EXECUTIVE SUMMARY

PROJECT BRIEF

Ryden was appointed by Scottish Enterprise (SE) and its partner agencies, Highlands and Islands Enterprise (HIE) and South of Scotland Enterprise (SOSE), to undertake analysis into **market failure associated with the provision of industrial land and property to support the growth of high value manufacturing in Scotland**.

STRATEGY

The Scottish Government's suite of economic strategies and plans demonstrates the size of the high value manufacturing opportunity available to Scotland, as the country builds on its strengths in sectors such as energy, healthtech, space, food and drink innovation, and moves to take advantage of global trends in relation to net zero, digital, health and wellbeing and advanced manufacturing.

The new National Planning Framework 4 recognises the importance of productive places and identifies national developments including Clyde Mission and Aberdeen Harbour which have the potential to make a national contribution.

Regional economic strategies identify competitive advantages across a range sectors with manufacturing needs including renewable energy, low carbon, digital automation, life sciences and space. City Region and Growth Deal projects are often a vital part of facilitating those opportunities in specific locations. These strategies and Deals now cover all of Scotland.

National sectoral strategies including those for life sciences, space, food & drink, offshore wind energy, the hydrogen economy, battery production, transport decarbonisation, green heat, and defence and security all signal manufacturing potential.

High value manufacturing is thus an intrinsic thread which runs through many of Scotland's areas of economic opportunity. The provision of suitable property and sites will be a key enabler (or inhibitor) of Scotland's ability to respond to these opportunities and will include the need for bespoke (purpose-built) accommodation for some sectors, e.g. offshore wind energy and life sciences, as well as more general high value manufacturing land and property supply.

ECONOMY

Scotland's manufacturing sector turned over £35.1 billion in 2019, contributed £12.8 billion Gross Value Added (GVA) to the Scottish economy and employed around 169,000 people. This accounts for almost 15% of Scottish turnover, nearly 13% of GVA and a little over 9% of employment. Manufacturing also accounts for 47% of research and development expenditure in Scotland. The relative scale of manufacturing (in terms of sector share of GVA) has however declined from 15.6% in 2009 (and much higher in the 20th Century).

In 2020, there were almost 19,900 manufacturing businesses in Scotland in 23 sub-sectors. Four sub-sectors contribute almost half of the total value added: manufacture of beverages (primarily spirits); manufacture of food products; repair or installation of machinery and equipment; and fabricated metal products. In terms of employment, manufacturing of food products is the largest sub-sector. There is considerable variation in GVA/head (an indicator of productivity) with pharmaceuticals the most productive and manufacture of textiles and basic metals the least productive per head.

Geographically, the greatest concentration of manufacturing activity in terms of the number of business units is in the West of Scotland. Almost a third (31%) of manufacturing business units are located in the Glasgow City

Region Deal area. At local authority level, particular concentrations of activity exist in Glasgow City, Fife, Aberdeenshire and South Lanarkshire. Employment in manufacturing is also concentrated in these areas.

Manufacturing has developed over the years with the distinction between manufacturing and services becoming less clear. Increasingly, high-value producers produce goods and components as well as offering installation, repair and servicing alongside. Related to this, economic statistics consider different sectors and sub-sectors of the economy, which are not necessarily the same as an industry, which can be comprised of several sub-sectors.

PROPERTY MARKET

Scotland's total **stock** of industrial properties - both occupied and vacant - of 15,000 sq.ft. or larger is 130 million sq.ft. in 2,400 properties. Glasgow City Region has 38% of properties, followed by Edinburgh & South East Scotland City Region with 20% and Aberdeen City Region Deal with 16%.

While a significant proportion of the stock has been built since 2000, the large majority is 20 to 50 years old. While age is not an absolute guide, older industrial properties are more likely to exhibit physical, functional or environmental obsolescence. Property ratings also point to a very basic quality of building across the country, other than those purpose-built for occupiers such as Aggrekko (Dumbarton) or Leonardo (Edinburgh).

Of these 2,400 industrial buildings, 151 (6%) are on the market as **supply** available to occupiers. The floorspace vacancy rate is a very low 3.2%. Availability including occupied buildings and new developments is 4.9%, having fallen from 8.8% in 2012. The quality of much of the supply in terms of property age and rating is very similar to the underlying stock i.e. it is mainly basic, older buildings. Additionally, 50% of the 151 properties on the market have a poor energy performance rating (EPC rating F or G), or a rating is not available. The mean asking rent is £5.98 per sq.ft. which again reflects basic premises. The quality of the supply (and stock is a concern for high value manufacturers who may typically seek modern, productive, environmentally efficient premises.

In terms of land to support new development, the study researched larger **sites** with 10-20 acres (5-10 acres in the HIE and SOSE territories) which are immediately available to manufacturers, identifying 26 serviced, marketed sites. The supply of sites in the core Central Belt particularly around Glasgow seems relatively low in comparison with the share of the industrial and manufacturing property market in that location. Only the Advanced Manufacturing Innovation District (AMIDS, Renfrew) is manufacturing-led while Arrol Gibb Innovation Campus (Rosyth) targets the sector. A large, location-sensitive manufacturer may have few site options. There is some public sector ownership in the forms of enterprise agencies and local authorities, otherwise the locations are in private landownership.

Analysis of **speculative development** of new industrial property indicates that developers tend to favour terraces of smaller units, but that a number of new developments underway for example in Glasgow, Cambuslang, Motherwell and Gartcosh could provide larger modern, high specification premises. Proposals not yet under construction indicate that the market was expanding geographically too. However, the development market has recently experienced sharply rising costs in tandem with falling capital values due to higher interest rates, and now faces a period of more subdued activity. The substantially increased levels of rents to support new speculative development will not be affordable for some occupiers, potentially including manufacturers. One example of speculative development for a high value manufacturing sector was identified: Pioneer Group's new 20,000 sq.ft. Moubray laboratory facility at Edinburgh Technopole.

These challenging development economics and the large portfolio of older buildings brings greater focus onto refurbishment of existing buildings (which may benefit embedded carbon and existing locations too). In prime locations where demand and rents can justify the investment, such refurbishment is well underway.

Economic development agencies may also undertake speculative development. In recent years this has tended to be highly focused on regeneration areas or target sectors. In Scotland:

- SE worked with East Ayrshire Council and Clyde Gateway URC 2017-19 to deliver pilot projects for lease to manufacturers and is now working on proposals for 4 further locations across Central Scotland.

- Michelin Scotland Innovation Parc reuses an existing factory via a public-private partnership to accommodate innovation, manufacturing and skills development focused on sustainable mobility and decarbonisation.

- The Advanced Manufacturing Innovation District Scotland (AMIDS) in Renfrewshire aims to attract advanced manufacturing companies and R&D. It is home to existing high value manufacturers and the Netherton campus which has the National Manufacturing Institute Scotland (NMIS) and the Medicines Manufacturing Innovation Centre and the potential to develop up to 1.6m sqft of commercial floorspace.

A brief search of other, competing locations identified numerous innovation centres, but also notably in some instances investment into medium to large units to secure or attract follow-on investment:

- Two new technology buildings being marketed by the Irish Development Agency (IDA) are detached buildings with high eaves production / warehousing space, high office content, strong environmental credentials and expansion room. They are part of a 150 million Euro programme of building which commenced in 2015.

- The North East of England has a strong economic development focus on manufacturing, including the International Advanced Manufacturing Park (IAMP iampnortheast.co.uk) in Sunderland, TeesAMP in Middlesborough, NetPark in Sedgefield and a Commercial Property Investment Fund about to be launched.

Turning to demand, total **take-up** (sales and lettings) of industrial units >/= 15,000 sq.ft. since January 2017 in Scotland is 24.18 million sq.ft. in 551 transactions. Take-up is slightly more modern than supply but still dominated by older buildings. The mean achieved rent of £5.11 per sq.ft. and the average sales rate is £34 per sq.ft. That may highlight a large gap between the financial commitments to take an older second-hand building, and what would be required to secure a new, state-of-the-art high value manufacturing building.

Twenty-three percent of known industrial take-up is by manufacturers or c20 deals per annum. Concentrations of manufacturing take-up are evident firstly in West and Central Scotland, and secondly around Aberdeen (due to the energy industry). Manufacturers who have recently taken premises include, for example, Livingston Precision Engineering (Livingston), Aerorepair (Glasgow), Metrol Technology Ltd (Aberdeen), Kayfoam Ltd (Glasgow), CP Electric Ltd (Fusebox) (Kilmarnock), Valneva (Livingston), Skyrora (Cumbernauld), Impact Laboratories Ltd (Livingston), Mallatite (Glasgow), Vascutek (Renfrew) and Honeywell International (Edinburgh).

High value manufacturers typically require flexible, digitally connected, environmentally efficient properties. Some deliver their own, **bespoke** (purpose-built) property solutions, in partnership with a developer or contractor. These can be among the larger, more specialist and in some cases more location-sensitive manufacturing investments. Recent developments include: Coherent (West of Scotland Science Park), Danfoss Power Solutions (Midlothian), Alpha Solway (Dumfries) and Edrington Macallan Distillery (Speyside); while current projects include Mangata Networks (Prestwick), Guala Closures (Gartcosh), Mitsubishi Electric Air Conditioning Systems Europe (Livingston, extension), Board24 (Eurocentral), Saica Pack (Livingston), Cullen Eco-Friendly Packaging (Glasgow) and Cademuir Engineering (Galashiels).

Economic development agencies record 54 **occupier requirements** for high value manufacturing land and property >/= 15,000 sq.ft. Enquiries from the energy sector are highest in number, followed by technology and engineering then life sciences. Demand from high value manufacturing sectors is thus notable, but demand for medium to larger premises from any one sub-sector is not deep, although economic projections and sector strategies noted above and analysed below signal growing potential demand.

FUNDING GAPS

A range of funding sources is potentially available for high value manufacturing property, sites and infrastructure. Whilst there is support for the sector and R&D in particular, there is no funding source which focuses purely on the provision of sites and property. Where this has been enabled it has tended to be on the back of City/Growth Deal programmes, TIFs and specific Joint Ventures although even in these circumstances a ‘cocktail’ of funding sources is often required. Where local authorities have access to funds such as the Place Based Investment Fund or the Regeneration Capital Grant Fund the need for the provision of sites and properties needs to be balanced against all other eligible needs within the area, which often means it is not a priority.

OPTIONS

This report demonstrates that **property development and support will be required to meet the needs of Scotland's high value manufacturing sector**. The market may continue to provide a limited supply of secondhand buildings, as well as some shell buildings for general market consumption in prime locations that manufacturers can compete for (at significantly increased rents). The market may also provide design-and-build solutions for established manufacturers able to make the required long term investment. Those instances aside, **the unsupported property development and development finance markets are unlikely to meet the growing demands of high value manufacturers for productive modern properties**.

The **heat map**[1] provides an initial guide to sub-national market potential using City and Growth Deal areas. Darker orange indicating stronger markets. The Glasgow City Region has one third of Scotland's manufacturing businesses but around half of the country's manufacturing property market activity and a tight market for supply. Ayrshire also stands out, as do Edinburgh and South East Scotland, and Aberdeen (the latter though without market pressure due to a high supply units). Borderlands and Falkirk are also notable. While the remaining Deal regions show less market scale or activity, there is specific sectoral potential in local areas – particularly in renewable energy such as offshore wind, bespoke production sites and for smaller supply chain buildings.

MANUFACTURING PROPERTY HEAT MAP (CITY AND GROWTH DEAL REGIONS)

Deal Region	Business units	Policy and strategy	Take-up v. supply	Manufacturing property take-up
Aberdeen				
Argyll & Bute				
Ayrshire				
Borderlands				
Edinburgh & SE Scotland				
Falkirk				
Glasgow City Region				
Inverness & Highland				
Islands				
Moray				
Stirling & Clacks.				
Tay Cities				

In order to understand what **interventions** may be required to overcome property market constraints, it is necessary to project future demand (see table). Baseline demand is the existing position demonstrated in this report; projected demand is based upon national programme employment forecasts (noting that consultations identified people and skills as the principal constraint on manufacturing growth) as a proxy for both those sectors and other high value manufacturing sectors with growth potential.

FUTURE DEMAND SCENARIOS (ANNUAL)

Market Scenario	Baseline (2ndhand)	Baseline (bespoke)	Refurbishment	New speculative	New bespoke
High	20 units	2 units	750,000 sq.ft.	190,000 sq.ft.	565,000 sq.ft.
Medium	20 units	2 units	500,000 sq.ft.	125,000 sq.ft.	380,000 sq.ft.
Low	20 units	2 units	250,000 sq.ft.	65,000 sq.ft.	190,000 sq.ft.

Figures are rounded to the nearest 5,000 sq.ft.
The baseline demand is for all manufacturing occupiers not just high value manufacturers

[1] See full report for table details and key, and Appendix 1 for regional data analyses.

The scenarios show the continuing baseline requirement for manufacturing properties, plus growth scenarios of:

- 250,000 sq.ft. – 750,000 sq.ft. of refurbishment annually. In situations and markets where this is not financially viable, then intervention to support landlords and/or occupiers could be signalled.
- 65,000 – 190,000 sq.ft. of speculative new development annually. While there is no exact standard size for a speculative manufacturing units, indicatively this could comprise say 2 to 6 units each year.
- 190,000 – 565,000 sq.ft. bespoke (purpose built) development. These tend to be larger buildings for major producers or tier 1 supply chain.

A number of **options** are available for market interventions to ensure that the land and property needs of high value manufacturers can be met. The options are not all mutually exclusive: complementary or mixed options could be pursued. Options are scored (see table) [2] using the criteria: market demand fit (out of 10 points); sector focus (/10); economic impact (/5); costs, value for money and leverage (/5); timing (/5); design/ specification control (/5); deliverability (/5); and risk (/5). The maximum potential score for an option is 50 points.

MARKET INVERVENTION OPTIONS

Option	Description	Total score/ 50 points
0 Do Minimum	Reactive to occupier needs and/or developer proposals	**26**
1 Selective site servicing	Full servicing of key manufacturing sites	**25**
2 Selective speculative development	SE/ HIE/ SOSE led speculative development at key manufacturing sites	**35**
3 Competitive property fund	Calls-based fund for advance developer and bespoke occupier / developer support	**39**
4 Bespoke support	Package of support to manufacturing occupiers	**33**
5 National development programme	Scotland-wide industrial development programme targeted at manufacturing	**28**
6 National refurbishment programme	Provide support nationally for public or private landlord refurbishment	**32**

The **preferred option is Option 3 – competitive property fund**. A calls-based competitive property fund operated by SE, HIE and SOSE would ask developers to bring forward proposals for speculative development proposals and selective site servicing to enter into a restrictive (‘ring fencing’) agreement for a period of time for high value manufacturers. This offers a high likelihood that the locations, buildings and target/potential demand would provide a good fit with the sector. The ability to control costs and risks to deliver buildings to specification and on time is good as it would be subject to agreement. Potential weaknesses to address would be market awareness and appetite, and site ownership to accommodate development; these signal strong partnership with the wider public sector. Without access to developable land and a pipeline of opportunities there could be a risk of under-subscription.

[2] Full scores, rationales and discussions are contained in Section 7 of the main report

Wider considerations to support high value manufacturing through land and property are:

- Explicit consideration of manufacturing needs within the next iterations of growth deal projects, informed by regional economic strategies, in order to prioritise full site servicing and follow-on development;

- The potential to also recycle existing areas for high value manufacturing use including higher amenity industrial estates and stalled business, science and technology parks should be considered;

- Ring-fencing of advance (speculative) manufacturing space to prevent displacement by other sectors and to capture investment with a short lead-in time to market, particularly mobile investors who have that choice in competing regions.

- Communicate to the market that manufacturing is re-emerging as a growth sector, particularly in its high value forms. Delivery of high amenity sites and high quality buildings is a challenge for the unsupported property market but there is demonstrable occupier demand and positive sector growth projections.

- Note that this research has focused on medium to larger buildings and sites. For high value manufacturing, the ladder of accommodation below 15,000 sq.ft. from start-up or spin-out through incubation to growth phases is at least as important and is already a focus for economic development. Equally, at the other end of the scale Scotland has a number of major manufacturing assets - including refineries, shipbuilding, defence, distilleries, ports and pharmaceuticals – which can and do invest outside of the regular property market.

Ryden LLP
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