

**Edinburgh City Plan 2030
Commercial Needs Study:
Industrial Property Market**

November 2018

Ryden



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EXECUTIVE SUMMARY

1. City of Edinburgh Council instructed a **land and property commercial needs** study to inform the preparation of **City Plan 2030**, which is currently programmed for adoption in May 2021.
2. This phase of the commercial needs study provides a detailed assessment of **Edinburgh's industrial property market**. Office, retail and visitor accommodation studies are reported separately.
3. **Planning policy** sets the context for employment land use across Edinburgh. The Local Development Plan's tiered approach to industrial property includes active promotion of Strategic Economic Areas and protection of core Business and Industry Areas. The presumption is in favour of retaining industrial uses at these strategic locations. Elsewhere there is a more flexible approach to employment land, which aims to support changing requirements of key sectors but allows for the realisation of new opportunities and urban renewal for alternative uses.
4. Industrial property serves multiple and constantly changing **economic needs**. The sector has seen the decline and loss of older industries, while creating new demand through the growth of trades, services e-commerce and technological change. These changes affect the locations and types of property required. Market demand in Edinburgh currently comes from urban industry, trades, distribution and local services. Total direct employment in Edinburgh's industrial premises is estimated at around 30,000 jobs.
5. Edinburgh's **industrial property stock is 1.08 million sq.m. (11.6 million sq.ft.)**. There are 1,214 individual industrial units with in 695 properties (some are sub-divided), with an average (mean) occupier size of 890 sq.m. (9,570 sq.ft.). The majority of this stock is located in the urban area on the city's industrial estates, in stand-alone manufacturing or distribution premises or at specialist locations such as Leith Docks. The large majority of the industrial stock (93%) is of a very basic standard, graded 2-star or 3-star (out of 5). The peak development era was the 1980s, mainly due to public sector activity, with a broad shoulder period from the 1960s to the 2000s. The majority of Edinburgh's industrial stock is now at least 40 years old and is beginning to exhibit obsolescence.
6. Market **demand** for industrial property in Edinburgh is steady. Rents have increased due to this demand, as well as falling vacancy rates and rising build costs. These market conditions are encouraging some development and refurbishment. Demand is increasingly directed towards strategic locations with good transportation links on the edge of urban Edinburgh.
7. Edinburgh's average annual industrial property **take-up** since 2010 is 43,227 sq.m. in 76 units. There is a skew towards smaller businesses, with 65% of take-up smaller than 464 sq.m. Current available **supply** is 52,733 sq.m. in 54 units, indicating a low vacancy rate of 4.9%. During 2016–18, both available supply and take-up of industrial property have declined, potentially indicating that this low supply is constraining market demand, particularly as 60% of the supply is in older, pre-1980s buildings.

8. Recent industrial **deals** have been on managed industrial estates, in particular modern, quality estates in accessible locations. The mix of unit sizes taken-up is broad, as is the mix of occupiers, covering transportation, showrooms, trade counters, business services, industrial and telecommunications. Prime rents for new-build industrial properties are targeting £107 per sq.m. Achieved rents across a broad mix of buildings range from £21 per sq.m. up to £177 per sq.m.
9. New industrial property **development** of 7,290 sq.m. was recorded in 2017. The planning permission pipeline extends to a further 25,240 sq.m. These are equivalent to a 0.675% addition to the city's industrial property stock and a potential future addition of 2.33% respectively. Speculative industrial development has been gradual and recent new developments on the accessible west side of the city have proved popular.
10. Meanwhile, some ageing inner urban industrial premises are being **redeveloped** for alternative uses. This has moved beyond the replacement of larger obsolete factories to begin to sweep-up multi-occupied smaller units, terraces and industrial estates. Although obsolescence can be complex, for many estates it is simply their age and constrained inner city locations that lead to the demolish-or-refurbish decision point. Some caution is however required, as many inner urban occupiers service the city's residents and businesses.
11. It is clear that the property development market is in the process of **replacing** ageing inner urban industry with edge-city modern industrial property. All of the examples of lost industrial stock identified are inner urban locations, yielding to higher density, typically residential or residential-led development. Meanwhile, all completed and proposed new industrial developments are on the Edinburgh's accessible western edge.
12. In addition to new development, Edinburgh also attracts some trading of its existing industrial stock. The volume of **investment** transactions is comparatively low, at 2-3 each year. Most industrial properties in the city are held by long term landlords. The mean industrial investment transaction in Edinburgh is 3,470 sq.m. and the mean lot size is £3.1 million. The sector has delivered good long run investment performance of 9.1% compound annual average returns.
13. The **industrial market scenarios** to inform the Edinburgh City Plan 2030 Main Issues Report are based upon the anticipated need to both **replace** lost industrial floorspace and **modernise** the stock. The most likely scenario, aligned with market trends, is that some demand will be met in Edinburgh while some will migrate to the wider city region (or remain unmet). Of the market activity retained in Edinburgh, some is assumed to stimulate new-build activity while the balance stimulates refurbishment of existing premises. The total 12-year requirement under this scenario is for **81,000 sq.m. of new-build industrial premises requiring 27 hectares of land**. This would replace 7.5% of the city's existing industrial stock with new buildings in appropriate locations, with a further 7.5% assumed to be refurbished to meet market needs.
14. Based upon the research in this report, the market sectors anticipated to drive this demand for industrial property are: **urban services and trades** as these are gradually displaced from - or in some cases re-accommodated at improved - older inner urban sites; purpose-built, quasi-retail units linked to **e-commerce and smaller urban logistics** in well-located, accessible clusters; and larger sites and units for **modernising industry / clean urban manufacturing and urban logistics**.

15. The two, related industrial property market priorities for Edinburgh's City Plan 2030 based upon the research presented in this report are to:

- **Accommodate the modernisation and potentially the migration of urban industry within Edinburgh. The total scale and mix of in-situ refurbishment versus new development in alternative locations will depend upon the scenario adopted. The focus for this market priority is upon understanding the nature of the occupiers to be accommodated, and their related needs for locations and types of premises. Market intervention to protect or allocate sites and support the provision of serviced sites may be required.**
- **Support and accelerate the delivery of modern, peripheral industrial sites around Edinburgh. This market-led trend is clearly already underway, but should be extended beyond small terraced schemes to medium and larger, serviced sites which can offer the potential for a mix of high amenity industrial uses. The focus for this market priority is upon serviced sites of scale and quality in highly accessible city-edge locations. This could potentially include re-appraisal of land currently being considered for out-of-town offices or research uses, where demand continues to be weaker. Again, market intervention to protect or allocate sites and support provision of serviced sites may be required.**

1.0 Introduction

Study Brief

- 1.1 City of Edinburgh Council instructed a **land and property commercial needs** study to inform the preparation of the next Edinburgh Local Development Plan: **City Plan 2030**. The current LDP¹ was adopted in November 2016. It will be replaced by City Plan 2030 which is currently programmed for adoption in May 2021².
- 1.2 The commercial needs study is delivered by the Council's framework commercial property consultants, led by Ryden. Additional comment and review has been provided by Cushman & Wakefield, GVA and JLL.
- 1.3 The study is a four-phase project intended to:
- provide a robust evidence base covering current and emerging commercial land and property trends to inform City Plan 2030;
 - meet the sectoral requirements of Scottish Planning Policy (SPP); and
 - in the interim period until LDP2 is adopted, assist the city planning function under the current LDP.

Based upon the timetable above and the proposed planning reform to extend LDP durations from 5 to 10 years, City Plan 2030 would cover the calendar years 2021 – 2030 inclusive.

The interim period covered by this report until adoption of City Plan 2030 would therefore be 2019 and 2020.

The work will also support the Edinburgh Economic Strategy which is discussed here in Section 3.

¹ http://www.edinburgh.gov.uk/info/20013/planning_and_building/66/edinburgh_local_development_plan/1

² The timetable and indicative dates for LDP2 are set out in the Development Plan Scheme (September 2017).
http://www.edinburgh.gov.uk/info/20013/planning_and_building/633/ldp_timetable_and_engagement

- 1.4 This second phase of the commercial study provides a detail assessment of **Edinburgh's industrial property market**. The first phase covered the office property market and the third and fourth assess the retail and visitor accommodation markets respectively.

Study Approach and Content

- 1.5 This report sets the economic and planning policy contexts for Edinburgh's industrial market in Sections 2 and 3 respectively. Section 4 provides a summary review of trends affecting the industrial land and property markets.
- 1.6 The city's industrial property market is analysed in detail in Sections 5 through to 7:
- Section 5 analyses the full stock of industrial property – both occupied and vacant – across Edinburgh.
 - Development and investment trends in Edinburgh's industrial property market are set out in Section 6.
 - The current market for industrial property in 2018 in the city is explored in Section 7.
- 1.7 Projections and scenarios to 2030 for Edinburgh's industrial property market are presented and discussed in Section 8.

2.0 Planning Policy Context

Introduction

- 2.1 This section of the report presents the planning policy context for Edinburgh's industrial market. It considers national, regional and local planning policy, in the context that this study is to inform a review of that local planning policy for City Plan 2030.

National Planning Policy

- 2.2 National planning policy is set out within the National Planning Framework (NPF3) 2014 and Scottish Planning Policy (SPP) 2014. These support the Scottish Government's long-term strategy to:

“create a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth”

- 2.3 Scottish Planning Policy (SPP) recognises that:

‘good planning creates opportunities for people to contribute to a growing, adaptable and productive economy’ and ‘spatial strategies within development plans should promote a sustainable pattern of development, appropriate to the local area’.

- 2.4 In terms of supporting business and employment land, SPP sets out that a key policy principle for the planning system should be to:

‘allocate sites that meet the diverse needs of the different sectors and sizes of business which are important to the plan area in a way which is flexible enough to accommodate changing circumstances and allow the realisation of new opportunities.’

- 2.5 SPP outlines that a key policy principle for the planning system is to:

‘promote... industrial development that increases economic activity while safeguarding and enhancing the natural and built environments as national assets’.

- 2.6 Development plans should promote resource efficiency and the minimisation of waste through encouraging opportunities for reuse, refurbishment, remanufacturing and reprocessing of high value materials and products. Industry and business should engage with planning

authorities to identify sites which would enable co-location with end users of outputs.

- 2.7 The National Planning Framework further supports the development of industrial space at a strategic level and highlights that the waterfront in Edinburgh in a key area for regeneration, new homes and port, energy and industrial development. West Edinburgh is a significant location for investment, with the airport, the National Showground and the International Business Gateway. Development here will require continued co-ordination and planning to achieve a successful business-led city extension which fulfils its potential for international investment, new jobs and high quality of place.
- 2.8 South East Edinburgh, (and Midlothian), will accommodate significant growth and is a key location for life sciences based around the Edinburgh BioQuarter and nearby Midlothian BioCampus. Both are part of a national Life Sciences Enterprise Area, whilst the Low Carbon/Renewables East Enterprise Area includes Leith Port

Regional Planning Policy

- 2.9 SESplan (2013) Strategic Development Plan sets out a vision to 2032 for the development of the region, taking account of both SPP and NPF3. It focuses development in the areas of growth for Edinburgh as identified in NPF3 and noted above and designates some of these as Strategic Development Areas.
- 2.10 The second Proposed Strategic Development Plan for the South East of Scotland (2016) was submitted to Scottish Ministers for examination on 26 June 2017. It sets out a strategic vision up to 2038. Key areas of change and locations for investment are identified as significant business clusters.

Local Planning Policy

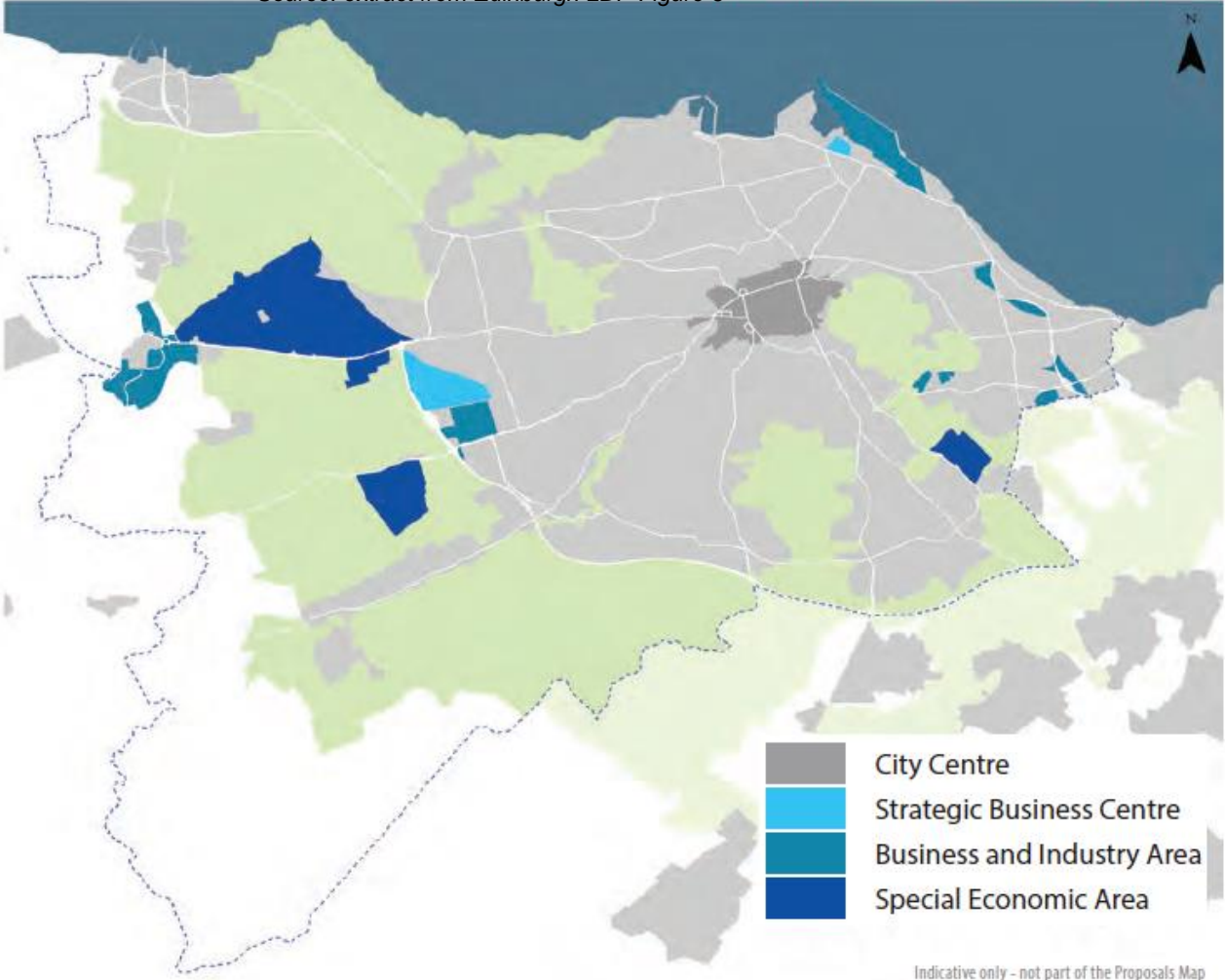
- 2.11 The adopted Edinburgh Local Development Plan (2016) reflects the national and strategic economic priorities set out within the NPF and SESplan. The commentary below focuses on the current spatial strategy rather than policy detail, as the study is undertaken at a market level and additionally it may influence the evolution of City Plan 2030.

2.12 The spatial strategy identifies the city centre, the waterfront, West Edinburgh and The South East of Edinburgh as Strategic Development Areas. Further areas for investment are recognised in the adopted LDP as Employment Centres.

2.13 Within these Strategic Development Areas and Employment Centres, economic opportunities are identified. These reflect a wide range of sites, as required by SPP and SESplan. The city's economic opportunities include are set out in Figure 1.

- **Special Economic Areas** at Edinburgh BioQuarter, Riccarton University Campus and Business Park, Edinburgh Airport, Royal Highland Centre, International Business Gateway and RBS Headquarters at Gogarburn (Policies Emp 2 to Emp 7); and
- **Business and Industry Areas**, such as Newbridge and Sighthill (Policy Emp 8).

Figure 1: Edinburgh' Economic Development Opportunity Areas
Source: extract from Edinburgh LDP Figure 6



- 2.14 **Policy Emp 8 Business and Industry Areas** - states that planning permission will be granted for business, industrial or storage development on sites identified on the Proposals Map as part of a 'Business and Industry Area' and that development, including change of use, which results in the loss of business, industrial for storage floorspace or potential will not be permitted in these areas.
- 2.15 This policy aims to retain a range of employment sites across the city and applies to all established industrial areas (Leith Docks, Sighthill and Newbridge) as well as smaller sites and estates dispersed across the city.
- 2.16 Leith Docks is of national economic importance, identified in the National Renewables Infrastructure Plan as an opportunity for manufacturing industry to support the off-shore renewable energy industry. Other business and industry areas have been designed to cater for a diversity of uses and building sizes. Most are in locations which can be easily accessed by heavy goods vehicles which use the trunk road network. Small scale proposals for ancillary uses which support local businesses and provide services for their employees may be supported as an exception to this policy.
- 2.17 **Policy Emp 9 Employment Sites and Premises** - covers proposals for redevelopment of existing employment sites or premises in the urban area for alternative uses. It states that such proposals will be permitted provided they will not prejudice or inhibit the activities of any nearby employment use; it contributes to the comprehensive regeneration and improvement of the wider area; and, if the site is larger than one hectare, the proposal includes floorspace designed to provide for a range of business users.
- 2.18 There is a general presumption that permission will be granted for the development for employment purposes of business and industrial sites or premises in the urban area.
- 2.19 The policy applies to sites or premises in the urban area currently or last in use for employment purposes (and not covered by Policies Emp 2 – Emp 8). It provides support or such sites to remain in employment use but recognises the potential benefits of redevelopment for other uses.
- 2.20 Where larger (i.e. greater than one hectare) sites are to be redeveloped for other uses, proposals must include some new small industrial/business units. The justification for this criteria lies in the Edinburgh Small Business Study 2011, which identified that businesses with fewer than 10 employees, account for around 14% of the city's employees and current supply of premises is insufficient to meet demand.

- 2.21 Redevelopment proposals of any employment site, regardless of size, need to take account of impact on the activities of neighbouring businesses and regeneration proposals for the wider area.

Summary

- 2.22 Planning policy from national to local level sets the context for employment land use across Edinburgh.
- 2.23 The ELDP has a tiered approach to industrial property including active promotion of Strategic Economic Areas and protection of the core Business and Industry Areas as the key locations for industrial activity across the city. The presumption is in favour of retaining such uses at these strategic locations.
- 2.24 Elsewhere there is a more flexible approach to employment land which aims to support changing requirements of key sectors but allows for the realisation of new opportunities and urban renewal for alternative uses.

3.0 Economic Context

Introduction

- 3.1 This section considers Edinburgh's economic performance and prospects. Industrial property is a complex market sector serving multiple and constantly changing economic needs. Any market analysis requires to acknowledge that 'industrial' can decline with the loss of older industries, at the same time as creating new demand through the growth of trades, services e-commerce and technological change. These changes are not a zero sum game and will impact upon the locations and types of industrial premises required.

Scottish Economy

- 3.2 Scotland's Economic Strategy (March 2015)³ seeks to increase the country's competitiveness and tackle inequality. Four priorities to support the delivery of sustainable economic growth are identified: investment, innovation, inclusive growth and internationalisation. The Edinburgh city economy provides strong support for all of these economic priorities.
- 3.3 Forecasts of economic growth for Scotland extend only into the medium term and do not cover the full City Plan 2030 period. The Scottish Fiscal Commission envisages low growth of marginally below 1% per annum to 2023. Other forecasters such as the EY ITEM Club and Fraser of Allander Institute are a little more positive and envisage economic growth above 1% per annum over the medium term, although this remains well below the historic average of around 2-2.5% per annum.
- 3.4 The market scenarios in Section 8 must therefore be tempered by the possibility that medium term growth may under-perform market potential.

Regional Economy

- 3.5 As well as being Scotland's capital city, Edinburgh is the regional centre for the South-East of Scotland. The city provides a range of services to the wider city region and is a major employment hub.

³ <https://beta.gov.scot/publications/scotlands-economic-strategy/>

- 3.6 SESPlan⁴ ⁵ notes the continuing shift towards knowledge and technology-based industries, as well as importance of financial and business services and government⁶. It reports that around one-third of the city's workforce commutes in from the wider city region.
- 3.7 SESPlan's employment forecasts are coterminous with City Plan 2030 Edinburgh. Employment is projected to rise by 7.6% between 2013 and 2030. Edinburgh is projected to have higher growth of 10.4%. Substantial employment gains are projected for finance and business services, wholesale and retail, accommodation and food, arts entertainment and recreation, and human health and social. As noted above, the fit between employment sectors and industrial property is not exact. However, a city with a growing population and workforce should continue to support an active property market for a range of local, city and regional occupiers.
- 3.8 The Edinburgh and South East Scotland City Region Deal⁷ is an infrastructure investment and skills development programme totalling around £1.1 billion. The programme is expected to create substantial additional economic activity. Particular areas of focus will include improving productivity across the labour market, building on key assets and helping to address inequality. The range of planned investments across infrastructure, incubation, technology, cultural and leisure assets would stimulate demand for business space, either directly through job creation or indirectly through additional economic activity. Supporting analysis for the City Region Deal also includes long run employment growth forecasts; these are presented as scenarios ranging from 2.4% to 14.7% for the period 2013 to 2030. This provides a range around the SESPlan figures noted above.
- 3.9 The City Region Deal reports Edinburgh's share of employment in production (3%), construction (8%), motor trades (1%), wholesale (2%) and transport & storage (1%). The total of 15% of employment will over-estimate the total in industrial premises, as some will be in offices (eg. some construction employment), not in formal premises (also construction)

⁴ www.sesplan.gov.uk/assets/SESplan%20Strategic%20Development%20Plan%20Approved%2027%20June%202013.pdf

⁵ Two regional geographies are used for analysis here: SESPlan and the Edinburgh City Region. Each comprises six constituent local authority areas: Edinburgh, Scottish Borders, Midlothian, East Lothian, West Lothian and Fife. The only difference between these two geographies is that the SESPlan area excludes North-East Fife around St Andrews and Cupar, which accounts for approximately 5% of the regional population and much less of its office-based employment. For the purposes of regional discussions the two areas are treated as broadly equivalent.

⁶ SESPlan Main Issues Report Technical Note – Economy (July 2015):
www.sesplan.gov.uk/assets/publications/MIR/Economy.pdf

⁷ <http://www.acceleratinggrowth.org.uk/>

or in retail units (eg. wholesale). However, small elements of other sectors – such as public services based in depots, or storage uses – will occupy some industrial units.

- 3.10 The only notable expansion among these sectors is forecast for construction. This is assumed to be based upon the physical growth of the city and wider region, particularly new housing. At a sub-sector level there may be growth in some specialist industries such as brewing and distilling.

Edinburgh and Livingston

- 3.11 Property Market Analysis (PMA) reports on Edinburgh and Livingston as a single market area⁸. This geography sits between the regional (above) and city (below). It highlights important points about the spatial distribution of the industrial property market in and west of Edinburgh.
- 3.12 PMA uses employment in Manufacturing and in Transport & Storage as best fit sectors for industrial property. In Edinburgh and Livingston these sectors accounts for 7.8% (33,700 jobs) of total employment, significantly below the North and Scotland average of 14.3%. Thus the Edinburgh and Livingston area is comparatively low in industrial activity in Scottish terms.

Edinburgh Economy ⁹

- 3.13 Edinburgh is a growing city, due to rising birth rates, people living longer and net in-migration for work or study. The city's population was estimated at 507,000 in 2016,¹⁰ which is an increase of 6% over the 477,000 recorded 5 years earlier at the 2011 Census. Edinburgh' population is forecast to be 11% higher again in 2030, at 564,000. While the greatest population growth is forecast in pensionable age groups, the city's working age population is also forecast to rise at around 1% per annum over the City Plan 2030 period.

⁸ Edinburgh and Livingston PROMIS Industrial Report (PMA 14 September 2018). Provided for Ryden's use only.

⁹ Sources for the review of the Edinburgh economy in this section are:

- Edinburgh by Numbers 2017 (City of Edinburgh Council) (the 2018 report is due to be published in September 2018);
- Office for National Statistics, Edinburgh's Economic Strategy (June 2018);
- and NOMIS.

¹⁰ National Records of Scotland

- 3.14 Edinburgh has a high-performing economy. Gross value-added (economic output) per worker is very high at £59,800 per worker, or £37,000 per head of population. Edinburgh's total GVA has increased at an average compound growth rate of 3.5% per annum 2012 to 2016.
- 3.15 A higher proportion (73%) of Edinburgh's working age population is in employment than the UK city average. The city had a total of 324,000 jobs in 2015. The jobs total had increased faster than the UK or Scottish averages since 2010, at around 2% each year.
- 3.16 Looking at employment sectors likely to occupy industrial property, Table 1 on the next page indicates job number for the most recent available year (2016). This may over-estimate primary and construction employment which may be in other locations rather than industrial buildings, but equally may under-estimate trades, services and quasi-retail uses. The total of 30,575 is comparatively stable over the past 10 years although it dipped then recovered following the 2008/09 market crash.
- 3.17 Edinburgh has a deep pool of businesses across the size ranges. In 2015, a total of 19,825 businesses were registered in Edinburgh. The city also creates 3,000 business start-ups annually. The city's most recently-reported 5-year survival rate for start-up businesses is 42%, which is comparatively high in a national context. Edinburgh is currently rated as the number one UK city in which to start a business by the Start Up Cities Index¹¹.

Table 1: Edinburgh Employment in Industrial Sectors (2016)

| Sector | Job numbers |
|---|---------------|
| Manufacturing | 8,000 |
| Services to buildings and landscape activities | 7,000 |
| Wholesale trade, except of motor vehicles and motorcycles | 6,000 |
| Construction of buildings | 3,500 |
| Warehousing and support activities for transportation | 3,000 |
| Electricity, gas, steam and air conditioning supply | 2,000 |
| Waste collection, treatment and disposal activities; materials recovery | 500 |
| Repair and installation of machinery and equipment | 400 |
| Mining and quarrying | 175 |
| Total | 30,575 |

Source: City of Edinburgh Council / NOMIS

Figures are rounded

¹¹ <https://startups.co.uk/starting-a-business-in-edinburgh/>

- 3.18 The spread of business size in the city will directly affect market needs for industrial property. The spread across all business sectors indicates that:
- 87% have 0-9 employees, which for those requiring formal premises would imply an industrial property of up to c325 sq.m. (c3,500 sq.ft.).
 - A further 10% with 10-49 employees might need up to c. 325 - 1,760 sq.m. (c.3,500 - 19,000 sq.ft.).
 - Only a small minority would require larger premises (and for reasons discussed later in this report, larger industrial occupiers may not be based in the city).
- 3.19 The 2018 Edinburgh Economic Strategy sets out a new ambition for the city's economy to achieve 'good growth', by continuing to be the most productive major city in the UK while extending the benefits to all citizens. The strategy is built around inclusion and innovation and is centred on collaboration between the city's anchor institutions. The strategy identifies levers for change which include the delivery of high quality enabling infrastructure and services. The strategy seeks to meet the needs of the future economy by working with partners and private sector developers and using strategic investment funds to ensure supply of affordable, flexible workspaces of varying sizes.
- 3.20 The Centre for Cities Outlook 2018 analyses the performance of and prospects for 62 UK cities. Their forecast period to 2030 is aligned with the LDP period under consideration here. Edinburgh has one of the lowest proportions of jobs in occupations likely to contract¹² (57th of 62 cities) and conversely one of the highest shares (4th of 62 cities) of the types of jobs likely to increase. The Centre for Cities cautions that the process of shrinkage and growth will inevitably cause disruption.
- 3.21 Looking further out, the 2050 City Vision provides a unifying force for Edinburgh. Based upon consultations with thousands of stakeholders, the Vision sets out the four themes for Edinburgh as an *inspired, thriving, connected* and *fair* city. Actions areas for project and programmes will complement these themes. The character of the city and its quality of life are seen as inseparable from its long term business and economic success.

¹² Based upon analysis by NESTA which considers changes such as technology, demography and globalisation. The occupations likely to contract are typically sales and administration, while those likely to grow are higher skilled activities, particularly in the private sector. There is no direct match of either trend with the industrial sectors in Table 1 and elements of each sector could be affected by either contraction or growth.

4.0 Industrial Property Market Trends

Introduction

- 4.1 This section considers the trends which are expected to affect Edinburgh's industrial land and property markets during the City Plan 2030 period. It provides a wider context for the market analyses, projections and scenarios contained in Sections 5 to 8. Some market trends are already evident and can be expected to continue over the 12-year horizon to 2030. Further trends are more recent, or will emerge in future to affect the city's industrial property market.

Long Run Trends

- 4.2 Demand for industrial property comes from a very wide range of occupiers. Industrial occupiers are engaged not only in manufacturing, but also in assembly, storage and distribution¹³. Analysis in this report does though highlight an even more diverse range of occupiers in Edinburgh, which might be better termed:

urban industry, trades, distribution and local services

Expanding upon this, City of Edinburgh Council ¹⁴ lists the city's industrial occupiers as:-

“manufacturing, trades, storage, logistics, property services, food and drink production, power generation, waste management, extraction, and cleaning/ maintenance.... many play a fundamental role in the functioning of the city”.

Further sectors locating in industrial areas include engineering, motor trades and repair, self-storage, data centres and energy. Among these sectors there has been a notable trend for quasi-retail trade counters to locate in industrial areas (nationally as well as in Edinburgh).

¹³ Property Market Analysis PMA (14th September 2018), Edinburgh and Livingston PROMIS Industrial Report, London

¹⁴ Industrial Supply and Demand in Edinburgh, City of Edinburgh Council Economy Committee, 15 September 2015

- 4.3 This diverse occupier activity is critical to understanding how industrial property comes to be in demand, and why the sector is flourishing despite the decline of traditional industries in Scotland since the 1970s. For example, one long run analysis indicates that manufacturing fell from 29% of Scottish economic output in 1973, to 12% in 2009¹⁵.
- 4.4 The economic role of the industrial property sector in Edinburgh can be inferred from floorspace data (in Section 5) and related employment. These show that the city's industrial property sector is around half of the size of its office sector¹⁶ in terms of built floorspace, or around one-quarter of the office sector's size in employment terms.
- 4.5 From the 1950s until the 1980s, industrial property in Scotland was largely provided speculatively by the public sector. Exceptions could include large manufacturing industries, although many of those were publicly-owned too (for example steel making and car manufacturing). Active developers in Scotland included the five New Town Development Corporations, the Scottish Development Agency (SDA) and both the regional and the local authorities. The SDA and New Town Development Corporation industrial portfolios were sold to private landlords in the early 1990s.
- 4.6 Subsequently, during the 1990s and early 2000s, industrial property development became more private sector-led. The public sector provided more targeted support for specific regeneration areas and/or economic growth sectors, including through Scottish Enterprise (SE), the European Regional Development Fund, local authorities and in Enterprise Zones.
- 4.7 Since the mid-2000s, public sector involvement in industrial property has been by exception. This is usually to address market failure in areas of economic need such as those covered by Urban Regeneration Companies (including PARC Craigmillar in Edinburgh) and in priority growth sectors. Local authority activity is reduced, but does include recent new development by City of Edinburgh Council highlighted in Section 7.
- 4.8 The long term trend is therefore of decreasing public sector intervention in the development of new industrial property. This has directly led to less new stock being built. As a result, the ageing existing industrial stock is beginning to exhibit obsolescence. Meanwhile on the demand side, industry has contracted and major factories have been lost, but as noted above the occupier base has diversified and modernised.

¹⁵ Scottish Government (2014), Reindustrialising Scotland for the 21st Century: A Sustainable Industrial Strategy for a Modern, Independent Nation, Edinburgh

¹⁶ City Plan 2030 Commercial Needs Study: Office Market (Ryden with Cushman & Wakefield, GVA and JLL, October 2018)

- 4.9 Lack of new industrial development is not uniform. A number of prime locations in Scotland are delivering terraces of small units, often for trade counter-type occupiers at high rents. Some of these in Edinburgh are highlighted in Section 7.
- 4.10 At a national level, JLL reports that there are 62 speculative industrial development projects underway across the UK totalling 0.67 million sq.m.; 54% of this floorspace is in large units (above 9300 sq.m.) suited to distribution and 46% in small to medium units¹⁷. This industrial development activity is due in part to the growing importance of logistics and distribution.

Sectors

- 4.11 There has been a steady loss of large-scale **manufacturing/ process** plants from Scotland since the 1980s. The largest of these were in the ship-building, steel and car-making industries. A wave of electronics sector investments in the 1980s and 1990s reversed in the 2000s. Many of the related industrial facilities have since been redeveloped for other uses.
- 4.12 Edinburgh lost industrial facilities during this dis-investment phase, including printers, distilleries, breweries, electronics, food & drink and chemicals/pharmaceuticals. These were largely in inner urban areas and their former sites have been redeveloped, typically for housing. The city does however retain some notable industrial facilities for example in the food & drink, high technology engineering and packaging sectors.
- 4.13 Manufacturing is now changing rapidly. The fourth industrial revolution – or Industry 4.0 – is expected to embed emerging technologies such as the internet of things, artificial intelligence, robotics and additive manufacturing. A recent report¹⁸ assessing 100 countries across 59 indicators placed the UK fourth for the structure and drivers of production that are expected to encourage this transition.
- 4.14 Scotland's Manufacturing Action Plan¹⁹ (MAP) seeks innovation and investment productivity improvements and to stimulate, and proposes a suite of public sector support for sectors and companies. Ryden's

¹⁷ UK Industrial Market Tracker (JLL, Spring 2018)

¹⁸ World Economic Forum (2018), Readiness for the Future of Production Report 2018

¹⁹ A Manufacturing Future for Scotland (The Scottish Government, February 2016)

supporting MAP property market report²⁰ identifies the parallel requirement to address physical deterioration of buildings while also improving functionality, technology and energy efficiency. Potential property market interventions to support manufacturing could include highly-serviced sites, company-specific support and building refurbishment programmes. The factory of the future²¹ may be smaller, smarter and more urban.

4.15 **Logistics** are increasingly bespoke (purpose-built) premises, as specialist occupier needs become difficult to satisfy with standard buildings²². Occupiers will seek competitive advantages through their premises, and higher specification for security (both physical and data), energy use and waste processing. Proximity to urban centres for last-mile delivery will become more important. Longer term, some retail warehouses may be re-purposed to meet these needs. However, not all occupiers will be able to achieve cost-effective and modernised supply chains and adoption of technology may be uneven. Occupiers seeking less costly property solutions may end up in secondary premises and locations.

4.16 A recent report by Cushman & Wakefield²³ identifies the structural trends driving the logistics and industrial property markets as:

- Technology
- Demographics
- Direct-to-consumer models (a sharp rise in freight transport)
- Regulatory environment
- Transport and accessibility

For occupiers, a shortage of suitable premises is third most important issue facing their businesses, after customer price pressure and skills shortages.

4.17 The report envisages 'smart sheds' which are technology-enabled, sustainable, independently powered and pleasant to work in (echoing some of the points made in the Manufacturing Action Plan studies city above). Over the medium term, purpose-built urban logistics locations of 3,000 – 7,000 sq.m. (c.32,500 – 75,000 sq.ft.) located within 30 minutes of the inner city – are anticipated to be in demand. Separate reports also

²⁰ A Manufacturing Future for Scotland: Industrial Property Study (Ryden, April 2016)

²¹ www.gov.uk/government/publications/future-manufacturing-factory-of-the-future

²² Knight Frank (undated), Future Gazing: Logistics

²³ Confidential, not referenced

suggests that market fundamentals and structural transformation to e-commerce will continue to benefit logistics property^{24 25}.

Cities

- 4.18 The Centre for Cities has undertaken a detailed analysis of how commercial property – office, retail, industrial, food and leisure - is distributed in cities²⁶. Across England & Wales, industrial (including warehouses) accounts for 13% of city centre floorspace, and 62% of suburban floorspace. Cities do vary, but the land use pattern is broadly consistent. Preferred locations for industry are typically driven by a large land requirement and good transport links.
- 4.19 Although industrial space is in decline – by 12% 2001-16 across the cities studied – logistics is becoming more important and cities are allocating suburban land for larger units (Warrington, Bolton, Knowsley and Middlesbrough are cited as examples of this). London (Silverton) is proposing the UK's first 3-storey warehouse. Former retail parks are noted as potential candidates for urban logistics. The resulting congestion is however a challenge, with 'white van' traffic reportedly the fastest-growing segment of transport, at 71% growth since 1996²⁷.

Current Market Pressures

- 4.20 A recent industrial and logistics market 'census' by Property Week²⁸ identified the main constraints faced by a group of three hundred occupiers, developers, landowners and investors as:
- Lack of development sites (31%)
 - Length of planning process (22%)
 - Power supply (16%)
 - Pace of change in tenant requirements (10%)
 - Development finance (8%)

²⁴ United Kingdom Industrial Market Snapshot (Cushman & Wakefield, Second Quarter 2018)

²⁵ Shed Hot (Lambert Smith Hampton, 2018). The report includes reference to the Pitney Bowes Parcel Shipping Index which notes that at current rates of growth UK volumes could increase from 2.5 billion in 2017 to 3.9 billion in 2021

²⁶ Building Blocks (Chapter 3) (Centre for Cities, June 2018). Some Centre for Cities analyses include Scotland while others are for England & Wales only, depending upon the underlying data source. Results which do not include Scotland or Edinburgh are still informative as they summarise broadly comparable trends across more than 50 UK cities.

²⁷ Linton C, Fuller R, Bray J (2018), *White Van Cities – Questions, Challenges, and Options on the Growth of Urban Van Traffic* London: Urban Transport Group

²⁸ Industrial & Logistics Census: Logistics gets the thumbs-up (Property Week, 7 September 2018)

- Shorter leases (4%)
- Yard depths (4%)
- Eaves heights (2%)
- Floor loadings (2%)

While the majority are most concerned with market factors, a significant minority are concerned about modern technical specifications.

Agents' Working Group

- 4.21 A panel session held among the Council's framework property agents in September 2018 discussed current market trends as they transpire in Edinburgh. The trends are amplified by the analyses in Sections 5 to 7.
- 4.22 Market demand for industrial property is steady. Rents have increased due to this demand, falling vacancy rates, and rising build costs. These market conditions are encouraging some development in prime locations around Edinburgh. Rising rents and low vacancies are also encouraging some private landlords to refurbish existing units to extend their physical lifespans and improve their market appeal. Agents note that even older industrial stock, if fully refurbished and in a good market location, could target rents of up to £108 per sq.m. (£10 per sq.ft.).
- 4.23 The agents' group believes that the principal constraint upon industrial property development activity in Edinburgh is the cost of providing infrastructure into larger sites around the city periphery. This infrastructure investment would include utilities (power, water, drainage and telecommunications), decontamination and/or ground stabilisation, and provision of pavements and roads including junctions into existing road networks. Such infrastructure investment would then allow developers to build new units. As noted in the review of market trends above, medium to larger requirements are increasingly specialist and less likely be met by standard terraced or stand-alone 'sheds'.
- 4.24 Market demand is increasingly directed towards strategic locations with good transportation links on the edge of urban Edinburgh. Beginning in the north of the city, these would include Seafield and Portobello closest to the A1, moving south through Newcraighall, then following the A720 City Bypass westwards via Shawfair (in Midlothian) around to West Edinburgh at the M8 / M9 / Airport axis and north again to the Forth Bridgehead (in Fife). In particular, Edinburgh Airport is a comparatively untapped location for industrial development, including to support rising cargo capacity.

- 4.25 Unlocking new industrial development sites in these strategic locations around Edinburgh is important not only to meet current demand, but because inner city, older industrial estates with poorer buildings, accessibility and layouts are under constant pressure for redevelopment for alternative uses.
- 4.26 The loss of vacant non-domestic rates relief has not impacted Edinburgh's strong industrial property market, but again considering redevelopment pressures this would be a material consideration if larger premises fell vacant with no prospect of early re-occupation.
- 4.27 In the strategic locations noted above and within prime industrial areas, industrial development in Edinburgh can be a financially competitive land use. The decisive factor is whether the underlying value for alternative residential or commercial use exceeds the industrial asset value. For example an ageing industrial estate in a prime housing area is at risk of demolition for redevelopment, but on the other a good modern industrial estate in an outer urban location can be viable and indeed may show a higher return than other land uses. One element which is difficult to make viable in Edinburgh is concrete yards for open storage / handling, as the costs and large land-take are not usually economic.
- 4.28 The current low vacancy rates allows landlords to be discerning about potential tenants. Landlords can exclude lower amenity uses such as vehicle repairs as these can cause traffic congestion and unsightly external working - for some estates it may be a formal policy to exclude vehicle repairs - but also can select those occupiers with better financial track records.
- 4.29 This may work against less established businesses, who have a limited and shrinking choice of affordable premises on flexible terms in Edinburgh. The city does not have the legacy portfolio of industrial buildings 'carved up' for smaller users that other, post-industrial cities can offer; and where these did exist most have been redeveloped for alternative uses.
- 4.30 This lack of flexible and affordable units may be exacerbated by the rise of technology-led industrial users. These occupiers are expected to focus on better quality premises in terms of functionality, image and amenity, but will still require the flexibility to grow.
- 4.31 Greater availability and lower costs of land and property are encouraging industrial occupiers serving the city region to consider North Midlothian, West Lothian and the Fife bridgehead as viable alternative locations. This

is beginning to drive up rents and land values in those locations. These regional occupiers may be distinct from inner city 'white van' trades and services looking to be close to businesses and residents.

4.32 The remaining larger industrial users in Edinburgh are longstanding individual businesses for example in Sighthill (food & drink), Turnhouse (packaging), Leith (docks users), Gorgie (distillery) and advanced engineering (Crewe Toll).

4.33 Summarising these market tiers and their locational requirements (*property sizes are broad guides provided simply to aid description*):

4.33.1 Small traditional estates in urban Edinburgh provide terraces of units in sizes up to around 400 sq.m. (4,300 sq.ft.). These have the most diverse mixes of users, often providing services directly to the city's residents and businesses. Many are not formally protected by planning policy and are in dense, less accessible urban locations where higher value residential or commercial uses might target.

4.33.2 Medium up to large industrial units, of around 500 sq.m. (5,400 sq.ft.) to 10,000 sq.m. (108,000 sq.ft.). Traditional industrial, manufacturing and distribution occupiers. Typically located on managed formal industrial estates identified in planning policy and located on the city periphery for access to the city and to arterial (and potentially multi-modal) transport routes around the city region. There is surprising little of this stock around West Edinburgh given its trunk road, rail, port and air access²⁹.

4.33.3 Regional Distribution Centres RDCs and large manufacturing complexes of around 10,000 sq.m. (108,000 sq.ft.) up to 25,000 sq.m. (270,000 sq.ft.) and larger, requiring individual sites of around 3 – 8 hectares (8 – 20 acres) and larger. These are not found in Edinburgh as they require national motorway and possible multi-modal transport access. They also require suitable utilities (power, water, et cetera) and access to labour markets and supply chains. RDCs' precise locational requirements often directing them to logistics hubs and large strategic sites such as Eurocentral on the M8 motorway.

²⁹ Edinburgh and Newbridge: A review of the Industrial and Logistics Market (CBRE, H2 2017).
PMA *op cit*

5.0 Edinburgh Industrial Property: Stock

Introduction

- 5.1 This section provides a detailed analysis of the total stock of industrial property (both occupied and vacant) in Edinburgh. The stock estimate has been made specifically for this study and is based upon granular data for the entire city.

Total Floorspace

- 5.2 Edinburgh's stock of industrial space includes both occupied and vacant premises, ie. all existing industrial buildings. This stock changes over time through new developments to create additional industrial units, and through loss of industrial floorspace through demolition and redevelopment for alternative uses.
- 5.3 An industrial property stock figure depends upon the definitions of the market area and types of buildings included. Ryden has used multiple sources – CoStar, Scottish Assessors' Association, in-house databases and market knowledge – to develop the 2018 Edinburgh industrial stock figure. All detailed data is held in a spreadsheet for analysis and linking to the Council's GIS. The analyses presented below are summary graphics and commentaries drawn from that granular analysis.
- 5.3 The estimated industrial property stock total across the city is **1.08 million sq.m. (11.6 million sq.ft.)**³⁰. Industrial floorspace encompasses all industrial, manufacturing, storage³¹ and distribution and showroom³² floorspace in the city.
- 5.4 There are an estimated 1,214 individual industrial units in the stock database in 695 properties (some of which are sub-divided). This indicates an average (mean) occupier size of 890 sq.m. (9,570 sq.ft.). The median (339th by size) industrial unit is 800 sq.m. (8,600 sq.ft.).

³⁰ The Scottish Assessors' Association (www.saa.gov.uk) reports a lower figure of 0.953 million sq.m., but many more units at 2,510 in total. This includes small workshops, lock-ups, stores and yards which are not counted as industrial stock here.

³¹ 40,000 sq.m. or just under 4% of stock in 15 buildings is accounted for by self-storage facilities

³² Car showrooms represent 34 separate buildings in the stock analysis and around 54,000 sq.m. (5%) of floorspace.

- 5.5 The majority of this stock is located on the city’s industrial estates. These include estates in Sighthill, Bankhead, South Gyle, Wester Hailes, Bonnington and Craigmillar. Industrial stock at Newbridge to the west is physically separate from the urban area. Further stock exists in stand-alone manufacturing or distribution premises and specialist locations such as Leith Docks and West Edinburgh. Beyond these formal industrial locations the city retains some back street industry in small clusters of units.
- 5.6 Table 2 compares the economic sector employment numbers from Table 1 earlier with an employment estimate based upon the stock of industrial floorspace. The estimates are not inconsistent – the difference in job numbers is 7% - given the very different techniques used and range around approximately 30,000 jobs. Edinburgh’s numerous urban trading estates are probably occupied at reasonably high density - rather than having large areas for process or storage – and by related services as well as those counted in industrial job numbers. That would suggest the higher, 30,000-plus figure may be more realistic.

Table 2: Edinburgh Industrial Employment Estimates

| Estimating Method | Data and Assumptions | Estimated Employment |
|---|---|--------------------------|
| Employment within relevant sectors. | 2016 employment data. Fit of sectors with Use Classes 5 & 6 is not precise. | 30,575 jobs ¹ |
| Employment within identified industrial property stock. | 1 job per 36 sq.m. ³³ Figure is highly averaged. 95% occupancy rate. | 28,500 jobs |

¹ see table 1 earlier for a breakdown of jobs by sector

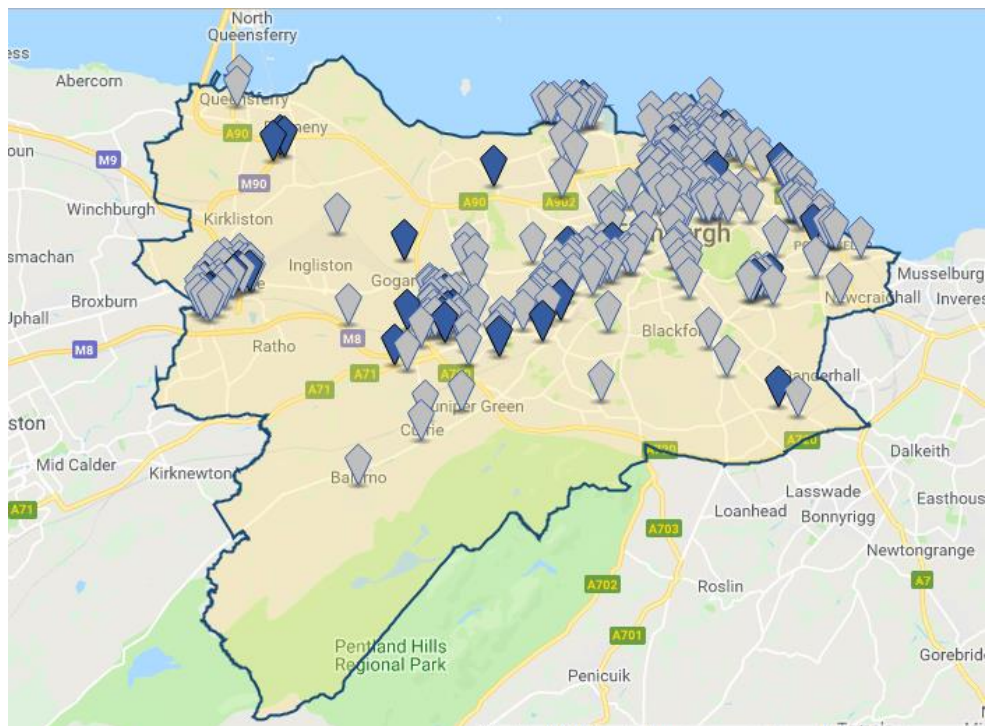
Industrial Property Stock by Location

- 5.7 The map at Figure 2 shows the spread of industrial properties across Edinburgh. It is immediately evident that Edinburgh is not a planned city but has expanded organically. A planned city would most likely have a ring of industrial locations around the A720 City Bypass, from nodes at Leith Docks to Edinburgh Airport and Newbridge where the M8 and M9 motorways converge. Instead, industrial premises appear to be concentrated around the city’s internal, arterial roads, such as Gorgie Road, Easter Road and Leith/ Seafield, with a smaller cluster in the west.

³³ HCA Employment Density Guide 2015 (3rd Edition)

5.8 Those inner urban locations are the city's trading estates. Some are on major routes around the city, while others are behind tenement buildings in 'back court' layouts. The implication might be that these were created as the city grew during the 20th Century. However, the central spine of units also appears to follow the Water of Leith, suggesting some of the land was in earlier industrial uses such as distilleries, mills and tanneries³⁴.

Figure 2: Industrial Properties in Edinburgh



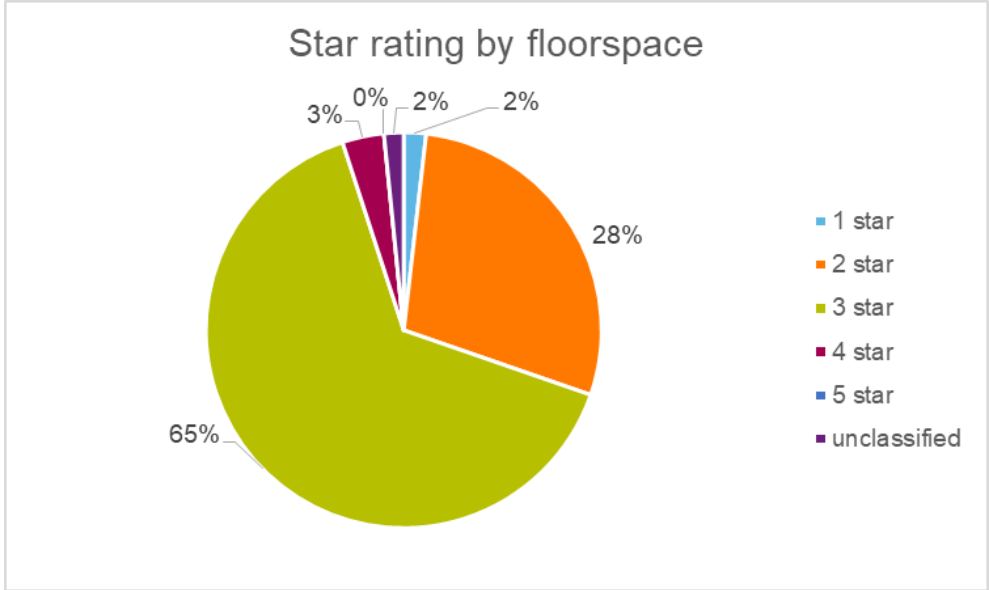
Industrial Stock Quality

5.9 Data provider Costar allocates star ratings to industrial buildings to reflect their quality (the rating refer to the property only and not its location, which can also be a major factor). Ryden has analysed this data against Edinburgh's industrial property stock. The results are shown on Figure 3.

³⁴ See for example the *Plan of Edinburgh, Leith & suburbs, showing the division of the city into thirteen wards in terms of the Edinburgh Municipality Extension Act, 1856*. <https://maps.nls.uk/towns/rec/784>

5.10 Industrial building ratings³⁵ range from 5-star, providing “state-of-the-art functionality for a particular industrial use and/or the flexibility to accommodate a range of uses” - down to 1-star, which is “practically uncompetitive with respects to the need of a typical industrial tenants, may require significant renovation, possibly functionally obsolete”.

Figure 3: Edinburgh’s Industrial Floorspace Rated



Source : Costar/ Ryden

5.11 A substantial 65% of the city’s industrial stock is classified as 3-star. This is defined by CoStar as “smaller structures with lower eaves heights, limited land for expansion and access, average or near average market rents”.

5.12 A further 28% of the stock is classified as 2-star, which are “suitable for smaller unique industrial uses, limited functionality, lowest rents in market”.

5.13 Thus 93% of Edinburgh’ industrial floorspace is of a very basic standard.

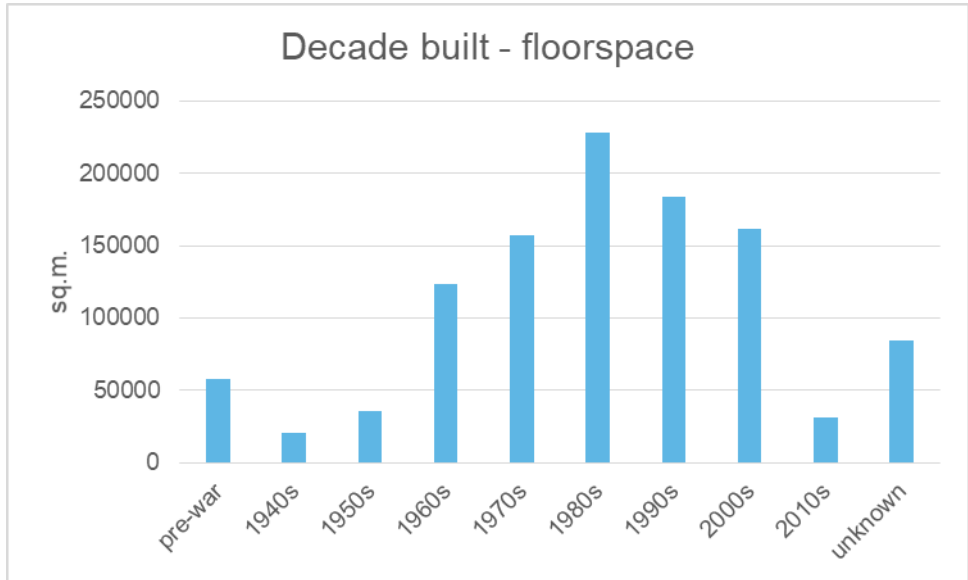
5.14 Only 4% of Edinburgh’s industrial floorspace is classified as 4-star. In fact this is within only 2 buildings – Geopost at Newbridge One and Leonardo / Selex on Crewe Road North (pictured). At this quality of property, some industrial buildings can become very specialist in terms of modern processes, or are hybrid in terms of having a mix of industrial, office and research & technology accommodation.



³⁵ The five categories used to rate office buildings by CoStar are: architectural design, structure/ systems, amenities, site/ landscaping/ exterior spaces and certifications.

- 5.15 No industrial properties in Edinburgh are rated 5-star.
- 5.16 An alternative analysis of the city’s industrial stock is shown on Figure 4. This indicates the decades in which the industrial floorspace was built. The peak era was the 1980s, with a broad shoulder period from the 1960s to the 2000s. The majority of industrial stock is at least 40 years old as 57% was built during the 1980s or earlier. Further comment on Edinburgh’s industrial development phases is provided in Section 7.

Figure 4: Edinburgh Industrial Stock by Decade Built



Source : Costar/ Ryden

Occupiers

- 5.17 As noted at paragraph 4.2, the occupational base of Edinburgh’s industrial properties is diverse. Selecting one example of a small multi-let industrial estate in Granton (New Broompark) identifies the current occupiers as being in the electrical trades, music industry, food & drink, motor vehicles, technology, cleaning services and construction trades sectors. Some estates have a more specific focus, for example Bankhead Industrial Estate in the west of the city has a trade counters and showrooms focus.

Typical Industrial Estates

5.18 Based upon the typical industrial stock, star ratings, urban locations and the development phases shown above, Table 3 provides two examples of average industrial estates in Edinburgh. These types of terraced, older, multi-occupied estates are typical in the Edinburgh urban area. The examples are occupied by a broad mix of trades and services. Notably, across 30 units in both estates, only one unit is currently available.

Table 3: Typical Edinburgh Industrial Estates

| Photographs | Estate | Details |
|---|--|---|
|  | <p>Stenhouse Mill Wynd Industrial Estate</p> <p>2.5 miles west of city centre (Gorgie)</p> | <p>Multi-let estate. 16 steel framed 1970s/80s refurbished units of 260 – 695 sq.m. Rents £67 - £77 per sq.m.</p> <p>Fully let to plumbing & heating merchants, wholesale florist, glazier, lighting specialist, timer merchants, security, courier.</p> |
|  | <p>West Telferton Industrial Estate</p> <p>3.5 miles east of city centre (Portobello).</p> | <p>Multi-let 1980s estate. 14 units of 174 – 887 sq.m. Rents are £75 - £81 per sq.m.</p> <p>Well occupied with only one unit currently available.</p> <p>Occupiers include glaziers, sign design, bakery, auto care, plastics, gardening supplies, coachworks.</p> |

6.0 Edinburgh Industrial Property Market

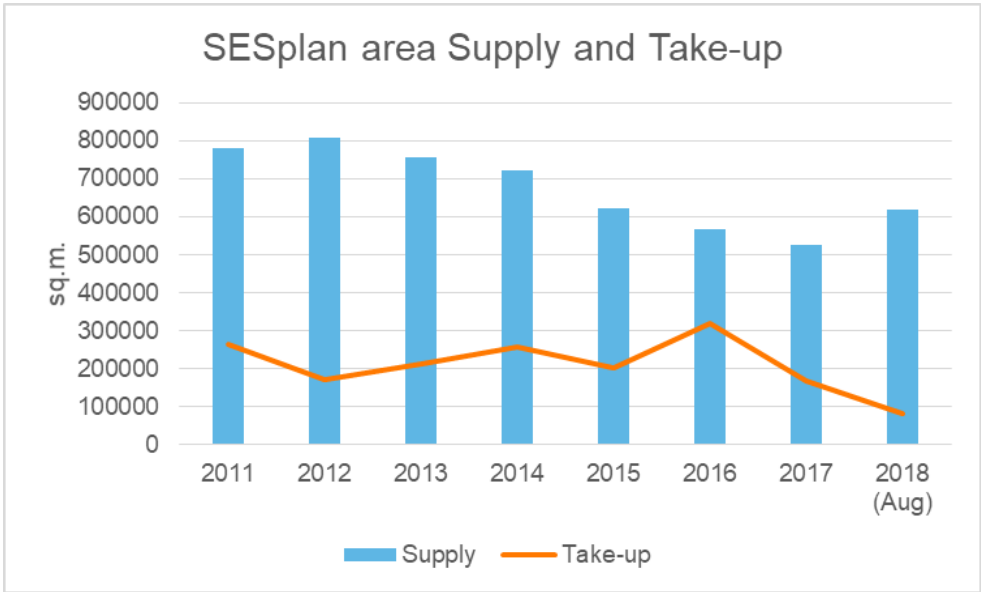
Introduction

6.1 This section of the report builds upon the stock analysis in Section 5 to provide analyses of market dynamics for Edinburgh industrial property. The section firstly considers the regional context and longer run trends, then Edinburgh’s market conditions in late 2018.

Strategic Development Plan Area

6.2 Supply (availability) and take-up (sales and lettings) of industrial property in the SESPlan area since 2011 is shown on Figure 5. Supply (blue bars) was highest during the years after the market crash in 2008/09 and has edged downwards since, although it increased again in 2018. Regional industrial take-up peaked in 2016, due to large sales in Glenrothes and Livingston.

Figure 5



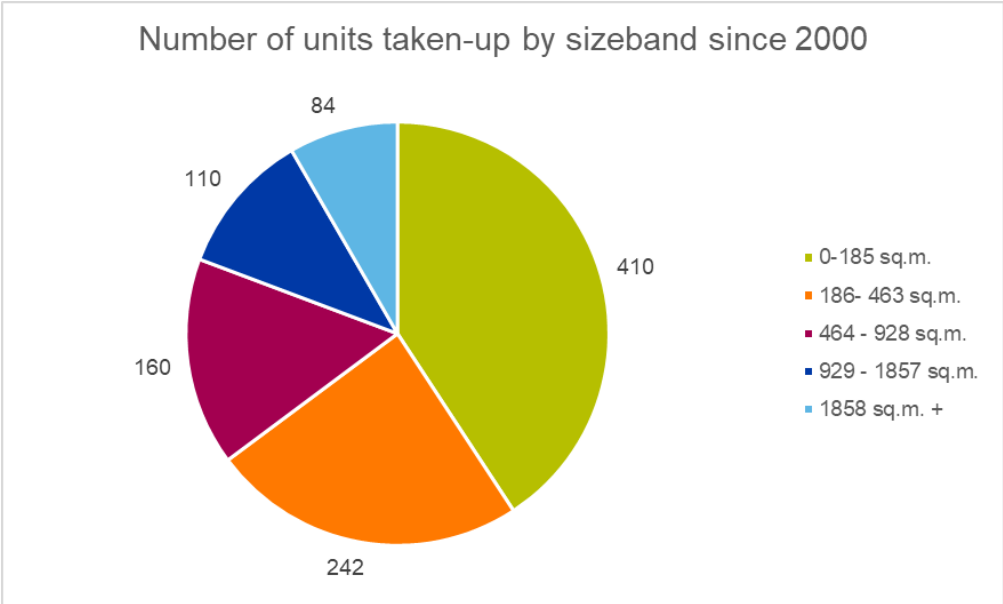
Source : Ryden / Costar

Edinburgh

6.3 Edinburgh’s long run industrial take-up since January 2000 totals 1,006 transactions across 658,798 sq.m. The annual average is 54 units per annum totalling 35,348 sq.m. Since 2010 average annual take-up has been higher, at 43,227 sq.m. in 76 units.

6.4 Figure 6 splits these transactions by sizeband; 65% of units taken up in the 18.75 years since 2000 were units smaller than 464 sq.m. (5,000 sq.ft., suitable on average for up to 13 employees, although this varies by occupier). Of these smaller units taken-up, 63% were less than 186 sq.m. (2,000 sq.ft.), which would be suitable on average for up to 5 employees. This demand pattern is broadly consistent with Edinburgh’s skew towards smaller businesses noted within the economic analysis in Section 3.

Figure 6

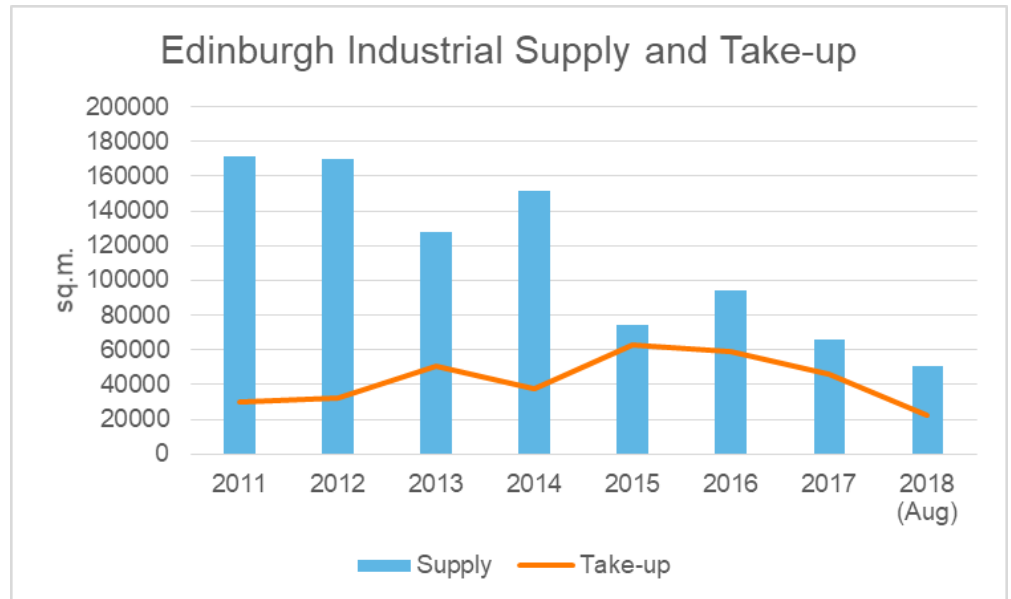


Source : Ryden / Costar

6.5 Looking at the Edinburgh industrial property market since 2011, Figure 7 illustrates available supply on the market and take-up in the city. As with the regional market in Figure 6 above, supply was highest during the years after the market crash. In Edinburgh however, supply dropped significantly in 2015, as take-up increased.

6.6 During 2016–18 both available supply and take-up of industrial property have declined. This could potentially indicate that supply is constraining market demand and is discussed further in the Section 8 report conclusions. Since 2011, Edinburgh’s share of SEPlan regional industrial property supply has fallen by around two-thirds.

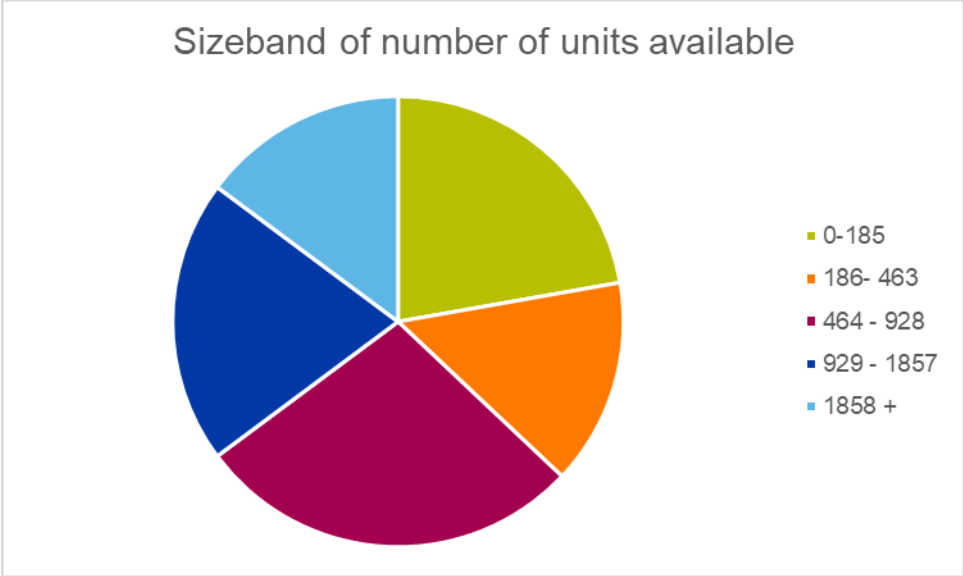
Figure 7 (Source: CoStar / Ryden)



The Market in 2018

- 6.7 The current supply of industrial space available for lease or sale in Edinburgh totals 52,733 sq.m. (567,400 sq.ft.) in 54 units (effectively the final bar on Figure 8 above). Some of the larger units are sub-divisible. A further 10 units are under offer. This indicates a current city-wide industrial vacancy rate of 4.9%. This is a low figure which could constrain occupier choice of location, size and quality of premises.
- 6.8 In comparison with the take-up figures set out above, current availability would provide 12 months' supply based upon average take-up since 2000, or 8-9 months' supply using the higher average take-up since 2011. Industrial markets can potentially function with short supply, where leases are also short and there is a regular churn of units, but other market indicators suggest that available supply is very tight indeed and units are not necessarily being released to replenish the market.
- 6.9 Figure 8 shows the breakdown of these available industrial units by sizeband. Thirty-seven percent of current supply (20 units) is in properties of up to 463 sq.m. (5,000 sq.ft). The balance of 63% (34 units) is in larger properties, although as noted above some of these could be sub-divided.
- 6.10 As noted at 6.4, long run market demand since 2000 is split 65% smaller sub-463 sq.m. units and 35% larger (since 2010 the split is 67% smaller and 33% larger). Current available supply of industrial property in Edinburgh is therefore not only much lower than in the past, but is skewed away from the smaller units which attract the majority of market demand.

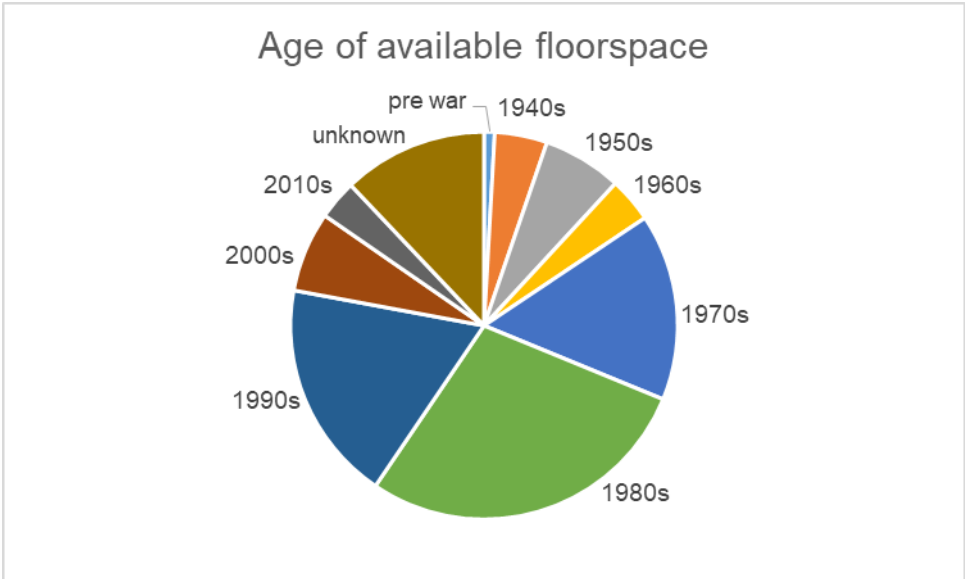
Figure 8



Source : Ryden / Costar


6.11 Figure 9 examines the age of current supply on the market. Of the 52,733 sq.m. industrial floorspace available, 60% was built during and before the 1980s and is around 30 or more years old. Only 28% was built since 1990 and is therefore less than 30 years old. In very broad terms, the components of industrial buildings might last around 40 years before requiring major refurbishment, at which point the construction type and market potential will determine whether continuing use is viable. Only 1,738 sq.m. (3%) of available industrial space (at South Gyle and Seven Hills Business Park, both in West Edinburgh) was built during the 2010s.

Figure 9 (Source : Ryden / Costar)



6.12 The selection of recent transactions in Table 4 indicates where occupier demand for industrial premises in Edinburgh is currently focused. All of the transactions are on managed industrial estates, in particular more modern and better quality estates in accessible locations. The mix of unit sizes taken-up is broad, although in a constrained market this may reflect what is available to buy or lease rather than fully capturing latent market demand. The mix of occupiers is broad, covering transportation, showrooms, trade counters, business services, industrial and telecommunications. There is no indication of the 'future factory' demand highlighted in Section 4 among these general occupiers of industrial units. Only one unit, at Telferton Industrial Estate, was purchased, with the other transactions being leases.

Table 4: Recent Industrial Property Transactions in Edinburgh

| Image | Address | Size (sq.m.) | Details |
|---|--|----------------|---|
|  | Unit 3 Newbridge Industrial Estate | 2,146 | Let in July 2018 to Lothian Buses on a 15 year lease. |
|  | Unit 6, Block 5, West Telferton Industrial Estate | 190 | Let in July 2018 to B&B Clean on a lease assignment due to expire January 2019 |
|  | 23 South Gyle Crescent, South Gyle Industrial Estate | 2,741 | Let in June 2018 to DFS on a 10-year lease |
|  | Unit 28 Stenhouse Mill Wynd Industrial Estate | 270 | Let in May 2018 to St Andrew Timber & Building Supplies |
|  | Unit 23-27 Marnin Way West Edinburgh Business Park | 1,226 | Let in April 2018 to Valti Specilaist Coatings at £91 per sq.m. |
|  | Block A, Units 1 & 2 Clifton Trading Estate, Newbridge | 2,055 | Let in April 2018 to Restore Datashred at £64 per sq.m. |
|  | Block C, 30-34 Kings Haugh, Prestonfield Park | 566 | Let in March 2018 to Richmonds Plumbing and Heating |
|  | East Hermiston Business Park - Unit 13 - Unit 1 - Unit 4 | 99 99 99 | Let in February 2018 to Floored Ltd Let in December 2017 to Mainstream Printing Let in December 2017 to Sociable Hounds Ltd all on 5-year leases |
|  | Unit 5, 165 Bonnington Road, Bonnington Trade Centre | 451 | Let in December 2017 to Screwfix at £91 per sq.m. |
|  | Unit 6 Broomhouse Workspace, New Lairdship Yards | 145 | Let in December 2017 to Infinity Internet on a 5-year lease |
|  | Unit 20, Telferton Industrial Estate | 1,284 | Sold in November 2017 to Edinburgh Vanliners for £296,000 for own occupation |

- 6.13 Rents for these industrial premises vary significantly by quality of property. Prime rents for new-build industrial properties are targeting £107 per sq.m. (£10 per sq.ft.). However recently achieved rents for the broad mix of buildings in Edinburgh range from £21 per sq.m. (£2 per sq.ft.) up to £177 per sq.m. (£16.50 per sq.ft.).

7.0 Edinburgh Industrial Property: Development and Investment

Introduction

- 7.1 This section of the report analysis industrial property development and investment in Edinburgh. It considers new additions to and losses from the city's stock of industrial floorspace, and flows of investment capital into existing industrial stock.





Development History

- 7.2 Figure 5 earlier illustrated that the peak decade for age of current³⁶ industrial floorspace in Edinburgh is the 1980s, with a shoulder period of two decades either side. During this period, active developers included in particular the local and regional authorities and the Scottish Development Agency as well as private sector developers.
- 7.3 These industrial property development peaks are now historic. At the end of 2017, City of Edinburgh Council³⁷ recorded 7,290 sq.m. of completed industrial developments during that calendar year and a planning permission pipeline extending to a further 25,240 sq.m. These are equivalent to a 0.675% addition to the city's industrial property stock and a potential future addition of 2.33% respectively.
- 7.4 Speculative industrial development in the city is now limited. Consequently, recent new developments have proved popular. Table 5 identifies recently completed developments. All of these new developments are on the accessible west side of the city, which aligns with the market trends described in Section 4. The Council and C&W Assets, both of whom are notable existing landlords, are also active developers.
- 7.5 New development for individual occupiers is less common. Examples include Newbridge One (5,574 sq.m.) unit built in 2014 and let to Geopost, the 1,385 sq.m. facility at Peffermill built in 2010 for the Scottish Ambulance Service and the Seafield Recycling Centre at Fillyside Road built in 2017.

³⁶ Earlier decades may have had higher development rates, but much of that floorspace (including larger factories such as breweries, distilleries and printworks) is now demolished.




³⁷ City of Edinburgh Industrial Development Schedule 2017 (City of Edinburgh Council Planning, Transport and Place, February 2018)

Table 5: Recently completed speculative developments

| Image | Development | Details |
|---|---|--|
|  | East Hermiston Business Park, Cultins Road, Sighthill Industrial Estate | Development of 16 units of 99 sq.m. each totalling 1,580 sq.m. by City of Edinburgh Council. Fully let. |
|  | West Edinburgh Business Park, South Gyle | Development by C & W Assets. Phase One (2,400 sq.m.) is fully let and Phase Two (2,400 sq.m.) is 75% let. A Third Phase is for 1,858 sq.m. design & build opportunities. |
|  | Corslet Place, Currie | Development of 4 workshop units totalling 186 sq.m. by Edinburgh and Newcastle Properties. Fully let. |
|  | Seven Hills Business Park, Bankhead Crossway South | Units of 750 to 4650 sq.m. Existing occupiers include BT and Amazon. A further unit is under offer and proposals are being developed for the balance of the site. |

7.6 Further speculative proposed industrial developments in the city are indicated in Table 6. Each proposes new terraced units on the west side of the city.

Table 6: Proposed developments

| Image | Development | Details |
|---|--|---|
|  | Cliftonhall Road, Newbridge | Proposed development of six units totalling 3,253 sq.m. |
|  | Bankhead Crossway North, Sighthill Industrial Estate | Vardy Property Group's development of new build trade counter units. 7 units totalling 1,625 sq.m. from 174 sq.m. |
|  | Seven Hills Business Park, Bankhead Crossway South | Peveril Securities and Citivale development of 7,432 sq.m. in units from 279 – 3,400 sq.m. |
| | Bankhead Medway | SRA Ventures plans a parade of 5 units totalling 2,322 sq.m. |

7.7 Where refurbishment is a physical option and commercially viable, some estates or terraces or units may attract re-investment. As noted in Section 4, the decision to refurbish or not will depend upon a range of factors including planning policy, costs, market potential for continuing industrial use, and the development economics of redeveloping for alternative use(s). Examples include the refurbished element of 7 Hills Business Park in Table 6 above and Bonnington Trading Estate.

- 7.8 In parallel with this new development and refurbishment, some ageing inner urban industrial premises in Edinburgh are being redeveloped for high demand, high value and high density urban land uses. Notably, this redevelopment trend has moved beyond the historic replacement of larger obsolete factories such as breweries and printers, to being to sweep-up multi-occupied smaller units, terraces and industrial estates.
- 7.9 The nature of the obsolescence of Edinburgh's industrial buildings can be complex, including functional, environmental and technological constraints. Mostly however, as seen in the Section 5 stock analysis, for many estates it is simply the physical age, dated specification and constrained inner city locations that bring premises to the demolish-or-refurbish decision point. Some caution is however required in presuming that locations as well as buildings may be obsolete, as many inner urban occupiers service the city's immediate residents and businesses, even from constrained sites.
- 7.10 City of Edinburgh Council reports a loss of industrial floorspace to other commercial uses in 2017 totalling 2,056 sq.m. It further notes potential pipeline losses through planning applications and consents totalling 12,365 sq.m. This is the continuation of a process whereby Edinburgh lost c.84,000 sq.m. of industrial floorspace 2010-2014 while only 14,500 sq.m. of new premises were built³⁸. The large-scale losses including buildings such as the Fountain Brewery (5,400 sq.m.) in 2011.
- 7.11 Table 7 illustrates the loss of multi-let industrial stock from inner city areas. The examples show the industrial premises removed and the new development which replaced it. Only one building, the Printworks in Logie Green Road, has been converted (to housing) rather than demolished. All of the redevelopments are in urban Edinburgh in the clustering of locations highlighted on the map at Figure 3. All of the redevelopment is for higher density residential uses (including private for sale, affordable, care homes and purpose-built student accommodation).
- 7.12 Further industrial stock will be lost at Baileyfield Crescent where units were recently sold to Barratts for residential development and at the former John Lewis warehouse on Bonnington Road Lane which recently secured planning consent for residential redevelopment (with some re-provision of employment units).

³⁸ Economy Committee, Industrial supply and demand in Edinburgh, 15th September 2015

Table 7: Recent Redevelopments of Industrial Sites in Edinburgh

| Estate | Former details | Current use |
|--|---|---|
| <p>West Bowling Green Street</p>  | <p>Units totalling 7,600 sq.m. Demolished</p> | <p>Residential development Waterside Walk by Smarts comprising 74 apartments</p>  |
| <p>5 West Park Place</p>  | <p>2,157 sq.m. light industrial building demolished</p> | <p>Student accommodation operated by Nido</p>  |
| <p>67 Marionville Road</p>  | <p>1,996 sq.m. former Stewarts printers works. Demolished</p> | <p>Residential development by MNM of 51 2 and 3- bedroom new homes</p>  |
| <p>1 Slateford Road</p>  | <p>5,287 sq.m. warehouse let to City of Edinburgh Council. Demolished</p> | <p>Student accommodation for Napier University</p>  |
| <p>Lutton Business Centre, Bernard Terrace</p>  | <p>1,642 sq.m. light industrial building. Demolished</p> | <p>Student accommodation</p>  |
| <p>77 Logie Green Road</p>  | <p>Was Waterston's printing works. Conversion</p> | <p>Being converted by AMA into 'The Printhouse' 19, 1, 2 and 3-bedroom loft-style apartments</p> |
| <p>Beaverhall Road (14-26)</p>  | <p>Industrial buildings constructed in the 1960s</p> | <p>Site now part of Powderhall Gate residential development</p>  |
| <p>100 Telford Road</p>  | <p>Industrial building occupied by G4S Cash Services. Demolished</p> | <p>Purpose-built luxury care home by Northcare Suites scheduled to open Summer 2019</p>  |

7.13 It is likely based upon these trends and known market activity that further inner urban industrial property will be lost, particularly in the north-east quadrant of the city and the waterfront. Redevelopment will include a series of City of Edinburgh Council depot consolidations into larger sites, releasing for example – subject to planning consent - a depot at Peffer Place for affordable housing and at Powderhall for housing and potentially creative industries.

7.14 Again referring back to the Figure 3 locations of industrial units in Edinburgh, and the evolved rather than planned development pattern, it is clear that the property development market is in the process of replacing ageing inner urban industry with edge-city modern industrial property:-

7.13.1 **All ten** of the examples of **lost** industrial stock highlighted above are in **inner urban** locations. These are yielding to higher density, typically residential or residential-led development.

7.13.2 **All seven** of the completed and proposed **new** industrial developments are on the **accessible western edge** of Edinburgh.

Industrial Investment

7.15 In addition to investment in new development as described above, Edinburgh also attracts investment into its existing stock via the trading of occupied industrial property (“standing assets”) between investors.

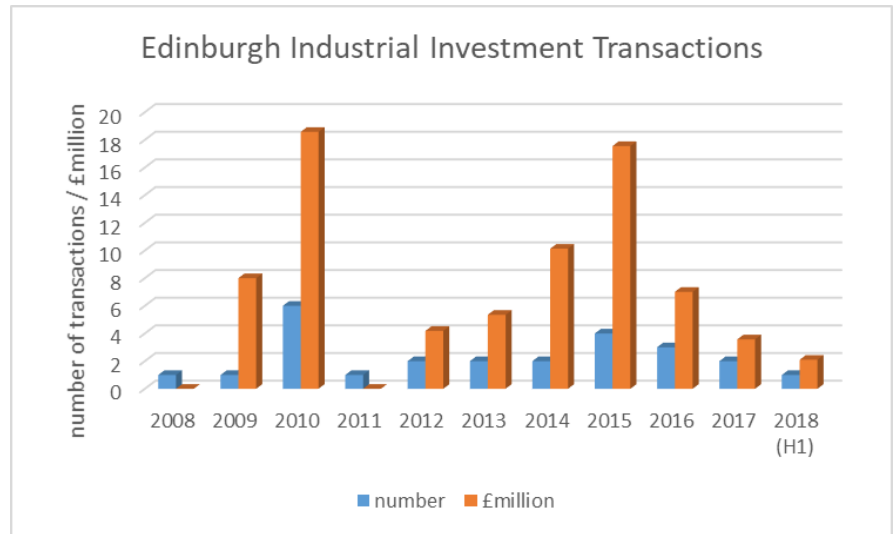
7.16 The volume of investment transactions is not substantial, for two reasons:

- First, a large proportion of the stock is owned by long term investors such as City of Edinburgh Council and C&W Assets, rather than developer-traders looking for an early sale to recycle their capital.
- Secondly, most industrial stock is too small (in financial value terms) to attract interest from major investing institutions such as pension funds, life assurance companies and real estate investment trusts. Where those investors are active in the industrial sector their interest tends to be in much larger property assets such as regional distribution centres.

7.17 Ryden monitors all commercial property investments in Scotland of £1 million value or above. Since 2008, Edinburgh has accounted for 8%³⁹ of this activity. A total of 25 industrial investment sales over 10½ years (Figure 10) comprise 86,740 sq.m. of floorspace with a value of £76.5 million. This means that on average Edinburgh records an average of 2 – 3 industrial investment deals each year. The mean industrial size transacted in Edinburgh since 2008 is 3,470 sq.m. and the mean lot size is £3.1 million. As noted above, this is a sub-institutional property investment market.

³⁹ 8% of Scotland’s industrial investment since 2008 deals by number, 4% by floorspace and 4% by value






Figure 10



Source: Ryden

- 7.18 Examples of recent industrial investment transactions in Edinburgh from from 2016 to date are provided in Table 8 on the next page. The units are more modern and on the city periphery. Only one estate, Abbeyhill, is in the core city. Purchasers are property companies and a private investor. Lot sizes range from £1.36 million to £3.1 million. Initial investment yields range widely from around 5% to around 9%.
- 7.19 Data provider MSCI tracks the investment performance of commercial property. The total investment return comprises rental income and changes in value. Over the 17.5-year period December 2000 to June 2018, Edinburgh industrial property returned an average compound return of 9.1%. This is a substantially higher return than either Edinburgh retail (5.6%) or Edinburgh office (5.3%) property. The high return reflects the capital value growth and increases in rents which the city's industrial property markets have delivered, in the context of continuing demand and falling vacancy rates.
- 7.20 Looking to future investment performance, the Investment Property Forum reports consensus forecasts at a (UK) national level. The current industrial market forecast is for annualised returns of 7.1% from 2018 to 2022 inclusive. Again this is well ahead of the comparable retail (3.7%) and office (4.0%) forecasts. Individual cities such as Edinburgh can deviate significantly from these UK national averages, although they do tend to follow the property capital market cycle.

Table 8: Recent Edinburgh Industrial Investment Transactions

| Photograph | Address | Property details | Purchaser |
|---|---------------------------------------|---|--|
|  | West Telferton Industrial Estate | Modern multi-let industrial estate comprising 11 units and a total area of c. 2,670 sq.m. WAULT of c. 4.5 years to expiry and 3.9 years to breaks | Bucleuch Property for £2.5 million (7.21%) |
|  | West Telferton Industrial Estate | Four additional units purchased in addition to those above. Units total 2,555 sq.m. | Bucleuch Property for £2.1 million (7.25%) |
|  | 23 Cliftonhall Road, Newbridge | Single-let industrial unit totalling 1,910 sq.m. leased to Tesla | Private investor for c. £1.36 million (c. 8.36%) |
|  | Abbeyhill Industrial Estate | Multi-let city centre industrial investment. Terrace of six units. Tenants include Edmunson Electrical, HSL and The Edinburgh Festival Centre | Artisan Real Estate for c. £3.1 million (c. 4.85%) |
|  | Catalyst Trade Park, 2 Bankhead Drive | Trade park totalling 2,860 sq.m. Tenants include Stevenswood Ltd and Topps Tiles. | Carnoustie Ltd (an SPV of Springfield Real Estate Management Ltd) for £2.55 million (9.1%) |

Source: Ryden

8.0 Edinburgh Industrial Property Market: Projections and Scenarios

Introduction

8.1 The analyses in Sections 2 to 7 are now used to develop **industrial market projections and scenarios** to inform the Edinburgh City Plan 2030 Main Issues Report:-

- The **projections** use analytical techniques and market judgement to indicate the potential market requirement for industrial property in the city.
- The **scenarios** then explore the implications of the projections.

Projections

8.2 Edinburgh industrial market projections are made for the 12-year period from 2019 to 2030 inclusive. This approximates to the final two years of the adopted LDP (2019 and 2020) followed by the anticipated ten years lifespan of City Plan 2030 (2021 to 2030 inclusive).

8.3 Industrial employment in Edinburgh is broadly stable at around 30,000 jobs. Forecasts indicate mainly expansion in office-based and innovation-related activities, rather than industrial. There is no reason from this trend or the forecasts to expect significant growth in the city's need for industrial floorspace.

8.4 However, Edinburgh is expected to require to both **replace** lost industrial floorspace, and to **modernise** its industrial property stock:

- Industrial property stock is being **lost to redevelopment** for higher value land uses, particularly in inner urban locations. This is allied to a complex range of obsolescences including: building age and condition; functional suitability for occupiers; development and design flexibility; access and circulation; amenity and welfare for users; amenity for neighbours; environmental performance⁴⁰; and, potentially, location. Arresting a decline in Edinburgh's stock of industrial floorspace would require this lost property to be replaced.

⁴⁰ Occupier requirements for environmental performance are not yet as prevalent as in the office market. Section 63 legislation requiring carbon action plans only affects poorly-performing commercial buildings larger than 1,000 sq.m. There is likely to be a latent environmental challenge building up in the city's increasingly obsolete industrial property stock.

- For the same reasons of obsolescence, allied to the growth of e-commerce and increasingly specialist logistics needs, there is a requirement to modernise either the existing industrial stock (if feasible and viable in-situ) or to replace it with new industrial buildings in prime market locations. Some of the urban services currently located in inner city estates might potentially be accommodated in tertiary retail units and warehouse parks if these fall out of use.

8.5 Table 9 therefore uses the **required stock renewal rate** as the best guide to future industrial property requirements in Edinburgh to support economic activity and change. The straight-line approach is an assumption, as markets move in cycles and as building and site opportunities arise. The ageing stock may indicate a backlog of premises to be dealt with. A process of occupational change and churn over time would require serviced land to accommodate it (otherwise displacement could result).

8.6 The stock renewal is modelled using two different projections:

- **All obsolete** industrial floorspace is assumed to be **demolished**. It is replaced either on site or - more likely given the alternative uses driving the development market - is replaced elsewhere in the city. The new-build required in Table 9 is 324,000 sq.m. (approximately 3.5 million sq.ft.).
- **50% is refurbished** to extend its occupational lifespan. The balance of **50% is demolished** then is either replaced on site or (more likely) elsewhere in the city. The new-build requirement in Table 9 is 162,000 sq.m. (1.75 million sq.ft.) and the refurbishment requirement is a further 162,000 sq.m. (1.75 million sq.ft.).

The actual refurbishment or redevelopment equation will be site-specific depending upon location and development economics, including the alternative use value of the subject site.

Table 9: Edinburgh Industrial Stock Renewal Projections

| Edinburgh Industrial Floorspace Stock | Annual Straight-Line Renewal over 40 Years | Cumulative 12-Year Total Renewal (2019-30) | Land Equivalent for New-Build Replacement * |
|--|--|---|---|
| 1.08 million sq.m. (11.62 million sq.ft.) | 27,000 sq.m. each year (290,250 sq.ft. each year) | 100% replacement = 324,000 sq.m. (3.49 million sq.ft.) | 108 hectares (267 acres) |
| | | 50% replacement = 162,000 sq.m. (1.75 million sq.ft.) | 54 hectares (133 acres) |
| | | 50% refurbishment = 162,000 sq.m. (1.75 million sq.ft.) | 0 |

*assuming replacement stock is in modern planned estates of typically 30% site coverage (the balance being roads, footpaths, landscaping/ amenity space, car-parking, drainage etc.)

Scenarios

8.7 Edinburgh's industrial property market has a complex, interdependent relationship with the wider city-region. Market demand may be more effective in locations outside of the city, where industrial land and buildings are more plentiful and less expensive, than inside the city boundary where rents are high and vacancies are already very low. The locational requirement of occupiers can also be very different, from urban services – white vans – for residents and business, through to larger operations needing access to much wider supply chains and distribution networks.

8.8 Two scenarios take the projected new development requirements from Table 9 and model the:

- **Retention Scenario.** All replacement or refurbished industrial floorspace is located within Edinburgh.
- **Dispersal Scenario.** 50% of the replacement or refurbished industrial floorspace is in Edinburgh. The remaining 50% locates in the wider city region. The planned provision of serviced sites and new-build industrial property in West Lothian, Fife and Scottish Borders through City Region Deal-backed projects could support this scenario (or, alternatively, that industrial property demand could remain unmet).

8.9 The Edinburgh new-build industrial property and associated land requirements for the market scenarios for 2019-2030 are set out in Table 10 and illustrated on Figure 11.

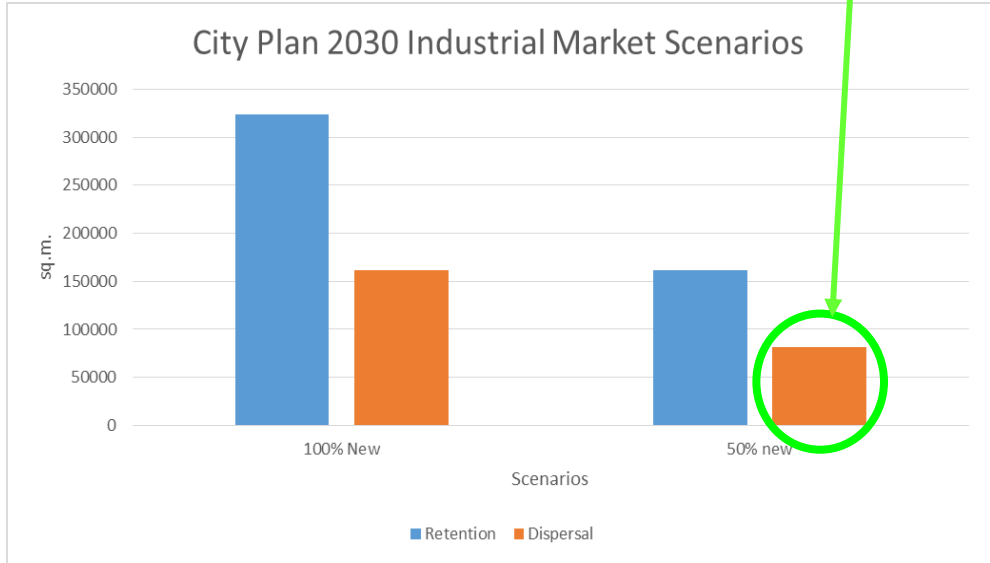
8.10 The green highlighted cell represents the scenario which is most aligned with current market activity. It envisages that some demand will be met in Edinburgh, and some will migrate to the wider city region (or remain unmet). Of the activity retained in Edinburgh, some stimulates new-build activity while the balance stimulates refurbishment of existing premises.

8.11 The 50% splits are simply modelling assumptions and the actual outcomes will be determined by market activity and planning controls (and potentially by market intervention if that is pursued).

Table 10: Edinburgh Industrial New Development Scenarios 2019-2030 (cumulative, inclusive)

| <u>Projection</u> | <u>Scenario:</u> | <u>Retention Scenario</u> | <u>Dispersal Scenario</u> |
|---|------------------|---|--|
| 100% Redevelopment | | 324,000 sq.m. (3.49 million sq.ft.) 108 hectares (267 acres) | 162,000 sq.m. (1.75 million sq.ft.) 54 hectares (133 acres) |
| 50% Redevelopment/ 50% Refurbishment | | 162,000 sq.m. (1.75 million sq.ft.) 54 hectares (133 acres) | 81,000 sq.m. (0.87 million sq.ft.) 27 hectares (67 acres) |

Figure 11



Source: Ryden

Scenarios – A Discussion

- 8.12 Edinburgh's industrial property market houses a broad and changing mix of occupiers. The market benefits from an inherited stock of buildings created decades ago by the public sector. The geography of the city's industrial locations is historic, and the economics of new development (or refurbishment) are affected by demand for higher value alternative uses. All scenarios presented here would continue to release significant land for redevelopment for those alternative uses.
- 8.13 Adopting the green scenario above (50% new-build, with regional dispersal) would require 7.5% of the city's industrial stock to be replaced with new buildings and 7.5% to be refurbished to 2030. In annual floorspace terms this would equate to 6,750 sq.m. (72,630 sq.ft.) new-build and 6,750 sq.m. refurbishment. The green scenario does rest on the appropriateness for occupiers of locations elsewhere in or outside of Edinburgh. Under this scenario, around half of the estimated jobs from Table 2, or 15,000 in total, could migrate or be lost over the period.
- 8.14 For comparison, in 2017, 7,290 sq.m. of new industrial floorspace was built and 25,240 sq.m. was in the planning pipeline⁴¹. If built, this activity could provide nearly 5 years' new-build supply under the green scenario. Other scenarios would have higher development requirements. Based upon a 2017 snapshot, this planned new development exceeds lost stock of 2,056 sq.m. and 12,365 sq.m. consented for alternative use.
- 8.15 Despite this new development, lack of industrial property supply available to the market is constraining occupational demand in Edinburgh. The falling vacancy rate, limited choice of premises particularly the most popular sub-465 sq.m. units, full occupancy in well-positioned estates and rising rents all point towards a constrained market.
- 8.16 The research identifies a number of specific market sectors which have the potential to create demand in Edinburgh over the City Plan 2030 period:-
- 8.16.1 The **urban services and trades** which exist currently in inner city small estates. As these are gradually redeveloped - typically they are not protected by planning policy - then a combination of direct re-provision, migration to the city periphery and perhaps migration into struggling tertiary retail pitches are likely to form elements of a

⁴¹ The planning pipeline does not include the Leith Eastern Industrial Site High-Level Masterplan (July 2017) which has indicative capacity for between 43,215 sq.m. and 72,500 sq.m. of new industrial units (the lower figure accommodates a waste management centre so has less land available). The site may be suitable for relocations from areas being redeveloped.

planning and market solution. The relationship of occupiers in these estates with the city's businesses and residents requires careful consideration in any re-provisioning.

A modern estate for this sector would comprise units of c.280 - 465 sq.m. (3,000 - 5,000 sq.ft.) with business park quality environment and car parking provision.

If the city's growth in the technology sector continues, the concept of hybrid units (industrial ground floor with some upstairs office content) could be resurrected. In the past these have been developed at science parks and at E-state in West Edinburgh.

8.16.2 Demand is anticipated for purpose-built, quasi-retail units linked to **e-commerce and smaller urban logistics**. These may be 465 sq.m. (5,000 sq.ft.) or larger in well-located, accessible clusters of units. Some of the emerging formats blur the line between storage, distribution, click-and-collect and showroom premises.

8.16.3 Larger units of 1,500 – 2,000 sq.m. (around 16,000 – 21,500 sq.ft.) are likely to be required for **modernising industry**.

That size of property and larger could also suit **urban logistics solutions** seeking to be within 30 minutes' drive of city locations. Last mile branded delivery in Edinburgh has however struggled to date, with John Lewis, Amazon, Next and Debenhams all disinvesting and preferring to use parcel companies. The overseas trend for online retailing direct to trades as well as consumers has not yet penetrated the UK, but could have (positive) implications for this demand and (negative) for existing trade counters.

Again a business park-quality, high amenity environment offering flexibility for design and expansion would be appropriate.

8.16.4 The **largest distribution hubs** operated by specific retailers such as supermarkets are likely to continue to be in the wider city region, to maximise access for suppliers and to customers via the motorway network and possibly multi-modal transit.

Edinburgh could however consider the combined potential of specific **distribution / logistics requirements** and **clean urban manufacturing** for example in the food & drink industry as sectors

that might be attracted to prime serviced industrial land for bespoke / design-and-build solutions.

Summary – Market Priorities

8.17 The two, related industrial property market priorities for Edinburgh’s City Plan 2030 based upon the research presented in this report are to:

8.17.1 Accommodate the modernisation and potentially the migration of urban industry within Edinburgh. The total scale and mix of in-situ refurbishment versus new-build in alternative locations will depend upon the scenario adopted.

The focus for this market priority is upon understanding the nature of the occupiers to be accommodated, and their related needs for locations and types of premises.

Market intervention to protect or allocate sites and support provision of serviced sites may be required.

8.17.2 Support and accelerate the delivery of modern, peripheral industrial sites around Edinburgh. This market-led trend is clearly already underway, but should be extended beyond small terraced schemes to medium and larger, serviced sites which can offer the potential for a mix of high amenity industrial uses.

The focus for this market priority is upon serviced sites of scale and quality in highly accessible city-edge locations. This could potentially include re-appraisal of land currently being considered for out-of-town offices or research uses, where demand continues to be weaker.

Again, market intervention to protect or allocate sites and support provision of serviced sites may be required.