Vickery Holman
Property Consultants

The Market Review
2017-18

Mark Pellow
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Managing Director

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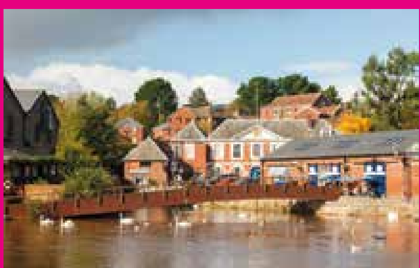

Market Review 2017-18

Once more our Market Review looks at what the events of the last year have been and then forward to what may happen in 2018, then casts an eye back of what has been a pretty strong 2017 for most of the commercial and development property markets. Twelve months ago we felt that the uncertainty due to Brexit would make our predictions harder for 2018, but despite this being an on-going issue, the South West property market has proven resilient. Yes following the political uncertainty post-election we did note a slightly longer slow down over the summer of 2017 than usual, but we believe the recently announced and long awaited progress with Brexit negotiations can only be positive for activity going forward.

Last year highlighted a lack of supply as being an issue, which remains very much the case particularly in the industrial sector, but also in the office sector where prime rent levels have supported some new development for the first time for many years on pre-lets in some locations.

LOOKING FORWARD

One area of the market we saw a particularly strong performance from during 2017 was the investment sector, with prime yields dropping against a back drop of a lack of quality supply.

What will be of particular interest going forward in 2018 is the impact of MEES, as legislation bringing into effect the requirement for Energy Performance Certificates (EPC's) to reach at least an 'E' from April 2018 before any new lettings can take place unless exempt. I here refer you to the further information in this booklet where we discuss this in more detail and highlight some current uncertainties that may well be tested before we become fully aware of the true impact.

It would be amiss not to mention the development and leisure sectors given their importance to our region, with both having seen a strong performance in 2017. Leisure in particular has seen greater occupancy levels and the best offer operators are trading well. A lot of new housing is underway, which has increased on previous levels in our region, although it may not find favour with all!

We hope you all find this booklet a useful summary. We do believe that our south west region is a very diverse but great place to be in property and we hope our offer of local expert advice can continue to provide assistance to you in 2018.

RICS
the mark of property professionalism worldwide

A year in Bristol

Since our last Market Review Vickery Holman have invested in broadening their geographic coverage to include a full-time base in Bristol. Chartered Surveyor and Registered Valuer Chantal Molony who was previously based in the Exeter office relocated to Bristol just over 12 months ago and has grown our Valuation business in Bristol and surrounds. We are now on the majority of high street bank and other lending panels covering postcode areas that include not only Bristol but also west, linking with coverage from the VH Exeter office, over the estuary into South Wales and across as far as Swindon and Gloucester.

We are pleased to see that the Valuation work is generating spin offs for other services across VH and we are very satisfied at the way in which extending our coverage to Bristol and surrounds has fallen into place as a natural extension to our existing network of offices. It has certainly helped reinforce our position as experts across the West Country.

We believed it was an opportune time to extend our coverage to Bristol with reports suggesting that it is expected to outperform the UK by 2020 in terms of economic growth as the city continues to grow and attract investment. According to forecasts, over the next five years Bristol could expect to see strong growth of 4.2% per annum in professional, scientific and technical activities in contrast to financial and insurance activities at 1.9% per annum.

The market in Bristol remains robust, as demonstrated by a number of key developments in the city including Bristol University's investment in the Temple Meads Enterprise Zone, The University of the West of England's flagship Enterprise Zone at their Frenchay Campus, the multi-million regeneration project of the Redcliff Quarter, the regeneration of East Street in Bedminster, and the development of the former Rolls-Royce East Works site in Filton. These developments illustrate the strong demand in the city for commercial and residential floor space.

This is reflected on the ground where supply of office space is at a historically low level in Bristol. Due to the lack of new development, there have been a number of refurbishments in the city centre. Prime office rents are currently circa £28.50 per sq. ft. but expected to rise to £30 per sq. ft. in 2018. While Bristol out of town rents are achieving in the region of £21.50 per sq. ft.

Supply issues are also a major problem for the industrial sector where Bristol's position as an e-commerce distribution hub is creating more strain, with supply at its lowest level for 13 years. Industrial rents in the Bristol area are reportedly among the highest outside London and the South East, with prime rents in the region of £7 – £8.50 per sq. ft. Due to this lack of stock, rents at the lower end of the market are also rising, achieving circa £4 – £5 per sq. ft.

In July 2017, Bristol's citywide retail property vacancy rate was 6.7% more or less unchanged from that for July 2016, at 6.8%. Over the last three years the vacancy rate has been quite stable, averaging 7.0% and ranging from 6.5% to 7.5%. Headline Zone A rents in Cabot Circus are holding at circa £200 per sq. ft., while Zone A rents in Broadmead are in the region of £130 – £140 per sq. ft. Headline Zone A rents in The Mall at Cribbs Causeway are in excess of £300 per sq. ft. Major expansions to both Cabot Circus and The Mall are also in the pipeline.

Alan B Treloar
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Head of Commercial Agency & Director

Nicola Murrish, Alan Treloar & Chantal Molony attending South West Tourism Awards.
Vickery Holman – sponsor of Best Hotel category.

PAI update

The past 12 months have seen a continued commitment from Vickery Holman to the PAI network (Property Agents Independent) – an informal network of 27 likeminded property consultancies, all providing high quality advice within their local markets. Collectively, the firms have 58 offices and are managing over 15 million sq. ft. of space. PAI firms have a combined total of over 3,000 properties on the market across the network at any one time which can be seen at www.pai.uk.com. All these statistics emphasise the collective size of PAI which consequently ranks alongside some of the largest national players in the UK property consultancy sector in terms of scale.

Via the PAI network we are able to refer clients to the best property advice across the UK and likewise other member firms with requirements for advice in the South West refer their clients to us. In the past 12 months this has led to a variety of professional work across the network including valuation advice, rating work, expert advice and agency including development and investment property.

PAI Commercial Property Network

Truro and surrounds
Retail

Will Oldrieve
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DEMAND

Demand for retail premises in Truro was present but not exactly 'heated' during 2017. There were fewer active national requirements than in previous recent years but this was not unexpected following some larger new entrants coming to Truro over the recent past such as Primark, Wilkinson, Deichmann, Steamer, Jack Wills. Deals haven't been happening quickly but there have been some new arrivals including Rohan and Whistlefish in River Street and Pavers took over from Jones on Boscawen Street. There remain active requirements for food and other retail on the outskirts of Truro the most key of which could be satisfied during 2018.

SUPPLY

The number of vacant units in town have remained relatively few and far between and those which languish on the market tend to be (as ever) those with a combination of poor location/ wrong size/ poor configuration. Pop up shops and charity shops mask some of the availability but make sense for Landlord's eager to avoid paying Business Rates on vacant properties. There have been edge of town opportunities on various developments that are at different stages of gestation but there have been no new starts in 2017. The recent planning decision on Truro City FC's ground will help crystalise the supply in 2018.

RENTS

Rentals are creeping back to pre-recession levels. There are no signs of significant growth.

KEY TRENDS

There are still some lifestyle clothing brands that are eyeing up Truro and we saw Rohan arrive in Lemon Street in 2017. There are also food and drink operators who want to be in Truro but the right premises rarely become available. The potential for deliverable retail development on the outskirts of Truro may lead to an increase in focus of out of town and the city centre needs to continue with every effort to persuade shoppers to make the city centre their preferred choice. Truro still struggles to achieve a level of evening and night time trade that befits Cornwall's only city.

Notable events

1. **Despite greater activity and focus being on where the next out of town development takes place, central Truro remains the principle retail location in Cornwall and the top location of virtually all retailers looking for a position in the County. Though activity is not frenzied it remains a very popular and well regarded location with new openings in 2017 underlining this.**
2. **Grant of planning consent at Treyew Road in December for over 100,000 sq. ft of retail including a foodstore could prove to be the most deliverable of all potential schemes on the outskirts of the town.**

Predictions 2018

- **Supply of town centre units remaining relatively restricted, demonstrating good demand**
- **The progress of out of town development will be interesting as will the speed at which new development begins to take shape and will work on the stadium commence?**
- **Emerging out of town development may begin to attract larger occupiers to relocate from the centre**
- **Uncertainty over Brexit, continued pressure on disposable income and the strength of internet sales will keep the pressure on retailers**

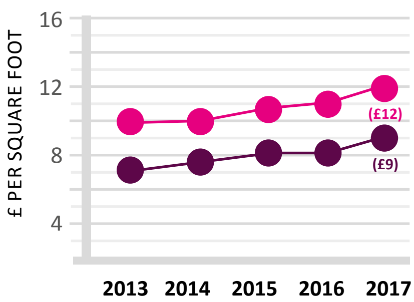
Truro and surrounds
Office

1,000 sq. ft. 5,000 sq. ft.

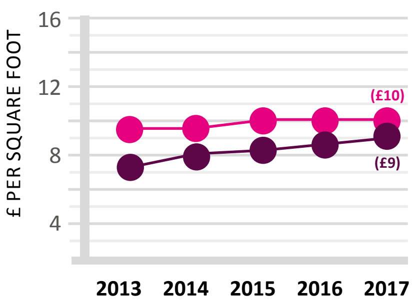
DEMAND

Year on year demand for offices in Truro is unremarkable and this has not really changed during 2017. Very few office occupiers have been looking to move and there have been very few prospective newcomers. Existing occupiers tend to be content in their premises and unless they have a need to significantly upsize or downsize are tending to stay put. The cost of moving in terms of business disturbance, investment in new equipment and other expenses make relocation a last resort for most occupiers. Companies are also increasingly willing to consider space in other locations around the country which can often be more convenient for their workforce.

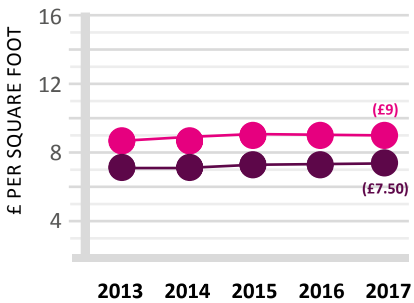
Prime – In Town



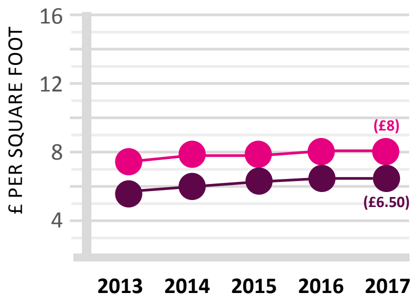
Prime – Out of Town



Secondary – In Town



Secondary – Out of Town



SUPPLY

The amount of vacant space on the market has remained relatively static over the past 12 months. There has been an increase in good quality supply in other locations in Cornwall in recent years and this has impacted on the Truro market. There has been some further inroads into the available stock with property owners taking advantage of the Permitted Development Rights enabling office space to be changed to residential. Remarkably we have seen residential conversion of premises at what we regard as good quality office locations such as Newham and Threemilestone. This is a concerning trend when new office development is not viable on economic grounds.

RENTS

We have seen very modest increments in rentals for the best quality accommodation in town but they are a long way from making new development viable and the apparent lack of demand is not helping increase the rental tone. Landlord's are largely content not taking action on rent reviews. In many cases they seem to accept that office rents are not going to increase and are best left alone – would they be so relaxed with such a laid back approach to maintaining their other investments?

KEY TRENDS

A feature of the office market that we have observed in recent years is that requirements for office accommodation are often now coming from alternative uses. These other uses have included consultancies, childcare, medical and other treatment based businesses and even gyms.

Notable events

1. **Permitted Development Rights have been in place for a number of years now, however this year we have started to see landlords utilising these rights in unexpected locations such as Threemilestone and Newham which are traditional purely office and commercial centres. The upper floors of Chy Nance on Newham Quay, which were previously office accommodation, have been converted to provide two residential apartments. Similarly prior approval has been granted at Oceans Court on the Threemilestone Estate for the conversion to residential.**
2. **There has been limited new supply in Truro and a continued appeal of other local towns due to easier access and greater availability, for example the Carluddon Technology Park in St Austell which is attracting occupiers from the advanced manufacturing and low carbon industries and the Aerohub at Newquay Airport which will provide a number of opportunities for occupiers.**

Predictions 2018

- **Rental levels to remain stable as landlords wish to reduce void periods rather than push rents**
- **We are likely to see more permitted development schemes in traditional office locations as mentioned above, as well as alternative users absorbing some of the office supply**
- **The introduction of the MEES legislation will have an impact on the secondary office market and landlords will need to invest in these buildings to have any chance of securing a tenant**
- **Occupiers will continue to consider other local towns where supply is greater and new schemes are developed**

Truro and surrounds
Industrial

DEMAND

Demand for industrial space in and around Truro during 2017 was largely centred around trade counter type requirements or users, who require the open plan opportunity that sheds offer for activities such as leisure businesses. Larger trade counter occupiers who may require yard space as well as buildings have been largely frustrated by a lack of supply and are prepared to increasingly look beyond Truro.

SUPPLY

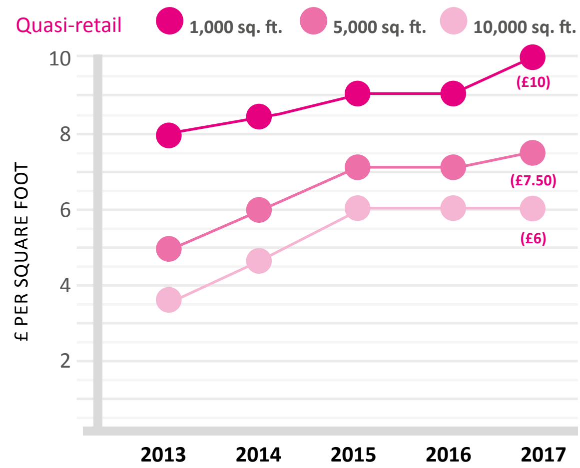
Vacant industrial space has been thin on the ground in 2017 as most businesses are very settled. There is very little prospect of new development being delivered unless as a windfall off the back of other development. We expect any schemes to emerge, with the benefit of some of the last remnants of EU funding, to be in other local towns rather than Truro.

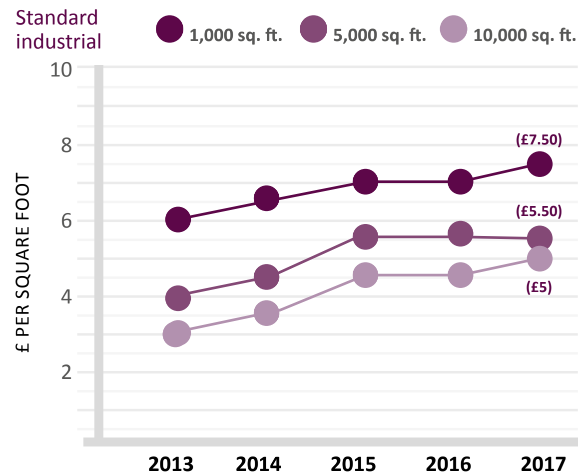
RENTS

Generally rental levels remain quite strong and in some cases close to being on a par with offices. We have seen the continuation of the trend of smaller well located trade counter units achieving in the region of £10 per sq ft. Landlord's tend to be prepared to be a little more bullish when approaching negotiations involving industrial premises (compared with offices) as they feel more confident of their ground at lease renewal.

KEY TRENDS

The majority of industrial activity in Cornwall is on the A30 or more isolated towns with specific local drivers – such as the marine sector in Falmouth. Truro remains a sought after location for trade counter occupiers and they will continue to be the main requirements as will alternative uses such as leisure based activities.





Notable events

1. **The impact of the introduction of Minimum Energy Efficiency Standards in 2018 was already creeping in to decision making in the industrial sector in 2017. Tenants and purchasers began to take the EPC rating of properties much more seriously and we saw some landlord's deciding that the time was approaching for them to either invest in their buildings for the long term or decide to sell.**
2. **The lack of availability was again a factor of the market – frustrating occupiers with requirements and/or leading them to prioritise other locations ahead of Truro where easier acquisitions are possible.**

Predictions 2018

- Supply of vacant premises will continue to be restricted – competitive interest resulting for the right space
- Development of new space will be very limited due to the lack of suitable land opportunities and the difficulty making speculative development stack up
- Potential for new development (most with grant assistance) in other locations continuing to pull the spotlight away from the industrial sector in Truro
- The impact of MEES becoming very clear and impacting on the market
- Prevailing confidence levels in the Brexit process during the year may lead occupiers to hold back from major new commitments

Plymouth and surrounds
Retail

Joanne High
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Commercial Agent & Associate

DEMAND

Demand for retail premises in Plymouth has been good during 2017. The number of national requirements has increased, along with the number of lettings to national occupiers. Those of note include Coffee #1, Jack Wills, Joules, Cath Kidston, Turtle Bay, Quiz, Lovisa, Greggs, Skinny Dip and Regatta.

Food retailers continue to have a demand for out of town locations, as do the traditional bulky goods retailers and those who prefer a trade park location.

Demand from local and regional occupiers continues to be good for neighbourhood parades.

SUPPLY

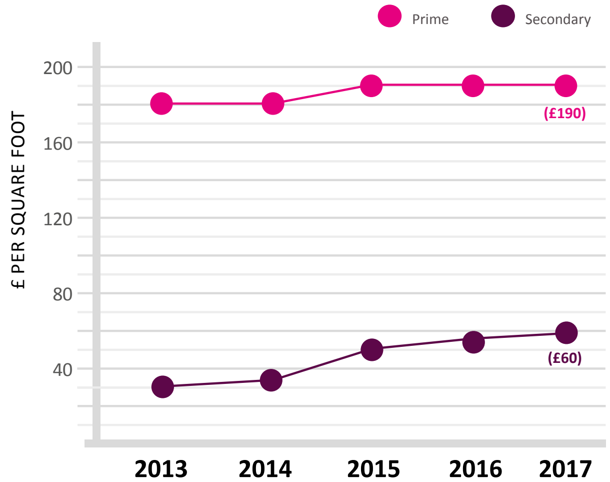
In the City Centre the number of retail units available continues to decrease as more units are let. The former BHS and Woolworths continue to be vacant, but being larger units they were always going to prove more difficult to let as most occupiers no longer require this amount of space.

There continues to be a lack of supply of units within good neighbourhood parades. Those units where there is a lack of footfall are going to alternative uses, such as residential or offices. Alternatively the destination retailers are choosing these locations, since they do not need the footfall.

The new developments, such as Colin Campbell Court, Bretonside Bus Station and Derry's Cross will provide additional new units within the City Centre and at this moment in time look to be more leisure and restaurant uses rather than retail uses.

RENTS

Rents in the City Centre have remained steady. In sought after market towns, such as Tavistock and Dartmouth rents have exceeded pre-recession levels.



KEY TRENDS

There are various coffee shops that are still keen to acquire premises in Plymouth and the market towns, but the lack of availability is proving a hindrance to them. Leisure operators are also still looking, and hopefully the new developments within the City will provide a home for them. Another key trend, on the back of the healthy living movement is the number of gyms, both national and local operators, that are looking across the region.

Notable events

1. **Urban Splash are set to announce their plans for the Civic Centre in early 2018.**
2. **British Land hoarded the Bretonside site in readiness for construction to commence.**
3. **Planning permission was granted for the new Next Superstore at Marsh Mills.**
4. **Development commenced on the new Plymouth Gateway Retail Park on the site of the former Ibis Hotel at Marsh Mills.**

Predictions 2018

- **Supply of City Centre units will remain restricted following the successful letting in 2017, which could see rents start to rise on units in the prime locations, such as Drake Circus**
- **The tenants who lease the units within the new developments at Derrys Cross and Bretonside will be interesting to follow. As will the plans for the Colin Campbell Court development**
- **The availability within neighbourhood parades will continue to be restricted, potentially pushing up rents in 2018**
- **Pressure will be kept on retailers as they continue to compete with online sales. Retailers will need to improve their customer service in order to compete**

Plymouth and surrounds
Office

DEMAND

Demand has been low during 2017. Most occupiers are preferring to stay in their current premises, and refurbish or reconfigure where required to avoid moving. This has resulted in a number of tenants renewing their leases. The reason behind this is likely to be that unless an occupier is looking to grow or downsize there is little to be gained from moving, unless their current office space is not fit for purpose.

The demand that there has been is generally from occupiers already within Plymouth. Some wanting to relocate from period cellular offices to a more modern open plan layout. Others looking to grow, and new businesses who want to move out of their current home office.

What has been key during 2017 is parking. Most occupiers are looking for an adequate number of parking spaces for their workforce, which has in turn driven a lot of demand to out of town offices where parking is more easily available.

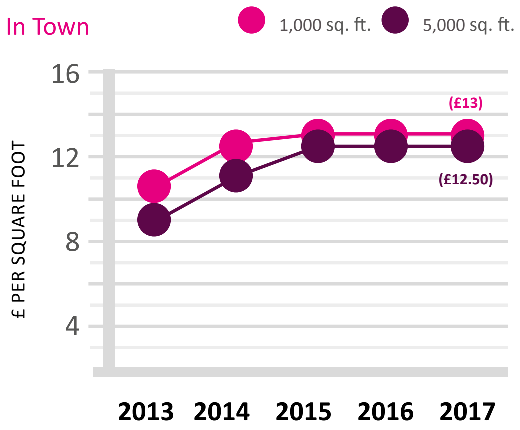
SUPPLY

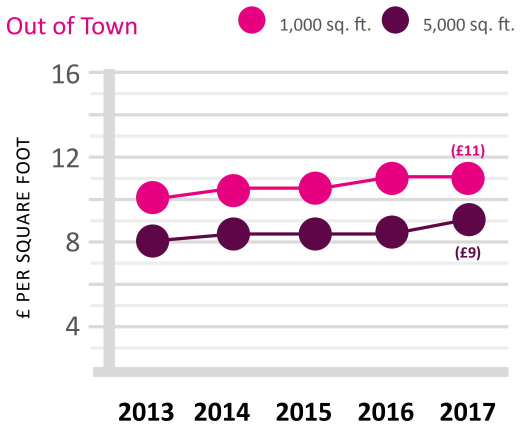
Supply has remained relatively static during 2017. That said, when requirements do come to the market, occupiers are still struggling to find the "perfect" office that matches all of their needs. Most of the accommodation that is available is modern open plan space, with just a small amount of period office space remaining.

New development is still unviable with rents at their current level. Oceansgate and Phase 5 at Plymouth Science Park are the only offices that have been built in a number of years, but these have been backed by grant funding.

RENTS

Rents have generally remained static in 2017 due to the lack of demand. However there has been a slight increase in rents for out of town offices of 5,000 sq. ft. plus, due to them being relatively low for the last few years.





KEY TRENDS

Freehold offices are still being pursued by developers looking to implement permitted development rights and convert them to residential. Parking is generally the most important thing for occupiers when considering new premises.

Notable events

1. Construction commenced at Oceansgate, which will provide office suites from 1,000 sq ft.
2. Construction completed at Phase 5, Plymouth Science Park, with the building two thirds let.

Predictions 2018

- Freehold offices will be pursued by developers looking to use Permitted Development Rights to convert them into residential. This will remove more offices from the market
- If demand does suddenly start to increase there will be a supply issue, as there is not a huge amount of supply, due to the lack of development over the years
- Period cellular offices will continue to be vacated by occupiers looking for modern open plan accommodation that suits their business needs

Plymouth and surrounds
Industrial

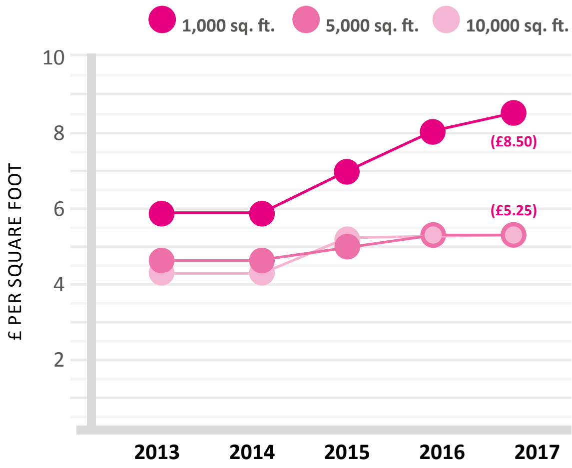
DEMAND

Demand for industrial space has continued to grow in 2017, with this sector being the most robust sector of the market. The highest level of demand is for units sub 2,000 sq ft. There are still a handful of enquiries for in excess of 10,000 sq ft. The demand for units between 5,000 sq ft and 10,000 sq ft continues to be low.

There are a number of estates where we now have a waiting list for units! There is also a good level of demand from occupiers looking to purchase their unit, rather than renting.

This year has also seen an increase in demand from motor trade operators, who find it difficult to find a premises, as most landlord's tend not to allow motor trade uses because of the dirty nature of their business.

The leisure industry continues to have a demand for industrial premises to accommodate their requirements such as gyms and trampoline parks.



SUPPLY

The supply of industrial space is at an all time low following the increase in demand. This coupled with the general lack of industrial development has created the lack of supply we currently see.

The lack of supply is across all size ranges and all locations within the Plymouth vicinity. Even though the demand for 5,000 sq. ft. to 10,000 sq. ft. units is low, the supply is similarly low so occupiers do not have much choice when they do come to the market.

The supply of units for sale is even lower than rental units and with interest rates still so low, it is often cheaper or the same price to purchase a unit, hence the increase in demand.

RENTS

Rents for smaller units have increased, as have sale prices. In some instances the rent for industrial units is the same, if not higher than offices. The rents for larger units have remained steady.

KEY TRENDS

Going forward the most important thing is to increase industrial development in order to satisfy the growing demand.

Notable events

1. **The completion and sale of all units at Apollo Court, Cattedown.**
2. **The EPC rating of units started to have an impact in 2017 when some banks would not lend on units with an F or G rating due to the Minimum Energy Efficiency Standards coming in to force in April 2018. As this draws closer in 2018, it's impact on the market is likely to increase, and those units with an F or G rating will become unlettable without improvements.**
3. **Development commenced on 8 new units at Bell Close, Plympton. All of which are under offer.**

Predictions 2018

- **Demand will continue to outstrip supply which will see rents and prices continue to grow**
- **There are new developments within the pipeline, which will be a welcome addition for companies looking for more space and will be well received by the market**
- **Motor trade users will continue to find it difficult to lease premises. Maybe an estate just for motor trade uses could be the answer, although it would need to be well managed**

Exeter and surrounds
Retail

Clare Cochrane
BA (Hons) Mphil MRICS
Commercial Agent & Associate

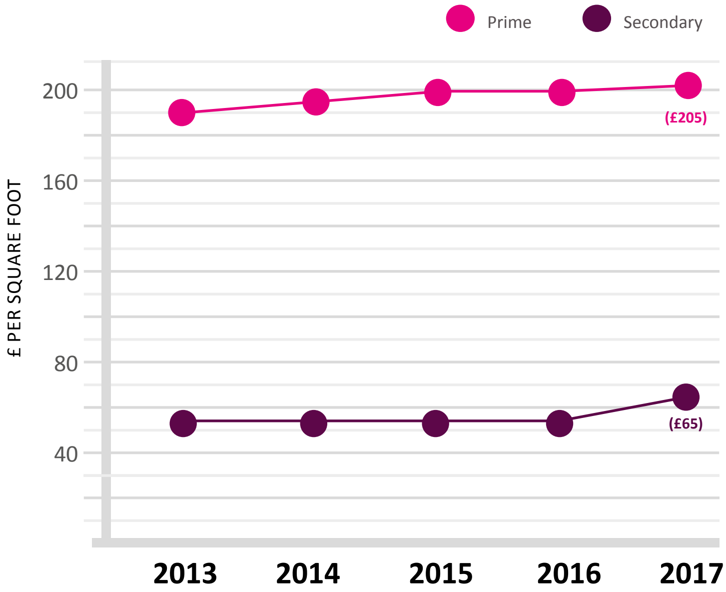
DEMAND

2017 presented its fair share of challenges for retailers, but locally consumer confidence was remarkably higher than anticipated and amidst the ongoing political and economic uncertainty mass casualties were avoided.

Demand remained reasonable from nationals, resulting in high occupancy rates in prime locations, and renewed activity from local and regional operators led to good take up of secondary stock. Occupiers, did however, prefer flexibility and remained cautious about over committing themselves.

Continued demand from leisure and restaurateurs emphasised the shift to 'retail tainment' town centre offerings with more new names set to enter the City in 2018.

Interest in the Quay area continued to gather pace as Mitch Tonks announced plans for a Rockfish and out of town demand remained for both large units and coffee/food offerings.



SUPPLY

Good occupancy levels have led to relatively low levels of both primary and secondary stock. Voids are focused on tertiary stock which continued to struggle and in areas previously ear marked for redevelopment.

In Town, the second phase of the Guildhall will provide further accommodation in an area of Town enjoying a resurgence and will further diversify the offering.

Out of town, supply of existing stock remained low with newer developments filling relatively quickly and construction of Ikea gathered pace, set to open in 2018, this will add a new dimension to the City's shopping offer.

RENTS

Prime headline rents remained in excess of £200 per sq. ft. ITZA. Void periods declined, and incentives reduced. Out of town, interest remained strong, with headline rents approaching £35 per sq. ft. ITZA.

Notable events

1. **Princesshay Extension shelved – the Crown Estate and TH Real Estate halted plans to extend Princesshay and redevelop the bus station site into a mixed-use retail and leisure offering due to market conditions as occupiers react to constantly changing market dynamics.**
2. **Guildhall Phase II – following on from the success of Phase II, plans have been lodged for Phase II of Exeter's Guildhall Shopping Centre to further the leisure and retail offering which will include a new bowling alley and restaurant elements.**

Predictions 2018

- **Locally, continued investment and diversification from conventional retail**
- **More activity in the drive-thru sector**
- **Integration of Omni channel technology**
- **More specialist stores**
- **Rents to remain relatively stable in Exeter**
- **Cautious retailer undercurrent will likely re-establish a two-tier market**
- **Less desirable towns more likely to suffer and see no rental growth**

Exeter and surrounds
Office

DEMAND

Reasonable levels of demand persisted throughout 2017 with confidence and market sentiment remaining resilient despite economic uncertainty.

Despite continued demand, actual transactional activity is unlikely to reach the sectors' bumper 2016 performance which was bolstered by several large pre-lets and sales.

Smaller units, of sub 2,500 sq. ft. commensurate with the City's predominately SME composition remained popular which resulted in high occupancy rates on both primary and secondary stock. Encouragingly, larger requirements of 5,000 sq ft plus were also abundant.

Active sectors included TMT, professional services, and alternative users. Co-worker and serviced office space also continued to increase in popularity and gain market share and there was continued demand for freeholds from owner occupiers seeking assets for their pension pots.

Occupier relocations were encouragingly often driven by expansion, such as PKF Francis Clark's move to Argal House, and Air Marketing Group snapping up 37 Queen Street. Lease events and 'trading up' were also common catalysts for relocation rather than cost reduction.

SUPPLY

The biggest challenge of 2017. There was a continued lack of existing stock across all size brackets, with no grade A existing stock available either in or out of town for most of the year. This restricted options to secondary and tertiary stock for those with immediate requirements. As the year progressed occupier relocations started to free up some stock such as the Ground Floor of Eagle House and the refurbishment of Sterling House. Requirements however, remained unsatisfied as occupiers struggled to find buildings to suit their needs. Those with large requirements had very limited choice.

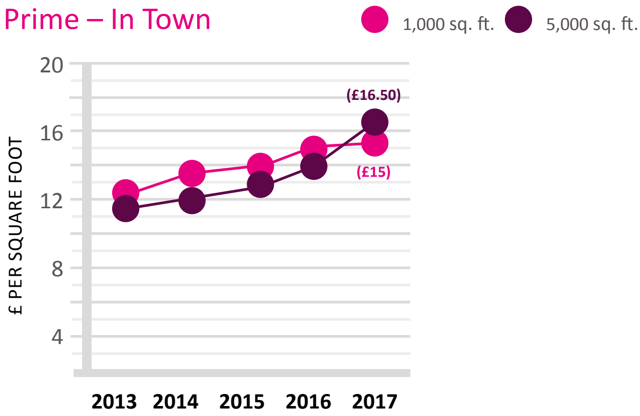
Continued competition from higher value alternative uses such as residential and student housing added to the pressure.

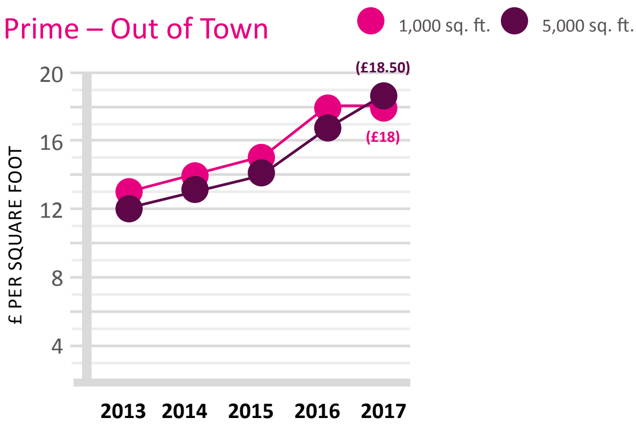
2017, however saw a turning point, with demand boosting confidence and kick-starting the first speculative development for over a decade. As the year ended a speculative 17,142 sq. ft. high quality building at Skypark was out of the ground and construction had started on the "Grow-On" buildings 1 and 2 at Exeter Science Park due to be delivered in October 2018.

The pipeline of new supply has been focused out of town where sites are available, however, news of investigation into utilising Brownfield sites for redevelopment in the city centre such as car parks was a welcomed opportunity.

RENTS

The lack of supply of existing stock continued to drive rents on both primary and secondary options back to pre-recession levels. On new build, the current headline figure of £18.50 per sq. ft. is expected to be surpassed and reach £19.50 per sq. ft.





KEY TRENDS

A feature of the office market that we have observed in recent years is that requirements for office accommodation are often now coming from alternative uses. These other uses have included consultancies, childcare, medical and other treatment based businesses and even gyms.

Notable events

1. **Construction of speculative offices – for the first time in over a decade, brand new speculative office development arrived in Exeter. No 2. Enterprise Square, Sky Park, a 17,142 sq. ft. new office scheme providing high quality options for occupiers. A massive vote of confidence for Exeter.**
2. **EPC's: Whilst celebrating their 10th birthday during 2018, EPC's will become a practical problem for landlords, instead of an obligatory box ticking exercise. For poorly rated F or G properties there are clear cost implications but with certificates only valid for 10 years and now more stringent assessment criteria is there scope for previously rated D and E properties to fall into the 'forbidden F' band upon re-assessment?**

Predictions 2018

- New headline rent breaking £19 per sq. ft. barrier likely to be set for the City
- Marginal rental growth on primary stock, a stabilisation on secondary stock
- Focus will be out of town to the East of the City
- Continued proliferation of co-worker and serviced offices
- Increased demand from tech sector

Exeter and surrounds
Industrial

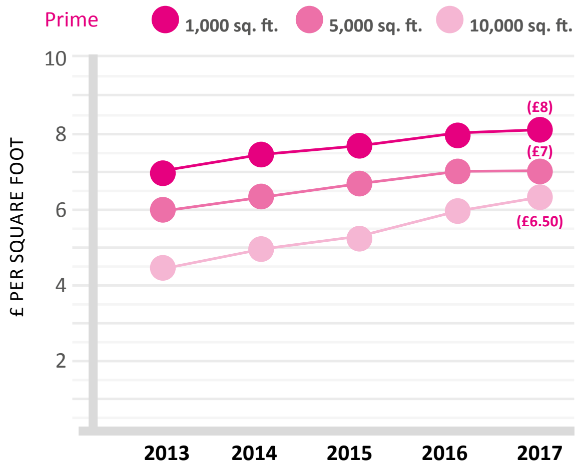
DEMAND

Throughout 2017 this sector continued to live up to its stalwart status with steady demand. For leasehold stock, increased demand was evident for both small units of sub 1,500 sq. ft. and also large units, in excess of 20,000 sq. ft, however, mid-sized units suffered longer voids.

Logistics operators seeking new storage and fulfilment centers for servicing the nation's obsession with online shopping were active as were fitness/leisure occupiers. There was also continued interest from Motor Trade service providers in Marsh Barton who were keen to capitalise on the areas Motor mecca status.

Many large requirements remained unsatisfied with parties forced to extend their search radius in a bid to meet their occupational criteria.

Freehold demand remained strong from owner occupiers and investors.



SUPPLY

There was a continued lack of supply of good quality units, both leasehold and freehold across all size brackets and a lack of new development compounded the issue. Much of the available stock was older and dated in specification, however, this led to refurbishments such as Hennock Trade Park which achieved fully let status post a facelift.

Occupier vacations and relocations released some second hand stock, which was snapped up, such as the former Polestar Premises, on Hennock Road, Marsh Barton, acquired by Travis Perkins.

Exciting progress was made in 2017 on new sites, with outline planning on the Church Comissioners for England Land, to the east of the city, being recommended for approval.

Going forward, Exeter Airport Enterprise Park, an allocated employment site, near the Airport and within Exeter and East Devon Enterprise Zone will also become available.

RENTS

A lack of supply put upward pressure on rents on existing stock now ranging from £4 - £8 per sq. ft. and new build leaseholds were offered for £7 - £10 per sq. ft. depending on size, specification, location and terms agreed.

Notable events

1. **Outline planning granted on the Church Commissioners For England Land at Hayes Farm (Phase 2) Clyst Honiton, for the provision of up to 110,000 sq. m. of Use Class B8 development with ancillary Use Class B1**
2. **Exeter and East Devon Enterprise Zone is established encompassing Exeter Science Park, Skypark, Cranbrook town centre and Exeter Airport Enterprise Park. The Enterprise Zone will offer a range of incentives to attract and support businesses to the area. These include simplified planning, business support and investment in key infrastructure.**

Predictions 2018

- **Industrial is likely to remain the steadiest of the sectors**
- **A continued lack of existing leasehold and freehold stock**
- **Continued demand from logistics operators, seeking both large 20-40,000 sq. ft. plus units and also satellite hubs under 3,000 sq. ft.**
- **A moderate increase in rents on existing primary and secondary stock in short term, due to a continued shortage of supply**
- **More speculative development and new build activity**

Investment

Mike Oldrieve
MRICS
Consultant

2017 was a record year for Vickery Holman's Investment Department who completed deals worth £15.5m. This is largely due to a market which can be regarded as being at the top of the property cycle. Last year we talked about the calm before the storm and as the clouds gather it could well break in 2018.

We have said on many occasions how educated the market has been but as frustrations build with too much money chasing too few properties, signs of the market being overheated are starting to appear with initial yields being quoted at sub 5% for good but not exceptional opportunities.

YIELDS TABLE

	Retail	Office	Industrial	Residential
October 2008	6.5%	7.8%	8.8%	N/A
October 2009	5.75%	7.5%	7.75%	6.0%
October 2010	6.0%	7.25%	7.5%	6.0%
October 2011	6.5%	7.75%	8.0%	6.8%
October 2012	7.0%	8.0%	8.5%	7.0%
October 2013	7.0%	8.0%	8.25%	6.5%
October 2014	6.0%	7.75%	7.5%	6.0%
October 2015	6.0%	7.00%	7.00%	5.5%
October 2016	5.8%	6.5%	6.5%	5.5%
October 2017	5.5%	6.25%	6.25%	4.5%
December 2017	5.25%	6.0%	6.0%	4.0%

ECONOMY

November 2017 will go down in history as the first interest rate rise in 10 years, doubling the Bank Rate to 0.5% as a reaction to inflation rising to 3% in September. The Bank of England's latest summary highlights a sluggish economy where productivity is becoming a real concern – one of the "clouds" mentioned above. To this you can also add Brexit and a minority Government. We probably should also mention the same Bank of England report used words in November such as "broadly stable in relation to growth, strengthened in the case of manufacturing output and modest growth for business investment".

PROPERTY MARKET

Nationally, the Royal Institution of Chartered Surveyors (RICS) indicate in their latest UK Commercial Property Market Survey a slight improvement in both investor and occupier demand while capital values and rental growth were more positive. Industrial property continues to lead the way, outperforming the other sectors with retail showing some signs for concern. Most regions reported growth except for London where there were negative predictions for offices and retail.

This is reflected by the IPD UK quarterly property index which indicates that all property "increased by 2.5% in the third quarter of 2017 which annualised equates to an increase of 9.6%".

SOUTH WEST

The South West like the rest of the UK has performed strongly throughout 2017 and the frustration mentioned above is feeding through to values which is reflected in the prime net initial yields shown in the table. A time to sell if you have been looking at the structure of your property investment portfolio and a time when your agent will earn their fee if you are still looking to acquire.

INDUSTRIAL

One of the most notable transactions of 2017 in the South West was the sale of the Wyndeham Print works in Roche, Cornwall sold by Vickery Holman. The entire property is let to Wyndeham Roche Ltd until 2021 paying £500,000 per annum. The sale achieved £4.2m, a net initial return of 11.2%.

This was closely followed by a sale and leaseback in Redruth arranged by Vickery Holman of the Imprimus works. A £2.28m sale at a net initial return of 8.6%. Imprimus took a new 15 year lease with a 7 year break at £210,000 per annum.

Multi let estates continue to attract a large following with net initial yields as low as 6.5%. The main issue being they do not come to the market that often. There continues to be one or two break up/refurbishment opportunities, but these tend to be off market, known only to the chosen few.

OFFICES

New speculative development opportunities still remain limited with pre-lets being the order of the day and achieving circa 6.0% net initial. Refurbishment of existing buildings remains an interesting option providing flexible, moderately priced accommodation for a reduced but still active South West market. A prime example of this is St Andrews Court Plymouth which is in the throes of being refurbished. Looking to the future, live/work accommodation (particularly in the South West) and flexible work hubs are going to grow in popularity particular those linked with transport hubs such as Exeter and Newquay Airports.

Predictions 2018

- **2017 will be regarded as the top of the market**
- **Overheating of the market will continue in 2018 with a calmer end to 2018**
- **No let-up in the popularity of industrial and more new stock as a result**
- **Rush to buy residential as stability becomes important**
- **Continued transformation of the high street**
- **New emerging office market focused on lifestyle**

Leisure

"2017 has seen continued improvement in occupancy levels with onward bookings for 2018 already looking encouraging. The leisure industry has seen continued interest from overseas investors with an increased appetite to purchase in this sector. Notably there have been signs of improved popularity in pubs as viable investment propositions."

Despite the positive tone, as ever 2017 has not been without its challenges for the industry. April saw the long awaited 2017 Business Rates Revaluation come into effect with more than 80% of hotels in Cornwall, North Devon and Torbay regions experiencing an increase in their liability. More than 70% of operators saw increases across the holiday park sector and 52% for public houses. Holiday letting accommodation has seen significant increases of 75% plus, against a backdrop of relief for small businesses which will help some smaller operators.

April saw the stepping up of enforcement of the National Minimum Wage Regulations with the National Living Wage now standing at £7.50 for employees over 25.

Ever improving air links to local airports will continue to enhance accessibility for tourists from Europe with many operators reporting increased website traffic from the US and Europe. Whilst Brexit uncertainty may be hurting some sectors, the fall in sterling is proving to be an added incentive to visit the region. The South West remains a popular holiday destination with no sign of abating. Cornwall in particular is still thriving on its links with popular TV series such as Doc Martin and Poldark, the latter being shown across the Atlantic.

There has been some light relief for public houses with duties frozen in the Autumn Budget and the Public House Business Rates Relief scheme extended for a further year into 2018/19, which is providing a reduction of £1,000 on the business rates bill.

As ever, the weather is an important factor and unfortunately it was disappointing for the peak summer weeks and this continued into September and October. Whilst the peak weeks were already fully booked in many cases, the off-peak weeks in September and October and those last-minute bookings will have been impacted and of course we wait to see any bearing on 2018 bookings. High quality accommodation operators in prime locations reported 100% occupancy rates during the summer and strong forecasts for 2018.

LOOKING FORWARD

Data Protection changes in 2018 will impact on data held, with holiday parks, hotels and accommodation providers needing to refine and review the data they hold on their customers in readiness for May 2018.

Penzance Heliport plans were approved early in 2017 for a new helicopter link from Penzance to the Isles of Scilly but has subsequently been disappointingly called in for review against much opposition. A revised planning application is being submitted.

Leisure operators have been busy in 2017 which has seen the opening of Martha's Orchard at Constantine Bay in North Cornwall, a development of 5* luxury houses and holiday lodges. Merlin Cinemas are investing in their portfolio of cinemas across the South West with multi-million-pound refurbishment of the Savoy and Ritz in Penzance and their acquisition of the Shire Hall in Bodmin for conversion to a 4 screen cinema with planning consent granted.

St Austell Brewery has reopened the popular Chain Locker Public House in the heart of Falmouth after a multi-million-pound refurbishment.

Predictions for 2018

- Shift from last minute bookings typical of recessionary years, to advance bookings for good quality accommodation in prime locations
- Demand increasing for higher quality, luxury accommodation in all leisure sectors
- Substantial amounts of Business Rates checks and challenges will be submitted, although outcomes may not be visible for some time

Nicola Murrish
BSc (Hons) MRICS IRRV (Hons)
Associate & Head of Business Rates Negotiation
RICS Registered Valuer

Case Study

Vickery Holman's range of services and experience helped clients at a development of self-catering holiday houses. The freehold of the site which comprises 116 holiday houses with associated reception and leisure amenity building, has been sold to the long lease owners. On behalf of the seller our Registered Valuers initially provided valuation advice of the freehold interest. Subsequently our Development Services team, provided planning advice in relation to the potential for residential plots on an area of vacant land. As part of the sale to the owners, our building surveyors prepared a schedule of condition for the amenity building recording the condition of the building before a lease was granted to them. Finally our property management surveyors were instructed to provide advice on service charge budgeting and management of the village and were employed to set up the service charge going forward. We have subsequently been retained by the new owners to provide property management services and support.

Tourism Excellence Awards 2017-2018 SPONSOR

Land and Development

The latest statistics from National House Build indicates that the twelve months to August produced the highest annual new build total since 2007 of around 170,000 units, up 10% on 2016.

The South West has mirrored the national trend and consequently the development land market is in rude health. We have seen our busiest year for land transactions since the recession with over £15m of land either already transacted or subject to contract. Prices have ranged between £100,000 and over £600,000 per acre with an average of less than £400,000 including abnormal development costs for sites of more than 2 acres.

On balance the prospects for the market are encouraging. Whilst the ongoing Brexit negotiations and the Bank of England's concerns regarding private indebtedness combine to create an atmosphere of nervousness and caution in the economy at large. There appears to be a growing demand, particularly from smaller regional developers and niche product developers which is leading to a good deal of market activity. This is encouraged by the Government's commitment to house building, endorsed in the Autumn Budget when it upped the ante increasing their annual target for new build houses to 300,000 by the mid '20's.

A significant player in the future could be the re-emergence of demand from local authorities intent on developing council houses, encouraged and supported by the Government and HCA funding. The level of council house building reached its peak in 1960/70's but vanished following the Thatcher era of Right to Buy which decimated the local authorities estate.

Enquiries from niche developers including larger higher quality/added value, zero carbon, custom build, 'lock and go' apartments have all crossed our desks in recent months seeking opportunities in the South West. The current urban phenomenon of co-living has however yet to appear.

Predictions for 2018

- Increased new house supply
- Return of regional and niche house builders to the market
- Flat house price growth as supply increases
- Re-appearance of fringe proposals with higher risk profiles
- Increased build costs

Greg Oldrieve
BSc MRICS
Head of Development Services
RICS Registered Valuer

Case Study

Treskerby Woods, Redruth

The client, who had little experience in development, had acquired the site speculatively 10 years ago. Prompted by VH they submitted the site under the SHLAA process as a major urban expansion. We supported them in a planning application for 140 dwellings with our focus being viability appraisals and handled negotiations on 'overage payments'. We advised the client in establishing the delivery mechanism for the development including monitoring a letting of a Design & Build contract for Phase 1. Having successfully completed Phase 1 we continue to support the client's management of the development as it moves forward into subsequent phases.

2018 EPC impact

Sophie Endacott
BSC (Hons), MRICS
General Practice Surveyor
RICS Registered Valuer

On 1st April 2018 MEES (Minimum Energy Efficiency Standards) will take effect, meaning that all F & G rated properties need to be bought up to an E standard. This is likely to affect valuations, rent reviews and dilapidations as well as lease renewals and lettings.

MEES are the Landlord's responsibility and the cost of the works are solely theirs to bear. If works are not undertaken, then they are liable for fines:

- If you rent a property out for less than 3 months the penalty is 10% of the Rateable Value with a cap and collar of £5,000 - £50,000.
- After 3 months, the penalty increases to 20% of the Rateable Value with a cap and collar of £10,000 - £150,000.

However, there are exemptions available. These are self-certified by the Landlord on an online register and valid for 5 years. These exemptions are:

- The 'Golden Rule' – If the works will take longer than 7 years to be repaid via the energy savings
- Devaluation – If the energy efficient works will reduce the Market Value of the property by 5%
- Third Party Consent – If either the Tenant, Superior Landlord or Planning Authority refuse to grant consent for the works

There is to be a public register where members of the public can view the exemptions, especially as these cannot be transferred to new owners or Landlords.

So, where does that leave us? That the exemptions are for a total of 5 years, which ties in with 1 April 2023 where EPCs will be required for all leases including existing leases where there is a valid EPC at the relevant date.

At the moment the market has not significantly reacted to this, but only time will tell if it will influence and affect demand, rental values and ultimately values for commercial properties.

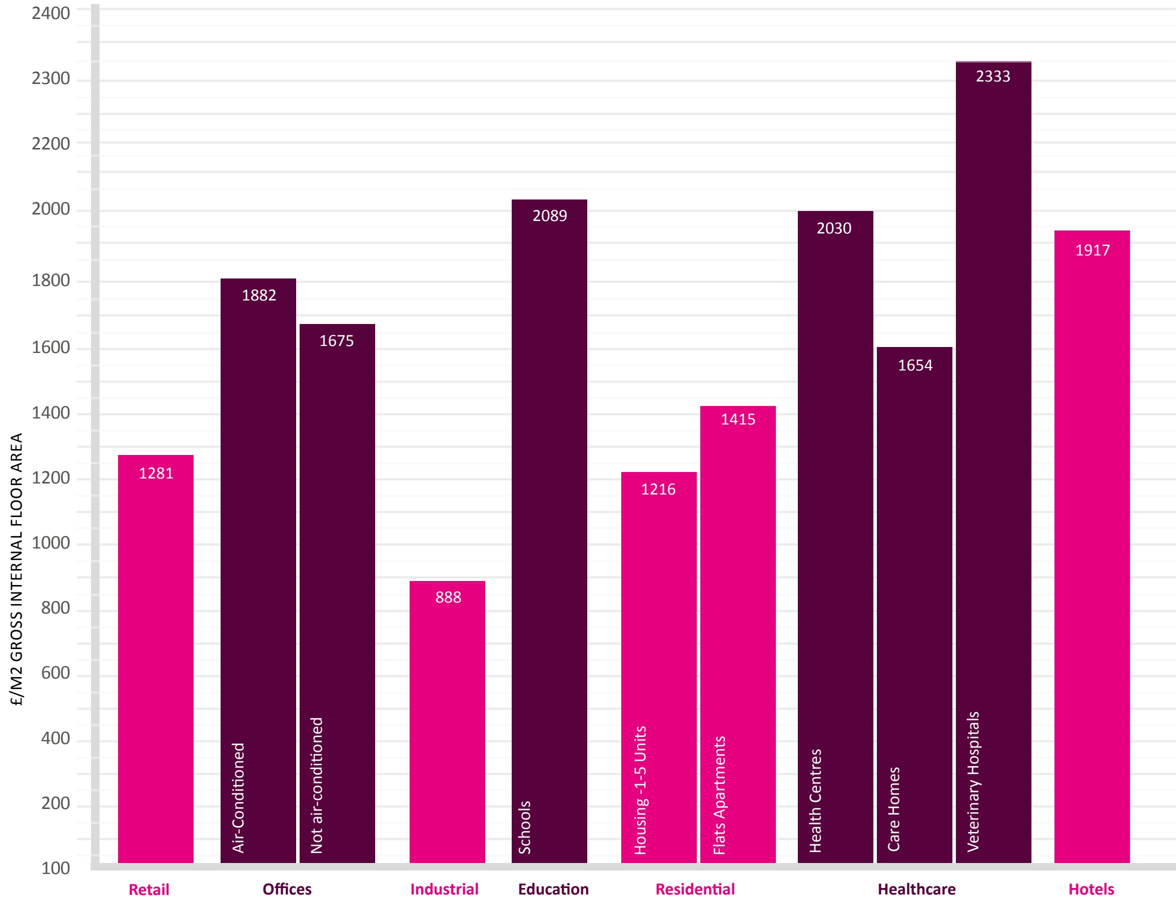
Predictions for 2018

- Cases going to Court for further clarity, in particular:
  - Anticipate there will be cases in relation to landlord's unable to renew a lease in light of MEES but the tenant holding a protected tenancy under Landlord and Tenant Act 1954
  - Cases in relation to Tenant fit out works affecting the EPC rating. Such as an art gallery and the specialist lighting needed resulting in the property achieving a low EPC rating
- Potentially a split in the market, with poorly rated EPC properties achieving lower rental levels than its 'greener' counterpart
- Purchase prices of F and G rated properties being affected, especially if the Landlord has already applied for an exemption which cannot be transferred. So the purchase price having to reflect the works a new Landlord would have to undertake

What can we help you with

Agency	Valuation	Professional Services	Litigation	Surveys	Construction Management	Land & Development	Property Management
Sales	Acquisition	Reducing Business Rates	Land Compensation	Insurance Reinstatement Valuations	Employers Agent	Development Appraisals	Commercial & Residential Property
Lettings	Assets	Asset Management	Right to Light	Historic Buildings	Project Management	Section 106 Negotiations	Companies House and VAT Administration
Acquisitions	Charities Act	Rent Reviews	Construction Design & Management	Acquisition	Architectural Design	Environmental Advice	Rent Collection
Market Analysis	Secured Lending	End of Lease Liabilities	Party Wall & Boundary Disputes	Quinquennial	Refurbishment and Repairs	Option & Promotion Agreements	Service Charge Administration
Investment Advice	Tax	Compulsory Purchase	Oversailing Licences	Conservation Advice	Cyclical Repairs	Employment Land Studies	Insurance / Claims
Leisure Advice	Trading Concerns	Lease Renewals	Expert Witness & Arbitration	Defect Analysis	Contract Administration	Funding Applications	Health & Safety

Build costs



Note: Effective as at December 2017

Property jargon buster

The world of property has many acronyms and below are a list of some you might encounter day to day.

AST	Assured Shorthold Tenancy
BCIS	Building Cost Information Service
CIL	Community Infrastructure Levy
DCF	Discounted Cash Flow
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EPC	Energy Performance Certificate
EIA	Environmental Impact Assessment
ERA	Environmental Risk Analysis/ Assessment
GDV	Gross Development Value
GEA	Gross External Area
GIA	Gross Internal Area
HMO	House in Multiple Occupation
ITZA	In Terms of Zone A
IRR	Internal Rate of Return
IPMS	International Property Measurement Standards
JV	Joint Venture
LLP	Limited Liability Partnership
LTV	Loan To Value
LP	Local Partnership
MEES	Minimum Energy Efficiency Standards
MR	Market Rent
MV	Market Value
NIA	Net Internal Area
NOI	Net Operating Income
NPV	Net Present Value
PFS	Petrol Filling Station
PSF	Per Square Foot
PSM	Per Square Metre
PD	Permitted Development
PPP	Public Private Partnership
PRS	Private Rented Sector
RPI	Retail Price Index
ROI	Return On Investment
RICS	Royal Institution of Chartered Surveyors
SIPP	Self Invested Personal Pension
TOGC	Transfer of a business as a Going Concern
VP	Vacant Possession
VOA	Valuation Office Agency

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