

Market Monitor

South West of England and
South Wales Property Review

2019

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Foreword

Market Monitor examines the occupational and investment markets in 11 key centres in the South West of England and South Wales.

Simon Price
Head of Agency
Alder King



SUMMARY

2018 was another year of robust activity across the primary sectors of the commercial property market with continued strong demand for residential land.

Defying ongoing Brexit uncertainty, occupier and investor demand remained consistent in the business space arena and the reduced level of take-up reported in some centres was more a consequence of lack of quality supply rather than any crisis of confidence.

Although overall stock levels steadied across the region in 2018, the supply of Grade A and secondary office and industrial space is at a historic low. Despite this, the appetite for speculative development remains subdued, meaning occupiers will need to be flexible regarding timing and location and investors will continue to compete for the limited opportunities in the year ahead.

The ongoing imbalance between supply and demand has led to increased capital values and rental growth in Bristol, Cardiff, Exeter, Gloucester and Swindon with further income-led growth expected in 2019.

As highlighted in last year's report, the retail sector continues on a journey of structural change with significant financial pressure being experienced by some occupiers impacting on the sector and has further to run.

Predicting the 2019 market is of course particularly difficult. It seems inevitable that the first quarter of 2019 will be subdued as occupiers and investors pause to see how the final phase of the Brexit Withdrawal Agreement negotiations play out. However we remain optimistic that with the prospect of greater certainty, the market will rally in the second half of the year and we will see a strong level of overall activity from occupiers and investors alike.

Key South West Centres

Office and Industrial Demand and Supply (000 sq ft)

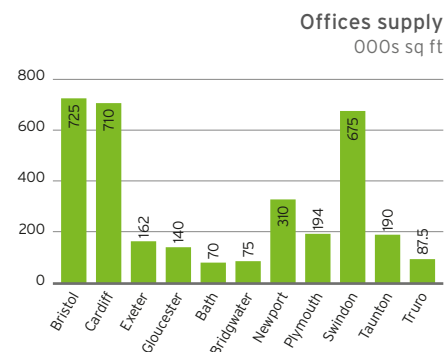
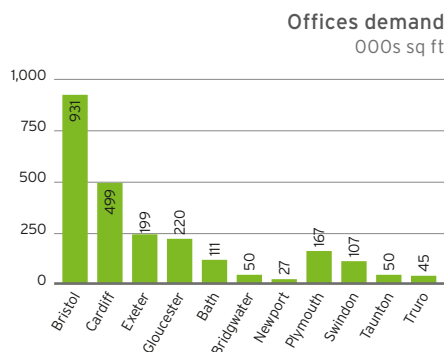
Year	Office Demand	Office Supply	Industrial Demand	Industrial Supply
2018	1,880	2,319	3,880	4,816
2017	1,719	2,490	5,054	3,578
2016	2,023	2,724	8,427	3,694
2015	1,909	3,235	5,852	4,320
2014	2,207	3,862	4,969	5,695

Cardiff & Newport

Office and Industrial Demand and Supply (000 sq ft)

Year	Office Demand	Office Supply	Industrial Demand	Industrial Supply
2018	526	1,020	892	1,443
2017	768	1,073	1,111	957
2016	762	1,183	725	1,340
2015	748	1,209	1,008	1,459
2014	646	1,360	983	2,102

Key Market Trends



OFFICE MARKET SUMMARY

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There was an extremely low level of new build office development undertaken across the region in 2018, with speculative development currently only underway in Bristol and Cardiff.

Increased developer reluctance, at least in the short term, to undertake speculative development is evident due to Brexit concerns and other macro-economic factors.

Occupiers are seeking greater lease flexibility resulting in continuing strong serviced and co-working space take-up and more flexibility

from conventional landlords. The serviced/co-working sector has now developed into one of the most active sectors for demand across the region.

Some key regional centres witnessed strong headline rental growth during 2018 as a result of reducing supply, including Bristol, Exeter, Gloucester and Swindon. This trend is likely to continue in 2019.

Strong city centre take-up and limited immediate supply in key regional cities is

having a positive effect on the out of town market where supply is reducing and headline rents are now improving.

The public sector is increasingly active and responsible for a number of the larger requirements currently seeking space in the region.

Changing occupier trends including agile/flexible working are continuing to impact on take-up and design/specification.

INDUSTRIAL MARKET SUMMARY

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Total take-up in key South West centres decreased when compared to 2017. This was largely due to the lack of good quality immediately available supply, speculative development being on site and the continuing loss of consented sites to alternative uses.

The majority of centres are supporting speculative development. St Modwen, Chancerygate, KMW, Richardson Barbury, Barwood Capital and Trebor have all started or are about to start schemes which will deliver circa 1 million sq ft in Bristol alone.

Demand is increasingly focused on better specified space with new build activity currently underway in Bristol, Gloucester, Wellington, Bridgwater, Swindon and Plymouth.

One of the main brakes to activity has been the limited amount of second hand space coming to market, with some mid-range occupiers increasingly only able to satisfy their needs via the design and build route as opposed to taking up existing space freed up by those able to afford new build opportunities.

Increasingly where second hand space has become available, landlords have proactively

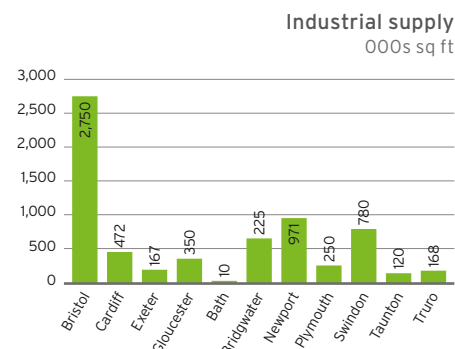
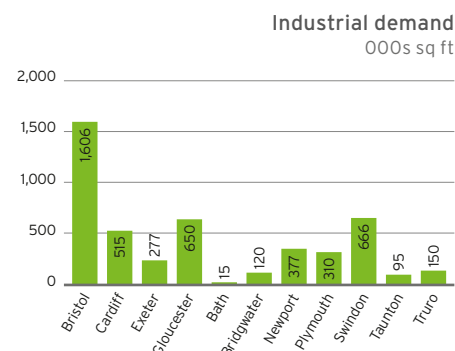
taken space back, and significantly moved rentals on. In Bristol particularly, the rental gap between new and good quality second hand space has reduced significantly.

There has been a continuing improvement in rentals, lease durations and capital values in the majority of centres, with the potential for further growth.

Sevenside and the North Bristol motorway corridor has reinforced its regional importance in Greater Bristol, albeit significant acquisitions have taken place in Swindon (Iceland/B&Q) and Gloucester (Dowty Propellers and TBS Engineering).

Despite the uncertainty of Brexit, key areas of growth continue to come from occupiers in the logistics sector, particularly those involved with internet fulfilment, and an increasing number of enquiries from engineering and added value engineering occupiers.

With the Severn Bridge tolls no longer in existence, we anticipate the South West demand triangle of Tewkesbury, Bridgwater and Swindon becoming a rectangle to incorporate the M4 west to Newport in South Wales.



RETAIL & LEISURE MARKET SUMMARY

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Retailers are continuing to adapt and adjust their business models to meet the needs of today's shoppers. This is affecting both comparison and convenience sectors in both high street and out of town locations.

The continued growth of internet shopping coupled with a fixed or rising cost base is leading retailers to review the performance and size of their physical property portfolios. Non-profitable stores are being rationalised through downsizing and closure.

Those retailers that are unable to adjust or rationalise are using CVAs to facilitate restructuring.

Across our regions, rents remain under pressure and in all but the very prime locations there is evidence of falling rents.

High street vacancy levels have remained relatively static although there are an increasing number of voids in secondary and tertiary locations which are best suited to alternative uses; vacancy levels out of town remain at a low level.

There remains an underlying level of demand for well-located units in the stronger city centres.

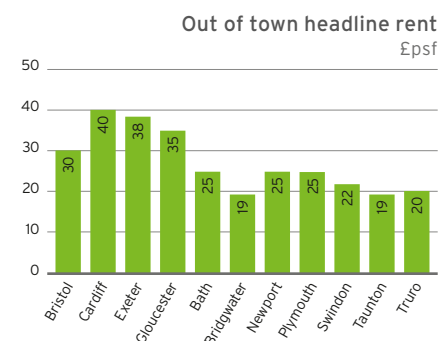
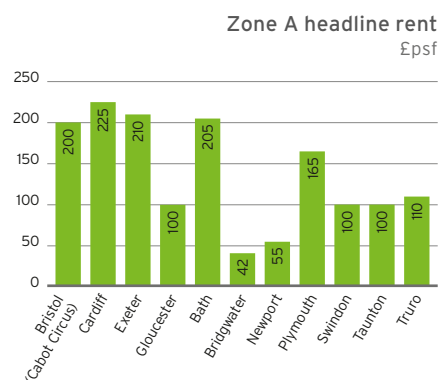
Retail closures will create new opportunities for mixed use development in our major centres; it will also enable a range of non-retail uses to be introduced to several of our existing shopping centres.

The leisure sector remains active with planned new development at Drakes Circus, Plymouth, Cribbs Causeway, Bristol and North Star in Swindon.

As reported last year, the discount food sector is very active across our regions.

The food and beverage sector has experienced a challenging 12 months but our experience suggests that there are good levels of demand for the stronger trading locations. The independent operator remains of growing importance.

2019 is likely to be another year of continuing change.



INVESTMENT MARKET SUMMARY

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Assessing the outlook for commercial property investment for the year ahead is particularly challenging. Peak uncertainty arising from Brexit negotiations is being layered onto an already volatile political and economic landscape at a time considered by many to be late in the current UK property cycle.

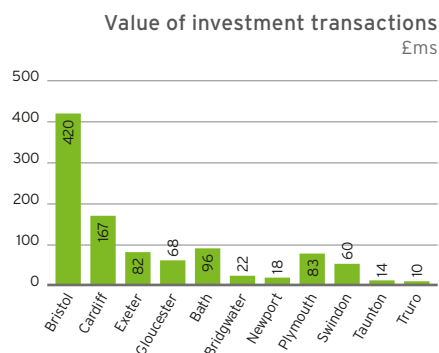
Against this backdrop, demand for UK commercial property remained firm in 2018 and topped £50 billion for the sixth year running. The more difficult question is whether this will be repeated in 2019? We would expect activity in the first quarter to be subdued as a large number of investors are monitoring events and awaiting the result of the negotiations before committing to further transactions. Vendors have also held back the marketing of assets in Q4 2018 to avoid low levels of interest, weaker competition and prices.

The office, industrial and alternative sectors have been robust and there is a good level of investor demand. The lack of stock is driving rental levels and prices upwards. The industrial sector was the strongest performer of 2018 with unprecedented yields being achieved. There continues to be a supply/demand imbalance which has led to keen

pricing for both prime and secondary assets and competitive bidding situations.

In contrast, the sentiment in the retail sector remains fragile and deals are being closely scrutinised. High profile difficulties with retailers and the prospect of many more CVAs has led to a nervousness about the retail sector and what the future holds for the high street in particular. This slump in retail caused UK capital values and rental values to fall in November - the first time since October 2012 that both measures have fallen. This nervousness is being witnessed in the quoted sector with the share prices reflecting a heavy discount to the NAV of the underlying assets of companies with significant retail exposure.

Prime yields were generally stable throughout 2018 but compression was witnessed in the industrial sector and softening in the retail sector. UK funds dominated the investment market in 2018 and institutional demand remained strong for the right product with solid fundamentals. As was witnessed in 2017, local authorities and councils continued to acquire investments to generate additional revenue streams and have invested over £1bn in UK commercial property in 2018.



The Brexit deal has the potential to create significant changes in occupier demand patterns and the broader economy. Investors will be closely tracking this alongside interest rates and exchange rates in Q1 2019 as they attempt to analyse the impact of Brexit on the property market. However, with many defensive qualities, we anticipate investors will remain focused on property, particularly with strong fundamentals. Demand will continue for prime locations, long leases, strong covenants and assets with rental growth and added value potential.

Key Alder King Transactions



ACQUISITIONS

1. **Buildings 1 & 2 Enterprise Park, Bristol** for University of West of England.
Size 150,000 sq ft on 11 acres
2. **1st floor Park House, Parkway North, Bristol** for NHS Property Services.
Size 10,000 sq ft
3. **Castlegate Business Park, Caldicot** for Monmouthshire County Council.
Size 220,000 sq ft on 17 acres
4. **26 Mead Avenue, Houndstone Business Park, Yeovil** for Wessex Packaging.
Size 70,673 sq ft on 3.34 acres
5. **1-5 Whiteladies Road, Bristol** for the University of Bristol.
Size 10,027 sq ft
6. **Airfield House, Western Drive, Hengrove, Bristol** for Amphora Aromatics.
Size 20,000 sq ft on one acre





DISPOSALS

1. **TV Building, Phase 3 Paintworks, Bristol** for Verve Properties.
Size 10,000 sq ft
2. **Trafalgar House, Cardiff** for Praxis Real Estate Management Ltd.
Price £6 million
Size 51,343 sq ft
3. **Building 1, Harlequin Office Park, Emersons Green, Bristol** for Mitie.
Size 27,239 sq ft
4. **Torbay Business Park, Paignton** for Midas Commercial Developments Ltd.
Size 66,800 sq ft
5. **Gloucester Business Park** for Arlington.
Size 180,000 sq ft
6. **Unit 1 Interplex, Bradley Stoke, Bristol** for private landlord.
Size 35,000 sq ft
7. **Scania Bridgwater** for KMW Properties.
Size 20,000 sq ft on three acres





3 Glass Wharf, Bristol. Courtesy of Salmon Harvester Properties/NFUM.

Bristol

£34.50 psf

New city centre office headline rent

OFFICES

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The Bristol office market performed strongly once again in 2018, with both city centre and out of town take-up at approximately 90% of the 2017 figures.

The co-working/serviced office operators led take-up in the city centre market. Significant transactions included Runway East's acquisition of 30,000 sq ft at 1 Victoria, Desklodge's acquisition of 29,000 sq ft at Unum House and Ethical Property Company's purchase of 20,738 sq ft at Phase 3 of The Paintworks.

In the out of town market, the largest transaction of the year was UWE's acquisition of two buildings from Hewlett Packard totalling circa 148,000 sq ft whilst ALD expanded taking 27,259 sq ft at Harlequin Office Park in Emersons Green.

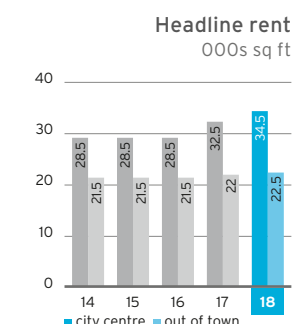
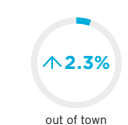
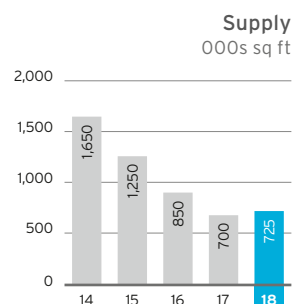
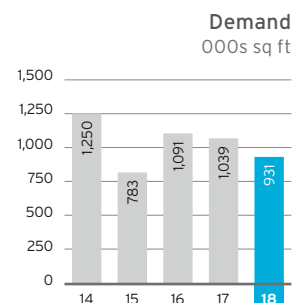
Both the city centre and out of town markets are now suffering from a severe lack of new or newly refurbished Grade A accommodation.

In the city centre, the highly successful 95,000 sq ft Aurora Building at Finzels Reach had only one floor remaining available at practical completion following lettings during construction to Mewburn Ellis, Simmons & Simmons and Parmenion.

Despite the success of this building, only one new scheme is currently under construction in the city centre at The Distillery, Glassfields where Royal London is constructing three buildings totalling circa 90,000 sq ft. Practical completion is due in 2020. AXA has also announced it will commence speculative construction at the Assembly scheme during Q1 2019.

In north Bristol, a small number of refurbishment projects completed during the second half of 2018, in particular at Building 600 Aztec West by Columbia Threadneedle and Building 800 Aztec West. As a result of the limited supply, both the city centre and out of town markets witnessed rental growth during the year. In the city centre the lettings at Aurora led the way, setting a new city centre rental high of £34.50 psf. Quoting rents for good quality city centre space are now as high as £32.50 psf.

The top north Bristol rent achieved during the year was £22.50 psf but at the recently refurbished 600 Aztec West, the quoting rent is now £24 psf. The gap between headline rents in the city centre and north Bristol is currently at its highest level since office development commenced around the north Bristol fringe in the early 1980's and the prospects for north Bristol rental growth over the next 12 months therefore appear strong.





CGI of Podville, North Bristol's first office container scheme. Courtesy of Podville Ltd.



CGI of Warmley Business Park, Warmley. Courtesy of Chancerygate.



CGI of Unit 15, Access 18. Courtesy of St Modwen.

"One million sq ft of speculative industrial development is underway or proposed."

INDUSTRIAL

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Take-up in 2018 amounted to 1.606 million sq ft, a fall of 45% on the 2017 figure of 2.9 million sq ft. To put the figures in context, the 10 year average take-up currently comprises approximately 2.85 million sq ft.

Take-up for the first half of 2018 was approximately 617,000 sq ft with circa 90 acres of land - mainly in Severnside - sold for development in a total of 95 transactions, with only seven transactions involving standing buildings over 20,000 sq ft.

Take-up in the second half of the year was circa 988,000 sq ft with approximately 215,000 sq ft of the total take-up accounted for by just two transactions, namely Apec's letting of 115,000 sq ft at Horizon 38, Filton and Bristol City Council's acquisition of 101,397 sq ft at Hawkfield Business Park, Whitchurch.

The overall number of transactions increased from 165 in 2017 to 173 in 2018 with approximately 73% of disposals (by number) involving property below 10,000 sq ft. The drop in take-up was due to a lack of large scale speculative development and immediately available better specified modern buildings.

In the same period the supply of industrial space increased to approximately 2.75 million

sq ft, the highest level for five years. This is set against the built industrial stock for the city comprising between 65-70 million sq ft.

Speculative development is underway again, as evidenced by St Modwen's decision to build 225,000 sq ft at Access 18 in Avonmouth, Richardson Barbury and Richardson Capital's schemes of 105,000 and 137,320 sq ft at Central Park and Chancerygate's Vertex Park and Warmley Business Park schemes totaling 240,000 sq ft.

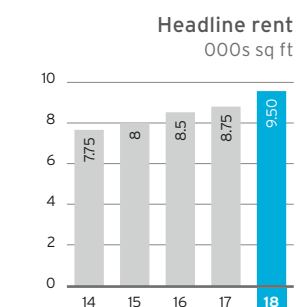
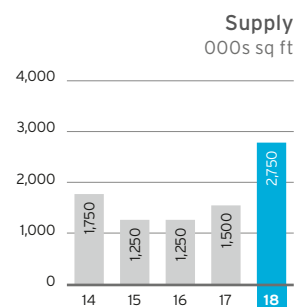
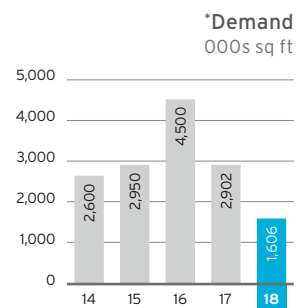
The continuing supply issue for Greater Bristol is the bulk of the available land is located on Severnside, Avonmouth.

Emerging schemes for 2019 will comprise additional phases at St Modwen's Access 18, Trebor's Portside/Central Approach schemes and Barwood's Junction development.

Outside of Severnside there is an extremely limited supply of sites immediately available, particularly in central Bristol, North and East Bristol and Yate and Thornbury in South Gloucestershire.

Strong demand continues from companies wishing to purchase on a freehold basis with capital values for better quality, well specified space still increasing.

*SW IAS 2018





CGI of ice rink and indoor ski centre at Cribbs Causeway. Courtesy of Baylis Estates.

Bristol

RETAIL & LEISURE

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Following a public inquiry, proposals for a £300m extension of The Mall at Cribbs Causeway were refused by the Secretary of State who favoured Broadmead as the focus for future development. It remains to be seen how soon more detailed proposals will emerge for the redevelopment of the Callowhill Court area encompassing The Horsefair through to Quakers Friars.

Despite the decrease in new store openings, there is still healthy demand for prime trade locations. Recent new arrivals at Cabot Circus include Bershka, & Other Stories and TAG Heuer and, at The Mall, new stores include The White Company, Seasalt, Schuh Kids and a larger TUI. Metro Bank opened in part of the former BHS store, joining TK Maxx.

Like many other established shopping centres, The Galleries is looking to widen its tenant mix through the introduction of leisure and other non-retail but complimentary uses.

Away from the High Street, there was limited activity around the city's retail parks. Go Outdoors took 10,000 sq ft at Centaurus Retail Park. The former Maplin and Toys R Us units remain available.

Plans are well advanced for an early 2019 start on site on Baylis Estates' leisure and retail development adjacent to The Venue at Cribbs Causeway. This will include a new showroom for Jaguar Land Rover, as well as an ice rink, hotel, restaurant, retail and coffee shop.

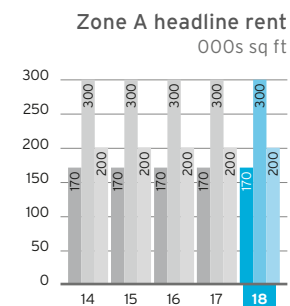
Although 2018 was a year of change in the food and beverage sector, Bristol saw many new additions. Marston's opened a Lost & Found Cocktail Bar & Restaurant in Queens Road and the New World Trading Company opened The Florist on Park Street. In addition The London Cocktail Club opened on the Triangle.

The city's independent sector continues to expand, with both Pigsty and Woky Ko opening second restaurants in Gloucester Road and Queens Road. In Portishead, The Siren's Calling opened @68 The Marina.

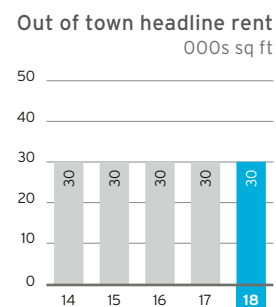
At Eastgate Retail Park, there are plans to add an additional 12,000 sq ft together with a new restaurant pod.

→ 0%

■ Broadmead
■ The Mall
■ Cabot Circus

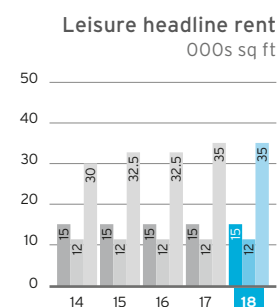


→ 0%



→ 0%

■ cinema
■ health & fitness
■ A3/A4





Imperial Tobacco HQ, Winterstoke Road, Bristol.



2630 Aztec West, Bristol.



Aurora, Finzels Reach. Courtesy of Cubex Land.

INVESTMENT

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The majority of investment transactions in 2018 were in the city centre office sector. Four office transactions completed in Q3 alone, totalling circa £161 million.

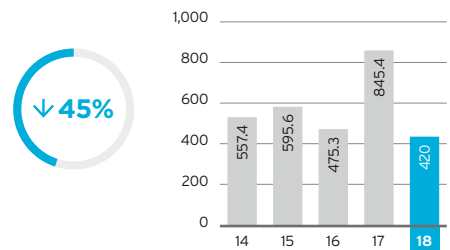
Winterstoke Road Imperial Tobacco Limited undertook two sale and leasebacks on its UK and Global HQ offices at Winterstoke Road in Bristol. 121 Winterstoke Road was acquired by Aberdeen Standard Investments for £51m, 4.50% NIY with a new 20 year lease with five yearly indexed rent reviews. The adjacent building, let to Imperial Tobacco Limited on a new 10 year lease with five yearly open market rent reviews, sold to an overseas investor for £15.2m, 6.20% NIY.

Aurora This new Grade A 95,530 sq ft multi-let office at Finzels Reach was acquired by Royal London Asset Management from Cubex/Palmer Capital in an off market deal for £62.13m, 4.75% NIY. Aurora is 85% pre-let to tenants including Simmons and Simmons, Parmenion and Mewburn Ellis, with a WAULT of nine years. This deal reflects the highest ever capital value for Bristol offices at £650 psf.

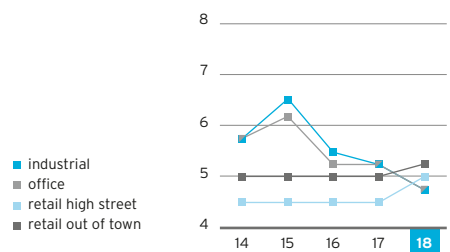
2630 Aztec West In the out of town office sector, the north Bristol office market saw a healthy increase in activity in 2018. The largest investment deal was 2630 Aztec West which was acquired by a private property company for £16.65m, 6.93% NIY. The property is let to GE Oil & Gas plc for a further 4.8 years.

Hengrove Leisure Park The largest retail and leisure transaction was AEW UK Core Property Fund's purchase of Hengrove Leisure Park, Bristol for £13.9m, 7.31% NIY. The scheme is fully let to tenants including Cineworld, McDonalds and Gala Bingo and has a WAULT of 11.5 years to expiries and 6.2 years to breaks. It also has short term asset management opportunities.

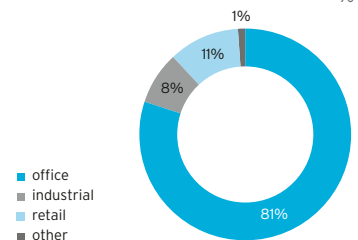
Value of investment transactions
£ms



Prime yields
%



Investment by sector
%





3 & 4 Capital Quarter, Cardiff.

Cardiff

£5.80 psf

New industrial headline rent

OFFICES

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The story of the Cardiff office market is much the same as any other major city in the UK. Demand remains robust but there is a shortage of Grade A city centre stock. This has limited potential opportunities for growth and is no doubt a factor in an under par take-up for the year when compared to the five year average of 567,000 sq ft.

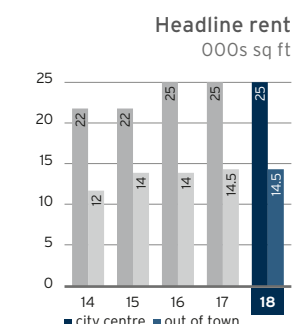
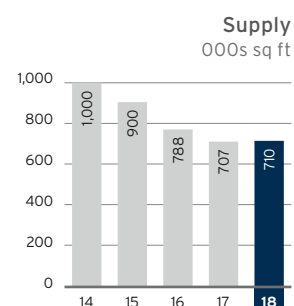
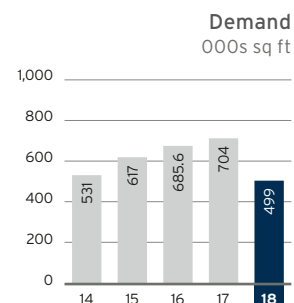
As always, a handful of larger transactions dominate the figures and include Admiral taking 65,091 sq ft at 3 Capital Quarter and Cardiff & Vale Health Board purchasing the 84,750 sq ft former Tesco House in Llanishen.

Interestingly, there have been a number of owner occupier purchases with existing income on part. These have included BizSpace purchasing circa 51,000 sq ft at Trafalgar House, Howell Solicitors purchasing 22,000 sq ft at Fitzalan House and Penguin Wealth purchasing 5,940 sq ft at 1-3 Raleigh Walk.

Freehold demand remains strong, especially for smaller sized properties and we are witnessing increases in prices per sq ft for better quality second hand stock.

Larger occupiers continue to be attracted to Central Train Station as part of the Rightacres Central Square development. Hugh James has just relocated to No 2 to occupy 100,000 sq ft, the BBC continues its fit-out to occupy 266,000 sq ft and No 6 is well under construction for the GPU to occupy 269,000 sq ft. Following the successful letting at No 3 Capital Quarter, JR Smart will have 94,500 sq ft at No 4 Capital Quarter completing in 2019 where the quoting rent is £24 psf.

Headline rents remain stable and are not expected to rise until the next phase of development due for completion in 2021. During this time, we expect second hand rents to rise and stimulate further refurbishments, a notable example being Hodge House which will release 67,250 sq ft in 2019.





"The abolition of the Severn Bridge tolls will entice investors and occupiers over the bridge which can only escalate demand."



BizSpace at Trafalgar House, Cardiff.

INDUSTRIAL

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Take-up has decreased by 41% since 2017, possibly due to a lack of large industrial deals in 2018 compared to 2017 which saw two deals contributing to 74% of take-up.

Penarth and Hatfield Road in West Cardiff continue to head the trade counter and car sales market. Within this area, Glynstell Park was the most notable development in 2018 offering 56,524 sq ft of high quality modern units which were fully let by the end of 2018. Capital Business Park and Ocean Way in East Cardiff yet again saw a flurry of transactions, confirming these locations as the epicentre of the industrial warehouse market.

Freehold properties continue to drive price growth, with owner occupiers substantially exceeding market levels to fulfil requirements. Freehold transactions have subjugated the Cardiff industrial market, particularly the sale of the 80,000 sq ft former Westco premises on Penarth Road and the 51,000 sq ft former Yodel site in Wentloog. Both occupiers and investors emphasise the importance of yards as a pivotal characteristic.

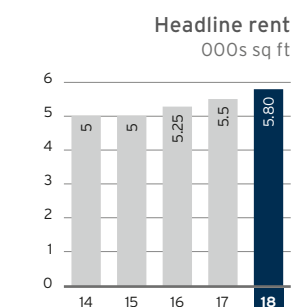
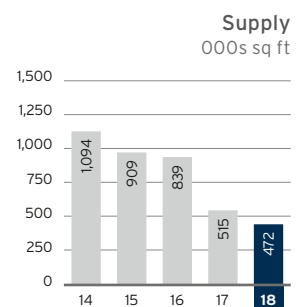
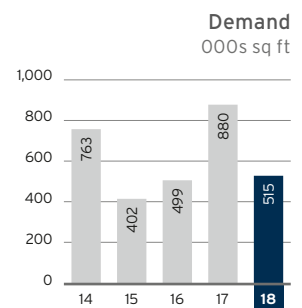
The abolition of the Severn Bridge tolls is expected to further increase demand and entice investors as well as occupiers over the border which can only escalate demand.

Supply has fallen by 8% across the last 12 months following a continuing trend over the last five years.

This lack of supply constrained the market by providing limited options for occupiers to consider. A cause for fewer deals in 2018 could be due to historically low stock levels combined with only one available unit over 50,000 sq ft, this being the former SA Brains site at Ty Glas, Llanishen offering 58,176 sq ft.

There is also limited development land for speculative industrial developments in Cardiff which has proved to be a major constraint within the market.

Cardiff is in need of large, high quality stock in order to fulfil occupier requirements. Headline rents therefore have once again increased to £5.80 psf. This was evidenced by JAS Forwarding (UK) Ltd taking 20,842 sq ft at Neptune Point on Ocean Park and 3,199 sq ft let to Denval Co Ltd at Cardiff Business Park. With limited speculative development on the cards, availability may continue to fall and headline rents may increase.





Queen Street, Cardiff.

Cardiff

RETAIL & LEISURE

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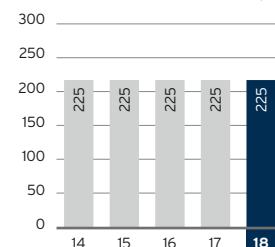
Despite the uncertain future of some of the city centre's department stores, St David's Centre has attracted tenants including Stradivarius, Berksha, Ecco Shoes, Daniel Wellington and Proline Skates. However, a number of units remain available, especially in Queens Arcade, exerting downward pressure on headline rents.

Ground floor units within the new BBC headquarters building in Central Square have been in demand with strong rentals and new tenants including Boots, Greggs and Pret a Manger. The proposed development of the new bus Interchange Building will release additional units and high demand is expected.

A number of high street A3 and A4 closures may have signalled a decline in this sector but there is resilience with new openings of Slim Chickens in St David's Centre, Knife and Fork at 29 Park Place and Cosy Club in Mermaid Quay.

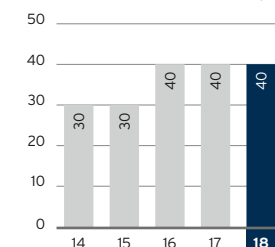
Discount operators continue to dominate demand at more secondary retail parks. For example, B&M Home Store has taken a six year lease on 30,225 sq ft at Brooklands Retail Park, Culverhouse Cross.

Zone A headline rent
000s sq ft



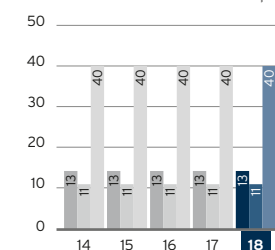
→0%

Out of town headline rent
000s sq ft



→0%

Leisure headline rent
000s sq ft



→0%

■ cinema
■ health & fitness
■ A3/A4



Stradivarius at St David's Centre, Cardiff.



CGI of the Custom House Premier Inn Hotel.
Courtesy of Barola Properties.



Cardiff Waterside. Courtesy of Aviva.

INVESTMENT

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2018 was a very strong year for the office sector in Cardiff with 80% of the deals being in this sector. Office developments such as Central Square and Capital Quarter have attracted investor interest and Cardiff's reputation as an international business hub continues to grow.

Former Custom House, Central Cardiff.

In March 2018, Aviva forward funded the redevelopment of the former Custom House building for £34m, 4.10% NIY. The site was pre-let to Premier Inn on a 30 year lease with a tenant break at year 20 with a passing rent of £1,475,600 per annum with fixed rent reviews. The hotel will provide 248 bedrooms over 17 floors and is forecast to open in late 2019. The site is considered to be the final piece of the Central Cardiff regeneration jigsaw that has seen the development of Central Square, the regeneration of Mill Lane and the Brewery Quarter.

Cardiff Waterside. In January 2018, Global Mutual Properties acquired the Cardiff Waterside office estate from Aviva for £84.5m, 8.25% NIY. Covering 11.8 acres, the scheme comprises seven office buildings providing 402,309 sq ft of Grade A office space. Tenants include ITV Wales, KPMG, Gambit Corporate Finance and Ofcom. The estate also includes two land sites with the potential for a further 360,000 sq ft of new Grade A office space.

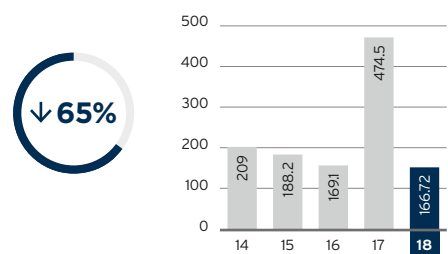
Vale Gate Retail Park, Culverhouse Cross.

New River Retail purchased this multi-let retail park in February from Curo Sterling for £12.15m, 10% NIY. The circa 94,000 sq ft park comprises seven units and is anchored by TK Maxx. Other tenants include Mothercare, Carpetright and Dreams.

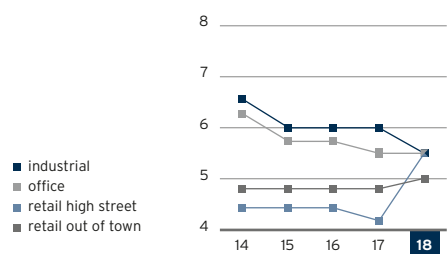
St Patricks House, 17 Penarth Road.

This recently refurbished 51,500 sq ft office building was acquired in February by the Regional Office Property Unit Trust, which is managed by Schroder Real Estate, from Hodge Bank for £14.15m, 7% NIY. Network Rail occupies 30,500 sq ft over three floors and the remainder of the building is vacant.

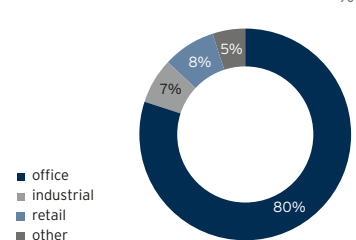
Value of investment transactions
£m



Prime yields
%



Investment by sector
%





One Tiger Moth Road, SkyPark. Courtesy of St Modwen.

Exeter

£20 psf

New office headline rent

OFFICES

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2018 was another year characterised by a lack of supply. While new stock did come onto the market, there was only just enough to satisfy requirements.

One of the most notable new buildings was One Tiger Moth Road, a speculative build of 17,142 sq ft at SkyPark. This offers three floors of Grade A accommodation and, on completion, already had one occupier at a record rent of £19.50 psf. We have since let the first floor and agreed a further increase in headline rent to £20 psf. This is now the high water mark for the office market in Exeter.

We also saw an increase in secondary stock, principally on Pynes Hill where Vantage Point and Aperture came to market following high quality refurbishments. These proved popular in the market and served in part to dampen the appetite for new build. Rents increased throughout the year and £16 psf is now the accepted level for good quality secondary space.

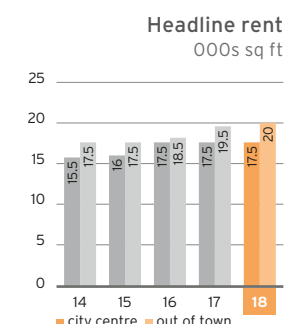
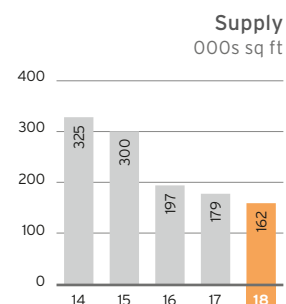
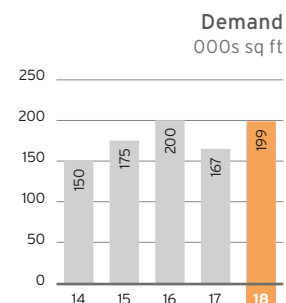
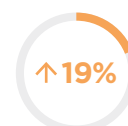
The city centre remains very tightly constrained with no new development. Exeter City Council has put forward major regeneration plans through its new development company Exeter City Living which may include office space. Whilst this

won't have any impact on supply for some time, it is welcome news for a city with such tight supply.

We continue to see construction cost inflation driving the cost of new build and refurbishment, with developers and investors requiring higher rents and sale prices to justify development. This should help to continue the uplifts in values for secondary stock.

The rapid rise in values is resulting in a divergence between the perception of values from an occupier's point of view and that required to deliver buildings. When sale prices in excess of £270 psf are quoted, many occupiers don't consider this good value and therefore don't proceed with acquisitions. Unfortunately these are the sort of levels required to make development viable.

The limited stock has left many occupiers with very few options and some have been forced to postpone moves, holding out for that elusive freehold. The positive news in 2018 was continued increases in rents and capital values which is making development more viable and will, we hope, lead to further developments in the future to help unlock pent-up demand.





CGI of The Lookout, Exeter Business Park. Courtesy of Summerfield Developments Ltd.

"This groundswell of demand will lead to new development in 2019 which will help unlock the market."



Vantage Point, Pynes Hill.



CGI of Matford Green Business Park. Courtesy of Prego Investments Ltd.

INDUSTRIAL

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Exeter's industrial market is characterised by a real lack of supply, with no new build coming to market and very little secondary stock. Land is available for construction but, given significant construction cost inflation, developers are concerned about demand for space at rents of £8+ psf.

As in previous years, demand for smaller sub 15,000 sq ft freeholds remains very strong from local and regional businesses, many of whom look to hold the product in their SIPP. This is only magnified in the smallest sub 5,000 sq ft sector.

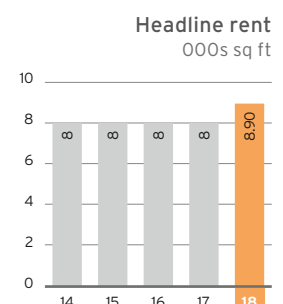
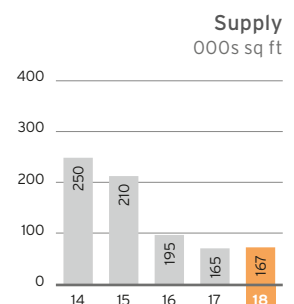
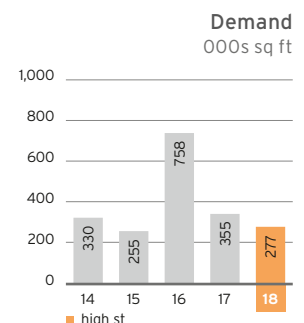
Across all sectors, the cost of construction remains the factor to overcome and constructing small units simply isn't viable in the current market for capital values of less than circa £140 psf. For this reason, developers are reluctant to proceed.

The demand seen in previous years for circa 100,000 sq ft warehouses from national and multinational occupiers weakened in 2018. Our view is that this is a function of market failure where there simply weren't options

available to satisfy those requirements. The occupier's solution is to alter its supply chain rather than wait for space to become available in Exeter. That said, a large building will be constructed in 2019 delivering circa 100,000 sq ft of space, the terms of which are yet to be understood.

The impact of this lack of supply is pressure on the price of secondary stock and therefore increases in rents and capital values but, also worryingly, more occupiers simply staying put. Given there was no speculative development in 2018, we didn't generate requirements for this type of space. Our view is there is a large number of requirements ready to come to market as soon as product becomes available.

This groundswell of demand will lead to new development in 2019 which will help unlock the market. We will be coming to market with four 7,500 sq ft warehouses at Matford Green Business Park on a leasehold only basis and expect demand to be strong from local, regional and national occupiers.





CGI of Moor Exchange. Courtesy of CPG Developments.

Exeter

RETAIL & LEISURE

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Out of town leisure development has attracted a large number of column inches in 2018 with four possible schemes being put forward.

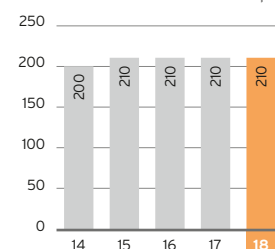
The two most relevant are Moor Exchange where CPG Developments has a strong roster of tenants lined up including Next, Boots and McDonalds. The other is Middlemoor, part of Devon and Cornwall Police's HQ. Hammerson was chosen to bring forward development and planning applications for both schemes should be decided in early 2019. These will generate valuable construction projects for the area and give a significant boost

to the business park offer outside the city. The impact of these developments will be increased amenities for staff who are unable to get in to the city centre and back in their lunch hours.

The city centre has suffered from closures, mainly in the food and beverage sector. The city retains a vibrant offer and will see new brands coming forward. The turnaround to save House of Fraser is welcome good news for the High Street, but we suspect there will be other big name closures in 2019.

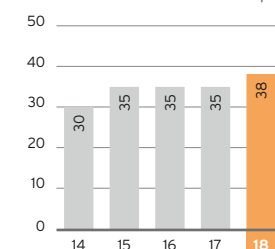
→ 0%

Zone A headline rent
000s sq ft



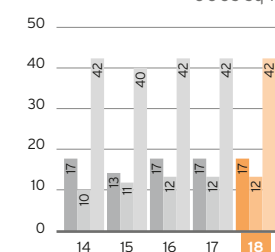
↑ 8.6%

Out of town headline rent
000s sq ft



→ 0%

Leisure headline rent
000s sq ft



■ cinema
■ health & fitness
■ A3/A4



CGI of Middlemoor Retail Park.
Courtesy of Hammerson/Devon & Cornwall Police.



CGI of Moor Exchange.
Courtesy of CPG Developments.



Woodwater House, Pynes Hill.

INVESTMENT

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Scott Rossiter T 01392 353089 E srossiter@alderking.com

Over 70% of the investment deals were in the retail sector with high street retail in Exeter showing a resilience to the turbulence seen in other locations and continued investor demand.

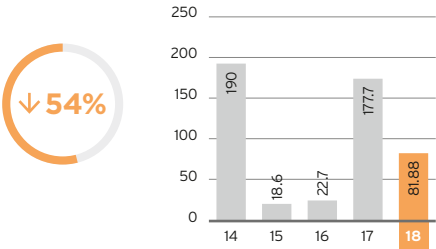
252-253 High Street. This freehold high street retail unit was acquired by Kames Capital for £11.88m, 5.19% NIY in June 2018. The unit is in a prime location, directly adjacent to John Lewis and is let to Waterstones and Halifax with 11.2 years unexpired. The passing rent is £657,328 per annum.

16-20 High Street. This circa 8,000 sq ft high street retail unit, let to H&M and Barclays, was acquired by a UK Pension Fund for £23.5m, 4.75% NIY in October 2018. The sale follows the refurbishment of the H&M unit and the conclusion of a Barclays rent review.

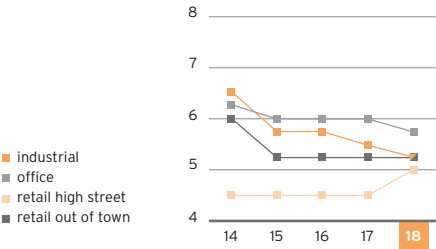
Units 1-11 Sowton Industrial Estate, Heron Road. This circa 38,000 sq ft multi-let industrial estate was acquired by West Devon Borough Council in September 2018. The freehold estate is let to seven tenants including Anglian Windows and Muller Wiseman. The quoting price was £2.925m, 6.5% NIY and the completed price was £3.5m, 5.45% NIY, illustrating the strong demand for multi-let industrial assets.

Woodwater House, Pynes Hill. This circa 50,000 sq ft Grade A single let office building was acquired by Torbay Council for £9.3m, 6.70% NIY. The office is single let to Michelmores LLP with an unexpired lease term of 7.1 years. The rent passing is £664,653 per annum. Alder King acted for the vendor.

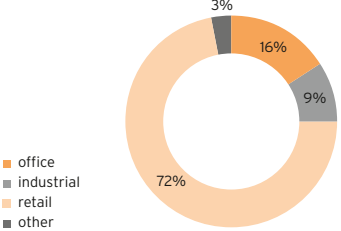
Value of investment transactions
£m



Prime yields
%



Investment by sector
%





CGI of Downing's Malthouse, Bakers Quay. Courtesy of Rokeby Developments.

Gloucester

↑52%

City centre office take-up

OFFICES

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Overall take-up of space in Gloucester increased by 52% to 220,000 sq ft, the city's highest level for some years.

Notable transactions included Ecclesiastical Insurance which announced its plans to relocate from the city centre to a new 65,000 sq ft building at Arlington's Gloucester Business Park and entered into pre-let terms. Also at Gloucester Business Park, Horizon Energy continued its expansion, acquiring a further 14,300 sq ft of Grade A space.

Demand for out of town space continues to outperform that of city centre space. That being said, there were some notable city centre deals including Regus which acquired the 17,150 sq ft Conway House in Worcester Street and the NHS which acquired 14,300 sq ft at 2 Kimbrose in Southgate Street.

Supply of Grade A and secondary space remains at very low levels.

Activity in the serviced office space sector continues, with BizSpace completing the refurbishment of Building 1 The Office Campus at Barnwood which provides some 37,000 sq ft of accommodation. As referred to above, Regus has converted the former Conway House building to provided centrally located serviced and co-working space.

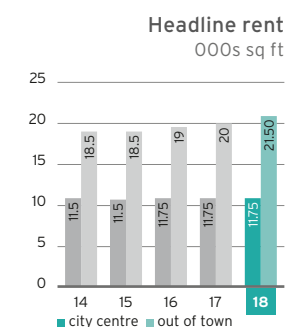
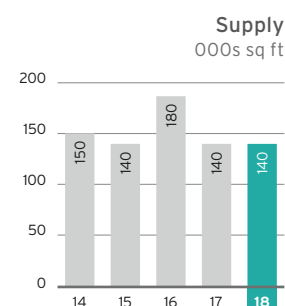
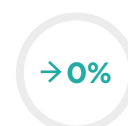
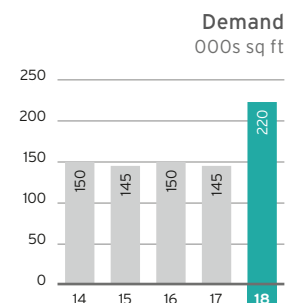
The headline rent for Grade A out of town space has risen for the second consecutive year to £21.50 psf.

Rents for secondary out of town space have also risen and are now in the region of £14 -£15 psf.

Headline rents for the city centre remain at £11.75 psf.



CGI of Ecclesiastical Insurance, Gloucester Business Park. Courtesy of Arlington.





Building 1, Gateway 12, Gloucester. Courtesy of St Modwen.

“Demand for out of town space outperformed that of city centre space. That being said, there were some notable city centre deals.”



CGI of Dowty Propellers, Gloucester Business Park. Courtesy of Arlington.

INDUSTRIAL

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Gloucester’s industrial market performed strongly in 2018, with demand increasing by 30% to approximately 650,000 sq ft.

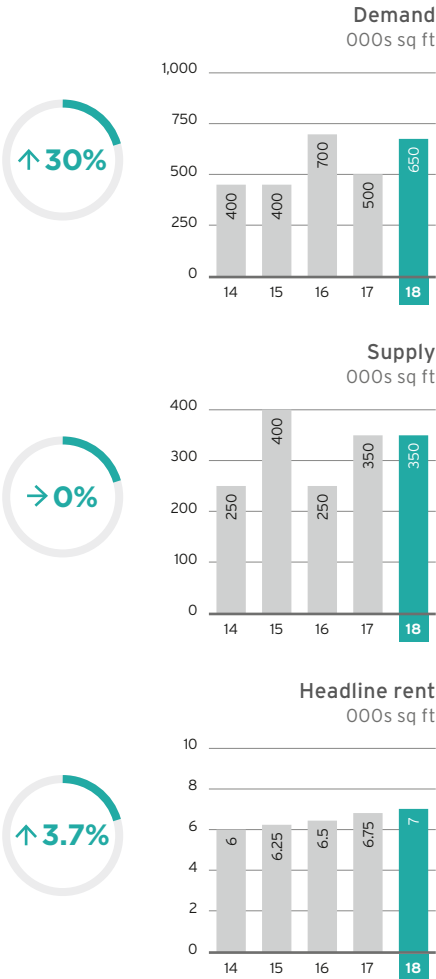
Once again, it was the city’s manufacturing sector which contributed significantly to the take-up, with three large new buildings delivered for manufacturing businesses at Arlington’s Gloucester Business Park. These included a 110,000 sq ft facility for TBS Engineering which completed in May and a 150,000 sq ft facility for G-TEKT and a 180,000 sq ft facility for Dowty Propellers, both of which are under construction.

St Modwen’s decision to speculatively develop its Gateway 12 scheme paid off, with significant lettings of 46,000 sq ft to Samworth and 38,000 sq ft to Amazon Book Depository, both for warehouse and distribution use. In addition, a building of 34,000 sq ft is now under offer, again for warehouse use. Two buildings of 66,400 sq ft and 24,100 sq ft remain available.

Despite this new development, the level of available prime, secondary and tertiary stock in Gloucester remains low. The Rockhaven scheme at Triangle Park and Gabwell scheme at The Quadrant Centre both delivered much needed smaller format new build space with strong take-up in both schemes.

The headline rent for development-delivered new build space has moved on to £7 psf, greatly influenced by construction cost inflation. With further increases in construction costs expected together with continued build to suit activity anticipated, the upward pressure on rents is likely to continue.

Headline rents for mid-range secondary buildings are now in the region of £5-£5.50 psf.





CGI of Bakers Quay. Courtesy of Rokeby Developments.

Gloucester

RETAIL & LEISURE

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The first phase of the Bakers Quay development at Gloucester Docks completed in 2018. A pre-commitment from Whitbread delivered a Costa Coffee restaurant and drive-thru, a Premier Inn hotel and Beefeater restaurant. Alongside, the new build Provender building provided three A3 units at ground floor with high quality apartments above, achieving record sales values. The second phase of the scheme will bring forward additional retail, bar and restaurant opportunities, together with some 147 luxury apartments.

Completion of the new Next retail store at the Peel Centre is due to open in the spring of 2019 and will provide approximately 28,000 sq ft of floor space plus a café.

In the city centre the new £7.5 million state-of-the-art bus station was completed, creating a new gateway to the city. This completes the first phase of the City Council promoted Transport Hub scheme. Funding has been secured for the second phase focusing on the refurbishment of the railway station. Off the back of these projects, the City Council is promoting the Kings Square redevelopment comprising a mixed use scheme which aims to continue the regeneration of the central area.

Out of the city centre, Paloma is bringing forward the redevelopment of the former Whitbread site in Eastern Avenue where a mix of retail and restaurant uses are proposed. Chase Commercial is due to commence Phase 2 of its Triangle Park retail scheme which will include a second drive-thru restaurant and associated in line units.

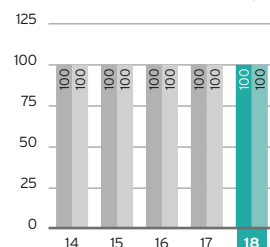


The Provender Warehouse, Bakers Quay. Courtesy of Rokeby Developments.

→0%

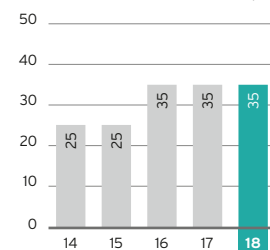
■ Eastgate St ■ Kings Walk

Zone A headline rent
000s sq ft



→0%

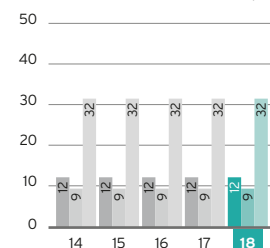
Out of town headline rent
000s sq ft



→0%

■ cinema
■ health & fitness
■ A3/A4

Leisure headline rent
000s sq ft





Twyver House, Bruton Way, Gloucester.



CGI of Bakers Quay. Courtesy of Rokeby Developments.



Gloucester Quays.

INVESTMENT

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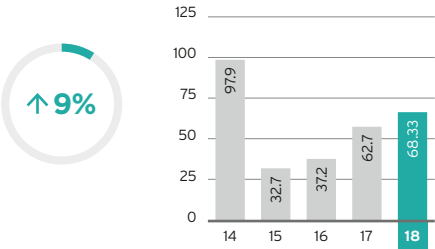
Over 75% of the deals were in the retail sector with the Tesco, Quedgeley transaction making up over half of the investment volume total.

Twyver House, Bruton Way. This single let office building totalling 75,654 sq ft was acquired by Torbay Council from Greenridge Investment Management for £11.8m, 6.30% NIY. The detached, five story office building is let to Secretary of State for the Environment until September 2067 with a tenant break in September 2028. HM Land Registry is currently in occupation and the property has interesting medium to long term prospects as it is strategically important to the regeneration of Gloucester.

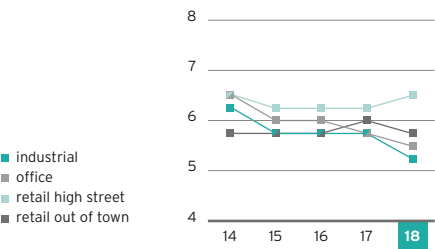
Barnett Way, Barnwood. Columbia Threadneedle purchased this single let industrial building from Craigard in June 2018 for £4.9m, 6% NIY. The property is single let to Kohler Mira for an unexpired term of circa three years.

Tesco, Bristol Road, Quedgeley. East Hampshire District Council acquired this Tesco Extra Superstore from L&G in March 2018 for £38.85m, 5.75% NIY. The store totals circa 86,000 sq ft.

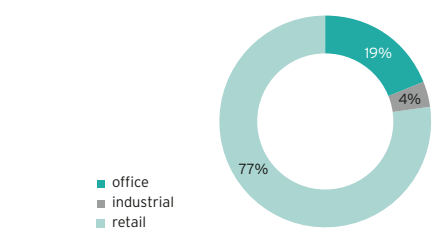
Value of investment transactions
£ms



Prime yields
%



Investment by sector
%





Milsom Place, Bath.

Bath

OFFICES

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The Bath office market continues to see a high level of demand against a limited level of immediate supply which is impacting on take-up.

Notable 2018 transactions included the letting of 17,000 sq ft at 20 Manvers Street to media agency Edit and animation company Funko's acquisition of 9,000 sq ft at Seven Dials.

The most active sectors in the Bath market are the co-working/serviced office operators, together with the TMT and professional services sectors. A number of co-working/serviced office enquiries are actively seeking space in the city centre following the successful launch by Spaces (Regus) of its Northgate House centre.

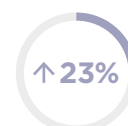
Supply of immediately available, flexible modern open plan accommodation remains very limited. Chartis House on Trym Street, comprising circa 10,000 sq ft in a Grade II listed building, is undergoing a comprehensive refurbishment and is already seeing a strong level of interest.

New build developments with planning consent are proposed at Roseberry Place and Bath Quays South. In addition the Council has shortlisted development partners for the strategically important Bath Quays North which will deliver office space of a quality not previously seen in the city.

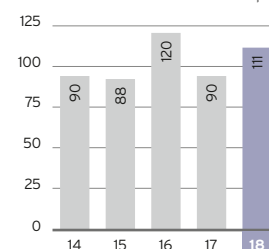
A further letting at the Chocolate Factory in Keynsham means that less than 25,000 sq ft is now available for immediate occupation at the scheme.

The best headline rent achieved in Bath city centre remains £31 psf at 20 Manvers Street. However a number of the proposed new developments are guiding headline rents above this level.

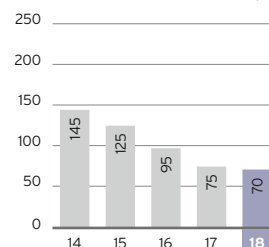
In addition to providing a strong background for rental growth, the restricted level of supply is resulting in downward pressure on the level of incentives being granted.



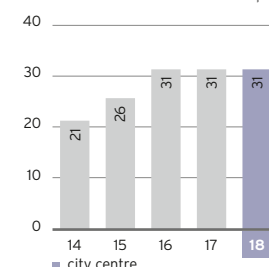
Demand
000s sq ft



Supply
000s sq ft



Headline rent
000s sq ft



INDUSTRIAL

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Demand for good quality industrial space remains strong, with a number of active requirements, particularly freehold. However there are limited options in the city.

Supply is limited to second hand stock. There has been no speculative industrial/distribution development in Bath and none is expected for the foreseeable future.

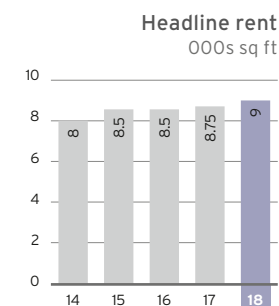
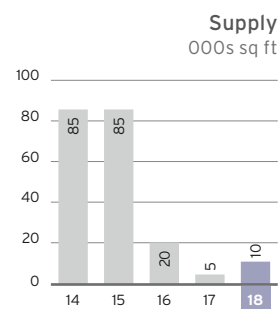
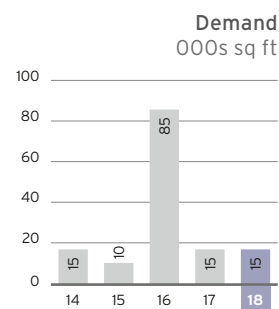
Occupiers struggling to find accommodation of a modern specification are therefore being forced to consider locations outside Bath, with east Bristol being of particular interest.



Halfords, Locksbrook Road Trading Estate.

The lack of modern space is holding back take-up. Notable transactions in 2018 included Halfords and Kew Electrical who acquired space at Locksbrook Road Trading Estate and Dulux who opened in Unit 13 at the Maltings Industrial Estate on Brassmill Lane.

The imbalance in demand and supply means we anticipate headline rentals for new space of £9 psf.

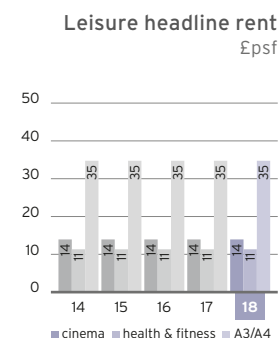
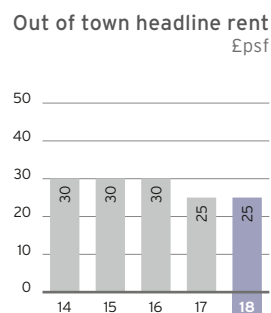
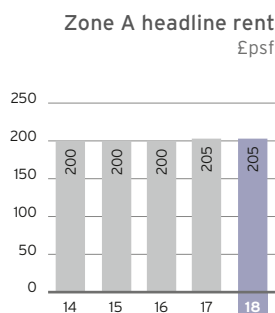


RETAIL & LEISURE

Rebecca Harries T 0117 317 1086 E rharries@alderking.com

Demand for prime pitches remains strong, with several new openings in 2018 including Card Factory in SouthGate and Dr Martens and Nationwide in Union Street. Metro Bank also opened in Stall Street. Apart from the opening of Mero Retail Park, there was no significant activity out of town.

The city's food and beverage offer now includes Franca Manca in SouthGate and Le Vignoble in Milsom Place. The Botanist will open in The Octagon Hall at Milsom Place.



INVESTMENT

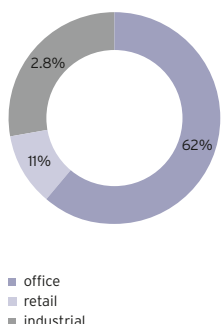
John Benson T 0117 317 1100 E jbenson@alderking.com

Significant transactions included:

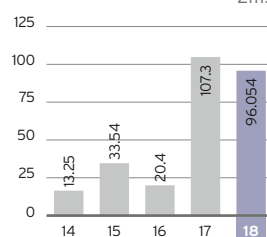
Northgate Street and 9-11 Bridge Street. DTZ Investors acquired this mixed use retail, leisure, residential and office investment in the city centre for £6.5m, 5.50% NIY.

Somerset Hall. The Eyre Estate acquired this 23,397 sq ft office let to the Secretary of State for Communities & Local Government from Aviva for £8.8m, 5.17% NIY. The passing rent is £455,000 per annum with an unexpired term of 10 years. The office is adjacent to Bath North Quays, BANES's flagship regeneration project. Alder King acted for the purchaser.

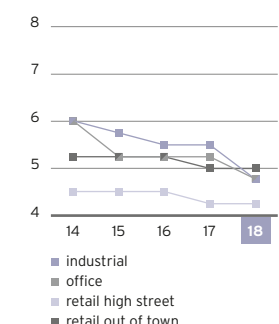
Investment by sector
%



Value of investment transactions
£ms



Prime yields
%





Phase 2, Somerset Energy Innovation Centre, Bridgwater.

Bridgwater

OFFICES

Andrew Maynard T 01823 444879 E amaynard@alderking.com

There has been an increase in supply within both the out of town and town centre markets, with take-up more subdued in the second half of the year. That said, vacancy levels remain relatively low at present, although further new build supply is likely to come on stream in Q1 2019 with the completion of the latest phase of the successful Somerset Energy Innovation Centre. This offers a more hybrid style of accommodation than the earlier phases, totalling 21,500 sq ft of accommodation over three floors and including around 3,750 sq ft of technology workshops.

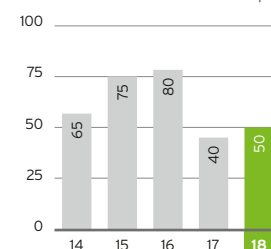
Rental levels have improved marginally for modern out of town accommodation, although generally the tone remains at a

similar level to 2017/18. Freehold values also remain at similar levels, although there is very little modern accommodation available within the town on a freehold basis.

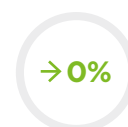
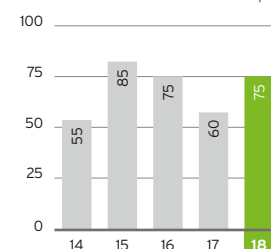
The Exchange on Express Park has been active throughout 2018, with a reconfiguration of the gym space with a new letting to Energie Fitness, an eagerly awaited reopening of the café operated by Powwow and continued lettings of the various office suites, maintaining the high occupancy levels throughout the year. Some further office space is being created as part of the gym reconfiguration, with occupiers already lined up for a large amount of the space.



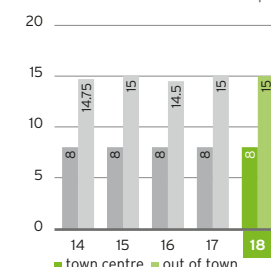
Demand
000s sq ft



Supply
000s sq ft



Headline rent
000s sq ft



The Exchange Building, Express Park.

INDUSTRIAL

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The industrial market remains active with continuing new build activity around both junctions 23 and 24, including a pre-let to Scania Trucks totalling 28,000 sq ft and a pre-sale to John West Contractors of 10,400 sq ft, both on Woodlands Business Park.

Larger requirements have increased in the past 12 months, although deals have been elusive. Overall supply is up on 2017 but as in previous years there is little supply in the 10,000 to 50,000 sq ft bracket.

Preparation works for Peninsula 23 off the A38 have started with design and build opportunities available for units from 10,000 to 150,000 sq ft just ¾ mile south of junction 23 of the M5 motorway.

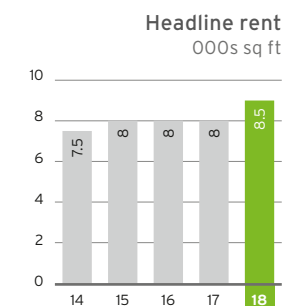
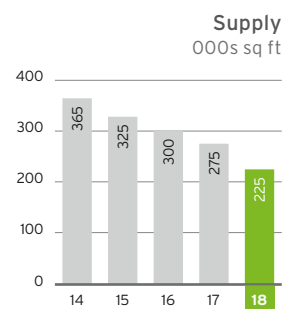
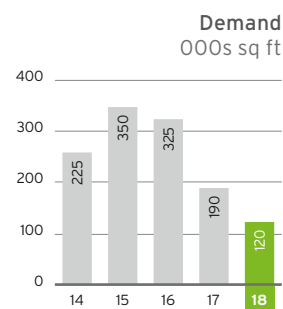


John West Contractors, Woodlands Business Park. Courtesy of Roselea Properties.

Meanwhile Bridgwater Gateway has now completed infrastructure works with various opportunities available including roadside, offices and industrial/warehouse on a 120 acre mixed use business park.

Salamanca Group also launched Gravity in autumn 2018, a 600 acre mixed use campus on a former BAE site with remediation work set for completion by the end of the year.

Rental levels have improved and freehold values are up slightly on 2017, with the real prospect of modest further growth in 2019.

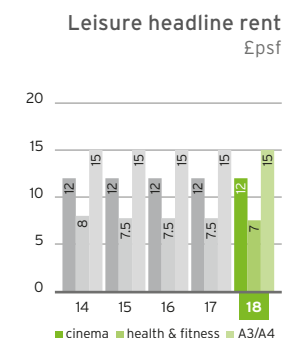
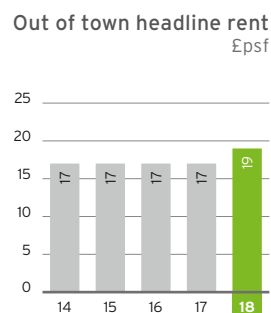
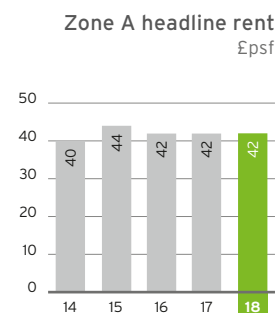


RETAIL & LEISURE

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Following a rise in vacancy levels in mid-2018, the number of vacant town centre retail units has fallen to 9.2% continuing the improving trend of recent years.

Aldi obtained planning consent for a new larger store in Northgate and plans to relocate from its existing store in Eastover. Meanwhile, Sedgemoor District Council is making good progress with its plans for the Mount Street site with a leisure/cinema focus and complementary restaurant uses.



INVESTMENT

John Benson T 0117 317 1100 E jbenenson@alderking.com

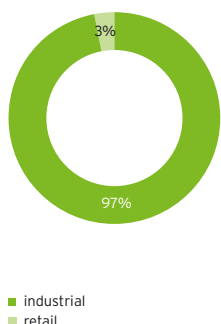
Andrew Maynard T 01823 444879 E amaynard@alderking.com

Significant transactions included:

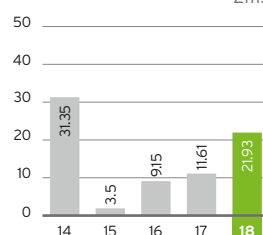
EDF Energy, Hinckley Point. EDF acquired this 240,000 sq ft single let freehold industrial unit from BMO Real Estate for £16.25m. There is a head lease to the Co-Operative Group Food Limited who have vacated and it is sub-let to EDF Energy. The sale includes a 19,100 sq ft vehicle maintenance unit.

Dunball Trading Estate. In October, Stenprop acquired this modern multi-let industrial estate from an overseas investor for £4.8m, reflecting a net reversionary yield of 6.9%. The estate is strategically located just off junction 23 of the M5.

Investment by sector %



Value of investment transactions £ms



Prime yields %





CGI of Former Sorting Office, Mill Street. Courtesy of Garrison Barclay Estates.

Newport

OFFICES

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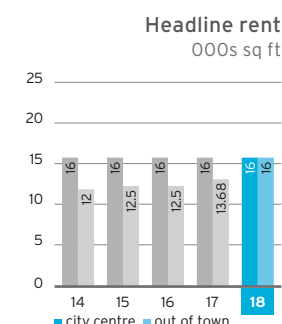
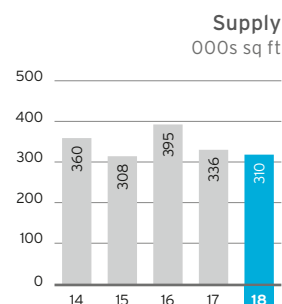
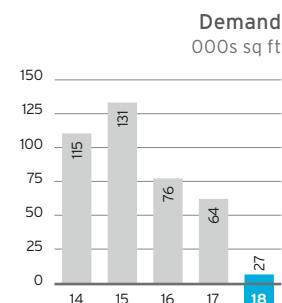
Take-up was poor in 2018, down 71% on the five year average of 92,800 sq ft. 93% of transactions were for less than 5,000 sq ft.

Newport has never fared well compared to Cardiff and Bristol but there is a strong sentiment that recent developments around the train station, the Friars Walk Shopping Centre and the International Convention Centre have not been fortified by corresponding development of Grade A offices and that if this were to happen there is latent demand for the new space.

This can be further argued with the abolition of the Severn Bridge tolls, the electrification of the main line railway and the proposed M4 Relief Road, all of which will enhance the city's geographical significance and overall offering.

There is actually no Grade A space available in the city centre and this will need to be addressed quickly to encourage economic regeneration.

On the positive side, Garrison Barclay Estates are in the process of redeveloping the former Sorting Office on Mill Street into 59,255 sq ft of quality offices and Scarborough Group International (SGI) has planning permission for 45,000 sq ft of Grade A offices named Interface and located adjacent to Admiral Insurance.



Estuary Court, Newport.

INDUSTRIAL

Owen Young T 029 2038 1996 E oyoung@alderking.com

2018 industrial take-up was above the five year average of 334,000 sq ft.

Significant deals included ABP acquiring 190,000 sq ft at Neptune Works at the Port of Newport and Urban Myth Films taking 48,115 sq ft for film production at Nash Mead on Queensway Meadows Industrial Estate. Furthermore, Delta Skills has taken 44,000 sq ft at the former Avana Bakeries in Rogerstone.

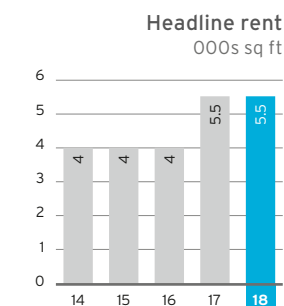
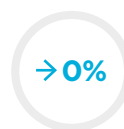
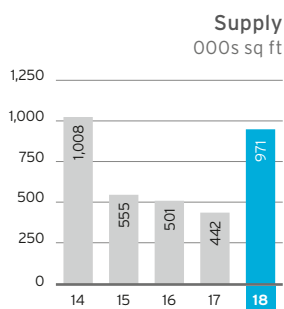
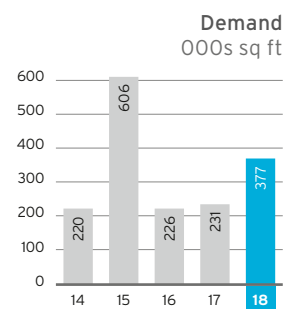
Demand remains strong across all unit sizes and we expect this to continue following the abolition of the Severn Bridge tolls and plans begin to develop the new M4 Relief Road.

Conversely, Newport has seen a rapid rise in supply to 980,000 sq ft, more than double the stock levels of 2017. This is attributable to a few large units coming to market including Units IP1, IP2 and IP5 at Imperial Park totalling 403,618 sq ft.

Units over 90,000 sq ft now account for 77% of the total supply as opposed to 2017 when 71% of available stock was under 10,000 sq ft. There are a number of larger footprint requirements in circulation which will now consider South East Wales and we believe availability will significantly reduce during 2019.



Neptune Works, Newport.



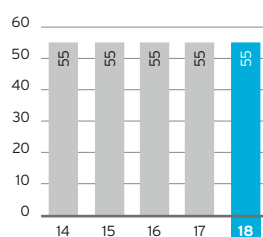
RETAIL & LEISURE

Owen Young T 029 2038 1996 E oyoung@alderking.com

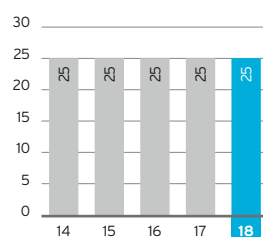
Kingsway Shopping Centre has attracted new tenants including Bubble Trouble and Toytown, taking 1,901 sq ft and 3,000 sq ft respectively and at Newport's East Retail Park 10,000 sq ft has been let to The Food Warehouse.

Hotel group Mercure has agreed a 10 year franchise to open a 163 bed hotel at Chartist Tower which is part of a £12 million development offering an additional 18,000 sq ft of retail space and 30,000 sq ft of office space.

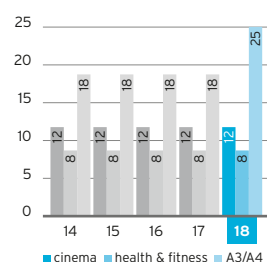
Zone A headline rent
£psf



Out of town headline rent
£psf



Leisure headline rent
£psf



INVESTMENT

John Benson T 0117 317 1100 E jbenson@alderking.com

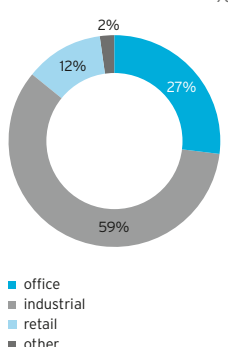
James Nicholas T 029 2038 1994 E jnicholas@alderking.com

Significant transactions included:

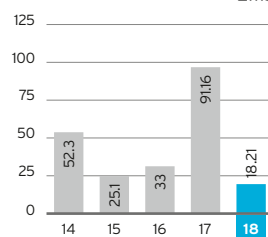
Caerleon House, Cleppa Park. Albion Investment Partners acquired this newly refurbished 26,304 sq ft office building, for £3.1m, 11% NIY. It is single let to Carpeo on a 15 year lease expiring in 2032.

Estuary Court. Storage Giant disposed of the freehold of Estuary Court, a 34,980 sq ft trade counter/industrial estate. The property was sold to Stenprop for £3.1 m, 7.6% NIY. Alder King acted for the vendor.

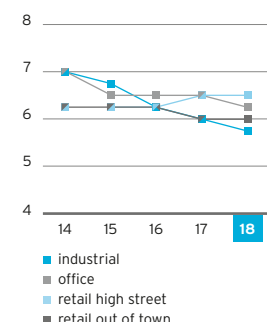
Investment by sector
%



Value of investment transactions
£ms



Prime yields
%





Plumer House, Plymouth. Courtesy of Plymouth Community Homes.

Plymouth

OFFICES

Noel Stevens T 01392 353093 E nstevens@alderking.com

The city's office occupiers have benefitted from refurbishment of existing stock. The Merchant came back to market following a very high quality refurbishment offering 31,000 sq ft and remains available.

2018 saw a handful of large requirements circulating which was very good news for the market. These underpinned some of the purchase activity and helped drive up demand and capital values. The standout acquisition of the year was Plymouth City Council's acquisition of the 58,000 sq ft Crownhill Court building. This was acquired as part of the Council's investment strategy and will become home to the Valuation Office once refurbishment is completed in 2019.

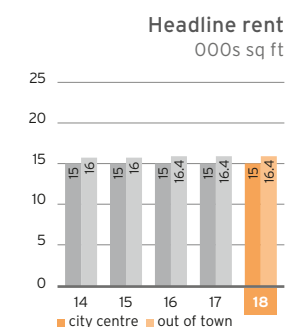
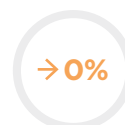
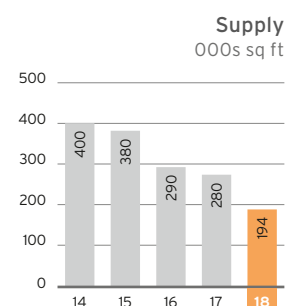
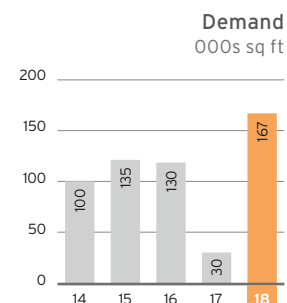
Plumer House is now fully let which is testament to the quality of the refurbishment and the amenities Plymouth Community Homes offer to its staff and tenants alike. Once Crownhill Court is refurbished, Plymouth will have a high profile cluster of high quality employment space on Tailour Road, a key route in to the city.

Rents for the best space remain sub £17 psf which makes Plymouth offices look very good value when compared with other regional cities. Capital values have been affected by competition and construction cost inflation.

Secondary office stock saw good demand with rents still sub £13 psf for useable stock. The office market remains tightly constrained with limited stock across the spectrum making acquisition of modern premises difficult. As with all markets in the South West, small freeholds remain extremely popular.



Endeavour House, Oceansgate. Courtesy of Oceansgate.



INDUSTRIAL

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2018 saw a spike in demand with a handful of transactions in excess of 20,000 sq ft, with 73,000 sq ft being transacted at Burrington Business Park alone in seven transactions.

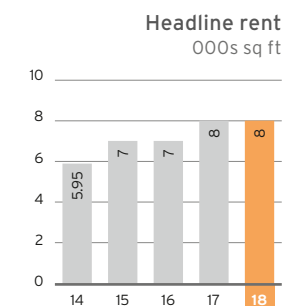
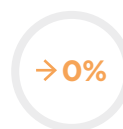
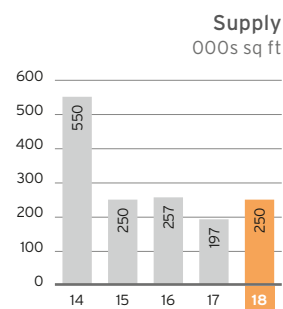
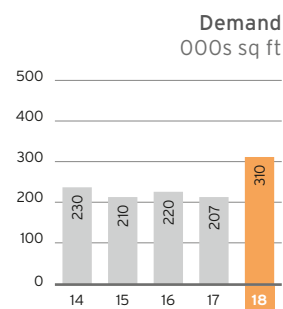
Plymouth has seen major new development at Oceansgate, the former South Yard Naval base. The site was designated as an Enterprise Zone which has helped reduce occupancy costs for businesses expanding into premises by offering savings on rates payable. Circa 26,000 sq ft of office and industrial space was released in Phase 1. The development included small office suites and industrial units around 1,000 sq ft which matched demand from smaller occupiers in the market. Phase 2 will come forward in 2019 with a similar offer along with a café to help add amenity to the site.



The Oceansgate site, Plymouth.
Courtesy of Oceansgate.

We saw larger requirements from national and multi-national companies but a lack of oven ready sites stood in the way of development. The same situation occurred in Exeter, making this a regional rather than a local problem.

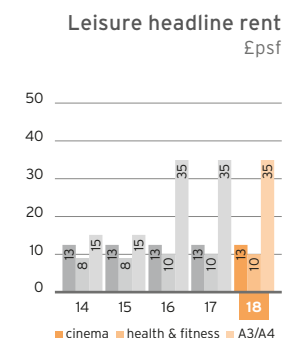
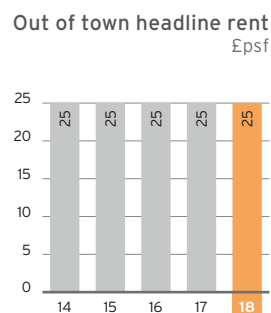
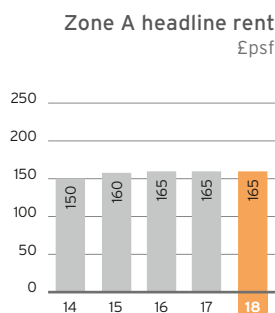
Values were driven up by the sub 1,000 sq ft warehouses available at Oceansgate where prices in excess of £140 psf were achieved for freeholds. Good quality space attracts slightly improved rents around £6 psf.



RETAIL & LEISURE

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2018 saw continued progress on Drake Circus Leisure Multiplex which will give a major boost to the leisure offer in the city centre. Out of town there have been major developments at Marsh Mills. The 70,000 sq ft Plymouth Gateway Retail Park opened towards the end of 2018 with brands including Sofology, Tapi (carpets and flooring) and Wren Kitchens, alongside an enhanced food and beverage offer. Close by, the new Next Home store takes centre stage at a 55,000 sq ft development.



INVESTMENT

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Scott Rossiter T 01392 353089 E srossiter@alderking.com

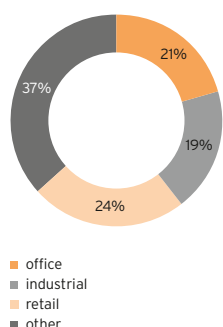
Significant transactions included:

Derrys Cross. Plymouth City Council purchased the freehold of this city centre leisure investment for £17.25m, 5.20% NIY in an off-market deal. The property is multi-let with a total passing rent of £888,431 per annum.

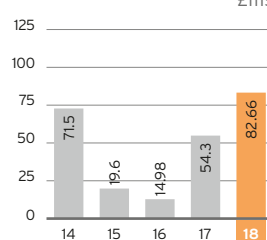
Plymouth Gateway Retail Park. Royal London Asset Management forward funded this 54,766 sq ft multi-let retail warehouse investment for £22.7m, 5.75% NIY.

50 Exeter Street. LXI REIT purchased Jurys Inn, a 247 bed hotel for £30m, 5.70% NIY.

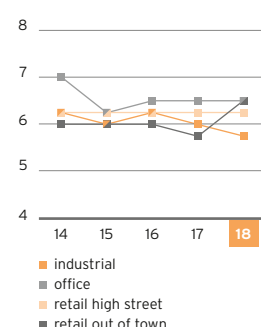
Investment by sector
%



Value of investment transactions
£ms



Prime yields
%





Unit 3 Crompton Road, Groundwell Industrial Estate, Swindon.

Swindon

OFFICES

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Office take-up for 2018 was broadly in line with the last three years' figures and up on the previous year at 107,315 sq ft. The number of transactions increased through the year after a very weak first quarter and finished strongly despite the wider economic uncertainty. The market lacked any stand out large transactions, with the biggest being the 15,000 sq ft owner occupier development at Gateway North by Bloors. In addition to the new HQ office building, the 8,500 sq ft Building Two has been completed and is available for immediate occupation.

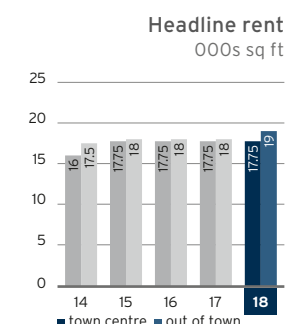
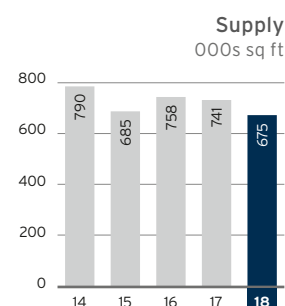
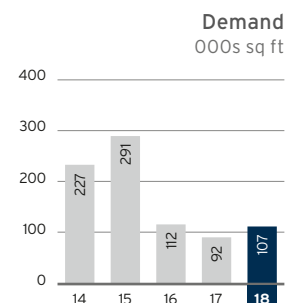
There were five further transactions in the 5-10,000 sq ft category, the majority of which were long standing requirements which are now satisfied. There are a number of further active requirements in this size range but there are limited quality opportunities for applicants to choose from.

The out of town market has continued to lead the way with some 76% of all transactions taking place in out of town locations. Shrivenham Hundred Business Park was the stand out performer with nearly 20% of all take-up occurring there in nine separate transactions. A number were parties expanding their operations.

The level of supply has continued to fall with little new office stock coming to the market and a further 76,500 sq ft being taken out of the supply chain for conversion to residential.

Speculative development is anticipated shortly at Kimmerfields on the back of Zurich's planning application for circa 100,000 sq ft of new offices which will greatly assist the town centre's fortunes. Swindon Borough Council also worked hard during 2018 to enhance public realm and encourage development at Kimmerfields, Aspen House and The Carriageworks.

Rents have stabilised as a result of limited supply despite relatively weak demand and we anticipate rents rising in the near future as active applicants seek better quality stock.



INDUSTRIAL

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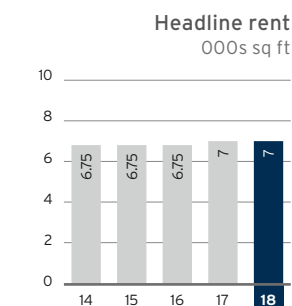
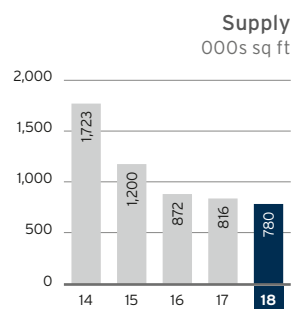
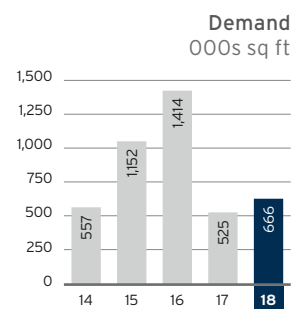
The overall take-up figures do not reflect the positive demand at the small end of the market where sub 10,000 sq ft units have continued to be sought after, with several being let as soon as they become available. Notwithstanding the nervousness with the economy, it has been pleasing to see companies seeking to expand their businesses. Overall recorded take-up in 2018 was 666,643 sq ft which, whilst higher than 2017, is below the long term average. This is due in the main to the restricted supply of large buildings that are immediately available, with buildings in excess of 50,000 sq ft almost non-existent.



Unit 1 Symmetry Park, Swindon.

The stand out transaction for the year was the successful letting of the 221,320 sq ft Unit 1 Symmetry Park to Iceland. Eight further transactions in excess of 20,000 sq ft took place in 2018 with one of those being the 30,000 sq ft pre-let to Aggreko on Radway Road, Stratton. The overall number of transactions throughout 2018 was 75 compared to 67 in 2017, thus demonstrating the positive appetite from smaller occupiers to relocate to larger and generally better quality accommodation.

Speculative development has returned to Swindon and is taking place on the Ignition scheme at Dorcan where Canmoor is constructing circa 300,000 sq ft of much needed mid-range stock. There is already positive interest and we expect imminent announcements about commitments prior to practical completion. Trebor Developments is also planning to commence construction of two speculative units at Trinity Park in West Swindon. Gazeley is nearing completion of the 375,000 sq ft additional facility for B&Q at G Park which will boost take-up figures in the first quarter of 2019.

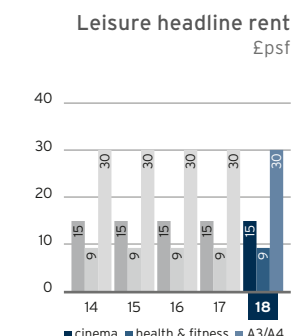
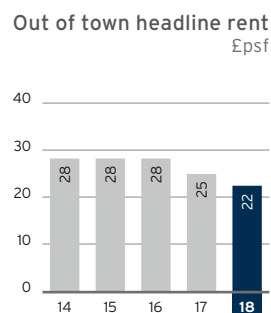
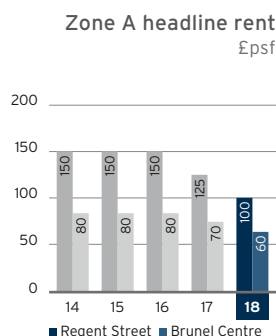


RETAIL & LEISURE

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Swindon's retail market saw positive activity in 2018, with the opening of food and beverage hub The Crossing at the Brunel Centre and news that the House of Fraser store will remain open.

Out of town, SevenCapital's long awaited £270m Snow Centre project at North Star secured its planning permission and construction on a multi-faceted leisure facility will start this year.



INVESTMENT

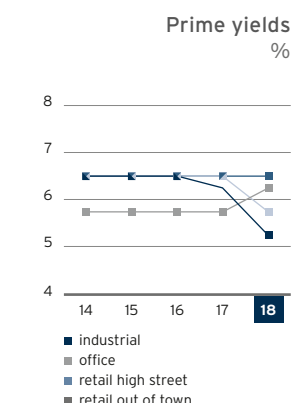
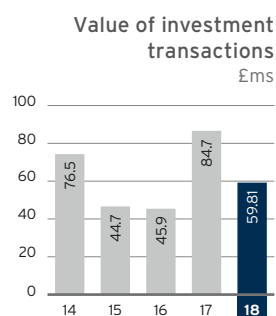
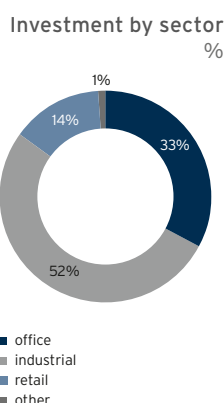
John Benson T 0117 317 1100 E jbenon@alderking.com

James Gregory T 01793 428106 E jgregory@alderking.com

Significant transactions included:

Station Square. Hillview Real Estate acquired this 48,000 sq ft multi-let office building for £8.5m, 7.84% NIY. The passing rent was £711,153 per annum and the WAULT was 5.5 years.

Unit 3 Crompton Road, Groundwell Industrial Estate. A private purchaser acquired this freehold industrial unit for £2.095m, 6.87% NIY. Alder King acted for the vendor.





Courtenay House, Blackbrook Business Park, Taunton.

Taunton

OFFICES

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Whilst take-up for 2018 decreased in the middle part of the year, the story towards the end of the year paints a more positive picture, with increasing take-up and a healthier level of enquiries.

The typical requirement size remains below 5,000 sq ft, with a continuing increase in demand from start-up and SME businesses looking for smaller and flexible office space, generally from 300 to 800 sq ft.

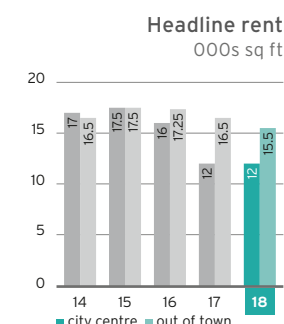
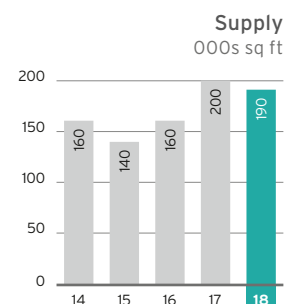
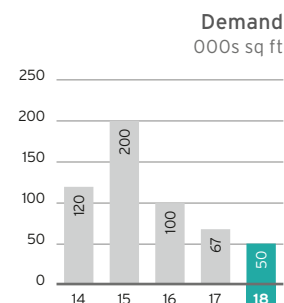
The increase in demand has been more than matched by an increase in the supply of good quality accommodation both in the town centre and also in the out of town markets and consequently rental levels are unlikely to increase, at least in the first half of 2019.

Three buildings on Blackbrook Business Park, totalling circa 23,000 sq ft, will be available from the end of the first quarter providing a range of unit sizes whilst in the town centre, East Reach House is being reinvigorated in response to the lack of small and flexible office suites with parking.

Elsewhere, Taunton Deane Borough Council has entered the market with surplus space within its own building which has undergone comprehensive refurbishment and which is competing with the remaining accommodation within Building 2 at Tangier Central in the town centre.

Whilst new build has been sadly missing from the market for a number of years, Summerfield Developments' remaining phase on Blackbrook Business Park provides a very attractive mix of design and building opportunities fronting onto the M5 and accessed from J25, providing a competitive offer in context of the regional market.

Freehold demand remains good, with a blend of owner occupiers and developers increasingly looking for Permitted Development opportunities within the town centre. The demand from developers has increased over the past two years, with several schemes now completed and more in the pipeline.



INDUSTRIAL

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As in previous years, there is very little existing stock in the Taunton market. This is likely to continue for some time to come due to the lack of new developments over a number of years within the town. Continuing take-up in neighbouring Wellington (Westpark 26) proves that it provides an excellent alternative for occupiers, with a number of deals completing or in solicitors' hands in the lead up to Christmas 2018 including roadside, warehouse and manufacturing space.

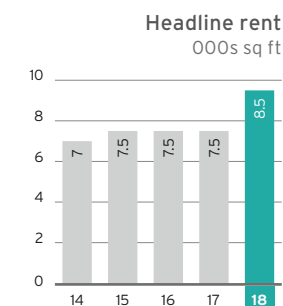
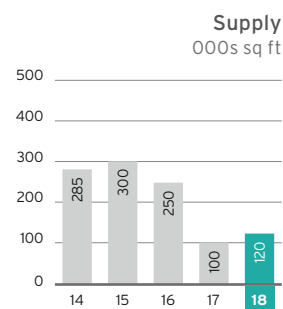
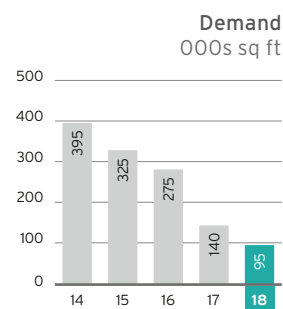
Despite this, or perhaps because of the porosity and lack of diversity in supply within the town, rental levels remain relatively static although freehold values have risen to some degree over the past 12 months, continuing

the longer term trend. New build values have improved again at Westpark 26 with the latest deals showing growth in both rental and capital values, including land values. Indeed it is likely that values for sub 2,000 sq ft new build units will reach £140 per sq ft in the next 12 months, matching other larger centres in the South West.

New build opportunities in Taunton may improve in early 2019 with several schemes potentially moving forward within the next year or two. It will be interesting to see if this unlocks latent demand which has undoubtedly been frustrated by a lack of opportunities over recent years.



East Reach House, Taunton.

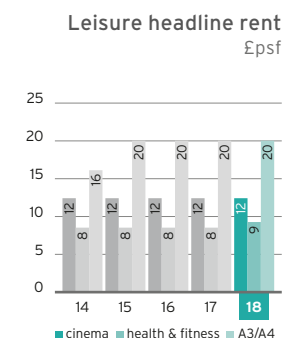
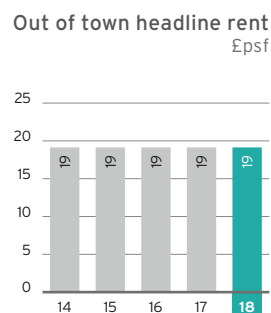
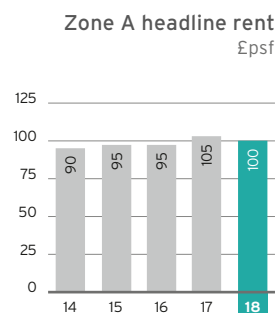


RETAIL & LEISURE

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Taunton Deane Borough Council remains committed to the regeneration of the Firepool site despite its development partnership ending by mutual consent last summer. It has ambitions to develop a hotel on the site by 2021.

The town's retail core enjoys low vacancy levels in the prime and secondary areas. Out of town, Land Rover and Jaguar moved to new premises on Priory Way while the neighbouring Audi premises are being comprehensively refurbished.



INVESTMENT

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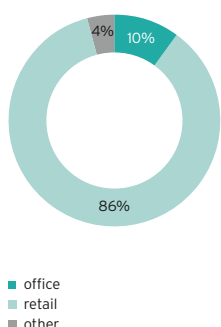
Andrew Maynard T 01823 444879 E amaynard@alderking.com

Significant transactions included:

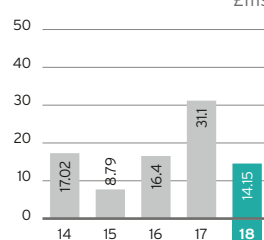
40 -42 Fore Street. In March 2018, Lewis Investments acquired the freehold of this prime retail unit for £4.89m, 5.75% NIY. The unit totals 33,553 sq ft and is let to TK Maxx until 2031 at a rent of £300,000 per annum.

64a East Street. In June 2018, a private property company acquired the freehold of a single let retail unit let to Halifax for £1.17m, 5.00% NIY.

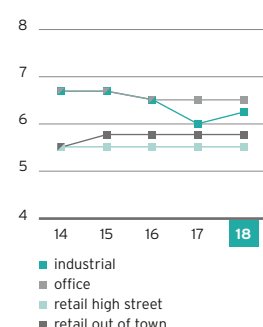
Investment by sector
%



Value of investment transactions
£ms



Prime yields
%





High Water House, Truro.

Truro

OFFICES

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The office market in Truro and surrounding area saw modest activity in 2018 compared with the previous year.

With fewer large buildings on the market and fewer large known requirements, there was a 18% reduction in take-up during the year from 55,000 sq ft to 45,000 sq ft.

The city remains the favoured administrative centre for Cornwall with occupiers preferring good quality city centre or edge of city centre accommodation with car parking. Modern accommodation is generally preferred although traditional suites in refurbished offices in Lemon Street remain popular due to its proximity to the city centre.

The majority of demand in Truro is for accommodation ranging from circa 750 sq ft to 2,000 sq ft. Smaller requirements are often satisfied by serviced office accommodation. In previous years some of the larger older buildings which came to the market were converted for residential use.

Demand for out of town accommodation has increased from year to year especially where there is good access to the A30. Truro Business Park is now well established and access has been improved by the introduction of traffic lights and an improved junction at its entrance.

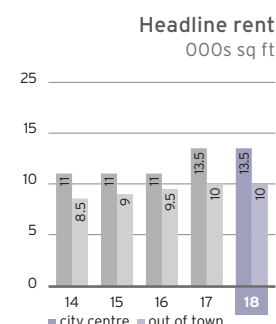
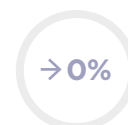
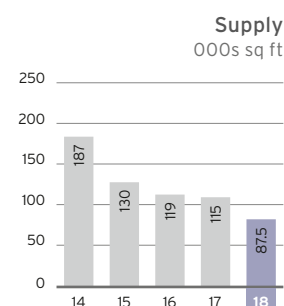
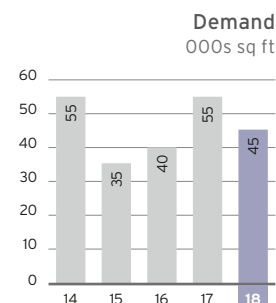
Poorer quality city centre offices, often on upper floors without a lift and without car parking is in over-supply and generally takes considerably longer to let.

Supply dropped significantly by circa 24% in the first half of the year but then levelled out to remain steady for the rest of the year.

The largest existing space available in Truro is the ground floor of High Water House on Malpas Road which extends to approximately 7,027 sq ft and offers modern waterside space with car parking. The same building also saw one of the larger transactions of the year with the letting of the similarly sized second floor.

With relatively little activity and headline rents for the best space reaching £13.50 psf, there has been no new speculative office development in Truro. It remains the case that the cost of construction generally exceeds the value of the completed product unless grant funding can be secured.

Where lettings have occurred they often reflect increased caution by tenants. Leases are generally shorter and often include tenants break clauses. Furthermore many tenants will seek to reduce repair liability and or seek a cap on service charges.



INDUSTRIAL

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The supply of industrial accommodation has remained almost unchanged in terms of overall floor area available. However, closer analysis reveals that this floor area is made up of a larger number of smaller units, a circa 20% increase in the number of units over the year.

The quality and age of this stock is harder to gauge although with speculative development looking less certain, the average age of stock will increase.

It remains the case in Cornwall that the cost of acquiring land and constructing new buildings will generally exceed the value of the completed product. As a result new development is unlikely to be viable without the assistance of grant funding.

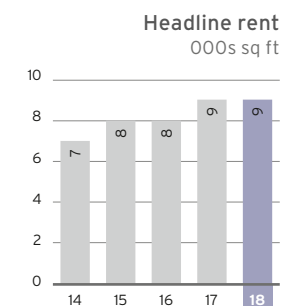
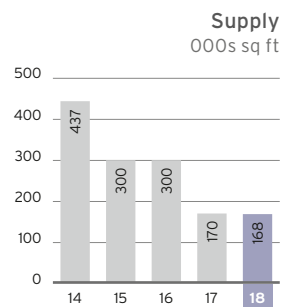
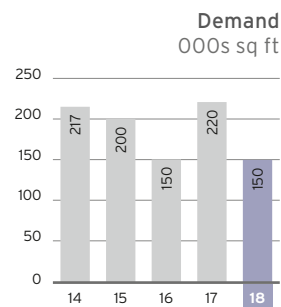


Unit A Pipers Court, Pennygillam Industrial Estate, Launceston, sold by Alder King in 2018.

There are however a couple of schemes which have been able to secure some funding and are now progressing. These include the development of five units at Indian Queens which will be restricted to SME occupiers only. The supply of modern accommodation in Falmouth has been boosted by the part-grant funded development of the Church View Business Park which is due to complete in January 2019. A number of units have been purchased by investors who will make them available to rent upon completion.

In some cases development may occur when a company's occupational requirement takes precedence over value. In such cases an occupier may take a pre-let of a new building at a rent in excess of market rent in order to satisfy its requirement. To work, the lease terms and covenant strength must be strong enough to create an investment value which will make development viable to include some developer's profit.

Demand for industrial accommodation in Cornwall is generally focussed on well-established industrial estate locations with good access to the A30 and A38. Such locations include Camborne/Pool/Redruth, Indian Queens, Victoria Business Park and Bodmin.

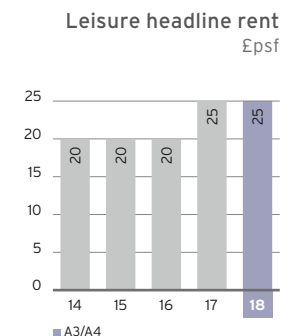
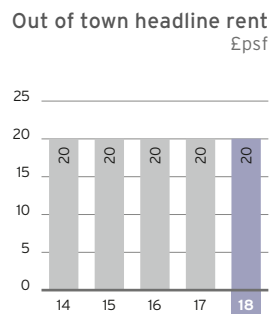
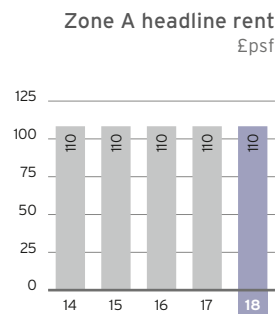


RETAIL & LEISURE

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There was reduced activity in Truro's retail market in 2018. The former Mothercare unit on Pydar Street remains available following the retailer's relocation to Treliske Retail Park. Hotel Chocolat took a prime unit in King Street and JD Sports is now represented on Lemon Quay adjacent to a Wetherspoon pub.

While Truro remains resilient to changes in the market, other towns in Cornwall including Newquay saw a significant increase in vacancy rates over the year.



INVESTMENT

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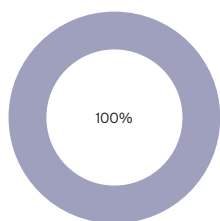
Tom Duncan T 01872 227005 E tduncan@alderking.com

Significant transactions included:

93-94 Pydar Street. A local authority acquired this prime retail asset let to Boots on a new 10 year lease for £4.425m, 5.83% NIY. The passing rent is £275,000 per annum.

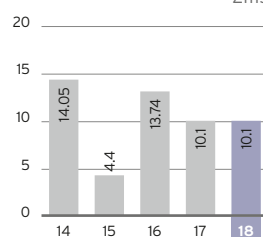
1 St Nicholas Street. A private investor acquired this prime retail investment from Kennedy Wilson for £1.055m, 6.50% NIY. The property is let to Monsoon Accessorize Ltd until May 2023 at a current rent of £72,500 per annum.

Investment by sector
%

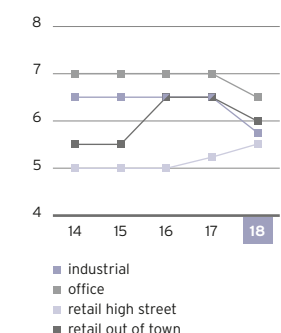


■ retail

Value of investment transactions
£ms



Prime yields
%





Residential Development Land

LAND MARKET SUMMARY

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There was limited growth in South West house prices in 2018, with average annual growth of 1-3% across the region. Growth was restrained by affordability, rising interest rates, uncertainty around Brexit and, with respect to higher value properties, SDLT.

Residential commentators and analysts are forecasting five year house price growth in the South West of 10-15% (compounded), with most of that growth forecast to be in years 3-5. Immediate growth prospects are flat or very low.

On the other side of the 'land value equation', build costs are either matching or outstripping house price growth and housebuilders are increasing their margins which has the potential to put downward pressure on land prices.

The emergence of new entrants to the market, in particular housing associations, coupled with demand for different housing tenure models, is sustaining land values for good quality sites, although prices for secondary and tertiary sites are under pressure. For example we recently completed the sale of land for 146 dwellings in Yatton to a leading regional housing association in a highly competitive process including several PLC housebuilders.

Despite the current market uncertainties, there is still a shortage of housing in many parts of our region. There is good demand and competition for residential sites in the main cities across the South West and South Wales and also towns in close proximity to a M4/M5 motorway junction.

Demand remains high for strategic land delivering development over the next 3-5 years and beyond, particularly land available through options or promotion agreements. Current uncertainty around Brexit has not impacted on these types of transactions as developers and promoters are taking a medium to long term view on the market remaining buoyant. The Publication Draft of the JSP for the West of England has been submitted to the Planning Inspectorate and an Examination in Public is scheduled for this summer.

The care and retirement living markets remain very strong, with numerous specialist developers particularly acquisitive for sites in established residential locations. However, proposed legislative changes relating to leasehold ground rents and onsite affordable housing have the potential to disrupt this sector of the market. We are providing development viability advice on a large number of schemes for leading retirement property developers.

Case Studies

- Honiton Business Park, Devon.** Brownfield site with outline consent for up to 150 dwellings, sold to Taylor Wimpey.
- Ilminster.** Acting for Dairygold in the proposed redevelopment of its former Horlicks factory to provide around 150 dwellings and 275,000 sq ft of commercial/employment space.
- Yatton, North Somerset.** Sale of land with outline planning permission for 146 dwellings to Curo Enterprises.
- Wellington, Somerset.** Acting for Gladman, Alder King is selling land with outline planning permission for 205 dwellings and a 60 bed care home.
- Court Farm, Clevedon.** Planning and development consultancy for the redevelopment of this derelict livery yard to provide nine new dwellings.



Planning



STRATEGIC PLANNING SUMMARY

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The introduction of the revised NPPF in July 2018 heralded significant changes that focus largely on accelerating the delivery of housing and meeting the Government's overall ambition of building 300,000 homes per annum.

The principal change has been to establish a new 'standard methodology' for deriving the new housing requirement for any local authority. It has the scope to (and no doubt in time will) significantly reduce the time spent in long and complex Local Plan debates over 'what the number should be'; an objective most industry commentators have readily welcomed. The NPPF also introduces the Housing Delivery Test that strengthens the scope to challenge LPAs on poor rates of delivery and as a consequence increase the pressure on their ability to demonstrate a five year supply of housing land.

Six months after the publication of the NPPF and there is little evidence of a positive effect. Transitional arrangements have seen a number of LPAs rushing to submit Local Plans ahead of the deadline to avoid the standard methodology and remain in control of their own destiny. In the West of England the standard method would require the four authorities to plan for 116,000 homes instead of the current 105,000, and the implications for Green Belt release would be significant.

Moreover, there is great confusion over what number the standard methodology actually generates such that, writing today, no LPA in England is clear what its housing requirement is. The standard method is based largely on household projections and the recent release of the 2016 projections saw a significant drop in overall growth. As an interim measure the Government has reverted back to the older 2014 projections, albeit this still doesn't achieve the 300,000 homes target. Further guidance is awaited but in the meantime there is somewhat of a hiatus in plan making and confusion at appeals.

The knock-on effect of both the standard method and housing delivery test is that more often than not a LPA's housing supply improves and the pressure eases. Historic backlog is swept aside and the reality is that many LPAs have much improved/higher delivery rates in recent years. In the case of South Gloucestershire the supply moves from a weak position of circa 4.5 years to 6 years.

These may be teething issues but doesn't help the feeling of uncertainty in the short term.

Case Studies

- 1. Land east of Harry Stoke, North Bristol.**
Planning permission secured for Crest Strategic Projects for 1,290 homes and a mixed use local centre on land east of Harry Stoke, North Bristol.
- 2. Land at Bower Lane, Bridgwater.**
Hybrid application submitted with full details for a SEN school and outline details for residential development in Bridgwater. The school will provide a high quality learning environment for children with special educational needs including therapy rooms, a sensory garden and a swimming pool. The application is on track for a resolution to grant in early 2019. Image courtesy of AWW.
- 3. The Oliver Buildings, Barnstaple.**
Application submitted for Acorn Property Group/Wessex Investors for listed building conversion and new build in Barnstaple's Town Centre Conservation Area. Image courtesy of Ihc.

Alder King

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Development Funding	Property Management
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