HARDISTY JONES ASSOCIATES

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FINAL REPORT

Bath and North East Somerset Future Economic Needs Assessment

February 2024

Contents

Document control

JOB NUMBER	VERSION NUMBER	APPROVED BY	DATE
23 03 01	6.0	SNH	09/02/2024

1 Introduction

1.1 Following work being halted on the West of England Spatial Development Strategy (SDS) there is a need to consider a range of strategic matters that were expected to be established within the SDS.

1.2 The SDS was prepared using employment evidence set out within the Employment Land Spatial Needs Assessment[1] (ELSNA). Following a recent review it has been decided that a partial update to that evidence document would be beneficial. This includes procuring new economic forecasts and agreeing a shared set of economic scenarios across sub-regional partners. This will ensure evidence that is relied upon at subsequent Local Plan Examinations is up to date.

1.3 HJA in partnership with Lambert Smith Hampton (LSH) has been appointed by the five administrative authorities within the West of England area (Bath & North East Somerset Council, Bristol City Council, North Somerset Council, South Gloucestershire Council and the West of England Combined Authority) to prepare evidence for each respectively, drawing on a consistent methodological approach. The specific requirements of each authority vary and are reported individually.

1.4 Bath & North East Somerset (B&NES) Council requires a set of updated economic and employment land demand forecasts. The Council also requested an updated commercial market summary and updates to the quantitative assessment of allocated and consented employment sites and premises supply previously set out in the ELSNA. The supply and demand assessments are then considered to identify the level of alignment at both the Unitary Authority area and sub-area level. This will form part of the evidence base for its new Local Plan.

1.5 Employment and economic forecasts have been purchased from Cambridge Econometrics and Oxford Economics. Following analysis of these forecasts, a set of shared economic scenarios have been agreed and used to model the demand for employment sites and premises in B&NES.

1.6 LSH has provided accompanying market commentary of the West of England commercial market as well as a review of the employment sites and premises requirements of key sectors in B&NES, and across the West of England as a whole.

1.7 Data on the current available supply of employment sites and premises, comprising both allocations and planning consents has been compiled in liaison with B&NES Council officers. Similar data has also been compiled for the wider West of England sub-region.

1.8 This report concludes with analysis of how the current supply pipeline aligns with the assessed future requirements and identifies any key issues for further consideration across B&NES and its sub-areas.

[1] Atkins (2021) West of England Employment Land Spatial Needs Assessment

2 Economic Forecasts & Scenarios

2.1 This chapter sets out a summary of the economic and employment forecasts for B&NES. These have been benchmarked against the West of England (WoE) and United Kingdom (UK) where appropriate.

Baseline Forecasts

2.2 Baseline – or 'business as usual' – forecasts were purchased from Cambridge Econometrics (CE) and Oxford Economics (OE). These are two of the leading economic forecasters in the UK for local and regional forecasts. Analysis of these forecasts has been set out for the period from 2001 to 2043.

2.3 There is a need to consider whether forecasts should be termed 'policy on', 'policy off', 'baseline', or 'business as usual'. Each of these terms has helpful and unhelpful connotations. Nevertheless, there is a need to clarify the terminology used within this report. We therefore clarify the following:

- The original forecasts provided by the forecasting houses (CE and OE respectively) are referred to in this report as 'baseline' forecasts. This enables them to be compared with any adjusted scenarios that are considered.
- The forecasters' 'baselines' draw on historic economic performance of the area as one of their forecasting metrics. They also draw on detailed analysis of national and sectoral performance potential. The forecasts are therefore not developed assuming a policy vacuum. Whilst they are not developed with explicit reference to future local policy or known investments, the historic period on which they draw will include efforts from national, regional, and local economic development stakeholders to deliver a prosperous economy. A level of economic development activity is therefore inherent in these forecasts.

2.4 We also include a comparison of the baseline forecasts for B&NES to the baseline forecasts for the WoE and the UK.

Headline Economic Performance

2.5 The following analysis considers historic performance over the period from 2001 to 2021[2], and the future forecast period from 2023 to 2043.

2.6 Set out in this section is an analysis of:

- Total employment – a measure of total jobs including employment and self-employment;
- Gross Value Added (GVA) – a measure of economic output.

2.7 As a result of small discrepancies in the way data is modelled by the two forecasters the charts below use an index rather than absolute values. This ensures the two datasets align at 2023 and makes it easier to see any divergence between different scenarios. The following information box provides information on how to interpret these charts.

[2] Due to the time lag in the publication of official data 2021 is the most recent year forecasters would have access to official data to inform the forecast models. Therefore, a 20 year historic period has been selected from 2001 to 2021 to analyse historic performance.

Interpreting Index Charts

Index charts establish a common starting point and examine the percentage changes from this point. Charts in this report are indexed to 2023 (2023 = 100).

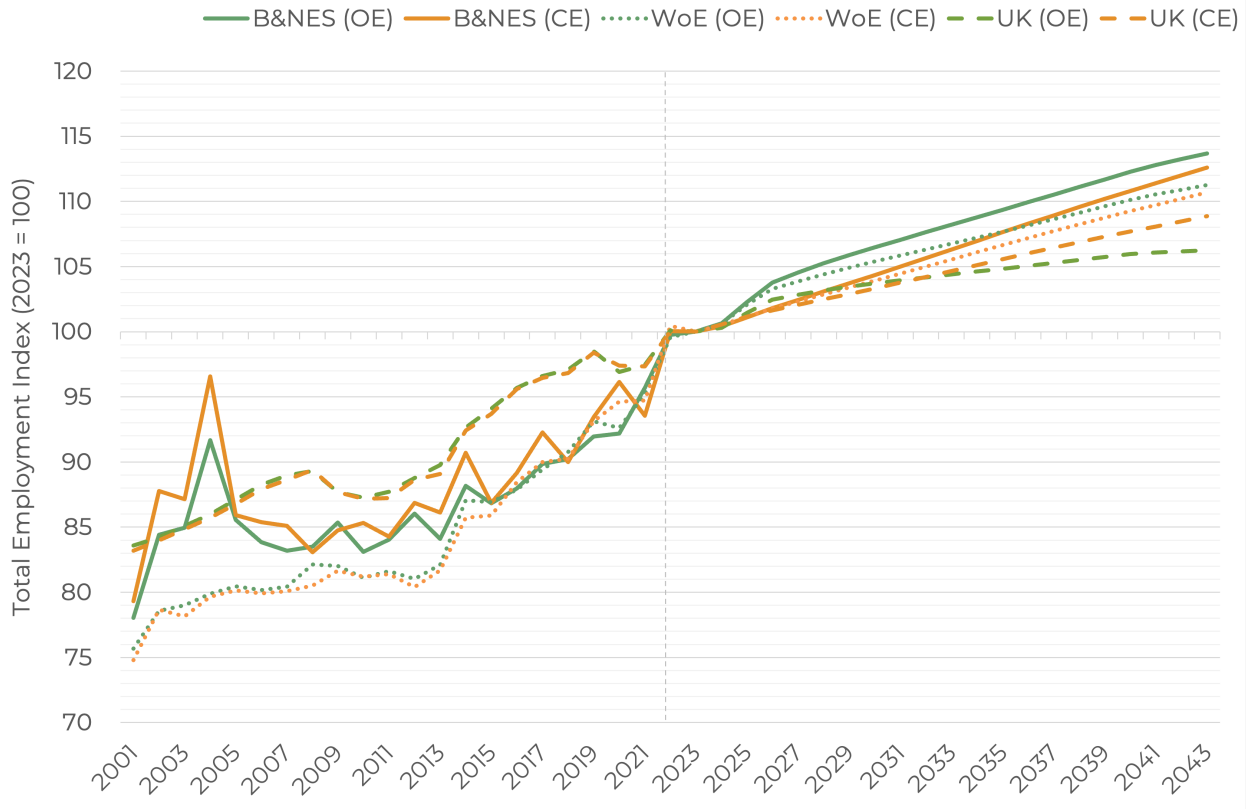
Therefore, over the period from 2023 to 2043 higher numbers on the y-axis indicate larger percentage changes. For the period from 2001 to 2023, the lower the number on the y-axis the larger the percentage change from that point up to 2023.

What this means visually is that areas that performed more strongly in the historic period are shown as the lower lines on the chart. This may appear counter intuitive to some readers.

Total Employment

2.8 Figure 2.1 shows forecast historic and future total employment for B&NES. The WoE and UK are included on the chart for comparison purposes.

Figure 2.1: Historic and Forecast Employment Change in B&NES, West of England and UK (2001 – 2043)



Source: HJA analysis of Cambridge Econometrics and Oxford Economics data

2.9 Over the historic period 2001 to 2021 CE shows that employment in B&NES area has grown by +16,400 (+820 per annum) whilst OE reports that employment has grown by +20,200 (+1,000 per annum). Over the same period Jobs Density data[3] shows that the B&NES area added +24,000 jobs (+1,200 per annum).

[3] The most comprehensive assessment of total jobs within an area

2.10 Employment in B&NES grew at a compound annual growth rate (CAGR)[4] of 0.8% according to CE, and 1.0% according to OE over the historic period from 2001 to 2021. These rates are in-line with the UK (0.8%) although below the WoE (1.2%).

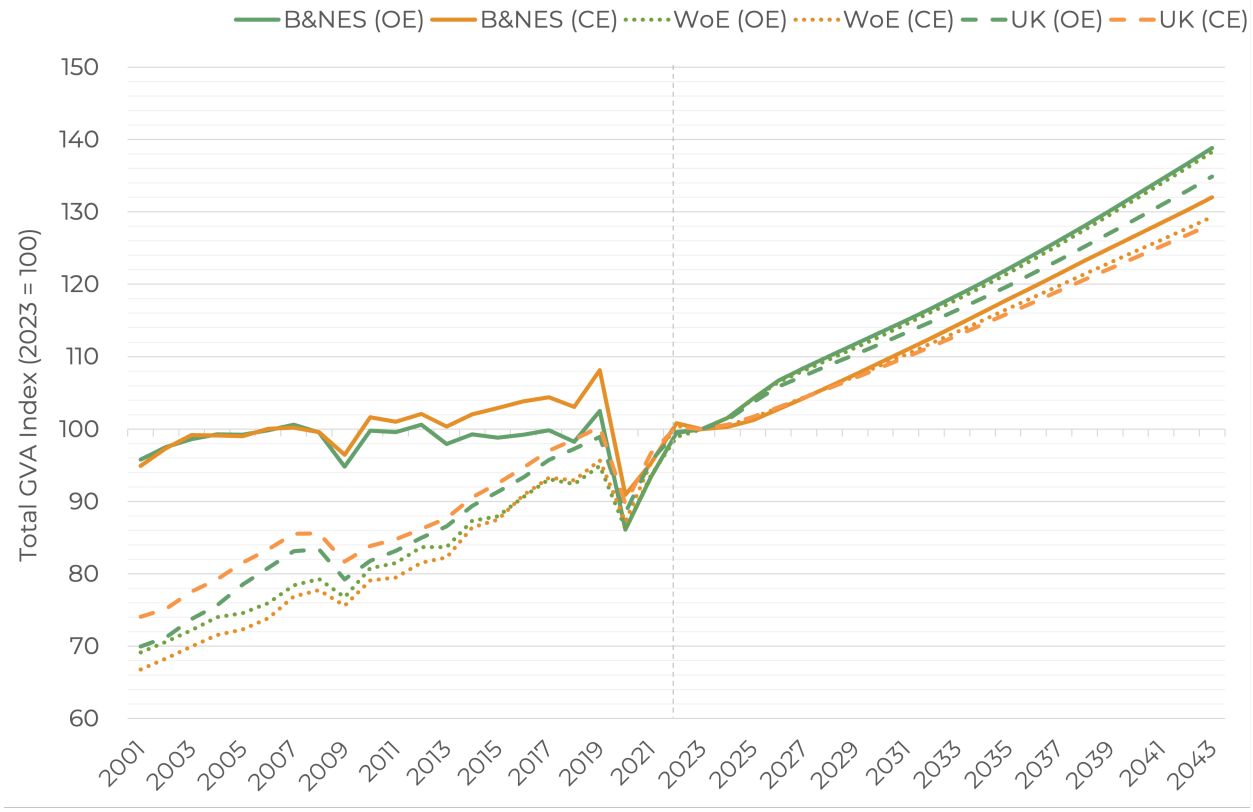
2.11 The notable employment growth and subsequent decline over the period from 2003 to 2005 is primarily driven by employment change in the Public Administration & Defence sector. Further sectoral analysis can be found in Table 2.1.

2.12 Both forecasters indicate that B&NES will experience marginally higher growth over the period from 2023 to 2043 than both comparator areas. Notably, both B&NES and the wider WoE area are forecast to outperform the UK as a whole over the period from 2023 to 2043.

Gross Value Added

2.13 The figure below shows historic and future forecast total GVA for B&NES compared to the WoE and the UK.

Figure 2.2: Historic and Forecast GVA Change in B&NES, West of England and UK (2001 – 2043)



Source: HJA analysis of Cambridge Econometrics and Oxford Economics data

2.14 Over the historic period 2001 to 2021 CE shows that GVA in B&NES area has grown by +£14 million (+£0.7 million per annum) whilst OE reports that GVA has fallen by -£103.3 million (-£5.2 million per annum). Over the same period ONS data[5] shows that GVA has fallen by -£20 million (-£1 million per annum). Whilst these discrepancies appear large in absolute terms, in

[4] This is the average percentage rate of growth over the analysis period
[5] Source: Regional gross value added (balanced) by industry: local authorities by International Territorial Level (ITL) 1 region: TLK South West [Accessed 21 September 2023]

comparison to total GVA they are relatively minor. CE reports a compound annual growth rate (CAGR) of 0%, and OE reports a CAGR of -0.1%.

2.15 Figure 2.2 illustrates that there has not been significant GVA growth in B&NES over the period from 2001 to 2023. This contrasts with both the WoE and the UK which saw growth over this period. Over the future forecast period from 2023 to 2043, B&NES is forecast to grow in-line with comparator areas.

2.16 Over the future period, CE forecasts lower growth than OE in B&NES. Both CE and OE forecast growth in B&NES above that for the WoE and the UK. For the future forecast period (from 2023 to 2043) CE reports a CAGR of 1.4%, whilst OE reports a CAGR of 1.7%.

Explaining Changes in GVA Performance

B&NES has experienced relatively weak GVA performance over the 20-year historic period compared to both the sub-region and national averages. Further interrogation of the data finds that this results from weaker performance across many sectors, rather than a single or narrow area of negative performance. However, it is likely that a lack of supply of suitable employment sites and premises has contributed to this position (including industrial, warehousing and offices), with evidence set out at later sections of this report of firms unable to locate or expand in the area, and some companies having to relocate outside the B&NES area in order to find suitable accommodation. This will have contributed to losses of GVA which would otherwise have been attributable to B&NES.

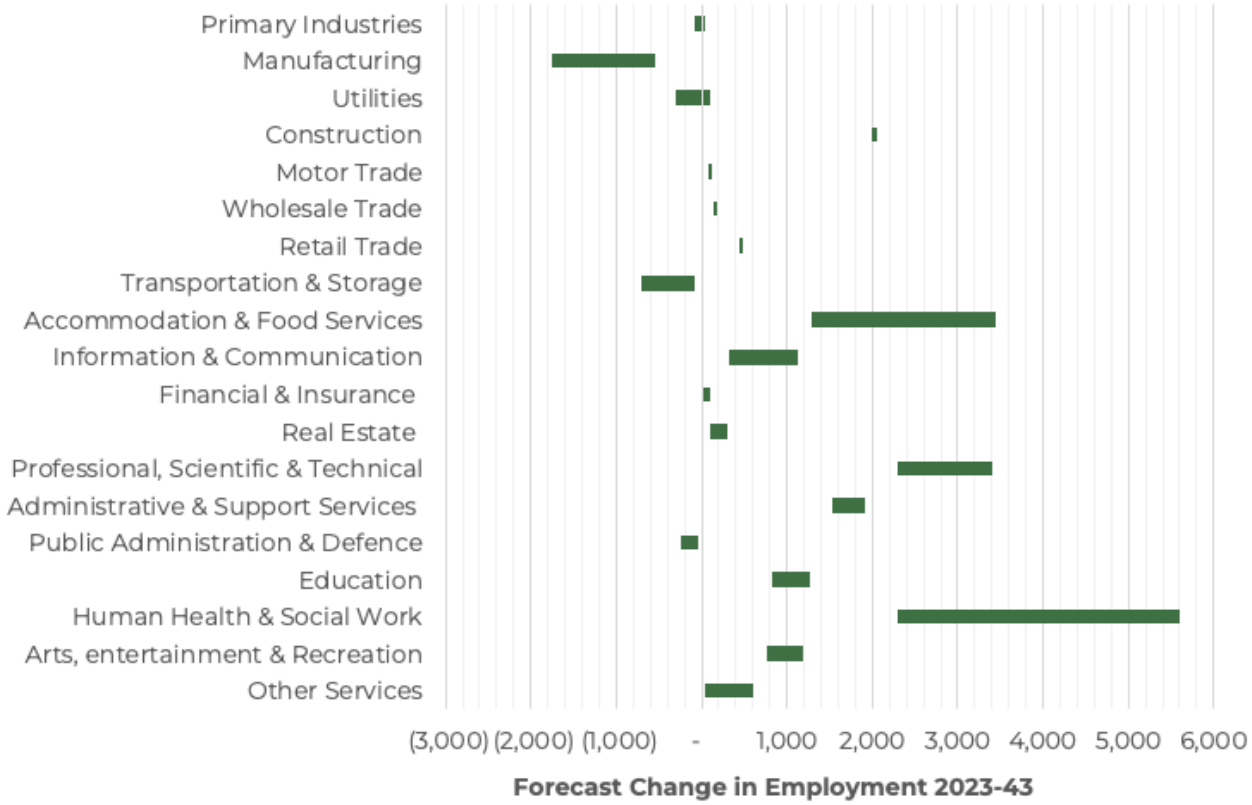
OE and CE were invited to comment on why GVA is projected to perform in close alignment with the sub-regional average in the forecast period. OE highlights that one of the strongest performing sectors in recent history has been information and communication. This is expected to continue as the fastest growing sector, with growth also being underpinned by the real estate and human health sectors. It is also noted that OE doesn't anticipate the same degree of drag on GVA growth from other sectors across the forecast period.

CE notes that local area past trends play a more limited role in its forecasting approach. Performance relative to the wider South West region is a larger factor. It is also noted that forecasting is performed sector by sector, rather than for the economy as a whole. Therefore, whilst there may be volatility at individual sector levels, the combined picture for B&NES in the forecast period is more positive relative to the West of England sub-region.

Sectoral Analysis

2.17 The sectoral breakdown of forecast employment change includes variation between the OE and CE datasets. This is illustrated in Figure 2.3 demonstrating the range of sectoral growth projected. This shows significantly wide ranges for Human Health & Social Work and Accommodation & Food sectors. Further details on how the sectors presented throughout this report align to the Standard Industrial Classification (SIC) 2007 are set out at Appendix 1.

Figure 2.3 Sectoral Employment Change OE and CE



2.18 The table that follows provides data and discussion on each of the sectors that contribute to the overall forecasts presented above for the B&NES area. The table is colour coded for ease of reference. Sectors that are forecast to grow in employment terms are coloured green, sectors that are forecast to decline are coloured red. Those sectors where the forecasters disagree, with one indicating decline and the other growth are shown as amber.

Table 2.1: Sectoral Analysis of CE and OE Employment Forecasts

Sector	Description
Primary Industries	This includes activities including agriculture, forestry, mining and mineral extraction. For 2021, CE reports 1,000 jobs in primary industries. CE reports growth in employment of +100 over the period from 2001 to 2021 and forecasts growth of +30 over the future forecast period from 2023 to 2043. OE reports 600 jobs in this sector in 2021. OE reports growth in employment of +160 over the historic period from 2001 to 2021. OE forecast decline of -80 over the period from 2023 to 2043. **Both forecasters agree there has been small historic growth in employment in this sector. However, over the period from 2023 to 2043, CE forecasts a small amount of growth in employment whilst OE forecasts a small decline.**
Manufacturing	CE reports 4,800 jobs and OE reports 4,400 jobs in this sector in 2021. CE reports decline in employment of -3,500 over the period from 2001 to 2021 and forecasts decline of -540 over the future forecast period from 2023 to 2043. OE reports a decline in employment of -2,700 over the historic period from 2001 to 2021. OE forecast decline of -1,800 over the period from 2023 to 2043. **CE and OE both report that this sector has, and will continue to, see decline in employment. OE forecasts greater decline, which is over three times that forecast by CE.**
Utilities	CE reports 1,600 jobs and OE reports 1,700 jobs in this sector in 2021. CE reports growth in employment of +1,100 over the period from 2001 to 2021 and forecasts growth of +110 over the future forecast period from 2023 to 2043. OE reports growth in employment of +1,200 over the historic period from 2001 to 2021. OE forecast decline of -290 over the period from 2023 to 2043. **Both forecasters report similar levels of growth over the historic period. However, they show divergence in the direction of employment change for the forecast period.**

Sector	Description
Construction	CE reports 6,300 jobs in construction in 2021. CE reports growth in employment of +510 over the period 2001 to 2021 and forecasts growth of +2,000 over the future forecast period from 2023 to 2043. OE reports 6,300 jobs in this sector for 2021. OE reports decline in employment of -450 over the historic period 2001 to 2021. OE forecast growth of +2,000 over the period 2023 to 2043. **The forecasters diverge on historic employment reports. For the forecast period, CE and OE both forecast similar levels of employment growth for the 2023 to 2043 period.**
Motor Trade	For 2021, CE reports 1,400 jobs in this sector. CE reports decline in employment of -290 over the period from 2001 to 2021 and forecasts growth of +80 over the future forecast period from 2023 to 2043. For 2021, OE reports 1,300 jobs in this sector. OE reports a decline in employment of -390 over the historic period from 2001 to 2021. OE forecast growth of +110 over the period from 2023 to 2043. **There is broad agreement among forecasters on the historic and future performance of this sector in terms of employment change.**
Wholesale Trade	CE reports 2,400 jobs in this sector in 2021. CE reports decline in employment of -120 over the period from 2001 to 2021 and forecasts growth of +140 over the future forecast period from 2023 to 2043. OE reports 2,100 jobs in wholesale trade for 2021. OE reports a decline in employment of -240 over the historic period from 2001 to 2021. OE forecast growth of +180 over the period from 2023 to 2043. **There is broad agreement among forecasters on the historic and future performance of this sector in terms of employment change.**

Sector	Description
Retail Trade	CE reports 9,300 jobs in this sector in 2021. CE reports decline in employment of -1,700 over the period from 2001 to 2021 and forecasts growth of +450 over the future forecast period from 2023 to 2043. OE report 10,100 jobs in this sector for 2021. OE reports a decline in employment of -1,200 over the historic period from 2001 to 2021. OE forecast growth of +480 over the period from 2023 to 2043. **There is broad agreement among forecasters on the historic and future performance of this sector in terms of employment change.**
Transportation & Storage	CE reports 3,700 jobs in this sector in 2021. CE reports growth in employment of +1,200 over the period from 2001 to 2021 and forecasts decline of -80 over the future forecast period from 2023 to 2043. OE reports 3,400 jobs in this sector in 2021. OE reports growth in employment of +720 over the historic period from 2001 to 2021. OE forecast decline of -710 over the period from 2023 to 2043. **CE and OE both report growth in this sector over the historic period. The forecasters diverge in the quantum of decline in the future, with OE forecasting a loss of 630 more jobs compared to CE between 2023 and 2043.**
Accommodation & Food Services	CE reports 10,600 jobs in this sector in 2021. CE reports growth in employment of +3,600 over the period from 2001 to 2021 and forecasts growth of +3,400 over the future forecast period from 2023 to 2043. OE reports 10,200 jobs in this sector in 2021. OE reports growth in employment of +3,100 over the historic period from 2001 to 2021. OE forecast growth of +1,300 over the period from 2023 to 2043. **Both forecasters reported similar employment growth over the historic period. However, CE forecasts over double the employment growth forecast by OE over the period from 2023 to 2043.**

Sector	Description
Information & Communication	CE reports 5,700 jobs in this sector in 2021. CE reports growth in employment of +1,300 over the period from 2001 to 2021 and forecasts growth of +1,100 over the future forecast period from 2023 to 2043. For 2021, OE report 5,800 jobs in this sector. OE reports growth in employment of +1,200 over the historic period from 2001 to 2021. OE forecast growth of +310 over the period from 2023 to 2043. **Both forecasters show growth in employment over across both the historic and future forecast periods. However, CE reports growth figures over three times those reported by OE for both periods.**
Financial & Insurance Activities	CE reports 2,200 jobs in this sector in 2021. CE reports a growth in employment of +460 over the period from 2001 to 2021 and forecasts decline of -140 over the future forecast period from 2023 to 2043. OE reports 2,500 jobs in this sector in 2021. OE reports growth in employment of +830 over the historic period from 2001 to 2021. OE forecast growth of +100 over the period from 2023 to 2043. **Both forecasters report growth over the historic period. CE and OE diverge on the forecast period results, with CE showing decline and OE showing growth.**
Real Estate Activities	CE reports 2,300 jobs in real estate activities in 2021. CE reports growth in employment of +880 over the period from 2001 to 2021 and forecasts growth of +100 over the future forecast period from 2023 to 2043. OE reports 2,400 jobs in this sector for 2021. OE reports growth in employment of +810 over the historic period from 2001 to 2021. OE forecast growth of +300 over the period from 2023 to 2043. **The forecasters show broadly similar results over the period 2001 to 2021, and both forecast growth in the future period, with OE forecasting a slightly larger increase.**

Sector	Description
Professional, Scientific & Technical Activities	CE reports 9,800 jobs in this sector in 2021. CE reports growth in employment of +3,100 over the period from 2001 to 2021 and forecasts growth of +2,300 over the future forecast period from 2023 to 2043. OE reports 10,900 jobs in this sector for the year 2021. OE reports growth in employment of +3,500 over the historic period from 2001 to 2021. OE forecast growth of +3,400 over the period from 2023 to 2043. **There is broad agreement among forecasters on the historic and future performance of this sector in terms of employment change.**
Administrative & Support Service Activities	CE reports 6,200 jobs in this sector in 2021. CE reports growth in employment of +1,500 over the period from 2001 to 2021 and forecasts growth of +1,500 over the future forecast period from 2023 to 2043. OE reports 5,700 jobs in this sector for 2021. OE reports growth in employment of +1,500 over the historic period from 2001 to 2021. They forecast growth of +1,900 over the period from 2023 to 2043. **Both forecasters report the same level of growth over the historic period. However, OE forecasts show higher growth in the future period compared to CE.**
Public Administration & Defence	CE reports 3,200 jobs in this sector in 2021. CE reports a decline in employment of -4,400 over the period from 2001 to 2021 and forecasts decline of -30 over the future forecast period from 2023 to 2043. OE reports 2,500 jobs in this sector for the year 2021. OE reports a decline in employment of -3,200 over the historic period from 2001 to 2021. OE forecast decline of +240 over the period from 2023 to 2043. **CE and OE both report a decline in this sector over the historic period but show divergence in the forecast period. CE forecasts a small decline in employment whilst OE shows a small amount of growth.**

Sector	Description
Education	CE reports 13,000 jobs in the education sector in 2021. CE reports growth in employment of +5,400 over the period from 2001 to 2021 and forecasts growth of +830 over the future forecast period from 2023 to 2043. OE reports 13,800 jobs in this sector in 2021. OE reports growth in employment of +5,900 over the historic period from 2001 to 2021. OE forecast growth of +1,300 over the period from 2023 to 2043. **Both CE and OE report similar levels of employment growth over the historic period and the forecast period.**
Human Health & Social Work Activities	CE reports 18,600 jobs in this sector in 2021. CE reports growth in employment of +6,500 over the period from 2001 to 2021 and forecasts growth of +2,300 over the future forecast period from 2023 to 2043. OE reports 19,600 jobs in this sector in 2021. OE reports growth in employment of +7,700 over the historic period from 2001 to 2021. OE forecast growth of +5,600 over the period from 2023 to 2043. **Both forecasters report a high level of employment growth over the period 2001 to 2021. CE forecasts further employment growth over the period from 2023 to 2043 however, this is only half the growth forecast by OE.**
Arts, Entertainment & Recreation	For 2021, CE reports 2,800 jobs. CE reports growth in employment of +730 over the period from 2001 to 2021 and forecasts growth of +770 over the future forecast period from 2023 to 2043. OE reports 3,300 jobs in this sector for 2021. OE reports growth in employment of +1,000 over the historic period from 2001 to 2021. OE forecast growth of +1,200 over the period from 2023 to 2043. **CE and OE report both that this sector has, and will continue to, see jobs growth. OE forecasts greater growth than CE.**

Sector	Description
Other Service Activities	CE reports 2,700 jobs in other service activities for 2021. CE reports a growth in employment of +240 over the period from 2001 to 2021 and forecasts growth of +50 over the future forecast period from 2023 to 2043. OE reports 3,100 jobs in other service activities in 2021. OE reports a growth in employment of +800 over the historic period from 2001 to 2021. OE forecast growth of +600 over the period from 2023 to 2043. **CE and OE report employment decline in the historic period. Both forecasters report growth is expected over 2023-2043, with OE forecasting 550 more jobs than CE.**

Baseline Summary

2.19 Overall, there is broad alignment between the total employment forecasts by CE and OE for the period 2023 to 2043. CE forecasts report employment growth of +14,000 and OE forecasts report employment growth +16,000.

2.20 Over the historic period 2001 to 2021 Jobs Density data reports there has been an increase of +24,000 jobs in B&NES. The forecasts suggest that over the future forecast period there will be lower jobs growth than over the period 2001 to 2021.

2.21 There are some notable differences within the sectoral forecasts for B&NES. In terms of sectors with a significant influence on employment land these are:

- Manufacturing (CE forecasts a decline of -2,800 whilst OE forecasts a decline of -1,800)
- Transportation & Storage (CE forecasts a decline of -80 whilst OE forecasts a decline of -710)
- Information & Communication (CE forecasts growth of +1,100 whilst OE forecasts growth of +310)
- Professional, Scientific & Technical (CE forecasts growth of +2,300 whilst OE forecasts growth of +3,400)

Alternative Growth Scenarios

2.22 It is appropriate to consider the need for alternative scenarios to help address uncertainty and to deal with other evidence.

The Baseline Scenario – Sectoral Differences

2.23 As noted above, there are some large sectoral differences between the CE and OE baseline forecasts. As such, it is deemed appropriate to model both baseline forecasts within the analysis of future sites and premises requirements (in the following chapter) to understand the potential implications of differing levels of employment growth in different sectors on the demand for employment land and premises.

Higher Growth Scenarios – Aligning to Demographic Change

2.24 Demographic forecast analysis for B&NES over the period 2023 to 2043 has been undertaken by ORS[6]. These figures have been derived from the preferred housing assessment methodology adopted by B&NES Council. These figures have been translated into an estimate of the number of jobs required across the B&NES area to maintain a balanced labour market[7].

2.25 The population projections emerging from the ORS analysis are higher than the population estimates inherent within the OE and CE baseline models. The labour market balancing analysis indicates that the level of jobs growth required across the B&NES area to maintain a balanced labour market is around 15,000 over the 20-year forecast period. This figure is above the total number of jobs in the OE forecasts over the same period.

Scenarios Summary

2.26 Table 2.2 provides a summary of the total jobs estimates across the baseline and higher growth scenarios, as well as comparison to the 20-year historic employment growth data.

Table 2.2: Employment Growth Scenario Summary

Area	Historic Change	Baseline Forecasts (2023 2043)		Higher Growth Scenario
	2001 21	Cambridge Econ.	Oxford Economics	Labour Market Balance
B&NES	24,000	14,000	16,000	15,000
West of England Sub-Region	147,000	81,000	85,000	107,000

Source: HJA based on ONS, OE, CE and own analysis.

2.27 In order to close the gap between the higher growth labour market balance scenario and the CE baseline, sectoral employment growth estimates have been developed, uplifting the baseline CE forecasts. This approach ensures the variation in sectoral growth expectations inherent within the baseline forecast is also captured across the higher growth scenario.

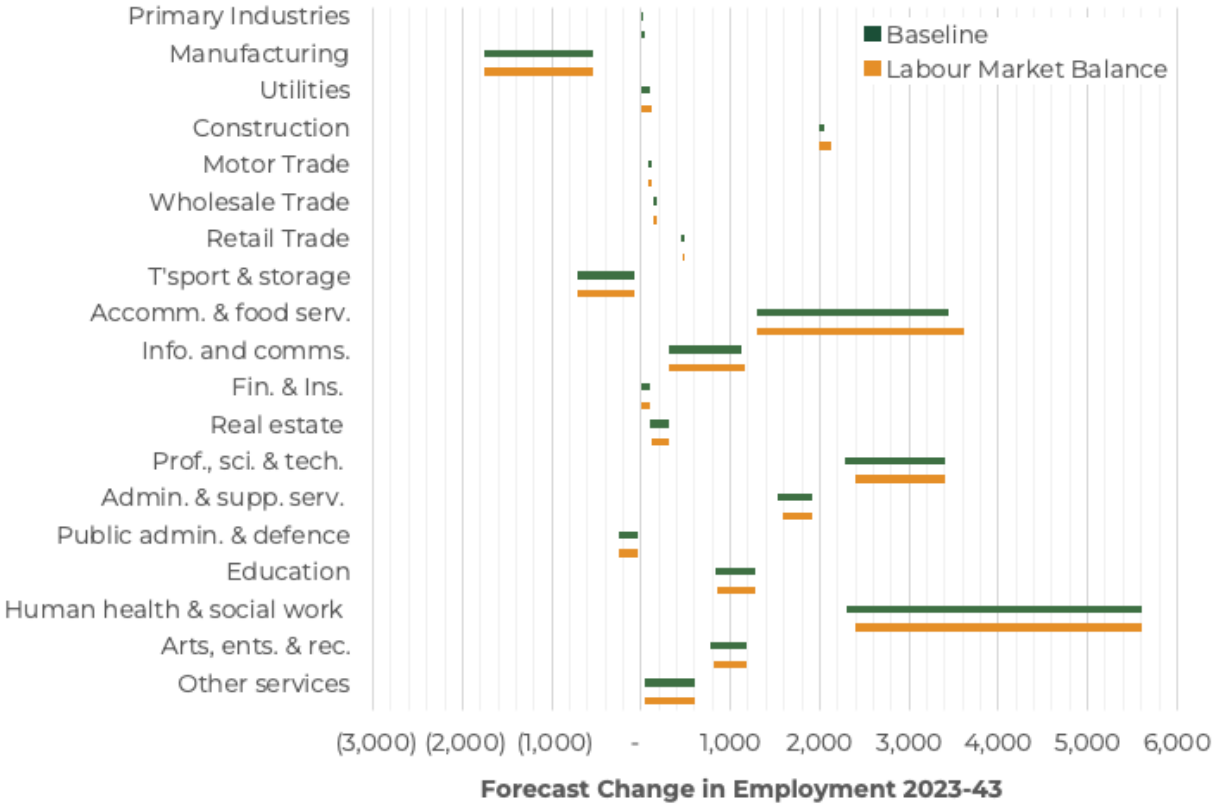
2.28 The first stage in this process allocates the additional jobs growth across the forecast time period based on the proportion of growth per annum seen in the baseline forecast. Employment growth is then allocated to sectors based on the proportion of growth they contribute each year. As such, no growth is allocated to sectors which are forecast to decline in a given year.

2.29 The OE baseline forecast has not been adjusted as there is sufficient employment inherent in the baseline forecast to maintain a balanced labour market.

2.30 Figure 2.4 illustrates the adjusted sectoral breakdown for the labour market balance scenario alongside the baseline scenario. This shows fairly modest adjustments for B&NES.

[6] ORS is preparing housing and demographic evidence across the four West of England Unitary Authority areas that will sit alongside this economic evidence. Data was provided for the total population and economically active population.
[7] Three different methodologies to estimate the number of jobs required to balance the labour market have been employed with the average of the three estimates adopted. The first method adjusts the projected economically active population for unemployment, double jobbing and net commuting; the second method draws on the relationship between jobs and population within the CE model; the third approach draws on ONS data for the relationship between jobs and population.

Figure 2.4 : Scenario Sectoral Employment Change Comparison 2023-2043



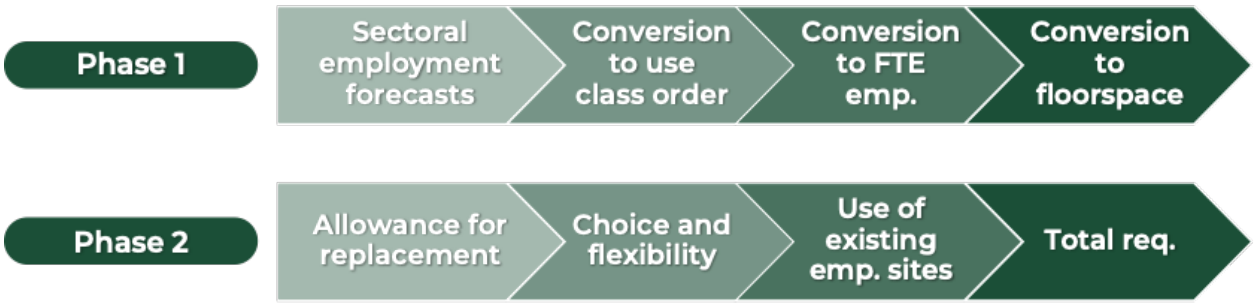
3 Future Employment Sites & Premises Requirements

3.1 The following chapter sets out the employment land and premises requirements resulting from the scenarios selected for analysis at the end of the preceding chapter.

Approach

3.2 Figure 3.1 provides a summary of the approach adopted in this report to assess the need for future sites and premises.

Figure 3.1: Approach to Assessing Sites and Premises Requirements



3.3 **Phase 1** takes account of the net changes in the economy i.e. the growth and decline of particular sectors, as discussed in the previous chapter. The sectoral employment projections are converted to planning Use Classes. This provides an indication of the spread of future employment change across the full range of planning Use Classes and that which doesn't occupy any floorspace (such as 100% homeworkers and peripatetic workers). From that point onward the focus is upon Use Classes E(g), B2, and B8 for the purposes of employment land forecasting. The net employment changes in the Use Classes are then converted to property and land requirements using employment and development density assumptions.

3.4 **Phase 2** then considers wider market factors, particularly the need to allow for churn in the economy and the associated need to replace and upgrade property stocks. For example, whilst the manufacturing sector as a whole has experienced well-documented decline in its employment base nationally, there has been GVA growth and continued demand for new premises within which to operate. This suggests an increase in productivity in this sector. Productivity gains are primarily achieved through greater use of capital (i.e., machinery). This can lead to demand by existing companies needing more/less space, a different location, or a different type of premises to accommodate these changes. It can also be driven by new companies in the market, which may not find the right type of property available in the right location within the market. As a result, across all sectors (experiencing employment growth or decline), there are changes beneath the surface that drive demand. This can be a particular issue where existing stocks are ageing or where vacant sites are no longer in the locations suitable for modern occupiers. Taking this into account also ensures provision is made for replacing sites that might be lost from employment use to other uses.

3.5 Also, within Phase 2 the assessment builds in an allowance for choice and flexibility in the market. This element needs to take account of offering location choice as well as choice in terms of the type of property and setting.

3.6 Within the detailed assumptions employed as part of this model, local evidence has been used to ensure the approach is appropriate to B&NES. Further details of the method are set out within the remainder of the chapter and supporting appendices. For ease of reading all figures are rounded throughout this chapter. As a result, some tables may not sum exactly.

Employment Forecasts

3.7 The employment scenarios that have been adopted for analysis and the overall employment change associated with each over the forecast period 2023 – 2043 is set out in the table below.

Table 3.1: Total Employment Growth Across Employment Scenarios 2023 - 2043

	CE Baseline	OE Baseline	LM Balance
Employment Change 2023 - 2043	14,000	16,000	15,000

Conversion to Use Class Order

3.8 Employment change by sector in each scenario is converted to Use Classes using the conversion matrix set out at Appendix 2. This matrix has been tailored to the B&NES economy using fine-grained employment data from the ONS Business Register and Employment Survey (BRES) dataset.

3.9 Table 3.2 sets out the employment change by Use Class across the plan period. This is helpful to understand a number of key points. Firstly, employment is not confined to the E(g), B2, and B8 use classes (traditionally referred to as the 'employment' use classes), which is the focus of this report. Employment is spread across many use classes, and none.

3.10 The 'none and homeworking' category includes home-based workers who are considered as '100% homeworking' (i.e., this does not include hybrid workers) with no planning Use Class order implications. It also includes workers who work in the workplace of others (e.g. cleaners), or peripatetic workers that have 'no fixed place' of work (e.g. those who work in the construction industry who are active at multiple sites).

3.11 The table on the following page shows that growth in employment in the traditional 'employment' sectors accounts for less than 20% of overall forecast employment growth. Whilst this figure is suppressed by the decline in Manufacturing employment, it is notable that employment growth in sectors with impacts on other Use Classes accounts for a much larger share of overall employment growth. In particular, the significant increase in employment that has no sites and premises implications.

Table 3.2: Estimated Change in Employment Across Use Classes (2023 to 2043)

Use Class	Description	CE Baseline	OE Baseline	CE LM Balance	OE LM Balance
B2	**General industrial**	**(400)**	**(1,400)**	**(400)**	**(1,400)**
B8	**Storage or distribution**	**220**	**210**	**240**	**210**
C1	Hotels	570	220	600	220
C2	Residential institutions	1,500	3,500	1,500	3,500
C2a	Secure Residential Institution	-	-	-	-
E(a)	Display or retail sale of goods	700	820	730	820
E(b)	Sale of food and drink	1,400	530	1,400	530
E(c)(i)	Financial services	(20)	10	(20)	10
E(c)(ii)	Professional services	50	100	60	100
E(c)(iii)	Other services	-	-	-	-
E(d)	Indoor sport and recreation	200	310	210	310
E(e)	Medical or health services	480	1,100	500	1,100
E(f)	Creche, day nursery/centre	90	260	90	260
E(g)(i)	**Offices**	**2,600**	**3,200**	**2,800**	**3,200**
E(g)(ii)	**Research and development**	**130**	**130**	**140**	**130**
E(g)(iii)	**Light industrial**	**80**	**60**	**80**	**60**
F1(a)	Education	730	1,100	760	1,100
F1(b)	Display of works of art	-	-	-	-
F1(c)	Museums	60	90	60	90
F1(d)	Public libraries	10	20	10	20
F1(e)	Public halls or exhibition halls	-	-	-	-
F1(f)	Public worship or religious	10	70	10	70
F1(g)	Law courts	(10)	(50)	(10)	(50)
F2(a)	Small shops (isolated location)	-	-	-	-
F2(b)	Local community hall	-	-	-	-
F2(c)	Outdoor sports or recreation	70	110	70	110
F2(d)	Swimming pool or skating rink	50	80	50	80
Sui Generis	Excluded from classification	1,000	650	1,100	650
	None and homeworking	4,900	4,500	5,200	4,500
	Total	**14,000**	**16,000**	**15,000**	**16,000**
	'Employment' Uses Only	**2,700**	**2,200**	**2,700**	**2,200**

*Negative numbers in parenthesis.

Conversion to FTE Employment

3.12 Employment forecasts are converted to Full-Time Equivalent (FTE) jobs using data from the ONS Annual Survey of Hours & Earnings (2022). This ensures the employment figures align with the floorspace per FTE figures provided in the Employment Density Guide (2015)[8].

Conversion to Floorspace

3.13 Floorspace per FTE figures set out in the Employment Density Guide (2015) are used to convert FTE employment by Use Class to floorspace demand figures.

3.14 The analysis assumes a direct link between employment and floorspace required. It is appropriate to caveat this approach with a number of important points:

- Firstly, if there is capacity within the existing stock of premises there will be opportunity to accommodate some employment increases without the need for new space, and vice versa[9].
- Secondly, if there are changing working practices, the ratio between workers and floorspace could change over time. This issue has been highlighted by the Covid-19 pandemic and the resultant increase in hybrid working.
- Thirdly, increases in productivity driven by the increased use of capital (i.e., machinery) could lead to a break in the link between employment and floorspace.

3.15 A discussion of the potential impact of hybrid working practices on employment densities, and the densities used in this report are set out in Appendix 2.

3.16 The summary below provides high-level analysis of floorspace by Use Class. All totals are reported as gross external area (GEA).

Phase 1 Results

3.17 The table below sets out the net additional demand for employment floorspace by Use Class. This shows an anticipated increase in the requirement for office and R&D space across all scenarios. There is a forecast negative requirement for industrial floorspace, as a result of forecast falls in employment in the Manufacturing sector. There is expected to be a growth in the requirement for storage and warehousing floorspace.

[8] Homes & Communities Agency (2015) Employment Density Guide 3rd Ed.
[9] Lease structures mean it is not always easy to adjust the footprint of a commercial property as staffing levels change, and corrections may happen at some point but not in real time (or freehold ownership even more so). This applies equally for premises that are at over or under capacity. For the purposes of this analysis, it is assumed these factors are broadly balanced.

Table 3.3: Estimated Net Additional Employment Floorspace Demand by Use Class (2023 - 2043) sq m

Use Class	Description	CE Baseline	OE Baseline	CE LM Balance	OE LM Balance
E(g)(i)	Offices	31,200	37,100	32,700	37,100
E(g)(ii)	Research and development	7,500	7,200	7,800	7,200
	Office and Laboratory	**38,700**	**44,300**	**40,500**	**44,300**
E(g)(iii)	Light industrial	3,500	2,710	3,720	2,710
B2	General industrial	(14,800)	(51,100)	(14,800)	(51,100)
	Industrial	**(11,300)**	**(48,400)**	**(11,000)**	**(48,400)**
B8	**Storage or distribution**	**16,000**	**14,600**	**16,800**	**14,600**

*Negative numbers in parenthesis.

Phase 2: Replacement, Churn, and Flexibility

3.18 **Phase 1** considered the net changes in employment in E(g), B2, and B8 Use Class activity that need to be accommodated within B&NES. **Phase 2** deals with the need to ensure the existing economy, and the on-going changes within it, are supported through the provision of sufficient employment sites and premises.

3.19 The methodology employed for estimating the level of replacement demand assumes that a proportion of the total existing stock of employment property needs to be replaced each year to ensure the overall stock of premises is sufficient and appropriate for modern needs, in terms of both building quality and site characteristics. This is particularly important for the manufacturing sector where on-going development of industrial premises has been observed, despite a decline in employment in the sector over many years.

3.20 With Permitted Development Rights (PDR) now in place and their reach broadened, there is increasing pressure for redevelopment of office and light industrial stocks to other uses. The introduction of the E Use Class also carries the possibility of wider erosion of some former B1 stocks to other uses. There are also losses of employment property for other reasons, whether occupation by non-employment users (e.g. the growth in leisure occupiers within former industrial and warehousing premises) or redevelopment for non-employment uses. It is important that any potential losses of commercial employment stocks do not hamper the growth and ongoing performance of the economy.

3.21 The phased introduction of Minimum Energy Efficiency Standards (MEES) requirements means that since April 2023 it is an offence to continue to let non-domestic properties with an Energy Performance Certificate (EPC) rating below *E*. It is uncertain at this point whether this will reduce replacement rates as buildings are refurbished and thus their useful life extended or will drive an increase in replacement rates as buildings cannot be improved sufficiently to meet increasing standards.

3.22 Based on the age of commercial stocks in England and information on their functional life, a 2% default assumption is adopted for this analysis. This assumes that on average buildings are

replaced every 50 years. Implicit in this assumption is that some buildings will last longer than 50 years (potentially with significant investment to ensure ongoing use), whilst some will last less than this either through redevelopment or change of use.

3.23 This default assumption is adjusted to the local area based on:

- Age – older stocks are less likely to be able to accommodate modern infrastructure such as HVAC, electricity supply etc.
- Regulatory – changes to regulations can force buildings into functional obsolescence by making it illegal to lease or continue to lease them.
- Market demands and local circumstances– the demands of the market can shift meaning that stocks are no longer of a desirable quality or location.

3.24 For B&NES, our analysis concludes that the default assumption is appropriate for office stocks but, for industrial and warehousing stocks this is increased to 2.2%. This is due to the fact that older industrial and warehouse stocks in B&NES are increasingly being lost to higher value residential uses. Full details of this analysis can be found in Appendix 2.

3.25 The table below sets out the findings of analysis and the resultant replacement requirements based on the replacement rates set out above. It is possible these levels of replacement need could reduce with restrictive policies on change of use or high levels of refurbishment.

Table 3.4: Forecast Replacement and Churn Requirements (2023 - 2043) sq m

Use	Total Stock (2023)	Annual Replacement	Total Replacement (20 Years)
Office	245,000	4,900	98,000
Industrial	294,000	6,500	129,000
Warehousing & Logistics	250,000	5,500	110,000

Reuse of Employment Sites

3.26 The analysis of both net additional and replacement requirements set out above do not consider whether the development activity takes place on existing employment sites (replacing or substantially refurbishing one building with another on the same plot of land) or whether currently unoccupied land needs to be made available. It is likely that there will be elements of both.

3.27 Monitoring data provided by B&NES is not sufficiently detailed to allow for analysis of the reuse of employment sites across the local authority so assumptions must be made. Variation in the number of sites that are reused is generally influenced by the availability of greenfield land. This in turn is influenced by a number of factors including the presence of Green Belt, other relevant designations or other local policies and circumstances that limit the supply of greenfield sites. Based on HJA findings in previous employment land related studies, completions on previously occupied employment sites accounts for between 10% and 50% of overall completions, with an average of 30%. Excluding outliers (e.g. local authorities with extreme shortages of new employment land), most areas fall into a range of between 30% and 40%.

3.28 Based on the fact that the majority of B&NES lies within the Bristol and Bath Green Belt, we have taken the top of this range and assumed that 40% of gross employment floorspace requirements will be met through the reuse of existing employment sites. This figure is based on our findings in previous employment land studies. Therefore, there is a need to provide new development land (this can include existing allocations not yet developed) for 60% of the total development requirement. There is a potential opportunity to increase the level of site re-use through enhanced protection of existing employment sites or through increased levels of refurbishment and upgrading of existing stock.

Choice and Flexibility

3.29 A percentage uplift of the combined requirement for net additional and churn/replacement is applied to ensure an allowance for range and choice is incorporated. This uplift also builds in some additional flexibility to allow the normal frictional movement in the market. As such, in line with industry standards, an uplift of 10% has been applied.

Total Requirement

3.30 The following section brings together the results of the Phase 1 and Phase 2 analysis discussed above. As discussed in paragraph 2.29, the OE baseline forecast has not been adjusted. As a result, the top of the requirement range for offices, and the bottom of the range for industrial and warehousing & logistics space are the same in the baseline forecasts and LM Balance scenario.

3.31 Details on the requirements for each of the four sub areas in B&NES (Bath City, Keynsham, Rural Areas, and Somer Valley respectively) are also provided. The definition of these areas can be found in Appendix 2.

3.32 The methodology for calculating requirements at a sub area level are in line with that used for the B&NES area. Employment forecasts for B&NES have been disaggregated across the four sub areas on a sector-by-sector basis. This has been done using the average share of employment in each sector over the period 2015 to 202110 as a fixed assumption to allocate forecast employment to each sub area.

3.33 Due to the small differences between the baseline forecasts and LM Balance scenarios at the sub area level, the range of requirement presented reflects the minimum and maximum across both scenarios.

Office Requirements

3.34 The total net office (Use Class E(g)(i) and E(g)(ii)) floorspace requirements under each of the scenarios are set out in the table below.

[10] Data from the Business Register & Employment Survey (BRES)

Table 3.5: Estimated Net Office Floorspace Requirements 2023 - 2043 (sq m)

		Baseline Forecasts	LM Balance Scenario
A	Net Additional Requirement	39,000 – 44,000	31,000 – 44,000
B	Replacement Provision	98,000	98,000
C = A+B	Gross Requirement	137,000 – 142,000	138,000 – 142,000
D	Flexibility allowance	14,000	14,000
E = C+D	Total Requirement	150,000 – 156,000	152,000 – 156,000
F	Delivered on Existing Employment Sites	60,000 – 63,000	61,000 – 63,000
G = E-F	**Net Requirement**	**90,000 – 94,000**	**91,000 – 94,000**

3.35 The table above shows that the net requirement for office floorspace in B&NES is between 90,000 and 94,000 sq m. The figure highlights the relative importance of replacement provision to the overall supply requirements as it accounts for over double the net additional requirements.

3.36 The net floorspace requirements under each scenario are provided in five-year intervals in the table below. Net additional requirements across these periods vary based on the employment forecast trajectories. All other variables are assumed to follow a linear trajectory (i.e., requirements across the 20-year period are evenly distributed across the five-year intervals). Whilst there is some variation across the scenarios within the first five year period, there is broad consistency across the remainder of the plan period. This reflects the employment forecasts tending towards longer term trends in the medium to longer term.

Table 3.6: Estimated Net Office Floorspace Requirements Five-Year Intervals (sq m)

	Baseline Forecasts	LM Balance Scenario
2023–2028	22,000 – 27,000	23,000 – 27,000
2028–2033	23,000	23,000
2033–2038	22,000 – 23,000	22,000 – 23,000
2038–2043	21,000 – 23,000	21,000 – 23,000
2023 - 2043	**90,000 – 94,000**	**91,000 – 94,000**

3.37 For offices, requirements are best reported in terms of floorspace for planning purposes, as varying development densities generated by different types of office developments can create large ranges e.g. the differing nature of multi-storey development 'in-town' (typically with a development density of 100%+) and fewer storeys 'out-of-town' (typically with development densities of ~40%). However, indicative land requirements have been set out in this section to aid plan-making.

3.38 Given that B&NES is comprised of a mix of 'in-town' and 'out-of-town' locations, we provide a range of land requirements with a range of development densities. The highest land

requirement in the range assumes half of development takes place at 100% density and half at 40% density. The lowest land requirement in the range assumes all development takes place at 100% density.

3.39 This report uses a density figure of 80% to convert floorspace figures to land requirements for office development which provides consistency with the analysis set out within the ELSNA. This indicates an estimated requirement for 11-12 hectares of land for office development.

Table 3.7: Estimated Office Employment Land Requirements Five-Year Intervals (ha)

	Baseline Forecasts	LM Balance Scenario
2023–2028	3	3
2028–2033	3	3
2033–2038	3	3
2038–2043	3	3
2023 - 2043	**11 – 12**	**11 – 12**

Sub Area Requirements

3.40 The table below sets out the floorspace and land requirements for each of the four sub areas in B&NES over the period 2023 to 2043. The table below shows that the majority (around 75%) of the office floorspace and land requirement forecast across B&NES are in Bath City.

Table 3.8: Net Additional Office Floorspace and Land Requirements for B&NES Sub Areas (2023 – 2043)

	Bath City	Keynsham	Rural Areas	Somer Valley
Net Additional Requirement	27,000 – 31,000	4,000	4,000 – 5,000	4,000 – 5,000
Replacement Provision	74,000	13,000	4,000	8,000
Gross Requirement	101,000 – 105,00	16,000 - 17,000	8,000	12,000
Flexibility allowance	10,000	2,000	1,000	1,000
Total Requirement	111,000 – 115,000	18,000	9,000	13,000 – 14,000
Delivered on Existing Employment Sites	44,000 – 46,000	7,000	3,000 – 4,000	5,000
Net Floorspace Requirement (sq m)	**67,000 – 69,000**	**11,000**	**5,000 – 6,000**	**8,000**
Land Requirement (ha)	**8 – 9**	**1**	**1**	**1**

Industrial Requirements

3.41 The total industrial (Use Class E(g)(iii) and B2) floorspace requirements under each of the scenarios is set out in the table below.

Table 3.9: Estimated Net Industrial Floorspace Requirements 2023 - 2043 (sq m)

		Baseline Forecasts	LM Balance Scenario
A	Net Additional Requirement	(48,000) – (11,000)	(48,000) – (11,000)
B	Replacement Provision	129,000	129,000
C = A+B	Gross Requirement	81,000 – 118,000	81,000 – 118,000
D	Flexibility allowance	8,000 – 12,000	8,000 – 12,000
E = C+D	Total Requirement	89,000 – 130,000	89,000 – 130,000
F	Delivered on Existing Employment Sites	36,000 – 52,000	36,000 – 52,000
G = E-F	**Net Requirement**	**53,000 – 78,000**	**53,000 – 78,000**

3.42 The table above shows that the net requirement for industrial floorspace in B&NES is between 53,000 and 78,000 sq m. The requirements based on the baseline forecasts and LM Balance scenario are the same as the adjustment to the CE baseline forecast is not significant in the sectors which impact the requirements for industrial premises. Once again, replacement provision is particularly important in the supply calculations as if this allowance was not included there would be a negative land requirement.

3.43 The net floorspace requirements under each scenario have been translated to land requirements based on a development density of 40% in line with the ELSNA.

3.44 Land requirements are provided in five-year intervals. Net additional requirements across these periods vary based on the employment forecast trajectories. All other variables are assumed to follow a linear trajectory (i.e., requirements across the 20-year period are evenly distributed across the five-year intervals).

Table 3.10: Estimated Industrial Employment Land Requirements Five-Year Intervals (ha)

	Baseline Forecasts	LM Balance Scenario
2023–2028	4	4
2028–2033	3 - 5	3 - 5
2033–2038	3 - 5	3 - 5
2038–2043	3 - 5	3 - 5
2023 - 2043	**13 – 19**	**13 – 19**

Sub Area Requirements

3.45 The table below sets out the floorspace and land requirements for each of the four sub areas in B&NES over the period 2023 to 2043. The table below shows that the majority (around 50%) of the industrial floorspace and land requirement forecast across B&NES are in Somer Valley.

Table 3.11: Net Additional Industrial Floorspace and Land Requirements for B&NES Sub Areas (2023 – 2043)

	Bath City	Keynsham	Rural Areas	Somer Valley
Net Additional Requirement	(19,000) – (4,000)	(3,000) – (300)	(6,000) – (1,000)	(21,000) – (6,000)
Replacement Provision	27,000	14,000	27,000	61,000
Gross Requirement	8,000 – 23,000	11,000 – 13,000	21,000 – 26,000	40,000 – 55,000
Flexibility allowance	1,000 – 2,000	1,000	2,000 – 3,000	4,000 – 6,000
Total Requirement	9,000 – 26,000	12,000 – 15,000	23,000 – 29,000	45,000 – 61,000
Delivered on Existing Employment Sites	4,000 – 10,000	5,000 – 6,000	9,000 – 11,000	18,000 – 24,000
Net Floorspace Requirement (sq m)	**5,000 – 15,000**	**7,000 – 9,000**	**14,000 – 17,000**	**27,000 – 36,000**
Land Requirement (ha)	**1 – 4**	**2**	**3 – 4**	**7 - 9**

Warehousing & Logistics Requirements

3.46 The total warehousing & logistics (Use Class B8) floorspace requirements under each of the scenarios is set out in Table 3.12. This shows a net requirement for between 82,000 and 84,000 sq m of warehousing & logistics space. This total is primarily driven by replacement provision with requirements driven by employment change comprising a relatively small proportion of this total.

3.47 The net floorspace requirements under each scenario have been translated to land requirements based on a development density of 50% in line with the ELSNA.

3.48 Land requirements are provided in five-year intervals (see Table 3.13). Net additional requirements across these periods vary based on the employment forecast trajectories. All other variables are assumed to follow a linear trajectory (i.e., requirements across the 20-year period are evenly distributed across the five-year intervals).

Table 3.12: Estimated Net Warehousing & Logistics Floorspace Requirements 2023 - 2043 (sq m)

		Baseline Forecasts	LM Balance Scenario
A	Net Additional Requirement	15,000 – 16,000	15,000 – 17,000
B	Replacement Provision	110,000	110,000
C = A+B	Gross Requirement	124,000 – 126,000	124,000 – 127,000
D	Flexibility allowance	12,000 – 13,000	12,000 – 13,000
E = C+D	Total Requirement	137,000 – 138,000	137,000 – 139,000
F	Delivered on Existing Employment Sites	55,000	55,000 – 56,000
G = E-F	**Net Requirement**	**82,000 – 83,000**	**82,000 – 84,000**

Table 3.13: Estimated Warehousing & Logistics Employment Land Requirements Five-Year Intervals (ha)

	Baseline Forecasts	LM Balance Scenario
2023–2028	4 - 5	4 - 5
2028–2033	4	4
2033–2038	4	4
2038–2043	4	4
2023 - 2043	**16 – 17**	**16 – 17**

Sub Area Requirements

3.49 The table below sets out the floorspace and land requirements for each of the four sub areas in B&NES over the period 2023 to 2043. The table below shows that the requirements for warehousing & logistics space is distributed relatively evenly across the four sub areas.

Table 3.14: Net Additional Warehousing & Logistics Floorspace and Land Requirements for B&NES Sub Areas (2023 – 2043)

	Bath City	Keynsham	Rural Areas	Somer Valley
Net Additional Requirement	6,000 – 8,000	2,000	4,000	3,000
Replacement Provision	32,000	27,000	22,000	29,000
Gross Requirement	37,000 – 39,000	29,000	26,000	32,000
Flexibility allowance	4,000	3,000	3,000	3,000
Total Requirement	41,000 – 43,000	32,000	28,000 – 29,000	35,000
Delivered on Existing Employment Sites	16,000 – 17,000	13,000	11,000 -12,000	14,000
Net Floorspace Requirement (sq m)	**25,000 – 26,000**	**19,000**	**17,000**	**21,000**
Land Requirement (ha)	**5**	**4**	**3**	**4**

Validation of Results

3.50 B&NES has provided data on employment land developments completed between 2011/12 and 2022/23. Extending this to a 20-year period by assuming the average level of annual completions is maintained allows for comparison to the forecast employment land requirements.

3.51 To ensure we are comparing like-with-like we compare gross historic completions (i.e. not adjusting for losses) with gross floorspace requirements (i.e., before allowances are made for flexibility and re-use of sites). This equates to Row C in the relevant tables above. The results of this analysis can be seen in the table below.

Table 3.15: Comparison of Gross Historic Completions and Forecast Gross Employment Floorspace Requirements (sq m)

	Completions (2011/12 2022/23)	Implied 20 Year Completion	Forecast Requirement (2023 to 2043)
Office	44,000	73,000	137,000 – 142,000
Industrial	18,000	30,000	81,000 – 118,000
Warehousing & Logistics	5,000	8,000	124,000 – 126,000

3.52 The analysis above shows that if historic completion rates are maintained they will be insufficient to meet the forecast gross employment land requirements (less the allowance made for delivery on existing employment sites). This applies across all Use Classes, although it is particularly acute in the Warehousing & Logistics and Industrial sectors. The potential interchangeability of 'sheds' for these different Uses means there is some merit in combining 'Industrial' and 'Warehousing & Logistics'. On this basis the historic projection of 38,000 sqm is compared with an estimated gross requirement of 205,000 – 244,000 sq m.

3.53 It is important to consider what this cross referencing with historic development activity might indicate:

- Levels of replacement activity may historically have been below those estimated for the future due to lack of opportunity or viability; and/or
- The levels of historic development activity have been constrained either through a lack of suitable sites or commercial market factors (e.g. weak viability). Commercial market analysis has identified evidence of this in and around Bath in particular with firms requiring industrial and warehousing premises unable to find suitable sites in B&NES to locate or expand, with examples of companies relocating out of the area to Wiltshire and South Gloucestershire in particular due to the more suitable and available supply of land.

Sector Profiles

3.54 Lambert Smith Hampton (LSH) has undertaken a review of the employment sites and premises requirements of a number of key sectors in the West of England economy. A summary of their findings is presented below. This has been undertaken to provide further detail on important demand drivers by sector and typology. Their full report is available at Appendix 3.

Aerospace and Advanced Engineering

3.55 Continued growth is expected in this sector (both in terms of start-ups and expansion of existing businesses) and the demand for property remains high.

3.56 Businesses operating in this sector have mixed property requirements. They are predominantly office-based but, there has been growth in laboratory and industrial requirements.

3.57 Historically, the sector has occupied its own offices in out-of-town locations. However, this is likely to change as demand for lab enabled space or hybrid/managed workspace increases. This will mean a shift away from out-of-town locations, as the main managed workspaces that attract start-ups are generally located in the city centres.

3.58 Trends indicate that firms engaged in research and development (R&D) within the sector favour large land parcels with low density, high spec, purpose-built facilities. This means demand will remain for out-of-town locations from these businesses.

Tech and Digital

3.59 The Tech and Digital sectors remain a growth area, with several other sectors becoming more involved, leading to the emergence of specialisms such as FinTech and LegalTech. So, whilst the core sector is set for growth, we will also see diversification within this sector as its reach extends into other sectors.

3.60 Businesses in this sector predominantly occupy offices of mainly grade A and B specification, although there is also growing demand for hybrid properties with lab space.

3.61 We will see a good level of requirements for offices, especially in smaller start-up companies. These companies tend to prefer to cluster together, and therefore serviced offices/managed workspace will be important for their growth. These facilities tend to offer the flexibility this sector requires for growth, and be located in city centres which allows them to attract the younger workforce they require, who prefer to be located close to amenities and active transport facilities.

3.62 Like the majority of office occupiers, we may see a decrease in space required by larger and medium sized occupiers as employees take advantage of hybrid working practices, but a shift towards higher specification premises.

Financial and Professional Services

3.63 This sector is one of the largest in the region and continues to show growth. Businesses in this sector primarily require office buildings of grade A specification.

3.64 Forecast growth in the sector may not translate into significant property demand. There has been a 25-40% reduction in requirements for space in this sector when compared to pre-pandemic conditions, and the sector is no longer the largest in the region in terms of office take-up. The decline in office take-up in recent years has been driven by both a decline in the number of deals and the amount of space taken up in each deal.

3.65 We could see a rise in demand for R&D space from sub-sectors such as Creative, Digital, and Net Zero consultancy.

Creative and Digital Media

3.66 This sector continues to grow in the region due to being centred around a globally significant base. Businesses in this sector primarily seek office buildings, although some have requirements for hybrid or industrial buildings for studios or storage. Businesses in this sector tend to cluster together.

3.67 Occupiers seeking office space have mixed quality and specification requirements. Large companies seek better quality accommodation, but some smaller occupiers require cheaper space. Changes to government legislation on EPC certification requirements for commercial buildings may lead to cheaper offices becoming unlettable. Whilst larger and well backed companies will take grade A space, and start-ups/micro business will be able to look at the serviced office sector, cost-conscious companies that need their own office may not have options. This may have a negative impact on these companies as they generally need to be in offices to facilitate collaboration.

Clean Tech and Energy

3.68 This sector is forecast to continue to grow as there is ongoing pressure to find solutions to global, national and regional energy challenges. The region has strong capabilities across disruptive and zero carbon energy generation and supply meaning it is potentially a high growth sector for the area.

3.69 The sector is broad and incorporates a range of commercial requirements from offices, R&D, lab space, and large-scale manufacturing activity.

3.70 Any lab enabled space or industrial requirements are likely to be out of town or edge of town, whereas any office requirements could be in city centres as well as business parks. Large-scale manufacturing is centred around Avonmouth and Severnside.

Health and Life Sciences

3.71 Growth is forecast both regionally and nationally across all areas within this sector, from traditional healthcare to research and technology SMEs (Small and Medium-sized Enterprises). National trends suggest businesses in this sector tend to cluster together, and are often located near universities, science parks, or hospitals.

3.72 Demand for more commercial space will likely be driven by the emerging sub-sectors and innovations in the longer term. These companies are normally looking at lab enabled space that is flexible in terms of use and growth.

Food and Drink

3.73 Any growth in this sector will be organic growth or slower than some other sectors unless we see a national change that significantly impacts the sector. There are opportunities to expand the sector locally, with the Net Zero agenda alongside changing technology advancements in this sector.

3.74 Business in this sector have mixed property requirements but, predominantly industrial or lab enabled office buildings in out-of-town/edge of cities locations with good access to transport.. Occupiers are unlikely to move as their fit-out costs can be expensive and are generally unique to each occupier.

Transport and Storage

3.75 The region has a long-standing, established Transport & Storage sector and this remains a significant growth sector.

3.76 There is demand for low density buildings with good circulation and strong access to primary road and motorway networks from large occupiers. Smaller, last-mile logistics occupiers seek edge of city locations with good transport links and available labour.

3.77 This sector is heavily reliant on industrial units, with limited requirement for office space. The scale of premises occupied by larger businesses means that large sites are fully occupied quickly, so more land is required. Land used by smaller occupiers in edge of city locations is under pressure for Change of Use, and industrial uses are being driven out of some of these areas as industrial units do not mix well with residential development. That means these occupiers also require land to be protected, or alternatives provided.

4 Sub-Regional Commercial Market Analysis

4.1 This chapter provides a headline summary of a more detailed commercial market review of the West of England prepared by LSH, which is attached as Appendix 4 to this report.

Office market

4.2 The office market is characterised by three key sub-markets: Bristol city centre, Bristol out of town (OOT)[11] and Bath city centre. There are smaller peripheral markets which are largely focused on local demand.

4.3 In the short-term there has been uncertainty caused by inflationary pressures, leading to developers remaining cautious, as well as occupiers adapting to post pandemic working practices, with some uncertainty as to the amount of space they require.

4.4 However, overall the trend is of a 'flight to quality', driven by the need to demonstrate ESG (environmental, social and governance) credentials and the need to provide a high quality offering to attract staff to workplaces post pandemic, including through excellent access to amenities. These trends have actually led to rents proving resilient and growing in many cases and there is anticipated to be continued demand for and development of Grade A space as a result.

4.5 The corollary of this is that poorer quality space is expected to struggle within the market without significant refurbishment. This becomes even more challenging in locations that don't offer worker amenity.

4.6 Whilst there is a degree of uncertainty relating to occupier space needs, it is anticipated that as lease events occur there will be a move to consolidate or upgrade space. The theme is an exchange of quantity for quality. This could mean a further release of poorer quality stock back to the market coupled with increased take up of Grade A space leading to reduced availability and pressure on the best quality space.

4.7 At a sub-market level, Bristol city centre is performing very well with the lowest vacancy levels and highest rents across the sub-region. The lack of amenities in the Bristol OOT market is a challenge, and identified as hard to retrofit, particularly in parks with fragmented ownership. This has therefore meant a drift towards more central markets which offer better amenity, ESG credentials and public transport access to meet employee expectations.

4.8 New development and rental growth has occurred in the Bristol and Bath central markets, but there has been a paucity of new development in the Bristol OOT market due to substantial availability and supressed rental growth.

4.9 It is now recognised that permitted development has removed a substantial proportion of poorer quality stock across the region and actually assisted with improving development viability through improving headline rents.

4.10 The development pipeline has been much stronger in the last 5-6 years, reflecting stronger developer confidence and rental growth. This includes new space and comprehensive refurbishments. However, this is concentrated in the city centre markets. Market data shows that Grade A take up is high when there is stock readily available on the market.

[11] Which covers large parts of the West of England sub-region.

4.11 There is a strong new Grade A pipeline within the Bristol central market. The Bath city market has seen new supply offering the best choice of high quality spaces for several years. However there is an acute short term shortage of Grade A space in the Bristol OOT market. Whilst there are some opportunities in the medium to longer term these are not sufficiently close to reality to be under consideration by occupiers.

Industrial and warehousing market

4.12 Take up has started to subside after the historic peaks during the pandemic. In tandem, the record low availability and significant rental growth have also begun to ease. However, demand remains strong, particularly for high quality space offering good ESG credentials and energy efficiency. As a result more than three quarters of take up has been for new build space.

4.13 The key drivers of demand remain e-commerce and delivering supply chain efficiency and resilience. This includes the on-shoring and near-shoring of manufacturing and distribution hubs. The challenges relate to rising costs and availability (of supply infrastructure) of energy in particular, as well as ratings revaluations and increasing minimum energy efficiency standards.

4.14 The gradual easing of demand from the e-commerce market has slowed the demand for huge 'super sheds'. This led to a number of very large schemes such as at Central Park at Severnside with buildings in excess of 750,000 sq ft (c70,000 sqm) on sites of more than 50 acres (20 hectares). The ability to satisfy schemes of this size is becoming more limited.

4.15 The key focus of the logistics market is Avonmouth and Severnside, as well as industrial hubs at St Phillips Marsh and Almondsbury and a 'tech arc' connecting Emersons Green Enterprise Area and Filton Enterprise Area. The market is more limited in the wider Bath area, although demand exceeds supply. The lack of supply in Bath has meant occupiers looking to other areas, with logistics requirements typically looking to Avonmouth and Severnside.

4.16 There is some indication that whilst Avonmouth and Severnside have dominated, there have been some challenges in recruiting skilled staff due to limited connectivity to residential areas which needs to be overcome. Notwithstanding, demand in these areas is expected to continue for the foreseeable future.

4.17 There is also continued demand in more urban industrial markets, for both logistics and manufacturing businesses which prefer such locations for both operational and staffing purposes. This demand for urban and edge of town locations is forecast to continue, driven by trends such as last mile logistics. There is a relative lack of supply of this nature across the whole sub-region and significant pressure on urban industrial sites from other land uses which is displacing occupiers across the sub-region or out of the West of England completely.

4.18 Overall supply of space has fallen slightly. This is due to both a reduction in development activity due to rising borrowing costs, as well as a long-term trend towards conversion of industrial property to other uses. The size and location of available industrial sites are noted as key problems in the West of England, with particular shortages of medium and larger premises, and limited availability of modern industrial premises of the right size to meet market demand. This means it is particularly challenging for expanding manufacturing companies in the area being able to find suitable land and premises. The quality of supply is

also highlighted as a challenge, particularly in B&NES, with the vast majority rated as Grade C exacerbating the need for occupiers to look outside the UA area to satisfy requirements.

4.19 To enable to the West of England industrial market to grow there is a need to protect key sites[12] and allocate new areas suitable for medium and larger industrial occupiers. These should be locations that are detached and well screened from residential uses with excellent connectivity to the strategic road network and access to the local workforce.

[12] This being particularly critical in Bath.

5 B&NES Commercial Market Analysis

5.1 This chapter sets out a summary of key commercial market issues within across B&NES and its sub-areas prepared by LSH based on its close engagement in the local market.

Sub-regional and sub area dynamics

5.2 The West of England commercial property market covers a wide geographical area with several larger markets and sub-markets which provide a variety of options to occupiers in the region.

Office markets

5.3 In terms of the principal office areas within the West of England, the focus is on the three key markets: Bristol City Centre, Bath, and Bristol Out of Town (OOT) (which covers parts of South Gloucestershire as well as sub-markets such as Portishead, Clevedon, Keynsham and Thornbury).

5.4 Bristol is the major office location in the wider south west region with a significant stock of office space, a host of multinational occupiers and HQs, excellent connectivity, and a highly skilled workforce.

5.5 Bath City Centre is the second main office location in the West of England sub-region and rivals Bristol for connectivity. It has, for the first time in years, grade A office space on the market and therefore can compete with Bristol for providing high quality office stock. Bristol remains the bigger pull with a larger workforce and a more diverse cross section of companies from several sectors. However, Bath can compete and, in some sectors, can be more attractive due to its universities, amenity offering and international reputation. However, it still is seen as having a lack of affordable housing especially for the younger workforce and graduates.

5.6 In terms of out-of-town office space, North Bristol is the dominant out of town office location and the business parks including Aztec West and Bristol Business Park are seen as the prime parks in the region due to better quality office offering than other out of town locations and the generous parking allocations. The development plans for Filton Airfield will see this location also increase competitiveness and could become the premier out of city location. This is due to connectivity to public transport but also to vehicle access especially the M5/M4 interchange.

5.7 In terms of other more secondary out of town locations there is a reasonable level of office stock in Keynsham, Almondsbury, Emersons Green and to the west of Bristol in Portishead and Clevedon.

5.8 Almondsbury, Portishead and Clevedon have poorer secondary accommodation and therefore have not seen great levels of take up over the last 24 months and have high levels of supply. Emersons Green and Keynsham have less availability and have seen reasonable levels of take up when decent supply is available. For example, the largest deal in H1 2023 in the region was IVC taking 16,931 sq ft in The Chocolate Factory in Keynsham.

5.9 In terms of B&NES, Bath City Centre is a highly desirable location for occupiers despite the majority of space being period accommodation. The development of No. 1 Bath Quays, the refurbishment on Royal Mead and Newark Works, has provided the centre with good levels of

grade A supply and a good future supply with North Quays looking to be developed over the next few years. Occupiers over time will upgrade their offices and the vacated offices should be either refurbished to offer modern accommodation or if they are obsolete look at alternative uses as a high volume of vacant offices will impact the market negatively.

5.10 The edge of (and out of town) Bath offices, namely Bath Business Park, the Crescent office park and the accommodation on Lower Bristol Road offer more affordable offices but have limited demand due to most occupiers looking for direct access to and from the city for staff and clients. They don't offer the connectivity seen in North Bristol and therefore have not seen the demand from footloose regional companies.

5.11 Keynsham as an office location has seen a good level of success at the Chocolate Factory and with the train connectivity offering access to Bristol and Bath city centres is desirable for more footloose occupiers, although there is a high level of congestion, and it doesn't offer easy access to the motorway network. It can compete with the North Bristol out of town market especially Emerson Green.

5.12 Somer Valley and the rural areas in B&NES do have some offices which are generally legacy offices. The demand in these locations was and is likely to be from small local companies although this is even more limited due to people being able and used to working from home.

Industrial markets

5.13 For the industrial market the area is harder to define, the major industrial area within the West of England is Avonmouth and Severnside due to its favourable location for distribution and logistics, but there are also larger industrial occupiers in Almondsbury, Emersons Green, Filton and areas to the west of Bristol along the M5.

5.14 Smaller industrial occupiers are also located in these areas but also within St Phillips Marsh to the southeast of Bristol City Centre, Newbridge in Bath, Lower Bristol Road, Keynsham, and areas of south Bristol. There is also some massing in more rural areas around Somer Valley and south of Bath with a large number of smaller sites across B&NES.

5.15 In terms of industrial the region is dominated by Avonmouth and Severnside. They offer unrivalled access to the national motorway network and Portbury Docks as well as freight connections. The larger logistics and manufacturing companies will tend to occupy these locations as well as some in areas around Filton and Almondsbury. There are some larger companies in areas further down the M5, but areas in B&NES are unable to compete effectively due to poorer access to the motorway network.

5.16 Several areas in the region compete for the footloose medium and smaller industrial occupiers, areas such as St Phillps, Bath, south Bristol and Keynsham can offer well connected opportunities although limited availability in Keynsham, St Phillips and Bath has affected take up.

5.17 The smaller national, regional, and local companies which include last mile logistics and R&D based companies tend to be more footloose and less reliant on motorway connectivity. Newbridge is the most attractive location for these types of occupiers in B&NES due to the close proximity to the city centres but the pressure from alternative high land value uses and the lack of available options means that areas such as Keynsham have grown and seen good demand.

5.18 In terms of B&NES, the area around Newbridge is the prime area and demand is high, a number of companies are looking to grow and are struggling to find a solution, the pressure from other uses is having a big impact and the area is in danger of losing industrial uses which will drive a number of companies out of the B&NES area.

5.19 Keynsham is well connected and occupiers moving out of the Newbridge area (and the St Phillips area in Bristol – which has similar issues to Newbridge) could relocate to this area, particularly around Ashmead Industrial Estate and serve both cities, although the availability of land and buildings within this location is poor and other land uses such as residential are putting pressure on land availability.

5.20 The Somer Valley and Rural areas have some larger occupiers which are in legacy factories or sites which are generally wedded to the area. Attracting both footloose companies and those relocating from other areas in B&NES to the Somer Valley area could relieve some of the pressure on Newbridge and Keynsham, although Somer Valley will not work for all occupiers as its access to Bath and the wider sub-region is constrained with limited public transport connectivity.

5.21 Looking at the future of B&NES in terms of industrial, the Newbridge area needs to be protected for industrial uses. The area has high demand and the pressure from alternative uses means it's in danger of pushing out industrial occupiers. This is due to the limited supply and opportunities for occupiers to upscale their business needs. A number of companies in the area are looking to grow and support needs to be given to allow them and investors/ developers to develop more modern accommodation and intensify the current sites.

5.22 Somer Valley and Keynsham can offer attractive opportunities for some businesses, and both can help the Newbridge area by allowing relocations and growth, which will free up space in Newbridge which can be repurposed to offer more modern space and allow growth for companies who cannot or will not relocate out of the area. However, the areas need to work together to complement each other and offer different space to the market serving different sectors and parts of the market.

Existing and potential barriers to investment

5.23 Talking to occupiers, developers, and investors, it is clear there is an appetite and demand from them all to grow, work and invest in the region. Much of the demand remains in the more central locations.

5.24 The office market has been massively helped by the development of Bath Quays and Royal Mead. B&NES undertaking the development has helped with supply levels and proving demand. B&NES needs to continue looking at ways to help the market by investing in the city and supporting other developers / investors.

5.25 In the wider region it's unlikely, given the market trend of city centre offices, that many opportunities will be looked at by the market for offices. However, after Bath Quays, Royal Mead and Newark Works, B&NES needs to support future investment in the city and part of this will be looking and encouraging alternative uses on obsolete office stock as large levels of void space will discourage investment.

5.26 The biggest barrier to investment in the industrial sectors is the lack of sites/opportunities. Speaking to occupiers who are keen to grow, especially in the more central locations, they are

restricted by a lack of space and feel the options presented are not suitable or involve a complete move which means they could look at sites outside the sub-region.

5.27 B&NES needs to protect its existing supply and increase connectivity to areas such as Somer Valley and Keynsham to ensure occupiers do not retract from B&NES and focus on other markets. Just making land available in these areas isn't enough to attract investment as the areas need improvements that can only come with more strategic thinking, more favourable planning processes and investment.

5.28 Also from our dialogue with local occupiers, there were comments suggesting B&NES Council hasn't been willing to engage and support development historically. There is an impression of a council that were against growth and being unhelpful. It was noted that this has improved over the last few years but there is still the impression of a difficult city to invest and develop in.

5.29 B&NES needs to show support for development and show support for intensification of sites, especially within central locations. Undertaking developments such as Bath Quays has shown that B&NES supports new development and also showed what can be undertaken by B&NES with schemes such as North Quays, although Bath does need to retain its unique heritage so it's a fine line between encouraging development and investment along with protecting the city.

The implications from changes to the Use Class Order

5.30 As from September 2020 the government completely transformed the way that planning worked in terms of most of the commercial property in England. The idea was to cut down bureaucracy and let the free market decide what use the building should be for.

5.31 This change comes from the fact that some areas especially High Streets, have been struggling for a long time, so it makes sense for the owners to be able to switch the use of premises from an obsolete function to one that works and give owners a much wider range of potential tenants.

5.32 The most significant change for commercial employment uses is the reclassification of the former B1 Use Class to Use Class E(g). This creates much greater flexibility for changes within the E Use Class which also includes a range of other commercial retail and service uses.

5.33 However, it is important to note that not all buildings fall under the new rules and Class E. There is a new 'Learning and non-residential Institutions' Class F1 and a community Class F2. Meanwhile, pubs and cinemas, along with live music venues are now sui generis.

5.34 Some businesses haven't changed categories at all. Betting shops and pay day lenders remain classed as sui generis which means that change of use planning permission will still be needed. Also unaffected are B2 (general Industrial) and B8 (Storage and Distribution) along with housing (C).

5.35 It is difficult to understand in detail the impact of the new Use Class Order from all the other things that have impacted urban areas in the past three years. Little research has been done so far on the extent to which business have taken advantage of increased flexibility.

5.36 Fundamentally, the new system means that councils have much less power through the planning system to encourage certain types of business and to discourage others. This will not only affect the ability to make decisions about change of use to individual buildings but more

importantly what the local authority can suggest in their local plans which are meant to shape the way areas will develop over the next 15 years.

5.37 Another unintentional consequence of Class E is local authorities won't know what exactly falls under the loss of a Class E use therefore cannot monitor the change in uses and look at the longer-term impacts.

Patterns of take up, demand and future requirements

5.38 In terms of offices, take up is likely to be steady over the next few years and will settle down to a level similar to pre pandemic figures. What we do anticipate is the type of accommodation taken is likely to be better quality and more focus on Bath City Centre and Keynsham. The out-of-town market will continue to struggle, and we expect some of the land allocated or current stock to look at alternative uses.

5.39 In terms of industrial, there is continued demand in Bath especially in the Newbridge area and unless this demand is addressed the current occupiers will move from the area due to their inability to expand and source premises which are fit for purpose. These companies are reasonably footloose and therefore they can potentially move from the sub-region completely.

5.40 The market and location will naturally dictate which end users can operate in which areas, for example large logistics operators are unlikely to be attracted to the Bath area and will not be able to operate out of Newbridge due to the insufficient access to both the motorway networks and the units within the area. Therefore, these areas need to work with the wider sub-region to provide accommodation desired by the market, which would include last mile logistics and light industrial uses within this area. Somer Valley can provide larger sites and if the connectivity is improved can offer growth for B&NES. Keynsham can serve both Bristol and Bath occupiers, especially in the last mile logistics sector as well as local and sub-regional companies.

5.41 Newbridge and the more central locations need to address the issue with current occupiers. There are several occupiers who are happy with the location but want to grow, there is very limited opportunity at the moment and due to the university and other uses coming into the area they are concerned about future plans. The area needs to be strongly protected and encouraged for industrial development given the demand. Rental growth is anticipated and it is possible developers and occupiers will seek to use their sites more efficiently with higher densification.

5.42 Given the City's strengths there is potential for some different uses to develop within the area complementing the current uses of Lab Space, R&D units as well as hybrid office / industrial units, which offer more future flexibility can offer good longer-term solutions. However, the issue remains that demand is high and landlords can let space without spending money on redevelopment, therefore they will need to be encouraged to develop.

5.43 The emerging B&NES Economic Strategy has identified six key pillars, namely:

- Create a **greener economy** that is net zero and nature positive;
- Support B&NES residents to access and thrive in **good work**;
- Establish B&NES as a **centre for scientific and health academic excellence**, innovation and creativity;
- Create **resilient businesses** by building a diverse, creative and sustainable business base;

- Address **housing affordability** and ensure residents have access to high quality homes; and
- Support **stronger places**, building resilience and sharing prosperity more fairly.

5.44 These strategic aims have the potential to underpin further growth in science based sectors as well as driving improvements in commercial property stocks to contribute to decarbonisation ambitions. Good quality, affordable workspaces will also contribute to business resilience and employee wellbeing.

5.45 Identifying sectors of growth is difficult as the market is subject to change and growth sectors change. Also, unless there are gateway policies or restrictions in place then the market will not focus on specific sectors. Creating barriers to the market will not encourage development and investment and will therefore have a negative impact.

5.46 The agents' meetings hosted as part of this research, as well as meetings with major employers, have highlighted the need for the market to lead in terms of sectors, although it also highlighted B&NES Council's role in this, which is protecting the mix and uses in the current industrial areas, as well as offering solutions such as Somer Valley whilst recognising that it is not suitable for everyone. B&NES Council will also need to play a role in connecting Somer Valley, Keynsham, and the Newbridge area.

5.47 In terms of overall growth, we feel the strategy targets are sensible, but the region needs to address concerns highlighted in the meetings mentioned above to do with accessibility to land, affordable housing for workforce and connectivity especially in Somer Valley.

Changes resulting from increased home and hybrid working

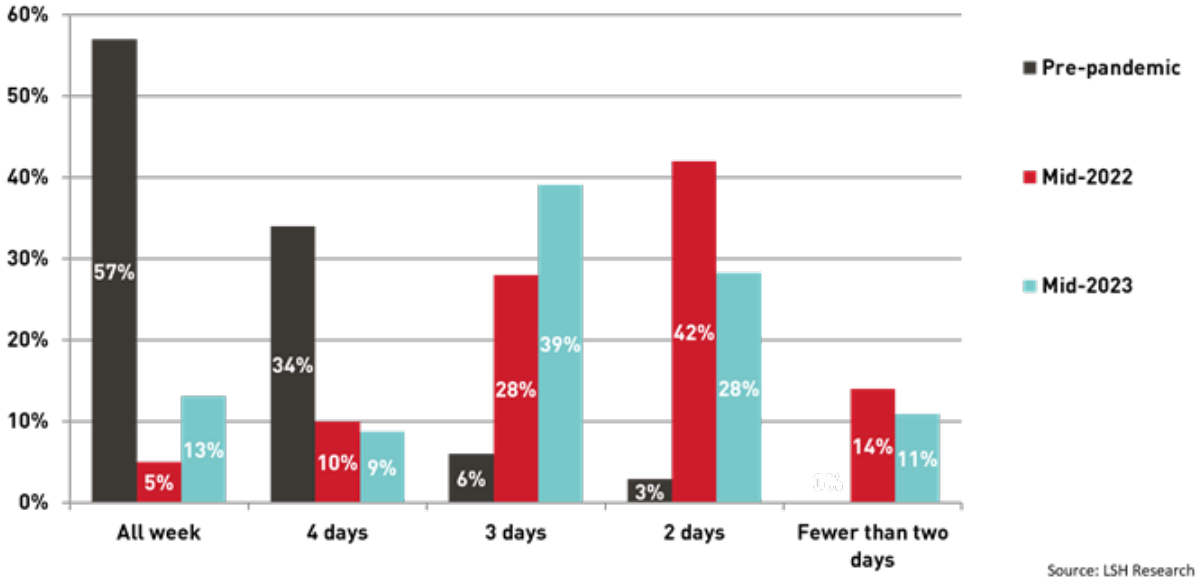
5.48 It's been three years since the first lockdown due to Covid pandemic and office workers across the world have not resumed their pre-pandemic commuting, instead embracing hybrid working as the new normal.

5.49 While this has advantages and disadvantages for both employees and employers, it does have an impact on the economy across the UK. Whilst we have not seen the impact on industrial workers due to the nature of the work but we have seen a significant impact on office workers who are able to undertake their roles on a part remote or fully remote basis.

5.50 Although we are seeing a gradual increase in office attendance since the easing of COVID restrictions in early 2022. LSH carried out research across the country talking to occupiers from various sectors in July 2022 and again in July 2023. 73% of companies said that attendance has improved in the last 12 months. In July 2023, daily office occupancy averaged close to 60% nationally, after levels nearer to 35% had been the norm in 2022.

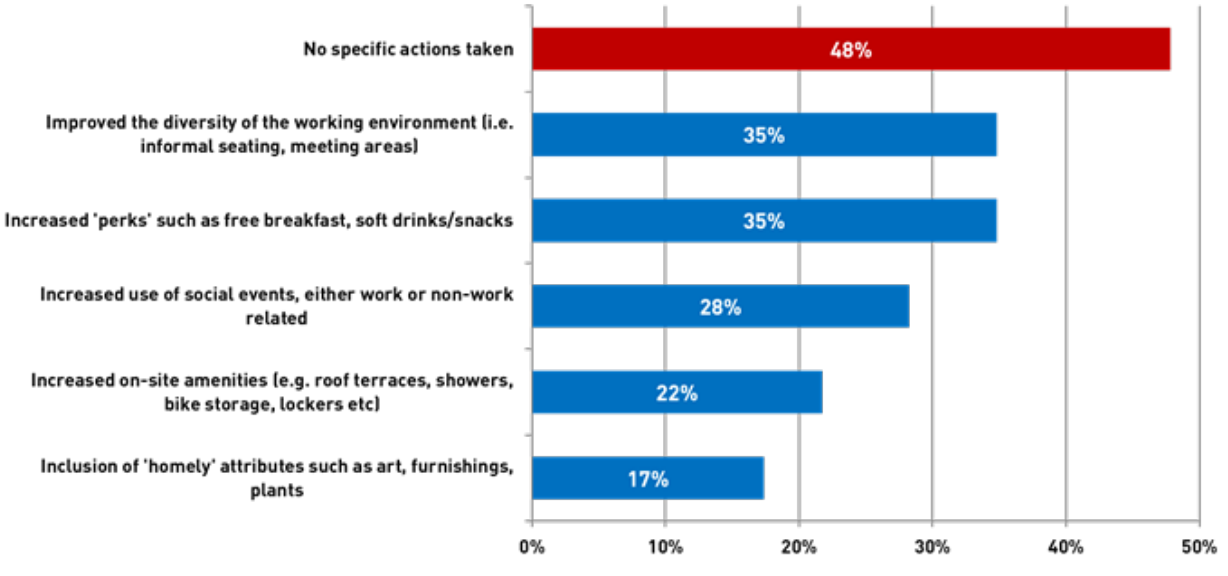
5.51 This return to the office is set to continue as the same research found that not only are companies expecting further increases in working from the office over the next 12 months, 61% have policies guiding attendance levels, or will be introducing them in the next year.

Figure 5.1 Average days per week that full time employees spend in the office



Source: LSH Research

Figure 5.2 Actions taken by businesses to encourage staff to attend the office



Source: LSH Research

5.52 Hybrid working is continuing to impact both the quantity and quality of companies' space requirements, while sharp rises in energy costs and ESG considerations have also added to some firms' motivations to move. Among survey respondents, 35% said that they had already relocated or consolidated space since the pandemic, while a further 20% indicated that such a decision was now more likely to be made upon a lease event.

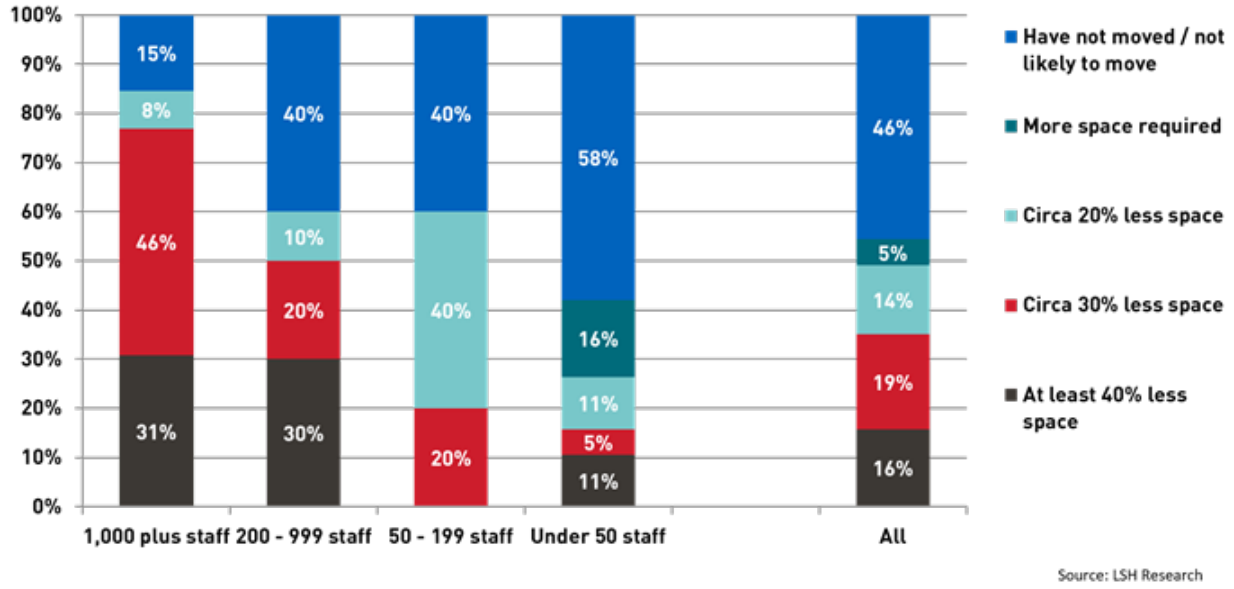
5.53 Notably, however, close to half (46%) of respondents said that they were no more likely to move premises now than had previously been the case, with this rising to an outright majority among firms with fewer than 200 staff. Evidently, there is a substantial cohort of occupiers,

particularly at the smaller end, for whom the pandemic has had little impact on their thinking around office space.

5.54 Among those indicating that they had either moved or were more likely to, a large majority said they required less space than they previously occupied. The most common reduction in space requirements was c. 30%, cited by just under a fifth of all respondents.

5.55 Taken together, the answers provided imply an overall reduction in space requirements of 15-20% among our survey respondents. If this were repeated nationwide, it would necessitate a contraction in the size of UK office markets, but on a scale that could be achieved relatively organically via the gradual loss of poorer quality buildings from the office stock.

Figure 5.3 Change in space requirements following the pandemic and energy price shock



Source: LSH Research

5.56 While the need to find space suited to hybrid working is a major motivating factor behind occupiers' current space decisions, potential cost savings are not being ignored. A total of 78% of survey respondents said that they expected to benefit from cost efficiencies when relocating, albeit 48% said that cost was a secondary consideration to space and location.

5.57 Just over half of survey respondents (52%) said that their businesses had also taken specific actions to manage efficiencies and operating costs associated with lower office attendance. Most commonly, this involved collecting occupancy data for per capita metrics; or optimising plant and building management settings for low occupancy days or areas. However, with 48% saying that no specific actions had been taken, there would appear to be significant room for further actions and improvements in many companies.

5.58 Finding an optimal balance between the cost, quality and size of offices will be an ongoing challenge for occupiers as hybrid working practices continue to evolve. The exchange of quantity for quality is likely to continue, allowing many to upgrade to better space at a lower cost, or at least a cost neutral position, compared with their current workspace.

5.59 The trends at work are still highly dynamic and subject to future change, so it will remain important to monitor the potential longer term impacts on the office market.

Impact on Bath

5.60 The impact on Bath will be similar to other cities where the space requirements will be lower, but it will be for better quality space. Bath does have grade A space currently available in the City Centre therefore, this space is well placed to work for current occupiers within the city. The main impact will be on the secondary accommodation that is no longer suitable for modern office occupiers, if staff do not want to come into the office because of the working environment then the space will become unlettable.

5.61 The other impact on office workers not returning to the office or only coming in for 2 or 3 days a week is the impact on the local economy. This can be seen in all areas, from parking and public transport revenue to lunch time and after working drinking and eating. Although it is difficult to fully measure this impact and Bath has a strong tourist industry and therefore the impact in Bath is likely to be less felt than other cities. Also, Bath will also benefit from those not commuting out of the city especially to Bristol and London although the impact on retail and leisure especially on Monday and Fridays is likely to be noticeable in the City Centre.

5.62 Other cities are exploring options to help induce workers into the office on the less popular days such as reducing parking charges or changing peak travel costs on these days although the impact of this is not clear yet.

5.63 Other retail centres where people traditionally commute in from smaller neighbourhoods around Bath could see an increase in spend from office workers who still want their morning coffee or lunch time sandwich so the impact overall in B&NES will be minimal apart from on the demand from offices in the city. Bath again benefits from a lack of out of city centre offices which has seen a larger decrease in demand than City Centres across the UK.

Impacts outside Bath

5.64 Whilst trends remain uncertain, the demand for offices outside city centre locations is likely to diminish due to the increased levels of home working. The key drivers for office-based working are the desire for staff interactions and collaboration (from an organisational perspective) and access to amenity and facility (from an employee perspective). Central locations are therefore proving most popular given the range of amenity offerings, with negative impacts on other locations.

6 B&NES Supply Analysis

6.1 This chapter sets out the results of compiling data on allocated employment sites and current committed pipeline to provide a quantitative picture of the current employment sites and premises supply within B&NES.

6.2 Site allocations and consents data has been provided by B&NES Council. Where figures are given in square metres (sq m), plot ratios based on the West of England Employment Land Spatial Needs Assessment (ELSNA) 2021 are applied to also give figures in hectares (ha) (Table 6.1).

6.3 The ELSNA plot ratios have been used to help identify supply in ha, especially as office development can have widely varying densities (e.g. between urban centres and out of town business parks) which can also differ across different unitary authority areas based on their typology. As not all data is available on a consistent basis office supply is presented in both sq m (floorspace) and ha (land) in this review. Because of the varied densities floorspace figures in sq m are preferred.

Table 6.1: Plot ratios for B&NES from the WoE ELSNA 2021[13]

Office	R&D	Industrial	Warehousing
80%	60%	40%	50%

6.4 Retail supply is not included within this review section as focus is placed on office, research and development, industrial and warehousing land supply.

Site allocations

6.5 Table 6.2 provides a summary of the total employment allocations by Use Class.

6.6 There is currently a limited supply of allocated land, totalling an estimated 21.1 hectares. This includes quantitative contributions from the following sites:

- Office development allocations within Bath City including:
  - Manvers Street;
  - Green Park Station and Sydenham Park
  - Bath Press
  - South Bank
  - Roseberry Place
- Land adjoining East Keynsham
- Extension to Old Mills Industrial Estate
- Somer Valley Enterprise Zone

6.7 A total of 13.3[14] hectares of land is allocated for industrial and warehouse uses, with 7.8 hectares allocated for office and R&D uses. Office and R&D space is also estimated in floorspace terms

[13] Taken from table 6-3 in ELSNA – pg.89. '*Office developments vary significantly depending on nature and intensity of development, employment land review guidance recognises there is a clear different between plot ratios expected at business parks and town centre office – which has implications on land requirements.*'
[14] Where floorspace figures are provided the equivalent site areas are estimated based on the stated density assumptions.

to allow comparison with the future requirements assessment given highly variable development densities. This indicates capacity for approximately 56,500 sq m of office and R&D development.

6.8 To enable consistent comparison with the future requirements analysis it is helpful to consider the supply position after removing schemes which deliver re-use of employment sites. The net position is a total of 18.5ha of employment land.

Table 6.2: All B&NES site allocations (without consents) summary[15]

	Office & R&D (sq m)	Office (ha)	R&D (ha)	Industrial (ha)	Warehousing (ha)	Total (ha)
Allocated sites	56,500	4.8	3.0	10.8	2.5	**21.1**[16]
Re-use[17]	20,500	2.6	0.0	0.0	0.0	**2.6**
Net position	36,000	2.3	3.0	10.8	2.5	**18.5**

Consented supply

6.9 Permissions data over the period 2011–2029 has been provided by B&NES Council. This includes all consented sites that may contribute to future employment land supply (i.e., under construction or not yet started).

6.10 Data has been provided for employment Use Classes covering both gains and losses. For the purposes of this study the following Use Classes were focused on:

- Office – B1a/(E(g)(i)) (which includes R&D - B1b/E(g)(ii))
- Industrial – B1c/E(g)(iii) and B2
- Warehousing – B8

Gains

6.11 Table 6.3 presents gross gains There is an anticipated gross gain of approximately 15,900 sq m of office floorspace consents in B&NES, which equates to 2.0 ha. There is a total gross gain of 7.2 ha of industrial and warehousing land expected.

Table 6.3: B&NES consented supply - gross gains.

	Office	R&D	Industrial	Warehousing	Total
Floorspace sq m)	15,900	-	15,400	16,800	**48,100**
Land (ha)	2.0	-	3.8	3.4	**9.2**

[15] *Note that R&D and Industrial figures have been determined by equally dividing each use category from an overall allocation of 30,000 sq m of B1(b), B1(c), and B2 figure.
[16] The Former Welton Bag Factory is allocated with potential to include some employment uses but is expected to come forward for retail. No quantitative allowance for this site is included in the estimates.
[17] This includes Manvers Street, Bath Press, Green Park Station and Sydenham Park. The element of supply at the former Welton Bag Factory, Somer Valley is also included in this category.

Losses

6.12 Extant consents will also lead to losses of some existing employment land stock. These are summarised in Table 6.4. This totals more than 35,000 sq m of floorspace equivalent to 7.5 hectares of land. Losses such as these highlight the need for replacement provision. The estimates in Table 6.4 capture only those schemes which are currently permitted and are highly unlikely to be a complete picture of all losses throughout an entire plan period.

Table 6.4: B&NES consented supply - gross losses

	Office	R&D	Industrial	Warehouse	Total
Floorspace (sq m)	9,100	0	20,900	6,700	**35,600**
Land (ha)	1.1	0	5.2	1.1	**7.5**

Figures may not sum due to rounding

Employment site re-use

6.13 To enable consistent comparison with the future requirements analysis it is helpful to consider the supply position after removing schemes which deliver re-use of employment sites. Table 6.5 sets out the volume of new floorspace, and equivalent land area, which is currently consented on sites previously developed for employment purposes[18].

Table 6.5: B&NES supply re-use gains

	Office	R&D	Industrial	Warehouse	Total
Floorspace (sq m)	2,300	0	1,300	2,500	**6,100**
Land (ha)	0.3	0	0.3	0.5	**1.1**

Figures may not sum due to rounding

Net position

6.14 Table 6.6 provides a summary of the net position of consented supply after excluding re-use. This is consistent with the future requirements position set out in Chapter 3.

6.15 In total there is a supply equivalent to 8.1 hectares with 13,600 sq m of office floorspace (1.7ha equivalent) and 6.4ha of industrial and warehousing supply (28,400 sq m floorspace).

Table 6.6: B&NES consented supply – net change.

	Office (ha)	R&D (ha)	Industrial (ha)	Warehousing (ha)	Total (ha)
Floorspace (sq m)	13,600	0	14,100	14,300	**41,900**
Land (ha)	1.7	0	3.5	2.9	**8.1**

Total supply

6.16 From the site allocation and permissions data, it can be seen that B&NES has a total quantitative supply of 26.6 hectares of employment land which can contribute to meeting the

[18] This may only be partial as it draws only on schemes where the loss of employment floorspace forms part of the same application as reprovision. Sites which have previously had employment floorspace demolished are not included.

needs set out in Chapter 3 of this report. Table 6.7 provides a summary of supply position across the Unitary Authority area.

6.17 This also highlights the 3.7ha of known supply that can help to fulfil expectations of previously developed employment sites contributing to future supply.

Table 6.7: Total supply across B&NES

	Office & R&D (sq m)	Office (ha)	R&D (ha)	Industrial (ha)	Warehouse (ha)	Total (ha)
Site Allocations (Net of re-use)	36,000	2.3	3.0	10.8	2.5	**18.5**
Consented Supply (Net of re-use)	13,600	1.7	0	3.5	2.9	**8.1**
Total	**49,600**	**4.0**	**3.0**	**14.3**	**5.4**	**26.6**
Re-use (consented and non consented)	*22,800*	2.9	0	0.3	0.5	**3.7**

Figures may not sum due to rounding

Sub area supply summary

6.18 The same supply data has been assessed across the four sub-areas of B&NES. This is summarised in the three tables below, setting out both allocated and consented supply.

6.19 Table 6.8 shows the greatest share of allocated supply is within the Somer Valley sub-area, some supply in the Keynsham sub-area, and a small amount of office supply in Bath City.

6.20 There is additional allocated supply categorised as re-use which could deliver a further 20,500 sq m of office development in Bath City. The Former Welton Bag Factory in the Somer Valley has provision for mixed uses, including the potential for employment uses, however, the scale of any contribution is uncertain.

Table 6.8: B&NES Sub Areas Allocated Supply (Net of Re-use)

	Bath City	Keynsham	Rural Areas	Somer Valley
Office & R&D (sq m)	9,700	10,000	-	16,300
Office (ha)	1.2	-	-	1.1
R&D (ha)	-	1.7	-	1.2
Industrial (ha)	-	5.0	-	5.8
Warehouse (ha)	-	-	-	2.6
Total (ha)	**1.2**	**6.7**	**-**	**10.7**

Figures may not sum due to rounding

6.21 Table 6.9 shows consented supply (net of re-use) exists within all four sub-areas. The largest volume is within the Rural Areas sub-area with the equivalent of 2.7ha of B8 warehousing consented.

Table 6.9: B&NES Sub Areas Consented Supply (Net of Re-use)

	Bath City	Keynsham	Rural Areas	Somer Valley
Office & R&D (sq m)	10,600	-	0	2,900
Office (ha)	1.3	-	0	0.4
R&D (ha)	-	-	-	-
Industrial (ha)	0.3	1.6	0.7	1.0
Warehouse (ha)	-	0.1	2.7	0.1
Total (ha)	**1.6**	**1.7**	**3.4**	**1.5**

Figures may not sum due to rounding

6.22 Table 6.10 shows the combined total supply, with 12.9ha in the Somer Valley sub-area, 8.4ha in Keynsham, 3.4ha in the Rural Areas, and 2.8ha in Bath City.

Table 6.10: B&NES Sub Areas Total Supply (Net of Re-use)

	Bath City	Keynsham	Rural Areas	Somer Valley
Office & R&D (sq m)	20,300	10,000	0	19,200
Office (ha)	2.5	-	0	1.5
R&D (ha)	-	1.7	-	1.2
Industrial (ha)	0.3	6.6	0.7	6.8
Warehouse (ha)	-	0.1	2.7	2.7
Total (ha)	**2.8**	**8.4**	**3.4**	**12.2**

Figures may not sum due to rounding

7 Comparing Supply and Demand

7.1 This chapter sets out analysis comparing the supply of and estimated requirement for employment sites and premises for the period 2023-2043. This draws on the quantitative analysis set out in chapters 3 and 6 of this report whilst also drawing on some of the market commentary set out in chapters 4 and 5 along with the accompanying appendices.

7.2 Sub-area analysis provides an indicative comparison of future requirements (based on current employment shares and existing commercial property stocks) and current allocations and consented supply. The Local Plan will need to consider the most appropriate spatial strategy to meet the requirement based on a range of evidence contained within this report and other disciplines.

Offices and R&D

7.3 Table 3.5 set out a total estimated requirement of 137,000 – 142,000 sq m of office development over the 20-year period. The labour market balance scenario, which aligns to the proposed housing provision, narrows this range to 138,000 – 142,000 sq m. With a flexibility allowance added this increases to 152,000 – 156,000 sq m.

7.4 Historic completions rates show that if current trends were to continue some 73,000 sq m of new floorspace would be developed. This suggests levels of activity in recent history are below those anticipated to meet future needs.

7.5 Of the total requirement, historic data also indicates an expectation that some 60,000 – 63,000 sq m could be delivered on existing employment sites through regeneration. Analysis of current extant permissions indicates around 22,800 sq m of floorspace is either allocated or already permitted to be delivered on previously used employment sites. A further c40,000 sq m would need to be secured through the plan period.

7.6 The residual requirement needing to be met through sites not previously used for employment development would therefore be 91,000 – 94,000 sq m. Estimating the land requirements to accommodate this is challenging for office uses, given the wide range of development densities that can be achieved. An indicative estimate of 11-12 hectares has been made based on an average density of 80%. However, if all was provided for in low density out of town, business park type locations (which is unlikely) this figure could potentially increase to around 20 hectares, and with high density multi storey city centre type development (which is more likely) it could be less than 2-3 hectares.

7.7 Analysis of current supply, including both allocated sites and extant permissions on new sites, indicates a total of 49,600 sqm of new floorspace. This equates to a little over 50% of the identified requirement. However, it is also possible that some of the current permitted supply will not be delivered and the market attractiveness of the Somer Valley Enterprise Zone to office occupiers is to be tested.

7.8 It is possible that additional floorspace will be released to the market as a result of workplace transition following the rapid increase in hybrid working following the Covid-19 pandemic. However, there still remains a degree of uncertainty over the long term trend. Market evidence also indicates a strong preference for Grade A space with excellent amenity provision for workers. Any additional space released to the market may well not be attractive to modern

occupiers without substantial refurbishment. It has been noted that loss of sub-standard stock can support the market to develop new space through improved rents and values.

Sub Areas

7.9 The majority of office requirement is anticipated within the Bath City sub-area. Table 7.1 shows current supply is just under a third of the requirement in Bath City. At Keynsham there is broad balance, with a shortfall in both the Rural Areas. There is a potential over supply within the Somer Valley sub area.

Table 7.1: Office requirement and supply summary (2023 – 2043) (all figures in sq m)

	B&NES	Bath City	Keynsham	Rural Areas	Somer Valley
Requirement (less reuse)	91,000-94,000	67,000 – 69,000	11,000	5,000 – 6,000	8,000
Supply (less reuse)	49,600	20,300	10,000	0	19,200

Figures may not sum due to rounding

Industrial

7.10 Table 3.9 set out a total estimated requirement of 81,000 – 118,000 sq m of industrial development over the 20-year period under either scenario. With a flexibility allowance added this increases to if possible, 89,000 – 130,000 sq m. To plan positively the upper end of this range should be considered (equivalent to 22 – 33 hectares).

7.11 Historic completions rates show that if current trends were to continue some 30,000 sq m of new floorspace would be developed (equating to around 7.5 hectares). This is a significant shortfall on the level of future requirements and aligns to the market evidence of occupiers not being able to identify suitable sites and premises within B&NES and looking further afield e.g. to Avonmouth-Severnside or into the western parts of Wiltshire.

7.12 Of the total requirement, historic trend data also indicates an expectation that some 36,000 – 52,000 sq m (equivalent to 9-13 ha) could be delivered on existing employment sites. However, analysis of current extant permissions indicates only around 1,300 sq m (0.3 ha) of floorspace is already permitted to be delivered on previously used employment sites. A further 35,000 – 51,000 sq m (9-13 ha) would need to be secured through the plan period.

7.13 The residual requirement of 53,000 – 78,000 sq m would need to be provided through allocated and consented supply (not previously developed for employment purposes). It is estimated that around 13-19 hectares of supply would be required to provide for this need.

7.14 Analysis of current supply, including both allocated sites and extant permissions on new sites, equates to some 14.7 hectares. In purely quantitative terms this is insufficient to meet needs at the top of the range, with a further 4-5 hectares required. This could increase if the level of re-use is not deemed realistic given current market pressures. The market attractiveness of the Somer Valley Enterprise Zone to occupiers is yet to be tested, particularly those keen to be located in or close to Bath, although it is recognised that there are generally low industrial void rates in the Somer Valley indicating a possible underlying demand particularly at the lower end of the estimated range.

Sub Areas

7.15 Table 7.2 summarises the supply balance across sub areas. This shows a healthy level of supply at Keynsham relative to anticipated requirements. However, given documented constraints within Bath City, the Keynsham sub-area is likely to need to play a role in meeting some demand. Somer Valley has sufficient supply to meet the lower end of the estimated range given the Somer Valley sites have flexibility to provide additional industrial development subject to demand. There are substantial under-supply issues in Bath City and the Rural Areas based on the current position.

Table 7.2: Industrial requirement and supply summary (2023 – 2043) (all figures in ha)

	B&NES	Bath City	Keynsham	Rural Areas	Somer Valley
Requirement (less reuse)	13-19	1 – 4	2	3 – 4	7 - 9
Supply (less reuse)	14.7	0.3	6.6	0.7	6.8

Figures may not sum due to rounding

Warehousing and Logistics

7.16 Table 3.12 set out a total estimated requirement of 124,000 – 127,000 sq m of warehousing development over the 20-year period (equivalent to around 25 hectares of land). This is predominantly driven by the need to replace and upgrade existing stock which is anticipated to be lost from supply over the plan period due to obsolescence or other factors. With a flexibility allowance added the requirement increases to 137,000 – 139,000 sq m.

7.17 Historic completions rates show that if current trends were to continue only 8,000 sq m (equivalent to less than 2 hectares) of new floorspace would be developed. This falls well below the required level and shows the lack of warehousing development activity that has taken place across B&NES, and both its relative unattractiveness to modern occupiers and constrained land supply in the right locations with the right access and infrastructure provision.

7.18 Of the total requirement, historic analysis suggests around 55,000 sq m (equivalent to 11 hectares) could be delivered through re-use of existing/previously used employment sites. Analysis of current extant permissions indicates around 2,500 sq m (0.5 ha) of floorspace is already permitted to be delivered on existing employment sites. A further 52,500 sq m (10.5 ha) would need to be secured through the plan period.

7.19 The residual requirement of 82,000 – 84,000 sq m would likely need to be provided through allocated and consented supply (not previously developed for employment purposes). It is estimated that around 16-17 ha hectares of supply would be required to provide for this need.

7.20 Analysis of current supply, including both allocated sites and extant permissions on new sites, equates to 5.5 hectares. Current supply is only sufficient to meet around one third of identified requirements.

Sub Areas

7.21 Sub area analysis shows anticipated requirements are distributed across the four sub-areas, reflective of the current pattern of stock that will require replacement. However, there is no supply at all in Bath City and very limited supply in Keynsham. The Rural Areas has a broad balance between anticipated supply and demand. Somer Valley includes provision at the Enterprise Zone and Old Mills Industrial Estate Extension, which is expected to have some flexibility over delivery through use of a Local Development Order (LDO) and allocation for mixed employment uses. Therefore there is an opportunity to meet the full requirement in this area.

7.22 Should supply and redevelopment not come forward across B&NES the alternative is likely to be a continuation of the recent trend for occupiers to look beyond the B&NES area for suitable provision.

Table 7.3: Warehousing requirement and supply summary (2023 – 2043) (all figures in ha)

	B&NES	Bath City	Keynsham	Rural Areas	Somer Valley
Requirement (less reuse)	16-17	5	4	3	4
Supply (less reuse)	5.5	-	0.1	2.7	2.7

Figures may not sum due to rounding

8 Importance of Protecting and Retaining Existing Sites

8.1 This chapter sets out evidence demonstrating the need to protect and retain existing employment sites across B&NES.

8.2 The analysis set out in the preceding chapters of this report has highlighted the ongoing need to deliver office, industrial and warehousing uses suitable to modern occupier requirements, set against low levels of existing supply and historic development. This has created a challenging environment for potential and existing occupiers to fulfil their commercial property requirements within B&NES and particularly the city of Bath sub-area.

8.3 In addition to identifying potential new supply to help meet needs, the lack of pipeline opportunities heightens the need to retain existing supply and to encourage redevelopment for commercial employment uses where stock is no longer fit for purpose.

Recent Historic Losses

8.4 Monitoring records for the period 2011/12 to 2022/23 have been analysed to help understand the pattern of commercial employment floorspace losses.

Office

8.5 A total of 54,100 sqm of office floorspace has been lost in the 11 year period. The majority of office losses have been in the city of Bath sub area. This comprises 98 individual applications/schemes. Whilst generally small in size, with an average loss of 330 sq m per scheme, the total loss of 32,300 sq m within the city sub area is substantial cumulatively.

Table 8.1: Office losses 2011/12 - 2022/23 across B&NES Sub-Areas

	Bath	Keynsham	Somer Valley	Rural	Total
Floorspace loss (sq m)	32,300	15,100	3,900	2,700	54,100
No. of schemes	98	8	20	18	144
Avg. size of loss (sq m)	330	1900	190	150	380

8.6 Overall there have been marginal net gains in office stock within the Keynsham (1,000 sq m) and Rural (100 sq m) sub areas when considering completed gains. However, there have been net losses of stock in the city of Bath (-9,600 sq m) and Somer Valley (-1,800 sq m) sub areas. The net loss in the city of Bath equates to some 10% of the current standing stock as estimated by LSH.

Industrial and Warehouse

8.7 When considering the industrial & warehouse sector Keynsham has experienced the largest loss, with much larger average scheme sizes. This is heavily skewed by the redevelopment of the former Cadbury factory which totalled almost 30,000 sq m of industrial losses. Excluding this single large scheme the city of Bath would continue to dominate, again with 27 schemes averaging 1,250 sq m and comprising a total loss of more than 33,000 sq m. Whilst many of these schemes are small the cumulative impact is significant.

Table 8.2: Industrial & Warehouse losses 2011/12 - 2022/23 across B&NES Sub-Areas

	Bath	Keynsham	Somer Valley	Rural	Total
Floorspace loss (sq m)	33,400	37,900	11,300	7,900	90,500
No. of schemes	27	6	8	16	57
Avg. size of loss (sq m)	1,250	6,300	1,400	500	1,600

8.8 Only the Somer Valley (<50 sq m) and Rural (1,300) sub areas experienced net gains in floorspace across the period, and this totalled less than 1,400 sq m across the two areas. Keynsham experienced a net loss of more than 33,000 sq m and the city of Bath a net loss of almost 32,000 sq m. This demonstrates no meaningful replacement of lost stock on these two sub-areas.

Further Potential Losses

8.9 Analysis of extant permissions shows further losses of both office and industrial & warehousing space, with the impact concentrated on the city of Bath area. The city of Bath accounts for 80% of permitted losses. Significantly permitted losses of industrial & warehouse floorspace substantially outweigh permitted gains in the city of Bath area.

Table 8.3: Further potential losses across B&NES Sub-Areas (sq m)

	Bath	Keynsham	Somer Valley	Rural	Total
Office Gain	8,600	0	400	1,800	10,900
Office Loss	-6,700	-700	-1,000	-400	-8,900
Office Net Position	1,900	-700	-600	1,400	2,000
Industrial Gain	8,000	6,800	16,500	5,800	37,200
Industrial Loss	-21,800	-1,800	-2,800	-400	-26,800
Industrial Net Position	-13,800	5,000	13,700	5,400	10,400

8.10 Overall across the whole of B&NES there is a net gain in consented supply for both office and industrial & warehousing space. However, the level of permitted losses across the B&NES area equates to more than 70% of permitted gains.

8.11 The level of re-use of employment sites (i.e. redevelopment where new employment floorspace is proposed to be developed where there is existing or previous employment use), is also very low in B&NES, with only 11% of lost floorspace being replaced with new employment development. This compares to 50% in Bristol and 40% in South Gloucestershire. This suggests a much higher proportion of employment sites are being lost to other uses in B&NES than elsewhere in the West of England Combined Authority area.

Future Requirements

8.12 Analysis of future requirements has identified the ongoing need to deliver new office and industrial & warehousing stock. The scale of future need is greater than historic levels of development completions. This reflects the lack of delivery of new space in the past, rather than a huge surge in future demand. Future requirements will be significantly fuelled by the need to deliver new floorspace that meets modern occupier needs across both market segments.

Commercial Market Evidence

8.13 Analysis by LSH has identified a number of relevant issues:

- It was noted that B&NES has a lot of industrial stock classed as Grade C (low grade/quality), particularly in the city of Bath. As a result occupiers are looking outside the B&NES area in order to secure suitable premises. Locations in Wiltshire (e.g. Chippenham) and elsewhere in the West of England region are considered to be offering more attractive alternatives.
- Office stock within Bath city centre, often within Georgian town houses, is no longer meeting the needs of many modern occupiers.
- A tight supply of offices is leading to rising rents that will support improved viability.
- Whilst there is a potential pipeline of new office schemes within the city of Bath, that will deliver space suited to modern occupier requirements, this is not the case for industrial & warehousing, with no meaningful supply for occupiers wanting to remain within the city of Bath sub-area and to service the city itself.

Future Supply

8.14 The analysis comparing supply and demand set out in Chapter 7 identifies a substantial quantitative shortfall in supply to meet identified needs. This is predicated on delivering 40% of required development within existing employment areas, which is above historic levels of activity. It is therefore vital that existing employment sites are retained in order to help achieve this aim and potentially make a broader contribution to meeting future needs given the extent of other constraints, such as Green Belt and AONB, across the B&NES area, and the limited potential for new allocations within the city of Bath which is a critical economic hub for the UA.

Appendix 1. Sectors and SIC Codes

A1.1 The sectoral analysis set out in this report is aligned to the Standard Industrial Classification (2007) often referred to as SIC Codes. These classifications are widely used in statistical analysis of the economy. The table below sets out the alignment of the sectors used in this report with the Standard Industrial Classification.

A1.2 For further details on the detailed activities which take place under each classification:

- The official SIC guide can be found at https://www.ons.gov.uk/methodology/classificationsandstandards/ukstandardindustrialclassificationofeconomicactivities/uksic2007
- A clickable guide to SIC 2007 can be found at https://www.siccode.co.uk/

Sector titles used in this report	SIC 2007 definition
Primary Industries	Section A: Agriculture, forestry & fishing Section B: Mining & quarrying
Manufacturing	Section C: Manufacturing
Utilities	Section D: Electricity, gas, steam & air conditioning Section E: Water supply, sewerage, waste management & remediation activities
Construction	Section F: Construction
Motor Trade	Part of Section G: Division 45: Wholesale and retail trade and repair of motor vehicles and motorcycles
Wholesale Trade	Part of Section G: Division 46: Wholesale trace, except of motor vehicles and motorcycles
Retail Trade	Part of Section G: Division 47: Retail trade, except of motor vehicles and motorcycles
Transportation & Storage	Section H: Transportation & storage
Accommodation & Food Services	Section I: Accommodation & food service activities
Information & Communication	Section J: Information & communication
Financial & Insurance	Section K: Financial & insurance activities
Real Estate	Section L: Real estate activities
Professional, Scientific & Technical	Section M: Professional, scientific & technical activities
Administrative & Support Services	Section N: Administrative & support service activities
Public Administration & Defence	Section O: Public administration & defence, compulsory social security
Education	Section P: Education

Sector titles used in this report	SIC 2007 definition
Human Health & Social Work	Section Q: Human health & social work activities
Arts, entertainment & Recreation	Section R: Arts, entertainment & recreation
Other Services	Section S: Other service activities

Appendix 2. Sites and Premises Requirements

Converting Employment to Use Classes

A2.1 The conversion matrix used to convert forecast employment change by sector to Use Class Order is shown on the following page. This estimates the share of employment in any given sector within each Use Class. The matrix is based on average employment by four-digit SIC07 sectors in B&NES over the period 2017 to 2021 sourced from the BRES dataset. The matrix therefore reflects the current structure of the B&NES in detail.

Figure A2.1: Employment to Use Class Conversion Matrix

Sector	B2	B8	C1	C2	C2a	E(a)	E(b)	E(c)(i)	E(c)(ii)	E(c)(iii)	E(d)	E(e)	E(f)	E(g)(i)	E(g)(ii)	E(g)(iii)	F1(a)	F1(b)	F1(c)	F1(d)	F1(e)	F1(f)	F1(g)	F2(a)	F2(b)	F2(c)	F2(d)	SG	None and Homeworking
AB: Primary industries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.00
C: Manufacturing	0.83	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.01	-	-	-	-	-	-	-	-	-	-	-	-	0.17
DE: Utilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.65	0.35
F: Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	0.06	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.94
G (part): Motor Trades	-	0.06	-	-	-	0.03	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.79	0.12
G (part): Wholesale	-	0.85	-	-	-	-	-	-	-	-	-	-	-	0.01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.13
G (part): Retail	-	0.04	-	-	-	0.83	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.00	0.13
H: Transportation and storage	-	0.09	-	-	-	-	-	-	-	-	-	-	-	0.11	-	-	-	-	-	-	-	-	-	-	-	-	-	0.02	0.77
I: Accommodation and food	-	-	0.16	-	-	0.07	0.39	-	-	-	-	-	-	-	-	0.01	-	-	-	-	-	-	-	-	-	-	-	0.15	0.21
J: Information and communication	-	0.02	-	-	-	-	-	-	-	-	-	-	-	0.59	0.05	-	-	-	-	-	-	-	-	-	-	-	-	-	0.34
K: Financial and insurance	-	-	-	-	-	-	-	0.13	-	-	-	-	-	0.68	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.20
L: Real estate	-	-	-	-	-	-	-	-	0.15	-	-	-	-	0.54	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.30
M: Professional, scientific and technical	-	-	-	-	-	0.00	-	-	0.02	-	-	-	-	0.61	0.03	-	-	-	-	-	-	-	-	-	-	-	-	0.04	0.30
N: Administrative and support services	0.03	0.05	0.00	0.02	0.00	0.05	0.01	-	0.00	-	0.00	0.01	0.01	0.26	-	0.03	0.00	-	0.00	0.00	0.00	0.00	0.00	-	0.00	0.00	0.00	0.05	0.46
O: Public administration and defence	-	-	-	-	-	-	-	-	-	-	-	-	-	0.69	-	-	-	-	-	-	-	-	0.20	-	-	-	-	-	0.11
P: Education	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.89	-	-	-	-	-	-	-	-	-	-	-	0.11
Q: Human health and social work	-	-	-	0.62	-	-	-	-	-	-	-	0.20	0.03	0.05	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.09
R: Arts, entertainment and recreation	-	-	-	-	-	-	-	-	-	-	0.26	-	-	-	-	-	-	-	0.07	0.01	-	-	-	-	-	0.09	0.06	0.25	0.25
S: Other service activities	-	-	-	-	-	0.39	-	-	-	-	-	-	0.11	-	-	-	-	-	-	-	-	0.12	-	-	-	-	-	0.07	0.31
Total	0.04	0.03	0.02	0.10	0.00	0.10	0.04	0.00	0.01	-	0.01	0.03	0.01	0.17	0.01	0.00	0.12	-	0.00	0.00	0.00	0.00	0.01	-	0.00	0.00	0.00	0.06	0.25

Floorspace per worker

A2.2 The following section provides details on the impact of hybrid working on employment densities and the figures used to convert FTE employment to floorspace.

Impact of hybrid working on employment densities

A2.3 Since the Covid-19 pandemic there has been an ongoing question as to whether increased remote working is beginning to change office floorspace density. According to Deloitte's London Office Crane Survey (2021), most developers argue that the reduction in office occupation due to remote working is likely to be offset by growing requirements of tenants for lower density occupations, less hot desking and more collaborative space[19]. These findings are replicated in Deloitte's Regional Crane Surveys (2021), indicating that the trend of lower density office occupation and retainment of total floorspace demand will be reflected nationwide.

A2.4 While some sectors may see a decline in the number of workers in the office at any given time, the amount of office space required is expected to remain the same, in order to facilitate group meetings and collaboration when workers are in the office. Workers need a reason to come to the office if they are to commute, and heightened collaboration is one justification. While offices may become less occupied on a day-to-day basis, total floorspace requirements may remain the same.

A2.5 One important caveat, however, is that if offices are becoming less dense, this is will not change uniformly across the office market. The amount of floorspace required by each worker will vary according to occupation, sector, business culture and business size.

A2.6 According to NESTA (2021), a likely post-pandemic scenario for hybrid working is for high-paid knowledge workers continuing to work in cities, while a greater proportion lower paid work is undertaken remotely. The report continues, "firms saw the cost saving possibilities that remote working offered them and as a result decided to eschew office working for much of their staff. The key exception was elite workers like CEOs, executive teams, and high skilled workers for whom face-to-face interaction was deemed essential."[20]

A2.7 The trend of lowering densities is also unbalanced with regard to high and low-value office space. While high-value businesses will continue to demand office space to support their corporate brand and images, it is uncertain whether the same level of investment will be placed in to lower-grade office spaces with lower rents and where smaller grid sizes make it difficult to renovate. According to the FT, it is likely many of these will 'empty out and have to be refitted or repurposed'[21].

A2.8 Finally, for remote working to lead to a lowering of density and a concurrent maintenance of space it will need to make financial sense for occupiers. The last 25 years has seen offices becoming more dense in order to make them more economically viable[22]. For hybrid working to reverse this trend, and for offices to maintain high levels of space despite fewer workers in the office on a day-to-day basis, it will need to be financially viable for businesses. If it is not,

[19] https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/real-estate/deloitte-uk-london-office-crane-survey-summer-2021.pdf ; https://research.bco.org.uk/resources/clients/3/user/resource_1023.pdf
[20] https://www.nesta.org.uk/blog/four-scenarios-future-remote-working/
[21] https://www.ft.com/content/d6b8d468-e339-497d-b165-0de10bcddcae
[22] https://www.bco.org.uk/Research/Publications/Theme/working-practices.aspx

lower density occupation may become a luxury not available to all and businesses may prefer to downsize by some proportion, while maintaining some form of collaboration space.

A2.9 Based on the above findings we conclude that the Employment Density Guide (2015) still provides the best evidence in relation to employment densities. The figures used in this report are shown in the table below.

A2.10 The table below references figures in terms of net internal area (NIA), gross internal area (GIA) and gross external area (GEA). All figures are converted to GEA for modelling purposed. To convert NIA to GIA a 15% uplift is provided, to convert GIA to GEA a +5% uplift is made.

Table A2.1: Floorspace per Worker Assumptions

Use Class	Assumption
E(g)(i) Offices	The Employment Density Guide (2015) provides estimates for a range of office functions ranging from 8–13 sq m per FTE (NIA). The higher end of this range relates to Corporate HQ and the lower end relates to call centres. Financial Services, Public Sector and Professional Services fall within the 10–12 sq m range. The Occupier Density Study (2013) indicates an average density of 10.9 sq m for the UK. After applying uplifts to estimate Gross External Area (GEA), the utilised assumption is 13.2 sq m per FTE.
E(g)(ii) Research & Development	The most recent Employment Density Guide (2015) sets out a range of 40–60 sq m (NIA) for R&D B1(b) premises. The midpoint of this range has been adopted and converted to GEA. Therefore, a figure of 60.0 sq m per FTE has been used within the analysis.
E(g)(iii) Light Industrial	The Employment Density Guide (2015) indicates a figure for B1(c) light industry at 47 sq m per FTE (NIA). Allowances are made to align to GEA with a final assumption of 56.4 sq m per FTE (GEA).
B2 General Industrial	The Employment Density Guide (2015) provides a density figure of 36 sq m per FTE (GIA) for General Industrial premises. Following allowances to translate this figure to GEA we use an assumption of 37.8 sq m per FTE (GEA).
B8 Storage or Distribution	The Employment Density Guide (2015) provides a range of 70 – 95 sq m per FTE. 70 sq m per employee (GEA) for 'final mile' distribution centres and 95 sq m per employee (GEA) for national distribution centres. There is the potential for a mix of both, so 80 sq m per FTE (GEA) has been adopted for this analysis.

Replacement

A2.11 An allowance for replacement has been included within the methodology to encapsulate the wider changes in the economy not picked up in the employment forecasts. The approach is based on the fact that a proportion of the total existing stock of employment property needs to be replaced on an ongoing basis to ensure the overall stock of premises is sufficient and appropriate for modern needs, in terms of both building quality and site characteristics.

Current Stocks

A2.12 To obtain an estimate of the active floorspace by employment Use Classes, we have undertaken analysis of the VOA Ratings List for 2023[23]. This involves assigning Use Classes to the Special Category (SCat) codes associated with each premise. This is an imperfect science and is based on our interpretation of the codes. However, it allows us to provide an indicative breakdown of the stock of floorspace across the Office (E(g)(i) and E(g)(ii)), Industrial (E(g)(iii) and B2) and Warehousing & Logistics (B8) sectors which is important for modelling, and ultimately, planning purposes.

Default Allowances

A2.13 The replacement allowance seek to account for buildings which have become functionally obsolete (i.e., beyond their usable life as commercial premises) rather than just those that have become physically obsolete (i.e., derelict to the point it is no longer possible to utilise them for commercial operations).

A2.14 British Standard EN 1990:2002, Eurocode – Basis of structural design (Eurocode 0) states that buildings structures should be designed to last 50 years. It states that over this duration any deterioration in the structure should not impair the use of the building for its intended purpose.

A2.15 BREEAM (Building Research Establishment Environmental Assessment Method) life cycle assessments indicate the service life of a building is considered to be 60 years. This is in-line with British Standards (BS 7543: 1992 and BS ISO 15686-1: 2000 respectively) for the design life of components and assemblies of the main structural elements of a building.

A2.16 Life cycle costings in the commercial real estate sector are designed to consider the entire cost of owning and operating a commercial building over its economic lifespan. In the RICS guide to life cycle costing24 they consider appraisals of greater than 30 years should involve "consideration for possible technological, commercial and legal changes" (pg. 7). This suggests that buildings over 30 years old have a high probability of becoming functionally obsolete without significant investment to upgrade or refit the building.

A2.17 In order to try to understand the age of active commercial floorspace in England we have obtained data on the age of commercial stocks from 2004 (no more recent data has been published). The data set out in Table A2.2 indicates that a notable proportion of the existing UK stock of commercial floorspace is over 65 years old, and just over 50% is over 30 years old.

[23] Source: https://voaratinglists.blob.core.windows.net/html/rlidata.htm [Accessed 19 June 2023]
[24] Royal Institution of Chartered Surveyors (RICS). 2016. RCIS Guidance Note. RICS Professional Guidance, UK: Life Cycle Costings. 1st ed.

Table A2.2: Age of Commercial Stocks, England (2004)

Age (in 2004)	Pre 1940 65+	1940 70 34 64	1971 80 24 33	1981 90 14 23	1991 2000 4 13
Retail	40%	17%	9%	14%	15%
Office	28%	18%	11%	17%	15%
Factory	24%	32%	14%	13%	8%
Warehouse	16%	25%	18%	17%	14%
Total*	**26%**	**25%**	**13%**	**15%**	**12%**

Source: Department for Communities & Local Government Archive – Total Floorspace by LAD and age (2005)

*Note the total will not sum to 100% as the data presented excludes those stocks of unknown age and data on stock from 2001 – 2003 is not available at local authority level.

A2.18 This age of stock data confirms that clearly many buildings are physically present well beyond 50 years, although it is not possible to determine the proportion of buildings that survive beyond this point.

A2.19 Based on the range of available evidence, a 2% default replacement rate assumption is adopted. This assumes that on average buildings enter into functional obsolescence and need to be replaced every 50 years. Implicit in this assumption is that some buildings will last longer than 50 years (potentially with significant investment to ensure ongoing use), whilst some will last less than this either through redevelopment or change of use.

Local Adjustments to Default Allowance

A2.20 This section considers whether there is a need to adjust this default based on local conditions. This is based on the consideration of three drivers of functional obsolescence:

- Age – older stocks are less likely to be able to accommodate modern infrastructure such as HVAC, electricity supply etc.
- Regulatory – changes to regulations can force buildings into functional obsolescence by making it illegal to lease or continue to lease them.
- Market demands and local circumstances– the demands of the market can shift meaning that stocks are no longer of a desirable quality or location.

A2.21 These three issues are interrelated. The age of a building will generally determine both its location and compliance with modern building standards, and vice versa. Consideration is therefore made of the age of the stocks in the local area, and then supplemented with regulatory and market signals information.

Age of Stock

A2.22 Some data is available to help understand the proportion of building floorspace that will be over 50 years old across our forecast period of 2023 to 2043. It is acknowledged that this data is substantially out of date. However, no more recent releases have been made.

A2.23 The proportion of floorspace built prior to 1990 is of interest as these buildings will be over 50 years at the end of our analysis period. The following table shows a comparison of commercial stocks built before and after 1990 in England and B&NES.

Table A2.3: Proportion of Commercial Stock Floorspace Built Pre and Post 1990 in B&NES and England

	Pre 1940 1990		1991 2000	
	B&NES	England	B&NES	England
Office	82%	74%	11%	15%
Factory	95%	82%	4%	8%
Warehouse	87%	76%	7%	14%

Source: Department for Communities & Local Government Archive – Total Floorspace by LAD and age (2005)

*Note the total will not sum to 100% as the data presented excludes those stocks of unknown age and data on stock from 2001 – 2003 is not available at local authority level.

A2.24 The table above shows that in B&NES, the proportion of stock across all employment uses that will be over 50 years old at the end of the plan period is greater than the England average. For both factory and warehousing stocks, half the stock will be less than 50 years old compared to the England average.

EPC

A2.25 Data on Energy Performance Certification by building count has been gathered in order to assess any potential impact of Minimum Energy Efficiency Standards on replacement rates.

A2.26 Since 1 April 2018, these standards have meant it has not been possible to grant a new tenancy to new or existing tenants where a non-domestic property has an Energy Performance Certificate (EPC) rating lower than E (with limited exceptions). Since 1 April 2023 it has been an offence to *continue* to let or rent out a property if it does not have a rating of at least E, with penalties of between £10,000–£150,000 for a breach (based on the property's rateable value)[25].

A2.27 The UK Government's Energy White Paper (2020) sets a target for all rented non-domestic buildings in the UK to be rated EPC band B or above by 2030, with the caveat that this will be done "where cost-effective". The delivery of this target is yet to be road-mapped.

A2.28 The table below shows the proportion of the commercial building stock (where an EPC has been obtained) that falls below this both the current, and potential future requirements.

[25] Currently MEES allows for the continuing letting of a property with an EPC rating band below E where the property remains sub-standard despite all relevant energy efficiency improvements having been implemented, or there are none that can be made. There are also exemptions which apply under the current rules, including: cost (would be more than the savings on energy bills over a period of 7 years); potential negative impact on the fabric or structure of the property; consent (not being able to obtain consent from a tenant or consenting authority); and devaluation (works would devalue the property by 5% or more, or would cause damage).

Table A2.4: Proportion of Non-Domestic Properties with Extant EPC Certificate Falling Below Current and Proposed Energy Rating Thresholds

	Below Current Standard (Rated Below EPC E)	Below 2030 Standard (Rated Below EPC B)
B&NES	15%	87%
England	11%	86%

Source: Department for Levelling Up, Housing & Communities (2023) Energy Performance of Buildings Certificates (EPC) in England and Wales 2008 to 31 March 2023

A2.29 The data above shows that the proportions of properties in B&NES that are below the current and proposed EPC ratings standards is greater than the England average.

Market Signals and Local Circumstances

A2.30 It is important to note that B&NES contains the City of Bath which has UNESCO World Heritage status. This means that wholesale replacement of stock will be limited to newer buildings that do not have heritage status or are located in areas outside the City of Bath.

A2.31 Based on market commentary provided by LSH we also need to consider the following issues in relation to office, and industrial and warehousing developments.

Offices

A2.32 The national trend is a 'flight to quality' with increasing demand for city centre, Grade A offices. This allows businesses to attract talent and demonstrate environmental credentials. Bath City office stocks within heritage converted residential buildings are less appealing to modern occupiers, as they are not Grade A. Offices such as these are also much harder to improve in terms of EPC ratings than industrial buildings unless there is a significant increase in rents to support investment.

Industrial and Warehousing

A2.33 B&NES has a very limited supply of industrial space, and the vast majority of stock is Grade C. Bath is seeing poor quality industrial units converted to higher value uses such as student and residential accommodation, which is putting increasing pressure on an area that already suffers from restricted supply.

A2.34 Many businesses are looking beyond the boundaries of B&NES to meet requirements for larger premises of higher quality.

Conclusion

A2.35 The previous section considers local factors in B&NES that will influence the 2% default replacement rate assumption. Adjustments to this default are made in 0.2% increments.

A2.36 For office stocks, the data suggests that a higher proportion of office stocks will be over 50 years old at the end of the plan period than the England average. There are a higher proportion of buildings with EPC ratings below the current standard in B&NES than the England average. However, given the heritage status of the City of Bath (which will provide exemptions to the need to implement EPC improvements) these proportions are not significant enough to change the default assumption.

A2.37 Data on the age of factory stocks suggests that there is a higher proportion of stocks built prior to 1990 in B&NES than the England average, and half the England average proportion of younger stocks. Heritage status for those buildings within the City of Bath will provide protection from the need to improve EPC ratings. However, pressure from residential uses encroaching on historically industrial areas will drive functional obsolescence. These factors combined suggest an increase in the default assumption of 0.2% to 2.2% per annum.

A2.38 Warehousing stocks in B&NES have a similar age profile to factory stocks, and have the same issues in terms of pressure from residential uses. Therefore, as for factory stocks, an increase in the default assumption of 0.2% to 2.2% per annum is suggested.

A2.39 However, it is noted that without appropriately located sites to accommodate this upgrading and replacement the trend towards relocations away from the area may continue.

Sub Area Definitions

A2.40 The four sub areas in B&NES (Bath City, Keynsham, Rural Areas, and Somer Valley) have been defined using 2019 ward boundaries. This is in line with other work undertaken by the Council on the strategic evidence base for the area. The wards that form part of each area are set out in the table below.

Table A2.5: Ward Definitions of B&NES Sub Areas (2019 Ward Boundaries)

Bath City	Keynsham	Rural Areas	Somer Valley
• Bathwick • Combe Down • Kingsmead • Lambridge • Lansdown • Moorlands • Newbridge • Odd Down • Oldfield Park • Southdown • Twerton • Walcot • Westmoreland • Weston • Widcombe & Lyncombe	• Keynsham East • Keynsham North • Keynsham South • Saltford	• Bathavon North • Bathavon South • Chew Valley • Clutton & Farmborough • High Littleton • Mendip • Publow & Whitchurch • Timsbury	• Midsomer Norton North • Midsomer Norton Redfield • Paulton • Peasedown • Radstock • Westfield

Appendix 3. LSH Sectoral Requirements

A3.1 This appendix sets out a series of sector profiles based on commercial market evidence and insight from across the West of England sub-region. These profiles were prepared by LSH.

Aerospace and Advanced Engineering

A3.2 There are currently over 250 businesses in the Aerospace, Defence, and Advanced Engineering sector in the West of England. These businesses have circa 51,000 employees which makes it one of the largest clusters in Europe. The sector is worth over £2.7 billon to the region.

A3.3 The success of the sector in the region is predicated not only the Ministry of Defence (MOD) presence but, the fact that Bristol University, Bath University, and the University of the West of England are all ranked in the top ten universities in the UK for Aerospace Engineering[26]. Combined, these universities are home to over 39,000 Science, Technology, Engineering, and Maths (STEM) students.

A3.4 The region is also home to the National Composites Centre (one of seven world-class centres comprising the UK's High Value Manufacturing Catapult) and over 10 world-leading aerospace companies. These firms have expertise in areas like composites, robotics, and additive-layer manufacturing. Some of the major businesses operating in the region are named in the table below.

Table A3.1: Major Aerospace & Advanced Engineering Businesses in the West of England

Major Companies		
Airbus	Rolls Royce	Safran
Thales	Atkins	Leonardo
BAE Systems	Babcock	QuinteQ
Renishaw	Boeing	Nova Systems
GKN	BMT	MBDA UK
Rotork	Horstman	

Recent and Future Changes

A3.5 The Aerospace & Advanced Engineering sector suffered as a result of both Covid-19 and Brexit. However, the last 12-18 months has seen a renewed focus on the Defence industry as a result of heightened tensions around the world. This has been demonstrated with Babcock and Boeing taking up new office accommodation in North Bristol.

A3.6 Growth in the number of defence engineering companies will offset any short terms shrinkage in the sector because of trade impacts. There are also new areas of growth in the sector through the Net Zero agenda.

[26] The Universities are ranked second, third and seventh respectively as of 2023.

A3.7 Growth in the region is underpinned by the development of the new Institute of Advanced Automotive Propulsion System at Bristol and Bath Science Park, and the new Airbus and GKN facilities in Filton.

Distribution across the West of England

A3.8 Major employers in the sector remain focused in the North Fringe of Bristol, particularly around the Filton Enterprise Area, which is home to the UK's largest aerospace cluster.

A3.9 Businesses are predominantly based in out-of-town locations with the main cluster in South Gloucestershire and North Bristol fringe. However, there are also some occupiers in South Bristol and Bath.

Property Requirements

A3.10 Continued growth is expected in this sector (both in terms of start-ups and expansion of existing businesses) and the demand for property remains high.

A3.11 Businesses operating in this sector have mixed property requirements. They are predominantly office-based but, there has been growth in laboratory and industrial requirements. Trends indicate that firms within the sector favour large land parcels with low density, high spec purpose-built facilities for research and development (R&D). This means they tend towards out-of-town locations.

A3.12 Growth in the sector will be focussed in the South Gloucestershire and North Bristol out of town markets. However, we are seeing companies look at Bristol City Centre locations with some occupiers reporting they struggle to attract staff in Bath[27] and out-of-town locations. This can be seen with BMT taking a new office in Bristol, and other defence and engineering companies looking at taking up city centre office space despite the increased rental costs.

A3.13 As with other office-based sectors, this sector will see a decrease in the quantum of office space taken up but, an increase in the quality of this space as employers continue to try and attract the best staff. In-line with national trends for office occupiers, businesses in these sectors may be looking at circa 20-30% less space, and utilising flexible working practice.

A3.14 The reliance on occupying their own offices is likely to change as lab enabled space or hybrid/managed workspace will also be in demand. This will mean that the focus on out-of-town locations changes further as the main managed workspace that attract start-ups are generally located in city centres.

[27] There are also examples of firms seeking to remain within central areas of Bath in order to retain existing staff.

Tech and Digital

A3.15 The region is home to the most productive tech cluster in the UK, and Bristol was identified as a "globally significant, high-growth creative cluster" (pg. 23) in the Creative Industries Sector Deal[28].

A3.16 The region is home to several R&D centres including Oracle's Cloud Development, HP Labs, and the University of Bristol's Smart Lab team, which in 2018 staged the world's first public trial of 5G.

A3.17 The region's four universities play a central role in strengthening the region's digital and tech sector. The universities collaborate closely with businesses in; life sciences, cyber security, quantum technology, and robotics, including several autonomous vehicle projects. They established SETsquared (Global #1 University Incubator) and the new Temple Quarter Enterprise Campus, and produce a constant stream of highly skilled graduates. The area has one of the highest graduate retention rates in the country.

A3.18 Bristol is home to the Quantum Technology Enterprise Centre (QTEC). This a pre-incubation programme which has created over 31 companies, raising £60 million in funding. The programme is responsible for a third of active UK quantum engineering start-ups.

A3.19 The region features an internationally leading robotics sub-sector, including The Bristol Robotics Laboratory (Europe's largest multi-disciplinary lab) and Future Space, located at the University of the West of England (UWE) campus. They provide support and workspace for the region's robotics, tech, and science-based scale-ups.

A3.20 Major companies located in the region are named in the table below.

Table A3.2: Major Tech & Digital Businesses in the West of England

Major Companies		
CGI	JISC	Navos
Forgerock	Strava	Navitas
Pax8	Graphcore	Oracle
Huboo	Xenint	EPIC
Edit Salocin	Altran	OVO

Recent and Future Changes

A3.21 The Tech and Digital sectors remain a growth sector with several other sectors becoming more involved such as FinTech and LegalTech. So, whilst the core sector is set for growth, we will also see diversification in this sector.

A3.22 The sector impacts several other sectors and therefore we could see good growth in the sector as the region benefits from an excellent knowledge base and a number of growing business and start-ups which are tech/digital based.

[28] HM Government (2018) Industrial Strategy: Creative Industries Sector Deal

Distribution across the West of England

A3.23 These occupiers are based in a mix of locations throughout the region, although they are strongly focused on Central Bristol and Central Bath where they can attract employees coming out of university, and can easily collaborate with the universities.

Property Requirements

A3.24 Businesses in this sector predominantly occupy offices of mainly grade A and B specification, although there is also growing demand for hybrid properties with lab space.

A3.25 The sector has a predominantly younger workforce, and therefore the majority of growth will be seen in city centres. This is a result of younger employees being less focused on car-based commuting. These employees will seek locations that easily accessible via walking or public transport with good local amenities.

A3.26 The sector also has a number of start-ups and growth companies. These companies tend to prefer to cluster together, and therefore serviced offices/managed workspace will be important for growth. These companies can use the support structures offered at the better-quality end of the serviced office sector.

A3.27 These companies will also benefit from the flexibility found in service offices/managed workspace, and this is key to the sectors growth. We could see (if appropriate managed workspace is available) some neighbourhood hubs emerging in this sector in suburban areas with more affordable housing and good amenities such as: Bedminster, Horfield/Stokes Croft, Keynsham, and Portishead.

A3.28 The majority of commercial requirements will remain for office accommodation, with a focus on better quality space which is well located for amenities and transport, and provides good sustainability credentials. Therefore, anticipated movement in this sector is to grade A offices in Bath and Bristol city centres.

A3.29 We will see good level of requirements for offices especially in smaller start-up companies. Like the majority of office occupiers, we may see a decrease in space from larger and medium sized occupiers as employees take advantage of hybrid working practices, but for better specification.

Financial and Professional Services

A3.30 The region has one of the most productive Financial Services clusters (outside of London) in the UK, and has one of the top 10 FinTech Clusters in the UK. It also has a strong legal centre with 478 legal companies in the region. Twenty-six of the top 100 law firms in the UK have a presence in the region, 13 of which have head offices in the region. There is also a growing cluster of LegalTech companies, with over 30 in the region currently.

A3.31 The Professional Service sectors employ over 33,500 in the region, with a further 61,000 people employed in the Financial/FinTech sectors.

A3.32 Bristol and Bath host the UK's largest Digital cluster and the highest density of FinTech start-ups and scaleups outside London, with 107 regional businesses which contribute £192 million to the UK economy.

A3.33 Some of the major companies in the region in this sector are set out in the table below.

Table A3.3: Major Professional & Financial Businesses in the West of England

Major Companies		
Burgess Salmon	Altus	EY
Hargreaves Lansdown	St James Wealth	KPMG
Foot Antsey	DAS	Deloittes
PWC	Osborne Clarke	Clarke Willmott
DWF	Bevan Brittan	Axa

Recent and Future Changes

A3.34 The sector is changing in both the way it uses its commercial buildings, and the types of buildings it occupies. Changes in occupation have been triggered by both the Covid-19 pandemic, and the growing strength of FinTech and LawTech in the region.

A3.35 The anticipated trend of companies looking at regional hubs and less city centre clusters in the Professional sector as we emerged from Covid-19 induced lockdowns was short lived. Now, although companies are looking at less space, they are concentrating on city centres and good quality offices with high ESG credentials.

Distribution across the West of England

A3.36 Businesses are predominantly based in city centre locations in both Bristol and Bath. However, some are located in established business park locations especially Aztec West, Bristol Business Park, and Almondsbury.

Property Requirements

A3.37 These occupiers seek office buildings, and generally require grade A space.

A3.38 The sector continues to show growth and remains an important sector in the region. It is highly reliant on office space and is showing a 25-40% reduction in requirements for space

when compared to pre-pandemic conditions as companies seek to 'right size' their accommodation against the flexible working demands of the workforce.

A3.39 The sector remains one of the largest in the region and was always traditionally the largest sector in terms of take up of offices, with an average of 34% for the 10 years up until 2020. Since 2020, the TMT (Technology, Media & Telecom) sector has become more dominant in terms of take up. Office take-up by the TMT sector was 26% in 2021 and 39% in 2022, compared with 19% and 23% respectively in the Professional Services sector. These figures reflect a reduction in both the number of deals and the amount of office space required by this sector.

A3.40 There is significant growth forecast in this sector but, this may not be reflected in an increase in commercial office space as companies take less, but higher quality, space. However, we could see a rise in demand for R&D space from sub-sectors such as Creative, Digital, and Net Zero consultancy.

Creative and Digital Media

A3.41 The region is well known for its Creative and Digital Media sectors, from Oscar-winning Aardman Productions, to producing over 35% of the worlds natural history television, to gaming companies such as NDemic who produced the award-winning Plague Inc.

A3.42 The region is home to 6,000 creative business and 190 production companies. It is one of only three location hubs for the BBC. In addition, both ITV and Channel 4 have a presence in the region, with Channel 4 opening its creative hub in Bristol City Centre. The region is also home to the MyWorld creative hub, which connects regional and national partners with global tech giants such as Netflix and Microsoft.

A3.43 Bristol is one of 18 UNESCO Cities of Film worldwide, and was designated UNESCO City of Film in 2017. This is a permanent status to celebrate the city's achievements as a global leader in film and the moving image. The city is also a member of the UNESCO Creative Cities Network, which connects 246 cities with the common goal of celebrating cultural diversity and sustainable development.

A3.44 The Bristol & Bath region has a particularly strong Print & Digital Publishing sector. According to NESTA, the activity of the publishing sector in Bath is twice the UK average. Major publishers such as Future, Anthem Publishing, Mediaclash, and ShiftActive Media are based in the cities.

A3.45 Bristol & Bath features a growing and diverse gaming sector, including developers specialising in animation, publishing, VR, and AR. The developers behind some of the most popular games work in the region.

A3.46 Some of the major companies in the region in this sector are set out in the table below.

Table A3.4: Major Creative & Digital Media Businesses in the West of England

Major Companies		
BBC	ITV	Netflix
Channel 4	Plimsol Productions	Films@ 59
Aardman	Drummer TV	Arcadia Spectacular
Cookpad	NDemic	IMBd
Network N	Anthem Publishing	Complete Control

Recent and Future Change

A3.47 The sector has changed over the last few years with several companies moving to grade A office space, such as BBC Worldwide and Channel 4. This trend of office occupiers moving to better quality office accommodation is set to continue, although the sector also has companies looking for hybrid or cheaper offices. This will lead to different clusters as seen in areas such as Paintworks and Bedminster, and potentially in the longer-term in areas around St Phillips.

A3.48 This sector in particular tends to cluster. Networks with access to knowledge are key to the function of the sector, so this trend will continue. The region can continue to grow locally as well as attract companies from outside the region, from areas such as London.

Distribution across the West of England

A3.49 Businesses are predominantly located in the city centre or edge of city locations, with strong clusters in both Bath and Bristol city centres and edge of city locations.

Property Requirements

A3.50 Occupiers mainly seek office buildings, although of mixed quality and specification. Some businesses in the sector also have a need for some hybrid or industrial buildings for studios or storage.

A3.51 The sector continues to grow in the region due to being centred around a globally significant base. There is some downsizing and relocating to better space from the larger companies in the sector, which is in line with national office occupation trends. Growth of smaller businesses is set to continue. However, due to the cost of office space in city centres (especially Bristol) we will see some of the sector look at fringe city locations and more suburban locations with amenities.

A3.52 This will be heightened once the government's changes to Energy Performance Certificates and how buildings can be let, becomes legislation in 2025 and 2030. Cheaper offices will be unlettable, and landlords will only undertake the works if tenants are prepared to pay higher rents. This is an issue for all offices occupiers. However, whilst larger and well backed companies will take grade A space, and start-ups/micro business will be able to look at the serviced office sector, cost-conscious companies that need their own office may not have options. These companies will look at working from home as an alternative. However, the Creative Industry generally need employees to be in the office for collaboration, so this could have a negative effect on these businesses.

A3.53 The sector generally employs a younger workforce, and therefore staff retention is important. Being located close to amenities is a factor in this, therefore city centres or inner-city suburbs could be key for supply.

A3.54 The region benefits from a number of start-ups in the tech sector related to the universities, and they still have a potential to grow. These start-ups will require flexible, affordable city centre workspace. The serviced office sector will be key to this growth as these provide not only the space but, the flexibility and potential to support growth. Whilst the majority of these will be in Bristol and Bath city centres as well as some suburbs like Bedminster and St Phillips. There could be some smaller growth in North Bristol, especially around Filton, and in areas such as Keynsham.

Clean Tech and Energy

A3.55 The Clean Tech & Energy sector is made up of 25,000 enterprises, with the Zero-Carbon sector alone employing nearly 6,000 people. The region is home to companies like Ovo Energy and Ecotricity. In addition, over a quarter of the UK's major environmental research organisations have bases in the South West which contribute £750m to the UK's GVA.

A3.56 Bristol & Bath is a hub for both the UK's 'nuclear renaissance', and disruptive and zero carbon energy generation and supply. The region also hosts the government funded South West Net Zero Hub which gives strategic and technical support to the public sector and communities to deliver net zero energy projects.

A3.57 Strong capabilities in R&D across the Aerospace & Advanced Engineering, Digital, and Tech sectors, coupled with dynamic and collaborative ecosystems mean the region is ready to lead the global transition to clean energy. Bristol was named European Green Capital in 2015, and the UK's greenest city in 2019.

A3.58 The region contains exemplar waste-to-energy and biomass projects from GENeco, Viridor and Suez Environment's Severnside plant, alongside investment in biogas and electric buses and infrastructure.

A3.59 There is a move to lower carbon activities across a range of sectors. For example, First Group will have half its fleet as zero emission or carbon by 2030, the largest concentration of zero carbon buses Euro VI in the UK.

A3.60 The region is also home to Hinkley Point C (HPC) nuclear power station which is the first new nuclear power station in the UK for a generation. The station is capable of generating 7% of the UK's total energy requirements and will offer 25,000 job opportunities as well as 1,000 apprenticeships and brings £100m a year into the regional economy.

A3.61 Some of the major companies in the region in this sector are set out in the table below.

Table A3.5: Major Clean Tech & Energy Businesses in the West of England

Major Companies		
EDF	Boccard	Windes
Wardell Armstrong	Norsea	A-Gas
SITA	Hydrock	Frazer Nash
Assystem	Doosan Energy	SPriax-Sarco
Jacobs	Edvance	Efinor

Recent and Future Change

A3.62 This sector is set to continue to grow due to continued pressure on the Clean Tech and Energy sector to find solutions to global, national and regional challenges. The sector links in with several other sectors especially Engineering, Technology and Manufacturing.

A3.63 This sector is potentially a high growth sector as energy requirements going forward could look very different to what is required today. The net zero agenda, the changes to energy, and

the emerging sub-sectors from this, coupled with the regions expertise means that this sector could become a significant growth sector.

A3.64 The sector will also see continued investment in start-ups and clusters around universities.

Distribution across the West of England

A3.65 The main cluster for this sector is in South Gloucestershire and Avonmouth, although occupiers are spread over the whole region.

Property Requirements

A3.66 This sector has mixed property requirements, predominantly offices but potential growth in lab requirements and some industrial space.

A3.67 The sector is broad and incorporates a range of commercial requirements from offices, R&D, lab space and large-scale manufacturing activity. Growth will be across the region and the locations will depend on the type of property required. Any lab enabled space or industrial requirements are likely to be out of town or edge of town, whereas any office requirements could be in city centres as well as business parks.

A3.68 In terms of office locations, this demand is spread between out of town established business parks and city centres. This is set to continue as occupiers tend to service a wider region from the hubs and often require car access.

A3.69 Other commercial space is more fragmented across the region, although the large-scale manufacturing activity is centred around Avonmouth and Severnside.

Health and Life Sciences

A3.70 The Bristol & Bath region is ranked seventh in the UK for innovation, and the region has nearly 100 Life Sciences companies. This sector is one of the fastest growing in the region with a 25% increase in the number of companies in the last 3 years.

A3.71 The sector has seen £258m invested by companies in the last year, and the regions Life Science tech related ecosystem is worth £9.9bn. The sector growth in the UK is centred around universities and research. Universities in the region have a number of research institutes and specialist facilities including:

- BrisSynBio a £13.6m BBSRC/EPSRC-funded synthetic biology centre
- The £10mn MRC-funded Integrative Epidemiology Unit
- Centre for Therapeutic Innovation
- Centre for Biosensors, Bioelectronics and Biodevices
- The Wolfson Bioimaging Facility
- The Max Planck Centre for Minimal Biology
- Bristol Robotics Laboratory, the largest facility of its kind in the UK
- NHS Genomic Medicine Centre is located at UWE Bristol for the West of England
- NIHR Bristol Bio-Medical Centre: one of just 20 in the UK

A3.72 The region is also heavily involved in R&D for Life Sciences. The key sectors and description of the activity undertaken is set out in the table below.

Table A3.6: Key Life Sciences Sub-sectors

Sub sector	Description
Assisted Living	Robotics is playing an ever-increasing role in life sciences applications. Not only are robots taking on monotonous tasks and streamlining processes in laboratory settings, but they are also leveraging advances in delivering living assistance to those who need it most.
BioProcessing & BioPharma	Bioprocessing is the process of increasing the number of living cells or other biologic systems/components (such as bacteria, viruses, enzymes, proteins, or nucleic acids) in a commercial bioreactor for biopharmaceutical manufacturing.
Diagnostics	Technological advances in diagnosis techniques can more rapidly diagnose and monitor disease and provide clinically useful prognoses for patient triage and treatments. The integration of rapid screening platforms with patient healthcare records and the use of patient-centred diagnostics, have the potential to shorten the time taken to direct patients to the most appropriate treatments and avoid the cost and health risks of using ineffective medicines.
Digital Health	Digital health technologies use computing platforms, connectivity, software, and sensors for health care and related uses. They include technologies intended for use as a medical product, in a medical product, as companion diagnostics, or as an adjunct to other medical products (devices, drugs, and biologics).

Sub sector	Description
Nutrition	Nutritional science has had a major impact on public health by identifying optimal nutrient intakes on a population-wide basis. Such advances have provided the rationale for healthy eating campaigns, which can produce significant health benefits.
Medical Technology	MedTech can save lives, improve health and contribute to sustainable healthcare. Through innovative devices and diagnostics, the industry delivers value to patients, healthcare professionals, and healthcare systems and society.

A3.73 The University of Bristol is ranked in the top ten universities in the UK for producing companies, and a total of 130 companies have spun out of the university. Bristol features in the top ten cities for Life Science start-ups in the country based on the fact that 20% of the regions Life Science companies are start-ups

A3.74 In terms of Health, the University Hospital, Bristol NHS Trust, is one of the largest NHS Trusts in the UK. Made up of eight hospitals, it's also the major teaching and research centre for the South-West of England and has over 7,000 patients engaged in research each year. The Bristol Health Partners, The West of England Academic Health Science Network and the NIRH Bristol Biomedical Research Centre (one of only 20 in the UK) are among a number of networks that bring the NHS together with industry and academia.

A3.75 These networks collaborate on research, clinical trials, and the commercialisation of ideas and Bristol contributes to the world's most detailed biomedical database. UK Biobank has agreed a £50 million contract with the NHS in Bristol, North Somerset and South Gloucestershire.

A3.76 Some of the major companies in the region in this sector are set out in the table below.

Table A3.7: Major Health & Life Science Businesses in the West of England

Major Companies		
Cytoseek	eXmoor	Vectura
Rosa Biotech	Imophoron	Pfizer
Bath ASU	KWS Bio Test	Iksuda
Binx Health	Folium Science	Institute of Physics

Recent and Future Change

A3.77 Both nationally and regionally this is a growing sector where growth is forecasted in all aspects from the traditional health sector to more research and tech-based SME's.

A3.78 Nationally business in this sector tend to locate near universities, science parks or hospitals. They tend to locate in clusters and this benefits R&D.

Distribution across the West of England

A3.79 These occupiers are located throughout region but mainly in the out-of-town locations.

Property Requirements

A3.80 The sector has a wide mix of property requirements, and there is potential growth in lab requirements.

A3.81 Historically in the region these companies are located in North Bristol / Emersons Green (Bristol and Bath Science Park) although potential growth in city centres is anticipated, especially in Bristol City Centre around the St Philips area.

A3.82 Demand for more commercial space will likely be driven by the emerging sub-sectors and innovations in the longer term. These companies are normally looking at lab enabled space that is flexible in terms of use and growth. They also tend to cluster and collaborate to help growth, and through looking at growth trends nationally, this is normally near to universities or research institutions.

A3.83 In the region there are some growth opportunities existing in Bath and Bristol city centres and near to the science park. Demand for access to local amenities is becoming increasingly important, and with the University new campus near Temple Meads this could be a strong growth area for the sector. Although companies in this sector are unlikely to require standard offices, so areas such as St Phillips or Lower Bristol Road could provide areas for growth. The demand for lab space or lab enabled space will also be important.

Food and Drink

A3.84 Bristol & Bath have a growing network of innovative food and drink companies, and a strong collaborative environment between businesses, academics, and R&D institutions.

A3.85 The food and drink sector contributed £1.9bn to the national GVA, with agriculture contributing a further £845m. The region is home to one of just 17 DEFRA (Department for Food, Environment & Rural Affairs) designated Food Enterprise Zones in the UK.

A3.86 The Food Security and Land Research Alliance, which is based in the region, complements these growing networks. This organisation works across disciplines and collaborates with institutions with a strong background in relevant areas of research. It also maintains funding relationships with research councils, government departments, and the private sector.

A3.87 There are over 4,800 higher education students and more than 600 sector-specific academics working on agricultural studies in the region.

A3.88 The wider region is home to two internationally renowned agricultural institutions: the Royal Agricultural University and Hartpury University. It is also home to the Rural Enterprise Centre, which is integral to the region's educational and business growth.

A3.89 The West of England's agricultural business landscape also comprises a vast network of small to medium-sized enterprises (SMEs) and some of the world's most iconic names in the agri-food sector, such as LettUs Grow.

A3.90 Some of the major companies in the region in this sector are set out in the table below.

Table A3.8: Major Food & Drink Businesses in the West of England

Major Companies		
Pukka	Warbutons	Thatchers
Zenith International	Yeo Valley	Gouter
6 O'Clock	Pieminster	Tulip Fresh Meat
Nutisue Limited	Barts Ingredients	LettUs Grow

Recent and Future Change

A3.91 Any growth in this sector will be organic growth or slower than some other sectors unless we see a national change that significantly impacts the sector. There are opportunities to expand the sector locally with the Net Zero agenda alongside changing technology advancements in this sector.

Distribution across the West of England

A3.92 These occupiers are located throughout region, although are generally in out-of-town locations with key clusters in South Gloucestershire and Avonmouth as well as North Somerset.

Property Requirements

A3.93 There is a mix of property requirements, predominantly industrial or lab enabled office buildings in out-of-town/edge of cities locations with good access to transport. Any increase in demand will be across the board in terms of property type but, will be focused on fringe city locations or out-of-town locations.

A3.94 The type of space required varies across the sector as it is quite diverse. The office-based requirements are likely to be subject to the same pressures as other office-based business; namely, downsizing requirements but for better quality space that focus on sustainability and amenities for staff. The more industrial focused or low spec requirements will remain relatively active but, occupiers are unlikely to move as their fit-out costs can be expensive and are generally unique to each occupier.

A3.95 We don't expect much change in sector requirements for commercial space, as apart from the larger companies looking to move to better quality space the sector doesn't cluster as much as some others. Therefore, businesses can work from more remote areas, or from home.

Transport and Logistics

A3.96 The region has a long standing and established Logistics/Distribution sector. This is centred around the Avonmouth-Severnside Enterprise Area. The Enterprise Area is the ideal site for businesses in the warehousing, distribution, waste and energy-processing sectors.

A3.97 The sector relies heavily on access to main arterial routes / good access. The Port of Bristol and Avonmouth / Severnside provide the main support for regional distribution, and is the major centre for the larger and medium size occupiers. Adjacent to Bristol Port (the UK's most central deep-sea port, with 67% of the UK population living within 250 kilometres) and a half-hour drive from Bristol Airport, the site provides all the global connections required. The area is close to the M4/M5 motorways, and 85% of the UK's population live within a 4.5-hour drive.

A3.98 There are over 22,500 jobs in the Transportation & Storage sectors in our region. Some of the major companies in the region in this sector are set out in the table below.

Table A3.9: Major Transport & Logistics Businesses in the West of England

Major Companies		
Akzo Nobel	Amazon	First Bus
DHL Express	CLH	Bristol and Avon Group
Yusen	John Lewis	EDEMO
Imperial Tobacco	Ceva Logistics	Whistl
IMJ McGill	Willmotts	

Recent and Future Changes

A3.99 This remains a significant growth sector as changes to the way people work and leisure practices mean the sector has an increasingly important role in retail and last mile logistics.

A3.100 There remains demand for low density sheds with good circulation and strong access to primary road and motorway networks. We are seeing increased demand for warehousing, distribution, and logistics space in prime locations, as well as last mile logistics which require good transport links and available labour.

A3.101 In terms of smaller, last mile logistics there has been a lot of growth in the sector in recent years, and these occupiers require accommodation in edge of city locations where the pressure on land uses is higher.

Distribution across the West of England

A3.102 The occupiers are located throughout the region but with a strong focus on South Gloucestershire and Avonmouth. Other clusters are located in Almondsbury, North Bristol, St Philips, parts of Bath and South Bristol.

Property Requirements

A3.103 This sector is heavily reliant on industrial units with a limited requirement for office space. The demand for larger Distribution, Logistics, and Manufacturing will remain steady and this

demand will be centred around Avonmouth and Severnside as well as other locations with access to available land and motorway access.

A3.104 The majority of larger occupiers are looking for access to the motorway network, and therefore are concentrating on South Gloucester, Avonmouth or the M5 Corridor, although the availability of land is limited in these locations. Land is required in these areas to satisfy the larger Distribution, Manufacturing, and Logistics requirements, as currently Avonmouth and Severnside have limited supply. There is future supply in developments such as Westgate, Panattoni Park, Matrix49, and other available sites, but given the size of future requirements, and the industrial premises planned for the sites, it will be limited to a few large industrial buildings. If these get taken up their will be pressure for further land.

A3.105 In terms of the last mile logistics there is a lot of pressure on land as generally the demand is for edge of city centre sites. Areas such as St Philips, Newbridge/Brassmills, and Lower Bristol Road, Bath have historically provided space for these requirements. However, the existing buildings are either not fit for purpose, or the land is being taken up for other, higher density uses. These areas have been subject to a lot of change over the last few years. There have been a number of large-scale Change of Use applications, and plans to change the character of these areas. This means the sector needs to find new land supply.

A3.106 Industrial buildings don't mix well with residential, and therefore some of these areas are no longer fit for purpose and won't suit the sector unless on a low scale. However, parts of these areas need to be protected to provide industrial space, otherwise the sector will be driven out of these locations all together. Areas such as Newbridge and parts of St Phillips need to provide some of the last mile logistics and smaller industrial requirements. Whilst areas such as Lower Bristol Road and areas nearer Temple Meads in St Phillips are already changing/have changed so they no longer suit this use.

A3.107 Areas such as Newbridge and Peasedown near Bath, Keynsham, and North Bristol can offer solutions for some of the demand that has been driven out of the traditional city centre locations. However, it will not suit all occupiers, and therefore protection of land in/near city centres is required otherwise higher value land uses will continue to change the landscape.

Appendix 4. LSH Commercial Market Report

Lambert Smith Hampton

West of England Commercial Property Market Review

B&NES Council

December 2023

lsh.co.uk

Contents

1 UK Office Market Summary

1.0 Turbulence in the financial markets last autumn and persistently high inflationary pressures have cast a shadow over the first half of 2023. This led to the number of transactions in Q1 2023 halving from the previous quarter. Take-up in H1 has seen modest activity across the market.

1.1 Take-up for office space in the UK Markets totalled 1.1m sq ft in the first quarter of 2023. Relative to the five-year quarterly average of 1.4m sq ft, the amount of space leased was below trend (-22%). Demand for high quality space continued, with deals for new and pre-let space accounting for 31% of the quarterly demand. The largest three deals, including two larger than 40,000 sq ft, saw occupiers acquire newly completed or pre-let space.

1.2 Against a backdrop of slightly below trend take-up over the past year, flight to quality continues to stand out. Growing demand for ESG credentials (Environmental, Social & Governance), energy efficiency and concerted efforts to attract staff into the office have driven demand for high quality workspace.

1.3 The recent bout of economic uncertainty has effectively delayed the much-anticipated wave of post-pandemic relocations, particularly larger corporate occupiers. However, there are promising signs that these requirements will start to bear fruit in the second half of the year, with calmer conditions in the economy also paving the way for a rebound in smaller to medium sized transactions and above trend take-up.

1.4 Over the past 12 months, the most active sectors were Professional Services, Government, and Financial Services, together accounting for 57% of all transacted space.

1.5 Supply levels have remained stable, but at a relatively low level. Availability across the UK markets remined largely stable over the most recent quarter, ending Q1 2023 at 18.0m sq ft. This represents a 2% fall year-on-year, with supply continuing to be inflated above long-term average levels by the 13.7m sq ft second-hand space on the market (76% of the total)

1.6 Despite general caution around offices coupled with high build costs, development has continued, and 0.7m sq ft of development space has been completed across the UK markets during the first quarter of the year. At the end of Q1 there was 4.8m sq ft under construction, of which 1.4m sq ft (28%) was pre-let or under offer.

1.7 Developers remain cautious, with borrowing and construction costs still elevated, and yields and voids increasing, which may restrict high quality supply across regional markets in the coming years, but where the market sentiment is strong there is still confidence.

1.8 We anticipate the office market to continue to be polarised between best-in-class space and secondary buildings, with occupiers willing to pay good rents on grade A space which meets their ESG credentials and requirements in attracting and retaining talent.

1.9 Despite increased occupier caution around the economy, prime headline rents have not only proven resilient but grown significantly in many cases.

2 The Impacts of Covid 19 on the Office Market

2.0 The impacts of Covid 19 have dampened office demand due to the widespread change in working practices (working from home and flexible/hybrid working).

2.1 LSH undertook surveys of its occupier client base in 2022 and 2023 to ascertain how their policies and space requirements are set to change in the wake of the pandemic. The surveys garnered 51 and 63 responses respectively, from key decision makers across a variety of organisations, spanning a wide range of sizes and sectors.

2.2 The survey responses lays bare the substantial reduction in rates of office occupancy compared with prior to the pandemic in early 2020. Despite all Covid-19 restrictions having been lifted several months prior, in 2022 only 15% of respondents stated that their staff are now in the office for a minimum of four days per week. This compares with 90% prior to the pandemic.

2.3 The survey in 2023 showed a marked increase with 73% saying attendance levels have improved since 2022 and 22% of respondents stating that their staff are now in the office for a minimum of four days per week.

2.4 The number of staff working in the office for at least three days per week has increased from 28% in 2022 to 39% in 2023, this means that on average 61% of staff are in the office for the majority of the week.

2.5 This return to office trend is set to continue to rise with 61% of companies having policies guiding attendance levels or will introduce them in the next 12 months.

2.6 Notwithstanding, both surveys outline the following key trends: -

- A large majority of occupiers intend to cut back on office space by 15-20% (20 to 39% in 2022). Although this shows some softening of expectations.
- Occupiers are demanding more from office space in a 'flight to quality'.
- The importance of ESG considerations to occupiers.

2.7 In addition to the LSH survey there is a wide range of workplace studies and research, which all highlight the same trends to greater or lesser extent.

2.8 The market signals are clear both nationally and across the region that occupiers require less space but better quality. The focus continues to be on best-in-class Grade A office buildings that are well located, high quality and rich with amenities in order to attract employees back to the workplace.

2.9 There is also the growing driver of ESG targets and credentials, with real estate forming a key part of an organisation's carbon footprint.

2.10 While lower grade stock still serves an important part of the market overall market demand will continue to diminish for un-refurbished buildings with no amenity, in poor locations and low environmental credentials. This diminishing of demand in poorer buildings has increased since Covid alongside changes in working practices, especially in the office sector.

2.11 A limited choice of best-in-class space in most markets, which 'ticks all the boxes' in terms of meeting post pandemic demand, will perform well in terms of demand and pricing.

3 West of England Office Market Commentary and Current Trends

3.0 The West of England commercial property market covers a wide geographical area with several larger markets and sub-markets which provide a variety of options to occupiers in the region. For this report, we have focused on the three key centres of Bristol City Centre, Bath, and Bristol Out of Town (OOT - which covers parts of South Gloucestershire as well as sub-markets such as Portishead, Clevedon, Keynsham and Thornbury).

3.1 Bristol is the major office location in the South West with a significant stock of office space, a host of multinational occupiers and HQs, excellent connectivity and a highly skilled workforce.

3.2 Bristol has been very active in recent years, with strong demand pushing rents to the highest level among the Big Six UK office markets. This is encouraging developers, and multiple high quality speculative projects are coming through.

3.3 Take-up in the region during (and since) Covid was steady and the region performed well compared to other regions. However, with demand increasing across other regions in the last 12 months the West of England has experienced a slower bounce back, albeit from a higher level.

3.4 Part of this is due to the reliance of other regions on one or two main sectors which have disproportionately impacted performance, compared to the West of England's broader base. Smaller companies including start-ups were still active in the West of England region, and this fuelled the market. Bristol and Sheffield have had the highest small business growth of any cities in the UK since 2021. However, as the larger / medium companies come back into the market we are seeing the other regions catch up in terms of returning to traditional levels of take-up.

3.5 Take-up across the Bristol and West of England market has been subdued through the first half of 2023 which contrasts with a strong end in 2022. There has been a lack of larger deals this year-to-date and whilst enquiry levels remain at a steady level, tenants are taking time to make decisions, and this is leading to slower transactions and lower levels of take-up.

3.6 The shift towards greater hybrid-working prompted by the pandemic is driving demand to relocate into better quality and/or more flexible space, typically upon lease events.

3.7 Moves to consolidate office space are not simply down to cost cutting, but rather to exchange quantity for quality. Never has the quality of workspace been so important to attract employees into the office and to demonstrate increasing commitment to ESG goals. The labour market is also extremely tight, reflected in a record one million job vacancies across the UK service sector. In the war for talent, alongside pay, the quality of a business's workspace can give it an extra competitive edge in recruitment.

3.8 The underlying nature of overall supply has remained broadly unchanged over the past year. At the end of Q1 2023, grade A space accounted for circa 26% of total supply across the three key markets. A healthy choice of grade A options is arguably preferable amid concerns over accelerated obsolescence for secondary space emerging in the wake of the pandemic.

3.9 The relative stability of supply levels in the West of England is partly down to a limited volume of tenant-released or so-called 'grey space' hitting the market in the wake of the pandemic, certainly less than initially feared.

3.10 Supply is generally low across the three key markets with Bath providing the highest supply of 3.9 years, whilst Bristol City Centre has the lowest at 1.4 years. It is average for a market to have circa 2 years of supply available which shows how limited supply in Bristol City Centre is, and the supply in Bath is not of concern due to the smaller scale of the market.

3.11 Permitted Development Rights (PDR) removed a substantial number of secondary buildings across Bristol, Bath and the wider region which has assisted the office market by removing a glut of poor-quality supply.

3.12 Despite the upheaval caused by the pandemic and, in more recent months, increasing caution around the economy, prime headline rents have not only proven resilient, but grown in many cases. In addition to paying high rents for new schemes, tenants are also happy to pay for high quality refurbishments and so the gap between grade A and B is narrowing. However poorer grade space has fallen to the wayside and will struggle moving forwards.

3.13 Not only has there been rental increase in most markets, but the wider West of England market has maintained incentive packages at a relatively tight level. The movement to higher rents is typically linked to the delivery of high quality new or refurbished space.

3.14 Creating more flexible workspace solutions will also provide an important means of attracting demand. The West of England is yet to see a concerted increase in fitted space being offered to the market, with Cat B and Cat A+ (both landlord and tenant released) making up a relatively small percentage of total supply. With many occupiers remaining averse to capital expenditure and unsure of their long-term plans, shifting the provision to include both quality and flexibility will be increasingly key to letting success.

3.15 The Cat A+ space remains a relatively untested market with the majority of fitted lettings being for sub 5,000 sq ft suites, but for those developers that are able and willing to commit to high quality value-added projects they are seeing the rewards with high levels of rent and strong letting prospects.

3.16 As a broad comparison of the various submarkets within the West of England, we have set out below the approximate key metrics (see Table 1).

3.17 Based on the data in Table 1, it is clear that Bristol City Centre is the largest market in terms of overall size and annual average take-up. All three of the markets attract good levels of inward investment and host a variety of occupiers from local, regional, national, and multi-national companies.

Table 1: Headline indicators for main West of England office markets

Location	Total Office Stock	Annual Average Take up (sq ft)	Current Availability (sq ft)	Vacancy Rate	Prime Headline Rent (per sq ft)
Bristol City Centre	10,000,000 sq ft (929,000 sq m)	610,000 sq ft (56,671 sq m)	1,033,000 sq ft (95,969 sq m)	10.3%	£42.50
Bristol Out of Town (OOT)	4,000,000 sq ft (371,612 sq m)	315,000 sq ft (29,264 sq m)	650,000 sq ft (60,387 sq m)	16.3%	£23.50
Bath	1,100,000 sq ft (102,193 sq m)	90,000 sq ft (8,361 sq m)	300,000 sq ft (27,871 sq m)	27.2%	£36.00

Source: LSH Research where not stated otherwise. Annual average take-up over past 10 years. All stats only include deals, and suites/buildings over 1,000 sq ft (93 sq m)

3.18 The Bristol OOT market covers a large geographic area but the majority of activity occurs in Aztec West, Bristol Business Park and Almondsbury. Whilst large occupiers such as those servicing the defence sector continue to take space there, it has been a relatively stagnant market in terms of demand in recent years but with stable headline rents.

3.19 The Bristol OOT market generally does not benefit from any central amenities or facilities for staff, will continue to suffer from a loss of occupiers as they look to relocate to better quality offices in more central locations. It is very challenging to retrofit such amenities, particularly in office/business parks with fragmented ownership.

3.20 Historically, demand for the OOT markets was largely driven by the perceived availability, lower costs, access to the wider region and ample car parking for employees. However, with employers increasingly aiming to meet ESG credentials and attract talented employees many are now drawn to the amenities that town/city centres have to offer.

3.21 We have seen some occupiers' attitudes shift post the pandemic, witnessing relocations to central locations due to a need for better quality office space with amenity and the adoption of hybrid working meaning that car parking is a less important factor when choosing new premises.

3.22 Bristol City Centre and Bath City Centre have experienced substantial rental growth in recent years due to a lack of overall supply combined with the delivery of new buildings and comprehensive refurbishments. Bristol OOT has suffered from a paucity of new development in the new millennia, predominately due to a substantial availability of tertiary stock and suppressed rental growth.

4 Office Supply

4.0 Over the past decade the removal of stock to PDR and resurgent take-up from 2018 to 2020 has brought availability down to a stable vacancy level across the West of England region. During this period almost all Grade C accommodation has disappeared along with Grade B stock being reduced.

4.1 Whilst the impacts of Covid-19 dampened office demand, there has not been a substantial amount of grey space coming back to the market or corresponding downward pressure on rents within the West of England.

4.2 The absence of released supply, where offices are not currently being utilised post Covid 19, could in part be down to occupiers uncertain of the amount of space they require and therefore delaying moves for the time being.

4.3 As lease events are reached in the next 24 months, we anticipate that occupiers will look to consolidate or upgrade, which could mean further Grade B offices becoming available to the market, as well as a tightening of Grade A stock as occupiers clamber for the best space.

4.4 Second hand space, or tenant released space, which is un-refurbished will struggle to let, as we expect a continuing flight to quality from occupiers looking to entice staff back into the workplace. Buildings that are unable to be repositioned and achieve necessary ESG hurdles, including the pending Minimum Energy Efficiency Standards (MEES), will face obsolescence more rapidly than previously envisaged.

Bristol City Centre

4.5 Bristol City Centre comprises a diverse range in quality of office properties dependent on the micro location they are within. The most desirable locations for office occupiers within the centre include Temple Quay, Finzels Reach, Queen's Square and Victoria Street. Properties within these areas are built or refurbished to a very high standard due to the strong demand that can be reflected by the rental levels achieved. On the other end of the spectrum, areas such as the old city where a large proportion of the offices are listed, sees more dated office specifications and difficult layouts often resulting in lower rental levels with less demand.

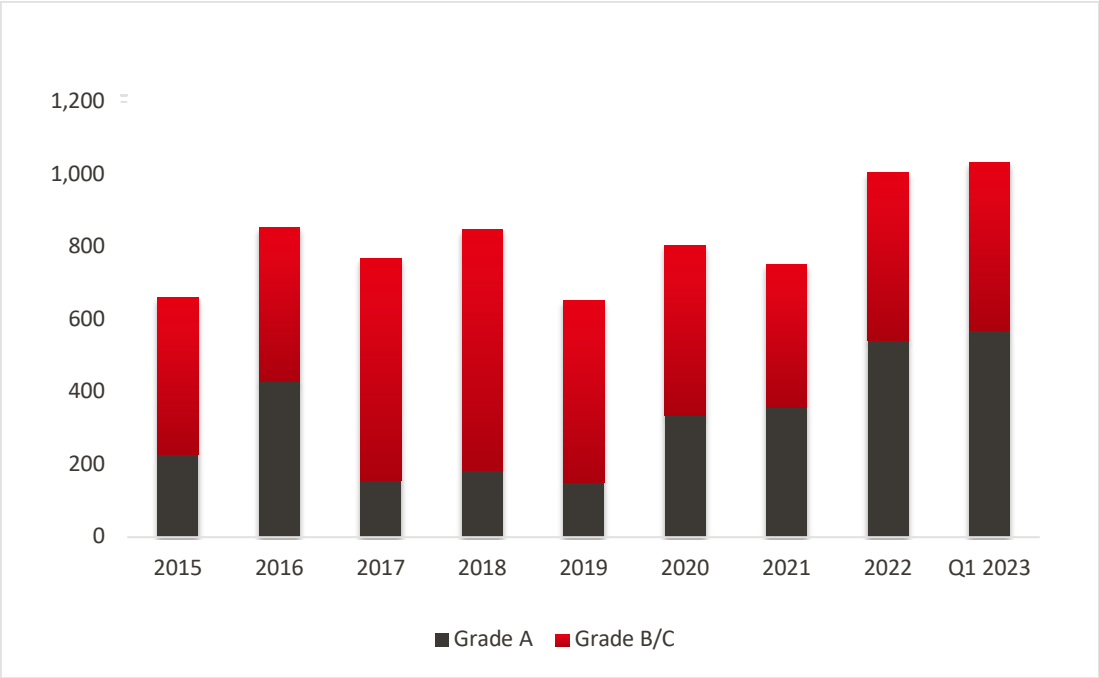
4.6 Availability stands at circa 1,000,000 sq ft at the end of Q2 2023, on the back of a steady stream of development activity and several schemes due to PC in the next 6 months. The most notable recent completions are Royal London's The Distillery (92,000 sq ft), Cubex's Halo (116,000 sq ft) and Nord's One Portwall Square (33,767 sq ft), all of which have secured multiple tenants and have limited space remaining available.

4.7 Several other new build schemes are set to arrive within the next 12 months. These include CEG's EQ (185,509 sq ft), Candour's The Welcome Building (206,742 sq ft), and AXA and Bell Hammer's Assembly Buildings B and C (28,158 sq ft and 92,716 sq ft).

4.8 These speculative new developments will bring new grade A space to the market and have already been successful in securing pre-lettings for circa 50% of the space being made available.

4.9 Additionally, several comprehensive refurbishments are underway including V7's 100 Victoria Street, Credit Suisse's 3 Rivergate, L&G's North Quay House and APAM's Apex, Temple Quay.

Fig. 1 Bristol Availability (000 sq ft)



4.10 The success of the new schemes has encouraged developers to explore further opportunities and several speculative projects are planned at city centre sites, including Soapworks, One Passage Street, Station Approach and Redcliffe Wharf.

4.11 As a relatively new trend, landlords are increasingly prepared to fit out space to attract tenants. While this had previously been largely restricted to smaller sub-3,000 sq ft suites, landlords have begun to offer some larger fitted suites of circa 6,000 – 8,000sq ft and they are proving to be popular with tenants.

4.12 Whilst supply has increased in recent years, and there is development in the pipeline, Bristol city centre market has a tight supply with circa 1.4 years worth of supply (current availability divided by the 10-year annual average take-up). The majority of this is now good grade space but this is a low level and shows that there is room for further developments and refurbishments.

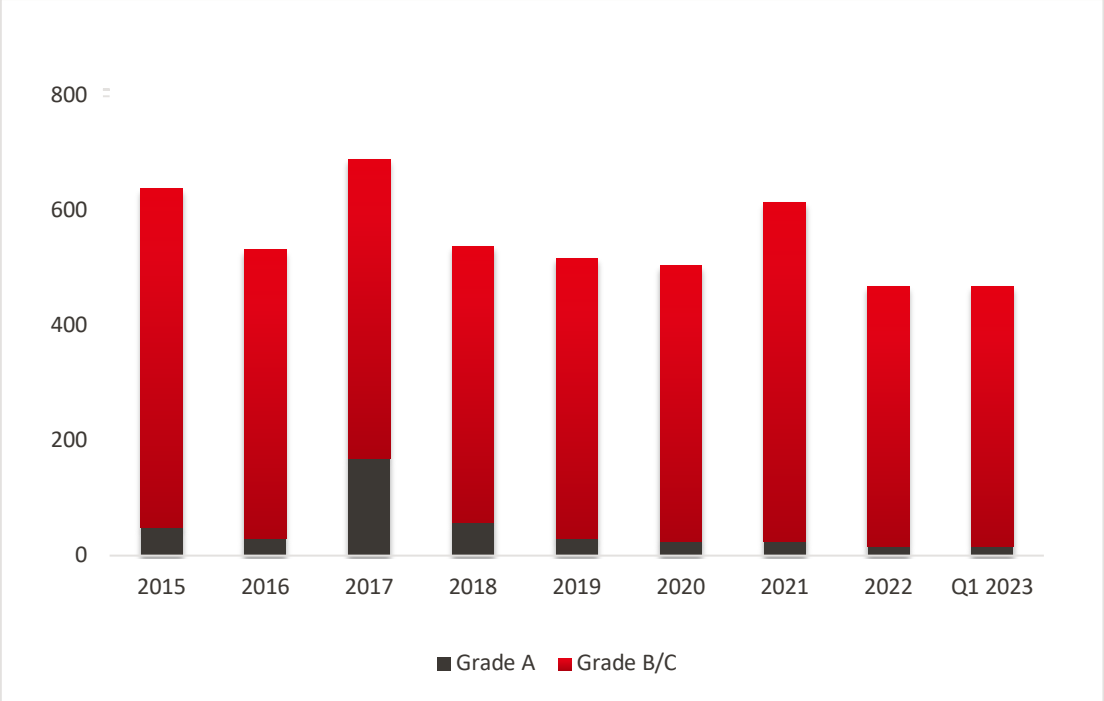
Bristol Out of Town

4.13 The Bristol OOT market has maintained a steady level of supply for the last 5 years and with no speculative new build developments in the pipeline it is expected to remain steady for the next few years.

4.14 Similarly, to the City Centre market, the prime locations such as Bristol Business Park and Aztec West have seen stronger demand and higher rents in contrast to other out of town locations such as Bradley Stoke, Portishead and Filton. This is largely due to strong demand from the defence sector which has a strong presence on Bristol Business Park because of its proximity to MOD Abbey Wood and Aztec West's accessibility to the motorway network. Areas such as Portishead, Filton and Bradley Stoke have seen limited new office space brought to the market which has led to inferior specifications when compared to the prime locations making offices within these areas less desirable.

4.15 There are sites which could come forward, such as Ashfield's Approach (200,000sq ft) and YTL's Filton Airfield, but these are both longer term options and are not expected to be developed speculatively.

Fig. 2 Bristol OOT Availability (000 sq ft)



4.16 There is now an acute shortage of grade A space in the market. Only three options remain available including, 730 Aztec West (10,000 sq ft), 100 Bristol Business Park (80,000sq ft) and Bristol Science Park (6,576 sq ft).

4.17 Meanwhile, the supply of grade B/C space has risen by 88,000 sq ft following the addition of Lake View in Q3. The largest currently available unit is 124,000 sq ft of grade B space at Enterprise Park.

4.18 The Bristol OOT market does have a healthy supply and demand balance with 2.2 years' worth of supply (i.e., current availability divided by the 10 year annual average take-up). However, the lack of available grade A space means that much of the available supply is not up to the requirements of modern occupier. As a result, several occupiers are now looking to take space in more central locations where there is better quality space[1].

4.19 A lack of prime headline rental growth over recent years has deterred developers from speculative development. However, 2022 saw CEG commence a comprehensive refurbishment of building 1000 Aztec West. The 80,000 sq ft development, which is due to be completed later this year, will boast an unrivalled level of specification compared with elsewhere in the market and provide a major impetus for activity. It is also expected to ignite a much-needed increase in rents. Unlike the recent success seen in Bristol City Centre where all the redevelopment/newly built schemes, apart from The Distillery, saw a percentage pre-

[1] This is likely a reflection on both availability of grade A space and lack of amenity.

let during construction, there has been limited activity at 1000 Aztec West. This highlights the lower demand currently experienced out of town.

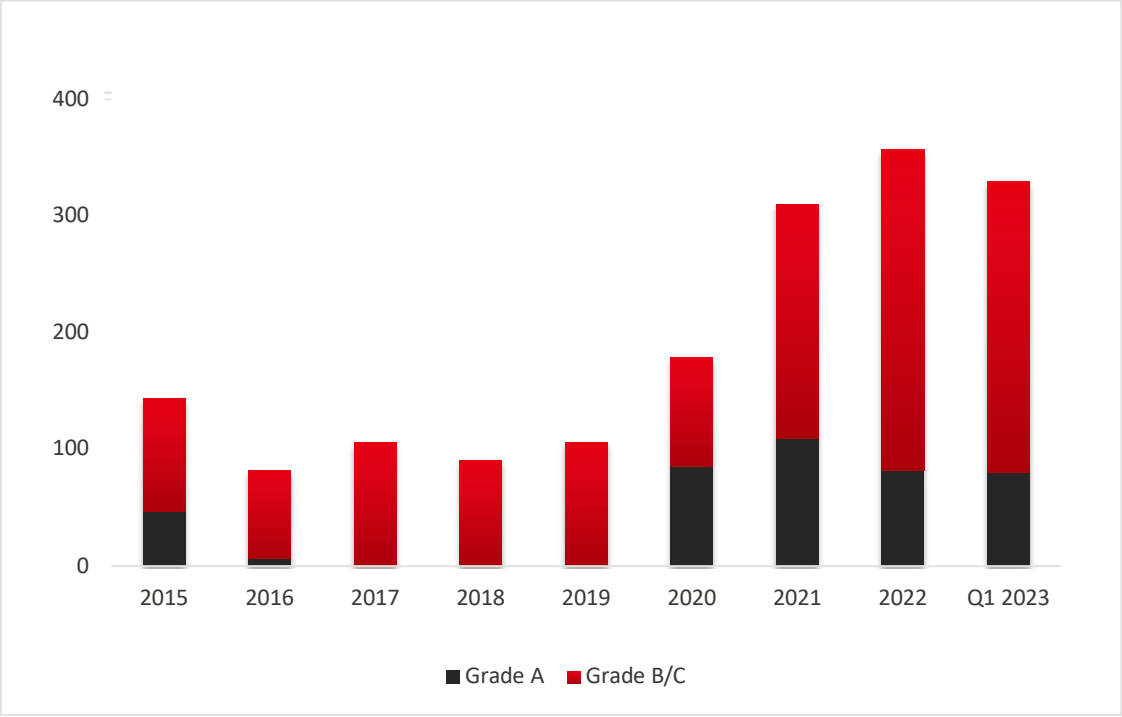
Bath

4.20 Bath has a legacy of period town houses often offering less than 2,500 sq ft across a number of floors and in several rooms. These spaces no longer meet the needs of many modern occupiers so new developments and refurbishments have been needed to provide the quality of space that the market demands.

4.21 Bath's office supply increased after a long period of having limited, and poor grade, stock. There has been a much-needed improvement in the quality of available space with both new accommodation and comprehensive refurbishments being made available to provide occupiers with a choice of high-quality spaces which they have not had for several years.

4.22 Overall supply has ballooned from a very tight level three years ago to a sustained high of over 300,000 sq ft in 2023.

Fig. 3 Bath Availability (000 sq ft)



4.23 No. 1 Bath Quays was Bath's first new speculative development for a number of years. The building provides 45,000 sq ft of brand-new grade A office accommodation but following the successful letting of 4th floor to Altus and the part 1st floor to Fidelius there is now just 29,000sq ft remaining.

4.24 Grade A availability received a further boost during Q3 2022 with the arrival of CBRE IM's Royal Mead (25,000sq ft), which has secured a letting of the ground floor to Smart Bear, and TCN's Newark Works (35,411 sq ft), situated on the south bank of the Avon. The scheme is designed to cater for SME demand and, with the arrival of the bridge connecting both Newark Works and No. 1 Bath Quays to the city centre.

4.25 However, both No. 1 Bath Quays and Royal Mead are in discussions with a number of occupiers on the remaining void space as companies look to upgrade their office accommodation. Newark Works continues to let well and offers quality space for smaller / medium sized companies in Bath.

4.26 Bath has a slightly high supply of offices at the moment with 3.9 years' worth of supply (current availability divided by the 10-year annual average take-up), which is above other parts of the West of England but is mostly due to the injection of good grade space which has been brought to market.

4.27 Whilst these new schemes have performed well, there is now a healthy level of supply to the market in the longer term such as Bath Quays No. 2 and North Quays, alongside poorer located schemes, such as Roseberry Place (50,000 sq ft).

4.28 Whilst Roseberry Place might provide an opportunity to deliver high quality office accommodation in close proximity to Locksbrook Road, the likelihood of this proving an effective solution for current occupiers is highly uncertain. Generally, occupiers favour a single site solution. Where a split site solution is unavoidable they are likely to prefer a more central location for office premises.

4.29 The market could also see a number of substantial refurbishments coming forward as obsolete stock which is well located comes back to the market with tenants likely upgrading space. This is the sign of a healthy market as well-located stock gets recycled back into the market and poorly located or space that simply no longer meets modern requirements comes out of the market for alternative use.

4.30 Bath currently has a balanced market with a healthy level of supply but any space coming out of the market needs to be replaced with better accommodation, this is a trend already proven in Bath, where the 200,000 sq ft lost to alternative uses meant rents increased to allow both Bath Quays and Royal Mead to come forward and be developed. We see a balanced market as having circa 2 years supply based on average take-up, this is due to new supply taking circa 18-24 months to come forward to the market.

4.31 In the long-term, Bath has a good future supply with Bath Quays No. 2 and North Quays planned, albeit these will be some years off. In terms of take-up, Bath's annual take-up is 95,000 sq ft per annum and we anticipate that 50% of this will be better quality space; of which half is anticipated to be grade A, therefore 20-25,000 sq ft in a normal year of take-up. This currently gives Bath 2 years of grade A supply. Moving forward, and with medium size companies coming back into the market over the next 18 months, take up is expected to increase to 30-40,000 sq ft per annum, meaning Bath will be undersupplied of Grade A space within 18 months with no new accommodation coming forward in the short term.

4.32 This will require refurbishment of buildings in good locations, such as Quay House and Cambridge House, to bring quality refurbished stock into the market which is needed for the balanced market.

4.33 This flight to quality is set to continue with 50% of deals across UK regional markets in grade A or prime offices. Although take-up is down since the Covid pandemic the main reason for this is the lack of medium and larger term deals, due to the uncertainty of working practices.

4.34 This is starting to settle down as companies seek to attract staff back into the office and therefore are looking to occupy better quality space albeit less square footage. We have seen across the region, companies with more than 200 employees reducing their footprint by a third on average.

4.35 However, this change is still ongoing with the some uncertainty, as can be seen from contrasting reports in terms of leadership and employee attitudes. Recent research published in the last 3 months, includes a study by KPMG which states that "64% of CEOs predict full return to the office by 2026" and another by Hayes stating that "43% of the workforce would refuse a job without some form of hybrid working". We anticipate that hybrid working will continue but most companies will require their staff to be in the office for a set number of days a week, meaning demand for quality space is required in order to attract staff back to the office.

4.36 As a result, poorly located accommodation or space that isn't suitable for modern office requirements will need to be released for alternative uses, otherwise it will subdue rents and mean refurbishment and redevelopment of suitable stock is not viable. These opportunities will need to be reviewed on a case-by-case basis.

4.37 Bath's OOT office market is very limited as occupiers in the city want to be well located within walking distance of the city centre, it's amenities and the train station. The areas surrounding Bath are not as well connected as North Bristol, and so demand here is limited to local or regional occupiers or to those who need to locate there for a specific reason.

4.38 There has been some letting success in areas such as Keynsham which saw the largest OOT transaction in the region for Quarter 2 at the Chocolate Factory where 16,931 sq was acquired by IVC, a veterinary care company. This property has been comprehensively refurbished to provide high quality office space arranged over ground and five upper floors benefiting from a city centre specification.

4.39 We have seen in other cities an increase in interest in the life sciences sector and lab space requirements. This has been fuelled by the success of Cambridge and Oxford. At present this is being led by the local authorities and educational establishments (such as universities). However, we haven't seen the number of requirements come forward outside of Cambridge and Oxford at present. We are seeing some requirements in Bristol, and we anticipate Bath will be of interest, however this will be a limited market at present. Outside of Oxford and Cambridge this space tends to be in out-of-town locations, science parks and in cheaper accommodation. Areas such as Newbridge could attract some demand going forward.

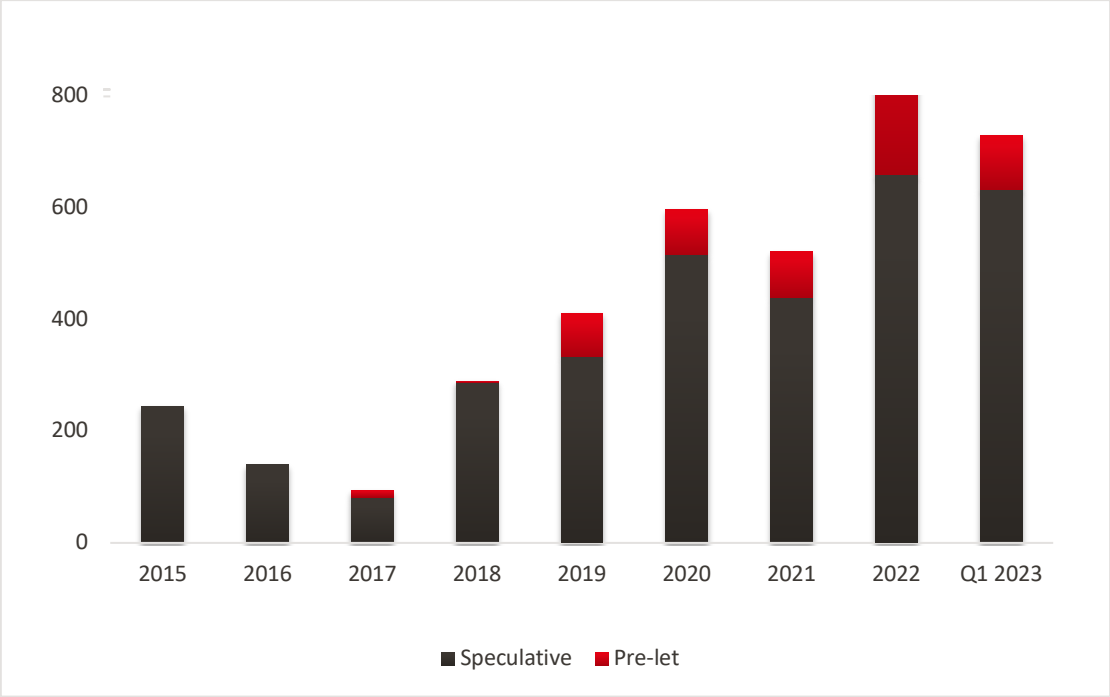
5 Office Development Pipeline

5.0 Figure 4 below shows offices under construction by year in the West of England area. This is categorised by either ground up new builds or comprehensive refurbishments (major intervention, back to frame and M&E replacement).

5.1 The focus of this development has been in Bristol city centre due to the size of the market, however in recent years there has also been new developments in Bath and comprehensive refurbishments across the region.

5.2 Since 2017 there has been a steady increase in the number of developments and refurbishments in the region which reflects investor/developer confidence in the area and relates to ongoing rental increases in the region.

Fig. 4 Under Construction (000 sq ft)



5.3 Notable completions of new buildings in Bristol city centre are Royal London's The Distillery (92,000 sq ft), Cubex's Halo (116,000sq ft), Umberslade's Cargo Work (20,270sq ft) and Nord's One Portwall Square (33,767 sq ft).

5.4 The Bristol OOT markets have not seen any new developments complete in the last couple of years although CEG's comprehensive refurbishment will complete later this year.

5.5 Bath has seen new development in the form of No. 1 Bath Quays (45,033sq ft).

5.6 In addition to these new builds, comprehensive refurbishments have been completed at Northwood's 10 Victoria Street (47,410sq ft), Salaft Properties' The Cube (13,543sq ft) and in Bath city centre at CBRE IM's Royal Mead (24,582sq ft).

5.7 Schemes which are due to complete in the next 12 months include CEG's EQ (185,509 sq ft), Candour's The Welcome Building (206,742 sq ft), and AXA and Bell Hammer's Assembly Buildings B and C (28,158 sq ft and 92,716 sq ft). These speculative new developments will bring new grade A space to the market and have already been successful in securing pre-lettings for circa 50% of the space being made available.

5.8 Additionally, a number of comprehensive refurbishments are underway including V7's 100 Victoria Street, Credit Suisse's 3 Rivergate, L&G's North Quay House, APAM's Apex, Temple Quay, CEG's The Crescent and 1000 Aztec West which are focused on Bristol city centre but include some space in the out-of-town market.

5.9 It is clear that the focus of activity is on Bristol and whilst this is partly to be expected, due to its size and national prominence, some concerns are raised that other parts of the region may become under supplied.

5.10 For the time being Bath has a healthy supply of good quality stock and it also has options in the pipeline with L&G/Bell Hammer's Bankside looking to bring forward high quality space.

5.11 It is the OOT markets which appear to be struggling more and have limited viable options in the immediate pipeline until the market dynamic is improved. Once 1000 Aztec West is complete it is hoped that this scheme will provide the much-needed improvement in quality of space and rents achieved which is required to stimulate further confidence in this market. However, if 1000 Aztec West fails to let, then it will highlight a lack of demand in Aztec West and could delay refurbishment and new developments of other properties within North Bristol. Proposals at the former Filton Airfield will offer grade A space within a mixed-use environment but delivery of space is beyond the time horizon of those currently in the market for space.

6 Office Demand and Take-up

6.0 The wider West of England region has experienced healthy levels of demand in recent years with the take-up for 2022 being above the 10-year average in all of the region's markets. Demand comes from a variety of sectors which further strengthens the markets. This demand is often derived from businesses already within the area expanding or contracting at lease events, but also from occupiers who are entering the market from outside of the region. Bristol city centre has been the core of occupier demand due to the accessibility to further afield by road and public transport but also staff wellbeing with a variety of amenities within buildings as well as within the surrounding area.

6.1 When the take-up is compared to the historic availability of grade A stock across all three of the markets, there is a strong correlation of strong grade A take-up in these years. Which demonstrates that tenants are willing to take grade A space when it is available.

6.2 Occupier focus is now firmly on ESG credentials, wellness and building amenity with increasing headline rents often being driven by a reduction in size but increase in quality.

6.3 With the recent uncertainty that the economy has been through in recent years, there comes the desire for flexibility when leasing office space and this has been witnessed by the growth of the serviced and flex market prior to the pandemic, which has continued to grow. Serviced office demand is typically below 20 people, or 2,000 sq ft, but can accommodate substantially larger requirements in some regional serviced office centres.

6.4 The serviced office sector has been on a rollercoaster ride over recent years. At its peak in 2019, it accounted for circa 10% of regional office take-up. When the Covid lockdowns came, mass homeworking created enormous challenges for operators and their take-up of office space almost entirely dried up, accounting for only circa 1% of regional market activity in 2020. Post-pandemic, serviced office acquisitions have primarily focused on the larger city centre markets, but we are seeing good demand from this sector across all parts of the region.

6.5 Alongside the growth of the serviced sector some landlords have started to deliver office space to a Cat A + standard, which typically includes the fit-out and furniture that the tenant would have previously had to carry out on traditional leased office space.

6.6 A Cat A + suite or fitted office space offers significant benefits to occupiers including reduced capital expenditure, shorter lead-in to occupancy and flexibility. There is more risk and expenditure for a landlord to go down this route, but a premium rent can expect to be achieved in return.

6.7 Examples of where landlords have been successful in providing Cat A + space and being rewarded with higher rent can be seen a V7's Pivot+Mark where rents of £40.00psf were achieved for the fitted spaces whilst standard Cat A suites achieved circa £33.50psf, or CEG's Quorum which has achieved £47.50psf for effectively serviced space and £27.50psf for standard Cat A space.

Bristol City Centre

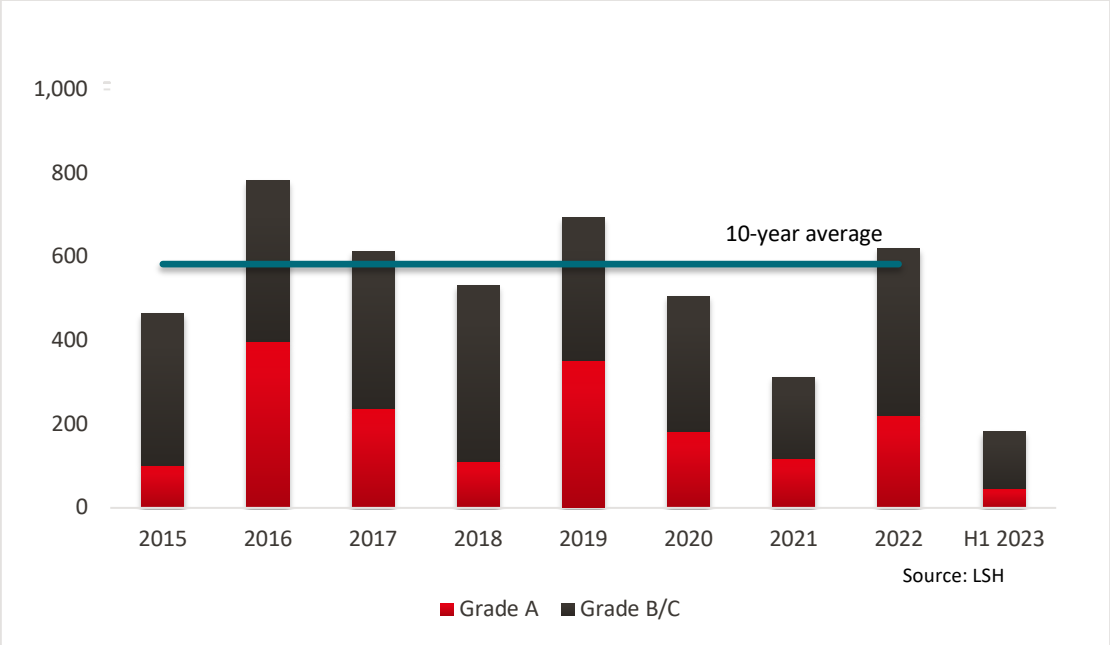
6.8 The 10-year average annual take-up for offices in Bristol City Centre is approximately 610,000 sq ft and is largely influenced when there are larger deals in the market. During the pandemic, take-up remained at healthy levels and 2022 saw above average take-up of circa 620,000sq ft.

6.9 Boosted by an excellent H1, the full year take-up was the highest since 2017 and ahead of the five-year average in the city centre.

6.10 To date, 2023 has been a subdued year with H1 take-up of 148,744sq ft which is the lowest H1 take-up since 2019. This was perhaps to be expected following a slowdown in enquiries towards the end of 2022. Moving forward, demand is expected to increase but 2023 will likely be a quieter year for the Bristol city centre market.

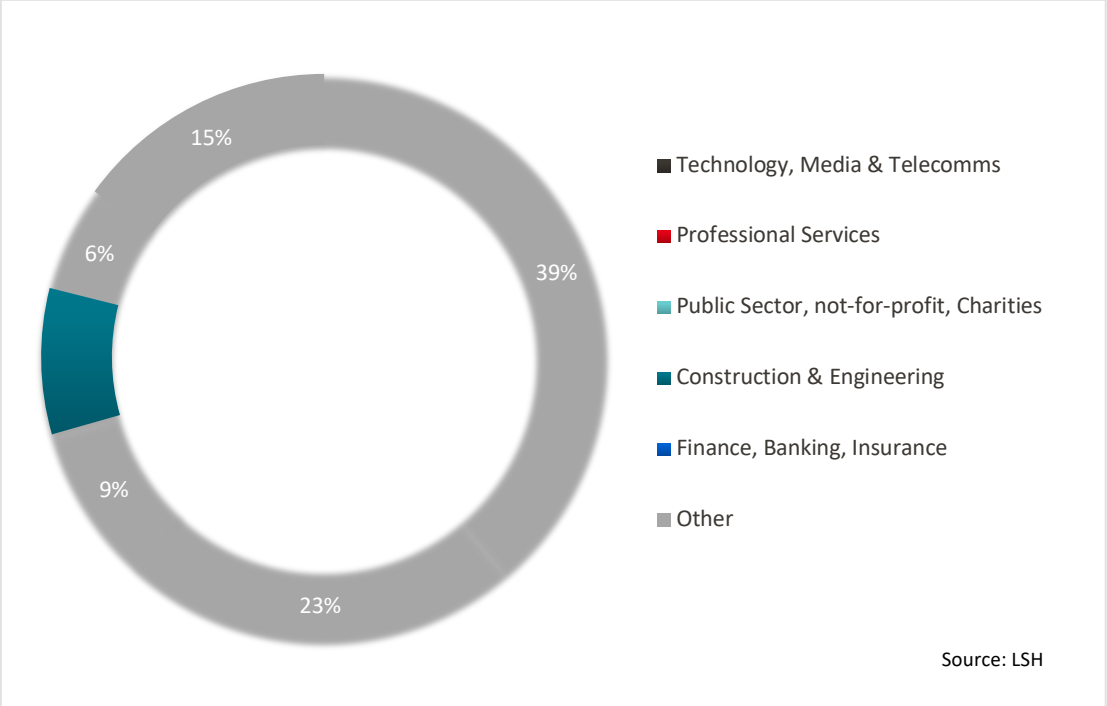
6.11 In contrast 2022 saw a number of large deals cross the line and the year started strongly with Paymentsense committing to 54,767sq ft at CEG's EQ, while Deloitte leased 22,500 sq ft at Halo, Finzels Reach. Subsequently, cloud technology company Pax8's lease of 24,375 sq ft at The Distillery was the largest deal of Q2, while the West of England Combined Authority's acquisition of 19,817 sq ft at 70 Redcliff Street was Q3's biggest transaction.

Fig. 5 Bristol CC Take-up (000 sq ft)



6.12 Demand has stemmed from a wide variety of sources, but the TMT sector has been particularly active, accounting for more than a third of take-up. The creative industries also continue to be key component of demand, with the film and TV production companies Offspring Films, Wildstar Films and Icon Films all taking office space in Bristol during 2022.

Fig. 6 Take-up by Tenant Type – 12 Months to Q1 2023



6.13 Nearly 40% of take-up has been for by grade A space, with new developments providing occupiers with a range of high-quality options in the city centre, with EQ, Assembly, Halo and 1 Portwall Square all securing lettings during construction.

6.14 Prime rents have stabilised over the last 12 months at a headline of £42.50 per sq ft, the highest level of any of the Big Six UK office markets. This rental level is now well established, having been achieved by Paymentsense's deal at EQ, as well as lettings to Clarke Willmott at Assembly Building C (15,624 sq ft) and HLK at One Portwall Square (12,592 sq ft). However, there are also a number of transactions under offer that are exceeding this level showing there is still strong demand within Bristol city centre.

6.15 Rents for high quality refurbished space have also risen strongly, with 10 Victoria Street achieving £38.00 per sq ft and Dock House attaining £36.00 per sq ft.

6.16 Refurbished grade B space is performing well and achieving circa £30.00 per sq ft. Rents for low quality space are in the low to mid £20s per sq ft. However, availability at the cheaper end of the market is limited as much of the city's poorest space has been removed from the market through changes of use, and tenant demand has increasingly gravitated towards higher quality space.

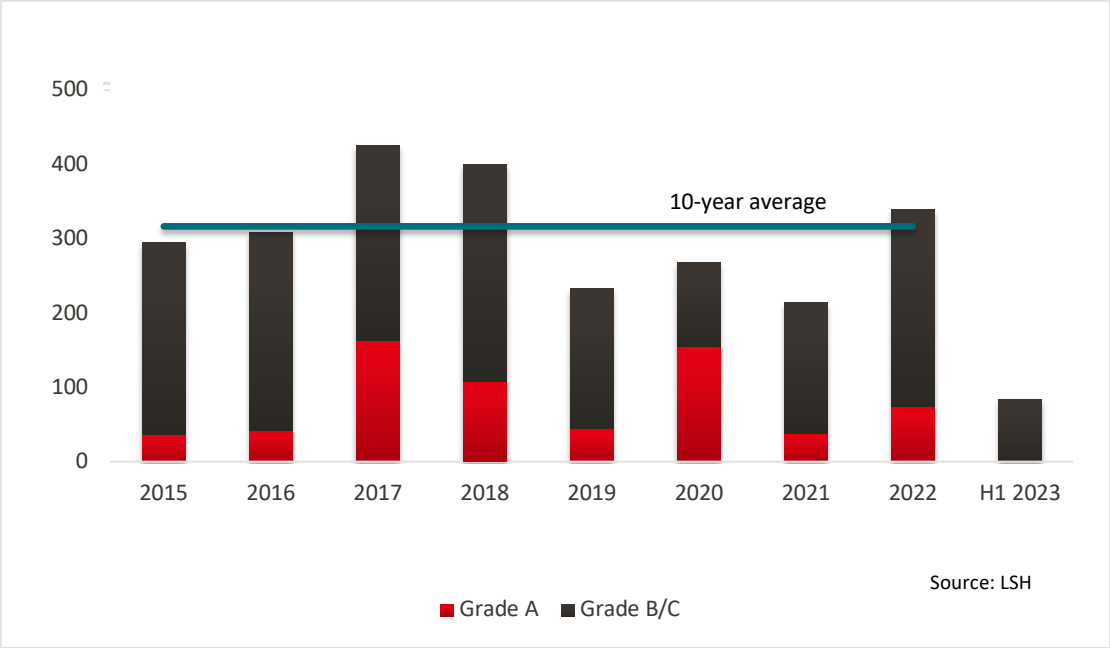
6.17 Incentives have remained stable over the last year. For both grade A and B space, rent-free periods are circa 1.5-2 months per year term certain. If a tenant is prepared to commit to the scheme before it is complete, then they may be able to achieve higher rent free periods in the region of 2-2.5 months per year term certain.

Bristol Out of Town

6.18 For the Bristol OOT market, take-up in 2022 was at its highest level for four years, although it could be argued that it was starting from a relatively low base. Q4 saw the strongest take-up of the year but activity was relatively consistent throughout the year.

6.19 Demand at the larger end of the market improved in 2022, with nine deals above 10,000 sq ft, compared with only three in 2021. The largest deal in 2022 was Boeing's acquisition of 39,694sq ft at 100 Bristol Business Park.

Fig. 7 Bristol OOT Take-up (000 sq ft)



6.20 In addition to this Aztec West has provided a major focus of activity, and has been home to ten transactions, the largest being AE Technology's 20,819 sq ft lease at 2420 Aztec West.

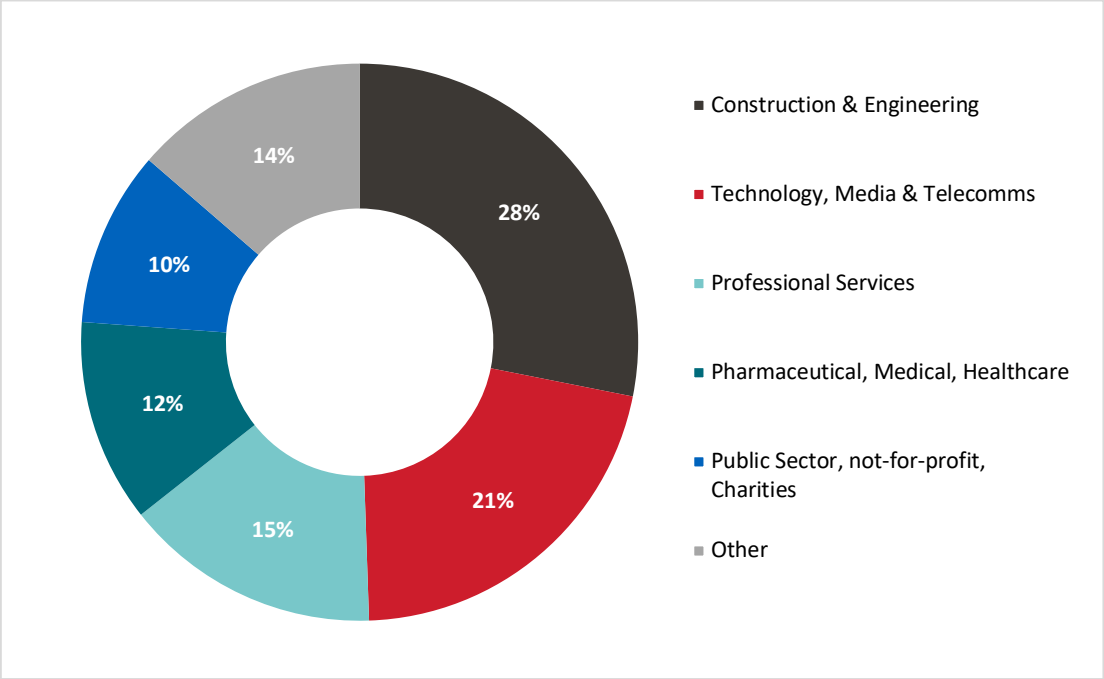
6.21 Similar to the city centre market the OOT market has seen a quieter start to 2023 with 85,172sq ft transacted so far across 18 deals in H1. This reflects no larger deals being transacted, and with limited large requirements in the market it is predicted that 2023 will see more subdued levels of take-up.

6.22 Similar to the city centre, demand has stemmed from a wide variety of sources, but the construction and engineering sector accounts for the majority of demand for the out-of-town market. The TMT (technology, media and telecomms) sector is also large in this market along with professional services firms.

6.23 The construction and engineering sector encompasses several defence and MOD associated companies who generally like to be located close to Filton Abbey Wood MOD site. Large occupiers such as Babcock, Boeing, Rolls Royce, and Thales are all located close to the site and account for a large portion of the market.

6.24 Prime rents in the OOT market have remained at £23.50psf for several years now, namely due to a lack of quality space being brought to the market. However, the delivery of 1000 Aztec West is set to drive prime rents up from the current level to circa £28.00psf and, in the process, encourage other developers to follow suit.

Fig. 8 Take-up by tenant type – 12 months to Q1 2023



Bath

6.25 The Bath office market is very much focused around the city centre and, being within walking distance to the train station. There is a small OOT market, but demand tends to be limited to local businesses.

6.26 Bath is a smaller city than Bristol, so it recovers and falters more quickly as decisions tend to be made at a more local level, reflecting the demographics of businesses within the city. The market was slow during the Covid-19 pandemic but there has been a material increase in office enquires and deals agreed in the last 12 months, and this is expected to continue through 2023.

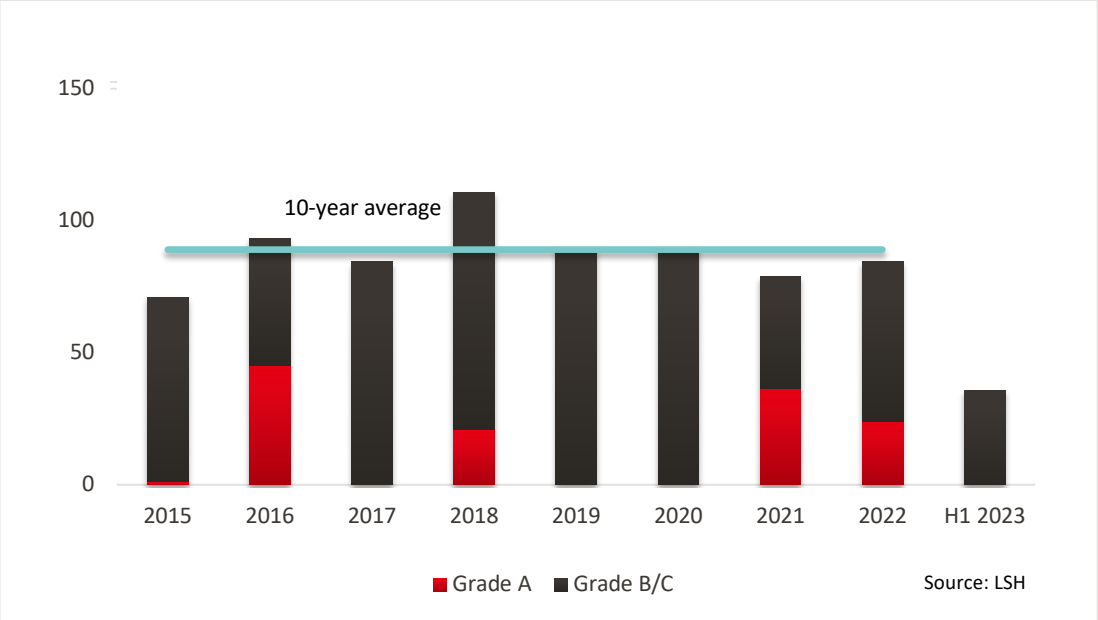
6.27 As with other cities, businesses continue to assess their needs and commit to generally higher specification offices than those they currently occupy to meet staff demand and provide better quality space. Traditionally, many businesses occupied Georgian buildings, but this type of demand is now much more limited, and with MEES (Minimum Energy Efficiency Standards) dictating a minimum of a 'D' rating from April 2023, this trend is only likely to increase.

6.28 The trend in moving to better quality accommodation is set to continue with over 50% of occupiers in the region looking for best in class accommodation, however there is still demand for older stock that has the required EPC accreditation and is in the right micro location.

6.29 Bath's annual take-up for 2022 reached 85,000sq ft which is in line with the 10-year average for the market, and in line the previous 3 years take-up.

6.30 The majority of deals over the last 12 months in the city were for spaces of sub-5,000sq ft, however notable deals centred around the delivery of the first new-build development in 25 years, B&NES No. 1 Bath Quays.

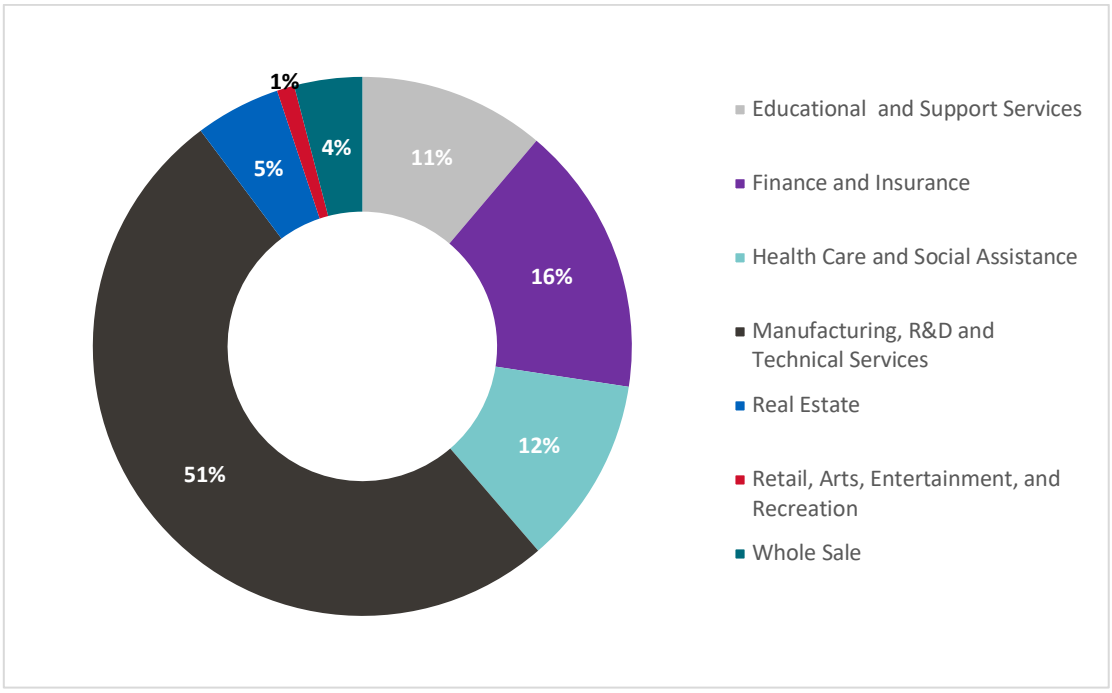
Fig. 9 Bath Take-up (000 sq ft)



6.31 No. 1 Bath Quays saw leases of 9,546 sq ft and 5,866 sq ft going to Altus and Fidelius, respectively. CBRE IM's comprehensive refurbishment of Royal Mead was home to the 2022's second largest deal, with 6,842 sq ft of ground floor space taken by SmartBear. These schemes, together with the arrival of TCN's Newark Works, will be key drivers of take-up moving forward into 2023.

6.32 Headline rents increased to £36.00 psf in 2022 following the letting at Royal Mead and are expected to increase further throughout 2023 as more deals complete at No. 1 Bath Quays, Newark Works and Royal Mead.

Fig. 10 Bath Office Occupiers



7 UK Industrial & Warehousing Market Summary

7.0 Considering the economic and financial travails of 2022, UK-wide take-up hit an impressive 60.5m sq ft for the year, just edging out 2020 to be the second strongest year on record behind 2021's colossal performance. However, as the year progressed, it became clear the pandemic driven clamour for space had run its course, with take-up in the final quarter of 2022 sliding back into line with pre-2020 levels.

7.1 The scaling back of ecommerce activity was the main reason for the downward shift in take-up; Amazon was behind only 1.5m sq ft of transactions in 2022 compared with 13m sq ft in 2021. However, strong momentum was sustained in other sectors, with third party logistics keeping its foot on the pedal and low carbon-related industries behind some major manufacturing commitments.

7.2 While 2021 boasted almost every conceivable record, a key characteristic of 2022 was the focus of demand on quality space, a trend that is expected to continue over 2023. Underlining occupiers' increasingly discerning attitude around quality, ESG credentials and energy efficiency, a record 45% share of 2022's take-up involved new spec or refurbished units.

7.3 The expansion-driven frenzy spurred by the pandemic may be over but there are nonetheless grounds for optimism for the year ahead. The looming recession or economic downturn is now looking to be much shallower and less protracted than feared, while improving certainty should instil greater confidence among occupiers to make property decisions despite the increased costs.

7.4 While the growth of ecommerce will continue to underpin demand, the focus has shifted from raw expansion to optimisation of supply chains. Demand will reflect a growing emphasis on improving both supply chain efficiencies and resilience.

7.5 Brexit and the experience of the pandemic are fuelling increasing moves towards nearshoring/onshoring of manufacturing and distribution hubs within the UK and this is expected to ramp up in 2024.

7.6 Despite the unravelling of financial market conditions last year, speculative development soared to a new high of 23.6m sq ft at the end of 2022. However, supply only partially recovered from 2021's low, with the UK availability rate standing at only 3.6% and equivalent to only 1.1 years of average annual take-up. However, supply varies considerably between size-segments and regions, with the large segment seeing a notable 58% uptick in grade A supply over the year.

7.7 Rental growth is now starting to ease down after two years of unprecedented expansion. While prime headline rents increased by 13% on average across the UK markets in 2022, growth was a relatively modest 4% in the second half of the year.

7.8 This slowing is partly a function of more choice stemming from development and, frankly, the declining ability for some occupiers to pay ever more for space without being forced to relocate or drive efficiencies elsewhere in the supply chain.

8 The Impacts of Covid 19 on the Industrial & Warehousing Market

8.0 In contrast to the office market, since the COVID-19 pandemic we have seen demand for industrial units increase exponentially due to e-tailing.

8.1 Covid-19 has led to many more people working from home and often choosing to shop online rather than in person so there is strong demand, specifically in town and city centre sites, for delivery and last mile logistics.

8.2 While economic concerns have been growing, logistics property demand has continued to be boosted in the short term by trends arising from the pandemic. The sector is also set to see long term gains as a result of accelerated structural changes.

8.3 Logistics property has a secure role to play in supporting economic activity, which puts it in stark contrast with other property sectors where the longer-term impacts on demand remain clouded with uncertainty.

8.4 The recent resilience of the logistics sector has been supported by the growth of ecommerce, which has driven record levels of logistics property demand over the last few years. However, according to ONS data online retail activity has unsurprisingly cooled from the highs seen during lockdowns, with internet sales settling at 25% of all retail sales in January 2023, down from a peak of 38% in February 2021.

8.5 Nonetheless, this still represents a step-change up from pre-pandemic levels and a continuation of a longer-term growth trajectory. Online retail is expected to resume its growth after the current period of consolidation and rebalancing, as there remain pockets of untapped potential and younger tech-savvy consumers will continue to enter the market.

8.6 GlobalData forecasts that the UK online retail market will grow by around 5% p.a. from 2024, with online growth once again outpacing physical retail.

9 West of England Industrial & Warehousing Market Commentary and Trends

9.0 The West of England Industrial & Warehousing market spans a wide geographical area with a key focus on four key areas within Bristol and South Gloucestershire which are Avonmouth, Severnside, St Phillips Marsh and Almondsbury. In Bath, the industrial market is limited as demand exceeds supply which is focused around the Newbridge area on the western fringe of Bath city centre and Ashmead Park in Keynsham, which is suitably located between Bristol and Bath. The Somer Valley Enterprise Zone may be the solution to unlock the limited supply within B&NES.

9.1 The logistics market has experienced a very different 12-24 months to the office market. The sector has been very popular, namely due to the rise in e-commerce and structural changes and this has led to a lot of activity in recent years.

9.2 Initially, Covid was a catalyst for this growth as remote work and disrupted supply chains underpinned surging demand for logistics space. However, Covid has given way to other unforeseen disruptions, which have had the opposite effect. Occupier demand has returned to pre-pandemic levels more quickly than expected, leading to increased vacancy rates in certain markets, however this does not appear to have been the case across the South West.

9.3 Through the pandemic a key trend in the West of England was an intensified desire for larger buildings and greater eaves heights, termed as 'super sheds', to accommodate the rise in economies of scale and automation.

9.4 For instance, the Central Park warehouse and distribution development at Severnside accommodates buildings in excess of 750,000 sq ft and eaves heights of up to 40m, with occupants including Amazon and Lidl. The result is increased demand for larger sites, with certain developers focusing on land over 50 acres, of which supply is limited.

9.5 This demand has slowed and nationally, take-up for large distribution warehouses of 100,000sq ft + in 2022 was down 30% from the record-breaking figures that were seen in 2021. However, whilst demand slows when compared to 2021 and 2020, the annual total was 20% ahead of the 5-year average to the pandemic.

9.6 In line with national trends, it is anticipated that positivity in the logistics and distribution market will continue in the West of England, with sustained enquiries for new warehousing and distribution space on both a leasehold and freehold basis.

9.7 Consistent with trends accelerated by the national lockdowns, shifts in consumer retail behaviours and the increase in online retail have benefitted the Greater Bristol market, with increasing demand for retail warehousing space and last mile logistics.

9.8 The flight to prime space remained a key trend in the market with 77% of take-up being new build space.

9.9 One of the key causes for the slowdown in demand post pandemic was that online retailers were comparatively less acquisitive. Third party logistics providers were the largest portion of take-up in 2022, followed by retailer/wholesale occupiers and manufacturers and others.

9.10 The forecast is that demand will drop further when compared to recent years due to occupier cost pressures and depressed retail spending, however demand will remain steady compared to pre-pandemic levels.

9.11 The most active logistics and distribution market continues to be focused on Avonmouth and Severnside, with demand expected to be maintained for the foreseeable future, largely as a consequence of commercial recognition of its strategic significance and success, linked to its access to strategic transport networks and the port.

9.12 The supply of industrial space has increased over 2022 by 14% but is still below the five-year average with 1.6 years of supply currently available. The market saw a record-breaking delivery of speculative developments during the year and there are further developments due to complete in the first half of 2023.

9.13 It is important to note that supply of available land and market ready sites in Avonmouth and Severnside has reduced significantly, with potential for future strain if the current level of demand increases.

9.14 Furthermore, employers based in the area have reported difficulties in recruiting and retaining skilled staff, thus improved transport connectivity from residential areas through infrastructure investment is crucial to safeguarding sustained future growth in the area.

9.15 In spite of the dominance of Avonmouth and Severnside, the more urban industrial markets continue to contribute significantly to the West of England's logistics profile. In particular, Central Bristol (including Bedminster, Lawrence Hill and St Philips) and South Bristol (including Hengrove, Brislington and Ashton) accommodate a mix of logistics and manufacturing businesses, including those who need to locate here for operational and staffing purposes.

9.16 Demand for more urban and edge-of-town locations is forecast to continue in future, driven by emerging trends such as last mile distribution. Demand is also expected for new build multi-let units, however there is currently limited land available to accommodate this.

9.17 Despite the significance of smaller units, B&NES is not currently viewed as a key location for large-scale logistics activities, reflecting the lack of supply. At present, the logistics needs of B&NES are predominantly being met within the Newbridge area of Bath which provides over half a million sq ft of light industrial space within close proximity to the City Centre. There are four main industrial estates within the Newbridge area namely Brassmills Trading Estate, Maltings Industrial Estate, Locksbrook Trading Estate and Ashmans Yard. Within this area the key occupiers can be identified as Bath Spa University, Lovehoney, Rotork, Roper Rhodes and Horstman Defence Systems who all occupy significant property within the area.

9.18 Outside of Bath the majority of industrial uses are being met at Ashmead Road. Situated on the eastern side of Keynsham, conveniently located between Bristol and Bath, this area provides approximately 37 acres of industrial land. This location provides convenient road access to and from both regional cities as well as good road links to the M4. There is a variety of uses within this area with builders' merchants such as Jewson and CRS Building Supplies as well as packaging firms, automotive services and Keynsham recycling centre being located within this area.

9.19 With less than 100,000 sq ft of industrial space available in both, Bath and Keynsham, rents have become static as occupiers seek industrial premises in other markets such as Bristol where there is a better supply.

9.20 Average rents in Bristol rose by 13% over the course of 2022, and for the time-being, many occupiers have been largely accepting of these rises as a necessary cost of driving greater efficiencies, thanks in part to the 'substitution effect' arising from the transferral of demand (and therefore rent costs) out of large swathes of the retail property market.

9.21 The rising cost of living has become a growing concern in recent months. While recent headlines have focused on the impact of high inflation on households, rising costs are a broad trend also impacting stakeholders across the industrial and logistics sector. Energy price inflation has added to economic concerns, exacerbated by geopolitical tensions arising from the war in Ukraine and severe international sanctions on Russia.

9.22 In this environment, landlords should be mindful of these risks on the occupier market. Alongside this, 2023 will see the ratings revaluation come into effect, which is likely to translate into significantly higher ratings liabilities for many occupiers in areas that have seen strong rental growth in recent years.

9.23 While economic concerns have been growing, logistics property demand has continued to be boosted in the short term by trends arising from the pandemic. The sector is also set to see long term gains as a result of accelerated structural changes. Logistics property has a secure role to play in supporting economic activity, which puts it in stark contrast with other property sectors where the longer-term impacts on demand remain clouded with uncertainty.

10 Industrial Supply

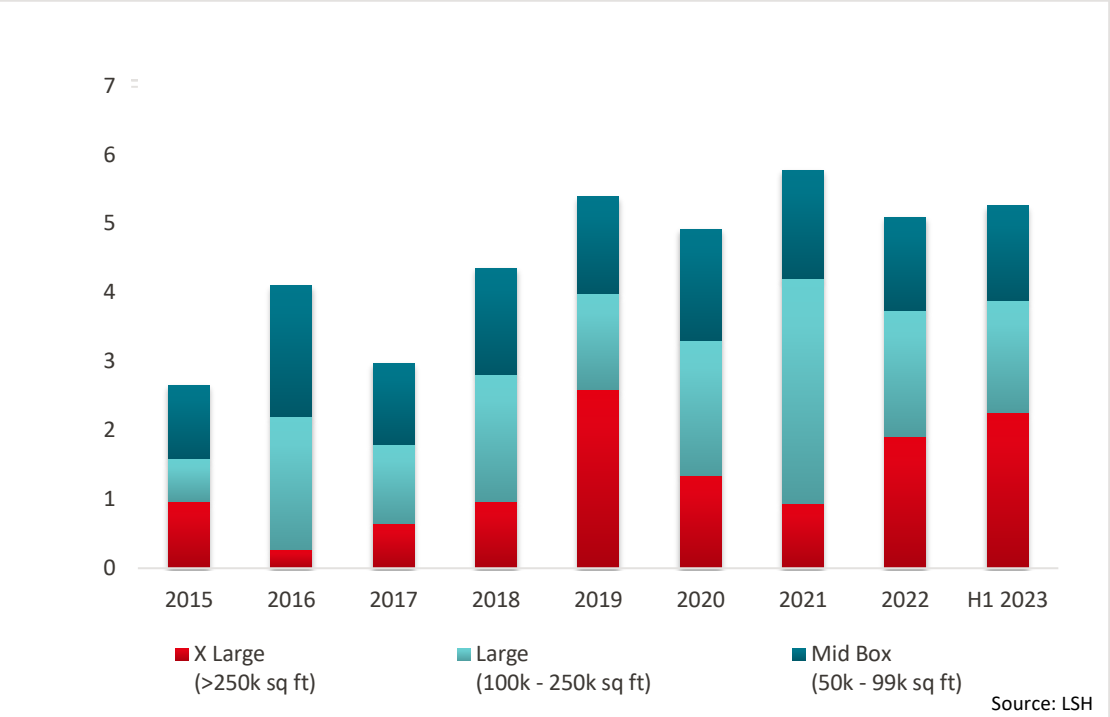
10.0 The South West was one of the few UK regions to see a drop in supply during 2022, falling 12% year-on-year.

10.1 At the end of 2022 there was only 651,000 sq ft available across the region, a contraction of 80 per cent on the previous year's figures. This feeds into why the region bucked the trend of new build occupation last year, as 80 per cent of new tenancies started in second-hand units, such as Hercules in Cribbs Causeway where 240,000 sq ft was let to DFS and 160,000 sq ft let to Gregory Distribution, while at Titan in Yate 255,000 sq ft was let to Graphic Packaging.

10.2 However, Q1 2023 saw a slight uptick in supply, standing at 5.2m sq ft. The South West remains comparatively well-supplied overall compared with other regions, with availability equivalent to 1.7 years of average annual take-up.

10.3 The decline in supply levels in 2022 was largely driven by a reduction in second-hand space available. New units are being completed but there remains a shortage of larger-scale units over 250,000sq ft with just one unit of this size currently available.

Fig. 11 South West Availability by Size (million sq ft)



10.4 A total of 2.3million sq ft of industrial space was under offer at the end of quarter one. There are six units of 100,000sq ft + under construction, but speculative development is dominated by two units coming forward at Panattoni Park Avonmouth, Bristol, one of which measures a colossal 882,000 sq ft, due for completion later this year. The unit is the largest ever speculative building in the UK and is targeting a BREAM rating of Excellent and EPC rating of A.

10.5 However, there were also several other developers that were due to commit to speculative schemes, but these plans have now been put on hold due to the increased borrowing cost and the consequent yield expansion that has occurred over the past nine months. As a result, this has kept supply levels constrained across the region, and therefore holding headline rents across all size ranges.

10.6 Limited new builds, combined with the long-term trend in conversion of traditional industrial locations to trade counters and warehousing, as well as residential, has resulted in reduced availability. The size and location of available industrial sites are key problems in the West of England, with particular shortages in medium and larger sites and premises, and limited availability of modern industrial premises of a scope and size to meet market demand.

10.7 In addition to supply of land and premises for manufacturing companies wishing to expand in the area, it is particularly difficult to find suitable land and premises for SMEs based in the Bristol area wishing to expand and for medium and major manufacturing businesses wishing to relocate into the wider Bristol area.

10.8 As noted, the majority of demand for industrial units across the region is focused on Avonmouth and Severnside due to proximity to the motorway and existing infrastructure. Because of this the focus of supply is also in these areas.

10.9 Central Bristol (including Bedminster, Lawrence Hill and St Philips) and South Bristol (including Hengrove, Brislington and Ashton) accommodate a mix of logistics businesses and therefore also have a good level of supply although in varying forms of size and specification.

10.10 Whilst it does accommodate a number of smaller occupiers, B&NES is not currently viewed as an important location for large-scale logistics activities, reflecting the lack of supply in this area.

10.11 Despite new developments, the supply of available land and market ready sites in Avonmouth and Severnside has reduced significantly, with potential for future strain if the current level of demand increases.

10.12 Market engagement indicates that industrial occupiers are increasingly being pushed away from the major clusters in Filton and Avonmouth towards more outlying locations in South Gloucestershire and further south along the M5 corridor due to a shortage of industrial stock.

10.13 The supply of immediately available midrange space across Bristol is a continuing concern with construction price inflation and the softening of investment yields impacting the timing of delivery of new space.

10.14 Competitive interest is still commonplace on existing freehold space and modern well-specified leasehold accommodation capable of occupation in a 2–3-month time frame.

10.15 Immediately available supply remains a concern with parties struggling to find modern space. This is limiting the availability of second-hand buildings. The situation is even worse when approximately 1.65 million sq ft of supply is accounted for in just three buildings.

10.16 The increase in last mile logistics has also emphasised the key role played by smaller units in accommodating businesses, particularly in areas such as Bath and central Bristol.

10.17 Small units, for instance below 2,000sq ft, constitute a significant proportion of take-up and transaction levels in recent years. When this is coupled with low vacancy rates, it becomes evident that this type of unit is critical to meeting the demand of local businesses and the functions of the local logistics and distribution market but supply for this type of space has become restricted.

10.18 Much needed smaller format supply will come on stream following Cubex's acquisition of 2.5 acres at Horizon 38 in Filton and the start of construction on the 24 unit Rockhaven Business Centre at Cabot Park. Furthermore, in Brislington Glenmore is on site with a 35 small unit scheme which will help to relive pressure on this size and will all provide good quality stock to the market.

10.19 In Bath, supply of industrial space is extremely tight and restricted to second-hand stock at The Maltings and Brassmills Estates, however both available units are under offer, and it is uncertain where further supply will come from.

10.20 Progressively more and more poor-quality industrial space is being converted to higher value land uses in B&NES, such as student and residential accommodation, and this has put further pressure on an already restricted amount of supply. This has resulted in the continuation of refurbishment of industrial properties within the B&NES area with a 'make do' approach as alternative solutions is few and far between.

10.21 Because of this lack of supply the logistics needs of B&NES are predominantly being met beyond the boundaries of the unitary district, for example by the large-scale activities occurring at Avonmouth and Severnside.

10.22 The vast majority of existing industrial stock in B&NES is also rated as grade C, with grade A space very limited when compared with supply in areas like Filton and Avonmouth. As a result, businesses based in B&NES looking for modern accommodation or expansions are consequently focusing their interest on locations outside of B&NES, with Chippenham, South Bristol and (to a lesser extent) parts of North Bristol gaining particular attention.

10.23 Development market challenges including competition from higher value uses, inadequate rental levels to attain viable development, and a shortage of well-located development sites in B&NES are hindering attempts to bring forward new floorspace.

10.24 The continuing industrial supply issue for the West of England is that the bulk of available land is situated in out-of-town locations like Severnside and Somer Valley, with an extremely limited supply in more central areas where location-specific demand from SMEs and start-ups exists.

10.25 In order for the West of England industrial market to continue to grow, there is a need to protect key manufacturing premises and sites for medium and larger businesses, and to allocate new areas suitable for medium and larger industrial users. These premises need to be detached and well screened from residential uses, with strong connectivity via the strategic road network and access to the local workforce.

11 Industrial Demand and Take-up

11.0 The South West was one of the best performing UK regions against trend in 2022, with take-up of 3.6m sq ft improving by 10% on 2021 and 17% above the five-year trend, for units 50,000+ sq ft.

11.1 However, the year was front-loaded, with circa 70% of take-up and transactions taking place in H1. Second hand space dominated, accounting for 72% of annual take-up, while 2022 saw only four deals involving brand new space, the largest being ProCook's 167,000 sq ft design and build at St. Modwen Park, Gloucester.

11.2 The large segment had its best year on record in 2022, with take-up of 2.2m sq ft substantially eclipsing 2021's previous record.

11.3 The Greater Bristol area is the largest industrial market in the West of England, accommodating a range of multinational firms and SMEs.

11.4 The most active logistics and distribution market continues to be focused on Avonmouth and Severnside, with demand expected to be maintained for the foreseeable future, largely as a consequence of commercial recognition of its strategic significance and success, linked to its access to strategic transport networks and the port.

11.5 The area has seen rapid expansion in recent years, with numerous transport and logistics businesses locating regional distribution centres there. Avonmouth and Severnside also accommodates a combination of light and heavy industrial, storage and distribution, and trade counters. Current occupants include Amazon, Tesco, Lidl, Next and Network Rail

11.6 The sub-region is an established centre of excellence for high-tech manufacturing industries, such as Aerospace and Advanced Engineering. This sector of the market is largely driven by businesses located within the informally labelled 'TEC ARC', which represents a magnet for deep-tech and innovation – connecting the strategic locations of Emersons Green Enterprise Area and Filton Enterprise Area

11.7 The demand for smaller units, in line with trends in distribution and logistics, has also seen the growth of an increasingly active industrial market in central Bristol, which includes estates in areas such as St Philips Marsh, Bedminster and Lawrence Hill. Central Bristol now has the second-highest level of take-up in Greater Bristol with mixed occupiers, although units tend to be smaller (typically less than 50,000 sq ft).

11.8 Bristol City Council has invested considerable levels of public money into South Bristol in recent years, however a situation remains that the area is not receiving the benefits of private business driven growth evident in North Bristol. This is partly due to a lack of available employment land, but also issues surrounding transport provision which may constrain private sector investment and demand.

11.9 Demand likely exists in South Bristol for service-based industrial uses, particularly for SMEs, however a lot of the current accommodation is very dated. As a result, redevelopment to provide new accommodation is needed on existing estates in South Bristol, though this is difficult to achieve when businesses are trading on site.

11.10 The total take-up for the year 2022 was 2,370,997 sq ft and 45.89 acres of land sold or let across 154 transactions. As a comparison, this is down by 10.8% on 2021, where there was 2,627,531 sq ft and 211.69 acres across 184 transactions.

11.11 This take-up for 2022 may come as no surprise, particularly due to the fact deals slowed down significantly towards the end of the year post Autumn budget. Notwithstanding this, the total take-up for 2022 was still higher than the five-year average which is recorded at 2,187,377 sq ft.

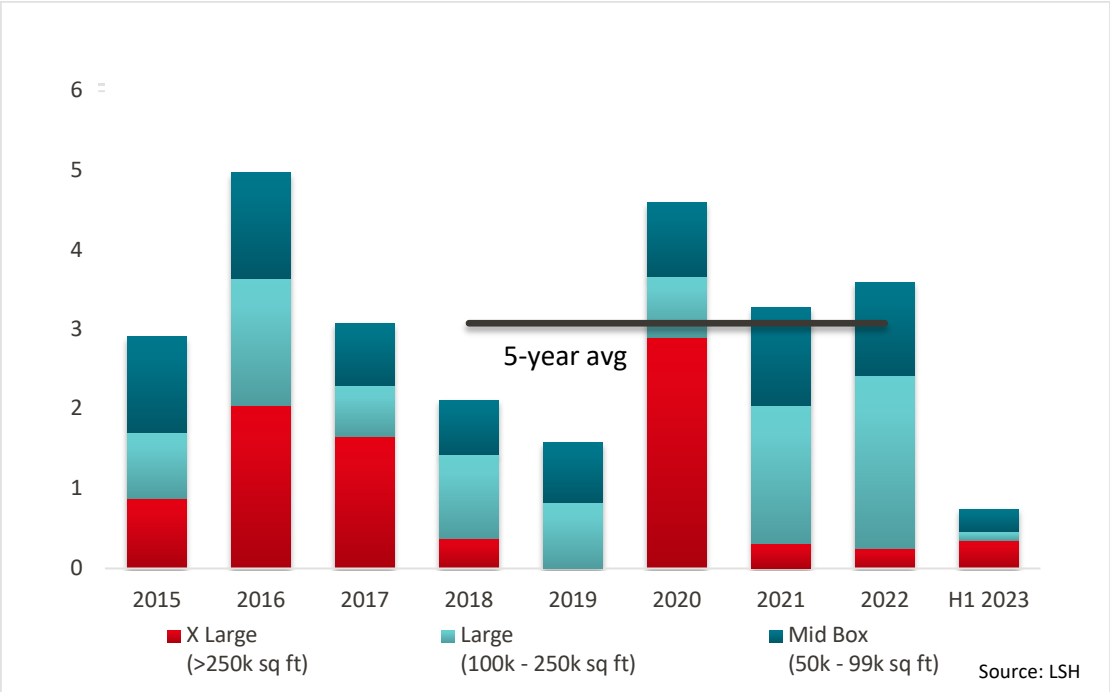
11.12 The South West had a relatively quiet start to 2023, with take-up of 513,000 sq ft across a handful of deals in Q1, for units 50,000+ sq ft. This was underpinned by EDF Energy's commitment to take a 350,000 sq ft unit in Bridgwater as part of its work at the £34bn Hinkley Point C nuclear power.

11.13 There has been a total of 427,860 sq ft of transactions across 34 deals in Q2 2023. There was only one deal over 100,000 sq ft and then a handful of mid-box transactions, but the majority of take-up this quarter has been a churn of smaller units. This is reasonably consistent quarterly take-up and brings the total H1 2023 take-up to 901,639 sq ft across 71 deals.

11.14 Key H1 transactions include Gregory Distribution's acquisition of the 115,000 sq ft DC115 at Cabot Park and Biker's acquisition of LaSalle IM's 44,000 sq ft new industrial unit at Patchway Trading Estate.

11.15 As a comparison, there was a total of 1,431,945 sq ft that transacted across 83 deals this time last year, so take-up is down compared to H1 2022, but the market has slowed considerably in the first half of this year with the time taken to complete a transaction becoming much more protracted.

Fig. 12 South West Take-up by Size (million sq ft)



11.16 Hopefully the occupiers seeking larger space will soon regain the confidence to progress their requirements towards the end of the year, which will bolster the total take-up for the second half of 2023.

11.17 Demand for good quality space, particularly freehold, remains strong. There are a number of active requirements, particularly in the trade sector and as evidenced by Easy Bathrooms' acquisition at Pines Way Industrial Estate, Bath.

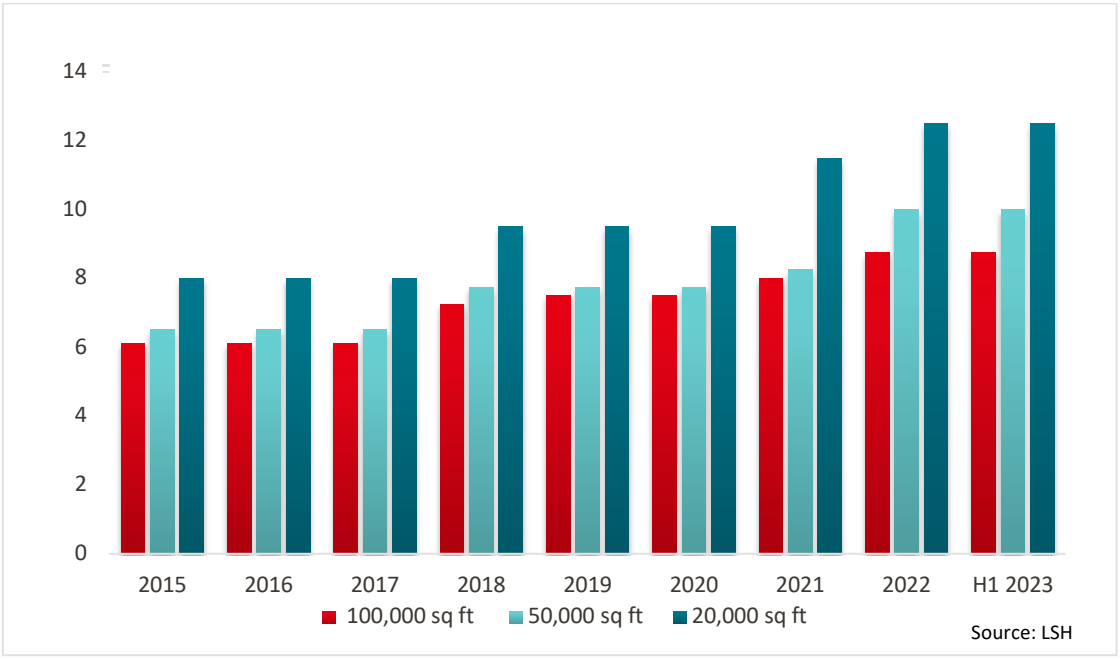
11.18 Both distribution and manufacturing firms remain active in the South West, respectively accounting for 25% and 19% of occupier take-up over the past year. Other less traditional occupiers are also increasingly active, accounting for a further 44%.

11.19 Unlike previous market slowdowns, there is no overhang of supply. This has resulted in rentals and capital values being sustained, albeit there is some evidence of extended rent-free periods.

11.20 As a result of a lack of supply, coupled with strong demand, average rents in the region have risen over the past 12 months by 5.9% and expected to continue this trend through 2023.

11.21 Average rental growth of 5.2% is forecast for the South West region for 2023, with marginally higher expectations for Bristol of 5.5%.

Fig. 13 Bristol Prime Rents (£ per sq ft)



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