

# **Findings of Enterprise M3 Commercial Property Study**

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## Our Brief:

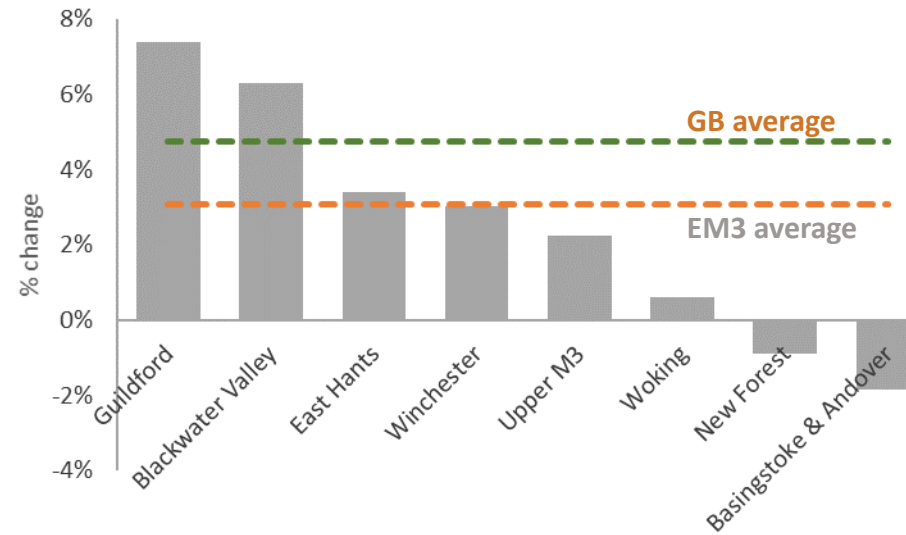
- Update 2013 assessment:
  - Revisit market areas
  - Assess demand and supply of commercial floor space
- Understand requirements of priority sectors
- Identify key issues and potential interventions for the LEP

## Key Research Tasks:

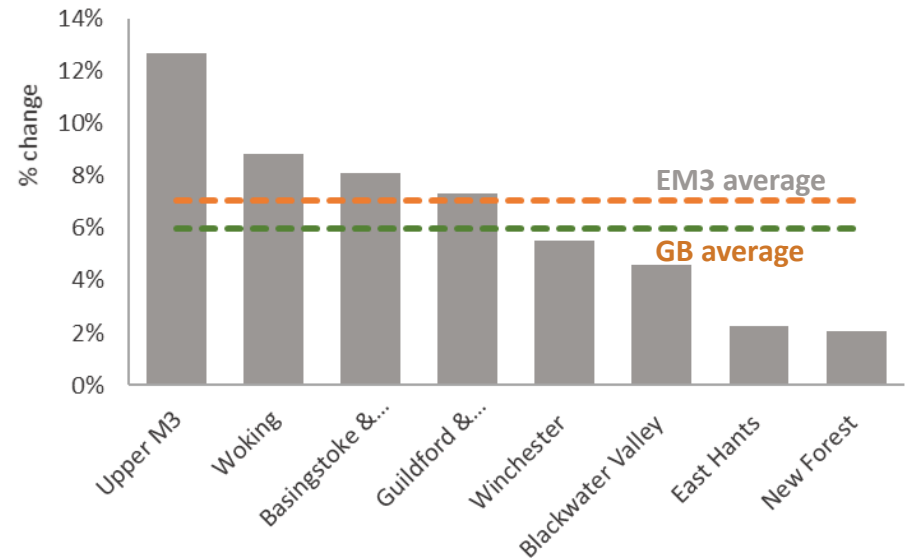
- Economic analysis
- Commercial property market analysis
- Consultations
- Commercial agent workshops
- Sites Reviews

# Economic Trends

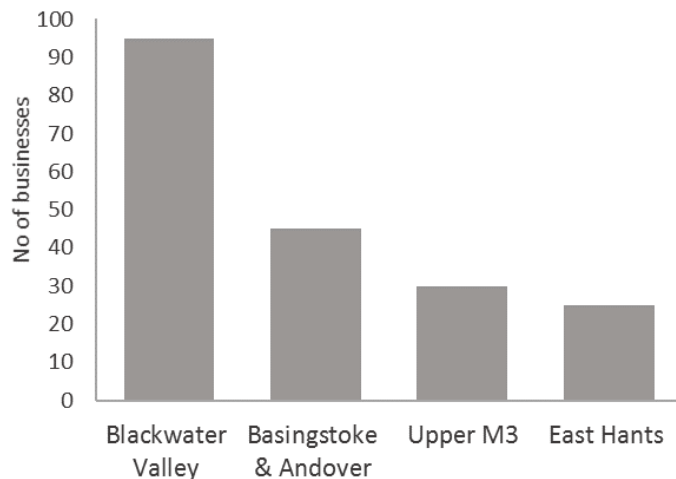
Employment Change, 2010-2014



Business Change, 2010-2014



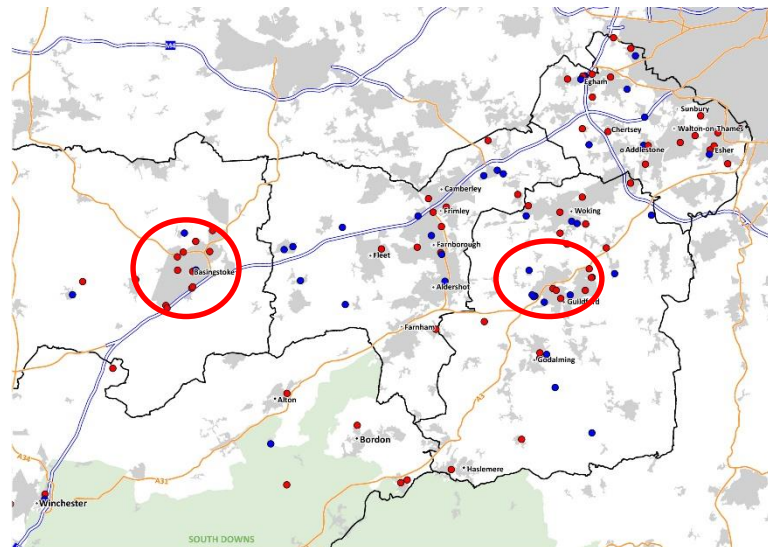
## Aerospace & Defence



- Farnborough is key location
- Access to skilled workforce (major recruitment challenges)
- Supply chain businesses looking for smaller industrial units for maintenance and repair
- Also demand for high quality office space and co-location of office/R&D/manufacture

## Priority Sectors

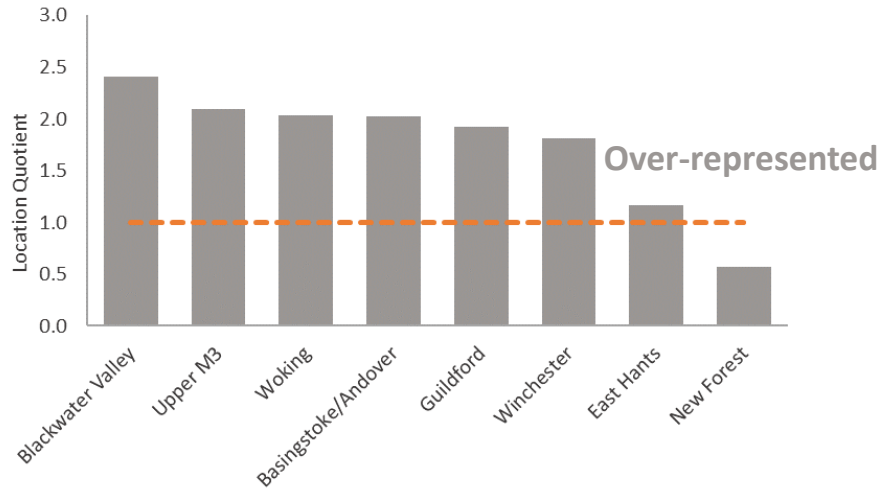
### Pharmaceuticals



- Some clustering in Basingstoke (manufacturing), Guildford (R&D)
- Science park environments: access to universities and hospitals (R&D)
- Access to skills
- Co-location of office, R&D and manufacturing functions

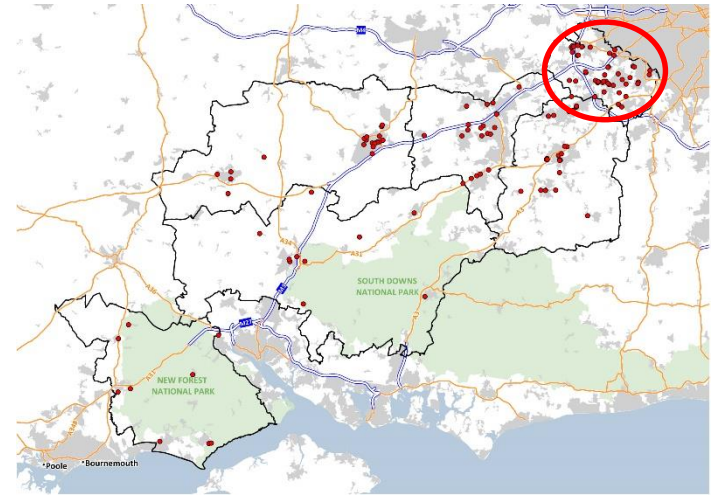
# Priority Sectors

## ICT and Digital



- Major strength for the Enterprise M3 LEP
- Rapid growth in business base
- Town centre locations with good public transport
- Access to a young and highly skilled workforce
- High speed broadband is vital
- Flexible space important for small businesses (co-working, managed workspace)

## Professional & Financial Services



- Large corporate requirements and HQs – focus on Upper M3, Guildford and Woking
- Town centres and high quality business parks
- Connections to London
- Access to highly skilled workforce
- Grade A office space
- High car-parking ratios

# Original Market Areas

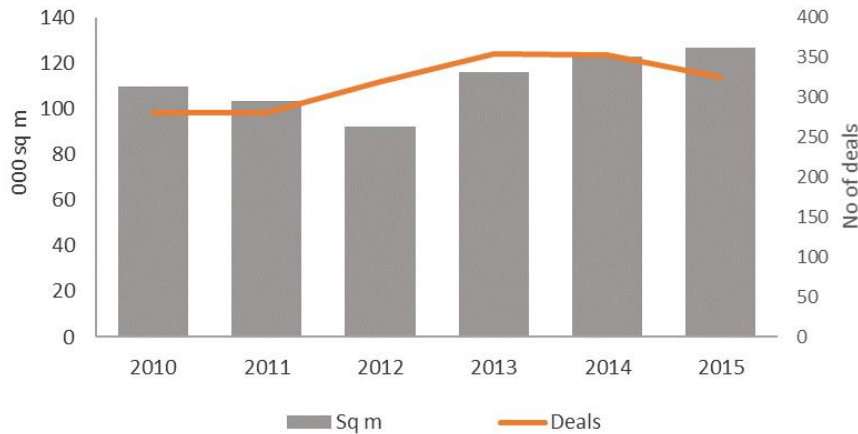




# Revised Market Areas



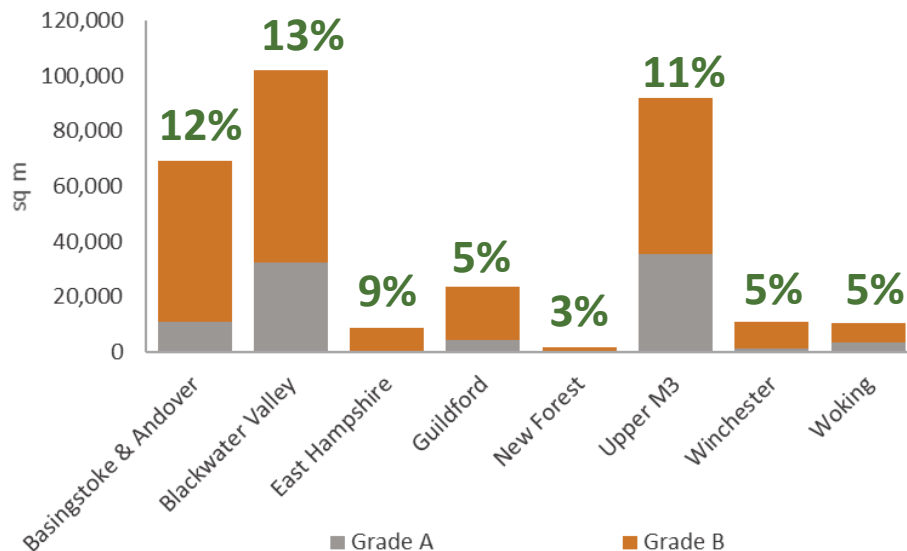
# Office Market



Strong demand for office space since 2013 study

Evidence of some change in market demand

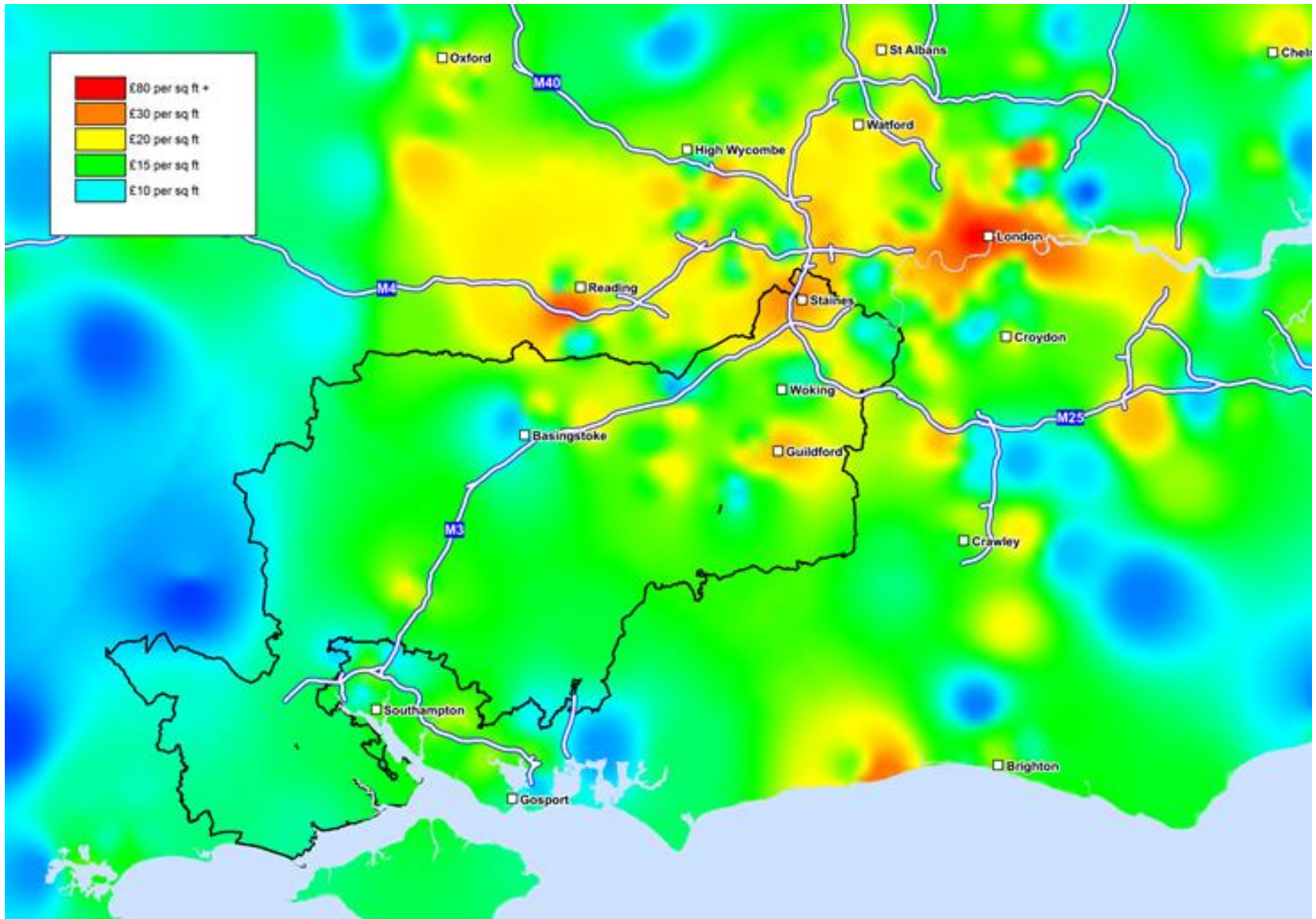
But very different challenges being experienced in different market areas:



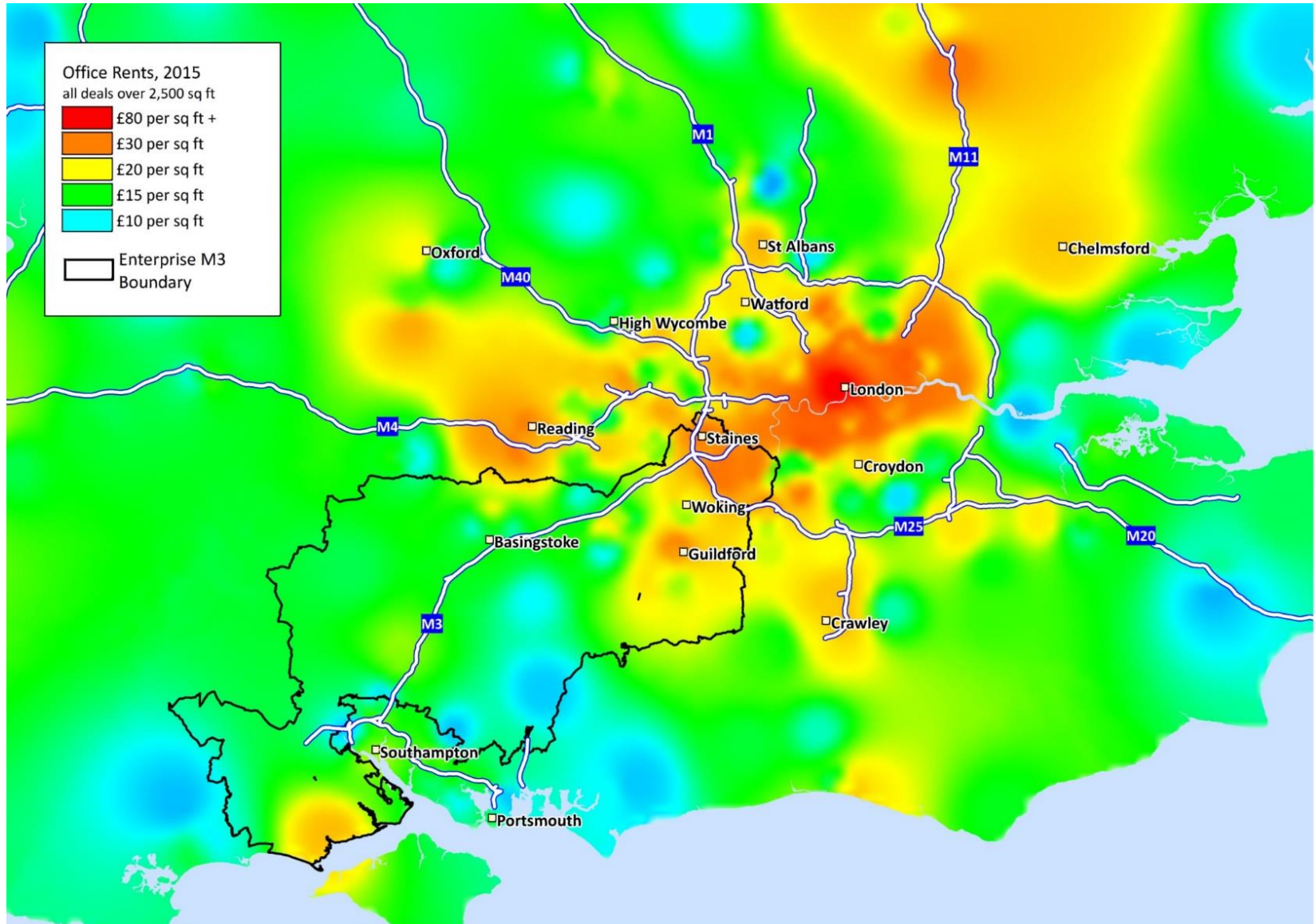
- Basingstoke & Andover and Blackwater Valley – oversupply of poor quality space not meeting occupier requirements
- Guildford and Winchester – undersupply of office space and sites in town centre locations
- Upper M3 and Woking – high rents and buoyant market increasing new supply of office space



# Office Rents - 2009



# Office Rents - 2015



# Office Market Recommendations

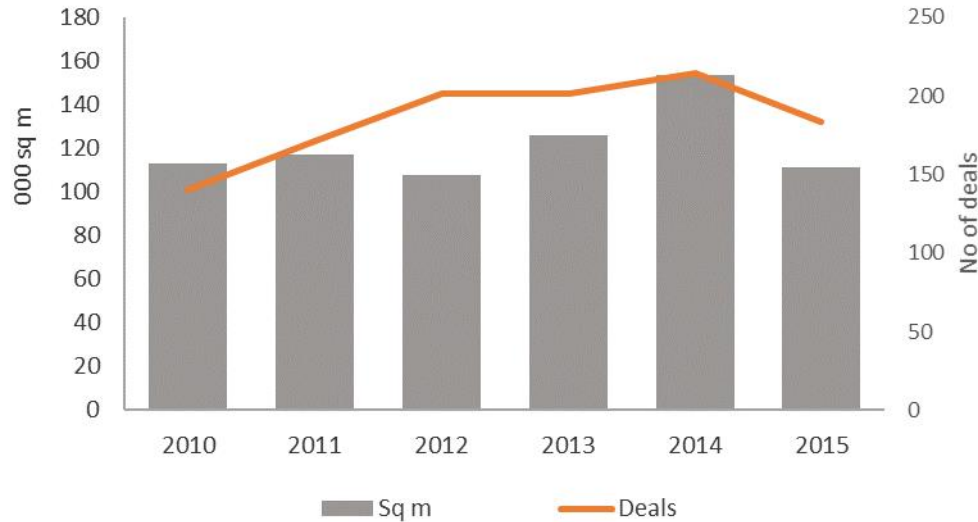
- No one size fits all solution – different challenges in different market areas
- Few site-specific recommendations per se
  - Station Approach in Winchester identified with a case for intervention
  - Guildford seen as location where an opportunity could be missed due to lack of supply
- Need to develop a framework which can be used to prioritise LEP investments
  - Agree consistent set of indicators to justify activity
- Interventions should work with the market, and should seek to tackle market failure

# A Framework for Office Investment

Type	Examples	Challenges	Case for Intervention
High Demand	Upper M3 Guildford Woking Winchester	<ul style="list-style-type: none"> <li>Market working efficiently</li> <li>But shortage of sites in some locations (Guildford &amp; Winchester town centres)</li> </ul>	<ul style="list-style-type: none"> <li>Public intervention required to unlock sites where constraints make development unviable</li> <li>Market failure arguments: co-ordination failures, public goods</li> <li>Examples: transport investments, sites in multiple ownerships</li> </ul>
Challenged Office Markets	Blackwater Valley Basingstoke & Andover	<ul style="list-style-type: none"> <li>Established office markets but oversupply of low quality space – not meeting occupier requirements</li> <li>New development unlikely due to low rental values</li> </ul>	<ul style="list-style-type: none"> <li>Public intervention required to stimulate and de-risk private investment</li> <li>Enhanced promotion of specific locations</li> <li>Market failure arguments: lock-in failures</li> <li>Examples: revolving fund to convert Grade B space, investment in publicly owned offices, demolition/conversion to other uses</li> </ul>
Low Demand	East Hants New Forest	<ul style="list-style-type: none"> <li>Market working efficiently</li> <li>But very low demand for office space</li> </ul>	<ul style="list-style-type: none"> <li>No market failure case for public intervention – demand is just low</li> <li>Social equity case for some investments to avoid deterioration of the local economy</li> <li>Examples: managed workspace for local SMEs</li> </ul>



# Industrial Market



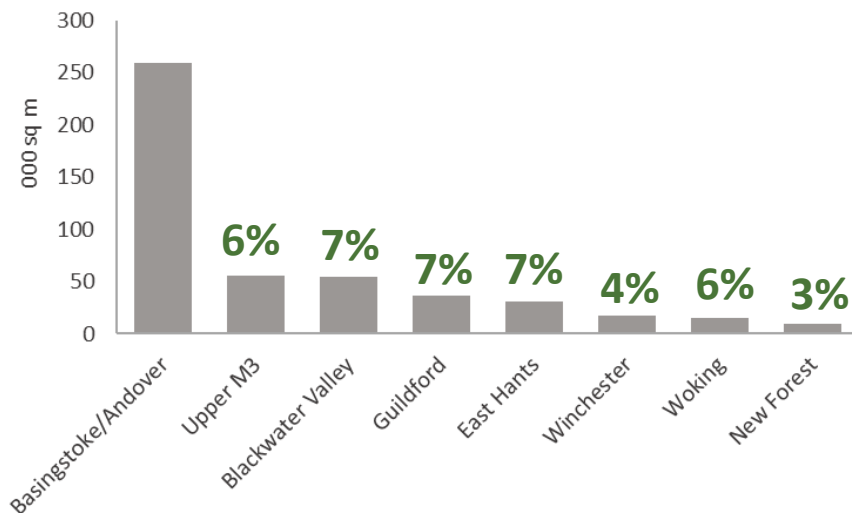
Strong demand since 2013, but constrained by a lack of supply

Agents report significant undersupply of industrial space in most market areas

Shortage of large warehouses and small industrial units

A regional issue

Little appetite among most councils to identify new sites for distribution





## Industrial Market Recommendations

- Use the findings to make the case for new B8 sites as local authorities prepare their local plans/updates (ELR methodologies not always suited to this purpose)
- Resist pressures to convert few existing sites for other uses (e.g. Hartland Park)
- Further cross-LEP (and cross boundary) work required to understand regional shortage of distribution land and implications for economic growth

## Longcross Park

- Located in Upper M3 market area
- High demand location, access to M3, airports and rail connections to London
- Suitable for high profile investors in digital and professional services sectors
- Investment in train station and on-site amenities required, but public investment not required to unlock site

## Basing View

- Located in Basingstoke & Andover market area
- Established office location with good transport connections, 5G connectivity increases appeal to digital sector
- But poor quality of existing office space limits appeal to investors
- Possible market failure justification for investments which pump prime speculative development

## Whitehill & Bordon

- Located in East Hants market area
- Being targeted at office based sectors, but not an established office market
- In short term, likely to have more appeal for industrial occupiers, with small scale office for local SMEs

# Permitted Development Rights

## Basingstoke & Andover

- 10,000 sq. m lost between 2013 and 2015
- Total losses if all implemented = 32,000 sq. m
- Mostly poor quality stock
- **Seen as positive for the area**

## Blackwater Valley

- C. 50,000 sq. m lost between 2004-2014 (not PDR)
- Mostly poor quality stock and seen as positive for area
- Some concerns about recent losses in town centres
- **Major concerns about implications for industrial land**

## East Hants

- Exemption due to concerns about loss of office space
- Now concerns about shortage of housing and **oversupply of offices** -Agents agree

## Guildford

- Potential loss of 10,000 sq. m
- Mostly in town centre – a key location
- **Putting additional pressure on an already constrained supply**

# Permitted Development Rights

## New Forest

- Loss of 3,400 sq. m since 2013
- Includes high quality, occupied offices
- **Concerns about impact on supply and pressure on existing businesses to vacate**

## Upper M3

- Loss of c. 14,000 sq. m with more to come
- Mostly poor quality to date
- Counterbalanced by high quality stock  
...but **growing concerns about future impact**

## Winchester

- Loss of 3,000 sq. m in 2015
- If all applications are implemented, further 8,000 sq. m would be lost
- **Most applications in town centre – already under pressure**

## Woking

- AMR shows loss of c. 13,000 sq. m (not clear of all PDR)
- **Poor quality stock, but should be counterbalanced by new developments in pipeline**

## Other Recommendations

1. Acknowledge the benefits of permitted development rights, but support reforms to the policy which give local areas more control
2. Improved monitoring and information sharing – need for a consistent set of indicators to inform future investment decisions:
  - a. Supply indicators
  - b. Inward investment inquiries
3. Need for a clearer inward investment offer in EM3, which capitalises on growing demand from investors relocating out of London
4. Provide expertise to local authorities on use of assets to support economic growth



## Conclusions on Role of LEP

- Evidence base provides high level, strategic view of commercial property market priorities in different locations.
- But LEP does not have...
  - the resource to do everything
  - the local knowledge to identify joined up solutions
- Needs to be closer links between different elements of the LEP
  - In particular Land & Property and Infrastructure
- Role of the LEP should be to....
  - help local authorities to deliver their plans
  - champion those authorities focused on growth
  - provide a link to the private sector and the needs of business
  - Potential to facilitate area based forums, which bring together local reps from L&P, transport, skills, LEP and local authorities