

Scottish Property Market

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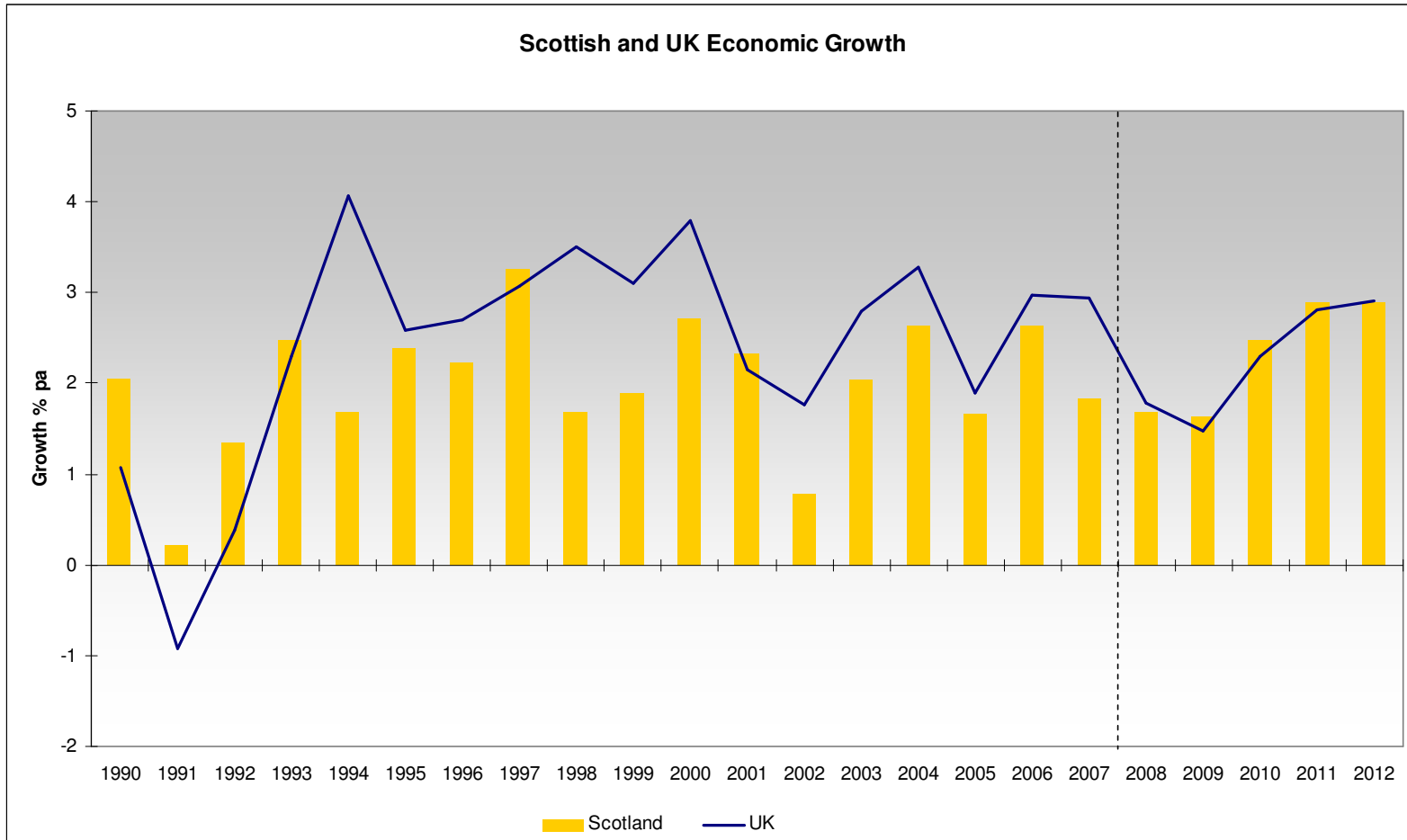
Macroeconomic Influences

- Interest Rates
- Inflation
- Availability of Funds
- UK Economic Growth
- International Capital Markets

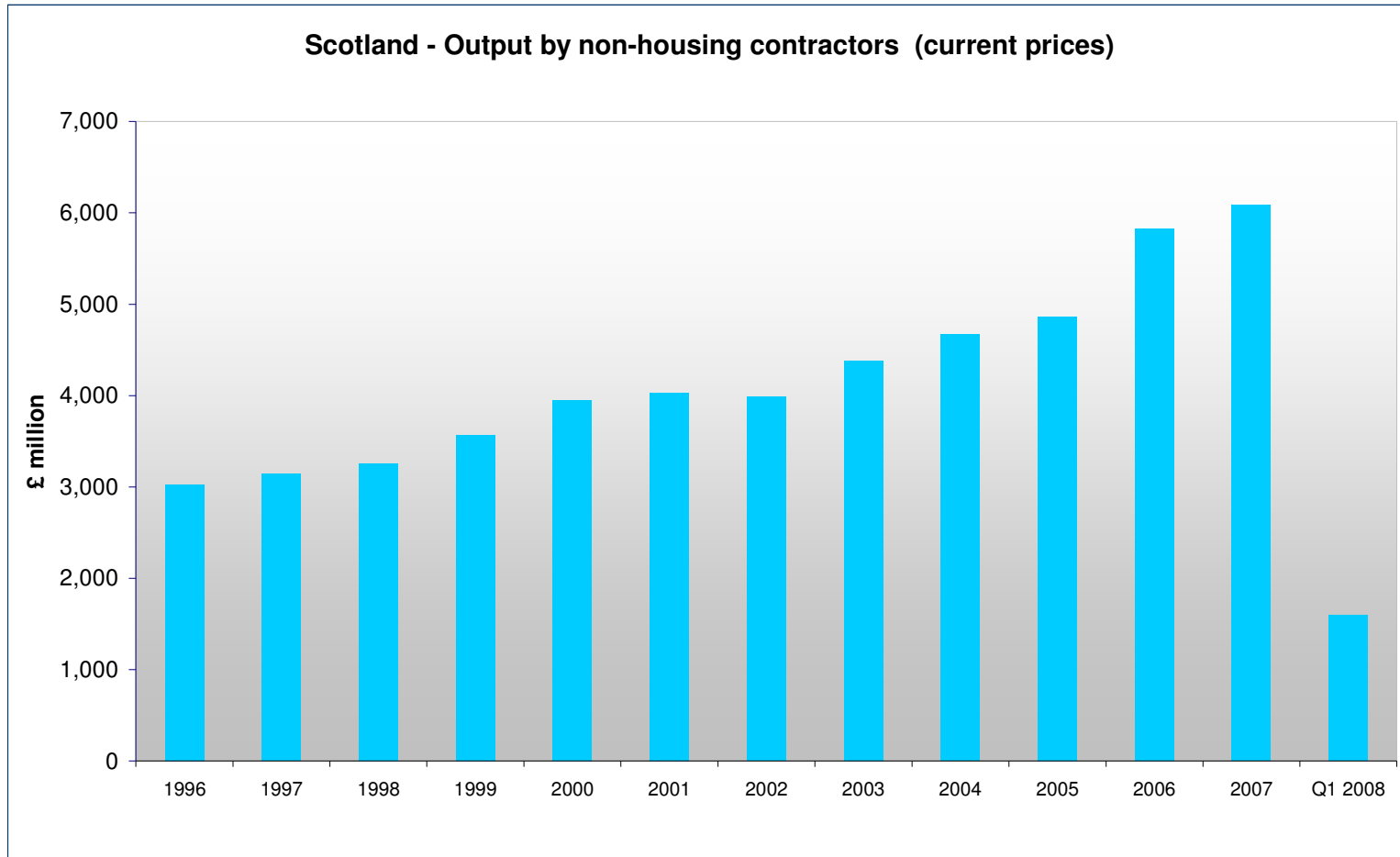
Scottish Dimension

- Scottish Economy
- Local Property Markets – supply/demand differences
- Individual City Commercial Office Cycles
- Housing Markets – localised influences

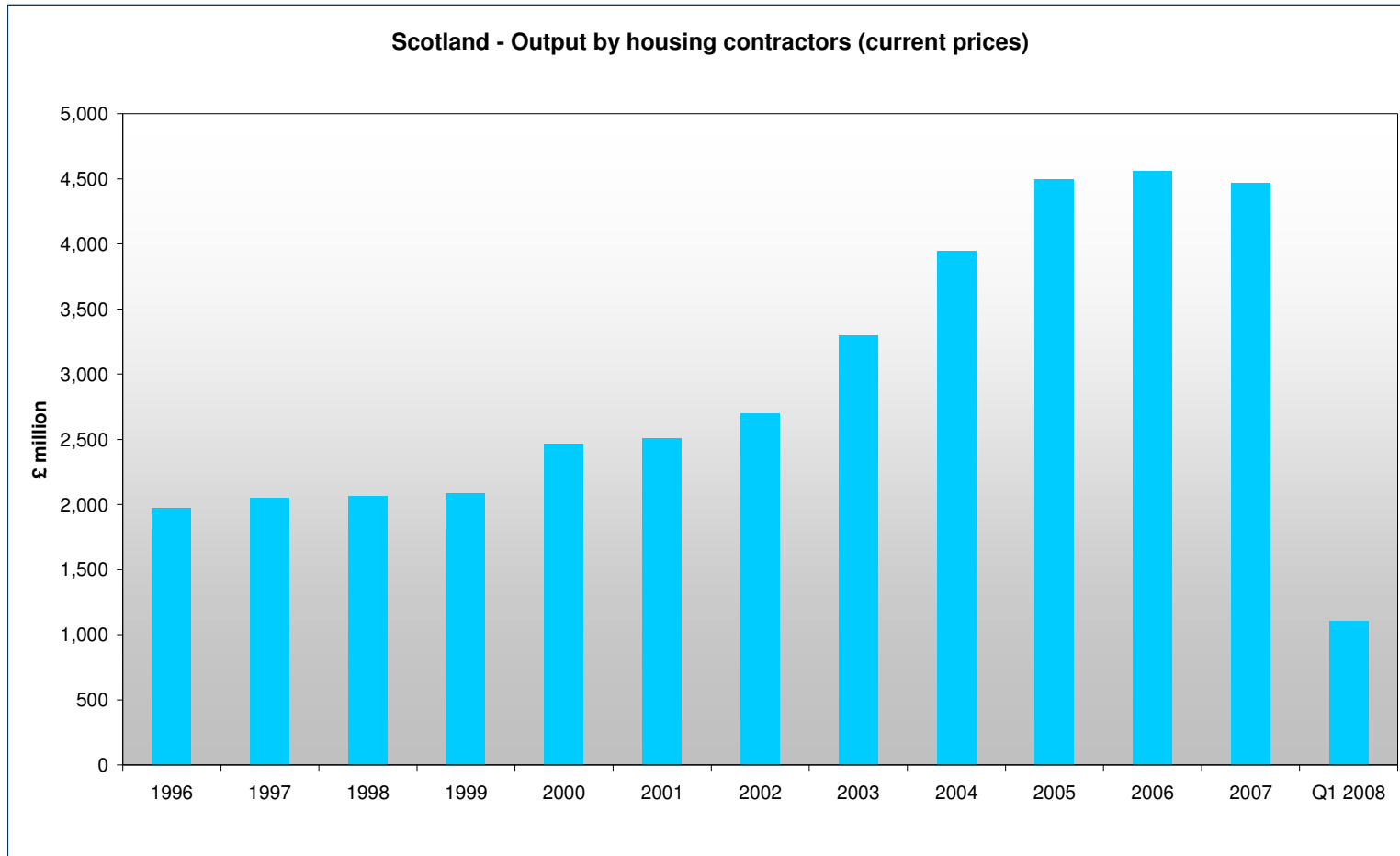
Scottish v UK Economy



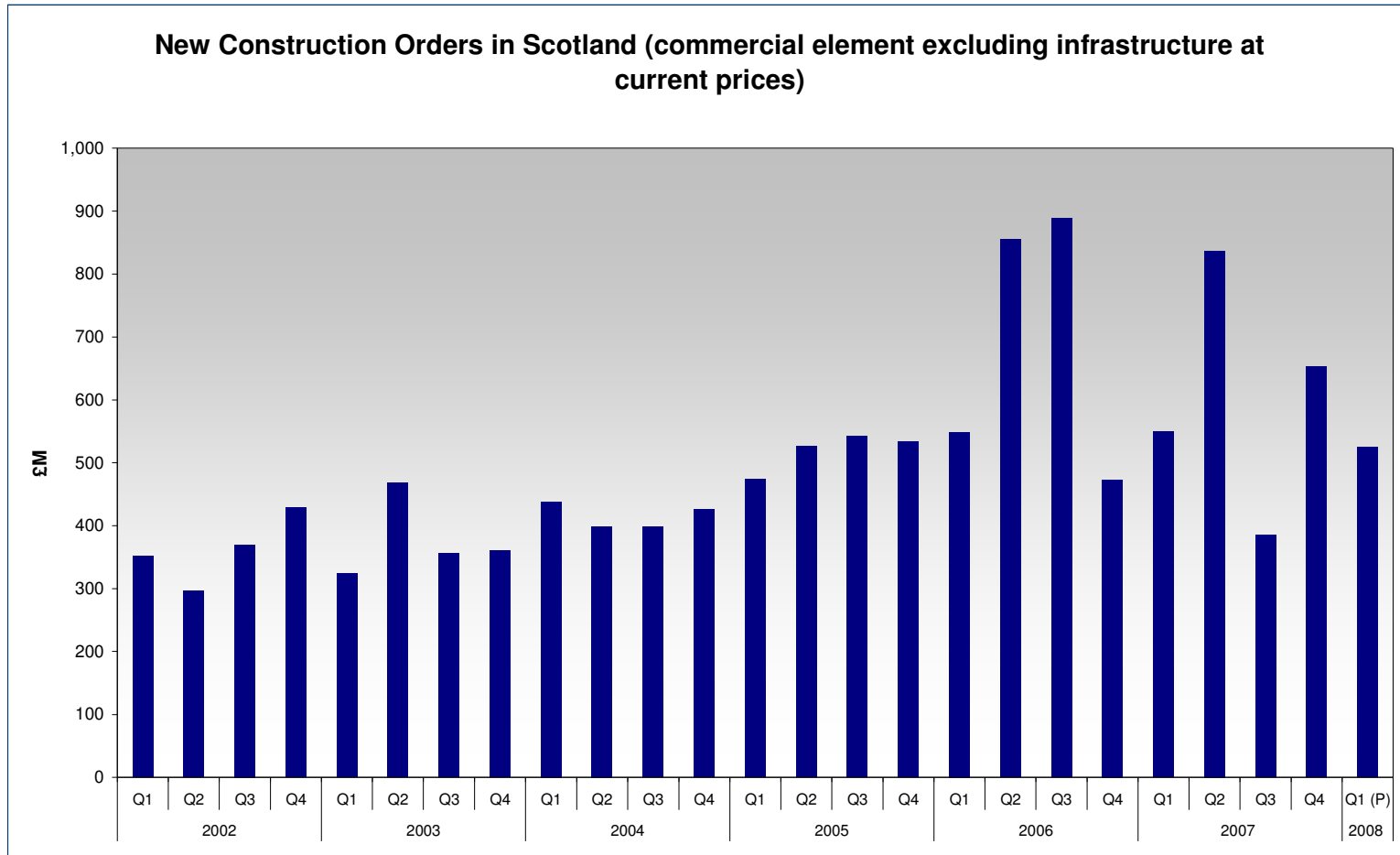
Trends in non-housing contractors output



Trends in housing contractors output



New Commercial Construction Orders



Current Economic Context

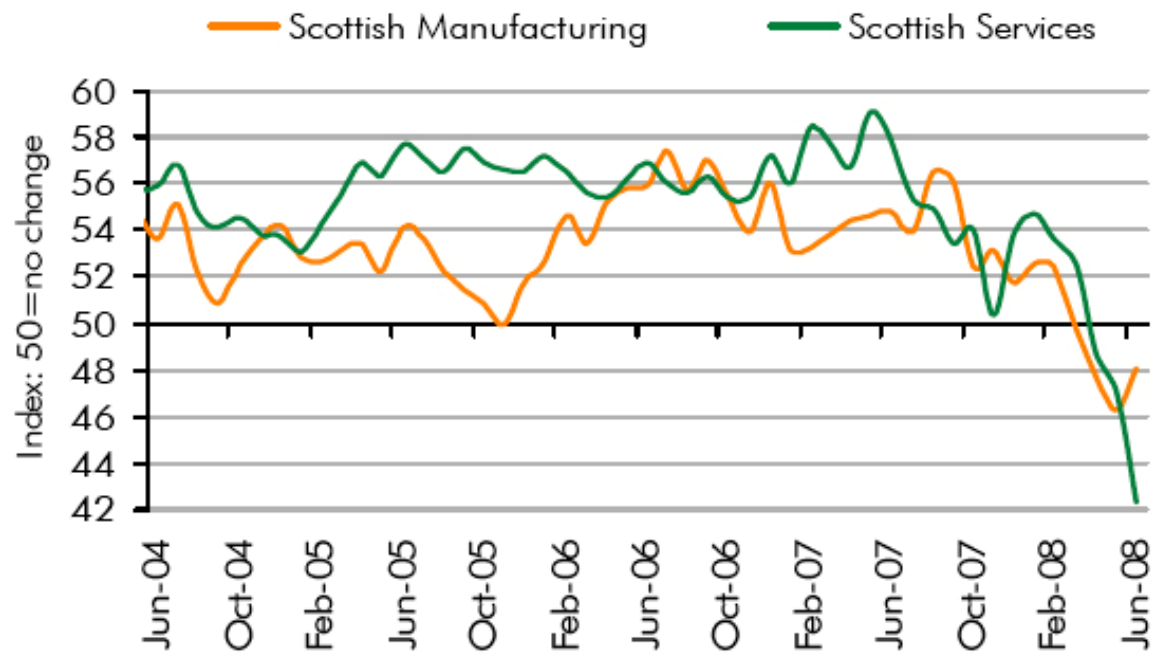
- Economic growth in the UK as a whole slowed in Q2 2008 to a standstill (1.6% y-o-y). Weak growth in the construction sector.
- In Scotland, mixed economic signals
 - Economic growth in Scotland in Q1 2008 was 2.1% y-o-y (0.3%) in Q
 - The service sector in Scotland grew by 0.5% with real estate & business services and other services all experiencing strong growth

BUT

- Construction output fell by 0.4% in quarter (2.9% on year)
- Output from the Scottish financial services industry fell sharply by 8.4%
- Confidence surveys (PMI) suggested that output declined throughout the second quarter and June's rate of contraction was the fastest in the survey's 10 1/2 years history.

Business Confidence

Private Sector Business Surveys



Source: RBS PMI

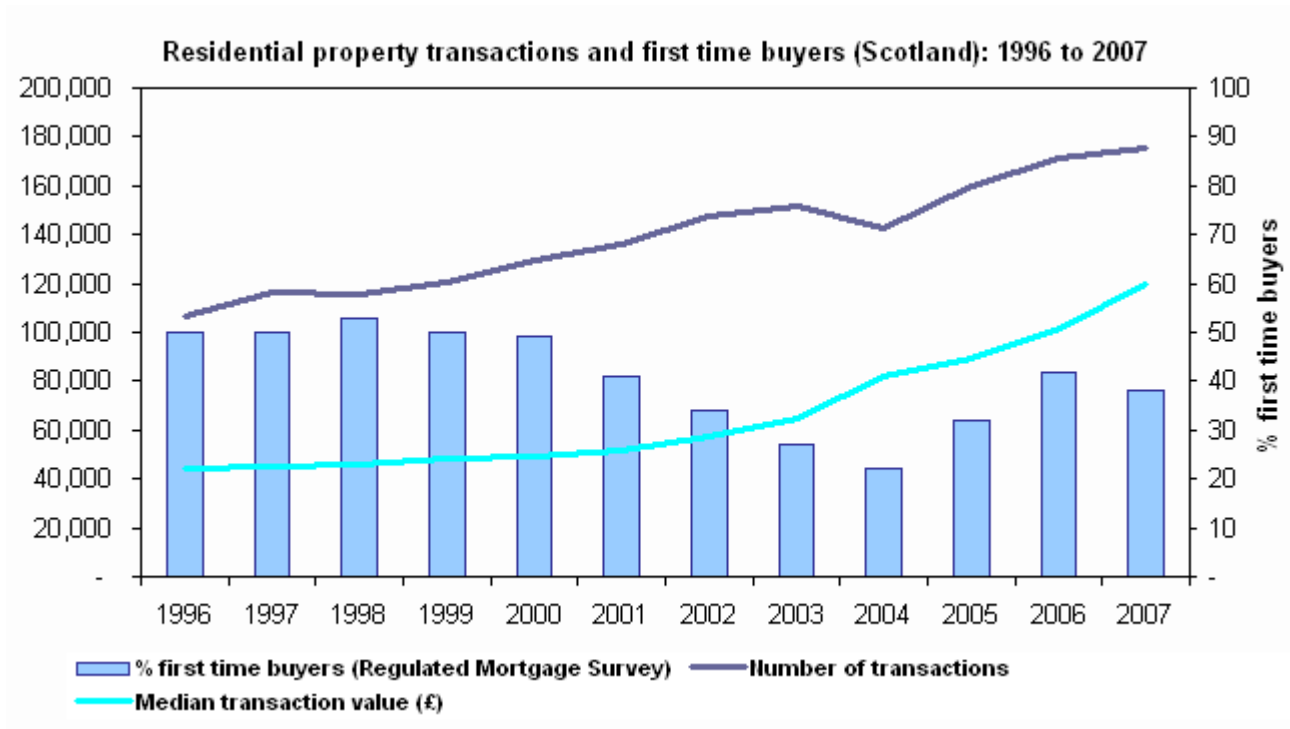
Housing Market Context

- Increasing number of households
- Growth in Owner Occupation
- Right to Buy now falling away
- New social housebuilding dwindled away
- Revival of the private rented sector
- New house building not responding to demand

UK Housing Market Trends

- Combination of short term cycles set against a long term increase in real prices
- Unaffordability at all time high
- House prices peaked at turn of year
- UK prices falling by 9%
- FTPs at all time low
- Repossessions up

Scotland 1996-2007



Source: Scottish Government Communities Analytical Services (Housing Statistics)

Scottish Housing Position

- House prices began to fall in Q2 ?
- Annual change currently -2% or 0.6%
- Q2 Change -4.5% or -1.8%
- New housebuilding – annual approx 21000 completions in private sector 2004-07 but now at a standstill

Relative Position

- Previous house price growth less in Scotland
- FTPs have a greater share of market than any other region except London
- Nationwide affordability index for FTPs shows Scotland just below London and N

Range of Housing Markets

- HBOS av house prices in selected towns from 1988-2002
- Widest variation in inter-urban price changes where in Scotland
- Irvine price rose by 46% compared with 179% for Edinburgh.
- Differential is almost 4 to 1 between the highest and lowest
- Equivalent figures in Y+H of 3 to 1, around to 2 to 1 in SE, London and the N, and 1.5 to 1 in SW
- Diversity of local markets in Scotland with distinctive local economies and the scale of inter-urban distances
- Demonstrate the local nature of housing markets

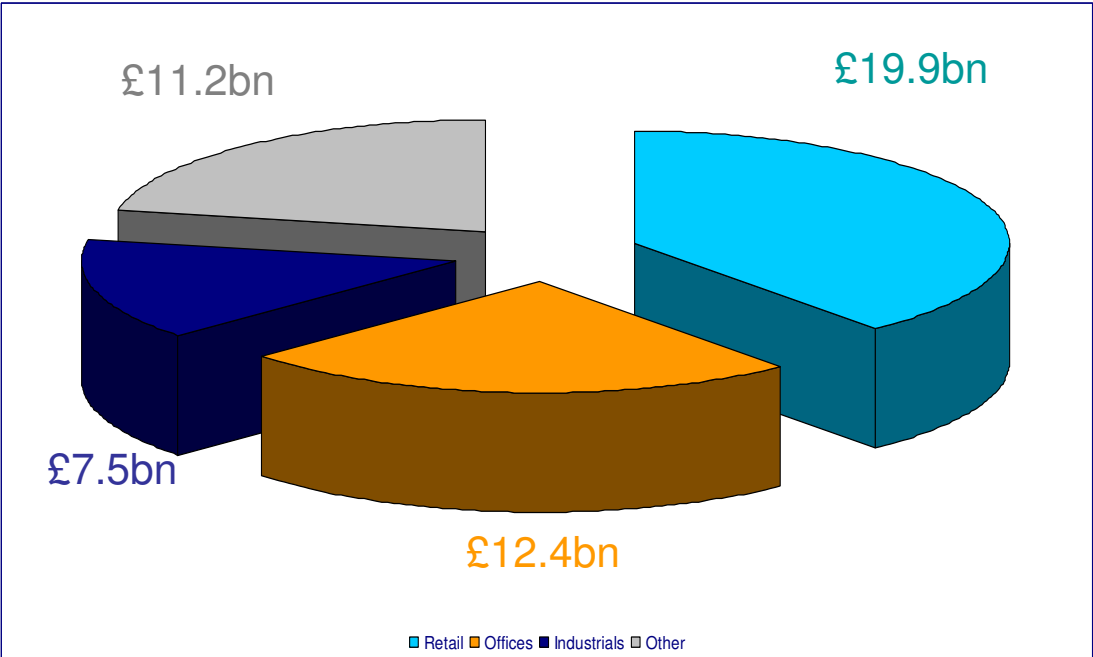
Individual Towns

- Aberdeen one of Nationwide's current hot spots
- Halifax – Fraserburgh fastest price rises in 2007 – 46%, followed by Montrose (28%) and Girvan (25%)
- Element of cyclicity and time lags

Variations in Affordability

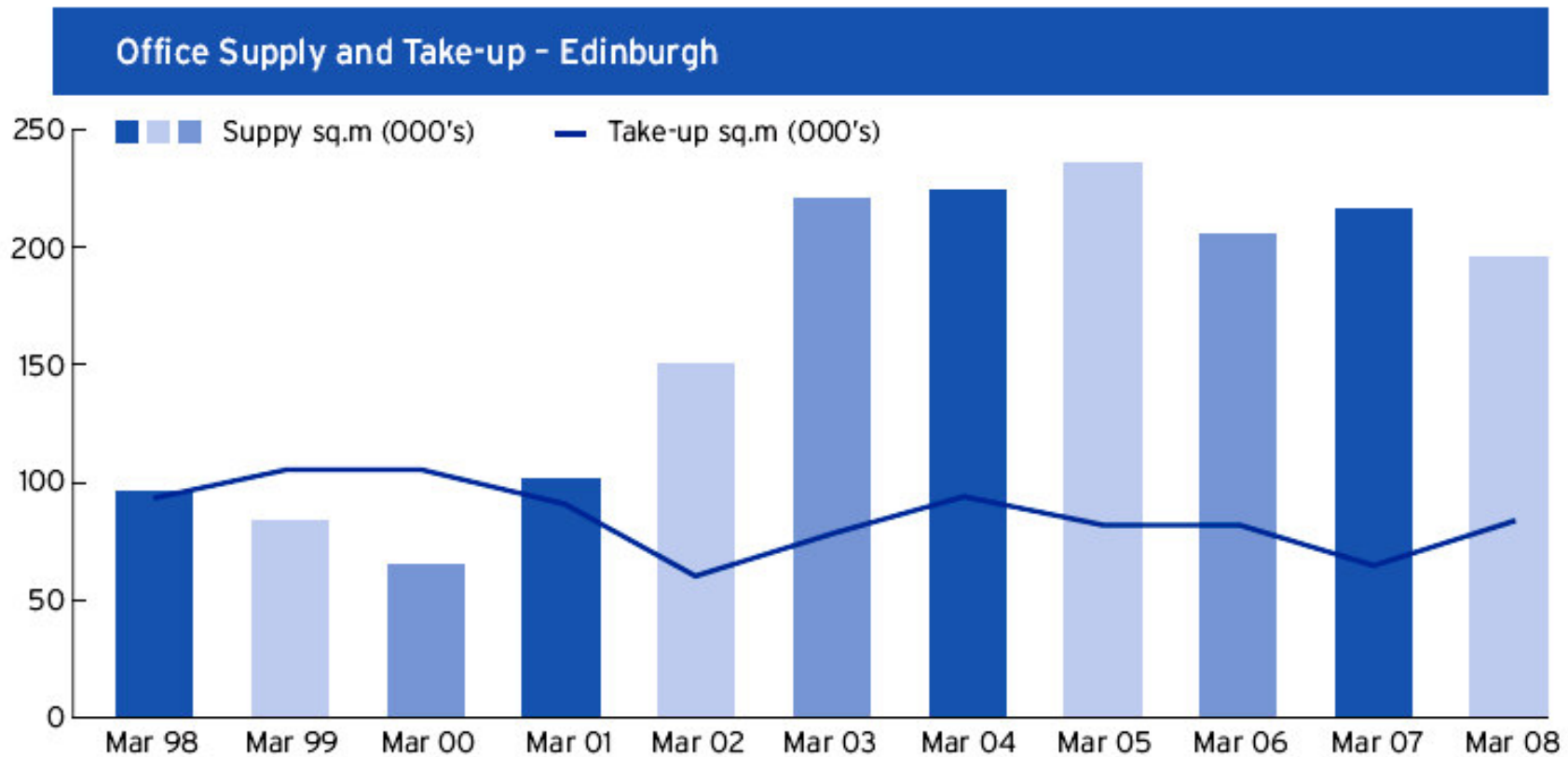
- Bramley has looked at spatial differences in Scotland in 2005
- Cities of Glasgow (26%) and Edinburgh (31%) have the lowest levels of affordability for young adults under 35 years of age
- Most of the other areas with below average affordability are their surrounding suburban districts.

Commercial Stock In Scotland

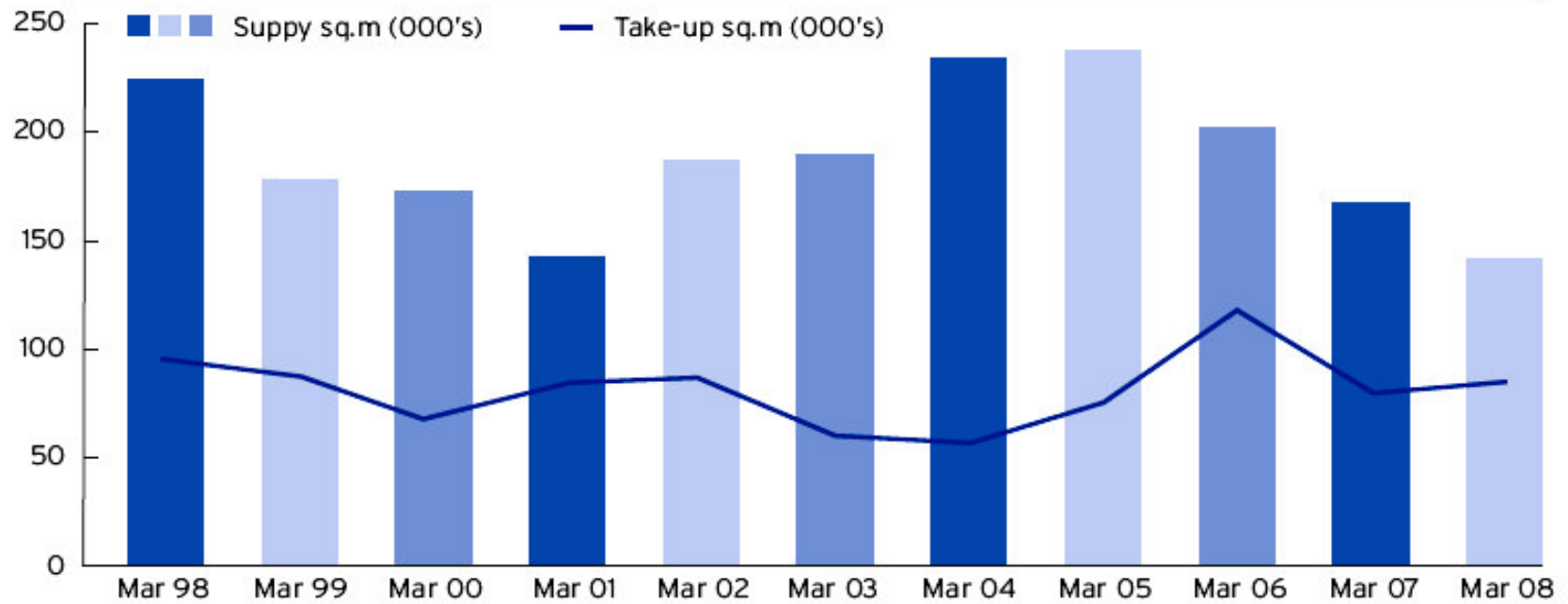


Total capital value of stock (2005) £51 Bn.
30% retail stock (value) is owner occupied.
60% office stock (value) is owner occupied.
80% industrial stock (value) is owner occupied

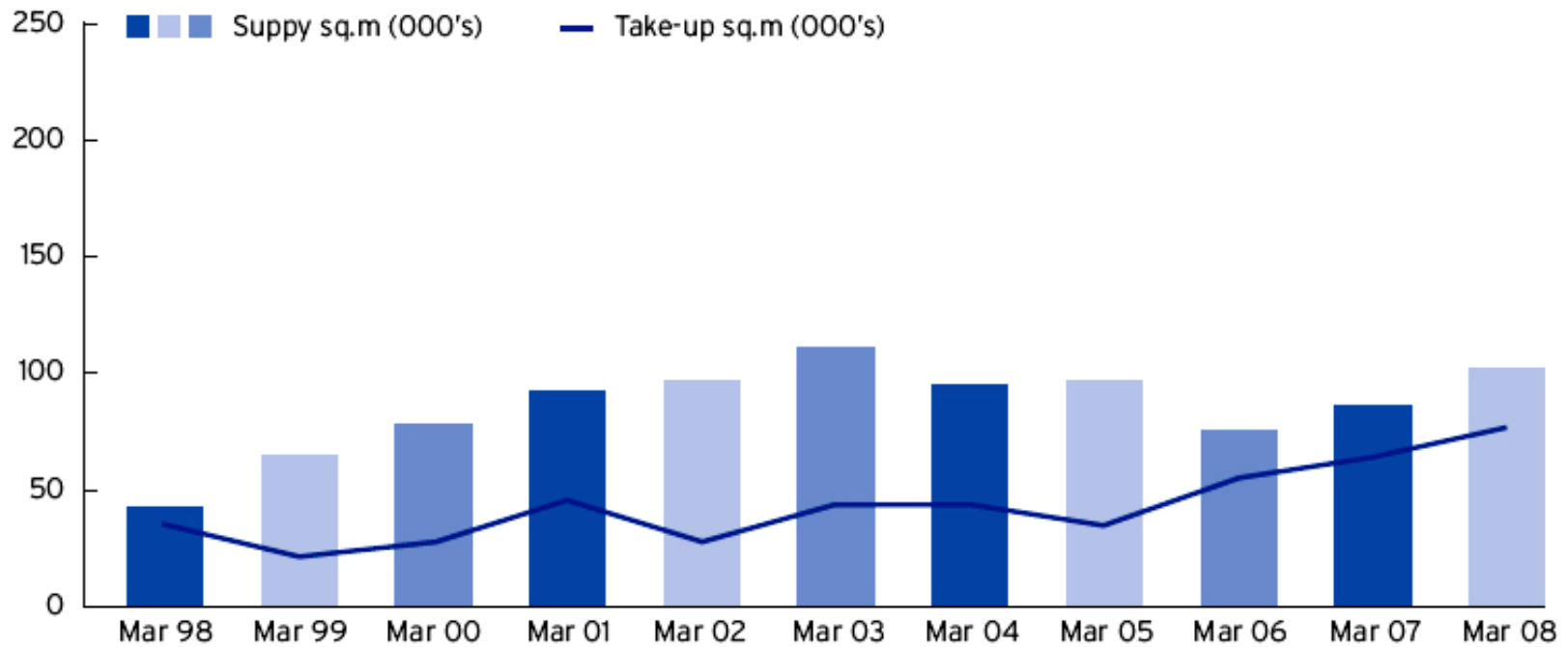
Edinburgh Office Market



Office Supply and Take-up - Glasgow

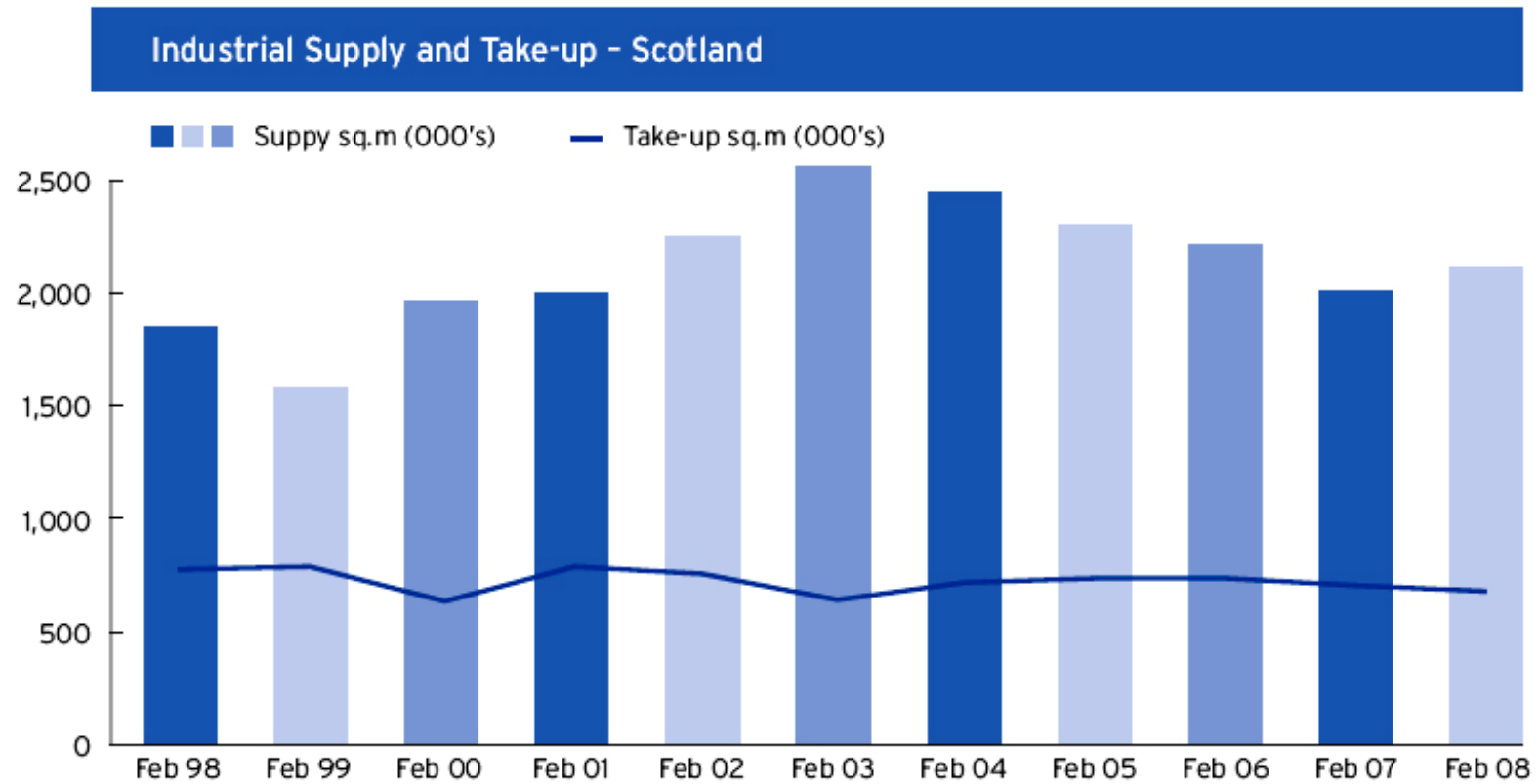


Office Supply and Take-up - Aberdeen



Source: Ryden

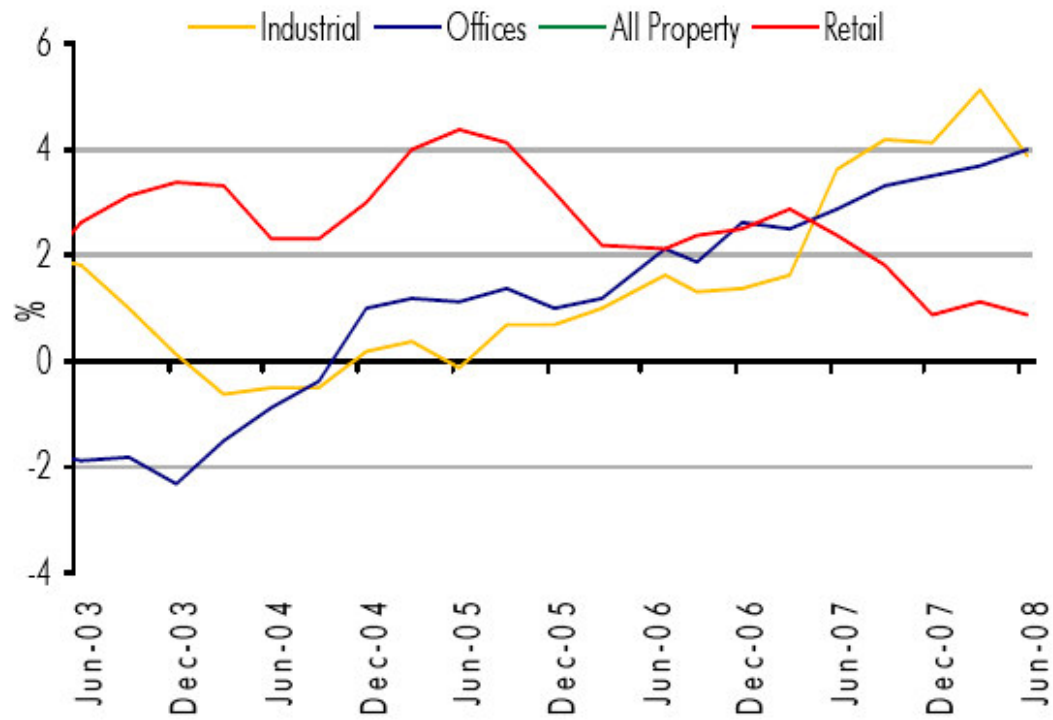
Industrial Take Up



Source: SPN

Rental Growth

SCOTTISH ANNUAL RENTAL GROWTH



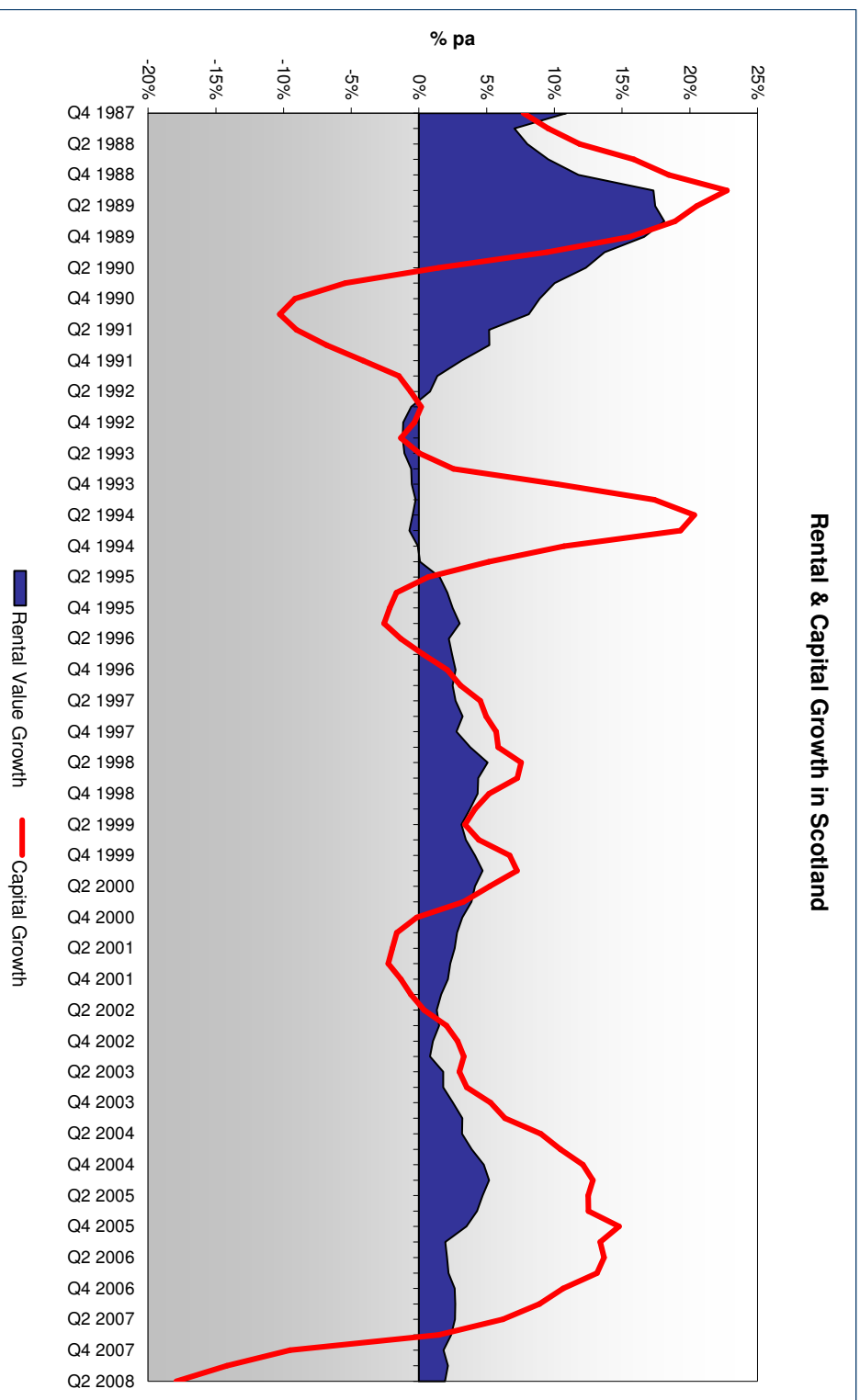
Source: IPD Quarterly Index

Ryden's View

- All Property rental growth in Scotland was 1.9% in the year to Q2 2008.
- Occupier demand in Edinburgh, Glasgow and Aberdeen for office properties has been strong.
- Glasgow maintained its high rank in the regional retail league table and demand for prime properties is steady, while retail activities continue to be limited in Edinburgh.
- The industrial market has enjoyed a healthy level of demand although it suffers from a shortage of good quality stock in the region.

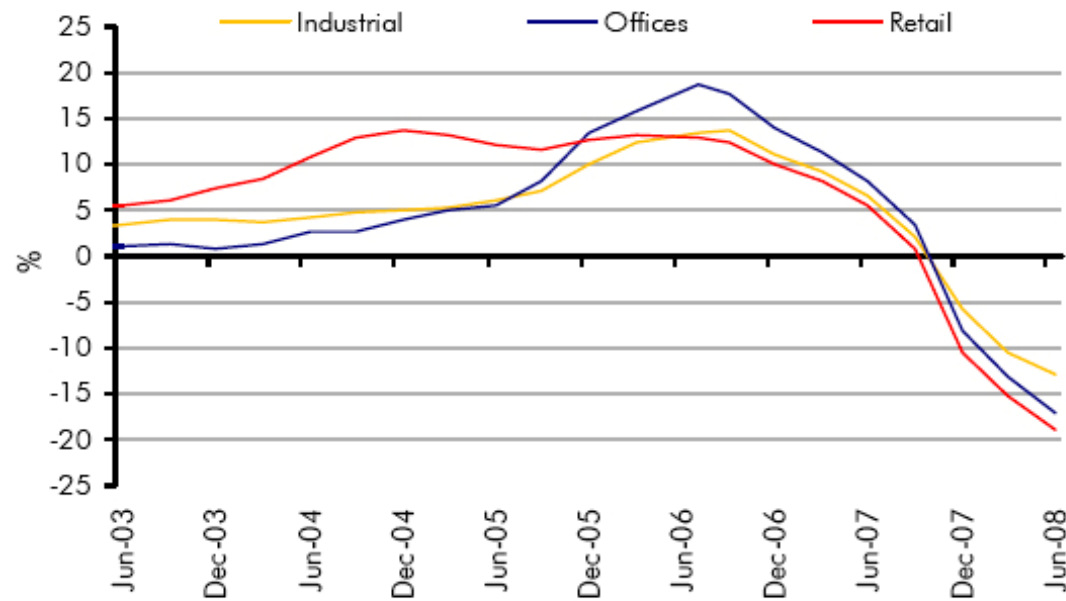
Rent vs Capital Growth

Rental & Capital Growth in Scotland



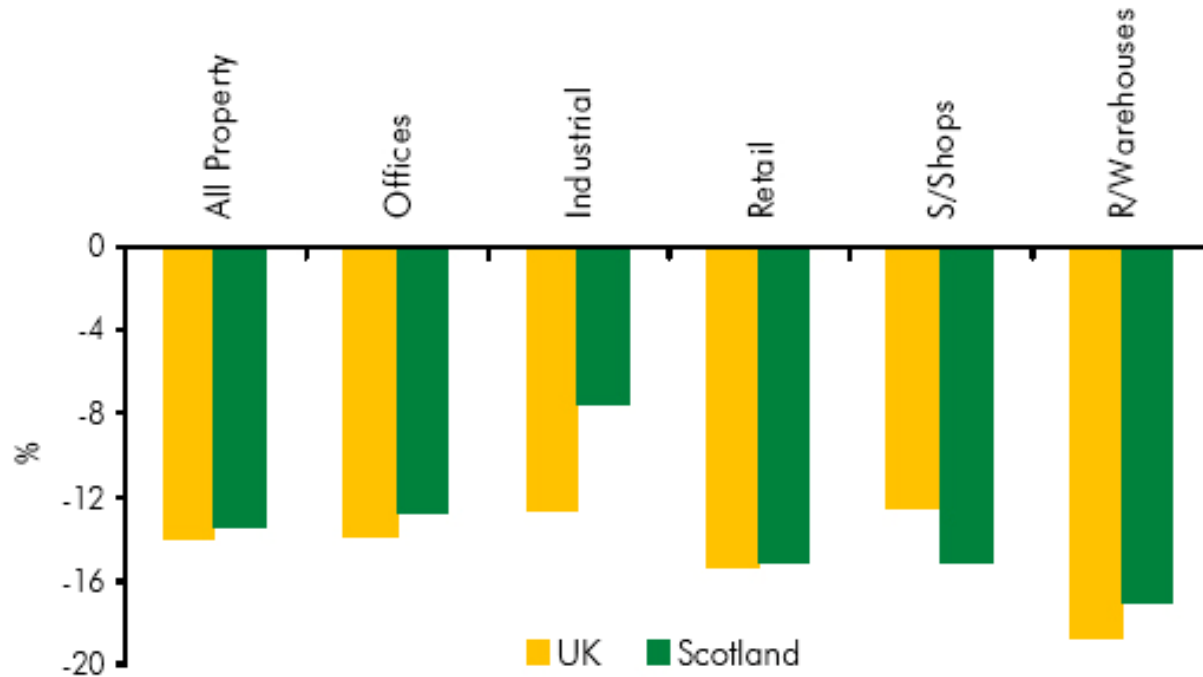
Annual Capital Growth

SCOTTISH ANNUAL CAPITAL GROWTH



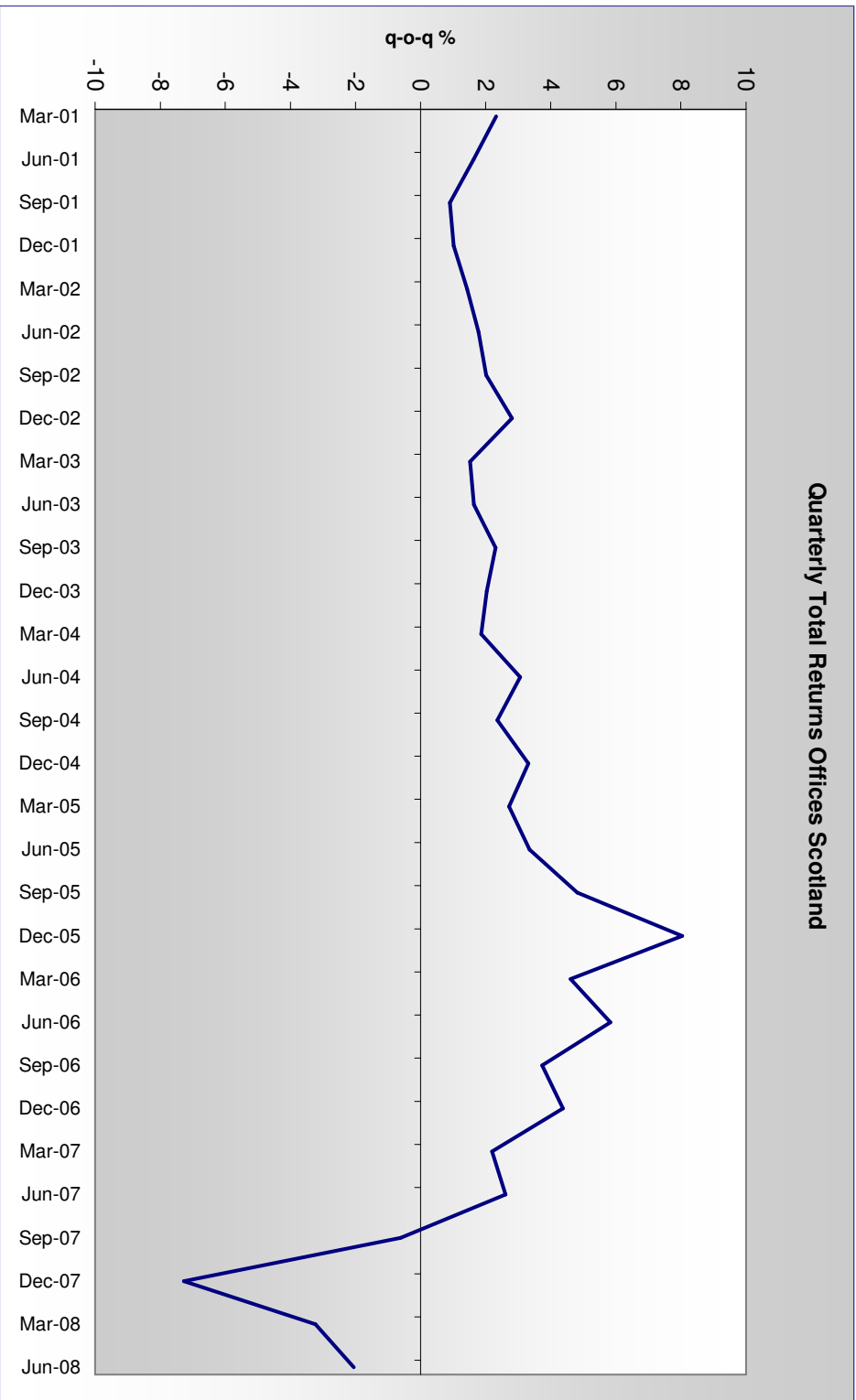
Source: IPD Quarterly Index

Scotland vs UK

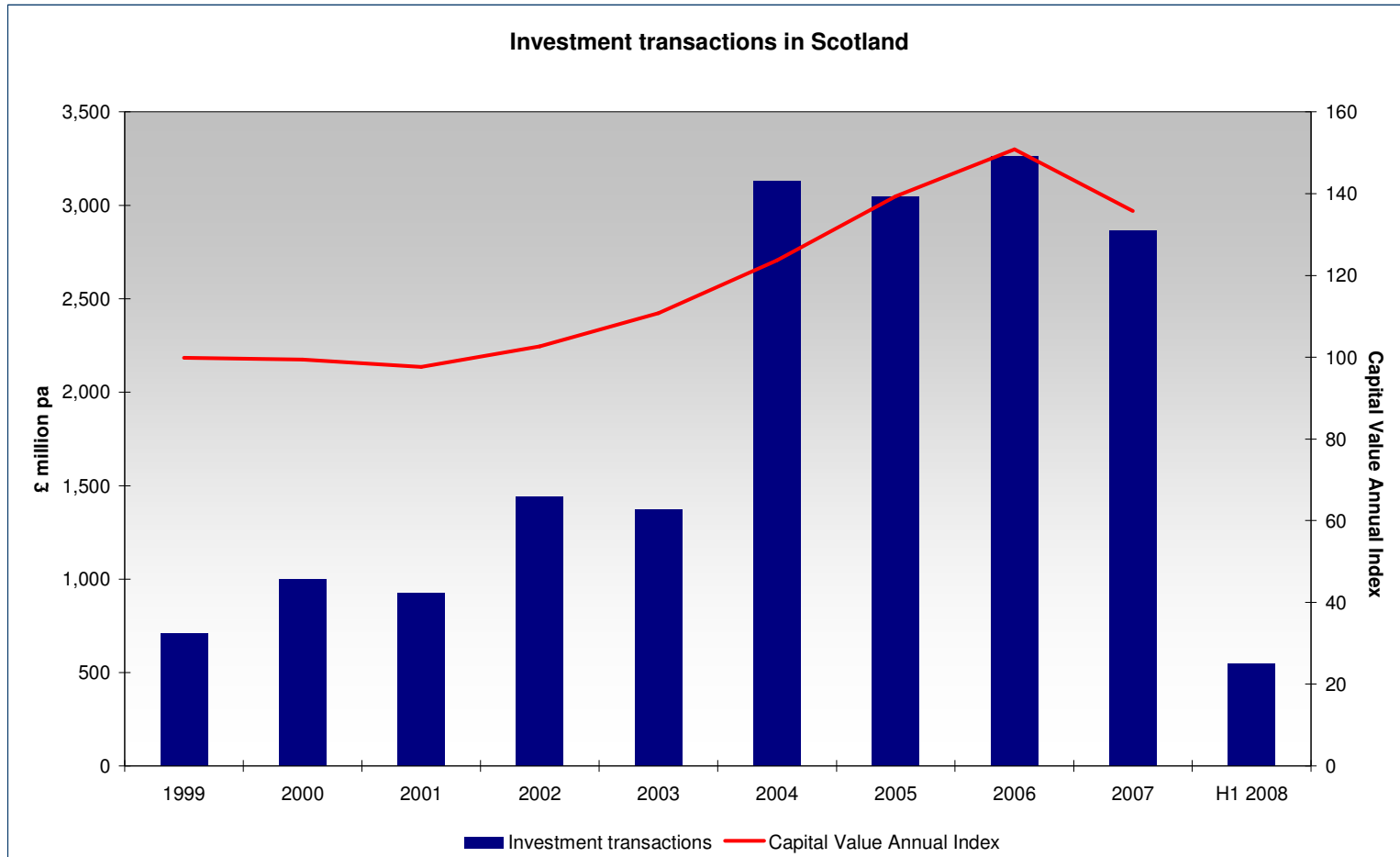


Source: IPD Quarterly Index

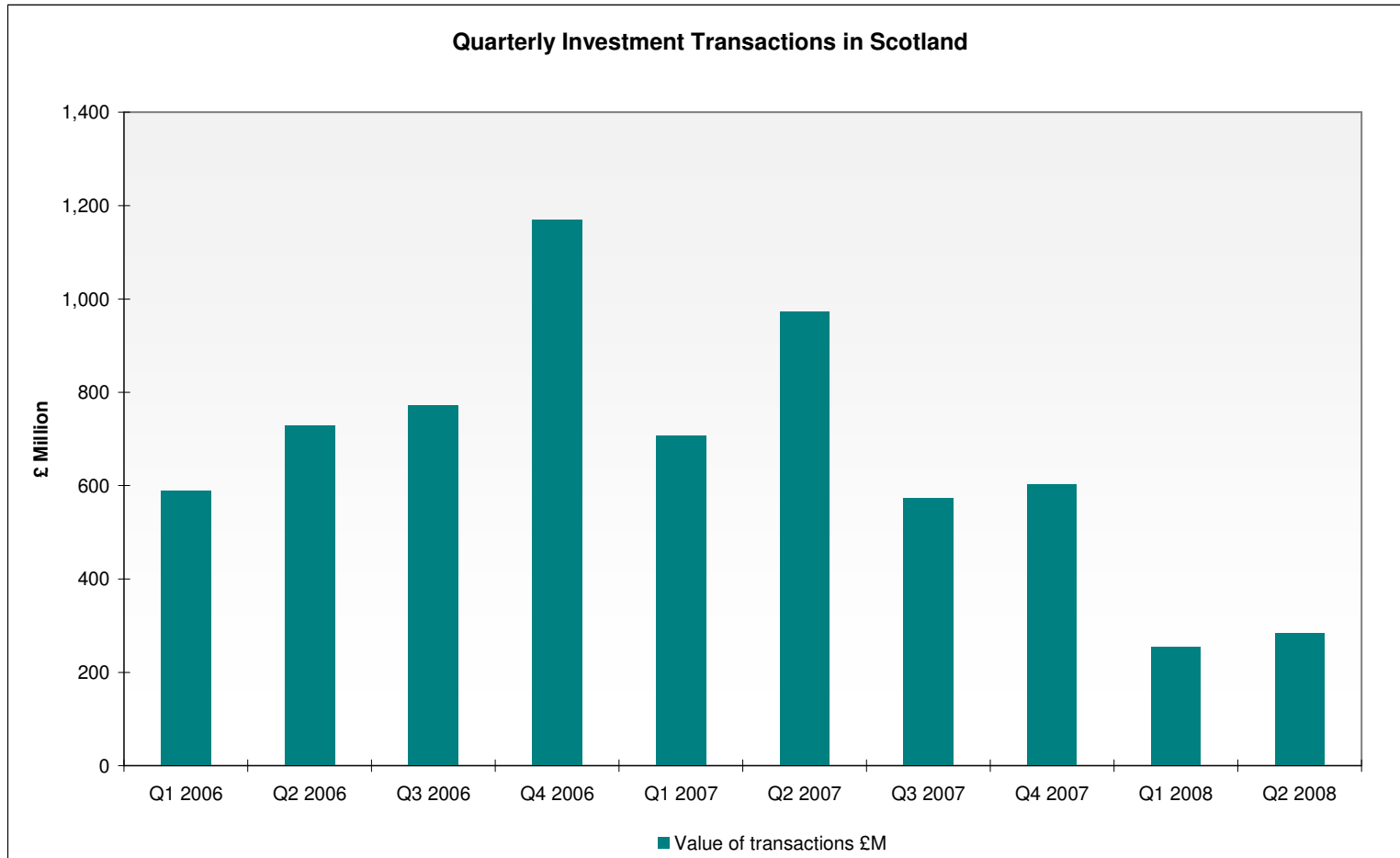
Quarterly Returns



Investment Transactions



Quarterly Investment Trends



Scottish Trends

Quarter	Investment transaction £millions
Q1 2007	£707.84m
Q2 2007	£974.03m
Q3 2007	£574.84m
Q4 2007	£609.37m
Q1 2008	£255.39m
Q2 2008	£284.82m

GVA Grimley Yield Trends

(%)	Glasgow		Edinburgh	
	Q1 2008	Q2 2008	Q1 2008	Q2 2008
Office	5.75	6.25	5.75	6.25
Retail	4.75	5.25	5.0	5.50
Industrial	6.25	6.75	6.25	6.75

Final Thoughts

- Commercial property market subject to extensive market correction in capital values
 - Capital growth driven by prevailing low borrowing costs driving down yields
 - Reversal of market triggered by credit crunch
- Upward turn in property cycle will be delayed not only by funds shortage but risk aversion by banks and nervousness of developers

More Final Thoughts

- Scotland is the only region where house prices still marginally higher than a year ago (as at Q2 2008)?
- Credit crunch will have a longer effect than originally envisaged
- So far forced sales largely restricted to buy to let market
- Recession could bring forced sales and a further reduction in house prices
- But market price underpinned by housing shortages exacerbated by likely reductions in house building