REVIEW OF BUSINESS PROPERTY MARKET ACTIVITY FOR

SCOTTISH ENTERPRISE

SCOTTISH PROPERTY NETWORK

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August 2004

INTRODUCTION

This report is the latest in a series of half-yearly updates on property market activity in the ten Local Enterprise Companys (LEC) areas across Central and North-East Scotland based on an analysis of the SPN database as at June 2004[1]. In this review, we provide a supplementary report on the SE Borders and Dumfries & Galloway areas for the first time.

The RICS in Scotland has now ceased publication of its Scottish Commercial Property Survey, so we are unable to provide our usual summary of the findings from that report.

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] Total figures are aggregated from the 10 LEC areas: Scottish Enterprise Ayrshire, Dunbartonshire, Edinburgh & Lothian, Fife, Forth Valley, Glasgow, Grampian, Lanarkshire, Renfrewshire and Tayside.

1 Economic Background & Property Market Summary

The Scottish Economy

The latest provisional figures published by the Scottish Executive in June show growth of 0.2% in seasonally adjusted Gross Domestic Product (GDP) in Scotland in Q1 of 2004 and growth of 1.6% in the previous four quarters. Growth in Scotland trails behind the UK average of 2.3% in the year to Q1 of 2004.

The main source of growth was, as usual, in the service sector, but this also fell below the UK average at only 2.0% in Scotland in the year to Q1, compared to 2.8% for the UK. With growth of only 0.1% in Q1 of 2004, there is concern that the Scottish service sector has been weakening since mid 2003. Output in the Scottish production sector registered no change in Q1 and a decline over the year of 1.5%, compared to a fall of only 0.1% for the UK. Output in Scottish manufacturing increased by 0.8% in Q1, but over the year the sector shows a decline of 1.5%, compared to growth of 0.9% for the UK.

Table 1

GDP Seasonally Adjusted	% Change Q1 2004 on Q4 2003	% Change Year to Q1 2004
Scotland	0.2 (0.6)	1.6 (2.3)
Production	0.0 (-0.5)	-1.5 (-0.1)
Construction	1.2 (0.4)	8.0 (6.6)
Services	0.1 (0.9)	2.0 (2.8)
Note: UK Figure in brackets. **Source: Scottish Executive June2004**		

The construction sector in Scotland out-performed the UK average, recording growth in output of 8.0% in the year, compared to 6.6% across the UK.

The Fraser of Allander Institute recently cut its prediction for growth in the Scottish economy to 2.1% in 2004 and just 2% in 2005, lagging behind predicted growth in the rest of the UK.

Recent figures from the Royal Bank's PMI Scotland Report[2] are more positive, indicating thirteen successive months of growth in Scottish private sector output to July 2004, with particularly strong growth in April and July. Service sector providers reported a strong rise in new business in July, with a more modest increase in new orders reported by manufacturers.

Inflationary pressure, prompted The Bank of England MPC to raise base rates three times in the first half of 2003 and again in August 2004. These rises, each of 0.25%, take current base rate to 4.75%, the highest since September 2001. These rate rises are likely to slow both consumer spending and business investment.

Official unemployment figures continue to fall. Claimant count unemployment stood at 3.4% in July 2004, down 0.4% on the year, however, the Labour Force Survey seasonally adjusted total employment was unchanged at 74% for the 12-month period to Spring 2004. The Royal Bank's July PMI Report[2] recorded the eighth successive month of growth in private sector employment in Scotland, and the biggest monthly rise since June 1999.

[2] Purchasing Managers' Index Scotland Report, Royal Bank of Scotland/ NTC Research, July 2004

Industrial Property Market

The supply of available industrial floorspace has continued to decline slowly since March 2003, despite at slight upturn in Q1 of 2004. Supply of floorspace fell by 7% in Q2 of 2004 and by 7% over the year to June 2004. The volume of available floorspace is now 2% below the 3-year average, but is still 6% above the 5-year average. The number of units on offer has fallen to a new low, 6% below the 5-year average, reflecting a shift in supply towards larger units.

In the year to June, only the Grampian and Tayside areas recorded a significant increase in industrial supply. Supply in Lanarkshire was substantially unchanged, while Edinburgh & Lothian and Glasgow recorded falls in supply of floorspace of 21% and 10% respectively.

Take-up of industrial floorspace increased in Q4 of 2003 and Q1 of 2004, but fell back a bit in Q2. In the year to June, take-up of floorspace was 4% higher than in the previous year, but 11% below the 5-year average and 5% below the 3-year average. However, in the same period, take-up of modern (post-1990) floorspace increased by 82%.

Most of the growth in take-up, by volume, was in Lanarkshire, which recorded a 57% increase in floorspace taken up in the year to June. Renfrewshire, Fife and Forth Valley also recorded increased take-up of 47%, 159% and 17% respectively. All other areas recorded a fall in take-up of between 20% and 40%.

The CB Richard Ellis Scottish Quarterly Index[3] reports no rental growth in Q2 of 2004 for Scottish industrials, but limited growth for the year to June of 0.3%. However, they point out that, due to strong capital growth, total investment return on Scottish Industrials remains very strong at 13.9%.

Office Property Market

The steady rise in available office accommodation continued into Q1 of 2004, but fell marginally in Q2. Available office floorspace at June 2004 was 12% higher than at June 2003 and 17% above the five-year average. Available supply of post-2000 floorspace increased by 34% in the year to June.

Over the year to June, growth in available office floorspace was mainly confined to Glasgow (11%), Grampian (30%), Lanarkshire (29%) and to a lesser extent Edinburgh (5%). Ayrshire also recorded a big percentage rise (36%), but in a relatively small market, while all other areas recorded only small changes.

The rise in office take-up recorded in the second half of 2003 has continued in Q1 and Q2 of 2004. Take-up of floorspace in the year to June was 35% higher than in the previous 12 months and just 1% below the 5-year average. Take-up of post-1990 floorspace increased over the year by 78% and take-up of post-2000 space was up by 43%, compared to a fall of 29% in take-up of 1980s floorspace.

Only the Grampian area recorded a fall in office take-up. The biggest increase, by volume, was in Edinburgh & Lothian where take-up increased by 61% over the year. Lanarkshire also recorded a big increase in take-up (61%), as did Renfrewshire (255%) and Tayside (93%), albeit from very low levels in the previous year. Take-up in Glasgow rose by only 6% over the year, compared to a rise of 38% in Edinburgh City.

The CB Richard Ellis Scottish Quarterly Index[3] reports marginal rental growth of 0.1% for offices in Q2 of 2004, continuing a slow return to positive growth since Q4 of 2003, but for the year to June they report a small decline in rental values of 0.3%.

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3 Scottish Quarterly Index, 2nd Quarter 2004, CB Richard Ellis

2 Industrial Stock

SPN holds information on just over 17.6 million sq m of 'standard'[4] industrial accommodation in Scotland. Just over 17.1 million sq m of this space is within the 10 LEC areas shown in Table 2 below, with the largest proportion (22%) being located in Lanarkshire (Figure 1).

Table 2

Industrial Stock March 2004		
	% of Total Recorded Stock	
	Units	Floorspace
SE Ayrshire	1,480	1,153,819
SE Dunbartonshire	656	457,790
SE Edinburgh & Lothian	2,794	2,690,777
SE Fife	1,471	1,215,419
SE Forth Valley	1,327	1,036,615
SE Glasgow	2,699	2,031,507
SE Grampian	2,343	2,965,083
SE Lanarkshire	4,003	3,925,366
SE Renfrewshire	1,387	1,443,097
SE Tayside	1,555	1,294,723
All Scotland	**20,694**	**17,640,461**

Less than 2.4 million sq m, or 14%, of this stock was built post 1990.

As illustrated by Figure 2, the proportion of modern stock varies significantly by location, from 18% post-1990 in Edinburgh & Lothian and in Renfrewshire, to only 8% in Ayrshire. Grampian has the lowest proportion of pre 1980 space at only 42%, compared to 65% on average across all LECs and 79% in Dunbartonshire. Grampian has a high proportion of stock built in the 1980s at 47%, compared to only 9% in Renfrewshire.

On average, 43% of all units are in sizes of less than 200 sq m and 18% over 999 sq m. As shown by Figure 3, Grampian has a comparatively low proportion of small units at 30%, while over half of all units in Dunbartonshire are less than 200 sq m.

As shown by Figure 4, 65% of all recorded floorspace was built pre 1980 and 14% post 1990. Only 2% of stock has been built since 2000.

Figure 1

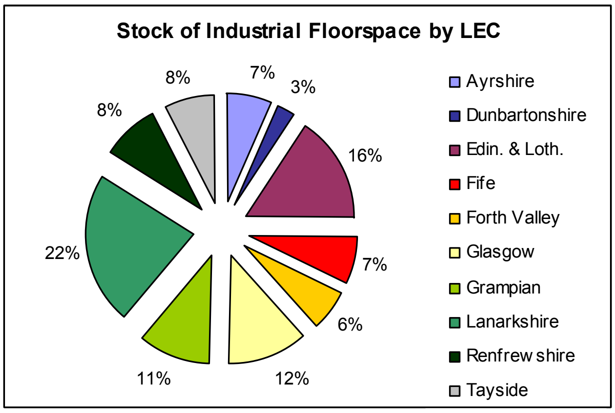


Figure 2

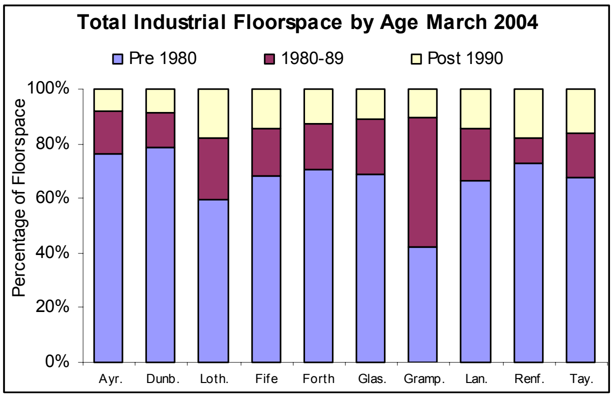
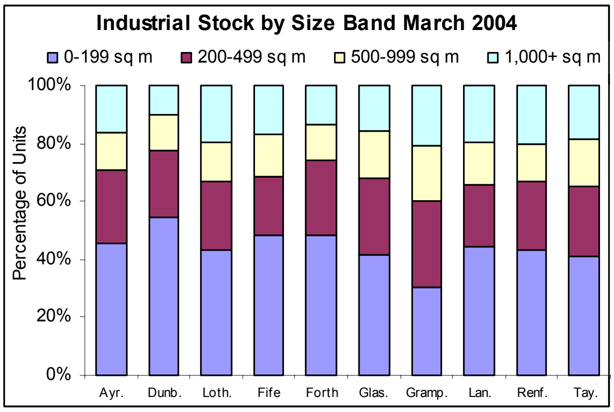


Figure 3



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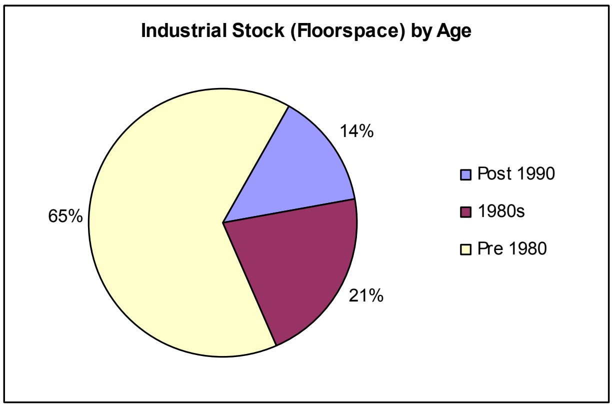


[4] This includes all industrial units within recognised industrial estates or industrial areas, but excludes large single user facilities and 'non standard' premises. In addition, premises identified as 'business units', 'yards' and 'open storage' have been excluded from this analysis.

3 Industrial Supply

At June 2004, SPN recorded 1,971 available industrial units in the 10 LEC areas totalling 2,173,907 sq m.

The volume of available floorspace continued to decline slowly in the second half of 2003, but increased slightly in Q1 of 2004.

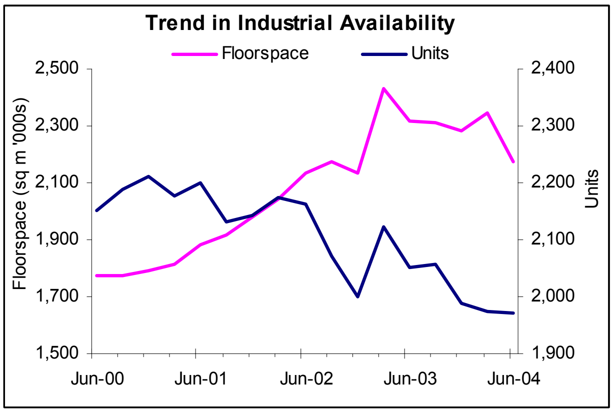
Supply of floorspace at June 2004 was 7% lower than at June 2003, while the number of available units was 4% lower. Available floorspace at June 2004 was still 6% above the 5-year average but was 2% below the 3-year average. The number of units on the market was at a new low, 6% below the 5-year average, reflecting a shift towards supply in larger sizes.

The supply of modern (post-1990) floorspace increased by 12% over the year to June 2004, while pre-1980 space fell by 15%. The number of available units declined in all age-bands and size-bands, with the biggest fall being for small units (Figure 6).

Only the Tayside and Grampian areas recorded a significant increase in industrial supply over the year. Fife and Lanarkshire saw a small increase in available floorspace, but in a reduced number of units. Available floorspace in Forth Valley almost halved over the year, partly due to the sale of one large property at Wallace View, Stirling. Edinburgh & Lothian recorded a fall of over 20%, while Glasgow saw a decrease of 10% in available space.

At June, Lanarkshire provided 22% of all available floorspace in the survey area, with 14% in Edinburgh & Lothian, 12% in Renfrewshire and 11% in Glasgow. Supply of floorspace in Forth Valley represents only 2% of the total.

Figure 5



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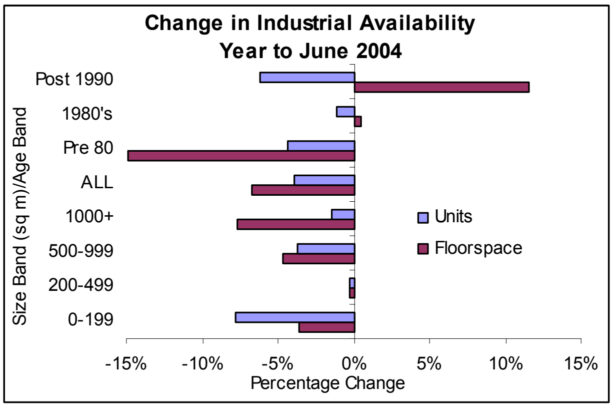

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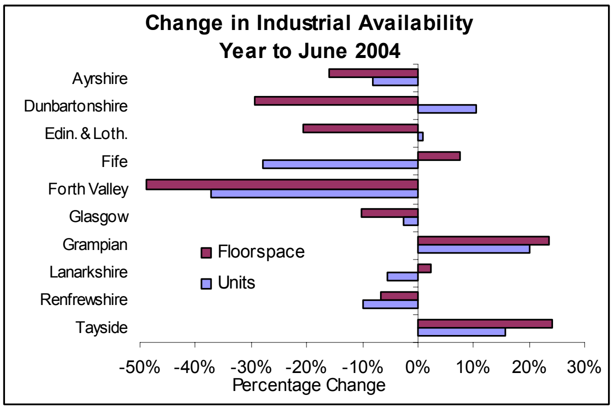

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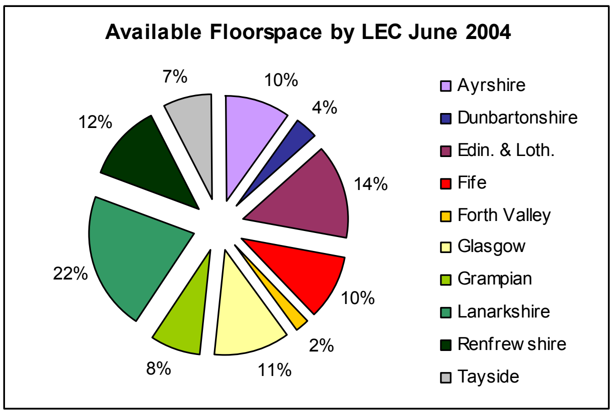


On average just under a quarter (24%) of all available floorspace, as at June, was built post 1990 and 56% was pre-1980.

Forth Valley and Fife had a high proportion of post-1990 space at over 40%, compared to less than 10% in Ayrshire and Dunbartonshire. In Lanarkshire, 28% of floorspace was post-1990, with 31% in Edinburgh & Lothian and only 17% in Glasgow. Glasgow, Ayrshire and Dunbartonshire have a relatively high proportion of pre-1980 space at 66%.

Of all available units, 35% are in sizes less than 200 sq m and 25% in sizes over 999 sq m.

Edinburgh & Lothian and Renfrewshire both have a relatively high proportion of available units in sizes over 999 sq m and a correspondingly low proportion of small units, particularly in Edinburgh & Lothian where they amount to only 24%. The size distribution of available units in Lanarkshire is close to average, while supply in Forth Valley is heavily weighted towards small units.

Figure 9

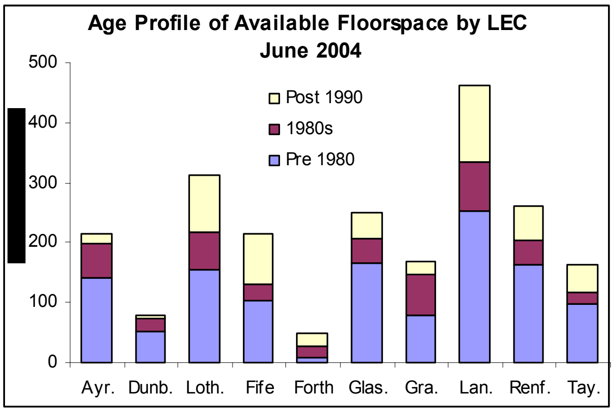
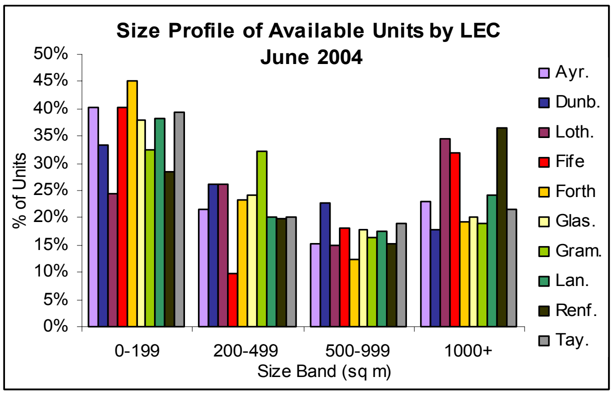


Figure 10



4 Industrial Take-up

The trend in take-up monitored directly by SPN[5] is shown in Figure 11. Take-up of industrial floorspace increased through Q4 of 2003 and Q1 of 2004, but fell back a bit in Q2 of 2004. Recorded take up in the year to June was 554,000 sq m in 1,045 units. This was higher than in the previous 12 months by 4% in terms of floorspace and by 7% in unit numbers.

The volume of floorspace taken-up in the year was 11% below the 5-year average and 5% below the 3-year average. The number of transactions was 9% below the 5-year average, but close to the 3-year average.

Almost a quarter of all take-up of floorspace was in Lanarkshire, with 18% in Renfrewshire, 15% in Edinburgh & Lothian and 13% in Glasgow.

Most of the growth in take-up, by volume, was in Lanarkshire where take-up rose by 57% over the year. Fife, Forth Valley and Renfrewshire also recorded increases in take-up of 159%, 17% and 47% respectively. All other areas recorded a fall in take-up of floorspace of between 20% in Glasgow and 39% in Tayside, although the number of transactions in Tayside was substantially higher than in the previous year.

As shown by Figure 14, there was a big increase in take-up of modern (post-1990) floorspace (82%), which was partly due to 2 large lettings totalling over 41,000 sq m (Amazon books in Gourock and TDG Logistics in Bellshill). There was also a significant increase in transactions in this age-band (18%), while take-up of older premises fell in terms of floorspace and increased only marginally in terms of units.

In terms of size-band, the biggest percentage increase in take-up was for units between 500 and 999 sq m (12%), while take-up fell marginally in the 200-499 sq m band.

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

Figure 11

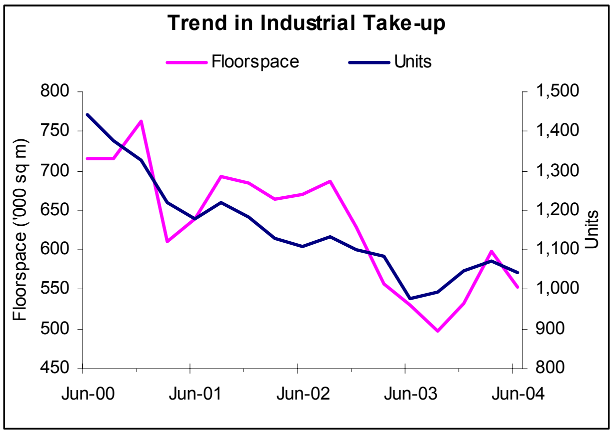
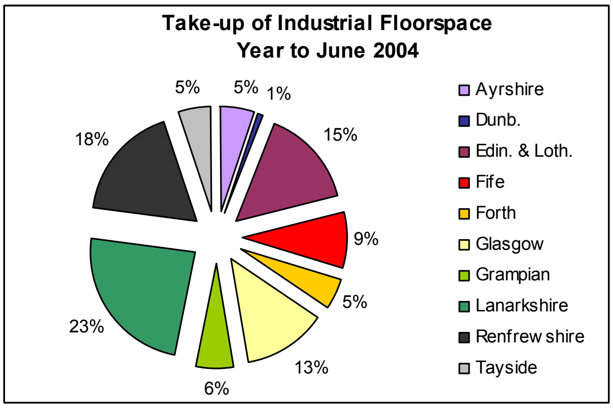


Figure 12



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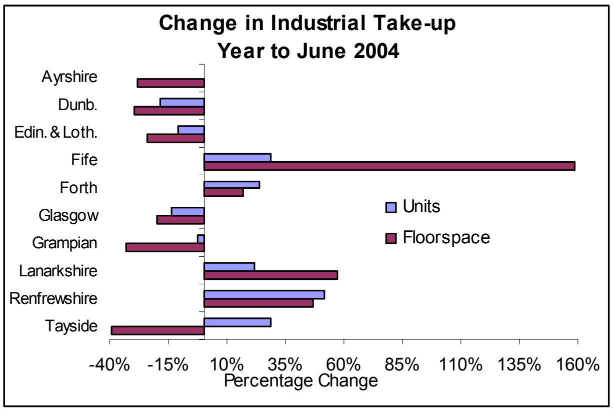
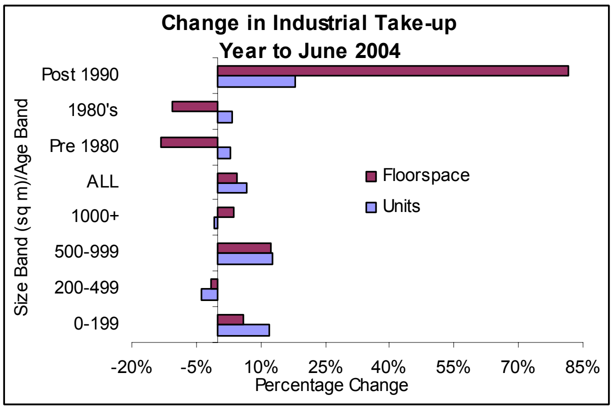


Figure 14



The average annual take-up for each LEC area, estimated from the total recorded take-up over the 3 years to March 2004, is shown in Table 3.

Availability at June 2004 is expressed in Figure 15 as a number of years' potential take-up, based on the estimated average take-up. Available supply at June in the 10 LEC area represented 1.7 years take-up of units and 3.2 years take-up of floorspace.

Supply, relative to average take-up, is significantly lower in Edinburgh & Lothian, Forth Valley and Glasgow. Ayrshire, Dunbartonshire and Fife all have a high supply of industrial floorspace relative to average annual take-up.

Overall, there is only 1.2 years supply of small units (<200 sq m) and 1.5 years supply of post-1990 units. The supply of units over 999 sq m sq m has fallen since our last report from an average of 3.6 years supply to 3.3 years.

Edinburgh & Lothian and Forth Valley have a low supply of small units, relative to average take-up, at 0.6 and 0.7 years supply respectively. Forth Valley also displays a relatively low supply of post-1990 units, but in a small market the supply within individual size or age bands is likely to be volatile.

A few of the most significant letting deals in the first half of 2004 are shown in Table 4 below.

Figure 15

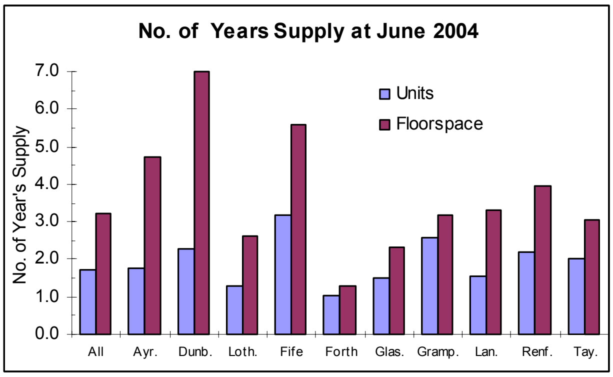


Figure 16

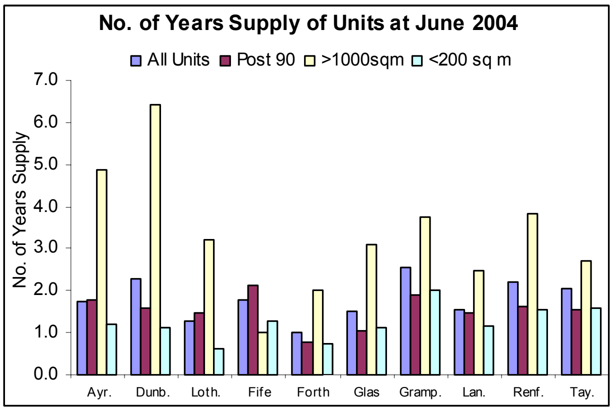


Table 3

Average Annual Take-up*	Units	Floorspace (sq m)
Central Scotland	975	564,690
Aryshire	109	45,557
Dunbartonshire	37	11,440
Edinburgh & Lothian	187	119,950
Fife	69	38,522
Forth Valley	72	37,788
Glasgow	201	107,302
Grampian	102	53,200
Lanarkshire	220	139,321
Renfrewshire	80	65,816
Tayside	83	52,977

* 3 years to March 2004

Table 4

Industrial Letting Deals

Property	Size sq m	Lessor	Occupier	Approx. Date	Headline rental rate * £/sq m (£ sq ft)
25 Coddington Crescent, Eurocentral, Bellshill	13,218	Scottish Power Plc	TDG Logistics LTD	Q2 2004	Not disclosed
Buildings 1 & 2, 29-31 Murrayburn Rd. Longstone, Edinburgh	2,011	James Brown & Sons	MKM	Q2 2004	£59.67 (£5.54)
Block G (Part) Sir Harry Lauder Road, Portobello, Edinburgh	1,460	Edinburgh Industrial Estates	Dingbro Ltd	Q2 2004	£55.43 (£5.15)
Unit 2, Canyon Rd, Excelsior Park, Wishaw	2,323	Scot Sheridan Properties Ltd	Astute Electronics	Q1 2004	£51.12 (£4.75)

* 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 2004, SPN recorded 853,000 sq m of available office and business floorspace in 2,184 premises in the 10 LEC area. The steady increase in office supply recorded during 2003 continued into Q1 of 2004, but appears to have reversed slightly in Q2 of 2004. At June, available floorspace was 12% higher than at June 2003 and 17% above the 5-year average. The number of premises on offer was just 4% higher than at June 2003.

Over the year to June, growth in available office floorspace was mainly confined to Glasgow (11%), Grampian (30%), Lanarkshire (29%) and to a lesser extent Edinburgh (5%). Ayrshire also recorded a big percentage rise (36%), but in a relatively small market, while all other areas recorded only small changes. Fife recorded a slight fall in supply of floorspace.

Edinburgh & Lothian provides 31% of all available office space (24% in Edinburgh City), with 25% in Glasgow, 14% in Lanarkshire and 11% in Grampian. All other LEC areas each contribute less than 5% of the total.

Supply of new (post-2000) floorspace increased by 34% over the year, so that roughly one third of all available floorspace at June was new space and over 55% was built since 1990.

The total available floorspace logged by SPN includes premises that are 'under offer'. At the end of June 2004 these totalled 48,500 sq m or 6% of total supply.

As shown in Figure 19, availability increased in all age and size bands over the year to June with the exception of pre-1980 floorspace, which fell by 4%. The biggest increases were for post-2000 space and for large premises. The number of premises over 999 sq m increased by 8%, but with an increase of 21% in floorspace in this size-band.

Glasgow saw a sharp rise (90%) in supply of post-2000 floorspace, while Edinburgh City recorded a slight fall in this age-band (Figure 20). Glasgow recorded growth in all but the smallest size-band, where there was a marginal decline. Growth in Edinburgh was more modest overall, and limited to the smallest and largest size-bands.

Figure 17

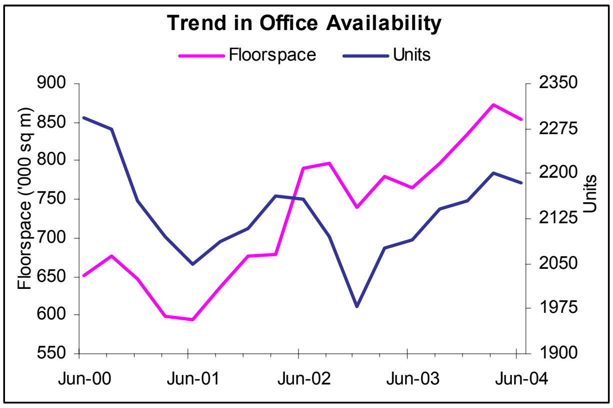


Figure 18

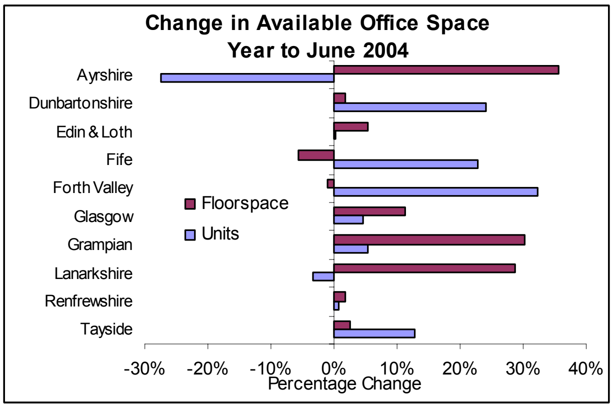


Figure 19

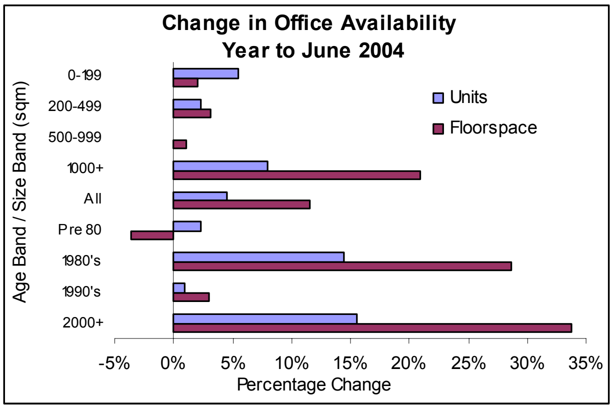
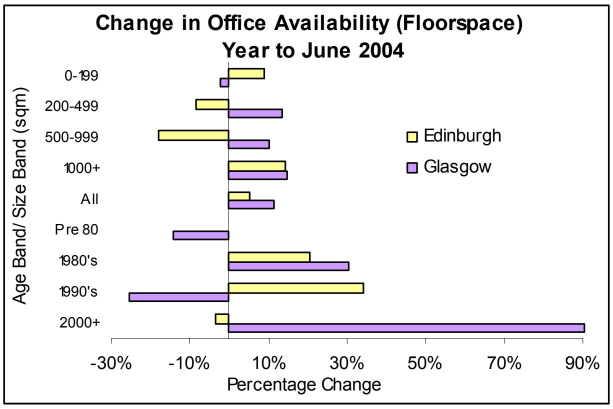


Figure 20



6 Office Take-up

The growth in office take-up recorded in the second half of 2003 has continued in Q1 and Q2 of 2004. Take-up of floorspace in the year to June totalled 251,000 sq m, 35% higher than in the previous 12 months and just 1% below the 5-year average.

Take-up of post-1990 floorspace increased over the year by 78% and take-up of post-2000 space was up by 43%, compared to a fall of 29% in take-up of 1980s floorspace.

Only the Grampian area recorded a fall in take-up of office floorspace. The biggest increase, by volume, was in Edinburgh & Lothian where take-up increased by 61% over the year. Lanarkshire also recorded a big increase in take-up (61%), as did Renfrewshire (255%) and Tayside (93%), albeit from very low levels in the previous year.

Take-up in Glasgow rose by only 6% over the year, compared to a rise of 38% in Edinburgh City.

Edinburgh & Lothian accounted for 36% of total office take-up in the year to June, with 26% in Edinburgh City. Glasgow's share of total take-up fell marginally to 24%, with 11% in Lanarkshire.

As shown by Figure 24, take-up in Edinburgh City increased in all age bands, with especially strong growth in take-up of 1990s space. Glasgow recorded more modest growth overall, with declining take-up in pre-1990s space.

Based on the average annual take-up over the 3 years to March 2004, available supply at June 2004 represented 1.9 years take-up of units and 3.6 years take-up of floorspace in the 10 LEC area. Supply of office space, relative to average take-up, is high in Lanarkshire and Renfrewshire, and slightly below average in Glasgow.

Figure 21

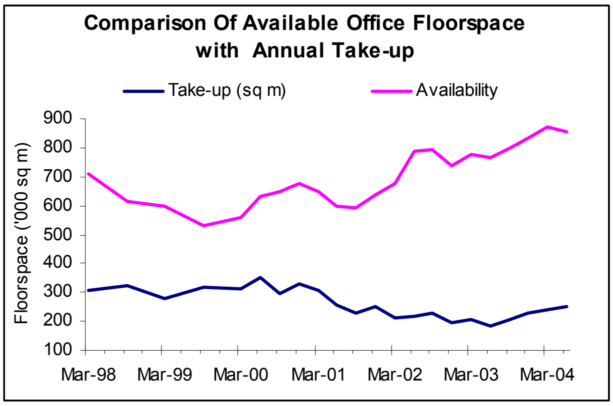


Figure 22

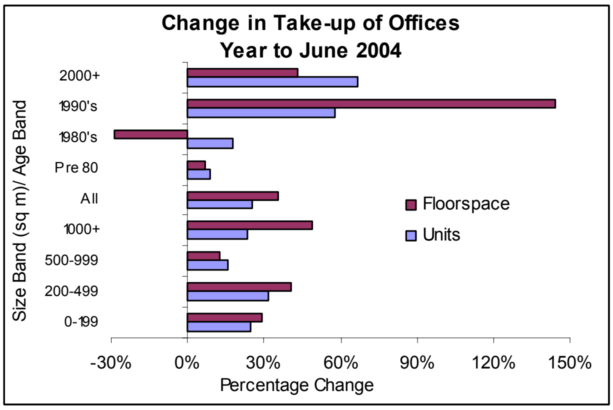


Figure 23

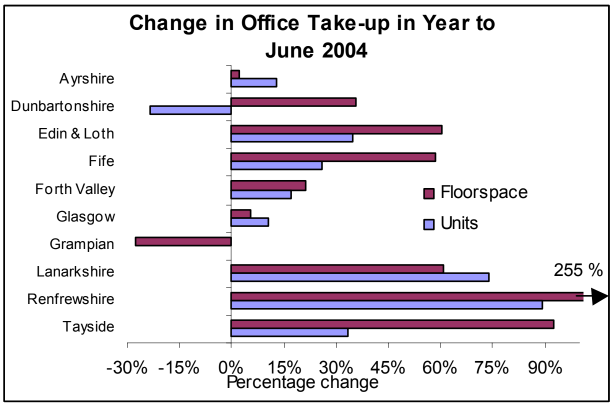


Figure 25

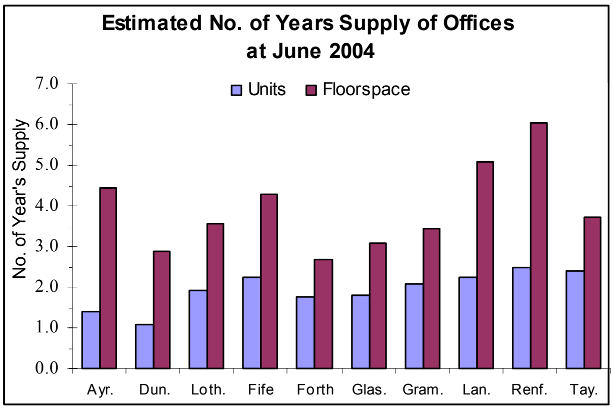
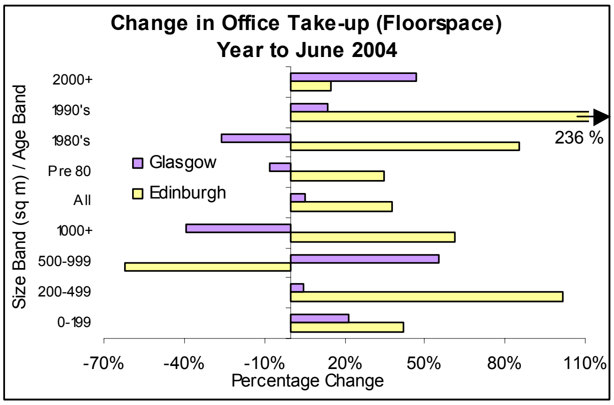


Figure 24



A number of the most significant letting deals recorded in the first half of 2004 are shown in Table 5 below.

Table 5

Office Letting Deals					
Property	**Size sq m**	**Lessor**	**Occupier**	**Approx. Date**	**Headline rental rate * £/sq m (£/sq ft)**
Cirrus Building, Glasgow Airport	992	AXA Reim	Geroge Wimpey UK Ltd	Q2 2004	£182.99 (£17.00)
100 Bothwell Street, Glasgow (4th Floor)	1,107	AXA	Student Loans Company	Q2 2004	£174.91 (£16.25)
Gyle Square, Edinburgh (Top Floor)	1,056	Highland Properties (Assets)	Pfizer	Q2 2004	£215.28 (£20.00)
Exchange Tower, Edinburgh (Level 6)	253	Danmerc Property Consultants	Franklin Templeton Investments	Q1 2004	£247.57 (£23.00)
Silvan House, 231 Corstorphine Rd. Edinburgh (2nd Floor)	1,660	The Forestry Commission	Sykes Europe Ltd	Q1 2004	£172.22 (£16.00)
Anderson House, Breadalbane Street, Edinburgh (2nd-5th Floors)	1,517	Cuckfield Bonnington Ltd	Common Services Agency	Q1 2004	£191.06 (£17.75)
Calton Square, Greenside Place, Edinburgh (3rd Floor)	2,071	Matrix Calton Square Ltd	Rockstar North Ltd	Q2 2004	£294.28 (£27.34)
City Point, 65 Haymarket Terrace, Edinburgh (LG and Ground Floor)	1,161	CGM (Edinburgh) Ltd & PPG Premier Property.	Analog Devices	Q2 2004	£269.10 (£25.00)
* headline rental rate is estimated from the initial rent reported by the letting agent and cannot be warranted accurate by SPN					

7 Dumfries & Galloway and Scottish Borders

This supplementary report covers the Dumfries & Galloway and Borders areas, which have not previously been included in the SPN analyses of market trends in Central and North-east Scotland. Commercial property markets in both areas are small.

Industrial Supply

At June 2004, SPN recorded 64 available industrial units in Borders (34,145 sq m) and 33 in Dumfries & Galloway (32,940 sq m). Together this represents only 3% of the total available supply in the Scottish Enterprise area.

Over the year to June 2004, available floorspace in Dumfries & Galloway increased by 137% due to one large industrial complex of 18,000 sq m coming on to the market at Catherinefield Industrial Estate (that property is reported to be 'under offer' at the time of writing). Discounting that one property, available floorspace in Dumfries & Galloway increased by 8%.

Available floorspace in Borders fell slightly by 4% over the year to June.

The number of available units in Dumfries & Galloway increased by 5 (18%) since June last year. with no change in Borders.

Both areas display a bias in available supply towards small units, with 55% of available units in Borders and 42% in Dumfries & Galloway in sizes less than 200 sq m, compared to a Central Scotland average of 35%. Both areas have a low proportion of available supply in modern (post-1990) space.

Figure 26

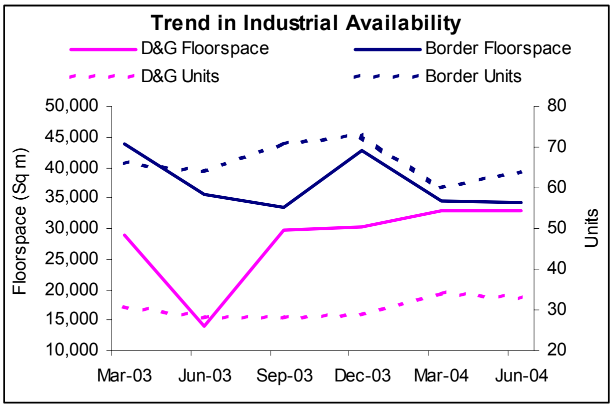
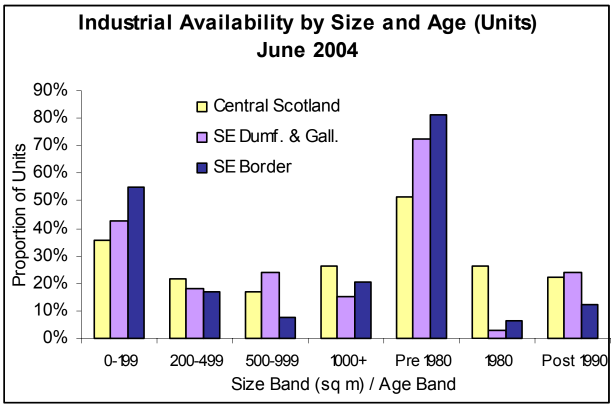


Figure 27

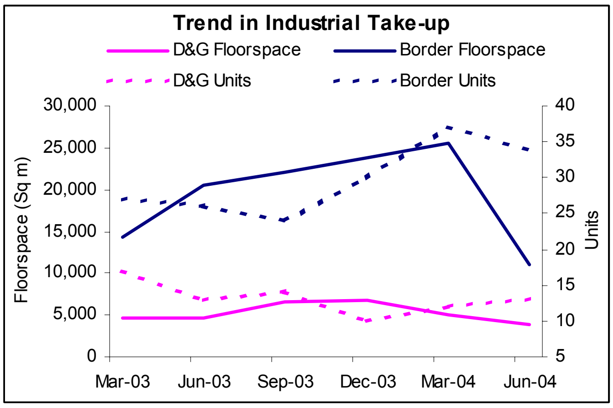


Industrial Take-up

In the year to June 2004, SPN recorded take-up of 34 industrial units in Borders totalling 10,954 sq m. This was a decrease of 47% in floorspace compared to the previous year, although the number of transactions was 31% higher.

Over the same period Dumfries & Galloway recorded 13 industrial transactions totalling 3,946 sq m. Take-up of floorspace was 15% lower than in the previous 12 months, but the number of transactions was unchanged.

Figure 28



Based on an estimate of average take-up over 3 years to March 2004, Dumfries & Galloway had 2.3 years supply of units and 4.3 years supply of floorspace at June 2004. Borders had only 1.9 years supply of units and 2.1 years of floorspace. On average across Central Scotland, SPN recorded 1.6 years supply of units and 3.3 years supply of industrial floorspace.

Office Supply

Office markets in Dumfries & Galloway and Borders are so small that meaningful analysis is difficult and volatility would be expected.

At June 2004, SPN recorded only 2,438 sq m of available office space in Dumfries & Galloway, representing only 0.3% of the SE total. Supply in Borders was higher at 5,052 sq m, but still only 0.6% of the total supply for the Scottish Enterprise area.

Available floorspace in Dumfries & Galloway fell by 11% in the year to June, while Borders recorded a fall of 36%.

Only 1% of available office space in Dumfries & Galloway and 13% in Borders was built post 1990, compared to 60% on average in Central Scotland.

Office Take-up

Take-up of office floorspace in the year to the end of June 2004 totalled 2,438 sq m in Dumfries & Galloway and 2,723 sq m in Borders, which together represents just 2% of the SE total.

In both areas, take up was significantly higher than in the previous 12 months, up by 118% in Dumfries & Galloway and by 69% in Borders.

Based on estimated average annual take-up in the three years to March 2004, the supply of office floorspace in Dumfries & Galloway at June represented 2.0 years supply, while Borders had only 1.2 years supply. This compares to an average of 3.6 years supply of floorspace in Central Scotland.

Figure 29

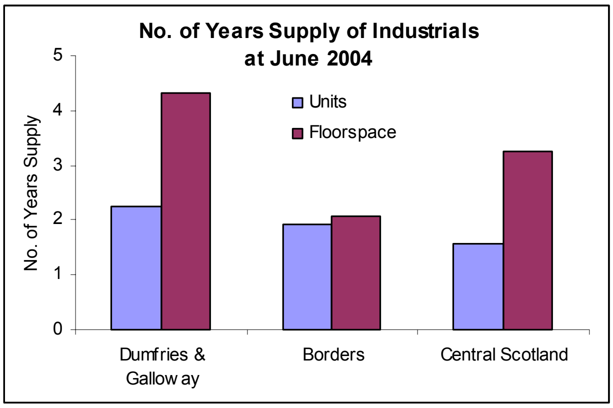


Figure 30

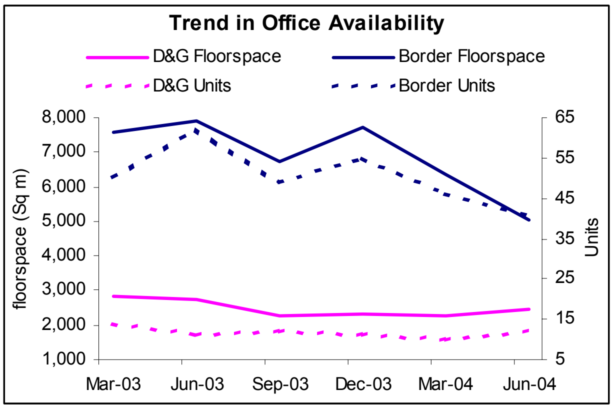


Figure 31

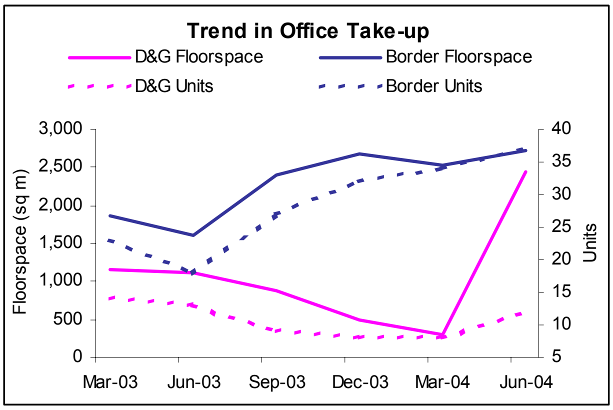


Figure 32