Research Report

Business Parks Review

Summer 2011

GVA

National overview

Contact:

Carl Potter **0121 609 8388**

Occupier activity on the UK's business parks picked up in the first half of 2011 but remains relatively subdued amid persistent economic uncertainty. The North/South divide deepened as strong take-up, falling availability and rental growth in the South East contrasted with persistent signs of weakness in most regions. The level of construction activity nationally fell to a new record low for the business parks survey as developers and investors remain in cautious mood.

Take-up and rents

A total of 1.6m sq ft of take-up was recorded in H1 2011 survey, an increase of 8.0% on the previous six months but 23.8% below the current five year average.

The relatively low take-up observed reflects the ongoing caution among occupiers amid persistent weakness in the private sector at a time when government austerity measures begin to kick in. With public sector occupiers accounting for around a fifth of business park space, the onset of government spending cuts is a particular area of concern. However, there were some bright spots in the latest survey results. Take-up in the South East and Eastern regions was well above average levels and there were some notable pre-lets at Oxford Business Park and Strathclyde Business Park outside Glasgow.

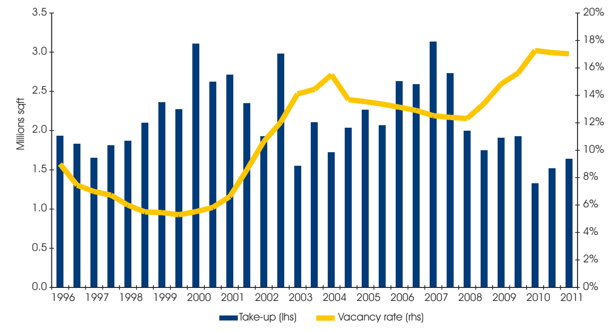
At the national level annual headline rental value growth turned positive for the first time since 2008, but there was a high degree of geographic variability and underlying incentives remain generous.

A fractional year-on-year increase in headline rents of 0.1% was recorded during H1 2011 for the UK business parks market as a whole. Although anaemic, this rental growth result continues the gradually improving trend seen in headline figures since the second half of 2009.

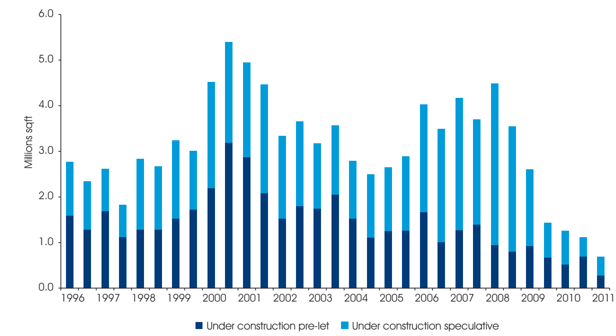
There was again strong regional variation in rental performance. For the second survey in a row annual headline rental declines were steepest in the combined Yorkshire and Humber/North East England region (-6.8%) This contrasts with the East of England where strong demand for space in Cambridge helped to push up the regional headline result 8.3% on an annual basis.

Business Park rental performance on the IPD index has reflected the pattern observed in headline rents, with steep declines in early 2009 easing from late 2009 onwards. However, recent quarters have seen an increasing divergence between primary stock (on which headline figures are based) and the secondary market. As a consequence our national headline rental figure has broken into positive territory for the first time since 2008, while average rents on the IPD index are not expected to turn positive until Q4 2011 (see chart).

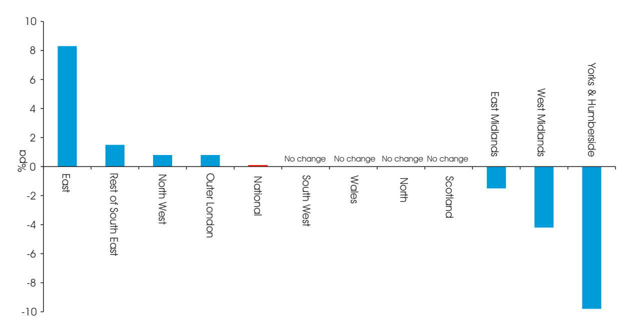
Take-up and availability



Construction activity



Prime out-of-town rental growth by region, year to Jun 2011



New supply

The amount of office space under construction in UK business parks is at its lowest in the survey's sixteen year history.

Just 694,000 sq ft was on site at year end, a 44.9% decline on last year's result and 76.7% below the current five year survey average. These results would appear to mirror the cautious sentiment among developers at this stage in the cycle. Although the majority of development is now dependent on pre-letting there are some speculative schemes underway such as the 220,000 sq ft 'EcoCampus' at Hamilton International Park near Glasgow.

Availability

The amount of available floorspace nationally remains at a record high level but it appears to have stabilised over the past 12 months.

The latest survey found a total of 16.2m sq ft of floorspace immediately available for occupation at the midpoint of 2011, a slight 0.2% reduction on the December 2010 figure. Again the aggregate national figure masks strong regional variations with availability in the North West, South East and East regions falling while record highs were seen in the Midlands, Scotland and North East. The national vacancy rate, which takes new supply into account, also fell ten basis points to 17.0%.

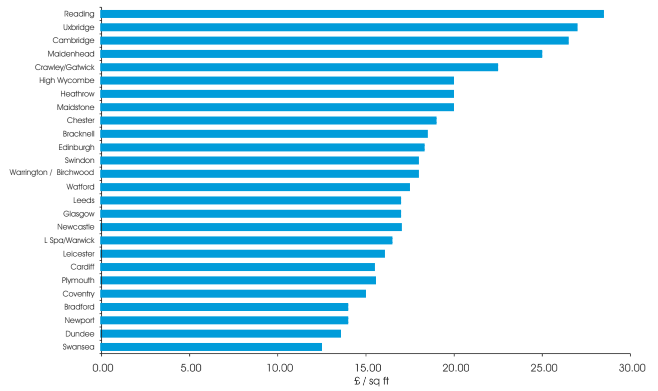
Outlook

Looking ahead, we expect the recovery of the business parks occupier market to gradually improve although downside risks have grown significantly over the past six months. The output growth of the UK economy has been much weaker than expected and there have been growing concerns about the strength of the global economic recovery.

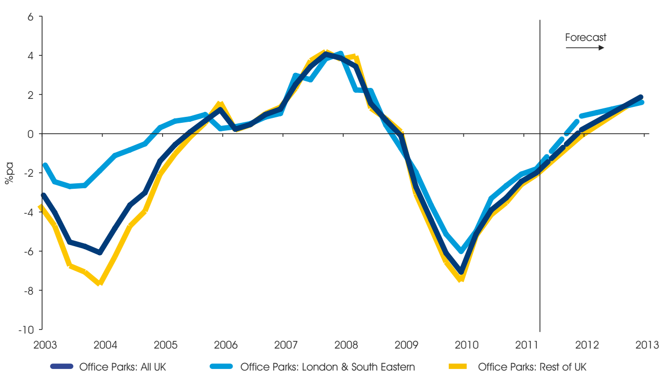
The full impact of government austerity measures on the demand for business park accommodation is yet to be fully realised and this remains a key risk factor. Given the importance of public sector demand (it accounts for around 20% of business park floorspace), the impact of spending cuts could be significant. Our own research into the impact of the cuts on unemployment has shown that there is no simple pattern to locations that will be affected (to find out more please visit: www.gva.co.uk/thought-leadership).

On a positive note the revival of enterprise zones by the coalition government is seen by many as a ray of light for the sector. Following the 2011 budget eleven new enterprise zones were named and bids for a further ten invited. The chosen sites will benefit from government support in the form of simplified planning rules, tax incentives and high speed internet connections.

Prime out-of-town office rents by location, June 2011



Average annual rental value growth



Sources: IPD Quarterly Digest, Real Estate Forecasting, July 2011

The government is also looking to provide enhanced support for the engineering, pharmaceuticals, aerospace, high-value manufacturing, creative and low-carbon sectors, all of which tend to favour business park locations. In addition, those firms with good exposure to international markets are still expected to lead the occupier market recovery despite increasing concerns about the strength of the global economy.

But any significant deterioration in the outlook for the domestic and global economies is likely to lead to a renewed loss of confidence among office occupiers, and risk appetite for investors, with potentially negative impacts concentrated on secondary business park stock and locations. We expect the strong geographical (South East vs. regions) and qualitative (primary vs. secondary) divisions that have marked the recovery so far to remain in place for an extended period.

South East and Eastern

Contacts:

Bruce Hibbert	**020 7911 2271**
Angus Malcolmson	**020 7911 2763**

The combined South East and Eastern regions reported the strongest set of results in the H1 2011 Business Parks survey. The returning confidence in the market we reported in the spring survey converted into a jump in office space take-up and some areas have experienced rental growth for the first time in years. The relatively high level of take-up helped to reduce the vacancy rate further from its 2007 peak, and with the supply pipeline at a virtual stand still, availability levels continued to gradually decline.

Take-up and rents

Just over 1m sq ft of office space take-up was recorded in the combined South East and Eastern region in H1 2011. The total was almost a third above the current five year average of 755,000 sq ft and 46.3% above the H2 2010 total. The largest occupier transaction was at Oxford Business Park, where Centrica signed a pre-let for 81,000 sq ft of new office space for its British Gas Business Division. Other notable deals took place at Solent Business Park, between Southampton and Portsmouth.

The gradual improvement in take-up over the past year appears to be feeding through to rental values. Prime headline rents were static in most business parks but grew around Cambridge and the Thames Valley. The highest rents are still to be found in the M25 West region where hypothetical grade A office rents are hovering around £27.00 per sq ft at several parks. Reading's out of town office market saw headline rents increase 9.6% in the survey period, to £28.50 per sq ft, making it the UK's most expensive business park location. Cambridge's occupier market continues to show resilience and here headline rents increased 17.8% to £26.50 per sq ft.

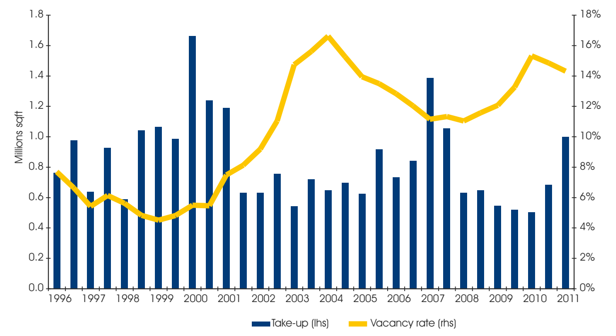
New supply

Construction activity remained subdued in H1 2011. The total of 187,000 sq ft under construction at year end was down 13% on last year's total and 79.6% below the current five year average. A combination of a lack of debt funding, relatively high vacancy rates and uncertainty regarding the occupier market are continuing to inhibit speculative development.

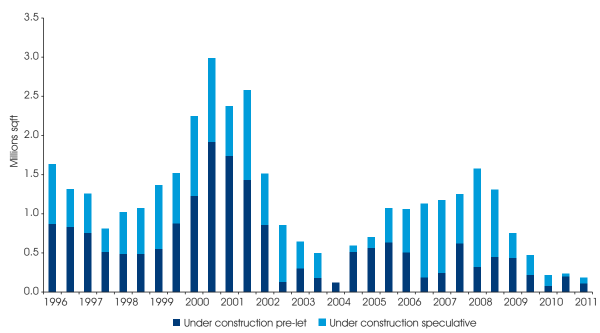
Availability

The total amount of available floorspace fell by over 170,000 sq ft to 5.5m sq ft in the six months to June, the second successive fall, although the total remains close to the record high. However, as a result of this reduction, the constricted supply pipeline and improving take-up, the vacancy rate fell. At 14.3%, it remains relatively high by historical standards but there is optimism that we may be experiencing the beginning of a rebalancing of supply and demand.

Take-up and availability



Construction activity



Prime out-of-town rents

	Jun 2010 (£/sq ft)	Jun 2011 (£/sq ft)	Change (%)
Outer London			
Heathrow (Stockley)	24.00	27.00	12.5
Uxbridge	27.00	27.00	..
South East			
Reading	26.00	28.50	9.6
Camberley	18.00	18.00	..
Crawley/Gatwick	22.50	22.50	..
High Wycombe	18.00	20.00	11.1
Southampton	19.00	19.00	..
East			
Cambridge	22.50	26.50	17.8
Peterborough	12.00	12.00	..

The da Vinci Building, Melbourn Science Park, Cambridge. GVA is providing leasing advice on this 41,000 sq ft office headquarters scheme.

South West and Wales

Contact:

Ben O'Connor **0117 988 5219 (Bristol)**

Occupier activity remained subdued in H1 2011 although an 18% increase in take-up compared with the previous six months, combined with a lack of new supply, meant that overall availability and thevacancy rate both fell. Prime headline rents were static at the regional level at around 4% below their 2008 peak.

Take-up and rents

A total of just over 180,000 sq ft of take-up was recorded in H1 2011, an 18% increase on the previous six-months but down some 31.1% on the current five-year average for the combined South West and Wales region. The largest transaction in the South West was at Cribbs Causeway near Bristol where insurance firm, Brightside, took 18,000 sq ft of space for its expansion. In Wales, Admiral Group agreed to sub-let 40,000 sq ft at Swansea Enterprise Park on a short term arrangement as it looks to consolidate its operations in the city.

Prime headline rents were static at the regional level, meaning they remain some 4% below their 2008 peak. Underlying tenant incentives continue to be generous by historical standards with rent free periods of up to three years available on a typical fifteen year lease for prime business park space.

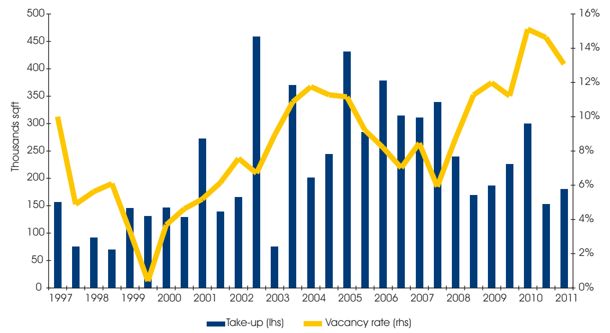
New supply

The total 170,000 sq ft of office space under construction recorded remains well below the current five year average with very few new schemes going ahead except on a pre-let/pre-sale basis. Most activity in the region is currently concentrated at Bristol and Bath Science Park, where 120,000 sq ft is underway, 60,000 sq ft of which is speculative.

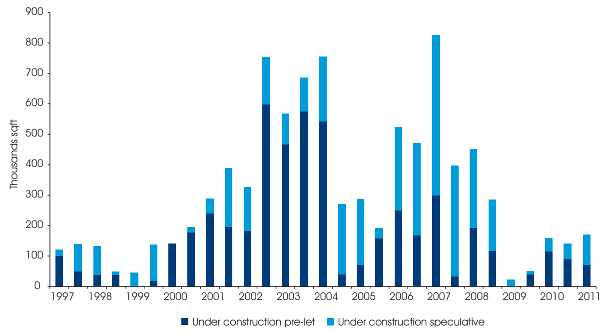
Availability

Following a small (2.3%) fall in the previous survey the amount of available office space fell a further 10.6% during the first half of 2011 to a total of 1.4m sq ft. The supply pipeline remains constricted meaning that, partly as a consequence of the sustained (albeit weak) occupier demand, the vacancy rate fell from 14.6% to 13.1%.

Take-up and availability



Construction activity



Prime out-of-town rents

	Jun 2010 (£/sq ft)	Jun 2011 (£/sq ft)	Change (%)
South West			
Bristol	21.00	21.00	..
Exeter	18.00	18.00	..
Plymouth	15.50	15.50	..
Wales			
Cardiff	15.50	15.50	..
Newport	14.00	14.00	..
Swansea	12.50	12.50	..

Midlands

Contact:

Carl Potter (Birmingham) 0121 609 8388

Occupier activity in the Midlands region improved in H1 2011 but remains subdued by historical standards. In a reversal of the recent improving trend prime rents fell back again, while a complete lack of new development remained in place for the third survey in a row. Despite this lack of new stock, availability levels increased further and the vacancy rate rose to a new high for the business parks survey.

Take-up and rents

Occupier activity, as measured by take-up, remained well below average in H1 2011. A total of 248,000 sq ft of take-up was recorded in the latest survey, an increase of 13.7% on the end-2010 result, and up 19.1% on the corresponding period last year. However, despite the improvement over the past 12 months the H1 2011 take-up total was still some 27.6% below the current five year survey average of 340,000 sq ft.

The biggest deal in the Midlands was the letting of 23,000 sq ft at Blythe Valley Business Park, just outside Birmingham, to Kier Group. There was also some occupier activity at Birmingham Business Park, where Metroshipping, a logistics provider, took almost 17,000 sq ft of space.

Prime headline rents in the combined Midlands regions fell 3.2% in H1 2011. The latest decrease marks the fifth consecutive drop recorded by the Business Parks survey. Tenant incentives remain generous across the region with 18 to 24 months rent free on five year terms still available for some prime business park accommodation.

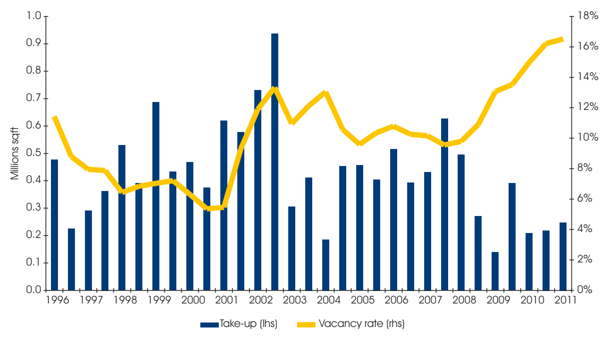
New supply

Construction activity remained at a standstill on business parks in the Midlands region with no new significant development taking place on any of the parks covered by the survey. Debt funding remains in short supply, while declining rental values and rising availability deter investors and developers from speculative development.

Availability

The amount of available floorspace continued to rise in H1 2011 although the rate of increase slowed. Passing above the 3m sq ft mark for the first time in the survey's 16 year history, the total amount of available floorspace recorded was 10.2% higher than a year ago, but only 1.8% above the end-2010 total. Despite the continued paralysis of the development pipeline, the higher availability total helped to push up the vacancy rate further to 16.5%, a new high for the Business Parks survey.

Take-up and availability



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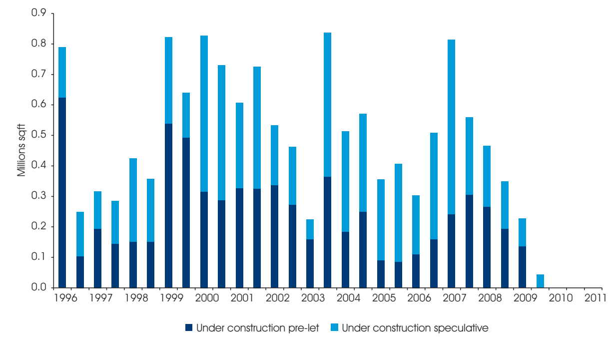


Prime out-of-town rents

	Jun 2010 (£/sq ft)	Jun 2011 (£/sq ft)	Change (%)
West Midlands			
Coventry	16.00	15.00	-6.3
Dudley	15.00	14.00	-6.7
Redditch	12.00	12.00	0.0
Wolverhampton	16.00	15.50	-3.1
Worcester	14.50	14.50	..
East Midlands			
Derby	15.00	15.00	..
Nottingham	17.50	16.50	-5.7

Orbital Court, East Kilbride. GVA has recently let this entire new office development.

Lion Court, Wynyard Business Park. GVA acquired the 54,000 sq ft international headquarters building on behalf of Huntsman Pigments.

North West

Contact:

Chris Cheap 0161 956 4213
Richard Lace 0161 956 4117

After three years without any speculative development, the vacancy rate of the North West's business parks continues to decline. At 11% it is the lowest region in the UK. With the occupational market still weak, rental values are stagnant, but any immediate turnaround in occupier demand could see rental growth quickly return. Reflecting the uncertainly in the investment market, construction activity has been dependent on securing pre-lets, mainly to public sector occupiers. But with public sector demand set to fall as a result of spending cuts, much depends on the recovery of the private sector.

Take-up and rents

The H1 2011 survey found the lowest level of office space take-up in the survey's sixteen year history falling 89% on the previous six month total. Just 15,700 sq ft of business park take-up was recorded in the six months to June which is less than a tenth of the current five year average.

In contrast to most other regions outside the South East of England, prime headline rents edged up 0.8% across the region thanks largely to rental growth in Warrington/Birchwood. In comparison with most other UK regions, rents have remained stable in the North West since 2006 although underlying tenant incentives are relatively strong. A ten year lease will now typically come with three years rent free included, meaning net effective rents are at a significant discount to the quoted headline figures.

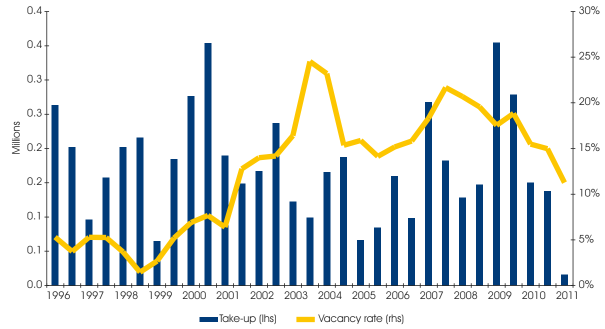
New supply

The first half of 2011 saw the completion of the new 240,000 sq ft Greater Manchester Police Force HQ at Central Park in north east Manchester. The completion of this pre-let scheme leaves the only one remaining business park development in the North West. At Birchwood Corporate in Warrington 102,000 sq ft is being constructed, again on a pre-let basis, to the Home Office. No speculative starts or other pre-lets were recorded by the survey, raising the potential for a further decline in availability in the medium term.

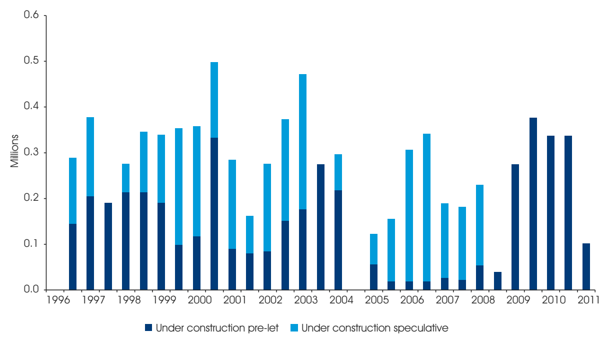
Availability

The constriction of the speculative supply pipeline appears to be feeding through to a steadily declining level of available floorspace in the North West. Following a further decline in H1 2011 the region has one of the lowest levels of availability in the UK with just 698,000 sq ft of floorspace found to be immediately available on the business parks covered by the survey. Consequently the vacancy rate has continued on a downward trend, falling to 11.3% in the latest survey a significant drop from the 21.7% reached in 2007.

Take-up and availability



Development activity



Prime out-of-town rents

	Jun 2010 (£/sq ft)	Jun 2011 (£/sq ft)	Change (%)
North West			
Chester	19.00	19.00	..
South Manchester/ Airport	18.00	18.00	..
Warrington/Birchwood	17.50	18.00	2.9

Yorkshire, the Humber & the North East

Contacts:

Matthew Tootell 0113 280 8056 (Leeds)
Tony Wordsworth 0191 269 0508 (Newcastle)

The business parks of the combined Yorkshire, Humber and North East regions experienced another subdued six months in the first half of 2011. Take-up levels were low, at around a fifth of the current five year average, while total availability edged up. Rental performance was poor, with the second largest regional decline in headline values recorded. Meanwhile, development activity continued to fall with the total floorspace under construction falling to a record low for this survey.

Take-up and rents

A total of 88,700 sq ft of take-up was recorded in H1 2011, a 25% reduction on the 2010 midyear total and almost identical to the record low 88,500 sq ft seen six months ago. The biggest occupier deal of the period occurred at Wynyard Park, Teeside, where US chemicals manufacturer Huntsman signed a lease for a new 54,000 sq ft European HQ. At Temple Point in Leeds a series of smaller lettings to a variety of occupiers were signed, totalling over 18,000 sq ft.

At the aggregate level prime headline rents dropped back 2.8% in the six months to H1 2011. This latest decline follows a similar 4.1% fall in the previous biannual survey, meaning that the headline figure is now some 6.8% below its 2009 peak. At the sub-regional level rents were flat in most areas, but in Leeds a 15% reduction in annual rents, from £20 to £17 per sq ft, was recorded. Incentives remain strong across the combined region, especially on former enterprise zone schemes, where five years rent free is currently available on the basis of a headline rent of £16.95 per sq ft, and a term of 10 years.

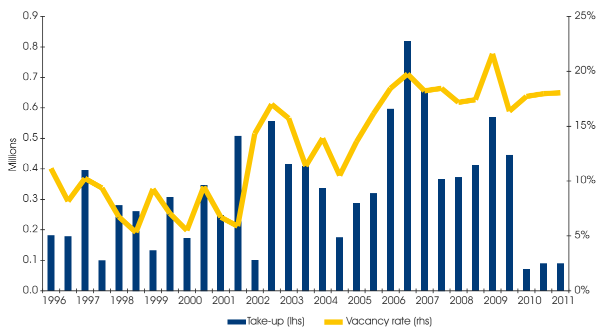
New supply

Construction activity virtually ground to a halt in the first half of 2011 as developers and investors remain in a highly cautious mood. Just 15,000 sq ft was under construction at mid year, barely 2% of the current five year survey average. Two significant schemes completed during the H1 2011 included 65,000 sq ft at Cobalt Park near Newcastle and 273,000 sq ft at Quorum Business Park.

Availability

A further rise in availability was recorded largely as a consequence of low take-up and the completion of the speculative schemes in the North East, mentioned above. The amount of available floorspace rose 2.7% over the survey period to reach a total of 2.7m sq ft by year end. This equates to a vacancy rate of 18% which is roughly in-line with its level 18 months ago.

Take-up and availability



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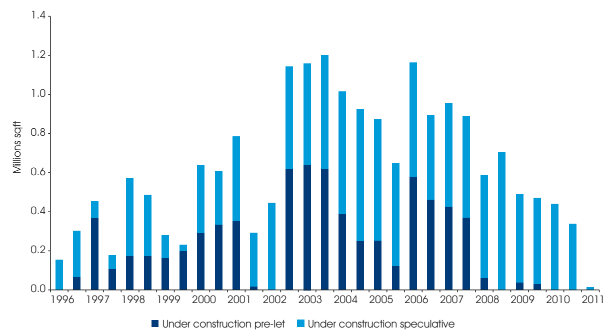


Prime out-of-town rents

	Jun 2010 (£/sq ft)	Jun 2011 (£/sq ft)	Change (%)
North East			
Newcastle	16.95	16.95	..
Yorkshire & Humberside			
Leeds	20.00	17.00	-15.0
York	16.50	16.50	..
Sheffield	15.25	15.25	..

Scotland

Contacts:

Toby Withall 0130 469 6027 (Edinburgh)
Alison Taylor 0141 305 6381 (Glasgow)

Office space take-up on Scotland's business parks dropped back in H1 2011 while floorspace availability rose, taking the vacancy rate up to a new record high for the survey. Despite this, prime headline rents remained static across the country and construction activity increased.

Take-up and rents

A total of 134,000 sq ft of take-up was recorded in H1 2011, less than half the previous six monthly total although just 20.5% below the current five-year average. Notable occupier deals included the letting of 38,000 sq ft to energy company, The Wood Group, at Strathclyde Business Park. Also at Strathclyde Business Park, Spanish wind turbine manufacturer, Gamesa, agreed to lease 17,500 sq ft of space for a new offshore wind technology centre.

Looking ahead, H2 2011 take-up figures are expected to be significantly higher than the H1 total, largely as a result of two significant occupier deals in August. At Maxim Business Park, the Scottish Environment Protection Agency is taking 60,000 sq ft of new space, while at Hamilton Business Park Scottish Power has signed a deal for 85,000 sq ft.

Prime headline rents were flat across the out of town office markets of Edinburgh, Glasgow and Dundee. Tenant incentives remain generous by historical standards, with two years rent free on a ten year lease typical. On a fifteen year lease, rent free periods are between three and five years, and possibly even higher on long-term vacant stock. This means that the gap between quoted and net effective rents remains substantial.

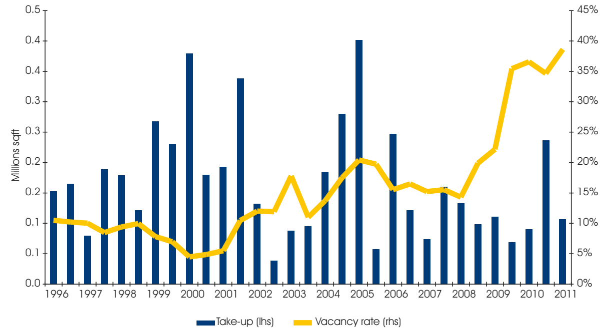
New supply

A total of 285,000 sq ft of floorspace was under construction in the first six months of 2011 with just two significant schemes underway. At Hamilton International Park construction activity was boosted by the initiation of 220,000 sq ft of a speculative 'EcoCampus' development. Elsewhere in Strathclyde work continues on 65,000 sq ft of new space at Clyde Gateway Business Park near Glasgow, where Glasgow Community Safety Services has pre-let the new Eastgate office building.

Availability

Floorspace availability increased 11.4% to 2.8m sq ft by mid-year, reversing the decline recorded by the previous survey. Since the completion of Maxim Business Park near Glasgow in 2010 availability has risen dramatically, somewhat distorting the national figure but the latest increase appears to be due to the release of secondhand stock elsewhere. Despite the low level of new build speculative development and relatively solid occupier demand, the vacancy rate rose again, hitting a new high for the survey at 38.6%.

Take-up and availability



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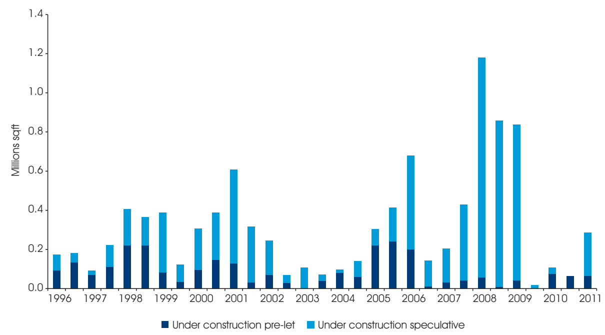

Prime out-of-town rents

	Jun 2010 (£/sq ft)	Jun 2011 (£/sq ft)	Change (%)
Scotland			
Dundee	13.50	13.50	..
Edinburgh	18.50	18.50	..
Glasgow	17.00	17.00	..

London West End
10 Stratton Street
London W1J 8JR

London City
80 Cheapside
London EC2V 6EE

Belfast
Rose Building Third Floor
16 Howard Street
Belfast BT1 6PA

Birmingham
3 Brindleyplace
Birmingham B1 2JB

Bristol
St Catherine's Court
Berkeley Place
Bristol BS8 1BQ

Cardiff
One Kingsway
Cardiff CF10 3AN

Edinburgh
Quayside House
127 Fountainbridge
Edinburgh EH3 9QG

Glasgow
206 St Vincent Street
Glasgow G2 5SG

Leeds
City Point First Floor
29 King Street
Leeds LS1 2HL

Liverpool
Mercury Court
Tithebarn Street
Liverpool L2 2QP

Manchester
81 Fountain Street
Manchester M2 2EE

Newcastle
Central Square
Forth Street
Newcastle NE1 3PJ

Published by GVA
10 Stratton Street, London W1J 8JR

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