

Coventry & Warwickshire Sub-Regional Employment Market Signals Study – Executive Summary



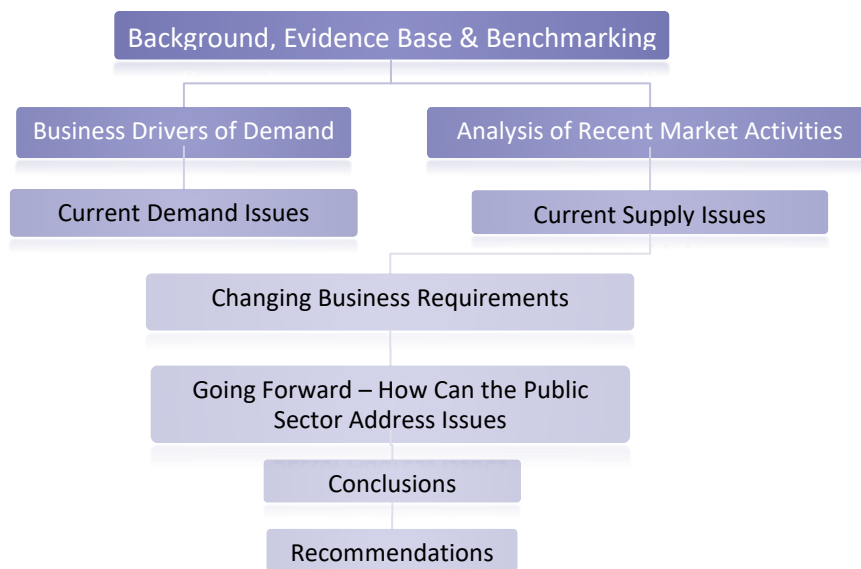
BBP | Regeneration
Appraisal • Strategy • Delivery

COVENTRY AND WARWICKSHIRE SUB-REGIONAL EMPLOYMENT MARKET SIGNALS STUDY

EXECUTIVE SUMMARY

- 1.1 BBP Regeneration and Hardisty Jones have been jointly commissioned by seven Local Authorities¹ within the Coventry and Warwickshire sub-region along with the Coventry & Warwickshire Local Enterprise Partnership, to undertake an analysis and assessment of the market for employment land within the Coventry and Warwickshire sub-region.
- 1.2 The purpose of this high-level study is to assess the current and likely future demands of business for employment land and accommodation across the sub-region and understand how the current and anticipated future supply of employment land meets the needs of the market in terms of quality, type, specification, size and affordability as well as how general changes in the market for employment uses are impacting on property requirements in Coventry and Warwickshire.
- 1.3 Our Study, which was undertaken during the course of the Summer / Autumn 2018, adopted an integrated approach comprising research, analysis and consultations, in order to underpin this piece of work, as set out in the figure below.

Figure 1.1 Methodology



- 1.4 The above approach forms the basis for the structure of the report: which comprises: background to the study and benchmarking review (chapter 2); the business drivers of demand (chapter 3); analysis of the current business demand and market (chapter 4); analysis of the supply of land/accommodation (chapter 5); supply issues emerging from the consultation (chapter 6); the changing business requirements and property impacts (chapter 7).
- 1.5 The study then concludes with advising how the public sector can help address the issues identified (chapter 8) and finally setting out some conclusions (chapter 9) and recommendations (chapter 10). This executive summary highlights some of the main issues identified and conclusions drawn.

¹ Namely: Coventry City Council, North Warwickshire Borough Council, Nuneaton and Bedworth Borough Council, Rugby Borough Council, Stratford-upon-Avon District Council, Warwick District Council, and Warwickshire County Council

Background and Benchmarking

- 1.6 The study has been benchmarked against the sub-regional land / property position in 2015 (the last sub-regional employment land review), in order to gauge performance since that date.
- 1.7 Research has highlighted, that as part of the “Golden Triangle” the sub-region has experienced high demand from logistics (incl “mainstream” retailing) and Advance Manufacturing and Engineering (AME) operations over the last few years. Indications are that economic activity is however, now being limited by a lack of land and premises – across all business sizes and sectors. This is in part due to higher value uses (not just residential) crowding out traditional employment uses
- 1.8 Key sectors such as advanced manufacturing and engineering (AME) have been identified, including research and development (R&D) around new, low carbon technologies e.g. electric / electric hybrid vehicles, fuel cells and hydrogen power systems and lightweight materials. In parts of the sub-region, there is also real potential in the Gaming, Creative and IT sectors.
- 1.9 This growth potential needs to be recognised in terms of the provision of essential land and premises, to meet the requirements of these key sectors, and in particular to increase C&W’s AME asset base – specifically in terms of sites / infrastructure / connectivity etc

The Business Drivers of Demand

- 1.10 A key aspect of our analysis, has been to establish the characterisation / performance of C&W’s business base – particularly recent trends with a view to articulating the type of current employment / shape of the labour force, demographic trends and commuting patterns, and the key sectors that are likely to drive economic growth in future years. We have also undertaken a Business Survey, in order to identify key, future business needs.
- 1.11 The research highlighted a number of key factors -
- If the trends in business births and growth continue in Coventry and Warwickshire then the increasing number of businesses (and increased employment levels) will provide continued demand for employment land and premises, particularly premises suitable for new-start and micro-businesses (small, flexible units)
 - The higher business survival rates in Warwickshire generally, will also mean less employment premises being recycled and therefore an even higher demand for additional premises
 - Conversely, the decline in spare capacity in the labour force identified, could constrain future economic growth, unless further in-commuting is achieved to fill positions
 - Anticipated growth in some of the key sectors highlighted above, is likely to generate significant demand for more industrial and warehouse uses (B1c/B2/B8), whereas growth in the digital, creative and professional services sectors will drive the “office based” market, but not necessarily for the traditional “grade A” office product
 - Also, high levels of in-commuting to the sub-region as a whole (North Warwickshire, Stratford-upon-Avon and Warwick in particular) in part caused by a declining working population, will put added pressure on property demand if the area is to capitalise on the economic and wealth creating opportunities created by this phenomenon

Current Business Demand and Market Analysis

- 1.12 An important aspect of the Study has been to consider the current and changing nature of business demand for land and premises, and in particular to set out property specific evidence from a range of business consultations, to analyse how the character of business operations, is impacting on property “products” (in each Local Authority area) and how those are delivered, and to articulate what businesses have identified as the key site / premises issues for the future.

- 1.13 It is clear that sharp contrasts exist between demand in the North and South of the sub-region – which needs to be reflected in policies (type of use, property requirements and locational issues etc)
- 1.14 Our research highlighted that demand from Companies like JLR (and their supply chain), and mainstream retailers – have had major impact on the types of property being delivered recently – focussing heavily on industrial and logistics premises. As a result, such high levels of demand are pushing up land values and rents in key locations.
- 1.15 With regard to office demand, this is significantly influenced by the Birmingham market, with Grade A demand primarily being focussed in Coventry, but elsewhere in other towns, demand is more for flexible / “mid-spec” units.
- 1.16 Businesses expressed concern about the impact of Green Belt policies on delivering the right type and level of accommodation, as well as the importance of accommodation needs being planned to reflect economic functioning areas, and not to be constrained by LA boundaries.
- 1.17 Some of the more specific issues identified, included –
- Shortage of well located, small industrial estates and particularly smaller freehold units for sale (industrial and offices)
 - Lack of flexible leases on offer
 - Strong demand for more “affordable” sites / premises – both large and small
 - Concern about out-dated premises being redeveloped for high value uses
 - The critical demand for higher levels of power provision / the highest “comms” speeds
 - Growing automation – requiring flexible / well specified floorspace
- 1.18 In the light of the above factors, it has been concluded that a strategic approach is required – in order to secure / release more of the right employment sites (through appropriate allocations but more importantly involving public sector intervention) AND ensure that such plans deliver the right “product”.

Current Supply of Land / Accommodation

- 1.19 In order to reflect the demand issues identified above, we have analysed current, supply performance across the sub-region and compared it with the position in 2015 (previous sub-regional land review).
- 1.20 This has included an examination of current and future availability of employment sites / premises (industrial and distribution), including existing sites and estates, expansion sites and allocated sites (in the latest Local Plans). To aid analysis we have categorised these sites to understand those which are servicing particular types of business activity and how the land supply chain is functioning both today and into the future (Figure 1.2 below).
- 1.21 We have then undertaken a more detailed analysis to identify the site areas still available for development and their potential capacity to accommodate floorspace, the likely timing of site delivery, and whether such development is likely to be viable.
- 1.22 The results of the analysis of potential supply, show that the overall quantum of land is still barely meeting the levels targeted in 2015, with a total of 718 hectares identified over the next 10 years. However, most of the key locations that were seen as meeting future demand (in 2015), no longer have any (or very little) development capacity remaining.
- 1.23 Subject to the individual characteristics of each site, it should be noted that the conversion from gross to net developable areas, may reduce the available site area of 718 ha, below the 2015 figure.
- 1.24 Translating the available site areas, into potential floorspace delivery (using a 50% development density), results in 3,034,000 sq m of floorspace. However, there are some significant gaps in certain LA areas, in respect of certain site categories and within particular time periods.

Figure 1.2 Site categories – Workspace, Industrial and Distribution



1.25 Overall it seems that additional employment land areas will need to be identified over the next 10 year period, to ensure that demand levels are met. To assist with this the categorisation set out in Figure 1.3 below, is considered a useful means of planning appropriate allocations going forward.

Figure 1.3 Site Categorisation for Land Allocations

Regional / sub regional importance -Over 9,290 sq m
Sub Regional / District-wide importance - Mid to Large scale accommodation - 4,645 to 9,290 sq m
Mainly District-wide importance - Mid scale accommodation - 1,858 to 4,645 sq m
District / Locally important - Range of accommodation for SME's - 465 to 1,858 sq m
Only Local based importance - up to 465 sq m
Sites identified specifically for Hi-Tech / R&D Uses
Areas allocated as part of Urban Extension

Supply Issues Emerging from Consultations

1.26 Following on from the site analysis, we have sought to highlight the supply issues which have been raised by businesses, and agents / developers in our various consultations. In particular we have examined further where “change of use” and viability issues are impacting on supply, the key “constraints” which have been raised, as well some important issues around affordability, given the shifts which have occurred in rental levels over the last three years.

1.27 Some of the main issues emerging, include -

- New, well specified, flexible premises are in very short supply.
- Speculative units in the over 4,645 sq m category are being delivered in parts of the sub-region, however there is virtually no developer activity in the sub-465 sq m category
- Speculative development of such space in the <2,323 sq m size band (and particularly <465 sq m), is not considered viable – and consultees think that speculatively building such a scheme - without some form of public incentive is unlikely, despite the apparent need

- The 1,858 to 4,645 sq m size range is predominated by older accommodation. By far the majority of this space is on established industrial estates and dated 20+ years and in some cases much older (40 / 50 years).
- The relatively high levels of demand / occupancy levels on existing estates, and the lack of new accommodation / refurbishment projects (particularly in the <1,858 sq m size band) – is all acting as a constraint on the market, and restricting normal levels of “churn”
- The traditional Office market is showing very little new construction apart from Friargate, Coventry
- However, changed working practices, mean that demand is more for flexible & smaller, “mid-spec” units, ideally in a town centre location (good public transport / facilities etc). However, out of town business parks are still in demand, due to the conversion of large units to small, and the lack of suitable town centre floorspace
- Flexible workspace / co-working space is increasingly in demand, some with the need for public sector intervention to overcome letting and return risks
- Specific sites for R&D / hi-tech activities are also in short supply
- The reallocation of employment land (to other uses) has become an important issue over the last 2 / 3 years, and much stricter “change of use” policies are required, to prevent further losses

Changing Business Requirements

- 1.28 To enable planning policies to reflect (pre-empt) future, changing business requirements, as working practices and business operations change, we have analysed how future trends in both office-based employment markets, as well as the industrial / logistics sectors will impact on property requirements and the provision of different accommodation types. To facilitate this, we have examined some current examples and considered how these might apply to the Coventry and Warwickshire sub-region.
- 1.29 With regard to “office based” perspectives, some of the key issues include –
- The practice of ‘agile’ working, home working and hot desking is “here to stay”
 - Although, recent research shows the benefits of working from home potentially disappear over time for both employees and organisations (increased sense of professional isolation / decrease in knowledge sharing), these disadvantages can in part be mitigated through the establishment of flexible/ co-working spaces, locally available not only to the self-employed but also to corporate occupiers and their staff
 - This is fuelling a complete “re-think” of what is considered a normal, urban office space - expectations are that some 30% of all commercial offices will be “mid spec” and ‘flexible’ by 2030
 - Many occupiers are returning to town centres, and flexible workspace is a major component here
 - Proactive planning of new major developments (urban extensions / garden villages) is also needed - to deliver an economically sustainable mix of uses, critically including workspace
- 1.30 With regard to “Industrial based” perspectives, some of the key issues include –
- Combining industrial development with other uses such as residential, student accommodation, leisure and offices – this is seen as a real solution (whether integrated or co-located), however there is work to be done around noise and pollution issues
 - Such schemes will have the impact of increasing both development densities and the efficiency of urban sites
 - The recent market in C&W has been to build even larger sheds, however there is a clear sign that occupiers are pivoting towards smaller, more local space for part of their market. This could involve alternatives to motorway related “big boxes” – e.g. by making use of vacant high street stores

Conclusions from Business Consultations

Industrial / Logistics

- 1.31 Economic activity has been strong over recent years and seems to be on course to retain this position.
- 1.32 Increased economic activity (including increased GVA) is not only within some of the area's key sectors (AME, logistics etc), involving large corporates, but also appears right across the business strata from start-ups to smaller grow on businesses, SME's and larger organisations, many in the automotive and manufacturing supply chain.
- 1.33 All of the above, have resulted in a growing and continuing need for employment accommodation, across all sizes, and has required in many instances companies to search far and wide, in order to identify potential options. The lack of suitable new sites or speculative developments coming forward in many parts of the sub-region, is a key factor that requires immediate attention.
- 1.34 Our consultations across the area, have also highlighted the business need for premises that are suitable for modern manufacturing (flexible, with the right floor loadings, clear working spaces, accessibility to markets and workforce, power provision and very high-speed communications capacity). This needs addressing, by allocating suitable sites, that can be made available at the right price.

Offices

- 1.35 In terms of office accommodation, business demand for space is less strong and the majority of take up remains in out-of-town business parks, although agents believe that this is mostly due to lack of good quality / appropriate floorspace in town centres. The major exception is Coventry City Centre.
- 1.36 There is however strong demand within the digital, creative and professional services sector, which will be one of the main drivers in the "office based" / **workspace** market going forward, for "mid-spec" flexible floorspace within town centres. The best way of delivering this product needs urgent attention.
- 1.37 Generally, there are limited instances of current town centre premises (vacant retail and other commercial floorspace, out-dated office premises, underused mixed-use property) being refurbished / converted into a new office / workspace provision. This is because of a number of factors, such as high alternative use values, complex ownership and vacancy patterns, owners reluctant to give up current income streams etc.
- 1.38 Strategic approaches are therefore required to bringing new uses and occupiers into Town Centres, including the establishment of more flexible use frameworks, ways of persuading a mix of owners to work together, or compulsorily assembling the various sites required for a viable scheme.

General Employment Floorspace Issues

- 1.39 Within all employment accommodation markets (particularly for businesses looking to adopt increased automation in their processes), there is an increasing demand for flexible premises. This means both flexibility in the amount / type of space required and also, flexibility in the form of occupational arrangements.
- 1.40 Businesses, especially new-start businesses with high growth aspirations, are struggling to find premises with suitably flexible leases. The provision of small scale flexible office accommodation within inner urban areas across the sub-region, should be a priority going forward.
- 1.41 Similarly, the complete lack of small freehold premises for sale (both industrial and office based), which is in demand from a range of businesses, should be another focus for attention.
- 1.42 There is also a critical demand for high capacity / high speed broadband across all uses, and for high power supplies within the industrial / logistics sectors, which need to be addressed.
- 1.43 Another issue raised consistently across all of our consultations, is the problem of affordability (see below) - rental levels on the majority of new schemes are well above traditional Industrial Estate locations. These "gaps" are likely to rise further, in the future.

The Issues Around Affordability

- 1.44 The Brief for this Study required a particular focus on the problems of “affordability” in the employment land / premises market at the present time. We have considered this aspect from a number of perspectives during the Study and the main conclusions are that –
- Many businesses cannot afford the higher rents / values that have emerged over the last 2 / 3 years
 - This is in part due to the overall shortage of available land (and therefore the opportunity for a wider mix of premises), alongside high levels of demand, which has inevitably led to a rise in rental levels in a number of areas, both for some existing stock and particularly for new accommodation. Both these factors have exacerbated the issues of “affordability”
 - Other factors are also adding to demand in the sub-region, and therefore generating additional pressure on availability and affordability e.g. overall growth in C&W’s key sectors
 - Development viability is another real challenge for new (or refurbishment) schemes – and the rent levels required by investors / developers (even if they are prepared to develop) to generate an acceptable return (circa £8-10psf) are not affordable to many companies, with current average rents around £5 psf
 - In addition, the lack of available / affordable development land and the presence of competing higher-value uses (both employment and non-employment uses), are all creating increased costs and therefore the returns (rents) required on new schemes
- 1.45 The above issues are in reality, going to require some form of public intervention (at least in the short term) to overcome the barriers to the development of affordable accommodation.

Public Sector Intervention to Address Development Challenges

- 1.46 The analysis within this Report, has concluded that the sub-region does need to maintain a varied supply of sites and accommodation – but it (in particular the private sector) is not achieving this at the present time, and needs to consider the means by which more (and the right kind of) land and premises can be brought forward.
- 1.47 The levels of Demand identified in this report, suggest that one solution is the allocation of significantly more / new employment land across the sub region, to both provide more choice as well as potentially reducing values. However, this is by no means the total solution (although it certainly is one component) and indeed may well not create a sustainable, long-term solution.
- 1.48 In any event, the existence of “hope value” for a change of use, needs to be removed as a possibility, potentially through the introduction of more stringent planning permissions / conditions / controls that prevent any further change of use.
- 1.49 In reality, addressing this is going to require two main activities -
- LA policy initiatives / changes
 - Initiatives to assist the private sector to overcome the barriers to development, they are currently facing
- 1.50 In terms of Policy interventions, it is considered that more site allocations (appropriately located and linked to robust economic growth strategies) are needed over the next 10 years, but in addition, the public sector should consider measures to enforce the mix of development required, and ensure that development either happens or permissions are revoked etc.
- 1.51 Furthermore, the Local Plans considered as part of this commission were prepared in accordance with national planning policy and guidance published at the time. However, some aspects of the revised National Planning Policy Framework, issued by MHCLG in July 2018, do relate to employment land / premises, which could have an influence on how the issues covered in this Study are taken forward.

- 1.52 Relevant considerations could include the link between housing numbers and employment allocations, town centre diversification, the requirement for an Employment Strategic Policy, specific provisions for logistics use, and the potential for use of CPO powers.
- 1.53 In terms of initiatives to assist the private sector, it is particularly struggling at present to create viable developments in the 93 to 2,323 sq m industrial / distribution size category (and in some cases up to 4,645 sq m). Interventions by the public sector are more than likely going to be required across the sub-region to facilitate such floorspace delivery, which could involve a combination of -
- direct public sector interventions – legal and / or financial; initiatives to make available appropriate development land; direct investment in infrastructure; commitments to underwrite development risk (rent guarantees, head leases) etc
 - “wider” interventions – which could be established and administered across a “group” of public bodies e.g. a development fund; a portfolio approach; JV’s etc
- 1.54 There are currently a number of examples of other public sector bodies doing this, so there is an established set of mechanisms and best practice from which to draw.
- 1.55 Given the strong levels of demand identified in this report (particularly from competing uses), land allocations **must be prioritised / more nuanced** across the range of “B” land use classes. These should reflect the property provisions required to retain businesses in the area, encourage companies to grow, and attract new inward investment into the area.
- 1.56 To facilitate this approach, consideration should be given to using the “site categorisations” set out in this Report, to ensure that appropriate and sufficient site allocations have been made to meet business needs.
- 1.57 There is also thought to be a need to review employment land and property strategies more regularly than has been the case over recent years (say every three years) to ensure that the emerging needs of businesses in the area are always being recognised and addressed.
- 1.58 In parallel with the above, Authorities should also consider -
- More stringent policy criteria around the restriction of certain sites to specific employment purposes
 - Provision of more mixed and diverse B8 developments
 - A more detailed approach to the quality / characteristics of different types of Employment – B1/B2 v B8 (manufacture v logistics)
 - Application of a ‘sequential test’ that considers a number of criteria, before agreeing to an alternative, particularly a non-employment use.
 - Encourage the improvement / expansion of an existing estate, before agreeing to a change of use, which might entail an expansion of the permitted range of “B” uses.
- 1.59 As discussed above, a key issue for the sub-region is the affordability of employment land and premises, driven in part by the loss of existing employment sites for non-employment uses. Addressing this issue requires a twin approach. First, by seeking not just to protect existing employment sites but to incentivise owners to invest, improve and develop underused and underutilised sites. Second, in order to provide more affordable new-build space, the margins of affordability need to be better understood across the sub-region (i.e. the key factors determining new build development appraisals and how these can be kept to a minimum) and across the different types and scale of property required.
- 1.60 There are potentially a range of public interventions that can help address the development barriers which have been identified in this Report. The types of intervention to be used and the scale of necessary involvement, will depend on individual circumstances, and on what is required to create a viable / deliverable development proposition.

- 1.61 At the simplest level, one critical component could be partnership working (across all LA's / public agencies in the sub region) to develop and maintain a reliable evidence base for the whole area, covering enquiries / demand / availability of floorspace and land / any evidence on rental and freehold values. Undertaking an audit of available premises, unused and under-utilised sites, in order to catalogue the opportunities available for affordable refurbishment, conversions or redevelopment would also be a useful body of evidence to better understand what interventions may then be required.
- 1.62 Where there are issues around development timing, another component might be working with the private sector / developers to undertake the pre-production of planning evidence – to aid the acceptability of development proposals, and the progress and speed of applications.
- 1.63 There are also a range of other direct public intervention options to be considered, including financially based interventions (e.g. rent guarantees, grants, loans, business rate exemption/EZ,s) and land supply based initiatives (e.g. acquisition of land and making land available on preferable terms).
- 1.64 We have also considered the potential for wider based initiatives – with the intention of dealing with the land / accommodation challenges on a broader canvas, than simply on a site by site arrangement. Such initiatives could include a sub-regional development fund, portfolio-based joint venture, development partner panel, and direct or part direct investment.

CONCLUSIONS

- 1.65 From our consultations and analysis, it is clear that there is no single reason, why Coventry and Warwickshire is facing the employment land / premises challenges it is – and certainly there is no single solution.
- 1.66 It should also be highlighted, that this is not unique to the Coventry and Warwickshire sub region, and is being experienced in other locations around the country, where we have been working over the last 12 months.
- 1.67 The findings imply a **strategic approach** is needed to meet the critical needs of business - both in terms of releasing more land for traditional employment / workspace development and ensuring that this land is secured in the long term for such uses, and at an acceptable cost level
- 1.68 Furthermore, there is a growing understanding around the country that the public sector is going to have to get involved, if these problems / issues are going to be addressed, at least in the short term.
- 1.69 The intervention of the public sector to ensure that the above strategies can be delivered, both in policy terms (setting the right framework for action) and in terms of financial intervention, particularly in the short term, will be essential in many instances.
- 1.70 Employment floorspace must be delivered on the right sites, available on the right terms, and at a viable cost (rental or capital cost) – either through new build initiatives, or refurbishment / extension projects, capitalizing on existing accommodation.
- 1.71 This should be structured alongside a strong planning policy, not to permit alternative uses, and further investment in common areas / facilities / maintenance, to maintain the attractiveness of the area as a whole.