



COMMERCIAL EDGE

BATH
2018

Carter Jonas

BATH HAS A DYNAMIC ECONOMY, WITH ABOVE AVERAGE SKILL LEVELS, BUOYANT CONSUMER EXPENDITURE AND A STRONG TOURIST INDUSTRY.

The city attracts more than 5 million visitors a year, and provides an attractive living and working environment featuring as the second best city to live in by the 2017 Sunday Times survey. This has helped to maintain economic growth and overall prosperity in the city.

Bath saw economic output growth of 1.8% in 2017, which was above the national average of 1.7%. Economic growth is expected to be a healthy 1.3% over 2018, with a steady year-on-year increase to reach 2.4% by 2022. This relatively strong economic growth has translated into good employment growth for the city. Total Full Time Employment (FTE) growth of 1.4% was seen over 2017. This is expected to slow down to 0.5% over 2018, but this is in-line with national trends, reflecting the continued uncertainties associated with Brexit.

Consumer expenditure grew by 1.4% in Bath and the surrounding area, although this is likely to drop to just under 1% over 2018, as it is nationally. However, stronger growth is expected from 2019 onwards. In fact, the period 2018-2022 is expected to see consumer expenditure grow at 1.5% per annum, well above the 2013-2017 trend of 1.1% per annum.

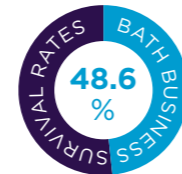
FOCUS ON INVESTMENT



30TH
FASTEST
GROWTH
CITY RANKING
(UK 2018)

£67,456
GROSS VALUE
ADDED (GVA)
PER WORKER
(UK £61,444)

48.6%
BUSINESS
SURVIVAL
RATES
(% after 5 years)
(England 44%)



There was strong activity in the Bath office investment market in 2017, substantially above 2016 levels. It has become the norm now to invite best bids for investment properties as there is frequently strong competition. Over the past few years, this has been mostly confined to prime assets in the City Centre, but the past 12 months has seen demand increasing into surrounding areas. An office building on the City Fringe recently came to the market and received an offer in excess of expectations following a best bids process.



AN OFFICE BUILDING ON THE CITY FRINGE RECENTLY CAME TO THE MARKET AND RECEIVED AN OFFER IN EXCESS OF EXPECTATIONS FOLLOWING A BEST BIDS PROCESS.

Yields continue to sharpen as demand persists. They are often at levels tighter than in comparable locations, with 5-5.5% being the more realistic range. 'Icon buildings' on prestigious addresses are transacting at record low yields as investors scabble for a piece of Bath heritage.

The retail sector also experienced considerable investment activity in Bath in 2017, although some reported sales actually failed to complete and remain in discussion. In all cases purchasers' advisers seem to be applying high degrees of scrutiny to the assets and advising potential purchasers against excesses of optimism where issues have come to light that were not quite as originally portrayed.

The market remains strong with a number of attractive Georgian properties transacting at record level yields. There is a particular appetite for investments around £1 million. Yields remain between 4% and 4.5% for prime freehold investments.

Industrial property remains a popular sector for investment, particularly the multi-let industrial arena as it provides secure income and a robust growth story. Refurbishment and obsolescence costs are also much lower than offices, which limits risks for landlords.

Although 2017 proved to be a good year for landlords with rental growth and low vacancy rates, investors struggled to expand their portfolios due to the shortage of investment stock. This led to strong interest and keen pricing when good quality assets come to the market. Prime yields are currently at 5.5%, and are expected to remain strong.

Figure 1 Bath GVA
Source: Experian

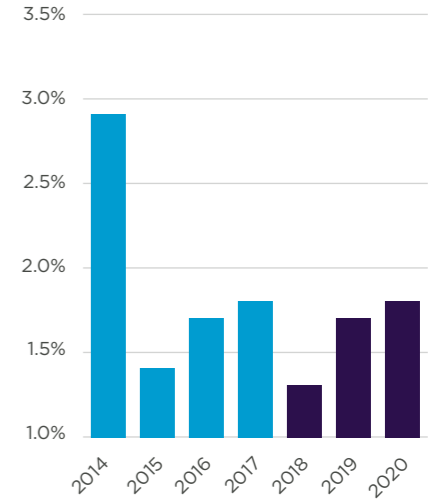
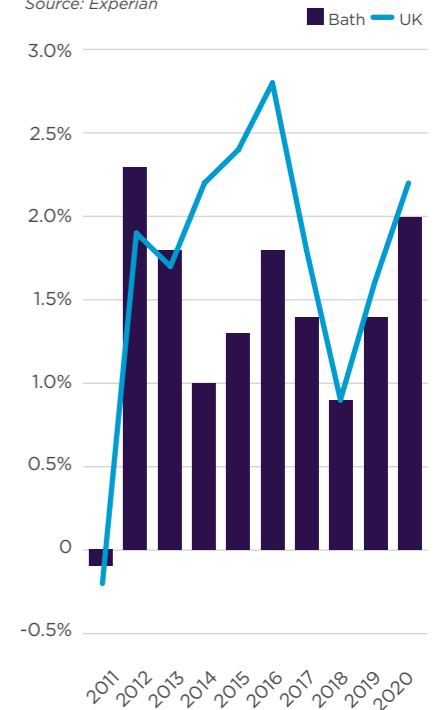


Figure 2 Consumer Expenditure
Source: Experian



BALANCING THE STATS

Three dimensions of a 'balanced city' are outlined below. Comparing Bath's performance to the national average allows us to consider the affluence of the city.

ECONOMICS

GVA GROWTH 2017



1.8%
BATH

1.7%
NATIONAL

EMPLOYMENT GROWTH 2017



1.4%
BATH

1.3%
NATIONAL

BUSINESS SURVIVAL RATES (% AFTER 5 YEARS)



48.6%
BATH

44.0%
NATIONAL

INCOME PER HEAD



£19,177
BATH

£18,793
NATIONAL

EDUCATION GVA OUTPUT (% ECONOMY)



5.6%
BATH

0.6%
NATIONAL

HOUSE AFFORDABILITY RATIO



14.1
BATH

11.9
NATIONAL

PROPERTY

OFFICE SUPPLY/DEMAND RATIO (YRS SUPPLY)



0.5
BATH

5.2
NATIONAL

INDUSTRIAL SUPPLY/DEMAND RATIO (YRS SUPPLY)



0.3
BATH

13.9
NATIONAL

RETAIL SPEND PER SQ FT



£10,939
BATH

£10,739
NATIONAL

5+ A*-C GCSEs ACHIEVED



65.8%
BATH

57.8%
NATIONAL

LONG-TERM UNEMPLOYED (2016 - %, 1 YEAR+)



1.2%
BATH

3.7%
NATIONAL

LIFE EXPECTANCY (YEARS)

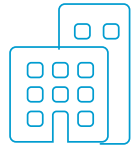


82.6
BATH

81.3
NATIONAL

PROSPERITY

OFFICE MARKET



£26.00
OFFICE RENTS
(psf) Q4 2017

↓
OFFICE TAKE-UP
(2017)

↑
OFFICE SUPPLY
(End 2017)

+1.4%
EMPLOYMENT GROWTH
2017

+1.8%
ECONOMIC CHANGE
2017

Bath is seen as a desirable destination for businesses due to its attractive cosmopolitan environment, talented workforce and the presence of two renowned universities. In addition, good transport links to both London and the South West and its proximity to Bristol International Airport keep the city well connected to the UK's major technology hubs.

Office demand remains high in Bath although this is not necessarily reflected by take-up, which totalled 82,000 sq ft in 2017 and has been suppressed by lack of suitable supply, not a lack of demand. This has been partially obscured by a large volume of serviced office space coming onto the market in the past 18 months, which has absorbed a number of the smaller requirements.

The largest deal of 2017 was the letting of 17,869 sq ft of newly refurbished Grade A office space at



Northgate House to Regus Offices, conducted by Carter Jonas. The landlord Aviva, secured the letting of the whole building for the Regus 'Spaces' brand. While this deal was the largest of the year by some margin, other lettings included 6,854 sq ft at Royal Mead, 3,970 sq ft at St James House and 3,853 sq ft at Old Bond Street.

For a short period after the EU Referendum result, there was a brief reduction in enquiries caused by the uncertainty over the future. This continues in some sectors due to the profile of Bath businesses and the status of their workforce, which has a bearing on future growth plans. However, during the second half of 2017, demand increased substantially and, interestingly, we are also seeing much more in the way of demand for larger volumes of space.

There has been a marked shift in the Bath office market in the past couple of years and it has become more difficult to attract tenants for low quality Georgian office buildings, despite the high level of overall office demand. It is now very unusual for an occupier to be looking for anything other than open plan space over a single floor. Whilst this sort of office stock does exist, there is insufficient supply to satisfy demand. As such, the past few years have seen Bath lose several office occupiers to Bristol and surrounding towns.

Currently the record agreed rent is £31.00psf at 20 Manvers Street. However, this remains an exceptional outlier, with prime rents realistically being around £25.00/£26.00psf. If further quality open plan offices came to the market, then this could potentially grow over 2018 to around £28.00psf.

INDUSTRIAL MARKET



£12.00
INDUSTRIAL RENTS
(psf) Q4 2017

↓
INDUSTRIAL TAKE-UP
(2017)

↓
INDUSTRIAL SUPPLY
(End 2017)

+1.4%
EMPLOYMENT GROWTH
2017

+1.8%
ECONOMIC CHANGE
2017

The supply of industrial stock remains low across the South West despite the commencement of some speculative new builds. In the case of Bath, the continued shortage of opportunities, with no immediate plans for development is forcing occupiers to seek compromises to meet their requirements. Major new lettings in Bath last year were restricted to Topps Tiles and Edmundsons Electrical, who have both taken units next to Tool Station on the Standard Life Aberdeen owned Maltings Industrial Estate, Brass Mills Lane.

The shortage of stock also limited the number of big deals in Swindon. The largest transaction was the letting of 90,000 sq ft at South Marston Park, to Bleckmann Logistics on a lease of 10 years with a commencement rent of £7.00psf. This rent was mirrored by the letting of 75,000 sq ft in Chippenham to Wincanton Logistics.

In Bristol, significant deals include a land sale of 15 acres to DHL at Central Park for the construction of a 160,000 sq ft distribution

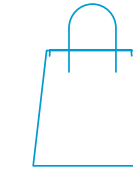
centre, which will be sold via a sale and leaseback. Amazon has also continued its expansion by acquiring land for the construction of a new 4 storey mega-shed for a 2.2 million sq ft fulfilment centre, replicating the first unit in Tilbury. The pre-sale represents the largest single deal ever witnessed across the Bristol industrial market.

The supply shortage is finally leading to a significant level of speculative development in the region. Bristol now has over 650,000 sq ft nearing completion, boosting Bristol's supply of good quality stock. There are also signs of speculative development in the big shed market with DB Symmetry in Swindon shortly to complete on a 211,000 sq ft unit.

Headline rents in Bath are at £12.00psf for newly built small units, and could go to £12.50psf in 2018 if space shortages continue. However, rental levels continue to be strongly influenced by the limited land opportunities and the strict planning regime (given the World Heritage Status of Bath). Bristol and Swindon continue to maintain headline rents of £8.75 and £7.50psf respectively.

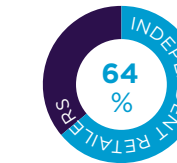


RETAIL MARKET



£205.00
PRIME RETAIL RENTS
(£psf ZA) Q4 2017

64%
INDEPENDENT RETAILERS



£10,939
RETAIL SPEND POTENTIAL
(£psf)

+1.4%
CONSUMER EXPENDITURE
2017

+1.8%
ECONOMIC CHANGE
2017



The results from Christmas trading for the larger retailers demonstrate unequivocally the impact of internet based sales on the High Street, with clear signs of distress amongst many retailers who have not invested in their internet activities. Department Store operators seem to be those most exposed to these pressures.

The Debenhams brand in particular is beginning to look somewhat vulnerable, and if it was lost the effect on many smaller centres would be significant. In Bath, however, we would envisage a rapid take-up of the store space by a high-end brand which would uplift the Centre generally. House of Fraser have also found conditions taxing reportedly approaching some of their landlords looking for rent reductions to counter poor trading levels, but their Bath store is not thought to be one of those in question.

In general terms we consider that Bath's retail sector is better placed than most to deal with these

pressures, the availability of stock not having been greatly expanded over recent years and its attraction to visitors having been continually enhanced. The City attracts over 5 million visitors a year, with footfall of 25 million per annum. As a result, retail occupancy is at 95% (compared to 88% nationally), and there is an active independent sector and a range of international and high street brands.

Overall, demand levels remain strong in Bath city centre for A1 retail units. There is also considerable demand for A3/A4/A5 space. Retailers however, are generally cautious about securing long leases and are also more demanding about their specific requirements rather than fitting into current available space.

In the northern part of the centre, Old Bond Street, parts of New Bond Street and Milsom Street Zone A rents remain at £205psf. Rents on Union Street were stable at £150-£160psf Zone A, despite reductions on the rates payable, as were rental levels in Stall Street with Zone A's of £160-£170psf.

THE TRENDS

		PRIME RENT (END 2017)	CHANGE OVER 2017	FORECAST 2018	YIELD (END 2017)
VALUES	Office	£26.00psf	↑	↑	5.25
	Industrial	£12.00psf	↔	↑	5.5
	Retail	£205.00psf ZA	↔	↑	4.25
		2017 TAKE-UP (SQ FT)	CHANGE OVER 2017	CURRENT AVAILABILITY (SQ FT)	CHANGE OVER 2017
BUSINESS SPACE ACTIVITY	Office	82,000	↓	37,230*	↑
	Industrial	36,675	↓	7,075	↓

*Excludes space not yet constructed

SPOTLIGHT ON: OFFICE DEVELOPMENT

There is a collective recognition by businesses and the local council that Bath will not attract external investment if the town cannot provide for existing businesses.

Though hard to comprehend in 2018, planning policy around the 1990s reflected deep concerns about the volume of new office development that had taken place in Bath over preceding years, which consequently led to a moratorium on office development. From this starting point, and subsequent years of a viability gap, we have not seen significant office development in Bath.

In Bristol and other nearby towns such as Chippenham and Trowbridge, however, there has been significant development, which has led to the severe shortage of space and the disparity in Bath we see today. It is perverse that Queen Square, completed in 1728, remains the “prime” office centre of Bath today.

Recently consented developments such as Roseberry Place and Strata are situated outside the traditional business centre and have, to

date, failed to attract occupiers. Furthermore, Bath and North East Somerset Council’s own South Quays project, with two suites of 20,000 sq ft, has also failed to find occupiers in spite of its relatively good location. In the case of Roseberry Place, the location is considered too far out for most occupiers. For Strata and South Quays, the development lead-in period, combined with uncertainty of delivery, is thought to have been instrumental in holding these schemes back. But, commencement of construction would provide a quick turnaround for these developments.

Learning from the aforementioned schemes, future investors of office development projects are required to design and build adequate office accommodation, which is not only high quality, but reflective of the requirements of existing businesses in Bath and the nearby office centres.



IT IS PERVERSE THAT QUEEN SQUARE, COMPLETED IN 1728, REMAINS THE “PRIME” OFFICE CENTRE OF BATH TODAY.



FORECASTS

Demand for office space in Bath is expected to increase throughout 2018, which will feed through to rental levels for the right property. Prime office rents could reach £31.00 - £32.00psf by 2020.

Despite a range of uncertainties, the relative scarcity of supply for industrial property is maintaining a high level of demand. Prime rental levels and capital values for existing stock are likely to rise during 2018.

Overall, the retail sector in Bath is expected to remain healthy during 2018. Demand for the correct type of space will remain strong across the various sub-sectors, with rents forecast to remain stable.

38 OFFICES ACROSS THE COUNTRY, INCLUDING 13 IN CENTRAL LONDON



Bangor	Newbury
Basingstoke	Northampton
Bath	Oxford
Birmingham	Peterborough
Boroughbridge	Shrewsbury
Cambridge	Suffolk
Edinburgh	Taunton
Harrogate	Truro
Kendal	Winchester
Leeds	York
Marlborough	

National HQ One Chapel Place	Knightsbridge & Chelsea
Barnes	Marylebone & Regent's Park
Barnes Village	Mayfair & St James's
Fulham Bishop's Park	S. Kensington & Earl's Court
Fulham Parsons Green	Wandsworth
Holland Park & Notting Hill	Waterloo
Hyde Park & Bayswater	

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