

enterprise **m3**

Driving prosperity in the M3 corridor



Commercial Property Market Study

A report for Enterprise M3 by
its Land & Property Action Group

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On behalf of Enterprise M3 Local Enterprise Partnership

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Foreword

Enterprise M3, through its Land and Property Action Group, has carried out a major new study of employment land (sites and premises) to help understand the characteristics of the commercial property market in the M3 corridor. The work has brought together property market experts from around the region with public sector policy makers and other interested parties to thoroughly evaluate the nature of space on offer and market dynamics in the Enterprise M3 area.

Property is a fundamental resource for the community and the way that is used is of critical importance to residents and businesses alike. The study has revealed key facts and figures, market insights and opinions, plus significant implications for how policy makers, businesses and developers might work together in future.

The work consisted of 3 main steps which have identified:

1. The market for premises – hotspots of supply where businesses have a strong choice of property on favourable terms; pockets of demand where businesses are calling for more development; real concern in the market about how some sites can be viably developed and where public policy may need to be pushed to enable investment through more creative use of space.
2. The nature of sites – consensus and points of difference in the way that the market and policy makers regard employment land allocations; praise for a stock of good quality sites in certain places; but also concern that some sites are simply not “deliverable” in their present form. Over 100 sites have been assessed by public and private sector panels with Enterprise M3 now calling for a business perspective on future property needs and funding priorities.
3. The implications – greater clarity has been achieved on which sites are immediately available to the market and which may require intervention and support; this has implications for how and where resources are deployed to make a positive difference. The balance of the market is very much weighted towards supply with real questions about the source of future growth and demand. However, there are differences as between offices and industrial property and between different “market areas” within the Enterprise M3 patch.

Our collective response to market conditions will have major implications for the look and feel of our built environment in future. Planning policies are being unsettled by economic pressures, whilst the realities of the market demand flexibility to accommodate cyclical and structural change. The study has highlighted the need for ongoing research and dialogue between public and private sector to optimise the physical resources of the Enterprise M3 area to the benefit of businesses and the community at large.

I am grateful to the researchers at Propernomics and Hampshire County Council who have conducted this study and to all the Hampshire and Surrey local authorities and the private sector members of the Enterprise M3 Land & Property Group who contributed to the work.



*Malcolm Young
Chairman and Chief Executive, The Wilky Group Ltd
Chairman, Enterprise M3 Land and Property Action Group*

The Enterprise M3 Board welcomes this Commercial Property Market Study carried out by its Land and Property Action Group. This study clearly highlights that the area has plenty of quality commercial space putting the area in a strong position for any upturn in the local economy. However whilst there is a lot of available commercial space in the M3 area, some of that space has been empty for a long while.

Enterprise M3 is very keen to ensure that the area has the right kind of property developments to encourage new commercial use. We also realise that we need to address the issue of over-supply of commercial property in some parts of the area and the under-supply of housing space and we wish to debate with local authorities and others whether we should be considering other uses for some sites including housing for our local workforce.

The Enterprise M3 Board fully intends to use the findings from this Study, and the debate that will be sparked by its launch, to inform our Strategy for Growth and Local Growth Plan. We will publish our formal response to the Study once we have had the opportunity to debate this with Local Authorities and private sector partners which will be kick started at the launch event at the Aviator Hotel in Farnborough at the end of April.



*Geoff French
Chair, Enterprise M3 Local Enterprise Partnership*

Executive Summary

The Enterprise M3 Local Enterprise Partnership (LEP) has carried out a major new study to develop a robust commercial property evidence base as it seeks to engage with, and influence, planning and economic policy and delivery. Building on the work of the former Hampshire Economic Partnership, which was responsible for Hampshire's highly regarded employment land Site Assessment Studies and other property market analysis, this is the first Commercial Property Market Study for the Enterprise M3 LEP area.

The study consists of three parts. Part 1 establishes a rigorous methodology that delivers a market based commercial premises demand and supply assessment for the Enterprise M3 LEP area, and then presents a short to medium term picture of commercial property market conditions in the area. Part 2 comprises the site assessment, a thorough and reliable evaluation of the employment land portfolio for large sites in the Enterprise M3 LEP area, including a market based assessment of their viability and deliverability. Lastly, Part 3 stitches together Parts 1 and 2 of the study by identifying a portfolio of two types of key sites for the Enterprise M3 LEP economy:

1. 'primed' and ready-to-go sites that are both attractive to the market and immediately available to the market, covering a range of sizes and market sectors, suitable for both indigenous and inward investment and;
2. investment potential sites that could be the focus of intervention and support, i.e. those sites potentially viable and attractive to the market but not yet market ready. Sites in this category might also be the subject of "critical friend" conversations enabling the private and public sectors to work collaboratively together to ensure that they come forward for development effectively.

The study itself relies entirely on public and private sector co-operation and partnership to ensure a thorough and well-rounded evaluation. As well as the core research team being drawn from both the public and private sector, every one of the 14 Enterprise M3 Local Authorities participated in the process and their work was complemented by panels of commercial agents and developers drawn from the Enterprise M3 Land and Property Action Group.

Beyond considering the market for premises and the nature of the main employment sites, the study also goes on to draw out the wider implications of the research that can help steer the agenda for planning and development in the Enterprise M3 area. In summary, key findings from the three strands of the study highlight:

Market for Premises

- *Hotspots of supply where businesses have a strong choice of property on favourable terms;*
- *Pockets of demand where businesses are calling for more development;*

- *Real concern in the market about how some sites can be viably developed and where public policy may need to be pushed to enable investment through more creative use of space.*

Snapshot - Market conditions

- *Context of an overheated economy followed by recession. Compounded by a banking crisis with adverse effects for property demand and development finance.*
- *Long tailed recovery/plateau still in play.*
- *Tough conditions for property suppliers but good for businesses negotiating terms.*
- *But construction activity has stalled leaving some agents and occupiers worried about a poor choice of good quality space.*
- *Pockets of speculative development near M25, otherwise persistent uncertainty about ongoing market conditions.*
- *Commercial viability problems plague the “deliverability” of new floorspace and policy aspirations.*

Nature of Sites

- *Consensus and points of difference in the way that the market and policy makers regard employment land allocations;*
- *Evidence of good quality sites in certain places; but,*
- *Also concern that some sites are simply not “deliverable” in their present form.*
- *Over 100 sites have been assessed by public and private sector panels with Enterprise M3 now calling for a business perspective on future property needs (including business and housing) and funding priorities.*

Snapshot – Assessment of sites

- *The 101 sites were scored by public and private sector panels for market attractiveness, market quality and market availability – 58 sites in Hampshire and 43 in Surrey.*
- *A1 graded 57% (well suited and immediate), 12% graded A2 (well suited but for longer term), but 31% graded B/C and deliverability is in doubt.*
- *Potential floorspace is swelled by large sites in the Blackwater Valley and Upper M3 areas (Pyestock and Longcross*

Portfolio of Key sites

- Two types of sites were identified through a rigorous and transparent assessment process.
- High quality, market-ready sites suitable for immediate indigenous or inward investment to maintain the LEP's competitive edge.
- Sites with high economic development potential but requiring a degree of investment to resolve infrastructure or other obstacles to development.

Key market ready sites	Key investment potential sites
<ul style="list-style-type: none">• Andover Business Park• Chineham, Basingstoke• Guillemont Park, Blackwater• Farnborough Business Park• Altura, Woking• Opus 1 / 3, Staines• Majestic House, Staines• Staines Central	<ul style="list-style-type: none">• Walworth BP, Andover• Viables BP, Basingstoke• Basing View, Basingstoke• Pyestock North, Farnborough• Old Ively Road, Farnborough• Home Park (BAE), Frimley• Henley Park, Guildford• DERA site, Longcross

Wider Implications

- Greater clarity has been achieved on which sites are immediately available to the market and which may require intervention and support. This has implications for how and where resources are deployed to make a positive difference.
- The balance of the market is very much weighted towards supply with real questions about the source of future growth and demand. However, there are differences as between offices and industrial property and between different "market areas" within the Enterprise M3 patch.

Snapshot – Implications

- The prognosis for the short term suggests a continuing 'flat' market but with signs of more positive market sentiment in the upper M3 market area.
- There will be persistent pockets of overcapacity in the Blackwater Valley and Basingstoke areas. Office vacancy rates are much higher than industrial.
- Considerable debate is required over the protection of employment land and the role of mixed use as a catalyst for delivering economic growth.
- The economic cycle may 'restore' some markets but beware structural change in the case of large offices (plus town centres affected by new forms of retailing).
- Funding decisions should be based on achieving a "tipping point" for projects so that funding delivers a positive difference.
- Ongoing dialogue required on business intentions and the policy response.

The study has also revealed changes that differ in terms of their scale and the extent to which people are aware of them. For example, the general impact of recession has been both considerable and well documented. Yet, the impact of changing working practices on office demand, resulting in a major structural change in the market place, has been less widely appreciated. Likewise, the fine line of development viability between rents and construction costs is specialist knowledge that may not be fully appreciated by policy makers operating outside the property market. These changes, a result of the research, are illustrated in Figure 1

Figure 1. Awareness Levels of Change in the Market

Scale of change	<p>Major changes, low awareness</p> <ul style="list-style-type: none"> • <i>Employment density – much more efficient use of offices</i> • <i>Hidden capacity (some firms with “elbow room”)</i> • <i>Some locations with high vacancy rates</i> 	<p>Major changes, well known</p> <ul style="list-style-type: none"> • <i>Economic plateau, uncertainty over growth</i> • <i>Property re-pricing/”deals”</i> • <i>Government anxious to catalyse economic growth</i> • <i>Relaxation of planning?</i>
	<p>Subtle changes, low awareness</p> <ul style="list-style-type: none"> • <i>The quantitative supply of allocated sites (a relatively fixed resource and limited for the more “strategic” sites)</i> • <i>Fine line of viability between construction costs and rents</i> 	<p>Steady changes, well known</p> <ul style="list-style-type: none"> • <i>Some persistent property preferences (e.g. parking)</i> • <i>Signs of fresh office take-up (e.g. parts of TV/Surrey)</i> • <i>Gradual debt restructuring</i> • <i>Growing carbon agenda</i>
Clarity/awareness of change		

Our collective response to market conditions will have major implications for the look and feel of our built environment in future. Planning policies are being unsettled by economic pressures; the realities of the market demand flexibility to accommodate cyclical and structural change. The study has highlighted the need for ongoing research and dialogue between the public and private sectors; this is needed to optimise the physical resources of the Enterprise M3 area to the benefit of businesses and the community at large.

This study has been undertaken by researchers at Propernomics Ltd and Hampshire County Council on behalf of Enterprise M3 Local Enterprise Partnership, in conjunction with local authorities and members of the Enterprise M3 Land & Property Group.

Introduction

Purpose

The purpose of the study is to develop a robust commercial property evidence base for the Enterprise M3 LEP as it seeks to engage with and influence planning and economic policy and delivery in the area. In beginning to establish this work, the LEP has decided to adopt and build upon the work of the former Hampshire Economic Partnership Investment, Land and Property Group (ILPG) which was responsible for the highly regarded employment land Site Assessment Study and other property market analysis.

The success of the Site Assessment Study was built on a private/public partnership between Hampshire County Council and the commercial property agents, developers and consultants who formed the membership of the ILPG. In order to ensure the continued success of its “cornerstone” product, the Group commissioned in 2010 a thorough review of the design and implementation of the study model. This review was carried out by Simon Ward of Propertonomics, who also advised the group more widely on property market demand and supply trends and issues. The Site Assessment Study was found to be entirely fit for purpose in a rapidly changing commercial property market environment.

This study looks to extend and expand on the enviable track record established by the ILPG by drawing together the same core team of professionals, by adopting the successful Site Assessment Study model for the market appraisal element of the work, and by developing the market demand and supply methodology, proposed by Simon Ward, which had been thoroughly debated and endorsed by the group.

Objectives

The study falls into three parts.

Part 1 – establishes a methodology for, and delivers, a rigorous, market based commercial premises demand and supply assessment for the Enterprise M3 LEP area, to provide a short to medium term picture of commercial property market conditions in the area.

Part 2 – comprises the site assessment study which delivers a thorough and reliable assessment of the employment land portfolio of large sites in the Enterprise M3 area, including a market based assessment of their viability and deliverability.

Part 3 – brings Parts 1 and 2 of the study together to identify a portfolio of key sites for the Enterprise M3 economy, both those immediately available to the market and those which should be the focus of intervention and support, private and public sectors working together.

The overall objective is to provide a comprehensive and robust commercial land and property evidence base to inform the LEP and in turn to form the basis of advice and information to the private sector, including inward investment, and the public sector in terms of “critical friend” type discussions aimed at bringing sites forward for development more effectively.

Partnership approach

A key strength of this study is its underpinning by public and private sector collaboration which identifies and extends common ground as far as possible but also identifies areas where there is disagreement¹. Based on an established working model, which had been developed in the former HEP work, the private sector involvement adds the market reality and cutting edge to the study outputs which gives them their unique value.

All those participating from the private sector were happy to sign a confidentiality agreement and all discussions took place under Chatham House rules. Any agent or developer or consultant who had a direct interest in a particular site declared that interest but was not debarred from participating in the discussion. The private sector validation panels were all constructed in such a way that discussion of each individual site always involved at least two voices.

All those involved from the private sector gave freely of their time and expertise, in a spirit of “enlightened self-interest”, acknowledging the wider benefits of the study to the economic development of the Enterprise M3 area in general, providing considerable value to the private and public sectors alike.

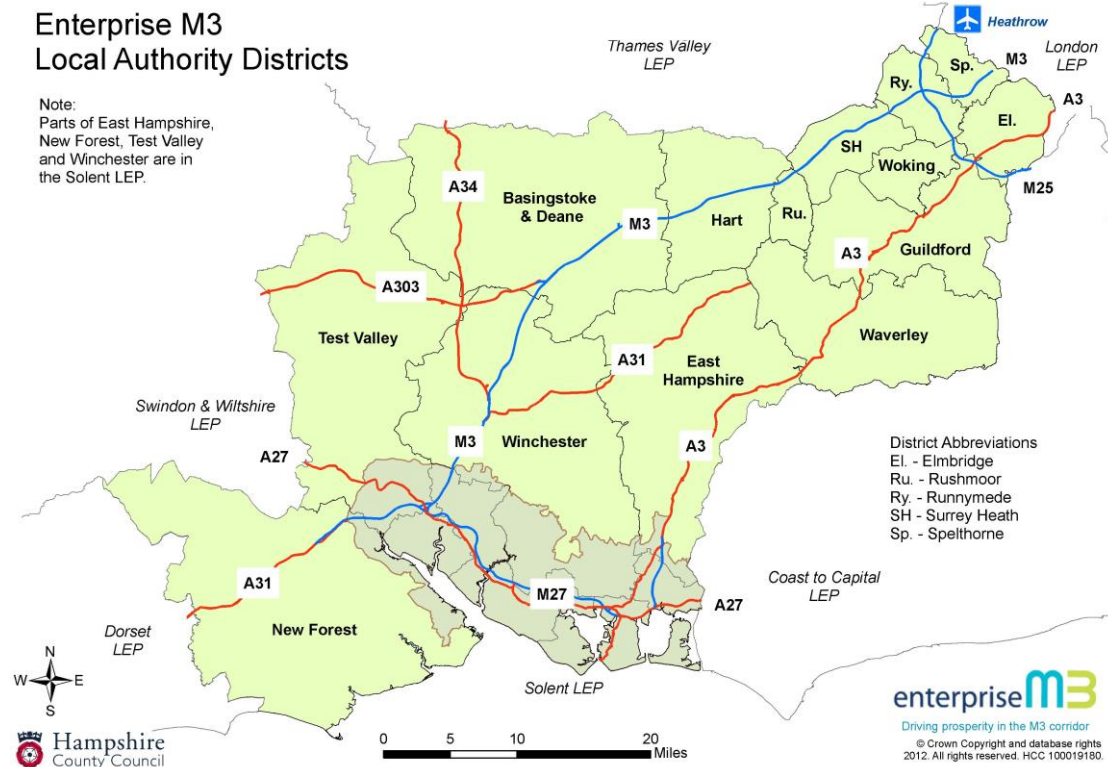
A distinguishing feature of this study is the way that it has combined the views of property market practitioners and policymakers. The expectation is for there to be an ongoing dialogue between interested parties, from the public and private sector, to disseminate the research to date and to use it as a stepping stone for further inquiry and debate.

The study area

Enterprise M3 LEP covers a large area stretching from the M25 and the outskirts of London some 80 miles south west through Surrey and Hampshire to the New Forest and the south coast. The area includes, either in part or in their entirety, 14 Local Planning Authorities (see Figure 2 overleaf).

¹ There is scope outside of this study, but flowing from it, for “critical friend” conversations which will help private and public sector alike to understand each other’s perspective on particular issues with the aim of resolving barriers to development and bringing sites forward to the market more effectively.

Figure 2: The Enterprise M3 area



Market areas

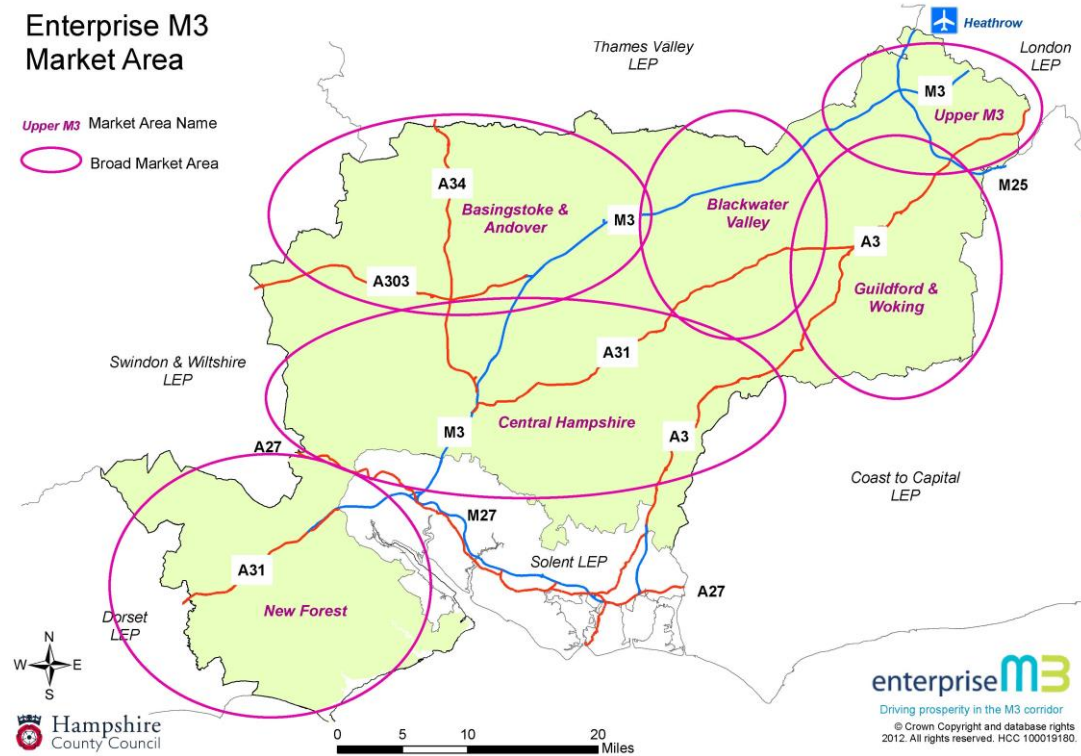
At the outset it was understood that the Enterprise M3 area was so large that the market conditions within the area were likely to vary, with a variety of key drivers. The study looks to capture these significant variations by identifying a number of smaller market areas within Enterprise M3 as a whole for separate analysis.

As part of this research, the Land & Property Action Group debated how the property market and business community regard the study area and concluded that there are distinct sub-areas with different characteristics. Accordingly, the LEP area has been analysed according to the following “market areas” (see Figure 3 overleaf):

From left to right, these areas are:

- New Forest
- Basingstoke & Andover
- Central Hampshire (including Winchester and Petersfield)
- Blackwater Valley (including Camberley, Aldershot, Farnborough and Farnham)
- Guildford & Woking
- Upper M3 (including Staines-upon-Thames and part of the south western quadrant of the M25)

Figure 3: Market Areas



Members of the Land & Property Action Group discussed and agreed the use of these “market areas” as a means of reflecting the practical operation of the property market and to enable discussion about the performance of different sub-markets within the LEP area. Further comments on data sources and their geographic basis appear at intervals elsewhere in this report. However, in common with other studies there is not always an exact match between different datasets such that careful interpretation of results is required. Some sources of information are only available for particular geographies – e.g. administrative areas (such as local authorities and wards) or by postcode. Hence the study combined a variety of datasets with market intelligence on perceived market areas, as well as public and private sector views on the suitability of employment sites.

Part 1:

Premises and Market Conditions

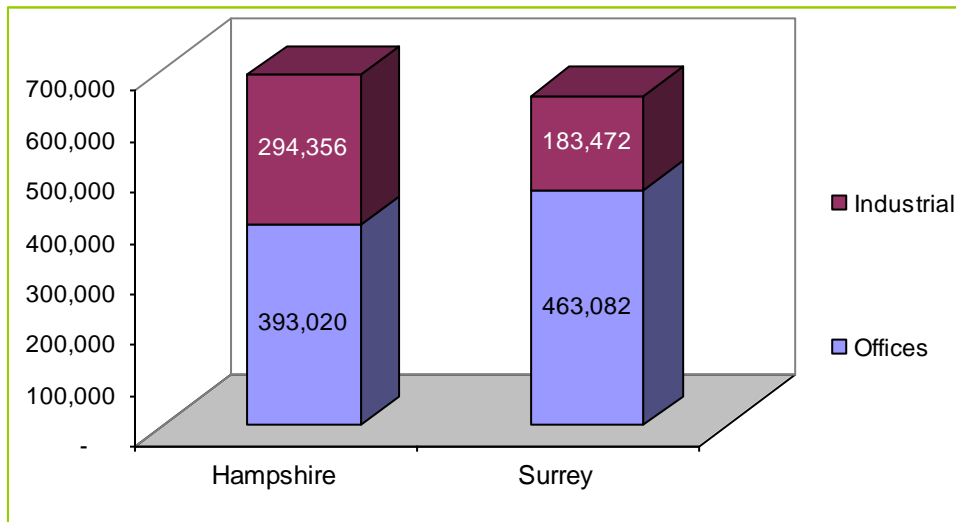
1.1

Supply

There is in the region of 1.3 million sqm of industrial and office accommodation available on the market (excluding employment sites) within the Enterprise M3 LEP area, with approximately 690,000 sqm within the Hampshire part of the study area and similar amount of space found in the Surrey part.

The majority of available property is office space (64%), reflecting the predominance of our service driven economy. Referring to Figure 4, within the Hampshire study area the split between offices and industrial sites is 57% (office) to 43% (industry). This contrasts to the Surrey study area, where available accommodation favour offices, with almost three quarters (72%) office space against 28% industrial. To some extent this reflects the traditional make-up of the local economy, yet also reflecting that northern parts of the study area (towards Surrey and therefore London) have been far more successful in the past at attracting investment for office development than Hampshire.

Figure 4: Office and Industry Floorspace (sqm)



In considering the nature of property on the market, it's important to remember that offices are occupied at a far higher density i.e. more people per given area of space, than will be the case for industrial sites. As such, when analysing the supply of available space in terms of the number of jobs that floorspace could accommodate, the picture is altered and the dominance of the office supply becomes more apparent.

Potential “jobs capacity” shows that within the Hampshire study area vacancies associated with offices represent 80% of availability, while the Surrey figure is about 88%. In the Enterprise M3 LEP area as a whole, about 84% of the built and available space represents office employment.

If the LEP area were to take up its spare capacity within commercial property then a very significant share of new employment must be office based. In practice, it is probable that some areas will lean towards a more even balance of different types of employment (including non B-class jobs such as retail). Importantly, the density at which office space is occupied is increasing and we comment more fully on this point later in the report.

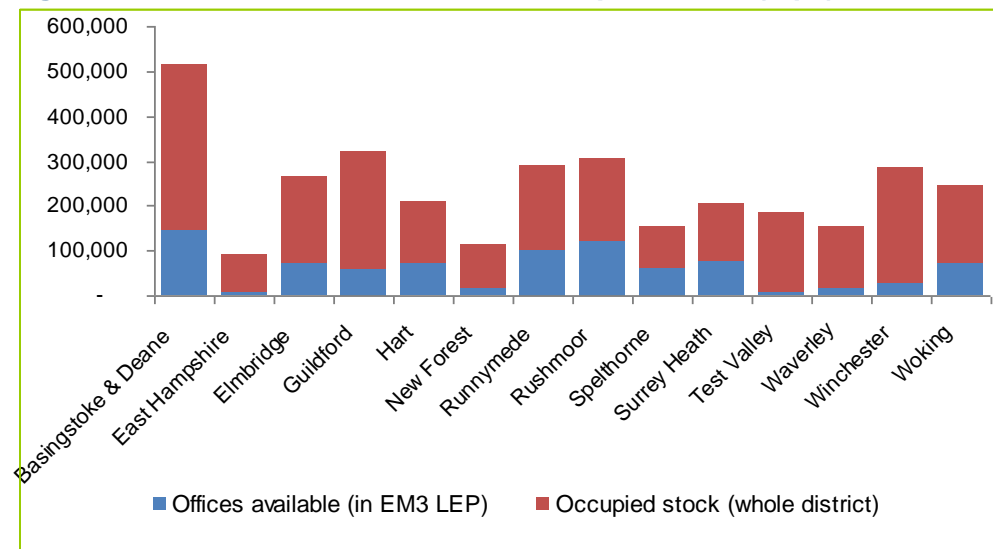
1.2

Vacancy Rates

Offices

A key question is whether there are locations within the study area that have a particularly high or low vacancy rate. This can be tested by comparing availability with the overall “stock” of premises (occupied and vacant). Stock data is available by local authority area; although does not match exactly with market areas or Enterprise LEP areas, but nonetheless does give some indication of which areas in the study are relatively over or under supplied with office or industrial accommodation. Figure 5 illustrates this point made in the overview, with the blue shaded columns denoting the office floorspace available within in each district (inside the Enterprise M3 LEP boundary). The data are shown more clearly in Figure 6.

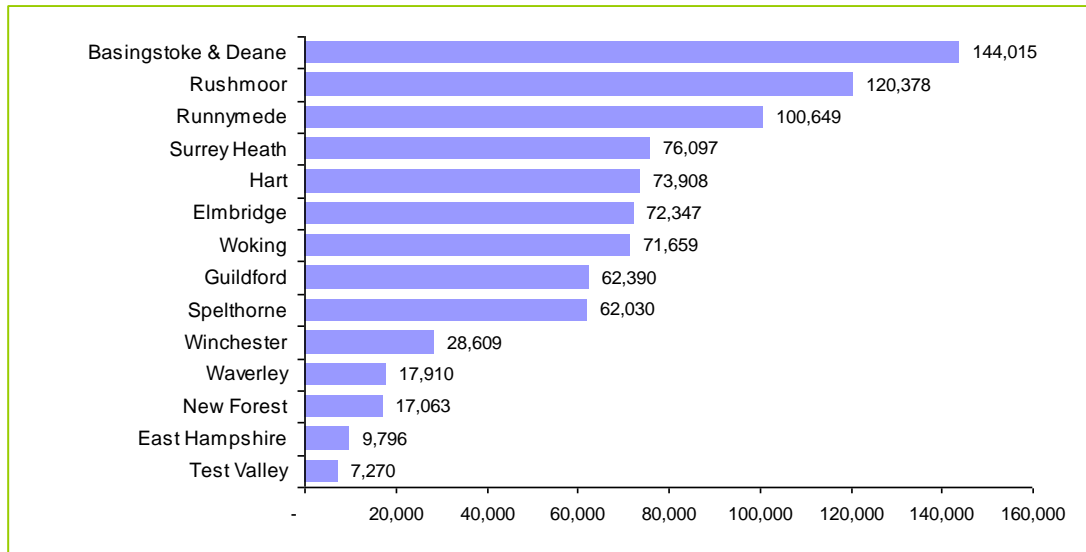
Figure 5: Stock of Office Accommodation per district (sqm)



Source: Valuation Office Agency and Focus.

Note: Some districts overlap with Solent LEP and have additional space available.

Figure 6: Offices available (in EM3 LEP) by district (sqm)



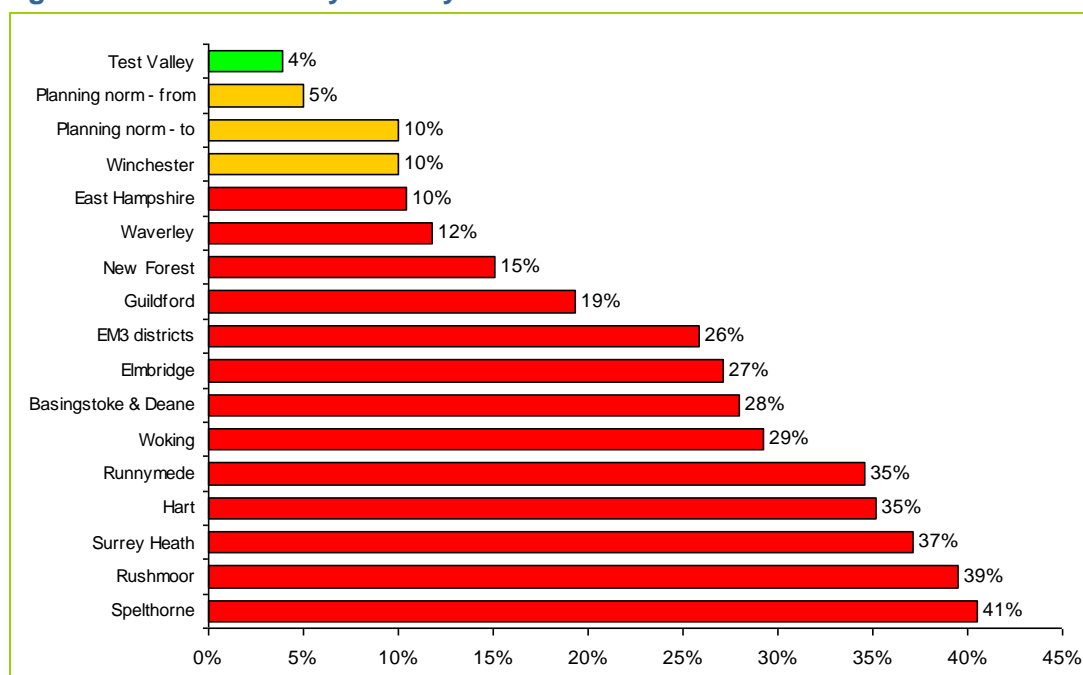
When it comes to forward planning the common benchmark for vacancy rates considered to be within a normal range is a figure of between 5% to 10% of the total built stock. If the vacancy rate is higher than this range then arguably the *surplus* floorspace can be added to the total supply of employment land available for future growth of the local economy. Depending on the sum, there may be scope for changes of use to occur. If, on the other hand, the vacancy rate is lower than the normal range then it may indicate supply is tight and possibly necessitate the allocation of more employment land.

Many local authorities have undertaken “Employment Land Reviews” with the express purpose of understanding this balance. However, it’s important that such studies are kept up to date, with a market based perspective, to reflect economic conditions and the needs of the market - both quantitative and qualitative (market gaps may still occur even if supply is numerically high). It would also be beneficial for local evidence to be fully cognisant of cross-border supply and demand; this study might help to inform such work.

Analysis of office vacancy rates suggest the choice of vacant accommodation is quite limited in the Test Valley area but much greater in Basingstoke and the Blackwater Valley districts, and notably in Spelthorne. Figure 6 indicates that the majority of districts within the Enterprise M3 LEP area currently have higher office vacancy rates than might be considered normal for forward planning purposes.

The top bar (green) represents Test Valley where the vacancy rate is lower than the suggested normal range of 5% to 10%.

Figure 7: Office Vacancy Rate by District



Basingstoke and Deane had the most office space available (Figure 6), but it also has a substantial stock that helps explain why it ranked 8th out of 14 Enterprise M3 districts in terms of vacancy rates. Conversely, East Hampshire had one of the smallest stock of offices (Figure 6), but the vacancy rate appears to be close to the normal range, probably due in part to the relatively rural nature of the district and relationship with adjoining centres of employment within commuting distance.

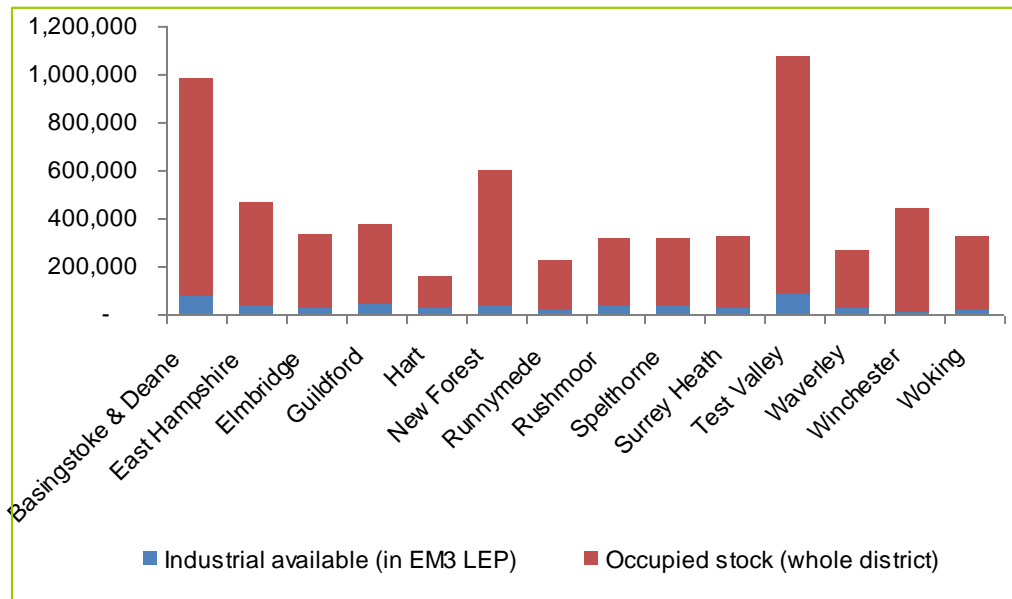
Guildford has a third less office stock than Basingstoke yet 57% less availability. Consequently, it has a lower vacancy rate. New Forest has the third least amount of office space available out of a relatively small stock, and as a consequence the vacancy rate is 7th from the bottom in Figure 7. Rushmoor comes second to Basingstoke in terms of the quantity of office space on the market. It has a stock comparable in size to Runnymede, between Guildford and Winchester in the rankings, so its vacancy rate is amongst the highest in the Enterprise M3 LEP area. Spelthorne has the highest office vacancy rate in Figure 7, but this disguises the fact that the overall stock is relatively small (4th out of 14 in Figure 5).

The Test Valley part of the LEP has the least amount of office space available compared to other districts. However, this disregards additional supply within the district, but outside the LEP boundary. This means that the vacancy rate for the district is higher in practice; further work in conjunction with Solent LEP would clarify the position. Winchester has a sizeable stock (in the top 5 as shown in Figure 5) but the vacancy rate for the district is understated for the same reason. In addition, this applies to East Hampshire and New Forest districts which also straddle the two LEPs.

Industrial

By contrast, in the industrial market, the majority of districts have vacancy rates that are within the normal forward planning range. The following charts explain the position commencing with an analysis of built stock, the vast majority of which is occupied.

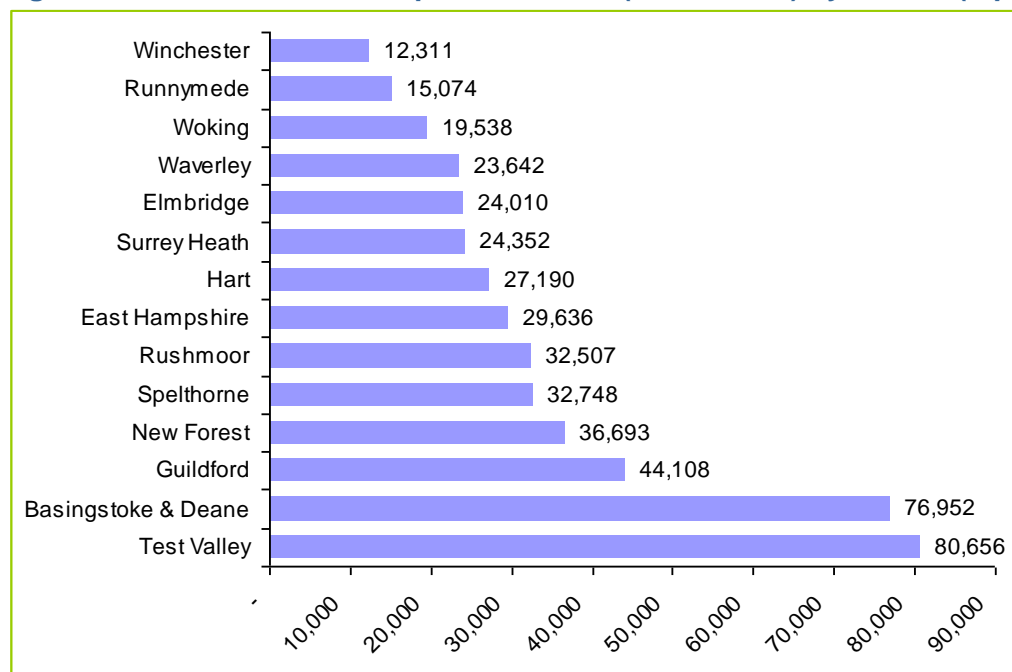
Figure 8: Stock of Industrial Accommodation per district (sqm)



Source: Valuation Office Agency and Focus

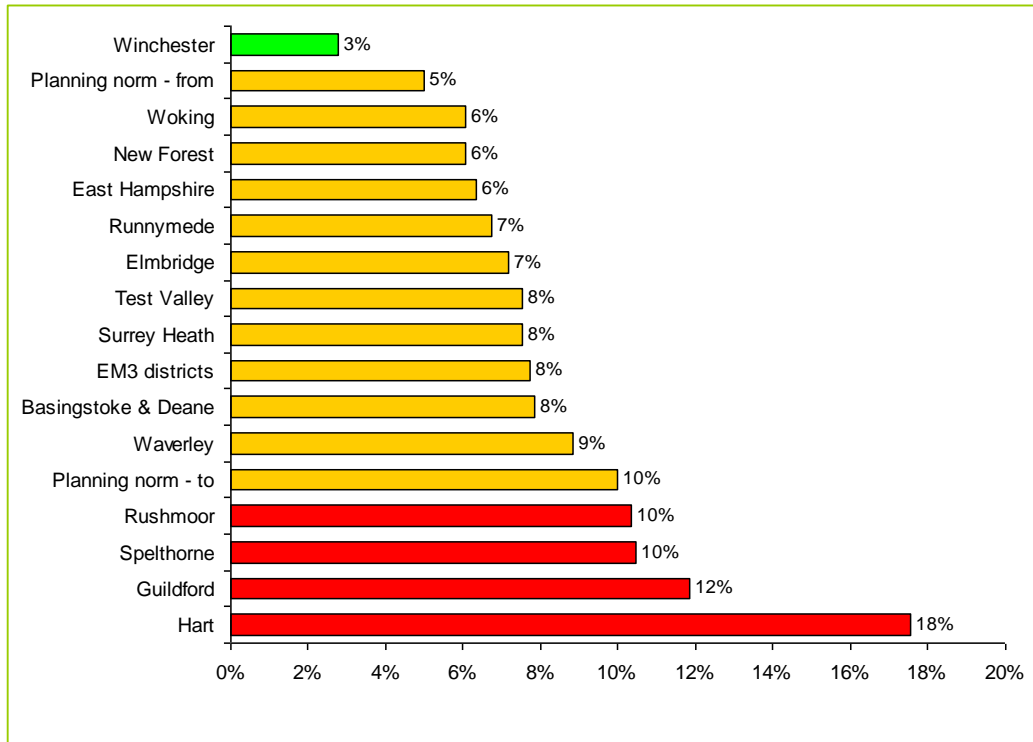
Note: Some districts overlap with Solent LEP and have additional space available
Industrial property data shown here includes B8 warehouses

Figure 9: Stock of Industrial space available (in EM3 LEP) by district (sqm)



The data confirms the principal industrial locations within the Enterprise M3 LEP area are located in Basingstoke and Andover (the latter being in Test Valley), followed by the New Forest, East Hampshire and Winchester. However, in terms of the space available at the time of the research, Guildford comes third in the list (Figure 9).

Figure 10: Industrial Vacancy Rate by district



By comparing availability with stock we can calculate a vacancy rate for each district (Figure 10). On the face of it Winchester appears to have a lower than average industrial vacancy rate whereas Rushmoor, Spelthorne, Guildford and Hart have higher than average vacancy rates. However, it should be noted that the majority of districts fall within the normal forward planning range for industrial property.

Hart has a relatively high vacancy rate but it has the smallest amount of stock so space that is available (for which the district ranks 7th out of 14) makes a big difference to the figures shown.

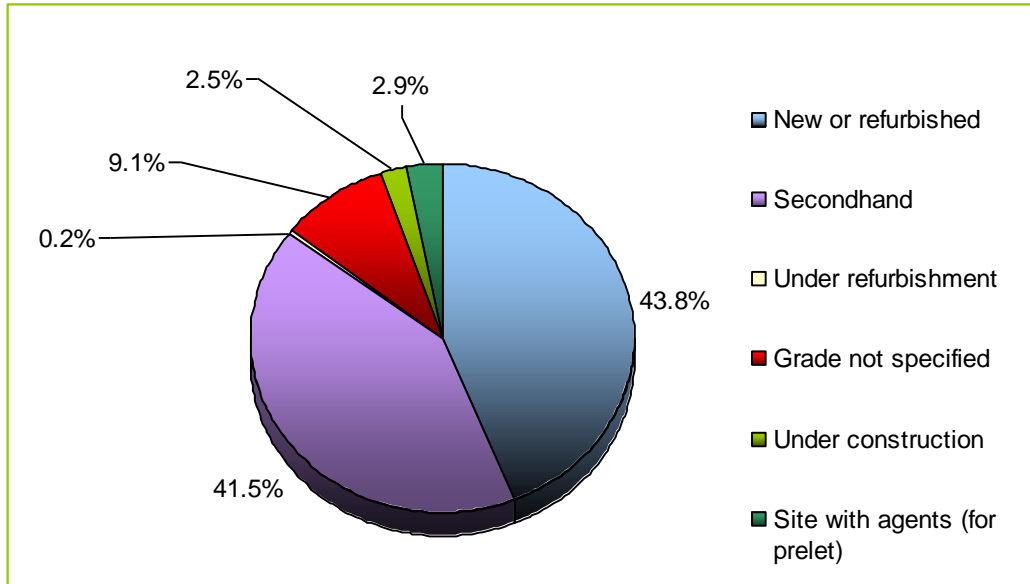
Test Valley has the most industrial space available and the largest stock of premises. However, its vacancy rate is within expected bounds. The same is true of Basingstoke.

The part of Winchester within the Enterprise M3 LEP has the least industrial space available on the market compared to other districts and a very low vacancy rate. However, additional supply in the Solent LEP area needs to be added for a complete and accurate picture of Winchester and the other southern most districts. For more precise vacancy rates it would be necessary to compare published stock data with subsequent planning records of building completions and losses.

1.3

Grade of Space

Figure 11: Office Floorspace by Grade



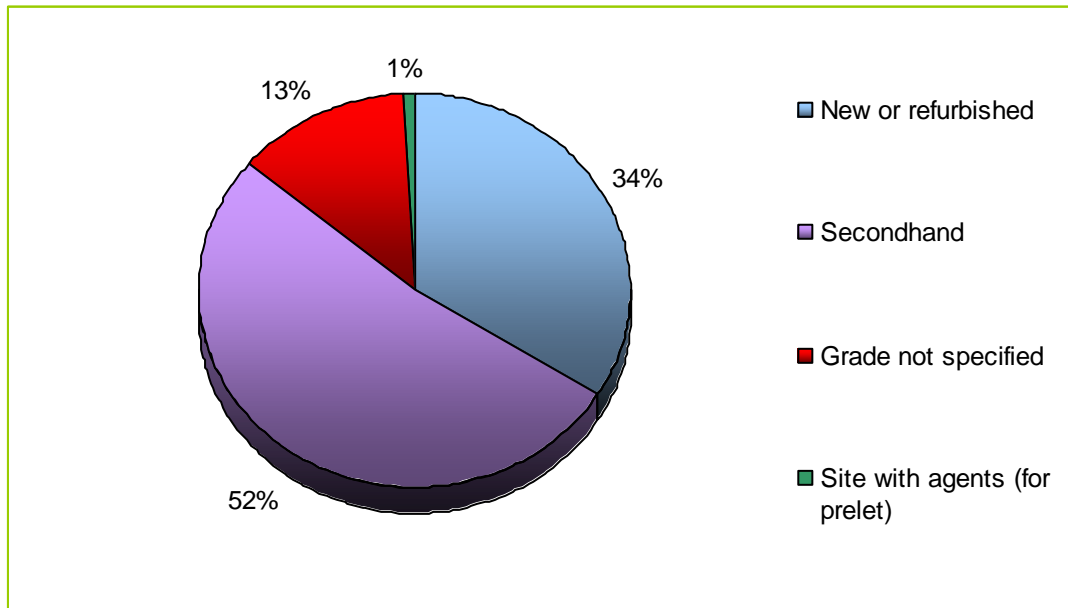
An important consideration when examining the supply of office and industrial accommodation is the quality of the space available. Figure 11 illustrates the grade of available offices around the study area. Approximately 44% of the available offices are being marketed as new or refurbished accommodation, with a similar amount as second-hand space. The remaining balance is either under refurbishment or under construction or in some cases not specified.

As part of the study discussions with property agents there emerged a real concern in the marketplace about the marketability of second-hand offices in particular. Companies are perceived to be especially sensitive to the quality of their offices (can be more so than with industrial space). Another important factor present in the market is that businesses have a strong hand when negotiating with their landlords and be more discriminating in their choice of accommodation. It should also be noted that companies are increasingly conscious of their carbon footprint and the environmental performance of their buildings, and there is a perception that even quite modern offices may be sub-optimal in this regard.

In the industrial property market about one third of the available accommodation was described as new or refurbished, and about half is described as second-hand (Figure 12).

Anecdotally, feedback from property agents suggests that companies are less sensitive to the quality of industrial buildings compared to offices in part because their business operations depend less upon the recruitment of office staff and the image of their properties. This will vary between companies (e.g. some industrial occupiers will receive more visitors than logistics companies), but in general, compared to offices, the important considerations include features such as eaves height, ease of access for heavy goods vehicles and adaptability of the space for different types of manufacturing or distribution operation.

Figure 12: Industrial Floorspace by Grade

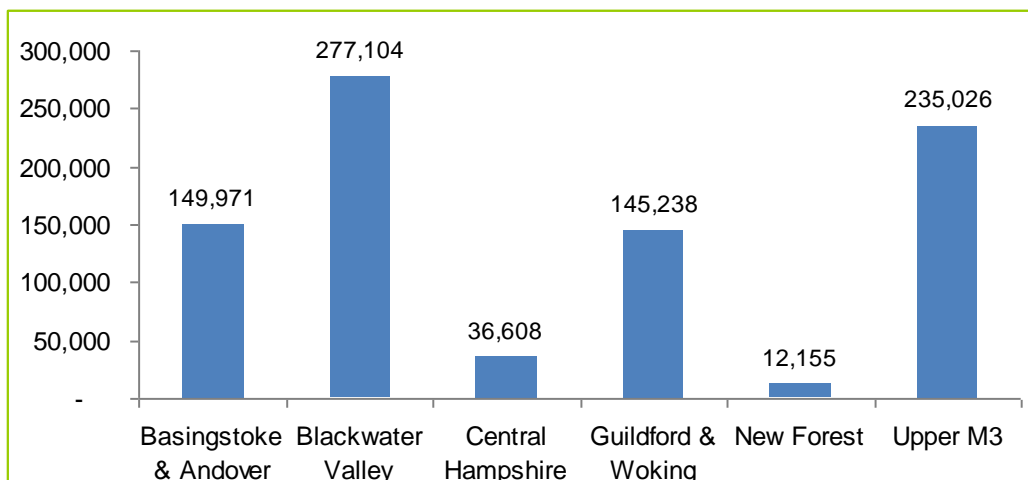


1.4

Market Areas

Having reviewed the overall supply position for the LEP, we now turn to the availability of offices and industrial space within the individual market areas. At present, reliable stock data is not available for submarkets that cross local authority boundaries so further work would be required for this level of scrutiny. Nonetheless, when combined with the information set out above, this analysis provides the LEP with a comprehensive picture of the market and cues for further dialogue with the planning and development community.

Figure 13: Share of office space (sqm) being marketed by market area

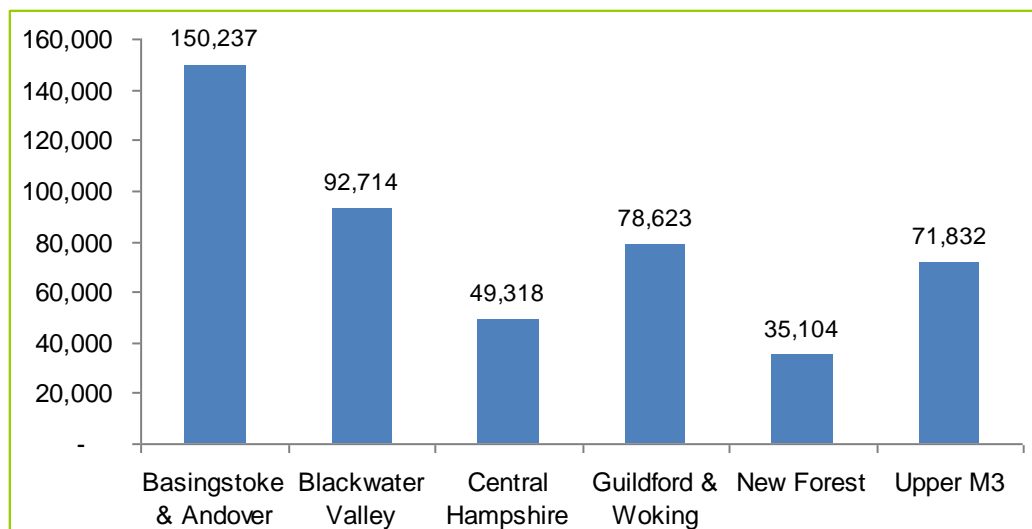


Source: Focus and Propertonomics

When Basingstoke and Andover are taken together, the amount of office space is close to the average for the group of market areas. However, as seen from the local authority based data, it is largely Basingstoke rather than Andover which is contributing vacant offices to the equation.

The Blackwater Valley is made up of several local authority areas. Between them they represent the greatest source of vacant office space in the Enterprise M3 LEP area compared to other market areas. Central Hampshire and the New Forest have the least office space available, echoing their relatively low vacancy rates compared to the districts further northeast within the Enterprise M3 LEP area. Guildford and Woking as a market area is comparable to Basingstoke and Andover in terms of the quantum of vacant office floorspace. The Upper M3 market area has two thirds more floorspace available than the average for this group but, as shown below (in our consideration of demand), it appears to be better positioned than the other areas for recovery of the office market.

Figure 14: Share of industrial property availability by market area



Source: Focus and Properformics

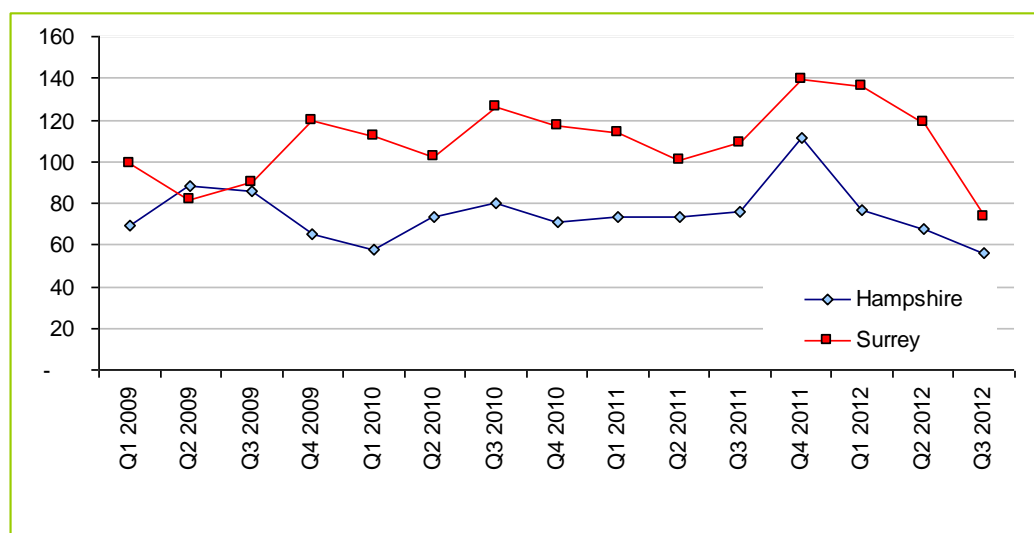
Both Basingstoke and Andover have a strong profile in the market for industrial and warehouse property. This is reflected in their supply position, which is almost 90% higher than average for this group of market areas. The presence of the logistics sector, with large warehouses, also amplifies the sheer amount of floorspace compared to locations with smaller units of industrial accommodation.

The Blackwater Valley plus Guildford & Woking represent the average position in terms of the amount of industrial floorspace on the market. These market areas are followed by the Upper M3. The least amount of vacant industrial space is found in the New Forest and Central Hampshire

Office Demand

The number of office transactions occurring in Hampshire and Surrey has been analysed for the period January 2009 to September 2012.

Figure 15: Quarterly Office take-up (office transactions recorded per county)



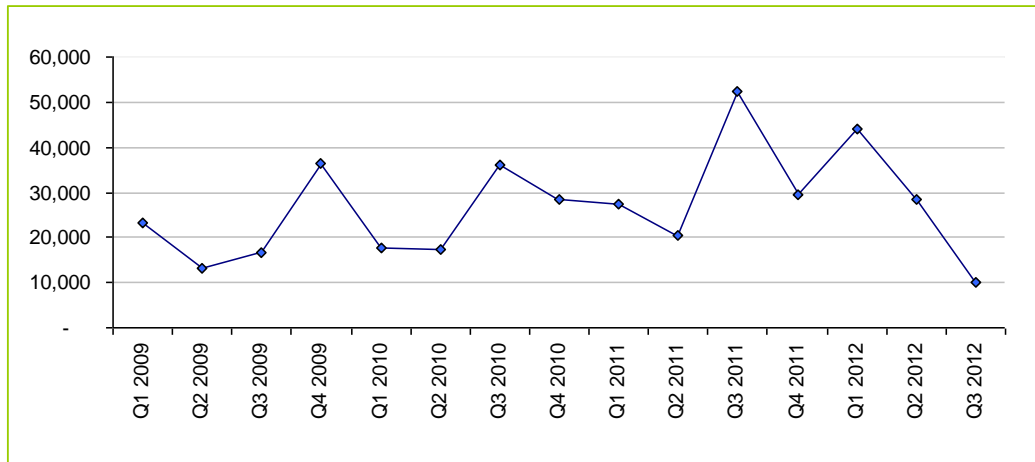
Source: Focus/Propernomics - N.B. Q3 2012 comprises 2 months extended pro rata to 3

The levels of market activity in each quarter over the period are illustrated in Figure 15. The data shows the number of office transactions recorded by agents rose from a low point in 2009 (Surrey) or 2010 (Hampshire) to a slight peak in 2011, but declined once more during 2012. This may to some extent coincide with economic commentaries suggesting the UK came out of recession before it “dipped” back. The data are not detailed enough to be precise about this relationship but does tell us:

- The average number of transactions recorded per quarter is 45% higher in Surrey than Hampshire (75 in Hampshire and 109 in Surrey).
- Activity fell 30% below average at the start of Autumn 2012. This may be due in part to a quiet market during the summer creating a seasonal effect, but does appear to be part of a downward trend since 2011.
- Market activity hit a peak in both Hampshire and Surrey at the end of 2011 when the number of transactions recorded was 36% higher than the average recorded since 2008.

Commercial property agents represented on the Enterprise M3 Land & Property Group agreed that there was very probably additional market activity not recorded on public registers due to confidential transactions and “off-market deals”, but the data shown is the best available indication of trends over time. More detail on demand can be gleaned by analysing market activity specifically within the LEP area. Figure 16 shows a correlation between a county wide view of transaction numbers and a LEP wide view of transaction floorspace.

Figure 16: Office deals recorded for Enterprise M3 LEP area 2009-2012 (Office transactions (sqm) recorded per Quarter)



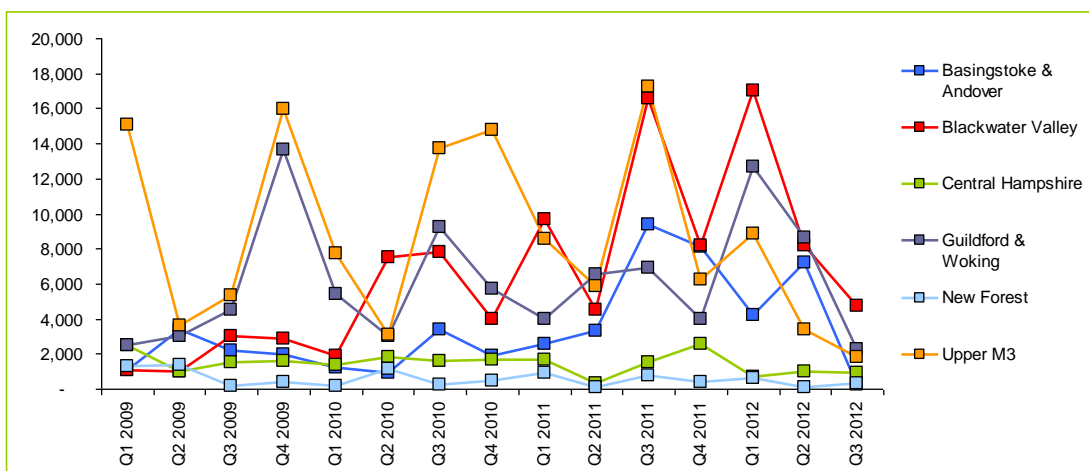
Source: Focus/Propernomics - N.B. Q3 2012 comprises 2 months extended pro rata to 3

Time series data by market area (Figure 17) show that the Upper M3 market area has dominated demand with an average of about 8,700 sqm transacted per quarter. The data reveals significant fluctuations in take-up with peaks in demand occurring in this time series about every nine months but tailing off in 2012.

Looking at 2013, local knowledge from agents suggests there are now speculative office development projects being contemplated in the M25/Staines area and this reflects similar accounts of new schemes being promoted in the Thames Valley (e.g. at Stockley Park and in central Reading).

The Blackwater Valley ranks second in this group of market areas for office demand since 2008. Again there are fluctuations in take-up but there was a discernible upward trend in activity during 2011, although this tailed off again in 2012.

Figure 17: Time series view of office take-up (Office transactions (sqm) recorded per Quarter)



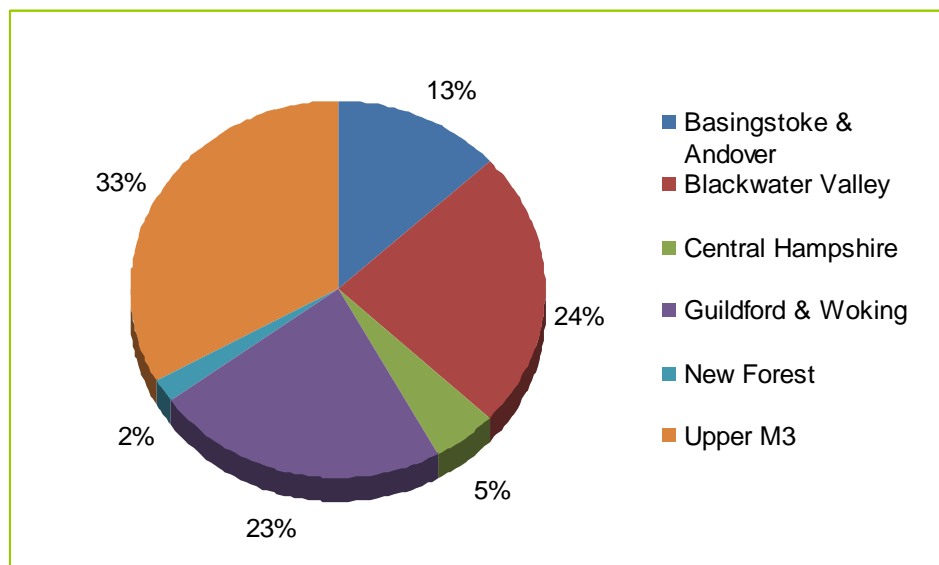
Source: Focus/Propernomics - N.B. Q3 2012 comprises 2 months extended pro rata to 3

Guildford & Woking market area averaged about 6,000 sqm of recorded office deals per quarter, with demand fairly consistent between the two peaks of 2009 and 2012 in this location.

Activity in Basingstoke & Andover has been more muted but with an uplift in the second half of 2011 and 2012. However, New Forest and Central Hampshire have seen much more modest levels of office demand as illustrated by the almost flat lines at the bottom of the graph.

For convenience, the next figure summarises the share of office space transactions around the LEP area during the 2009 to 2012 period.

Figure 18: Percentage share of office space transacted by market area



Source: Focus/Propertonomics

Changing working practices

It should be noted that demand in the office market has been fundamentally affected by changing working practices. A study of “employment densities” published by English Partnerships in 2001 recommended that a figure of 19 sqm per office worker be assumed for forward planning purposes. This work was updated in 2010 by Drivers Jonas Deloitte (on behalf of the “Homes & Communities Agency” and the “Office for Project & Programme Advice & Training”) and it recommends 12 sqm per office worker. This is a change of 36.8% - a very significant reduction, especially for local authorities that have made long term projections of employment land requirements based on the previous figures.

Examples of this change being put into practice can be seen in both the private sector and in the public sector. Offices and staff are being used in a more space efficient manner. For example:

- Hampshire County Council has refurbished its headquarters in Winchester, increasing the headcount in one complex from 600 to over 1,100 staff (plus 83%). (In the process they have released surplus offices

and improved environmental performance by 70% in terms of carbon emissions.)

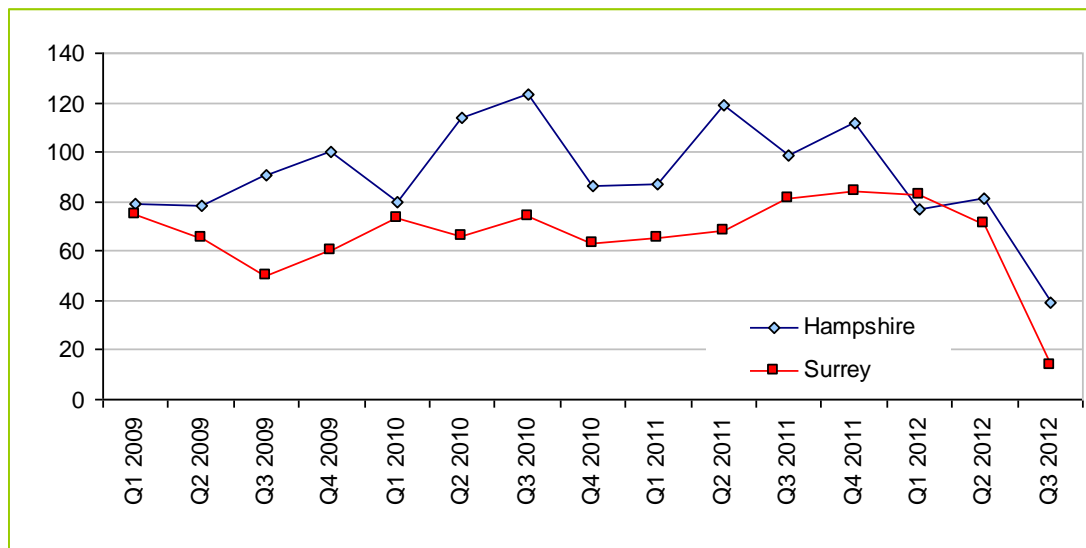
- Havant Borough Council has been through a similar exercise. They have adjusted their working practices and reconfigured their offices which now have capacity for about 700 staff compared to 420 previously.
- A study by Hewlett Packard enabled them to reduce their office area in the Thames Valley by 63% (with only a 6% reduction in headcount) through more efficient use of space and working practices.
- Compared to current guidance on worker density rates of 12 sqm per person, HM Treasury has been cited as aiming for 8 sqm per office worker through use of flexible working patterns.
- Home working is a factor in these changes and this is expected to increase in future for more people at least some of the time.

This appears to be a structural change that is most unlikely to be reversed over time. It is therefore different to a cyclical effect which might be expected to carry a market back to its former position due to the regular ebb and flow of demand and supply. Further dialogue within the Land & Property Group and with businesses and policy makers about the nature of change in the office market would be instructive.

Industrial demand

Demand for industrial property appears to be less volatile than with offices. This is supported by market comments that demand is “steadier”. That said, the data suggests that the number of industrial property transactions tailed-off in 2012.

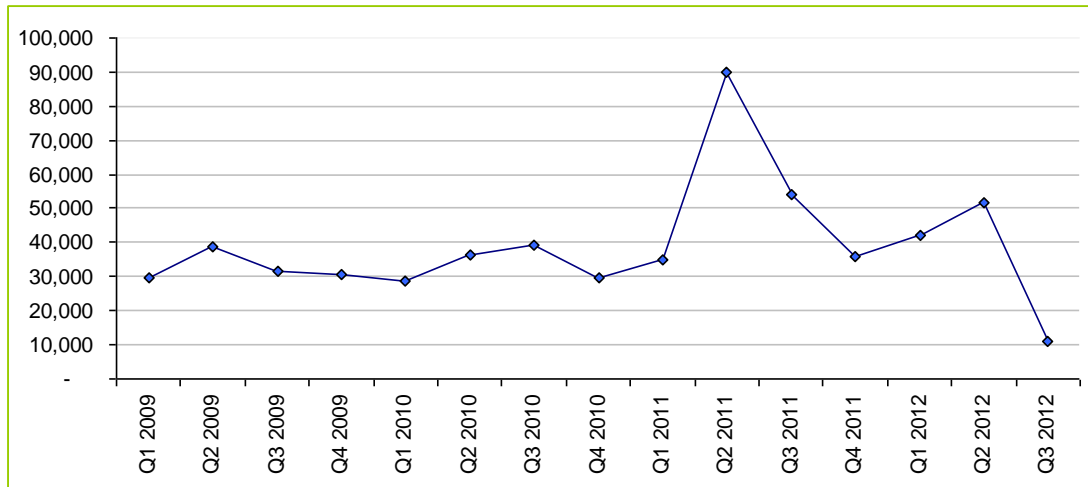
Figure 19: Quarterly Industrial take-up – transactions recorded per county



Source: Focus/Propertonomics - N.B. Q3 2012 comprises 2 months extended pro rata to 3

According to Figure 19 the data suggests that Hampshire tends to support more industrial market activity than Surrey, whereas the opposite is true with offices.

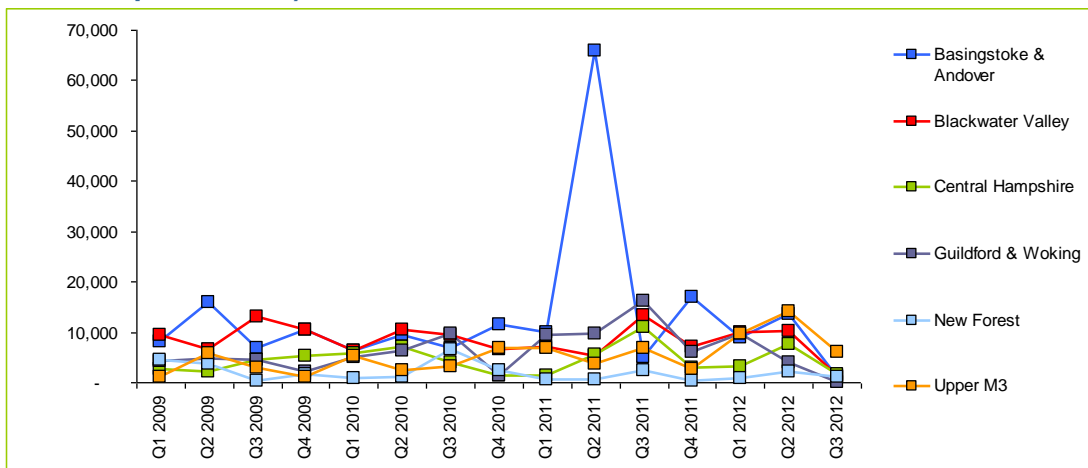
**Figure 20: Industrial deals recorded for Enterprise M3 LEP area 2009-2012
(Industrial transactions (sqm) recorded per Quarter)**



Source: Focus/Propernomics - N.B. Q3 2012 comprises 2 months extended pro rata to 3

Narrowing this view down to the LEP area alone shows a relatively flat market in 2009/2010 followed by a strong peak of activity in 2011, then a reduction in take-up in 2012 (Figure 20). Further analysis of take-up by market area (Figure 21) shows that the 2011 peak was due to significant transactions in Andover (including the disposal of a substantial warehouse for a Co-Op distribution centre and the sale of a large building to Stannah Stairlifts).

Figure 21: Time series view of industrial take-up (Industrial transactions (sqm) recorded per Quarter)

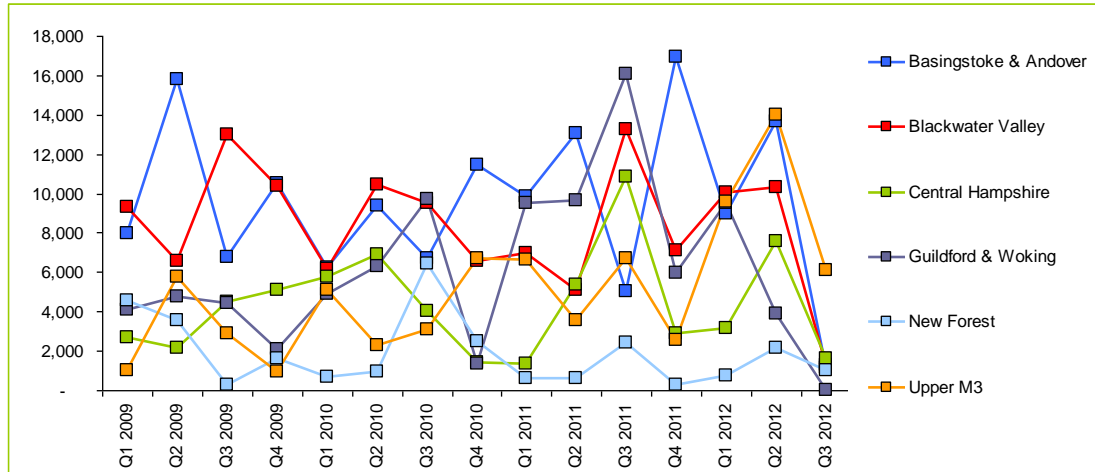


Source: Focus/Propernomics - N.B. Q3 2012 comprises 2 months extended pro rata to 3

A more detailed comparison of the performance of individual market areas is shown in Figure 22 without the unusual spike in demand seen in Andover (i.e. with transactions for Basingstoke & Andover in Q2 2011 pegged back to the average for that market area).

Even in this view of industrial demand we can see that the Basingstoke & Andover market area still dominates the LEP in terms of industrial floorspace transacted. This is closely followed by the Blackwater Valley, then Guildford & Woking which is about average for the LEP overall. The Upper M3 comes next, then Central Hampshire and finally the New Forest being the most rural and least industrialised location.

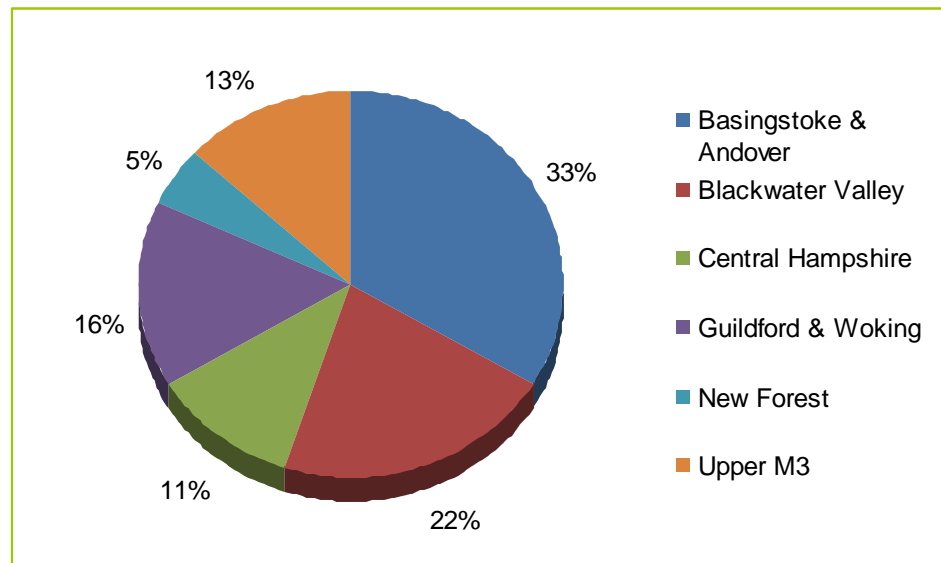
Figure 22: Time series view of industrial take-up (excl. Andover peak in 2011)



Source: Focus/Propernomics - N.B. Q3 2012 comprises 2 months extended pro rata to 3

The overall percentage share of industrial demand between the different market areas of the LEP is illustrated by the following pie chart:

Figure 23: Percentage share of industrial space transacted per market area



Source: Focus/Propernomics

This analysis of demand has helped to illustrate the distribution of property market activity around the LEP area. Time series data on transactions since 2008 has also revealed changes on a quarterly basis. Demand can also be assessed through business surveys designed to understand companies' current and future floorspace requirements. For the purposes of forward planning it is also important to consider whether there are any particular qualitative deficiencies in supply, due to market gaps or emerging sectors that are not catered for. Finally, when considering demand, it is important to distinguish between the turnover of space and the net absorption of space; any changes of use will also be relevant to this equation.

Part 2:

Large Sites and Employment Land

Key Findings

- *As at autumn 2012 the Enterprise M3 had 101 large employment sites with the potential to supply over one million sqm of floorspace.*
- *The range in floorspace across the LEP area was wide, with sites offering from just over 1,000 sqm of floorspace, the minimum study threshold, to upwards of 133,000 sqm.*
- *Overall, and despite lacklustre market conditions, seven out of every ten sites were viewed by commercial agents as well suited to modern business needs (A1 and A2 sites, and offering over 750,000 sqm of floorspace).*
- *On the other hand, two out of every ten sites have some unproven deliverability issues (B sites), which may then fail in the market place due to the need for remedial action, for example, road infrastructure improvements. One in ten sites were assessed as unlikely to be brought forward for future employment use (C Sites).*
- *In most cases the public and private sector assessment of each site's development potential were aligned, which suggests a good degree of like mindedness and a low divergence of opinion.*
- *Where there was a difference between the public and private sector assessments the number of upward and downward discrepancies were almost equal.*
- *With 40 sites, around two fifths of sites are in Established or Potential Office locations, followed closely by General Industrial/Business areas. Between them three quarters of all developments are in these two segments. The third significant presence is in High Quality Business/ Research Parks with close to one in five sites coming under this segment.*

The purpose of the assessment of Enterprise M3 sites is to deliver two outcomes. Firstly, to help the private and public sector assess the balance between the supply of, and demand for, employment floorspace in particular market segments and particular market areas within the context of spatial planning and economic development. Secondly, as a direct consequence of the first outcome, to spark off a number of “critical friend” conversations between the private and public sectors aimed at bringing particular sites forward for development more effectively.

Achieving both outcomes requires a collaborative approach. The 14 local planning authorities were encouraged to provide an initial public sector appraisal of large sites in their area prior to the Enterprise M3 Land and Property Validation Panels undertaking the market side assessment.

Part 2 of the report consists of the Key Findings in the Box above, as well as: 2.1, an introduction to the Scope and Methodology; 2.2, which provides an overview of the Enterprise M3 examining site statistics by market segment and Development Potential; 2.3, on the three Individual Indicators (Attractiveness, Availability and Site Quality); and 2.4, Market Area analysis. Pen Portraits of the six Market Areas, including analysis of their site assessments are included as Appendix 1.

2.1

Scope and Methodology

Scope

The Large Site Assessment includes sites in the Enterprise M3 with planning permissions, but also extends to selected sites that are well advanced in terms of being prepared for planning consideration although not yet in the formal planning system. In all other respects the following site criteria apply:

- with planning permission or allocated in an adopted local plan or approved development plan document, with at least part of the site not started (and satisfying the other two criteria below),
- above a size threshold of ½ hectare or with the potential for at least 1,000 sqm of built floorspace,
- available for general occupation, i.e. sites reserved for the expansion or relocation of a particular named business are excluded from the study.

Sites under the third criteria are excluded from the assessment on the grounds they are not openly available to the commercial market; although the sites themselves might be significant developments in their own rights for the incumbent business and for the local economy.

It should also be stressed that smaller sites below the threshold of ½ hectares of development or with the potential for at least 1,000 sqm, cannot be assumed to exhibit a similar set of characteristics to the larger sites.

Methodology

The sites are assessed in terms of their market attractiveness, site quality and availability to the market, together with an additional explicit assessment of overall development potential. While the first three assessments will be used in subsequent analysis and reported in aggregate terms, the results for individual sites will not be published. By contrast, the “development potential” of the individual sites are

published as part of this report. The overall assessment of each site's development potential is scored according to the following criteria:

- A** well suited to modern business requirements, should be safeguarded against competing higher value uses
- B** deliverability is presently unproven, therefore the site may fail in the market place due to the need for remedial action (such as infrastructure requirements, access issues and land contamination)
- C** may be **most** unlikely to be brought forward for future employment use and could be released for other uses.

The **A** category should further be subdivided into two sub-categories based on the market availability of the site where:

- A1** available to the market in the short to medium term
- A2** not available to the market until the longer term

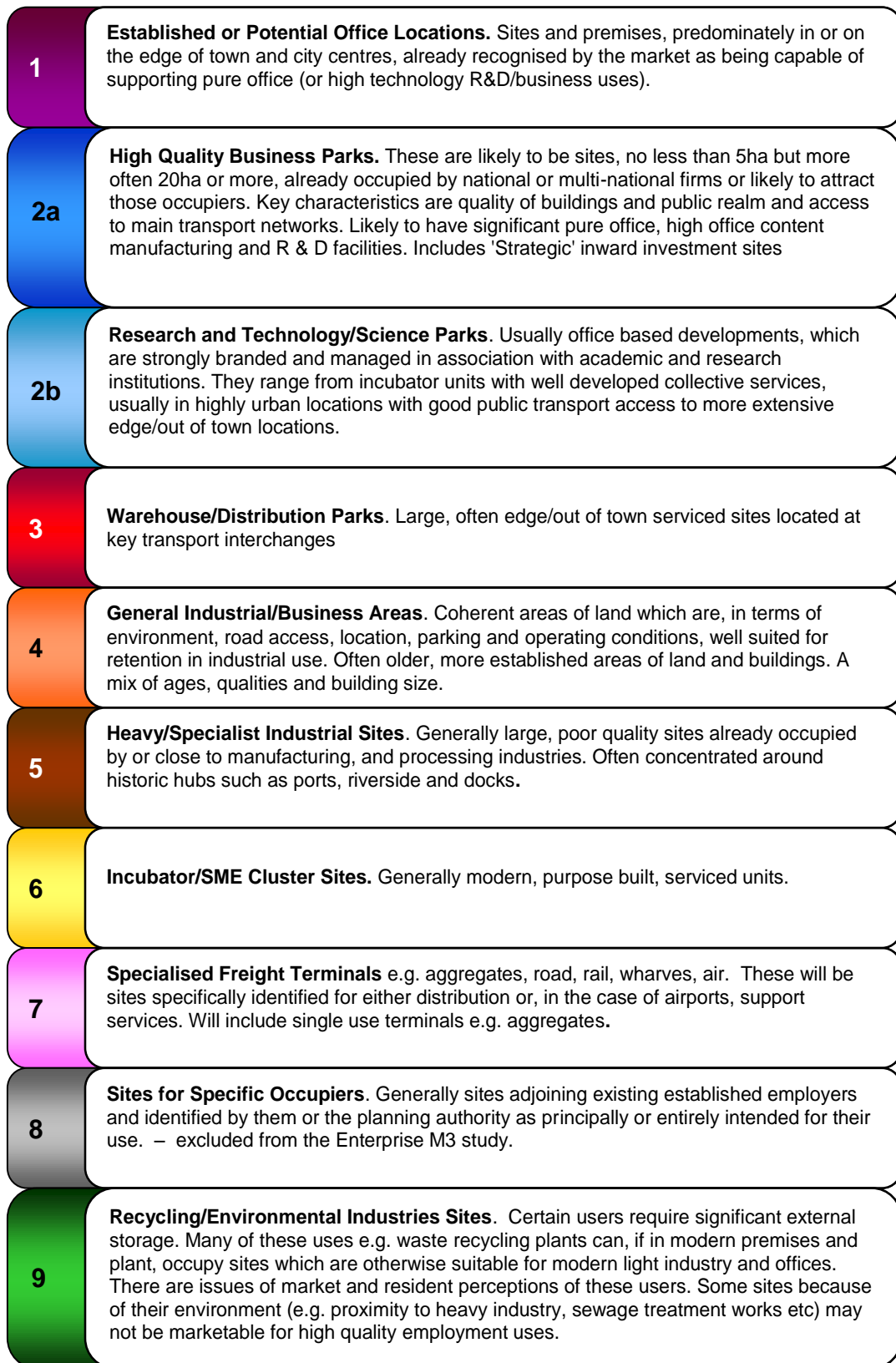
Both the public and private sectors are involved in the site assessments. First public sector planners, often with their economic development colleagues, assess each site on the basis of the scoring framework and criteria included at Appendix 6. This framework has been developed over a number of years, with public and private sector input, in the context of very similar studies carried out under the auspices of the former Hampshire Economic Partnership. Private sector panels, consisting of commercial agents, developers and consultants all with a thorough working knowledge of the local area, then meet to validate the public sector assessments. Amendments are made only when there is a compelling market based reason or reasons for doing so.

Differences of opinion between the public and private sectors tend to be relatively few. Where such differences occur they can often form the basis of "critical friend" conversations between the local authority concerned and local representatives of the validation panel. Such conversations allow the private sector to gain a better understanding of public sector thinking and the public sector to become more aware of market considerations. The desired outcome in all cases, public and private sector alike, is to bring sites forward for employment development appropriately and effectively.

Each site is also assigned to one of nine market segments and coded according to the market segmentation advice given to the then Office for Deputy Prime Minister in the 2004 Employment Land Reviews: Guidance Notes. Each development is coded against a single market segment, although in reality many sites, particularly those assessed as General Industrial or Business Use, will contain a mix of employment uses.

Sites for specific occupiers where the development is principally or entirely intended for a known employer are not considered available to the market and excluded from this study (Figure 24).

Figure 24: Market Segments

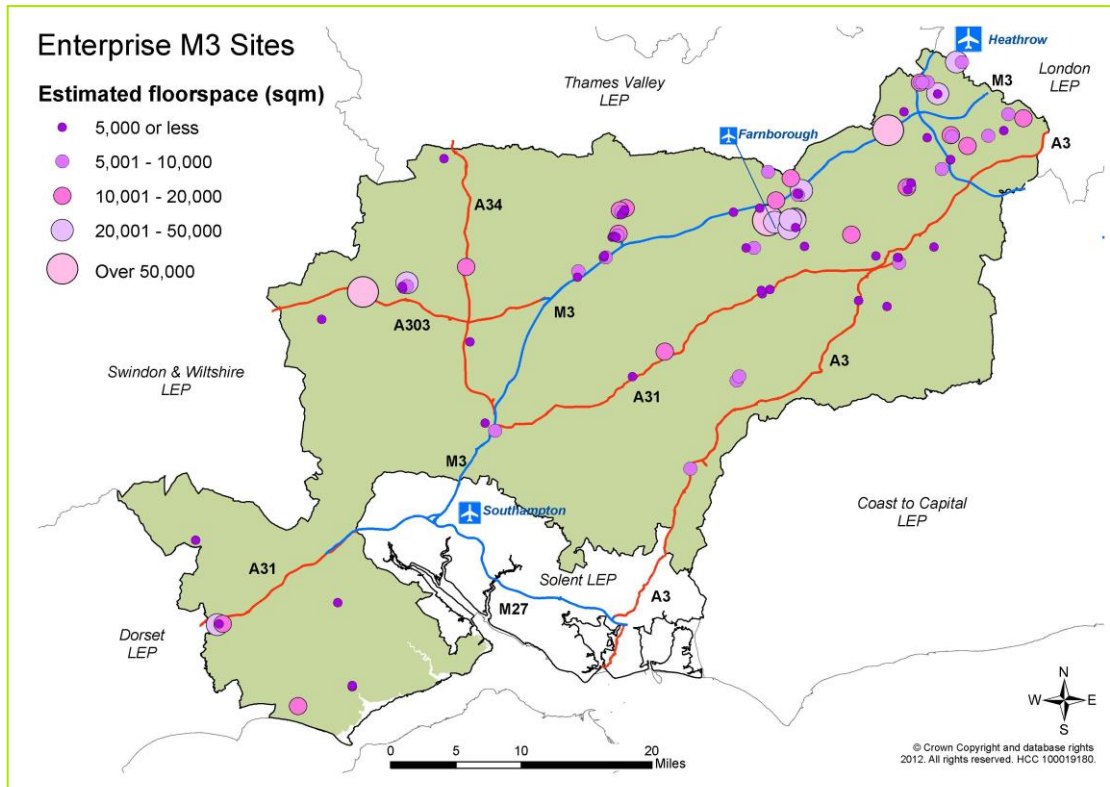


Source: ODPM 2004

2.2

Enterprise M3 overview

Figure 25: Enterprise M3 Sites by Estimated Floorspace Bands (sqm)



Context

The Enterprise M3 large site study assessed over 100 sites during various public and private sector consultation phases, although the final list that fully met the study criteria stood at 101 sites, and was estimated to cover over one million square metres (1,137,845 sqm) of potential floorspace for indigenous and inward investment.

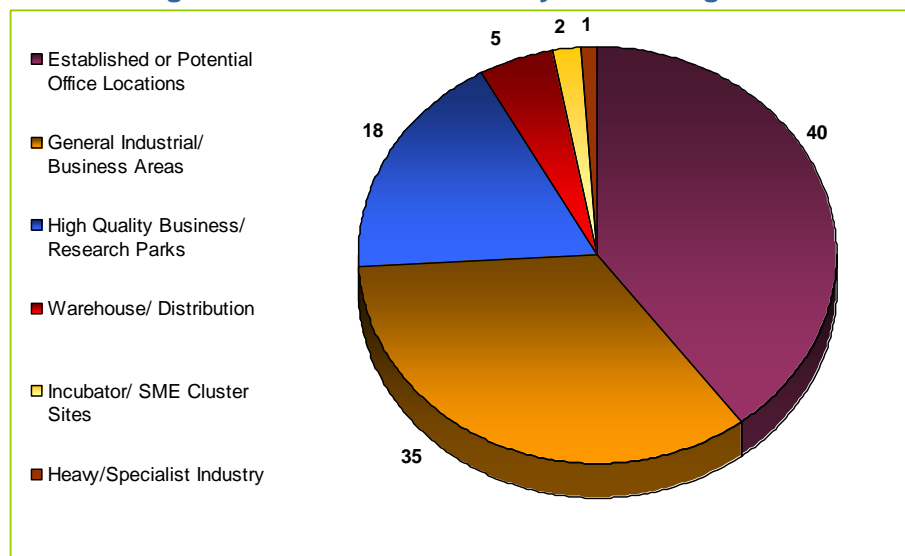
Figure 25 shows the spatial distribution of sites in the study, and it is evident most sites are located close to the major arterial road networks, with particular concentrations along the M3 corridor itself, and in close proximity to the M25, A3, A31, A34 and A303. The Blackwater Valley and Upper M3 areas are also served by Farnborough Airport and the major international hub airport of Heathrow. Central Hampshire and New Forest although more rural in nature are nonetheless close to Southampton Airport. There are also several cluster sites around Andover (Walworth Business Park), Basingstoke (Basing View and Chineham), Farnborough and in Staines.

Figure 25 also shows sites by five broad floorspace sized bands. The range in floorspace across the Enterprise M3 sites is wide, with sites offering just over 1,000 sqm of floorspace, the minimum study threshold, to upwards of 133,000 sqm. For a number of sites, where the floorspace to be provided is not known, the floorspace has been estimated using a development density ratio, so actual built-out floorspace

for some sites may be larger, or indeed smaller. Based on the estimated floorspace, three sites exceed 50,000 sqm and, when combined, account for around 28% of total floorspace in the study. Moving east to west, the three sites are: the Longcross development (Chertsey) on former DERA land; land at Pyestock (Farnborough/Fleet); and the Andover Business Park.

Market Segment

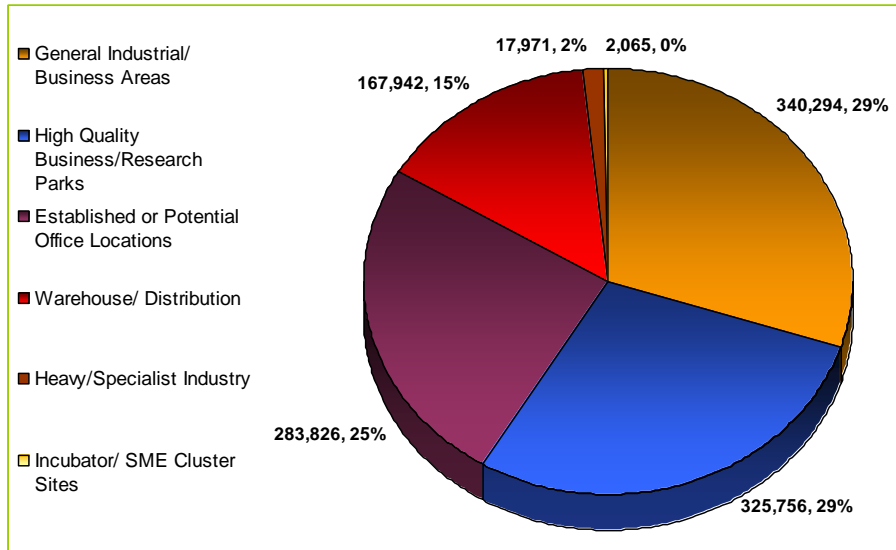
Figure 26: Number of Sites by Market Segment



Each of the sites in the 2012 assessment are assigned to one of nine segments defined in the ODPM 2004 guidance (see 2.1 Scope and Methodology). Sites identified for specific occupier use are excluded from the study on the grounds that they are not freely available to the market. Of the eight remaining segments, six are represented in the Enterprise M3 area, although most fall into one of three segments.

With 40 sites, around two fifths of the total are in Established or Potential Office locations, followed closely by General Industrial/Business areas. Three quarters of all sites are found in these two segments. The third significant presence is in High Quality Business/ Research Parks with close to one in five developments coming under this segment. Less than one in ten developments are in the other three segments, with five Warehouse/ Distribution sites, two Incubator/SME Cluster Sites and a single Heavy/ Specialist Industry site. The two missing segments are Specialised Freight Terminals, which tend to be based in ports, and in Recycling/ Environmental Industries. As it stands most sites in the planning system in the Enterprise M3 area are office led.

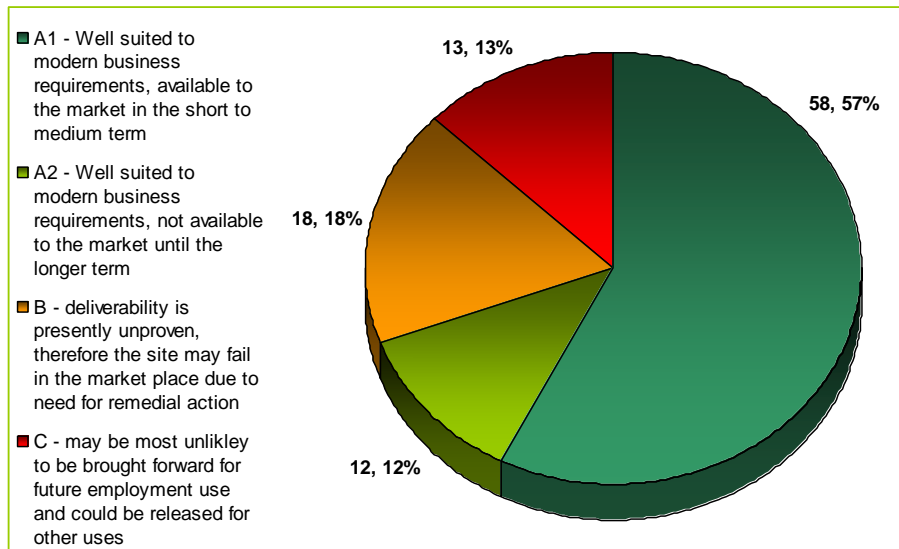
Figure 27: Estimated Floorspace (sqm) by Market Segment



The share of total floorspace by Market Segment reflects both the number of sites in each category and also the size of developments often expected to occur on that category. The number of sites would explain the floorspace attributable to General Industrial/ Business Areas and Established or Potential Office Locations. Elsewhere, size is more of a determinant, with Warehouse/Distribution accounting for just 5% of sites yet 15% of floorspace. Similarly, the larger High Quality Business/Research Parks collectively offer significant amounts of floorspace through multiple sites, although the individual sites themselves can be relatively small.

Development Potential

Figure 28: Sites by Development Potential



The overarching measure used to give a commercially led market view for each site is the Development Potential score, a composite of the underlying individual indicators of attractiveness, availability and site quality. It provides an autumn 2012 snapshot of larger sites and their overall development standing in the Enterprise M3 area. As an inaugural study there is no trend data to compare 2012 with previous

years. The report can be read as a benchmark to map future market sentiment in any subsequent assessments.

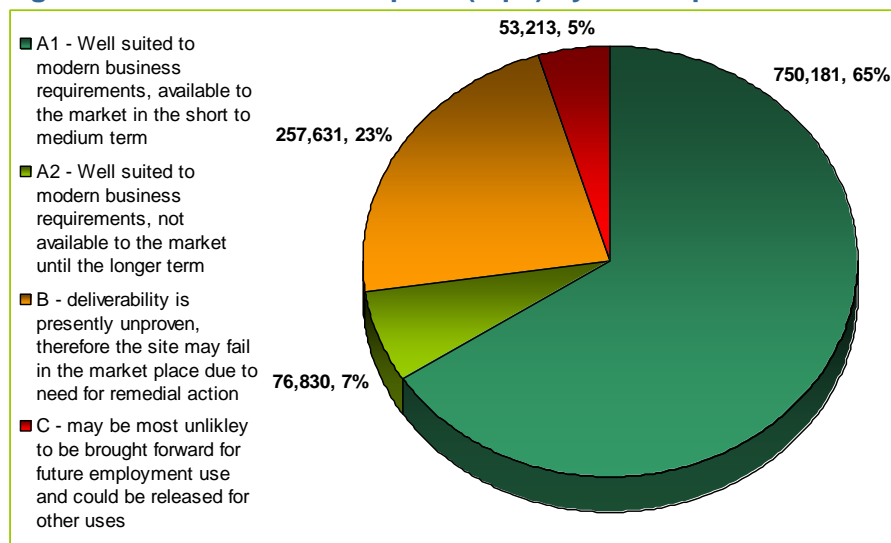
Overall, and despite lacklustre market conditions, the majority of sites, nearly 60%, are viewed by the market as being well suited to modern business requirements and available to the market in the short to medium term (A1 sites).

When combined with sites with the same characteristics, but available in the longer term (A2 sites), the Enterprise M3 area can offer seven out of every ten sites as being well suited to modern business needs.

Elsewhere, two out of every ten sites in the planning system have some unproven deliverability issues (B sites), which means that they may fail in the market place due to the need for remedial action, for example, road infrastructure improvements. These “B” graded sites, together with the “C” sites below, are most likely to be the subject of the “critical friend” conversations which can follow this study and which have the aim of clarifying any barriers to development and the potential means by which they might be resolved.

Just one in ten sites were assessed as “C” sites which are considered most unlikely to be brought forward for future employment use. Alternative uses might include leisure and recreation or residential development, although again a “critical friend” conversation can help to clarify the issues and identify a productive way forward.

Figure 29: Estimated Floorspace (sqm) by Development Potential



In terms of estimated floorspace the overall picture is even slightly more positive, with over 70% of all floorspace on sites considered well suited to business requirements (A1 or A2). The large majority of that space, some 65% of that total floorspace, or $\frac{3}{4}$ million sqm, is also market ready (A1). However, the scene is somewhat tempered by just over $\frac{1}{4}$ million sqm of floorspace, 23% of the total, on “B” graded sites with unproven deliverability and a further 50,000 sqm (5%) on sites assessed as “C” which are unlikely to be brought forward for employment use.

Relatively few of the private sector assessments differed from their public sector counterparts. While all of the 14 local authorities in the LEP area participated in the study not all of them explicitly scored the development potential of each individual site, although most of them did. Of the 72 sites where a score was given (out of 101

sites), 55 sites or around three quarters received the same scores from both the public and private sector. That would suggest a good degree of like mindedness and a low divergence of opinion. Of the 17 sites where there was a difference, eight sites were upgraded by the private sector validation panels and nine were marked down. Where differences of opinion do occur the Enterprise M3 LEP Land and Property Group exists to facilitate those “critical friend” conversations to address different perceptions on planning and development issues.

While this study is the first of its kind for the Enterprise M3 LEP, similar studies have been carried out in earlier years for the former Hampshire Economic Partnership (HEP). The assessment of some of the Hampshire sites in the current study, therefore, can be compared to the results of the most recent HEP study produced in 2010. Of the 58 Hampshire sites that form part of the current Enterprise M3 study, 54 also had scores for 2010. The four new Hampshire sites, together with all of the Surrey sites have no prior score with which to compare. Of these 54 Hampshire sites, 47 were assessed at the same score (87%) in 2012 as in 2010, while six were upgraded and just one marked down. Sluggish activity in the commercial market has seen little change in the intervening years, although the six sites graded upwards would suggest some improvement in market readiness.

Table 1: Sites by Market Segment and Development Potential

<i>Market Segment/ Development Potential</i>	<i>A1</i>	<i>A2</i>	<i>B</i>	<i>C</i>	<i>Total Segment</i>
<i>Established or Potential Office Locations</i>	22	9	2	7	40
<i>High Quality Business/Research Parks</i>	17	zero	1	zero	18
<i>Warehouse/ Distribution</i>	4	zero	1	zero	5
<i>General Industrial/ Business Areas</i>	14	3	12	6	35
<i>Heavy/Specialist Industry</i>	zero	zero	1	zero	1
<i>Incubator/ SME Cluster Sites</i>	1	zero	1	zero	2
<i>Total Development Potential</i>	58	12	18	13	101

Examination of Development Potential by segment throws up few if any unexpected results. The High Quality Business/Research Parks are almost all graded A1, while the sites in both Established or Potential Office locations and General Industrial/Business Areas scored across all four categories, and between them accounted for all the C graded sites. Two thirds of the “B” graded sites are found amongst the General Industrial/Business Areas.

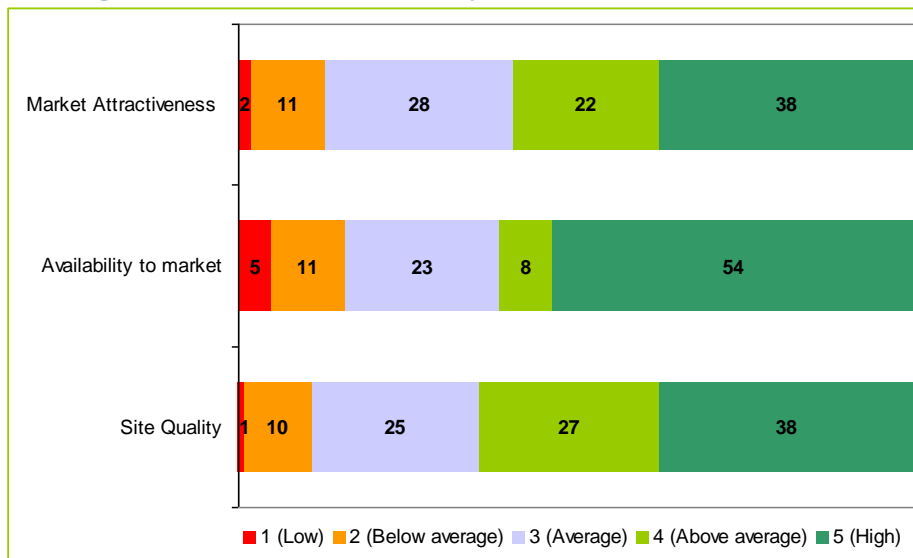
This general pattern of assessment also translates across to the floorspace statistics, although the single “B” graded Business/Research Park at Longcross accounts for 44% of all “B” floorspace.

2.3

Individual Aggregated Indicator Scores

The Enterprise M3 Validation Panels initially assessed each site using three separate indicators based on Attractiveness, Availability and Site Quality. Unlike the overarching Development Potential score, the individual indicator scores for each site remain confidential on the grounds of commercial sensitivity, whereas aggregated site scores are not seen as overtly influencing market sentiment.

Figure 30: Number of Sites by Individual Indicator Scores



Overall, the profile for each indicator is broadly similar with most sites scoring higher than average and far fewer scoring lower than average. Splitting out the 'Above average' and 'High' scores would suggest 'Availability to market' was a particular strength in the Enterprise M3 area. To score a '5' under availability the site would be taken as having no obstacles to development, and therefore immediately available. Just over half the sites met this criteria.

Almost 40% of sites scored 'High' under Attractiveness, suggesting such sites were in prime locations, such as close to the M3 corridor. Likewise, the same percentage and number scored 'High' under Site Quality, that is to say sites with good access, prominent position and close to town centres with a wide range of services. Under both indicators close to one in four sites scored 'Above average'.

Attractiveness

Attractiveness takes into account the type of site (its market segment) and its strategic position, asking the question, "is this the right type of site, in the right place, to be attractive to the market".

- Over four fifths of sites scored average or higher, with six out of every ten sites above average or higher.

- Around ¾ million sqm of floorspace was above average or higher, however, approximately 299,000 sqm was deemed average, 84,300 sqm below average and 5,200 sqm scoring low.

Availability

The absence or presence of obstacles to development, such as infrastructure constraints, ownership considerations and planning status impact on the market availability of each site.

- Over four fifths of sites scored average or higher, with just over six out of every ten sites above average or higher.
- Over ¾ million sqm of floorspace was above average or higher, however, approximately 264,900 sqm was deemed average and 68,600 sqm below average. However, 30,600 sqm of floorspace scored low, much higher than under Attractiveness or Site Quality.

Site Quality

Accessibility, prominence, local amenities, site layout and the character of the area contribute to the site quality. Additional importance is given to accessibility and prominence.

- Almost nine out of every ten sites scored average or higher, with two thirds above average or higher.
- Over ¾ million sqm of floorspace was above average or higher, however, approximately 271,700 sqm was deemed average, 89,300 sqm below average and 2,700 sqm scored low.

2.4

Market Areas

Figure 31: Enterprise M3 Sites by Estimated Floorspace Bands (sqm)

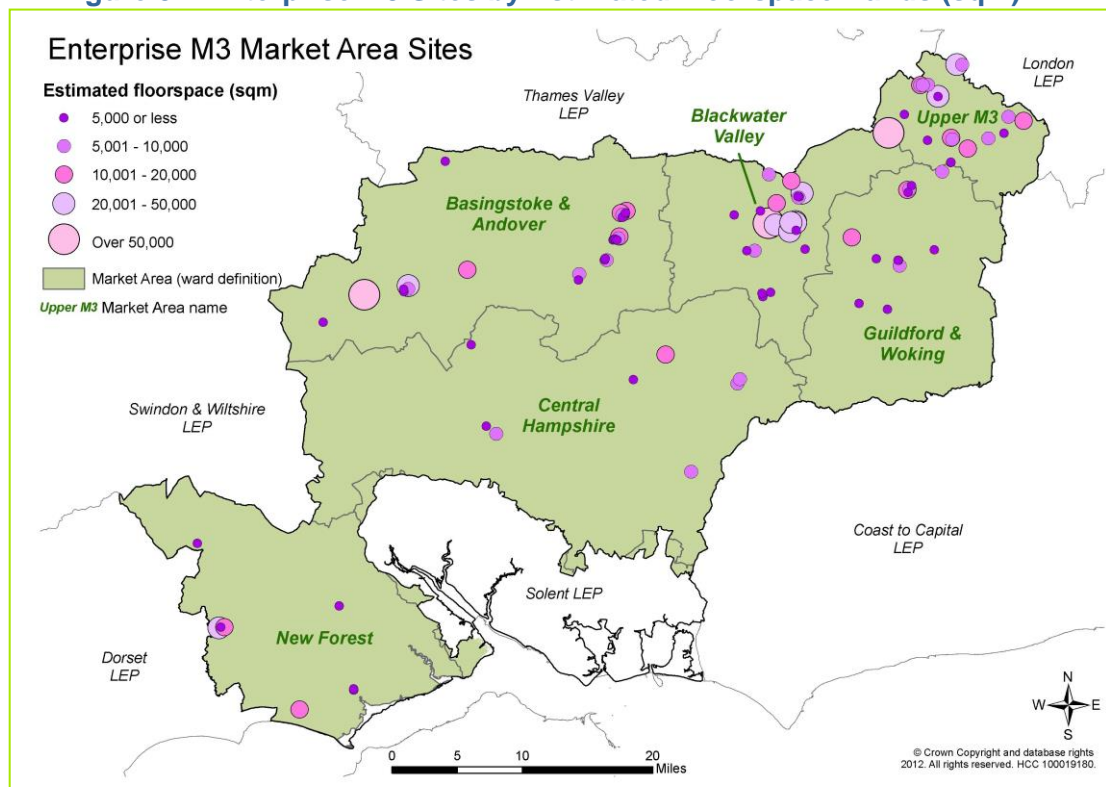


Table 2: Enterprise M3 Market Area Site Number and Floorspace

Market Areas	Number of Sites	% of Sites**	Estimated Total Floorspace (sqm)	% of Floorspace
Basingstoke & Andover	25	25	249,514	22
Blackwater Valley	22	22	374,277	33
Central Hampshire & New Forest*	16	16	121,311	11**
Central Hampshire	8	8	49,284	4
New Forest	8	8	72,027	6
Guildford & Woking	19	19	94,128	8
Upper M3	19	19	300,524	26

* Market areas aggregated in the analysis due to fewer sites- eight in each. ** Rounding error.

The six *Market Areas* are fluid geospatial concepts that broadly represent distinct local commercial property markets defined, among other factors, by the rental contours. However, for the purposes of the statistical analysis and pen portraits derived mostly from national databases, there was a need to set boundaries using a mix of administrative geographies. At the highest level is a whole district approach

and at the lowest the 2003 wards. Neither geography perfectly reflects the market areas they broadly represent and each definition should be taken as a best fit. Appendix 7 gives a full district and ward definition for each market area. Central Hampshire and the New Forest are two distinct market areas in terms of commercial property with separate pen portraits. However, due to the low stock of development sites in these two market areas it was deemed sensible to aggregate the data for analysis in this section.

Figure 32a: Market Area Sites by Market Segments

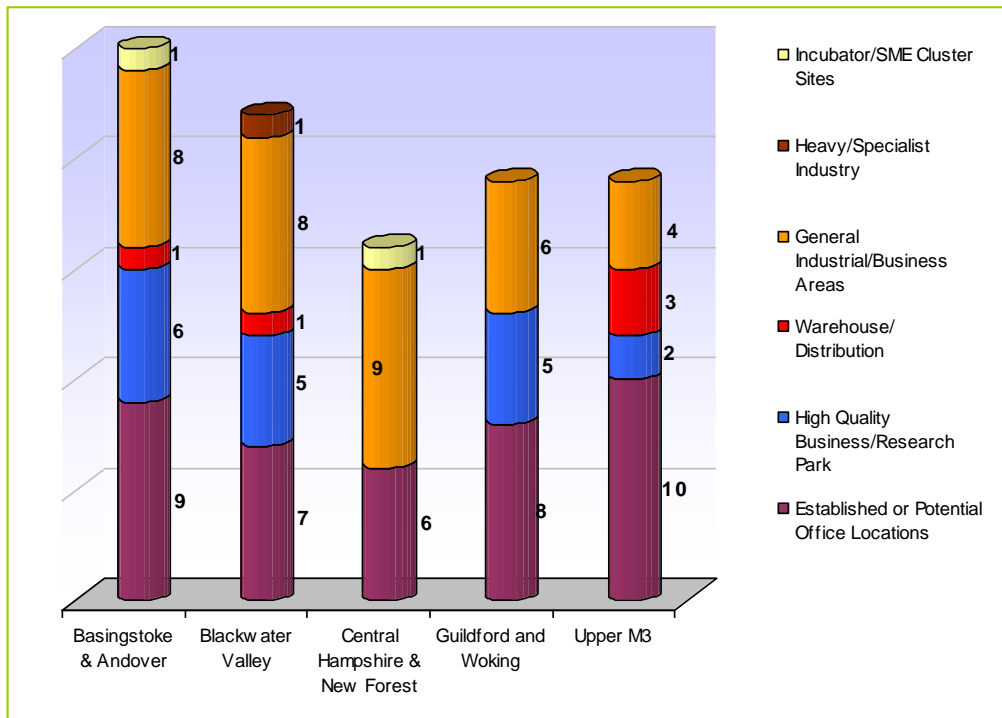
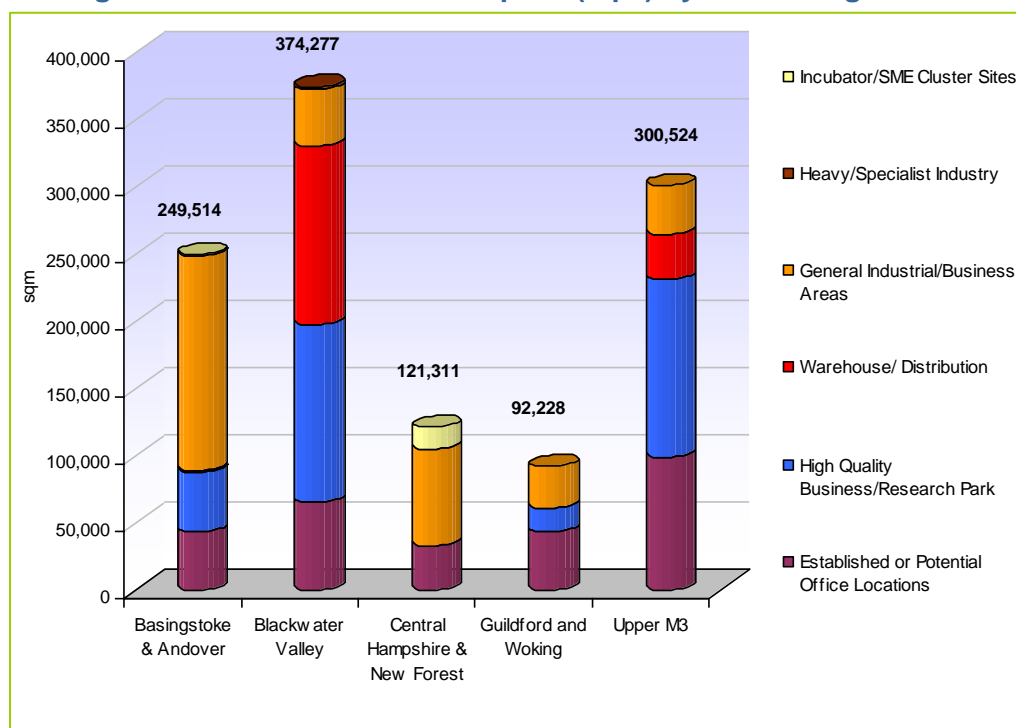


Figure 32b: Market Area Floorspace (sqm) by Market Segments



The number of sites for each Market Area (Figure 32a) and the floorspace (Figure 32b) present two contrasting pictures:

Sites

- Established or Potential Office Locations and General Industrial Business Area sites are spread across all five market areas as the two most common development segments.
- The High Quality Business/Research sites are more prevalent in the north and eastern market areas of the LEP and entirely absent in the centre and south, which may have more to do with the rural landscape and smaller market town employment centres.
- The Warehouse/Distribution segment is mostly in the Upper M3 market area, with closer access to the M3/M25 and Heathrow.
- The two Incubator sites are located in the more rural market areas, while the solitary Heavy/Specialist Industry site is in the Blackwater Valley.

Floorspace

- Much greater variation exists in the market areas with floorspace than site numbers. Overall floorspace ranges from 92,278 sqm in Guildford and Woking to over four times that floorspace in the Blackwater Valley (374,277 sqm). Individually Central Hampshire (49,000 sqm) and the New Forest (72,000 sqm) would be the two smallest market areas in terms of floorspace.
- The General Industrial/Business Areas represent the bulk of floorspace in Basingstoke and Andover, and in Central Hampshire and New Forest.
- High Quality Business/Research Parks dominate floorspace in the Blackwater Valley and Upper M3, principally through the cluster sites in Farnborough and the Longcross site in Chertsey.
- Warehouse/Distribution has a much larger share of floorspace in the Blackwater Valley than elsewhere, and is almost wholly explained by the 133,400 sqm of development land at Pyestock (Farnborough/Fleet).
- Established or Potential Office Location floorspace has the largest share in Guildford and Woking, and a large share in the Upper M3.

Figure 33a: Market Area Sites by Development Potential

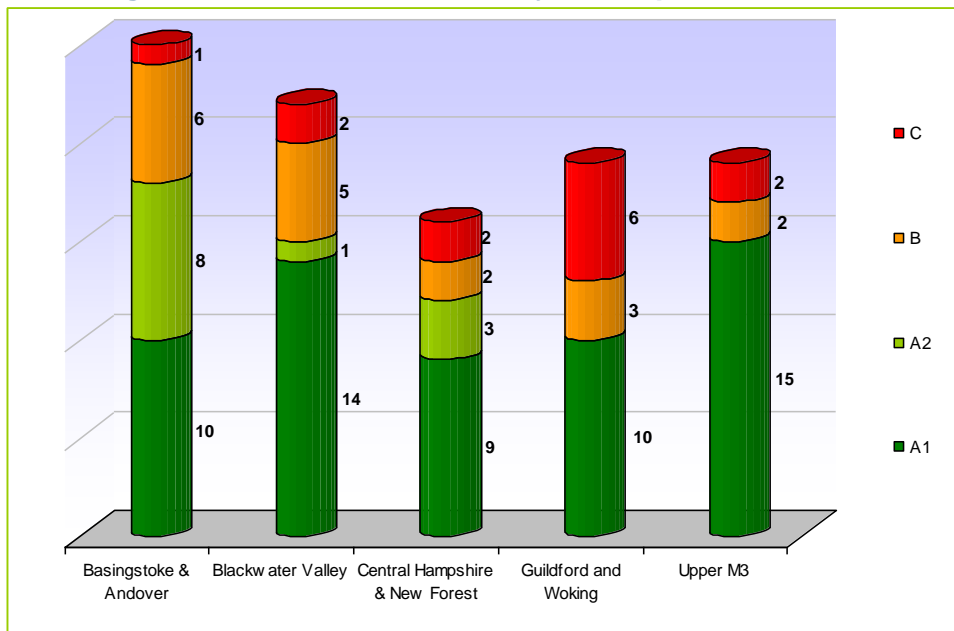
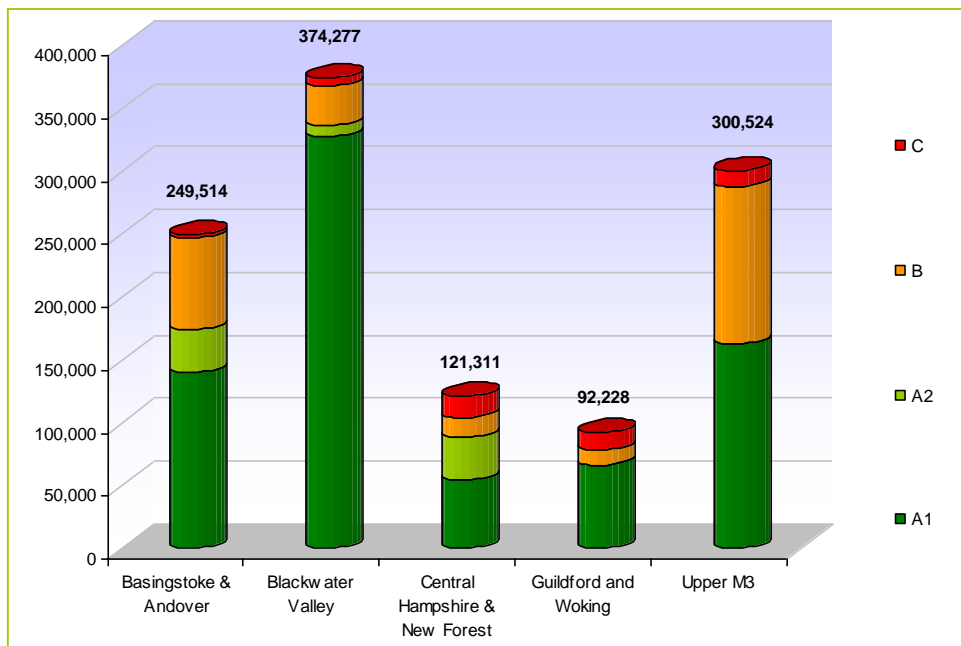


Figure 33b: Market Area Floorspace (sqm) by Development Potential



The number of sites for each Market Area (Figure 33a) and the floorspace (Figure 33b) by Development Potential shows a positive picture, but also differences:

Sites

- A1 ranked developments represent the majority of sites across all five market areas.
- A2 sites are clustered in Basingstoke and Andover, mostly in Basing View, and in Central Hampshire and New Forest. There are no A2 sites in Guildford and Woking and the Upper M3.

- B ranked sites are to be found across all five market areas, but around one third are located in Basingstoke and Andover (six sites), principally located on the Walworth Business Park, and in the Blackwater Valley (five sites).
- As with A1 and B sites, the distribution of C sites is across all five market areas, although noticeably more in Guildford and Woking.

Floorspace

- The same variation naturally exists in the market areas with floorspace, but there are also differences between the share in site numbers and floorspace by Development Potential.
- A1 site floorspace as a proportion of total floorspace is particularly high in the Blackwater Valley (87% - 327,258 sqm) and reasonably high in Guildford and Woking (72% - 66,130 sqm). The lowest proportion of A1 floorspace is in Central Hampshire and New Forest (45% - 54,133 sqm).
- A2 floorspace is more closely aligned to the number of sites in each market area, but is highest with 28% of Central Hampshire and New Forest floorspace (34,378 sqm).
- The Upper M3 has proportionately more floorspace in the B category with 42% (125, 514 sqm), compared to 9% in the Blackwater Valley (31,665 sqm).
- Guildford and Woking with 15% (14,164 sqm) and Central Hampshire and New Forest with 14% (17,200 sqm) have proportionately more of their total floorspace graded as C than the other three market areas which range from 1.1% (Basingstoke and Andover) to 4.2% (Upper M3).

Individual Indicators

Figures 34a to 34c disaggregate the individual indicator scores by market areas for Attractiveness, Availability and Site Quality. The floorspace data are not published as the number of market areas with one or two sites per indicator would lead to identification of those sites by cross referencing the sites listed in the Appendix.

Figure 34a: Market Area by Attractiveness

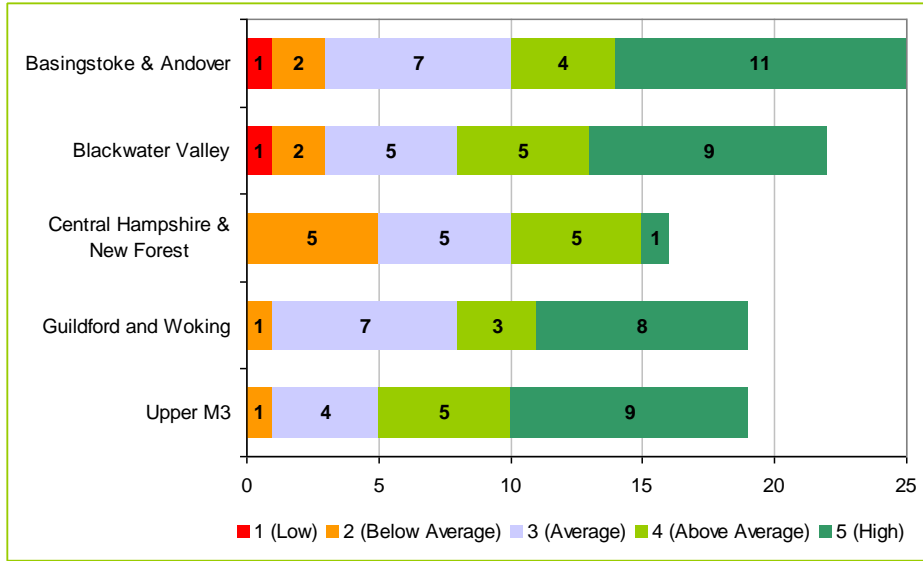


Figure 34b: Market Area Sites by Availability

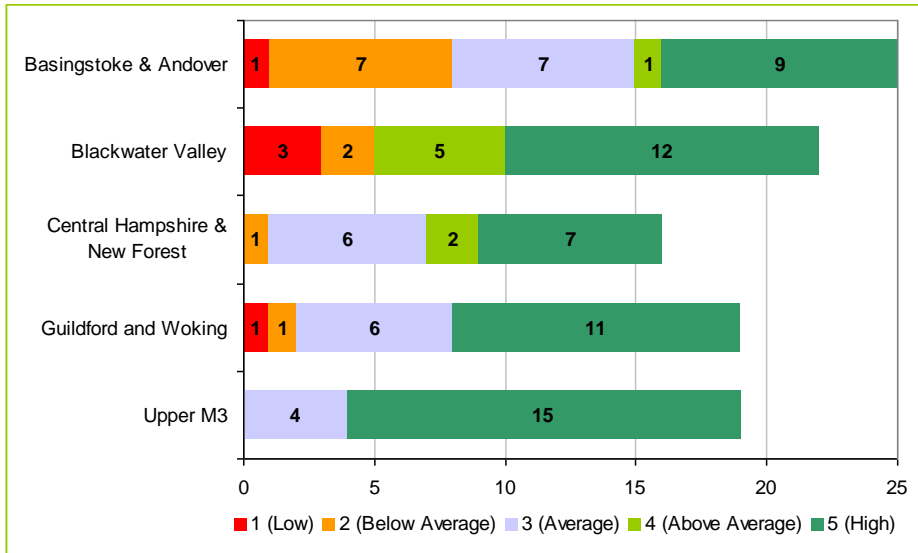
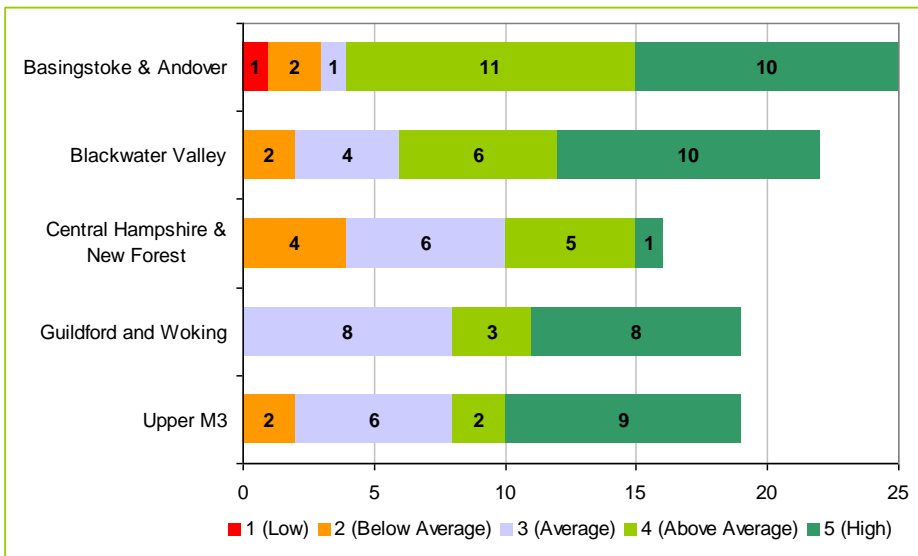


Figure 34c: Market Area by Site Quality



The first conclusion to draw from Figures 34a to 34c is the variation within each market area by the individual indicators. Good availability can be offset by a more average site quality and/or attractiveness and vice versa.

Attractiveness

- Sites rated highly attractive are more evident in four of the five market areas, with only Central Hampshire and New Forest performing less well under this indicator. However, it should be recognised that such sites may well meet very localised market needs.

Availability

- The Upper M3 stands out as offering the highest proportion of available sites (15 out of 19), whilst questions over deliverability are more noticeable in Basingstoke and Andover, mostly surrounding the Walworth Business Park in Andover, and to some extent in the Blackwater Valley.

Site Quality

- Site Quality has a similar market area profile to Attractiveness at the 'high' end, but Basingstoke and Andover sites score quite differently, with the market area performing better under Site Quality than Attractiveness.

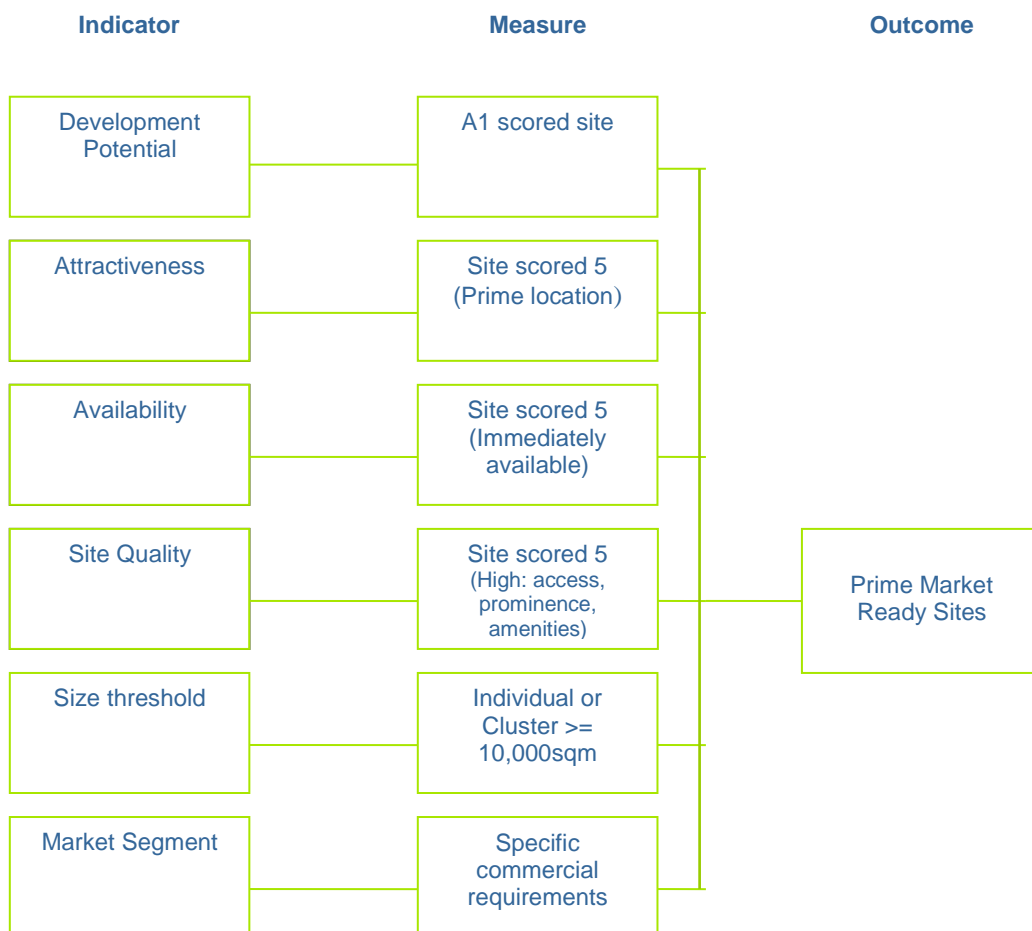
Part 3:

Portfolio of Key Sites in Enterprise M3

A fundamental aim of the study was to produce two lists from the 101 sites in the study, each with a specific economic development purpose. The first list draws out a number of high quality sites with excellent availability for indigenous and inward investment to the Enterprise M3 area to maintain the LEP’s competitive edge. The second list highlights a number of sites with good investment potential that the Enterprise M3 LEP could focus on to facilitate economic development that might otherwise be blocked by infrastructure or other obstacles.

Sites in the study were considered to be ‘Prime’ Market Ready Sites if they met certain criteria as outlined in Figure 35. A separate list for smaller Market Ready Sites were also identified and are listed in Appendix 4.

Figure 35: “Prime” Market Ready Sites Criteria



The criteria used to derive a list of Prime sites was based in the first instance on the assessment scores for Development Potential (A1) followed by the Individual Indicators (all scores of ‘5’), and then by a floorspace threshold (\geq 10,000 sqm).

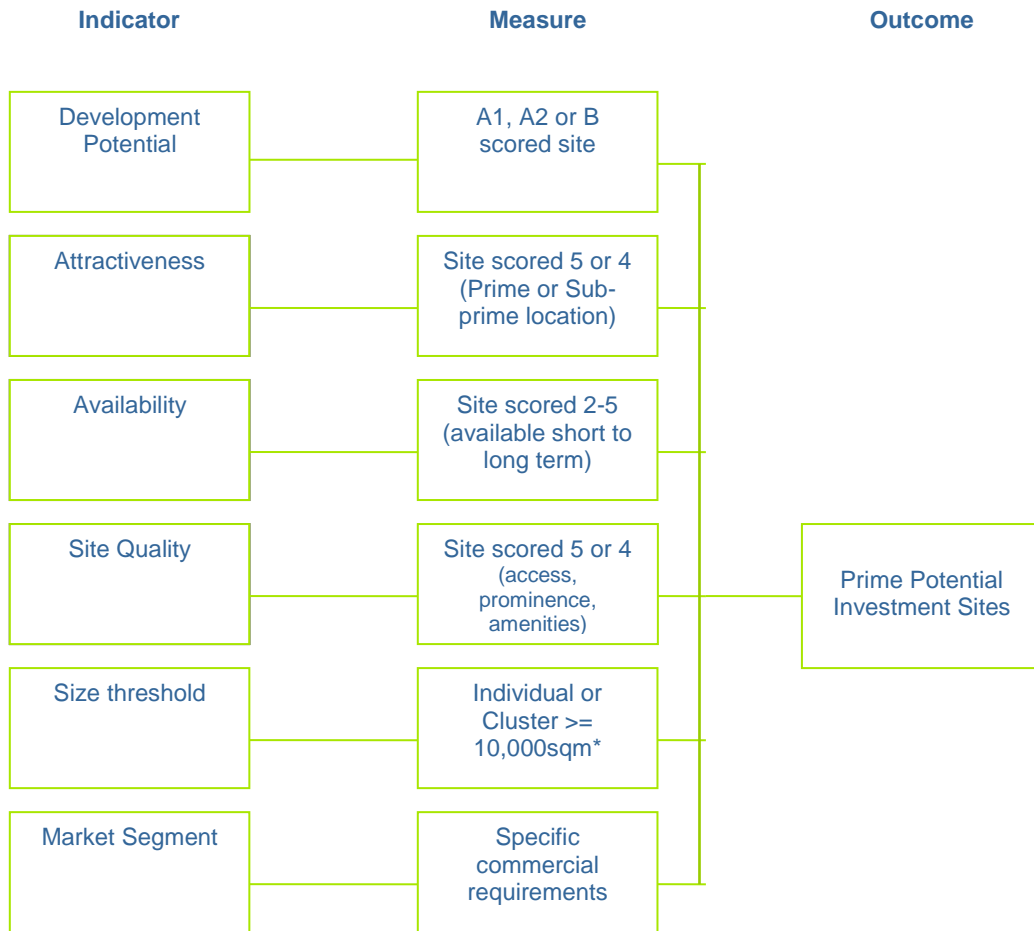
(The floorspace threshold uses the 10,000 sqm benchmark applied to ‘strategic sites’ in the 2010 HEP study for Hampshire.)

The list of ‘Prime’ Market Ready Sites consists of 16 potential developments, although nine of these are located within Chineham (Basingstoke) and Farnborough. When combined the 16 sites offer 301,765 sqm of floorspace or 27% of the overall floorspace in the study. There are a number of Market Ready Sites that met the Development Potential and Individual Indicator scores, but with floorspace below the 10,000 sqm threshold. These potential developments offer the market a further 14 market-ready sites for indigenous and inward investment and approximately 62,604 sqm of floorspace. The list of smaller Market Ready Sites can be found in Appendix 4.

Table 3: “Prime” Market Ready Sites

<i>Site Ref</i>	<i>Site Address</i>	<i>Proposed Development</i>	<i>Market Area</i>	<i>Use Class</i>	<i>Floor-space (sqm)</i>	<i>Market Segment</i>	<i>Development Potential</i>
72	Elderwood Crockford Lane, Chineham	Local Plan Allocation For B1 Use		B1A	6,052	2a	A1
73	Redwood, Crockford Lane, Chineham	B1 Office Development	Basingstoke & Andover (Chineham cluster - 34,874 sqm)	B1A/B	12,360	2a	A1
74	Larchwood Crockford Lane, Chineham	Local Plan Allocation For B1 Use		B1A	4,222	2a	A1
75	Spindlewood, Crockford Lane, Chineham	3 Storey B1 Office Development		B1A	2,000	2a	A1
232	Land at the Quadrant, Crockford Lane, Chineham	Two Storey Office Building		B1A/B	16,840	2a	A1
9	Andover Business Park Monxton Road	B1/B8 Development Residual Floorspace	Basingstoke & Andover	B1-8	72,342	4	A1
274	Guillemont Park, Minley Road	B1 Development	Blackwater Valley	B1	13,000	1	A1
84	Farnborough Business Park	Redevelopment of former DERA factory site		B1-8	21,030	2a	A1
85	The Enclave, Aerospace Boulevard Plots 40/50/60	B1 Development	Blackwater Valley	B1	29,099	2b	A1
88	Farnborough Business Park Plots 300-380	3 office buildings	(Farnborough cluster – 86,839 sqm)	B1A	20,110	2a	A1
89	Farnborough Business Park	B1 Development		B1C	20,600	2a	A1
60	Altura, 9/13 Victoria Way, Woking	18 storey building with small amount of A/D1	Guildford & Woking	B1A	16,719	1	
24	Opus 1, Lovett Road (north of Lovett Road) Staines	4-storey offices	Upper M3 (Opus – 16,003 sqm)	B1A	10,150	1	A1
25	Opus 3, Lovett Road (south of Lovett Road) Former Reservoir site Staines	4-storey offices (GIFA)		B1A	5,853	1	A1
32	Majestic House, 122/140 High St, Staines	Mixed use development including offices	Upper M3	B1A	29,603	1	A1
33	Staines Central, 17/51 London Rd, Staines	Mixed use development	Upper M3	B1A	23,225	1	A1

Figure 36: “Prime” Investment Potential Sites



*or lower scored site or cluster with >50,000sqm floorspace

The criteria used to extract a list of Investment Potential Sites uses the same framework as Market Ready Sites but with lower thresholds, particularly on Availability.

The list of ‘Prime’ Investment Potential Sites consists of 17 potential developments, although 12 of these sites are located within Basing View, the Viabes Business Park (both Basingstoke) and the Walworth Business Park in Andover. When combined all the 17 sites offer around 433,236 sqm of floorspace or 38% of the overall floorspace in the study.

There are a number of Investment Potential Sites that met the Development Potential and Individual Indicator scores, but with floorspace below the 10,000 sqm threshold. These development sites offer the market a further 13 investment potential sites and approximately 57,000 sqm of floorspace. The list of smaller Investment Potential Sites can be found in Appendix 5.

Table 4: “Prime” Investment Potential Sites

<i>Site Ref</i>	<i>Site Address</i>	<i>Proposed Development</i>	<i>Market Area</i>	<i>Use Class</i>	<i>Floor-space (sqm)</i>	<i>Market Segment</i>	<i>Development Potential</i>
65	Number One Basing View, Old Reading Rd, Basingstoke				3600	1	A2
66	Site 16, opposite Mountbatten House, Basing View, Basingstoke	Local Plan Allocation for B1 Use	Basingstoke & Andover (Basing View cluster - 20,240 sqm)	B1a/b	8800	1	A2
67	Gateway Site, Basing View, Basingstoke				3240	1	A2
270	City Wall House, Basing View, Basingstoke				1960	1	A2
271	Loddon House, Basing View, Basingstoke				2640	1	A2
62	Viabes Business Park, Basingstoke	Local Plan Allocation For B1 Use	Basingstoke & Andover (Viabes cluster – 13,480 sqm)	B1a/b	2,600	1	A2
68	Viabes Business Park, Basingstoke			B1a/b	6,080	1	A2
69	Viabes Business Park, Basingstoke			B1a	4,800	1	A2
10	Land at Walworth Business Park, Walworth Road, Picket Piece, Andover	Local Plan employment allocation Basingstoke & Andover		B1-8	44,000	4	B
17	Plot 50, South Way, Walworth Business Park, Andover	Warehouse and ancillary offices	Basingstoke & Andover (Walworth cluster – 55,647 sqm)	B8	1,208	3	B
18	Plot 89, Walworth Business Park, Andover	Vacant site		B1-8	7,600	4	B
19	Plot 73, Columbus Way, Walworth Business Park, Andover	Vacant site		B8	2,760	4	B
83	Land At Pyestock North Ively Road	Industrial & Warehouse Redevelopment	Blackwater Valley	B1-8	133,414	3	A1
220	Land North Of Old Ively Road, Farnborough	B1c/B2/B8 Business Park/ 2 Data Centres	Blackwater Valley	B1-8	44,960	2a	A1
43	Home Park, BAE Systems Site, Lyon Way, Frimley	5 Office Buildings	Blackwater Valley	B1A	32,515	1	A1
4	Ph2, Henley Park, Pirbright Road, Guildford	6 high-office content 2-storey ind. units	Guildford & Woking	B1A/ B1C/ B2	19,625	4	A1
21 (s)	DERA Site, Chobham Lane, Longcross	M3 Business park development	Upper M3	B1a	113,434	2	B

Conclusions and Recommendations

Conclusion

The conclusions from this research work have both immediate and longer term implications. Some will be resolved by the interplay of market forces; others may demand action or influence from policymakers or Enterprise M3 Local Enterprise Partnership.

Short term

In the short term it is clear that there is and continues to be a general picture of supply exceeding demand. The market has been very challenging for landlords, developers and investors working on the supply side of the commercial property industry. As the economy has weakened so investment and availability of finance has become polarised in favour of the best propositions with secure rental income and quality.

The counterpart of this, on the demand side, is that businesses have found themselves in a strong position to renegotiate terms on their existing premises or to find alternative property on favourable terms. However, an inevitable consequence of these market forces is that development of new space has stalled. There is generally a weak pipeline of new space being built because demand has weakened to the point where speculative development is too risky or simply not viable for the private sector.

Market feedback has highlighted more volatility in the office market than the industrial market – in general, offices have swung more towards oversupply than has industrial space. This is borne out by the data which shows that vacancy rates are significantly higher for offices. The two markets could be characterised as “steady” for industrial compared to “boom and bust” for offices. However, there are exceptions, for example in the more south-westerly parts of the Enterprise M3 LEP area there has historically been less investment in offices and new supply has been muted; in the north-easterly area office rents have held up in relation to construction costs and agents talk of a return to speculative office development.

So it is clear that some features of the market can be explained relatively simply by examining market forces and from observation of the economy at large. As and when the economy strengthens one would expect to see gradual revival of demand for premises. However, two particular notes of warning emerged from the study and these merit further research and monitoring. Firstly, companies are thought to have more capacity or “elbow room” than they need - hence there is likely to be a time lag between economic recovery and a general upswing in take-up. Secondly, the office market has seen the steady emergence of flexible working practices and more efficient use of space – this is a “structural change” that will not be reversed by the general market cycle.

It has long been the case that market forces have created a powerful incentive for commercial (B-class) property to be changed to higher value residential use. This has commonly been resisted through planning policies that seek to protect employment land. Although the pace of housing delivery has stalled during the recession the differential in value and the incentive that this creates is persistent. Local authorities are likely to be confronted with an increasing body of evidence that commercial property demand is weak, the viability of commercial development is frail, the supply position is comparatively strong and little harm would be done to the economy if a change of use was permitted.

The onus has tended to be on developers to make this case but central government is now encouraging local planning authorities to look favourably at conversion of redundant offices to residential use. Consequently many councils have sought to exempt their employment areas from this policy change, and at time of going to press are still awaiting the outcome of this process. In any event, by working with members of the Land & Property Group, the Enterprise M3 and Local Planning Authorities could help evaluate the likely effects of policies on key sites and premises.

Medium Term

In the medium term, assuming some cyclical improvement of the economy, we would expect to see shrinkage in the incentives offered to commercial tenants (e.g. a shortening of rent free periods) and a steady reduction in choice. This may be accompanied by rental growth but this will be patchy. Companies with very specific property requirements may find that their choice becomes constrained due to the decline in construction activity during the recession.

Refurbishment projects are tending to come forward first, ahead of speculative office development. This trend is likely to continue, especially for offices with good parking ratios that were established before planning consents were tightened. An example of this happening in practice was cited by Novartis², where it was found to be beneficial to retain historic levels of parking at their Frimley facility, and this approach would be attractive in other parts of the country. This begs the question as to whether parking restrictions could be more relaxed, especially where public transport is lacking.

If the market improves, particularly if the supply of new space remains modest, then low pricing will gradually cease to be a differentiator and the quality of space will become an important issue for some. The ultimate judge of quality is the end user of the space created; for some firms the environmental performance of their buildings will be increasingly important as the “carbon agenda” and rising energy prices take hold. Other aspects of quality that would attract companies to a location could be the subject of further dialogue or research.

For those locations that are driving a positive economic development agenda, the ability to stimulate growth and to deliver strategic sites and infrastructure will become increasingly important. The larger, better connected sites will remain relatively few in number.

Although this report is focused on B-class space rather than retail or leisure uses, the difficulty that some High Street locations are experiencing due to the collapse of certain retailers was noted. This means that some local authorities in the Enterprise M3 LEP area will be especially interested in the relationship between town centre offices and the footfall they generate for retailers; the interplay between different land use classes, including residential uses, could be increasingly important.

Long Term

Thinking longer term, it will be important to anticipate the effects of cyclical and structural change. Certain locations near the M25 and Thames Valley are seeing signs of cyclical recovery; but working practices and the demands upon business space are changing.

² Surrey Futures Conference

Further work by the Land & Property Group, as well as closer business engagement by the LEP, could help address these issues and help define local variations.

The natural tendency will be for people and businesses to drift towards places they regard as attractive. The dilemma for policymakers and the Enterprise M3 LEP is how to ensure that the area moves in that direction, retaining and building its market appeal – especially when the viability of development, like the economy, is challenging. There is a danger that the quality of the built environment will suffer, not just due to the current lack of investment but also because such development that does occur is compromised by the construction costs. Potentially this means that Local Planning Authorities should be less concerned about the mix of uses than enabling development that is well specified. These are issues that need to be addressed now, even though the effects may only become apparent in the longer term.

The work that has gone into this report, by public sector and private sector contributors alike, has generated informed debate about sites and premises. This debate needs to continue with greater force, centred on research and cooperative dialogue, to drive market choices and public policies to a logical conclusion. Hence it is recommended that there is ongoing engagement between the public and private sectors to influence the outcomes for the Enterprise M3 LEP area.

Recommendations

This study has implications for the Enterprise M3 LEP as it shapes its strategy that was endorsed at the recent conference and makes its funding decisions. It also has implications for businesses investing in the area, especially if they require sites or premises, and for policymakers seeking to resolve conflicting land use pressures or to encourage economic growth. However, this report does not have all the answers and should be regarded as a springboard for further debate on policy priorities and deliverable ambitions.

The research has highlighted some strongly positive attributes of the area, including an excellent choice of sites and premises for business use. The area has capacity for growth that, with strong marketing and endorsement of its strengths, could be positioned as a major strength and opportunity for the region.

However, it is important to examine the “fit” of sites and premises with the market’s needs (across a variety of uses), to be clear about any gaps in supply (qualitative and quantitative) and to consider any strategic requirements that should be met.

The operation of the Enterprise M3 LEP area as a functional economy is greatly supported by the motorway infrastructure that acts as a spine stretching from the M25 to the New Forest. Nonetheless, it is a LEP area with distinct “market areas”. It is therefore recommended that further work is done to differentiate between market segments and sectors so that localised differences, priorities and opportunities can be fully identified. The Land & Property Group of Enterprise M3 LEP is establishing a cadre of “critical friends” that are prepared to share local market knowledge and experience for this purpose. This programme needs to be developed and driven forward to encourage investment in the built environment and to stimulate the economy.

Further work with adjoining LEPs may be instructive - especially as the Thames Valley/M25 market is starting to see signs of recovery that may have implications for the M3 corridor. Furthermore, several districts and market areas in the south of the EM3 LEP area intersect with Solent LEP and joint working would help to complete our data analysis to the benefit of both LEPs.

A key concern of the LEP is understanding how government funding should be allocated and channelled to places and projects where it will have best effect. The reality is that some of the funding bids received are more likely than others to make a real, catalytic difference. As such, it is recommended that this study is interrogated and developed so the LEP can form a view on which projects are most likely to reach a positive “tipping point” as a result of LEP funding.

Due to market pressures and policy pressures from central government, the safeguarding of employment land is harder to support as a “default” policy but may well be necessary in certain places. From this research it is clear that a more creative approach to land uses, perhaps embracing “mixed use” development more fully, is required in order to attract investment and deliver economic growth. Public sector policies and private sector proposals need to be increasingly “evidence based” if these tensions are to be resolved.

This study should be used to stimulate further engagement between the public and private sectors to understand business intentions, potential sources of investment and appropriate policy responses. The outcome of this work, plus the scale and pace at which new infrastructure and development is actually delivered should be monitored so that action is taken as a result.

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