

# Business Parks: Responding to changing times

Summer 2012



Wolverhampton Business Park



## Responding to changing times

In the Summer 2012 edition of *Business Parks*, we explore the changing dynamics and movement away from pure office use, towards a range of alternative uses such as hotels, leisure and residential. Is this the way forward for UK business parks that have struggled to attract office occupiers? Will place making through the introduction of additional uses help reinvigorate the business park sector?

## Summary

- Business park office take-up during the first half of the year recorded a total of 2.47m sq ft, an increase of 8% on the previous six months. Activity was particularly strong in the Midlands and the South East, although much more subdued in other regions.
- Availability continues to increase and currently stands at 17.7m sq ft, which compares to 10.2m sq ft five years ago. The vacancy rate has also increased to 18.5% from 17.7% six months ago.
- There is 657,000 sq ft of construction activity across the business parks, 75% of which is pre-let. This is the lowest level since our survey began and mainly constitutes a handful of schemes in the South East and North West.
- There has been little change in headline rents and incentives over the past six months across all of the regions.

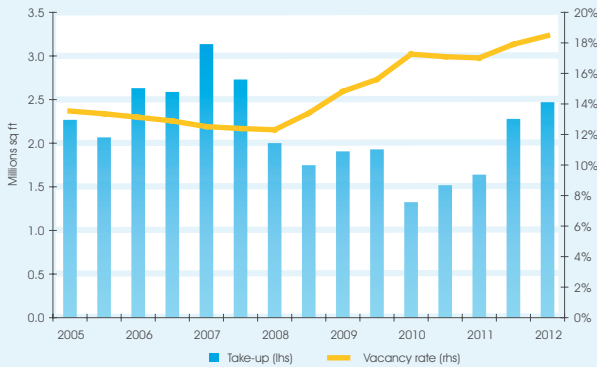
# Business Parks Review

## Research Report

### Take-up

A total of 2.47m sq ft of take-up was recorded on business parks in H1 2012, which compares to 2.27m sq ft in the previous six months and a five-year six-monthly average of 1.95m sq ft.

#### All Regions – Take-up and availability



Business park activity has been dominated by deals in the South East and the Midlands, taking 75% of all take-up. The Midlands recorded over twice the five-year six-monthly average and the South East recorded 40% above average. Elsewhere, take-up was subdued with below average activity.

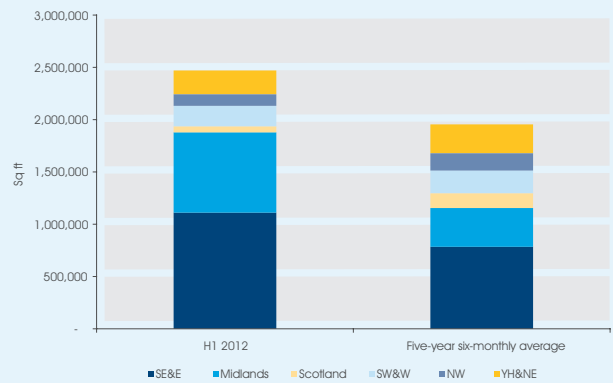
The overall level of activity has been given a significant lift due to some very large deals in the Midlands and the South East. The Midlands has seen the highest level of take-up over a six month period for a decade. The largest deal was a 220,000 sq ft sale by Ignis to PGMS at Wythall Green. Sainsbury's took an assignment of Ericsson's lease for 136,800 sq ft at Ansty Park in Coventry and Virgin Media took 65,000 sq ft at Eagle Court, Solihull. Otherwise occupier activity in the region tends to be led by the Automotive and IT and Technology sectors and the relevant supply chains.

South East activity is headlined by a pre-let on the 215,000 sq ft Building 6 at Chiswick Park to oil services firm Aker Solutions, due for completion in 2013. Another sizeable deal in the region involved the purchase of 90,000 sq ft at Hampshire Business Park, bought by Aegis for owner occupation and Nestlé took 134,000 sq ft at City Place, Gatwick at the beginning of the year.

While take-up in the North West has been subdued, Your Housing Group are close to completing on 40,000 sq ft at Birchwood Park and there is sustained demand for large requirements such as Costain and Sony, who are considering design and build options of 60,000+ sq ft for HQ or regional consolidation.



#### Take-Up by region H1 2012



Engineering, construction and service sector firms provide the main occupier demand in South Manchester/Warrington, a popular location for servicing the North West region.

While the largest deal in the South West was 40,000 sq ft at Aztec West to BNS Nuclear Services, there are signs of increased activity outside the core Bristol market with significant requirements in Exeter and Swindon.

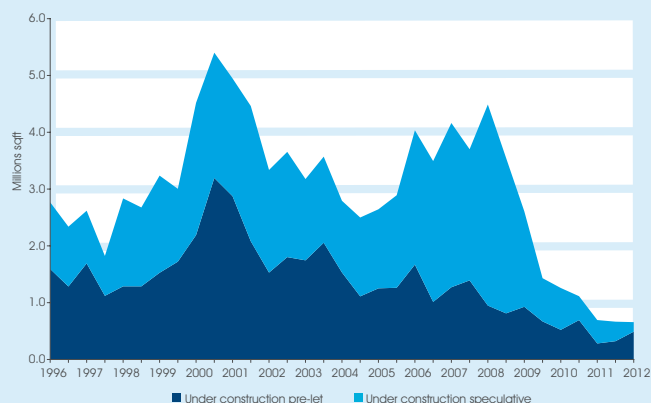
The relatively low levels of take-up in other regions reflect the continuing concern among occupiers. With the public sector accounting for 20% of business park space, the ongoing spending cuts represent a particular area of concern.



## New Supply

The amount of office space under construction on UK business parks remains at the lowest level in the history of the survey.

### All Regions - Construction activity



The amount of business park space under construction currently stands at 657,000 sq ft at the end of June. This is similar to the amount of activity in December but with a greater degree of pre-let space (75%). These figures reflect the cautious sentiment amongst developers with the emphasis on pre-let construction.

The majority of schemes under construction are in the South East and North West, where there has been a marginal upturn in construction activity. There is little development elsewhere.

Schemes currently under construction in the South East include 215,000 sq ft pre-let to Aker solutions at Chiswick Park, due for completion in 2013; 82,000 sq ft at Oxford Business Park, pre-let to Centrica and 50,000 sq ft of speculative space at IQ Winnersh.

There are a number of design and build schemes under construction in Warrington in the North West, with significant activity on Birchwood Park.

There has also been some recent development in the Glasgow out-of-town market. 220,000 sq ft by HF developments has recently completed at Hamilton International business park and a publicly funded 15,000 sq ft building at Clyde Gateway is underway, linked to the regeneration of the east end of Glasgow for the forthcoming Commonwealth games.

## Availability

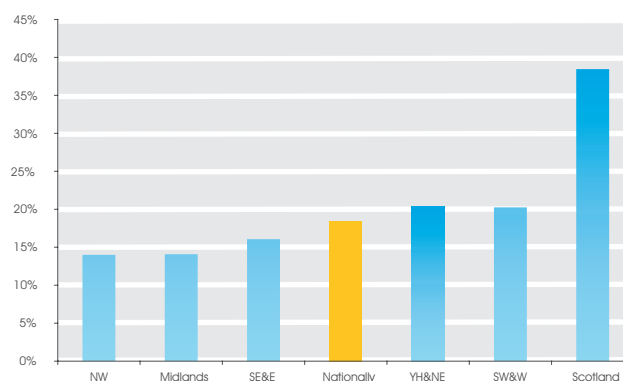
There has been an increase in availability over the past six months from 16.8m sq ft to 17.7m sq ft, which compares to 10.2m sq ft five years ago in June 2007.



The availability of business park space continues to increase and currently stands at 17.7m sq ft, a 5% increase on six months previously. With few completions over the past six months, the vacancy rate has also increased from 17.7% to 18.5%. The level of take-up over the past six months has been outweighed by space returning to the market.

Availability has varied considerably by region over the past six months. In the South East and South West availability has increased by more than 5%, whereas it has stabilised in Scotland, the North East and North West. However in the Midlands, where

### Regional vacancy rates



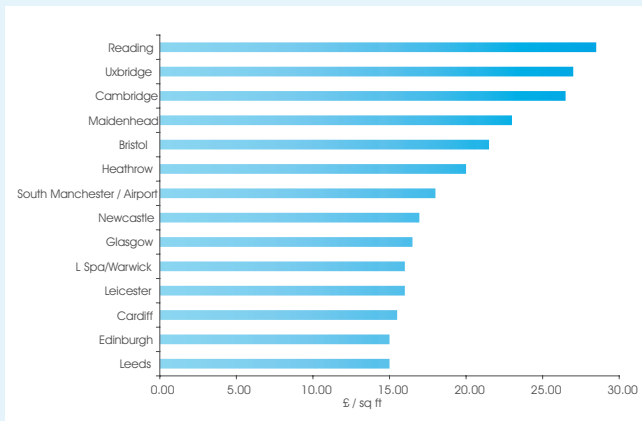
there has been little construction for two years and healthy take-up over the past six months, availability has fallen.

To put this in context, there have been significant changes in regional availability over the past five years. Scotland and the South West and Wales have seen total availability double, whereas there have been considerable but more modest increases in the South East (68%), the Midlands (57%), North East, Yorkshire and Humber (40%), while the North West has seen little change.

## Rents

The GVA out-of-town office rental growth index shows that nationally prime rents have remained stable over the first six months of the year, having fallen by -1.9% over the previous six months.

### Prime out-of-town office rents by location June 2012

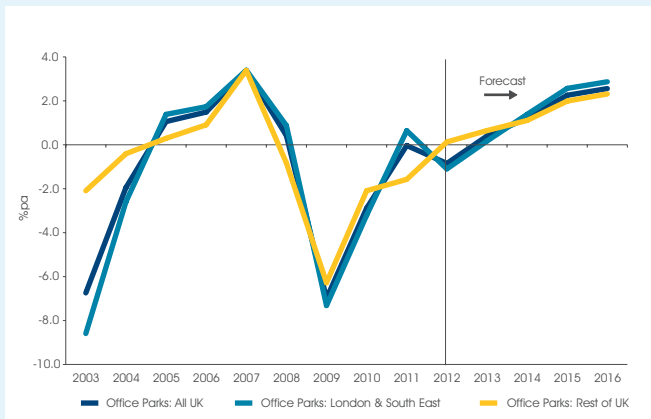


The South East and East Midlands have shown less than 1% growth in headline rents over the last six months, whereas the rest of the regions have shown no change. While rents and incentives have stabilised, in many instances net effective rents are being quoted to generate interest.

According to figures from IPD, average business park rents have shown a similar pattern to prime out-of-town office rents. The annual IPD results show average rents falling steeply in 2009, with falls easing in 2010 and little movement in 2011. The forecast is for gradual improvement of less than 1% growth this year to about 3% pa by 2016.

### Average annual rental value growth

Source: IPD, Real Estate Forecasting



# Business Parks:

## Responding to changing times

### **Business parks have been an important component of our employment land supply since their emergence in the 1980s**

in response to structural change in the UK economy. With traditional manufacturing industry in decline, business parks were seen as a vehicle to encourage and attract new high technology businesses, particularly to areas facing economic challenges. The early parks, such as Marlow, Solent, Thames Valley, Stockley and Birmingham Business Park, focussed exclusively on high technology uses aimed at drawing in new industries and higher value jobs. To distinguish their market offer from traditional employment, they were usually established in out of centre locations within low density, attractive landscaped environments located close to motorway junctions. This parkland model reflected the success of similar developments in the USA and offered an opportunity to attract international occupiers.

**The introduction of the B1 Use Class in 1987 created the opportunity to widen the range of activity of business parks** that were limited to high technology uses to include offices and research and development as well as light industrial uses, although the focus had shifted principally towards office-based activities.

The maturing of the business park offer in the early 1990s led to increasing interest in the provision of amenities to support occupiers on business parks. Local planning authorities were persuaded (or coerced via appeal decisions) to approve a range of amenities, including small shops, cafés and banks, provided these were ancillary to a park's principal employment purpose.

Throughout the 1990s and into the early part of the 21st century, the amenities offered to occupiers were seen as increasingly important in attracting new investment and retaining existing occupiers. **Business parks began to evolve into a new generation of more mixed use developments**, offering a

wider range of facilities including crèche, hotels and conference facilities, leisure facilities (such as commercial health clubs), health facilities and larger retail outlets. Whilst these would serve occupiers on the business parks, they also served a wider resident population. Examples include:

- **Gymnasium and crèche at Blythe Valley Park, Solihull**
- **A gymnasium on Gosforth Business Park following an appeal**
- **Hotel, retail floorspace, nursery and public house at Cobalt Business Park in North Tyneside for Highbridge Business Parks Ltd**
- **Crèche facilities, hotel, retailing and fitness centre at Oxford Business Park**
- **A 24-hour Tesco, hotel, gymnasium and public house as well as B1 uses at Gloucester Business Park.**

An example of a more comprehensive mix of land uses, aimed at creating more sustainable development, is evident at Hatfield Business Park. Hatfield, a former airfield, combines mixed types of employment together with supermarket and retail, hotel, education, medical centre, pharmacy cafes and restaurants and residential uses. Similarly at Kettering Venture Park in Northamptonshire the mix of uses expanded to include a leisure sector, hotel and residential uses.

**Diversification to more mixed use is continuing as business park owners respond to the increasing competition** now coming from town centres where the collapse of the office market following the 2007/8 financial crash has led in some areas to lower rents being offered together with more incentives to occupy city centre space. The continuing emphasis of the planning regime, reflected in the new National Planning Policy Framework, to support town centre developments first has also affected the out of town business park market. Two key trends are apparent:





- **First**, there are more proposals to introduce residential development and wider retail uses onto business parks to bring surplus employment land into more beneficial and valuable uses.

Residential uses help to ensure a skilled workforce is available to potential occupiers whilst uses such as garden centres provide a range of employment opportunities. Such wider mixes seek to improve the sustainability of out-of-town locations.

Examples include Blythe Valley Park where the Solihull Local Plan is proposing up to 500 houses on land which currently benefits from B1 consent as an extension to the existing business park; Fradley Park at Lichfield where residential uses are being proposed on land adjacent to the office and distribution park to create a new settlement; and Malvern Technology Park where GVA secured planning permission for QinetiQ to reuse surplus land for residential purposes to facilitate new employment and transport infrastructure. GVA has also secured planning permissions for Dobbies Garden centres at business parks in East Kilbride (Peel Park), West Lothian and at Gillingham in Medway where the garden centres helped to provide enabling infrastructure or act as a gateway to "sell" the location of the parks.

- A **second** recent trend is to diversify the range of "traditional" employment activities from B1 to include both general industry (B2) and distribution uses (B8).

A number of later business park consents (Hatfield, Gloucester and Omega Park, Warrington) permit B1, B2 and B8 uses, allowing well located parks to meet market demand, particularly for logistics floorspace.

In 2010, GVA secured a fresh planning permission at Birmingham Business Park for Goodman to allow B2 and B8 uses in addition to the approved B1 uses on remaining plots. This required a robust case to be made demonstrating the socio-economic and regeneration benefits that would be achieved by widening the scope of the permission. The largest remaining plot has now been sold to Aero Engineering Controls (AEC) as their new headquarters office and research/production facility. Proposals to extend the business park on to adjoining land are now being supported through the emerging Solihull Local Plan.

**The concept of business parks has come a long way since the 1980s. From predominantly single use, out of town developments, some have evolved into the latest generation of mixed use, more sustainable developments with the flexibility to meet the needs of the market, occupiers and local residents.**

In certain areas, the extent of supply (and particularly in some locations an over zealous release of land) is significantly out of kilter with any foreseeable need.

“ some have evolved into the latest generation of mixed use, more sustainable developments with the flexibility to meet the needs of the market ”

The take-up rates within business parks, as evidenced by our biannual surveys, point to a gloomy outlook for some sites where the only or predominant offering is for out-of-town office development. In other areas, the out-of-town market is more in balance and business parks such as Reading have a brighter future for predominantly office based developments.

**In our view, the key to business parks' continuing role in contributing to economic growth will be their ability to respond dynamically to market requirements and to offer a wider range of competitive, attractive uses.**

Whatever the individual mix of uses on each business park, the key is to ensure that their offer remains a high quality product, in an attractive high quality environment that responds to the ever changing market needs.

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