fourth successive month.

Table 1

<b>GDP</b> <b>Seasonally</b> <b>Adjusted</b>	<b>% Change</b> <b>Q2 2003 on</b> <b>Q1 2003</b>	<b>% Change</b> <b>Year to</b> <b>Q2 2003</b>
<b>Scotland</b>	0.4% (0.5%)	0.5% (1.8%)
<b>Production</b>	-1.8%	-6.5% (-1.4%)
<b>Construction</b>	2.7%	2.7% (6.2%)
<b>Services</b>	0.9%	2.8% (2.4%)
<b>Note: UK Figure in brackets.</b>		
Source: Scottish Executive October 2003		

The Bank of England reduced interest rates further in July 2003 to 3.5%, reflecting concern over below trend economic growth in the UK and hesitant global economic recovery. However, the rate was raised on 6<sup>th</sup> November, for the first time in nearly four years, to 3.75% in the light of improving economic performance and underlying inflationary pressures. The MPC also raised its forecast for both growth and inflation in their November Inflation Report, predicting steady growth, marginally above trend and close to an annual rate of 3% in the second half of 2004.

Scottish claimant count unemployment rate in October 2003 was 3.8%, unchanged over the year. The Labour Force Survey average total employment in the year to August 2003 was also unchanged at 74%.

South Ayrshire's unemployment rate at 4.0% has fallen by 0.5% over the year to October but remains just above the Scottish average. Unemployment remains higher in both East and North Ayrshire despite a marginal fall in North Ayrshire to 5.6% (Table 2).

Table 2

	<b>Claimant Count</b> <b>Unemployment</b> <b>October 2003</b>	<b>Average Total</b> <b>Employment Sept</b> <b>2002-Aug 2003</b>
<b>Scotland</b>	3.8%	74%
<b>East Ayrshire</b>	5.2%	74%
<b>North Ayrshire</b>	5.6%	71%
<b>South Ayrshire</b>	4.0%	75%
Source: Scottish Executive Nov 2003		

<sup>1</sup> Purchasing Managers' Index Scotland Report, Royal Bank of Scotland/NTC Research, November 2003

## Scottish Industrials - Overview

The upward trend in total supply of available industrial floorspace, which peaked in Q1 2003, reversed slightly in Q2 and has levelled off in Q3. Available floorspace at September 2003, at 2.3 million sq m, was 5% below the March level but 6% higher than at September 2002. In the year to September 2003, the number of available units did not change significantly.

Glasgow, Grampian and Tayside all recorded a significant fall in industrial availability over the year to September. Forth Valley also recorded a decline in available floorspace, but with a slight increase in the number of units on the market. Available floorspace increased in all other areas, although only marginally in Renfrewshire and by just 5% in Edinburgh and Lothian.

Overall take-up of industrial floorspace continued to decline in Q3 (-7%), although the number of transactions rose slightly. Over the year to September take-up of floorspace decreased by 28% and the number of transactions fell by 12%. Take-up of large units over 1,000 sq m reduced by 32% over the year.

Most areas recorded a fall in take-up over the year to September, the exceptions being Renfrewshire and Forth Valley where take-up increased in terms of both floorspace and transactions.

The RICS in Scotland's Commercial Property Survey to March 2003<sup>2</sup> indicates little change in industrial rents over the previous year, with negative or just marginal positive growth in most areas. Glasgow continues to show steady, but modest, growth in rental values. Despite this poor rental performance, the survey suggests hardening investment yields in most areas with Edinburgh yields holding steady at 7.1%. The CB Richard Ellis Scottish Quarterly Index<sup>3</sup> confirms zero rental growth in Q1 of 2003, followed by a decline in Q2 of 0.6% and growth in Q3 of 0.1%. Over the year to Q3, annualised rental growth for Scottish industrials is quoted by CBRE at -0.5%, although they point out that total return on Scottish Industrials remains strong, and above the UK average, at 11.2%.

## Scottish Offices - Overview

Overall office supply increased by 3% in Q3 2003, taking available floorspace in September to the highest level recorded in the last five years, although only marginally above the September 2002 level. In the year to September, supply of floorspace in sizes over 1,000 sq m fell by 6%, increasing in all smaller size bands.

Available floorspace in Glasgow fell only slightly in the year to September (-2%), while Edinburgh City recorded an increase of 4%.

Over the year to September 2003, office take-up fell by 10%, although most of this decline was at the end of 2002. Take-up appears to have levelled off in the first three quarters of 2003 but remains around 7% below the three-year average at 206,000 sq m per annum.

The RICS in Scotland's Commercial Property Survey records the opinion of local valuers as at March 2003. This indicates continuing decline in Edinburgh rental values, particularly for business park space, with moderate growth in other centres. The survey also suggests a continued hardening of anticipated investment yields. The CB Richard Ellis Scottish Quarterly Index reports negative rental growth in the first three quarters of 2003 for Scottish offices, resulting in a fall in rental values in the 12 months to Q3 of -2.5%. Despite this, total return on Scottish offices, at 7.2% for the year was considerably better than the UK return of 3.0%.

Figure 1

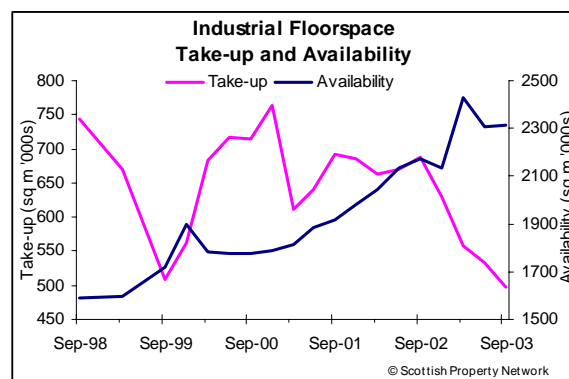


Figure 2

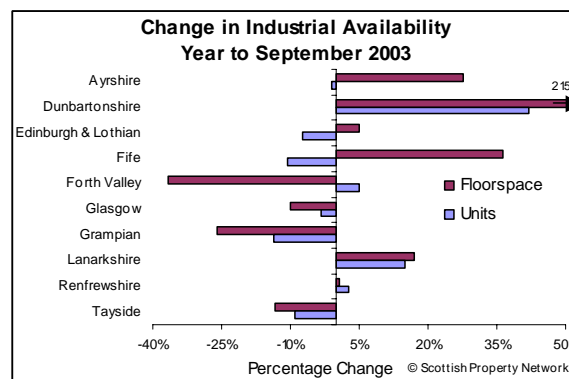
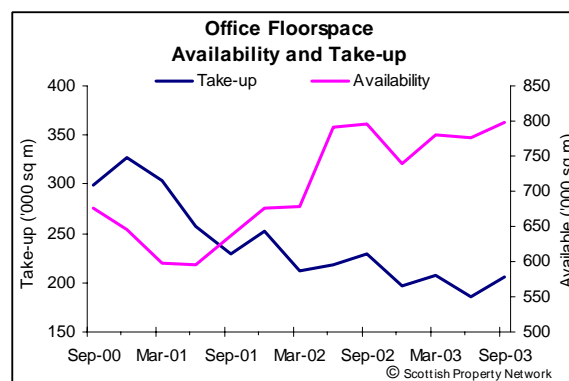


Figure 3



<sup>2</sup> Commercial Property Survey, March 2003, The RICS in Scotland

<sup>3</sup> Scottish Quarterly Index, CB Richard Ellis

## Business Property Market Activity – Ayrshire

### Industrial Stock

SPN holds information on 1,452 stock units in 'standard'<sup>4</sup> industrial accommodation in Ayrshire, these totalled just over 1.15 million sq m. Almost half of this floorspace (49%) is in North Ayrshire, with 31% located in the 'new town' of Irvine. South Ayrshire contains 25% of all floorspace and East Ayrshire 26%.

Stock in Ayrshire is slightly older than the Central Scotland average, with 68% of units built pre 1980 and 11% post 1990, compared to 60% pre 1980 and 16% post 1990 in Central Scotland as a whole. Irvine has a particularly high proportion of pre 1980 units at 72%. Irvine also has a high proportion of stock in large units with 26% over 999 sq m and only 29% under 200 sq m. Across Central Scotland as a whole, only 17% of units are over 999 sq m and 45% under 200 sq m.

### Industrial Availability

At June 2003, SPN recorded 208 available industrial units in Ayrshire totalling 255,983 sq m. Available floorspace increased by 27% in the twelve months to June, but this was largely due to one very large unit of over 46,000 sq m at Tournament Park, Irvine. The number of available units fell over the same period by 12%.

As shown by Figure 6, the increase in availability was confined to large units over 999 sq m, with declining supply of smaller units. The rate of availability has increased to 22% in terms of floorspace, but is just 14% in terms of unit numbers.

The number of available units under 200 sq m (87) is at the lowest level since 1999, although Ayrshire still has a relatively high proportion of units under 200 sq m at 42%, compared to a Central Scotland average of 37%.

Table 3

Industrial Availability - Ayrshire		
	Rate of Availability	
	Units	Floorspace
SE Ayrshire	14%	22%
Central Scotland	11%	15%
SE Glasgow	12%	14%
SE Renfrewshire	14%	20%
East Ayrshire	18%	24%
North Ayrshire	15%	27%
South Ayrshire	8%	10%
Irvine	15%	29%

There has been a significant increase in the supply of pre 1990 floorspace, with a decline in availability of modern premises. At June, there were only 30 post 1990 units available in the SE Ayrshire area totalling just over 24,000 sq m.

<sup>4</sup> This includes all industrial units within recognised industrial estates or industrial areas, but excludes large single user facilities. 'Business units', 'yards' and 'open storage' have also been excluded from this analysis.

Figure 4

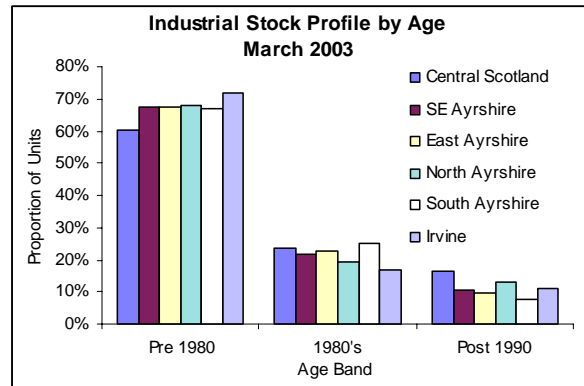


Figure 5

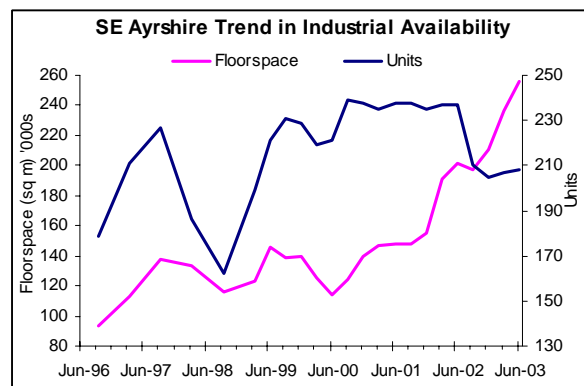


Figure 6

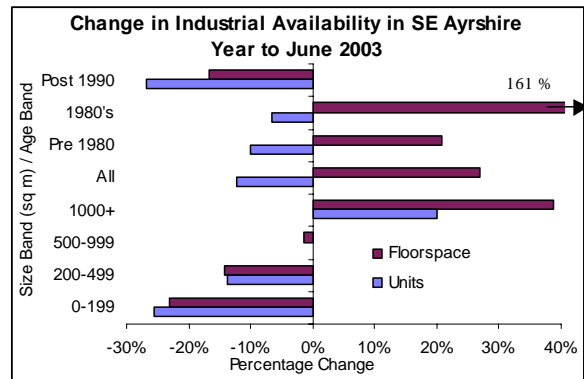
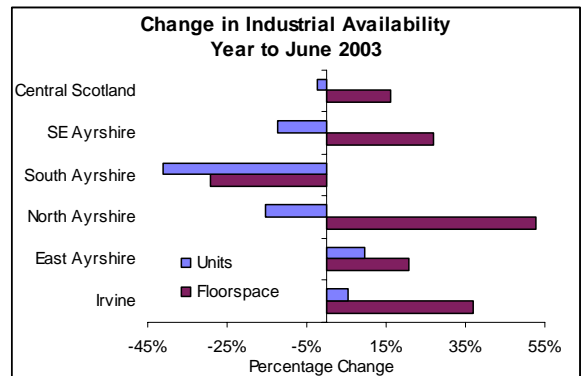


Figure 7



Available supply in both South and East Ayrshire is heavily weighted towards smaller units with 47% and 52% of units respectively under 200 sq m. North Ayrshire has a higher proportion of large units, particularly in Irvine where 36% of units are over 999 sq m and only 15% under 200 sq m.

The age profile of available accommodation in all three local authority areas is relatively old, with over 60% of available units built pre 1980, compared to 52% on average across Central Scotland.

### Industrial Take-up

Over the year to June 2003, SPN recorded take-up of 101 industrial units totalling 39,613 sq m. This represents an increase in take-up of 16% in unit numbers compared to the previous twelve months, but a decrease of 18% in total floorspace (Figure 9). Over the same period Central Scotland as a whole recorded a decrease in take-up of 8% for units and 19% for floorspace.

Take-up increased in smaller size bands, particularly in the unit 200-499 sqm band, while falling in sizes over 499 sq m. Although the number of units taken up in the 1,000+ sq m band was unchanged, overall floorspace taken up in this size fell by 35% to just under 20,000 sq m.

South Ayrshire recorded a big percentage increase in take-up of both units and floorspace over the year, but this reflected a very low rate of take-up in the previous year. By contrast East Ayrshire saw a decrease in take-up of over 45% for both units and floorspace, but it should be noted that numbers of units taken up in individual local authority areas are small and volatility would be expected.

Average annual take-up for Ayrshire, estimated from total recorded take-up over 3 years to March 2003 is shown in table 4.

Availability at June 2003 is expressed in Figure 11 as a number of years' potential take-up. Supply at June 2003 in Ayrshire represents 1.9 years' take-up of units and over 5 years' supply of floorspace, reflecting the increased availability of floorspace throughout the year. Overall Central Scotland has a lower supply of space with 1.7 years' take-up of units and 3.6 years of floorspace.

North Ayrshire and Irvine have a particularly high supply of floorspace currently, due to one large available unit at Tournament Park.

Table 4

Average Annual Take-up	Units	Floorspace (sq m)
Ayrshire	109	55,634
East Ayrshire	35	20,047
North Ayrshire	54	22,100
South Ayrshire	20	13,487
Irvine	22	13,653

Figure 8

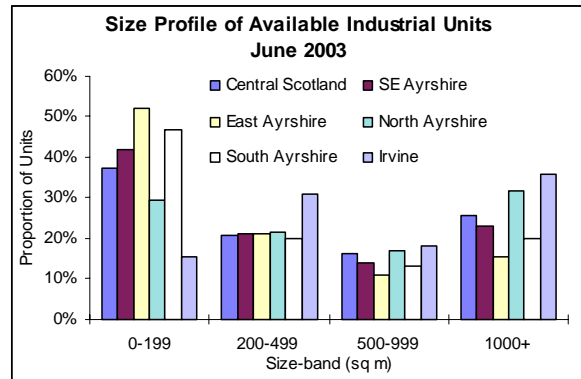


Figure 9

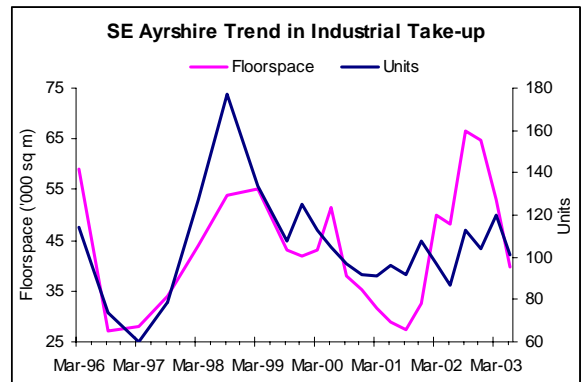


Figure 10

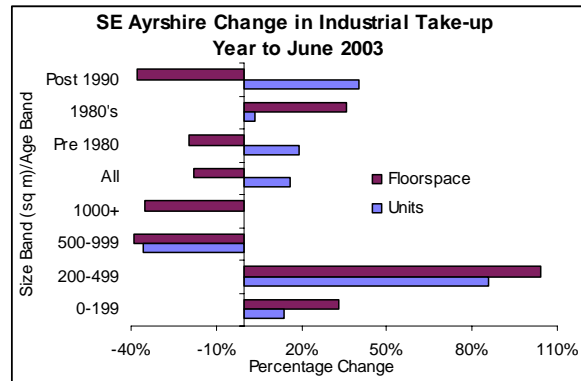
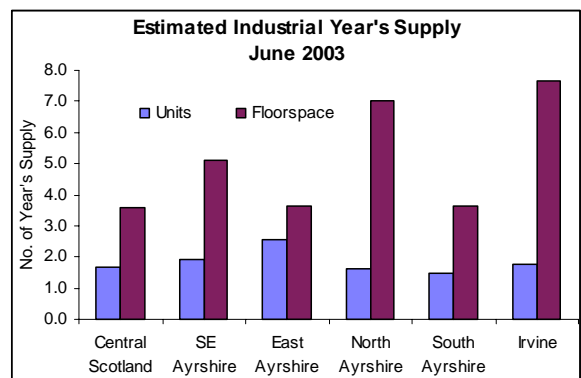


Figure 11



## Office Availability

At 30<sup>th</sup> June 2003, SPN recorded 80 available office and business units in Ayrshire totalling 18,172 sq m. This included 16 units that were 'under offer' at the time and totalled 2,305 sq m.

Just under 3,400 sq m (18%) of the floorspace was built post 1990 and only 3 units totalling 919 sq m were new-build or newly refurbished space.

Availability of office floorspace fell to just over 15,000 sq m at the end of 2002, but increased again in the first half of 2003, to be substantially unchanged over the year to June. However, the number of available units decreased by 24% over the year (Figures 12 + 13).

The number of available units over 999 sq m doubled to four, increasing the floorspace in this size-band by over 100%. By contrast, supply in premises under 500 sq m dropped by 29% in units and by 25% in terms of floorspace.

South and East Ayrshire both recorded falling availability of both units and floorspace. In North Ayrshire the number of available units fell by 35% to 24 but floorspace rose by 28% to 6,517 sq m. Central Scotland over the year saw a 3% decrease in available units but a 4% increase in the volume of floorspace.

East Ayrshire has no post 1990 availability and only two units over 499 sq m. In Ayrshire as a whole, only 11% of available office units are post 1990, compared to 31% on average across Central Scotland.

## Office Take-up

In the year to June 2003, SPN recorded take-up of 39 office and business premises in Ayrshire totalling 5,226 sq m. This represents an increase of 15% in unit transactions over the previous twelve months, but a decrease of 18% in the volume of floorspace taken up. Take-up of office floorspace increased in both South and East Ayrshire by 4% and 30% respectively, but fell in North Ayrshire by 40%.

Central Scotland for the year recorded a decrease in office take-up of 20% for units and 13% for floorspace.

Take-up in Ayrshire is mainly in small sizes with no lettings recorded over 999 sq m during the year. Post 1990 floorspace accounted for 30% of the total take-up in the year to June, but represents only 18% of the available supply.

Based on an estimate of average annual take-up over 3 years, the supply of office space in Ayrshire at June represented 2 years take-up of units and 2.6 years for floorspace. Comparative figures for Central Scotland are 1.6 years supply of units and 3 years supply of floorspace.

Figure 12

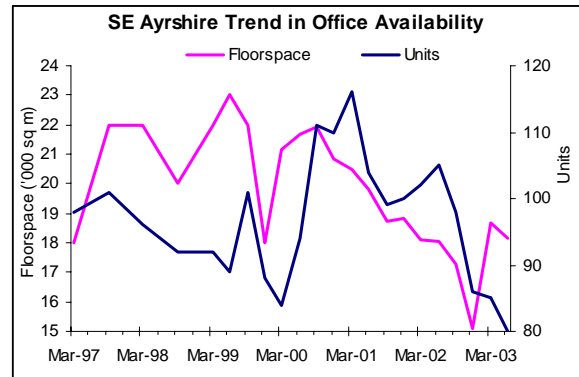


Figure 13

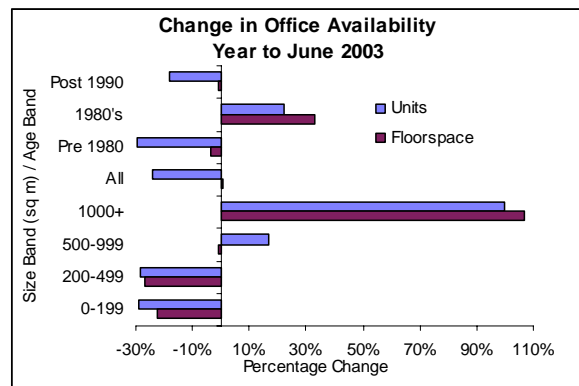


Figure 14

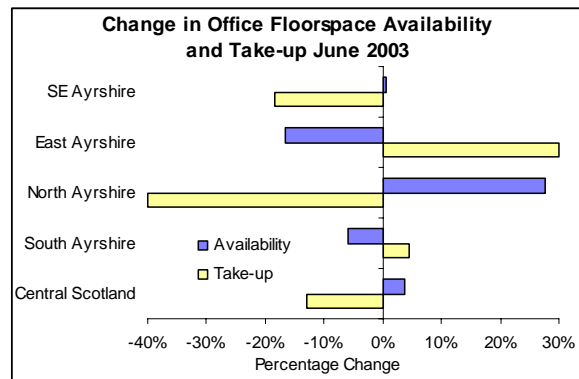


Figure 15

