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PROPERTY CONSULTANTS

Mid-Year Market Update



Market Monitor

South West of England and
South Wales Property Review

July 2017

Welcome to Market Monitor Update, a half-year update on the commercial property market across the South West and South Wales.

Summary

The regions' markets continue to perform well, dominated by robust occupational demand for industrial and office space, particularly from the logistics, TMT and public sectors.

Occupational activity has remained resilient despite the ongoing political and economic uncertainty, with buoyant transaction levels evident in many parts of the region. Of greater concern is the steady fall in stock levels across all size ranges and sectors. Office and industrial rental and capital values have increased in many centres as supply shortages continue to bite.

Whilst developers remain cautious about speculative office development, there are a number of new build industrial schemes underway and there is strong demand for office and industrial refurbishments where schemes can be turned around quickly.

The investment market has been held back by a lack of stock. Prices have been sustained by strong demand and competitive bidding, particularly where benefiting from rental growth or opportunities to add value.

Key features of the half-year occupational market include:

- Industrial take-up across the nine South West centres totalled 4.5 million sq ft, the second highest half-year figure for six years. Strong freehold demand and a number of significant new build transactions contributed to the total, including a 2.2 million sq ft multi-storey distribution facility for Amazon in Bristol.
- Industrial supply has fallen by 15% in the past 12 months to 3.573 million sq ft, its lowest level for 15 years.
- The South West office market performed strongly with take-up of 857,000 sq ft across nine centres, broadly in line with the five year average. The outlook for the second half of the year looks positive with a number of high profile deals due to complete.
- Office supply has fallen by 19% in the last 12 months to 2.4 million sq ft, the lowest level for 15 years.
- Cardiff's city centre office market is benefiting from strong demand from both the public and private sector, with HMRC about to commit to over 200,000 sq ft at Central Square.

Simon Price
Head of Agency



Major South West Centres: Offices and Industrial (000 sq ft)

Year	Office Demand	Office Supply	Industrial Demand	Industrial Supply
Half-Year 2017	857	2,444	4,502	3,573
Full Year 2016	2,023	2,724	8,427	3,694
Full Year 2015	1,909	3,235	5,852	4,320
Full Year 2014	2,207	3,862	4,969	5,695

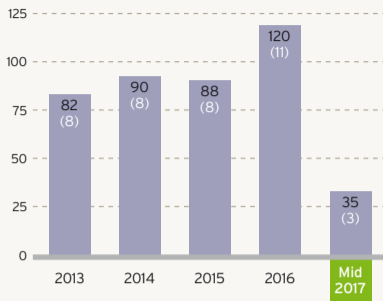
Cardiff: Office and Industrial (000 sq ft)

Year	Office Demand	Office Supply	Industrial Demand	Industrial Supply
Half-Year 2017	211	700	751	644
Full Year 2016	670	788	499	839
Full Year 2015	617	900	402	909
Full Year 2014	531	1,000	763	1,094

Offices

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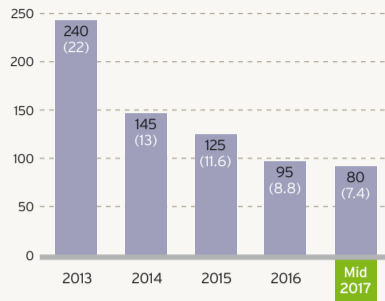
demand 000s sq ft



demand

- The Bath office market continues to see a strong level of pent-up demand, primarily from existing local and regional occupiers.
- Take-up during the first half of the year has been restricted by the lack of available modern, open plan accommodation.
- The most active sectors in the market continue to be TMT, professional services and serviced office operators.

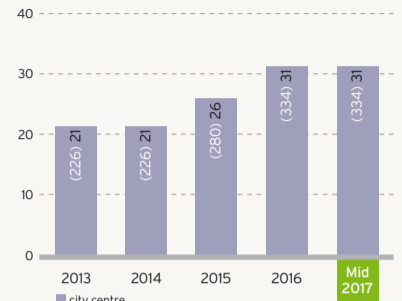
supply 000s sq ft



supply

- The supply of modern Grade A specification space remains very limited. The recently refurbished Northgate House on Upper Borough Walls is currently under offer.
- A small amount of better quality space is on the market as a result of occupier relocations, including two floors in Royal Mead adjacent to Bath Spa Station.
- Potential new build schemes with consent are planned but not yet under construction at Roseberry Place, Strata and South Quays.

headline rent £psf



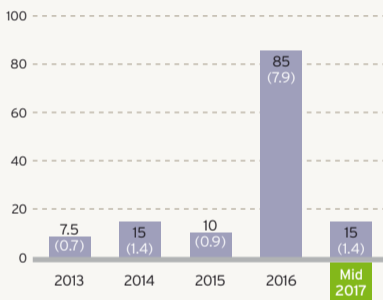
headline rent

- The best headline rent achieved is still £31 psf (£334 psm) at the remodelled top floor of 20 Manvers Street.
- Headline rents on the restricted level of modern open plan space continue to increase.
- The restricted supply is continuing to result in reducing incentive levels.

Industrial

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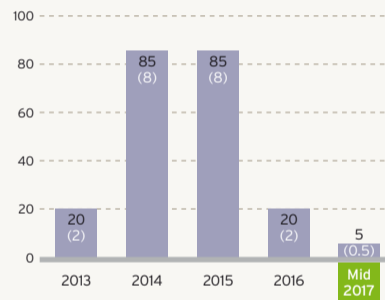
demand 000s sq ft



demand

- Strong freehold owner occupier demand remains albeit with limited opportunities.
- The lack of good quality modern space is holding back take-up.
- There are a number of requirements for the city who are struggling to find accommodation of a modern specification and who are being forced to consider locations outside Bath with East Bristol being of particular interest.
- Approximately 15,000 sq ft (1,394 sq m) formerly occupied by Roper Rhodes has been acquired by Edmondson Electrical and Topps Tiles.

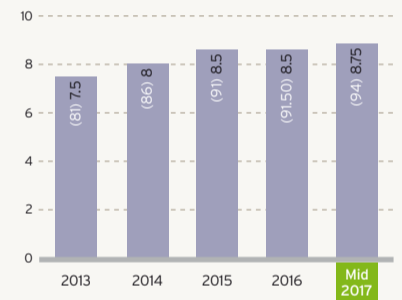
supply 000s sq ft



supply

- Supply is still limited to second hand stock.
- No speculative industrial/distribution development has taken place in Bath with none expected for the foreseeable future.
- There is a negligible amount of good quality stock and the shortage of modern space is set to continue.

headline rent £psf



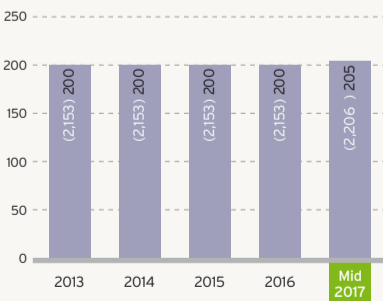
headline rent

- For new space we anticipate headline rentals of £8.75 psf (£94 psm).

Retail & Leisure

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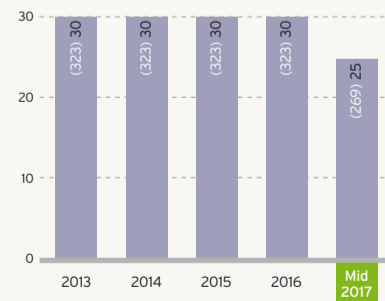
zone A headline rent £psf



zone A headline rent

- There was limited activity in prime pitches during the first quarter of 2017.
- Make-up house MAC opened in SouthGate in April, followed shortly after by fashion brand COS which opened in the former Banana Republic unit on Union Street.
- There has been an increase in the number of voids.
- Rental levels in prime pitch have remained stable.

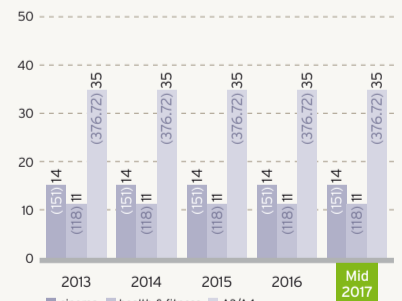
out of town headline rent £psf



out of town rent

- Mero Retail Park, next to Lidl on Lower Bristol Road, has opened with occupiers including Pets at Home, Carpetright and Costa Coffee.
- Elsewhere in the city, development opportunities remain very limited.

leisure headline rent £psf



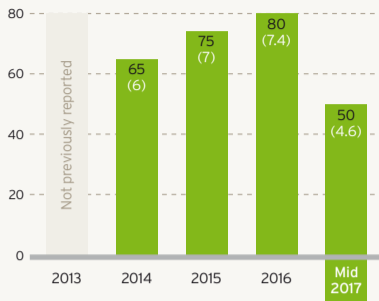
leisure headline rent

- The A3 market remains very active.
- Smash Burger and Tapas Revolution have joined the mix at Little SouthGate.
- The Ivy has announced plans to open a Brasserie in the Grade II listed NatWest Bank building on Milsom Street. Giggling Squid is also looking to open.
- Swoon Gelato has opened its second outlet in Kingsmead Square.

Offices

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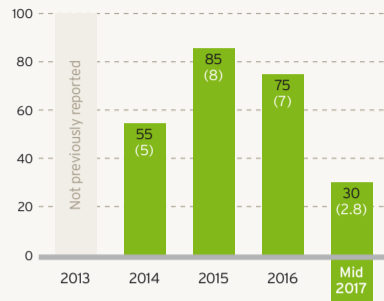
demand 000s sq ft



demand

- Reasonable levels of demand look set to continue throughout 2017, especially for accommodation of less than 1,500 sq ft (139 sq m).
- Demand from Hinkley-related occupiers is generally being absorbed within the Somerset Energy Innovation Centre and its associated building on Woodlands Business Park.
- The popularity of serviced/managed accommodation within the town is clear, with consistently low void levels within The Exchange on Express Park.

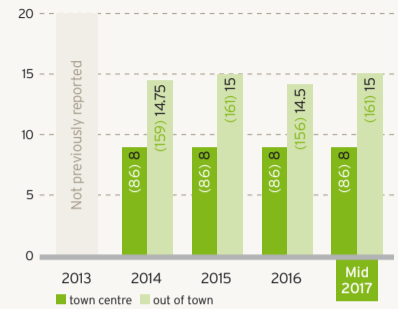
supply 000s sq ft



supply

- The levels of vacant space on the most popular out of town business parks have decreased over the past six months, with increasing levels of latent demand.
- The quality of accommodation is key, with a lack of good quality, modern accommodation being a significant obstacle for occupiers looking to secure space in the town.

headline rent £psf



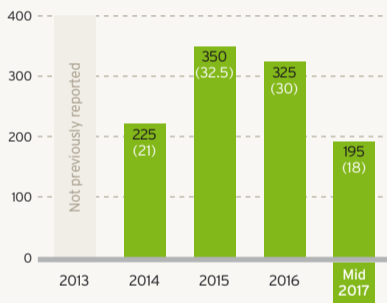
headline rent

- Headline levels remain very stable, especially in the out of town market which has been consistent for several years.
- There is likely to be an increase in the headline figure for small (sub 1,000 sq ft) suites during the remainder of 2017.

Industrial

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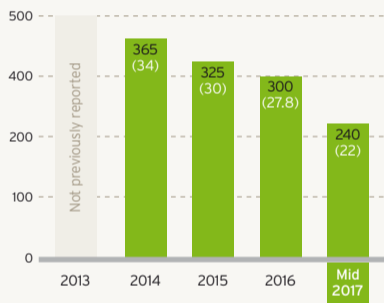
demand 000s sq ft



demand

- The predicted spike in demand as a result of Hinkley Point has yet to materialise to any significant degree, although there are signs of increasing levels of Hinkley-related requirements.
- Demand for new build units continues to be strong, especially on a freehold basis.
- Generally the market is characterised by demand for sub 5,000 sq ft (464 sq m) and demand for over 40,000 sq ft (3,716 sq m), with fewer enquiries in the mid-market.

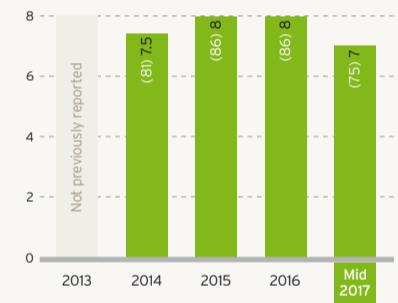
supply 000s sq ft



supply

- Levels of supply have remained relatively stable with recent transactions including several new build properties. This is likely to continue as occupiers increasingly turn to new build in order to satisfy their requirements.
- There continue to be opportunities for new build around both Junctions 23 and 24.

headline rent £psf



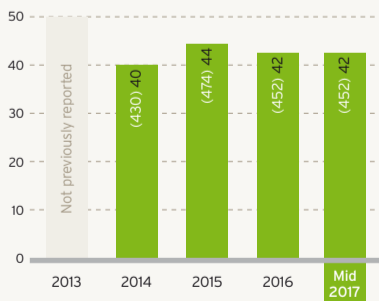
headline rent

- Rents are fairly consistent with 2016, although land values have risen. This is likely to put further pressure on capital values and rents over the next 12 months.
- Major road works along Wylds Road are likely to have impacted the trade counter market, with rents not rising in line with prediction.

Retail & Leisure

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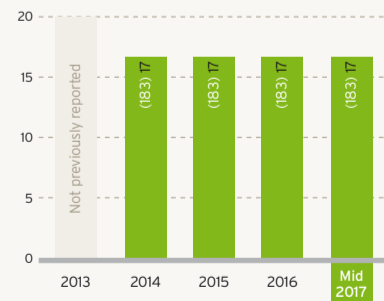
zone A headline rent £psf



zone A headline rent

- In March 2017 there were 27 vacant retail properties within Bridgwater town centre, down slightly on the end of 2016.
- There are notable concentrations of vacant units in the tertiary retailing areas of Eastover, High Street and St Mary Street.
- Zone A rentals levels are relatively static at around £42 psf.

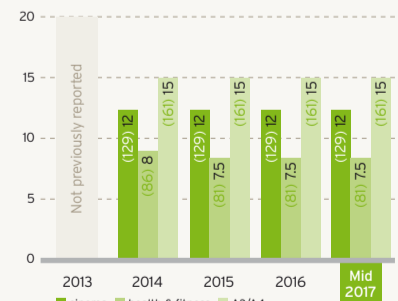
out of town headline rent £psf



out of town rent

- Two of the town's regeneration sites at Mount Street and Northgate will provide a new cinema, food and beverage units and a food store.

leisure headline rent £psf



leisure headline rent

- With a lack of availability, there continues to be latent demand from the health and fitness sector.
- The hotel market continues to show promise, although commencement of construction on a number of sites has been slow.

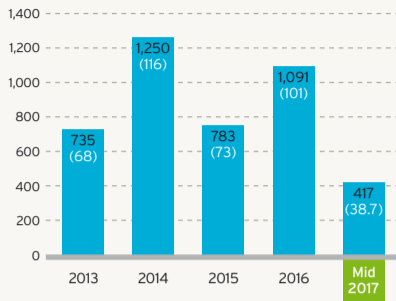
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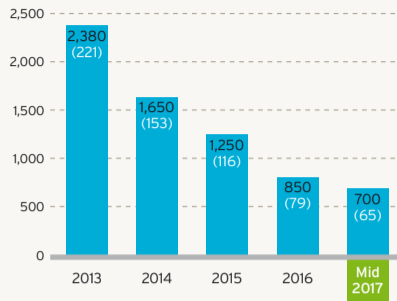
demand 000s sq ft



demand

- Despite strong occupier sentiment, take-up for the first half of 2017 has been slightly disappointing and, in the city centre, below the five year average.
- Notable transactions during the first half of 2017 included The University of Bristol's acquisition of 32,000 sq ft (2,973 sq m) at Augustine's Court Yard and Eduserv's acquisition of 16,000 sq ft (1,486 sq m) at Gylidan House. Out of town Boeing has acquired 18,377 sq ft (1,707 sq m) at Building 435 Bristol Business Park.
- The most active sectors continue to be TMT, professional services and the increasingly active public sector.

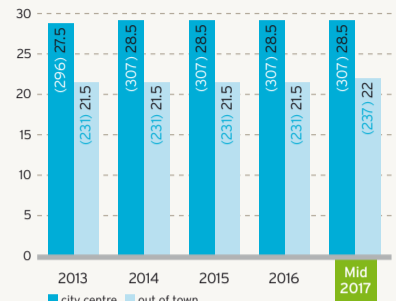
supply 000s sq ft



supply

- There is now less than 40,000 sq ft (3,716 sq m) of immediately available new Grade A space in the city centre, much of which is already under offer. The only immediately available single floor over 15,000 sq ft is at Salmon Harvester/NFUM's 2 Glass Wharf.
- The only speculative new Grade A building under construction is Aurora at Finzels Reach comprising 95,000 sq ft (8,826 sq m) and due for practical completion in Q2 2018.
- City centre refurbishments are currently underway at Cathedral Square, Programme and Temple Point.

headline rent £psf



headline rent

- Whilst in the city centre the best achieved headline rent remains at £28.50 psf, there are several deals in solicitors' hands at £29.50 psf (£317.50 psm) and above.
- Second hand rents for good quality space have increased to as much as £27.50 psf (£296 psm).
- Reducing supply is continuing to result in reducing incentive levels.

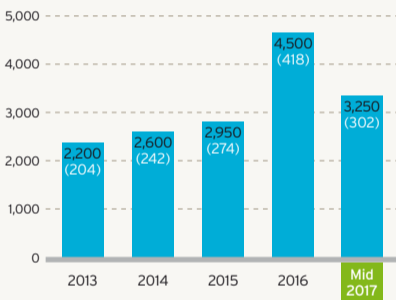
Industrial

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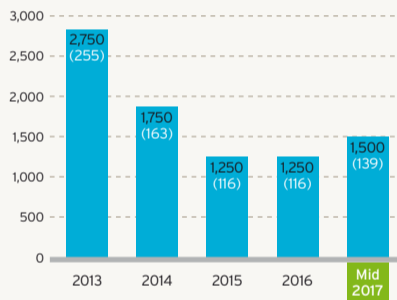
demand 000s sq ft



demand

- 2016 total take-up of 4.5m sq ft (418,063 sq m) was the highest level for 10 years.
- The year has started well with DHL committing to 160,000 sq ft (14,864 sq m) and Amazon to 2.2 million sq ft (204,387 sq m) on Severnside.
- There is a negligible amount of good quality stock and shortages of modern space are impacting on take-up.
- Activity levels are constant and it will be interesting to see the impact of the current political situation and Brexit on industrial confidence.

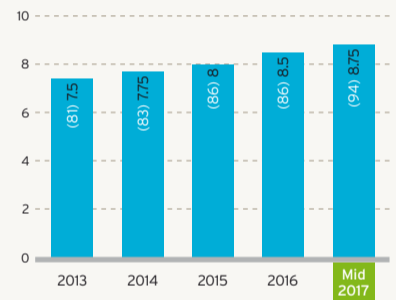
supply 000s sq ft



supply

- Availability is at a 13 year low with a large proportion of the supply comprising obsolete space for which there is limited demand.
- Speculative development is underway at Access 18 and Rockhaven in Avonmouth and at Horizon 38, Filton with further schemes planned at Vertex Park, Emersons Green and Belvedere Court, Weston-super-Mare.
- There is strong demand from owner occupiers for freehold space but few opportunities.

headline rent £psf



headline rent

- With limited new space immediately available, we anticipate that rentals of circa £8.75 psf (£94.15 psm) could be achieved for accommodation below 10,000 sq ft (929 sq m).
- Rents for modern and mid-range buildings have increased to £6.50 - £7.50 psf (£70 - £81 psm). Good quality second hand buildings below 5,000 sq ft (464.5 sq m) are commanding rents of around £6.50 - £9 psf (£70 - £96.84 psm).
- With the reduced levels of good quality available stock, rental incentives for prime space have reduced significantly with lease durations extending.

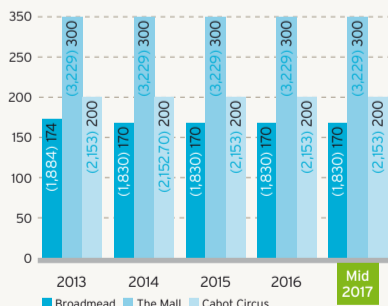
Retail & Leisure

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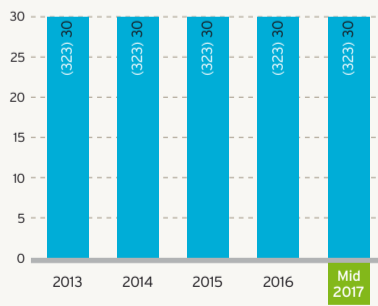
zone A headline rent £psf



zone A headline rent

- The first half of the year has seen many new openings. These include Sofa.com and an enlarged Oliver Bonas at Cabot Circus while, at The Galleries, EWM, Game and Greggs have joined the line-up. Elsewhere in Broadmead, Deichmann and ITSU have arrived.
- Openings at The Mall at Cribbs Causeway include Kiko Milano and Disney.
- A decision by the Secretary of State on the extension at Cribbs Causeway is still awaited.

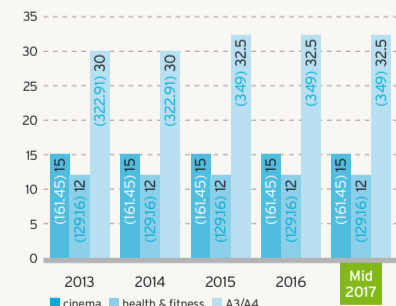
out of town headline rent £psf



out of town rent

- The former B&Q store at Filton has now been split and let to The Range and DW Sports Fitness.
- Tapi Carpets & Floors has opened at Centaurus Retail Park, joining HomeSense in the break-up of the former Homeplus unit.

leisure headline rent £psf



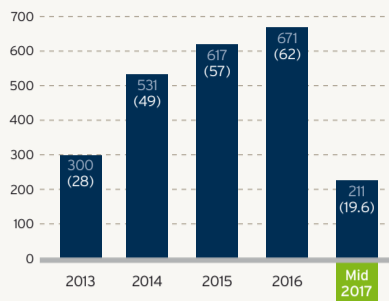
leisure headline rent

- CARGO 2, the second phase of containers at Wapping Wharf, is now open. Occupiers include Josh Eggleton's Salt n' Malt, The Athenian and Gambas.
- Bosco has opened its second outlet in Clifton Village and Yakitori has arrived in Park Street.
- L'Osteria and Côte Brasserie are now trading at Quakers Friars.
- The Mall continues to enhance its food and beverage mix with Gourmet Burger Kitchen and Tortilla.

Offices

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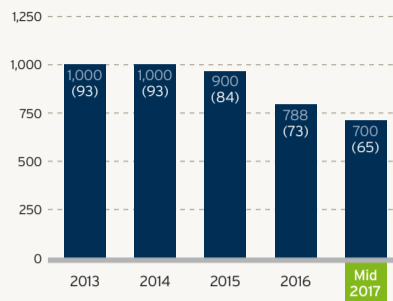
demand 000s sq ft



demand

- A strong Q1 of take-up has underpinned a weak Q2 of 61,398 sq ft (5,704 sq m).
- Notable deals include Cardiff University taking 45,000 sq ft (4,180 sq m) at 2 Central Square, Network Rail taking 31,500 sq ft (2,926 sq m) at St Patricks House and Church of Wales taking 10,773 sq ft (1,000 sq m) at 2 Callaghan Square.
- The public sector continues to underpin demand with HMRC about to commit to over 200,000 sq ft (18,582 sq m) at Central Square. Further consolidation of the UK Government Estate is expected.

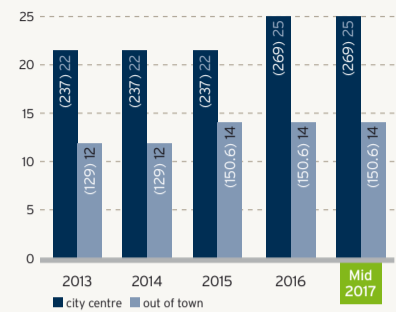
supply 000s sq ft



supply

- It is expected that supply will decrease to below 700,000 sq ft (65,032 sq m) by year end, a 40% reduction over the last five years.
- Student development continues to accentuate the reduction but we expect demand in this sector to reduce in 2018.
- Significant new developments to be completed in 2017 include 2 Central Square, One Canal Parade, 3 Capital Quarter and the new BBC headquarters.
- Grade A stock currently stands at approximately 150,000 sq ft (13,935 sq m), excluding One Canal Parade, less than a year's supply.

headline rent £psf



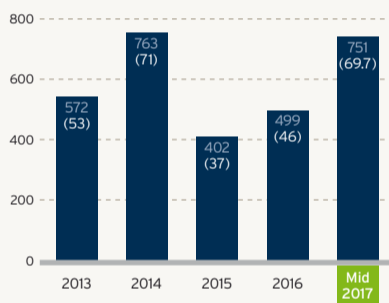
headline rent

- Headline rents remain stable with growth expected in 2018 as a result of diminishing supply.
- Incentives continue to tighten on good Grade B stock but remain on new development for strong covenant occupiers.
- Out of town rents remain stable but we expect these to increase due to increased first half demand around Junctions 30 and 32 of the M4 motorway.

Industrial

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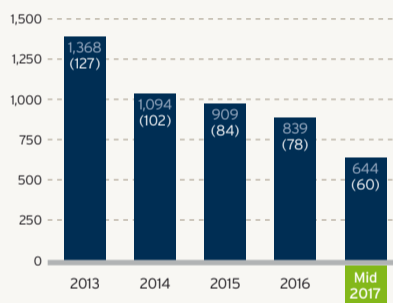
demand 000s sq ft



demand

- Aldi and film production company Bad Wolf dominate this year's transactions and demand figures, respectively opening a new 400,000 sq ft (37,161 sq m) distribution centre in Wentloog and acquiring 253,000 sq ft (23,505 sq m) at Trident Park.
- The last 12 months has seen increased activity in the trade counter sector evidenced by GSE Tool Support taking 4,910 sq ft (456 sq m) at Dominions Trading Estate.
- There is strong demand for freehold properties, most notably those properties with yards.
- Demand remains healthy, positively impacting on rental, capital and incentive levels.

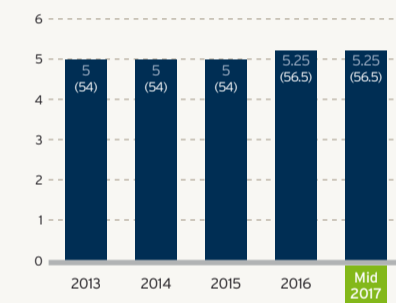
supply 000s sq ft



supply

- A lack of speculative development continues to squeeze levels of existing stock, with no Grade A space above 50,000 sq ft (4,645 sq m) available.
- Supply has reduced 32% in the last 12 months.
- Occupiers have been settling for refurbished accommodation but are now encouragingly considering design and build opportunities.
- Freehold units with sizeable, secure yards remain in scarce supply but in high demand.
- Cardiff's £57m Eastern Bay link road has now formally opened improving access to southern Cardiff and potentially stimulating demand in Ocean Park and along Rover Way.

headline rent £psf



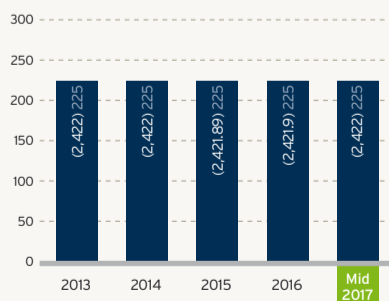
headline rent

- We expect headline rents on secondary stock to increase as the imbalance continues between supply and demand.
- Occupiers may be forced to pay above market rental levels to satisfy their requirements.

Retail & Leisure

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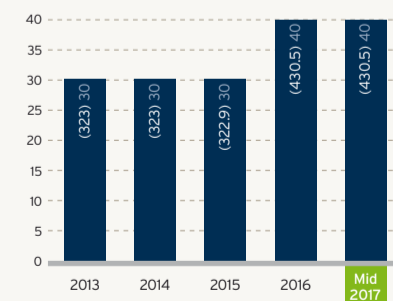
zone A headline rent £psf



zone A headline rent

- Queen Street's strong footfall has attracted 200° Coffee which has taken the former Base & Barley restaurant, with cosmetics retailer Lush relocating and expanding.
- St David's II Shopping Centre continues to perform, despite Mothercare's closure, with the reopening of clothing retailer Luke 1977 and Bravissimo taking 3,978 sq ft (369 sq m).
- Plans to redevelop the Capitol Shopping Centre have been brought forward by owner NewRiver to include retail and leisure and high rise apartments.

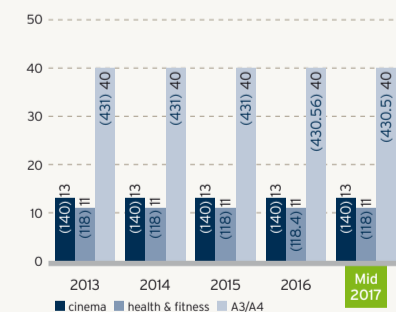
out of town headline rent £psf



out of town rent

- Retail parks continue to attract national tenants with strong covenants. Cardiff Bay Retail Park has secured three new tenants in Home Bargains and Iceland on 15 and 10 year leases respectively, with Wilko taking the former Brantano unit on a 10 year lease.
- City Link Retail Park on Newport Road is now fully let, as retailers TK Maxx and Guess How Much have taken the remaining space of 32,000 sq ft (2,973 sq m) within the complex.

leisure headline rent £psf



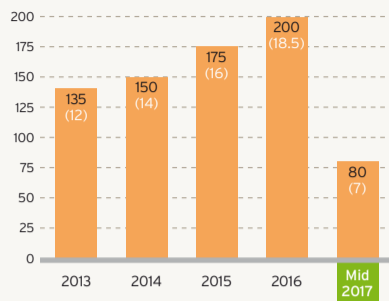
leisure headline rent

- There has been growth for A3 and A4 uses in the city centre through new offerings such as Seafood Shack on High Street and Elevens Bar & Grill on Castle Street.
- The Philharmonic bar situated on St Mary's Street has undergone a £750,000 refurbishment and is due to re-open shortly.
- Hotel requirements remain active for the city centre with a proposed 20 storey Premier Inn Hotel at the former Custom House and a 100 bedroom four star boutique Indigo hotel at Dominions House on Queen Street set to welcome its first guests in July 2017.

Offices

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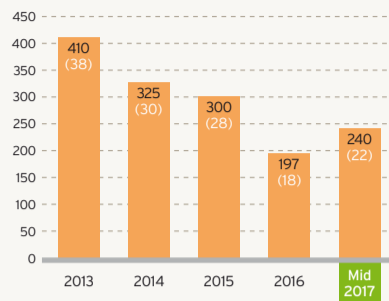
demand 000s sq ft



demand

- There are two requirements in the market for over 20,000 sq ft (1,845 sq m), both of which have a timescale allowing new build to be considered. This is very encouraging for developers such as St Modwen who are delivering speculative space at SkyPark.
- There is significant latent demand for small freeholds as business owners seek opportunities to hold property in their pension funds.
- There is particularly strong demand for both leasehold and freehold space ranging from 2,000 to 5,000 sq ft (186 to 464 sq m).

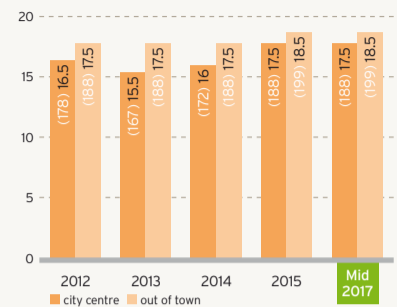
supply 000s sq ft



supply

- There has been a welcome change at the top of the market with the delivery of Two Enterprise Square at SkyPark. This 17,142 sq ft (1,592 sq m) building is under construction and available floor by floor.
- Space in the city centre is very tightly restricted with no Grade A available and very little Grade B.
- Availability of smaller suites out of town is also very limited which is helping to push rents and reduce voids.

headline rent £psf



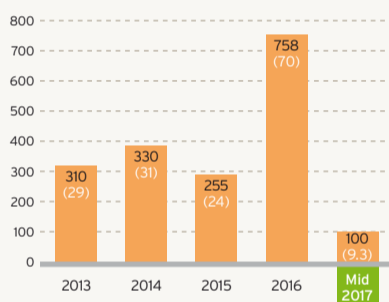
headline rent

- £18.50 psf (£199 psm) remains the high water mark but will be bettered by the next new build letting.
- Quoting rents beyond £20 psf (£215 psm) for new build will become the norm as we head in to 2018.
- Rents for existing stock are gathering pace with £15 psf (£161 psm) being paid for good quality existing space.

Industrial

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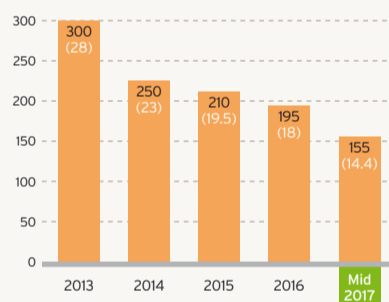
demand 000s sq ft



demand

- Demand at the top of the market is strong. There are a handful of 50,000 sq ft + (4,645 sq m) requirements currently in the market, driven by internet fulfilment.
- Demand is outstripping supply with many interested parties failing to find the right space close to Exeter. This is forcing businesses to look to locations such as Culmpton and Willand to find land and buildings.
- Freehold demand still outstrips leasehold although it is limited to the sub 20,000 sq ft (1,858 sq m) market. Beyond this, lot sizes become too large.

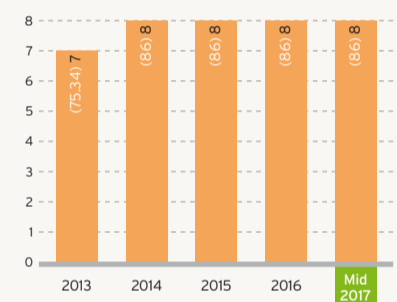
supply 000s sq ft



supply

- Supply will increase as Westex Business Park comes to market. Planning permission for Phase 2 has been granted, enabling development of 192,500 sq ft (17,884 sq m). Phase 3 is currently in for planning and will deliver 507,000 sq ft (47,102 sq m).
- To meet demand from the distribution sector, the Church Commissioners are bringing forward 1 million sq ft (92,903 sq m) of B8 space, subject to obtaining planning on land close to SkyPark and the new Lidl distribution facility.
- Existing sites such as Matford Green Business Park are nearing completion following several very successful years of marketing.

headline rent £psf



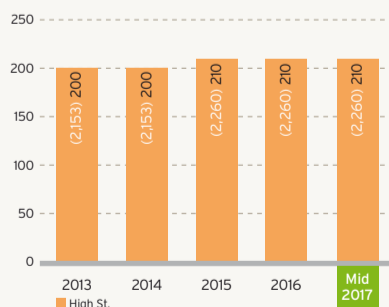
headline rent

- Rents will move towards £9 psf (£96.87 psm) in the next round of new build lettings. This is partly driven by the bespoke nature of modern distribution premises and also construction cost inflation.
- Rents on secondary stock are also increasing due to the imbalance between supply and demand.

Retail & Leisure

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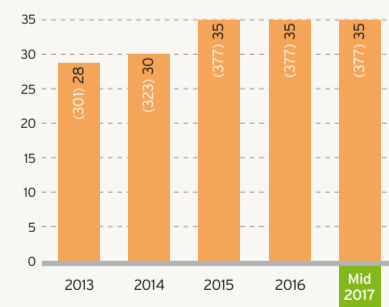
zone A headline rent £psf



zone A headline rent

- The first half of the year has seen similar trends to 2016 with vacant stores being re-let quickly. New entrants such as Sketchers and Smiggles have opened new stores on the high street.
- The bus station redevelopment has led to a number of tenants from Paris Street having to relocate, putting further strain on current high street stock levels.

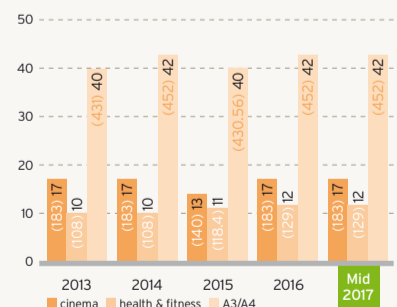
out of town headline rent £psf



out of town rent

- Again Exeter's out of town market is proving strong, evidenced by The Range opening its second store at Alphington and Costa Coffee building its eighth store in the city at Rydon Lane Retail Park. Marsh Barton has also seen Greggs take a new drive to store in the heart of the estate.
- With works well underway on the outskirts of Exeter, IKEA has confirmed it will be opening its new store in spring 2018.
- Demand has gathered momentum again in the convenience store market with new local centre schemes attracting early interest from the big names in the sector.

leisure headline rent £psf



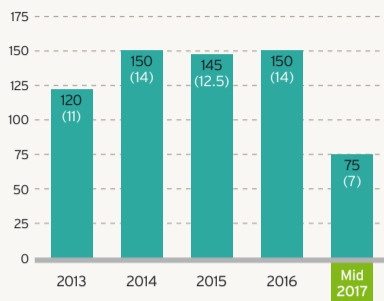
leisure headline rent

- Loungers opened at the Quayside in the first half of the year, with further demand from a number of national brands for the city centre. The Ivy has submitted plans for a restaurant fronting the Cathedral Green, which further proves the strength of the A3 market in the city.
- iBounce has become the first trampoline operator to open its doors in Exeter, taking space in the Exeter Sports Academy building on Marsh Barton.
- Budget gym operator the Gym Group has submitted plans to open a circa 40,000 sq ft (3,716 sq m) gym in the former BHS store in the centre of the city.

Offices

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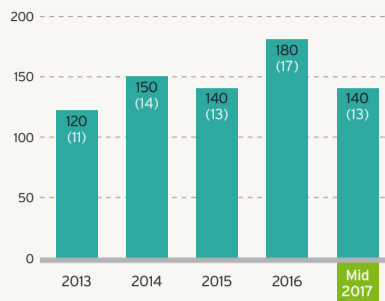
demand 000s sq ft



demand

- Take-up in the first six months of the year totalled 75,000 sq ft (6,968 sq m).
- Significant transactions included the 6,000 sq ft (557 sq m) letting of 1260 Lansdowne Court, Gloucester Business Park to Lockheed Martin and the 12,500 sq ft (1,161 sq m) letting of Building 1, The Office Campus, Barnwood to River Marketing.
- Within the city centre, the recent momentum generated for office to residential conversion projects has continued, reducing the supply of more obsolete office space.

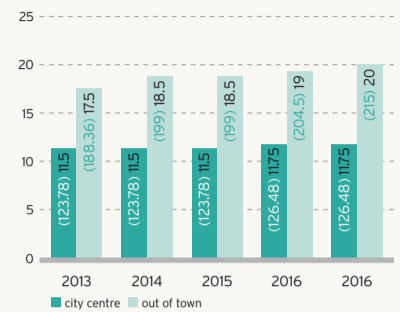
supply 000s sq ft



supply

- The supply of available stock in Gloucester currently stands at 140,000 sq ft (13,001 sq m). Of this only 30,000 sq ft (2,787 sq m) is Grade A stock.
- Interest in new build space continues as occupiers are often unable to source suitable existing buildings.

headline rent £psf



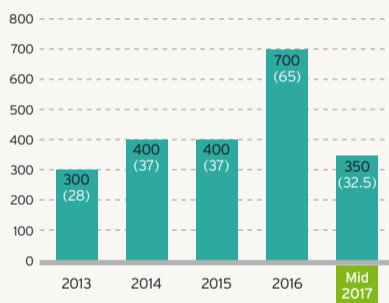
headline rent

- The headline rent for Grade A out of town space has increased to £20 psf (£215 psm).
- For secondary space, rents have now risen to £14-15 psf (£150-161 psm).
- Headline rents for city centre space remain at £11.75 psf (£126 psm).

Industrial

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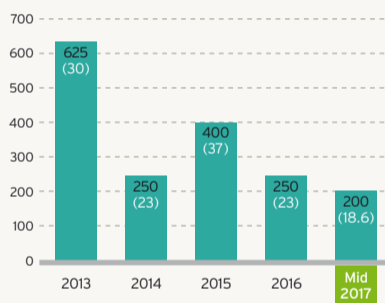
demand 000s sq ft



demand

- Take-up for the first six months totalled 350,000 sq ft (32,515 sq m).
- The most significant deal of the first half of the year is an agreement to construct a new 110,000 sq ft (10,219 sq m) manufacturing facility at Gloucester Business Park.
- In terms of Grade A space, Warwick Fabrics has acquired the 40,000 sq ft (3,716 sq m) speculatively built Unit 3 Gateway 12.
- Of note in the secondary market, Reusebook has relocated from Stroud into Robert Hitchins' Mill Place estate in Bristol Road, Gloucester, occupying a building of 75,000 sq ft (6,968 sq m).

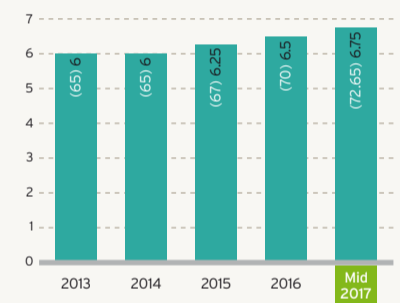
supply 000s sq ft



supply

- Supply is continuing its downward trend of recent years. The shortage of stock is spread across all size ranges and grades.
- St Modwen continues its speculative development activity at Gateway 12 with the construction of two additional buildings to provide 38,000 sq ft (3,530 sq m) and 40,000 sq ft (3,716 sq m).
- Following the successful letting of its Bristol Gateway building at Severn Distribution Park, Howard Tenens is due to start the part speculative construction of Phase 2 which ultimately could provide over 440,000 sq ft (40,877 sq m) in three buildings.

headline rent £psf



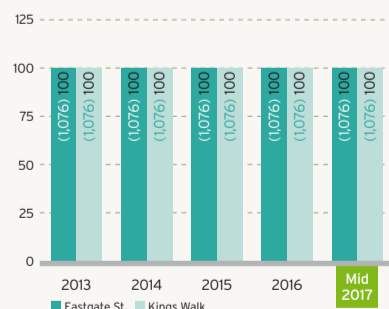
headline rent

- The headline rent for Grade A space has increased to £6.75 psf (£72.65 psm) for mid-range space.
- It is anticipated that the upward pressure on rents will continue, fuelled by a continued shortage of stock and an increase in new build construction costs.

Retail & Leisure

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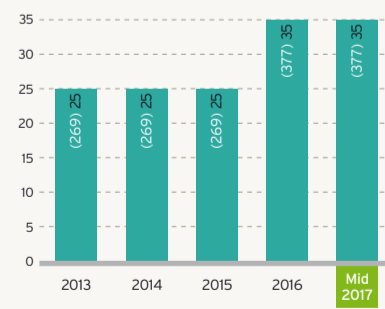
zone A headline rent £psf



zone A headline rent

- TK Maxx has now opened on Northgate Street and will give the north side of the city centre a much-needed boost and improve footfall traffic.
- The local authority has begun the demolition of the bus station. The much anticipated mixed use redevelopment of this site will have a significant impact on rejuvenating the city centre.
- Demand across the four key streets of the centre - Eastgate, Westgate, Northgate and Southgate - continues to improve.

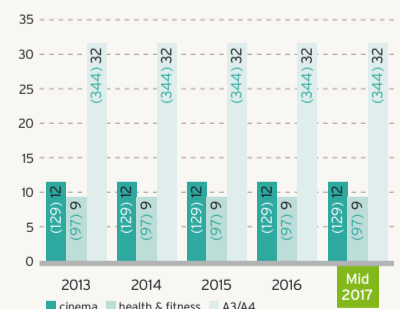
out of town headline rent £psf



out of town rent

- Demand for out of town units remains strong with little availability. Whittle Square at Gloucester Business Park is fully let, as is St Oswalds Park.
- Demand for drive-thru opportunities also remains strong, with Starbucks planning to open a new unit at Eastern Avenue close to the Costa Coffee drive-thru at Triangle Park.
- The discount food retailers remain active. Lidl extended its existing store on Eastern Avenue, having acquired the neighbouring site from the Fire Service. Aldi has acquired the All Coopers site on Hucclecote Road for an additional Gloucester store.

leisure headline rent £psf



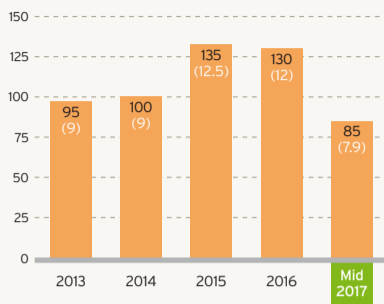
leisure headline rent

- Gloucester Quays continues to grow in popularity, with Côte Brasserie the latest to open alongside other restaurants including Bella Italia, The Grillshed and Greek on the Docks.
- Peel was granted planning consent on the former cinema site, where Next and Home Bargains are secured as tenants. Further new development has commenced at Bakers Quay on a scheme to include Brewers Fayre, Premier Inn and Costa Coffee.
- Within the health and fitness sector, the budget gym operators remain active and are keen to acquire a limited supply of suitable properties.

Offices

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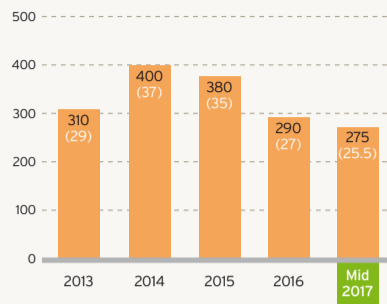
demand 000s sq ft



demand

- Office demand increased with the letting of 45,000 sq ft (4,180 sq m) at The Ship. We expect the trend over the year to be in line with previous years.
- Requirements remain focused on smaller sub 5,000 sq ft (464 sq m) suites. The top end of the market has been subdued by uncertainty over the election and Brexit.
- As in other parts of the South West, demand for small freeholds remains strong.

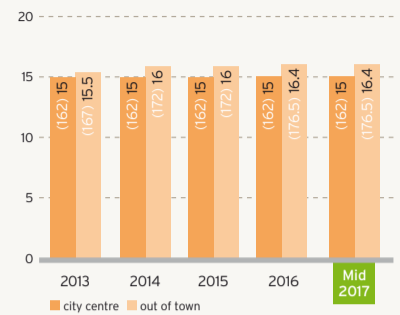
supply 000s sq ft



supply

- Plymouth benefits from a good supply of space, offering a variety of new and existing suites to meet the requirements of most occupiers. Unlike other centres, quality space is available.
- The strength of office supply and investor/developer sentiment is supported by the release of quality newly refurbished stock like The Merchant's building on St Andrew's Court.

headline rent £psf



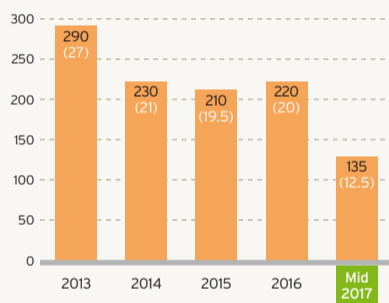
headline rent

- Headline rents remain unchanged. With reasonable levels of supply, there is limited scope for increases this year as secondary stock will satisfy demand.

Industrial

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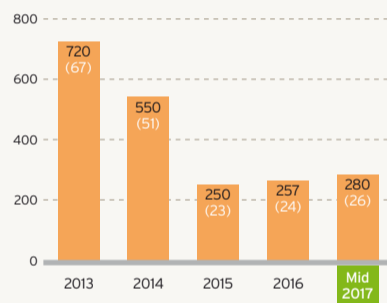
demand 000s sq ft



demand

- There was strong demand in the first half of 2017, with sub 10,000 sq ft (929 sq m) units preferred.
- Demand at the top end of the market is improving with major occupiers looking to Plymouth after being unable to find suitable development sites in Exeter. These occupiers are looking for buildings above 50,000 sq ft (4,645 sq m).

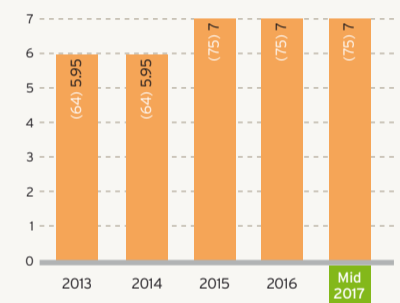
supply 000s sq ft



supply

- There is a real shortage of space below 20,000 sq ft (1,858 sq m).
- The breaking up of larger premises has led to some supply coming to market with investors like Burrington Estates investing heavily in Plymouth across all sectors.
- The cost of delivering new space is limiting development and keeping a lid on supply.

headline rent £psf



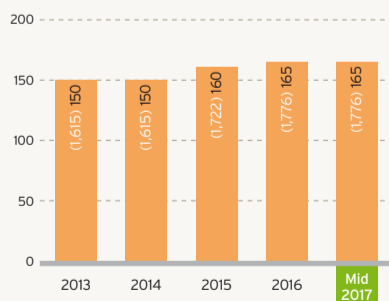
headline rent

- The best space is still trading up to £7 psf (£75 psm). Market forces could deliver increases but we are likely to see these in 2018 rather than later this year.

Retail & Leisure

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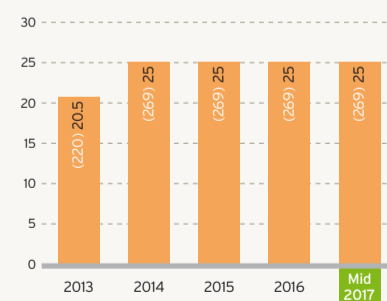
zone A headline rent £psf



zone A headline rent

- The real estate investment trust British Land has acquired the primary trading pitches of New George Street, Old Town Street and Royal Parade Estate in Plymouth city centre, showing confidence in the city's retail market.
- Fashion and lifestyle brand Joules opened its doors in the first half of the year at Drake Circus shopping centre, adding to the strength of Plymouth as a regional centre.

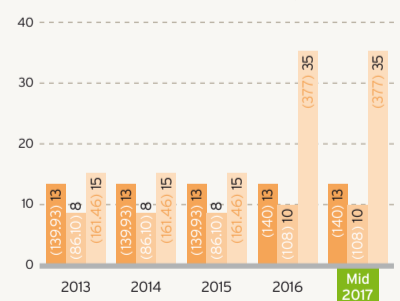
out of town headline rent £psf



out of town rent

- Marsh Mills has dominated the out of town retail market with works well underway at the major retail and leisure development. Lettings have been agreed with Wren Kitchens, Sofology, Tapi Carpets & Floors and Mothercare to fill the shop units on site. The scheme will also include a KFC drive-thru and Costa Coffee outlet.
- The Range has identified a Derriford site to house its new HQ and superstore on a plot next to the Future Inn hotel.
- Bed specialist Dreams has confirmed it will be move into Coypool Retail Park on the site of the former B&Q store which closed in January.

leisure headline rent £psf



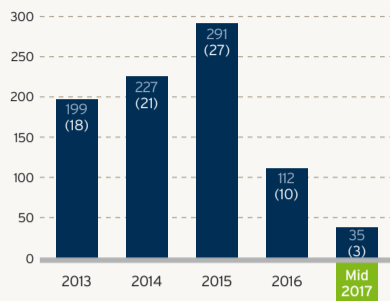
leisure headline rent

- Construction of the Drake Circus leisure scheme is well underway. Due to open in 2019, the 100,000 sq ft (9,290 sq m) scheme comprises a 12 screen Cineworld cinema and 14 restaurant units.
- Bills has confirmed it is opening at Drake Circus. Other brands signed up in the first half of the year are Wagamama and Turtle Bay.

Offices

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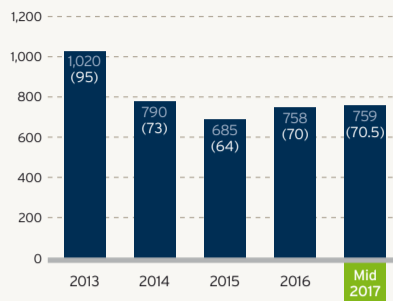
demand 000s sq ft



demand

- Take-up in the first half of 2017 has been substantially lower than average.
- The largest letting this year has been the disposal of the 9,586 sq ft (891 sq m) Cheney Manor House.
- Several applicants have enquired as to current availability and then negotiated with the landlord to renew or extend their lease at their current premises.

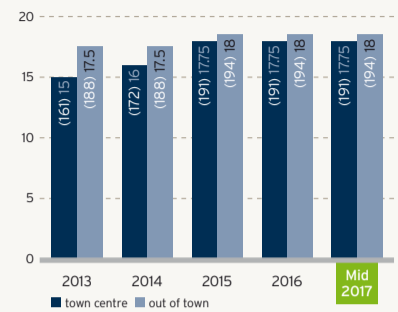
supply 000s sq ft



supply

- F1 Real Estate has substantially upgraded the reception and common parts to 3 Newbridge Square as well as speculatively refurbishing one floor to offer high quality office space almost adjacent to the railway station.
- There has been little new out of town stock coming to the market although a significant element is expected to come back shortly within the Stella building at Windmill Hill and Canberra House at Lydiard Fields.
- Poorer quality stock, which is diminishing, continues to be targeted by residential developers.

headline rent £psf



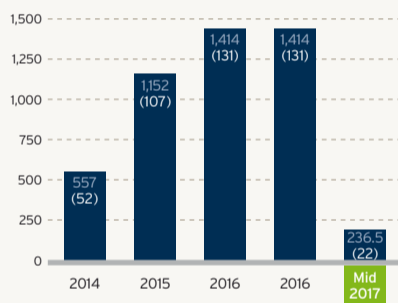
headline rent

- Achieved rents remain steady. However we anticipate these rising in the near future as soon as there is improved demand.
- Landlords are generally feeling more bullish as a result of reducing stock and quoting rents are beginning to rise.
- Rent free periods are reducing and the ability to secure short leases is falling.

Industrial

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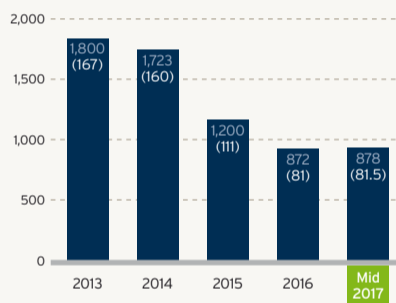
demand 000s sq ft



demand

- The decision to speculatively refurbish the 90,000 sq ft (8,361 sq m) Aviva-owned building at Broadmoor Road, South Marston has borne fruit with Bleckmann Logistics taking a new 10 year lease. This signed in the first week of July so will be recorded in the Q3 figures.
- There have been two further transactions this year in excess of 40,000 sq ft (3,716 sq m) namely 42,711 sq ft (3,968 sq m) at Units 6 and 7 Thornhill Industrial Estate to Nissin UK Ltd and 51,046 sq ft (4,742 sq m) at 3 Pagoda, Westmead to Honda Logistics.
- There is good demand for small units of sub 5,000 sq ft (464 sq m).

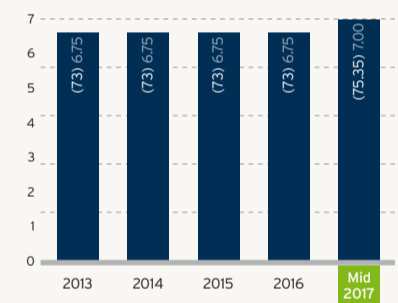
supply 000s sq ft



supply

- Supply is at an all-time low with very few good quality opportunities available to occupiers.
- There are no large buildings immediately available above 50,000 sq ft (4,645 sq m) in the town.
- DB Symmetry has nearly completed the groundworks at Symmetry Park and is about to commence speculative construction of a 212,000 sq ft (19,695 sq m) building. Mooreland Estates has submitted a detailed planning application for Trinity Park.

headline rent £psf



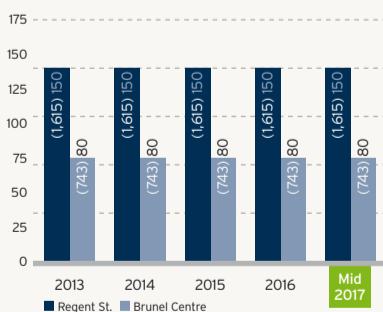
headline rent

- Rents for refurbished units have hardened and in several instances increased which is a factor of a lack of supply.
- Landlords are able to demand longer leases and break clauses are being pushed out.
- Rent free periods continue to be eroded.

Retail & Leisure

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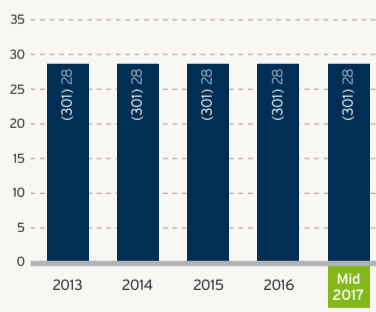
zone A headline rent £psf



zone A headline rent

- Wilkinsons has taken the 20,000 sq ft (1,858 sq m) former BHS unit at The Parade.
- Swindon Borough Council is working with FlashShop to bring new occupiers into the town centre.
- Detailed planning consent has recently been granted for four new restaurants and a coffee shop to be constructed on the site of the Tented Market with a 12 storey residential development above.

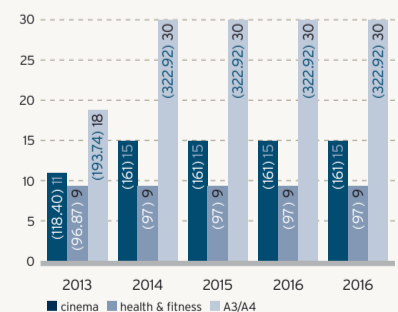
out of town headline rent £psf



out of town rent

- In addition to its new town centre unit, Wilkinsons has also opened a new store at Greenbridge Retail Park in the old Brantano unit.
- Home Bargains has opened its first Swindon store at Hobley Drive having completely refurbished the former Aldi store.
- A sixth Aldi supermarket is proposed for Swindon at the front of Blackworth Industrial Estate.
- A planning application for 75,000 sq ft (6,968 sq m) of new bulky goods retail space has been submitted at Swindon Gateway on the northern fringe of the town.

leisure headline rent £psf



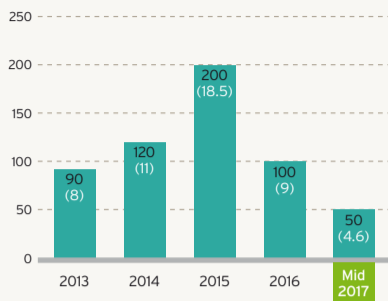
leisure headline rent

- Lettings are now agreed at all seven new food and beverage units at The Crossing in the town centre with the exception of the largest one.
- The Brunel Centre has secured new occupiers including Bonkers Play Centre which adds to the overall town centre offer.
- Great Western Way continues to generate strong demand with a new drive-thru KFC opening shortly and the old Mini garage being transformed into an expanded Honda dealership. There is also a pending planning permission for a new Travelodge hotel.

Offices

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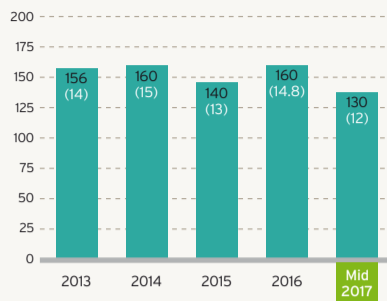
demand 000s sq ft



demand

- After a reasonable start to the year, leasehold enquiry levels have fallen in the second quarter, especially within the out of town market.
- Freehold enquiries have been more robust than leasehold, although they dipped in the past few months.
- Demand continues to focus on better quality accommodation both in town and out of town.

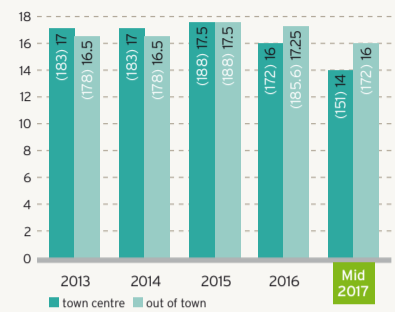
supply 000s sq ft



supply

- The sale of Goodwood House in Q2 significantly reduces the out of town figures, although there continues to be reasonable supply around junction 25 for typical requirements of sub 3,000 sq ft (279 sq m).
- The introduction of accommodation at Tangier Central has increased town centre supply significantly, although some initial deals have been agreed on around 15,000 sq ft (1,394 sq m) of the total 60,000 sq ft (5,574 sq m).
- There remains a lack of freehold buildings with modern specification and car parking.

headline rent £psf



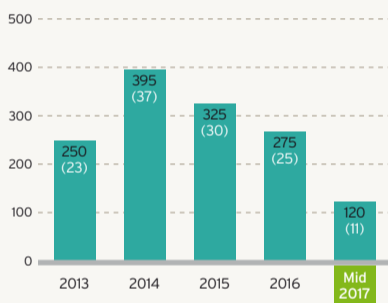
headline rent

- Headline levels in the out of town market have fallen, although this is in part due to the lack of deals on new build accommodation, with a majority of deals being on secondary stock.
- As with other locations in the county, the headline figures for smaller suites are at a premium rate of around £17 psf.

Industrial

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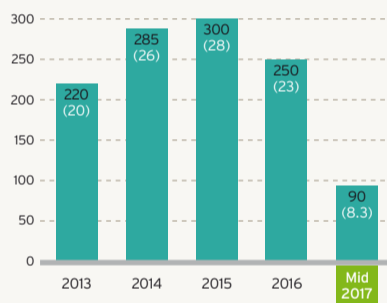
demand 000s sq ft



demand

- General levels of demand have been relatively good during the first half of the year. Transaction levels continue to be frustrated due to the lack of available supply.
- Several new buildings have been completed on Westpark 26. A further trade counter phase is currently coming out of the ground with a number of pre-lets already agreed.
- Demand is generally sub 20,000 sq ft (1,858 sq m), although the true nature of latent demand is masked by the lack of variety in terms of available stock.

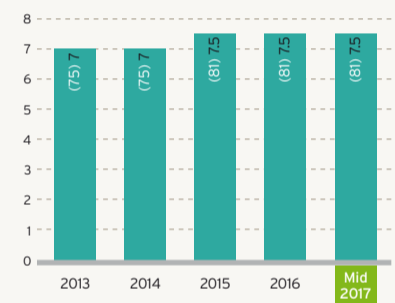
supply 000s sq ft



supply

- In addition to the potential for new buildings within the Silk Mills area, the prospect of a Local Development Order being put in place in Q4 at Nexus 25 will provide much-needed design and build opportunities off Junction 25 of the M5.
- There continues to be low vacancy rates across all of the existing industrial estates.

headline rent £psf



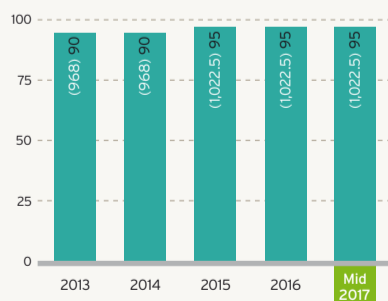
headline rent

- Headline rent levels have been consistent for the past couple of years and remain at £7.50 (£80.73 psm), although trade counter rents are now in the order of £10 psf (£107.63 psm), a rise from previous years.
- Rental levels may well improve with the introduction of potential new build units over the next 12 - 24 months.

Retail & Leisure

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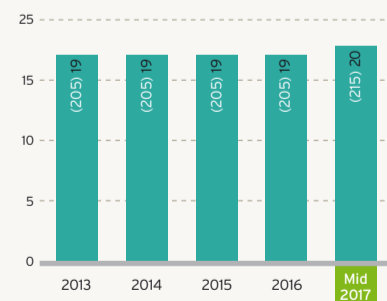
zone A headline rent £psf



zone A headline rent

- Vacancy rates are low when compared with other centres within the county. The most recent survey recorded 27 vacant retail units across the town centre with concentrations in Fore Street, High Street and County Walk.
- Planning applications are with the local authority in respect of the proposed new development at The Coal Orchard and Firepool, which could see significant retail development within the town in 2018/19.
- Zone A rental levels are relatively static at around £95 psf (£1,023 psm).

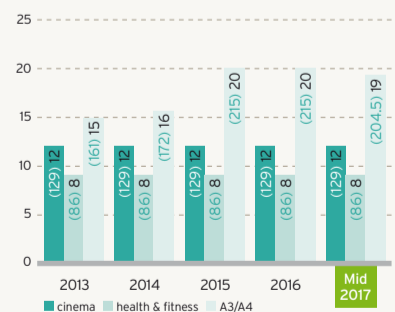
out of town headline rent £psf



out of town rent

- Following planning permission granted at the end of 2016, construction of the new Aldi store at Bathpool has commenced.
- Several new occupiers have started trading on the Priory Fields Retail Park following rationalisation of accommodation by existing occupiers.

leisure headline rent £psf



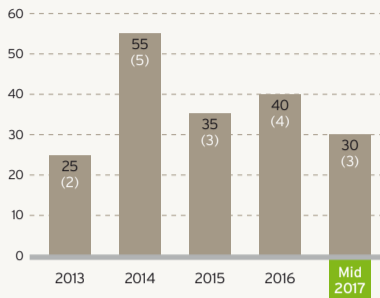
leisure headline rent

- The A3/A4 market has been less active in the first half of 2017.
- Local/regional health and fitness operators continue to expand within the area, supported by population growth within the town.

Offices

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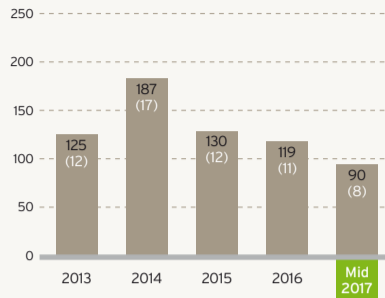
demand 000s sq ft



demand

- The year to date has seen reduced activity in part due to a larger letting which occurred in 2016.
- A single transaction can have a significant impact on the figures reported due to the relatively small size of the market
- Preference remains for modern city centre accommodation with car parking.
- Demand on the edge of Truro and outside Truro has improved slightly with a small increase in headline rents being achieved.
- With reducing supply, some older office suites which have been available for over a year have been let or are receiving increased interest.

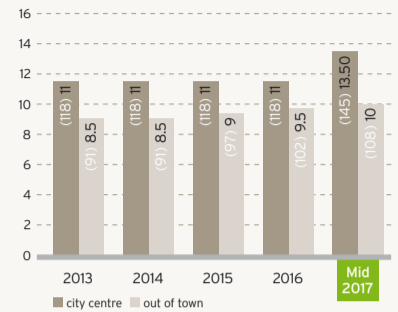
supply 000s sq ft



supply

- The supply of office accommodation has decreased in comparison to the same time last year.
- Town centre headline rents have increased, possibly as a result of reduced supply.
- It remains the case that the cost of construction generally exceeds the value of the completed product, therefore resulting in limited new development.
- There is an over-supply of secondary accommodation above ground floor with no parking in the city centre.

headline rent £psf



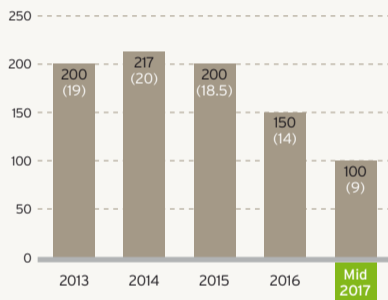
headline rent

- Ground floor city centre offices with parking can achieve a premium rental for certain occupier groups
- Shorter lease terms with five year or earlier break clauses are becoming more common
- In conjunction with the above incentives in the form of initial rent free periods or stepped rental arrangements are not unusual.
- There can be competition for good modern space due to the lack of supply which itself puts pressure on rents to increase.
- The market continues to be sporadic adding some uncertainty to the marketplace.

Industrial

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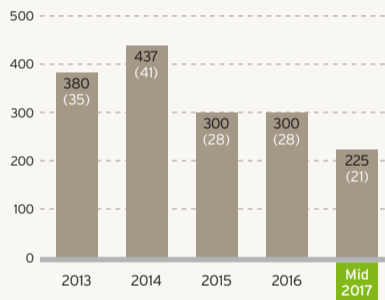
demand 000s sq ft



demand

- Known demand has decreased during the first six months of the year.
- Some demand is latent and therefore not evident until a suitable property becomes available
- The shortage of supply of new industrial units has arguably resulted in a reduction in evident demand.
- Figures reported can be distorted by a small number of individual transactions due to the size of the market.
- Demand remains focussed on modern accommodation with good access to the A30.

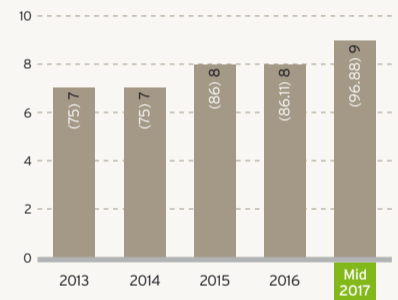
supply 000s sq ft



supply

- Supply has dropped from 300,000 sq ft (27,871 sq m) at the end of last year.
- Good quality modern accommodation close to the A30 is becoming increasingly short in supply.
- Uncertainty continues to exist around the availability of grant funding without which new development is generally not viable. Speculative grant funded developments are however proposed at Indian Queens and Hallenbeagle.
- There is an over-supply of older accommodation and an under supply of certain sizes of modern accommodation.

headline rent £psf



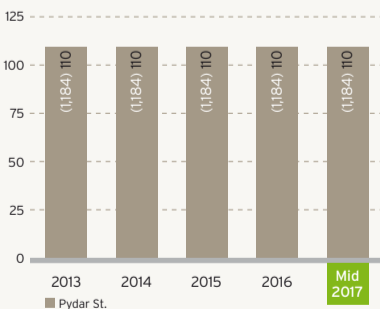
headline rent

- The lack of supply and some higher profile transactions have pushed headline rents to £9 psf (£97 psm).
- Premium rental levels may be achieved where units appeal to trade counter users adjacent to edge of town retail parks such as Treiske Retail Park.
- Tenants are requesting shorter lease terms with more frequent Options to Break.
- Occupiers may be forced to pay above the market rent to satisfy their operational requirements.
- Freehold demand from owner occupiers remains strong.

Retail & Leisure

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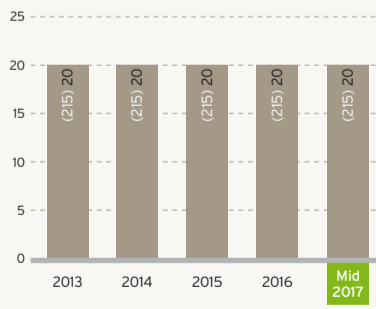
zone A headline rent £psf



zone A headline rent

- There have been a number of prime vacancies in Truro during 2016. However, take-up has been strong and Truro continues to perform better than the national average
- Wilkinsons has opened a new shop in the former BHS unit on Boscawen Street.
- The Entertainer has opened in Truro at 28/28 Boscawen Street.

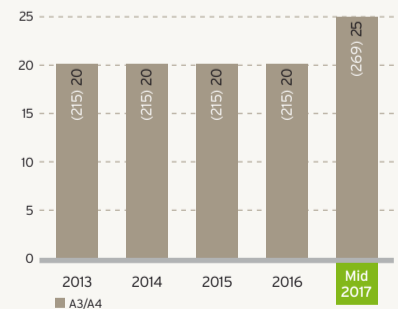
out of town headline rent £psf



out of town rent

- Following last year's opening of Waitrose on the eastern side of Truro and the opening of DFS, Oak Furniture Land and Chiquitos on the Threemilestone Retail Park, the market has been quieter so far in 2017.
- Further out of town developments are being promoted on the Truro Football Club site and at West Langarth.

leisure headline rent £psf



leisure headline rent

- There has been limited activity in Truro's leisure market so far in 2017.
- It has been announced that work may now commence on Truro's 6,000 capacity Stadium for Cornwall at West Langarth following a joint agreement between Truro Football club and the Cornish Pirates.

Commercial Investment



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Investment Summary

- While the current consensus is that the UK will avoid a recession, the uncertainty surrounding Brexit and the General Election has had an adverse impact on the property sector so far in 2017. Total returns at the All Property level are forecast to decline to 1.9% for 2017, compared with 6.1% in 2016 and 15.2% in 2015. With capital values expected to soften in many parts of the market, income return will be a major driver of performance over the next year with occupier demand remaining strong.
- A total of £24.17 billion worth of assets was transacted in Q1 and Q2 2017 so far (Property Data). This is a 10% year on year decline in trading volumes and all sectors witnessed a fall in volumes. Although the market has witnessed lower stock levels in H1 2017, competition remains strong for prime properties with solid fundamentals and competitive bidding situations were witnessed.
- The main impact so far in 2017 has been lack of stock as opposed to a negative impact on values. So far in 2017, only the High Street Retail sector in secondary locations has witnessed an upward pressure on yields. This can be explained by the continued shift to online retailing and investor nervousness surrounding the future of the high street.
- The fundamental attractions of UK commercial property investment remain unchanged to both UK and foreign investors, and in time confidence will return.
- Property remains attractive compared with other investment asset classes. Property yields continue to offer a significant margin over bonds and equities. Other appealing features of property, particularly in more uncertain terms, are its stable income and the ability to add value to it through asset management.
- Recent market evidence shows prime yields as below:

Offices	5%
Industrial	5.5%
Retail	5.75%
Retail Warehouse	5.75%

1. 115b Burcott Road, Avonmouth, Bristol

Single let detached industrial unit totalling 6,778 sq ft. Let to Selwood Group Limited until 2026 with a tenant break option in 2021. Sold on behalf of a private client for £760,000 / 6.86% NIY.

2. Endsleigh Business Park, Cheltenham

Single let office buildings on a 9.3 acre site totalling 67,776 sq ft NIA. Let to Endsleigh Insurance Services until September 2027 with a tenant break in September 2022. Sold to a private overseas investor for £9.78m / 8.25% NIY.

3. Kings Business Park, Feeder Road, Bristol

Multi-let industrial estate in central Bristol totalling circa 60,000 sq ft on a site of 3.2 acres. Tenants include Bunzl UK Limited, Parkes Services Ltd and All-Pack Solutions Limited. Sold on behalf of Aviva for £5.27m / 6.30% NIY.

4. Units 1-8 Abbeywood Park, Bristol

Prime multi-let industrial estate totalling circa 43,000 sq ft and providing eight modern units in three terraces. Tenants include Halfords, CLIC Sargeant and Euro Car Parts. Acquired on behalf of Schroders from La Salle IM for £5.8m / 5.09% NIY.

5. Talk Talk Data Centre, Monks Park Way, Milton Keynes

Single let, fully fitted data centre totalling circa 65,000 sq ft. Let to Talk Talk Communications Ltd on a 30 year lease with annual RPI linked reviews with a 2-4% collar and cap. Sold on behalf of Talk Talk to a pension fund for £15.16m / 6% NIY.


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PROPERTY CONSULTANTS

Residential Development Land



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Land Market Summary

- The first half of 2017 has seen continued growth in South West house prices, with average annual price growth of 5-7% across the region, a slight slowdown on the same period last year. However, prices are growing at a much higher rate in popular areas, such as central Bristol, Bath and North Somerset.
- The recently reported reduction in house prices on a national basis has not been observed in the South West.
- Reputable residential commentators and analysts, including the RICS, are forecasting five year house price growth of 10-20%. The wide range in forecasts reflects different views on the uncertainty surrounding the UK's exit from the EU.
- Lack of stock, the limited supply of new homes relative to demand, and reasonably positive economic sentiment are the main factors driving house price growth in the South West. However, affordability may become more of an issue, as house price growth and inflation both continue to outstrip wage growth.
- We are experiencing strong demand for consented sites in attractive areas and received a number of very competitive offers for sites we have marketed in 2017.
- Demand remains high for 'strategic' land that will deliver development over the next 3-5 years and beyond, particularly those acquired through options or promotion agreements. In our view, uncertainty around the ongoing Brexit negotiations and failure of one party to win a majority in the UK General Election has not impacted on these types of transactions, as developers and promoters are taking a medium to long term view on the housing market remaining buoyant across the region.

- We have previously reported details of the draft Joint Spatial Strategy and Joint Transport Study, which sets out where an estimated 105,000 new homes and associated transport infrastructure will be built to meet demand for the period 2016-2036. These documents are currently out for consultation and we expect feedback on this process to be published in Q4 2017, which may include a revision of the target housing numbers and/or their proposed locations.
- A number of local authorities are currently unable to satisfy their five year housing land supply commitments, which has led to a raft of new residential planning applications, particularly in South Gloucestershire and North Somerset, although a recent Supreme Court ruling involving Cheshire East Council has reconfirmed interpretation of planning policy for local authorities when determining 'speculative' applications.
- The Housing White Paper published in February 2017 contained a raft of measures aimed at stimulating house building and ownership. Whilst it appears unlikely that a minority Conservative Government will be able to implement all of the measures proposed in the White Paper and its election manifesto, key policies we may expect include support for 'Right to Buy' for council housing tenants, enhanced CPO powers making it easier for local authorities to unlock development land and the release of surplus public sector land on a 'buy now pay later' basis for private developers.
- With the election of a Conservative candidate to the role of West of England Metro Mayor and minority Conservative Government controlling national planning policy, significant reform of the current Green Belt boundaries is unlikely.

- Demand for well-located student housing sites continues unabated in the key university cities of Bath, Bristol and Cardiff with extremely competitive bidding for the best sites, whereas in Exeter and Plymouth a number of recent planning consents have provided the supply pipeline required to meet current demand.
- Competition between conventional office use, private residential, the PRS and student developers is creating a healthy central Bristol development market both for new build, conversions and refurbishments. Alder King received strong demand from the residential developer and office occupier markets during the recent marketing of Gyltan House, an office building in central Bristol.

1. Perrett House and Redcross Mews, Bristol

After three rounds of extremely competitive bidding, Alder King sold two central Bristol apartment blocks on behalf of Bristol Charities to Cabot Mews for over £6 million, considerably higher than the guide price.

2. Higher Nansloe Farm, Helston

Alder King acted for farming clients to negotiate terms for an option to Coastline Housing. The option has now been exercised following the granting of planning permission for 75 affordable housing units and parking for a local school.

3. Land at Langford, Somerset

On behalf of the University of Bristol, Alder King has sold a 12.6 acre greenfield development site with consent for 141 residential units to Crest Nicholson for an undisclosed sum.

4. Former Cheltenham Road Library, Bristol

On behalf of Bristol City Council, Alder King sold the former Cheltenham Road library to MD Homes for a price substantially higher than the guide price. The property has planning permission for 36 new apartments.



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