ABERDEEN
CITY COUNCIL

Aberdeen Local Development Plan Review

Proposal for a site to be included in the Main Issues Report

The Proposed Strategic Development Plan does not require us to allocate extra housing or employment land in the next Local Development Plan (LDP). Because the 2012 LDP identified a significant number of greenfield sites to accommodate these requirements, we are not looking to allocate any more greenfield housing or employment land in this plan. It is for this reason that we are not asking for greenfield development options this time around. However, we are always keen to identify new brownfield sites for housing or for other uses. Please use this form to provide details of the site that you wish to have included in the Main Issues Report for consideration as a proposal in the next Aberdeen Local Development Plan.

One of the purposes of this form is to inform a public debate on the merits of the different sites being proposed. All information submitted will therefore be made available to the public to promote a transparent and open process.

Please feel free to provide any further information you feel appropriate to support your submission. The City Council has produced a Sustainability Checklist which provides guidance on the issues which will be used to help us judge the merits of competing development options.
This can be found on **www.aberdeencity.gov.uk/localdevelopmentplan**

Please ensure your proposal is with us by 14th June 2013.

Using your personal information

Information you supply to Aberdeen City Council (ACC) in this form will be used to prepare the Local Development Plan. The information provided will be made public and will be placed on the Council's website. This will include the name and address of the proposer and landowner.

The Local Development Plan team may also use your contact details to contact you about the information you have provided.

For further information on how your information is used, how ACC maintain the security of your information, and your rights to access information ACC holds about you, please contact
Andrew Brownrigg, Team Leader, Local Development Plan Team, Enterprise Planning and Infrastructure, Aberdeen City Council, Business Hub 4 Marischal College, Broad Street, Aberdeen AB10 1AB.

1

Name of proposer: Knight Frank LLP on behalf of Hermiston Securities Ltd

Date: 13/06/2013

Address: 4 Albert Street Aberdeen

Postcode: AB25 1XQ

Telephone:

Email:

2

Name of landowner: Aberdeen City Council

Address: Marischal College, Broad Street, Aberdeen

The site and your proposal

3 What name would you like the site to be known as?
[The site name could be descriptive or an address]

Blackhills of Cairnrobin, Cove, Aberdeen

Have you any information for the site on the internet? If so please provide the web address:

Not Applicable.

4 Please provide a map showing the exact boundaries of the site you would like considered.

■ Map Provided

5 Please provide the National Grid reference of the site.

NO 939 997

6 What is the current use of the site?

Agricultural Use

Has there been any previous development on the site? Yes ☐ No ■

If so, what was it?

Not Applicable

7 What do you propose using the site for?

The site is proposed to be used as an extension to the Aberdeen Gateway and Mains of Cairnrobin business and industrial parks. It would be used to accommodate Class 4 Business use, Class 5 Industrial use and Class 6 Warehouse and Storage use. It would also be used to provide a road, which would link the Gateway and the Mains of Cairnrobin sites together. A landscaped boundary would be provided on the north and eastern boundaries of the site. The site measures 7.94 hectares of which 3.16 hectares will form the landscaped boundary and 4.78 hectares will be developable.

8 If you are proposing housing on the site please provide details of what you think would be appropriate, both in terms of the number of dwellings, and their forms (flats, detached houses, terraces etc).

Not Applicable.

9 It is likely that there will be a requirement for 25% of the housing within the development to be affordable. If applicable, are you considering more or less than this figure?

25% ☐ More ☐ Less ☐

10 If you are proposing business uses please provide details of what you would market the land for? [Please make sure the area of land proposed for business use is shown on the site plan]

Business and offices (Use Class 4) ☒

General industrial land (Use Class 5) ☒

Storage and distribution (Use Class 6) ☒

Do you have a specific occupier in mind for the site? Yes ■ No ☐

11 If you are proposing uses other than housing or business please provide as much detail as possible on what you propose.
[Examples could include retailing, tourism, renewable energy, sports, leisure and recreation, institutions and education.]

Not Applicable.

12 Will the proposed development be phased? Yes ■ No ☐

If yes, then please provide details of what is anticipated to be built and when.

It is anticipated that the development would be brought forward in the first phase of the Local Development Plan during the time period 2017 to 2026.

13 Has the local community been given the opportunity to influence/partake in the development proposal?

Yes ■ No ☐ Not Yet ☐

If there has been any community engagement please provide details of the way in which it was carried out and how it has influenced your proposals. **If no consultation has yet taken place, please detail how you will do so in the future.**

The site was previously included in the Proposed Aberdeen Local Development Plan, which was published in September 2010. The site was designated in the plan as Opportunity Site OP79 Blackhills of Cairnrobin for development of 3.5 hectares of employment land. The plan was subject to public consultation at that time. The site was removed from the finalised Local Development Plan following representations by the operators of Blackhills Quarry on the grounds that the site lay within 400 metres of a stand-off buffer zone designated by the Health and Safety Executive, applicable to Blackhills Quarry. The 400 metre buffer zone is no longer applicable and this is considered later in this proposal statement.

Sustainable Development and Design

14 Have you applied principles of sustainable siting and design to your site? The City Council has produced a Sustainability Checklist which provides guidance on the principles of sustainable siting and design and other issues which can be found on **www.aberdeencity.gov.uk/localdevelopmentplan**

Please provide the following information:

A) Exposure – does the site currently have

- [ ] Little shelter from northerly winds
- [x] Some shelter from northerly winds
- [ ] Good shelter to northerly winds

B) Aspect – is the site mainly

- [ ] North facing
- [ ] East or west facing
- [x] South, south west or south east facing

C) Slope – do any parts of the site have a gradient greater than 1 in 12?

- [ ] Yes

If yes, approximately how much (hectares or %)

- [x] No

D) Flooding – are any parts of the site at risk of flooding?

- [ ] Yes

If yes, approximately how much (hectares or %)

- [x] No

E) Drainage – do any parts of the site currently suffer from poor drainage or waterlogging?

- [ ] Yes

If yes, approximately how much (hectares or %)

- [x] No

F) Built and Cultural Heritage – would the development of the site lead to the loss or disturbance of archaeological sites or vernacular or listed buildings?

- [ ] Significant loss or disturbance
- [ ] Some potential loss or disturbance
- [x] No loss or disturbance

G) Natural conservation – would the development of the site lead to the loss or disturbance of wildlife habitats or species?

- [ ] Significant loss or disturbance
- [x] Some potential loss or disturbance
- [ ] No loss or disturbance

H) Landscape features – would the development of the site lead to the loss or disturbance of linear and group features of woods, tree belts, hedges and stone walls?

- ☐ Significant loss or disturbance
- ☐ Some potential loss or disturbance
- ■ No loss or disturbance

I) Landscape fit – would the development be intrusive into the surrounding landscape?

- ☐ Significant intrusion
- ■ Slight intrusion
- ☐ No intrusion

J) Relationship to existing settlements – how well related will the development be to existing settlements?

- ☐ Unrelated (essentially a new settlement)
- ☐ Partially related
- ■ Well related to existing settlement

K) Land use mix – will the development contribute to a balance of land uses, or provide the impetus for attracting new facilities?

- ☐ No contribution
- ☐ Some contribution
- ■ Significant contribution

L) Accessibility – is the site currently accessible to bus, rail, or major road networks?

	Bus Route	Rail Station	Major Road
Access more than 800m away	☐	x	☐
Access between 400-800m	☐	☐	x
Access within 400m	X	☐	☐

M) Proximity to services and facilities – How close are any of the following?

	400m	400m-800m	>800m
Community facilities	☐	x	☐
Local shops	☐	x	☐
Sports facilities	x	☐	☐
Public transport networks	☐	x	☐
Primary schools	☐	☐	x

N) Footpath and cycle connections – are there any existing direct footpath and cycle connections to community and recreation facilities or employment?

- ☐ No available connections
- ☐ Limited range of connections
- ■ Good range of connections

O) Proximity to employment opportunities – are there any existing employment opportunities within 1.6km for people using or living in the development you propose?

- [ ] None
- [ ] Limited
- [x] Significant

P) Contamination – are there any contamination or waste tipping issues with the site?

- [ ] Significant contamination or tipping present
- [ ] Some potential contamination or tipping present
- [x] No contamination or tipping present

Q) Land use conflict – would the development conflict with adjoining land uses or have any air quality or noise issues?

- [ ] Significant conflict
- [ ] Some potential conflict
- [x] No conflict

If there are significant conflicts, what mitigation measures are proposed?

R) Physical Infrastructure – does the site have connections to the following utilities?

- [x] Electricity
- [x] Gas
- [x] Water and Sewage

If you are proposing housing, is there existing school capacity in the area?

Secondary Capacity

Primary Capacity

Are there any further physical or service infrastructure issues affecting the site?

The land at Blackhills of Cairnrobin was previously removed from the adopted Local Development Plan because it was considered to lie within 400 metres of a stand-off buffer zone designated by the Health and Safety Executive, applicable to Blackhills Quarry, which lies to the east of the site. It has since been confirmed by the operators of Blackhills Quarry in their application to extend the quarry (Reference P130490) that there is no 400 metre zone applicable to the quarry and that the Health and Safety Executive does not set specific stand-off zones for blasting operations. The quarry operators have confirmed to Hermiston Securities Limited that any danger zones to the west of the quarry will be confined within their landholdings at all times and there will be no requirement to restrict vehicular or pedestrian movements on the unclassified Cove to Findon Road which lies between the Quarry and the Blackhills of Cairnrobin site. In addition a landscaped screening mound will be created along the western boundary of the quarry extension to ensure visual and acoustic screening for the business uses to the west. Given the change in circumstances it is considered that the quarry operations do not provide any impediment to the land at Blackhills of Cairnrobin being brought forward for employment development and the site should be considered again as suitable for business and industrial use in the Local Development Plan. A landscaped buffer zone on the north and western edges of the proposal site will provide further separation between the quarry and the employment uses. Access to the site will be taken from the Gateway Business Park and the land to the south at Mains of Cairnrobin. No access will be taken from the Cove to Findon Road which is used as access to Blackhills Quarry.

15 No site is going to be perfect and the checklist above will inevitably raise some potential negative impacts from any development. Where negative impacts are identified, please provide details of their nature and extent and of any mitigation that may be undertaken. Listed below are examples of further information that may be included in your submission;

	Included	Not applicable
Contamination Report	☐	☐
Flood Risk Assessment	☐	☐
Drainage Impact Assessment	☐	☐
Habitat/biodiversity Assessment	☐	☐
Landscape Assessment	☐	☐
Transport Assessment	☐	☐
Other as applicable (e.g. trees, noise, dust, smell, retail impact assessment etc please state)	☐	☐

16 Does the development proposal give any benefits to the community? If so what benefits does the development bring, and how would they likely be delivered?

Community benefits can include new community facilities (such as local shops, health, education, leisure and community facilities), affordable housing, green transport links and open spaces. Include elements which you anticipate may be required as developer contributions from the development. (Please note, specific contributions will have to be negotiated with the Council on the basis of the proposal.)

The take up of land at Aberdeen Gateway Business Park has risen considerably over the past few years and there is therefore an urgent need to supplement the land supply at Gateway if demand from companies who require a south Aberdeen location for workshop and warehouse accommodation is to be met. The allocation of the land at Blackhills of Cairnrobin will help create additional employment opportunities within Aberdeen through providing new land for development and helping remove constraints to the development of consented land at Mains of Cairnrobin by the provision of a connecting link road to the Aberdeen Gateway Business Park. It will also provide employment in close proximity to existing and proposed residential development at Cove and Loirston, thus providing opportunities for travel reduction between work and home.

Whilst it is acknowledged there have been recent additions to the marketable employment land supply at Dyce and Bridge of Don, this does not address demand from companies who have a specific requirement for a south of city location. The supply of other available land to the south of the City is limited, with the bulk of the remaining land at Altens East currently under offer to occupiers and the land at Balmoral Park reserved for business/office use only.

It is requested that the land at Blackhills of Cairnrobin is allocated in the new Local Development Plan to the time period 2017-2026 for business and industrial use.

17 If you have prepared a framework or masterplan showing a possible layout for the site, please include it with this form.

■ Masterplan/ Framework attached

If you need help reading this document (for example if you need it in a different format or in another language), please phone us on 01224 523317.

ভাষা/ইন্টারপ্রেটিং এবং অন্যান্য ফরমেটের যোগাযোগ সাহায্যের জন্য দয়া করে
: 01224 523317
নম্বরে যোগাযোগ করবেন।

如果需要語言/口譯及其他形式的傳訊支援服務，請聯絡: 01224 523317。

Если требуется помощь при выборе языка /переводчика или других способов общения, звоните по телефону: 01224 523317

للحصول على مساعدة بخصوص اللغة/الترجمة و وسائط الاتصال الأخرى، الرجاء الاتصال بالرقم التالي: 01224 523317

Lai saņemtu palīdzību sakarā ar valodu/tulkošanu un citiem iespējamiem komunikāciju atbalsta formātiem, lūdzu zvanīt 01224 523317

Jei jus turite sunkumu su kalba/ vertimu ar kitomis bendravimo formomis, skambinkite 01224 523317

Jeśli potrzebujesz pomocy **językowej / tłumacza** lub innej pomocy w porozumiewaniu się, proszę zadzwonić pod numer: 01224 523317

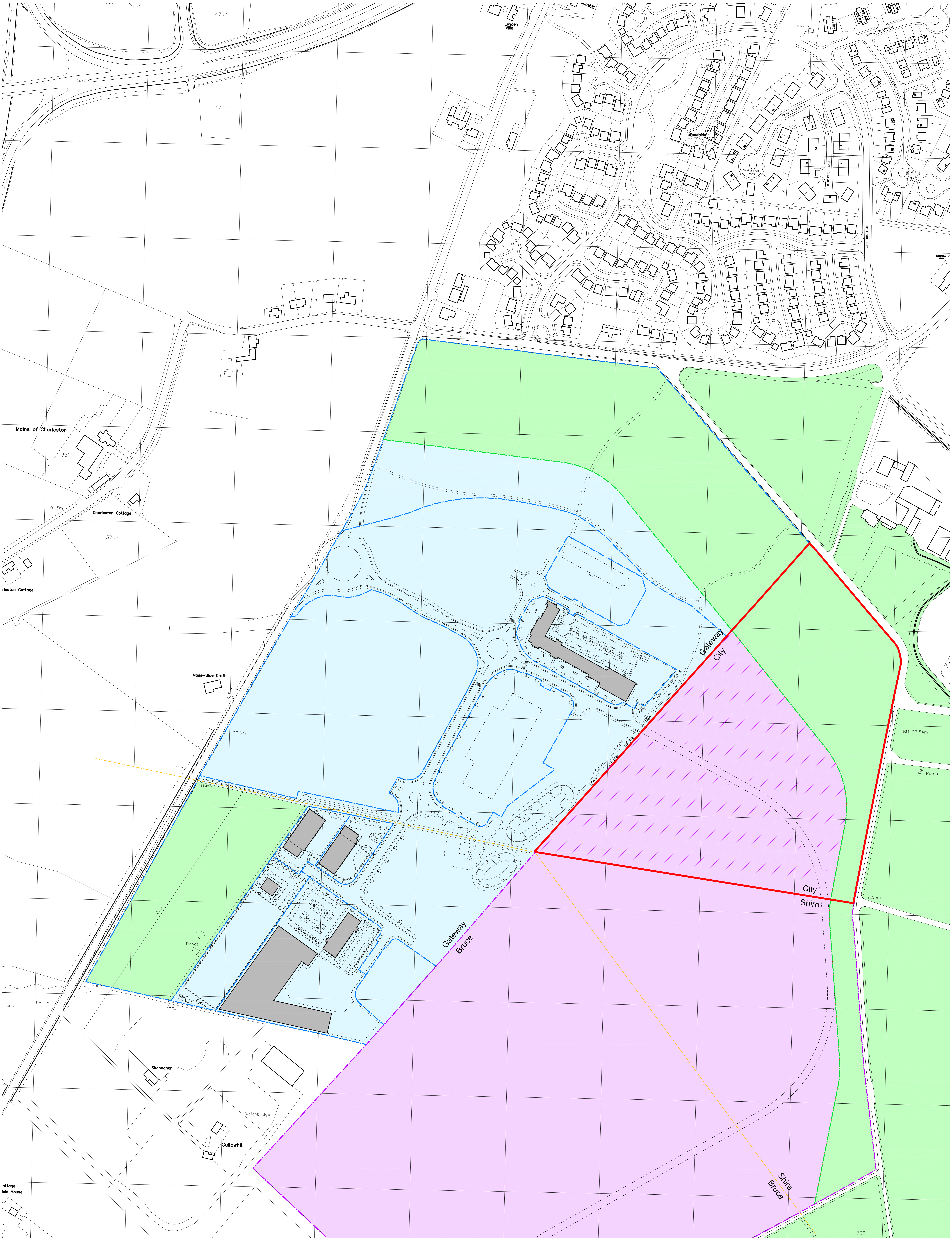
ABERDEEN
CITY COUNCIL

Thank you for taking the time to complete this form.
Please return completed forms to:

Local Development Plan Team
Enterprise, Planning and Infrastructure
Aberdeen City Council
Business Hub 4
Ground Floor North
Marischal College
Broad Street
Aberdeen
AB10 1AB

Or email it to: **ldp@aberdeencity.gov.uk**

March 2013
www.aberdeeencity.gov.uk



Gateway Business Park | Green Areas | Cairnrobin Extension | Site Referred To 7.94 Ha 19.61 Acres | Developable Land 4.78 Ha 11.81 Acres

Site Layout Plan

Blackhills of Cairnrobin

North

entasis architects llp
106 hope street
glasgow
g2 6ph
0141 221 1115
www.entasis-architects.co.uk

7442 (SK)130613-01 13.06.13 1:1250@A0 AFT

Knight Frank

Supporting Statement

Representations to Aberdeen Local Development Plan Review

Prepared on behalf of Hermiston Securities Limited

13 June 2013

Contact details

Knight Frank LLP, 4 Albert Street, Aberdeen, AB25 1XQ
Malcolm Campbell, 01224 415949, malcolm.campbell@knightfrank.com
KF ref: 312269

Contents

1. Introduction

1.1 Knight Frank LLP were appointed by Hermiston Securities Limited to submit representations to the Aberdeen Local Development Plan Review. The two representations considered in this supporting statement are not seeking to bring forward new greenfield sites for development but wish to see changes made to the phasing of employment land at Charleston, Cove and the location of a retail development opportunity moved from a site at Souterhead Road, Altens to a site at Loirston, Nigg. This statement should be read in conjunction with the attached Local Development Plan Review Pre- Main Issues Report Questionnaire

2. Representation on OP78 Charleston

Aberdeen Local Development Plan (2012)

2.1 The land at Charleston, Cove is identified in the adopted Aberdeen Local Development Plan as Opportunity Site OP78. It is allocated for 20.5 hectares of employment land for the time period 2024 to 2030. The site also forms part of the Loirston Development Framework, which was approved as Supplementary Guidance in May 2013. As the site is allocated for a later phase of the Local Development Plan the framework has not explored the development site in much detail, although indicative access points and development parcels have been illustrated for the purposes of the framework. Key character aspects identified are to:

- Integrate with Aberdeen Business Gateway site on east side of Wellington Road;
- Existing watercourse to be retained and improved to continue improvements which are planned north of Wellington Road within OP77;
- Connect to open space at north of Aberdeen Business Gateway site and expand through to proposed open space areas adjacent to proposed AWPR junction;
- Encourage and enhance connectivity to Cove; and
- Protect and implement green corridor along Wellington Road in association with pedestrian/cycle routes to Cove.

2.2 Hermiston Securities Limited, who own the majority of the land at Charleston welcome the allocation of this land for employment use. The land at Charleston is not scheduled to be released for development until 2024. Hermiston Securities Limited believe that there are compelling reasons for why this land should be brought forward earlier for development in the new Local Development Plan. This is based on the need to maintain a marketable supply of employment land in Aberdeen and in the south of the City in particular. The current high take up of employment land and the strong demand for sites from companies suggests that we will run short of suitable land in the south of the City long before 2024 and there is a need to supplement the supply now by bringing forward the land at Charleston. Further consideration of the land supply and the factors influencing demand is given below.

Employment Land Supply and Demand

2.3 The high levels of economic activity currently being experienced in the north east of Scotland are unprecedented. Given Aberdeen's role as the energy capital of Europe this has fuelled demand for land in the City for industrial and business use on the back of a high and stable oil price, new government tax relief measures and continued major investment in exploration in the North Sea by the leading oil and gas companies. According to the latest annual report from leading think tank Centre for Cities, Aberdeen's economy ranked as the best performing of 64 UK cities in the initial downturn of 2008-09, and subsequently ranked in the top five UK cities for performance over the 'recovery' period of between 2009 and 2012. Evidence of the demand for land for industrial and business use can be found in the following attached supporting documents:

- Knight Frank's Aberdeen Industrial Market Activity Report (Winter 2012);
- Knight Frank's Aberdeen Office Market Activity Report (Spring 2013); and
- Ryden's Scottish Property Review (April 2013).

2.4 The take up of land at Aberdeen Gateway Business Park, which lies immediately to the south east of the Charleston site has risen considerably over the past few years. There are currently two developments for oil and gas service companies due to begin construction in 2013, which will see 5 acres taken up. An application will also shortly be lodged for an occupier which will take up a further 11 acres at Gateway. The remaining undeveloped land at Gateway is either comprised of a few small sites suitable only for a limited range of occupiers or the land is restricted to Class 4 Business use by virtue of its proximity to residential areas at Cove which lie immediately to the north of the Gateway site. There is therefore an urgent need to supplement the land supply at Gateway if demand from companies who require a south Aberdeen location for workshop and warehouse accommodation is to be met. Whilst it is acknowledged there have been recent additions to the marketable employment land supply at Dyce and Bridge of Don, this does not address demand from companies who have a specific requirement for a south of city location. The supply of other available land to the south of the City is limited, with the bulk of the remaining land at Altens East currently under offer to occupiers and the land at Balmoral Park reserved for business/office use only.

2.5 Whilst there is employment land allocated in Aberdeenshire immediately to the south and east of the Gateway site at Mains of Cairnrobin, this has been constrained for a number of years as a result of land ownership and infrastructure issues. Hermiston Securities Limited are in negotiations with the landowners at Mains of Cairnrobin with a view to acquiring some of this land to accommodate future growth. This however, if the current constraints can be overcome, will deliver only a limited amount of employment land which at the best will ensure a supply of land until

2016/17.

2.6 Further considerations which support bringing forward the release of land at Charleston are the construction of the AWPR, with completion due in early 2018 it will make the location at Charleston more attractive to potential occupiers and stimulate further demand which will need to be satisfied well before 2024. Development will also start soon on a major new housing development at Loirston, which is located immediately to the north of the Charleston site. There is also considerable new housing development already underway at Cove. The early provision of land at Charleston provides the opportunity to provide employment close to people's homes and help reduce the need to travel. The earlier release of the land at Charleston would also take advantage of the investment in infrastructure at Aberdeen Gateway Business Park and the new development at Loirston and help contribute towards its provision.

2.7 It is requested that the phasing of Opportunity Site OP78 Charleston is brought forward in the new Local Development Plan to the time period 2017-2026.

3. Representation on OP76 Souter Head

3.1 Land at Souter Head Road, Altens, Aberdeen is identified in the adopted Aberdeen Local Development Plan as an Opportunity Site (OP76) for retailing. The site is currently occupied by the Thistle Aberdeen Altens Hotel building and car park. Since approval of the Local Development Plan there have been no planning applications submitted or approved to demolish the hotel and replace it with a retail use such as a supermarket or shopping centre.

3.2 Hermiston Securities Limited considers it highly unlikely that this site will deliver the retail development opportunity identified in the Local Development Plan. The site is occupied by one of the major hotels serving the southern part of the City. The hotel is well located for the main road network with good access to the City Centre and Harbour and the A90 Trunk Road. It is also very well located to serve the many businesses within the immediate area at Tullos, Altens, Wellington Road and Aberdeen Gateway and the major residential areas at Cove, Kincorth and Torry. The hotel also has no comparable competition within this part of the City. Given the City and the hotel's current high occupancy rates and the buoyancy of the local economy it is considered that there is no possibility in the near future of the hotel use being discontinued on this site to make way for retail use. A further consideration is the traffic impact that a large supermarket or small superstore would have on the Souter Head roundabout junction. As far as we are aware this has not been tested and our transportation engineers believe it would be difficult to accommodate the traffic generated from a major retail use on this site on the local network, especially given the level of consented and allocated development proposed for the south of the City. In terms of site values this is not a viable proposition and therefore a retail use is not deliverable on this site and consideration should be given in the review of the Local

Development Plan to moving the retail development opportunity (OP76) to another location within the south of the City.

3.3 The number of suitable alternative sites is limited, however a site is available within Local Development Plan Opportunity Site OP77. The site has been identified through the masterplan process undertaken recently for Loirston. It is identified in the Loirston Development Framework at the southern end of the site and has the capacity to accommodate a neighbourhood shopping centre for which it has been identified for and a large supermarket/small superstore as currently allocated to OP76. The Loirston site is in control of the joint venture partners and developers of Loirston, Hermiston Securities Limited and Aberdeen City Council. The site is deliverable and conveniently located to serve the south of the City and help reduce the need to travel to locations such as Garthdee and Portlethen. It will be accessible by public transport. Work undertaken by our transportation engineers indicates it can be accommodated on the local traffic network. The location also has sufficient prominence to attract an operator to the site.

3.4 It is understood that the Aberdeen and Aberdeenshire Retail Study prepared in 2004 is currently being updated by consultants and will be reported to the two Councils in September 2013. The finding from this update of the retail study should be used to inform the size and scale of the retail opportunity required to serve the south of the City.

3.5 It is requested that retail opportunity site OP76 be removed from Souter Head Road and reallocated within Block B3 as identified in the approved Loirston Development Framework.

RESEARCH

Knight Frank

SPRING 2013

ABERDEEN

Office market activity report

HIGHLIGHTS

- Significant investment in the North Sea oil and gas industry propelled Aberdeen's office market to another record year in 2012. The city saw total take-up of 883,000 sq ft last year, 14% above 2011's previous high.
- With space and development opportunities limited in the city core, out-of-town locations dominated 2012 activity, accounting for 76% of annual take-up.
- At £31.50 per sq ft, Aberdeen's office market commands the highest prime headline rent of any key market outside London and the South East.
- Office investment turnover reached £203m in 2012, more than double the level seen in each of the previous two years. Investors are attracted to the relative strength of Aberdeen's occupier demand, evidence of rising rental levels and the quality of covenants associated with the oil and gas industry.

SPRING 2013
ABERDEEN
Office market activity report

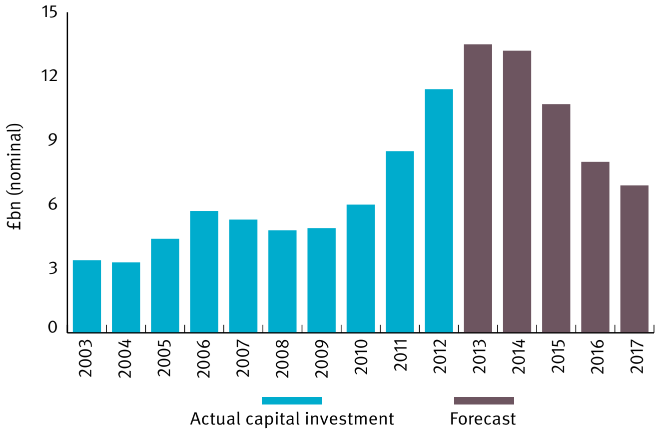
Economic overview

Aberdeen has been one of the UK's real economic success stories amid tough macro-economic conditions in recent years. According to the latest annual report from leading think tank Centre for Cities, Aberdeen's economy ranked as the best performing of 64 UK cities in the initial downturn of 2008-09, and subsequently ranked in the top five UK cities for performance over the 'recovery' period of between 2009 and 2012.

Unlike any other city in the UK, Aberdeen's economic performance depends heavily on the fortunes of the North Sea oil and gas industry. While falling oil production has impacted on UK economic growth over the past two years, sustained high oil prices and Government tax relief measures have spurred massive capital investment to support future extraction, stimulating economic activity in the city. Major commitments include the £4.5bn Claire Ridge project to the West of Shetland and Statoil's £6bn commitment in the Mariner and Bressay fields.

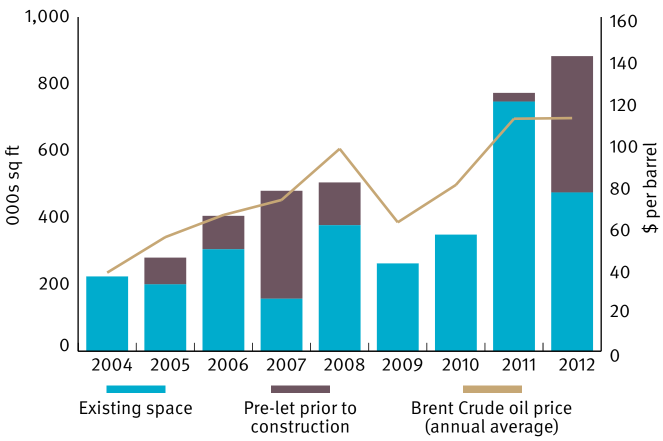
Key infrastructure projects will also enhance Aberdeen's long term inward investment and growth prospects. Capacity at Aberdeen International Airport has been increased with a £124m extension of its runway, while the Aberdeen Western Peripheral Route (AWPR) will now go ahead following a judgement by the UK Supreme Court, with completion currently scheduled in 2018.

Figure 1
Capital investment in the North Sea oil and gas industry



Source: Oil & Gas UK

Figure 2
Aberdeen office take-up and oil prices



Source: Knight Frank Research / Thomson Reuters

In May 2012, Bibby Offshore pre-let 53,427 sq ft at Pavillion 1, Prospect Park, Westhill. Knight Frank acted for Bibby Offshore and completion is scheduled for April 2013.

Occupier market

Significant investment in the North Sea oil and gas industry propelled Aberdeen's office market to another record year in 2012. The city saw total take-up of 883,000 sq ft last year, 14% above 2011's previous high and almost double the 10-year annual average.

Aberdeen's performance is striking when viewed in context with the UK's other key markets, almost all of which saw 2012 take-up lag their 10-year average. This clear divergence of fortunes reflects the uniqueness of the energy sector to Aberdeen's market, which directly accounted for three quarters of all space transacted in 2012.

Pre-let agreements have become a prominent feature of the market, reflecting strong demand and a shortage of suitable supply. 2012 saw eight pre-let deals which together accounted for 50% of annual take-up. Headline deals included Nexen, Apache and Transocean committing to Phase 1 of Prime Four, Kingswells, totalling 300,000 sq ft, and Bibby Offshore's pre-let of 54,000 sq ft at Prospect Park, Westhill.

Availability across the city is restricted and equates to a vacancy rate of 4.5%, significantly below the majority of UK office markets. Moreover, less than 15,000 sq ft is Grade A quality, with much of the remainder deemed unsuitable by current occupiers. Indeed, corporate occupiers in the city are increasingly using the quality of their accommodation to attract a limited pool of highly skilled professionals in the energy sector.

There is an acute shortage of supply in the city core, with the only Grade A space available confined to 9,400 sq ft at Dee Bridge House, Leggart Terrace. The lack of choice and limited development opportunities in the city core partly explain the recent dominance in out-of-town activity, which accounted for 76% of 2012 take-up, with many of 2012's headline deals involving an outward relocation from the city core.

For the last four years, Aberdeen has commanded the highest prime headline rent of any key markets outside London and the South East. Headline rents currently stand at £31.50 per sq ft although, aside from several small deals in Aberdeen's West End, the lack of prime space in the city centre resulted in no significant transactional evidence at this level over the past 12 months.

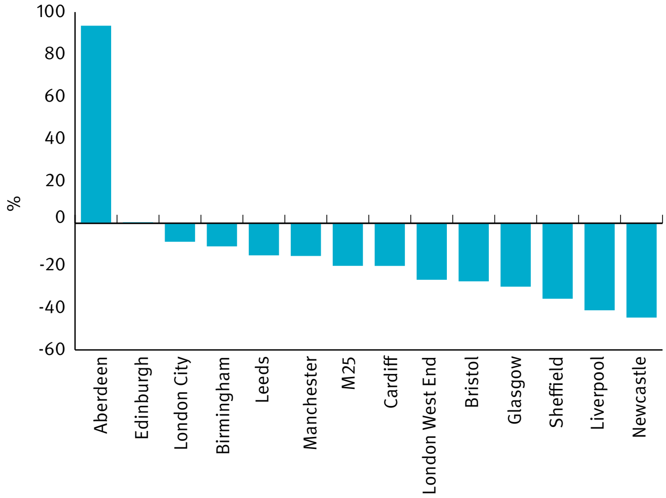
The Aberdeen market is also unique in terms of the limited incentives on offer. While occupiers in the UK's other regional markets can typically expect a two to three year rent free period for a ten year lease, in Aberdeen, occupiers currently receive a maximum of three months' rent free for good quality space, down from an average of six months' rent free a year ago.

The current strength of demand has also brought about a rapid erosion in the rental differential between the city core and out-of-town locations along the 'Western Corridor'. By way of example, at the North Dee Business Quarter, GDF Suez's 40,375 sq ft pre-let from Miller Cromdale was agreed at £29.50 per sq ft and set a new rental high for the area. More recently in 2013, Premier Oil's 62,000 sq ft lease at Phase 2 Prime Four was agreed at £27.75 per sq ft, a dramatic rise on levels seen last year.

SIGNIFICANT INVESTMENT IN THE NORTH SEA OIL AND GAS INDUSTRY PROPELLED ABERDEEN'S OFFICE MARKET TO ANOTHER RECORD YEAR IN 2012.

Figure 3

2012 office take-up vs 10-year average



Source: Knight Frank Research

In May 2012, GDF Suez pre-let 40,375 sq ft at North Esplanade West. The agreed rent of £29.50 per sq ft is a new high for the North Dee Business Quarter.

Table 2

Key office transactions in 2012

Address	Tenant	Size (sq ft)	Rent (£ per sq ft)	Date
Abercrombie Court, Arnhall Business Park	Fairfield Energy	25,504	£17.50	Jan 12
Quattro House, Wellington Circle, Altens	Petrofac	44,425	£21.50	Apr 12
Plot 1, Prime Four, Kingswells	Nexen Petroleum UK Ltd	100,000	£23.25	May 12
Plot 2, Prime Four, Kingswells	Apache North Sea Ltd	100,000	£23.00	May 12
Plots 3/4, Prime Four, Kingswells	Transocean Drilling UK Ltd	96,795	£21.77 (office element)	May 12
Pavilion 1, Prospect Park, Westhill	Bibby Offshore Ltd	53,427	£20.00	May 12
GDF Suez House, North Esplanade West	GDF Suez E & P UK Ltd	40,375	£29.50	May 12
Pavilion 2, Prospect Park, Westhill	Bluesky	18,785	£21.50	Jul 12
Pavilion 3, Westpoint Business Park, Westhill	AMEC Plc	12,573	£22.50	Nov 12
Pavilion 3, Prospect Park, Westhill	Teekay Petrojarl	18,785	£22.85	Dec 12

Source: Knight Frank Research

Table 3
Selected schemes in the pipeline (March 2013)

Scheme	Size (sq ft)	Owner/Developer
D2 Business Park	800,000+	Miller Developments
Aberdeen Energy & Innovation Parks	700,000+	Buccleuch Property / Scottish Enterprise
Axcess, Portlethen	750,000	Stewart Milne Developments
Aberdeen International Business Park	400,000	Abstract Group
St Nicholas House, Broad Street	350,000	Aberdeen City Council (For Sale)
Phase 2, PrimeFour, Kingswells	c.300,000	Drum Property Group
Ardent House, North Esplanade West	173,460	Miller Cromdale
RGU Schoolhill Campus, St Andrew Street	150,000	Robert Gordon University
Aberdeen Gateway Business Park, Cove	150,000	StocklandMuir
Former Seafood Park Site, Poynernook Road	120,000	Jacaranda Holdings Ltd (Under Offer)
The Pinnacle, Shiprow	100,000	Ardent Group
City View Business Park, Wellington Road	94,500	Knight Property Group
Triple Kirks, Schoolhill	72,600	Stewart Milne Developments
Silver Fin, Justice Mill Lane	70,000	Titan Investors

Source: Knight Frank Research

Despite the constraints on development finance, Aberdeen is one of the few UK markets to have seen concerted speculative development since the downturn, with 92,000 sq ft delivered in 2012 and 70,000 sq ft presently under construction. Knight Property Group and Gladman have been the most active developers, with newly completed schemes at Prospect Park and Westpoint Park letting-up aggressively on completion, while City View, Wellington Road is understood to be attracting strong interest.

Aberdeen has a considerable 3.2m sq ft of consented office space in the pipeline. While much of the new development will continue to come via pre-lets, additional schemes are expected to progress in 2013, with prominent schemes in Dyce comprising Miller Developments' D2 Business Park and Abstract's Aberdeen International Business Park, Dyce. Development opportunities are far more restricted in the city centre, with possible schemes in the pipeline first requiring development funding or a pre-let.

The Hub, Aberdeen Energy Park comprises 15,000 sq ft of flexible office accommodation and completed in 2012. Its developer, Buccleuch Properties/SE, has instructed Knight Frank as the joint letting agent.

FOR THE LAST FOUR YEARS, ABERDEEN HAS COMMANDED THE HIGHEST PRIME HEADLINE RENT OF ANY KEY MARKET OUTSIDE LONDON AND THE SOUTH EAST.

KNIGHT FRANK VIEW

- While take-up in 2013 is not expected to surpass 2012's record total, the expansion of investment in the North Sea oil and gas industry points to another exceptional year for the market. Active demand remains strong, with a range of prominent requirements including Wood Group, Senergy, AMEC and Statoil.
- With Grade A supply constrained, much of this demand will continue to manifest itself via new build pre-let arrangements. Demand will also remain focused in the key out-of-town locations, where there is greater development opportunity.
- Headline rents are expected to remain under upward pressure throughout 2013. However, any further increase in city core prime headline rents beyond £31.50 per sq ft will be contingent on new supply coming forward via a pre-let arrangement.
- The longer term prospects for the office market have been enhanced by announcements on key infrastructure improvements, particularly AWPR. This new link-road will boost accessibility to Aberdeen's most prominent out of town locations and boost the prospects of major new developments in the pipeline.

Investment market

Aberdeen has emerged as one of the few bright spots of investment demand across the UK's office markets beyond Central London. The number and type of investors looking at the city has increased, attracted to the relative strength of occupier demand, clear evidence of rising rental levels and the quality of covenants associated with the oil and gas industry.

Investment in Aberdeen's offices reached £203m in 2012, more than double the level seen in each of the previous two years. The result is impressive when placed into context with the subdued picture for Scotland as a whole. In 2012, Aberdeen accounted for 45% of investment in Scottish offices, set against a ten-year average of 17%.

However, two deals accounted for over two thirds of 2012 volumes. The largest by far was F&C REIT's purchase of Phase One, Prime Four, Kingswells for £94.0m from developer Drum Property Group, with the deal signed following confirmation of the three pre-let agreements by Nexen, Apache and Transocean.

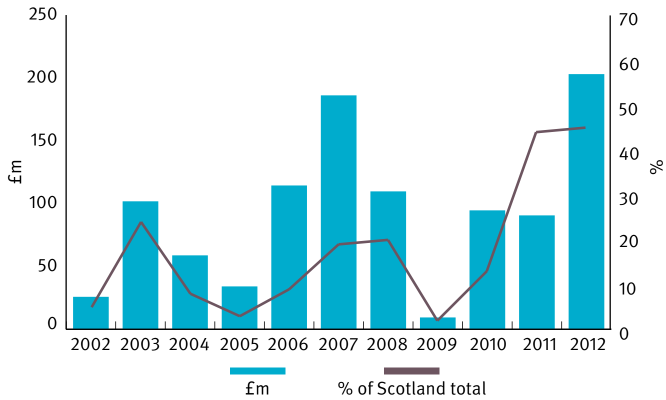
The other major deal saw Middle Eastern investor Gatehouse Bank debut in the city with their £59.9m purchase of Bridge View & Consort House at North Esplanade West. The deal reflects the widening of interest from a range of investors than in previous years, with the traditional UK Funds competing with new overseas investors for assets offering long-term income.

Prime yields for Aberdeen offices stand at c.6.50%, which is perceived to offer relatively good value given the more challenging occupier market conditions evident in the UK's other key regional markets. However, due to the limited availability of prime stock in the city centre, there was no transactional evidence to confirm pricing at this level in 2012.

However, that said, the prices paid in 2012 indicate that yields are hardening elsewhere beyond the city core, reflecting Aberdeen's positive occupier story and investor demand for long income assets. For example, Ignis' £13m purchase of Technip's 58,000 sq ft HQ in Westhill at 7.25% and the 6.83% yield paid for Phase One, Prime Four, Kingswells illustrates the sharp improvement in sentiment towards out-of-town assets.

Despite the strong occupier market, investors continue to exercise caution towards secondary assets and are much more sensitive on pricing. However, when priced correctly, sales are taking place - Ediston purchased Caledonian House, Union Street reflecting a net initial yield of 9.10%, with several other secondary assets under offer at the time of writing.

Figure 4
Office investment transactions



Source: Knight Frank Research/Property Data

KNIGHT FRANK VIEW

- As long as buying opportunities are made available, Aberdeen is expected to remain a key hotspot of investment demand in 2013. Pre-let developments and new-build sale and leasebacks will be particularly sought-after, both in the city centre and out-of-town, with investors buying long income streams backed by strong covenants from the energy sector.
- In contrast with the dynamics of other key regional markets, another important draw to Aberdeen's office market is the prospect of further rental growth for both prime and secondary assets. Buoyed by the strength of the occupier market, investors are expected to increasingly venture further up the risk curve, with a view to exploiting the potential for reversionary rental uplift.

Table 4
Key investment transactions in 2012

Property	Size (sq ft)	Price (£ millions)	Net initial yield (%)	Purchaser
Prime Four, Kingswells	299,749	£94.00	6.83%	F&C REIT
Bridge View/Consort House, North Esplanade West	159,170	£59.90	7.15%	Gatehouse Bank
St Magnus House, Guild Street	80,180	£18.30	8.66%	British Airways Pension Fund
Duncan House, Enterprise Drive, Westhill	58,322	£13.00	7.27%	Ignis Asset Management
Quattro House, Wellington Circle, Altens	44,997	£11.65	7.99%	Lumina Real Estate
Caledonian House, 232-234 Union Street	48,535	£7.75	9.10%	Ediston

Source: Knight Frank Research

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RESEARCH

WINTER 2012

ABERDEEN

Industrial market activity report

Knight Frank

HIGHLIGHTS

- The buoyancy of the North Sea oil & gas industry has fuelled strong demand in Aberdeen's industrial market. Building on 2011's strong performance, take-up is projected to reach a 10-year high of 800,000 sq ft in 2012.
- Strong demand has put significant pressure on existing supply. As a result, an increasing number of occupiers have had to relocate to other areas in order to satisfy their requirements.
- At £8.50 per sq ft, Aberdeen's prime industrial rents are the highest in the UK outside London and the Thames Valley. Meanwhile, strong occupier demand has narrowed the rental premium between prime and good quality secondhand space to just 15%.
- The strength of Aberdeen's market, coupled with oil and gas related covenants, has spurred significant demand from institutional investors. However, activity is being constrained by a lack of buying opportunities and restrictive lending on riskier assets.

Economic overview

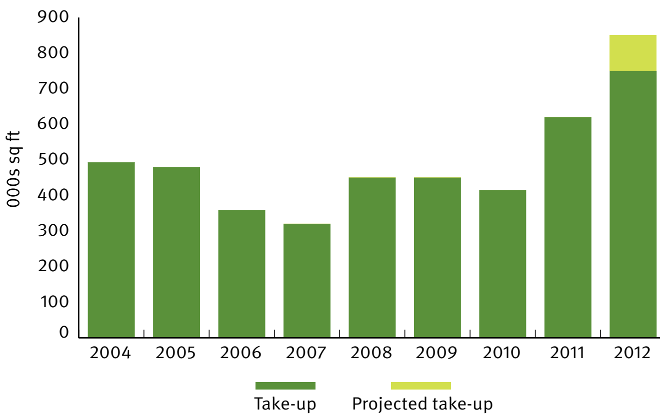
Aberdeen is widely regarded as the energy capital of Europe, with the Aberdeenshire region home to in excess of 1,000 companies operating within the North Sea energy industry. While Aberdeen's economy and property market are heavily reliant on this sector, it is also vital to the UK economy, supporting 440,000 jobs nationwide.

The well-documented success of Aberdeen's energy sector has been driven by the high and relatively stable oil price seen throughout 2011 and 2012, with the price of Brent Crude generally above $100 per barrel throughout this period. Renewed confidence has been reflected in several major investments announced by leading oil and gas companies with, for example, BP, Chevron, Conoco and Shell's decision to collectively invest almost £10bn in North Sea oil exploration.

The sector received another boost in September following the government's partial U-turn on the taxation of oil profits. The new Brown Field Allowance will shield up to £500m of oil and gas income derived from mature oil and gas fields, saving firms up to £160m. Importantly, it is widely expected to increase the viability of extraction, and could attract a further £2bn of investment to this sector.


The North Sea oil industry continues to drive Aberdeen's economy

Figure 1
Industrial take-up



Source: Knight Frank Research


In June 2012, Ashtead Technology leased Discovery Drive, Westhill at a headline rent of £8.50 per sq ft. Knight Frank acted for the landlord

Occupational market

Aberdeen's industrial market is dominated by the North Sea oil and gas industry. Distribution and trade counter operators have a limited presence in the market, with the vast majority of industrial occupiers engaged in energy-related activities. While the nature of this demand has traditionally focused on units below 20,000 sq ft, 2012 has seen a surge in demand across all size ranges.

Confidence in the oil industry has been reflected in buoyant market activity, as many industrial occupiers have sought to upgrade their accommodation or expand their operations following new contracts. Following a marked improvement in take-up in 2011, take-up in 2012 to-date stands at 750,000 sq ft and is projected to reach a 10-year high of 800,000 sq ft by year end (Figure 1). Despite the strength of activity, however, take-up is arguably being constrained by both a lack of existing supply and restrictions on debt finance which is hindering new development.

Five key transactions have accounted for 30% of take-up in 2012 to date. These include Cameron's £3.975m owner-occupier purchase of the Carron Facility at Badentoy, RST Trading Ltd's lease of an additional 52,000 sq ft at Wellheads Terrace and Expro's assignation of Halliburton's lease at the Cairn Facility in Dyce. The smaller end of the market also forms an important part of Aberdeen's demand profile, particularly so in recent months, with sub 5,000 sq ft units at terraced schemes accounting for 22% of 2012 take-up.

A severe shortage of supply within Aberdeen's established industrial estates has forced a host of occupiers to relocate to unfamiliar surroundings, particularly in search of units in excess of 10,000 sq ft. While a number of companies have moved from north to south, around Altens, the most notable trend has been a movement of occupiers to the west. Notable westward relocations this year include ASCO and Petrofac committing to a combined 120,000 sq ft at Kintore, Advantec and Elliott Group establishing bases within Kirkwood Commercial Park, Inverurie and HB Rentals acquiring 30,000 sq ft near Sauchen.

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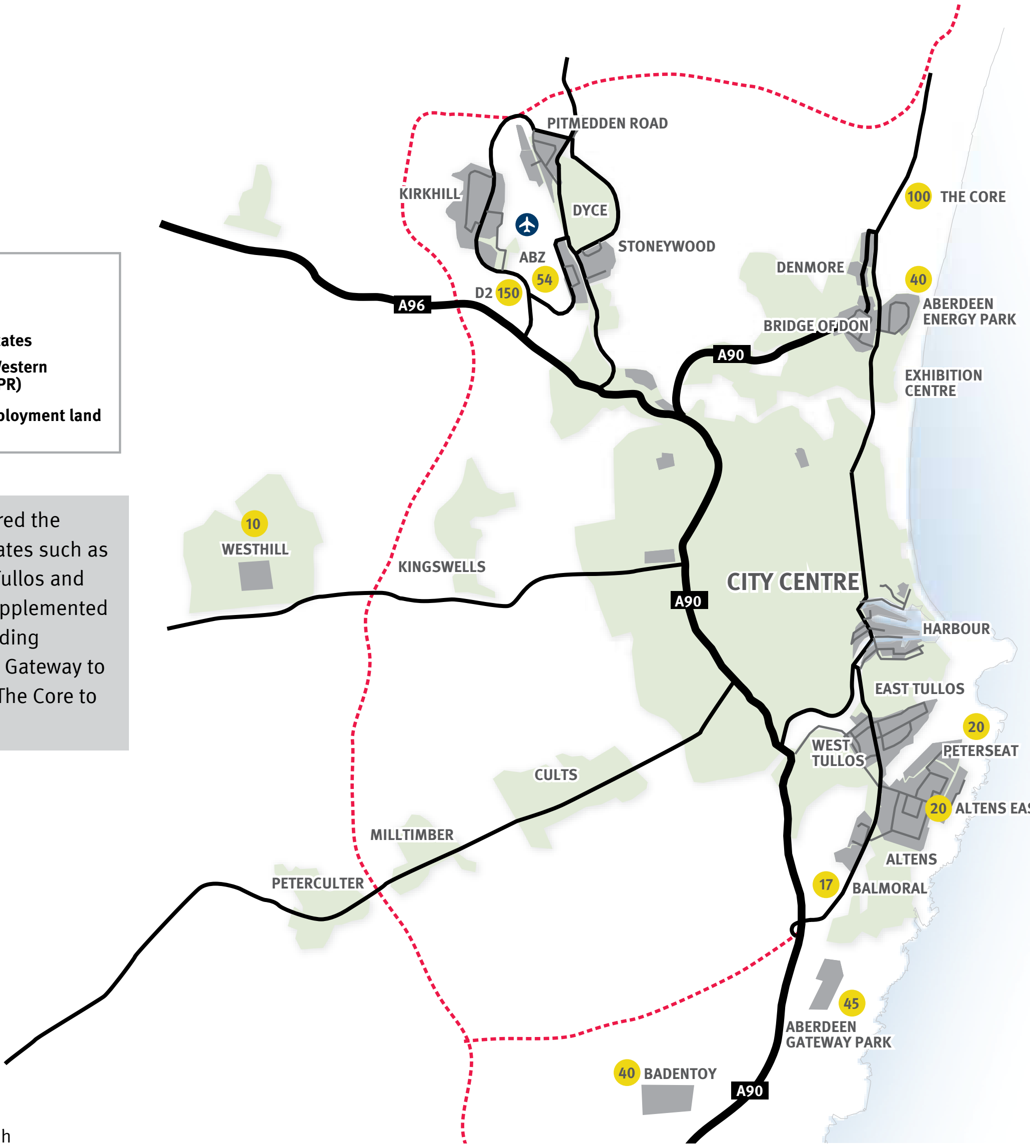
Aberdeen industrial and business areas

KEY

- Built up areas
- Existing industrial estates
- Proposed Aberdeen Western Peripheral Route (AWPR)
- X Acres of available employment land

As the market has matured the original established estates such as Kirkhill, Bridge of Don, Tullos and Altens are now being supplemented by modern estates including Badentoy and Aberdeen Gateway to the south, ABZ, D2 and The Core to the north and Westhill.



Source: Knight Frank Research

Table 1

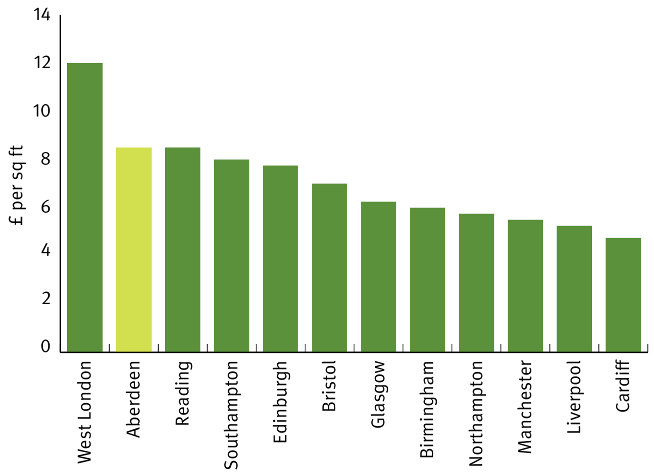
Selected occupier transactions in 2012

Address	Transaction	Occupier	Area (sq ft)	Rent per annum / Price	Date
Carron Facility, Badentoy	Freehold purchase	Cameron	54,815	£3.98m	Jun 12
Z3, Badentoy	Freehold purchase	Stauff	20,732	£2.90m	Jun 12
Wellheads Terrace, Dyce	New lease	RST Trading Ltd	52,075	£442,000 p.a.	Aug 12
Cairn Facility, Dyce	Assignation	Expro North Sea Limited	43,516	£380,000 p.a.	Sep 12
Aberdeen Gateway	Freehold purchase	Coretrax	11,700	£1.67m	Sep 12
Unit 8, Minto Commercial Park, Altens	New lease	Rotech Subsea	15,720	£211,500 p.a.	Oct 12
Unit 3, Minto Commercial Park, Altens	New lease	Pipelines 2 Data	15,161	£190,000 p.a.	Oct 12

Source: Knight Frank Research

At £8.50 per sq ft, Aberdeen's prime industrial rents are the highest of any UK market outside London and the Thames Valley area. Rents have been relatively stable at this level since 2008, and largely reflect Aberdeen's prevailing high land values of c.£450k per acre, rather than being driven by market demand. Recent transactions at new-build developments such as Carnegie's Discovery Drive, Westhill and Gilcomston Investment's two units at Raiths Industrial Estate, Dyce confirmed prime rents at £8.50 per sq ft.

Figure 2
Prime industrial rents (units under 20,000 sq ft)



Source: Knight Frank Research

While prime rents have held steady, increased demand has led to a clear narrowing in rental levels between prime and secondhand space. Headline rents for good quality secondhand buildings currently stand at c. £7.50 per sq ft, having increased by 15% since 2010. Landlords have reaped the benefits, with minimal void periods, limited incentive packages and headline rental growth. Notable deals in 2012 include Uniconn, Pipelines 2 Data and Sabre Safety, each of whom recently agreed 10-year leases.

The owner-occupier market has also been surprisingly strong. Rather than renting, some occupiers have opted to deploy their capital reserves to acquire new-build accommodation. For example, Stockland Muir completed two speculative developments at Aberdeen Gateway that subsequently sold to Special Piping Materials and Coretrax, while GSS Developments' Z3, Badentoy also sold in 2012 for a price of £2.9m. These deals established prime industrial capital values at £140 per sq ft.

Following years of constrained land supply, 2012 saw a substantial increase in the availability of development land. There is currently in excess of 500 acres of employment land being actively promoted, marketed or developed. For example, Ribnort, Balmoral and Chap have each completed servicing and infrastructure works to supplement the established business parks of Aberdeen Gateway, Aberdeen Energy Park and Peterseat Park, totalling an additional 80 acres. Elsewhere, Miller Developments and Generate Land have launched D2 Business Park and The Core which together have the potential to provide 250 acres.

Reflecting the sheer weight of occupier demand, Aberdeen is one of the few UK industrial markets to have seen speculative development in recent years. The handful of schemes which have been developed speculatively, such as Carnegie Property's Discovery Drive and Stockland Muir's Aberdeen Gateway, have proven very successful, attracting strong commercial terms and no voids.

The lack of debt finance has nevertheless continued to deter speculative development, with the majority of developers holding out for design and build packages on long-term leases. However, following the success of the above-mentioned schemes, other developers are now pressing ahead with speculative development. For example, Buccleuch Property has launched an initial phase of three new units in Aberdeen Energy Park while Ribnort and Dandara have committed to developing sites in Dyce and Westhill respectively.

Stockland Muir's speculative development at Aberdeen Gateway was purchased by Special Piping Materials in January 2012

KNIGHT FRANK VIEW

- Although occupier demand is strong enough to warrant concerted speculative development, ongoing restrictions on debt finance will continue to impact on the level of activity in the short term.
- As a consequence, we anticipate occupiers with larger requirements to turn increasingly towards design and build solutions over the next 12 to 18 months. However, given that in many cases occupiers continue to prefer the greater flexibility associated with leasing existing accommodation, landlords could benefit from undertaking refurbishment.
- We expect 2013 to see exceptional deals with rental rates reaching £9.00 per sq ft, albeit confined to the most sought after locations. However, while the sharp increase in development land is welcome, the competition it brings will ensure that the majority of prime deals will remain at £8.50 per sq ft.

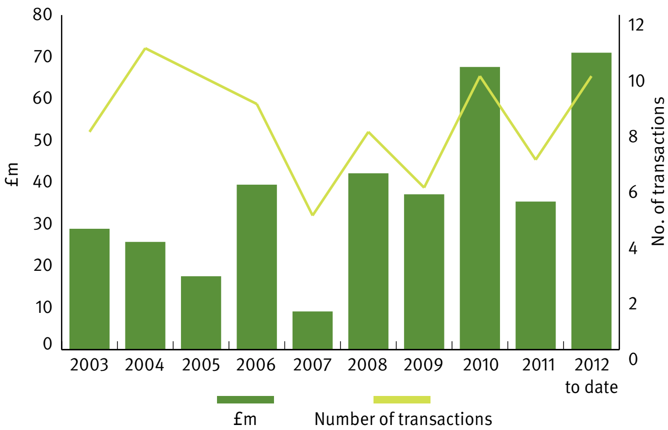
Investment market

While the challenging economic backdrop continues to impact the majority of the UK's markets outside London, Aberdeen's buoyant occupier market and restricted level of supply make a compelling case for investment in the city's office and industrial markets. Funds and institutions are increasingly attracted to the Aberdeen market, backed by strong oil and gas covenants and a perception that the city currently represents good value in comparison with the UK's other regional cities.

Industrial investment in Aberdeen has reached £71m in 2012 in the year to date, and has already eclipsed 2010's previous record of £67m. However, the actual number of deals has been broadly comparable with previous years with two transactions in excess of £10m boosting overall turnover.

The largest deal in 2012 was CBRE Global Investors' £19.9m purchase of Wellheads Industrial Centre. The 218,725 sq ft multi-let industrial estate had a Weighted Average Unexpired Lease Term (WAULT) of 5.5 years. The price paid reflected a net initial yield of 7.61% and a reversionary yield of 8.78%.

Figure 3
Industrial investment



Source: Knight Frank Research/Property Data

Knight Frank was recently instructed by Carnegie Property Company to sell Claymore Drive, Bridge of Don, totalling 30,201 sq ft

Prime industrial yields currently stand at c.7.00% in Aberdeen although, as with elsewhere in the UK regions, buying opportunities are extremely rare in this segment of the market. Indeed, the last investment sale at this level took place in 2011, where Palmer Capital purchased the Smith International Facility in Badentoy, a modern facility let to a strong covenant for 15 years. If prime opportunities do become available, Aberdeen's strong occupational story will inevitably attract investors with mandates to invest in the UK regions.

While the majority of funds are typically looking to acquire larger lot-sizes in excess of £10m, buying opportunities for this type of stock have been in short supply. Consequently, the market has followed a similar trend to the previous two years, with activity focused on lot-sizes ranging from £3m to £7m with equity-backed funds and institutional investors driving transactional activity.

Activity for smaller lot-sizes ranging from £1m to £3m has typically been the preserve of private individuals, family trusts or property companies. Unsurprisingly, however, this segment of the market has been very subdued in recent years, due to a combination of restricted debt finance and limited motivation to sell among owners. Indeed, of late, the majority of purchases in this sector have been by owner-occupiers, with one exception being FWM Limited's £2.31m purchase of Discovery Drive, reflecting a net initial yield of 7.55%.

Table 2
Selected investment transactions in 2012

Address	Area (sq ft)	Price	Purchaser	Vendor	NIY (%)	Date
Minto Avenue, Altens	86,267	£11.5m	Ropemaker Properties	Stainton Group	8.50	Apr 12
Noskab House, Badentoy	28,825	£4.4m	Cedarwood Asset Management	Stainton Group	9.19	Jul 12
Wellheads Industrial Centre, Dyce	218,725	£19.9m	CBRE Global Investors	F&C Reit	7.61	Jul 12
Discovery Drive, Westhill	13,682	£2.31m	FWM Ltd	Carnegie Property Company	7.55	Oct 12

Source: Knight Frank Research

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Scottish Property Review

The Scottish economy continues to follow a post-banking crash trajectory rather than the more familiar and shorter business cycle rebound. Economic indicators including growth, employment and confidence are however aligned more positively than in recent years.

Office market activity has reduced across the country, although latent demand can be identified and speculative development has been rekindled in Glasgow. The industrial sector is active, particularly in Aberdeen and for small to medium premises. Retail market activity continues to favour the food sector and prime destinations.

The market will continue its slow climb out of low-level equilibrium as new investment targets the emerging cycle. In Aberdeen ongoing activity will sustain that market at high levels.

DR MARK ROBERTSON,
PARTNER

Economy & Planning

Economy

Since 2009, economic forecasts have predicted a difficult current year followed by recovery to sustainable growth. This continues and normal growth is now forecast for 2014/ 2015.

- Scottish GDP grew by 0.5% during the fourth quarter of 2012. This contributed to an annual rise of 0.4%, above the UK rise of 0.1%. During the fourth quarter output in Scotland rose in all sectors: services sector (0.3%), production sector (1.1%) and construction sector (0.6%). Within the production sector however, manufacturing output contracted by -0.5%.

- The Consensus forecast for UK economic growth published by HM Treasury in April 2013 predicts growth of 0.7% during 2013 and 1.5% for 2014. For Scotland, Fraser of Allander Institute's central forecast, published in March 2013, is for a pick up of 0.9% in 2013 and 1.7% in 2014, rising to 1.9% in 2015.

- Bank of Scotland's Purchasing Managers Index for March 2013 identifies only moderate growth in new business but the highest levels of job creation for eight months.

- The Scottish unemployment claimant count was 4.9% in February 2013, down from 5.2% in February 2012. The broader ILO measure of unemployment fell on a quarterly basis to 7.3% for the three months December 2012 – February 2013, and was down by 0.8% over the year.

- The Committee of Scottish Clearing Bankers confirms the number of new business accounts opened during the second half of 2012 totalled 5,807. This was down by 14% from the same period in 2011. The largest share of new businesses (1,319 or 23%) was in the real estate, renting and other business sector.

Job Gains
KPMG plans to create 150 jobs when it opens a Tax Centre for Excellence in Glasgow during summer 2013
Over the next decade utilities firm ScottishPower plans to create 2,500 jobs at its energy networks division
Contact centre operator Teleperformance plans to increase its workforce in Scotland by a further 500 by the end of 2013
US software firm SAS is to create 94 new jobs and safeguard 126 existing roles in East Kilbride with the creation of an an advanced analytics laboratory as well as the expansion of its research facilities
US medical technology firm Daktari Diagnostics plans to create 126 new jobs with the opening of a factory in Inverness
Norwegian oil firm Statoil plans 200 new jobs in Aberdeen and 500 positions offshore as part of its Mariner development in the North Sea
Job Losses
Thomas Cook is closing 18 of its travel agency stores in Scotland with the loss of 84 jobs
Following the administration of electrical retailer Comet around 700 jobs were lost across Scotland with the closure of 34 stores, while at camera chain Jessops around 100 jobs were lost with the closure of 12 stores in Scotland
Law firm Semple Fraser went into administration with the loss of 120 staff across offices in Glasgow, Edinburgh and Manchester
Interfloor is to close its Tredaire division (carpet underlay) at Heathhall in Dumfries with the loss of 53 jobs
A total of 33 textile mill jobs have been lost with the closure of Caerlee Mills in Innerleithen
The Clydesdale Bank is to shed 51 positions in Scotland with the closure of its financial advice division for private and business banking

- Companies House reports a total of 458 business liquidations in Scotland in the six months from September 2012 (4.1% of the UK total). This is a decrease in both the number (835) and the UK share of liquidations (7%) compared with the preceding six months.

- Retail sales in Scotland were 0.9% higher on a like-for-like basis over the 12 months to March 2013 (Scottish Retail Consortium / KPMG). Further comment on the retail sector is provided on page 12.

- According to the Department of Energy and Climate Change, indigenous production of crude oil fell by 18.8% in the fourth quarter of 2012 compared with the same period of 2011.

In summary, evidence of economic growth, falling unemployment and increasing confidence suggest that the weaknesses of the past five years may at last be abating.

Planning

Processing Agreements

Processing Agreements (PAs) were introduced to assist the smooth transition of complex applications through the planning system. Uptake of these voluntary agreements between local authorities and applicants for planning permission has been slow; however they have been thrust into the spotlight as part of the Scottish Government's *Planning Reform: Next Steps agenda*, which aims to simplify and streamline processes. This has involved training seminars with local authorities throughout Scotland on the practical use and benefits of PAs and the publication of a PA template.

The benefits of PAs should be increased transparency for all parties, stakeholder engagement at an early stage and agreement of key project stages and dates, leading to greater awareness and clarity of timescales and requirements, clearer lines of communication and, hopefully, the holy grail of faster decision-making.

Experience of PAs has been largely positive for both developers and local authorities; for example of the 23 PAs agreed with Aberdeen City Council since 2009, 19 of these applications met their specified target dates – a success rate of 83%. With the increase in planning fees being linked to improved performance this is a positive example.

PAs are now expected to become the norm prior to submission of applications for major developments, although their use may not be appropriate in all circumstances. PAs are also promoted where applications for Local Developments are expected to be complex or contentious.

While the agreement of a PA is no guarantee that a development will be approved, it may be useful in persuading an authority not to rush towards refusal. A non-determination appeal cannot be lodged until the expiry of the PA timescale, regardless of the statutory timescales.

Experience in the drafting and agreement of PAs shows that pre-application engagement with stakeholders and consultees is crucial to identify and resolve potential issues early; similarly, agreeing dates for regular review meetings assists in keeping the lines of communication open.

PAs are intended as transparent project management tools, rather than complex agreements, however buy-in is required from agencies and stakeholders to ensure all parties are aware of their responsibilities. Not all stakeholders need be signatories to an agreement, indeed this can add delay. It remains the responsibility of the Council as a whole to manage the necessary consultation processes, therefore a sound understanding of requirements and timescales by all parties is crucial to an application's success.

In essence however, anything which opens the lines of communication, simplifies the planning process and promotes co-operative working is to be welcomed.

Material Considerations

As reported in Ryden's October 2012 Review, the Scottish Government is undertaking a review of Scottish Planning Policy (SPP) in an effort to update the content and bring it in line with the 2006 Act and the economic realities following the 2009 crash. A draft document will be published after the Easter Parliamentary recess and consultation will commence.

One area in which SPP could help facilitate better outcomes for the planning system is strengthened guidance on material considerations, which the Planning Minister Derek MacKay MSP has hinted at in recent speeches. Section 25 of the 2006 Act states that: "proposals should be determined in accordance with the development plan unless material considerations indicate otherwise". While significant progress has been made to reduce the timescales taken to adopt up-to-date plans, the Scottish Government acknowledges that progress is not universal across the country, with only 60% of development plans being less than five years old.

In a recent talk, the Chief Planner John McNairney suggested that since debates over development plans tend to be dominated by the effectiveness of housing land supply, a possible solution could be the Reporter indicating more land would be needed in the future, and this would be a material consideration.

On this theme, April saw the publication of a critical report by the Directorate of Planning and Environmental Appeal (DPEA) into SESplan, the proposed Strategic Development Plan for South East Scotland. The controversial plan had been condemned by the development industry for its unambitious approach to development that could be characterised as 'planning to fail' and a lack of guidance on the location of development, particularly housing. The DPEA upheld these objections and has requested that the entire issue of housing is re-examined through a new document (Supplementary Guidance), an unprecedented step. In a key finding, it states that the housing market downturn is not an adequate reason for depressing the housing land requirement, nor is it commensurate with a vision for the South East to be a key driver of the Scottish economy.

Despite this verdict, City of Edinburgh Council is publishing its Proposed Local Development Plan (LDP) in May. The DPEA recently upheld Ryden's appeal in relation to a housing application at Edmonstone Estate, Edinburgh. This was on the basis that a local authority must ensure a five year housing land supply is available at all times and that it is not sufficient to rely on the allocation of sites in LDPs, which could be subject to delay. Despite a recognised urgent need for effective housing land, planning authorities can still be reluctant to enter into discussions with those seeking to promote non-allocated sites. A more co-operative spirit is needed to see development delivered in difficult economic times.

Office Property

Office sales and lettings across Scotland's three largest cities fell by 37% over the past six months (82,000 sq.m.) compared with the previous period (131,000 sq.m.). The main reason is a dip in Aberdeen following last year's market spike – although underlying activity remains strong – and a reliance in Edinburgh and Glasgow on smaller transactions. On a much more positive note, speculative office development has resumed in Glasgow.

In **Glasgow** city centre, three developers have decided that the timing in the market cycle is now opportune. Speculative development is underway at BAM Properties' 110 Queen Street (13,285 sq.m.) and at PRUPIM/Mountgrange's 1 West Regent Street (12,540 sq.m.), both with an additional element of ground floor retail. The third development, Abstract Securities' St Vincent Plaza (15,794 sq.m.), is also expected to commence on site shortly. Completions are likely to run through late 2014 to mid/late 2015.

This private sector commitment to provide top quality, environmentally efficient Grade A new-build space is timed to benefit from anticipated market recovery and forthcoming lease breaks and expiries, particularly among the city's larger indigenous occupiers. This new pipeline will also contribute significantly to Glasgow's ability to compete effectively against other UK regional cities to attract mobile investment as the market strengthens.

Take-up over the past six months has almost exclusively been limited to the smaller end of the market, where there is always a regular churn. The lack of larger deals has depressed Glasgow's overall take-up, which is down on the previous six month period at 18,713 sq.m. The 12 month take-up is 45,164 sq.m., which is below the ten year average but masks a healthy churn of smaller offices.

The most notable transactions within the larger Grade A sector were limited to Speirs & Jeffrey at George House, George Square (1,387 sq.m.) and CapQuest at Capella, York Street (1,013 sq.m.), along with Irwin Mitchell taking refurbished space at 150 St Vincent Street (959 sq.m.).

One good news story just after the data cut-off for this Review is KPMG's selection of Glasgow for a Tax Centre for Excellence creating 150 jobs (in 1,395 sq.m. at 123 St Vincent Street). This investment follows detailed assessment of competing UK regional cities and underlines Glasgow's offer of high quality people and skills allied to competitive cost and availability of appropriate property.

The take-up figures take no account yet of ScottishPower's commitment to a new 20,450 sq.m. headquarters at the west end of St Vincent Street, nor Glasgow 2014's continuing expansion of circa 1,000 sq.m. at Commonwealth House in the Merchant City.

Another major vote of confidence is the International Technology and Renewable Energy Zone (ITREZ) development at George Street, where Scottish Enterprise will complete development of a 4,800 sq.m. Industry Engagement Building (IEB) this summer alongside the University of Strathclyde's 22,000 sq.m. Technology and Innovation Centre (TIC). Both already report high levels of occupier interest. The IEB will provide offices for renewable energy, enabling technology and collaboration with the University.

Total availability of office space within Glasgow has remained relative static at 377,070 sq.m. city-wide or 241,384 sq.m. within the city centre. There are six new buildings capable of providing greater than 1,858 sq.m., four of which can provide over 3,716 sq.m. Only two of these, Cuprum and Capella, can provide floors greater than 929 sq.m. and only Cuprum can provide floors greater than 1,394 sq.m. There are five refurbished buildings that can provide greater than 1,858 sq.m., four of which can provide greater than 3,716 sq.m. Two of these, George House and 123 St Vincent Street, can provide floors greater than 1,394 sq.m. In addition, there is significant second hand space available, generally linked to short term residual leases.

Activity at business parks within Glasgow has also slowed. Notable deals are: Southside Housing Association purchased Strata House at Cardonald Business Park (1,486 sq.m.); Foster Care Association took Pavilion 3 Gateway Office Park (820 sq.m.) and Matrix Control Solutions expanded into another floor at Pavilion 6, Junction 24, Govan. The Hub at Pacific Quay has achieved seven small lettings of between 17 – 155 sq.m. over the period, with further deals in the pipeline. Clyde Gateway has now completed the Olympia Building and Red Tree Business Centre at Bridgeton is achieving some early lettings. There have also been further lettings at the Venture Building and Block 6 at West of Scotland Science Park and at The White Studios, Templeton on the Green.

Following a flurry in Autumn 2012 at Maxim Office Park, Trilogy Eurocentral, Strathclyde Business Park and Sonas Braehead, the market outside of Glasgow has been relatively quiet. The Maritime & Coastguard Agency has taken a suite at Building 1, Westpoint Business Park, Glasgow Airport (449 sq.m.), while Kigtek Solutions purchased Douglas House, Strathclyde Business Park (606 sq.m.) and Waverley House, Hamilton has secured some small suite lettings.

Top rents for existing office stock in Glasgow are within the range £269-£291 per sq.m., with the potential for one-off peaks above this on remaining Grade A space in the best buildings. Refurbished accommodation covers a wide range between £180-£269 per sq.m.

dependent on quality and location. Decent business park space can range from £120-£145 per sq.m. for non-cooled accommodation and £145-£193 per sq.m. for comfort cooled space. Flexible leases along with substantial incentives remain available.

There has been little change to overall sentiment in the **Edinburgh** office market over the last six months. As in Glasgow, there is a reliance on activity at the smaller end of the market.

Six month take-up to March 2013 is 32,389 sq.m., a 10% decrease on the previous figure. Take-up over the 12 month period from April 2012 is 67,916 sq.m., continuing a period of stability.

Within the last six months, 18,363 sq.m. of floorspace was transacted in Edinburgh city centre in 60 deals. Outside the city centre, 14,026 sq.m. was transacted in 33 deals. Grade A take-up over the period represented 11,205 sq.m., which equated to 22% of take-up within the city centre and 18% in West Edinburgh.

Six office transactions larger than 929 sq.m. have concluded: SAMH at Hayweight House (1,800 sq.m.); Standard Life Investments at 10 George Street (1,021 sq.m.); ACH Shoosmiths at Saltire Court, Castle Terrace (1,073 sq.m.); Cheque Centre at Ratho Park (1,755 sq.m.); Sainsbury's Bank at Haston House, South Gyle (1,239 sq.m.); and Edinburgh Napier University at 36 & 38 South Gyle Crescent (2,415 sq.m.).

Other notable transactions within the city centre include: COBAN at 9 Charlotte Square (557 sq.m.); FNZ and Alstom at Tanfield (totalling 1,401 sq.m.); Begbies Traynor at Edinburgh Quay 2 (303 sq.m.); Multrees Investor Services at 33 Castle Street (456 sq.m.); Aridhia at Hobart House (836 sq.m.); Cairn Housing Association at Citypoint (743 sq.m.); and Pagan Osborne at Clarendon House, George Street (836 sq.m.).

There have been a number of transactions totalling 10,100 sq.m. in West Edinburgh. These include: WSP at 7 Lochside View (789 sq.m.); Agilent at 5/5 Lochside Avenue (864 sq.m.); and Logica at Wallace House (942 sq.m.).

Meanwhile in Leith take-up over the last six months was 4,807 sq.m. with notable transactions to: Tangible at Commercial Quay (697 sq.m.); MediaCom at 6 Dock Place (828 sq.m.); Pulsant at Sugar Bond (427 sq.m.); NUS at The Stack, 1 Papermill Wynd (480 sq.m.); Edinburgh College at The Corn Exchange (743 sq.m.); and continued expansion of Concept Systems at Logie Mill Road, Beaverbank Business Park taking the company's total occupancy to around 1,600 sq.m.

Total office supply in Edinburgh at March 2013 was 255,354 sq.m., a decrease of 9%. City centre supply stands at 152,556 sq.m. with peripheral availability 102,798 sq.m., of which Grade A available office space represents a substantial 42%. Within Edinburgh Park and the Gyle in West Edinburgh, current availability equates to 59,000 sq.m.

A number of office transactions are currently in legal hands. As Grade A supply reduces, the market will come under pressure, particularly from major occupiers with anticipated lease events between 2013 – 2018. As supply tightens, this should translate into pre-letting activity at Grade A opportunities as occupiers seek to secure their future office space. Take-up at Atria, by Green Investment Bank and PwC which is reported to have accommodation under offer, plus good interest in the Charlotte Square Collection will further restrict larger options within the city centre.

A number of notable office requirements are also being discussed within West Edinburgh. It is understood that Sainsbury's Bank is proposing to take the majority of the Aegon office premises at Edinburgh Park; if confirmed this would be one of the most significant lettings in West Edinburgh for some time. STMicroelectronics and JLT are also rumoured to be shortlisting options at Edinburgh Park. Completion of the tram route will further boost connectivity for the West Edinburgh office market.

As reported in previous Reviews, some of Edinburgh's office occupiers are deciding not to relocate but are preferring to agree lease extensions to satisfy their occupational requirement and avoid incurring relocation costs.

There are no new developments added to the Edinburgh office pipeline. Atria is now complete (12,981 sq.m. remaining) in The Exchange, and both Ediston Properties development at 145 Morrison Street (2,450 sq.m.) and Fordell Estates development at The Charlotte Square Collection (4,080 sq.m.), are to complete over the next few months.

A number of refurbishments have now also completed, including Orchard Brae House (Delancey providing 6,038 sq.m.) and Apex 123, Haymarket Terrace (Catalyst Capital providing 1,672 sq.m.).

There are a number of other potential city centre refurbishments which have yet to be undertaken and at present these appear to be dependent on pre-letting.

The most significant site activity is at The Haymarket where Tiger Developments has announced that Interserve will become a project partner in providing office, hotel, retail and serviced apartments. The five-phase Haymarket contains more than half of Edinburgh city centre's new-build office development pipeline. Meanwhile, in Waverley Valley, Artisan Real Estate Group is also making progress at the revised Caltongate development where an initial phase of residential and hotel accommodation is proposed.

Prime office rents in central Edinburgh remain around £290 per sq.m., however Atria is quoting peak rents of £322 per sq.m. There continues to be downward pressure on rents and incentives remain around 36-months rent free for a 10-year lease. Inevitably as prime office stock in central Edinburgh dwindles and new development remains very limited there will be a gradual shift in the market balance and these occupier incentives will diminish.

Prime West Edinburgh rents remain around £193 per sq.m. for good quality space within Edinburgh Park. Other locations around South Gyle and in Leith achieve £130 per sq.m., falling to £75 per sq.m. in peripheral areas around Leith.

Economic activity has remained strong within **Aberdeen** over the last six months, supported by a steady oil price of above $100 per barrel. This and increased fiscal stability due to recent announcements from the Chancellor has encouraged capital investment to maximise oil and gas recovery from the UK continental shelf. This, in turn, has led to increased economic activity and strong demand for offices.

Office take-up for the six month period has however reduced significantly by 55% to 30,785 sq.m. over 64 transactions. This is still a relatively strong performance and contributes to a record 12 month take-up of more than 100,000 sq.m. (the chart on page 7 uses annual data and shows this rise but not the recent dip). More than 25,000 sq.m. of office accommodation currently under offer is not yet included in take-up figures.

Supply has increased by 10% to 49,950 sq.m., but unfortunately none of this is Grade A stock and again a large proportion is under offer. The increase in supply is largely properties released by Apache and Nexen due to their impending relocations to new premises at Prime Four, Kingswells.

Larger office deals in Scotland over the past six months include:

Address	Size	Occupier
Strata House, Cardonald Business Park, Glasgow	1,486 sq.m.	Southside Housing Association
George House, George Square, Glasgow	1,387 sq.m.	Speirs & Jeffrey
Capella, York Street, Glasgow	1,013 sq.m.	CapQuest
150 St Vincent Street, Glasgow	959 sq.m.	Irwin Mitchell
Saltire Court, Castle Terrace, Edinburgh	1,073 sq.m.	ACH Shoosmiths
Hayweight House, Lauriston Street, Edinburgh	1,800 sq.m.	SAMH
Ratho Park, Edinburgh	1,755 sq.m.	Cheque Centre
Haston House, South Gyle, Edinburgh	1,239 sq.m.	Sainsbury's Bank
Pavilion 3, Prospect Park, Westhill, Aberdeen	1,750 sq.m.	Teekay Petrojarl
Pavilion 3, Westpoint Business Park, Westhill, Aberdeen	1,150 sq.m.	AMEC
Seafield House, Hill of Rubislaw, Aberdeen	1,600 sq.m.	Chevron
Alba Gate, Stoneywood, Aberdeen	2,600 sq.m.	Helix ESG
Innovation House, 17 Luna Place, Dundee	671 sq.m.	SWIIS Foster Care Ltd

There is still a severe lack of offices available within the West End of Aberdeen, however two speculative projects are now on site. JPR Services Ltd is currently developing 650 sq.m. at 70 Queen's Road, for completion in June 2013, and Carlton Rock is on site at 20 Queen's Road developing approximately 800 sq.m. due for completion in Q3 2013. Prime office rents in Aberdeen city centre remain at £339 per sq.m.

Within the city centre no significant progress has been made on any of the development sites, however, it is rumoured that a deal is close at Triple Kirks, which will potentially see the 6,750 sq.m. development being built speculatively.

To the west of the city, demand continues to thrive and Knight Property Group's Prospect Park is now fully let. The speculatively-built Pavilion 3 (1,750 sq.m.) was let prior to practical completion to Teekay Petrojarl, and Pavilion 4 (2,200 sq.m.) has been let to Proserve as works commence on-site. Infrastructure works are now under way for Phase 3 at Arnhall Business Park and Knight Property Group has purchased a 2.8 hectare site earmarked for further speculative office development.

Prime Four at Kingswells has continued to prove popular by securing another letting following three major announcements last year. The new letting is to Premier Oil for a 5,850 sq.m. building, with works due to commence shortly. De Vere Group has also secured a site for a village urban resort to comprise a 150-bedroom four star hotel with associated conferencing and leisure facilities. In addition, a smaller building of 1,400 sq.m. is under offer to an undisclosed occupier.

To the south of Aberdeen, Phase 1 of City View on Wellington Road is due for completion in May and comprises 3,100 sq.m. across two buildings. The larger of these

(1,800 sq.m.) is under offer. At Balmoral Business Park a planning application has been submitted for a 3,700 sq.m. building where the developer plans to speculatively build in the second half of the year. At Aberdeen Gateway, Stockland Muir now has a 1,850 sq.m. office under offer to an undisclosed occupier with works due to commence Q2/Q3 2013.

To the north of Aberdeen, Miller Developments has sold 16 hectares of D2 Business Park to a joint venture between Abstract Securities and Aker ASA, to accommodate an office park anchored by a pre-let to Aker Solutions believed to be in excess of 27,870 sq.m. The latest deal to be achieved at nearby ABZ is to a serviced office provider and will comprise a stand-alone building of 1,850 sq.m. On the other side of the Airport at Alba Gate, 2,600 sq.m. has been let to Helix ESG; the company is due to take occupancy in Q4 2013 after the current tenant, Apache, moves to Prime Four, Kingswells.

The Aberdeen office market remains extremely buoyant and although the take-up figures have dropped significantly, this is a dip caused by the spectacular performance in the previous six months, and does not yet capture the high number of properties currently under offer.

One of the largest transactions in the **Dundee** office market is the letting of Innovation House, 17 Luna Place (671 sq.m.) to SWIIS Foster Care Ltd on a new 10-year lease. Generally however, there continues to be a lack of larger occupier requirements and the city's office sector is very reliant on smaller transactions.

Demand for flexible office space in Dundee continues to grow, particularly for modern suites. The newly-refurbished serviced offices within Dundee One, River Court, have secured seven new tenants in recent months including MacRoberts (46 sq.m.), SeaRoc Group (99 sq.m.) and DC Consulting (99 sq.m.). Likewise, Marketgait Business Centre continues to prove popular with 10 lettings during the past year.

Work has started on the new £1.7 million District 10 development at Seabraes which will provide flexible office "pods" constructed from recycled shipping containers.

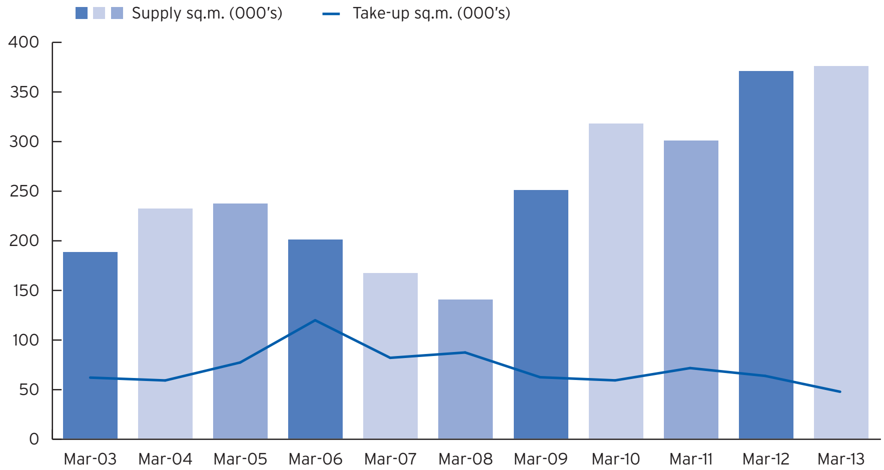
Other transactions of note include Unit 6A City Quay to Hays Ltd (161 sq.m.), Unit 12 City Quay to My House Group (190 sq.m.) and the 10th floor of City House, Overgate to Dundee College (315 sq.m.).

Recent office sales suggest growing demand for ownership opportunities in Dundee. At City Quay, Unit 5 (91 sq.m.) has been sold to Aim Design, Unit 16A (214 sq.m.) to 4J Studio's, and Unit 24 (436 sq.m.) to City Quay Dental Clinic.

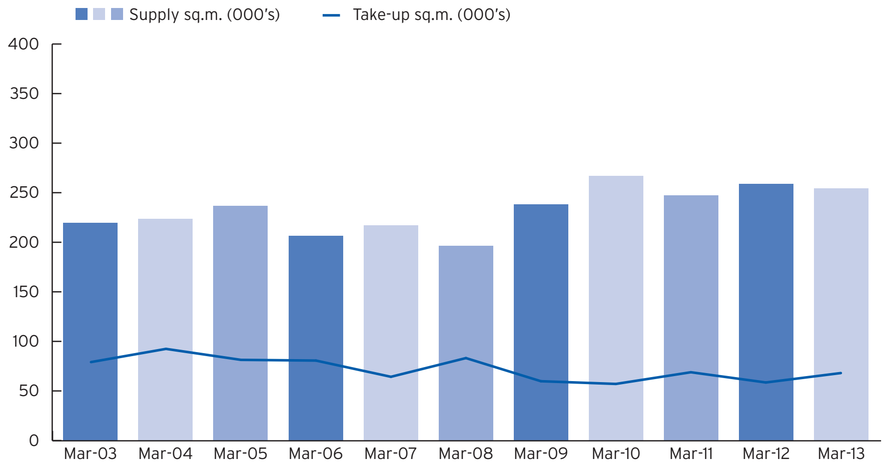
Activity within the **Inverness** office market remains subdued and is being driven by lease events and companies seeking to consolidate to reduce costs. Within the city centre, Metropolitan House on the High Street continues to prove popular with recent lettings of two suites on the third floor; Suite A1 to OBM Ltd (98 sq.m.) and Suite B1 to Infinergy (32 sq.m.).

Outwith the city centre at Willow House, Stoneyfield Business Park, University of Aberdeen has taken an assignation of the existing lease from the Scottish Children's Reporter Administration. The suite extends to 120 sq.m. and the lease expires in December 2013.

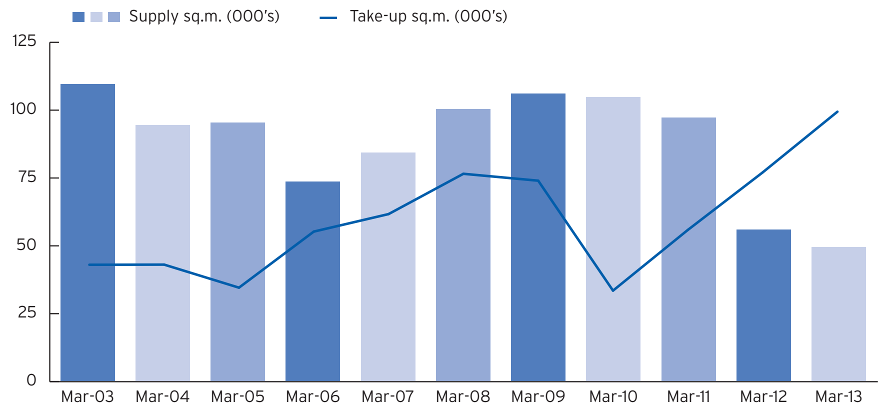
Office Supply and Take-up – Glasgow



Office Supply and Take-up – Edinburgh



Office Supply and Take-up – Aberdeen



Source: Ryden

Industrial Property

The industrial property market is improving in the West of Scotland, patchy in the East and strong in Aberdeen.

Supply of industrial property in West Central Scotland is becoming an issue and there is a shortage of modern, well-configured options, particularly within the **Glasgow** city boundary and its immediate periphery.

Even the city market can be patchy however; Govan for example remains stubbornly quiet for no discernible reason, despite having modern stock and easy access to the M8 and city centre, although take-up here is expected to improve. Meanwhile, South Street/Whiteinch across the River Clyde has experienced a distinct improvement in its fortunes.

Prime estates are experiencing high levels of occupancy and in some instances are fully let. For example CEG's holding at Thornliebank is fully let, Stockbourne's Annick Industrial Estate is approaching full capacity and MEPC's Hillington Park continues to have very high occupancy. To the East, Glasgow Business Park has secured further lettings and the Trade Park is 85% full with two 464 sq.m. units left following lettings to Hire Station (558 sq.m. at £73 per sq.m.) and Glasgow MOT Station Limited (279 sq.m. at £75 per sq.m.). However, the development market is showing relatively little sign of reaction particularly in the production of smaller units within the Glasgow boundary. Funding for development remains a challenge.

There is also an increased appetite for heritable interests. A unit at 50 Marlow Street, Glasgow was placed under offer after two weeks of marketing and attracted strong interest from occupiers and investors. A highly-specified unit at Fifty Pitches Road (1,340 sq.m.) went to closing date and sold for £810,000 after a number of bids were submitted.

Even ageing specialist properties are attracting interest and the House of Sher building on Wallace Street, Tradeston went to closing date within a month of marketing and is currently under offer.

The market has improved to the West of Glasgow. Transactions include **Linwood** Point (7,665 sq.m.) being sold on a confidential basis following a sharp rise in both leasehold and heritable occupational interests.

Inchinnan Business Park has a low vacancy rate and has matured into an attractive centre for high-technology and engineering businesses. Large occupiers such as Rolls Royce, Life Sciences, Wartsila and Vascutek act as a draw for suppliers and smaller businesses and the close proximity to the airport is a bonus. The most recent letting involves a unit at Maritime Court (418 sq.m.) which has been taken by Volker Vessels at £64.50 per sq.m.; the landlord had a choice of occupiers with three serious interests competing for the space. In addition, 1,858 sq.m. has been taken by Professional Beauty Systems. Renfrew's Westway has continued to attract good levels of interest, particularly from engineering businesses including a new letting to Clyde Corrosion Limited (3,716 sq.m.) at £21.50 per sq.m.

Other outlying areas are beginning to show improvement. In **Cumbernauld** and **East Kilbride** however, the sheer volume of industrial floorspace within these former New Towns has suppressed rental levels and created a more tenant-friendly market with short, flexible leases and enhanced incentives remaining common. Within Cumbernauld, larger industrial product is securing interest once again and a number of buildings are under offer. However, transactions are generally on shorter term leases and at a discount to rental levels pre-2008, while capital values have also fallen. The **Ayrshire** and **Inverclyde** markets remain challenging with few larger transactions and activity generally confined to a churn of properties smaller than 929 sq.m.

In the medium to larger industrial property market there is a steady flow of requirements, but some are contract-driven and few will convert to actual take-up; whereas at the smaller end of the market requirements are generally driven by occupational need. There remains a degree of window shopping where occupiers with approaching lease events pursue alternative options with little intention of moving. In some locations and particularly for product of less than 1,858 sq.m., landlords may soon be in a position to call their tenant's bluff. Fewer tenancies will be allowed to continue on tacit relocation.

One exception to the quiet development market is Clyde Gateway East, a joint venture between MEPC, SCOT Sheridan and Clyde Gateway URC. This popular new business location is the only significant new-build scheme within the Glasgow city boundary. The first phase of three buildings saw the largest unit (2,062 sq.m.) taken as a pre-let by Glacier Energy Services at £66 per sq.m. and the smallest unit (1,495 sq.m.) purchased shortly thereafter by PF Cusack at £775 per sq.m. A second 6,990 sq.m. phase is currently at planning application stage and is attracting pre-let interest.

Elsewhere, industrial space will be created through the conversion and refurbishment of existing stock. An example is Zephyr Developments' alteration of a former engineering property at Montrose Avenue, Hillington where the developer is splitting the space into 18 smaller units for lease or sale. Seven deals are in legal hands and the development is scheduled to complete at the beginning of May. Another example is Harris Finance's purchase of 870 South Street (1,440 sq.m.); the unit was in a dilapidated state and following extensive refurbishment is offered at £48 per sq.m.

In North Lanarkshire the provision of new industrial product is being driven by Muse Developments at **Eurocentral** and by Fusion Assets with joint venture partners. Eurocentral's most recent deal is the letting of Apex (6,689 sq.m.) to Stapleton's Tyre Services Limited at £63 per sq.m. Positive interest in the remaining space is prompting consideration of a further phase of development on Plot I. Fusion Assets is pursuing multiple sites with the aim of providing small to medium sized product: Dundyvan Enterprise Park is on site and is a joint venture with CBC and will provide 4,050 sq.m; the project is the first in Scotland to have secured Spruce support (a Scottish Government/ European Investment Bank fund managed by Amber Infrastructure) and a pre-sale was agreed. Further development is planned by Fusion Assets at Eurocentral, Dunalastair, Cumbernauld, Drumpellier Business Park and Strathclyde Business Park.

The industrial occupier market in **East Central Scotland** has continued to be patchy as reported in October last year. Vacancy rates have continued to rise as occupier demand has failed to return in consistent and sustained fashion, which in turn is putting downward pressure on rental levels and upward pressure on tenant incentives.

Within **Edinburgh**, letting activity has been seen at South Gyle Industrial Estate (for Aberdeen Asset Management) at £75 per sq.m. and also for City of Edinburgh Council on their Peffermill Industrial Estate at £78 per sq.m., albeit for smaller units of 102 sq.m.

In the west of the City, Hansteen secured two new lettings in the last six months at Queen Anne Drive, Newbridge to Soltens and Murray Anderson Homes (2,578 sq.m. each) at approx £30 per sq.m.

In Leith, one of few recent trade counter lettings took place at 27 Tenant Street

Larger industrial deals in Scotland over the past six months include:

Address	Size	Occupier
Apex building, Eurocentral	6,689 sq.m.	Stapleton's Tyre Services Limited
Maritime Court, Inchinnan Business Park, Inchinnan	1,858 sq.m.	Professional Beauty Systems
Glasgow Trade Park, Glasgow Business Park, Glasgow	558 sq.m.	Hire Station
123 Johnstone Avenue, Hillington Industrial Estate, Glasgow	2,322 sq.m.	J G Russell
Queen Anne Drive, Newbridge	2,578 sq.m.	Murray Anderson Homes
Pyramids Business Park, Bathgate	5,500 sq.m.	CLS
Simpson Road, East Mains Industrial Estate, Broxburn	1,357 sq.m.	Broxburn Bottlers
Units 1/2, Altens Trade Centre, Altens	1,943 sq.m. + yard	Franks International
Unit 3 & 4, Altens Trade Centre, Altens	1,633 sq.m. + yard	Franks International
Unit A, Craigshaw Road, Tullos	1,338 sq.m. + yard	Step Oil Tools Ltd
77 Wellington Street, Aberdeen	1,137 sq.m. + yard	G.O.T
Unit 6, 119 Clepington Road, Dundee	1,271 sq.m.	Highland Industrial Supplies Ltd
16 Carsegate Road North, Carse Industrial Estate, Inverness	1,429 sq.m.	Caledonian Logistics Ltd

where YESSS Electrical took around 450 sq.m. at £58 per sq.m.

In **East Lothian**, D & G Autocare continued their expansion programme by acquiring a unit from Sharkey at Newhailes Industrial Estate, Musselburgh (615 sq.m.) at £54 per sq.m.

South of the City, in **Midlothian**, the success of Bilston Glen Industrial Estate continued and a range of lettings have taken place in the last six months. Lettings have been secured to YESSS Electrical (464 sq.m.) within the J Smart & Co development at a rent of £70 per sq.m. Landlord, Sharkey, now has full occupation on Dryden Road with three other new tenants - Top Out Brewery, Talon Rope Access Edinburgh and Edinburgh Hot Tubs.

In **West Lothian**, some larger scale lettings have taken place. At Pyramids Business Park, CLS has taken 5,500 sq.m. at £29.60 per sq.m. In Broxburn, Eastern Holdings has let 1,357 sq.m. at Simpson Road, East Mains Industrial Estate to Broxburn Bottlers at £32 per sq.m. The area took a severe blow, however, when approx 1,700 jobs were lost due to the closure of the Hall's of Broxburn meat production facility. In response to this closure, the Scottish Government and West Lothian Council have announced the creation of Enterprise area status on three sites at East Mains Industrial Estate

and a further site at Eliburn, Livingston. Assistance will be available to occupiers locating to these sites and will include business rates relief, enhanced capital allowances and streamlined planning.

Smaller deals in West Lothian under 1,000 sq.m. include the lettings of Unit 3 Drummond Square to Spring Engineering and Unit 7 Rutherford Square, Brucefield Industry Park, Livingston, for the landlord F & C Reit, both at £48 per sq.m. In addition, Cheshire County Council PF has secured the letting of a unit at Eldon Square, Houstoun Industrial Estate, Livingston to YESSS Electrical at a rent of £48 per sq.m.

Landlords in **Fife** are benefiting from an increase in demand resulting from the construction of the new Forth Crossing, and from the energy sector. Hermes has leased two units on Belleknowes Industrial Estate, Inverkeithing to SGM and Web Rigging Services Ltd at £53 per sq.m. It is also reported that the former Co-op distribution facility in Dunfermline (24,154 sq.m. on 10 hectares) is now being considered by two potential owner-occupiers.

Development activity across the region also remains limited, although some positive signs are emerging. For example, at Newbridge, Edinburgh Roxhill Developments has purchased approx 4.85 hectares of serviced development land. No plans to develop speculatively have been announced, however, interest is already reported in potential pre-lets. In West Edinburgh, C & W Assets is set to continue their speculative development programme with a development of 2,440 sq.m. (Phase 1) on the former Pentad site which has been acquired on a ground lease from the City of Edinburgh Council.

As with the office sector, the buoyancy of the North Sea oil and gas industry has fuelled strong demand in **Aberdeen's** industrial market. Take-up in the last six months totals 24,304 sq.m., a 40% decrease on the previous six months. However this does not actually reflect the market, as a significant portion of the supply is presently under offer and will be reflected in the next Review.

The 49 transactions during the last six months is identical to the previous six months. Take-up is however higher in the smaller size ranges: 0 – 464 sq.m. (21%) and 465 – 929 sq.m. (41%) but lower in the larger size ranges: 930 – 1,858 sq.m. (-35%) and 1,859 sq.m.+ (-89%). This can be explained by a lack of good quality stock. Staff retention and corporate image are major issues for the vast majority of oil and gas occupiers, which is why the market for more dated premises in the city is struggling.

Supply of industrial space in Aberdeen over the last six months has risen by 4.7% from 78,400 sq.m. to 82,075 sq.m. A large number of substantial industrial premises came to the market in recent weeks as is demonstrated by the supply in the 1,859 sq.m. and above size range rising over the last six months by 27%. Supply has decreased in all other size ranges. A significant portion of this supply is under offer so the figures are distorted.

The relative shortage of supply within Aberdeen's established industrial estates has led to a number of occupiers considering locations on the periphery of Aberdeen, for example Asco and Petrofac have taken substantial premises in Kintore; HB Rentals has relocated from Dyce to Strichen; and both Advantec and the Elliot Group have committed to premises within Kirkwood Commercial Park in Inverurie.

Rental levels are rising for both secondary and new-build industrial stock. It is anticipated that new-build rents will rise to £97 per sq.m. for warehouse space and £194 per sq.m. for associated office space in the next few months.

Once again, the incentives being offered to ingoing tenants are minimal and a number of properties have gone under offer within a very short marketing period. Average lease lengths remain at 5 to 10 years for secondary stock and a minimum of 15 years for new build / speculatively-built industrial space.

A number of developers undertaking speculative industrial development across Aberdeen are experiencing strong occupier interest prior to completion. This includes ABZ Business Park in Dyce, Buccleuch/ Scottish Enterprise at Aberdeen Energy & Innovation Parks, Gilcomston Investments at Raiths Industrial Estate in Dyce and Dandara in Westhill. Substantial industrial design-and-build deals are under offer at present and announcements are expected shortly. The slow take-up experienced over the last six months is only temporary.

The availability of development land in Aberdeen has substantially increased; approximately 182 – 202 hectares of employment land is actively being marketed across the city. ABZ Developments, Balmoral Group and Chap (Silvertrees) have undertaken extensive site servicing so that the sites are ripe for development. Miller Developments and Generate Land / Mountgrange have launched D2 Business Park in Dyce and The Core at Bridge of Don respectively.

The **Dundee** industrial market is showing signs of increasing activity, however achievable rents have declined and landlords are prepared to offer greater incentives to attract new tenants.

Recent deals include the letting of Unit 3 Kings Cross Trade Park (464 sq.m.) to YESSS Electrical, Units 1A & 1B Dunsinane Park (929 sq.m.) to Hancocks Cash & Carry, Unit 6, 119 Clepington Road (1,271 sq.m.) to Highland Industrial Supplies Ltd, 14 Nobel Road (771 sq.m.) to DD2 (Catering) Ltd, and 42 Perrrie Street (412 sq.m.) to Aspect Contracts Ltd.

A warehouse and office at Fowler Road, West Pitkerro (3,024 sq.m.) has been sold to Mayfair Capital Investment Management while Block 24 Dunsinane Industrial Estate (3,692 sq.m.) and the former McTavish Ramsay premises at Fowler Road, West Pitkerro (3,180 sq.m.) have been sold to owner-occupiers.

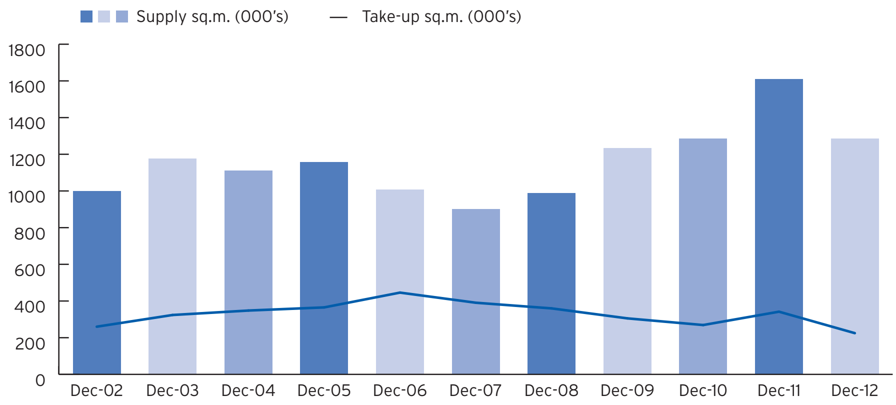
The largest transaction in Dundee was the sale of the former Patak's factory at Pearce Avenue, West Pitkerro Industrial Estate (3,490 sq.m.) to Unibev, who will occupy part and refurbish and sub-divide the remainder to provide smaller industrial accommodation.

The industrial market in **Inverness** remains active and continues to be driven by a mixture of distribution, trade counter and service businesses.

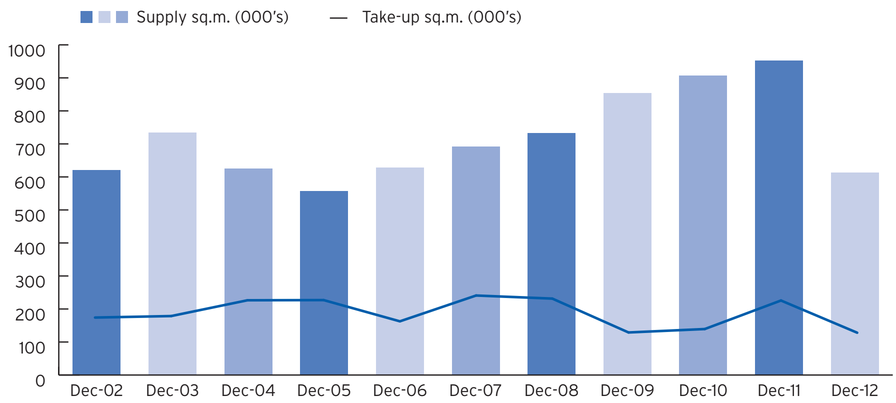
The largest recent transaction is the letting of Site 2, Bridgepoint, Longman Drive to BEAR Scotland to service the North West trunk roads contract. The site extends to 0.6 hectares and incorporates a warehouse (957 sq.m.) and detached office building (307 sq.m.). Unit A, 54-56 Harbour Road (361 sq.m.) has been let to Autoglass on a new 10-year lease at £88 per sq.m. This is understood to be the highest industrial rent achieved in recent times on the Longman Industrial Estate. ARK Estates has recently let a distribution warehouse at 16 Carsegate Road North, Carse Industrial Estate (1,429 sq.m. on a 0.4 hectare site) to Caledonian Logistics.

Outwith Inverness, Diageo has announced plans for a new £50 million malt whisky distillery at Teaninich Distillery, Alness in Easter Ross. At Invergordon, Cromarty Firth Port Authority is progressing a significant expansion of the port facilities to accommodate increased workload from the oil and gas and renewable energy sectors. There has also been increased activity at the former fabrication yard at Nigg as Global Energy Group continues to develop this facility to service the energy sector.

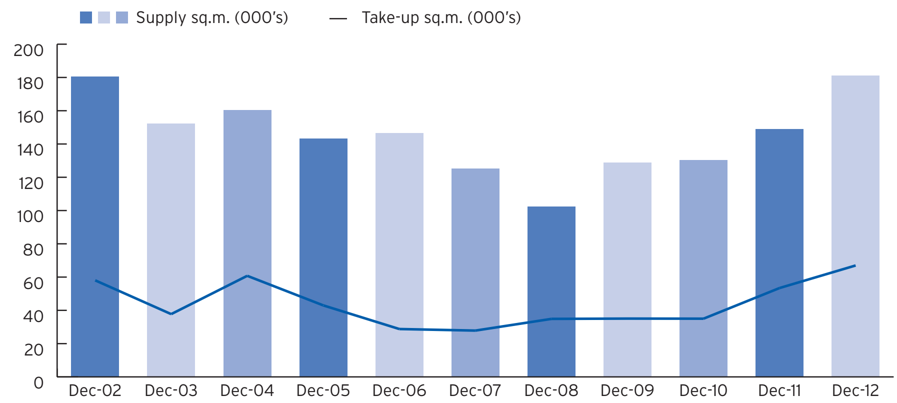
Industrial Supply and Take-up – Glasgow and Clyde Valley



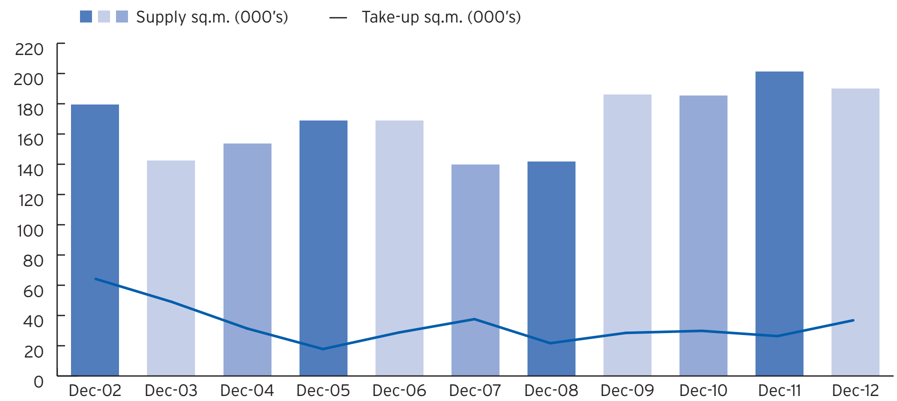
Industrial Supply and Take-up – South East Scotland



Industrial Supply and Take-up – Aberdeen City and Shire



Industrial Supply and Take-up – Tayside



Source: CoStar

Retail Property

According to the Scottish Retail Consortium/KPMG, retail sales, despite fragile trading conditions, increased by 1.8% over the 12 months to March 2013. Like-for-like sales also increased by 0.9%. However, growth in food sales of 5.2% masks a -1.9% decline in non-food sales.

The start of 2013 witnessed the demise of major retailers Comet, Blockbuster and Jessops. These retailers were followed by Dreams who have attracted the interest of Sun Capital Partners in saving the majority of stores, while closing a number of unsuccessful branches, and HMV which has been sold to Hilco, saving 141 stores.

The most active retail sub-sector is the convenience store market as the big four food retailers jostle for position. There are around 49,000 convenience stores in the UK, but branded grocery chains account for little more than 10%. This has not been lost on Tesco, Co-op, or Sainsbury's and has recently captured the imagination of Morrisons for the 'M Store' concept which seeks 300 outlets to complement their supermarkets, including acquiring 49 Blockbuster stores and seven former Jessops units.

At the opposite end of the convenience store sector it is clear that the race for space by major superstores is finally waning, as predicted in the April 2012 Review. Interest in such sites is now highly selective and retailers are now concentrating more on effective use of existing stores, multi-channel sales and small local outlets as mentioned above. There is still selective demand for large stores, but typically now 4,000 - 6,000 sq.m. rather than up to 10,000 sq.m.

Good news includes the recent purchase of Republic by Sports Direct, which hopes to secure the Republic brand and their 116 stores. Other expanding retailers include Ladbrokes seeking a further 100 stores within the next 12 months, Lavazza Espression expanding their coffee concept with a target of 400 shops in the UK by 2023, and RS McColl planning a further 150 convenience stores over the next two years.

The latest news from **Glasgow**, the UK's second most popular retail destination after London, is Land Securities' opening of the £70 million Buchanan Quarter in March 2013. The new development includes Forever 21 with a 5,575 sq.m. store, alongside Paperchase, Vans, Gap, Office, Evans Cycles, Sketchers and Watches of Switzerland. Land Securities is also expected to announce its extension to the 60,000 sq.m. Buchanan Galleries.

The Buchanan Quarter opening coincided with the news that Ivanhoe Cambridge, owner of the St Enoch Shopping Centre, has placed the centre on the market with a price thought to be in the order of £180 million. Ivanhoe Cambridge bought the Centre in February 2005 and has heavily invested in extension and refurbishment over the period.

Capital Shopping Centres has unveiled plans to redevelop its **Braehead** Shopping Centre on the outskirts of Glasgow. It is likely to be extended by a further 40,880 sq.m. at a cost of £200 million and include a new ice skating arena, sports facilities and a 200-bedroom hotel.

The Antonine Shopping Centre in **Cumbernauld** has secured further lettings to Carphone Warehouse, Card Factory, St Enoch News and Costa Coffee who has secured their second outlet in the centre.

A major redevelopment by the Universities Superannuation Scheme (USS) of the St John's Shopping Centre in **Perth** is underway. Two new flagship stores for H&M (1,579 sq.m.) and River Island (929 sq.m.) will be created along with three refurbished retail units.

St Andrews has seen a new letting at 133 Market Street (367 sq.m.) to Paperchase within the space formerly occupier by Clintons, while awaiting the outcome of a planning application for a Marks & Spencer Simply Food and Premier Inn development on Largo Road.

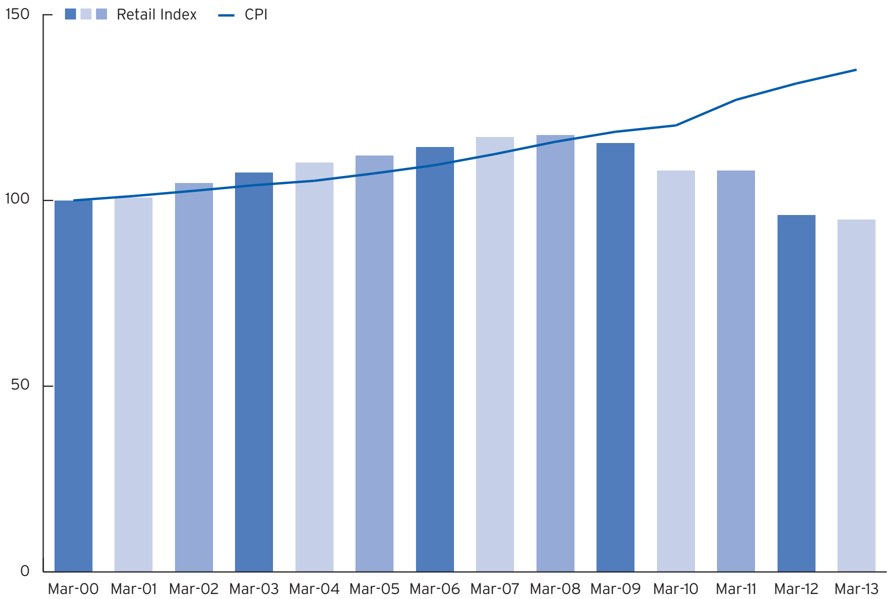
Stirling has welcomed the opening of Waitrose, TK Maxx and Maplin within the 5,574 sq.m. Burghmuir Retail Park, a development by Stirling Development Agency and Valad.

Aberdeen remains the dominant force in the North as the local economy forges ahead due to the ongoing prosperity within the oil and gas related industries. This has rallied occupier interest within the city centre and the now-established Union Square Shopping Centre has limited options available to prospective tenants. The latest addition to the centre is Cosmo Restaurants.

The retail landscape of **Edinburgh** is due to improve as the tram works draw to a close in the summer of 2013 and return the streets to the shoppers. This will be welcome news to the occupiers within the city centre, especially those on Princes Street and Shandwick Place who have suffered most. A new development at 11-15 Princes Street is well underway and is to include Motel One's second hotel in the city and a flagship store for Apple.

Princes Mall is in the process of relocating its food court to allow for Sainsbury's Local to be included within the centre. This will be an attractive addition to the mall and further enhance the Sainsbury's offer within the city by adding to their Rose Street store and the recently-opened store in the former Habitat site on Shandwick Place. Elsewhere on Princes Street, Clarks is opening in the former Barratts Shoes at number 81, and Kanoo Travel has moved into the former Lush premises at number 44.

Retail Index & CPI



Source: ONS/Ryden

Fat Face is relocating from Rose Street into the former American Express/Kanoo Travel unit on George Street.

East Kilbride town centre has shown that there is further activity to back-up its Topshop (1,000 sq.m.) letting and has followed up with major lettings to H&M (2,090 sq.m.), JD Sports (813 sq.m.) and BANK Fashion (604 sq.m.) together with further lettings to Costa Coffee, Clintons, Paddy Power, Thomson and BHF. The landlord has announced that 3,720 sq.m. of floorspace is currently under offer, comprising three large store lettings and a further six unit shop lettings.

Redevelopment work is underway at Stack Leisure Park in **Dundee** where TJ Morris, the operator of discount retailer Home Bargains, is to open a store (2,275 sq.m.). A change of use application has also been submitted for the adjoining unit to permit Class 1 Retail use suitable for the sale of food and negotiations are believed to be at an advanced stage with a national supermarket chain for approximately 1,720 sq.m. The new £24 million Asda superstore (4,830 sq.m.) on the site of the former NCR manufacturing unit at Wester Gourdie is expected to open summer 2013. In the city centre, The Wellgate Centre has seen store openings by Leading Labels (632 sq.m.), BrightHouse (336 sq.m.), Pavers Shoes (474 sq.m.) and Bears and Buddies Workshop (94 sq.m.).

Secondary retail locations within **Inverness** continue to struggle. Well known retailers, including DE Shoes and Jessops, have recently gone into administration and their former units on Academy Street and the High Street are now on the market. Within the Eastgate Shopping Centre, Superdry has recently taken on the former Peacocks store (774 sq.m.) and Ladbrokes has taken new retail units on Church Street (83 sq.m.), Inglis Street (444 sq.m.) and Grant Street. Out-of-town the convenience food market remains active with the Co-op recently agreeing terms for two new-build convenience stores, one at Milton of Leys and one to service Wester Inshes. Dobbies has confirmed plans to open a new garden centre at Inshes Retail Park adjoining the existing Tesco store.

The retail development sector is moving in ever-decreasing circles as retailers focus on top prime locations. Scottish towns which attracted new shopping centres in previous market cycles are no longer on the "prime" list, and active development is firmly focused on selected locations, particularly Glasgow city centre and its halo of modern shopping destinations at Braehead, Silverburn and Glasgow Fort. Development beyond destination centres looks unlikey for the foreseeable future.

The Ryden retail rent index continues to experience latent downward pressure, although the only centre to record an actual fall since October 2012 is Inverness, to £80 per sq.ft. Zone A. This is the city's second rental fall in a row within the index.

The rental chart now clearly illustrates the weakening of the retail occupational market since the 2008 crash, particularly when placed in real terms against consumer price inflation.

Investment Market

Transactional activity within the Scottish property investment market over the past six months has continued to be patchy. The focus is upon particular sub-sectors, for example pre-let development fundings, office and industrial transactions in Aberdeen and distressed secondary asset sales.

With income of 6.4% countered by negative capital and rental value growth, the total return from Scottish property in 2012 was 0% which compares less than favourably with UK All Property performance at 2.7% (IPD). The Scottish office and retail sectors have underperformed the UK average, however Scottish industrials, with a total return of 3.3%, outperformed UK industrials' 2.9%. The out-performance in this sector could be due in part to the fact that industrial properties in Scotland still enjoy the benefit of full vacant rates relief.

Once again the most notable underperformance is in the office sector with a total return of -0.6%, which compares to the UK at 4.1%. Performance would undoubtedly be weaker and the disparity greater had it not been for the out-performance of the Aberdeen office sector.

There are signs in the early part of 2013 that investor sentiment for the Edinburgh and Glasgow office sectors is improving. Steady (if unspectacular) take-up allied to diminishing supply and limited development is combining to persuade investors to consider both let and speculative opportunities. This may be the start of a slow recovery.

With demand for secondary assets limited, banks have continued to pursue a strategy of de-leveraging by way of loan portfolio sales. This process is introducing a number of new participants into the Scottish property market. In certain instances it provides an opportunity to rebase values.

Office property investment deals include:

Address	Property	Purchaser
100 Bothwell Street, Glasgow	9,506 sq.m. let to Student Loans Company on FRI terms expiring 2023 with tenant break option 2018	Splendor Ltd for £16.79 million (9.5%)
Mercantile Chambers, 53 Bothwell Street, Glasgow	6,652 sq.m. multi-let office and retail building. Tenants include Sainsbury's, Pret A Manger and Secretary of State	Henderson Global Investors for £5.25 million (c. 10.5%)
Portland House, Renfield Street, Glasgow	3,421 sq.m. multi-let office and retail building. Tenants include Tesco and QA	Private Investor for £2.551 million (12.3%)
Kintail House, Hamilton Business Park, Hamilton	3,837 sq.m. let to Babcock on FRI terms with c.9.5 years unexpired with annual 1.5% pa rental increases	Henley Property Investments for £5.65 million (11.5%)
Waverleygate, Waterloo Place, Edinburgh	20,160 sq.m. multi-let office building. Tenants include Amazon, Creative Scotland, Microsoft and the National Health Service Scotland	PRUPIM for £46 million (7.3%)
The Eagle Building, Rose Street, Edinburgh	1,810 sq.m. multi-let office and retail building. Tenants include Bright Purple Resourcing, Nevisport and Greggs	Kames Capital for £4.75 million (9.08%)
New Telecom House, College Street, Aberdeen	1970's office building totalling 7,214 sq.m. let to BT	FORE Partnership for £9.25 million (9.25%)
North Esplanade West, Aberdeen	New 3,716 sq.m. HQ office building let to GDF SUEZ E&P UK Ltd	Tritax for £16.10 million (7.25%) on a forward funding basis
Pavilion 3, Westpoint Business Park, Westhill	1,161 sq.m. office let to AMEC	Private Investor for £3.60 million (7.45%)
56 Carden Place, Aberdeen	641 sq.m. office let Clydesdale Bank	Private Investor for £3.40 million (5.91%)

The availability of bank debt for new transactions continues to be constrained, particularly in the development sector.

Office

As the Aberdeen market continues to surge forward, there are finally welcome signs of life beginning to return to the Edinburgh and Glasgow city centre markets. It remains early days, however the sentiment that regional office centres outside of the M25 can also offer attractive opportunities for the informed investor is a positive step forward from the moribund recent market.

In Aberdeen the absence of immediately available speculative office supply continues to push activity toward pre-let developments, especially in the business park sector where sites are easier to secure. Additionally, investors are focusing on existing buildings with active lease management or refurbishment and re-letting angles.

In January Tritax concluded a £16.1 million purchase of Miller Cromdale's HQ office development for GDF SUEZ E&P UK Ltd at North Esplanade West, Aberdeen.

This was the first forward-funding to be completed in Aberdeen for several years. Construction has now commenced and completion of the Grade A building is scheduled for Q1 2014. The price reflects an approximate initial yield of 7.25%. Elsewhere, the sale of 56 Carden Place to a local investor was the city's first sale at a sub-6% yield since the 2008 property crash.

In the Edinburgh and Glasgow office markets there is a growing realisation that the cautious improvements in the occupational markets coupled with the scarcity of new-build Grade A stock will present growth opportunities. This has encouraged some selective buying in both cities. Prime office yields remain at c. 6.25% although the definition of what constitutes prime is tightly drawn.

In Edinburgh, PRUPIM acquired Waverleygate for £46 million, reflecting an initial yield of 7.3%. Other deals in lawyers' hands confirm the current preference for multi-let investments over single occupancies – unless the unexpired lease term or pricing provide adequate security.

In Glasgow this situation was confirmed by the sale of 100 Bothwell Street, where a six year term certain to a single (Government) occupier pushed the yield out to above 9% for a refurbished building occupying a prime location.

PRUPIM has been active in Glasgow with the speculative funding of the Mountgrange scheme on the former Odeon cinema site at 1 West Regent Street making them the trailblazer in this sector of the market.

According to IPD, Scottish offices provided negative Total Returns of -0.6% for the 12 months to December 2012, mainly due to negative capital growth of -6.9%. Analysing the comparison between Aberdeen and the other two cities in more detail highlights the contrast in their respective fortunes. For the three year period from 2009-2011, Aberdeen offices posted Total Returns of 10.1% pa, while Edinburgh and Glasgow's were 2.8% pa and 5.2% pa respectively.

In the business park market in the central belt there are tentative signs of activity, but still at capital values showing significant discounts to build cost and also to perceived owner-occupier sale values. The commencement of the higher vacant non-domestic rates liability is a significant burden on pricing of void or short term income in this sector.

Industrial

Investment activity within the Scottish industrial property market remains weak due to continued economic concerns and limited bank finance.

Once again the most active purchasers of industrial investment properties in the last six months have been institutions and high net worth private investors with substantial cash reserves to acquire stock with little or no bank debt. Encouragingly however, some acquisitions have completed with debt funding too.

Investor demand remains strongest for Aberdeen where the occupational market continues to outperform Glasgow and Edinburgh. The Aberdeen micro economy is still buoyant and investors are unlikely to suffer long void periods as a consequence. Speculative industrial development is not widespread but does exist. The strong fundamentals offered by the city make it an obvious target for many.

Industrial property investment deals include:

Address	Property	Purchaser
Kingston Bridge Trading Estate, Glasgow	11,352 sq.m. multi-let industrial/trade estate. Majority of income secured to national tenant covenants	Cornerstone for £8.745 million (8%)
London Road Trade Park, Glasgow	2,053 sq.m. modern multi-let trade park. Tenants include ICI Dulux, Howdens Joinery and Würth	Private Investor for £1.69 million (8.7%)
51 McNeil Drive, Eurocentral	4,845 sq.m. single let modern distribution unit let to FedEx UK on FRI terms expiring Dec 2022	F&C for £2.92 million (8.25%)
Newbridge One, Cliftonhall Road, Newbridge	3,918 sq.m. modern estate, with units let to Scottish Ministers, per the Scottish Ambulance Service Board and Diet Chef	CBRE Global Investors for £2.56 million (9.95%)
22 St Machar Road, Aberdeen	1,262 sq.m. refurbished industrial unit let to Euro Car Parts	Private Investor for £1.025 million (7.83%)
Greenrole Trading Estate, Kirkhill, Aberdeen	3,954 sq.m. multi-let industrial estate	New Park Commercial for £2.73 million (11.92%)
Cairn Facility, Howe Moss Avenue, Kirkhill, Aberdeen	4,042 sq.m. industrial and office facility	Private Investor for £4.45 million (8.1%)
Denmore Industrial Estate and Wellheads Industrial Estate, Aberdeen	Two multi-let industrial estates totalling 10,300 sq.m.	Threadneedle Investments for £9.83 million (8.95%)

The headline transaction in Aberdeen was Ashtenne's off-market sale of two multi-let 1980's terraced estates at Denmore and Wellheads industrial estates to Threadneedle Investments for £9.83 million, reflecting a net initial yield of 8.95%.

The most notable transaction in Glasgow was the multi-let sale of the Kingston Bridge Trading Estate, which was acquired by Cornerstone for £8.745 million, reflecting a net initial yield of 8%.

Sales in Edinburgh were at the lower end of the lot size spectrum. An example of this was CBRE Global Investors acquisition of the multi-let Newbridge One Industrial Park to the west of the city. The price of £2.56 million reflected a net initial yield of 9.95%.

There is evidence of yields softening over the past six months, even in Aberdeen. Demand for multi-let industrial estates is still strong, although those that don't appeal to funds are now changing hands at double digit yields. An analysis of the sales in the last six months confirms that yields for multi-let estates generally fall within a range from 8% to 12%.

There remains a healthy level of demand for single-let opportunities, let on long leases incorporating fixed uplifts, to companies with strong covenants. However, there has been a dearth of sales of this type of property in the last six months. Yields for prime single-let buildings let with long unexpired terms are generally 7%.

The IPD total annual return from Scottish Industrial Property for the year to December 2012 was measured at 3.3%, comprising income return of 7.4% and capital growth of -3.9%. An analysis of the three centres over the three year period from 2009-2011 confirms Aberdeen's strong performance where Total Returns of 12% were posted, while Edinburgh and Glasgow returned 7% and 6.5% respectively.

Retail

The ongoing challenges of the retail sector continue to influence the investment market, with another relatively quiet six months and few transactions of note.

Prime high street demand has largely held up in the main city centres, as evidenced by recent deals in Buchanan Street, Glasgow and Princes Street, Edinburgh. However, in smaller cities and towns pricing and saleability become increasingly volatile.

Retail property investment deals include:

Address	Property	Purchaser
132 Argyle Street & 2 Buchanan Street, Glasgow	1,223 sq.m. prime corner retail and office block. Basement, ground and first floors let to HSBC on FRI terms expiring June 2025. Three vacant upper floors of offices	Cordea Savills for £10.45 million (5.45%)
135-147 Ayr Road, Prestwick	1,670 sq.m. modern supermarket let to Co-op with c. 63 years unexpired on the head-lease. Sub-let to Aldi with c. 15 years until sub-lease expiry	CBRE Global Investors for £2.539 million (6.33%)
Unit 1, St Mungo's Retail Park, Cumbernauld	3,285 sq.m. retail warehouse let to B&M Retail Ltd on FRI terms expiring September 2020	Private Investor for £2.05 million (10.37%)
Westside Plaza Shopping Centre, Westerhailes, Edinburgh	17,650 sq.m. suburban centre anchored by Lidl, Odeon Cinema and Gala Bingo	LIM for £8.5 million (13%)

Demand for high street retail in Aberdeen has been subdued, with no significant transactions to report. With better prospects of rental growth available in other property sectors, private local investors in the city have been diverted elsewhere.

The ongoing risk of pre-pack administration and tenant failure is sufficient to deter investors from acquiring retail units with significant over-renting or in weak pitches, unless yields are heavily discounted, even in cases where the retailer might previously have been considered to provide a solid covenant.

The shopping centre sector is offering attractive income yields, particularly in the secondary area of the market, where yields over 10% have been achieved recently on suburban centres in Glasgow and Edinburgh. As in the office sector, this discounted pricing also reflects the additional vacant non-domestic rates exposure for the retail sector.

In the out-of-town retail sector, the potential to secure widened planning consents for bulky goods parks has prompted some cautious buying, particularly where core income sits alongside vacant units or a development opportunity.

IPD returns for Scottish retail were -0.5% for the 12 months to December 2012, the first negative annual return since the recession.

Market Prospects

The outlook for the commercial property investment market outwith certain sub-sectors is bearish, as fragile occupier demand undermines confidence and the absence of a robust lending market continues to limit activity and depress pricing in the secondary and tertiary sectors.

The definition of prime is likely to remain narrow, however weight of money allied to scarcity of prime stock may lead to a relaxation of criteria in due course. A perception that occupier demand is recovering may also lead to a wider scope of investment activity.

As banks continue to de-leverage apace by way of loan portfolio sales, debt buyers will become more influential, particularly within the secondary and tertiary sectors. In what appears to be a very competitive sector of the market, debt buyers may require patience to deliver their requisite returns.

The lack of investment in existing stock and limited speculative development should lead to an increase in pre-let activity. The absence of suitable prime stock and the associated cost of development finance will lead to an increase in institutional funding. Although built product may well trade at a premium, it is likely that yields on forward funding transactions will also reduce.

Further, selective speculative development may occur, but more likely in joint ventures with institutions as opposed to on more traditional profit erosion bases. Speculative development in the short to medium term is more likely to be promoted by cash-rich contractors.

For the foreseeable future Aberdeen will continue on its upward trajectory. It is interesting to note that the occupational demand from oil-related service companies is now feeding into the central belt where the availability of stock and labour offers opportunity to satisfy growth. Investors will however continue to be attracted to Aberdeen, particularly those seeking well-secured stock in a growth economy.

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