

This report is prepared by SPN on behalf of Scottish Enterprise Ayrshire. It reviews industrial and office market activity in the year to December 2001. 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

Seasonally adjusted Gross Domestic Product (GDP) in Scotland rose by 0.8% in the second quarter of 2001, marginally higher than the 0.4% recorded for the whole of the UK.

If measured over the year to Q2, Scottish GDP increased by only 0.3% compared to an equivalent figure of 2.5% for the UK, as shown by Table 1. Annual UK GDP is anticipated to slow to 2.2% in Q3 with a fall in manufacturing accounting for a decline in the production sector (not shown in Table 1).

The Scottish production sector declined by 5.3% over the year to Q2 while the construction and services sectors increased by 2.4%.

After 3 successive cuts in the wake of the terrorist attacks in the United States, the Bank of England has maintained interest rates at 4% since December 2001. The February minutes of the Monetary Policy Committee (MPC) indicates that there was concern that a cut in interest rates would encourage further borrowing, increasing the risk of an abrupt change in household consumption later.

The MPC also expressed concern regarding an upside risk to inflation. The Committee, on balance, preferred to maintain rates with the possibility for cuts later in the year if domestic demand growth slowed.

The Scottish Executive report that Scottish Claimant Count was 4.1% while average employment in the year to end December 2001 was 73%. The Claimant Count in all three Ayrshire council areas is higher than the Scottish average.

Business Property Market – Central and Northeast Scotland¹.

Industrial

In the year to December, SPN recorded an increase of 11% in the volume of available floorspace, as shown by Figure 1, mainly accounted for by a 28% increase in the supply of post 1990 accommodation. However, there was a marginal decline in the supply of units.

Figure 1 also illustrates that, despite an increase in the second half of the year, take up of floorspace declined by 12% in 2001. The fall in unit transactions was similar, at 12%.

¹ Total figures are derived from the 10 LECs covered by SPN (Scottish Enterprise – Ayrshire, Dunbartonshire, Edinburgh & Lothian, Fife, Forth Valley, Glasgow, Grampian, Lanarkshire, Renfrewshire and Tayside).

Table 1

	% Change Q2 (2001) on Q1 (2001)	% Change Year to Q2 2001
Scotland	-0.4% (0.3%)	0.8% (2.6%)
Production	-2%	-5.4% (-0.8%)
Construction	0%	3.2% (2%)
Services	0.1%	3.3% (4.1%)

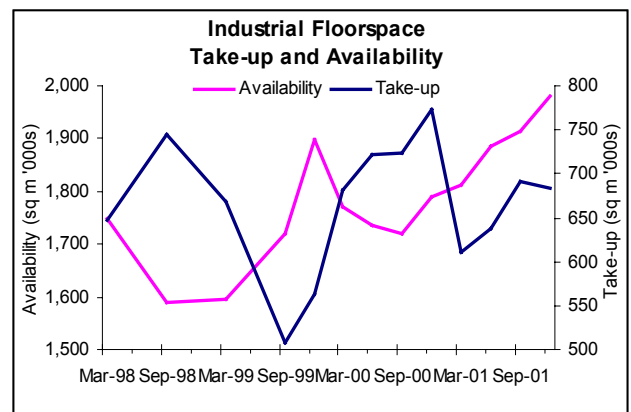
Note: UK figures in brackets where available.
Source: Scottish Executive

Table 2

	Claimant Count Unemployment March 2002	Total Employment Average for year to end December 2001
Scotland	4.1%	73%
North Ayrshire	6.5%	64%
South Ayrshire	4.8%	72%
East Ayrshire	5.7%	70%

Source: Scottish Executive and LFS

Figure 1



In their October review², Ryden report that returns on Scottish industrial property over the preceding 12 months compare favourably to the UK average with institutions seeking multi-let product as well as being prepared to participate in prime speculative schemes.

Insignia Richard Ellis³ recorded total industrial returns of 12.5% in the year to October, compared to 10.4% in the previous year, reflecting a fall in yield.

In the year to September, the RICS in Scotland also report that there was continuing evidence of downward pressure on average yields, as shown in Table 3

The RICS in Scotland suggest that average rental levels increased in most main markets in the year to September 2001. Average annual growth over the 3 years to the same date has been highest in Livingston, at 4.1%, with Edinburgh and Glasgow recording increases of 3.7% and 2.3% respectively (Table 3).

Offices

As shown by Figure 2, the volume of available office floorspace has generally declined from March 1998 to June 2001. SPN recorded a fall in supply of office floorspace in the first half of 2001, followed by a higher rise in the second half of the year.

Over the year to December 2001, take-up of office floorspace fell by 16% although the fall in unit transactions was less steep, at 9%.

Insignia Richard Ellis³ report that offices remain the top performing sector in Scotland, with total returns of 14% in the year to October 2001, compared to 8.2% for all property (including offices).

The RICS in Scotland September 2001 survey would suggest that average yields in Aberdeen fell marginally in contrast to Glasgow and Edinburgh where yields seems to be stabilising or rising.

In contrast to Aberdeen and Edinburgh, average rentals for city centre open plan space in Glasgow increased by 8.6% in the year to September 2001, higher than the 3 year average of 7.6% (Table 4).

Table 3

Industrial – Average Rent and Yield					
New Unit 5-15,000 sq ft	Rent £/psm (£/psf)		Average Growth (p.a.) Sept 98 – Sept 01	Yield	
	Sept 2000	Sept 2001		Sept 2000	Sept 2001
East Kilbride	£46.72 (£4.34)	£47.58 (£4.42)	1.2%	8.7%	8.6%
Edinburgh	£63.72 (£5.92)	£64.48 (£5.99)	3.7%	7.1%	7%
Glasgow	£52.31 (£4.86)	£54.36 (£5.05)	2.3%	7.9%	7.8%
Livingston	£50.48 (£4.69)	£51.67 (£4.80)	4.1%	8%	7.9%

Source: Royal Institution of Chartered Surveyors in Scotland

Figure 2

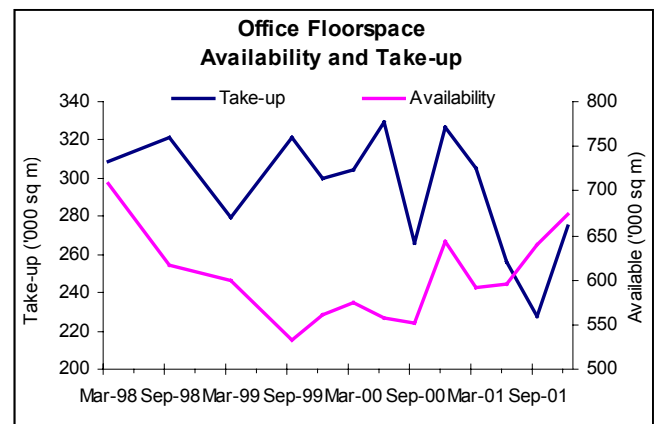


Table 4

Offices – Average Rent and Yield					
City Centre Open Plan	Rent £/psm (£/psf)		Average Growth (p.a.) Sept 98 – Sept 01	Yield	
	Sept 2000	Sept 2001		Sept 2000	Sept 2001
Aberdeen	£178.14 (£16.55)	£178.47 (£16.58)	1.7%	8.1%	8%
Edinburgh	£302.36 (£28.09)	£307.20 (£28.54)	9.1%	5.9%	6.2%
Glasgow	£213.13 (£19.80)	£231.43 (£21.50)	7.6%	6.7%	6.7%

Source: Royal Institution of Chartered Surveyors in Scotland

² The Scottish Property Review, October 2001 - Ryden

³ Scottish Monthly Index, October 2001 - Insignia Richard Ellis

Business Property Market – Ayrshire

Industrial Availability

At 31st December 2001, SPN recorded 235 available industrial units in the Ayrshire area providing a total floorspace of just under 155,000 sq m. Table 5 indicates a significantly higher proportion of stock currently available in Ayrshire compared to the Central Scotland average, however, the rate of availability is closer to the level recorded in Glasgow.

Table 5

Industrial Availability–Ayrshire		
	Rate of Availability	
	Units	Floorspace
Ayrshire	17%	15%
Central Scotland	11%	13%
Glasgow	13%	17%
North Ayrshire	18%	12%
South Ayrshire	13%	13%
East Ayrshire	17%	23%
Irvine	11%	10%

As illustrated by Figure 3, available floorspace increased by 11% over the year, but there was a marginal decline in the number of available units. Availability of modern (post 1990) floorspace increased by 33% over the year, although the number of units in this age band fell by one, to just forty.

Most of the growth in available floorspace was in large units over 999 sq m (+28%), although the number of available units in this size band actually fell, as shown in Figure 4. Availability in the 500-999 sq m band fell over the year by 27% in terms of floorspace and by 20% in number of units.

The strongest growth in available floorspace was recorded in Irvine, at 77%, compared to only 11% for North Ayrshire as a whole. South Ayrshire recorded an increase of 24% in floorspace available, but almost no change in the number of available units. It should be noted, however, that these sub-LEC markets are small and some volatility might be expected.

The change in availability across the Ayrshire LEC area was very similar to that recorded for Central Scotland as a whole, where there was an increase of 11% in the volume of available floorspace but a marginal fall in the supply of units (Figure 5).

Ayrshire has a slight bias towards availability in small sizes compared to the Central Scotland average (Figure 6). However, Irvine has a high proportion of available units in large sizes over 999 sq m and correspondingly few small units.

The age profile of available units is similar to the Central Scotland average with 17% built post 1990.

Figure 3

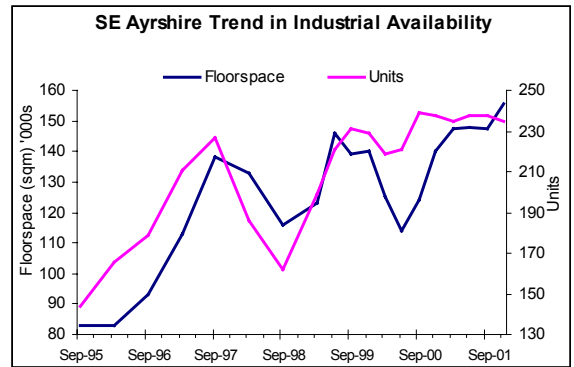


Figure 4

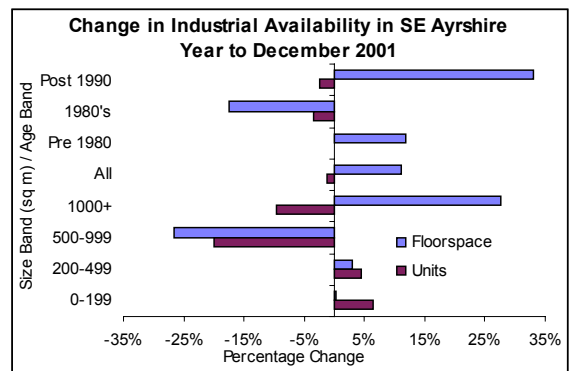


Figure 5

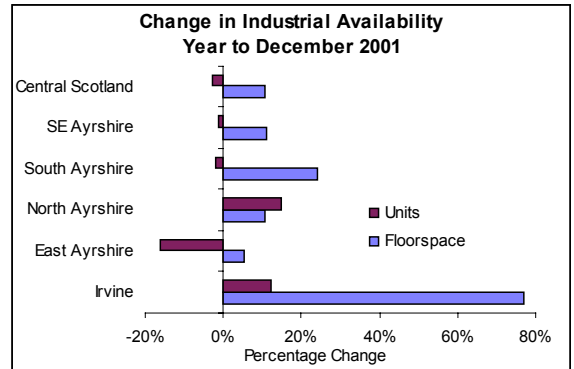
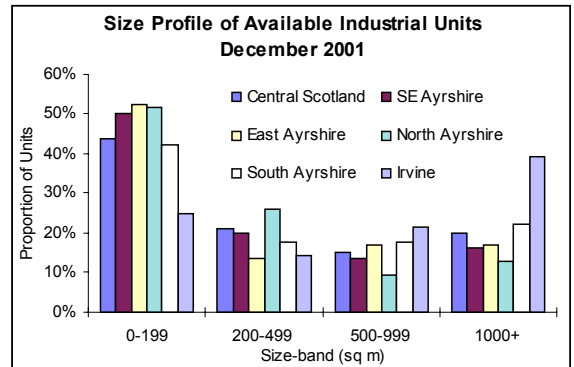


Figure 6



Industrial Take-up

Take-up of industrial floorspace in Ayrshire in 2001 was 7% lower than in the previous year. However, in terms of unit numbers, there was a rise of just over 17% in take-up over the same period (Figure 7).

The fall in take-up of floorspace was mainly in larger units (1,000+ sq m), down by 45%, although the number of transactions in this size band remained constant (Figure 8). Take-up in the 500-999 sq m band rose by over 180% (both floorspace and units) although it has to be recognised that total numbers of units over 499 sq m taken up are small at only twenty-two.

Across Central Scotland, there was a decline of around 12% in take-up of industrial accommodation (units and floorspace) in 2001, as shown in Figure 9.

Within the LEC area, South Ayrshire recorded increased take-up for both units and floorspace of around 145% during the year, but from a very low base. By contrast, take-up of both units and floorspace in North Ayrshire fell by 26% and 32% respectively (Figure 9). It should be noted, however, that the markets in individual council areas are quite small and, therefore, would be subject to significant fluctuations.

Average annual take-up for Ayrshire has been estimated from total recorded take-up over the 3 years and is shown in Table 6.

Table 6

Average Annual Take-up	Units	Floorspace (sq m)
Enterprise Ayrshire	134	52,266
North Ayrshire	63	25,787
South Ayrshire	23	10,026
East Ayrshire	48	16,453
Irvine	31	14,360

Availability at December 2001 is expressed in Figure 10 as a number of year's potential take-up, based on this estimated average annual take-up. Supply at December 2001 in Ayrshire as a whole, represented 1.75 year's take-up of units and just under 3 year's take-up of floorspace. This is above the corresponding level of year's supply for Central Scotland at 1.4 for units and 2.7 for floorspace.

Supply, relative to average annual take-up is lower in North Ayrshire, and in particular in Irvine, at less than 1.0 year's supply of units and 2.0 year's supply of floorspace (Figure 10).

Figure 7

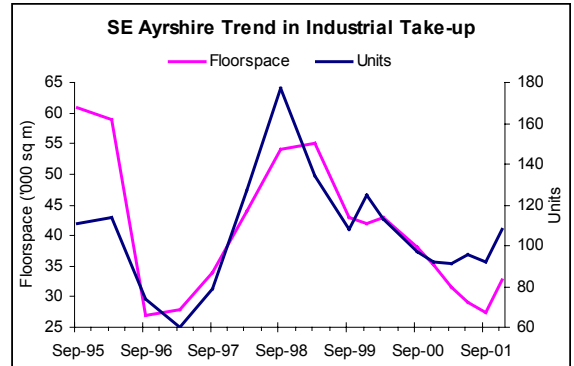


Figure 8

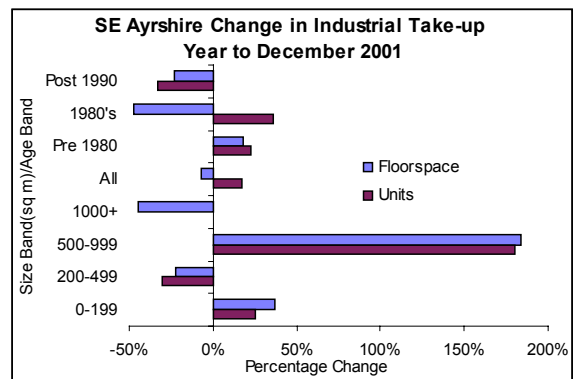


Figure 9

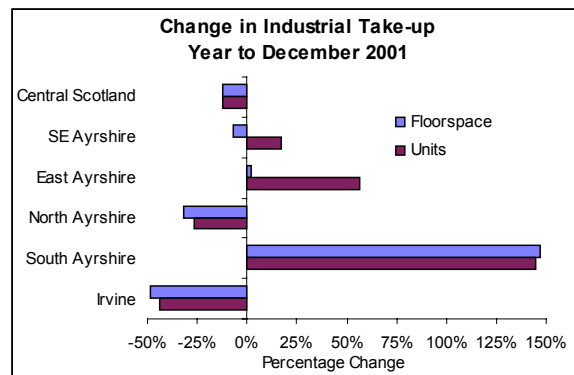
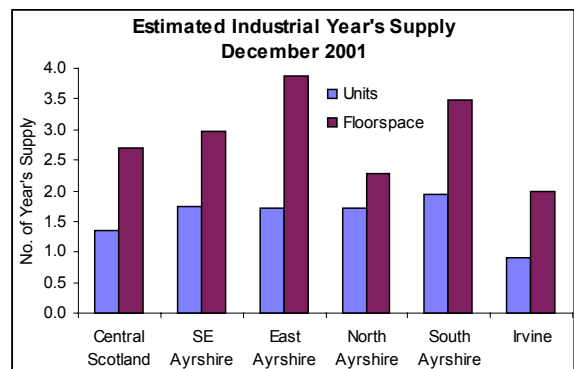


Figure 10



Office Availability

At December 2001, SPN recorded a total of 18,820 sq m of available office and business floorspace in 100 units within Ayrshire.

The total available floorspace logged by SPN includes premises that are 'under offer'. At the end of December 2001 these totalled 1,339 sq m or just over 7% of the total availability. The equivalent figure for December 2000 was 2,228 sq m, representing 10% of total available floorspace.

The level of available units fell throughout the LEC area, reflecting a 10% reduction overall, as shown in Figures 11 and 12. Floorspace availability also fell by 14% overall, with North Ayrshire recording a 30% decrease. Only South Ayrshire recorded an increase in office floorspace during 2001 (Figure 12).

By comparison, Central Scotland recorded a 2% increase in available office floorspace but a 4% reduction in unit availability during the year.

Only 6% of available office units in Ayrshire are modern (post 1990 space) compared to 25% on average for Central Scotland.

Office Take-up

Take-up of office floorspace in Ayrshire during 2001 was 22% lower than the previous year, although the number of recorded transactions was up by 34% to forty-three. In Central Scotland as a whole, office take-up fell by 18% for floorspace and by 10% in terms of units, as illustrated in Figure 13.

Within the LEC area 83% of offices taken-up were in sizes under 200 sq m and only 5% in sizes over 499 sq m. This compares to a Central Scotland average of 78% under 200 sq m and 9% over 499 sq m. It should be recognised that, given the small size of the market, quite small numbers of transactions can represent a big percentage change in overall activity.

Based on an estimate of average annual take-up over three years, the supply of office space in Ayrshire at December 2001 represents just over 2.0 year's take-up of units and 2.4 year's take-up of floorspace. This compares to 2.0 year's supply of floorspace in Glasgow and 2.2 year's supply in Central Scotland as a whole (Figure 14).

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Figure 11

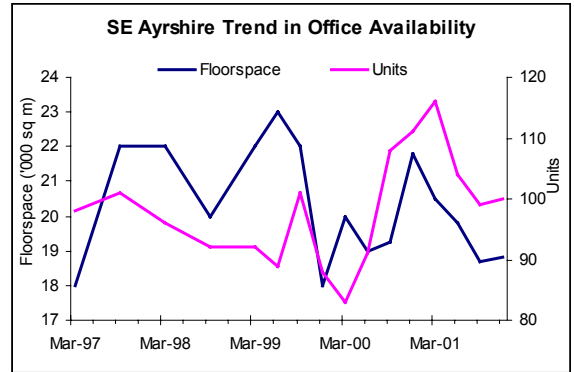


Figure 12

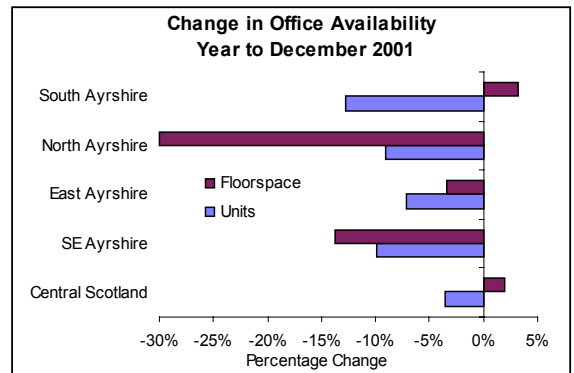


Figure 13

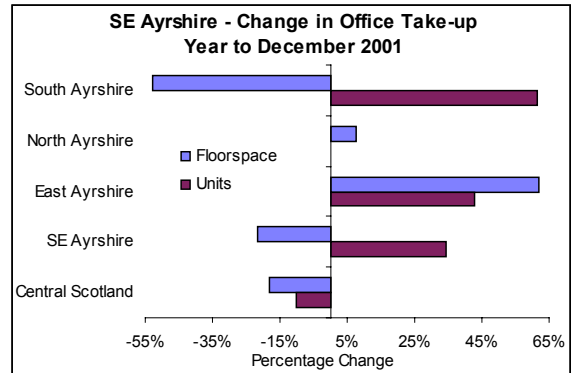


Figure 14

