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Exeter, Devon, EX1 1PR

Clyst Honiton Parish Council

Cc: clerk@clysthoniton.org.uk

31st December 2019

RE: COMMERCIAL ASSESSMENT OF THE BUSINESS SPACE AND COMMUNITY FACILITY PROPOSED FOR THE BYPASS SITE, CLYST HONITON

I have pleasure in reporting as instructed, in accordance with the brief "Commercial Assessment of the business space and community facility proposed for the Bypass site, Clyst Honiton 2019", details of which were clarified in my response, dated 23rd October 2019.

In summary, this report relates to the commercial elements of the proposed development, namely the commercial units and the community centre. For each of these elements in turn, the report considers the demand, rental values and recommended marketing approach, and for the commercial units, it also considers the freehold sale values and provides an informal opinion of the likely commercial viability. This report does not cover the proposed residential element of the scheme.

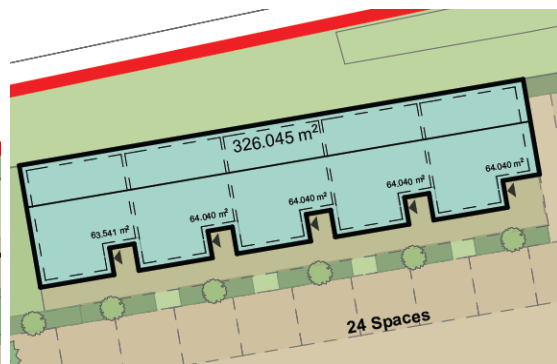
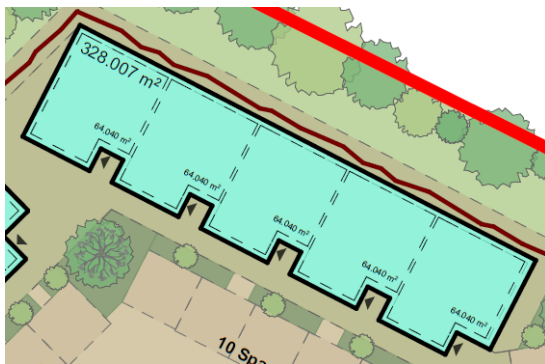
1. The proposed development

The only detail of the scheme which has been provided to me in connection with the preparation of this report is a draft plan of the proposed scheme (job no. 1802, DRG No. 102, Rev. D). This plan forms the basis of my understanding of the proposed scheme, including layout, unit sizes, parking provision and access. An extract from this plan, focusing on the commercial elements of the development, is provided below:



In the key to the plan, the commercial and community buildings are stated as having a combined GIA (Gross Internal Area) of 850 sq.m per floor, over two floors, making the total GIA of the scheme 1,700 sq.m (18,300 sq.ft).

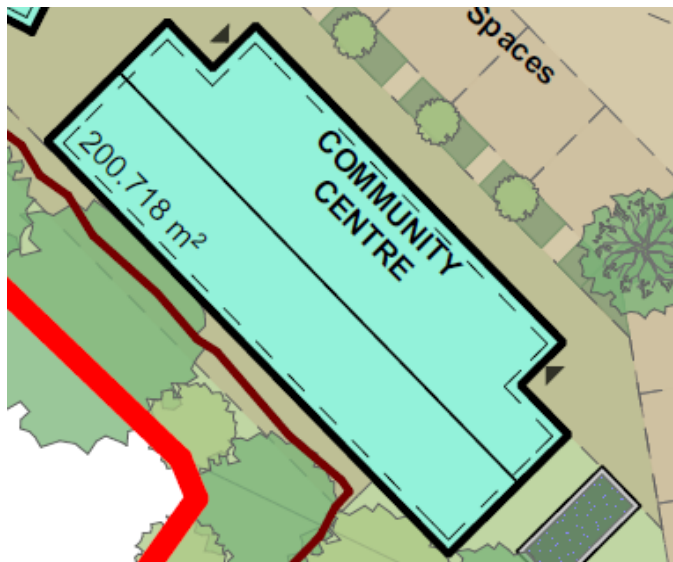
The annotation on the plan states that the commercial and community elements of the scheme have a total of 98 parking bays, making a ratio of 1 space per 187 sq.ft of GIA floorspace.



The commercial units are shown on the plan (above) as being laid out as two terraces, each with five units on ground and first floors. Each unit is shown as having a GIA of 64.04 sq.m on ground floor, and assuming they are to be built with first floors, each unit will have a GIA of 128.08 sq.m (1,379 sq.ft).

For the purposes of this report, I have assumed that the units will be built to an industrial specification but one which is suitable for conversion to office use in part without the need for further planning consent. The anticipated specification therefore includes: a disabled WC to each unit; a structural first floor with stairs and fire insulation to a standard permitting office use on both floors; a glazed pedestrian entrance, either with double glazed doors allowing loading access for pallet-sized deliveries or with a separate loading door; windows to both levels, or knock-out panels for their later installation; water, drainage and electricity all connected and separately metered to each unit; and the interiors of each unit otherwise in shell condition.

Should the specification of the units prove to be different to the above, my comments on values and viability will need to be reconsidered.



The community centre is shown on the plan as having a ground floor GIA of 200.718 sq.m, and assuming it is built on ground and first floors, will have a total GIA of 401.11 sq.m (4,321 sq.ft).

GIA (Gross Internal Area) is a basis of measurement which includes all internal areas. For marketing purposes it is the standard basis of measurement for industrial and warehouse buildings, but for offices and community buildings, the standard basis of measurement is NIA (Net Internal Area), which excludes elements such as WCs, stairs, plant rooms and essential or shared lobbies or corridors. When calculating values from GIA measurements, therefore, a deduction has to be made for conversion to an estimated NIA floor area.

2. Commercial Units

I provide below an appraisal of the proposed scheme, dealing in turn with demand, rental values, sale values, comment on likely viability and marketing recommendations.

2.1 Demand

In my submission dated 23rd October 2019, I stated that a quantitative assessment of demand is impossible with any degree of accuracy and proposed a more qualitative assessment. I set out below my opinion of the likely demand for the proposed units, with reference to market evidence.

The demand for small units (in this case, 128.08 sq.m (1,379 sq.ft) over two floors) is considered to be strong, while supply of such units to the market has been very limited for a number of years. Hence, the lack of market evidence relating to such units is more a reflection of the lack of supply than a lack of demand, and we must refer to circumstantial evidence of demand.

I would refer to the recent marketing of a number of small commercial units in the Clyst Honiton area in recent years, focusing on the length of time each property was marketed and the type of occupier:

- Unit 4 Hungry Fox Industrial Estate, Old Broadclyst Station – basic, mid-terrace 1970s commercial unit with small mezzanine, 558 sq.ft plus mezzanine of 157 sq.ft. Let in November 2017 after less than one month on the market, and again in March 2019 after around 2 months of marketing. Tenant is a mobile car detailing business.
- Unit 5 Hungry Fox Industrial Estate, Old Broadclyst Station – as above but 555 sq.ft plus mezzanine of 351 sq.ft. Let in November 2017 after less than one month on the market. Tenant is a clothes recycling business.
- Unit 6 Skyways Business Park, Exeter Airport Industrial Estate – mid-terrace 1980s industrial unit, newly refurbished. No offices or mezzanines. 1,038 sq.ft. Let in September 2019 after around 3 months of marketing. Tenant is a distributor of diecast models.
- Unit 3 Skyways Business Park, Exeter Airport Industrial Estate – mid-terrace industrial unit with offices forming around 40% of area (no mezzanine). 1,047 sq.ft. Let in July 2018 after around 2 months of marketing. Tenant is an air conditioning installer.
- Unit 7 Skyways Business Park, Exeter Airport Industrial Estate – mid-terrace 1980s industrial unit, newly refurbished. 1,040 sq.ft without offices or mezzanines. Let in January 2019 after around 3 months on the market. Tenant is a theatre company and uses the unit for storage of props and sets.
- Unit 7 Bishops Court Gardens, Clyst St Mary – mid-terrace, full-height warehouse unit without offices and with shared WCs, 857 sq.ft. Let in May 2019 to a research and development business, having not been brought to the open market.

- Unit 8c Millpark, Woodbury Salterton – mid-terrace warehouse built around 2000, with mezzanines and offices on both floors. 1,047 sq.ft plus mezzanines of 600 sq.ft. Sold in July 2018 after a very short marketing period, and three bids received. Tenant is a small producer of puddings.
- Unit 7 Harrier Court, Westcott Lane (near Exeter Airport) – mid-terrace unit built circa 2007, fitted as warehouse on ground floor and quality offices on first floor, including air con. 932 sq.ft on ground floor plus mezzanine 898 sq.ft. Sold on first day of marketing, with another offer received on the same day. Tenant is a private social club.
- Unit 7 Merlin Units, Exeter Airport Industrial Estate – end-terrace 1980s industrial unit of 1,740 sq.ft with mezzanine office of 139 sq.ft. Let in October 2019 following around 3 months on market. Tenant is a micro-brewery.

I believe that the length of time for which these units were marketed, which ranges from nothing up to around 3 months, demonstrates the demand over the last couple of years for small industrial/warehouse units in the area to the east of Exeter. These units have a range of sizes and specifications (particularly in terms of offices and mezzanines, or lack of them) and were offered on both freehold and leasehold bases.

At present, I am not aware of the availability of any industrial units with a ground floor area of under 1,000 square feet in the area to the east of Exeter.

I would also comment that, subject to financial viability of their conversion to office use, the units would attract strong demand as offices, given the location and the parking ratio envisaged.

2.2 Rental values

The rental values of the units will clearly depend greatly on their specification as well as the extent to which they are fitted out or left in shell condition for the tenant's fit-out. For the current purposes, my assumptions in this regard, as set out in Section 1 of this report, will apply. In summary, the units are assumed to be of a specification which would allow their use for either industrial/warehouse or office uses, but fitted out to a shell specification except for installation of a disabled WC. Depending on the exact specification and the extent of any fit-out, rental incentives (e.g. rent-free periods) may have to be offered to tenants to assist with their fit-out costs.

The rental values shown by the leasehold evidence set out in Section 2.1 above range from £6.58 to £9.05 per square foot, when storage mezzanines are analysed at one third of ground floor value, as is usual. When only units of under 1,200 sq.ft (111.5 sq.m) are considered, the lowest value is £7.00 per sq.ft. The units which are closest in size to the proposed units are those at Hungry Fox Industrial Estate where, despite the units being some of the oldest and of a relatively poor specification, rents are in the region of £9.00 per square foot.

Taking the ground floors of the proposed units at £9.00 per square foot and the mezzanines at one third, i.e. £3.00 per square foot, the units would have a rental value of £8,270 per annum. I believe this level to be achievable for modern units in this location.

The above assumes that all other lease terms are in line with market, including repairing liability, lease duration and any break options. It also assumes that the units will qualify for 100% Small Business Rates Relief, which greatly reduces the overall occupational costs to qualifying companies.

Should the units be offered without mezzanines but with potential for their later installation, then rents of £9.00 per square foot would apply to the ground floor area, making £6,200 per annum per unit.

2.3 Freehold values

There is a dearth of freehold evidence, resulting from a number of years during which very few properties have been offered for sale. There are two freeholds in the list of comparable properties in Section 2.1 above: Unit 8c Millpark sold for £100.24 per square foot when mezzanines are taken at one third, while Unit 7 Harrier Court sold for £106.56 per square foot overall (the mezzanine being taken at full rate owing to the fact that it was fitted out as quality offices). Widening the search for freehold evidence to the wider Exeter area shows that these values are at the upper end of the range of values, which reflects the small unit sizes of these units and the popularity of the location.

There is, however, a premium attached to the sale of new-build units and I would expect to achieve not less than £125 per square foot of ground floor GIA in this instance, given the units' small size. This equates to £86,125 per unit on the basis that they are not offered with mezzanines. Regarding mezzanines, a purchaser will be unwilling to pay more for a mezzanine than the cost had it been retrospectively fitted. For this reason, as well as to maximize buyers' flexibility as to how they fit out and occupy the units, I recommend that the units should not be built with mezzanines if they are to be offered for sale, although the units should be capable of having mezzanines installed and fitted out for office use.

2.4 Comment on likely viability

I refer to the comments in my report to you of 23rd October, and repeat that it is impossible to provide an accurate estimate of the scheme's financial viability at this stage, given the lack of information on the units' specification as well as the cost of groundworks and bringing utilities onto site. Also, a detailed development appraisal should be provided by a building surveyor or quantity surveyor.

I have undertaken an informal development appraisal using the BCIS index of build costs which is published by the RICS, and by applying this data to a development appraisal spreadsheet. My informal opinion, based on this appraisal as well as my knowledge of the local development market, is that this scheme is not currently financially viable if the land is to be purchased at an open market price and the usual developer's profit is to be taken. Despite strong demand and rising rents and values, there has not been a

speculative development of small industrial units in the Exeter area since 2007 owing to rises in build costs which have outpaced rises in values over that period.

2.5 Marketing recommendations

Units can be marketed as soon as detailed planning consent has been granted and a timescale for construction has been set, with a view to agreeing pre-lets or pre-sales as soon as possible. In reality however, it will probably prove difficult to achieve sales or lettings until groundworks have been completed.

The scheme can be marketed by means of a fairly standard suite of initiatives, to include:

- A site board which can be erected before construction begins and which would be periodically updated to reflect availability.
- Marketing particulars on your agent's generic template, or a bespoke brochure designed by a marketing agency. The particulars/brochure need not be professionally printed as it will mainly be distributed electronically.
- Internet marketing: advertising on selected commercial property portals as well as on the agent's own website and on the Exeter & Heart of Devon directory.
- Mailouts: your agent should mail details to their enquiries lists as well as to local and regional commercial agents.
- Press releases: a scheme such as this ought to generate interest in the local community, and news articles in local papers and commercial property websites are a free way to boost awareness.
- Social media: your agent should post articles on LinkedIn and other selected online media.

Should you wish to appoint Stratton Creber Commercial in the marketing of the scheme, we will be pleased to confirm fees and costs for the above marketing initiatives.

3. Community centre

I provide below an appraisal of the proposed development, dealing in turn with the target occupier market, rental values and marketing recommendations.

3.1 Target occupier market

For the purposes of this report, I assume that the planning consent which will be sought will be an open use within Use Class D1 (non-residential institutions), which includes medical and health services, creches/day nurseries, museums, public halls, libraries/art galleries, exhibition halls, non-residential education and training centres and places of worship, as well as Use Class D2 (assembly and leisure), which includes concert halls, sport halls, bingo halls and other sports and leisure uses. I also assume that the Parish Council has no objection of any uses within these classes.

I believe that by far the greatest level of demand can be anticipated from the childcare sector, both for use as a nursery and also as a special needs school. Both uses are in strong demand, and requirements are generally difficult to satisfy owing to their preference for self-contained premises with secure off-road pick-up and drop-off, on-site parking and landscaped areas for outdoor play. There are active requirements for nurseries in the Clyst Honiton area owing to its proximity to emerging employment centres at Skypark, Science Park and surrounding areas as well as to Cranbrook, and the ease of access to the main road network. Special schools are generally less focused on a specific area, but a number of active requirements exist and Clyst Honiton would appear to suit most of them.

I am currently marketing offices in the Old School in Clyst Honiton, and in addition to office enquiries, I have spoken with a number of childcare providers who would have been very interested, subject to planning, had the whole site been available.

I have recently marketed halls in Exeter, one of which was taken by a childcare business and another by a dance studio. Interest was also received from various sports and fitness clubs and personal trainers, a model railway club, a religious organization and other childcare operators, and a social club for children with special needs. This provides an indication of the kind of occupiers who may express interest in renting a community hall in this location.

You have asked for comment on the possibility that a tenant may be willing to rent the whole of the community centre, but reserving 2-3 rooms plus kitchenette for community use. In general, I do not think the additional outgoings and risk would deter the majority of tenants, although some childcare operators may be deterred by the fact that the site would no longer be self-contained. Further consideration is required in order to assess whether the community areas could be made entirely self-contained (which requires separate WCs).

I would also ask you to consider whether the Parish Council would be willing to rent these community rooms back by way of a sublease, or whether you would expect the tenant of the whole building to run this space and its bookings on a day-to-day basis. The potential income is unlikely to make this option sufficiently attractive to tenants to offset the risk and time outlay involved in hiring out this space on an hourly or daily basis.

3.2 Rental values

Given that many community uses are not fully market-led but variously funded by charitable donations, membership fees, government subsidies etc, the various uses within Use Classes D1 and D2 (listed in 3.1 above) show a wide variety of rental values. Sport/fitness and childcare/educational uses generally pay market rents when renting office or industrial space, while private clubs, charities and social welfare organisations may be unable to do so. Therefore, the rental value of the community centre will depend to a large extent on the Parish Council's preferred uses.

Evidence for childcare uses in the area includes the following:

- Nursery at SSE Building, Heron Road, Sowton Industrial Estate – former crèche unit, self-contained, in office and industrial building. Allocated parking spaces and drop-off. Previously vacant for 17 years and in need of complete renovation. Let to Puffins in January 2019 on a 10-year full repairing lease, 5-year review and break, rent £18,500 equates to £11.00 per sq.ft ignoring rent-free.
- Echoes Childcare at Old Broadclyst Station – former Hungry Fox pub, converted to childcare use around 10 years ago and let to Echoes Childcare along with garden area and large car park. 3,843 sq.ft. Rent reviewed in May 2018 to £55,000, which equates to £14.31 per sq.ft.
- 1a Pinbrook Industrial Estate – detached office building on ground and first floors, 1,177 sq.ft with parking for 5 cars. Let in April 2018 to ACE Schools Multi-Academy Trust for school use, 2-year full repairing lease at £13,000, equating to £11.05 per sq.ft.
- Hope Hall, Wonford, Exeter – detached early 20th Century church hall comprising main hall plus small lower ground floor and gallery. 1,080 sq.ft excluding gallery. No parking. Let in April 2018 to Nanny Bears Childcare on a 5-year lease on internal repairing terms, 3-year break option, rent £7,750 per annum equates to £6.56 per sq.ft (basement at half rate).

In respect of the rents which are paid by leisure and fitness operators, I would comment that the recent deals of which I am aware have shown rents ranging from around £8.00 per sq.ft to around £12.50 per sq.ft. The variation in the rents is a factor of size, location and the nature of the space, which in some cases was of an office specification and elsewhere was more industrial or a former church hall.

Rental evidence in respect of former church halls is sparse and generally shows lower rents than the above range. Given that the proposed community centre is a new development, I would disregard such evidence. Of greater relevance is the Younghayes Centre at Cranbrook, in respect of which I gave rental advice in December 2018 to Cranbrook Town Council. You may wish to enquire as to what rents have since been achieved.

Taking all of the above into consideration, I consider the rental value of the proposed new-build community centre for childcare use to be in the region of £13.50 per square foot. Based on a Gross Internal Area of 4,321 sq.ft, and taking a 15% deduction to convert to a Net Internal Area (making 3,673 sq.ft), this makes a rental value of £50,000 per annum.

I consider childcare uses to represent the highest rental value of any uses within Use Classes D1 and D2, and also the use which is most likely to be willing and able to rent the property as a whole.

3.3 Marketing recommendations

Assuming that you wish to market the property as a whole, and for open D1 and D2 uses, I believe that the marketing of this property will be relatively straightforward. In addition to the standard suite of marketing initiatives outlined in Section 2.5 above, your agent should carry out targeted mailouts to local and national operators in the childcare sector, including operators of day nurseries and special needs schools.

The community interest in such a scheme can be expected to be high, and additional marketing should be undertaken through local communication such as parish and church magazines and notice boards.

Marketing should commence as soon as detailed planning consent is obtained. It may be that a prospective tenant would like to see changes to the build specification, and consideration can be given to such amendments based on the merits of the tenant and the terms they offer.

I trust this provides the information you require at this stage, but please let me know if you would like further comment.

Yours sincerely,

A handwritten signature in black ink that reads "Jonathan Ling".

JONATHAN LING BA (Hons) MSc MRICS
Director, Stratton Creber Commercial