

MARKET INSITE

GREAT COMMERCIAL
PROPERTY DECISIONS **2018**

INNES ENGLAND 
MAKE A GREAT DECISION

WELCOME TO MARKET INSITE 2018

LET'S MAKE THE REGION THRIVE

Welcome to the 11th edition of Market Insite – our in-depth review of the region's commercial property market. If I've learned anything over the last few years, it's to avoid predictions. The obvious runaway Tory victory at the snap election was a turning point!

I did say last year that uncertain markets provide opportunity in the property sector and this remains our firm belief. It's been a good year – although the media would often have us believe otherwise. The idea that there is a broken Government running a divided country into a blind Brexit seems to have played out more in London and the South East than in the East Midlands – as you'll see from our data.

For us, 2017 was business as usual, but we also took time to re-evaluate the business.

The property industry is fraught with difficulty, with traps all around. We've seen most of them and we firmly believe that we can help you through the minefield. In our discussions, we discovered that we wanted to help our clients make great decisions. That's what we love doing.

We are the only commercial property consultants that have physical offices in Nottingham, Derby and Leicester. That's important to us, too. We do what we do because we want our region to thrive.

So as part of this review, we've developed a new look which we believe better reflects who we are and what we stand for.

Let's hope your 2018 is full of great decisions.



Tim Garratt
Managing Director





- ▶ 1. CH Robinson, Derby Commercial Park
- ▶ 2. Jack Wills, Cathedral Quarter | Picture: Cactus Images
- ▶ 3. DHU, Johnson Building | Picture: Cactus Images

INTRODUCTION

HIGHLIGHTS

Despite the ongoing political uncertainty, in Derby it has been business as usual for the commercial property market.

The city's major employers, Rolls Royce and Bombardier, both boasted healthy order books and corporate confidence has remained within the many support, professional and high-tech industries. Occupation levels stayed broadly the same as 2016.

The industrial market remains strong, with take-up levels echoing the previous year. Goodman continued their success at Derby Commercial Park, landing the biggest pre-let of 2017 to CH Robinson who signed a new 10-year lease on 70,000 sq ft. The largest deal of second-hand stock was the sale of the former Key Joinery site on Alfreton Road to advanced composites manufacturer Pentaxia Ltd.

For a second year running office take-up fell below the long-term trend, once again held back by a lack of good quality supply. A lack of speculative development and loss of stock which would otherwise be refurbished to PD residential conversion have been major considerations. The most significant transaction was DHU's acquisition of 30,000 sq ft of call centre space within the Johnson Building on Pride Park.

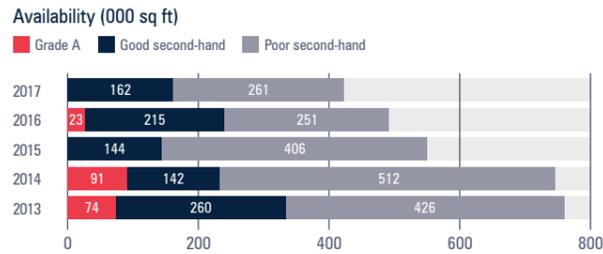
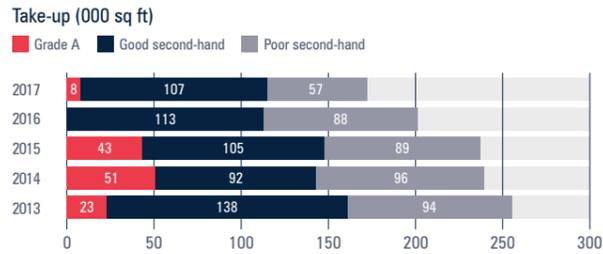
intu continue to dominate the retail market, although the High Street has seen another revival with the most significant transaction being TK Maxx, who acquired a 22,000 sq ft store on Albion Street. The Cathedral Quarter welcomed brands such as Jack Wills, Bodega and Bunk.



DERBY

OFFICE

Take-up remained below the long term trend for the second successive year with a total of 171,900 sq ft of activity. Once again second-hand space dominated take-up, accounting for 96% of all transactions. Supply reduced again falling to 422,700 sq ft, the lowest level since 2004. Prime rents remained stable at £16.50 per sq ft.

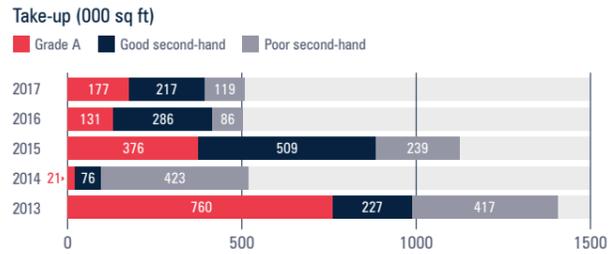


➤ Prime headline rents
£16.50
per sq ft

➤ Secondary rents
£8.50
per sq ft

INDUSTRIAL

Take-up remained down on the peak levels of 2015 but in line with the previous year at 513,908 sq ft. Supply levels have started to gradually improve rising to 815,300 sq ft at the end of the year. Prime rents rose to a record high, rising to £6.00 per sq ft in 2017 reflecting growth of 26.3% over the last five years.

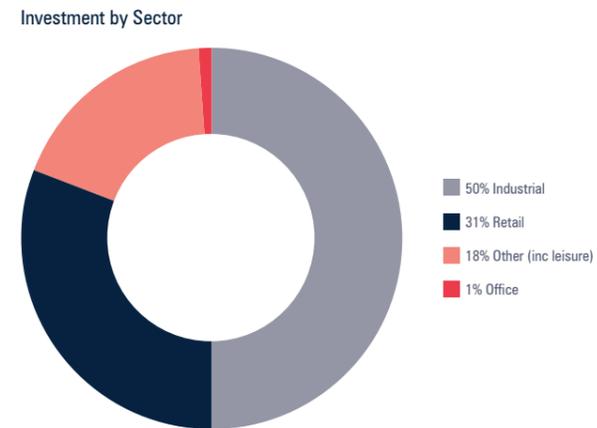
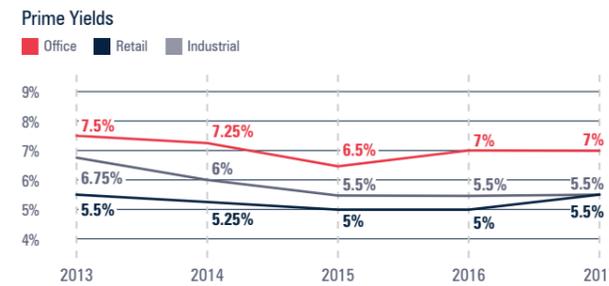
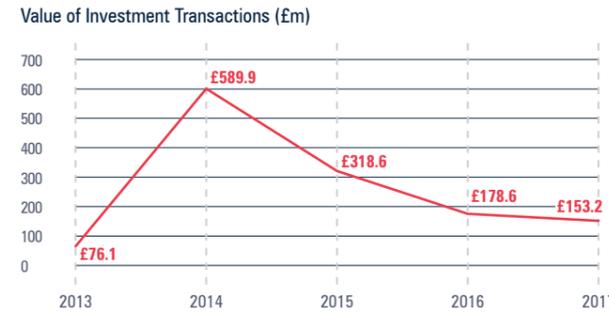


➤ Prime headline rents
£6.00
per sq ft

➤ Secondary rents
£3.25
per sq ft

INVESTMENT

The investment market peaked in 2014 in part due to the sale of intu Derby Shopping Centre (£387m). The industrial market dominates accounting for 50% of the transactions. Notable disposals included Common Road, South Normanton which sold for £23.7m.



➤ Transactions completed
£153m

RETAIL

Prime rents remained the same in all sectors with the main retail activity being centred around intu Derby.



➤ Prime High Street
£150
per sq ft

➤ Prime bulky goods
£25
per sq ft

➤ Prime open A1
£30
per sq ft



- ▶ 1. Fosse Retail Park | Picture: Alamy
- ▶ 2. Granite House | Picture: David Morris
- ▶ 3. Peat House | Picture: Alamy

INTRODUCTION

HIGHLIGHTS

Leicester consolidated its position as a strategically important commercial centre within the Midlands in 2017.

Leicester's primary sectors performed strongly and beyond expectation – perhaps an endorsement of the legacy of Leicester City's Premier League win. At the same time, however, we are beginning to see the emergence of a number of challenges that will need to be dealt with if present growth and activity is to be continued.

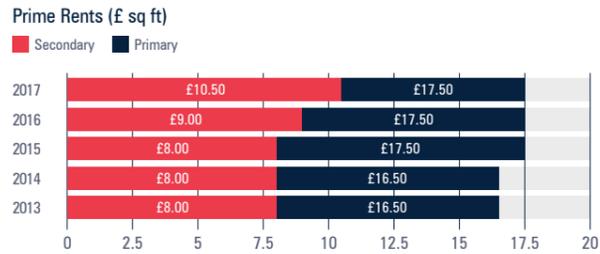
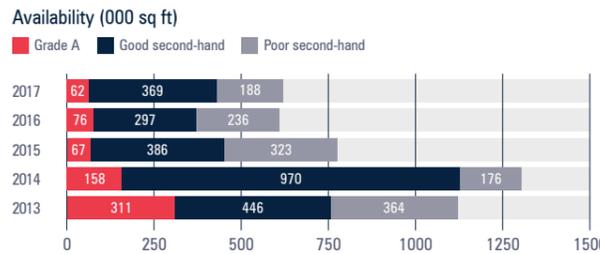
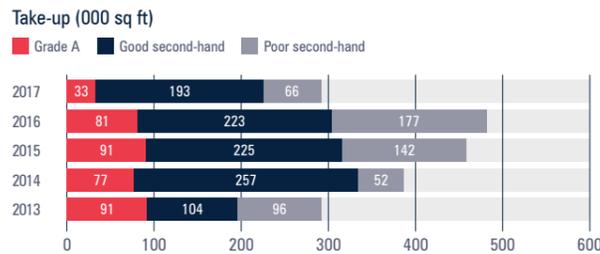
With few exceptions, speculative office development has become a thing of the past, particularly within the city centre. Collectively, the supply of second-hand and Grade A accommodation increased slightly over the year, but against a backdrop of a relatively healthy level of take-up.

The county now forms an important part of the wider Midlands distribution hub and, while the supply of big box units has increased, take-up in Q4 helped to reduce the number of voids thereby exemplifying Leicester's position within the region. More speculative mixed-range industrial development is proposed for 2018 which is very positive.

New substantial developments by both Next and Debenhams on the former Everards Brewery site now confirm the importance of Fosse Retail Park as the major out-of-town shopping centre in the region. Highcross still dominates the city centre, but has created issues within other established shopping areas where vibrancy and their continued popularity are under pressure.

OFFICE

Take-up was lower in every quality sector than in 2016, and overall 25% below the previous five-year average. This is perhaps the combination of a lack of availability within the out of town market and the lowest levels of Grade A availability in the city for 10 years. Prime rents, however, are maintained at £17.50 per sq ft.

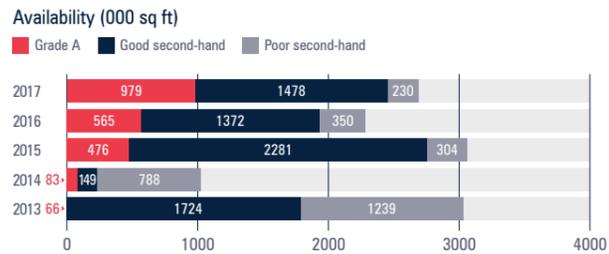
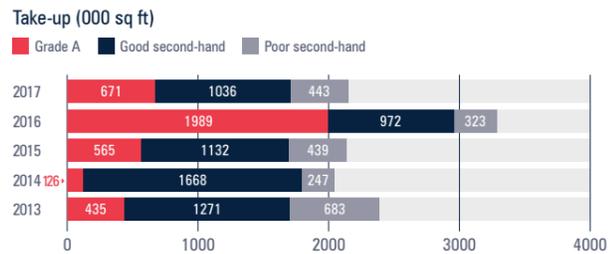


➤ Prime headline rents
£17.50
per sq ft

➤ Secondary rents
£10.50
per sq ft

INDUSTRIAL

Take-up matched the longer term average, but was well below the level in 2016 broadly because of the Amazon deal at Bardon. An increase in poorer grade accommodation and greater supply of large distribution units helped to improve supply which is likely to increase further with a number of new, small and mid-size developments in 2018.

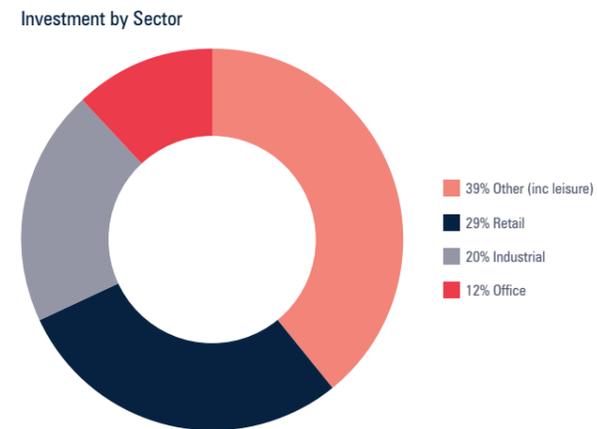
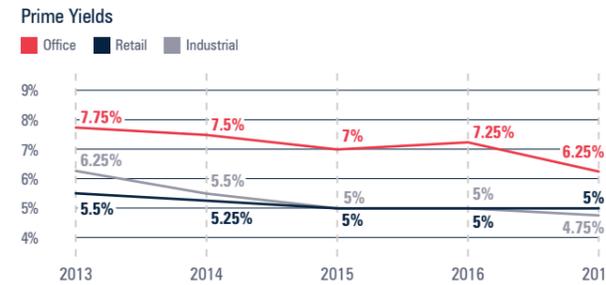
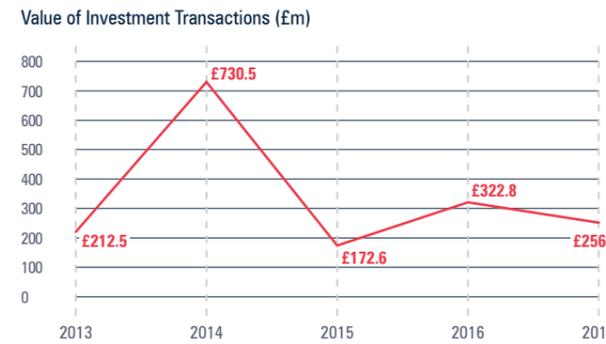


➤ Prime headline rents
£6.50
per sq ft

➤ Secondary rents
£5.25
per sq ft

INVESTMENT

Another strong performance above the longer-term trend for the county, with the £43m for the funding of Sowden's PRS Scheme, evidence of this sector hitting the region which is in vogue with the investment funds.



➤ Transactions completed
£256m

RETAIL

Highcross showed an increase resulting from new lettings to retailers. At Fosse Retail Park the increases in 2016 resulted from an extension in the existing park, whilst we expect further growth from the development at Castle Acres in the short-medium term.



➤ Prime High Street
£216
per sq ft

➤ Prime bulky goods
£45
per sq ft

➤ Prime Fosse Retail Park
£110
per sq ft



▶ 1. Debenhams | Picture: Alamy
▶ 2. Discovery Building



NOTTINGHAM

INTRODUCTION

HIGHLIGHTS

Nottingham's office take-up was bolstered by a handful of larger transactions over 20,000 sq ft, which had been absent the year before.

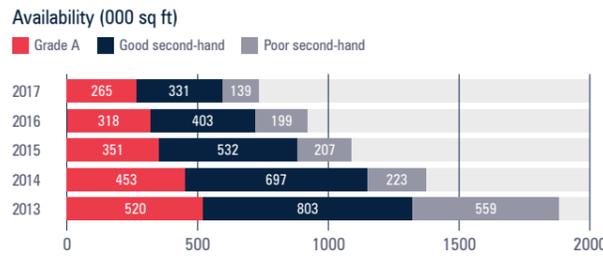
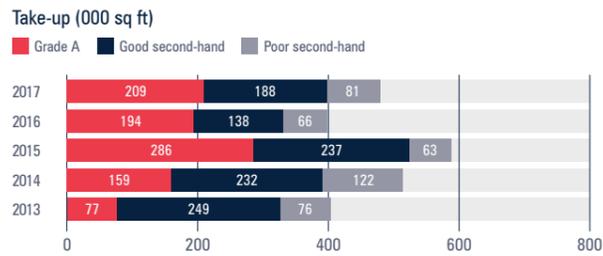
All were relocations from the city with Homeserve and Siemens finding new homes out of town, while Framework Housing secured a new city centre HQ. The lack of replacement supply fed through to availability, which stood at 735,000 sq ft, a 20% reduction from the same time last year. This imbalance was reflected in a new asking rent for the recently refurbished Royal Standard Place of £20 per sq ft.

It was a similar story in Nottingham's industrial market. Take-up rose 24% year on year, driven by large acquisitions by the logistics sector. Again, supply was not replaced by alternative availability and finished the year down to 767,000 sq ft, with rents up to a new headline of £6.25 per sq ft.

Nottingham's retail activity was dominated by several high profile 're-sites', including Joules, Fat Face, and Vodafone. A second large leisure pre-let to Hollywood Bowl was announced for intu Broadmarsh while intu Victoria Centre lost three restaurant occupiers, but introduced several retailers and secured the highest ever Zone A of £275 per sq ft. Altum Capital acquired 196,604 sq ft in the Old Market Square let to Debenhams for £25.8m. Out of town, new development was dominated by the food retail sector, while non-food retail saw existing stores acquired by The Range, Wilkos and B&M. In the roadside market, new showrooms were built and opened for Ford, Mazda and Aston Martin.

OFFICE

Take-up rebounded from the 10-year low point in 2016, with a total of 477,500 sq ft of activity. Supply continued to tighten and at the end of 2017 was 735,200 sq ft, almost 69% below the peak level of 2.4m sq ft in 2012. Prime office rents in Nottingham moved up for the first time in many years to £20 per sq ft.



➤ Prime headline rents
£20.00
per sq ft

➤ Secondary rents
£14.50
per sq ft

INDUSTRIAL

Take-up moved above 1m sq ft for the third time in four years in 2017, with 1.15m sq ft of activity recorded. Supply continued to tighten throughout 2017 and now stands at only 767,300 sq ft representing just over 10 months supply, based on the long run average levels of take-up. Prime rents rose to £6.25 per sq ft, exceeding the peak recorded in 2008.

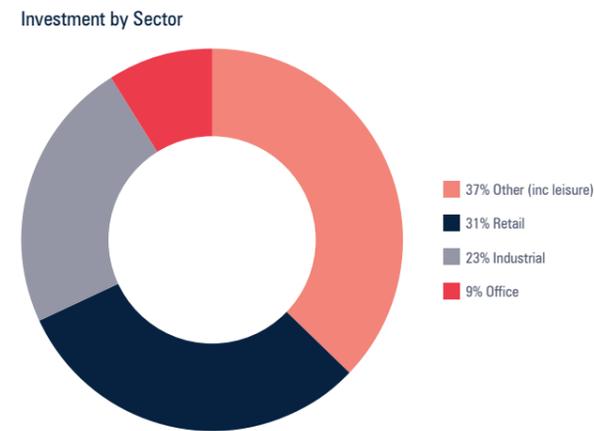
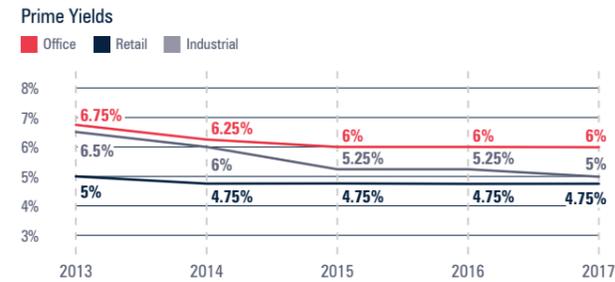
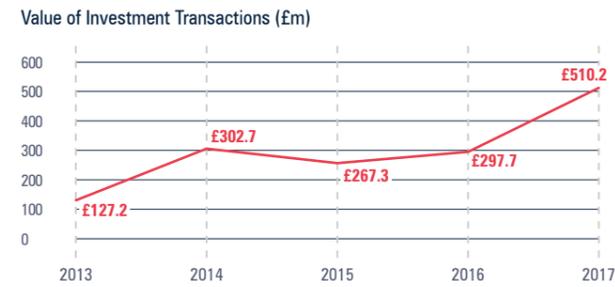


➤ Prime headline rents
£6.25
per sq ft

➤ Secondary rents
£4.75
per sq ft

INVESTMENT

Nottingham saw the highest level of investment transactions since we started collecting data over 10 years ago. The relevance of the leisure, student and emerging PRS market which made up the largest sector, reflects the attraction of these asset classes to the investment funds.



➤ Transactions completed
£510m

RETAIL

Prime rents increased in and out of town, resulting in new lettings to occupiers at intu Victoria Centre and Giltbrook Retail Park. These two centres continue to dominate in their respective sectors.



➤ Prime High Street
£275
per sq ft

➤ Prime bulky goods
£25
per sq ft

➤ Prime open A1
£42.50
per sq ft

HOW OUR **AGENCY TEAM** HELPED

MAKE A GREAT EXPANSION DECISION

It can be quite a challenge for tenants to negotiate an exit strategy with a landlord mid-way through a long-term lease.

Most don't realise it is possible and negotiating terms to satisfy all concerned can be a minefield.

Once a lease has been signed, landlords are very reluctant to let a tenant break the contract early unless a profitable replacement letting or sale can be struck.

But with the right expertise and market knowledge, a commercial deal can be reached that is suitable for everyone.

Midway through a long-term lease, we were approached by a tenant who had outgrown their current units in Bingham, Nottinghamshire and had found the perfect building for their expansion plans; 50,000 sq ft on the former RAF Newton base close to their existing premises.

After negotiating terms on the building in Newton, the tenant then appointed us to dispose of their existing leases on two industrial units.

Thanks to our expert local knowledge, we quickly identified two firms looking for commercial space in Bingham and within a matter of weeks deals were agreed on both buildings.

The landlord of the two Bingham properties benefited from new leases on improved commercial terms from two new tenants. Our clients were able to drive their business forward without any leftover liability in their previous premises.

As part of the surrender of the existing leases, our building consultancy team managed the dilapidations liability for the tenant and negotiated a reduced settlement, saving the firm thousands of pounds.



Matt Hannah
Head of Agency



► 1-4. Innes England Building Consultancy Team | Pictures: Cactus Images

HOW OUR BUILDING CONSULTANCY TEAM HELPED MAKE A GREAT DEVELOPMENT DECISION

No one wants an empty property in their portfolio. But deciding what to do about one isn't always simple.

One of our higher education clients attracts many thousands of students each year, but has stiff competition to offer the best facilities, a greater choice of living options and a fantastic education.

High-end luxury student living is all the rage; recent studies suggest there has been a twentyfold increase in studio apartments being built in the UK.

Under pressure to deliver high-quality living space, our client's estates team had to decide the future of an empty 1930s hall of residence.

Feasibility works had been completed on the accommodation, but offered no answer on how to improve student experience within the available budget.

Selling the building would have proved problematic. Its state of repair and close location to other student accommodation would have affected sale price and put off many buyers.

We brought a fresh pair of eyes to a tricky situation. After reviewing all possible options and weighing up the commercial pros and cons, we saw how the 560 sqm three-storey building could be upgraded.

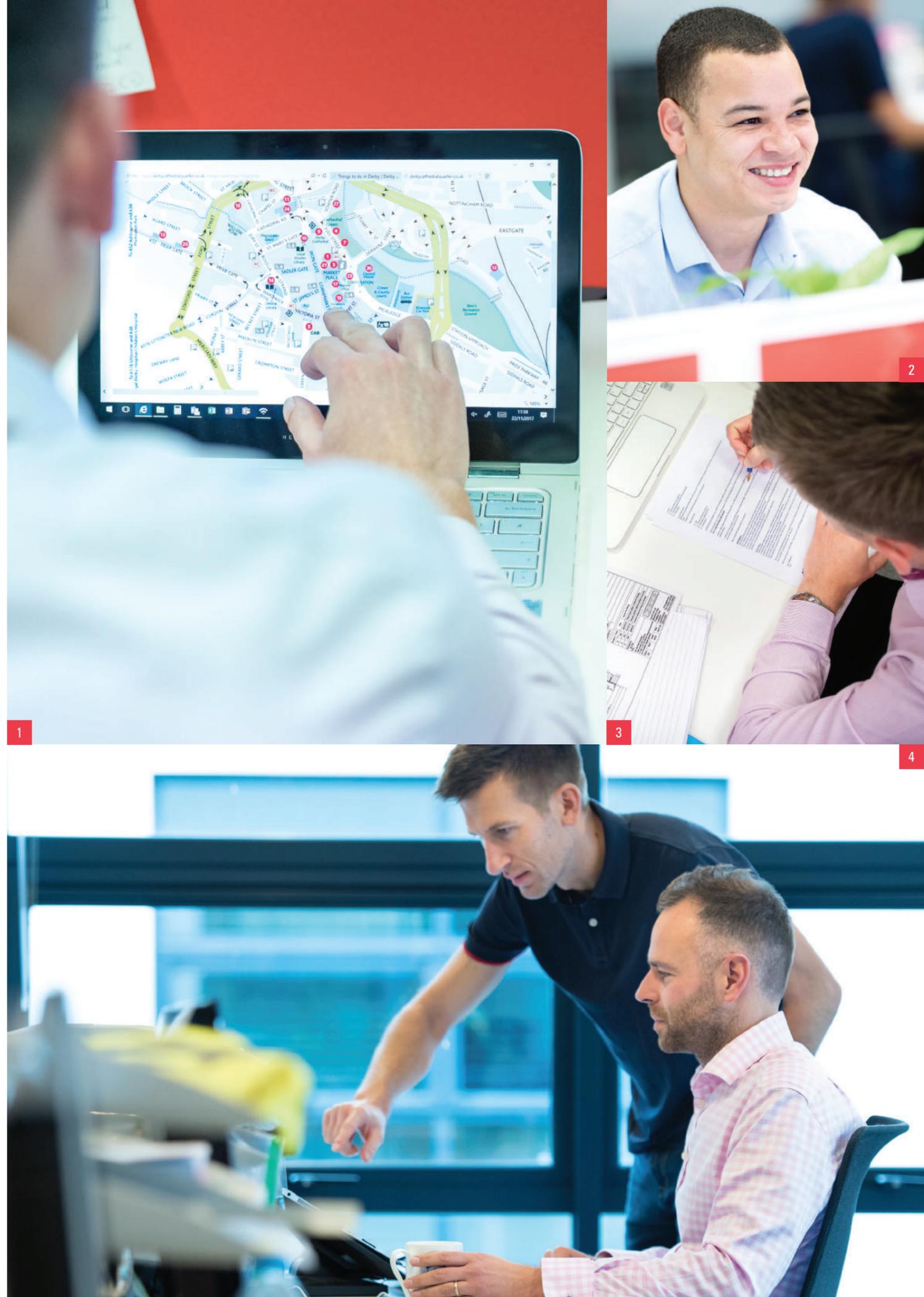
We drew up plans to remodel the building creating more space for studio flats, en-suite single rooms and generously-sized shared spaces.

Our team took the lead on design, prepared the tender package and managed the project to completion, transforming the property into a modern home for students.

The refurbished property is now one of the most popular residential buildings in the University's portfolio.



Mike Thorne
Head of Building Consultancy



HOW OUR **PROPERTY MANAGEMENT TEAM** HELPED

MAKE A GREAT PARTNERSHIP DECISION

No one likes a nasty surprise, especially in the form of an unexpected bill. But this happened to one of our clients who received an unforeseen business rate bill for £15,000.

The bill was issued from the council seeking payment for unsettled business rates a year after the property had been sold.

The former owner is one of our longest-standing clients with a significant portfolio. There's nothing we don't know about his properties, old and new.

Having managed this building in particular for many years, we knew the bill didn't seem right. We set about investigating the facts.

The property's historical files were reviewed in detail and analysed with help from our in-house business rates expert. We dug deep into the case and pin-pointed exactly where the error had occurred.

Council documents had detailed inaccurate floor plans and vacancy periods. There was also evidence of duplicate billing.

Our records showed business rates had been paid on time and in full. In fact, the rateable value for this building had gone down in recent years, not up.

Accountancy records, letters and in-depth building knowledge were used to write a strong business case to challenge the inaccurate bill on the client's behalf.

It would have been easy for most landlords to take an outstanding bill at face value. But our expertise generated a revised bill of under £200. A mere 1.3% of the original £15,000 sum.



Gary Woodward
Head of Property
Management



HOW OUR **PROFESSIONAL SERVICES TEAM** HELPED **MAKE A GREAT VALUATION DECISION**

Our government owns billions of pounds worth of assets. Thousands of buildings are looked after by local authorities and it is no easy task to manage these.

Councils are continually striving to do more for less. Correctly managed assets help councils plan their budgets, satisfy statutory regulations and manage risk.

Our team valued more than 2,750 property assets and provided valuations totalling more than £1.5 billion last year.

As part of this we regularly work with councils which need to maintain accurate valuation records for large-scale portfolios – an annual requirement for all government-owned buildings.

We were approached by one council with limited in-house staff to inspect and value part of a portfolio, comprising 140 council-owned properties. The deadline was tight. We had less than three weeks to complete the job.

The council asked if our surveyors would work in the authority's offices on the project under its own management.

In this case our experience told us that boosting staff numbers wasn't enough to make sure the work was done.

Because of the challenging timescales we recommended an alternative approach.

The work needed to be fully outsourced so we could pool resources from our three regional offices and work out-of-hours shift patterns.

All 140 properties received an expert valuation report from a RICS accredited surveyor. The council fully met its statutory obligations and the client was fully vindicated for placing its trust in us.



Steve Holland
Head of
Professional Services



Did you know we can help you **make a great decision** in these areas:

- ▶ Acquisition
- ▶ Asset Management
- ▶ Business Rates
- ▶ Building Surveying
- ▶ Dilapidations
- ▶ Expert Witness
- ▶ Landlord and Tenant
- ▶ Project Management
- ▶ Sales and Lettings
- ▶ Valuation



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