Market Monitor

South West of England and
South Wales Property Review

Q1 2021

Market Update

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Summary

A year on from the start of the first lockdown, activity in many areas of the commercial property market is poised to return to its pre-pandemic levels. Boosted by the Prime Minister's roadmap out of lockdown and the UK's successful vaccination programme, business confidence is increasingly upbeat and activity in the first quarter of 2021 suggests the market will bounce back strongly as lockdown restrictions continue to be lifted.

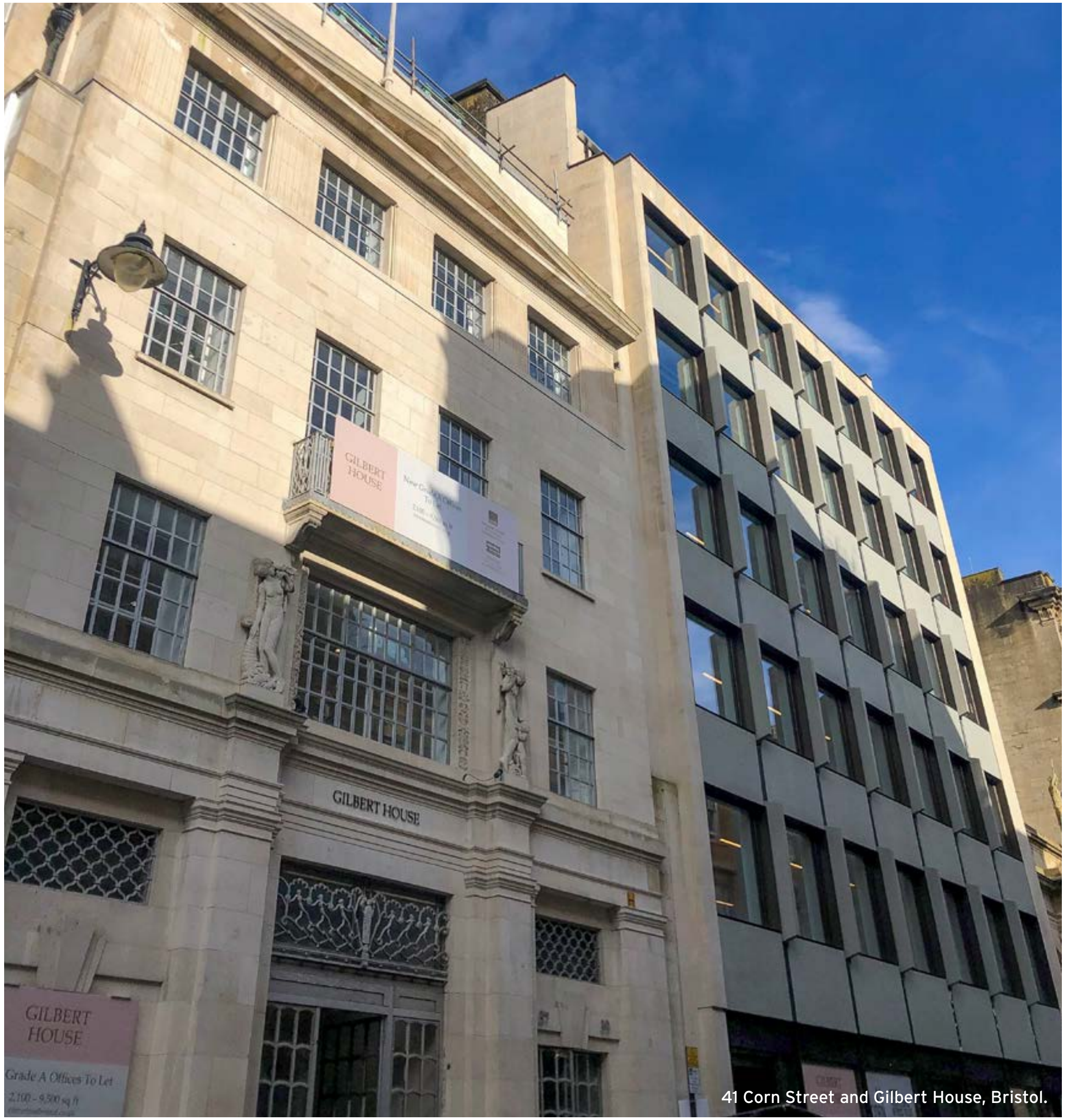
The industrial/logistics market is leading the charge, with some significant deals having being agreed across the region in Q1. Indeed, such is the ongoing strength of the sector that demand continues to outstrip available supply and developers are responding with new speculative development in Bristol, Gloucester and Exeter. This is already leading to improved rentals, lease terms and capital values.

Most office occupiers, whilst now fully committed to retaining a central office facility, are still reviewing their requirements to facilitate a hybrid office and remote working model. Overall the market is seeing an increasingly strong level of activity, particularly in locations including Bristol, Gloucester and Taunton where supply is limited, and we expect to see strong take-up in Q2 and Q3.

Q1 activity in the investment market was subdued but there is a sense of anticipation that investment transaction volumes will increase later in the year, with yields hardening in the prime industrial/logistics and foodstore sectors.

Ingenuity, adaptability and the 'shop local' trend helped many independent food and restaurant operators survive the lockdowns, and encouragingly, a good number are now looking to open new sites. Many retailers permitted to trade normally through the lockdown performed well and remain acquisitive for new sites.

Simon Price
Head of Agency



41 Corn Street and Gilbert House, Bristol.

Industrial & Logistics

After a UK record-breaking take-up last year, the first quarter of 2021 has seen no let-up in demand for industrial/logistics space across the region. The primary concern facing the market is the issue of supply, particularly for those seeking space within a 3-6 month timeframe. This is perhaps best evidenced in Greater Bristol where the South West branch of the Industrial Agents Society has just published its Q1 take-up figures which at 708,000 sq ft is 51% up on the same period in 2020, with a large number of the transactions involving space in the sub-10,000 sq ft size range.

Demand is being driven by e-commerce businesses, government investment in infrastructure projects and supply chain safeguarding. The logistics sector, particularly internet fulfilment, and manufacturing/added value engineering firms also continue to drive demand.

The mid box market is also performing well with the surge in activity in Q4 2020 in Bristol, Gloucester and Exeter continuing. This is perhaps best demonstrated in Bristol where there is only one scheme, Portside, that can offer immediately available new space in the 15-45,000 sq ft size range.

This has resulted in a number of developers commencing speculative new build schemes, with St. Modwen on site at Access 18 in Avonmouth, Tristan Canmoor at More + Severnside, Baylis Estates in Yate and Paloma/Chase at Access Park, Gloucester.

There is increasing pre-let and pre-sale demand with the lack of supply leading to improved rentals, lease durations and capital values driven by the shortages of space and construction price inflation.

CGI of proposed Monmouth Scientific building at Peninsula 23.

Significant Q1 Transactions

Severnside, Bristol. Pre-letting of 107,600 sq ft to Oxford Instruments.

St. Modwen Park, Gloucester. Pre-letting of 116,000 sq ft to Gardiner Brothers.

Llanishen Business Park, Cardiff. Acquisition of 58,000 sq ft by Royal Mail.

Radway Point, Swindon. Acquisition of 100,000 sq ft by AFL Communications.

Peninsula 23, Bridgwater. Pre-letting of 50,000 sq ft to Monmouth Scientific.

Severnside, Bristol. Sale of 65 acres to Equation Logistics for a new 1.1 million sq ft logistics park.

Demand for freehold owner occupation continues to outstrip supply, as evidenced at Baylis Estates' 30,000 sq ft Armstrong Business Park in Yate where four out of the six buildings were committed prior to construction and Mercury Business Park at Cullompton where all phase 1 units were under offer at completion.

For some occupiers, affordability will be an issue as the rental gap between new and good quality second hand space has reduced significantly. We expect further upward pressure on rents, particularly for those facing their first rent reviews on space acquired since 2015.

Business confidence in the sector continues to be robust which will lead to continuing activity through the year.

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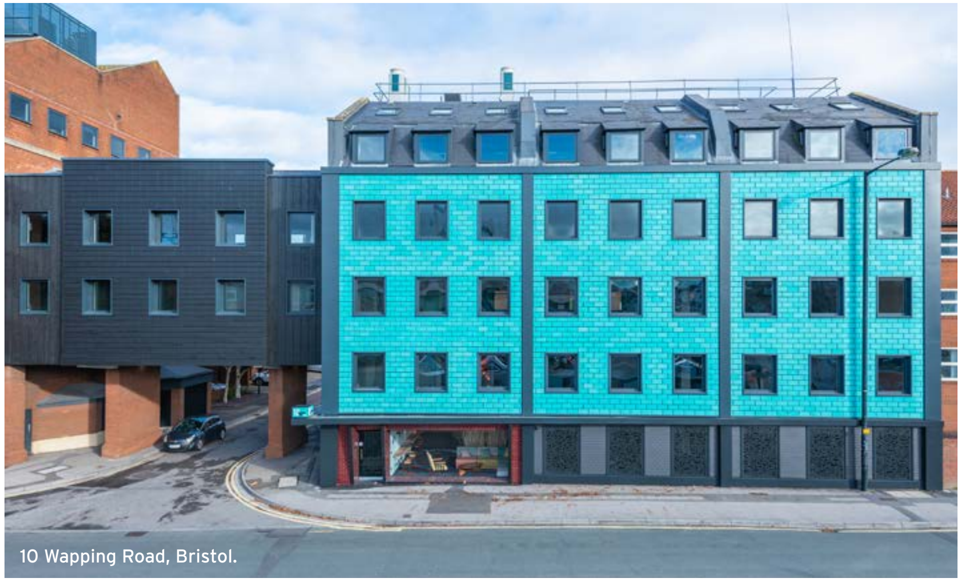
Offices



10 Wapping Road, Bristol.

The regional office market got off to a positive start in the first quarter of 2021. The centres performing best include Bristol, Gloucester and Taunton where supply remains limited and occupier enquiry levels are strong. Elsewhere the picture is more varied and depends on local market dynamics, in particular the level of immediate and anticipated supply.

Most occupiers are continuing to develop their short to medium term occupational requirements and are juggling a potential reduction in space with a more flexible hybrid approach combining both office and remote working.

Importantly, the need for office space is now widely accepted as a means of promoting individual business community and culture as well as training and staff wellness.

So far the level of occupier surplus 'grey' space coming to the market in the key regional centres is at a sustainable level, especially as there is very limited new development hitting the market in the next 12 months. Those occupiers that have already or are contemplating releasing space on a significant scale are so far most commonly from the financial and legal sectors.

A very encouraging trend of this first quarter is a noticeable pick-up in the number of active requirements at the smaller, circa 5,000 sq ft end of the market. In Q4 2020 leading up to Christmas, we witnessed a drop off in enquiries but the PM's roadmap out of lockdown 3 announced at the end of February resulted in a significant upturn in enquiries and points to strong take-up in Q2 and Q3.

The public sector remains active with significant deals agreed or completed recently in Gloucester, Bristol and Taunton and a number of others active. The University of Gloucestershire's acquisition of the former Debenhams store in Gloucester to provide new teaching facilities is particularly noteworthy and a strong early example of repurposing former retail buildings.

Significant Q1 Transactions

Ground Floor, Building 800 Aztec West, Bristol. Letting of 32,000 sq ft to NNB Generation Ltd.

101 Victoria Street, Bristol. Letting of 21,888 sq ft to DWP.

41 Corn Street, Bristol. Letting of 18,882 sq ft to a technology company.

Former Debenhams building, Gloucester. Acquisition of 215,278 sq ft by the University of Gloucestershire.

In those markets where supply remains tight, deals continue to be agreed at pre-pandemic headline rental levels, albeit with slightly increased incentives to get deals across the line. In Bristol a new record city centre headline rent of £38 psf was achieved in December 2020 and some new developments are now targeting £40 psf. Two recent high quality refurbishments in the city centre at 41 Corn Street and 10 Wapping Road both secured lettings at or very close to PC during Q1 2021.

A number of other sizeable office transactions across the region are in solicitors' hands.

With the anticipated bounce in enquiry and activity levels, the prospects look increasingly positive for the remainder of 2021.

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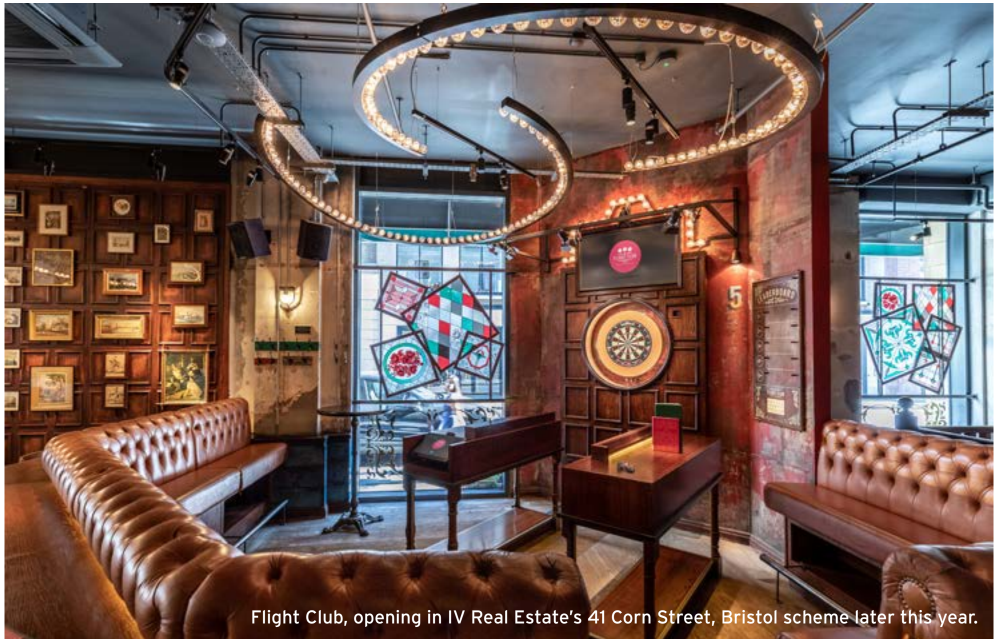
Retail & Leisure

Planet Ice, Cribbs Causeway. Courtesy of Baylis Estates/Planet Ice.



Flight Club, opening in IV Real Estate's 41 Corn Street, Bristol scheme later this year.

The announcement that all non-essential shops must close due to another national lockdown on 4 January 2021 caused further disruption within the retail sector. However, many businesses were able to adapt to continue trading. Retailers began offering click and collect and delivery options, restaurants and pubs had the option to offer takeaway only and some cafes/small businesses were able to diversify by offering the sale of groceries, essential items and deli/ takeaway options.

There have been further announcements of permanent store closures on the High Street, with all of the Arcadia fashion brands moving to online only following the ASOS and Boohoo transfer. Thornton's have also moved to an entirely digital presence. With more units becoming empty, landlords and asset managers will be continuing to look at repurposing options and alternative uses. The introduction of the new Class E planning consent in September 2020 has offered a more flexible approach to marketing.

The most active sectors continue to be food stores, drive-thrus, home stores, DIY and budget stores. The independent coffee shops, bakeries and restaurants have also been super resilient considering the challenges of the last year, with a good number of operators committed to taking on additional sites to expand their businesses. This has no doubt been aided by the growing trend to 'shop local' and support small businesses throughout the pandemic and we expect this to continue.

Looking at leisure operators, the level of requirements for gyms remains stable, with most operators committing to acquiring more units. Construction of the new Planet Ice Rink at Cribbs Causeway is well underway and due to open this Spring. There has also been an increase in requirements for restaurants with an in-house leisure offering, such as Flight Club, Puttstars, All Stars Sports Bar and Gutterball.

We are hopeful that these are all signs of a strong recovery to these sectors once they start to re-open to the public.

We remain optimistic about the level of activity increasing across the retail and leisure sectors as we move into Spring and the lockdown rules begin to ease.

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Investment

With the OBR forecasting 4% growth for 2021, the future prospects for the investment market look stronger, no doubt bolstered by the UK's successful vaccine roll-out.

The investment market remained fairly subdued through Q1 but there is a growing sense of anticipation that there will be a significant uptick in the volume of transactions in Q2 and in particular the second half of the year as we emerge from the punishing effects of Covid-19, particularly if the UK's vaccination programme continues along its current impressive trajectory.

OUTLOOK FOR 2021

Industrial & foodstore retail
We expect to see yields continue to harden in the logistics and multi-let industrial sectors as well as foodstore retail which have all demonstrated not only resilience to the effects of the pandemic but significantly heightened levels of activity.

Retail warehousing
Retail warehousing has suffered significant outward yield movement over the past 12 months but investor sentiment towards the sector appears to be altering in response to growing evidence that retail parks are proving more resilient to the effects of Covid and online shopping than their high street counterparts. The sector now appears to offer relative value and we therefore anticipate a degree of yield hardening.

Inflation hedged opportunities
In response to a rising expectation of inflationary pressure, UK 10-year gilts have moved significantly from 0.2% at the start of the year to 0.77% in the first quarter. Property has traditionally been an attractive hedge against inflation and will make long-dated indexed income an increasingly attractive proposition, particularly where uncapped.


Portside Park, Avonmouth.

Overseas investment
Despite this recent movement, bond yields are barely showing a positive return when adjusted for inflation, making secure property investment in economies which will take steps to control inflation an attractive proposition. This is likely to further stimulate the prevalence of foreign investment in the UK, including regional markets like the South West and South Wales. Slower Eurozone growth due to longer lockdowns and a slow start to the vaccination programme should also make the UK a more attractive proposition.

Oxford Instruments, Central Approach, Avonmouth.

Significant Q1 Transactions

Keypoint, Bristol and Artadius House, Cardiff. These two regional office buildings were sold to Kuwaiti-based investor KAMCO in a JV with M7.

Portside Park, Avonmouth. This part-let speculative development by Barwood/Trebor totalling 155,000 sq ft in six units was sold to NFU Mutual for £21.7m / £140psf.

Oxford Instruments, Central Approach, Avonmouth. 107,660 sq ft distribution unit offering 20 years indexed income. Market rumour suggests that this is under offer at close to 3.5% NIY by way of forward funding.

St James House, Cheltenham. KAMES sold this office building to Schroders Regional Office PUT for £21.8m, 7.5% NIY.

Flowerdown Retail Park, Weston-Super-Mare. Sold to Columbia Threadneedle for £22m, 9% NIY. Tenants include B&Q, Aldi & Sports Direct.

Finzels Reach, Bristol. Grainger plc has purchased 231 BTR units by way of forward funding for £63.1m.

Travelodge Hotel, Harlequin Park, Bristol. BMO Real Estate Partners have acquired this 97-bed hotel let on a 25 year lease for £11.62m, 4.95% NIY by way of forward funding.

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Residential Development Land

Demand in the residential land market gathered pace during last year's second lockdown and this continued almost unabated throughout the most recent lockdown, driven by a seemingly insatiable appetite for completed housing product from buyers. This in turn led residential developers, initially led by the major PLC's but increasingly including the SME developers, to seek to fill noticeable gaps in their land supply chain.

Whilst consumer demand for completed product was exceptionally high throughout 2020, the actual number of land transactions was muted. This remains the case through this first quarter, although there has been a general increase in the number of transactions.

The underlying issue is one of exceptionally low levels of supply. Throughout the pandemic we have witnessed the apparent inability of local authorities to deal with the planning consent process due to resource constraints. This has led to a backlog of sites now awaiting consent across the region. The situation has been exacerbated further by technical issues at a regional level, leading to delays in consents being issued. Examples include the requirement for phosphate mitigation in large parts of Somerset arising from a European directive.

The combination of these factors has resulted in exceptional demand for residential land which is at its height where a consent is in place and deliverable, but also applies to subject to planning transactions and longer term land to be acquired by option or Promotion Agreement.

There has also been no change in consumer behavior with all house builders reporting continued strong levels of house sales. This is further supported by continued demand for second hand housing, fueled in a number of cases by changing lifestyle patterns and relocations from London forming a particular benefit for the South West region.

Looking ahead, there remains concern about a slowdown or possible crash in housing demand caused by the eventual withdrawal of Government support to the employment market coinciding with the removal of stamp duty holidays. This would form a convergence of a number of issues including a wider economic slowdown and a potential recession following the much anticipated Covid bounce back. This is leading to underlying caution amongst house builders in making large and immediate commitments to land, preferring instead to transact over a period of time and often with deferred payment structures in order to monitor and offset any change in market conditions.

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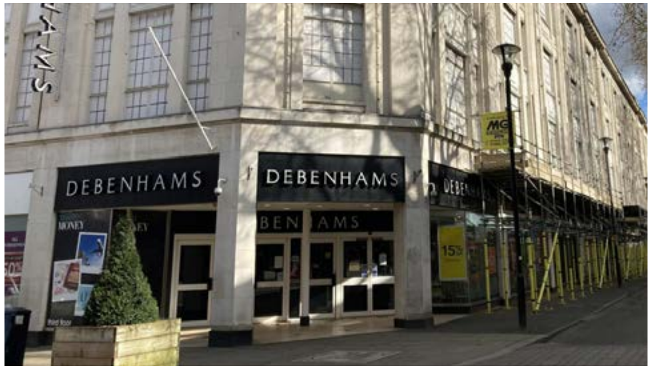
Q1 2021

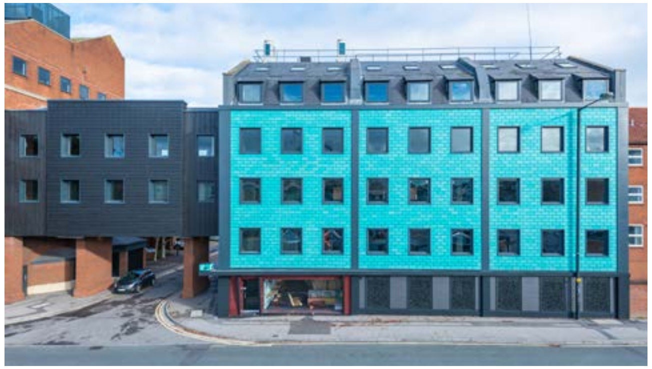
Key Alder King Transactions



Former Debenhams building, Gloucester

Freehold acquisition for the University of Gloucestershire

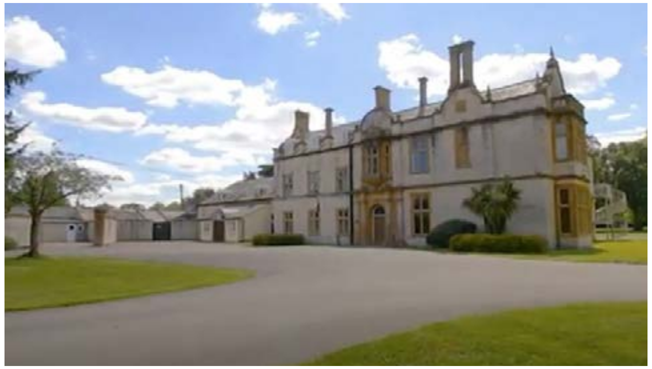
215,278 sq ft



10 Wapping Road, Bristol

Leasehold disposal for Bellborough Ltd

15,190 sq ft



Former Park School, Yeovil

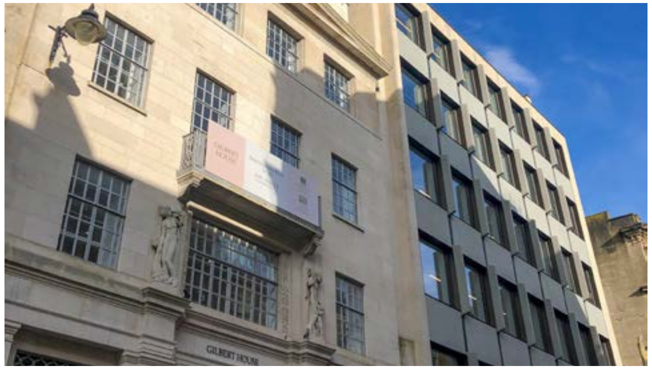
Freehold disposal for PKF Francis Clark

17.65 acres

Unit 4 St. Modwen Park, Gloucester

Pre-let disposal for St. Modwen

116,000 sq ft



41 Corn Street, Bristol

Leasehold disposal for IV Real Estate

19,077 sq ft

Warmley Business Park, Bristol

Leasehold disposal for Miserden Investments Ltd

6,790 sq ft

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