

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

Seasonally adjusted Gross Domestic Product (GDP) in Scotland rose by 0.7% in the year to Q2 of 2002 compared to the 0.9% recorded for the whole of the UK as shown by Table 1. Scottish GDP in the first quarter of 2002 increased by 0.3% compared to an increase of 0.6% for the UK,

The Scottish service sector grew by 6.3% over the year to Q2, however, the construction and production sectors contracted by 6.2% and 10.7% respectively.

Independent forecasts of UK GDP growth for 2002, as published by the Treasury in November, have been revised downward to 1.6% (average of forecasts). This projection lies significantly below the growth forecast of 2%-2.5% issued by the Treasury upon publication of the budget.

The Bank of England has maintained interest rates at 4% since November 2001, reflecting conflicting signals regarding the condition of the UK and world economies. The November minutes of the Monetary Policy Committee (MPC) indicate that there was some concern within the committee regarding world demand being lower than anticipated in the Committee's Inflation Report projections. However, the committee concluded that the strength of the UK housing market posed a risk to the inflation forecast in the near term, which, when combined with expected buoyancy in consumption growth, indicated that a reduction in interest rates could not be justified. The decision to maintain interest rates at 4% was split 7-2.

The Scottish Executive report that the Scottish Claimant Count was 4.0% in October 2002 compared to 6.0% in Glasgow and only 3.3% in Edinburgh. The average employment between Autumn 2001 - Summer 2002 in Glasgow was 60% compared to the equivalent figure of 73% for Scotland as a whole.

Business Property Market – Central and Northeast Scotland¹.

Industrial

In the year to June, SPN recorded an overall increase of 13% in the volume of available floorspace. (Figure 1) The supply of available floorspace increased in every age band with Post 1990 accommodation recording the largest increase at 40%. Most of this growth was in accommodation over 999 sq m. Take-up of floorspace increased by 2% in the same period, but the number of units taken up fell by 6% (Figure 1).

Table 1

	% Change Q2 (2002) on Q1 (2002)	% Change Year to Q2 2002
Scotland	0.3% (0.6%)	0.7% (0.9%)
Production	0.4% (0.3%)	-10.7% (-4.4%)
Construction	0.3% (1.2%)	-6.2% (6.6%)
Services	0.3% (0.6%)	6.3% (2.5%)

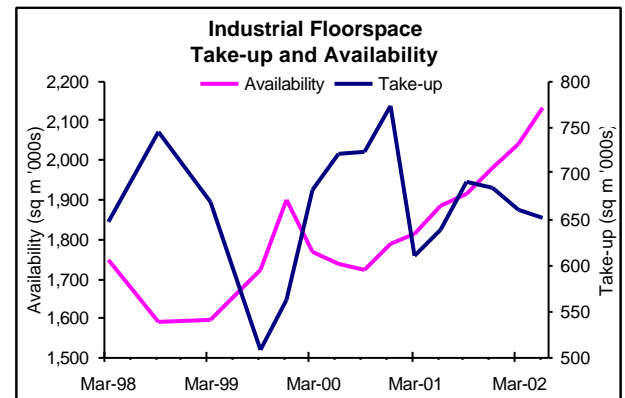
**Note: UK figures in brackets.
Source: Scottish Executive - November 2002**

Table 2

	Claimant Count Unemployment October 2002	Average Total Employment Autumn 2001 - Summer 2002
Scotland	4.0%	73%
North Ayrshire	6.4%	68%
South Ayrshire	4.7%	75%
East Ayrshire	5.5%	71%

Source: Scottish Executive and LFS

Figure 1



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).

In their April review², Ryden report a return of 9.1% on Scottish industrials in the 12 months to end of March 2002 compared to a UK average return of 8.1%. Ryden also report that institutional investment activity is limited but continues to be focused upon multi-let product in general and well-let distribution units in particular.

The RICS in Scotland report a marginal decline in average yields in the year to March 2002, as shown in Table 3. Average rental levels, as reported by the RICS, increased in the main markets over the same period. The highest average rental growth over the three years to March 2002 was reported in Livingston at 3.8% while Edinburgh achieved 3.7% (Table 3).

Offices

The volume of available office floorspace recorded by SPN increased by 25% in the year to June 2002, the highest level recorded since March 1998. Central Scotland floorspace availability increased by 32%, with larger increases of 39% and 38% in Glasgow and Edinburgh respectively.

Over the year to June 2002, take-up of office floorspace fell by 14% while the fall in unit transactions was greater at 20%.

The RICS in Scotland March 2002 survey reports a marginal decline in rental levels for city centre open plan space in Edinburgh over the year to March 2002, with Aberdeen broadly stable and Glasgow showing growth of almost 6%. The RICS survey also reports that average income yields in Edinburgh increased marginally, with Glasgow and Aberdeen showing no change (Table 4).

Table 3

Industrial - Average Rent and Yield					
New Unit 5-15,000 sq ft	Rent £/psm (£/psf)		Average Growth (p.a.) Mar-99-Mar-02	Yield	
	Mar-01	Mar-02		Mar-01	Mar-02
East Kilbride	£47.68 (£4.43)	£48.44 (£4.50)	1.4%	8.7%	8.6%
Edinburgh	£62.86 (£5.84)	£65.22 (£6.06)	3.7%	7.1%	7.1%
Glasgow	£54.04 (£5.02)	£54.68 (£5.08)	2.5%	7.8%	7.7%

Source: Royal Institution of Chartered Surveyors in Scotland

Figure 2

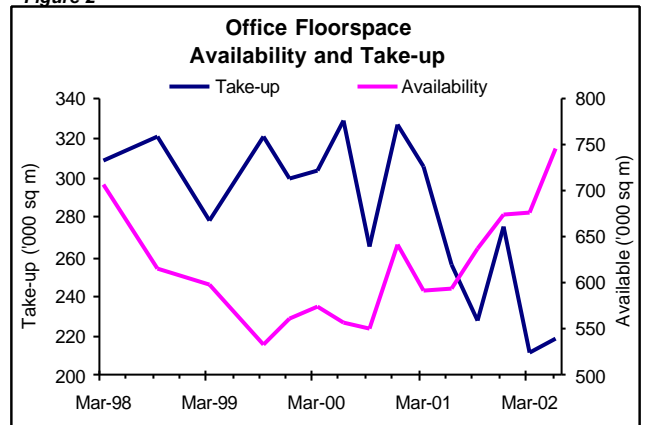


Table 4

Offices - Average Rent and Yield					
City Centre Open Plan	Rent £/psm (£/psf)		Average Growth (p.a.) Mar-99-Mar-02	Yield	
	Mar-01	Mar-02		Mar-01	Mar-02
Aberdeen	£179.00 (£16.63)	£179.54 (£16.68)	2%	8%	8%
Edinburgh	£300.96 (£27.96)	£300.10 (£27.88)	6.9%	6.2%	6.4%
Glasgow	£225.83 (£20.98)	£238.31 (£22.14)	8.2%	6.7%	6.7%

Source: Royal Institution of Chartered Surveyors in Scotland

² The Scottish Property Review, April 2002 - Ryden

Business Property Market – Ayrshire

Industrial Availability

At 30th June 2002, SPN recorded 237 available industrial units in the Ayrshire area providing a total floorspace of just under 202,000 sq m. Table 5 indicates a relatively high proportion of stock currently available in Ayrshire compared to the Central Scotland average, although the rate of availability is closer to the level recorded in Glasgow.

Table 5

Industrial Availability–Ayrshire		
	Rate of Availability	
	Units	Floorspace
Ayrshire	17%	19%
Central Scotland	11%	14%
Glasgow	13%	16%
North Ayrshire	18%	19%
South Ayrshire	15%	15%
East Ayrshire	17%	21%
Irvine	14%	22%

As illustrated by Figure 3, available floorspace increased by 36% over the year to June 2002, continuing the steady rise recorded since June 2000. However, the number of available units was virtually unchanged during the year. This reflects the fact that most of the increased supply was in big units over 999 sq m, as shown by Figure 4. The supply of floorspace in the 500 to 999 sq m band fell by 19% in the same period.

Increased supply was also confined to Pre 1980 accommodation, up by 61% on terms of floorspace, but with only a small increase of 4% in units in this age band.

There was almost no change in supply in smallest size band (<200 sq m).

The strongest growth in available floorspace was recorded in North Ayrshire (+60%) and in Irvine in particular (+190%), as shown in Figure 5. However, the number of units rose in North Ayrshire by only 3% and in Irvine by only 16%. South Ayrshire recorded an increase of 24% in available floorspace and of 13% in units, while East Ayrshire saw a rise of 15% in floorspace, but a decline of 11% in units. It should be noted, however, that these sub-LEC markets are small and some volatility would be expected.

The rise in availability in Ayrshire was greater than that recorded for Central Scotland as a whole, where available floorspace increased by 18% and the number of units fell marginally by just 1%.

Ayrshire has a bias towards availability in small sizes compared to the Central Scotland average, particularly in East & North Ayrshire (Figure 6). However, South Ayrshire has a high proportion of available units in large sizes over 999 sq m.

The age profile of available units in Ayrshire is similar to the Central Scotland average.

Figure 3

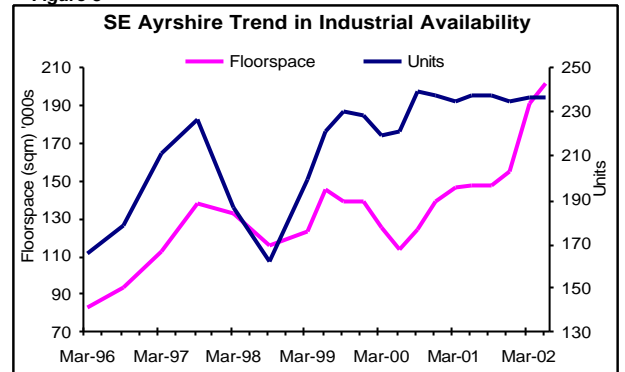


Figure 4

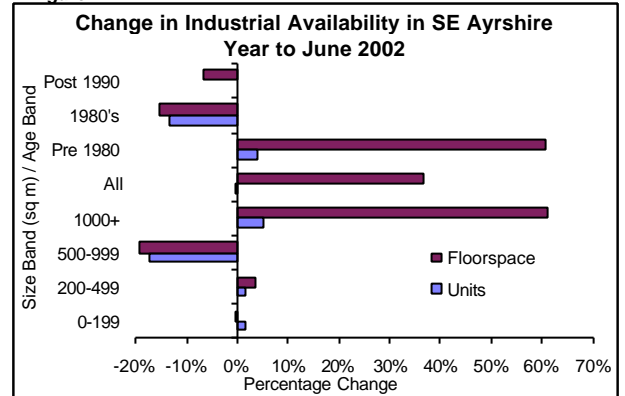


Figure 5

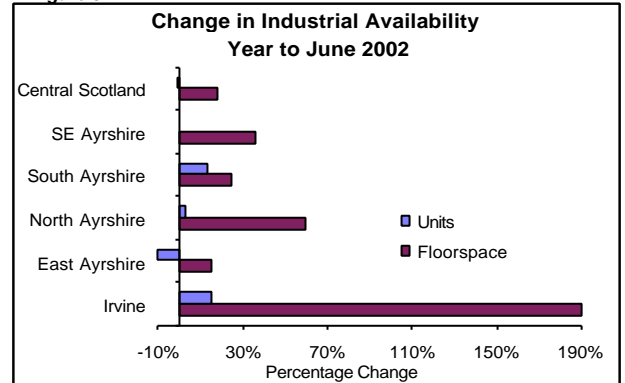
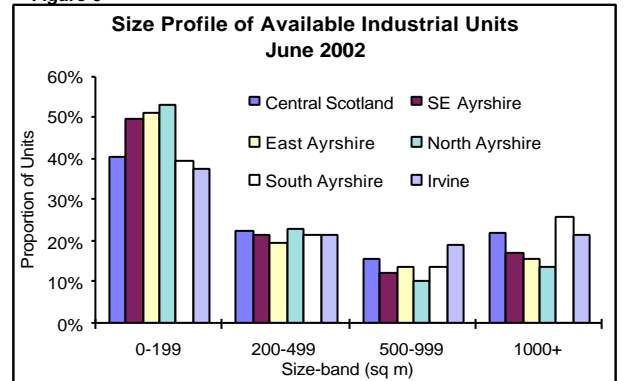


Figure 6



Industrial Take-up

SPN recorded take-up of 48,214 sq m of industrial floorspace in 87 units in Ayrshire in the year to June 2002. This was 66% higher than in the previous year in terms of floorspace, but the number of units taken up fell by 9% over the same period (Figure 7).

The rise in take-up was confined to units over 499 sq m, as shown in Figure 8. Take-up of floorspace in units over 999 sq m rose by 133%, although the number of units taken up in this band fell slightly. It should be noted however, that numbers of units taken up in the bigger size bands are quite small.

A large part of the increased take up of floorspace was in Pre 1980 space, although there was a slight fall in the number of units taken up in this age band.

Across Central Scotland, take up of floorspace fell marginally by 3% in the year to June, and take-up of units declined by around 6% (Figure 9).

Within the LEC area, East Ayrshire recorded the biggest percentage increase in take-up of floorspace (+170%), accounting for more than half the total take up in the LEC area. By contrast, take-up of both units and floorspace fell in South Ayrshire by 68% and 74% respectively (Figure 9). It should be noted, however, that the markets in individual council areas are quite small and a small number of transactions can make a big percentage change in take-up.

Average annual take-up, estimated from total recorded take-up over the 3 years to March 2002, is shown in Table 6.

Figure 7

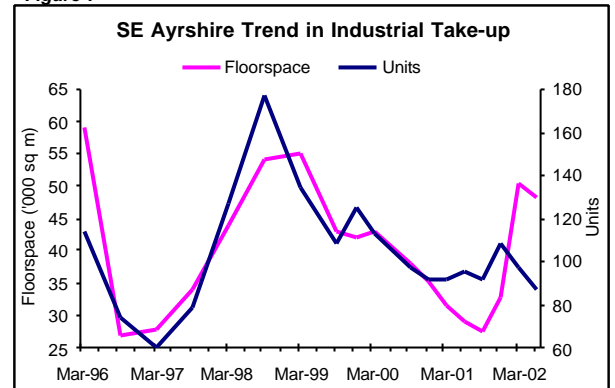


Figure 8

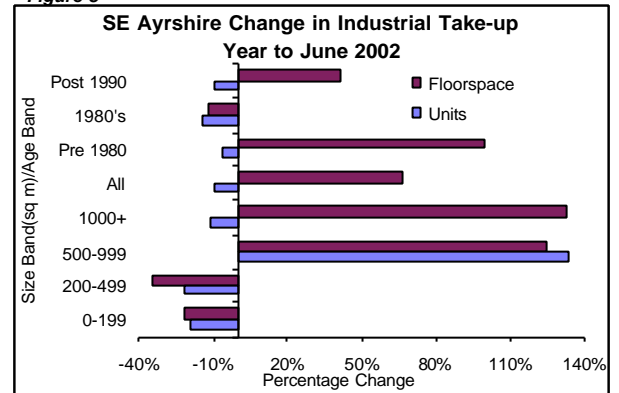


Figure 9

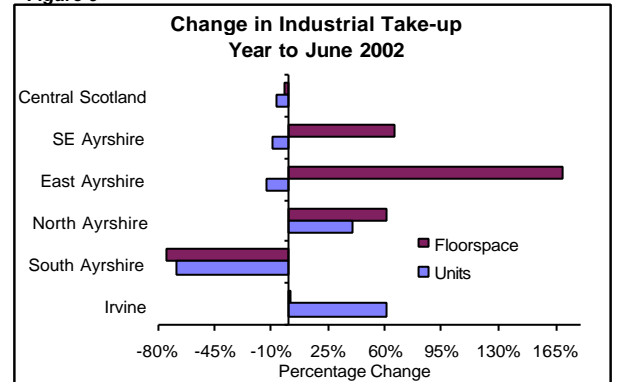


Figure 10

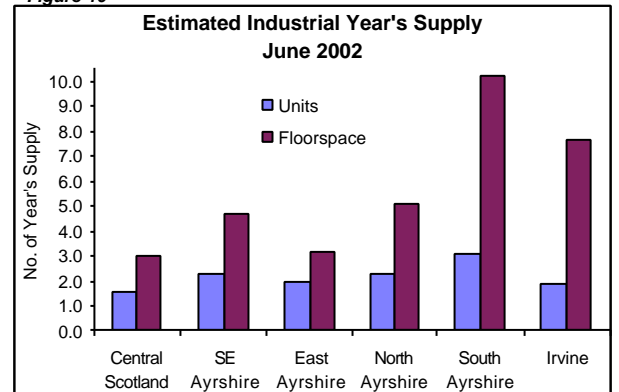


Table 6

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

Availability at June 2002 is expressed in Figure 10 as a number of year's supply, based on this estimated average annual take-up. Supply at June 2002 in Ayrshire, represented 2.3 year's take-up of units and 4.7 year's take-up of floorspace. By comparison, Central Scotland has, on average, 1.6 year's supply of units and 3.0 year's supply of floorspace.

Office Availability

At June 2002, SPN recorded a total of 18,054 sq m of available office and business floorspace in 105 units within Ayrshire.

The total available floorspace logged by SPN includes premises that are 'under offer'. At the end of June 2002 these totalled 2,456 sq m or just under 14% of the total availability. The equivalent figure for June 2001 was 2,711 sq m, also representing 14% of total available floorspace.

Floorspace availability fell by 9% overall, with North Ayrshire and East Ayrshire recording decreases of 24% and 11% respectively. Only South Ayrshire recorded an increase in office floorspace during the year to June.

Across Central Scotland available office floorspace increased by 32% over the same period (Figure 12).

The proportion of available office floorspace in modern (Post 1990) accommodation is very low in Ayrshire at only 19% compared to 52% on average for Central Scotland.

Office Take-up

Take-up of office floorspace in Ayrshire during the year to June 2002 totalled 6,411 sq m in 34 units. This represents an increase of 36% in floorspace taken up compared to the previous year, although the number of recorded transactions fell by 11%, to thirty-four (Figure 13).

In the same period take-up of office floorspace fell in Central Scotland by 17%.

Based on an estimate of average annual take-up over three years, the supply of office space in Ayrshire at June 2002 represents just over 2.5 year's take-up of both units and floorspace. This compares to 1.5 year's supply of units and 2.6 year's supply of floorspace in Central Scotland as a whole (Figure 14).

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Figure 11

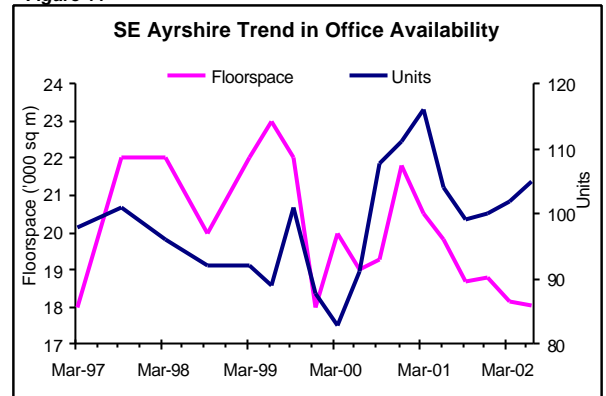


Figure 12

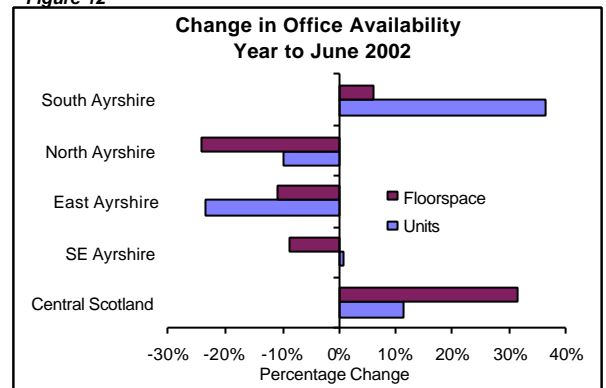


Figure 13

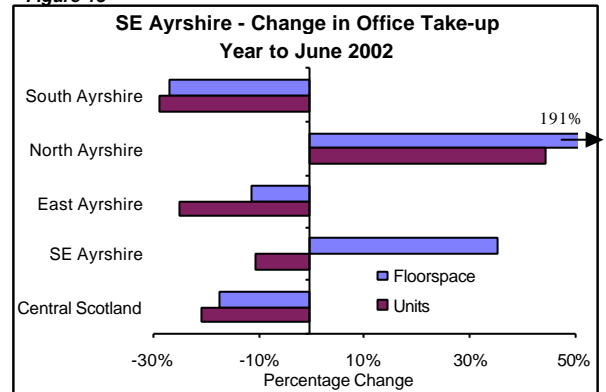


Figure 14

