Market Monitor

South West of England and
South Wales Property Review

2020

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Mid-Year Market Update

ENTER

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Summary

The region's commercial property market was enjoying a very positive start to 2020 when the coronavirus pandemic and subsequent lockdown hit the UK at the end of March. Transactional activity was immediately impacted, with the majority of uncompleted transactions put on hold.

Since early May, there have been encouraging signs of recovery in some but not all sectors. A number of paused transactions have been reactivated and the volume of enquiries and viewings has increased. Some high profile transactions have completed since lockdown, confirming an underlying confidence in the region's property market.

We are fortunate that the regions in which we operate enjoy diverse and resilient economies. Following a strong start to the year which left some markets tight on supply, we are hopeful of a sustained recovery, albeit with a few bumps and false starts along the way.

Of course, the 'new normal' presents challenges for us all. Our property management, building consultancy, lease advisory and asset recovery teams, with their unique depth of experience, are helping clients deliver safe working environments, navigate the emerging legislation and policy frameworks and negotiate successful compromises between competing economic pressures.

The Alder King team has adapted well and is fully engaged supporting clients. Please let us know if we can assist you. In the meantime, we wish you a safe and successful summer.

Simon Price
Senior Partner

Industrial & Logistics

Unit 18 St Modwen Park, Access 18, Avonmouth

The industrial and logistics market has been the strongest performing sector across the region, both before and since lockdown.

The region's industrial and logistics market once again proved its resilience to challenging market conditions, delivering another strong performance in the first half of the year. Total take-up in Greater Bristol reached over 621,000 sq ft*, broadly in line with last year's half-year figure of 660,000 sq ft. This reflects our experience that the industrial and logistics market has been the strongest performing sector both before and since lockdown.

In March a number of parties deferred or shelved their requirements completely. Since the relaxation of the lockdown, several parties who had deferred their acquisitions have now issued instructions to their solicitors to conclude transactions, some of which have now completed. The level of enquiries has also started to improve in terms of number, scale and quality. As well as pre-Covid enquiries, a number of new requirements have come about during the lockdown, either directly from the NHS or their contractors.

A number of the larger logistics providers are also looking for short term swing space to service their existing customers.

A number of large land requirements are being progressed more vigorously but it is too early to say if those wanting land as opposed to a design build option are looking to take advantage of developers perhaps being more risk averse and wanting to generate cash. A few opportunist bids are coming in for freehold stock but so far the majority of our clients are declining these proposals.

Notable transactions in the first half of the year comprise Peugeot's 45,000 sq ft leasehold acquisition of St Modwen's Unit 18 Access 18 and lettings of 32,000 sq ft and 42,000 sq ft to SIG and Network Rail at More + on Severnside. In addition Bakers Coaches acquired 70,000 sq ft at Westland Distribution Park in Weston Super Mare and CRS Building Supplies acquired 38,500 sq ft at Unity Road, Keynsham.

Gloucestershire has seen higher than average take-up for manufacturing space with some significant deals including Advanced Insulation taking 67,000 sq ft at Unit 1 Gateway 12 and ProCook taking 55,000 sq ft at St Modwen Park Gloucester for an online sales fulfilment centre. There has also been an upturn in interest for smaller space post lockdown, particularly from online sales businesses.

Looking further ahead, there are opportunities arising from further e-commerce activity, government investment in infrastructure and Brexit which is likely to result in the repatriation of some manufacturing and stockpiling of goods.


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* SW IAS 2020

Offices


CGI of 4 Glass Wharf, Bristol

The region's established office markets got off to a strong start this year, with Bristol for example recording circa 220,000 sq ft of take-up in the city centre during Q1. This is the best Q1 figure for over a decade. Out of town take-up across the region was more limited continuing the mismatch in performance between the city centre and out of town markets over the last couple of years.

Unsurprisingly, as a consequence of the Covid-19 crisis and subsequent lockdown, there was a significant drop in take-up across the region during Q2 although following a low point during April, activity levels including new enquiries and viewings grew steadily during May and June.

The majority of deals on standing stock were put on hold at or around the point of lockdown. Some tenants/purchasers withdrew entirely but most decided to pause until they had a better understanding of the length of the lockdown and the impact on their individual markets.

Encouragingly, since lockdown measures have eased, a number of deals across the region have been reactivated with most landlords offering slightly increased incentive packages to get deals over the line. There has been no evidence of reducing headline rental levels. Most public sector enquiries remain active with several continuing negotiations on short listed options.

For example the largest office letting completed during Q2 in Bristol was the 21,500 sq ft letting at 123 Winterstoke Road to DWP.

In the new build sector, most new schemes and refurbs which had commenced pre-lockdown have continued but with reduced contractor numbers on site which will result in delayed PC dates. The developers on Bristol's key new schemes including 4 Glass Wharf, Aspire and Assembly Phase 2 are still indicating that they plan to be on site by the end of 2020 but are keeping things under close review.

At 4 Glass Wharf, Alder King is advising the developer Candour/Tristan Capital on the circa 212,000 sq ft scheme. In Gloucester, Arlington, advised by Alder King, has completed its 66,000 sq ft office headquarters building for the Ecclesiastical Insurance Group.

There has been much speculation about the future of offices including the suggestions that many occupiers may never return to the office again. This initial knee jerk reaction has been replaced by a more measured view that occupiers are likely to adopt a more flexible mix of working patterns in which the office will still play a critical role. Increasingly flexible working styles were already building momentum pre-Covid and this has just accelerated that trend.

> Bristol city centre headline rents remain at pre-Covid levels.

The increased focus on personal safety and safe distancing may impact on office density levels and in the short term result in a slowing of the trend to fit more and more people into less space. If occupiers do decide to downsize they will have to reconcile this with existing lease obligations.

Many larger occupiers are reviewing a hub and spoke style of future occupation where for example they retain a smaller office footprint in London and relocate more of their operation into key regional cities. This could prove to be very advantageous for our regional cities and result in a significant talent shift out of London. Supply chain resilience is important and having suppliers 'closer to home' could also provide an economic boost.


CGI of 41 Corn Street, Bristol

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Retail & Leisure

Retail unit at 3 Glass Wharf, Bristol available to let through Alder King on behalf of L&G

Many retailers were already struggling from the challenges of 2019 even before the government announced the closure of all non-essential shops in March due to the Covid-19 pandemic.

Most operators have now started to reopen and have adapted to deliver new physical distancing protocols and health and safety measures. Retailers are now having to further rethink the shopping experience to mitigate the nervousness from consumers and provide confidence that it is safe. Digital apps for customers to book visiting slots, good e-commerce and delivery options and excellent customer care are all key in their strategies moving forward.

More CVA's and business failures are unfortunately expected as the year progresses. Some national operators have started to reduce the number of sites in their portfolios and this is set to continue.

Further redundant retail space will subsequently become available which will lead to more landlords considering different uses and repurposing options.

Going forward, landlords will need to consider different leasing options, whether that be offering more flexible terms including turnover rents or a cheaper overall model to attract occupiers.

As a result of the pandemic, we are seeing an accelerating trend towards the importance of independents in the market. The independent and local occupiers are becoming increasingly attractive to landlords compared to national brands as they often have a greater personal interest and desire to make their business succeed. We are also experiencing increasing interest from community groups and pop-up operators.

Rebecca Harries

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Investment

CGI of Halo, Bristol


Orpen Park, Bristol

The Covid-19 pandemic and response measures caused a rapid and unprecedented stall in UK and global economic activity. Historically, event-triggered downturns are relatively short lived, so we remain optimistic that recovery will soon be on the horizon. However, there remains a high degree of uncertainty and recovery will be more gradual than the rapid falls as the longer term consequences of the crisis persist, most significantly evidenced by rising unemployment and loss of output more generally.

> There remains a large weight of capital on the sidelines and the benefits of real estate will continue to attract long-term investors.

Prior to the emergence of the pandemic, the UK property market was enjoying a strong Q1 but the impact of the crisis was immediate and the volume of investment transactions slowed to a virtual halt as investors prioritised their existing portfolio, balancing short term cash flow with longer term strategy.

Sectors and geographical locations have been unevenly affected. The industrial sector, residential and some office and alternative markets are holding up well, while retail, hospitality and leisure continue to be most affected.

In our key geographical markets, almost all H1 transactions occurred in Q1 with a couple of exceptions, namely the acquisition by Tesco Pension Investment of Halo in Bristol for £70 million. This 116,000 sq ft building is being built speculatively by Cubex/Fiera with the majority let to Osborne Clarke and circa 42,000 sq ft remaining to let. Given the current economic backdrop, this significant transaction which completed in June demonstrates a big vote of investor confidence in the Bristol office market.

Secondly, Orpen Park in Almondsbury, a circa 80,000 sq ft multi-let industrial estate was sold by Longmead Capital to M7/Blackstone for £9.6 million, reflecting a net initial yield of 5.6%.

Encouragingly, going into this crisis, the fundamentals for real estate in South West and South Wales key centres were well-supported, with limited future supply and low levels of vacancy. There remains a large weight of capital on the sidelines and the benefits of real estate will continue to attract long-term investors through diversification, elevated income returns and reasonable long-term returns.

Well-capitalised investors should be able to secure attractively priced assets further on into the correction as liquidity levels improve.

Oli Stretton

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Residential Development

The residential development land market effectively shut down throughout lockdown. A handful of transactions at an advanced stage were completed; others less advanced were placed and remain on hold. Whilst the overall rate of deal withdrawal appears to have been low, there is some evidence of large plc housebuilders now withdrawing from transactions that were agreed pre-Covid, or seeking to substantially alter terms. Conversely and positively, there is now some early evidence of renewed plc housebuilder land buying activity.

As lockdown has eased, many plc housebuilders have reported positive levels of sales activity and values but this has not yet translated into a resumption in activity in the development land market.

Land buying teams are back at work full strength and interest in acquiring sites has been strong but offers are conditional upon receipt of reserved matters planning consent and in many cases deferred payment terms. This is likely to continue until such time as a sustained economic recovery takes place and the risk of further local or national lockdowns has passed.

As in previous economic downturns, there is increased interest in sub 100 unit sites with strong supporting fundamentals. Many larger plc housebuilders are reducing their minimum size requirements to as low as 35-40 units to maintain housebuilding activity without the cash flow impact of larger land purchases. This puts them in competition with smaller housebuilders who have previously dominated this sector of the market.

The market for promotion opportunities is perhaps the least affected by the downturn.

Promoters remain keen to agree terms on sites of all sizes from 20 units upwards. The structure of a promotion agreement does not require an initial outlay of the scale that would be required to acquire consented land, and the commitment of cash to a site builds at a rate which is likely to track or lag behind an economic recovery.

Consented land is expected to be sold into a post recovery market, providing promoters with the confidence to offer very competitive terms.

Promotion agreement structures remain a very popular method for landowners to realise value and landowners with potentially suitable sites should act early to ensure an opportunity to release value is not lost to a competing site.

The government's announcement of a Stamp Duty holiday for transactions agreed until 31 March 2021 is a welcome stimulus to the housing market. Whilst this will only apply to transactions of up to £500,000, the positive effect will apply to the area of the market which has historically seen the largest number of transactions.

We anticipate this will form part of a further package of government stimulus which will be announced in the period up to and including the autumn statement.

Simon Smith

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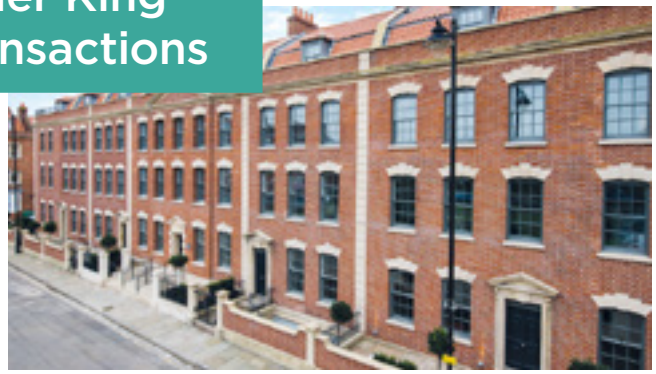
H1 2020

Key Alder King Transactions



2nd floor, 1 Brunswick Square, Bristol

Leasehold disposal for Columbia Threadneedle

14,198 sq ft

Hangar 19, Colerne Industrial Estate, Wiltshire

Leasehold disposal for Colerne Industrial Estates

45,261 sq ft

3 Ipswich Road, Cardiff

Leasehold disposal for Springfall Properties

3,450 sq ft

Former Centek Premises, Heathfield Industrial Estate, Teignbridge, Devon

Freehold disposal for Centek

22,100 sq ft

Plot 23 Westpark 26, Wellington

Design and build disposal for Summerfield Developments

24,588 sq ft

11-13 Tyndalls Park Road, Bristol

Freehold acquisition for University of Bristol

10,376 sq ft

H1 2020

Key Alder King Transactions

Unit 18 St Modwen Park, Access 18, Avonmouth

Leasehold disposal for St Modwen

45,000 sq ft

Short-Term Operating Reserve gas facility, Gloucester

Investment acquisition for Harworth Group
£1.2 million, NIY 8.25%

1.28 acres

Unit 1 Gateway 12, Gloucester

Leasehold disposal for St Modwen

67,000 sq ft

Gloucester Business Park, Gloucester

Leashold disposal for Arlington

66,000 sq ft

Plot 4, Chocolate Quarter, Keynsham

Freehold acquisition for St Monica Trust

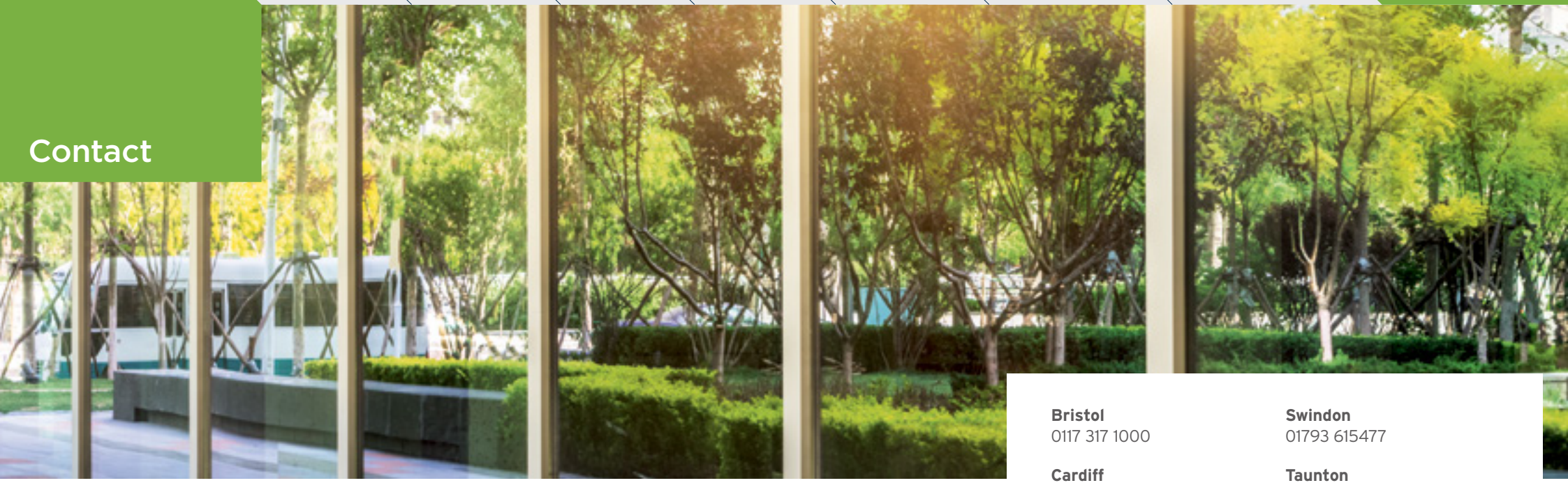
0.5 acre

330 Bristol Business Park

Investment acquisition for private investor
£1 million, NIY 8.35%

5,191 sq ft

Contact



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