

MARKET INSITE

GREAT COMMERCIAL
PROPERTY DECISIONS **2019**

INNES ENGLAND 
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WELCOME TO MARKET INSITE 2019

A FAMILIAR PICTURE IN UNCERTAIN TIMES

There's no doubt we're living in extraordinary times. As I write this introduction, the country is still in the grip of the twists and turns of Brexit. In the words of *The Clash*, the question 'Should I Stay or Should I Go' seems no closer to a resolution.

At a time when facts and certainty seem hard to come by, I hope our latest review of the East Midlands brings you a true analysis of the region's commercial property market.

The problem for the property market is that the decision-makers can be fickle. Market sentiment can change at the drop of a hat. While we can't reliably predict the future, we can certainly report on what has gone before. It seems to me that the figures we report today show a familiar picture; stock remains low which has helped values remain resilient.

I can also confirm that our brilliant teams have all had a busy and successful 2018. We've done some amazing deals across the patch and nationally, and we've also helped our clients make great decisions in non-transactional work. Our building consultants, management surveyors and valuers are all running at full throttle.

We continue to invest in our staff and now have more graduates in the team than at any other time.

I was also delighted that we were able to raise over £10,000 for Guide Dogs UK last year. The picture below isn't me with a wet nose, but rather the first of our sponsored guide dog pups Harvey (he's way cuter than me – apparently!).

In an uncertain world, we're relatively confident that Harvey will go on to make a positive change to the life of a blind person somewhere in the UK.

Whatever the future brings, let's hope the East Midlands thrives.



Tim Garratt
Managing Director



► Mowgli, Nottingham | Picture: Cactus Images



DERBY

- ▶ 1. 2 Friar Gate Square | Picture: Cactus Images
- ▶ 2. CGI of Webhelp
- ▶ 3. Annie's Burger Shack | Picture: Cactus Images

OVERVIEW

Notwithstanding a challenging year for the city's global powerhouse employers, there has been plenty of good news.

Derby's commercial property market has shown resilience. 2018 saw a flurry of local authority activity with St James Securities selected as preferred developer for the former Debenhams building. Subsequently, the Council acquired seven adjacent properties in a move to extend this ambitious regeneration scheme. The local authority also disposed of the former Cattle Market in a high-profile sale to Inchcape.

Industrial take-up was in line with the long-term trend although this sector saw the biggest gains. Secondary rents rose sharply due to a lack of stock. Supply increased Q4 albeit half availability is in two buildings; Solex 55 and First Panattoni's Derby 370. Most transactions have been within the small to mid-size shed market, which has been thriving. Local developer Ivy Grove continue to dominate this sector, having disposed of 80% of their units at Eagle Park. The largest industrial letting was ATL's acquisition of 66,000 sq ft from the Harworth Group at Sinfin Commercial Park.

Although we have seen no new office build, supply has increased due to the availability of 85,000 sq ft at the former Webhelp Building on Pride Park. The largest letting was the Smith Partnerships acquisition of a new City Centre HQ at Norman House.

The retail market continues to face the challenges of changing shopping habits with notable closures. The city has, however, welcomed recent investment by Clowes to create the Tram Sheds on St James Street and a branch of Annie's Burger Shack. Prime retail rents have remained unchanged since 2014.

OFFICE

Take-up improved by 19% on the previous year but activity remained below the 10-year average for the third year running. Supply increased for the first time since 2013, due to two larger second-hand buildings coming back onto the market. Grade A availability remains constrained, making up only 3.4% of overall supply. Prime rents have remained stable at £16.50 per sq ft since 2008, while secondary rents rose by 5.9%.

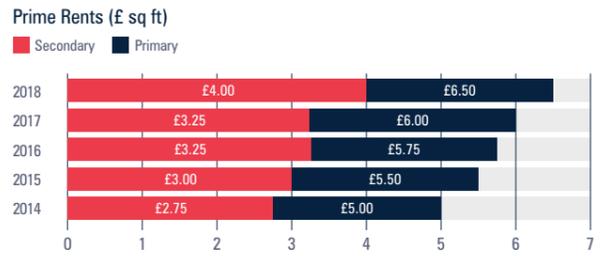
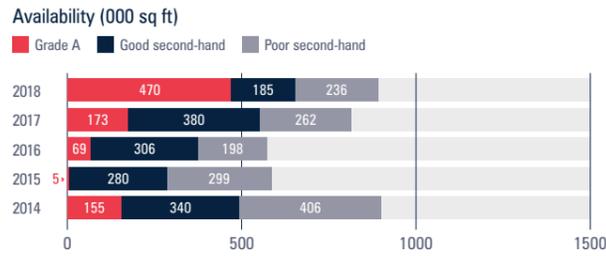


➤ Prime headline rents
£16.50
per sq ft

➤ Secondary rents
£9.00
per sq ft

INDUSTRIAL

While total lettings were down by 13%, the take-up of units of 20,000 sq ft and below increased by almost 60%. Overall, take-up fell back from the previous year, primarily because of fewer larger lettings. Supply edged up by 9.2% to 890,663 sq ft, driven largely by newly-developed Grade A space, which more than doubled from 2017. Prime rents rose to a new record of £6.50 per sq ft.

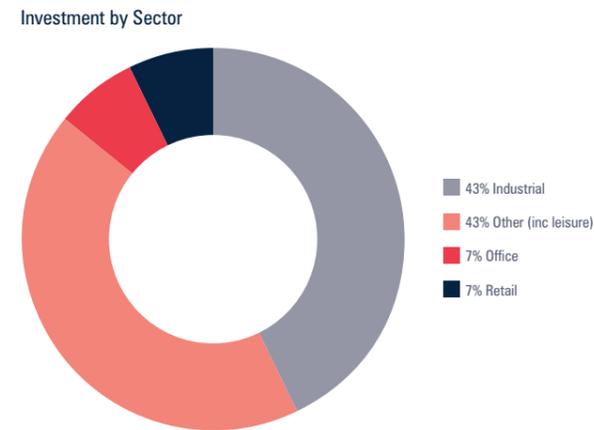
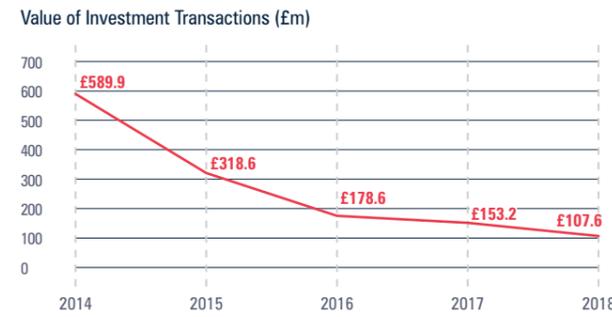


➤ Prime headline rents
£6.50
per sq ft

➤ Secondary rents
£4.00
per sq ft

INVESTMENT

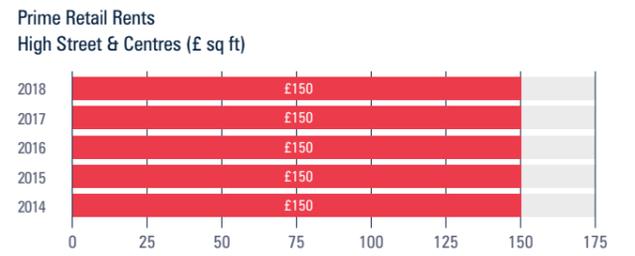
Investment values remained strong across the East Midlands at £1,389m. Investment doubled between 2013 and 2014 highlighting the increase in volume and 2018 runs close to the 5 year average of £1,467m. The Industrial sector in Derbyshire was the most active, mirroring the UK market in general. Prime yields moved below high street retail yields for the first time in history.



➤ Transactions completed
£107.6m

RETAIL

The main retail activity remains focussed around intu Derby. Last year saw the return of TK Maxx into the City Centre with them taking 22,000 sq ft on Albion Street and Mike Ashley purchased the former BHS on St Peters Street. Edge of town activity saw the introduction of College Retail Park anchored by Aldi.



➤ Prime High Street
£150
per sq ft

➤ Prime bulky goods
£25
per sq ft

➤ Prime open A1
£30
per sq ft



▶ 1. Great Central Square | Picture: APB Property Consultants

▶ 2. Leicester Distribution Park | Picture: J2

▶ 3. Highcross Shopping Centre | Picture: Cactus Images

OVERVIEW

At last the market has responded to the long-term shortage of new industrial and warehouse development to the point where we can expect to see new stock, both large and small, later this year. This will not only continue to support the big box market but will also provide opportunities for smaller organisations wishing to improve their image and profile locally.

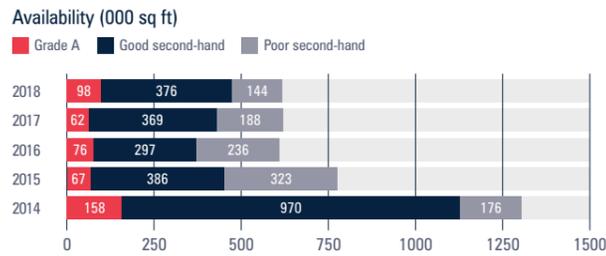
Overall, the distribution market continued to be the largest contributor to overall take-up, which remained above the 10-year average in 2018, helped by lettings to GEODIS at Optimus Point of 277,000 sq ft, and 320,000 sq ft to DPD at Hinckley Park.

On the retail side, the major redevelopment of Highcross Shopping Centre is nearing completion, with House of Fraser departing and a new leisure and retail offering bringing much needed new occupiers into this sector in the city. Zara opened a new flagship store and JD Sports are also committed to the scheme, along with other restaurant and leisure concepts. This brings a welcome boost to these challenging times for the retail market.

The biggest office story of the year was the significant letting of 80,000 sq ft to Access Group at Loughborough Science Park, which will be the organisation's new national HQ. The property is currently under construction and due to be completed in summer 2020. In addition, we now see speculative development underway at Great Central Square, totalling 33,000 sq ft of much-needed Grade A office space in the city centre, which should go some way to addressing the major shortage of good quality accommodation.

OFFICE

Take-up rebounded strongly, with activity increasing by 42% over the previous year. Activity has been above trend in four of the past five years. Availability has remained stable at just over 600,000 sq ft for the past three years, with second-hand space dominating supply, and accounting for 84% of total stock on the market. Prime office rents rose to a new high for Leicester of £18.00 per sq ft.

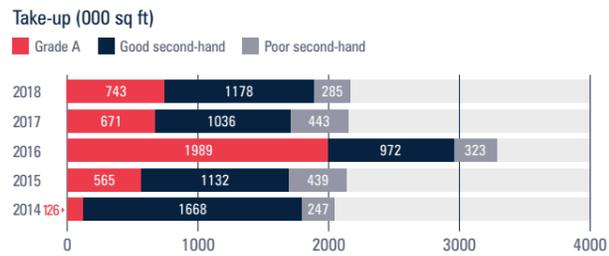


➤ Prime headline rents
£18.00
per sq ft

➤ Secondary rents
£11.00
per sq ft

INDUSTRIAL

Take-up remained above the 10-year average for the sixth successive year, with 2.2m sq ft of space acquired. Activity was dominated by larger lettings, with two thirds of take-up being 50,000 sq ft and above. Several new developments boosted supply, which was also dominated by larger units accounting for 81% of stock. Prime rents have now grown by almost 5% a year since 2013.

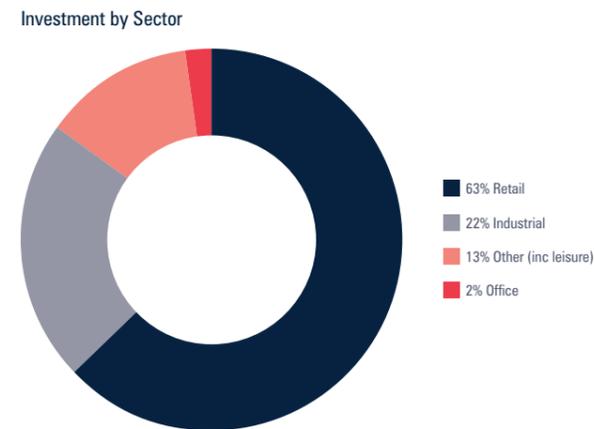
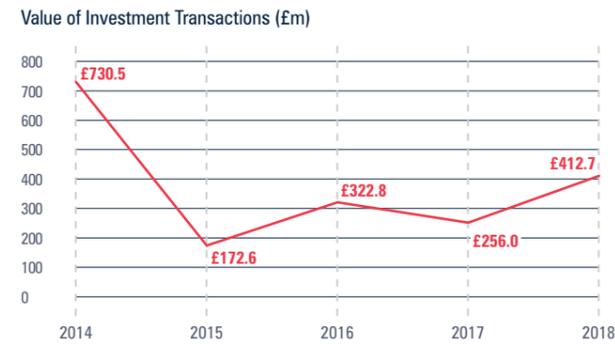


➤ Prime headline rents
£6.75
per sq ft

➤ Secondary rents
£5.25
per sq ft

INVESTMENT

Investment values remained strong across the East Midlands at £1,389m. Investment doubled between 2013 and 2014 highlighting the increase in volume and 2018 runs close to the five-year average of £1,467m. Total transactions in Leicestershire were up by 61% on the previous year - boosted by Hammerson's sale of a 50% stake in Highcross for £236m to Japanese bank Norinchukin.



➤ Transactions completed
£412.7m

RETAIL

Highcross showed an increase in headline rents for the second year backed by lettings to new retailers including Zara. Rents remain strong out of town with the extension to Fosse Park now underway on the former Everards Brewery site and construction of new units due to be completed in 2020 with tenants including Next, Debenhams and TK Maxx.



➤ Prime High Street
£225
per sq ft

➤ Prime bulky goods
£45
per sq ft

➤ Prime Fosse Retail Park
£110
per sq ft



NOTTINGHAM

- ▶ 1. **Unity Square** | Picture: Sladen Estates
- ▶ 2. **Demolition of Imperial Tobacco Horizon Factory** | Picture: Cactus Images
- ▶ 3. **Broadmarsh Redevelopment Site** | Picture: Ian Hodgkinson, Picture It, Nottingham Post

OVERVIEW

Cranes will finally be returning to the Nottingham skyline following the announcement that HMRC has committed to take 275,000 sq ft at Sladen Estate's Unity Square scheme for a new regional GPU. Nearby, Bildurn has secured Vita for a 323-bed student scheme as part of the 11 Station Street development which incorporates 50,000 sq ft of much-needed Grade A offices.

There is also good news on the horizon for Nottingham's retail scene as the long-awaited £86million refurbishment of the Broadmarsh Shopping Centre has finally seen Sir Robert McAlpine appointed as contractors with work to start in Q1 2019.

The refurbishment, along with the construction of the new Broadmarsh car park, bus station and proposed City Library, while sitting alongside the Southside regeneration area will make the southern gateway to the city much more attractive to visitors.

The work to the Broadmarsh is anticipated to enable Nottingham to climb back up the rankings and break into the top 10 retail destinations in the UK – which will be an important factor in attracting new and exciting retailers into the city.

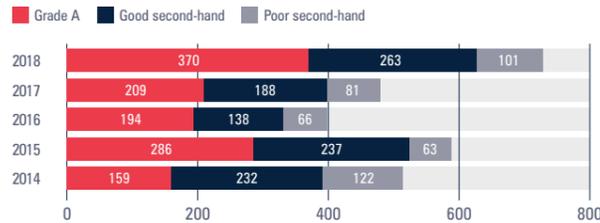
On the industrial front, horizons are also making headlines. In this sector, it's the news that demolition has begun on the former Imperial Tobacco Horizon Factory to make way for Henry Boot's 48-acre industrial scheme.

Out of town, First Panattoni demonstrated their commitment to the region with speculative construction at their 715,000 sq ft Panattoni Park Nottingham at J26 of the M1.

OFFICE

Take-up reached a record level of 733,600 sq ft, helped largely by the HMRC deal which accounted for almost 40% of activity. Overall, levels remained in line with the previous year with the market expressing a strong preference for the city centre. Supply continued to tighten; the most noticeable decline being in Grade A space which stands at just under 30% of total availability.

Take-up (000 sq ft)



Availability (000 sq ft)



Prime Rents (£ sq ft)



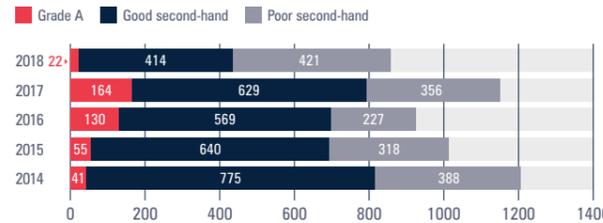
➤ Prime headline rents
£20.00
per sq ft

➤ Secondary rents
£14.50
per sq ft

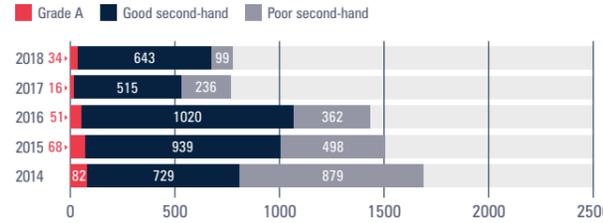
INDUSTRIAL

Supply remained tight, with a particular shortage of Grade A accommodation. Second-hand space accounted for 97% of the year's activity and take-up was down to 857,300 sq ft, the lowest for five years. Prime industrial rents remained at £6.25 per sq ft in 2018, largely due to the lack of stock, while secondary rents rose to £5.00 per sq ft, up 5.3% on the year.

Take-up (000 sq ft)



Availability (000 sq ft)



Prime Rents (£ sq ft)



➤ Prime headline rents
£6.25
per sq ft

➤ Secondary rents
£5.00
per sq ft

INVESTMENT

Investment values remained strong across the East Midlands at £1,389m. Investment doubled between 2013 and 2014 highlighting the increase in volume and 2018 runs close to the five year average of £1,467m. Investment in the Office sector in Nottinghamshire increased by 170% due to the forward funding of Sladen's development of 275,000 sq ft for HMRC.

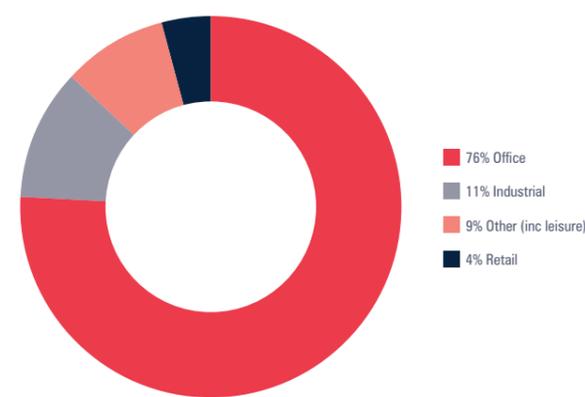
Value of Investment Transactions (£m)



Prime Yields



Investment by Sector



➤ Transactions completed
£226.6m

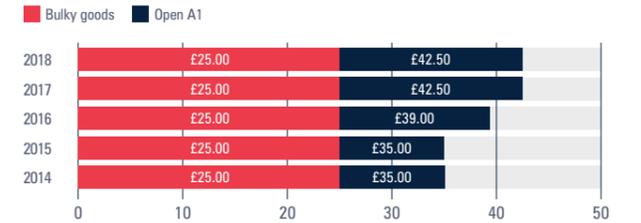
RETAIL

The main town centre activity centred around intu Victoria Centre with the refurbishment of the catering quarter and the main letting to McDonalds. Out of town, JD Sports have acquired two new units taking part of the former Toys R Us at Riverside and the former Oak Furniture Land at Victoria Retail Park, who subsequently upsized into the former Carpetright unit.

Prime Retail Rents High Street & Centres (£ sq ft)



Prime Retail Rents Out of Town (£ sq ft)



➤ Prime High Street
£275
per sq ft

➤ Prime bulky goods
£25
per sq ft

➤ Prime open A1
£42.50
per sq ft

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