Commercial Property: Market Analysis and Potential Interventions

A report to the Welsh Government

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SQW

Contents

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Executive Summary

Introduction

1. The Welsh Government has an important role in ensuring a supply of commercial property to meet demand from indigenous businesses and inward investors. The *Economic Action Plan* gives this role additional impetus, setting out a new commitment to intervention to bring forward commercial sites and premises. To deliver this, work is underway to develop a new Property Delivery Plan, setting out the range of tools that the Welsh Government will use to meet economic need and drive future growth.

2. To inform the new Property Delivery Plan, this report sets out an analysis of the Welsh commercial property market, including current and likely demand, property market responses and the extent to which there is a gap in supply. It also considers potential priorities for, and approaches to, intervention. In line with the Welsh Government's regional approach to economic development, it outlines the priorities for intervention within South East Wales, South West and Mid Wales and North Wales.

Why intervene in the commercial property market?

3. By 'commercial property', we mean industrial and office space[1]. While delivery of industrial and office accommodation is generally led by the private sector, there are strong grounds for public sector intervention. In broad terms, these fall into three categories:

   - Addressing 'market failure': although there might be evidence of *demand* for new or additional capacity, the market fails to respond. This might be because of weak viability (high development costs relative to land values or anticipated rents); poor market signals (there might be high aggregate floorspace availability, but available stock might not be suitable for occupier need); or changes in the nature of demand with which the market has not yet caught up.

   - Attracting and retaining investment that would not otherwise come to, or reinvest in Wales. In this case, the availability of the 'right' land and premises infrastructure is a key part of the wider investment offer (alongside the skills base, transport accessibility and so on).

   - Influencing commercial decisions to achieve broader social, economic and environmental objectives, for example by bringing new economic activity to a redundant site, or encouraging more activity in accessible or town centre locations.

4. In many cases, intervention will meet several objectives, and activity in the commercial property market is an important part of the economic development 'toolkit'.

[1] This definition excludes some premises used for other 'commercial' purposes (e.g. retail, commercial leisure and tourism and agriculture). However, it corresponds to the definition generally used by local authorities for 'employment' space within the planning process.

Demand and supply

5. Across Wales, there were around 200 million sq ft of industrial floorspace and 35 million sq ft of office space in 2018/19[2]. Annual take-up amounts to around 3.6 million sq ft of industrial and 1 million sq ft of office space, although this mostly represents occupiers moving within the *existing* stock of commercial property.

6. Estimating future quantitative demand is challenging. Forward projections based on historic employment growth (which has been strong in recent years) suggest a *potential* net requirement of between 500,000 sq ft and 1.5 million sq ft per year to 2031. However, future demand will be influenced by wider market trends: for example, increased homeworking and flexible working has impacted on demand for traditional offices, and rising self-employment is leading to greater demand for flexible and managed workspace. While some demand will be accommodated within existing supply, demand for new space will also be driven by the obsolescence of older stock (especially in the context of the need for greater energy efficiency).

7. A closer look at the market reveals considerable diversity at local and regional level. However, there are some key themes that are relevant to the Welsh Government's intervention in the commercial property market:

- There is widespread evidence that **industrial supply is very tight, relative to demand**. There has been little recent commercial development (other than in Newport, Cardiff and Flintshire/ Wrexham), and there are few developers active in the market.
- **A weak supply of smaller units is compounded by ageing stock**. Limited capacity also appears to constrain firms' ability to move to larger premises, potentially impeding expansion potential and the Welsh Government's objective of enabling higher quality jobs.
- The Cardiff office market is performing well. Elsewhere, **there is evidence of unmet office demand in Newport and potential in Swansea**, which should be encouraged. In other locations, demand appears to be (on the whole) weak, suggesting that interventions should be concentrated in key locations.
- Demand for **'non-traditional' types of accommodation** (such as managed workspace and hybrid units) appears to be growing as the nature of work and technology changes.

Understanding the gap

8. Overall, **there is evidence of widespread 'market failure'**, particularly in the industrial sector: occupancy levels within the existing stock are high, agents report strong demand and some occupiers are unable to move to larger premises because of a shortage of supply, there is little commercial activity taking place to address this apparent demand. Running a series of 'baseline appraisals' for office, industrial and hybrid units in different parts of Wales, we

[2] Valuation Office Agency

demonstrate non-viability in most (although not all) cases, highlighting a need for public sector intervention.

Potential priority interventions

9. The regional supply and demand analysis suggests that the focus of intervention should be in the following locations and related to the following types of property (taking into account that the market is performing adequately in some locations, and that some for some types of use, demand is likely to be weak):

Table 1: Potential priority areas for intervention by region

	South East	South West & Mid	North
Office			
City centre & strategic hub offices	Focus on Newport and (given evidence of current demand) Pontypridd.	Focus on Swansea	Little evidence of demand at present
Office-based managed workspace/ grow-on space	Focus on Valleys strategic hubs + Bridgend	Potential focus on Swansea, Port Talbot, Llanelli and market towns	Focus on larger centres where demand unlikely to be met by market (e.g. Bangor, Colwyn Bay)
Industrial			
Industrial starter units	Dispersed, but focused on well connected locations (outside Cardiff and Newport, where there is evidence of private sector activity)	Dispersed, but focused on well-connected locations	Dispersed, but probably outside Wrexham/ Flintshire, where market appears to function effectively
Industrial grow-on space	Dispersed, but focused on strategic sites	Focused on strategic locations, but also evidence of rural/ market town need (e.g. Newtown)	Focused on network of larger strategic sites
Strategic industrial sites	Focused on key WG and other public sector land holdings	Focused on nationally and regionally significant locations, although recognising known constraints on site availability in some locations	Focused on strategic sites, but with caution in terms of risk of market over-supply (and localised constraints on site availability in some places)
Cross-cutting			
Refurbishment	Potentially focused on major/ larger estates, although could respond to needs of specific occupiers	Potentially focused on major/ larger estates, although could respond to needs of specific occupiers	Potentially focused on major/ larger estates, although could respond to needs of specific occupiers

10. To support this, **a range of potential intervention options are available to the public sector.** Assuming that the aim is to support private sector delivery where possible, the relevance of each option depends on how close each scheme is to viability:

Table 2: Potential public sector interventions, by viability position

Viability position/ barriers to development	Potential intervention
Scheme deliverable by the private sector	No financial intervention, but public sector maintains enquiries and site information
Close to viability, but private sector needs to overcome market risk factors	Public sector fixed-term lease; business rate exemption initiatives
Low-level (less than 20%) financial gap in the appraisal	Non-equity public support (e.g. part-funding of elements of infrastructure provision)
Medium-level (less than 35%) financial gap in the appraisal	Non-equity public support (e.g. public sector lease; public loan or loan/ grant funding; funding of key infrastructure)
Significant gap up to 50% of overall cost	Public sector joint venture/ equity stake, with funding of key infrastructure
Commercially unviable	100% direct public sector funding, with direct development and management role

The scale of intervention

11. The viability challenges highlighted by the market analysis suggests a need for significant intervention. Based on the indicative potential quantum of future demand, the regional supply and demand analysis and the series of baseline appraisals, **we estimate that the Welsh Government and public sector partners may wish to plan to support the delivery of at least 900,000 sq ft of new floorspace over a three-year rolling period**. This equates to a potential requirement for developable land of between at least 35 acres, over a rolling three-year period (or around 58 acres over five years). While highly indicative, this would represent a substantial net addition to the commercial floorspace stock, and would imply some form of intervention to deliver between around 50% and 65% of total net commercial floorspace growth.

12. In delivering an increasingly active public sector role in the market to meet demand, two (linked) factors will be important:

- First, **regional alignment**, ensuring that there is consistency between the approach of the Welsh Government and that adopted within the regions, and avoiding fragmentation (especially in the context of scarce public resources). There is an appetite at regional level to develop a joint approach to the prioritisation of strategic sites, ensuring that deliverable sites of the right quality can come forward: this should be encouraged.
- Second, **maintaining and developing access to a range of development skills.** Potentially, the Welsh Government could offer a shared, expert resource that can be used across the Welsh public sector to progress the interventions identified above.

13. In conditions of widespread non-viability, there may be value in exploring the potential for the establishment of an **Asset-Backed Development Vehicle**, providing an opportunity to spread risk across a portfolio of commercial developments of different types and different locations, with the aim of achieving a return to the Welsh Government over the long term.

1. Introduction

Background

1.1 Historically, the Welsh Government and its predecessor bodies have played a significant role in ensuring a supply of commercial property to meet demand from indigenous businesses and inward investors. While in recent years, the Welsh Government's direct intervention has reduced, it continues to maintain an extensive portfolio of land and property assets for economic development purposes and is active in bringing forward strategic sites. It also operates Property Developer Grant (PDG) schemes to support commercial investment, and (via the Development Bank of Wales) recently launched a loan product for commercial property development.

1.2 The Welsh Government's *Economic Action Plan* sets out a strengthened commitment to intervention in support of employment sites and premises[3]. Following this, work is currently underway to develop a business case for a new Property Delivery Plan, which will set out the rationale for Welsh Government intervention in the commercial property market and the range of tools that will be deployed to meet economic need.

> *"Wales needs modern sites and premises to allow businesses to expand and grow, so we will proactively intervene where there is market failure. We will do this either by incentivising investment from developers and investors; by creating development consortia that allow us to maximise and capture the benefits of our Metros; or by being committed to the direct delivery of sites and premises in parts of Wales where the private sector is not prepared to invest"*
>
> Economic Action Plan

Study brief and scope

1.3 To inform the new Property Delivery Plan, SQW was commissioned in March 2019 to consider:

- **An analysis of the Welsh commercial property market**, including:
  - ➢ current and likely demand (taking into account the sectoral composition of the economy, recent and forecast trends and the potential impact of new technology); strategic aspirations over the longer term; and key constraints and opportunities
  - ➢ property market responses to current, likely and aspirational demand
  - ➢ the extent to which there is a 'gap' in supply and the relevance of the Welsh Government's commercial property stock (in terms of buildings and land) in meeting this gap.
- **Potential priorities for, and approaches to, intervention,** taking into account evidence of approaches that have been used elsewhere, and the extent to which the

[3] Welsh Government (2017), *Prosperity for All: Economic Action Plan*, p.40 (https://gov.wales/prosperity-all-economic-action-plan)

Welsh Government should seek to ensure a 'float' of available land and premises to proactively meet (and help to drive) demand.

Key parameters

What do we mean by commercial property?

1.4 The focus of this report is on **office and industrial property** (i.e. 'B-class' uses, described in the box below). This excludes a large amount of employment-accommodating space, including space for retail and leisure activities (which are especially important to the local economy in some parts of Wales). The focus on B-class property reflects the general intent behind the strategic approach to land and property within the *Economic Action Plan*. However, B-class demand and supply could influence the context for the provision of other types of employment space, for example by enabling town centre diversification.

Defining commercial property

The Town and Country Planning Use Classes Order[4] defines properties in a series of categories according to their use (for example, retail, residential, food and drink, etc.). There is no specific definition of 'commercial property' within the Use Classes Order, although it defines the following uses, which we have used as a proxy within this report:

- B1(a): Offices (other than 'retail-type' offices, such as bank and building society branches)
- B1(b): Research and development facilities
- B1 (c): Light industrial uses which could be carried out within a otherwise residential environment
- B2: General industrial
- B8: Storage and distribution

As indicated above, this definition excludes the space required for commercial activity which is neither industrial nor office-based in nature. However, it corresponds with the conventional approach taken to 'employment' space within a land-use planning context.

Building on earlier work

1.5 Earlier analysis of the Welsh commercial property market was set out in the ***Framework for Priority Property Interventions in Wales*** report. This was commissioned by the Welsh Government and prepared by JLL in 2017, and itself built on a previous 'gap analysis' report prepared in 2014.

1.6 The JLL report set out an 'action plan' for the provision of new employment land and premises and for the refurbishment of existing stock, with the aim of achieving a *"balanced portfolio of a small number of high quality sites and buildings which are immediately available for development or occupation"*[5]. It also included indicative amounts of additional floorspace that

[4] Town and Country Planning (Use Classes) Order 1987 (as amended). See https://www.planningportal.co.uk/wales_en/info/3/common_projects/6/change_of_use.

[5] Welsh Government (JLL) (2017), *Framework for Priority Property Interventions for Economic Development in Wales*, p.11

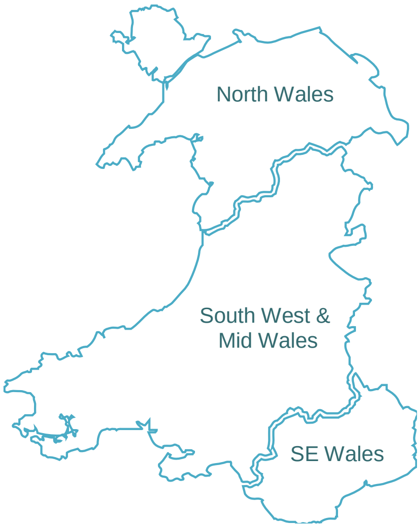
could be encouraged within specific locations and types of uses, and this has provided a basis for the Welsh Government's general property approach in recent years.

1.7 Given the new direction set out in the *Economic Action Plan*, we have taken a fresh approach to the market analysis, rather than simply 'updating' the earlier work. However, to provide continuity, we have reviewed the recommendations of the JLL report in the light of the evidence and delivery since 2017.

A regional approach

1.8 The *Economic Action Plan* commits to a **regional approach to economic development**. It defines three regions, which broadly correspond with existing and emerging City Deal and Growth Deal arrangements. Each region is supported by a Chief Regional Officer within the Welsh Government, and work is underway to prepare a series of Regional Strategies, in conjunction with local partners. To inform these strategies as they emerge, this report structures the market analysis and recommendations by region, within a national context.

Figure 1-1: Regions of Wales



Source: Welsh Government, SQW

1.9 The three regions are:

- **North Wales**, including: Wrexham and Flintshire, with their large industrial base and close cross-border relationships with the North West of England; Conwy and Denbighshire, including the central A55 corridor and an extensive rural hinterland; and largely rural (and in parts remote) Anglesey and Gwynedd.

- **South West and Mid Wales**, including the area covered by the Swansea Bay City Deal (Swansea, Neath Port Talbot, Carmarthenshire and Pembrokeshire), as well as rural Ceredigion and Powys, covered by the emerging Mid Wales Growth Deal.

- **South East Wales**, the smallest of the three geographically, but the largest in population terms, covering the Cardiff Capital Region, including the cities of Cardiff and Newport, plus Blaenau Gwent, Bridgend, Caerphilly, Merthyr Tydfil, Monmouthshire, Rhondda Cynon Taf, Torfaen and the Vale of Glamorgan.

1.10 Within the context of this regional approach however, it is worth noting that Wales has a diverse and dispersed population and business base. Each region is itself complex: within North Wales (for example) market opportunities and constraints are very different in industrial Deeside compared with those in rural Gwynedd. Some policy themes also cross regional boundaries (such as the Valleys Task Force, which extends across parts of South East and South West Wales). Where relevant, we have therefore considered the local context in some detail.

Approach and method

1.11 Since the purpose of this study is to inform the Welsh Government's interventions in the property market, our starting point is to consider why, in principle, the Welsh Government (or the public sector more broadly) should intervene in the market at all. Potentially, there are three grounds for intervention:

- First, **market failure.** Despite the evidence of demand for new or additional capacity (or capacity of a different quality or type from that on offer), the market fails to respond. This may be due to weak viability (development costs relative to land values or anticipated rents); inconsistent market signals (for example, the theoretical availability of floorspace, but with available stock failing to meet occupier need); or a change in the nature of demand to which established development models are not easily able to respond (for example, demand from tenants for increasing flexibility).
- Second, **the opportunity to attract and retain investment that would not otherwise come to, or reinvest in, Wales** (or might not happen at all). In this case, the availability of the 'right' land and premises infrastructure is part of the wider inward investment offer, alongside the workforce skills base, transport accessibility, and so on. Historically, the provision of commercial property has been an important part of Wales' inward investment 'pitch'; more recently, support for new or refurbished property has been important in securing investment from firms such as Aston Martin. However, beyond the attraction of *new* firms to Wales, access to the right property offer is important in enabling existing firms to grow, reinvest and retain and expand employment. In recent years, firms such as PCI Pharma, IQE and General Dynamics have all been supported in expanding in Wales as a result of property-based interventions.
- Third, linked with both of these, the **opportunity to influence location decisions to achieve broader social, economic and environmental objectives**, for example in bringing new economic activity onto a redundant site, or encouraging a greater diversity of uses in a town centre location[6].

1.12 These three rationales for intervention are obviously not mutually exclusive: some investments may be justified on all three. However, the point is that the case for intervention may be justified on wider policy grounds, as well as on the basis of a quantified market gap: *influencing* the market (including by influencing planning policy and decisions), as well as *responding* to it[7].

1.13 With that in mind, our approach to market analysis has involved a review of policy drivers and the implications of broader economic trends, as well as a review of supply and demand in the commercial property market. Carried out between May and September 2019, it included a mix of primary and secondary research, including:

[6] Anthony Breach and Rebecca McDonald (2018), *Building Blocks: The role of commercial space in Local Industrial Strategies*, Centre for Cities

[7] Recent analysis of the impacts of commercial property interventions is contained in BEIS (2018), *Impacts of Commercial Property Development*, focused mainly on productivity benefits and impacts on local labour markets. See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/776990/Impact-Commercial-Property.pdf#page181

- **A review of relevant strategic and policy material**, including current and emerging Welsh Government policy and the plans of the City Deal/ Growth Deal partnerships. We have also reviewed the strategic context at local level, drawing on local economic strategies and key documents within the Local Development Plan evidence base. This provided us with an understanding of existing and emerging policy priorities, to which interventions in the commercial property market might respond.
- **A review of economic data**, considering recent growth in employment and business stock, the expansion and contraction of different sectors within the economy and forecast growth, triangulated with published analysis. This provided insight into those areas of the economy that are likely to generate future demand.
- **A review of commercial property data**, including commercial floorspace data drawn from EGi and CoStar (subscription-based databases of commercial property information), triangulated with commercial property analysis undertaken by commercial agents and as part of recent local studies. This provided insight into current and historic supply and demand.
- **Stakeholder consultations** with commercial agents, business representatives, commercial developers, local authorities and the City Deal/ Growth Deal partnerships. This provided a broader perspective on the market and insights into the reasons for and impacts of under-supply of commercial space – and the approaches that the Welsh Government might take in the future. Again, we were also able to draw on stakeholder perspectives set out in recent local employment land reviews. Our stakeholder consultations included four workshops with commercial agents: three organised by the Welsh Government in Cardiff, Swansea and Wrexham involving several firms; and one additional workshop with the major regional agent Cooke and Arkwright.

Report structure

1.14 The remainder of this report is structured in three parts, containing nine main chapters:

- The rest of Part I provides a **national overview of the market**:
  - ➢ Chapter 2 sets out the policy context for intervention in the property market, in the light of the *Economic Action Plan*, the emerging National Development Framework and the regional policy agenda.
  - ➢ Chapter 3 provides an overview of the Welsh economy, drawing on employment, business stock and sectoral trends and their implications for future demand and policy priorities.
  - ➢ Chapter 4 then looks at the commercial property market, providing a brief national overview and outlining general trends in demand.
- Building on the national overview, Part II provides a more detailed **regional analysis of the market within each of Wales' three regions**, considering current and historic supply and demand and regional and local trends and drivers. Based on the evidence and stakeholder views, it also reviews the recommendations previously set out in the

2017 *Framework for Priority Property Interventions* report. Within Part 2, Chapter 5 relates to South East Wales; Chapter 6 to South West and Mid Wales; and Chapter 7 to North Wales. Each regional chapter follows the same structure, concluding with a summary of market gaps and potential areas for intervention considered in relation to a 'typology' of commercial floorspace types (city and strategic hub offices; managed office workspace and grow-on space; industrial starter units; industrial grow-on space; industrial stock refurbishment; and the preparation of strategic sites ready for the market.

- Finally, Part III considers the **potential strategic responses** that the Welsh Government could consider. Chapter 8 considers in detail the nature of the viability gap. Building on this, Chapter 9 sets out the potential scale (in quantitative terms) of the Welsh Government's potential intervention), and Chapter 10 considers identifies a 'menu' of scheme-specific and strategic options for consideration by the Welsh Government.

1.15 A series of annexes provide further detail of approaches taken elsewhere in the UK and Europe to commercial property interventions; and further background material. In addition, a series of more detailed local market reviews have been prepared for each local authority area.

Part I: National Overview

2. Policy context for intervention

Summary

- There is a positive policy context for intervention, reflected in the Economic Action Plan. This includes a strengthened commitment to an active role in the commercial property market.
- Future intervention will need to reflect the Welsh Government's regional approach; the focus of support on both 'higher-value' economic activities and "better jobs closer to home"; and the decarbonisation agenda.
- Spatial policy is also likely to be relevant, in terms of the focus on employment and development in town and city centre locations and places with good public transport access.
- Historically, European Structural Funds have been an important part of the investment mix. This will change post-Brexit, although there remains a lack of clarity.

Introduction

2.1 There is a supportive policy context for intervention in the commercial property market which, as set out in Chapter 1, has been strengthened in the past couple of years. This chapter reviews the policy framework, starting with the *Economic Action Plan*, before considering the current range of interventions offered by the Welsh Government and the policy implications of changes to funding following Britain's exit from the European Union.

The policy framework

Economic policy: Prosperity for All and the Economic Action Plan

2.2 *Prosperity for All*, the Welsh Government's overarching national strategy, was adopted in September 2017. Following *Prosperity for All,* the *Economic Action Plan,* approved some months later, set out several commitments that are relevant to future commercial property strategy. As well as the renewed focus on maintaining and developing a suite of property market interventions highlighted in Chapter 1, five other aspects of the Economic Action Plan are relevant:

- First, the decision to adopt a **regional approach**. This has informed the way in which the market analysis within this paper is structured. More broadly, the regional approach implies a recognition of *differentiation* in terms of local and regional priorities, the need to *reduce inter-regional disparities*, including by building "stronger regional centres of growth", and a commitment to *co-production* and joint working with the City Deal/ Growth Deal partnerships.
- Second, a **change in the way that sectors are identified and prioritised**. Recognising that sectoral boundaries are increasingly blurred in the light of technology convergence, the Action Plan takes a more flexible approach, within the

context of stated support for tradable services, high value manufacturing and "enablers" (such as digital and renewables).

- Third, the **introduction of the Economic Contract and Calls to Action.** The 'Economic Contract' seeks to ensure that in exchange for Welsh Government support, businesses demonstrate a contribution to *growth potential* (e.g. through a contribution to productivity or employment) *fair work*, the promotion of *health and learning and skills* in the workplace, and progress in *reducing the carbon footprint*. In addition, the Action Plan seeks to focus direct support on interventions that will support five 'Calls to Action': decarbonisation; exports and trade; innovation, entrepreneurship and the development of headquarters facilities; high quality employment, skills development and fair work; and R&D, automation and digitalisation.

  Currently, the Economic Contract only applies to those firms in receipt of direct Welsh Government funds, rather than those that 'indirectly' benefit (such as occupiers on sites that have been brought forward as a result of Welsh Government intervention). However, the spirit of the Economic Action Plan is that interventions ought to contribute to the Economic Contract and Calls to Action, and that future strategy should reflect this.

- Fourth, reference to the '**foundational economy'.** This is defined in the Economic Action Plan as the basis for the provision of essential goods and services within the community (such as social care and retail). The Welsh Government's initial approach to developing the foundational economy is to focus on *experimenting* through the 'Foundational Economy Challenge Fund' to test new and innovative approaches; *'Spreading and scaling best practice'*, initially focusing on maximising the social value of procurement working with Public Service Boards; and *'aggregating demand for goods and services'*, with a renewed focus on growing what has been described as the 'missing middle'. The aim is to increase the number of grounded firms, rooted in local communities.

- Finally, all of the above reflect the wellbeing goals set out in the **Wellbeing of Future Generations Act**[8]. The Economic Action Plan directly supports delivery of seven of the twelve wellbeing objectives, including *'supporting people and businesses to drive prosperity', 'delivering modern and connected infrastructure', 'tackling regional inequality and promoting fair work'* and *'driving sustainable growth and combating climate change'.*

2.3 The commercial property offer is a fundamentally important part of the mix in supporting a number of these objectives, alongside other measures. The Economic Action Plan recognises a need to bring forward employment sites and premises to achieve all of them, where the market will not deliver alone.

[8] https://futuregenerations.wales/about-us/future-generations-act/

Regional policy: City Regions, City and Growth Deals and cross-regional programmes

2.4 Welsh Government policy consolidates the focus of regional activity around three 'standard' regions, as set out in Chapter 1. The strategies for each of these (and the structures that support them) have been developed separately in response to local circumstances and, in some cases, joint funding 'deals' between the UK and Welsh Governments and local partners. Individual regional strategies are described in each regional market chapter. However, within each region, there is a general policy desire for activities to be better co-ordinated across different branches of the Welsh Government and with regional partnerships and the local authorities, and all contain priorities relevant to commercial property delivery. Each Chief Regional Officer is charged with developing a regional strategy in due course, and it is likely that these will influence the direction of commercial property interventions.

2.5 In addition to the regional approach, two 'cross-regional' approaches are also worth noting:

Valleys Task Force

2.6 Established in 2016, the Ministerial Task Force for the South Wales Valleys has identified a series of projects to support economic and community development across the Valleys, extending from Carmarthenshire to Torfaen. The Task Force's Delivery Plan, ***Our Valleys, Our Future***, refers to the need to "make more publicly-owned land and property in the Valleys available for development", with individual projects involving Welsh Government assets and property-related funding streams forming an important part of the programme[9]. Where relevant, specific schemes are referred to in the regional market analysis chapters.

> *"By 2021, we will close the employment gap between the South Wales Valleys and the rest of Wales. This means helping an extra 7,000 people into fair work and that thousands of new, fair and sustainable jobs will be created in the Valleys"*
>
> Our Valleys, Our Future: Delivery Plan

2.7 More broadly, *Our Valleys, Our Future* identifies seven 'strategic hubs' as a focus for intervention (these are: Neath, Pontypridd/ Treforest, 'Northern Bridgend' (i.e. Maesteg and Bridgend north of the M4), Merthyr Tydfil, Caerphilly/ Ystrad Mynach, Ebbw Vale and Cwmbran). The strategic hubs are defined as places that will "act as a focus for job creation by attracting private sector investment, allowing existing businesses to grow and promoting business start-ups", through a range of measures, including (in some places) the provision of employment space[10]. Linked with the foundational economy measures referred to above, *Our Valleys, Our Future* also highlights the need to create "better jobs, closer to home".

Arfor

2.8 The 2019 Budget made provision for a £2 million innovation fund focused on the Arfor region of West Wales (Anglesey, Gwynedd, Ceredigion and Carmarthenshire), where there is a high

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[9] Welsh Government (2018), *Our Valleys, Our Future: Delivery Plan* (https://gov.wales/sites/default/files/publications/2018-11/our-valleys-our-future-delivery-plan-2018.pdf), p.8; Welsh Government (2019), *Our Valleys, Our Future: Progress Update September 2019* (https://gov.wales/sites/default/files/publications/2019-09/our-valleys-our-future-progress-update-september-2019_0.pdf)

[10] Welsh Government (2018), *Our Valleys, Our Future: Delivery Plan*, p.6

percentage of Welsh speakers and a widening imbalance between older and younger people in the population. The focus of the programme includes efforts to support enterprise and business growth and to generate more, and better paid, jobs to retain local people and to encourage those who have left to return[11].

Spatial policy

2.9 While the 2008 Wales Spatial Plan is currently extant, consultation took place in 2019 on a new **National Development Framework 2020-40**[12]. Although consultation on the draft has only recently concluded, the draft NDF contains a number of themes that are likely to be relevant to future commercial property strategy. These include a presumption that *"urban growth should support towns and cities that are compact and oriented around urban centres and integrated public transport"*[13], with *"new development of significant scale located in town and city centres"*[14]. This may have implications for the prioritisation of commercial property market interventions, although some of these may be challenging in the context of the dispersed nature of (some) strategic sites and the widely distributed population and business base in much of rural Wales. Some themes emerging from the NDF evidence base process are also highlighted in the regional market chapters.

2.10 Sequential to the NDF, and reinforcing the regional approach to policy across the Welsh Government, the Planning (Wales) Act 2015 provides for the development of **Strategic Development Plans** (SDPs) on a regional basis[15]. Proposals for these have taken some time to come forward, although Cardiff Capital Region is in the early stages of preparing an SDP. Linked with the proposed regional strategies, the SDPs should, as they are developed, provide important context for interventions to bring forward strategic employment sites and other forms of commercial property.

Fiscal devolution

2.11 Finally, three aspects of fiscal devolution are relevant to future commercial property intervention. First, **Land Transaction Tax** (LTT) replaced Stamp Duty Land Tax in 2018, with the new tax administered by the Welsh Revenue Authority. In consultation, some agents considered that the higher top rate applied to LTT in Wales (6% on properties over £1 million, relative to the 5% top rate on SDLT in England) could impact negatively on investor interest in Wales. However, the Welsh Government maintains that businesses buying premises up to £1.1 million will be better off than under the SDLT regime through reduced lower bands[16].

2.12 Second, **business rates** were devolved to Wales in 2015, potentially opening up opportunities for retained business rates to be used to bring sites and premises forward.

[11] Welsh Government (2019), press release, 26 February (https://gov.wales/welsh-government-make-2-million-available-for-west-wales-arfor-pilot)
[12] Welsh Government (2019), *National Development Framework 2020-40: Consultation Draft* (https://gov.wales/sites/default/files/consultations/2019-08/Draft%20National%20Development%20Framework.pdf)
[13] NDF Draft Policy 1
[14] NDF Draft Policy 3
[15] Turley/ HBF (2019), *Strategic Development Plans: What they could mean for Wales* (https://www.turley.co.uk/comment/strategic-development-plans-what-could-they-mean-wales)
[16] Pinsent Masons (2017), 'Rates announced for Welsh devolved property taxes' (https://www.pinsentmasons.com/out-law/news/rates-announced-for-welsh-devolved-property-taxes)

2.13 Third, the Welsh Government has advanced proposals to introduce a new **Vacant Land Tax**. This would provide for a tax on developable land that has not been progressed, with the aim of preventing land-banking and speeding up the process of development. The rationale for the Vacant Land Tax has been expressed in terms of bringing forward housing development, rather than commercial schemes, although detailed proposals have yet to be published[17].

The funding and investment framework

2.14 The Wales Infrastructure Investment Pipeline identifies £100 million of Welsh Government investment in support of 'sites and premises' between 2015 and 2020[18]. Historically, public assistance has been important to capital investment in commercial facilities in Wales: more so than in the rest of the UK, given the attractive state aid regime that applies across much of the country[19].

2.15 At present, **European Union funds** form a significant part of the total public investment in commercial property. In response to the analysis prepared by JLL in 2014, three European Regional Development Fund (ERDF) backed programmes are currently underway and are being delivered by the Welsh Government[20]:

Table 2-1: Current EU-funded commercial property programmes

Programme	Value	Description
Strategic Employment Sites	£20.8 million (£11.6m ERDF; £9.2m WG)	Infrastructure works to bring forward four sites: Ty Du (Nelson, Caerphilly); Brocastle (Bridgend); Bryn Cefni (Llangefni, Anglesey); and Cross Hands East Phase 2 (Carmarthenshire). Of these, Ty Du, Brocastle and Bryn Cefni are owned by the Welsh Government; Cross Hands East is a JV between the WG and Carmarthenshire County Council.
Property Infrastructure Fund	£20 million (£7m ERDF; £13m private match)	The PIF and the PBDG were launched at the same time. Both are competitive grant schemes, delivered directly by the Welsh Government. Both funds are for new build and refurbishments/ extensions/ adaptations PIF is aimed at advance build projects; PBDG is focused on supporting businesses with bespoke expansion projects (including by supporting developers to complete a property for an end user through an agreement to lease). The funds are stated as focusing on Enterprise Zones and the city regions agenda. Combined, they aim to deliver 422,000 sq ft of commercial floorspace.
Property Business Development Grant	£20 million (£7m ERDF; £13m private match)	

Source: Welsh Government

[17] National Assembly for Wales (2018), Statement by Mark Drakeford AM, Plenary 15 May (https://record.assembly.wales/Plenary/4983#A43361); Chartered Institute of Taxation (2018), *A Vacant Land Tax for Wales?* (https://www.tax.org.uk/media-centre/blog/media-and-politics/vacant-land-tax-wales)

[18] Welsh Government, Wales Infrastructure Investment Plan Project Pipeline 2018 (https://gov.wales/wales-infrastructure-investment-plan-project-pipeline-2018). This is in addition to a number of major schemes, such as Porth Teigr at Cardiff, the Advanced Manufacturing Research Institute at Deeside, and the Tech Valleys initiative focused on the automotive sector.

[19] Specifically, West Wales and the Valleys (Anglesey, Gwynedd, Conwy, Ceredigion, Carmarthenshire, Pembrokeshire, Swansea, Neath Port Talbot, Bridgend, Rhondda Cynon Taf, Merthyr Tydfil, Caerphilly, Torfaen and Blaenau Gwent) qualifies as a 'Tier 1' Assisted Area, permitting under the state aid rules a higher level of aid intensity than would apply elsewhere.

[20] Note that separate evaluations have been commissioned and are underway for all three of these schemes

2.16 It remains unclear what will replace this funding after the UK leaves the European Union, or how it will be administered, although the Welsh Government argues for the full retention of the equivalent amount in any post-Brexit settlement, with funds devolved to Wales[21]. However, the Economic Action Plan notes the broader pressure on public funds and (via the proposed regional approach) the need to better coordinate the range of UK, national, regional and local investments.

2.17 In addition to grant funding, the **Development Bank of Wales** recently launched a Wales Commercial Property Fund, providing loans for speculative and non-speculative office and industrial developments, which can be combined with the Property Development Grant schemes referred to above[22].

2.18 Alongside these mechanisms aimed at funding private sector investors, **the Welsh Government is itself a significant holder of commercial property**. In 2019, the Welsh Government's total 'economic assets' amounted to some 5,600 acres of land, with an approximate capital value of around £190 million[23]. This includes numerous sites deemed surplus to likely economic use, several areas of residual land on industrial estates and other sites that have otherwise been sold and some land intended for residential development, so this headline total overstates the physical capacity for economic development activity. Nevertheless, analysis of the database suggests that around 3,400 acres have potential employment use. The Welsh Government also owns (or has a substantial interest) in a series of strategic sites: a summary is set out in Annex D.

Implications for commercial property strategy

2.19 Overall, the policy context is positive for intervention in the commercial property market: the Economic Action Plan places an emphasis on a more proactive approach, and there should be benefits in joining up interventions and funding sources across the public sector. However, the *range* of potential priorities in policy terms is quite broad, reflecting Wales' spatial and economic diversity – and at the same time, the future funding landscape is uncertain. It will be important to ensure regional and thematic balance at the same time as maintaining a strategic approach.

[21] Welsh Government (2017), *Regional Investment in Wales after Brexit* (https://gov.wales/regional-investment-wales-after-brexit)
[22] Development Bank of Wales (https://developmentbank.wales/get-business-finance/property-development-loans)
[23] Based on analysis of Welsh Government estate records

3. Economic overview

Summary

- The immediate UK outlook for economy is one of modest growth, subdued in the light of Brexit uncertainty. However, growth is expected to strengthen over the medium term.
- Wales' employment performance has been positive in recent years. Although there is still a gap, the employment rate differential with the rest of the UK has narrowed over time. Unemployment is at historically low levels, although remains relatively high in some parts of the country.
- The 'productivity gap' is substantial and persistent. Evidence indicates that this is driven more by the mix of activities *within* sectors, rather than by the sectoral balance itself. Across the economy, the ability to adopt and adapt to technology change will be important in future productivity growth – and the commercial property offer is likely to be relevant to this.
- In sectoral terms, commercial services (finance and insurance, information and communications, etc.) have grown strongly in employment terms over the past decade. However, Wales retains a strong concentration of manufacturing activity: this has been resilient in recent years, although is, in some sub-sectors, vulnerable to technological and structural change.

Introduction

3.1 This chapter looks at the economic context within which the commercial market operates. It starts by considering the broad economic outlook and Wales' overall economic performance, before considering sectoral trends and prospects.

The economic outlook

3.2 The current UK outlook is one of modest growth in the short term. GDP grew by 1.3% in 2019, somewhat below the economy's long term average growth rate[24]. Average forecasts in February 2020 anticipate growth of 1.2% in 2020, rising to 1.4% in 2021[25].

Economic performance

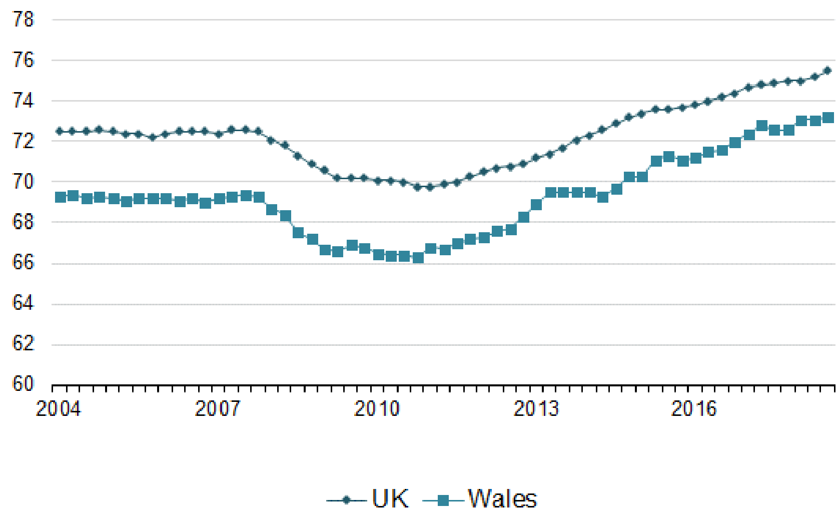
Employment

3.3 Historically, Wales' employment performance has lagged behind that of the UK. However, recent years have shown a general improvement in the employment picture: the fall in employment during the post-Crash recession was less pronounced than in previous

[24] Economist Intelligence Unit forecast for 2019 (February 2020) (https://www.economist.com/economic-and-financial-indicators/2020/02/29/economic-data-commodities-and-markets)
; PwC (November 2019), *UK Economic Outlook* (https://www.pwc.co.uk/services/economics-policy/insights/uk-economic-outlook.html)
[25] HM Treasury (February 2020), *Forecasts for the UK Economy: A comparison of independent forecasts* (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/866801/Forecomp_February_2020.pdf)
. The current average of forecasts is slightly lower than the forecasts with the Office for Budget Responsibility's *Economic and Fiscal Outlook* (March 2019) (https://cdn.obr.uk/ExecSummary_March_2019.pdf)

downturns (in Wales and across the UK). Since 2011, there has been a steady rise in the employment rate, with the gap narrowing between Wales and the rest of the UK:

Figure 3-1: Employment rate, 2004-19



Source: ONS, Annual Population Survey

3.4 The implication is that *absolute* employment generation may be less of a policy concern than in the past: the Economic Action Plan reflects this in its emphasis on 'high quality employment', fair work and high pay (linked with improved skills), rather than aggregate jobs growth. A high quality stock of commercial space is likely to be important in attracting and enabling 'higher quality' employment. However, in some places, there is still some way to travel to close the employment gap: of Welsh local authority areas, only Flintshire and Wrexham currently have employment rates at or higher than the UK average, and in much of the country (especially in Neath Port Talbot and the upper Valleys authorities of Merthyr Tydfil and Blaenau Gwent) they are some way below[26].

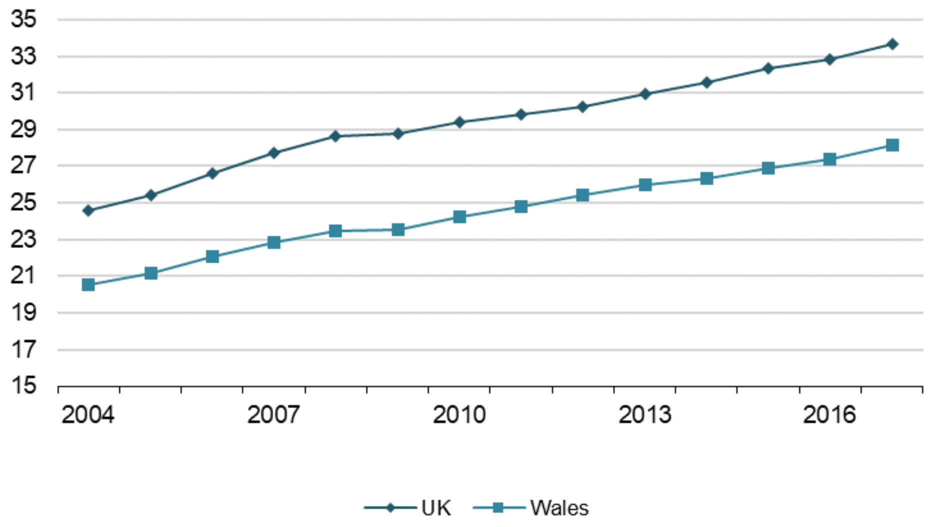
Productivity

The productivity 'deficit'…

3.5 Despite a generally strong employment performance, Wales' **productivity gap** with the rest of the UK remains substantial. Currently, productivity (measured in GVA generated per hour worked) is around 83% of the UK average, a differential that is more or less unchanged over time. This should be seen in the context of weak UK productivity growth, especially since the recession.

[26] At either 'end' of the spectrum, the employment rate in Flintshire was 77.5% (of the population aged 16-64); in Merthyr Tydfil it was 60.1 (ONS, APS, July 2018-June 2019)

Figure 3-2: Productivity (£ per hour worked), 2004-2017



Source: ONS, Nominal (smoothed) GVA per hour worked

3.6 Addressing the long-standing 'productivity deficit' is a key policy objective within the Economic Action Plan. What drives the 'gap'? The evidence points to two issues:

- First, **productivity levels relate closely with economic mass** (i.e. larger centres of economic activity tend to be more productive). Consistent with this, productivity is somewhat higher in Flintshire and Wrexham, Cardiff and the Vale of Glamorgan and the Central Valleys (and somewhat weaker in the most rural parts of the country, such as Powys. This is slow to change, but at a high level, improved connectivity (linking people with jobs and businesses with customers) ought to help to address this. As the National Development Framework points out, there are also physical limits to Cardiff's expansion: the South Wales Metro strategy and the broader strategy for Cardiff Capital Region (discussed further in Chapter 5) seeks to widen opportunities across South Wales.

- Second, recent research indicates that **productivity differences within industries are more important than differences in the sectoral mix itself**. In other words, part of the explanation for the gap is the *type* of activities that take place in different locations within the same industry – with headquarters activities, research and development and so on typically contributing to higher value output per worker[27]. Within the occupational structure of the workforce, there are somewhat lower proportions of the workforce in Wales in 'higher-level' occupations (managerial, professional and technical occupations) than there are within the workforce across the UK, reflecting a *relative* orientation to lower value activities[28]. This is also reflected in the workforce skills mix. The focus within the Economic Action Plan on driving better paid, more highly-skilled employment, seeks to respond to this – but physical

[27] Welsh Government (2018), *Welsh Budget 2018: Chief Economist's Report*, p.12

[28] ONS, Annual Population Survey. Around 42.4% of the Welsh workforce is employed in managerial, professional and technical occupations, compared with 47.1% in Great Britain as a whole (within a range between 55% in Cardiff and 31.9% in Blaenau Gwent)

capacity (or the 'right' physical capacity) to accommodate a mix of higher-value activities will also be an important part of the solution.

… and long-term drivers of productivity growth

3.7 In the long run, **the ability to drive and adapt to technology change will be key to future productivity growth**. The process of 'digitalisation' has had a transformational impact on many sectors of the economy already (for example, in media and entertainment; and retail); over time, all businesses will become 'digital' businesses, and this, combined with changing working practices, is influencing the nature of demand for commercial property (discussed further in the next chapter).

3.8 The *Made Smarter* Review commissioned in 2017 by the UK Government concluded that the UK had significant strengths in developing 'leading edge' industrial digital technologies, many of which apply specifically to Wales (for example, in the growth of the compound semiconductor cluster in South Wales, and in parts of the life science, automotive and aviation sectors). However, it also found that productivity, particularly within SMEs, is held back by poor levels of technology adoption – with the risk of a wider loss of competitiveness. The Review highlighted several challenges driving this (including a lack of technical skills and management capacity). It also noted "low absorptive capacity to update production processes", the "high level of legacy infrastructure due to a low level of capital investment", and the generally high level of risk in investing in new technology, given disruption to existing systems and uncertain returns[29]. While the Review did not specifically highlight the provision of premises as a contribution to meeting this technology adoption challenge, it is likely that ageing or poorly configured industrial stock will act as a barrier to technology uptake.

Sectoral composition and change

Public services

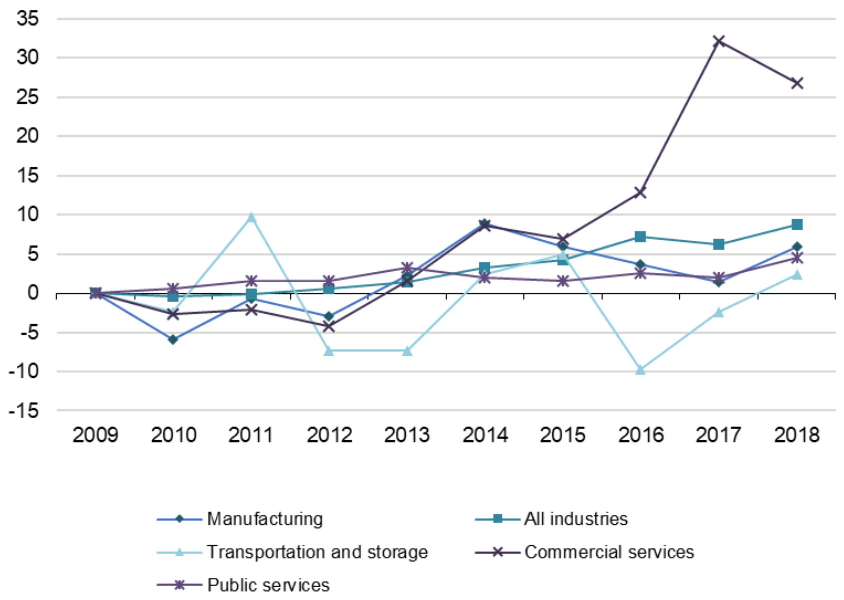
3.9 Across Wales as a whole, there is a strong presence in **public service** related activities, with public administration, education and health accounting for almost 40% of all employee jobs (a relative over-representation compared with the rest of Great Britain, and one which applies in all three regions and in most local authority areas).

Commercial services

3.10 Combined, information and communication; financial and insurance activities; real estate; professional, scientific and technical; and administrative and support service activities account for around 237,000 employee jobs (18.6% of the total). Since 2015, growth has been stronger in these sectors combined than all-industries average growth, as Figure 3-3 illustrates:

[29] Jurgen Maier for HM Government (2017), *Made Smarter Review*, p.79 (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/655570/20171027_MadeSmarter_FINAL_DIGITAL.pdf)

Figure 3-3: Index of employment change in Wales (2009=0) selected industries



Source: SQW analysis of BRES data

3.11 Despite recent growth, 'commercial service' activities are less strongly represented in Wales (and in all three regions) than they are elsewhere in Great Britain. However, this masks significant local variation, for example in relation to the finance and insurance sector's concentration in Cardiff (and to a lesser extent Newport and Swansea).

Table 3-1: Commercial service employment in Wales

Sector	Total jobs (2018)	LQ (2018)[30]	Change (2009-18)	Average annual change (2009-18, %)
Information & communication	26,000	0.48	2,000	7.6
Financial & insurance	33,000	0.76	2,000	1.1
Real estate	20,000	0.94	8,000	6.8
Professional, scientific & technical	71,000	0.65	23,000	5.4
Administrative & support service	87,000	0.76	15,000	2.0
Total	**237,000**	**0.69**	**50,000**	**2.6**
All industries	1,273,000		102,000	0.8

Source: SQW analysis of BRES data

[30] The 'location quotient' (or LQ) is a measure of relative concentration. An LQ of 1 shows that the proportion of total employment accounted for by the sector within the area of analysis (i.e. Wales, a region, or a local authority) is the same as in Great Britain as a whole. An LQ greater than 1 indicates that the sector has a higher share of employment within the area of analysis; less than 1 indicates that it has a smaller share.

Manufacturing

3.12 Wales has a strong historic, and current, presence in **manufacturing,** currently accounting for around 144,000 jobs (or a 'location quotient' of 1.4). Three observations are worth making on the manufacturing sector:

- **The trajectory of manufacturing employment over recent years shows a distinctive pattern**. Between the late 1990s and the 2008/09 recession, sector employment fell sharply: some 80,000 jobs were lost in Welsh manufacturing between 1998 and 2010 (a fall of around 38%)[31]. Linked with a relative loss of UK manufacturing competitiveness over this period, the fall was consistent over time, with job losses perhaps masked in the overall data by a relatively buoyant service sector (including public sector, especially in the years to 2010) labour market. However, since the recession, **Welsh manufacturing employment has stabilised** and shown a modest return to growth (with an increase in employee jobs of around 12.5% between 2010 and 2018).

- **All three regions have relatively high concentrations of manufacturing activity, but there are especially high concentrations at local level.** The highest relative concentration is in Flintshire (where manufacturing accounts for over 29% of all employee jobs), but there are also very high concentrations across the South Wales Valleys (and Bridgend and Neath Port Talbot) and in Wrexham. Parts of rural Wales also have substantial manufacturing sectors.

- **The manufacturing base is diverse, but with some clear sub-sectoral concentrations.** These include the automotive sub-sector across much of South Wales (especially Bridgend and Blaenau Gwent, but quite widely distributed, with large concentrations in Merthyr, Torfaen and Carmarthenshire); and food manufacturing (with high concentrations in 'industrial-type' economies such as Wrexham, Flintshire, Merthyr and Blaenau Gwent, as well as in rural Wales). Two important sub-sectors show evidence of greater local concentration: aerospace in Flintshire and the steel industry in Port Talbot[32].

3.13 Recent stabilisation in employment numbers suggests grounds for optimism (as do recent major investments in the sector, such as Aston Martin's new factory at St Athan). The local authorities consulted as part of this study also reported steady enquiries from manufacturers, and evidence of reinvestment. However, **parts of the industry are vulnerable to technology change** and global over-capacity, as the recent closure announcement at Ford in Bridgend (and job losses at other automotive sector firms such as Calsonic Kansei at Llanelli and Hi-Lex at Baglan) demonstrate – highlighting the importance across the wider SME base of technology adoption to ensure resilience.

Other sectors

3.14 **Transportation and storage** accounts for around 42,000 employee jobs in Wales. On the whole, it is relatively small, reflecting Wales' distance from the main UK logistics hubs in

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[31] SQW analysis of Annual Business Inquiry (1998-2008) and Business Register and Employment Survey (2009-18)

[32] Although these sectors have a presence elsewhere in Wales, they are especially concentrated in these local authority areas

central England (with the largest concentration around Newport), although plays an important role in responding to local and regional demand. Around 64,000 jobs are accounted for by the **construction** industry, a figure which has been generally constant over recent years.

3.15 The remainder of the economy is typically less associated with 'B-class' uses. **Retail and wholesale** activity has seen a modest decline in overall employment over the past decade, reflecting some of the wider challenges for the retail industry – although it still accounted for 177,000 jobs in 2018. **Tourism and leisure-related activities**, including hospitality and arts and entertainment, have seen steady growth, and are particularly significant in the West and North Wales coastal counties. **Agriculture** is obviously heavily concentrated, and accounts for a substantial share of the economy in some rural counties (7% of all employee jobs in Powys, for example). Finally, the **utilities and environmental technologies** sectors, although relatively small, have shown steady growth in recent years.

3.16 It is worth noting that sector definitions are becoming increasingly blurred with the growth of the digital economy (a feature recognised in the Economic Action Plan). However, sector analysis provides a useful basis for considering potential commercial floorspace demand, which we turn to in the next chapter.

4. Potential commercial property demand

Summary

- Projecting forward the historical sector employment trends described in Chapter 3 and applying them to a series of use class assumptions suggests annual demand for between 500,000 sq ft and 1.5 million sq ft of commercial floorspace. This implies a higher level of floorspace delivery than has been achieved in recent years.
- A number of wider trends will also impact on future demand. These include the rise of flexible working, homeworking and self-employment, and changing regulatory requirements, especially in relation to energy efficiency.

Introduction

4.1 Building on the sectoral analysis in Chapter 3, this chapter provides an estimate of future demand. It takes historic employment trends to provide an indicative range for the overall quantum of commercial space required, looking forward to 2031. It then sets out some of the (important) caveats associated with these estimates, and provides an overview of broader trends that are likely to influence the nature of future commercial space demand. A more detailed description of the approach taken in this chapter is set out in Annex C.

Estimating B-class demand

Approach

4.2 Welsh Planning Practice Guidance (PPG) on *Building an Economic Development Evidence Base to Support a Local Development Plan* recommends the use of a labour demand forecasting approach to calculating future requirements[33]. This involves taking employment growth forecast data by SIC codes, assigning sectors to B-class uses and converting jobs to floorspace.

4.3 If possible, labour demand forecasting should involve bespoke modelling. However, while separate forecasts have been commissioned in recent years as part of LDP processes, there is no 'standard' forecasting model currently applied to Wales as a whole. As a 'rough guide' to future demand-based requirements, we have taken historic rates of growth by sector by district, applied a series of use class assumptions (based on recommended Welsh Government practice and precedent elsewhere), and converted to floorspace using standard job densities.

4.4 To estimate future employment growth, we have used two sources of historic data: the Business Register and Employment Survey, which is available for 2009-18; and the Workforce Jobs dataset using Labour Force Survey and employer survey data, which is available for Wales as a whole from 1996.

[33] Welsh Government (2015), *Practice Guidance: Building an Economic Development Evidence Base to Support a Local Development Plan*, p.34. It should be noted that the purpose of this section of the PPG is to calculate land requirements. For the purposes of the Commercial Property Review, land requirements using the methodology are derived from floorspace, so remain suitable. PPG also recommends a past completions method, although the data that we have from Annual Monitoring Returns and other local authority documents are inconsistent across Wales.

Future employment growth

4.5 Forward projections based on historic trends from these two sources anticipate **between 132,000 and 136,000 additional jobs in Wales between 2019 and 2031** (i.e. an increase of 10-11% over the period).

4.6 However, **the sectoral balance is different between the two**. This reflects a sharp contraction in manufacturing employment in the early 2000s, at the same time as rapid growth in education and public service employment. After 2010, the pattern is reversed, with manufacturing resilience (perhaps driven by cheaper sterling and the earlier loss of less competitive businesses) and growth in technical and professional activities and food and accommodation services, offset by falls in public service employment and retail:

Table 4-1: Net additional employee jobs (2019-31) based on historic trend

Sector	Based on 2009-18 data[34]	Based on 1996-2018 data[35]
Agriculture, forestry & fishing	0	3,000
Mining & quarrying	0	-900
Manufacturing	10,400	-34,600
Electricity, gas, steam & air con	1,300	900
Water supply, waste mgt, etc.	5,200	1,800
Construction	5,200	15,900
Wholesale & retail, motor repair	-13,000	3,400
Transportation & storage	1,300	9,300
Accommodation & food service	24,700	12,200
Information & communications	2,600	7,500
Financial & insurance	2,600	3,300
Real estate	10,400	7,900
Prof, scientific & technical	29,900	19,500
Admin & support service	19,500	24,300
Public admin & defence	-3,900	5,100
Education	-13,000	16,800
Health & social work	40,300	33,500
Arts, entertainment & recreation	2,600	7,000
Other service activities	5,200	500
Other	0	-1,100
Total	**132,600**	**135,800**

Source: SQW analysis

4.7 These estimates are entirely based on past trends, and it should be emphasised that **past trends are not necessarily a guide to future growth.** A 'past trend' approach does not take

[34] Using Business Register and Employment Survey
[35] Using Workforce Jobs dataset (LFS/ employer survey based). This is adjusted to approximate employee jobs (see Annex C for full description).

account of policy driven approaches (such as those described at national level in Chapter 1 and at regional level in Chapters 5-7). Nor does it take account of structural changes within the economy, such as the advent of 'new' sectors and business models, or future changes in the UK's competitiveness. This is visible in the sectoral differences between the projections based on the two sets of data: for example, large recent falls in retail employment driven by the rise of e-commerce and changing consumer preferences would not have been foreseen in the late 1990s. At best, looking at historical trends can only provide a rough estimate.

4.8 **Labour demand may also be constrained by supply.** Looking forward to 2031, only Cardiff, Swansea and Wrexham are projected to see an increase in their working age populations; in some parts of the country (especially the West and North), the working age population is expected to fall quite sharply. In recent years, some counties with falling working age populations have continued to experience rising employment, with the result that job densities (the ratio of total jobs to the working age population) have risen substantially: for example, the jobs density in Powys rose from 0.77 in 2010 to 0.86 by 2017[36]. Alternative estimates constrained to labour supply would, in most of Wales, result in lower long-term employment growth[37].

Estimating growth in 'B-class' jobs…

4.9 Not all additional employment will yield demand for B-class space: for example, some additional employment will be accounted for by education, health service, retail and tourism and leisure activities that are not generally accommodated in commercial office or industrial buildings.

4.10 Applying use class apportionments by sector based on the two sets of historical trend data leads to an estimate of **between 31,000 and 68,700 net additional 'B-class' jobs** between 2019 and 2031. The range is quite wide, reflecting the impact of changing sectoral trends.

… and what that means for additional B-class floorspace demand

4.11 Applying standard employment densities (described further in Annex C) leads to an estimated requirement for between **6.2 and 19 million sq ft B-class employment space** over current requirements. To put this into context, 19 million sq ft is around 8% of the current national stock of commercial floorspace.

4.12 This translates into an **annual 'requirement' of between around 500,000 sq ft and 1.5m sq ft**, broken down as follows:

Table 4-2: Future employment-based estimates of additional floorspace demand, 2019-31, sq ft; annual demand

	Based on 2009-18 data	Based on 1996-2018 data
South East Wales		
Office (B1a/b)	423,000	347,000
Industrial (B1c/B2/B8)	277,000	-111,000

[36] ONS, Job Density

[37] Labour supply-based estimates are generally set out in employment land reviews based on a range of migration scenarios linked with future housing growth.

	Based on 2009-18 data	Based on 1996-2018 data
Total	700,000	236,000
South West & Mid Wales		
Office (B1a/b)	197,000	188,000
Industrial (B1c/B2/B8)	188,000	-60,000
Total	185,000	128,000
North Wales		
Office (B1a/b)	177,000	150,000
Industrial (B1c/B2/B8)	305,000	-48,000
Total	482,000	102,000
Wales (total)		
Office (B1a/b)	768,000	697,000
Industrial (B1c/B2/B8)	694,000	-223,000
Total	1,462,000	474,000

Source: SQW

4.13 The table above clearly reflects the sensitivity of the calculation to the balance between industrial and office employment growth, and should be considered alongside the wider market analysis set out in the following chapters. Three points are important to highlight:

- **Employment growth over the twenty years has been much stronger in 'office' sectors (public and commercial services) than in manufacturing and logistics** (especially in South East Wales, where historic 'office-based' employment has been influenced by the growth of the Cardiff services market). The consequence of this is that office demand is apparently quite high, and industrial demand appears weak, especially taking a longer-term view. However, this observation in many parts of the country is significantly at variance with the market commentary outlined in Part 2. This variance is also present in recent employment land reviews using bespoke econometric forecasting, given that they also rely substantially on historic employment data.
- **Not all demand for new office and industrial space will be accompanied by net employment growth.** Some demand will be derived from the **obsolescence of existing stock** (i.e. the need for new premises to meet business need, without additional job creation), or by changes in working and consumer preferences (for example, the trend (at least in Cardiff) towards city centre offices with good public transport connections, at the expense of out-of-town business parks.
- **Employment-based floorspace demand projections are likely to miss some *intra*-sectoral trends.** This might be especially relevant to Wales in the context of the structural changes affecting parts of the manufacturing sector: the loss of large-scale manufacturing employment in employers such as Ford (and the accompanying 'surplus' of industrial stock) may not be relevant to demand from smaller-scale occupiers, which market consultees reported as almost universally constrained by weak supply.

Comparisons with historic take-up and delivery

4.14 Over the five years from 2014, **average annual take-up amounted to around 3.6 million sq ft of industrial and 1 million sq ft of office space** (this is broken down regionally in Chapters 5-7)[38]. This is substantially greater than the higher employment-based demand estimate above. However, it should be borne in mind that take-up includes **transactions that are accommodated within the existing stock**, and includes occupiers moving premises without any net growth in floorspace requirements or employment.

4.15 In contrast, **annual average net additional floorspace over the five years to 2018/19 was around 308, 000 sq ft[39].** This is lower than the 'lower bound' of anticipated demand, with low volumes of additional floorspace delivered in the past couple of years. This should also be seen in the context of a substantial loss of industrial stock in the mid/ late 2000s. **Delivering a net additional 500,000 sq ft per year would be an increase on the current growth in stock; delivering 1.5 million sq ft would be a significant change.** For the purposes of planning, and given very high uncertainty over the next few years, assuming the lower level of potential demand would seem to be prudent for planning purposes.

Trends impacting on future demand

4.16 A number of broader 'macro' trends are likely to impact future employment space demand and will be relevant to all of Wales' regions. These are mostly related to technology change and its associated 'cultural' impacts:

Increased flexible working and homeworking

4.17 At the time of the 2011 census, around 11% of Wales' workplace population worked, or mainly worked, from home[40]. UK-wide data indicate that there has been a growth in the incidence of home working since then (with particularly high volumes of home working in information and communications and professional, scientific and technical services[41]. According to the Work Foundation, around a third of the workforce work remotely some or all of the time[42], driven by widespread broadband connectivity and a greater cultural acceptance of flexible working practices. On the one hand, this is leading to reduced office employment densities, as fewer workers are required to be present at any given time (a factor reinforced by the more efficient use of space, with fewer requirements for server space and so on). On the other, recent research has highlighted rising demand for 'flexible' space, both for individual workers and to enable firms to tap into a greater diversity of labour markets[43].

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[38] SQW analysis of EGi data
[39] Valuation Office Agency
[40] Census 2011
[41] TUC (2018), *Growth in homeworking has stalled* (https://www.tuc.org.uk/news/growth-homeworking-has-stalled). This paper makes the point that while the incidence of homeworking has grown, more people would like to be able to work from home if they could (i.e. demand for homeworking might be greater than the current data suggest).
[42] Work Foundation (2016) *Working Anywhere: A winning formula for good work?* (http://www.theworkfoundation.com/wp-content/uploads/2016/02/398_Working-Anywhere.pdf)
[43] JLL (2018), *Flexible Space: Transforming Real Estate* (https://www.jll.co.uk/en/trends-and-insights/workplace/how-flexible-space-is-leading-companies-to-rethink-their-real-estate)

Rising self-employment

4.18 Currently there are 207,400 self-employed people in Wales (14.2% of all people aged 16+ in employment)[44]. The number of self-employed people rose by around 19% in the decade to 2019, and while slightly lower in Wales than in the rest of Great Britain, self-employment rates are generally higher in rural parts of the country. While always significant in trades occupations (construction, maintenance, etc.), self-employment has risen in professional occupations in recent years, reflecting the greater practical ease of remote working and changes in contracting arrangements. It is also worth noting that in some industries (parts of the 'creative digital' sector, for example), freelancing based on changing, contract-specific teams has become a more conventional working practice[45].

4.19 From workspace perspective, some self-employed people are likely to work from home. But they might also want access to flexible workspace (e.g. desk space, 'collaboration' space, or small-scale office space on flexible terms). Across the UK, there is some evidence of over-capacity at the 'higher end' of the flexible workspace market (see for example, the challenges currently faced by WeWork), but in Wales, the hotdesking provider Indycube has expanded rapidly in recent years and (as indicated in the market analysis chapters), 'managed workspace' providers such as Business in Focus report low vacancies and high demand.

Changing regulatory requirements

4.20 Especially relevant to the industrial sector, changing regulatory requirements are likely to impact on demand. This has been cited in relation to the food logistics and food manufacturing sectors, where more stringent safety legislation and the increasing costs of less energy-efficient 1970s stock has led to investment in new stock for some operators – but a loss of competitiveness for operators and manufacturers where relatively small margins impede a willingness and ability to invest[46].

Changing manufacturing opportunities

4.21 Finally, the opportunities presented by (for example) 3D printing for small-scale prototyping and production may lead to changing (possibly smaller floorplate) demand for industrial and 'hybrid' units.

Looking in more detail at each region…

4.22 Taking these general trends into account, Part 2 looks in more detail at the commercial property market in each of Wales' three regions. Each chapter starts with an overview of the strategic context, before considering the 'supply and demand' for office and industrial property. It then identifies potential areas for intervention in relation to a series of themes, setting out: the extent to which there is evidence of potential regional demand that is not being met by the private sector; the relevance of each theme to wider regional strategy; and the potential locations in which intervention could be focused. In line with the terms of reference outlined at the start of this report, these exclude innovation centres and facilities

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[44] ONS, Annual Population Survey
[45] University of Brighton/ University of Sussex/ Wired Sussex (2015), *Brighton Fuse 2: Freelancers in the creative digital IT economy* (http://www.brightonfuse.com/wp-content/uploads/2015/01/brighton_fuse2_online.pdf)
[46] SQW/ Welsh Government (2019), *Cold Storage Capacity in Wales*, p.6

explicitly linked with the 'knowledge base', although the provision of innovation centres has historically formed part of the Welsh Government commercial property offer.

Table 4-3: Potential intervention themes

Theme	Description and general rationale
Offices	
1. City centre and strategic hub offices	*Description:* Strategic (mainly Grade A) office developments *Indicative intervention aims:* Securing higher-value employment in sustainable locations, contributing to the diversity and vitality of town and city centres, and driving further economic activity
2. Office-based managed workspace and grow-on space	*Description:* Smaller office provision with some shared services, made available on flexible terms *Indicative intervention aims:* Supporting the growth of small businesses – especially in the context of increasingly flexible working patterns facilitated by technology – and developing more diverse local economies
Industrial	
3. Industrial 'starter' units	*Description:* Smaller industrial units (typically less than 2,500 sq ft) *Indicative intervention aims:* Supporting small business growth, across a range of sectors, creating 'better jobs closer to home' and enabling greater 'churn' in the market
4. Industrial grow-on space	*Description:* Larger industrial units (typically 2,500 – 15,000 sq ft) *Indicative intervention aims:* Enabling growing businesses to expand and creating greater opportunities for movement in the market
5. Strategic industrial sites	*Description:* Capacity for larger scale industrial uses *Indicative intervention aims:* Supporting new investment (inward and indigenous) and future expansion
Cross-cutting	
6. Refurbishment	*Description:* Refurbishment of existing stock (office and industrial) in relation to the categories above *Indicative intervention aims:* Making existing stock 'fit for purpose' in terms of business demand and environmental standards, safeguarding employment and bringing older workspaces back into use

4.23 These categories are 'stylised', and as Chapters 5-7 indicate, there are some types of space (such as 'hybrid' office/ industrial units) that combine features of more than one. Consistent with the reference in the Economic Action Plan to the property offer as a form of 'infrastructure', the themes above are also consciously 'sector blind': it is *likely* that a strengthened managed workspace offer (for instance) could help to support businesses in the 'tech' sector (contributing to some sectoral priorities contained in regional strategy), but it should also be relevant to a wider range of firms.

Part II: Regional Market Analysis

5. Regional market analysis: South East Wales

Summary

- South East Wales is the largest of Wales' three regions by population and economic output. Regional strategy is focused on the Cardiff Capital Region City Deal, linked with investment in the South Wales Metro and a focus on generating higher-value employment.

Offices

- The office market is dominated by Cardiff, which accounts for over half of the region's floorspace. Central Cardiff has performed strongly in recent years, although there has been little new development beyond the city centre.
- In Newport, agents reported strong demand for city centre offices, in the context of a lack of supply. Elsewhere in South East Wales, there has been very little office development in recent years and agents were generally sceptical about office demand prospects (with the exception of Pontypridd, where a new scheme is underway).

Industrial

- There is evidence that supply is very tight, relative to demand. Rental levels remain low, and there has been little commercial development (apart from in Cardiff and Newport).
- There is weak supply of smaller units. This is compounded by ageing stock. There is also limited stock in the 5,000 – 15,000 sq ft category across the region, and evidence that restricted opportunities to move constrains firms to their existing premises, although agents were more sceptical of demand for larger units, given the specific nature of occupier requirements.

Regional overview

5.1 South East Wales (also referred to as Cardiff Capital Region) is the largest of the three Welsh regions in economic and population terms, extending 55 miles east-west along the M4 corridor from the Severn Bridge to Bridgend, and 35 miles north-south from the Bristol Channel to the Heads of the Valleys. In 2018, it had a population of around 1.53 million across ten local authorities.

5.2 The region is diverse and has responded to significant economic restructuring over recent decades. Cardiff is the largest commercial, administrative and cultural centre, and an important destination for inbound commuting across a wide hinterland (although compared with other UK city regions, Cardiff is a *relatively* small 'core' in relation to the scale of the wider region). Newport has also experienced recent expansion and is itself an important location for technology-related employment. To the west, Bridgend, Pencoed and the area around Llantrisant are major centres of manufacturing activity. The South East also incorporates the central and eastern Valleys and the Heads of the Valleys area, which while experiencing significant economic dislocation in the context of long-term structural change, also contain some of Wales' most important industrial assets (including the major industrial estates at Treforest, Oakdale and within the Ebbw Vale Enterprise Zone). Monmouthshire and the Vale of Glamorgan are largely rural and relatively affluent, although with important opportunities for economic growth (for example in the development of St Athan).

5.3 In transport terms, the South East is served east-west by the M4 and the A465 Heads of the Valleys road (the latter of which has received significant investment in recent years), and the main north-south Valley routes. Cross-Valley connectivity is more challenging, although investment in (for example) the A472 has been associated with the development of significant employment land. Rail connectivity is supported by the South Wales Main Line and the extensive local rail network, the transformation of which as part of the South Wales Metro forms an important part of the region's economic growth strategy.

5.4 Around 60% of the Welsh Government's economic assets (by acreage) are located in South East Wales. These include the 'strategic sites' supported with ERDF investment at Ty Du in Nelson (being brought forward through a joint venture with Caerphilly CBC) and at Brocastle in Bridgend; Enterprise Zone sites at St Athan and Ebbw Vale; and the former Sony complex at Pencoed. A further summary is set out in Annex B.

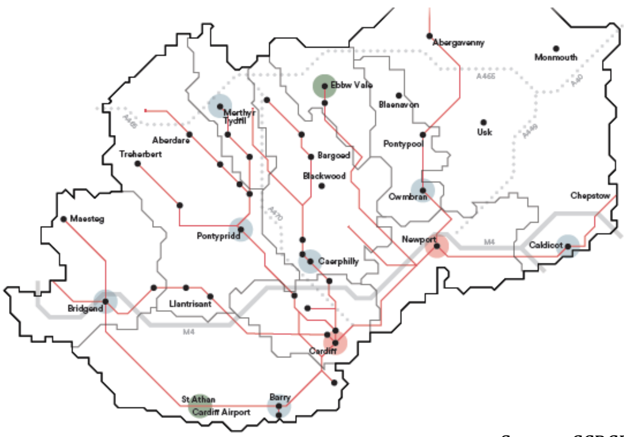
Regional strategic context

Cardiff Capital Region City Deal

5.5 Aside from implications of the national strategic context set out in Chapter 2, the key strategic initiative at regional level relevant to intervention in the commercial property market is the **Cardiff Capital Region City Deal (CCRCD).** The City Deal was agreed between the ten local authorities, the Welsh Government and the UK Government in March 2016, and published its *Industrial and Economic Plan* in February 2019. Among other infrastructure proposals, the Plan makes a commitment to "developing a series of employment spaces across the region to meet the needs of businesses"[47], and the City Deal executive has recently commissioned work (being carried out in parallel with this study) to inform an appropriate strategy.

5.6 The *Industrial and Economic Plan* does not specify 'priority locations', although it does identify a network of 'strategic hubs' (consistent with the hubs also identified by the Valleys Task Force in *Our Valleys, Our Future*), alongside the Enterprise Zones at Ebbw Vale and St Athan, within the context of a need to derive the greatest benefit from investment in the South Wales Metro.

Figure 5-1: Metro connections and strategic hubs



Source: CCRCD

5.7 **The Plan also has a focus on industries likely to be innovation-intensive and to generate higher-value jobs**, highlighting the need to develop sectors including: compound semiconductors; fintech; cyber security; artificial intelligence and data science; the creative economy; life sciences (especially med-tech) and transport engineering, although within the context of a need to support access to opportunities in the

[47] Cardiff Capital Region Economic Growth Partnership (2019), *Industrial and Economic Plan*, p.11

region's more disadvantaged communities (including through support for the 'foundational economy' as set out in the *Economic Action Plan*).

5.8 At the core of the City Deal, and central to operationalising it is the creation of a 20-year, £1.2 billion **Investment Fund**, supported by the UK and Welsh Governments and the local authorities. Of this, £734 million is allocated to the development of the South Wales Metro (see below), with the remaining £495 million allocated to a 'Wider Investment Fund'. CCRCD's strategy in relation to the Wider Investment Fund is to secure (at least for part of the fund) a financial return on investment, with a view to reinvestment in successor projects. Within that context, the first WIF investment (of £38 million in the compound semiconductor foundry for IQE at Imperial Park, Newport) is essentially a property refurbishment intervention; earlier this year, CCRCD published a prospectus inviting further investment propositions.

South Wales Metro

5.9 The remainder of the CCRCD Investment Fund is devoted to the development of the Metro, to be initially taken forward through the electrification of, and improved services on, the Valley Lines network and complementary investment (partly through the Wider Investment Fund) in associated station and other public transport infrastructure[48]. A strong emphasis is placed in the draft National Development Framework and wider strategy on the potential benefits of the Metro in spreading the benefits of growth in Cardiff across the region; in consultation as part of this study, stakeholders (including commercial agents) were positive regarding the potential of the Metro to increase demand for commercial floorspace in the better-served locations such as Pontypridd (discussed further below).

Bridgend Taskforce

5.10 In the shorter term (although with the aim of supporting longer term restructuring), the **Bridgend Taskforce** was established by the Welsh and UK Governments earlier in 2019 following Ford's announcement that it intends to close its plant in Bridgend by the end of 2020. The Taskforce has identified a series of measures to support the development of new economic opportunities in the town. In relation to commercial property interventions, these include proposals for new accommodation for start-up businesses in the town centre and the potential for strategic site acquisition[49].

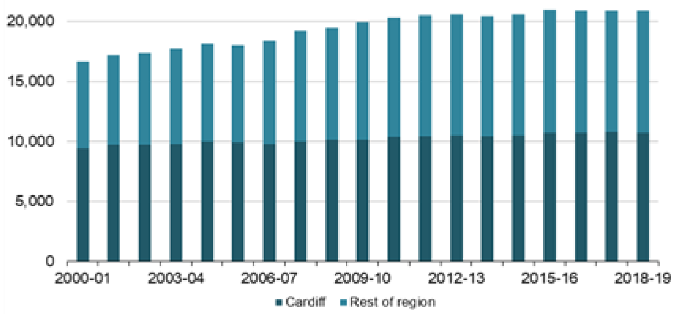
[48] For example, through the 'in principle' CCRCD allocation to the Metro Central transport interchange development in Cardiff city centre
[49] CCRCD Cabinet (12 September 2019), 'Supporting local sustainable growth – Bridgend'

Commercial property market: Offices

Current stock

5.11 In 2018/19, there were around 20.9 million sq ft of total office floorspace in South East Wales, over half of which was in Cardiff (in fact, Cardiff accounts for around 30% of all office floorspace across Wales as a whole). Overall stock grew quite steadily in the first decade of the millennium; since 2009, the increase has plateaued, reflecting the technology and 'culture'-driven shifts to flexible working and smaller floorspace requirements discussed in Chapter 4. Outside Cardiff, the largest volumes are in Newport and Rhondda Cynon Taf.

Figure 5-2: Office stock (total floorspace, '000 sq ft)



Source: Valuation Office Agency

Market commentary

Cardiff

5.12 **Cardiff dominates the South East Wales office market.** In the five years to 2018. EGi recorded 664 deals for office premises, totalling around 3 million sq ft (equivalent to average annual take-up of about 600,000 sq ft. Within the **city centre**, rents of up to £22 psf (and in one case as high as £25 psf) were recorded for new and refurbished stock; current asking rents for available Grade A space at Callaghan Square, Kingsway and Capital Quarter are between £22 and £24 psf. There is evidence of recent commercial investment in the city centre, including the development by JR Smart of the Capital Quarter scheme at Tyndall Street and Rightacres' Central Square development. Significant city centre occupiers in new/ recently refurbished stock include Cardiff-based Admiral Insurance at Capital Quarter, the 'challenger bank' Monzo at Kingsway, and MotoNovo Finance at One Central Square, in addition to the new BBC Wales headquarters building at Central Square. Commercial agents noted that the arrival of new, high quality development, plus the loss of some older stock (for example in Newport Road) to residential and student accommodation had driven up rents in secondary stock[50].

5.13 Central **Cardiff Bay** also appears to perform well, with rents of up to £22 psf at Assembly Square and in refurbished premises at Mountstuart Square. In addition, the Gloworks scheme at Porth Teigr aimed at creative industries businesses (and supported by the Welsh Government) was completed in 2015 and appears to be fully let: there have been discussions regarding a second phase.

[50] Asking rents at Brunel House, Capital Tower and Helmont House are currently around £18 psf.

> *"We've had five years of exceptional performance… we've got very comfortable in recent years… but there's not much [new stock coming forward] for the next 2-3 years"*
>
> Commercial agent (Cardiff)

5.14 In consultation, stakeholders were of the view that central Cardiff had performed exceptionally well in recent years, it was the only location in Wales where there had been a significant volume of private sector development, and the case for public sector intervention is weak. Having said that, some expressed concern that development in the city centre had been quite reliant on a couple of (locally-based) developers, and warned against a risk of complacency.

5.15 **Beyond the city centre** (and Cardiff Bay), there has been little new development (although there has been some refurbishment on a relatively small scale, for example Garrison Barclay's scheme at Pengam Green). In consequence, agents report rising rents on business parks such as Ocean Park (which is close to the city centre) and Cardiff Gate: EGi reports asking rents of around £14 for refurbished stock at Cardiff Gate.

5.16 Comparing current availability (at July 2019) with recent take-up, EGi reports around five years' supply across the city as a whole (although this should be set against the continued loss of secondary stock to residential uses. Most availability appears to be for units of between 1,500 and 9,500 sq ft, with relatively little sub-1,500 sq ft stock.

Newport

5.17 **Newport is the second-largest office market in South East Wales, although of a different 'order of magnitude' to Cardiff.** Between 2014-18, EGi recorded 84 office deals for around 340,000 sq ft. Much of the current stock is within Newport's fairly extensive out-of-town business parks, with rents at Langstone Business Village (near Coldra interchange) and Imperial Way at around £15 psf.

5.18 In consultation, agents considered that there was strong demand for office park stock, although this is potentially driven by a lack of city centre supply: apart from Admiral's recent building near Newport station (and the development of innovation/ incubator centre space at Platfform), there has been little new development. However, construction is underway on Garrison Barclay's redevelopment schemes at Chartist Tower and the former Royal Mail building in the city centre (the latter targeted primarily at smaller businesses and start-ups)[51]. The local authority reports a strong pipeline of enquiries for city centre premises, linked with the cost differential with Cardiff and good rail access – and is progressing plans for the redevelopment of the Northern Gateway area around the station. Commercial consultees were largely of the view that further development would require some form of public intervention, perhaps in the form of a Welsh Government or local authority lease.

Other locations

5.19 Elsewhere in South East Wales, rents in the central Valleys average around £9 psf, within a wide range of between £4 psf for older stock in the upper Valleys through to £14 psf for good quality premises in locations such as Nantgarw (which is essentially part of the out-of-town Cardiff market). There has been little development in recent years, and private developers

[51] 'Former Royal Mail building in Newport being transformed into new office scheme', *Western Mail*, 7 August 2019

such as Charnwood (who built out much of the office development at Nantgarw) have no plans for forthcoming activity.

5.20 However, there is a major office development underway in **Pontypridd town centre**, with the construction of new Grade A office accommodation on the site of the former Taff Vale shopping centre:

Llys Cadwyn, Pontypridd

The redevelopment of the former Taff Vale centre will create around 90,000 sq ft of office accommodation in central Pontypridd, alongside relocated library, Council customer contact point and leisure facilities. Built across three buildings, c.45,000 sq ft (the whole of 'Building A') will provide a new headquarters for Transport for Wales, with the remainder available to be let commercially. The mix of uses seek to 'de-risk' the commercial element of the scheme by reducing reliance on the private sector, while also seeking to drive footfall within the high street and resolve a long-standing physical regeneration challenge[52].

The Council reports interest from a number of tenants, and is in discussions with a digital/ data science company. There has also been reported interest from some financial services firms looking for a base in or near Cardiff.

RCT CBC purchased the former shopping centre in 2015, supported with Welsh Government funding. The total capital cost of the scheme is £38 million. Of this, £10 million has been sourced from ERDF, with the remainder financed through prudential borrowing.

Source: Rhondda Cynon Taf CBC; SQW

5.21 Plans for the Taff Vale scheme are partly based on the additional demand that could be created in Pontypridd town centre following the development of the South Wales Metro and faster, more frequent services to central Cardiff. The Council is ambitious for further commercial development in the town centre, and is seeking to enter into joint venture with a private sector partner for the redevelopment of a further existing office block.

5.22 In consultation, **agents were moderately optimistic about the prospect of additional office development in central Pontypridd**, given the town's proximity to Cardiff and the M4 and the planned Metro investment: of Valleys locations, it was generally seen as the most promising for new office activity[53] (although it was noted that this would likely require public support, either in capital investment or in the form of a public sector anchor tenant, and the demand for Taff Vale is not yet proven).

5.23 There was **much greater scepticism about the prospects for office demand elsewhere.** However, there could be town centre 'resilience' benefits to additional office development in **Cwmbran** (given the centre's heavily retail-oriented profile and substantial overhang of poor quality town centre office stock), and potentially **Bridgend**, driven by greater demand for

[52] Rhondda Cynon Taf CBC (2016), Report to Cabinet, 2 November
[53] Note that there is also public sector office accommodation being built at Treforest, which will similarly benefit from better Metro connections

proximity to the rail infrastructure and in the light of the potential policy drive linked with the Bridgend Taskforce.

5.24 In the **Heads of the Valleys**, office demand was recently characterised as *"mostly low and of a local nature"*, with a general lack of interest, especially in town centre stock[54]. Much of the supply is relatively poor quality, and there is evidence that even better-quality stock struggles with take-up. This view was generally borne out in consultation with agents, who considered demand likely to be fairly weak in upper Valley locations (notwithstanding the benefits to town centre vitality and viability that could be generated by a more diverse range of uses).

5.25 **An exception to this is demand for managed office workspace, which appears to be strong**, even in relatively less promising locations (albeit in the context of limited supply). For example, the Orbit Business Centre in Merthyr and the Springboard centre in Cwmbran report high occupancy, with demand for 'grow on' space[55]. Both facilities were originally developed as innovation centres with Welsh Government support, although are now essentially good quality serviced office space to a general market (including, in the case of Springboard, some inward investors)[56]. Similarly high occupancy is reported by Venture Wales and Business in Focus, both of which operate several managed office (and small industrial) facilities across South Wales[57]. There is a growing network of small flexible working facilities (especially operated by Indycube), including in some upper Valley locations, although in consultation, agents suggested caution about the scale of potential demand.

Figure 5-3: Orbit Business Centre, Merthyr

Source: SQW

Recent take-up

5.26 Across South East Wales, average annual office take-up in 2014-18 stood at around 796,000 sq ft. The great majority of transactions were for units of less than 10,000 sq ft, with a more even distribution in terms of the total floorspace stock:

Annex TableA-1: South East Wales office take up (average annual)

Size band (sq ft)	Take-up (sq ft)	Take-up (% of total	Transactions (no.)	Transactions (% of total
Under 1,000	32,719	4.1	59	29.3
1,000 - 2,500	113,033	14.2	68	33.4
2,500 – 10,000	279,978	35.2	62	30.7
10,000 – 20,000	98,445	12.4	7	3.7

[54] BE Group/ Merthyr Tydfil CBC (2018), *Employment Land Review*, p.62
[55] Expansion options for Orbit and Springboard are constrained on their current sites, although plans are being developed for a 'Springboard II' facility in central Cwmbran
[56] 'Innovation centre' facilities are outside the scope of this work, and we have not consulted with innovation centre operators, although it is worth noting the presence of facilities such as Welsh ICE at Caerphilly and the Wesley Clover centre at Newport.
[57] In consultation, Business in Focus reported 98% occupancy on its stock of 340 units (offices and small light industrial) across 15 sites in South Wales

Size band (sq ft)	Take-up (sq ft)	Take-up (% of total	Transactions (no.)	Transactions (% of total
20,000 – 50,000	149,286	18.8	4	2.2
Over 50,000	122,257	15.3	2	0.8
Total	**795,718**	**100.0**	**203**	**100.0**

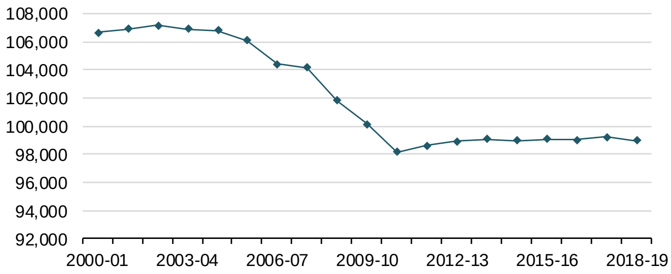
Source: EGi, SQW analysis

Commercial property market: Industrial

Current stock

5.27 In 2018/19, there were around 99 million sq ft of industrial floorspace across South East Wales. Stock fell quite sharply between 2004 and 2010, partly as a 'lagged effect' of the loss of (some) manufacturing activity in the early 2000s[58]. Since 2010, the total volume of floorspace has stabilised, with the loss of some older stock.

Figure 5-4: Industrial floorspace ('000 sq ft)



Source: Valuation Office Agency

Market commentary

5.28 South East Wales' industrial stock is widely distributed, reflecting the high concentration of manufacturing activity across most of the region. It includes the large established industrial estates (such as Bridgend Industrial Estate, Treforest, Rassau and Llantarnam), more recent strategic developments (e.g. the large industrial plateau at Oakdale), and numerous smaller estates, often on former coalfield sites and originally developed by the public sector.

Overall constrained supply

5.29 With the loss of some older industrial stock over the past fifteen years, **there is evidence that supply is tight relative to demand:**

> *"There is a strong shortage of industrial and warehouse units of all sizes… with local micro firms requiring units of up to 2,700 sq ft, while larger B2/B8 options of up to 50,000 sq ft each are needed to allow large company growth and encourage inward investment"*
>
> Merthyr Tydfil CBC[59]

- Based on average annual take-up relative to availability, there is less than a year's (notional) supply in Merthyr and less than two years' in Cardiff and Caerphilly.
- Recent studies for the local authorities indicate low vacancy rates. Merthyr's recent Employment Land Review observed a county borough-wide vacancy rate of 7.9%[60];

[58] It is worth noting that the largest loss of industrial floorspace between 2000/01 and 2018/19 was (in absolute and proportionate terms) in Cardiff, reflecting the ongoing redevelopment of the Bay.
[59] Merthyr Tydfil CBC (2018), *Deposit Replacement LDP*, p.63
[60] BE Group/ Merthyr Tydfil CBC (2018), *Employment Land Review*

Rhondda Cynon Taf's recent availability schedule reported a vacancy rate of less than 7%[61]; Torfaen CBC reports constraints relative to demand on popular sites such as Llantarnam.

- Those authorities that manage their own stock of industrial units report that they are struggling to meet demand for new tenants and for 'grow on' space. Blaenau Gwent CBC's stock (mostly older 1970s/ 80s units built by the WDA and the Council itself) is about 80% occupied, in the context of a need for refurbishment of some of the existing buildings[62].
- There is very little new-build stock on the market. It is not always clear from the EGi data whether premises are existing or new-build. But of those stated, there was only one new build development (Beaufort Park, in Chepstow) available in July 2019.

> *"There has been almost no rental growth on industrial units at Bridgend… it's about £4.70 psf now, compared with £4 psf 20 years ago"*
>
> Commercial agent (Cardiff)

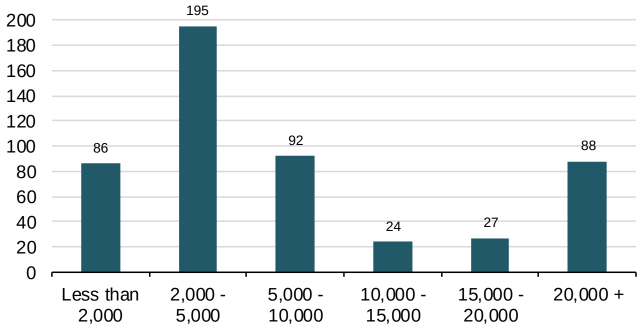
5.30 In the light of expressed demand, what stops the private sector bringing forward new supply? **Rental levels remain low:** £4-4.50psf across most of the region (rising to £5-5.50psf in Cardiff, Newport and the Vale, where the private developer Formaction has brought forward some starter units commercially). Agents report very low rental growth in recent years, an observation borne out by a comparison of rents quoted in historic employment land studies[63]. At the same time however, regional variations in construction costs are relatively modest, with build costs in Wales estimated at around 96% of the UK average[64]. Stakeholders also cited a lack of national investor interest, compounded by the **fragmentation of many larger industrial estates** (such as Rassau) originally built out by the WDA.

5.31 A further point is worth making in relation to the **ageing of the current stock**. There is some evidence of refurbishment (for example, Hansteen has brought forward some refurbished units on the older Tafarnaubach estate in Tredegar[65]). However, stakeholders cited outdated premises as a risk to the resilience of the industrial base, particularly in relation to the food manufacturing sector, where regulatory requirements related to premises are stringent.

[61] This includes offices, although the great majority of the stock is industrial
[62] Blaenau Gwent CBC, consultation
[63] NLP/ Rhondda Cynon Taf CBC (2008), *Employment Land Review*, p.57, based on Cooke & Arkwright analysis
[64] Costmodelling CostAdviser (2019), https://costmodelling.com/
[65] Following the refurbishment of a unit on the estate for PCI Pharma, supported with Welsh Government grant

Size, type and sector

Figure 5-5: Available industrial units in SE Wales by size (sq ft; no.)



Source: SQW analysis of EGi, July 2019

5.32 Consultees were generally of the view that ***"starter units could almost be delivered anywhere"***, given the lack of new development in recent years (at least outside Cardiff and Newport), high levels of occupancy and the ageing existing stock. In July 2019, there were (according to EGi data) 86 units smaller than 2,000 sq ft available across the region – although in some areas, the supply appears to be especially constrained[66]. Consultees also considered that there is potentially a case for the further development of 'hybrid' (office/ workshop) units, along the lines of the 18-unit scheme currently being delivered with ERDF funding at The Works in Ebbw Vale.

5.33 As Figure 5-5Figure 5-4 illustrates, the availability of stock in the 10,000 – 20,000 sq ft range is also very limited, and several consultees highlighted **lack of available 'grow on' space** as a factor in the high levels of occupancy in smaller units: in other words, a lack of space at all levels limits churn and (by implication) impedes businesses' capacity for growth.

5.34 Potential demand for **larger scale industrial units** in general terms appears somewhat less certain. Despite recent contraction, the manufacturing sector is vitally important to the region (and across most of South East Wales, and all of the Valleys, the **manufacturing** share of employment is substantially greater than the UK average). Historically, available property has been an important part of the regional offer, and the ability for firms to expand locally is likely to be an important dimension to their continued investment (c.f. General Dynamics' expansion to Merthyr in addition to their headquarters at Oakdale). Some stakeholders expressed scepticism regarding the extent to which demand could be fulfilled through speculative development, given the changing nature of manufacturing and the diversity of individual requirements. However, less risky options could include the development of 'shell' units that could be adapted for a variety of more specialist purposes (essentially, this is what PCI's facility at Tredegar amounted to, albeit in the form of grant-aided refurbishment, rather than new build); or accelerated development schemes where planning is speculatively taken forward to the point at which the requirements of specific investors could be delivered within (say) six months.

5.35 The **distribution and logistics** sector is relatively small in South East Wales (and Wales generally) and is primarily driven by local and regional demand. There is evidence of a lack of warehousing capacity generally and there has been some recent investment in new facilities, mainly along the M4 corridor (e.g. Bidvest's 170,000 sq ft cold storage depot at Chepstow, which offers proximity to the cluster of logistics operations around Avonmouth). However, while there have been some recent investments further west (for example Aldi's depot at

[66] EGi reported only one available unit of less than 2,000 sq ft in Blaenau Gwent, for example

Wentloog, completed with Welsh Government support), large-scale demand west of Bryn-glas is likely to be constrained by distance from the central UK distribution points[67].

Recent take-up

5.36 Average annual industrial take-up was around 2.1 million sq ft in the five years to 2018. Some 28% of this was for units of 100,000 sq ft or more:

Table 5-1: South East Wales industrial take-up (average annual)

Size band (sq ft)	Take-up (sq ft)	Take-up (% of total	Transactions (no.)	Transactions (% of total
Under 1,000	63,195	3.1	65	29.9
1,000 - 2,500	68,192	3.3	33	15.3
2,500 – 10,000	397,730	19.3	80	36.7
10,000 – 20,000	360,304	17.5	22	10.3
20,000 – 50,000	366,014	17.8	10	4.7
50,000 – 100,000	232,526	11.3	4	1.7
Over 100,000	569,644	27.7	5	1.5
Total	**2,057,604**	**100.0**	**217**	**100.0**

Source: EGi, SQW analysis

Potential priorities

5.37 Based on the market overview in this chapter, the table below links potential areas for intervention with the 'themes' set out in Chapter 4:

Table 5-2: Potential priorities for intervention

Theme	Locations and issues
Offices	
1. City centre and strategic hub offices	**Newport:** From the **demand** side, there is evidence of potential market demand for city centre office space, constrained through lack of supply. Some developer interest coming forward; potentially 'near to market'. In terms of **policy,** contributes to (draft) NDF Policy 27 and longer-term growth of the city, linked with the city centre's transport connections; aligns with City Council wider objectives
	Pontypridd: Substantial new development underway at Taff Vale; the rationale for further development in **policy** terms is building on critical mass and reinforcing the town's role as a strategic hub in the context of improved connectivity through the Metro. Likely to be the most attractive location north of the M4 in **demand** terms. However, there is probably a need to prove demand for the existing scheme first, given its scale
	Other locations: As the market appears to be functioning effectively in Cardiff (at least in the city centre), the case for intervention is limited at present. Other locations (e.g. Cwmbran, Bridgend) are likely to be higher risk in demand terms

[67] SQW (2019), *Cold Storage Capacity in Wales: Report to the Welsh Government*

Theme	Locations and issues
2. Office-based managed workspace and grow-on space	**'Strategic hubs':** In terms of **demand**, there is evidence of high occupancy within 'managed workspace' schemes, including in locations with weak general office markets. From a **policy** perspective, there is potential to create more diverse uses in town centre locations (and potentially to make better use of existing office space where there is weak conventional demand. Potentially several **locations**, including the Valleys Strategic Hubs and Bridgend (the latter linked with the Bridgend Taskforce recommendations), and associated with improved Metro access.
Industrial	
3. Industrial 'starter' units	**Dispersed, but concentrated on well-connected locations:** There is strong evidence (from the data and from stakeholders with a knowledge of the market) that there is a weak supply of smaller units, relative to **demand** (and demand for hybrid units). The supply/ demand imbalance is compounded by ageing stock, but delivery is unviable across much of the region. In terms of **policy**, this is a universal infrastructure offer which helps to broaden the choice to the market. Potentially several **locations**, although in terms of intervention, probably outside Cardiff and Newport where there has been recent private sector activity.
4. Industrial grow-on space	**Dispersed but focused on strategic sites**. In terms of **demand**, there is limited stock in the 2,500 – 15,000 sq ft category across the region, and evidence that restricted opportunities to move constrains firms to their existing premises – compounding the challenges in relation to Theme 3. As with Theme 3, this is an infrastructure offer helping to broaden the choice to the market. Potentially several **locations** as with Theme 3, although likely focused on those strategic sites in proximity to earlier stage growth demand.
5. Strategic industrial sites	**Key Welsh Government (and other public sector) land holdings.** While new investment demand is unpredictable, the manufacturing sector is important – and several major investments have come forward through the effective use of Welsh Government land. The WG as an extensive stock of existing sites in South East Wales, although many of these require substantial investment to bring them forward. The focus here is on maintaining a range of serviced sites for investment that can be brought forward quickly, through joint work with Cardiff Capital Region partners.
Cross-cutting	
6. Refurbishment	In demand terms, partly responds to the same drivers as Theme 4. However, also responds to the **risk** of disinvestment as a result of high refurbishment/ renewal costs (or the **potential** to repurpose existing stock for alternative use). In **policy** terms, responds to environmental and resource efficiency drivers and improves the investment attractiveness of key business locations. Potentially focused on major/ larger estates, although could also respond to the needs of specific occupiers where there is a disinvestment risk. Could also support Themes 1 and 2 in the locations highlighted, where there is refurbishment potential in the 'overhang' of redundant office stock.

6. Regional market analysis: South West and Mid Wales

Summary

- South West and Mid Wales is a large and diverse region. It consists of two 'sub-regions' for partnership purposes: the 'Swansea Bay' area, including Swansea itself, Neath Port Talbot and West Wales; and rural Mid Wales.

Offices

- Swansea is by far the largest office market. However, there has been little new development in recent years, and much of the stock is ageing and of poor quality. There are opportunities to support further investment as part of the wider regeneration of the city centre, although these will require public sector intervention.
- Elsewhere, general office demand is limited, although there is evidence of demand for flexible and 'innovation' space.

Industrial

- As in South East Wales, there is strong demand and very constrained supply in relation to smaller industrial premises, reflecting a lack of recent development and widespread viability challenges (especially in rural parts of the region, further from the M4).

Regional overview

6.1 South West and Mid Wales covers the local authority areas of Carmarthenshire, Ceredigion, Neath Port Talbot, Pembrokeshire and Swansea. Geographically, it is the largest of the three Welsh regions, and had a population in 2018 of 907,400.

6.2 Although designated as a single 'region' within *Prosperity for All* and served by a single Chief Regional Officer, the region is, for some economic development governance purposes, considered as comprising two distinct areas: **Mid Wales**, covering the rural counties of Ceredigion and Powys, and **South West Wales,** covering Pembrokeshire, Carmarthenshire, Swansea and Neath Port Talbot. Where relevant, we have referred to the two sub-regions separately.

6.3 **Mid Wales** is deeply rural, with a population across the two counties of 205,400. The sub-region is sparsely populated, with the main centres at Aberystwyth (which, despite being a relatively small town, contains a number of facilities of regional and national significance, including Aberystwyth University), and the Severn Valley towns of Llandrindod Wells, Newtown and Welshpool.

6.4 The **South West** (often referred to as 'Swansea Bay') is itself diverse. The eastern part of the sub-region is strongly urbanised, including the city of Swansea, the Western Valleys and the industrial centres of Port Talbot and Llanelli, and contains most of the region's key industrial assets. To the west, Carmarthenshire and Pembrokeshire are largely rural, with (especially in the case of Pembrokeshire) large visitor economies. It also includes two Enterprise Zones: at Port Talbot and in the Haven ports in Pembrokeshire.

6.5 In transport terms, South West Wales is served by the M4 and A40 and the South Wales Main Line (which branches in the west to serve Milford Haven, Pembroke Dock and Fishguard). Mid Wales is connected to the English Midlands via the Cambrian and Heart of Wales lines (and Powys in particular has strong travel-to-work relationships with Shropshire and Herefordshire). Although remote, there have been improvements in recent years to the Severn Valley road network.

Regional strategic context

Swansea Bay and the Swansea Bay City Deal

6.6 A regional economic partnership serving Pembrokeshire, Carmarthenshire, Swansea and Neath Port Talbot has been in existence for several years. More recently, the Swansea Bay City Deal has been agreed as a £1.3 billion programme (including £241 million from the Welsh and UK Governments) supporting a series of 11 projects across the sub-region. The measures supported by the City Deal include a sectoral focus on health and life sciences, advanced manufacturing (including the steel industry), energy (especially linked with the Pembrokeshire coast), and the creative sector (including the new S4C studios in Carmarthen).

6.7 Separately, early work is underway to progress the concept of a **Swansea Bay Metro**, initially involving improvements to the existing South Wales Main Line, but potentially also involving new connections between Swansea and Baglan and in the Neath Valley.

Mid Wales Growth Deal

6.8 The **Growing Mid Wales Partnership** was set up in 2015 to articulate the shared economic priorities across Ceredigion and Powys and, following several years of discussion, the UK Government committed £55 million to the creation of a Mid Wales Growth Deal, the last of the four Welsh City and Growth Deals to be concluded. The strategy adopted by GMW Partnership seeks to address the region's challenges of rurality, peripherality and dependence on small employers, through a focus on strengths in manufacturing, the visitor economy and defence-related activities (as well as through the region's university base), and measures to address connectivity and workforce skills. Of particular relevance to the commercial property offer, *Strategic Economic Priorities for the Mid Wales Region* identifies "ensuring the right supply of employment land and premises to meet business need" as a key priority, proposing a "long term, targeted programme of investment" in the sites and premises offer[68].

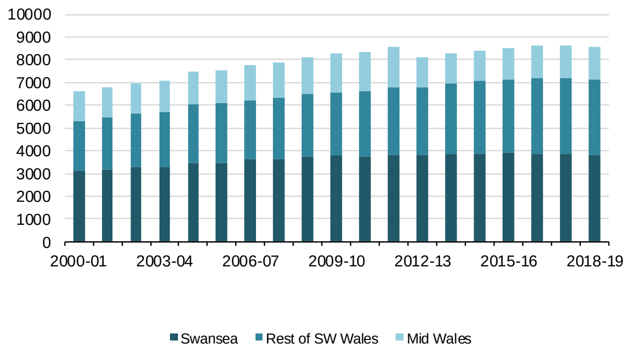
[68] Growing Mid Wales Partnership/ AECOM (2019), *Strategic Economic Priorities for the Mid Wales Region*, p.6 (https://en.powys.gov.uk/article/5547/Growing-Mid-Wales)

Commercial property market: Offices

Current stock

6.9 In 2018, there were around 7.5 million sq ft of total office floorspace in South West and Mid Wales. Of this, half was in in Swansea. Following steady growth in the early years of the millennium (followed by a fall in stock in 2011/12), there has been very little growth in overall floorspace in recent years.

Figure 6-1: Office stock (total floorspace, '000 sq ft)



Source: Valuation Office Agency

Market commentary

6.10 **Swansea dominates the office market in South West Wales, although supply was described by stakeholders as ageing, with little new development in recent years.** In the five years to 2018, EGi recorded 148 deals for office premises, totalling around 359,000 sq ft (equivalent to average annual take-up of about 72,000 sq ft). To put this into context, this is only about 12% of the annual take-up recorded in Cardiff, discussed in the previous chapter. Within the city centre, achieved rents are between £9.50-£11.50 psf. The only new build on the market in July 2019 was at Picton Yard, a complex of city centre live/ work units and office/ workshop space, supported by the Welsh Government[69], and within the Urban Village scheme (a development of homes for social rent, offices and retail as part of the regeneration of the High Street area). In the light of very strong demand in the city centre for student housing, there has also been a recent loss of secondary office stock, with a major city centre office block recently acquired for development.

6.11 In consultation, agents considered that there is potential to develop the Swansea office market, and that the demand is currently constrained by the poor quality of the supply. However, this is likely to require public sector intervention to grow the market before commercial developers are willing to invest. In that context, the City Council is currently investing City Deal funds in a new 100,000 sq ft development focused on the 'digital' sector as part of the wider regeneration of Kingsway[70], with plans for further office, retail and leisure uses, and reports that there is strong interest from potential occupiers.

6.12 Elsewhere in the region (both South West and Mid), the office market largely responds to local demand, and where new schemes have been promoted, it has been hard to generate interest from office occupiers[71]. Some consultees considered that there could be scope for some small-scale development in county towns such as Haverfordwest and Carmarthen, although there is generally an excess of supply over demand across most of the region, based on analysis of EGi data. An exception to this appears to be in demand for 'innovation centre' type space (e.g. at Baglan), which the local authorities report to be strong (for example, space was recently taken

[69] http://www.biophilicliving.co.uk/about/
[70] *Wales Online*, 23 February 2018 (https://www.walesonline.co.uk/news/local-news/digital-village-plan-kingsway-swansea-14328290)
[71] Consultation with Neath Port Talbot CBC, in relation to the Harbourside scheme at Port Talbot

at Harbourside by an IT/ software firm based in London, at rent of around £12 psf, attracted by good connectivity and access to a pool of graduate talent at Swansea University).

Recent take-up

6.13 Across South West and Mid Wales, average annual office take-up in 2014-18 was around 109,000 sq ft (i.e. around the size of the Kingsway development planned for Swansea), strongly skewed towards smaller size bands:

Table 6-1: South West and Mid Wales office take up (average annual)

Size band (sq ft)	Take-up (sq ft)	Take-up (% of total	Transactions (no.)	Transactions (% of total
Under 1,000	16,632	15.2	28	48.4
1,000 - 2,500	27,264	25.0	18	32.3
2,500 – 10,000	41,616	38.1	10	17.2
10,000 – 20,000	11,643	10.7	1	1.4
20,000 – 50,000	11,999	11.0	0	0.7
Over 50,000	0	0.	0	0.0
Total	**109,154**	**100.0**	**57**	**100.0**

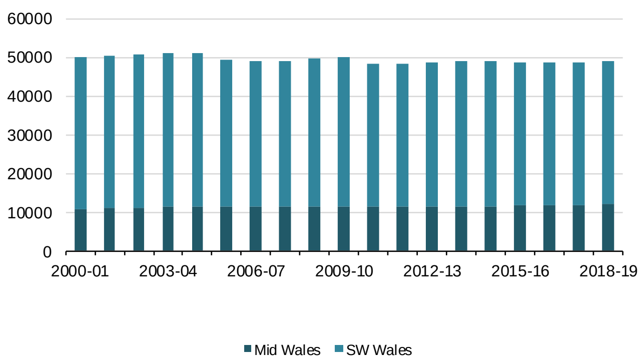
Source: EGi, SQW analysis

Commercial property market: Industrial

Current stock

6.14 In 2018/19, there were around 48 million sq ft of industrial floorspace across South West and Mid Wales (of which 37 million were in South West Wales – evenly distributed between Swansea, Neath Port Talbot and Carmarthenshire, with a much smaller volume of stock in Pembrokeshire). In contrast to the sharp reduction in floorspace in the early 2000s seen in the South East, the total volume of floorspace has remained largely constant over time.

Figure 6-2: Industrial stock (total floorspace, '000 sq ft)



Source: Valuation Office Agency

Market commentary

South West Wales

6.15 In common with the position in South East Wales, consultees reported ageing stock in the general industrial market and limited supply. Carmarthenshire County Council, which operates around 700 units across 13 estates (mostly in units of up to 5,000 sq ft) reports that almost all its stock is fully let, with the majority of tenants occupying premises for long periods (a similar position was reported by Swansea City Council, which also directly operates its own provision).

6.16 Rental levels remain relatively low, averaging around £4psf according to EGi data (although Carmarthenshire County Council reports average rents of around £3 psf across much of its own property portfolio). Further east, the viability gap is reported to be lower, and two recent industrial schemes have been taken forward in Port Talbot with the support of Property Development Grant[72]. However, there was a general view from both public sector and commercial consultees that for significant schemes to be brought forward, there needs to be direct public sector intervention.

Mid Wales

6.17 While the economy of Mid Wales is small and dispersed, the manufacturing sector is relatively important, including in the food processing industry linked with the agricultural economy and in a more diverse range of sub-sectors. Historically, the public sector has played a significant role in ensuring a supply of smaller industrial units catering mainly to local demand (and the Welsh Government retains quite extensive residual assets, especially in Powys, linked with investment from predecessor organisations such as the Development Board for Rural Wales.

6.18 There has however been little development across most of Mid Wales in recent years, with the exception of some bespoke schemes (for example for ZipClip at Welshpool) supported by the Welsh Government. Consultees highlighted the significant viability issues associated with development in rural Mid Wales – unsurprising given very low rental values, according to EGi data, and even where substantial infrastructure investments have been made with the intention of opening up new employment sites, commercial development has failed to materialise[73]. In consequence, business consultees considered there to be a significant shortage of industrial units of all sizes across Powys in particular, with Newtown and Welshpool (the better connected of the Powys towns) under the greatest pressure and with very little site availability in Newtown. This is reflected in analysis for the Growing Mid Wales partnership, which notes that *"there is still little or no private sector investment in Mid Wales"*[74].

6.19 In Ceredigion however, there has been some private sector development coming forward, in the form of the Glan-yr-afon industrial estate at Aberystwyth, offering a combination of light industrial and trade counter uses mainly catering to local demand (although Glan-yr-afon was previously enabled with Welsh Government support for infrastructure). Glan-yr-afon currently dominates industrial availability in Ceredigion, and appears to be successful, commanding relatively high rents of £6-7 psf[75]. Consultees considered that this reflects Aberystwyth's unique position in the local market as an important regional centre (despite its small size), although were more sceptical of the potential for this to be achieved in other Mid Wales locations.

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[72] Consultation with Neath Port Talbot CBC
[73] The development of the Newtown bypass was cited by consultees as a case in point here.
[74] Growing Mid Wales Partnership/ AECOM (2019), *Strategic Economic Priorities for the Mid Wales Region*, p.16
[75] EGi

Recent take-up

6.20 Average annual industrial take-up was around 829,000 sq ft in the five years to 2018. Similarly to the pattern in South East Wales, a quarter was for units of 100,000 sq ft or more (in Carmarthenshire, Neath Port Talbot and Swansea), although the great majority of transactions were for units of 10,000 sq ft or smaller:

Table 6-2: South West and Mid Wales industrial take-up (average annual)

Size band (sq ft)	Take-up (sq ft)	Take-up (% of total	Transactions (no.)	Transactions (% of total
Under 1,000	30,327	3.7	38	33.4
1,000 - 2,500	29,503	3.6	15	13.4
2,500 – 10,000	222,884	26.9	46	40.2
10,000 – 20,000	131,326	15.8	9	7.7
20,000 – 50,000	104,143	12.6	4	3.2
50,000 – 100,000	100,632	12.1	1	1.1
Over 100,000	210,370	25.4	1	1.1
Total	**829,184**	**100.0**	**114**	**100.0**

Source: EGi, SQW analysis

Potential priorities

6.21 The table below sets out potential priorities, linked with the themes outlined in Chapter 4:

Table 6-3: Potential priorities for intervention

Theme	Locations and issues
Offices	
1. City centre and strategic hub offices	**Swansea:** From the **demand** side, Swansea City Council reports evidence of market interest, and there is a view from commercial agents that there is the potential to 'demonstrate the market' for a city centre offer. At the same time, the city centre's overhang of poorer quality secondary stock is being reduced in the light of high residential and student accommodation demand In terms of **policy,** there is investment underway by the City Council (via the Swansea Bay City Deal) in new office accommodation, linked with wider regeneration objectives – although there is a recognition that this is likely to require public sector support
	Other locations: Likely to be limited demand elsewhere in the region
2. Office-based managed workspace and grow-on space	As in South East Wales, evidence of demand for 'managed workspace' schemes (c.f. the innovation centre offer at Port Talbot). From a **policy** perspective, there is potential to create more diverse uses in town centre locations (and potentially to make better use of existing office space where there is weak conventional demand. Potentially several **locations**, including Swansea, Port Talbot, Llanelli and the county towns in Powys, Ceredigion, Pembrokeshire and Carmarthenshire.
Industrial	
3. Industrial 'starter' units	**Dispersed, but focused on well-connected locations:** There is strong evidence (from the data and from stakeholders with a

Theme	Locations and issues
	knowledge of the market) that there is a weak supply of smaller units, relative to **demand**. This is compounded by ageing stock, but delivery is unviable across much of the region (with a strong view from stakeholders in rural Mid and West Wales that new supply is likely to require intervention) In terms of **policy**, this is a universal infrastructure offer which helps to broaden the choice to the market. Potentially several **locations** (linked with the 'Regional Centres' designated in Draft NDF Policy 24 (Carmarthen, Llandrindod Wells, Newtown, Aberystwyth and the Haven Towns), plus Llanelli, Swansea and Port Talbot), although the viability gap is significantly greater in west of Swansea than in the M4 Corridor
4. Industrial grow-on space	Similar to Theme 3; focused on strategic locations, but evidence unmet demand (albeit likely to be less predictable) in rural locations (this was especially highlighted in relation to Mid Wales, particularly the acute lack of available sites in Newtown).
5. Strategic industrial sites	The South West contains a number of nationally-significant strategic locations, which have been supported with Welsh Government investment (including at Cross Hands, Port Talbot/ Baglan and Felindre in Swansea). The local authorities report a steady stream of enquiries for industrial uses, although commercial development is unlikely to come forward without intervention. The need to bring forward regionally-significant sites in Mid Wales was also highlighted.
Cross-cutting	
6. Refurbishment	In demand terms, partly responds to the same drivers as the themes above. However, also responds to the **risk** of disinvestment as a result of high refurbishment/ renewal costs (or the **potential** to repurpose existing stock for alternative use. In **policy** terms, responds to environmental and resource efficiency drivers and improves the investment attractiveness of key business locations. Potentially focused on major/ larger estates

7. Regional market analysis: North Wales

Summary

- North Wales incorporates one of the country's most important industrial districts around Wrexham and Flintshire, with strong connections to England's North West, as well as a deeply rural area of high environmental quality.

Offices

- The North Wales office market is very limited. While there are some large private sector office occupiers in Flintshire and Wrexham, there is generally weak demand for the existing offer, and limited prospects in the short term.

Industrial

- There is evidence of strong demand for smaller and medium-sized industrial units, and a perception from consultees that new supply would be successfully taken up, both on strategic sites (as promoted in the North Wales Growth Deal) and on a more widely distributed basis.

Regional overview

7.1 North Wales covers the six local authority areas of Anglesey, Conwy, Denbighshire, Flintshire, Gwynedd and Wrexham. In 2017, it had a population of around 690,000, and generated around £13.6 billion GVA.

7.2 Like the other two Welsh regions, North Wales covers a large and diverse geography. In the east, Flintshire and Wrexham both have large concentrations of industry. This includes some of Wales' largest industrial parks at Deeside, Broughton and Wrexham Industrial Estate, as well as several major employers (including Airbus at Broughton and Magellan Aerospace at Llay; Tata Steel on Deeside; and JCB and the medtech firm Wockhardt at Wrexham). The area also contains some significant service sector employers, including the headquarters of Iceland and the call centre group Moneypenny.

7.3 Beyond the industrial east, the main concentrations of population (and economic activity) are along the North Wales coast to Bangor and the Port at Holyhead, via Rhyl, Colwyn Bay and Llandudno. The rest of the region is rural and characterised by a high-quality natural environment, much of which is contained within the Snowdonia National Park. Apart from Wrexham and the larger North Coast towns, most of North Wales' urban settlements are small (although Bangor, in the context of its extended rural hinterland and important university presence, has a wider regional significance). The region also contains three Enterprise Zones, at Deeside, Anglesey (sites at Holyhead and Llangefni) and Trawsfynydd.

7.4 In transport terms, the area is served by the A55 North Wales Expressway and the North Wales Main Line, with local rail connections to England from Wrexham and Deeside (and rail services in the southern part of Gwynedd via the Cambrian Line). However, transport connectivity across much of the rural heart of the region is challenged by its topography and widely distributed pattern of small settlements.

7.5 Reflecting North Wales' transport connections and the distribution of economic activity, travel-to-work flows in Flintshire and Wrexham show close connections with Cheshire and Liverpool City Region, as well as with neighbouring areas in Wales. Further west, Anglesey and Gwynedd are more self-contained.

Strategic context

North Wales Growth Deal

7.6 The local authorities and other strategic partners on the **North Wales Economic Ambition Board (NWEAB)** published a 'Growth Vision' for the region in 2016. This has subsequently translated into the **North Wales Growth Deal**, for which the Welsh and UK Governments have each allocated £120 million. The Growth Deal identifies the region's strengths in relation to its network of 'anchor' businesses (especially associated with advanced manufacturing), land-based industries and tourism, and low-carbon energy generation, and sets out a strategy to raise productivity by building on these, and by addressing the region's long-term structural challenges in relation to workforce skills, connectivity and the availability of employment sites[76].

7.7 Of particular relevance to the commercial property market, one of the key interventions proposed as part of the North Wales Growth Deal is a **'Land and Property Programme'** focused on both residential and commercial development. On the commercial side, the Land and Property Programme seeks to establish a joint venture between the Welsh Government, local partners and private sector developers and end-users to bring forward development on strategic sites at Wrexham, Bodelwyddan (near Rhyl) and Parc Bryn Cegin at Bangor[77]. References in the Growth Deal to land and property investment actually build on a longer-standing commitment to a shared regional approach, set out originally in the 2014 Regional Employment Land Strategy and subsequently in a schedule of some 15 'strategic sites', published by NWEAB in 2016. It is worth noting that while work has been done to prioritise these 'strategic sites' based on their deliverability (in terms of site constraints, etc.), there does not appear to have so far been a coordinated assessment of capacity or potential demand[78].

7.8 The Growth Deal also proposes the development of a **Rural Economy Hub,** focused on the food sector and linked with Grwp Llandrillo Menai's existing food technology centre, with the intention of bringing forward incubator space containing flexible food grade units for SMEs. Currently, summary business cases have been set out in NWEAB's *Draft Implementation Plan*, with further business case development underway.

Strategic transport

7.9 In relation to transport investment, NWEAB, together with the **Mersey Dee Alliance** (a cross-border economic development partnership) and Cheshire and Warrington Local Enterprise Partnership published **Growth Track 360** in 2016[79]. Growth Track 360 focuses on

[76] North Wales Economic Ambition Board (2019), *A Growth Deal for North Wales: Draft Implementation Plan* (https://northwaleseab.co.uk/resources/north-wales-growth-deal)
[77] The Land and Property Programme also proposes investment in the Port at Holyhead, linked with the expansion of the renewable energy industry.
[78] Conwy CBC [Lichfields] (2019), *Employment Land Review,* p.37
[79] www.growthtrack360.com

improvements to the rail network, including electrification, with the aim of improving connections between North Wales and the North West of England. Linked with this, the proposed **North East Wales Metro** envisages a network of bus and rail services connecting the major employment locations at Deeside, Hawarden and Wrexham with residential communities and neighbouring centres in Chester and the North West of England[80].

Strategic sectoral initiatives

7.10 Within the Growth Deal proposition, substantial emphasis is placed on the growth of the energy sector, in particular the development of the 'Energy Island' programme on Anglesey. While the Energy Island proposition includes several elements, including a marine renewables development at the Port of Holyhead and a large proposed biomass plant, the major strategic project linked with the energy sector has been the development of a new nuclear power station at **Wylfa Newydd**. Wylfa Newydd had been regarded as of regional significance, and was anticipated to draw on a labour market and supply chain extending across North Wales – and Horizon Nuclear Power, the developer of the power station, has played an active role within the NWEAB. However, Horizon announced in January 2019 the suspension of its UK nuclear power programme: while not formally cancelled, the scheme appears highly unlikely to progress in the near future. The demise of the Wylfa Newydd proposals presents a challenge to the approach to strategic economic development in North West Wales. This remains to be worked through, and the Growth Deal Implementation Plan includes a request for supplementary funding to develop alternative growth options – but potentially, the commercial property offer could play an important role in economic diversification.

7.11 The other 'sector focused' initiative of regional significance is in relation to the advanced manufacturing sector and its concentration of activity on Deeside. The Welsh Government has invested £20 million in the new **Advanced Manufacturing Research Centre Cymru** at Broughton, within the Deeside Enterprise Zone, with Airbus as the anchor tenant. Managed by the University of Sheffield, AMRC Cymru opened in November 2019[81].

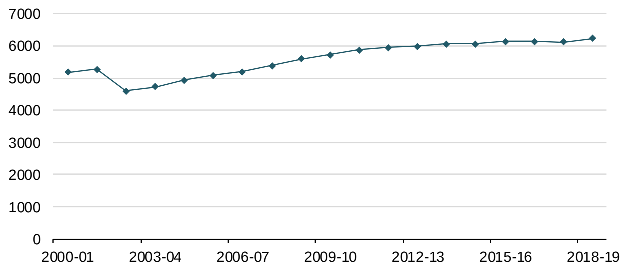
[80] Welsh Government (2017), *Moving North Wales Forward: Our Vision for North Wales and the North East Wales Metro*. *Moving North Wales Forward* also sets out a series of priority highways schemes, mostly focused on the A55, A483 (Wrexham-Chirk), A487 (near Caernarfon) and the Deeside urban area. (https://gov.wales/sites/default/files/publications/2017-09/north-east-wales-metro-moving-north-wales-forward.pdf)
[81] AMRC (https://www.amrc.co.uk/news/amrc-cymru-opens-for-business-in-north-wales)

Commercial property market: Offices

Current stock

7.12 In 2018/19, there were around 6.2 million sq ft of total office space in North Wales. This was fairly evenly distributed across the local authorities (with the exception of Anglesey, where the current office stock is very small, and accounts for only around 230,000 sq ft). Apart from some losses in the early years of the millennium, the stock of office space has grown, albeit slowly.

Figure 7-1: Office stock (total floorspace, '000 sq ft)



Source: Valuation Office Agency

Market commentary

7.13 On the whole, commercial agents consulted as part of this study were sceptical about the likely demand for office space across the region. Office demand is quite localised – including in Wrexham, where the town is seen as a secondary location in comparison with Chester. One consultee noted that across the region, *"there's plenty of supply, but the demand's not there"*, an observation backed by the two employment land reviews completed in the region this year. Office rents across the region are relatively low: agents reported that *"there has been no noticeable rise in office rents for 25 years"*, and that good quality small industrial space could now command similar rents to second-hand office stock.

7.14 Looking in more detail at different locations within the region:

- In **Gwynedd and Anglesey,** Parc Menai Business Park just outside Bangor dominates in terms of recent deals and current availability. Recent rents varied from £7psf for a 2,700 sq ft unit (leased to the Welsh Government for operational use) to £14 psf for a small 300 sq ft office[82]. Parc Menai appears to attract a diverse range of public and private sector occupiers (and also hosts Coleg Menai). Agents considered that the park has been generally successful, although in the context of mostly locally-driven demand, and there was a perception that occupancy at Parc Menai was to some extent to the detriment of occupancy in Bangor city centre. In relation to the latter, while there would be wider economic benefits in building up more 'critical mass' in central Bangor, there was general scepticism that there would be sufficient demand to warrant investing in new office stock.

- In **Conwy and Denbighshire**, the office market is quite small. In Conwy, rents are generally around £8 psf (rising to £11psf at the Penrhos Manor managed workspace scheme; agents reported some excess capacity driven by a loss of public sector demand following the Welsh Government's move to a purpose-built regional headquarters facility at Llandudno Junction. Further east, Denbighshire's office sector is dominated by the **St Asaph Business Park**, a large 'strategic' office park at which

[82] EGi

rents on second-hand stock are around £8 psf. Commentary in Denbighshire's recent employment land review suggests that some of the stock is now dated and too large for modern demand. However, some new development has recently come forward at St Asaph, with Pure Commercial's New Vision scheme, with office/ hybrid units currently on the market for around £13psf.

- In **Wrexham and Flintshire**, the office market is largely business park based, with rents up to £13psf on Wrexham Technology Park. While the general picture is one of weak demand, there is evidence of a gap in supply for specific occupiers: Moneypenny was cited by consultees as an example of an indigenous Wrexham business that has grown rapidly, wants to remain in the area, has struggled with expansion space and is currently in discussions with the NWEAB in relation to its proposed Land and Property Fund.

7.15 There does also appear to be **some evidence of demand for more specialist facilities and for 'flexible' space**. For example, Glyndwr University reports that demand for flexible office space (550 – 1,650 sq ft) at the OpTIC Innovation Centre at St Asaph Business Park is strong (in contrast to the generally weak demand that seems to prevail on older stock at St Asaph generally)[83]. Business consultees in Denbighshire's recent employment land review also highlighted a perceived need for small office and 'grow-on' space (up to 2,000 sq ft) in Denbigh and other market towns[84]. Bangor University's M-Sparc facility at Gaerwen on Anglesey is also reported to be around 60% occupied (whether there is scope for additional 'innovation centre' facilities at Bangor associated with the University was not explored as part of this study, although we assume that the University's main focus at the moment is on M-Sparc).

Figure 7-2: M-Sparc, Gaerwen

Source: SQW

7.16 Consultees were also positive about potential demand for **hybrid units**, provided the scale/ configuration and quality are right. There are some examples of this sort of development coming forward in region: for example, at Boundary Park, Deeside[85] and at Pure Commercial's development at St Asaph.

Recent take-up

7.17 Across North Wales, average annual office take-up in 2014-18 was around 95,000 sq ft. Of the six transactions above for units of over 10,000 sq ft, five were in Flintshire:

[83] Denbighshire County Council/ BE Group (2019), *Employment Land and Economic Growth Assessment*, p.30
[84] Denbighshire County Council/ BE Group (2019), *Employment Land and Economic Growth Assessment*, p.31
[85] These are primarily industrial, with a limited amount of office accommodation

Table 7-1: North Wales office take up (average annual)

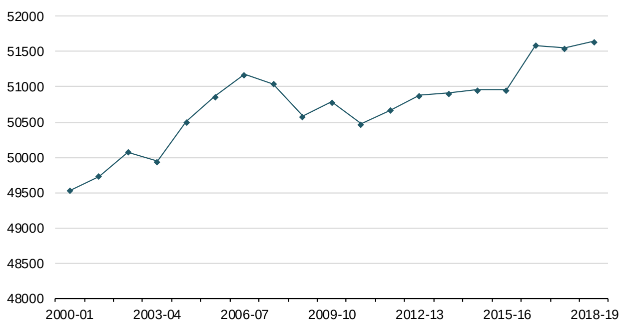
Size band (sq ft)	Take-up (sq ft)	Take-up (% of total	Transactions (no.)	Transactions (% of total
Under 1,000	11,293	11.9	20	48.3
1,000 - 2,500	19,324	20.4	11	28.1
2,500 – 10,000	34,933	36.9	8	20.2
10,000 – 20,000	13,538	14.3	1	2.5
20,000 – 50,000	4,743	5.0	0	0.5
Over 50,000	10,800	11.4	0	0.5
Total	**94,630**	**100.0**	**41**	**100.0**

Source: EGi, SQW analysis

Commercial property market: Industrial

7.18 In 2018/19, there were around 52 million sq ft of industrial space across North Wales. Wrexham and Flintshire dominate the industrial landscape, accounting for around 70% of total stock (in fact, the two areas contain the largest and second largest quantities of overall industrial floorspace in Wales). In contrast to South East Wales, there has been general growth in floorspace over the past couple of decades, reflecting the resilience of the Deeside manufacturing base.

Figure 7-3: Industrial stock (total floorspace, '000 sq ft)



Source: Valuation Office Agency

Market commentary

7.19 As elsewhere in Wales, there is evidence of strong demand relative to supply for **smaller industrial units** of less than 5,000 sq ft. In Wrexham and Flintshire, there is some evidence of new development coming forward, with new units on the market on Croesfoel Industrial Estate in Wrexham, and refurbished smaller units at Mold Business Park and at the Mostyn Road estate in Holywell.

Mostyn Road, Holywell

A 14 acre site in Holywell, Flintshire, the Mostyn Road business park was formerly the site of the AMRI chemicals factory, which closed in 2015 with the loss of about 60 jobs. In 2018/19, it was redeveloped as a light industrial business park with 15 units of between 180 and 12,500 sq ft.[1]

Source: Legat Owen (http://legatowen.agencypilot.com/store/documents/other/319931_48sx94xs1dy7xj79.pdf?agtype=7&agkey=313+3785)

7.20 However, "west of Mold", consultees considered that commercial development, of any type, is more challenging to bring forward commercially, with rents averaging around £4.70 in Gwynedd and Anglesey, and £5 in Wrexham and Flintshire[86].

7.21 Agents considered that there is likely to be demand for smaller (up to 5,000 sq ft) and medium (10-15,000 sq ft) sized units across much of western and rural North Wales, if they could be enabled to come forward. Gwynedd County Council, which operates its own stock of commercial property, reports occupancy rates of over 90%, with negative consequences for rural businesses looking to expand – a view supported by consultees as part of Conwy CBC's employment land review[87]. There was a view that smaller industrial units would be popular in locations such as Bryn Cefni (a large industrial estate at Llangefni recently built out with Welsh Government funding) and at Parc Menai. In this context, consultees considered St Asaph Business Park to be something of a "missed opportunity": as set out above, office demand at the Park is weak, but there is an acknowledgement that if industrial provision could be brought forward on the site, it would have a greater prospect of meeting market need.

7.22 As indicated above, the NWEAB also places a strong emphasis within its strategic plans on bringing forward a series of strategic sites – and the Welsh Government has played an important role in, for example, bringing forward the Bryn Cefni site on Anglesey. Stakeholders held mixed views regarding the extent to which serviced sites, as opposed to built premises, should be the priority for investment, although strong demand for additional serviced sites for a range of sizes was reported in relation to Wrexham and Flintshire (and especially at Wrexham Industrial Estate). Further west, there was felt to be stronger demand for built premises, especially given the greater balance of demand towards locally-based businesses.

> *"Any scheme of smaller industrial units would be successful… if there was smaller space available at Parc Menai, it would fly"*
>
> Commercial agent (Wrexham)

Recent take-up

7.23 Average annual industrial take-up was around 757,000 sq ft in the five years to 2018. All transactions for 100,000 sq ft or more were for properties in Flintshire:

Table 7-2: North Wales industrial take-up (average annual)

Size band (sq ft)	Take-up (sq ft)	Take-up (% of total	Transactions (no.)	Transactions (% of total
Under 1,000	27,532	3.6	26	26.8
1,000 - 2,500	31,650	4.2	16	16.2
2,500 – 10,000	194,226	25.7	42	42.4
10,000 – 20,000	136,040	18.0	9	9.1
20,000 – 50,000	101,405	13.4	3	3.0
50,000 – 100,000	116,641	15.4	2	1.6
Over 100,000	149,379	19.7	1	0.8

[86] EGi
[87] Conwy CBC/ Lichfields (2019), *Employment Land Review Update*

Size band (sq ft)	Take-up (sq ft)	Take-up (% of total	Transactions (no.)	Transactions (% of total
Total	**756,874**	**100.0**	**99**	**100.0**

Source: EGi, SQW analysis

Potential priorities

7.24 Within the NWEAB's Implementation Plan, and from consultations with the NWEAB and strategic stakeholders, there was a strong desire for a more coordinated approach between the Welsh Government and other parts of the public sector (especially in assessing the specific demand for and bringing forward the network of strategic sites identified in the Growth Deal). In addition, the table below links potential activities to the themes set out in Chapter 4:

Table 7-3: Potential priorities for intervention

Theme	Locations and issues
Offices	
1. City centre and strategic hub offices	There is no real evidence of demand at present, with agents sceptical of the prospects for new Grade A development.
2. Office-based managed workspace and grow-on space	As elsewhere, evidence of demand for workspace on flexible terms. Potentially focused on larger centres where demand less likely to be met by the market (e.g. Bangor, Colwyn Bay).
Industrial	
3. Industrial 'starter' units	There is evidence (from the data and from stakeholders with a knowledge of the market) that there is a weak supply of smaller units (industrial and hybrid), relative to **demand**. This is compounded by ageing stock, but delivery is unviable across much of the region. In terms of **policy**, this is a universal infrastructure offer which helps to broaden the choice to the market. Potentially several **locations**, although focused outside of Wrexham and Flintshire where there has been some recent private sector activity.
4. Industrial grow-on space	In terms of **demand**, there is limited stock in the 5,000 – 15,000 sq ft category across the region, and evidence that restricted opportunities to move constrains firms to their existing premises – compounding the challenges in relation to Theme 3. Potentially several **locations** although likely focused on the network of larger strategic sites.
5. Strategic industrial sites	While new investment demand is unpredictable, there is interest from local partners in bringing forward a network of sites for investment, and the North Wales Economic Ambition Board has proposed a joint venture agreement to bring forward a series of priority sites. However, market commentary notes caution in terms of the risk of market over-supply.
Cross-cutting	
6. Refurbishment	Responds to the **risk** of disinvestment as a result of high refurbishment/ renewal costs (or the **potential** to repurpose existing stock for alternative use. In **policy** terms, responds to environmental and resource efficiency drivers and improves the investment attractiveness of key business locations. Potentially focused on existing estates, outside of Flintshire and Wrexham

Part III: Addressing the Challenges

8. Market challenges: Understanding the gap

Summary

- As the regional analysis demonstrates, there are widespread imbalances between demand (or potential demand) for commercial property and its supply. These impact across much of the country.
- To help understand the nature of the imbalance – and in particular the causes of a lack of commercial supply – we have run a series of baseline appraisals for industrial, office and 'hybrid' developments in different parts of Wales. These demonstrate non-viability for advance build projects in most (although not all) cases, driven by constraints on the demand (affordability) and supply sides highlighting the need for public sector intervention.

Introduction

8.1 Based on the regional market analysis, there are strong similarities in the issues and challenges faced across the country. In terms of office supply and demand, the picture is one of a generally 'functioning' market in Cardiff, emerging/ potential demand in Newport, Swansea and perhaps one or two well connected locations in South East Wales (although this will require encouragement), but weak demand elsewhere in the light of changing working practices and requirements. In terms of industrial premises, the demand and supply imbalances are starker, and include:

- A **general shortage of modern, small-to-medium size industrial units**, with little new supply coming forward (apart, to some extent, from smaller-scale commercial developments in Cardiff, Newport and Flintshire/ Wrexham) and significant viability challenges.
- **Artificially constrained demand,** as firms with the potential to expand are limited in their ability to do by the absence of supply.
- **Ageing stock**, exacerbated by the fragmentation of some larger industrial estates, and potentially presenting a 'resilience' challenge to future business retention.
- **Weak development (and refurbishment) viability**, impeding the ability to bring forward the development of new premises on strategic sites (especially in the West and North West), despite investment in infrastructure.

8.2 Building on the market analysis, this chapter considers **why the market is unable to respond to (apparent) demand**, drawing on local evidence and UK-wide research and considering in detail the nature and composition of the 'viability gap', supporting the analysis in Chapter 10 of the potential interventions that the Welsh Government could make to overcome these.

Market challenges: Some overall constraints

8.3 In addition to the general demand/ supply imbalances highlighted above, consultation as part of this study (and evidence from wider research) has identified several constraints on the supply of employment land and property. These include:

- **Planning policy issues,** in particular a view that employment land allocations do not always or properly reflect the current needs of the market (a factor potentially exacerbated by a shortage of land in some locations, reflecting topographical and environmental constraints). In some cases, a more strategic approach is required across local authority boundaries to plan for how key sites are allocated and developed, and the mix of uses that can produce shared benefits. The approach to 'larger than local' planning for economic development set out in TAN 23[88], and the emerging Strategic Development Plans at regional level are intended to help with this.
- **Ease of obtaining planning permission**, including a view in some quarters that there could be opportunities to 'streamline' the process, by working with local authorities to 'pre-approve' the majority of issues so that sites can be brought forward to a point at which they are 'ready to build'.
- **Changing demand for utilities and infrastructure** on existing and new sites. This includes growing demand for higher levels of electrical power capacity (often entailing high costs and uncertain delivery timescales), the need for the right levels of higher-capacity broadband, and advance infrastructure (water, gas, drainage, etc.) in key locations. Linked with this, stronger environmental regulation has also been cited as a driver of either obsolescence or the need for substantial new investment in some older stock.
- **Issues associated with alternative uses,** particularly given pressure in some locations (for example around Cardiff) to deliver significant housing volumes, and environmental limits on development in some locations.

Unpacking the viability challenge

8.4 **Viability** has been highlighted throughout this report as a critical issue, and is closely linked with the wider planning and other challenges listed above. The viability of development in some locations, and for specific 'products' appears to be good (such as larger employment accommodation in the North East and parts of the South East, and offices in central Cardiff) and the private sector is generally able to deliver the sites and floorspace required, assuming that land continues to be allocated, serviced and brought forward at reasonable values.

8.5 Elsewhere however, there are several categories (smaller/ medium sized industrial floorspace, offices or hybrid office/ workspace premises) across the country, which experience viability issues for a number of challenging (and sometimes linked) reasons, which the following paragraphs explain.

[88] Welsh Government (2014), Technical Advice Note 23: Economic Development (https://gov.wales/sites/default/files/publications/2018-09/tan23-economic-development.pdf)

Supply side factors

8.6 From the 'supply side', developer/ investor activity may be constrained due to:

- A **general reluctance from landowners and developers/ investors (where they are in control of land) to release land at less than optimal value.** For many of the categories of employment floorspace referred to above, this is simply unaffordable.
- **'Information failures'**: the evidence of demand (and changing demand) for a wide range of accommodation types and sizes at local and regional level is not always appreciated within the wider development/ investment market.
- **Market-related issues**, adversely impacting viability in many locations outside parts of the North East and South East, and across the development types referred to above. These include relatively low rental levels, low rates of return, poor yields impacting on investment values, and the high risks linked to poor tenant covenants and 'lettability' (with developers/ investors often requiring pre-lets, which are not available in the market). Consequently – and as the market analysis chapters demonstrate - **there is a preponderance of older, lower value premises, which creates a "tone of value" within a sector.** This renders any new opportunities unviable without a significant step change in rental values, yields and demand.
- **Investors are often keen to develop a 'build to sell' product.** However smaller floorspace does not lend itself to this exit route: consequently, it requires a view to be taken by the investor on long term income with the focus linked to flexible lease patterns/ shorter terms, etc.

8.7 Alongside these considerations, relatively high infrastructure costs (including site preparation, accessibility and utilities), rising construction costs and required levels of developer profit (driven by competing development propositions elsewhere) all impact on viability. Lack of funding, from both public and private sources, is also often an issue: anecdotally, views have been expressed that there has never been so much investment funding available, but it has never been so difficult to get hold of – and where funding is secured, interest rates are often high.

8.8 In this context, **why would a developer be persuaded to invest in less than optimum circumstances, when other opportunities are available?** Anecdotally, we have been told that there are no developers who would speculatively build a small unit scheme - even offices – without some form of incentive. This does depend on circumstances, and developers who control land and the risks of direct development are generally more confident that in the right location, they can make smaller unit schemes viable (and there are examples, cited in the market analysis chapters, of schemes that have come forward commercially).

8.9 However, since the recession, **there are fewer commercial developers,** especially at the lower end of the size categories in the market: in Wales, local firms, such as Charnwood in Cardiff vicinity, have historically been important in building out new commercial space, but our consultations indicated few companies currently active in the market.

The demand side: Affordability

8.10 A further factor impacting on viability is **the need for newly constructed premises to be 'affordable' to businesses**, with rental levels pitched so that the business can cover rent within its overall operating model.

8.11 Businesses are generally used to paying the range of typical rents around the country (i.e. £4 to £6psf for industrial and £8 to £15psf for offices). They see these as "affordable" and would generally say that their business plans and operating models do not allow them to pay higher accommodation costs given that these would challenge their overall profitability. As the market analysis chapters noted, in several places, rents have not shown any significant appreciation for many years.

8.12 'Ability to pay' has not been specifically researched in this study, but traditionally, property costs are around 20-25% of a company's total outgoings. Small increases are therefore unlikely to impact significantly on overall profitability, particularly if a new property can make a difference in terms of other operational costs, such as energy consumption, efficiency of production, ease of access and higher levels of utility availability.

8.13 A key question is therefore **whether businesses are able to pay more rent for their required property** (without impacting their overall business plan/ profit aspirations). If this could be achieved, it might over time enable developments to be delivered across a range of locations where they are currently considered unviable. Increasing firms' ability and willingness to pay for higher standards of accommodation should be a long-term objective for investment by the public sector, and ought to contribute to the objectives of the Economic Action Plan.

8.14 However, irrespective of the above, it is a fact that **the availability of 'affordable' development is critical in many places and is in demand**. Delivering new accommodation at what are commonly considered 'affordable rents' (around £4 to £6 psf or even lower in some places) is a real viability challenge, without the added liability of high land values, which will make the financial equation even more undeliverable.

Understanding the significance of the viability factor

8.15 In the light of the issues described above, we now consider the range of issues that influence the private sector's decision to develop, and how these can be quantified.

8.16 The **standard development appraisal** will sit behind any decision to develop and identify the viability of a particular scheme. The basic premise is that:

- Receipts from selling all components of a development **must exceed** all the costs of undertaking the development plus a reasonable developer's profit; **or**
- The annual (net) income level from letting a completed scheme **must provide** a reasonable annual return on **all** costs.

8.17 To understand how significant the viability factor is, and what possible solutions are available where the market is failing to meet demand, we need to interrogate the components which make up a development appraisal and, where results do not support the bringing forward of a scheme, understand which are the determining factors and how these can be changed to establish a viable proposal. In other words, if a development appraisal doesn't stack up, then why not?

8.18 Having highlighted the critical factors which render schemes unviable we are then able to sensitivity test those criteria and determine how much it is going to take to vary the appraisal criteria sufficiently to ensure that the development becomes commercially viable (if indeed that is possible).

8.19 To understand the scale of the viability challenge, we have run a number of **'baseline' appraisals**, for a standard industrial and office 'product' (based on a one-acre plot), across each local authority area, adopting average rental, build cost and yield information (based on an analysis of EGi and CoStar data over the last 5 years). We have assumed nil land value in all cases, so the purpose of the analysis, has been to see how positive the "residual land value" will potentially be (assuming a range of standard other costs, fees and commitments), and therefore whether this will be sufficient (compared with current, commercial market land values) to persuade a landowner to sell or a developer to develop. If not, the development opportunity is considered non-viable.

Industrial

8.20 The available evidence demonstrates that:

- There is a wide range of **rental levels** spanning £4psf to £8.50psf and even higher in some cases. This reflects a wide range of property types, accommodation sizes and geographic locations, including some specific local factors (for example, relatively high rental values in remote, but important local 'hub' locations such as Aberystwyth)[89].
- **Investment yields** also vary considerably, and are not only dependent on geographic location and the type/ age of the premises, but also on the strength of the tenant covenant and the length of the lease commitment under offer. Yields range from 6.5% (for a good quality property, in a good location and with a strong covenant) to 10% / 11%, reflecting a very poor investment proposition, typically reflecting an old property, in a poor condition, poorly located with a weak tenant covenant and short-term lease arrangement.
- For **build cost**, the latest BCIS data[90] reflect a wide range of geographic and other differences (type, scale, specification of the completed floorspace, and the number of contracts recorded). This results in a very broad range of construction figures, with average median levels around £75psf, however lowest and highest deciles can be some 50% or more, above or below this figure. Anecdotally we have also been informed that in many places, this median figure would be exceeded, as a matter of course. We have therefore adopted a new build construction range for general factories of between £75 and £85psf, in order to reflect the above sentiments.

[89] Variance in local averages also highlights the number of transactions that have been recorded in any one local authority area: some include a significant number, while others are likely to be skewed by very few results, some of which might reflect very specific circumstances.

[90] BCIS is a source of building cost information data maintained by the RICS and widely used in the construction and property industry. See https://www.rics.org/uk/products/data-products/.

8.21 Within the baseline appraisals, we have also kept a number of factors consistent to identify the differences in performance as a result of the main variables. These factors include: an allowance for rental voids (set at an average period of 6 months, which allows staged letting over 12 months), developer's profit fixed at 15% of all costs, and professional costs at some 8% of overall costs.

8.22 The broad results of the appraisal exercise are set out in the table below:

Table 8-1: Industrial appraisal results (based on 1 acre plot, equivalent to c.25,000 sq ft development

Rental range	Yield	Construction cost	Viability	Commentary
£4.00 to £6.00 psf	10%	£75 to £85 psf	Very significantly non-viable	Overall loss in excess of £1m
£4.00 to £6.00 psf	6.5%	£75 to £85 psf	Significantly non-viable	Overall loss £0.5m to £1m
£6.50 to £8.00 psf	10%	£75 to £85 psf	Very significantly non-viable	Overall loss in excess of £1m
£6.50 to £8.00 psf	6.5%	£75 to £85 psf	Non-viable	Overall loss less than £0.5m
£8.50 to £10.00 psf	10%	£75 to £85 psf	Significantly non-viable	Overall loss £0.5m to £1m
£8.50 to £10.00 psf	8%	£75 to £85 psf	Non-viable	Overall loss less than £0.5m
£8.50 to £10.00 psf	6.5%	£75 to £85 psf	Viable	Acceptable development profit at £10 psf
£10.50 to £12.50 psf	10%	£75 to £85 psf	Non-viable	Overall loss less than £0.5m
£10.50 to £12.50 psf	8%	£75 to £85 psf	Viable	Acceptable development profit at £12 psf
£10.50 to £12.50 psf	6.5%	£75 to £85 psf	Viable	Acceptable development profit

Source: SQW analysis

8.23 From the appraisal results above, it can be concluded that **developments offering established/ "affordable" rental levels which meet current business expectations demonstrate significant overall viability challenges**. However, at the higher range of rental levels, and particularly where good covenant strength is assumed, schemes can be viable and deliverable.

8.24 This is consistent with the results of our consultations and earlier analysis, which suggests that with the exception of very few areas, it is extremely difficult for any developer to construct new, speculative industrial premises, without *(inter alia)* a good pre-let at a high rental level and control over the land. It should however be noted that the margins between a non-viable and viable development are small in a number of places, and it would not be out of the question for slight shifts in achievable rents and rental security (i.e. the investor's certainty of securing rental income, particularly in the short term) to have an impact on the private sector's ability to deliver.

8.25 There is also something of a **'two-tier' market**, in which owner occupiers/ developers, who own land and have experience in the development sector, are more able and likely to bring forward viable schemes than speculative developers. However, grant incentives are often an important part of the funding mix.

Offices

8.26 A similar exercise has been conducted for **office developments**. This is again based on a one acre plot and adopting average rental, build cost and yield information (based on an analysis of EGi and CoStar data over the last 5 years within each local authority area, and consultations with developers and agents). The broad results are set out in the table below:

Table 8-2: Office appraisal results (based on a one-acre plot, equivalent to c.25,000 sq ft development)

Rental range	Yield	Construction cost	Viability	Commentary
£6.00 to £8.00 psf	10%	£140 to £155 psf	Very significantly non-viable	Overall loss in excess of £2m
£6.00 to £8.00 psf	6.5%	£140 to £155 psf	Very significantly non-viable	Overall loss in excess of £2m
£8.50 to £10.50 psf	10%	£140 to £155 psf	Very significantly non-viable	Overall loss in excess of £2m
£8.50 to £10.50 psf	6.5%	£140 to £155 psf	Very significantly non-viable	Overall loss in excess of £2m
£11.00 to £13.00 psf	10%	£140 to £155 psf	Very significantly non-viable	Overall loss in excess of £2m
£11.00 to £13.00 psf	6.5%	£140 to £155 psf	Significantly non-viable	Overall loss £1m to £2m
£13.50 to £15.50 psf	8%	£140 to £155 psf	Significantly non-viable	Overall loss £1m to £2m
£13.50 to £15.50 psf	6.5%	£140 to £155 psf	Non-viable	Overall loss less than £1m
£16.00 to £20.00 psf	10%	£140 to £155 psf	Significantly non-viable	Overall loss £1m to £2m
£16.00 to £20.00 psf	8%	£140 to £155 psf	Non-viable	Overall loss less than £1m
£16.00 to £20.00 psf	6.5%	£140 to £155 psf	Viable	Acceptable development profit at £19 psf
£20.50 to £25.00 psf	10%	£140 to £155 psf	Non-viable	Overall loss less than £1m (even at £25 psf)
£20.50 to £25.00 psf	8%	£140 to £155 psf	Viable	Acceptable development profit at £22.50 psf
£20.50 to £25.00 psf	6.5%	£140 to £155 psf	Viable	Acceptable development profit

Source: SQW analysis

8.27 There is an even wider range of variables within the office sector than there is in the industrial sector. This reflects the difference between the products available (ranging from Grade A accommodation in Cardiff city centre to business parks to secondary town centres in which office space is more likely to be dated, above retail premises, etc.):

- **Rental levels** range from around £6.00psf to over £22psf, with evidence of higher transactions in some locations[91].
- **Investment yields** (attributable to this range of transactions), are again extremely varied, and even more dependent than industrial on location, type/ age of premises, and strength of covenant/ lease terms secured. Yields range from 6.5%/ 7% (for a good quality property, in a prime city centre location and with reasonable covenant strength) to 12%, for poor quality floorspace/ locations and weak covenant strength.
- For **build cost**, the latest BCIS data[92] again reflects a wide range of geographic and other differences (as above), for up to two storey offices, resulting in a very broad range of construction figures, with average median levels around £145psf. However, lowest and highest deciles can be some 40% to 50% or more, above or below this figure. Anecdotally we have been informed that in many places, this median figure would probably be exceeded. We have therefore adopted a new build construction range for offices of between £140psf and £155psf, in order to reflect the above sentiments.

8.28 Factors kept constant include an allowance for rental voids (set at an average period of 6 months, which allows staged letting over 12 months), a developer's profit at 15%, professional fees at some 8% and finance costs at 5%.

8.29 The appraisals demonstrate that **in all cases, where broadly "affordable" rental levels are used, schemes are not viable**. There is a "tipping point" however, where rentals approach £20psf and good yield levels are achieved (around 6.5%) to reflect strong letting covenants. **In the case of Cardiff, as the market suggests, it is certainly possible to develop viably, due to city centre rents for quality space being in excess to £20psf, and with good yield prospects**.

8.30 Elsewhere, the scale of 'non-viability' varies considerably, from schemes in poor locations, with low rental levels and poor yields, producing negative figures in the £3m to £4m band. These are not reflective of new build scenarios, as the level of rents produced by the analysis would not reflect the 'going rate' for a modern property in these locations, so the deficits showing are exaggerated. Schemes with rental levels between £14 psf and £16 psf more realistically show the letting scenario for modern offices in these areas - but even so, negative returns are running in the range of up to £1 million.

8.31 This is again reasonably consistent with the results of our consultations and analysis, which suggests that **with the exception of locations such as Cardiff and parts of the North East, it is extremely difficult for any developer to construct new, speculative office premises**, without a good pre-let at a high rental level, and control over the land and other key variables.

[91] As described earlier, this variation in data also partly reflects the number of transactions reported by EGi and CoStar.
[92] BCIS is a source of building cost information data maintained by the RICS and widely used in the construction and property industry. See https://www.rics.org/uk/products/data-products/.

Hybrid units

8.32 The office appraisals above have been undertaken assuming a high-quality product, designed to traditional office standards and reflecting the type of premises developed over the last 10-15 years. **Recent years have however seen a fundamental movement in the type and location of premises that are seen as acceptable for office purposes**. This includes 'hybrid' units, constructed to a 'mid-range' specification, which can be used for a range of purposes, including offices, as well as desktop assembly and other workspace uses.

8.33 The construction costs of such accommodation are considerably below the high-grade office specification. We have therefore run a series of generic appraisals for a product in a 'non-city centre' location, using the more achievable office rental levels around the country, together with indicative BCIS costs for a mixed-use building specification, but with the other assumptions remaining as above:

- With a yield of 8% and rental levels between £10psf and £14.50psf, appraisals are negative, however at rent of £14.50 psf, the scheme is approaching viability.
- Assuming a better tenant covenant (and therefore an improved yield of 6%), and a mid-range rental of £12psf, the appraisal produces a positive land value of nearly £270,000. This demonstrates, that in the right circumstances, such a product could potentially achieve viability, and be attractive to the private sector.

Land

8.34 While the analysis in this chapter has mainly focused on office and industrial premises, access to developable land supported by infrastructure is critical. However, landowners are often reluctant to release land for employment development and the employment land supply is sometimes distorted by sites that have been allocated for some time, but which have proved very difficult to bring forward[93]. Ensuring that there is a developable portfolio of land is likely to be an important element of future strategy.

Conclusions

8.35 Reflecting the market analysis in Part 2, there are widespread challenges in bringing forward commercial property. Many of these are common throughout the UK, although are particularly acute in most of Wales, outside parts of the South East and North East. This demonstrates the need for public sector intervention, although as the series of baseline appraisals demonstrates, it is possible to bring some schemes close to viability (and in the case of the Cardiff office market, development clearly appears commercially viable).

8.36 In the light of the demonstrated case for intervention, Chapter 9 considers the potential scale of the Welsh Government's potential intervention in the market.

[93] This point was highlighted in consultation by local authority representatives as well as developers and agents.

9. The scale of intervention

Summary

- Based on the demand evidence cited earlier in this report and the baseline appraisals set out in Chapter 8, we have estimated a potential 'need' for public sector intervention to help bring forward at least 900,000 sq ft of commercial floorspace over a rolling three-year period. This should be seen as an indicative 'planning assumption', rather than an intervention target.
- To bring this forward, there is a strong case for a continual Welsh Government presence in the market, particularly in ensuring a supply of good quality developable land.

Introduction

9.1 Previous chapters have demonstrated that there is a need for new commercial floorspace, but supply is constrained and an appraisal of office and industrial developments in a range of locations demonstrates widespread deficits. In that context, there is a strong argument for intervention by the Welsh Government (and the public sector generally).

9.2 This chapter considers the potential **scale of intervention** that the Welsh Government and other public sector partners may wish to plan for in quantitative terms, building on the earlier market analysis. It also considers the concept of maintaining a 'float' of commercial property to support the market on an ongoing basis.

Identifying the potential scale of intervention

Floorspace quantum

9.3 To estimate the quantum of floorspace that the Welsh Government may need to bring forward in the absence of market delivery, we considered the total employment forecast-based 'requirement' outlined in Chapter 4 against the series of baseline appraisals described in Chapter 8. These took rental, yield and build cost information for a series of indicative 'standard' schemes in each local authority area across Wales using EGi and CoStar data to assess likely viability. Based on the baseline appraisals, we assigned a notional 'intervention factor' for office and industrial schemes on a range of 0 to 1 (where 1 reflects significant non-viability and assumes that no development is likely without intervention, to 0 where it is assumed that the market is functioning). The appraisal-based factors were then adjusted based on the stakeholder commentary (and employment land review and other information) considered as part of this research. Further detail on the approach used, including the assumed intervention factors, is set out in Annex C.

9.4 The intervention factor was then applied to the projected total floorspace requirement derived from each estimate of employment growth to yield an indicative level of potential demand that Welsh Government/ public sector intervention *could* be required to bring forward. This is set out in the table below, assuming a three-year rolling programme of intervention (based on the time required to bring new sites forward and the need to stay ahead of demand):

Table 9-1: Indicative public sector intervention planning assumption over 3-year rolling programme

	Based on 2009-18 data	Based on 1996-2018 data
South East Wales	745,000	329,000
South West and Mid Wales	837,000	340,000
North Wales	790,000	231,000
Wales	**2,373,000**	**900,000**

Source: SQW

9.5 As set out in Section 4, taking the more conservative estimate, gives a planning assumption that Welsh Government intervention could be required to bring forward **at least 900,000 sq ft** over a three-year period (equivalent to at least 300,000 sq ft per year). This is relatively evenly distributed across the three regions and includes both office and industrial floorspace: although the volume of economic activity and employment is substantially greater in South East Wales than elsewhere, the intervention factors used above assume that most development in Cardiff, and much of that in Newport, Monmouthshire and the Vale of Glamorgan, will be brought forward without intervention (although there will be individual schemes relating to specific investment propositions in these locations that present a strong economic case for public intervention and should be considered as appropriate).

Land requirement

9.6 Adopting the conservative estimates set out above, we assume an approximate land requirement of one acre to 25,000 sq ft of development (based on an average development density). This translates into a need to enable (through acquisition where land is not already in public ownership, infrastructure provision and the other measures outlined in the report) a supply of some 36 acres of good quality, developable land, over a rolling three year period. This is broken down regionally in Table 9-2, although it should be noted that the provision of regionally significant strategic sites will generally come in much larger packages.

9.7 In practice, and given the lead-in period to acquire suitable land, obtain planning and resolve on and off-site infrastructure issues, **consideration should be given to a five year forward programme of land holdings**, to meet the need for advance floorspace, in order to meet any likely changes in demand and market conditions:

Table 9-2: Indicative rolling developable land requirement (acres), based on long-term trend

	3 year requirement	5 year requirement
North Wales	9	15
South West & Mid Wales	14	23
South East Wales	13	22
Wales	36	60

Source: SQW

Keeping track of the planning assumptions

9.8 As with the estimated 'demand' figures in Chapter 4, the planning assumptions for Welsh Government/ public sector intervention should be regarded as highly indicative:

- As the analysis in this report demonstrates, **'need' and 'demand' is often locally-specific and related to quality and type as much as quantity**. The locational recommendations at the end of Chapters 5-7 set out in broad terms where, and on what type of property, intervention should be focused: this is largely comparable with the recommendations made in the previous reports on property market interventions prepared in 2014 and 2017, but should be kept under review
- The intervention planning quantum above is based on net employment growth. However, it is likely that **much economic activity is accommodated in property that is sub-optimal for modern business requirements** and is therefore likely to generate demand for floorspace that is not necessarily associated with job growth. This issue was widely cited in consultation, and is likely to have a negative impact on productivity within the existing business base
- **Maintaining a clear view of recent and planned delivery and monitoring future employment (and floorspace) projections will be important**, if the accommodation requirements of businesses are to be met. In that regard, consistent information from local planning authorities would be helpful, and there could be a case for commissioning bespoke econometric forecasts linked with future land and floorspace requirements. This would help to inform more robust estimates of demand and future intervention need, and could also be used by local planning authorities to inform the employment land review process.

The case for maintaining a 'float' of commercial property

9.9 A specific consideration in the brief for this study was **the extent to which the Welsh Government should seek to maintain a 'float' of commercial property** available to the market. The rationale for this is that in conditions of widespread under-supply and challenging viability, new supply (where it is of the right quality and in the right location) is likely to be rapidly taken up, with little ready stock remaining available for occupation, to attract new investors or enable churn in the market. At the same time, if the public sector exits the market, it can be difficult to re-enter at a later date.

9.10 There is therefore a strong argument for a continual active market presence. Identifying an 'optimum' quantum of advance floorspace that the public sector should hold at any given time is challenging, given the location and quality factors highlighted earlier. However:

- A critical part of any strategy will be the public retention or **provision of suitable development land** (complete with the necessary , planning framework, on and off-site infrastructure and ready for development) to ensure that premises can be brought forward speedily and at the right time. **A 'land strategy', should be an integral part of the 'float' arrangements**, potentially looking at a three to five year forward, rolling supply, of sites, suitably located and of the right quality to deliver the range of advance accommodation required**.** In this context, a joint approach to strategic site prioritisation and infrastructure funding will be important, working with the City Deal/ Growth Deal partnerships and local planning authorities as appropriate

- In terms of premises, there should ideally always **be one year's worth of demand, available for occupation at any time** (i.e. around 300,000 sq ft, taking the conservative demand assumptions into account). This should be considered on a regional basis, and "distributed" to reflect the balance between industrial and office demand, the scale of floorspace to meet business needs (small and larger units), and the locational requirements (town centre, edge of town, out of town, good connections, etc., highlighted in the market analysis).
- Part of the reason for maintaining a 'float' of commercial property owned by the public sector is to enable **churn within the market**. As the regional market analysis demonstrates, in many cases, firms' ability to expand is stymied by a lack of suitable grow-on space; in turn, this limits the availability of space for new entrants. There is clearly a balance to be struck between maintaining an element of spare capacity to accommodate churn, while ensuring sufficient rental receipts (and on an individual scheme, maintaining sufficient occupancy to ensure an attractive and vibrant business location).
- The **ability to reinvest** will also be important in maintaining an ongoing market presence. Options such as the creation of an asset-backed development vehicle, considered in the next chapter, could be important to the 'float' concept, enabling a long-term return to the Welsh Government (and potentially local and regional partners) alongside long-term market engagement.

9.11 In parallel with the public "float" priorities set out above, achieving levels of delivery in line with the planning assumptions above will also involve a range of measures focused where possible on enabling the private sector to bring forward delivery with the minimal amount of intervention possible. The next chapter sets these out and considers the circumstances in which they would be most relevant.

10. Options for intervention

Summary

- A range of potential intervention options are available to the public sector. Based on the principle that the aim of intervention should be to encourage the private development of a commercial market where possible, we have run a series of development appraisals to identify where a site-specific intervention can help to turn a negative appraisal positive.
- Alongside these site-specific interventions, a series of 'strategic' intervention options include the establishment of a National Development Fund, Development Partner Panel and public sector land portfolio, with the option of full public sector funding in those cases where no form of subsidy will make commercial delivery realistically viable, despite economic and social need.
- Across all these options, a 'shared' approach with the local authorities and regions will be important, as will the maintenance of a strong pool of development expertise

Introduction

10.1 There are several options that the Welsh Government could pursue to bring forward the level of additional development highlighted in Chapter 9, including, but not limited to, direct ownership and investment. This chapter considers these further and is structured in four sections:

- First, it sets out the **range of different types of intervention** that the public sector could take to bring forward development where the market is unable to act alone. To illustrate how effective these could be in the Welsh context, it presents the results of some indicative appraisals, demonstrating the level of intervention that would be needed to turn a development appraisal positive.
- The second section builds on this, by outlining a series of **options for intervention** at **scheme/ site-specific and strategic levels** – some or all of which could form part of the Welsh Government's Property Delivery Plan.
- The third section sets out some wider **partnership and delivery considerations** that will underpin a programme of intervention.
- Finally, the fourth section summarises the **potential benefits and impacts** that a programme of intervention in the commercial property market could support.

A typology of interventions

10.2 There are several ways in which the public sector could (in principle) intervene in the market to increase the prospects of delivery. These include measures to **reduce risks** to developers, **reduce direct costs**, **reduce timescales** (and therefore uncertainty and exposure to holding costs) and **support land supply**.

10.3 A broad 'menu' of options is set out in the table below. The practicality of each of these will depend on the market context and on state aid and other considerations, set out in greater detail later in this chapter:

Table 10-1: Potential public-sector interventions

Aim	Action	Description
Reduce risks	Reduce risk of void periods and letting uncertainty	Securing a head lease (including direct public sector occupancy) on all or parts of the space, for a specific timescale
	Deliver on and off-site issues	Contributing to/ delivery of infrastructure, utilities, s106 requirements, etc
	Deliver on-site issues	Contributing to/ delivery of decontamination works, utility diversions, protected species, sustainable urban drainage, other abnormals, etc.
	Reduce market risks	Longer term head lease arrangements, to provide developer with increased certainty to overcome variable rental levels, unknown demand, long initial rental voids or rent-free periods, poor covenant strength, or demand for more flexible lease terms (e.g. short-term leases, no indexed reviews, early get-out clauses, etc.)
	Advance planning consents	Negotiation of appropriate planning conditions
Reduce direct costs	Reduce land cost	Procuring a development partner on a competitive basis to deliver a scheme in line with planning consent (note that this does not imply measures to subsidise land purchase costs; rather, the use of mechanisms to ensure that land costs reflect eventual use values
	De-risk site infrastructure costs	Funding part or all of the infrastructure costs through grant
	Improve access to/ affordability of finance	Providing development funding loans (either on commercial terms or with an element of state aid)
	Reduce uncertainty over long-term costs	Reducing empty property rates, etc; for example through specific business rate exemptions (e.g. local Enterprise Zone schemes)
Reduce timescales timing uncertainty	Reduce planning uncertainty	Introducing accelerated approval timescales/ processing periods
	Defer payments	Deferring land payment commitments until lettings have been achieved
Support land supply	Utilise public land	Making available public land on market terms or with an element of state aid to meet the viability needs of a defined employment use (site by site or across a portfolio)
	Acquire land	Acquiring land and subsequently making this available to private developers following an open procurement process (on a site by site basis or as a portfolio)
	Facilitate land swaps	Negotiating land acquisitions, to enable existing companies to move to new premises and accommodate their growth plans. This is more of a direct business support intervention, rather than one focused on the supply of commercial property as 'infrastructure'. However, it is potentially a vital component of any strategy, to achieve business growth within a region (or in Wales generally), by helping them to move into new/

Aim	Action	Description
		expanded premises, whilst at the same time finding a solution for their existing premises
Modernise the existing stock	Purchase and refurbishment of obsolete stock	Acquiring obsolete industrial (and office) premises that no longer meet modern requirements and 'recycling' them for alternative use. As well as providing 'new' facilities, this could reduce the overhang of secondary stock and yield environmental benefits.

Source: SQW

Turning a development appraisal positive: Understanding the potential impact of intervention

10.4 To help understand the impact of these different intervention options, we have re-run a number of generic appraisals. These used the same appraisal methodology described in Chapter 8, to ensure a robust comparison and to understand the nature and magnitude of intervention that would be required to turn the appraisal positive.

10.5 The appraisals undertaken are all based on industrial schemes and assume:

- A **'low viability'** scheme (low rent, weak yield)
- A **'medium viability'** scheme (reasonable rental levels and yield)
- A **'high viability'** scheme (relatively) (with good rental levels, and a reasonable yield).

10.6 To understand the levels of intervention required to produce a reasonable residual land value, a number of variables have been changed, linked with specific public sector interventions:

- For the **high viability** scheme, the rental level remains the same. However, **it is proposed that this will be supported by the public sector** (for example through short-term subsidy on state aid terms or limited public sector occupancy), which will result in an improved yield, no need for a rental void allowance, and a lower developer's profit (as the developer risk will be significantly reduced by the initial rent guarantee). This will produce a positive land value, at a level which it is believed would encourage a sale by the landowner.
- For the **medium viability** scheme, the intervention option sees the rental level increased, on the basis of a **long term public sector occupancy or head lease arrangement, with a view to seeking to raise rental levels generally in the area**. This will result in an improved yield, no need for a rental void allowance, and a lower developer's profit (as again the developer risk will be significantly reduced by the long-term guarantee/ head lease). This will produce a positive land value, again at a level which it is believed would encourage a sale by the landowner.
- For the **low viability** scheme, all the intervention factors adopted in the mid-range scenario have been applied here. However, this still does not achieve a viable development and a positive residual land value. **Further intervention methods are therefore required, which could entail a range of those set out above – covering some of the on-site/ off-site costs, providing some form of 'gap funding' (or making a joint venture investment in the scheme), providing a development**

loan at a preferred rate, etc. For the purposes of this appraisal we have shown this public sector contribution as £500k, which provides a view as to the scale of intervention required in such schemes (or low value locations), to turn the residual land value positive.

10.7 The results of these appraisals are set out in the table below:

Table 10-2: Indicative industrial appraisal results, with intervention options

DEVELOPMENT TYPE	Typical Low Performing Industrial	Typical Low Performing Industrial - Intervention Option	Typical Mid-Range Performing Industrial	Typical Mid-Range Performing Industrial - intervention option	Typical High Performing Industrial	Typical High Performing Industrial - Intervention Option
Rent £	4.50	6.00	6.00	7.50	8.50	8.50
Construction	BCIS Median (Advance factories)	BCIS Median (Advance factories)	BCIS Median (Advance factories)	BCIS Median (Advance factories)	BCIS Median (Advance factories)	BCIS Median (Advance factories)
Net Rent £	107,811	143,748	143,748	179,685	203,643	203,643
Yield	10.0%	6.0%	7.5%	5.5%	7.5%	6.3%
Rent Free / Void (months)	6.0	0.0	6.0	0.0	6.0	0.0
GROSS DEVELOPMENT VALUE £	7,940,939	2,984,124	2,366,719	3,087,025	1,577,465	3,154,930
Construction Cost - Rate £ psf	72.84	72.84	72.84	72.84	72.84	72.84
Developer Profit Commercial (on cost)	15.00%	10.00%	15.00%	10.00%	15.00%	12.50%
PUBLIC CONTRIBUTION TO COSTS		500,000				
TOTAL COSTS £	2,768,851	2,192,057	2,783,499	2,707,438	2,799,259	2,758,837
RESIDUAL LAND VALUE £	**-1,800,534**	**64,786**	**-1,042,144**	**370,076**	**-332,340**	**310,470**

Source: SQW

10.8 Whilst the appraisals described above adjusted certain criteria to overcome the appraisal deficits, there are several other variables which could also be targeted to persuade a developer to bring forward a scheme.

Options for intervention

'Site specific' options

10.9 Based on these indicative appraisals and the 'menu' of general intervention types, we have identified a number of common barriers to development and the measures that the Welsh Government (and the public sector generally) could take to resolve them to ensure that development occurs. The table below reviews these options, 'grading' them in accordance with a scale of magnitude from a fully viable proposition that a private developer should be well able to deliver at the one end, to an unviable scheme at the other, where there is a clear market failure and no private interest:

Table 10-3: Potential public sector intervention, by viability position

Barriers to development/ viability position	Public sector intervention
Developments where the scheme is **close to being viable / deliverable by the private sector** with no direct financial intervention required from the Public Sector	• Public sector maintains enquiries and demand analysis/ database • Planning protocols to be better developed; promoted for particular sites; • Key site information/ database to be developed to aid developers • Provision of finance on commercial terms (e.g. through Development Bank of Wales) to assist smaller developers

Barriers to development/ viability position	**Public sector intervention**
Sites / developments where the private sector needs to overcome key **market risk** factors	• Public sector lease or rent - fixed sum and length • Business rate exemption initiatives on certain sites
Developments which need to close a low level **financial gap** in the appraisal (say <20% of overall cost) through 'non-equity' public support, in order to move the development appraisal from negative to positive (capital or revenue)	• Bring forward public sector sites • WG or local authorities acquire sites at existing use value and offer to developers at economic value • Negotiation of Section 106/ planning conditions • Public sector fund elements of infrastructure provision
Developments which need to close a more significant (medium level) **financial gap** in the appraisal (say <35% of overall cost) through financial support and potentially some "risk" taking by the public sector (non-equity), in order to achieve a viable development appraisal with acceptable levels of risk	• Public development loan funding (or a combination of loan and Property Development Grant aid) • Public funding of key infrastructure components
Developments which need a **significant element of public sector funding** (up to say 50% of overall cost), which would suggest some form of joint venture and equity stake in the development – to reflect the level of investment to be made	• Public sector head lease on specific floorspace • Public investment in key strategic infrastructure and other development costs - structured through an equity-based joint venture, special purpose vehicle or equivalent • Public funding of key infrastructure components
Developments which need **the public sector to take such a major stake in the scheme,** that it is not worth involving the private sector at all - 100% direct public sector funding	• Public sector, direct development role (land acquisition, planning, construction, letting and management)

Source: SQW

Strategic options

10.10 In addition to the broadly site-specific interventions described above, there are a number of intervention approaches that could be considered, alongside the concept of a 'float' discussed in Chapter 9. These will require further investigation and detailed business case development, but include:

Establishing, and extending, a national development fund

10.11 This would involve a combination of public sector investments (from the Welsh Government, ERDF or – when they are determined – its successor arrangements, and potentially regional and local partners), creating the funding required to undertake a number of schemes (with key criteria and objectives agreed by the partners), and with returns recycled into the Fund for reinvestment into future schemes.

10.12 There are proposals for a scheme along these lines in Scotland (for which the current Building Scotland Fund is intended as a precursor: further details are set out in Annex A). Potentially, a national development fund could combine finance on both commercial terms and state aid, building on the experience of recent Property Development Grant schemes and the commercial property loan product offered by the Development Bank of Wales. A national fund could potentially also be structured regionally, to take account of the emerging regional strategies, and provide an opportunity for co-investment by (for example) local authorities, while enjoying the benefits of 'scale'[94].

10.13 Currently, Property Development Grant is offered on a 'site neutral' basis, within the eligible West Wales and the Valleys area. However, a national development fund could, as part of its remit, help to drive development in specific strategic locations, where this is also supported by infrastructure investment activity (for example, on 'new' sites recognised in regional strategy as of regional importance, or on strategic industrial estates that have become fragmented and where the ageing stock presents a long term challenge to company retention[95].

Making available a portfolio of public land

10.14 This might include land within the current ownership of the Welsh Government or local authorities, or land acquired for this purpose, to be de-risked through infrastructure investment to meet the viability needs of a defined employment use. The portfolio (possibly structured regionally) could then be marketed on a competitive basis and with a preferred 'development partner' ultimately being selected on both commercial and deliverability criteria.

10.15 It is worth noting in this context that the Welsh Government currently has an extensive portfolio of economic assets (both land and premises), although these are not easily catalogued: the current database of property holdings includes several sites that are designated for residential development, or which have no likely economic use. It would be helpful to establish a clear 'directory' of commercial property sites, which can be used as a basis for discussions with regional partners (and potentially commercial investors) alongside assets held by the local authorities and other public sector agencies.

Establishing a Development Partner Panel

10.16 This would involve the identification of employment development opportunities, which can be placed (either individually or in groups) with selected, pre-procured development partners that would be interested in forming joint ventures or special purpose vehicles.

Part direct investment

10.17 This could be arranged by the Welsh Government for a specific initiative, or across a number of sites. The remaining investor in such proposals could be a developer(s), a local authority (or group of local authorities), an end occupier, or a property investor, looking to share the risk on the ultimate scheme. Such arrangements could entail sharing the risk through a joint venture or creating a 'blended' portfolio for development with a private partner.

Full direct investment

10.18 As above, this could involve the Welsh Government covering both land and/or infrastructure investment, alongside the construction of the ultimately required floorspace, securing loans

[94] Noting that some local authorities operate Property Development Grant schemes, albeit on a generally modest scale
[95] For example, in consultation, locations such as Rassau and Bridgend Industrial Estate were cited in this context

or bonds on the strength of future returns/ receipts, future development value and future business rates.

Asset Backed Development Vehicle

10.19 A general principle that has underpinned the Welsh Government's intervention in the commercial property market in recent years has been that development should be taken forward by the market where possible, with intervention a response to specific market failures[96]. However, **the development appraisal evidence is that in many parts of Wales, 'market failure' is widespread**, and that the delivery of commercial space by the private sector is, in some places, impossible. This presents challenges for all the above strategic options, given that:

- Prevailing state aid rules limit the amount of grant aid that can be provided to private developers. Both public sector and commercial consultees indicated that maximum grant levels are often insufficient to bridge the viability gap. The available grant pot is also limited and obviously non-recoverable (at least directly)
- Options involving public sector investment on commercial terms, or the provision of commercial finance, or time-limited public sector leases may provide sufficient confidence to the market to bring forward developments that are otherwise viable – but as the options menu above illustrates, they will not themselves bridge the viability gap
- Direct delivery is likely to be a high-cost option where it is limited to non-viable schemes.

10.20 However, **an Asset-Backed Development Vehicle could provide an opportunity to spread risk across a portfolio of commercial developments of different types and different locations**, with the aim of achieving a return to the Welsh Government over the long term, while bringing forward sites that would not otherwise be viable.

10.21 There are several ways in which and Asset-Backed Vehicle could be structured: an entity directly controlled by the Welsh Government; a public sector vehicle jointly controlled by the Welsh Government and regional partners; or an entity controlled by the Welsh Government and a selected private sector development partner. The Vehicle would be mandated to deliver a range of development types across a portfolio of sites (which may or may not be specifically defined at the start of the process), and would be structured with a pre-determined mechanism to work out how developments are to be appraised and how the return to the Welsh Government is to be calculated. The mechanism would also set out how the Welsh Government would secure a return from the development, as well as how the portfolio would be managed over its lifetime.

10.22 In the short term, creating a national or regional Asset-Backed Vehicle is likely to be a 'higher-cost' option (at least compared with, for example, operating a grant scheme or committing to lease agreements). However, if structured effectively, it could offer a long-term return as well as supporting the delivery of a range of sites, and would present an opportunity to maintain the quality of (and ensure reinvestment in) the commercial estate. Given the market analysis

[96] Although intervention is also opportunity-driven (for example in the case of St Athan)

set out earlier in this report, regional Asset-Backed Vehicles reliant on commercial property holdings and seeking to operate across the region are unlikely to be sustainable in South West and Mid Wales or North Wales (although a national ABV could be viable, as could a regional solution in South East Wales).

Partnership and delivery considerations

10.23 In taking forward the site-specific and 'strategic' options set out above, a number of wider partnership and delivery considerations are important to take into account, relating to **partnership alignment, expertise, funding availability** and **state aid**. The following paragraphs take each of these in turn.

Partnership alignment

10.24 Across all these potential channels for intervention, it is worth noting that **there is an alignment between the strategic role of the Welsh Government (as set out in the Economic Action Plan) and the priorities of local partners**. All of the City Deal/ Growth Deal partnerships have highlighted action to increase the supply of employment land within their strategies (although proposed approaches vary somewhat)[97]. The local authorities also recognise the challenge, although practical ability to intervene varies substantially depending on the extent to which they retain control of land and premises, and the extent of the prevailing viability gap.

10.25 In the light of these multiple (but compatible) interests, there was a view from consultees as part of this study that the approach to commercial property development is fragmented. A series of **shared regional strategies**, linking Welsh Government and City Deal/ Growth Deal objectives and the range of regional intervention mechanisms could be helpful in progressing the more proactive approach outlined in the Economic Action Plan.

Maintaining expertise

10.26 To deliver the ambitions of the Economic Action Plan, the Welsh Government will want to ensure that it has access to a range of development skills. Given the scale, scope and importance of this agenda, experience demonstrates that it needs a team of dedicated and experienced resources, relying on individuals who have a good level of skill and experience in the commercial development market.

10.27 The range of tasks involved will need to cover spotting and appraising opportunities, negotiating deals, providing the link with developers and landowners, running the development process through delivery and letting/ sale and ensuring best value to the public sector. Given pressures on public resources, and the added value that is likely to be generated from joint working across the public sector, there may be an opportunity for shared resources at national, regional and local levels, although this will require careful management.

[97] For example, Cardiff City Region City Deal has based its activities to date on an 'investment' approach, with the intention of securing a financial return to the public sector over time (CCRCD's current major investment in the IQE facility at Newport is essentially a property market intervention based on these principles; the North Wales land and property interventions programme also proposes a joint venture approach)

Funding availability

10.28 Obviously, the Welsh Government's scope for intervention is linked with the availability of funding. Since the last Property Delivery Plan was prepared, public sector finances have been under pressure: while the Economic Action Plan sets out an ambitious intent to increase the Welsh Government's activity in the commercial property market, several consultees noted that resources have made this challenging in recent years. At the same time, as Chapter 2 sets out, European funding has been important in recent decades, and the form that the Shared Prosperity Fund will take is as yet unclear. In that context, there may be value in considering non-grant-based intervention options, such as the Asset-Backed Vehicle approach described above.

State aid

10.29 Several of the options set out above involve the provision of state aid. While it is not yet clear what the state aid rules will be following the end of the transition period after Brexit, it is likely that state aid will continue to be tightly regulated (and for the time being, the European Union rules apply).

10.30 For Property Development Grant schemes, the rules are clearly set out and apply a maximum intervention rate (typically between 25% and 45% depending on the size of the beneficiary in West Wales and the Valleys, where higher levels of aid intensity are obtainable)[98]. Rental guarantees also constitute state aid to the extent that they effectively provide grant aid to the beneficiary in the event that tenants able to pay a commercial rent cannot be found (however, a straightforward public sector lease may not constitute state aid if it is concluded on market terms).

10.31 However, where the public sector is looking to promote the development of a particular scheme (or portfolio of schemes) on land owned or controlled by the public sector, through some form of "intervention" (including the taking of a head lease or other "underwriting mechanisms"), the European Commission's Guidance on the Notion of State Aid document indicates that: *"when public bodies sell assets, goods and services, the only relevant criterion for selecting the buyer should be the highest price, also taking into account the requested contractual arrangements (for example the vendor's sales guarantee or other post-sale commitments). Only credible and binding offers should be considered"[99].*

10.32 In these circumstances, the "development opportunity" (specified in some detail as to type, form etc) could be placed via a public procurement process, requesting all developers interested in the opportunity to submit their "best offer" – reflecting what they would be prepared to offer, or alternatively the least support they would be prepared to accept – in order to deliver the proposals. The assumption is that a public procurement can be regarded as a valid mechanism for benchmarking the price as being in line with market rates, subject to it operating as a fully transparent, non–discriminatory process and free from any special obligations for the benefit of the authority. The European Commission has stated that this will

[98] BEIS (2015), *State Aid Manual* (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/607691/bis-15-148-state-aid-manual-update.pdf)

[99] European Commission (2016), *Guidance on the Notion of State Aid* (https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.C_.2016.262.01.0001.01.ENG&toc=OJ:C:2016:262:TOC)

generally be assumed to be the case[100]. However, any proposed interventions will clearly need to be subject to a detailed analysis of their state aid implications.

Intervention benefits and impacts

10.33 Linked with any interventions, the 'returns' that the Welsh Government is likely to achieve as a result of its involvement in the delivery of more or better quality employment land and floorspace will need to be considered as part of its justification for investment.

10.34 At the simplest level, any such activity is seeking to both secure current economic activities, as well as to produce growth in indigenous companies, create start-ups and secure new inward investment into the country from elsewhere (jobs, GVA, improved skills etc). In line with the ambitions of the Economic Action Plan (and the economic analysis set out earlier in this report), we anticipate that the focus of activity should be on driving up the *sustainability, value and quality* of the Welsh employment base, rather than (just) aggregate job creation.

10.35 Where a financial investment is to be made, the Welsh Government will also want to consider whether it is likely to recoup such investment, or alternatively to establish an income stream, that will provide an acceptable return on both internal funds, and any funds sourced through loans etc. A further consideration will be whether such investment is able to generate other sources of income, for example longer term Business Rates, and how that is "scored" in terms of an overall return on investment.

10.36 More broadly, any commercial property market interventions will need to be considered in the light of the Wellbeing of Future Generations Act. A high-level assessment of the *potential* impacts of additional commercial property intervention is set out in Annex E.

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[100] Where the tender procedure in question complies in full with the requirements of the Public Procurement Directives **and** the process operates to put significant weight on the price component of the bids

Annexes

Annex A: Learning from elsewhere: Strategic approaches

Summary

Governments often intervene in the commercial property market, as part of a suite of economic development activities. In the UK, there has in recent years been a retreat from direct provision by Government agencies towards an approach focused on subsidising/ incentivising the private sector and on specific, often sector-focused interventions. However, the challenge of ageing stock and limited supply to meet demand, especially in the industrial sector, is common across much of the UK.

A brief review of approaches in three other countries – Ireland, Germany and the United States – indicates significant diversity, from direct government involvement in the market to a more industry-led approach, linked with each country's economic and political structure.

Introduction

A.1 Governments frequently intervene in the commercial property market, either to provide 'infrastructure' to industry or to help unlock private sector delivery. This annex reviews seven comparator nations (and regions within them), taking into consideration areas with similar devolved governance arrangements and areas that experience some similar challenges and opportunities to those in Wales. It looks first at Northern Ireland and Scotland, the most direct comparators to Wales in terms of governance structures, before considering the picture in England with a focus on a number of Local Enterprise Partnership and Combined Authority areas. It then considers three international comparators, in the Republic of Ireland and regions in Germany and the United States.

Northern Ireland

Market context

A.2 Northern Ireland was badly hit by the 2008/09 recession and its aftermath, and recovery was slower than in Wales: the number of jobs in Northern Ireland did not recover to pre-recession levels until 2016. Low productivity is a significant challenge: although the province's overall productivity (£47,458 per filled job) was somewhat higher than that of Wales in 2017, this is heavily skewed by Belfast: productivity levels are very low in parts of the centre and west and there is a much higher economic inactivity rate than the rest of the UK.

A.3 Recent reports indicate *"market failures across the commercial property market".* In respect of office development, these include a lack of commercial viability, risk aversion and an 'information market failure' where developers are unaware of existing demand. In relation to industrial, key market failures are cited as viability and limited, *ad hoc* demand, with significant regional variations in demand. The nature of demand for industrial space also appears to have changed in recent years, with demand increasingly coming from indigenous businesses, rather than inward investors (with inward investment demand increasingly office and service sector-based)[101].

Policy

A.4 The Northern Ireland Executive has an active role in economic development, and historically, there has been a strong role for government intervention. Recently, there has been a particular focus on supporting innovation and exports, with property interventions characterised as *"a small part of a wider suite of interventions focused directly on business performance"*[102].

A.5 The primary responsibility for delivering the Executive's economic development activities is held by **Invest NI**, which provides business support, innovation activities, inward investment services and 'economic infrastructure' (i.e. land and property) interventions. Invest NI's current Business Strategy focuses activities on support to 'account-managed companies' (i.e. larger businesses with which Invest NI wishes to maintain an ongoing and more consultative relationship); sectors in which Northern Ireland has strengths; and markets (primarily trade and export support).

Property market intervention

A.6 As well as providing property market information and contributing to planning policy, Invest NI operates a range of direct property market interventions, in the form of site acquisition and sale, grant and loan funding and a residual stock of properties for rent.

Purchase, holding and sale of serviced sites to qualifying businesses

A.7 This is the largest of Invest NI's intervention 'programmes'. It involves land acquisition and enabling works to bring forward industrial estates and business parks, and the sale of plots to 'qualifying businesses' (i.e. Invest NI's account managed firms). The objective is to ensure that there is sufficient land for firms to move into across Northern Ireland, and Invest NI's portfolio is widely distributed around the region. However, it appears that the focus of the intervention has changed over time: while part of the original rationale for the intervention was to provide sites for major inward investors (typically in manufacturing), there are now fewer leads from these type of occupiers, and the focus is now mainly on facilitating the expansion of existing businesses, mainly close to their existing areas of operation.

A.8 In 2018, Invest NI held 2,831 acres of land, of which 647 acres (across 42 industrial estates) was available for account managed firms to purchase. Most of the current landholding is the legacy of Invest NI's predecessor organisations (principally the Industrial Development Board); no new acquisitions have been made since 2011. Sites are sold to account managed firms (and sometimes to other 'growth potential' firms on an exceptional basis) at market prices, with purchasing firms required to prepare business plans setting out their growth aspirations and potential. Sites are sold leasehold[103], with Invest NI retaining the freehold to control use and maintain standards with the purchaser required to complete build within 18

[101] RSM McClure Watters (2014), *Property Research;* Invest NI [SQW] (2018), *Evaluation of Invest NI's Suite of Property Interventions*

[102] Invest NI [SQW] (2018), *Evaluation of Invest NI's Suite of Property Interventions*, p.7

[103] Except when the entire estate is sold

months of acquisition and re-sale requiring the approval of Invest NI. Recent evaluation indicated that take-up of serviced plots had been below expectations since 2009, although demand appears to vary substantially between regions. Sales to the value of c.£8 million were recorded between 2009/10 and 2016/17.

A.9 Although set out here as a 'programme', site purchase and sale is perhaps more of a 'policy', given the limited number of new acquisitions and the bespoke objectives (over and above ensuring a supply of land) that apply to each site.

Rental Property Solutions

A.10 Invest NI also owns a small portfolio of commercial (mostly industrial) properties, rented to occupiers at commercial rates. In 2018, Invest NI owned 23 units, mostly around Belfast. The current holdings are essentially a legacy from the former Industrial Development Board, which at one time owned millions of square feet of space, and disposed of most of this to commercial property management companies in the 1990s. Essentially, the holding of rental stock is a 'residual' activity: costs to Invest NI are low (annual staff costs of less than £1 million), no new construction has taken place for years, and Invest NI is gradually winding down the intervention.

Property Assistance Scheme

A.11 The Property Assistance Scheme (PAS) is a grant intervention, providing gap funding to account managed businesses to enable them to develop the space they need to grow. The PAS is an 'end-user' grant, rather than mechanism to fund speculative development, with beneficiary firms required to demonstrate the effect that the grant will have on their business (not necessarily including jobs outputs). The Scheme typically covers 10-20% of eligible project costs, mostly focused on new-build expansion space, but sometimes also covering refurbishment.

A.12 The Scheme is relatively small with the account management system acting as a 'gatekeeper'. Between 2009/10 and 2016/17, grant finance of £4.5 million was issued through the PAS, with grants ranging from £80k to £948k.

Loan and investment funding

A.13 Two 'repayable finance' schemes are also operated by Invest NI. These are:

- The **Grade A Office Accommodation Loan Scheme** launched in 2015 (providing commercial loans to developers of new accommodation where it is close to viability[104])
- The **CBRE Northern Ireland Investment Fund**, which provides debt funding for "commercial property, regeneration and low carbon" projects at commercial rates, financed with £100m from the Northern Ireland Executive. The Fund was launched in 2018 and states that it is currently seeking applications[105].

[104] https://www.investni.com/features/william-mcculla-looks-at-grade-a-office-space-in-northern-ireland.html
[105] CBRE, http://www.northernirelandinvestmentfund.com/

Relevance to Wales

The policy trajectory of commercial property intervention in Northern Ireland is not dissimilar from that in Wales: substantial development of property for rent before the 1990s, and an extensive programme of site acquisition and servicing geared towards inward investment demand, followed by a more recent contraction in activities. To some extent there are also similarities in the changing demand profile, with a greater emphasis on indigenous business growth (and reinvestment by firms already located in Northern Ireland), rather than on larger manufacturing sector inward investors.

However, the focus in Northern Ireland on 'account managed firms' is somewhat different (although it relates to economic development policy generally, rather than just to commercial property interventions). Northern Ireland also has no equivalent of Property Development Grant (other than for firms building for their own occupancy). Recently, there has been a shift towards loan finance, although the Northern Ireland Investment Fund is a new scheme, and there does not yet appear to have been any performance evidence.

Scotland

Market context

A.14 Scotland has a large and diverse economy, generally performing at or above the UK average on most indicators, and parts of which are highly productive (especially around Edinburgh and Aberdeen). However, the country faces similar challenges to Wales in relation to an extensive legacy of heavy industry and the more recent challenges of repositioning away from an inward investment-led manufacturing model, and in relation to deep rurality and peripherality in the Highlands and Islands.

A.15 In terms of office demand and supply, recent reports suggest a healthy market in Glasgow, Edinburgh and Aberdeen, with prime city centre Grade A rents of £32.50 psf in Aberdeen and Glasgow, and up to £34 psf in Edinburgh (this compares with up to £25 psf in central Cardiff, and not much more than £11.50 psf in Swansea). According to regional agents, a lack of good quality supply is leading to speculative city centre development in Glasgow, although as elsewhere, there is a significant oversupply of secondary stock outside the two largest cities[106].

A.16 The industrial picture bears comparison with that in much of Wales. In the West of Scotland, industrial availability is reported as historically low, with a limited development pipeline and 'looming obsolescence', with around 40% of stock over 40 years old. There is also limited availability of 'oven-ready' development land in the central M74 and M8 corridors, with industrial values artificially depleted by historic public sector support. A similar, although less acute, picture is reported in Eastern and East Central Scotland.

"The industrial market in Central Scotland winds ever tighter as high demand and occupancy rates face a huge ageing stock…. It is almost inevitable that company growth is being restricted by a lack of suitable property"

Ryden, *Scottish Property Review 2019*

[106] Ryden (2019), *Scottish Property Review* (https://www.ryden.co.uk/sites/default/files/spr/1-00104157.003%20RYD%2084th%20Scottish%20Property%20Review%202019%2024pp%20v1%20web.pdf)

Policy

A.17 As in Wales, the public sector historically had a substantial role in building out industrial space and small business units, although this came to an end in the 1980s in the light of public spending pressure and tighter state aid rules. This has contributed to the ageing of the overall industrial stock over time.

A.18 In its policy documents, the Scottish Government does not place an emphasis on the provision of commercial property as a form of 'infrastructure', despite the supply/ demand imbalances referred to above, and the Scottish Government's Economic Action Plan does not specifically refer to commercial property as an issue in itself, although it does make reference to the funding mechanisms described below[107].

A.19 The Scottish Government's key agencies for economic development are Scottish Enterprise and Highlands and Islands Enterprise, operating under a mandate from the Scottish Government's Enterprise and Skills Strategic Board. Consistent with the Economic Action Plan, **Scottish Enterprise**'s current Strategic Framework places an emphasis on fair work, innovation and resilience in the context of digital transformation, and an increase in cross-agency and regional working. There is no reference in the Strategic Framework to the development or holding of commercial property as a function in itself, although the budget for 2019/20 anticipates income of £5 million from operational property assets, and £8.5 million in capital receipts through disposals, against a budget of £5.2 million for property portfolio management[108]. In recent years, Scottish Enterprise's main focus has been to help create the environment for investment where it meets wider objectives (e.g. in relation to innovation), such as in the development of Edinburgh BioQuarter. **Highlands and Islands Enterprise** however has a more explicit focus on property management as part of its role.

A.20 Like the Welsh Government, the Scottish Government has also used devolved powers to change the property tax regime. In 2015, a new Land and Buildings Transaction Tax (LBTT) replaced Stamp Duty Land Tax, with the intention of creating a more progressive system.

Property market interventions

Land and property for sale and rent

A.21 Scottish Enterprise maintains a portfolio of 'legacy' estates, including buildings and land for sale or rent, although as indicated above, this is not set out as a strategic priority, and it is not actively promoted by Scottish Enterprise itself. The implication is that reinvestment or acquisition of new stock is unlikely, other than in relation to specific niche or specialist developments. Highlands and Islands Enterprise also maintains a portfolio of land and premises, most of which are a combination of business park/ innovation centre schemes and smaller units on rural industrial estates. These are actively promoted by HIE[109]. It should also be noted that some Scottish local authorities are quite sizeable (generally larger than those in Wales and Northern Ireland), and some maintain a portfolio of commercial property, some of it acquired from historic investment by Scottish Enterprise and its predecessor organisations.

[107] https://economicactionplan.mygov.scot/
[108] Scottish Enterprise (20219), *Building Scotland's Future Today: Scottish Enterprise's Strategic Framework 2019-22* (https://www.scottish-enterprise.com/our-organisation/how-we-do-it)
[109] https://www.hie.co.uk/property-and-land/find-new-premises/?currentPageId=1327&page=1&showAllResults=false

Building Scotland Fund

A.22 The **Building Scotland Fund** is a £150 million fund providing debt and equity funding to private sector developers (including housing associations and universities) for housing, regeneration and commercial property projects. The Fund has the flexibility to offer funding on commercial and state aid terms, with £25 million element pre-committed to the **SPRUCE (Scottish Partnership for Investment in Urban Centres) Fund**, co-financed by a private sector investor. It is anticipated that it will be transferred into the new Scottish National Investment Bank in due course.

A.23 The Building Scotland Fund was launched in 2018. To date, most investment has been focused on housing-led schemes, with one commercial deal so far (Livingston Trade Park, funded via the SPRUCE partnership)[110].

Relevance to Wales

As in Wales (and Northern Ireland), Scottish Enterprise and its predecessors invested substantially in land and property in the 1970s and 1980s, before progressively disposing of much of its estate and taking a reduced role in the property market. This retrenchment is seen as a cause of the current lack of modern industrial stock, although there is evidence that the office market is working effectively in the major cities.

There does not appear to be any parallel to the Welsh Government's commitment to property as 'infrastructure' within the Scottish Government's policy material, and Scottish Enterprise's remaining property portfolio is not promoted as a major part of the offer to business (although the HIE portfolio seems to be more actively marketed).

However, the Building Scotland Fund is potentially an interesting model in blending commercial terms finance and state aid within the same scheme, and in the involvement of private co-financing, which may enable schemes to come forward that are relatively close to market. This is a new fund however, with only one commercial transaction to date.

England

A.24 There is no coordinated Government approach to commercial property intervention in England. Historically, both English Partnerships (and its predecessors) and the Regional Development Agencies had a role in bringing forward land and property; RDA and English Partnerships economic assets subsequently mainly transferred to the Homes and Communities Agency, although with the restructuring of the latter as Homes England, the property development emphasis has clearly been refocused towards housing.

A.25 However, at local and regional level, Local Enterprise Partnerships and Combined Authorities have adopted a range of approaches, some of them (as in Wales, Scotland and Northern Ireland) building on a historic legacy of intervention. Four examples are set out in the paragraphs that follow, relating to **Sheffield City Region, the North East, the West Midlands** and **The Marches**.

[110] https://www.gov.scot/policies/economic-growth/building-scotland-fund/

Sheffield City Region

A.26 Sheffield City Region has some similarities with parts of Wales, in terms of its industrial heritage and (historically) substantial amounts of public investment in economic development through European and other sources. As well as Sheffield itself, the area includes the rest of South Yorkshire (Barnsley, Doncaster and Rotherham).

A.27 The focus of SCR's property investments in recent years has been on a limited number of strategic sites, notably the Advanced Manufacturing Park (AMP) at Rotherham (which has been progressed over 20 years as a technology-led project with active university and industry involvement), Doncaster Sheffield Airport and designated Enterprise Zone locations.

A.28 In addition, the primary public sector funding mechanism used to support commercial property development is the **SCR JESSICA Fund**, established in 2012 with ERDF investment. Originally, the JESSICA Fund offered loans on commercial terms to bring forward commercial property development (mainly office and manufacturing workspace). Subsequently, the SCR Combined Authority invested additional capital in the Fund (from the Local Growth Fund and the Growing Places Fund), enabling the JESSICA Fund to offer a more flexible range of products, including grant and sub-commercial loans where this can be justified. The Fund has a total capital pool of around £40 million, with current investments anticipated to deliver around 500,000 sq ft of employment space[111]. The Fund is managed on behalf of SCR by CBRE, using the same team responsible for the delivery of the Northern Ireland Investment Fund.

North East

A.29 Like Wales, there is a long history of public sector intervention to deliver commercial property, with the original publicly-funded trading estates established from the 1930s. English Estates, and later English Partnerships later developed offices and factory units and directly managed industrial estates. These assets were subsequently transferred to ONE North East (the former RDA) and later the Homes and Communities Agency.

A.30 Since the refocusing of the HCA on housing delivery as Homes England, some of these have been transferred to local authorities under stewardship agreements. Some local authorities take an active role in development: Northumberland County Council has established **Arch**, the Northumberland Development Company, charged with providing workspace as well as a wider business support remit.

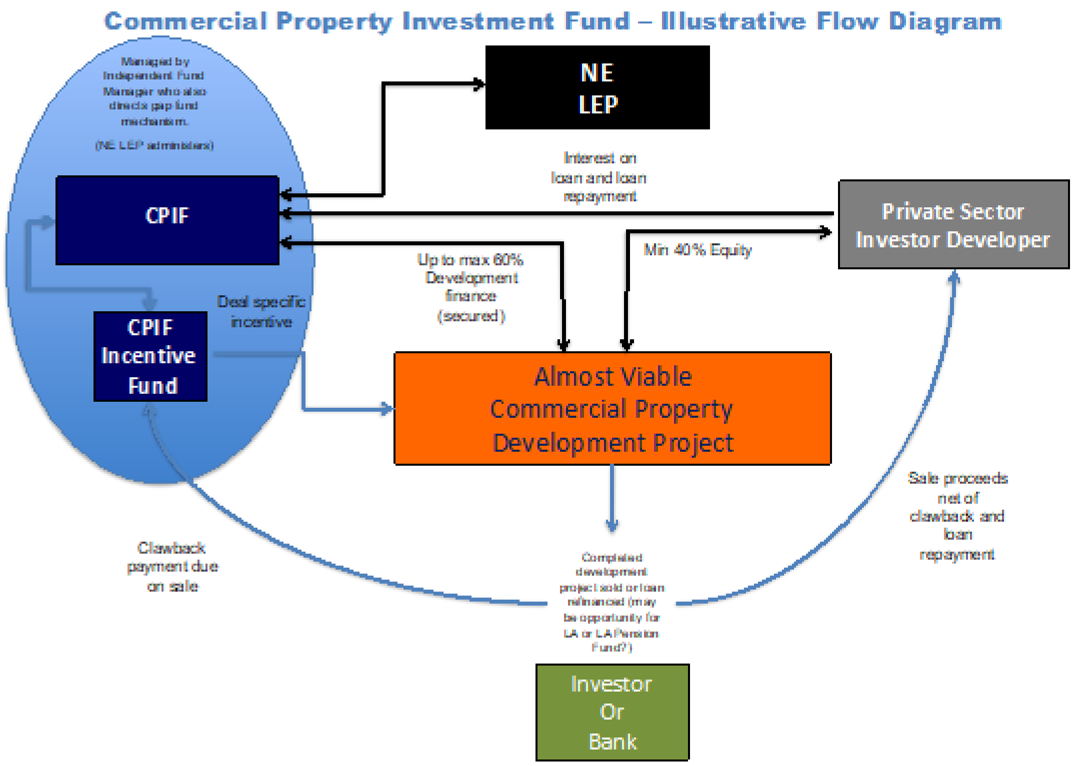
A.31 The North East LEP (NELEP)'s recently-updated *Strategic Economic Plan* (January 2019) acknowledges a current "under-supply of Grade A industrial and office space" caused by low property value and rental levels[112]. The Plan refers to a need to invest in strategic employment sites, mostly geared around the region's Enterprise Zones. In terms of interventions, the North East LEP has combined Growing Places Fund (£25m) and Local Growth Fund (£30m) monies into a **North East Investment Fund** (NEIF), established as an evergreen fund for capital projects. Recent investments include new workspace at Blyth, managed by Arch and associated with the National Renewable Energy Centre (Narec), and the North Tyneside Business Park, a speculative development led by the private sector[113]. The NEIF is managed

[111] http://scrjessica.co.uk/
[112] North East LEP (2019), *Strategic Economic Plan*, p.47 (https://www.northeastlep.co.uk/wp-content/uploads/2019/03/nel404-sep-refresh-2018-web-new-final.pdf)
[113] North East LEP, https://www.northeastlep.co.uk/news/first-tenants-move-into-north-tyneside-business-park

by NELEP itself and currently does appear to contain a grant element (although as with other LEP programmes, LGF grant has been used to support transport and other infrastructure bringing forward key sites).

A.32 Since 2018, work has been underway to review the structure and focus of the NEIF. Work commissioned by NELEP to review the commercial property market and the potential for public sector interventions concluded that the regional picture bore similarities with much of Wales, including a lack of development finance for speculative projects[114]. NELEP's current intention is to refocus the NEIF on 'commercial products that are almost viable', via a scheme combining gap funding and repayable finance, managed by an independent appointed fund manager[115]. A summary of the proposed NEIF mechanism is outlined in the diagram below:

Figure A-1: Indicative proposed structure for North East Commercial Property Investment Fund



Source: North East Local Enterprise Partnership

West Midlands

A.33 The West Midlands has a complex urban geography and, prior to the recent establishment of the West Midlands Combined Authority (WMCA), a fragmented governance structure. In common with other urban and post-industrial areas, substantial public investment was made in bringing forward commercial sites and premises in the 1980s (for example through the

[114] NELEP [Sanderson Weatherall LLP/ JC Gill & Co] (2018), *Commercial Property Investment Fund: Preliminary Market Engagement*
[115] NELEP (2019), Specification: Evaluation study to inform the development of a North East commercial property investment fund.

Birmingham Heartlands Development Corporation, which built out Aston Science Park, and the Black Country Development Corporation, both of which were abolished in the late 1990s).

A.34 In 2016, the WMCA established an expert **Land Commission** to review the supply of land (for residential and commercial uses) across the area. The Land Commission noted an increasing shortage of employment land (in the context of rising industrial and logistics demand and infrastructure and accessibility challenges associated with several brownfield sites). The Commission recommended a focus on brownfield redevelopment and the combination of all remediation funds into a central pool[116]. A West Midlands strategic sites study is currently underway.

A.35 The WMCA is currently progressing two financial programmes to support employment land development. The **Brownfield Land and Property Development Fund** is managed by Finance Birmingham (a provider of business finance, mostly on commercial terms, owned by Birmingham City Council) and seeks to provide funding on commercial terms to schemes that are 'close to market'. The **Black Country Strategic Brownfield Land Programme Investment Fund** (LPIF) is focused on bringing forward strategic sites in Dudley, Sandwell, Walsall and Wolverhampton, with the ability to offer finance on commercial or state aid terms.

The Marches

A.36 The Marches is the Local Enterprise Partnership area for Herefordshire, Shropshire and Telford and Wrekin. Unlike the other regions cited above, The Marches is a largely rural area with (historically) lower levels of public sector-backed economic development activity. However, it has a long land border with Wales, an important economic relationship with much of Mid Wales and some similarities with the Welsh rural economy. In consultation for this study, some stakeholders also cited the positive support that was available The Marches LEP area.

A.37 As in several other areas, The Marches LEP allocated its £8.1 million Growing Places Fund to a **Marches Investment Fund** (MIF), intended to be a recyclable fund providing capital loans to stalled commercial and housing sites. However, funding proved hard to award, perhaps reflecting a lack of commercial developer activity in the market: more recently, the remaining funding has been redeployed on 'soft loan' terms to business space schemes backed by the public sector, especially **Skylon Park**, an industrial park and enterprise zone in Hereford owned by Herefordshire Council[117].

A.38 On a smaller scale, The Marches LEP has also used ERDF funding to establish the **Marches Building Investment Grant** (MBIG) scheme, which provides smaller grants of up to £100,000 to fund extensions and renovations of existing commercial premises, focused on current occupiers.

Relevance to Wales

As in other parts of the UK, direct public sector delivery and management of employment space reduced in England from the 1990s onwards. However, the abolition of the RDAs in 2010/11 and the

[116] WMCA (2016), *West Midlands Land Commission: Final Report to the West Midlands Combined Authority Board* p.55 (https://www.wmca.org.uk/media/1412/wmlc-final-report.pdf)
[117] The Marches LEP, https://www.marcheslep.org.uk/access-to-finance-2/

subsequent reorientation of the HCA/ Homes England away from commercial property market led to a significant shift in policy away from a national framework. The approaches taken by most LEPs and Combined Authorities have been geared towards incentivising private sector development, where possible through repayable finance offered on commercial or subsidised terms: there are a range of 'commercial' and hybrid (part-commercial, part-state aid) models which could be relevant to Wales.

However, as some of the examples above demonstrate, incentives to the private sector can be challenging in markets where there are few actors or where loan funding is insufficient to overcome the viability gap, although some of the scheme or programme-specific solutions highlighted in Chapter 8 may be relevant.

International comparators

A.39 Establishing relevant international comparators can be challenging, since very different government structures and planning, land ownership and tax/ regulatory arrangements have a strong influence on the menu of possible public sector interventions. However, securing a supply of industrial and office premises to meet (and stimulate) market demand is a key objective of many economic development strategies, albeit in different contexts.

A.40 The following paragraphs consider examples from four countries: the **Republic of Ireland** (a near neighbour, with a similar legal and planning structure); **Germany** (in which we have focused on the state of Saxony); and the **United States** (in which we have focused on the state of Maryland, an area with a history of cooperation with Wales in planning for regeneration and economic development).

Republic of Ireland

A.41 Following one of Europe's sharpest contractions after the financial crash in 2008, the Irish economy has made a strong return to growth in recent years. Historically, Ireland has been an attractive location for inward investors, attracted by a competitive tax environment, with the country supporting strong financial services and pharmaceutical sectors. In terms of industrial stock, recent analysis suggests that the market performs strongly (with prime industrial rents ranging from around £5.50 psf in Limerick to £8.25 psf in Dublin[118]), with sufficient confidence in demand to encourage some speculative activity, although agents note that "a lack of good quality stock continues to be an issue"[119]. Agents also report strong demand in the Dublin office market.

A.42 Ireland's approach public intervention in the commercial property market reflects greater continuity over time compared with neighbours in the United Kingdom and reflects a strong and consistent emphasis on FDI as a pillar of economic policy. **IDA Ireland**, a 'semi-state' agency established in 1949 as the Industrial Development Authority, is the key vehicle responsible for attracting and maintaining inward investment in Ireland, offering a coordinated range of incentive programmes (alongside the Irish Government's wider tax and regulatory offer). The property offer forms part of this, with the IDA responsible for delivering (directly or through joint ventures with local authorities) and managing an extensive range of industrial and office parks, including 'advance build' office and industrial premises, widely

[118] Converted from euro values, November 2019
[119] Cushman & Wakefield (2019), *Ireland Industrial Market Snapshot Q3 2019* (http://www.cushmanwakefield.com/en/research-and-insight/corporate/ireland-industrial-snapshot/)

distributed around the country[120]. The agency also holds a series of strategic greenfield sites for future development. According to its annual accounts, IDA Ireland's industrial property assets were valued at €208.5 million (around £175 million) in 2018.

Saxony, Germany

A.43 Saxony is one of Germany's eastern *länder*, centred around the main cities of Leipzig and Dresden. Together with the neighbouring states of Saxony-Anhalt and Thuringia, it forms part of an extensive industrial belt. Before German reunification, the area was dominated by staple industries (especially chemicals and lignite (brown coal) mining), and was also an important centre for some technology-intensive industries, for example in relation to optics.

Figure A-2: Saxony: Location map

Source: Power and Herden (2016), Leipzig City Story

A.44 Since 1990, the regional economy has been transformed: this has included the development of a large advanced manufacturing base, both in 'traditional' regional strengths such as chemicals, and in areas such as automotive (c.f. BMW, Porsche and Schaeffler, all of which have major factories in Leipzig). There is however still a productivity gap of around 20% between Saxony and the western *länder*, which has been slow to close over the past 20 years, with relatively few large indigenous businesses or company headquarters[121].

A.45 In common with Wales (and with many other areas), recent years have seen a divergence between the demographic profiles of the larger cities and the smaller (especially post-industrial) towns. While general depopulation was prevalent across the state in the 1990s[122], the past decade has seen population growth in Leipzig (supported by the growth of the city's universities and 'creative' economy) alongside a continued population decline elsewhere[123].

A.46 Following reunification, substantial federal and European funds were allocated to site remediation and the development of new employment sites (the state received around €5 billion in European Structural Funds over the 2006-13 programming period). Recently, regional strategy has been focused on the development of priority sectors (automotive, health and biotechnology, energy and environment, logistics, and media and creativity)[124]. In terms of the commercial property market, industrial rents remain relatively low compared with

[120] IDA Ireland (https://www.idaireland.com/how-we-help/property)
[121] *The Economist* (2019), quoting Halle Institute for Economic Research
[122] Alan Mace, Peter Hall *et al* (2004), *Shrinking to Grow? The urban regeneration challenge in Leipzig and Manchester*, London: Institute of Community Studies
[123] Joseph Rowntree Foundation (2017), *International Cities: Case studies - Leipzig*
[124] Anne Power and Eileen Herden (2016), *Leipzig City Story*, London: LSE

other parts of the country (Leipzig prime industrial rents are around €49 per sq metre (£5.50 psf)), with commentators reporting strong demand from logistics operators, given the region's location[125].

A.47 There is an extensive system for the provision of low interest loans for the expansion of business premises and the acquisition and refurbishment of decommissioned units, made available via the **Sächsische Aufbaubank** (SAB), the regional development bank. It is worth noting that while the *länder* have devolved powers, the range of interventions appear to coordinated federally within a consistent framework and within the context of a sophisticated network of federal and regional public sector development banks.

A.48 A second aspect of the management of industrial property is the established role of **industry sector associations** and the direct involvement of 'end users' in property infrastructure. For example, within the chemicals sector, the large integrated chemicals works at Leuna and Bitterfeld-Wolfen have been repurposed into 'ChemiParks' on a model already operating in western Germany[126]. InfraLeuna GmbH, the company operating the Leuna site west of Leipzig, is established as a 'low profit' entity, owned by some of the companies located on the complex and responsible for the provision of central services (utilities, waste management, etc.), laboratory analytical services, support to new occupiers in securing public assistance, and so on[127].

Maryland, United States

A.49 Maryland has some historical economic development connections with Wales, dating back to the sharing of experiences between the Cardiff Bay Development Corporation and a similar programme of waterfront regeneration in Baltimore in the 1980s[128]. It is a mid-Atlantic region state, with a population of around 5.8 million, dominated by metropolitan Baltimore and the outer Washington metropolitan area. Historically, the state had a large heavy industrial presence (especially in steel), although its current industrial base includes a significant presence in defence electronics and life sciences (the latter linked with Johns Hopkins University at Baltimore and its associated hospitals).

Figure A-3: Maryland location

Source: Google Maps

A.50 The model for public sector interventions is strongly geared towards the provision of a competitive environment for business, with an emphasis on tax incentives and loan and grant products provided by the state (Maryland Department of Commerce) and city governments to support private sector investment. It is worth noting that the **competitive use of tax and grant** to attract and retain mobile investment is an explicit feature of the 'offer' to business

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[125] Cushman & Wakefield (2019), *Germany: Industrial Market Snapshot – Q3 2019*

[126] This has involved the ownership of shared infrastructure and wider park management by dominant companies on the site (for example, Bayer was the dominant shareholder in Currenta, the management company for the large ChemiPark associated with its site at Leverkusen and a number of allied facilities). However, in 2019, Bayer sold its holdings in Currenta to Macquarie Infrastructure.

[127] See http://www.infraleuna.de/en/infraleuna/company/brief-outline/.

[128] Ana Gonçalves (2017), *Reinventing a Small Worldly City: The cultural and social transformation of Cardiff*, Abingdon: Routledge

and is explicitly acknowledged in strategy (in the context of a government system in which states and municipalities have extensive fiscal powers, with fewer regulatory limitations on state aid)[129]. For property investment, the tax credit offer can be very significant: for example, combining property tax credits for brownfield land revitalisation, investment in Enterprise Zones and other incentives could amount to 100% tax relief for ten years[130]. Various loan and grant products to support real estate investment are also offered through **Advantage Maryland**, the State's finance provider, as well as through a separate Economic Adjustment Fund.

A.51 Direct provision of commercial property by the State is limited. However, Advantage Maryland offers a range of grant and loan products that are made available to city and county authorities to enable them to acquire land and premises or to reinvest in local revolving loan funds.

Relevance to Wales

There are obviously many international examples of public sector intervention in the commercial property market that could be investigated – but the 'snapshots' above provide three different approaches, which are grounded in wider, and long-standing, strategies for economic development. In very simplified terms, these might be characterised as:

- In Ireland, **direct public sector intervention in support of a coordinated and strongly FDI-oriented economic strategy**. In contrast to the UK, direct acquisition and management of property has remained an important pillar of strategy, with IDA Ireland's role perhaps bearing some comparison with the historic roles of the WDA and Scottish Enterprise.
- In Germany, a **long-term approach towards industry growth**, in which the roles of intermediate organisations (such as industry associations and the network of development banks) are important in providing finance and property solutions, and in which 'end-user' industry ownership of property and related infrastructure is part of the mix.
- In the United States, **the state as a competitive actor** in incentivising business investment, where property tax credits and grants are important and the local state has wide freedom to act, and direct financial incentives to (competitively) drive up the tax base.

These approaches depend on an existing institutional mix, and all are to some extent characteristic of each country's wider political economy. But they do demonstrate the range of approaches that different countries are taking to tackle similar challenges.

[129] Maryland Economic Development Commission (2017), *Best is the Standard: A strategic plan for accelerating economic development in Maryland – Progress report and scorecard 2017* (https://commerce.maryland.gov/Documents/ProgramReport/MEDC-strategic-plan-progress-report-and-scorecard-2017.pdf)
[130] Maryland Department of Commerce (2019), *Financial Incentives for Businesses*

Annex B: Learning from elsewhere: Local and site-specific approaches

Summary

While Annex A set out examples of 'strategic' approaches that have been taken by devolved governments and regional authorities, this annex highlights some examples of more local, site-specific approaches, which have helped to inform the recommendations in Chapter 9. It outlines four examples, in the West Midlands, London and the South East, in which public sector organisations have taken an active role in the local commercial property market and enabled delivery which would not have come forward if left to the private sector.

Investing in new city centre office accommodation: Coventry

Context

B.1 Although a large industrial centre with a significant population base (approximately the size of Cardiff), Coventry has long been a 'secondary' centre, relative to Birmingham. The city centre has also suffered from its postwar design, including severe severance effects caused by the inner ring road and a retail core increasingly unsuitable for modern requirements. The Council has been keen to attract new office development into the city centre for several years, as part of a coordinated approach to regeneration and economic development.

Background to the scheme

B.2 A private Irish investor started acquiring land in the centre of Coventry in the mid-2000s with a view to taking a mixed-use, commercially-led development forward. The subsequent financial crash prevented development for a number of years, with the investor's assets becoming part of the National Asset Management Agency (NAMA), the Irish government agency for rescuing distressed vehicles.

B.3 This position has been resolved over time and the scheme received an outline permission for the masterplan in 2013. Since then 1 Friargate (as part of Phase 1) was built to house the Council, however, it was not initially envisaged as such but as a speculative development.

Council involvement in Phase 1

B.4 As the developer was unable to fund Phase 1, the Council secured funding from national government to provide enabling infrastructure (new raised platform over the ring road) to help create development parcels as well as green space and links between the rail station and city centre. The Council also agreed to become tenant in the building with a relatively long leasehold.

B.5 The Council thus funded the building of the office space to generate savings from other corporate estates; it was seen as an 'invest to save' proposal. The Council is now subletting to the Financial Ombudsman Service (which moved from London Docklands and is occupying two floors). This investment provided a new HQ (as an asset management solution) and became the catalyst for development of the scheme.

Further development/ phases

B.6 The Council would like to create a joint venture with the Irish landowner and invest an equity stake in return for part of the freehold in the 15ha site, thus becoming joint freeholders and sharing developer risk and gain. However, it is hard to get development finance for speculative office development without pre-letting (and pre-letting only occur when the building is close to being finished).

B.7 Hence, the Council is looking at a delivery model, whereby the Council funds the development of next building, then secures tenants, then borrows the money against the revenue stream to use for next building. The Council will be taking development risk and using revenue to fund next tranche of borrowing for next phase.

Other uses

B.8 Heads of Terms are in place with a hotel operator to take a further plot opposite the Council building to deliver a hotel ahead of the City of Culture 2021. This is likely to be a land transaction as it needs to happen quickly for hotel to be delivered in time while the JV is still being negotiated. Potentially additional residential and office uses will come forward as part of future phases.

Relevance to Wales

Coventry is larger than most cities in Wales (other than Cardiff), but does have some relevance to centres such as Newport and Swansea, given its historic 'secondary' role as a city centre in retail and office market terms. This example illustrates the role that the public sector can have in acting as the prime tenant (and in securing other public sector HQ facilities), and in creating a mechanism for the delivery of future phases.

Coordinated property approach in a growing, medium-sized town: Ashford

Context

B.9 Historically, Ashford was a small town in south Kent, with an industrial base linked originally with the railways, and later in light manufacturing. Since the 1990s, it has been designated as a growth point, linked with its position on High Speed One, and it has recently seen significant housing growth. The town centre has traditionally had a modest retail offer, with a substantial stock of dated 1960s office accommodation. However, the Borough Council has been ambitious to secure new investment and employment to match the town's housing growth.

Strategy

B.10 The Council has adopted a multi-faceted approach to property investment and development over the last three to four years. This has very much been created around a "horses for courses" philosophy, with the nature of the "deal" and the mechanism adopted, relying on the characteristics of the scheme being developed, with the focus on what is required to enable either:

- the private sector to be prepared to commit funds and take on the main development responsibilities, or
- the Council needing to take control and act in a "direct development" capacity.

B.11 The Council set up its own, wholly owned development company in 2014, *A Better Choice for Property Ltd*, which has to date been used to invest in residential development. In parallel with the above, the Council has (in its own right) pursued an investment strategy in commercial property, in order to trigger key developments around the town and to create an income earning portfolio into the future.

B.12 An example of the approach taken involves the provision of new industrial premises on Carlton Road, close to the town centre and located within an existing industrial estate. In this instance the existing land owner was a local civil engineering and development contractor, but the land had been used for a variety of open storage and construction depot purposes for several years.

B.13 The Council concluded an agreement with the land owner (Gallagher) to acquire part of the site freehold, for which they paid a market rate for local industrial land (circa £550,000 per acre). The agreement also makes provision for Gallagher to construct the required industrial premises, for which the Council is paying agreed construction costs (reflecting current market rates), and including an element of "construction profit" to the contractor, which represents traditional practice in this respect.

B.14 The benefits to the Council are that the contractor does not require a developer's profit as part of its consideration for the development (which would normally be between 15% and 20% of all development costs) and there is no allowance for initial void periods, which would be part of a traditional investment deal.

B.15 Overall, the scheme comprises some 35,000 sq ft of quality industrial accommodation, with units configured so that a maximum unit of some 15,000 sq ft can be used by a single occupier, with other units being capable of sub-division down to units of some 3- 4,000 sq ft.

B.16 The Council is taking full responsibility for the risks associated letting the property, and some construction risks, in the event of any major, unforeseen circumstances. The Council describes its position in this respect as being "risk aware" rather than "risk averse". However, its intention is to hold the investment long term, undertake the usual management tasks, and accept a commercial return on its capital investment by way of a monthly/ annual rental return. The development is nearing completion, and enquiries/ letting negotiations are promising.

B.17 In addition to the Carlton Road transaction, the Council has over recent years:

- Continued to hold and manage the Ellingham Industrial Estate, which it acquired some time ago. In 2016/ 17 this is reported to have delivered a 12.3% return on investment.

- Acquired one of the main office buildings in Ashford (International House), adjacent to the International Station and which is reported in 2016/ 17 to have produced a 12.6% return on investment.
- Acquired the town centre, Park Mall shopping centre, which has seen occupancy levels increase significantly over recent years.
- Acquired the newly constructed the Elwick Place development (part of a wider development by Stanhope), comprising a six-screen cinema, a 58-bed hotel, eight restaurants and cafés. The Council will hold the investment, as a long term, income earning asset.
- Underwritten the base rental on two floors (24,000 sq ft) of the new 80,000 sq ft office block, currently being constructed adjacent to the International Station by Kent based developers Quinn Estates and George Wilson Holdings. This is the first new office building to be constructed in Ashford for decades (which would not have come forward without the Council's involvement), and some 6,000 sq ft has already been pre-let.

B.18 As part of a wider consortium, Ashford Council is currently working up proposals with the other East Kent Authorities to establish a Joint Development Company, in order to undertake commercial schemes across the area, with the aim of tackling the larger/ more difficult/ innovative schemes, which would not happen without this combined approach. Developments would then be held in the longer term as an investment, with income / returns being taken by the five investors, as part of their annual, income base.

Relevance to Wales

Although a modest-sized district council (within a two-tier system of local government), an incremental, scheme-by-scheme approach has led to Ashford Borough Council taking a substantial role in the local property market. To some extent, this will have been helped by the fact that Ashford is a growing centre, but this case study demonstrates the role that the public sector can play in achieving outcomes that the private sector would not otherwise have delivered.

Creating a development company: Barking and Dagenham

Context

B.19 Barking and Dagenham was historically a major manufacturing centre, especially linked with Ford's plant at Dagenham. It retains a substantial industrial base, although with the loss of manufacturing jobs, has experienced a lengthy restructuring process. The borough has extensive development land, although there are strong pressures for housing development and, in relation to employment land, logistics operations.

Strategy

B.20 New development and regeneration in Barking and Dagenham (LBBD) has been organised over the last couple of years through a new, innovative mechanism, encompassing two main strands:

- First, the establishment of an urban regeneration company wholly owned by LBBD, but operating independently of the authority, known as **BeFirst**, and
- Second, the establishment of an **Investment and Acquisition Strategy (IAS),** providing an initial £250m investment/ development fund and a £100m land and property acquisition fund, to support the delivery of relevant projects (funded from the Public Works Loan Board (PWLB), other sources and from cash balances).

B.21 The Council sees itself as a proactive developer and investor, helping to support growth opportunities and ensure that the Council and future generations benefit by increasing its ownership of long-term income producing assets.

BeFirst

B.22 The aim of BeFirst is to accelerate the regeneration of the borough and deliver increased revenues and returns to the Council by using greater flexibilities to attract high-quality staff and create joint ventures with developers than would not be available to an in-house Council function.

B.23 BeFirst is a 100% Council-owned company that is operationally independent of the Council, operating in the same way as a commercial organisation, but with accountability to Members for its performance and conduct through a Shareholder Executive Board. It is also a 'Teckal' company subject to public law (including procurement procedures and FOI) but able to trade externally up to 20% of its turnover. A separate subsidiary has also been established ('DevCo') as a legal entity outside public sector procurement constraints to give greater freedoms in establishing SPVs, if and when required. It is intended to encompass all aspects of regeneration and place-shaping for the borough, including housing, commercial buildings and the provision of key infrastructure.

B.24 Separate consortia or special purpose vehicles (SPVs) are established to deliver specific projects (e.g. stand-alone public sector, joint ventures between BeFirst and the private sector). BeFirst has also decided on a number of occasions to develop directly.

B.25 The profits from BeFirst may be reinvested in the business and/or returned to the Council in the form of dividends. The proportion of retained to distributed profits will be agreed between LBBD and BeFirst from time to time through the Shareholder Executive Board.

The Investment and Acquisition Strategy

B.26 In simple terms, the objective of the Investment and Acquisition Strategy (IAS) is to produce £5.12m net annual income by 2020/21, at acceptable levels of return from a range of assets and in a manner which supports achievement of the Council's growth and regeneration agenda. This includes 44 potential schemes in the "pipeline" regeneration programme, to be developed on behalf of the Council by BeFirst.

B.27 Alongside the IAS, LBBD has created a new Investment Panel (which does not include any Members), which is responsible for advising in respect of fund's overall activities, including land / asset acquisitions, construction and management of the investment portfolio to ensure that the target investment returns are achieved. It also influences the work of BeFirst, including oversight and funding of new development opportunities identified and proposed to the Council by BeFirst through its Business Plan.

B.28 The Investment Panel comprises a number of senior Council Officers (and appropriate external advisers) to ensure that there is adequate scrutiny of investment decisions and that controls are in place to manage the delivery of IAS.

B.29 In order to draw down funding for specific projects, BeFirst is required to draw up a proposal and business plan, which is processed through a number of "Gateways", which are overseen by the Investment Panel (e.g. approval in principle, detailed design, ready to commit contracts etc.). In order for BeFirst to achieve funding, all schemes will need to demonstrate that they are deliverable, viable and able to meet the minimum rate of return, established by the fund from time to time.

Case study example

B.30 BeFirst has supported the **provision of industrial premises for an existing pipette manufacturing company** on Thames Road, which owns and occupies its own (dated), freehold premises at present and needs to move in order to achieve its expansion as a business.

B.31 The company has been searching for suitable premises (40,000 sq ft plus)/ land for some time, but has been unable to find anything that is either available, affordable or meets its requirements. Although it was prepared to consider building its own new premises, the practicalities of funding a new site and accommodation whilst running an existing operation, proved to be too difficult to structure.

B.32 BeFirst has therefore developed an arrangement under which it has sought out an alternative, larger site within the Borough, that will house the company. It has acquired the freehold interest in that location, at a current commercial land value. It is now in the process of constructing a new property for the Company, which will meet its expansion requirements and which it will purchase upon practical completion, at a figure which reflects a market value of the new property (covering both land value and construction costs). It is also constructing additional floorspace on the balance of the new site that it has acquired for the relocation, as a long term asset.

B.33 BeFirst has in parallel acquired the existing freehold interest in the Company's current site/ building (at existing use value), and is allowing the company to retain occupation of that for up to two years, rent free, whilst the new building is constructed and occupation can be provided.

B.34 The Council will then redevelop the pipette manufacturers' current site, with a new mixed use scheme, that combines employment and residential uses (potentially involving employment on ground floor and residential on upper floors) and rent all of the accommodation as a long term income producing asset. This strategy of intensifying and diversifying the use of a number of major employment estates throughout the Borough is one which LBBD is keen to pursue and has done some initial work on looking at the practicalities of redeveloping business space and housing together in order to achieve these objectives

B.35 The value difference between the existing use value of the manufacturers current facility, and the opportunity to construct a new mixed use scheme, with modern site coverage etc, has enabled this scheme to "work" financially, has retained an expanded business within the Borough (with job and business rate benefits), and created a new income earning opportunity for BeFirst.

Relevance to Wales

Barking and Dagenham has a large development agenda and significant potential for private sector investment. Although the London strategic context is very different from that in most of Wales, this example demonstrates the additional resources (e.g. in terms of expertise) that can be secured by a development company with a sufficient portfolio and breadth of remit. The scheme case study also illustrates the direct role that the public sector can have in using property solutions to safeguard local industry and jobs.

A joint Development Agreement: the GLA and Segro

Background

B.36 Segro is GLA's industrial development partner for the redevelopment of 86 acres of industrial land owned by the Greater London Authority (GLA) in London Riverside, which includes land in the boroughs of Newham, Barking and Dagenham and Havering.

B.37 The GLA (when it was established) inherited a significant property portfolio from English Partnerships and the London Development Agency, including large tracts of land throughout East London, some of which had been sitting unused for 30 or 40 years.

B.38 Recognising that there was a severe deficit of industrial/ employment space coming forward at the time, the GLA assembled a portfolio of some 86 acres of land (across a variety of sites) and placed that to the market, in order to find a development partner, which could provide not only the funding, but also the development expertise, in order to bring forward viable schemes on these sites.

GLA Requirements

B.39 In terms of submissions in response to this exercise, the GLA set out the type and scope of development that they were looking to achieve across the various locations, and requested bidders to provide them with indicative proposals regarding:

- The type, specification and scale of development that would be brought forward at each location
- How this would look in terms of a development appraisal
- What that would generate in terms of "land value" to be returned to the GLA

- Any specific development or working assumptions that the bidders would need to make in order to achieve the developments (e.g. deferred land payments, pre-lets, etc)
- An associated letting and management strategy
- How development schemes could be phased over time, and what could be achieved on an annual basis, in order to ensure that all 86 acres are developed out within a 10 year timescale.

B.40 From the GLA's perspective, it is important to say that capital receipts were a consideration, but they were not the "be all …". Wider employment and economic considerations were also important.

B.41 Segro was ultimately selected by the GLA as its preferred developer and an overall development agreement was structured to guide their working practices. This is not a joint venture agreement, but it requires Segro to bring forward development propositions, in accordance with a broad programme of activity that was agreed at the start of the process. The way in which schemes are considered/ approved and land drawn down for development, are set out in the agreement.

Development Process

B.42 As development schemes are brought forward on specific sites, Segro submits "open book", detailed appraisals and full scheme details to the GLA, which mirror the original bid parameters and importantly do not "move the goal posts".

B.43 Once approved, Segro are then responsible for achieving a planning permission, working up detailed designs, placing an appropriate construction contract, drawing down the land and completing the construction of the units. There is an agreed timescale for delivery of each individual scheme, agreed with the GLA and Segro are responsible for all letting and future management activities on the sites.

B.44 The land value is based on the appraisals approved by the GLA on each site, and is paid as set out in Segro's propositions.

B.45 It is probably important to state that whilst Segro are very happy to work within this arrangement with the GLA, they would also have been happy to consider Shared Revenue and Shared Overage arrangements, if those opportunities had been of interest to the GLA.

B.46 An example of a scheme brought forward over the last 12 months within the above arrangement, is Segro Park in Rainham (East London), where Segro has constructed speculatively, 5 large industrial/ warehousing units (ranging from 17,000 sq ft to 70,000 sq ft), and a range of 42 small units, from 500 sq ft to 3,300 sq ft

B.47 Discussions with Segro have confirmed that there would have been no prospect whatsoever of Segro considering such a development, without the benefits of the arrangement with the GLA, which has enabled it to control the availability of sites, land value and most importantly the timing of land value payments.

B.48 A Strategic Group was formed, comprising GLA Planning and Development representatives, and the relevant managers from Segro, who meet regularly to review new propositions, progress with schemes under development, and the letting position on completed schemes. So far, the arrangement seems to have been working well for both sides, and progress against the original proposals submitted by Segro, appear on programme.

Relevance to Wales

This example provides a case study in how a joint development agreement with a regional body can work. As with the Barking and Dagenham example above, the London development context is very different, but it demonstrates the potential for engagement with the private sector at strategic level across a number of sites.

Annex C: Estimating future B-class demand

Summary

Analysis of historic employment growth suggests annual demand for between 500,000 and 1.5 million sq ft of floorspace. This implies a higher level of floorspace delivery than has been achieved in recent years, reflecting the market commentary set out in this report.

Considering evidence of viability at local level, we estimate a potential need for the Welsh Government to plan for intervention to bring forward between 900,000 and 2.4 million sq ft of floorspace over a rolling three year programme (equivalent to an annual requirement of between 300,000 and 790,000 sq ft).

Introduction

C.1 This annex sets out our approach to estimating potential B-class demand (informing Chapter 4 of the report) and, building on this, our approach to identifying the potential quantitative 'need' for intervention by the Welsh Government or other public sector partners. It should be noted that this is highly indicative and reliant on assumptions and historic data: the figures set out below should therefore be read in conjunction with the wider market analysis and should be regularly reviewed to reflect changing market trends and development performance. However, it provides a guide to the quantum of new commercial floorspace that the Welsh Government may need to offer support in bringing forward, over a three-year rolling period.

Estimating future B-class demand

Approach

C.2 There is no consistent method for estimating future floorspace demand across Wales: employment land reviews vary in their vintage, and while commercial property studies have been carried out at various geographies, they do not follow a common methodology.

C.3 However, Planning Practice Guidance (PPG) on *Building an Economic Development Evidence Base to Support a Local Development Plan* recommends the use of a **labour demand forecasting** approach to calculating future requirements[131]. This involves taking employment growth forecast data by SIC codes, assigning sectors to B-class uses and converting jobs to floorspace. This approach has significant limitations; for example, it does not take account of policy aspiration. However, it is commonly used as a contribution to the evidence base in local employment land reviews.

C.4 Labour demand forecasting should involve bespoke forecast modelling. However, econometric forecasts have not been commissioned as part of this study and (as far as we are

[131] Welsh Government (2015), *Practice Guidance: Building an Economic Development Evidence Base to Support a Local Development Plan*, p.34. It should be noted that the purpose of this section of the PPG is to calculate land requirements. For the purposes of the Commercial Property Review, land requirements using the methodology are derived from floorspace, so remain suitable. PPG also recommends a past completions method, although the data that we have from Annual Monitoring Returns and other local authority documents are inconsistent across Wales.

aware) no recent economic forecasting model has been commissioned by the Welsh Government[132]. We have therefore applied two calculations, based on historic growth rates:

- First, historic rates of growth by SIC code (main sections) by local authority district, using **Business Register and Employment Survey** data from 2009-18, projected forward. This has the advantage of providing employee jobs data by sector at local authority level (which can then be aggregated up to the three regions). However, it has the disadvantage of a relatively short time-series: the data are only available from 2009. It should be noted that there is also a time-series discontinuity in the data, which has been smoothed for the purposes of this exercise[133].

- Second, historic rates of growth by SIC code (main sections) using the **Workforce Jobs** dataset provided by the Office for National Statistics using Labour Force Survey and employer survey data. This is available for Wales as a whole from 1996 (so providing a longer time series), although not at sub-national geographies. To provide a broadly comparable estimate with the BRES-based data, we:
  - estimated local jobs using 2018 district-level shares of the Welsh national total BRES-based jobs total
  - converted workforce jobs (which includes *(inter alia)* self-employed people not counted in the BRES data) to employee jobs by sector. This was done by subtracting using the proportionate differential between the UK sector workforce and employee jobs dataset in each year from 1996 (total employee jobs are generally around 13% below total workforce jobs).

Future employment growth

C.5 Projecting both sets of historic data forward results in similar estimates of total employment (133,000 and 136,000 additional jobs based on each dataset between 2019 and 2031). However, the sectoral balance is different between the two. This reflects a sharp contraction in manufacturing employment in the early 2000s (which is reflected in the Valuation Office Agency data showing a loss of industrial stock in the mid-2000s), at the same time as rapid growth in education and public service employment. After 2010, the pattern is reversed, with manufacturing resilience (perhaps driven by cheaper sterling and the earlier loss of less competitive businesses) and growth in technical and professional activities and food and accommodation services, offset by falls in public service employment and retail:

Annex Table C-1: Historical trend-based projection of net additional employee jobs (Wales), 2019-31

Sector	BRES-based projection (2009-18)	Workforce jobs-based projection (1996-18)[134]
Agriculture, forestry & fishing	0	3,000
Mining & quarrying	0	-900

[132] Obviously, econometric forecasts have been commissioned by individual LPAs, although these cannot be adapted nationally.
[133] BRES data are calculated slightly differently for 2009-15 and 2015-18, although data for 2015 are available on both methodologies. We have used both for 2015 to smooth the data across the period (although the differences are quite minor)
[134] Adjusted to approximate to employee jobs as described above

Sector	BRES-based projection (2009-18)	Workforce jobs-based projection (1996-18)[134]
Manufacturing	10,400	-34,600
Electricity, gas, steam & air con	1,300	900
Water supply, waste mgt, etc.	5,200	1,800
Construction	5,200	15,900
Wholesale & retail, motor repair	-13,000	3,400
Transportation & storage	1,300	9,300
Accommodation & food service	24,700	12,200
Information & communications	2,600	7,500
Financial & insurance	2,600	3,300
Real estate	10,400	7,900
Prof, scientific & technical	29,900	19,500
Admin & support service	19,500	24,300
Public admin & defence	-3,900	5,100
Education	-13,000	16,800
Health & social work	40,300	33,500
Arts, entertainment & recreation	2,600	7,000
Other service activities	5,200	500
Other	0	-1,100
Total	**132,600**	**135,800**

Source: SQW analysis

C.6 These estimates are entirely based on past trends, and it should be emphasised that **past trends are not necessarily a guide to future growth**. A past trend approach does not take account of policy-driven approaches (described elsewhere in the report). Nor does it take account of structural changes in the economy, such as the advent of new sectors or business models, or future changes to the UK's competitiveness. This is visible in the sectoral differences between the projections based on the two sets of data: for example, large recent falls in retail employment driven by the rise of e-commerce and changing consumer preferences would not have been foreseen in the late 1990s. At best, looking at historical trends can only provide a rough estimate, and it should be noted that bespoke econometric forecasts based on much longer-term historic trends may yield lower projected job numbers[135].

C.7 **Labour demand may also be constrained by supply.** Looking forward to 2031, only Cardiff, Swansea and Wrexham are projected to see an increase in their working age populations; in some parts of the country (especially the West and North), the working age population is expected to fall quite sharply. In recent years, some counties with falling working age

[135] Alongside historic trend data, we also used UK-wide forecasts of employment growth by sector prepared by Cambridge Econometrics, and applied them to local authorities in Wales. This results in a much lower estimate of future industrial floorspace demand, partly resulting from the longer-term historical trend data that inform the model. This feature is common across the UK: trend-based data generally projects higher growth than econometric forecasts, reflecting the buoyant labour market in recent years.

populations have continued to experience rising employment, with the result that job densities (the ratio of total jobs to the working age population) have risen substantially: for example, the jobs density in Powys rose from 0.77 in 2010 to 0.86 by 2017[136]. Alternative estimates constrained to labour supply would, in most of Wales, result in lower long-term employment growth[137].

Estimating demand for B-class space from jobs growth

C.8 Bearing these caveats in mind, estimated jobs growth can provide a basis for estimating future B-class use. To do this, we assume that all net additional jobs will lead to an 'additional' requirement for floorspace (although there are some important caveats to this, set out below). However, not all additional employment will require additional *B-class* floorspace (for example, most construction or education employment will not be mostly accommodated in commercial industrial or office buildings. Based on the *Building an Economic Evidence Base* PPG, we have 'allocated' sectors to use classes as follows:

Table C-2: Translating sectors to use classes

	Office (B1a/b)	Industrial (B1b/B2	Warehousing (B8)
A : Agriculture, forestry and fishing	0.00	0.00	0.00
B : Mining and quarrying	0.00	0.00	0.00
C : Manufacturing	0.00	1.00	0.00
D : Electricity, gas, steam and air conditioning supply	0.00	0.00	0.00
E : Water supply; sewerage, waste management and remediation activities	0.00	1.00	0.00
F : Construction	0.00	0.50	0.00
G : Wholesale and retail trade; repair of motor vehicles and motorcycles	0.00	0.06	0.16
H : Transportation and storage	0.00	0.00	0.77
I : Accommodation and food service activities	0.00	0.00	0.00
J : Information and communication	1.00	0.00	0.00
K : Financial and insurance activities	1.00	0.00	0.00
L : Real estate activities	1.00	0.00	0.00
M : Professional, scientific and technical activities	1.00	0.00	0.00
N : Administrative and support service activities	0.21	0.09	0.06
O : Public administration and defence; compulsory social security	0.20	0.00	0.00
P : Education	0.00	0.00	0.00
Q : Human health and social work activities	0.00	0.00	0.00
R : Arts, entertainment and recreation	0.00	0.00	0.00
S : Other service activities	0.00	0.12	0.00

Source: SQW, based on PPG. 1.00 = 100% of sector employment growth accommodated in use class; 0.00 = no sector employment growth accommodated in use class

Future floorspace demand based on the short-term historic trajectory

C.9 To estimate the amount of floorspace that would be required by additional employment in each sector, we then applied job densities, based on a combination of those used in Welsh PPG, the standard employment densities published by the English Homes and Communities Agency. These were then cross-checked with a sample of the densities applied recent employment land reviews published in Wales and England[138]. The employment densities we have applied are:

[136] ONS, Job Density
[137] Labour supply-based estimates are generally set out in employment land reviews based on a range of migration scenarios linked with future housing growth.
[138] NLP for Conwy CBC (2018); NLP for Calderdale MBC (2018); PBA for Solihull MBC (2018)

Table C-3: Employment densities used to calculate floorspace requirement

Use class	Sq ft per FTE	Source of estimate
Office (B1a/b)	205	Welsh Government PPG
Industrial (B1c/B2)	452	HCA (blended B1c and B2 densities)
Logistics/ distribution (B8)	791	HCA (blended regional distribution centres and 'final mile' centres

Source: SQW

C.10 Applying these job densities to the estimated additional employment results in an estimate of required floorspace. Based on the 2009-18 BRES-based historical trend projection, the total 'additional requirement' between 2019 and 2031 is around **19 million sq ft** (or about 8% of the current national stock of floorspace). This equates to an **annual requirement of around 1.5 million sq ft**, broken down by local authority area and region, as follows:

Table C-4: Annual future employment-based estimate of additional floorspace demand, 2019-31, sq ft (based on 2009-18 BRES-based historical trend)

	Office	Industrial	Total
Anglesey	600	-16,700	-16,200
Conwy	38,000	11,700	49,700
Denbighshire	24,800	59,700	84,400
Flintshire	64,000	132,500	196,600
Gwynedd	22,400	12,400	34,800
Wrexham	20,800	69,200	90,000
North Wales	**177,100**	**304,700**	**481,800**
Carmarthenshire	15,200	98,000	113,300
Ceredigion	13,600	-18,200	-4,600
Neath Port Talbot	17,400	5,900	23,400
Pembrokeshire	18,500	-37,900	-19,400
Powys	31,900	58,400	90,300
Swansea	52,400	50,100	102,500
South West & Mid Wales	**196,700**	**188,000**	**384,700**
Blaenau Gwent	11,700	-27,600	-15,900
Bridgend	11,400	38,700	50,100
Caerphilly	23,500	51,400	74,900
Cardiff	182,400	5,400	187,900
Merthyr Tydfil	11,800	5,500	17,300
Monmouthshire	21,400	65,800	87,100
Newport	77,400	243,200	320,600
Rhondda Cynon Taf	36,100	-8,800	27,300
Torfaen	13,400	-38,500	-25,000

	Office	Industrial	Total
Vale of Glamorgan	40,800	-25,400	15,400
South East Wales	**422,936**	**277,000**	**700,000**
Wales	**768,000**	**694,100**	**1,462,000**

Source: SQW

C.11 It should be noted that employment growth over the past decade has been stronger in 'office' sectors (public and commercial services) than in manufacturing and logistics (especially in South East Wales, where historic 'office-based' employment has been influenced by the growth of the Cardiff services market). **The consequence of this is that office demand is apparently quite high – an observation which in many parts of the country is significantly at variance with the market commentary outlined in the main report**. In many local authority areas, projected net industrial demand is also negative (again an observation which is inconsistent with reported high industrial demand relative to supply) This variance is also present in recent employment land reviews using bespoke econometric forecasting, given that they also rely substantially on historic employment data.

… and on a longer-term view

C.12 Taking employment projections based on a longer-term trajectory, the total projected net additional floorspace demand is significantly lower. This is not because there are fewer projected jobs; rather it is because the trend anticipates a falling employment in 'industrial' sectors and rising employment in 'office' sectors with much higher densities. For Wales as a whole, a projection based on the 1996-2018 time series anticipates **6.2 million sq ft of additional floorspace in 2019-31, equating to about 500,000 sq ft per annum.**

C.13 This is not broken down at local authority level, but assuming a geographical distribution of total jobs across the country consistent with the BRES 2018 data and holding the sectoral balance constant[139], the table below provides an indicative breakdown:

Table C-5: Annual employment-based estimate of additional floorspace demand, 2019-31, sq ft (based on 1996-18 Workforce Jobs-based historical trend; Wales data applied to local areas

	Office	Industrial	Total
Anglesey	11,500	-3,700	7,800
Conwy	25,200	-8,100	17,100
Denbighshire	22,500	-7,200	15,300
Flintshire	41,100	-13,100	28,000
Gwynedd	29,600	-9,500	20,100
Wrexham	31,800	-10.200	21,600
North Wales	**150,100**	**-48,000**	**102,100**
Carmarthenshire	36,700	-11,700	25,000
Ceredigion	14,800	-4,700	10,100
Neath Port Talbot	25,700	-8,200	17,500

[139] In reality, the sectoral balance will vary substantially from district to district

	Office	Industrial	Total
Pembrokeshire	24,100	-7,700	16,400
Powys	27,400	-8,800	18,600
Swansea	59,700	-19,100	40,600
South West & Mid Wales	**188,400**	**-60,200**	**128,200**
Blaenau Gwent	9,900	-3,200	6,700
Bridgend	31,800	-10,200	21,600
Caerphilly	29,600	-9,500	20,100
Cardiff	116,100	-37,100	79,000
Merthyr Tydfil	12,000	-3,900	8,200
Monmouthshire	19,700	-6,300	13,400
Newport	44,900	-14,400	30,600
Rhondda Cynon Taf	42,200	-13,500	28,700
Torfaen	18,600	-6,000	12,700
Vale of Glamorgan	21,900	-7,000	14,900
South East Wales	**346,700**	**-110,800**	**235,900**
Wales	**697,200**	**-222,800**	**474,400**

Source: SQW

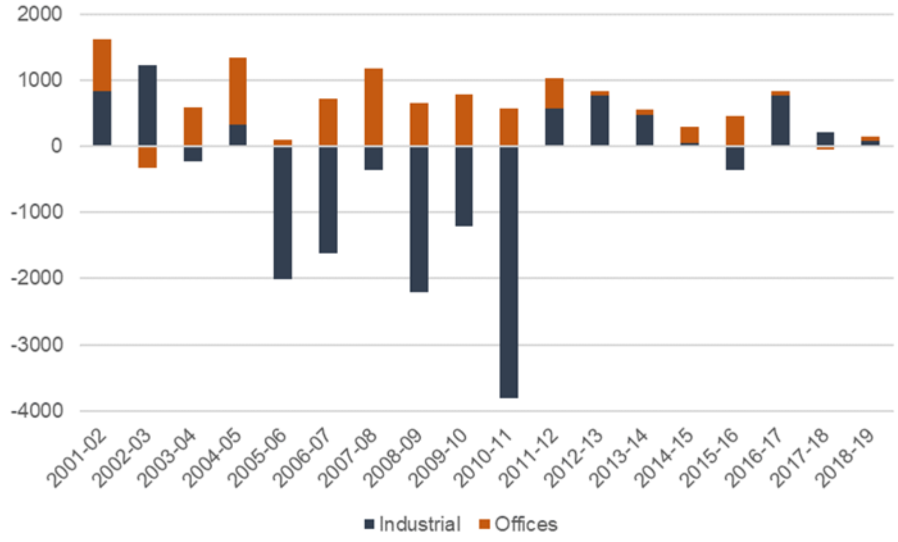
Bringing the projections together

C.14 Bringing the two together suggests a potential 'need' for **between 500,000 and 1.5 million sq ft of floorspace per year**: a broad range, but reflecting the sensitivity of the calculation to the balance between industrial and office employment demand. Two further points are worth noting:

- **Not all demand for new office and industrial space will be accompanied by net employment growth.** Some demand will be derived from the **obsolescence of existing stock** (i.e. the need for new premises to meet business need, without additional job creation), or by changes in working and consumer preferences (for example, the trend (at least in Cardiff) towards city centre offices with good public transport connections, at the expense of out-of-town business parks).
- **Employment-based floorspace demand projections are likely to miss some *intra*-sectoral trends.** This might be especially relevant to Wales in the context of the structural changes affecting parts of the manufacturing sector: the loss of large-scale manufacturing employment in employers such as Ford (and the accompanying 'surplus' of industrial stock) may not be relevant to demand from smaller-scale occupiers, which market consultees reported as almost universally constrained by weak supply.

C.15 How does this compare with historic delivery? Average net additional floorspace over the past five years is around 308,000 sq ft -less than the 'lower bound' of anticipated demand, with low volumes of additional floorspace in the past couple of years. This should also be seen in the context of a substantial loss of industrial stock in the mid/ late 2000s. Delivering a net additional 500,000 sq ft per year would be a major increase on the current growth in stock; delivering 1.5 million sq ft would be a very significant change.

Figure C-1: Net annual change in floorspace (sq ft, Wales)



Source: VOA

Estimating the potential scale of intervention

C.16 Not all delivery will require Welsh Government (or other public sector) intervention: much commercial floorspace will be delivered by the market, and the Welsh Government's preferred approach is to enable market delivery where possible. However, our analysis suggests widespread market failure, and it is likely that intervention will be needed to bring forward new stock. As set out in the main report, intervention could involve a number of actions, from direct delivery where there is no realistic commercial interest, through to measures to de-risk private investment (for example through infrastructure funding or taking a head lease on a building).

C.17 To estimate a potential 'intervention rate', we have drawn on the series of baseline appraisals described in Chapter 8. These took rental, yield and build cost information for a series of indicative 'standard' schemes in each local authority area across Wales using EGi and CoStar data to assess likely viability. Based on the baseline appraisals, we assigned a notional 'intervention factor' for office and industrial schemes on a range of 0 to 1 (where 1 reflects significant non-viability and assumes that no development is likely without intervention, to 0 where it is assumed that the market is functioning). The appraisal-based factors were then adjusted based on the stakeholder commentary (and employment land review and other information) considered as part of this research.

C.18 The 'intervention factors' applied are as follows:

Table C-6: Indicative intervention factors based on baseline appraisals

	Office	Industrial	Composite	Adjustment included
North Wales				
Anglesey	1.00	0.75	0.88	None
Conwy	1.00	0.75	0.88	None
Denbighshire	1.00	0.75	0.88	None
Flintshire	0.50	0.25	0.38	Adjusted to reflect higher viability
Gwynedd	1.00	0.75	0.88	None
Wrexham	0.50	0.75	0.63	None
South West & Mid Wales				
Carmarthenshire	1.00	0.75	0.88	Adjusted to reflect lower viability
Ceredigion	1.00	0.50	0.75	None
Neath Port Talbot	1.00	0.75	0.88	None
Pembrokeshire	1.00	0.75	0.88	None
Powys	1.00	1.00	1.00	None
Swansea	1.00	0.75	0.88	None
South East Wales				
Blaenau Gwent	1.00	0.75	0.88	None
Bridgend	1.00	0.75	0.88	None
Caerphilly	0.75	0.75	0.75	None
Cardiff	0.00	0.25	0.13	Adjusted to reflect higher viability
Merthyr Tydfil	1.00	0.75	0.88	None
Monmouthshire	0.50	0.25	0.38	Adjusted to reflect higher viability
Newport	0.25	0.25	0.25	Adjusted to reflect higher viability
Rhondda Cynon Taf	1.00	0.75	0.88	None
Torfaen	1.00	0.50	0.75	None
Vale of Glamorgan	0.50	0.25	0.38	Adjusted to reflect higher viability

Source: SQW

C.19 The composite intervention factor was then applied to the projected total floorspace requirement derived from each estimate of employment growth to yield an indicative level of potential demand that Welsh Government/ public sector intervention could be required to bring forward. This is set out in the table below and assumes a three-year rolling programme of intervention (on the basis that supply will take time to bring forward and – linked with the concept of float – there is a need to plan ahead). It should be noted that while the figures below are built up from district-level data, they do not relate specifically to individual sites and schemes and in some cases include negative data: they should best be considered as national and regional aggregates[140]:

Table C-7: Indicative Welsh Government/ public sector intervention rate over 3-year rolling programme

	Composite IF	Long-term trend based	Short-term trend based
Anglesey	0.88	20,500	-42,400
Conwy	0.88	45,000	130,500
Denbighshire	0.88	40,100	221,600
Flintshire	0.38	31,400	221,100
Gwynedd	0.88	52,800	91,400
Wrexham	0.63	40,500	168,700
North Wales		**230,500**	**790,900**
Carmarthenshire	0.88	65,600	297,400
Ceredigion	0.75	22,600	-10,300
Neath Port Talbot	0.88	46,000	61,400
Pembrokeshire	0.88	43,00	-51,000
Powys	1.00	55,900	270,800
Swansea	0.88	106,600	270,000
South West & Mid Wales		**339,700**	**837,200**
Blaenau Gwent	0.88	17,600	-41,800
Bridgend	0.88	56,700	131,400
Caerphilly	0.75	45,300	186,500
Cardiff	0.13	29,600	70,400
Merthyr Tydfil	0.88	21,500	45,400
Monmouthshire	0.38	15,100	98,000
Newport	0.25	22,900	240,400
Rhondda Cynon Taf	0.88	75,300	71,600
Torfaen	0.75	28,500	-56,400
Vale of Glamorgan	0.38	16,800	17,300
South East Wales		**329,400**	**745,000**
Wales		**899,600**	**2,373,000**

Source: SQW

C.20 Overall, this gives a planning assumption that Welsh Government intervention could be required to bring forward **between 900,000 sq ft and 2.4 million sq ft of floorspace** over a three-year period. This is relatively evenly distributed across the three regions: although the volume of economic activity and employment is substantially greater in South East Wales than

[140] Note also that the 'lower bound' (longer term historical trend based) data are drawn from Wales national job estimates, with the district-level derived from these, as described above.

elsewhere, the intervention factors used above assume that most development in Cardiff, and much of that in Newport, Monmouthshire and the Vale of Glamorgan, will be brought forward without intervention (although there will be individual schemes relating to specific investment propositions in these locations that present a strong economic case for public intervention and should be considered as appropriate).

Land requirement

C.21 Assuming an approximate land requirement of one acre to 25,000 sq of development (based on an average development density for these purposes), these intervention planning assumptions translate into a need to plan to enable (through acquisition (where not already in public ownership), infrastructure provision and the other measures outlined in the report) a supply of between 36 and 95 acres of good quality, developable land, broken down regionally as follows:

Table C-8: Indicative three-year rolling land developable land requirement (acres)

	Long-term trend based	Short-term trend based
North Wales	9	32
South West & Mid Wales	14	33
South East Wales	13	30
Wales	36	95

Source: SQW

Conclusions

While there is no perfect approach to estimating future floorspace demand and the Welsh Government's potential need for intervention, analysis of trend-based growth suggests a 'need' for the Welsh Government to plan to facilitate between 900,000 sq ft and 2.4 million sq ft of floorspace over a rolling three-year period (equivalent to between 300,000 sq ft and 790,000 sq ft per year). Given the evidence of widespread non-viability across much of the country, this equates to an 'intervention rate' (development assisted in some way by the Welsh Government as a proportion of all additional commercial development) of between 54% and 63%.

Annex D: Welsh Government economic assets

Introduction

D.1 In 2019, the Welsh Government held around 5,600 acres of non-operational assets, broken down regionally in Table D-1. This includes land and property deemed surplus to requirements, as well as land likely to be used for residential development, 'residual' land on business estates that have otherwise been sold off and some other holdings that are unlikely to have an economic use. However, the Welsh Government's list of assets also includes several strategic sites, many of which play (or could play) an important economic development role.

Table D-1: Welsh Government non-operational assets

Region	Acreage	Capital value (£m)
South East	3,380	120
South West & Mid	900	38
North	1,319	33
Total	**5,599**	**191**

Source: SQW analysis of Welsh Government data

D.2 Identifying the quantum of land suitable for commercial development is not straightforward from the list alone. However, based on individual site descriptions and planning consents, there are around 3,200 acres of potential commercial development land:

Table D-2: Welsh Government estimated land with potential for commercial development

Region	Acreage	Capital value
South East	2,339	99
South West and Mid	503	23
North	584	27
Total	3,245	158

Source: SQW analysis of Welsh Government data

Key economic assets

D.3 The Welsh Government's list of assets also includes several strategic sites, many of which play (or could play) an important economic development role. Key economic assets include:

Table D-3: Key economic assets

Site	Location	Description
South East		
Rhyd y Blew	Ebbw Vale, Blaenau Gwent	Strategic site within Ebbw Vale EZ; potential location for automotive test track
Waterton Park	Bridgend	Employment allocation adjacent to Ford engine plant
Pencoed Technology Park	Pencoed, Bridgend/ RCT	Serviced development plots, plus former Sony complex (tenants including Reneuron, Sony and BBI Healthcare)

Site	Location	Description
Brocastle	Bridgend	Strategic site east of Bridgend town centre, with ERDF funded infrastructure; new site for production of Ineos' Grenadier vehicle
Ty Du	Nelson, Caerphilly	Strategic site, supported with ERDF infrastructure investment and being developed through a JV with Caerphilly CBC
Roath Basin	Cardiff	BBC Drama Village and GloWorks, with adjacent land at Cardiff Bay
Coed Ely	Tonyrefail, RCT	Serviced former colliery site; potential for industrial development (and discussions underway with RCT CBC to bring forward speculative unit)
Llanfrechfa	Cwmbran, Torfaen	Land adjacent to new hospital; potential for 'Medi Park' development
RAF St Athan	St Athan, Vale of Glamorgan	Major strategic site for mixed use development; includes Aston Martin factory
South West and Mid		
Dafan Industrial Park	Llanelli, Carmarthenshire	Industrial estate and greenfield land adjacent to Calsonic
Parc Teifi, Cardigan	Cardigan, Ceredigion	Industrial estate and part-serviced development land
Parc Aberporth	Aberporth, Ceredigion	Former MoD site
Baglan Industrial Estate	Baglan, Neath Port Talbot	Serviced development land
Jersey Marine	Llandarcy, Neath Port Talbot	Strategic former industrial site, mostly now redeveloped as Parc Amazon
Mochdre Enterprise Park	Newtown, Powys	Land adjacent to established business park at Newtown
Felindre	Swansea	Strategic site adjacent to former tinplate works, developed with ERDF funding through joint venture with Swansea Council
Swansea Waterfront SA1	Swansea	Strategic site for comprehensive mixed use development
North		
Bryn Cefni	Llangefni, Anglesey	Strategic new industrial estate, including additional development land
Parc Cybi	Holyhead, Anglesey	Serviced site adjacent to A55
St Asaph Business Park	St Asaph, Denbighshire	Strategic business park, developed through JV with Denbighshire County Council
Hawarden Park	Broughton, Flintshire	Strategic business park adjacent to Airbus
Parc Menai	Bangor, Gwynedd	Strategic business park, including undeveloped plots
Parc Bryn Cegin	Llandegai, Gwynedd	Employment site with potential for leisure use

Site	Location	Description
Wrexham Industrial Estate	Wrexham	Serviced and unserviced land on major strategic industrial estate

Source: SQW analysis of Welsh Government data

Annex E: High-level integrated impact assessment

Introduction

E.1 Proposals for investment, activity or change within the Welsh Government are subject to an Integrated Impact Assessment. This sets out how a proposal contributes to the priorities and vision set out in *Prosperity for All*, identifies how it will contribute to the social, cultural and environmental wellbeing of Wales and states how it will impact Wales and its people, both positively and negatively.

E.2 This report does not specifically advance a proposal for change or investment, nor does it set out a strategy. However, it provides an evidence base which will inform strategy and future investment decisions (through the Property Development Plan). It also sets out a series of options for intervention which may be considered as part of that Plan.

E.3 In view of the potential use of this report, this Annex provides a high-level impact assessment of the *potential* actions that could be taken in line with the findings of the analysis. This is structured according to the headings in Sections 1-5 of the *Welsh Government Integrated Impact Assessment*, considering potential impacts on: social wellbeing; cultural wellbeing and the Welsh language; economic wellbeing; and environmental wellbeing. Where relevant, we have highlighted considerations in respect of each of these dimensions that should be taken into account in preparing detailed policies and plans.

Social wellbeing

People and communities

E.4 The general intent of the measures to intervene in the commercial property market is to improve the supply of property 'infrastructure' (i.e. the stock of industrial and office premises that can provide employment and economic opportunity where the market is unable to deliver this alone). We do not anticipate that market intervention will have any specific impacts on particular individuals, however:

- **Intervention is more likely to take place in some locations than others.** Within Chapters 5-7 of this report, we set out the rationale for intervention in specific places within each of Wales' three regions, supported by market evidence. In general, the focus is on intervening in those locations (and in relation to those types of property) where there is evidence of *demand* for additional commercial property, as well as evidence that the market is unable to bring forward *supply* without public sector support. We also note policy-based drivers for intervention, such as the 'strategic hubs' defined by the Valleys Task Force. The implication is that:
    - ➢ In developing specific interventions, policy should align with wider regional spatial strategy, so that commercial property interventions add value to plans aimed at *(inter alia)* supporting the regeneration of town centres, the specific

spatial policies within the draft National Development Framework and regional designations such as the Valleys Strategic Hubs

- ➢ Given that policy is likely to lead to a concentration of investment within specific locations, it should align with measures to ensure access to employment from communities within the relevant travel-to-work area

- **Intervention is likely to benefit some sectors more than others**, given that the focus is on industrial, logistics/ distribution and office uses. There may also be more specific sectoral opportunity grounds for investment in certain locations and types of use.

- **There are unlikely to be direct implications for the goal of promoting decent work.** However, the analysis within this report takes into account the Welsh Government's goal of promoting "better jobs, closer to home" in identifying potential locations and types of intervention.

Children's rights

E.5 There are unlikely to be any implications for children's rights.

Equality

E.6 Given the focus of the potential interventions referred to in this report is on increasing opportunities for economic activity, and consequently employment, there is likely to be a greater immediate benefit to people of working age in the labour market. However, there are no other issues relevant to any other Protected Characteristics.

Rural proofing

E.7 This report considers need and demand for commercial property in rural areas. This is specifically set out within Chapters 5-7 (especially Chapter 6 for South West and Mid Wales and Chapter 7 for North Wales), within which individual rural locations (generally market towns) are identified as potential priorities for intervention. The report also acknowledges those plans and strategies relevant to rural locations, including *(inter alia)* the Mid Wales Growth Strategy and the Arfor strategy.

E.8 In the course of preparing this report, consultation took place with officers representing rural local authorities (specifically, Powys County Council, Carmarthenshire County Council and Gwynedd Council), the Mid Wales Manufacturing Group and commercial agents based and working in rural areas. We note the importance attached (for example in the Mid Wales Growth Strategy) for commercial property market intervention, which ought be consistent with the findings of this report.

E.9 Intervention based on the analysis in this report should have a positive impact on rural business, including 'indigenous' SMEs, and the report notes the need for smaller-scale provision to accommodate locally-derived demand. There may be some wider rural benefits if, for example, increased capacity for local employment encourages residents to work locally rather than commuting, or if opportunities for self-employment are supported.

Health

E.10 There are no health implications, other than the general health benefits associated with the availability of local employment.

Cultural wellbeing and Welsh language

Cultural wellbeing

E.11 Cultural wellbeing implications are likely to be minor. There could however be positive implications associated with:

- workspace provision that could be used by the cultural and creative industries (including space for freelance/ self-employed people)
- increased workspace capacity within communities (especially market towns and smaller settlements) where the activity associated with this contributes to the vitality of the local community.

Welsh language

E.12 There could be positive impacts on the Welsh language if intervention in the market leads to greater capacity for employment in predominantly Welsh-speaking areas, supporting their economic viability and reducing the need for out-commuting. This is referenced in particular in Chapter 7, relating to North Wales. Otherwise, the Welsh language impact is likely to be neutral.

Economic wellbeing

Business and individuals

E.13 The primary purpose of intervention in the commercial property market is to support economic development. We anticipate that **interventions based on the research in this report will have a positive impact on business**, by:

- Enabling businesses that are currently constrained by lack of space to expand. The report sets out widespread evidence that businesses are prevented from expanding locally because of constraints in the supply of 'grow on' space
- Facilitating greater 'churn' in the market
- Increasing confidence within the commercial development industry.

E.14 Key business beneficiaries are likely to include SMEs in the industrial and office-related sectors, larger businesses (including inward investors) seeking new or grow-on space, and commercial developers. It is not anticipated that any groups of businesses will be disadvantaged.

Public sector

E.15 There may be impacts on the public sector where public bodies access new premises within commercial property schemes as a result of intervention.

E.16 There may also be impacts on the public sector through partnership working. This report sets out the case for closer working between the Welsh Government, local authorities and regional bodies to progress commercial property schemes.

Third sector

E.17 The third sector could be a potential beneficiary of intervention, either as an organisation accessing space in a commercial property development that would not otherwise have happened, or as a workspace delivery body (for example, several managed workspace providers, such as Indycube, are social enterprises).

Environmental wellbeing

Natural resources

E.18 Additional investment in commercial property infrastructure has the potential to *"increase [the use of] renewable energy and resource efficiency… and take a place-based approach"*, as referred to in the Natural Resources Policy. It could do this by increasing the stock of newer, more efficient buildings, encouraging the market to respond. Depending on the intervention strategies adopted, the Property Delivery Plan may also proactively target obsolescence (for example, by acquiring older stock and 'recycling' it to meet modern demand): such a strategy would mean the retrofitting of measures to improve energy efficiency, and the re-use of existing stock would likely have a lower resource impact in the delivery phase than new build.

E.19 This report has not specifically referred to the BREEAM standards that would be expected in buildings funded by the Welsh Government. However, it is likely that Welsh Government intervention would help to raise standards in the market overall.

Biodiversity

E.20 There are no specific implications for biodiversity (other than those that may be relevant to specific sites and addressed through the planning process).

Climate change

E.21 Additional intervention in the commercial property market could have a negative climate change impact if by encouraging greater economic activity overall, it leads to increased emissions through additional business activity, travel, etc. However, this could be mitigated by:

- The increased energy efficiency of new buildings relative to the existing stock and relative to equivalent stock that may have come forward without Welsh Government intervention

- The location of new commercial premises within sites that are, where possible, accessible by public or sustainable transport
- High standards of sustainable design
- The role that new commercial building stock can play in encouraging occupiers to reduce their carbon footprint (for example, by providing the capacity for investment in new plant and machinery.

E.22 It should be noted that in delivering positive climate change outcomes, activity to support the delivery of new commercial floorspace will need to be coordinated with a range of other Welsh Government interventions, for example relating to business support and transport planning, and will need to align with local planning authorities' sustainability objectives.

Environmental assessments

E.23 We do not anticipate any requirement for additional environmental assessment at this stage (although this may be required in relation to specific investment proposals).

Annex F: List of consultees

F.1 The following organisations were consulted as part of this study:

- Associated British Ports
- Avison Young
- Bolton Birch
- Blaenau Gwent County Borough Council
- BP2 Properties
- Brintons
- Cardiff Capital Region City Deal
- Carmarthenshire County Council
- City & County of Swansea Council
- Cooke and Arkwright
- Cushman & Wakefield
- Development Bank of Wales
- Fletcher Morgan
- Gwynedd Council
- Hutchings & Thomas
- Jenkins Best
- JLL
- Knight Frank
- Legat Owen
- Linells
- M4 Property Consultants
- Mid Wales Manufacturing Group
- Neath Port Talbot County Borough Council
- Newport City Council
- North Wales Economic Ambition Board
- Powys County Council

- Rees Richards
- Rhondda Cynon Taf County Borough Council
- Richard Baddeley & Co
- Rowland Jones
- Savills
- South Wales Chamber of Commerce
- Stuart Hogg Property Consultants
- Torfaen County Borough Council
- Welsh Government (Chief Regional Officers)
- Linells

Annex G: Bibliography of background materials

- Anglesey County Council/ Welsh Government (2012), *Energy Island Enterprise Zone: Evidence Base Report* [URS]
- Anglesey County Council/ Gwynedd County Council (2017), *Anglesey and Gwynedd Joint LDP 2011-26: Written Statement*
- Blaenau Gwent CBC (2011), *Deposit LDP: Employment Background Paper*
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- Bridgend CBC (2010), *Employment Land Review*
- Caerphilly CBC (2018), *A Foundation for Success: Regeneration Strategy 2018-23*
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- Denbighshire County Council (2019), *Employment Land and Economic Growth Assessment* [BE Group]
- JLL (2018), *South Wales Report*
- Merthyr Tydfil CBC (2018), *Employment Land Review* [BE Group]
- Monmouthshire County Council (2019), *Monmouthshire LDP: Employment Land Background Paper*
- Neath Port Talbot CBC (2014), *Employment and Economy Topic Paper*
- Neath Port Talbot CBC/ City & County of Swansea (2012), *Economic Assessment and Employment Land Provision for Neath Port Talbot and Swansea* [Peter Brett Associates]

- North Wales Planning Authorities (2014), *Regional Employment Land Strategy for North Wales Strategy Document*
- Powys County Council (2012), *Powys Employment Needs Assessment* [Hyder/ Hardisty Jones] (updated 2015, 2016)
- Rhondda Cynon Taf CBC (2008), *Employment Land Review* [NLP]
- Rhondda Cynon Taf CBC (2019), *Employment Land Availability Schedule*
- Welsh Government (n.d.), *Cardiff Airport – St Athan Strategic Development Framework*
- Welsh Government (2017), *Future Trends 2017*
- Welsh Government (2017), *Prosperity for All: Economic Action Plan*
- Welsh Government (2017), *Regional Investment in Wales after Brexit*
- Welsh Government (2018), *Tech Valleys Strategic Plan*
- Welsh Government (2018), *Our Valleys, Our Future: Delivery Plan*
- Welsh Government (2018), *Budget 2018: Chief Economist's Report*
- Wrexham CBC/ Flintshire County Council (2015), *Employment Land Review* [BE Group]
- Vale of Glamorgan Council (2013), *Employment Land and Premises Study* [BE Group] (updated 2015)