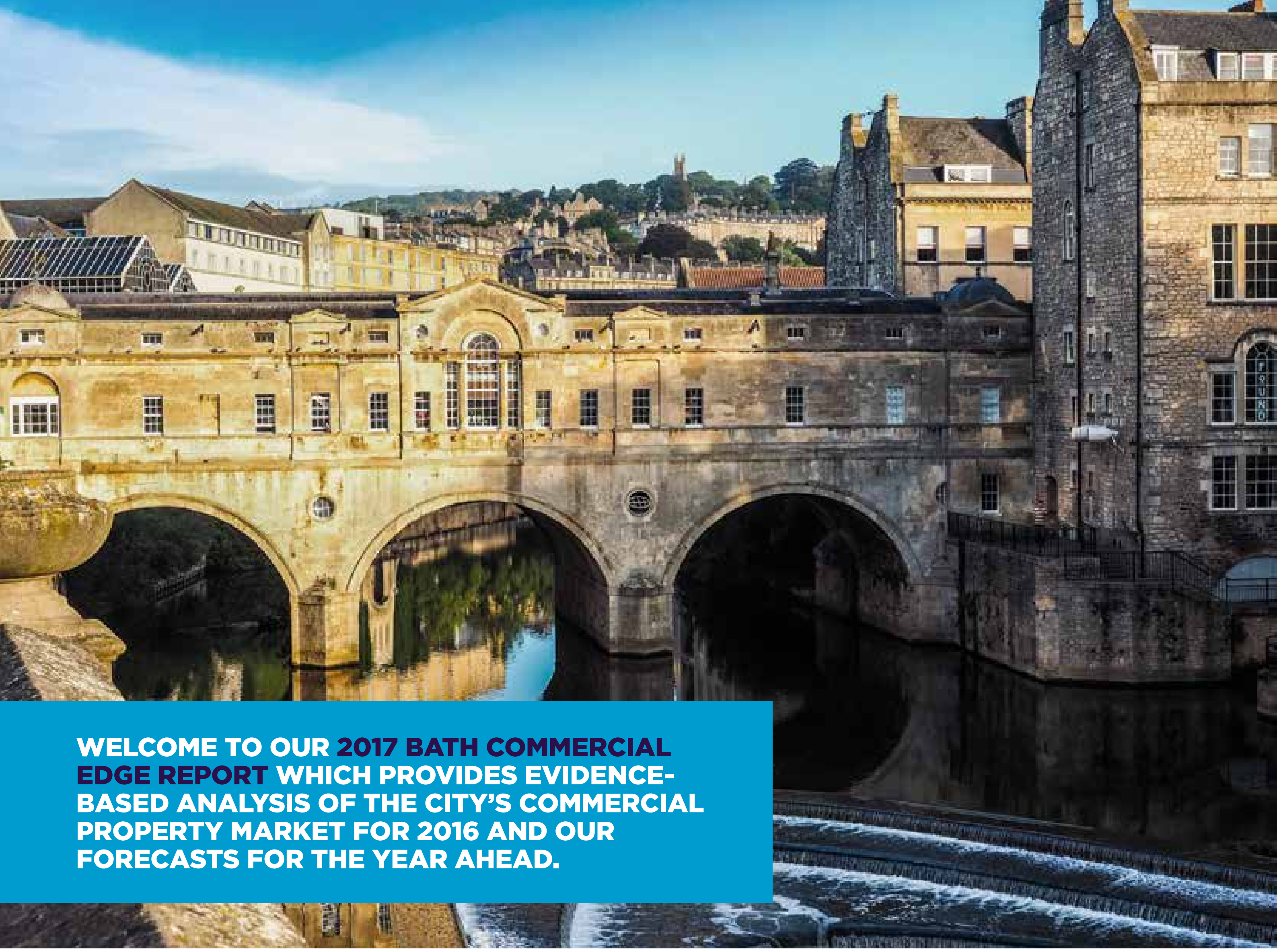
BATH
2017

COMMERCIAL EDGE

Carter Jonas



WELCOME TO OUR 2017 BATH COMMERCIAL EDGE REPORT WHICH PROVIDES EVIDENCE-BASED ANALYSIS OF THE CITY'S COMMERCIAL PROPERTY MARKET FOR 2016 AND OUR FORECASTS FOR THE YEAR AHEAD.

Following the UK's vote to leave the European Union last June, Bath's economy has remained robust. The city has a very low level of unemployment, with a claimant count of just 1.3% in December 2016, against a national average of 1.8%.

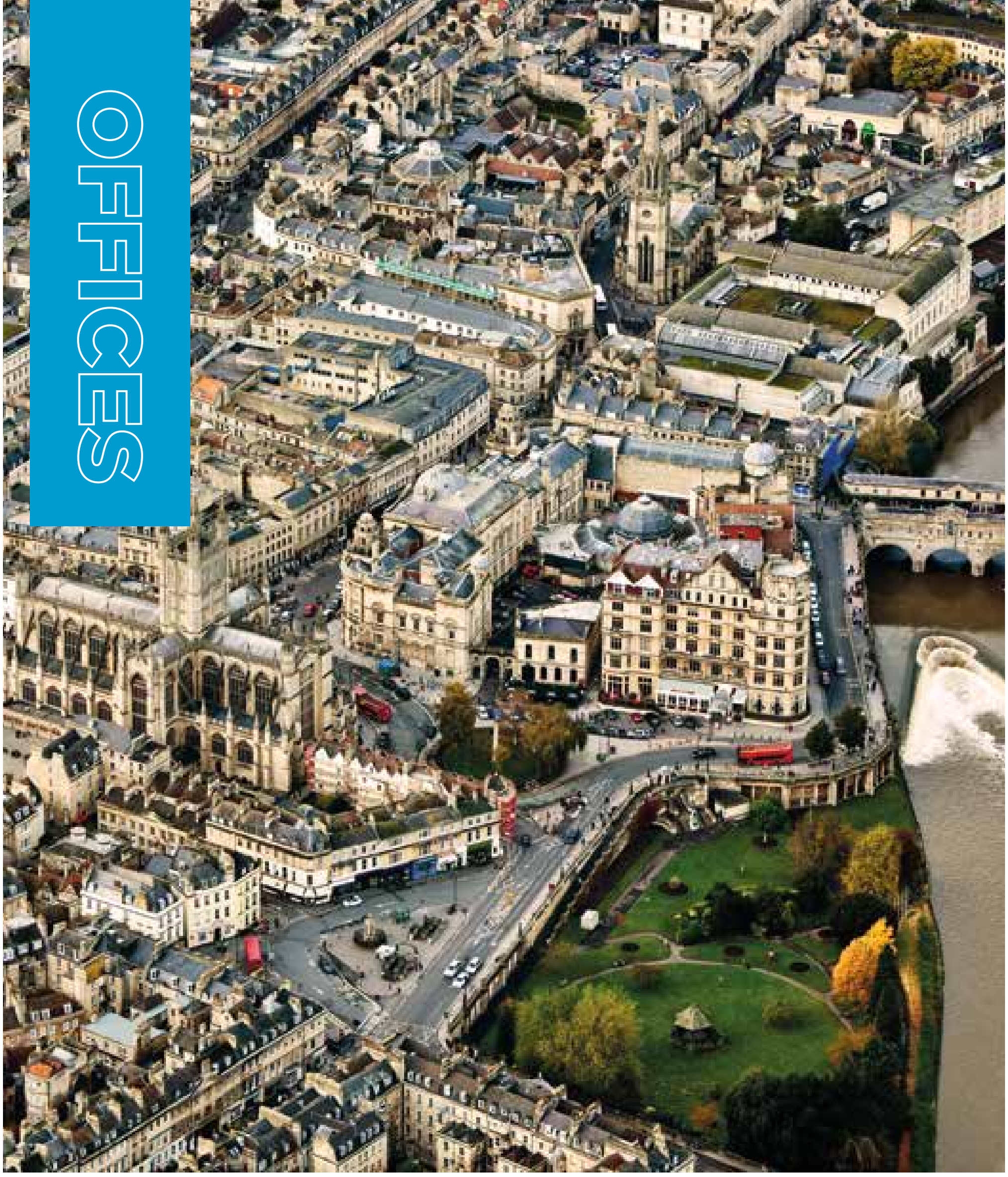
The city has a highly-skilled population, with 47.8% of residents possessing a NVQ4 qualification or above, against a national average of 37.1%. As such, Bath is attractive to companies in high value sectors such as information technology, with leading firms such as Altran, Civica Digital and Amdocs located in the city.

Indeed, the education sector plays a major role in the city's economy and, with two universities, Bath can rightly call itself a university city. The University of Bath remained in joint 11th position in the 2017 Complete University Guide and was ranked 10th in the Guardian University Guide. Together, the University of Bath and Bath Spa University have over 24,000 students, with further growth in numbers expected in the coming years.

Tourism also remains extremely important for the city's continued economic growth. Recognised as a World Heritage Site, Bath moved up five places to rank 12th for international staying visitors in the 2015 VisitBritain survey, with annual visitor numbers increasing by 37% on 2014 to reach 323,000.

> **"FOLLOWING THE UK'S VOTE TO LEAVE THE EUROPEAN UNION LAST JUNE, BATH'S ECONOMY HAS REMAINED ROBUST**

From a property perspective, the fact that Bath sits at the bottom of the Avon Valley and that many buildings are protected means that development is somewhat constrained and opportunities are generally confined to the city centre. However, this does ensure a healthy balance between supply and demand.



OFFICES

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WITHIN THE WIDER AREA, OFFICE AVAILABILITY HAS BEEN AFFECTED BY THE GREATER USE OF PERMITTED DEVELOPMENT RIGHTS

Take-up in 2016 reached 121,041 sq ft, an increase of 37% or 32,959 sq ft on 2015. While this appears to be a very strong result, two transactions accounted for over 45,000 sq ft of total take-up.

Nonetheless, occupier sentiment has been positive and activity has been boosted by the rise in availability to 106,000 sq ft - 21% higher than in 2015. This trend looks set to continue in 2017, with levels of availability at their highest for several years helping to ensure greater liquidity in the leasing market.

However, within the wider area, office availability has been affected by the greater use of Permitted Development Rights, resulting in more office-to-residential conversions. This has reduced the amount of poorer secondary stock and availability is now focused on purpose-built business parks.

The main talking point in 2016 related to one building - namely 20 Manvers Street - a 1970s office which has been undergoing refurbishment. Market protagonists have been keenly monitoring the level of interest in the scheme, which will provide over 45,000 sq ft of Grade A space on completion. Tenants have now signed up and the space will be occupied by Chase de Vere and DC Thomson Consumer Products, trading locally as Parragon.

Last year, our forecast was for prime office rents to head towards £25.00 per sq ft by the year end. However, rents at 20 Manvers Street have exceeded expectations, with two lettings agreed at £26.50 and £31.00 per sq ft.

While these may prove more globally ambitious figures, there was undoubtedly a market shift during the year and office rents are generally 15-20% higher than a year ago. Our current view is that a consistently achievable rent for a prime office in the city centre is £24.50 per sq ft.

However, there remains a significant differential in rents between the city centre and surrounding areas. Nearby towns will look increasingly attractive to those unable to sustain payments in central Bath, while Bristol remains more costly for occupiers.

KEY STATS

121,041 sq ft
Office take-up 37% higher than 2015

106,000 sq ft
Office availability 21% up on 2015

£24.50 per sq ft
Consistently achievable prime office rents at the end of 2016

£205 per sq ft
Zone A retail rents, unchanged on 2015

STUDENT ACCOMMODATION

With two universities situated within the city, Bath can rightly call itself a university city. There are currently around 24,650 students studying at these universities who contribute greatly to the city's economic, cultural and social wellbeing. With student numbers expected to continue to rise, the challenge now is finding suitable accommodation opportunities in the city.

Over the course of 2016, there were new student openings at James House on James Street West, which provides rooms for 169 students and Green Park House, which opened in the summer and provides 461 beds.

The next two years will see new student accommodation on James Street West, where a 79-bed building is nearing completion, adjacent to Kingsmead Entertainment Complex and Pulteney Road, where the former St John's School is being converted to provide 190 new bedrooms. The end of 2016 also saw a planning application submitted to provide up to 204 new bedrooms on the site of the current Pickfords building on Lower Bristol Road.

Looking ahead, there is growing resistance to new student accommodation from Bath & North East Somerset Council and from local residents and it has already become more difficult to find suitable development opportunities in the city.

PLANNING & DEVELOPMENT

It has been an exceptionally busy 12 months for development in the centre of Bath, both in terms of construction and schemes coming through the pipeline. Apex Hotels is due to complete its 177-bedroom 4-star hotel on James Street West in early 2017. Deeley Freed Estates meanwhile will complete its mixed hotel and leisure development at Sawclose during the year and 20 Manvers Street will complete on site, to be ready for occupation in the spring.

Deeley Freed are also on site at Roseberry Place, with 170 private rented sector (PRS) flats, retail units and, subject to a pre-let, 45,000 sq ft of office space. Formal marketing of 110,000 sq ft of offices at Pinesgate has begun, with construction due to start in spring. The Bath Quays South development by Bath & North East Somerset Council is in the planning process and is proving contentious, while the North Quays development remains some years away. Nevertheless, the enabling works for the flood prevention scheme along the River Avon are already making the area more visually appealing.

> **IT HAS BEEN AN EXCEPTIONALLY BUSY 12 MONTHS FOR DEVELOPMENT IN THE CENTRE OF BATH**

While there is a significant appetite for development within the city, the availability of sites is challenging. Further afield, there has been an uptake in development opportunities and a number of sites have been sold for residential development, by both public sector and private investors in Wiltshire, Dorset and Somerset.

Deeley Freed at the 2017 topping out for the Sawclose development.

RETAIL

2016 WAS A MOMENTOUS YEAR IN SOME WAYS AND THE PACE OF CHANGE IN BATH'S RETAIL AND LEISURE MARKET HAS NOT SLOWED, AS IT BECOMES INCREASINGLY FOCUSED ON ATTRACTING A WIDE RANGE OF UK AND INTERNATIONAL VISITORS.

Bobbi Brown and Charles Tyrwhitt have opened new outlets in Old Bond Street, strengthening the location as the premier target for incoming high quality occupiers. Square, a long-established independent fashion retailer, relocated its business to New Bond Street, replacing Brora, which in turn has moved to Bridge Street.

A general relaxation in planning restrictions has enabled Soho Coffee to open in Union Street, greatly improving the aspect of two previously tired-looking looking buildings, while both Costa and Pret A Manger have taken advantage of this relaxation to open new large units in SouthGate. Independent operators have also benefited, with Cake Café opening two new units in Quiet Street and George Street.

Brexit's impact on demand from non-UK operators has been minimal, with three continental European operators recently opening in the city, namely Maison Georges Larnicol, Jars Meze and Chez Dominique.

The SouthGate arcade has been re-configured and now houses a range of new eateries, including Comptoir Libanais, Thaikhum, and Absurd Bird. There are questions about how many more food and beverage operators the city can absorb and there is evidence that the competitive market has impacted on some businesses, with Burger & Lobster seeking to close its operations. However, there is also clear evidence that the sector has further room to grow.

The financial services sector has seen wide-ranging changes, many of which have been reflected in the city's property market. Santander has consolidated to Bath Street, having closed the former Alliance Building Society in Milsom Street. With the Ivy Grill set to occupy the National Westminster unit in Milsom Street, the bank has acquired the Dorothy Perkins and Burtons units in Stall Street for a flagship branch.

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THE PACE OF CHANGE IN BATH'S RETAIL AND LEISURE MARKET HAS NOT SLOWED

In a similar move to consolidate its operations, Nationwide has taken the former Monsoon/Accessorize store in Union Street. The aim is to create a new high profile branch that will lead to the closure of smaller branches in Old Bond Street and Bath Street, opening up opportunities for other businesses. A relaxation of planning regulations by the government has facilitated these moves, which would probably have been resisted by local authority planners seeking to protect retail frontages. However, the impact that the banks have on these frontages will no doubt be closely monitored.

As happens every year, the end of the Christmas trading period saw a number of retailers - both independent and multiple operators - cease trading. These included many popular retailers such as Banana Republic (to be replaced by COS), Ness, Moda in Pelle, Magpie & Bear and Bloomsbury. While it is regrettable to see such closures, there are numerous reasons. Some are the result of decisions made abroad and, for the smaller retailers, some are based on ‘lifestyle’ choices by individuals. The rise of the internet has also been blamed. However, regardless of the reasons, each closure offers a new opportunity to the many enthusiastic retailers looking to begin trading in the city or re-locate within it.

Despite the buoyant level of market activity in 2016, prime retail rents remained stable and ended the year at £205 per sq ft in Zone A.

INDUSTRIAL

As demand for industrial space across the South West has increased, supply has reached an all-time low. This has resulted in strong growth in rents and capital values, with some locations seeing capital value and rental value growth of up to 25-30%.

The continued shortage of opportunities in the Bath area is forcing industrial occupiers to move further afield to satisfy their requirements, demonstrated by the recent acquisition of 196,470 sq ft in Portbury Bristol by Bath-based company Roper Rhodes.

In Bath, buildings which have recently come to the market will be utilised by non-industrial occupiers. These include the 65,000 sq ft former Herman Miller building and the Network Rail building and site at Windsor Bridge Road. This will further deplete the supply of industrial space in the city.

In Bristol, industrial supply will be boosted in 2017 by a number of speculative new-build schemes currently under construction, with general guide prices of £7.50 - £8.50 per sq ft for leaseholds and £120 per sq ft for freeholds.

However, speculative development is still limited to small unit schemes in the Swindon, Wiltshire and Somerset areas. Nevertheless, the infrastructure for new business parks such as Hawke Ridge Business Park in Westbury and G Park Swindon has been completed and is ready for occupiers.

Significant transactions in the region in 2016 included land sales at Central Park in Avonmouth, Bristol to The Range (55 acres) and Lidl (33 acres) for the development of regional distribution centres. In Sharpness, Gloucester, a 170,000 sq ft warehouse has been let to CM Downton. Swindon recorded four big shed transactions, including the letting of circa 204,000 sq ft to Amazon, 200,000 sq ft to Cooper Tires and the sale of the former Triumph Building (200,000 sq ft) to the logistics operator Howard Tenens. All this activity now leaves Swindon with availability of less than 1 million sq ft.

2016 was a good year for landlords, who initiated more deals and benefited from strong rental growth and low vacancy rates. However, last year was more difficult for institutions, asset managers and private investors. These groups of buyers have struggled to expand their portfolios due to the shortage of investment stock, leading to strong interest and keen pricing when good quality assets come to the market.

There were a number of notable industrial investment deals in the wider south west region. These included DTZ Investors' acquisition of Beeches Industrial Estate in Bristol for £27.15 million, which reflected a yield of 6.75% and Tritax Big Box REIT's acquisition of a 250,758 sq ft purpose-built distribution facility for Brake Bros Ltd on Portbury Way, in Portbury, near Bristol, for £25.2 million. The price reflected a yield of 5.18%.

Smaller deals included Aberdeen Asset Management's purchase of a 68,792 sq ft warehouse at the Vertex Park development in Bristol for £12.1 million. The unit has been pre-let to DPD, a parcel delivery company, and the price reflected a yield of 4.98%. In Swindon, a private investor acquired a 100,000 sq ft warehouse at the South Marston Business Park in Swindon for £8.075 million, while Petchey Holdings acquired the 160,000 sq ft Ash & Birch multi-let industrial estate for almost £10.4 million, reflecting a yield of 8.15%.

2017 is expected to present a degree of uncertainty. However, if work commences on Hinckley Point, this will provide a significant economic boost across much of the South West. With the continued shortage of stock and the need for occupiers to secure cost-effective premises without compromising on location and configuration, 'design & build' opportunities are likely to be a solution for many firms.

INVESTMENT

2016 was another busy year for the Bath investment market, with a total of £57.7 million worth of deals completed, although the figure was well down on the £151.3 million recorded in 2015. The nature of the deals reflects Bath's status as a leading retail, leisure and tourist destination, not to mention its rapidly growing student accommodation sector.

The biggest deal of the year was CBRE Global Investors/Clay Street's £14.16 million off-market acquisition of the new Apex Hotel on Charles Street. The hotel will open in early 2017 and will feature 177 luxury bedrooms, as well as a conference centre for 400 delegates.

Scottish Widows sold its long leasehold interest at 16-17 Old Bond Street to St John's Hospital, which has allowed the charity to consolidate its ownership and control of the street. St John's also sold a portfolio of mixed use properties in order to re-balance its portfolio, many of which had been owned for several hundred years. All these assets were acquired by private buyers at very keen prices, as was 42 Milsom Street which was sold by Lothbury Property Trust.

The most significant office deal was Scotsgrove Holdings' acquisition of the Trimbridge House development for £6.5 million, reflecting a yield of 5.85%.

Liquidity issues following the referendum prompted Standard Life to dispose of 30-35 Westgate Street to Bath & North East Somerset Council. The council has demonstrated that it is now a serious player in the property acquisition market and recent policy statements suggest that it will continue to be so.

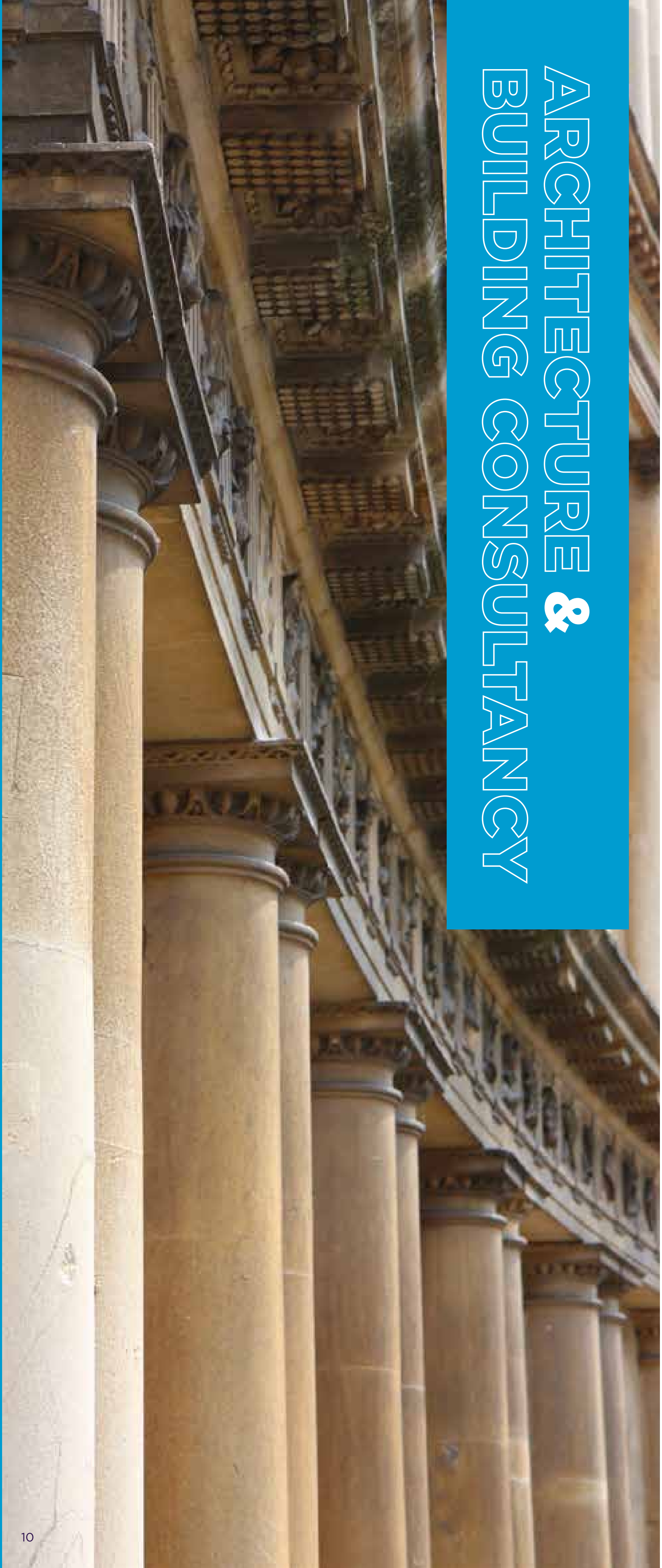
This buoyant level of activity continued as 2016 drew to a close, with private buyers securing 2&3 Milsom Street, as well as 2 Bath Street. It was also a record year for Carter Jonas in the investment market, with involvement in many of these deals.

Figure 8

Key Bath Investments 2016

Source: Propertydata, Carter Jonas

Date	Sector	Building	Buyer	Vendor	Price (£m)	Yield (%)
Q1	Hotel	Apex Hotel, Charles St	CBRE Global Investors	Telereal Trillium	14.16	N/A
Q2	Retail	16-17 Old Bond St	St John's Hospital	Scottish Widows	6.75	5.5
Q3	Office	Trimbridge House, Trim St	Scotsgrove Holdings Ltd	TH Real Estate	6.5	5.85
Q4	Retail	2-3 Milsom St	Private (undisclosed)	CBRE Global Investors	5.18	4.59
Q2	Retail	3-6 Abbeygate St	PAT (Pensions) Ltd	Schroder REIT	4.66	4.6
Q1	Hotel	13-15 Great Pulteney St	Ian & Christina Taylor	GECO Properties UK Ltd	4.46	N/A
Q2	Retail/ Student	1-3 Westgate Buildings	Charities Property Fund	COIF Charity Funds	4.0	3.97
Q3	Retail	42 Milsom St	Nine United Properties	Lothbury Property Trust	3.06	3.99
Q3	Student	2 Oolite Road	Empiric Student Property	Iesis Group	2.6	6.7
Q3	Office	The Square, Charter House	Gaiger Brothers	Kindale Ltd	N/A	N/A
Q4	Retail	30-35 Westgate St	Bath & North East Somerset Council	Standard Life	N/A	N/A
Q4	Retail/ Residential	Portfolio	Various	Carter Jonas on behalf of private client	7.27	N/A



ARCHITECTURE & BUILDING CONSULTANCY

Terminal dilapidation claims are damages sought by landlords against tenants for not complying with their repair, redecoration and reinstatement obligations in the lease.

The frequency of dilapidation claims within the commercial property market has increased due to diminishing lease terms and a prevalence of break clauses being exercised by tenants.

The RICS published findings for average settlement figures in 2010 based on a dataset of projects between 2007 and 2009. The RICS survey revealed average settlement figures of £9.54 per sq ft for offices and £7.27 per sq ft for industrial.

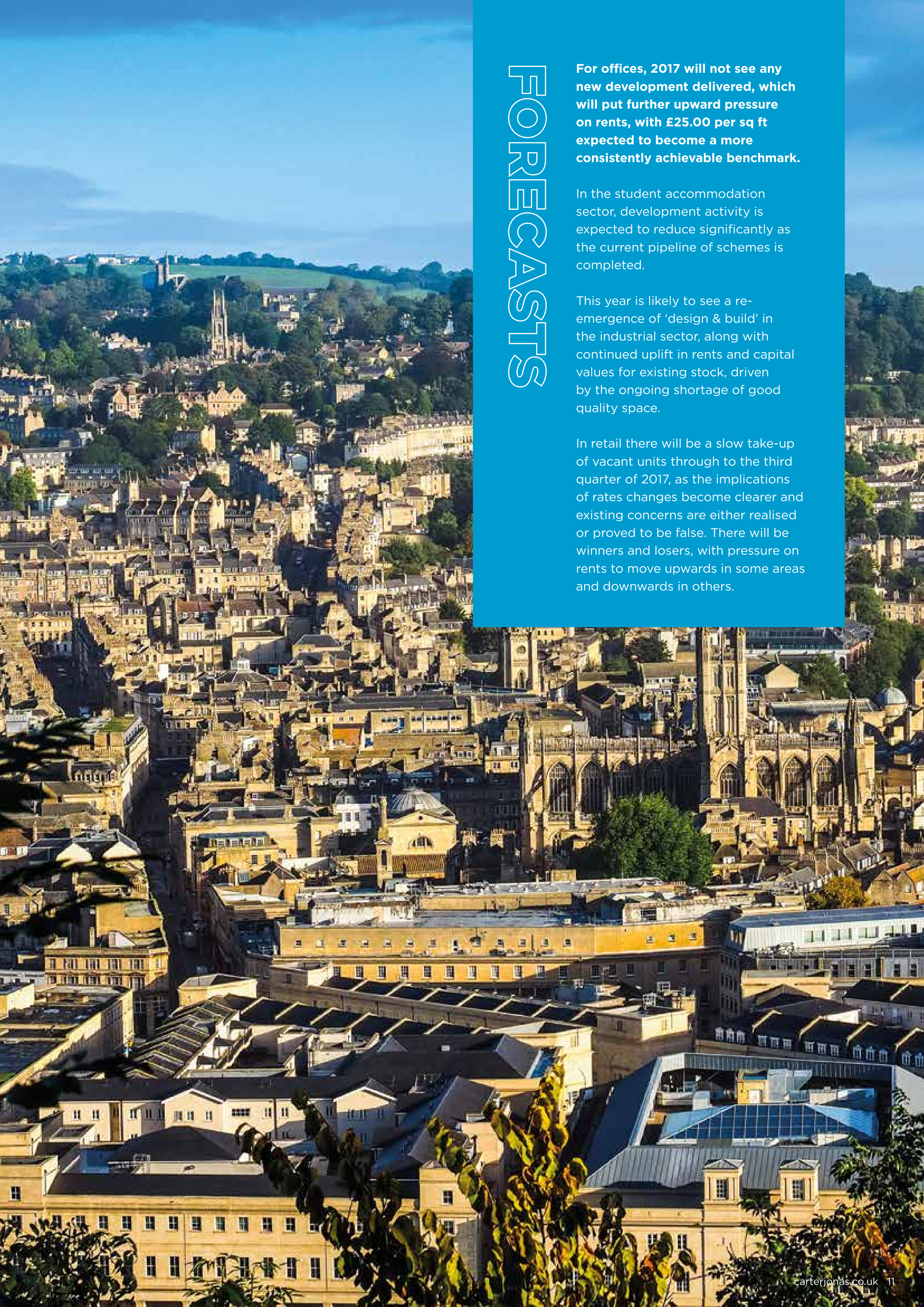
> **"IN THE SOUTH WEST, EVIDENCE SUGGESTS THAT THE DILAPIDATIONS PROCESS HAS BECOME INCREASINGLY PROTRACTED**

Carter Jonas has undertaken a comparative study of projects between 2015 and 2016, which showed an average of £10.61 per sq ft for offices and £6.65 per sq ft for industrial. Our analysis is derived from in-house data across our office network including Bath, Cambridge, Leeds, Oxford and London.

Our findings show that office settlements have increased by approximately 11% between the two studies, lagging behind the 15.6% inflation of the Tender Price Index during this period, as identified by BCIS.

In contrast, industrial settlement figures have experienced a decrease of 8.5% over the same period. We believe this can be attributed to the increase of protective measures such as Schedules of Condition engrossed to leases, which mitigate any future claims by limiting a tenant's liabilities.

In the South West, evidence suggests that the dilapidations process has become increasingly protracted, often through a lack of understanding of the principles and legal obligations associated with leases. Regional activity centred on Bath and Wiltshire has shown a need to mitigate circumstances to achieve a successful result.



FORECASTS

For offices, 2017 will not see any new development delivered, which will put further upward pressure on rents, with £25.00 per sq ft expected to become a more consistently achievable benchmark.

In the student accommodation sector, development activity is expected to reduce significantly as the current pipeline of schemes is completed.

This year is likely to see a re-emergence of ‘design & build’ in the industrial sector, along with continued uplift in rents and capital values for existing stock, driven by the ongoing shortage of good quality space.

In retail there will be a slow take-up of vacant units through to the third quarter of 2017, as the implications of rates changes become clearer and existing concerns are either realised or proved to be false. There will be winners and losers, with pressure on rents to move upwards in some areas and downwards in others.

36 OFFICES ACROSS THE COUNTRY, INCLUDING 12 IN CENTRAL LONDON

- Bangor
- Basingstoke
- Bath
- Birmingham
- Boroughbridge
- Bury St Edmunds
- Cambridge South
- Cambridge North
- Cambridge Central
- Edinburgh
- Harrogate
- Kendal
- Leeds
- Marlborough
- Newbury
- Newbury - Sutton Griffin
- Northampton
- Oxford
- Peterborough
- Shrewsbury
- Suffolk
- Wells
- Winchester
- York

- National HQ One Chapel Place
- Barnes
- Barnes Village
- Fulham Bishops Park
- Fulham Parsons Green
- Holland Park & Notting Hill
- Hyde Park & Bayswater
- Knightsbridge & Chelsea
- Marylebone & Regent's Park
- Mayfair & St James's
- Wandsworth
- Waterloo

ABOUT CARTER JONAS

Carter Jonas LLP is a leading UK property consultancy working across commercial property, residential sales and lettings, rural, planning, development and national infrastructure. Supported by a national network of 36 offices and 700 property professionals, our commercial team is renowned for their quality of service, expertise and the **simply better advice** they offer their clients.

Find out more at **carterjonas.co.uk/commercial**

THIS PUBLICATION IS PART OF THE 2017 COMMERCIAL EDGE RESEARCH SERIES.

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