

This report is prepared by SPN on behalf of Scottish Enterprise Ayrshire. It reviews industrial and office market activity in the year to December 2002. 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

Growth in the UK and Scottish economies has slowed significantly since our last review.

Provisional estimates of seasonally adjusted Gross Domestic Product (GDP) for Scotland, published by the Scottish Executive in May 2003, indicate growth of 0.7% in the fourth quarter of 2002, compared to growth of 0.3% in the UK. However Scotland records no change in GDP in the four quarters to Q4 2002, compared to growth for the UK as a whole of 1.3%.

Output in the production sector continues to decline in Scotland, down by 9.9% over the year to Q4, compared to a decrease of 3.5% across the UK. Manufacturing in Scotland declined by 11.9% in the four quarters to Q4, compared to a fall of 4.0% for the UK.

The construction sector in Scotland recorded a decline in output of 2.9% in 2002, compared to growth of 7.5% across the UK.

Over the year to Q4 2002, Scottish services outperformed the UK, growing by 4.2% compared to 2.7% for the UK as a whole. More recent figures from the Royal Bank of Scotland's PMI Scotland Report¹, however, signal a slow down in the Scottish service sector after fourteen months of growth, with falling activity levels in the first three months of 2003.

Table 1

GDP Seasonally Adjusted	% Change Q4 2002 on Q3 2002	% Change Year to Q4 2002
Scotland	0.7% (0.3%)	0.0% (1.3%)
Production	-1.1% (-0.8%)	-9.9% (-3.5%)
Construction	0.3% (1.9%)	-2.9% (7.5%)
Services	1.3% (0.5%)	4.2% (2.7%)
Note: UK Figure in brackets.		
Source: Scottish Executive May 2003 / UK Economic Accounts Q4 2002		

The Bank of England reduced interest rates in February 2002 to 3.75%, the lowest level since 1955 and the first change since November 2001. This reduction, which surprised financial markets, reflects concerns about a contracting manufacturing sector, a slowing services sector and below-trend economic growth. Interest rates were unchanged in March and April.

Despite the weakening economic conditions, unemployment has continued to fall. Scottish claimant count unemployment rate in April 2003 was 3.8%, down by 0.4% over the year. The Labour Force Survey average total employment in the year to February 2003 was 74%.

South Ayrshire's unemployment rate has fallen to 4.0% but remains just above the Scottish average. Unemployment is higher in East and North Ayrshire, as shown in Table 2.

Table 2

	Claimant Count Unemployment Apr-03	Average Total Employment Mar 02 - Feb 03
Scotland	3.8%	74%
East Ayrshire	5.1%	72%
North Ayrshire	5.8%	69%
South Ayrshire	4.0%	75%
Source: Scottish Executive April 2003		

¹ Purchasing Managers' Index Scotland Report, Royal Bank of Scotland/ NTC Research, April 2003

Scottish Industrials

Across the total area monitored², the volume of available industrial floorspace recorded by SPN increased by 7% in the year to December 2002, while the number of available units fell by 7%. This reflects a shift in available supply towards larger units, with increased availability mainly in units over 999 sq m, and a falling supply of smaller units. Since 1998 the number of available units of less than 200 sq m has fallen by around 20%, while the supply of units over 999 sq m has risen by over 38%.

Take-up of industrial floorspace during 2002 was 8% lower than in the previous year. The biggest percentage fall was in the 500-999 sq m size band (-21%), while take-up of units in the 200-499 sq m band increased marginally.

Take-up of post 1990 floorspace fell by 12% over the year, although the number of units taken up in this age band fell only marginally by 3%.

Insignia Richard Ellis³ record total returns of 10.2% in the year to December 2002 for Scottish Industrials, slightly out-performing the UK average of 10%. However, their Scottish Quarterly Index shows no rental growth for industrials in Q3 and Q4 of 2002.

Scottish Offices

Despite a fall in quarter 4, the total volume of available office floorspace at December 2002 was 10% higher than at the end of 2001. The number of available premises actually fell by 6% over the year, reflecting a shift towards larger sizes, with growth mainly in sizes above 999 sq m and reduced availability in sizes under 500 sq m.

SPN recorded an increase in new office completions in the second half of 2002, but a reduction in schemes under construction at the end of the year, and a reduced number of development proposals.

Take-up of office floorspace fell by 27% in 2002 to the lowest level recorded in the last four years.

Insignia Richard Ellis³ report a total return on Scottish offices of 10.3% in 2002, compared to only 3.8% for the UK as a whole. Rental stability, with 0.2% rental growth over the year, pushed capital growth in Scottish offices to a reported 2.0% in 2002, compared to a fall in UK capital values of 3.8%. However, the Scottish Quarterly Index shows negative rental growth of -0.4% in Q4 2002.

Figure 1

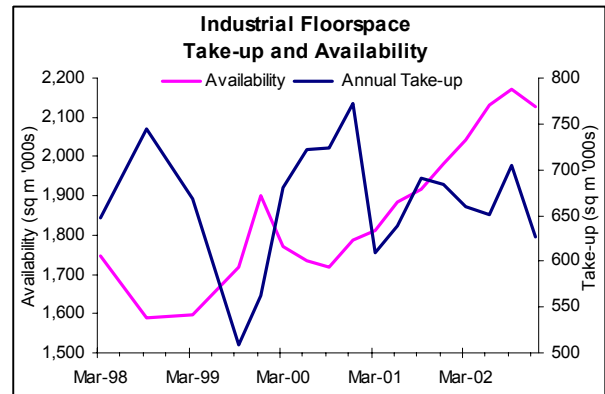
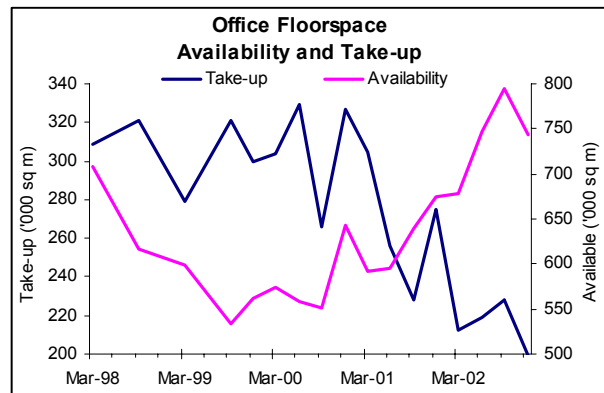


Figure 2



² 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).

³ Scottish Quarterly Index, 4th Quarter 2002, Insignia Richard Ellis

Business Property Market Activity – Ayrshire

Industrial Stock

SPN holds information on just over 1.1 million sq m of 'standard'⁴ industrial accommodation in 1,440 units in SE Ayrshire. North Ayrshire contains just under half of this floorspace, as shown below in table 3. The former 'new-town' of Irvine accounts for 66% of the floorspace in North Ayrshire, and 32% of the floorspace in the LEC area.

Table 3

Industrial Stock September 2002		
	% of Total Recorded Stock	
	Units	Floorspace
East Ayrshire	34	27
North Ayrshire	42	49
South Ayrshire	24	24

Stock in Ayrshire is slightly older than average, with 68% of units built pre 1980 and 11% post 1990, compared to 62% pre 1980 and 16% post 1990 in Central Scotland as a whole. Irvine has a particularly high proportion of pre 1980 units at 73%. 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 46% under 200 sq m.

Industrial Availability

At December 2002, SPN recorded 205 available industrial units in the Ayrshire area totalling of 210,232 sq m. The proportion of stock currently available is relatively high as indicated by table 5, although this high rate of availability applies mainly to North Ayrshire.

Table 4

Industrial Availability - Ayrshire		
	Rate of Availability	
	Units	Floorspace
SE Ayrshire	14%	19%
Central Scotland	10%	14%
SE Glasgow	12%	16%
SE Renfrewshire	13%	22%
East Ayrshire	15%	19%
North Ayrshire	16%	23%
South Ayrshire	10%	11%
Irvine	17%	23%

During 2002, available industrial floorspace increased in Ayrshire by 35%, although the total number of units fell by 13%, reflecting a shift in supply towards larger units. As indicated in Figure 5, most of the increased supply was in units over 999 sq m, although the total number of units

⁴ 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 3

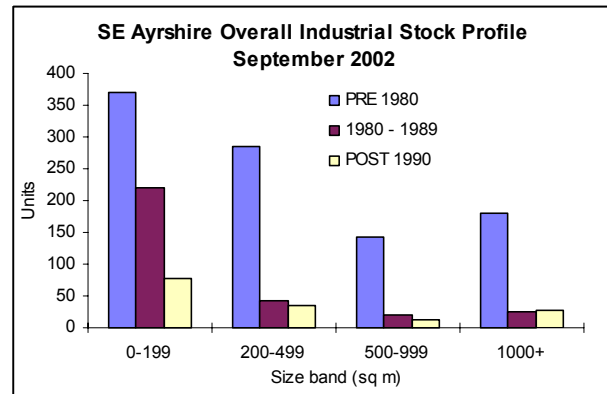


Figure 4

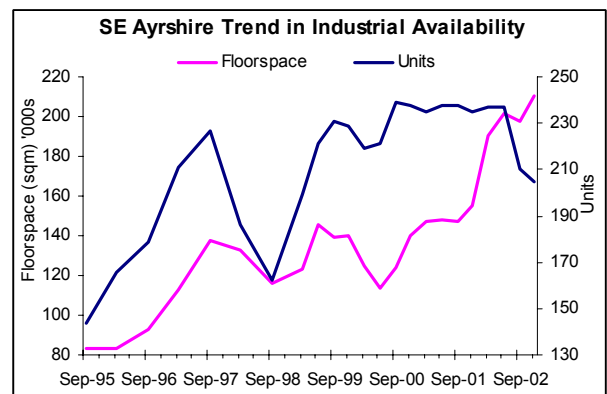


Figure 5

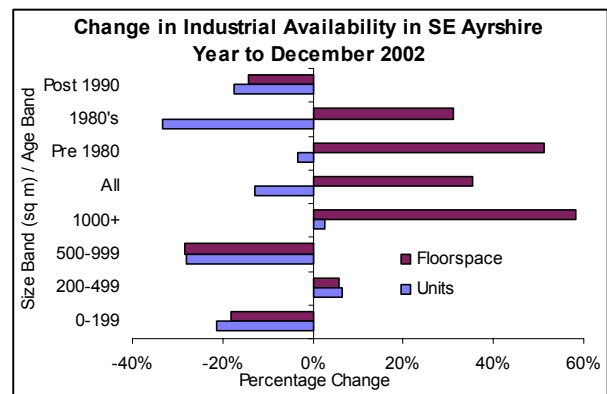
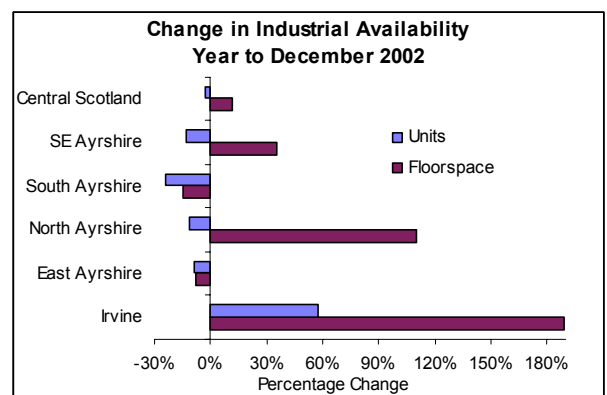


Figure 6



in this size-band increased by only one. The supply of pre 1980 floorspace rose by over half, although there was a slight reduction in the number of units in this age-band.

Growth in supply was confined to North Ayrshire where available floorspace rose by 110%. The increase was largely due to one large property in Irvine (Tournament Park 46,450 sq m), however even discounting this unit, available floorspace in North Ayrshire increased by 31%. Both South and East Ayrshire recorded a decline in industrial availability (Figure 6).

During 2002, Central Scotland as a whole recorded a 12% increase in available floorspace but a marginal reduction in the number of available units (-6%).

As shown in figure 7, Ayrshire has a high proportion of supply in large units with 19% of available units over 999 sq m and only 45% under 200 sq m. This compares to a Central Scotland average of 9% over 999 sq m and 63% under 200 sq m. South Ayrshire and the former 'new-town' of Irvine display an even heavier bias towards large units.

The age profile of available supply in Ayrshire is older than average, with only 16% of units built post 1990 compared to 30% in Central Scotland. The supply of post 1990 units is particularly low in South Ayrshire. The proportion of modern units in Irvine is closer to the norm with 25% post 1990.

Industrial Take-up

During 2002 take-up of industrial floorspace in Ayrshire increased by over 100% to 66,239 sq m, the highest level yet recorded by SPN. At the same time, there was a marginal decline in the number of unit transactions, reflecting a shift in take-up towards larger sizes. (Figures 9 and 10)

Growth in take-up was mainly in large units over 999 sq m and in modern (post 1990) accommodation. Take-up of units under 200 sq m fell by 14%.

As indicated by Figure 11, all three council areas recorded significant growth in floorspace taken up, but the number of transactions fell slightly in South Ayrshire and by over 50% in East Ayrshire. North Ayrshire saw the largest increase in unit transactions, up by 62% over the year.

This increase in take-up in Ayrshire is contrary to the general trend across Central Scotland, where take-up decreased by 13% in floorspace and by 6% in units (Figure 11).

Average annual take-up for Ayrshire, estimated from the total recorded take-up over 3 years to march 2002 is shown in table 5 overleaf

Figure 7

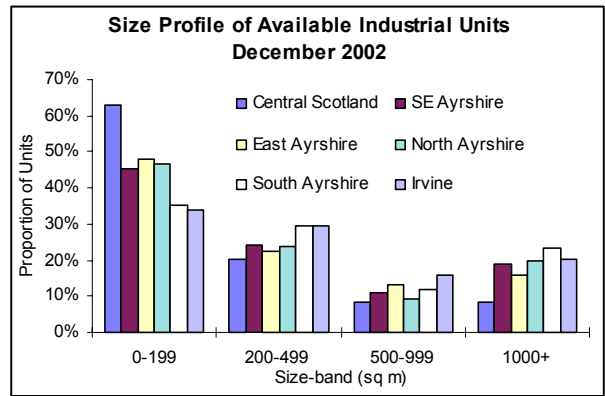


Figure 8

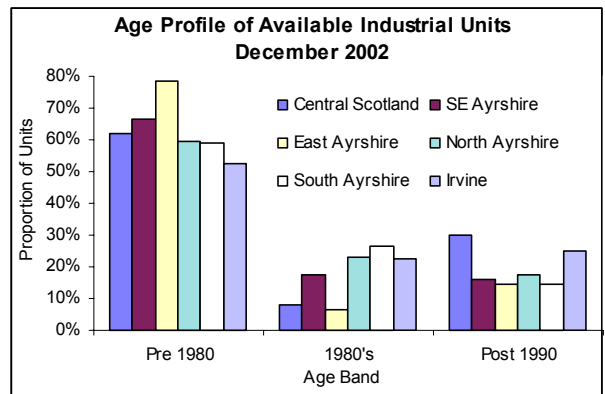


Figure 9

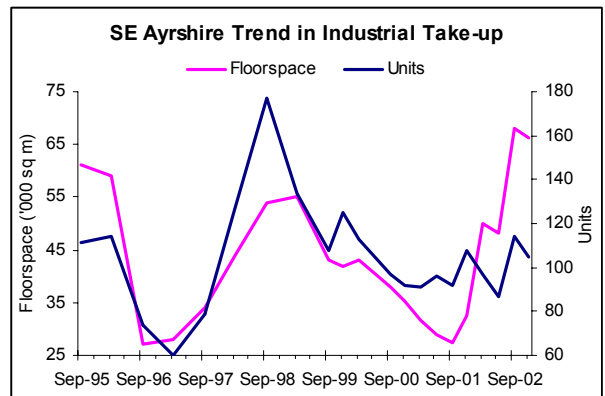


Figure 10

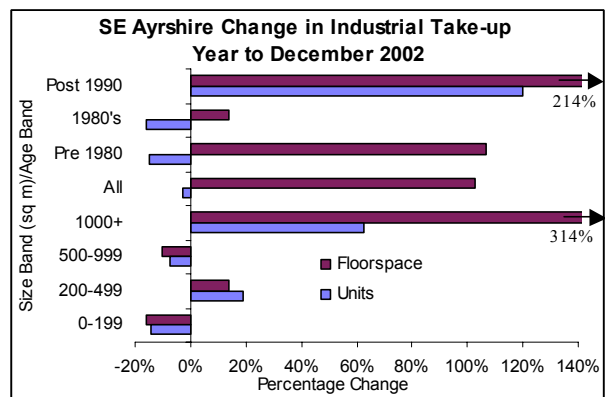


Table 5

Average Annual Take-up	Units	Floorspace (sq m)
Ayrshire	103	42,962
East Ayrshire	41	19,100
North Ayrshire	46	19,922
South Ayrshire	16	3,940
Irvine	20	10,027

Availability at December 2002 is expressed in figure 12 as a number of year's average annual take-up. Supply at December 2002 in Ayrshire as a whole, represents just under 2 years' take-up of units and nearly 5 years' supply of floorspace, although this takes no account of the recent sharp rise in floorspace take-up. Comparable figures for Central Scotland as a whole are 1.5 years' supply of units and 3.1 years' supply of floorspace.

Figure 11

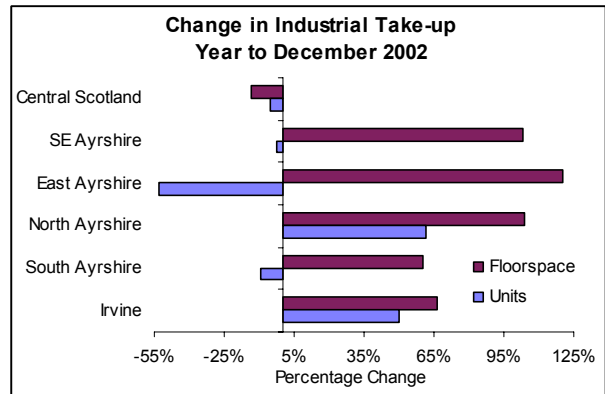
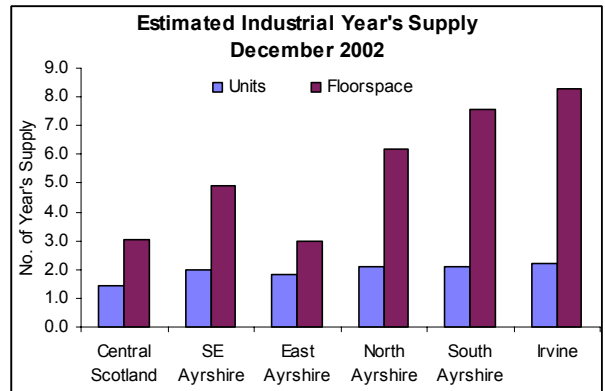


Figure 12



Office Availability

At December 2002, SPN recorded 86 available office and business units totalling 15,080 sq m in Ayrshire. This included two premises that were 'under offer' totalling 468 sq m.

As shown by figures 13 & 14, office availability in Ayrshire fell during 2002 by 14% in number of units and by 20% in floorspace. This was contrary to the general trend across Central Scotland where available office floorspace increased by 18%, although there was a small reduction (-3%) in the number of available premises.

There was no change in supply of premises over 999 sq m, which remained at only two units. Supply in all other size bands fell for both units and floorspace, however, it should be noted that the numbers of units in individual size band are small and some volatility would be expected.

The volume of post 1990 floorspace fell by 38%, although the number of post 1990 premises on offer increased by half to nine. The proportion of available office space in Ayrshire in post 1990 accommodation is low, at only 10% of units and 13% of floorspace

Over 70% of available office premises in Ayrshire are in the smallest size band (<200 sq m), compared to 63% on average in Central Scotland. A correspondingly low proportion of available offices are in the largest size band (>1,000 sq m) at only 2%, compared to 9% in Central Scotland.

Office Take-up

During 2002, SPN recorded take-up of 8,387 sq m of office space in 45 units in Ayrshire. This reflects an increase of 26% in floorspace compared to the previous year, whilst the number of transactions also rose by two.

Nearly half of the total take-up occurred in South Ayrshire, where take-up of floorspace increased by over 60%.

Take-up of office space in Ayrshire is predominantly in small sizes and in pre 1980 accommodation, although it should be noted that supply of modern space and of large units is very limited.

Based on an estimate of average annual take-up over 3 years, the supply of office space in Ayrshire at December 2002 represents 2.1 years' take-up of both units and floorspace. By comparison, Central Scotland has on average 2.7 years' supply of floorspace and 1.4 years' supply of units (figure 16).

Figure 13

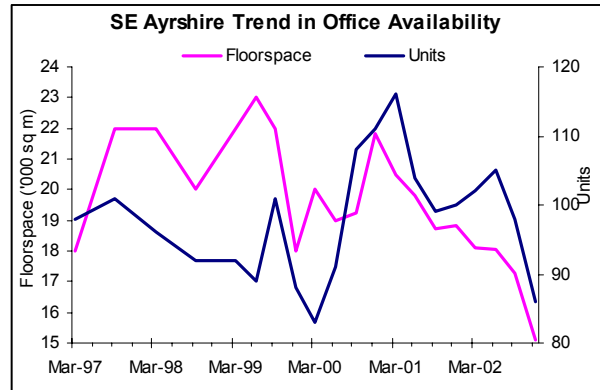


Figure 14

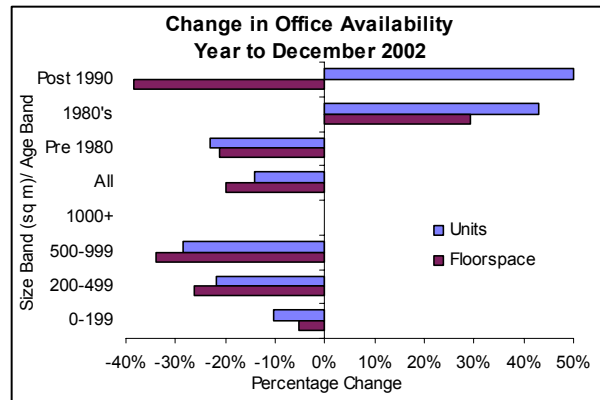


Figure 15

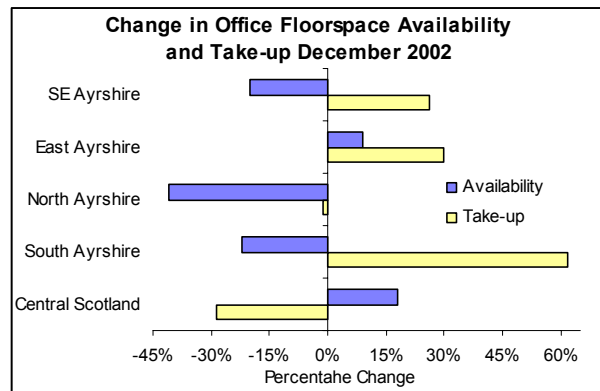


Figure 16

