Enterprise M3 Commercial Property Market Study

A Final Report by Regeneris Consulting
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Executive Summary

Purpose of Study

i. Regeneris Consulting was commissioned by the Enterprise M3 Local Enterprise Partnership (LEP) to update its Commercial Property Market Study which was last published in 2013. The study needed to address the following key questions:

1) Are the market areas set out in the 2013 report still valid?

2) What is the availability, type and demand for commercial property in each market area and across the Enterprise M3 area? How can this be measured and monitored on an ongoing basis by Enterprise M3?

3) What are the key opportunities and challenges in each market area and across the Enterprise M3 area?

4) How can the LEP and its partners address the opportunities and challenges identified in each market area and across the Enterprise M3 area?

ii. Given the sector and spatial focus of the SEP, the study also needed to look at how the commercial property market is affecting the performance of key towns, and provide a review of the commercial property requirements of the LEP's four priority sectors; aerospace and defence, ICT & digital, pharmaceuticals and professional and financial services.

Market Areas

iii. We have made two changes to the market areas from the 2013 study, shown in red in the figure below:

- **Central Hampshire divided in to Winchester and East Hampshire market areas.** Winchester is an office based economy whose strategic assets are its links to Southampton, Basingstoke and London. East Hampshire is mainly an industrial market, with strong links to Portsmouth, Guildford and the Blackwater Valley. This was agreed with local commercial agents and the councils.

- **Guildford and Woking divided in to separate market areas.** Although the two towns have similar strategic assets and industries, commercial agents felt there was a clear difference in demand between Guildford and Woking which meant Guildford attracts much higher rents. The difference between the two towns was large enough for them to state that increasing supply in Woking could not make up for a shortfall of office space in Guildford. Therefore the two should be treated as distinct market areas.
iv. Of the four priority sectors, ICT and digital and professional and financial services are by far the largest in Enterprise M3, accounting for 28,000 businesses and 124,000 jobs (compared to only 460 businesses and 13,000 jobs in the other two sectors). These two sectors have been the major drivers of growth of Enterprise M3’s economy, creating nearly 8,000 new jobs in the past five years. They have therefore had a major influence on recent trends in the commercial property market.

v. Both sectors have very diverse property requirements, but there are a number of recurring themes. The key requirements are summarised below.

**ICT and Digital**

- **Flexible workspace**: a particular issue for digital start-ups, which are reluctant to commit to longer term leases because of the risk of the business failing. Co-working environments offering easy-in, easy-out accommodation also provide a space for these businesses to interact, collaborate, innovate and secure new business opportunities.

- **Town centre locations**: these offer a number of advantages for digital firms, including access to a young and highly skilled workforce who increasingly choose to live in urban locations and have lower rates of car ownership. Town centre locations also offer proximity to other businesses for networking and collaboration.

- **Superfast broadband**: this is now a core requirement for most sectors, but particularly the ICT/digital sector which is dependent on high upstream and downstream bandwidth for sharing files with clients and collaborators.
Professional and Financial Services

- **Access to London and Heathrow**: this is one of the main reasons why head offices and other large scale professional and financial services firms choose to locate in Enterprise M3. Connections to central London will grow in importance as more and more London based firms look to relocate parts of their operations due to high property costs.

- **Town centre locations**: like digital, this sector has seen a growing trend toward town centre locations because of the importance of attracting highly skilled workers.

- **High quality business parks and car parking ratios**. Travelling by car remains by far the most popular means of commuting in Enterprise M3. There is therefore still a major role for high quality business parks offering good leisure and retail amenities and high car parking ratios.

**Office Market**

vi. Recent growth in office based sectors (particularly digital and professional services) has driven a strong increase in demand for office space in Enterprise M3. Take up of office space in 2015 was the highest it has been since before the economic downturn. Although a large number of these deals have been for smaller floorplates, it is the increase in larger office deals that has driven the strong recent performance.

vii. The vast majority of these deals have been in the north east of the LEP, which are closest to London. This includes Woking, Guildford and Blackwater Valley, but particularly Upper M3, where a recovery in rental values has encouraged the development of new Grade A office space. This is increasingly a core requirement of most large investors and has seen the Upper M3 area attract a number of high profile HQs in the digital and professional services sectors.
This pattern of rental values has resulted in quite an uneven performance in Enterprise M3’s commercial property market, which is causing a number of quite diverse challenges across the LEP area.

- **In Basingstoke and Andover** and large parts of the Blackwater Valley, the challenge is an oversupply of poor quality, second hand space which is depressing rental values and discouraging investors from building new, high quality offices. Both areas are therefore losing out on investment to towns on the M4 corridor which have seen significant investment in high quality stock.

- **Both Guildford and Winchester** have attractive town centres which have been in strong demand. The challenge here is a shortage of office space and sites in the town centre which is acting as a constraint on investment. This could be addressed in Winchester through the Station Approach development but remains a concern in Guildford.

- **Woking and Upper M3** are both areas in high demand, but the good supply of sites in both locations means that the market is working efficiently. Woking has recently given consent for a number of speculative office refurbishments, which follows on from a very successful programme of town centre regeneration.

- **East Hampshire** and **New Forest** are not established office markets and have therefore seen limited demand and limited new supply. In these rural districts, the priority is to ensure that the local businesses have access to the types of flexible floor space sought after
These quite diverse challenges mean the impact of permitted development rights (PDR), which allows the conversion of office stock into residential development, varies considerably across different market areas. To date it has been broadly beneficial in most cases, by removing poor quality stock from the market and providing a much needed source of housing. This is particularly the case in Basingstoke and Andover and Blackwater Valley. However, in all areas there is a concern about the proliferation of residential development in previously commercial areas, which is starkest in Guildford and Winchester town centres. The introduction of PDR means that local authorities no longer have the tools or the power that they need to manage the balance of homes and offices in line with local circumstances. There is therefore a role for the LEP to lobby for reforms to the policy which provide more flexibility and control.

Table 1 provides a summary of the challenges being experienced by market area and the types of intervention which could address these challenges. Given limited resources, we believe the LEP should prioritise those projects where there is evidence that intervention could help to address market failure. We believe the strongest case for LEP support are the following cases:

- **Addressing site constraints**: where sites are in high demand areas but face particular constraints, either because of the costs of remediation on brownfield sites or complicated town centre schemes involving several landowners. An example would be Station Approach in Winchester.

- **Shared workspace for digital start-ups**: where there are specialist non-standard property needs (eg flexible leases) that are not routinely delivered by the market and also where there are spillover/clustering benefits from similar firms being co-located in their start-up and early growth phases. Any investments should be subject to evidence of unmet demand. The refurbishment of existing space in Basing View is one potential example, although there may be opportunities in a number of locations which have large clusters of digital businesses (including Guildford and Woking).

There are other examples where there may be a case for intervention, although these will require more detailed consideration by the LEP. This relates to established office markets which currently attract low rental values, where investors are reluctant to invest in new schemes due to fears about a viability gap (this includes Basingstoke and certain towns within Blackwater Valley). In these circumstances, LEP investment could be used to pump prime development, however this should be carefully weighed against trends in the office market. The low rental values may reflect the stage of the business cycle, and wider measures to reduce the oversupply of poor quality space could be effective in attracting private investment over time. This is not to say that these investments should not be supported. They can often act as the signal that the market needs for further investment. However there is a danger that the main effect of public investment may just be the delivery of new office floorspace at an earlier date than would have otherwise been the case.
Industrial Market

xii. The study has found a very different pattern of demand and supply in the industrial market, which includes both manufacturing and warehousing space. There remains a persistent shortage of both industrial space and land with development potential in most market areas, making this by far the most pressing cross-LEP priority. Even in Basingstoke and Andover, where there is a very large supply of vacant space at Andover Business Park, agents reported shortages of smaller scale industrial space on the edge of Basingstoke.

xiii. The undersupply of industrial space (particularly B8) transcends LEP boundaries, with very strong demand for any sites that can serve the London market. In the south of the LEP area, the undersupply of sites to serve the Southampton market is shared with the Solent LEP.

Vacant Industrial Space, December 2015

Source EGi. Approximate vacancy rates are shown in green. The percentage is not shown for Basingstoke and Andover due to uncertainty about the total stock of space
xiv. Local planning authorities face a number of constraints in identifying new sites for industrial development. This includes environmental constraints such as the Green Belt, the lack of political will to identify new sites for uses which generate few jobs, are land hungry and unpopular among local people, and finally face intense competition for much higher value uses, including residential development. This is exemplified by the recent loss of Hartland Park for residential development, which means there are no large sites suitable for large scale warehousing remaining in the north east of the LEP.

xv. Councils also have few incentives to increase the supply of B8 space because the adverse consequences of undersupply may be shared across a wide area and may have limited direct impact on the local economy. The methodologies used to quantify the need for B8 in employment land reviews rarely have any mechanism for addressing these regional shortfalls.

xvi. Given that this is probably the most significant cross-LEP challenge, the LEP needs to develop a much clearer position on this. The LEP should:

- Work with neighbouring LEPs to build a clear picture of the undersupply of sites and undertake research to understand how this is damaging local economies. This should look at the potential impact on consumers but also the productivity impacts on important sectors such as retail and manufacturing where employers are increasingly reliant on just in time deliveries.

- Recognise the shortage of industrial sites as a cross LEP priority in the next draft of the SEP, and use the evidence in this report and any cross-LEP work to make the case to local authorities as they prepare their local plans and updates.

Other LEP Actions

xvii. The research has also identified a number of other possible actions that the LEP could take to support the development of the commercial property market:

- **Ensuring links between the Enterprise M3 Land and Property and Infrastructure groups:** Infrastructure and a successful commercial property market are intrinsically linked. It is therefore of the utmost importance that communication is improved between Enterprise M3’s Infrastructure and Land and Property groups, which should include joint strategy planning and case making.

- **Ensuring the LEP acts as a conduit for information sharing.** Decision making for land and property interventions needs to be based on robust and up to date evidence. Some LPAs have limited information on the characteristics of their local businesses or trends in the demand of commercial floor space. There is a need for a consistent set of indicators that all councils could use to monitor development trends in their area, and can be shared with the LEP on an annual basis. The LEP should then provide LPAs with information on local business trends and characteristics by subscribing to business and commercial databases.

- **Improved inward investment monitoring:** At the moment, there is inconsistency in the way that Invest in Hampshire and Invest in Surrey collect information on inward investment enquiries and share this with the LEP. Better information collection and sharing would mean that the LEP have detailed intelligence on the nature of demand from investors and could work with local authorities to ensure that this demand is satisfied.
• **Improved inward investment positioning and marketing.** Following on from the above, the LEP should work with both Invest in Hampshire and Invest in Surrey to ensure that both are focused on the opportunities from London relocations in the next few years and that their strategies are aligned as far as possible. The LEP should also provide strategic support in developing the marketing and inward investment offer of the Enterprise Zones and core town centre locations.

• **Reviewing the impact of PDR and lobbying if necessary.** Although the impact of PDR has been broadly positive to date, there is growing evidence that it is having a damaging impact on the sustainability of a number of local market areas. The LEP needs to be in a well-informed position to comment on the impact of PDR as it is kept under review by the Government. Key to this is good evidence on the nature of the office stock which is being lost and whether it is occupied. This will provide the LEP with an evidence base that it can review and use to lobby Government if necessary.

• **Support improved public sector asset strategy.** Enterprise M3 should look to provide expertise to local authorities on the use of their assets, particularly where they own significant assets which could be used to support economic growth.
2. **Introduction**

2.1 In 2013 the Enterprise M3 Local Enterprise Partnership (LEP) undertook an assessment of the commercial property market in the LEP area, looking at recent trends in the demand for and supply of business floor space, including office and industrial space (warehousing and manufacturing).

2.2 Since this study was produced, the Enterprise M3 area has experienced three years of strong growth which has changed market conditions. In 2014, the LEP also published its Strategic Economic Plan (SEP) which clarified the priorities for growth across the area and helped to secure £148m of Local Growth Funding. Given these developments, Enterprise M3 commissioned Regeneris Consulting to refresh its Commercial Property Market Study.

2.3 The study needed to address the following key questions:

1) Are the market areas set out in the 2013 report still valid?

2) What is the availability, type and demand for commercial property in each market area and across the Enterprise M3 area? How can this be measured and monitored on an ongoing basis by Enterprise M3?

3) What are the key opportunities and challenges in each market area and across the Enterprise M3 area?

4) How can the LEP and its partners address the opportunities and challenges identified in each market area and across the Enterprise M3 area?

2.4 Given the sector and spatial focus of the SEP, the study also needed to look at how the commercial property market is affecting the performance of key towns and employers in the LEP’s priority sectors.

2.5 This report follows on from the 2014 Enterprise M3 Housing Study by Regeneris. The purpose of this study was to advise the LEP on the role housing plays in helping to support growth across the area. There is a clear overlap between these studies; local economies need both access to housing and business workspace to thrive. However, given the environmental constraints in Enterprise M3 and the requirements of the planning system, the need for housing and new commercial development often come in to competition with each other. Although we comment on the relationship at various points in the report, both studies should be reviewed in conjunction with each other for a full understanding of the priorities for housing and commercial development.

2.6 The study has been based on extensive economic and market data analysis and consultations. All of the findings have been discussed, tested and refined through a series commercial property workshops. These were held in four different locations across the LEP area and included public sector representatives as well as local commercial agents. A full list of attendees is included in the appendix of the report.
3. **Strategic Context**

3.1 The LEP’s Strategic Economic Plan (SEP) sets out a vision for the Enterprise M3 area to be ‘the premier location in the country for enterprise and economic growth, balanced with an excellent environment and quality of life’. The SEP notes that Enterprise M3 has already made good progress towards this goal. It ranks among the highest performing LEP areas in the country in terms of business start-up rates, productivity and wealth, high level skills and concentrations of world class sectors. However, it also identifies a number of barriers which will need to be addressed if the LEP is to maintain and build upon its competitive advantage. These include:

- significant variation in the performance of local economies, with high performing towns such as Guildford, Farnborough, Woking and Basingstoke located just miles away from other towns facing socio-economic challenges.
- the need to improve the inward investment appeal of the LEP, by doing more to exploit its proximity to London’s airports, and by ensuring that high quality sites are available to potential investors.
- labour market challenges, caused by a growing demand for high level skills and an ageing population. This is exacerbated by a shortage of housing which means the Enterprise M3 area cannot attract and retain the workers needed to support growth.

3.2 The response set out in the SEP has both a sector and a spatial focus. This is set out in more detail below.

**Place Based Interventions**

3.3 The variation in the performance of local economies in different parts of the LEP calls for place-based, tailored interventions which respond to specific challenges. Two types of areas are identified:

- **Growth Towns**: these are the four high performing towns mentioned above, which collectively deliver one third of the jobs and GVA in the Enterprise M3 area. The focus in these areas is on ensuring that they can continue to flourish and maintain a high quality of life by building upon sector strengths, and addressing some of the barriers that occur as towns grow, including a shortage of housing and traffic congestion.

- **Step-up Towns**: these include Camberley, Aldershot, Andover, Whitehill & Bordon and Staines upon Thames. These towns are not currently realising their full economic potential compared to other areas, but this could be addressed through well targeted interventions. These include improving the liveability and investor appeal of town centres, improving connectivity to high performing areas and improving the local skills base.

**Sector Based Interventions**

3.4 The M3 area is home to the primary SciTech Corridor in the UK, a status gained through its combination of industrial strengths, cutting edge research and high performing universities. The SEP identifies four key sectors in which it has world class strengths. These are:

- ICT and digital media;
- Pharmaceuticals;
- Aerospace and defence, and
• Professional and business services.

3.5 The interventions to support these sectors range from measures to support enterprise development and innovation, such as support for incubation space and support services for high growth firms, to investments which will improve the skills of the workforce available to employers in these sectors (e.g. the Regional Centre for Aerospace and Defence).

Implications for the Study

3.6 This study is informed by the aims and aspirations set out above. It is also intended to influence future versions of the SEP by helping the LEP to better understand how the commercial property market is acting as a help or a hindrance to its economic growth objectives. It does this by:

• understanding the location and property requirements of the LEP’s priority sectors and assessing the evidence for whether access to suitable business accommodation is constraining the growth of these sectors (see Chapter 6).

• Taking a place based approach to the commercial property market analysis by identifying the specific challenges and opportunities experienced in different parts of the LEP, and drawing out the implications for Growth Towns and Step-up Towns.
4. **Macro Trends and Influences on the Commercial Property Market**

4.1 This section provides a review of some of the external factors and trends influencing economic growth in the Enterprise M3 area, and the implications for the commercial property market.

**UK Economic Trends and Prospects**

4.2 After several quarters of strong growth, a series of global and national developments have meant that the outlook for the UK economy is now much weaker. Global stock markets and commodity prices have fallen, while GDP growth has slowed, driven in part by declining productivity. These trends have prompted a number of economic forecasters, including the Bank of England and the OECD, to lower their growth projections significantly. The Office for Budget Responsibility have now revised down their GDP forecasts by around 0.3 percentage points a year to an average of 2.1 per cent a year for the rest of the decade. There are of course a number of risks to the national and global economy which mean growth could be even lower, particularly slower growth in China and the economic uncertainty that would be caused by a vote for the UK to leave the European Union (EU).

4.3 There is so far little evidence that these uncertain economic conditions have had any negative impact on the labour market. The UK economy has created nearly 2.3m jobs since 2010 and unemployment rates have fallen to a record low. The strong performance has been driven by the continued growth in the service sector, particularly office based sectors such as professional services and business administration which have contributed nearly one million new jobs between 2010 and 2015.

4.4 Looking ahead, it is likely to be the same highly skilled service sectors which will drive growth in future. A number of independent economic forecasts, including Oxford Economics, the UK Commission for Employment and Skills and Experian all show that professional services is expected to continue to be the main source of new jobs over the next ten years, although the strongest rate of growth is expected to be in ICT and digital industries (ranging from 2.0% to 2.7% per annum).

Despite the continued uncertainty around global and national economic growth, these trends leave the Enterprise M3 area well positioned to capture future growth opportunities. Both professional services and ICT/Digital are key strengths of the LEP area, due to its highly skilled workforce, proximity to London and significant industry clusters. Providing a range of high quality offices and commercial sites will therefore be key to ensuring that the LEP area continues to build upon its existing competitive advantage.
Inward Investment

4.5 Attracting Foreign Direct Investment (FDI) continues to be one of the major strengths of the UK economy, outperforming all other European nations. The number of successful FDI projects has grown year on year since 2010/11, and in 2014/15 resulted in the creation of nearly 85,000 new jobs.

4.6 The UK’s success has been broad-based, with large numbers of projects in financial and professional services (515), creative industries and ICT (486) and Advanced Manufacturing (468). The UK has been particularly successful in attracting headquarter investments, capturing 35% of all European HQ moves in 2014/15 and has also led Europe on R&D projects, with the number of R&D investments increasing by 11% from 2013/14.

4.7 Ernst and Young UK attractiveness survey highlights a wide range of strengths which appeal to investors, with the most important factors being the quality of life on offer in the UK, the technology and telecommunications infrastructure and access to the European market. That said, investors still have concerns over the availability and cost of sites and premises, with only half saying the UK is attractive in this area, and 38% stating it is unattractive.

4.8 The survey also identified a growing market share of inward investment for the English regions. It found that the South East is the second most attractive region in which to locate operations (after London). The largest sector for FDI was software, but there was also significant growth in manufacturing (including pharmaceuticals, automotive and electrical).

4.9 The most important criteria for investors considering a regional location were transport infrastructure, availability and cost of labour, availability of business partners and the availability and cost of sites and premises.

Enterprise M3 is very well placed to capitalise on the increased investment in English regions and to capture a growing share of UK FDI. The LEP area already has more foreign owned businesses than any area outside London (see Figure 4.3), and UKTI data shows there were 39 successful FDI projects in Enterprise M3 in 2014/15, which was the highest number in the past five years. The FDI growth areas of software and ICT services, professional services, headquarters and R&D functions play to the strengths of Enterprise M3, with its concentration of highly skilled sectors and high performing universities. The LEP area also scores well against all of the criteria which influence investor decisions. The inclusion of sites and premises in these criteria further underlines the importance for Enterprise M3 of ensuring that it has a strong portfolio of sites to attract investors and maintain its edge over competing locations.
4.10 A number of agents have noted a growing trend among many large, London based occupiers looking to decentralise office based functions for cost reasons. A Q3 2015 office market update by Cushman and Wakefield\(^1\) reports that the overheating office market in Central London has resulted in prime, total occupancy costs reaching £175 per sq ft in the West End. This is leading to record levels of take-up in the South East office market, as investors look for more affordable accommodation in locations with good transport connections to the capital, such as Thames Valley. Recent examples include EDF, Rio Tinto, Maersk and Hammerson, and they report that the trend is likely to continue as there are requirements for a further 850,000 sq ft from companies looking to relocate departments from Central London. The forthcoming business rates review in 2017 is also expected to exacerbate this trend, as occupancy costs in Central London will become even more expensive relative to other office markets in the South East.

4.11 Figure 4.4 shows those areas that are likely to see the greatest benefits from relocations from London. It shows how average rental values have changed between 2008 and 2015, with the greatest growth occurring in locations around the motorway network, including the M25, M4 and M3. It is in these locations where demand has been strongest and where rents are at a level where new office development is commercially viable. Displaced investment from London is likely to be a major driver of inward investment in the South East over the next few years. Feedback from the commercial agent’s workshops underlined the view that this is a major opportunity for the Enterprise M3 area. The bottom map in Figure 4.4 suggests that the opportunity is greatest in the north east of the LEP area, around Staines, Weybridge, Woking and Guildford. Some of these areas have seen significant investment in new, Grade A office stock in recent years (particularly in Staines). It is important that opportunities for high quality office development in these areas are identified and promoted if Enterprise M3 is to continue to compete for this investment with areas such as the Thames Valley.

\(^1\) Cushman and Wakefield (2015) Property Times Quarter 3, 2015: London decentralisation could lead to record South East take up
Figure 4.4 Office Rents per sq ft, 2008 and 2015

Source EGi. Note: data based on all deals over 2,500 sq ft
Planned Transport Investments

4.12 A number of major transport investments in and around London also have the potential to influence investor decisions and provide a boost to some of the South East’s property markets. The largest of these is Crossrail which will be a new west-east rail link, linking Maidenhead and Heathrow in the west with Shenfield and Abbey Wood in the east via the West End, City of London and Canary Wharf. By significantly reducing journey times to Central London, this investment is likely to significantly increase the attractiveness of many locations which compete for investment with Enterprise M3. A research report by Lambert Smith Hampton (LSH) found that Maidenhead and Slough (and to a lesser extent Reading) are among the non-London locations which are likely to benefit most from Crossrail.

4.13 Other planned transport investments include the extension of the Metropolitan Line, which will enhance the investor appeal of Watford and, in the longer term, HS2, which will improve London connections to the Midlands and the north.

The planned transport investments represent a potential threat to the competitiveness and investor appeal of Enterprise M3. As the London office market continues to overheat, journey times to London will be a key factor influencing investment decisions. Although areas in the north east of the LEP will continue to have faster rail connections to Central London than many of the towns in the M4 corridor, other major office markets in the LEP may lose out on future investment to these competing locations. This includes Basingstoke and the Blackwater Valley. The competitive advantage of the M4 corridor is further enhanced by the fact that many towns, including Reading and Slough, have seen significant investment in high quality offices and have substantial scope for further development, leaving them well placed to capitalise on the potential benefits of Crossrail.

Housing Shortage

4.14 Like many areas in London and the South East, the Enterprise M3 authorities face a major challenge meeting the anticipated demand for housing over the next ten to twenty years.

4.15 Under-delivery of housing could act as a constraint on employers’ ability to recruit the skills they need which could have adverse effects on economic growth and deter potential investors.

4.16 A 2014 report by Regeneris assessed the potential shortfall of supply of housing in the Enterprise M3 area by modelling a number of scenarios. It found that the Enterprise M3 authorities are cumulatively planning sufficient housing to meet demographic projections (based on the ONS’s 2012 sub-national population projections) but are planning substantially fewer homes than would be required to meet the jobs growth implied by a set of economic forecasts used in the study (a shortfall of around 5,500 homes per annum over the period 2011-2031).
4.17 This should of course be caveated by the fact that the study used only one set of jobs forecasts, and it is noted that a number of local planning authorities have used alternative employment projections to determine their own need for housing. However the wider point from this is that there is a very real danger that growth and investment could be undermined by the failure to deliver sufficient housing.

4.18 The issue of permitted development rights and the implications for Enterprise M3 and market areas are discussed in Chapter 7.

The relationship between housing and commercial property is complex. Both are required to support the needs of a growing economy, but environmental constraints and a shortage of sites mean that the need for residential and commercial development often come in to direct competition with each other. All of the local authorities in the Enterprise M3 LEP will need to ensure that the balance between homes and commercial development is tuned to the needs of their local economy. The introduction of permitted development rights, which allow landowners to convert commercial premises to residential uses without planning permission, can therefore serve a useful purpose in those areas with an oversupply of poor quality, dated office stock. However, in other areas, there is a risk that the continued erosion of town centre offices and the failure to identify new high quality sites for office developments risks these areas becoming dormitory towns, which has knock on effects for the vitality and viability of town centres.

Warehousing Shortage

4.19 The UK warehousing sector is undergoing profound change as a result of changes in consumer habits, manufacturing processes and government planning policy. The move towards online retailing and consumers’ desire for next day deliveries is placing demands on the warehousing sector which have not been seen in the past. This has been coupled with a shift in focus from the major supermarkets away from large superstores towards a larger number of smaller convenience stores, particularly in urban locations. Both of these trends mean more and more warehouse space will be required on the edge of conurbations to replenish stock in the time frames required.

4.20 However, a number of recent studies have warned that the sector currently faces a number of challenges to respond to this increased demand. These include:

- A 2015 study by the United Kingdom Warehousing Association (UKWA) and Savills, which found a national vacancy rate of 7.5% and a shortfall in the amount of land coming forward for new schemes. Based on current supply levels and average take up, it estimates most regions of the UK have less than a year’s supply left.

- A 2015 report which found there was less than a 10-month supply of sheds over 100,000 sqft, and a particular shortage in the South East. It warned that rents could increase by between 5 and 10 percent by the end of 2016 and that delivery times would lengthen unless the problem is addressed.

Part of the challenge addressing the undersupply of large warehousing is the fact that it is a regional issue which transcends local authority and LEP boundaries, and the few incentives that planning authorities have to allocate scarce land for warehousing development when it generates few jobs and is competing with uses which generate much higher land values. This is particularly the case around London where there is growing demand for B8 space all around the M25, but competition from new residential or office development for most large sites. The methodologies set out in Planning Practice Guidance and applied in employment land reviews do not include any mechanisms for dealing with this regional shortage of warehousing land, and the adverse effects of the undersupply may be experienced by retailers and consumers across a very wide area. The
absence of incentives for individual LPAs or even functional economic areas to allocate land for warehousing development means the response needs to be done at a regional level and may require the input of several LEPs.
5. Enterprise M3 Market Areas

### Key Points

- We have proposed two changes to the market areas identified in the 2013 study. The Central Hampshire study area is now divided into two separate market areas, named Winchester and East Hampshire. Guildford and Woking is divided into two separate market areas. These were discussed and agreed at the commercial agent’s workshops.

- The changes to East Hampshire and Winchester are based on differences in the drivers of the commercial property market in each location, particularly transport connections and proximity to other established office markets.

- The changes to Guildford and Woking are based on the very strong appeal of Guildford town centre as an investment location, and the views of commercial agents that a shortfall here cannot be addressed through increased provision in Woking town centre.

- Market areas have been defined based on the shared characteristics or distinctive assets of employment centres in different parts of the LEP, which influence business location decisions. However, these market areas cannot reflect the diversity and complexity of business requirements.

#### 5.1

One of the main requirements of the update report was to revisit and update the commercial property market areas from the 2013 study. The main aim of this exercise is to identify a set of geographies which broadly reflect the search areas of businesses in different parts of the LEP, and the locational criteria that influence these search areas. These market areas can then be used to assess whether there is a shortage or oversupply of different types of floor space or employment land at a meaningful geographical level. The 2013 study identified six market areas, as shown in Figure 5.1.
5.2 Defining commercial market areas requires an element of subjective judgement. While it is possible to make some generalisations, the search areas of businesses vary substantially depending on the requirements of the occupier. For many small businesses (who make up the vast majority of businesses in the LEP area), the search area is likely to be quite local and centred around the business owner’s closest town or business park. However, for larger occupiers, such as those of strategic distribution or large corporate offices, the search area can be very wide. For example, some investors may consider any location offering fast connections to London, the motorway network and access to a skilled workforce. This means that business search areas do in many cases extend beyond the borders of the LEP, particularly in the north of the LEP area where towns such as Basingstoke and Farnborough compete for investment with towns in the M4 corridor such as Slough, Maidenhead and Reading.

5.3 We have therefore taken a pragmatic approach to defining market areas, which aims to capture the shared characteristics or distinctive assets of employment centres in different parts of the LEP, which are likely to influence business location decisions. The review considered a number of different factors including the following:

- Whether employment centres predominantly serve local markets or also attract inward investment
- Rents achieved for office and industrial space
- Transport connections
- Access to skilled workers
- Access to markets (including London, south coast cities, the midlands and the north)
- Sector clusters
5.4 Our conclusions were then shared and discussed with local commercial agents at a series of workshops held in different parts of the LEP area. This allowed us to test the findings with those who are closest to the market, and who have an in depth knowledge of the location criteria of businesses and the relative merits of different locations through the enquiries they receive for commercial space. The revised market areas are set out in Figure 5.2, with the changes highlighted in red.

Figure 5.2 Revised Market Areas

Source Regeneris Consulting

5.5 The justification for the main changes are as follows:

Central Hampshire divided in to Winchester and East Hampshire market areas

5.6 The commercial property markets of East Hampshire and Winchester (districts) have distinct characteristics, with East Hampshire attracting far more deals for industrial space than for office, while the reverse is true in Winchester. Demand for industrial space is relatively strong in East Hampshire due to its location and access to the A31 and A3, which means it is well connected to Portsmouth, Winchester, Farnborough and Guildford. The Whitehill and Bordon Enterprise Zone will offer potential occupiers equal driving times to each of these locations, which is likely to be a distinctive attraction for potential investors, and distinguishes it from the city of Winchester which has strong links with Basingstoke to the north and Southampton in the south.

5.7 The main towns in East Hants have very small office markets serving mostly local SMEs. The growth of these markets is likely to be limited more by their proximity to established office markets in Guildford and the Blackwater Valley (and Portsmouth in the case of Petersfield) than by Winchester, with which these towns share weaker commuting links.

5.8 We therefore concluded that there was a strong case to divide Central Hampshire into two market areas (Winchester and East Hants). This was agreed with commercial agents and at a meeting of economic development officers which included the two councils.
5.9 The towns of Guildford and Woking are both large, office based employment centres located in the highly skilled commuter belt of London, and offer excellent rail connections to the capital. Both towns also have a similar industrial mix, with an economy centred around highly skilled professional services and increasingly ICT. Despite these similarities, there is some evidence that Guildford is a more sought after office location, which generally attracts higher rents than in Woking (see Figure 5.3).

5.10 This was strongly endorsed by commercial agents, who recognised that Woking’s office market has become much stronger (driven in large part by the business focused approach of Woking Borough Council and the transformation of the town centre), but that Guildford remains a more attractive location for investors due to its attractive town centre and amenities. Crucially, the commercial agents stated that the difference between the two towns meant that it could not be assumed that increasing supply in Woking could be used to address a shortage of office space in Guildford. For these reasons, we have concluded that the original market area should be divided into two separate market areas.

5.11 It should be noted that the Guildford market area still includes a large part of Waverley district, including the towns of Godalming and Haslemere. These remain because they are much smaller office centres (supporting local SMEs) and therefore play a secondary role to the main office centre of Guildford. The importance of Guildford as a source of employment for these areas is evidenced by the large outward commuting flows from Waverley to Guildford. Given the small scale of the office markets in Waverley, these mostly serve local SMEs and are not appropriate locations for major office occupiers who are attracted to Guildford.

5.12 A final point is that this conclusion relates to the commercial property market area of Guildford and Woking and not the functional economic area (FEA), which LPAs are required to define in NPPF. Although commercial property markets are one criteria that LPAs need to consider when defining their FEA, PPG states that a number of other criteria should be considered including the housing market area (e.g. migration and travel to work patterns), service markets for consumers and the catchment areas of facilities providing cultural and social well-being. None of these factors have been considered when determining the commercial property market area for Guildford and Woking.

Basingstoke & Andover

5.13 The Basingstoke and Andover market area has been retained from the original 2013 study following discussion with commercial agents, although we recognise that there are clear differences in the local economy and commercial property market of each. Andover’s market is very much driven by the warehouse and distribution sector, while Basingstoke is mainly an office based economy. We have retained the market area because Basingstoke acts as the dominant office employment centre for the area, and the main reason why Andover’s office economy is not larger is because of its proximity to Basingstoke.
5.14 This market area is also a good example of the hierarchical nature of commercial property markets. Andover and Basingstoke are likely to be in the same market area for large investors seeking a location with good access to the strategic road network, but would be in their own market areas for SMEs seeking local office accommodation or retailers looking for small warehouses in edge of town locations. Therefore, although we have grouped the two areas into a single market area, there is still potential for imbalances at a local level for certain types of investors.
6. **Economic Trends in Enterprise M3**

- The Enterprise M3 economy has experienced a strong recovery from the economic downturn, creating over 22,000 jobs between 2010 and 2014. This has been driven by strong growth in those high skill, office based sectors which are well established in Enterprise M3, such as professional services.

- Over 5,500 new businesses have been created over the same time period (8%). This was one of the fastest growth rates of any LEP in the country and underlines the high rates of enterprise among residents of Enterprise M3. 65% of new businesses were in two of the LEP’s priority sectors (ICT and digital and professional and financial services).

- The high rates of growth in the number of small and start-up businesses suggests there is likely to be growing demand for specialised types of workspace, including incubators and co-working facilities. These facilities offer more flexible leases than mainstream commercial property but also provide an environment for businesses to network and collaborate. This is particularly important for knowledge intensive and creative businesses such as ICT and digital.

- Key growth locations include the market areas of Guildford, Upper M3 and Woking. Guildford has seen very high rates of job creation, while Upper M3 and Woking have seen very strong rates of growth in the business base. These locations’ proximity to London, highly skilled labour markets and desirable town centres leave them well positioned to be the main drivers of growth in future.

- There is only limited evidence that access to commercial property is acting as a constraint on growth in Enterprise M3. Access to skills is a far more important concern for businesses.

### 6.1

The Enterprise M3 area has one of the highest performing economies in the country. Its major strengths include its highly skilled and entrepreneurial population, low unemployment rate and concentration of high value, knowledge based industries. These strengths have made it one of the most productive LEP areas in the country (behind only London and Thames Valley Berkshire).  

### Employment Change

6.2 Employment data shows that the Enterprise M3 LEP area has experienced a strong recovery from the economic downturn, creating over 22,000 jobs between 2010 and 2014 (3%). The rate of growth is below the national average (4.6%), which this was skewed by very strong growth in London (12%).

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2 As measured by GVA per head according to ONS data for 2013
6.3 The fastest growing sector over the four-year period was professional, scientific and technical activities which created nearly 11,000 jobs, with the strongest growth in business consultancy and engineering services and consultancy. Growth in these sectors is likely to have resulted in increased demand for B1a and B1b office space.

6.4 The greatest fall in employment was in manufacturing, which lost a further 7,600 jobs. This continues a long term trend of contraction in this sector, which is likely to be due to a mix of productivity improvements and a decline in traditional sectors under pressure from developing economies. However, the LEP area still has a significant presence of manufacturing sectors, including high-tech sub-sectors such as pharmaceuticals, aerospace and consumer electronics, many of which have continued to grow.

6.5 Figure 6.2 shows how this growth has been distributed across the market areas. The strongest growth was in Guildford and the Blackwater Valley, driven mainly by growth in professional services. Over 4,400 new jobs were created in this sector in Guildford alone, representing growth of 38% in just four years. This underlines the appeal of Guildford to businesses in this sector, due to its highly skilled labour market, connections to London and high quality town centre.

6.6 The largest fall in employment was in Basingstoke and Andover, although this was mainly due to a large fall in ‘activities of membership organisations’ (-2,900 jobs). Even here, there has been strong growth in professional and scientific activities over the past four years (+1,000 jobs).
Change in the Business Base

6.7 The total number of active businesses in Enterprise M3 increased by 5,500 between 2010 and 2014, a rise of 7% which is above the national average. The vast majority of this growth was in the number of micro-businesses (businesses employing fewer than 5 people), which can be attributed to the high business start-up rate in Enterprise M3. In 2014, there were 7.3 new businesses started per 1,000 working age people, compared to a national average of 6.0.

6.8 Of the 5,500 new businesses, over 65% were in the LEP’s priority sectors of ICT and digital media (1,300 new businesses) and professional and financial services (2,400). This underlines the importance of these sectors as a source of wealth creation in Enterprise M3.

6.9 The spatial pattern of this growth is markedly different to change in employment. The highest growth areas were Upper M3, Woking and Basingstoke and Andover, which were among the areas with lower jobs growth. The areas with strongest growth were those densely populated areas in close proximity to London. This is a pattern frequently found in areas on the periphery of large cities, particularly those with large concentrations of highly skilled workers. There may be a number of reasons for this, but the large growth in consultancy businesses suggests increasing numbers of residents are choosing to set up their own business closer to home whilst maintaining good transport links with clients in the city.

Figure 6.3 Change in Number of Businesses, 2010-2014

Barriers to Growth

6.10 The most recent LEP wide business survey is from 2011. A key focus of this survey was to understand the barriers to growth experienced by businesses in Enterprise M3. It showed that most of the key barriers are non-place specific and relate to legislation or access to finance. Of the place specific factors, access to skills was the main barrier cited by businesses (21%), with skill shortages relating to both high level skills and basic skills.

3 A similar pattern emerged on a previous Regeneris study in the Manchester City Region, which found very strong growth in professional services and ICT consultancies in the more affluent and highly skilled areas to the south of Manchester city centre.
6.11 The proportion of businesses which cited a lack of suitable business premises as being the main barrier to growth was much lower (8%). This suggests that, on the whole, the commercial property market was not acting as a constraint on growth at the time the survey was undertaken. The larger proportion of employers who cited access to skills as an issue suggests that the bigger priority for most areas are likely to be measures which improve the responsiveness of further education providers to the needs of employers, or increase the size of the workforce through more housing.

6.12 It should be noted that the survey is now several years out of date, and that market conditions have changed since this took place. A number of local surveys carried out for local authorities have found that access to property is more of a constraint, although a number of these had very low sample sizes and are therefore not statistically representative. Key findings include:

- Guildford Business Survey (2015): 22 out of 91 businesses cited a lack of suitable business accommodation as being the factor which would make them consider leaving Guildford. This was more than any other factor except a reduction in business.

- Winchester Workspace Demand Study (2013): 37 of 52 businesses surveyed reported that it is difficult or very difficult to find suitable commercial property within Winchester for the price they are willing to pay.

- New Forest Business Needs Survey (2015): Only 10% of 158 respondents thought the quality of their site or location was poor. Of the 65 businesses who were planning to move in the next five years, 13% wished to locate within the New Forest but were unable to do so, with the main reason being the availability of suitable premises. The most important factors businesses look for when relocating were superfast broadband and flexible forms of accommodation (easy in/easy out).

6.13 Chapters 7 and 8 provide a more detailed analysis of the demand and supply of commercial space and discuss the potential implications for the local economies of market areas.

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Source: Enterprise M3 Business Survey 2011, Hampshire Economic Partnership
Inward Investment

6.14 There is limited data available on inward investment trends in Enterprise M3, although data published by UKTI shows that there were 39 foreign direct investments in 2014/15, which was the highest number in the past five years. These are only likely to represent a proportion of the deals which have been completed, many of which are not recorded by UKTI.

Enterprise Zones

6.15 Enterprise Zones should in theory, provide an opportunity to deliver a stimulus in business investment and growth at specific location in the Enterprise M3 area. The LEP has three designated enterprise zones at Longcross, Basingstoke and Whitehill and Borden.

6.16 Each of these is outlined in more detail below:

Longcross Park (Upper M3)

6.17 Longcross Park is a 22hectre site located in the Upper M3 market area in between Chertsey, Virginia Water and Chobham. The site was formerly owned by the Defence Evaluation and Research Agency and was used to manufacture and test tanks. The site is now owned by Crest Nicholson who are taking the site forward alongside Aviva Investors.

6.18 The site benefits from its own mainline station providing a half hourly service to London Waterloo (48mins) and Reading (35mins) at peak times. It is under 10 minutes away from J11 and J13 of the M25 and J3 of the M3 and easily accessible to Heathrow. The site represents one of the largest

What is Planned

Longcross Park will include around 115,000sqm of new commercial floorspace, with the aspiration of attracting 50 new businesses and 5,600 new jobs. The development also includes provision of cafes, retail and gym facilities. As part of the plans it is envisaged that Longcross station will be improved with additional stopping services on the Waterloo to Reading line.

Links to Target Sectors and opportunities

6.19 There are no specific target sectors for Longcross, but the aspiration is to deliver a “a state-of-the-art office environment to suit almost any size or type of business”. This lends itself to an evolution of the existing broad sector strengths in digital media and business services. This could include specific regional specialism such as 5G and cyber security.

6.20 The nature of the block development could support some life science and lab activities, although this is less likely given the needs of the sector and the fact that they tend not to be located alongside other, more general uses.
Specific needs

6.21 This is a viable site, with strong investment potential and is probably the Enterprise M3 enterprise zone most likely to come forward quickly. Some investment is clearly needed to improve the station and onsite amenities, but the site is unlikely to require significant public sector investment to be delivered.

Strategic Importance

6.22 Longcross Park represents Enterprise M3’s largest high quality employment site suitable for strategic inward investment. Its unique position in relation to Heathrow and Gatwick, the strategic highway network of the M25 (and interlinked motorways) and London make it potentially attractive to international companies. The site will be developed as a high-tech business park which will deliver almost 6,000 skilled jobs, including jobs in the flourishing digital and cyber security sector. Its proximity to Royal Holloway University will offer the potential for development of grow-on space. It will be well positioned for start-ups that have been established as spin-out/spin-in companies who rapidly need to move to a grow-on facility as they evolve out of their very early stage development and begin to grow and take on staff. Enterprise Zone status will therefore create the conditions necessary to unlock and accelerate development at the site so that it can realise its potential and enable Enterprise M3 to better compete for FDI globally in a growing sector.

Basing View (Basingstoke and Andover)

6.23 Basing View is owned by Basingstoke and Deane Borough Council and is being developed with their partners, Muse Developments. The site is located on the edge of the centre of Basingstoke, a short distance from the railway station and town centre amenities. The area has historically been an office location although the stock on the site is now outdated and, on the whole, not deemed to meet modern market standards. Some notable investments have been made into the area in recent years with the opening of a John Lewis at Home and Waitrose store and a new Network Rail training campus.

What is Planned?

6.24 Muse Developments will lead on the redevelopment and refurbishment of Basing View, with improvements to accessibility and the public realm within the business park. The site is 13 hectares and it is envisaged that it will provide 73,600sqm of new business space as well as 28,000 of refurbished commercial space. The vision is that Basing View will be regenerated in to a sustainable urban business park. Estimates suggest that this could accommodate 60 new businesses and support over 4,000 new jobs.

Links to Target Sectors and Opportunities

6.25 Although the Enterprise Zone states that the site will be targeted at digital sectors, in practice Basing View offers potential to support a range of office based sectors. Located within the central western corridor of Basingstoke, Basing View is less than a 5 minute walk from Basingstoke train...
station and is easily accessible from Junction 6 of the M3. High quality business space with these locational assets are increasingly important to investors in a wide range of knowledge based industries (see Chapter 6).

6.26 In addition to the investments of John Lewis Partnership and Network Rail, there has also been some interest in speculative office development. On 15th March 2016, the council gave consent for a new five storey 60,000 sqft office development at Basing View.

Specific needs

6.27 Clearly there needs to be an uplift in quality of office space in area; this will be delivered through both new development and refurbishment. Given the scale of this task and the current market conditions, there may be a case for some public subsidy to pump-prime development. Ideally, this would expedite activity and create a critical mass of activity and momentum at the site. This is discussed in more detail in Chapter 8.

6.28 Whilst transport connections are good, broadband needs to improve to match other locations the LEP and competitor areas; investment in 5G will help address this. To exploit this and other USPs it is important that partners support the marketing of Basing View to target sectors and business more generally.

Strategic Importance

6.29 It is intended that Basing View will provide a unique opportunity to develop the digital cluster that exists in Basingstoke (the largest in the LEP area), using the SETsquared incubator located at the Basing View Innovation Centre. The Centre will connect to the 5G Innovation Centre (5GIC) at the University of Surrey through a powerful 5G emulator. Through this link, the 5G project, which has already secured more than £60m of public and private investments and is supported by world leading companies such as Fujitsu, Huawei and Vodafone, will support local entrepreneurs in accessing the 5G technologies and be part of what is set to create around 200 new high growth companies in the Enterprise M3 area. Furthermore, SETsquared runs an entrepreneurship and business support programme from this centre to create 20 high growth companies in the digital/tech sector and to lever £20m of investment; the development of the Enterprise Zone will provide flexible space for these new businesses to locate and expand and act as the catalyst to develop networking opportunities, enterprise and growth support and flexible space to respond to the needs of this type of business. Chapter 9 identifies the land and property interventions which the LEP could consider to support the development of this cluster.

Whitehill and Bordon (East Hampshire)

6.30 Whitehill and Bordon is located just south of the town of Bordon. The land is owned by the HCA and is being developed by Radian. It is part of a wider regeneration project which was originally given Eco-Town status (now ‘Healthy Town’ status). It is located on the former site of the Army’s schools of electronic and mechanical engineering. The entire site is as large as 100 hectares, although only eight hectares are designated as enterprise zone.

What is Planned?

6.31 Whitehill and Bordon is to be transformed into a desirable and sustainable ‘Healthy Town’ through a £1 billion regeneration project which will provide up to 3,350 homes and 5,500 new jobs, as well as new schools, a new road, new facilities and green space for residents and visitors.
6.32 The enterprise zone site aims to deliver 20,000 of new commercial floorspace, accommodating 105 businesses and 495 new jobs. The current plans are for a large proportion of this commercial space to be office space, although we understand there is some scope to provide industrial space (B2).

Links to Target Sectors and Opportunities

6.33 An Inward Investment strategy was prepared for Whitehill and Bordon in 2013 which identified ‘clean technologies’, tourism and leisure and IT and digital industries as being the main sectors which could be targeted. We also understand that more recent research has identified opportunities around advanced automotive employment.

6.34 We understand that the council has recently been in discussions with a potential investor from the digital sector which would represent a major investment at the site and could act as a stimulus for the wider development of the area. Whilst partners should not be deterred from pursuing this investment, it may also be worthwhile to investigate the potential of some light industrial provision in the wider Whitehill and Bordon regeneration area. Although the current planning permission does not extend to B8, this would also be likely to attract significant market interest and had the support of local commercial agents (see Chapter 8).

Specific Needs

6.35 Provision of superfast broadband will be a key priority if the site is to attract investors from the digital sector (which is the target sector identified in the Enterprise Zone application). Current broadband speeds at the site are quite low, and this site should be prioritised as part of Enterprise M3’s commitment to extend superfast broadband as part of its Local Growth Deal.

6.36 As outlined above, some broader sector focus could help deliver a more balanced economic offer in the area. Some supported market testing could help the areas better communicate its offer to a broader range of sectors.

Investment to Date

6.37 To date, Enterprise M3 has secured approximately £23.9 million from the Local Growth Fund for five key projects – the Whitehill & Bordon Future Skills Centre (work starts in early 2016), Whitehill & Bordon Business and Enterprise Centre (work starts in late 2015), Phase 2 of the Whitehill & Bordon Relief Road (preparation works already underway) and two sustainable transport projects (work starts in late 2015).

Strategic Importance

6.38 With the loss of the army, Whitehill and Bordon will lose significant economic activity and risks being perceived as an area in decline. Security of new jobs, local business growth and enterprise opportunities need to be created at the earliest stage of development to prevent a decline that will be difficult to recover from.

6.39 The LEP’s funding package, when combined with the other investments that it will lever in from the public sector and the private sector, will act as a catalyst for the development of the town and make a significant contribution to the growth of the Enterprise M3 area.
7. Requirements of Priority Sectors

- The four priority sectors account for 145,000 jobs and 26,000 businesses (20% and 15% of the total for the LEP). The largest sectors by far are ICT and digital and professional and financial services. These two sectors have also been the main drivers of growth in Enterprise M3.

- Although classed as manufacturing sectors, a large proportion of the activity which takes place in the aerospace and defence and pharmaceuticals sectors is actually office based. This reflects the presence of a number of large companies who have their head office and some research functions in the Enterprise M3 area. The actual manufacturing base in the Enterprise M3 area is quite modest. This means the majority of requirements are for high quality office space which can be easily converted to R&D/lab space.

- ICT and digital businesses are widely distributed across the LEP area, but located mainly in urban areas. A town centre location offering fast rail connections to London and access to a young and highly skilled workforce are the key requirements for a large proportion of employers. This would tend to favour the Growth Towns of Guildford, Woking, Farnborough and Basingstoke and the Step-Up Town of Staines.

- The high concentration of start-ups and micro-businesses in this sector also means there is high demand for specialised forms of workspace including incubators and co-working spaces, which offer flexible terms and an environment to network and collaborate. Access to high speed broadband is also a ubiquitous requirement for both large and small businesses.

- The professional and financial services sector is also widely distributed, but the majority of large requirements are likely to be in locations with good access to Heathrow and London. The need for fast connections to London will grow in importance as more and more large employers look to relocate their back office functions.

- Town centres are favoured by many professional service firms because of their transport connections and amenities. Guildford is a particularly sought after location because of its attractive town centre, train station and shops, bars and restaurants which have attracted a very wealthy and skilled workforce which appeals to many investors. The transformation of Woking town centre has also seen this area attract a series of new HQ investments.

- However, there is still an important role for high quality business parks, particularly those offering high car parking ratios, fast connections to London and high quality buildings and amenities.

| Table 7.1 Summary of Sectors and Property Requirements |
|------------------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Aerospace/ Defence | ICT & Digital | Professional & Financial Services | Pharmaceuticals |
| Total Employment | 6,800 | 60,000 | 64,000 | 6,000 |
| Number of businesses | 260 | 11,700 | 16,000 | 200 |
| Type of space | Office | Office | Office | Office |
| | R&D | R&D | | R&D |
| | Retail | | Warehouse | |
| | Warehouse | | Manufacturing/ workshops | |
| | | | | |
Notable Clusters

- Blackwater Valley
- Basingstoke
- Guildford
- Woking
- Upper M3

Key location and property requirements

- High quality business parks
- Grade A HQ buildings
- Access to motorway
- High car parking ratios
- Industrial space for maintenance/repair
- Town centre locations
- Flexible workspace
- Access to London
- Grade A HQ buildings
- Access to London
- Town centre locations
- High quality business parks
- Grade A HQ buildings
- Grade A HQ buildings
- Easily convertible office/R&D space

Evidence that premises acting as a barrier to growth?

<table>
<thead>
<tr>
<th>Premises acting as a barrier to growth?</th>
<th>Limited</th>
<th>Yes – shortage of flexible office space in some locations</th>
<th>Yes – shortage of Grade A office space in several areas</th>
<th>Limited</th>
</tr>
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Aerospace and Defence

Characteristics of the Sector

7.2 Enterprise M3’s aerospace sector is made up of c. 260 businesses\(^4\), which employ around 6,800 people\(^5\). It is therefore one of the smaller priority sectors, but a key source of wealth creation in Enterprise M3. The sector is made up of four main sub-sectors which are likely to have a range of accommodation requirements:

- The **defence** sub-sector accounts for the largest share of employment in Enterprise M3 (2,800 jobs), but contains just 25 businesses. This reflects the presence of a number of large employers in the defence sector, including BAE\(^6\) and the British Army, which has its Land Forces headquarters based in Andover. Most of these jobs are likely to be office or R&D based as BAE does not have any manufacturing facilities based in Enterprise M3.

- Similarly, the **manufacturing** sub-sector accounts for 2,200 jobs but only 60 businesses. This also includes some of the jobs based at BAE and is therefore likely to overestimate the number of jobs related to the physical manufacture of aircraft and machinery and which may require B2 space.

- There are a further 60 businesses and 800 jobs involved in **repair and maintenance** of aircraft and machinery which are also likely to require industrial space.

- The remaining jobs and businesses are in the **transport services** sector, which includes a range of services related to the activities at Farnborough airport. This includes operation of terminal facilities, ground service activities as well as passenger transport services. This

\(^{4}\) UK Business Counts 2014

\(^{5}\) Business Register and Employment Survey, 2014

\(^{6}\) BAE has both aerospace and defence operations based in Enterprise M3
sector accounts for over 40% of businesses in the aerospace sector but a much lower share of employment. Most of these businesses are therefore very small and are likely to be based at or around Farnborough Airport in a mix of retail, B8 and B1 space.

Figure 7.1 Share of Employment and Businesses by Sub-Sector, 2014

![Bar chart showing share of employment and businesses by sub-sector, 2014.]

Source BRES and UK Business Counts

7.3 Although the transport services sector is highly concentrated around Farnborough Airport in the Blackwater Valley (and repair and maintenance to a lesser extent), the other sub-sectors are fairly widely distributed across the Enterprise M3 area. Manufacturing in particular shows very few signs of clustering, with small numbers of manufacturers in most market areas. This suggests that Farnborough Airport and the presence of BAE at Farnborough is not a key influence on the location decisions of manufacturers.
Given the size of the Aerospace and Defence sector and its limited growth in recent years, it is only likely to account for a very small proportion of demand for commercial property in the Enterprise M3 area.

Representatives from the Farnborough Aerospace Consortium (FAC) reported that most of the demand from this sector is likely to be for office or R&D floorspace (given the nature of existing activity in Enterprise M3 and the limited manufacturing base). Although proximity to Farnborough Airport may offer advantages for some potential investors, this is unlikely to be a key requirement in most cases. Most companies would be satisfied with high quality space in any location which offered good access to the M3 and Heathrow, including Blackwater Valley, Basingstoke and the Upper M3. High quality business parks in a pleasant environment and with high car parking ratios were thought to be generally preferred to town centre locations. This reflects the profile of aerospace workers who tend to be older and more likely to drive to work than other sectors.

FAC were not aware of any members having any difficulty finding suitable premises in Enterprise M3. They thought there was a good selection of sites, many of which had vacant space, including Cody Technology Park and Farnborough Aerospace Centre. A far greater challenge for most aerospace companies is the skills shortage issues and recruitment challenges facing the sector, which have been caused by a large proportion of the workforce reaching retirement age. This is a national issue affecting the sector and is not limited to Enterprise M3.

Invest in Hampshire reported that they have received a number of enquiries from aerospace companies. Most enquiries have been for industrial floorplates between 50,000 and 300,000 sqft, and have been concentrated around Farnborough and Gosport (outside Enterprise M3). They also reported a growing number of investors looking for smaller buildings for maintenance, repair and overhaul operations to support the aerospace sector. However, the shortage of high quality...
industrial sites available in Hampshire has meant it has been difficult to satisfy these types of enquiries.

**ICT and Digital**

**Characteristics**

7.8 ICT and Digital is a key strength of the Enterprise M3 economy, accounting for 11,700 businesses and 60,000 jobs. It is also the fastest growing sector; employment in the sector grew at an average rate of 1.7% per annum between 2010 and 2014 (+4,400 jobs), while the number of businesses grew by 3.6% per annum (+1,250). In both cases this is higher than any other sector and more than double the LEP average.

7.9 Enterprise M3’s strengths in this sector are not confined to any one market area. All of the market areas except New Forest have a location quotient (LQ) above 1, indicating that the sector accounts for a higher share of employment than the national average. In six of these areas, the LQ is close to 2, which means it is twice as concentrated.

**Figure 7.3 Location Quotient of ICT and Digital Sector**

Source Business Register and Employment Survey

7.10 A 2015 report by Regenesis looked in depth at the characteristics of the sector. It found that the greatest concentrations of digital businesses are in the north east of the Enterprise M3 area, along the Sci:Tech M3 corridor and around the growth towns of Guildford, Farnborough, Woking and Basingstoke. This was particularly the case for larger businesses and multinationals, while SMEs were more widely spread across the LEP area (see Figure 7.4). SMEs, and particularly small businesses, dominate this sector. 92% of the Enterprise M3 area’s digital businesses employ fewer than 10 employees.

7.11 The largest sub-sectors by some margin are computer consultancy and computer programming. These two sub-sectors account for half of employment and businesses. However, the report also identified a number of digital clusters in particular sub-sectors and locations:

- **Gaming** – concentrated in Guildford, with notable companies including Ubisoft, Electronic Arts and Seven League Software
- **Digital Media** – concentrations in Farnborough, Haslemere and Andover
• Hardware developers – concentrations in Staines and Winchester, with notable companies including Gartner and HCL Technologies.

• Advanced technologies – clusters in Farnham, Staines and Woking, with notable companies including McLaren Applied Technologies.

Figure 7.4 Locations of Large Businesses and Multinationals

Source Enterprise M3 Digital Technologies Report, Regeneris Consulting (based on Duedil data)
7.12 The diversity of the digital sector (in terms of both size and nature of activity) means it is difficult to generalise about the requirements of businesses. The following sections describe recurring themes which have been identified through our research.

Flexible Workspace

7.13 A key feature of the digital sector in Enterprise M3 is the high rates of business creation. The low barriers to entry and improvements in broadband speeds mean that there are more start-ups in ICT and digital than any other sector in the LEP area. A large proportion of these are likely to start life as home based businesses. Although it is not clear how many digital businesses are based at home, the 2011 Census showed that 21% of people employed in the sector work at or mainly from home (12,100), which was more than any other sector except professional and scientific activities.

7.14 Although these businesses may not require work space in the early years of their life, this becomes increasingly important as these businesses grow. The much greater chance of businesses failing in the early years of their life means that new business owners are reluctant to commit to longer term leases, and therefore require more specialised types of workspace, including incubators, accelerator spaces and co-working spaces (IACs). Although slightly different in the types of services available to businesses, each of these types of workspace provides a combination of workplace and supporting facilities at affordable rates with easy in-out contractual conditions.

7.15 The format of space in co-working environments is often open plan and of an informal setting, which is aimed at facilitating an interactive and creative networking environment. This is a key appeal for many digital entrepreneurs as the sector is characterised by high rates of collaboration and interaction, both as a means of securing new work and as a spur for innovation. Research carried out on behalf of the Greater London Authority found that the digital technology sector accounted for nearly 30% of businesses using IACs in London, which was more than any other sector.

7.16 Although there have been no surveys carried out on the workspace requirements of digital businesses in Enterprise M3, a number of consultees reported there is unmet demand for flexible space. This includes the Director of Surrey Research Park which is the largest provider of IACs in Enterprise M3 and hosts a large concentration of digital businesses.

7.17 Invest in Surrey also reported that they receive a large number of enquiries for easy in/out office space from digital businesses. In the past they have signposted these businesses to the Research Park, which no longer has any capacity. They noted there is a lack of supply of this type of space in several areas including Waverley and Woking. This view was reinforced by economic development officers.
Town Centre Locations

7.18 Town centre locations are increasingly a key requirement for digital businesses, particularly large employers. There are a number of reasons for this:

- As mentioned above, the success of digital businesses is highly dependent on networking and the exchange of knowledge. They therefore value locations where there are high concentrations of other businesses so that they can be close to clients and collaborators. As dense locations of activity, town centres are the best place for digital businesses to benefit from these agglomeration effects.

- Town centre locations also offer access to the types of workers that digital businesses look to recruit, particularly young people in their 20s and 30s. Census data shows that 43% of people working in the digital sector in Enterprise M3 are in this age group – more than any other sector. Since a large and growing proportion of these people now choose to live in urban areas because of the lifestyle and amenities on offer, there are benefits for employers who locate in these areas. In the case of Enterprise M3, this also means that digital employers need to recruit workers who choose to live in London. Therefore, proximity to a train station with fast connections to London is a key advantage.

- Related to the above, rates of car ownership are lower among this age group, particularly for people in their 20s, which means town centre locations with good public transport connections can make it easier to recruit workers.

7.19 This was reinforced by Invest in Hampshire who noted that a large number of enquiries from this sector specify a town centre location because of their transport links and the need to attract young workers from London. Basingstoke, Guildford, Woking, Farnborough and the Upper M3 towns are therefore all key locations for the sector.

Superfast Broadband

7.20 Access to high speed broadband is now a core requirement for investors from most sectors (as evidenced by a number of local business surveys), but is particularly important in the case of the digital sector, which is dependent on high upstream and downstream bandwidth for sharing files with clients and collaborators, handling large quantities of data and using online platforms.

7.21 This is an issue for both large and small businesses. A 2011 report by Ernst and Young\(^7\) report found that telecommunications and technology infrastructure was the single most important factor in attracting FDI – cited as important or very important by 89% of businesses. This means it is vital that high speed broadband infrastructure is available in all of Enterprise M3’s key business locations, particularly in town centres and high quality business parks in the north east of the LEP area which are best placed to attract larger investors. However, the large concentration of small and home based digital businesses mean that this is a cross-LEP priority. In more rural districts such as New Forest and Test Valley, increasing broadband speeds are seen as the top priority for many businesses\(^8\). Improving the infrastructure in these areas may help to encourage more of the digital start-ups that are thriving in Enterprise M3.

7.22 The 2015 Regeneris study looked at broadband speeds across the LEP. It found areas with higher concentrations of digital businesses (which are largely located in urban areas) have faster

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\(^7\) Ernst & Young (2011) - Destination UK: sustaining success in the new economy, Ernst and Young’s 2011 UK Attractiveness Survey

\(^8\) Based on findings from the 2014 New Forest Business Needs Survey and consultation with the economic development officer at Test Valley
broadband speeds. Nevertheless, there are important pockets of low speeds in both urban and rural areas which still need to be addressed.

**Figure 7.6 Internet Speed Map Showing Median Broadband Speed, 2014**

Source Regeneris Consulting (2015) using Ofcom data

### Professional and Financial Services

#### Characteristics

7.23 This is the largest of the Enterprise M3’s priority sectors, accounting for 64,000 jobs and at least 16,000 businesses. 44,000 of these jobs are in professional services, with the largest subsector being business consultancy (19,600 jobs). The activities of head offices is also a key sub-sector. BRES shows there are around 8,000 jobs in this sector but this is likely to be an underestimate as lots of organisations’ headquarters are classified under the sector in which they operate (see pharmaceuticals section below).

7.24 The sector is also dominated by small businesses; 88% have fewer than five employees which are widely distributed across the LEP area. Professional services also has the highest rates of home working of any sector, which suggests a large proportion of these micro businesses are based at home and do not use formal work space.

7.25 This sector is an important source of jobs for all market areas, but the highest concentrations are in Woking and Guildford (6% of employment). Although small businesses are located all over the LEP area, the larger professional services firms (those with over 100 employees) are located in the north east of the LEP, particularly the Upper M3, Basingstoke, Guildford and around Farnborough. A number of these are UK or European headquarters.
Property and Location Requirements

7.26 Professional and financial services is a large and diverse sector, with requirements varying depending on the size and sector. This section describes some of the recurring themes identified through our research.

Access to London and Heathrow

7.27 Proximity to London and Heathrow airport is one of the main reasons why head offices and other large scale professional and financial services investors have been attracted to Enterprise M3, as occupiers need ready access to clients and colleagues in the capital as well as flights to destinations around the world. Connections to central London will grow in importance if more and more London based firms look to relocate parts of their operations due to high property costs in the capital, as is anticipated by commercial agents following the 2017 business rates review.

7.28 The areas which are best placed to benefit from this are those with railway stations connected to London and within a one-hour travel time. These include large parts of the Upper M3, Woking, Guildford, Farnborough and Basingstoke.
Proximity to train stations (and therefore access to London) is one reason why town centres are particularly sought after. Good public transport connections also mean it is easier for professional services firms to attract younger workers who do not own cars (this sector has the second highest proportion of people in their 20s and 30s). This was particularly raised as an issue by agents in Guildford due to the traffic congestion in the town, which is one of the reasons locations around the station are in such high demand.

Like digital, this sector has also seen a growing trend toward town centre locations because of the importance of attracting highly skilled workers who live in urban areas and who value the leisure and retail amenities on offer. A number of town centres (including Guildford and Winchester) are seen by the market as having prestige value for head office investors because they offer a highly attractive setting with a wide range of shops, bars and restaurants for workers which has attracted a very highly skilled and prosperous population.

It is also worth noting that the significant investment in Woking town centre, including public realm improvements and investments in new retail and leisure amenities has radically improved the image of the town and has played a key role in its recent success. This includes a series of major investments (such as the WWF) which have provided the trigger for a series of planning applications and office refurbishments.
Business Parks and Car Parking Ratios

7.32 Although high quality town centres are valued, there is still a major role for high quality business parks for this sector, particularly where these offer very high quality leisure and retail amenities, public transport connections and high car parking ratios. In spite of its less sustainable nature, travelling by car remains by far the most common form of commuting in Enterprise M3, including in the professional services sector where 64% of workers travel to work by car at the time of the 2011 Census. The importance of car parking to businesses is highlighted in the 2011 Enterprise M3 Business Survey, in which 18% of respondents cited insufficient car parking as a barrier to growth (compared to only 8% who said the same for business premises). Some agents reported that lots of occupiers are increasingly looking for both public transport and large car parking ratios.

7.33 The quality of buildings and a landscaped setting can also play an important role in attracting high profile employers to business parks. Having a high quality building and setting in the right location creates a positive image with potential new hires, investors and partners. Farnborough Business Park was put forward as a good example of a very successful business park, and one of the only locations in Blackwater Valley where new speculative office development is anticipated in the next few years.

Pharmaceuticals

Characteristics

7.34 The pharmaceuticals sector is another small sector, made up of just over 200 businesses employing 6,000 people. The main sub-sectors are R&D, manufacturing and wholesale distribution, however a large proportion of the activity which is carried out in Enterprise M3 relates to office based, headquarter activity. The largest employers include:

- Astellas, which has its UK and European headquarters in Chertsey
- Sanofi Aventis which has its UK headquarters in Guildford
- Eli Lilley which has its UK headquarters in Basingstoke
- Novartis Pharmaceuticals which has its head office at Frimley Business Park

7.35 Figure 7.9 shows the location of pharmaceutical businesses in Enterprise M3 according to the Duedil business database. Although this distinguishes between the three main sub-sectors, the data should be treated with caution since this may give a misleading impression of the actual activity which is carried out on site. It shows there are very few pharmaceuticals businesses in the south of the Enterprise M3 area. The main clusters are as follows:

- R&D – Guildford and Blackwater Valley
- Manufacturing – Basingstoke
- Wholesale – Upper M3

9 49% if homeworkers are included
7.36 The modest scale of this sector means it is only likely to account for a fraction of demand in the commercial property market. The largest scale requirements are likely to be for the types of headquarter requirements that are already well-established in Enterprise M3. Requirements for new manufacturing and R&D facilities are likely to be of a much smaller scale.

7.37 Given that the largest demand is likely to be for head offices, the requirements of investors in this sector are likely to be very similar to the professional services sector. Any locations offering high quality office space with good connections to London, the strategic road network and access to a highly skilled workforce could be well placed to attract investment. This would tend to favour those locations in the north east of the LEP with existing concentrations of pharma businesses.

7.38 Invest in Surrey report that they have received several enquiries from the life sciences and pharmaceuticals sector. These have tended to be for office space which includes easily convertible lab space. This is likely to include some requirements for ‘wet’ lab space. There have been fewer enquiries for light industrial and manufacturing facilities, although Invest in Surrey report that it is harder to find these types of sites for potential investors. Invest in Hampshire reported that they have received only one recent enquiry from this sector. This was a large requirement for 7,500 sqm of new build office space anywhere in Hampshire.
8. Commercial Property Market Trends

Office Market

Demand for Office Space

Office Deals

8.1 Figure 8.1 shows take-up of office space (the total quantity of floor space which has been transacted) has increased in each of the last four years. Total take-up was over 120,000 sq m in 2015 which was the highest level it has been since before the economic downturn.

8.2 While a significant proportion of this market activity is likely to be churn; existing companies moving within the Enterprise M3 area or renewing leases, the upward trend is consistent with the economic data which shows strong jobs growth in office based sectors.

Figure 8.1 Take-up of Office Space, 2010-2015

Source

Large Requirements

8.3 Over two thirds of office deals completed since 2012 were for floorplates of less than 250 sq m. This reflects the characteristics of the business base of Enterprise M3 and the large concentration of SMEs. However, it is the increase in the number of larger office deals (over 1,000 sq m) that has driven the recent growth in office take-up. The number of these larger deals doubled between 2012 and 2015 (from 16 to 31), and accounted for 90% of the growth in total take-up.

8.4 Figure 8.2 shows that the vast majority of deals for larger floorplates have been in the four market areas in the north east of the LEP area (66 of the 80 large deals since Q1 2013), with the greatest concentration in the Upper M3 area. In terms of specific locations, demand has been focused in the following key areas:
**Staines/Egham**: six deals over 1,000 sq m, mostly located along the Causeway. The largest deals include the Gartner Group (ICT) which has taken over 14,000 sq m over two sites, and VMWare UK Ltd (also ICT) which took over 5,000 sq m at Flow.

**Guildford**: four deals in the town centre, including over 3,600 sq m at Blenheim House which was taken by the Highways Agency. There have also been a number of other large deals to the north of the town centre in Guildford Business Park and Cathedral Hill.

**Woking town centre**: seven deals over 1,000 sq m including KFC which took over 3,000 sq m of office space at Orion Gate for its HQ in 2013, Petrofac Engineering which took over 3,000 sq m at Dukes Court in 2014 and the World Wildlife Fund’s new HQ (over 3,600 sq m).

**Farnborough Airport**: Farnborough Business Park and Cody Technology Park, which are both high quality business parks located around the airport have seen a number of large deals including Time Inc (publishing), which relocated a large proportion of its London operations to new build space at Farnborough Business Park (3,700 sq m), and Fluor Ltd (3,700 sq m on Pinehurst Avenue).

Figure 8.2 Location of Office Deals over 1,000 sq m, 2013-2015

Source EGi

**Grade A space**

The location of deals for Grade A space (including newly built and refurbished space and very high quality second hand space) shows a very similar pattern to large office deals, with the majority of deals in the north east of the LEP area. The Upper M3 area saw the largest take-up of Grade A
space between 2013 and 2015 (55,000 sq m), which was due to strong demand at a number of new, high quality office developments in Staines and the Heights in Weybridge.

Figure 8.3 Deals for Grade A Office Space, 2013-2015

Source EGi

Note: EGi does not record the grade of office space for all deals.

Rental Values

8.6 The pattern of demand is also reflected in rental values for office space in Enterprise M3. Following the economic downturn, most areas saw a significant fall in rental values. This was caused by fall in demand due to the more uncertain economic conditions and the credit crunch, which restricted access to finance to fund new investment. These depressed rental values also limited the prospects for new development of high quality office space, as the value of new office development was no longer sufficient to cover costs.

8.7 Figure 8.4 shows how rental values have changed between 2012 (the data on which the 2013 study was based) and 2015. It shows there were very few deals above £20 per sq ft in 2012, apart from one or two schemes in Guildford and Staines (£22 to £23 is considered to be the level at which new development is commercially viable). By 2015, rental values had increased above £20 in a number of areas in the north east of the LEP area, and above £25 per sq ft in Guildford and large parts of the Upper M3 area.

8.8 The recent growth in rental values has resulted in an increase in planning applications for new office development in Woking, including Kings Court and Albion House. All of these have now received consent and are expected to be built out as speculative refurbishments in the next couple of years. Victoria Square has also received consent and is a mix of retail and residential which will further improve the regeneration of the town by improving amenities and increasing the population of the town centre.
Figure 8.4 Office Rents per sqft in 2012 and 2015

Source: EGi
Supply of Office Space

Vacant Office Space

8.9 Figure 8.5 shows the amount of office floor space which is currently vacant in each of the market areas, and the approximate vacancy rate. Three of the market areas have vacancy rates above 10%, which is indicative of an oversupply of office space. In each case, the oversupply is due to a large quantity of dated and poor quality stock which no longer meets most businesses’ requirements. The supply of high quality Grade A space, which is increasingly a key requirement for most investors, is much lower.

8.10 This oversupply of poor quality space is a particular challenge for Basingstoke and Andover and the Blackwater Valley due to the effect this is having on rental values, which is acting as a constraint on development of new, high quality office space. This is less of an issue in the Upper M3 area, where proximity to London have resulted in higher rental values and a number of new, high quality developments coming to the market.

8.11 A number of other areas have an undersupply of office space (particularly Grade A), including the well-established office markets of Guildford, Woking and Winchester. This is a particular concern in Guildford town centre, one of the highest value and sought after locations for investors, where there is very limited availability of Grade A or higher quality Grade B space, and no floorplates available above 1,500 sq m. Local agents reported that this is acting as a significant constraint on new investment in the town.

<table>
<thead>
<tr>
<th>Figure 8.5 Vacant Office Space by Grade, December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>sq m</td>
</tr>
<tr>
<td>12%</td>
</tr>
<tr>
<td>5%</td>
</tr>
</tbody>
</table>

Source EGI

Note: Vacancy rates (shown in green) should be treated as approximate. There is no data set which publishes up to date total office stock at sub-local authority level after 2008. Vacancy rates are based on VOA data for 2008 and completions/losses data from Hants CC and council annual monitoring reports for subsequent years.

Future Pipeline

8.12 The future pipeline includes sites with planning permission for office development and those which have been allocated for office development in the local plan. A number of the Enterprise M3
authorities are in the process of developing their Local Plan or land allocations documents, meaning it is not possible to show the future supply of allocated sites.

8.13 Figure 8.6 shows the amount of office space with planning permission in each of the market areas, as well as those with permission for mixed B use class development. The percentages in green show the approximate increase in floor space that this would represent\(^\text{10}\). It shows that most areas would see a substantial uplift in the amount of office space available to investors if all of these sites were delivered. The key exception to this is Guildford, which has very little vacant space currently available and only 6,700 sq m with planning permission (at Surrey Research Park). There are no sites with planning permission in Guildford town centre, which is one of the most sought after locations in the Enterprise M3 area.

![Figure 8.6 Office Space on Sites with Planning Permission in Enterprise M3 Market Areas](source: EGi)

**Losses in Office Supply**

8.14 As well as considering potential gains in office space, our research has also considered the potential for losses of office space and the effect this could have on the local economy and office market. Figure 8.7 shows that the total stock of office space has fallen in most local authority districts in Enterprise M3. This has been the case even in those high demand areas such as Spelthorne and Woking. This has been driven mainly by the loss of poor quality office space, which no longer meets business requirements. These losses have outnumbered new additions to the stock in these areas.

8.15 The largest loss of office floor space in the last few years has occurred in Basingstoke and Deane. Basingstoke has the largest supply of office space of any district in the Enterprise M3 area. As explained above, a large proportion of this was built in the 1970s and 1980s and is now of a very poor standard. This has suppressed office rents and discouraged new development. In response, the council has permitted a change of use for many of these older buildings, including conversions to residential, retail and leisure developments.

\(^{10}\) These are approximate figures because of the limited data available on the stock of floor space below local authority level (see notes in Figure 8.5). For sites with permission for mixed B use class development, it is assumed that 33% of this will could come forward for office development.
8.16 A substantial proportion of the recent losses to office space have been as a result of the introduction of permitted development rights (PDR). These allow changes of use from office to residential subject to the condition the developer must seek prior approval from the local council. The aim of these permitted development rights is to promote and ensure empty and underused offices can be swiftly converted into dwellings to address the national need for housing and make the most of previously developed land. Although initially introduced as a temporary measure, the policy has now been made permanent.

8.17 Consistent data is not available on how much office space has been lost to PDR to date. Although most councils’ annual monitoring reports publish data on gains and losses for different use classes, these do not routinely break down how much of the losses have been as a result of PDR. Table 8.1 presents this data where it is available, and provides comments on the nature of recent losses and the effect this is having on the local office market.

<table>
<thead>
<tr>
<th>Market Area</th>
<th>Losses to date (sq m)</th>
<th>Outstanding Permissions</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basingstoke &amp; Andover</td>
<td>11,000</td>
<td>28,000</td>
<td>• All poor quality unoccupied office space</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Removal of dated stock helping to reduce oversupply of poor quality space</td>
</tr>
<tr>
<td>Blackwater Valley</td>
<td>3,300</td>
<td>12,800</td>
<td>• All poor quality, unoccupied office space</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Removal of dated stock helping to reduce oversupply of poor quality space</td>
</tr>
<tr>
<td>East Hampshire</td>
<td>80</td>
<td>500</td>
<td>• Exemption covering ten parishes so impact has been limited</td>
</tr>
</tbody>
</table>
### Enterprise M3 Commercial Property Market Study

<table>
<thead>
<tr>
<th>Area</th>
<th>Status</th>
<th>Losses</th>
<th>Gains</th>
<th>Description</th>
</tr>
</thead>
</table>
| Guildford  | Unknown   | 10,000  |       | - Number of prior approvals are in the town centre, where supply is already severely constrained  
- Danger that PDR will further reduce supply of space in |
| New Forest | 1,200     | 3,300   |       | - Some losses have been high quality, occupied offices  
- Concerns about impact on supply and pressure on existing businesses to vacate |
| Upper M3   | Unknown   | Unknown |       | - Large proportion of recent losses have been conversions to residential uses  
- Mostly poor quality to date – all unoccupied  
- Largely counterbalanced by provision of new, high quality space |
| Winchester | 2,900     | 3,200   |       | - Major issue, particularly in town centre where supply is already constrained |
| Woking     | Unknown   | Unknown |       | - Exact figures unknown but large proportion of recent losses likely to be due to PDR  
- Recent losses all poor quality, unoccupied space  
- Should be counterbalanced by new developments in the pipeline |

Hants CC, Annual Monitoring Reports

8.18 Although there are some key exceptions, PDR is seen by local agents and councils as having a positive effect on local commercial property markets - by removing poor quality, unoccupied space which no longer meets business requirements as well as providing a much needed supply of housing. This is particularly the case in Basingstoke and Andover and Blackwater Valley, where there is still a large supply of poor quality, vacant space. By helping to reduce the oversupply of office space, PDR can also help to increase rental values and encourage the development of new higher quality space. The Upper M3 area is an example of where this is happening. Although there has been a net loss of office floor space in recent years, the losses have all been poor quality and located outside core employment areas, while the gains have been very high quality office developments in sought after locations, which have attracted new investment to Enterprise M3.

8.19 There are however a number of areas where there is evidence that higher quality office space has been lost as a result of PDR (e.g. New Forest) and others where there is significant pressure for residential development in established office locations which also attract high residential values (e.g. Winchester and Guildford town centres). Although some of this stock might be dated, unconstrained residential development in these areas could permanently remove a large proportion of the office stock which could otherwise have been refurbished in the future. Given the increasingly important role of town and city centres in knowledge based industries, the loss of office space in these areas represents a real risk to long-term economic growth.

8.20 Although these challenges are most pronounced in Guildford and Winchester, a number of areas are also concerned about the piecemeal nature of development which can occur as a result of PDR, and how this results in ‘pepper-potting’ of residential development in business districts (e.g. Ancells Business Park in Fleet, Blackwater Valley). Over time there is a danger that these areas’ reputations as business districts will be eroded, which could hamper their ability to attract new investment. A further risk is that the changes to PDR are being extended to include the demolition of offices as well as their conversion. This means that office buildings which were previously not
deemed to be suitable for residential development could now be demolished and rebuilt, which could include some higher quality stock.

8.21 The impact of PDR in the coming years is therefore likely to vary considerably across different market areas in Enterprise M3. While many areas are likely to benefit from the simplification that PDR brings, the circumstances are different in fast growing, high demand town centres. It should of course be recognised that all areas are facing significant housing pressures. In many cases, a shortage of housing is likely to be an even greater threat to the sustainability of local economies than an inadequate supply of commercial floor space. All areas therefore need to aim for the optimal balance of residential and commercial development that best suits the needs of the local economy. While PDR has been beneficial for some areas, it means that local authorities no longer have the tools or the power that they need to manage this balance in line with local circumstances. There is therefore a role for the LEP to support reforms to the policy which provide more flexibility and control for local areas.

Office Market Conclusions

- While most areas have seen a recovery in demand for office floor space since the 2013 study was produced, there remain significant variations across the market areas. The key change has been a recovery in rental values in the north east of the LEP area, which has encouraged the development of new, high quality office space which is now a key requirement for many investors and has seen large increases in office take up.

- Although most of this new development has occurred in the Upper M3 area, recent development at Farnborough Business Park and the recent increase in planning applications in Woking suggest that market confidence is improving across a number of the north east areas, and that further speculative development of Grade A space is likely to occur over the next couple of years. In these areas the market is functioning well, and the role of the LEP should be limited to ensuring LPAs are allocating sufficient land in good quality locations, and providing funding in cases where there is a strong market failure argument (e.g. sites in multiple ownership or in need of remediation).

- Demand for office space has been strongest in those town centre locations, which offer good public transport access, fast connections to London and high quality amenities (Staines, Weybridge, Guildford and Woking). High quality business parks with good amenities, such as Farnborough Business Park, are also in strong demand.

- Despite being one of the most sought after locations in the LEP area, Guildford town centre has an acute lack of available floor space and no new space in the pipeline. Unless this is addressed there is a real danger that new investment could be lost to Enterprise M3 and should be seen as a priority by both the LEP and local authority.

- The key challenge facing other market areas is an oversupply of poor quality space. This is particularly the case in Basingstoke and Andover but also in parts of Blackwater Valley (e.g. Aldershot). Both of these areas have many of the assets which appeal to investors, including a highly skilled workforce and good connections to London, but are increasingly at a competitive disadvantage to office markets on the M4 corridor because of the quality of their office stock.

- Many of these locations suffer from ‘lock-in’ market failures where the legacy of dated office stock has introduced distortions to the effective working of the market. The public sector response should be to continue to support the redevelopment and conversion of poor quality office space which could reduce the oversupply and increase rents. Public intervention to
support new development (for instance around Basing View) could also be justified on the grounds of positive externalities, where the initial public investment generates wider benefits for the area by improving the image of the area as a high quality office location and restoring

- All areas are facing significant housing pressures and, in many cases, a shortage of housing is likely to be an even greater threat to the sustainability of local economies than a lack of commercial floor space. The introduction of PDR is therefore having a beneficial effect in many areas by removing dated office stock and replacing this with much needed housing. This has been the case in Basingstoke and Blackwater Valley.

- However in other areas it represents a significant threat to the economic sustainability of local areas. This is particularly the case in Guildford and Winchester which have very attractive town centres which are sought after by both office occupiers and wealthy residents. There is a danger in these areas that the balance is shifting too far in favour of housing, which deprives knowledge based industries of town centre locations in which they thrive. There are also growing signs that this is now occurring in other areas, including the recent announcement.

- All areas therefore need to aim for the optimal balance of residential and commercial development that best suits the needs of the local economy. While PDR has been beneficial for some areas, it means that local authorities no longer have the tools or the power that they need to manage this balance in line with local circumstances. There is therefore a role for the LEP to support reforms to the policy which provide more flexibility and control for local areas.

### Industrial Market

#### Demand for Industrial Space

8.22 The industrial market includes both warehousing (B8), light industrial and manufacturing space (B1c and B2). Although the requirements of occupiers of these different types of space may differ substantially, the data on industrial deals often does not distinguish between them, meaning it is not possible to analyse demand for each type separately.

8.23 Figure 8.8 shows that take-up of industrial space has increased since the 2013 study was produced, with a particularly strong year in 2014, although this fell away in 2015. The data is likely to give a misleading account of actual demand, as all agents reported that take up has been constrained by a shortage of supply of industrial space.
8.24 Figure 8.9 shows the location of industrial deals since Q1 2013. The key concentrations of market activity have been in areas with good access to the strategic road network, with notable concentrations of larger deals in Basingstoke and Upper M3 area. However, agents reported that the undersupply of good quality industrial space has constrained take-up in most areas. Key issues raised were as follows:

- **Winchester**: market interest in B8 is strong in those areas close to Southampton, however a lack of supply has constrained demand. This is a challenge which transcends the boundary with the Solent LEP where an undersupply of space has limited new investment.

- **East Hampshire**: this is perceived as a good location for both warehousing and manufacturing because of its road connections to markets in the north, south and west and is lower cost than other parts of the M3 corridor. Most demand is from SMEs but a lack of supply of larger scale, industrial premises means it is unable to retain many of these firms as they grow or attract new occupiers.

- **Basingstoke and Andover**: despite a large supply of large scale warehousing in Andover, some agents reported that there is still untapped demand for smaller scale B8 in and around Basingstoke.

- **Guildford and Blackwater Valley**: demand is reportedly strong in both market areas for 50-100,000 sq ft premises (driven by both manufacturing and distribution companies) in locations close to the road network. Agents reported that both funders and developers wanted to build new industrial space but have been unable to due to a shortage of sites.

- **Upper M3**: this is the highest value market area, and agents reported a very high number of enquiries for sites offering access to the M25, M3 and M4. Take-up has been severely constrained by a major shortage of sites for B8. This is also a cross-boundary issue including outer London and other LEPs located around the M25, as there is such strong demand for sites that can serve the London market.

8.25 Warehousing space was the most frequently discussed topic among commercial agents, which is due largely to the growth of e-commerce and the knock on effects this is having on the need for more warehouses in edge of town locations. However, they also reported significant interest from
manufacturers in a number of market areas, with most demand for smaller floorplates. Large scale investments in this sector were reported to be quite rare.

8.26 Although this sector is not seeing strong rates of employment growth, there is still a need for manufacturers to relocate to higher quality premises to achieve greater efficiency in the manufacturing process. The shortage of space was also reported to be causing several manufacturers to consider relocating operations outside the Enterprise M3. Many manufacturing sectors are price sensitive, and are therefore considering moving operations to cheaper areas where there is a greater supply of cheaper manufacturing space.

**Figure 8.9 Location of Industrial Deals, 2013-2015**

![Location of Industrial Deals, 2013-2015](image)

*Source EGI*

**Vacant Space**

8.27 The only market area with a large supply of vacant space is Basingstoke and Andover. This is because of recent speculative development of very large warehouses at Andover Business Park. In all of the other market areas, the approximate vacancy rate is below 10% and in two cases below 5%. Although 5-10% is considered to represent normal market conditions, agents reported that the majority of vacant space is poor quality and in many cases does not meet the needs of either local SMEs or larger investors.
Future Pipeline

8.28 The future pipeline of space is very limited in most of the market areas with the exception of New Forest and Basingstoke and Andover, where there is still a significant amount of land with planning permission for further industrial development at Andover Business Park, and a smaller amount at Walworth Industrial Estate. In all other areas there is less than 15,000 sq m of industrial space with consent.

Table 8.2 Future Pipeline of Sites for Industrial Development

<table>
<thead>
<tr>
<th>Area</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basingstoke and Andover</td>
<td>Consent for over 100,000 sq m of B8, mostly at Andover business park</td>
</tr>
<tr>
<td>Blackwater Valley</td>
<td>75 Ha of land with consent for industrial development, but vast majority at Hartland Park</td>
</tr>
<tr>
<td></td>
<td>Hartland Park now being taken forward as a residential development, reducing available supply to close to zero</td>
</tr>
<tr>
<td>East Hampshire</td>
<td>15,000 sq m of space with consent for mix of B1 and B2 uses, but not B8</td>
</tr>
<tr>
<td>Guildford</td>
<td>7,000 sq m with consent for B8 at Henley Business Park</td>
</tr>
<tr>
<td>New Forest</td>
<td>48,000 sq m with consent for mixed use development, including 16,000 sq m in Ringwood and 12,000 in Lymington</td>
</tr>
<tr>
<td>Upper M3</td>
<td>Only Ten Acre Lane with consent for 9,000 sq m</td>
</tr>
<tr>
<td>Winchester</td>
<td>No sites with consent in Enterprise M3 area</td>
</tr>
<tr>
<td>Woking</td>
<td>No sites with consent</td>
</tr>
</tbody>
</table>

Industrial Market Conclusions

- There remains a persistent shortage of both available industrial space and land with development potential in most market areas in the LEP. This includes light industrial space.
which is suitable for SMEs, but particularly large scale warehousing which could attract new investment to the LEP area.

- The undersupply of B8 space transcends LEP boundaries, with very strong demand for any sites that can serve the London market. In the south of the LEP area, the undersupply of B8 sites to serve the Southampton market is shared with the Solent LEP.

- Councils have few incentives to increase the supply of B8 space as the adverse consequences of the undersupply may be shared across a very wide area. The allocation of land for large warehouses also generates few jobs, is politically unpopular, and comes under intense pressure to be released for higher value uses such as residential. This is what happened recently with Hartland Park and means there are no large sites suitable for large scale warehousing remaining in the north east of the LEP.

- The methodologies used to quantify the need for B8 in ELRs rarely have any mechanism for addressing regional shortfalls, as these are based on past trends or economic forecasts for the individual local authority. Some ELRs also result in undersupply of light industrial space (B1c) because economic forecasts point to declining employment in manufacturing sectors. These methodologies often fail to recognise the need for new industrial space to accommodate churn in the market, with occupiers looking for higher quality space or smaller floorplates.

- To address these challenges, there is likely to be two key roles for the LEP. Firstly, as an advocate of businesses, there is an important role for the LEP to make the case to LPAs for new industrial development as they prepare their local plans and updates. Secondly, to ensure that cross-border undersupply is addressed the LEP will need to work with neighbouring LEPs to understand the main priorities for the market and come to cross-border solutions.

**Status of Sites from 2013 Study**

8.29 The 2013 Commercial Property Market Study carried out a comprehensive review of sites which had planning permission or were allocated for commercial development in local plans. These reviews considered a number of criteria to assess the deliverability and market appeal of each site.

8.30 The study identified 33 large sites\(^{11}\) in total which it considered to have greatest potential. These include two different categories of sites:

- **Prime market ready:** sites that are both attractive to the market and immediately available (ie no deliverability constraints)

- **Investment potential:** sites that could be the focus of intervention and support ie those sites potentially viable and attractive to the market but not yet market ready.

8.31 Table 8.3 shows that the majority of these sites have yet to be built out, and a number of them have had a change of use. Most notably, the ‘Land at Pyestock, North Ively Road’ (now known as Hartland Park) is now likely to be taken forward as a residential site, which will further reduce the amount of land available for industrial development in the Blackwater Valley market area.

8.32 Only one site has come forward with new office development since the 2013 study. This was Pinehurst I and II at Farnborough Business Park, which were both built out speculatively. A large number of the remaining sites are available as pre-lets, but developers are unwilling to take the

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\(^{11}\) Sites were considered to be large if they were capable of providing over 10,000 sq m of space. This includes clusters of sites which cumulatively provided over 10,000 sq m of floor space.
risk of speculative development because of market conditions. This is particularly the case in Basingstoke, where low office rents have been the main factor holding back new development. There are also a number of sites in Staines which have yet to be built out. This can be explained by the large number of new office developments in Staines in recent years, which means there is still a considerable supply of office space available. Developers are likely to wait for this to be taken up before considering further speculative development.

8.33 A number of the sites suitable for industrial development have now been partly built out, reflecting the much tighter market conditions.

- Andover Business Park has seen the development of the Co-operative Distribution Centre, as well as the speculative development of around 30,000 sq m of new warehouse space. Further speculative development is reported to be unlikely because of HGV restrictions on the A343, A342 and the A3057 (see site review in Appendix A).
- Walworth Business Park. Made a pre-let to Ocado and is reported to be receiving a lot of interest for the remaining sites.
- Henley Park, Guildford. This development successfully secured a pre-let from Meridan Metal Supplies and then built out two further warehouses speculatively.

8.34 There have also been two notable changes of use from office to industrial. Home Park at Lyon Way in Frimley has been acquired by Keir and is now being built out for industrial uses. In Chineham Business Park, the owners have submitted a planning application for the Larchwood site, although they are keen to ensure that this is for light industrial or hi tech uses to retain the current business focus of the location.

8.35 Appendix A provides a review of each of the sites, including current market demand and potential barriers to delivery for each of the sites.
<table>
<thead>
<tr>
<th>Address</th>
<th>Market Area</th>
<th>Use Class</th>
<th>Floor space (Sq.m.)</th>
<th>Built/unbuilt</th>
<th>Status 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andover Business Park, Monxton Road, Andover</td>
<td>Basingstoke &amp; Andover</td>
<td>B1-B</td>
<td>72,300</td>
<td>Part built</td>
<td>Speculatively built out. Still significant development potential remaining</td>
</tr>
<tr>
<td>Larchwood, Crockford Lane, Chineham</td>
<td>Basingstoke &amp; Andover</td>
<td>B1A/B</td>
<td>12,360</td>
<td>Not built</td>
<td>Planning application for a speculative industrial development submitted</td>
</tr>
<tr>
<td>Redwood, Crockford Lane, Chineham</td>
<td>Basingstoke &amp; Andover</td>
<td>B1A</td>
<td>6,052</td>
<td>Not built</td>
<td>Offices available as pre-let.</td>
</tr>
<tr>
<td>Spindlewood, Crockford Lane, Chineham</td>
<td>Basingstoke &amp; Andover</td>
<td>B1A</td>
<td>4,222</td>
<td>Change of use</td>
<td>Coming forward for auxiliary power plant</td>
</tr>
<tr>
<td>Elderwood, Crockford Land, Chineham</td>
<td>Basingstoke &amp; Andover</td>
<td>B1A/B</td>
<td>2,560</td>
<td>Not built</td>
<td>Available as pre-let.</td>
</tr>
<tr>
<td>Land at the Quadrant, Crockford Lane, Chineham</td>
<td>Basingstoke &amp; Andover</td>
<td>B1A</td>
<td>2,000</td>
<td>Not built</td>
<td></td>
</tr>
<tr>
<td>Site 16, opposite Mountbatten House, Basing View, Basingstoke</td>
<td>Basingstoke &amp; Andover</td>
<td>B1A/B</td>
<td>8,800</td>
<td>Not built</td>
<td>Available as pre-let. Some interest in site from Thales but went to Reading</td>
</tr>
<tr>
<td>East of Jays Close, Viables Business Park, Basingstoke</td>
<td>Basingstoke &amp; Andover</td>
<td>B1A/B</td>
<td>6,080</td>
<td>Not built</td>
<td></td>
</tr>
<tr>
<td>Jays Close, Viables Business Park, Basingstoke</td>
<td>Basingstoke &amp; Andover</td>
<td>B1A</td>
<td>4,800</td>
<td>Not built</td>
<td></td>
</tr>
<tr>
<td>Number One Basing View, Old Reading Rd, Basingstoke</td>
<td>Basingstoke &amp; Andover</td>
<td>B1A/B</td>
<td>3,600</td>
<td>Change of use</td>
<td>Likely to go for a PRS housing scheme</td>
</tr>
<tr>
<td>Gateway Site, Basing View, Basingstoke</td>
<td>Basingstoke &amp; Andover</td>
<td>B1A/B</td>
<td>3,240</td>
<td>Not built</td>
<td>Part of the John Lewis/Waitrose development site</td>
</tr>
<tr>
<td>Loddon House, Basing View, Basingstoke</td>
<td>Basingstoke &amp; Andover</td>
<td>B1A/B</td>
<td>2,640</td>
<td>Not built</td>
<td>Available as pre-let</td>
</tr>
<tr>
<td>Land at Jays Close, Basingstoke</td>
<td>Basingstoke &amp; Andover</td>
<td>B1A/B</td>
<td>2,600</td>
<td>Not built</td>
<td>Available as pre-let</td>
</tr>
<tr>
<td>City Wall House, Basing View, Basingstoke</td>
<td>Basingstoke &amp; Andover</td>
<td>B1/B1A/B</td>
<td>1,960</td>
<td>Not built</td>
<td>Was interest for offices but gradient meant that enabling works made scheme unviable. Now interest for a potential pub</td>
</tr>
<tr>
<td>Address</td>
<td>Borough</td>
<td>District</td>
<td>Size (sq ft)</td>
<td>Status</td>
<td>Notes</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>--------------------------</td>
<td>----------</td>
<td>--------------</td>
<td>--------------------</td>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Land at Walworth Business Park, Walworth Road, Picket Piece, Andover</td>
<td>Basingstoke &amp; Andover</td>
<td>B1-8</td>
<td>44,000</td>
<td>Not built</td>
<td>Speculative development forthcoming</td>
</tr>
<tr>
<td>Plot 89, Walworth Business Park, Andover</td>
<td>Basingstoke &amp; Andover</td>
<td>B1-8</td>
<td>7,600</td>
<td>Built</td>
<td>Built out for Ocado warehouse</td>
</tr>
<tr>
<td>Plot 73, Columbus Way, Walworth Business Park, Andover</td>
<td>Basingstoke &amp; Andover</td>
<td>B8</td>
<td>2,760</td>
<td>Not built</td>
<td>Available as pre-let. Reported to be current interest</td>
</tr>
<tr>
<td>Plot 50, South Way, Walworth Business Park, Andover</td>
<td>Basingstoke &amp; Andover</td>
<td>B8</td>
<td>1,208</td>
<td>Not built</td>
<td>Available as pre-let. Reported to be current interest</td>
</tr>
<tr>
<td>Land at Pyestock, North Ively Road, Farnborough</td>
<td>Blackwater Valley</td>
<td>B1-8</td>
<td>133,414</td>
<td>Change of use</td>
<td>Now likely to come forward as residential</td>
</tr>
<tr>
<td>Land north of Old Ively Road, Farnborough</td>
<td>Blackwater Valley</td>
<td>B1-8</td>
<td>44,960</td>
<td>Part built</td>
<td>Partly built out as a data centre. Offices available as pre-let</td>
</tr>
<tr>
<td>The Enclave, Aerospace Boulevard, Farnborough</td>
<td>Blackwater Valley</td>
<td>B1</td>
<td>25,099</td>
<td>Not built</td>
<td>Application submitted for mixed use development</td>
</tr>
<tr>
<td>Farnborough Business Park, Farnborough Airfield, Farnborough</td>
<td>Blackwater Valley</td>
<td>B1-8</td>
<td>21,030</td>
<td>Not built</td>
<td>Available as pre-let but not actively being marketed</td>
</tr>
<tr>
<td>Plots 300-380 Farnborough Business Park, Farnborough</td>
<td>Blackwater Valley</td>
<td>B1C</td>
<td>20,600</td>
<td>Not built</td>
<td>Available as pre-let, but not actively being marketed</td>
</tr>
<tr>
<td>Plots 40, 50 and 60 Farnborough Business Park, Farnborough</td>
<td>Blackwater Valley</td>
<td>B1A</td>
<td>20,110</td>
<td>Part built</td>
<td>Plot 40 now Costco, Plot 50 available, Plot 60 part built out speculatively (Pinehurst I and II)</td>
</tr>
<tr>
<td>Guillemont Park, Milney Road, Blackwater</td>
<td>Blackwater Valley</td>
<td>B1</td>
<td>13,000</td>
<td>Change of use</td>
<td>Residential</td>
</tr>
<tr>
<td>Home Park, BAe Systems Site, Lyon Way, Frimley</td>
<td>Blackwater Valley</td>
<td>B1</td>
<td>32,500</td>
<td>Change of use</td>
<td>Now being built out as industrial development</td>
</tr>
<tr>
<td>Ph2, Henley Park, Pirbright Road, Normandy, Guildford</td>
<td>Guildford</td>
<td>B1-8</td>
<td>10,100</td>
<td>Part built</td>
<td>Pre-let warehouse, followed by two speculative warehouses</td>
</tr>
<tr>
<td>Altura, 9/13 Victoria Way, Woking</td>
<td>Woking</td>
<td>B1a</td>
<td>16,700</td>
<td>Not built</td>
<td>Withdrawn from market. Site sold to new owners who are considering options</td>
</tr>
<tr>
<td>Majestic House, 122/140 High Street, Staines</td>
<td>Upper M3</td>
<td>B1a</td>
<td>29,600</td>
<td>Not built</td>
<td>Likely to come forward as mixed use development</td>
</tr>
<tr>
<td>Staines Central, 17/51 London Rd, Staines</td>
<td>Upper M3</td>
<td>B1a</td>
<td>23,200</td>
<td>Not built</td>
<td>Available as pre-let</td>
</tr>
<tr>
<td>Opus 1, Lovett Road (north of Lovett Road), Staines</td>
<td>Upper M3</td>
<td>B1a</td>
<td>10,100</td>
<td>Not built</td>
<td>Available as pre-let</td>
</tr>
<tr>
<td>Location</td>
<td>Location Details</td>
<td>Unit Size</td>
<td>Condition</td>
<td>Remarks</td>
<td></td>
</tr>
<tr>
<td>----------</td>
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<td>---------</td>
<td></td>
</tr>
<tr>
<td>Opus 3, Lovett Road (south of Lovett Road) Former Reservoir site, Staines</td>
<td>Upper M3</td>
<td>B1a</td>
<td>5,800</td>
<td>Not built</td>
<td>Available as pre-let</td>
</tr>
<tr>
<td>DERA Site, Chobham Lane, Longcross</td>
<td>Upper M3</td>
<td>B1a</td>
<td>113,400</td>
<td>Not built</td>
<td>Enterprise Zone site. Available as pre-let</td>
</tr>
</tbody>
</table>
9. **Priorities for Market Areas**

### Basingstoke and Andover

#### Office Market

9.1 Basingstoke and Andover’s main office market is Basingstoke, which has the largest supply of offices in Enterprise M3. The town has many strengths, including excellent transport connections and a highly skilled labour market. Its size means it benefits from having a critical mass of businesses in a wide range of sectors, including each of the LEP’s four priority sectors. It therefore has a unique position, and is a priority Growth Town for the LEP.

9.2 Despite these strengths, it is clear that Basingstoke is not meeting its full potential. Employment growth has been limited and there have been no new large investors in the town in recent years. This is not due to a shortage of office space or an inadequate pipeline, but a legacy of poor quality offices from the 1980s which has resulted in an oversupply of space which no longer meets modern business requirements. This oversupply is suppressing rents and affecting investor confidence and means there has been very little new office development in Basingstoke for several years. Agents also raised concerns that it is giving the town a reputation as a cheap and lower quality alternative to Reading or Guildford, rather than a dynamic office market capable of attracting high profile investors. Recent trends show take up of office space has been twice as high in Reading compared to Basingstoke despite having a broadly comparable supply of office space.

9.3 So far the impact of PDR has been positive for Basingstoke, and has helped to remove poor and outdated stock from the market as well as increasing the supply of housing. However even here there are grounds for concern, including the recent announcement of a prior approval application for conversion of Barclays offices at Churchill Plaza. This development is currently occupied, and if implemented, it would mean Basingstoke loses 12,000 sq m of high quality office space. There is therefore a need for ongoing monitoring of the quality as well as the quantity of office space which is being lost in Basingstoke.

9.4 There may be a market failure justification for public intervention in Basingstoke. The poor performance of the office market can be explained by ‘lock-in’ or ‘path dependency’ market failures, where decisions or investments taken in the past lock an economy in to a course of action which influences investment decisions and distorts the effective working of the market. In some circumstances, there may be a case for public interventions which help an area to break out of this path dependency. For instance, investment in the refurbishment of publicly owned offices at Basing View could act as a signal to the private sector and trigger new private sector investment in the town.

9.5 However the case for public intervention needs to be weighed against growing signs of confidence in the office market in Basingstoke. Commercial agents were generally positive about the prospects for the town, and anticipated rental growth in the next few years. Basing View, in the centre of Basingstoke, has now received Enterprise Zone status which will also potentially stimulate demand. Since the meeting with agents, we understand that initial plans are being prepared for the first speculative development of offices in several years, which would suggest that confidence in the local market is growing. If this is the case, then the justification for public intervention would be weakened, as this would potentially be acting as a substitute for future private investment.

9.6 There are still examples where LEP intervention in Basingstoke could be justified, particularly in the following cases:
• Prohibitive site remediation costs on brownfield sites, where the private sector has no financial incentive to invest. This is an example of a negative externality, where the full costs from the original use of the site were not borne by the owner/user. Where this is the case, a public sector grant could be used to overcome the financial gap.

• Where investors are having difficulties accessing finance to fund new development because of uncertainty about financial returns or the nature of developments. Here a revolving public loan fund could be used to finance new development or the refurbishment of office buildings, which could then be recycled for future developments. These types of financial instruments are being used in the North West to fund new development using European funding through the Urban Development Fund (although there is currently no such facility in the South East).

9.7 Finally, we believe there is a strong case for public investment where it is used to refurbish office buildings targeted specifically at micro businesses, particularly in the ICT and digital sector. The Digital Technologies mapping study identified a large and growing concentration of micro businesses in this sector in Basingstoke (the largest in the LEP area). The specialist needs of these start-ups are not routinely delivered by the market as they are more risky and generate lower returns. However these types of development can generate wider economic benefits through spillover/clustering benefits by providing a space for tech start-ups to interact in their early growth phases. These types of benefits are not factored in to investor decisions which results in under-provision of this type of space (known as positive externalities).

9.8 Although a number of new business centres have opened in Basingstoke in the last couple of years, none of these were considered to be high quality by local agents and the only workspace targeted specifically at tech start-ups was at Basing View Innovation Centre. This centre is soon to be fitted with 5G technology, which represents an opportunity to grow the cluster of digital businesses in Basingstoke. However the general market view is that the workspace available is poor quality and unattractive to the market. There therefore appears to be a strong case for refurbishing this space so that it has greater appeal to digital businesses.

9.9 Although not directly related to land and property interventions, we would also note that there was disagreement between Basingstoke and Deane Council and local agents about the council’s place marketing and inward investment strategy. A number of agents felt that Basingstoke should stop selling itself as a cheap alternative to Guildford and Reading, which was damaging to its image and making it difficult for agents to attract new investors to the town. A review of the council’s inward investment strategy was beyond the scope of this study. However the difference in the perspectives of agents and the council mean that this is something the LEP and the local council may wish to revisit in the future.

**Industrial Market**

9.10 Basingstoke and Andover is the only market area where there is a large supply of vacant industrial space and a large supply of sites suitable for future development. However this is all located in Andover, and is dominated by very large warehousing. While this supply is likely to be adequate to meet the needs of large strategic distribution occupiers, agents still reported shortages of smaller scale distribution in and around Basingstoke. This is driven by some of the changes caused by the growth in e-commerce (described in Chapter 3), whereby distribution occupiers are looking for smaller sites closer to delivery end-points on the edge of urban areas. There is a shortage of these types of sites in Basingstoke, and the council reported major challenges finding suitable sites as it competes with the need for higher value uses such as residential and offices. It is also seen as a lower priority by both the council and the LEP (insofar as it is not identified as a priority in the SEP), which means there is a lack of political support for officers to identify new sites.
9.11 The large supply of warehousing space and land in Andover is the only such example across the whole LEP area and therefore should be in very high demand. However even here, there is a sense that the development is not meeting its full potential and still has significant vacant space. The sites review for Andover Business Park (see Appendix A) found that the major issue facing the site is HGV restrictions on the north-south road links (A343, A342 and the A3057) which means businesses are fined if their drivers deliver goods to the park using these routes. This is deterring occupiers from taking further space at the park.

Blackwater Valley

Office Market

9.12 The performance of the office market in Blackwater Valley has been very uneven. Demand has been strong at high quality business destinations such as Farnborough Business Park and other sites around the airport offering Grade A space. This business park is one of the few areas in the Enterprise M3 area to see speculative development in recent years. This site offers good connections to London and Heathrow, has very high quality amenities and an existing critical mass of high profile employers which means it is likely to continue to be a high demand location. Here the market is working efficiently, with high rental values per sq ft, and the substantial amount of land with development potential (either allocated or with planning permission). This means there is unlikely to be any need or justification for public intervention.

9.13 Outside this area, commercial agents saw very limited potential for new speculative development to come forward. The other established office areas include Hook and Fleet in Hart and Camberley in Surrey Heath. Demand has been strong and growing in these locations, but only for high quality, Grade A space. Each area has an oversupply of poor quality, second hand space, which no longer meets business requirements and which is suppressing rental values and deterring new development. These areas are therefore experiencing similar challenges to Basingstoke, where the priority is to incentivise the refurbishment of existing buildings rather than seek new sites (see above), and to continue to allow the conversion of redundant buildings for other uses as part of an integrated regeneration strategy.

9.14 Aldershot has seen very weak demand in recent years (with the exception of a large investment at the Royal Pavilion site). This area is at a disadvantage compared to other locations as it is not an established office location, has a lower skilled workforce and is in very close proximity to Farnborough, which offers a critical mass of businesses and better transport connections to London. The area is likely to benefit from substantial growth in its population as a result of proposals to build 4,000 houses at the Wellesley development, which could result in growing demand from office occupiers over time. However, in the short term, the main demand is likely to be for small scale offices catering for SMEs. Interventions should therefore focus on ensuring this type of provision is in place rather than identifying large scale sites.

9.15 A cross cutting issue for a number of areas in the Blackwater Valley is improving transport connections, particularly addressing pinch points at junctions on the M3. These were perceived to be acting as a constraint on new investment by both public and private sector consultees, although it was noted that the LEP investments to date has helped to address these issues.

Industrial Market

9.16 The shortage of sites for industrial development is a major issue facing Blackwater Valley, which has been exacerbated by the loss of Hartland Park to residential uses. This means that the Blackwater Valley no longer has any large sites available for industrial development, and there was
a fear among attendees at the Blackwater Valley workshop that this would cause supply issues for retailers and other businesses in the area in the medium term.

9.17 There is an urgent need to identify new sites suitable for industrial development, but major constraints on local planning authorities’ ability to do so due to a combination of environmental constraints, political pressures and the very strong demand for new residential development. This is an issue being experienced across a number of market areas, with no straight forward solutions. It suggests the need for the LEP to build a clearer picture of the long term consequences of an undersupply of industrial land (and particularly distribution) and to use this to develop a much firmer policy position in the next draft of the SEP. The LEP should then work with councils collectively to help identify new sites.

East Hampshire

Office Market

9.18 East Hampshire is not an established office location, and tends to cater mainly for local SMEs in the towns of Alton, Bordon and Petersfield. The local authority district is one of the few areas in the country to be awarded an exemption from permitted development rights for office to residential conversion, although this was on the basis that it had a fragile office market which needs to be protected rather than being a high demand area. Consultees reported that this had resulted in an oversupply of office space in these towns, evidenced by high vacancy rates. Nevertheless, by having the exemption this does mean that the local planning authority can control the nature of development in their area and has permitted a number of residential conversions.

9.19 Although the area is not currently viewed by the market as a high demand location, East Hampshire has a potential pipeline of 26,000 sq m, which would increase the total stock by nearly 18%. The vast majority of this is at the Whitehill and Bordon site. The Enterprise Zone status of the site, as well as the planned investments (such as the Growth Deal funding for a relief road) are likely to increase the appeal of this site to potential investors and we understand that the council is already in negotiations with a potential high profile occupier. If successful, this could provide a boost to market confidence and attract other potential investors to the site over time. Provision of superfast broadband will be a key priority if the site is to attract investors from the digital sector (which is the target sector identified in the Enterprise Zone application). Current broadband speeds at the site are quite low, and this site should be prioritised as part of Enterprise M3’s commitment to extend superfast broadband as part of its Local Growth Deal.

9.20 Nevertheless, given the scale of land available and the fact that East Hampshire is located close to other, more established office locations offering faster connections to London and existing concentrations of digital businesses, the council may also wish to consider planning for some industrial uses (including warehousing), for which demand is likely to be strong in the short term. This can be combined with a longer term plan to develop office based sectors in the town.

Industrial Market

9.21 East Hampshire has a small but significant industrial market, which currently accounts for a much larger number of deals than its office sector. The key strength of the location is its transport connections to Portsmouth in the south, Guildford and the Blackwater Valley in the north and Winchester to the west, which are all equidistant from the Whitehill and Bordon site. Commercial agents reported that there is still reasonably strong demand for industrial space (including B2 and B8), although most of this is from SMEs looking for small floorplates. However the low vacancy rate and lack of larger scale industrial premises means that East Hampshire is not always able to
meet the growth needs of local businesses or accommodate new investment from industrial occupiers.

9.22 Given that the industrial sector is well established in East Hampshire and there is a clear appetite for additional industrial space in the market, there may be a need to reconsider the current balance between industrial and office supply at the Whitehill & Bordon site to support the sustainable development of the town (there was also support for this approach in East Hampshire’s Employment Land Review).

**Guildford**

**Office Market**

9.23 Guildford is a highly sought after office location. Its high quality town centre, highly skilled labour market and transport connections to London mean office developments attract some of the highest rental values in the LEP area. Speculative development is therefore commercially viable. The challenge facing Guildford is that it has a major shortage of vacant offices and a very limited pipeline of sites, with no sites with planning permission in the town centre. The few vacant sites in the town centre are also under growing pressure to be converted to residential uses. Commercial agents reported that the shortage of sites means the area is losing out on investment, with some potential investors looking outside the Enterprise M3 area altogether. Consultees also reported other potential consequences:

- **Existing businesses leaving Guildford.** The Guildford Business Survey (2015 survey of 200 businesses) identified some of the key issues that are constraining business growth in Guildford. This found that ‘lack of suitable business accommodation’ was the second most important factor which might make businesses consider leaving Guildford (behind only ‘reduction in business’).

- **Impacts on vitality of Guildford town centre and its businesses.** A failure to provide sufficient office space in the town centre in favour of residential development is that Guildford could become a dormitory town for London, and that the town centre will lose its vibrancy during the working week. Many of the existing retailers rely upon office workers for trade during the working week and there is a risk that the continued erosion of office space in the centre will start to affect the vitality of the retail offer, which is currently one of the town’s key strengths.

9.24 At the time of writing, Guildford Borough Council has yet to adopt its Local Plan or published the sites which will be allocated for office development. Once published, this could help to address some of the shortfall and avoid any adverse impacts.

9.25 There was support among agents for the sites identified in the draft Guildford Town Centre Masterplan (although this has not been formally adopted). The masterplan proposes a number of sites for new office development. The majority of new office space is earmarked for the Bedford Wharf area (along Bedford Road) which is in very close proximity to the station and would be likely to have very strong market appeal. The masterplan identifies the potential to turn this area into Guildford’s ‘Innovation Quarter’, a high quality business district offering access to the railway station, and a wide choice of retail and leisure amenities for office workers. It estimates there is potential for around 26,000 sq m of office/leisure/hotel space in this area.

9.26 Given the high rental values in Guildford, there is unlikely to be a strong market failure justification for public intervention unless there are specific sites which would be unlikely to be delivered by the market. For instance, sites in multiple ownership (co-ordination failures) or those which face significant remediation costs. Apart from these exceptions, the role of the LEP should be to make
the case for new office sites in the town centre and to identify opportunities for developments which are targeted specifically at the digital sector, offering flexible workspace, opportunities for co-working and high speed broadband. Although a facility offering these services is already operational at Surrey Research Park, we understand that this is near full capacity and there is latent demand for further developments of this nature.

Industrial

9.27 Demand for industrial sites has also been strong in Guildford, and like many other areas, there is a shortage of existing vacant space and new sites for industrial development. The strength of demand is underlined by the progress of Henley Business Park, which was one of the sites reviewed in the 2013 study and the only site with consent for industrial development in Guildford. Since the 2013 study was published the site has achieved one pre-let and speculatively built out two units. There is currently only one unit available, offering 3,200 sq m of space. There is also some remaining land with consent, capable of accommodating around 6,000 sq m of new space.

9.28 At the time of writing, Guildford Borough Council has yet to adopt its Local Plan or published the sites which will be allocated for industrial development. However the strength of the office and residential markets in Guildford means the council is likely to face similar challenges as other councils.

New Forest

Office Market

9.29 The New Forest had the fewest number of office deals of any market area over the past five years, averaging just four or five deals per annum\(^{12}\). The area’s main sectors are tourism and marine industries, which tend to have a very modest requirement for office space. The rural nature of the district, poor accessibility and close proximity to other established office locations (Bournemouth and Southampton) also mean that demand is very limited and virtually all from local SMEs.

9.30 The 2014 New Forest Business Needs Survey (158 responses or 2% of the business base) found that businesses were generally satisfied with their accommodation, although around 10% were looking to relocate. Like many rural areas, a key priority for most businesses seeking new accommodation is access to fast and reliable broadband, and the survey also showed strong demand for flexible types of accommodation (reflecting the large concentration of small and micro businesses).

9.31 While the market is unlikely to provide for these type of business, this reflects the fact that the overall level of demand is very low (and therefore not a failure of the market). This, coupled with the fact that New Forest is not home to significant concentrations of the LEP’s priority sectors, means the case for LEP intervention in commercial sites is relatively weak.

9.32 Nevertheless, the importance of superfast broadband to these businesses and the large number of areas which still have poor access means that Hampshire CC and Enterprise M3 should support efforts to connect the remaining not-spots as part of any future roll-out.

Industrial Market

9.33 Like the office market, there is limited demand for industrial space in New Forest (particularly in the areas covered by the Enterprise M3 LEP). Most of the demand in the district as a whole is for

\(^{12}\) This is partly explained by New Forest’s largest towns and office markets lying outside the Enterprise M3 boundary
small scale manufacturing space, with little demand for logistics and distribution due to poor connectivity. However most of this is related to the marine sector (eg boat builders) and is therefore located along the coast, which lies outside the Enterprise M3 area.

**Upper M3**

**Office Market**

9.34 The Upper M3 is a high demand, established office location, which attracts some of the highest rental values in the Enterprise M3 LEP area. Its main strengths are its proximity to London, transport connections to Heathrow and its highly skilled labour market (particularly in Elmbridge). This market area was the first to see a recovery in rental values which resulted in a number of speculative developments, including Lotus Park and Flow in Staines and the Heights in Weybridge. The market area still has considerable vacant space, including a large supply of Grade A, however recent trends in office take-up suggest that this may not last long, particularly given a growing trend of relocations out of London.

9.35 The market area also has a very large pipeline of office space, although a large proportion of this is at Longcross site, which has received Enterprise Zone status and is the largest commercial site in the LEP area. This site has many strategic assets which are likely to increase the appeal to inward investors, including a railway station offering connections to London, proximity to Royal Holloway University and the airports. Although the site will not be immediately accessible to the motorway, it is under 10 minutes away from J11 and J13 of the M25 and J3 of the M3. The key priorities for this site are improving the frequency of train services that will be available from the station, and developing the retail and leisure amenities on site which will give the park a clear identity, and turn it in to a high quality and well connected business park. We would therefore anticipate demand building up fairly slowly as the park becomes established, although securing an early anchor tenant would be expected to provide a major boost to demand.

9.36 The large proportion of future supply which is taken up by Longcross means there may be a requirement to identify new sites in other parts of Upper M3. For instance, local agents and the council reported a shortage of space and sites in Elmbridge, and growing pressure on sites as a result of PDR which is increasingly becoming a threat. The council is currently going through a local plan review process which will identify sites, although there may be opportunities for further development at Brooklands. The key obstacle to new sites coming forward in Upper M3 likely to be traffic congestion at M3 junctions.

9.37 Overall, the office market in this area is operating efficiently and there is unlikely to be a case for the LEP to intervene in specific sites unless there is a clear market failure case (eg site remediation). However the LEP should continue to look at how its investment or influence could be used to alleviate congestion at key junctions.

**Industrial Market**

9.38 Upper M3’s industrial stock also attracts the highest rental values in the Enterprise M3 area, offering access to the M25, M3 and the London market. Unlike the office market, there is very little high quality space available and only one site with planning permission. Agents reported strong demand for both warehousing and manufacturing space, and reported that most were looking for small floorplates.

9.39 As with all of the other areas where there is a shortage of industrial land, consultees reported that new industrial sites were politically very unpopular and difficult to identify because of Green Belt
constraints. As well as competing with higher value office and residential developments, agents in Upper M3 also reported growing demand for construction yards. They provided two examples of deals in Weybridge and Chessington which attracted values of £50 per sq ft and £30 per sq ft on sites that would have gone for distribution at £9.50 and £12.50.

**Winchester**

**Office Market**

9.40 Winchester has a relatively small office market compared to other locations in the Enterprise M3 area, however it has many of the characteristics which are sought after by investors and there is arguably considerable latent demand for office space in the town. The market area has a very highly skilled population; 41% of residents hold a Level 4+ qualification compared to a LEP average of 34%, and its historic town centre is seen as a prestigious and desirable location which is likely to appeal to many investors. Although transport connections to London are not as strong as other locations, the capital can still be reached within an hour and the town also has fast road and rail connections to Southampton which is also a high growth area. Given these strengths, the Winchester economy is arguably not meeting its full potential, and has come to be seen as a pleasant place to live for highly skilled workers commuting to Southampton rather than a dynamic market in its own right.

9.41 The shortage of supply of office space is one factor acting as a barrier to growth in the city. The office vacancy rate is one of the lowest in the LEP area and agents reported that they had received large volumes of inquiries for space in the city centre that they were unable to satisfy due to a shortage of sites, particularly those offering larger floorplates and Grade A space. Despite this strong demand, there has been no new development in the city centre in recent years. On the contrary, the very high residential values in the city has meant that office stock has been lost to student accommodation.

9.42 The council has identified one opportunity to address the shortfall of office space in the city centre through the Station Approach development. This is a complicated scheme, involving several site ownerships and therefore requires public support. We also understand that the plans will include some flexible space for digital entrepreneurs which could help to develop the growing cluster of digital businesses in the city centre. This therefore addresses several cases of market failure and is a good candidate for support from the LEP.

**Industrial Market**

9.43 Although Winchester does have some industrial market in the south of Winchester district, this all lies outside the LEP boundary. Within the LEP, there is very limited industrial stock and market activity.

**Woking**

**Office Market**

9.44 At the time of the 2013 study, Woking had a large oversupply of poor quality, vacant office space. Although the town had good public transport and fast connections to London, the town centre was seen as an obstacle to attracting new investment as it had a large number of obsolete buildings, poor public realm and a lack of retail and leisure amenities.
9.45 The situation is now very different. The town has seen strong demand for office space and now has one of the lowest vacancy rates in the LEP area, which has meant that agents now receive some enquiries from investors that they are unable to place. This increase in demand has prompted a number of planning applications for refurbishment of office buildings which should increase the supply of Grade A space in the town in the next year.

9.46 The change in fortunes in Woking can be attributed to the pro-development and commercially minded approach of the council, which has worked closely with developers to oversee significant physical regeneration in the town. This has helped to attract major retailers to the town and improved the image of Woking to potential office investors. Commercial agents also welcomed the business focused approach of the Council which played a large role in their securing WWF to locate their headquarters in the town. The Council is continuing this business focused approach through its plans to install a fibre network in the town, which will provide 100% coverage of affordable, high speed broadband in the town centre to help develop the existing cluster of digital businesses in the town.

9.47 Woking offers a good example of public-private partnership working which has successfully addressed the previous constraints on growth. As with other high demand office areas, the role of the LEP should primarily be to help unlock sites where constraints make development unviable. There may also be a case for LEP support to assist with the continuing regeneration of the town, particularly public realm improvements or pedestrianisation projects. There is a ‘public goods’ case for public support in these cases as the benefits are shared between businesses and therefore would not be delivered through the private sector.

Industrial Market

9.48 Woking is primarily an office based economy, with a limited supply of industrial space. There are however a number of important manufacturers, including McLaren, which has consent for a 57,000 sq m applied technology centre. The council has also recently given consent for 7,000 sq m of new warehouse development at Orchard Business Park, which will be built out speculatively and will be available in 2017.

9.49 Like many other areas, however, there is a major shortage of vacant space and land suitable for industrial development and this is coming under pressure from competing uses.

Tailoring Delivery in a Diverse LEP

9.50 This research has confirmed that Enterprise M3 is a diverse area with a range of different locations serving a number of local, regional, national and global markets. These areas are however, united around the challenge of encouraging new light industrial and distribution development. As a result, Action 3 in the next chapter identifies the need for the LEP to deliver a joint (and potentially multi-LEP) approach to supporting development of these types of sites.

9.51 In the case of office development, there is significant variation between areas, with a range factors influencing delivery and demand in different ways depending upon market area. This suggests the role of the LEP should be to advise, support and empower local authorities to develop relevant and bespoke interventions and provide targeted investment where necessary. To help guide potential interventions, the following table attempts to segment the current office market areas based on the evidence considered in this assignment.

9.52 It should be noted that these groupings represent the current position. It is not a hierarchy and nor should it undermine the activities of public and private partners in promoting activity in certain locations. Indeed, its function is to help the LEP intervene more effectively in specific locations and should be constantly reviewed by the Land and Property Group.
Table 9.1 Summary of Challenges by Market Area

<table>
<thead>
<tr>
<th>Type</th>
<th>Examples</th>
<th>Challenges</th>
<th>Case for Intervention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current High Demand</td>
<td>• Upper M3</td>
<td>Market working efficiently But shortage of sites in some locations (Guildford &amp; Winchester town centres)</td>
<td>• Public intervention required to unlock sites where constraints make development unviable</td>
</tr>
<tr>
<td></td>
<td>• Guildford</td>
<td></td>
<td>• Market failure arguments: co-ordination failures, public goods</td>
</tr>
<tr>
<td></td>
<td>• Woking</td>
<td></td>
<td>• Example Projects: transport investments, sites in multiple ownerships</td>
</tr>
<tr>
<td></td>
<td>• Winchester</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Challenged Office Markets</td>
<td>• Blackwater Valley</td>
<td>Established office markets but oversupply of low quality space – not meeting occupier requirements New development unlikely due to low rental values</td>
<td>• Public intervention required to stimulate and de-risk private investment</td>
</tr>
<tr>
<td></td>
<td>• Basingstoke &amp; Andover</td>
<td></td>
<td>• Enhanced promotion of specific locations and potential incentive for relocation</td>
</tr>
<tr>
<td>Lower current Demand</td>
<td>• East Hants</td>
<td>Market working efficiently But very low demand for office space</td>
<td>• Market failure arguments: lock-in failures</td>
</tr>
<tr>
<td></td>
<td>• New Forest</td>
<td></td>
<td>• Example Projects: revolving fund to convert Grade B space, investment in publicly owned offices, demolition/conversion to other uses</td>
</tr>
</tbody>
</table>

9.53 In terms of identifying direct interventions, the LEP should prioritise those projects where there is clear evidence of market failure which the intervention will address. We believe the strongest case for LEP support are the following cases:

- **Addressing site constraints:** where sites are in high demand areas but face particular constraints, either because of the costs of remediation on brownfield sites or complicated town centre schemes involving several landowners. An example would be Station Approach in Winchester.

- **Shared workspace for digital start-ups:** where there are specialist non-standard property needs (e.g. flexible leases) that are not routinely delivered by the market and also where there are spillover/clustering benefits from similar firms being co-located in their start-up and early growth phases. Any investments should be subject to evidence of unmet demand. The refurbishment of existing space in Basing View is one potential example, although there may be opportunities in a number of locations which have large clusters of digital businesses (including Guildford and Woking).

9.54 There are other examples where there may be a case for intervention, although these will require more detailed consideration by the LEP. This relates to established office markets which currently attract low rental values, where investors are reluctant to invest in new schemes due to fears about a viability gap (this includes Basingstoke and certain towns within Blackwater Valley). In these circumstances, LEP investment could be used to pump prime development, however this should be carefully weighed against trends in the office market. The low rental values may reflect the stage of the business cycle, and wider measures to reduce the oversupply of poor quality space could be effective in attracting private investment over time. This is not to say that these investments should not be supported. They can often act as the signal that the market needs for further investment. However there is a danger that the main effect of public investment may just be the delivery of new office floorspace at an earlier date than would have otherwise been the case.
10. Broad LEP Actions

10.1 The previous chapter identified the specific priorities and recommendations for individual market areas. Despite the observed differences between the market areas, there are a number of interventions where the LEP could intervene or amend their own operations to support the positive evolution of the commercial property market. These are set out below:

**Action 1 - Ensure Links Between the Enterprise M3 Land and Property and Infrastructure Groups**

10.2 Infrastructure and a successful commercial property offer are intrinsically linked. Dialogue with agents in particular has shown the importance of transport (public and road) links and high speed broadband to investment and location choices. It is therefore of the utmost importance that communication is improved between Enterprise M3 Infrastructure and Land and Property groups. This should extend beyond attending each other’s meetings and as a minimum should include joint strategy planning and case making.

**Action 2 - Further Case Making for the Retention of Land for Light Industrial and Distribution**

10.3 One of the critical findings of this report is the increasing deficit in land for light industrial and distribution uses. This is a challenge (to varying extents) in almost every market area. In each case, the local authorities interviewed reported major challenges identifying new sites because of a combination of environmental constraints, competition from housing and office uses (which attract higher land values), and a lack of political will to prioritise warehouses locally. Individual local authorities do not have strong incentives to allocate land for B8 and this is not being addressed through the current methodology used in many ELRs, which have no mechanism for addressing regional shortages.

10.4 Given that this is probably the most significant cross-LEP challenge, the LEP needs to develop a much clearer position on this. This could begin by recognising the shortage of B8 sites as a priority in the next draft of the SEP, and to use the evidence in this report to make the case to local authorities as they prepare their local plans and updates.

10.5 The report has also shown that this is not just an issue facing Enterprise M3 and is shared with a number of neighbouring LEP areas. There is therefore a need for greater collaboration with these LEPs to build a clearer picture of the undersupply of sites and the consequences for local economies. This should look at the potential impact on consumers, but also the productivity impacts on important sectors such as retail and manufacturing, where employers are increasingly reliant on just in time deliveries.

10.6 A network/commission for distribution site owners and operators could be a useful way of achieving this and could be expanded to include other neighbouring LEPs who may be experiencing similar issues.

**Action 3 - Ensure the LEP acts as a Conduit for Information Sharing**

10.7 Ongoing, improved monitoring and information sharing is required to better understand the relationships and interdependencies between markets. Future investment decisions by the LEP will need to be guided by robust information on market conditions in different market areas and local authorities. The information currently collected by local authorities varies considerably, particularly in relation to changes in the stock of floorspace for different use types and particularly
in terms of the impact of PDR. There is a need for a consistent set of indicators that all councils could use, and can be shared with the LEP on an annual basis.

10.8 At the current time, the most up to date estimate of the total stock of commercial floorspace available on a consistent basis is for 2012 and is published by the Valuation Office Agency (VOA). The VOA will be updating their commercial floor space estimates later in 2016 which will provide a baseline estimate of commercial floorspace for the LEP area by use class. Local authorities should then record all new completions and losses of floor space by use class and report these in annual monitoring reports or share this information with the LEP. The LEP could then monitor trends using commercial floorspace databases such as Costar or EGi (these require an annual subscription), and use this to identify the vacancy rates in different local authority areas. This will provide a rich information source which could be shared with local authorities on deals and vacancy rates in their area to inform decision making.

10.9 For PDR, there is a need to collect more information on the quality of floorspace which is being lost, as well as whether the space was recently occupied. This is crucial information which would allow local authorities to determine whether PDR is having its desired effect by removing poor quality office space from the market or whether it is having a damaging effect on the local economy by depriving business of high quality floorspace. This may require additional research on the part of local authorities but should not present a major administrative burden as the number of notifications received for most local authority areas is relatively low.

10.10 Finally, it was notable from our research that a number of local authorities did not have access to business databases, which would provide them with more information about the characteristics of local businesses or their needs. There may be a benefit for the LEP to subscribe to these databases (such as DueDil) to inform their own data analysis of business requirements, but also to share this information with local authorities to inform decision making.

Action 4- Improved Inward Investment Monitoring

10.11 The difference in information collected and shared on inward investment (particularly between the two counties) could have an impact on the ability of partners within the LEP to respond to the property needs of key markets. At the moment, Invest in Hampshire do appear to collect this information, while Invest in Surrey have said that they do not record this information. Notwithstanding the difference in approach, there is a need for better monitoring and analysis of inward investment inquiries received for the LEP area. For all inquiries this should monitor the sector, the location of interest and information about their requirement, particularly the size and type of floorspace required. This information should be shared with the LEP so that they have detailed intelligence on the nature of demand from investors and can work with local authorities to ensure that this demand is satisfied.

Action 5 - Improved Inward Investment Positioning and Marketing

10.12 Whilst not an issue with employment land, it is apparent the LEP needs to consider how it uses its available resources to support inward investment, particularly in terms of locating of companies in the four target sectors. It is particularly important that the LEP positions itself to better capitalise upon the trend of companies relocating from London, something which may be exacerbated by the Business Rates revaluation in 2017. The strategic support of the LEP in developing the marketing and inward investment offer in the Enterprise Zones and core town centre locations should provide further impetus to realise this opportunity.

10.13 There is clearly an overlap here with the existing activity of Invest in Hampshire and Invest in Surrey, which are the bodies responsible for inward investment enquiries. The role of the LEP
should therefore be to ensure that both organisations are focused on the opportunities from London relocations in the next few years and that their strategies are aligned as far as possible.

**Action 6 - Support PDR where it can be linked to positive evolution of the Economy**

10.14 The positive and negative impact of Permitted Development Rights (PDR) varies across locations in the Enterprise M3 area. The LEP needs to adopt a position where it can respond to proposed changes in legislation, acknowledging that PDR serves a purpose in some market areas by removing outdated stock that no longer meets business requirements, whilst also being a threat to some employment locations (particularly town centres).

10.15 In the most vulnerable areas, the LEP should encourage councils to lay an Article 4 direction, which is the built in safeguard for the policy. However, as the main body responsible for driving economic development, the LEP also has a wider duty to support reforms to the policy which provide more flexibility and control for local areas. While the conversion rights have been made permanent, the amendment states that they will be subject to periodical review. This suggests that the Government is prepared to amend the policy if evidence emerges that it is having a harmful impact on local economies.

10.16 While individual local authorities may have limited influence, the LEP is well placed to advocate on their behalf and to provide a well evidenced case that the policy could be harming local economies. Key to this is good evidence on the nature of office stock which is being lost and whether it is occupied (see Action 5). This will provide the LEP with an evidence base that it can review and use to lobby Government if necessary.

**Action 7 - Support Improved Public Sector Asset Strategy**

10.17 One of the ways the public sector can influence the provision and delivery of commercial space is by using its own assets. Currently, there is a mixed and in some cases limited instance of effective strategy to support this in local authorities.

10.18 Enterprise M3 should look to provide expertise to local authorities on use of assets, particularly where authorities own significant assets which could be used to support economic growth. How these assets should best be used will vary depending on the strength of the local commercial market:

- In areas with relatively weak property markets, public assets could be used to underpin regeneration efforts by actively leading development to stimulate growth.

- In more active markets, councils could use assets as a means of guiding and shaping the type of development that takes place (in order to meet local priorities for housing or employment space, for example).

- In other locations, councils could unlock difficult sites through more coordinated and strategic city wide approaches to managing and investing in assets. LEP could play a role in advising councils on how to make best use of their assets.

10.19 As a minimum, LEP wide public sector land and property asset mapping (including National Rail, MoD, NHS and other public bodies) would help enable a more joined up approach to the use of public assets which, in turn, could help ensure a strong and timely pipeline of commercial development.
Appendix A - Site Proformas
<table>
<thead>
<tr>
<th>Site 1</th>
<th>Andover Business Park</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site Area – total gross</td>
<td>Not Available.</td>
</tr>
</tbody>
</table>
| Site Area – net developable area | Plot 5 - 14 hectares  
                                   Roadside Plots – 1.4 hectares |
| Site Address (inc. Postcode) | Pioneer Road, Andover, Hampshire, SP11 8EZ |
| Developers Name | Goodman |
| Contact point | George Glennie – Development Director |
| Landowners Name | Goodman |
| Developer / Landowner relationship | na |
| Scheme Agents | Toby Green – Savills  
                   David Smith – My Delton Major  
                   JLL – Richard Evans |
| Existing Use | Co-op Distribution Centre  
                   366,000 sqf of speculative warehousing built and now available  
                   Marstons Pub  
                   Travelodge under construction  
                   Stannah have owned a plot for 4 years. Initially purchased for a head office. But, have yet to develop the site.  
                   Care home currently under construction. |
| Accessibility | There are strong east-west links, due to the site's location on the A303. However, there are major issues regarding north-south access. This is due to HGV restrictions. This is discussed further in the 'Barriers to Development’ section below. |
| Location Plan attached | |
| Site Plan attached | |
| Planning Policy Allocation (Plan) | From Test Valley interactive policy map:  
                   SET03 – Development in the Countryside.  
                   SET05 – Local Gaps |
| Planning Consent details | Plot 5 – Detailed Consent for single 573,405 sqf cross-docked unit.  
                           Roadside Plots – Consent for mixture of B1/B2/B8 space. |
<table>
<thead>
<tr>
<th>Stage of development (developer or occupier interest/planning/pre-planning)</th>
<th>No interest in plot 5. A speculative warehouse unit has been brought forward, and a Travelodge hotel is under construction. A Mastons Pub and Co-op distribution centre have been built out. There is also a care home under construction.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developers strategy / aspirations</td>
<td>The developer is offering space for a range of uses. Plot 5 is available for industrial, warehousing and distribution – also potentially a data centre. Roadside space is advertised as being available for, 'hotel, nursery, drive through, self storage, car showroom, trade units, builders merchants, leisure, petrol station, convenience store, gym and retail'.</td>
</tr>
<tr>
<td>Property market overview</td>
<td>The site is in a strong location, and benefits from existing employment space. The development of speculative space shows a level of confidence from the developer in the potential of the site. Additionally, leisure use on the roadside area of the site provides amenities which may help to attract business space. However, there is a challenge in attracting occupiers for B2/B8 space, due to HGV restrictions.</td>
</tr>
<tr>
<td>Barriers to development</td>
<td>The major issue with this site is with HGV restrictions on the north-south road links (A343, A342 and the A3057 - see attached map). If drivers delivering goods to businesses at the park use these routes, then the businesses are fined. This resulted in widely advertised fines for the Co-op of £371,000 between 2011 and 2012. The issue is often that these drivers do not work for the business, so they cannot control the route the drivers take. This is having an impact on which occupiers are likely to take space. The landowner notes that interest in the speculative unit has been restricted because of the issues surrounding access. They also suggest that this is likely to be the reason why Stannah have not brought forward their plot, even after 4 years of ownership.</td>
</tr>
<tr>
<td>Potential role of Enterprise M3 in bringing forward development</td>
<td>Engaging with the issue of site access.</td>
</tr>
</tbody>
</table>
### Sites 2-5

**Walworth Business Park, Andover**

<table>
<thead>
<tr>
<th>Site Area – total gross</th>
<th>81 hectares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site Area – net developable area</td>
<td>Not available</td>
</tr>
<tr>
<td>Site Address (inc. Postcode)</td>
<td>Walworth Business Park, Andover, Hampshire, SP10 5LH</td>
</tr>
<tr>
<td>Developers Name</td>
<td>Kier Group</td>
</tr>
<tr>
<td>Contact point</td>
<td>David Gleave – Test Valley Borough Council</td>
</tr>
<tr>
<td>Landowners Name</td>
<td>Test Valley Borough Council</td>
</tr>
<tr>
<td>Developer / Landowner relationship</td>
<td>Partnership</td>
</tr>
</tbody>
</table>
| Scheme Agents | • David McGougan – JLL  
• Adrian Whitfield – LSH |
| Existing Use | Established business park. Mainly industrial and distribution uses. |
| Accessibility | There is strong access to the site via A-roads |
| Location Plan attached | |
| Site Plan attached | |
| Planning Policy Allocation (Plan) | • SET01 – Housing within Settlements  
• SET03 – Development in the Countryside  
• AND03.1 – Extension to Walworth Estate |
| Planning Consent details | • Allocation for industrial/warehouse use  
• Plot 37 – Permission for a building of B1 to B8 |
| Stage of development (developer or occupier interest/planning/pre-planning) | • Land at Walworth Business Park, Picket Piece – This site is intended for the extension to Walworth Business Park – Intention is for a speculative industrial unit at this site. An application is forthcoming.  
• Plot 89 – Built out for Ocado.  
• Plot 73 – There is current interest in this site. Discussions are ongoing.  
• Plot 50 – Current interest in this site. |
## Developers strategy / aspirations
The site is an established business park with successful B2/B8 space. There are intentions to expand the park and bring forward new speculative space.

## Property market overview
The market for B2/B8 space is strong in this location. This is highlighted by the willingness of Kier to build speculatively. It is likely that when space is brought forward, it will let quickly.

## Barriers to development
No issues were reported during consultation.

## Potential role of Enterprise M3 in bringing forward development
No role was raised during consultation as the landowner stated that they do not have any significant difficulty in occupying or bringing forward space here.
<table>
<thead>
<tr>
<th>Sites 6-9</th>
<th>Chineham Park</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site Area – total gross</td>
<td>38 hectares</td>
</tr>
<tr>
<td>Site Area – net developable area</td>
<td>Advertised available floorspace of 116,999. Spread across a number of existing units and development sites.</td>
</tr>
<tr>
<td>Site Address (inc. Postcode)</td>
<td>Chineham Park, Rosewood, Crockford Lane, Basingstoke, RG24 8UT</td>
</tr>
<tr>
<td>Developers Name</td>
<td>Patrizia Immobilien</td>
</tr>
<tr>
<td>Contact point</td>
<td>Rupert Batho</td>
</tr>
<tr>
<td>Landowners Name</td>
<td>Patrizia Immobilien</td>
</tr>
<tr>
<td>Developer / Landowner relationship</td>
<td>Na</td>
</tr>
<tr>
<td>Scheme Agents</td>
<td>Strutt &amp; Parker, Hollis Hockley</td>
</tr>
<tr>
<td>Existing Use</td>
<td>The site is mainly built out as a business park.</td>
</tr>
<tr>
<td>Accessibility</td>
<td>Accessibility has been an issue in the past due to congestion from Crockford Lane roundabout. However, recent improvements to the roundabout have helped to resolve this issue.</td>
</tr>
<tr>
<td>Location Plan attached</td>
<td></td>
</tr>
<tr>
<td>Site Plan attached</td>
<td></td>
</tr>
<tr>
<td>Planning Policy Allocation (Plan)</td>
<td>Employment Area – EC1, EC2</td>
</tr>
</tbody>
</table>
| Planning Consent details | • Larchwood – Local plan allocation for B1 offices.  
|                          | • Redwood – Permission for B1 offices.  
|                          | • Spindlewood – Permission for B1 offices.  
|                          | • Elderwood – Local plan allocation for B1 offices. |
| Stage of development (developer or occupier interest/planning/pre-planning) | The sites identified in the 2013 study are now at the following stages:  
|                          | • Larchwood – Planning application for a speculative industrial development.  
|                          | • Redwood – Extant permission for 60,000 sqf of offices. Available on a pre-let basis. Will not build speculative office space given current market conditions.  
|                          | • Spindlewood – Coming forward for an auxiliary power plant. |
**Developers strategy / aspirations**

Although the developer is bringing industrial space forward, there is a goal of maintaining a business focus in this location. Keen to ensure that any industrial occupier is more business or technology focussed. Intention is to avoid distribution use, for example. Thought that this would have a detrimental impact on the character of the site, increasing the volume and type of traffic entering the site.

---

**Property market overview**

Chineham Park is a well established office location with high quality stock. However, demand for office space in this location is not strong enough to make new speculative space viable. The landowner notes that rents are not strong enough to support such development.

Industrial space is viable – illustrated by the fact that the landowner is looking to bring forward speculative space. But, it remains to be seen whether they will be able to be able to secure the type of occupier they aspire to.

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**Barriers to development**

- Low levels of office demand in this area is restricting the amount of space coming forward.
- Build costs have risen at a quicker rate than rents. This has an impact on the viability of new space.

---

**Potential role of Enterprise M3 in bringing forward development**

Possible role in lobbying for rates relief.
<table>
<thead>
<tr>
<th>Sites 11, 14-16 &amp; 18</th>
<th>Basing View</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site Area – total gross</td>
<td>26 hectares</td>
</tr>
<tr>
<td>Site Area – net developable area</td>
<td>Not available.</td>
</tr>
<tr>
<td>Site Address (inc. Postcode)</td>
<td>Basing View, Basingstoke, Hampshire, RG21</td>
</tr>
<tr>
<td>Developers Name</td>
<td>Muse</td>
</tr>
<tr>
<td>Contact point</td>
<td>Kate Dean</td>
</tr>
<tr>
<td>Landowners Name</td>
<td>Basingstoke and Deane Borough Council</td>
</tr>
<tr>
<td>Developer / Landowner relationship</td>
<td>Partnership</td>
</tr>
<tr>
<td>Scheme Agents</td>
<td>JLL, Rare</td>
</tr>
<tr>
<td>Existing Use</td>
<td>Retail and Offices</td>
</tr>
<tr>
<td>Accessibility</td>
<td>The site has strong access via road and rail. It is 500 m from Basingstoke Train Station and just off the a339 Ringway E.</td>
</tr>
<tr>
<td>Location Plan attached</td>
<td></td>
</tr>
<tr>
<td>Site Plan attached</td>
<td></td>
</tr>
<tr>
<td>Planning Policy Allocation (Plan)</td>
<td>Employment Area – Policies EC1, EC2</td>
</tr>
</tbody>
</table>
| Planning Consent details | • Lodden House – Local plan allocation for B1 – permission for temporary amenity space.  
• City Wall House – Local plan allocation for B1 – permission for temporary car park (2010) |
| Stage of development (developer or occupier interest/planning/pre-planning) | The sites identified in the 2013 study are now at the following stages:  
• Site 16 – Was interest in this site from the French defense and aerospace company Thales. This was for 100,000 – 200,000 sqf of offices. However, in April 2015 they decided to go to Reading. There has been no interest since.  
• Number One – Known as plot C – It looks to be the case that this site will go for a PRS housing scheme. |
### Developers strategy / aspirations

- Gateway Site – It is thought that this site was part of the John Lewis/Waitrose development site.
- Lodden House – No interest.
- City Wall House – Was interest for offices, but gradient of the site meant that enabling works made the scheme unviable. Now interest for a potential pub.

### Property market overview

The site is an existing office location, but the market in Basingstoke has seen no new stock in recent times. This means that rents are in the late teens to early twenties (psf). New speculative space would require significantly higher rents to show viability in an appraisal but there is no evidence to support such rents.

It is also unclear that occupiers are willing to pay enough to make new units viable. Fundamentally, there is a lack of comparable evidence to support new development.

### Barriers to development

- Current market rents and occupier demand, as noted above.
- Gradient on the site - levels drop by around 8-10 meters. This means that the cost of enabling works also has an impact on the viability of new development.
- Plots are not serviced, again adding to the cost of enabling works.

### Potential role of Enterprise M3 in bringing forward development

The landowner has applied for funding to help with enabling works and with the goal of bringing forward a speculative unit to set a new market tone for Basingstoke.

They also believe that the LEP could have a role in helping to show the positive side of new space being brought into Basingstoke – essentially helping with the negative attitudes towards higher rents.
<table>
<thead>
<tr>
<th>Site 20</th>
<th>Land north of Old Ively Road, Farnborough</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site Area – total gross</td>
<td>Na</td>
</tr>
<tr>
<td>Site Area – net developable area</td>
<td>Na</td>
</tr>
<tr>
<td>Site Address (inc. Postcode)</td>
<td>Na</td>
</tr>
<tr>
<td>Developers Name</td>
<td>QinetiQ</td>
</tr>
<tr>
<td>Contact point</td>
<td>Nick Reeve – Wadham and Isherwood</td>
</tr>
<tr>
<td>Landowners Name</td>
<td>QinetiQ</td>
</tr>
<tr>
<td>Developer / Landowner relationship</td>
<td>Na</td>
</tr>
<tr>
<td>Scheme Agents</td>
<td>Wadham and Isherwood</td>
</tr>
<tr>
<td>Existing Use</td>
<td>Partly built out as a Datum Data Centre</td>
</tr>
<tr>
<td>Accessibility</td>
<td>The A 327 links with Ively Road, although the site must be accessed through CODY Technology park to the South of Comet Road.</td>
</tr>
<tr>
<td>Location Plan attached</td>
<td>Site Plan attached</td>
</tr>
<tr>
<td>Planning Policy Allocation (Plan)</td>
<td>From proposals map – DEV13 Pyestock Area B</td>
</tr>
<tr>
<td>Planning Consent details</td>
<td>Permission for Business Park development – A2, B1(c)/B2/B8 &amp; 3 Datacentres.</td>
</tr>
<tr>
<td>Stage of development (developer or occupier interest/planning/pre-planning)</td>
<td>Site has been partly built out as a data centre.</td>
</tr>
<tr>
<td>Developers strategy / aspirations</td>
<td>Business Park</td>
</tr>
</tbody>
</table>
There is significant demand for industrial space at this end of Farnborough, but demand for offices is considerably weaker. The rents achieved and the inconsistency of demand affect the viability of new space. The higher values involved in residential space mean that there is also pressure on industrial land from developers who want to maximise value.

Given the intention for a business park, weakness in the market for office space has an impact on the ability to bring forward space. The developer is unlikely to build speculatively given current market conditions.

The higher values of residential use place pressure on employment allocations. There is significantly higher value in residential use.

Speaking of the wider area and not specifically in relation to the site, the landowner’s agent suggests that the LEP could help to promote employment space by lobbying against permitted development.

Additionally, they state that the LEPs involvement in creating enterprise centres has been of benefit to business in the area, and so believes that this sort of role should be continued in the future.
<table>
<thead>
<tr>
<th>Sites 22 - 24</th>
<th>Farnborough Business Park, Farnborough</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site Area – total gross</td>
<td>50.6 hectares</td>
</tr>
<tr>
<td>Site Area – net developable area</td>
<td>Plot C – 2.43 hectares</td>
</tr>
<tr>
<td>Site Address (inc. Postcode)</td>
<td>Farnborough Business Park, Farnborough, Hampshire, GU14 7JF</td>
</tr>
<tr>
<td>Developers Name</td>
<td>XLB Property</td>
</tr>
<tr>
<td>Contact point</td>
<td>William Poole – XLB Property</td>
</tr>
<tr>
<td>Landowners Name</td>
<td>XLB Property</td>
</tr>
<tr>
<td>Developer / Landowner relationship</td>
<td>Na</td>
</tr>
<tr>
<td>Scheme Agents</td>
<td>CBRE, Hollis Hockley and DTRE</td>
</tr>
<tr>
<td>Existing Use</td>
<td>Established Business Park</td>
</tr>
<tr>
<td>Accessibility</td>
<td>Circa 1.3 km from Farnborough Train Station. Good access to A331 and M3. Also next to TAG Farnborough airport.</td>
</tr>
<tr>
<td>Location Plan attached</td>
<td></td>
</tr>
<tr>
<td>Site Plan attached</td>
<td></td>
</tr>
<tr>
<td>Planning Policy Allocation (Plan)</td>
<td>Employment policy - E6.1 Small units at Farnborough Airport.</td>
</tr>
<tr>
<td>Planning Consent details</td>
<td>B1A, B1B, B1C.</td>
</tr>
</tbody>
</table>
| Stage of development (developer or occupier interest/planning/pre-planning) | Plot 40 – Built out for Costco  
Plot 50 – Known as plot C – Available as development site. Suitable for a variety of uses, but subject to planning consent. There has been no interest in this site to date.  
Plot 60 – Has mainly now been built out as speculative office space in two units – Known as Pinehurst 1 & 2. Some of the plot remaining and available on a pre-let basis. |
<table>
<thead>
<tr>
<th>Developers strategy / aspirations</th>
<th>Has taken the risk of developing speculatively and new space is reportedly letting well. Offering remaining development plot on a pre-let basis at the present time as there is still office space available in the speculative unit.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property market overview</td>
<td>This is an established business park in a strong location. It is well connected via road, rail and air and has excellent on-site amenities. Around a year ago, the park was fully let, so the developer made the decision to move forward with speculative development. Pinehurst 1 and 2 are roughly 30% let at this point in time, which is viewed positively given the length of time it has been available. The Pinehurst speculative development also went ahead because the council arranged that there would not be rates for the developer on the empty unit upon completion. This derisked the development, and allowed it to go ahead.</td>
</tr>
</tbody>
</table>
| Barriers to development           | • Although new space is letting fairly well and the site benefits from good access, the office market is still not considered to be strong. Speculative development was still considered to be a major risk.  
• Office rents have not risen in line with build costs. This has a significant impact on viability and deliverability.  
• Business rates on empty spaces – This dissuades developers from bringing new space forward in many cases. |
| Potential role of Enterprise M3 in bringing forward development | The landowners see a role for Enterprise M3 in potentially lobbying with regard to issues around business rates. They also suggest that there could be a marketing role involved for directing occupiers with requirements towards the space which is available.  
Another marketing exercise could involve providing evidence bases which should population, skills base etc., which may help to attract new occupiers. |
### Site 25

<table>
<thead>
<tr>
<th>Plot Numbers</th>
<th>Plots 300-380 Farnborough Business Park, Farnborough</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site Area – total gross</td>
<td>5.15 hectares</td>
</tr>
<tr>
<td>Site Area – net developable area</td>
<td>Na</td>
</tr>
<tr>
<td>Site Address (inc. Postcode)</td>
<td>Plots 300-380 Farnborough Business Park, Farnborough</td>
</tr>
<tr>
<td>Developers Name</td>
<td>na</td>
</tr>
<tr>
<td>Contact point</td>
<td>TAG Farnborough – Roger Walker</td>
</tr>
<tr>
<td>Landowners Name</td>
<td>TAG Farnborough</td>
</tr>
<tr>
<td>Developer / Landowner relationship</td>
<td>Na</td>
</tr>
<tr>
<td>Scheme Agents</td>
<td>Na</td>
</tr>
<tr>
<td>Existing Use</td>
<td>Site is not currently in use.</td>
</tr>
<tr>
<td>Accessibility</td>
<td>The site is in a strong strategic location. It is less than 2 km from Farnborough Train Station. The access road to the site links to an A road which then joins the M3. The site is also located to the North of Farnborough Airport.</td>
</tr>
<tr>
<td>Location Plan attached</td>
<td></td>
</tr>
<tr>
<td>Site Plan attached</td>
<td></td>
</tr>
<tr>
<td>Planning Policy Allocation (Plan)</td>
<td>Employment policy - E6.1 Small units at Farnborough Airport.</td>
</tr>
<tr>
<td>Planning Consent details</td>
<td>Lapsed B1 consent.</td>
</tr>
<tr>
<td>Stage of development (developer or occupier interest/planning/pre-planning)</td>
<td>There has been no interest in this site. There has been no change in the status of the site since the 2013 Commercial Property Market Study.</td>
</tr>
<tr>
<td>Developers strategy / aspirations</td>
<td>The landowner has no intention to bring this site forward at this point in time. The airport has a policy of purchasing sites around its perimeter with the view that they may serve a strategic purpose at some point in the future.</td>
</tr>
<tr>
<td>Property market overview</td>
<td>The site is next to the successful Farnborough Business Park. The market for office space in this area is strong enough that XLB Property have built speculatively in this location. Given a strong market, it is likely that office space could be successful on Plots 300 – 380.</td>
</tr>
<tr>
<td>--------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| Barriers to development  | Current landowner position is not in opposition to the development of this site. But, they are not actively trying to bring it forward.  
The site is also within a Runway Public Safety Zone – restricting what type of development would be suitable on this site. |
| Potential role of Enterprise M3 in bringing forward development | The inclusion of the site in the 2013 study was welcome. However, with no current intentions to bring the site forward, the landowner does not see any other role for Enterprise M3 in helping to bring forward space here. |
Site 28  |  Longcross, Runnymede
---|---
Site Area – total gross | 40 hectares
Site Area – net developable area | Planning permission for 850,000 sqf of office space.
Site Address (inc. Postcode) | Longcross, Chertsey, Surrey, KT16 0EE
Developers Name | Crest Nicholson
Contact point | Tim Jones – Crest Nicholson
Landowners Name | Crest Nicholson
Developer / Landowner relationship | Na
Scheme Agents | CBRE – Rob Madden, Luke Hacking
Existing Use | Residential on part of the site. Film Studio on another area. Rest is an existing employment site which is intended for redevelopment. Was formerly a tank factory.
Accessibility | Good transport links. Longcross train station immediately to the north of the site. Although the M3 runs past the site directly to the south of the site, there is no immediate access to the motorway. Access to the M3 is circa 6 miles to the south-west and access to the M25 is around 5 miles to the east.
Location Plan attached
Site Plan attached
Planning Policy Allocation (Plan)  | • GB1 – Green Belt
| • GB10 – Major Developed Sites in the Green Belt
| • NE10 – Landscape Problem Area
| • BE18 – Control of Advertisements Area
| • H09 – New Housing Development
Planning Consent details | Planning permission for 850,000 sqf of offices.
Stage of development (developer or occupier) | There has been no new employment space been brought forward to date. Additionally, there has been little interest in the site. Office space is available.
**M3 – Commercial Property Market Study – Employment Site Assessment Proforma Enterprise**

<table>
<thead>
<tr>
<th>interest/planning/pre-planning)</th>
<th>on a pre-let basis. There is no plan to bring forward speculative space at this point.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developers strategy / aspirations</td>
<td>The intention is for a Grade A office park. They aim to attract the first occupiers on a pre-let basis to establish the site as an office location. There is an intention to provide a focal building at this site. This will be a café/amenity space, potentially involving a community space which both the businesses and residential communities can use. This is viewed as a catalyst to help in attracting occupiers.</td>
</tr>
<tr>
<td>Property market overview</td>
<td>Although there is the intention to provide office space in this location, it is an untested market. It is unclear what rents could be achieved and whether it can become a strong office location. As things stand, there has been reportedly little interest. Although the site benefits from a railway connection, the landowner notes that there is a lack of frequency in service.</td>
</tr>
</tbody>
</table>
| Barriers to development | • Frequency of trains – lack of frequent rail service is offputting to potential occupiers.  
  • Market demand – It is unclear what level of demand there is for such a location. Office demand in general is not particularly strong throughout the wider area.  
  • Infrastructure – Once the park attracts its first few larger occupiers, it will very quickly reach capacity in terms of power. Dealing this will mean a significant investment of around £12 million. There is a hesitance to invest in such infrastructure when there is not a proven market. The long lead in time may also have an impact on the ability to deliver space quickly.  
  • Broadband – There is currently no service to the employment areas. High quality broadband would make the site more attractive. |
| Potential role of Enterprise M3 in bringing forward development | • Potential role in helping to market the site – making occupiers with requirements aware that there is an opportunity at this site.  
  • Help in funding power improvements.  
  • Help in resolving issues around broadband and frequency of rail service.  
  • Role in helping to bring forward the focal building. |
## Site 29 - Station Approach Winchester

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Site Area – total gross</strong></td>
<td>Approximately 5 hectares.</td>
</tr>
<tr>
<td><strong>Site Area – net developable area</strong></td>
<td>na</td>
</tr>
<tr>
<td><strong>Site Address (inc. Postcode)</strong></td>
<td>Station Approach Winchester</td>
</tr>
<tr>
<td><strong>Developers Name</strong></td>
<td>na</td>
</tr>
<tr>
<td><strong>Contact point</strong></td>
<td>Jayne Green</td>
</tr>
<tr>
<td><strong>Landowners Name</strong></td>
<td>Winchester City Council</td>
</tr>
<tr>
<td><strong>Developer / Landowner relationship</strong></td>
<td>na</td>
</tr>
<tr>
<td><strong>Scheme Agents</strong></td>
<td>na</td>
</tr>
<tr>
<td><strong>Existing Use</strong></td>
<td>Varied</td>
</tr>
<tr>
<td><strong>Accessibility</strong></td>
<td>The site is close to the centre of Winchester. It is easily accessed via public transport, with Winchester Train Station sitting at the centre of the site. It is also less than 2 km from the M3.</td>
</tr>
<tr>
<td><strong>Location Plan attached</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Site Plan attached</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Planning Policy Allocation (Plan)</strong></td>
<td>From Proposals Map – SF1 – Town Centre Development.</td>
</tr>
<tr>
<td><strong>Planning Consent details</strong></td>
<td>No applications yet.</td>
</tr>
<tr>
<td><strong>Stage of development</strong> (developer or occupier interest/planning/pre-planning)**</td>
<td>A design competition has been carried out. A decision should be made in May/June 2016.</td>
</tr>
<tr>
<td><strong>Developers strategy / aspirations</strong></td>
<td>The council are keen to provide improved employment opportunities on the site, with a high standard of design creating a welcoming arrival point in the centre.</td>
</tr>
</tbody>
</table>
### Property market overview

There is strong market demand for offices in this location. Although space is unlikely to come forward speculatively, it is likely that offices will come forward on a pre-let basis. It is known that there are a number of occupiers keen to take new office space in Winchester. There has also already been interest expressed by a number of potential occupiers in offices at Station Approach.

### Barriers to development

**Internal Constraints:**
- **Multiple Ownership** – Has an impact on how quickly sites can be brought forward. There is concern that if things move too slowly, the opportunity to develop will be missed – current interest may be lost to other locations.
- **Heights of buildings** – The design competition entries feature taller buildings, but the issue will potentially be a committee response to taller buildings. Taller buildings are likely to be more viable in this location.

**External Constraints:**
- **Conservation** – there are potential archaeological issues due to Winchester’s historic nature. The cost of dealing with these issues is likely to be high.
- **Infrastructure** – capacity is likely to be of issue (sewerage etc.).
- **Land Ownership** – some of the land is in Network Rail’s control.

### Potential role of Enterprise M3 in bringing forward development

There has already been an application for funding. This is to help with enabling costs including those related to conservation and infrastructure.