



GERALDEVE
A NEWMARK COMPANY

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Dear Sophie

Market Assessment - Manchester Road, Heywood

I have been asked by our client, Trammell Crow, to provide a market report regarding the above proposed development.

By way of background I am a Partner in Gerald Eve's Manchester Office where I head up the Industrial Agency Dept. I have worked in the Industrial Agency sector throughout the North West for over 25 years during which time I have advised clients on numerous industrial development schemes ranging in size from 2 acres to 200 acres.

I have been instructed by Trammell Crow in an agency capacity since they purchased the site and have extensive knowledge of the site having sold the site, on behalf of Telereal Trillium to Trammell Crow.

The Site

From a market perspective the location of the subject site is extremely suitable for the proposed industrial development given the following:

- Excellent communications being less than half a mile from J19 M62 which provides access to the M60 Manchester Orbital at J18 some 2.8 miles to the west
- Ability to easily access Manchester conurbation, which is the 4th largest city in the UK, providing occupiers with a strong immediately accessible market
- Excellent access to the wider North West market, which comprises of the second largest population in the UK with a working population of 7m within 1 hour drive
- Ability to access Yorkshire market with Leeds/Bradford conurbations circa 25 miles to the east
- Proven commercial location accommodating the follow occupiers within a 2 mile radius:
 - o Argos
 - o Footasylum
 - o Iron Mountain
 - o Great Bear
 - o L'Oreal
 - o Martin Brower
 - o Yearsleys Group

The facility consists of 8 detached single storey units of various sizes which total the following, as set out in the Statement of Case Appendix D – Area Schedule:

Ground floor	27,559.0 sqm (GEA)	26,916.5 sqm (GIA)
Mezzanine	14,550 sqm (GIA)	14,550 sqm (GIA)
Plant and Pumphouse	195 sqm (GEA)	161.8 sqm (GIA)
Total	42,304 sqm (GEA)	41,628.3 sqm (GIA)

The units range in size 420 sq m (4,521 sq ft) to 5,922.4 sq m (63,748 sq ft) on a GIA basis and have varying eaves heights and loading facilities as set out in the schedule below:

Unit	Eaves Height	Doors Docks (D) Level (L)	EPC Rating	Comments
101 & 102	N/A	N/A	G & D	Small office units
110	9.20m	3 x L	C	Detached warehouse and office building
111	8.70m	2 x L	C	Detached warehouse and office building
119	8.70m	1 x L	C	Detached warehouse and office building
Plant	N/A	N/A	N/A	Detached Plant Room
112	5.85m	1 x D 3 x L	C	Detached warehouse and office building
Plant	N/A	N/A	N/A	Detached Plant room
113	5.86m	2 x D 1 X L	C	Detached warehouse and office building
Plant	N/A	N/A	N/A	Plant room
114	5.62m	1 x L	C	Detached warehouse and office building
114/115/Pump House	5.62m	2 x L	C	Detached warehouse and office building
116	5.62m	1 x L	C	Detached warehouse and office building

117	5.62m	3 x D 1 x L	F	Detached warehouse and office building
118	5.50m	2 x D	C	Detached warehouse and office building

While there remains demand for the existing units, as evidenced by numerous transactions at Heywood Distribution Park in 2022, the current units would require investment to improve loading facilities, upgrade EPC Ratings and increase yard areas in order to be attractive as medium/long term opportunities to local/regional occupiers.

Market for Existing Accommodation

If the units were to be placed on the open market To Let we are extremely confident there would be good occupational demand for the units which can cater for a wide range of occupiers by offering a good spread of unit sizes from 4,521 sq ft to 63,748 sq ft.

We would also highlight that some 13 units, totalling 625,250 sq ft were transacted at Heywood Distribution Park with circa 12 months upto the end of 2022. The units ranged from 3,000 sq ft to 146,500 sq ft and as a result of these transactions the level of supply of existing units in the area is extremely low.

We appreciate this evidence is slightly historic but these transactions removed a huge portion of availability from the local market leaving virtually no supply of this type of accommodation.

Consequently we are confident that should such accommodation be brought to the market it would generate significant demand.

Marketability of Existing Accommodation

In their current format the units will not appeal to the entire market. The units, especially the larger units, have eaves heights that are lower than required by a corporate/blue chip occupiers looking to make a long term commitment. This cannot be addressed by refurbishment works as it is not economically viable to increase the height of the units.

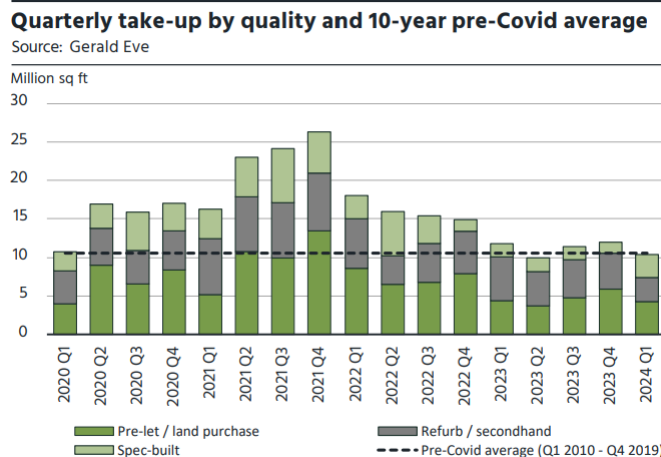
Similarly the loading arrangements are unlikely to suit occupiers with fast moving stock who may need to have numerous vehicles loading and unloading at the same time. This can be resolved by way of refurbishment/adaptation works and adding more loading doors where possible.

Given the above and in light of the transactional evidence from neighbouring Heywood Distribution Park we anticipate the majority of demand being from:

- 3PL's/Distribution operators looking for functional accommodation and a flexible basis
- Distributors who store bulky goods that can only be block stored and require limited loading/unloading
- Local/regional occupiers who want to remain in the area to retain staff
- Local/regional occupiers who are growing and don't want to commit to a long term lease which may hamper future expansion plans
- Local occupiers who may have insufficient covenant strength required by Landlord's of new/modern accommodation
- Local occupiers who may be viewed by some institutional landlords as being an unneighbourly use

National Industrial Market Overview

The market for industrial property continues to perform well despite the recent economic downturn in 2023 due to high inflation and higher interest rates. The graph below from our research department shows take up of units of 50,000 sq ft and above has returned to pre-pandemic levels which is positive in light of the recent economic uncertainty.



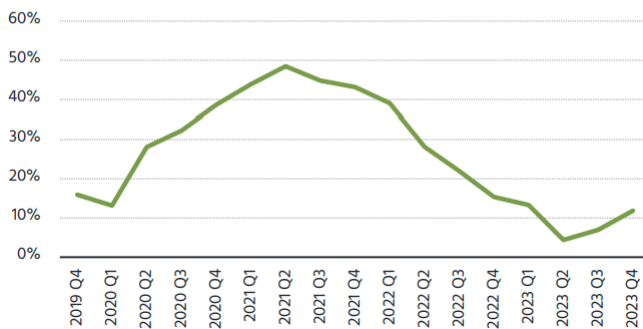
The resilience of demand in the industrial sector has a number of factors such as:

- **Occupier re-shoring** – occupiers experienced long supply chain issues getting products to markets or manufacturing facilities during the pandemic, in order to avoid this situation going forward many are making their products in the UK rather than outsourcing to Asia (i.e. China) where products can be made cheaply but then have to be transported to the UK exposing them to possible supply chain threats.
- **Environmental supply chain considerations** – occupiers are aware their customer base is becoming increasingly environmentally conscious. Again this is increasing demand for re-shoring/near-shoring to reduce the length of supply chains as longer supply chains have a more harmful environmental impact.
- **Environmental demand** – Many large occupiers have corporate ESG policies with targets they are endeavouring to hit. This is generating occupational demand as many are looking to upgrade their facilities in order to comply with their own ESG strategy. Consequently some occupiers are no longer able to simply renew an existing lease or take the cheapest option as it may not fit with the corporate ESG policy and they are being forced to take new speculative units which are either Carbon Net Zero or BREEAM Excellent.
- **Customer Environmental Demand** – Similar to the above points we are seeing occupiers demand for new units increasing as they are aware they will have to comply with corporate customers environmental aspirations. It is a very real consideration for occupiers who are aware that occupying a new unit, ideally Carbon Net Zero, is likely to fulfil customer criteria when they are pitching for a new contract.
- **Online Sales** – It has been well documented that during the pandemic there was a transformational shift to online retail as customers became more familiar and confident with shopping in this way. This led to a huge increase in growth of online retail and a spike in demand for industrial accommodation (as shown in the graph below).

Proportion of rolling annual take-up by internet retailers

Source: Gerald Eve

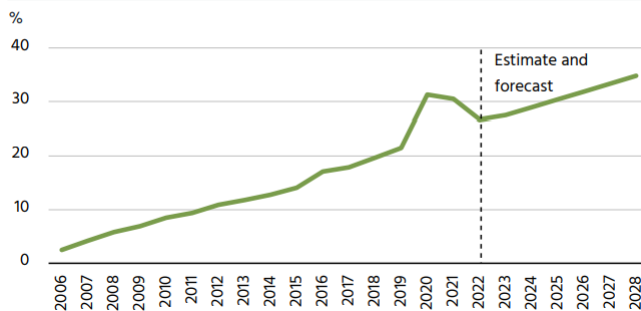
Proportion of total take-up



This demand has now returned to what appears to be the long term growth trajectory for the sector (as shown by the graph below) and, importantly, it is still growing with certain sectors (online food retail) having strong growth trajectory. Again in this sector customers are becoming increasingly environmentally aware and will demand sustainable services.

UK retail spending, percent online

Source: Gerald Eve, ONS



- **Economic Stability** – As inflation reduces and interest rates remain stable there is increased confidence in the occupational market. 2023 was a slightly subdued year due to economic uncertainty but as stability returns we are already starting to see increased activity which will result in take up.

North West Market Demand

The North West is witnessing similar resilience in demand with stable demand at pre-pandemic levels. The chart below shows take up of units in excess of 50,000 sq ft in the North West in 2023 being stable at the longer term average take up rate.

Quarterly occupier take-up by region

Source: Gerald Eve

Million sq ft



Looking specifically at current demand in the North West we are aware, from our in-house data base of market requirements, of the following statistics:

- 7.24m sq ft of requirements for units in excess of 40,000 sq ft since the start of 2024
- 11.76m sq ft of requirements for units in excess of 40,000 sq ft in the last 2 quarters
- 3.27m sq ft of requirements for units in excess of 250,000 sq ft where Heywood is within the location criteria
- 1.05m sq ft of requirements for units of 40,000 to 70,000 sq ft are within the required size band and Heywood is within the location criteria

Demand for Speculatively Developed/Modern Accommodation

In light of the above demand, the excellent commercial location and in order to be market facing and attract long term corporate/blue chip occupiers the intention is to speculatively develop a three unit industrial scheme developed to EPC A/BREEAM Very Good standards as follows:

- Unit 1 – 51,623 sq ft
- Unit 2 – 47,468 sq ft
- Unit 3 – 381,378 sq ft

Occupational demand for new/existing accommodation remains high as occupiers rarely have the time necessary to design a unit, secure planning permission, build a unit, fit it out and then start operating. This process can take in excess of two years whereas if they simply take an existing/speculatively developed unit the process can take a few months plus their own fit out period, this enables occupiers to be more reactive and less exposed to changes in their sector.

Large third party logistics companies (3PLs) often win new contracts by way of a submission process. As part of their submissions they normally have to identify how, where and when the customers goods will be accommodated. Consequently 3PLs are reliant on speculatively developed/existing units to accommodate new contracts won.

An example of a speculatively developed unit being taken up is the 330,000 sq ft facility that was speculatively developed at Kingsway Business Park in Rochdale. The unit is in the same borough as the subject site and was let on Practical Completion to Danish Crown in 2023.

In addition taking a speculatively developed unit will satisfy their corporate ESG policy for years to come.

The market is aware of these occupational demands which has led to the desire for sites that can be speculatively developed.

Changes EPC Regulations

Under the new MEES regulations (Minimum Energy Efficient Standards) Landlords may not Let or continue to let any commercial accommodation as follows:

- EPC Ratings of F&G not allowed to be let or continue letting in 2023
- EPC Ratings of D&E not allowed to be let or continue letting by 2027
- EPC Ratings of C not allowed to be let or continue letting by 2030

Landlords are currently trying to address this issue by upgrading their properties but as the regulations are changing relatively swiftly there is no economic value in upgrading to the next minimum standard each time. Consequently we envisage upgrades not being economically viable in some instances leaving the Landlord with the only option of redevelopment. In light of this we anticipate additional demand pressure from occupiers who wish to upgrade by relocating or are forced to relocate as Landlords consider redevelopment.

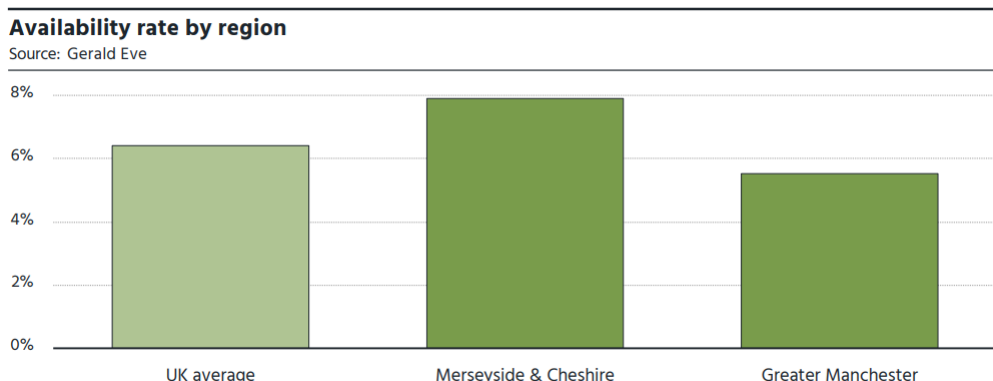
While it is difficult to exactly quantify the level of additional demand that will be generated we suggest it will not be insignificant given the nature of the stock in the region, particularly older manufacturing facilities.

Future Demand

While it is extremely difficult to predict the exact level of future demand the fact that long term average take up of units in excess of 50,000 sq ft in the North West is stable and the other demand drivers mentioned previously such as increased economic confidence, continued increase in online retail, increased ESG requirements and increased re-shoring, indicates that demand will remain strong and should increase.

North West Supply

Supply of units in excess of 50,000 sq ft in the North West is still low with Greater Manchester in particular being below the national average level as shown by the chart below:



The supply of existing units (excluding space in multi storey mills which are not suitable for modern occupier requirements) in excess of 40,000 sq ft specifically within a 5 mile radius is limited as follows:

- 9 units available, totalling 1.45m sq ft
- 560,000 sq ft of the 1.45m sq ft is currently under offer
- 890,000 sq ft not under offer of this I understand there is strong interest in 485,000 sq ft
- Potentially only 405,000 sq ft available within the next 3 months within a 5 mile radius

In relation to the proposed development we have looked at the supply of units in the appropriate size brackets as follows:

Existing Supply of 300,000 to 400,000 sq ft units:

- 2 existing units within a 10 mile radius
 - o 1 unit is being refurbished and Under Offer, understand there was interest from 4 parties
 - o 1 units has been speculatively developed, we understand there is extremely strong interest in the unit
- 3 existing units within a 20 mile radius
 - o The units as above and 1 speculatively developed unit in Warrington

As shown by the above the availability of units in the size bracket of 300,000 to 400,000 sq ft is extremely limited, in fact there is a very real possibility the supply of these units could be non existent within a 5 and 20 mile radius in the next 3 to 6 months.

Development/Pipeline of 300,000 to 400,000 sq ft units:

As mentioned previously the majority of occupiers prefer to take an existing unit that can be fitted out or adapted to their own specific requirements rather than undertaking a lengthy Design & Build process. For those occupiers that will consider Design and Build the following options can satisfy requirements of 300,000 to 400,000 sq ft:

- Heywood Distribution Park – less than 1 mile from the subject site, an existing industrial estate with outline planning permission and the ability to provide 1 unit in this size range.
- H Park Heywood – adjacent greenfield site with outline planning permission and the ability to provide 3 units in the size range.
- Logikor Little Hulton – approximately 10 miles from the subject site, brownfield site, in need of demolition/redevelopment, planning permission secured for a single unit.

Supply of 40,000 to 75,000 sq ft units:

For this size bracket we have focussed on a 5 mile radius as generally occupiers of this size of unit tend to be more location sensitive. We have not included the units at the subject property (three of which fit in this size bracket) as they have not been marketed given we anticipated securing planning permission to redevelop the site and consequently occupiers would not be interested in such extremely short term occupation. The units at the subject property within this size bracket are all secondary in terms of condition and all have an EPC Rating of “C” enabling them to be marketed to occupiers if a sufficient definitive term of occupation could be provided. Excluding these units the supply is as follows:

- 2 units available both speculatively developed
- 1 of these units is under offer

If the radius is increased to a 10 mile radius for units of 40,000 to 75,000 sq ft the supply of units is as follows:

- 6 units available
 - o 2 of the units are under offer
 - o 1 of the units is in poor condition

The above clearly shows the lack of supply in the size bracket of 40,000 to 75,000 sq ft within a 5 and 10 mile radius.

While not known it is likely that a proportion of any future supply of existing units will be older stock that will have negative ESG aspects which in turn will reduce their market appeal. This is particularly relevant for larger units as the eventual occupiers are likely to be large corporates who are likely to have corporate ESG policies that need to be met so excluding older stock.

Policy Need for Industrial Sites/Accommodation

The need for more industrial accommodation in the region and Rochdale is recognised in the Places for Everyone Joint Development Plan Document for Bolton, Bury, Manchester, Oldham, Rochdale, Salford, Tameside, Trafford and Wigan – 2022 to 2039, adopted 21.03.2024 which states:

6.34 The existing supply of potential industrial and warehousing sites identified in the districts' strategic employment land availability assessments are insufficient to meet the overall identified need. Many of the sites they contain are also likely to be attractive primarily to a relatively local market and/or smaller businesses, due to their location, size and surroundings. Consequently, if Greater Manchester is to meet its future development requirements and increase the supply of high quality sites that can compete regionally, nationally and even internationally for investment, including from businesses requiring large modern premises, then there is a need to identify additional sites across the city-region. The only realistic option for doing so is to remove some land from the Green Belt.

The above clearly supports the current market dynamics of low supply and good occupational demand. In light of the sites existing employment allocation and the fact it has immediate motorway access, in our opinion the proposed development is extremely market facing, would generate significant demand and speculative development would transact quickly.

Conclusion

We would summarise the market dynamics as follows:

- Demand – good demand, strong fundamentals driving demand:
 - Economic certainty increasing occupier confidence
 - On-shoring increasing to reduce long supply chains
 - Corporate ESG policies increasing need for new units
 - Customer environmental awareness increasing need for new units
 - Continued growth in online retail
- Supply – low levels of supply, highlight the following:
 - Speculatively developed units under offer or anticipate going under offer in next 3 months
 - Limited supply of secondary existing accommodation in the immediate vicinity
 - Limited secondary supply, will not be of interest to corporate occupiers due to EPC/ESG credentials

In light of the above we consider that while the existing accommodation could be refurbished and successfully marketed, the proposed 3 unit speculative industrial development at Manchester Road will be extremely market facing and will generate significant interest from regional, national and international companies and will transact swiftly.

Yours Sincerely



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