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MarketView

Scottish Property Quarterly

Quarter 4 2011

SCOTTISH PROPERTY IN Q4 2011

The gap between Scotland and the UK in terms of annual total returns has continued into Q4 2011. For the second consecutive quarter every sector in Scotland underperformed in relation to the UK as a whole. Scottish offices performance remains the weakest relative to the UK as a whole and quarterly total returns were in negative territory for the first time since Q2 2009. It is worth noting that the sustained strength of the Central London office market compared with the rest of the country is creating similar disparities in performance in virtually all UK regions. The best performing sector in Scotland in terms of annual total returns in Q4 was retail warehouses.

All property quarterly total returns for all property in Scotland fell in Q4 to 0.5% from 1.3% in the previous quarter and 2.0% in Q4 2010. This represents the lowest quarterly figure since Q2 2009 when total returns were negative.

Falling capital and rental values contributed to the decline in total returns. On an annual basis, capital values in Scotland have declined by over 1% and ERV has declined by just under 2%. This is the 3rd consecutive quarter of falling capital values and the 13th consecutive quarter of falling rental values. The pace of the decline is also beginning to increase after a marginal improvement in Q3.

RETAIL

Retail performed well in Q4 relative to the other sectors with quarterly total returns of 0.7% compared with 0.5% for all property. However, after two quarters of flat capital values, Q4 saw a decline of 0.8% which contributed to an annual fall of 0.2%. Total returns for Retail Warehouses continued to be stronger than standard high street retail.

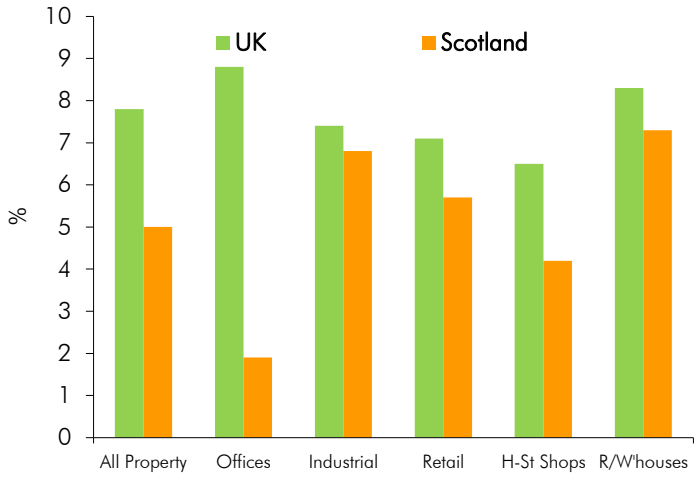
OFFICES

Offices were the worst performing sector in Scotland in terms of total return with a quarterly figure of -0.2%. Offices were the only sector to see negative returns in Q4. Furthermore, this is the first negative total return figure for any sector in Scotland since Q2 2009. The fall in total return is largely due to a hastening in the decline of capital values.

INDUSTRIAL

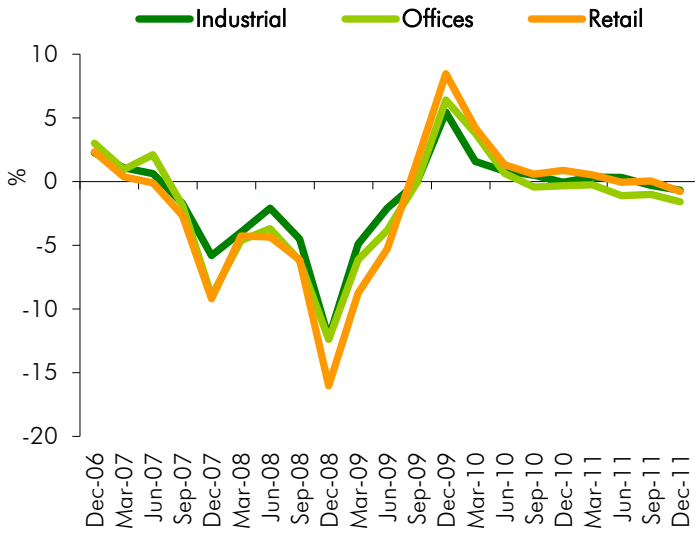
Industrials were the best performing sector in Scotland in Q4 with quarterly total returns of 1.1%. On an annual basis to Q4, industrials in Scotland saw the smallest 'performance gap' relative to the UK of any sector. Industrial was also the only sector to see initial yields move in; from 7.2% to 7%.

Annual Total Returns to end December 2011



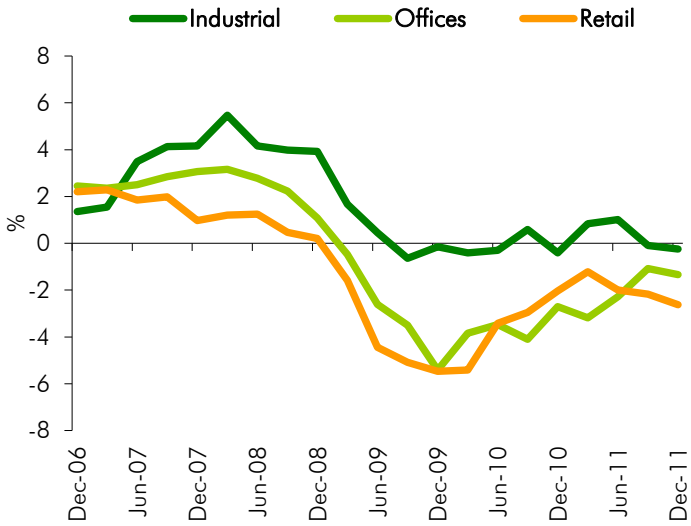
Source: IPD Quarterly Index

Scottish Quarterly Capital Growth



Source: IPD Quarterly Index

Scottish Annual Rental Growth



Source: IPD Quarterly Index

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SCOTTISH PROPERTY INVESTMENT

£331.4m was transacted in the Scottish property investment market in Q4, the second highest quarterly total of 2011, bringing the total for the year to £1.28bn. This represents a fall of 25% compared with the 2010 total.

The largest transactions of the quarter were the £71m purchase by Pramerica of 141 Bothwell Street in Glasgow £41.8m and the purchase of a student accommodation block by Standard Life in Dundee Street, Edinburgh.

The most active sector in terms of investment sales in 2011 was retail. £596m was transacted in this sector over the course of the year, a marginal decrease on 2010. This total was made up of: £248m retail warehouses, £201m high street shops and £147m shopping centres. 2011 saw the highest level of industrial investment since 2007 with £189m transacted. In contrast, there was a 62% decrease in office investment transactions between 2010 and 2011, from £710m to £273m.

ECONOMIC OUTLOOK

Scottish GDP grew by 0.5% in Q3 compared with 0.6% in the UK as a whole. This is an improvement on the figure for Q2 (0.2%), but UK GDP contracted in Q4 by 0.2% and when the figures are published it is anticipated that a similar contraction is likely to have occurred in Scotland.

The Bank of Scotland PMI survey for January shows that business activity has increased and that the PMI was positive for every month of 2011, albeit very marginally. The figure for December was 51.2 indicating that the private sector is in a relatively fragile state. In addition the survey states that private sector employment grew in the final two months of the year. ILO unemployment in Scotland was at 8.6% at the end of November compared with 8.4% for the UK as a whole.

According to the Scottish Retail Consortium / KPMG Monitor, December 2011 was the worst performing December since 'at least 1999'. Annual sales growth in 2011 stood at just 0.8% compared with 2.3% in 2010. The monitor also reports that consumer confidence is lower and falling faster in Scotland than the rest of the UK providing quite a bleak outlook for the Scottish economy in the immediate future.

For more information regarding the Scottish Property Quarterly, please contact:

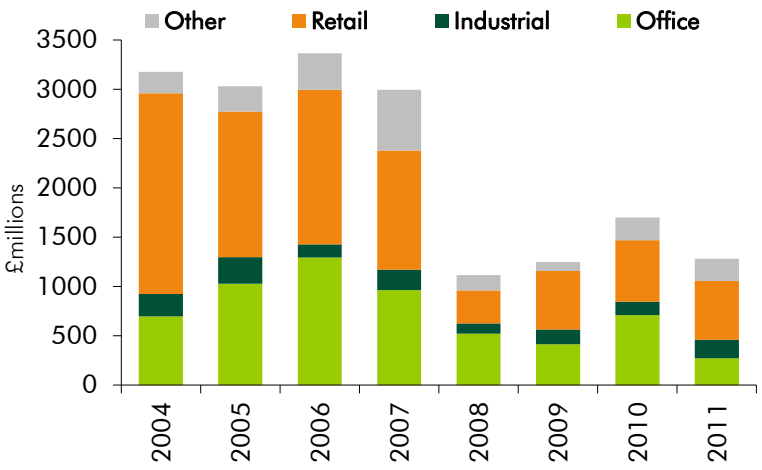
Aileen Knox
0141 204 7747
Aileen.Knox@cbre.com

CBRE
1 Waterloo Street
Glasgow G2 6AY

Simon Brown
0207 182 3993
SimonDavid.Brown@cbre.com

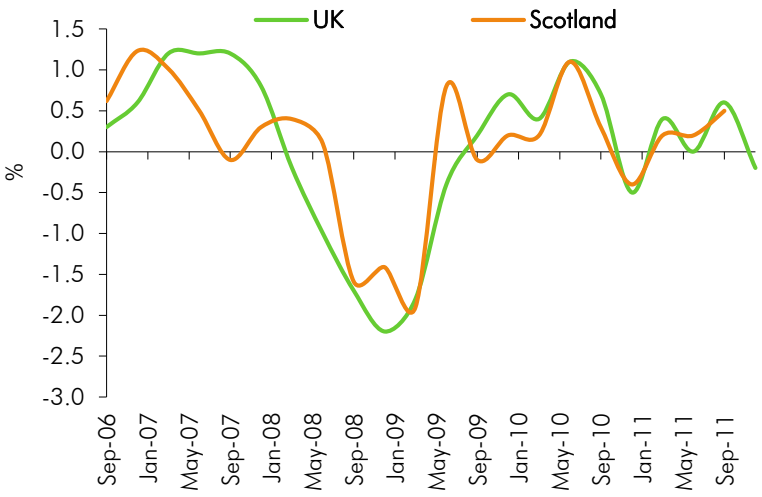
Tel: 0141 204 7666
Fax:0141 204 7677

Property Investment Transactions in Scotland



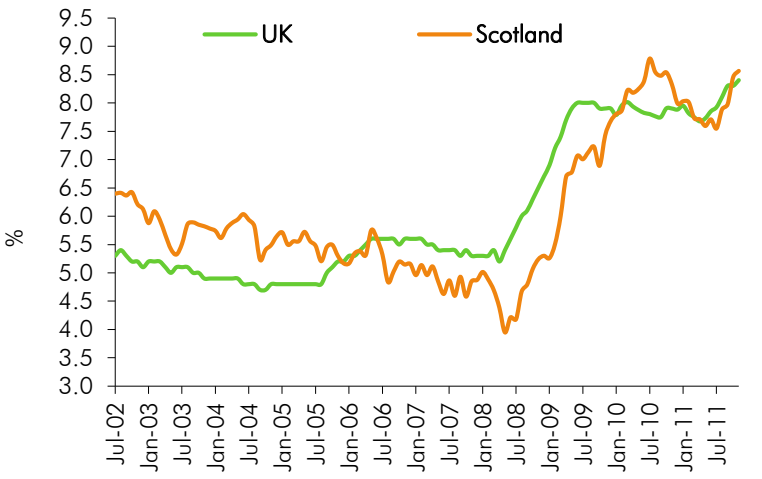
Source: Property Data / CBRE

Quarterly GDP Growth



Source: ONS

Scotland and UK Unemployment Rate



Source: ONS, Scottish Government

Note: This publication is based off the IPD Quarterly Index. For more information on this quarterly index please contact IPD directly.

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