

Town Centre Office Requirements

Prepared on behalf of
Nuneaton and Bedworth Borough Council
December 2013

DTZ, a UGL company

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1 Scope of Report

- 1.1 DTZ is commissioned with Strategic Perspectives to undertake a Town Centre Office Requirement Update for Nuneaton and Bedworth Council (NBBC). This report updates (in part) the Town Centre Strategy (2011) and its purpose is to assist NBBC in developing clear and realistic planning policies relating to its town centres, i.e. Nuneaton town centre and Bedworth town centre.
- 1.2 This report provides an updated estimate of the likely future office space requirements in the Borough's main town centres, taking account of market demand and supply dynamics. Specifically, the following has been undertaken in accordance with the brief:
 - A review of existing baseline reports (section 2) comprising the Employment Land Review 2010, the Town Centre Study 2011, the Nuneaton and Bedworth Forecast Model report (2011) and the Scale of Growth Background Paper 2013.
 - A review of current provision and changes in provision by analysing historic trends in planning completions for office floorspace for the Town Centres and analysis of office floor space take-up data for the Borough Council area as a whole (section 2). Additionally reviewing existing and pipeline supply in the Town Centres (section 3).
 - An analysis of office market trends, rental values and yields at a national, regional and local level (including a review of competing regeneration/development projects in the pipeline (Section 4).
- 1.3 Based on the above analysis this report considers whether the existing Development Plan requirement for new office floorspace, (30,000 sq m between 2006 and 2026, i.e. 1,500 sq m per annum) is still appropriate and whether an updated figure for office need for Nuneaton and Bedworth town centres should be applied.

2 Baseline Review

2.1 EMPLOYMENT LAND REVIEW (ELR) – APRIL 2010 (GVA)

2.1.1 The ELR highlights the potential growth in floorspace requirements in town centres including both retail and office uses. Table 2.1 below shows absolute change in floorspace up to 2026 based upon five population growth scenarios for the Borough:

Table 2.1

Population Growth Scenario	Floorspace Requirement for NBBC (Sq m)	Floorspace Requirement NBBC town centres (sq m)
Baseline	11,985	4,194 (3,595 for Nuneaton)
Past Trends	47,007	16,452 (14,102 for Nuneaton)
11,000 new dwellings	74,427	26,049 (22,328 for Nuneaton)
14,500 new dwellings	88,767	31,068 (26,630 for Nuneaton)
Reduced out commuting	165,439	57,903 (49,631 for Nuneaton)

2.1.2 In terms of office floorspace, the study assumes that 65% of office jobs are likely to locate on employment sites and that the remaining 35% are likely to locate elsewhere within the Borough. Of this 35% it was assumed that the majority of this (between 70% and 90% dependent on scenario) will be located within Nuneaton town centre with the remainder located in Bedworth town centre and other areas not recognised as employment land. Therefore, approximately 30 - 35% of the Borough's office floorspace requirement is assumed to locate in the Borough's two town centres. 25 - 30% is assumed to locate in Nuneaton town centre with up to 5% locating in Bedworth town centre.

2.1.3 The ELR compares the above with Policy PA13A of the WMRSS Preferred Options, which highlights that around 30,000 sq m of new office development will be built in, or adjoining Nuneaton town centre over the period 2006 - 2026. Table 2.1 highlights that a substantial change in housing provision is required to achieve the level of town centre office development identified in the WMRSS unless a stepped change in the delivery of office floorspace is realised through prioritising town centre locations, which was a key assumption of the RSS evidence base. We consider the ELR is based on a more realistic set of assumptions.

2.1.4 In terms of land provision table 2.2 (below) highlights the level of land needed to accommodate the office floorspace requirements based upon the five population growth scenarios set against existing supply of sites. The development ratios reflect those applied within the ELR for consistency. We have applied a higher

development ratio (6,500 sq m per ha) to calculate the town centre requirement reflecting the higher density of development typically achieved in town centres.

Table 2.2

Scenario	Land Requirement by 2026 ¹	Existing Supply ²	Borough Net requirement ³	Town centre requirement ⁴
Baseline	9.48 ha	10.81 ha*	-1.33 ha	0.6 ha
11,000 new homes	23.48 ha	0.66 ha**	12.66 ha	4.0 ha
14,500 new homes	26.65 ha	0.12 ha***	15.84 ha	4.7 ha
Past trends	17.42 ha		6.61 ha	2.5 ha
Reduced out commuting	43.54 ha		32.73 ha	8.9 ha

Notes: *Borough wide figure including all employment land sites with an element of office provision

**Nuneaton Town Centre (AMR 2012)

***Bedworth Town Centre (AMR 2012)

2.2 TOWN CENTRE STUDY (RTP, 2011)

2.2.1 The study recognises that the office market in Nuneaton is currently extremely limited with office uses being principally confined, at present, to public sector buildings and small ‘above the shop’ type spaces. It notes that the West Midlands Regional Centres Study assessed Nuneaton to have 41,000 sq m of built office stock - the second lowest of the ‘Tier 4’ towns. It was noted that no significant office development had occurred within the town centre since that time and this continues to be the case.

2.2.2 The study notes that the minimal level of provision is likely to be a function of the fact that Nuneaton has the lowest number of people employed in the financial and business services sector of all the towns considered as part of the West Midlands Regional Centres Study. Clearly the minimal amount of office floorspace in the town centre has significant implications for the demand for related services and facilities such as sandwich shops, cafés and restaurants, health & fitness centres and the like.

2.2.3 The study notes that all recent office development in the wider Nuneaton area has been out of town (at purpose-built developments such as Bermuda and Elliot Park) and that this has served to draw away from the town centre the limited demand that has been in the market.

¹ Nuneaton and Bedworth ELR (GVA), appendix M

² Nuneaton and Bedowrth ELR (GVA), page 118

³ Nuneaton and Bedowrth ELR (GVA), page 118

⁴ DTZ assumption of 2 times density ratio applied in GVA study for town centre and edge of centre locations – 6,500 sq m per ha.

2.2.4 The study recommends that the identification and marketing of easily developable sites for office uses within the town centre, allied to constraints on further out of town office development, would greatly assist the emergence of a town centre office market. In order to create a market, initial development should look to relatively small units (2-3 storey with their own front door) that are likely to attract local professional services businesses such as lawyers, accountants and the like, that are currently situated in sub-standard accommodation in the centre or are forced out of it altogether as a result of the lack of suitable accommodation. At the same time, significant emphasis should be placed on addressing labour market constraints on growth in the professional/business services sector. The skills and qualifications of the local workforce are the most significant factor for such businesses and strategies to enhance qualification levels and to increase participation in further and higher education may well be coming to fruition by the time such office development comes on stream.

2.3 NUNEATON AND BEDWORTH FORECAST MODEL

2.3.1 The Forecast Model (Oxford Economics) provides an analysis of the baseline outlook of the local economy and developed two alternative economic scenarios for the Borough based upon faster employment growth in selected sectors. The alternative scenarios are 0.5% growth per annum and 1% growth per annum. It is understood that NBBC has adopted an aspirational target of 1.5% growth per annum.

2.3.2 The implications of the 1.5% growth scenario in terms of job creation for the Borough has been forecast and the level of additional floorspace requirements are summarised in table 2.3 below.

Table 2.3

Office type	Jobs created	Floorspace required	Annual floorspace requirement	Land Requirement
General offices	1,284	16,692 sq m	981 sq m	5.14 ha
Call centres	636	5,088 sq m	299 sq m	1.57 ha
Serviced offices	845	8,450 sq m	497 sq m	2.6 ha
Total (Borough)	2,765	30,230 sq m	1,777 sq m	9.31 ha
Total (town centres) ⁵	1,372	14,619 sq m	860 sq m	2.25 ha

2.3.3 The forecast also estimates jobs created that would be located on business parks (11,540 sq m required) and these have not been considered as counting towards either town centre, as office parks by their nature are out of centre locations. Indeed, whist they are included, it is reasonable to anticipate that call centres and serviced offices will be provided in part or in whole in non centre locations.

⁵ Town Centre requirement is calculated as 35% of all office requirements including business park. Land requirement assumes 6,500 sq m per hectare

2.4 SUMMARY

- 2.4.1 A review of the existing baseline evidence demonstrates that the additional office floorspace provision for Nuneaton town centre identified within the WMRSSR is substantial at 1,500 sq m per annum and 30,000 sq m for the plan period. Indeed, if the target is met this would almost double the amount of office floorspace in the town centre.
- 2.4.2 The existing evidence indicates that based upon past trends it is likely that only half the level of floorspace will be required within the plan period (approximately 15,000 sq m). Indeed, the baseline scenario suggests that even half the level of floorspace is unlikely to be required.
- 2.4.3 The ELR suggests that a population growth resulting from the development of between 11,000 and 14,500 new homes would be needed to increase the office floorspace requirement for Nuneaton town centre to between 22,000 sq m and 26,000 sq m for the plan period with the remainder being required by Bedworth town centre and other locations. It is understood the emerging Development Plan is proposing 7,900 new dwellings, which is likely to reduce the town centre office requirement further (approximately 18,000 sq m for Nuneaton town centre). In comparison the Forecast model highlights that aspirational growth at 1.5% will produce requirements for town centre office floorspace in the region of 15,000 sq m over the plan period.
- 2.4.4 The town centre study recommends identifying and marketing of easily developable sites for office uses within the town centre focussing initially on relatively small units (2-3 storey with their own front door) that are likely to attract local professional services businesses. At the same time, it recommends significant emphasis should be placed on addressing labour market constraints on growth in the professional/business services sector. These recommendations highlight that the provision of new floorspace will be slow in the first half of the plan period. We consider that the town centres sites, in particular Nuneaton town centre sites, are likely to be developed at a higher density than out of centre sites thereby reducing then land requirements within and on the edge of town centres.
- 2.4.5 In summary, the evidence base shows that sustained growth in the region of 1.5% per annum and the planned household increase could result in office floorspace requirements for Nuneaton and Bedworth town centres in the region of 15,000 sq m over the plan period. This would also require in the region of 2.5 hectares of land to accommodate the floorspace and, crucially would require office development to be viable.

3 Development Pipeline and Provision

3.1 PIPELINE

3.1.1 An appraisal of the Annual Monitoring Reports from 2007/8 to 2012/13 demonstrates that there is limited if any pipeline development for Nuneaton and Bedworth town centres. All identified development pipeline is located outside of the town centres. The AMR's highlight the following in office floorspace provision within the Borough:

- 1,215 sq m of out of centre floorspace was consented during 2008/9
- 263 sq m of out of centre floorspace was consented during 2009/10
- A substantial development at Holland Farm (out of centre) was developed during 2010/11 – 3,071 sq m Holland and Barratt offices
- During 2011/12 a substantial office consent (4,140 sq m) expired at Liberty Way (out of centre). Additionally a further 740 sq m was demolished on Coton Road
- 0.66 hectares of available land is identified in 2011/12 comprising Abbey Street, Vicarage Street and Weddington Road (office quarter).

3.1.2 There are no sites of any substantial size in either centre with the exception of the Nuneaton office quarter site (Vicarage Street) for which the Borough are currently procuring a development partner. This site comprises 1.74 hectares and is within the ownership of Nuneaton and Bedworth Council and Warwickshire County Council. The development brief requires the re-provision of a new library as part of a mixed use scheme that is to comprise office floorspace. It is understood that the quarter will seek to accommodate new office development, catering towards the needs of local firms providing professional services. Given its sustainable location near to Nuneaton railway station, its location in Nuneaton town centre is best placed to accommodate any future aspirations for office development in Nuneaton town centre.

3.1.3 The initial allocations within the emerging plan highlight the following sites by capacity for office development. It suggests that there is sufficient site capacity to accommodate the aspirational level of additional office floorspace (i.e. significantly above that predicted by the evidence base). These figures should be viewed as maximum as other uses are also considered acceptable, which are potentially more likely to be viable.

Site	Capacity
Church Street (Vicarage Street)	9,800 to 23,500 sq m
Post Office	5,600 to 8,700 sq m
Cofton Road	1,900 sq m
Bedworth Station	5,450 sq m

3.2 PROVISION

3.2.1 The evidence base notes that there are a limited amount of purpose built office buildings in Nuneaton and Bedworth town centres, although these buildings tend to be occupied by either local authorities or organisations carrying out a civic function, rather than catering to the needs of businesses or occupational requirements from the wider market. An example is the 'Justice Centre' located to the north of the town centre, which has recently been completed. This is opposite the office quarter proposal. The wider area (i.e. out of centre locations) provides sites and buildings that do cater for the needs of businesses and occupational

requirements from the wider market. The town centres need to replicate this type of provision if they are to successfully compete with these locations and attract occupiers into the town centres.

- 3.2.2 There are a number of purpose built office buildings in Nuneaton town centre of significance. Nuneaton Police Station is located within the Justice Centre, and Fed Ex occupy an older 1960s / 1970s style building on Bond Gate. The Job Centre occupies a modern building to the east of Bridge Street adjacent to the River Anker. NBBC occupy two office buildings on Coton Road to the east of the town centre.
- 3.2.3 In addition to the larger purpose built offices there is also a healthy supply of accommodation focussed towards the requirements of local businesses, and much of this accommodation comprises either upper floors of retail units or former retail units used for 'A2' Financial and professional services, as opposed to B1a uses. Typical of this type of accommodation is Hollybush House that is occupied by several tenants ranging from small professional services to the local MP's office.
- 3.2.4 Bedworth Town Centre has several larger office buildings dating from the 1960s to 1980s era, which are occupied by local authorities. One such example is Kings House, occupied by Warwickshire County Council (WCC). In addition, domestic appliance insurer Domestic and General has offices in Bedworth town centre, which provide substantial employment for the local community. There is limited office accommodation of significance in Bedworth town centre. The centre caters mainly for local businesses, and much of the office accommodation comprises either upper floors of ground floor retail units used for 'A2' (Financial and Professional Services). Tenants are typically of local and perhaps sub-regional significance.
- 3.2.5 Key office locations in the borough include:
- Eliot Business Park - small courtyard style office park speculatively developed by Deeley Properties Limited, situated next to George Eliot Hospital. Typical office specifications range from 182 to 930 sq m.
 - The Eliot Park Innovation Centre (EPIC) is a modern office building providing office suites from 25 to 179 sq m (269 to 1,927 sq ft) which are available on flexible licence or lease terms.
- 3.2.6 Despite the Eliot Park location providing the only speculative new build office accommodation in the Borough, local market agents highlight that there are a number of units that remain vacant. This is a function of the limited demand for office accommodation throughout the Borough. Crucially, this highlights a more challenging picture to the two town centres.
- 3.2.7 For both centres occupier requirements tend to be for small amounts of office space where flexible lease terms are required. Tenants are typically of local and perhaps sub-regional significance. Limited demand exists for office accommodation although where demand does exist it is for better specified accommodation than can currently be offered in the town centres.
- 3.2.8 Current market conditions and the resultant lack of bank funding are preventing any speculative development and rents required to undertake a pre-let are restricting enquiries in this sector. Focus should be placed upon upgrading the existing accommodation to provide better specified more flexible accommodation rather than larger spec built or pre-let schemes that are unrealistic in the current market and will continue to be so in the short to medium term.

3.3 SUMMARY

- 3.3.1 The existing provision of office floorspace within both town centres caters for occupiers of local, and perhaps regional, significance with some larger office occupiers tending to operate a civic rather than market function. The only substantial speculative office development sites also have existing vacant space underlining the borough's relatively weak position as an office location. A significant proportion of office space within the Borough is directly related to the core operation, e.g. associated offices of manufacturing and warehousing occupiers.
- 3.3.2 The two centres have a relatively small amount of available land and office floorspace. However, the level of take up of floorspace is limited (even to out of centre locations) and there is no current development pipeline. The office quarter site promoted by the Borough Council is of sufficient size to comprise a significant office element (subject to viability) that will be able to compete in offer with the out of centre speculative locations. Crucially, it will benefit from good access to public transport and the facilities within the town centre, which should set the site apart from its competition.
- 3.3.3 The available evidence on take up of floorspace and development of land for office uses cannot easily be reconciled with the current amount of office floorspace to be identified within the town centres over the Plan period to 2028 (i.e. the WMRSS identified requirement) and section 2 of this report highlights the criteria that will need to be met in order to create the requirement for 30,000 sq m of new office space within the centres. It is also important to note that the centres rely to a significant extent on public sector and civic occupiers that are unlikely to require substantial additional floorspace in the foreseeable future and, indeed may be rationalising their portfolios..
- 3.3.4 The proposed retail expansion area of Nuneaton town centre will result in the need to relocate a reasonable number of office occupiers and the office quarter could in theory accommodate part of this displacement.
- 3.3.5 Current market conditions and the resultant lack of bank funding are preventing any speculative development and rents required to undertake a pre-let are restricting enquiries in this sector. Focus should be placed upon upgrading the existing accommodation to provide better specified more flexible accommodation rather than larger spec built or pre-let schemes that are unrealistic in the current market and will continue to be so in the short to medium term.
- 3.3.6 In terms of occupier requirements there are a limited number of purpose built office buildings in Nuneaton and Bedworth town centres and these buildings tend to be occupied by either local authorities or organisations carrying out a civic function or smaller local private companies catering to the primary operations by serving the industrial occupiers in the immediate vicinity. The office market in both locations caters towards occupiers of local, and perhaps regional, significance. Most larger office occupiers will focus their search on accommodation in Rugby or Coventry that is well located to better benefit from private and public transport links and therefore a larger skilled workforce within a similar "travel to work" catchment area.

4 Office Market Trends, Rental Values and Yields

4.1 OCCUPIER MARKETS

- 4.1.1 This section of the report provides a brief summary of the occupier markets and a detailed summary of the office market in Birmingham and Coventry to provide the context to the yields and rental values achieved in Nuneaton Borough.
- 4.1.2 **Birmingham's** market experienced Improvement in second half of 2012. The availability of well-located grade A space is expected to fall as tenants continue to take the opportunity to upgrade into better quality space. Incentives are elevated so there is some considerable room for reduction before there is likely to be any meaningful increase in headline rents.
- 4.1.3 Quarterly take-up increased over the course of 2012 and the second half was clearly an improvement for the Birmingham office occupier market. In Q4 185,000 sq ft of transactions took place, taking the total for the year to 504,000 sq ft. The largest grade A deal of Q4 was also the largest in 2012 that saw Shoosmiths acquire 40,000 sq ft at 2 Colmore Square. This follows BPP's 21,000 sq ft expansion at the same building in Q3.
- 4.1.4 Grade B deals accounted for the greatest share of transactions in 2012. Grade A transactions were 193,000 sq ft in 2012, compared to a long term annual average of 264,000 sq ft. With the exception of some occasional larger transactions, most deals in 2012 were lease event-driven and for less than 10,000 sq ft, with the majority less than 5,000 sq ft. Insurance was arguably the most active business sector, albeit in a thinly traded market. In keeping with this trend, Marsh have recently acquired 11,000 sq ft of grade A space at Colmore Plaza.
- 4.1.5 If some larger deals transact in 2013, take-up should increase to around 600,000 sq ft. DWF Solicitors are thought to be in the market for around 20,000 sq ft of grade A space following their recent purchase of Cobbetts.
- 4.1.6 Availability has been decreased over the course of 2012 as tenant default has slowed markedly and new supply has been restricted. The number of years of supply at current take-up rates remained polarised at the end of 2012, with 1.8 years of grade A available, compared to 4.9 years of grade B. Despite ongoing challenges for the occupier market, the amount of total availability has continued to fall every year since the peak in 2009.
- 4.1.7 The development pipeline of new space continues to be limited. There is 350,000 sq ft expected late in 2013 at 2 Snow Hill, with the majority pre-let to Wragge and Co. The 120,000 sq ft previously occupied by BT at 5 Brindley Place looks to have a potential future new tenant in the form of Deutsche Bank, that is currently undergoing refurbishment and is now unlikely to add to the availability figures when it is completed by Q2 2013.
- 4.1.8 Availability is expected to continue to fall in 2013 and 2014. Availability of well-located grade A space will fall more quickly, as tenants continue to take the opportunity to upgrade into better quality space.
- 4.1.9 Prime headline rents were unchanged at £27.50 per sq ft in Q4, as they have been for three years now. Incentives on grade A space are typically up to 24 months rent free for a five year contract on the better quality space. Incentives remain elevated so there is some it is more likely that these will reduce before there is likely to be any increase in headline rents. Incentives on prime space are set to fall to around 21 months on a five year lease early in 2013 but headline rents are unlikely to rise until 2015. Incentives on centrally located grade

B space could also potentially harden from 2013 onwards if well-located grade A space becomes scarcer. The fall in suitable prime availability means there will be gradual improvements within the Birmingham office occupier market despite a weaker employment growth profile expected going forward.

- 4.1.10 **Coventry** is also the second largest regional office centre in the West Midlands market, after Birmingham, and the dominant office market in the immediate vicinity of both Nuneaton and Bedworth with a total office stock of 5.2 million square feet. Unlike Birmingham, however, there is little difference between the city centre and out-of-town markets. This is a result of the lack of suitable sites within the central core formed by the A4053 Ringway, forcing much modern development to out-of-town business parks, such as Westwood Business Park, Binley Business Park, Crosspoint (mixed use), Coventry Business Park (mixed use) and, most recently, Ansty Business Park.
- 4.1.11 Since the 1990s, the greater Coventry area attracted a significant number of larger foot-loose office occupiers, seeking to establish either a national or regional headquarters and administration centres within the West Midlands conurbation. This was largely attributable to the availability of suitable development land (on business parks) and the significant cost savings over Birmingham, both city centre and the M42 corridor business parks. Significant expansion amongst existing employers has also been possible due to the availability of administrative and technical staff. Such organisations include National Grid, Barclays, the Further Education Council (subsequently the Learning and Skills Council), TUI, Ericsson, the Qualifications and Curriculum Authority (“QCA”) and Severn Trent Water.
- 4.1.12 Total availability in Coventry is currently 1 million square feet, 20% of the total stock. Approximately 75% of the availability is situated in the business parks that cannot provide the amenity and transport links that is available in the city centre.
- 4.1.13 Grade A supply is falling slowly due to the absence of speculative development, but overall availability has increased as occupiers release secondary and tertiary accommodation, particularly the public sector with Government spending cuts. Notable examples of occupiers having closed offices in the city include Ericsson (very soon after taking 136,838 sq ft at Ansty Business Park), the QCA (very soon after taking 65,975 sq ft on the edge of the city centre), BECTA and Capita.
- 4.1.14 There are no large refurbishments planned for Coventry City Centre. Future pre let development is being offered at Friargate adjacent to the building where up to 1.5 million square feet of B1 office accommodation can be offered.
- 4.1.15 Take up in Coventry for 2012 totalled 221,000 sq ft. Average annual take-up in Coventry is 170,000 square feet. Annual take up is very sensitive with year-to-year fluctuation as an increasing proportion of transactions involve a few large-scale pre-let and purpose-built offices.
- 4.1.16 Within the city centre, transactions are more limited in number and smaller in size, generally being of less than 20,000 sq ft, although this is largely due to a lack of availability. Much of the current demand in Coventry, as across the West Midlands, originates from a diverse range of occupier sectors but is modest in scale, with the key driver of demand continuing to be consolidation and the need to reduce operating costs. An example, if untypical in terms of scale, is AXA’s requirement for 40-60,000 sq ft to consolidate several regional offices, already having a strong presence in the city. Jaguar Land Rover also has a large operational presence in the area and given their recent growth, subsidiary and affiliate companies are very active within the local market for both manufacturing and administrative accommodation.

- 4.1.17 Prime office rents in Coventry have fallen from a headline level of £18 per sq ft at the peak of the market to a current level of circa £14.00 - £15.00 per sq ft. We anticipate further downward pressure on Grade B and C specified buildings and a plateau on Grade A rents due to the lack of speculative development.
- 4.1.18 In the Warwickshire office market, Coventry City is the dominant location and it is in this context that Nuneaton town centre and Bedworth town centre have been evaluated. There are a limited number of purpose built office buildings in **Nuneaton** town centre of significance compared to Coventry City Centre. Nuneaton Police Station is located within the Justice Centre, and Fed Ex occupy Warwick House, an older 1960s / 1970s style building on Bond Gate. The Job Centre occupy Mill House, a modern building to the east of Bridge Street adjacent to the River Anker. Nuneaton and Bedworth Borough Council (NBBC) occupy two office buildings on Coton Road to the east of the town centre.
- 4.1.19 In addition to the larger purpose built offices there is also a healthy supply of accommodation focused towards the requirements of local businesses, and much of this accommodation comprises either upper floors of retail units or former retail units used for 'A2' Financial and professional services, as opposed to B1a uses. Typical of this type of accommodation is Hollybush House that is occupied by several tenants ranging from small professional services to the local MP's office. Bedworth Town Centre has several larger office buildings dating from the 1960s to 1980s era, which are occupied by local authorities. One such example is Kings House, occupied by Warwickshire County Council (WCC).
- 4.1.20 In addition, domestic appliance insurer Domestic and General has offices in **Bedworth** town centre, which provide substantial employment for the local community. Aside from those highlighted above, there is limited office accommodation of significance in Bedworth town centre. The centre caters mainly for local businesses, and much of the office accommodation comprises either upper floors of ground floor retail units and retail units used for 'A2' (Financial and Professional Services).
- 4.1.21 Occupier requirements for Nuneaton and Bedworth tend to be for small amounts of office space where flexible lease terms are required. Tenants are typically of local and perhaps sub-regional significance. Limited demand exists for office accommodation although where demand does exist it is for better specified accommodation than can currently be offered in the town centres. Current market conditions and the resultant lack of bank funding are preventing any speculative development and rents required to undertake a prelet are restricting enquiries in this sector. Where demand does exist then the majority of occupiers will prefer locations with established office locations.
- 4.1.22 Recent examples where significant development has occurred in a non core office location include Dudley. The town centre stock was either dated 1980's multi storey office premises or small units above ground floor retail units. Castlegate Business Park was built to offer Grade A office accommodation within a multi use estate. Initially, Castlegate let well and rents peaked in 2008 following a letting to Rentokil at £16.00 per sq ft. This was however only to the detriment of the town centre where the office buildings are now vacant or predominantly vacant having had the demand for these focus on the smaller courtyard units at Castlegate. The town centre buildings have now been vacant for in excess of 10 years and are being considered for alternative uses in some circumstances with negative value. Castlegate, itself now has a high vacancy rate due to consolidation of the larger corporate occupiers and smaller occupiers seeking more cost effective premises with better access to existing clients. As a result rents on renewal are £11.00 per sq ft and tenants requesting new leases are making offers at £9.00 per sq ft with 2 years rent free on a 4 year term. With the exception of FedEx the demand for office accommodation within the two town centres is from local covenants and national and global occupiers will seek to acquire larger premises in established office locations.

4.1.23 Focus should be placed upon upgrading the existing accommodation to provide better specified more flexible accommodation rather than larger spec built or prelet schemes that are unrealistic in the current market and will continue to be so in the short to medium term.

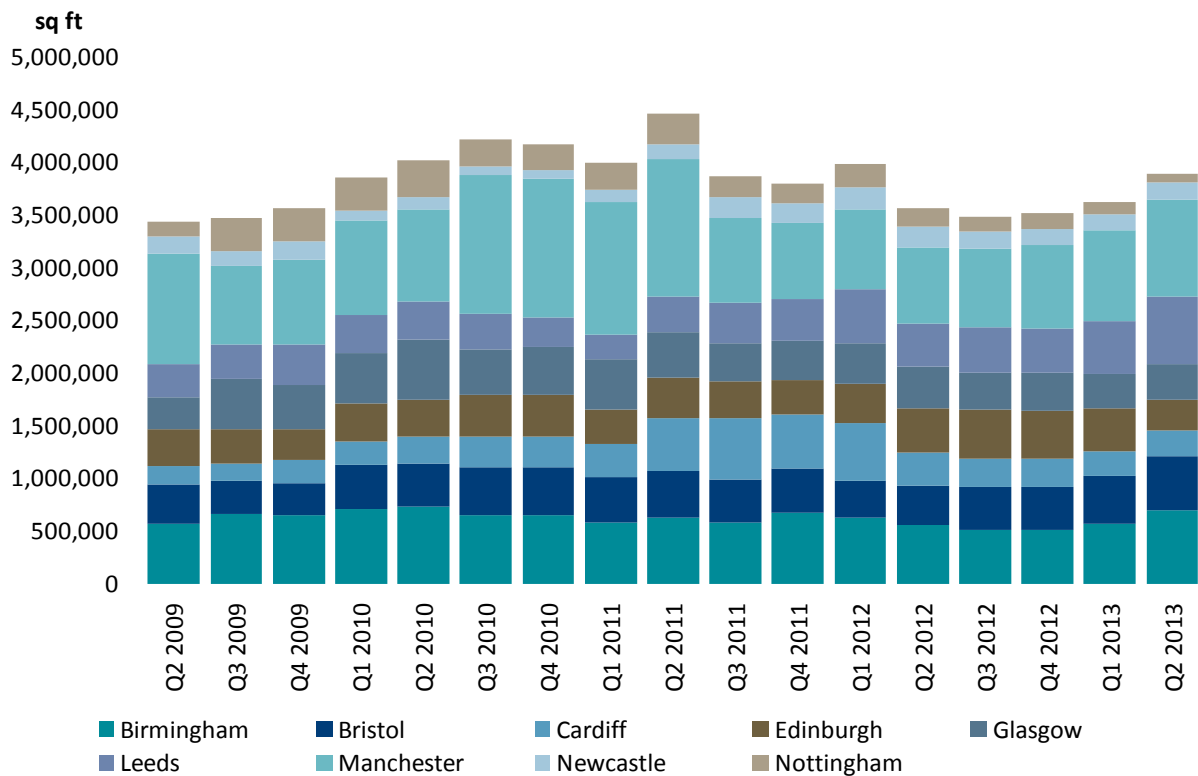
4.2 INVESTMENT

4.2.1 Investor sentiment in the regional office markets was subdued at the end of the year, but somewhat better than over the summer months.

4.2.2 UK funds have recently relaxed their criteria somewhat after previously only considering the newest prime buildings with long unexpired terms of 15 years or more. The lack of development pipeline has meant that very minimal suitable stock has been available. Consequently they are now widening the search to include good quality secondary or multi-let prime buildings with shorter lease lengths, assuming assets are priced correctly.

4.2.3 Property companies and opportunity funds are more aggressively seeking selected secondary assets with value-add opportunities, although many are constrained by a lack of debt. There have been some instances of more debt being available but this is still very much on a case-by-case basis.

Office annual investment transaction volumes



Source: DTZ Research

4.2.4 The mismatch between buyer and seller price expectations over secondary assets remains a factor, albeit the gap is narrowing as more evidence allows valuers to catch up with the market. The disparity is borne out of the different approaches, with potential purchasers applying cashflow methods, reflecting the difficult occupational

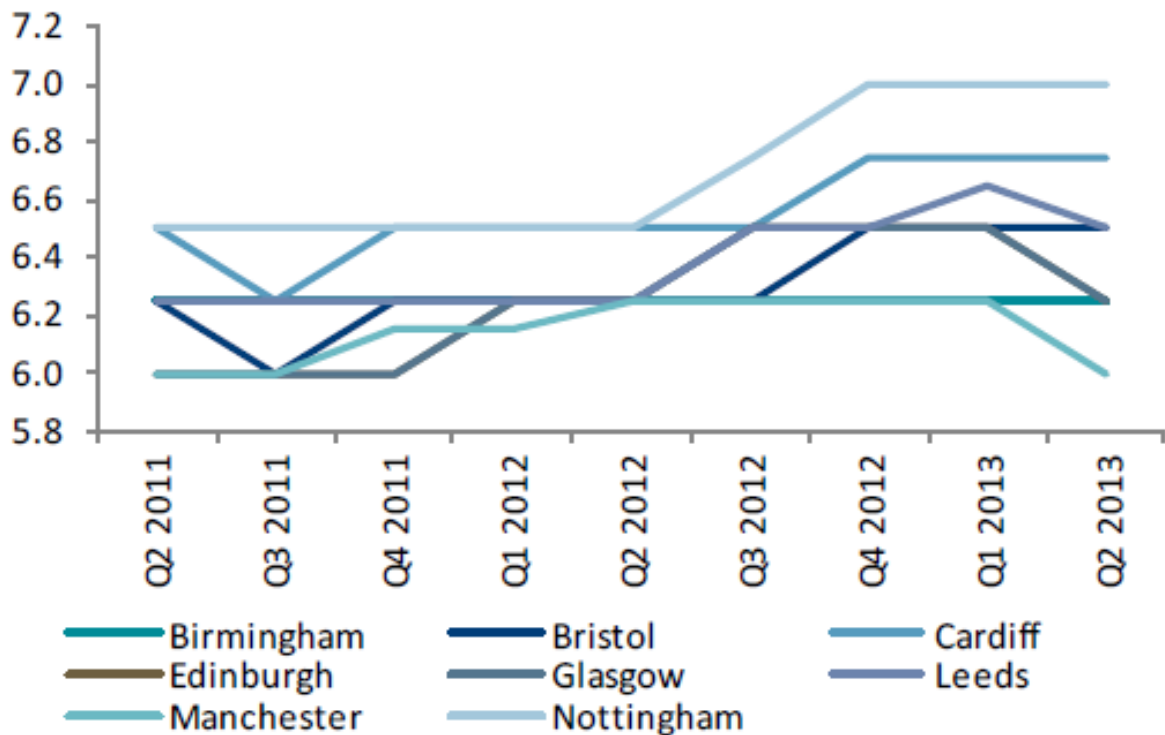
conditions and having high return requirements, while sellers' valuations are more likely to be based on yield comparison.

4.2.5 Reasons for sales are varied and deal-specific. However bank-led sales are becoming more prevalent and are expected to continue to be more so in 2013.

4.2.6 There is relatively little evidence of prime transactions to base pricing on, but sentiment suggests that some UK regional office prime yields edged out over Q3 and Q4 2012 (see below). Edinburgh, Glasgow and Leeds moved out 25 basis points in Q3, and Bristol and Cardiff moved out in Q4. Nottingham office yield moved out over both quarters and 50 basis points in total.

4.2.7 Going forward, secondary yields are expected to continue to drift out. Only super prime assets with long income can be expected to remain stable, though this is largely theoretical since transactions are so minimal. More "standard" prime assets could well see some further small outward shifts of yields as unexpired leases terms continue to fall.

Prime office yields



Source: DTZ Research

4.3 YIELDS AND RENTS FOR NUNEATON AND BEDWORTH

4.3.1 The baseline information identifies that prime office rental values in Nuneaton town centre are typically between £6/8psf with headline rents at £10/11psf. Yields are reported at 6.4 per cent, although this relates to the somewhat stronger out of town market.

- 4.3.2 The baseline information identifies that Quoting rents on Eliot Business Park are believed to be in the order of £161.46 per sq m (£15 per sq ft). However, discussions with local agents suggest that rental transactions are more likely to fall within the range of £134.55 to £139.93 per sq m (£12.50 to £13 per sq ft). Freehold capital values were believed to be in the order of £1,776 per sq m (£165 per sq ft) prior to the market downturn, however, discussions with local agents suggest that £1,245.49 per sq m (£125 per sq ft) is now more appropriate.
- 4.3.3 It is evident that based upon existing market conditions speculative office development will remain unviable in the Borough for the short to medium term. Indeed, pre let development is unlikely to be viable at least for the short term. Consequently, financial incentives will be required to deliver new office floorspace at present.

5 Conclusions and Recommendations

- 5.1 DTZ is commissioned with Strategic Perspectives to undertake a Town Centre Office Requirement Update for Nuneaton and Bedworth Council (NBBC). This report updates (in part) the Town Centre Strategy (2011) and its purpose is to assist NBBC in developing clear and realistic planning policies relating to its town centres, i.e. Nuneaton town centre and Bedworth town centre
- 5.2 Based on the above analysis this report considers whether the existing office floorspace figure, (30,000 sq m between 2006 and 2026, i.e. 1,500 sq m per annum) is still appropriate and whether an updated figure for office need for Nuneaton and Bedworth town centres should be applied.
- 5.3 In summary, the evidence base shows that only a significant population increase could result in office floorspace requirements for Nuneaton and Bedworth town centres in the region of 1,500 sq m per annum over the plan period. This would also require in the region of 4.7 hectares of land to accommodate the floorspace and, crucially would require office development to be viable
- 5.4 The town centre study recommends identifying and marketing of easily developable sites for office uses within the town centre focussing initially on relatively small units (2-3 storey with their own front door) that are likely to attract local professional services businesses. We consider some higher density office development in the town centres is appropriate. At the same time, it recommends significant emphasis should be placed on addressing labour market constraints on growth in the professional/business services sector.
- 5.5 These recommendations highlight that the provision of new floorspace will be slow in the first half of the plan period. Indeed, current market conditions and the resultant lack of bank funding are preventing any speculative development and rents required to undertake a pre-let are restricting enquiries in this sector. Early focus should be placed upon upgrading the existing accommodation to provide better specified more flexible accommodation rather than larger spec built schemes that are unrealistic without a substantial pre-let element in the current market and will continue to be so in the short to medium term.
- 5.6 The report has concluded the Borough's town centre office target of 30,000 sq m of floorspace (1,500 sq m per annum) for the plan period is unlikely to be required. It is also likely that very little new office floorspace will be realised within the early part of the plan period.
- 5.7 Paragraph 154 states that Local Plans should be aspiration but realistic. We recommend that the town centre office requirements for Nuneaton town centre and Bedworth town centre are reduced to a level that remains aspirational, but is also more likely to be required having regard to the current economic conditions and the current impediments to delivery. We recommend adopting a town centre requirement figure in the region of 15,000 sq m over the plan period (750 sq m per annum) on the basis that this is consistent with the baseline evidence evaluated as part of this report. The vast majority (approximately 13,000 – 14,000 sq m) will be required in Nuneaton with between 1,000 and 2,000 sq m required in Bedworth town centre. We also recommend that policy is positively worded to allow flexibility to support additional office floorspace over the requirement figure.