evolution

PLANNING DEVELOPMENT REGENERATION

COMMERCIAL PROPERTY MARKET ASSESSMENT

On behalf of

COFELY GDF SUEZ

December 2014

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1.0 INTRODUCTION

1.1 Evolution PDR Ltd has been requested to undertake a Commercial Property Market Assessment on behalf of Cofely GDF-Suez. The client works in a partnership arrangement with North East Lincolnshire Council.

1.2 The purpose of the assessment is to analyse the current conditions within the Commercial Property Market within the North East Lincolnshire area, with specific regard to industrial and office accommodation and consideration of the provision of development land for commercial purposes.

1.3 The aim of this report is to provide a robust analysis of current market conditions in relation to the existing property stock, and any issues that arise as a result of those conditions. The findings will assist informing recommendations to the North East Lincolnshire Partnership regarding any future actions.

1.4 Specifically, it is understood that this document will be utilised to support the evidence base for the preparation of the new Local Plan in relation to the provision of employment land. The analysis may also be utilised in support other work of Cofely GDF Suez in fulfilling its obligations within the NE Lincolnshire Partnership.

1.5 This report has been prepared for the reasons outlined above, and is limited to use by Cofely GDF Suez and North East Lincolnshire Council (NELC) in fulfilling the objectives of the partnership. No liability is provided to any other party who chooses to rely on this document without the express authorisation of Evolution PDR Ltd.

2.0 METHODOLOGY

2.1 The study relies on primary data obtained from the Evolutive database, NELC's property availability and enquiry database which has been used by the Council for over 10 years. All local agents are known to contribute property information to the database. As a result, it provides a robust basis for analysis of both supply and demand conditions.

2.2 Where appropriate, and specifically where details are not available through enquires on the Evolutive database, other data has been analysed from different sources, and is quoted where appropriate.

2.3 The commercial property market is one in which change is constant. Analysis of the data over the study period 2009 – 2013, together with data obtained for the period January – July 2014 can, at best, only provide a snapshot of the commercial market. However, the longevity of the period studied and the wide usage of the database is considered to sufficiently reliable to enable robust analysis and identification of key trends.

2.4 A study period comprising June 2009 – June 2013 was initially identified to provide the basis for interrogation of the database. This five year period was selected in order to ensure a range of economic conditions, operating at both a national and local level, could be encompassed, and any issues specific to North East Lincolnshire identified. Prior to publication, the study period was extended to cover the period from January 2014 to June 2014 in order to ensure the most recent information could be incorporated, and any changes in identified trends recognised.

2.5 The analysis undertaken therefore incorporates the six month period to June 2014. Caution should therefore be exercised when considering data for the 2014 period, as this not reflect a complete year as with the other datasets. However, it does allow for identification of emerging or changing trends.

2.6 Interrogation of the database was undertaken to provide specific searches for each annual period (with the exception of 2014 as previously identified) in relation to the following:

- Properties available on the market
- Properties let, sold and withdrawn from the market over the same period
- Enquiries received

The searches included office accommodation (B1), industrial accommodation (Specifically B2 and B8), and land.

Floorspace Supply

2.7 Floorspace availability was defined through analysis of the search results on the specific date of June 30th in each year. Any property that had been marketed at that date, and either remained available, let, sold or withdrawn was included in the assessment.

2.8 The data was analysed to establish the extent of availability in size categories up to 500,000 sq. ft. for all types of property. Properties transacted (i.e. identified as sold or let as of 30th June in that year) were identified as part of the overall supply, but separately identified in order to establish trends in transactions.

2.9 Whilst total floorspace details were analysed, the total number of units was also identified in order to smooth the distortions which occur from the identification of large units.

2.10 Details were analysed on annual basis, as well as an average over the total study period. The average annual figures quoted include the period to June 2014, except where specifically stated.

Floorspace Demand

2.11 Demand was identified by analysis of enquiries recorded by Cofely GDF Suez in its management of the database. It is noted specifically that other partner agencies using the database may also record enquiries received, but these are not accessible to Cofely GDF Suez. As a result, therefore, the enquiries recorded represent only those enquiries received by Cofely GDF Suez as part of its Economic Development function. Given this restriction, the potential for enquiry levels to be greater does exist, but it is not possible to analyse with any degree of certainty.

2.12 It is noted that there is no definition between “genuine” enquiries received from companies with a definite investment interest, as against those which may be considered to be more speculative. In addition repeat enquiries are not recorded beyond a 6 month period, and therefore as a result there may be an element of “double counting” in the figures presented. Caution should therefore be exercised in their consideration.

2.13 As part of the management of the database, specific enquiries relating to Food Grade premises are separately identified. Given the Food Processing sector’s role within the local economy, it was considered appropriate to address this as part of the enquiry analysis. It has not been possible to determine the extent to which the supply side conditions specifically address the needs of this sector.

2.14 Total floorspace levels were identified together with the number of units in order to overcome any distortions arising from larger sized units. Annual average figures were established over the study period as above.

2.15 Enquiries are not recorded as being completed or satisfied, and as a result it is not therefore possible to deduce the extent to which any enquiry is resolved satisfactorily within North East Lincolnshire. The assessment can only therefore deduce in terms of floorspace provision and demand analysis the extent to which potential customer requirements are being met.

Outcomes of Analysis

2.16 Once both supply and demand details were established, the two sets of data were put together in order to enable an assessment of where key gaps in the market could be identified. This was segregated to identify specific size categories, ranging from 500 sq. ft. to 500,000 sq. ft. on both an annual aggregate basis, as well as an average basis over the study period.

2.17 The marketing period for properties was established by considering the details for those properties sold or let when measured in June 2013, by measuring the date the property was first recorded as being marketed to the date it was removed from the database. All measurements were undertaken in months and analysed to establish the average number of months taken to let or sell a property.

3.0 AREA CONTEXT

3.1 North East Lincolnshire is located on the south side of the Humber Estuary, and focusses on the main urban centres of Grimsby, Cleethorpes and Immingham. The population totals circa 159,000, of which 76% is economically active, and primarily work and shop within the North East Lincolnshire area, reflecting to a certain extent the area's geographical isolation from other major urban centres.

3.2 The area contributes significantly to the UK's Logistics, Food Processing and Energy sectors. The Ports of Immingham and Grimsby are the UK's largest ports by tonnage, and have a significant supply base within the local economy which is anticipated to adapt over time. Specifically, within the Port of Grimsby, a niche is now developing in the provision of Offshore Operations and Maintenance facilities (O+M) for the windfarms being developed in the southern North Sea, and an Enterprise Zone has been established within the Port of Grimsby to assist the development of this sector.

3.3 Grimsby specifically has a long association with the fishing industry, and this has led it to developing specialisms in food processing, specifically for fish and shellfish products. Over recent times, diversification of the industry has led to expansion into the provision of chilled foods and ready meals, including products such as soups and pizza's. Recent investments indicate that the area continues to secure opportunities within this sector. There are close linkages with the local specialist logistics sector relating to the distribution of chilled food products.

3.4 The area also has strengths in the Chemicals and Processing sectors. Major operators, such as Cristal and Novartis are currently present, and there are proposals at the planning stages for the development of bio-fuel and bio-energy plants.

3.5 Whilst each of these sectors acts relatively independently of each other, there are key linkages between them that provide mutual support and allows for adaptation according to market requirements. For example, the relationship between food processing and logistics, between chemicals/process industries and the provision of renewable energy (bio-mass/bio-fuel especially), and the Ports (especially Grimsby) and the offshore renewable energy industry. In effect, the each of the key sectors works independently, but have close linkages with other sectors within the area. However, they are not inter-dependant, which builds resilience into the local economy when uncertainties within any one sector arises.

3.6 Whilst the operations within the key sectors are significant and have major opportunities ahead, other operations, such as business support services are currently weakly represented in the local market. Growth in the key sectors is anticipated to generate greater activity in the business support, financial, professional and technical services sectors.

3.7 The main commercial areas is located along the South Humber Bank, running between the Ports of Immingham and Grimsby, largely located on land to the north of the A180. In

addition, the areas on the periphery of Grimsby and Immingham town centres are largely dominated by industrial operations, primarily focussed on the food processing industry for Grimsby, and logistics in Immingham. Smaller levels of provision are accommodated between Cleethorpes and Humberston at the Wilton Road Industrial Estate.

3.8 Office accommodation is primarily limited to Grimsby town centre, although recent developments at Europarc have been undertaken. Limited provision is also made within smaller business parks, such as that at Laceby.

3.9 The existing property stock is primarily made up of second hand, poor quality industrial and office accommodation located within traditional industrial areas, specifically around the Ports and peripheral town centre areas.

3.10 The building of accommodation has, in recent times, been very limited, primarily because of low land and property values stifling speculative development. The most recent developments have been realised at Europarc, a business park located at the eastern edge of Grimsby approximately 2 miles from the town centre. Europarc was developed as a strategic site with funding from Yorkshire Forward, and has gradually been developed out on a demand led basis.

3.11 In the main, the supply chain and customer base remains relatively local. As a result, property demands have been generally driven from the expansion/diversification of existing operations within the area, as opposed to new investors being attracted to the area. However, more recently major UK companies have invested in the area, such as Eon, Centrica, Dong Energy, Siemens and Morrisons and have been attracted as a result of the specific opportunities created by geographical location and expertise in the relevant sectors.

4.0 INDUSTRIAL PROPERTY

Supply of Industrial Accommodation

4.1 Data collated for the period 2009 - 2014 showed overall that a total of 600 units comprising 13.286 million sq. ft. was brought to the market over the study period. This equated to an annual average level of provision of 100 units comprising a total of 2.2 million sq. ft.. However, as shown in Figure 1 below, higher levels of total floorspace were experienced between 2010 and 2012. This may be explained as a recessionary impact resulting from the consolidation/failure of businesses during the recession and attempts to dispose of commercial property. Levels of availability for 2013, and early indications for 2014 suggest that there may now be a return to similar levels to that experienced in 2009.

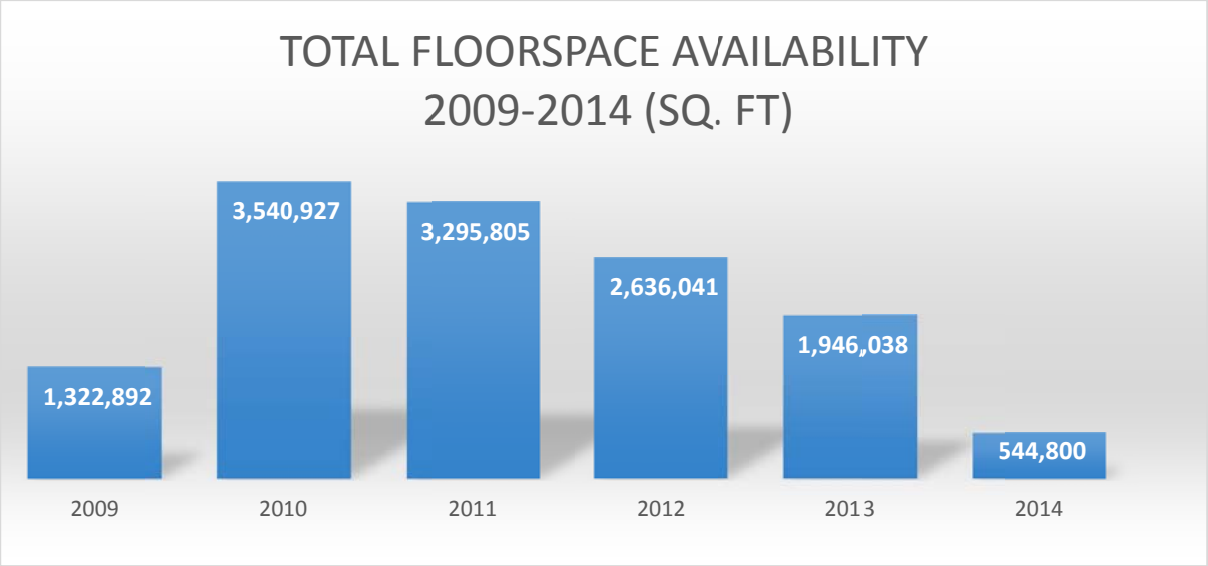


Figure 1 Total Industrial Floorspace Availability (sq. ft.)[1]

4.2 A very small (2%) of the properties identified as available were withdrawn from the market during the study period. However, withdrawals in 2009 – 2011 were 36%, 10% and 9% respectively, amounting to an average of 18% of all properties advertised over this time. Again, this is largely considered to have occurred as a result of the limited market activity during the recessionary period. However, from 2012 onwards withdrawals have been noted at a very low level (2%).

4.3 Of the properties identified as available, a total of 3.2m sq. ft. (25% overall) was transacted (defined as either let or sold), equating to approx. 550,000 sq. ft per annum across 37 units.

[1] 2014 figures apply from January to July 2014 only

4.4 Properties are found to be available in most categories, as shown in Table 1 below. The smallest industrial unit is recorded as 500 sq. ft., and the largest being 170,000 sq. ft. The most popular size category (in terms of unit numbers) are the 1,000 – 2,000 sq. ft. (averaging 11 units per annum), 2,000 – 3,000 sq. ft. (averaging 14 units per annum), 5,000 – 10,000 sq. ft. (18 units per annum), and 10,000 – 15,000 sq. ft. categories (12 units per annum). On average, units available in these size categories accounted for 55% of the total number of units available within the study period.

Floorspace Availabiility by Unit Size							
Unit Size (sq. ft)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Average**
0-500	5	2	1	1	1	-00	**2**
501 - 1000	18	9	5	5	7	1	**8**
1001 - 2000	22	8	11	9	9	5	**11**
2001 - 3000	30	12	10	13	14	6	**14**
3001 - 4000	14	4	4	6	4	2	**6**
4001 - 5000	20	5	10	6	7	5	**9**
5001 - 10,000	39	20	17	16	10	3	**18**
10,001 - 15,000	31	11	9	9	9	-00	**12**
15,001 - 20,000	12	5	5	2	2	1	**5**
20,001 - 50,000	21	9	6	7	4	2	**8**
50,001 - 100,000	10	4	7	6	4	1	**5**
100,001 - 150,000	2	-00	1	1	2	1	**1**
150,001 - 200,000	7	2	2	2	2	1	**3**
200,001 - 300,000	2	-00	-00	-00	-00	-00	**0**
300,001 - 500,000	2	-00	-00	-00	-00	-00	**0**
	235	**91**	**88**	**83**	**75**	**28**	**100**

Table 1 Unit Availability by Size Category 2009 - 2014

4.5 The least level of availability is identified in the very smallest category of 0-500 sq. ft. and the larger unit categories of 100,000 – 200,000 sq. ft. There are a very limited number of properties identified which are above the 200,000 sq. ft. category.

4.6 The Estates Gazette Property Database shows that a significant proportion of the units are within 2nd hand stock (95% by floorspace, 93% by unit numbers). There is very little existing property advertised as "new build", and where it is it relates to modern, good quality second hand stock primarily on Europarc developed in the 1990's and early 2000's. There is therefore a distinct lack of the availability of modern, good quality industrial accommodation.

4.7 A total of 64% of all transactions were undertaken in relation to leasehold properties, which is reflective of the dominant tenure type provided in the area, and the extent of leasehold property in the area; and is considered to be a key issue in terms of attracting investors. Very limited transactions were undertaken on a freehold basis on units of less than 4,000 sq. ft., suggesting a significant shortfall of this tenure type in the small unit categories.

4.8 Given that many small companies prefer the security of freehold accommodation, together with the pension provisions that are associated with such ownership, the lack of freehold accommodation for such occupiers may deter investment. In addition, and specifically for small companies, the costs of refurbishment/adaptation on property that is not directly owned may prove to be prohibitive. A lack of freehold properties is therefore a limiting factor in terms of overall supply.

4.9 Leasehold properties were held on the market for an average of 26 months. However, within that there are significant variances, with the shortest period recorded of 11 months for properties in the 3,000 -4,000 sq. ft. category, and 43 months for properties in the 5,000 - 10,000 sq. ft. category. 31 months was also recorded as an average market period for properties in the 50,000 -100,000 sq. ft. categories.

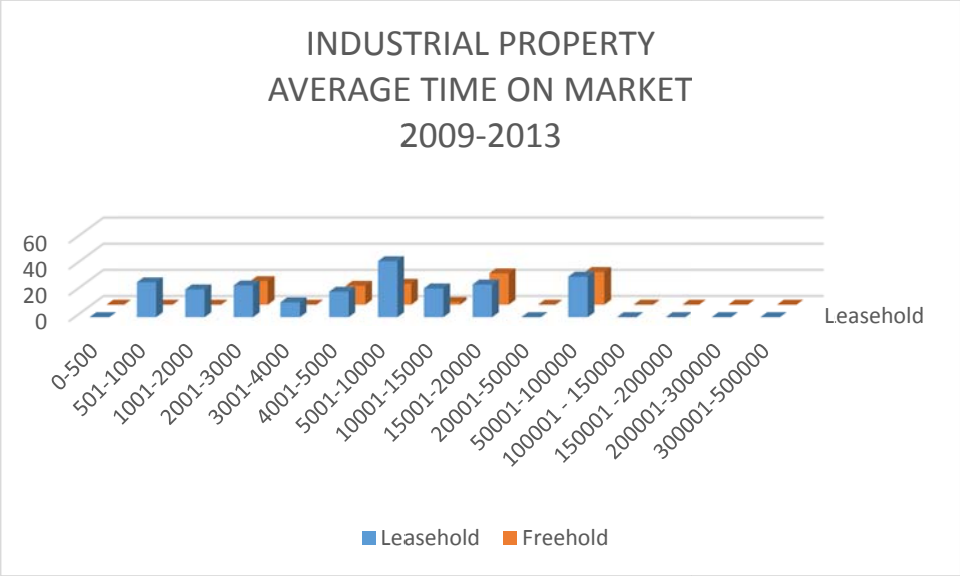


Figure 2 Average time on market by size category

4.10 Freehold properties appear to sell more quickly, with an average of 17 months recorded for all properties. One unit within the 10,000-15,000 sq. ft. category secured disposal within 2 months, whilst the longest period on the market was 35 months for a 2,000 – 3,000 sq. ft unit.

4.11 The sluggish market periods identified suggest that there are limitations in the property supply, and that occupiers requirements are not being met, either through size limitations of or the unsuitability of the stock available. The comparative speed with which freehold property is taken up confirms a stronger demand for direct ownership.

4.12 Average rental levels (based on the EGI database) are around £4.50 per sq. ft.. However, analysis of the database shows that this level of rental is requested for units up to 5,000 sq. ft. in size. Beyond that, and as would be typically expected for quantum allowance, rental

levels fall dramatically, with levels of £1.50 per sq. ft. being observed in the very large units (50,000 – 150,000 sq. ft.).

4.13 The rental levels identified are such that any speculative development is unlikely to be commercially viable. Consequently, no units currently available have been developed on a speculative basis over recent times, and there is currently no speculative development being undertaken on any sites across the area, constraining the level of supply even further.

4.14 Over recent years, all new provision has been supported by public sector subsidy, including the investment by Yorkshire Forward of circa £20m to secure the acquisition and provide strategic infrastructure for the development of Europarc Phase 3 in the late 1990s. This provided a readily available supply of serviced land, upon which potential occupiers could progress investment projects within reasonable timescales. The success of Europarc as a business location is noted. However, the site is now nearing completion and opportunities for investment are reducing.

4.15 Analysis of planning application records also show very limited confidence in provision of industrial land currently. Up until late 2013, no applications were received for major employment land provision, and as a result, with the exception of Europarc, there are no readily serviced sites available for easy investment implementation. This results in a time lag for businesses, who may alternatively seek other locations who can provide quicker response times.

4.16 It is noted that more recently, an outline application for the development of 50 acres of land off Kings Road, Immingham was approved in 2014, in addition to a planning application being submitted for a further 20 ha at the Great Coates Business Park. It is understood that public sector support is being sought to assist with the implementation of all of these consents. However, the implementation of sites will take time, and until these sites come on stream the opportunity to take up readily available land for development remains limited. The time lag which inevitably results is adding to the current limitations within the industrial property market.

Demand for industrial property

4.17 Overall, enquiry levels are very healthy with 472 separate enquiries regarding a total of 11.5m sq. ft. over the 5 year study period being received. On average, approximately 80 enquiries are received, equating to 1.9m sq. ft. in total.

4.18 As shown in Figure 3 below, peaks in enquiries were experienced in 2009 and 2012. It is noticeable, however, that the remaining years were broadly similar in terms of floorspace, and the projection of the 6 month period for 2014 would also suggest a similar level of enquiries could be received.

OVERALL ENQUIRIES 2009 - 2014		
	Floorspace sq ft	Units
2009	3,005,624	111
2010	1,966,364	88
2011	1,690,301	77
2012	2,510,450	91
2013	1,624,200	63
2014	712,903	42
TOTAL	**11,509,842**	**472**
Average	1,918,307	79

Figure 3 Enquiry levels 2009 – 2014

4.19 However, in terms of the overall numbers, total enquiry levels are, declining. Given that, at a national level, investor confidence is returning to the market, this is clearly not being realised within North East Lincolnshire. This implies reducing levels of confidence in North East Lincolnshire to meet occupiers requirements.

4.20 Figure 4 shows that the greatest proportion of all enquiries were received regarding units in the 20,000-50,000 sq. ft., 50,000-100,000 sq. ft. and 100,000 – 150,000 sq. ft. categories , accounting for a total of 68% of all floorspace enquiries, equivalent to 19%, 34% and 15% respectively.

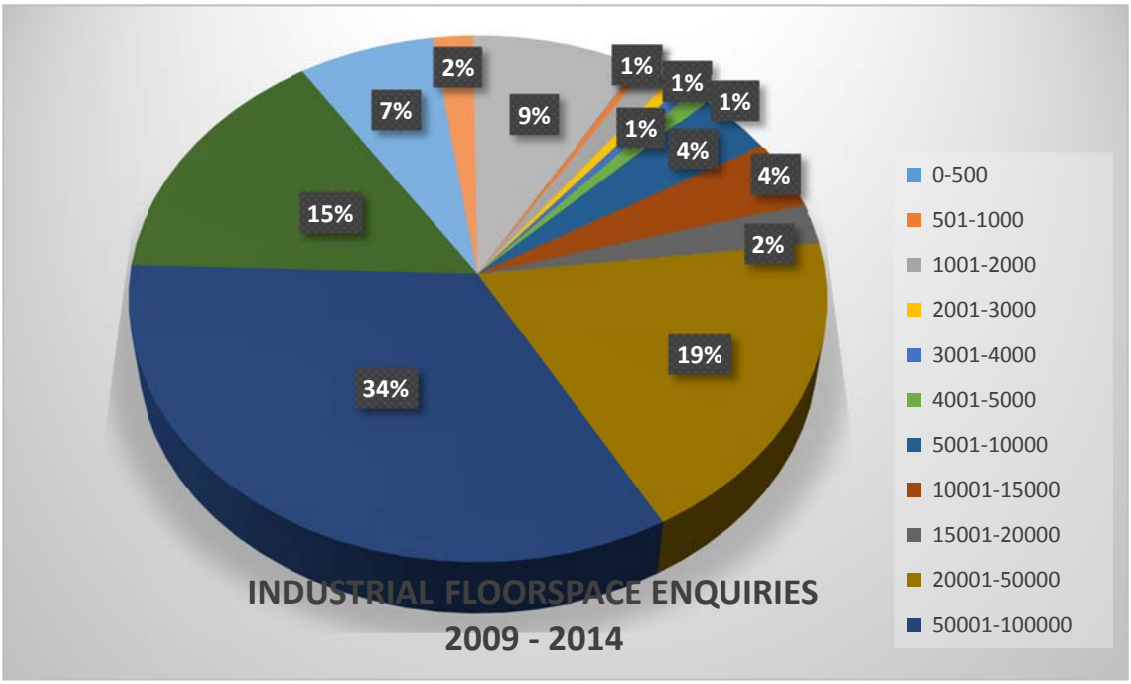


Figure 4 Industrial Floorspace Enquiries 2009 - 2014

4.21 It is also noted that during the study period units of sizes in excess of 200,000 sq. ft. up to 500,000 sq. ft. were requested, although no such properties were identified as available during that period.

4.22 Specific requests for Food Grade facilities recorded over the study period amounted to 19.4% of all enquiries received, equating to a total of 2.2m sq. ft. In 2014, the proportion of food grade enquiries increased to 26.4% of the overall total requests for accommodation, which again represented similar levels to that achieved in 2009.

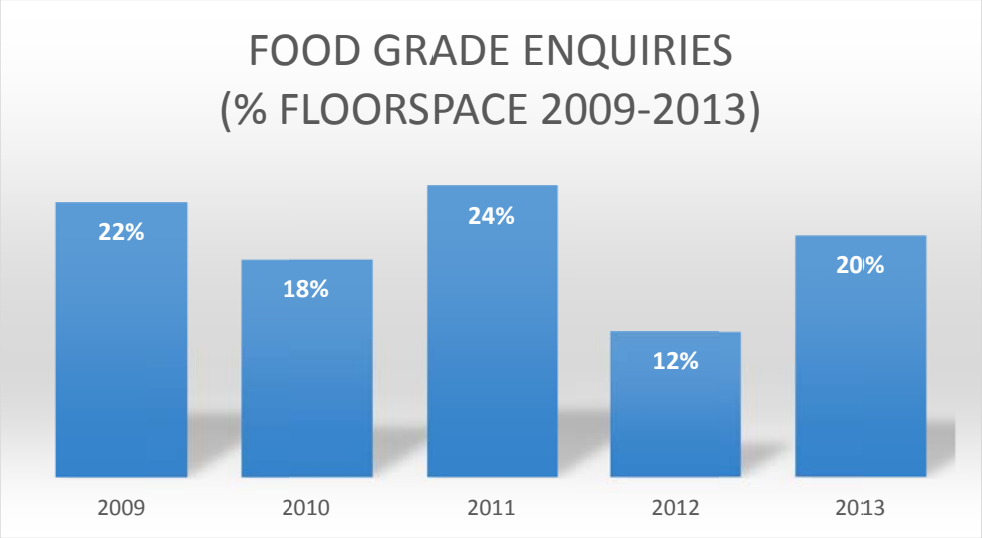


Figure 5 Proportion of Food Grade Enquiries 2009 - 2013

4.23 Of the food grade enquiry levels requested, key categories for size were 1000 – 2,000 sq. ft. (8% of food grade enquiries), 5,000 – 15,000 sq. ft. (34%) and 50,000 – 150,000 sq. ft. (51%). The significant proportion of enquiries relating to large units is worthy of noting.

Transactions

4.24 Overall, transactions were secured on 25% of all available property over the study period. Total floorspace take up over the five year study period amounted to 3.2m sq. ft. over 224 separate transactions, of which 65% was undertaken on a leasehold basis. Varying levels of transactions were recorded during the study period but trend has been generally downward since 2009, potentially implying reducing stock suitability.

4.25 Greatest levels of transactions took place within unit sizes up to 5,000 sq. ft., 5,000-10,000 sq. ft. and over 20,000 sq. ft. size categories. It is noted specifically that 55% of the

transactions undertaken were within size categories of up to 5,000 sq. ft., amounting to 124 transactions in total.

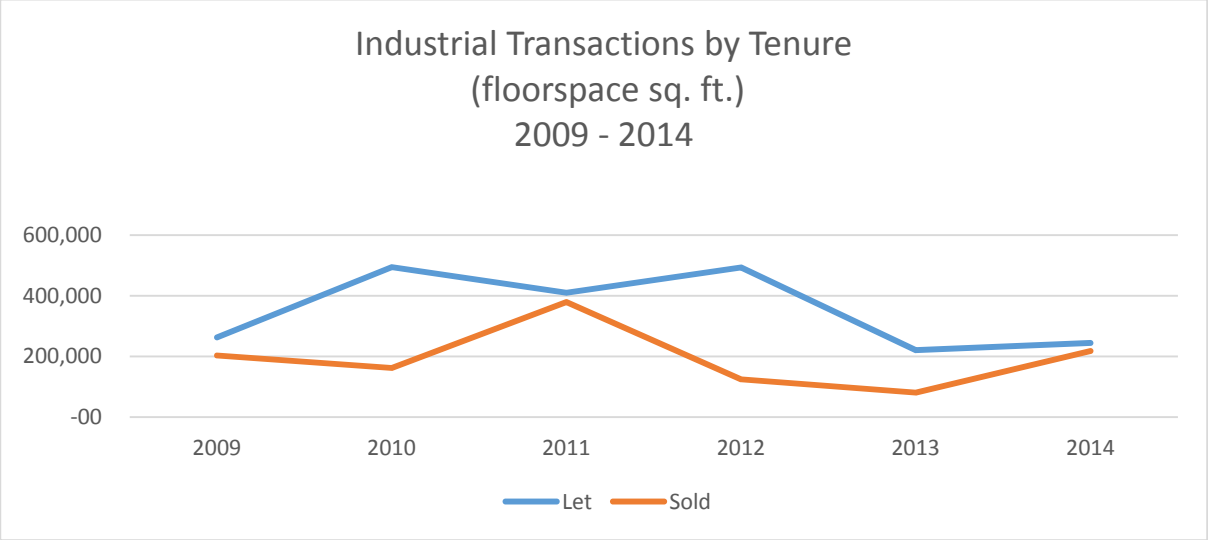


Figure 6 Industrial Floorspace transactions by tenure 2009 -2

4.26 However, as noted above, the transaction levels are considered to be low in comparison to the overall level of property available and required. Coupled with the sluggish marketing periods, it can be concluded that the market is not meeting specific needs of occupiers.

OVERVIEW OF INDUSTRIAL MARKET CONDITIONS

4.27 The above shows that North East Lincolnshire has both healthy levels of supply and demand, both of which are about 2.0m sq. ft. per annum. This high level of analysis would suggest that in quantitative terms market requirements can be met.

4.28 However, the general trend in terms of both supply and demand, as shown in Figure 7 below is downward, which suggests reducing levels of investor interest in the area, and an overall shortening of supply. The low transaction levels, coupled with prolonged marketing periods and low values, suggest that there are qualitative issues which result in North East Lincolnshire is failing to meet market requirements.

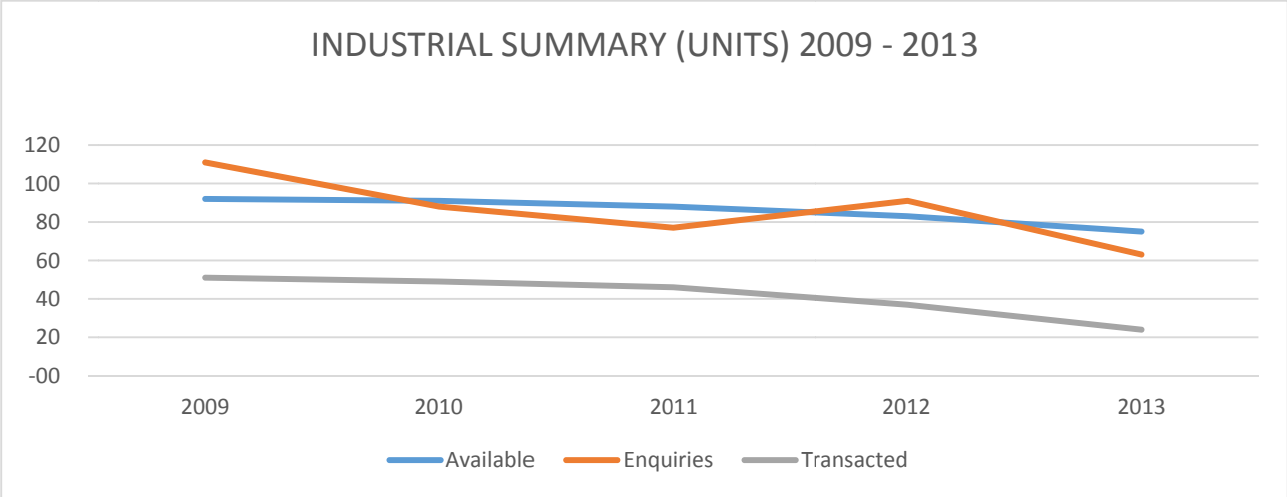


Figure 7 Demand and Supply Trend (Units) 2009 – 2014

4.29 Figure 8 shows trends in terms of floorspace requirements and availability over the same period. This clearly shows the recessionary impact of increased availability of property and reduced levels of demand over the period 2009 – 2011. It also shows a continuing declining trend in terms of available supply, although some rallying in terms of demand.

4.30 Transaction levels appeared to rally in 2011, but overall remain low. Whilst they have continued to decline, this is considered to be reflective of the lower levels of availability and reducing levels of demand. In short, the trends identified in Figures 7 and 8 both suggest a worsening position.

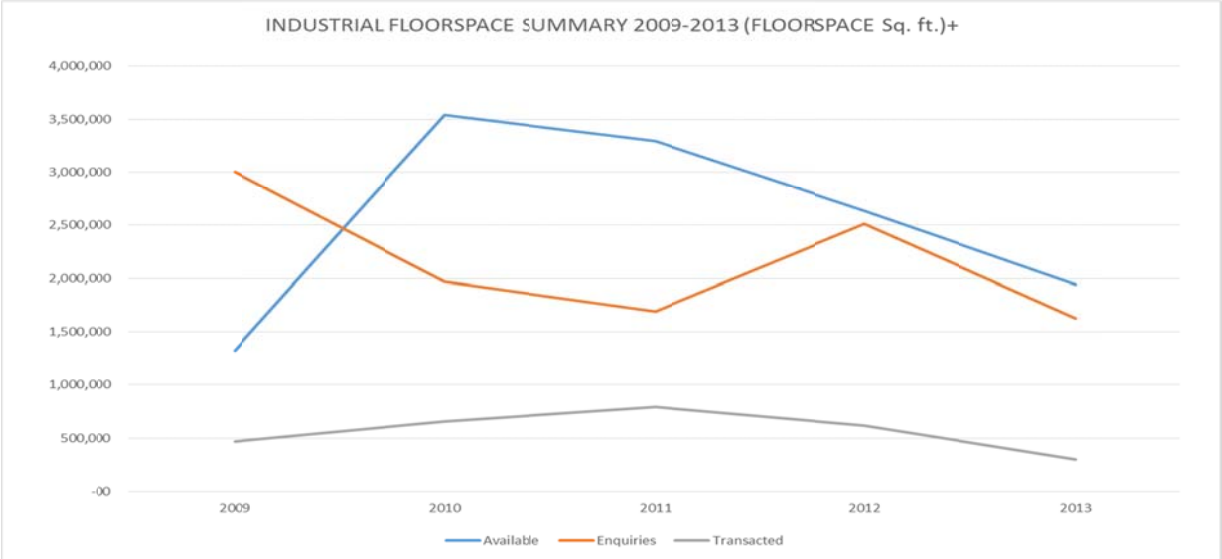


Figure 8 Demand and Supply Trends (Floorspace sq. ft) 2009 - 2014

4.31 Declining demand is considered to be the reverse of what could be expected given current market conditions and the increasing confidence being realised as a result of the economic recovery. This suggests that, despite the broad figures suggesting that quantitatively supply

and demand are broadly matched, there are clearly some key weaknesses in the market's ability to accommodate occupiers needs. The lack of ability to meet these needs are such that investors are now much more aware that the North East Lincolnshire offer cannot meet their requirements, and as a result are looking to other locations. Declining levels of supply will exacerbate this situation unless fully addressed.

4.32 When analysed at a detailed level, there is a clear imbalance between demand and supply at a detailed floorspace level which will be contributing to the overall downward movement of the market. In general terms, 85% of all enquiries relate to properties of over 20,000 sq. ft. However, on the basis of the data analysed, just 20% of the units available are within these size categories.

4.33 Figure 10 shows specifically the total levels of provision of floorspace measured against demand requirements. This shows that unit sizes up to 2,000 sq. ft. and above 20,000 sq. ft. are under-supplied, whereas over-supply is identified in the mid-sized 2,000 – 20,000 sq. ft. categories. Specific shortages are also identified in categories above 200,000 sq. ft., although it is noted that these relate to limited enquiry levels.

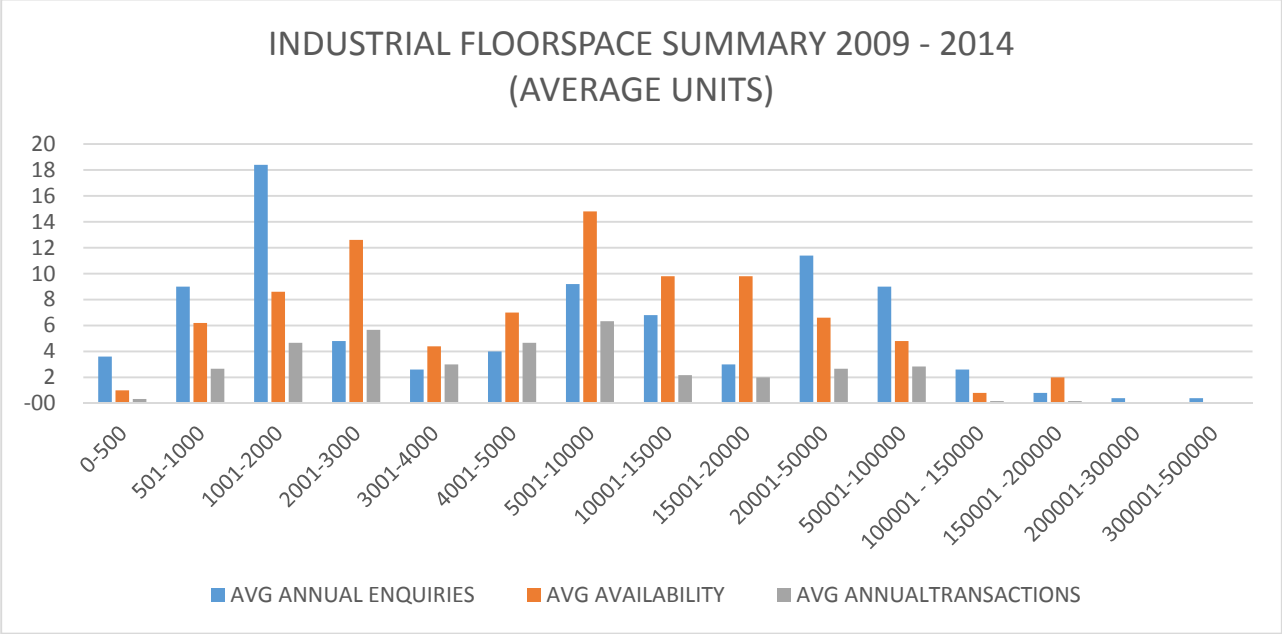


Figure 9 Industrial Floorspace Summary, Average Units 2009 - 2014

4.34 The limited provision of small unit sector is of particular concern given its significant role in providing appropriate accommodation for SME's and newly formed companies. It is noted that units up to 500 sq. ft. were in particular short supply, and overall those up to 2,000 sq. ft. represented under 10% of total units available.

4.35 Current restrictions in the provision of industrial accommodation suitable for SME's and start- ups limits the opportunity to secure and maintain a balanced business economy throughout the whole business growth spectrum. The inability to appropriately

accommodate the SME market will result in growing businesses to look to other locations outside of North East Lincolnshire to meet their requirements, and once lost, are unlikely to return.

4.36 At the other end of the scale, there is limited provision of larger scale accommodation, specifically within the categories over 20,000 sq. ft. Again, however, 85% of the total demand required properties in this category. It is of significance that the demand generated for Food Grade premises within these size categories equates to 51% of all Food Grade enquiries.

4.37 The lack of availability in this category clearly shows there is a clear mismatch between supply and demand, resulting in the failure to meet occupiers requirement and key opportunities for investment and growth being missed. Taking the example of the requirement for Food Grade premises, it is clear that on size categories alone requirements which would attract business investment cannot be accommodated. On the basis of the evidence identified, this issue is not sector specific.

4.38 One option for potential occupiers may be to take accommodation which requires significant adaptation or upgrading. However, the costs of adaptation may be significant, and in itself act as a key deterrent to investment. When coupled with the lack of freehold opportunity, where investments may be recovered in the longer term, the potential for investment of this nature to be progressed becomes increasingly limited.

4.39 Finally, a lack of suitable sites where development could progress also contributes to the restrictions within the market. Without this, the time required for obtaining planning and other appropriate consents and undertaking construction are prohibitive to business investment. Therefore, a supply of readily available units, either built on a speculative basis, or sites where development can progress rapidly are an imperative part of the industrial property supply.

4.40 It is noted that Europarc currently offers the only opportunity for provision of new accommodation on a readily serviced site. However, Phase III at Europarc is now nearing completion, and whilst planning consent has been obtained very recently on one site within Immingham it is not yet serviced to an extent that it could be readily occupied by investors. This will assist in overcoming identified shortfalls in the short term, but it is important to ensure that there is flexibility and choice within the market, suggesting that alternative sites may also need to be considered in order to ensure investment opportunities are secured.

4.41 However, low land values and the potential for limited returns impact significantly on the provision of both speculative development and the provision of serviced sites. Such provisions are usually undertaken where the developer can be confident of commercial returns. However, the low values that exist in the area are such that development of this nature is unlikely to be commercially viable without public sector support. Liaison with the LEP's to support investment of this nature is therefore required.

4.42 There are therefore, major qualitative issues in relation to the quality and value of the existing stock which result in the market being significantly constrained, and this acts as a barrier to securing sustainable economic growth. Opportunities to ensure a ready supply of good quality, readily available sites and premises should be pursued in order to maximise investment opportunities to the area, supported by public sector investment where necessary.

5.0 THE OFFICE MARKET

5.1 The main provision of office accommodation is primarily found in Grimsby town centre, and as such plays an important role in the overall function of the town centre. However, more recently development has been progressed at Europarc, providing modern office accommodation in support of the activities of the Humber Seafood Institute and the Innovation Centre. Whilst the provision of modern accommodation is identified as necessary, its location at Europarc has created a competing location to the town centre. This has a wider impact upon the overall sustainability of the town centre itself.

5.2 As stated in Section 3.0 above, the professional services sector is currently weakly represented in the local area. As a result, the office market is viewed as a secondary part of the market, with the key focus being on industrial accommodation. However, growth forecasts anticipate growth in the office market resulting from the development in the key growth sectors. In terms of understanding the the full commercial market picture, and the issues in meeting potential growth in office requirements a similar analysis is required.

Supply of Office Accommodation

5.3 Over the study period a total of 1.4m sq. ft. was advertised as available over 388 units, equating to an annual average of 236,000 sq. ft. across 65 units. Over this period, the supply of office accommodation remained relatively static. Early evidence from 2014 suggests no major changes in this scenario.

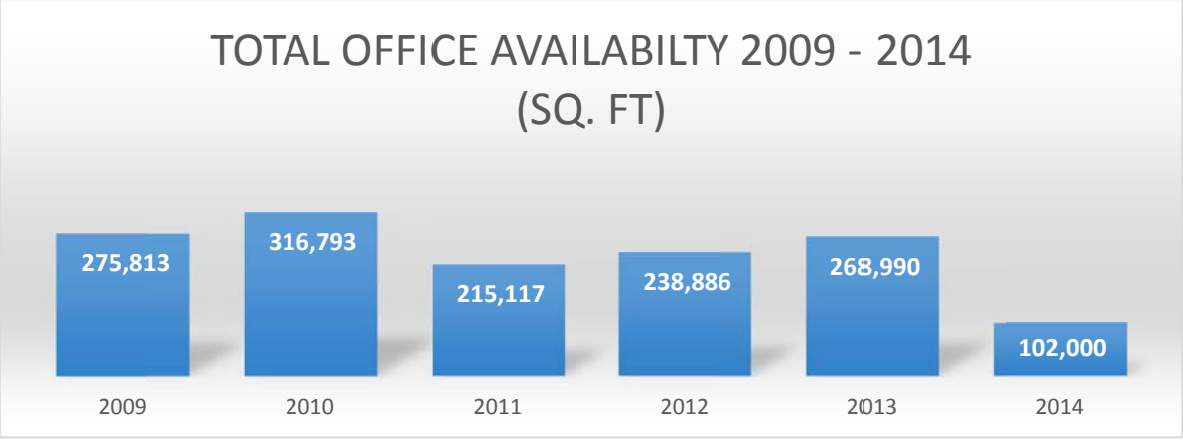


Figure 10 Office Floorspace Availability 2009 -2014

5.4 Of the properties marketed, approximately 10% was withdrawn from the market throughout the whole study period. High levels of withdrawals were experienced in the early part of the study period (2009 and 2010), when withdrawals equated to 16% of all properties on the

market. However, since 2011 the average level of withdrawals has averaged 5%. Very low levels of withdrawal have been identified in recent years, suggesting a return to confidence in the market by owners.

5.5 Transaction levels also remain steady over the study period, with a total of 424,000 sq. ft. being sold or let. Overall, this equates to 36% of the total availability. However, transactions over the six month period in 2014 have nearly equalled total floorspace availability, and this distorts this overall average figure. Transactions for the period 2009 – 2013 equated to 25% of total properties available.

5.6 The greatest level of availability is found in unit sizes up to 4,000 sq. ft., with 66% of all total units being within this category. Within this, the most readily available unit sizes were 500 – 1,000 sq. ft. (14 units per annum), 1,001 – 2,000 sq. ft (18 units per annum), 2,000 -3,000 sq. ft. (12 units per annum) and 3,000 – 4,000 sq. ft. (9 units per annum). The largest unit available over the study period was identified extends to 40,000 sq. ft.

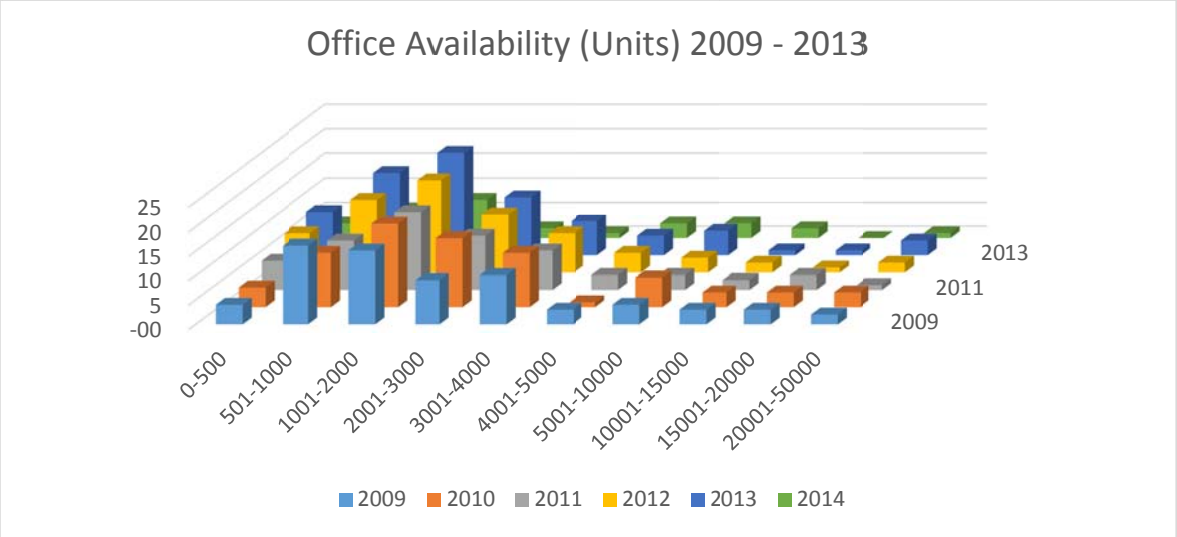


Figure 11 Office Floorspace Availability by Units 2009 - 2014

5.7 Main provision of office accommodation is within Grimsby town centre, comprising Acorn Business Park on the edge of the town centre providing bespoke accommodation, and first storey accommodation above existing retail units in the main part of the town centre. Additional provision of office accommodation is also provided at Laceby Business Park and Europarc, both of which are located away from the Town Centre. Virtually all of the accommodation is second hand stock and there is a high level of leasehold property available. Of the properties transacted over the study period, 70% were undertaken on a leasehold basis.

5.8 The average office rents advertised on the Estates Gazette Property Database showed that across all units rental levels average £7.76 per sq. ft. Higher rents were requested for units of up to 2,000 sq. ft. at circa £8.00 per sq. ft., through to £4.50 per sq. ft. for the largest unit available. Recently refurbished units located at the Municipal Offices in the town centre are

advertised at £8.50 per sq. ft. The highest rental requests were above £10.00 per sq. ft. and related to bespoke self-contained accommodation. Whilst no specific information was available in relation to units on Europarc in March 2014, previously obtained information from February 2014 suggests rental levels in Europarc are circa £12.50 per sq. ft.

5.9 As with the industrial market, it is noted that the rental levels are such that commercial viability on speculative development is unlikely to be achievable, even with the higher rental levels achieved for specific office environments. The lack of current development for office accommodation reflects, inter alia, the relatively poor values, and will ultimately result in constraining of the overall supply.

5.10 Analysis of the sold and let data for June 2013 indicates that the average time for office accommodation to be available on the market amounted to an average of 31 months. The shortest period overall equated to 15 months for properties within the 3,000 – 4,000 sq. ft. category, whereas the longest period was 56 months for units within the 10,000 – 15,000 sq. ft. category. As before, freehold accommodation tends to sell slightly quicker than leasehold property, with average times being 29 months and 31 months respectively.

5.11 The sluggish nature of the market identified above suggests that there may be potential qualitative issues in provision, particularly in terms of limited choice, which will ultimately stifle occupier investment.

5.12 Overall, there has been very limited interest in progressing schemes purely for office accommodation over recent times. Where development of office accommodation has been proposed, it has been associated with either existing manufacturing operations requiring extension, or as part of a larger mixed use proposal, such as that at E:Factor which provides a range of start-up business accommodation.

5.13 However, recently the Council has granted planning permission for the development of office accommodation at Altyre Way, off Hewitt's Avenue, and it is understood that the developer will be progressing this on a speculative basis, facilitated by associated housing development. This development will represent the first major development of business park office accommodation since the development of the Origin Way at Europarc in the early 2000's. In addition, the Council is actively progressing the development of the Cartergate site for office accommodation to be undertaken on a pre-let basis.

5.14 Recent changes in planning legislation has resulted in Prior Notification applications being submitted to exercise Permitted Development Rights for change of use from office to residential. Both of the applications submitted are within peripheral areas and do not significantly impact upon the supply of accommodation within the town centre or at Europarc. Such opportunities are anticipated to continue during the three year period currently permitted. Such losses may ultimately impact upon the overall level of supply.

Demand for Office Accommodation

5.16 Over the study period, 167 requests for office accommodation were made, equating to a total of 1.24m sq. ft. in total floorspace requirements. This equates to an annual average level of enquiries amounting to 207,000 sq. ft.

5.17 Approximately 90% of all enquiries related to unit sizes under 10,000 sq. ft. However, the largest proportion of enquires (68%) related to specific unit sizes no greater than 3,000 sq. ft.

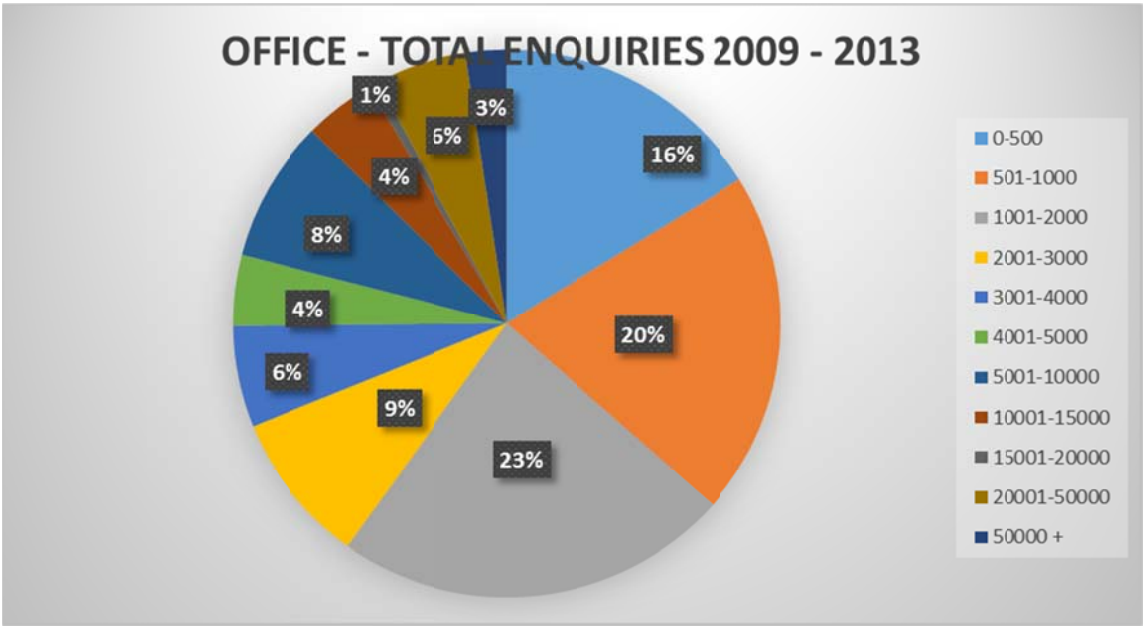


Figure 12 Office Enquiries 2009 - 2014

5.18 Enquiries for units above 50,000 sq. ft. were specifically identified during the period 2010 - 2012. This indicates some demand for larger scale office units, although this is considered to be for specific users and not for the general market.

5.19 Transaction levels over the study period resulted in a total of 141 transactions representing 424,813 sq. ft. The vast majority (73%) of these transactions were undertaken on properties in the sub-3,000 sq. ft. category, with the most popular size of unit being within the 1,000 - 2,000 sq. ft. category. High levels of transactions were also recorded in the 500 – 1,000 sq. ft. category.

OVERVIEW OF THE OFFICE MARKET

5.20 The analysed data indicates that, over the study period a total demand of 1.24m. sq. ft. was identified, and a total supply of 1.42m sq. ft. was available on the open market. On an annual basis, demand equates to 226,000 sq. ft. approx., whilst the available supply equated to 236,000 sq. ft. approximately. On this basis, it can be suggested that there is even provision between demand and supply, and that in quantitative terms there are no immediate deficiencies. In terms of total unit numbers, however, the evidence suggests that the market may be over-supplied, as demonstrated in Figure 13 below.

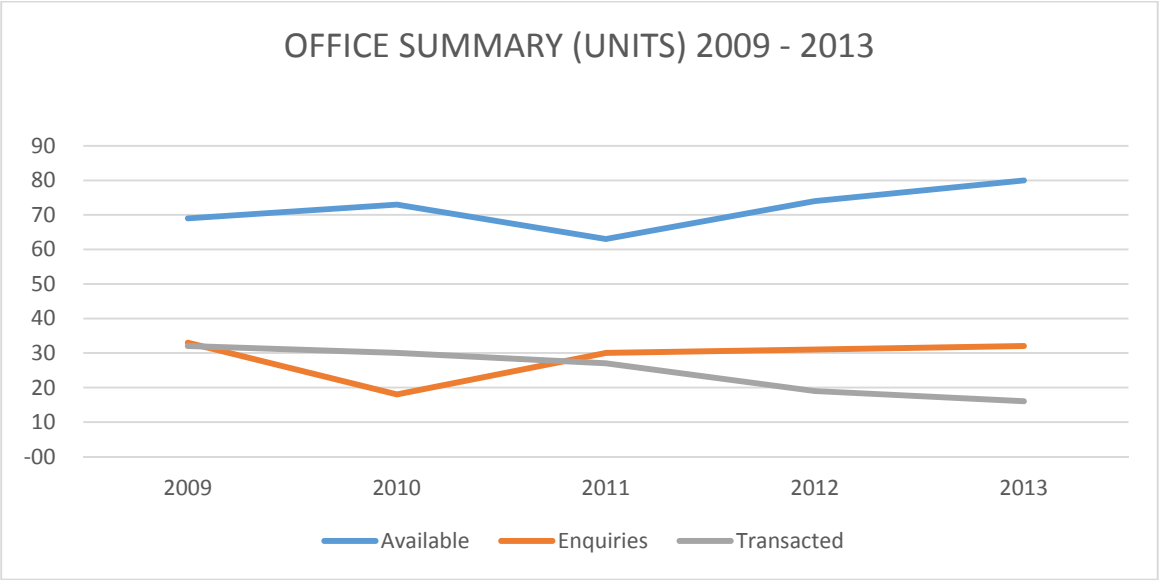


Figure 13 Office Summary (Units) 2009- 2013

5.21 However, when analysed at the detailed floorspace level, more specific trends can be identified. Figure 13 specifically shows a mixed picture in terms of demand and supply, and the ability of the area to meet occupier's needs. It is clear that in the post-recession period of 2011 -2012 the level of available units would not accommodate overall requirements. Whilst the figures for 2014 represent only a six month period, projections of these figures would suggest stabilisation and similar levels to 2013 being achieved in terms of availability, although demand and transactions have increased.

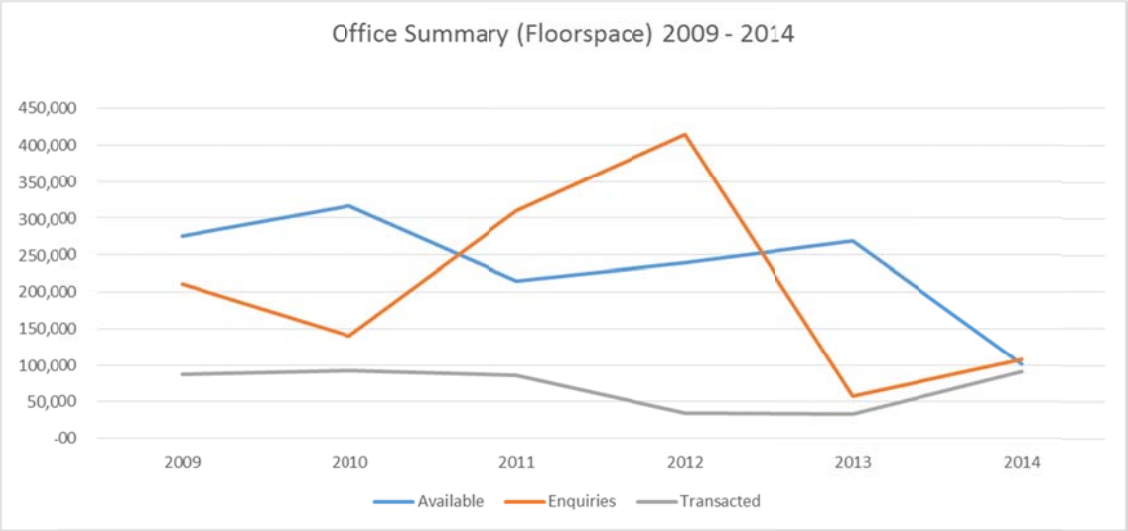


Figure 14 Office Summary (Floorspace) 2009 - 2014

5.22 What is evident from Figure 13 is the decrease in available floorspace over the whole of the study period. Whilst the 2014 figure represents just six months of the year, projections would suggest that this trend is set to continue at around 200,000 sq. ft. The shortening of supply will ultimately result in restricted availability, limitation in choice and therefore act as a deterrent to investment by potential occupiers.

5.23 Transaction levels appear to be recovering following reductions from 2011 to 2013, and this will also lead to lower levels of availability, and potentially constraining investment opportunities. Current restrictions are becoming evident from searches being undertaken by companies operating in the O+M markets who are seeking to establish an office base close to, or within the port area, but are currently unable to find suitable accommodation. Despite potential over-supply levels being identified, it is evident that the market is restricted in its ability to meet consumer requirements.

5.24 Year on year therefore, there are fluctuations in the market which suggest varying levels of the ability to meet demand requirements. However, when taken as an average approach, and detailed analysis of unit type is undertaken, it is evident, as shown in Figure 16 below, there are no size categories where any capacity deficiencies can be identified.

5.25 It is also noted that during the study period requests were received for office accommodation in sizes over 50,000 sq. ft. that could not be accommodated. There are, therefore, some specific circumstances where elements of under-supply can also be identified, although such requirements are normally associated with a specific single user, and as a result are considered to require a bespoke response.

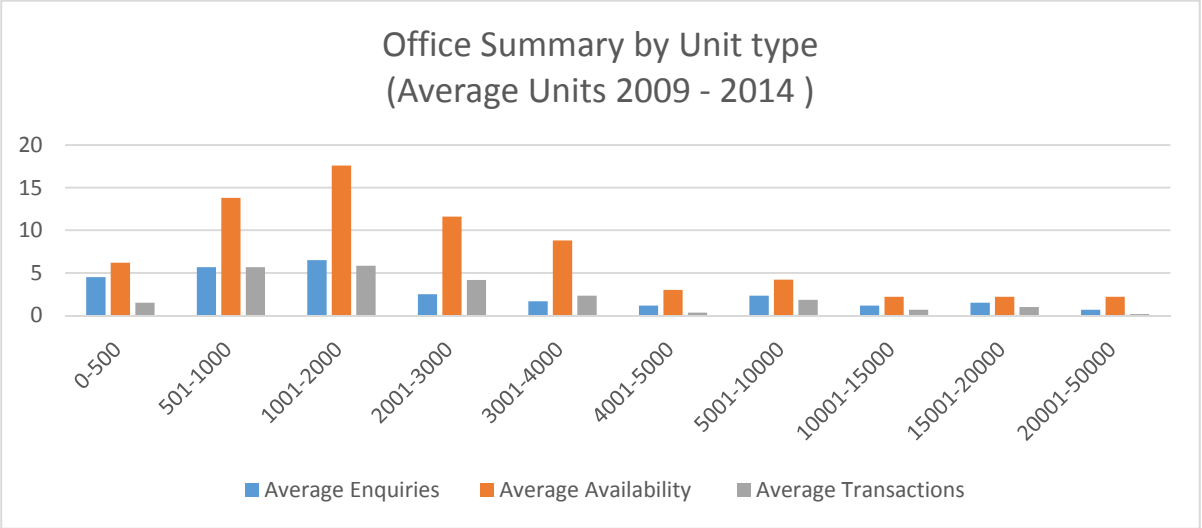


Figure 15 Office Summary by unit, 2009 - 2014

5.26 The transaction levels equate to approximately 30% of the available stock, which in an oversupplied market could be expected to be higher. Given that there would appear to be an appropriate level of choice and stock availability to meet demand, such low levels may suggest limitations arising from the provision of poor quality, second hand stock in town centre locations, which contrasts with modern office occupier requirements, which are often regarded as being required in a good environment, providing good quality accommodation in accessible locations with or near to good levels of parking space. An approach which supports re-furbishment of existing units in accessible locations may appropriately address this weakness.

5.27 In terms of office accommodation therefore, it is suggested that presently the market is relatively evenly balanced in terms of supply and demand. There is limited evidence to suggest that there are any immediate quantitative or qualitative issues that need to be addressed, although there is a suggestion that the quality of some properties may need to be overcome. The recent refurbishment of units at the Town Hall within Grimsby town centre are a good example of the necessary improvements that may be required, although it may be possible that qualitative issues may also be overcome by new accommodation provision in suitable locations. Growth in the professional services sectors supporting sector growth may result in new requirements arising.

5.28 The demand assessment also suggests that provision of larger unit sizes in excess of 20,000 sq. ft. could also be supported. However, such provision is more likely to be for specific users, and whilst it is appropriate to ensure appropriate sites are provided, it is suggested that such provision should be provided on a Design and Build basis.

5.29 However, the provision of new office accommodation is unlikely to be undertaken on a speculative market basis, given the low rental levels pertaining in the area which will deter investors and developers progressing such schemes. As a result the need for public subsidy may be necessary.

6.0. LAND FOR DEVELOPMENT

6.1 The provision of land capable of development is an important factor in considering property market conditions, as this will provide an indication of the extent to which new accommodation may be provided. However, the primary data collated does not differentiate on the proposed intention of the use of the land, nor is sufficient data available to conclusively differentiate between requests for land for commercial purposes and that intended for other uses.

6.2 Due to the nature of the way that data is collated on the Evolutive database, it has not been possible to undertake as detailed analysis as taken for that of industrial or office accommodation. Specifically, it has not been possible to identify transaction rates, and therefore the extent to which any qualitative issues are identified are therefore limited. However, it is considered that the following analysis provides sufficient analysis in order to assist the overall understanding of the issues within the current market.

Supply of Land

6.4 The data shows that over the study period, average levels of land available for sale equated to 732 acres, distributed across an average of 26 separate sites. However, the annual level of availability varied, with greater levels of land being identified as available since the end of the recession. This may reflect greater levels of confidence arising from improved market conditions and improved chances of sales being achieved.

LAND - AVAILABILITY 2009- 2013								
ACRES	**0.25-3.0**	**3.1-5.0**	**5.1-10.0**	**11.0-15.0**	**16.0-49.0**	**50+**	**80+**	**TOTAL**
2009	8.55	3.45	26.21	12.00	54.30	121.33	350.00	575.8
2010	8.25	3.45	27.50	12.00	142.30	121.33	350.00	664.8
2011	8.56	11.36	20.91	12.00	94.33	121.33	460.00	728.5
2012	9.96	7.95	33.67	12.00	171.23	121.33	460.00	816.14
2013	8.63	11.28	33.67	12.00	231.23	121.33	460.00	878

Table 2 Land Availability 2009 – 2013

6.5 Detailed analysis of availability shows that approximately half of the sites available were identified in the sub-5 acre category. Whilst detailed analysis of individual site size is not available, it is noted that the largest site was identified at 350 acres.

6.6 The number of sites available was broadly consistent across the study period, suggesting that there is little movement within the market. The data shown in Table 2 above also suggests that this may be the case, particularly for the larger sites.

Demand for Land

6.7 Average Enquiry levels equated to 28 enquiries per annum, and related to an average requirement over the study period of 490 acres. Of this, 61% of the enquiries identified related to size requirements in the sub-5 acre categories, equating to an average requirement of 50 acres in this category.

Overview

6.7 When assessed collectively the above would indicate that overall supply of land outstrips that of demand, and that in terms of the detailed requirements, overall the needs of the market appear to be quantitatively addressed. However, analysis of Figure 12 below shows that there are deficiencies in supply in terms of sites within the 3-5 acres and 11 -15 categories. Over-provision occurs in the 5 – 10 and 16 -49 acre categories.

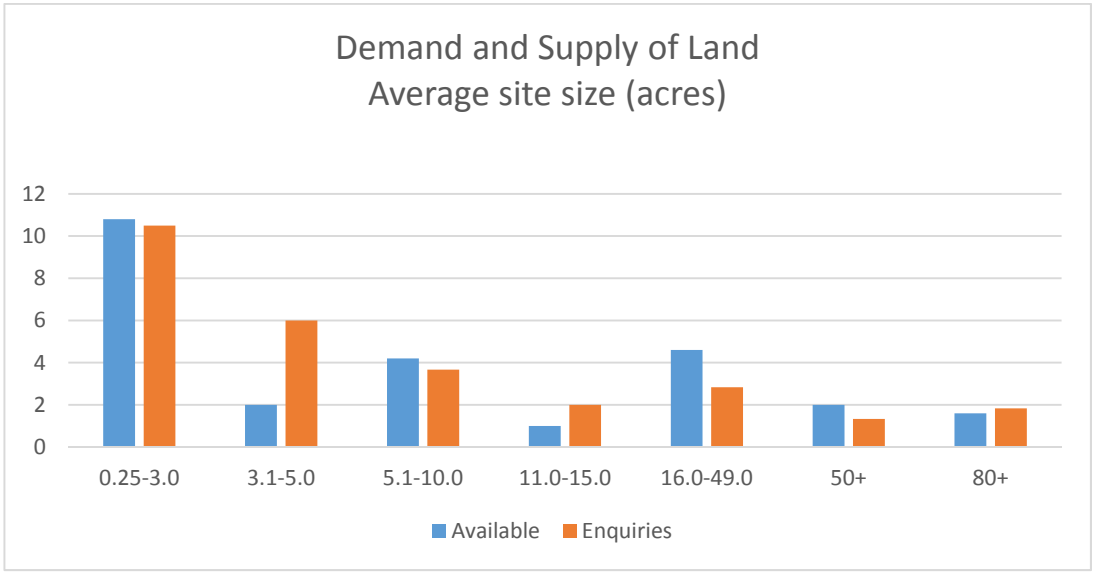


Figure 12 Supply and Demand for Land 2009 - 2014

6.8 Due to the extent of the nature of the data collated it is not possible to undertake further detailed analysis of the conditions relating to land, nor to identify whether any qualitative deficiencies exist which result in constraints in the market.

6.9 On the basis of the details provided, however, it is noted that overall the market would appear to have sufficient levels of supply to accommodate most needs. The areas of under-supply (specifically 3-5 acres) could be overcome by the sub-division of larger sites which may struggle to sell as a single unit, and this may suit smaller business operations.

7.0 CONCLUSIONS

7.0 This document has been prepared in order to identify current conditions in relation to demand and supply for commercial property within the North East Lincolnshire area. It specifically focuses on the relationship between demand and supply requirements of industrial and office accommodation, and to a limited extent also considers the provision of land to accommodate development.

7.1 Healthy levels of provision and demand are identified in relation to industrial accommodation. However, in a number of cases, demand outstrips supply which results in restricted choice for investors and constrains the economic growth of the area. The evidence indicates that the market is declining in terms of availability, transactions and enquiries, indicating that the area is not addressing the needs of business as a whole and as a result may be losing investment opportunities.

7.2 There are also a number of qualitative issues which potentially need to be addressed. The cost of adaptation/refurbishment of existing buildings to meet new requirements, especially on leasehold properties may prove prohibitive to investment, and the provision of new buildings on either a speculative basis or through direct development on readily available sites also constrain opportunities to secure business growth. However, none of these activities will be undertaken on a commercial basis as a result of the low property values within the area.

7.3 Analysis of data would suggest that provision of further accommodation in the sub 2,000 sq. ft. and 20,000 – 200,000 sq. ft. category is required in order to ensure that demand requirements are met. Medium sized accommodation (i.e. 2,000 – 20,000 sq. ft.) is considered to meet demand requirements in quantitative terms.

7.4 Qualitative deficiencies in industrial accommodation also remain to be addressed. Opportunities to support the provision of speculatively built units, or the provision of readily available sites where development could be progressed within reasonable timescales should be considered key requisites. However, public sector support is likely to be required to facilitate such activities.

7.5 The office market is currently over-supplied in quantitative terms, and this would suggest that all requirements can be appropriately accommodated, although deficiencies exist in the provision of larger units. However, it is considered that such requirements would be more likely to be met by addressing the needs of specific operators on a Design and Build basis.

7.6 The analysis suggests that there may be some issues in relation to the qualitative deficiencies in the office stock, and ultimately this may lead to opportunities for investment being lost. Refurbishment of existing properties may therefore be considered as a suitable mechanism

to overcome the qualitative issues and encourage further investment in office based business operations. In some circumstances, provision of new stock would also address such requirements. However, given the current levels of supply there is no suggestion that new development of office accommodation is urgently required to overcome current market issues. However, growth opportunities identified will result in new demand arising. Provision of suitable accommodation should therefore be pursued. Again, given the limitations on commercial viability, public sector involvement is anticipated to be required.

7.7 The analysis of data in relation to the provision of land is more limited, and therefore drawing firm conclusions is difficult. However, it is noted that in general terms overall provision of land would appear to meet demand requirements, although there are some deficiencies in the 3.0 – 5.0 acre and 11 – 16 acre categories. However, it is considered that some of this deficiency could be overcome by the sub-division of larger sites.

7.8 Evidence suggests that potential growth in the key sectors operational in the North East Lincolnshire area will generate business investment in the future. However, current levels of supply of accommodation may result in that growth becoming constrained, and demand is evidenced as declining, potentially as a result of the inability to accommodate occupiers requirements. Investment in the provision of good quality premises should therefore play an integral part of any future public sector led strategy which seeks to maximise business opportunity and growth.