Research

Business Parks Review

Autumn 2015

Manchester – Airport City


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Summary

- A total of 2.3 million sq ft of **take-up** was recorded on UK business parks during the first half of 2015. This was 6% above the five-year six-monthly average of 2.2 million sq ft.

- The **Midlands** performed well, recording take-up of 460,000 sq ft, 19% above the five-year six-monthly average of 386,000 sq ft. Likewise, **Yorkshire, Humberside** and the **North East** saw above average levels of take-up at just over 470,000 sq ft for the first half of 2015. This is the highest level since June 2009 when take-up reached 568,000 sq ft.

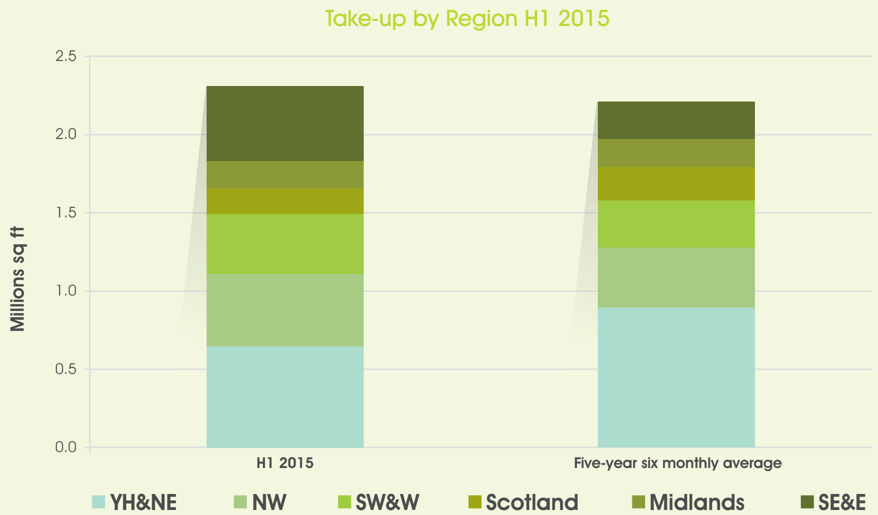
- Business park **construction activity** has decreased since the last survey from 1.9 million sq ft to 1.7 million sq ft. However completions during the last six months amounted to 730,000 sq ft, the highest since December 2009. The level of construction activity compares to a survey low of 350,000 sq ft three years ago and 4.5 million sq ft at the previous peak in 2008.

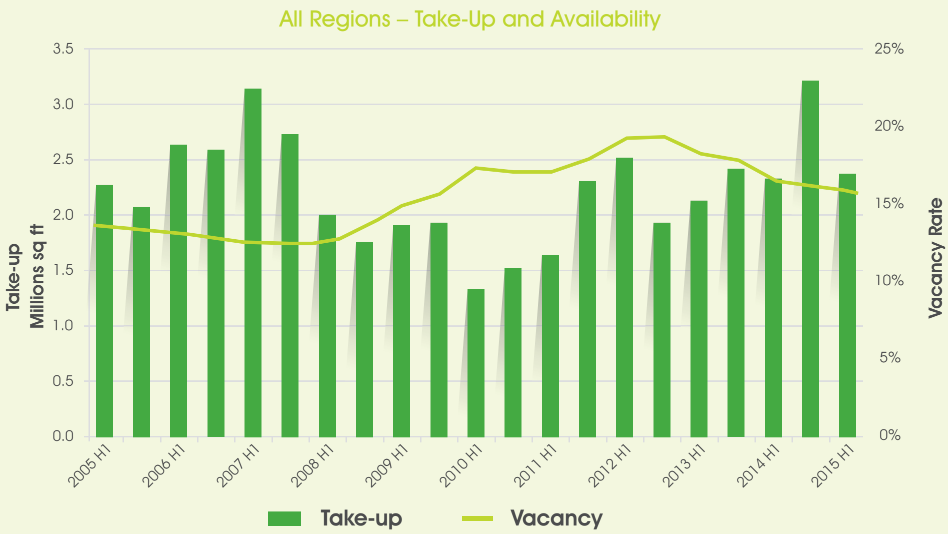
- **Availability** fell for the fifth successive survey to 15.4 million sq ft at the end of June. This compares to 15.7 million sq ft at the end of 2014 and a peak of 18.6 million sq ft at the end of 2012.

- The small fall in availability and an increase in stock of just under 789,000 sq ft meant **vacancy rates** dropped from 16.2% to 15.8% during the first half of 2015. This compares to the peak rate of 19.3% recorded at the end of 2012 and a low of 12.4% in 2007.

- **Rental performance** for UK business parks has rebounded strongly and we expect average **rental growth** in excess of 5% for 2015, the strongest rate since 2000. This, together with further downward yield shift, should mean a **total return** for 2015 of circa 14%.

Edinburgh Business Park





Take-up

A total of 2.3 million sq ft of take-up was recorded on UK business parks during the first half of 2015. This was 6% above the five-year six-monthly average of 2.2 million sq ft.

The **Midlands** performed well, recording take-up of 460,000 sq ft, 19% above the five-year six-monthly average of 386,000 sq ft. A stand out deal of 145,000 sq ft was to Interserve at International House, Solihull. Two further significant lettings were completed at Birmingham Business Park to VM Housing for 27,100 sq ft and Changan Automotive for 24,800 sq ft. On-going development around the M42 and the extension to the runway at Birmingham Airport have played a significant role, both in attracting new businesses to the area, and existing occupiers securing longer-term commitments.

The **North East** saw a strong start to the year, recording above average levels of take-up at just over 470,000 sq ft, the highest level of recorded take-up since June 2009, when it reached 568,000 sq ft. Lighthouse View Business Park recorded the region's largest deal for the first half of the year with Andrew James International taking 72,000 sq ft. At nearby Spectrum Business Park, Great Annual Savings Company Limited took 13,279 sq ft and Durham Housing group took 13,953 sq ft, making a very positive half year for County Durham. Market confidence remains positive across the North East and there are rumours of deals in the pipeline at Cobalt and Quorum, Newcastle's two largest business parks, which we expect to complete later this year.

In the **North West**, take-up in H1 2015 was 177,000 sq ft, in line with the five year six monthly average. Birchwood Park, Warrington, performed well during the first half of 2015, recording a take-up figure of 65,165 sq ft, of which AMEC took 27,247 sq ft at Washington House. The take-up at Birchwood Park equates to just under 40% of total take-up in the North West during the first half of 2015. It provides evidence that business parks which can offer quality grade A stock and integrated transport options are highly sought after.

Business parks located near to **Manchester** Airport – Atlas Park, Concord Business Park and Manchester Business Park – have reported increased levels of enquiries from European occupiers. For example, Swiss agricultural business Syngenta is taking 33,000 sq ft at The Towers, Didsbury, enabling the firm to take advantage of Manchester's position in the UK's emerging 'Northern Powerhouse.' We see the increasing level of European interest as one of the contributing factors behind a rise in headline rents to near pre-recession levels of £20 - £21 per sq ft.

Take-up in **Scotland** fell by 50% from 766,000 sq ft in the second half of 2014 - the highest ever recorded level since we started the survey in 1996 to 383,000 sq ft, which compares to a five-year six-monthly average of 300,000 sq ft. In Glasgow, the out-of-town market has been relatively static during the first half of the year, with most activity limited to smaller lettings such as at Buchanan Gate Business Park where Amey Utility and Black & Veatch took a total of 6,700 sq ft. Of the few larger transactions at Strathclyde Business Park, Advance Construction purchased Radstock House, taking 18,000 sq ft.

The pace of take-up in the **South East** during the first half of 2015 has been slow in comparison to our last survey. Take-up has fallen from the second half of 2014 by 34% to 645,000 sq ft, which compares to a five-year six-monthly average of 890,000 sq ft. A key deal for the first half of 2015 was the 100,000 sq ft letting of the Leonardo building at Manor Royal Business Park to Virgin Atlantic Holdings. The lease is for 16 and a half years with a headline rent at £23 per sq ft.

At Monarch Court, **Bristol**, Leidos is set to deliver logistic services to the Ministry of Defence and has secured 21,000 sq ft of new offices for a term of 13 years. This was the largest deal recorded for the first half of 2015 within the South West market. Take-up for the South West and Wales has dropped by 61% from the second half of 2014 to 167,000 sq ft, which compares to a five-year six-monthly average of 222,000 sq ft.

Meanwhile, despite the level of occupier enquiries increasing over the first half of the year, typically **Cardiff** deal sizes remain between 4,000 – 8,000 sq ft. The majority of transactions for the first half of the year are the result of businesses relocating within Cardiff, due to contraction or expansion, as opposed to new occupiers entering the market. We have found that occupiers are unwilling to sign a lease greater than 10 years.

New supply

Construction activity on the UK's business parks reached a four year high in December 2014 of 1.9 million sq ft, but this has fallen back slightly to 1.7 million sq ft as of June 2015. The level of construction activity compares to a survey low of 350,000 sq ft three years ago and 4.5 million sq ft at the peak of the market in 2008.

47% of space under construction is pre-let and while many developers are still not willing to take the risk of speculative new build schemes, a number of speculative refurbishments are now taking place across the regions.

For example, at **Stockley Park, Heathrow**, a joint venture between Rock Spring and Clearbell is refurbishing 144,000 sq ft at The Bower building, while Carvel Investors and Chester Properties are refurbishing the Roundwood Avenue buildings to provide 46,000 sq ft of grade A office space.

However, some major new speculative build schemes are getting underway, for example at **Uxbridge Business Park, Cowley**, where Goodmans are developing two new buildings equating to 100,000 sq ft of office space.

Similarly, across the **Midlands, Liverpool, Manchester** and **Edinburgh** we are seeing a trend of older buildings being brought to the market through refurbishment. For example, a number of the buildings with vacant space at **Edinburgh Park** and **South Gyle**, are being refurbished in anticipation of an improving market.

Availability

UK business park availability has fallen for the fifth consecutive survey to 15.4 million sq ft, 2% lower than we reported six months ago. This compares to a peak of 18.6 million sq ft at the end of 2012 and 10.3 million sq ft just before the downturn in 2007.

With increased demand and a still modest level of completions, vacancy rates also fell over the first six months of the year to 15.8% from 16.2% in December 2014. This compares to the highest rate of 19.3% recorded at the end of 2012 and a low of 12.4% at the end of 2007. However, the fall in vacancy rates was not uniform across the regions. The Midlands, Scotland, North West and North East saw falls, the South West and Wales remained unchanged, while the South East and East saw a slight increase in availability, partly due to 108,000 sq ft at Farnborough Business Park coming to the market.

Despite **Scotland** recording an increase in stock of 380,000 sq ft, availability dropped to 33% from 37% in December 2014. This compares to a survey high of 42% in December 2012.

Although vacancy is still relatively high overall, it is apparent that a shortage of good quality available space is becoming an issue in certain locations where speculative development is still some way off. For example, at **Towers Business Park, South Manchester,** there is a shortage of high quality grade A stock, particularly for requirements above 50,000 sq ft.

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Key investment deals for the first half of 2015

Location	Area (sq ft)	Unexpired Lease Term	Rent (PA)	Tenant	Price (£m)	Yield	Date	Purchaser	Vendor
New Square, Bedfont Lake, Heathrow	374,652	8.5 years	£9,643,441	Multi Let	£166.48	5.43%	May-15	M&G	Aberdeen Asset Management
Kingsmead Business Park, High Wycombe	142,666	8 years	£2,800,000	Multi Let	£40.00	6.70%	Jul-15	LaSalle Investment Management	Clearbell Capital LLP
1 Linear Park, Temple Quay, Bristol	51,624	4.6 years	£1,128,598	Multi Let	£17.35	6.15%	Mar-15	EPIC UK Ltd	Receiver – PWC
Stockley Park, Uxbridge	97,716	10 years	£2,931,600	Gilead Science Europe Ltd	£46.25	5.90%	Dec-14	Henderson UK PUT	Europa Capital Partners

Recent performance and forecasts for business parks – (%)

	2014 (actual)	2015 (forecast)	2016 (forecast)
Average Rental Growth	2.8	5.4	3.4
Capital Value Growth	13.8	7.5	1.8
Total Return	21.3	14.1	7.9

Source: MSCI, REFL, Bilfinger GVA

Investment forecasts

UK business park **investment purchases** totalled £1 billion during the first half of 2015, compared with £0.66 billion in the first half of last year and £1.4 billion in the second half of 2014. **Overseas buyers** accounted for 29% of the value traded in the first half of this year, while **UK property companies** made up 17% and **UK institutional investors** 29%.

Average **rental value growth** for UK business parks has rebounded strongly, rising by 3.5% over the 12 months to Q2, up from 2.5% over the previous 12 months (IPD Quarterly Index). Performance in Q2 was particularly strong, with a rise of 1.7%, the equivalent of 7% on an annualised basis.

Over the 12 months to Q2 this year **average business park equivalent yields** shifted downwards by 144 basis points, compared to all property at 49 basis points (IPD Quarterly Index). This sharp fall in yields, plus accelerating rental growth, have resulted in a rise in capital values of 11.2% over the 12 months to Q2 2015, above the all property average of 10%.

Strong sustainable demand from high calibre purchasers in the prime market will continue to drive pricing, particularly due to the high level of competition for city centre office opportunities. We should also continue to see demand for good quality secondary assets, with private UK property companies in particular, attracted by higher yields. However, buyer interest will remain focused on established business park locations with strong reputations and with proven occupier appeal.

We expect **average rental value growth** for UK office parks to be in excess of 5% for 2015 as a whole, which would represent the strongest year since 2000. We **forecast growth to average** more than 2.5% pa over the subsequent four years, with London and the South East outperforming the UK figure.

Given the huge weight of money available for investment in UK commercial property and the rebound in occupier market performance, there will be a further **downward yield shift**, albeit at a slower pace than over the last year.

The **total return for UK business parks** peaked in December 2014 at 21.5%, moderating to 17.6% in the 12 months to Q2 this year (IPD Quarterly Index). We **forecast a return** of circa 14% for 2015 as a whole, followed by circa 8% in 2016 as rental growth, rather than yield movement, becomes the main driver of performance.

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