89TH SCOTTISH PROPERTY REVIEW 2024

Ryden

CONTENTS

SUMMARY AND OUTLOOK

FOLLOWING A CHALLENGING 2023 FOR THE PROPERTY MARKETS CHARACTERISED BY HIGHER COSTS, LOWER VALUES AND AN ECONOMY FLIRTING WITH RECESSION, INFLATION IS NOW TRACKING DOWNWARDS AND INTEREST RATES SHOULD FOLLOW.

This, allied to forecast recovery in economic growth over the next 2-3 years, should underpin a stable commercial property market with improved development and investment prospects.

The housing market has delivered reduced sales volumes but continuing house builder competition for the most attractive sites. A one-quarter fall in new housing starts (all sectors) is particularly unwelcome given unmet need and demand, and indeed a housing crisis in places. NPF4's increased ambitions and conflict with some LDPs are impacting market delivery, activity and confidence.

Developer appetite for PBSA is extremely strong, particularly in Edinburgh and Glasgow where market interest and values are encouraging repositioning of sites consented for other residential types to PBSA.

Large BTR schemes currently being delivered will provide evidence of occupational demand in Glasgow and Edinburgh. The forthcoming draft Housing Bill will hopefully provide the required certainty around rent control measures to further unlock the country's extensive BTR pipeline.

Office occupiers' revealed preferences are now clear: smaller but with better facilities, amenities, location and environmental performance. Take-up in Glasgow, Edinburgh and Aberdeen is down, but lease regears/ extensions are widespread as occupiers stabilise costs or contract in their existing space. Fitted-out space is very popular and more landlords are offering this ready-to-occupy option. Rents have increased again in Edinburgh and Glasgow and stabilised in Aberdeen. Office development activity is tacking to refurbishments as space is released and/or repositioned in a discerning market, alongside a reducing number of new-builds due to challenging viability.

Industrial property markets continue to perform strongly in terms of take-up, occupancy rates and rents. Active markets for larger units include not only logistics but also energy and manufacturing. The emerging development cycle was curtailed by higher costs, reduced values and difficulties in securing funding. This in turn is focusing market attention on refurbishment of older industrial buildings, with demonstrable success in the occupier markets at rents which are closing the gap to new-build. Those new developments which had already commenced are completing in early 2024 and the very early signals of the next cycle may (just about) be glimpsed in emerging plans.

Despite disappointing sales figures and further closures, the reshaping of the retail landscape is emerging as de-malling, department store redevelopment and diversification gathers pace and aligns with active occupier sectors. These include food and beverage, discount, convenience, fashion, jewellery, cosmetics, hotels & leisure, health & fitness and beauty. Aside from F&B, discount and convenience, the focus is on absolute prime locations and retail parks. Retail rents remain static apart from prime Edinburgh and Glasgow where there is competition among leading brands.

Along with development, investment activity suffered most from interest rises from February 2022 to August 2023. The toughest trading conditions since 2008 depressed transactional volumes as the gulf widened between buyers' and sellers' price expectations. Buyers included overseas equity and bottom-fishing propcos. Market fundamentals remain strongest in PBSA, where transactions and investor appetite continue; industrial where logistics and high yielding bargains are most popular; and the retail sector particularly warehouses, prime High Street, suburbs and shopping centres to reposition. Market activity during 2024 will further develop these sectoral themes, although initially a modest rise rather than full rebound is expected.

DR MARK ROBERTSON
RESEARCH PARTNER

ECONOMY

GROWTH

Scotland has been hard hit by rising inflation, tight monetary policy, and subdued economic performance. While inflation has now started to fall, it is at a gradual pace. In February the rate of inflation is 4% and the Bank of England expects it to fall to within the 2% target by the end of 2025.

Interest rates have increased to combat rising inflation and currently sit at 5.25%. This has weighed on economic growth and the outlook for Scotland and the UK remains uncertain, with downside risks.

During the third quarter of 2023 Scotland's economy grew by 0.4% avoiding a recession. Output grew in all sectors, with the services sector (0.2%), production sector (1.8%) and construction sector (0.1%). Compared with the same quarter of 2022 Scotland's GDP grew by 0.4%, while for the UK as a whole 0.6% growth was recorded.

A more recent, provisional monthly estimate for November 2023 suggests that output in that month fell by -0.1%. Output in the services sector – which accounts for around three quarters of the economy – grew by 0.4%. Output in production fell by 3.1%, with the largest contribution to this coming from the Electricity and Gas Supply industry with a fall of 10.1%.

EMPLOYMENT

The labour market remained resilient throughout 2023 with low unemployment and businesses increasing their workforce.

Scotland has an unemployment rate of 3.8% for the three months to November 2023, this rate is down slightly on the previous three months from 3.9% and is below the UK rate of 4.2%. Scotland's overall employment rate was up 0.1% over the quarter to 74.4% and sits below the UK figure of 75.8%.

There were notable job losses across the country in the financial services, manufacturing, retailing & leisure and construction. Job gains were recorded in areas of economic expansion including renewable energy and technology.

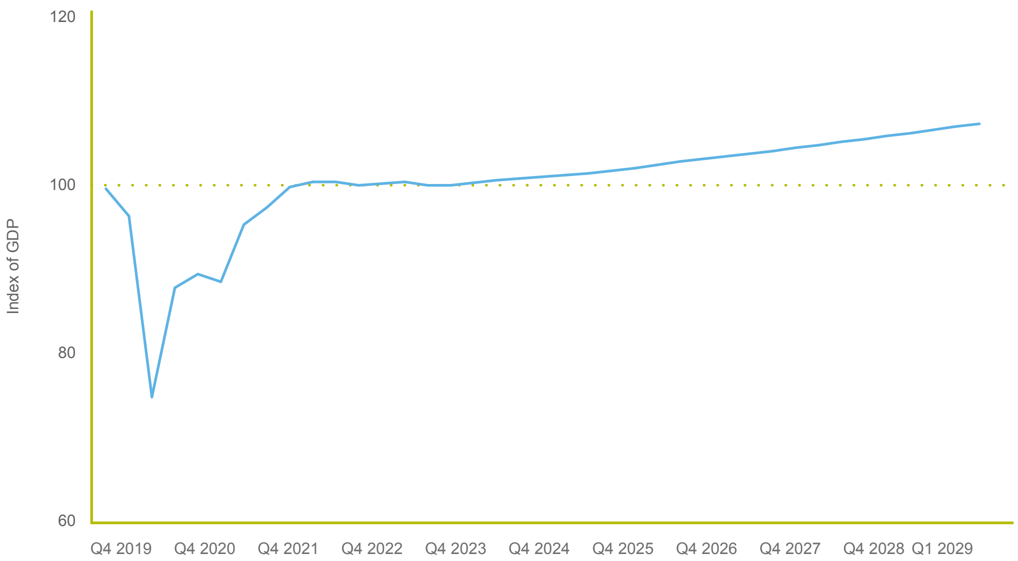
According to the Accountant in Bankruptcy, corporate insolvencies in Scotland rose by 7.4% during the third quarter of 2023 compared with the same quarter in 2022. During the first three quarters of 2023 a total of 867 corporate insolvencies were recorded, and these continue to rise post-pandemic. More positively, Scotland experienced a 12% surge in start-up businesses during 2023, the third-highest rise in the UK.

OUTLOOK

In terms of lead indicators, the RBS Purchasing Mangers' Index indicated a reduction in private sector activity in Scotland at 47.1 in November 2023 (a reading above 50 indicates net growth). Similarly in Q4 2024 the Scottish Chambers of Commerce Economic Indicator signalled low growth and flat investment. More recently and indeed more positively, Bank of Scotland's Business Barometer for January 2024 reports that business confidence in Scotland rose by 11 points during the month, and that 42% of firms in Scotland expect to increase levels of staff this year.

Fraser of Allander Institute economic forecasts have been revised downward to 0.2% growth in 2023, and held at 0.6% in 2024 and 1.1% in 2025. The Scottish Fiscal Commission is broadly in agreement, forecasting 0.2% for its 2023-24 period, followed by 0.8% for 2024-25 and 1.3% for 2025-26. This slow recovery in economic growth, allied to anticipated lower interest rates, should underpin a stable commercial property market with improved development and investment prospects.

ECONOMIC GROWTH AND FORECASTS



Source: Scottish Fiscal Commission

PLANNING

NATIONAL PLANNING FRAMEWORK NPF4

National Planning Framework 4 (NPF4) was adopted on 13th February 2023. It contains ambitious policies to tackle the global climate and nature crisis, with more stringent policies on brownfield development, biodiversity gain, liveability, accessibility and 20-minute neighbourhoods. Assessing applications against NPF4 often results in the need for additional submissions and extended timescales and expenditure, and resourcing implications for local authority planning departments, Resultant delays can impact development viability and ultimately, investor confidence in Scotland.

Where incompatibility exists between NPF4 and an adopted local development plan, the most recent document will prevail. However, LDPs adopted in conformity with NPF3 and strategic development plans around the same time as NPF4 have led to differing outcomes across Scotland.

The Aberdeenshire LDP, which was adopted on 23rd January 2023, is an example. If incompatibility exists, NPF4 policy is more recent and would prevail. However, the adjoining Aberdeen City Council's LDP was adopted on 19th June 2023 and would override NPF4 where any inconsistencies exist, even though it was written in conformity with the now superseded NPF3 and the former Strategic Development Plan.

Some planning authorities are completely discounting policies in their LDP that are incompatible with NPF4. Others assess the specific circumstances of each application and material considerations. There is no uniform approach and, as a result, different assessments of similar policy requirements are being experienced between different local authority areas. Although the Scottish Government issued an NPF4 Delivery Programme in September 2023, which considers collaboration, alignment and decision making, certainty may only be achieved when these issues are appealed to Scottish Ministers. This does not provide any sort of certainty to developers in the planning process as a whole.

One of NPF4's most significant challenges to date is on housing delivery and specifically Policy 16 – Quality Homes. In July 2023, the Scottish Ministers dismissed the called-in housing appeal at Mossend in West Lothian. While the shortfall in a 5-year effective land supply would previously have been a significant material consideration tilting the balance in favour of granting consent, that no longer applies. There will need to be site/area specific justification for permitting housing on unallocated land. A number of appeal cases had been sisted pending the Mossend appeal to the Court of Session.

The Court of Session has also recently ruled that a Reporter's decision to grant permission was entirely coherent West Lothian Council v Scottish Ministers 2023 CSIH 3. The case concerned a refusal by West Lothian Council for planning permission to housing on a greenfield by Ogilvie Homes who appealed to the Scottish Ministers. The Reporter granted planning permission which the Council appealed to the Inner House.

The planning system has not responded well to the housing crisis and has provided little relief to pent-up demand in most market areas.

The varied interpretation of Policy 3 – Biodiversity by different local authorities has presented further challenges, where it requires enhancement measures in proposed developments to achieve biodiversity gain. Currently, there is no nationwide methodology to apply this policy consistently. Although this is expected from the Scottish Government in due course, local authorities will continue relying on different metrics to apply the policy until a standardised methodology is published.

39.3

WEEKS

Major housing applications on average*

*Figures exclude major applications subject to processing agreements where timescales for decisions are agreed in advance.

LOCAL GOVERNMENT RESOURCE CONSTRAINTS

NPF4 is part of a wider ongoing review of the Scottish Planning System, which has largely centred around the Planning (Scotland) Act 2019. The Act is expected to place 49 new planning duties on local authorities, without a clear package of funding from the Scottish Government for resourcing and upskilling. These duties will continue to roll out as the review proceeds, despite evidence of a severe and growing resource problem within local authority planning departments. This also coincides with a noticeable pivot of the Scottish Planning System towards being more prescriptive and regulatory.

The Resourcing the Planning Service research series is prepared and published by RTPI Scotland. The 2023 issue highlights an ongoing decline in resources over a period of around 15 years, in terms of both budgets and staffing, due to squeezed public finances particularly at local government level. The Scottish Budget published in December 2023 suggests this will continue in the 2024-25 financial year, requiring local authorities to once again prioritise certain services over others to fulfil basic statutory obligations. Based on the trend highlighted by RTPI Scotland, planning will be low on the list of priorities as local budgets are set by administrations in extremely difficult financial circumstances.

Reductions in resourcing have greatly reduced service capabilities across the country and continue to do so, all while the review of the Scottish Planning System has placed a number of unfunded duties on local authorities. The simple outcome will likely be an increase in average decision time or pressure to refuse applications within target deadlines at a time when investors and developers require confidence and certainty in the planning system due to viability pressures caused by wider economic trends.

39.5
WEEKS
Major Development planning decisions on average

11.5
WEEKS
Average decision time for Local Development planning decisions

260
DECISIONS
Total number of Major Development decisions

> “THE PLANNING SYSTEM HAS NOT RESPONDED WELL TO THE HOUSING CRISIS AND HAS PROVIDED LITTLE RELIEF TO PENT-UP DEMAND IN MOST MARKET AREAS.”

RESIDENTIAL DEVELOPMENT

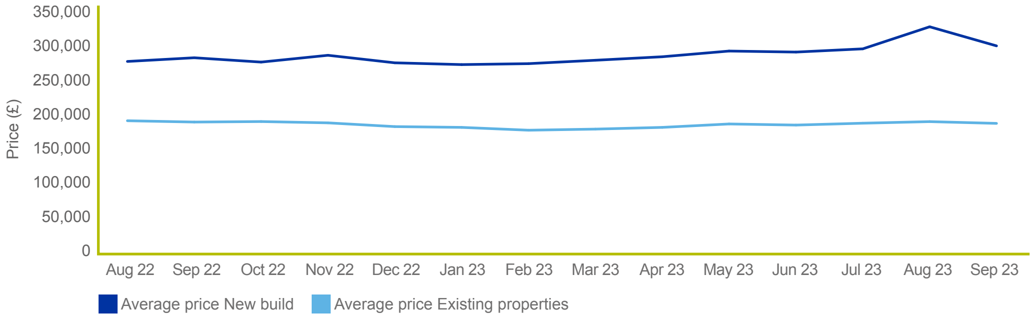
DEVELOPMENT

Many factors contributed to a significant deterioration in the residential development market during 2023. The cost of living crisis, including the five hikes in interest rates during the year from 3.50% to 5.25%, has had and continues to have a profound effect on mortgage availability and affordability. With historic fixed rate mortgage deals, which were at substantially lower rates than available now, continuing to expire the outlook for 2024 will continue to be challenging although new mortgage deals suggest a degree of stabilisation.

Average annual house price changes across Scotland show 18 out of 32 Local Authorities recorded increases (Edinburgh 3.4%, Glasgow 4.3%) with the highest increase being 15.2% in East Lothian. Across Scotland the average price of a property in 2023 (new build and existing) was £195,000 which was 2.5% higher than in the previous year. The average price for new build homes of £302,250 shows a higher increase of 11.6% (£31,400) but that may be skewed by a change to development mix as fewer flats are being constructed.

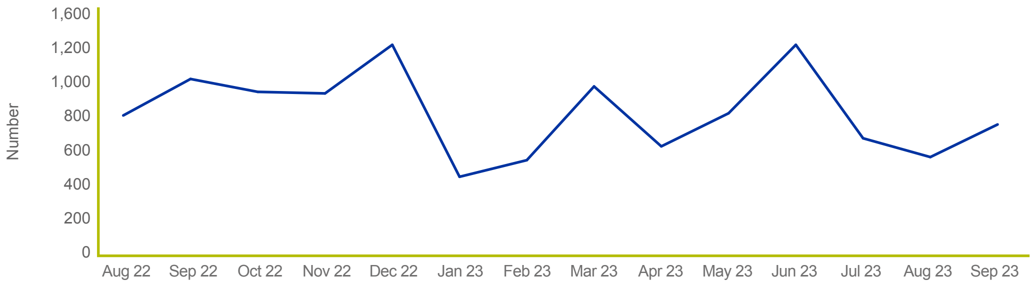
Diminishing affordability for purchasers combined with ever increasing build costs led to a 6% year-on-year fall in all sector completions and, of more concern, new homes (all sectors) started in the same period fell by 24% to 16,275 which is the lowest annual figure since 2014. Edinburgh and Glasgow saw decreases of 23% and 46% respectively in the number of new homes started. Significant increases in construction costs since mid-2021 have squeezed profit margins although a reducing rate of price increases over the last 9 months signals a slight improvement in market conditions. Sales volumes across Scotland in 2023 were at their lowest level in the last 5 years other than during the pandemic in 2020.

HOUSE PRICES



Source: HM Land Registry

SALES VOLUME NEW BUILD



Source: HM Land Registry

LAND MARKET

Despite these substantial economic headwinds, and probably as a result of the scarcity of consented land, there is competitive interest from house builders for traditional estate housing sites for between 75 and 200 units in strong market areas. For example, a current greenfield land sale in Fife with consent for 140 units received 8 offers and the value achieved is anticipated to be broadly in line with values across the previous 12 months. While house builders are being more selective in terms of location, those sites where there is proven demand continue to generate strong interest.

Greenfield land values for good sites in and around Scotland's major cities are probably at or just below levels achieved a year ago but may dip in 2024 as a result of increased costs caused by changes to the Building Regulations and the possibility of more punitive planning gain/S75 obligations required by local planning authorities when granting planning consents. Urban flatted development sites are particularly impacted as increased construction costs continue to challenge viability.

PBSA AND BTR

Within the ‘Living’ space sector – Purpose Built Student Accommodation (PBSA), Build to Rent (BTR), etc – it has been a mixed picture over the last 12 months.

Developer appetite for PBSA development opportunities, particularly within Edinburgh and Glasgow, has been extremely strong. Buoyed by very strong rental growth, continued high occupational demand and a funding market that has held up well in spite of wider economic pressures, sites that have come to market have attracted multiple bids and driven up land values.

In Edinburgh, figures as high as approximately £60,000 per PBSA bed site value are rumoured on ‘subject to planning’ deals.

The knock-on effect of the combination of rising values and strong developer demand is that a number of consented residential schemes which were intended for sale are being re-purposed for PBSA. Examples in Edinburgh include, Thistle Properties site at Arthur Street and Queensberry Properties’ New Waverley site, both of which recently secured planning consent for PBSA.
The strong demand has also led to more peripheral sites being promoted for PBSA.

Outwith Edinburgh and Glasgow, PBSA development activity is a mixed picture. Dundee currently has a number of consented schemes in the pipeline including Maven and Gylemuir committing to build out schemes totalling 508 beds. It is anticipated there will be strong occupational demand for these schemes which will lead to more activity in the city. Occupational levels have recovered well in Aberdeen but rental levels make new build development challenging. In St Andrews, the Scotsman Group is redeveloping the former Madras College. The first phase involves the conversion of the ‘B’ listed school building for 209 beds and further new build phases are planned.

The Build to Rent (BTR) sector in Scotland continues to lag behind the rest of the UK in terms of delivery, largely as a result of uncertainty around rent control measures being brought forward by the Scottish Government. In the last year, the only scheme to reach completion was Drum Property Group’s Minvera Square in Glasgow’s Finnieston area. The 114-unit scheme is now available at rents of £985 to £1,385 pcm for one bed apartments, £1,350 to £1,805 pcm for two beds and £1,735 to £1,935 pcm for three beds.

A numbers of large scale BTR schemes completing this year will provide a good indication of occupational demand in Glasgow and Edinburgh. These include Moda Living’s Holland Park in Glasgow, Central Quay by Platform_ in Glasgow, Vastint at Freer Street in Edinburgh, and Platform_ and Heimstaden Bostad’s Bonnington scheme in Edinburgh. In Leith, Goodstone Living has started on site with their Dockside scheme.

BTR DEVELOPMENT	DETAILS
HOLLAND PARK, PITT STREET, GLASGOW	433 UNIT DEVELOPMENT BY MODA LIVING. ANTICIPATED COMPLETION DATE EARLY 2024
CANDLERIGGS SQUARE, GLASGOW	CONSTRUCTION COMMENCED IN NOVEMBER 2021 ON 346 UNITS BY DRUM PROPERTY GROUP AND STAMFORD PROPERTY INVESTMENTS, COMPLETION ANTICIPATED DURING 2024
CENTRAL QUAY, GLASGOW	498 UNIT DEVELOPMENT BY PLATFORM_ IS DUE TO FOR COMPLETION EARLY 2024
GRANARY QUAY, GLASGOW	342 UNIT DEVELOPMENT AT GLASGOW HARBOUR BY DANDARA LIVING. COMPLETION EARLY 2024
THE MCEWAN, FOUNTAINBRIDGE, EDINBURGH	476 UNIT DEVELOPMENT BY MODA LIVING. PHASE 1 COMPLETED Q1 2022, COMPLETION ON PHASE 2 MID-2024
STEADS PLACE, LEITH, EDINBURGH	110 UNITS BY DRUM PROPERTY GROUP, FUNDED BY EDMOND DE ROTHSCHILD REAL ESTATE INVESTMENT MANAGEMENT. DUE FOR COMPLETION 2024
BONNINGTON ROAD LANE, EDINBURGH	DEVELOPMENT OF 453 UNITS BY PLATFORM_ AND FORWARD FUNDED BY HEIMSTADEN BOSTAND, IS UNDER CONSTRUCTION, FIRST PHASES TO COMPLETE DURING 2024
FREER STREET, EDINBURGH	VASTINT ON SITE AND DUE TO COMPLETE EARLY 2024
DOCKSIDE, EDINBURGH	338 UNITS BY GOODSTONE LIVING CURRENTLY ON SITE AND DUE TO COMPLETE IN 2025

OUTLOOK

House builder appetite for well located sites for family housing (for sale) is expected to remain strong. Despite the new building regulations being likely to increase development costs, the competition for a limited number of sites in strong market areas will help maintain land values. More peripheral locations are expected to see a drop in land values as a reduced number of sales and higher development costs impact on viability. Higher density apartment-led schemes will be focused on the prime locations.

Developer and investor appetite for PBSA schemes, particularly in Edinburgh and Glasgow, is unlikely to abate whilst the current demand and supply imbalance persists, in spite of planning challenges. Affordability is an ongoing concern and this may become increasingly so if international student numbers start to decline.

The completion of several BTR schemes in Edinburgh and Glasgow will provide a more complete picture of occupier demand whilst the developer and investment market awaits the contents of the Housing Bill, due to be announced in the Spring, with bated breath.

OFFICES GLASGOW

DEMAND

Glasgow city centre office take up for 2023 totalled 352,000 sq.ft. comprising 111 deals. This represents a 14% reduction on 2022, on a par with the Covid impacted 2020 and the lowest level since 2011. The 5-year average for city centre take up equates to 498,500 sq.ft. therefore the floorspace take-up is 29% below this.

On the face of it, it would be difficult to demonstrate positivity in a year where the take up has fallen back to its lowest level for over a decade and with ongoing economic concerns. There are however signs of positivity returning to the Glasgow office market combined with an increasing expectation for staff to be predominantly office-based, but there is still a lag in certain sectors.

A large factor affecting the overall take up was the majority of lease regears/extensions agreed through 2023, estimated at an additional 289,000 sq.ft., the highest for over 5 years, with many occupiers taking the opportunity to either reduce their footprint or seek capital investment from landlords into their space or wider building facilities in return for a longer term lease commitment. For an occupier contemplating a relocation, the increased cost of fitting out new premises combined with exit dilapidations is still a significant deterrent.

CITY CENTRE DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	SECTOR
LUCENT, 50 BOTHWELL STREET	27,831	PINSENT MASONS LLP	LEGAL
GEORGE HOUSE, 50 GEORGE SQUARE	20,526	TRANSPORT SCOTLAND	PUBLIC SECTOR
AURORA, 120 BOTHWELL STREET	19,375 11,571	CUBO WORK NEWS UK	SERVICED OFFICES TMT
55 DOUGLAS STREET	14,284	REACH PLC	TMT
ST VINCENT PLAZA, 319 ST VINCENT PLAZA	12,008	WE ARE LUXE	RETAIL

Approximately 20% of take up was concluded in Grade A space and 36% of the take up was in floor plates in excess of 10,000 sq.ft.

Three quarters of all lettings were undertaken in space sub 3,000 sq.ft., of which c 62% were in space either fitted out and furnished by a landlord or benefiting from an existing tenant fit out.

A new headline rental for the city centre has now been achieved in excess of £37.50 per sq.ft. and has been exceeded at Aurora, 120 Bothwell Street and Lucent, 50 Bothwell Street.

Improving the quality of space remains the key driver for the majority of occupiers seeking to relocate. The typical corporate or SME occupier seeks exceptional building facilities and amenities, the highest specification of office space, core city centre locations and excellent environmental performance and criteria. As demonstrated by recent letting activity over 2022 and 2023, they will pay the best city centre rents to secure such space.

Lease flexibility also remains key for many occupiers as they continue to grapple with growth expectations going forward. Catering for required lease flexibility is the growing Fitted Out market, demand for which remains healthy although predominantly in space sub-3,000 sq.ft. which as above is the dominant size band for market activity. As a result of this, an increasing number of landlords are looking to diversify their offer from solely a traditional leasing model to include an element of 'Ready to Occupy' space.

SUPPLY

The total vacancy for Glasgow city centre office space is in the order of 2 million sq.ft. with a vacancy rate of c.11%. In terms of committed new supply:

- Completion dates for the refurbishment of both Lucent at 50 Bothwell Street and Aurora at 120 Bothwell Street are anticipated to be early Q1 2024.
- Maya Capital's comprehensive repositioning of The Bond (formally Guildhall) at 57 Queen Street is also anticipated to complete Q1 2024.
- Groundworks have been completed on IQ, 33 Cadogan Street and it is understood that discussions are progressing to recommence works at some stage in 2024.
- Bruntwood SciTech has now completed demolition and strip out works ahead of progressing with the extensive redevelopment of The Met Tower, North Hanover Street.

A number of significant refurbishment schemes have however been placed on hold pending further review.

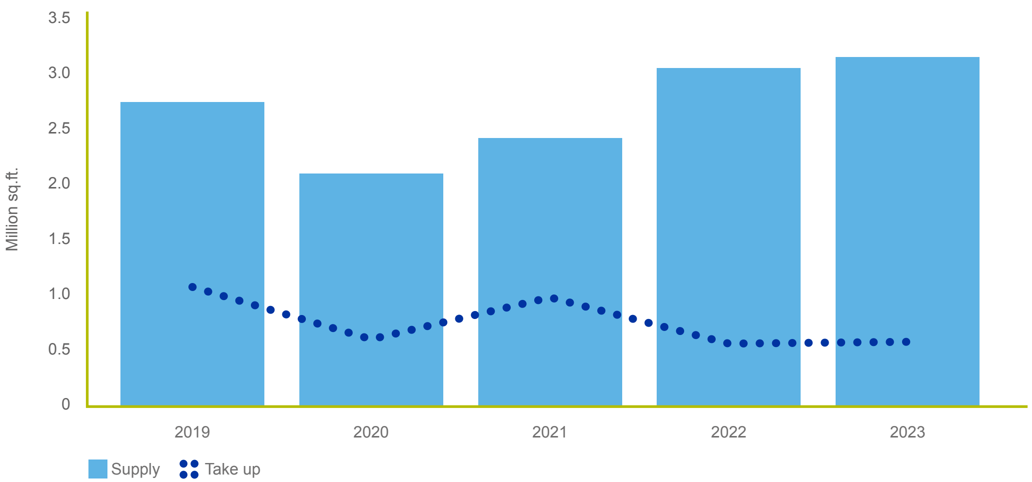
PERIPHERAL MARKET

Take up in Glasgow's peripheral office market increased year-on-year to 56,108 sq.ft. (19% increase) across a similar number of transactions (33 compared with 34 in 2022). Active locations include Dalmarnock, City Park and Sky Park.

Supply of smaller stock reflects take up and is relatively tight especially for flexible, fitted out space. The average deal size was 2,000 sq.ft. with the largest letting in this market being 6,756 sq.ft.

Some larger tenant release space anticipated to return at a number of peripheral business complexes towards the end of the year will increase supply levels significantly. Some landlords are known to be looking at alternatives uses, including Life Sciences or disposal for residential.

SUPPLY AND TAKE UP (CITY WIDE)



NOTABLE EXISTING REFURBISHED STOCK

ADDRESS	SIZE (SQ.FT.) (AVAILABLE)	DEVELOPER
55 DOUGLAS STREET	85,391 (71,107)	SIGNAL CAPITAL
6 ATLANTIC QUAY	78,459 (57,000)	SOLUTINO PTE LTD
200 BROOMIELAW	78,000 (78,000)	AM ALPHA
SENTINEL, 103 WATERLOO STREET	84,623 (33,280)	ARDSTONE CAPITAL
300 BATH STREET	156,932 (78,000)	LONDON & SCOTTISH PROPERTY INVESTMENT MANAGEMENT LTD

SELECTED PIPELINE OF KEY REFURBISHMENT SCHEMES

ADDRESS	SIZE (SQ.FT.) (AVAILABLE)	DELIVERY DATE	DEVELOPER
THE BOND, 57 QUEEN STREET	128,000 (128,000)	2024	MAYA CAPITAL LLP
LUCENT, 50 BOTHWELL STREET	91,500 (63,950)	2024	ORION CAPITAL MANAGERS
AURORA, 120 BOTHWELL STREET	174,000 (142,796)	2024	FORMA REAL ESTATE FUND
THE MET TOWER, NORTH HANOVER STREET	120,000 (120,000)	2026	BRUNTWOOD SCITECH

KEY PERIPHERAL AND OUT OF TOWN DEALS

ADDRESS	MARKET	SIZE (SQ.FT.)	OCCUPIER	SECTOR
UNIT 1, EASTWORKS, DALMARNOCK	PERIPHERAL	6,756	UTOPI	TECHNOLOGY
SEAFORTH HOUSE, HILLINGTON PARK	OUT OF TOWN	15,528	ATALIAN SERVEST	FACILITIES MANAGEMENT
LIGHTYEAR, GLASGOW AIRPORT BUSINESS PARK	OUT OF TOWN	15,121 15,116	HEATHROW AIRPORT LIMITED ROLLS ROYCE	TRAVEL ENGINEERING
MAXIM 7, MAXIM OFFICE PARK, EUROCENTRAL	OUT OF TOWN	15,089	LINEAR GROUP	CONSTRUCTION
NEW LANARKSHIRE HOUSE, BELLSHILL	OUT OF TOWN	12,924	ENVEVO	RENEWABLES

OUT OF TOWN MARKET

Take up in Glasgow's out of town market equated to 176,990 sq.ft. in 47 transactions, which shows an encouraging increase of almost 50% on 2022 floorspace take-up and 6 more deals. There is a clear trend for occupiers seeking high quality space in the established business parks.

Noting the significant transactions undertaken to the west of the city centre, supply for space in excess of 10,000 sq.ft. is critically low. There is less supply pressure to the east of the city centre but larger leasing transactions anticipated during H1 2024 will absorb some of that existing supply.

OUTLOOK

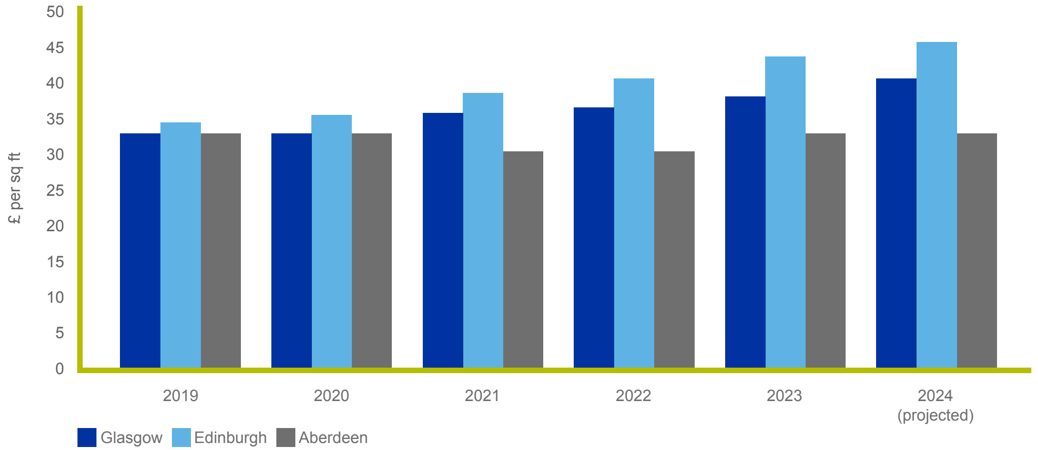
There will be no change to occupier sentiment and the majority of larger requirements will continue to seek best in class options. This will link to their ongoing ESG strategies and desire to employ and retain key staff but also progress with a desire to seeing higher numbers back in offices.

There is around 350,000 sq.ft. of live private sector enquiries reviewing property relocations or indeed under offer on their preferred property option. This is an encouraging start to the year, but will also put pressure on supply levels for best in class space towards the end of the year noting the reduction of existing space plus further erosion due to pipeline demand, and a stalling supply pipeline.

Demand for pre Fitted Out space is not anticipated to diminish and further landlords are expected to enter this market. It remains a hassle-free leasing option that unlocks exit and entry costs whilst also delivering lease flexibility – a product for which the end user is happy to pay a rental premium, usually within an all-inclusive structure. There is rental growth in this sector for the best product, although some of that is cost-push inflation.

Rental growth secured again in 2023 is anticipated to solidify for existing stock. Further prime rental growth will be modelled as part of reviewing the emerging future development pipeline.

PRIME OFFICE RENTS



OFFICES EDINBURGH

CITY CENTRE DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	SECTOR
2 FREER STREET	28,086	ANALOG DEVICES	TECHNOLOGY
9 HAYMARKET SQUARE	16,435	MORTON FRASER MACROBERTS LLP	LEGAL SERVICES
40 PRINCES STREET	14,644	CUBO WORK	CO-WORKING
QUARTERMILE 3	14,641	ENODA LTD	TECHNOLOGY
1 TANFIELD	12,188	ZONAL	TECHNOLOGY
9 HAYMARKET SQUARE	10,236	LOTHIAN PENSION FUND	FINANCIAL SERVICES

DEMAND

In 2023, Edinburgh's office market recorded a total of 644,490 sq.ft. of take up across 169 deals which marks a small 6% increase in the number of deals but a marginal 1% decrease in overall floorspace take up against 2022.

Lease re-gears have been active following the pandemic as occupiers position for stability or extend to consider their property requirements going forward. 2023 was no different albeit less floorspace was transacted than during 2022. During 2023 approximately 170,000 sq.ft. was re-structured within the city centre, down from c. 490,000 sq.ft. during 2022; recent examples include User Testing, Moodys, 7IM and Forrit. Interestingly, only 33,891 sq.ft. was re-structured in the outlying markets of Edinburgh, compared to 157,000 sq.ft. during 2022. If lease re-gears were included then 2023 would have delivered 848,380 sq.ft. of take up.

CITY CENTRE

Edinburgh's city centre transacted 462,928 sq.ft., which represented 72% of total take up across the city. Grade A and high quality accommodation accounting for 214,260 sq.ft. or 46% of city centre office take up. The medium to larger office deals in the table demonstrate significant technology sector activity alongside Edinburgh's traditional financial and business services occupiers.

The prime headline rental tone for Grade A accommodation has risen again to £43 per sq.ft. (at Capital Square) although space is currently under offer at £45 per sq.ft. which will establish a new high watermark for Edinburgh offices. Incentives are sitting at around 12 months for a 10-year lease commitment to the highest quality covenant and have reduced slightly due to occupier competition for the best quality office space.

PERIPHERAL

West Edinburgh office take up increased by 109% in 2023 compared with 2022 levels, delivering a total of 167,394 sq.ft. transacted across 20 deals. Prime rents are around £22 – £23 per sq.ft. for refurbished options in the South Gyle area, rising to £25 per sq.ft. for refurbished space on Edinburgh Park, and up to £30 per sq.ft. for best in class space at 1 New Park Square which has performed well with space let to Sainsbury's Bank (19,332 sq.ft.), Element (15,910 sq.ft.) and Marsh McLennan (9,767 sq.ft.).

Verdant at Redheughs Rigg has continued its run of lettings with Cat A+ deals for Aptia Group (8,470 sq.ft.) and Menzies Distribution Ltd (7,831 sq.ft.) along with deals to Rosshire (4,165 sq.ft.) and Quotient Clinical Ltd (3,466 sq.ft.).

NORTH EDINBURGH

While West Edinburgh saw a dramatic increase in activity, North Edinburgh lettings fell by 75% with only 7,360 sq.ft. recorded across 3 deals. Prime rents remain around £18 per sq.ft. although Castleforge have further invested in Commercial Quay and are delivering 5,033 sq.ft. of refurbished air conditioned space at a quoting rent of £20 per sq.ft. The opening of the new tram route connecting Leith to the city centre and Edinburgh Airport has not yet brought about the widely anticipated uplift in commercial activity.

PERIPHERAL DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	SECTOR
1-3 LOCHSIDE CRESCENT, EDINBURGH PARK	25,618	SCOTTISH WATER BUSINESS STREAM LTD	BUSINESS SERVICES
1 NEW PARK SQUARE, EDINBURGH PARK	19,332 15,910 9,767	SAINSBURY'S BANK ELEMENT MARSH MCLENNAN	FINANCIAL SERVICES TESTING, INSPECTION AND CERTIFICATION FINANCIAL SERVICES
4-5 LOCHSIDE AVENUE, EDINBURGH PARK	12,804	LUMACRON TECHNOLOGY LTD	TECHNOLOGY
VERDANT, REDHEUGHS RIGG, SOUTH GYLE	8,470 7,831	APTIA GROUP MENZIES DISTRIBUTION LTD	FINANCIAL SERVICES DISTRIBUTION

PRIME CITY CENTRE AVAILABLE SPACE

ADDRESS	SIZE AVAILABLE (SQ.FT.)	LANDLORD	TENANTS
1-7 EXCHANGE CRESCENT (TO BE REFURBISHED)	23,000-33,000 SUITES AND 10,000-11,000 SUITES	ABRDN (HEAD-TENANT)	AMAZON JLL RYDEN
SALTIRE COURT, CASTLE TERRACE	19,000 (*ALSO 26,951 OF TENANT SPACE AVAILABLE HERE) AND 10,000-11,000 SUITES	TIGON 7 LTD	CMS KPMG CLOSE BROTHERS MARTIN CURRIE
6 ST ANDREW SQUARE	24,000 SUITE	ABRDN (HEAD-TENANT)	FLOORS UNDER OFFER
QUARTERMILE ONE	20,300 AND 17,537 SUITES	EPIC LTD	PURE GYM SKYSCANNER
1 TANFIELD	21,000 AND 11,000 SUITES	GREENRIDGE INVESTMENT MANAGEMENT	FNZ CRANEWARE TRAINLINE ST MICRO ELECTRONICS
ORCHARD BRAE HOUSE	15,000 SUITE	DELANCY REAL ESTATE	CHANGEWORKS
EXCHANGE PLAZA	16,600 SUITE	M&G REAL ESTATE	BURNESS PAULL LLP
EDINBURGH QUAY	11,000 SUITE	EQ 1 CAPREON	BTO ASSIGNMENT
EDINBURGH QUAY 2	12,831 SUITE	KNIGHT FRANK INVESTORS (BLACKNEEDLE)	SWECO IFS LTD

PRIME CITY CENTRE NEW BUILDS AND PIPELINE OF KEY REFURBISHMENT SCHEMES

ADDRESS	SIZE (SQ.FT.)	DELIVERY DATE	DEVELOPER
30 SEMPLE STREET	57,000	REFURBISHMENT, COMPLETION Q4 2024. TOP 2 FLOORS ARE UNDER OFFER	BBC PENSION TRUST/CBREI
CLARENDON HOUSE, 116 GEORGE STREET	35,000	REFURBISHMENT, ANTICIPATED COMPLETION FEBRUARY 2024. MAJORITY PRE LET	ABRDN
22-25 ST ANDREW SQUARE	48,000	ON SITE, COMPLETION 2025	ARDSTONE CAPITAL
ROSEBERY HOUSE, HAYMARKET TERRACE	158,000	PLANNING APPROVED. NO SITE COMMENCEMENT OR DEMOLITION	AVIVA INVESTORS
THE NETWORK, NEW TOWN NORTH	82,000	DEMOLITION ONGOING, SITE COMMENCEMENT AWAITED	ORION CAPITAL MANAGERS
EXCHANGE PLACE 4	20,000	APPROVED PLANNING, NO CONSTRUCTION DATE ANNOUNCED	EP3 DEVCO LTD
ELGIN HOUSE, HAYMARKET YARDS	C. 150,000	DEMOLITION ONGOING AND PLANNING APPROVED. NO SITE COMMENCEMENT	STAMFORD PROPERTY HOLDINGS
CALTON SQUARE, GREENSIDE ROW	C. 160,000	REDEVELOPMENT FOLLOWING VACATION OF BAILLIE GIFFORD	MACQUARIE ASSET MANAGEMENT
DALKEITH ROAD	130,000	NO SITE COMMENCEMENT	SCHRODERS CAPITAL AND CORRAN PROPERTIES
FOUNTAINBRIDGE	C. 150,000	PLANNING TO BE SUBMITTED. NO COMMITMENT TO SITE START	CRUDEN HOMES AND BUCCLEUCH PROPERTY

"THE PRIME HEADLINE RENTAL TONE FOR GRADE A ACCOMMODATION HAS RISEN AGAIN TO £43 PER SQ.FT. (AT CAPITAL SQUARE) ALTHOUGH SPACE IS CURRENTLY UNDER OFFER AT £45 PER SQ.FT. WHICH WILL ESTABLISH A NEW HIGH WATERMARK FOR EDINBURGH OFFICES."

SUPPLY

Total office supply across Edinburgh at end Q4 2023 was recorded as 2,082,400 sq.ft. which is a 31% increase on end Q4 2022 as occupiers take less (but better) office space than they are releasing.

City centre supply is currently 1,154,169 sq.ft. (a 9% vacancy rate), of which Grade A supply equates to 881,929 sq.ft.

Occupiers have limited options available to accommodate new requirements on single floors in the city centre upwards of 20,000 sq.ft.; indeed requirements of 10,000-20,000 sq.ft. for single floor plates have limited choices too.

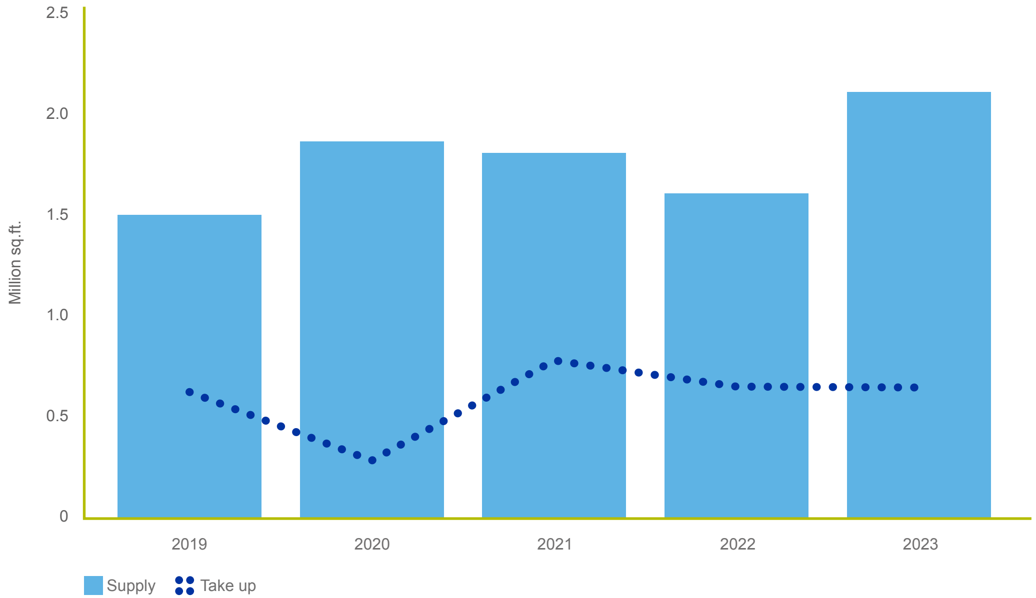
Looking to the future and the tightening of the Grade A office market together with the erosion of stock within the city centre – for example the loss to alternative use of 28 St Andrew Square and 9-10 St Andrew Square – is creating a lack of supply, limiting occupier choice and raising concerns over the future pipeline of supply. Rental growth should encourage the repositioning of further existing office space via refurbishment, although the costs of this have also increased.

Office supply has increased within the West Edinburgh market following an active period of lease acquisitions during 2023, due to several key occupiers downsizing and seeking to improve on ESG factors.

Current supply within West Edinburgh equates to 732,874 sq.ft. of which 517,000 sq.ft. represents Grade A new buildings or refurbishments.

Additional pipeline opportunities in West Edinburgh are available with major pre-letting design and build options following the recent planning approval by Shelborn Asset Management's Edinburgh Green and its master plan development of c. 800,000 sq.ft. of new building offices with substantial parkland.

SUPPLY AND TAKE UP



OUTLOOK

The outlook for the Edinburgh office market remains positive in respect of activity at the higher quality end of the market, and for rental growth given the shortage of Prime Grade A office availability particularly within the city centre. Many of the proposed developments are concluding pre-lets, further tightening potential supply. The ongoing flight to smaller (20-25% typically) and better offices is limiting occupier choice in that market sector, but these requirements can continue to be satisfied through significant refurbishment and flexible repositioning of buildings.

Re-gearing of leases continues as some occupiers consider their office needs, seek to stabilise costs and review both what is available on the market and what is in the pipeline, in the light of their increased emphasis on the office working environment and sustainability criteria.

WEST EDINBURGH AVAILABILITY

ADDRESS	SIZE (SQ.FT.)	ESTIMATED DELIVERY DATE	DEVELOPER
ONE EDINBURGH GREEN	8,000-23,000	REFURBISHMENT COMPLETE 2023	SHELBORN ASSET MANAGEMENT
1 NEW PARK SQUARE, EDINBURGH PARK (NEW BUILD)	20,000	COMPLETED Q2 2022	PARABOLA
4-5 LOCHSIDE AVENUE	14,000	COMPLETED 2021	KNIGHT PROPERTY GROUP
7 LOCHSIDE VIEW	7,000-20,000	REFURBISHMENT 2024	APRIROSE REAL ESTATE INVESTMENT
2 LOCHSIDE AVENUE	13,000	TO BE REFURBISHED	RR BRISTOL LTD
3 LOCHSIDE AVENUE	11,000-24,000	TO BE REFURBISHED	CCLA
7 LOCHSIDE AVENUE	6,000-9,000	REFURBISHMENT 2024	AVIVA INVESTORS
2 BROADWAY PARK	42,000 FROM 12,000	REFURBISHMENT 2025	AMBASSADOR GROUP
VANTAGE POINT	8,000-12,000	–	LONDON & SCOTTISH PROPERTY INVESTMENT MANAGEMENT LTD
1-3 LOCHSIDE CRESCENT	87,827 FROM 5,000-23,000	–	SUB-LET VIA AEGON
CORNERSTONE, SOUTH GYLE CRESCENT	23,598 FROM 11,000	–	CEG

DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	SECTOR
UNIT 9, PRIMEFOUR, KINGSWELLS	35,440	HARBOUR ENERGY	ENERGY
LGF PRIMEVIEW, PRIMEFOUR, KINGSWELLS	19,164	ODFJELL TECHNOLOGY	ENERGY
26 ALBYN PLACE	14,100	GENESIS OIL & GAS CONSULTANTS LTD	ENERGY
LEVEL 6, THE CAPITOL, UNION STREET	10,149	KELLAS MIDSTREAM	ENERGY/RENEWABLES
LEVEL 5, THE CAPITOL, UNION STREET	10,139	XODUS GROUP	ENERGY
2ND FLOOR PRIMEVIEW, PRIMEFOUR, KINGSWELLS	9,900	SSE	ENERGY/RENEWABLES

OFFICES ABERDEEN

DEMAND

Aberdeen's office take-up for 2023 totalled 330,913 sq.ft. across 78 transactions. This total represents a decrease of 14% of take up in floorspace and 1 more deal than the previous year. The 2022 figures included a 100,000 sq.ft. letting to Shell which slightly skewed the total.

The majority of deals were smaller at sub 5,000 sq.ft. with only 14 deals between 5,000-10,000 sq.ft. and 7 above 10,000 sq.ft. The largest deal was Harbour Energy taking an additional 35,000 sq.ft. at a building at PrimeFour Business Park which is close to their existing facility there, and will allow some staff to relocate from their other facility at Hill of Rubislaw.

BP has reversed a decision to downsize into a building at Aberdeen International Business Park and has instead signed a 5-year lease extension on their 193,000 sq.ft. facility at Stoneywood, Dyce. This is not reflected in take up although it is a very significant deal and a welcome confidence boost for the market. A number of other significant regears totalling c. 300,000 sq.ft. including Ineos FPS, Brodies LLP, St James's Place and Kent Energies help to demonstrate that there is healthy market activity beyond the headline take-up figure.

Grade A rents have remained at £32.50 per sq.ft. with reasonable incentive packages still available to tenants, albeit these are continuing to reduce in certain areas.

SUPPLY

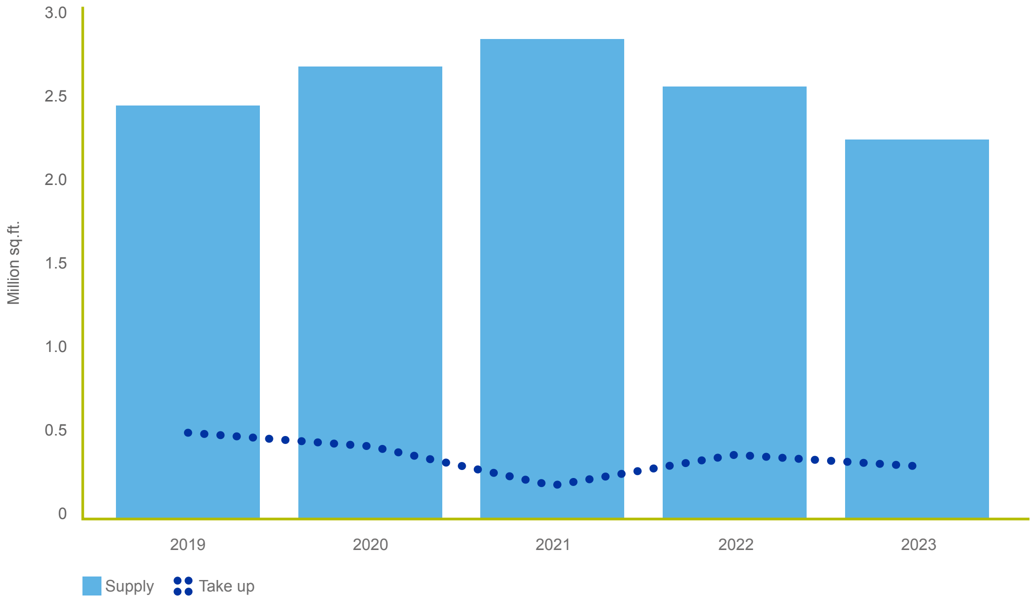
Aberdeen city's office supply at the end of 2023 totalled 2,217,564 sq.ft. This is a reduction of 12% in comparison to supply at the end of 2022, continuing the trend of a decreasing vacancy rate within the market which now sits at around 20%.

Speculative office development is currently unrealistic in the market given the cost and value equation. A number of buildings have however been purchased lately with owners looking at comprehensive refurbishments in an attempt to capitalise on the lack of new grade A stock, coupled with the continued flight to quality that many occupiers are seeking. These schemes are likely to prove very popular and rental levels for this type of stock are expected to increase to bridge the gap between current rents for refurbished offices and new-build Grade A stock.

Grade A availability in Aberdeen city centre continues to decrease. Of the two buildings within the last development cycle where Grade A space is available only 47,000 sq.ft. remains, with the largest being a 12,400 sq.ft. suite at MSq. Smaller suites have also been formed within MSq but there are now only two of these remaining. Within The Capitol there are only two floors available, both totalling just over 10,000 sq.ft. each.

In the West End the market for the best quality stock continues to improve. Following full refurbishments there is only one suite remaining at Blenheim House and Blenheim Gate is now fully let. The redevelopment of 3-5 Albyn Place is almost complete and it is expected that these smaller suites will prove very popular with occupiers, with one already under offer prior to completion. There is undoubtedly demand for the correct office product where owners are prepared to invest.

SUPPLY AND TAKE UP



Outwith the city centre the better quality office stock also continues to prove the most popular. AIBP at Dyce is now almost full with the last large suite currently under offer. A number of lettings have taken place at PrimeFour and again availability there is extremely low as the excess space within various buildings has now largely been soaked up. New tenants have included Harbour Energy, SSE, Odfjell Technology, Cegal and Schlumberger.

Westhill continues to prove popular with the majority of new build stock now gone and some buildings currently being refurbished to be ready for the next wave of occupiers.

Rents in all of these locations are starting to rise for the best quality stock and again with a lack of speculative new development this is likely to continue.

Activity to the south of the city remains slow, however M&G Real Estate is looking to attract occupiers following comprehensive refurbishment at Ecopark to focus on ESG credentials with new occupiers benefitting from facilities including a gym and Business Lounge as well as an EPC A rating.

OUTLOOK

While there is undoubtedly more flexibility within many organisations around a hybrid model, staff are in general working from the office on a regular basis and the dynamic has largely sorted itself out.

The local office market continues to rely heavily on the energy sector. Both the Scottish and UK Governments have committed to supporting Energy Transition and the local talent pool can help shape the transition and justify continuing government support. Recent announcements such as the relocation of 200 staff for the Department for Energy Security and Net Zero help back this up and other governmental department relocations/ expansions are also rumoured. In the oil and gas sector, prices are relatively high, however the Windfall Tax and political uncertainty over new Licenses in the North Sea present headwinds. On balance the office market is expected to continue to perform at a reasonable level.

INDUSTRIAL

GLASGOW AND WEST OF SCOTLAND

DEMAND

The industrial market remains active in the West of Scotland but there are lower transaction volumes and the average decision making period has lengthened, which may be a sign of caution amongst occupiers given the ongoing headwinds in the wider economy. Nevertheless, availability remains at or around historically low levels and there continues to be a good stream of new requirements and relatively few buildings returning to the market. These combine to keep downward pressure on availability and although rental growth has slowed it is still above long term averages.

This lack of availability and consequent rental growth stems from ongoing structural changes in the economy which have generated a greater need for industrial property. Higher interest rates, rising costs and recessionary risks have been insufficient to stop the ongoing demand for warehousing.

DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	RENT (PER SQ.FT.)	SECTOR
201 AINSLIE AVENUE, HILLINGTON PARK, GLASGOW	95,312	CORY BROTHERS LTD	–	TRANSPORT AND LOGISTICS
CONNECT 70, BELLSHILL	70,000	MICHELDEVER TYRE AND AUTO SERVICES	£10.45	AUTO SERVICES
UNIT D BELGRAVE LOGISTICS PARK, BELLSHILL	50,013	LIKEWISE GROUP PLC	–	FLOORING DISTRIBUTION
1 DRUMHEAD ROAD, CAMBUSLANG	24,616	MPC EMBROIDERY LTD	£10.00	TEXTILES
7 DEERDYKES ROAD, CUMBERNAULD	21,500	OVEC SYSTEMS LTD	–	MANUFACTURING
UNIT B BELGRAVE LOGISTICS PARK, BELLSHILL	20,000	RES GROUP	–	ENERGY
1-2 SHOLTO CRESCENT, RIGHEAD INDUSTRIAL ESTATE, BELLSHILL	19,263	TAIT TRANSPORT SOLUTIONS LTD	£7.00	TRANSPORT AND LOGISTICS
WEST 203 AND 204, HILLINGTON PARK, GLASGOW	18,791	GLENKEIR WHISKIES LTD	£8.50	FOOD & DRINK
BLOCK G, WESTWAY, GLASGOW AIRPORT	15,113	SPIRIT LABEL SOLUTIONS	£6.60	PRINTING
WEST 102, HILLINGTON PARK, GLASGOW	12,562	SWARCO UK & IRELAND	–	TRAFFIC TECHNOLOGY

The market is building insufficient new space. Rising construction costs and a dramatic shift in yields have led to the delay and postponement of some speculative schemes thereby exacerbating the problem and those that have been built are experiencing cost-push inflation on rental levels which occupiers are accepting reluctantly. Indeed, the passing rents on the prime schemes of a few years ago are now looking remarkably cheap and highly reversionary.

Take up of industrial floorspace across West Central Scotland in 2023 was 2.4 million sq.ft., which is a significant decrease on 2022. In part this is due to the lack of suitable stock and new build and it is common to see occupier requirements unsatisfied then recirculated. Medium to larger occupiers who have found property solutions are listed in the deals table.

According to CoStar, the average rent across the entire leased stock in the West of Scotland is now £7.10 per sq.ft. This is a blunt measure given the diversity of the stock, but as a trend it shows a 64% rise from £4.32 per sq.ft. in 2015.

SUPPLY

The basic numbers continue to be remarkable. According to CoStar, the Greater Glasgow market has a stock of 111 million sq.ft. of industrial floorspace, of which 3.5% is vacant and total availability (including currently occupied buildings and developments under construction) is now not much higher at 4.1%. New build is less than 1% of the total stock. There is the equivalent of 1.6 years of supply at 2023 take-up levels and, in reality, availability is even lower when obsolete and unlettable property are removed.

The tight market remains a concern for the health of the wider economy as it limits business growth. Furthermore, the market would be unable to respond in the short terms to even a slight uptick in the general economy given delays in the development pipeline and a decreasing number of strategic sites.

Looming obsolescence of older buildings and the need for better building performance in the near future are related. On the latter point, occupiers are now asking questions about building performance which had been of limited interest in the past. Reduced running costs is certainly an emerging trend. Larger businesses with multiple branches are favouring modern stock even if this involves paying a higher rental. Refurbishment of existing buildings is an emerging part of the West of Scotland industrial property market. Current examples include the refurbishment and sub-division of the former MSB factory and the proposed refurbishment of c.25,000 sq.ft. at Port Dundas by Scottish Canals.

Rents for prime industrial stock vary significantly by size, from around £9 per sq.ft. for medium to larger buildings up to £15 per sq.ft. for small prime trade counter units.

Rental increases have encouraged demand from occupiers seeking to buy units, but this is no easy task. Few owners are willing to sell when the rental prospects are so positive. Properties that are offered for sale attract strong interest and the transactions are at significantly higher prices than even 5 years ago. There is ongoing demand for owner occupation from the whisky industry with a number of very large requirements active in the market.

> “THIS LACK OF AVAILABILITY AND CONSEQUENT RENTAL GROWTH STEMS FROM ONGOING STRUCTURAL CHANGES IN THE ECONOMY WHICH HAVE GENERATED A GREATER NEED FOR INDUSTRIAL PROPERTY.”

NEW DEVELOPMENTS

DEVELOPMENT	DEVELOPER/LANDLORD	DESCRIPTION
LANGLANDS COMMERCIAL PARK, EAST KILBRIDE	KNIGHT PROPERTY GROUP	PHASE 2 TOTALLING 28,400 SQ.FT. DUE TO COMPLETE SPRING 2024
DALMARNOCK NORTH, GLASGOW	HARRIS FINANCE	TWO UNITS, 5,000 SQ.FT. AND 10,000 SQ.FT. COMPLETE WITH A FURTHER PHASE OF A 30,000 SQ.FT. SINGLE UNIT
BELGRAVE POINT, BELLSHILL	J SMART & CO	50,000 SQ.FT. NEARING COMPLETION
WESTWAY, RENFREWSHIRE	CANMOOR	TWO UNITS OF 202,230 SQ.FT. AND 86,630 SQ.FT.

The lowering of the threshold for 100% non-domestic relief has affected the very small end of the market. There remain a good number of occupiers seeking rates-free space and some are compromising on the size of unit or indeed choosing not to enter the market. This may reduce new firm formation or expansion where margins are tight or there is a higher degree of risk.

New development in prime locations continues to be popular. Knight Property Group has now completed both phases at Belgrave Logistics Park, Bellshill; a further two buildings are under offer with occupiers set to join Likewise Group and RES Group. The further speculative developments highlighted in the new developments table have attracted occupiers with 5,000 sq.ft. let at Dalmarnock North to Delight Foods UK and J Smart & Co's 50,000 sq.ft. unit at Bellshill nearing completion and also reported to be under offer.

In addition to these speculative industrial developments, new build schemes which have been pre-let or pre-sold include:

- West Ranga Property Group's 70,000 sq.ft. Connect 70, at Bellshill is almost complete and has been pre-let to Micheldever Tyre and Auto Services at a rent reported to be £10.45 per sq.ft.
- At Eurocentral, Hermiston Securities has achieved practical completion on a 105,000 sq.ft. bespoke facility for Board24 on a pre-sale basis.
- A 42,000 sq.ft. building at Tannochside Business Park, Uddingston by Cedarwood Asset Management is complete and under offer to clothing group Dfyne.

OUTLOOK

Wider economic commentary suggests 2024 will remain flat from an economic perspective and the UK general election will further delay recovery. There continue to be views that business failures will rise, however, there remains little evidence of this within the industrial sector and any space that does return is likely to attract interest if well specified and located.

Take up in 2024 may continue to be lower than recent years due to a lack of space rather than a fall in demand. Rental growth will continue, driven by the pricing required on the new build projects that come through and also the low void levels. Finally, the development pipeline will remain constrained due to viability issues caused by high construction costs and uncertainty within the investment market.

EDINBURGH AND EAST OF SCOTLAND
INDUSTRIAL

> THE INDUSTRIAL PROPERTY VACANCY RATE ACROSS EAST SCOTLAND THROUGHOUT 2023 STAYED BELOW 3% WHICH IS THE LOWEST ON RECORD.

DEMAND

The industrial market continues to perform well in the East of Scotland, despite difficult economic conditions which are hampering wider growth. During 2023 an estimated 1.5 million sq.ft. of industrial floor space was transacted compared with 1 million sq.ft. in 2022. Some hangover trends from the pandemic such as short term lease renewals and rolling leases have begun to dissipate, however in some parts of the market transaction times have become elongated.

Third party logistics (3PLs) continue to be the predominant occupier for larger premises. Positively, an uptick is also noted in the energy sector and in manufacturing. Transactions of note this year include R Drummond Carriers Ltd acquisition of both 168,000 sq.ft. in Houstoun Industrial Estate, Livingston and 80,000 sq.ft. in Whitehill Industrial Estate, Bathgate.

A focus on ESG (Environment Social and Governance) credentials and future proofing remain consistent trends in mid- to big box occupier requirements. Even at the smaller end of the market, rising trade counter demand is seeking modernised stock that is fit for purpose. A focus on due diligence by both investors/purchasers and tenants is increasing the awareness of expensive dilapidations liabilities as the cost of refurbishment and materials remains extremely high.

The shortage of good quality industrial property continues to be an issue across the sector. A lack of Grade A development and ever increasing obsolescence of existing stock are restricting take up. However, many developers are finding difficulty in secure development funding to meet this demand, given fluctuations and increases in construction costs and relatively high exit yields (which have reduced investment values). This is despite the comfort of rental levels at an all-time high of £12-£15 per sq.ft. for properties in prime locations of up to 15,000 sq.ft.

While many occupiers are willing pay these prime rents required in urban locations, larger occupier demand is increasingly focused on out of town locations where rents are typically more affordable. This has led to a further shortage in the availability of modern premises with high eaves height and yard space particularly in secondary locations.

SUPPLY

The industrial property vacancy rate across East Scotland throughout 2023 stayed below 3% which is the lowest on record. This is particularly noticeable in prime locations and is unlikely to change as the volume of new build developments in the pipeline remains low. There is a slight increase in space coming back to the market as occupiers adapt their operations. This low level of available property with consistent demand is accompanied by prime rental increases into the £12-15 per sq.ft. range.

With low development output and a decreasing supply of Grade A stock, market attention is turning to secondary/tertiary stock. Typically constructed in the 1970s and 1980s, these units are generally now at the point where refurbishment is required in order to support ongoing occupation. In particular, building fundamentals such as roofs, cladding and floors, are being put under the microscope during the acquisition process. Certification, Schedules of Condition and Building Surveys are now common place requests during all transactions.

This market dynamic has led to opportunities for pro-active asset management for both Funds and property owners where property frames, floors and basic layout favour quick and less costly refurbishment rather than complete redevelopment. A good example is Phoenix Life Limited, which is undertaking a significant refurbishment programme on Bankhead Industrial Estate, Sighthill, Edinburgh. Vacant units have undergone a comprehensive refurbishment to include new roofs with solar panels and the removal of the gas supply. This has taken the EPC Ratings to A+ and the units were leased on completion of the works. Similarly, JCAM at Newbridge Industrial Estate where Newbridge Link, a dilapidated ex-steel storage and engineering warehouse, is now fully refurbished and has achieved a pre-let of two thirds of the space (100,000 sq.ft.) to Kloeckner Metals UK.

REFURBISHMENTS AND NEW DEVELOPMENTS

DEVELOPMENT	DEVELOPER/LANDLORD	DESCRIPTION
EDI APPROACH, NEWBRIDGE, EDINBURGH	GSS DEVELOPMENTS	750,000 SQFT. OF NEW BUILD INDUSTRIAL SPACE IN 11 UNITS.
CAPITAL PARK, BANKHEAD AVENUE, SIGHTHILL INDUSTRIAL ESTATE, EDINBURGH	CHANCERYGATE/BRIDGES FUND MANAGEMENT/ WESTBROOK PARTNERS	120,000 SQ.FT. OF PRIME GRADE A INDUSTRIAL STOCK DUE TO COMPLETE BY Q2 OF 2024
BANKHEAD INDUSTRIAL ESTATE, SIGHTHILL, EDINBURGH	PHOENIX LIFE LIMITED	VACANT UNITS HAVE UNDERGONE A COMPREHENSIVE REFURBISHMENT, THIS HAS TAKEN THE EPC RATINGS TO A+
SHERRIFHALL SOUTH, DALKEITH, MIDLOTHIAN	BUCCLEUCH PROPERTY	40,000 SQ.FT. ACROSS A RANGE OF SMALL TO MEDIUM UNITS. PLANNING PERMISSION GRANTED
ELIBURN INDUSTRIAL ESTATE, LIVINGSTON, WEST LOTHIAN	NORTHERN TRUST	NEW INDUSTRIAL UNITS OF 18,646 SQ.FT. OVER 16 UNITS.
FIFE INTERCHANGE, DUNFERMLINE	FIFE COUNCIL	25,000 SQ.FT. OVER NINE INDUSTRIAL UNITS RANGING FROM 1,800 TO 8,200 SQ.FT. DUE FOR COMPLETION IN Q3 2024
A9 ESTATE, ABBOTSFORD BUSINESS PARK, FALKIRK	ABBOTSFORD IP LIMITED	16 INDUSTRIAL UNITS RANGING FROM 1,000-2,000 SQ.FT. TO LET OR FOR SALE.

DEALS

ADDRESS	SIZE (SQ.FT)	OCCUPIER	RENT (PER SQ.FT.)	SECTOR
2 HOUSTOUN ROAD, HOUSTOUN INDUSTRIAL ESTATE, LIVINGSTON	168,000	R DRUMMOND CARRIERS LTD	£4.80	STORAGE & DISTRIBUTION
NEWBRIDGE LINK, NEWBRIDGE INDUSTRIAL ESTATE, EDINBURGH	100,000	KLOECKNER METALS UK	£8.00	MANUFACTURING
41 INCHMUIR ROAD, WHITEHILL INDUSTRIAL ESTATE, BATHGATE	80,000	R DRUMMOND CARRIERS LTD	£5.00	STORAGE & DISTRIBUTION
1 MUIR ROAD, HOUSTON INDUSTRIAL ESTATE, LIVINGSTON	38,485	COMEX 2000 LTD	£4.40	MANUFACTURING
UNIT 17C NEWBRIDGE INDUSTRIAL ESTATE, NEWBRIDGE, EDINBURGH	28,748	WGM ENGINEERING	£8.30	ENGINEERING
FRANCES INDUSTRIAL PARK, KIRKCALDY	24,000	CTDI	CONFIDENTIAL	STORAGE & DISTRIBUTION

A number of new developments which had already commenced are now due to finalise in early 2024. Capital Park in Edinburgh's Sighthill is due to complete by Q2 providing over 120,000 sq.ft. of prime stock for the small to mid-box trade counter market which has attracted considerable interest and multiple pre-let deals. Fife Council is building nine industrial units at Fife Interchange in Dunfermline in units from 1,800-8,200 sq.ft.; this development is due for completion in Q3 and will benefit from a low carbon design, solar PV power systems, LED lighting, rapid EV charging and a radiant heating system.

This completion of the development cycle had threatened to curtail the future pipeline, however GSS Developments has secured planning permission for their speculative Industrial scheme at EDI Approach in Newbridge. The overall scheme of 750,000 sq.ft. of industrial, manufacturing and distribution space is due to commence with an initial speculative phase of 128,000 sq.ft. of small to mid-box trade counter and commercial units ranging from 2,000-25,000 sq.ft.

OUTLOOK

Increased industrial property occupational costs, including for utilities, is encouraging both occupiers and Landlords to invest in their properties. Interest in building performance will remain keen. ESG credentials and the ability to modernise to keep up with the changing operational landscape will be very important for many of the more institutional and established occupiers.

Refurbishment of existing industrial stock will, in many instances, continue to be seen as a more cost effective alternative to full redevelopment. This will help to continue to push the rental rise in secondary markets, closing the gap to prime city centre and new build rents.

INDUSTRIAL

ABERDEEN

DEMAND

The industrial market in Aberdeen improved yet again in 2023 with the largest volume of transactions taking place since the downturn in the oil and gas market in 2015. Take up for the year totalled 849,952 sq.ft. across 97 transactions with an average deal size of 8,651 sq.ft. This represents a 10% increase on the five-year average which is 771,047 sq.ft.

The energy price has remained consistently above the $75 per barrel which has increased investor confidence, although some political statements regarding the future of the North Sea 'Energy' industry have certainly not assisted matters.

The market is particularly strong for good quality industrial units over 10,000 sq.ft. that benefit from secure yards and overhead craneage. Demand is actually stronger than the positive take-up figures reflect, as the lack of good quality stock is constraining the market.

DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	SECTOR
UNIT D1, ABERDEEN GATEWAY	60,397	MARITIME DEVELOPMENTS LTD	ENERGY
THE ARC, PITMEDDEN ROAD, DYCE	33,476	HELIXWELL OPS LTD	ENERGY
WELLHEADS TERRACE, DYCE	22,770	RMS PUMPTOOLS LTD	ENERGY
KINGSHILL COMMERCIAL PARK, WESTHILL	21,500	WICKES	BUILDING SUPPLIES
FORMER CHUBB HOUSE, BADENTOY CRESCENT, PORTLETHEN	21,169	ARCHER UK LTD	ENERGY
UNIT 1, HARENESS CIRCLE, ALTENS	21,005	L&I EATON ARC LTD	MOTOR TRADES
UNIT 5, KIRKHILL COMMERCIAL PARK, DYCE	18,201	PENTAGON FREIGHT SERVICES	LOGISTICS

SPECULATIVE DEVELOPMENT

DEVELOPMENT	DEVELOPER/LANDLORD	SIZE/NUMBER OF UNITS	DESCRIPTION
ALTENS TRADE PARK, SOUTERHEAD ROAD, ALTENS	KNIGHT PROPERTY GROUP	UNIT 2: 3,852 SQ.FT.	CONSTRUCTION COMPLETE
UNITS 1-15, ABZ BUSINESS PARK, DYCE	ABZ DEVELOPMENTS LTD	1 UNIT OF 2,500 SQ.FT.	PHASE 1 AND 2 NOW COMPLETE
SALTIRE BUSINESS PARK, BADENTOY, PORTLETHEN	SALTIRE DEVELOPMENTS LTD	7 UNITS TOTALLING 13,146 SQ.FT.	CONSTRUCTION COMPLETE. 5 UNITS AVAILABLE
PHASE 2 & 3, CITY SOUTH BUSINESS PARK, PORTLETHEN	DANDARA	PHASE 2 FROM 1,500-2,250 SQ.FT. PHASE 3 FROM 750-1,000 SQ.FT.	5 UNITS REMAINING IN PHASE 2. PHASE 3 UNDER CONSTRUCTION
THAINSTONE BUSINESS PARK, INVERURIE	ANM GROUP/GSS DEVELOPMENTS	6 UNITS FROM 1,496-5,528 SQ.FT.	1 UNIT LET WITH 5 UNITS AVAILABLE

SUPPLY

Speculative development in Aberdeen has stopped as interest rate rises, increasing build costs and higher investment yields/reduced investment values means that this is no longer viable for developers. The limited scale of new development (see speculative development table) is expected to adversely affect industrial property supply during 2024.

Total industrial property supply across the Aberdeen market has fallen from its peak of 3.2 million sq.ft. to around 2.0 million sq.ft., however a significant portion of this is older obsolete stock or smaller terraced premises where the market is less active at present.

OUTLOOK

Industrial rents have grown in Aberdeen in recent times which is positive news for landlords. Occupiers continue to seek premises with good EPC ratings and ESG credentials. It is these buildings that are transacting quickly and commanding premium rents and sale prices, particularly as the development cycle has been curtailed by recent market conditions.

RETAIL AND LEISURE

The Scottish Retail Consortium (SRC) and KPMG announced disappointing trading figures in December 2023, revealing a real terms decline. While sales in Scotland increased by 1.9% compared with December 2022, when adjusted for inflation the year-on-year decline was 2.4%.

These tight consumer spending conditions have continued to favour convenience and discount/value shopping over more discretionary comparison spend – although higher value/luxury goods have also held up well.

According to SRC-Sensormatic IQ, footfall also decreased in Scotland year-on-year by 2.7% to January 2024. The recent storms and continued cost of living concerns were reported as the main reasons for the decline. Regional variation was noted however, with footfall in Edinburgh increasing by 3.2% but decreasing by 7% in Glasgow.

According to the Centre for Retail Research, almost 120,000 jobs were lost in the UK in 2023, as more than 10,000 shops closed in the face of cost inflation and a weak economy. Business failures included Wilko, which led to around in 400 closures and loss of 12,000 jobs, as well as M&Co, Wilkies, Paperchase and Tile Giant. However other closures were mostly led by strategic cost cutting rather than outright business failures.

The Local Data Company reports that the retail vacancy rate in Scotland fell by 0.5% in the final quarter of 2024 to stand at 15.7%, compared with 14% for GB.

> “THE RESHAPING OF THE RETAIL LANDSCAPE IS EMERGING AS DE-MALLING, DEPARTMENT STORE REDEVELOPMENT AND DIVERSIFICATION GATHERS PACE AND ALIGNS WITH ACTIVE OCCUPIER SECTORS.”

MARKET ACTIVITY

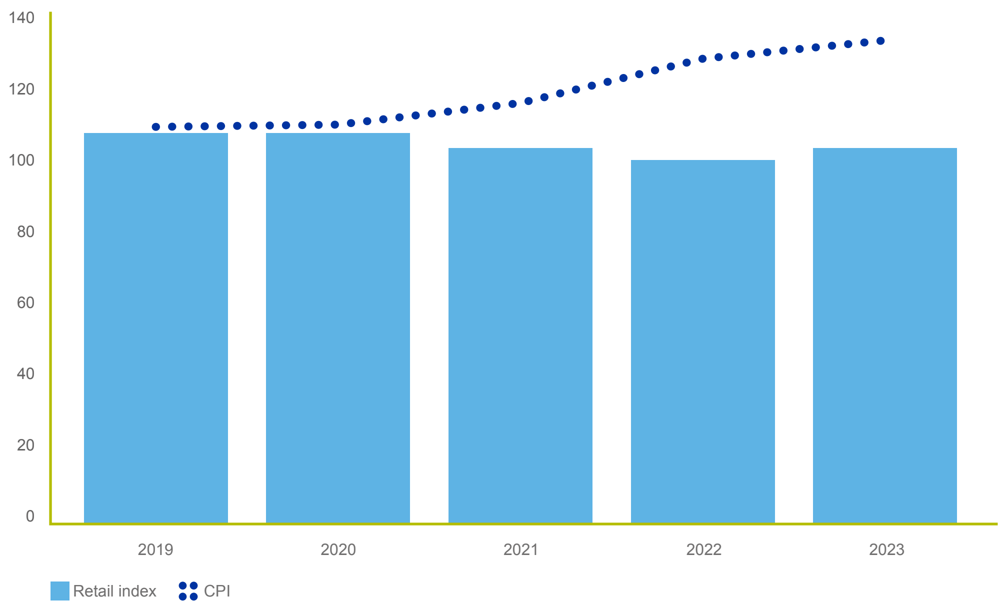
Glasgow continues to move forward with ambitious city centre redevelopment plans fuelled by strong occupier demand. Plans continue to be developed for prime Buchanan Galleries and also for St Enoch Centre where up to 1,700 new homes are proposed alongside retail, leisure, entertainment, hotel and commercial uses and public realm.

Developers are working on proposals for the former Marks & Spencer on Sauchiehall Street, with mixed use proposals for the former BHS, Watt Brothers and Dunnes Stores, including potential student and residential uses as the city centre is actively diversified to increase the resident population.

New food and beverage (F&B) additions to Glasgow city centre include Starbucks, Wagamama, Wingstop and Yaya's at St Enoch Centre. Di Maggios has acquired premises at 35 St Vincent Place and new openings have been attracted from Turtle Bay, Pho, Flight Club, Rosa's Thai, Maki & Ramen, Africana, Banca Di Roma and Jojo Macs. Looking ahead, there is further significant F&B interest in the city and support from modernised licensing policies which may help the night-time economy to thrive beyond the traditional 12 am cut off.

New retailers at St Enoch Centre include Next in the former Top Shop unit (25,000 sq.ft.) and The Entertainer, Build a Bear, Garms Glasgow and Lovisa. The prime, pedestrianised Buchanan Street has new entrants including Charlotte Tilbury, Mac, Lush, Pandora, and a TAG Heuer boutique.

RETAIL INDEX (TOP 20 TOWNS)



Outwith the city centre, Silverburn has welcomed Polestar (Swedish electric car manufacturer) (3,400 sq.ft.) and Rituals (1,900 sq.ft.). British Land announced they have let 40,000 sq.ft. to Primark within the space previously occupied by Everlast Gym.

Edinburgh's St James's Quarter continues to welcome new additions to the centre, including women's and children's wear Scamp and Dude and Space NK. F&B additions include The Botanist and Flight Club. The W Hotel opened its doors at the end of the year.

On Edinburgh's George Street, menswear brand Aubin opened in the former Phase Eight unit (1,700 sq.ft.), with the British women's brand ME+EM's first boutique outside of London at no 43 (3,000 sq.ft.). White Stuff relocated on the street to no 49 (6,880 sq.ft.), The Alchemist opened its second Edinburgh cocktail bar in the former Laura Ashley unit at no 51, and Knoops are due to open a hot chocolate café in the former Starbucks at no 106.

Princes Street saw the opening of an 8,000 sq.ft. Starbucks on the corner with Castle Street and clothing brand Uniqlo is opening in the former BHS. Holland & Barrett relocated to the former 02 unit at no 72. The redevelopment of former shops to create new hotel-led schemes continues on Princes Street with plans for the former Debenhams, Next/Zara stores, Jenners, Top Shop and BHS.

At Omni, Edinburgh Street Food opened its doors at the leisure centre within a 9,000 sq.ft. unit offering 10 individual kitchens with significant seating numbers, both indoors and out.

On the city's northern edge, Ambassador Investments' Ocean Terminal Shopping Centre in Leith has secured approval for a proposed commercial and residential development within the centre, which allows for demolition of the former Debenhams to make way for new mixed commercial amenities, comprising residential retail and commercial spaces, all within a high-quality public realm.

Union Square is the focus of retail market activity in Aberdeen. Marks & Spencer is closing its St Nicholas Centre store but expanding in Union Square, while Lush has relocated here from Union Street and Jo Malone has relocated from Loch Street. Mountain Warehouse is also due to open a 11,700 sq.ft. store in the centre.

DEALS

ADDRESS	SIZE (SQ.FT.)	OCCUPIER	SECTOR
110 BUCHANAN STREET, GLASGOW	3,800	CHARLOTTE TILBURY	BEAUTY
131 BUCHANAN STREET, GLASGOW	2,000	MAC	BEAUTY
229 BUCHANAN STREET, GLASGOW	5,000	HOLLAND & BARRETT	HEALTH
GLASGOW FORT	40,000	PRIMARK	DISCOUNT CLOTHING
BRAEHEAD	11,000	SUPERDRUG	HEALTH & BEAUTY
SILVERBURN, POLLOK	3,400 1,900	POLESTAR RITUALS	CARS BEAUTY
ST JAMES QUARTER, EDINBURGH	2,939 4,162	SCAMP & DUDE SPACE NK	CLOTHING BEAUTY
72 PRINCES STREET, EDINBURGH	1,550	HOLLAND & BARRETT	HEALTH
64 PRINCES STREET, EDINBURGH	25,000	UNIQLO	FASHION
49 GEORGE STREET, EDINBURGH	6,880	WHITE STUFF	FASHION AND HOME
UNION SQUARE, ABERDEEN	1,000	JO MALONE	BEAUTY
BERRYDEN RETAIL PARK, ABERDEEN	15,156	THE FOOD WAREHOUSE	SUPERMARKET

EMERGING ACTIVITY

In the convenience sector, 2024 is likely to be a busy year. Asda is converting former Co-op and EG Group stores to Asda Express and opening new stores, while Morrison's is nearing completion of the rebrand of RS McColl stores with a further pipeline of new stores to follow. There is also strong demand from local independent convenience operators looking to increase their market share which should encourage some market competition for the best opportunities during 2024.

As part of £30 million of investment Marks & Spencer is opening new stores in Scotland at Aberdeen's Union Square and Dundee's Gallagher Retail Park and food halls including at Stockbridge Retail park in Linlithgow, in Bishopbriggs and Glasgow's West End with another to follow in Largs.

In September, B&M acquired 51 of the distressed Wilko stores and will rebrand the sites as part of its continued expansion. In addition, B&M has announced plans to open a further 125 stores throughout the UK over the next 3 years. Towards the end of the year, The Range bought the intellectual property rights of Wilko and it is expected the retailer will trial stores with a potential rollout through the UK in coming months.

In addition, Peacocks is also embarking on a return to the High Street with expansion of 10 new sites and further stores planned around the UK over 2024.

Pure Gym has had a busy year with gym openings in Elgin, Giffnock, Airdrie, Milngavie, Linlithgow, Dumfries Retail Park and an announcement to open a new club in Rutherglen adjacent to Top Golf.

Prime Zone A retail rents have remained relatively static across most centres, with the exception of Edinburgh where there is upward pressure on rentals and Glasgow where competition within the prime sections of Buchanan Street is set to push the rental above £300 Zone A and almost back to pre-pandemic levels; these city centre growth poles in the east and west are clearly reasserting themselves as Scotland's dominant retail locations.

OUTLOOK

Assuming that inflation falls lead to interest rate declines later in 2023, growth in consumer spending should resume after two subdued years. DIY retailers may however face another challenging year due to the still-emerging impact of interest rate rises upon mortgage holders and the generally slower housing market.

The reshaping of the retail landscape is emerging as de-malling, department store redevelopment and diversification gathers pace and aligns with active occupier sectors, although for many brands the focus is on absolute prime locations and retail parks. The tightening of planning restrictions on drive-thrus and limited prime sites may create competition which will favour chains over local operators.

INVESTMENT

OVERVIEW

2023 will not be remembered with affection for most in the capital markets sector of the commercial property world. To say it was a challenging year is an understatement. The impact of five consecutive interest rate rises by the Bank of England Monetary Policy Committee from the start of the year created significant pricing uncertainty and the toughest trading conditions seen in Scotland and the rest of the UK since the financial crisis of 2008.

Inevitably, transactional volumes suffered as a consequence as buyers became increasingly uncertain of values. This trend applied across the sector spectrum, although office property was hardest hit. The caution in the market created a wider gulf in price expectations during the first half of the year and many sales stalled without a need or strong desire to sell. The general trend in yield movement was upwards with teenage yields not uncommon in specific out of favour locations or sectors.

The mix of buyers was quite broad – overseas equity featured prominently and propcos were more active in the secondary markets when heavily discounted prices were there to be taken. Meanwhile, institutional funds and REITs were net sellers. Unsurprisingly, Edinburgh fared the best of the Scottish cities in the investor popularity contest.

With interest rates stabilising by year end Q4 activity was much improved but over the whole year sales were down in Scotland by an estimated 34% compared to 2022. (Source: MCSI)

ALTERNATIVES

Despite the fact that many challenges continue to confront the living/beds sector, the fundamentals remain strong and the outlook positive. The strong dynamics continue to drive income growth (which has kept pace and in certain instances outperformed inflation) and has compensated for the steady rise in construction costs.

Transactional activity within the Purpose-Built Student Accommodation (PBSA) sector has ensured that yields have remained remarkably robust particularly in relation to prime assets in Russell Group cities. The weight of money seeking suitable representation in the sector continues to build and a range of investors including institutions, owner operators, Universities, Pension Funds and overseas investors is competing for suitable stock. Through strategic alliances with experienced managers there are clear signs that many of the UK institutions are now gearing up for a serious assault on the PBSA sector and this will only compound the demand for best in class stock.

“THE MIX OF BUYERS WAS QUITE BROAD – OVERSEAS EQUITY FEATURED PROMINENTLY AND PROPCOS WERE MORE ACTIVE IN THE SECONDARY MARKETS WHEN HEAVILY DISCOUNTED PRICES WERE THERE TO BE TAKEN.”

The narrow focus of many investors on core assets benefitting from specific characteristics in key cities may lead to a continued polarisation of demand, and a softening in pricing for assets that sit outwith these criteria. This approach may create some challenges for older and/or less well located stock in the short to medium term but should also offer opportunity to others. Repurposing and refurbishing existing PBSA assets should also provide opportunity albeit Fire Safety and ESG considerations will be at the forefront of any works.

Recent activity would support yields for prime stabilised PBSA stock in the range of 5.25%-5.5% and funding transactions in the range of 5.5%-5.75%. The prospects for the sector continue to be positive, however a shift away from studio accommodation toward predominantly cluster will certainly make new development more challenging.

The issue of rising construction costs has had a marked effect on the wider living/beds sector. Despite strong ADAR and RevPAR growth the delivery of new accommodation into the hotel sector via the usual development pipelines has been seriously constrained by rising costs and also a weaker investment market. With the standard lease model failing to deliver, the operational model is coming back into focus and some hotel operators are also looking at direct development – for example, the proposed development by Dalata Hotel Group of a c. 150-bed hotel in St Andrew Square, Edinburgh.

In the meantime, the BTR sector in Scotland continues to contend with the uncertainty around rent legislation and clarity is required around a sensible solution to encourage a meaningful return to business. Interest is significant and there is no doubt that the sector has huge potential to stimulate development and deliver much needed housing stock – if the obvious concerns can be addressed.

OFFICES

Investment activity in the office sector started off muted in 2023 and then proceeded to slow down further as the year progressed, confronted by not only investment market challenges but also the influence of changing occupational demand. Scotland was hit harder as pricing remained stubbornly high in comparison to England, leading to fewer transactions as the year progressed.

The key deals in 2023 in Glasgow and Edinburgh transacted early in the year, meaning vendors pricing expectations remained artificially high. These included 191 West George Street in Glasgow acquired by Corum Asset Management for £36.2 million at a yield of 6.5%, and also Capreon's purchase of Edinburgh Quay in Edinburgh for £36.8 million at a yield of 6.5%.

Increased borrowing costs negatively impacted the liquidity of the office market. Prime office investments were hit especially hard due to their reliance on debt to leverage returns. There were some prime office investments launched for sale in 2023 but they failed to get any real traction, leading to them being quietly withdrawn.

Demand in the office Investment market in 2023 moved away from the idea that "bigger is better" being driven by overseas capital, institutions and Private Equity, to smaller sub-£10 million lots. This market has been fuelled by purchasers using equity such as high net worth individuals, owner occupiers or property companies, who are keen to capitalise on what they see as real value when compared to historical pricing.

Prime office investment yields are now at 6.75% for Glasgow, 6.50% for Edinburgh and 9.00% in Aberdeen, although with limited transactional evidence estimating is quite hazardous. In early 2024 pricing is thought to be very close to the bottom. Therefore, investors are no longer "catching a falling knife", and some green shoots are emerging as they identify opportunities in the sector.

The secondary office market is suffering the same liquidity problems as the prime sector but does benefit from prices that still allow investors to leverage their returns. Investors willing to move up the risk curve and take on some letting risk are achieving high double digit returns on their capital. A good example of this type of investing is the acquisition of Orbital House at Peel Park Business Park in East Kilbride by HKIP for £4.3 million reflecting 15.00% NIY (Cap £62 per sq.ft.). In the out of town office market, the more risk averse investor can benefit from generous yield returns in the range of 9%-12% by buying long income to strong covenants.

There are a number of office assets priced to sell that offer investors selective opportunities for good returns. Some can be bought at a discount, providing a strong yield return from day one and the potential to leverage to increase returns once borrowing cost come down, with the real chance of a capital value gain too. Timing the bottom of the market is tricky but the optimum opportunity is likely to come relatively early, before the institutional investors return to the buying arena.

ALTERNATIVES DEALS

ADDRESS	PROPERTY	PURCHASER
HAVANNAH HOUSE, HAVANNAH STREET, GLASGOW	SALE OF 458 BED PBSA SCHEME WHICH OPENED IN 2018	IQ STUDENT ACCOMMODATION FOR C. £62.5 MILLION
SITES AT EAST NEWINGTON PLACE AND CANONGATE, EDINBURGH	FORWARD FUNDING OF TWO ALL STUDIO CONSENTED PBSA SCHEMES COMPRISING 141 BEDS	S HARRISON DEVELOPMENTS AND Q INVESTMENT PARTNERS (QIP). COMBINED CONSIDERATION OF C. £33 MILLION
TIGERLILY, GEORGE STREET, EDINBURGH	33 BEDROOM BOUTIQUE HOTEL	COLUMBIA THREADNEEDLE FOR £11.25 MILLION
28 ST ANDREW SQUARE, EDINBURGH	SALE OF 48,000 SQ.FT. VACANT OFFICE BUILDING. SOLD FOR HOTEL CHANGE OF USE	DALATA HOTEL GROUP FOR C. £12 MILLION (NOT STP)

OFFICE DEALS

ADDRESS	PROPERTY	PURCHASER
191 WEST GEORGE STREET, GLASGOW	87,000 SQ.FT. REFURBISHED MULTI-LET OFFICE WITH A WAULT OF 5.8 YEAR TO BREAK AND 6.7 YEAR TO LEASE EXPIRY	CORUM ASSET MANAGEMENT FOR £36.2 MILLION (6.5%)
SUTHERLAND HOUSE, 149 ST VINCENT STREET, GLASGOW	PERIOD MULTI-LET OFFICE OF 39,380 SQ,FT.	NEW AMSTERDAM INVEST NV FOR £9.05 MILLION (7.57%)
RWF HOUSE, 5-11 RENFIELD STREET, GLASGOW	PERIOD, MULTI-LET MIX USE OFFICE, RETAIL AND LEISURE BUILDING OF 40,180 SQ.FT. OVER 6 FLOORS	A PRIVATE UK INVESTOR ACQUIRED THE BUILDING FOR £9.7 MILLION (7%)
CHIVAS HQ, 2-4 BLYTHSWOOD SQUARE, GLASGOW	REFURBISHED TRADITIONAL TERRACED BUILDING OF 27,125 SQ.FT. TENANT FIT OUT INCLUDES A BAR ON THE GROUND FLOOR	NEW AMSTERDAM INVEST NV FOR £9 MILLION (6.56%)
EDINBURGH QUAY 1, EDINBURGH	THREE MULTI-LET BUILDINGS TOTALLING 110,968 SQ.FT. OF PREDOMINANTLY OFFICE SPACE	CAPREON FOR £36.8 MILLION (6.5%)
AUCTION HOUSE, 63-65 GEORGE STREET, EDINBURGH	CATEGORY B LISTED MULTI-LET MIXED USE BUILDING (RETAIL AND OFFICES) TOTALLING C. 18,966 SQ.FT.	BROADLAND PROPERTIES FOR £6.77 MILLION (7.2%)
40 PRINCES STREET, EDINBURGH	81,204 SQ.FT. OFFICE AND RETAIL BUILDING. TENANTS INCLUDE H&M, CUBO WORK, RED ROCK POWER LTD AND MULTREES INVESTOR SERVICES LTD. FULLY LET, C. 40% OF INCOME ATTRIBUTABLE TO H&M (RETAIL)	REMAKE ASSET MANAGEMENT FOR £29.5 MILLION (7.5%)
DIAGEO, 11-12 LOCHSIDE PLACE, EDINBURGH PARK, EDINBURGH	MODERN OUT OF TOWN OFFICE, SINGLE-LET TO DIAGEO SCOTLAND LTD	WINDWARD GLOBAL LTD FOR £9.15 MILLION (9.28%)
KING'S CLOSE, HUNTLY STREET, ABERDEEN	33,000 SQ.FT. 1980S REFURBISHED OFFICE LET TO DANA PETROLEUM WITH 4.5 YEARS UNEXPIRED	DS PROPERTIES FOR £5.25 MILLION (12%)
PRIME FOUR BUSINESS PARK, KINGSWELLS	OFFICE/TRAINING CENTRE OF 27,330 SQ.FT. LET TO MAERSK TRAINING WITH 10 YEARS UNEXPIRED	WINDWARD GLOBAL LTD FOR £5.15 MILLION (12%)
ABERDEEN ENERGY & INNOVATION PARKS, BRIDGE OF DON	TWO MULTI-LET BUSINESS PARKS WITH C. 204,500 SQ.FT. OF OFFICES, LABS AND LIGHT INDUSTRIAL UNITS PREDOMINATELY LET ON SHORT TERM LEASES	AM SCI TECH (HURSTWOOD HOLDINGS) FOR AN UNDISCLOSED PRICE

INDUSTRIAL

As 2023 drew to a close, a sigh of relief will have been exhaled by many in the industrial investment market, holding out hope for a much more buoyant 2024. In an exceptionally challenging year, a perfect storm of continuing interest rate rises, high inflation and reduced investor confidence resulted in low transactional volumes. Despite healthy occupier demand the insatiable appetite for industrial assets that had compressed yields to historic lows waned somewhat. This change, coupled with a growing pricing gap between buyers and sellers, resulted in yields softening across the country.

Despite the local market experiencing a severe undersupply of modern, good quality stock, Aberdeen spiritedly performed throughout 2023 with the second best year of occupier take up since 2015. This stability failed to influence investors, however, with the perception of the energy sector and political instability curbing confidence. The majority of transactional activity in Aberdeen was focused on investors venturing north to hunt for higher yields, reaching double-digits in many instances.

Venturing south, logistics sector demand continued to ride the crest of a wave as 78% of industrial investment (£65 million of £83 million) involved single-let logistics/distribution units, principally around the M8 Motorway. The most noteworthy deal was the sale of the GXO Unit at Eurocentral to Investcorp/Citivale Group Holdings for £23.2 million at a yield of 7.58%. This particular deal conveys the outward yield shift as three Eurocentral deals had concluded in 2022 at an average of 5.27%.

Multi-let industrial estate activity continued to lag significantly. Notwithstanding this concentration on single-let assets though, in Aberdeen, a fully let Braehead Centre transacted for £2 million in Q1 at an attractive yield of 8%, the lowest in the region for a multi-let estate since mid-2018. An estate of similar quality in Edinburgh or Glasgow is likely to transact at around 7%.

The macro-economic challenges of 2023 resulted in yields generally softening by up to 200-250 basis points. Prime yields for well-located assets softened in Glasgow and Edinburgh to 5.75-6.00% (2022: 5.25%), with Aberdeen sharply increasing to around 8% (2022: 6.25%). The secondary industrial market continues to attract attention, with trading moving well into double digit yield territory as opportunistic investors and propcos circle ready to take advantage of REITs and Funds offloading unwanted or distressed assets.

Fundamentally, industrial property remains one of the most sought after sectors by investors seeking relative stability, suggesting a positive-but-cautious investment stance moving through early 2024.

INDUSTRIAL DEALS

ADDRESS	PROPERTY	PURCHASER
GXO UNIT, 50 CONDOR GLEN, EUROCENTRAL	330,000 SQ.FT. LOGISTICS WAREHOUSE OF. LET TO GXO LOGISTICS UNTIL SEPTEMBER 2029, WITH TENANT ONLY BREAK OPTION IN SEPTEMBER 2027	INVESTCORP AND CITIVALE GROUP HOLDINGS FOR £23.2 MILLION (7.58%)
BOGLESHOLE ROAD, CAMBUSLANG	LOGISTICS WAREHOUSE OF 135,540 SQ.FT. LET TO TENNENT CALEDONIAN BREWERIES UK LTD UNTIL MAY 2027	WITTINGTON INVESTMENTS LTD FOR £14.2 MILLION (6.71%)
51 MCNEIL DRIVE, EUROCENTRAL	52,440 SQ.FT. LOGISTICS WAREHOUSE LET TO BIFFA WASTE SERVICES LIMITED	WESLEYAN ASSURANCE FOR £6.74 MILLION (6.20%)
100 CAMBUSLANG ROAD, CAMBUSLANG	LOGISTICS WAREHOUSE OF 49,150 SQ.FT. LET TO ROYAL MAIL GROUP UNTIL OCTOBER 2027	PRIVATE INVESTOR FOR £6.35 MILLION (6.00%)
DARROW'S INDUSTRIAL ESTATE, UDDINGSTON	MULTI-LET INDUSTRIAL ESTATE OF 61,300 SQ.FT. WAS 96% LET AT THE TIME OF SALE	TRACEY INVESTMENTS LTD FOR £4.22 MILLION (8.84%)
SOUTH GYLE TRADE PARK, EDINBURGH	MULTI-LET INDUSTRIAL ESTATE EXTENDING TO A TOTAL OF C. 139,650 SQ.FT. HELD ON A GROUND LEASE FROM CITY OF EDINBURGH COUNCIL	ROSSCO PROPERTIES FOR £13.9 MILLION (6.87%)
FED-EX, 171 TURNHOUSE ROAD, EDINBURGH	38,912 SQ.FT. SINGLE-LET DISTRIBUTION/AIR SIDE CARGO FACILITY LET TO FED-EX UNTIL JUNE 2026. GROUND LEASE FROM EDINBURGH AIRPORT	ICG PLC FOR £8.5 MILLION (6.07%)
UNIT 2, ADMIRALTY BUSINESS PARK, ROSYTH	SINGLE-LET INDUSTRIAL/DISTRIBUTION UNIT OF 52,467 SQ.FT. LET TO STARK BUILDING MATERIALS UK LTD WITH 4.5 YEARS UNEXPIRED	CABLE PROPERTIES & INVESTMENTS FOR £3 MILLION (7.69%)
BRAEHEAD CENTRE, ALTENS, ABERDEEN	MULTI LET INDUSTRIAL ESTATE OF 14,340 SQ.FT. WITH A WAULT OF C.2 YEARS	PRIVATE INVESTOR FOR £2 MILLION (8.00%)
UNIT 4 KIRKHILL COMMERCIAL PARK, KIRKHILL, ABERDEEN	MODERN INDUSTRIAL UNIT OF 15,400 SQ.FT. LET TO DUNCAN & TODD GROUP WITH A TERM CERTAIN OF 10 YEARS	WEBB INVESTMENTS FOR £1.75 MILLION (7.54%)
HOWE MOSS AVENUE, KIRKHILL, ABERDEEN	MODERN INDUSTRIAL FACILITY OF 77,220 SQ.FT. LET TO AKER SOLUTIONS WITH 4 YEARS UNEXPIRED	OVERSEAS INVESTOR FOR £6.95 MILLION (9.65%)
PEREGRINE ROAD, WESTHILL	MODERN INDUSTRIAL UNITS LET TO IKM TESTING AND HALLIBURTON WITH C.5 YEARS UNEXPIRED	WINDWARD GLOBAL LTD FOR £5 MILLION (11.78%)

RETAIL AND LEISURE

Against a backdrop of recessionary fears, base rate rises, elevated inflation and heightened cost of finance, the Scottish retail investment market actually experienced a particularly active year in 2023.

Aided in part by consumer and occupational markets, rental growth in places, and significant pricing discounts to long term values, transaction volumes were the highest they have been since 2016. The high yields offered compared to other sectors have been a key draw in the face of rising debt costs. A consensus that rents have bottomed out following extensive rebasing post-pandemic has also contributed to the belief among certain investors that they are buying into more stable income positions.

Outside of London, Edinburgh closely followed by Glasgow accounted for greater retail property investment sales volumes than any other UK cities in 2023 according to CoStar research.

Retail warehousing in particular continues to command investor appetite due to its defensive qualities and compelling occupational dynamics (high occupancy rates plus capacity for rental growth).

Realty Income Corporation has once again been particularly active, acquiring the likes of Kitty Brewster Retail Park in Aberdeen, Telford Retail Park in Inverness, Fife Central Retail Park in Kirkcaldy and Craigleith Retail Park in Edinburgh. The American investor was the most active buyer in the sector across the UK in 2023.

Supermarket activity has been less prevalent north of the border, despite investor demand for the sector and similarly defensive qualities. This is largely due to limited availability of stock and “bid-ask” gap between vendor aspirations and market pricing. Institutional and specialist investors have generally required to see yields of 6% plus due to the cost of capital.

Significant transactions in the sector over the year include BT Pension Scheme Trustees’ acquisition of Sainsbury’s 120,000 sq.ft. store at Darnley Mains in Glasgow. Most recently, further activity in the sector includes Tesco Extra at Corstorphine, Edinburgh changing hands and Sainsbury’s Murrayfield, Edinburgh also hitting the market quoting an initial yield of 6.5%.

On the High Street there continues to be a strong investment case where rents have been rebased combined with appealing entry yields. However, outside of prime pitches or affluent suburban pockets in a narrow range of top tier towns and cities, or multi-let scenarios, yields soften drastically with only a limited pool of opportunistic investors active. Liquidity remains greatest for smaller lots and cash-rich UK Private Investors and propcos have been the most active players.

Shopping Centre performance appears strongly polarised between centres that are no longer fit for purpose, destination assets in major shopping and leisure locations, or at the other end of the spectrum right-sized convenience-led centres for local communities. Notable investors such as M Core (LCP and Evolve Estates) and Midos Group are active in Scotland. Attractive income returns have helped to drive the popularity of the shopping centre sector. Key transactions include Capital and Regional’s acquisition of Gyle Shopping Centre, Edinburgh for circa £40 million at a yield of 13.45%, and M Core’s acquisition of The Centre, Livingston for circa £45.5 million at a yield of 14.5%.

Market activity during 2024 is likely to further develop the sectoral themes highlighted above. Increased competition should also contribute to yields hardening for good quality assets.

“OUTSIDE OF LONDON, EDINBURGH CLOSELY FOLLOWED BY GLASGOW ACCOUNTED FOR GREATER RETAIL PROPERTY INVESTMENT SALES VOLUMES THAN ANY OTHER UK CITIES.”

RETAIL AND LEISURE DEALS

ADDRESS	PROPERTY	PURCHASER
SAINSBURY'S SUPERMARKET, 10 DARNLEY MAINS ROAD, GLASGOW	121,546 SQ.FT. SINGLE-STOREY RETAIL UNIT LET TO SAINSBURY'S WITH AN UNEXPIRED LEASE TERM OF CIRCA 19 YEARS	BT PENSION SCHEME TRUSTEES FOR £48.25 MILLION (5.7%)
FORGE SHOPPING CENTRE, GLASGOW	SHOPPING CENTRE OF 454,957 SQ.FT. COMPRISING A 124,000 SQ.FT. FOOD STORE AND PETROL FILLING STATION, 87 RETAIL UNITS, DRIVE-THRU RESTAURANT, MULTIPLEX CINEMA AND 1,600 VEHICLE CAR PARK	MIDOS GROUP FOR £13.74 MILLION (18.45%)
CORSTORPHINE RETAIL PARK, EDINBURGH	RETAIL PARK SITUATED ON ARTERIAL CENTRE WEST OF CITY CENTRE EXTENDING TO C. 48,955 SQ.FT. TENANTS INCLUDE LIDL, GYM GROUP AND PETS AT HOME	LOTHIAN PENSION FUND FOR £16.26 MILLION (5.26%)
CRAIGLEITH RETAIL PARK, EDINBURGH	180,271 SQ.FT. PRIME RETAIL PARK. TENANTS INCLUDE LIDL, MARKS & SPENCER, BOOTS AND CURRYS. WAULT OF 9 YEARS TO EXPIRY AND 5.6 YEARS TO BREAKS	REALTY INCOME CORPORATION FOR £62.4 MILLION (7.81%)
65 GEORGE STREET, EDINBURGH	TRADITIONAL RETAIL UNIT OF 7,819 SQ.FT. IN A PRIME POSITION. LET TO WHITE STUFF.	BUCCLEUCH PROPERTY FOR £3.32 MILLION (6.22%)
100A PRINCES STREET, EDINBURGH	SINGLE LET RETAIL UNIT LEASED TO SWAROVSKI UK LTD UNTIL OCTOBER 2026. TOTAL AREA OF 1,418 SQ.FT.	PRIVATE INVESTOR FOR £1.42 MILLION (12%)
BON ACCORD CENTRE, SCHOOLHILL, ABERDEEN	PRIME 460,000 SQ.FT SHOPPING CENTRE WITH A WAULT OF C. 3 YEARS.	EP PROPERTIES FOR £8 MILLION
BALNAGASK RETAIL PARK & WELLINGTON TRADE PARK, WELLINGTON ROAD, ABERDEEN	MULTI-LET RETAIL AND TRADE PARK OF 49,000 SQ.FT. WITH A WAULT OF C. 5 YEARS	REALTY INCOME CORPORATION FOR £6.17 MILLION (8.75%)
KITTYBREWSTER RETAIL PARK, ABERDEEN AND TELFORD RETAIL PARK, INVERNESS	PORTFOLIO OF TWO MULTI-LET RETAIL PARKS	REALTY INCOME CORPORATION FOR £62.2 MILLION (7.4%)
ST NICHOLAS TRIANGLE, ABERDEEN	PRIME MULTI-LET RETAIL PARADE OF 6,475 SQ.FT., TENANTS INCLUDE SCHUH AND FIVE GUYS	DS PROPERTIES FOR £4 MILLION (12.79%)

OUTLOOK

Opinions on whether the bottom of the market has been reached are mixed. The stabilisation of interest rates in Q4 2023 certainly gives some hope and those with a glass half full attitude anticipate rates to fall in the spring, although with inflation still relatively high and the threat of a recession still a factor the summer months seem more likely. Consequently, H1 may see only a modest rise in activity rather than a full scale rebound.

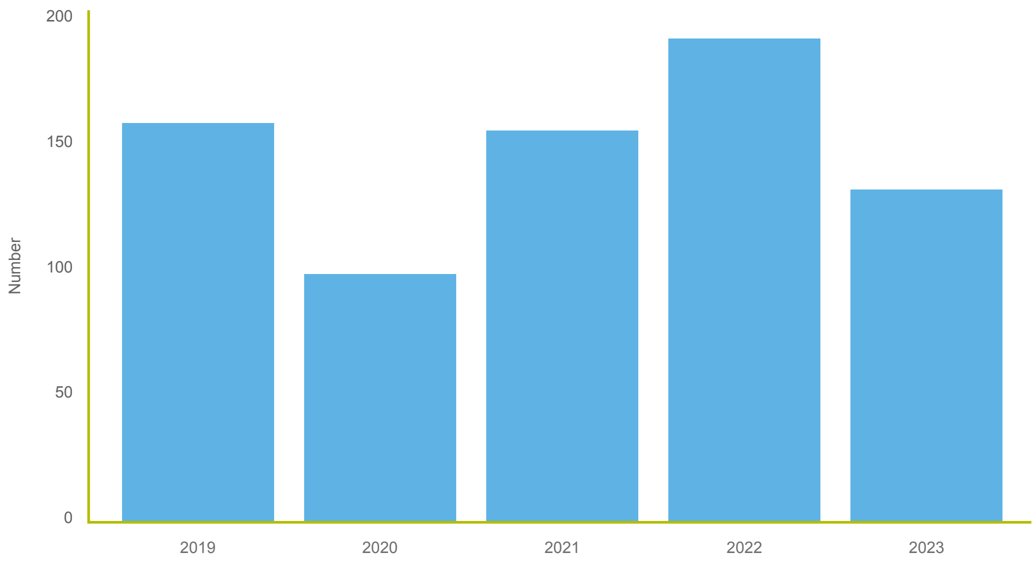
The timing of the 2024 UK general election may also have an impact on activity levels, which tend to fall in the preceding weeks during campaigning. If the election is in the second half of the year, as seems likely, the slight element of uncertainty may be brushed aside by investors more focussed on buying again.

Transactional volumes in Scotland are expected to recover through 2024, towards a full rebound in the second half of the year. Industrial, retail warehousing and the living sectors will remain most in favour although more investors are expected to return to the office sector to take advantage of the relatively generous yields on offer.

TRANSACTIONAL VOLUMES IN SCOTLAND ARE EXPECTED TO RECOVER THROUGH 2024, TOWARDS A FULL REBOUND IN THE SECOND HALF OF THE YEAR.

INVESTMENT TRACKER

Number of investment transactions over £1 million in Scotland.



Source: Ryden

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